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Our Vision:

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

Highlights

- Regional markets took a beating across all asset classes in October as contagion from the global credit crisis intensified.
- On the real side, exports are weakening across much of the region as the pace of activity in the US and Europe slides.
- Indicators of domestic demand in the region are mixed, suggesting policy support to growth going forward. Our “Asia split” call remains intact.
- Fears of a repeat of the Asian crisis have become fashionable, but these are overdone in our view.
- USD-AXJ is expected to remain in an uptrend into 2009, when markets begin to see the trough in global growth.
- AXJ interest rate curves should steepen, powered by market expectations of further monetary and fiscal policy stimulus.

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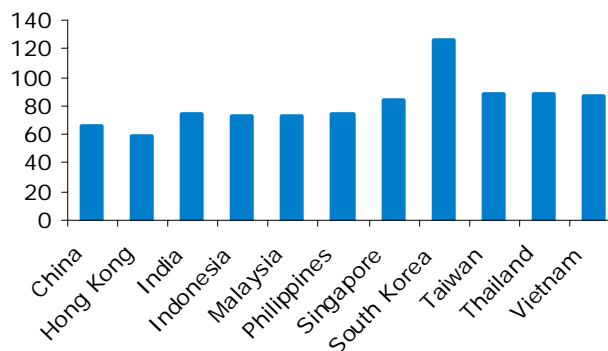
Feature Article: The Worsening Global Credit Crisis – Are Asian Banks Next?

- *Asia has enjoyed a period of robust growth since the crisis, which has allowed banks to clean up their balance sheets. Moreover, improved regulatory frameworks have resulted in substantial improvements in financial disclosure, corporate governance and risk management in the region's banking sectors.*
- *However, Asian banking sectors face tough times ahead, with tightening liquidity, stock price volatility, financial job losses and weakening corporate sectors.*
- *Banks' financial performance is expected to deteriorate in terms of earnings and credit quality.*
- *Vulnerabilities exist in Asia's less developed financial sectors but the probability of any large systemic bank failure in any of the region's banking systems is relatively low.*

Asian banking systems are diverse, ranging from the money centres of Hong Kong and Singapore to the developing financial sector of Vietnam. So far, the Asian banks seem to have avoided the troubles of their major US and European counterparts, mainly reflecting their limited exposure to so-called "toxic" assets as well as healthy balance sheets. According to data tracked by Bloomberg, Asian banks hold only about 4% of total toxic assets reported by the world's largest financial institutions. Moreover, their balance sheets have remained generally healthy as most banks took the opportunity provided by the decade of generally high growth following the 1997/98 Asian crisis to clean up their books.

In this crisis of confidence among financial counterparties globally, dislocation in the credit markets has created tight liquidity conditions for all banks. Banks are inherently dependent on the maintenance of market confidence, as demonstrated by the recent episode of a "near run" on the Bank of East Asia in Hong Kong as a result of market rumours, which caused a public panic. The extent of liquidity stresses experienced by Asian banks differs across countries and will depend on their funding structure, including their reliance on wholesale markets.

**Loan-to-Deposit Ratio
(as at June 2008)**



Source: CEIC, Central Banks' websites

In comparison with their Asian counterparts, Korean banks, with their high loan-to-deposits ratios, are particularly vulnerable to liquidity stress. This is due to their ongoing (foreign currency) funding needs. Indeed, banks face increasing difficulty in refinancing maturing borrowings in current market conditions. Domestic Korean banks reportedly held \$127.4 billion in external debt at end-June (inclusive of currency hedging-related debt), of which 52% was short-term. The recent announcement by the Korean government to guarantee the banks' external debt and to use its foreign exchange reserves (which stood at \$239.7 billion at end-September 2008) to support the system's US dollar liquidity will go some way to alleviate Korean banks' funding pressures. That being said, we expect wholesale market funding conditions to remain challenging for a while.

Amid worsening credit conditions in the global markets, Asian central banks have announced a number of policy measures to bolster liquidity and restore confidence in their respective financial systems. The major policy measures are summarized in the following table.

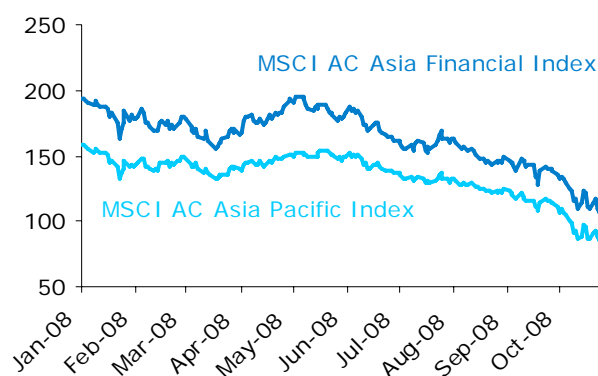
Major Policy Measures Adopted:	Central Bank:
Reduction in Reserve Requirements	China, Indonesia, Taiwan, India
Government Guarantee for Banks' Deposits	Hong Kong, Indonesia, Singapore, Malaysia
Reduction in Benchmark Policy Rate	Thailand, Hong Kong, Taiwan, South Korea, China, Taiwan, India, Vietnam
Government Guarantee for Banks' External Debts (up to US\$100 billion)	South Korea

Source: Bloomberg

As an additional measure to shore up financial markets in the region, 13 Asian countries (South Korea, Japan, China plus the ASEAN group) recently committed to establish a \$80 billion currency swap scheme by June 2009 to supply funds to any member nation in the event of a financial or balance of payments emergency.

Despite on-going efforts by Asian governments to unlock credit markets, investors remain jittery. Asian financial stocks have taken a severe beating. The benchmark MSCI AC Asia Financial Index, which tracks the performance of financial stocks across Asia, has tumbled by roughly 40% since January 2008.

MSCI Stock Indices



Most Asian banks are well-capitalised, with the BIS capital adequacy ratio comfortably above the minimum international standard of 8%. As such, we do not expect the recent equity market volatility to materially affect the major Asian banks' capital positions since equity holdings by banks are generally small.

Capital Positions of Major Asian Banks (as at June 2008)

Bank	Capital Adequacy Ratio	Bank	Capital Adequacy Ratio
China		Philippines	
Bank of China	13.8	MetroBank [#]	13.9
China Construction Bank	12.1	Banco De Oro [#]	15.2
Hong Kong		Singapore	
Bank of East Asia	14.7	DBS	13.8
HSBC, HK [*]	11.6	United Overseas Bank	14.4
India		South Korea	
State Bank of India [*]	13.5	Kookmin Bank [#]	12.6
ICICI Bank [*]	14.0	Woori Bank [#]	11.7
Indonesia		Taiwan	
Bank Mandiri [#]	19.3	Bank of Taiwan [#]	12.5
Bank Danamon [#]	21.1	Mega Financial Holding [#]	
Malaysia		Thailand	
Maybank	15.8	Bangkok Bank	13.8
RHB Bank [#]	13.4	Siam Commercial Bank	16.4
		Vietnam	
		Bank for Foreign Trade of Vietnam ^{**}	12.3

Source: CEIC, Banks' websites

*As at March 2008; # As at Dec 2007; ** As at Dec 2006

In the money centres of Hong Kong and Singapore, where many global financial institutions have significant Asian operations, the failure and consolidation of many major US and European banks may cause job losses, lowering economic growth and public confidence. Indeed, Singapore's economy is already in technical recession.

Finally, the global slowdown and difficult financing conditions will challenge the operating performance of the corporate sector. This is especially true for small and medium-sized domestic enterprises. Deteriorating corporate earnings and bankruptcies of small businesses will heighten credit risks for Asian banks, especially the mid-sized commercial banks, which are more exposed to the smaller domestic-oriented businesses.

The impact of the global crisis on Asian banks will be varied, with the stronger and more developed systems expected to fare better. Less developed banking systems, such as Vietnam, may not have the resistance to go through the economic downturn unscathed. In addition, for the weaker and smaller banks in the region, there could also be some consolidation. We have already seen the first Asian victim of this global financial turmoil with the bailout of Indonesische Overzeese Bank NV (Indover), the Dutch subsidiary of Bank Indonesia, by the Indonesian government. Moreover, there is risk of a "flight to quality" for those banking systems where there is no blanket government guarantee of bank deposits—as jittery customers could flock to banks with stronger balance sheets. Nonetheless, we see the probability of any large systemic bank failure in any of the Asian banking systems to be relatively low.

Since the Asian financial crisis about a decade ago, most Asian economies have enjoyed a period of strong economic growth, which has allowed banks across the region to strengthen their balance sheets. As a result, the profitability and loan quality of major Asian banks have improved substantially. At the same time, strengthened bank regulation in the region has resulted in substantial improvements in financial disclosure, corporate governance and risk management practices. Some of the less developed banking systems have also erred on the side of conservatism, thereby largely avoiding exposure to toxic assets.

Financial Indicators of Major Asian Banks (as at June 2008)

Bank	ROE	ROA	Gross NPL Ratio	Bank	ROE	ROA	Gross NPL Ratio
China				Philippines			
Bank of China	19.8	1.4	2.7	MetroBank	8.4	0.8	4.7
China Construction Bank	26.4	1.7	2.2	Banco de Oro**	10.9	1.1	5.2
Hong Kong				Singapore			
Bank of East Asia	5.4	0.5	0.5	DBS	13	1.1	1.4
HSBC, HK	32.1	1.8	0.5	United Overseas Bank	13.8	1.3	1.5
India				South Korea			
State Bank of India	12.9	0.9	2.5	Kookmin Bank	17.1	1.2	0.6
ICICI Bank	1.5	0.7	3.7	Woori Bank	6.9	0.4	1.3
Indonesia				Taiwan			
Bank Mandiri	21.7	2.6	4.7	Bank of Taiwan	4.9	0.4	NA
Bank Danamon	22.6	2.4	3.1	Mega Financial Holding	9.3	0.8	1
Malaysia				Thailand			
Maybank	14.9	1.1	3.8	Bangkok Bank	12.8	1.3	7
RHB Bank	6.8	0.5	4.9	Siam Commercial Bank	22.3	2.1	5.3
				Vietnam			
				Bank for Foreign Trade of Vietnam*	29.4	1.9	2.7

Source: Banks' website

*As at Dec 2006; ** As at Dec 2007; NA: Not Available

Nonetheless, in this difficult operating climate, we expect to see the emergence of some deterioration in Asian banks' financial performance, mainly in terms of earnings and credit quality. While the balance sheets of Asian banks generally still look healthy compared with their peers in the United States and Europe, weak links still exist in the less developed markets, particularly Vietnam.

Ivy Tan

Macroeconomic Forecasts

Real GDP (%)

	2005	2006	2007	2008f	2009f
China	10.1	10.7	11.6	9.7	8.0
Hong Kong	7.1	6.8	6.5	4.4	4.0
India	8.0	7.4	7.9	7.9	7.0
Indonesia	5.7	5.5	6.3	6.2	5.8
Korea	4.1	5.2	4.9	4.7	4.0
Malaysia	5.3	5.8	6.3	6.1	5.4
Philippines	4.9	5.4	7.2	4.5	4.9
Singapore	7.3	8.2	7.7	3.8	4.2
Taiwan	4.1	4.9	5.7	4.1	3.8
Thailand	4.5	5.1	4.7	5.3	5.3
Vietnam	8.4	8.2	8.5	6.4	6.6

Inflation (%)

	Nov-08f	Dec-08f	2008f	Jan-09f	Feb-09f
China	3.96	2.90	6.22	3.35	0.40
Hong Kong	2.83	3.09	4.45	2.47	1.45
India	11.17	11.16	9.81	10.97	10.53
Indonesia	11.81	10.99	9.65	10.06	9.68
Korea	4.89	4.64	4.72	4.55	4.44
Malaysia	7.08	6.79	5.74	6.54	6.32
Philippines	10.98	10.25	9.59	10.05	9.15
Singapore	5.62	5.19	6.56	4.96	4.66
Taiwan	1.97	3.15	3.61	3.67	3.03
Thailand	4.97	4.92	6.21	4.17	4.23
Vietnam	25.75	22.91	23.43	20.81	17.30

Exports of Goods & Services (%)

	2005	2006	2007	2008f	2009f
China*	na	na	na	na	na
Hong Kong	10.5	9.6	8.1	4.9	6.9
India	5.9	3.7	6.4	11.4	10.5
Indonesia	16.9	9.5	8.0	15.2	12.3
Korea	8.5	11.9	12.0	11.1	11.0
Malaysia	8.4	7.0	4.1	7.7	8.6
Philippines	4.6	13.6	5.8	3.4	8.3
Singapore	12.1	11.4	6.6	7.1	6.9
Taiwan	7.5	10.7	8.8	7.8	7.1
Thailand	3.8	8.7	7.1	8.8	10.3
Vietnam	21.0	23.0	22.0	17.0	15.0

Imports of Goods & Services (%)

	2005	2006	2007	2008f	2009f
China*	na	na	na	na	na
Hong Kong	7.8	9.2	8.8	4.6	6.6
India	8.3	5.0	3.7	3.1	2.5
Indonesia	18.1	8.5	8.9	15.1	10.8
Korea	7.3	11.4	11.8	9.0	11.6
Malaysia	8.9	8.7	5.3	6.9	9.5
Philippines	2.3	1.9	-4.3	4.4	7.1
Singapore	11.1	11.7	6.8	10.2	7.5
Taiwan	3.8	5.3	3.6	2.8	6.5
Thailand	8.7	2.6	3.5	7.3	7.9
Vietnam	18.0	22.0	39.0	19.0	9.0

*Data on an expenditure basis are not available for China.

Overview: FX and Rates Strategy

Market Outlook

Emerging markets have been targeted more aggressively, especially equities which tumbled a staggering 30% (S&P Asia 50) in October. Risk appetite is not expected to normalize until markets see the trough in global growth, or are at least sufficiently satisfied that all the downside risk has been priced out. As such, USD-AXJ is expected to remain in an uptrend into 2009, the only issues being the timing and level of the ultimate peak. AXJ interest rate curves are expected to steepen, powered by market expectations of further monetary and fiscal policy stimulus.

Economic Fundamentals

Comparisons to past episodes of volatility are inevitable, even though these are unprecedented times. For emerging Asia, the ultimate litmus test is the 1997/98 crisis. Fortunately, the 1997/98 crisis prompted massive housekeeping, putting the region in a much stronger position this time around. The table of vulnerability indicators (see overleaf) shows the stark differences between then and now in terms of reserves, current account and short-term debt.

In particular, the China story looks all the more solid. India stands out as a leader as well, having the second largest pile of FX reserves and minimal short-term debt. Another difference from a decade ago is that export exposure to China has risen sharply, while export exposure to the US has sharply fallen for many countries within AXJ. Both India and China also have the smallest GDP exposures to exports within AXJ (at 20% and 36%, respectively). Hence, if you believe in the China “story” (which we do), then you believe in AXJ.

FX Strategy

The CNY has been an out-performer all year and this is expected to continue. However, the INR has underperformed all but the KRW. As the real effects from the global financial crisis come through in a larger way to the currencies of countries with larger export exposures, the INR is expected to out-perform within AXJ. Asset managers with allocations in AXJ currencies should overweight INR relative to all but CNY at this stage. Leveraged investors should take advantage of rallies to sell USD-INR ndf outright, and take advantage of dips to buy USD-TWD ndf outright.

Rates Strategy

Growth is slowing and inflation pressures are dissipating in emerging Asia. This provides scope for central banks to ease monetary policy to contain the damage from the global credit crisis—even though in many cases inflation remains at uncomfortable levels. At the same time, fiscal balances are set to deteriorate as authorities also initiate counter-cyclical fiscal policy measures. The combination suggests a sustained period of curve steepening across the region. Real money investors should move duration to neutral from underweight, and overweight the front end on a currency hedged basis. For leveraged investors, 2s-10s steepeners are attractive, particularly in India.

