

# Emerging Markets Briefer

May 01, 2007

## Turkish risks, but no delight

### Turkish tension spoils carry fun

- Going into April, the financial markets looked quite supportive for the Emerging Markets. The positive sentiment gained support from a relatively strong global growth picture, with Europe performing better than expected and China re-accelerating.
- Therefore the high yielders like BRL and TRY continued to perform very well, bringing them to very strong levels. Our concern is when looking ahead these levels are unsustainable and that some correction cannot be avoided at some point when a trigger arrives.

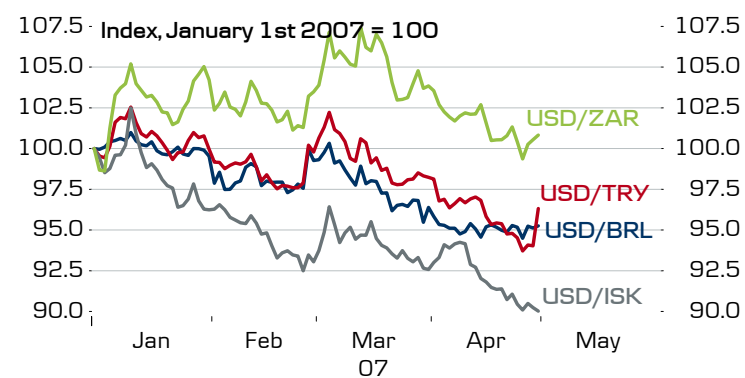
### Will Turkish jitters spill-over to Emerging Markets?

- This trigger might very well be the Turkish presidential elections, which have led to a sharp rise in risk premiums in the Turkish markets.
- If the situation in Turkey makes a turn for the worse it is very likely that this will spill-over significantly into other Emerging Markets – especially the other high-yielding crowded trades such as South Africa, Brazil and Iceland.

### Do you really want to be long in Try at these levels?



### Potential victims of contagion



## Movers and shakers – last month and in the month ahead

### Turkish risks, but no delight

Going into April, the financial markets looked quite supportive for the Emerging Markets (EM). The positive sentiment gained support from a relatively strong global growth picture, with Europe performing better than expected and China re-accelerating. Furthermore, the deadlock between the UK and Iran came to an end and nervousness of an intensified conflict between the West and Iran faded into the background. The monetary outlook continues to give support to the Emerging Markets universe as the major economies will not be in serious tightening mode looking forward to the rest of 2007. Hence the biggest concern to the general EM sentiment seems to be the economic slowdown in the US and continued dollar weakness.

Looking at the FX performance in EM, the picture looks rather clear. The euro's cousins have performed very well on the back of the continued strength in the euro – see chart 7. The Polish zloty (PLN) was in fact the best-performing currency in central- and Eastern Europe (CEE) in April. The strong PLN performance is driven by a recent rate hike from the Polish central bank and expectations of two more hikes in the coming six months. Also the Hungarian forint (HUF) has performed well in April, while the Slovak koruna (SKK) and Czech koruna (CZK) have been relatively flat, c.f. chart 1 and 2. We continue to recommend being long in HUF and PLN against SKK and CZK as this trade offers an attractive yield and very limited sensitivity against movements in EUR/USD – see specific trading recommendation at page 5.

For most of April, carry was the name of the game – c.f. chart 6. Higher yields in India supported the currency (INR), strong balances and an attractive yield were behind the strengthening in the Brazilian real (BRL), and a very attractive carry in Turkey drove the Turkish lira (TRY) to the strongest levels against the US dollar and JPY since just before the sell-off last May. Our concern is these levels are unsustainable and that some correction cannot be avoided at some point when a trigger arrives.

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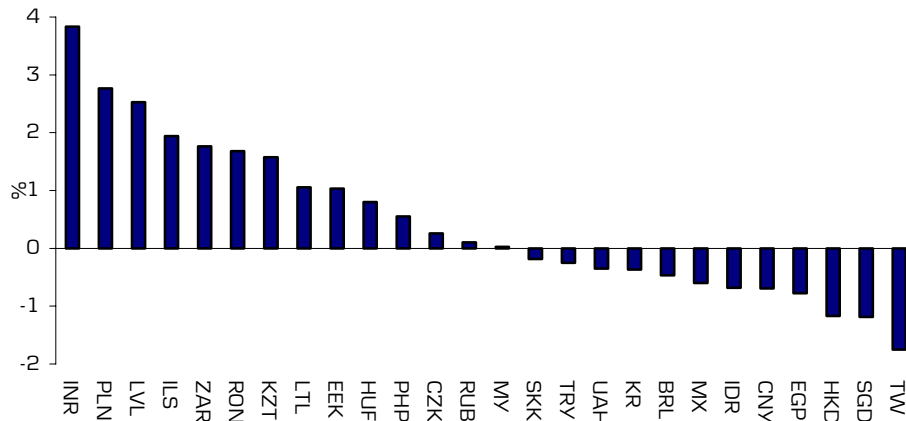
On Monday April 30, the Turkish markets came under heavy sell pressures, with the Turkish lira initially dropping more than 4%. The sell-off in the markets is the result of the significant rise in political uncertainty since last week's announcement that Foreign Minister, Mr Gul – who despite being a reformist is also pro-Islamic – would run for president. This provoked a strong reaction from Turkish secular establishment, especially the military. We expect the uncertainty to continue and the Turkish markets could well extend their losses further. It is obvious that the situation is very serious and the massive sell-off in the markets is fully justified – especially in light of the military's confrontational reaction to Gul's presidential candidacy. Looking ahead, this is far from over and more market turmoil should be expected. The likelihood of early elections has clearly increased and this could mean that the AKParty will lose its absolute majority in the Turkish parliament, making it much harder to maintain a reformist and fiscally conservative fiscal policy. So in the coming months, we would urge investors to stay very cautious with long positions in TRY and the Turkish fixed income and equity markets. Furthermore, if the situation in Turkey makes a turn for the worse it is very likely that this will spill-over significantly into other Emerging Markets – especially the other high-yielding crowded trades such as South Africa, Brazil and Iceland.

### General recommendations for May

- Reduce risk in the Turkish markets – and be cautious on the high-yield and high-beta markets such as BRL, ZAR, and ISK
- Consider a basket of PLN and HUF against a basket of CZK and SKK
- We are still optimistic about the Emerging Asian currencies, but US dollar uncertainty reduces our bullish in the short-term
- RUB and KZT are still good bets.

