

Emerging Markets Briefer

August 01, 2007

Credit score – what about Emerging Markets?

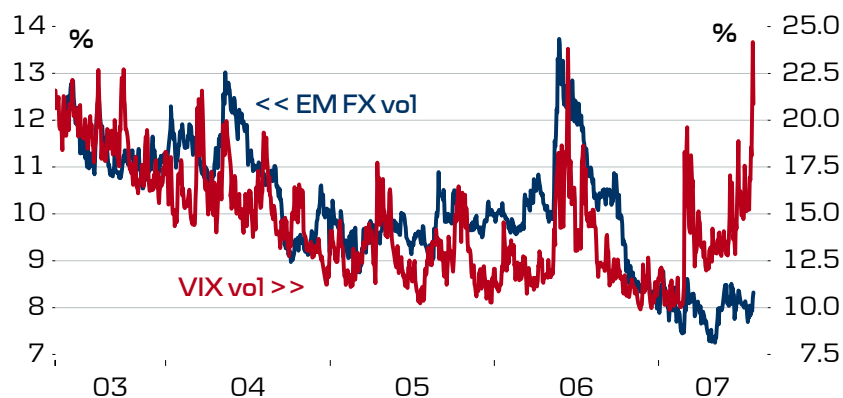
Emerging markets are vulnerable...

- Recent turmoil in the sub-prime mortgage market and credit market in general could be regarded as the start of re-pricing of risks on a global scale and risk premiums returning to “normal” levels or worse the start of a global credit crunch.
- As yet the impact of the credit score has been modest on emerging markets but they are vulnerable and could be next in line.

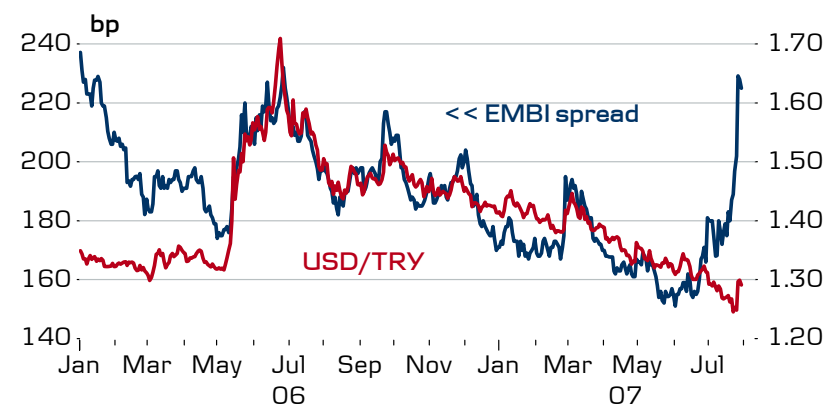
...and focus should return to fundamentals

- The risk of further worsening of global credit conditions warrants a reduced exposure to high emerging markets currencies such as the TRY, ZAR, IDR, PHP and MXN.
- With possible re-pricing of risk we will be looking for emerging markets with solid domestic and external balances such as the CIS markets and some of the Asian markets.

Will increased volatility spread to Emerging Markets?



And will FX market react to the credit score?



Movers and shakers – last month and in the month ahead

Will the credit scare spread to EM?

Over the last couple of months the worries over the US property market, and especially the so-called sub prime markets, have continued to spook the global financial markets. Last week the worries escalated, sparking a significant rise in the fears in most financial markets and risk aversion shot up. This clearly has also been visible in Emerging Markets. That said, the spill-over effects to Emerging Markets have been surprisingly limited.

Despite the sharp rise in global risk aversion, the global financial markets, and most Emerging FX and fixed income markets have done rather well over the last year, while the Emerging credit markets have been under pressure – much in line with what we have seen in the major credit markets. Hence, it is notable that, for example, implicit volatility in US stock markets has risen to levels not seen since 2003 and hence to higher levels than during the “risk scare” in May-June 2006. The major difference is that while Emerging Markets sold off massively last May-June, this time around one can at the most talk about jitters in Emerging Markets. We fear that the jitters soon could turn into turmoil.

The left-hand graph on the front page illustrates this point. While volatility in the US stock market has spiked dramatically, there are very few signs of higher volatility in the Emerging FX markets. This is quite puzzling as there is normally a quite high correlation between the volatility in global equity markets and in Emerging FX markets. This to us is reason to be more careful – especially if the credit scare persists and equity market volatility remains high. Hence, in such a situation we clearly would expect Emerging Markets – both FX and equity markets – to come under pressure. That said, the global economy continues to be quite robust and this reduces the risk of wider contagion to the global financial markets from the sub prime scare. The jury is still out on the extent of worsening of the global credit conditions, but it is probably not the time to be overoptimistic about Emerging Markets.

Another “anomaly” that should be noted is that while the Emerging Markets credit spreads have widened significantly recently, Emerging Markets currencies have not suffered much (at least not relative to other high-risk asset classes).

This can be illustrated by the graph on right-hand side of the page. Hence, while the spike in Emerging Market credit spreads has been larger this year than during the sell-off in May-June last year, we have only seen moderate weakness in most Emerging Markets currencies. For example, a year ago the Turkish lira (TRY) weakened by 30% during the May-June sell-off, while this time around the lira – and most other Emerging Markets currencies – has been more or less unaffected, even though Turkey is in the midst of its biggest political crisis since 2001. This is surely remarkable.

In conclusion, there are clearly some anomalies in the pricing of Emerging Markets that warrant some caution. We find it hard to believe that Emerging Markets will remain strong if global credit conditions continue to worsen.

General recommendations for August

- The risk of a further worsening of global credit conditions warranted a reduced exposure to high-beta Emerging Markets currencies like TRY, ZAR, IDR, PHP and MXN..
- The Emerging Asian currencies remain our top pick in the Emerging Markets currency universe as most Emerging Asian countries have solid external balances that provide good protection against tighter global credit conditions.

