

ASIA ECONOMICS EMERGING ASIA MONTHLY

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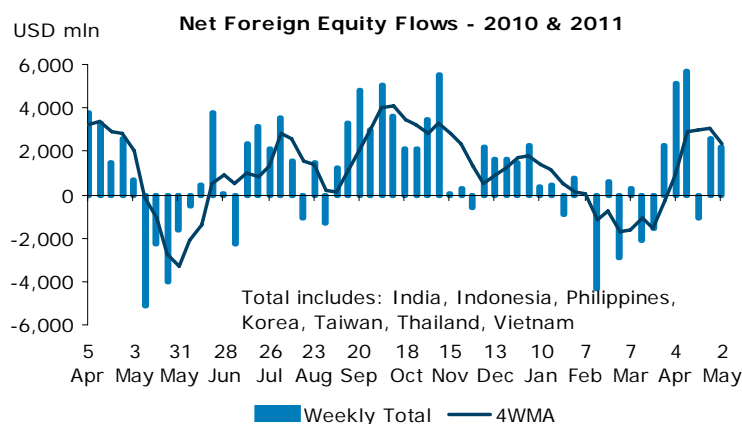
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HIGHLIGHTS

- > Emerging Asia's recovery is still on track, although we are starting to see evidence of slowing consumption momentum. Investment and exports, particularly related to intra-regional trade, remain buoyant. The economies of Greater China continue to outperform.
- > Inflation pressures continue to rise across the region. This reflects not only food and fuel prices, but the effects of loose monetary conditions. Monetary authorities are using a variety of tools including, most recently, strong exchange rates driven by resurgent inflows.
- > AXJ currencies rallied in April, buoyed by better than expected corporate earnings and the Fed's decision to maintain QE2 through the end of June. Enthusiasm for risk trades is likely to ebb, however, with the approach of summer holidays in the Northern Hemisphere and as sharply higher fuel and food prices start to impact global growth.

CHART OF THE MONTH

CAPITAL FLOWS TO EMERGING ASIA REMAIN STRONG



Sources: CEIC, ANZ Research

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FEATURE NOTE

WILL CONSUMPTION SLOW IN EMERGING ASIA, TOO?

US consumption and growth slowed noticeably in early 2011 as high oil prices dampened disposable (non-oil) income. Is the same dynamic at work in the richer economies of Emerging Asia? We do not see why the Newly Industrialised Economies (Hong Kong, Korea, Singapore and Taiwan) in particular should be exempt. Indeed, consumption momentum is now clearly flagging in the NIEs. In this Feature Note we investigate, and speculate how things might play out should high oil prices persist.

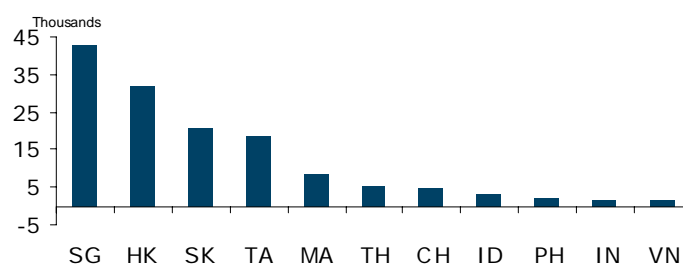
WEAKER CONSUMPTION DRIVES US Q1 GDP LOWER

US growth in Q1 came in weaker than initially expected due to weaker consumption. While earlier forecasts had US growth reaching as high as 4% y/y in Q1, the actual outturn was a much more modest 1.8%. The main reason for the sharp decline in growth was consumption, which expanded by just 2.7% in the quarter slightly more than half the pace of Q4 2010 and well below projections, with spending slowing throughout the quarter. The main reason for slower consumption growth was higher oil prices. With consumption accounting for over 70% of US GDP and with high incomes creating space for a considerable amount of consumption on discretionary goods, the arithmetic behind the cause of the slower growth should be clear.

The economics behind this outturn are straight forward. In a sense, oil price increases (and higher volatility) act like a tax on growth. This process has two channels. First, since oil demand is not very elastic with respect to price changes, higher oil prices mean higher total expenditure on oil. This means there is less to spend on other goods, reducing overall consumption. Second, higher oil price volatility and the associated uncertainty over future disposable income will also serve to reduce present spending overall. The larger the proportion of discretionary consumption, the larger this second effect will be.

An intuitive question is whether the same dynamic applies to Emerging Asia's rich economies. We do not see why not. The obvious candidates are the Newly Industrialised Economies of Hong Kong, Korea, Singapore and Taiwan. Their average per capita GDP is \$28,439 compared with the (unweighted) average of \$12,638 for Emerging Asia. The reason for consumption to slow meaningfully in the lower income economies is less compelling. First, their weight of oil in the consumer basket is smaller than the NIEs. Second, lower per capita income means that there is less discretionary spending to reduce due to higher oil prices.

Emerging Asia - GDP Per Capita
(In US\$ 2010 Current Prices)



Sources: CEIC, ANZ Research

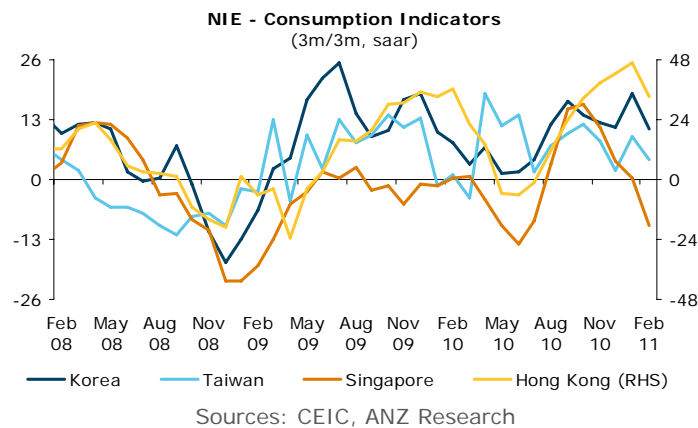
Higher interest rates in addition to higher oil prices must also be considered. Unlike the US, where policy rates remain on hold (and very low), rates across Emerging Asia are rising. Since the intention of rising rates is to both increase the cost of borrowing and increasing the return to saving, consumption growth should decline. This channel is more relevant for Korea and Taiwan given Hong Kong's currency board arrangement (which imports interest rates from the US) and Singapore's targeting of the nominal effective exchange rate.

FEATURE NOTE

MEANWHILE IN THE NIES ...

At first blush, it does not appear that the same thing is happening in Emerging Asia. First quarter GDP outturns so far have been reasonably strong. Singapore's advanced GDP, which does not include an expenditure breakdown, came in well above expectations at 8.5% y/y. Korea's Q1 GDP eased by ½ppt to 4.2%, but rose by a solid 1.5% (sa) in the quarter. Finally, Taiwan's Q1 GDP growth was a consensus-beating 6.2%. (Hong Kong will not release its national accounts data for Q1 until later this month).

The story is somewhat different for consumption, though. Growth rates across the region are trending lower and momentum has peaked. A possible exception is China, where yearly growth remains fairly strong. For the NIEs, our choice of indicator is based on availability, and we use nominal retail sales. Here, momentum has peaked in all four economies, suggesting that consumption growth will start heading downward. (The momentum measure, which is the last three months of data seasonally adjusted and annualised, is good at picking turning points; it is not a forecast). Moreover, since we use nominal retail sales and inflation is rising, we are likely overstating growth since real growth—which is what matters for GDP—will be lower.



Can this slowdown just be Lunar New Year effects? We don't think so. While the yearly growth rate did drop sharply in February (which contained the Lunar New Year holidays this year), our momentum measure had already peaked outside of Hong Kong before then. In addition, the size of the drop in February this year was much larger than recent years. Given that the length of the Lunar New Year holiday is the same each year, it follows that part of the decline in retail sales growth must stem from other factors.

HOW MIGHT THIS PLAY OUT?

Using the above data we can provide some "rough and ready" estimates of a decline in consumption growth for the NIEs. Our approach is simple. Based on developments in the US in Q1, where real consumption growth roughly halved,¹ we apply the same haircut to NIE consumption growth for our annual forecast. The rest of the GDP components are left unchanged. We are thus focussing on "first round effects" as our rough and ready estimate.

What do the numbers show? If consumption growth halves, then GDP growth will fall by between 1 and 2 percentage points in the NIEs on an annual basis (Figure 1). The effect will be largest in Hong Kong since the share of consumption in GDP there is largest, and the forecasted consumption growth rate (and hence contribution to growth) is higher. The rest of the NIEs have some combination of lower consumption-to-GDP ratio and slower forecasted consumption growth rates this year, making the effect on GDP of a consumption growth slowdown somewhat less. The impact in the NIEs is also lower than the US given that consumption ratios are lower here than in the US.

¹ US goods consumption growth did halve in Q1, while services consumption growth was broadly unchanged. Under the plausible assumption that services constitute a lower share of the consumption basket in the NIEs (where per capita GDP is on average lower than in the US), the slowdown in consumption growth could be somewhat more pronounced.

FEATURE NOTE

FIGURE 1: THE EFFECT OF LOWER NIE CONSUMPTION (C) GROWTH IN 2011

	C/GDP RATIO	2011 GROWTH FORECAST	SCENARIOS				
			BASELINE		2011 CONSUMPTION GROWTH HALVED		
			C GROWTH	C CONTRIB TO GROWTH	C GROWTH	C CONTRIB TO GROWTH	EFFECT ON GDP GROWTH
HONG KONG	0.6	5.0	6.7	4.2	3.4	2.1	-2.1
KOREA	0.5	4.2	3.5	1.8	1.8	0.9	-0.9
SINGAPORE	0.4	4.4	4.8	1.9	2.4	1.0	-1.0
TAIWAN	0.5	5.1	4.7	2.5	2.4	1.3	-1.3

Source: ANZ Research

What about the rest of the region? We think that the effects of oil higher prices on consumption will generally be less than in the NIEs. First, fuel prices are subsidised elsewhere in the region, meaning that the initial impact of higher oil prices is on the public purse rather than household balance sheets. The impact will eventually flow through to households through higher taxes, but the 2011 impact is likely to be mitigated. Second, consumers in lower income countries have less discretionary spending, so their real consumption is less variable to changes in prices and income. Two possible outliers could be the Philippines and Vietnam, where consumption is large as a percentage of GDP, so any real consumption response to higher oil prices would have a larger effect on growth.

BOTTOM LINE AND RISKS

In our view, Emerging Asia is not immune to an oil-price induced consumption slowdown of the type witnessed in the US in Q1. The effects of higher oil prices are likely to be felt most prominently in the consumption of the region's wealthier economies: Hong Kong, Korea, Singapore and Taiwan. Our rough estimates show that the impact should be in the range of 1% to 2% lower GDP growth on an annual basis. This would put growth on a more moderate path, but not derail the Asian recovery story. It will, however, take some of the steam out of domestic demand-sourced inflation, thus giving the authorities some breathing room in fighting inflation.

Going forward, the duration and extent of oil price rises should be watched. A longer duration and/or continued a steep rise in prices will lead to more pronounced effects. In such a scenario, we would look for second-round effects on confidence and expenditure more generally, with larger effects on demand and output in the region. At the present juncture this is no more than a risk scenario (and markets have certainly not priced it in). But if high oil prices persist, then our forecasts for 2011 would need to be revisited.

Paul Gruenwald

FX & RATES STRATEGY OVERVIEW

FX STRATEGY: SELL IN MAY AND GO AWAY

The currencies of Emerging Asia rallied in April, supported by a number of factors: 1/ the unwinding of global growth fears related to Japan's tragic earthquake, 2/ a better than expected Q1 earnings season in the US, 3/ the Fed's decision to maintain QE2 until expiry, and 4/ intensified efforts to cool inflation by AXJ central banks.

Going forward, we think appreciation pressure on AXJC (Asia excluding Japan and China) currencies will dissipate. As such, **we favour long USD-AXJC positions in the months ahead**, seeing current levels as marking the lows for the year.

Whether you are a growth bull or bear, it is clear that **less liquidity** will be made available to the region in H2. In particular, the Fed's QE2 program of "helicopter" injections expires at the end of June. Meanwhile, the pool of available savings from Japan will also be reduced by retiring baby boomers, if not quake reconstruction efforts (currently delayed by ongoing radiation leaks).

Moreover, **risk appetite** tends to lighten up during the Northern Hemisphere's summer holiday season. Sustained gains in fuel and food prices will also start to impact global growth rates and challenge risk appetite. There is also considerable uncertainty associated with the Fed's steps after QE2 expires. Outside of China, where external dynamics are less of a constraint, increased risks to global growth and capital flows may reduce the willingness of AXJC central banks to tighten, removing another pillar of support for AXJC currencies.

RELATIVE VALUE

Against this backdrop, we expect the **Chinese yuan (CNY), Hong Kong dollar (HKD), and Singapore dollar (SGD)** to be the most resilient to any pullback in risk aversion. The Chinese economy is less sensitive to external dynamics, allowing the authorities to focus on domestic inflation, economic rebalancing, and yuan internationalisation—each a source of support for the CNY. The HKD is pegged to the USD, limiting moves in USDHKD. The SGD is managed against a basket of currencies—reducing volatility by construction—with the CNY having a large offsetting weight.

Movements in the **Indonesian rupiah (IDR)** may also be more subdued than in past episodes of risk aversion. This time around, the country's more imminent upgrade to investment grade (IG) status, along with efforts to discourage hot money, should temper capital outflows if risk appetite sours in the months ahead.

The AXJ currencies that appear most vulnerable **are the Korean won (KRW), Indian rupee (INR) and Thai baht (THB)**. Although some Korean exporters may be well poised to benefit from supply disruptions and reconstruction efforts related to Japan's tragic earthquake, an offsetting vulnerability for the Korean economy is its large oil import bill—roughly 8.6% of GDP last year when the average price for Brent crude was \$80/bbl. Meanwhile, roughly 17% of Korea's FDI comes from Japan, a country's whose savings is in a structural decline—exacerbated further by quake reconstruction.

In India, higher fuel prices will increase already fragile positions in India's fiscal position (via subsidies) and current account balance (via imports). The country imports roughly three quarters of its energy needs, while three quarters of the population lives on less than \$2 a day. In Thailand, political uncertainty is an added negative in the run-up to elections due this year.

In terms of execution, we suggest:

- **AXJC corporates with USD Receivables:** Reduce hedge ratios into H2.
- **Benchmarked Investors with Dedicated AXJ Allocations:** Portfolio tilts toward the SGD at the expense of the KRW, and tilts toward the IDR at the expense of the INR.
- **Leveraged Investors:** Buy USDKRW and USDINR call options.

Tamara Henderson

FX & RATES STRATEGY OVERVIEW

SUGGESTED ALLOCATIONS FOR BENCHMARKED INVESTORS²

	CURRENCY	
	3M	12M
AXJ OVERALL	Underweight	Underweight
CHINA	Neutral	Neutral
HONG KONG	Neutral	Neutral
INDIA	Underweight	Underweight
INDONESIA	Neutral	Underweight
MALAYSIA	Underweight	Underweight
PHILIPPINES	Underweight	Underweight
SINGAPORE	Neutral	Underweight
SOUTH KOREA	Underweight	Underweight
TAIWAN	Underweight	Underweight
THAILAND	Underweight	Underweight
VIETNAM	Neutral	Neutral

YEAR-TO-DATE P&L³

	SIZE (%)	TENOR	ENTRY DATE	ENTRY LEVEL	TARGET LEVEL	TARGET P&L	STOP LOSS	EXIT DATE	EXIT OR CURRENT OR LEVEL	"REALISED" CURRENT OR P&L
TOTAL (weighted by position size)										2.4%
SHORT USDSGD (SPOT)	50	3M	8-APR	1.2603	1.231	2.4%	1.276	25-APR	1.232	2.3%
LONG AUDKRW (SPOT)	50	8M	6-APR	1,125	1,185	5.3%	1,167	25-APR	1,163	3.4%
SHORT JPYKRW (SPOT)	25	8M	6-APR	12.72	11.73	8.5%	13.04	14-APR	13.07	-2.7%
LONG SGDKRW (SPOT)	25	8M	6-APR	861.4	904.4	5.0%	890.9	OPEN	874.4	1.5%
SHORT JPYKRW (SPOT)	100	1M	17-MAR	14.300	13.598	5.2%	14.586	22-MAR	13.813	3.5%
SHORT USDSGD (SPOT)	50	3M	1-MAR	1.271	1.257	1.1%	1.277	15-MAR	1.2797	-0.7%
LONG SGDTWD (28 MAR 2011 NDF)	25	3M	1-MAR	23.28	23.98	3.0%	23.05	17-MAR	23.0474	-1.0%
LONG SGDKRW (28 MAR 2011NDF)	25	3M	1-MAR	884.4	937.5	6.0%	866.7	1-APR	865.2	-2.2%
SHORT USDKRW (FEB 2012 NDF)	50	12M	15-FEB	1,141.9	1,085.3	5%	1,149.5	8-MAR	1,139.5	0.2%
SHORT CNYKRW (FEB 2012 NDF)	50	12M	15-FEB	177.4	168.5	5%	174.4	8-MAR	177.8	-0.2%
LONG AUDSGD (SPOT)	100	12M	19-JAN	1.286	1.3549	5.4%	1.262	8-MAR	1.282	-0.2%
LONG INRIDR (SPOT)	100	12M	13-DEC	199.7	214.7	7.5%	192.2	8-MAR	195.0	-2.3%

² FX allocations are with respect to current market pricing in the ndf or forward market. The orange font indicates a change from the previous publication.

