

Emerging Markets Briefer

December 01, 2006

Here comes the bandwagon

Nervousness triggered by USD weakness...

- In last month's Briefer, we wrote that the EM markets would be "Waiting for the bandwagon" in November. This bandwagon might very well have arrived through the continued dollar weakness.
- The dollar weakness has accelerated over the last week and this has sparked a wave of renewed risk aversion in the global financial markets - especially in the LATAM and Turkish FX markets.

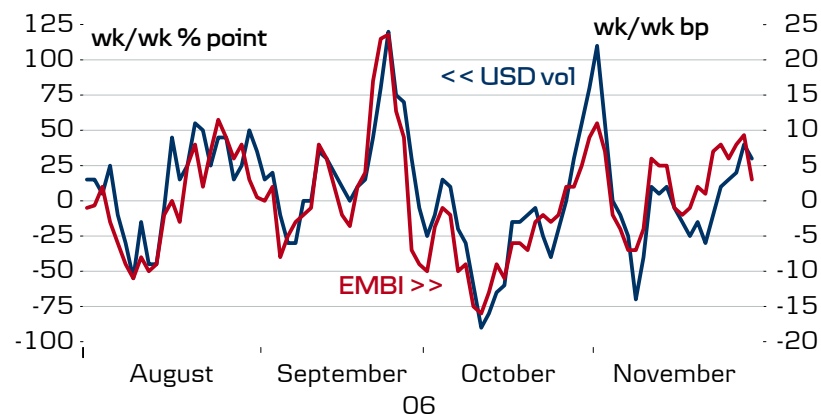
...should continue in December

- We believe that the USD weakness will continue, and EUR/USD could soon be testing 134. So, look for more Emerging Markets softness in the coming month.
- Especially the LATAM region and other USD-sensitive markets, such as the Turkish markets, are looking fragile.

Volatile currencies overshoot EUR/USD movements



USD volatility and EM risk coincide



Movers and shakers – last month and in the month ahead

It's the dollar, stupid

In last month's Briefer we wrote that the EM markets would be "Waiting for the bandwagon" in November. This bandwagon might very well have arrived through the continued dollar weakness. The dollar weakness has accelerated over the last week and this has sparked a wave of renewed risk aversion in the global financial markets – especially in fx markets. The USD weakness, which has been spurred among other things by renewed concerns over US growth, has also hit Emerging Markets. LATAM in particular has been under pressure over the past two weeks as the dollar-coupled currencies have 'overshot' the weakness of the dollar. Other dollar related currencies such as TRY and 'soft dollar-peggers' in Asia have also suffered.

Looking into December, we believe it is likely that the USD weakness will continue and our G10 FX strategists find it probable that we could soon test 134 on EUR/USD. With further USD weakness on the cards, it seems likely that we could see more Emerging Markets' weakness – with the LATAM market in particular looking fragile, as well as the other USD sensitive markets – especially the Turkish markets. Furthermore, the risks to the Turkish markets are also likely to rise towards the EU summit on December 11, where the stalled negotiations between the Finnish EU presidency and the Turkish government will be top of the agenda. In relation to the continued USD weakness, it should be noted that the EM sell-off in May-June was also preceded by the USD weakening from the start of April and until mid-May. The USD weakness does not necessarily imply that Emerging Markets will come under pressure, but normally Emerging Markets tend to underperform in periods of USD weakness, particularly in periods of increased fx volatility. This might very well also be the case this time around. However, the other main driver of the sell-off in May-June – a rise in global interest rates – is not present now, and we don't expect global interest rates to shoot up in the short term.

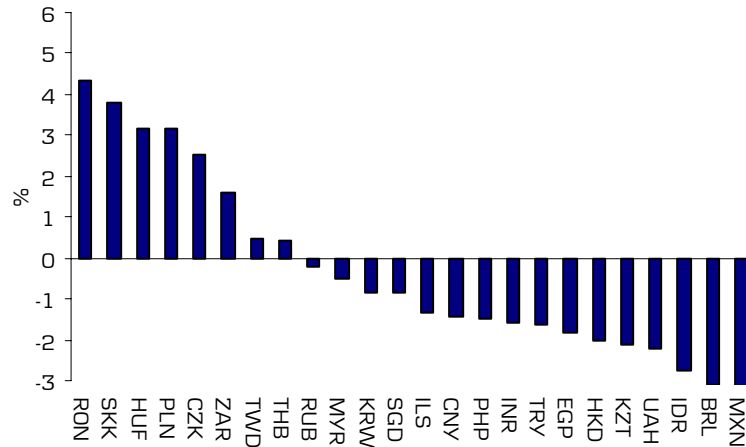
In April-June it was especially the countries with large current account deficits such as Turkey, Iceland and Hungary that suffered. We believe this is likely to be the case this time as well. Unlike in April-June, however, we think that the South African markets could hold up better as the ZAR has not gained to the same extent as other Emerging Markets currencies since the beginning of July. Furthermore, the ZAR tends to do relatively well in periods of USD weakness. The Central and Eastern European markets should do better than other Emerging Markets, but with risk aversion on the rise even the CEE markets could suffer relative to developed markets (especially in Europe). Obviously, the dollar-coupled Asian markets will also tend to underperform relative to the European markets in periods of USD weakness. However, the managed Asian currencies do not tend to 'overshoot' the dollar in periods of dollar weakness. Moreover, the Asian markets – with strong external balances and generally undervalued currencies – should be more robust than the LATAM markets and the Turkish markets.

General recommendations for December

- Reduce exposure to the LATAM markets and USD sensitive markets such as the Turkish and Israeli markets.
- We remain long-term positive on the Asian markets and they will cope well with USD weakness, but we recommend a less aggressive overweight in the Asian markets – at least against the European markets – as long as the USD weakening persists.
- See more specific trade recommendation on page 17.