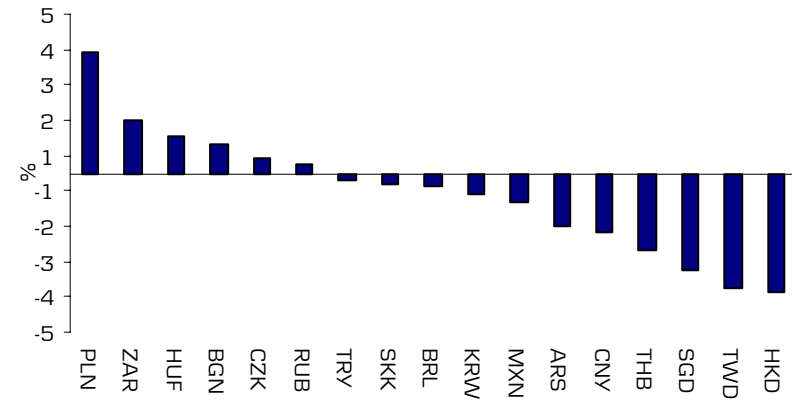
# Emerging Market performance over the past month

Chart 1: FX change against EUR and USD



(Simple average relative to EUR and USD)

Chart 2: Risk adjusted FX change against EUR and USD



(Annualized return divided by 2-year volatility)

Chart 3: Change in 2 year swap yield

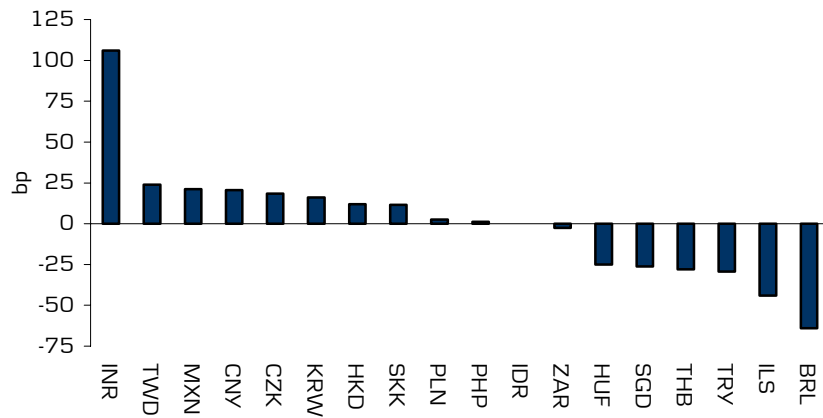
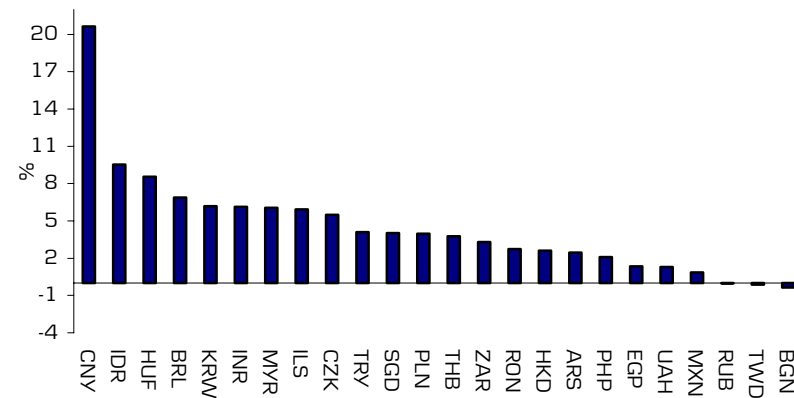


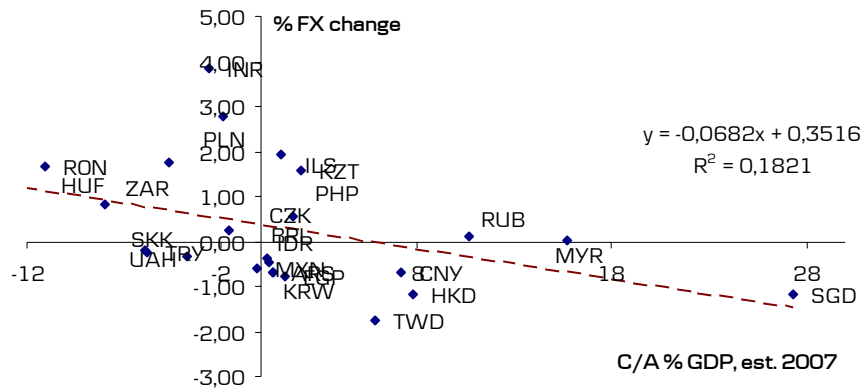
Chart 4: Stock market performance



(Local currency)

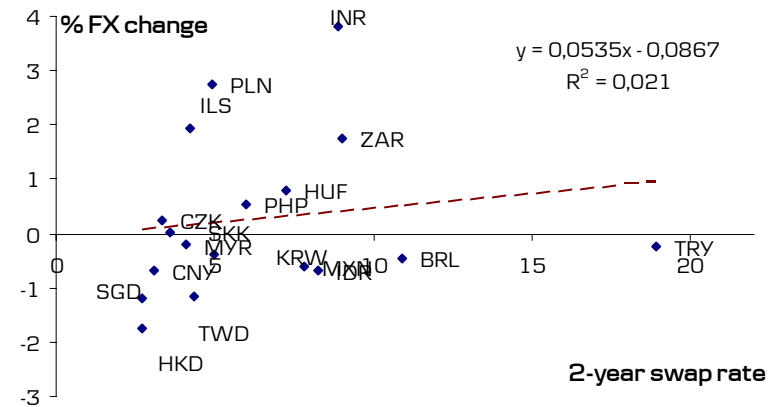
# Drivers and themes in emerging markets over the past month

**Chart 5: Current account: No worry yet**



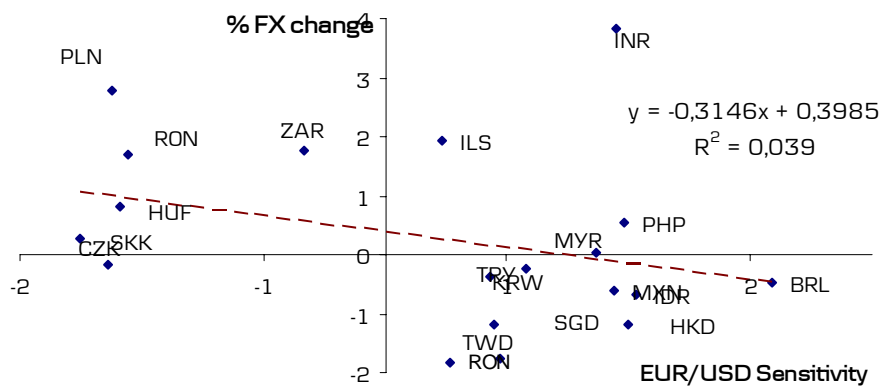
(Simple average relative to EUR and USD)

**Chart 6: Carry has been in fashion**



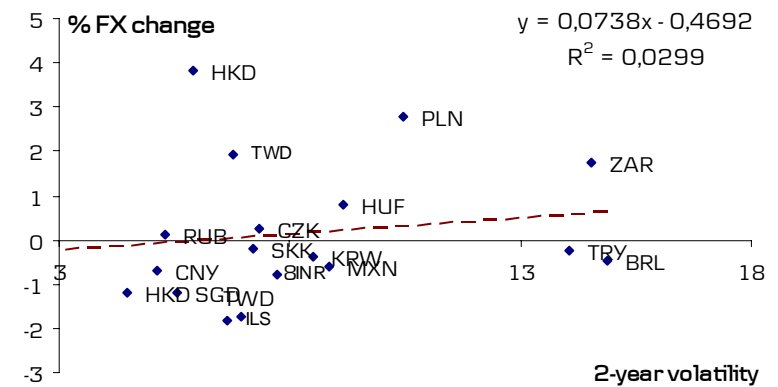
(Simple average relative to EUR and USD)