Emerging Market performance over the past month

Chart 1: FX change against EUR and USD

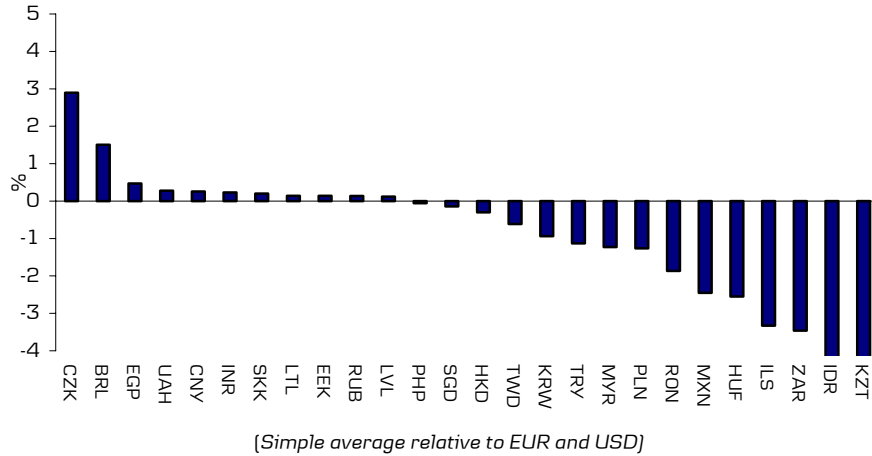


Chart 2: Risk adjusted FX change against EUR and USD

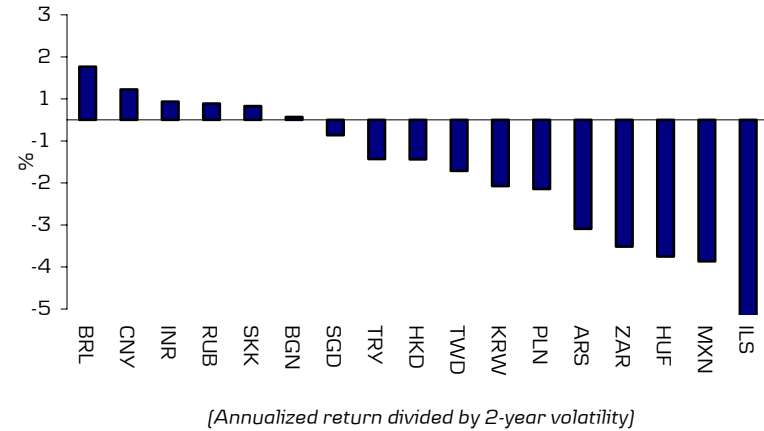


Chart 3: Change in 2 year swap yield

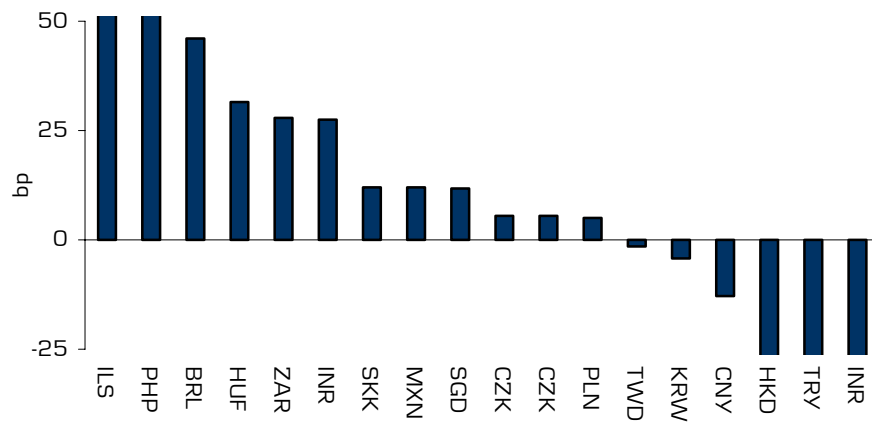
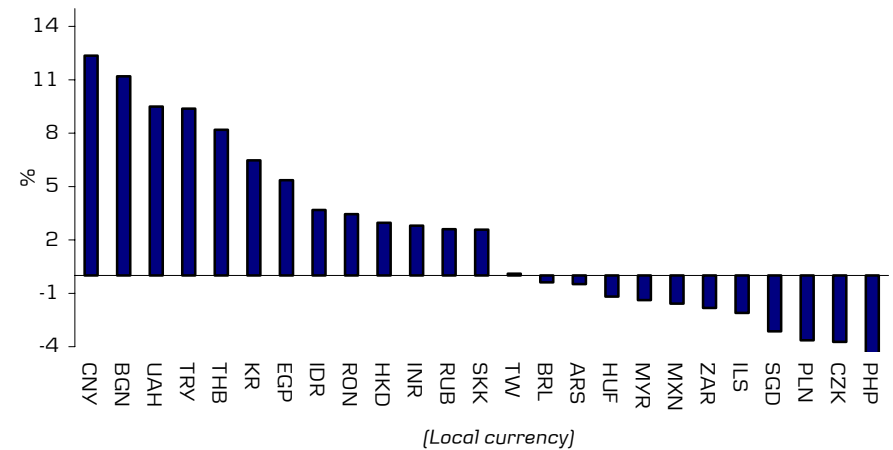