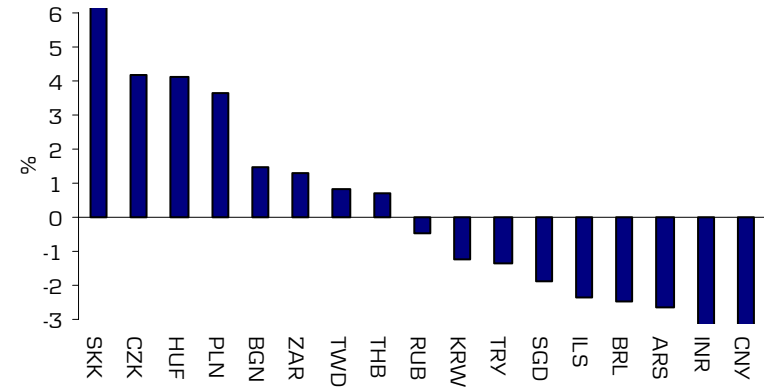
Emerging Market performance over the past month

FX change against EUR and USD



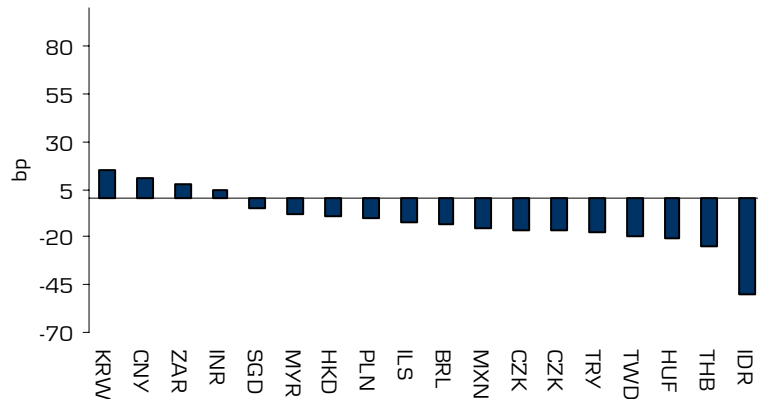
(Simple average relative to EUR and USD)

Risk adjusted FX change against EUR and USD

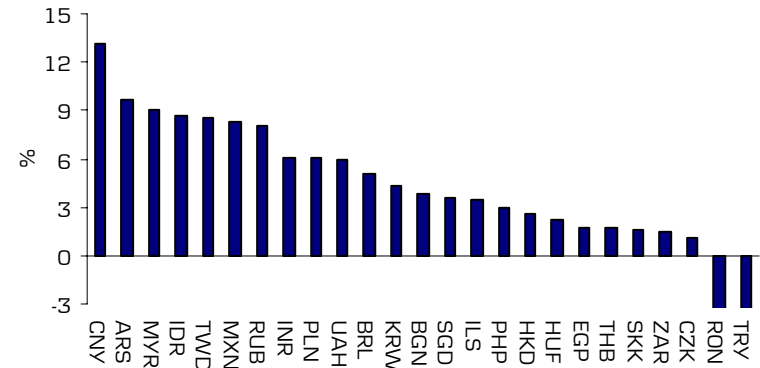


(Annualized return divided by 2-year volatility)

Change in 2 year swap yield



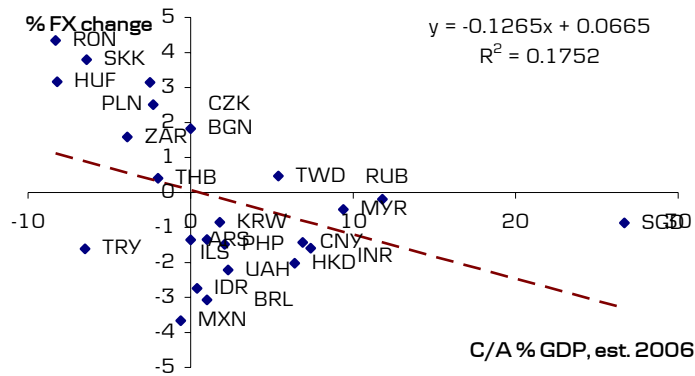
Stock market performance



(Local currency)

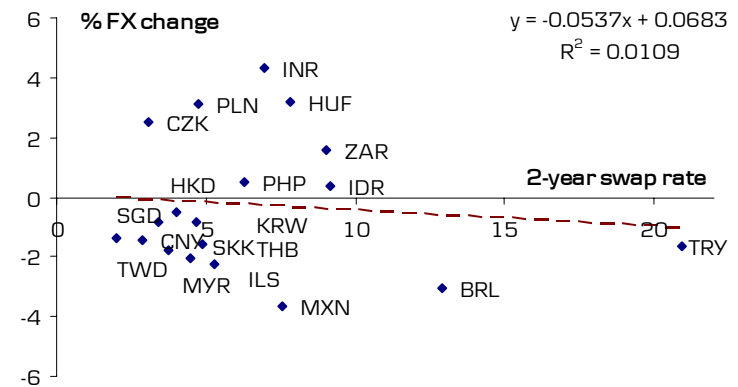
Drivers and themes in emerging markets over the past month

Current account



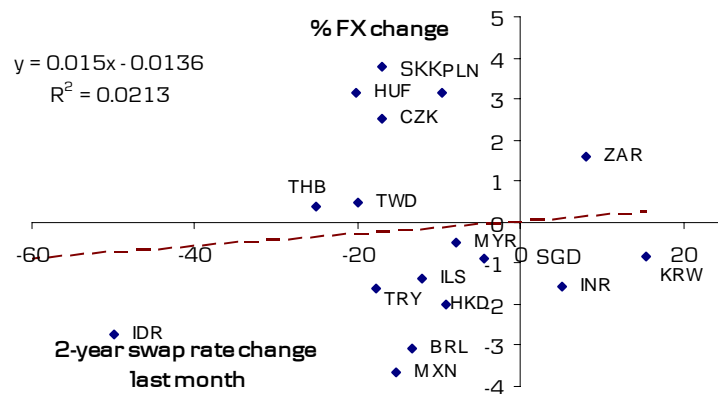
(Simple average relative to EUR and USD)

Carry



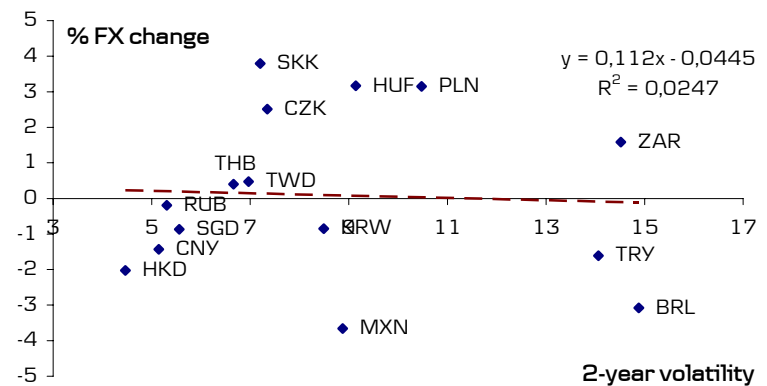
(Simple average relative to EUR and USD)

