

Can China rescue the world?

April 2008

Inside:

Main article.....	1
Financial Markets Update.....	5
FX and Policy Rate Forecasts.....	7
Macro Economic Forecasts.....	8
LT FC Govt. Bond Ratings.....	9
Country Updates.....	10

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As the US economy lurches from one bad turn to another, investors look with hopeful eyes to China for a Midas touch. Can't China pull us out of this mess?

In a word, no. China can ignore a US slowdown, but it cannot shake off a US recession. Although yet to be confirmed, consensus seems to be that the United States is in, or soon headed for, a recession and the EU is set to slow as well.

Our forecasts for the Chinese economy call for a marked slowdown in growth this year. Will China "fall over"? No. But the slowdown in growth will be material, and by the end of this year the features that now characterise the economy – high inflation, currency appreciation, export price rises and insatiable commodities demand – will give way to a more moderate state of affairs.

- **Real GDP growth is forecast to slow from 11.2% oya in the fourth quarter of 2007 to 9.0% in Q4 2008.** This rate of real GDP growth is still high by most standards, but it would be the slowest growth rate recorded since 2003. The decline in growth is expected to be broad based, across net exports, investment and consumption.
- **Growth in Chinese demand for commodities is expected to ease, allowing supply to catch up with demand.** There is some evidence this is already occurring, with copper stockpiles up 180% year-to-date. Although the volume of demand is high and expected to remain so, rising supply combined with easing of demand growth will give buyers more bargaining power and lead to a softening of prices in the coming months.
- **Falling consumption and the lagged effects of efforts to tighten domestic liquidity will allow for disinflation to take hold later this year.** The February CPI reading of 8.7% per annum is likely to be the peak of this cycle. We expect inflation to fall below 7% by June, but to remain above the PBOC's target ceiling of 3% until mid-2009.
- **As inflation eases, Chinese export growth declines and the US\$ finds a bottom, the impetus for the RMB to appreciate against the US dollar will fade.** Our forecast for the USD/CNY exchange rate is for the CNY to stop rising, and indeed even fall slightly, by year-end.

China – the great moderation

	Q1 08	Q2 08	Q3 08	Q4 08	Q1 09	Q2 09	Q3 09	Q4 09
Real GDP growth (%)	11.05	10.08	9.22	9.02	8.76	8.70	9.30	9.45
Primary (% oya)	5.3	5.0	5.0	4.5	5.0	5.2	5.2	5.4
Secondary (% oya)	12.5	11.0	9.8	9.5	9.0	9.0	9.9	10.0
Tertiary (% oya)	11.0	10.5	9.8	9.6	9.4	9.8	10.0	10.5
Inflation (% oya avq)	7.9	7.6	5.3	4.7	3.9	5.1	3.4	2.2
Trade bal (US\$bn)	40.5	66.6	46.7	41.3	21.8	53.5	41.5	45.0
Exports % oya	20.6	17.3	7.6	3.0	6.8	7.0	8.7	11.7
Imports % oya	28.0	22.0	20.0	17.0	15.0	13.4	11.7	12.0
FAI % oya, eop	24.2	23.0	18.9	11.0	14.0	17.5	18.4	18.8
Ind. prod % oya avg	17.1	16.8	15.7	12.5	10.5	13.0	14.9	15.9
Ret sales % oya avg	20.5	21.8	22.3	16.2	14.8	17.2	17.9	14.9
FX reserves (US\$ tr)	1.67	1.75	1.79	1.83	1.85	1.90	1.95	1.99
1 yr base rate %	7.65	7.65	7.65	7.47	7.29	7.10	6.92	6.65
USD/CNY	7.010	6.775	6.661	6.701	6.781	6.863	6.946	7.030

Source: Economics@ANZ

May you live in interesting times...

Or so goes the Chinese curse. The coming few years will be interesting indeed, and no doubt unpleasant for some. The general consensus seems to be that if the US is not already in recession, it will get there soon enough. In our last edition, we put forward three scenarios for US growth, and the implications of these scenarios for growth in Asia and for commodities demand. In that note, we drew attention to the vulnerability of Japan to a US recession, and of the importance of the US and Japan for global oil and coal exports, respectively.

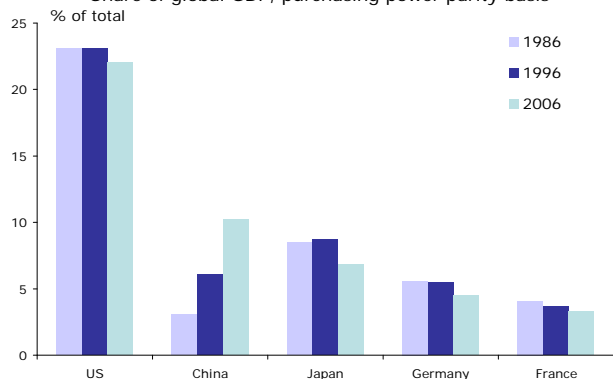
Fine, was the response, but what about China? Won't China buoy the world, particularly as "the world" relates to commodity prices? The answer is yes, and no. Yes – China is more important to the global economy than ever before, and more shielded from events in the US than other major economies. But – no – China is not Atlas, the God of Weightlifting and Heavy Burdens. It cannot carry the world.

China's inability to carry the world is a matter of math. It is the second largest economy in the world, and contributed as much as 30% of the growth in global GDP last year by virtue of its very high growth rate. However, China only represents 10% of global GDP – that is to say, global demand. According to the IMF, the United States is still the grand-daddy of the global economy, representing 22% of global demand. The G7 together represents 45% of the global economy. Consensus forecasts, as well as our own, suggest the EU will also slow next year in response to the US slowdown, the credit crunch and continued tight monetary policy.

China still only half the size of the US

US is still the largest economy, by far

Share of global GDP, purchasing power parity basis



Sources: Datastream; CEIC; Economics@ANZ

Can China continue with a 10%+ rate of GDP growth even as at least 45% of the rest of the world is slowing rapidly? Very tough. What ever happened to decoupling? That is the next question.

Net exports the first port of call

There are two key factors that we believe will lead to a slowdown in China's rate of growth. The first is that export growth will ease while import growth remains rather strong. This will cause China's trade

surplus to shrink, and reduce the contribution that net exports makes to growth.

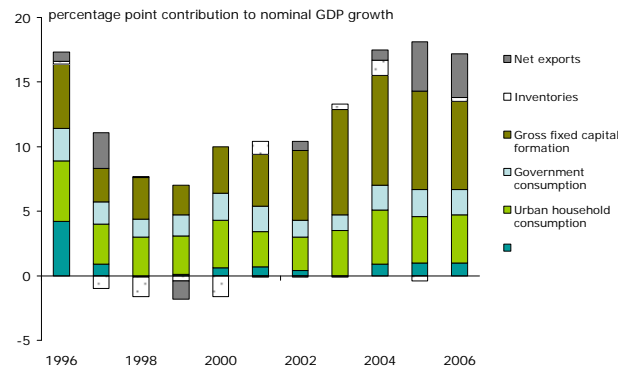
Export growth in China is already on the decline, from 28% in the first half of last year to 22% in the fourth quarter. Export growth is easing primarily because US demand is falling; Chinese exports to the US are now rising at a rate of less than 10% per annum. In addition, export prices are rising, in part because of higher input costs and in part because the government has removed VAT rebates or imposed export tariffs on politically sensitive industries such as textiles and steel.

Importantly, in terms of the impact on growth, imports have been rising at a surprisingly rapid clip, from 18% oya in the first half of last year to 26% oya in the fourth quarter of 2007. Slower export growth and faster import growth have reduced the rate of expansion of the trade surplus. Late in 2006 and early in 2007, the 12-month trailing trade surplus was widening by US\$10-15 bn each month; since October, the rise has been limited to less than US\$5 bn. On our projections, the 12-month trailing trade surplus peaked at US\$265 bn in January and will fall to US\$195 bn by the end of this year – still a solid contribution to growth, but one that has far less momentum than in the previous few years.

Net exports have contributed to growth

Net exports are not key to growth, but help

Expenditure Side GDP, annual data, nominal basis



Sources: Datastream and Economics@ANZ

Although we remain of the view that China's growth is not export-dependent, it is important to realise that it is not immune from export trends either. The above chart highlights that net exports did contribute to nominal GDP growth in 2005 and 2006; about 3.6 percentage points, or about 20% of total growth. Falling net export growth will reduce China's ability to maintain the very fast rate of growth experienced over the past few years.

Investment will also slow

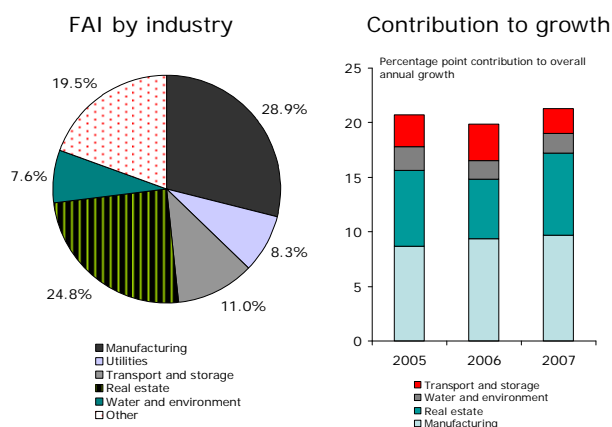
As can also be seen in the chart above, fixed asset investment (FAI) is the key growth driver for China, contributing 6-8 percentage points to nominal GDP growth since 2002. The government has been concerned about the rapid rate of investment growth for some time now; inasmuch as China's huge population and trend to urbanisation requires massive infrastructure build over the long term, the government is also wary of creating excess capacity

that would prove deflationary for the economy in the medium term.

The government has continually tightened up on lending conditions over the past 18 months through all the means at its disposal in order to cool FAI. Thus, domestic credit conditions in China have been tightening – irrespective of and unrelated to the global credit crisis, but just as important and with a similar effect. The one-year base lending rate – which is the benchmark policy rate as interest rates are regulated – has risen from 5.31% in late 2004 to 7.47% at present, and we anticipate one more rate hike in the coming weeks as the peak of the cycle. The PBOC has also raised the reserve requirement from 7.5% to 15.5% over this period, which is perhaps a more weighty measure given the fact that a one-year nominal interest rate of 7.47% is still quite low for a country with growth in excess of 10% and inflation above 6%.

In addition to raising interest rates, the government has continually issued tighter guidelines on lending into sectors where it would like to see a cooling of activity – particularly heavy manufacturing and real estate. These are the two sectors that are mainly responsible for the growth in fixed asset investment in China over the past several years, with manufacturing and real estate accounting for 29% and 25% of FAI, respectively. The manufacturing sector contributed roughly half the growth in FAI last year. All of the above measures – including the targeted reduction in export growth – as well as a renewed focus on implementing anti-pollution measures should have a marked cooling effect on manufacturing investment in the coming months.

Manufacturing and real estate the drivers of FAI



Sources: CEIC and Economics@ANZ

Our expectation is that the growth rate of fixed asset investment will slow from 25% last year to below 15% this year. That may not sound like a significant slowdown, but it is meaningful in light of the massive contribution that FAI makes to China's overall growth rate.

Consumption cannot "take over"

Many China commentators have offered the theory that China's growth rate can remain in excess of 10% per annum because the mix of growth will shift away from exports and investment, and toward

consumption. The argument is that 1.2 bn people represent 1.2 bn consumers, and that as consumption rises, this will be the main driver of growth in China.

The theory is likely to prove correct, but such a momentous shift is difficult to achieve over the course of just a year or two. Household consumption is only about 35% of GDP, versus 45% for investment, and contributed only 5 percentage points of nominal GDP growth over the past few years, slightly more than net exports but well below FAI. The bottom line is that China is still a poor country, with a national GDP per capita of only US\$2,000 per year as against US\$18,000 in Korea, US\$6,800 in Russia and US\$5,700 in Brazil. There are millions of people in China with a higher level of income than the average, but they are still a small percentage of the population and geographically concentrated along the east coast.

Indeed, China's current bout of inflation suggests the limits of growth in domestic demand are already being felt. The government's present 5-year plan is focused on sustainable growth and a harmonious society, and as part of this platform, there has been a concerted effort to close the disparity between rural and urban incomes. The result of this has been a rapid rise in household income, from 13% per annum growth in mid-2006 to nearly 20% growth in the second half of 2007.

Wage inflation and deposits accelerated

Rising wages and high liquidity are fuelling pressures



Sources: CEIC and Economics@ANZ

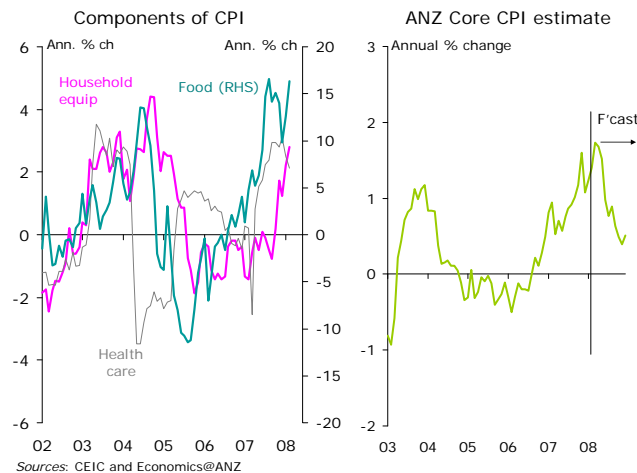
Some commentators have suggested that the rise in CPI can be blamed on a temporary increase in food prices. It is true that food is the major category to have seen price rises, but in our view this is due to excess of demand over supply – eg, the structural cause of inflation – rather than a supply shock.