Tamara Henderson

Vulnerability Indicators

		FX Reserves \$ mln	Current Account % GDP	External Debt % GDP	Short-term Debt % FX Reserves	Public Debt % GDP	Debt Service % goods and services exports
China	1997	139,890	3.9%	15.4%	22.5%	11.8%	8.5%
	1998	144,959	3.1%	14.1%	12.0%	9.8%	8.6%
	2007	1,528,250	10.9%	10.9%	14.4%	3.0%	2.7%
	Jun-08	1,809,000	9.0%	11.2%	14.7%	3.4%	3.1%
Hong Kong	1997	92,804	-4.4%	22.9%			1.7%
	1998	89,606	1.5%	28.9%			1.8%
	2007	152,646	13.2%	37.0%			2.1%
	Jun-08	158,100	10.2%	32.0%			1.9%
India	1997	24,324	-1.5%	25.0%	20.7%	22.2%	21.9%
	1998	26,958	-1.1%	25.4%	16.1%	22.2%	21.2%
	2007	266,553	-1.6%	18.7%	4.9%	8.2%	8.2%
	Jun-08	312,005	-2.2%	20.3%	5.6%	9.6%	9.7%
Indonesia	1997	16,088	-2.3%	63.2%	204.3%	25.9%	30.0%
	1998	22,401	4.3%	158.6%	89.8%	70.6%	31.7%
	2007	54,737	2.4%	32.9%	66.0%	18.6%	19.4%
	Jun-08	58,356	0.3%	31.5%	70.2%	19.0%	17.2%
Korea	1997	19,710	-1.6%	26.5%	272.9%	6.6%	8.4%
	1998	51,963	11.7%	40.3%	54.2%	16.8%	13.1%
	2007	261,771	0.6%	39.3%	60.6%	8.8%	5.9%
	Jun-08	271,338	-1.1%	41.2%	64.7%	9.2%	5.8%
Malaysia	1997	20,013	-5.9%	72.7%	77.4%	16.8%	7.4%
	1998	24,728	13.2%	93.8%	63.8%	25.2%	7.2%
	2007	100,640	16.0%	31.4%	16.4%	14.5%	3.8%
	Jun-08	125,787	16.7%	32.3%	22.5%	15.6%	4.1%
Philippines	1997	7,178	-5.3%	59.1%	164.3%	32.1%	9.3%
	1998	9,150	2.4%	78.2%	64.0%	44.8%	10.9%
	2007	30,071	4.4%	38.1%	23.6%	34.2%	9.8%
	Jun-08	36,665	2.2%	33.8%	24.0%	37.3%	10.2%
Singapore	1997	71,390	15.6%	14.4%			8.1%
	1998	75,077	22.2%	11.2%			10.0%
	2007	162,957	24.3%	15.9%			2.4%
	Jun-08	177,462	15.8%	14.7%			3.4%
Taiwan	1997	83,502	2.7%	11.2%	26.5%	0.0%	8.4%
	1998	90,341	1.2%	10.6%	20.0%	0.0%	13.1%
	2007	270,311	8.2%	24.4%	30.8%	0.1%	3.3%
	Jun-08	291,410	7.3%	25.6%	29.3%	1.9%	3.4%
Thailand	1997	25,697	-3.1%	72.7%	147.2%	22.3%	15.5%
	1998	28,434	11.3%	93.8%	104.3%	22.3%	18.4%
	2007	85,110	5.9%	24.5%	25.4%	4.6%	8.5%
	Jun-08	105,100	-0.1%	24.2%	25.5%	4.6%	9.6%
Vietnam	1997	1,973	-5.7%	81.1%	118.7%	70.7%	7.7%
	1998	2,000	-3.9%	82.5%	109.7%	73.0%	9.1%
	2007	23,595	-9.8%	30.6%	12.9%	27.0%	4.6%
	Jun-08	20,937	-16.3%	26.4%			6.1%

Source: World Development Indicators

Zhou Hao

Foreign Exchange and Policy Rate Forecasts

	Current	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
China							
USD/CNY	6.849	6.84	6.86	6.89	6.89	6.89	6.89
AUD/CNY	4.628	5.00	4.90	4.70	4.40	4.10	4.30
PBOC's 1-yr-base lending rate	6.66	6.39	6.12	5.85	5.58	5.58	5.58
Hong Kong							
USD/HKD	7.752	7.75	7.77	7.79	7.80	7.80	7.80
AUD/HKD	5.261	5.7	5.6	5.3	5.0	4.7	4.8
HKMA's discount rate	1.50	1.25	1.25	1.25	1.25	1.25	1.75
India							
USD/INR	49.68	50.0	50.3	50.5	50.7	50.9	50.9
AUD/INR	33.92	36.5	36.2	34.4	32.5	30.5	31.6
RBI's repo rate	8.00	7.50	7.00	7.00	7.00	7.00	7.25
Indonesia							
USD/IDR	10700	11209	11769	12064	12184	12245	12245
AUD/IDR	7310	8183	8474	8203	7798	7347	7592
BI bank rate	9.50	9.50	9.50	9.25	9.25	9.25	9.25
Malaysia							
USD/MYR	3.55	3.6	3.7	3.8	3.8	3.8	3.8
AUD/MYR	2.43	2.6	2.7	2.6	2.4	2.3	2.4
BNM's overnight policy rate	3.50	3.50	3.25	3.25	3.25	3.25	3.25
Philippines							
USD/PHP	48.82	50.3	52.5	54.1	55.2	55.7	55.7
AUD/PHP	33.42	36.7	37.8	36.8	35.3	33.4	34.6
BSP's overnight reverse repo	6.00	5.75	5.50	5.25	5.00	5.00	5.00
Singapore							
USD/SGD	1.464	1.53	1.57	1.60	1.62	1.63	1.63
AUD/SGD	1.002	1.12	1.13	1.09	1.04	0.98	1.01
3-month SIBOR	1.39	1.25	0.85	0.70	0.55	0.65	0.80
South Korea							
USD/KRW	1250	1422	1465	1494	1509	1438	1343
AUD/KRW	860	1038	1055	1016	966	863	833
BOK's overnight call rate	4.25	3.75	3.50	3.25	3.00	3.00	3.00
Taiwan							
USD/TWD	32.75	34.8	35.5	36.0	36.2	36.3	36.3
AUD/TWD	22.44	25.4	25.6	24.5	23.2	21.8	22.5
CBC's discount rate	3.00	3.00	2.75	2.50	2.25	2.00	2.00
Thailand							
USD/THB	34.81	35.4	36.8	37.9	38.7	39.1	39.1
AUD/THB	23.81	25.9	26.5	25.8	24.8	23.4	24.2
BOT's 1-day repo rate	3.75	3.50	3.25	3.25	3.25	3.25	3.25
Vietnam							
USD/VND	16825	16840	16930	17100	17270	17440	17440
AUD/VND	11520	12300	12190	11630	11050	10470	10810
SBV's base lending rate	13.00	13.00	12.00	11.50	11.00	10.50	10.00

Long-Term Foreign Currency Government Bond Ratings

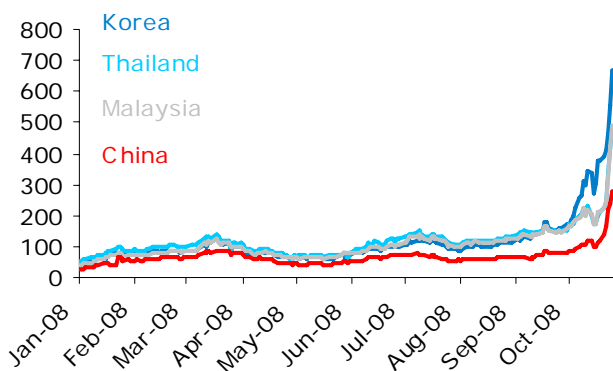
	Moody's	S&P	Fitch
Investment Grade			
China	A1	A+	A+
Hong Kong	Aa2	AA+	AA
India	Baa2	BBB-	BBB-
Korea	A2	A	A+
Malaysia	A3	A-	A-
Singapore	Aaa	AAA	AAA
Taiwan	Aa3	AA-	A+
Thailand	Baa1	BBB+	BBB+
High Yield			
Cambodia	B1	B+	NR
Indonesia	Ba3	BB-	BB
Philippines	B1	BB-	BB
Vietnam	Ba3	BB	BB-

* : denotes an upgrade in the current month; # : denotes a downgrade in the current month.

Source: Bloomberg

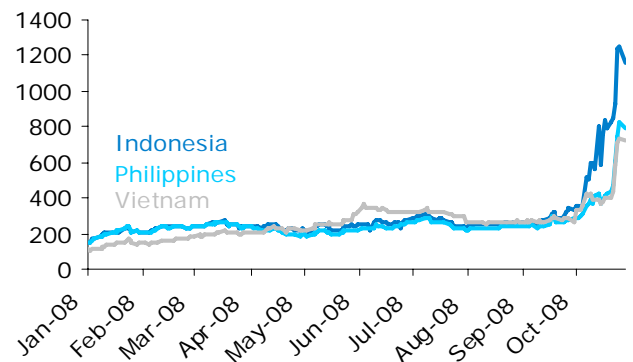
Sovereign CDS Spreads

5Yr Sovereign CDS Spread (bp)
Investment Grade



Source: Bloomberg

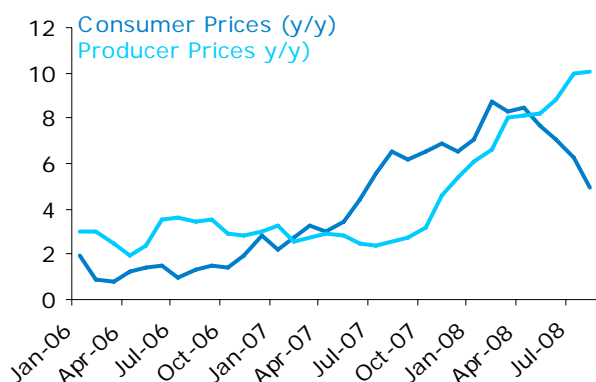
5Yr Sovereign CDS Spread (bp)
High Yield



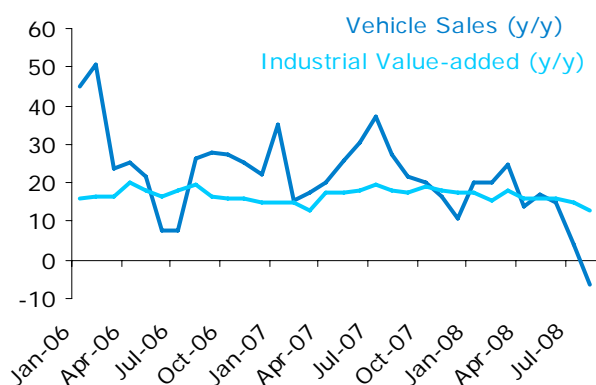
Source: Bloomberg

Country Update: China

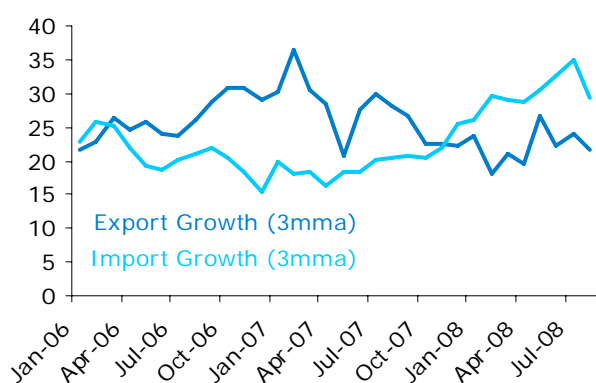
China-Inflation



China-Domestic Demand Indicators



China-Trade Developments (y/y)



Q3 GDP growth declined by more than expected, and price pressures eased further. Consumption and, surprisingly, export growth remain robust, but investment has slowed in some sectors. The authorities have begun to step up policy actions to support growth.

- GDP growth declined by more than expected in Q3, dropping to 9.0% (y/y) from 10.1% in Q2. A slower pace of manufacturing output was the main cause (quarterly data are only available on a production basis).
- Nominal retail sales growth was steady at 23% (y/y) in September, suggesting ongoing strength in consumption. However, industrial production growth in fell 1½% to 11½%.
- Export growth was 21½% (y/y) in September, unchanged from August. The growth in shipments to the EU fell to 21%, while those to the US rose to 15%. Import growth declined by 2ppt to 21%. The government will raise the export tax rebate on textiles, garments and toys, effective November 1.
- Inflation eased further in September, falling to 4.6% (y/y) from 4.9% in August. Food inflation remains high, but falling, at 9.7% while non-food inflation was steady at around 2%. Producer price inflation in September fell by 1ppt to 9.1%
- The PBOC lowered its one-year lending rate twice in October, by 27bps each time, to 6.66%. Reserve requirements were also lowered for the second time in a month, by 50bps to 16.0%
- The real estate sector continues to weaken. House price growth eased to 3.5%, the slowest pace since the series began in 2005, and home sales have reportedly plunged in major cities. The government will reduce down payments for home purchases as well as the interest rate floor.
- We expect the authorities to continue to be very proactive in implementing macroeconomic and administrative measures in order to maintain growth above their comfort threshold of 8%.

Paul Gruenwald

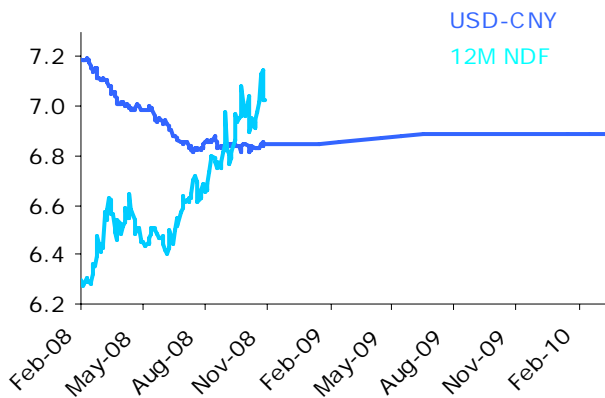
Economic Data - China

Monthly data	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08
Industrial Production, % y/y	17.8	15.7	16.0	16.0	14.7	12.8	11.4	N/A
Retail Sales, % y/y	21.5	22.0	21.6	23.0	23.3	23.2	23.2	N/A
Consumer Price Index, % y/y	8.3	8.5	7.7	7.1	6.3	4.9	4.6	N/A
Exports, % y/y	30.6	21.8	28.1	17.7	26.9	21.1	21.3	N/A
Imports, % y/y	24.8	26.6	40.1	31.2	33.6	22.9	20.9	N/A
Trade Balance, US\$ bn	13.4	16.7	20.2	21.4	25.3	28.7	29.4	N/A
Foreign Exchange Reserves, US\$ bn	1,682.2	1,756.7	1,797.0	1,808.8	1,845.2	1,884.2	1,905.6	N/A
Quarterly data	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08
Real GDP, % y/y	10.4	11.7	12.6	11.5	11.3	10.6	10.1	9.0
-Primary Sector	5.0	4.4	4.0	4.3	3.7	2.8	3.5	4.5
-Secondary sector	13.0	13.2	13.7	13.5	13.4	11.5	11.3	10.5
-Tertiary sector	12.1	11.3	12.1	12.7	12.6	10.9	10.5	10.3
Nominal GDP, RMB tn	21.2	5.1	10.9	16.9	25.0	6.1	13.1	20.2
Current Account, US\$ bn (semi-annual)	249.9	N/A	162.9	N/A	371.8	N/A	N/A	N/A
Capital Account, US\$ bn (semi-annual)	4.0	N/A	1.5	N/A	3.1	N/A	N/A	N/A

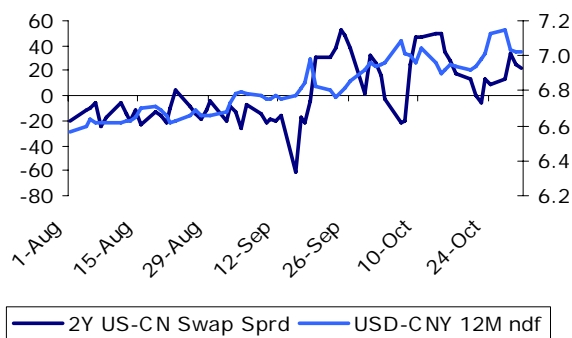
Sources: CEIC, Bloomberg

China: FX and Rates Strategy

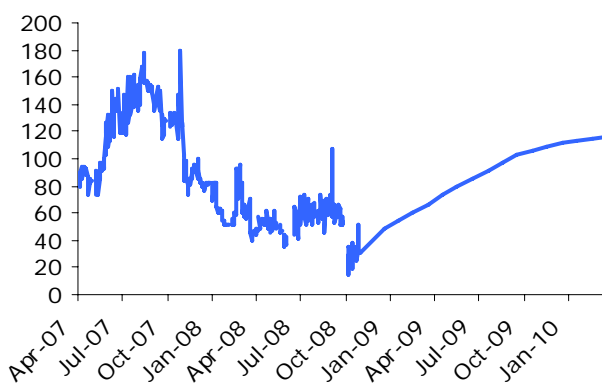
USD-CNY to inch higher



12M NDF no longer tracking 2Y spread



2s-10s IRS yet to steepen



CNY out-performance within AXJ is expected to continue as the authorities will be proactive about maintaining growth above 8%. As such, mild gains in USD-CNY are anticipated as global conditions continue to deteriorate.

FX

USD-CNY has been rock solid during the current bout of extreme market turmoil triggered by Lehman's filing for bankruptcy protection in mid-September, holding near 6.84. Year-to-date CNY has gained 6% versus the US dollar and has out-performed all but the Japanese yen.

GDP slowed to 9.0% in Q3, but exports have held up well at 21.5% (y/y) in September. Crucially, exports constitute a relatively small (36%) share of China's GDP. (Export shares in the remainder of AXJ, excluding India, range between 46% in Korea and 230% in Singapore). In China, it is investment that has been the engine of GDP growth, and this has been slowing as a result of earlier measures to dissipate inflation pressures.

The PBOC's response to recent market stress has been swift, with three rounds of cuts in the one-year lending rate already in place. The Chinese authorities have a large arsenal of counter-cyclical policy ammunition, and they will be inclined to use it in order to maintain growth above their "comfort threshold" of 8%.