Chart 4: Stock market performance



Drivers and themes in emerging markets over the past month

Chart 5: Time to focus on C/A deficits

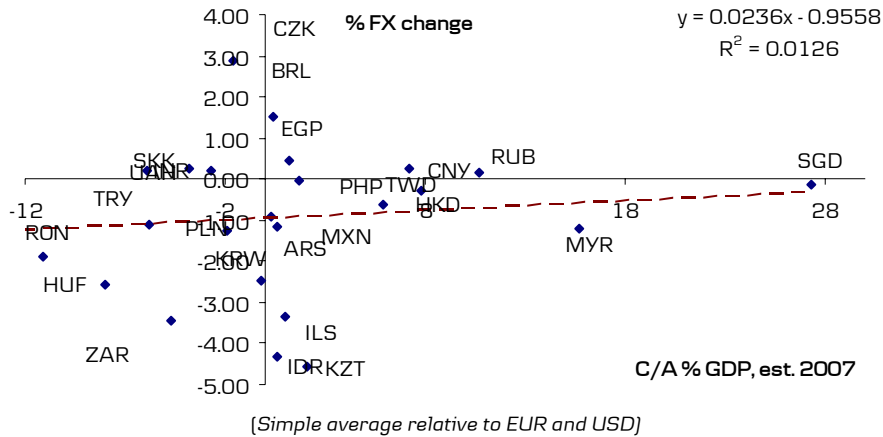


Chart 6: Carry trades under pressure

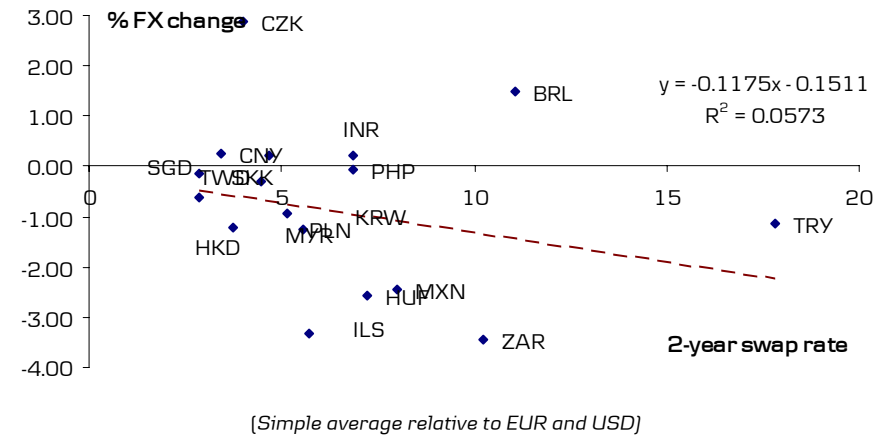


Chart 7: EUR/USD not important

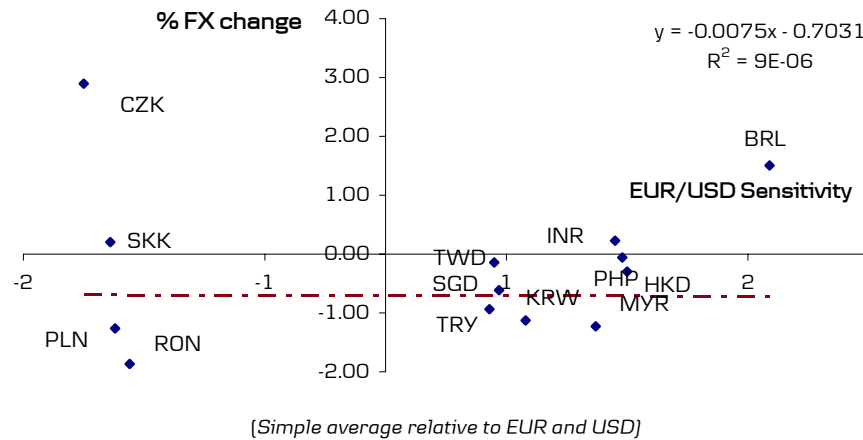
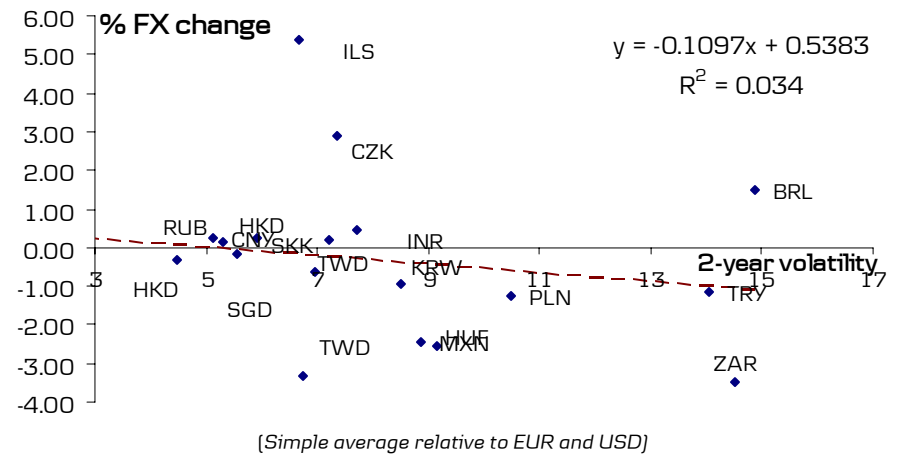


Chart 8: Gone is risk appetite





Trade recommendations



Performance



Performance	Total return	Count	Av. return	Av. Horizon (days)	Av Vol.
Closed	3.26	10	0.33	47	9.92
Open	1.01	1	1.01	173	4.00
All	4.27	11	0.39	59	9.38



Recently closed	Start Date	Closing date	Spot open	Spot close	Target	Stop	P/L (incl carry)
Basket PLN-HUF against CZK-SKK	01-05-2007	08-06-2007	100.00	99.69	103.00	98.50	-0.17
Buy USD/ZAR I	22-05-2007	08-06-2007	7.033	7.240	7.55	7.24	2.77
Buy MXN/ILS	01-06-2007	08-06-2007	37.92	38.25	39.30	37.30	0.92
Buy USD/ZAR II	26-06-2007	28-06-2007	7.180	7.080	7.37	7.08	-1.40


Open	Start Date	Today	Spot open	Spot	Target	Stop	P/L (incl carry)
Buy RUB-basket	09-02-2007	01-08-2007	29.920	29.763	29.00	30.10	1.01



	Macro Outlook	FX & Monetary Policy	Other factors
Region: CEE			
Poland  PLN	<ul style="list-style-type: none"> Growth is strong, but industrial production is beginning to show some signs of slowing due to capacity constraints. The current account situation remains strong, but we would expect some worsening of the current account over the coming year as domestic demand will continue to accelerate. 	<ul style="list-style-type: none"> Inflationary pressures are on the rise and inflation has moved above central bank's (NBP) inflation target of 2.5%. Wage growth is clearly accelerating. That is the main inflationary threat. NBP has initiated the monetary tightening cycle and we expect more rate hikes in the coming months. 	<ul style="list-style-type: none"> The Polish government remains very weak and populist. However, to date, politics has remained unimportant for the Polish markets and there is no reason to believe that that is about to change.
Czech Republic  CZK	<ul style="list-style-type: none"> The Czech central bank (CNB) in its new quarterly inflation report revised the GDP growth up - for both 2007 and 2008. Also inflation has been revised up. Inflationary pressures from the real economy are increasing. 	<ul style="list-style-type: none"> The CNB raised interest rates by 25bp in July, even a 50bp hike was discussed. The CNB signalled further tightening of monetary conditions. The CZK has rebounded due to negative sentiment for risky assets but this may change when the sentiment turns positive again. The CZK can still be a good case as a funding currency. 	<ul style="list-style-type: none"> Presidential elections due for next year are likely to be held in February (according to the Czech constitution the vote must be between February 7 and March 7). The current Czech president Vaclav Klaus will seek re-election.


Region: CEE	Macro Outlook	FX & Monetary Policy	Other factors
<p>Slovakia</p>  <p>SKK</p>	<ul style="list-style-type: none"> The economy continues to grow strongly with a downward trend in inflation. However, if energy prices increase next year, inflation may again come under pressure. Shortage of labour and a strong increase in labour demand are likely to push nominal wages much higher in 2007 and 2008. This could also lead to stronger inflationary pressures. 	<ul style="list-style-type: none"> Despite currently declining inflation, the central bank will not ease monetary policy this year due to existing inflationary risks. Interest rates should remain stable this year. The SKK is being driven by global factors. 	<ul style="list-style-type: none"> The Slovak government is ineffective, instead reversing reforms made by the previous government and increasing spending.
<p>Hungary</p>  <p>HUF</p>	<ul style="list-style-type: none"> Hungarian growth has slowed down significantly on the back of last year's tightening of fiscal policy. This is clearly positive as it contributes to improving both fiscal balances and the current account situation. 	<ul style="list-style-type: none"> The expected strong improvement in the current account situation should be supportive for the forint. The Hungarian central bank (MNB) is likely to continue to cut interest rates in the coming months as the slowdown in domestic demand contributes to easing inflationary pressures. However, the MNB is likely to move cautiously on monetary policy. We expect the forint fluctuation band to be abandoned in the coming months. 	<ul style="list-style-type: none"> Tighter global credit conditions could potentially hit the fairly indebted Hungarian economy hard. This is the main risk to the Hungarian markets. The significant tightening of fiscal policy could eventually lead to positive rating action from one or more of the credit rating agencies.


