

Positioning for the downturn

March 2008

Inside:

Main article.....1
 Financial Markets Update.....6
 FX and Policy Rate Forecasts.....8
 Macro Economic Forecasts9
 LT FC Govt. Bond Ratings.....10
 Country Updates11

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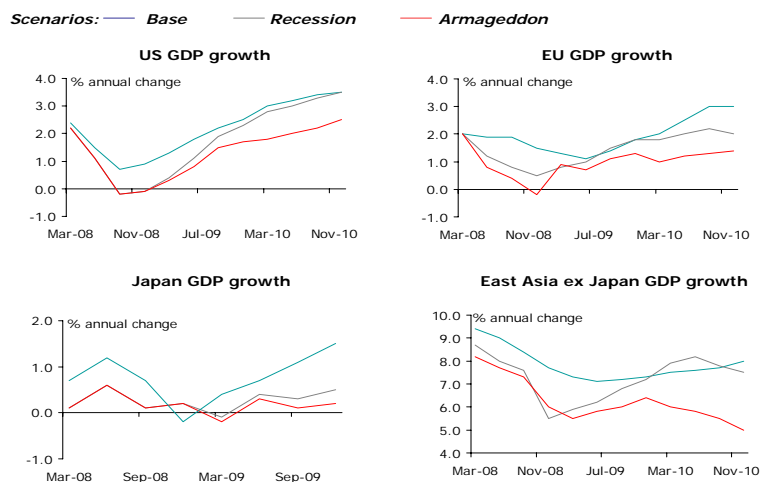
Our Vision:

For Economics@ANZ to be the most respected, sought-after and commercially valued source of economics research and information on Australia, New Zealand, the Pacific and Asia.

The what-ifs have become overwhelming. What if the US economy goes into deep recession? What if China slows to a crawl? What if commodity prices collapse? What if the US dollar remains at its historic low level? What if it doesn't? Rather than take on the what-ifs with a universal answer, we have developed three feasible macro scenarios and explored their implications for global growth and interest rates, commodity prices and foreign exchange markets.

- Baseline scenario (60% probability):** The US narrowly avoids recession, but experiences sub-3% annual GDP growth in 2008 and 2009. Europe and Asia follow suit with slower growth. Under this scenario, global growth reaches 3½% per annum both this year and next, or around trend levels. Demand for commodities softens. Sentiment-based prices such as oil and gold fall in H2 2008 and other exchange-trade commodities such as base metals slide in response to the deteriorating outlook for economic activity. Contract prices for coal and iron ore stay high in 2008 but decline by 20-30% in 2009. Still, prices for all commodities remain above their long-term average even as the US dollar recovers in 2009.
- Recession scenario (30% probability):** The US experiences 2-3 quarters of negative growth and 4-6 quarters of sub-trend growth, causing global growth to fall below trend over 2009-2010. The outcome is similar to the tech wreck of 2001, with world GDP growth falling to a below-trend 3.1% pa in 2008 and 3.3% pa 2009. Asian growth, interest rates and currencies ease in 2009, along with commodities demand. Commodity prices fall faster and farther than in the base case, and are nearly back to long-run averages by end-2009. The US dollar is weak until at least mid-2009, but global disinflation depresses gold prices.
- Armageddon scenario (10% probability):** The global economy fails to dig itself out of the muck until late 2010. This requires 8 or more quarters of sub-trend growth for the G7 and a domestic implosion in China that can only be generated by a systemic banking crisis or political upheaval. Global growth is capped at 3.0% pa for the next three years. The bull run in commodities is over as prices retrace to below long-run averages.

Outcome depends on depth and length of slowdown



Source: Economics@ANZ

Stagnation: our base case

We have downgraded our forecast for world growth over 2008 and 2009. The global economic outlook for the G7 remains clouded, with considerable stress still evident in credit markets and data pointing to further weakness in activity in major advanced economies.

In our view, the current debate about whether the rest of the world can decouple from the United States is moot. In a globalised world, a significant slowdown in the world's largest economy – responsible for about a quarter of global demand – is impossible to ignore. What is different this time around is that the large emerging markets – Brazil, Russia, India and China – are larger economies, with their own base of domestic demand bigger and stronger than has been the case in previous US downturns. The BRICs' ability to stimulate domestic demand – principally through newly-developed independent monetary and fiscal policies – will help keep global growth on track even as the US falters.

Nonetheless, a stagnating US economy matters. In our baseline scenario – to which we ascribe a 60% probability – we now forecast a deep slowdown in the **US** economy in 2008. This will impact upon the rest of the world, but with a lag. The most important factor driving this impact is an expected decline in US business investment, which is a key driver for US import demand, particularly from Asia. Our baseline scenario anticipates zero quarterly growth in business investment for three quarters this year. With this decline in US demand, **Japan** is expected to slow dramatically, in part because of reduced export growth and in part because of a crackdown in regulations that has brought housing construction to a standstill. **Europe** is already reacting to the US-based credit crisis, and the resistance of the ECB to lower interest rates is exacerbating the credit crunch. Our forecasts anticipate that European growth will slow markedly in the fourth quarter of 2008, and trough at an annual growth rate of 1.1% in the second quarter of 2009 before recovering in 2010.

Base forecasts for global growth

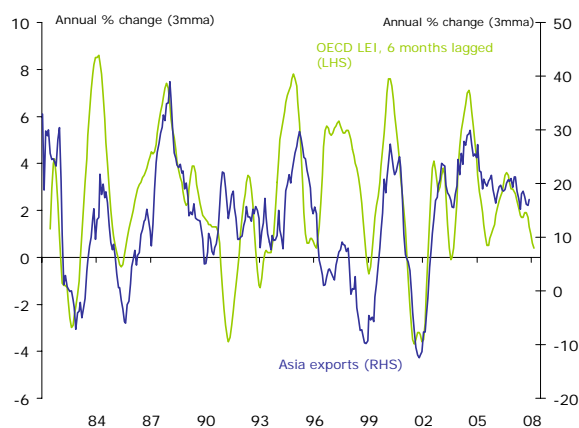
	2008f	2009f	2010f
US	1.4	2.0	3.0
Japan	0.6	0.9	1.7
G7	1.3	1.5	2.5
Eurozone	1.7	1.3	2.2
China	9.8	9.0	10.0
East Asia ex Japan & China	4.8	4.7	5.1
India	8.0	8.0	8.5
Eastern Europe	5.5	4.5	4.8
Latin America	3.6	3.6	3.9
Australia	3.2	2.8	2.9
New Zealand	1.5	2.4	3.5
World	3.6	3.5	4.2

Source: Economics@ANZ

The **East Asian economies** excluding Japan are expected to slow in this scenario, with real GDP growth forecast to trough at 7.1% over the year to Q2 2009 versus a peak of 9.4% in the present quarter. The rationale for the forecast is twofold. First, the slowdown in external demand is significant. The US and Europe together represent 37% of the combined exports of China, Japan, Taiwan and Korea. Asia's export growth has historically mirrored the OECD leading economic indicator (LEI) with a 6 month lag. That relationship has broken down of late, but a lengthy slowdown in the G7 will impact Asian exports eventually.

G7 affects Asia exports with a lag

OECD Leading Economic Indicator and Asia exports



In addition to the downturn in the G7, a domestically-generated slowdown in **China** is expected in the second half of this year. China's economy has been running red hot for several years now, with annual GDP growth well in excess of 10%. This growth has been led by net exports and fixed asset investment. Chinese export growth to the US is already on the decline, and a similar trend is expected for exports to Europe. Meanwhile, the government has been working to cool investment growth over the past 18 months. First, the PBOC has tightened monetary conditions via a stronger exchange rate and higher interest rates. Second, the government has imposed lending guidance on banks repeatedly, and taken selective measures to reduce real estate development in high-growth urban areas. Residential construction is a key driver of fixed asset investment, so this is important. Finally, the government is promoting consolidation in heavy industries such as steel and aluminium – manufacturing – which represent important sources of commodity demand – in an effort to both improve China's environmental track record and to ease trade tensions in these sectors.

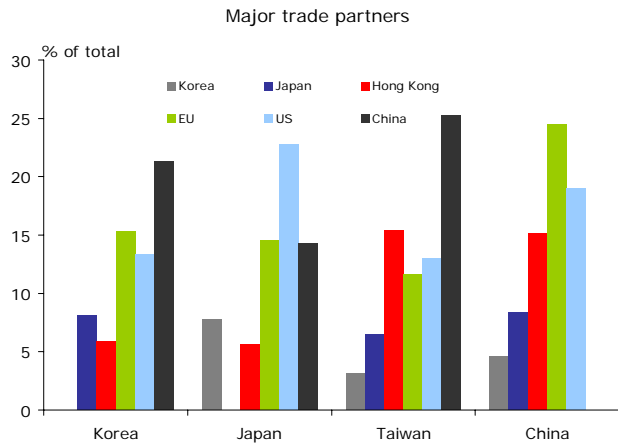
Channels of transmission from the US to Asia

Aside from the expected slowdown in China, the reality of falling demand in the G7 and the credit crunch that created it will impact upon the rest of North Asia. There are three key channels of transmission from the US downturn to Asia, in our view. These are: declining demand for Asian **exports**; the effect on consumption of a falling **equity market**; and declining **global liquidity**.

The impact of each factor varies by country, with Japan judged to be the most vulnerable to the US-led downturn.

The US and EU remain major exports markets for North Asia, as can be seen in the chart below. The US is still by far the largest export market for Japan. For Korea, the US and EU combined represent nearly 30% of all exports, while that figure is around 25% for Taiwan. The importance of the US as a trade partner for China has slipped, but the EU now absorbs 25% of Chinese exports, so a slowdown there is material for the economy of the PRC. Combined, the US and EU represent 43% of China's export market.

Synchronised G7 slowdown is an issue for North Asian export growth



Sources: Datastream; Economics@ANZ

The impact of falling export growth and a resulting decline in net exports differs by economy, with the biggest effect again being felt in Japan. We calculate that net exports contributed just over half of Japan's real GDP growth last year, while the contribution of net exports to real GDP growth in Korea, Singapore and Indonesia was 20-25% of the total growth rate. In China, we believe the contribution of net exports was roughly 30% of total growth last year, although the data are estimated. From an exposure and dependence point of view, therefore, Japan is by far the most vulnerable on the real economy side to a decline in US demand.

The fall in equity markets is another challenge for East Asia. Although Asian equity markets held up relatively well last year, they are down 10-20% year-to-date with the largest indices – the Nikkei, Hang Seng and BSE – down 15% or more year-to-date and 20% or more from peaks recorded in the 4th quarter of last year.

The below table presents the results of an OECD study estimating the impact on domestic consumption of a 20% decline in equity markets, which is the classic "bear market" definition. The study suggested that such a decline would reduce Japan's real GDP growth by 0.5 of a percentage point in the year that it occurred, and 0.4 of a percentage point in the following year.

The study did not specifically mention Korea, but its market capitalisation is at 92% of GDP is large

enough to have a significant impact. China's market capitalisation has grown rapidly over the past few years, and is now in excess of 100% of GDP. However, a significant percentage of shares are still non-tradeable; its actual market cap is probably closer to 75% of GDP.

Bear equity markets have a negative impact on consumption in OECD

Effect on consumption of a 20% decline in equity market
Changes compared with baseline

	Real private consumption (pp)		Real GDP (pp)	
	1 st year	2 nd year	1 st year	2 nd year
US	-1.2	-1.1	-0.8	-0.8
Japan	-0.6	-0.7	-0.5	-0.4
Germany	-0.2	-0.4	-0.1	-0.2
France	-0.3	-0.2	0	-0.1
UK	-0.2	-0.1	0	-0.4
OECD total			-0.6	-0.7

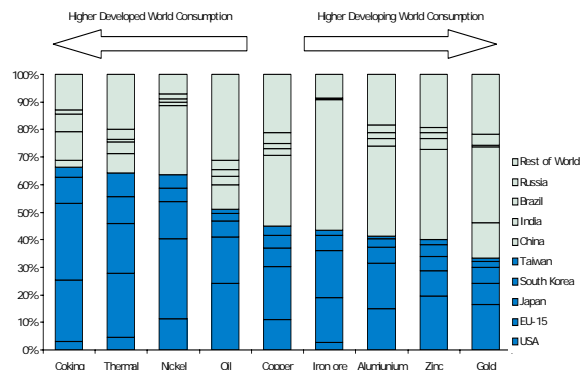
Finally, a decline in liquidity in the financial markets – as exhibited through ever-widening credit spreads globally – has the potential to slow growth. However, most Asian economies still appear to be enjoying surplus liquidity conditions. The countries that are most vulnerable to falling external liquidity are those that feature a current account deficit, as this implies the need to import capital from offshore. Both Australia and New Zealand have sizeable current account deficits, but most of East Asia does not. The "credit crunch" is therefore the least important variable to affect the outlook for Asia in the coming few years.

Impact on commodity demand

To date, commodities markets have brushed off bad news in the G7, with the view that demand from fast-growing emerging market countries such as China will keep prices buoyant. We agree with the long term view, but believe that prices will soften this year – particularly for inputs imported by the G7.

