



Executive Summary

Developed Economies: Euro Zone on Brink of Recession, Hopes Pinned on US

Confidence in Europe's ability to avoid an economic recession and an even more serious debt crisis than the one it now faces, in early 2012, is ebbing fast. Such an outcome would quickly translate into a significant lowering of growth forecasts for developed market economies, and, to a lesser extent, emerging markets. Risk appetite is expected to remain poor in the first half of the year as financial markets await a co-ordinated, workable solution to the lingering euro-zone government debt crisis, requiring a decisive move toward fiscal union, unequivocally backed by Germany. Only then can market confidence be restored.

sabre-rattling in the Strait of Hormuz, through which an estimated one third of oil traded globally passes, cannot be dismissed lightly. Tentative signs of a recovering US economy offer the best hope for equity investors this year.

Emerging-Market Economies: Inflation Decline Sets Stage for Central Banks to Ease

With inflation rates in most emerging-market economies showing clear signs of ebbing, there is substantial room for manoeuvre for emerging-market central banks to begin loosening the monetary reins. The scope for monetary easing is greatest in Latin America, especially in Brazil, while Mexico and Chile are also expected to reduce interest rates in 2012. Colombia, by contrast, tightened policy by a quarter percent in November, lifting the benchmark interest rate to 4.75%, to rein in credit growth and stabilise inflation expectations.

Trade and financial linkages to the euro area pose significant downside risks for Central and Eastern Europe as a whole, and are likely to bring forward the timing of monetary easing in the region. Poland and Romania are relatively better placed than regional peers to reduce interest rates to forestall the negative economic impact of a euro-zone recession that now seems all but certain. In the meantime, overreliance on credit and foreign currency debt is exerting strong selling pressure on emerging European currencies, which, in turn, is constraining policymakers' flexibility to respond to recessionary risks.

In Asia ex Japan, financial markets are anticipating a further early reduction in banks' reserve requirements and the first cut in the People's Bank of China's key policy rates. With China's consumer-price inflation in retreat since last summer, the argument in favour of an interest rate cut is becoming difficult to resist, but the pace and timing of the central bank's policy easing may disappoint markets. An improvement in December purchasing manager indices (PMIs) extended to emerging Asia, though surveys of production and new orders remain below the 50 level that separates expansion from contraction in China, Singapore, South Korea and Taiwan, while measures of finished goods inventory remain very high.

Growth Forecasts for the Advanced Industrialised Economies (% change in real GDP over a year ago)

	2010E	2011F	2012F
United States	3.0	1.8	1.9
Canada	3.2	2.3	2.2
Japan	4.5	-0.8	1.9
Euro area	1.8	1.6	-0.7
-Germany	3.6	3.0	0.3
-France	1.4	1.6	-0.6
-Italy	1.2	0.5	-1.6
United Kingdom	1.8	0.9	0.5
Developed markets	2.7	1.4	0.9
Emerging markets	7.3	5.7	4.7

E is estimate; F is forecast.

Source: JP Morgan, December 2011

Until that time arrives, general market weakness will likely be punctuated by short-lived stockmarket rallies, while investors continue to fret about the possible collapse of the euro project. The likeliest trigger for the next phase of the deepening crisis would be a blanket downgrade of euro-zone sovereign bonds, which would strip even Germany and France of their coveted AAA credit rating, with a consequent increase in borrowing costs. Neither is it likely that the recent soft patch in global growth is over yet and the risk of a possible oil supply shock related to Iran's

Emerging Markets Outlook

North East Asia: People's Bank of China Embarks on New Policy Easing Cycle

China's economy grew by 9.1% in the year to the third quarter, compared with the same period of 2010, slightly slower than expected but still fast enough to allay, for the moment, financial market fears of a hard landing. It was the third consecutive quarterly growth deceleration, after output grew by 10.3% from a year before in the second quarter and 11.9% in the year to the first quarter. While growth for the first half of the year reached 11.1%, the second half's outturn will be lower.

Government policy measures targeting an overheating real estate sector, which increasingly show signs of affecting headline growth as property developers put on hold or delay new construction, and infrastructure investment, combined with the lagged effect of earlier monetary tightening measures, continue to impact the economy. Official measures to cool the sector are a combination of restrictions on mortgage availability and on property purchases. Property construction directly accounted for a quarter of total investment and an estimated 13% of China's gross domestic product (GDP) in 2010. Social housing construction is unlikely to completely fill the void, partly because its prospects are linked with those of the normal housing market, as local governments, unable to sell land to developers, have fewer funds available to support social housing initiatives.

Economic data therefore look set to be mildly disappointing, which is likely to be reflected in China's purchasing managers' index remaining below 50, and, in turn, point to a gradual easing of monetary policy. China's official PMI reading for November was 49, consistent with the slowdown being seen in the broader economy. Anecdotal evidence suggests that real estate loans have become more difficult to obtain for developers and home purchasers alike, while sales volumes are not benefitting from lower prices as prospective buyers hold off in anticipation of price falls. Further price weakness is anticipated. There is a not insignificant risk that the People's Bank of China may have over-tightened policy, contributing to the poor performance of Chinese equities over the past two years. If that turns out to be the case, as seems increasingly likely, by mid-2012, the central bank is likely to adjust policy anticipating a growth scare, rather than an inflation scare.

That is because inflation now shows clear signs of having already peaked, with consumer prices in November falling sharply to 4.2% year on year, the lowest reading since September 2010, down from a three-year peak of 6.5% in July, and 5.5% in October. Although November's inflation rate still exceeds the government's full-year 2011 target rate of 4%, the declining trajectory of prices provides China's economic mandarins greater leeway to implement measures to engineer a controlled economic slowdown, designed

to maintain GDP growth of at least 8% in 2012, and prevent a steeper fall in growth.

Food-price inflation, the main source of price pressures in recent months, moderated to 8.8% year on year in November, compared with 11.9% in October. Inflation looks set to retreat further, indicated by November's rise of just 2.7% year on year in producer prices, following a 5% increase in October, and the smallest year-on-year rise since December 2009. Inflation is projected to fall to a range of 3% to 3.5% in the first half of 2012, with falling pork prices, weak money growth and declining property prices – the three main inflation-drivers in China – all signalling a further easing of price pressures. Inflationary pressures are expected to build again in 2013, driven by supply-side factors, particularly above-inflation wage settlements.

Economic conditions for monetary easing are more favourable currently than in 2011, with the reduction in the bank reserve ratio requirement in November, the first since 2008, set to be followed by further reserve ratio cuts in 2012. November's 50 basis points cut by the central bank lowered the ratio for large lenders to 21%, and to 17.5% for small and medium-sized lenders, unlocking up to Rmb400bn in deposits into the banking system that can be used for lending, thereby easing credit strains and boosting the economy. Latest data show China's lending slowed in November, with total new loan issuance falling by 4.2% to Rmb562.2bn from Rmb586.8bn in October. New loans to households rose by 9.4% to Rmb143bn from Rmb130.7bn in October, still far below the monthly average of Rmb220bn in the first nine months of 2011.

