Rabobank

Economic Update Emerging Markets

2 October 2012

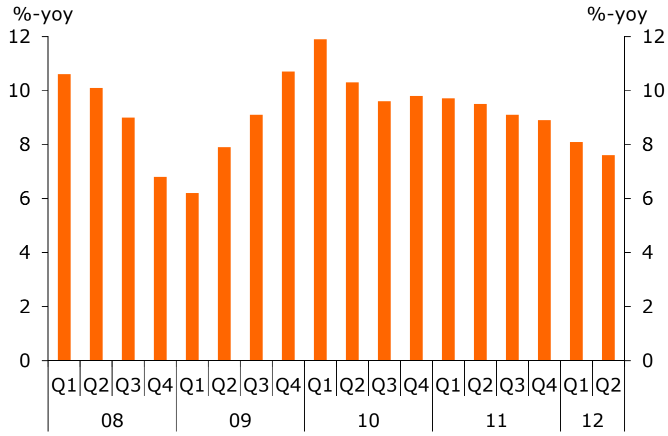
Slowdown of growth continues

	GDP growth			Inflation			Current account		
							% of GDP		
	2011	*2012*	*2013*	*2011*	*2012*	*2013*	*2011*	*2012*	*2013*
Brazil	2.7	1.8	4.2	6.6	5.1	5.0	-2.1	-2.8	-3.1
China	9.2	7.8	8.5	5.4	3.2	5.1	2.8	2.7	2.1
India	7.1	6.1	6.5	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	3.9	3.9	3.6	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	3.8	3.9	8.4	5.3	6.5	5.4	4.4	2.8
South Africa	3.1	2.6	3.3	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	8.6	3.2	4.1	6.5	9.0	7.3	-10.0	-7.6	-6.5

Source: EIU, IMF & Rabobank estimates

- Several emerging markets continue to experience a slowdown in growth.
- In China, both weak domestic and external demand contribute to this slowdown.
- Weak external demand and a drought affected Russia's growth, while Turkey slowed down due to weaker growth of domestic demand.
- Meanwhile, industrial production in Mexico remained strong.
- South Africa's current account deficit has grown, making the country even more dependent on portfolio inflows.

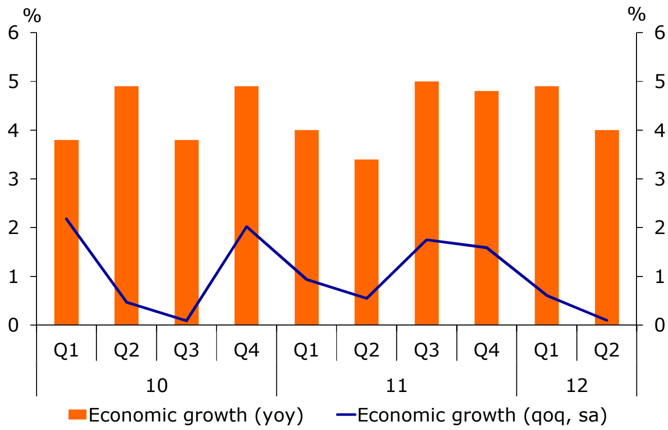
China – Bottom yet to be reached



Source: Bloomberg

Recent economic data indicate China's GDP growth will slow further in 12Q3. On 7 September, the government announced that it approved CNY 1000bn (EUR 125bn) in new infrastructure projects to stimulate economic activity. Afterwards, a run of bad data were released. Export growth in August remained weak at 2.7% y-o-y, indicating the external environment is not picking up. Meanwhile, industrial production (IP) growth edged down further to 8.9% y-o-y and import growth contracted by 2.6%, which show domestic activity is weak as well. With GDP growth slowing further in Q3, full year 2012 growth forecasts are revised to 7.8%.

Russia – Sluggish growth in 12Q2



Source: Bloomberg

Russia's economy nearly stagnated in 12Q2, with growth slowing to 0.1% q-o-q. A severe drought and brushfires affected agricultural output. Also, the global economic slowdown hit exports and manufacturing.We expect the uncertain global environmentto continue to affect the Russian economy in 12Q3, mostly as the outlook of Russia's largest trading partner, China, has also weakened. So far, domestic demand has been a key growth driver. We expect that the poor harvest will result in higher food prices, which will weigh on consumer's purchasing power in 12H2. Even so, for 2012 as a whole, we still forecast a growth rate of 3.8%, as investment and private consumption will support growth.