Given that CNY has gained 26% versus AXJ year-to-date—ranging from a low of 8% versus the Hong Kong dollar to a high of 39% versus Korean won—we expect the Chinese authorities to tolerate some mild retrenchment toward the 7.000 level in USD-CNY. Much more is unlikely, both for political reasons, but also because of China's strong fundamentals.

Rates

Markets are expected to discount further PBOC policy stimulus, suggesting lower IRS rates and a steeper curve.

Tamara Henderson

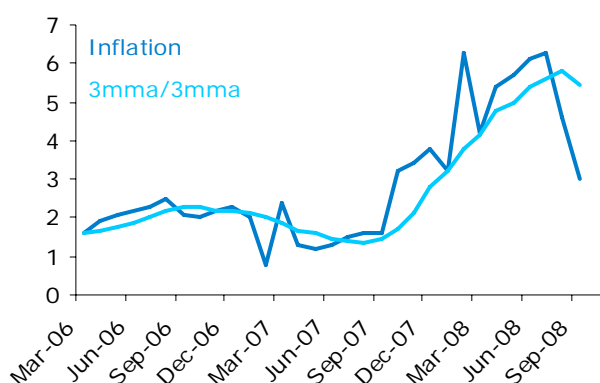
Market Forecasts - China

FX	Current	Ytd (%)	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
USD-CNY	6.849	-6.2%	6.84	6.86	6.89	6.89	6.89	6.89
AUD-CNY	4.628	-27.5%	5.00	4.90	4.70	4.40	4.10	4.30
NZD-CNY	4.020	-28.1%	4.20	4.40	4.20	4.00	3.90	3.80
Rates	Current	Ytd (bps)	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
PBOC's 1-year base lending rate	6.66	-81	6.39	6.12	5.85	5.58	5.58	5.58
3-month SHIBOR	4.13	-30	3.9	3.6	3.3	3.1	2.9	2.9
2-year IRS (onshore versus 7-day repo fix)	2.42	-136	2.2	1.9	1.6	1.3	1.2	1.1
10-year IRS	2.73	-187	2.6	2.6	2.5	2.4	2.3	2.3

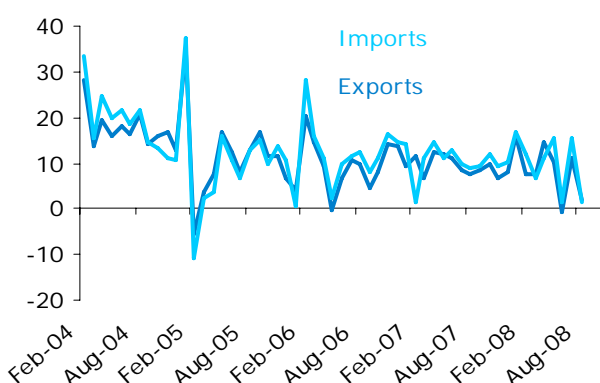
Sources: ANZ, Bloomberg

Country Update: Hong Kong

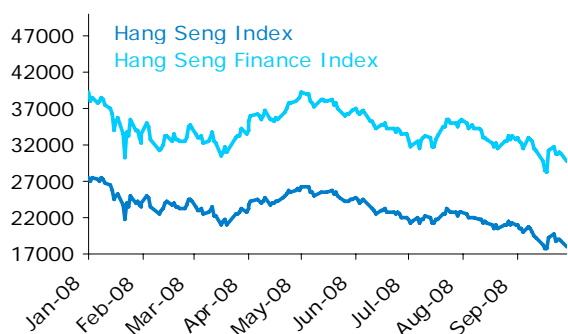
Hong Kong - Inflation (y/y)



Hong Kong-Trade Developments



Hong Kong - Stock Index



Hong Kong's inflation slowed for the second consecutive month. Export growth remains subdued as the global financial crisis reduced demand for Chinese products shipped through Hong Kong. Reflecting the worsening credit crisis, unemployment and the Hang Seng Index plunged. The government guaranteed bank deposits and announced a contingency fund program for banks to access additional capital.

- Hong Kong's inflation slowed for the second month to 3% (y/y) in September from 4.6% in August. This reflected electricity subsidies from the government as well as falling commodity prices.
- Declining household consumption and reduced visitor arrivals from mainland China caused Hong Kong's retail sales growth to slow by 3ppt to 10.4% (y/y) in August.
- Exports rose by a paltry 3.6% (y/y) in September from 1.9% in August as the worsening global financial crisis reduced demand for mainland Chinese products shipped through Hong Kong.
- Hong Kong's seasonally adjusted unemployment rate climbed to 3.4% in the three-month period ending September 30 as growth slowed and the effects of global financial turmoil spread.
- Reflecting concerns over a deep global recession and more bank failures, global stocks tumbled in October, spurring the "high beta" Hang Seng Index to plunge by more than 30% at one point.
- On 30 October, the Hong Kong Monetary Authority (HKMA) lowered its base rate to 1.5% from 2%, tracking the Federal Reserve's 50bps reduction in its benchmark interest rate.
- Earlier, on 14 October, the government announced that it will use part of its foreign exchange reserves to guarantee bank deposits and establish a contingency fund from which banks can access additional capital.

Ivy Tan

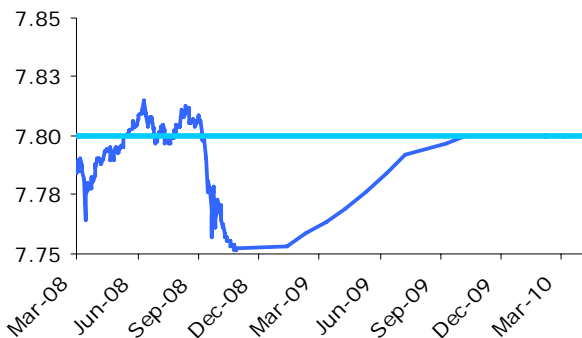
Economic Data - Hong Kong

Monthly data	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08
Retail Sales, % y/y	20.1	18.6	13.1	11.7	13.7	10.4	N/A	N/A
Composite Consumer Price Index sa, % y/y	4.1	5.4	5.7	6.1	6.2	4.5	5.9	4.2
Exports, % y/y	7.6	14.5	10.3	-0.6	11.1	1.9	11.1	4.8
Imports, % y/y	6.6	11.3	15.4	1.3	15.4	1.5	12.3	8.8
Trade Balance, US\$ bn	-3.6	-2.1	-3.5	-3.1	-2.5	-1.6	-2.5	-2.5
Foreign Exchange Reserves, US\$ bn	157.1	155.7	154.2	152.1	153.3	153.2	0.0	0.0
Quarterly data	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08
Industrial Production, % y/y	-1.4	-1.6	-2.3	-2.0	-0.3	-4.4	-4.2	N/A
Real GDP, % y/y	6.6	5.5	6.2	6.8	6.9	7.3	4.2	N/A
-Private consumption	6.0	4.5	6.6	10.6	9.5	7.9	3.1	N/A
-Government consumption	1.3	2.3	3.0	1.5	2.3	0.3	3.5	N/A
-Gross fixed capital formation	7.5	0.8	8.1	-0.5	8.2	9.9	4.3	N/A
Nominal GDP, HKD bn	400.3	373.6	380.1	413.8	448.7	410.2	404.1	N/A
Current Account, US\$ bn	7.2	8.2	3.3	8.4	8.1	6.6	4.4	N/A
Capital & Financial Account, US\$ bn	-9.3	-6.9	-5.1	-10.3	-9.8	-4.3	-2.6	N/A

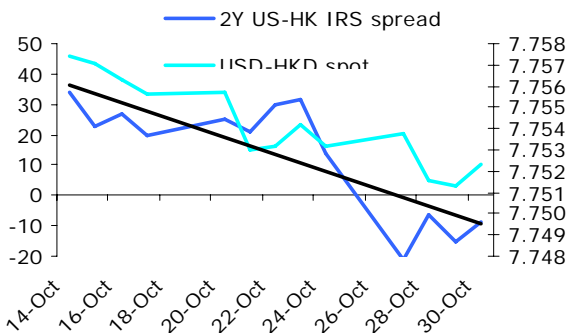
Sources: Bloomberg, CEIC

Hong Kong: FX and Rates Strategy

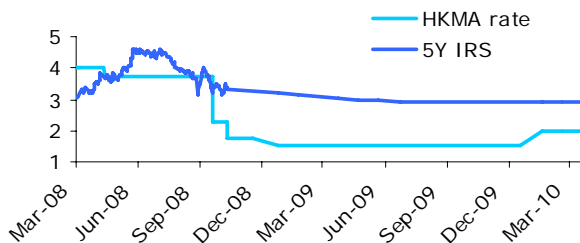
Carry unwinds push USD-HKD to floor



USD-HKD tracking 2Y swap spread



Downtrend in rates seen intact



USD-HKD has remained in a downtrend despite sharply weaker growth prospects and plunging share prices. Now at the lower limit of the trading band, USD-HKD can only move higher.

FX

HKD is an out-performer within AXJ, out-matched only by CNY. HKD out-performance has been defying economic fundamentals, namely: 1/significant vulnerability to global recession given its very large export exposure (200% of GDP), and 2/ significant vulnerability to the global credit crisis given its more developed financial sector. Equities are certainly discounting a global recession, down 23% this month alone. Q3 GDP has yet to be released, but it would be no surprise to find Hong Kong already in technical recession. Although Hong Kong's current account surplus is ample at 10% of GDP, significant narrowing is anticipated given the country's extremely large export exposure—the largest in AXJ after Singapore.

The unwinding of HKD carry trades has pushed USD-HKD to the floor of its 7.75-7.85 trading range, with the HKMA having to intervene to keep the currency above the floor. With absolutely zero chance that the authorities will revalue the currency in this environment, the only direction USD-HKD can go is higher. However, this will not occur until the unwinding of HKD carry trades starts to ebb.

Rates

Including a narrowing of the gap between the base rate and Fed Funds target, the HKMA has eased by a cumulative 200 bps in October—the most aggressive so far in AXJ.

Markets are geared for more easing by the Fed, and further changes in the HKMA's gap with the Fed funds rate cannot be ruled out given that : 1/ the Fed has less scope to cut rates further and 2/ Hong Kong growth is much more exposed to global demand. Deteriorating growth prospects in Asia should keep HKD IRS rates in a downtrend to the benefit of receiver positions.

Tamara Henderson

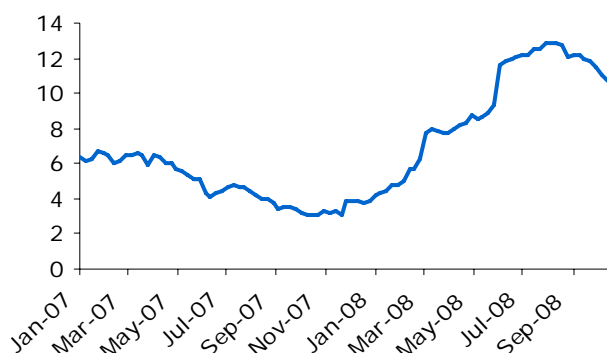
Market Forecasts - Hong Kong

FX	Current	Ytd (%)	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
USD-HKD	7.752	-0.6%	7.75	7.77	7.79	7.80	7.80	7.80
AUD-HKD	5.261	-22.9%	5.7	5.6	5.3	5.0	4.7	4.8
NZD-HKD	4.577	-23.4%	4.8	5.0	4.8	4.5	4.4	4.3
Rates	Current	Ytd (bps)	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
HKMA's discount rate	1.50	-425	1.25	1.25	1.25	1.25	1.25	1.75
3-month HIBOR	3.54	9	3.3	3.0	2.9	2.9	2.9	2.9
2-year IRS (onshore versus 3M HIBOR)	2.74	-69	2.5	2.2	2.1	2.0	2.0	2.0
10-year IRS	3.22	-79	3.1	3.1	3.0	3.0	3.0	3.0

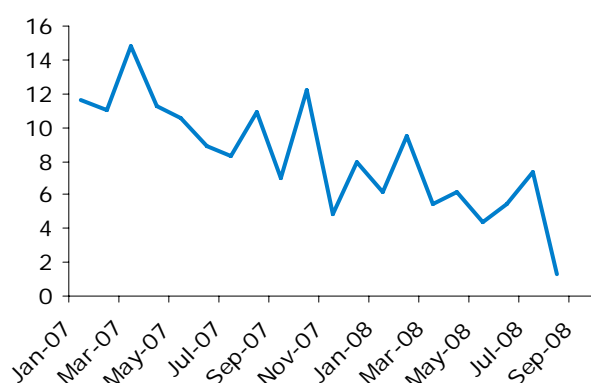
Sources: ANZ, Bloomberg

Country Update: India

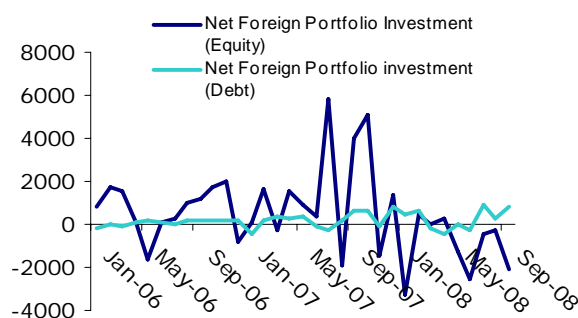
India - Wholesale Prices
All Commodities (y/y)



India-Industrial Production (y/y)



India-Net Foreign Portfolio Investment



Maintaining market confidence has replaced inflation as the prime policy concern, and the Reserve Bank of India (RBI) surprised the markets with a 100 bps rate cut. Export growth and domestic demand show downward trends due to weaker external demand and high interest rates, respectively.

- Inflation eased due to softer metal and food prices. WPI inflation fell from 12.1% (y/y) to 11.4% in the week ending October 24. Inflation remains a concern given the continued depreciation of the rupee and high short-run exchange rate pass-through.
- The RBI reiterated its commitment to financial stability, growth and well-anchored inflation expectations, though leaning more towards growth and stability. More rate cuts are anticipated in the near future given the bank's focus on global considerations.
- Growth in bank credit remains strong with non-food credit rising by 29.3% (y/y) as of October 10. The weighted average of call money market and market repo rates dropped from 13.7% and 11.8% (on Oct 1) to 6.1% and 5.8% (Oct 23), respectively.
- Industrial production growth fell sharply to 1.3% (y/y) in August from 7.4% in July, led by declines in capital goods production to 2.3% (from 20.4%) and in consumer durables production to 5.1% (from 13.3%).
- Net capital flows remain negative reflecting global risk aversion. Net foreign equity investment was down by another \$2.05bn in October, bringing the total outflow to \$11.25bn year-to-date. The RBI eased its External Commercial Borrowings policy to allow borrowers to go up to \$500 million per financial year. The BSE Sensex continued its tumble, falling by one-third in October.

Vimal Balasubramaniam

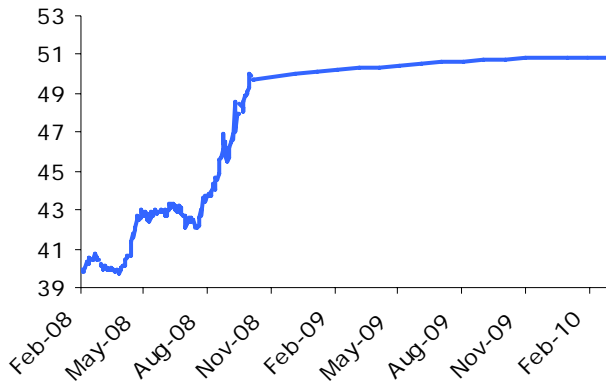
Economic Data - India

Monthly data	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08
Industrial Production, % y/y	5.5	6.2	4.4	5.4	7.4	1.3	N/A	N/A
Automobile Sales, % y/y	4.9	12.3	9.2	8.7	15.3	11.7	15.2	2.1
Wholesale Price Index, % y/y	7.7	8.3	9.4	12.0	12.5	12.6	11.8	11.7
Exports, % y/y	18.6	45.7	27.6	23.5	31.2	26.9	N/A	N/A
Imports, % y/y	35.9	39.7	38.7	25.9	48.1	51.2	N/A	N/A
Trade Balance, US\$ bn	-8.0	-8.9	-11.2	-9.8	-10.8	-13.9	N/A	N/A
Foreign Exchange Reserves, US\$ bn	299.2	304.2	304.9	302.3	295.9	286.1	N/A	N/A
Quarterly data	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08
Real GDP, % y/y	9.3	9.7	9.2	9.3	8.8	8.8	7.9	N/A
-Agriculture	4.0	4.9	4.4	4.7	6.0	2.9	3.0	N/A
-Industry	11.1	12.6	9.9	10.0	8.8	8.0	7.4	N/A
-Services	11.1	10.3	11.0	10.5	10.4	11.2	10.0	N/A
Nominal GDP, INR tn	10.2	10.4	9.9	9.8	11.4	11.9	11.5	N/A
Current Account, US\$ bn	-3.7	4.3	-6.3	-4.9	-5.1	-1.0	-10.7	N/A
Capital Account, US\$ bn	11.0	15.6	17.3	34.0	31.3	25.4	13.2	N/A

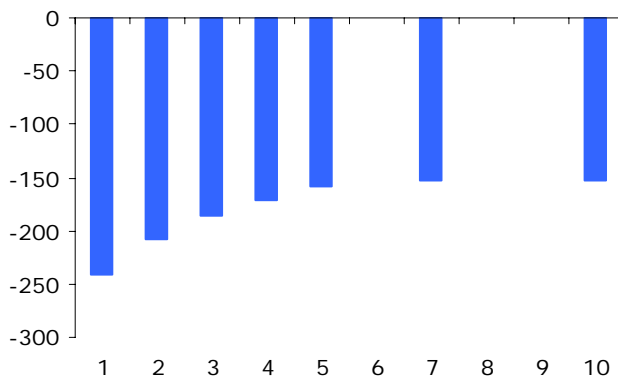
Sources: Bloomberg, CEIC

India: FX and Rates Strategy

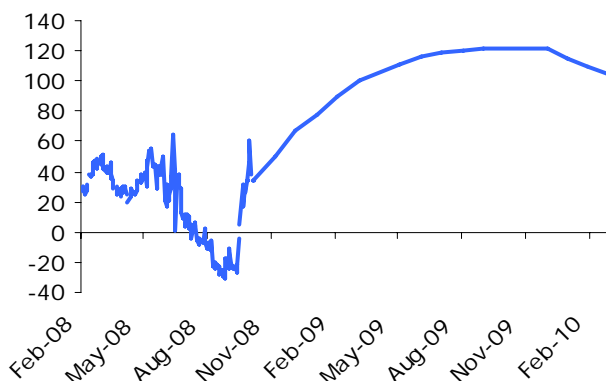
USD-INR yet to peak



1M chg IRS curve shift in October



2s-10s IRS to steepen



USD-INR will remain in an uptrend until global risk aversion stabilizes. Meanwhile, the RBI has abandoned its inflation focus despite still significant inflationary pressures, suggesting a much steeper yield curve.