Exports are weakening too, reflected in a significant narrowing of China's current-account surplus to \$259.3bn in the year to the third quarter, on track for a projected full-year 2011 surplus of 2.9% of GDP. Although the rate of export growth is moderating as demand in key overseas markets weakens, there are no signs of a collapse in exports similar to that seen in 2009, with China, in September, continuing to register double-digit growth in exports. Further shrinkage of the current-account surplus is in prospect in 2012, as demand in China's key export markets weakens.

Growth Forecasts for North Asian Emerging Economies (% change in real GDP over a year ago)

	2010E	2011F	2012F
Japan	4.5	-0.8	1.9
Asia ex Japan	9.1	7.0	6.4
China	10.4	9.0	8.2
Hong Kong	7.0	5.0	3.0
South Korea	6.2	3.7	3.6
Taiwan	10.7	4.7	2.9

E is estimate; F is forecast.

Source: JP Morgan, December 2011

South Korea's economy grew by 3.4% year on year in the third quarter, unchanged from the second quarter, with full-year 2011 growth likely to be close to 4%, after GDP grew by 6% in 2010. South Korea's increasing dependence on China, which now accounts for one quarter of total exports, has ensured that the economy has avoided a sharper slowdown. Today, South Korea exports more capital goods to China relative to the size of its economy than any other country. By the end of 2011, South Korea will have an estimated GDP per person of \$31,750, calculated on a purchasing-power parity basis, higher than the European Union average of \$31,550.

Latest official data reveal that a surge in South Korean household mortgage lending, at a time of muted wage growth and falling property prices, threatens to derail the country's economic growth. Mortgage lending to households in October registered the fastest monthly growth since April, rising by KRW2.4 trillion from September, to KRW302.1 trillion. While households have increased their borrowing in recent years to invest in real estate, stagnating property prices are giving rise to doubts about the sustainability of current price levels.

Central bank data show household lending equal to about 70% of disposable income generated in the year to June, the highest level recorded since inception of the Bank of Korea's (BOK) data series in 1997. Although overall household debt levels remain manageable, the central bank is worried about the recent acceleration in loan growth. BOK data show growth in household debt, as measured by local banks' household loans – which include home-backed and credit loans – in October, running at its fastest pace in four months, up KRW3.2 trillion from the previous month, compared to September's KRW600bn increase, though loan growth slowed to KRW1.4 trillion in November.

Household debt increased by 13% in the year to March 2011, to an average of KRW52mn, up from KRW46mn in February 2010. South Korea's 2011 Household Finance Survey revealed the household debt-to-income ratio is twice as high among the self-employed compared to wage earners, while the proportion of self-employed in the total workforce is close to 24%, higher than in most developed economies. Growth in household debt was also revealed to be much higher among the self-employed (22.7%), than among wage earners (3.3%). Sustained growth in household credit to underpin domestic demand and boost growth is set to continue in 2012, with most South Korean financial institutions' balance sheets in good shape.

Consumer-price inflation slowed to 4.3% year on year in September, falling from 5.3% in the year to August, then eased again to 3.9% in the year to October, just inside the ceiling of the central bank's 2% to 4% target range, while core inflation also fell. Given the improvement in the inflation trajectory and the risks to growth

from an expected weakening in the country's key export markets in coming quarters, the Bank of Korea is expected to reduce its benchmark interest rate in the first quarter of 2012.

In the political arena, the sudden death of 69-year old North Korean leader Kim Jong-il, in December, from a presumed heart attack, risks plunging the nuclear-armed hermit kingdom into a period of intense volatility as senior politicians seek to gain influence over the country's new leader and Kim's untested third son, Kim Jong-eun, who is only in his late 20s and has barely three years' political experience. During Kim Jong-il's long illness, he appointed two political veterans, his younger sister Kim Kyong-hui and her husband Chang Sung-taek, as mentors to the young Kim to enable him to build authority with the country's one-million strong armed forces and Communist Workers' party. The North's new leader was installed as the nation's leader-in-waiting barely a year ago.

Kim Jong-eun will be under intense pressure to provide a show of strength to assert his authority and control over the totalitarian kingdom and cement a smooth succession, which significantly raises the risk of an escalation of tensions on the divided Korean peninsula. Given his lack of political experience, however, he seems more likely to serve as a figurehead than lead in his own right. The North Korean state has only existed with a member of the Kim dynasty in command, effectively ruling out the possibility of a military coup. But there is also the possibility that, with the death of Kim Jong-il, the North could collapse sooner, accelerating eventual reunification. An imminent collapse, however, appears unlikely and reunification is likely to remain a distant prospect. Meanwhile, China, worried about the heightened risk of instability, is expected to back Pyongyang's succession to the extent that it promises to uphold order and prevent an exodus of refugees from the North.

Elsewhere in the region, Taiwan's election season enters its final phase, with presidential and legislative elections scheduled for January 14. Kuomintang (KMT) President Ma Ying-jeou is expected to narrowly defeat his main rival, Tsai Ying-wen of the Democratic Progressive Party (DPP). Investors are pinning their hopes on a KMT victory, which potentially could enhance and accelerate the economic benefits accruing to Taiwan from a further improvement in cross-strait relations, whereas a DPP victory would likely mean greater uncertainty in ties with China. Support for the KMT has benefited from the party's announcement of a range of policy initiatives designed to ease middle-class concerns over economic issues, particularly housing.

As the new president will not take office until May 20, however, Taiwan potentially faces a four-month political vacuum if Tsai should win, with Ma then serving out the remainder of his term as a lame-duck president. Meanwhile, the KMT still leads in the

polls to win a majority in the island's 113-seat Legislative Yuan. Although the KMT's dominance in the Legislative Yuan is expected to fall sharply, it is likely that it will retain its majority. Whatever the outcome of the polls, with Taiwan's economy leveraged to global economic growth, 2012 is set to be a challenging year for investors.

South East Asia: Thai Economy Suffers as Floods Hit Industry, Agriculture, Tourism

Floodwaters that had already submerged Thailand's central plains in the country's worst floods in half a century inundated parts of the capital Bangkok, in the fourth quarter, causing widespread loss of life and an estimated \$17bn worth of damage to the manufacturing-intensive economy, according to a recent estimate by the University of Thai Chamber of Commerce. Rainfall has been about 40% higher than average across Thailand in 2011. In response, the Bank of Thailand has lowered its forecast for economic growth in 2011, from 4.1% to 2.6%.

Consumption and tourism have been especially hard hit, food-price inflation is proving stubbornly high, and the Thai economy as a whole is slowing. A quarter of Japan's 2,000 manufacturing companies based in Thailand, located in the vast industrial estates north of the capital, have been affected by the floodwaters. Between 40% and 45% of the world supply of hard disk drives (HDD) is estimated to come from Thailand, but the floods have severely disrupted production. It is estimated that the resulting HDD supply shortage will reduce global personal computer sales by 14% next year.

Thailand's rice crop has also been badly affected. As the world's largest exporter of rice, accounting for approximately one third by volume of all internationally traded rice, equal to about 10 million tonnes, the loss of output is being felt in global grain markets. Thai government estimates suggest that between 5 million and 6 million tonnes, or about one fifth of the country's total annual production, may have been ruined by the floodwaters, while Thai rice exports could be reduced by between 3 million and 4 million tonnes, out of total forecast world trade of more than 33 million tonnes in 2011.

