AllianceBernstein

Global Economic Research

Emerging Markets Weekly Perspective

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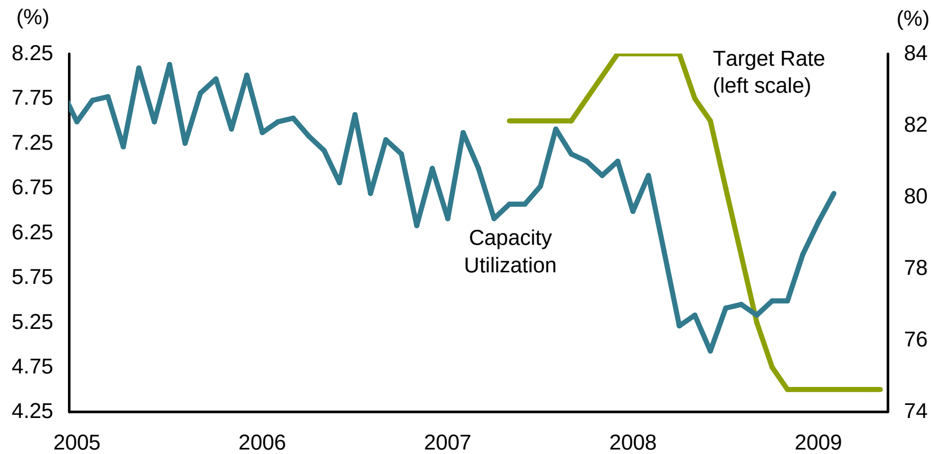
	Moody's / S&P[1] Rating	Expected Rating Trend	Foreign Currency Debt Rating
LATIN AMERICA	[1](POS) = Pos Outlook; (NEG) = Neg Outlook		
Argentina	B3 / B-	↔	Market Weight
Brazil	Baa3(POS) / BBB-	↑	Market Weight
Chile	A1(POS) / A+	↑	Market Weight
Colombia	Ba1 / BBB-	↔	Market Weight
Costa Rica	Ba1(POS) / BB+	↔	Market Weight
Dominican Republic	B2 / B	↑	Overweight
Ecuador	Caa3 / CCC+	↔	Market Weight
El Salvador	Ba1(NEG) / BB	↓	Overweight
Jamaica	Caa1(STA) / SD	↓	Market Weight
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(NEG)	↔	Market Weight
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-	↔	Underweight
Ukraine	B2(NEG) / CCC+	↔	Overweight

Two Inflation Stories, Mexican and Brazilian Editions. We focus this week on inflation, which has the potential to become a key issue for investors in both Mexico and Brazil. Neither story is clear-cut, but both contain the raw materials which justify caution. For Mexico, inflation for the first half of January came in at 0.75%, well above the 0.60% consensus. Administrative prices jumped as expected, but so too did food prices, threatening a reversal of a trend of sharp drops from a 10% rate in the second quarter to below 5% in the fourth quarter of last year. Additionally, retail sales in November jumped 1.7% from October. Most investors have assumed that the new central bank head will lean dovish and a slower than rest of world recovery will mean rate hikes only in the second half. But if food prices pick up and economic slack disappears the central bank could get behind the curve quickly. The chart below shows manufacturing capacity and rates in Mexico. Though the available data history is not long, a tentative conclusion should be that a jump in utilization rates should not be ignored.

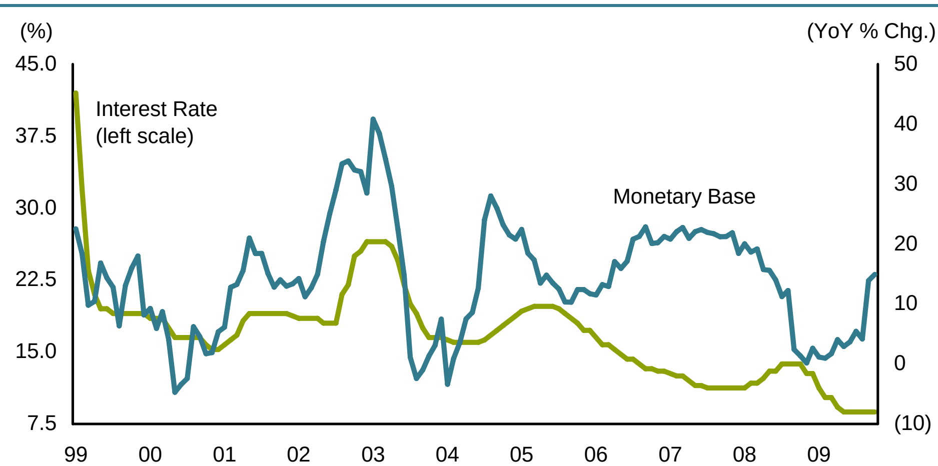
Display: Mexico: Utilization Jumps, How Far Behind Can Rates Be?