There are several pieces of evidence in this regard. First is that the price of all food items have risen dramatically, including not just meat and poultry, but also fish, vegetables, edible oils and even restaurant meals. The second piece of evidence is that the food price rises have not been temporary. In 2004, when a drought caused a surge in grain prices, food prices as a whole rose above 5% for a total of six months and peaked at 13.6%. In contrast, food price inflation has been in excess of

5% since March 2007, reaching 16.6% in August 2007 and 16.3% last month (although the latest reading is likely related to the January snowstorms).

Finally, as the chart below shows, it is not only food prices that have been rising. Our estimates show core inflation is also rising rather quickly. Although core inflation is still below 2%, it is quite evident that China has emerged from the deflation of 2004-2006; moreover core inflation has reached the levels last seen in 2003.

Inflation is not "just food"



If we are correct in our interpretation of the cause of China's rising inflation, the correct policy response is to engineer a cooling of consumption – not an acceleration of it. The authorities are well aware of this. Inasmuch as a continued fast rate of growth is desirable, high inflation is politically untenable.

Thus, consumption cannot take the place of investment to drive growth in the coming 1-2 years. It is worthwhile to mention that, among the mass affluent in China's major cities, household wealth may also be suffering with the fall in the stock market. Though participation in the stock market is probably too narrow to have much of an impact on aggregate consumption, falling equities may dampen consumer sentiment in key urban markets.

In sum, the above scenario indicates a slowing growth profile for China over the next 12-18 months. Detailed forecasts can be found on the front page of this note.

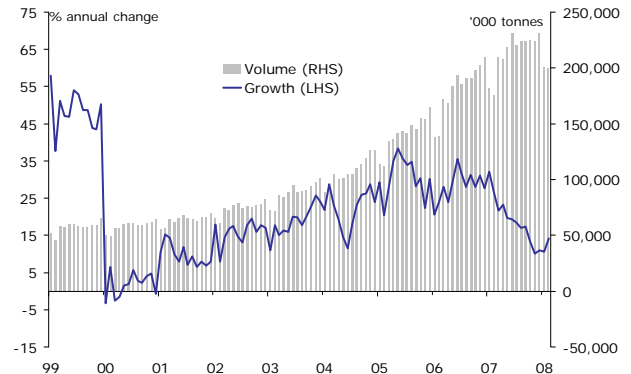
So what about commodities?

In last month's edition, we outlined our forecast for commodity prices under a US recession scenario, pointing to the differing sources of demand for various commodities. In the case of China, our commodities analyst is forecasting a slight decline in demand for base metals, from an average of 15% annual growth since 2000 to 12% this year and 10% next year. Demand for oil is expected to rise by 6-7% per annum, slightly below the 7.5% average growth since 2000. Still, by 2010, China is expected to consume 9.7 mn barrels per day of crude, versus 21 mn bpd for the United States; unlike base metals, China is not the key source of demand for oil in the global markets.

Chinese data already show a decline in metals production that should herald softer demand for inputs; volumes are high, but the growth rate is falling sharply, as seen in the chart below.

Growth in metals production has slowed

Volume of metals production ('000 tonnes)



Sources: CEIC and Economics@ANZ

Our commodity price forecasts show a faster decline in prices than might be anticipated by a mild downturn in Chinese demand. This is because of our expectations of increased supply finally coming on the market, in response to years of rising demand. We also expect falling energy prices to allow for an easing of soft commodities, as highlighted in the forecast for wheat below.¹

Commodity price forecasts

end-period	Q2 08	Q4 08	Q2 09	Q4 09
Oil (WTI US\$/bbl)	93	88	92	94
Gold (US\$/oz)	910	880	900	910
Copper (US\$/t)	7054	6614	6283	6283
Thermal coal (US\$/t)	115	115	105	105
Iron ore fines (US\$/t)	87	87	87	87
Wheat (US\$/t)	350	280	260	245

Source: Economics@ANZ

A reversal of USD/CNY trend in the offing

The CNY has appreciated strongly against the US dollar since November, and is about to breach the USD/CNY7.0 mark. We expect this trend to slow and even reverse in the coming 12-18 months, however, as Chinese export and real GDP growth slows, and as the US dollar looks to recover in the second half of this year.

FX rate forecasts - 2008

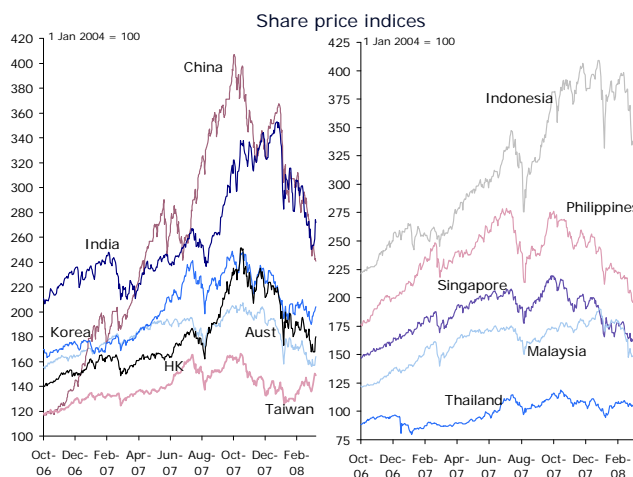
end-period	April	May	June	Dec
USD/CNY	6.941	6.858	6.775	6.701
EUR/CNY	10.56	10.47	10.39	9.85
CNY/JPY	15.0	15.0	15.1	15.1
AUD/CNY	6.48	6.42	6.37	6.03

Source: Economics@ANZ

¹ For a full discussion of our view on commodity prices, please see ANZ Commodities Weekly and ANZ Commodities Quarterly.

Financial Markets Update

Equity markets

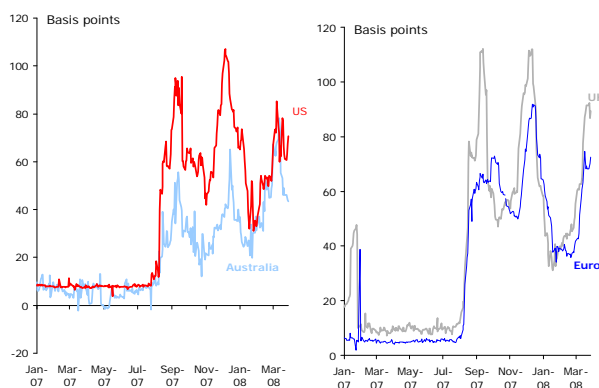


Sources: Bloomberg and Economics@ANZ

- Equity markets responded positively to central bank actions in the week of 16 March to shore up liquidity. The S&P Asia index, which combines the market performance of Hong Kong, Korea, Singapore and Taiwan, edged up 9% since 17 March while the Australian S&P/ASX 200 index climbed 5.6%.
- Markets, however, remain significantly lower than their peaks achieved in H2 2007. The Nikkei, Dow Jones and S&P Asia are down 31%, 13% and 21% respectively.
- The Shanghai composite has slipped 31% since the start of the year with stocks of several companies falling below their initial public offer prices.
- Vietnam's main bourse has tumbled 45% since the beginning of 2008. This has prompted the State Securities Commission to allow the Ho Chi Minh Stock Exchange to narrow the daily allowed amount that share prices may fluctuate to +/- 1% from +/- 5% on a temporary basis, and follows government instruction to the State Capital Investment Corporation to purchase shares in an attempt to help support the market.

Money markets

Spread between 3-month interbank and 3-month OIS¹ rates

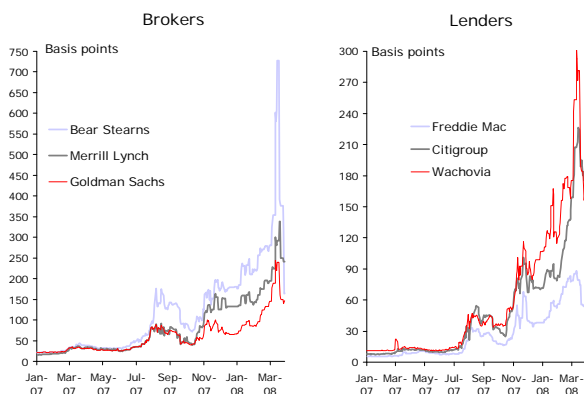


¹ Overnight indexed swap rate, a measure of market expectations of official policy rates
Sources: Bloomberg and Economics@ANZ

- The US Federal Reserve took extraordinary measures in March to inject liquidity and maintain stability in the financial system following the collapse of Bear Stearns.
- The Fed's action helped to narrow the spread between the US three-month interbank rate and the overnight index swap rate, although the spreads remain elevated.
- In the final week of March, interbank spreads ticked up in the US and Europe compared with a week ago, to be above 60 bps. In contrast, the spread between Australian 3-month interbank rate and OIS narrowed to just 44 bps, a spread not seen since 14 Feb 2008. The 3-month Bank Bill Swap rate retreated from a 16-year high of 8.11% on 11 March to 7.76% at the time of writing, aided by a more dovish tone coming out of the RBA and reduced expectations of another cash rate rise.

Credit markets

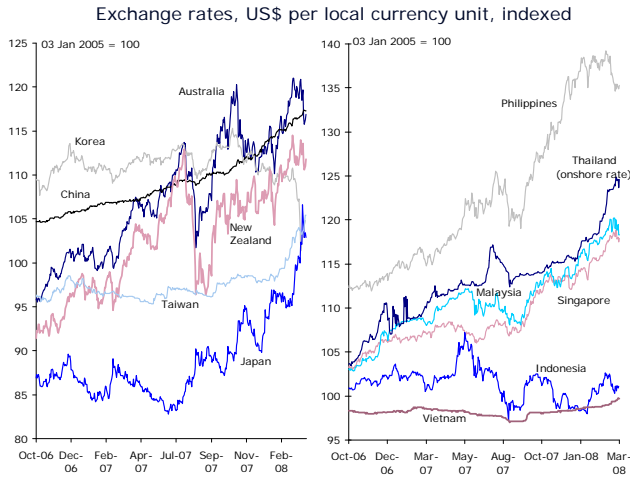
Reprieve for US financial institutions as CDS spreads fall substantially



Sources: Bloomberg and Economics@ANZ

- Credit default swap spreads rose dramatically after the Bear Stearns fire sale but subsequently narrowed sharply as panic in financial markets eased on news of JP Morgan's higher purchase offer for Bear Stearns, now offering US\$10/share as opposed to the initial offer of US\$2/share. Bear Stearns' CDS spread plummeted to 165 bps, its lowest level since November 2007 after briefly surging above 700 bps.
- The CDS spread on Freddie Mac was down to 54 bps, the lowest since January. The US government's move, allowing Fannie Mae and Freddie Mac to reduce their capital requirement from 30% to 20%, which will allow them to buy another US\$200 bn of mortgage securities has assisted in alleviating pressures in the market.
- Better-than-expected earnings reports from Goldman Sachs and Lehman Brothers also helped to reduce CDS spreads.

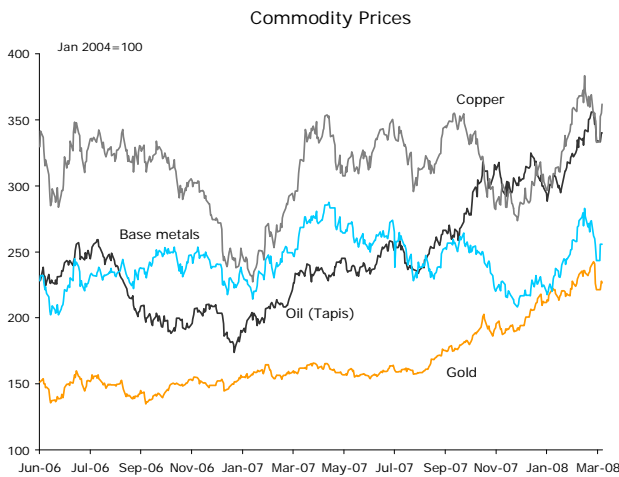
Exchange rates



Source: Bloomberg and Economics@ANZ

- The US dollar continued its slide, with the USD index falling below 72 again. The euro and yen posted strong gains in March. The yen has stayed below 100 per USD while the Euro is near an all-time high of USD1.58.
- The Australian and New Zealand dollars have underperformed as risk aversion and expectations for a softer commodity price outlook weigh on these currencies.
- Most currencies across Asia continued to climb against the weaker US dollar. The onshore Thai baht, in particular, appreciated by around 1% in March, aided by the Bank of Thailand decision to relax capital controls.
- In Vietnam, the daily dollar-dong trading band widened to +/- 1% from 0.75%, helping the VND to appreciate to a near three-year high of USD/VND15,848 before dropping sharply late in the month to USD/VND16,095.