³ Current levels as of mid-morning (Tokyo) 3 May. This P&L is indicative, excluding transaction costs and carry. Exit levels are generally closing levels (except when positions are cut prematurely). Stops and targets are triggered by Tokyo closing levels, not intra-day price action. The price source is Bloomberg CMPT. The purpose of this P&L is to provide accountability and transparency. Strategies are produced independently.

FX & RATES STRATEGY OVERVIEW

FOREIGN EXCHANGE AND POLICY FORECASTS

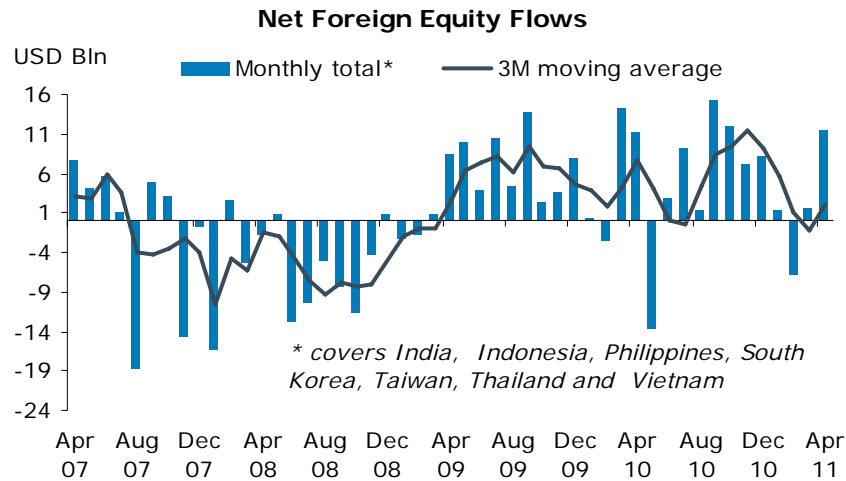
		CURRENT					IMPLIED 12M CHANGE	
		(AS OF 3 MAY)	JUN-11	SEP-11	DEC-11	MAR-12	ANZ	FORWARDS
AXJ	ANZ's USD-AXJ Index	101.6	105.8	108.3	107.9	106.4	4.8%	3.6%
China	USD-CNY	6.500	6.43	6.33	6.23	6.16	-5.2%	-2.6%
	PBoC base lending rate	6.31	6.56	6.81	6.81	7.06	75	n/a
Hong Kong	USD-HKD	7.768	7.780	7.780	7.800	7.800	0.4%	-0.3%
	HKMA discount rate	0.50	0.50	0.50	0.50	1.00	50	n/a
India	USD-INR	44.34	46.0	46.5	47.0	46.3	4.4%	6.5%
	RBI repo rate	7.25	7.25	7.50	7.75	7.75	50	n/a
Indonesia	USD-IDR	8,558	8,900	9,100	9,000	8,900	4.0%	4.2%
	BI reference rate	6.75	7.00	7.25	7.50	7.50	75	n/a
Malaysia	USD-MYR	2.975	3.05	3.10	3.15	3.13	5.2%	1.4%
	BNM overnight rate	2.75	3.00	3.00	3.25	3.25	50	n/a
Philippines	USD-PHP	42.80	43.9	45.3	45.9	45.5	6.3%	0.4%
	BSP reverse repo rate	4.25	4.50	4.75	5.00	5.00	75	n/a
Singapore	USD-SGD	1.226	1.26	1.27	1.28	1.27	3.5%	-0.1%
	3M SGD SIBOR	0.44	0.44	0.49	0.49	0.54	10	n/a
S Korea	USD-KRW	1,072	1,125	1,155	1,175	1,150	7.2%	2.0%
	BoK overnight call rate	3.00	3.25	3.75	4.25	4.50	150	n/a
Taiwan	USD-TWD	28.62	29.5	30.0	30.5	30.3	5.7%	-3.5%
	CBC discount rate	1.75	1.88	2.00	2.13	2.25	50	n/a
Thailand	USD-THB	29.92	30.4	30.9	31.7	31.5	5.3%	1.3%
	BoT repo rate	2.75	2.75	3.00	3.25	3.25	50	n/a
Vietnam	USD-VND	20,645	20,900	21,400	21,400	22,000	6.6%	14.0%
	SBV base lending rate	14.00	14.00	14.00	13.00	12.00	-100	n/a

FOREIGN EXCHANGE CROSS RATE FORECASTS

	CURRENT SPOT					12M FWD OR NDF	IMPLIED 12M CHANGE	
	(AS OF 3 MAY)	JUN-11	SEP-11	DEC-11	MAR-12		ANZ	FORWARDS
CNY – HKD	1.195	1.210	1.229	1.252	1.266	1.224	6%	2%
CNY – TWD	4.403	4.588	4.739	4.896	4.911	4.363	12%	-1%
HKD – KRW	138.0	144.6	148.5	150.6	147.4	141.2	7%	2%
HKD – TWD	3.684	3.792	3.856	3.910	3.878	3.565	5%	-3%
INR – IDR	193.0	193.5	195.7	191.5	192.2	188.9	0%	-2%
PHP – IDR	200.0	202.7	200.9	196.1	195.6	207.6	-2%	4%
SGD – MYR	2.426	2.430	2.441	2.461	2.467	2.462	2%	1%
SGD – TWD	23.34	23.51	23.62	23.83	23.84	22.54	2%	-3%
JPY – KRW	13.23	13.39	13.28	13.35	12.78	13.54	-3%	2%
TWD – KRW	37.47	38.14	38.50	38.52	38.02	39.60	1%	6%

FX & RATES STRATEGY OVERVIEW

NET FOREIGN EQUITY FLOWS (USD MN)



MONTHLY NET FOREIGN EQUITY FLOWS (USD MN)

Monthly Net Foreign Equity Flows (USD mln)									
Periods	<u>TW</u>	<u>SK</u>	<u>IN</u>	<u>TH</u>	<u>ID</u>	<u>VN</u>	<u>PH</u>	<u>1M Total</u>	<u>3M Total</u>
Apr-2011	3504	2988	1574	980	2023	32	361	11461	
Mar-2011	-1329	873	1556	647	-255	4	79	1574	6312
Feb-2011	-3270	-3110	-826	277	237	-4	-27	-6723	
Jan-2011	3439	609	-1387	-933	-287	58	-94	1406	
Dec-2010	3091	3400	329	1027	291	134	-33	8239	16821
Nov-2010	1803	1661	4159	-208	-266	57	-29	7176	
Oct-2010	1421	3628	5579	516	36	65	631	11876	
Sep-2010	2781	3898	6373	1171	668	35	359	15286	28359
Aug-2010	-1411	-508	2404	505	227	32	-51	1197	
Jul-2010	2005	2499	3777	214	541	23	-10	9048	
Jun-2010	-391	455	2099	92	493	57	9	2814	-1647
May-2010	-4158	-5424	-1989	-1814	-178	47	5	-13510	
Apr-2010	3806	4866	2220	-127	169	94	198	11227	
Mar-2010	3505	4737	4135	1373	536	4	44	14334	23139
Feb-2010	-2875	-19	464	164	-213	-9	65	-2422	
Q4 - 2009	3780	5020	5194	-510	269	75	-49		13780
Q3 - 2009	7471	11900	7369	1034	615	-26	239		28602
Q2 - 2009	6001	7764	6421	770	503	20	386		21864
Q1 - 2009	-1643	-238	-827	-157	-3	4	-157		-3020
Q4 - 2008	-4856	-4511	-4039	-1064	44	-125	-478		-15030
Q3 - 2008	-8056	-10914	-2731	-2219	311	108	-256		-23756
Q2 - 2008	-4498	-5267	-3538	-1167	362	225	9		-13873
Q1 - 2008	903	-16175	-3029	-492	6	133	-410		-19066

FX & RATES STRATEGY OVERVIEW

ESTIMATED MARKET EXPECTATIONS OF AXJ CENTRAL BANK POLICY RATES VS ANZ FORECASTS

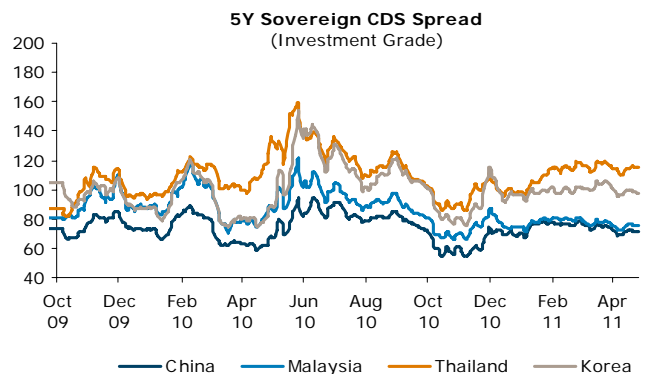
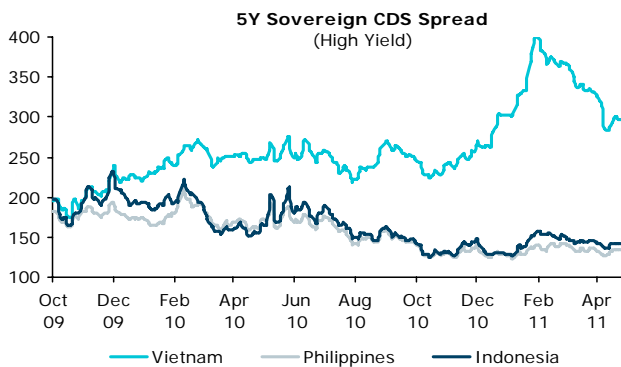
	CURRENT POLICY RATE	JUN-11		SEP-11		DEC-11		MAR-12	
		MARKET	ANZ	MARKET	ANZ	MARKET	ANZ	MARKET	ANZ
China	6.31	6.46	6.56	6.61	6.81	6.75	6.81	6.90	7.06
India	7.25	7.57	7.25	7.83	7.50	8.03	7.75	8.01	7.75
Indonesia	6.75	6.69	7.00	6.93	7.25	7.17	7.50	7.37	7.50
Malaysia	2.75	2.96	3.00	3.01	3.00	3.08	3.25	3.16	3.25
Philippines	4.25	4.28	4.50	4.76	4.75	5.02	5.00	5.31	5.00
South Korea	3.00	3.31	3.25	3.55	3.75	3.75	4.25	3.96	4.50
Taiwan	1.75	1.85	1.88	2.00	2.00	2.17	2.13	2.33	2.25
Thailand	2.75	2.89	2.75	2.97	3.00	3.00	3.25	3.04	3.25

LONG-TERM FOREIGN CURRENCY GOVERNMENT BOND RATINGS

	MOODY'S	S&P	FITCH
INVESTMENT GRADE			
China	Aa3	AA-	A+
Hong Kong	Aa1	AAA	AA+
India	Baa2	BBB-	BBB-
Korea	A1	A	A+
Malaysia	A3	A-	A-
Singapore	Aaa	AAA	AAA
Taiwan	Aa3	AA-	A+
Thailand	Baa1	BBB+	BBB
SUB-INVESTMENT GRADE/HIGH YIELD			
Cambodia	B1	B+	NR
Indonesia *	Ba1	BB	BB+
Philippines	Ba3	BB	BB
Vietnam	B1	BB-	B+

* denotes an upgrade ** denotes a downgrade over previous month

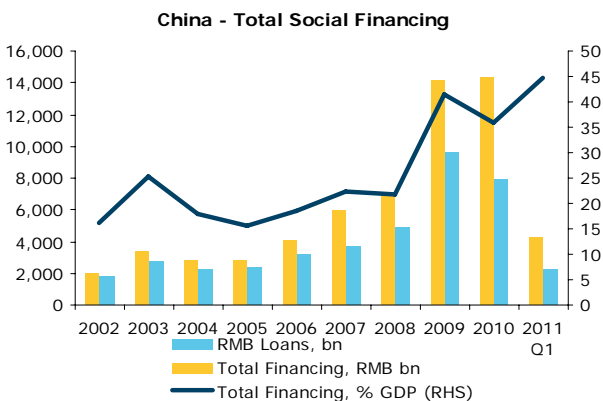
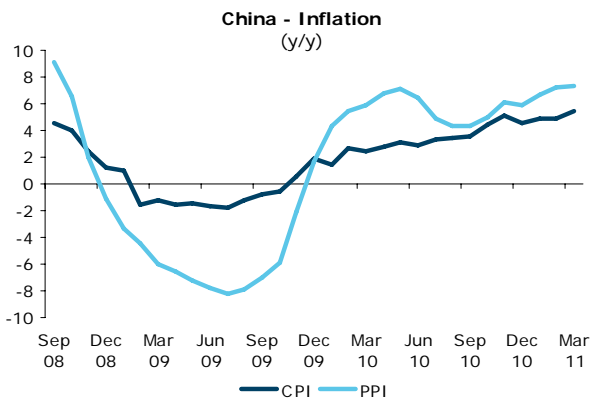
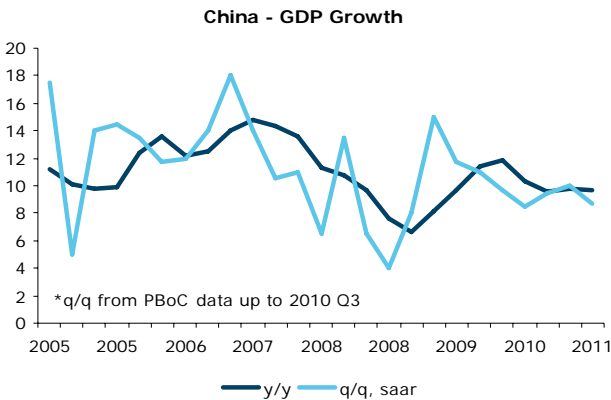
SOVEREIGN CDS SPREADS



Sources: Bloomberg, ANZ Research

COUNTRY UPDATES

China: Economic Update



All activity indicators in March were higher than expected, suggesting a rebound after the Chinese New Year holidays. As growth is not a concern, the policy focus is on containing accelerating inflation.

- GDP expanded by 9.7% y/y in Q1, down from 9.8% in Q4, 2010, but higher than market expectations of 9.4%. Actual GDP growth exceeded potential growth of 9.0-9.5%, signalling that the economy remains robust. The first-ever official release of sequential growth showed that the economy expanded at an annualised rate of 8.7% from Q4 2010.
- Exports surged 35.8% y/y, from Feb's 2.4% gain, returning to a normal growth range. Imports rose 27.3% y/y, compared with the 19.4% gain, previously. Imports of iron ore and soybeans rose by 28.5% and 51.3%, respectively. As a result, China registered a small trade surplus of \$0.14bn in Mar, from Feb's \$7.3bn deficit.
- Retail sales grew 17.4% y/y in Mar, compared with an 11.6% gain in Feb. Industrial production rose 14.8% y/y, down slightly from Feb's 14.9%. Fixed asset investment gained 25.0% y/y ytd in Mar, and was broadly unchanged from February's 24.9%.
- CPI inflation surged to 5.4% y/y in Mar, 0.5ppt higher than Feb's reading, and the highest level since Jul 2008, largely driven by food and dwelling costs. PPI inflation climbed by 0.1ppt to 7.3%, indicating that imported inflation is rising at a fast pace.
- In another first-ever official release, total social financing stood at CNY4.2trn in Q1, down by CNY322.5bn compared to Q1 2010. Even so, total social financing (loans, off-balance loans and direct financing) is still high compared with historical levels.
- China's inflation is yet to peak due to worsening inflation expectations, ample market liquidity, as well as surging global commodity prices. We view China's inflation problem as a structural issue, led by spiralling wages and price increases. Consistent with the inflation outlook, we also expect asset prices will remain elevated and, therefore, concerns of an asset bubble will continue.
- China's monetary tightening still has some way to go.