Breakdown of Thailand's Real GDP in 2010 (by Region, %)

Bangkok & other vicinities	48
Eastern	17
Central	11
North Eastern	10
North	8
Western	4
Southern	2

Source: Financial Times, November 2011

Over the longer term, however, it is the country's inward foreign direct investment (FDI) flows that could be worst affected by the floods. For much of the past five years, inward FDI to South-East Asia has mostly benefitted Indonesia and Vietnam. But in 2011, FDI flows picked up, attracted by pre-election pledges to increase outlays on infrastructure, particularly roads and bridges, with net FDI applications in the first seven months of the year reaching THB205bn (\$7bn), double the amount in the corresponding period of 2010, about half of which came from Japan, the largest investor in Thailand by existing FDI stock.

While disruption to supply chains is still difficult to assess, there has been a significant impact on output, with the government of recently elected Prime Minister Yingluck Shinawatra, which has been stung by criticism of its poor handling of the crisis, offering supplementary tax credits for companies affected by the floods. The Thai authorities have indicated that the floodwaters may not recede until the first quarter of 2012, but it may take an additional three months after that for producers to return to normal production capacity, and even longer where manufacturing facilities have suffered serious damage.

Growth Forecasts for South East Asian Emerging Economies and India (% change in real GDP over a year ago)

	2010E	2011F	2012F
Japan	4.5	-0.8	1.9
Asia ex Japan	9.1	7.0	6.4
India	8.5	7.4	7.7
Singapore	14.5	5.6	1.3
Malaysia	7.2	4.0	1.5
Thailand	7.8	1.0	1.5
Philippines	7.6	3.7	3.8
Indonesia	6.1	6.3	5.2

E is estimate; F is forecast.

Source: JP Morgan, December 2011

Elsewhere in South East Asia, Malaysia has been one of the top performing economies in the region in 2011, delivering growth of 5.8% year on year in the third quarter, after expanding by an upwardly revised 4.3% in the second quarter. Although the economy is expected to slow in the final quarter of the year, Malaysia is on track to deliver full-year GDP growth of above 5% in 2011. Domestic demand was the main engine of growth in the three months to September, offsetting the drag from net exports.

Private consumption grew by more than 8% in seasonally adjusted annualised terms, the fastest pace in three-and-a-half years, while investment grew by more than 13% on the same basis. Agriculture and services were the main growth drivers in the first nine months of the year, reinforced by a recovery in manufacturing and con-

struction growth in the third quarter. Manufacturing output rose by 5.1% in the third quarter from a year earlier, more than double the second quarter's 2.1% increase, while services output expanded by 7% after climbing 6.8% in the previous quarter.

Over the coming year, the Malaysian economy is unlikely to benefit to the same extent from a commodity price windfall as in 2011, while domestic demand growth is not expected to be robust enough to compensate for an anticipated export manufacturing downturn. While growth is set to weaken, the economy is expected to expand by about 3% in 2012, which, if achieved, would be a respectable performance given anticipated weaker growth in the advanced industrialised economies. All the above suggest that the central bank, Bank Negara Malaysia (BNM), will leave its key interest rate unchanged at 3% in the first quarter. BNM last adjusted its policy rate in May, when the rate was raised by a quarter percent.

With inflation running at 3.3% year on year in November, up from 1.8% a year before, and the central bank wary of the potential impact of a weaker global economy on exports, BNM policymakers appear comfortable with the near-term inflation outlook, forecasting that inflation will stabilise around the current rate before declining in 2012. Current policy settings are considered supportive of growth, helped by the recent weakening of the ringgit exchange rate against the dollar, which should help preserve competitiveness.

Growth in the Philippines slowed in the third quarter, to 1.3% quarter on quarter annualised, from 2% in the second, with net exports exerting a drag on growth, though GDP growth edged up marginally to 3.2% year on year in the third quarter, from 3.1% in the previous quarter. Full-year 2011 GDP growth is expected to be slightly below 4%. Private and government consumption rose strongly, however, in the three months to September, along with investment. In the short term, the upward trend in private consumption appears sustainable as the depreciation of the Philippine peso against the dollar increases inward remittances from overseas Filipino workers, which have been invaluable as a stabilising influence on the economy in recent quarters, when expressed in local currency terms.

Inflation, running at 4.8% year on year in November, down from 5.2% year on year in October, is still uncomfortably high, rising from 3.8% 12 months earlier, which limits the central bank's (BSP) scope for loosening policy if the economy should lose traction over coming quarters. Investor hopes of a big boost to growth from the PHP72bn public-sector stimulus announced by the Aquino administration in October are misplaced as implementation of the plan will take time, a weak feature of the current government. Even then, the direct impact on growth is not expected to be substantial though it should shore up confidence. The Philippines, unlike Malaysia and Thailand, is not a manufac-

turing-driven economy, relying much more on services as the main growth-engine, especially the fast-growing business process outsourcing and associated information technology sectors. BSP last adjusted its key policy rate in May, when it nudged up the rate by a quarter percent to 4.5%.

Parliamentary approval, in December, of a new bill to accelerate government acquisition of land for infrastructure, marks a significant breakthrough in Indonesia. The new law will enable the government to purchase civilian land needed for the construction of roads, airports, ports, dams, oil facilities and power plants, compensating landowners, with cash or other forms of payment. Infrastructure bottlenecks have prevented the Indonesian economy from moving to a higher growth trajectory, with the equivalent of just 3.9% of GDP spent on infrastructure in 2009. It is estimated that by lifting infrastructure spending to 7% of GDP, annual GDP growth could be raised to 8%, while the new infrastructure law is expected to reduce the time required to acquire land for large projects to one year from three years currently. Indonesia's economy grew by 6.5% year on year in the third quarter of 2011.

Indian Subcontinent: U-Turn on Retail-Sector Opening Reflects Policy Paralysis

Business and investor sentiment in India has turned bearish in recent months, as India's near-term prospects have dimmed. Deepening investor pessimism reflects frustration with the Congress party-led coalition's lack of resolve to press ahead with long-delayed structural reforms, undermining the country's ability to attract capital, and deepening concerns about a slowing economy and stubbornly high inflation. Compounding those concerns, there is a deepening sense of alarm at the recent rapid pace of currency depreciation, following a slump in inward foreign investment, which saw the rupee fall to an all-time low against the dollar in December, threatening to fan inflation pressures. A weaker rupee, Asia's worst performing currency in 2011, is set to impact core inflation over coming months, offsetting the benefit of declining commodity prices.

Government back-peddling, in December, on a decision to open up the country's \$450bn retail sector, permitting 51% foreign ownership of supermarkets, followed an eagerly-anticipated announcement, in November, of an opening up of the sector to foreign investors, and is a further embarrassing setback for beleaguered Prime Minister Manmohan Singh. The suspension of the sector's opening could be indefinite. Even if a diluted version of the legislation were now approved by parliament, foreign investors would justifiably be concerned about the prospects of it being implemented. Opponents of the reform worried that liberalising the sector to allow foreign competition would be damaging to India's huge numbers of small traders and local businesses.

Supporters of the reform argued that allowing foreign retailers to compete would help to eliminate supply-chain bottlenecks and reduce food-price inflation.

