

## Key Trades and Risks

### Emerging Markets Equity Strategy

- For much of 2010, our strategy has been to position for the global cyclical recovery. A powerful recovery did occur with global manufacturing up 12% from its recession low. Economic data is past the recovery hump. The cyclical trade is now mature. Within EM countries, we are rotating back to domestic demand. Our OW in the cyclical sectors of technology and transportation is more modest than the large UW in commodities and energy.
- We downgraded Mexico and South Africa from overweight to neutral and upgraded ASEAN to overweight on 15 July (see page 6).
- China's economic growth is slowing. Real GDP growth eased to 7.2% QoQ in 2Q from 10.8% in 1Q10. China's PMI fell for the third consecutive month to 50.4. Policy clearly favors consumption over FAI. But the consumer sector is only 11% of MSCI China. Materials and energy constitute 20% of the index. Policy risk and margin pressure due to national service are the key medium term drivers for our UW in China, but a policy relief rally is possible as evidence of the slowdown builds. Fast money may wish to be neutral in China in a commodity correction.
- Our **key trades** ranked by conviction are:
  - CEMBI surfers – OW India and Turkey
  - ABC of Real Estate - Anything but China
  - Overweight Technology
  - China economic rebalancing: Focus on consumer
  - Advantage ASEAN
- The main **risks to our view** are that financial investors continue to buy commodities and a sharp slowdown in global economic growth. For more on risks, please see page 10.
- **Key asset allocation calls:**
  - OW: India, Korea, Taiwan, ASEAN and Turkey
  - OW: Technology and industrial cyclicals (i.e. transportation)
  - UW: China and Brazil
  - UW: Commodities, energy

For our 'Key Trade' stock ideas, [click here](#) to download the Bloomberg sheet.

**See page 89 for analyst certification and important disclosures, including non-US analyst disclosures.**

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#### Emerging Markets Equity Strategy

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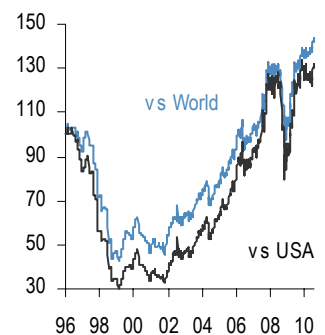
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Figure 1: MSCI EM relative performance



Source: Bloomberg, 15 July 2010.

**In this report, we highlight:**

- Our top trade ideas**
- Risks**
- Our model portfolio**
- Valuation stress test**
- Key ratios for EMBIG 100**
- Consensus country weights**

We have two pages on each significant emerging market. The first page has a qualitative review of events driving the past 12 months, the outlook and a comment on valuations; the second page displays the scorecard, which presents key economic and equity market data

The extended markers: This report contains 36 pages of data designed to help track emerging economies and markets

The emerging market dashboards efficiently display key economic, equity and debt data, demonstrating change and perspective.

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## Beyond the recovery hump

For much of 2010, our strategy has been to position for the global cyclical recovery. A powerful recovery did occur with global manufacturing up 12% from its recession low. Economic data is past the recovery hump (see *Global Data Watch, Kasman et al, 16 July 2010*). The cyclical trade is now mature. Within EM countries we are rotating back to domestic demand. Our OW in the cyclical sectors of technology and transportation is more modest than the large UW in commodities and energy.

We downgraded Mexico and South Africa from overweight to neutral and upgraded ASEAN to overweight on 15 July (see page 6).

The global economy had a powerful first year recovery. But even as the recovery continues, it faces headwinds on the path to sustainable medium term growth. European sovereign stress and reduced risk appetite have increased the risk of a slowdown in the second year of expansion. Recent economic data confirm that the initial acceleration in business activity has peaked and growth should moderate over the coming quarters. PMIs are rolling from their early recovery highs. J.P. Morgan's global manufacturing PMI dropped for the second consecutive month in June. A deceleration in manufacturing growth is forecasted as the inventory cycle matures. But what is of concern is that the service sector also appears to be losing momentum. J.P. Morgan's economics team has revised down US 2010 GDP growth from 3.1% to 2.8%. The 2011 GDP growth estimate is now 2.7% down from 2.9%.

### Mexican downgrade to neutral

Our Mexican overweight was primarily a leveraged play on the US recovery exceeding expectations. As the US recovery slows, we believe Mexico's relative performance will be subdued in the 2H. We are transitioning from a cyclical to consumer focus, to position for the expected acceleration in Mexican consumer demand.

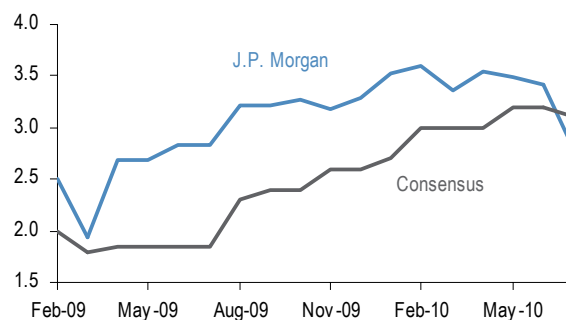
### South African downgrade to neutral

SA's growth momentum may slow in 2H10 as consumer demand eases post the World Cup. SA's low beta and relatively low growth status makes it a less attractive destination on our expectation of resurgence in growth optimism in EM.

### ASEAN overweight

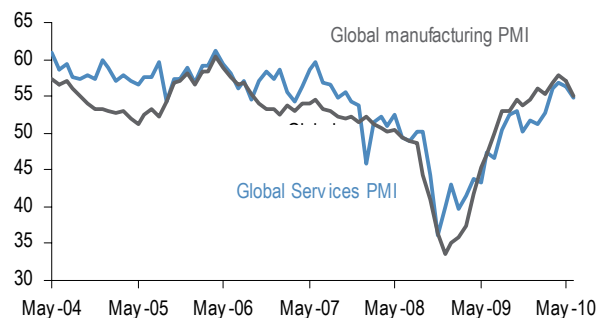
ASEAN markets are squeezing higher, driven by good fundamental data and low ownership ex-Indonesia. J.P. Morgan forecasts ASEAN GDP growth to be 7.2% this year. Thailand's economic data is particularly strong. Higher economic growth should support positive earnings revisions and a continued re-rating. Political risk in Thailand remains high, but that is the consensus.

Figure 2: US 2010 real GDP growth forecasts



Source: J.P. Morgan, Bloomberg. Note: Chart shows change in J.P. Morgan and Consensus 2010 GDP growth forecasts for US.

Figure 3: J.P. Morgan Global Manufacturing and Services PMI



Source: J.P. Morgan, June 2010.

### Overweight tech

We continue to believe that there is more upside in tech after many years of poor performance and under investment. MSCI EM IT has underperformed MSCI EM by 123% over the past 10 years. The sector has transitioned from an expensive growth sector to value. Investors are underestimating the business investment cycle, in our view. J.P. Morgan forecast US business equipment spending will grow at 10% in both 2010 and 2011 (Figure 4). Mobile video devices such as iPad could generate a positive demand shock.

### ABC = Anything but Chinese Real Estate

We introduce a new key trade on EM real estate ex China. The EM real estate index has underperformed MSCI EM by 38% since July 09. Note that prior to the credit crunch there were strong inflows into EM real estate equities by both dedicated real estate and regional funds. EM real estate stocks were punished by association as Chinese government implemented tightening measures to control asset inflation. We think the broad sell-down in real estate equities regardless of different underlying conditions is unjustified. Attractive valuations and rapid growth in the urban economically active population should drive strong demand for residential properties across emerging markets. Our preferred markets for homebuilders within EM are Brazil, India, ASEAN and Mexico (see page 17).

### Risk to our China UW

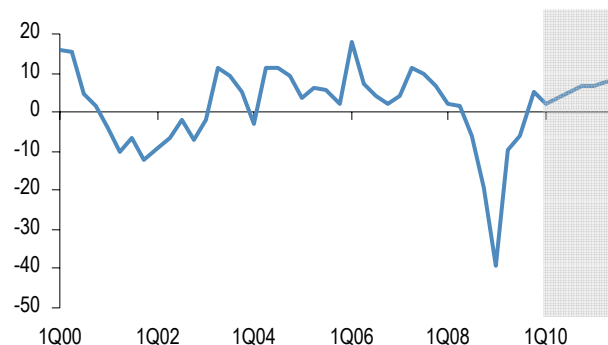
MSCI China outperformed MSCI EM in the recent sell off, with China Mobile proving to be particularly defensive. But A-shares have declined in the last three days as investors were reminded that Beijing is still trying to engineer lower property prices. In a sharp correction, it is reasonable to assume that commodity consumers, including China, will underperform. Weaker commodities prices may generate a "policy relief rally" as threat of further tightening measures diminish. Our UW is more a medium term call. Policy clearly favors consumption over FAI. But the consumer sector is only 11% of MSCI China. Materials and energy constitute 20% of the index. National service risk is high, note recent cap on coal prices; 80% of MSCI China is SoEs.

### The commodity bulls are still to capitulate

China's economic growth is slowing. Real GDP growth eased to 7.2% QoQ in 2Q from 10.8% in 1Q10. China's PMI fell for the third consecutive month to 50.4. J.P. Morgan revised down China's 2010 GDP growth forecast to 10% oya from 10.8%.

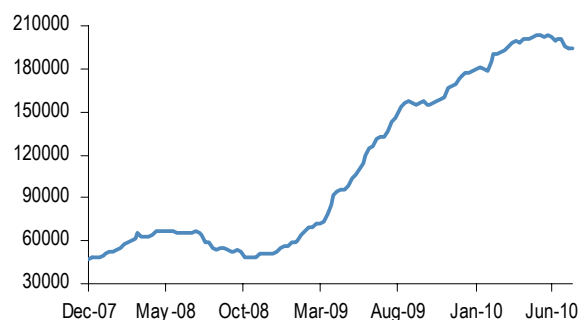
In our view, commodity investors are underestimating the slowdown in China's demand. The investment return for commodities is poor and the correlation is now high with risk assets. Commodities are the worst performing asset class year to date. Bulk commodities including steel and iron ore are down 40% from their April highs. This, in our view, is a clear signal of the "hard-landing" in China's FAI. Surprisingly, we are yet to see significant redemptions in commodity funds.

Figure 4: Tech capex? - US Real business fixed investment (%QoQ saar)



Source: J.P. Morgan.

Figure 5: Commodity Investors yet to capitulate



Source: Bloomberg, 16 July 2010. Ticker: DBCSO Index

Note: The Chart shows the number of shares in issue for the largest commodity ETF

Figure 6: China PMI manufacturing overall



Source: J.P. Morgan economics, June 2010.

## Conclusion

### Key asset allocation calls

- OW: India, Korea, Taiwan, ASEAN and Turkey
- OW: Technology and industrial cyclicals (i.e. transportation)
- UW: China and Brazil
- UW: Commodities, energy

**Our key trades ranked by conviction are:**

- CEMBI surfers – OW India and Turkey
- ABC of Real Estate - Anything but China
- Overweight Technology
- China economic rebalancing: Focus on consumer
- Advantage ASEAN

For more details on these **key trades**, please see page 16.

Please see pages 13, 14 and 15 for our **Global Emerging Markets model portfolio** and descriptions of changes made this month.

**Risks – are many:**

**1. Policy Risks**

- Lack of G3 policy flexibility
- Strained social contract
- Central banks target asset prices

**2. Economic Risks**

- Slowdown in manufacturing

- Underestimating Euro sovereign stress contagion risk

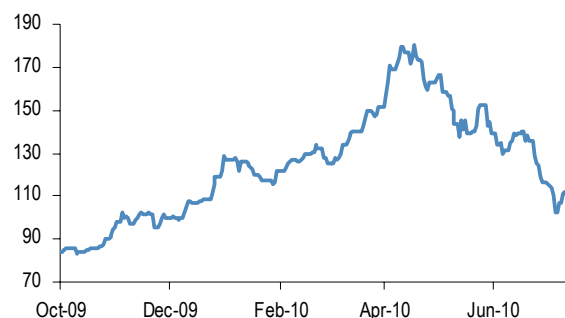
**3. Political risks**

- Tension between the two Koreas
- Election-induced volatility

For more details on these **risks**, please see page 10.

Please see pages 24 for our **detailed country views**.

Figure 7: 3M forward China iron ore import price (USD/tonne)



Source: Bloomberg, 19 July 2010. Ticker: OREXIO3M Index.

Table 1: Real GDP Growth (QoQ SAAR) in key Emerging Markets – Recession in red – Recovery in green

QoQ saar	Avg 03-07	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10F	3Q10F	4Q10F
<b>EM Asia</b>	8.7	8.0	4.7	2.5	-2.1	1.5	11.9	10.6	8.7	10.8	6.4	6.0	6.5
China	11.8	10.1	9.2	6.8	3.4	7.9	14.5	11.4	11.9	10.8	7.2	8.2	8.6
India	9.4	6.4	5.8	5.4	10.0	2.2	7.2	11.2	6.9	9.2	8.1	8.0	8.9
Indonesia	5.7	6.2	6.8	5.2	1.9	5.4	4.9	6.3	6.2	5.4	7.0	6.0	6.0
Korea	4.4	5.3	1.0	-0.4	-16.8	1.0	9.8	13.4	0.7	8.8	4.0	3.8	3.8
Malaysia	6.1	10.6	0.6	-1.7	-9.4	-11.9	9.0	16.7	8.2	5.0	4.0	5.0	5.0
Philippines	5.6	2.4	7	3.4	-1.2	-6.8	7.7	1.4	7.6	12.9	3.6	4.9	4.0
Taiwan	5.4	5.1	-1.3	-13.7	-13.7	-11.3	20.1	11.2	16.7	11.3	3.3	3.5	3.5
Thailand	5.8	6.4	-0.1	-2.7	-18.1	-6.4	9.8	5.7	17.0	16.0	-2.0	2.7	2.8
<b>LatAm</b>	5.2	4.7	3.9	2.3	-8.3	-11.3	2.3	7.2	7.4	4.2	4.7	2.5	4.0
Brazil	4.3	3.8	6.2	5.5	-12.8	-3.6	6.0	9.0	9.3	11.4	6.0	4.0	3.3
Colombia	6.1	-0.9	3.0	0.3	-6.2	1.5	3.6	4.0	4.5	5.3	4.8	3.7	4.0
Mexico	3.5	5.3	-1.4	-0.6	-7.8	-24.5	1.2	10.1	7.9	-1.4	3.2	-1.8	4.2
<b>EMEA</b>	6.4	6.3	4.7	2.0	-10.5	-15.4	1.0	3.7	2.3	2.2	8.1	3.2	3.0
Czech	5.6	1.1	2.8	0.7	-2.7	-14.3	-1.8	2.0	2.2	2.0	2.5	2.5	2.3
Hungary	3.4	5.1	-0.9	-3.8	-7.4	-12.7	-5.5	-2.4	0.8	3.6	2.0	2.0	1.0
Poland	5.5	5.3	3.6	2.8	-1.2	2.0	2.4	2.4	4.5	2.0	3.0	2.5	2.5
Russia	7.4	7.6	7.0	3.0	-16.5	-24.4	2.8	6.1	2.7	2.2	13.5	4.0	4.0
SA	4.9	2.5	5.5	1.3	-0.7	-7.4	-2.8	0.9	3.2	4.6	3.9	2.8	3.4
Turkey	6.9	10.5	-5.9	-5.0	-24.9	-10.4	14.8	13.6	8.2	6.0	5.4	-4.7	-6.2
<b>USA</b>	2.9	-0.7	1.5	-2.7	-5.4	-6.4	-0.7	2.2	5.6	2.7	2.1	2.5	3.0
<b>Euro area</b>	2.2	3	-1.5	-1.8	-7.4	-9.8	-0.3	1.6	0.5	0.8	3.0	2.0	1.0
<b>Japan</b>	2.1	1.4	-4.1	-4.3	-9.6	-15.8	6.9	0.4	4.6	5.0	2.8	2.5	2.5
<b>Australia</b>	3.5	3.2	2.4	1.5	-3.1	2.3	3.4	1.1	4.5	2.0	2.7	4.1	4.2
<b>Hong Kong</b>	6.8	6.1	-6.1	-2.8	-8.4	-12.3	9.4	4.1	10.8	8.7	4.3	4.0	3.8
<b>Singapore</b>	8.0	17.6	-12.5	-3.0	-9.0	-11.0	18.5	11.1	-1.0	46.0	26.0	-14.5	-2.0

Source: Actual data plus J.P. Morgan estimates, July 2010.

## Asset Allocation Changes

### South Africa downgraded to Neutral

After SA having outperformed MSCI EMF year to date (MSCI SA -0.5% versus MSCI EMF -2.8%), we downgraded SA to neutral. We believe that most of the key drivers of outperformance largely played out in 1H10: (1) growth recovery trade; (2) World Cup impetus; (3) rerating catch-up; and (4) low-beta safe-haven status.

#### 1. Growth momentum likely to fade in 2H10

Recent data releases raise the risk around South Africa's growth outlook in the second half of the year, despite the surprisingly strong surge in 1Q household consumption. J.P. Morgan has marked down its growth projection to 2.8%q/q, saar and 3.4% for 3Q10 and 4Q10, respectively, from 3.5% and 3.7% previously. Full-year growth remains unchanged at 3%y/y, below consensus at 3.2%, after a strong start to the year. PMI in June fell below the 50 mark to 48.4, contrary to expectations of a small recovery after a weak May print (see Figure 8). To be sure, the soccer World Cup likely exacerbated the decline in the business activity subcomponent as working hours decreased. Even so, the June print is but one of a series of disappointing PMI results since March that suggest IP growth should slow to 3%q/q saar in the second half of the year.

The loss of growth momentum should also start to be reflected in retail sales. We project retail sales growth to ease modestly to 2.6%oaya in May from 3.2% previously as the underlying dynamics are likely to become less supportive than before. While 1Q10 surprised with a strong surge in disposable income and household expenditure, which were up 5.1%q/q saar and 5.7%, respectively, in 1Q10, this was underpinned by strong growth in nominal wages. In the absence of employment advances, it would be difficult to achieve gains in disposable income in excess of 4% in real terms. Despite this, the World Cup will likely provide a temporary boost to retail sales in June and July.

#### 2. Lull after the World Cup

World Cup fever boosted consumer demand activity in 1H10 and, by our estimates, added some 0.4% to SA real GDP growth. We expect a cooling in demand activity in 2H10 as some 200,000 foreign World Cup tourists return home.

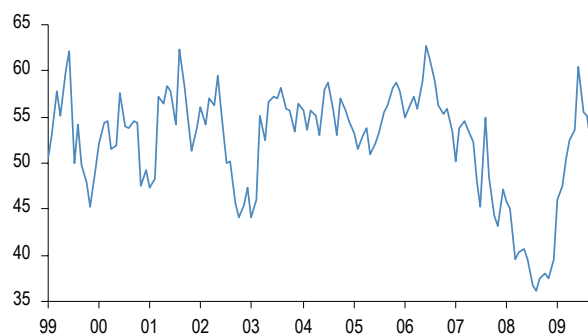
#### 3. SA rating discount to EM closes

After trading at a discount of c10-15% to EM for most of 2009, SA's 12-month forward P/E is now in line with EM at 10.3x. Given the rolling over of SA's PMI and indications of some cooling in SA growth in 2H10, we do not expect SA to trade at a premium to EM.

#### 4. Low-beta safe-haven status

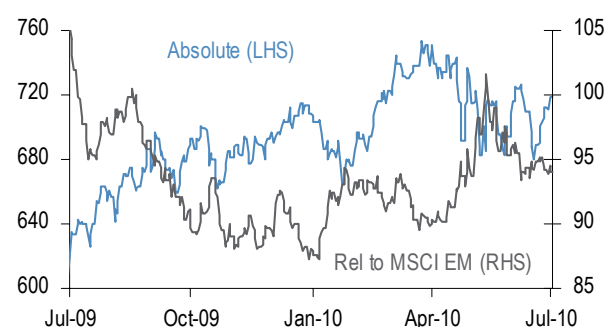
We believe that 3Q will present the best buying opportunity for EM equities given still strong growth fundamentals. We believe SA's low-beta and relatively low-growth status makes it a less attractive destination in 2H10 on our expectations of resurgence in growth optimism in EM.

Figure 8: South Africa PMI Manufacturing - Overall



Source: J.P. Morgan economics, June 2010.

Figure 9: Performance of MSCI South Africa



Source: Bloomberg, 15 July 2010.



## Mexico downgraded from overweight to neutral

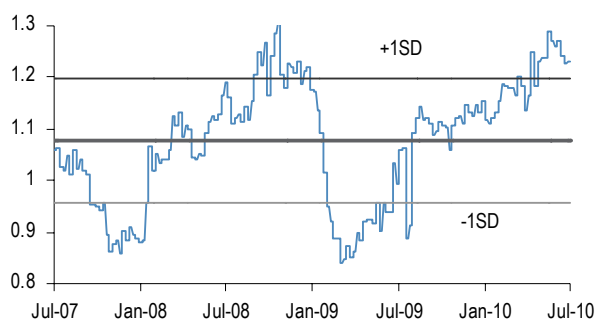
The Mexican market performed well in 1H, outperforming EM by 5.2%. We downgraded Mexico from overweight to neutral in EM as we expect a more muted relative performance in 2H, as US cyclical recovery momentum has peaked. We are transitioning our portfolio from a cyclical to consumer focus, positioning for the expected acceleration in Mexican consumer demand. We added Televisa, cutting cyclicals Cemex and Ternium.

**1) Cyclical US Recovery slows.** U.S. leading indicators have peaked, and we expect a moderate deceleration in the 2H. As the cyclical US recovery slows, we believe this will be only partly compensated by the gradual recovery of Mexican domestic demand. We are seeing the leading Mexican consumer indicators improve significantly—employment, confidence, purchasing power, remittances, consumer imports—and expect final sales to follow in the 2H. We forecast 4.5% Mexican GDP in 2010.

**2) Mexico is trading at a premium to emerging markets.** Whilst we think this is justified—by lower cost of equity and high ROE—and is also somewhat overstated—by sector composition (2/3 of index is ‘defensive’ domestic stocks)—it remains a constraint to significant multiple expansion.

**3) Security and oil prices also are relevant.** The security situation has been a drag on growth—leading Mexico to underperform its traditional GDP beta of over 2x global growth. Oil accounts for 40% of fiscal revenue. Production has tentatively stabilized, whilst the price is hedged at the government budget forecast for the year.

Figure 10: MSCI Mexico forward P/E relative to MSCI EM



Source: Datastream.

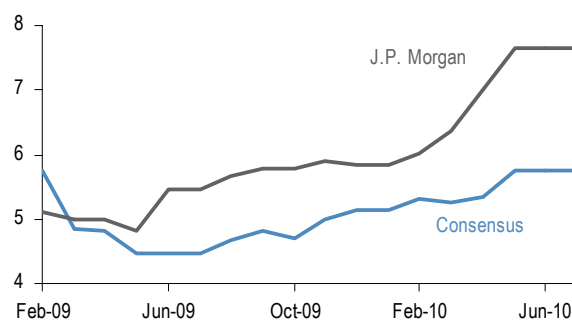
## ASEAN Advantage

ASEAN markets are squeezing higher, driven by good fundamental data and low ownership ex-Indonesia.

J.P. Morgan forecasts ASEAN GDP growth to be 7.2% this year. Thailand’s economic data is particularly strong. Initially we downgraded Thailand’s GDP forecast, fearing that the political unrest would dampen economic growth throughout 2010. This was too pessimistic, with economic activity and business sentiment recovering rapidly. Consumer confidence in Thailand inched up to 69.1 for the month of June. The 2010 GDP growth forecast is now 8.5% oya, with upside risk. The current 2010 GDP growth forecasts for Indonesia, Malaysia and Philippines are 6.2%, 7.7% and 6.8% respectively.

Higher economic growth should support positive earnings revisions and a continued re-rating. As we note in our weekly Dashboards, earnings revisions are positive throughout ASEAN. Valuations are low relative to history, except for Indonesia. MSCI Thailand is trading at a discount to APxJ at 11x forward P/E.

Figure 11: ASEAN 2010 real GDP growth forecasts



Source: Bloomberg, J.P. Morgan. Note: Chart shows change in J.P. Morgan and Consensus 2010 GDP growth forecasts for ASEAN.

Table 2: Key EM managers positioning relative to MSCI EM

Country	> 2% OW	<0.1%	OW-Zero	EM%	JPM reco
Malaysia	2 (2)	11 (10)	-9 (-8)	2.8	N
Indonesia	11 (11)	6 (6)	5 (5)	2.2	N
Thailand	8 (8)	9 (8)	-1 (0)	1.4	OW
Philippines	1 (1)	25 (22)	-24 (-21)	0.5	OW

Source: EPFR Global, MSCI, J.P. Morgan calculations

In the Philippines, consumer and business confidence is rising. Solid earnings growth is being driven by improved volumes and pricing for the property sector, and acquisitions and tariff hikes for the utilities sector.

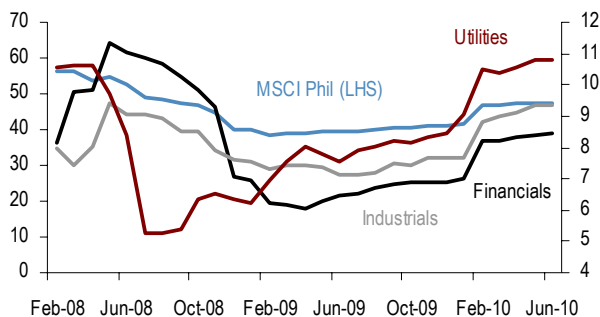
The average EM fund is neutral on Thailand, overweight on Indonesia and underweight on Malaysia and the Philippines. Investor interest in ASEAN should increase, driven by good economic data and equity performance. We also note increasing interest by non-traditional investors such as international funds, could drive additional fund flows, providing potential for upside surprises on inflows into markets such as Indonesia, which is perceived as well owned.

Political risk in Thailand remains high, but that is the consensus. Tension may increase late this year as the opposition expects the government to call an election. In Philippines, the newly elected President Noynoy Aquino is widely viewed as market-friendly due to his reformist platform anchored on a clean government. He thus begins his presidency with a very strong mandate, providing the unique opportunity to make bold decisions that would be positive for the Philippine economy.

Indonesia would be vulnerable to a sell off in bulk commodity prices. This would hit its coal and metal producers.

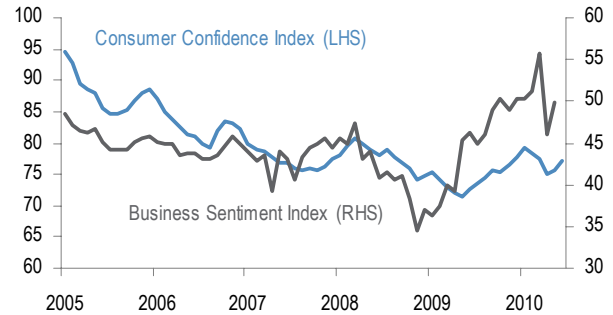
With in ASEAN, **we are upgrading Thailand from neutral to overweight**. We remain overweight on the Philippines, and neutral on Malaysia and Indonesia. In Thailand, we like KBANK as a beneficiary of higher policy rates, while laggard SCB could also play catch-up as corporate and consumer loan momentum gathers pace in 2H10. We like the property and utilities sectors in the Philippines. Top picks in the Philippines are Ayala Land, EDC, Manila Water, Filinvest Land, and Metrobank.

Figure 12: MSCI Philippines and sector EPS revisions



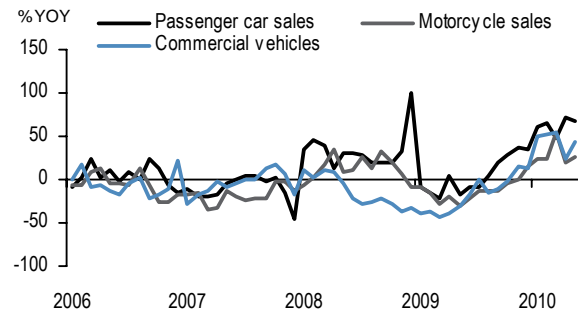
Source: IBES.

Figure 13: Thailand: Consumer confidence and business sentiment



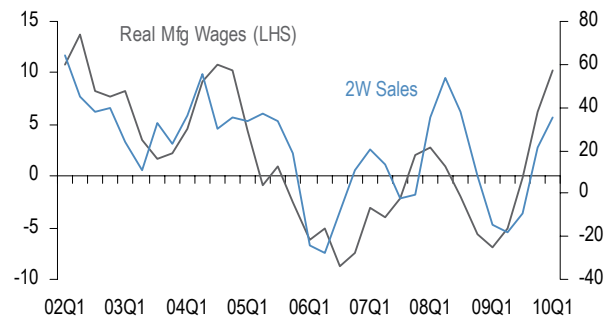
Source: University of Thai Chamber of Commerce, BOT.