**Chart 7: Shy away from USD cousins**



(Simple average relative to EUR and USD)

**Chart 8: High risk appetite - will Turkey change this?**



(Simple average relative to EUR and USD)

## Trade recommendations

### Directional FX strategies for May

Trade	Why?	Correlation with majors
<p><b>Buy</b> <b>HUF &amp; PLN basket</b> <b>against</b> <b>SKK &amp; CZK basket</b></p> <p><b>Details are available here:</b> <i>Buy PLN-HUF against SKK-CZK</i></p>	<ul style="list-style-type: none"> <li>The <i>Polish</i> central bank has initiated a monetary tightening cycle, which will be supportive for the currency. In <i>Hungary</i> we expect a strong improvement in the current account situation, which will be supportive for the forint. At the same time the investor gets a relatively high yield.</li> <li>The <i>Slovak</i> economy continues to boom with the current account deficit worsening. In spite of this the Slovak central bank is in cutting mode. The risks are therefore for a weaker currency and yields are now low enough to consider going short in SKK against PLN and HUF. With the lowest interest rates in CEE, we consider <i>CZK</i> as a good funding currency.</li> </ul>	<ul style="list-style-type: none"> <li>This trade offers some carry and a very limited sensitivity against movements in EUR/USD. Furthermore, should the jitters from the Turkish elections spread to the general EM sentiment; it will weigh equally negative on all four currencies, as they have almost the same risk sensitivity. Hence this trade is relatively hedged against a general worsening of the EM sentiment.</li> </ul>

## Trade recommendations

### Performance

Performance	Total return	Count	Av. return	Av. Horizon (days)	Av. return (ann.)	Av Vol.
Closed	-1.15	3	-0.38	35	4.53	10.35
Open	-0.53	4	-0.13	87	0.04	8.13
All	-1.68	7	-0.24	65	1.98	9.56



Closed	Start Date	Closing date	Spot open	Spot close	Target	Stop	P/L (incl carry)
Buy TRY/ZAR	09-01-2007	30-01-2007	5.020	5.130	5.30	4.83	2.81
Buy MXN/CLP	08-01-2007	22-02-2007	49.521	48.750	52.00	48.75	-1.62
Buy USD/RON	01-02-2007	12-03-2007	2.620	2.560	2.77	2.56	-2.34



Open	Start Date	Today	Spot open	Spot	Target	Stop	P/L (incl carry)
Buy NOK/CZK	01-02-2007	01-05-2007	3.450	3.469	3.60	3.37	0.80
Buy IDR/CZK	08-01-2007	01-05-2007	0.235	0.228	0.25	0.23	-1.92
Buy RUB-basket	09-02-2007	01-05-2007	29.920	29.910	29.00	30.10	0.26
Buy HUF/SKK	26-02-2007	01-05-2007	13.630	13.609	13.75	13.50	0.33



## Rating forecast


Rating forecast for the coming year						
	S&P		Moody's		Fitch	
	Rating today	Forecast	Rating today	Forecast	Rating today	Forecast
<i>Estonia</i>	A/stable	A/stable	A1/positive	A1/stable	A/positive	A/stable
<i>Latvia</i>	A-/negative	BBB+/stable	A2/positive	A2/negative	A-/stable	BBB+/stable
<i>Lithuania</i>	A/stable	A/stable	A2/stable	A2/negative	A/stable	A/negative
<i>Poland</i>	A-/stable	A-/stable	A2/stable	A2/stable	A-/stable	A-/stable
<i>Hungary</i>	BBB+/stable	BBB+/positive	A2/stable	A2/stable	BBB+/negative	BBB+/stable
<i>Czech Republic</i>	A-/positive	A/stable	A1/positive	A1/positive	A/stable	A/positive
<i>Slovakia</i>	A/stable	A/negative	A1/stable	A1/negative	A/stable	A/stable
<i>Slovenia</i>	AA/stable	AA/stable	Aa2/positive	Aa2/positive	AA/stable	AA/stable
<i>Bulgaria</i>	BBB+/stable	BBB+/negative	Baa3/positive	Baa3/positive	BBB/stable	BBB/negative
<i>Romania</i>	BBB-/positive	BBB-/positive	Baa3/stable	Baa3/negative	BBB/stable	BBB-/stable



Note: the forecasts are based on the output from our rating models and non-quantitative information.


	Macro Outlook	FX & Monetary Policy	Other factors
<b>Region: CEE</b>			
<b>Poland</b>  <b>PLN</b>	<ul style="list-style-type: none"> <li>• Growth is strong and accelerating. Strong macro balances.</li> <li>• Current account will come under pressure as domestic demand continues to accelerate in 2007.</li> <li>• If VAT hike significantly slows German growth, this would pose a risk to the Polish economy - but no sign of this so far.</li> </ul>	<ul style="list-style-type: none"> <li>• Inflation remains surprisingly low, but is now moving upward and has reached the Central Bank's (NBP) inflation target of 2.5%.</li> <li>• Wage growth is clearly accelerating.</li> <li>• NBP has recently hiked rates by 25bp, and we are likely to get at least two rate hikes of 25bp each more, over the coming six months.</li> </ul>	<ul style="list-style-type: none"> <li>• Polish government remains very weak and populist.</li> <li>• Until now, politics has been more or less unimportant for the Polish markets, but that could change when the global financial environment turns more negative.</li> </ul>
<b>Czech Republic</b>  <b>CZK</b>	<ul style="list-style-type: none"> <li>• Domestic demand continues to accelerate and has clearly surprised on the upside.</li> <li>• The current account situation is likely to worsen on the back of strong domestic demand.</li> </ul>	<ul style="list-style-type: none"> <li>• The strong growth in domestic demand could "convince" the CNB to move in a more hawkish direction.</li> <li>• The CZK remains a good funding currency - at least among the CEE4 currencies. But this bet is not as clear as some months ago.</li> </ul>	<ul style="list-style-type: none"> <li>• The political situation has improved, but the government does not have a strong mandate for reform.</li> <li>• We might see positive rating action this year due to strong growth and fairly good balances.</li> </ul>



	Macro Outlook	FX & Monetary Policy	Other factors
<p><b>Slovakia</b></p>  <p><b>SKK</b></p>	<ul style="list-style-type: none"> <li>Economy continues to boom. Consumer spending remains very strong.</li> <li>Current account still key risk. Inflation risks continue to exist mainly due to strong consumer spending, and risks could increase if gas price hikes currently under discussion come into force. This could further endanger the fulfilment of the Maastricht inflation criteria.</li> </ul>	<ul style="list-style-type: none"> <li>Slovak central bank (NBS) feels (overly) confident about inflation developments and is clearly biased towards a dovish stance. Recent rate cut driven by excessively strong SKK.</li> <li>SKK remains overvalued. Central bank trying to halt excessive firmness and volatility in the SKK. Further direct and indirect FX intervention will continue.</li> </ul>	<ul style="list-style-type: none"> <li>Populist government slowly and quietly reversing reforms made by previous government. This could be very negative in the longer run, as investors might lose trust in Slovakia.</li> </ul>
<p><b>Hungary</b></p>  <p><b>HUF</b></p>	<ul style="list-style-type: none"> <li>The macroeconomic outlook is highly uncertain and will to a large extent depend on the political situation.</li> <li>Growth is likely to slow significantly on the back of the substantial fiscal tightening implemented by the government.</li> <li>Higher administrative prices and indirect taxes are pushing up inflation.</li> </ul>	<ul style="list-style-type: none"> <li>The expected strong improvement in the current account situation should be supportive for the forint.</li> <li>We are getting closer to a rate cut from the Hungarian central bank (MNB), but it is likely to move quite cautiously.</li> </ul>	<ul style="list-style-type: none"> <li>The government remains unpopular and PM, Mr Gyurcsany, has been politically weakened. However, tensions seem to have eased and the opposition does not provide a strong alternative at the moment.</li> <li>The significant tightening of fiscal policy could eventually lead to positive ratings action from one or more of the credit rating agencies</li> </ul>