Region: CEE	Macro Outlook	FX & Monetary Policy	Other factors
<p>Romania</p>  <p>RON</p>	<ul style="list-style-type: none"> • Growth remains strong, but is driven mainly by domestic consumption. Despite inflation having eased, it is expected to pick up later this year. • Due to strong domestic demand, the current account deficit has increased to unsustainable levels and represents a key risk. 	<ul style="list-style-type: none"> • The deepening current account deficit is a key risk for the Romanian leu. The currency is still highly overvalued despite recent weakening. • The Romanian central bank has initiated an easing cycle (key rate at 7%) due to declining inflation and an excessively strong leu. 	<ul style="list-style-type: none"> • The Romanian government should keep the budget deficit in check if it wants to keep consumer spending under control but this seems to be less likely taking into account next year's general elections.
<p>Bulgaria</p>  <p>BGN</p>	<ul style="list-style-type: none"> • The economy continues to grow strongly but it is driven more by consumer spending than investment. The government expects GDP growth at around 6% this year and also in 2008. • The widening of the current account deficit is a key risk and may expand to 18% of GDP this year and remain high also in 2008. Strong consumer spending may fuel inflationary pressures further. 	<ul style="list-style-type: none"> • The government's year-end inflation forecast of 3.4% might be too optimistic. • Bulgaria's currency, the lev, is pegged to the euro. The central bank is within a currency board set-up. Tight fiscal policy and a close monitoring of credit growth is needed to maintain a credible FX peg. 	<ul style="list-style-type: none"> • The socialist government approved a plan to introduce a flat income tax of 10% from 2008 to increase Bulgarian's living standards and to attract foreign investors • Continued tight fiscal policy is needed to keep domestic demand growth in check.



	Macro Outlook	FX & Monetary Policy	Other factors
Region: Baltic			
Estonia  EEK	<ul style="list-style-type: none"> Domestic demand continues to develop strongly, but the export-oriented manufacturing sector is struggling and rising wage pressures are clearly becoming a problem for competitiveness. The external imbalances remain a major risk to economic and financial stability. Inflation and wage growth have accelerated further and the development is clearly not sustainable. 	<ul style="list-style-type: none"> The Estonian krooni (EEK) is pegged to the euro through ERM II. 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. 	<ul style="list-style-type: none"> Credit-fuelled demand and high growth in private credit will continue to fuel inflation. We believe that euro adoption will be postponed until well after 2010. There are signs of a slowdown in the property markets - will it turn into a bust?
Latvia  LVL	<ul style="list-style-type: none"> Latvian growth is far too strong, but a significant slowdown in growth is very likely. Signs of a slowdown in the economy are beginning to emerge. There clearly is a real estate bubble in Latvia, but it is probably in the process of being deflated. Inflation and wage growth is accelerating massively. This is obviously completely unsustainable. 	<ul style="list-style-type: none"> The Latvian lati (LVL) is pegged to the euro through ERM II, but renewed pressure on the currencies should certainly not be ruled out. The Latvian central bank has been defending the peg by actively intervening in the FX market. The situation remains very critical. 	<ul style="list-style-type: none"> There are clear concerns about financial and economic stability in Latvia. Fiscal policy is overly loose. The market should begin to focus on whether Latvian central bank governor Ilmars Rimsevics will be reappointed later in the year. We hope so.



	Macro Outlook	FX & Monetary Policy	Other factors
Region: Baltic			
Lithuania  LTL	<ul style="list-style-type: none"> GDP remains very strong and worryingly there are clear signs the overheating of the economy continues. In particular, we are concerned that credit growth remains strong. The economy in Lithuania looks a bit more balanced than Estonia and Latvia, but the imbalances in the economy are, nonetheless, large. 	<ul style="list-style-type: none"> Lithuanian litai (LTL) is pegged to the euro through ERM II. Large imbalances and negative contagion from the crisis in Latvia could increase volatility in the Lithuanian markets further. 	

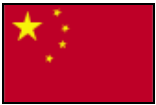

	Macro Outlook	FX & Monetary Policy	Other factors
Region: CIS			
Russia  RUB	<ul style="list-style-type: none"> Strong growth is driven by domestic demand, which is being fuelled by a rise in energy prices in recent years. Investment in productive capital continues its upward trend. Inflationary pressures are building up. Inflation went, as we expected, above the 8% y/y target in June - coming out at 8.5% y/y. 	<ul style="list-style-type: none"> The rouble appreciated against its basket at the end of June for the first time since the beginning of February. We expect further appreciation in the coming months. It looks like the central bank allows for a larger day-to-day variability in the rouble. 	<ul style="list-style-type: none"> The latest diplomatic dispute between Russia and the UK has left relations between the two countries at their lowest point since the Soviet Union collapsed in 1991. The conflict is yet another in the series of recent tensions between the West and Russia - who wants to regain its earlier status of being an international superpower.
Ukraine  UAH	<ul style="list-style-type: none"> 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. Inflation is still too high, as it is above 10% y/y. Producer price inflation is above 20% y/y. 	<ul style="list-style-type: none"> The Ukrainian central bank is unlikely to introduce any major policy changes despite excessive inflation. The currency looks undervalued but the NBU will keep a strong grip on the UAH. Liquidity is moving into excessive territory as money supply growth keeps accelerating. 	<ul style="list-style-type: none"> Political tensions have eased somewhat after Viktor and Viktor agreed on early parliamentary elections to be held in September. Ukraine could join the WTO in 2007. This will undoubtedly speed up Ukraine's integration with the EU. President Yushchenko has recently stated that EU membership is Ukraine's long-term goal.



	Macro Outlook	FX & Monetary Policy	Other factors
Region: EMEA			
<p>Turkey</p>  <p>TRY</p>	<ul style="list-style-type: none"> Growth has remained surprisingly strong, but the ongoing political crisis could dent investor and consumer confidence, and hurt growth. The current account deficit has increased significantly and is now at quite dangerous levels. 	<ul style="list-style-type: none"> While the Turkish markets have weathered the recent political turmoil well, rising worries over global credit conditions clearly could hit the heavily indebted Turkish economy and markets hard. Inflation is continuing to ease in Turkey and that could open the door for a moderate trimming of interest rates in the coming months. However, inflation remains well above the central bank's inflation target of 4% by the end of year and renewed lira weakness could push rate cuts into 2008. 	<ul style="list-style-type: none"> The governing AKParty has regained its absolute majority in the Turkish parliament after the recent elections. This is clearly positive, but political uncertainties remain high. We watch carefully the process of electing a new president. The key question is whether the AKP will push ahead with trying to elect foreign minister Gul as new president or go for a compromise candidate. We fear that the conflict between the government and the military could be reignited.



	Macro Outlook	FX & Monetary Policy	Other factors
<p>South Africa</p>  <p>ZAR</p>	<ul style="list-style-type: none"> Economic activity remains decent but largely driven by inflationary domestic demand. Strong inflationary pressures remain biased on the upside driven by high food and oil prices. The current account deficit remains very high (7% of GDP in Q1) and we do not expect a dramatic improvement this year. Hence the current account deficit remains a key risk. 	<ul style="list-style-type: none"> The latest credit growth numbers came out at very strong levels confirming that demand for credit by South Africa's private sector remains robust. This hardens the pressure on the South African central bank to increase interest rates in August. Given the rand's high volatility due to changes in risk aversion against emerging markets' currencies and external imbalances we do not recommend outright long positions in the rand. 	<ul style="list-style-type: none"> There have been many strikes due to negotiating of new wage deals and this troubles South Africa. This can have damaging consequences for the economy.