Global commodity imports

Breakdown of 2007 global seaborne demand



As can be seen in the chart above, more than half

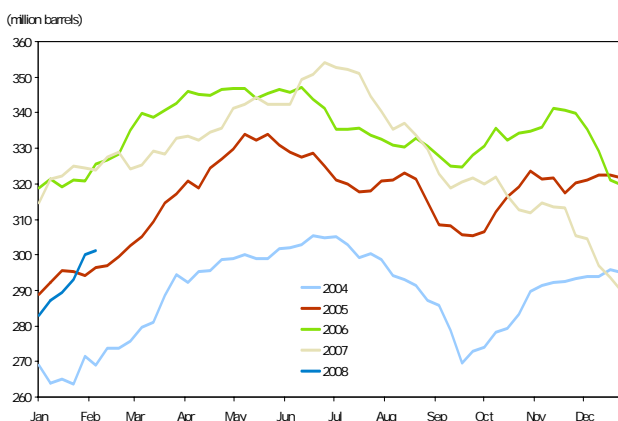
of global imports of oil, thermal and coking coal, and nickel, are the result of demand in the developed world. The US and the EU are responsible for 40% of global seaborne oil shipments, and Japan claims just over 25% of trade in global seaborne coking coal. China claims a huge percentage of global coal consumption, but much of this coal is domestically produced, so this demand only affects global prices to the extent that domestic factors affect China's net export/import position in coal.

In terms of global commodity prices and exports from commodities producers, therefore, demand for commodities in the G7 remains a material factor. The evolution of growth in Japan is particularly important for Australia, as Japan remains Australia's largest trade partner and represents 50% of Australia's offshore thermal coal market and 30% of the offshore metallurgical coal market. Under our baseline scenario, which essentially envisages a soft landing for the global economy, we expect commodity prices to ease over time. Consumption of raw materials is expected to remain strong relative to historic levels, but prices are expected to decline starting in the second half of this year. Prices may adjust with a lag, primarily because there are still supply constraints as a result of years of underinvestment in the resources sector.

Crude oil is expected to be the first commodity to be hit by falling US growth. Oil has recently traded above US\$100/bbl for WTI, but this is at odds with the underlying fundamentals. The market remains quite focused on supply constraints and views commodities as an attractive asset class, but the United States is still responsible for 23% of global oil consumption. The period of February-May in the US coincides with a seasonal rise in inventories before the summer driving season begins. As the chart below shows, inventories are already building faster than they have in the previous 2 years.

US crude inventory expected to build

US Crude oil stocks 2004-2008

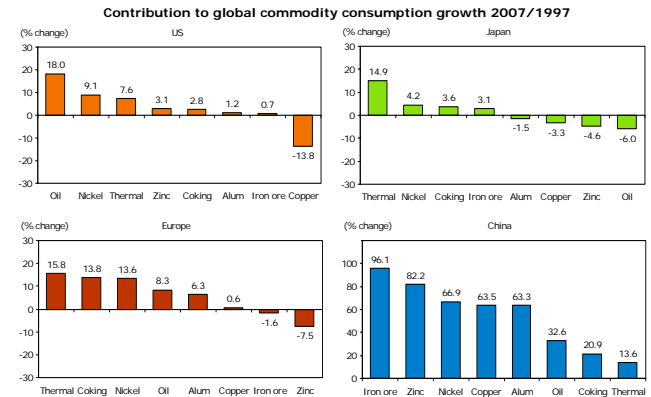


Our forecast is for the WTI oil price to fall to around US\$82/bbl by the end of this year, or a 19% nominal decline from the current level of US\$101/bbl. That is still well above our long-term average oil price of US\$60/bbl. Disinflation, generated in some part by falling oil prices, should also remove some support for the rally in gold.

In most other commodities, however, China is king and continued high levels of demand for the next 6-9 months is expected to delay a softening of prices until late this year or early next year.

China's demand keeps commodity prices elevated

China has dominated growth in commodity demand in the past 10 years



Sources: WBMS, AME, IEA, ANZ Bank

Base metal prices have been volatile but downside risks are likely to become more evident as the global economy slows and increased supply comes on stream. Bulk prices, however, are expected to post record price growth on still-strong demand and ongoing supply constraints. Contract prices for coal and iron ore will settle high this year, but are expected to decline in 2009¹.

Impact on foreign exchange markets

Although a forecast slowdown in global growth and decline in commodity prices may not seem to be good news to some, in fact this does provide important relief on global inflation. Unless growth softens to the point where global inflation pressures can dissipate, central banks will be forced to keep interest rates higher than the growth trajectory would suggest, which would eventually cause an even sharper downturn.

However, with growth easing back to trend as per our forecast, central banks are expected to be able to follow the US Federal Reserve in cutting interest rates, starting with the ECB in the second half of this year and followed by a number of Asian central banks next year. The ability of Asian central banks – and central banks in emerging markets globally – to adjust monetary policy to suit domestic conditions is an important buffer to the drop to below-trend growth in the G7 that is underway. It represents a huge shift from previous decades, when many emerging markets were tied to US monetary policy by virtue of a fixed or pegged exchange rate.

In currency markets, implicit Fed acceptance of US dollar weakness as reflected in Federal Reserve Chairman Ben Bernanke's testimony to Congress on 27 February has seen the US dollar test new lows. A prolonged period of stagnation in the US economy

¹ For more detailed commodity forecasts, please see the ANZ Commodities Weekly and ANZ Commodities Quarterly by Mark Pervan and Katie Dean.

and further cuts in US interest rates will delay a recovery in the US dollar until the latter part of this year. Our forecasts call for continued strength in the euro against the US dollar in the next few months to a peak of EUR/USD1.54 as of June before the US dollar recovers to EUR/USD1.47 by year-end. A driving factor for our forecast is the expectation that the ECB will begin to cut rates in the second half. The Japanese yen also forecast to continue to strengthen to USD/JPY100 by September as risk aversion unwinds carry trade activity. The major risk to this view is the potential for a BOJ rate cut, but we view such a move as unlikely at this stage. Overall, conditions for a major upward move of the US dollar are expected to eventuate in early 2009.

Base forecasts for rates, FX and commodities

end-period	2008f	2009f	2010f
Rates			
Fed funds	2.0	3.25	5.25
ECB refi	3.50	3.25	4.00
PBOC 1 yr lending	7.47	6.65	6.38
RBA cash	7.50	7.50	7.50
Commodities			
Oil (WTI US\$/bbl)	82	88	80
Gold (US\$/lb)	830	840	760
Copper (US\$/lb)	3.0	2.85	2.65
Thermal coal (US\$/t)	105	85	70
Iron ore lump (US\$/t)	178	143	143
FX			
EUR/USD	1.47	1.27	1.15
USD/JPY	102	113	120
AUD/USD	0.90	0.78	0.72
USD/CNY	6.698	7.027	7.372

Source: Economics@ANZ

With this US dollar view, we expect Asian currencies to strengthen against the US dollar, but remain steady or even lose ground against the euro and the Australian dollar. Our forecast is for the Australian dollar to trade above AUD/USD0.93 for the first half of this and to weaken to AUD/USD0.90 by year-end before falling below AUD/USD0.90 into 2009.

What if a recession eventuates?

The risk of a US recession, defined as two consecutive quarters of negative growth, is significant, and warrants an examination for its impact on global economy and financial markets. Under a recession scenario – which we give a 30% probability – the transmission mechanisms from the US downturn to the rest of the world are similar to the scenario outlined above, but are deeper and longer lasting. As a result, global growth falls this year to below trend for the first time since 2002, and does not return to above-trend growth until 2010. Europe slows to a crawl, and does not recover to a 2% growth rate until after 2010. China maintains a growth rate of above 8% per annum, below which it has only fallen during periods of serious crisis.

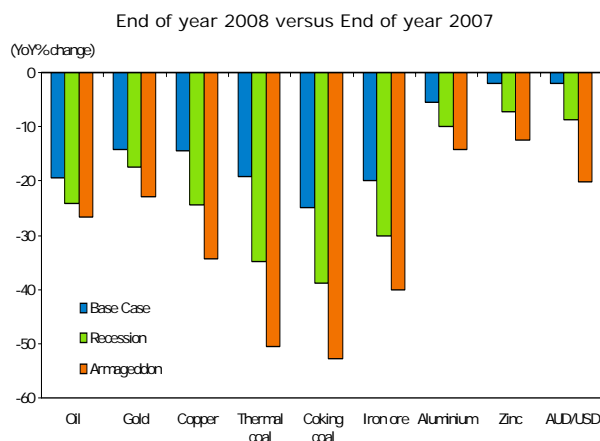
The deeper slowdown in global demand overcomes Asian central banks' ability to stimulate domestic

demand through easy monetary policy. As a result, growth for emerging Asia as a whole falls to below trend in 2009. The global outcome is similar to the tech wreck of 2001. Asian growth, interest rates and currencies all ease in 2009, along with demand for hard commodities. Prices for commodities fall faster and farther than in the base scenario, and are nearly back to their long-run average by end-2009. The US dollar is weak until at least the middle of 2009, but falling inflation depresses gold prices.

The Armageddon scenario

Our final scenario is premised on what it would take for commodity prices to fall to below their long-term average. Against this backdrop, we need to assume an even more protracted downturn in advanced economies, with the US and Japan posting negative growth in 2008, and the Euro area recording flat growth of around 0.5% in 2008 with a mild recovery from 2009. Also in this scenario, we need to assume an independent domestic event in China that sends the economy into recession. Possibilities including a systemic problem in the banking sector or a political crisis, but the problem would need to be deep enough to bring China's real GDP growth to around 7% in 2010 in contrast to our base case scenario of 10%. In this case, East Asia's growth profile will continue to be depressed, despite a mild pick-up in advanced economies in 2010. Overall, in this scenario, world growth is capped at 3% over the next three years. By 2010, commodity prices have retraced to below long-term averages.

All commodity prices set to fall over time: contract bulks the biggest losers in the long term



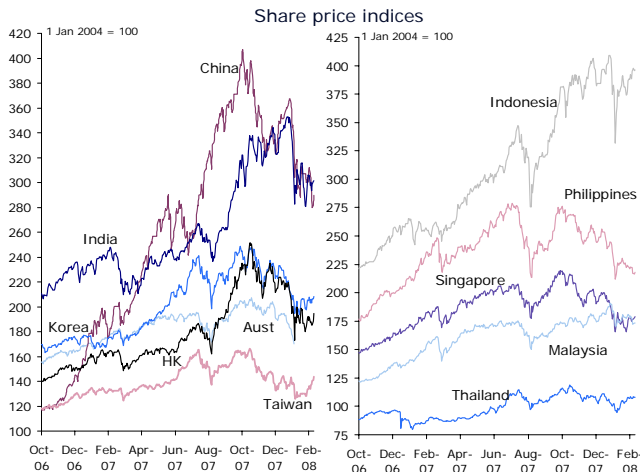
Note: Iron ore and coal priced on March 31 year end
Source: Economics@ANZ

Overall, what these scenarios suggest is that it is difficult to get world growth down to 2-2½% level last seen in 2001-2002, reflecting Asian resilience and the benefits of reform across Europe. Commodity prices will ease, but the extent of declines depends upon the depth of the US downturn. In all our scenarios, disinflation begins later in 2008, ending the trend of accelerating global inflation and allowing most central banks to begin easing monetary policy in late 2008 and into 2009.

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Financial Markets Update

Equity markets



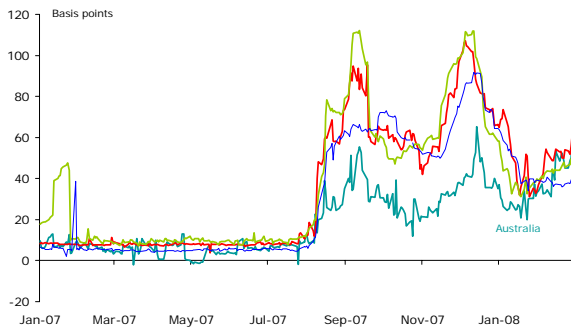
Sources: Bloomberg and Economics@ANZ

- Growing concerns over the health of the US economy has dragged global equity markets down with the US and European markets among the worst hit.
- Asian equity markets are also feeling the impact of the downturn in US financial markets but they have been fairly resilient in the past month.
- Thailand’s stockmarket rose by 7.8% during the month of February. The return to multi-party democracy has lifted consumer and business confidence. Indonesia also recorded gains, supported, in part, by resource and mining stocks as commodity prices continue to stay elevated. Taiwan’s equity market has responded positively to the Kuomintang party’s (KMT) landslide victory in parliamentary elections in January.
- Nevertheless, expect greater volatility ahead as the global economic outlook remains clouded by stress in credit markets and uncertainty about the extent of further potential losses.