Change in yields (bp)








(Simple average relative to EUR and USD)



Risk and volatility








(Simple average relative to EUR and USD)


	Macro Outlook	FX & Monetary Policy	Other factors
Region: CEE			
Poland 	<ul style="list-style-type: none"> • Growth is strong and accelerating. Strong macro balances. • The current account still looks good, but it will come under pressure as domestic demand accelerates in 2007. 	<ul style="list-style-type: none"> • Inflation is still low, but inflationary pressures are growing. We expect the inflation rate to edge above 2% during 2007. Rate hikes are moving closer - likely to come in Q1 2007. • The significant rise in political uncertainty increases the risk of a major sell-off in the zloty. 	<ul style="list-style-type: none"> • The Polish government remains very weak and populist. • Political uncertainty will most likely remain high for some time to come.
Czech Republic 	<ul style="list-style-type: none"> • Economy continued to perform strongly in Q3 of this year, with consumer demand contributing more to growth. • In spite of stronger consumer spending, inflation remains low as the strength of the CZK keeps a lid on inflation. 	<ul style="list-style-type: none"> • CNB is not comfortable with the strength of CZK. • Low inflation and CZK's excessive strength do not allow the CNB to raise interest rates. • With two new board members (as of December), the CNB will turn more dovish. 	<ul style="list-style-type: none"> • Political stalemate continues, with all discussions between the centre-right Civic Democrats and the Social Democrats having come to grief so far. Even an agreement on early elections is far away. • Czech Republic has been without a stable government since June - situation starting to be worrisome.



	Macro Outlook	FX & Monetary Policy	Other factors
Slovakia 	<ul style="list-style-type: none"> The economy is booming. Preliminary Q3 GDP showed growth of 9.8% y/y. Consumer spending remains strong, but also exports are starting to grow. Current account still key risk. Inflation risks continue to exist. 	<ul style="list-style-type: none"> Slovak central bank still needs to reduce inflationary pressures but strong SKK helps restrict monetary conditions. Any further monetary tightening hinges on the strength of SKK and on the composition of GDP. 	<ul style="list-style-type: none"> Slovakia still on the path to adopting the euro in 2009.
Hungary 	<ul style="list-style-type: none"> The macroeconomic outlook is highly uncertain and will to a large extent depend on the political situation. Growth is likely to slow significantly irrespective of whether or not fiscal policy is tightened. 	<ul style="list-style-type: none"> The still uncertain political situation has increased the risk of a further sell-off in the forint. The HUF's recent rally seems overdone. Monetary policy seems set to be tightened further, but the tightening cycle is drawing to a close. 	<ul style="list-style-type: none"> The government remains unpopular and PM Gyurcsany has been politically weakened. However, tensions seem to have eased a bit recently. Fiscal reforms will be much harder to push through. Downgrades are still likely.
Romania 	<ul style="list-style-type: none"> Growth remains very strong, but driven mainly by robust domestic consumption. Inflation has declined, but risks to inflation continue to exist, including wage growth, government spending and planned increases in administered prices. 	<ul style="list-style-type: none"> Deteriorating current account deficit key risk to the currency. Central bank governor considers it unrealistic to enter ERM II system by 2010. He sees euro entry sometime in 2012-2014. 	<ul style="list-style-type: none"> Romania on track to join the EU on January 1, 2007. Budget deficit seen higher next year, at 2.8%, due to higher spending on infrastructure.



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Bulgaria 	<ul style="list-style-type: none"> Economy keeps growing strongly - expected to expand by about 6% in 2006 and 2007. Widening of current account deficit is key risk - strong credit growth due to buoyant consumer spending may fuel inflationary pressures further. 	<ul style="list-style-type: none"> For now, inflation remains below the government's official inflation forecast of 6.6% by end-2006. Lev is pegged to the euro, central bank cannot influence economy much. 	<ul style="list-style-type: none"> Bulgaria expected to join the EU on January 1, 2007. Government aiming for a budget surplus next year of about 0.8% of GDP. Tight fiscal policy needed to keep economy under control.
Turkey 	<ul style="list-style-type: none"> Growth is still strong but likely to slow on lira weakness in May-June this year and significant rate hikes of late. Current account deficit is a key risk. Inflation has been driven up substantially in the wake of the lira's weakening. Risk of another surge in inflation. 	<ul style="list-style-type: none"> The renewed weakness in the lira could push up inflation again, and further rate hikes are therefore likely. Hikes might come as early as in December. With the risk of a further rise in global risk aversion, the lira could again fall victim to a fairly large sell-off, but probably not as massive as in May-June. 	<ul style="list-style-type: none"> Fiscal policy still on track. Trouble ahead for EU negotiations. The relationship between the EU and the Turkish government has turned more confrontational, which is clearly a worry. Focus on EU summit on December 12. EU negotiations have de facto been stalled.



	Macro Outlook	FX & Monetary Policy	Other factors
Region: CIS			
Russia 	<ul style="list-style-type: none"> Relatively strong growth in Russia is driven by domestic demand, which is being fuelled by recent years' rise in energy prices. Inflationary pressures have eased a bit after the recent softness in oil prices. Looking to meet inflation target this year. 	<ul style="list-style-type: none"> The rouble (RUB) has been allowed to appreciate to dampen inflationary pressures. This trend is likely to continue, but not before next year. The RUB will not appreciate anymore this year against the EUR/USD basket. We expect some appreciation next year. 	<ul style="list-style-type: none"> Russia has agreed a trade pact with the US, thereby removing the biggest single remaining obstacle to Russian WTO accession. Russia will now move on to the final entry talks with the other WTO members. WTO membership would be good news for Russia, as it could force a reform process.
Ukraine 	<ul style="list-style-type: none"> Growth slumped last year but has recovered somewhat this year. Strong global demand for steel should continue to support exports. Inflation is still too high. 	<ul style="list-style-type: none"> Ukrainian central bank is unlikely to introduce any major policy changes despite excessive inflation. The currency is undervalued but the NBU will keep a strong grip on the UAH. 	<ul style="list-style-type: none"> Ukraine has signed a gas deal with Russia at a reasonable price. The deal should end uncertainty over Russian gas supplies to both Ukraine and European customers in the coming winter months.
Kazakhstan 	<ul style="list-style-type: none"> Oil prices have supported growth, and the current account surplus remains large. Strong domestic demand is underpinning considerable inflationary pressures. 	<ul style="list-style-type: none"> The central bank has allowed the currency to appreciate somewhat this year to reduce inflationary pressures. We expect further KZT appreciation over the coming year due to inflationary pressures remaining high. 	<ul style="list-style-type: none"> Chinese state investment fund is acquiring Kazakh Karazhanbasmunay. The transfer of Karazhanbasmunay into Chinese ownership threatens the plans of LUKOIL to become the second biggest player in the Kazakh energy sector.