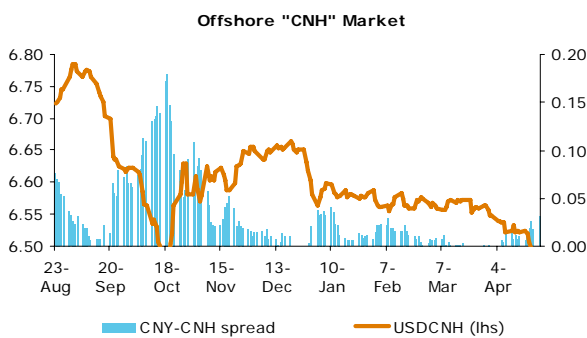
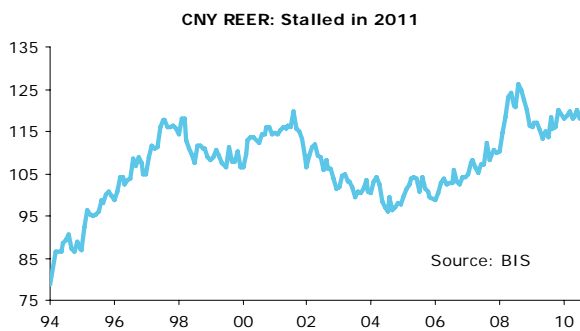
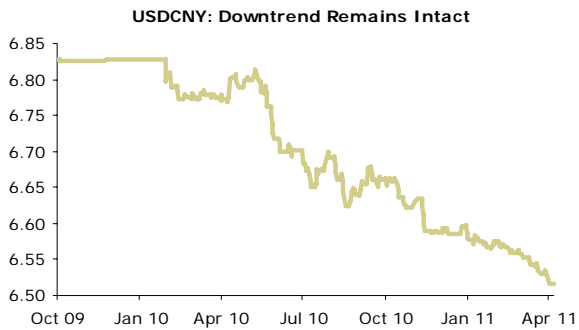
Li-Gang Liu

MONTHLY DATA	AUG-10	SEP-10	OCT-10	NOV-10	DEC-10	JAN-11	FEB-11	MAR-11
Industrial Production, % y/y	13.9	13.3	13.1	13.3	13.5	N/A	14.9	14.8
Retail Sales, % y/y	18.4	18.8	18.6	18.7	19.1	19.9	11.6	17.4
Consumer Price Index, % y/y	3.5	3.6	4.4	5.1	4.6	4.9	4.9	5.4
Exports, % y/y	34.4	25.1	22.9	34.9	17.9	37.7	2.4	35.8
Imports, % y/y	35.2	24.1	25.3	37.7	25.6	51.0	19.5	27.3
Trade Balance, US\$ bn	20.0	16.9	27.2	22.9	13.1	6.5	-7.3	0.1
QUARTERLY DATA	JUN-09	SEP-09	DEC-09	MAR-10	JUN-10	SEP-10	DEC-10	MAR-11
Real GDP, % y/y	8.2	9.7	11.4	11.9	10.3	9.6	9.8	9.7
Foreign Exchange Reserves, US\$ bn	2131.6	2272.6	2399.2	2447.1	2454.3	2648.3	2847.3	3044.7
Current Account, US\$ bn	134.5	N/A	261.1	N/A	101.6	N/A	305.4	N/A
Capital & Financial Account, US\$ bn	61.0	N/A	180.9	N/A	93.2	N/A	226.0	N/A

Source: CEIC

COUNTRY UPDATES

China: FX and Rates Strategy



The authorities have signalled increased tolerance for CNY appreciation. Meanwhile, the road to yuan internationalisation continues to shorten.

FX

Officials have started to signal increased tolerance for CNY gains, buoyed by robust Q1 data, including a 24% y/y surge in FX reserves to above \$3.04tn. Our China team now expects USDCNY to be trading near the 6.23 level by year-end (versus a forecast of 6.28 previously).

At the same time, the road to CNY internationalisation continues to shorten. The PBoC will expand yuan trade settlement to firms outside the trial program and will begin trials of cross-border CNY transactions under the capital account this year. Cross-border CNY trade settlement amounted to CNY360.3bn in Q1.

During the IMF's annual Spring meetings in Washington, PBOC Deputy Governor Yi Gang said that the renminbi is "very close to being freely usable." In a similar vein, Vice President Xie Ping of China's sovereign wealth fund (CIC) said that the country already meets the four conditions for capital account convertibility: 1/ stable economy, 2/ financial scrutiny, 3/ solid financial institutions, and 4/ adequate FX reserves.

Meanwhile, Philippine central bank governor Tetangco said that the country's policymakers are "carefully studying" yuan bonds for the purpose of diversifying FX reserves. Other Asian central banks are likely doing the same. Thus far the only central banks in China's QFII program are the Hong Kong Monetary Authority, Bank Negara Malaysia and Norges Bank.

Tamara Henderson

RATES

The risk of higher inflation requires renewed monetary tightening efforts. We think another two rate hikes are possible this year - one in Q2 and one in Q3 - in conjunction with another two hikes of 50bps each of the reserve ratio requirement for banks. Given strong imported inflation, the CNY exchange rate will need to appreciate at a faster pace. We maintain our forecast that the CNY is likely to appreciate by 6% by year-end, and the CNYUSD rate is likely to reach a range of 6.38 to 6.43 by the end of Q2.

Zhou Hao

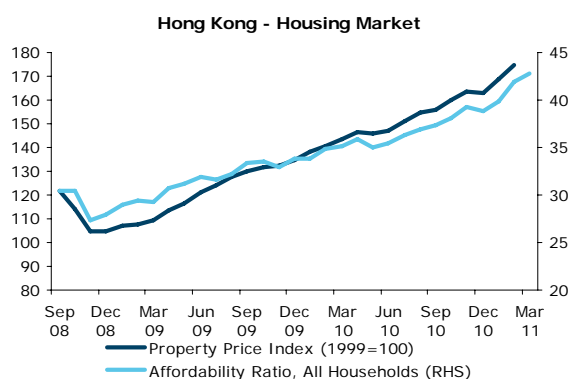
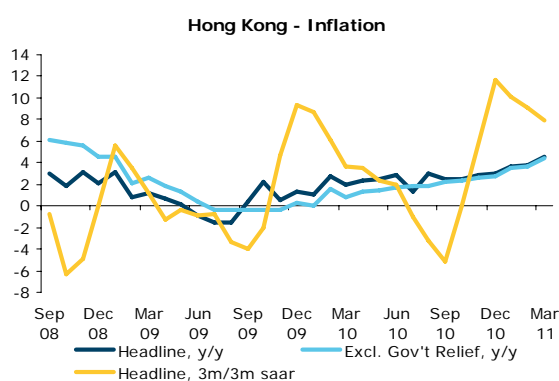
FX FORECASTS	CURRENT	YTD (%)	JUN-11	SEP-11	DEC-11	MAR-12	JUN-12	SEP-12
USD-CNY	6.515	-1.3%	6.43	6.33	6.23	6.16	6.10	6.04
AUD-CNY	6.985	4.0%	6.80	6.60	6.40	6.30	6.10	5.90
NZD-CNY	5.210	1.8%	4.80	4.70	4.70	4.60	4.40	4.30
JPY-CNY	0.079	-2.4%	0.076	0.074	0.071	0.068	0.066	0.065
EUR-CNY	9.472	7.3%	9.13	8.67	8.41	8.19	8.11	8.15
RATE FORECASTS	CURRENT	YTD (bps)	JUN-11	SEP-11	DEC-11	MAR-12	JUN-12	SEP-12
PBoC's 1-year base lending rate	6.31	50	6.56	6.81	6.81	7.06	7.06	7.31

Sources: Bloomberg, ANZ Research



COUNTRY UPDATES

Hong Kong: Economic Update



Hong Kong's headline inflation climbed higher in March on rising food and housing prices. The strengthening Chinese renminbi not only fuelled domestic prices but also encouraged more CNY-denominated deposits.

- Retail sales rose 8.6% y/y in Feb, compared with 28.2% in Jan 2010, due largely to Chinese New Year falling earlier this year in Feb.
- The logistics sector picked up in Mar. Container throughput and air cargo movement edged up 3.1% y/y and 6.2%, respectively.
- Headline inflation surged to 4.6% y/y in Mar from 3.7% in Feb. Underlying inflation also rose to 4.4% compared with Jan's 3.6%. Food prices rose 6.3% while housing costs increased by 4.5% in Mar, compared with the respective 4.9% and 3.8% in Feb. An increase in the tobacco tax also led to a 21.8% inflation reading in the alcohol & tobacco category.
- The unemployment rate fell to 3.4% sa in Mar from 3.6% in Feb. The tight labour market will help prevent the layoffs expected from when the HK\$28 an hour minimum wage comes into force on 1 May.
- Property prices increased further in Feb. The residential property price index shot up to 174.5 from 168.7 in Jan. The Centaline Property Affordability ratio rose to 42.7% in Mar, a peak last reached in Jan 2000. The rental index inched up to 127.3 from 126.3 in Feb.
- CNY deposits in Hong Kong rose to 451bn yuan in Mar from 408bn yuan in Feb. This reflected both the positive outlook held by the public towards the currency and restrictions on the repatriation of CNY funds raised in Hong Kong back to the Mainland.
- The currency board system continues to function well. HKD/USD has been trading at around 7.77 at end April. The one-month LIBOR-HIBOR spread trended down while the 12-month spread held steady in April.
- Looking ahead, Hong Kong's economy will continue to be bolstered by strong Chinese activity and infrastructure projects. Factoring the uncertainty from Japan's disaster, we expect the economy to grow by 4.5% in 2011.

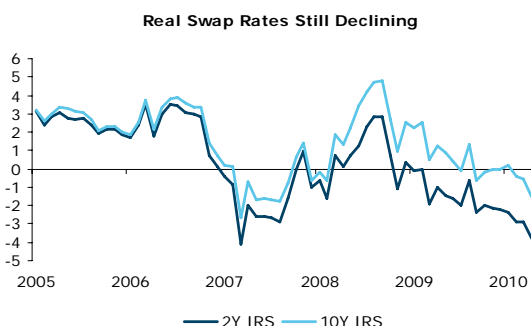
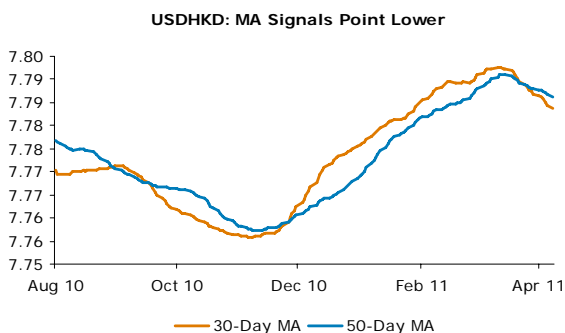
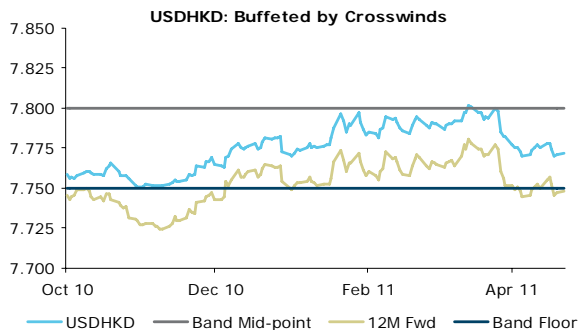
Raymond Yeung

MONTHLY DATA	AUG-10	SEP-10	OCT-10	NOV-10	DEC-10	JAN-11	FEB-11	MAR-11
Retail Sales, % y/y	17.1	17.3	21.7	18.1	18.6	28.2	8.6	N/A
Composite CPI, % y/y	3.0	2.5	2.5	2.9	3.1	3.6	3.7	4.6
Exports, % y/y	36.0	24.1	13.9	16.6	12.5	27.6	24.9	21.5
Imports, % y/y	28.4	19.5	14.0	16.4	14.8	19.0	25.2	18.8
Trade Balance, US\$ bn	-1.5	-3.1	-2.9	-3.0	-5.6	-2.1	-3.2	-5.2
Foreign Exchange Reserves, US\$ bn	261.4	266.1	267.1	266.1	268.7	273.2	272.7	272.5
QUARTERLY DATA	JUN-09	SEP-09	DEC-09	MAR-10	JUN-10	SEP-10	DEC-10	MAR-10
Gross construction outputs	4.1	2.7	-2.1	1.9	8.4	15.4	13.6	N/A
Real GDP, % y/y	-3.4	-2.1	2.5	8.1	6.4	6.7	6.2	N/A
Current Account, US\$ bn	5.4	1.8	3.9	4.1	1.1	5.7	4.2	N/A
Capital & Financial Account, US\$ bn	-7.3	-3.8	-2.8	-4.8	0.9	-7.4	-6.5	N/A

Source: CEIC

COUNTRY UPDATES

Hong Kong: FX and Rates Strategy



Tighter monetary conditions in China (and eventually the US) should maintain the upward bias in USDHKD.

FX

As Hong Kong's financial system becomes increasingly integrated with the mainland, USDHKD direction (within the confines of the convertibility zone) will be increasingly dictated by liquidity conditions in the People's Republic of China. Indeed, until the PBOC cut its offshore CNY clearing interest rate by 27bps on 31 March (to dissuade hot money flows), USDHKD had been in an uptrend since November 2010 in response to accelerated tightening in China. The approaching expiry of the Fed's QE2 program in June should also support the uptrend in USDHKD. Indeed, HKMA chief Norman Chan said that capital outflows were inevitable once the US starts to raise interest rates. Chan also warned that HKD interest rates may rise ahead of the Fed. Normally, HKMA policy rates move in lock-step with FOMC decisions.

Important restrictions on CNY-denominated transactions were relaxed in July of last year, paving the way for a rapid increase in yuan circulation within HKSAR. CNY deposits rose 10% in February to CNY407.7bn (\$62bn). Hong Kong's Financial Services Secretary Chan expects the amount of yuan deposits in Hong Kong banks to reach CNY800bn by year end, compared with CNY315bn at the end of 2010 and CNY63bn at the end of 2009. Deposits of CNY1trn would provide sufficient critical mass for a vibrant offshore renminbi centre. Increased circulation of CNY within Hong Kong would also alleviate potentially destabilizing forces on the HKD peg. Until the renminbi is fully convertible, we see zero chance of the existing peg with the US dollar being dismantled. That said, convertibility appears a lot closer than it did one month ago.

Tamara Henderson

RATES

Hong Kong SAR's currency board system functions well. Under the current regime, the interest rate policy of Hong Kong follows closely with the US Federal Fund's rate. As such, we expect HKMA's base rate to remain unchanged throughout 2011.

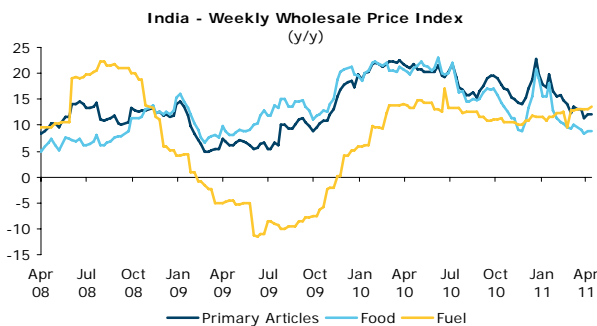
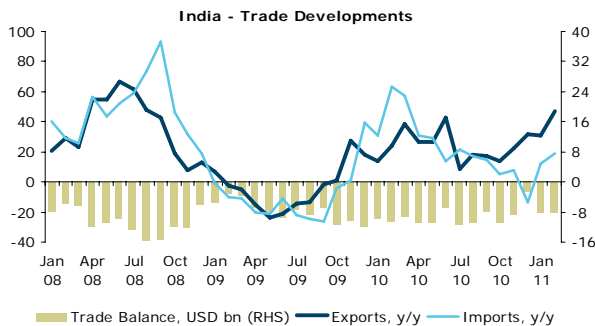
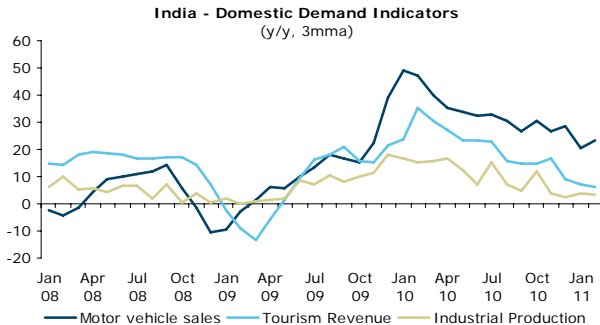
Raymond Yeung

FX FORECASTS	CURRENT	YTD (%)	JUN-11	SEP-11	DEC-11	MAR-12	JUN-12	SEP-12
USD-HKD	7.772	0.0%	7.780	7.780	7.800	7.800	7.800	7.800
AUD-HKD	8.335	5.4%	8.2	8.2	8.0	8.0	7.8	7.6
NZD-HKD	6.220	3.1%	5.8	5.8	5.9	5.8	5.6	5.5
JPY-HKD	9.450	-1.1%	0.092	0.090	0.089	0.087	0.085	0.084
EUR-HKD	11.308	8.8%	11.0	10.7	10.5	10.4	10.4	10.5
RATE FORECASTS	CURRENT	YTD (BPS)	JUN-11	SEP-11	DEC-11	MAR-12	JUN-12	SEP-12
HKMA's discount rate	0.50	0	0.50	0.50	0.50	1.00	1.75	2.25

Sources: Bloomberg, ANZ Research

COUNTRY UPDATES

India: Economic Update



India's economic performance remains strong, led by robust consumption and buoyant exports. Inflation is still on the rise and the RBI, while pro-active to date, needs to continue to raise rates.