FX

The rupee is down 26% versus the USD so far this year and 7% versus AXJ, still the second-worst performance in the region after the Korean won.

In theory, such currency weakness should be giving Indian exports a boost, while reducing the demand for imports. However, this has not yet materialized owing to J-curve effects. Indeed, India's trade deficit managed to hit a fresh record in August. Going forward, we would expect to see an improvement in the trade deficit, but a swing to surplus is highly unlikely.

Meanwhile, on the other side of the external balance sheet, foreign portfolio outflows continue, amounting to \$12.8bn year-to-date and \$3.6bn so far in October. These flows are seen as the primary driver of INR weakness. As such, USD-INR is expected to remain in an uptrend until global risk aversion stabilizes—that is, well into next year. As markets get closer to fully discounting the downside risks, the pace of capital outflows (and pressure on the rupee) should fade.

Rates

In the wake of the 100bps rate cut (October 20), RBI Governor Subbarao said that inflation concerns persist. Indeed, WPI remains in double-digits, but actions speak louder than words; and actions indicate that inflation concerns are sidelined for now—even though growth prospects remain respectable and a 26% plunge in the INR this year has added fuel to the inflationary fire.

With the RBI focused on containing damage from the global credit crisis, more rate cuts are surely on the way. Meanwhile, inflationary pressures are building. Ultimately, this will translate into much steeper curves.

Tamara Henderson

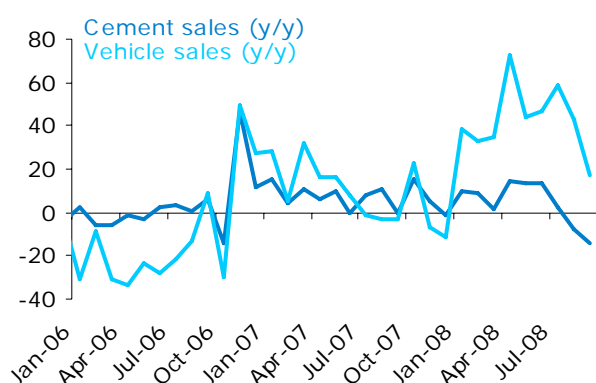
Market Forecasts - India

FX	Current	Ytd (%)	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
USD-INR	49.68	26.0%	50.0	50.3	50.5	50.7	50.9	50.9
AUD-INR	33.92	-1.6%	36.5	36.2	34.4	32.5	30.5	31.6
NZD-INR	29.32	-2.9%	31.0	32.2	30.8	29.4	28.5	28.0
Rates	Current	Ytd (bps)	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
RBI's repo rate	8.00	25	7.50	7.00	7.00	7.00	7.00	7.25
3-month MIBOR	12.07	351	11.6	11.1	10.8	10.8	10.8	11.0
2-year IRS (versus NSE MIBOR)	6.47	-42	6.0	5.5	5.2	5.2	5.2	5.4
10-year IRS	6.81	-36	6.6	6.5	6.4	6.4	6.4	6.5

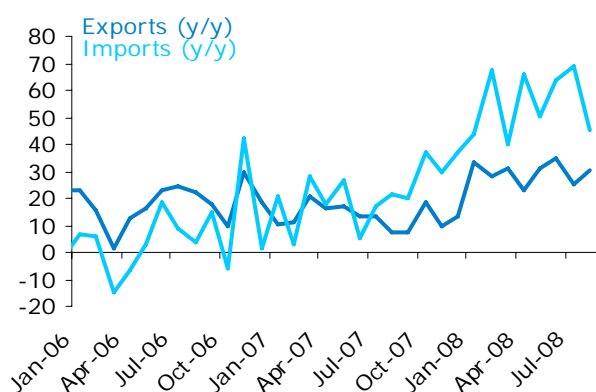
Sources: ANZ, Bloomberg

Country Update: Indonesia

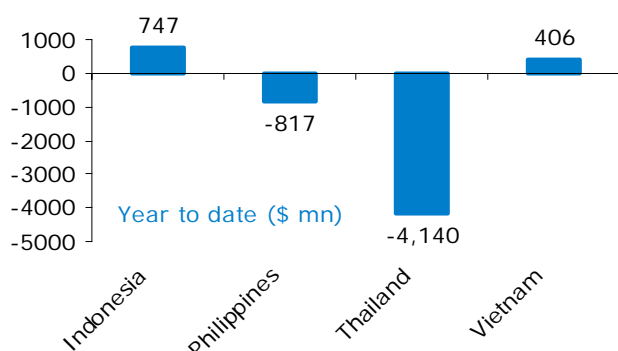
Indonesia - Domestic Demand



Indonesia - Trade Developments



Southeast Asia Foreign Equity Investments



Inflation remains elevated, forcing the BI to raise rates as central banks elsewhere ease monetary settings. Given slowing domestic demand, we should see the BI remaining pat on rates for the rest of the year. Exports continue to be robust and, despite the recent volatility, Indonesia has the largest net foreign equity inflow this year.

- Inflation was 12.1% (y/y) in September on higher food and fuel prices. Food prices rose on preparations to celebrate Id-ul-Fitr, the end of the fasting month of Ramadan.
- Domestic demand is weakening, weighed by higher interest rates and prices. Motorcycle sales grew 17.3% (y/y) in September compared with 43.3% in August, the slowest growth rate in nine months. Cement sales dropped 14% (y/y) in September following August's 8.1% decline.
- Industrial production grew 1.4% (y/y) in June versus May's 3.8% expansion. The main drag was slower growth in machinery.
- Imports grew 45.4% (y/y) in August from 68.8% in July, the slowest growth in five months. The drop in global fuel prices helped to bring down the previous two month's triple digit growth in oil imports to 55.2% (y/y) in September. Export growth increased 5ppt to 30.3% (y/y) in August.
- Net foreign equity outflows were \$99.3mln in October as volatility increased globally. But the domestic story continues to attract foreign interest with a year-to-date net inflow of \$747 million.
- Given elevated inflation, Bank Indonesia (BI) raised its policy rate for the sixth consecutive month by 25bps to 9.50%. The effects of previous rate increases and declining fuel prices should ease inflation pressures. We see the BI standing pat on rates for the remainder of 2008.

Joshua Saldanha

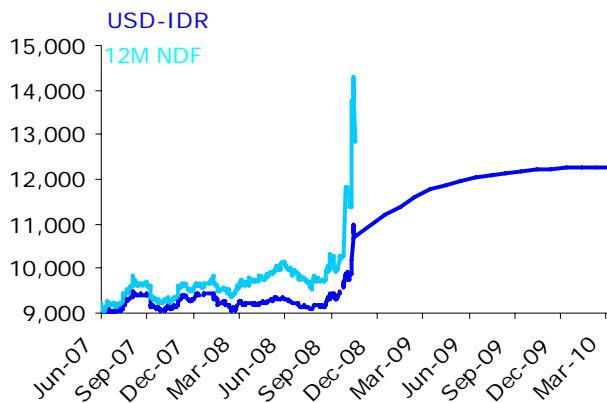
Economic Data - Indonesia

Monthly data	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08
Industrial Production, % y/y	2.5	3.5	4.0	2.4	2.7	2.9	2.7	12.0
Retail Sales Index, % y/y	1.7	10.3	7.5	7.4	6.5	12.9	N/A	N/A
Consumer Price Index, % y/y	8.2	9.0	10.4	11.0	11.8	11.4	10.6	9.7
Exports, % y/y	32.5	22.5	31.6	34.1	25.0	30.3	N/A	N/A
Imports, % y/y	41.1	65.7	49.8	63.4	68.8	45.4	N/A	N/A
Trade Balance, US\$ bn	4.0	1.6	3.2	3.0	1.8	2.4	N/A	N/A
Foreign Exchange Reserves, US\$ bn	56.4	56.2	54.9	56.8	58.0	55.9	54.6	54.6
Quarterly data	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08
Real GDP, % y/y	6.0	6.1	6.4	6.5	6.3	6.3	6.4	N/A
-Private consumption	3.8	4.7	4.7	5.1	5.6	5.7	5.3	N/A
-Government consumption	2.2	3.7	3.8	3.3	2.0	4.7	2.2	N/A
-Gross fixed capital expenditure	6.8	7.0	6.9	10.4	12.1	15.4	12.8	N/A
Nominal GDP, IDR tn	873.2	920.2	962.8	1,033.3	1,041.1	1,122.1	1,230.9	N/A
Current Account, US\$ bn	2.2	2.6	2.3	2.1	3.4	2.3	-1.5	N/A
Capital & Financial Account, US\$ bn	1.3	1.8	2.0	-0.9	0.5	-0.3	3.7	N/A

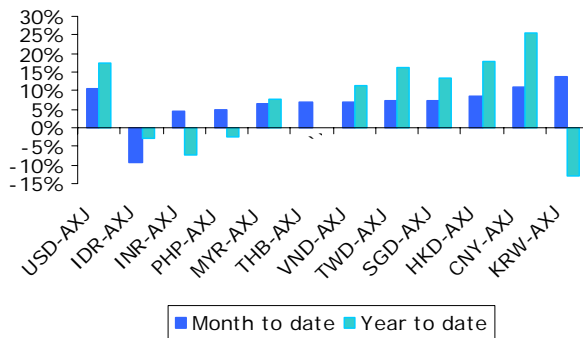
Sources: Bloomberg, CEIC

Indonesia: FX and Rates Strategy

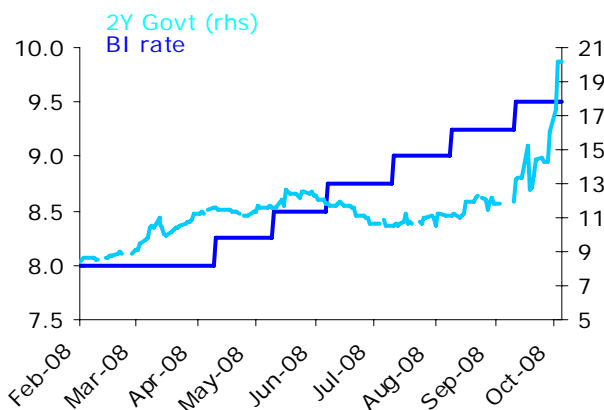
USD-IDR in catch-up mode



Performance within AXJ



BI yet to signal easing



Rupiah performance U-turned in October, with the currency now among the under-performers within AXJ this year. Indonesia's current account is close to slipping into deficit, but the authorities are taking action to contain the damage.

FX

USD-IDR spiked 15% in October, pushing the rupiah into the ranks of under-performers within AXJ this year. Indonesia's export exposure is relatively small, but its current account surplus has collapsed owing to strong domestic demand and sharp appreciation on a trade-weighted basis. BI is on task, delivering another 25bps rate hike in October, for a cumulative 150bps of tightening over the last six months. This is in sharp contrast with the aggressive easing seen elsewhere in AXJ in response to unprecedented turmoil in global financial markets. BI also appears to be tolerating some adjustment in USD-IDR in order to maintain competitiveness.

Indonesia's fundamentals are relatively strong, aside from its dwindling current account surplus. BI measures to slow domestic demand, subdue inflation and maintain competitiveness in the currency, should go a long way toward restoring its balance of payments position further down the road.

In the meantime, sentiment has turned against emerging markets in general, causing a collapse in regional equity markets. The concern is that Indonesia's relatively strong fundamentals will not offer much protection from the stronger forces of fear and contagion over the near-term. Indonesia's FDI and foreign portfolio flows had been holding up quite well, but this remains to be seen going forward.

Rates

More BI rate hikes ahead of elections due in May are unlikely, which suggests a pause in BI monetary policy activity into the middle of next year. In the meantime, marked progress on the inflation front (currently in double-digits) would be expected to compress yields across the yield curve.

Tamara Henderson

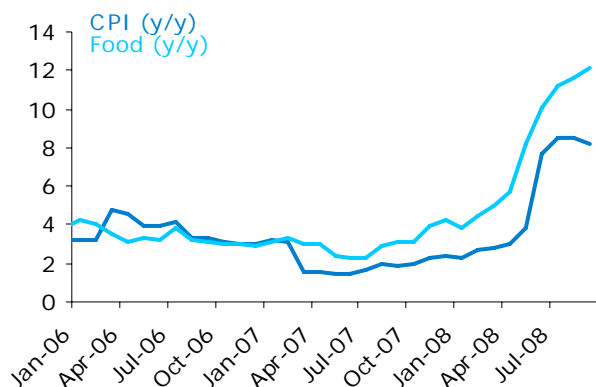
Market Forecasts - Indonesia

FX	Current	Ytd (%)	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
USD-IDR	10700	13.9%	11209	11769	12064	12184	12245	12245
AUD-IDR	7310	-11.1%	8183	8474	8203	7798	7347	7592
NZD-IDR	6320	-12.2%	6950	7532	7359	7067	6857	6735
Rates	Current	Ytd (bps)	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
BI's bank rate	9.50	150	9.50	9.50	9.25	9.25	9.25	9.25
3-month JIBOR	12.43	442	12.4	12.2	11.9	11.7	11.4	11.3
2-year IRS (versus IDR fix)	22.50	1500	22.5	22.3	22.0	21.8	21.5	21.4
10-year IRS	18.00	910	18.0	17.9	17.8	17.8	17.7	17.6

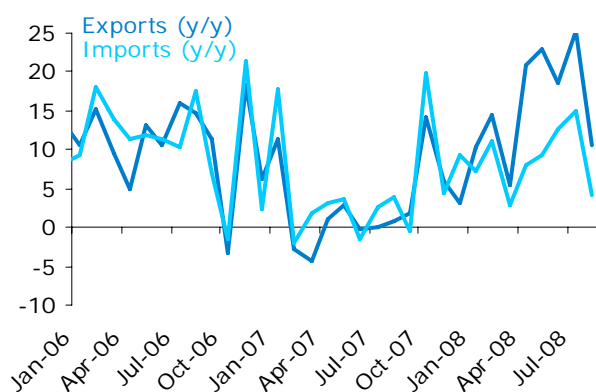
Sources: ANZ, Bloomberg

Country Update: Malaysia

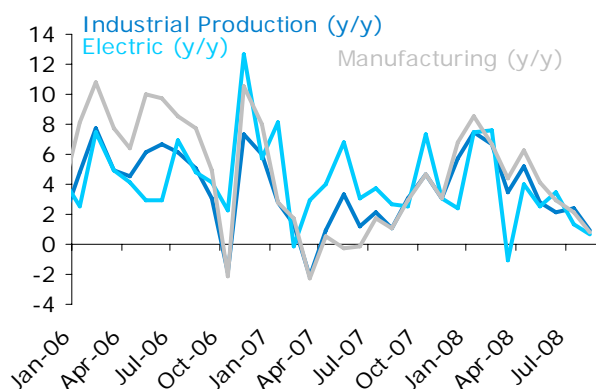
Malaysia - Inflation



Malaysia - Trade Developments



Malaysia - Industrial Production



Domestic demand indicators are mixed while exports are slowing. Although inflation remains elevated, the weaker external environment should allow Bank Negara to stand pat on rates for the rest of the year. Political stability should be enhanced with Deputy PM Razak set to take office next year and with opposition leader Ibrahim running out of options to unseat the government.