	Macro Outlook	FX & Monetary Policy	Other factors
Region: LATAM			
Brazil  BRL	<ul style="list-style-type: none"> Buoyant growth outlook in 2007. Declining real interest rates underpin domestic demand and have lifted investments. The trade balance surplus is high, but the outlook is burdened by accelerating imports. The outlook for inflation remains benign, although food prices, as in many other EM countries, are rising fast these days. 	<ul style="list-style-type: none"> The central bank (BCB) will continue to cut rates throughout 2007, although at a lower pace than the current rate of 50bps cuts per meeting. We expect the Selic rate to be lowered by 0.75% by year end from the current level of 11.50% to 10.75%. Brazilian real (BRL) is supported by trade surplus and carry. But be careful, BRL is still rather risk sensitive. 	<ul style="list-style-type: none"> Stability is being rewarded. In May both Fitch and S&P upgraded Brazil's long-term foreign currency rating, bringing it to just one notch below investment grade. The heavy tax burden impedes potential growth. Fiscal spending should be tightened.
Argentina  ARS	<ul style="list-style-type: none"> Underpinned by strengthening private consumption and favourable external conditions, growth continues at a clearly above-trend pace. Macroeconomic policy remains highly accommodative for this stage of the cycle. High inflationary pressures are driven by strong external balances and a nominal exchange rate peg. Real interest rates are close to zero. 	<ul style="list-style-type: none"> The Argentinean central bank is targeting inflation by controlling the money supply (M2) growth. High inflation will keep money supply growth close to the lower limit of the monetary policy band. The peso (ars) is pegged to the USD and this is unlikely to change in the foreseeable future. 	<ul style="list-style-type: none"> Private research institutes estimate actual inflation to be roughly twice that published by the government. A sharp rise in primary spending has stimulated demand and has weakened the underlying fiscal trend, although the fiscal position remains strong on the surface.

	Macro Outlook	FX & Monetary Policy	Other factors
Region: LATAM			
Mexico  MXN	<ul style="list-style-type: none"> Growth has slowed down somewhat in Q1 - but some re-acceleration is shown in the latest data. The trade balance continues to worsen and the C/A is becoming more negative. Inflation is close to the upper limit of the comfort zone and the central bank is worried about the risks to inflation expectations. 	<ul style="list-style-type: none"> The central bank is on hold again after a surprise hike in April. We cannot rule out one more hike this autumn to bring down inflationary expectations. The Mexican peso (MXN) has rebounded somewhat against the USD after a soft start to 2007. Looking ahead, we think that the MXN could outperform the USD in 2007. 	<ul style="list-style-type: none"> President Calderon's administration has handed Congress a bill to rewrite the nation's tax laws. The idea is to simplify the tax system and make it more transparent, while at the same time ensuring that fiscal spending is tight and used as efficiently as possible.
Chile  CLP	<ul style="list-style-type: none"> Economic growth has rebounded strongly during H1, supported by benign conditions for exports. Inflationary pressures are building up as June brought surprisingly high inflation. Price growth has, however, come out higher than expected over the last few months. 	<ul style="list-style-type: none"> The Chilean central bank initiated a new tightening cycle in July as it lifted the leading rate from 5.00% to 5.25%. We expect two to three more hikes this year. Record-high copper prices are supporting the trade balance surplus and thus the currency. 	<ul style="list-style-type: none"> The government will lower its surplus to 0.5% of GDP (from 1%) next year allowing the government to lift spending on education and healthcare. Chile recently signed a free trade agreement with Japan. This is good news for the surplus as Japan is the second-largest export destination for Chile.

	Macro Outlook	FX & Monetary Policy	Other factors
Region: EM Asia			
China  CNY	<ul style="list-style-type: none"> 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 above 11% y/y in 2007. Inflationary pressures have recently picked up, but a large part of the rise can be explained by a one-off effect from food prices. 	<ul style="list-style-type: none"> The Chinese authorities are likely to maintain a tightening stance on credit/monetary policy. Another 27bp rate hike is likely in Q4. Some administrative tightening measures possible but probably not before the Communist Party Congress in October. In May, PBoC widened the daily trading band against the USD to 0.5% from 0.3%. We expect the appreciation of CNY against the USD to accelerate to about 8% on a yearly basis. 	<ul style="list-style-type: none"> Party Congress in October is expected to strengthen current Chinese leadership (new left) with stronger focus on environmental and social development goals. Protectionist pressure is on the rise in Washington. Legislation targeting China as a currency manipulator and possibly allowing for punitive tariffs on imports will be introduced in Congress this autumn.
South Korea  KRW	<ul style="list-style-type: none"> Growth has accelerated in Q2 2007 on the back of strong exports and fixed investments. Growth will continue to improve as domestic demands pick up. Inflation is still well within Bank of Korea's official inflation target of 2.5% +/-1%. 	<ul style="list-style-type: none"> The Bank of Korea will hike rates by 25bp before year end and then rates will probably remain on hold until late H1 2008. Bank of Korea is worried about the strength of the KRW and has been intervening to prevent further strengthening of KRW. We expect further KRW strengthening on a 12M horizon on the back of both stronger JPY and CNY 	<ul style="list-style-type: none"> President Roh's political position is weak. The right-wing GNP is expected to win both the presidential election in December 2007 and the general election in April 2008 ending current political gridlock. Six-party talks on ending North Korea's nuclear ambitions continue. This should ease political tensions in the region.

	Macro Outlook	FX & Monetary Policy	Other factors
Region: EM Asia			
Thailand  THB	<ul style="list-style-type: none"> Political uncertainty remains a drag on the domestic economy Domestic demand remains weak but recovery is expected in 2008. However, exports are still booming, supporting growth. The C/A has shifted back into surplus, riding on slowing imports and booming exports. Core CPI is well within the 0-3% inflation target band. 	<ul style="list-style-type: none"> THB has resumed its appreciation trend despite political risk remaining. Decline in political risk premium should support further appreciation of THB. Another 25bp rate cut to 3.0% is likely as the central bank will try to stimulate domestic demand and curb the appreciation of the THB. 	<ul style="list-style-type: none"> Political developments in Thailand are still in the spotlight, as political changes are interfering with financial markets. Military-appointed panel has agreed on a final draft of a new constitution. Referendum about the constitution to be held on August 19 with national elections to be held within 90 days of its approval.
Hong Kong  HKD	<ul style="list-style-type: none"> Exports are slowing due to weakening US industry. But the domestic economy is booming. Inflation is picking up, especially in real estate. 	<ul style="list-style-type: none"> HK will keep its currency peg for a long time despite USD/RMB breaking 7.80. The HKMA has stopped tightening monetary policy as the Fed is on hold. 	<ul style="list-style-type: none"> Donald Tsang was re-elected at the tightly-controlled election, 25 March.