- Industrial production growth remains soft, easing to 3.6% y/y in Feb lower on account of mining and electricity output, and capital goods production.
- Our main high-frequency consumption indicator, local car sales, remained buoyant in Mar, increasing 24.4% y/y. Commercial vehicle sales growth also rose, reaching 15.3%. Total motor vehicle sales growth eased to 19.4%.
- The HSBC manufacturing PMI was unchanged at 57.9 in Mar. Meanwhile, the HSBC services PMI declined to 58.8 from 61.2.
- Exports surged by 49.7% y/y in Feb, up from a 32.4% rise in Jan. Import growth rose as well, reaching 21.2% as non-oil imports climbed 31.0% whilst oil imports were flat. The trade deficit edged higher to \$8.1bn.
- India's exposure to Japan is quite small so we see little impact on the economy from the after effects of the earthquake and tsunami.
- Inflation remains elevated. Weekly WPI inflation for primary articles was 12.1% y/y in mid-Apr and trending down slightly while the food sub-index rose 8.8%, also down slightly. Fuel, power and light WPI inflation rose to 13.5%. Monthly WPI inflation rose to 9.0% in Mar.
- There was no RBI monetary policy meeting in Apr; the next meeting is 3 May.
- Overall, the growth picture looks strong and inflation pressures continue to rise. Given the relative closedness of the economy, interest rates will need to do the bulk of the work in tightening monetary conditions. We continue to see the balance of risks on the downside given inflation risks and high oil prices.

Paul Gruenwald

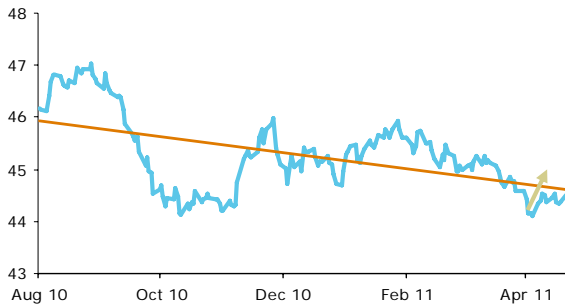
MONTHLY DATA	JUL-10	AUG-10	SEP-10	OCT-10	NOV-10	DEC-10	JAN-11	FEB-11
Industrial Production, % y/y	15.1	7.3	4.9	12.1	3.6	2.5	3.7	N/A
Wholesale Price Index, % y/y	10.0	8.8	8.9	8.6	8.1	9.4	8.2	8.3
Exports, % y/y	10.0	18.8	17.7	15.3	22.3	32.1	30.8	N/A
Imports, % y/y	20.0	16.2	10.8	1.5	7.5	-13.9	11.7	N/A
Trade Balance, US\$ bn	-10.7	-10.3	-7.0	-9.7	-8.9	-2.6	-8.0	N/A
Foreign Exchange Reserves, US\$ bn	250.4	253.1	256.0	264.5	274.2	275.3	274.8	281.9
QUARTERLY DATA	MAR-09	JUN-09	SEP-09	DEC-09	MAR-10	JUN-10	SEP-10	DEC-10
Real GDP, % y/y	3.8	6.3	8.7	6.5	8.6	8.9	8.9	N/A
Current Account, US\$ bn	-0.4	-4.2	-9.2	-12.2	-12.8	-12.1	-15.8	N/A
Capital Account, US\$ bn	0.4	3.7	19.3	14.6	15.8	16.2	20.5	N/A

Source: CEIC

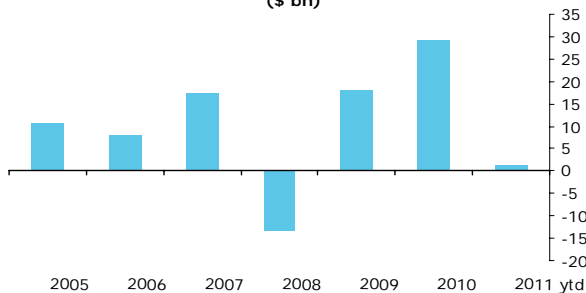
COUNTRY UPDATES

India: FX and Rates Strategy

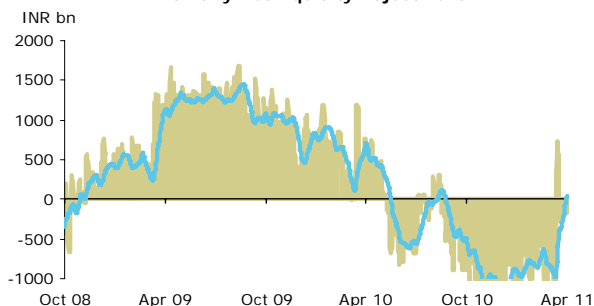
USDINR: Headed Back Above 45.0



Foreign Equity Inflows Remain Lackluster (\$ bn)



RBI's Daily Net Liquidity Adjustment



Rupee underperformance within AXJ is expected to accelerate in H2.

FX

While markets continue to “make hay while the sun still shines,” dark clouds are amassing on the horizon. Reinforcing supply shocks from the Middle East and Japan will keep fuel and food prices elevated for most, if not all, of 2011. At the same time, authorities across the globe are reigning in emergency stimulus from the Global Financial Crisis. Meanwhile, Japan’s reconstruction efforts—yet to get fully underway due to ongoing radiation leaks—will reduce further the pool of available savings—already in decline due to now binding adverse demographics. All of this will soon start to impact global growth, at the risk of derailing risk appetite. At a minimum, capital inflows into India will decline, if not reverse.

India imports roughly three quarters of its energy needs, while the World Bank estimates that three quarters of its 1.2 billion population live on less than \$2 a day. At a minimum, higher fuel prices will exacerbate already weak positions in India’s fiscal position (via subsidies) and current account balance (via imports).

India has attractive yields, which might appeal to offshore investors hoping to maintain the real value of their portfolios. However, the country has large fiscal and current account deficits—in a region known for relative fiscal prudence and ample current account surpluses. Meanwhile, India’s inflation is among the highest, not just in Asia but the G-20. As such, investors will likely be inclined to go elsewhere.

Tamara Henderson

RATES

The RBI raised rates by 50bps at their 3 May meeting, 25bps higher than market expectations. In its statement, the RBI said that it expects inflation to stay close to 9% until Sep, before easing to around 6% in Mar 2012. As such, the RBI emphasized that slowing inflation is its priority, even if growth slows in the short term. We therefore raise our policy rate forecasts by 25bps each quarter, to end the year at 7.75% for the repo and 6.75% for the reverse repo rate.

Paul Gruenwald

FX FORECASTS	CURRENT	YTD (%)	JUN-11	SEP-11	DEC-11	MAR-12	JUN-12	SEP-12
USD-INR	44.49	-0.5%	46.0	46.5	47.0	46.3	45.6	44.9
AUD-INR	47.75	4.9%	48.3	48.8	48.4	47.2	45.6	44.0
NZD-INR	35.64	2.7%	34.5	34.9	35.3	34.3	32.8	31.9
JPY-INR	0.542	-1.5%	0.541	0.541	0.534	0.514	0.496	0.483
EUR-INR	64.82	8.4%	65.3	63.7	63.5	61.6	60.6	60.6
RBI's repo rate	7.25	100	7.25	7.50	7.75	7.75	7.75	7.75
RBI's reverse repo rate	6.25	100	6.25	6.50	6.75	6.75	6.75	6.75

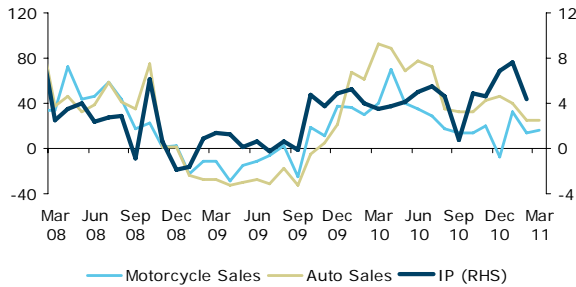
Sources: Bloomberg, ANZ Research



COUNTRY UPDATES

Indonesia: Economic Update

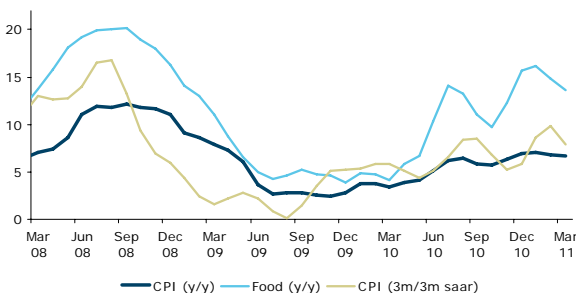
Indonesia - Domestic Indicators (y/y)



Indonesia - Trade Development



Indonesia - Inflation



The Indonesian economy is on track to record robust growth in the first half of the year, though there are some signs of easing. Though inflation pressures at this point may be moderating, they still pose a risk moving forward.

- Domestic demand indicators were mixed. Local auto sales growth ticked up to 25.2% y/y in Mar from 24.8% in Feb, while motorcycle sales increased by 16.7% from Feb's 13.4%. Retail sales grew by 18.2% in Feb, but contracted by 4.4% on a monthly basis. Meanwhile, IP growth dipped to 4.3% y/y in Feb compared with 7.7% in Jan.
- Consumer confidence rebounded in Mar. The BI consumer confidence index increased by 0.7ppt to 107.1 against a fall of 1.6ppts the previous month. The Danareksa consumer confidence index came in at 85.0, advancing 5.2ppts against a fall of 2.5ppts in Feb.
- External demand showed continued strength in Feb. Total exports rose 28.9% y/y compared with a 26.0% gain in the previous month, while total import growth eased slightly to 26.3% compared with 32.3% in Jan. The trade balance recorded a surplus of \$2.4bn in Feb from \$2.0bn in the previous month.
- CPI inflation eased further in Mar to 6.7% y/y from 6.8% previously. The easing was led by falling rice and chilli prices. Core inflation, however, rose further to 4.45% from Feb's 4.36%.
- BI left the benchmark rate at 6.75% at their 12 Apr meeting. Governor Darmin Nasution noted that there is still room to adjust rates and let the rupiah appreciate as there are still inflation risks for the economy.
- With robust consumer and investor confidence—all rating agencies have upgraded Indonesia's sovereign debt to one notch below investment grade—growth momentum remains strong. Favourable terms of trade are also helping to boost exports. Given this backdrop, the recent easing of inflation should not be taken as a signal to stop monetary policy normalisation, as demand-side price pressures are set to continue in the near- to medium-term.

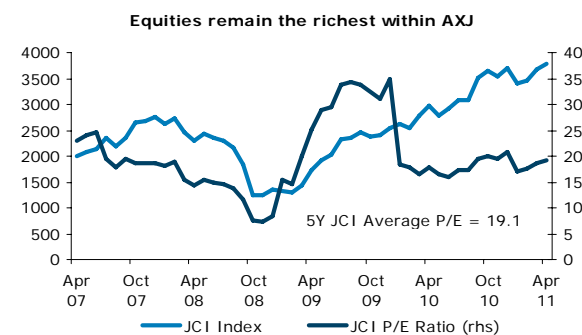
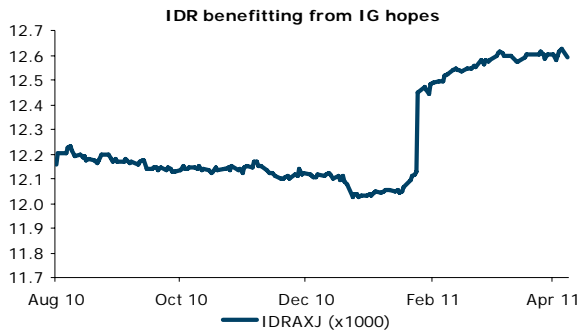
Vince Conti

MONTHLY DATA	AUG-10	SEP-10	OCT-10	NOV-10	DEC-10	JAN-11	FEB-11	MAR-11
Industrial Production, % y/y	4.7	0.8	4.9	4.7	6.9	7.7	4.3	N/A
Retail Sales Index, % y/y	32.0	21.1	18.5	18.8	21.8	20.0	18.2	N/A
Consumer Price Index, % y/y	6.4	5.8	5.7	6.3	7.0	7.0	6.8	6.7
Exports, % y/y	30.2	23.8	17.6	45.1	26.1	26.0	28.9	N/A
Imports, % y/y	25.4	13.4	28.5	47.6	27.6	32.3	26.3	N/A
Trade Balance, US\$ bn	1.6	2.5	2.3	2.6	3.7	2.1	2.4	N/A
Foreign Exchange Reserves, US\$ bn	81.3	86.6	91.8	92.8	96.2	95.3	99.6	105.7
QUARTERLY DATA	MAR-09	JUN-09	SEP-09	DEC-09	MAR-10	JUN-10	SEP-10	DEC-10
Real GDP, % y/y	4.5	4.1	4.2	5.4	5.7	6.2	5.8	6.9
Current Account, US\$ bn	2.5	2.5	2.2	3.6	2.0	1.8	1.3	1.2
Capital & Financial Account, US\$ bn	1.6	-1.8	2.5	1.3	4.8	4.4	6.5	9.9

Source: CEIC

COUNTRY UPDATES

Indonesia: FX and Rates Strategy



Indonesia's more imminent upgrade to investment grade status, along with efforts to discourage hot money, will temper capital outflows should risk appetite sour in the months ahead.

FX

Momentum continues to favour the IDR over the near-term. BI continues to signal tolerance for further rupiah appreciation as a means to offset imported inflation, and the Fed's renewed pledge at its April meeting to keep US monetary policy loose will sustain the appeal of Indonesia's higher yielding assets. As such, we expect the downward bias in USDIDR to remain intact until investors trim risk ahead of summer holidays in the Northern Hemisphere.

Indonesia's more imminent upgrade to investment grade (IG) status should discourage capital outflows should risk appetite sour in the months ahead. S&P has now raised Indonesia's long-term foreign currency rating to BB+, just one notch below IG, bringing its rating in line with that of Fitch and Moody's. Importantly, S&P also gave Indonesia a positive outlook, suggesting a move to IG at the next review. Fitch, which raised its outlook to positive from stable in February, has also indicated that Indonesia could achieve IG status before year-end. Indonesia's economy minister was more specific, saying that an upgrade could occur as early as Q3.

Measures to discourage hot money flows should also limit upside volatility in USDIDR. In mid April, Bank Indonesia (BI) announced that the holding period on SBIs—popular among foreign investors—will be increased to six months from one month, effective 13 May. In February, BI discontinued regular sales of SBIs with a tenor of less than 9-months and started to focus on the issuance of term deposits. As of January, a 30% cap on the daily balance of banks' short-term external debt was also reinstated (the requirement was scrapped in 2008 as a result of the GFC).

Tamara Henderson

RATES

We expect BI to hold off on raising rates until June, with the recent easing of rice and chili prices providing time to wait. After the April policy announcement, Governor Nasution said that high inflation remains a risk. Indeed, we believe the current monetary policy stance remains too loose given Indonesia's strong fundamentals.

Vincent Conti

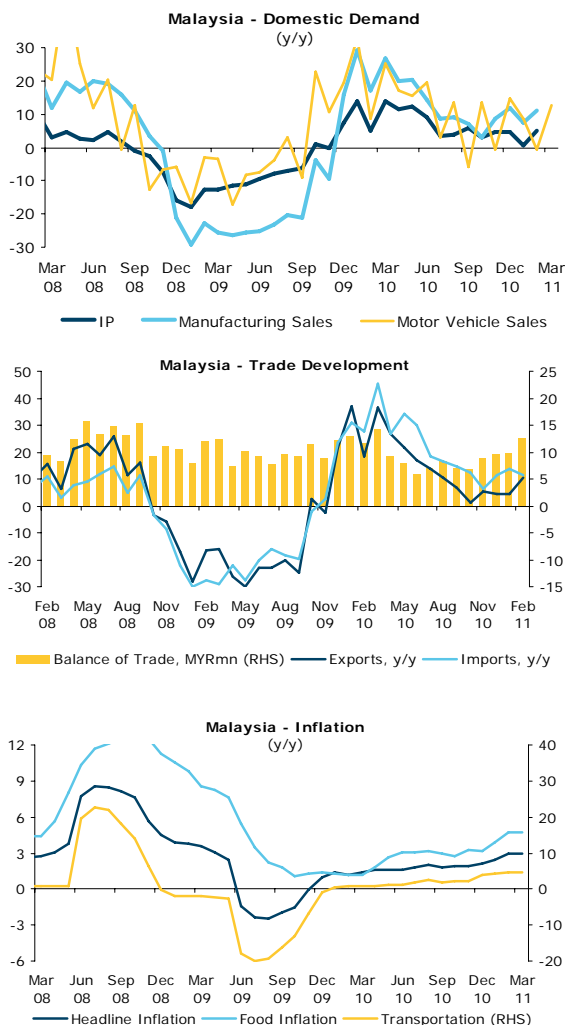
FX FORECASTS	CURRENT	YTD (%)	JUN-11	SEP-11	DEC-11	MAR-12	JUN-12	SEP-12
USD-IDR	8,608	-5.1%	8,900	9,100	9,000	8,900	8,800	8,700
AUD-IDR	9,235	2.3%	9,300	9,600	9,300	9,100	8,800	8,500
NZD-IDR	6,892	-0.9%	6,700	6,800	6,800	6,600	6,300	6,200
JPY-IDR	105	-4.0%	100	110	100	100	100	90
EUR-IDR	12,544	5.3%	12,600	12,500	12,200	11,800	11,700	11,700
RATE FORECASTS	CURRENT	YTD (bps)	JUN-11	SEP-11	DEC-11	MAR-12	JUN-12	SEP-12
BI's reference rate	6.75	25	7.00	7.25	7.50	7.50	7.50	7.50

Sources: Bloomberg, ANZ Research



COUNTRY UPDATES

Malaysia: Economic Update



Malaysia's activity indicators showed modest but improving growth. Domestic demand growth accelerated and foreign demand picked up pace. Growing inflation concerns are likely to be addressed at the central bank's 5 May policy meeting.