Ultimately, however, the Congress party yielded to pressure from within its own ranks, smaller coalition partners and the main parliamentary opposition Bharatiya Janata Party (BJP), to maintain the status quo, but the policy U-turn has served only to embolden opponents of reform who have started to target other sectors, such as insurance, that have been previously identified for liberalisation. For investors, the risk now is that India could face two years of increasingly partisan and populist politics, with seven states, accounting for one quarter of seats in the Lok Sabha, the lower house of parliament, scheduled to hold assembly elections in 2012, five of which are due in the first quarter of the year, the most important, in terms of number of parliamentary seats, in Uttar Pradesh.

Indian State Election Calendar in First-Quarter 2012

State	Date	Representation in Lok Sabha	Percentage of Seats in Lok Sabha
Manipur	January	2	0.4
Punjab	January	13	2.4
Uttarkhand	January	5	0.9
Uttar Pradesh	February	80	14.7
Goa	March	2	0.4

Source: CLSA, January 2012

Later in the year, an important state election in Gujarat will also provide a measure of the ruling coalition's support, but the BJP has, to date, been unable to exploit deepening divisions within the multi-party government. If the Congress party performs well in the state elections that could potentially inject fresh momentum into the stalled reform process. Beyond this year, central government elections must be held by 2014.

India's economy already shows signs of slowing, with GDP growth softening to 6.9% year on year in the third quarter, the slowest pace of expansion since the second quarter of 2009, down from 7.7% year on year in the second quarter, while latest data show the soft patch extended into the fourth quarter, reflected in a 5.1% year-on-year fall in industrial production in October, the first time industry has contracted in more than two years. Manufacturing output, which accounts for about three quarters of industrial production, registered a 6% fall in the same month, while capital goods output plummeted 25.5%.

Inflation remains at near double-digit levels, with wholesale prices (WPI), the main measure of price changes in India, at 9.1% year on year in November, albeit falling from 9.7% in October, though

still more than double the central bank's medium-term target rate of 4%. Food-price inflation slowed to 8.5% year on year, from 11.1% over the same period. Annual WPI inflation has exceeded 9% for 22 consecutive months, though WPI is expected to trend lower in the first quarter, to close the fiscal year (FY) 2011/12, ending March 31, at about 7% year on year, and average about 9% for the full fiscal year, before moderating to about 7.5% in FY2012/13.

While the Reserve Bank of India (RBI) lifted its benchmark interest rate by a quarter percentage point, to 8.5%, in October, and decided to permit banks to set their own interest rates on savings accounts, ending decades of controls, the expectation that price pressures will abate slightly in coming quarters suggests the peak of the interest-rate cycle has already been seen. That view is reinforced by the central bank's decision, in December, to leave its key policy rates unchanged, the first time it has done so since March 2010. The RBI has raised interest rates 13 times since then. Monetary policy is not expected to be loosened, however, until concerns about a slowing economy outweigh inflation fears. The commencement of India's next monetary easing cycle is not expected until the first quarter of FY2012/13, though if economic conditions continue to deteriorate rapidly, a rate cut in the final quarter of FY2011/12 would become much more likely.

Meanwhile, the difficulties direct investors face in doing business in India are illustrated by Berlin-based Transparency International's closely-watched corruption perception index, which shows India slipping to 95th place in its annual survey of corruption in 183 countries, far below China, which is ranked 75th, following the 2G telecom license auction scandal and growing public frustration, especially among India's fast-growing urban middle classes, at the scale of the problem and government delays in confronting graft. While the coalition has been forced to respond, recently publishing a draft bill to establish an anticorruption ombudsman, scheduled for review in the current parliamentary session, much more needs to be done.

Latin America: Stagnating Economy Reinforces Case for BCB Rate Cuts

Above-target inflation, largely reflecting limited spare capacity and tight labour-market conditions, poses the biggest challenge for Brazil's monetary authorities at present. Brazil's annual inflation rate reached 7.3% in September, the highest level since May 2005, accelerating from 7.2% in August and 4.5% 12 months earlier, but has since moderated to 6.6% in November. At the same time, the economy has stalled, with growth flat in the three months to September compared with the three months to June, but 2.1% higher from a year earlier, down from 3.1% in the second quarter.

Brazil's slowdown follows a series of policy measures introduced by the Workers' Party (PT) government earlier in 2011 to address an overheating economy, which grew by 7.5% in 2010, its fastest pace in two decades, and could foreshadow a shallow recession in the final quarter of the year and first quarter of 2012. GDP is forecast to grow by about 3% for the whole of 2011, and, after two or three quarters of weaker growth that are seen extending into the first half, by 3% to 3.5% for full-year 2012. Retail sales are growing robustly, and the Brazilian consumer remains a source of strength for Latin America's largest economy, albeit consumers spent less in the three months to September than in the three months to June. Industrial production, however, contracted by 1.6% in September from 12 months earlier, pulled down by an inventory adjustment, and by 2.2% in October, while vehicle output and sales have fallen sharply and defaults on auto loans in October reached their highest level for two years.

In response, the central bank's (BCB) monetary policy committee (COPOM) continues to loosen policy, lowering its key interest rate, the Selic overnight rate, by a further half percent, both in October and November, to 11%, down from a recent peak of 12.5%. Financial market concerns that the BCB had acted prematurely in August to loosen policy, even as inflation remained well above the ceiling of the central bank's target range of 4.5% +/-2% for 2011, were misplaced, while the bank's fears about the slowing economy have been vindicated by latest growth and inflation data.

Even after the latest policy easing, however, Brazil still has punitively high interest rates, among the highest in inflation-adjusted terms globally, providing substantial room for manoeuvre for the BCB to reduce the Selic in 2012, to offset the drag from an external-induced slowdown. Until then, the COPOM is likely to continue to proceed cautiously, preferring 50 basis point cuts to more aggressive monetary easing, but the BCB appears to be aiming for a new and lower equilibrium interest rate once the economy regains traction.

Better news followed in November, when Standard & Poor's (S&P) upgraded Brazil's long-term foreign currency rating to BBB, from BBB-, with a 'stable outlook', and raised its long-term local currency rating to A-, from BBB+, acknowledging the country's improving track record of prudent macroeconomic management. S&P highlighted, in particular, the new government's better-than-expected fiscal performance in its first year in office, which provides the authorities with greater scope to implement a more flexible monetary policy and countercyclical role in mitigating the negative effects of a fall in export demand.

Fiscal policy is based on setting and implementing a public-sector primary budget surplus target, which the PT administration has set at 3.2% of GDP for the current fiscal year, and which it has, so far, adhered to. In 2012, however, the outlook is more challenging

owing to greater pressure to boost government spending. The improvement in market perceptions of Brazil's creditworthiness was evident in the government's successful sale of \$1bn of 30-year bonds in November, offering a yield of less than 5%, below the levels demanded by buyers of euro-zone government periphery debt in the same month.

Growth Forecasts for the Major Latin American Economies (% change in real GDP over a year ago)

	2010E	2011F	2012F
United States	3.0	1.8	1.9
Canada	3.2	2.3	2.2
Latin America	6.1	4.1	3.0
Mexico	5.4	4.0	2.5
Brazil	7.5	2.8	3.1
Argentina	9.2	7.0	1.0
Chile	5.2	6.3	4.0

E is estimate; F is forecast.