Money markets

OIS spreads widen in late February

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

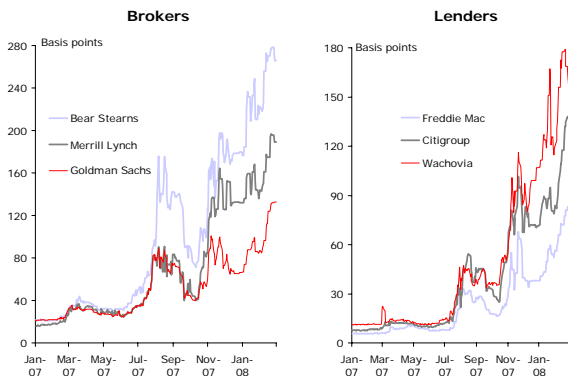


¹ Overnight indexed swap rate, a measure of market expectations of official policy rates
Sources: Bloomberg and Economics@ANZ

- The stress in money markets that had been caused by liquidity shortfalls have eased notably since the start of the year. The spread between cash and interbank rates has eased considerably from recent highs across the US, Europe and Australia.
- Partly, this reflects the success of the Fed’s new Term Auction Facility (TAF). The TAF was introduced in December as an adjunct to normal open market operations. It is designed to allow banks and institutions to access a wider range of collateral on a broader term rate. The TAF also allows for auctions of these term facilities for US\$ in different countries, including Canada and parts of Europe, representing a new degree of global central bank co-operation.
- However, spreads widened towards the end of February as funding pressures emerged.

Credit markets

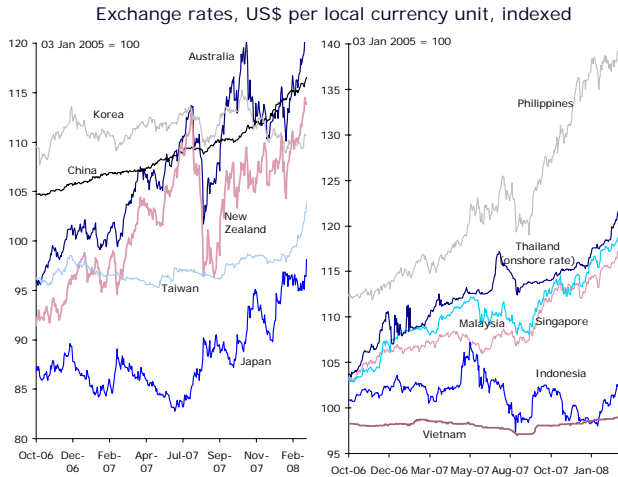
Some reprieve this week for US financial institutions but CDS spreads remain wide



Sources: Bloomberg and Economics@ANZ

- Credit spreads have widened sharply across the world in the last few months and are now much wider than when the ‘liquidity crisis’ began in August last year. The sharp spike since late 2007 has been largely attributed to bigger-than-expected sub-prime related losses and sharper declines in profits.
- There was, however, some reprieve in credit markets with credit default swap spreads having narrowed in late February on news that Standard and Poor’s affirmed its AAA credit rating on bond insurers MBIA Inc. and Ambac Financial Group Inc.
- However, fears over further write-downs and concerns over the US economy are likely to keep spreads elevated

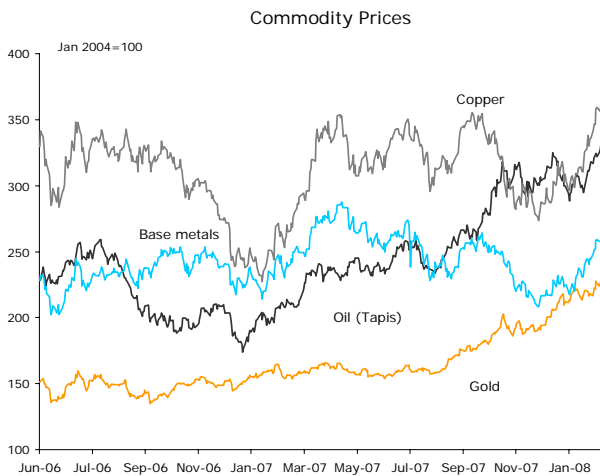
Exchange rates



Source: Bloomberg and Economics@ANZ

- The US dollar continues to test new lows as softer economic data and expectations of further interest rate cuts weigh on the currency. Implicit Fed acceptance of US dollar weakness, as reflected in Federal Reserve Chairman Ben Bernanke's testimony to Congress on 27 February, has also kept the currency under pressure.
- The EUR/USD has rallied above the 1.50 level while the USD/JPY fell below JPY106.0. The AUD/USD rose above 0.94 in late February to the highest level since 1984 and the NZD posted a 23-year high above 0.81.
- Across Asia, currencies have responded similarly, reaching new highs against the US dollar. The US dollar hit an 11-year low against the Singapore dollar, just below SGD1.40 and a 10-year low against the Malaysian ringgit at MYR3.20.
- The Yuan is set to appreciate at a faster pace in coming months in a bid to contain imported inflation.

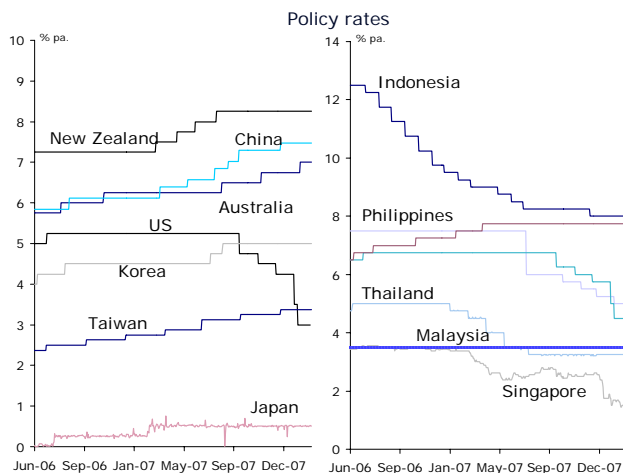
Commodities



Source: Datastream, Bloomberg

- The weaker economic climate has not stopped oil prices from reaching new highs. Crude oil was back above US\$100/bbl this week on concerns over supply disruptions, cold weather in the US northeast and investor demand. Nevertheless, an expected decision by OPEC to keep oil production unchanged at its meeting on 5 March is likely to provide the trigger for a sell off in oil.
- 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 continues to soar, nudging closer to US\$1000/oz, as inflation concerns, weak US dollar and strong oil prices encourage investors to buy the precious metal.
- Copper is likely to be well supported given that global stocks are at relatively low levels.

Policy rates



Source: Datastream and Economics@ANZ

- Soft US economic data continue to raise fears of a recession and have lifted expectations of further interest rate cuts in coming months. The FOMC is scheduled to meet again in March with markets priced in a 50 bps cut.
- Despite accelerating inflation across Asia, most central banks have kept policy rates unchanged amidst concerns over deteriorating global economic conditions. Only the Philippines cut interest rates.
- The persistence of low domestic interest rates in Singapore in the face of multi-decade high inflation has surprised some observers, but it is important to remember that the exchange rate is the key tool for monetary policy settings.
- Strong economic data out of Australia suggest that the RBA has more work ahead with underlying inflation expected to stay above the target band this year. ANZ expects a 25 bps hike in interest rates in March following one in February.

Foreign Exchange and Policy Rate Forecasts

	Mar 08	Jun 08	Sep 08	Dec 08	Mar 09	Jun 09	Sep 09
China							
USD/CNY, eop	7.01	6.75	6.66	6.70	6.78	6.86	6.94
AUD/CNY, eop	6.52	6.34	6.13	6.03	5.90	5.76	5.62
One year base lending rate	7.65	7.65	7.65	7.47	7.29	7.1	6.92
Hong Kong							
USD/HKD, eop	7.78	7.78	7.79	7.80	7.79	7.79	7.78
AUD/HKD, eop	7.24	7.31	7.17	7.02	6.78	6.54	6.30
HKMA discount rate	4.25	3.75	3.50	3.50	3.50	3.50	3.75
India							
USD/INR, eop	39.0	38.8	38.9	39.0	39.1	39.2	39.3
AUD/INR, eop	36.3	36.5	35.8	35.1	34.0	32.9	31.8
Repo rate	7.75	7.75	7.75	7.75	7.75	7.75	7.75
Indonesia							
USD/IDR, eop	9,110	9,100	9,250	9,350	9,550	9,400	9,300
AUD/IDR, eop	8,472	8,554	8,510	8,415	8,309	7,896	7,533
BI rate	8.00	8.00	7.75	7.50	7.50	7.50	7.50
Korea							
USD/KRW, eop	940	920	925	930	935	940	945
AUD/KRW, eop	874	865	851	837	813	790	765
Overnight call rate	5.00	5.00	4.75	4.75	4.50	4.25	4.25
Malaysia							
USD/MYR, eop	3.20	3.19	3.24	3.28	3.33	3.36	3.39
AUD/MYR, eop	2.98	3.00	2.98	2.95	2.90	2.82	2.75
Overnight policy rate	3.50	3.50	3.50	3.50	3.50	3.50	3.50
Philippines							
USD/PHP, eop	40.0	39.8	40.8	41.5	42.0	42.5	43.0
AUD/PHP, eop	37.2	37.4	37.5	37.4	36.5	35.7	34.8
Overnight Reverse Repo rate	5.00	5.00	5.00	5.00	5.25	5.25	5.25
Singapore							
USD/SGD, eop	1.41	1.40	1.39	1.38	1.39	1.40	1.40
AUD/SGD, eop	1.31	1.32	1.28	1.24	1.21	1.17	1.14
3-month interbank rate	1.50	1.45	1.65	1.70	1.90	2.00	2.25
Taiwan							
USD/TWD, eop	32.5	32.8	33.0	33.0	33.3	33.5	33.6
AUD/TWD, eop	30.2	30.8	30.4	29.7	29.0	28.1	27.2
Discount rate	3.375	3.375	3.375	3.375	3.375	3.245	3.115
Thailand							
USD/THB, eop	31.3	30.6	30.9	31.3	31.5	32.0	32.1
AUD/THB, eop	29.1	28.8	28.4	28.2	27.4	26.9	26.0
1-day repo rate	3.25	3.25	3.50	3.50	3.75	3.75	3.75
Vietnam							
USD/VND, eop	15,794	15,500	15,423	15,345	15,383	15,422	15,460
AUD/VND, eop	14,688	14,570	14,189	13,811	13,383	12,954	12,523
Japan							
USD/JPY, eop	105.0	102.0	100.0	102.0	105.0	108.0	110.0
AUD/JPY, eop	97.7	95.9	92.0	91.8	91.4	90.7	89.1
Overnight call rate	0.50	0.50	0.50	0.50	0.50	0.75	0.75
Australia							
AUD/USD, eop	0.93	0.94	0.92	0.90	0.87	0.84	0.81
Cash rate	7.25	7.50	7.50	7.50	7.50	7.50	7.50
New Zealand							
NZD/USD, eop	0.79	0.78	0.74	0.69	0.66	0.64	0.63
AUD/NZD, eop	1.18	1.21	1.24	1.30	1.32	1.31	1.29
Overnight call rate	8.25	8.25	8.00	7.50	7.00	6.75	6.75
United States							
Fed Funds Rate, eop	2.75	2.25	2.00	2.00	2.00	2.00	2.25

Macro Economic Forecasts

Real GDP Growth (%)

	2006	2007f	2008f	2009f
Australia	2.8	3.9	3.3	2.8
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	3.0	1.5	2.4
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	8.0	7.5

Nominal GDP (US\$ bn)

	2006	2007f	2008f	2009f
Australia	761.0	912.9	1078.0	1045.4
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	1006.2	1046.4
Malaysia	150.9	165	177	192
New Zealand	105.3	128.2	138.4	122.6
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	86.6	98.4

Inflation (%)

	2006	2007f	2008f	2009f
Australia	3.5	2.3	3.7	3.2
Cambodia	4.7	7.0	5.0	5.0
China	1.5	4.8	4.9	2.9
Hong Kong	2.0	2.0	3.4	1.5
India ⁺	6.2	6.7	6.5	6.0
Indonesia	13.3	6.4	6.1	5.6
Japan	0.3	0.1	0.8	1.0
Korea	2.2	2.5	2.6	2.5
Malaysia	3.6	2.0	2.7	2.0
New Zealand	2.6	3.2	3.0	2.7
Philippines	6.3	2.8	4.2	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	3.3	2.4
United States	3.2	2.8	2.3	1.4
Vietnam	7.4	8.3	13.8	6.6

Fiscal Balance (% of GDP)*

	2006	2007f	2008f	2009f
Australia	1.7	1.6	1.4	1.3
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	-2.0	-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	-3.1	-3.0
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

Current Account (% of GDP)

	2006	2007f	2008f	2009f
Australia	-5.5	-6.0	-4.9	-4.3
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	-8.0	-6.6	-6.7
Philippines	4.3	3.7	2.5	2.0
Singapore	27.5	25.0	24.0	22.0
Taiwan	5.8	5.5	6.0	5.5
Thailand	1.1	5.9	3.3	3.3
United States	-6.2	-5.5	-5.0	-4.6
Vietnam	-0.3	-3.2	-3.2	-3.5