- Industrial production growth accelerated to 5.0% y/y in Feb compared to a revised 0.6% in Jan. Manufacturing production growth doubled to 7.9%; electricity advanced 0.4ppt to 0.7%; while mining remained negative at 0.7% but improved from Jan's contraction of 6.7%.
- Manufacturing sales growth climbed to 10.9% y/y in Feb, from a rise of 7.6% in Jan. However, nominal sales totalled MYR44.6bn, down from MYR46.8bn in Jan.
- Motor vehicle sales growth, our preferred high-frequency consumption indicator advanced to 12.7% in Mar, against a contraction of 0.7% in Feb.
- Headline CPI inflation rose to 3.0% y/y in Mar, from 2.9% in Feb, the highest level in 23 months. Food inflation was flat at 4.7%, meanwhile transportation prices edged up to 4.6%.
- Export growth rebounded to 10.7% y/y in Feb, against growth of 3.0% in Jan. Electronic exports, about 40% of exports, contributed positively to growth for the first time in five months at 7.5%. Import growth eased 2.0ppts to 11.5%, and was led by growth in intermediate imports. Total trade was valued at MYR91.1bn, and the trade surplus widened to MYR12.6bn.
- Foreign reserves jumped to \$122.2bn as of 15 Apr, up 7.35% from two weeks before.
- Looking ahead, growth in the remainder of H1 should continue at a modest pace and strengthen in H2. A surge in private investment—Prime Minister Najib Razak announced twelve projects worth MYR11.2bn in Apr—will see a further tightening of the labour market and boost to domestic demand. The government's aggressive Economic Transformation Program will also contribute positively. The external sector may be hit by slower growth in the US, but Japan's rebuilding should provide some offset. Inflation is gaining momentum, but Bank Negara should hold this in check.

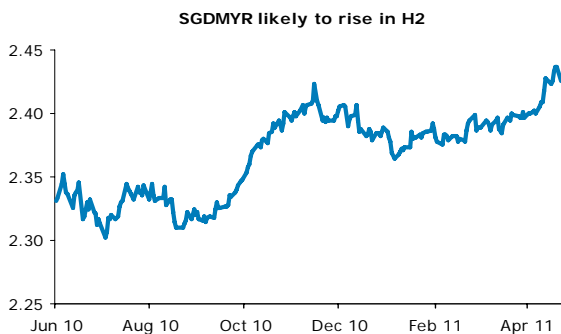
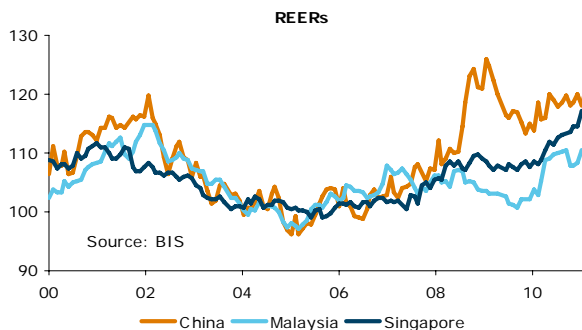
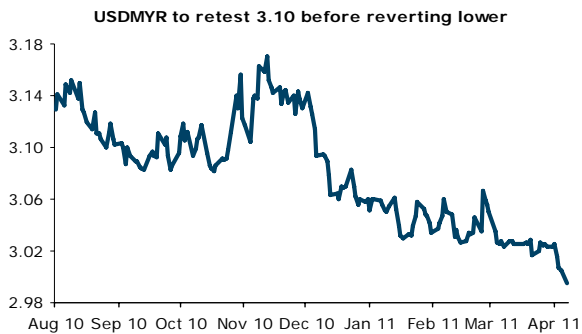
Daniel Wilson

MONTHLY DATA	AUG-10	SEP-10	OCT-10	NOV-10	DEC-10	JAN-11	FEB-11	MAR-11
Industrial Production, % y/y	3.8	5.7	3.2	5.4	4.2	0.6	5.0	N/A
Manufacturing Sales, % y/y	8.9	7.6	2.9	8.5	11.4	7.6	10.9	N/A
Consumer Price Index, % y/y	2.1	1.8	2.0	2.0	2.2	2.4	2.9	3.0
Exports, % y/y	10.6	6.9	1.3	5.3	4.6	3.0	10.7	N/A
Imports, % y/y	16.5	14.6	12.5	6.1	11.5	13.5	11.5	N/A
Trade Balance, US\$ bn	2.7	2.3	2.2	2.8	3.2	3.0	4.2	N/A
Foreign Exchange Reserves, US\$ bn	98.9	100.7	104.4	103.0	107.4	109.1	109.8	122.2
QUARTERLY DATA	MAR-09	JUN-09	SEP-09	DEC-09	MAR-10	JUN-10	SEP-10	DEC-10
Real GDP, % y/y	-6.2	-3.9	-1.2	4.4	10.1	8.9	5.3	4.8
Current Account, US\$ bn	8.6	8.2	7.3	8.0	9.3	5.0	6.5	7.8
Capital & Financial Account, US\$ bn	-8.2	-6.9	-3.2	-5.2	-6.0	0.2	-1.5	N/A

Source: CEIC

COUNTRY UPDATES

Malaysia: FX and Rates Strategy



Momentum favours the ringgit over the near-term, but there are a number of reasons to fade the rally.

FX

USDMYR has made a decisive break through the 3.0 barrier, trading at the strongest levels since the Asian Crisis erupted in late 1997. Part of the move was USD-led as the Fed signalled that it is in no hurry to exit its QE2 program or reign in liquidity after its expiry in June. Also supportive for the MYR are increased expectations of BNM rate hikes to neutralise imported inflation. The last rate hike by Malaysia's central bank was in July 2010 and since then the price of Brent crude oil has surged 50%. Consumer price inflation rose to 3.0% y/y in March, the highest since April 2009, in spite of subsidies.

While momentum is in favour of the ringgit currently, we see a number of reasons to fade the rally at this time. Importantly, the sustained spike in commodity prices, especially for fuel and food, will soon start to impact growth rates and risk appetite. Moreover, the expiry of the Fed's QE2 program in June—together with stepped up tightening by other major central banks around the world—will dampen capital inflows. Although Malaysia's exports (which account for more than 100% of GDP) benefit from higher prices for mineral fuels and palm oil, the country's much more important manufacturing sector is vulnerable to a downgrade in the market's global growth outlook.

Tamara Henderson

RATES

BNM has left policy rates unchanged since July 2010, but at its March policy meeting it raised the statutory reserve requirement by 100bps to 2.00%. Domestic demand has slowed in 2011, but is expected to pick up in H2. Investment will be strong as twelve recently announced private projects and delayed construction resume, tightening the labour market and boosting private consumption. Exports may suffer from lower US growth prospects, but rebuilding in Japan may partly offset this effect. Inflation pressures continue to mount as high commodity prices get passed to the consumer. The policy meeting on 5 May is a tough call, but given the historically proactive BNM and rising pressures, we have changed our call to a hike of 25bps, rather than a hike of 25bps at the July meeting. Another 100bps increase in the SRR also cannot be ruled out to help soak up excess liquidity.

Daniel Wilson

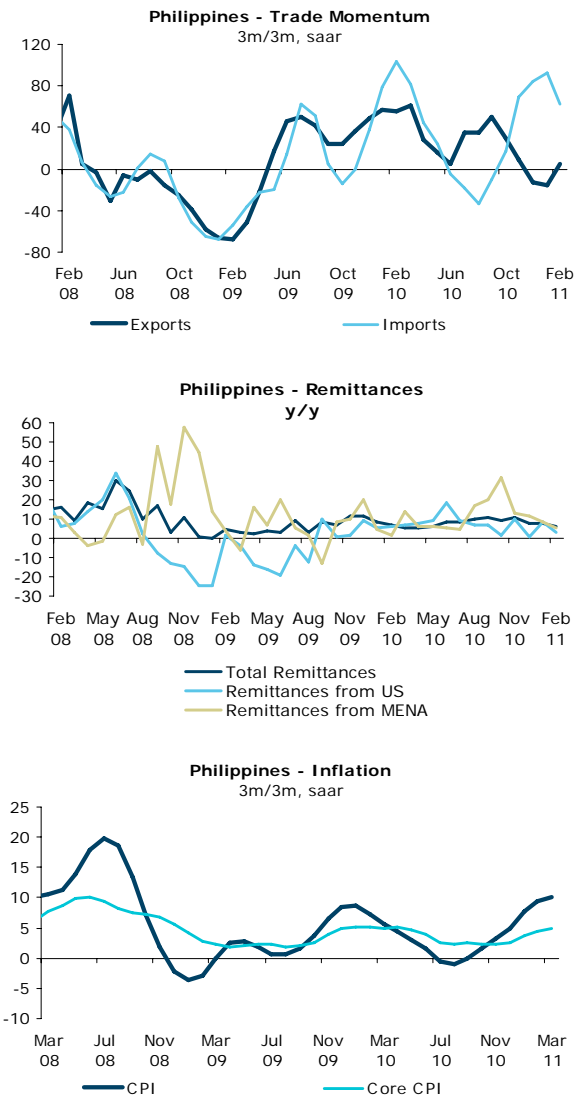
FX FORECASTS	CURRENT	YTD (%)	JUN-11	SEP-11	DEC-11	MAR-12	JUN-12	SEP-12
USD-MYR	3.00	-2.2%	3.05	3.10	3.15	3.13	3.10	3.07
AUD-MYR	3.21	3.0%	3.20	3.26	3.24	3.19	3.10	3.01
NZD-MYR	2.40	0.8%	2.29	2.33	2.36	2.32	2.23	2.18
JPY-MYR	3.64	-3.3%	3.59	3.60	3.58	3.48	3.37	3.30
EUR-MYR	4.36	6.4%	4.33	4.25	4.25	4.16	4.12	4.14
RATE FORECASTS	CURRENT	YTD (bps)	JUN-11	SEP-11	DEC-11	MAR-12	JUN-12	SEP-12
BNM's overnight policy rate	2.75	0	3.00	3.00	3.25	3.25	3.50	3.50

Sources: Bloomberg, ANZ Research



COUNTRY UPDATES

The Philippines: Economic Update



Activity slowed somewhat in early 2011 from the record growth of 2010, with remittance flows and vehicle sales momentum easing. Inflation is still within the 3-5% target band, but has accelerated due to loose policy settings and rising credit growth.

- Consumption indicators kept slowing both on a y/y and momentum basis. Vehicle sales contracted by 4.2% y/y in Mar, with a -10.9% momentum reading suggesting that further contractions are likely. Remittance growth declined to 6.2% in Feb from 7.6% in Jan and momentum dipped below zero.
- Export growth continued its decline, dropping to 8.3% y/y in Feb compared with 11.8% in Jan. Imports grew 20.1% from 23.7% previously, leading to a trade deficit of \$0.8bn. The deficit may rise further as an expected decline in Japanese discretionary demand will likely affect electronics exports (about two thirds of total exports).
- Headline inflation for Mar stayed at its Feb level of 4.3% y/y, driven by food and oil prices. The year-to-date average is at 4.1%, within the central bank's target band of 3-5%. However, price pressures are spreading to the broader economy, with both overall CPI and core CPI momenta having been on firm upward trends since the second half of 2010.
- Commercial credit growth stayed strong in Feb at 13.6% y/y, including reverse repurchase agreements (RRP), and 12.3% net RRP. Most of the loan growth is attributed to industry (as opposed to households), led by manufacturing, utilities and real estate.
- The softening US recovery and tensions in the Middle East and North Africa may mean more easing in remittance growth. Moreover, with unemployment and underemployment rates inching up, we can expect consumption growth to moderate in the first half of the year, dampening GDP growth in addition to the base effects from high growth last year. Meanwhile, non-food/fuel inflation continues to accelerate, with further second-round effects likely as the government considers wage hikes.

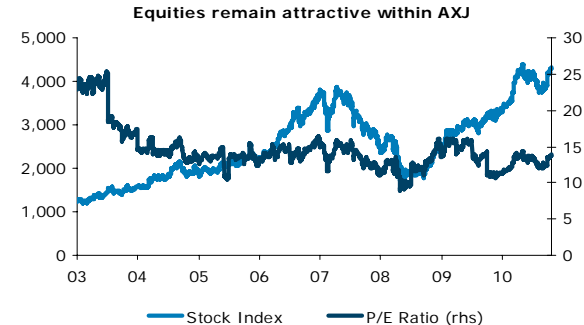
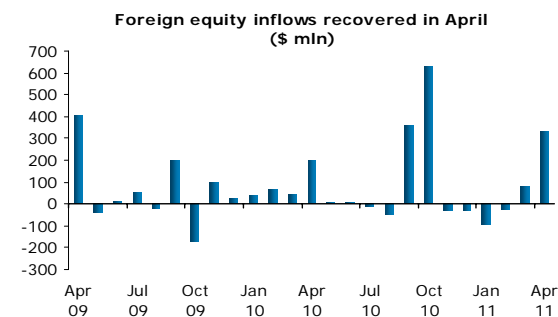
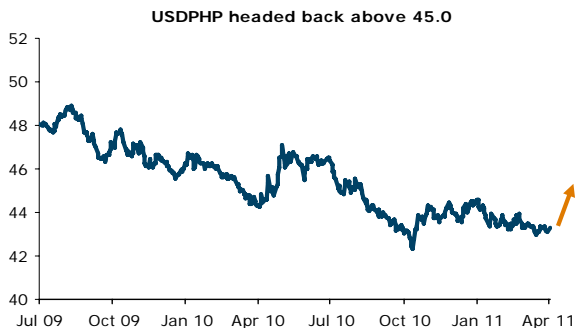
Vincent Conti

MONTHLY DATA	AUG-10	SEP-10	OCT-10	NOV-10	DEC-10	JAN-11	FEB-11	MAR-11
Manufacturing Production, % y/y	16.4	7.7	9.5	8.6	8.3	12.6	N/A	N/A
Motor Vehicle Sales, % y/y	34.1	29.9	18.2	9.5	-0.1	3.7	-14.3	-1.7
Consumer Price Index, % y/y	4.0	3.6	2.8	3.0	3.0	3.6	4.3	4.3
Exports, % y/y	37.0	46.4	27.4	11.5	26.5	11.8	8.3	N/A
Imports, % y/y	23.1	24.6	28.4	35.3	25.7	23.7	20.1	N/A
Trade Balance, US\$ bn	0.3	0.8	-0.1	-0.8	-0.7	-1.3	-0.3	N/A
Foreign Exchange Reserves, US\$ bn	49.9	53.8	57.2	60.6	62.4	63.5	63.9	66.0
QUARTERLY DATA	MAR-09	JUN-09	SEP-09	DEC-09	MAR-10	JUN-10	SEP-10	DEC-10
Real GDP, % y/y	0.5	1.2	0.2	2.1	7.8	8.2	6.3	7.1
Current Account, US\$ bn	2.4	2.4	1.9	2.7	1.2	1.8	3.3	2.2
Capital & Financial Account, US\$ bn	-1.9	-0.1	-0.1	0.5	0.0	-0.4	2.6	5.7

Source: CEIC

COUNTRY UPDATES

The Philippines: FX and Rates Strategy



As peso gains reduce the translated value of overseas remittances, already under pressure from the spike in food and fuel prices, PHP underperformance vis a vis AXJ is expected to persist.

FX

Supportive for the peso, the government continues to follow through on its commitment to narrow the budget deficit, reporting expenditure cuts for the third consecutive month in February. Authorities are also considering an increase in the minimum wage to provide some relief for the most vulnerable against the spike in food and fuel prices. Higher wages would also boost tax revenue as well as help contain government expenditures on subsidies, enabling further progress in fiscal consolidation. (The government's budget gap of -4.3% of GDP is one of the largest in the region).