- Consumer price inflation rose 8.2% (y/y) in September after August's 8.5% increase. Food rose 12.2%; transport rose 18.1%.
- Bank Negara (BNM) left its overnight rate unchanged noting diminishing inflation pressures. It also noted that in the event of heightened risks to growth, it would take monetary policy action. We see BNM staying pat on rates for the rest of the year as inflation pressures recede.
- Domestic demand signals are mixed. Motor vehicles rose 10.5% (3mma y/y) in September compared with 10.1% in August. Industrial production fell to 0.87% (y/y) in August from 2.39% in July, dragged down by 1% growth in electricity and manufacturing sectors.
- Export growth declined in August to 10.6% (y/y) from 25.3% in July, reflecting a slowdown in demand from advanced countries. In August, exports to the US and the EU fell 15.2% and 6.8%, respectively. Import growth fell to 4.2% in August from 15% in July as shipments of electrical and petroleum products decreased.
- Political developments seem to be stabilising. Prime Minister Abdullah Badawi said he would not be standing for UMNO elections paving the way for his deputy Najib Razak to take over after March 2009, when elections are held. Meanwhile, opposition leader Anwar Ibrahim said he was running out of options in his quest to unseat the government.

Joshua Saldanha

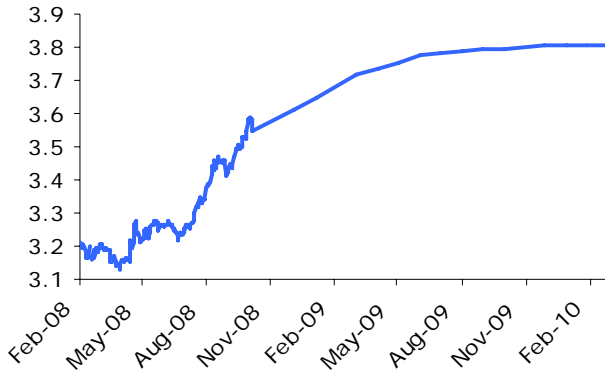
Economic Data - Malaysia

Monthly data	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08
Industrial Production, % y/y	3.5	5.2	2.9	2.3	2.4	0.9	N/A	N/A
Manufacturing Sales, % y/y	10.2	17.9	15.1	18.1	16.2	15.1	N/A	N/A
Consumer Price Index, % y/y	2.8	3.0	3.8	7.7	8.5	8.5	8.2	8.1
Exports, % y/y	5.5	20.9	22.9	18.6	25.3	10.6	N/A	N/A
Imports, % y/y	2.9	7.9	9.4	12.5	15.0	4.2	N/A	N/A
Trade Balance, USD bn	2.5	3.9	4.8	3.9	4.4	3.7	N/A	N/A
Foreign Exchange Reserves, US\$ bn	114.2	118.0	119.4	120.0	119.3	116.9	104.5	104.5
Quarterly data	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08
Retail Sales, % y/y	16.8	25.3	33.0	39.7	35.7	19.8	23.8	N/A
Real GDP, % y/y	5.3	5.5	5.7	6.7	7.3	7.1	6.3	N/A
-Private consumption	6.4	7.6	12.3	13.0	10.2	11.7	9.0	N/A
-Government consumption	4.4	7.3	10.4	6.0	4.2	10.5	7.1	N/A
-Gross fixed capital formation	9.8	9.5	6.0	12.8	10.2	6.0	5.6	N/A
Nominal GDP, MYR bn	147.8	144.6	154.3	166.3	176.7	174.8	188.8	N/A
Current Account, US\$ bn	7.9	5.7	7.3	8.6	8.0	7.5	11.3	N/A
Capital & Financial Account, US\$ bn	-5.7	0.8	2.2	-9.0	-5.2	8.3	-3.8	N/A

Sources: Bloomberg, CEIC

Malaysia: FX and Rates Strategy

USD-MYR headed toward 3.8

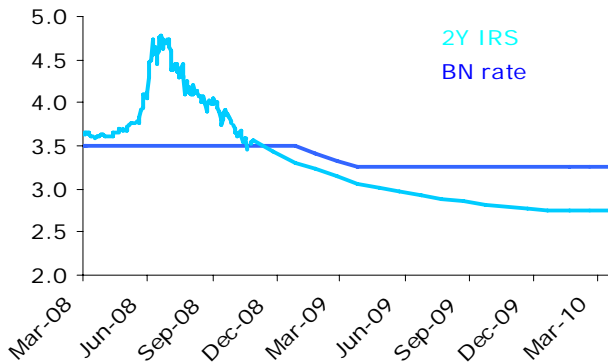


USD-MYR has tested the 3.60 level, and is expected to head for 3.80—the former level of the peg. With exports showing strain from the global slowdown, rates markets will anticipate easing by Bank Negara to the benefit of IRS receivers.

FX

USD-MYR continued higher in October, breaching the 3.60 level for the first time in two years. With real effects from the global credit crunch only just starting to come through to the domestic economy, further gains in USD-MYR are anticipated.

2Y IRS to anticipate easing

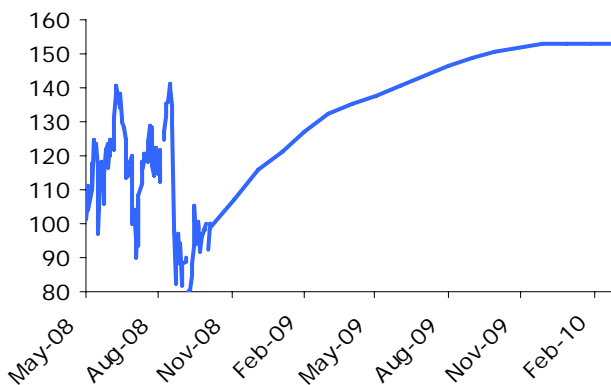


Although Malaysia has one of the best external positions in the region with a current account surplus above 16% of GDP, it has significant export exposure (over 100% of GDP). As such, we expect the authorities to tolerate further advances in USD-MYR in order to maintain competitiveness within the region.

Political uncertainty, lower commodity prices (i.e. lower export values), and a spike in inflation have been added negatives for the currency—but all of these factors seem to be stabilizing and should be less of an issue going forward.

A main concern for the MYR, and all of AXJ, is the state of global risk appetite. Until markets see the trough in global growth—not anticipated until the end of next year—AXJ currencies will continue to weaken against the US dollar.

2s-10s IRS to steepen



Rates

Weaker growth prospects and receding inflationary pressures pave the way for lower rates and a steeper curve. Bank Negara has also expressed a willingness to act swiftly if needed, so a rate cut is just a matter of timing and magnitude. Markets will be looking for a move sooner, rather than later, but nothing as aggressive as the 100bps or more seen elsewhere within AXJ.

Tamara Henderson

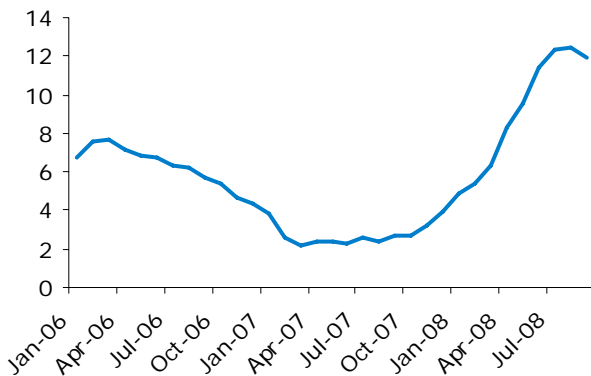
Market Forecasts - Malaysia

FX	Current	Ytd (%)	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
USD-MYR	3.55	7.1%	3.6	3.7	3.8	3.8	3.8	3.8
AUD-MYR	2.43	-16.0%	2.6	2.7	2.6	2.4	2.3	2.4
NZD-MYR	2.11	-16.8%	2.2	2.4	2.3	2.2	2.1	2.1
Rates	Current	Ytd (bps)	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
BNM's overnight policy rate	3.50	0	3.50	3.25	3.25	3.25	3.25	3.25
3-month KLIBOR	3.67	6.0	3.4	3.2	3.0	2.9	2.9	2.9
2-year IRS (versus 3M KLIBOR)	3.56	-24	3.3	3.1	2.9	2.8	2.7	2.7
10-year IRS	4.55	-14	4.5	4.4	4.3	4.3	4.3	4.3

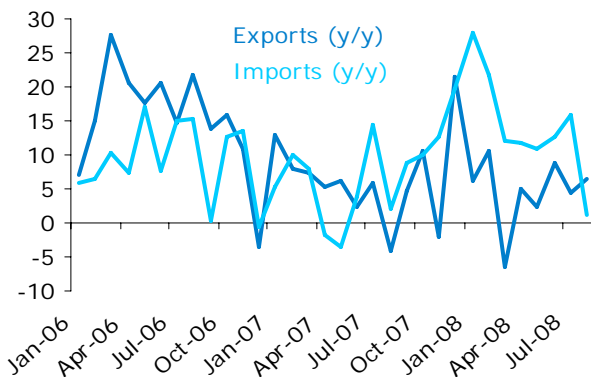
Sources: ANZ, Bloomberg

Country Update: Philippines

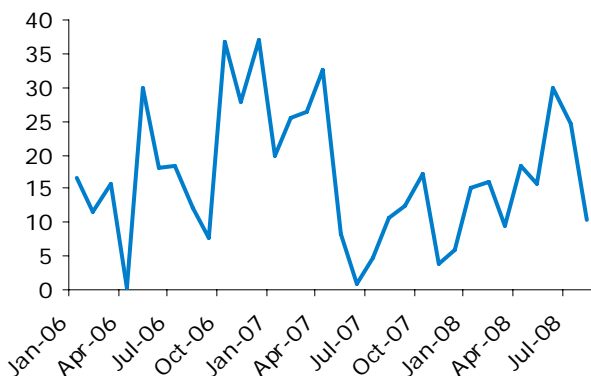
Philippines-Inflation (y/y)



Philippines-Trade Developments



Philippines-Overseas Remittance (y/y)



Business optimism and production indicators are heading south. Inflation showed signs of easing while export growth picked up. Equity markets declined while foreign portfolio investment posted a net outflow.

- Production has begun to slow, with manufacturing falling by -1.7% (m/m) and transportation retreating -12.1% (m/m) in September. The business confidence index also plunged from 41 in Q2 to -13 in Q3.
- Inflation eased to 11.9% (y/y) in September from 12.5% in August. This reflected fuel price cuts and smaller increases in food prices. However, core inflation rose ½ppt to 7.5% in September. Our momentum model suggests that inflation has peaked.
- The BSP kept the policy rate unchanged at 6% after raising the benchmark three times since June, as inflationary pressures eased. Deputy Governor Guinigundo indicated that the central bank may consider reducing reserve requirements instead of cutting policy rates to infuse liquidity.
- Export growth picked up to 6.5% (y/y) in August from 4.4% in July. Higher sales to China (7.9%) and Japan (13.3%) offset falling shipments to the US, which fell by 14.9%.
- Remittances recorded a smaller gain of 10.4% (y/y) in August after rising 24.6% in July, reaching \$1.3bn.
- Net FDI inflows in the first seven months of the year fell by 60% (y/y). Higher inflows from equity capital placements and reinvested earnings were offset by outflows from inter-company loan repayments and trade credit extended to affiliates abroad.
- Foreign portfolio investment posted a net outflow of \$312.2mln in September, reversing the net inflows of \$188mln in August. Equity markets continue to fall, down by 46.1% year-to-date.
- Looking ahead, we see growth moderating to 4.4% due to declining investment demand and slowing exports amid the weakening external environment.

Chong Jun Jie/Chang Wei Liang

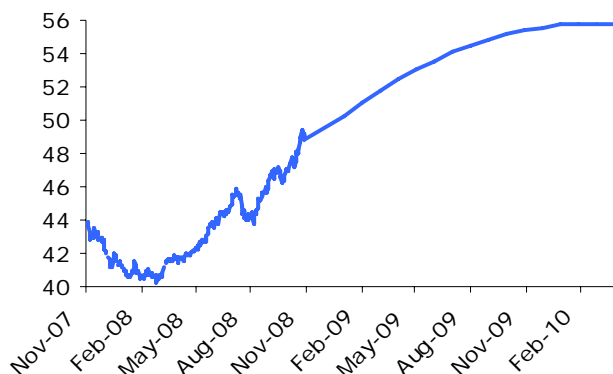
Economic Data - Philippines

Monthly data	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08
Manufacturing Production Value-add, % y/y	-4.5	8.0	9.9	9.5	14.3	12.7	N/A	N/A
Passenger Car Sales, % y/y	-7.0	25.0	-0.5	17.4	31.0	20.6	12.4	6.0
Consumer Price Index, % y/y	6.4	8.3	9.5	11.4	12.3	12.5	11.9	11.7
Exports, % y/y	-6.6	4.9	2.3	8.8	4.4	6.6	N/A	N/A
Imports, % y/y	12.2	11.8	10.9	12.7	16.0	1.1	N/A	N/A
Trade Balance, US\$ bn	-0.9	-0.5	-0.5	-0.8	-1.4	-0.6	N/A	N/A
Foreign Exchange Reserves, US\$ bn	32.2	32.1	31.8	32.1	32.4	32.5	N/A	N/A
Quarterly data	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08
Real GDP, % y/y	5.5	7.0	8.3	7.1	6.4	4.7	4.6	N/A
-Private consumption	6.2	5.9	5.6	5.7	6.2	5.2	3.4	N/A
-Government consumption	9.8	9.5	11.9	6.4	4.6	1.9	-5.1	N/A
-Gross fixed capital formation	3.7	10.3	20.9	8.8	6.7	2.9	5.6	N/A
Nominal GDP, peso bn	1,713.6	1,524.1	1,618.6	1,613.8	1,891.8	1,668.0	1,834.2	N/A
Current Account, US\$ bn	2.2	1.9	1.7	1.0	1.7	0.9	0.8	N/A
Capital & Financial Account, US\$ bn	-0.1	0.5	-0.4	3.3	-0.5	0.8	0.4	N/A

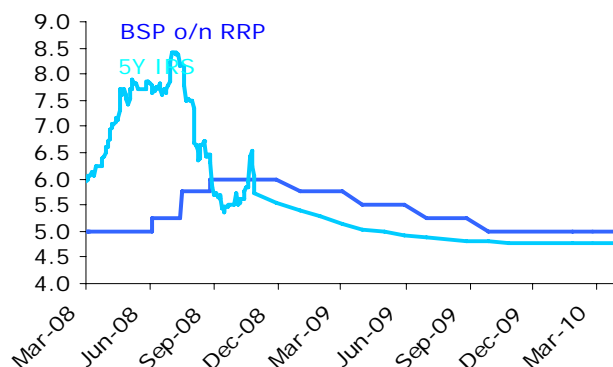
Sources: Bloomberg, CIEC

Philippines: FX and Rates Strategy

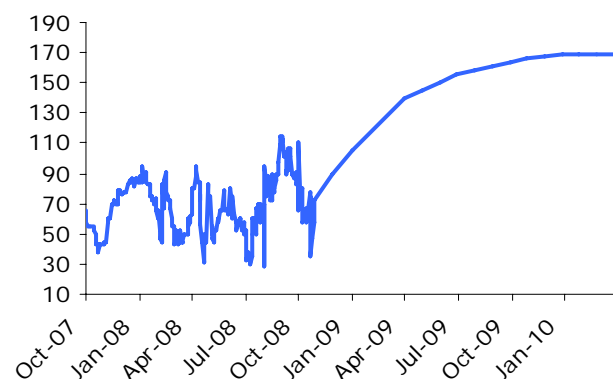
Uptrend in USD-PHP still intact



IRS rates headed lower



2s-10s IRS to steepen



The uptrend in USD-PHP should remain intact until risk appetite returns—unlikely before mid 2009. The BSP has more room to manoeuvre amid sharply heightened market turmoil linked to fears of a painful global recession—meaning that rate cuts are on the way. With inflation still in double-digits, however, this could amplify the curve steepening process.

FX

Although there has been a jaw-dropping response by authorities around the globe to restore some sense of stability, the turmoil in global financial markets has only intensified. More recently, the focus has shifted to the emerging markets, and in the rush toward safer havens, fundamentals have become increasingly irrelevant.

Indeed, the Philippines' PSE Index fell 12% on October 27, posting the largest daily decline since 1987. USD-PHP gained another 4% in October, for a cumulative gain of nearly 19% year-to-date, with PHP remaining among the group of under-performers within AXJ. Eventually, such punishment to the peso will translate into a much improved trade balance. It will also enhance the attractiveness of Philippine equities. Until risk appetite stabilizes, however, current trends should remain intact.

Well before current trends reverse, we should start to see markets make greater distinctions based on fundamentals. At such time, the currencies with much larger export exposure should start to catch-up to the realities of a much bleaker global outlook—supportive of PHP-AXJ.

Rates

The BSP has introduced measures to shore up the capital of banks and support USD liquidity, but has yet to cut its policy rate as inflation remains in the double-digits. However, this is likely to soon change given that the fallout from the US credit crisis has intensified greatly. The combination of rate cuts and double-digit inflation should amplify the curve steepening process.