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	1500	1750	2000
Hong Kong	133	154	165	175
India	170.2	267	320	370
Indonesia	40.7	54	60	66
Japan	875	950	1045	1150
Korea	238	263	289	315
Malaysia	81.7	102	114	125
New Zealand	13.8	n/a	n/a	n/a
Philippines	22.3	30	35	38
Singapore	136.3	162	175	185
Taiwan	266	271	276	282
Thailand	65.1	84	95	103
United States	41.5	n/a	n/a	n/a
Vietnam	13.4	20.0	31.0	35.0

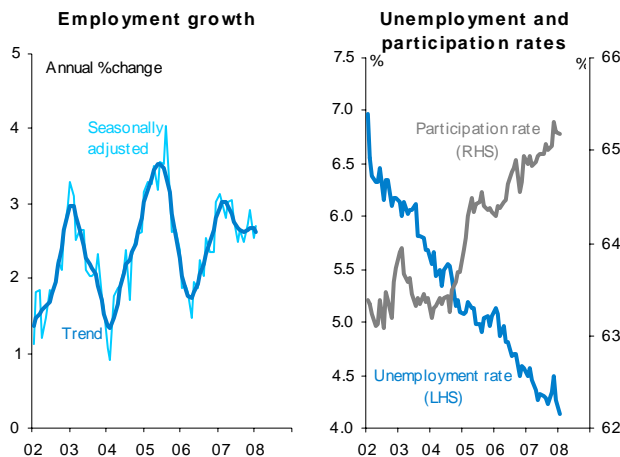
+ : Fiscal year beginning April; * : Fiscal balance for Australia, New Zealand, Malaysia and Singapore corresponds to fiscal year

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		
A1 China Czech Republic Saudi Arabia	A+ Chile Italy	B1 Pakistan Papua New Guinea Philippines Suriname Ukraine Uruguay	B+ Argentina Ghana Pakistan Cambodia Papua New Guinea
A2 Chile Hungary Israel Korea Poland	A China Cyprus Czech Republic Israel Korea Oman	B2 Honduras Venezuela Cambodia	B Fiji Paraguay
A3 Malaysia	A- Malaysia Poland	B3 Argentina Bolivia Lebanon	B- Bolivia Ecuador
Baa1 Mexico South Africa Thailand	BBB+ Hungary Mexico Russia South Africa Thailand	Caa1 and below Cuba Ecuador Nicaragua Paraguay	CCC and below Lebanon
Baa2 Mauritius Tunisia Russia	BBB Tunisia		
Baa3 Bulgaria India Romania	BBB- Romania India Colombia Morocco		

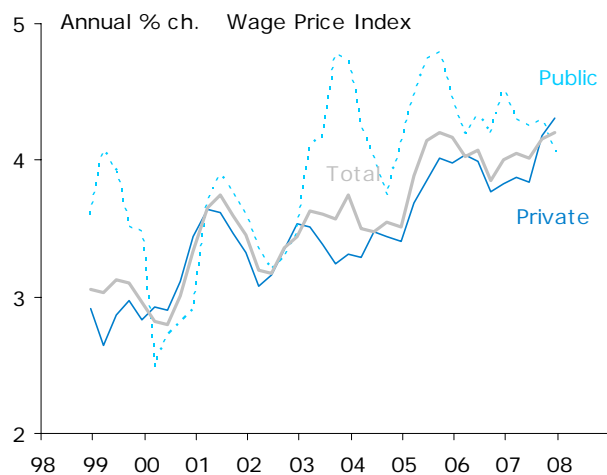
Country Update: Australia

Unemployment falls to fresh 3-decade low



Source: Australian Bureau of Statistics

...as wages growth drifts upwards



Source: Australian Bureau of Statistics

- The Australian inflation outlook has deteriorated further with the RBA raising its forecasts of underlying inflation to 3½% by the end of 2008 and easing only gradually to 3% by mid 2010. With inflation likely to exceed the top of the target band (of between 2 and 3%), it is no surprise that the Reserve Bank raised the cash rate by 25bp at its March meeting. This followed a similar move in February and was the 12th consecutive increase since 2002.
- At this stage, we expect at least one further increase in the cash rate this year, most likely at the May meeting following the release of the March quarter CPI. We are yet to see any evidence of inflationary pressures receding and the RBA continues to believe that "a significant slowing in demand from its pace of last year is likely to be necessary".
- Nevertheless, the RBA is likely to proceed more cautiously from here. The accompanying statement was less hawkish than previous RBA communications, highlighting the significant tightening in credit conditions since the middle of 2007. It also pointed to some "tentative evidence" of a moderation in household demand, with indicators of confidence and demand for credit easing somewhat. Retail sales data released at the same time as the board meeting also indicated that sales were flat in the month of January, the weakest monthly outturn since May last year.
- Other economic indicators have generally been on the strong side however. Most notably, employment continues to grow rapidly, with another 26,800 jobs added in January. This took the unemployment rate to fresh 30-year low of 4.1%. In addition, wages have continued to drift upward, with the annual growth rate at 4.2% in the December quarter, equal highest in the history of the series.
- Data on capital expenditure intentions have also held up, with businesses expecting to increase investment by 12.6% in 2007-08 and 23.2% in 2008-09. This strong outlook is consistent with business credit figures which showed an expansion of 24.4% over the year to January, although some of this strength may be attributed to the re-intermediation of credit related to difficult direct funding conditions.

Riki Polygenis

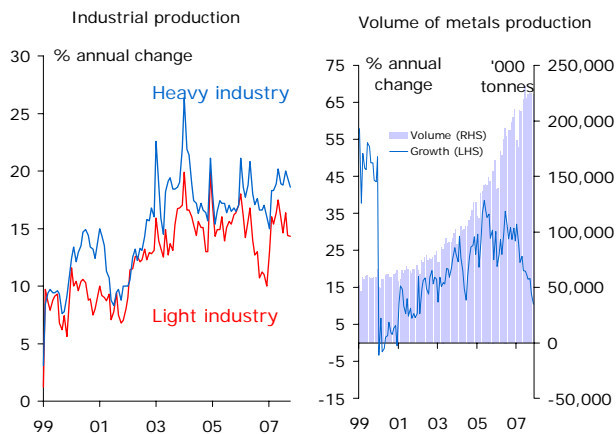
Economic data – Australia

Monthly data	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08
Building Approvals, 000's	13.1	13.1	12.9	13.9	13.5	14.6	12.3	n/a
Retail Sales, % YOY	6.8	7.4	7.8	8.3	7.4	8.0	8.4	7.1
Exports, % YOY	-3.4	2.4	3.5	0.5	-3.6	2.9	4.3	n/a
Imports, % YOY	4.5	5.4	10.2	7.4	4.4	10.6	7.4	n/a
Trade Balance, AUD bn	-1.87	-1.12	-1.74	-2.01	-2.83	-2.16	-1.94	n/a
Foreign Exchange Reserves, US\$ bn	67.6	68.9	57.8	46.5	33.2	29.0	26.9	31.8
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	3.7	4.3	n/a
- Private consumption	2.5	2.7	2.7	3.4	4.0	3.7	4.5	n/a
- Government consumption	1.7	3.6	6.4	3.6	4.5	2.6	1.3	n/a
- Gross fixed capital expenditure	10.4	5.3	2.2	2.7	5.2	9.4	10.6	n/a
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	-13.3	-13.7	-12.9	-15.2	-15.3	-15.6	-15.6	n/a
Capital Account, AUD bn (nsa)	13.5	12.6	14.1	15.1	15.3	14.4	18.0	n/a

Sources: Australian Bureau of Statistics, Reserve Bank of Australia Note: data seasonally adjusted unless otherwise stated

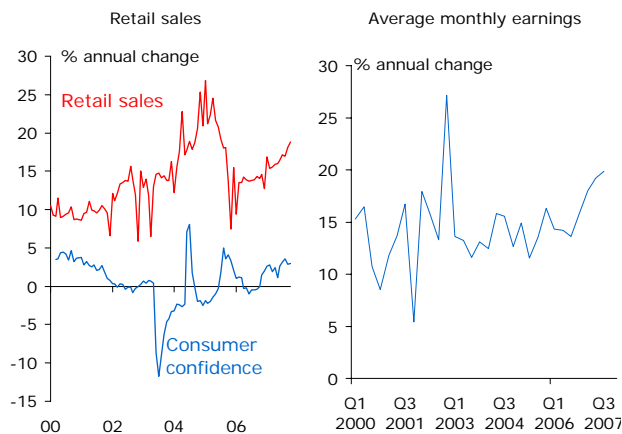
Country Update: China

Production growth is easing



Sources: CEIC, Economics@ANZ

But strong consumption fuelling inflation



- Inflation reached an 11-year high in January, rising by 7.1% in annual terms. The worst snowstorms in 50 years led to transport disruptions and food shortages, driving food costs up by 18.2% YOY, the eighth successive month of double-digit growth. Housing and utilities charges also rose but transport and communications costs continued to fall. February's inflation reading may also turn out to be of a similar magnitude to January as the country continued to face supply disruptions. Inflation, however, is likely to moderate towards the second half of this year as supplies are restored and as global commodity prices respond to the slowdown in global growth. In addition, an anticipated slowdown in investment growth is also expected to help to reduce price pressures. Nevertheless, strong domestic consumption is likely to keep inflation above the government's target of 3%. Our forecast is for inflation to average 4.9% in 2008, with upside risks versus the National Development and Reform Commission's revised target of 4.8%.
- With lingering inflation, monetary policy is expected to remain tight. ANZ forecasts another rate hike in March, with the policy rate expected to peak at 7.65%. The Yuan is also set to appreciate at a faster pace to help limit imported inflation. Since the start of the year, the Yuan has strengthened by 2.7% against the US dollar and we expect it to reach USD/CNY6.74 by June.
- Import growth continues to outpace export expansion but trade surpluses remain sizeable. Export growth ticked up in January, rising by 26.7% from a year earlier but imports grew by a solid 27.6%. This generated a trade surplus of US\$19.5 bn, which was US\$3.6 bn higher than in January 2007. The rising Yuan will help lift import growth while exports are likely to be adversely affected by the erosion in competitiveness as well as weaker global demand. Nevertheless, with the value of exports remaining much larger than imports, the trade surplus is expected to remain substantial at more than US\$200 bn this year.

Jasmine Robinson

Economic data – China

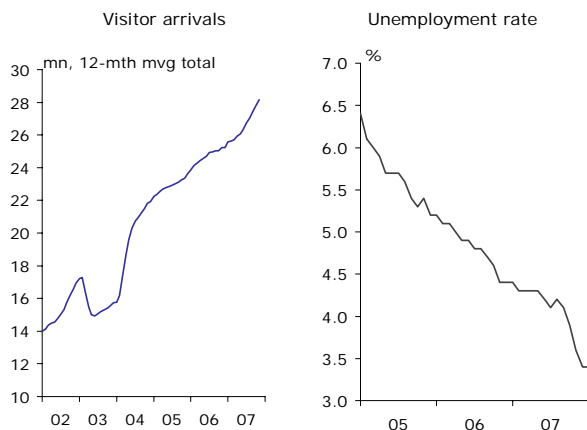
Monthly data	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08
Industrial Production, % YOY	19.4	18.0	17.5	18.9	17.9	17.3	n/a	n/a
Retail Sales, % YOY	16.0	16.4	17.1	17.0	18.1	18.8	20.2	n/a
Consumer Price Index, % YOY	4.4	5.6	6.5	6.2	6.5	6.9	6.5	7.1
Exports, % YOY	27.1	34.1	22.7	22.7	22.3	22.8	21.7	26.7
Imports, % YOY	14.3	26.9	20.1	16.1	25.5	25.3	25.7	27.6
Trade Balance, US\$ bn	26.8	24.3	25.0	23.8	27.1	26.3	22.7	19.5
Foreign Exchange Reserves, US\$	1332.6	1385.2	1408.6	1433.6	1454.9	1496.9	1528.3	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

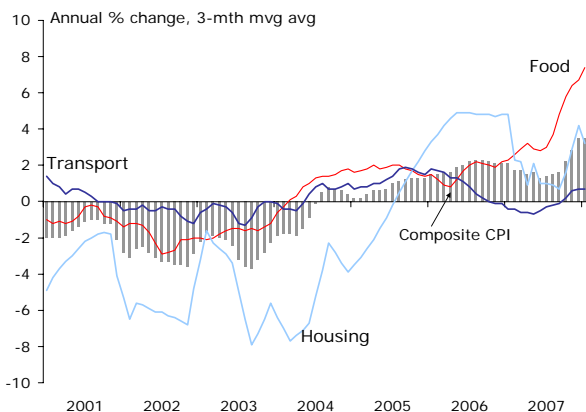
Country Update: Hong Kong

Economy stays resilient



Sources: CEIC, Datastream, Economics@ANZ

Headline inflation recedes but upside risks persist



Source: CEIC

- Hong Kong's economy grew by 6.3% in 2007, the slowest pace in four years but this was still above its 15-year average of 4.6%. For 2008, domestic demand is expected to remain relatively healthy, buoyed by low unemployment, which stood at 3.4% in January, and lower borrowing costs. Proposed tax initiatives such as the one-off tax reduction of 75% of salaries tax and tax under personal assessment for FY2007/08, up to a maximum of HK\$25,000 and a similar application for profits tax, and a one percentage point cut in both the salary and profits tax to 15% and 16.5% respectively, will also spur spending. The tourism sector is also expected to receive a boost from fiscal measures such as the waiver of the hotel accommodation tax. In 2007, Hong Kong received 28 mn visitors, up 11.6% from 2006 and infrastructure expansion such as the development of a new cruise terminal at Kai Tak, airport upgrade and the provision of new sites for the building of hotels will underpin the long-term growth of this sector. However, merchandise export growth is likely to be hampered by the slowdown in global growth in 2008. China is Hong Kong's top export market, absorbing close to half of total exports, followed by the US, which accounts for 14%. Despite resilient domestic demand, the government expects real GDP growth to moderate to 4-5%.