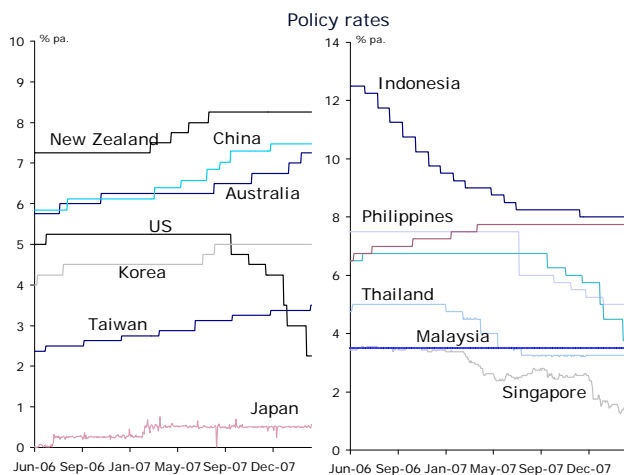
Commodities



Source: Datastream, Bloomberg

- Commodity prices, in general, continue to be pushed up by investors as a favoured asset class against the volatile financial market environment and weak US dollar.
- Gold broke above US\$1000/oz in mid-March but retreated sharply to below US\$920/oz on perceived signs that credit distress was easing. Gold prices, however, picked up again in the final days of March.
- Oil followed a similar track, falling from a high of US\$110/bbl to US\$101/bbl in a week, on concern that a US economic recession would reduce fuel consumption, but moved back up again to end the month at US\$105/bbl.
- Tight LME supply and strong demand from China are expected to continue to support base metals prices. Nevertheless, further signals of a slowing global economy are likely to lead to a softer commodity price outlook over the medium term.

Policy rates



Source: Datastream and Economics@ANZ

- The Fed cut the discount rate by 25 bps, opened the discount window to primary dealers plus extended the term of lending from 30 to 90 days. This was followed by a 75 bps cut in the Fed funds and discount rate, such that the Fed funds rate is now near zero in real terms. Easing credit distress has lowered expectations around the aggressiveness of Fed easing. Markets are now less convinced of a 50 bps cut at the next FOMC meeting on 30 April.
- Hong Kong also cut rates in March by 75 bps in line with the Fed move.
- The RBA lifted its cash rate by 25 bps to 7.25% on 4 March. However, soft economic data suggest that the RBA is likely to keep its policy rate on hold for an extended period of time.
- Other central banks across Asia have resisted lifting interest rates despite accelerating inflation, given concerns over global financial market conditions and the prospect of a slowdown in external demand.

Foreign Exchange and Policy Rate Forecasts

	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09	Dec 09
China							
USD/CNY, eop	6.78	6.66	6.70	6.78	6.86	6.95	7.03
AUD/CNY, eop	6.37	6.13	6.03	5.90	5.77	5.63	5.48
One year base lending rate	7.65	7.65	7.47	7.29	7.1	6.92	6.65
Hong Kong							
USD/HKD, eop	7.78	7.79	7.80	7.79	7.79	7.78	7.77
AUD/HKD, eop	7.31	7.17	7.02	6.78	6.54	6.30	6.06
HKMA discount rate	3.00	3.00	3.00	3.00	3.00	3.50	4.00
India							
USD/INR, eop	39.0	39.2	39.3	39.3	39.4	39.5	39.6
AUD/INR, eop	36.7	36.1	35.4	34.2	33.1	32.0	30.9
Repo rate	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Indonesia							
USD/IDR, eop	9,100	9,250	9,350	9,550	9,400	9,300	9,200
AUD/IDR, eop	8,554	8,510	8,415	8,309	7,896	7,533	7,176
BI rate	8.00	8.00	7.75	7.50	7.50	7.50	7.50
Korea							
USD/KRW, eop	970	960	950	940	940	945	950
AUD/KRW, eop	912	883	855	818	790	765	741
Overnight call rate	5.00	4.75	4.75	4.50	4.25	4.25	4.25
Malaysia							
USD/MYR, eop	3.19	3.24	3.28	3.33	3.36	3.39	3.41
AUD/MYR, eop	3.00	2.98	2.95	2.90	2.82	2.75	2.66
Overnight policy rate	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Philippines							
USD/PHP, eop	39.8	40.8	41.5	42.0	42.5	43.0	43.5
AUD/PHP, eop	37.4	37.5	37.4	36.5	35.7	34.8	33.9
Overnight Reverse Repo rate	5.00	5.00	5.00	5.25	5.25	5.25	5.25
Singapore							
USD/SGD, eop	1.38	1.38	1.38	1.39	1.39	1.39	1.40
AUD/SGD, eop	1.29	1.27	1.24	1.21	1.17	1.13	1.09
3-month interbank rate	1.35	1.40	1.45	1.50	1.60	1.80	2.00
Taiwan							
USD/TWD, eop	32.8	33.0	33.0	33.3	33.5	33.6	33.6
AUD/TWD, eop	30.8	30.4	29.7	29.0	28.1	27.2	26.2
Discount rate	3.38	3.38	3.38	3.38	3.25	3.12	3.12
Thailand							
USD/THB, eop	30.8	31.0	31.3	31.5	32.0	32.1	31.9
AUD/THB, eop	29.0	28.5	28.2	27.4	26.9	26.0	24.9
1-day repo rate	3.25	3.25	3.25	3.50	3.75	3.75	3.75
Vietnam							
USD/VND, eop	15,500	15,423	15,345	15,383	15,422	15,460	15,498
AUD/VND, eop	14,570	14,189	13,811	13,383	12,954	12,523	12,088
Japan							
USD/JPY, eop	102.0	100.0	102.0	105.0	108.0	110.0	113.0
AUD/JPY, eop	95.9	92.0	91.8	91.4	90.7	89.1	88.1
Overnight call rate	0.50	0.50	0.50	0.50	0.75	0.75	1.00
Australia							
AUD/USD, eop	0.94	0.92	0.90	0.87	0.84	0.81	0.78
Cash rate	7.25	7.25	7.25	7.25	7.25	6.75	6.00
New Zealand							
NZD/USD, eop	0.78	0.74	0.69	0.66	0.64	0.63	0.62
AUD/NZD, eop	1.21	1.24	1.30	1.32	1.31	1.29	1.26
Overnight call rate	8.25	8.00	7.50	7.00	6.75	6.75	6.75
United States							
Fed Funds Rate, eop	1.50	1.50	1.50	1.50	1.50	2.00	2.50

Macro Economic Forecasts

Real GDP Growth (%)

	2006	2007f	2008f	2009f
Australia	2.8	3.9	2.7	2.4
Cambodia	10.7	9.5	8.5	8.0
China	10.7	11.4	9.8	9.0
Hong Kong	6.8	6.0	5.4	4.1
India ⁺	9.4	8.7	8.0	8.0
Indonesia	5.6	6.3	5.9	6.3
Japan	2.4	2.1	0.6	0.9
Korea	5.0	4.9	2.9	2.8
Malaysia	5.9	6.3	5.0	5.0
New Zealand	1.6	3.1	1.4	1.5
Philippines	5.4	7.4	5.2	5.4
Singapore	7.9	7.7	4.0	5.0
Taiwan	4.9	5.7	4.6	4.6
Thailand	5.0	4.8	5.6	6.0
United States	2.9	2.2	1.4	2.0
Vietnam	8.2	8.5	7.2	7.4

Inflation (%)

	2006	2007f	2008f	2009f
Australia	3.5	2.3	3.4	2.8
Cambodia	4.7	7.0	5.0	5.0
China	1.5	4.8	6.4	3.7
Hong Kong	2.0	2.0	3.4	1.5
India ⁺	6.2	6.7	6.5	6.0
Indonesia	13.3	6.4	6.2	5.6
Japan	0.3	0.1	0.8	1.0
Korea	2.2	2.5	2.8	2.5
Malaysia	3.6	2.0	2.8	2.0
New Zealand	2.6	3.2	3.2	2.7
Philippines	6.3	2.8	4.6	3.3
Singapore	1.0	2.1	5.0	2.6
Taiwan	0.6	1.5	3.1	2.4
Thailand	4.7	2.3	4.3	2.7
United States	3.2	2.8	2.3	1.4
Vietnam	7.4	8.3	16.1	8.0

Current Account (% of GDP)

	2006	2007f	2008f	2009f
Australia	-5.5	-6.2	-5.7	-5.0
Cambodia	-7.2	-7.0	-8.0	-7.0
China	9.5	9.8	9.6	9.5
Hong Kong	9.0	10.0	8.5	8.0
India ⁺	-1.1	-1.0	-1.1	-1.1
Indonesia	2.6	2.3	2.0	2.0
Japan	3.7	3.5	2.5	2.5
Korea	1.7	1.2	1.1	0.9
Malaysia	16.3	14.4	12.0	12.8
New Zealand	-8.6	-7.9	-6.8	-6.7
Philippines	4.5	4.4	2.0	2.2
Singapore	27.5	25.0	24.0	22.0
Taiwan	5.8	5.5	6.0	5.5
Thailand	1.1	6.1	3.2	2.5
United States	-6.2	-5.5	-5.0	-4.6
Vietnam	-0.3	-3.2	-3.2	-3.5

Nominal GDP (US\$ bn)

	2006	2007f	2008f	2009f
Australia	760.8	915.1	1081.0	1039.1
Cambodia	7.2	8.4	9.5	10.6
China	2529.6	3223.6	4128.9	4594.4
Hong Kong	189.8	202.9	216.3	229.3
India ⁺	886.9	1029	1183	1354
Indonesia	364.2	411	462	518
Japan	4366.5	4345.9	4552.2	4667.0
Korea	888.3	949.7	1004.6	1058.6
Malaysia	150.9	165	178.1	190.7
New Zealand	105.3	128.2	137.4	121.8
Philippines	118.0	130	143	155
Singapore	132.2	145	159	171
Taiwan	364.5	375.6	398.4	414.3
Thailand	206.3	221	241	262
United States	13,195	13,844	14,330	14,827
Vietnam	60.9	71.1	88.5	102.6

Fiscal Balance (% of GDP)*

	2006	2007f	2008f	2009f
Australia	1.7	1.6	1.5	1.4
Cambodia	-2.0	-3.0	-3.5	-3.5
China	-2.0	-1.9	-2.1	-2.5
Hong Kong	4.0	1.7	-0.5	0.5
India ⁺	-3.8	-3.1	-2.5	-2.3
Indonesia	-1.0	-1.6	-2.1	-1.7
Japan	-6.0	-5.8	-5.5	-5.5
Korea	1.8	1.9	2.4	2.2
Malaysia	-3.5	-3.2	-3.2	-3.1
New Zealand	7.3	4.8	4.0	2.9
Philippines	-1.0	-0.7	-0.5	-0.3
Singapore	0.0	2.7	-0.3	0.1
Taiwan	-2.0	-2.6	-2.0	-2.0
Thailand	-0.8	-2.0	-2.2	-2.0
United States	-1.6	-1.3	-2.5	-2.2
Vietnam	-1.8	-1.9	-1.8	-1.8

Foreign Exchange Reserves (US\$ bn)

	2006	2007f	2008f	2009f
Australia	55.1	26.9	n/a	n/a
Cambodia	1.09	1.4	1.6	1.8
China	1066	1528	1830	1990
Hong Kong	133	154	165	175
India	170.2	284	330	370
Indonesia	40.7	54.7	60	66
Japan	875	950	1045	1150
Korea	238	262	284	305
Malaysia	81.7	101	114	125
New Zealand	13.8	17.1	n/a	n/a
Philippines	22.3	30	35	38
Singapore	136.3	162.5	175	185
Taiwan	266	271	276	282
Thailand	65.1	85.1	120	135
United States	41.5	n/a	n/a	n/a
Vietnam	13.4	20.0	31.0	35.0

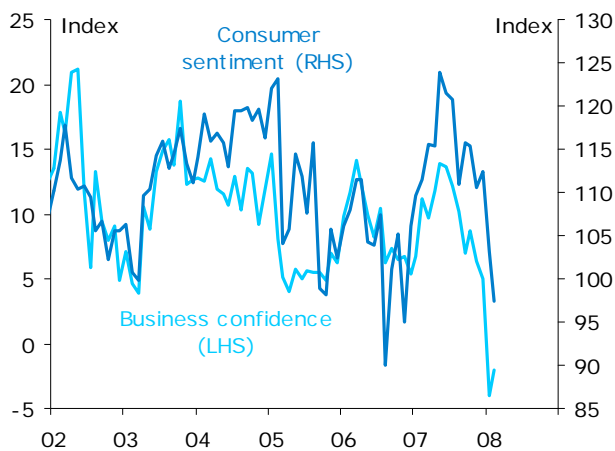
+ : Fiscal year beginning April; * : Fiscal balance for Australia, New Zealand, Malaysia and Singapore corresponds to fiscal year