	Macro Outlook	FX & Monetary Policy	Other factors
Region: MEA			
Israel 	<ul style="list-style-type: none"> Economy continues to grow at a solid rate. Impact of the Hezbollah war on the economy less than expected. Inflation has dropped below the lower limit of the 1%-3% inflation target due to strong shekel and falling energy prices. 	<ul style="list-style-type: none"> Israeli interest rates below Fed rates. Bol aiming to bring inflation back to mid-point of inflation target. Rates on hold in the coming months. We are less optimistic on the shekel outlook, given that the carry argument has weakened. 	<ul style="list-style-type: none"> Main labour union has launched an open-ended nationwide strike in the public sector. Budget deficit for 2007 raised to 2.9% of GDP due to extra spending on rebuilding damaged areas after the war.
South Africa 	<ul style="list-style-type: none"> Economic activity remains solid despite slowdown in Q3, but still driven mainly by domestic demand. Inflationary pressures persist. Huge current account deficit a key risk. 	<ul style="list-style-type: none"> High consumer spending fuelled by accelerating borrowing should prompt another 50bp hike in December. Although the rand remains volatile, we maintain our positive view. Watch the current account deficit, though! 	<ul style="list-style-type: none"> In December next year, the ruling African National Congress party is due to vote on candidates to run for presidency in 2009.




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<p>Egypt</p> 	<ul style="list-style-type: none"> • Macroeconomic fundamentals look fairly robust and growth remains strong. • External balances are solid and inflation remains contained at around 4%. 	<ul style="list-style-type: none"> • The central bank continues to keep a tight grip on the currency, and the EGP is expected to remain fairly stable against the USD. • While the EGP looks somewhat undervalued, well-contained inflation means the central bank is unlikely to let it appreciate much - especially given the political pressures to keep the currency competitive. 	<ul style="list-style-type: none"> • The government remains broadly reformist; however, the reform process seems to have lost momentum. • Government finances remain the key challenge. The government needs to significantly reduce the fiscal deficit, which is now running at more than 8% of GDP.



	Macro Outlook	FX & Monetary Policy	Other factors
Region: LATAM			
Brazil 	<ul style="list-style-type: none"> Economic growth is soft, but unemployment is falling. Trade balance surplus is narrowing on weakened exports and accelerating imports. Inflation is well under target, supported by a strong currency and falling import prices. The outlook for inflation remains benign. 	<ul style="list-style-type: none"> The Brazilian central bank will continue to lower rates in the coming year, as growth and inflation are looking soft. We believe, though, that the bank will slow down the pace of easing and go for 25bp rather than 50bp rate cuts. Brazilian real (BRL) should come under pressure in the coming month due to recent dollar weakness. 	<ul style="list-style-type: none"> With GDP growth in 2006 set to be 2.9%, growth during Lula's four-year term will average only 2.7% y/y. Lula's big challenge now will be to raise growth above this average pace. Lula will announce appointments of ministers early in January.
Argentina 	<ul style="list-style-type: none"> Robust growth driven by industry, construction, and exports. High inflation pressures driven by strong external balances and nominal exchange rate peg. 	<ul style="list-style-type: none"> 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. The peso (ars) is pegged to the USD and this is unlikely to change in the foreseeable future. 	<ul style="list-style-type: none"> Argentina's president, Néstor Kirchner, last month agreed a deal with his Bolivian counterpart, Evo Morales, to increase gas imports fourfold in a drive to ease increasingly serious energy shortages.

	Macro Outlook	FX & Monetary Policy	Other factors
Mexico 	<ul style="list-style-type: none"> Growth is still strong, but the trade balance has been weakened by falling oil prices. C/A has again turned negative. Inflationary pressures are looking to ease again during the coming month as price increases head back within the comfort zone. 	<ul style="list-style-type: none"> The Mexican central bank has ended its easing cycle and is currently on hold. The temporary uptick in inflation will not require any rate hikes. We see room for further monetary easing in mid-2007. The Mexican peso (MXN) could come under pressure in the coming month, especially if the dollar continues to look weak. 	<ul style="list-style-type: none"> Calderón takes office as Mexico's new President as of today. Obrador's party (PRD) will be trying to prevent Calderón from taking office, but we expect that the resistance movement will fade. Key issues for Calderón will be to limit the local impact of the softening of the US economy and unveil social policy initiatives to erode public support for Obrador.
Chile 	<ul style="list-style-type: none"> Growth is disappointing due to slowing industrial production and retail sales. A recovery could be on the cards late this year, but supply-side constraints, especially in copper production, will impose limitations on output growth. Stabilising oil prices have dampened inflationary pressures. 	<ul style="list-style-type: none"> Inflationary pressures have eased and the Chilean central bank will remain on hold in the coming months. The peso (CLP) is very sensitive to copper prices, but also to USD movements. Look for CLP weakness in the coming month. 	<ul style="list-style-type: none"> Argentina's gas deal with Bolivia is good news for Chile, since the country imports a third of its energy needs from Argentina.

	Macro Outlook	FX & Monetary Policy	Other factors
Region: Asia Ex Japan			
China 	<ul style="list-style-type: none"> The economy is slowing, driven by a fall in the global industrial cycle and money/credit policy tightening. However, we don't expect a dramatic slowdown towards 9% y/y growth in 2007. Inflationary pressures remain subdued although wages are rising. 	<ul style="list-style-type: none"> The Chinese authorities will continue to introduce tightening measures. The speed of renminbi appreciation has increased due to the dollar's weakness. The renminbi will continue to appreciate at a relatively fast speed around US Tres. Sec. Paulson's visit in mid-December. 	<ul style="list-style-type: none"> The Chinese leadership is continuing its attempt to crack down on corruption and abuse of land rights in the provinces.
South Korea 	<ul style="list-style-type: none"> Growth is being pulled down by soft domestic demand. Moreover, South Korea's industry will start to feel the pressure from the slowdown in global industry. The current account balance has shifted into surplus as oil prices have fallen. Core inflation is still running below the target of 2.5-3.5%. 	<ul style="list-style-type: none"> The KRW will continue to appreciate on renminbi strength. Moreover, the positive developments in the C/A are supporting the won. The Bank of Korea is done hiking rates this year, but rate cuts are still some way off, since house prices are rising. 	<ul style="list-style-type: none"> President Roh's position is relatively weak after his party's poor showing in the May local elections. North Korea has agreed to return to the stalled six-party talks on ending its nuclear programmes. This is likely to ease political tensions in the region.