Source: Instituto Nacional de Estadística Geografía e Informática, Banco de México and Haver Analytics

For Brazil, the recovery is more deeply entrenched. But in this week's central bank survey expectations for inflation this year jumped to 4.6% from 4.5% the previous week, topping the official target for the first time ever. First half of January inflation readings were slightly above expectations. Thus we think the central bank at this week's meeting will take a more hawkish line than some expect, and rate hikes could well commence in March. The problem for investors is that the market has priced in over 300bps of hikes—still too aggressive in our view, despite our worries about inflation. But the central bank may clearly have to tap the brakes—the chart below shows monetary base growth and rates, and it seems unlikely that rates will not soon be raised at least slowly, in a manner akin to the 2002 pattern.

Display: Brazil's Money Growth and Interest Rates



Source: Banco Central do Brasil and Haver Analytics

LATIN AMERICA (James Barrineau and Dennis Shen) (cont'd)

Jamaica: Moody's Downgrade. Last Friday, Moody's downgraded Jamaica's local currency rating to 'Caa2' from 'Caa1' on the Debt Exchange. The foreign currency rating remains at 'Caa1'. In addition, Moody's revised its ratings outlook to 'Stable'. Moody's expects "*to assess all of Jamaica's ratings*" once the new bonds settle in observing changes to debt dynamics.

Jamaica: IMF Review Delayed. The IMF re-scheduled its Executive Board review on Jamaica's $1.2bn stand-by agreement to Thursday, February 4th. The delay is due to Jamaica's request for a one-week extension to complete "pending actions." Over this next week, the Jamaican authorities will reportedly seek to 1) extend the participation deadline on the Debt Exchange to 1:00pm next Wednesday (*it was formerly set to this past Tuesday*) and 2) formalize plans on the divestment of publicly-owned Air Jamaica. On the Debt Exchange extension, the Ministry of Finance submitted on Wednesday a preliminary report to the IMF estimating participation rates at 91% through Tuesday. The Finance Minister explained that while institutional support has been strong that retail brokers have requested an extra week to talk with clients on joining the plan. Retail investors own 5% of outstanding domestic bonds. The Minister commented that though they have met the stated target (90%) that they would like to achieve 100% compliance by next week. On the Air Jamaica divestment, the government needs to decide whether they will sell the heavily-indebted enterprise to Trinidad & Tobago's Caribbean Airlines or hear local pleas to keep Air J from foreign ownership. Though further delays could not be ruled out given the highly ambitious agenda, we believe that both initiatives will be completed to stated aims in the near-term and expect an IMF Executive Board approval. To the extent that the delays cause for any market anxiety, we believe this presents an opportunity should the bonds become available in the meantime.

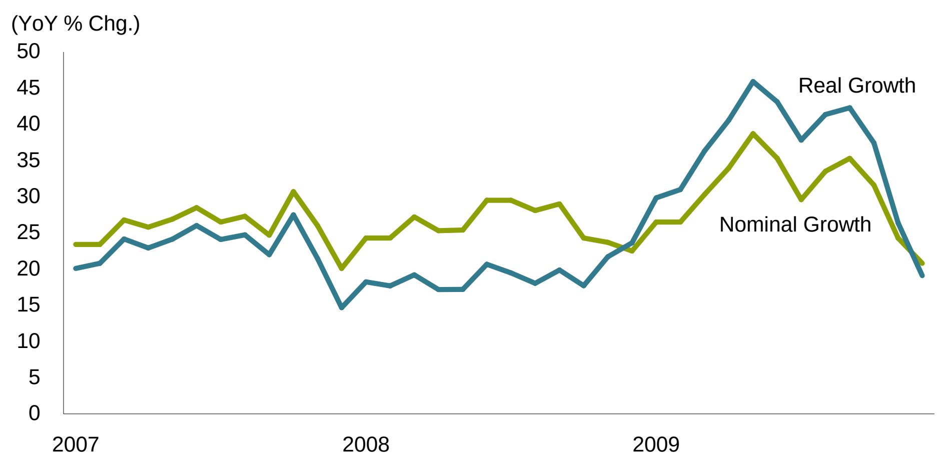
ASIA (Anthony Chan and Dennis Shen)

China's Growth and Inflation Trends. Real GDP growth in 4Q/09 came in a touch stronger at 10.7% y/y, and we estimate that the q/q annualized rate has stayed strong at around 10%. Moreover, first- and second-quarter GDP growth rates were revised up slightly, resulting in an annual economic growth of 8.7% in 2009. We maintain our growth projection at 10.2% in 2010.