	Macro Outlook	FX & Monetary Policy	Other factors
<p><b>Romania</b></p>  <p><b>RON</b></p>	<ul style="list-style-type: none"> <li>• Growth remains very strong, driven mainly by domestic consumption.</li> <li>• Due to strong domestic demand, the current account deficit has increased to unsustainable levels and represents a key risk to the economy. Chances of a hard landing are significant.</li> </ul>	<ul style="list-style-type: none"> <li>• Deepening current account deficit is key risk for the Romanian leu. Currency is highly overvalued (15-20%)</li> <li>• Romanian central bank has cut its key policy rate further, to 7.50%, despite huge imbalances in the economy. This significantly increases the risk of a major sell-off.</li> </ul>	<ul style="list-style-type: none"> <li>• Romania entered the EU on January 1, but broader reforms are inevitable.</li> <li>• The ruling coalition has broken down and the political situation is highly uncertain. The bad political situation could lead to downgrades of Romania's credit ratings.</li> </ul>
<p><b>Bulgaria</b></p>  <p><b>BGN</b></p>	<ul style="list-style-type: none"> <li>• Economy still growing strongly - expected to expand by about 6% in 2006 and 2007.</li> <li>• Widening of current account deficit is key risk - strong credit growth due to buoyant consumer spending may fuel inflationary pressures further. A hard landing is increasingly likely.</li> </ul>	<ul style="list-style-type: none"> <li>• Government's year-end inflation forecast of 3.1% might be too optimistic.</li> <li>• Bulgarian currency, the lev, is pegged to the euro in a currency board set-up. Tight fiscal policy and a close monitoring of credit growth is needed to maintain a credible FX peg.</li> </ul>	<ul style="list-style-type: none"> <li>• Bulgaria joined the EU on January 1, 2007 but will not rush to adopt the euro, the Finance Ministry has said.</li> <li>• Fiscal policy has been quite disciplined in Bulgaria in recent years. Continued tight fiscal policy is needed to keep domestic demand growth in check. Fiscal policy may have to be tightened further.</li> </ul>



	Macro Outlook	FX & Monetary Policy	Other factors
<p><b>Turkey</b></p>  <p>TRY</p>	<ul style="list-style-type: none"> <li>• Growth is still fairly strong but is likely to slow after the lira's weakness of May-June last year and the significant rate hikes last year.</li> <li>• Current account deficit has increased significantly and is now at quite dangerous levels.</li> </ul>	<ul style="list-style-type: none"> <li>• The global environment remains quite supportive for the lira at the moment, but at the same time, the lira is at very strong levels - especially against the funding currencies (CHF, JPY).</li> <li>• Inflation remains high and is likely to be above 7% by the end of the year - above the central bank's (TCMB) end-of-year target of 5%. Therefore, TCMB is likely not to cut interest rates in the near future.</li> </ul>	<ul style="list-style-type: none"> <li>• Political uncertainty has risen dramatically on the back of Foreign Minister Gul's announcement that he will run as Turkish president - and the Turkish military's strong negative reaction to this.</li> <li>• Political uncertainty will remain high for some time to come and is likely to spark more volatility in the Turkish markets.</li> <li>• Early elections are increasingly likely. This would be bad news for the Turkish markets.</li> </ul>



	Macro Outlook	FX & Monetary Policy	Other factors
<b>Region: Baltic</b>			
<b>Estonia</b>  EEK	<ul style="list-style-type: none"> <li>• Impressive growth. Demand will remain strong, but growth will soon be hampered by a worsening shortage of resources. Large C/A deficit.</li> <li>• Inflation is currently rising, partly on a tight labour market that is pushing up wage growth.</li> <li>• Significant risk of a hard landing.</li> </ul>	<ul style="list-style-type: none"> <li>• The Estonian kroon (EEK) is pegged to the euro through ERM II.</li> <li>• Until now, Estonia's currency board has functioned well and has not been questioned, but rising concerns over increased imbalances and contagion from the mini-crisis in Latvia have increased uncertainty.</li> </ul>	<ul style="list-style-type: none"> <li>• Credit-fuelled demand and high growth in private credit will continue to fuel inflation. The authorities have not yet officially abandoned the 2008 deadline for meeting the euro-zone inflation criterion. We believe that euro adoption will be postponed until well after 2010.</li> </ul>
<b>Latvia</b>  LVL	<ul style="list-style-type: none"> <li>• Like Estonia, growth in Latvia will be close to double-digit in 2007. The economy seems to be overheating.</li> <li>• With inflation rates above 6% y/y there is clear concern for the euro adoption timetable.</li> </ul>	<ul style="list-style-type: none"> <li>• Latvian lat (LVL) is pegged to the euro through ERM II, but has recently come under significant pressure.</li> <li>• The Latvian central bank has been defending the peg by actively intervening in the FX market. The situation remain very critical.</li> </ul>	<ul style="list-style-type: none"> <li>• There are clear concerns about financial and economic stability in Latvia. Fiscal policy is overly loose.</li> <li>• S&amp;P recently changed its outlook on Latvian debt to negative from stable. This is obviously bad news.</li> </ul>



	Macro Outlook	FX & Monetary Policy	Other factors
<p><b>Lithuania</b></p>  <p>LTL</p>	<ul style="list-style-type: none"> <li>• GDP remains strong.</li> <li>• The economy in Lithuania looks more balanced than in Estonia and Latvia, but the imbalances in the economy are, nonetheless, large.</li> </ul>	<ul style="list-style-type: none"> <li>• Lithuanian lita (LTL) is pegged to the euro through ERM II.</li> <li>• Large imbalances and negative contagion from the mini-crisis in Latvia could increase volatility in the Lithuanian markets further.</li> </ul>	<ul style="list-style-type: none"> <li>• Real estate boom has faded and private credit growth is more restrained than in Estonia and Latvia.</li> <li>• But inflation is still too high for euro adoption, which we believe will be postponed until after 2010.</li> </ul>