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Thailand 	<ul style="list-style-type: none"> Consumer spending is recovering, supporting growth. The CA has shifted back into surplus, riding on falling energy prices and slowing imports. Inflation will decrease further due to large base effects and the strengthening of the THB. 	<ul style="list-style-type: none"> The currency has strengthened significantly due to improving C/A balances. The central bank is trying to slow THB appreciation through verbal intervention. We believe the central bank is moving closer to a rate cut, aiming to stimulate domestic demand. 	<ul style="list-style-type: none"> Political developments in Thailand have faded into the background from the perspective of the financial markets after the strong economic performance. How the new government will deal with structural reforms remains to be seen.
Singapore 	<ul style="list-style-type: none"> Export growth is slowing sharply, driven by a slowdown in the global industrial cycle. However, the "chronic" C/A surplus is not threatened. Inflationary pressures remain subdued. 	<ul style="list-style-type: none"> The Singapore dollar will continue its appreciation versus the dollar, supported by renminbi strength. The MAS is done tightening liquidity, as the Fed is on hold. 	<ul style="list-style-type: none"> The People's Action Party (PAN) again has a strong grip on power after the elections in May.
Hong Kong 	<ul style="list-style-type: none"> Exports are slowing due to weakening global industry and receding Chinese import growth. Inflation is picking up. 	<ul style="list-style-type: none"> HK will keep its currency peg to the dollar for the foreseeable future. The HKMA has stopped tightening monetary policy as the Fed is hold. 	<ul style="list-style-type: none"> No major news on the prospect of democratization of the Special Administrative Region.

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Malaysia 	<ul style="list-style-type: none"> Economic growth remains strong, supported by a pick-up in private consumption. The “chronic” C/A surplus is not threatened. Inflationary pressures are easing. 	<ul style="list-style-type: none"> MYR has begun to strengthen versus USD due to dollar weakness. Longer term, we expect the MYR to go significantly stronger due to cheap valuations. Monetary tightening has come to an end. 	<ul style="list-style-type: none"> The government is in a crisis after former PM Mahathir attacked incumbent PM Badawi.
Philippines 	<ul style="list-style-type: none"> Strong growth despite the slowdown in global industry. Large remittances from Philippines living abroad help reduce the trade deficit. Inflation is falling but is still running above the inflation target of 4-5%. 	<ul style="list-style-type: none"> Better C/A balances and an improving fiscal situation are benefiting the peso. The BSP has signalled that the next move in interest rate will be downwards due to slowing inflationary pressures. The move could come in the start of 2007. 	<ul style="list-style-type: none"> Political risks are on the agenda ahead of the mid-term elections in May 2007.
Indonesia 	<ul style="list-style-type: none"> Exports are slowing due to global industrial weakening. Strong basic balances. Inflationary pressures weakened dramatically in October due to large base effects. 	<ul style="list-style-type: none"> The rupiah may weaken if global risk aversion increases. The Bank of Indonesia will continue its easing cycle, cutting rates by 50bp per meeting. 	<ul style="list-style-type: none"> President Yudhoyono is losing in the polls, but he will have time to introduce much-needed structural reforms, as the next election is not due until 2009.

	Macro Outlook	FX & Monetary Policy	Other factors
India 	<ul style="list-style-type: none"> • Growth remains strong on the back of high domestic demand. C/A and trade balances are in negative territory due to strong domestic demand. • Inflationary pressures are still building. 	<ul style="list-style-type: none"> • The rupee has stopped appreciating versus the USD, as global risk appetite has receded. • The Reserve Bank of India will tighten monetary policy further to stem inflationary pressures. 	<ul style="list-style-type: none"> • Prime Minister Singh faces problems in advancing much-needed structural reforms because of a highly fragmented government.
Taiwan 	<ul style="list-style-type: none"> • Soft growth is due to still sluggish investment. Moreover, export growth is falling sharply on account of slowing global industry. "Chronic" C/A surpluses are not threatened. • Inflation remains subdued. 	<ul style="list-style-type: none"> • The Taiwan dollar will eventually appreciate on renminbi strength. However, very low interest rates and capital outflows are still weighting on the TWD. • With the Fed on hold, the tightening cycle has ended for now. 	<ul style="list-style-type: none"> • Protests against President Chen are rising due to corruption scandals. The protests make it increasingly likely that the main opposition party KMT will return to power at the election in 2008.

Trade recommendations

Directional FX strategies for December

Trade	Why?	Technical analysis			Correlation with majors
		Resistance (R) - Support (S)	Profit (P) - loss (L)	Hist. Vol.	
Buy ZAR/ILS Spot 59.39	<p>With Israeli rates now below US rates, ILS looks decisively more fragile.</p> <p>ZAR has underperformed other high-beta EM currencies since the end of June - that seems hard to justify.</p> <p>This trade offers modest positive carry.</p>	(R) - 60.82/64.81 (S) - 55.50/53.43	(P) - 61.70/65.00 (L) - 56.90/55.00	13 % (1M)	This is essentially a EUR/USD play. ZAR tends to outperform other Emerging Markets when EUR/USD moves up while ILS tends to track USD.
Buy EUR/BRL Spot 2.8667	<p>USD weakness likely to continue. This could strengthen EUR and trigger BRL weakness.</p>	(R) - 2.94 / 2.97 (S) - 2.82 / 2.76	(P) - 2.98 / 3.05 (L) - 2.76	10 % (1M)	BRL is very sensitive to USD weakness and it tends to overshoot EUR/USD movements.