Source: JP Morgan, December 2011

Mexico's inflation rate is edging lower, slowing in September, to 3.1% year on year, down from 3.4% in August, before edging up again to 3.2% in October and 3.5% in November, remaining above the mid-point of the central bank's 3% +/-1% target range, but low in a historical context. That suggests Banco de Mexico will be weighing up the timing of a cut in its benchmark interest rate in 2012, to shield the economy from the effects of expected slower US GDP growth in the first half of the year.

Policymakers signalled their intention to ease, introducing an easing bias at their last policy meeting. Banco de Mexico last adjusted interest rates in July 2009, when the overnight interest rate target was cut by a quarter percent to 4.5%, currently. But with the bank's policy rate currently at an all-time low, it has much less room to ease policy than Brazil, suggesting that any interest rate cuts will be modest. As much as the central bank may seek to shield the economy from the effects of a global slowdown, the effectiveness of monetary policy is limited by Mexico's high exposure to the US.

Third-quarter GDP expanded by 5.5%, quarter on quarter at an annual rate, to leave the Mexican economy 4.5% larger from a year before, helped by strong domestic demand growth and higher agricultural output. That puts the economy on track to grow by around 3.5% to 4% for full-year 2011, after GDP grew by 3.9% year on year in the first half, before growth slows to below 3% in 2012. Despite the drug-related violence in a number of Mexican states, which shows few signs of being contained, the economy is expected to attract some \$20bn of FDI in 2011, benefiting from enhanced competitiveness compared to rivals such as China.

Growth has recovered strongly from a debilitating recession in 2009, when the Mexican economy contracted by 6.1% amid the global financial crisis, with GDP rebounding 5.4% in 2010, buoyed by a 26% increase in exports of goods and services to North America. A key feature of the export boom has been the relocation of inefficient US producers to Mexico, particularly auto sector manufacturers, with exporters taking advantage of close proximity to their largest end-market. Lower freight costs have given Mexican exporters a competitive edge over their Chinese rivals, while tariff cuts and the depreciation of the Mexican peso against the currencies of other large suppliers of manufactured goods to the US have added to the cost advantage of producing in Mexico. Exports now show signs of slowing, however, with manufactured exports almost unchanged in the third quarter from the previous quarter, suggesting that the trend of Mexican exporters expanding market share in the US has run its course. Future prospects for Mexico's manufacturing sector hinge on the country's ability to hold onto its cost advantage versus rivals.

Whether or not Mexico can avoid a recession in the event of a global downturn in 2012 will ultimately depend largely on the extent to which growth in consumer spending can offset anticipated weakness in exports. Latest figures from the retail association, Antad, reveal that its 27,573-member stores reported sales of MXP770bn (\$56bn) in the first ten months of 2011, a 10.6% increase from the corresponding period of 2010.

Commodities Exposure of Latin American Economies

	Share of Commodities in Exports (%)		Commodities Exports/GDP (%)	
	2000	2010	2000	2010
Argentina	50	64	5	12
Brazil	53	73	5	7
Chile	50	68	13	24
Colombia	63	75	8	10
Mexico	13	18	3	5
Peru	78	86	10	20

Source: Itau BBA, October 2011

While the government's heavy reliance on oil-sector receipts from state-owned energy producer Pemex makes fiscal policy less counter-cyclical, there still is scope for fiscal stimulus given public debt ratios that are not overextended, particularly in the run-up to the next presidential election. Market attention in the first half of 2012 will be dominated by the approach of the election, scheduled to take place on July 1, which appears set to return the Institutional Revolutionary Party (PRI) to power for the first time since 2000, when the National Action Party (PAN) captured the presidency after seven uninterrupted decades of PRI government. The PRI's

prospects of returning to power have been helped by voters' growing disenchantment with the disappointing economic record of the PAN during its two consecutive six-year presidential terms, firstly under Vicente Fox, and currently, Felipe Calderon.

Charismatic former Mexico state governor Enrique Pena Nieto is expected to comfortably win the PRI nomination to run for the presidency, while the PAN is scheduled to hold its primaries in February, with Ernesto Cordero, former finance minister in Calderon's administration, one of three candidates, along with PAN lower-house leader Josefina Vazquez Mota and Senator Santiago Creel. Mexico's third major political party, the leftist Democratic Revolution Party (PRD), is pinning its hopes on Andres Manuel Lopez Obrador, a political veteran and former Mexico City mayor who contested the last presidential election in 2006, losing narrowly. Latest opinion polls show the PRD, with just 16% support, trailing both the PAN (21%) and PRI (40%). Calderon's non-renewable presidential term expires in November 2012.

Growth Forecasts for the Minor Latin American Economies (% change in real GDP over a year ago)

	2010E	2011F	2012F
United States	3.0	1.8	1.9
Canada	3.2	2.3	2.2
Latin America	6.1	4.1	3.0
Colombia	4.3	5.3	3.7
Ecuador	3.6	6.5	3.0
Peru	8.8	6.7	4.5
Venezuela	-1.5	3.8	4.0

E is estimate; F is forecast.

Source: JP Morgan, December 2011

Emerging Europe: Hungary Looks Again to IMF for Support

Among the former communist states of Central and Eastern Europe (CEE), Hungary appears precariously placed to cope with the fallout from the escalating euro-zone sovereign debt crisis, a vulnerability that has already been laid bare by the weakness of the forint on foreign exchange markets, even against the beleaguered euro. In response to the deteriorating outlook for the Hungarian economy, the European Commission recently revised down its 2012 GDP growth forecast to just 0.5%, from 2.6% previously. Hungary's government was recently forced to abandon a planned sale of debt due to lack of investor demand. Although the country may have sufficient reserves to cover its fiscal deficit and debt maturities until about mid-2012, beyond that date the outlook is much more uncertain.

Given the many pressure points of the Hungarian economy, which include an increase in the debt-to-GDP ratio from 65% in 2006 to

about 80% today, and a low domestic savings rate that leaves the country uncomfortably reliant on external funding to cover an estimated nominal budget deficit of around Ft800bn (\$3.5bn), or 3% of GDP, by mid-2012, the economy is likely to struggle to eke out even modest growth in 2012. Until then, financial markets will be watching closely for the finalisation of the government budget for 2012, as the country fights what appears to be an increasingly hopeless battle against insolvency.

Hungary lost its coveted 'investment grade' rating in December, when S&P downgraded the country's debt to sub-investment grade. Moody's downgraded its rating of Hungary to junk status in November, provoking a stinging rebuke from the government of Fidesz party Prime Minister Viktor Orban, and which came soon after the administration said it was reopening talks with the International Monetary Fund (IMF) – with which it broke off talks in July 2010 – on securing a precautionary credit line to shore up fragile market confidence in its handling of the euro-zone crisis.

Neither the central bank – the National Bank of Hungary (NBH) – nor the IMF, was consulted first, providing another unwelcome reminder of the government's inept economic management. In November 2008, the previous administration secured a €20bn joint IMF-European Union rescue package to prevent a currency collapse and regional contagion. Austrian banks Raiffeisen, Erste Group Bank and Italian bank Unicredit's Bank Austria unit have all been forced by the Hungarian government to absorb losses on Swiss franc-denominated mortgages, in addition to having to pay a bank levy in Hungary and at home.