	Macro Outlook	FX & Monetary Policy	Other factors
<b>Region: CIS</b>			
<b>Russia</b>  <b>RUB</b>	<ul style="list-style-type: none"> <li>Strong growth driven by domestic demand, which is being fuelled by rise in energy prices in recent years. Good news is that investment has been picking up recently.</li> <li>Inflationary pressures have eased a little, and are now below the 8% y/y target. On the other hand money supply growth is still accelerating and is now over 50% y/y.</li> </ul>	<ul style="list-style-type: none"> <li>The rouble (RUB) was allowed to appreciate to dampen inflationary pressures in 2006.</li> <li>We expect some appreciation in the RUB-basket in 2007 - most likely of around 2% against the dual currency basket.</li> </ul>	<ul style="list-style-type: none"> <li>The parliament has recently backed FM Kudrin's plan to split the Oil Stabilisation fund into two funds: a Reserve Fund to be kept at 10% of GDP to back the public budget, and a Future Generations Fund for future structural projects. The new funds will be created on February 1 2008.</li> </ul>
<b>Ukraine</b>  <b>UAH</b>	<ul style="list-style-type: none"> <li>Growth accelerated somewhat last year. A sharp rise in the dollar price of imported gas shifted the C/A surplus into deficit last year - a deficit which continues to worsen. A large rise in portfolio inflows has occurred recently.</li> <li>Inflation is still too high.</li> </ul>	<ul style="list-style-type: none"> <li>Ukrainian central bank is unlikely to introduce any major policy changes despite excessive inflation.</li> <li>The currency looks undervalued but the NBU will keep a strong grip on the UAH.</li> </ul>	<ul style="list-style-type: none"> <li>Foreign borrowing by banks has risen sharply over the past year to fund the continuing strong expansion of domestic lending.</li> </ul>

	Macro Outlook	FX & Monetary Policy	Other factors
Region: MEA			
<b>South Africa</b>  <b>ZAR</b>	<ul style="list-style-type: none"> <li>Economic activity remains solid but is still driven mainly by credit-driven domestic demand.</li> <li>Inflationary pressures persist. The huge current account deficit is a key risk.</li> </ul>	<ul style="list-style-type: none"> <li>The Reserve Bank (SARB) is clearly concerned about inflationary pressures - especially from strong domestic credit growth, but the SARB seems unwilling to act accordingly.</li> <li>The rand remains undervalued, but given the high volatility and the SARB's uneven hand in monetary policy, we would not recommend outright long positions in the rand.</li> </ul>	<ul style="list-style-type: none"> <li>Political troubles on the rise. Still no candidate to take over leadership of ruling ANC party. Vote scheduled for December this year.</li> <li>Watch the development in credit growth - it could lead to banking sector distress.</li> </ul>

	Macro Outlook	FX & Monetary Policy	Other factors
<b>Region: LATAM</b>			
<b>Brazil</b>  <b>BRL</b>	<ul style="list-style-type: none"> <li>We expect growth to accelerate in 2007. Trade balance surplus is at a record high in spite of strong currency. However, we are worried about the fiscal expansion and the heavy tax burden, which is a constraint on private investment.</li> <li>The outlook for inflation remains benign.</li> </ul>	<ul style="list-style-type: none"> <li>The central bank (BCB) will continue to cut rates throughout 2007. We expect the Selic rate to be lowered by 1.75% by year end from the current level of 12.50% to 10.75%.</li> <li>Brazilian real (BRL) is supported by trade surplus and carry. But be careful, BRL is currently rather expensive.</li> </ul>	<ul style="list-style-type: none"> <li>Although the Central Bank's foreign exchange interventions are sterilised, they have been effective in retarding real strengthening; stoking continued powerful accumulation of reserves. There are benefits to reserve accumulation, but at the margin they are declining in light of the high marginal sterilisation costs.</li> </ul>
<b>Argentina</b>  <b>ARS</b>	<ul style="list-style-type: none"> <li>Robust growth driven by industry, construction, and exports.</li> <li>High inflation pressures driven by strong external balances and nominal exchange rate peg. Real interest rates are close to zero.</li> </ul>	<ul style="list-style-type: none"> <li>Argentinean central bank is targeting inflation by controlling money supply (M2) growth. High inflation will keep money supply growth close to lower limit of monetary policy band.</li> <li>The peso (ars) is pegged to the USD and this is unlikely to change in the foreseeable future.</li> </ul>	<ul style="list-style-type: none"> <li>Argentina's economy is becoming more and more distorted, with frozen utility tariffs, variable export taxes, price and wage controls, cross-subsidisation of fuel and power demand, decoupling of domestic prices from international ones, negative real interest rates, etc.</li> </ul>

	Macro Outlook	FX & Monetary Policy	Other factors
<b>Region: LATAM</b>			
<b>Mexico</b>  <b>MXN</b>	<ul style="list-style-type: none"> <li>Growth has slowed down somewhat in 2007 - it has been dragged down by declining growth in industrial activity. The trade balance continues to worsen and the C/A is becoming more negative.</li> <li>Inflation is still above the comfort zone and the central bank is becoming increasingly worried about the risks to inflation expectations.</li> </ul>	<ul style="list-style-type: none"> <li>The central bank is still on hold, but it clearly stepped up the rhetoric at its latest monetary policy meeting. Chances of a rate hike have clearly increased and a hike could materialise around mid-2007.</li> <li>Mexican peso (MXN) has rebounded somewhat against the USD after a soft start to 2007. Looking ahead, we think that MXN will be rather flat against the USD.</li> </ul>	<ul style="list-style-type: none"> <li>The President's approval ratings climbed according to different surveys. We attribute the President's growing popularity to him proving to be an effective leader who has quickly provided visible results, eg, a fiscal reform bill including improvements of the social security system for state employees, especially with regard to the level of pensions and healthcare policy initiatives related to drug prices.</li> </ul>
<b>Chile</b>  <b>CLP</b>	<ul style="list-style-type: none"> <li>Economic activity has recently picked up, but it is still too early to claim that we are in an upward trend.</li> <li>Limited inflationary pressure, which looks to be under control.</li> </ul>	<ul style="list-style-type: none"> <li>The Chilean central bank (BCC) decided to cut rates by 25bp in January. We could see one more cut during in 2007 as we see growth and inflation being benign.</li> <li>New increases in copper prices have generated revaluation pressures and the CLP has rebounded recently.</li> </ul>	<ul style="list-style-type: none"> <li>In 2007 the Chilean government plans to pursue far-reaching reforms aimed at creating a larger role for government in old-age social security. The reforms are urgently needed, as Chilean workers have for many years been saving too little.</li> </ul>

	Macro Outlook	FX & Monetary Policy	Other factors
<b>Region: Asia Ex Japan</b>			
<b>China</b>  CNY	<ul style="list-style-type: none"> <li>The economy is re-accelerating, driven by a bottoming out in the global industrial cycle and a rebound in credit growth. Hence, we forecast that Chinese growth will come out at close to 10% y/y in 2007.</li> <li>Inflationary pressures have recently picked up, but a large part of the rise can be explained by a one-off effect from food prices.</li> </ul>	<ul style="list-style-type: none"> <li>The Chinese authorities are likely to maintain a tightening stance on credit/monetary policy. Hence, expect investment growth to stay close to 20% in 2007</li> <li>The speed of renminbi appreciation will be maintained on the back of a ballooning trade surplus. However, the story of the year is more flexibility in USD/CNY</li> </ul>	<ul style="list-style-type: none"> <li>The National People's Congress, lasting from 5-16 March, hightened the focus on inequality, environmental problems and fx reserve reforms.</li> </ul>
<b>South Korea</b>  KRW	<ul style="list-style-type: none"> <li>Growth is being pulled down by soft domestic demand. Moreover, South Korea's export is feeling the pressure from the appreciating currency. The current account balance may come under pressure again due to rising energy prices.</li> </ul>	<ul style="list-style-type: none"> <li>The KRW looks a bit stretched due to the still weak JPY.</li> <li>The Bank of Korea may hike in 2007 despite the low rate of inflation. The threat is rapid credit growth and rising housing markets.</li> </ul>	<ul style="list-style-type: none"> <li>President Roh's position is relatively weak after his party's poor showing in the May local elections. Six-party talks on ending North Korea's nuclear ambitions were a success. This will likely ease political tensions in the region.</li> </ul>

