ALLIANCEBERNSTEIN

Global Economic Research

EMERGING MARKETS WEEKLY PERSPECTIVE

February 24, 2010

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	Moody's / S&P[1] Rating	Expected Rating Trend	Foreign Currency Debt Rating
LATIN AMERICA	[1](POS) = Pos Outlook; (NEG) = Neg Outlook		
Argentina	B3 / B-	↔	Market Weight
Brazil	Baa3(POS) / BBB-	↑	Overweight
Chile	A1(POS) / A+	↑	Market Weight
Colombia	Ba1 / BBB-	↔	Market Weight
Costa Rica	Ba1(POS) / BB+	↔	Market Weight
Dominican Republic	B2 / B	↑	Overweight
Ecuador	Caa3 / CCC+	↔	Market Weight
El Salvador	Ba1(NEG) / BB	↓	Overweight
Jamaica	Caa1 / SD	↑	Overweight
Mexico	Baa1 / BBB	↓	Underweight
Panama	Ba1*+ / BB+(POS)	↔	Market Weight
Peru	Baa3 / BBB-	↔	Market Weight
Uruguay	Ba3 / BB	↑	Market Weight
Venezuela	B2 / BB-	↔	Overweight
ASIA			
China	A1(POS) / A+	↑	Market Weight
India	Baa2 / BBB-(NEG)	↔	Market Weight
Indonesia	Ba3 / BB-(POS)	↑	Overweight
Korea	A2 / A	↔	Market Weight
Malaysia	A3 / A-	↔	Market Weight
Pakistan	B3 / B-	↔	Underweight
Philippines	B1/ BB-	↔	Market Weight
Sri Lanka	NR / B(POS)	↑	Market Weight
Vietnam	Ba3(NEG) / BB(NEG)	↓	Market Weight
EMERGING EUROPE, MIDDLE EAST & AFRICA (EEMEA)			
Bulgaria	Baa3(POS) / BBB	↓	Market Weight
Egypt	Ba1 / BB+	↔	Market Weight
Gabon	NR / BB-	↔	Market Weight
Georgia	NR / B	↔	Market Weight
Ghana	NR / B+(NEG)	↔	Market Weight
Hungary	Baa1(NEG) / BBB-	↔	Market Weight
Kazakhstan	Baa1(NEG) / BBB-	↔	Overweight
Lebanon	B2(POS) / B(POS)	↑	Underweight
Lithuania	Baa1(NEG) / BBB	↔	Overweight
Poland	A2 / A-	↔	Market Weight
Russia	Baa1 / BBB	↔	Overweight
Serbia	NR / BB-(NEG)	↑	Market Weight
South Africa	A3 / BBB+(NEG)	↔	Market Weight
Tunisia	Baa2 / BBB	↔	Market Weight
Turkey	Ba2 / BB(POS)	↔	Underweight
Ukraine	B2(NEG) / CCC+	↔	Overweight

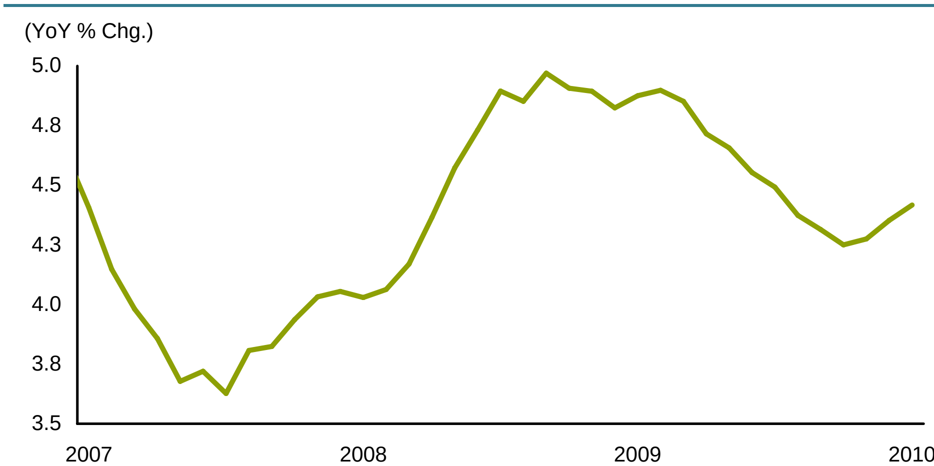
LATIN AMERICA (James Barrineau and Dennis Shen)

Argentina—Odds for a Crisis Rising. We lead the weekly for the second week in a row with Argentina, to underscore our continued concerns that the government is setting itself up for a year that could result in crisis, though for now we don't see default implications. We noted last week the currency had depreciated 1.5% in a month, and that trend continues. Dollar reserves are also continuing to fall. That means the central bank will probably have to stand by as the currency falls. Couple that with a growth in the monetary base and it looks like the administration is going to attempt to cure fiscal ills with inflation. While reported inflation remains benign—8.2% in January—inflation expectations are around 25% according to a recent poll. You can't fool all of the people when prices are rising, especially in a country that is essentially a serial defaulter. We expect in coming weeks that deposits will migrate from pesos to dollars, putting additional pressure on the markets and the government. The rumored departure of economy minister Boudou this week only reinforces a belief that the Kirchners will resort to ever more unorthodox measures.

