



5 June 2012

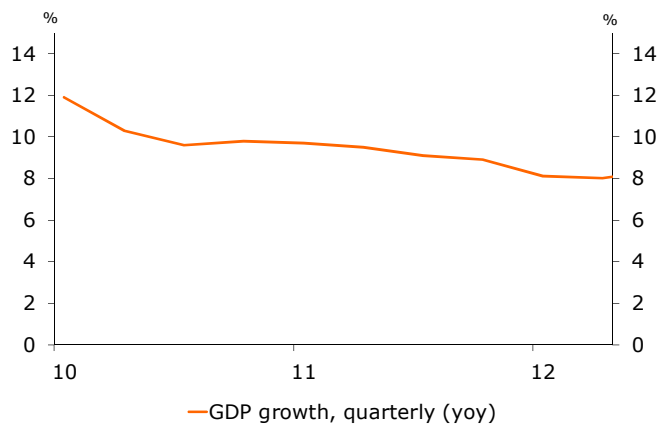
Growth and currencies on the slide

	GDP growth			Inflation			Current account		
	2011	2012	2013	2011	2012	2013	2011	2012	2013
Brazil	2.7	3.0	4.2	6.6	5.3	5.1	-2.1	-2.6	-3.1
China	9.2	8.3	8.5	5.4	3.7	5.1	2.8	2.3	1.9
India	7.2	6.7	7.3	8.6	7.7	7.4	-2.8	-3.1	-2.4
Indonesia	6.5	5.9	6.5	5.4	5.3	6.5	0.2	0.2	0.2
Mexico	4.0	3.5	4.0	3.4	3.7	3.7	-0.8	-1.3	-1.8
Poland	4.3	2.6	3.5	4.3	3.5	2.8	-4.3	-4.1	-3.6
Russia	4.3	3.5	3.8	8.4	4.8	5.8	5.5	3.9	1.9
South Africa	3.1	2.8	3.7	5.0	5.4	4.3	-3.3	-4.6	-4.1
South Korea	3.6	3.0	4.1	4.0	2.8	3.1	2.4	1.9	2.5
Turkey	8.5	3.5	4.0	6.5	9.5	7.6	-9.9	-8.8	-7.7

- China's government has picked up on stimulus efforts, again.
- India is confronted by a combination of weak growth, sticky inflation and a rupee slide.
- Brazil's weak growth performance is leading to monetary action.
- Plenty of other EM currencies are on a downward trend.
- There are some positives though, scattered around the world.

Source: Reuters EcoWin

China – Stimulus efforts picked up after weak April



With the growth in industrial production, imports and investment coming in lower than expected in April, the government immediately announced measures to head off the downward trend in economic growth. The reserve requirement ratio for banks was lowered by 50bps, which will hopefully inject more money into the market. Also, as in 2009, the government has announced more stimulus measures, including an increase in infrastructure investments. This time around, these will be financed directly by the government, and not through the banking system. As expected, China will not allow for anything close to a hard landing this year and the next.

Source: EIU

India – Weak growth and limited policy options



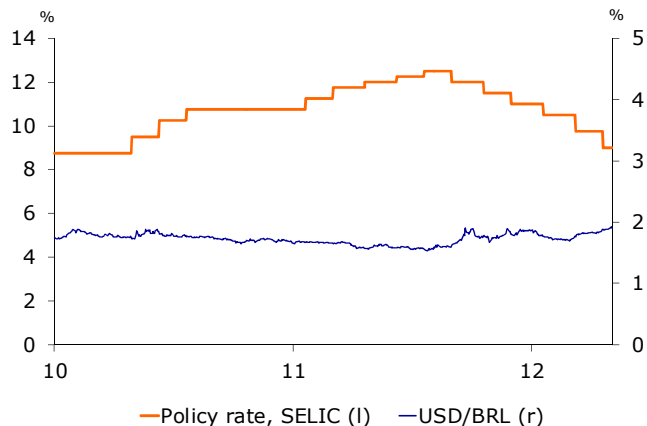
Last year, there were indications of India surpassing China's yoy growth rate, no such thing this year. 1Q12 produced a growth number of only 5.3% yoy, the lowest since 2004. Furthermore, room for monetary stimulus remains limited, as inflation remains high (over 7% in April) and the Indian rupee continues to slide. This means that inflation will remain a concern in the months to come, and that exports are to drag the economy out of its minor slump. Nevertheless, given the current global economic outlook and the fact that more EM currencies are on a downward trend, we do not expect export wonders.