- Annual inflation eased to 3.2% in January from 3.8% in December 2007. This was due largely to slower growth in housing rents following the re-introduction of a temporary rates waiver subject to a ceiling of HK\$5,000 for Q1 2008. The FY2008/09 budget proposes that the waiver be extended through to March 2009, which will be a welcome relief against the tide of rising prices. In addition, the government has proposed an electricity subsidy of HK\$1,800 for each domestic electricity account. Nevertheless, upside inflation pressures persist with food costs expected to remain high particularly as most food imports come from China. A stronger Yuan will also add to costs.
- The expansionary budget proposal for FY2008/09 (year beginning 1 April) is expected to result in a deficit of HK\$7.5 bn in the consolidated account following an estimated record surplus of HK\$115.6 bn for FY2007/08.

Jasmine Robinson

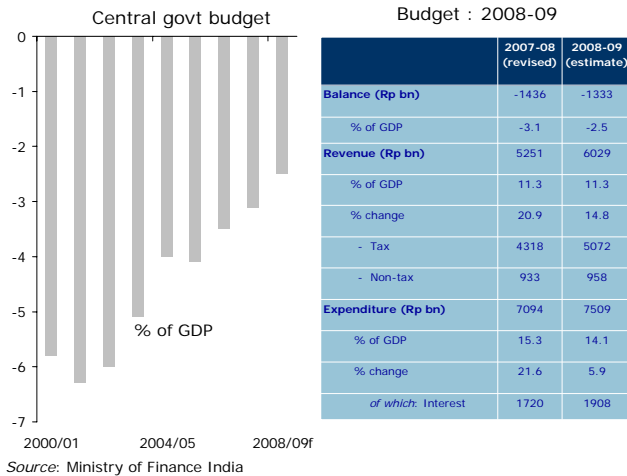
Economic data – Hong Kong

Monthly data	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08
Visitor Arrivals, %YOY	7.7	12.3	16.9	15.9	17.0	17.6	16.1	n/a
Retail Sales, % YOY	12.8	12.1	12.7	12.9	13.1	15.3	12.4	n/a
Consumer Price Index, % YOY	1.4	1.6	1.7	1.7	3.2	3.4	3.8	3.3
Exports, % YOY	10.4	8.0	6.9	8.4	10.2	6.7	7.8	15.7
Imports, % YOY	12.3	9.1	8.4	9.3	12.5	9.4	9.9	16.8
Trade Balance, US\$ bn	-2.5	-1.0	-1.7	-1.9	-1.1	-2.1	-3.5	-0.96
Foreign Exchange Reserves, US\$ bn	136.0	137.0	138.0	141.0	142.0	150	153	160
Quarterly data	Mar 06	Jun 06	Sep 06	Dec 06	Mar 07	Jun 07	Sep 07	Dec 07
Real GDP, % YOY	8.9	5.6	6.9	6.8	5.4	6.3	6.4	6.9
- Private consumption	6.1	7.2	4.6	6.1	4.5	5.8	10.6	10.0
- Government consumption	1.4	-1.5	-0.9	1.3	2.3	2.9	1.5	2.3
- Gross fixed capital expenditure	6.4	4.0	10.0	7.5	2.8	10.0	1.0	10.4
Nominal GDP, US\$ bn	46.3	46.5	47.8	49.2	49.2	50.1	52.3	n/a
Current Account, US\$ bn	5.6	2.4	7.7	7.2	8.2	3.4	8.2	n/a
Capital Account, US\$ bn	-0.1	0.1	-0.2	-0.1	-0.2	0.5	n/a	n/a

Source: Datastream

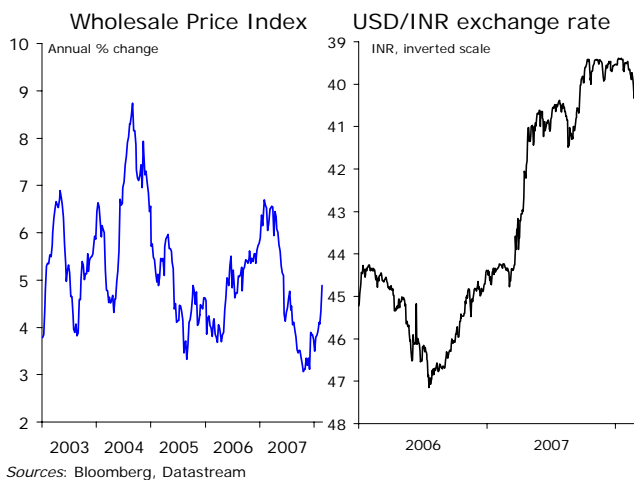
Country Update: India

Budget forecast to narrow further in FY2008/09



- The budget for FY2008/09, which is the last under the current Congress-led coalition government before elections in 2009, has targeted a central government deficit of 2.5% of GDP. This is better than the 3% target set out under the Fiscal Responsibility and Budget Management Act 2003 and is lower than the 3.1% estimated for FY2007/08. Nevertheless, achieving this target will be a challenge given the expected upward adjustments to public sector salaries following the release of the Sixth Pay Commission report, generated by a panel formed in 2006 to review salaries for central government employees and armed forces personnel, expected to be submitted in April. In addition, pressures on expenditure from subsidies, given high food and oil costs, and high interest costs are likely to persist. About 40% of revenue is absorbed by subsidies, interest payments and defence spending.

Inflation stays below target but edge up



- India's wholesale price increases were back above 4% in February with the latest reading showing WPI rising by 4.9% YOY for the week ended 16 February, after gaining 4.4% YOY in the week ended 9 February. This remains within the central bank's target of 5% but upside risks persist. The government lifted local prices of gasoline and diesel by INR2/litre and INR1/litre respectively in February, the first hikes since June 2006. Wage pressures are also expected to accelerate with the sixth pay commission report. In addition, the proposed budget has called for a cut in taxes, raising the income tax exemption limit to 150,000 rupees from 110,000 rupees. Farm debt amounting to 600 bn rupees will also be waived.
- The series of interest rate hikes over the past year as well as the moderation in global growth is likely to see India's economy moderate further in FY2008/09. The economy posted its slowest growth since 2005, expanding by 8.4% over the year to Q4 2007. Our forecast is for real GDP growth to ease to 8% from an estimated 8.7% in FY2007/08. Given the current economic climate, the Reserve Bank of India is likely to keep interest rates unchanged in coming months. The key repurchase rate has been held at 7.75% since March 2007.

Jasmine Robinson

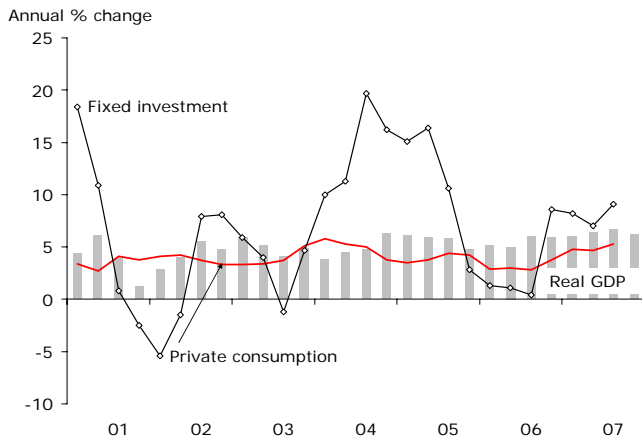
Economic data – India

Monthly data	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08
Industrial Production, %YOY	8.3	8.2	10.7	7.0	11.9	5.1	8	n/a
Passenger car sales, % YOY	12.1	14.5	15.7	8.7	13.9	16.0	6.6	10.8
Consumer Price Index, % YOY	5.7	6.5	7.3	6.4	5.5	5.5	5.5	n/a
Exports, % YOY	19.1	22.8	22.2	24.2	38.3	28.4	24.4	n/a
Imports, % YOY	39.5	23.8	41.1	10.1	31.3	24.9	13.5	n/a
Trade Balance, US\$ bn	-7.3	-5.0	-6.9	-4.4	-7.5	-7.4	-5.4	n/a
Foreign Exchange Reserves, US\$ bn	206.0	220.0	222.0	240.0	256.0	265.0	267	n/a
Quarterly data	Mar 06	Jun 06	Sep 06	Dec 06	Mar 07	Jun 07	Sep 07	Dec 07
Real GDP, % YOY (at factor cost)	9.6	10.1	9.1	8.7	9.3	8.9	8.4	
- Industry	10.0	10.7	10.3	10.8	10.6	8.3	8.4	
- Agriculture	3.3	3.6	3.4	1.6	3.8	3.7	3.2	
- Services	12.1	12.0	11.1	11.3	9.9	10.6	n/a	
Nominal GDP, US\$ bn	194.0	190.2	220.1	223.6	225.2	238.0	280.2	
Current Account, US\$ bn	2.8	-4.6	-4.8	-2.8	2.6	-4.7	n/a	
Capital Account, US\$ bn	10.5	10.6	8.8	10.3	17.9	16.4	33.9	

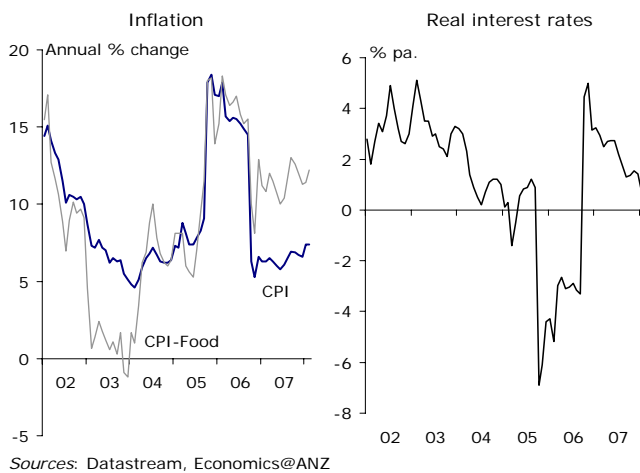
Source: Datastream, Bloomberg

Country Update: Indonesia

Economy posts strongest growth in almost a decade



Inflation limits scope for further rate cuts



- Amidst higher energy and food prices, the government has lifted its forecast for the 2008 budget deficit to 2% of GDP from 1.7% previously. The average oil price assumption has been raised to US\$83/bbl from US\$60/bbl but oil output has been lowered to 0.91 mn bbl/day from 1.034 mn bbl/day previously. The fuel subsidy bill is estimated to reach IDR106.2 tn, more than double the IDR45.8 tn budgeted earlier and the cost of food subsidies has been lifted to IDR9 tn, up around 36% from the original estimate. Indonesia is a major importer of wheat, soybean and rice and global prices for these commodities have accelerated sharply. The revised deficit represents the largest shortfall since 2000. Nevertheless, an expansionary budget will help the economy ride out the headwinds from a more difficult global environment.
- The official real GDP growth forecast has been lowered to 6.4% (6.8% previously) but remains slightly above the 2007 outcome of 6.3%. While domestic demand is expected to remain healthy, exports are likely to lose momentum this year as external demand softens. ANZ has forecast real GDP to moderate to 5.9% in 2008.
- Scope for interest rate cuts in the first half of this year is likely to be limited by inflation pressure. Annual inflation ticked up to 7.4% in February, matching that of January, which was the highest since September 2006. Real interest rates have moved sharply lower over the past few months and are now less than 1%. However, a softer commodity price outlook in the second half could alleviate inflation concerns, lifting the potential for a reduction in interest rates later in the year.
- Fitch ratings lifted Indonesia's foreign currency rating to BB in February, two levels below investment grade. The upgrade was supported by prudent macroeconomic management, the rapid accumulation of reserves and a lower debt burden. Moody's and S&P's rate Indonesia three levels below investment grade.