Fiscal consolidation has added appeal for the new government, still in its "newlywed" period, as it would pave the way for further upgrades in the country's credit ratings—now two notches below investment grade status for S&P and Fitch. Rating upgrades reduce the cost of government borrowing, which in turn facilitates further progress on the fiscal front—setting up a virtuous circle.

Meanwhile, reinforcing supply shocks from the Middle East and Japan should keep energy and food prices elevated for much, if not all, of 2011. This will reduce discretionary spending across the globe, having knock-on effects for this remittance-dependent economy. Peso gains also reduce the translated value of remittances from overseas. As such, we expect the authorities to continue to have a lower tolerance for PHP gains than counterparts in the region.

Tamara Henderson

RATES

Inflation risks still abound as food and commodities prices continue to put pressure on prices in the general economy. This has prompted the BSP to change its tone regarding its loose policy stance, with the latest comments from Governor Tetangco suggesting that the central bank may take further action if necessary. We believe it is necessary, and that the BSP will raise rates at their 5 May meeting. The Philippines has one of the highest non-food/fuel price momentum numbers in the ASEAN, with further pressures to come as the government considers minimum wage hikes.

Vincent Conti

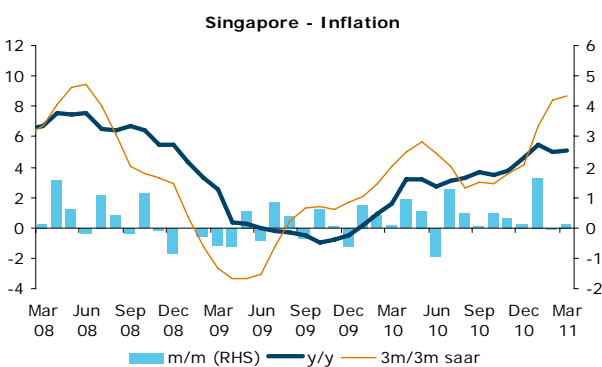
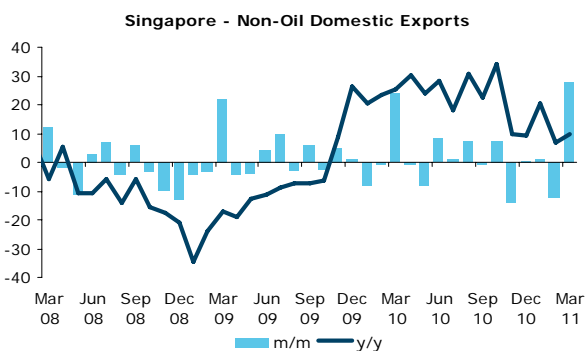
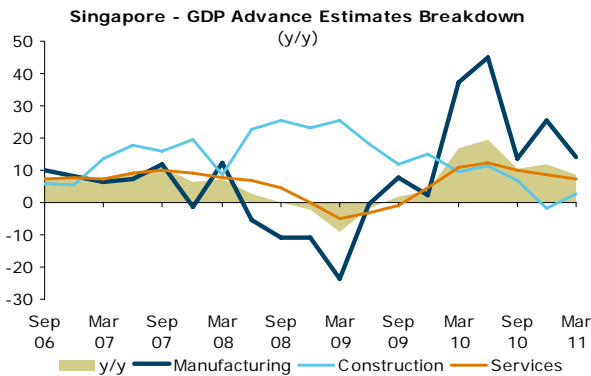
FX FORECASTS	CURRENT	YTD (%)	JUN-11	SEP-11	DEC-11	MAR-12	JUN-12	SEP-12
USD-PHP	43.28	-0.8%	43.9	45.3	45.9	45.5	45.0	44.5
AUD-PHP	46.52	4.8%	46.1	47.6	47.3	46.4	45.0	43.6
NZD-PHP	34.74	2.6%	32.9	34.0	34.4	33.7	32.4	31.6
JPY-PHP	0.53	-1.6%	0.516	0.527	0.522	0.506	0.489	0.478
EUR-PHP	63.18	8.3%	62.3	62.1	62.0	60.5	59.9	60.1
RATE FORECASTS	CURRENT	YTD (bps)	JUN-11	SEP-11	DEC-11	MAR-12	JUN-12	SEP-12
BSP's overnight reverse repo rate	4.25	25	4.50	4.75	5.00	5.00	5.00	5.00

Sources: Bloomberg, ANZ Research



COUNTRY UPDATES

Singapore: Economic Update



Singapore's advance Q1 GDP growth estimate surprised on the upside. Domestic demand indicators were mixed while external indicators strengthened.

- Advance Q1 GDP growth expanded 8.5% y/y compared with a 12.0% gain in Q4. On a sequential basis, GDP growth accelerated to 23.5% q/q saar, up from 3.9% in Q4. Growth was broad-based, led by manufacturing and the services sector which rose 13.9 y/y and 7.2%, respectively.
- Industrial production growth rebounded to 22.0% y/y in Mar against 4.7% in Feb. On a seasonally adjusted monthly basis, output grew 22.0%. Excluding biomedical manufacturing, output grew 6.1% y/y.
- The PMI survey level fell to 50.1 in Mar, a 2.2pt decline from Feb's reading. The decline was led by new orders and production which fell by 3.7pts and 1.9pts, respectively. Both were below the watermark 50 level for the first time in five months.
- Retail sales fell sharply by 12.1% y/y in Feb from a 3.2% gain in Jan led by weak motor vehicle, department store and supermarket sales. Retail sales, ex motor vehicles, were also tepid, dropping 3.6% compared with a 16.0% rise, previously.
- Non-oil domestic export (NODX) growth beat estimates and rose by 3.1ppts to 10.0% y/y in Mar. The climb was driven by a 12.2% rise in chemicals goods and 10.1% gain in machinery and equipment. Meanwhile, electronics exports fell for the second straight month to 13.8%. Import growth jumped to 17.2% and the trade surplus narrowed to \$3.0m.
- Headline inflation was flat at 5.0% y/y. Food inflation stayed at 2.6%, while transportation eased 1.8ppts to 13.4%, and housing prices jumped 1.3ppts to 7.1%.
- We maintain a positive outlook as Singapore's economy shifts to a more sustainable growth path. Moreover, manufacturing (and export) activities will likely be boosted, by a robust regional demand and a steady recovering global economy.

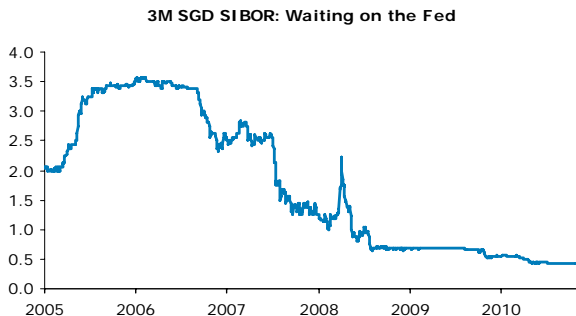
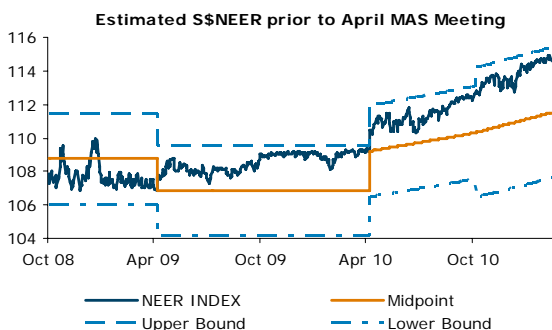
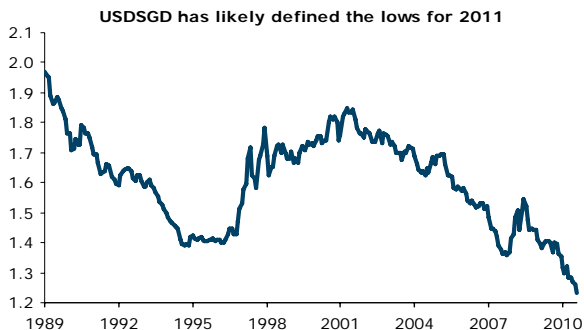
Shuzhen Pay

MONTHLY DATA	AUG-10	SEP-10	OCT-10	NOV-10	DEC-10	JAN-11	FEB-11	MAR-11
Industrial Production, % y/y	7.0	26.1	29.6	40.4	8.9	11.0	4.8	22
Retail Sales, % y/y	-1.1	1.5	-0.2	2.0	3.2	2.9	-12.1	NA
Consumer Price Index, % y/y	3.3	3.7	3.5	3.8	4.6	5.5	5.0	5.0
Domestic Exports (non-oil), % y/y	30.8	22.6	34.3	9.9	9.3	20.7	6.9	10.0
Imports (non-oil), % y/y	19.0	6.8	9.9	13.9	5.5	10.1	2.1	17.2
Trade Balance, US\$ bn	5.1	4.6	5.4	3.1	4.5	4.7	3.8	3.0
Foreign Exchange Reserves, US\$ bn	206.4	214.7	221.4	217.6	225.8	227.1	230.9	233.4
QUARTERLY DATA	JUN-09	SEP-09	DEC-09	MAR-10	JUN-10	SEP-10	DEC-10	MAR-11
Real GDP, % y/y	-1.7	1.8	4.6	16.4	19.4	10.5	12.0	8.5
Current Account, US\$ bn	8.0	8.2	11.2	10.8	12.5	14.1	12.1	NA
Capital & Financial Account, US\$ bn	-8.3	-3.7	-2.9	3.2	-1.6	-9.8	1.1	NA

Source: CEIC

COUNTRY UPDATES

Singapore: FX and Rates Strategy



Having now achieved partial re-centring in the MAS's S\$NEER, downside momentum in USDSGD should slow markedly.

FX

The Monetary Authority of Singapore (MAS) tightened further at its semi-annual policy meeting on 14 April, with a partial re-centring of the S\$NEER policy band. This opened the door to further selling in USDSGD, which hit lows near 1.221 as of writing. The 2.8% move in USDSGD from pre-announcement levels is consistent with the prescribed "partial" re-centring and suggests a marked slowing in downward momentum going forward. (The MAS does not specifically disclose the desired S\$NEER slope and band width, but we estimate them at 3.0% and +/-3.5%, respectively).

Meanwhile, risk-reward is shifting in favour of USDSGD upside. Signs of headwinds to global growth and risk appetite from the sustained surge in food and energy prices should soon start to impact global growth. Another source of support for USDSGD is remaining uncertainty surrounding the Fed's next steps after the expiry of its controversial QE2 programme in June. The world's largest bond fund manager, PIMCO, had already established a short position in US Treasuries as of the end of March.

Even if the Fed manages the transition from QE2 smoothly, the progressive withdrawal of liquidity across the globe will at the very least stem the flow of capital into Emerging Asia. This will correspondingly reduce appreciation pressure on Emerging Asian currencies. Seasonal risk aversion also looms with the approach of summer holidays in the Northern Hemisphere.

RATES

The MAS manages monetary conditions via the nominal effective exchange rate. Three-month SGD SIBOR remains near record lows at 0.4375%. We do not expect to see a meaningful rise in SGD money market rates until the Federal Reserve signals an end to its "extraordinary" policy accommodation, unlikely in 2011.

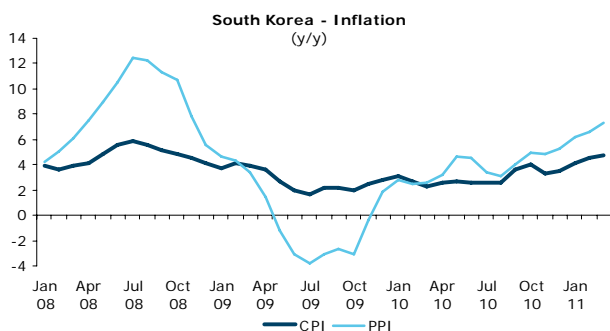
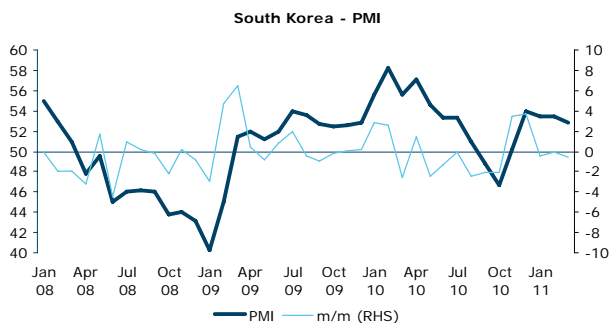
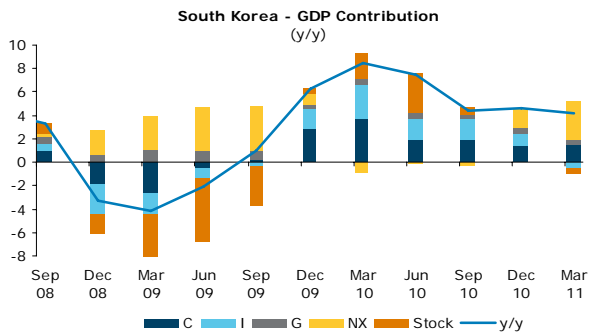
Tamara Henderson

FX FORECASTS	CURRENT	YTD (%)	JUN-11	SEP-11	DEC-11	MAR-12	JUN-12	SEP-12
USD-SGD	1.234	-3.8%	1.255	1.270	1.280	1.269	1.258	1.247
AUD-SGD	1.325	1.5%	1.32	1.33	1.32	1.29	1.26	1.22
NZD-SGD	0.989	-0.7%	0.94	0.95	0.96	0.94	0.91	0.89
JPY-SGD	1.503	-4.7%	1.48	1.48	1.45	1.41	1.37	1.34
EUR-SGD	1.799	4.9%	1.78	1.74	1.73	1.69	1.67	1.68
RATE FORECASTS	CURRENT	YTD (bps)	JUN-11	SEP-11	DEC-11	MAR-12	JUN-12	SEP-12
3-month SIBOR	0.44	0	0.44	0.49	0.49	0.54	0.54	0.54
2-year IRS (onshore versus 6M SOR)	0.80	-15	0.8	0.8	0.9	0.9	1.0	1.0
10-year IRS	2.88	-15	2.9	2.9	2.9	2.9	2.9	2.9

Sources: Bloomberg, ANZ Research

COUNTRY UPDATES

South Korea: Economic Update



Growth picked up in Q1 on a quarterly basis, but this was led by trade with Asia, not the G2. Domestic demand remains soft, particularly as regards construction activity. Inflation pressures are still rising and the BOK has more work to do.

- GDP rose 4.2% y/y in Q1 down ½ppt from Q4 2010; on a quarterly basis, growth was 1.4% from 0.5% earlier.
- Q1 domestic demand remained soft, particularly construction investment. Consumption edged higher, with a big boost from government spending. However, investment subtracted from growth for the first time since Q3 2009. Construction spending is now falling at a double-digit rate.
- Net exports have been the recent bright spot, adding 1ppt q/q to Q1 growth. This is being driven by robust shipments to the rest of Asia, which are increasing at double the pace of shipments to the US and EU.
- The HSBC Manufacturing PMI fell to its lowest level in four months in Mar. The decline reflected weakness in overall new orders whilst new export orders remained strong. The index stood at 52.8 (53.4 in Feb).
- Broad-based price pressures persist. CPI inflation rose to a 29-month high in Mar, reaching 4.7% y/y. Core inflation rose 0.2pts to 3.3% whilst producer prices rose at their fastest pace in 28 months, increasing 7.3% from 6.6% in Feb. Import prices rose 19.6% in Mar following a 16.9% in Feb.
- Labour market statistics were steady. The unemployment rate (sa) remained at 4.0% in Mar. Employment growth eased to 2.1% y/y while the participation rate edged higher to 61.5%.
- The leading index fell again in Mar, declining 0.3%. On an annual basis, the leading index rose just 1.6%, the lowest rate in a year. Meanwhile, the business survey index for manufacturing eased in Apr while consumer confidence rose for the first time in five months.
- The Bank of Korea left its seven-day repo rate unchanged at 3.00 at its 12 Apr meeting after increasing it 25bps in Mar. The BOK said it is observing how rising crude oil prices and Japan's earthquake would affect growth and inflation.