Figure 14: Thailand: Strong vehicle sales



Source: Automotive Industry Club, The Federation of Thai Industries

Figure 15: Indonesia: Real mfg wages and two-wheeler sales (%yoy)



Source: J.P. Morgan.



## Focus on sectors within countries rather than country recommendations

The table below provides a level summary of our views on sectors within countries. Financials is 25%, Materials is 15% and Energy is 14% of EM. All recommendations are relative to EM. The Industrials sector consists of an eclectic group of stocks. We are overweight technology and transportation.

Table 3: Key country and sector recommendations

Country/Sector	Weight	Reco	US\$ Return (%)			PE 09	PE	PE	EPS	EPS	EPS	DY	ROE	ROE
			1 yr	3 yr	5 yr	X	10E	11E	Growth 09 (%)	Growth 10E (%)	Growth (%) CAGR 05-10E	10E %	10E %	04-09 Avg
<b>EM</b>	<b>100</b>	<b>--</b>	<b>33</b>	<b>(9)</b>	<b>86</b>	<b>15.1</b>	<b>11.0</b>	<b>9.9</b>	<b>2</b>	<b>37</b>	<b>10.2</b>	<b>2.7</b>	<b>16.2</b>	<b>5.9</b>
<b>China</b>	<b>18.6</b>	<b>UW</b>	<b>16</b>	<b>(3)</b>	<b>162</b>	<b>16.0</b>	<b>12.8</b>	<b>10.9</b>	<b>17</b>	<b>25</b>	<b>13.3</b>	<b>2.8</b>	<b>16.1</b>	<b>13.3</b>
China Financials	7.2	N	13	6	287	14.7	11.8	9.6	25	25	28.5	3.2	17.8	18.2
China Energy	3.0	UW	23	(1)	138	13.7	10.9	9.8	(5)	26	7.8	3.7	17.4	12.8
China Telecom	2.5	UW	9	(7)	174	13.1	13.0	12.3	(4)	2	14.0	3.4	15.0	27.5
China Industrials	1.4	n/a	8	(32)	72	20.4	13.4	11.9	57	53	6.1	2.1	11.0	11.2
<b>Brazil</b>	<b>15.7</b>	<b>UW</b>	<b>39</b>	<b>12</b>	<b>220</b>	<b>14.2</b>	<b>11.6</b>	<b>9.3</b>	<b>1</b>	<b>22</b>	<b>6.3</b>	<b>3.3</b>	<b>15.9</b>	<b>17.9</b>
Brazil Materials	4.0	UW	55	8	257	19.4	9.5	6.7	(40)	104	11.0	3.2	18.7	25.4
Brazil Energy	3.4	UW	10	24	245	11.1	11.3	9.9	(10)	(2)	1.4	2.3	14.9	23.8
Brazil Financials	4.0	OW	51	16	252	12.6	11.7	9.7	38	8	6.9	3.5	16.1	21.3
<b>Korea</b>	<b>13.7</b>	<b>OW</b>	<b>41</b>	<b>(25)</b>	<b>55</b>	<b>14.1</b>	<b>9.8</b>	<b>9.4</b>	<b>58</b>	<b>44</b>	<b>8.1</b>	<b>1.2</b>	<b>14.0</b>	<b>13.3</b>
Korea IT	4.1	OW	48	(5)	40	18.0	9.9	11.1	(2,120)	81	13.8	0.2	18.1	15.1
Korea Financials	2.3	OW	29	(44)	34	15.6	9.2	8.0	(30)	69	1.7	2.1	11.6	12.4
Korea Industrials	1.9	n/a	33	(52)	97	15.3	12.0	10.9	28	28	10.5	1.2	11.5	11.3
Korea Materials	1.9	N	53	(7)	196	11.4	9.5	8.9	(2)	20	8.0	1.1	14.2	13.3
Korea Cons. Disc.	1.8	OW	60	22	74	9.3	8.1	7.8	124	15	17.1	0.8	18.2	15.6
Korea Cons Stap.	0.6	N	25	(20)	58	15.5	14.2	12.2	7	10	10.7	1.6	14.5	15.3
<b>Taiwan</b>	<b>11.0</b>	<b>OW</b>	<b>21</b>	<b>(16)</b>	<b>22</b>	<b>24.8</b>	<b>12.6</b>	<b>11.1</b>	<b>33</b>	<b>96</b>	<b>6.6</b>	<b>3.9</b>	<b>13.4</b>	<b>16.6</b>
Taiwan IT	6.5	OW	22	(21)	15	27.9	11.5	10.5	9	142	13.1	3.8	16.8	15.6
Taiwan Financials	1.7	N	9	(24)	(6)	20.5	13.8	11.0	870	48	11.3	3.2	8.7	17.4
Taiwan Materials	1.3	UW	31	(1)	88	17.0	14.4	11.9	NM	18	(6.3)	4.8	10.5	17.8
<b>India</b>	<b>8.0</b>	<b>OW</b>	<b>41</b>	<b>4</b>	<b>145</b>	<b>21.4</b>	<b>17.0</b>	<b>13.5</b>	<b>4</b>	<b>26</b>	<b>14.6</b>	<b>1.3</b>	<b>14.8</b>	<b>20.4</b>
India Financials	2.1	OW	40	(2)	151	23.6	19.4	14.9	0	21	14.5	1.2	12.3	14.3
India Energy	1.2	N	29	11	280	20.9	14.7	12.2	(0)	42	15.3	1.2	16.3	20.3
India IT	1.3	OW	67	8	117	22.6	19.7	16.3	6	15	19.0	1.2	24.3	13.2
<b>South Africa</b>	<b>7.3</b>	<b>N</b>	<b>30</b>	<b>0</b>	<b>80</b>	<b>16.6</b>	<b>12.2</b>	<b>9.7</b>	<b>(18)</b>	<b>36</b>	<b>11.4</b>	<b>3.3</b>	<b>16.4</b>	<b>18.3</b>
S Africa Materials	2.0	UW	30	(17)	80	47.7	16.7	11.6	(55)	186	23.4	2.2	13.9	10.0
S Africa Financial	2.0	OW	40	7	79	13.0	10.6	8.7	(15)	22	7.2	4.6	14.9	18.0
S Africa Telecom	0.9	UW	2	(3)	75	12.7	10.6	9.0	(10)	20	12.0	3.0	20.0	21.6
S Africa CD	0.9	N	49	27	103	15.4	12.5	10.1	10	23	11.8	2.5	17.2	31.3
S Africa Energy	0.7	UW	19	3	45	12.2	10.1	7.9	(22)	20	7.2	3.5	17.4	22.8
<b>Russia</b>	<b>6.4</b>	<b>N</b>	<b>53</b>	<b>(39)</b>	<b>46</b>	<b>9.1</b>	<b>6.8</b>	<b>5.4</b>	<b>(28)</b>	<b>34</b>	<b>8.7</b>	<b>2.1</b>	<b>14.0</b>	<b>15.2</b>
Russia Energy	3.6	N	35	(42)	23	6.1	5.3	4.9	(13)	14	5.2	2.3	13.6	15.4
<b>Mexico</b>	<b>4.4</b>	<b>N</b>	<b>43</b>	<b>(17)</b>	<b>87</b>	<b>17.4</b>	<b>14.8</b>	<b>12.5</b>	<b>20</b>	<b>17</b>	<b>7.9</b>	<b>2.6</b>	<b>17.2</b>	<b>17.8</b>
Mexico Telecom	1.6	N	32	(16)	135	13.8	12.2	11.1	21	13	17.6	4.0	41.3	31.4
Mexico CS	1.1	UW	60	22	120	20.0	20.1	16.7	54	(1)	13.9	1.6	15.1	13.5
Mexico Materials	0.7	UW	76	(43)	18	20.0	15.6	11.0	37	28	(8.7)	1.5	8.1	13.3
<b>Malaysia</b>	<b>2.9</b>	<b>N</b>	<b>40</b>	<b>11</b>	<b>102</b>	<b>18.9</b>	<b>15.3</b>	<b>13.1</b>	<b>(0)</b>	<b>24</b>	<b>7.2</b>	<b>3.3</b>	<b>12.6</b>	<b>11.5</b>
<b>Indonesia</b>	<b>2.4</b>	<b>N</b>	<b>65</b>	<b>47</b>	<b>231</b>	<b>17.7</b>	<b>15.0</b>	<b>12.9</b>	<b>21</b>	<b>18</b>	<b>15.6</b>	<b>2.7</b>	<b>23.8</b>	<b>10.4</b>
<b>Turkey</b>	<b>1.7</b>	<b>OW</b>	<b>60</b>	<b>(5)</b>	<b>83</b>	<b>11.3</b>	<b>9.7</b>	<b>8.5</b>	<b>4</b>	<b>17</b>	<b>13.1</b>	<b>3.0</b>	<b>17.7</b>	<b>16.9</b>
Turkey Financials	1.1	OW	78	12	125	10.0	8.9	7.9	30	13	19.6	2.4	18.5	16.7
<b>Thailand</b>	<b>1.5</b>	<b>OW</b>	<b>45</b>	<b>6</b>	<b>93</b>	<b>13.6</b>	<b>11.8</b>	<b>10.1</b>	<b>41</b>	<b>15</b>	<b>(1.2)</b>	<b>3.9</b>	<b>16.0</b>	<b>25.2</b>
<b>Poland</b>	<b>1.5</b>	<b>N</b>	<b>32</b>	<b>(42)</b>	<b>32</b>	<b>14.9</b>	<b>12.7</b>	<b>10.7</b>	<b>(26)</b>	<b>17</b>	<b>(0.7)</b>	<b>3.6</b>	<b>12.0</b>	<b>15.6</b>
<b>Hungary</b>	<b>0.5</b>	<b>N</b>	<b>37</b>	<b>(45)</b>	<b>(5)</b>	<b>11.5</b>	<b>10.9</b>	<b>8.4</b>	<b>(37)</b>	<b>6</b>	<b>(1.9)</b>	<b>3.6</b>	<b>11.3</b>	<b>12.0</b>
<b>Philippines</b>	<b>0.5</b>	<b>OW</b>	<b>38</b>	<b>(7)</b>	<b>145</b>	<b>17.4</b>	<b>15.5</b>	<b>13.5</b>	<b>25</b>	<b>13</b>	<b>5.9</b>	<b>3.9</b>	<b>15.5</b>	<b>20.5</b>

Source: J.P. Morgan Asian strategy team, MSCI, Datastream. Table sorted by descending weight in index, countries first followed by country-sectors, 14 July 2010.

## Risks to our strategy

### Policy Risks

#### Lack of G3 policy flexibility

High fiscal deficits and record-low interest rates limit policymakers' ability to respond to a relapse in growth. A growth relapse is not our base case. If it occurred, it would be a serious blow to risk assets. Credit spreads could widen and equities would fall.

#### Strained social contract

Political and regulatory risk is high. The corporate sector has emerged from the global recession and credit crunch stronger than the households. Note the profits as a share of GDP are near cycle highs but unemployment is 10%. Policy makers constrained by high fiscal deficits are likely to redress this imbalance through higher taxes and increased regulation. This would add to business costs and delay normal investment decisions, threatening the recovery.

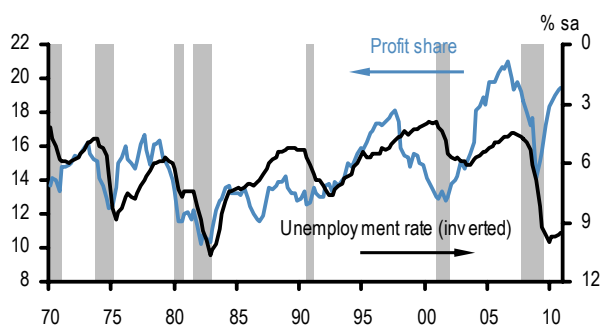
As is the case in the US, Chinese corporate share of GDP increased while the household share decreased. Labor disputes and subsequent large pay increases may start to reverse this trend. This rebalancing is healthy and should move China to a more sustainable growth model. But near term the result is likely lower profit margins.

Policy risks maybe more of a threat in the US than Europe as legislation in US is negotiated rather than following a defined objective. The recent UK budget is encouraging as set out as long term policy.

#### Central banks target asset prices

Central banks are targeting asset prices in EM, notably in China. These policies introduce economic and sector specific risks. Note how poorly real estate stocks have performed in EM despite low interest rates.

Figure 16: Strained social contract: US profit share and unemployment



Source: J.P. Morgan. Note: Chart shows % share of gross value added, JPMorgan forecast for 2010.

### Economic Risks

#### Slowdown in manufacturing

We are overweight the cyclical sectors of tech and industrials. However our overweight is more modest than the large underweight in commodities and energy. If economic growth slows meaningfully, it could be a potential risk to our sector view. It is worth noting that the June PMIs fell across the globe. J.P. Morgan's all-industry PMI output index—which is a proxy for global GDP growth—fell 1.6 points to 55.4 in June, with declines in both the manufacturing and service sectors. The coincidental decline in the manufacturing and services PMI indicates that global economic expansion is losing momentum. Note that the implied moderation in global economic growth appears to have translated into a comparable moderation in job growth. The all industry PMI employment index eased 0.6 points to 50.8 in June.

#### Underestimating Euro sovereign stress contagion risk

After Greece, there is speculation that Spain might reach out to the EU or IMF for financial support. The Spanish banking system is under significant pressure to address its solvency issues, especially among its saving banks. These concerns have impaired the ability of Spanish banks to raise market funding, and increased the possibility of seeking external liquidity support. If this were to be true, Spanish bond yields would likely rise further and issuance could become more difficult.

Euro sovereign stress generates both economic and market risk. The economic risk is that business in core Europe slows investment decisions. As we witnessed in 2008, rational individual risk reduction results in a destructive downward spiral in risk assets.

In *Emerging Markets Outlook and Strategy, June 8, 2010*, Joyce Chang, our Global head of Emerging Markets and Credit Research, notes two scenarios. Scenario 1: Deeper economic and financial crisis, but contained to peripheral Europe. Scenario 2: Crisis spreads to core Europe due to contagion from the periphery, pushing the Euro area into a double dip recession. If the crisis were to spread to core Europe, it could have a significant impact on emerging markets. In such a scenario, emerging markets would reverse incipient tightening. Emerging markets may also have to resort to greater fiscal stimulus to offset the weakness in the private sector.

The feedback loop between banks struggling to fund and a subsequent reduction in the availability of credit is another key risk. *Nikolaos Panigirtzoglou in his weekly,*

*Flows and Liquidity, 4 June 2010* notes that: European banks continue to face a difficult funding environment. The primary market for unsecured bank debt remains in hibernation. The contraction in the CP/CD issued by European banks in the US is accelerating. Note that European banks need to refinance nearly \$130bn per month for the remainder of the year.

**Political risks**

**Tension between the two Koreas**

We upgraded Korea to overweight on 2 June in both Asian and Emerging Markets portfolios. The existing tension between the two Koreas is a risk to our overweight call. On 20 May, the South Korean government released a multinational combined intelligence task force report that concluded that the South Korean navy warship was torpedoed by a DPRK submarine on 26 March. The Korean Won has weakened by 7% in 2Q10 to KRW/USD1222.

**Election-induced volatility**

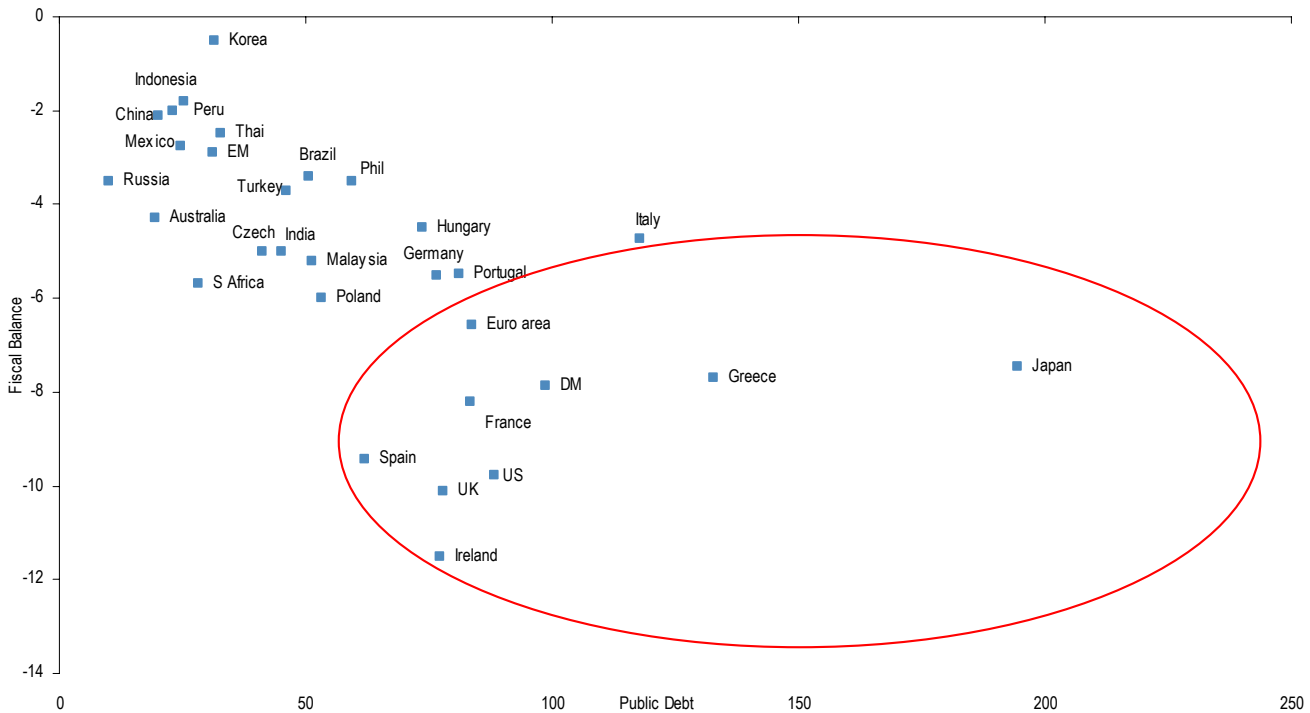
Brazilian elections in October 2010 are likely to be a source of volatility rather than a change in macro-economic policy.

Figure 17: Spread between Spanish and German 10 year bond yield



Source: Bloomberg

Figure 18: Public Debt and Fiscal Balance as a % of GDP for EM and DM in 2010



Source: J.P. Morgan estimates

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Emerging Markets Equity Research  
19 July 2010

J.P.Morgan

## Model portfolio changes

This month's model portfolio reflects the changes made in the Regional model portfolio in "Buckle-Up: Perspectives and Portfolios Lite", Mowat et al, 4 July 2010

In **South Africa**, we are adding **Spar Group Limited**. We like food retailers in South Africa as we expect food inflation to pick up in the next one year. We are dropping ARM, Anglo Platinum and Standard Bank.

In **Mexico**, we are replacing FCFS with **Televisa**, the more liquid consumer recovery play and dropping cyclicals, Cemex and Ternium.

In **Thailand**, we are adding **Land and Houses**. We like the property sector in Thailand, where demand has recovered solidly.

In **China**, we are adding **Huabao International Holdings, Ports Design and Lifestyle international Holdings**. We like consumer staples and low and medium end consumer discretionary names in China as we believe that these sectors will benefit from the economic rebalancing from investment to consumption. Consumption should get a boost because of the ongoing wage increases, the urbanization trend in central and western China and the emerging consumer finance industry.

In **India**, we are adding **HDIL**. HDIL is a major player in Mumbai's TDR market. High court ruling against FSI increase in Mumbai suburbs bodes well for TDR demand/pricing.

In **Brazil**, are adding **Bradesco** and **CBD** as we believe that domestic risks are better priced in. We are dropping Petrobras.

In **Russia**, we are adding **VTB, Evraz** and **Magnit**. VTB provides a positive momentum post strong 1Q10 results and strategy release. We view Magnit as the best play on the Russian retail sector as it is expected to post the strongest EBITDA growth due to fast store roll out and improving LFL sales dynamics. We expect Evraz to benefit from the US infrastructure spending and the recovery in Russian construction. We are booking profits in Globaltrans Investments, MRSK and Rosneft.

In 'Buckle-Up: Perspectives and Portfolios Lite', Mowat et al, 4 July 2010, we dropped Mediatek in Taiwan. The stock price was falling as issues of illegal fee charges and tax evasion hit white-box demand. We instead added to TSMC in Taiwan, and Hynix and SEC in Korea.

In **Philippines**, we dropped EDC and added **MBT**. MBT is cyclically at a sweet spot with both organizational processes and the balance sheet well equipped for growth. MBT would also benefit from release of infrastructure-related projects later in the year.

Table 4: Country asset allocation relative to MSCI EM

Country	Deviation
India	4.6
Korea	3.9
Turkey	3.4
Taiwan	2.5
Thailand	2.3
Philippines	2.3
Russia	0.2
Mexico	0.2
CE3	-0.2
Malaysia	-1.1
Indonesia	-1.3
South Africa	-1.4
China	-3.9
Brazil	-7.8

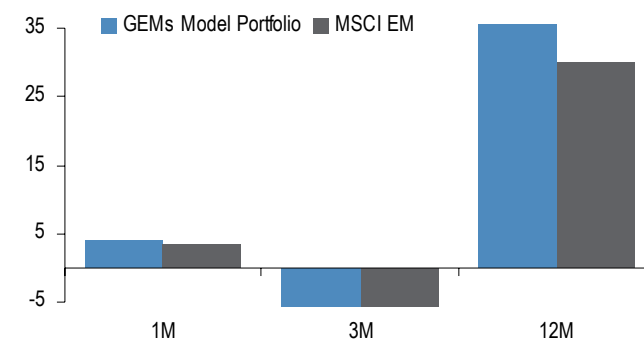
Source: J.P. Morgan.

Table 5: Sector asset allocation relative to MSCI EM

Sector	Deviation
Financials	15.8
Consumer Discretionary	12.5
Information Technology	7.5
Industrials	2.2
Consumer Staples	1.3
Health Care	-2.4
Utilities	-2.4
Telecommunication Services	-8.5
Materials	-11.7
Energy	-14.2

Source: J.P. Morgan.

Figure 19: Performance of GEM Model Portfolio vs. MSCI EM



Source: J.P. Morgan Strategy, Bloomberg, 14 July 2010. Note: This is capital only return i.e. no reinvestment of divs.

Please see pages 14 and 15 for our *Global Emerging Markets Model Portfolio*.

**Please note: Source for Data in Global emerging market portfolio is: Bloomberg, MSCI, J.P. Morgan estimates. Prices and valuations are as of 14 July 2010.**

## Global emerging markets model portfolio by country

	Ticker	Price LC	JPM Rating	Change 4 Wk (%)	Change YTD (%)	Portfolio Weight(%)	MSCI Weight(%)	Deviation (%)	P/E 10E (x)	P/E 11E (x)	DY 10E (%)	ROE 10E (%)
<b>China</b>		<b>60.9</b>		<b>2.5</b>	<b>-4.3</b>	<b>14.7</b>	<b>18.6</b>	<b>-3.9</b>	<b>12.6</b>	<b>10.7</b>	<b>2.9</b>	<b>17.1</b>
Bank of Communications	3328 HK	8.5	OW	1.8	-5.7	1.9	0.2	1.7	10.9	9.1	3.0	21.1
Belle International Holdings Ltd.	1880 HK	11.8	OW	10.1	30.2	1.8	0.2	1.6	31.4	29.9	1.1	19.4
China High Speed Transmission	658 HK	15.3	OW	-9.4	-19.4	1.3	0.1	1.2	14.2	11.3	2.4	27.6
China Shipping Container Lines	2866 HK	2.8	OW	5.3	0.0	2.2	0.0	2.2	NM	25.3	0.0	0.4
Huabao International Holdings	336 HK	10.2	N	2.2	22.1	1.5	0.1	1.4	23.9	19.8	0.0	40.7
Lenovo	992 HK	4.6	N	4.6	-6.2	1.4	0.1	1.3	38.8	15.7	0.9	9.8
Lifestyle International Holdings	1212 HK	15.8	OW	3.4	9.2	1.8	0.0	1.8	22.6	19.5	1.8	18.1
Ports Design	589 HK	21.5	OW	10.5	-11.0	1.7	0.0	1.7	22.7	18.5	2.6	36.5
Xiniao Gas	2688 HK	17.9	N	8.3	-10.4	1.1	0.1	1.1	17.7	13.5	1.4	15.0
<b>Brazil</b>		<b>219,639.3</b>		<b>1.1</b>	<b>-8.5</b>	<b>8.2</b>	<b>15.9</b>	<b>-7.8</b>	<b>11.5</b>	<b>9.2</b>	<b>3.3</b>	<b>17.5</b>
BM&F Bovespa	BVMF3 BZ	11.7	OW	-2.5	-4.5	2.4	0.4	2.0	14.4	12.3	na	na
Bradesco	BBDC4 BZ	29.4	OW	6.2	-2.3	2.0	1.0	1.0	12.2	10.4	2.8	20.3
CBD	PCAR5 BZ	64.5	OW	6.2	-0.8	2.0	0.1	1.9	20.6	17.0	0.8	9.8
PDG Realty	PDGR3 BZ	17.5	OW	6.7	0.6	1.8	0.2	1.6	14.0	9.1	1.3	14.2
<b>Korea</b>		<b>491.0</b>		<b>3.2</b>	<b>-0.6</b>	<b>17.3</b>	<b>13.5</b>	<b>3.9</b>	<b>9.6</b>	<b>9.3</b>	<b>1.2</b>	<b>14.9</b>
Cheil Worldwide	030000 KS	12,750	NR	-2.3	1.2	1.1	0.0	1.1	14.7	13.8	2.8	16.8
Hynix Semiconductor	000660 KS	25,150	N	-7.2	8.6	3.0	0.3	2.6	6.2	9.2	0.0	33.8
Hyundai Department Stores	069960 KS	118,000	OW	2.6	4.9	1.6	0.0	1.6	10.7	9.8	0.5	13.8
Hyundai Mobis	012330 KS	207,500	OW	3.5	21.3	1.5	0.4	1.1	10.6	9.5	0.5	19.3
KB Financial	105560 KS	51,500	OW	0.6	-13.7	2.0	0.4	1.6	8.2	6.8	1.9	11.7
LG Chem	051910 KS	321,000	OW	8.8	40.5	2.1	0.4	1.7	12.0	11.7	1.1	27.5
Samsung Electronics	005930 KS	820,000	N	2.8	2.6	4.0	2.3	1.7	10.3	11.7	0.0	17.3
SEMCO	009150 KS	152,000	OW	3.8	41.4	2.1	0.2	1.8	20.5	17.5	0.4	18.3
<b>Taiwan</b>		<b>269.1</b>		<b>3.3</b>	<b>-8.3</b>	<b>13.3</b>	<b>10.8</b>	<b>2.5</b>	<b>12.7</b>	<b>11.1</b>	<b>3.9</b>	<b>14.1</b>
China Airlines	2610 TT	18.2	OW	15.2	60.4	2.3	0.0	2.3	NM	20.3	0.0	1.3
Fubon Financial Holdings	2881 TT	38.7	OW	4.3	-1.5	1.9	0.2	1.7	12.4	10.3	5.0	11.7
Hon Hai	2317 TT	123.0	OW	1.7	-18.8	1.8	0.9	0.9	12.5	11.1	1.6	17.6
Nanya Technology Corporation	2408 TT	24.8	N	-2.4	-24.2	1.3	0.0	1.3	NM	14.7	0.0	0.9
TSMC	2330 TT	60.3	OW	-1.8	-6.5	2.4	1.5	0.9	10.6	9.7	5.0	27.7
UMC	2303 TT	14.8	OW	0.3	-14.2	1.9	0.2	1.7	10.1	8.8	3.5	8.5
Yuanta FHC	2885 TT	18.2	OW	4.3	-22.8	1.7	0.1	1.6	11.0	9.3	5.0	11.4
<b>India</b>		<b>727.3</b>		<b>2.8</b>	<b>3.2</b>	<b>12.7</b>	<b>8.1</b>	<b>4.6</b>	<b>17.1</b>	<b>13.6</b>	<b>1.2</b>	<b>15.8</b>
DLF	DLFU IN	319.1	OW	17.1	-11.7	1.6	0.1	1.5	29.8	21.3	0.0	7.2
HDFC Bank	HDFCB IN	2,060.8	OW	4.9	21.1	1.6	0.4	1.2	32.0	24.0	0.6	16.1
HDIL	HDIL IN	262.2	OW	6.2	-27.3	1.5	0.4	1.1	13.8	9.1	0.0	11.3
IDFC	IDFC IN	190.8	OW	15.4	23.6	1.7	0.1	1.6	23.4	20.3	0.9	16.1
Infosys	INFO IN	2,761.2	OW	1.0	6.2	1.6	0.9	0.7	25.4	22.7	0.9	28.8
Kotak Mahindra Bank	KMB IN	767.5	OW	-0.4	-4.9	1.5	0.1	1.4	21.7	17.8	0.2	16.7
Larsen & Toubro	LT IN	1,876.9	OW	8.8	11.9	1.7	0.3	1.4	32.3	26.2	0.0	19.4
TCS	TCS IN	780.4	OW	1.9	4.0	1.5	0.2	1.3	22.2	20.6	3.0	36.8
<b>South Africa</b>		<b>719.3</b>		<b>1.3</b>	<b>0.5</b>	<b>5.9</b>	<b>7.3</b>	<b>-1.4</b>	<b>12.2</b>	<b>9.7</b>	<b>3.2</b>	<b>17.7</b>
ABSA Group Ltd	ASA SJ	136.1	OW	8.0	5.9	2.0	0.2	1.8	10.2	8.4	4.1	17.8
Shoprite	SHP SJ	88.8	OW	6.1	36.2	2.2	0.2	2.0	19.9	16.6	2.5	40.1
Spar Group Limited	SPP SJ	81.8	OW	2.9	15.0	1.8	0.0	1.8	15.1	13.0	4.0	42.8
<b>Russia</b>		<b>757.4</b>		<b>1.3</b>	<b>-3.3</b>	<b>6.7</b>	<b>6.5</b>	<b>0.2</b>	<b>7.3</b>	<b>5.7</b>	<b>2.1</b>	<b>15.0</b>
Evraz	EVR LI	24.6	OW	-5.1	-13.1	1.5	0.0	1.5	10.5	5.3	0.0	20.1
Magnit	MGNT LI	20.1	OW	5.3	26.9	1.6	0.1	1.5	26.0	19.4	0.0	20.9
Sberbank	SBER RU	2.7	OW	11.6	-3.9	1.6	0.7	0.9	11.1	5.9	0.9	19.2
VTB	VTBR LI	5.3	OW	8.7	11.7	2.0	0.1	1.9	14.0	7.0	1.1	11.2
<b>Mexico</b>		<b>29,763.0</b>		<b>-2.6</b>	<b>2.6</b>	<b>4.6</b>	<b>4.4</b>	<b>0.2</b>	<b>14.3</b>	<b>12.0</b>	<b>2.5</b>	<b>16.8</b>
ICA	ICA* MM	31.1	OW	0.7	1.9	1.5	0.0	1.5	29.0	21.0	0.0	3.6
Televisa	TV US	18.9	OW	-0.2	-9.0	1.8	0.3	1.5	19.6	13.8	1.3	14.7
Urbi	URBI* MM	24.8	OW	-0.7	-15.7	1.3	0.0	1.3	11.4	9.4	0.0	12.9
<b>Malaysia</b>		<b>486.1</b>		<b>5.0</b>	<b>12.0</b>	<b>1.8</b>	<b>2.9</b>	<b>-1.1</b>	<b>15.3</b>	<b>13.2</b>	<b>3.3</b>	<b>13.1</b>
Genting BHD	GENT MK	7.4	OW	3.1	0.7	1.8	0.2	1.7	23.0	14.1	1.0	8.3
<b>Indonesia</b>		<b>4,019.1</b>		<b>7.8</b>	<b>17.5</b>	<b>1.1</b>	<b>2.4</b>	<b>-1.3</b>	<b>14.9</b>	<b>12.7</b>	<b>2.8</b>	<b>26.0</b>
Bank Danamon	BDMN IJ	5,700.0	OW	10.7	25.3	1.1	0.1	1.0	16.7	12.5	2.0	16.7
<b>Thailand</b>		<b>322.9</b>		<b>2.5</b>	<b>12.7</b>	<b>3.8</b>	<b>1.5</b>	<b>2.3</b>	<b>11.9</b>	<b>10.2</b>	<b>3.9</b>	<b>16.8</b>
Land and Houses	LH TB	5.9	OW	8.3	-7.1	2.0	0.0	2.0	13.7	11.8	5.8	16.1
Siam Commercial Bank	SCB TB	84.0	N	2.4	-3.2	1.8	0.1	1.7	12.8	11.2	3.0	15.2
<b>Turkey</b>		<b>853,384.5</b>		<b>5.0</b>	<b>8.8</b>	<b>5.1</b>	<b>1.7</b>	<b>3.4</b>	<b>10.0</b>	<b>8.8</b>	<b>2.9</b>	<b>18.8</b>
Sabanci	SAHOL TI	6.8	NR	3.8	17.4	2.0	0.1	1.9	8.7	7.4	1.3	13.9
Vakifbank	VAKBN TI	4.0	OW	10.6	-7.0	1.2	0.1	1.1	7.2	5.7	4.2	17.5
Yapi Kredi	YKBNK TI	4.5	OW	4.6	37.8	1.9	0.1	1.8	10.0	6.7	0.0	20.7
<b>CE3</b>		<b>NA</b>		<b>NA</b>	<b>NA</b>	<b>2.0</b>	<b>2.2</b>	<b>-0.2</b>	<b>11.9</b>	<b>10.0</b>	<b>4.4</b>	<b>13.6</b>
Erste Bank	EBS AV	29.8	OW	1.3	14.3	2.0	0.0	2.0	10.5	6.9	1.4	9.3
<b>Philippines</b>		<b>645.4</b>		<b>4.7</b>	<b>10.4</b>	<b>2.7</b>	<b>0.5</b>	<b>2.3</b>	<b>15.6</b>	<b>13.6</b>	<b>3.8</b>	<b>16.1</b>
Ayala Corp	AC PM	345.0	OW	7.8	14.0	1.7	0.0	1.6	20.3	16.5	1.2	8.1
MBT	MBT PM	60.5	OW	8.0	34.4	1.1	0.0	1.1	13.4	9.1	2.4	11.4
<b>Emerging Markets</b>		<b>42,120.2</b>		<b>2.4</b>	<b>-1.8</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>	<b>11.0</b>	<b>9.9</b>	<b>2.7</b>	<b>17.1</b>