FX Forecast

Core Majors											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
EUR	01-Dec			1.32		745.5		904.1		816.9	
	+1m			1.34	1.33	746.0	745.6	910.0	903.5	810.0	819.1
	+3m			1.32	1.33	746.0	745.7	900.0	902.7	800.0	816.9
	+6m			1.25	1.33	746.0	745.9	890.0	901.8	780.0	817.2
	+12m			1.25	1.34	746.0	746.5	890.0	900.9	780.0	819.4
USD	01-Dec	1.32				563.1		682.9		617.1	
	+1m	1.34	1.33			556.7	562.4	679.1	681.4	604.5	616.2
	+3m	1.32	1.33			565.2	560.9	681.8	679.0	606.1	614.5
	+6m	1.25	1.33			596.8	559.1	712.0	675.9	624.0	612.5
	+12m	1.25	1.34			596.8	556.6	712.0	671.7	624.0	611.0
JPY	01-Dec	153.8		116.2		4.85		5.88		5.31	
	+1m	154	153	115	116	4.84	4.86	5.91	5.89	5.26	5.33
	+3m	154	153	117	115	4.84	4.89	5.84	5.92	5.19	5.35
	+6m	149	151	119	113	5.01	4.93	5.97	5.96	5.23	5.40
	+12m	145	149	116	111	5.14	5.01	6.14	6.04	5.38	5.50
Wider CEE											
PLN	01-Dec	3.80		2.87		196.4		238.2		215.2	
	+1m	3.95	3.80	2.95	2.86	188.9	196.3	230.4	237.9	205.1	215.1
	+3m	4.05	3.80	3.07	2.86	184.2	196.2	222.2	237.5	197.5	215.0
	+6m	4.05	3.80	3.24	2.85	184.2	196.0	219.8	237.3	192.6	214.8
	+12m	4.05	3.82	3.24	2.85	184.2	195.4	219.8	236.5	192.6	214.7
HUF	01-Dec	255.4		193.0		2.92		3.54		3.20	
	+1m	260.0	256.4	194.0	193.4	2.87	2.91	3.50	3.52	3.12	3.19
	+3m	270.0	258.3	204.5	194.3	2.76	2.89	3.33	3.50	2.96	3.16
	+6m	275.0	260.8	220.0	195.5	2.71	2.86	3.24	3.46	2.84	3.13
	+12m	275.0	265.7	220.0	198.1	2.71	2.81	3.24	3.39	2.84	3.08
CZK	01-Dec	27.92		21.09		26.70		32.38		29.26	
	+1m	28.10	27.89	20.97	21.04	26.55	26.73	32.38	32.39	28.83	29.29
	+3m	28.50	27.85	21.59	20.95	26.18	26.78	31.58	32.41	28.07	29.33
	+6m	28.50	27.78	22.80	20.82	26.18	26.85	31.23	32.47	27.37	29.42
	+12m	28.50	27.66	22.80	20.62	26.18	26.99	31.23	32.57	27.37	29.62
SKK	01-Dec	35.55		26.85		20.97		25.43		22.98	
	+1m	36.00	35.58	26.87	26.84	20.72	20.95	25.28	25.39	22.50	22.96
	+3m	38.00	35.65	28.79	26.82	19.63	20.92	23.68	25.32	21.05	22.91
	+6m	38.00	35.74	30.40	26.79	19.63	20.87	23.42	25.24	20.53	22.87
	+12m	38.20	35.88	30.56	26.75	19.53	20.81	23.30	25.11	20.42	22.84
RON	01-Dec	3.43		2.59		217.5		263.8		238.4	
	+1m	3.50	3.43	2.61	2.59	213.1	217.1	260.0	263.1	231.4	237.8
	+3m	3.65	3.47	2.77	2.61	204.4	214.7	246.6	260.0	219.2	235.3
	+6m	3.65	3.47	2.92	2.60	204.4	215.2	243.8	260.2	213.7	235.8
	+12m	3.75	3.49	3.00	2.61	198.9	213.7	237.3	257.9	208.0	234.5

FX Forecast

Wider CEE (Cont.)											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
BGN	01-Dec	1.95		1.48		381.6		462.8		418.2	
	+1m	1.96	-	1.46	-	381.6	-	465.5	-	414.3	-
	+3m	1.96	-	1.48	-	381.6	-	460.4	-	409.2	-
	+6m	1.96	-	1.56	-	381.6	-	455.2	-	399.0	-
	+12m	1.96	-	1.56	-	381.6	-	455.2	-	399.0	-
TRY	01-Dec	1.91		1.45		389.5		472.4		426.8	
	+1m	2.00	1.94	1.49	1.46	373.0	384.5	455.0	465.9	405.0	421.3
	+3m	2.05	1.99	1.55	1.50	363.9	375.0	439.0	454.0	390.2	410.8
	+6m	2.10	2.06	1.68	1.55	355.2	361.7	423.8	437.4	371.4	396.3
	+12m	2.15	2.22	1.72	1.65	347.0	336.5	414.0	406.1	362.8	369.4
CIS											
RUB	01-Dec	34.77		26.26		21.44		26.00		23.50	
	+1m	35.11	34.85	26.20	26.29	21.25	21.39	25.92	25.92	23.07	23.44
	+3m	34.32	34.92	26.00	26.27	21.74	21.35	26.22	25.85	23.31	23.39
	+6m	31.88	35.04	25.50	26.26	23.40	21.29	27.92	25.74	24.47	23.32
	+12m	31.00	35.21	24.80	26.25	24.06	21.20	28.71	25.59	25.16	23.27
UAH	01-Dec	6.69		5.05		111.4		135.1		122.1	
	+1m	6.73	6.72	5.02	5.07	110.9	110.9	135.3	134.4	120.4	121.5
	+3m	6.60	6.80	5.00	5.11	113.0	109.7	136.4	132.8	121.2	120.2
	+6m	6.23	6.86	4.98	5.14	119.8	108.8	143.0	131.6	125.3	119.2
	+12m	6.20	7.02	4.96	5.23	120.3	106.4	143.5	128.4	125.8	116.8
KZT	01-Dec	169.4		127.9		4.40		5.34		4.82	
	+1m	170.2	169.5	127.0	127.9	4.38	4.40	5.35	5.33	4.76	4.82
	+3m	158.4	169.2	120.0	127.3	4.71	4.41	5.68	5.33	5.05	4.83
	+6m	147.5	169.8	118.0	127.3	5.06	4.39	6.03	5.31	5.29	4.81
	+12m	145.0	170.7	116.0	127.3	5.14	4.37	6.14	5.28	5.38	4.80