	Macro Outlook	FX & Monetary Policy	Other factors
Region: EM Asia			
Philippines  PHP	<ul style="list-style-type: none"> Strong growth is supported by continued strong exports and renewed strength in domestic demand. A big current account surplus around 4% of GDP is supported by remittances from Philipinos living abroad and strong FDI. Budget deficit has been reduced significantly partly through privatisation. Target is to eliminate budget deficit by 2008. Ability to reach this goal important for financial markets. Inflation has declined below 3% and significantly below central bank 2007 target of inflation at 4%-5%.. 	<ul style="list-style-type: none"> The PHP is currently supported by a strong current account surplus and capital inflows. The PHP is expected to strengthen further especially when domestic demand picks up. Philippine central bank not expected to ease further. Interest rate hike not expected until late 2008. 	<ul style="list-style-type: none"> The mid-term election in May has created a political stalemate. The TEAM coalition behind president Arroyo has a more than two-thirds majority in the lower house but the opposition has the majority in the upper house. As a consequence, the opposition will not be able to impeach the president. The next presidential election will be in 2010.
Indonesia  IDR	<ul style="list-style-type: none"> Exports are strong and domestic demand is picking up. The current account surplus is around 3% of GDP and the public sector deficit has been reduced significantly partly through privatisation revenues. Risk of weaker public finances as Indonesia prepares for 2009 general election Inflation continues to decline and is expected to decline below 6% during the summer.. 	<ul style="list-style-type: none"> The Bank of Indonesia (BI) inflation target is 5%-7% and it is satisfied with the IDR trading within 8500-9500. BI will continue its easing cycle with at least two 25bp rate cuts. The bottom for policy rates is probably 7.5% IDR is expected to strengthen, supported by carry and strong current account flows. 	<ul style="list-style-type: none"> President Yudhoyono is very business and reform minded but has only weak support in the parliament. Legislation concerning labour market liberalisation and foreign direct investment is currently being blocked by parliament. The next presidential election is in September 2009. It would be a big positive if Yudhoyono were reelected with stronger parliamentary support.

	Macro Outlook	FX & Monetary Policy	Other factors
<p>India</p>  <p>INR</p>	<ul style="list-style-type: none"> • Growth has been slowing down on the back of weaker exports and private consumption while investments remain strong. C/A and trade balances are in slightly negative territory due to strong domestic demand. • Positive long run fundamentals remain intact with FDI and corporate investments remaining strong. • Inflation has fallen below the 5% central bank target although this is mostly due to a base effect from lower food prices. We believe renewed inflation pressure could emerge in 2008. 	<ul style="list-style-type: none"> • The Reserve Bank of India (RBI) has probably put further interest rate increases temporarily on hold. Further interest rate increases are not likely until late H1 08 as inflationary pressure re-emerge. • The INR is stable in the short run but is expected to continue its appreciation trend later in 2008. 	<ul style="list-style-type: none"> • Prime Minister Singh faces problems in advancing much-needed structural reforms because of a highly-fragmented government. • The next general election is in May 2009. Pace of budget consolidation could slow in 2008 as India increasingly focuses on the upcoming general election.

FX Forecast

Core Majors											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
EUR	01-Aug			1.37		744.1		924.0		800.7	
	+1m			1.37	1.37	745.0	744.2	920.0	923.5	790.0	801.2
	+3m			1.40	1.37	745.0	744.4	910.0	922.8	790.0	802.0
	+6m			1.38	1.37	745.0	744.6	910.0	922.2	780.0	803.7
	+12m			1.30	1.37	745.0	745.0	910.0	921.8	780.0	807.9
USD	01-Aug	1.37				544.7		676.3		586.1	
	+1m	1.37	1.37			543.8	544.2	671.5	675.3	576.6	585.8
	+3m	1.40	1.37			532.1	543.4	650.0	673.6	564.3	585.5
	+6m	1.38	1.37			539.9	542.6	659.4	672.0	565.2	585.6
	+12m	1.30	1.37			573.1	541.9	700.0	670.5	600.0	587.6
JPY	01-Aug	161.2		118.0		4.62		5.73		4.97	
	+1m	164	161	120	118	4.54	4.63	5.61	5.75	4.82	4.99
	+3m	171	160	122	117	4.36	4.66	5.32	5.78	4.62	5.02
	+6m	173	158	125	115	4.31	4.70	5.26	5.82	4.51	5.08
	+12m	163	156	125	113	4.57	4.79	5.58	5.92	4.79	5.19
Wider CEE											
PLN	01-Aug	3.81		2.79		195.4		242.7		210.3	
	+1m	3.82	3.81	2.79	2.79	195.0	195.4	240.8	242.5	206.8	210.3
	+3m	3.85	3.81	2.75	2.78	193.5	195.3	236.4	242.1	205.2	210.4
	+6m	3.85	3.82	2.79	2.78	193.5	195.0	236.4	241.7	202.6	210.5
	+12m	3.85	3.83	2.96	2.79	193.5	194.4	236.4	240.9	202.6	210.9
HUF	01-Aug	252.9		185.1		2.94		3.65		3.17	
	+1m	250.0	253.7	182.5	185.5	2.98	2.93	3.68	3.64	3.16	3.16
	+3m	250.0	255.0	178.6	186.2	2.98	2.92	3.64	3.62	3.16	3.14
	+6m	255.0	256.7	184.8	187.1	2.92	2.90	3.57	3.59	3.06	3.13
	+12m	255.0	259.7	196.2	188.9	2.92	2.87	3.57	3.55	3.06	3.11
CZK	01-Aug	27.98		20.48		26.59		33.02		28.62	
	+1m	27.90	27.95	20.36	20.44	26.70	26.62	32.97	33.04	28.32	28.66
	+3m	28.30	27.90	20.21	20.37	26.33	26.68	32.16	33.07	27.92	28.74
	+6m	28.30	27.84	20.51	20.29	26.33	26.74	32.16	33.12	27.56	28.86
	+12m	28.30	27.77	21.77	20.20	26.33	26.83	32.16	33.20	27.56	29.09
SKK	01-Aug	33.48		24.51		22.23		27.60		23.92	
	+1m	34.10	33.48	24.89	24.48	21.85	22.23	26.98	27.58	23.17	23.93
	+3m	34.20	33.48	24.43	24.44	21.78	22.24	26.61	27.57	23.10	23.96
	+6m	34.40	33.44	24.93	24.37	21.66	22.27	26.45	27.58	22.67	24.03
	+12m	34.50	33.43	26.54	24.32	21.59	22.28	26.38	27.57	22.61	24.16
RON	01-Aug	3.18		2.32		234.3		291.0		252.2	
	+1m	3.25	3.19	2.37	2.33	229.2	233.6	283.1	289.9	243.1	251.5
	+3m	3.35	3.19	2.39	2.33	222.4	233.1	271.6	289.0	235.8	251.1
	+6m	3.45	3.21	2.50	2.34	215.9	231.9	263.8	287.3	226.1	250.3
	+12m	3.60	3.24	2.77	2.36	206.9	230.0	252.8	284.6	216.7	249.4