Source: J.P. Morgan, MSCI, Datastream, IBES estimates for NR stocks

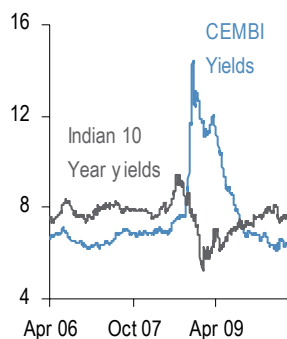


## Global emerging markets model portfolio by sector

	Ticker	Price LC	JPM Rating	Change 4 Wk (%)	Change YTD (%)	Portfolio Weight(%)	MSCI Weight(%)	Deviation (%)	P/E 10E (x)	P/E 11E (x)	DY 10E (%)	ROE 10E (%)
<b>Consumer Discretionary</b>		<b>525.6</b>		<b>3.3</b>	<b>4.4</b>	<b>18.2</b>	<b>5.7</b>	<b>12.5</b>	<b>12.5</b>	<b>10.7</b>	<b>1.8</b>	<b>16.9</b>
Belle International Holdings Ltd.	1880 HK	11.8	OW	10.1	30.2	1.8	0.2	1.6	31.4	29.9	1.1	19.4
Lifestyle International Holdings	1212 HK	15.8	OW	3.4	9.2	1.8	0.0	1.8	22.6	19.5	1.8	18.1
Ports Design	589 HK	21.5	OW	10.5	-11.0	1.7	0.0	1.7	22.7	18.5	2.6	36.5
CBD	PCAR5 BZ	64.5	OW	6.2	-0.8	2.0	0.1	1.9	20.6	17.0	0.8	9.8
PDG Realty	PDGR3 BZ	17.5	OW	6.7	0.6	1.8	0.2	1.6	14.0	9.1	1.3	14.2
Cheil Worldwide	030000 KS	12,750.0	NR	-2.3	1.2	1.1	0.0	1.1	14.7	13.8	2.8	16.8
Hyundai Department Stores	069960 KS	118,000.0	OW	2.6	4.9	1.6	0.0	1.6	10.7	9.8	0.5	13.8
Hyundai Mobis	012330 KS	207,500.0	OW	3.5	21.3	1.5	0.4	1.1	10.6	9.5	0.5	19.3
Televisa	TV US	18.9	OW	-0.2	-9.0	1.8	0.3	1.5	19.6	13.8	1.3	14.7
Urbi	URBI* MM	24.8	OW	-0.7	-15.7	1.3	0.0	1.3	11.4	9.4	0.0	12.9
Genting BHD	GENT MK	7.4	OW	3.1	0.7	1.8	0.2	1.7	23.0	14.1	1.0	8.3
<b>Consumer Staples</b>		<b>442.3</b>		<b>4.0</b>	<b>6.9</b>	<b>7.1</b>	<b>5.8</b>	<b>1.3</b>	<b>17.7</b>	<b>15.5</b>	<b>2.2</b>	<b>16.8</b>
Huabao International Holdings	336 HK	10.2	N	2.2	22.1	1.5	0.1	1.4	23.9	19.8	0.0	40.7
Shoprite	SHP SJ	88.8	OW	6.1	36.2	2.2	0.2	2.0	19.9	16.6	2.5	40.1
Spar Group Limited	SPP SJ	81.8	OW	2.9	15.0	1.8	0.0	1.8	15.1	13.0	4.0	42.8
Magnit	MGNT LI	20.1	OW	5.3	26.9	1.6	0.1	1.5	26.0	19.4	0.0	20.9
<b>Energy</b>		<b>891.4</b>		<b>3.4</b>	<b>2.9</b>	<b>0.0</b>	<b>14.2</b>	<b>-14.2</b>	<b>7.0</b>	<b>8.0</b>	<b>2.4</b>	<b>19.3</b>
<b>Financials</b>		<b>407.0</b>		<b>5.4</b>	<b>6.1</b>	<b>40.1</b>	<b>24.3</b>	<b>15.8</b>	<b>12.8</b>	<b>10.5</b>	<b>2.7</b>	<b>14.2</b>
Bank of Communications	3328 HK	8.5	OW	1.8	-5.7	1.9	0.2	1.7	10.9	9.1	3.0	21.1
BM&F Bovespa	BVMF3 BZ	11.7	OW	-2.5	-4.5	2.4	0.4	2.0	14.4	12.3	na	na
Bradesco	BBDC4 BZ	29.4	OW	6.2	-2.3	2.0	1.0	1.0	12.2	10.4	2.8	20.3
KB Financial	105560 KS	51,500.0	OW	0.6	-13.7	2.0	0.4	1.6	8.2	6.8	1.9	11.7
Fubon Financial Holdings	2881 TT	38.7	OW	4.3	-1.5	1.9	0.2	1.7	12.4	10.3	5.0	11.7
Yuanta FHC	2885 TT	18.2	OW	4.3	-22.8	1.7	0.1	1.6	11.0	9.3	5.0	11.4
DLF	DLFU IN	319.1	OW	17.1	-11.7	1.6	0.1	1.5	29.8	21.3	0.0	7.2
HDFC Bank	HDFCB IN	2,060.8	OW	4.9	21.1	1.6	0.4	1.2	32.0	24.0	0.6	16.1
HDIL	HDIL IN	262.2	OW	6.2	-27.3	1.5	0.4	1.1	13.8	9.1	0.0	11.3
IDFC	IDFC IN	190.8	OW	15.4	23.6	1.7	0.1	1.6	23.4	20.3	0.9	16.1
Kotak Mahindra Bank	KMB IN	767.5	OW	-0.4	-4.9	1.5	0.1	1.4	21.7	17.8	0.2	16.7
ABSA Group Ltd	ASA SJ	136.1	OW	8.0	5.9	2.0	0.2	1.8	10.2	8.4	4.1	17.8
Sberbank	SBER RU	2.7	OW	11.6	-3.9	1.6	0.7	0.9	11.1	5.9	0.9	19.2
VTB	VTBR LI	5.3	OW	8.7	11.7	2.0	0.1	1.9	14.0	7.0	1.1	11.2
Bank Danamon	BDMN IJ	5,700.0	OW	10.7	25.3	1.1	0.1	1.0	16.7	12.5	2.0	16.7
Land and Houses	LH TB	5.9	OW	8.3	-7.1	2.0	0.0	2.0	13.7	11.8	5.8	16.1
Siam Commercial Bank	SCB TB	84.0	N	2.4	-3.2	1.8	0.1	1.7	12.8	11.2	3.0	15.2
Sabancı	SAHOL TI	6.8	NR	3.8	17.4	2.0	0.1	1.9	8.7	7.4	1.3	13.9
Vakıfbank	VAKBN TI	4.0	OW	10.6	-7.0	1.2	0.1	1.1	7.2	5.7	4.2	17.5
Yapi Kredi	YKBNK TI	4.5	OW	4.6	37.8	1.9	0.1	1.8	10.0	6.7	0.0	20.7
Ayala Corp	AC PM	345.0	OW	7.8	14.0	1.7	0.0	1.6	20.3	16.5	1.2	8.1
MBT	MBT PM	60.5	OW	8.0	34.4	1.1	0.0	1.1	13.4	9.1	2.4	11.4
Erste Bank	EBS AV	29.8	OW	1.3	14.3	2.0	0.0	2.0	10.5	6.9	1.4	9.3
<b>Health Care</b>		<b>542.3</b>		<b>2.0</b>	<b>11.0</b>	<b>0.0</b>	<b>2.4</b>	<b>-2.4</b>	<b>19.4</b>	<b>16.4</b>	<b>1.2</b>	<b>17.3</b>
<b>Industrials</b>		<b>218.7</b>		<b>4.0</b>	<b>7.7</b>	<b>9.0</b>	<b>6.8</b>	<b>2.2</b>	<b>13.3</b>	<b>11.2</b>	<b>1.9</b>	<b>12.6</b>
China High Speed Transmission	658 HK	15.3	OW	-9.4	-19.4	1.3	0.1	1.2	14.2	11.3	2.4	27.6
China Shipping Container Lines	2866 HK	2.8	OW	5.3	0.0	2.2	0.0	2.2	NM	25.3	0.0	0.4
China Airlines	2610 TT	18.2	OW	15.2	60.4	2.3	0.0	2.3	NM	20.3	0.0	1.3
Larsen & Toubro	LT IN	1,876.9	OW	8.8	11.9	1.7	0.3	1.4	32.3	26.2	0.0	19.4
ICA	ICA* MM	31.1	OW	0.7	1.9	1.5	0.0	1.5	29.0	21.0	0.0	3.6
<b>Information Technology</b>		<b>225.3</b>		<b>5.6</b>	<b>5.0</b>	<b>20.9</b>	<b>13.5</b>	<b>7.5</b>	<b>12.2</b>	<b>11.3</b>	<b>2.6</b>	<b>19.3</b>
Lenovo	992 HK	4.6	N	4.6	-6.2	1.4	0.1	1.3	38.8	15.7	0.9	9.8
Hynix Semiconductor	000660 KS	25,150.0	N	-7.2	8.6	3.0	0.3	2.6	6.2	9.2	0.0	33.8
Samsung Electronics	005930 KS	820,000.0	N	2.8	2.6	4.0	2.3	1.7	10.3	11.7	0.0	17.3
SEMCO	009150 KS	152,000.0	OW	3.8	41.4	2.1	0.2	1.8	20.5	17.5	0.4	18.3
Hon Hai	2317 TT	123.0	OW	1.7	-18.8	1.8	0.9	0.9	12.5	11.1	1.6	17.6
Nanya Technology Corporation	2408 TT	24.8	N	-2.4	-24.2	1.3	0.0	1.3	NM	14.7	0.0	0.9
TSMC	2330 TT	60.3	OW	-1.8	-6.5	2.4	1.5	0.9	10.6	9.7	5.0	27.7
UMC	2303 TT	14.8	OW	0.3	-14.2	1.9	0.2	1.7	10.1	8.8	3.5	8.5
Infosys	INFO IN	2,761.2	OW	1.0	6.2	1.6	0.9	0.7	25.4	22.7	0.9	28.8
TCS	TCS IN	780.4	OW	1.9	4.0	1.5	0.2	1.3	22.2	20.6	3.0	36.8
<b>Materials</b>		<b>595.3</b>		<b>7.2</b>	<b>11.0</b>	<b>3.6</b>	<b>15.4</b>	<b>-11.7</b>	<b>12.6</b>	<b>9.8</b>	<b>2.3</b>	<b>15.6</b>
LG Chem	051910 KS	321,000.0	OW	8.8	40.5	2.1	0.4	1.7	12.0	11.7	1.1	27.5
Evrz	EVR LI	24.6	OW	-5.1	-13.1	1.5	0.0	1.5	10.5	5.3	0.0	20.1
<b>Telecommunication Services</b>		<b>278.5</b>		<b>3.1</b>	<b>6.2</b>	<b>0.0</b>	<b>8.5</b>	<b>-8.5</b>	<b>12.0</b>	<b>10.9</b>	<b>4.3</b>	<b>18.4</b>
<b>Utilities</b>		<b>351.0</b>		<b>2.7</b>	<b>4.3</b>	<b>1.1</b>	<b>3.5</b>	<b>-2.4</b>	<b>13.0</b>	<b>11.2</b>	<b>3.1</b>	<b>9.9</b>
Xiniao Gas	2688 HK	17.9	N	8.3	-10.4	1.1	0.1	1.1	17.7	13.5	1.4	15.0
<b>Emerging Markets</b>		<b>42,120.2</b>		<b>2.4</b>	<b>-1.8</b>	<b>100.0</b>	<b>100.0</b>	<b>0.0</b>	<b>11.0</b>	<b>9.9</b>	<b>2.7</b>	<b>17.1</b>

Source: J.P. Morgan, MSCI, Datastream, IBES estimates for NR stocks

Figure 20: CEMBI Yield and India 10Y Govt Yield



Source: Bloomberg, 12 July 2010.

## Key Trades

### CEMBI surfers – OW India and Turkey

CEMBI is J.P. Morgan's emerging market corporate bond index. CEMBI yield (JCBYBLYD Index) is 6.3% (year low 6.1% end April). Between May-June, CEMBI spreads (JCBSBLS Index) increased by 93bp to 368bp reflecting the uncertainty in global financial markets. Since June, spreads have narrowed to 338bps. New issues from EM corporates slowed to USD3.3 bn in May vs. an average of USD16bn per month over Jan-April. J.P. Morgan's full year supply target is USD127.5 bn out of which USD68bn has been issued YTD. This forecast is at risk as we believe EM corporates will prefer to stay out of the market rather than pay generous concessions to get investors in from the sidelines.

J.P. Morgan forecasts CEMBI spreads to range between 350 to 400bp through mid year. However, **we remain confident in EM growth fundamentals and believe that as the market stabilizes, spreads will recover to 300 bps by year-end.** This is also a function of the treasury yield, which we forecast to increase from 3% currently to 3.8% by Dec 10.

CEMBI is particularly important to **India** as the Indian private sector funds the current account deficit. India's nominal GDP growth could be 17% this year. Long term borrowing costs are half the level of nominal GDP (Indian 10Y bonds 7.6% and CEMBI yields 6.3%). Many Indian companies will view today's monetary conditions as supportive of growth.

In the past, ECB data has been fairly volatile and did not seem to be affected from the change in CEMBI spreads. The exception is the blowout after Oct-08 when ECBs fell in line with the spike in spreads. In the current CEMBI spread rise so far, there has not been much impact on ECB approvals/ utilization of pre-approved ECBs. There might be a larger impact in the 2H. We are monitoring our OW on India closely. In the recent past, corporate India has been borrowing substantial amounts overseas and the relative importance of ECBs has also been increasing. Annual net ECB borrowing rose from USD2 bn in 2005 to USD23bn in 2008. It was USD8bn in 2009 and is forecast to be USD11bn in 2010. Typically the spreads and markets are concurrently negatively correlated.

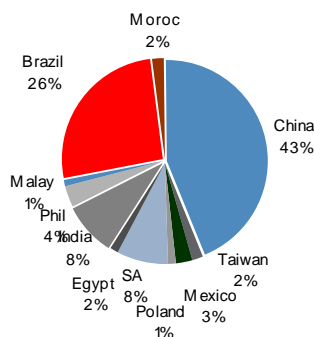
**Turkey** is also a beneficiary of lower borrowing costs due to its reliance on external financing. Its current account deficit is forecast to widen from 3.4% to 4.2% of GDP in 2010. Nominal GDP growth is forecast to be 15% in 2010 versus 10 year bond yields of 9% and 6.3% CEMBI. Turkish corporates should benefit from the delayed monetary stimulus.

Table 6: Yields for government and corporate bonds plus earnings yield for US & EM equity markets

	High	Low	Avg 05-07	Spot	Diff
US EARNINGS YIELD	11.4	6.1	6.6	8.4	1.8
US High Yield	21.0	7.5	8.4	9.3	0.8
EM EARNINGS YIELD	17.3	6.8	8.7	9.5	0.7
CEMBI	14.3	5.7	6.4	6.4	(0.1)
EMBI	12.0	6.2	7.0	6.2	(0.7)
JULI	8.7	4.8	5.7	4.8	(0.9)
US 10 Yr	5.2	2.1	4.6	3.1	(1.5)
1 Month T-Bill	5.2	(0.1)	4.0	0.2	(3.9)

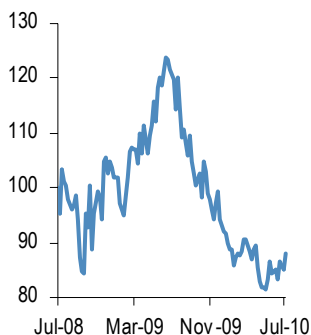
Source: Bloomberg, 9 July 2010.

Figure 21: MSCI EM Real Estate wts



Source: MSCI, Datastream. Note: We have included LatAm homebuilders in this customized weighting. Real estate stocks in LatAm is classified as Cons. Disc. by MSCI.

Figure 22: MSCI EM Real Estate rel MSCI EM



Source: MSCI, Datastream. Note: Rebased to 100 = July 2008.

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## ABC of Real Estate - Anything but China

EM Real estate index underperformed MSCI EM by 38% since July 09. China dominates the benchmark with 43% share (see Figure 21). Note that prior to the credit crunch there were strong inflows into EM real estate equities by both dedicated real estate and regional funds. EM real estate stocks were punished by association as Chinese government implemented tightening measures to control asset inflation. We think the broad sell-down in real estate equities regardless of different underlying conditions is unjustified. Our preferred markets for homebuilders within the emerging markets are Brazil, India, ASEAN and Mexico.

Brazilian homebuilders are attractively valued, trading on average at 1.3x - 2.1x P/BV. Sales and launches are accelerating QoQ, which was not the case in the previous two quarters. Strong balance sheet, decline in cash burn and low capital needs are other key drivers.

Indian developer stock prices are still 75%-80% off their peak levels, although the prices and volumes in the residential market have risen to the peak of pre-crisis levels. In our view, this disconnect presents a buying opportunity. Indian real estate stocks have remained under pressure since 4Q09 and underperformed the region as RBI and central government have started to roll back the fiscal/monetary stimulus. Increase in wage growth/hiring trends across sectors should prevent any sharp deterioration in affordability. Combination of inexpensive valuation and pent up demand provides a fundamental support to Indian real estate sector.

Rapid growth in the urban economically active population is driving strong demand for residential properties across emerging markets. Mexico, is likely to experience strong growth as favorable demographics and large housing deficit boosts housing demand. Recently Infonavit started a new program in Mexico to offer mortgages to the informal sector (50% of total population). This initial program is for domestic workers, which represent around 1.8 mn citizens, and Infonavit expects to grant 2k mortgages over the coming months. This program will significantly increase potential demand for homes as noted in *LatAm Infrastructure*, 9 July 2010 by J.P. Morgan's Latam Infrastructure & Homebuilders analyst, *Adrian Huerta*.

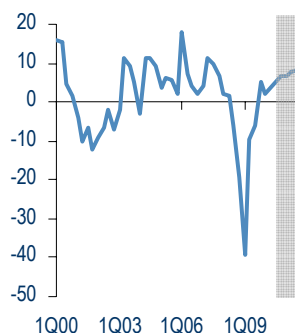
We expect the Philippines property sector to benefit the most in the near to medium term. Strong GDP growth and a business friendly administration should support the property sector. Through April and May, most developers indicated stabilization in sales across the residential market. The Thai property sector has underperformed the broader SET by 15% ytd. The recent underperformance highlights that the market has discounted weak 2Q10 earnings (on the back of political riots). We believe a strong launching pipeline in 2H10 will provide a good catalyst for the sector. Despite a 5.7% M/M rise in Indonesia Construction/Properties Index last month, the discount to NAV has remained undemanding and is now considerably below its historical average. Indonesian property companies remain upbeat with the outlook for marketing sales as they plan to launch new clusters in the next few quarters.

Table 7: Top picks

Stock	Ticker	JPM Rating	Mkt cap (US\$B)	Price (LC)	P/E		DY 10E	ROE 10E
					10E	11E		
DLF	DLFU IN	OW	12	319	23.1	10.6	0.7	8.4
PDG Realty	PDGR3 BZ	OW	5.6	18	12.8	9.2	1.6	15.4
Cyrela Realty	CYRE3 BZ	N	5.2	21.6	10.0	8.1	2.1	19.3
Unitech	UT IN	OW	4.4	82	21.1	14.4	0.1	8.5
Ayala Land	ALI PM	OW	4.2	15	40.7	36.6	0.4	8.4
MRV	MRVE3 BZ	OW	4.0	14.9	12.0	7.6	1.7	20.9
Gafisa	GFS3 BZ	OW	3.0	13	10.4	7.9	1.8	14.2
IJM Corp	IJM MK	OW	2.1	5	17.0	13.1	1.1	7.6

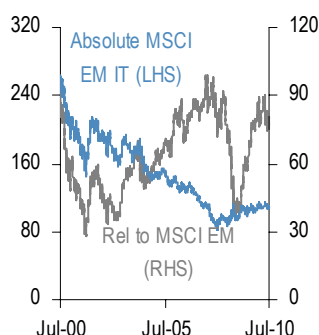
Source: Bloomberg, IBES, J.P. Morgan estimates. Share prices as of 15 July 2010.

Figure 23: US Real Business Fixed Investment



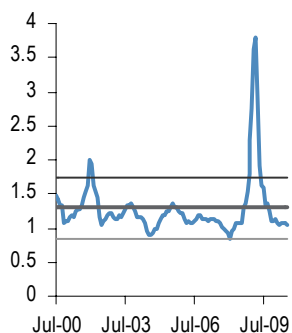
Source: J.P. Morgan, Bloomberg.

Figure 24: Performance of MSCI EM IT and MSCI EM IT rel to MSCI EM



Source: Bloomberg

Figure 25: MSCI EM IT PE rel to MSCI EM



Source: IBES

## Overweight Technology

### The drivers of our overweight technology are:

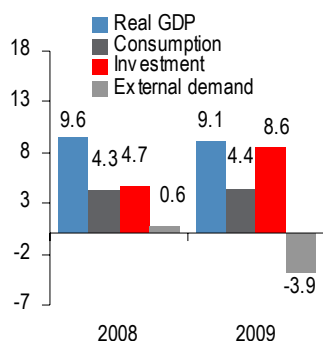
1. Investors are underestimating the business investment cycle. J.P. Morgan forecast that US business equipment spending will grow at 10% in both 2010 and 2011. This forecast is conservative in that 20% growth is needed this year to return business investment to the normal post recession level.
2. MSCI EM IT has underperformed MSCI EM by 123% over the past 10 years. The sector has transitioned from an expensive growth sector to value. Its PE relative to EM is now 1.0 compared to its 10 year average of 1.3. Investors are understandably cynical, fearing that the sector will repeat the over investment that characterized the sector more than a decade ago. In our view, they are underestimating rationalization and the sector's relatively high cost of capital. Note that there are only four producers of NAND globally and the top four DRAM producers have a combined market share of 80%.
3. Mobile video devices, such as the iPad, could generate a positive demand shock. Users of such devices will expect high quality streaming video and fast download speeds. This will require network and server upgrades. Plus if users wish to store video on the device then demand for NAND should accelerate.