Tamara Henderson

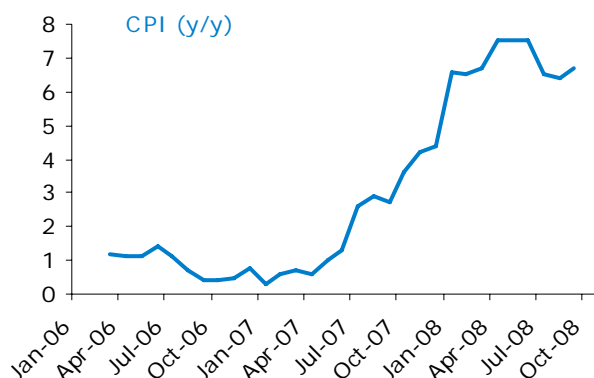
Market Forecasts - Philippines

FX	Current	Ytd (%)	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
USD-PHP	48.82	18.4%	50.3	52.5	54.1	55.2	55.7	55.7
AUD-PHP	33.42	-7.3%	36.7	37.8	36.8	35.3	33.4	34.6
NZD-PHP	28.94	-8.3%	31.2	33.6	33.0	32.0	31.2	30.7
Rates	Current	Ytd (bps)	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
BSP's overnight reverse repo rate	6.00	75	5.75	5.50	5.25	5.00	5.00	5.00
3-month PHIBOR	4.56	-175	4.1	3.6	3.3	3.2	3.1	3.1
2-year IRS (versus 3M IB ref rate)	5.48	-21	5.0	4.5	4.2	4.1	4.0	4.0
10-year IRS	6.20	-35	6.0	5.9	5.8	5.7	5.7	5.7

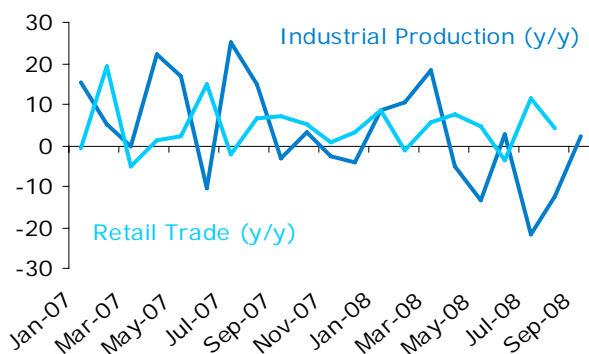
Sources: ANZ, Bloomberg

Country Update: Singapore

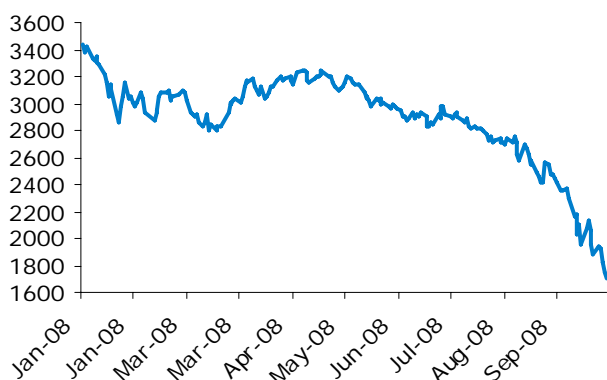
Singapore-Inflation



Singapore-Domestic Demand Indicators



STI Index



Singapore slipped into a technical recession in Q3 and inflation rose in September due to housing costs and electricity tariffs. Exports contracted for the fifth consecutive month but industrial production unexpectedly increased. The central bank shifted to a "zero-percent appreciation" stance and the government announced a deposit guarantee scheme. The STI Index plunged.

- Singapore's economy slipped into a technical recession with its GDP contracting by an annualised 6.3% in Q3. The government again revised its 2008 economic growth forecast downward to 3% from 5%.
- Inflation inched up to 6.7% (y/y) in September from 6.4% in August amid rising housing costs and electricity tariffs. The government cautioned that inflation will remain sticky as transport costs and electricity tariffs were recently raised.
- The Monetary Authority of Singapore (MAS) announced that it will shift to a "zero-percent appreciation" stance from its policy six months earlier which favoured a stronger currency to dampen inflation.
- Industrial production unexpectedly rose by 2.4% (y/y) in September as higher pharmaceutical output offset a decline in electronics manufacturing.
- Retail sales growth slowed to 4.2% (y/y) in August from 11.5% in July as demand for cars and recreational goods dropped.
- Non-oil domestic exports declined in September for the fifth consecutive month, falling by 5.7% (y/y).
- Reflecting concerns about a global recession and more bank failures, global stocks tumbled in October. Singapore's STI Index plunged by 30%.
- The government announced on 16 October that it will guarantee all Singapore dollar and foreign-currency deposits of individual and non-bank customers in banks, finance companies and merchant banks.

Ivy Tan

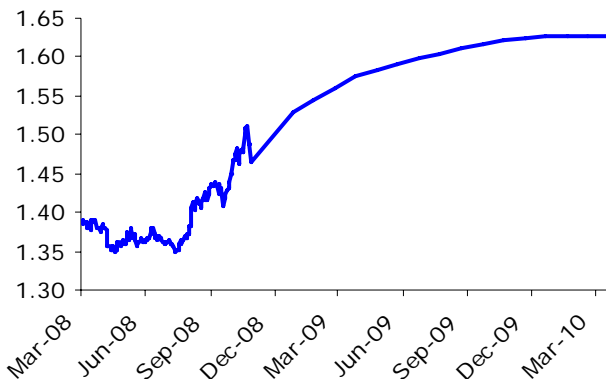
Economic Data - Singapore

Monthly data	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08
Industrial Production, % y/y	18.2	-5.0	-13.3	2.6	-21.8	-12.5	2.4	-1.2
Retail Sales sa, % y/y	6.3	7.4	5.0	-3.3	12.0	4.8	N/A	N/A
Consumer Price Index, % y/y	6.7	7.5	7.5	7.5	6.5	6.4	6.7	5.3
Domestic Exports (Non-oil), % y/y	-5.9	5.3	-10.5	-10.6	-5.8	-13.9	-5.7	-12.4
Imports (Non-oil), % y/y	7.0	18.0	3.6	3.1	4.3	0.1	12.7	2.8
Trade Balance, US\$ bn	1.2	1.5	1.7	1.4	1.5	2.6	1.5	1.5
Foreign Exchange Reserves, US\$ bn	176.3	174.5	174.9	175.3	175.6	171.5	169.1	169.1
Quarterly data	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08
Real GDP sa, % y/y	7.0	7.1	9.1	9.3	5.5	7.1	2.2	N/A
-Private consumption sa	3.7	3.0	4.9	5.7	5.1	4.6	5.3	N/A
-Government consumption sa	5.1	-1.6	7.1	0.5	5.2	12.4	4.5	N/A
-Gross fixed capital formation sa	22.4	22.4	27.8	16.9	16.0	30.7	25.2	N/A
Nominal GDP sa, SGD bn	56.3	57.7	60.5	62.5	62.5	65.6	64.1	N/A
Current Account, US\$ bn	8.2	9.8	9.7	12.1	7.5	7.2	6.2	N/A
Capital & Financial Account, US\$ bn	-2.2	-8.7	-2.5	-7.4	0.1	0.9	-2.8	N/A

Sources: Bloomberg, CEIC

Singapore: FX and Rates Strategy

USD-SGD: Next target is 1.54



A shift to a zero percent appreciation path in the MAS's S\$NEER policy band paves the way for further gains in USD-SGD. A test of 1.54 is expected before year-end.

FX

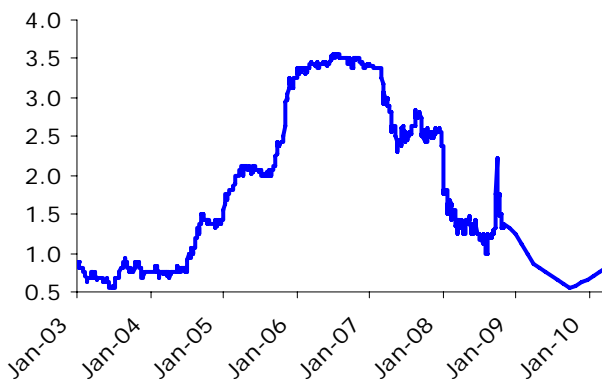
The MAS adopted a zero percent appreciation path in the S\$NEER policy band in October, paving the way for outright easing at its next meeting in April (if not beforehand) and further gains in USD-SGD.

Singapore's economy has already slipped into recession (the first in AXJ), and the real effects from the global credit crisis are only just starting to make their mark on the global economy.

Within AXJ, Singapore has the largest export exposure (over 200% of GDP), so it will be hit the hardest by a global recession—particularly as the slowdown gets a head of steam in Asia, where 70% of Singapore's exports are destined (versus 12% to the US and 11% to Europe). During the last global slowdown in 2002, 64% of Singapore's exports went to other parts of Asia, 17% to the US and 14% to Europe.

With USD-SGD now past the 1.50 marker, the next target is 1.54 (the 38.2% Fib retracement for both peaks in 1997 and 2002). Current momentum suggests a test of 1.54 before year-end. In 2009, a test of 1.66 (the 61.8% retracement) seems likely.

3M SIBOR headed below 1.0%

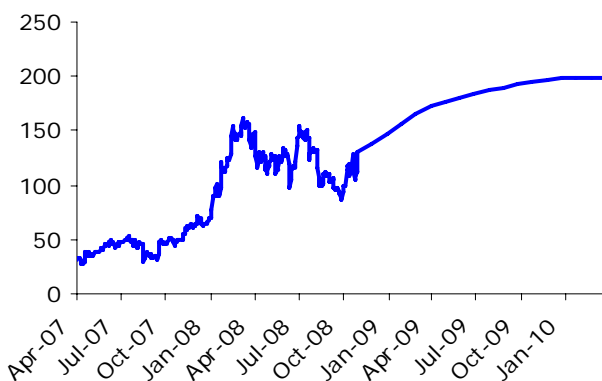


Rates

The MAS is expected to continue to guide three-month SGD SIBOR lower. During the downturn in 2001-03, three-month SGD SIBOR hit a low of 0.56, a target we are adopting for 2009.

Aggressive easing by central banks around the world, along with the MAS's move to neutral S\$NEER policy, should relieve pressure at the front end of the SGD IRS curve and push the 2s-10s IRS spread even spread wider.

2s-10s IRS to steepen



Tamara Henderson

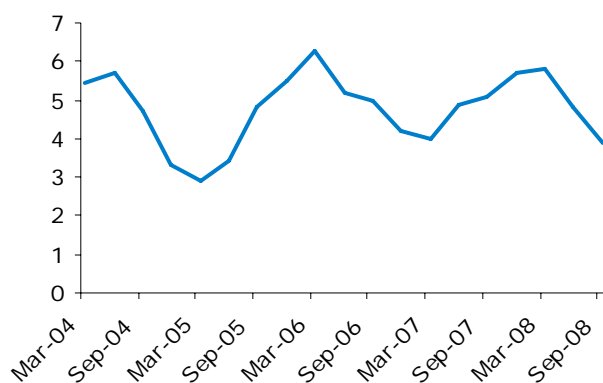
Market Forecasts - Singapore

FX	Current	Ytd (%)	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
USD-SGD	1.464	4.2%	1.53	1.57	1.60	1.62	1.63	1.63
AUD-SGD	1.002	-23.6%	1.12	1.13	1.09	1.04	0.98	1.01
NZD-SGD	0.870	-24.2%	0.95	1.01	0.97	0.94	0.91	0.89
Rates	Current	Ytd (bps)	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
3-month SIBOR	1.39	-18	1.25	0.85	0.70	0.55	0.65	0.80
2-year IRS (onshore versus 6M SOR)	2.13	31	1.9	1.5	1.3	1.2	1.1	1.1
10-year IRS	3.44	20	3.4	3.2	3.2	3.1	3.1	3.1

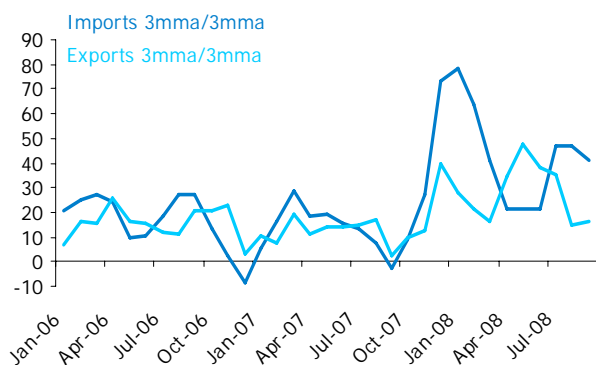
Sources: ANZ, Bloomberg

Country Update: South Korea

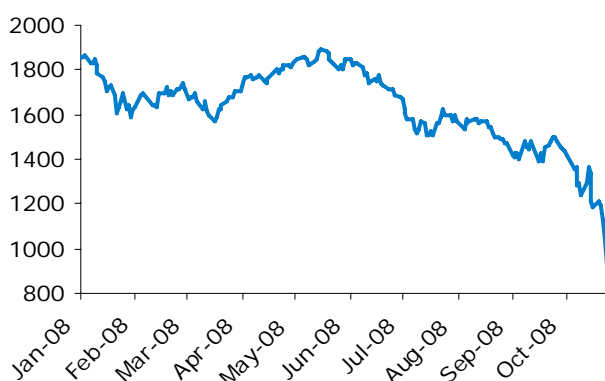
South Korea-GDP Growth (y/y)



South Korea - Trade Developments



South Korea-Stock Index



In spite of tepid consumption, Q3 GDP growth remained reasonably strong at 3.9% (y/y), down from 4.8% in Q2. Exports declined with weaker external demand, but the trade balance should strengthen in Q4 with commodity prices easing.

- Investment picked up substantially in Q3 with construction rebounding by 0.3% (q/q, sa) and trade-linked facilities growing by 2.3%.
- Retail sales growth declined to 10.5% (y/y) in August from 12.3% in July, reflecting tepid consumption, especially in the declining sales of durable goods.
- Industrial production fell by 3% (y/y) in August from 6% in July. Both domestic and export shipments fell, but exports remain marginally stronger given Korea's relatively diversified export base and weakening currency.
- Export growth rebounded to 28% (y/y) in September from 19% in August. Most of the growth came from non-traditional destinations, with growing exports to the Middle East, Latin America and Africa. In terms of product, growth was strongest for chemicals and mineral fuels, which grew by 60%.
- Imports surged 45.8% (y/y) in September from 37.0% in August, driven mainly by fuel, iron and steel imports from the Middle East and Australia. With world oil and iron prices coming down, however, Korea's terms of trade will improve once the won stabilises. This should dampen import growth and our 3mma/3mma import momentum measure paints an improving picture for the trade balance in September.
- Inflation continued to decline to 5.1% (y/y) in September from 5.6% in August. We expect inflation to continue to moderate with the softening of commodity prices.
- As contagion from the global credit crisis worsened, the KOSPI index plunged by 35% in October and Korea's five-year sovereign CDS spread widened to over 700bps.