Jasmine Robinson

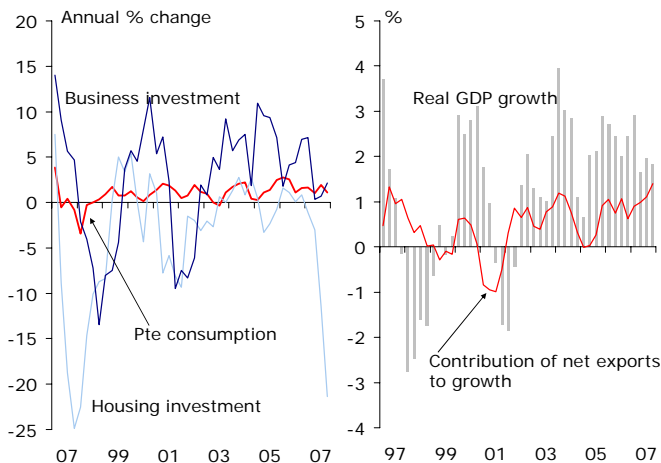
Economic data – Indonesia

Monthly data	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08
Industrial Production, %YOY	5.1	4.7	5.0	1.9	6.1	3.3	1.63	n/a
Motor cycle sales, % YOY	7.8	-1.6	-3.0	-3.4	22.6	-7.1	-11.2	38.0
Consumer Price Index, % YOY	5.8	6.1	6.5	7.0	6.9	6.7	6.6	7.36
Exports, % YOY	13.1	13.1	7.8	7.6	17.6	10.0	13.0	n/a
Imports, % YOY	5.1	17.3	20.1	19.6	36.5	29.7	36.97	n/a
Trade Balance, US\$ bn	3.5	3.7	2.8	2.8	4.0	2.3	4.1	n/a
Foreign Exchange Reserves, US\$ bn	49.4	50.3	49.9	51.2	52.3	53.03	n/a	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	6.7	6.2
- Private consumption	3.0	3.0	2.9	3.8	4.8	4.7	5.1	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	6.5	10.2	10.98
Nominal GDP, US\$ bn	84.4	90.1	93.9	96.0	100.8	104.3	110.3	113.02
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

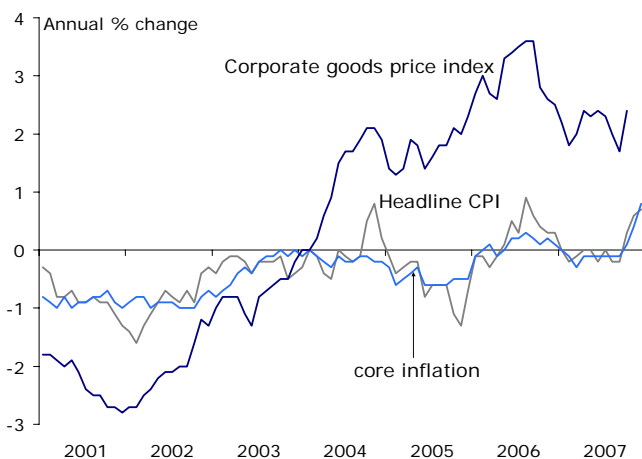
Country Update: Japan

Economy ends 2007 on a strong note



Source: Datastream

Inflation edges up



Sources: Datastream, Economics@ANZ

- The Japanese economy ended 2007 on a stronger-than-expected note, with real GDP expanding by 3.7% on an annualised basis in the three months through December. Growth was underpinned by exports and capital investment offsetting weakness in housing investment caused largely by confusion over the revised Building Standards Law which went into effect in June, and sluggish private consumption. For 2007, real GDP expanded by 2.1%. However, the outlook for this year is for a significant slowing as export growth eases in the wake of a deteriorating outlook for external demand and a stronger Yen. Domestic demand, particularly household consumption and housing investment is likely to remain sluggish and capital spending is likely to be pared back in response to the expected slowdown in export growth as well as already-strong outlays in the previous year. We have forecast GDP growth to soften to 0.6% in 2008.

- As measured by consumer prices, inflation is picking up due largely to the rise in oil prices and food costs. Headline CPI rose at its fastest pace in more than nine years in January, increasing by 0.7% from a year earlier while core CPI, which excludes fresh food but includes energy costs, rose 0.8% over the year to January, which was a 10-year high. Japan's output gap was positive in Q4 2007, for the fifth successive quarter, signalling upside risks to inflation. Nevertheless, the GDP deflator, a key inflation gauge, continued to be weak, falling by 1.3% in Q4 2007 from a year earlier.
- The nomination of a new central bank governor has been postponed again with the ruling Liberal Democratic Party-led coalition failing to come to an agreement with the opposition Democratic Party of Japan. The current governor's term expires in mid-March. Given the downside risks to growth, the Bank of Japan is likely to keep its policy rate unchanged in coming months. However, its policy normalisation stance is expected to be maintained, with rate hikes expected later in 2009.

Jasmine Robinson

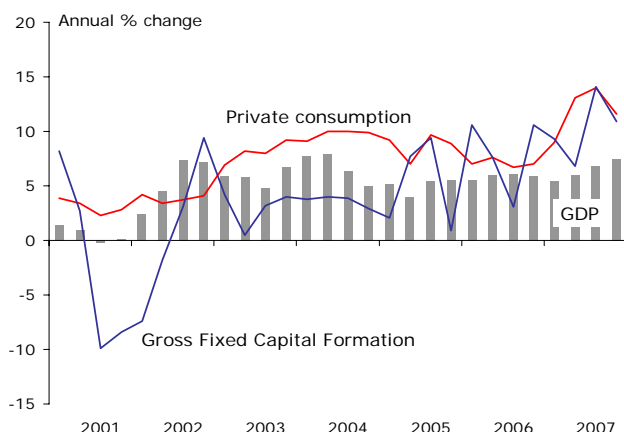
Economic data – Japan

Monthly data	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08
Industrial Production, %YOY	2.3	2.0	4.4	3.4	3.6	1.6	2.2	2.5
Retail Sales, % YOY	-0.4	-2.3	0.5	0.5	0.8	1.6	0.2	1.5
Consumer Price Index, % YOY	-0.2	0.0	-0.2	-0.2	0.3	0.6	0.7	0.7
Exports, % YOY	8.6	6.5	13.7	8.4	16.4	16.0	11.6	20.1
Imports, % YOY	3.6	11.6	5.1	-1.4	11.2	19.8	17.1	21.7
Trade Balance, US\$ bn	10.0	5.4	6.3	14.2	8.6	7.1	7.8	-0.8
Foreign Exchange Reserves, US\$ bn	892.8	902.5	910.9	922.5	930.3	946.1	948.0	968.5
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	1.8
- 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	1.5
- 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

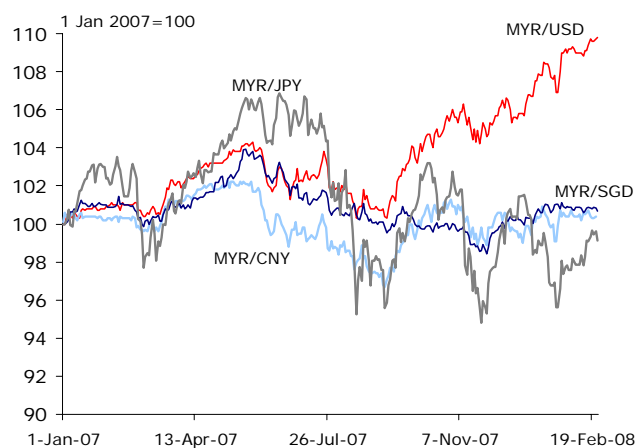
Country Update: Malaysia

Economy posts healthy growth in 2007



Source: Datastream

Ringgit movements against major trading partner currencies



Source: Datastream

- General elections have been called for 8 March. Together, 222 parliamentary and 505 state legislative assembly seats are being contested in the country's 12th general election. The Barisan Nasional (BN) coalition is likely to retain a two-thirds majority. It has already secured 6 parliamentary seats which were unopposed. Two state seats were also uncontested. Nevertheless, a reduced majority is likely following the landslide BN victory in 2004 as opposition parties cooperate to make this election a tougher contest with only one opposition candidate running in at least 183 seats. Former deputy premier Anwar Ibrahim will not be eligible to stand but remains a powerful influence amongst the opposition parties. Although widely anticipated, this election comes amidst heightened ethnic tensions underscored by demonstrations in late 2007, and will remain a serious challenge for the new government.
- On the economic front, these elections also come amidst accelerating inflation and a slowdown in external demand. Malaysia's 50 bps interest rate advantage against the US has assisted a faster appreciation of the ringgit which should help to curb imported inflation. The government is also taking measures to ensure a steady supply of basic goods. We expect the central bank to keep its policy rate unchanged in coming months. While the scope to cut rates is limited by inflation concerns and relatively healthy domestic demand, a hike in interest rates is also not our base assumption amidst the threat of a significant slowdown in external demand.
- Real GDP is forecast to moderate to 5% in 2008 from 6.3% in 2007. Recently-released GDP growth for the final quarter of 2007 saw the economy expand at an annual rate of 7.3%. Approved investment reached a record last year with manufacturing investments up 30.2% to MYR59.9 bn in 2007, 56% of which were from foreign firms. Some MYR65 bn worth of investments were also approved in services with the foreign component accounting for MYR10.8 bn. The implementation rate, however, could slow given current global economic headwinds.

Jasmine Robinson

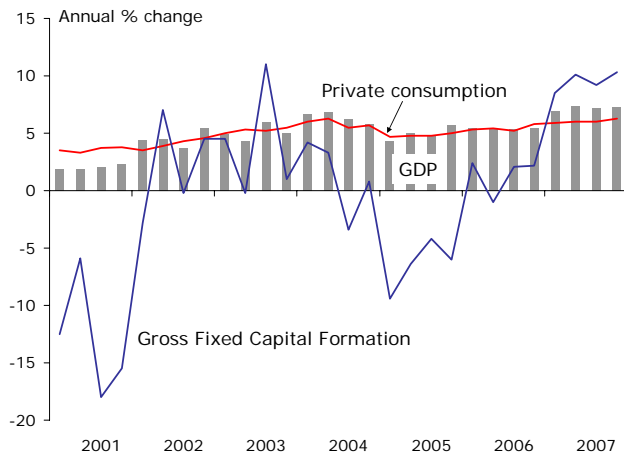
Economic data – Malaysia

Monthly data	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08
Industrial Production, %YOY	1.6	2.1	1.1	3.1	4.7	3.2	5.9	n/a
Motor Vehicle sales, % YOY	8.2	2.3	0.8	4.9	20.7	21.3	15.4	30.8
Consumer Price Index, % YOY	1.4	1.6	1.9	1.8	1.9	2.3	2.4	2.3
Exports, % YOY	6.2	6.6	6.2	7.7	24.4	14.9	9.6	n/a
Imports, % YOY	4.8	9.3	9.6	5.1	30.5	13.1	15.6	n/a
Trade Balance, US\$ bn	2.5	2.3	2.5	3.3	2.5	3.1	2.9	n/a
Foreign Exchange Reserves, US\$ bn	98.6	98.8	95.8	96.5	100.8	102.8	100.6	110.6
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

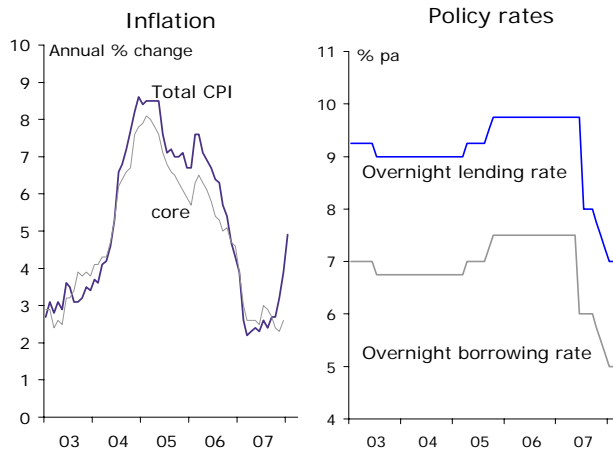
Country Update: Philippines

Economy posts strongest expansion in 31 years



Source: Datastream

Inflation limits scope for further rate cuts



Sources: Bloomberg, Datastream

The Philippines' economy grew at its strongest pace in 31 years in 2007, expanding by 7.4%. Growth was underpinned by domestic demand with private consumption rising by 6% from a year earlier while fixed capital formation surged by 9.5%. Real GDP growth is forecast to moderate to around 5½% in 2008 reflecting in part a slowdown in external demand as well as base effects. The US is an important trading partner for the Philippines, accounting for 14% of its exports. The global electronics cycle is also only likely to pick up towards the latter of the year. Domestic demand, however, is expected to remain resilient, supported by remittance inflows, lower interest rates and fiscal expansion.

- The central bank cut its borrowing and lending rates to 5% and 7% respectively on 31 January amidst a further cut in the US Fed Funds rate. However, scope for a further reduction in interest rates is limited by accelerating inflation. Annual inflation in January was at a 15-month high of 4.9%. This was at the upper end of the central bank's target range of 3-5% for 2008. Relatively healthy domestic demand, frontloading of fiscal spending in the first half of this year and high commodity prices are expected to keep inflation pressures alive. Consequently, we expect the central bank to keep interest rates unchanged in coming months despite the potential for further cuts by the US Federal Reserve.
- The peso continues to strengthen against the US dollar but the central bank has forecast a slower pace of appreciation on the expectation of a narrower balance of payments surplus. The surplus is forecast to reach US\$3.4 bn this year from US\$8.6 bn in 2007.
- On the political front, the ouster of the speaker of the House of Representatives, Jose de Venecia, and the government's alleged involvement in a US\$330 mn public procurement scandal highlights ongoing issues with transparency. Tensions with the opposition are growing and the latter could push for a fourth impeachment bid against the President. Political distractions are likely to hamper the pace of reform.