Table 8: Overweight Technology

Stock	Ticker	JPM Rating	Mkt cap (US\$B)	Price (LC)	P/E		DY 10E	ROE 10E
					10E	11E		
Samsung Electronics	005930 KS	N	100	820000	10.5	12.0	0.0	16.7
TSMC	2330 TT	OW	49	60	10.7	10.6	4.9	25.9
Hon Hai Precision	2317 TT	OW	33	123	11.5	9.6	2.1	17.7
Hynix Semiconductor	000660 KS	N	12	25150	6.3	9.5	0.0	28.9
LG Electronics	066570 KS	N	12	99200	6.2	5.6	0.8	21.7
LG Display	034220 KS	OW	12	39550	5.3	5.6	1.8	21.5
SEMCO	009150 KS	OW	9.4	152000	21.0	18.0	0.4	17.0
Chimei Innolux	3481 TT	OW	8.9	35	9.8	8.2	0.0	8.8
Au Optronics	2409 TT	N	8.4	30	11.4	23.5	0.0	7.9
UMC	2303 TT	OW	6.0	15	10.8	11.1	3.5	8.0
Lenovo Group	992 HK	N	5.7	5	18.5	12.8	1.9	17.2
ASE	2311 TT	OW	4.7	27	9.2	8.3	2.0	18.6
Nanya Technology	2408 TT	N	2.6	25	16.1	6.8	0.0	12.5
Inotera Memories	3474 TT	N	2.6	18	21.5	7.3	0.0	6.0
Seoul Semiconductor	046890 KQ	OW	2.3	48500	29.5	18.2	0.2	17.7
Epistar	2448 TT	N	2.2	91	17.5	18.1	2.0	10.5
Powertech Tech.	6239 TT	OW	2.1	94	8.6	7.6	3.5	25.8
Novatek Microelectronics	3034 TT	OW	1.7	94	9.3	8.3	5.3	26.3
Catcher Technology	2474 TT	OW	1.6	75	11.7	10.6	2.5	12.8
E Ink Holdings	8069 TT	OW	1.4	40.5	10.1	7.0	0.0	17.0
Richtek Tech.	6286 TT	OW	1.3	290	17.4	13.1	2.6	37.8
Everlight Electronics	2393 TT	OW	1.2	91.5	14.9	13.6	4.4	16.4

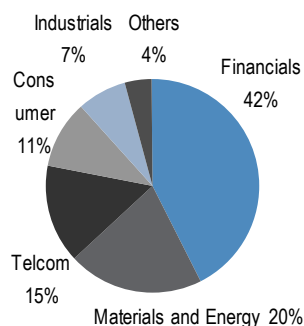
Source: Bloomberg, IBES, J.P. Morgan estimates. Share prices as of 15 July 2010

Figure 26: Contribution to China real GDP growth (in %)



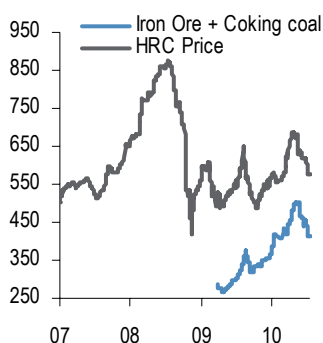
Source: J.P. Morgan Economics

Figure 3: Sector Weights in MSCI China



Source: MSCI, Datastream

Figure 27: Squeezing steel margins



Source: Bloomberg. Note: Chart shows price in \$/tonne

## China economic rebalancing: Focus on consumer

### FAI story so far

In response to the 4Q08 synchronized global recession, the Chinese authorities reversed their policy of reducing FAI as a percentage of GDP. FAI contributed 8.6% of China's impressive 9.1% economic growth in 2009 (see Figure 26). Through out 2010, policy announcements are consistent with slowing property investment and FAI.

### Policy now favors consumption

Chinese authorities announced a series of policies to stimulate domestic consumption and restrain FAI: a) 5% resource tax of the revenue for coal, natural gas and oil companies in Xinjiang and 12 other provinces in Western China and possible expansion to whole of China. b) Regulatory measures to crack down the property sector. c) Removal of export rebates for 406 materials and energy products. d) Price caps for coal companies. e) Lower PBoC loan growth target. f) Tacit support for wage increases designed to boost household income.

### Evidence of rebalancing is now building

Fixed asset investment growth is slowing and property transactions are weak. Manufacturing PMI fell for the second consecutive month to 52.1 in June. Iron ore import prices (TSIPIO62 Index) are down 37% from the April 21 high. Commodity demand is showing moderation with iron ore imports declining 15% yoy in June. Steel production is declining.

### OW Consumer

China's transition to balanced growth is healthy. The consumer sector is the clear beneficiary from the rebalancing and its earnings growth should outpace the market. We are positive on consumer staples and discretionary (excluding Autos) with high growth and high valuations.

### UW China, energy and commodities

The consumer sector is only 11% of MSCI China free float market cap. The remaining is still subject to policy uncertainty and earnings downside risk. Our oil and gas analyst Brynjar Bustnes estimates the 2011 impact on EPS due to a nationwide resource tax is -12% for Petrochina and -7% for Sinopec. Materials and energy constitute 20% of MSCI China. Policy risk and margin pressure due to lower commodity prices are key drivers for our UW in China and commodities.

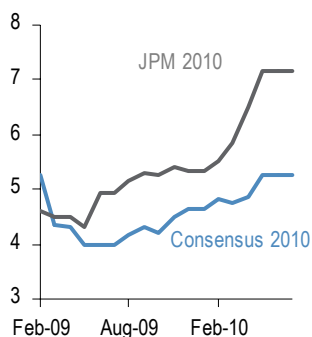
Table 9: OW China Consumer

Stock	Ticker	JPM Rating	Mkt cap (US\$B)	Price (LC)	P/E		DY 10E	ROE 10E
					10E	11E		
Belle Int Hldg	1880 HK	OW	13	12	27.6	26.3	1.3	18.3
Hengan Intl	1044 HK	N	10	64	31.0	26.5	2.0	26.4
China Res. Ent.	291 HK	N	9.0	29	26.7	23.0	1.7	9.7
China Yurun Food	1068 HK	OW	5.8	25	20.9	19.1	1.4	20.8
China Mengniu Dairy	2319 HK	OW	5.7	26	28.8	21.4	0.8	13.7
Huabao Int. Hldg	336 HK	N	4.1	10	20.5	15.0	0.0	34.2
Lifestyle Intl Hldgs	1212 HK	OW	3.4	16	22.7	19.6	1.8	15.7
Ports Design Ltd	589 HK	OW	1.6	21	19.9	16.3	3.0	34.0

Source: Bloomberg, IBES, J.P. Morgan estimates. Share prices as of 15 July 2010.

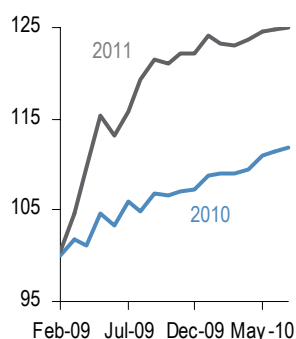


Figure 28: Consensus and JPM 2010 GDP forecasts for ASEAN



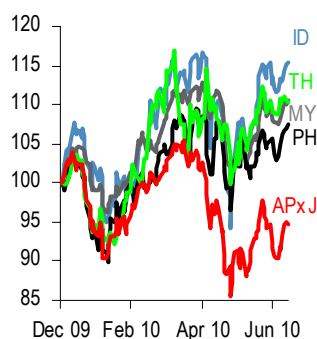
Source: J.P. Morgan economics, Bloomberg.

Figure 29: Earning revisions in Philippines in 2010 and 2011



Source: I/B/E/S. EPS figures are normalized, starting at 100 on base date Feb 2009 for ease of comparison.

Figure 30: ASEAN has outperformed APxJ ytd



Source: IMSCI, Datastream

**ASEAN Strategist**

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**Advantage ASEAN**

ASEAN markets are squeezing higher driven by good fundamental data and low ownership ex-Indonesia.

J.P. Morgan forecast ASEAN GDP growth to be 7.2% this year. Thailand's economic data is particularly strong. Initially we downgraded GDP forecast fearing that the political unrest would dampen economic growth throughout 2010. This was too pessimistic with economic activity and business sentiment recovering rapidly. Consumer confidence in Thailand inched up to 69.1 for the month of June. The 2010 GDP growth forecast is now 8.5% oya, with upside risk. The current 2010 GDP growth forecasts for Indonesia, Malaysia and Philippines are 6.2%, 7.7% and 6.8% respectively.

Higher economic growth should support positive earnings revisions and continued re-rating. As we note in our weekly Dashboards earnings revisions are positive throughout ASEAN. Valuations are low relative to history, except for Indonesia. MSCI Thailand is trading at a discount to APxJ at 11x forward PE.

In the Philippines, consumer and business confidence is rising. Solid earnings growth is being driven by improved volumes and pricing for the property sector, and acquisitions and tariff hikes for the utilities sector.

The average EM fund is neutral Thailand, overweight Indonesia and underweight Malaysia and Philippines. Investor interest in ASEAN should increase driven by good economic data and equity performance. We also note increasing interest by non-traditional investors such as international funds, which could drive additional fund flows, providing potential for upside surprises on inflows into markets such as Indonesia, which is perceived as well-owned.

Political risk in Thailand remains high but that is the consensus. Tension may increase late this year as the opposition expects the government to call an election. In Philippines, the newly elected President Noyonoy Aquino is widely viewed as market-friendly due to his reformist platform anchored on a clean government. He thus begins his presidency with a very strong mandate, providing the unique opportunity to make bold decisions that would be positive for the Philippine economy.

Indonesia would be vulnerable to a sell off in bulk commodity prices. This would hit its coal and metal producers.

With in ASEAN, we are OW Thailand and Philippines, and neutral Malaysia and Indonesia. In Thailand, we like KBANK as a beneficiary of higher policy rates, while laggard SCB could also play catch-up as corporate and consumer loan momentum gathers pace in 2H10. We like the property and utilities sector in Philippines. Top picks in the Philippines are Ayala Land, EDC, Manila Water, Filinvest Land, and Metrobank.

Table 10: OW ASEAN

Stock	Ticker	JPM Rating	Mkt cap (US\$B)	Price (LC)	P/E		DY 10E	ROE 10E
					10E	11E		
PTT	PTT TB	OW	22	246	9.7	8.0	3.8	15.3
Siam Cement	SCC/F TB	OW	10	271	12.6	10.9	3.1	22.0
Siam Com. Bank	SCB TB	N	8.8	84	12.9	11.3	2.9	14.5
Kasikornbank	KBANK TB	OW	6.9	93	12.5	9.8	2.9	13.5
Bank Danamon Indo.	BDMN IJ	OW	5.3	5700	17.1	12.8	2.0	16.3
Ayala Corporation	AC PM	OW	3.6	345	20.4	16.7	1.1	7.9
Aboitiz Power	AP PM	OW	3.1	20	14.5	14.4	2.1	24.7
Metropolitan Bank	MBT PM	OW	2.5	61	13.2	8.9	2.0	11.5
IJM Corp	IJM MK	OW	2.1	5	17.0	13.1	1.1	7.6
Energy Dev. Corp	EDC PM	OW	1.9	5	12.4	12.7	8.1	22.4
Land & Houses	LH TB	OW	1.8	6	18.1	18.1	5.5	11.1

Source: : Bloomberg, IBES, J.P. Morgan estimates. Share prices as of 15 July 2010



## Country asset allocation changes

Table 11: Summary of country asset allocation changes from August 2007

Country	From	To	Recommendation	Relative return from the date of Recommendation	YTD relative return
South Africa	24-Aug-07	5-Feb-08	OW	(11.3)	
Taiwan	24-Aug-07	28-Feb-08	UW	9.6	
Turkey	27-Sep-07	27-Jul-08	UW	16.6	
India	2-Nov-07	17-Jan-08	N	15.7	
India	18-Jan-08	7-Jan-09	UW	15.3	
Czech	18-Jan-08	18-Aug-09	UW	(6.9)	
Hungary	18-Jan-08	18-Jan-09	UW	13.4	
Poland	18-Jan-08	18-Aug-09	UW	15.7	
Mexico	1-Feb-08	26-Feb-09	OW	(2.4)	
Brazil	1-Feb-08	16-Jun-08	N	16.9	
South Africa	6-Feb-08	16-Jun-08	N	2.1	
Taiwan	29-Feb-08	2-Apr-08	OW	6.0	
Malaysia	17-Mar-08	14-May-09	N	8.8	
Taiwan	3-Apr-08	17-Apr-08	N	3.3	
Taiwan	18-Apr-08	19-Nov-08	OW	0.2	
China	16-May-08	16-Jun-08	N	(4.7)	
Brazil	17-Jun-08	22-Sep-08	UW	7.9	
China	17-Jun-08	14-May-09	OW	14.1	
South Africa	17-Jun-08	27-Jul-08	UW	(7.7)	
Russia	28-Jul-08	14-May-09	UW	21.0	
Turkey	28-Jul-08	5-Oct-08	OW	7.0	
South Africa	28-Jul-08	14-May-09	N	8.2	
Brazil	23-Sep-08	16-Apr-10	N	4.6	
Turkey	6-Oct-08	1-Dec-09	N	(16.2)	
Indonesia	3-Nov-08	30-Mar-09	UW	(5.3)	
Taiwan	19-Nov-08	30-Mar-09	N	3.9	
India	8-Jan-09	5-Aug-09	N	27.0	
South Korea	26-Feb-09	3-Sep-09	OW	25.6	
Mexico	27-Feb-09	23-Mar-09	N	2.0	
Philippines	16-Mar-09	3-Sep-09	N	(2.0)	
Mexico	23-Mar-09	18-Aug-09	OW	6.5	
Taiwan	30-Mar-09	-	OW	(21.7)	(5.0)
Indonesia	30-Mar-09	14-May-09	N	11.1	
Russia	15-May-09	18-Oct-09	N	4.1	
South Africa	15-May-09	17-Sep-09	UW	(6.1)	
China	15-May-09	17-Sep-09	N	(3.3)	
Indonesia	15-May-09	3-Sep-09	OW	21.2	
Malaysia	15-May-09	2-Feb-10	UW	4.8	
Thailand	20-Jul-09	17-Sep-09	N	0.3	
India	6-Aug-09	-	OW	8.0	4.9
Czech	19-Aug-09	25-Oct-09	OW	(17.2)	
Hungary	19-Aug-09	25-Oct-09	OW	10.5	
Poland	19-Aug-09	25-Oct-09	OW	8.2	
Mexico	19-Aug-09	1-Dec-09	N	(3.1)	
Indonesia	3-Sep-09	-	N	23.7	19.0
Philippines	3-Sep-09	-	OW	7.8	11.8
South Korea	3-Sep-09	1-Jun-10	N	(3.8)	
South Africa	17-Sep-09	16-Apr-10	N	(6.1)	
China	17-Sep-09	-	UW	7.0	3.0
Thailand	17-Sep-09	14-Dec-09	OW	(8.2)	
Russia	19-Oct-09	7-Dec-09	OW	(8.2)	
Czech	26-Oct-09	-	N	(15.5)	(6.8)
Hungary	26-Oct-09	-	N	(14.8)	(7.0)
Poland	26-Oct-09	-	N	(11.2)	(7.5)
Turkey	2-Dec-09	-	OW	19.8	9.7
Mexico	2-Dec-09	14-Jul-10	OW	2.9	
Russia	8-Dec-09	-	N	1.8	(2.1)
Thailand	15-Dec-09	14-Jul-10	N	16.1	
Malaysia	2-Feb-10	-	N	10.3	10.3
South Africa	19-Apr-10	14-Jul-10	OW	2.3	
Brazil	19-Apr-10	-	UW	5.2	5.2
South Korea	2-Jun-10	-	OW	2.9	2.9
South Africa	15-Jul-10	-	N	0.0	0.0
Mexico	15-Jul-10	-	N	0.0	0.0
Thailand	15-Jul-10	-	OW	0.0	0.0

Source: J.P. Morgan, 15 July 2010.

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# Emerging Markets: Outlook & Scorecards

## Brazil Market Strategy

## Brazil: Good Times for Domestics

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### Recommendation

OW: Financials, Homebuilders

### Key drivers

7.5% growth driven by domestic demand.

Potential for lower than expected rate cycle.

Large Petrobras capitalization in December

### Key risks

China slowdown/ hard landing

October 2010 presidential elections

### Issues over the past 12 months

Brazil, along with China, has been the worst performing EM YTD. Heightened risk aversion has delivered poor equity flows in Brazil. In 1H10, flows were negative –US\$1.6 billion, with only March posting positive flows. Still, the economy has been very robust, with data for the real economy coming out consistently strong: unemployment is at a record low, and credit growth continues on a brisk pace. Inflation readings are coming out better than expected and inflation expectations have started to decline.

### Outlook

At this juncture, we think that the risks associated with the hiking cycle have been greatly reduced, even though Brazil is the EM country that will undergo the highest hiking cycle in 2010 (a total move of 375bp with rates at 12.5% in December). First, 40% of the hiking already occurred, thus reducing the uncertainty related to the timing and magnitude of the cycle. Second, good news on the inflation front, lower DM growth, and an accommodation of Brazilian activity indicators could potentially lead to a lower and shorter cycle than what we are now expecting. Indeed, we have recently revised down our inflation forecast for 2010 from 5.9% to 5.5%, while still maintaining 5.1% for 2011. Greater comfort with the rate outlook in a context of strong growth (7.5% for 2010 and 4% for 2011) makes us bullish on domestic names, especially homebuilders and financials. Homebuilders suffered excessively during the 2Q correction and have not fully recovered. The sector is cheap, especially for being a structural story that should continue to see solid drivers over the next several years. Financials are in a sweet spot, where there is good loan growth at the same time that net interest margins are widening and the delinquencies are stable. The pending question is still the performance of commodities. At 47% of the Brazil MSCI, it continues to weigh on performance, also because of the overhang associated with Petrobras capitalization, now scheduled for December.

### Recommendations

Brazil is relatively inexpensive at 9.6x 12M fwd PE, cheaper than Latam, EM and Globals. 2010 earnings at 20% have room to grow, although we don't think this is a driver for 2011 as the economy slows. We prefer domestic names and get exposure to banks (Bradesco), homebuilders (Gafisa, which is at a discount to peers), and retail, via CBD, which we believe should see significant upside on the Casa Bahia deal.

Market Statistics (%)	
MSCI Brazil Index	218816
Weightings in Region (%)	15.8
BRL/US\$	1.76
Avg. Daily Turnover (US\$MM)	2899
MSCI Total Mkt. Cap (US\$B)	461

Source: Datastream. Prices as of 14 July 2010.

	Price (BRL)	Code	JPM Rating	Mkt cap (US\$B)	P/E		EPS		Div Yld. 10E (%)	ROE 10E (%)
					10E (x)	11E (x)	10E (BRL)	11E (BRL)		
<b>Top picks</b>										
Bradesco	12.0	BVMF3 BZ	OW	14.0	14.8	12.6	0.8	1.0	na	na
Gafisa	32.4	BBDC4 BZ	OW	51.6	12.2	10.5	2.7	3.1	2.7	20.3
CBD	63.5	PCAR5 BZ	OW	9.3	20.3	16.7	3.1	3.8	0.8	9.8
<b>Stocks to Avoid</b>										
CSN	15.7	SID US	UW	23.7	8.9	6.7	1.8	2.3	9.9	43.9
Sabesp	34.4	SBSP3 BZ	UW	4.5	7.3	6.6	4.8	5.3	4.8	9.6

Source: Datastream, J.P. Morgan estimates. Note: The share price and valuations are as of 14 July 2010

## Brazil scorecard

Key Financial Data Summary					Local Interest Rates and Inflation Trend			
	<b>EPS Growth</b>	<b>P/E</b>	<b>ROE</b>	<b>Yield</b>		<b>Spot</b>	<b>-3M Δ</b>	<b>+3M Δ</b>
2008	4.9	13.4	17.3	3.2	3 Month	11.0	1.1	na
2009E	3.8	12.9	16.8	3.2	Long Bond	11.8	0.1	-0.3
2010E	19.5	10.8	17.7	3.6	Inflation	4.8	-0.4	0.0
2011E	25.1	8.7	18.9	4.6	Real 3 Month	6.2	1.5	na

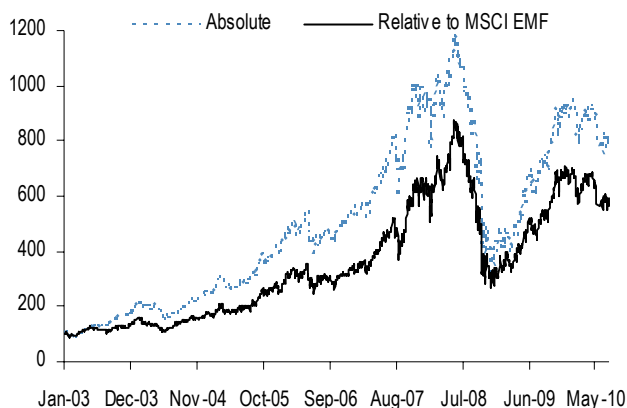
  

Economic Forecasts					Risk Appetite			
<b>GDP (YoY)</b>	<b>Forecast</b>	<b>-3M Δ</b>	<b>- EMF</b>	<b>- Cons</b>	<b>US\$ Spread</b>	<b>Spot</b>	<b>-3M Δ</b>	<b>+3M Δ</b>
2008	5.1	-0.2	0.2	0.0	BAA	3.1	0.7	na
2009E	7.5	1.3	0.5	1.0	EMBI	3.3	0.6	0.7
2010E	4.0	0.0	-1.8	-0.5	Country	2.2	0.3	na
					Country Relative	-1.1	-0.3	na

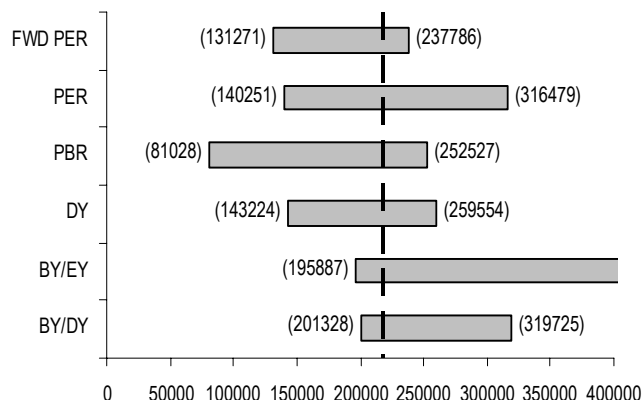
  

Economic Momentum					Foreign Fund Flows (US\$ mils)			
<b>GDP</b>	<b>Q1 10E</b>	<b>Q2 10E</b>	<b>Q3 10E</b>	<b>Q4 10E</b>		<b>Month</b>	<b>09 YTD Avg</b>	<b>12-Mo Avg</b>
GDP SAAR	11.4	6.0	4.0	3.3	EM Funds*	6,919	2,573	3,992
					LatAm*	-452	-334	124
					Brazil	-83	-239	247

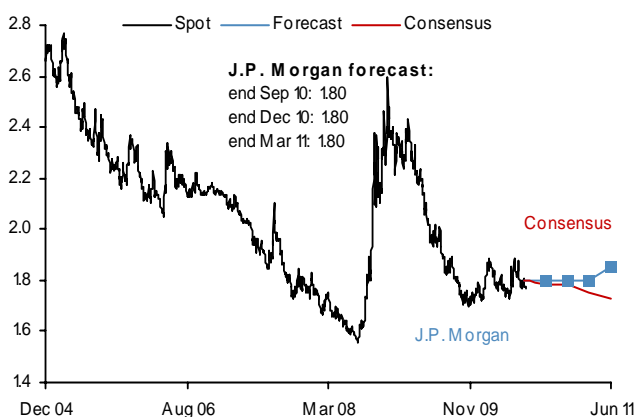
MSCI Brazil Absolute and Relative (vs EMF) Index



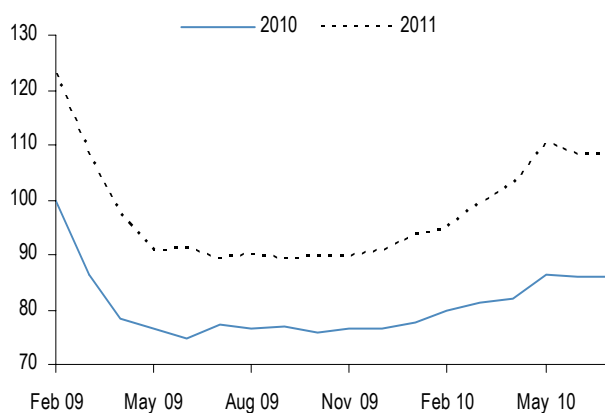
MSCI Fair value Range



Currency Outlook (BRL/USD)



EPS Integer over Time



Source: MSCI, Bloomberg, IBES, Datastream, CEIC, J.P. Morgan, Consensus Economics. Unless stated all forecasts are J.P. Morgan's. The scorecards are designed to assist in tracking trends and expectations. -3MΔ refers to the change in this factor over the past three months and +3MΔ refers to the forecast change in this factor over the next three months. The Economic Forecast table contains J.P. Morgan's real GDP forecasts, the change in these forecasts over the past three months, the difference between these forecasts and the average for emerging markets and the final column is the difference between J.P. Morgan's forecast and consensus expectations. The MSCI Fair Value chart is designed to show current valuations relative to 10 year valuation history. The vertical dotted line is the current index level. The five horizontal bars show a +/- one standard deviation range for these valuation measures. A dotted line to the left indicates a market that is cheap relative to history. \*US Mutual fund subscriptions.

## China

### Market Strategy

#### Frank Li<sup>AC</sup>

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#### Recommendation

OW: (1) consumer staples and low- and-medium-end consumer discretionary; (2) new economy stocks; (3) railway

UW: (1) property; (2) commodities; (3) home appliances; (4) energy

#### Key drivers

Undemanding valuations for MSCI-China, more pro-consumption measures for the remainder of the year, and solid balance sheet conditions

#### Key risks

Downside earnings risk to MSCI China and policy risks

## China: Focus on defensive growth names

#### Issues over the last 12 months

China led both equity and economic recovery in EM and the world in 2009. Late 2008's aggressive monetary and fiscal stimuli brought about a strong economic recovery, which in turn, translated into strong stock market performance (+52%) in FY09. Entering 2010, China's stock market underperformed major stock markets because of (1) the expected sharp fall in China's excess liquidity growth (M2 growth minus nominal GDP growth) from 21% in FY09 to 5% in FY10 due to the combined effect of the drop in M2 growth and the rise in nominal GDP growth; (2) a series of policy tightening risks as reflected in the three 50bp RRR hikes, the window guidance for banks to strictly follow the quarterly lending quota, and the recent crackdown on the housing sector. YTD 2010, the MSCI China index declined -7.7%, underperforming MSCI EM by 3.9%.

#### Outlook

We stay cautious on MSCI China in the coming months, despite possible technical rebound because: (1) We see downside earnings risk to MSCI China due to the economic deceleration on the back of the combined ripple effect of the crack-down on property sector and slowdown in banks' lending to local government-funded investment projects. (2) Policy risks, such as the resource tax to be expanded across the country, which may hurt the earnings of and de-rate the multiples of the energy and upstream resources companies. (3) Banks' fund-raising is only half-way through. Amid uncertainties on domestic and external front, we believe investors should continue to stick to sectors with most visible growth, such as consumer staples, and low- and- middle-end consumer discretionary sectors whose sales are least affected by the economic slowdown. Despite our cautious view on China equities, we firmly believe in China's bright medium-term growth prospects, as: (1) China boasts of a strong balance sheet at the country, household, and consumer level; (2) favorable demographics; and (3) we still see some sectors with low penetration rates and solid secular growth.

Market Statistics (%)	
MSCI China Index	61.2
Weightings in Region (%)	18.9
CNY/US\$	6.77
Avg. Daily Turnover (US\$MM)	3652
MSCI Total Mkt. Cap (US\$B)	551

Source: Datastream. Prices as of 14 July 2010.

#### Recommendations

We believe investors should continue to stick to sectors with most visible growth, such as consumer staples, and low- and- middle-end consumer discretionary sectors whose sales are least affected by the economic slowdown. On the other hand, we stay cautious on commodities, property, home appliances, and energy.

	Price (CNY)	Code	JPM Rating	Mkt cap (US\$B)	P/E		EPS		Div Yld. 10E (%)	ROE 10E (%)
					10E (x)	11E (x)	10E (CNY)	11E (CNY)		
<b>Top picks</b>										
Ports Design	21.5	589 HK	OW	1.6	22.7	18.5	0.9	1.2	2.6	36.5
China Railway Group - H	5.6	390 HK	OW	13.9	14.2	12.0	0.4	0.5	1.4	13.1
China Mengniu Dairy Co. Ltd.	25.5	2319 HK	OW	5.7	28.7	21.4	0.8	1.0	0.7	14.9
Shanda Games	6.3	GAME US	OW	1.8	9.3	7.4	4.7	6.0	NA	38.3
China Taiping Insurance	25.4	966 HK	N	5.6	40.9	27.9	0.6	0.9	NA	6.6
<b>Stocks to avoid</b>										
Guangzhou R&F	10.9	2777 HK	OW	4.5	9.9	8.2	1.1	1.3	4.0	19.9
Aluminum Corp of China-H	6.1	2600 HK	N	15.7	19.1	NA	0.3	NA	1.1	6.4

Source: Datastream, J.P. Morgan estimates. Note: The share price and valuations are as of 14 July 2010.