Data from the Bank for International Settlements reveal that Austrian banks have a combined \$41bn of exposure to Hungary, equating to 7.5% of their total lending, while their exposure to the CEE region is equal to nearly 80% of Austria's GDP in 2010. In response, Austrian regulators in November called on the country's banking sector to curb lending to their eastern European subsidiaries, a move that will contribute to a further increase in borrowing costs for emerging Europe.

While Fidesz can claim, with some justification, to have inherited a weak economy from its Socialist predecessor, its recent actions have raised serious doubts about its economic competence, particularly the nationalisation of private pensions, the imposition of windfall taxes on mainly foreign-owned banks and forcing them to renegotiate Swiss franc loans that many Hungarians have taken out over the past decade, and thereby requiring them to absorb large currency conversion losses, and attempts to force the NBH governor to resign. Economic integration between Western and Eastern Europe has been especially pronounced in the banking sector, with foreign banks today controlling between 60% and 90% of CEE banking assets.

Donald Tusk's government comfortably won re-election in Poland in early October, as widely expected, with his centrist Civic Platform party forming a coalition with its junior partner, the agrarian Polish People's Party (PSL), which controls the labour and agriculture ministries, thereby keeping the Law and Justice

Party in opposition. Although his commitment to genuine reform has often been questioned, Tusk went further than expected when presenting his programme to parliament on November 18, with proposed reforms to the country's wasteful child benefit system, an increase in the retirement age for men and women to 67, and the scaling back of generous tax breaks enjoyed by peasant farmers and various other occupations. If implemented in full, his proposals would reduce the government's budget deficit from 5.6% of GDP currently, to only 1% by 2015, and lower Poland's public debt from 55% of GDP today, to 47%.

Growth Forecasts for Russia, Bulgaria and Romania (% change in real GDP over a year ago)

	2010E	2011F	2012F
Euro area	1.8	1.6	-0.7
Germany	3.6	3.0	0.3
Emerging Europe	4.6	4.5	2.4
Russia	4.0	3.8	3.0
Bulgaria	0.2	2.2	2.5
Romania	-1.3	2.7	0.8

E is estimate; F is forecast.

Source: JP Morgan, December 2011

While there has been precious little in the way of good news for investors to cheer in recent months, the CEE economies are not without their strengths. Automotive production, in particular, has become an important area of manufacturing expertise for the region's mostly small, trade-dependent economies, with America's General Motors, Italy's Fiat, Germany's Audi, Daimler and Volkswagen, along with South Korea's Hyundai and Kia among several large-scale foreign vehicle producers to have switched manufacturing facilities to the region to take advantage of its strong engineering skills and lower production costs. French auto producers Peugeot and Renault, and Japan's Toyota also manufacture vehicles in the CEE area. In 2009, the Czech Republic and Poland overtook Italy in terms of vehicle output, ranking fifth and sixth, respectively, in Europe, while vehicles make up a fifth of Slovakia's manufactured exports.

Growth Forecasts for Emerging European Economies: The Visegrad Group (% change in real GDP over a year ago)

	2010E	2011F	2012F
Euro area	1.8	1.6	-0.7
Germany	3.6	3.0	0.3
Emerging Europe	4.6	4.5	2.4
Hungary	1.3	1.5	0.5
Poland	3.9	4.0	2.7
Czech Republic	2.7	1.9	0.5
Slovak Republic	4.0	3.1	2.3

Note: All four members of the Visegrad Group, an alliance of four Central and Eastern European states, joined the European Union on May 1, 2004. E is estimate; F is forecast.

Source: JP Morgan, The Economist, December 2011

Emerging Europe's manufacturing strengths extend beyond vehicle production, into other industries such as consumer electronics, resulting in a major shift in the structure of CEE economies and their trade flows, compared with the days when most trade was with the former Soviet Union or other Soviet satellite states. Germany is the most important export market for the Czech Republic, Hungary, Poland and Slovakia, absorbing between 25% and 30% of each country's exports between 2005 and 2009. FDI inflows to the region as a whole, which grew only modestly between 1997 and 2003, from \$20bn to \$30bn, doubled to \$60bn in 2004, then soared to \$155bn in 2008, with the automotive equipment and component industries accounting for 8% of total FDI inflows between 2003 and 2009.

With labour-cost advantages gradually being eroded, though, long-established manufacturers have little choice but to move up the value chain into higher value-added production, now increasingly evident in the automotive sector and electronics manufacturing, where the logistical benefits of a strong local supplier base, established more than a decade ago, along with the tariff benefits of manufacturing inside the EU, and close geographical proximity to their end-markets, make the decision to go upmarket relatively straightforward.

Growth Forecasts for Turkey, Israel and South Africa (% change in real GDP over a year ago)

	2010E	2011F	2012F
Euro area	1.8	1.6	-0.7
Germany	3.6	3.0	0.3
Emerging Europe	4.6	4.5	2.4
Turkey	9.0	8.2	2.5
South Africa	2.9	3.1	2.7
Israel	4.8	4.3	2.9

E is estimate; F is forecast.

Source: JP Morgan, December 2011

Politics, once again, takes centre-stage in Russia in the first quarter of 2012, with investors focused on the approach of the country's March 4 presidential election, following a disputed outcome to lower house parliamentary elections on December 4, marred by widespread allegations of vote-rigging, according to independent election observers. While the pro-Kremlin United Russia party, which supports Vladimir Putin, the prime minister, emerged from the polls with the largest number of parliamentary seats, it saw its representation drop sharply from 315 to 238 seats out of 450, enabling the party to retain a parliamentary majority but failing to give Putin the ringing endorsement from voters that he had been counting on to give fresh momentum to his bid for a third presidential term.

Result of Duma Election*, December 2011

Party	Parliamentary Seats	% of Vote Won
United Russia	238	49.5
Communist party	92	19.2
A Just Russia	64	13.2
Liberal Democratic Party of Russia	56	11.7
Total	450	

**Provisional.*

Source: Financial Times, December 2011

Growing public dissent among Russian liberals persuaded Mikhail Prokhorov, a wealthy oligarch, to announce that he will run against Putin in March's election, possibly with the backing of highly regarded former finance minister Alexei Kudrin, a move designed to appeal to urban liberal voters. Kudrin was dismissed in September after falling out with President Dmitry Medvedev. Prokhorov's announcement, made shortly after the Duma election, has prompted speculation that the Kremlin may be seeking to contain growing middle-class anger by offering voters an alternative to the United Russia party.

Following the announcement of the election result, Moscow witnessed the largest opposition demonstration since the late Boris Yeltsin squared up to the Supreme Soviet in 1993. If anti-government protests continue into the first quarter, ahead of the presidential election, equity-market investors will be forced to adjust to a new, less predictable political landscape than they have become accustomed to. Another protest is planned for February 4, just one month before the presidential poll.

While Putin remains frontrunner to return to the presidency when the current incumbent, Medvedev, steps down to become premier, the disappointing level of support for United Russia is likely to persuade the Kremlin to boost spending ahead of polling day, to regain popular support as the government adopts more populist economic policies, including the possible postponement of increases in utilities tariffs and pension changes.