Jasmine Robinson

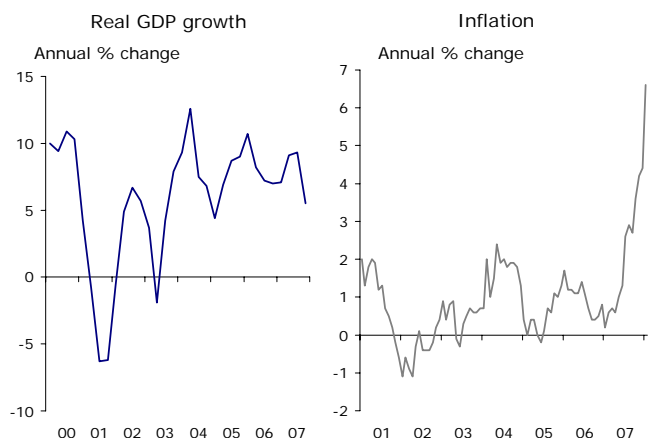
Economic data – Philippines

Monthly data	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08
Manufacturing Production, %YOY	-4.3	0.9	-5.9	-3.2	-2.2	-4.2	-1.8	n/a
Motor Vehicle sales, % YOY	15.6	15.5	7.5	23.2	35.2	16.5	20.1	n/a
Consumer Price Index, % YOY	2.3	2.6	2.4	2.7	2.7	3.2	3.9	4.9
Exports, % YOY	1.6	5.9	-3.8	4.8	10.7	-1.8	21.4	n/a
Imports, % YOY	3.8	14.5	2.1	9.7	10.1	12.8	20.0	n/a
Trade Balance, US\$ mn	-588.0	-853.0	-882.0	-371.0	-502.0	-1135.0	-522.0	n/a
Foreign Exchange Reserves, US\$ bn	23.3	24.9	27.2	27.7	29.0	29.3	30.1	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	7.36
- 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	1.7	2.0	1.8	0.6	n/a
Capital & Financial Account, US\$ bn	1.4	-1.7	-0.5	-0.8	0.2	0.1	2.9	n/a

Sources: Datastream, Bloomberg

Country Update: Singapore

Economy slows but inflation accelerates



Source: Datastream

Expansionary fiscal budget for FY2008

S\$ bn	Revised FY2007	Estimated FY2008	% change
Operating Revenue	39.65	39.84	0.5
- Corporate tax	9.0	9.19	2.1
- Personal tax	5.56	5.94	6.9
- GST	6.0	6.19	3.2
Total Expenditure	33.3	37.45	12.5
- Operating	26.22	29	10.6
- Development	7.09	8.45	19.3
Primary Balance	6.35	2.38	
Special Transfers	2.2	5.4	146
Net Invest. Income	2.3	2.2	-3.4
Overall budget balance	6.5	-0.8	
% of GDP	2.7	-0.3	

Source: Ministry of Finance, Singapore

Economic data – Singapore

Monthly data	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08
Industrial Production, %YOY	-7.0	22.6	13.8	-2.2	2.8	-0.5	-1.5	6.9
Retail Sales, % YOY	14.9	-1.9	6.5	6.5	4.2	-0.1	2.7	n/a
Consumer Price Index, % YOY	1.3	2.6	2.9	2.7	3.6	4.2	4.4	6.6
Exports, % YOY	4.1	14.0	6.2	5.7	19.9	11.8	12.7	22.3
Imports, % YOY	4.3	7.6	2.0	4.7	29.4	21.6	12.1	35.3
Trade Balance, US\$ bn	2.6	3.4	3.5	4.1	2.6	1.9	2.0	2.8
Foreign Exchange Reserves, US\$ bn	144.1	147.0	147.6	152.4	158.2	160.7	n/a	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

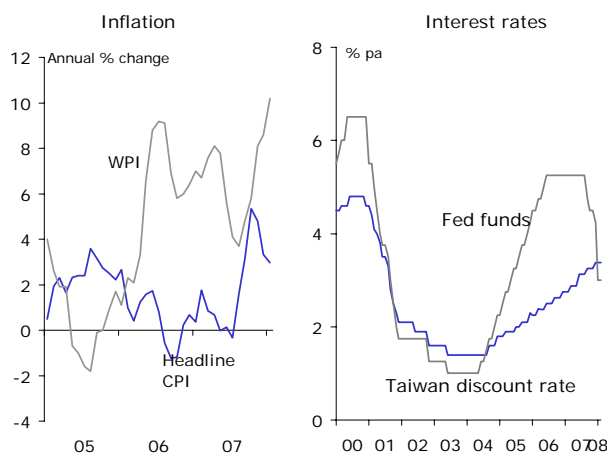
Sources: Bloomberg, Datastream, Economic Survey of Singapore

- Annual inflation surged to 6.6% in January- the highest rate since March 1982, due largely to the jump in housing CPI reflecting a revision to the annual assessed value of public housing which was last reviewed in 2004. Domestic inflation is expected to remain high in coming months but some moderation is expected in the second half of this year as the impact of the hike in the GST wears off. In addition, commodity prices (both energy and food costs) are likely to soften in response to the slowdown in global growth. ANZ projects annual inflation to average 5% in 2008 before receding to 2.6% in 2009.
- Inflationary pressures have kept the Singapore dollar on a stronger appreciation track against the US dollar since late last year. However, given the threat to export competitiveness and the expectation of an easing in inflation in H2 2008, the MAS is likely to hold off from adopting a more aggressive exchange rate policy and maintain its stance adopted in October.
- A “surplus sharing” budget was announced in February. While there were no cuts to personal or corporate income tax, benefits were geared towards lower-income households and older Singaporeans as well as business incentives. A small deficit was estimated for FY2008 (April 2008-Mar 2009) of S\$0.8 bn (0.3% of GDP) compared with a revised FY2007 budget which turned in a surplus of S\$6.4 bn (2.7% of GDP).
- In seasonally adjusted annualised terms, real GDP shrank by 4.8%, the first decline since Q2 2003. In annual terms, the economy slowed sharply in the final quarter of 2007, growing by 5.4% over the year to Q4 2007, bringing full-year growth to 7.7%. While January export numbers surprised to the upside, further downgrades to the global growth outlook are likely to weigh on manufacturing activity in coming quarters. ANZ has forecast real GDP growth to ease to 4% in 2008, lower than its 15-year average of 6.6%. The government has cut its economic growth forecast to 4-6%. Non-oil domestic exports, however, are officially projected to pick up to 4-6% from 2.3% in 2007 on the assumption that the US economy expands by between 1.5-2%.

Jasmine Robinson

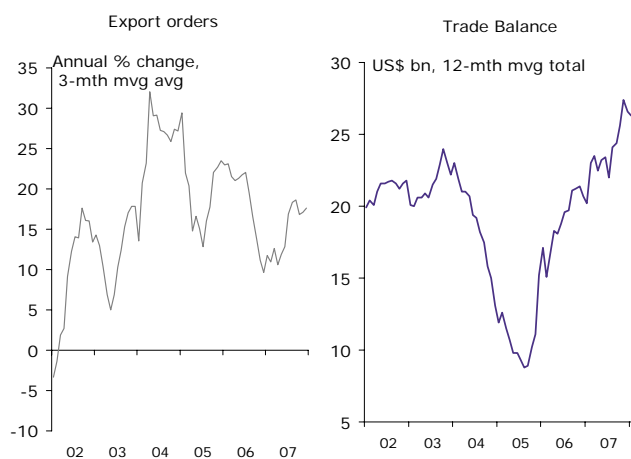
Country Update: Taiwan

Inflation risks remain



Sources: Bloomberg, Datastream

Export growth likely to be hampered by slowdown in global growth



Source: Datastream

- Taiwan's economic performance surprised to the upside with growth of 6.4% over the year to Q4 2007. Real GDP expanded by 5.7% in 2007, the strongest pace since 2004. Exports are likely to continue to be a major driver of growth but the slowdown in global growth is likely to reduce the contribution of net exports to GDP this year. Demand from China and Hong Kong, which collectively account for 40% of total exports, is expected to expand at a healthy, albeit slower pace although a more significant slowdown in the US and Europe, which absorb 13% and 11.6% of Taiwan's exports respectively, is envisaged. Export growth slowed in January to 11% YOY, in local currency terms, with US exports falling by 1.7%. This was partly offset by strong demand from China, which rose by 26%. The government has cut its real GDP growth forecast to 4.32% for this year from 4.53% projected in November. Our forecast is for real GDP to expand by 4½%.
- Unlike most Asian economies, headline consumer price inflation moderated to 2.96% over the year to January, the slowest pace since August 2007, led by a decline in food prices, particularly vegetable prices as supplies were restored. Food accounts for about 26% of the CPI while housing constitutes the biggest share of 28%. Core inflation, however, continued to stay above 2% YOY for the fourth successive month, rising by 2.71% over the year to January. In addition, wholesale prices continued to advance, climbing by 10.2% over the year to January. The central bank is likely to maintain a tightening bias, until the downbeat global news starts to have a marked impact on exports and the equity market.
- Interest rate differentials with the US have now shifted in favour of the Taiwan dollar, and together with US dollar weakness has led to the Taiwan dollar gaining some 4% against the US dollar since the start of the year. Recent efforts to slow the pace of appreciation to limit the impact on export competitiveness include the easing of curbs on overseas investment by life insurers and investment trust companies. Nevertheless, the potential for further US Fed Funds rate cuts and soft US economic data are likely to support further strength in the Taiwan dollar in coming months.

Jasmine Robinson

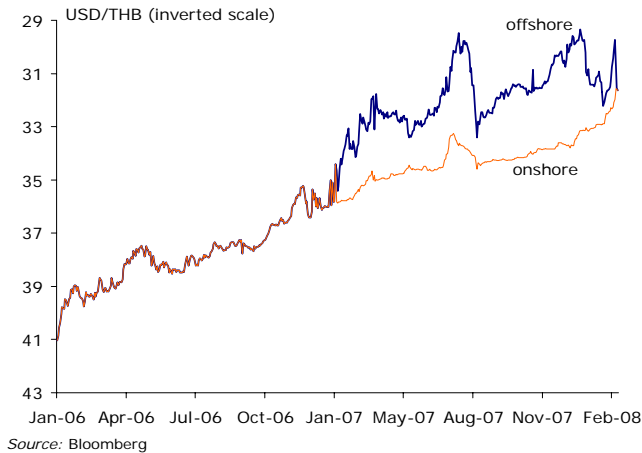
Economic data – Taiwan

Monthly data	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08
Industrial Production, %YOY	7.6	14.3	10.5	9.1	15.9	12.06	10.99	12.28
Retail Sales, % YOY	1.8	4.1	6.8	3.8	5.1	4.68	5.29	n/a
Consumer Price Index, % YOY	0.1	-0.3	1.6	3.1	5.3	4.8	3.3	2.96
Exports, % YOY	12.2	8.1	9.8	10.5	15.2	11.0	19.3	12.5
Imports, % YOY	11.9	16.6	-0.9	10.4	10.6	2.1	27.0	15.4
Trade Balance, US\$ bn	1.4	0.4	3.2	3.1	3.4	4.2	2.1	1.5
Foreign Exchange Reserves, US\$ bn	266.1	266.3	261.4	262.9	265.9	270.1	270.3	272.8
Quarterly data	Mar 06	Jun 06	Sep 06	Dec 06	Mar 07	Jun 07	Sep 07	Dec 07
Real GDP, % YOY	5.2	4.7	5.4	4.3	4.4	5.15	6.77	6.43
- Private consumption	2.3	1.1	1.3	2.4	2.1	2.6	3.7	2.05
- Government consumption	-1.0	-0.6	0.1	-0.1	0.1	-0.1	1.7	1.55
- Gross fixed capital expenditure	-3.0	-4.6	3.6	7.3	1.1	5.5	4.7	-1.7
Nominal GDP, US\$ bn	89.1	90.5	92.3	93.6	91.5	92.8	98.1	100.8
Current Account, US\$ bn	5.5	4.5	6.2	8.5	8.7	5.3	6.2	11.6
Capital Account, US\$ bn	-5.8	-6.3	-5.2	-8.4	-10.7	-5.7	-6.2	-12.4