## China scorecard

Key Financial Data Summary				
	EPS Growth	P/E	ROE	Yield
2008	-10.9	18.6	14.4	2.2
2009E	17.1	15.8	15.4	2.4
2010E	25.3	12.6	17.1	2.8
2011E	17.2	10.8	17.8	3.4

Economic Forecasts				
GDP (YoY)	Forecast	-3M Δ	- EMF	- Cons
2008	9.6	0.7	4.7	0.0
2009E	10.7	0.7	3.7	0.6
2010E	9.4	0.0	3.6	0.2

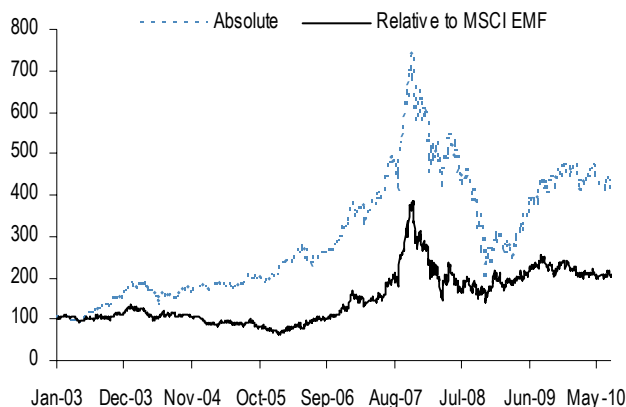
Economic Momentum				
GDP	Q1 10E	Q2 10E	Q3 10E	Q4 10E
GDP SAAR	11.9	9.4	9.3	9.0

Local Interest Rates and Inflation Trend			
	Spot	-3M Δ	+3M Δ
3 Month	2.7	0.9	-0.4
Long Bond	3.2	-0.2	0.5
Inflation	3.1	0.3	0.5
Real 3 Month	-0.4	0.6	-0.9

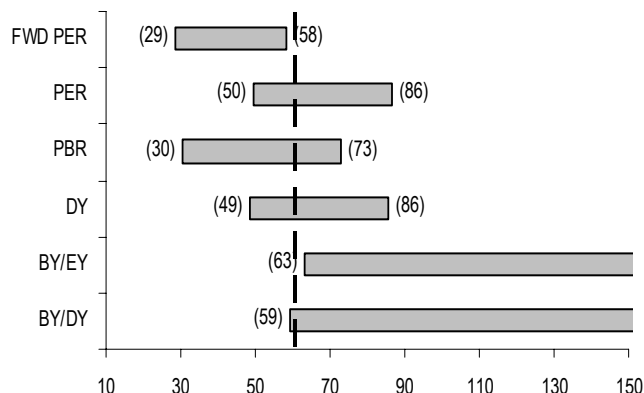
Risk Appetite			
US\$ Spread	Spot	-3M Δ	+3M Δ
BAA	3.1	0.7	na
EMBI	3.3	0.6	0.7
Country	0.9	0.5	na
Country Relative	-2.5	-0.1	na

Foreign Fund Flows (US\$ mils)			
	Month	09 YTD Avg	12-Mo Avg
EM Funds*	6,919	2,573	3,992
Asia ex Japan*	1,724	577	806
China	-642	-539	256

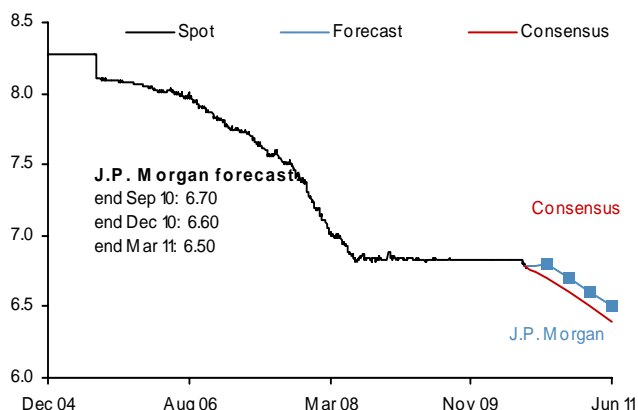
MSCI China Absolute and Relative (vs EMF) Index



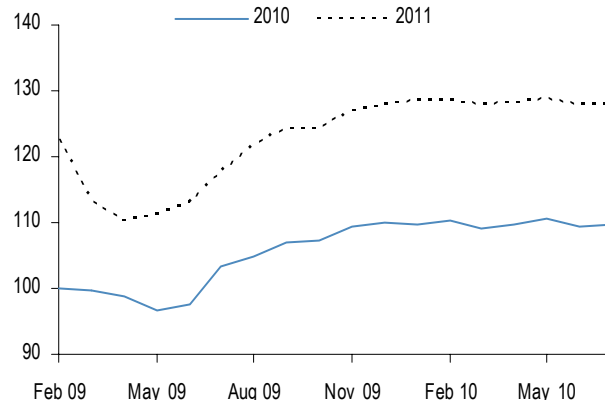
MSCI Fair value Range



Currency Outlook (CNY/USD)



EPS Integer over Time



Source: MSCI, Bloomberg, IBES, Datastream, CEIC, J.P. Morgan, Consensus Economics. Unless stated all forecasts are J.P. Morgan's. The scorecards are designed to assist in tracking trends and expectations. -3MΔ refers to the change in this factor over the past three months and +3MΔ refers to the forecast change in this factor over the next three months. The Economic Forecast table contains J.P. Morgan's real GDP forecasts, the change in these forecasts over the past three months, the difference between these forecasts and the average for emerging markets and the final column is the difference between J.P. Morgan's forecast and consensus expectations. The MSCI Fair Value chart is designed to show current valuations relative 10 year valuation history. The vertical dotted line is the current index level. The five horizontal bars show a +/- one standard deviation range for these valuation measures. A dotted line to the left indicates a market that is cheap relative to history. \*US Mutual fund subscriptions.

## South Korea Market Strategy

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### Recommendation

OW: Banks, Auto, Tech, Consumers

UW: Shipbuilding, Construction

### Key Drivers

Weak KRW will likely provide good buying opportunity for foreign investors

### Key risk

Euro risk becomes contagious

#### Market Statistics (%)

MSCI South Africa Index	718.3
Weightings in Region (%)	7.4
ZAR/US\$	7.53
Avg. Daily Turnover (US\$MM)	1026
MSCI Total Mkt. Cap (US\$B)	215

Source: Datastream. Prices as of 14 July 2010.

## South Korea: A buying opportunity

### Issues over the last 12 months

Korea equity market has been trending upward since 1Q09 albeit volatility and has reached above 1750, which is the highest point since the beginning of 2009, helped by stronger than expected economic activities across the globe and rebound in KRW. It was largely driven by strong buying flows by foreign and domestic retail investors and economic indicators that surprised on the upside. For sector performance, as expected, large exporters led the market rally, including IT and auto, helped by a sharp depreciation of the Won up to the 1500 level, while financial stocks pushed the market further up in 2H09. However, in recent weeks, risk appetite dropped across all risk assets on the back of the escalating sovereign credit crisis in Europe and North Korea related geopolitical risks in Korea, although the latter was proved to be short lived with KRW stabilizing below 1200 within a week.

### Outlook

In coming quarters, major drivers in Korea equity market, in our view, will be 1) eased price control by the government after the regional election, 2) rebound in KRW and 3) slowdown in equity fund outflows. After the regional election, the government is likely to loosen their price control and hence consumer and financial sectors' margin would improve. Recent KRW depreciation provides buying opportunity of Korea equities, in our view. Money outflows from equity funds are expected to slow down due to real interest rate close to 0% or below at least in the near-term. Despite recent sharp price rally, we still believe that share prices of large cap exporters with well-diversified consumer base and competitiveness are likely to remain robust for the remainder of 2010, while eased price control by the government should boost share price of domestic stocks. However, we still remain cautious on industrials. In particular, we believe construction sector recovery will take more time given that 1) the government has already rolled out possible supportive measures and further measures are not likely and 2) it normally takes more than 3 years to resolve unsold housing units. In our view, it will take more time for construction sector to fully recover from the recent housing downturn with the risk of housing price drop still remaining.

### Recommendations

We remain positive on auto makers, tech companies with global competitiveness, large cap banks and consumer stocks, while selectively prefer construction companies with large offshore project exposure and housing material companies.

	Price (KRW)	Code	JPM Rating	Mkt cap (US\$B)	P/E		EPS		Div Yld. 10E (%)	ROE 10E (%)
					10E (x)	11E (x)	10E (KRW)	11E (KRW)		
<b>Top picks</b>										
Hyundai Department Store	118000	069960 KS	OW	2.2	10.8	9.9	10881.0	11954.0	NA	13.8
Hyundai Motors	139500	005380 KS	OW	25.6	7.0	6.4	19826.6	21872.3	1.1	16.6
Samsung SDI	159000	006400 KS	OW	7.1	19.7	13.9	8052.0	11447.2	0.0	6.9
LG Display	39550	034220 KS	OW	11.8	5.2	5.5	7617.5	7248.5	1.8	23.8
Woori Financial Group	15200	053000 KS	OW	10.2	7.3	5.7	2088.6	2660.7	1.6	11.7
<b>Stock to Avoid</b>										
Hynix	25900	000660 KS	N	12.4	6.4	9.5	4060.0	2721.5	0.0	33.8
S-Oil	55000	010950 KS	N	5.2	9.4	8.0	5840.6	6915.4	3.3	16.3

Source: Datastream, J.P. Morgan estimates. Note: The share price and valuations are as of 14 July 2010.

## South Korea scorecard

Key Financial Data Summary				
	EPS Growth	P/E	ROE	Yield
2008	-38.9	22.2	7.9	1.0
2009E	57.0	14.2	11.5	1.0
2010E	44.9	9.8	14.9	1.2
2011E	4.1	9.4	13.6	1.4

Economic Forecasts				
GDP (YoY)	Forecast	-3M Δ	- EMF	- Cons
2008	2.3	-0.2	-2.6	0.0
2009E	5.9	0.6	-1.1	0.6
2010E	4.0	-0.1	-1.7	-0.3

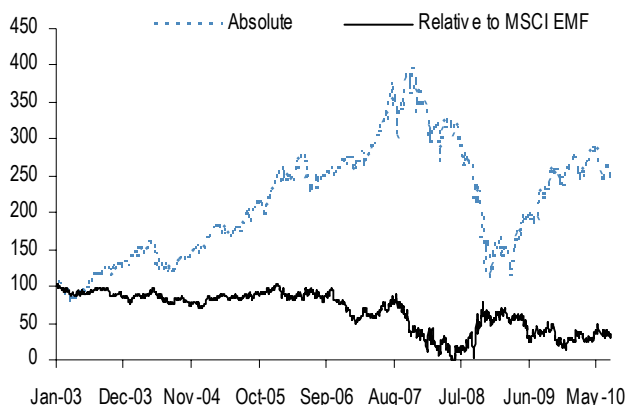
Economic Momentum				
GDP	Q1 10E	Q2 10E	Q3 10E	Q4 10E
GDP SAAR	8.8	4.0	3.8	3.8

Local Interest Rates and Inflation Trend			
	Spot	-3M Δ	+3M Δ
3 Month	2.8	0.2	0.1
Long Bond	4.9	0.1	0.1
Inflation	2.6	0.0	0.6
Real 3 Month	0.3	0.2	-0.6

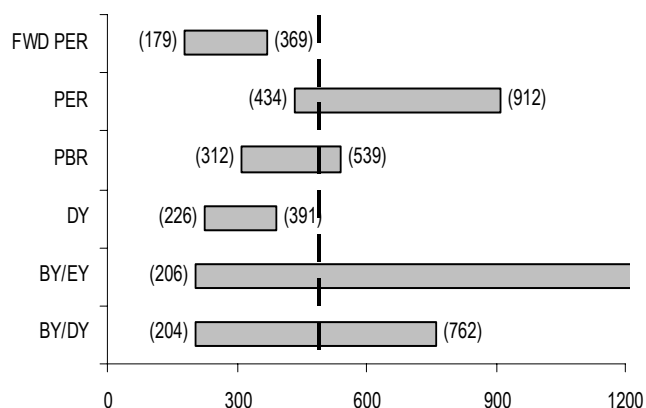
Risk Appetite			
US\$ Spread	Spot	-3M Δ	+3M Δ
BAA	3.1	0.7	na
EMBI	3.3	0.6	0.7
Country	na	na	na
Country Relative	na	na	na

Foreign Fund Flows (US\$ mls)			
	Month	09 YTD Avg	12-Mo Avg
EM Funds*	6,919	2,573	3,992
Asia ex Japan*	1,724	577	806
Korea	-938	594	1,322

### MSCI Korea Absolute and Relative (vs EMF) Index



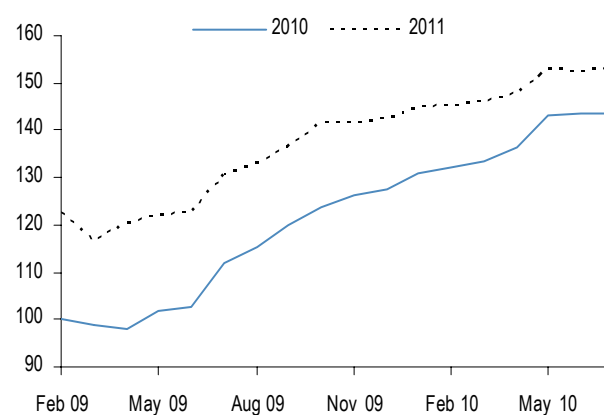
### MSCI Fair value Range



### Currency Outlook (KRW/USD)



### EPS Integer over Time



Source: MSCI, Bloomberg, IBES, Datastream, CEIC, J.P. Morgan, Consensus Economics. Unless stated all forecasts are J.P. Morgan's. The scorecards are designed to assist in tracking trends and expectations. -3MΔ refers to the change in this factor over the past three months and +3MΔ refers to the forecast change in this factor over the next three months. The Economic Forecast table contains J.P. Morgan's real GDP forecasts, the change in these forecasts over the past three months, the difference between these forecasts and the average for emerging markets and the final column is the difference between J.P. Morgan's forecast and consensus expectations. The MSCI Fair Value chart is designed to show current valuations relative 10 year valuation history. The vertical dotted line is the current index level. The five horizontal bars show a +/- one standard deviation range for these valuation measures. A dotted line to the left indicates a market that is cheap relative to history.\* US Mutual fund subscriptions

## Taiwan

### Market Strategy

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#### Recommendations

OW: Tech

UW: Financials

#### Key Driver

Cross-Strait developments on track

#### Key risks

Downward revision of earning estimate in technology sector

Fade of economic recovery

## Taiwan: ECFA Signed

### Issues over the last 12 months

In June, MSCI TW was down 2% and underperformed MSCI APxJ (-0.50%) over the same period (in USD terms). Tourism and food sectors were the best performers of the month, up 9.7% and 6.7% respectively; while the worst performing sectors were technology and steel, down 2.7% and 2.6% respectively. On the macro side, the Central Bank unexpectedly raised rates by 12.5bp, normalizing policy as economic recovery broadens out. Also, Taiwan and China finally signed the Economic Cooperation Framework Agreement (ECFA). The two events boosted sentiment of non-technology sectors. On the contrary, technology stocks were still shadowed by concerns on wage hike in China and weak demand in Europe.

### Outlook

Taiwan and China signed ECFA on the 29th of June and the content of Early Harvest List is in line – if not better than – with market expectation. Our Economist, Grace Ng, believes the structural change brought by ECFA will help boost labor market and domestic consumption. Besides ECFA, China also plans to allow its people to travel to Taiwan as individual tourists, with limits on the number of individual visitors at 300 or 500 per day. According to Taiwan Premier Wu Den-yih, the good news could be announced by yearend. The progress of cross-strait relation should mainly benefit non-technology stocks, especially transport, tourism, retail, and financial sectors. On the other side, given concerns on wage inflation in China and weakening demand as well as currency in Europe, we become more selective in the technology space.

### Recommendations

We maintain our long term positive view on Taiwan. We still prefer stocks with high dividend yield during the ex-div season. For technology sector, we prefer upstream over downstream given its defensive nature and solid fundamentals. In terms of downstream space, we recommend shifting to PC names from handset plays. For non-tech universe, we like banks on the backdrop of rate hike and ECFA; we also like cement and transport as peak seasons are approaching.

#### Market Statistics (%)

MSCI Taiwan Index	273.9
Weightings in Region (%)	10.7
TWD/US\$	32.1
Avg. Daily Turnover (US\$MM)	1888
MSCI Total Mkt. Cap (US\$B)	311

Source: Datastream. Prices as of 14 July 2010.

	Price	Code	JPM	Mkt cap	P/E		EPS		Div Yld.	ROE
	(NTD)		Rating	(US\$B)	10E	11E	10E	11E	10E	10E
					(x)	(x)	(NTD)	(NTD)	(%)	(%)
<b>Top picks</b>										
Hon Hai Precision	123	2317 TT	OW	32.8	12.5	11.1	9.9	11.1	1.6	17.6
Tripod Tech Corp	125	3044 TT	OW	1.8	11.4	10.1	11.0	12.4	1.9	26.5
TSMC	60	2330 TT	OW	48.6	10.6	9.7	5.7	6.2	5.0	27.7
ASE	27	2311 TT	OW	4.7	9.2	8.2	3.0	3.3	2.0	20.2
Asia Cement	30	1102 TT	OW	2.8	11.2	10.6	2.7	2.8	5.1	11.3
<b>Stocks to Avoid</b>										
Formosa Plastic	72	1326 TT	N	12.8	11.9	11.6	6.1	6.2	6.2	14.1
Nan Ya Plastic	58	1303 TT	UW	14.2	16.6	13.1	3.5	4.4	3.3	10.5
Taishin Holdings	14	2887 TT	UW	2.4	11.5	12.6	1.3	1.1	0.0	9.8
HTC	571	2498 TT	UW	13.8	19.2	19.0	29.8	30.0	4.0	31.9

Source: DataStream, J.P. Morgan estimates Note: The share price and valuations are as of 14 July 2010.

## Taiwan scorecard

Key Financial Data Summary				
	EPS Growth	P/E	ROE	Yield
2008	-69.2	33.7	5.6	4.8
2009E	32.9	25.3	7.8	2.8
2010E	96.0	12.9	14.1	3.8
2011E	13.8	11.3	14.8	4.7

Economic Forecasts				
GDP (YoY)	Forecast	-3M Δ	- EMF	- Cons
2008	0.7	0.6	-4.2	0.0
2009E	9.2	2.2	2.2	4.6
2010E	4.8	0.0	-1.0	0.8

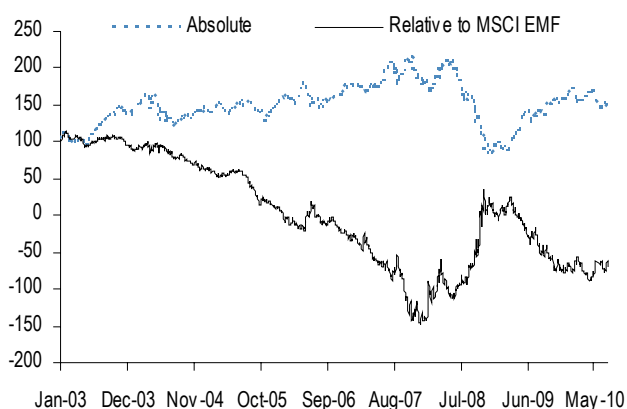
Economic Momentum				
GDP	Q1 10E	Q2 10E	Q3 10E	Q4 10E
GDP SAAR	11.3	3.3	3.5	3.5

Local Interest Rates and Inflation Trend			
	Spot	-3M Δ	+3M Δ
3 Month	0.9	0.0	-0.4
Long Bond	1.4	0.0	0.3
Inflation	0.5	-0.1	0.7
Real 3 Month	0.4	0.1	-1.1

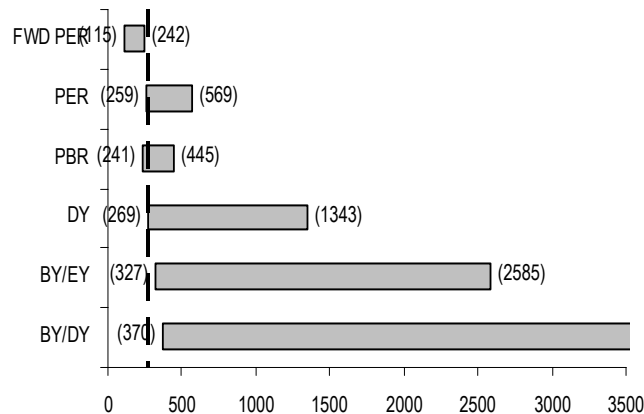
Risk Appetite			
US\$ Spread	Spot	-3M Δ	+3M Δ
BAA	3.1	0.7	na
EMBI	3.3	0.6	0.7
Country	na	na	na
Country Relative	na	na	na

Foreign Fund Flows (US\$ mils)			
	Month	09 YTD Avg	12-Mo Avg
EM Funds*	6,919	2,573	3,992
Asia ex Japan*	1,724	577	806
Taiwan	-374	-23	568

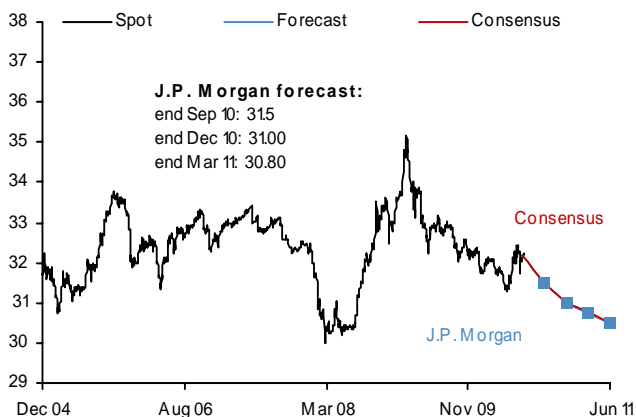
MSCI Taiwan Absolute and Relative (vs EMF) Index



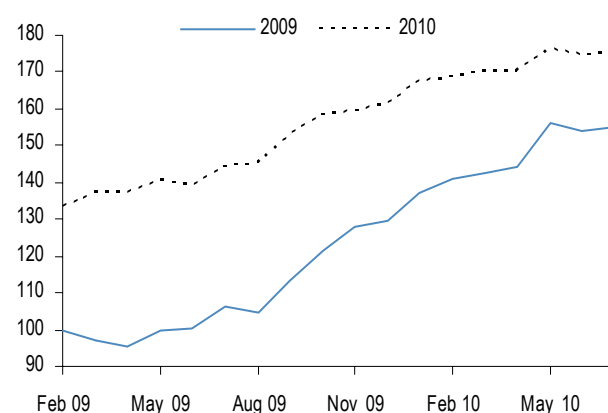
MSCI Fair value Range



Currency Outlook (TWD/USD)



EPS Integer over Time



Source: MSCI, Bloomberg, IBES, Datastream, CEIC, J.P. Morgan, Consensus Economics. Unless stated all forecasts are J.P. Morgan's. The scorecards are designed to assist in tracking trends and expectations. -3MΔ refers to the change in this factor over the past three months and +3MΔ refers to the forecast change in this factor over the next three months. The Economic Forecast table contains J.P. Morgan's real GDP forecasts, the change in these forecasts over the past three months, the difference between these forecasts and the average for emerging markets and the final column is the difference between J.P. Morgan's forecast and consensus expectations. The MSCI Fair Value chart is designed to show current valuations relative 10 year valuation history. The vertical dotted line is the current index level. The five horizontal bars show a +/- one standard deviation range for these valuation measures. A dotted line to the left indicates a market that is cheap relative to history. \*US Mutual fund subscriptions.

## Russia

### Market Strategy

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#### Recommendations

- Sberbank
- VTB
- Evraz
- Magnit

#### Key drivers

Oil holding grounds

Strong domestic macro

End of easing cycle by the CBR

#### Key risks

Recurring worries of EU debt

Slowdown of US economic recovery

Taxation in the oil industry

Electric utilities' regulation

## Russia: Leveraged play on global volatility

#### Issues over the last 12 months

In contrast with 1Q10, when Russian stocks held grounds well, Russia underperformed GEMs in 2Q10 as did the cyclical sectors (Energy, Materials and Financials) accounting for over 80% of the market capitalization. Volatility, which started to recede by mid-June, has surged again, especially painful for a high-beta market like Russia. On a brighter side, oil price continued to defy gravity hovering in mid-70s. The ruble firmed ~3% from the low point in June, reflecting strong oil and recovering economy. The internal negatives weighing on stocks include the oil industry taxation and regulatory risks for electric utilities.

#### Outlook

With recurring doubts about the strength of the macro recovery in the US and uncertainties of the EU fiscal consolidation, volatility may persist hurting both bulls and bears. However with Russia' corporate risk premium largely unchanged, the elevated equity risk premium flags risks to earnings growth, not a double-dip recession. In terms of the external risks, the main transmission mechanisms remain commodity prices and global liquidity. On the last topic, the low level of debt and reduced dependency on external borrowing mean less exposure. We believe that further strengthening or at least sustainability of the earnings trend would eventually persuade skeptical investors. Not dismissing the risk of hard-landing in China entirely, we highlight the mild nature of the policy response in essence maintaining a pro-growth bias. Equally helpful for commodities is the recent relaxation of the CNY peg. We thus believe that for Materials the priced-in risk is overstated. The 2H10 may see the sector outperforming for a change, subject to receding risk premium. Similarly we highlight a visible improvement of operating environment for Russian banks, while the external conditions (the US reform, the EU stress test) may be getting better as well. We now overweight Steels and Financials while underweighting the defensives (Utilities, Consumers, and Golds) in our Russian portfolio.

#### Recommendations

Our portfolio includes both Sberbank and VTB benefiting from recovering fundamentals and having visible short-term catalysts. We also recommend exposure to Materials through Evraz (exposure to recovering construction activity in Russia). In Consumers, we like Magnit with a pending trading update a catalyst. We recommend avoiding MRSK Holdings as we see rising regulatory risk (the RRAB derived tariff increase being less significant) as a headwind to the sector in general and MRSK (as the flagship) in particular.

Market Statistics (%)	
MSCI Russia Index	716
Weightings in Region (%)	6.5
RUB/US\$	30.9
Avg. Daily Turnover (US\$MM)	1923
MSCI Total Mkt. Cap (US\$B)	190

Source: Datastream. Prices as of 14 July 2010.

	Price (US\$)	Code	JPM Rating	Mkt cap (US\$B)	P/E		EPS		Div Yld. 10E (%)	ROE 10E (%)
					10E (x)	11E (x)	10E (RUB)	11E (RUB)		
<b>Top picks</b>										
VTB	5.19	VTBR LI	OW	27.1	13.80	6.85	0.38	0.76	1.09	11.16
Sberbank	2.68	SBER RU	OW	57.9	11.04	5.82	0.24	0.46	0.87	19.16
Evraz	23.81	EVR LI	OW	10.4	10.19	5.16	2.34	4.61	0.00	20.13
Magnit	20.35	MGNT LI	OW	9.1	26.78	19.95	0.76	1.02	NA	20.94
<b>Stocks to Avoid</b>										
MRSK Holding	0.12	MRKH RU	OW	4.7	NA	NA	NA	NA	NA	NA
Lukoil	53.50	LKOH RU	N	45.5	5.70	5.50	9.82	10.03	3.59	13.55

Source: Datastream, J.P. Morgan estimates. Note: The share price and valuations are as of 14 July 2010.