Long Term Foreign Currency Government Bond Ratings

Investment Grade		Sub-Investment Grade	
Moody's	S&P	Moody's	S&P
Aaa Australia Canada France Germany Japan New Zealand Singapore United Kingdom United States	AAA Australia Canada France Germany Singapore United Kingdom United States	Ba1 Brazil Costa Rica Egypt Morocco Panama	BB+ Egypt Peru Brazil Costa Rica Panama
Aa1 Belgium	AA+ Belgium New Zealand	Ba2 Colombia Fiji Guatemala Jordan Peru	BB Cook Islands Jordan Guatemala Vietnam
Aa2 Hong Kong Italy Qatar Kuwait UAE	AA Hong Kong Japan	Ba3 Indonesia Turkey Vietnam	BB- Indonesia Philippines Serbia Turkey Venezuela Ukraine Uruguay
Aa3 Cayman Islands Cyprus Macau Oman Taiwan	AA- Kuwait Qatar Taiwan Saudi Arabia	B1 Pakistan Papua New Guinea Philippines Suriname Ukraine Uruguay	B+ Argentina Ghana Pakistan Cambodia Papua New Guinea
A1 China Czech Republic Saudi Arabia	A+ Chile Italy	B2 Honduras Venezuela Cambodia	B Fiji Paraguay
A2 Chile Hungary Israel Korea Poland	A China Cyprus Czech Republic Israel Korea Oman	B3 Argentina Ecuador Bolivia Lebanon	B- Bolivia Ecuador
A3 Malaysia	A- Malaysia Poland	Caa1 and below Cuba Nicaragua Paraguay	CCC and below Lebanon
Baa1 Mexico South Africa Thailand	BBB+ Hungary Mexico Russia South Africa Thailand	Baa2 Mauritius Tunisia Russia	BBB Tunisia
Baa3 Bulgaria India Romania	BBB- Romania India Colombia Morocco		

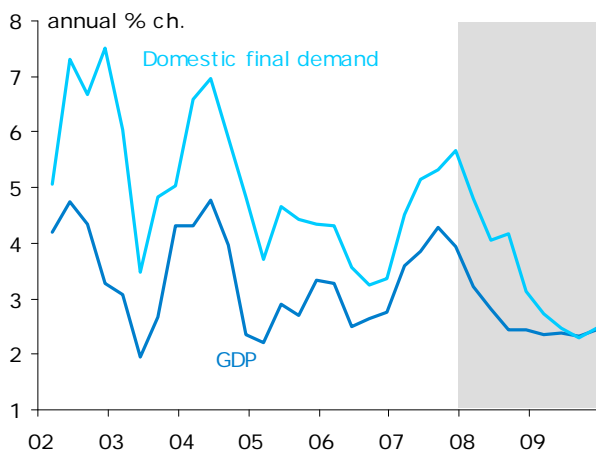
Country Update: Australia

Business and consumer confidence on a downward trajectory



Sources: nabCapital; WBC-MI

Domestic demand growth to ease



Sources: Australian Bureau of Statistics; ANZ

- The Australian economy ended 2007 on a strong note. While slowing a little, the annual pace of GDP growth was 3.9% in the December quarter, well above estimates of the underlying trend of 3-3¼%pa. Notably, annual growth in domestic final demand accelerated to 5.7%. This was accompanied by a further increase in inflation, with the RBA's underlying measures rising to 3.6%, the highest rate since the inception of inflation targeting in 1991, and a further widening in the current account deficit.
- The Reserve Bank raised the cash rate by 25bps at its March meeting following a similar increase in February to take the cash rate to 7.25%. This has been accompanied by approximately 25 to 35bps of additional increases in mortgage lending rates, and even larger increases in other rates, as banks recoup some of their higher funding costs.
- However the Australian economy now appears to be approaching, or may have even reached, a 'tipping point', where the impact of tighter financial conditions outweighs the stimulus coming from higher commodity prices. To date, evidence of a slowdown has been most apparent in business and consumer confidence measures which have fallen sharply in recent months, although retail sales also softened in January, posting no growth in nominal terms.
- In addition, household demand for finance has slowed in recent months, with household credit growth easing to an annual rate of 11.4% from a recent peak of 13.3% in June 2007. This has largely reflected a slowing in personal credit growth to 10.8%. Business credit, on the other hand, has continued to be spurred on by re-intermediation, having increased by 22.3% over the year to February, notwithstanding somewhat slower growth in the month.
- We have made downward revisions to our growth and monetary policy forecasts. We expect annual domestic final demand growth to slow from 5.7% in the December quarter 2007 to 3¼% through 2008 and 2½% through 2009. Real GDP growth is forecast to ease from 3.9% in the December quarter 2007 to around 2½% through both 2008 and 2009. We now expect the RBA to keep official interest rates steady for an extended period of time, with the next move likely to be down, once it is clear that the economic slowing now in train begins to ease inflationary pressures.

Riki Polygenis

Economic data – Australia

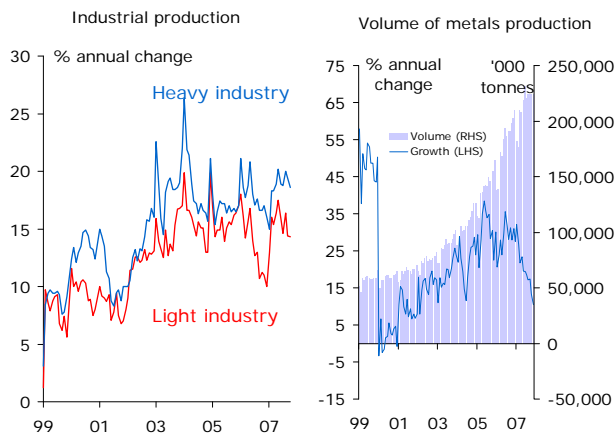
Monthly data	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08
Building Approvals, 000's	13.2	13.0	14.0	13.5	14.6	12.9	13.2	n/a
Retail Sales, % YOY	7.4	7.8	8.3	7.4	8.0	8.4	7.1	n/a
Exports, % YOY	2.4	3.6	0.5	-3.6	2.9	4.6	5.4	n/a
Imports, % YOY	5.3	10.2	7.3	4.5	10.5	7.7	16.0	n/a
Trade Balance, AUD bn	-1.11	-1.74	-2.05	-2.83	-2.17	-1.94	-2.73	n/a
Foreign Exchange Reserves, US\$ bn	68.9	57.8	46.5	33.2	29.0	26.9	31.8	33.4
Quarterly data	Mar 06	Jun 06	Sep 06	Dec 06	Mar 07	Jun 07	Sep 07	Dec 07
Real GDP, % YOY	3.3	2.5	2.6	2.8	3.6	3.9	4.3	3.9
- Private consumption	2.5	2.8	2.7	3.7	4.2	3.9	4.7	5.0
- Government consumption	1.6	3.7	6.5	3.5	4.5	2.6	0.9	4.0
- Gross fixed capital expenditure	10.4	5.3	2.2	2.7	5.2	9.3	9.7	8.2
Consumer Price Index, % YOY (nsa)	3.0	4.0	3.9	3.3	2.4	2.1	1.9	3.0
Current Account, AUD bn	-13.4	-13.7	-13.2	-15.1	-15.5	-15.8	-16.4	-19.3
Capital Account, AUD bn (nsa)	13.5	12.6	14.2	15.4	15.4	14.6	18.3	19.4

Sources: Australian Bureau of Statistics, Reserve Bank of Australia

Note: data seasonally adjusted unless otherwise stated

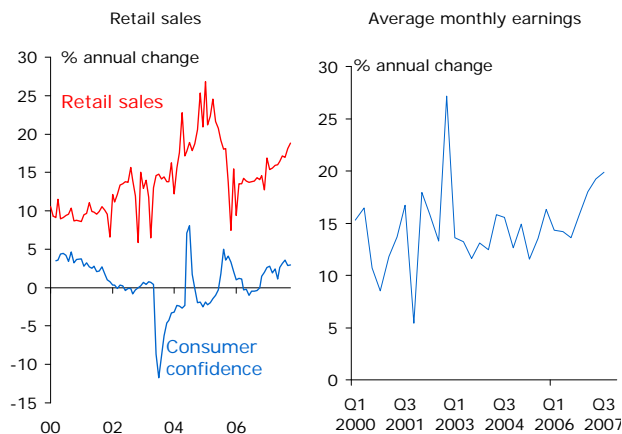
Country Update: China

Production growth is easing



Sources: CEIC, Economics@ANZ

But strong consumption fuelling inflation



- We are in the black hole period in China, where data releases hold little meaning due to Chinese New Year and the statistics methodology under which January and February data are combined in several important data series. Data that have been published indicate that the economy remains strong, particularly on the consumption side. However, government efforts to cool exports and investment may be having an effect.
- Fixed asset investment growth – one of the combined January-February data points – rose 24.3% on an annual basis in January-February, down from 25.8% in December. As this is a cumulative figure, the December and February readings are the most “pure” in the series, and do show a marginal decline in the rate of investment growth. However, the February 2008 reading was a touch higher than the February 2007 reading – in other words, no sharp softening there.
- Export growth was reported to have fallen to 6% per annum in February, but this is a data aberration. Export growth was 26.7% per annum in January and will likely return to at least 20% level in the March release. However, with import growth picking up, we do think the 12-month trailing surplus reached its peak of US\$265 bn in January and will decline slowly going forward, to under US\$200 bn by year-end.
- Domestic demand has been strong, as judged by import growth and retail sales. Retail sales have sustained a growth rate of 18-20% per annum for five months, a growth rate last seen before the authorities began to tighten policy in 2005. However, it is not surprising that in an environment of strong demand and liquidity growth (M2 was up 17.5% oya in February) that inflation has remained high. The January snowstorms have added to the problem, but they are not its cause. Wheat prices have begun to moderate, but our estimate of core inflation is showing a sustained rise. The authorities raised the reserve requirement ratio to 15.5% in March, and we expect one more rate rise in April to represent the peak of the cycle before disinflation begins in the second half of this year.

Amy Auster

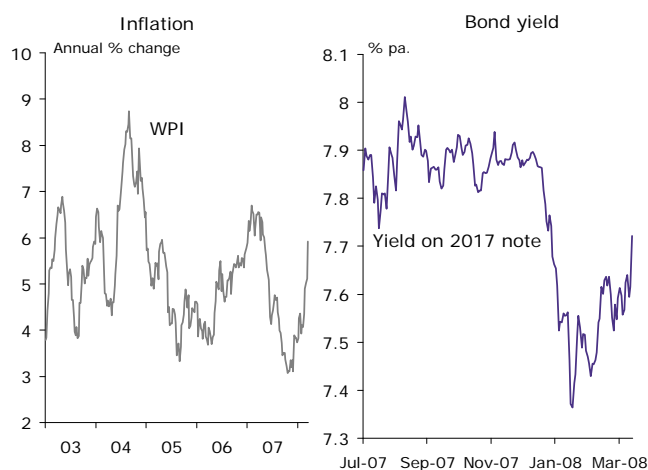
Economic data – China

Monthly data	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08
Industrial Production, % YOY	18.0	17.5	18.9	17.9	17.3	n/a	n/a	n/a
Retail Sales, % YOY	16.4	17.1	17.0	18.1	18.8	20.2	21.2	19.1
Consumer Price Index, % YOY	5.6	6.5	6.2	6.5	6.9	6.5	7.1	8.7
Exports, % YOY	34.1	22.7	22.7	22.3	22.8	21.7	26.7	6.5
Imports, % YOY	26.9	20.1	16.1	25.5	25.3	25.7	27.6	35.1
Trade Balance, US\$ bn	24.3	25.0	23.8	27.1	26.3	22.7	19.5	8.6
Foreign Exchange Reserves, US\$	1385.2	1408.6	1433.6	1454.9	1496.9	1528.3	1589.8	n/a
Quarterly data	Mar 06	Jun 06	Sep 06	Dec 06	Mar 07	Jun 07	Sep 07	Dec 07
Real GDP, % YOY	10.4	11.5	10.6	10.4	11.1	11.9	11.5	11.2
- Primary sector	4.5	5.1	4.9	5.0	4.4	4.0	4.3	3.7
- Secondary sector	12.7	13.3	13.3	12.5	13.2	13.6	13.5	13.4
- Tertiary sector	8.9	9.3	9.5	10.3	9.9	10.6	11.0	11.4
Nominal GDP, US\$ bn	603.4	633.7	657.6	732.7	708.5	767.3	808.0	963.7
Current Account, US\$ bn	243.7	247.0	249.7	259.0	302.1	341.6	380.5	419.0
FDI (actual), US\$ bn* YTD	14.2	28.4	42.6	65.8	15.9	31.9	47.2	74.8