FX Forecast

Wider CEE (Cont.)											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
BGN	01-Aug	1.96		1.43		380.2		472.1		409.1	
	+1m	1.96	-	1.43	-	381.1	-	470.6	-	404.1	-
	+3m	1.96	-	1.40	-	381.1	-	465.5	-	404.1	-
	+6m	1.96	-	1.42	-	381.1	-	465.5	-	399.0	-
	+12m	1.96	-	1.50	-	381.1	-	465.5	-	399.0	-
TRY	01-Aug	1.79		1.31		416.6		517.2		448.3	
	+1m	1.80	1.81	1.31	1.32	413.9	411.4	511.1	510.6	438.9	442.9
	+3m	1.80	1.85	1.29	1.35	413.9	402.8	505.6	499.3	438.9	434.0
	+6m	1.90	1.91	1.38	1.39	392.1	390.4	478.9	483.6	410.5	421.4
	+12m	2.00	2.02	1.54	1.47	372.5	369.3	455.0	457.0	390.0	400.5
CIS											
RUB	01-Aug	34.95		25.59		21.29		26.44		22.91	
	+1m	34.67	34.95	25.31	25.56	21.49	21.29	26.53	26.42	22.78	22.92
	+3m	35.36	34.95	25.26	25.51	21.07	21.30	25.73	26.41	22.34	22.95
	+6m	34.54	34.99	25.03	25.49	21.57	21.28	26.35	26.36	22.58	22.97
	+12m	32.37	35.06	24.90	25.50	23.02	21.25	28.11	26.29	24.10	23.04
UAH	01-Aug	6.84		5.01		108.8		135.1		117.1	
	+1m	6.85	6.90	5.00	5.04	108.8	107.9	134.3	133.9	115.3	116.2
	+3m	6.97	6.93	4.98	5.06	106.9	107.5	130.5	133.2	113.3	115.8
	+6m	6.87	6.98	4.98	5.08	108.4	106.8	132.4	132.2	113.5	115.2
	+12m	6.45	7.03	4.96	5.12	115.5	105.9	141.1	131.1	121.0	114.9
KZT	01-Aug	179.0		131.0		4.16		5.16		4.47	
	+1m	164.4	169.2	120.0	123.7	4.53	4.40	5.60	5.46	4.81	4.74
	+3m	165.2	169.1	118.0	123.5	4.51	4.40	5.51	5.46	4.78	4.74
	+6m	160.1	169.4	116.0	123.5	4.65	4.40	5.68	5.44	4.87	4.74
	+12m	149.5	169.7	115.0	123.5	4.98	4.39	6.09	5.43	5.22	4.76

FX Forecast

Baltics											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
EEK	01-Aug	15.65		11.45		47.6		59.0		51.2	
	+1m	15.65	15.66	11.42	11.45	47.60	47.53	58.79	58.99	50.48	51.17
	+3m	15.65	15.67	11.18	11.44	47.60	47.49	58.15	58.93	50.48	51.21
	+6m	15.65	15.69	11.34	11.43	47.60	47.44	58.15	58.87	49.84	51.25
	+12m	15.65	15.72	12.04	11.44	47.60	47.33	58.15	58.73	49.84	51.22
LTL	01-Aug	3.45		2.53		215.52		267.60		231.91	
	+1m	3.45	3.45	2.52	2.53	215.94	215.45	266.67	267.37	228.99	231.94
	+3m	3.45	3.45	2.46	2.52	215.94	215.60	263.77	267.56	228.99	232.11
	+6m	3.45	3.45	2.50	2.52	215.94	215.68	263.77	267.66	226.09	232.19
	+12m	3.45	3.45	2.65	2.53	215.94	215.40	263.77	267.31	226.09	231.89
LVL	01-Aug	0.696		0.51		1068.57		1326.81		1149.86	
	+1m	0.70	0.70	0.51	0.51	1064.29	1068.75	1314.29	1326.33	1128.57	1150.58
	+3m	0.70	0.70	0.50	0.51	1064.29	1066.15	1300.00	1323.10	1128.57	1147.78
	+6m	0.70	0.70	0.51	0.51	1064.29	1066.15	1300.00	1323.10	1114.29	1147.78
	+12m	0.70	0.70	0.54	0.51	1064.29	1066.15	1300.00	1323.10	1114.29	1147.78

FX Forecast

MEA											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
ILS	01-Aug	5.92		4.34		125.6		156.0		135.2	
	+1m	5.89	5.92	4.30	4.33	126.5	125.7	156.2	155.9	134.1	135.3
	+3m	6.02	5.93	4.30	4.33	123.8	125.6	151.2	155.7	131.2	135.3
	+6m	6.00	5.94	4.35	4.33	124.1	125.4	151.6	155.3	129.9	135.3
	+12m	5.66	5.96	4.35	4.34	131.7	125.0	160.9	154.6	137.9	135.5
ZAR	01-Aug	9.81		7.18		75.8		94.2		81.6	
	+1m	10.00	9.95	7.30	7.21	74.5	74.8	92.0	92.8	79.0	81.2
	+3m	10.22	9.97	7.30	7.28	72.9	74.7	89.0	92.6	77.3	80.4
	+6m	10.07	10.12	7.30	7.38	74.0	73.6	90.3	91.1	77.4	79.4
	+12m	9.49	10.44	7.30	7.59	78.5	71.4	95.9	88.3	82.2	77.4
EGP	01-Aug	7.73		5.66		96.3		119.6		103.6	
	+1m	7.80	7.76	5.69	5.67	95.6	95.9	118.0	119.0	101.3	103.2
	+3m	7.95	7.82	5.68	5.71	93.7	95.2	114.4	118.0	99.3	102.5
	+6m	7.81	7.91	5.66	5.77	95.4	94.1	116.5	116.6	99.9	101.6
	+12m	7.31	8.06	5.62	5.86	102.0	92.4	124.6	114.3	106.8	100.2
LATAM											
BRL	01-Aug	2.57		1.88		289.4		359.3		311.4	
	+1m	2.58	2.59	1.88	1.89	289.3	287.9	357.2	357.3	306.7	309.9
	+3m	2.69	2.60	1.92	1.90	277.2	285.8	338.5	354.3	293.9	307.9
	+6m	2.70	2.63	1.96	1.92	275.4	282.6	336.4	350.0	288.4	305.0
	+12m	2.60	2.69	2.00	1.96	286.5	276.8	350.0	342.5	300.0	300.1
ARS	01-Aug	4.27		3.12		174.4		216.5		187.7	
	+1m	4.25	4.32	3.10	3.16	175.4	172.3	216.6	213.9	186.0	185.5
	+3m	4.34	4.39	3.10	3.20	171.7	169.7	209.7	210.4	182.0	182.9
	+6m	4.31	4.47	3.12	3.26	173.0	166.4	211.4	206.2	181.2	179.6
	+12m	4.10	4.62	3.15	3.36	181.9	161.4	222.2	199.7	190.5	175.0
MXN	01-Aug	15.04		11.01		49.49		61.4		53.3	
	+1m	14.80	15.08	10.80	11.03	50.4	49.3	62.2	61.2	53.4	53.1
	+3m	15.05	15.16	10.75	11.07	49.5	49.1	60.5	60.9	52.5	52.9
	+6m	14.84	15.19	10.75	11.07	50.2	49.0	61.3	60.7	52.6	52.9
	+12m	13.98	15.22	10.75	11.07	53.3	49.0	65.1	60.6	55.8	53.1
CLP	01-Aug	712.5		521.6		1.04		1.30		1.12	
	+1m	719.3	713.5	525.0	521.7	1.04	1.04	1.28	1.29	1.10	1.12
	+3m	742.0	714.8	530.0	521.8	1.00	1.04	1.27	1.29	1.06	1.12
	+6m	731.4	716.1	530.0	521.8	1.02	1.04	1.23	1.29	1.07	1.12
	+12m	689.0	717.4	530.0	521.8	1.08	1.04	1.24	1.28	1.13	1.13