Mexico Announces FX Accumulation Regime. Mexico announced it would buy $600M of dollar options at the beginning of each month to help it accumulate dollar reserves, in accordance with a previously stated goal. We think the total amount was slightly higher than markets were expecting. The country had previously implemented a system like this some years back. Though the accumulation of reserves is meant to eliminate the need for any IMF support and to pay back an existing line, we think it also signals an era when the country will opt for a weaker peso in order to ease fiscal strains. Of course, such a policy change would never be acknowledged by officials. But it is consistent with the medium-term profile of the country. And the need to even accumulate additional reserves as a precautionary measure against future crises suggests that Mexico's status as a premier EM country has been tarnished and will remain so for some time.

Brazil: Odds for March Hike Rising Inflation expectations continue to rise, now at 4.86% for 2010 from 4.5% about six weeks ago. First half-February inflation came in above consensus expectations at 0.91%. The rhetoric of the central bank, in our view, has left the door open to either a March or April move, but the odds seem to be shifting towards an earlier rather than later start to the hiking cycle. We remain of the belief that the 300+bps priced into the market is too severe, but at the same time a move in March could spook the market—after all, only about six weeks ago many analysts were not forecasting any rate moves until mid-year.

Display: Brazil Core Inflation Heads to Target



Source: Fundaçâo Instituto Brasileiro de Geografia e Estatística and Haver Analytics

ASIA (Anthony Chan and Dennis Shen)

Our confidence in Asia's continued recovery strength is reinforced by the significant upside surprises in this week's 4Q/09 GDP releases in Singapore, Taiwan, Thailand, Hong Kong and Malaysia. The message is clear that a robust, broad-based recovery is firmly underway in the region.

Singapore's 4Q/09 GDP was revised up to -2.8% q/q annualized (4% y/y) from -6.8% q/q (3.5% y/y) in the advance estimate. This was thanks to upward revision of growth in manufacturing and services. The government has raised its 2010 GDP growth forecast to 4.5-6.5% from 3.0-5.0% but cut inflation forecast to 2.0-3.0% from 2.5-3.5%. Lower inflation forecast is the result of change in CPI base year to 2009 from 2004. The latest official forecasts are more in line with our 2010 GDP forecast of 5% and inflation of 2.5%.

Taiwan's 4Q/09 GDP came in much stronger than expected, up 7.9% q/q following the already impressive 7.7% q/q in 3Q. In y/y terms, GDP growth expanded by a massive 9.2% (consensus 7%) after contracting by -1% in the previous quarter. Importantly, economic recovery has broadened out, with a 6.3% y/y growth in private consumption, 11% growth in fixed investment and a 19% bounce in exports. Our full-year 2010 GDP forecast at 5.3% is likely to subject to upside risk, given the deepening of the breath of Taiwan's economic recovery.

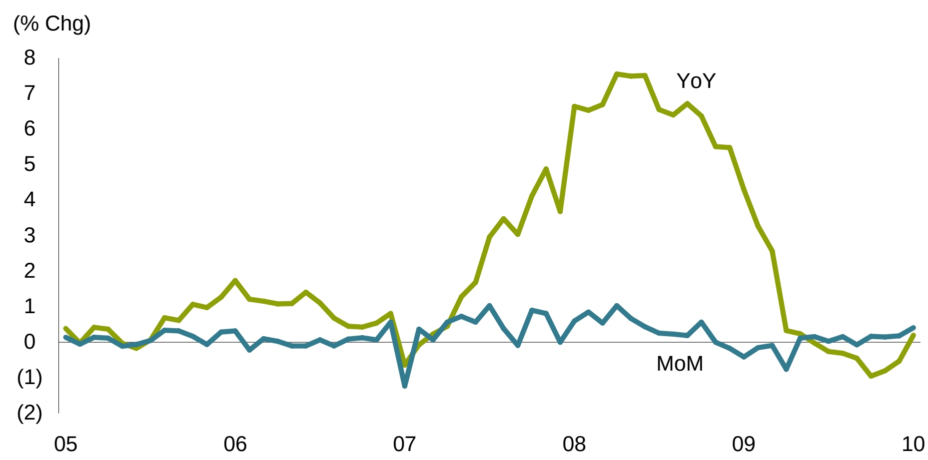
Thailand's 4Q/09 GDP grew 3.6% q/q after expanding by 1.7% in previous quarter. Growth revived to 5.8% y/y (vs. our forecast of 3.2% y/y) but mainly led by government spending and manufacturing exports. However, political uncertainty remained a huge drag on the economy, as witnessed by the continued mediocre performance in consumer spending and private investment. We maintain our 2010 GDP forecast at 3.7% and see the lack of private-sector demand and still tame inflation will give room for the Bank of Thailand not hiking policy rate until 2Q or 3Q/10.

