

# Emerging Markets Weekly

## Weekly Commentary

20 February 2012

### Overview

- Emerging market equities rose last week, led by Latin American equities. Improving US data supported sentiment, along with China's pledge to continue buying Eurozone debt.
- China cut banks' reserve requirement ratio by 0.5 percentage points, the second time in three months. Chile's central bank held interest rates at 5%. Inflation quickened to a three-year high in the Czech Republic because of a sales tax hike but eased in India in January as food prices fell.
- Fourth quarter GDP data were generally weak, with the Czech Republic falling into a technical recession as austerity measures hurt consumption and Europe's debt crisis depressed investment; Thailand contracted because manufacturing output was hindered by the floods; and Mexico's growth weakened on the back of reduced exports to the US. Conversely, Malaysia was underpinned by resilient domestic consumption.
- Short-term economic data appeared to improve. Mexico's industrial production and Brazilian retail sales grew in December. Unemployment cooled in Brazil and Turkey but climbed to a nine-month high in Russia in January.
- India's government outlined a new policy aimed at simplifying telecom licensing rules, encourage merger and acquisitions and improve transparency.

### Corporate News

**Brazil:** **Vale's** fourth-quarter sales met market forecasts although costs were higher than estimated. Separately, its Canadian mine will resume operations following safety improvements and nickel production is expected to be unaffected. **Petrobras** will sell a refinery in Japan and exploration assets in the first half of 2012 as part of its US\$13.6 billion divestment programme. Proceeds will be invested in deep-water fields.

**Chile:** Standard & Poor's cut **Banco Santander Chile's** rating from A+ to A with a stable outlook following the recent downgrade of parent Banco Santander Spain.

**India:** **Castrol India** delivered resilient results, despite facing inflationary pressures. **GlaxoSmithKline Pharmaceuticals'** consolidated sales and net earnings were driven by new products and tight cost controls. Although **Tata Power's** earnings improved from a year ago, the start-up of its Mundra power plant weighed on profits.

**Korea:** Higher net interest income and lower provisions boosted **BS Financial's** full-year profits.

**Malaysia:** **CIMB Group** should benefit from Bank Indonesia's policy reversal in limiting foreign ownership of local banks; it will not have to cut its holding in CIMB Niaga, which could lower contributions to the group. Separately, CIMB Group completed the acquisition of a 70% stake in Thai broker Sicco Securities, bringing its stake to 82%. It also sold a 60% interest in its private equity arm, CapAsia, to US-based private asset management firm Rohatyn Group.

**Thailand:** State-owned financial institutions, which are currently exempt from paying a surcharge on deposits, will have to pay a levy of 0.47% from July. This is positive as it creates a more level playing field between state-run and commercial lenders. In earnings news, **BEC World's** improved full-year profits met expectations. Conversely, **Thai Stanley Electric** suffered losses because of the floods while **Ratchaburi**

**Electricity's** disappointing fourth-quarter results were due to lower affiliate contributions and higher expenses in Australia.

**Turkey:** In full-year results, **Garanti's** performance showed healthy loan book growth and solid asset quality. Capitalisation remained robust though increased reserve requirements pared earnings. Retailer **BIM's** net income rose sharply despite the challenging macroeconomic backdrop. **Akbank's** sale of US\$1.5 billion in foreign currency denominated bonds was approved. Its ability to diversify and increase its funding base is viewed positively.

We hold all the above companies highlighted.

## Indices Performance Table

REGION/COUNTRY	INDEX/FUND	US DOLLARS		LOCAL CURRENCY	
		WOW	YTD	WOW	YTD
<b>REGIONAL/FUNDS/DEVELOPED MARKETS</b>					
Emerging Markets	MSCI Emerging Markets	1.95%	15.94%	1.84%	11.14%
	MSCI Emerging Markets Small Cap	1.40%	18.27%	1.40%	14.20%
US	Dow Jones	1.16%	5.99%	1.16%	5.99%
US	NASDAQ Composite	1.65%	13.31%	1.65%	13.31%
UK	FTSE Allshare	1.51%	9.07%	0.94%	6.83%
Europe	FT Europe ex UK	1.76%	11.50%	1.91%	9.56%
World	MSCI AC World Free	1.52%	9.80%	1.64%	8.74%
World	Citigroup World Government Bond**	-0.74%	0.10%	-0.74%	0.10%
<b>EMERGING MARKETS ASIA</b>					
EM Asia	MSCI Emerging Markets Asia	1.95%	15.31%	2.01%	12.70%
	MSCI Emerging Markets Asia Small Cap	0.88%	17.96%	0.95%	15.07%
China	MSCI China	2.59%	16.60%	2.57%	16.41%
Hong Kong	MSCI Hong Kong	4.11%	16.65%	4.09%	16.47%
India	MSCI India	3.66%	30.04%	3.39%	20.66%
Indonesia	MSCI Indonesia	1.81%	2.86%	1.98%	2.10%
Korea	MSCI Korea	2.13%	13.81%	2.29%	11.19%
Malaysia	MSCI Malaysia	-0.69%	6.49%	-0.20%	2.24%
Pakistan	MSCI Pakistan	2.29%	16.20%	2.38%	17.35%
Philippines	MSCI Philippines	1.58%	15.75%	1.90%	12.52%
Sri Lanka	MSCI Sri Lanka	-2.39%	-7.94%	0.32%	-4.43%
Taiwan	MSCI Taiwan	0.36%	13.14%	0.46%	10.45%
Thailand	MSCI Thailand	2.57%	15.49%	2.41%	12.68%
<b>EMERGING MARKETS EUROPE MIDDLE EAST AFRICA</b>					
EMEA	MSCI EMEA	1.83%	15.85%	1.60%	9.79%
	MSCI EMEA Small Cap	2.22%	15.92%	2.05%	10.14%
Czech Republic	MSCI Czech Republic	3.83%	9.76%	3.29%	6.10%