Chang Wei Liang

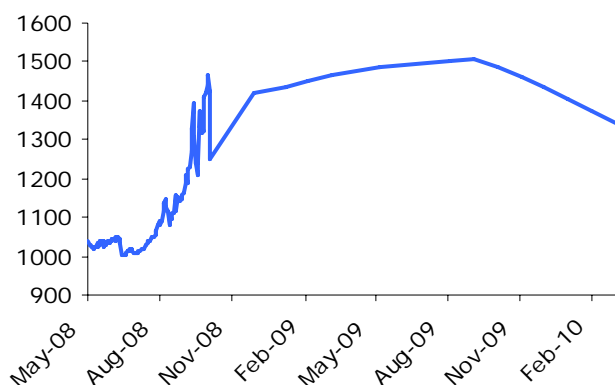
Economic Data - South Korea

Monthly data	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08
Industrial Production, % y/y	10.3	10.7	8.6	6.6	8.6	1.9	N/A	N/A
Retail Sales, % y/y	8.7	10.6	10.1	6.8	12.3	10.5	N/A	N/A
Consumer Price Index, % y/y	3.9	4.1	4.9	5.5	5.9	5.6	5.1	4.9
Exports, % y/y	18.5	26.4	26.9	16.5	35.6	18.2	28.2	9.2
Imports, % y/y	26.6	29.2	29.6	32.7	47.2	36.4	45.8	21.1
Trade Balance, USD bn	-1.1	-0.4	0.7	-0.6	-2.0	-3.8	-2.1	-2.1
Foreign Exchange Reserves, US\$ bn	264.3	260.9	258.7	258.5	247.9	243.4	240.4	240.4
Quarterly data	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08
Real GDP, % y/y	4.2	4.0	4.9	5.1	5.7	5.8	4.8	3.9
-Private consumption	3.9	4.1	4.4	4.8	4.6	3.4	2.3	1.1
-Government consumption	7.2	6.3	6.9	4.5	5.6	3.9	4.0	4.3
-Gross fixed capital formation	4.9	7.2	5.5	1.3	2.9	0.5	0.1	1.8
Nominal GDP, KRW tn	231.2	204.8	221.6	226.9	247.9	218.7	241.1	N/A
Current Account, US\$ bn	0.1	-1.6	1.3	2.3	-0.8	-0.1	1.8	N/A
Capital & Financial Account, US\$ bn	5.5	3.6	-1.4	-3.6	1.2	0.4	-4.0	N/A

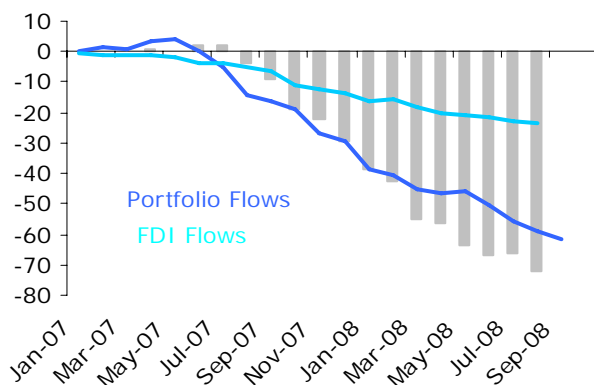
Sources: Bloomberg, CEIC

South Korea: FX and Rates Strategy

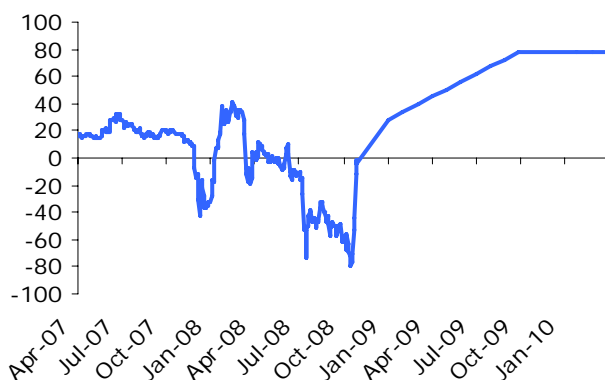
USD-KRW: 1500 seen as the peak



Net cumulative flows from Jan 2007 \$bn



2s-10s IRS to steepen further



Measures to improve USD liquidity should slow the pace of KRW depreciation, but no clear trend reversal in USD-KRW is expected before markets see the trough in global growth.

FX

KRW tumbled another 6% versus USD in October, now down 37% year-to-date—out-performing only ZAR and ZWD this year. USD-KRW seems to have found the key 61.8% Fibonacci retracement from the Asia crisis in 1997 (near 1500) as a meaningful hurdle after the authorities announced measures to address contagion from the global credit crisis, including direct swap lines in USD between the Bank of Korea (BoK) and local banks.

Like elsewhere, Korean capital flows are being hit by a double whammy of de-leveraging and plummeting risk appetite. Net foreign equity outflows remain at a swift pace, totalling \$36.2bn year-to-date, or roughly \$820mln per week. Net FDI outflows have accelerated—amounting to \$10bn in the first eight months of 2008 compared with \$13.7bn in 2007.

Although we think Korean crisis fears are overdone and government measures will go a long way toward easing the onshore “shortage” of USD, a trend reversal in USD-KRW is not expected before we see signs of: 1/ a meaningful improvement in Korea’s current account, or 2/ a trough in the global downturn (i.e. a much improved outlook for Korea’s capital account). Neither is expected any time soon.

That said, USD-KRW has tumbled far and fast relative to other currencies—especially those outside of AXJ where economic fundamentals are much more dire, but also within AXJ where downside economic risks have yet to be adequately priced. As such, the pace of gains in USD-KRW is expected to slow, and we should see KRW start to out-perform within the emerging world, including AXJ.

Rates

The BoK promised that policy would be set to avoid an economic contraction, and then delivered a total of 100bps of rate cuts in October. This matches aggressive actions by several other central banks in the region, including India and Vietnam where economic momentum is much stronger. As such, more cuts are likely and our outlook for lower IRS rates and a steeper IRS curve remains intact.

Tamara Henderson

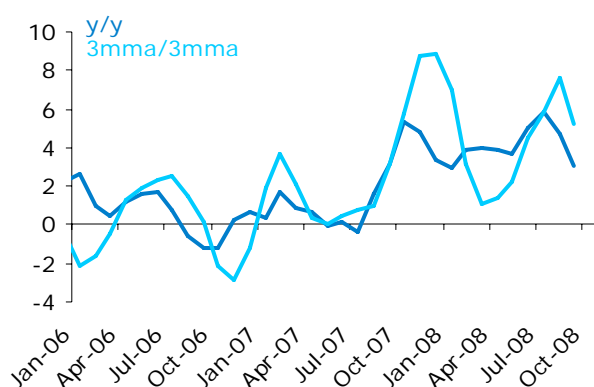
Market Forecasts - South Korea

FX	Current	Ytd (%)	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
USD-KRW	1250	33.7%	1422	1465	1494	1509	1438	1343
AUD-KRW	860	5.0%	1038	1055	1016	966	863	833
NZD-KRW	750	4.5%	882	938	912	875	805	739
Rates	Current	Ytd (bps)	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
BOK's overnight call rate	4.25	-75	3.75	3.50	3.25	3.00	3.00	3.00
3-month KORIBOR	5.83	4	5.3	5.1	4.8	4.6	4.6	4.6
2-year IRS (versus 91D KRW CD)	4.49	-129	4.0	3.7	3.5	3.2	3.2	3.2
10-year IRS	4.44	-102	4.3	4.2	4.1	4.0	4.0	4.0

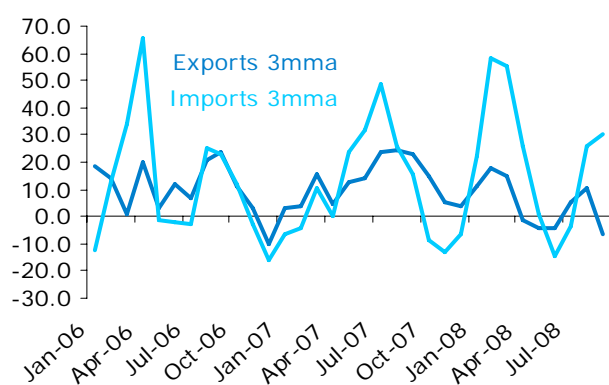
Sources: ANZ, Bloomberg

Country Update: Taiwan

Taiwan-Inflation



Taiwan-Trade Developments



Taiwan-Stock Index



Taiwan's economy faces strong headwinds from the slowdown in global demand. Exports were down sharply in September as major trade partners, China and the U.S, reported lower growth. Coupled with weak domestic demand, growth prospects remain subdued.

- Domestic consumption remains flat, with retail sales falling by 4.3% (y/y) in September from -2.6% in August. Industrial production also contracted by 1.4% (y/y) in September from 0.7% growth in August, led by weak manufacturing.
- Exports were dismal in September, contracting by 1.6% (y/y), a sharp turnaround from growth of 18.4% in August. Exports to China reversed the growth trend for the year, falling sharply by 17.1% in September after an increase of 16.5% in August. Electronics was a key contributor to the drop, contracting 4.6% in the month.
- Leading indicators continue to fall, with the TAIEX down by 46% year-to-date and export orders growth halving to 2.8% in September.
- Inflation dropped sharply to 3.1% (y/y) in September from 4.7% in the previous month, reflecting declines in food and transportation prices. Our momentum indicator suggests a further drop in price pressures, giving the Central Bank of China (CBC) room to cut rates more aggressively. The CBC cut interest rates for the third time in less than two months on 30 October, reducing the discount rate by 25bps to 3%.
- Property sales have experienced a dramatic drop of 35% since May, with sales in the key cities of Taipei and Kaohsiung hardest hit. The real estate sector remains lacklustre with building permits falling by 24% in August.
- In an effort to lower unemployment from a high of 4.3%, the government pledged to inject NT\$3.7bn into the economy to help create 30,000 jobs by June 2009.

Chang Wei Liang

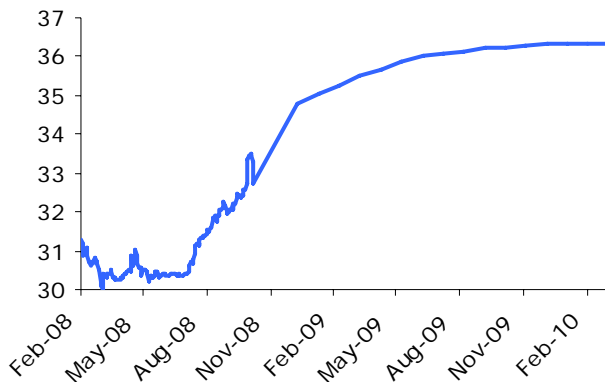
Economic Data - Taiwan

Monthly data	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08
Industrial Production, % y/y	9.0	10.0	5.6	5.1	1.8	0.7	-1.4	-8.9
Retail Trade Index, % y/y	-1.4	-1.0	-1.4	-5.1	-10.0	-7.3	-7.9	-11.5
Consumer Price Index, % y/y	3.9	3.9	3.7	5.0	5.8	4.7	3.1	0.9
Exports, % y/y	15.2	4.2	10.6	11.3	0.0	11.0	-5.3	-6.5
Imports, % y/y	29.2	7.7	8.0	12.3	3.7	31.1	6.3	6.4
Trade Balance, US\$ bn	0.0	0.9	2.1	1.4	-0.4	-0.1	0.7	0.7
Foreign Exchange Reserves, US\$ bn	286.9	289.4	290.1	291.4	290.9	282.1	281.1	281.1
Quarterly data	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08
Real GDP, % y/y	4.1	4.2	5.2	6.9	6.5	6.3	4.3	N/A
-Private consumption	2.4	2.1	2.6	3.6	1.9	2.0	1.1	N/A
-Government consumption	0.0	-0.2	0.0	1.7	1.5	1.7	-0.8	N/A
-Gross fixed capital formation	5.2	0.8	6.0	4.5	-1.7	4.4	-7.7	N/A
Real GNP, % y/y	4.1	4.2	5.2	6.9	6.5	6.3	4.3	N/A
Nominal GDP, TWD tn	2.7	2.6	2.5	2.8	2.9	2.7	2.5	N/A
Current Account, US\$ mn	8,815.0	9,410.0	5,909.0	6,477.0	11,183.0	8,495.0	6,493.0	N/A
Capital Account, US\$ mn	-41.0	-26.0	-19.0	-33.0	-18.0	-271.0	-20.0	N/A

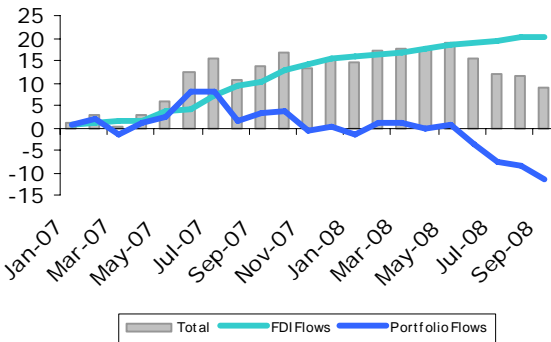
Sources: Bloomberg, CEIC

Taiwan: FX and Rates Strategy

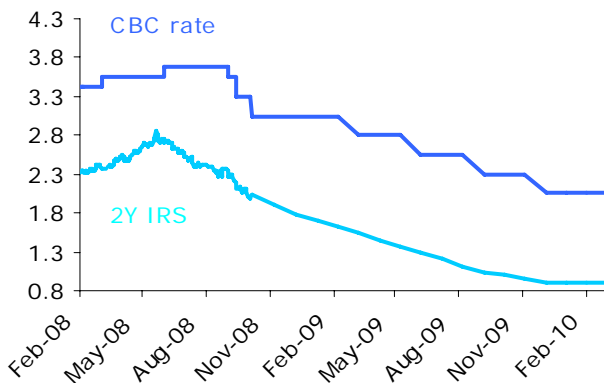
USD-TWD yet to peak



Net cumulative flows from Jan 2007 (TW\$ bn)



2Y IRS to benefit from more CBC cuts



Taiwan's economic fundamentals are swiftly deteriorating and foreign portfolio flows are starting to respond in kind. Although the TWD remains among the out-performers within AXJ, the pace of gains in USD-TWD has picked up and the TWD's position has slipped a notch—now trailing the HKD as well as CNY (year-to date). Further realignment is anticipated.

FX

Retail sales, industrial production, exports and leading indicators are all contracting in the region's bell-weather economy. Net foreign portfolio flows have turned massively negative, now at $-\$15.1\text{bn}$ year-to-date versus a cumulative inflow of $+\$0.5\text{bn}$ as recent as early June. As of August (the latest data available), global de-leveraging had yet to dampen FDI inflows, but this could change in the post-Lehman environment.

Within AXJ, Taiwan is one of the more exposed economies to a global slowdown, with exports nearly 75% of GDP. Although Taiwan has enjoyed a healthy current account surplus, a marked deterioration is under way. As of June, the current account had already contracted by 42% over a mere six months (to $\$6.5\text{bn}$ or 6.6% of GDP in Q2, from $\$11.2\text{bn}$ or 10.9% of GDP in Q4 2007). Monthly trade figures in Q3 suggest a further 46% contraction in Taiwan's goods balance; this maps into a current account surplus of 3.8% of GDP under the most optimistic of assumptions.

As such, a test of the 2002 peak of 35.248 in USD-TWD is seen only as a question of timing. Further re-alignment in the TWD versus AXJ into year-end is likely to be significant, especially against the PHP and IDR—currencies with much smaller export exposure.

Rates

Further deterioration in economic conditions will prompt markets to discount more easing by the CBC—which has so far been less aggressive than many AXJ counterparts. As such, swap rates should continue to fall and the 2s-10s TWD IRS curve should start to steepen.

Tamara Henderson

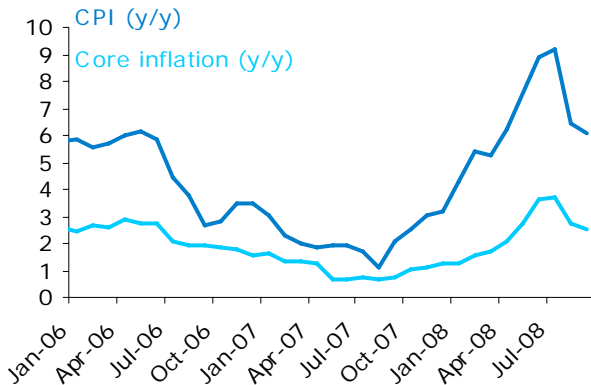
Market Forecasts - Taiwan

FX	Current	Ytd (%)	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
USD-TWD	32.75	1.0%	34.8	35.5	36.0	36.2	36.3	36.3
AUD-TWD	22.44	-20.9%	25.4	25.6	24.5	23.2	21.8	22.5
NZD-TWD	19.49	-21.5%	21.6	22.7	22.0	21.0	20.3	20.0
Rates	Current	Ytd (bps)	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
CBC's discount rate	3.00	-38	3.00	2.75	2.50	2.25	2.00	2.00
3-month CP	2.08	-14	1.8	1.6	1.3	1.1	1.0	1.0
2-year IRS (versus 3M CP)	1.99	-42	1.7	1.5	1.2	1.0	0.9	0.9
10-year IRS	2.22	-47	2.1	2.1	2.0	1.9	1.8	1.8

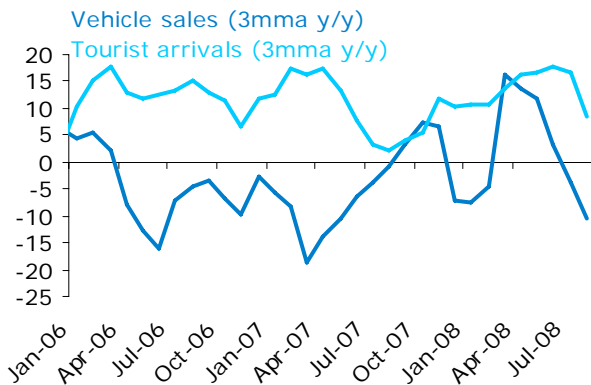
Sources: ANZ, Bloomberg

Country Update: Thailand

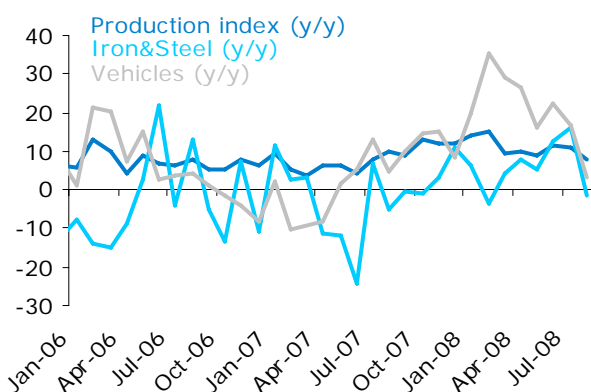
Thailand - Inflation



Thailand - Domestic demand indicators



Thailand - Production Index



Increased political tensions continue to be a drag on the economy with domestic demand slowing and tourist arrivals falling. The combination of easing inflation and slowing global growth suggests that the BOT will soon cut its policy rate.