## Russia scorecard

Key Financial Data Summary				
	EPS Growth	P/E	ROE	Yield
2008	-22.8	6.2	17.0	0.8
2009E	-27.9	8.5	12.0	0.9
2010E	33.5	6.4	15.0	2.3
2011E	28.3	5.0	16.6	3.0

Economic Forecasts				
GDP (YoY)	Forecast	-3M Δ	- EMF	- Cons
2008	5.6	0.0	0.7	0.0
2009E	5.5	0.0	-1.5	1.5
2010E	5.0	0.0	-0.7	0.8

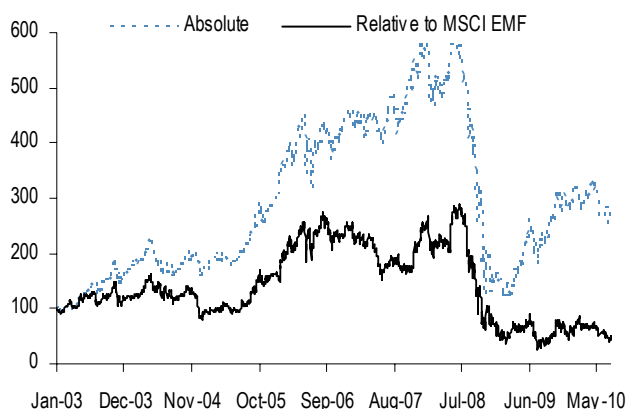
Economic Momentum				
GDP	Q1 10E	Q2 10E	Q3 10E	Q4 10E
GDP SAAR	2.2	13.5	4.0	4.0

Local Interest Rates and Inflation Trend			
	Spot	-3M Δ	+3M Δ
3 Month	4.4	-0.6	na
Long Bond	4.4	-0.6	na
Inflation	5.8	-0.3	0.0
Real 3 Month	-1.3	-0.3	na

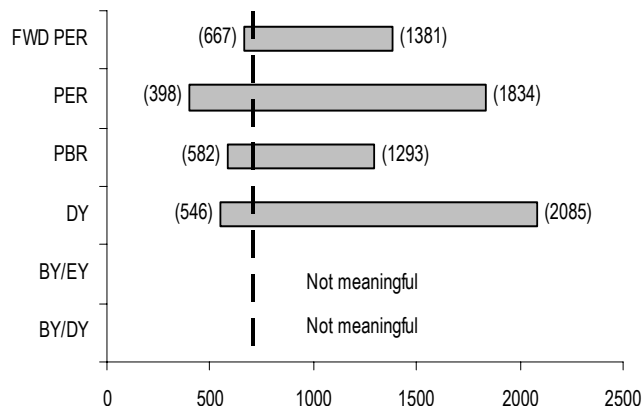
Risk Appetite			
US\$ Spread	Spot	-3M Δ	+3M Δ
BAA	3.1	0.7	na
EMBI	3.3	0.6	0.7
Country	2.7	0.8	na
Country Relative	-0.6	0.2	na

Foreign Fund Flows (US\$ mils)			
	Month	09 YTD Avg	12-Mo Avg
EM Funds*	6,919	2,573	3,992
EM Europe*	87	376	419
Russia	-509	-76	165

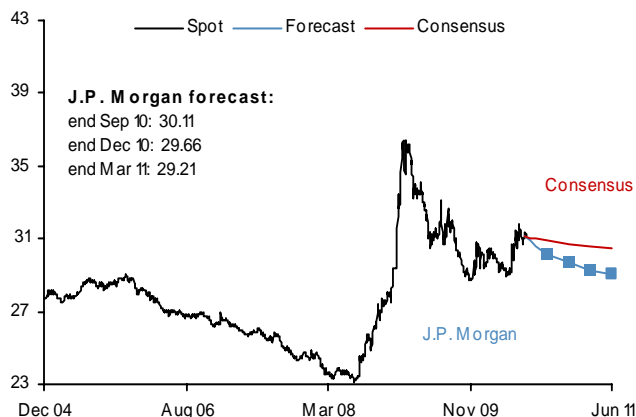
### MSCI Russia Absolute and Relative (vs EMF) Index



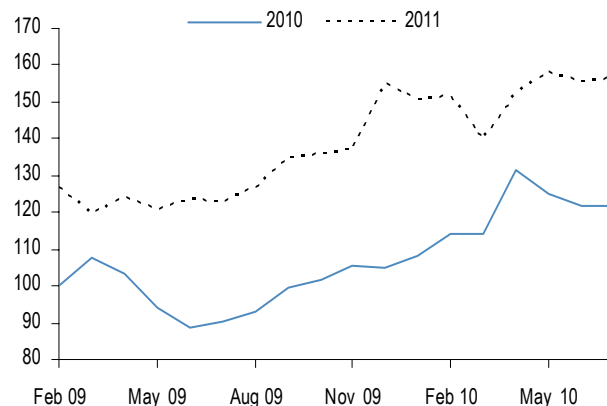
### MSCI Fair value Range



### Currency Outlook (RUB/USD)



### EPS Integer over Time



Source: MSCI, Bloomberg, IBES, Datastream, CEIC, J.P. Morgan, Consensus Economics. Unless stated all forecasts are J.P. Morgan's. The scorecards are designed to assist in tracking trends and expectations. -3MΔ refers to the change in this factor over the past three months and +3MΔ refers to the forecast change in this factor over the next three months. The Economic Forecast table contains J.P. Morgan's real GDP forecasts, the change in these forecasts over the past three months, the difference between these forecasts and the average for emerging markets and the final column is the difference between J.P. Morgan's forecast and consensus expectations. The MSCI Fair Value chart is designed to show current valuations relative 10 year valuation history. The vertical dotted line is the current index level. The five horizontal bars show a +/- one standard deviation range for these valuation measures. A dotted line to the left indicates a market that is cheap relative to history. \*US Mutual fund subscriptions

## India Market Strategy

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### Recommendation

OW: Private sector banks,  
Industrials, IT, Energy

UW: Telecom, Consumer  
Discretionary, SoE Banks

### Key drivers

Long-term economic growth

Continued cyclical recovery

### Key risks

Inflation

Global risk appetite

Market Statistics (%)	
MSCI India Index	724.1
Weightings in Region (%)	8.0
INR/US\$	46.7
Avg. Daily Turnover (US\$MM)	341
MSCI Total Mkt. Cap (US\$B)	232

Source: Datastream Prices as of 14 July 2010.

## India: Relative out performance continues

### Issues over the last 12 months

India's economy returned to strong growth in 2H09. With higher economic growth and surging inflation, Indian policy makers initiated the process of reversal in extra-supportive policy stance in Q4 2009. Food inflation has been one of the key contributors to the spike in inflation. Higher food inflation could be partially attributed to a weak monsoon last year. The Central Bank has also been explicit about its discomfort over the sharp rise in asset price inflation. Separately, in the general election last year, the INC got a significantly higher number of seats and the mandate boosted investor confidence. The BSE Sensex is up a significant 32% over the past 12 months led by IT, Health Care and Consumer Discretionary sectors.

### Outlook

We believe that the second half of the fiscal year should be good for Indian equities as the growth momentum led by investments picks up and concerns related to inflation eases. We remain cautious over the medium term though. The caution is primarily on account of relatively stretched valuations, start of policy normalization and uncertain global growth outlook. India remains overly dependent on external capital flows and a sustained global risk aversion may impact medium term growth outlook. The Central Bank here has started monetary policy normalization and our economics team expects it to continue over the current fiscal year. They also expect the INR to appreciate 8% vs. the US\$ by the fiscal year-end.

We believe that the current MSCI India consensus earnings growth expectation of 28% and 20% for FY11 and FY12 respectively is achievable. The key risk to current year earnings growth is from the Materials sector, which is contributing over 30% in FY11 growth. Metal prices have corrected sharply over the past two months and near-term outlook remains highly uncertain in the backdrop of European and Chinese developments.

### Recommendations

We are OW Industrials, private sector banks, Energy and IT services in our portfolio. We are UW Consumption, Telecom, and SoE banks. Our key themes are a) OW investments vs. Consumption b) Cautious on Metals c) Prefer private sector banks vs. PSU.

	Price (INR)	Code	JPM Rating	Mkt cap (US\$B)	P/E		EPS		Div Yld. 10E (%)	ROE 10E (%)
					10E (x)	11E (x)	10E (INR)	11E (INR)		
<b>Top picks</b>										
BHEL	2439	BHEL IN	OW	25.6	27.7	22.4	88.1	108.9	1.0	29.9
Reliance Inds	1073	RIL IN	OW	75.3	22.3	14.2	48.1	75.4	0.7	14.6
Axis Bank	1350	AXSB IN	OW	11.8	22.1	17.7	61.2	76.3	1.0	18.9
<b>Stock to Avoid</b>										
Bank of Baroda	717	BOB IN	UW	5.6	8.6	8.5	83.7	84.5	2.0	24.1

Source: Datastream, J.P. Morgan estimates. Note: The share price and valuations are as of 14 July 2010

## India scorecard

Key Financial Data Summary				
	EPS Growth	P/E	ROE	Yield
2008	-16.9	22.2	15.7	1.0
2009E	4.1	21.4	14.4	1.1
2010E	25.3	17.0	15.8	1.3
2011E	26.0	13.5	17.2	1.4

Economic Forecasts				
GDP (YoY)	Forecast	-3M Δ	- EMF	- Cons
2008	6.7	0.5	1.8	0.0
2009E	8.3	0.5	1.3	0.1
2010E	8.5	0.2	2.7	na

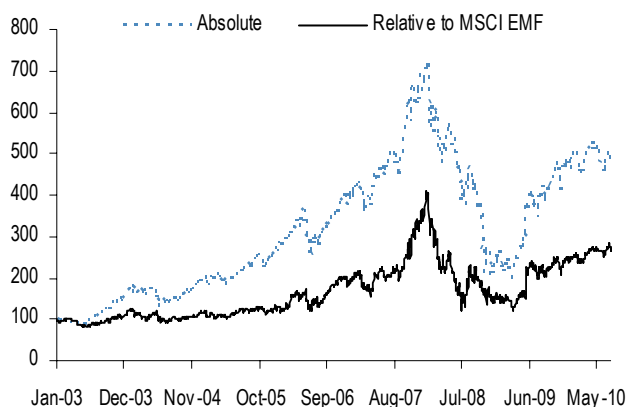
Economic Momentum				
GDP	Q1 10E	Q2 10E	Q3 10E	Q4 10E
GDP SAAR	9.2	8.1	8.0	8.9

Local Interest Rates and Inflation Trend			
	Spot	-3M Δ	+3M Δ
3 Month	6.4	2.2	-1.7
Long Bond	7.8	-0.3	0.7
Inflation	13.9	0.6	-0.1
Real 3 Month	-7.5	1.6	-1.5

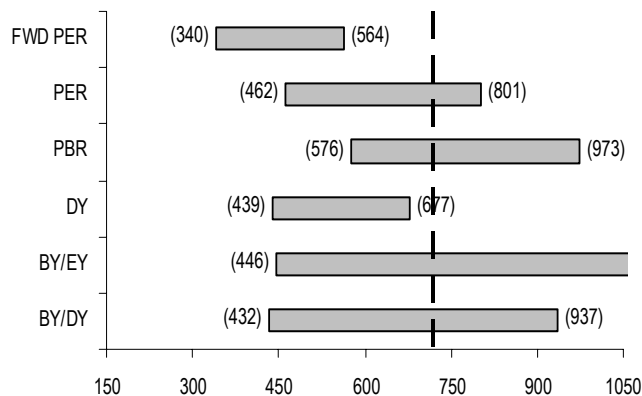
Risk Appetite			
US\$ Spread	Spot	-3M Δ	+3M Δ
BAA	3.1	0.7	na
EMBI	3.3	0.6	0.7
Country	na	na	na
Country Relative	na	na	na

Foreign Fund Flows (US\$ mils)			
	Month	09 YTD Avg	12-Mo Avg
EM Funds*	6,919	2,573	3,992
Asia ex Japan*	1,724	577	806
India	2,096	974	1,409

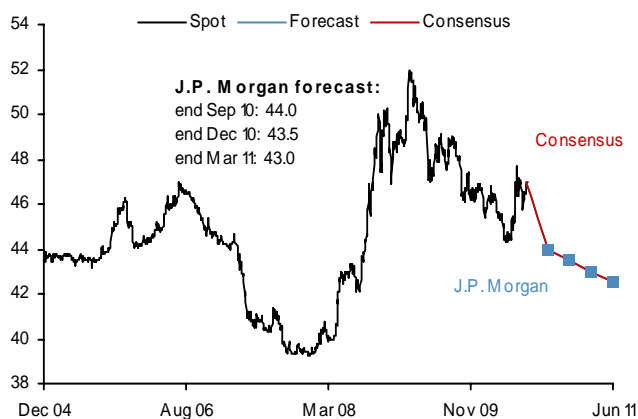
MSCI India Absolute and Relative (vs EMF) Index



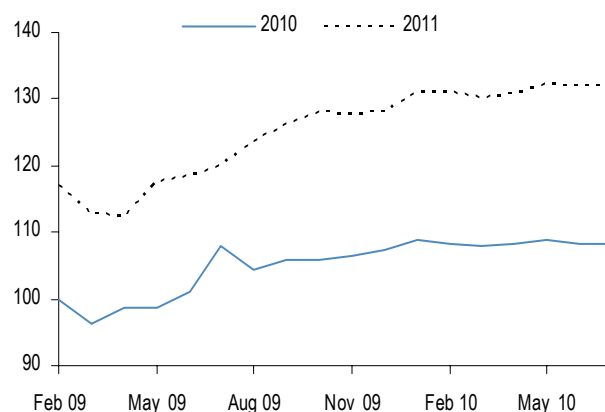
MSCI Fair value Range



Currency Outlook (INR/USD)



EPS Integer over Time



Source: MSCI, Bloomberg, IBES, Datastream, CEIC, J.P. Morgan, Consensus Economics. Unless stated all forecasts are J.P. Morgan's. The scorecards are designed to assist in tracking trends and expectations. -3MΔ refers to the change in this factor over the past three months and +3MΔ refers to the forecast change in this factor over the next three months. The Economic Forecast table contains J.P. Morgan's real GDP forecasts, the change in these forecasts over the past three months, the difference between these forecasts and the average for emerging markets and the final column is the difference between J.P. Morgan's forecast and consensus expectations. The MSCI Fair Value chart is designed to show current valuations relative 10 year valuation history. The vertical dotted line is the current index level. The five horizontal bars show a +/- one standard deviation range for these valuation measures. A dotted line to the left indicates a market that is cheap relative to history. \*US Mutual fund subscriptions.

## South Africa

### Market Strategy

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#### Recommendations

OW: Food retailers, banks

#### Key Drivers

Countercyclical accommodative monetary policy

Strong earnings recovery off a weak base

Upside growth risk in 2010/11E

Attractive valuations from a P/E vs. EPS growth profile

#### Key Risk

Currency vulnerability

#### Market Statistics (%)

MSCI South Africa Index	718.3
Weightings in Region (%)	7.4
ZAR/US\$	7.53
Avg. Daily Turnover (US\$MM)	1026
MSCI Total Mkt. Cap (US\$B)	215

Source: Datastream Prices as of 14 July 2010

## South Africa: Downgrade to neutral in EM

#### Issues over the last 12 months

Recent data releases raise the risk around South Africa's growth outlook in the second half of the year despite the surprisingly strong surge in 1Q household consumption. J.P. Morgan has marked down its growth projection to 2.8%q/q, saar and 3.4% for 3Q10 and 4Q10, respectively, from 3.5% and 3.7% previously. Full-year growth remains unchanged at 3%y/y, below consensus at 3.2%, after a strong start to the year. The SA PMI in June fell below the 50 mark to 48.4, contrary to expectations of a small recovery after a weak May print. To be sure, the soccer World Cup likely exacerbated the decline in the business activity subcomponent as working hours have been reduced.

#### Outlook

After outperforming MSCI EMF in the year to date (MSCI SA -3.9% versus MSCI EMF -6%), we downgraded SA to neutral. We believe that most of the key drivers of outperformance have largely played out in 1H10: (1) Growth recovery trade; (2) World Cup impetus; (3) Rerating catchup; and (4) Low beta safe-haven status.

1. Growth momentum fades in 2H10: The loss of growth momentum should also start to be reflected in retail sales. We project retail sales growth to ease modestly to 2.6%oya in May from 3.2% previously as the underlying dynamics are likely to become less supportive than before.
2. Lull after the World Cup: World Cup fever boosted consumer demand activity in 1H10 and in our estimates added some 0.4% to SA real GDP growth. We expect a cooling in demand activity in 2H10 as some 200 000 foreign World Cup tourists return home.
3. SA rating discount to EM closes: After trading at a discount of c10-15% to EM for most of 2009, SA's 12 month forward P/E is now in line with EM at 10.3x. Given the rolling over of SA's PMI and indications of some cooling in SA growth in 2H10, we do not expect SA to trade at a premium to EM.
4. Low beta safe-haven status: We believe that 3Q will present the best buying opportunity for EM equities given still strong growth fundamentals. SA's low beta, relatively low growth status makes it a less attractive destination in 2H10 on our expectations for resurgence in growth optimism in EM.

#### Recommendations

We recommend overweight relatively resilient food retailers in SA such as Shoprite and Spar and are also overweight SA Banks for a recovery in bad debts.

	Price (ZAR)	Code	JPM Rating	Mkt cap (US\$B)	P/E		EPS		Div Yld. 10E (%)	ROE 10E (%)
					10E (x)	11E (x)	10E (ZAR)	11E (ZAR)		
<b>Top picks</b>										
ARM	16795	ARI SJ	OW	4.7	4.7	4.4	3597.0	3839.0	3.0	25.7
Spar	8215	SPP SJ	OW	1.9	15.1	13.0	542.5	631.0	4.0	42.8
ABSA	13555	ASA SJ	OW	12.8	10.2	8.5	1323.0	1601.6	3.9	17.8
Shoprite	8912	SHP SJ	OW	6.4	20.1	16.7	442.4	532.5	2.5	40.1

Source: Datastream, J.P. Morgan estimates. Note: The share price and valuations are as of 14 July 2010.

## South Africa scorecard

Key Financial Data Summary				
	EPS Growth	P/E	ROE	Yield
2008	-24.9	13.4	16.9	3.4
2009E	-15.1	15.8	13.9	2.7
2010E	36.8	11.6	17.7	3.4
2011E	25.6	9.2	19.4	4.3

Economic Forecasts				
GDP (YoY)	Forecast	-3M Δ	- EMF	- Cons
2008	3.1	0.0	-1.8	0.0
2009E	3.0	0.0	-3.9	-0.1
2010E	3.5	0.0	-2.3	-0.1

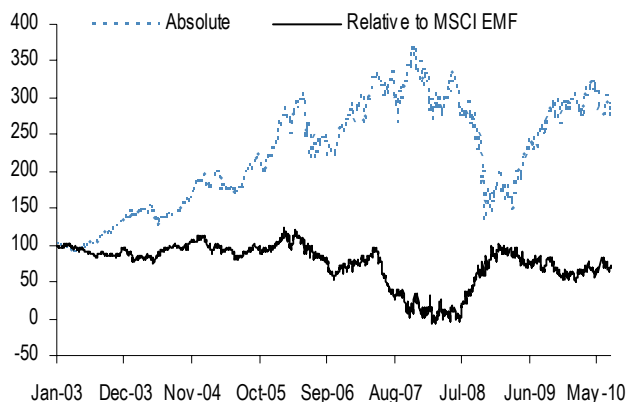
Economic Momentum				
GDP	Q1 10E	Q2 10E	Q3 10E	Q4 10E
GDP SAAR	4.6	3.9	2.8	3.4

Local Interest Rates and Inflation Trend			
	Spot	-3M Δ	+3M Δ
3 Month	6.5	-0.1	na
Long Bond	8.6	-0.1	na
Inflation	4.6	-0.2	0.1
Real 3 Month	1.9	0.1	na

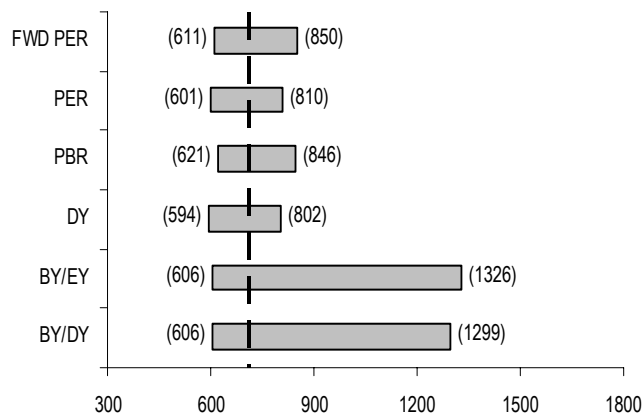
Risk Appetite			
US\$ Spread	Spot	-3M Δ	+3M Δ
BAA	3.1	0.7	na
EMBI	3.3	0.6	0.7
Country	1.9	0.2	na
Country Relative	-1.4	-0.4	na

Foreign Fund Flows (US\$ mils)			
	Month	09 YTD Avg	12-Mo Avg
EM Funds*	6,919	2,573	3,992
EM Europe*	87	376	419
South Africa	-86	342	506

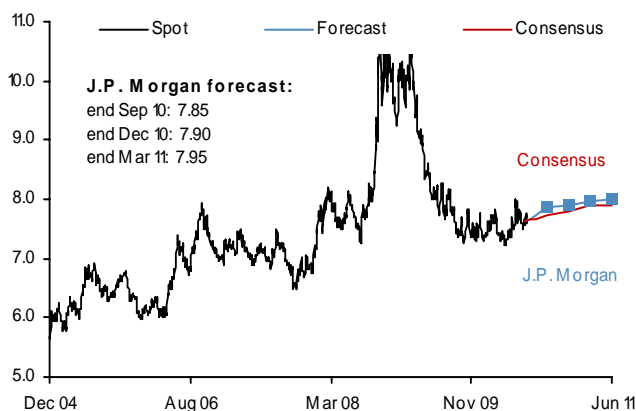
MSCI South Africa Absolute and Relative (vs EMF) Index



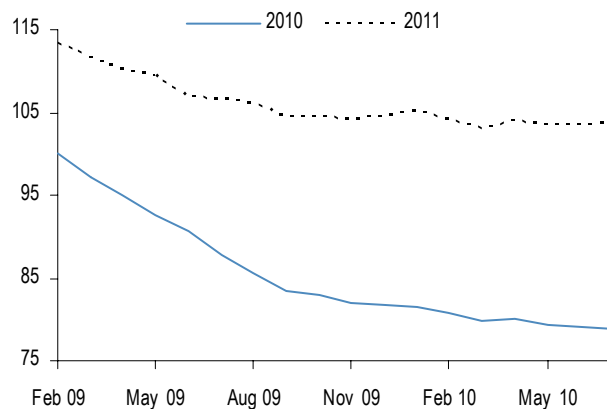
MSCI Fair value Range



Currency Outlook (ZAR/USD)



EPS Integer over Time



Source: MSCI, Bloomberg, IBES, Datastream, CEIC, J.P. Morgan, Consensus Economics. Unless stated all forecasts are J.P. Morgan's. The scorecards are designed to assist in tracking trends and expectations. -3MΔ refers to the change in this factor over the past three months and +3MΔ refers to the forecast change in this factor over the next three months. The Economic Forecast table contains J.P. Morgan's real GDP forecasts, the change in these forecasts over the past three months, the difference between these forecasts and the average for emerging markets and the final column is the difference between J.P. Morgan's forecast and consensus expectations. The MSCI Fair Value chart is designed to show current valuations relative 10 year valuation history. The vertical dotted line is the current index level. The five horizontal bars show a +/- one standard deviation range for these valuation measures. A dotted line to the left indicates a market that is cheap relative to history. \*US Mutual fund subscriptions

## Mexico

### Market Strategy

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#### Recommendation

OW: Domestic Cyclicals

UW: Fixed line Telco, Staples

#### Key drivers

US Growth Rebound to drive Mexico turnaround

Undervalued Mexican Peso

Underowned Mexican Market

#### Key risks

US and Mexican GDP growth downsides.

Small and Shrinking Equity Market

Medium Term Structural issues

Market Statistics (%)	
MSCI Mexico Index	29870
Weightings in Region (%)	4.7
MXN/US\$	12.73
Avg. Daily Turnover (US\$MM)	381
MSCI Total Mkt. Cap (US\$B)	138

Source: Datastream Prices as of 14 July 2010

## Mexico: Consumer Recovery

#### Issues over the last 12 months

The Mexican market has performed well in the 1H, outperforming both LatAm and Brazil. We expect a more muted relative performance in the 2H, as the cyclical US and Mexican recovery slows. This will only partly be compensated, in our view, by the gradual recovery of Mexican domestic demand. We are currently OW, transitioning from a cyclical to a consumer focus.

#### Outlook

Our economics team forecasts Mexico to grow 4.5% in 2010. Whilst US leading indicators have peaked, we still expect only a moderate deceleration in the 2H. This should provide some support to the ongoing Mexican recovery, but tail risks have been rising. The macro recovery continues to be manufacturing led. IP came in at 8.4% oya in May, above market expectations, and auto production +102% in June. Consumption leading indicators have also been improving - employment, confidence, remittances, and purchasing power - and we expect consumption to strengthen as we move into the 2H. On the monetary policy front, we expect Banxico not to raise rates till 4Q10 as the output gap remains wide and inflation expectations remain well-anchored. We continue to see upside risks to the Mexican Peso, supported by its medium term underperformance, undemanding REER valuation, and robust shorter term growth outlook. The market still is somewhat under-owned, by domestic pension funds and global investors. EM investors have been trimming positions though remain fully invested. Mexico is trading at a premium to emerging markets. Whilst we think this is partly justified - by lower cost of equity and high ROE - and is also somewhat overstated - by sector composition (2/3 of index is 'defensive' domestic stocks) - it remains a constraint to significant multiple expansion.

#### Recommendations

The Mexico portion of our portfolio continues to have a significant weight in cyclical stocks - Ternium (steel), ICA (construction) - as we still see value, earnings revision upside, and continued growth momentum. We have been broadening the portfolio to position for the expected acceleration in consumer demand - America Movil (telecom), Urbi (homebuilder), First Cash (consumer finance).

	Price (MXN)	Code	JPM Rating	Mkt cap (US\$B)	P/E		EPS		Div Yld. 10E (%)	ROE 10E (%)
					10E (x)	11E (x)	10E (MXN)	11E (MXN)		
<b>Top picks</b>										
Cemex	9.9	CX US	NR	10.7	31.8	14.3	0.3	0.7	NA	NA
Ternium	36.6	TX US	OW	7.3	9.6	8.7	3.8	4.2	1.4	13.6
Urbi	24.6	URBI* MM	OW	1.9	11.3	9.3	2.2	2.7	0.0	12.9
ICA	31.2	ICA* MM	OW	1.6	29.2	21.1	1.1	1.5	0.0	3.6
First Cash	23.3	FCFS US	OW	0.7	14.5	12.6	1.6	1.9	na	18.0
Televisa	18.8	TV US	OW	11.0	19.4	13.6	12.3	17.5	1.4	14.7
<b>Stocks to Avoid</b>										
Telmex	14.8	TMX US	UW	13.4	10.6	11.1	17.8	16.9	5.3	46.7
Walmex	29.7	WALMEXV MM	N	42.0	24.8	21.4	1.2	1.4	1.2	17.8

Source: DataStream, J.P.Morgan estimates. Note: The share price and valuations are as of 14 July 2010.



## Mexico scorecard

Key Financial Data Summary				
	EPS Growth	P/E	ROE	Yield
2008	-27.2	19.8	8.2	1.9
2009E	19.8	16.5	8.8	2.5
2010E	22.5	13.5	17.1	2.7
2011E	13.8	11.8	20.3	3.5

Economic Forecasts				
GDP (YoY)	Forecast	-3M Δ	- EMF	- Cons
2008	1.3	0.0	-3.6	0.0
2009E	4.5	0.0	-2.5	0.1
2010E	3.5	0.0	-2.3	-0.1

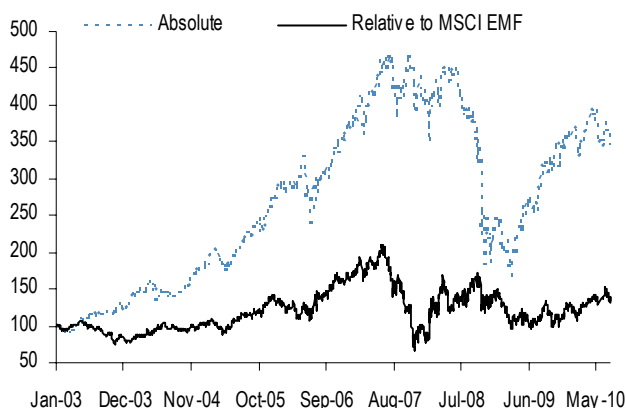
Economic Momentum				
GDP	Q1 10E	Q2 10E	Q3 10E	Q4 10E
GDP SAAR	-1.4	3.2	-1.8	4.2

Local Interest Rates and Inflation Trend			
	Spot	-3M Δ	+3M Δ
3 Month	4.8	0.0	na
Long Bond	4.8	-0.3	na
Inflation	3.7	-0.6	0.9
Real 3 Month	1.1	0.6	na

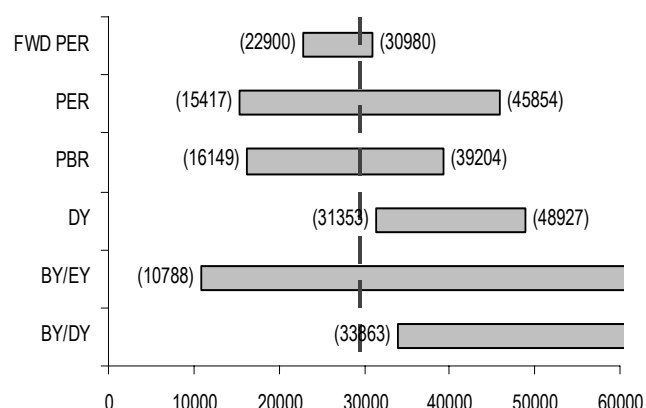
Risk Appetite			
US\$ Spread	Spot	-3M Δ	+3M Δ
BAA	3.1	0.7	na
EMBI	3.3	0.6	0.7
Country	2.0	0.2	na
Country Relative	-1.4	-0.4	na

Foreign Fund Flows (US\$ mils)			
	Month	09 YTD Avg	12-Mo Avg
EM Funds*	6,919	2,573	3,992
LatAm*	-452	-334	124
Mexico	-256	-186	-51

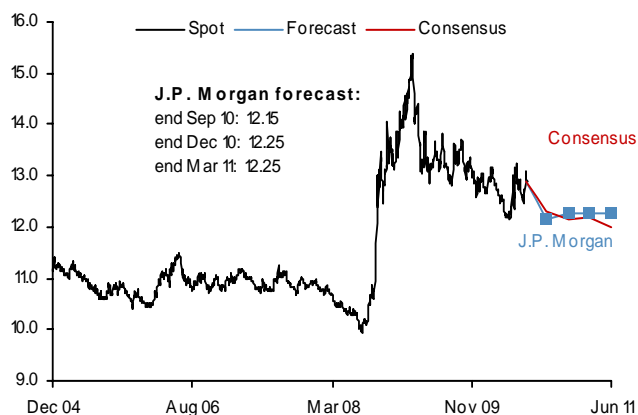
MSCI Mexico Absolute and Relative (vs EMF) Index



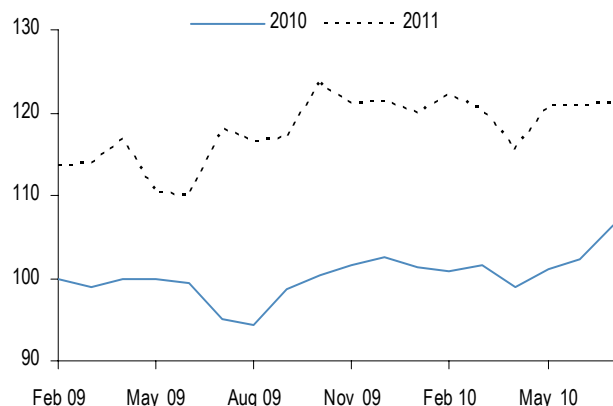
MSCI Fair value Range



Currency Outlook (MXN/USD)



EPS Integer over Time



Source: MSCI, Bloomberg, IBES, Datastream, CEIC, J.P. Morgan, Consensus Economics. Unless stated all forecasts are J.P. Morgan's. The scorecards are designed to assist in tracking trends and expectations. -3MΔ refers to the change in this factor over the past three months and +3MΔ refers to the forecast change in this factor over the next three months. The Economic Forecast table contains J.P. Morgan's real GDP forecasts, the change in these forecasts over the past three months, the difference between these forecasts and the average for emerging markets and the final column is the difference between J.P. Morgan's forecast and consensus expectations. The MSCI Fair Value chart is designed to show current valuations relative 10 year valuation history. The vertical dotted line is the current index level. The five horizontal bars show a +/- one standard deviation range for these valuation measures. A dotted line to the left indicates a market that is cheap relative to history. \*US Mutual fund subscriptions

## Malaysia Market Strategy

### Chris Oh<sup>AC</sup>

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OW: Banks, GLCs and gaming stocks, Construction, property and oil and gas mid caps.