	Macro Outlook	FX & Monetary Policy	Other factors
<b>Region: Asia Ex Japan</b>			
<b>Thailand</b>  <b>THB</b>	<ul style="list-style-type: none"> <li>Domestic demand remains weak. However, exports are booming and supporting growth. The C/A has shifted back into surplus, riding on falling energy prices, slowing imports and booming exports</li> <li>Core CPI is still well within the 0-3% inflation target band</li> </ul>	<ul style="list-style-type: none"> <li>The THB has regained its appreciation trend despite continued high political risks.</li> <li>We believe the central bank will cut rates further, aiming to stimulate domestic demand and halt the appreciation of the THB.</li> </ul>	<ul style="list-style-type: none"> <li>Political developments in Thailand are still in the spotlight as political changes interfering with financial markets.</li> </ul>
<b>Hong Kong</b>  <b>HKD</b>	<ul style="list-style-type: none"> <li>Exports are slowing due to weakening global industry. But the domestic economy is booming.</li> <li>Inflation is picking up, especially in the real estate market.</li> </ul>	<ul style="list-style-type: none"> <li>HK will keep its currency peg for a long time despite USD/RMB breaking 7.80.</li> <li>The HKMA has stopped tightening monetary policy as the Fed is hold.</li> </ul>	<ul style="list-style-type: none"> <li>No major news on the prospect of democratisation of the Special Administrative Region.</li> </ul>

## FX Forecast

Core Majors											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
EUR	01-May			1.36		745.1		913.8		812.0	
	+1m			1.37	1.37	746.0	745.2	920.0	913.3	810.0	812.2
	+3m			1.38	1.37	746.0	745.5	920.0	912.5	800.0	812.8
	+6m			1.38	1.37	746.0	745.7	910.0	911.3	800.0	814.0
	+12m			1.28	1.38	746.0	746.1	900.0	910.0	780.0	817.5
USD	01-May	1.36				546.4		670.1		595.4	
	+1m	1.37	1.37			544.5	545.8	671.5	668.9	591.2	594.9
	+3m	1.38	1.37			540.6	544.9	666.7	666.9	579.7	594.1
	+6m	1.38	1.37			540.6	543.5	659.4	664.3	579.7	593.3
	+12m	1.28	1.38			582.8	542.0	703.1	661.0	609.4	593.8
JPY	01-May	163.1		119.6		4.57		5.60		4.98	
	+1m	166	163	121	119	4.49	4.58	5.54	5.62	4.88	4.99
	+3m	168	162	122	118	4.44	4.61	5.48	5.64	4.76	5.03
	+6m	170	160	123	117	4.39	4.65	5.35	5.69	4.71	5.08
	+12m	151	158	118	114	4.94	4.73	5.96	5.77	5.17	5.19
Wider CEE											
PLN	01-May	3.78		2.77		197.1		241.8		214.8	
	+1m	3.80	3.78	2.77	2.77	196.3	197.1	242.1	241.5	213.2	214.8
	+3m	3.75	3.78	2.72	2.76	198.9	197.1	245.3	241.2	213.3	214.9
	+6m	3.70	3.79	2.68	2.76	201.6	196.9	245.9	241.0	216.2	215.0
	+12m	3.70	3.79	2.89	2.75	201.6	196.6	243.2	240.6	210.8	215.6
HUF	01-May	247.8		181.7		3.01		3.69		3.28	
	+1m	250.0	248.7	182.5	182.1	2.98	3.00	3.68	3.67	3.24	3.27
	+3m	250.0	250.1	181.2	182.8	2.98	2.98	3.68	3.65	3.20	3.25
	+6m	250.0	252.0	181.2	183.7	2.98	2.96	3.64	3.62	3.20	3.23
	+12m	250.0	255.2	195.3	185.4	2.98	2.92	3.60	3.57	3.12	3.20
CZK	01-May	28.18		20.66		26.45		32.43		28.82	
	+1m	28.10	28.14	20.51	20.61	26.55	26.48	32.74	32.46	28.83	28.86
	+3m	28.10	28.07	20.36	20.52	26.55	26.56	32.74	32.50	28.47	28.95
	+6m	28.20	27.97	20.43	20.39	26.45	26.66	32.27	32.58	28.37	29.10
	+12m	28.20	27.79	22.03	20.19	26.45	26.84	31.91	32.74	27.66	29.41
SKK	01-May	33.72		24.73		22.10		27.10		24.08	
	+1m	33.80	33.72	24.67	24.69	22.07	22.10	27.22	27.09	23.96	24.09
	+3m	34.00	33.70	24.64	24.63	21.94	22.12	27.06	27.08	23.53	24.12
	+6m	34.00	33.67	24.64	24.54	21.94	22.15	26.76	27.07	23.53	24.18
	+12m	34.50	33.57	26.95	24.39	21.62	22.23	26.09	27.11	22.61	24.35
RON	01-May	3.33		2.44		224.1		274.8		244.2	
	+1m	3.45	3.33	2.52	2.44	216.2	223.5	266.7	273.9	234.8	243.6
	+3m	3.55	3.34	2.57	2.44	210.1	223.1	259.2	273.0	225.4	243.2
	+6m	3.60	3.38	2.61	2.46	207.2	220.9	252.8	270.0	222.2	241.2
	+12m	3.60	3.42	2.81	2.48	207.2	218.3	250.0	266.3	216.7	239.2