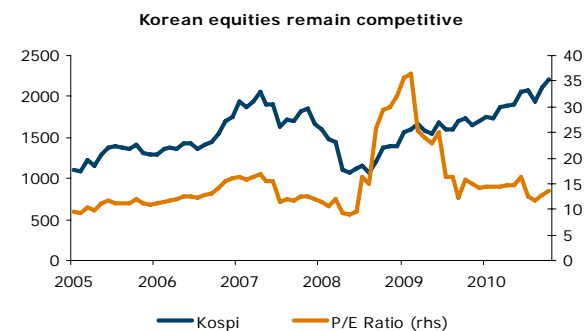
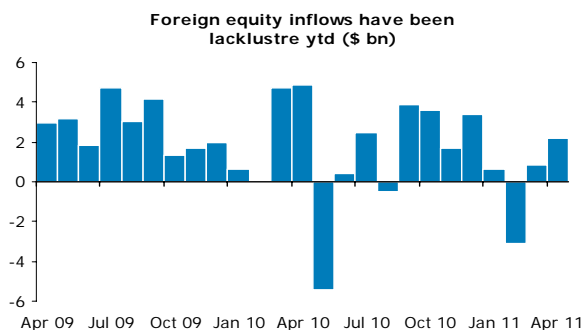
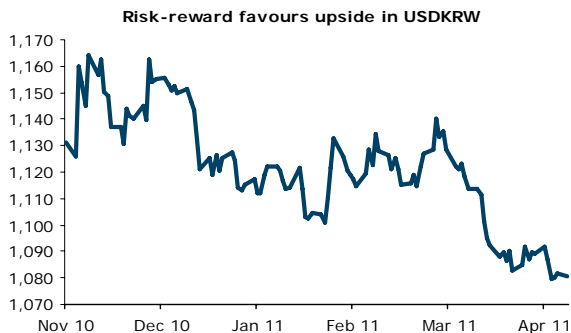
Paul Gruenwald

MONTHLY DATA	AUG-10	SEP-10	OCT-10	NOV-10	DEC-10	JAN-11	FEB-11	MAR-11
Industrial Production, % y/y	17.0	4.0	13.5	10.7	9.8	13.7	9.1	NA
Retail Sales, % y/y	11.2	7.8	7.6	9.5	7.6	15.6	3.8	NA
Consumer Price Index, % y/y	2.6	3.6	4.1	3.3	3.5	4.1	4.5	4.7
Exports, % y/y	26.0	16.2	27.6	21.4	22.6	45.1	16.8	17.9
Imports, % y/y	28.7	17.6	21.7	30.9	21.7	32.4	16.6	27.9
Trade Balance, US\$ bn	1.8	4.4	6.3	2.6	4.1	4.2	3.6	4.5
Foreign Exchange Reserves, US\$ bn	285.3	289.8	293.4	290.3	291.6	296.0	297.7	298.6
QUARTERLY DATA	JUN-09	SEP-09	DEC-09	MAR-10	JUN-10	SEP-10	DEC-10	MAR-11
Real GDP, % y/y	-2.2	0.9	6.0	8.1	7.2	4.4	4.7	4.2
Current Account, US\$ bn	4.9	3.2	0.7	1.2	4.3	3.5	2.1	1.4
Capital & Financial Account, US\$ bn	-5.5	-2.4	-1.3	-0.1	-4.1	-2.7	-0.3	0.5

Source: CEIC

COUNTRY UPDATES

South Korea: FX and Rates Strategy



We see limited downside potential from recent lows near 1064 in USDKRW.

FX

Thus far, global risk appetite has shrugged off dual supply shocks from the Middle East and North Africa (MENA) and Japan, buoyed by backward-looking data and cheerleading by central bankers indicating that global growth remains on track. Admittedly, US non-farm payrolls above +200k are an important psychological boost. Nevertheless, confidence indicators across the globe have started to drop, providing an important warning sign. As such, we see limited downside potential from recent lows near 1064 in USDKRW.

Reinforcing supply shocks from MENA and Japan will keep fuel and food prices elevated for most, if not all of 2011—all at the expense of global growth and ultimately risk appetite. Although some Korean exporters may be well poised to benefit from supply disruptions and reconstruction efforts related to Japan's tragic earthquake, an offsetting vulnerability for the Korean economy is its large oil import bill—roughly 8.6% of GDP last year when the average price for Brent crude was \$80/bbl. This import bill could approach 10% of GDP if oil prices remain above \$100/bbl.

Concurrently, the Fed's QE2 programme is set to expire, which will stem the inflow of US dollars. Moreover, the pool of Japanese savings available to finance consumption and investment around the world will shrink due to more binding adverse demographics as well as quake reconstruction efforts. Roughly 17% of Korea's FDI comes from Japan. Given the Korean economy's high sensitivity to trade and capital flows, the impact on Korea's current account (which is prone to lapse into deficit) could be significant.

Tamara Henderson

RATES

The BOK is continuing its "go slow" policy of normalising rates, pausing again in Apr. Meanwhile, CPI, PPI and import price inflation all continue to rise to uncomfortable levels, so something has to give. We would note that the BOK's own Financial Stability Report says that emerging economies need to tackle inflation, otherwise they will need to raise rates faster and more often, which will add risks to the global economy. We could not have said it better ourselves. Either growth slows appreciably and takes the heat off inflation (which does not appear to be happening given Q1 data), or the BOK needs to move faster.

Paul Gruenwald

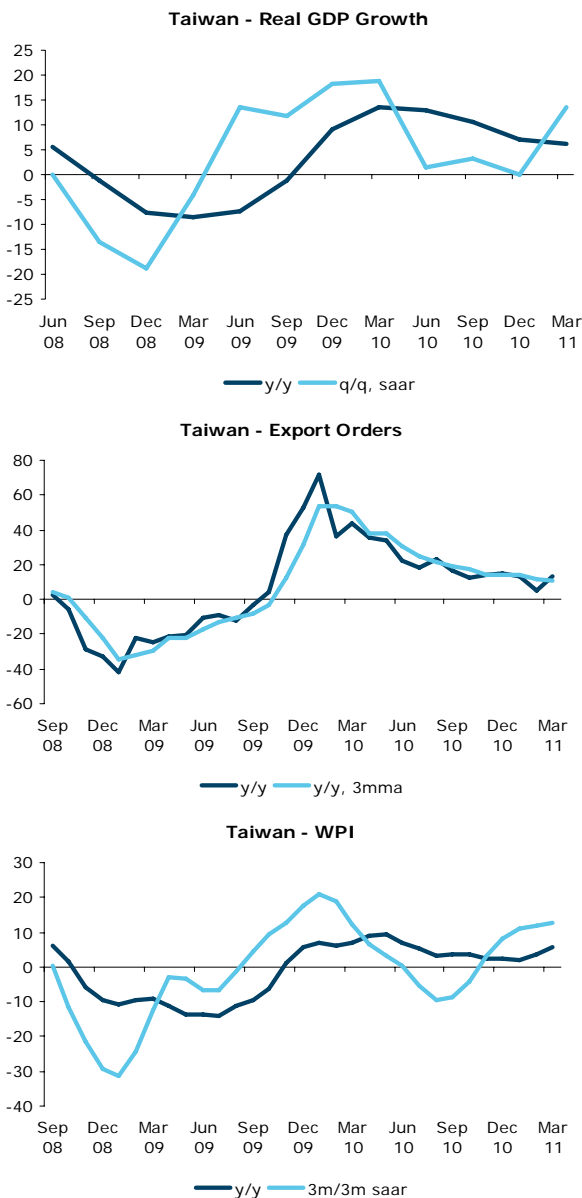
FX FORECASTS	CURRENT	YTD (%)	JUN-11	SEP-11	DEC-11	MAR-12	JUN-12	SEP-12
USD-KRW	1,081	-3.6%	1,125	1,155	1,175	1,150	1,125	1,100
AUD-KRW	1,160	1.6%	1,180	1,210	1,210	1,170	1,130	1,080
NZD-KRW	865	-0.6%	840	870	880	850	810	780
JPY-KRW	13.16	-4.6%	13.2	13.4	13.4	12.8	12.2	11.8
EUR-KRW	1,575	5.1%	1,600	1,580	1,590	1,530	1,500	1,490
RATE FORECASTS	CURRENT	YTD (bps)	JUN-11	SEP-11	DEC-11	MAR-12	JUN-12	SEP-12
BoK's overnight call rate	3.00	50	3.25	3.75	4.25	4.50	5.00	5.00

Sources: Bloomberg, ANZ Research



COUNTRY UPDATES

Taiwan: Economic Update



Taiwan's economy continues to enjoy a vibrant outlook. Figures on trade, industrial production and sales all beat expectations: the impact of Japan's disaster appears to be limited. Q1 GDP rose by 6.2% according to government's provisional estimate.

- GDP expanded by 6.2% y/y in Q1. Private consumption picked up strongly by 4.8% and contributed 2.75% to the headline growth. Net exports added another 3.6%. Sequentially, Q1 GDP grew by 13.4% on a seasonally adjusted annualised basis.
- Exports and imports both rose 16.7% y/y in Mar, compared with Feb's gains of 27.3% and 28.7%, respectively. The trade surplus widened to \$1.8bn. Export orders expanded strongly by 13.4% from the 5.3% in Feb. All results beat the market consensus.
- Commercial sales picked up at 7.4% y/y in Mar compared with 4.7% in Feb; retail sales reported a strong gain of 8.9% while wholesale sales rose 7.1%.
- Industrial production edged up 13.8% y/y in Mar from Feb's 13.3%. Basic metals, electronics parts and computers/electronics all reported a 20-21% gain.
- Headline CPI inflation edged up to 1.41% y/y in Mar from 1.33% in Feb. However, core inflation increased to 0.98% from 0.80%, suggesting a broad-based increase in inflation pressures. On a momentum basis, the CPI climbed to 3.41% 3m/3m saar in from 2.69% in Feb. The WPI surged by 5.51% in Mar, compared with 3.83% in Feb. Mar's TWD import price index surged 17.8%.
- The unemployment rate (sa) declined to a 29-month low of 4.4% in Mar from Feb's 4.6%. The number of unemployed dropped by 23,000 persons. Civil servants will reportedly receive a wage/salary increase of 3% this year.
- Mar data showed some signs of order switching from Japan to Taiwan. Furthermore, robust trade growth with mainland China and ASEAN will continue to support a positive economic outlook. Inflation pressures have intensified.

Raymond Yeung

MONTHLY DATA	AUG-10	SEP-10	OCT-10	NOV-10	DEC-10	JAN-11	FEB-11	MAR-11
Industrial Production, % y/y	23.5	12.1	14.4	19.6	18.9	17.4	13.3	13.8
Commercial Sales, % y/y	6.4	7.0	7.6	5.9	5.6	13.3	4.8	7.4
Retail Trade Index, % y/y	7.1	8.3	7.9	5.7	3.1	22.9	-0.9	8.9
Consumer Price Index, % y/y	-0.5	0.3	0.6	1.5	1.2	1.1	1.3	1.4
Exports, % y/y	26.6	17.5	21.9	21.8	19.1	16.6	27.3	16.7
Imports, % y/y	28.0	25.0	27.9	33.8	21.4	22.0	28.7	16.7
Trade Balance, US\$ bn	2.3	1.8	3.0	0.4	1.6	1.9	0.9	1.8
Foreign Exchange Reserves, US\$ bn	372.1	380.5	383.8	379.3	382.0	387.1	390.7	392.6
QUARTERLY DATA	JUN-09	SEP-09	DEC-09	MAR-10	JUN-10	SEP-10	DEC-10	MAR-10
Real GDP, % y/y	-7.2	-1.2	9.2	13.6	12.9	10.7	6.9	6.2
Current Account, US\$ bn	10.3	8.0	11.4	10.3	11.1	9.1	10.1	N/A
Capital & Financial Account, US\$ bn	-8.8	-5.3	-13.0	-10.8	-9.5	-10.5	-10.0	N/A

Source: CEIC

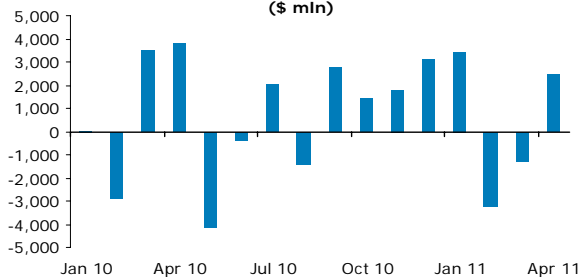
COUNTRY UPDATES

Taiwan: FX and Rate Strategy

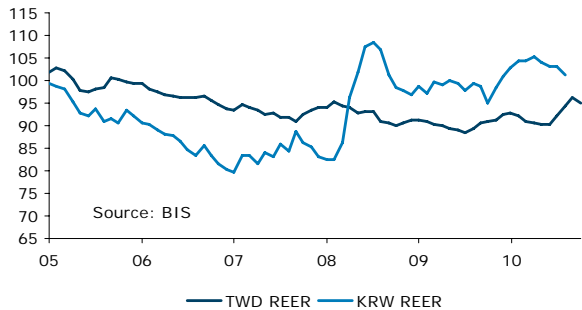
USDTWD seen higher in H2



Foreign equity flows recovered in April, but remain lacklustre overall ytd (\$ mln)



REERs



Source: BIS

— TWD REER — KRW REER

Risk-reward considerations favour fading further TWD rallies.**FX**

USDTWD once again broke through the 29.00 barrier, with global risk appetite buoyed by a better than expected Q1 earnings season in the US as well as the Fed's decision to maintain its QE2 program through expiry at the end of June. However, we expect enthusiasm for risk trades to be short-lived. Risk appetite typically lightens up during summer holidays in the Northern Hemisphere. The end of QE2 will also curtail (if not reverse) capital inflows, reducing appreciation pressure in the TWD. Sharply higher fuel and food prices should also start to impact global growth.

Although Taiwan's March export orders (y/y) bounced back from holiday-distorted readings in February, the distinct downtrend from Q1 2010 remains intact. Notwithstanding transitory benefits to trade from Japan's tragic earthquake, last year's 9% rally in the TWD (versus the USD) has significantly reduced export competitiveness. Going forward, stepped-up tightening across all of Taiwan's key export markets presents an added challenge. Importantly, 70% of Taiwan's exports are destined for Asia, a region more actively cooling demand in order to tame inflationary pressures. Moreover, the surge in global food and energy prices will further detract from discretionary spending and temper demand for Taiwan's highly income elastic electronics exports. All in all, risk-reward considerations would seem to favour fading further TWD rallies.

*Tamara Henderson***RATES**

The CBC increased its rediscount rate by 0.125% on 31 March. Recent economic releases suggest a robust economic outlook and price pressures. To manage inflation expectations, we think monetary policy should be pre-emptive and there is a need for a more aggressive rate move. We expect another rate hike of at least 12.5bps at the June meeting.

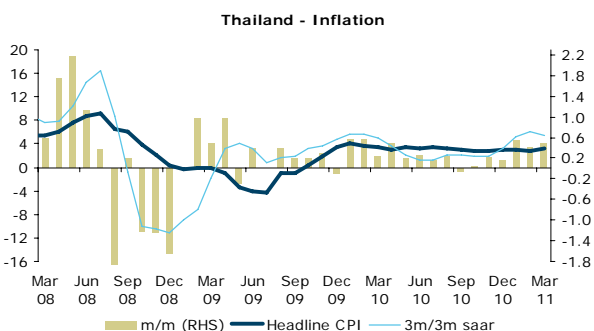
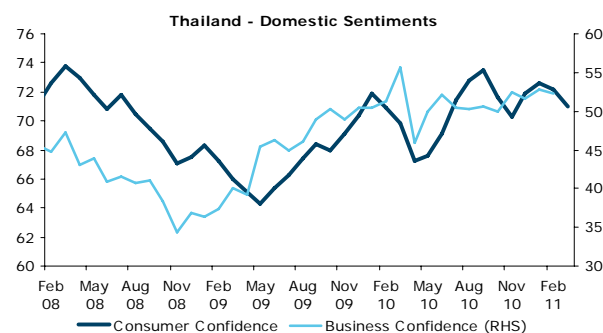
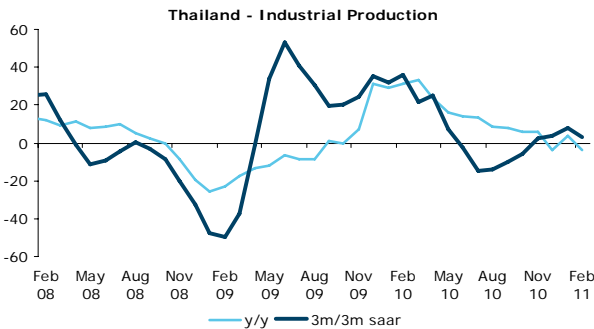
Raymond Yeung

FX FORECASTS	CURRENT	YTD (%)	JUN-11	SEP-11	DEC-11	MAR-12	JUN-12	SEP-12
USD-TWD	28.92	-0.8%	29.5	30.0	30.5	30.3	30.0	29.8
AUD-TWD	31.08	4.8%	31.0	31.5	31.4	30.9	30.0	29.2
NZD-TWD	23.20	2.5%	22.1	22.5	22.9	22.4	21.6	21.1
JPY-TWD	0.353	-1.6%	0.347	0.349	0.347	0.336	0.326	0.320
EUR-TWD	42.21	8.3%	41.9	41.1	41.2	40.2	39.9	40.2
RATE FORECASTS	CURRENT	YTD (bps)	JUN-11	SEP-11	DEC-11	MAR-12	JUN-12	SEP-12
CBC's discount rate	1.75	13	1.875	2.000	2.125	2.250	2.500	2.750

Sources: Bloomberg, ANZ Research

COUNTRY UPDATES

Thailand: Economic Update



Thailand's indicators point to continued solid growth although domestic demand indicators have slipped. Inflation rose further and is likely to remain elevated in the coming months. In response, the Bank of Thailand raised its benchmark interest rate for the fourth time this cycle.