FX Forecast

EM Asia											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
CNY	01-Aug	10.35		7.58		71.9		89.3		77.4	
	+1m	10.33	10.30	7.54	7.53	72.1	72.3	89.1	89.7	76.5	77.8
	+3m	10.42	10.21	7.44	7.45	71.5	72.9	87.4	90.4	75.8	78.5
	+6m	10.01	10.09	7.25	7.35	74.5	73.8	91.0	91.4	78.0	79.6
	+12m	9.10	9.84	7.00	7.16	81.9	75.7	100.0	93.6	85.7	82.1
KRW	01-Aug	1266		927		0.6		0.7		0.6	
	+1m	1258	1266	918	926	0.59	0.59	0.73	0.73	0.63	0.63
	+3m	1281	1265	915	923	0.58	0.59	0.71	0.73	0.62	0.63
	+6m	1256	1264	910	921	0.59	0.59	0.72	0.73	0.62	0.64
	+12m	1170	1260	900	917	0.64	0.59	0.78	0.73	0.67	0.64
THB	01-Aug	40.9		30.0		18.2		22.6		19.6	
	+1m	45.2	41.6	33.0	30.4	16.5	17.9	20.3	22.2	17.5	19.3
	+3m	46.9	42.2	33.5	30.8	15.9	17.6	19.4	21.9	16.8	19.0
	+6m	46.9	42.4	34.0	30.9	15.9	17.6	19.4	21.7	16.6	19.0
	+12m	45.5	42.9	35.0	31.2	16.4	17.4	20.0	21.5	17.1	18.8
SGD	01-Aug	2.08		1.52		358		444		385	
	+1m	2.07	2.08	1.51	1.52	360	358	445	444	382	386
	+3m	2.10	2.07	1.50	1.51	355	359	433	445	376	387
	+6m	2.06	2.06	1.49	1.50	362	361	443	447	379	389
	+12m	1.90	2.05	1.46	1.49	393	364	479	450	411	395
HKD	01-Aug	10.70		7.83		69.58		86.39		74.87	
	+1m	10.70	10.70	7.81	7.82	69.63	69.58	85.98	86.34	73.83	74.90
	+3m	10.93	10.70	7.81	7.81	68.14	69.58	83.23	86.26	72.25	74.97
	+6m	10.76	10.70	7.80	7.80	69.21	69.60	84.54	86.21	72.46	75.12
	+12m	10.14	10.70	7.80	7.78	73.47	69.66	89.74	86.19	76.92	75.54
MYR	01-Aug	4.74		3.47		157		195		169	
	+1m	4.70	4.74	3.43	3.47	159	157	196	195	168	169
	+3m	4.76	4.73	3.40	3.45	157	157	191	195	166	169
	+6m	4.64	4.71	3.36	3.43	161	158	196	196	168	170
	+12m	4.29	4.68	3.30	3.40	174	159	212	197	182	173

FX Forecast

EM Asia (Cont.)											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
PHP	01-Aug	62.6		45.8		11.9		14.8		12.8	
	+1m	63.7	62.8	46.5	45.9	11.7	11.9	14.4	14.7	12.4	12.8
	+3m	63.0	62.9	45.0	45.9	11.8	11.8	14.4	14.7	12.5	12.7
	+6m	62.1	62.9	45.0	45.9	12.0	11.8	14.7	14.7	12.6	12.8
	+12m	55.9	63.2	43.0	46.0	13.3	11.8	16.3	14.6	14.0	12.8
IDR	01-Aug	12759		9340		0.058		0.072		0.063	
	+1m	12878	12838	9400	9387	0.058	0.058	0.071	0.072	0.061	0.062
	+3m	12880	12857	9200	9386	0.058	0.058	0.071	0.072	0.061	0.062
	+6m	12420	12934	9000	9425	0.060	0.058	0.073	0.071	0.063	0.062
	+12m	11440	13068	8800	9505	0.065	0.057	0.080	0.071	0.068	0.062
INR	01-Aug	51.4		40.5		14.5		18.1		16.4	
	+1m	55.5	55.8	40.5	40.8	13.4	13.3	16.6	16.6	14.2	14.4
	+3m	57.4	56.0	41.0	40.9	13.0	13.3	15.9	16.5	13.8	14.3
	+6m	56.6	56.3	41.0	41.0	13.2	13.2	16.1	16.4	13.8	14.3
	+12m	52.0	56.8	40.0	41.3	14.3	13.1	17.5	16.2	15.0	14.2
TWD	01-Aug	41.8		32.9		17.9		22.3		20.2	
	+1m	45.2	44.9	33.0	32.9	16	16.6	20.3	20.6	17.5	17.8
	+3m	44.8	44.8	32.0	32.7	16.6	16.6	20.3	20.6	17.6	17.9
	+6m	44.2	44.6	32.0	32.5	16.9	16.7	20.6	20.7	17.7	18.0
	+12m	40.3	44.2	31.0	32.1	18.5	16.9	22.6	20.9	19.4	18.3

Monetary Policy Calendar

	Policy Rate (%)	Latest Change	Next Change	Next Meeting
	01 August 2007			
Wider CEE				
PLN	4.50	+ 25 bp (June, 2007)	+ 25bp (Q3, 2007)	29 August 2007
HUF	7.75	- 25 bp (June, 2007)	-25bp (Q4, 2007)	27 August 2007
CZK	3.00	+ 25 bp (July, 2007)	+ 25bp (Q3, 2007)	30 August 2007
SKK	4.25	- 25 bp (Apr, 2007)	Unchanged 2007	27 August 2007
RON	7.00	- 25 bp (June, 2007)	Unchanged 2007	26 September 2007
TRY	17.50	+ 25 bp (July, 2006)	-25bp (Q4, 2007)	14 August 2007
MEA				
ILS	3.75	+ 25 bp (July, 2007)	+25bp (Q3, 2007)	27 August 2007
ZAR	9.50	+ 50 bp (June, 2006)	+50 bp (Aug, 2007)	16 August 2007
LATAM				
BRL	11.50	- 50 bp (July, 2007)	- 25 bp (Sep, 2007)	05 September 2007
MXN	7.25	+ 25 bp (Apr, 2007)	+25 bp (Q4, 2007)	24 August 2007
CLP	5.25	+25 bp (July, 2007)	+25 bp (Q3, 2007)	10 August 2007
EM Asia				
CNY	6.84	+27 bp (July, 2007)	+27bp (Q4, 2007)	Not announced
KRW	4.75	+25 bp (July, 2007)	+25 bp (Q4, 2007)	09 August 2007
THB	3.25	-25 bp (July, 2007)	-25bp (Q4, 2007)	29 August 2007
HKD	6.75	+25 bp (June, 2006)	Unchanged 2007	Not announced
MYR	3.50	+ 25 bp (Apr, 2006)	+25bp (Q4, 2007)	24 August 2007
PHP	6.00	-150 bp (July, 2007)	Unchanged 2007	23 August 2007
IDR	8.25	-25 bp (July, 2007)	-25bp (Q4, 2007)	07 August 2007
INR	7.75	+25 bp (Apr, 2007)	Unchanged 2007	30 August 2007
TWD	2.88	+12.5 bp (Mar, 2007)	+12.5bp (Q4, 2007)	Not announced

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Global Retail SME, FX

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First date of publication

Please see the front page of this research report.

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