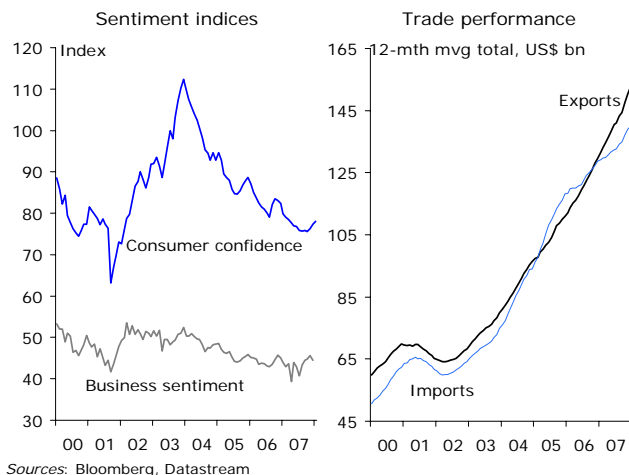
Sources: Bloomberg, Datastream, National Statistics

Country Update: Thailand

Lifting of capital controls see the offshore and onshore THB exchange rates converge



Pick-up in domestic activity to offset slowdown in external demand



- Further liberalisation of capital controls from 3 March opens scope for a faster appreciation of the Thai baht in the next few months as foreign investor confidence improves and the US dollar stays weak. Since the start of the year, the onshore Thai baht has strengthened by some 6.6% against the US dollar and the onshore and offshore Thai baht have converged.
- This comes amidst improving business and consumer sentiment. The new People's Power Party-led government has unveiled a big spending package to help boost the economy. In February, it announced a THB100 bn rural development programme and has pledged to embark on large-scale infrastructure projects, including nine rail lines for Bangkok's mass transit system and upgrades to air and sea ports. Increased government investment is expected to attract private sector investment in coming months as business and consumer confidence continues to improve.
- 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. Imports, on the other hand, are expected to accelerate not only as a result of a high oil import bill but also from the ramp-up in investment activity. Nevertheless, the Thai economy is expected to gain momentum in 2008, with growth forecast to reach 5½%. The economy expanded by a stronger-than-expected 5.7% over the year to Q4 2007, bringing full-year growth to 4.8% in 2007.
- High fuel and food costs are likely to prompt the central bank to keep interest rates unchanged at 3.25% in coming months. Inflation accelerated to an 20-month high in February to be 5.4% higher than a year earlier. The government has indicated that it would cut or freeze prices on a wide range of basic consumer goods to help alleviate cost pressures.

Jasmine Robinson

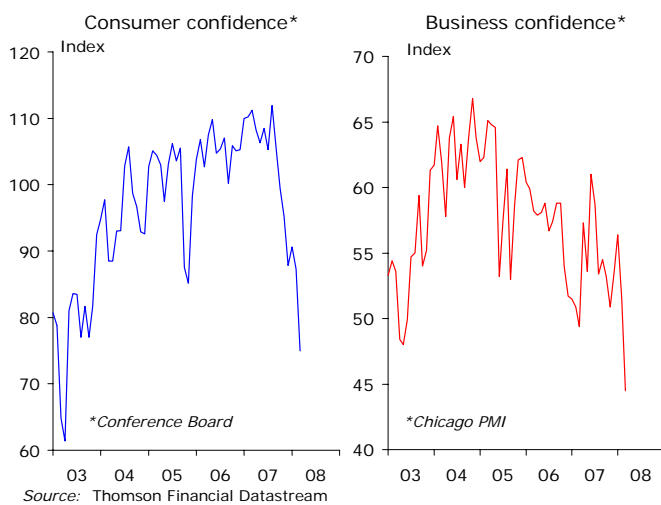
Economic data – Thailand

Monthly data	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08
Manufacturing Production, %YOY	3.8	7.7	9.8	8.7	12.7	12.0	11.8	12.8
Car Sales, % YOY	-4.2	1.0	0.9	8.3	12.6	-0.1	-23.9	17.6
Consumer Price Index, % YOY	1.9	1.7	1.1	2.1	2.5	3.0	3.2	4.3
Exports, % YOY	17.7	6.3	17.9	10.4	26.7	24.4	19.0	33.3
Imports, % YOY	5.1	2.4	14.0	7.4	20.3	17.4	8.9	49.1
Trade Balance, US\$ bn	0.9	0.2	0.8	2.0	1.5	1.9	1.2	-0.7
Foreign Exchange Reserves, US\$ bn	71.3	72.2	72.6	78.7	80.3	82.5	n/a	n/a
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

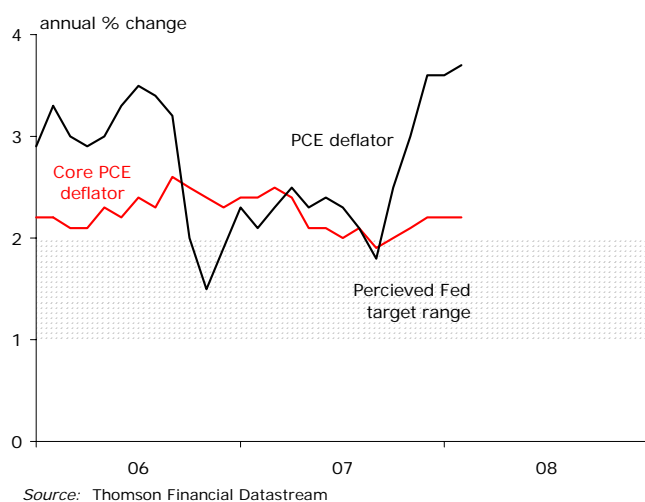
Sources: Bloomberg, Datastream,

Country Update: United States

Leading indicators of economic activity have turned down sharply



Inflation has spiked up again



- The US economy continues to slow gradually, though leading indicators portend a more abrupt adjustment in the months ahead.
- The preliminary estimate of Q4 GDP showed growth of 0.2% in the quarter and 2.5% over the year. Housing – where conditions continue to deteriorate – and inventories, together subtracted 0.6ppts from overall growth, pointing to a slowing, but not dire trend in the broader economy.
- Partial data since the start of 2008 point to a continuation of this 'gradual slowing' trend in Q1. Retail sales increased by 0.4% in January, although this was inflated by higher petrol prices, with core retail sales up 0.1% in the month. Non-farm payroll employment fell by 17,000 jobs in January, but the unemployment rate fell slightly to 4.9%.
- The data are about to get significantly worse if leading indicators of the US economic activity are to be believed. Consumer confidence plunged by over 14% in February to its lowest level since early 2003. Meanwhile, initial jobless claims increased by 19,000 to 373,000 in the week ended 23 February. On the business front, a number of composite indicators, including the Chicago PMI and Philly Fed survey are now at levels historically consistent with recession.
- Inflation pressures persist, with the core PCE deflator up 0.3% in January and 2.2% over the year. Notwithstanding this, the Fed has reaffirmed its commitment to shoring up the flagging economy. In his recent report to Congress, Fed Chairman Ben Bernanke significantly revised down economic forecasts and emphasised the downside risks to growth, noting that the FOMC, "will act in a timely manner as needed to support growth and to provide adequate insurance against downside risks." In other words, current market pricing of at least another 100bp worth of interest rates cuts in the US looks about right

Mark Rodrigues

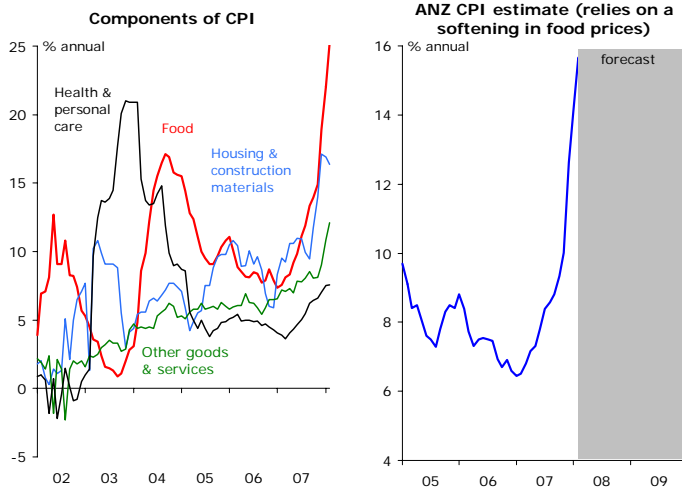
Economic data – United States

Monthly data	Jun 07	Jul 07	Aug 07	Sep 07	Oct 07	Nov 07	Dec 07	Jan 08
Building permits, 000's	1413	1389	1322	1261	1170	1162	1080	1061
Retail Sales, % YOY	3.7	3.3	3.4	5.0	4.7	5.6	3.6	3.8
Consumer Price Index, % YOY	2.7	2.4	1.9	2.8	3.5	4.4	4.1	4.4
Core Consumer Price Index, % YOY	2.2	2.2	2.1	2.1	2.2	2.4	2.4	2.5
Exports, % YOY	10.8	14.9	13.4	13.6	13.5	12.9	13.6	n/a
Imports, % YOY	4.6	5.2	3.2	5.4	9.1	11.3	8.4	n/a
Trade Balance, USD bn	-59.9	-59.4	-57.2	-57.4	-58.1	-63.1	-58.8	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	2.5
- Government consumption	1.8	1.8	1.2	2.5	1.2	1.9	2.7	2.4
- Gross fixed capital expenditure	7.5	7.3	6.4	5.2	2.5	4.1	5.1	7.3
Unit labour costs (non-farm), %YOY	2.8	2.2	2.6	4.1	4.3	4.2	3	1.0
Current Account, US\$ bn	-200.6	-205.6	-217.3	-187.9	-197.1	-188.9	-178.5	n/a
Capital & Financial Account, US\$ bn	192.4	142.2	239.5	226.4	166.6	153.2	92.8	n/a

Sources: Datastream Note: data seasonally adjusted unless otherwise stated

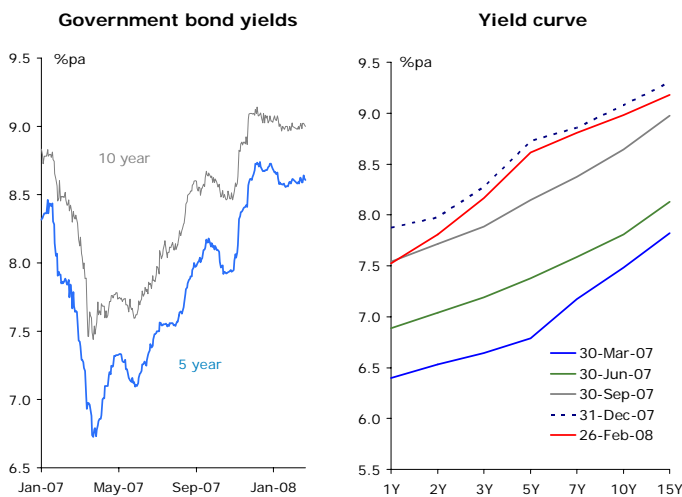
Country Update: Vietnam

Inflation rose beyond expectations...



Sources: CEIC, Economics@ANZ

...with bond yields responding to the pressures



Source: Bloomberg

- Vietnam's inflation rate spiked up again in February to reach a 12-year high, rising 3.6% in the month to be 15.7% higher over the year. Food prices rose a staggering 6.2% in the month (+25.2% YOY). However, in a move set to only exacerbate inflation, the government has granted petrol distributors full control over the price of petrol (provided that prices do not exceed a set ceiling). Petrolimex, Vietnam's national oil company, last week increased retail petrol prices by 11.5% to 14,500 dong per litre, while diesel and kerosene prices increased by 36.3% to 13,900 dong in order to mitigate the impact of high global oil prices on its profits.
- The State Bank of Vietnam (SBV) continued its efforts to put a dent in inflation. The latest proposal to tighten liquidity requires all commercial banks (both state-run and joint-stock banks) to participate in a one-year government bond issue at 7.8% (below the rate of inflation but above current yields) on 17 March. The bond issue is meant to drain US\$1bn (VND20.3 trillion) from the market, equivalent to 1³/₄% of total GDP in 2007. The announcement was followed by rapid increases in deposit rates to the level of 11-12% and a huge spike in overnight interest rates. While rates have since eased, it does seem that the days of flush liquidity are coming to an end. A continued slow but steady appreciation in the local currency is also likely to have a downward impact on the prices of imported goods.
- However, the squeeze on liquidity that is creating a shortage of both foreign currency and dong – and a factor in the falling equity market – led the government to announce that Prime Minister Nguyen Tan Dung has approved a Ministry of Finance proposal to allow foreign investors to use US dollars to pay for initial public offerings due to the lack of sufficient available dong. Separately, it was also reported by the *Financial Times* that special permission was granted to a global bank to pay US\$217mn in US dollars for a 10% stake in PetroVietnam Finance Corp, instead of making the payment in dong, as is normally required by law.
- In 2008, it is difficult to see the government meeting its target of keeping inflation below real GDP growth. We forecast GDP growth of 8% in 2008, with inflation likely to average 13.8% in the year.

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	16.1
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	22.5	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	-4.3
Tourist Arrivals, %YOY+	16.2	16.9	18.5	17.8	17.7	18.0	19.5	15.0
Quarterly data	Growth Q4-2007							
Real GDP+, % YOY		8.5						
Agriculture, forestry, fishery, % YOY		3.4						
Industry & construction, % YOY		10.6						
Services, % YOY		8.7						

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

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