Much will depend on the resilience of oil prices, currently trading in a range of \$100 to \$110 a barrel, close to the breakeven price needed to balance the government budget. In the wake of December's controversial Duma election, however, there is a significantly greater risk of increased capital flight, a fact acknowledged by acting finance minister Anton Siluanov. Latest data show capital flight from Russia more than doubled in 2011, with close to \$38bn fleeing the country in the fourth quarter alone, the largest three-month outflow since the 2008 financial crisis. For the full year, capital flight reached \$84.2bn, according to figures published by the Central Bank of Russia, compared with \$33.6bn in 2010.

Middle East and North Africa: Events in Egypt, Syria Key to Region's Prospects

Political developments in Egypt, following the Arab Spring in early 2011, continue to overshadow the Middle East and North Africa (MENA) region. Egypt's military council, which has ruled the country since former president Hosni Mubarak was forced from power in February 2011, insists that, in line with a previously announced timetable for political transition, it will return to barracks by the end of 2012. But the recent escalation of violence and bloodletting in Cairo's central Tahrir Square raises serious doubts about the armed forces' willingness to hand over power to a democratically elected government.

Islamists are expected to form the largest bloc in Egypt's next parliament, but they have rejected attempts by the armed forces to retain influence once the transition is completed, reflecting a growing mistrust of the military council that threatens to permanently sour the political climate. The path that events in Egypt, and also in Syria where anti-government protests show no signs of abating, take over coming months will be crucial to the success or otherwise of a democratic transformation in the MENA region. Recent political developments provide few grounds for optimism. Adding to a toxic mix, recent Iranian sabre-rattling and a threat by the hard-line leadership in Teheran to close the Strait of Hormuz, through which an estimated one third of global oil supplies pass, are providing strong support for crude prices, indirectly benefitting the oil and gas-rich states of the six-member Gulf Cooperation Council.

Main Economic Indicators of Egyptian Economy, FY2007/2008 — FY2011/2012

Fiscal Year	2007/08	2008/09	2009/10	2010/11E	2011/12F
Real GDP growth (%)	7.2	4.7	5.2	1.0	3.0
Inflation (end of period, %)	20.2	9.9	10.7	11.8	12.8
Current-account balance (% of GDP)	0.5	-2.3	-1.5	-2.8	-3.3
Fiscal balance (% of GDP)	-6.8	-7.0	-8.1	-10.0	-10.5

E is estimate; F is forecast.

Source: National Bank of Greece

Sub-Saharan Africa: South African Economy to Slow but Inflation Quickens

With the global economy forecast to grow around 4% in 2011, the IMF forecasts that the sub-Saharan Africa region will expand by 5.3% for the year as a whole and by 5.8% in 2012. If the world economic recovery slows, however, South Africa and other trade-

dependent African nations will be impacted. Output and employment levels in a few mostly middle-income countries, including South Africa, have yet to return to pre-crisis levels, while high energy and food prices are stoking inflationary pressures. A severe drought has taken its toll, causing population displacement, and could reduce GDP growth rates in countries such as Kenya by up to half a percentage point. In contrast, the economies of oil-exporting countries in the region could grow by between 6% and 7% in 2012.

Third-quarter GDP data show the South African economy expanded by just 1.4% quarter on quarter, marginally higher than the previous quarter's 1.3%, with the main drag on growth coming from a sharp drop in mining output, which fell 17.4% quarter on quarter, and ongoing weakness in manufacturing, 1.9% lower, and a further fall in agricultural output, down 4.3%. South Africa's economy grew by 3% year on year in the three months to June, after revised growth of 3.5% in the three months to March.

Economic growth would have been more disappointing without a strong contribution from the services sector. Full-year 2011 GDP growth of about 3% is in prospect, a pedestrian outcome, reliant on consumer spending remaining relatively resilient. Sluggish private-sector credit growth is expected to persist, as South African corporates have excess cash on their balance sheets, while the National Credit Act (2007) should ensure that irresponsible lending is curbed. In 2012, however, the intensifying euro-zone crisis and slowing global economy point to weaker export markets at the same time as inflationary pressures continue to build.

With growth prospects set to deteriorate, the South African Reserve Bank (SARB) is more likely to err on the side of caution, with policy normalisation likely to be delayed indefinitely. Latest data show consumer-price inflation running at 6.1% year on year in November, marginally higher than October's 6% though accelerating sharply from 5.7% in September, and 5.3% in August. Even as the pace of price increases has quickened, however, the SARB has left its key policy rate – the repo rate – unchanged since a half percentage point rate cut in November 2010, to a 30-year low of 5.5%, currently. At September's meeting of the monetary policy committee, the central bank discussed cutting rates, given the backdrop of global financial market upheaval. A weaker growth outlook also persuaded the SARB, at the same meeting, to marginally downgrade its GDP growth forecasts to 3.2% for 2011, and 3.6% for 2012, while leaving its 2013 forecast unchanged at 4.4%. ◆