Sources: Datastream, Bloomberg * - Quarterly sum

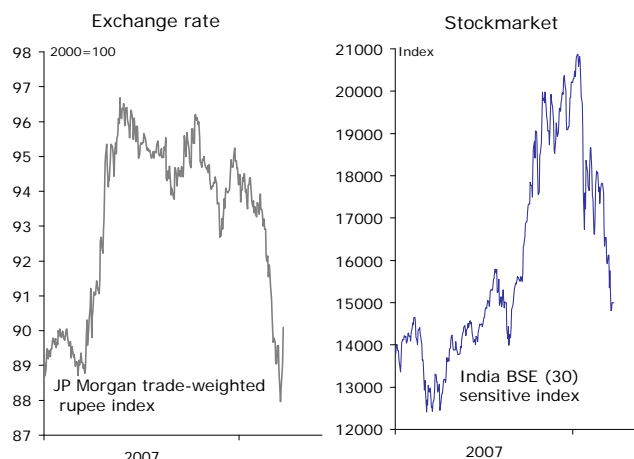
Country Update: India

Above-target inflation lifts bond yields



Sources: Bloomberg, Datastream

Indian rupee underperforms



Sources: Bloomberg, Datastream

- High commodity prices continue to impact inflation with wholesale prices (WPI) accelerating to a 13-month high of 6.68% YOY for the week ended 15 March. Fiscal measures are continually being reviewed to help stem the tide of rising prices. The government cut the tax on vegetable oils four times in 2007 and, in March 2008, banned exports of all cooking fats for a year. It also has plans to cut import duties on palm oil further. Domestic supply pressures on edible oils have been compounded by the expectation of a lower-than-forecast oilseeds harvest due to poor weather. Palm oil prices have surged by 45% since end-June 2007 and India is the second largest importer after China.
- The re-emergence of inflationary pressures, after the WPI stayed below the central bank's target of 5% between mid-June 2007 and mid-February 2008, has lifted bond yields. The central bank has tightened monetary policy in recent years, raising the benchmark rate nine times since October 2004 and lifting the reserve requirement five times since December 2006. It is, however, likely to keep interest rates on hold despite upside risks to inflation, as the economy is showing signs of moderating. A softer commodity price outlook, led by the downturn in the global economy, is also likely to alleviate price pressures. The key repurchase rate has been held at 7.75% since March 2007.
- While the 75 bps US Fed Funds rate cut on 18 March saw the Indian rupee strengthen slightly against the US dollar, the currency has not performed well compared with other Asian currencies. It has depreciated by around 1% against the US dollar since the start of the year compared with a 4.2% gain of the Chinese Yuan and 3.5% and 2% rise of the Malaysian ringgit and Indonesian rupiah respectively against the US dollar. The slide in equity markets, falling by 22% since its peak in early January, and concerns of global funds reducing local share exposure, have been a factor behind the rupee's underperformance. In addition, the current account deficit has weighed on the currency, with import growth outpacing export expansion.

Jasmine Robinson

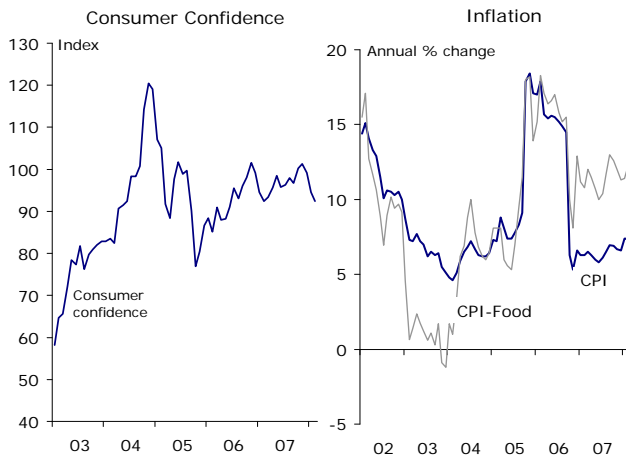
Economic data – India

Monthly data	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08
Industrial Production, %YOY	8.7	10.6	7.0	12.1	5.0	8.1	5.5	n/a
Passenger car sales, % YOY	14.5	15.7	8.7	13.9	16.0	6.6	10.8	6.3
Consumer Price Index, % YOY	6.5	7.3	6.4	5.5	5.5	5.5	5.5	n/a
Exports, % YOY	22.8	22.2	24.2	38.3	28.4	24.4	36.2	n/a
Imports, % YOY	23.8	41.1	10.1	31.3	24.9	13.5	45.8	n/a
Trade Balance, US\$ bn	-5.0	-6.9	-4.4	-7.5	-7.4	-5.4	-9.4	n/a
Foreign Exchange Reserves, US\$ bn	220	222	240	256	265	267	284	291
Quarterly data	Mar 06	Jun 06	Sep 06	Dec 06	Mar 07	Jun 07	Sep 07	Dec 07
Real GDP, % YOY (at factor cost)	10.0	9.6	10.1	9.1	9.1	9.3	8.9	8.4
- Industry	8.6	10.0	10.7	10.3	11.2	10.6	8.3	8.4
- Agriculture	6.2	3.3	3.6	3.4	3.8	3.8	3.7	3.2
- Services	11.1	11.4	11.5	11.1	9.9	10.6	10.3	10.5
Nominal GDP, US\$ bn	200.2	189.4	186.5	226.9	233.2	241.2	242.1	287.8
Current Account, US\$ bn	2.8	-4.6	-4.8	-2.8	2.6	-4.7	n/a	n/a
Capital Account, US\$ bn	10.5	10.6	8.8	10.3	17.9	16.4	33.9	n/a

Source: Datastream, Bloomberg

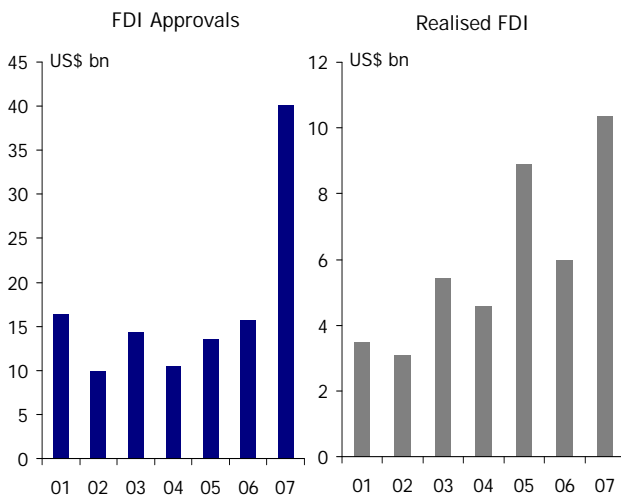
Country Update: Indonesia

Consumer sentiment slides and inflation edges up



Sources: Bloomberg, Datastream, Economics@ANZ

Foreign investment gains momentum



excludes oil & gas and finance-related institutions

Sources: CEIC, Investment Coordinating Board (BKPM)

Higher consumer prices are beginning to hurt consumer sentiment with the latest reading of the consumer confidence index falling to a one-year low in February. Annual inflation was 7.4% in February, matching that of January and expectations are for it to average 7% in the first half of this year compared with 6.2% YOY in H1 2007 as commodity prices stay elevated. Real interest rates have moved sharply lower over the past few months and are now less than 1%. Bank Indonesia is likely to keep its policy rate unchanged in coming months, at 8% - a rate it has held since December.

- On the fiscal front, the budget deficit for 2008 is likely to be revised to a wider 2.1% of GDP (Rp94.5 tn) as fuel subsidies are forecast to rise amidst higher oil prices. Indonesia also plans to spend some Rp60.3 tn (1.3% of GDP) in capping electricity prices.
- Despite the current uncertainty in global financial markets and expected slowdown in world growth, the investment climate remains positive. After finishing at a 12-year high of US\$40.1 bn, foreign direct investment (FDI) approvals rose 19.6% to US\$1.4 bn over the year to January 2008 from US\$1.17 bn a year earlier. Japan was the biggest source of approved FDI, putting US\$166.4 mn into nine projects, followed by Malaysia (US\$149.6 mn), the UK (US\$107.9 mn) and Singapore with US\$84.9 mn. Domestic investment approvals, however, fell sharply to Rp5.16 tn in January from Rp61.6 tn a year earlier. Meanwhile, actual FDI in January reached US\$425.5 mn, up 43% from January 2007 with Singapore being the largest investor. However, actual domestic investment dropped to Rp569.3 bn from Rp2.11 tn a year ago. The foreign investment climate has improved in recent years, as gauged by the marked improvement by Indonesia in the World Bank's "Doing Business Indicators". The weaker domestic investment environment could be a reflection of the higher inflation environment and softening consumer confidence.

Jasmine Robinson

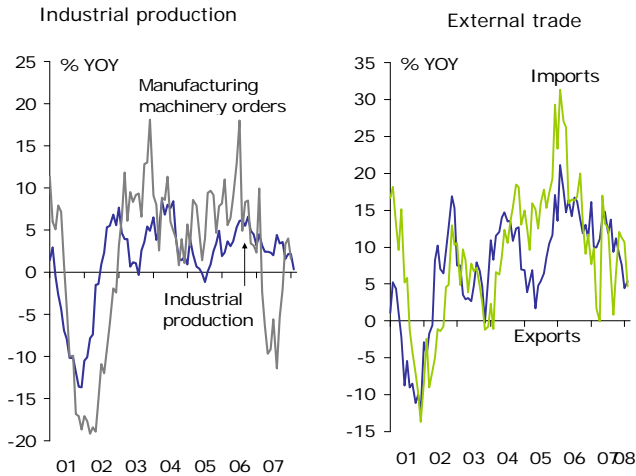
Economic data – Indonesia

Monthly data	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08
Industrial Production, %YOY	4.7	5.0	2.4	6.6	3.7	2.0	5.0	n/a
Motor cycle sales, % YOY	-1.6	-3.0	-3.4	22.6	-7.1	-11.2	38.0	33.3
Consumer Price Index, % YOY	6.1	6.5	7.0	6.9	6.7	6.6	7.4	7.4
Exports, % YOY	13.1	7.7	7.6	17.6	10.0	13.1	33.2	n/a
Imports, % YOY	17.3	21.3	20.3	36.5	29.7	37.0	43.9	n/a
Trade Balance, US\$ bn	3.7	2.7	2.7	4.0	2.3	4.1	3.5	n/a
Foreign Exchange Reserves, US\$ bn	50.3	49.9	51.2	52.3	53.0	55.0	53.8	n/a
Quarterly data	Mar 06	Jun 06	Sep 06	Dec 06	Mar 07	Jun 07	Sep 07	Dec 07
Real GDP, % YOY	5.1	5.0	5.9	5.9	6.0	6.4	6.6	6.2
- Private consumption	3.0	3.0	2.9	3.8	4.8	4.7	5.2	5.6
- Government consumption	11.4	27.9	2.4	0.5	5.2	3.3	5.6	1.7
- Gross fixed capital expenditure	1.5	1.2	0.4	8.7	8.1	6.4	9.1	11.0
Nominal GDP, US\$ bn	84.7	89.4	94.0	96.2	101.2	107.2	109.5	113.3
Current Account, US\$ bn	2.8	1.7	3.5	1.9	3.0	2.5	2.9	n/a
Capital & Financial Account, US\$ bn	2.3	0.0	-1.2	1.5	2.2	2.2	-0.7	n/a

Sources: Bloomberg, Datastream, Bank Indonesia

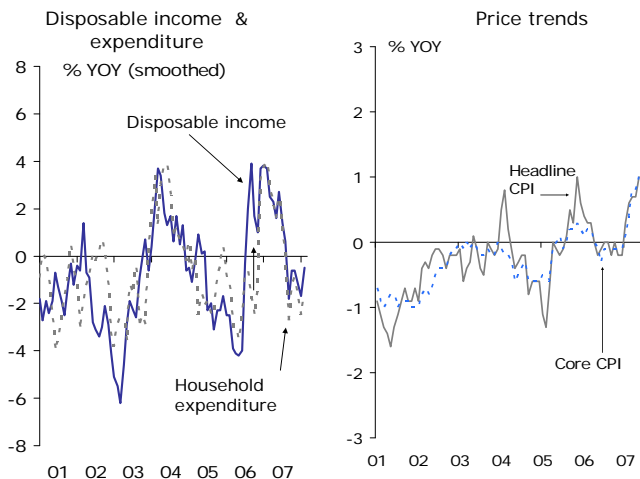
Country Update: Japan

Downturn in external demand will affect industrial production



Sources: Datastream, Economics@ANZ

Income to be affected by equity market losses; inflation up for now, but unlikely to remain



Sources: Datastream, Economics@ANZ

- The Japanese economy is the most vulnerable in East Asia to a US recession, and the outlook for the economy is increasingly bleak. We have revised down our growth forecast to real GDP growth of only 0.6% for this year, with the expectation that there will be two quarters of negative growth. Though they may not be consecutive, we believe Japan will experience recession-like conditions this year.
- The US is a major export market for Japan, accounting for 22% of all exports as against 14.5% for the EU and 14.3% for China. Japanese export growth has declined in the past few months, from 11.3% in the third quarter of 2007 to 10% in the fourth quarter and only 7.4% oya in January – as expressed in yen terms. The strengthening of the yen against the US dollar will have further depressed the local value of exports – regardless of volume – in February and March. On a customs basis, the visible trade surplus has narrowed from more than JPY1 tn in the third quarter of 2007 to JPY590 bn in February. A falling contribution of net exports to growth is significant for the outlook; net exports contributed more than 1 percentage point of Japan's 2.1% real GDP growth rate last year.
- The falling stock market is also negative for the economic outlook. An OECD study estimated that a 20% correction in the equity market would shave 0.4-0.5 percentage points off of real GDP growth for 2 consecutive years, due to the negative impact on household wealth. The fall in the Nikkei, which stands at 12% year to date and 31% from its peak on 7 September, comes at a particularly bad time from a demographic point of view as the peak of baby boomer retirement has only begun over the past year.
- Amidst the worsening economic outlook, inflation has continued to rise, with headline CPI hitting a 10-year high of 1.0% in February. Core inflation was also up 1.0%, perhaps an even more impressive feat. We do not expect the Bank of Japan to look toward rate cuts any time in the near future; among everything else that is happening, a replacement for the retired Governor Fukui has not yet been confirmed.