N: Plantations

UW: Cyclical stocks that have run ahead of valuations.

### Key Drivers

Strong macro economic recovery driving earnings growth

Structural reforms, government pump-priming under 10MP

Pro-growth monetary policy, mergers & acquisitions

### Key Risks

Political uncertainty, policy flip flops

External shocks which may derail external demand momentum

#### Market Statistics (%)

MSCI Malaysia Index	488.9
Weightings in Region (%)	2.9
MYR/US\$	3.2
Avg. Daily Turnover (US\$MM)	223
MSCI Total Mkt. Cap (US\$B)	84

Source: Datastream Prices as of 14 July 2010..

## Malaysia: Reform agenda keeping the buzz

### Issues over the last 12 months

We are seeing incremental evidence of a government willing to tackle the difficult issues at hand. Consider the following news flow over the past few months:- 1) Improving bilateral ties with Singapore; 2) Bringing to fore the deficiencies of the economy for public discussion via the unveiling of the New Economic Model and raising the issue of subsidy rationalization; 3) Public removal of the Sime Darby CEO for cost overruns in its energy division. On the macro front, domestic demand indicators since 2Q09 have been on a solid upward trajectory and, together with strong credit growth data, suggest that the underlying momentum remains firm. J.P. Morgan is forecasting real GDP of 7.7% for 2010. We believe the positive macro story provides a solid backdrop for Malaysia equities in 2010 from both an earnings growth perspective (CY10E earnings growth of 22% and CY11 of 16%) as well as potential foreign capital inflows.

### Outlook

Investors remain sidelined as they wait for PM Najib to implement previously announced reform policy measures. Key events to look out for include:- 1) Part 2 of the New Economic Model (NEM) document and the 10MP (which is expected to incorporate details of policy implementation to address structural weaknesses identified under NEM Part 1), 2) fiscal discipline, 3) greater economic corporation between Malaysia-Singapore, and 4) more evidence of improvements in the government delivery system and the GLCs. Key risks include policy flip-flops, the long lead time to implement measures and the need for political buy-in following the introduction of various reform initiatives. While we believe a market re-rating is undeserved at this stage, we believe the risk is on the upside should implementation happen given the low base of expectations.

### Recommendation

Malaysia's market PE premium has now widened to around 20% in this market correction making it difficult for investors to justify on valuation grounds. However, the market remains relatively insular with domestic institutions (with consistent inflows) dominating trading while foreign investors shy away due to the lack of secular growth and relatively expensive valuations. Should external uncertainties clear (as is our base case), Malaysia's low beta status is likely to mean it lags on the rebound. That said, should reform implementation surprise on the upside, we are of the view that the market could potential see a structural valuation re-rating. We would tactically be focused on owning companies that benefit from a recovering economy but have less downside risks. Key picks would be AMMB, Public Bank, Tenaga, Genting and IJM Corp.

	Price (MYR)	Code	JPM Rating	Mkt cap (US\$B)	P/E		EPS		Div Yld. 10E (%)	ROE 10E (%)
					10E (x)	11E (x)	10E (MYR)	11E (MYR)		
<b>Top picks</b>										
AMMB Holdings	5.1	AMM MK	OW	4.8	15.3	11.6	0.3	0.4	1.6	11.5
Genting	7.4	GENT MK	OW	8.6	23.0	14.1	0.3	0.5	1.0	8.3
IJM Corp	2.3	IJMLD MK	OW	0.8	22.9	11.1	0.1	0.2	0.9	6.8
Tenaga	8.6	TNB MK	OW	11.7	13.7	12.1	0.6	0.7	2.5	10.1
Public Bank	12.0	PBKF MK	OW	13.3	13.7	12.7	0.9	0.9	3.7	26.5
<b>Stocks to Avoid</b>										
Bursa Malaysia	7.0	BURSA MK	UW	1.2	23.3	21.3	0.3	0.3	3.9	19.2
BAT	43.9	ROTH MK	UW	3.9	18.6	17.6	2.4	2.5	4.8	142.7
YTL Power	2.2	YTLP MK	UW	5.1	13.1	11.8	0.2	0.2	8.2	15.9

Source: Datastream, J.P. Morgan estimates. Note: The share price and valuations are as of 14 July 2010.

## Malaysia scorecard

Key Financial Data Summary				
	EPS Growth	P/E	ROE	Yield
2008	-13.0	19.1	11.5	2.7
2009E	0.5	19.0	11.2	2.6
2010E	23.0	15.4	13.1	3.3
2011E	16.3	13.3	14.2	3.6

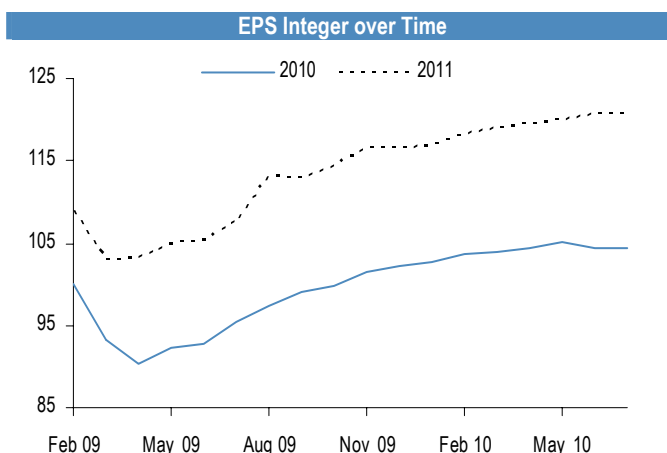
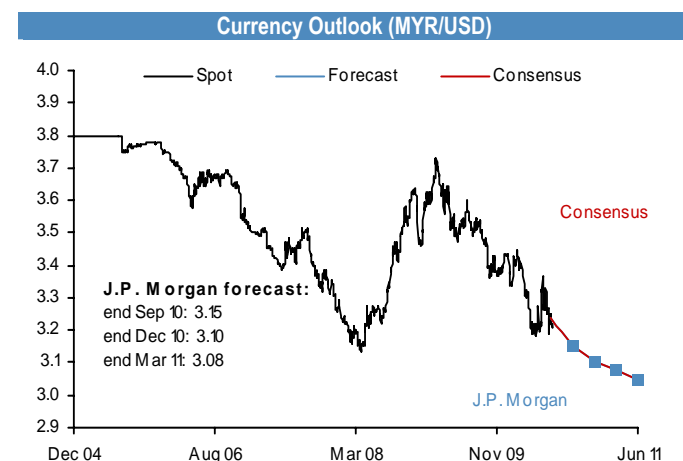
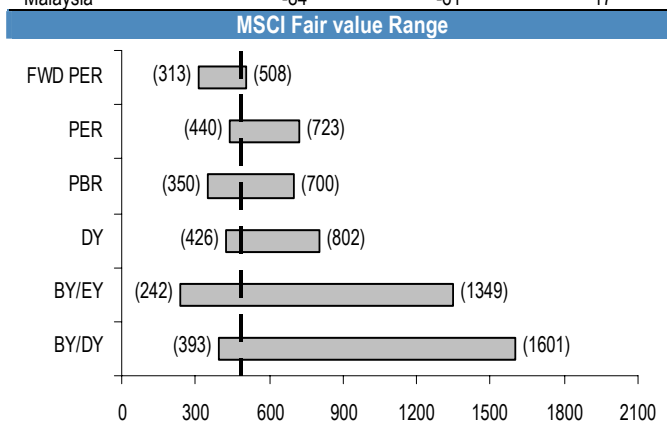
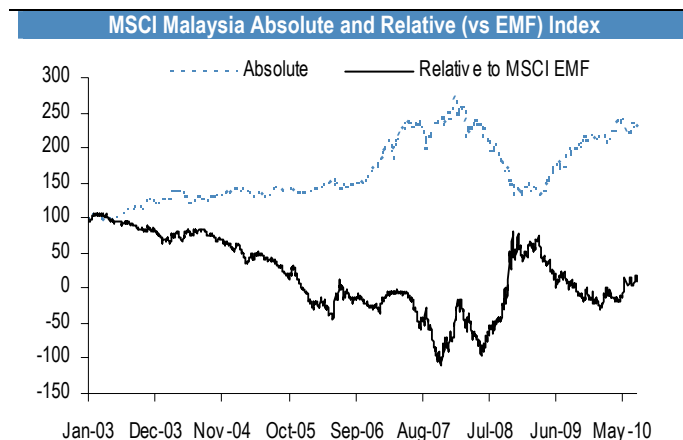
Local Interest Rates and Inflation Trend			
	Spot	-3M Δ	+3M Δ
3 Month	2.9	0.5	0.1
Long Bond	3.9	-0.2	0.4
Inflation	1.6	0.0	1.1
Real 3 Month	1.3	0.4	-1.0

Economic Forecasts				
GDP (YoY)	Forecast	-3M Δ	- EMF	- Cons
2008	4.7	-0.4	-0.2	0.0
2009E	7.7	2.7	0.7	2.7
2010E	4.8	-0.3	-1.0	0.3

Risk Appetite			
US\$ Spread	Spot	-3M Δ	+3M Δ
BAA	3.1	0.7	na
EMBI	3.3	0.6	0.7
Country	1.6	0.3	na
Country Relative	-1.7	-0.3	na

Economic Momentum				
GDP	Q1 10E	Q2 10E	Q3 10E	Q4 10E
GDP SAAR	5.0	4.0	5.0	5.0

Foreign Fund Flows (US\$ mils)			
	Month	09 YTD Avg	12-Mo Avg
EM Funds*	6,919	2,573	3,992
Asia ex Japan*	1,724	577	806
Malaysia	-84	-61	17



Source: MSCI, Bloomberg, IBES, Datastream, CEIC, J.P. Morgan, Consensus Economics. Unless stated all forecasts are J.P. Morgan's. The scorecards are designed to assist in tracking trends and expectations. -3MΔ refers to the change in this factor over the past three months and +3MΔ refers to the forecast change in this factor over the next three months. The Economic Forecast table contains J.P. Morgan's real GDP forecasts, the change in these forecasts over the past three months, the difference between these forecasts and the average for emerging markets and the final column is the difference between J.P. Morgan's forecast and consensus expectations. The MSCI Fair Value chart is designed to show current valuations relative 10 year valuation history. The vertical dotted line is the current index level. The five horizontal bars show a +/- one standard deviation range for these valuation measures. A dotted line to the left indicates a market that is cheap relative to history. \*US Mutual fund subscriptions.

## Thailand Market Strategy

### Sriyan Pietersz<sup>AC</sup>

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### Recommendations

OW: Banks, Consumer

### Key drivers

Improving macroeconomic momentum

Earnings upgrades, political roadmap for reconciliation and elections,

Stronger currency

### Key risks

Continuation of political instability/global demand slump

Stalling of fiscal stimulus.

## Thailand: Resilient despite turmoil

### Issues over the last 12 months

Despite violent protests, Thai equities are up YTD. Corporate and sovereign balance sheets remained healthy. GDP growth in 1Q10 was significantly stronger than expectations; +16% q/q (cf. +15.5% q/q in 4Q09). The disruption caused by the Red Shirt protest in Bangkok has hit tourist related businesses. The impact on industrial activity appears limited, if any. High frequency data for 2Q indicates that consumption is particularly robust, with auto sales and retail sales accelerating strongly.

### Outlook

Despite making a downward adjustment to forecasts for the remaining three quarters based on the anticipated effects of the political unrest, overall FY10 GDP growth has been revised up to 8.5% y/y due to the strength of the 1Q performance. J.P. Morgan Economics notes the potential risks of a hit to high season tourism and/or private investment activity, and is consequently forecasting well-below trend quarterly growth in 2H10 of 2.8% q/q (2H03-1H08 avg. growth of 5.3%), and a -2% q/q contraction in 2Q10. Strong hi-frequency data suggest a high probability of an upside surprise on growth. Although the political outlook remains uncertain, we see a low probability of near term recurrence of Red Shirt protests; unless the government decides against an early election. Foreign funds have reversed, with net sales of US\$0.55bn YTD from net purchases of US\$1.2bn at the beginning of May 10. Foreign investors may not return in the near term, given increased global risk aversion, but we see the SET well-underpinned. Potential upside surprises on growth could thus squeeze the index higher on earnings revisions and continued re-rating.

### Recommendations

We continue to hold our positive view on Thailand given the economic momentum and the resilience of the fundamentals so far. We like KBANK as a beneficiary of higher policy rates, while laggard SCB could also play catch-up as corporate and consumer loan momentum gathers pace in 2H10. We would take profits on out-performer TISCO, which while still well-positioned for growth, is likely to see NIM contraction on higher policy rates given the shorter duration of its liabilities relative to assets. We also like PTT, SCC, PS and LH, which we expect to benefit from stronger domestic spending, a premise that is supported by recent strong consumer data. SCC is also defensively positioned against the potential fallout from a euro crisis - a slump in demand driving oil prices lower would be a net positive for SCC, in our view.

#### Market Statistics (%)

MSCI Thailand Index	322.5
Weightings in Region (%)	1.5
THB/US\$	32.3
Avg. Daily Turnover (US\$MM)	420
MSCI Total Mkt. Cap (US\$B)	44

Source: Datastream Prices as of 14 July 2010.

	Price (THB)	Code	JPM Rating	Mkt cap (US\$B)	P/E		EPS		Div Yld. 10E (%)	ROE 10E (%)
					10E (x)	11E (x)	10E (THB)	11E (THB)		
<b>Top picks</b>										
Kasikornbank	92.5	KBANK TB	OW	6.9	12.4	9.6	7.5	9.6	3.0	15.0
Siam Commercial Bank	84.0	SCB TB	N	8.8	12.8	11.2	6.6	7.5	3.0	15.2
PTT	246.0	PTT TB	OW	21.7	9.4	8.0	26.2	30.6	3.9	16.4
Siam Cement	271.0	SCC/F TB	OW	10.1	12.4	10.8	21.8	25.1	3.1	23.3
Land and Houses	5.9	LH TB	OW	1.8	13.7	11.8	0.4	0.5	5.8	16.1
Pruska Real Estate	19.5	PS TB	OW	1.3	10.3	9.1	1.9	2.2	3.4	29.1
<b>Stocks to Avoid</b>										
TMB Bank	1.9	TMB TB	N	2.6	27.6	23.4	0.1	0.1	1.0	6.3
PTT Chemicals	101.5	PTTCH TB	N	4.7	14.8	8.8	6.9	11.5	3.0	10.0

Source: Datastream, J.P. Morgan estimates. Note: The share price and valuations are as of 14 July 2010

## Thailand scorecard

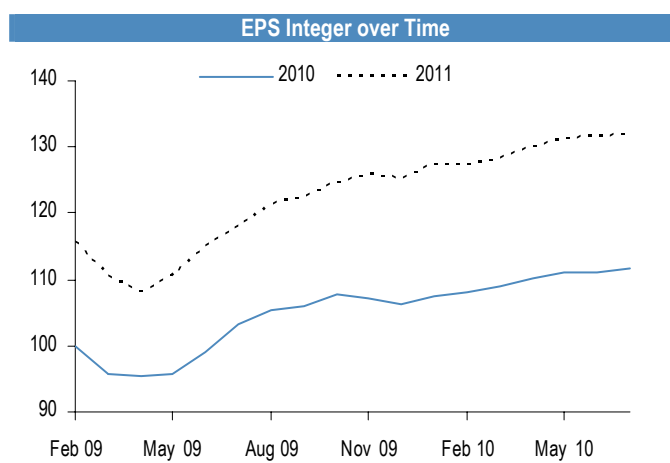
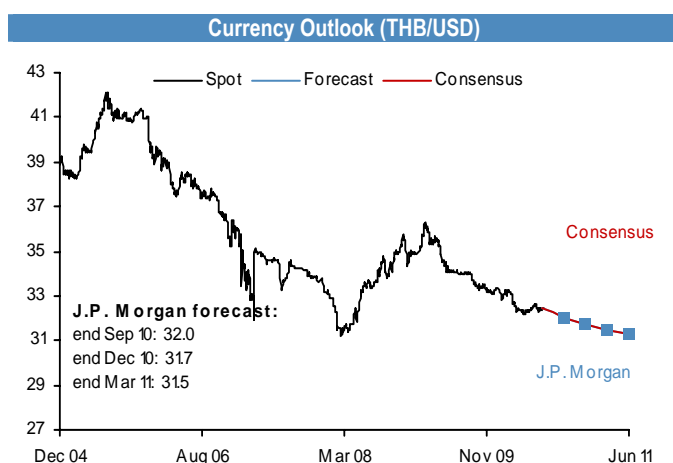
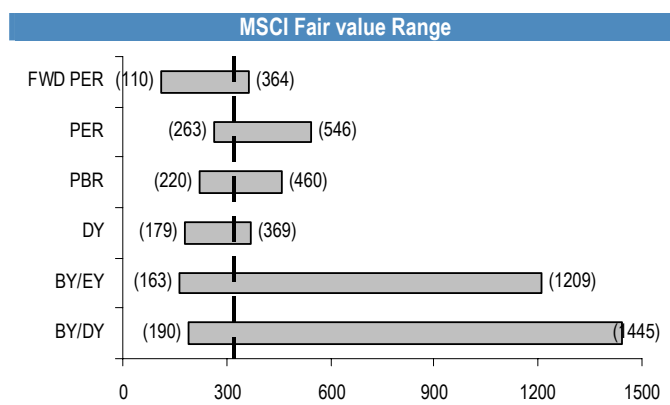
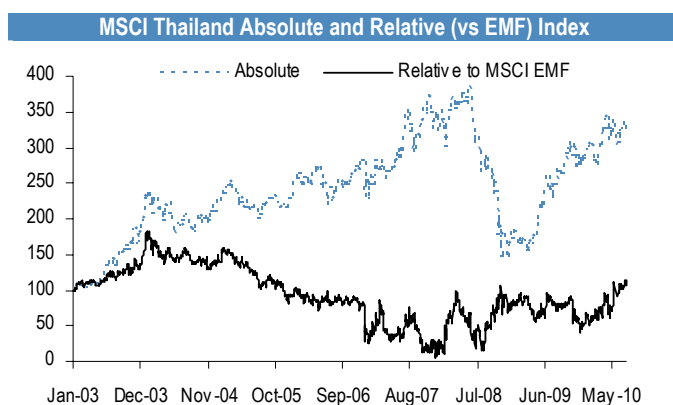
Key Financial Data Summary					Local Interest Rates and Inflation Trend			
	EPS Growth	P/E	ROE	Yield		Spot	-3M Δ	+3M Δ
2008	14.6	19.4	11.4	3.2	3 Month	1.4	0.0	0.0
2009E	41.3	13.7	16.0	3.3	Long Bond	3.4	-0.1	0.6
2010E	15.3	11.9	16.8	3.9	Inflation	3.3	0.4	2.2
2011E	16.4	10.2	17.6	4.1	Real 3 Month	-1.9	-0.4	-2.2

Economic Forecasts					Risk Appetite			
GDP (YoY)	Forecast	-3M Δ	- EMF	- Cons	US\$ Spread	Spot	-3M Δ	+3M Δ
2008	2.5	-0.9	-2.4	0.0	BAA	3.1	0.7	na
2009E	8.5	2.0	1.5	3.2	EMBI	3.3	0.6	0.7
2010E	5.0	1.0	-0.8	0.6	Country	0.5	0.0	na
					Country Relative	-2.8	-0.6	na

Economic Momentum					Foreign Fund Flows (US\$ mils)			
GDP	Q1 10E	Q2 10E	Q3 10E	Q4 10E		Month	09 YTD Avg	12-Mo Avg
GDP SAAR	16.0	-2.0	2.8	2.8	EM Funds*	6,919	2,573	3,992
					Asia ex Japan*	1,724	577	806
					Thailand	92	-92	-32



Source: MSCI, Bloomberg, IBES, Datastream, CEIC, J.P. Morgan, Consensus Economics. Unless stated all forecasts are J.P. Morgan's. The scorecards are designed to assist in tracking trends and expectations. -3MΔ refers to the change in this factor over the past three months and +3MΔ refers to the forecast change in this factor over the next three months. The Economic Forecast table contains J.P. Morgan's real GDP forecasts, the change in these forecasts over the past three months, the difference between these forecasts and the average for emerging markets and the final column is the difference between J.P. Morgan's forecast and consensus expectations. The MSCI Fair Value chart is designed to show current valuations relative 10 year valuation history. The vertical dotted line is the current index level. The five horizontal bars show a +/- one standard deviation range for these valuation measures. A dotted line to the left indicates a market that is cheap relative to history.  
 \*US Mutual fund subscriptions

## Indonesia

### Market Strategy

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#### Recommendation

OW: Consumer staples, consumer discretionary

N: Financials, Telcos

UW: Resources, utilities

#### Key drivers

Recovering currency, declining inflation

Declining country risk perception

Strong growth, benign interest rates

Improving terms of trade

#### Key risks

Valuations & rising OW positions of fund managers

Vulnerability to rising crude prices

Politics curbing reform prospects

#### Market Statistics (%)

MSCI Indonesia Index	4043.0
Weightings in Region (%)	2.3
IDR/US\$	9048
Avg. Daily Turnover (US\$MM)	275
MSCI Total Mkt. Cap (US\$B)	68

Source: Datastream Prices as of 14 July 2010..

## Indonesia: Return of manufacturing competitiveness

### Issues over the last 12 months

Market remains strong, as the dip in May was quickly reversed in June. We see limited impact from Europe and the influx of foreign money into Indonesia has kept the bond yield stable. Inflation was rising in the months of May-June10; however, it remains benign and interest rates have remained stable at 6.5% for FY10. The recent appointment of Agus Martwardojo as Finance Minister suggested intent of reform; however, the new parliament has passed no significant laws up to date. The reform prospects might be slower than expectations due to lack of parliamentary and bureaucratic reform.

### Outlook

We expect the market to be range-bound in the near term, with JCI target of 3,000, as relative valuations and high overweight limits the upside. We expect 16-20% earnings growth p.a. over FY10-11, and at around 13x 12M forward PE, we think valuation are not highly demanding. The signs of recovery in manufacturing could offer a new driver for growth. Indonesia's average wage is among the lowest in the region, and we see increasing market share in textiles and footwear market. Investment for manufacturing has grown by 38% in 2007-2009 versus 2004-2006 and job creation in manufacturing has started picking up. We view that growth in manufacturing is likely to spur consumption and consumer discretionary purchases.

### Recommendations

We prefer consumer and discretionary stocks if the manufacturing growths play out, and are overweight on Astra International, Semen Gresik, Indofood. We raised Indofood target price in June to Rp5,000 as we expect the spin off of ICBP to unlock valuations, hence boost Indofood's share price momentum. Astra International is also another large-cap pick as the 2W profitability is recovering. We are underweight on Bank Rakyat as we are worried that its stress on growth is resulting in new NPL formation running at a higher pace than its history or peers, which we think is not adequately appreciated by markets – even though the bank has underperformed market and domestic banking sector YTD. We maintain PGAS as UW, fearing earnings downside as gas supplies have declined more than expected.

	Price (IDR)	Code	JPM Rating	Mkt cap (US\$B)	P/E		EPS		Div Yld. 10E (%)	ROE 10E (%)
					10E (x)	11E (x)	10E (IDR)	11E (IDR)		
<b>Top picks</b>										
Astra Internatiol	49850	ASII IJ	OW	22.3	15.5	14.4	3219.6	3459.5	2.6	29.8
Indofood Sukses	4325	INDF IJ	OW	4.2	15.7	13.4	275.8	323.2	2.2	22.6
Bank Mandiri	6300	BMRI IJ	OW	14.6	14.7	13.1	429.5	481.8	2.5	23.5
<b>Stocks to Avoid</b>										
Perusahaan Gas	4025	PGAS IJ	UW	10.8	16.7	15.2	241.4	264.9	3.2	44.3
Bank Rakyat	9800	BBRI IJ	UW	13.4	14.2	11.6	688.7	844.6	1.7	27.8

Source: DataStream, J.P. Morgan estimates. Note: The share price and valuations are as of 14 July 2010.