Egypt	MSCI Egypt	4.07%	37.79%	4.13%	37.95%
Hungary	MSCI Hungary	1.50%	26.38%	0.44%	14.66%
Morocco	MSCI Morocco	0.01%	5.26%	0.20%	3.93%
Poland	MSCI Poland	1.96%	18.20%	1.45%	9.39%
Russia	MSCI Russia	3.14%	20.33%	2.76%	13.27%
South Africa	MSCI South Africa	0.22%	9.27%	0.26%	4.70%
Turkey	MSCI Turkey	3.58%	27.53%	2.98%	18.52%
<b>MIDDLE EAST</b>					
Bahrain	Bahrain All Share Index	0.77%	0.33%	0.76%	0.33%
Kuwait	Kuwait Stock Exchange Index	2.91%	4.95%	3.03%	4.63%
	MSCI Kuwait	0.92%	-0.46%	0.72%	-0.75%
Oman	Muscat Securities Market Index	1.22%	-0.45%	1.22%	-0.45%
	MSCI Oman	1.97%	-1.46%	1.97%	-1.46%
Qatar	Doha Securities Market Index	-0.74%	-1.78%	-0.73%	-1.78%
	MSCI Qatar	-0.93%	-2.00%	-0.93%	-2.00%
Saudi	Tadawul All Share Index	0.99%	7.04%	0.99%	7.05%
UAE - Abu Dhabi	Abu Dhabi Securities Market	1.34%	3.61%	1.34%	3.61%
UAE - Dubai	Dubai Financial Market General Index	5.52%	16.08%	5.52%	16.09%
	MSCI UAE	2.88%	10.05%	2.88%	10.05%
Israel	MSCI Israel	-0.35%	9.07%	0.12%	6.68%
Jordan	MSCI Jordan	-0.09%	-5.86%	-0.09%	-5.91%
MSCI GCC ex SA	MSCI GCC ex Saudi Arabia	0.81%	0.65%	0.70%	0.49%
<b>LATIN AMERICA</b>					
Latin America	MSCI Latin America	2.03%	17.64%	1.61%	8.38%
	MSCI Latin America Small Cap	3.82%	23.45%	3.53%	13.87%
Argentina	MSCI Argentina	0.24%	7.42%	0.24%	7.42%
Brazil	MSCI Brazil	2.92%	20.55%	2.10%	10.71%
Chile	MSCI Chile	1.28%	15.64%	2.77%	7.91%
Colombia	MSCI Colombia	3.60%	15.72%	3.34%	6.26%
Mexico	MSCI Mexico	-0.71%	10.62%	-0.61%	1.35%
Peru	MSCI Peru	0.02%	9.59%	0.01%	9.54%
<b>FRONTIER MARKETS</b>					
FM (FRONTIER MARKETS)	MSCI Frontier Markets	0.16%	1.32%	0.06%	1.00%
Botswana	MSCI Botswana	0.57%	-2.14%	0.68%	-4.56%
Bulgaria	MSCI Bulgaria	-1.66%	-6.71%	-1.45%	-8.00%
Croatia	MSCI Croatia	-3.66%	-3.93%	-3.53%	-4.49%
Estonia	MSCI Estonia	0.51%	12.42%	0.71%	10.87%
Ghana	MSCI Ghana	0.95%	2.05%	0.64%	5.99%
Jamaica	MSCI Jamaica	0.55%	-4.64%	0.61%	-4.26%
Kazakhstan	MSCI Kazakhstan	5.42%	13.02%	5.42%	13.02%
Kenya	MSCI Kenya	2.33%	11.41%	2.58%	8.73%
Lebanon	MSCI Lebanon	-0.41%	-1.47%	-0.41%	-1.48%
Lithuania	MSCI Lithuania	-0.22%	8.02%	-0.02%	6.54%
Mauritius	MSCI Mauritius	-0.77%	-2.17%	0.09%	-2.34%
Nigeria	MSCI Nigeria	1.56%	3.15%	0.74%	0.13%
Romania	MSCI Romania	-1.89%	15.66%	-1.56%	14.83%
Serbia	MSCI Serbia	9.21%	15.83%	8.94%	16.63%

Slovenia	MSCI Slovenia	-0.80%	-2.58%	-0.61%	-3.93%
Tunisia	MSCI Tunisia	-0.43%	-2.36%	-0.08%	-1.61%
Ukraine	MSCI Ukraine	0.12%	0.70%	0.09%	0.88%

\*\* Local Currency of Citigroup WGB Index in USD

Source: Bloomberg, 17 Feb 12

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