Amy Auster

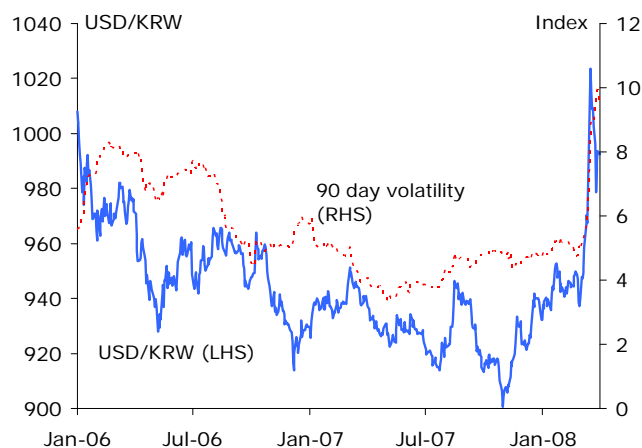
Economic data – Japan

Monthly data	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08
Industrial Production, %YOY	2.0	4.4	3.4	3.6	1.6	2.2	2.2	0.3
Retail Sales, % YOY	-2.3	0.5	0.5	0.8	1.6	0.2	1.3	3.2
Consumer Price Index, % YOY	0.0	-0.2	-0.2	0.3	0.6	0.7	0.7	1.0
Exports, % YOY	6.5	13.8	8.2	16.4	15.9	11.5	20.1	22.3
Imports, % YOY	11.2	5.1	-1.2	11.3	19.9	17.2	21.8	23.9
Trade Balance, US\$ bn	5.6	6.4	14.0	8.6	7.1	7.7	-0.8	9.0
Foreign Exchange Reserves, US\$ bn	902.5	910.9	922.5	930.3	946.1	948.0	968.5	979.2
Quarterly data	Mar 06	Jun 06	Sep 06	Dec 06	Mar 07	Jun 07	Sep 07	Dec 07
Real GDP, % YOY	2.7	2.4	2.0	2.5	2.9	1.7	1.9	1.7
- Private consumption	2.7	2.6	1.1	1.6	1.7	1.1	2.0	1.1
- Government consumption	-1.1	-0.1	-0.5	0.2	0.8	0.6	0.3	1.6
- Gross fixed capital formation	1.0	1.4	0.2	2.7	3.3	-0.6	-1.1	-2.2
Nominal GDP, US\$ bn	4708.1	4686.4	4643.0	4649.4	4640.0	4575.1	4538.4	4511.7
Current Account, US\$ bn	182.8	168.1	174.2	206.9	201.9	232.0	219.4	230.1
Capital Account, US\$ bn	-11.0	-5.2	-1.3	-3.0	-9.0	-0.8	-2.5	-4.5

Source: Datastream

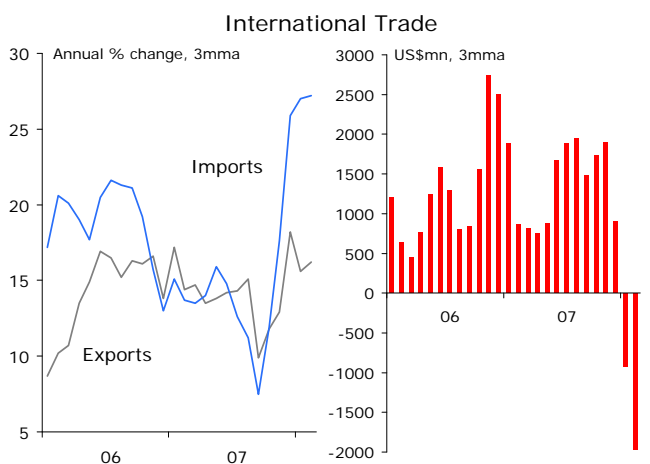
Country Update: Korea

Volatility hits the Won



Source: CEIC

Korea's trade deficit worsens on strong imports



Source: Datastream

- The Korean economy is being buffeted by the headwinds of the global credit crunch. New president Lee Myung-bak has had his '747' goal of 7% growth, US\$40,000 per capita annual income, and for Korea to become the world's 7th largest economy, made that much tougher with turmoil on world financial markets having more of an impact on Korea than the majority of Asia. His aim of achieving 6% GDP growth in 2008 is looking unlikely, with growth likely to be below 2007's 4.9% result.
- Interest rates were left on hold in March as the outlook for the global economy worsened. In particular, the Bank of Korea (BoK) issued a warning about building price pressures in the economy, with inflation reaching 3.6% YoY in February, and remaining above the central bank's target range of 2.5% to 3.5% per annum for the third consecutive month. We expect rates to be cut at the end of the year once inflationary pressures ease and evidence of an economic slowdown emerges. The BoK's monetary policy framework was also reformed, with the Bank now to use the "Bank of Korea Base Rate" instead of the current overnight call rate target.
- The Korean Won was taken for a wild ride in March, spiking as low as 1023.5 per USD after ending February at USD/KRW940. BoK Governor Lee Seong Tae suggested that the sale of equities by foreigners, high overseas dividend payments and a widening current account deficit have been the major contributors to the currency weakness. The Won has recovered to be trading around USD/KRW 992 at the time of writing.
- Korea's trade balance has deteriorated in 2008, with a deficit recorded for the three months to February 2008. Korea's major export markets are in an economic funk, driving exports lower over the last three consecutive months. Exports to the US have been especially weak, with a slowdown in the US curtailing demand for popular Korean exports including cars and mobile phones. Although a weaker currency should help exporters to some extent, it will only aid to exacerbate rising prices for energy and grains, almost all of which are imported. However, the government will ease some of this pressure, removing import tariffs on corn and milling wheat and cutting duties on oil products from 1 April.

Amber Rabinov

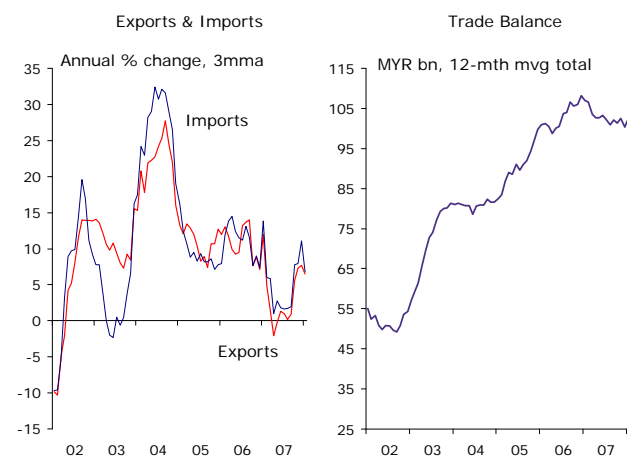
Economic data – Korea

Monthly data	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08
Industrial Production, %YOY	13.8	9.0	4.9	6.8	7.6	10.6	11.8	n/a
Retail Sales, % YOY	9.3	5.1	6.8	8.5	6.9	3.5	10	n/s
Consumer Price Index, % YOY	2.5	2.0	2.3	3.0	3.5	3.6	3.9	3.6
Exports (US\$), % YOY	17.2	13.6	-1.1	22.9	17.0	14.8	15.1	18.8
Imports (US\$), % YOY	14.4	9.7	-1.6	27.8	26.8	23.2	31.0	27.6
Trade Balance, US\$ bn	1.0	1.4	2.1	1.7	1.9	-0.9	-3.8	-1.2
Foreign Exchange Reserves, US\$ bn	254.4	254.9	256.8	259.7	261.5	261.8	261.4	261.9
Quarterly data	Mar 06	Jun 06	Sep 06	Dec 06	Mar 07	Jun 07	Sep 07	Dec 07
Real GDP, % YOY	6.1	5.3	5.0	4.2	4.0	4.9	5.1	5.9
- Private consumption	5.4	4.0	3.9	3.6	3.9	4.2	4.6	4.8
- Government consumption	5.7	5.5	6.2	7.2	6.3	6.9	4.5	5.6
- Gross fixed capital expenditure	4.2	0.2	5.1	4.9	7.2	5.5	1.3	2.9
Nominal GDP, US\$ bn	213.5	221.4	223.5	229.5	233.4	240.8	245.0	250.5
Current Account, US\$ bn	-2.0	0.2	1.0	6.1	-1.7	0.0	4.4	3.2
Capital Account, US\$ bn	-0.7	-0.8	-0.7	-0.9	-0.8	-0.7	-0.6	-0.3

Source: Datastream

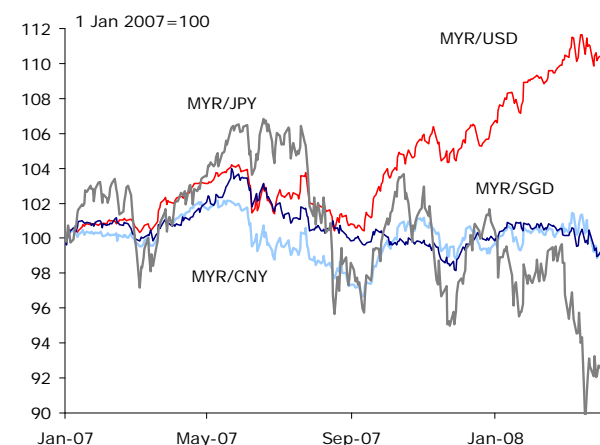
Country Update: Malaysia

Trade balance remains healthy



Source: Datastream

Ringgit movements against major trading partner currencies



Source: Datastream

- General elections held on 8 March delivered a shock result: although the ruling Barisan Nasional (BN) coalition led by Prime Minister Abdullah Badawi retained power, taking 63% of seats, this was far below its success in the 2004 election when it won 90% of seats. The result is significant as it marks the greatest number of parliamentary seats (82 out of 222) won by the opposition. With the BN no longer holding a two-thirds majority, it will not be able to make constitutional amendments without support from other parties.
- In economic news, Bank Negara, the central bank of Malaysia, has cut its economic growth forecast for 2008 to 5% to 6% due to the weaker external environment in the wake of the "continued unfolding of the financial crisis". On the production side, a slowdown in growth in the services sector to 7.2% from 9.2% recorded in 2007 is forecast, although growth in both the construction and mining sectors is expected to accelerate (to 5.5% and 6% respectively). On the expenditure side, a substantial easing is forecast in private consumption growth to 6.5% from 11.7% in 2007, and in private and public investment growth to 6.3% and 0.5% respectively (from 12.3% and 8%).
- Consumer prices rose 2.7% YoY in February, the fastest pace recorded in a year, as the Chinese New Year holiday pushed food prices up 4.4% YoY and alcohol and tobacco prices 9% YoY. We forecast prices growth to peak at over 3% YoY in the middle of the year before easing to 2.1% YoY by December, averaging around 2.8% for 2008. As such, we expect the central bank to maintain the overnight policy rate at 3.5% over the coming months. Moreover, Bank Negara has stated that given Malaysian inflation is mostly driven by external factors, raising borrowing costs for consumers may only have a limited impact on prices growth.
- Despite a strengthening in the ringgit versus the USD, the currency has remained relatively stable against other Asian currencies, thereby helping to boost Malaysia's exports by 18.5% YoY in January. With import growth easing to 14.7% YoY, the trade balance rose to US\$3 bn from US\$2.8 bn in December 2007.