## FX Forecast

<b>Wider CEE (Cont.)</b>											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
BGN	01-May	1.95		1.43		381.2		467.5		415.5	
	+1m	1.96	-	1.43	-	381.6	-	470.6	-	414.3	-
	+3m	1.96	-	1.42	-	381.6	-	470.6	-	409.2	-
	+6m	1.96	-	1.42	-	381.6	-	465.5	-	409.2	-
	+12m	1.96	-	1.53	-	381.6	-	460.4	-	399.0	-
TRY	01-May	1.87		1.37		397.9		488.0		433.6	
	+1m	1.95	1.90	1.42	1.39	382.6	392.7	471.8	481.3	415.4	428.0
	+3m	2.00	1.94	1.45	1.42	373.0	383.8	460.0	469.8	400.0	418.5
	+6m	2.10	2.01	1.52	1.47	355.2	370.8	433.3	453.2	381.0	404.8
	+12m	2.10	2.15	1.64	1.56	355.2	347.8	428.6	424.2	371.4	381.1
<b>CIS</b>											
RUB	01-May	35.05		25.70		21.26		26.07		23.17	
	+1m	35.03	35.07	25.57	25.68	21.30	21.25	26.26	26.04	23.12	23.16
	+3m	34.90	35.11	25.29	25.66	21.38	21.23	26.36	25.99	22.92	23.15
	+6m	34.98	35.20	25.35	25.66	21.32	21.19	26.01	25.89	22.87	23.13
	+12m	33.32	35.39	26.03	25.71	22.39	21.08	27.01	25.71	23.41	23.10
UAH	01-May	6.83		5.01		109.0		133.7		118.8	
	+1m	6.85	6.91	5.00	5.06	108.9	107.9	134.3	132.2	118.2	117.6
	+3m	6.87	6.94	4.98	5.07	108.6	107.4	133.9	131.5	116.4	117.1
	+6m	6.87	6.99	4.98	5.09	108.6	106.7	132.4	130.4	116.4	116.5
	+12m	6.35	7.07	4.96	5.14	117.5	105.5	141.8	128.7	122.9	115.6
KZT	01-May	163.9		120.2		4.55		5.58		4.95	
	+1m	161.7	164.2	118.0	120.3	4.61	4.54	5.69	5.56	5.01	4.95
	+3m	161.5	164.3	117.0	120.1	4.62	4.54	5.70	5.55	4.95	4.95
	+6m	158.7	164.8	115.0	120.1	4.70	4.53	5.73	5.53	5.04	4.94
	+12m	147.2	165.3	115.0	120.1	5.07	4.51	6.11	5.50	5.30	4.94

## FX Forecast

<b>Baltics</b>											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
EEK	01-May	15.65		11.47		47.6		58.4		51.9	
	+1m	15.65	15.66	11.42	11.47	47.67	47.60	58.79	58.33	51.76	51.87
	+3m	15.65	15.67	11.34	11.45	47.67	47.57	58.79	58.29	51.12	51.95
	+6m	15.65	15.66	11.34	11.41	47.67	47.59	58.15	58.33	51.12	52.12
	+12m	15.65	15.68	12.23	11.39	47.67	47.54	57.51	58.26	49.84	52.23
LTL	01-May	3.45		2.53		215.81		264.66		235.17	
	+1m	3.45	3.45	2.52	2.53	216.23	215.87	266.67	264.56	234.78	235.27
	+3m	3.45	3.44	2.50	2.52	216.23	216.39	266.67	265.19	231.88	235.84
	+6m	3.45	3.43	2.50	2.51	216.23	217.17	263.77	266.14	231.88	236.68
	+12m	3.45	3.42	2.70	2.50	216.23	218.16	260.87	267.35	226.09	237.76
LVL	01-May	0.698		0.51		1067.85		1309.55		1163.66	
	+1m	0.70	0.70	0.51	0.51	1065.71	1063.03	1314.29	1302.76	1157.14	1158.56
	+3m	0.70	0.71	0.51	0.52	1065.71	1056.92	1314.29	1295.28	1142.86	1151.90
	+6m	0.70	0.71	0.51	0.52	1065.71	1056.92	1300.00	1295.28	1142.86	1151.90
	+12m	0.70	0.71	0.55	0.52	1065.71	1056.92	1285.71	1295.28	1114.29	1151.90

## FX Forecast

<b>MEA</b>											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
ILS	01-maj	5,51		4,04		135,3		165,9		147,4	
	+1m	5,69	5,51	4,15	4,03	131,2	135,3	161,8	165,8	142,5	147,5
	+3m	5,73	5,51	4,15	4,02	130,3	135,4	160,6	165,7	139,7	147,6
	+6m	5,73	5,50	4,15	4,01	130,3	135,5	158,9	165,6	139,7	147,9
	+12m	5,31	5,50	4,15	3,99	140,4	135,7	169,4	165,6	146,8	148,7
ZAR	01-maj	9,59		7,03		77,7		95,3		84,7	
	+1m	10,00	9,70	7,30	7,06	74,6	76,8	92,0	94,2	81,0	84,3
	+3m	10,07	9,72	7,30	7,10	74,1	76,7	91,3	93,9	79,4	83,6
	+6m	10,07	9,85	7,30	7,18	74,1	75,7	90,3	92,6	79,4	82,7
	+12m	9,34	10,09	7,30	7,33	79,8	74,0	96,3	90,2	83,5	81,0
EGP	01-maj	7,75		5,68		96,2		118,0		104,8	
	+1m	7,86	7,78	5,74	5,70	94,9	95,8	117,0	117,4	103,0	104,4
	+3m	7,94	7,84	5,75	5,73	94,0	95,0	115,9	116,3	100,8	103,6
	+6m	7,94	7,94	5,75	5,79	94,0	93,9	114,7	114,7	100,8	102,5
	+12m	7,36	8,11	5,75	5,89	101,4	92,0	122,3	112,3	106,0	100,8
<b>LATAM</b>											
BRL	01-maj	2,78		2,04		268,5		329,2		292,6	
	+1m	2,84	2,79	2,07	2,04	263,1	267,0	324,4	327,2	285,6	291,0
	+3m	2,90	2,82	2,10	2,06	257,4	264,1	317,5	323,3	276,1	288,0
	+6m	2,90	2,87	2,10	2,09	257,4	260,1	314,0	317,9	276,1	284,0
	+12m	2,71	2,94	2,12	2,14	274,9	253,7	331,7	309,4	287,4	278,0
ARS	01-maj	4,21		3,09		176,9		216,9		192,7	
	+1m	4,26	4,21	3,11	3,09	175,1	176,9	215,9	216,8	190,1	192,8
	+3m	4,31	4,23	3,12	3,09	173,3	176,4	213,7	215,9	185,8	192,3
	+6m	4,35	4,25	3,15	3,10	171,6	175,5	209,3	214,5	184,0	191,5
	+12m	4,10	4,31	3,20	3,13	182,1	173,3	219,7	211,3	190,4	189,8
MXN	01-maj	14,95		10,96		49,85		61,1		54,3	
	+1m	14,93	14,99	10,90	10,98	50,0	49,7	61,6	60,9	54,2	54,2
	+3m	15,04	15,08	10,90	11,02	49,6	49,4	61,2	60,5	53,2	53,9
	+6m	15,04	15,12	10,90	11,02	49,6	49,3	60,5	60,3	53,2	53,8
	+12m	14,02	15,17	10,95	11,02	53,2	49,2	64,2	60,0	55,7	53,9
CLP	01-maj	716,8		525,6		1,04		1,27		1,13	
	+1m	726,1	717,6	530,0	525,5	1,03	1,04	1,27	1,27	1,12	1,13
	+3m	738,3	718,8	535,0	525,3	1,01	1,04	1,27	1,27	1,08	1,13
	+6m	745,2	720,7	540,0	525,3	1,00	1,03	1,23	1,26	1,07	1,13
	+12m	691,2	723,2	540,0	525,3	1,08	1,03	1,21	1,26	1,13	1,13