FX Forecast

MEA											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
ILS	01-Dec	5.61		4.24		133.0		161.3		145.7	
	+1m	5.83	5.61	4.35	4.23	128.0	132.8	156.1	160.9	139.0	145.5
	+3m	5.74	5.63	4.35	4.23	129.9	132.5	156.7	160.4	139.3	145.1
	+6m	5.44	5.65	4.35	4.23	137.2	132.1	163.7	159.7	143.4	144.7
	+12m	5.44	5.67	4.35	4.23	137.2	131.6	163.7	158.8	143.4	144.5
ZAR	01-Dec	9.42		7.12		79.1		96.0		86.7	
	+1m	9.65	9.52	7.20	7.14	77.3	78.3	94.3	94.9	84.0	86.3
	+3m	9.70	9.55	7.35	7.18	76.9	78.1	92.8	94.5	82.5	85.5
	+6m	9.13	9.68	7.30	7.26	81.8	77.0	97.5	93.1	85.5	84.4
	+12m	9.00	9.95	7.20	7.42	82.9	75.0	98.9	90.6	86.7	82.4
EGP	01-Dec	7.57		5.72		98.5		119.4		107.9	
	+1m	7.69	7.60	5.74	5.73	97.0	98.1	118.3	118.8	105.3	107.4
	+3m	7.59	7.67	5.75	5.77	98.3	97.3	118.6	117.8	105.4	106.6
	+6m	7.19	7.76	5.75	5.82	103.8	96.1	123.8	116.2	108.5	105.3
	+12m	7.19	7.94	5.75	5.92	103.8	94.0	123.8	113.5	108.5	103.2
LATAM											
BRL	01-Dec	2.87		2.16		260.1		315.4		285.0	
	+1m	3.06	2.89	2.28	2.18	244.2	258.2	297.9	312.9	265.1	282.9
	+3m	3.01	2.93	2.28	2.20	247.9	254.8	299.0	308.5	265.8	279.2
	+6m	2.88	2.99	2.30	2.24	259.5	249.8	309.6	302.0	271.3	273.7
	+12m	2.94	3.10	2.35	2.31	254.0	240.9	303.0	290.7	265.5	264.4
ARS	01-Dec	4.06		3.07		183.5		222.6		201.1	
	+1m	4.15	4.09	3.10	3.08	179.6	182.4	219.1	221.0	195.0	199.9
	+3m	4.12	4.12	3.12	3.10	181.1	180.9	218.5	219.0	194.3	198.2
	+6m	3.95	4.09	3.16	3.07	188.9	182.2	225.3	220.3	197.5	199.6
	+12m	4.05	4.29	3.24	3.20	184.2	174.0	219.8	210.0	192.6	191.0
MXN	01-Dec	14.53		10.98		51.29		62.2		56.2	
	+1m	15.14	14.58	11.30	10.99	49.3	51.1	60.1	62.0	53.5	56.0
	+3m	14.52	14.66	11.00	11.03	51.4	50.9	62.0	61.6	55.1	55.7
	+6m	13.88	14.71	11.10	11.03	53.8	50.7	64.1	61.3	56.2	55.5
	+12m	14.00	14.79	11.20	11.03	53.3	50.5	63.6	60.9	55.7	55.4
CLP	01-Dec	696.7		526.3		1.07		1.30		1.17	
	+1m	712.9	697.7	532.0	526.2	1.05	1.07	1.28	1.29	1.14	1.17
	+3m	706.2	699.9	535.0	526.5	1.06	1.07	1.26	1.29	1.12	1.17
	+6m	668.8	702.4	535.0	526.5	1.12	1.06	1.26	1.28	1.10	1.16
	+12m	668.8	706.1	535.0	526.5	1.12	1.06	1.33	1.28	1.17	1.16

FX Forecast

Asia Ex Japan											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
CNY	01-Dec	10.37		7.84		71.9		87.2		78.8	
	+1m	10.44	10.34	7.79	7.80	71.5	72.1	87.2	87.4	77.6	79.0
	+3m	10.19	10.29	7.72	7.74	73.2	72.5	88.3	87.7	78.5	79.4
	+6m	9.51	10.22	7.61	7.66	78.4	73.0	93.6	88.3	82.0	80.5
	+12m	9.26	10.07	7.41	7.51	80.5	74.1	96.1	89.5	84.2	82.5
KRW	01-Dec	1229		929		0.6		0.7		0.7	
	+1m	1240	1230	925	927	0.60	0.61	0.73	0.73	0.65	0.67
	+3m	1214	1231	920	926	0.61	0.61	0.74	0.73	0.66	0.67
	+6m	1138	1233	910	924	0.66	0.60	0.78	0.73	0.69	0.67
	+12m	1125	1237	900	923	0.66	0.60	0.79	0.73	0.69	0.68
THB	01-Dec	47.5		35.9		15.7		19.0		17.2	
	+1m	48.6	47.6	36.3	35.9	15.3	15.7	18.7	19.0	16.7	17.0
	+3m	48.8	47.7	37.0	35.9	15.3	15.6	18.4	18.9	16.4	16.6
	+6m	46.9	47.9	37.5	35.9	15.9	15.6	19.0	18.8	16.6	16.3
	+12m	47.5	48.2	38.0	35.9	15.7	15.5	18.7	18.7	16.4	16.1
SGD	01-Dec	2.05		1.55		364		442		399	
	+1m	2.04	2.05	1.52	1.54	366	364	447	442	398	405
	+3m	1.99	2.05	1.51	1.54	374	365	452	441	401	407
	+6m	1.86	2.04	1.49	1.53	401	365	478	441	419	411
	+12m	1.84	2.04	1.47	1.52	406	366	484	442	424	416
HKD	01-Dec	10.30		7.78		72.41		87.82		79.35	
	+1m	10.40	10.30	7.76	7.77	71.74	72.39	87.51	87.72	77.90	79.40
	+3m	10.23	10.31	7.75	7.75	72.92	72.36	87.98	87.59	78.20	79.29
	+6m	9.69	10.31	7.75	7.73	77.01	72.34	91.87	87.46	80.52	79.04
	+12m	9.69	10.32	7.75	7.69	77.01	72.37	91.87	87.34	80.52	78.84
MYR	01-Dec	4.76		3.59		157		190		172	
	+1m	4.81	4.76	3.59	3.59	155	157	189	190	168	172
	+3m	4.71	4.76	3.57	3.58	158	157	191	190	170	172
	+6m	4.43	4.75	3.54	3.56	169	157	201	190	176	173
	+12m	4.38	4.75	3.50	3.54	171	157	203	190	178	175