Amber Rabinov

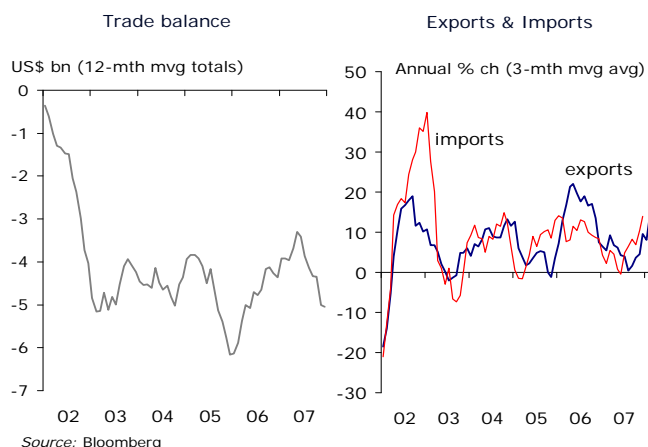
Economic data – Malaysia

Monthly data	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08
Industrial Production, %YOY	2.1	1.1	3.1	4.7	3.2	5.8	7.0	n/a
Motor Vehicle sales, % YOY	2.3	0.8	4.9	20.7	21.3	15.4	30.8	n/a
Consumer Price Index, % YOY	1.6	1.9	1.8	1.9	2.3	2.4	2.3	2.7
Exports, % YOY	6.6	6.2	7.7	24.4	14.9	9.7	18.5	n/a
Imports, % YOY	9.3	9.6	5.1	30.5	13.1	16.3	14.7	n/a
Trade Balance, US\$ bn	2.3	2.5	3.3	2.5	3.1	2.8	3.0	n/a
Foreign Exchange Reserves, US\$ bn	98.8	95.8	96.5	100.8	102.8	100.6	110.6	n/a
Quarterly data	Mar 06	Jun 06	Sep 06	Dec 06	Mar 07	Jun 07	Sep 07	Dec 07
Real GDP, % YOY	5.7	6.1	6.1	5.9	5.3	5.9	6.7	7.4
- Private consumption	6.6	7.7	7.0	7.0	8.6	13.1	14.0	11.1
- Government consumption	1.2	4.5	9.9	4.1	7.1	10.2	5.3	4.4
- Gross fixed capital expenditure	11.4	7.6	3.5	9.8	9.9	6.6	13.5	11.1
Nominal GDP, US\$ bn	37.3	38.9	39.5	40.5	42.5	45.4	46.6	52.2
Current Account, US\$ bn	5.5	5.0	7.4	7.7	5.7	6.9	8.3	n/a
Capital & Financial Account, US\$ bn	-1.4	-0.1	-4.9	-5.5	0.8	2.2	-8.9	n/a

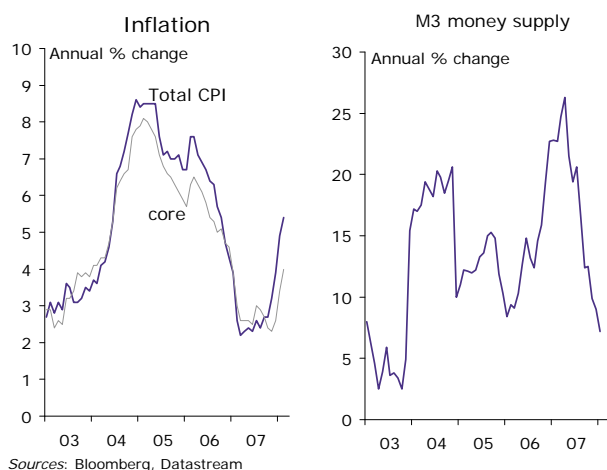
Sources: Datastream, Bloomberg

Country Update: Philippines

Export growth likely to slow



Inflation limits scope for further rate cuts but money supply growth moderates



- The impact of the slowdown in the US economy is beginning to be felt in the Philippines. Export growth eased to 6.4% over the year to January from 21.4% in the year to December as demand from the US and Japan cooled. Exports to the US fell by 1% over the year to January while shipments to Japan gained a moderate 3.9% YOY. Electronics exports, which constitute close to two-thirds of Philippines' exports, rose just 1.6% YOY after a 12% YOY increase in December.
- Remittance inflows, however, remain buoyant. Remittances increased by 15% over the year to January to US\$1.3 bn. Nevertheless, we expect the pace of growth to slow as the US is an important destination for Filipinos working overseas, accounting for around half of total remittances. The weak US dollar also adversely impacts the value of receipts when converted to local currency.
- The strong peso is exacerbating export performance as external demand moderates. However, the currency is also helping to stem imported inflation. Consumer prices rose by 5.4% over the year to February, the highest rate since July 2006, due largely to higher food and fuel costs. Money supply growth has moderated, rising by 7.2% YOY in January, down from a peak of 26.3% YOY in April 2007. Despite a further reduction in US interest rates and prospects for economic growth to ease in 2008, the central bank has kept interest rates unchanged since January as inflation pressures have re-emerged. Nevertheless, the central bank closed some higher yielding special deposit accounts of two or more months and lowered the interest paid on remaining accounts.
- On the fiscal side, the government has plans to front-load spending in the first half of this year to lift domestic demand, although it aims to bring the budget to balance this year. Spending in January fell by 1.4% YOY due in part to the delayed approval of the budget. Revenue from asset sales and tax collection rose 19.7% YOY, leading to a narrower budget deficit in January of PHP13.9 bn (US\$333 mn).

Jasmine Robinson

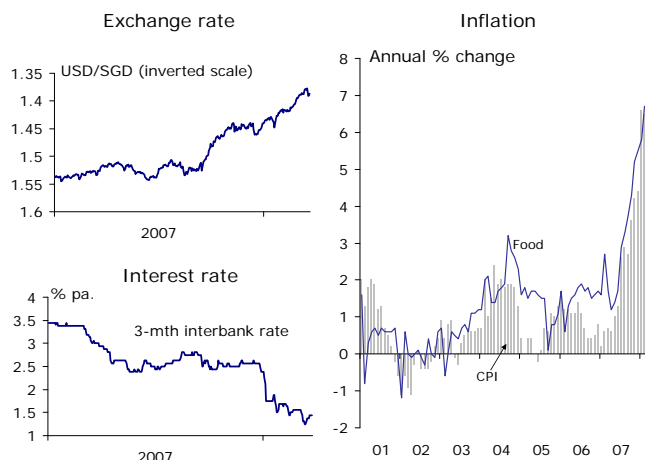
Economic data – Philippines

Monthly data	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08
Manufacturing Production, %YOY	0.9	-5.9	-3.2	-2.2	-4.2	-1.8	n/a	n/a
Motor Vehicle sales, % YOY	77602	67225	67335	65801	62188	59512	n/a	n/a
Consumer Price Index, % YOY	2.6	2.4	2.7	2.7	3.2	3.9	4.9	5.4
Exports, % YOY	5.9	-3.8	4.8	10.7	-1.8	21.2	6.4	n/a
Imports, % YOY	14.5	2.1	9.7	10.1	12.8	20.0	34.3	n/a
Trade Balance, US\$ mn	-853	-882	-371	-502	-1135	-528	-746	n/a
Foreign Exchange Reserves, US\$ bn	24.9	27.2	27.7	29.0	29.3	30.1	30.8	n/a
Quarterly data	Mar 06	Jun 06	Sep 06	Dec 06	Mar 07	Jun 07	Sep 07	Dec 07
Real GDP, % YOY	5.7	5.5	5.1	5.5	7.1	7.6	7.4	7.4
- Private consumption	5.3	5.4	5.2	5.8	5.9	6.0	6.0	6.3
- Government consumption	7.6	3.3	4.5	9.9	9.9	12.4	6.7	10.8
- Gross fixed capital expenditure	2.4	-1.0	2.1	2.2	8.5	10.1	9.2	10.3
Nominal GDP, US\$ bn	28.0	28.5	29.6	31.6	32.8	34.7	36.1	41.2
Current Account, US\$ bn	1.2	1.5	1.2	2.2	2.0	1.8	1.0	1.6
Capital & Financial Account, US\$ bn	1.4	-1.7	-0.5	-0.1	0.4	-0.4	3.4	0.5

Sources: Datastream, Bloomberg

Country Update: Singapore

Exchange rate key tool in managing price stability



Sources: Bloomberg, Datastream

Median forecasts of macroeconomic indicators for 2008

Annual % change	Dec 07 survey	Mar 08 survey
Real GDP	6.3	5.6
- Manufacturing	6.8	5.0
- Construction	13.5	15.9
- Financial services	9.0	9.5
- Wholesale & retail trade	6.9	6.3
- Hotels & Restaurants	4.7	5.0
Private consumption	4.0	4.0
Non-oil dom. exports	6.5	5.0
Inflation	3.7	5.0
Unemployment rate (eop, %)	2.1	2.0
Exchange rate (eop, USD/SGD)	1.40	1.38
3-mth S\$ interbank rate (eop) % pa	2.73	1.26

Source: Monetary Authority of Singapore

Economic data – Singapore

Monthly data	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08
Industrial Production, %YOY	22.5	13.7	-2.2	2.8	-0.5	-1.5	12.8	10.0
Retail Sales, % YOY	-1.5	6.4	6.1	5.3	-0.3	2.6	-2.3	n/a
Consumer Price Index, % YOY	2.6	2.9	2.7	3.6	4.2	4.4	6.6	6.5
Exports, % YOY	14.0	6.2	5.7	20.0	11.8	12.7	22.3	28.5
Imports, % YOY	7.6	2.0	4.7	29.5	21.6	12.1	35.3	30.6
Trade Balance, US\$ bn	3.4	3.5	4.1	2.6	1.9	2.0	2.8	2.3
Foreign Exchange Reserves, US\$ bn	147.0	147.6	152.4	158.2	160.7	163.0	167.6	n/a
Quarterly data	Mar 06	Jun 06	Sep 06	Dec 06	Mar 07	Jun 07	Sep 07	Dec 07
Real GDP, % YOY	10.7	8.2	7.2	7.0	7.1	9.1	9.3	5.5
- Private consumption	3.2	2.9	3.5	3.8	2.4	5.2	5.7	5.1
- Government consumption	9.8	10.2	19.6	4.7	-0.3	5.1	0.6	5.1
- Gross fixed capital expenditure	10.8	9.2	10.6	22.8	22.4	27.3	16.9	16.1
Nominal GDP, US\$ bn	32.6	33.5	34.3	36.2	37.7	39.7	41.2	43.0
Current Account, US\$ bn	7.1	7.2	7.4	8.1	9.7	9.8	12.0	7.5
Capital & Financial Account, US\$ bn	-1.7	-4.3	-6.1	-2.2	-8.6	-2.5	-7.4	0.1

Sources: Bloomberg, Datastream, Economic Survey of Singapore

Inflation is expected to continue to be the key theme in the domestic economy, particularly in the first half of this year as rising raw materials costs, high food and oil prices feed through to end-products, utilities charges and transport costs. Annual inflation for February stayed high at 6.5%. Meanwhile, interest rates, as measured by the 3-month interbank rate, continue to remain low, at under 2% thus far this year, but it is important to note that the exchange rate is the key tool used in managing price stability. The Singapore dollar climbed to a 13-year high of USD/SGD1.377 in mid-March on the back of the weak US dollar as well as relatively strong domestic economic fundamentals. Nevertheless, given the threat to export competitiveness and the expectation of some moderation in inflation in the second half of this year, the Monetary Authority of Singapore (MAS) is likely to maintain its current exchange rate policy stance when it releases its next Monetary Policy Statement in April.

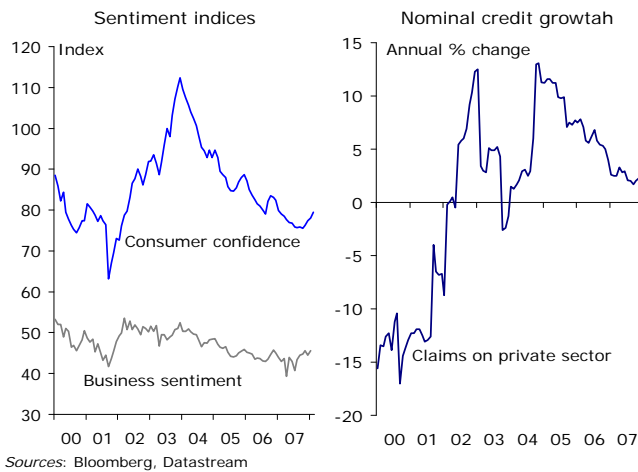
The latest MAS Survey of Professional Forecasters, released in March, reflect a downgrading of economic growth to a median estimate of 5.6% in 2008 from 6.3% in the December survey. Annual inflation, on the other hand, has been lifted to 5% for 2008 from 3.7% in the previous survey and the median estimate for Q1 2008 is now at 6.3%. ANZ has forecast real GDP growth to moderate to 4% in 2008 and inflation to average 5%.

The Purchasing Managers' Index, a gauge of manufacturing activity, has become decidedly softer this year at 50.3 for February and 50.6 in January (a reading above the 50-point level indicates that the manufacturing sector is generally expanding). Nevertheless, exports ticked up in February. In Singapore dollar terms, total exports were 18% higher than a year earlier with non-oil domestic exports rising by 7.3% over the year to February compared with 2.8% YOY in January. Non-oil retained imports of intermediate goods gained 8.8% YOY in February, improving from the 0.1% decline in January, a positive leading indicator for activity in the manufacturing and retail sectors.