Lastly, both Hong Kong's and Malaysia's 4Q/09 GDP growth performed better than expected, up 2.6% y/y and 4.5% y/y, respectively. We were expecting 1% y/y for Hong Kong and 2.9% y/y for Malaysia. The rebound of the Hong Kong's economy was lifted by China's recovery strength and its impact on local services. However, Malaysia's recovery was boosted largely by government investment, while private spending remained relatively soft. That said, we believe that Malaysia's overall economic strength will increase the odds of the central bank hiking interest rate in the second quarter.

Singapore's Still Favorable Inflation. Another softer-than-expected inflation reading in January, with the CPI rising by a mere 0.2% y/y (consensus 0.7%) versus -0.5% in December. While the low base bounce has turned CPI from deflation to inflation, the underlying momentum is hardly significant. Recall that the government has just cut 2010 inflation forecast to 2-3% (from 2.5-3.5%, see comment above), and the gradual inflation trend will only make a change in the Monetary Authority of Singapore's exchange-rate policy (from 'zero' to a 'gradual' appreciation) at the April's semi-annual policy meeting a close call.

Display: Inflation Pressure Remains Tame

Singapore's Consumer Price Inflation



Source: CEIC Data

EEMEA (Alexander Moseley and Kenneth Colangelo)

Ukraine: Political Uncertainty Starts to Diminish. Ukraine's election cycle continues to progress favorably. The constitutional court has rejected Timoshenko's appeal, meaning that Yanukovich will become Ukraine's next president. Yanukovich intends to try to form a new parliamentary coalition in the next week or two, or else hold early parliamentary elections. He has mentioned three choices for prime minister, each of whom would be very practical and constructive—Sergei Tigipko, a former banker, Arseniy Yatsenuk, former head of parliament, and Mykola Azarov, a former finance minister. Upcoming dates to watch are the presidential inauguration on February 25 and likely no confidence vote in the Timoshenko government on March 2 to 5. Whether early parliamentary elections occur, Ukraine's new leadership is likely to reengage with the IMF and start to implement difficult structural reforms.

Turkey: S&P Upgrades Sovereign Rating. S&P upgraded Turkey to BB with a positive outlook, bringing its rating in line with Moody's (Ba2, stable) and one notch below Fitch (BB+). S&P's upgrade reflects Turkey's strong banking system, track record of stabilizing public sector debt to GDP, economic strength and demonstrated policy flexibility. The positive outlook reflects the potential to return to prior growth rates with less external funding and ongoing fiscal adjustment. In our view, the government will need to deliver on sound fiscal and monetary policies for Turkey to reach investment grade. In both areas, we remain skeptical that the government will meet its commitments of structurally lower deficits and meeting its inflation target, even in an environment of strong economic growth.

Russia: Central Bank Cuts Rates As Expected. The central bank cut its main policy rates by 25 bps to 8.50% for the refinancing rate and 5.75% for the overnight repo rate, as expected. The cut brings total rate reductions to 450 bps for both rates since March 2009. The central bank continues to cut to loosen financial conditions to offset rapid currency appreciation and stimulate new lending, and is encouraged by declining inflation in the short-term. While lower inflation in the near-term suggests another 25 bps rate cut in the coming months, a rise in inflation later this year along with an expected pickup in bank lending suggests that Russia is likely to reverse course and start to hike rates in the second half. Russia does not have a formal inflation target, and we expect the central bank to react to rises in inflation in real time and not on a forward-looking basis.

Hungary: Central Bank Cut Rates As Expected. The central bank cut rates by 25 bps to 5.75% as expected given Hungary's stable risk premium, despite increased European bond market volatility from Greece. The central bank retained its easing bias, but argued that the scope for further rate cuts has narrowed due to broad market concerns about public sector debt. It continues to expect inflation to decline to below the 3% target by 2011, growth to start to rebound by mid-2010, and the current account to remain in surplus for some time. Even though the central bank has become more cautious, we still expect another 50 bps of cuts provided global risk aversion does not rise.

South Africa: Q4 GDP Stronger Than Expected. Real GDP rose in Q4 by 3.2% q/q saar, which was above our above-consensus expectations of 1.6%. This increase marks the second straight quarter of growth, and brings calendar year 2009 growth to -1.8% versus our forecast of -1.9%. Expenditure-side data for Q4 are not yet available. Production-side detail show that manufacturing and government spending drove the rise, while domestic-demand oriented sectors continued to contract. Positively, the pace of contraction slowed, however. This pattern is consistent with our outlook for external demand, restocking and fiscal stimulus to drive the recovery in the early stages, followed by improvements in private consumption and investment toward the middle of 2010 as incomes and new lending increase. The strong growth momentum in Q4 adds 0.3 ppt to our 2010 growth forecast given favorable 2009 base effects.