- Domestic demand indicators were mixed. Industrial production (IP) disappointed, falling 3.4% y/y in Feb compared with a 4.1% increase in Jan. The decline was led by petroleum and metal goods production which fell 22.3% and 7.8%, respectively. Momentum also moderated to 2.8% down from 7.9%. Meanwhile, car sales growth rose to 42.5% y/y.
- The Consumer Confidence Index edged down to 71.0 in Mar from 72.2 in Feb as external uncertainty, rising oil prices and domestic floods weighed on confidence. The Business Sentiment Index also fell by 0.5pt to 52.3 in Feb on concerns of rising production costs and investment. By sectors, service and infrastructure were more optimistic while the outlook for manufacturing, trade and finance worsened.
- External demand remained strong in Mar as export growth rose 30.9% y/y from 31.0%, previously. Import growth also rose to 28.4% from 22.5%. The trade surplus stood at \$1.8bn, broadly unchanged.
- CPI inflation rose to 3.1% y/y in Mar from 2.9% in Feb on food and transportation costs. Core inflation climbed for the sixth straight month to 1.6% from 1.5%. On a m/m basis, inflation edged up to 0.5%.
- The Bank of Thailand (BoT) raised its benchmark interest rate on 20 Apr by 25bps to 2.75%, citing increasing inflation pressure due to higher demand. The BoT will continue to monitor the situation closely.
- The impact of Japan's disaster on production and external demand indicators will be temporary, and we expect the Thai economy to maintain a strong growth trajectory. Countering inflation will continue to be BoT's top priority, and the central bank is likely to respond with further tightening measures in the months ahead.

Shu Zhen Pay

Raj Gopalakrishnan

MONTHLY DATA	AUG-10	SEP-10	OCT-10	NOV-10	DEC-10	JAN-11	FEB-11	MAR-11
Industrial Production, % y/y	8.4	8.1	6.0	5.7	-3.4	4.1	-3.4	NA
Retail Sales, % y/y	52.0	40.3	35.2	38.3	29.2	38.0	42.5	47.5
Consumer Price Index, % y/y	3.3	3.0	2.9	2.8	3.0	3.0	2.9	3.1
Exports, % y/y	23.9	21.2	15.7	28.5	18.8	22.3	31.0	30.9
Imports, % y/y	41.1	16.0	14.8	35.3	11.5	33.3	22.5	28.4
Trade Balance, US\$ bn	0.6	3.1	2.2	0.4	1.3	-0.9	1.8	1.8
Foreign Exchange Reserves, US\$ bn	155.2	163.2	171.1	168.0	172.1	174.0	179.5	181.6
QUARTERLY DATA	MAR-09	JUN-09	SEP-09	DEC-09	MAR-10	JUN-10	SEP-10	DEC-10
Real GDP, % y/y	-7.0	-5.2	-2.8	5.9	12.0	9.2	6.6	3.8
Current Account, US\$ bn	9.9	3.2	4.2	4.6	5.5	1.7	2.0	5.5
Capital & Financial Account, US\$ bn	-3.4	-2.7	2.0	1.4	3.8	1.1	7.3	3.4

Source: CEIC

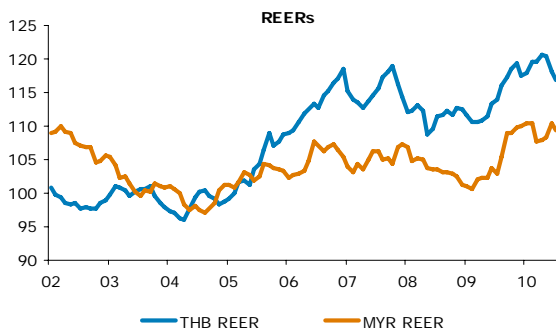
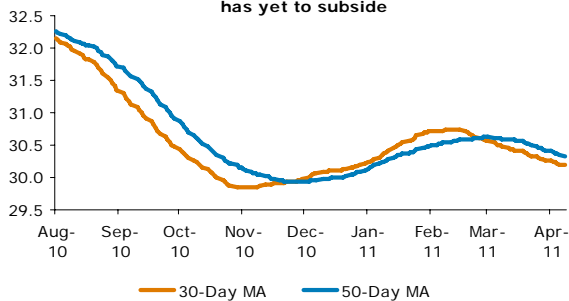
COUNTRY UPDATES

Thailand: FX and Rates Strategy

USDTHB: Risk-reward favours a reversal



But, downward momentum in USDTHB has yet to subside



Political uncertainty is just one out of a number of possible triggers for a reversal in USDTHB.

FX

The season for Thai political unrest has arrived, normally a non-event for markets. However, in the context of recent unrest in the Middle East and last year's bloody crackdown against protestors, investors should be wary. Meanwhile, the timetable for elections appears to have slipped to July from an original target of June. (Prime Minister Abhisit's term expires at year-end). Coinciding with the recent escalation of Thailand's border conflict with Cambodia, rumours of a possible military coup to pre-empt an undesirable election result (e.g., a victory by former PM Thaksin's proxies) have also started to circulate.

Any doubt about the validity of the election results has potential to heighten domestic tensions. A pre-election coup, even if couched in terms of emergency measures to address a "foreign threat," could also easily back-fire in the present environment. Last year, the military's Spring crackdown against Red Shirt protestors resulted in approximately 91 deaths, thousands injured and hundreds of controversial arrests. The International Criminal Court was subsequently petitioned to investigate alleged crimes against humanity by members of Abhisit's government.

There are also a number of external sources of risk for the baht. The expiry of the Fed's QE2 program and a decline in Japan's available savings (related to demographics as well as quake reconstruction) will temper, if not reduce, capital inflows. Sharply elevated global commodity prices, if sustained, could also derail the global recovery and risk appetite. With USDTHB once again trading below the 30.0 level, risk-reward favours a reversal.

Tamara Henderson

RATES

The Bank of Thailand (BoT) raised its benchmark interest rate by 25bps to 2.75% in Apr, as it remains committed to normalising interest rates. Core inflation driven by demand-pull pressure has been rising over the past six months, though it remains below the BoT's target of 3%. Governor Prasarn Trairatvorakul continues to signal further tightening as he commented that growth is "less of a concern" and risk is tilted towards inflation. He expects H2 inflation to accelerate as the unwinding of government subsidies might add around 1ppt to headline inflation.

Shuzhen Pay

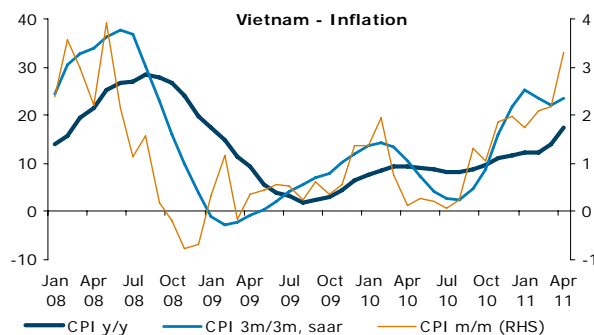
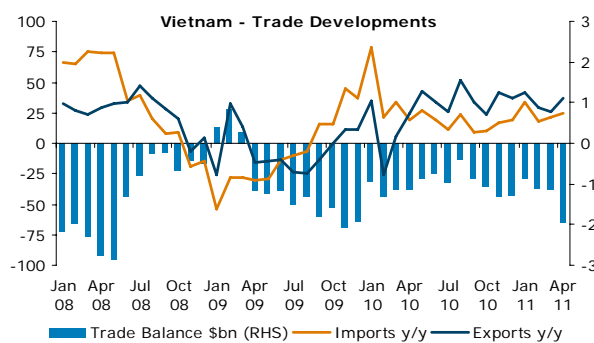
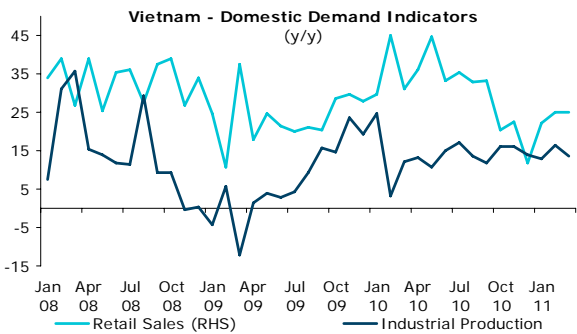
FX FORECASTS	CURRENT	YTD (%)	JUN-11	SEP-11	DEC-11	MAR-12	JUN-12	SEP-12
USD-THB	29.92	-0.2%	30.4	30.9	31.7	31.5	31.3	31.1
AUD-THB	32.16	5.4%	31.9	32.4	32.7	32.1	31.3	30.5
NZD-THB	24.01	3.2%	22.8	23.2	23.8	23.3	22.5	22.1
JPY-THB	0.353	-1.6%	0.357	0.359	0.360	0.350	0.340	0.334
EUR-THB	42.21	8.3%	43.1	42.3	42.8	41.9	41.6	42.0
RATE FORECASTS	CURRENT	YTD (bps)	JUN-11	SEP-11	DEC-11	MAR-12	JUN-12	SEP-12
BOT's 1-day repo rate	2.75	75	2.75	3.00	3.25	3.25	3.50	3.50

Sources: Bloomberg, ANZ Research



COUNTRY UPDATES

Vietnam: Economic Update



Inflation is still the main policy concern as the SBV hiked rates by 100bps twice in April. More work is needed with the CPI now rising by 17.5%. While the real economy looks to be on a moderate growth path, the trade deficit widened sharply this past month.

- Domestic demand indicators weakened in Mar. Industrial production growth eased to 13.6% y/y from 16.5% in March. Coal and garment production grew strongly, but electricity and crude oil fell.
- Meanwhile, retail sales growth fell eased to 24.9%. Mar trade sales growth also eased from Feb, while sales in hotels and restaurants gained.
- Apr export growth surged to 36.9% (y/y) from 26.1% in Mar. The increase in growth was led by oil exports. Meanwhile, import growth rose to 25.2% from 21.5% in Mar. Petroleum and steel imports led the rise. The monthly trade deficit jumped to an estimated \$1.8bn.
- April CPI inflation surged to 17.5% y/y from 13.9% in March, the fastest pace in 28 months. On a monthly basis, inflation continued to climb, reaching 3.3% m/m from 2.2%. Food and foodstuffs prices rose 24.4% y/y, and contributed 9.8ppts to CPI inflation. Transportation prices accelerated 16.0% as fuel prices were raised twice since Mar, while housing and construction material prices rose 19.0%. Our measure of inflation momentum remains well above headline.
- The State Bank of Vietnam raised its key interest rates twice in Apr. The refinancing is now at 14.0%, while the rediscounting rate stays at 13.0%. In addition, the reserve requirement ratios for USD deposit were hiked by 200bps to 4-6%, while interest rates on USD deposits were capped at 3.0%.
- As the authorities continue to tighten polices, domestic demand indicators are starting to show signs of easing. However, inflation pressures persist with rising input prices and low real rates. Therefore, we continue to expect further monetary tightening will be needed this year in order for inflation to peak in H2.

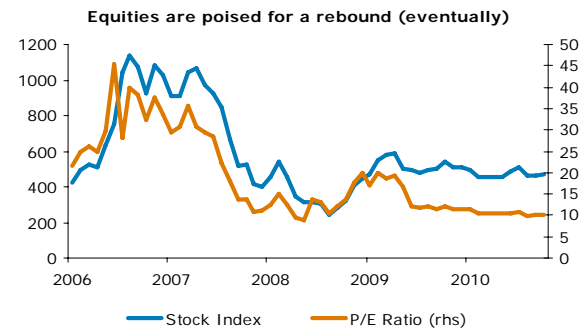
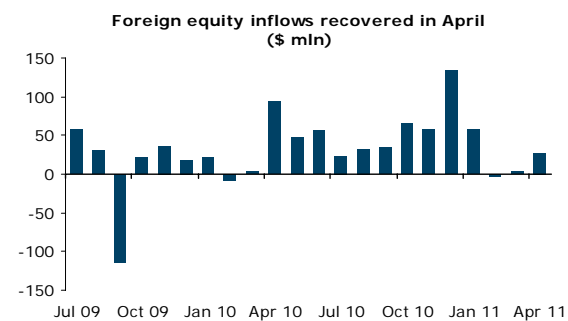
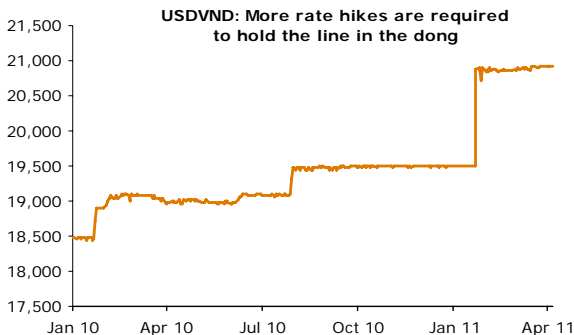
Hai Pham

MONTHLY DATA	SEP-10	OCT-10	NOV-10	DEC-10	JAN-11	FEB-11	MAR-11	APR-11
Industrial Production, % y/y	15.1	13.5	14.3	16.2	16.1	17.7	13.9	N/A
Retail Sales, % y/y	33.3	20.4	22.4	11.6	26.0	21.1	24.9	N/A
Consumer Price Index, % y/y	8.9	9.7	11.1	11.8	12.2	12.3	13.9	17.5
Exports, % y/y	34.2	23.9	41.7	37.2	41.1	29.6	26.1	36.9
Imports, % y/y	15.3	10.5	21.2	18.9	33.7	17.5	21.5	25.2
Trade Balance, US\$ bn	-0.9	-1.1	-1.25	-1.29	-0.88	-1.11	-1.15	-1.87
QUARTERLY DATA	JUN-09	SEP-09	DEC-09	MAR-10	JUN-10	SEP-10	DEC-10	MAR-11
Real GDP, % y/y	3.9	4.5	5.3	5.9	6.1	6.5	6.8	5.4
Foreign Exchange Reserves, US\$ bn	20.25	18.34	16.03	13.45	13.72	13.69	12.4	N/A

Source: CEIC, Bloomberg, ANZ Research

COUNTRY UPDATES

Vietnam: FX and Rates Strategy



Absent a meaningful correction in global commodity prices, more tightening is required to hold the line in the Vietnamese dong.

FX

Without further measures to slow domestic demand, Vietnam's currency devaluations—a cumulative 32% against the US dollar since early 2008—could end up exacerbating the country's fragile balance of payments position. Indeed, Vietnam's trade deficit rose sharply in April, to an estimated \$1.8bn from less than \$1bn in March. While the devaluations have benefited exports via increased price competitiveness, they have also added to the cost of already exorbitant commodity imports, lifting import values even more. As such, inflation has continued to accelerate—now 17.5% (y/y) compared with 9.2% a year ago. This unabated rise in inflation, in turn, continues to fuel onshore demand for US dollars, maintaining upward pressure in USDVND.

In order to short-circuit this vicious circle, inflation must be tamed. As the movement in global commodity prices is beyond the control of Vietnam's authorities, domestic discretionary demand must be slowed with tighter fiscal and/or monetary policy. Economic growth had already slowed to 5.4% (y/y) in Q1 2011, coinciding with a notable shift to an anti-inflation stance in February. The key issue for the dong going forward is whether there will be tolerance for much more. For now, our bias remains for further gains in USDVND toward the 22,000 level.

Tamara Henderson

Rates

The SBV's 300bps of hikes in the refinancing rate since early April were necessary and welcome given the acceleration in inflation. However, inflation pressures have not abated and upside risks are mounting from rising global commodity prices and still loose policy settings. Further hikes of the SBV's key interest rates and/or an increase in the reserve requirement ratio for dong deposits in the near term should not be ruled out.

Hai Pham

FX FORECASTS	CURRENT	YTD (%)	JUN-11	SEP-11	DEC-11	MAR-12	JUN-12	SEP-12
USD-VND	20,913	7.3%	20,900	21,400	21,400	22,000	22,000	22,000
AUD-VND	22,478	13.3%	21,900	22,500	22,000	22,400	22,000	21,600
NZD-VND	16,763	10.8%	15,700	16,100	16,100	16,300	15,800	15,600
JPY-VND	25,218	5.2%	246	249	243	244	239	237
EUR-VND	30,512	17.0%	29,700	29,300	28,900	29,300	29,300	29,700
RATE FORECASTS	CURRENT	YTD (bps)	JUN-11	SEP-11	DEC-11	MAR-12	JUN-12	SEP-12
SBV's refinancing rate	14.00	500	14.00	14.00	13.00	12.00	11.00	11.00

Sources: Bloomberg, ANZ Research

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