- Inflation eased for the second straight month, falling to 6% (y/y) in September. This was helped by the government providing free utilities to low-use households and waving some transport fares. Non-food prices also fell for the second straight month, contracting 0.8% (m/m).
- Domestic demand indicators point to further weakness. Vehicles sales contracted for the fourth month in a row, falling 10.5% (y/y) in September. Industrial production growth fell to 7.9% (y/y) in August versus 10.9% in July. The main drag came from food, iron and steel segments.
- Increased political instability saw tourist arrivals fall 2.4% (y/y) in August after six months of double digit growth.
- Export growth fell in August to 15.5% (y/y) from July's 43.9%. In particular, exports slowed to China, the European Union and the US.
- The global financial crisis and increasing political instability lead to a net foreign equity outflow of \$253m in October, taking the year-to-date outflow to \$4.1bn. The stock exchange of Thailand has fallen 48.7% year-to-date in line with the drop in the other regional bourses.
- The Bank of Thailand (BOT) kept its policy rate unchanged at its October meeting and said that it was ready to act if necessary. With inflation easing and growth momentum slowing, we expect the BOT to cut its policy rate by 25bps at its meeting in December.

Joshua Saldanha

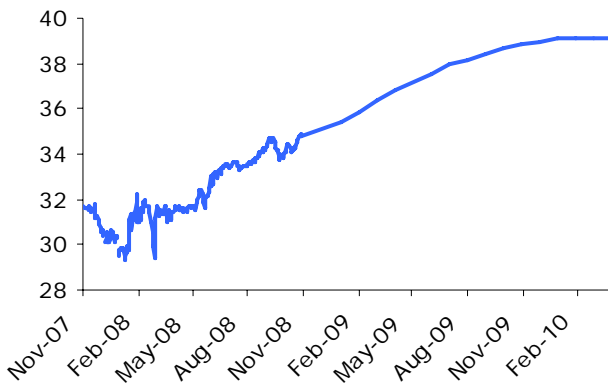
Economic Data - Thailand

Monthly data	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08
Industrial Production, % y/y	9.2	10.0	9.0	11.3	11.0	7.9	N/A	N/A
Retail Sales, % y/y	9.1	7.4	9.8	6.7	4.1	N/A	N/A	N/A
Consumer Price Index, % y/y	5.3	6.2	7.6	8.9	9.2	6.4	6.0	5.2
Exports, % y/y	4.3	13.9	9.6	18.1	38.6	14.2	17.7	8.4
Imports, % y/y	20.9	29.7	4.6	21.1	49.4	26.1	37.3	20.0
Trade Balance, US\$ bn	0.0	-1.9	1.1	0.4	-1.2	-0.9	0.0	0.0
Foreign Exchange Reserves, USD bn	107.3	107.3	106.4	103.0	102.1	98.9	99.9	99.9
Quarterly data	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08
Real GDP, % y/y	4.3	4.2	4.3	4.8	5.7	6.1	5.3	N/A
-Private consumption	2.7	1.4	0.9	1.8	1.8	2.6	2.4	N/A
-Government consumption	-4.0	9.1	9.3	9.5	16.0	-0.1	-2.4	N/A
-Gross fixed capital formation	1.9	-1.3	0.2	2.6	4.0	5.4	1.9	N/A
Nominal GDP, THB bn	2,054.4	2,082.7	2,031.0	2,073.7	2,281.7	2,291.6	2,260.0	N/A
Current Account, US\$ bn	0.6	1.8	1.1	1.7	2.2	0.8	0.3	N/A
Capital & Financial Account, US\$ bn	2.2	-0.1	0.6	2.3	1.0	6.4	-3.6	N/A

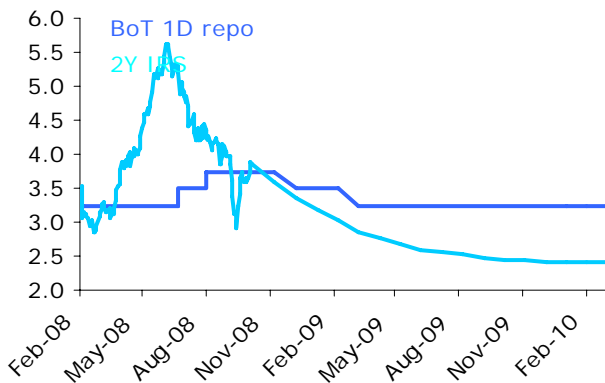
Sources: Bloomberg, CEIC

Thailand: FX and Rates Strategy

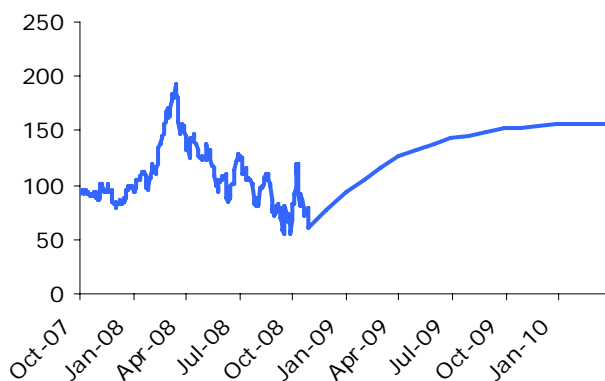
THB still under pressure



IRS rates headed lower



2s-10s IRS to steepen



The baht gained some ground within AXJ in October, but only because FX markets started to target Indonesia. The uptrend in USD-THB should remain intact and the curve should continue to steepen until markets see the trough in the global slowdown.

FX

USD-THB remains in an uptrend with no clear evidence that the pace of advance is slowing. Within AXJ, however, baht performance has improved— but only because FX markets have started to aggressively target the IDR.

Thai economic indicators point to increasing knock-on effects from the global credit crisis. In particular, export growth is collapsing across all of the key markets—China, Europe and the US. This has pushed Thailand's current account into deficit (now roughly -0.1% of GDP versus +5% of GDP in 2007).

Meanwhile, portfolio outflows have accelerated in tandem with the increased desire globally to flee to safe havens. Net foreign portfolio outflows nearly doubled in Q3 (to -\$2.2bn) following -\$1.2bn in Q2.

The uptrend in USD-THB is expected to remain intact until markets see the trough in the global slowdown. Key levels in USD-THB are 35.284 and 43.367, the 38.2% and 61.8% Fib retracements from the 1997 crisis, respectively. We anticipate a peak around the 39.0 level.

Rates

Inflation has peaked and growth prospects have sharply deteriorated, now paving the way for BOT rate cuts. Central banks around the region have already made aggressive cuts to policy rates—including India and Vietnam where inflation is much more of an issue. Markets are likely to anticipate a similar magnitude of easing from the BOT over time. This should compress rates and steepen the curve.

Tamara Henderson

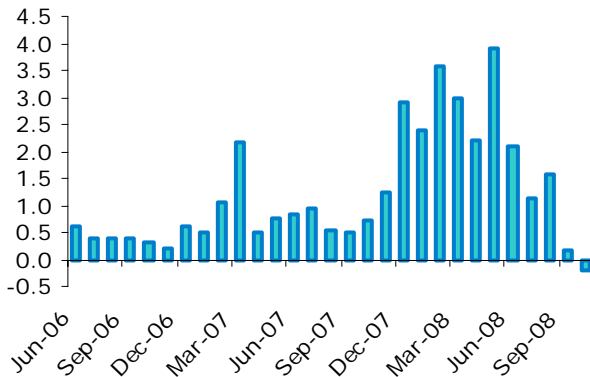
Market Forecasts - Thailand

FX	Current	Ytd (%)	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
USD-THB	34.81	16.9%	35.4	36.8	37.9	38.7	39.1	39.1
AUD-THB	23.81	-8.7%	25.9	26.5	25.8	24.8	23.4	24.2
NZD-THB	20.78	-8.9%	22.0	23.6	23.1	22.4	21.9	21.5
Rates	Current	Ytd (bps)	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
BOT's 1-day repo rate	3.75	50	3.50	3.25	3.25	3.25	3.25	3.25
3-month BIBOR	4.00	12	3.5	3.0	2.7	2.6	2.6	2.6
2-year IRS (versus 6M THB fix)	3.85	-48	3.4	2.9	2.6	2.5	2.4	2.4
10-year IRS	4.45	-88	4.3	4.1	4.0	4.0	4.0	4.0

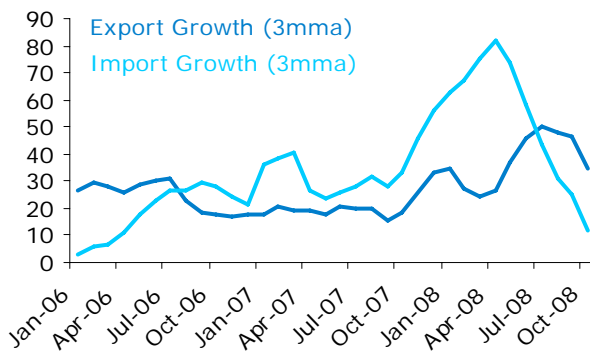
Sources: ANZ, Bloomberg

Country Update: Vietnam

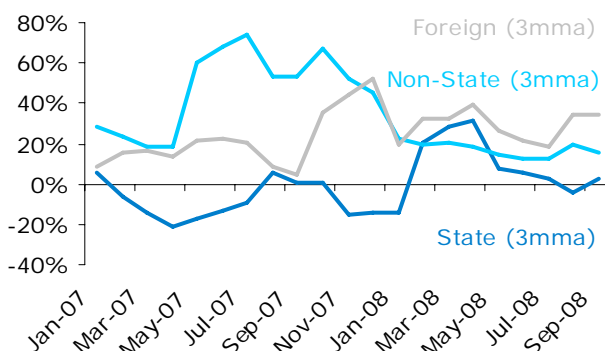
Vietnam - Inflation (m/m)



Vietnam - Trade Developments (YTD Accrued)



Vietnam-Real Industrial Output Growth (3mma)



Growth was again below trend in Q3 as the economy stabilised. Inflation continues to decline on falling food prices and the SBV cut the policy rate by 100bps. Export and import growth are both slowing sharply.

- GDP growth was 6.5% (y/y) in Q3, up from 5.8% in Q2 but still far below the average of 8.2% over 2004-07. While data are scarce, available evidence suggests that higher borrowing costs have hurt construction.
- Prices fell by 0.2% (m/m) in October reflecting further cuts in fuel prices as well as lower food prices. Year-on-year inflation remains elevated at 26%.
- Reflecting growing confidence that inflation is under control, and to protect against any effects of the global financial crisis, the State Bank of Vietnam (SBV) lowered its benchmark interest rate from 14% to 13%. Major banks matched the decline. The SBV also doubled the rate of interest it pays on compulsory reserves to 10%.
- Trade growth weakened substantially in October. Export growth halved to 19% (y/y) while import growth fell to just 3%. Crude oil led the growth decline on the export side, while steel led on the import side. The trade deficit has narrowed substantially in recent months on a 3mma basis, and has returned to pre-crisis levels.
- Along with China, Vietnamese bourses are the worst performers in the region year-to-date. The Ho Chi Minh and Hanoi indices are both down more than 60% this year, and fell by 20% in October alone. Foreigners continue to be heavy net sellers. Vietnam's five-year CDS spread widened by 250bps to 580bps by end-October, although this sharp rise was less than the widening in the spread for the Philippines and Indonesia.
- Vietnam's recent growth has been almost entirely domestic-led, so while there will be some negative effects from the global slowdown, the trajectory of activity going forward will largely reflect domestic factors.

Paul Gruenwald

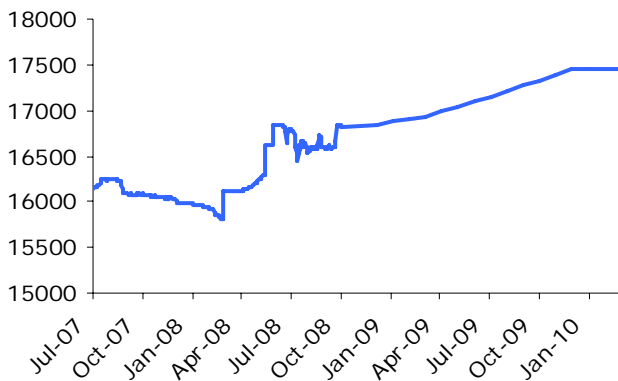
Economic Data - Vietnam

Monthly data	Mar-08	Apr-08	May-08	Jun-08	Jul-08	Aug-08	Sep-08	Oct-08
Industrial Production, % y/y	35.7	15.5	13.9	12.0	11.4	29.3	12.4	N/A
Retail Sales, % y/y	26.7	38.9	25.5	35.5	36.1	27.5	37.7	N/A
Consumer Price Index, % y/y	19.4	21.4	25.2	26.8	27.0	28.3	27.9	26.7
Exports, % y/y	24.5	39.4	43.7	53.7	54.1	40.4	42.2	N/A
Imports, % y/y	81.3	84.9	45.1	43.0	42.2	18.4	16.9	N/A
Trade Balance, USD bn	-3.3	-3.2	-1.9	-0.7	-0.9	-0.3	-0.5	N/A
Quarterly data	Dec-06	Mar-07	Jun-07	Sep-07	Dec-07	Mar-08	Jun-08	Sep-08
Real GDP, % y/y	8.9	7.7	-37.8	8.7	9.2	7.5	5.8	6.5
-Agricultural, forestry, fishery	2.8	2.3	-26.8	3.8	4.1	3.2	3.3	4.8
-Industry and construction	11.9	9.2	-40.3	10.7	11.8	8.0	6.2	7.0
-Services	8.9	7.8	-40.7	8.8	9.0	8.3	7.0	6.6
Nominal GDP, VND tn	299.0	210.9	282.6	293.8	356.2	254.1	371.7	390.8
Foreign Exchange Reserves, USD bn	13.4	18.3	20.8	22.6	23.6	25.0	21.0	0.0

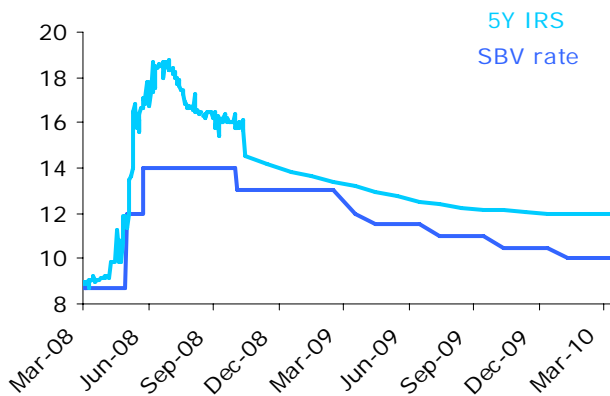
Sources: Bloomberg, CEIC, General Statistics Office of Vietnam

Vietnam: FX and Rates Strategy

USD-VND to inch higher



Rates still headed lower



The authorities are showing tolerance for a bit of dong weakness, no doubt related to concerns about maintaining competitiveness. With inflation still above 20%, however, officials will need to limit the upside in the USD-VND.

FX

Authorities have allowed USD-VND to creep higher—now trading in the 16,800 area versus the previously preferred 16,600 level. Perhaps it is a coincidence, but the 1.4% up-move in USD-VND in October has maintained the dong's ranking within AXJ—with dong performance still holding in the middle of the pack.

As many AXJ currencies are managed (officially or unofficially) relative to a basket—it is not much of a stretch to presume this is also the case for Vietnam. Seeing competitor currencies fall so sharply against the USD, tolerance for a weaker dong seems to have increased. The question for markets is how much further the authorities will allow USD-VND to travel.

Inflation is usually sticky on the way down, and this should provide an important incentive for authorities to keep a reign on dong depreciation. Assuming the peak in the US dollar is roughly 15% away, USD-VND should not sustain a break above 17,500.

Rates

Although inflation is above 20%, the SBV cut the policy rate by 100bps, seeking to contain damage from the global credit crisis. With real effects only just starting to come through to the global economy, more easing by the SBV is likely. As such, lower IRS rates and a steeper curve are anticipated.

Tamara Henderson

Market Forecasts - Vietnam

FX	Current	Ytd (%)	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
USD-VND	16,825	5.0%	16,840	16,930	17,100	17,270	17,440	17,440
AUD-VND	11,520	-17.8%	12,300	12,190	11,630	11,050	10,470	10,810
NZD-VND	10,119	-17.5%	10,444	10,830	10,430	10,020	9,770	9,590
Rates	Current	Ytd (bps)	Dec-08	Mar-09	Jun-09	Sep-09	Dec-09	Mar-10
SBV's base lending rate	13.00	475	13.00	12.00	11.50	11.00	10.50	10.00
Overnight VNIBOR	15.04	n/a	14.0	13.0	12.0	11.5	11.3	11.3
2-year IRS (versus 3M VNIBOR)	15.50	744	14.5	13.5	12.5	12.0	11.8	11.8
10-year IRS	14.60	510	14.3	13.9	13.6	13.4	13.4	13.4

Sources: ANZ, Bloomberg

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