Michael E. Russell, January 2012

KEY ECONOMIC AND FINANCIAL INDICATORS

Forecast

Market Performance

Macroeconomic Data

Emerging Market	% change on year ago			Latest 12 months			Macroeconomic Data			Market Performance			Forecast								
	Annual GDP Growth	Industrial Production	Consumer Price Index	Trade Balance	Current Account	\$ Bns	Foreign Reserves Latest	Foreign Reserves 2010 Year ago	Currency vs \$ 2011 Latest	Currency vs \$ 2010 Year ago	Short-Term Interest Rates	Sovereign Rating S&P	2012 PER Forecast	% S&P/EM Front Super Comp. BMI US	Dec. 30, 2011	Stock Market Index S&P/EM Front Super Comp. BMI US	Change since 12/31/10 US\$	Change since 12/31/10 %	Local Currency	Change since 12/31/10 %	6 month Stock Index Estimate
MALAYSIA	5.8	2.7	3.3	39.7	32.7	134.8	103.8	103.8	3.17	3.10	3.22	A-	14.8	2.98	331.26	2.02	4.89		20.50	371	+
QATAR	37.3	n.a.	2.2	52.4	22.8	15.5	21.8	3.64	3.64	1.56	AA	14.1*	14.1*	0.60	165.10	7.30	7.31		n.a.	183	uc
PHILIPPINES	3.2	-6.3	4.8	-10.8	7.2	75.8	54.4	43.60	43.90	2.81	BB	12.3	12.3	0.93	286.04	3.00	3.10		22.60	315	+
INDONESIA	6.5	8.0	4.2	29.7	3.6	114.0	88.7	90.25.00	90.75.00	9.85	BB+	12.8	12.8	2.97	682.20	3.41	4.07		19.90	744	+
MEXICO	4.5	3.3	3.5	-1.2	-10.0	145.7	115.9	14.00	14.00	4.33	BBB	13.2	13.2	4.29	449.22	-13.60	-2.25		19.40	485	+
THAILAND	3.5	-48.6	4.2	29.1	13.2	182.0	166.7	31.40	30.20	3.22	BBB+	11.0	11.0	1.97	530.01	-1.37	3.12		11.20	567	+
RUSSIA	4.8	3.9	6.7	188.5	86.3	525.6	448.8	31.50	30.30	6.92	BBB	4.5	4.5	6.02	310.45	-21.88	-18.14		19.80	332	-
KUWAIT	3.4	n.a.	4.2	65.8	37.5	20.4	21.7	0.28	0.28	1.07	AA	17.8*	17.8*	0.94	77.33	-16.61	-17.43		n.a.	82	+
TAIWAN	3.4	-3.6	1.0	10.8	38.6	388.0	379.3	30.30	29.50	1.15	AA-	15.0	15.0	11.42	107.73	-22.55	-19.58		4.80	114	+
BRAZIL	2.1	-2.2	6.6	31.3	-47.3	352.1	284.0	1.86	1.70	10.90	BBB	9.4	9.4	12.90	654.22	-21.41	-11.69		20.10	687	+
CHINA	9.1	12.4	4.2	154.4	259.3	3201.7	2648.3	6.32	6.60	5.47	AA-	9.8	9.8	15.77	531.36	-19.92	-19.97		11.30	558	+
INDIA	6.9	-5.1	9.4	-124.3	-46.2	316.2	270.3	53.00	45.10	8.39	BBB-	11.6	11.6	6.59	397.06	-37.27	-25.51		11.90	417	+
SOUTH KOREA	3.5	4.2	4.2	34.0	22.2	311.0	290.2	1159.00	470.00	6.24	A+	17.1	17.1	2.00	487.12	-21.95	-13.36		8.50	1123	+
CHILE	4.8	-0.8	3.9	12.7	-1.2	38.7	26.0	522.00	470.00	6.24	A+	17.1	17.1	2.00	487.12	-21.95	-13.36		9.10	507	+
SOUTH AFRICA	3.1	1.7	6.1	-0.4	-11.6	50.3	37.8	8.13	6.70	5.59	BBB+	9.0	9.0	6.70	496.30	-14.70	3.99		23.10	511	-
UAE	1.4	n.a.	-0.1	63.5	23.3	32.0	32.0	3.67	3.67	1.00	AA	9.4*	9.4*	0.28	45.98	-14.28	-14.28		n.a.	47	uc
TURKEY	8.2	7.3	9.5	-106.7	-78.6	92.4	79.1	1.90	1.60	11.50	BB	9.8	9.8	1.34	190.42	-35.49	-20.83		9.10	194	-
COLOMBIA	7.7	5.0	4.0	0.7	-10.6	32.2	27.2	1920.00	2036.00	4.98	BBB-	15.3*	15.3*	1.09	27037.26	-10.06	-9.20		n.a.	27578	-
POLAND	4.2	8.7	4.8	-15.4	-26.1	102.7	92.0	3.37	3.00	4.89	A-	14.0	14.0	1.20	246.90	-30.51	-19.23		11.40	249	-
CZECH REP.	5.1	-0.8	4.6	9.2	-2.3	48.6	42.2	2.69	2.80	4.25	BBB	10.0	10.0	0.71	1330.73	-18.75	-20.42		55.20	1344	-
PERU	1.2	1.7	1.8	9.7	-5.6	41.4	40.9	19.70	19.30	1.17	AA-	10.6	10.6	0.30	788.08	-9.49	-4.93		27.00	788	-
SRI LANKA	8.4	8.8	6.9	-8.5	-1.8	7.1	8.1	113.91	110.95	8.68	B+	15.1*	15.1*	0.13	540.64	-21.74	-19.66		n.a.	540	-
OMAN	4.1	n.a.	3.7	16.8	3.7	12.3	13.0	0.39	0.38	1.45	A	10.5*	10.5*	0.10	140.75	-10.33	-10.33		n.a.	140	uc
EGYPT	0.3	-1.8	9.1	-23.8	-2.8	22.6	32.4	6.03	5.80	9.90	B+	8.1	8.1	0.30	380.54	-46.79	-44.84		24.60	373	-
NIGERIA	7.9	9.6	10.3	25.6	13.3	31.7	34.6	162.30	152.00	4.60	B+	9.1*	9.1*	0.40	794.16	-26.72	-21.76		n.a.	770	-
ARGENTINA	9.3	0.8	9.5	9.8	0.0	47.5	49.8	4.30	4.00	12.80	B	5.3	5.3	0.29	209.92	-27.00	-20.90		14.80	202	-
HUNGARY	1.4	3.0	4.3	9.9	3.2	51.6	43.3	234.00	213.00	7.22	BB+	8.9	8.9	0.25	172.82	-34.33	-23.26		11.10	164	-
SLOVENIA	-0.5	-1.4	2.7	-2.4	-0.1	1.0	0.9	0.77	0.80	1.40	AA-	12.6*	12.6*	0.08	372.05	-28.89	-26.52		n.a.	353	-
MOROCCO	4.2	n.a.	0.5	n.a.	n.a.	22.5	21.5	8.58	8.35	1.85	BBB-	13.1*	13.1*	0.31	422.76	-15.04	-12.73		n.a.	402	-
JORDAN	3.3	0.3	3.6	-9.5	-1.6	12.5	11.1	0.71	0.71	3.24	BB	5.3*	5.3*	0.18	885.29	-14.29	-14.19		n.a.	832	uc
BAHRAIN	2.3	n.a.	-0.5	0.8	0.0	4.5	5.0	0.38	0.38	1.00	BBB	10.2*	10.2*	0.09	71.02	-10.49	-10.49		n.a.	66	uc
PAKISTAN	2.4	-1.5	10.2	-17.8	-0.2	15.3	14.5	90.00	85.70	11.70	B-	6.6*	6.6*	0.15	1348.73	-12.94	-8.61		n.a.	1241	-
SAUDI ARABIA	6.7	n.a.	5.2	149.5	75.3	535.9	445.0	3.75	3.75	0.78	AA-	10.9*	10.9*	0.00	469.06	-0.41	-0.34		n.a.	497	uc

Note: *2011 PER. UC is unchanged (currency versus US dollar). S&P credit rating shown is long-term foreign currency rating. UAE rating shown is for Abu Dhabi. Data for countries in the Middle East and North Africa region are the latest available, but in certain cases relate to periods more than one year ago. Countries for which a 2012 PER is shown in the table made up 94.29% of the total S&P/EM Frontier Super Composite BMI Index as at December 30, 2011. The five GCC countries included in the index for which a 2011 PER is shown, made up a further 2.01% of the index at the same date. The 32 countries shown in the table accounted for 98.64% of the index on December 30, 2011. An additional 25 countries accounted for the remaining 1.36% of the index on the same date. These countries, which can be accessed via City of London's Frontier Emerging Markets Fund, are: Bangladesh, Botswana, Bulgaria, Cyprus, Ecuador, Estonia, Ghana, Jamaica, Kazakhstan, Kenya, Latvia, Lebanon, Lithuania, Mauritius, Namibia, Panama, Romania, Slovakia, Trinidad & Tobago, Tunisia, Ukraine, Vietnam and Zambia. Source: City of London Investment Management, Bank for International Settlements, central banks and stock exchanges, International Monetary Fund, The Economist, J.P. Morgan, UBS, Middle East Economic Digest, Babbett Financial Advisors (Riyadh), Central Bank of Bahrain, Securities & Investment Company (Bahrain), Markaz (Kuwait), Zanyar/Economist Intelligence Unit, SHUAA Capital, Financial Times, Bloomberg, Dow Jones.



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Over Weight

Neutral

Under Weight