FX Forecast

Asia Ex Japan (Cont.)											
		EUR		USD		DKK		SEK		NOK	
		Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward	Danske	Forward
PHP	01-Dec	65.6		49.5		11.4		13.8		12.5	
	+1m	66.3	65.7	49.5	49.5	11.2	11.4	13.7	13.8	12.2	12.4
	+3m	65.3	65.9	49.5	49.6	11.4	11.3	13.8	13.7	12.2	12.4
	+6m	62.5	66.2	50.0	49.7	11.9	11.3	14.2	13.6	12.5	12.3
	+12m	63.1	66.8	50.5	49.8	11.8	11.2	14.1	13.5	12.4	12.1
IDR	01-Dec	12150		9178		0.061		0.074		0.067	
	+1m	12328	12207	9200	9207	0.061	0.061	0.074	0.074	0.066	0.067
	+3m	12210	12317	9250	9265	0.061	0.061	0.074	0.073	0.066	0.066
	+6m	11625	12468	9300	9345	0.064	0.060	0.077	0.072	0.067	0.066
	+12m	11750	12778	9400	9528	0.063	0.058	0.076	0.071	0.066	0.065
INR	01-Dec	58.0		45.7		12.9		16.1		14.5	
	+1m	60.3	59.4	45.0	44.8	12.4	12.6	15.1	15.2	13.4	13.7
	+3m	60.1	59.7	45.5	44.9	12.4	12.5	15.0	15.1	13.3	13.5
	+6m	57.5	60.3	46.0	45.2	13.0	12.4	15.5	15.0	13.6	13.3
	+12m	58.1	61.0	46.5	45.4	12.8	12.2	15.3	14.8	13.4	13.1
TWD	01-Dec	42.0		33.1		17.7		22.2		20.1	
	+1m	42.9	42.8	32.0	32.3	17	17.4	21.2	21.1	18.9	19.3
	+3m	41.6	42.6	31.5	32.1	17.9	17.5	21.6	21.2	19.2	19.5
	+6m	39.4	42.4	31.5	31.7	18.9	17.6	22.6	21.3	19.8	19.4
	+12m	38.8	41.9	31.0	31.2	19.3	17.8	23.0	21.5	20.1	19.7

Fixed Income Forecast

	Policy Rate				2 Year yield			10 Year yield		
	01 December 2006	3	6	12	3	6	12	3	6	12
Wider CEE										
PLN	4.00	4.00	4.25	4.50	6.10	6.40	6.50	5.60	5.85	6.00
CZK	2.50	2.75	3.00	3.00	3.50	3.60	4.00	3.90	4.25	2.90
SKK	4.75	5.00	5.50	6.00	6.00	6.50	7.00	5.90	6.40	6.90
HUF	8.00	8.50	8.50	8.50	9.00	9.00	9.00	7.55	7.55	7.80
RON	8.75	9.00	9.25	9.25	-	-	-	-	-	-
TRY	17.50	18.00	17.50	17.00	22.50	23.00	22.50	-	-	-
MEA										
ILS	5.00	5.00	5.25	5.50	-	-	-	6.15	6.35	6.85
ZAR	8.50	9.00	9.50	9.50	-	-	-	9.00	9.50	9.75
LATAM										
BRL	13.25	12.75	12.25	11.75	11.45	11.55	11.65	12.40	12.50	12.60
MXN	7.00	7.00	6.75	6.75	7.75	7.75	8.00	8.65	8.70	8.80
Asia Ex Japan										
CNY	6.12	6.12	6.39	6.39	2.75	2.75	2.75	3.50	3.50	3.50
KRW	4.50	4.50	4.75	4.75	4.75	5.00	5.00	5.00	5.25	5.25
THB	5.00	5.00	4.75	4.50	4.80	4.75	4.50	5.00	4.75	4.50
SGD	3.22	3.40	3.60	3.20	3.40	3.60	3.20	4.05	4.25	4.25
HKD	6.75	6.75	6.75	7.00	4.00	4.50	4.70	4.50	4.80	5.00
MYR	3.50	3.50	3.75	3.75	3.75	4.00	4.00	4.25	4.35	4.50
PHP	7.50	7.50	7.25	7.00	6.00	6.00	5.50	7.00	7.00	6.50
IDR	10.25	9.25	9.00	8.50	9.50	8.50	8.50	10.00	9.00	9.00
INR	6.00	6.25	6.50	6.50	7.30	7.50	8.00	8.10	8.50	9.00
TWD	2.625	2.63	2.63	2.75	1.75	2.00	2.25	2.00	2.25	2.50

Monetary Policy Calendar

	Policy Rate (%)	Latest Change	Next Change	Next Meeting
	01 December 2006			
Wider CEE				
PLN	4.00	- 25 bp (Feb, 2006)	+ 25bp (Q1, 2007)	20 December 2006
HUF	8.00	+ 25 bp (Oct, 2006)	+ 25bp (Q1, 2007)	19 December 2006
CZK	2.50	+ 25 bp (Sep, 2006)	+ 25bp (Q1-Q2, 2007)	20 December 2006
SKK	4.75	+ 25 bp (Sep, 2006)	+25bp (Q1, 2007)	19 December 2006
RON	8.75	+ 25 bp (June, 2006)	+25bp (Q1, 2007)	28 December 2006
TRY	17.50	+ 25 bp (July, 2006)	+25bp (Dec, 2006)	21 December 2006
MEA				
ILS	5.00	- 25 bp (Nov, 2006)	+25bp (Q2, 2007)	25 December 2006
ZAR	8.50	+ 50 bp (Oct, 2006)	+50bp (Dec, 2006)	07 December 2006
LATAM				
BRL	13.25	- 50 bp (Nov, 2006)	- 25 bp (Jan, 2007)	24 January 2007
MXN	7.00	- 25 bp (Apr, 2006)	-25bp (Q2, 2007)	08 December 2006
CLP	5.25	+25 bp (Jul, 2006)	Unchanged during 2007	14 December 2006
Asia Ex Japan				
CNY	6.12	+27 bp (Aug, 2006)	+27bp (Q1, 2007)	Not announced
KRW	4.50	+25 bp (Aug, 2006)	+25bp (Q1, 2007)	07 December 2006
THB	5.00	+25 bp (June, 2006)	-25bp (Q1, 2007)	13 December 2006
SGD	3.22	Exchange rate target	Exchange rate target	Not announced
HKD	6.75	+25 bp (June, 2006)	+25bp (Q3, 2007)	Not announced
MYR	3.50	+ 25 bp (Apr, 2006)	+25bp (Q1, 2007)	26 January 2007
PHP	7.50	+25 bp (Oct, 2005)	-25bp (Q2, 2007)	14 December 2006
IDR	10.25	-50 bp (Nov, 2006)	-50bp (Dec, 2006)	07 December 2006
INR	6.00	+25 bp (July, 2006)	+25bp (Jan, 2007)	30 January 2007
TWD	2.625	+12.5 bp (Sep, 2006)	+ 12.5bp (Q3, 2007)	21 December 2006

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