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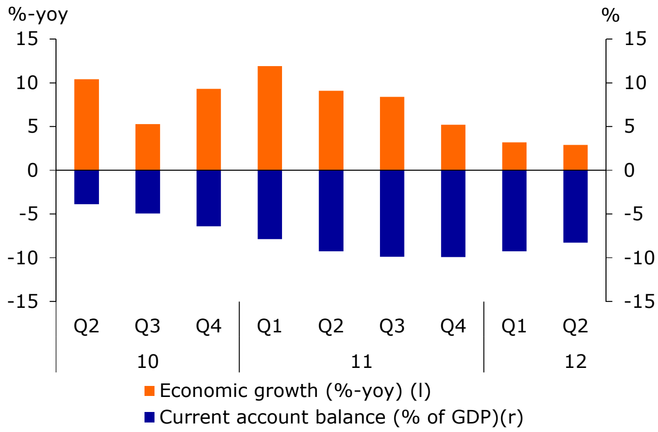
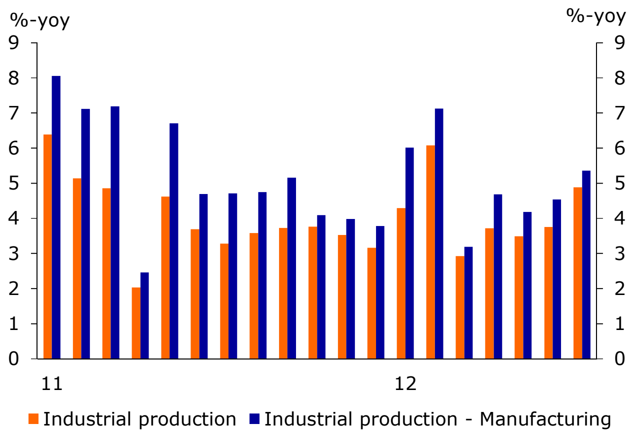
Turkey – Soft landing



Source: Bloomberg

Turkey’s economy seems to be heading for a soft landing, as growth cooled to 2.9% y-o-y in the second quarter, following a first quarter expansion of 3.2%. Growth was mainly driven by an expansion in net exports, as efforts by Turkey’s central bank to slow down domestic demand, and thereby reduce last year’s large current account deficit (10% of GDP), bear fruit. Private consumption grew by a limited 0.2% y-o-y, while fixed investment fell by 7.4% due to base effects. As intended, the concurrent fall in imports contributed to an export-led improvement of the current account balance. As growth still came in at an acceptable level, a soft landing is likely.

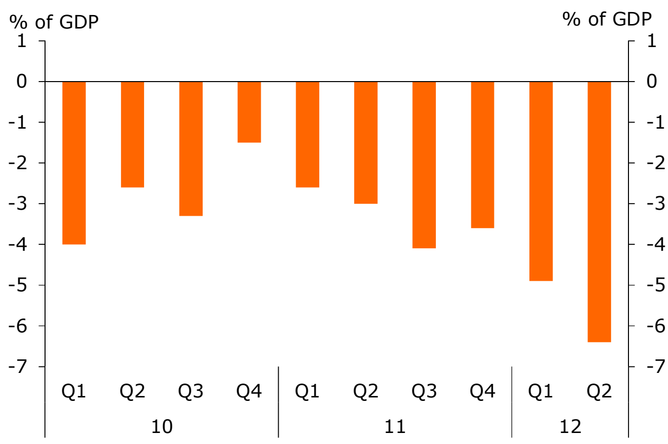
Mexico – Industrial sector performs strongly



Source: Bloomberg

While IP growth is weakening in various emerging markets, Mexico’s IP growth maintained a positive momentum in July. Following a large 1.5% m-o-m expansion in June, IP grew by a still solid 0.5% m-o-m in July. In annual terms, IP growth firmed from 3.8% to 4.9%. While export-dependent manufacturing remains a major source of IP growth, a strong 0.8% m-o-m expansion of the construction sector shows the current strength of domestic demand. Amid an improvement in confidence in 12H1, there is further room for higher consumer spending. Yet, due to Mexico’s export dependency, domestic demand will ultimately hinge on the strength of the export sector.

South Africa – Large current account deficit



Source: Bloomberg

South Africa's current account recorded its largest deficit (6.4% of GDP, up from 4.9% in 12Q1) in nearly four years in 12Q2. Exports fell steeply due to weak global demand, while imports of goods exports increased, partly on the back of an increase in government spending. The country is dependent on capital inflows to finance its growing deficit. For now, portfolio inflows are holding up well, but this could easily change if global appetite for emerging market assets fall. Meanwhile, the GDP growth forecast has also been adjusted downward, as unrest in the mining sector will have a negative impact on output.

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