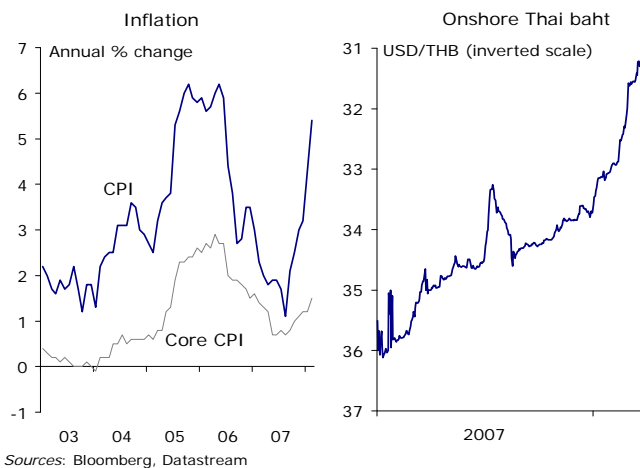
Jasmine Robinson

Country Update: Thailand

Domestic demand ticks up



Consumer prices edge up but stronger Thai baht should help to limit imported inflation



- Consumer confidence continues to improve with the latest reading in February the highest in 11 months. With the smooth transition back to democratic rule and the recently-announced fiscal stimulus, the Thai economy is expected to buck the trend across East Asia and expand at a faster pace in 2008 as private consumption and investment gain momentum. The cabinet approved, in March, a THB40 bn (US\$1.3 bn) package of tax cuts. The tax initiatives included the lifting of the income tax exemption ceiling to THB150,000 per year from THB100,000 previously. In addition, small and medium-sized enterprises earning less than THB1.2 bn will be exempt from tax for 3 years. The boost to domestic activity comes as exports, which have been the main driver of growth, are likely to expand at a slower rate given that the US is Thailand's top export market, absorbing 13% of total exports.
- While these fiscal measures will help to stimulate spending, inflation pressures will remain elevated. Like its East Asian neighbours, rising food and fuel costs have led to sharply higher consumer prices in recent months. Annual inflation accelerated to 5.4% over the year to February, the highest since June 2006. The Bank of Thailand (BOT) has kept its policy rate unchanged at 3.25% since July 2007 after lowering it by a cumulative 150 bps between February and July 2007. Inflation pressures, however, limit the scope for further interest rate cuts.
- Meanwhile, the Thai baht has appreciated strongly over the past month, aided by the BOT decision to relax capital controls and US dollar weakness. Since the start of the year, the onshore Thai baht has strengthened by some 7% against the US dollar. This will help to stem imported inflation but Thailand's trade position is expected to deteriorate as export growth slows and imports expand more rapidly assisted by the stronger currency and efforts to boost investment.

Jasmine Robinson

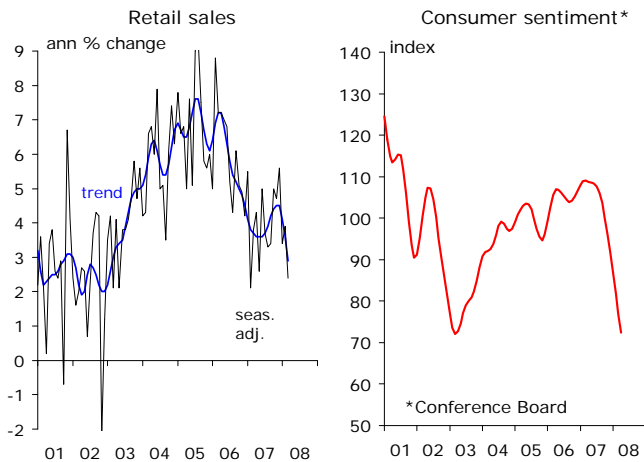
Economic data – Thailand

Monthly data	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08
Manufacturing Production, %YOY	7.7	9.8	8.7	12.7	12.0	11.8	12.8	n/a
Car Sales, % YOY	1.0	0.9	8.3	12.6	-0.1	-23.9	17.6	n/a
Consumer Price Index, % YOY	1.7	1.1	2.1	2.5	3.0	3.2	4.3	5.4
Exports, % YOY	6.3	17.9	10.4	26.7	24.4	19.0	33.3	16.4
Imports, % YOY	2.4	14.0	7.4	20.3	17.4	8.9	49.1	33.1
Trade Balance, US\$ bn	0.2	0.8	2.0	1.5	1.9	1.2	-0.7	-0.7
Foreign Exchange Reserves, US\$ bn	72.2	72.6	78.7	80.3	82.5	85.2	90.3	97.9
Quarterly data	Mar 06	Jun 06	Sep 06	Dec 06	Mar 07	Jun 07	Sep 07	Dec 07
Real GDP, % YOY	6.4	5.4	4.5	4.3	4.2	4.3	4.7	5.8
- Private consumption	4.1	3.1	2.8	2.7	1.5	0.8	1.7	1.6
- Government consumption	3.4	5.6	3.0	-2.8	8.6	9.6	10.8	14.1
- Gross fixed capital expenditure	6.1	3.7	3.9	1.5	-1.3	0.0	2.7	4.1
Nominal GDP, US\$ bn	48.7	51.0	52.2	54.8	60.4	64.0	67.0	72.1
Current Account, US\$ bn	0.7	-2.3	1.2	2.6	4.7	1.1	2.9	6.2
Capital & Financial Account, US\$ bn	2.3	2.4	1.7	-0.7	-2.9	0.8	0.8	0.3

Sources: Bloomberg, Datastream,

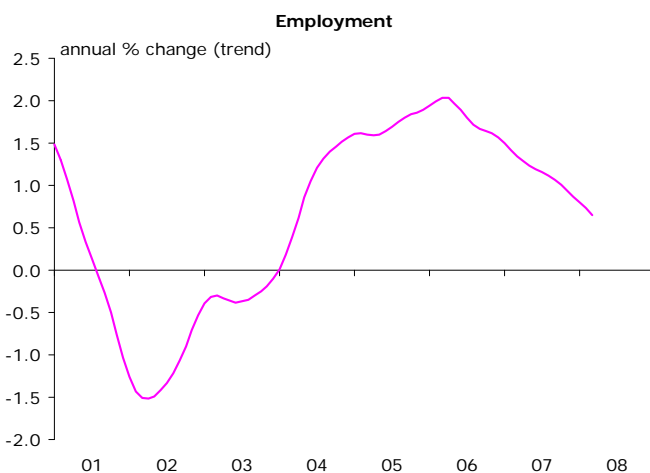
Country Update: United States

Consumers have been spooked, and are pulling back on spending



Sources: Thomson Financial Datastream, Economics@ANZ

The labour market is clearly slowing



Sources: Thomson Financial Datastream, Economics@ANZ

- The financial crisis in the US worsened this month with the failure of the country's fifth largest investment bank, Bear Stearns. The Federal Reserve Bank reacted swiftly, cutting the Fed funds rate by a further 75bp to 2.25%, further narrowing the 'penalty' for discount window borrowing, increasing the amount of funds to banks under its Term Auction Facility to US\$100bn, introducing a Term Securities Lending Facility for banks worth up to US\$200bn, and creating a lending facility for primary dealers in exchange for a broad range of investment-grade securities.
- Problems in the financial system are becoming increasingly apparent in indicators of economic activity. Consumer spending has ground to a halt, with real consumption flat in February after increasing by just 0.1% in January. While incomes have held up relatively well to date, consumers have clearly been spooked, with confidence currently at its lowest level since March 2003 and expectations at a three-decade low.
- Such caution on the part of the consumer is perhaps not unwarranted, with labour market conditions becoming increasingly bleak. Non-farm payroll employment fell for the second consecutive month in February, by 63,000. Meanwhile, initial jobless claims are trending up, with the four week moving average up to 358,000, a two-year high.
- Business confidence appears to be waning too. Durable goods orders fell by 1.7% in February following a 4.7% decline in January. At the same time, both the Chicago PMI and Philly Fed surveys are now at levels historically consistent with recession, while the ISM Manufacturing Index has fallen in recent months, albeit less severely.
- Inflation remains a concern, but in the near term, the Fed's focus will remain on reviving the ailing financial system. We expect another 75bp worth of rate cuts in coming months, giving a trough in the Fed funds rate of 1.5% by mid year.

Mark Rodrigues

Economic data – United States

Monthly data	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08
Building permits, 000's	1389	1322	1261	1170	1162	1080	1061	984
Retail Sales, % YOY	3.3	3.4	5.0	4.7	5.6	3.4	3.9	2.4
Consumer Price Index, % YOY	2.4	1.9	2.8	3.5	4.4	4.1	4.4	4.1
Core Consumer Price Index, % YOY	2.2	2.1	2.1	2.2	2.4	2.4	2.5	2.3
Exports, % YOY	15.5	14.1	14.5	14.6	14.1	14.8	16.6	n/a
Imports, % YOY	5.3	3.4	5.7	9.6	11.8	8.7	11.9	n/a
Trade Balance, USD bn	-58.9	-56.7	-56.9	-57.6	-62.4	-57.9	-58.2	n/a
Quarterly data	Mar 06	Jun 06	Sep 06	Dec 06	Mar 07	Jun 07	Sep 07	Dec 07
Real GDP, % YOY	3.3	3.2	2.4	2.6	1.5	1.9	2.8	2.5
- Private consumption	3.3	3	2.7	3.4	3.2	2.9	3.0	2.6
- Government consumption	1.8	1.8	1.2	2.5	1.2	1.9	2.7	2.3
- Gross fixed capital expenditure	7.5	7.3	6.4	5.2	2.5	4.1	5.1	7.1
Unit labour costs (non-farm), %YOY	2.8	2.2	2.6	4.1	4.3	4.3	2.8	0.9
Current Account, US\$ bn	-200.6	-205.6	-217.3	-187.9	-198.2	-190.1	-177.4	-172.9
Capital & Financial Account, US\$ bn	192.4	142.2	239.5	226.4	167.2	156.3	101.9	229.6

Sources: Datastream Note: data seasonally adjusted unless otherwise stated

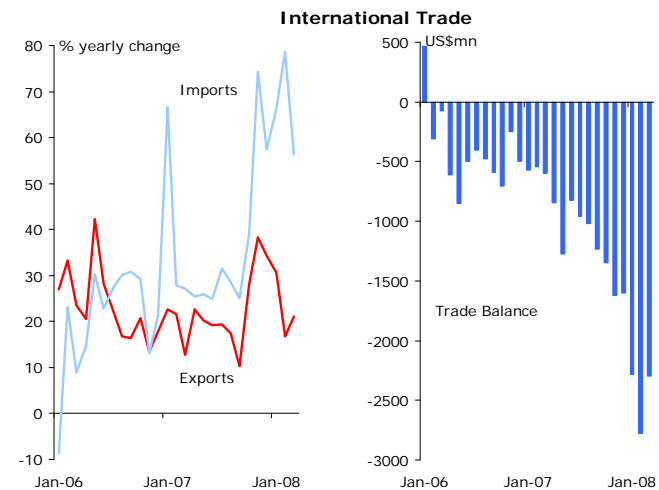
Country Update: Vietnam

Equity prices continue to slip



Source: Bloomberg

Imports race ahead of exports, driving the trade deficit higher



Source: CEIC

- Concerns regarding Vietnam's escalating inflation continue to mount, with figures showing that prices growth did not abate in March. Rising 19.4% in through the year terms, inflation is now running at the fastest pace in almost 13 years. Food prices persisted to be a major driver, rising 30.9% in through the year terms, with construction material prices up 20.6% and transport costs 14.3% higher. The government continues to announce inflation-fighting measures, the latest being fuel subsidies for importers and retailers to the tune of one trillion dong per month, a 10% rice export tax and a 3.5 mn tonne limit on rice exports in the first ten months of the year. Given current trends, it is unlikely that headline inflation will fall below 13% by year's end.
- The tumble in equity prices persists on concerns that the current inflation problem will begin to have a negative impact on company profits and slow economic growth. The leading VN Index has fallen below the key 500 point level, prompting the State Securities Commission to allow the Ho Chi Minh Stock Exchange to narrow its share-trading band (the daily allowed amount that share prices may fluctuate) to plus or minus 1% from plus or minus 5% on a temporary basis. The share-trading band for the Hanoi bourse was reduced to +/- 2% from +/- 10%. This action follows government instruction to the State Capital Investment Corporation earlier in the month to purchase shares of "good efficient and liquid" companies on both the southern and northern exchanges in an attempt to help support the market.
- Further developments in monetary policy have seen the daily dollar-dong trading band widen to plus or minus 1% from 0.75%. This helped the VND to appreciate to a near three-year high of USD/VND15,848 before dropping sharply late in the month to USD/VND16,095.
- Economic growth in the Q1 2008 eased to 7.4% in annual terms from 9.2% in the December quarter 2007. Higher raw material and fuel input prices kept a lid on activity, with growth in the industry and construction sector slowing to 8.2%. Meanwhile, the trade deficit has risen to over US\$2 bn per month this year. In response to the country's accelerating inflation problem, the government has reduced its target for 2008 GDP growth to a more realistic goal of 7.5% from its original aim of 9%.

Amber Rabinov

Economic data – Vietnam

Monthly data	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08	Feb 08
Industrial Production, %YOY+	18.7	18.9	18.1	16.7	17.4	20.7	18.2	16.3
Retail Sales, % YOY	25.1	26.0	24.4	24.2	25.1	25.0	34.0	36.5
Consumer Price Index, % YOY	8.4	8.6	8.8	9.3	10.0	12.6	14.1	15.7
CPI-Food & Foodstuffs, %YOY	11.1	11.9	13.3	13.9	14.9	18.9	22.0	25.2
Exports, % YOY+	19.6	19.3	18.3	19.3	21.0	22.2	30.6	29.2
Imports, % YOY+	31.3	30.9	30.2	31.9	34.9	37.0	66.2	63.7
Trade Balance, US\$ bn +	-5.6	-6.6	-7.9	-9.2	-10.8	-12.4	-2.3	-5.1
Tourist Arrivals, %YOY+	16.2	16.9	18.5	17.8	17.7	18.0	19.5	15.0
Quarterly data	Growth Q1-2008							
Real GDP+, % YOY		7.4						
Agriculture, forestry, fishery, % YOY		2.9						
Industry & construction, % YOY		8.2						
Services, % YOY		8.1						

+ : January-to date vs same period in previous year , * : January to date, ^ : US\$ bn. Source: General Statistics Office of Vietnam

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