While the growth of industrial production and retail sales have all stayed strong in December, fixed asset investment growth has eased further to 19% y/y in real terms (**Display**). Heavy snow may have affected construction activity last month but we suspect it was a combination of slower sequential momentum (followed the hefty acceleration in 1H/09) and increased regulatory pressure from Beijing in the past few months that have led to a quick 'normalization' of investment growth. This should give comfort to Chinese policymakers but may lead to a more realistic market expectation for China's commodity demand growth in the coming year.

The market has focused on the jump in headline CPI to 1.9% y/y in December (from 0.6% in November) but it was due entirely to higher food prices caused by bad weather. Non-food CPI remained benign at 0.2% y/y (vs. -0.7% in November) and, in our view, this matters more to the setting of monetary policy. Like most other Asian countries, the inflation pressure from producer prices in China is relatively more severe, which went up 1.7% y/y in December (from -2.1% in November). Overall, we think that China's monetary tightening is aimed at reining in excess liquidity and is less of a response to any imminent inflation risk.

Display: Off From the Overheating Pace
China's Fixed Asset Investment Growth



Source: CEIC Data and AllianceBernstein estimates

Korea's GDP Softens in 4Q/09. The economy expanded 0.7% q/q annualized, weaker than consensus forecast of 2% and 13.6% in 3Q/09. The surprise was the -0.3% (q/q annualized) decline in private consumption (followed +6.3% and +15.3% in previous two quarters) which was much weaker than the high frequency data (such as employment, retail sales, consumer confidence, etc.) suggested. Gross fixed capital formation was stronger-than-thought at 7.1%, underpinned by both construction and facility investment. Inventories have also contributed more to growth. We expect GDP growth in 2010 will be around 5% (vs. 0.2% in 2009), but the relatively soft growth in 4Q/09 might give the government an edge to urge the Bank of Korea to hold on a policy rate hike for another month in February. At this juncture, we stick to forecast for the first hike to occur in March.

ASIA (Anthony Chan and Dennis Shen)

Indonesia's Sovereign Upgrade. Fitch upgraded Indonesia's sovereign rating to BB+, but without a change to a 'positive' outlook beforehand when the rating was at BB, stable. It is now ahead of Moody's Ba2, stable and S&P's BB-, positive. The rating upgrade is well anticipated by our Risk Ranking model which has long been suggesting that Indonesia's creditworthiness should be an investment grade (i.e. triple-B). The agency cited Indonesia's resilient growth, improving public finance, declining public debt/GDP ratio and the easing of external financing constraint as reasons behind the rating action. We maintain our overweight recommendation on the sovereign.

Sri Lanka: First Post-War Election. In Sri Lanka's first post-war presidential election on Tuesday, incumbent Mahinda Rajapaksa looks set for victory, receiving 58% of votes. According to provisional figures, an average voter turnout of over 70% was recorded island-wide. However, reservations have been presented on pockets of voter disenfranchisement in the Tamil North/East regions due to insufficient transportation and heightened levels of violence. The international response has been affirmative – with India and the United States congratulating the president on the historic victory whilst re-stating hopes that the administration will work to address human rights issues following the country's 30-year civil war. The Rajapaksa victory ensures continuity in government policies that have contributed to the country's post-war progress. We believe Tuesday's result to be favorable in our medium-term outlook.

Vietnam: Raises $1bn in International Bond Issuance. Vietnam raised $1 billion from its second global bond sale on Monday, issuing 10-year bonds to yield 6.95 percent, or 333 basis points more than Treasuries. The government delayed the pricing last Friday because of general market volatility. Though recent policy changes in Vietnam have been supportive of our 'Market Weight' view, we believe existing macro instabilities heading into these changes to fair value Vietnam at yields above Monday's pricing indications.

EEMEA (Alexander Moseley and Kenneth Colangelo)

Israel: Central Bank Keeps Rates Unchanged. The central bank this week held the discount rate at 1.25% after two consecutive hikes of 25 bps. The bank cited a stabilizing inflation rate and their previous rate hikes as reason for the pause. December inflation was steady at 3.95% compared to 3.85% the previous month. This is still above the country's target inflation rate of 1-3%. We forecast the BoI to continue hiking rates throughout the year to normalize monetary conditions and allow a gradual appreciation of the currency.