Source: Reuters EcoWin

Economic Update Emerging Markets

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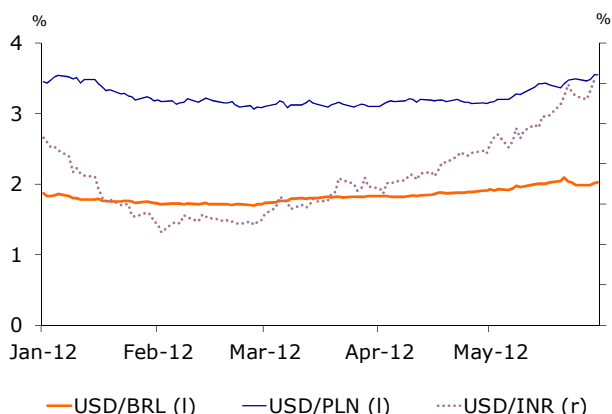
Brazil – Monetary action trying to boost growth



Also in Brazil, there are plenty of worries about the country's growth level. The central bank produced its monthly economic activity index, indicating another contraction of the economy. This comes after weak performances in 2H11. In response, the central bank is starting to use the monetary tools at its disposal to boost growth. Only last week, the benchmark interest rate reached a record low at 8.5%. This step is likely to add downward pressure on the already sliding real. The central bank already intervened to halt the depreciation. As the trickling down effect of the lower interest rates is rather limited in Brazil, the country is likely to post only disappointing growth numbers this year.

Source:

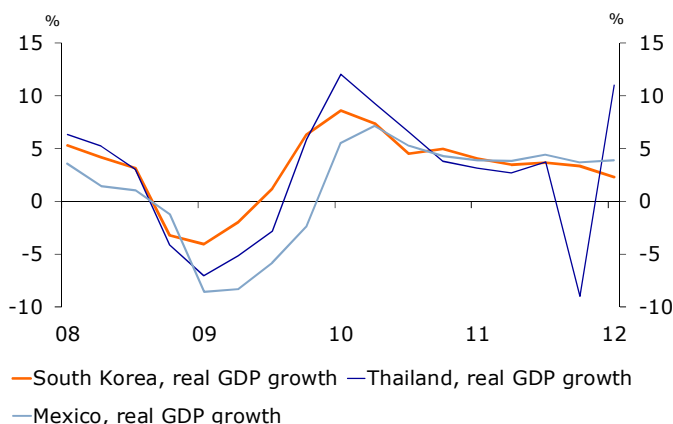
Currencies – Sliding around the World



As in India and Brazil, more currencies around the World are facing downward pressures. In Argentina, the government is maintaining an official rate of 4.35 against the dollar, while the black market offers 5.18 pesos. Also, the thermometer of Central and Eastern Europe, the Polish zloty, lost 5% to the euro in a single week in May, although it has since started to climb back. After years of upward pressure on the currencies leading to interventions by central banks to protect the competitiveness of the export sector, emerging markets around the World are now faced with the flipside.

Source: Reuters EcoWin

Growth – Let's end on a high note



It has not been all bad, though. Two positives to mention from Asia are the indications that even though the yoy growth rate in 1Q12 was lower than in 4Q11, the qoq growth rate of South Korea turned more positive (0.9% compared to 0.3%). Also, Thailand's growth rate recovered spectacularly, from -10.8% in 4Q11 to 11.0% in 1Q12. However, this comes off the back of the flood-induced contraction. Thailand is looking to pick up where it left off before the floods. Finally, Mexico's growth print surprised on the upside. The yoy growth rate for 1Q12 came in at 4.6%. The rate was backed by both an increase in exports as well as domestic demand. Domestic demand will be key in stabilizing the country's growth path.

Source: Reuters EcoWin