## FX Forecast

Asia Ex Japan											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
CNY	01-maj	10,50		7,70		70,9		87,0		77,3	
	+1m	10,55	10,48	7,70	7,67	70,7	71,1	87,2	87,2	76,8	77,5
	+3m	10,47	10,41	7,59	7,61	71,2	71,6	87,8	87,7	76,4	78,1
	+6m	10,32	10,30	7,48	7,51	72,3	72,4	88,2	88,5	77,5	79,0
	+12m	9,28	10,02	7,25	7,28	80,4	74,5	97,0	90,9	84,1	81,6
KRW	01-maj	1269		931		0,6		0,7		0,6	
	+1m	1281	1271	935	931	0,58	0,59	0,72	0,72	0,63	0,64
	+3m	1283	1271	930	929	0,58	0,59	0,72	0,72	0,62	0,64
	+6m	1270	1272	920	927	0,59	0,59	0,72	0,72	0,63	0,64
	+12m	1171	1273	915	925	0,64	0,59	0,77	0,71	0,67	0,64
THB	01-maj	44,8		32,9		16,6		20,4		18,1	
	+1m	45,2	47,8	33,0	35,0	16,5	15,6	20,3	19,1	17,9	17,0
	+3m	46,2	48,6	33,5	35,5	16,1	15,3	19,9	18,8	17,3	16,7
	+6m	46,9	49,2	34,0	35,9	15,9	15,2	19,4	18,5	17,1	16,5
	+12m	44,8	49,6	35,0	36,0	16,7	15,1	20,1	18,4	17,4	16,5
SGD	01-maj	2,07		1,52		359		441		392	
	+1m	2,07	2,07	1,51	1,52	361	360	445	441	392	392
	+3m	2,07	2,07	1,50	1,51	360	361	444	442	386	393
	+6m	2,06	2,06	1,49	1,50	363	362	443	443	389	395
	+12m	1,87	2,04	1,46	1,48	399	366	482	446	417	401
HKD	01-maj	10,67		7,82		69,85		85,66		76,12	
	+1m	10,66	10,67	7,78	7,81	69,99	69,84	86,32	85,59	75,99	76,12
	+3m	10,70	10,67	7,75	7,80	69,75	69,85	86,02	85,50	74,80	76,16
	+6m	10,70	10,67	7,75	7,78	69,75	69,86	85,09	85,38	74,80	76,26
	+12m	9,92	10,67	7,75	7,75	75,20	69,91	90,73	85,26	78,63	76,59
MYR	01-maj	4,67		3,42		160		196		174	
	+1m	4,69	4,67	3,42	3,42	159	160	196	196	173	174
	+3m	4,69	4,66	3,40	3,41	159	160	196	196	171	174
	+6m	4,65	4,65	3,37	3,39	160	160	196	196	172	175
	+12m	4,22	4,63	3,30	3,36	177	161	213	196	185	177

## FX Forecast

Asia Ex Japan (Cont.)											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
PHP	01-maj	64,9		47,6		11,5		14,1		12,5	
	+1m	66,4	65,0	48,5	47,6	11,2	11,5	13,8	14,1	12,2	12,5
	+3m	66,2	64,9	48,0	47,5	11,3	11,5	13,9	14,1	12,1	12,5
	+6m	65,6	65,0	47,5	47,4	11,4	11,5	13,9	14,0	12,2	12,5
	+12m	60,2	65,2	47,0	47,3	12,4	11,5	15,0	14,0	13,0	12,5
IDR	01-maj	12379		9078		0,060		0,074		0,066	
	+1m	12467	12436	9100	9108	0,060	0,060	0,074	0,073	0,065	0,065
	+3m	12420	12522	9000	9153	0,060	0,060	0,074	0,073	0,064	0,065
	+6m	12351	12643	8950	9216	0,060	0,059	0,074	0,072	0,065	0,064
	+12m	11456	12833	8950	9323	0,065	0,058	0,079	0,071	0,068	0,064
INR	01-maj	58,0		45,7		12,9		16,1		14,5	
	+1m	59,6	56,6	43,5	41,5	12,5	13,2	15,4	16,1	13,6	14,3
	+3m	59,3	57,1	43,0	41,8	12,6	13,1	15,5	16,0	13,5	14,2
	+6m	60,0	57,8	43,5	42,1	12,4	12,9	15,2	15,8	13,3	14,1
	+12m	56,3	58,9	44,0	42,8	13,2	12,7	16,0	15,4	13,8	13,9
TWD	01-maj	42,0		33,1		17,7		22,2		20,1	
	+1m	45,2	45,4	33,0	33,3	17	16,4	20,3	20,1	17,9	17,9
	+3m	45,1	45,4	32,7	33,2	16,5	16,4	20,4	20,1	17,7	17,9
	+6m	44,9	45,2	32,5	33,0	16,6	16,5	20,3	20,1	17,8	18,0
	+12m	41,0	44,9	32,0	32,6	18,2	16,6	22,0	20,3	19,0	18,2

## Monetary Policy Calendar

	Policy Rate (%)	Latest Change	Next Change	Next Meeting
	01 May 2007			
<b>Wider CEE</b>				
PLN	4.25	+ 25 bp (Apr, 2006)	+ 25bp (July, 2007)	30 May 2007
HUF	8.00	+ 25 bp (Oct, 2006)	- 25bp (June/July, 2007)	21 May 2007
CZK	2.50	+ 25 bp (Sep, 2006)	+ 25bp (H2, 2007)	31 May 2007
SKK	4.25	- 25 bp (Apr, 2007)	Unchanged 2007	29 May 2007
RON	7.50	- 50 bp (Mar, 2007)	Unchanged 2007	02 May 2007
TRY	17.50	+ 25 bp (July, 2006)	-25bp (Q1, 2008)	14 May 2007
<b>MEA</b>				
ILS	3.75	- 25 bp (Apr, 2007)	-25bp (Q2, 2007)	28 May 2007
ZAR	9.00	+ 50 bp (Dec, 2006)	+50 bp (2007)	07 June 2007
<b>LATAM</b>				
BRL	12.50	- 25 bp (Apr, 2007)	- 50bp (June, 2007)	06 June 2007
MXN	7.25	+ 25 bp (Apr, 2007)	+25 bp (mid 2007)	25 May 2007
CLP	5.00	-25 bp (Jan, 2007)	Unchanged 2007	11 May 2007
<b>Asia Ex Japan</b>				
CNY	6.39	+27 bp (Mar, 2007)	+ 27bp (Q2, 2007)	Not announced
KRW	4.50	+25 bp (Aug, 2006)	+25bp (Q2, 2007)	10 May 2007
THB	4.00	-50 bp (Apr, 2007)	-25bp (2007)	23 May 2007
HKD	6.75	+25 bp (June, 2006)	+25bp (Q1, 2008)	Not announced
MYR	3.50	+ 25 bp (Apr, 2006)	+25bp (Q2, 2007)	28 May 2007
PHP	7.50	-25 bp (Mar, 2006)	-25bp (Q2, 2007)	31 May 2007
IDR	8.75	-25 bp (Apr, 2007)	-25bp (2007)	08 May 2007
INR	7.75	+25 bp (Apr, 2007)	+25bp (Q2, 2007)	31 July 2007
TWD	2.87	+12.5 bp (Sep, 2006)	+ 12.5bp (Q1, 2007)	Not announced

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