## Indonesia scorecard

Key Financial Data Summary				
	EPS Growth	P/E	ROE	Yield
2008	4.8	21.3	25.0	1.6
2009E	20.7	17.6	26.4	2.1
2010E	17.8	15.0	26.0	2.7
2011E	16.9	12.8	25.8	3.3

Local Interest Rates and Inflation Trend			
	Spot	-3M Δ	+3M Δ
3 Month	6.6	0.1	0.1
Long Bond	8.2	-0.4	0.5
Inflation	5.0	1.0	0.8
Real 3 Month	1.6	-0.9	-0.7

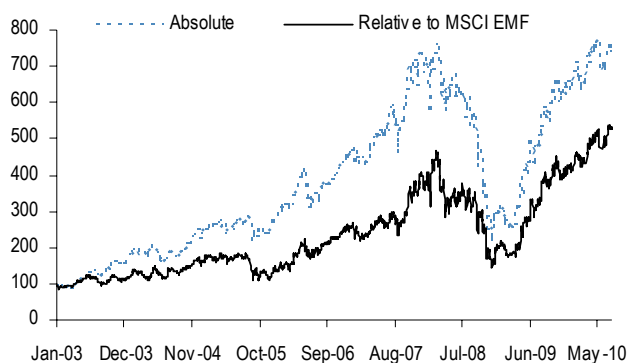
Economic Forecasts				
GDP (YoY)	Forecast	-3M Δ	- EMF	- Cons
2008	6.1	0.0	1.2	0.0
2009E	6.2	0.7	-0.7	0.4
2010E	5.7	-0.9	-0.1	-0.5

Risk Appetite			
US\$ Spread	Spot	-3M Δ	+3M Δ
BAA	3.1	0.7	na
EMBI	3.3	0.6	0.7
Country	na	na	na
Country Relative	na	na	na

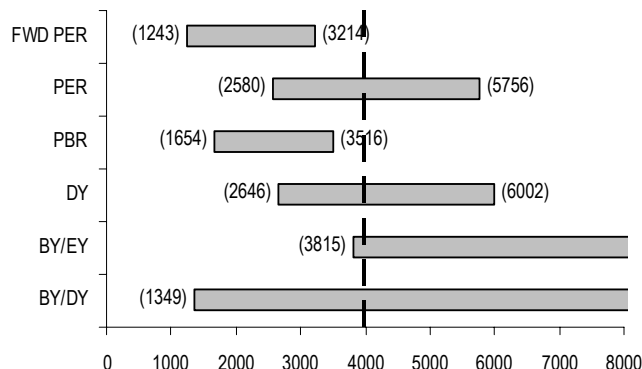
Economic Momentum				
GDP	Q1 10E	Q2 10E	Q3 10E	Q4 10E
GDP SAAR	5.4	7.0	6.0	6.0

Foreign Fund Flows (US\$ mils)			
	Month	09 YTD Avg	12-Mo Avg
EM Funds*	6,919	2,573	3,992
Asia ex Japan*	1,724	577	806
Indonesia	493	126	121

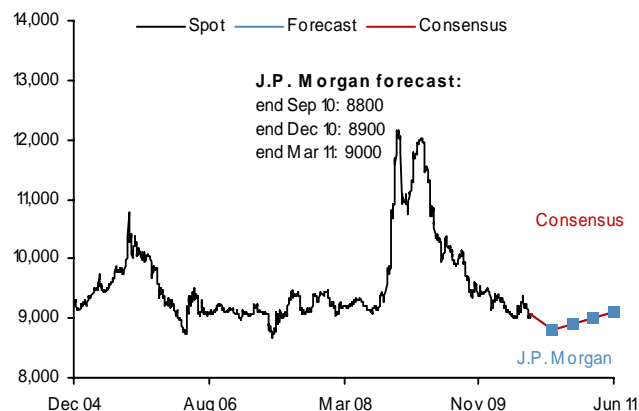
MSCI Indonesia Absolute and Relative (vs EMF) Index



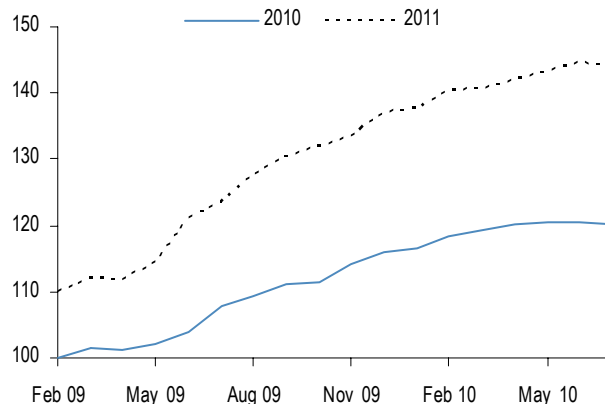
MSCI Fair value Range



Currency Outlook (IDR/USD)



EPS Integer over Time



Source: MSCI, Bloomberg, IBES, Datastream, CEIC, J.P. Morgan, Consensus Economics. Unless stated all forecasts are J.P. Morgan's. The scorecards are designed to assist in tracking trends and expectations. -3MΔ refers to the change in this factor over the past three months and +3MΔ refers to the forecast change in this factor over the next three months. The Economic Forecast table contains J.P. Morgan's real GDP forecasts, the change in these forecasts over the past three months, the difference between these forecasts and the average for emerging markets and the final column is the difference between J.P. Morgan's forecast and consensus expectations. The MSCI Fair Value chart is designed to show current valuations relative 10 year valuation history. The vertical dotted line is the current index level. The five horizontal bars show a +/- one standard deviation range for these valuation measures. A dotted line to the left indicates a market that is cheap relative to history. \*US Mutual fund subscriptions.

## Turkey

### Market Strategy

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#### Recommendation

OW: Domestic cyclicals

UW: Defensive plays

#### Key drivers

Low borrowing costs

Structural decline in interest rates

DM growth surprise

#### Key risks

Inflation and CBRT reaction

Political noise with the constitutional reform

Contagion from Euro sovereign stress

## Turkey: Cyclical view... secular trend

### Issues over the last 12 months

From December 2009 to January 2010, MSCI Turkey outperformed MSCI EM by 24%. This was followed by underperformance of 15% till mid-March. Since then it has outperformed EM by 16%. The backdrop for Turkish equities continues to remain favorable.

### Outlook

We remain positive on Turkey's structural growth prospects. Despite Euro area concerns, J.P. Morgan has revised Turkey's GDP growth forecast for 2010 from 5.1% to 5.9% as Turkey has limited trade and banking exposure to the more troubled southern periphery. We believe developed world economic growth will surprise on the upside. This along with strengthening domestic demand and a structurally low interest rate environment are supportive of economic growth. Inflationary pressures are weakening; June CPI fell from 9.1% to 8.4% oya. J.P. Morgan has revised Turkey's end-2010 headline CPI forecast to 6.9% oya from 7.2%. Due to the improvement in inflation dynamics and the downshift in global growth momentum, we now expect the CBRT to remain on hold until 2H11 vs. a cumulative 75bp hike in 4Q10.

Turkey's structural transformation and the improvement in economic fundamentals experienced over the past ten years have been largely attributed to the strong policy anchors provided by IMF programs and the EU convergence process. These lost relevance when the government decided to proceed without an IMF program and as the EU negotiations lost momentum. The government is hopeful that the fiscal rule to be implemented from 2011 onward will be the next powerful policy anchor. In our view, the fiscal rule is based on realistic assumptions and, if implemented rigorously, it could improve the government's credibility, facilitate Turkey's upgrade to investment grade status, and enhance the attractiveness of Turkish financial assets. Being a current account deficit economy, Turkish corporates should benefit from lower dollar funding costs and increased availability of credit.

### Recommendations

We remain overweight Turkey and recommend domestic consumption and investment names. We like the conglomerates that provide broad exposure to the economy. We believe Turkish banks offer an attractive investment case supported by improving macro outlook, improving volume growth and asset quality, and strong balance sheets. In addition, provisions should decline dramatically in the next 2-4 quarters further boosting EPS growth. Within financials we favor YKB and Vakifbank.

#### Market Statistics (%)

MSCI Turkey Index	854542
Weightings in Region (%)	1.6
TRL/US\$	1.5
Avg. Daily Turnover (US\$MM)	638
MSCI Total Mkt. Cap (US\$B)	48

Source: Datastream Prices as of 14 July 2010.

	Price (TRL)	Code	JPM Rating	Mkt cap (US\$B)	P/E		EPS		Div Yld. 10E (%)	ROE 10E (%)
					10E (x)	11E (x)	10E (TRL)	11E (TRL)		
<b>Top picks</b>										
Yapi Kredi Bank	4.4	YKBNK TI	OW	12.5	9.8	6.6	0.5	0.7	0.0	20.7
Sabancı Hldg	6.6	SAHOL TI	NR	9.3	NA	NA	NA	NA	NA	NA
Turkiye Vakifl	3.9	VAKBN TI	OW	6.4	7.1	5.6	0.6	0.7	4.2	17.5

Source: Datastream, J.P. Morgan estimates. Note: The share price and valuations are as of 14 July 2010.

## Turkey scorecard

Key Financial Data Summary				
	EPS Growth	P/E	ROE	Yield
2008	3.6	11.4	18.4	3.1
2009E	3.5	11.0	18.3	4.2
2010E	18.1	9.3	18.8	3.1
2011E	12.8	8.3	18.8	3.8

Economic Forecasts				
GDP (YoY)	Forecast	-3M Δ	- EMF	- Cons
2008	0.9	-0.8	-4.0	0.0
2009E	5.9	1.6	-1.1	1.0
2010E	5.0	-0.5	-0.7	1.0

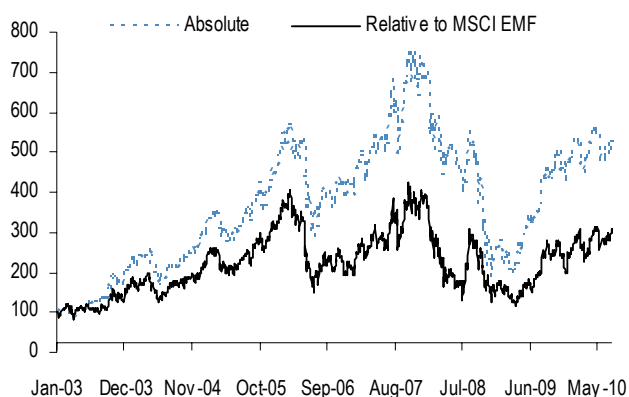
Economic Momentum				
GDP	Q1 10E	Q2 10E	Q3 10E	Q4 10E
GDP SAAR	6.0	5.4	-4.7	-6.2

Local Interest Rates and Inflation Trend			
	Spot	-3M Δ	+3M Δ
3 Month	7.7	0.2	na
Long Bond	9.2	0.3	-2.2
Inflation	8.4	-1.7	0.0
Real 3 Month	-0.6	1.9	na

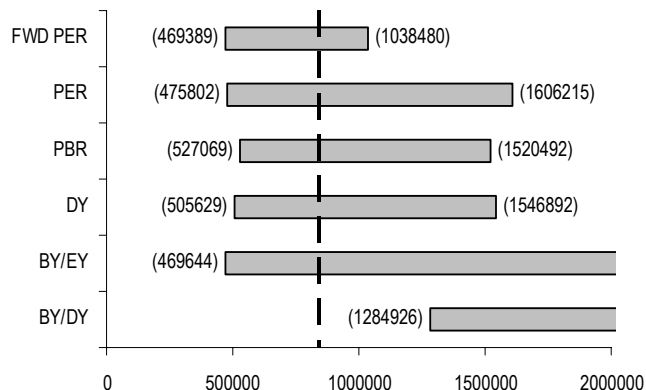
Risk Appetite			
US\$ Spread	Spot	-3M Δ	+3M Δ
BAA	3.1	0.7	na
EMBI	3.3	0.6	0.7
Country	2.6	0.3	na
Country Relative	-0.8	-0.3	na

Foreign Fund Flows (US\$ mils)			
	Month	09 YTD Avg	12-Mo Avg
EM Funds*	6,919	2,573	3,992
EM Europe*	87	376	419
Turkey	-42	-22	13

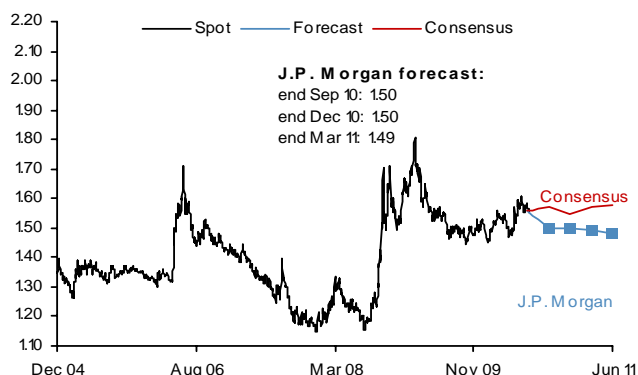
MSCI Turkey Absolute and Relative (vs EMF) Index



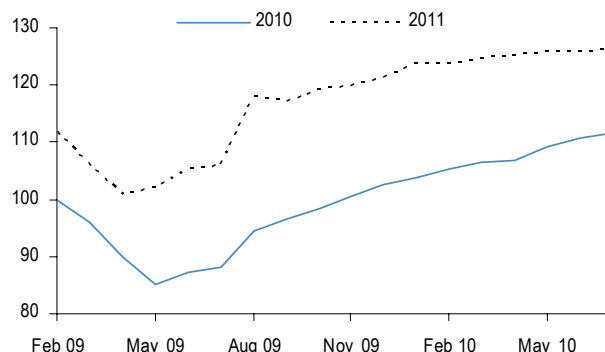
MSCI Fair value Range



Currency Outlook (TRL/USD)



EPS Integer over Time



Source: MSCI, Bloomberg, IBES, Datastream, CEIC, J.P. Morgan, Consensus Economics. Unless stated all forecasts are J.P. Morgan's. The scorecards are designed to assist in tracking trends and expectations. -3MΔ refers to the change in this factor over the past three months and +3MΔ refers to the forecast change in this factor over the next three months. The Economic Forecast table contains J.P. Morgan's real GDP forecasts, the change in these forecasts over the past three months, the difference between these forecasts and the average for emerging markets and the final column is the difference between J.P. Morgan's forecast and consensus expectations. The MSCI Fair Value chart is designed to show current valuations relative 10 year valuation history. The vertical dotted line is the current index level. The five horizontal bars show a +/- one standard deviation range for these valuation measures. A dotted line to the left indicates a market that is cheap relative to history. \*US Mutual fund subscriptions.

## Philippines

### Market Strategy

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#### Recommendation

OW: Property, Utilities  
N: Banks, Conglomerates

#### Key drivers

Post election euphoria leading to genuine reform

Resurgence in consumption driven by steady remittances growth

Government fiscal stimulus

Solid earnings momentum, under-owned market

#### Key risks

Global economic slowdown

Fiscal deficit becoming uncontrolled

#### Market Statistics (%)

MSCI Philippines Index	652.2
Weightings in Region (%)	0.5
PHP/US\$	46.3
Avg. Daily Turnover (US\$MM)	38
MSCI Total Mkt. Cap (US\$B)	14

Source: Datastream Prices as of 14 July 2010.

## Philippines: High hopes on positive politics

#### Issues over the last 12 months

The Philippines has been relatively insulated from the global crisis compared to its regional peers as remittances have remained surprisingly resilient and as trade accounts for a much smaller proportion of the economy. From a marginal 0.9% GDP growth in FY09, 1Q10 GDP was a positive surprise at 7.3%. With inflation staying benign, BSP continues to keep rates at record lows. Most recently, we have seen positive political transition, with newly elected President Noyonoy Aquino. Aside from receiving a record high percentage of the popular vote, Aquino has been widely viewed as the most market-friendly due to his reformist platform anchored on a clean government. He thus begins his presidency armed a very strong mandate, providing the unique opportunity to make bold decisions that would be positive for the Philippine economy.

#### Outlook

We believe the Philippine market remains attractive due to its strong domestic growth story and its relatively under-owned state. Key drivers are a rebound in private consumption, continued fiscal stimulus and the secular growth in remittances and BPO activity. J.P. Morgan forecasts 2010 GDP growth at 6.8% oya and full-year inflation to remain well within historical trend at 4.0% oya. With the Philippines taking a positive step politically with a newly elected president provided a strong mandate, the key challenge in the near term would be to keep the government fiscal deficit under control through better revenue generation. Meeting success here would help the government sustain its fiscal stimulus, and make the country less dependent on consumption to drive GDP growth. Meanwhile, we find corporate fundamentals to be attractive, with a good economic backdrop and a return of consumer and business confidence. Solid earnings growth is being driven by improved volumes and pricing for the property sector, and acquisitions and tariff hikes for the utilities sector.

#### Recommendations

We continue to rate the Philippines as an overweight. For the first time in many years, an improving economic growth, corporate earnings momentum, and a conducive political environment are present. Coupled with the market's relatively under-owned state, we believe the Philippines should be well supported despite ongoing risks of external volatility. Among the sectors, we find the property and utilities sectors to offer the greatest upside potential, especially with earnings likely to show the most growth acceleration versus 2009. Top picks in the Philippines are Ayala Land, EDC, Manila Water, Filinvest Land, and Metrobank.

	Price (PHP)	Code	JPM Rating	Mkt cap (US\$B)	P/E		EPS		Div Yld.	ROE
					10E (x)	11E (x)	10E (PHP)	11E (PHP)	10E (%)	10E (%)
<b>Top picks</b>										
Ayala Land	15.0	ALI PM	OW	4.2	40.4	36.2	0.4	0.4	0.4	8.7
EDC	4.7	EDC PM	OW	1.9	12.3	12.6	0.4	0.4	8.1	24.2
Manila Water	17.3	MWC PM	OW	0.7	11.0	10.2	1.6	1.7	2.8	21.0
Filinvest Land	1.0	FLI PM	OW	0.5	9.6	8.6	0.1	0.1	1.8	5.9
Metrobank	60.5	MBT PM	OW	2.5	13.4	9.1	4.5	6.7	2.4	11.4
<b>Stocks to Avoid</b>										
BDO	47.5	BDO PM	UW	2.7	16.4	13.2	2.9	3.6	2.2	10.7
Meralco	190.0	MER PM	UW	4.6	20.7	15.5	9.2	12.3	3.7	16.2

Source: Datastream, J.P. Morgan estimates. Note: The share price and valuations are as of 14 July 2010.

## Philippines scorecard

### Key Financial Data Summary

	EPS Growth	P/E	ROE	Yield
2008	-13.2	22.1	12.5	3.0
2009E	24.8	17.7	15.2	4.0
2010E	12.7	15.7	16.1	3.8
2011E	14.5	13.7	17.1	3.4

### Economic Forecasts

GDP (YoY)	Forecast	-3M Δ	- EMF	- Cons
2008	3.7	-0.9	-1.2	0.0
2009E	6.8	2.3	-0.2	2.6
2010E	4.3	0.0	-1.5	0.0

### Economic Momentum

GDP	Q1 10E	Q2 10E	Q3 10E	Q4 10E
GDP SAAR	12.9	3.6	4.9	4.0

### Local Interest Rates and Inflation Trend

	Spot	-3M Δ	+3M Δ
3 Month	3.9	0.1	0.6
Long Bond	7.7	-0.5	0.3
Inflation	3.9	-0.5	2.5
Real 3 Month	0.0	0.6	-1.9

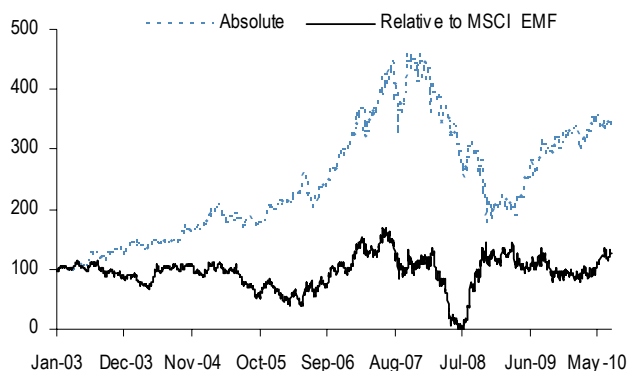
### Risk Appetite

US\$ Spread	Spot	-3M Δ	+3M Δ
BAA	3.1	0.7	na
EMBI	3.3	0.6	0.7
Country	2.4	0.4	na
Country Relative	-0.9	-0.2	na

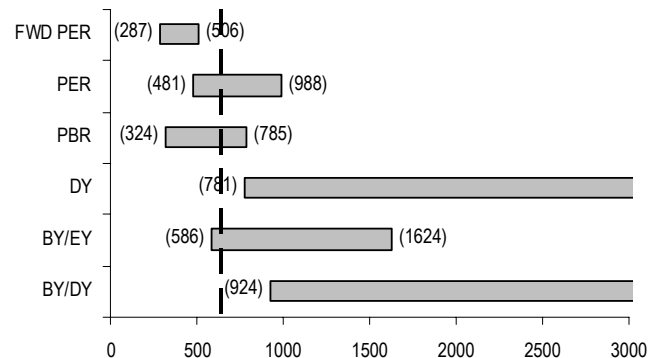
### Foreign Fund Flows (US\$ mils)

	Month	09 YTD Avg	12-Mo Avg
EM Funds*	6,919	2,573	3,992
Asia ex Japan*	1,724	577	806
Philippines	9	51	17

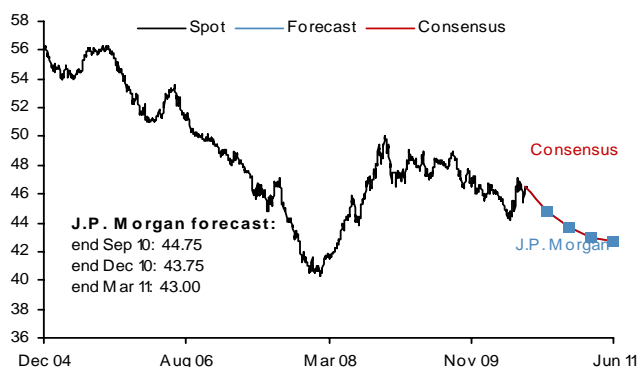
### MSCI Philippines Absolute and Relative (vs EMF) Index



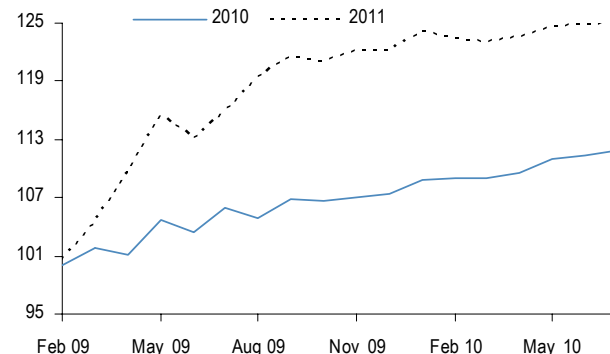
### MSCI Fair value Range



### Currency Outlook (PHP/USD)



### EPS Integer over Time



Source: MSCI, Bloomberg, IBES, Datastream, CEIC, J.P. Morgan, Consensus Economics. Unless stated all forecasts are J.P. Morgan's. The scorecards are designed to assist in tracking trends and expectations. -3MΔ refers to the change in this factor over the past three months and +3MΔ refers to the forecast change in this factor over the next three months. The Economic Forecast table contains J.P. Morgan's real GDP forecasts, the change in these forecasts over the past three months, the difference between these forecasts and the average for emerging markets and the final column is the difference between J.P. Morgan's forecast and consensus expectations. The MSCI Fair Value chart is designed to show current valuations relative 10 year valuation history. The vertical dotted line is the current index level. The five horizontal bars show a +/- one standard deviation range for these valuation measures. A dotted line to the left indicates a market that is cheap relative to history. \*US Mutual fund subscriptions

## Scorecard notes

### Key financial data

Market forecast numbers are derived from bottom-up calculations of each MSCI constituent where estimates are available from J.P. Morgan for covered stocks and I/B/E/S for stocks not covered by J.P. Morgan.

### Local interest rates and inflation trends

#### Interest rates

Country	Long rate	Three-month rate
South Korea	10 year treasury bond	91 day commercial paper
South Africa	Longest dated bond	91 day treasury bill
Taiwan	10 year treasury bond	90 day money market
Brazil	Fixed to floating swap 12 month	Fixed to floating swap 3 month
China	Government Bond maturing in 2011	3 month interbank
Mexico	CETES 364	90 day 2nd market bankers acceptance
Russia	90 day interbank	90 day interbank
Turkey	3 month interbank	3 month interbank
Poland	1 year interbank	3 month interbank
Hungary	10 year treasury bond	3 month interbank
Czech Republic	10 year treasury bond	3 month interbank
India	10 year treasury bond	91 day bank CD
Malaysia	10 year treasury bond	3month interbank
Israel	1 year secondary treasury bill	3 month secondary treasury bill
Thailand	10 year treasury bond	3 month interbank
Turkey	12 month interbank	3 month interbank
Indonesia	SBI/DISC 90 day	3 month interbank
Philippines	10 year treasury bond	91 day T Bill

### Inflation

Year-over-year change in Consumer Price Index used.

### Real three-month rate

This is calculated using three-month rate minus latest inflation data available.

### Risk appetite

Countries included in the Emerging Market Bond Index (EMBI) are South Africa, Brazil, Mexico, Russia, Malaysia, Thailand and Turkey. Data for EMBI is as such available only for these countries. Country relative is the Country EMBI blended yield minus the EMBI Index blended yield.

### Foreign fund flows

EM, Asia Ex Japan, LatAm and EM Europe Funds are net subscriptions of US mutual funds data into specified regions. Country data where available is total net foreign investment.

### EPS integer over time

All year-ends are for December. EPS figures are normalized, starting at 100 on base date February 2008 for ease of comparison. EPS integers are mean EPS forecasts for each index.



## Extended markers

Table 12: Exports

Country	Index	Current %oya	3M/3M %	One year ago %oya	Latest data for	Reporting lag
Australia	AUITEXP Index	31.8	12.7	(25.5)	May 10	One month
Brazil	BZTBEXPM Index	18.2	27.3	(22.2)	Jun 10	One month
China	CNFRXP\$ Index	44.0	23.1	(21.3)	Jun 10	One month
Hong Kong	HKETEXP Index	23.9	15.5	(13.9)	May 10	One month
Hungary	HUTREXP Index	6.9	9.8	(31.4)	May 10	One quarter
India	INMTEXIR Index	29.6	17.7	(34.0)	May 10	One quarter
Indonesia	IDEXP Index	36.0	3.4	(28.5)	May 10	One month
Malaysia	MAETEXP Index	30.3	12.3	(34.8)	May 10	One month
Mexico	MXTBBEXP Index	43.9	19.1	(33.7)	May 10	One month
Philippines	PHEXEXP Index	37.3	14.9	(26.9)	May 10	One month
Poland	POMECEBGE Index	8.3	9.9	(27.9)	May 10	One month
Russia	RUTBEX Index	39.6	7.3	(47.0)	May 10	One month
Singapore	SIEXP Index	33.3	14.5	(30.2)	May 10	One month
South Africa	SATBEX Index	18.6	18.3	(29.8)	May 10	One month
South Korea	KOEXTOT Index	32.4	19.5	(13.6)	Jun 10	One month
Taiwan	TWTREXP Index	34.1	13.6	(30.4)	Jun 10	One month
Thailand	THNFEXP Index	42.5	9.3	(26.6)	May 10	One month
Turkey	TUTBEX Index	34.5	11.8	(41.1)	May 10	One month

Source: Bloomberg.

Table 13: Imports

Country	Index	Current %oya	3M/3M %	One year ago %oya	Latest data for	Reporting lag
Australia	AUITIMP Index	19.6	4.8	(28.9)	May 10	One month
Brazil	BZTBIMP Index	50.2	12.0	(37.8)	Jun 10	One month
China	CNFRIMP\$ Index	34.7	15.3	(13.0)	Jun 10	One month
Hong Kong	HKETIMP Index	29.1	16.0	(18.6)	May 10	One month
Hungary	HUTRIMP Index	8.8	7.3	(38.1)	May 10	One quarter
India	INMTIMUS Index	32.9	10.7	(30.6)	May 10	One quarter
Indonesia	IDIMPTL Index	67.4	5.0	(36.2)	May 10	One month
Malaysia	MAETIMP Index	43.5	18.9	(33.1)	May 10	One month
Mexico	MXTBBIMP Index	46.7	17.9	(35.5)	May 10	One month
Philippines	PHIMIMP Index	45.3	9.1	(37.1)	Apr 10	One month
Poland	POMECEBGI Index	12.9	10.5	(37.1)	May 10	One month
Russia	RUTBIM Index	40.7	18.3	(43.6)	May 10	One month
Singapore	SIIMP Index	24.8	9.9	(31.8)	May 10	One month
South Africa	SATBIM Index	25.5	15.0	(35.2)	May 10	One month
South Korea	KOIMTOT Index	36.9	7.7	(32.1)	Jun 10	One month
Taiwan	TWTRIMP Index	40.3	10.8	(33.4)	Jun 10	One month
Thailand	THNFIMP Index	53.5	4.1	(34.3)	May 10	One month
Turkey	TUTBIM Index	35.8	17.1	(43.9)	May 10	One month

Source: Bloomberg.

Table 14: Retail sales

Country	Index	Current %oya	Previous %oya	One year ago %oya	Latest data for	Reporting lag
Argentina	ARSSTOTL Index	24.4	24.1	22.4	Apr 10	One month
Australia	AURSTTSA Index	1.2	1.9	7.4	May 10	One month
Brazil	BZRTRETA INDEX	10.2	9.2	2.9	May 10	One month
China	CNRSCONS INDEX	24.2	23.2	15.2	May 10	One month
Czech Republic	CZRSYOY Index	3.1	(4.5)	(7.5)	May 10	One month
Hong Kong	HKRSN INDEX	19.7	15.6	(6.6)	May 10	One month
Hungary	HURTAYOY Index	(5.0)	(4.0)	(3.4)	Apr 10	Variable
Mexico	MXWRTRET Index	(0.1)	2.3	(5.7)	Apr 10	One quarter
Poland	PORSYOY Index	4.3	(1.6)	1.1	May 10	One month
Russia	RURSL INDEX	11.7	10.6	5.5	May 10	One month
Singapore	SRSAT Index	(2.4)	(2.5)	(10.0)	Apr 10	One month
South Africa	SARSCONY Index	3.2	2.7	(6.7)	Apr 10	One quarter
South Korea	KODSDEPT Index	8.0	8.8	5.4	May 10	One month
Taiwan	TARSTTL Index	6.9	8.1	(2.4)	May 10	One month
Thailand	THRSTOTL Index	10.7	19.9	(8.5)	Apr 10	One month

Source: Bloomberg.

Table 15: Industrial production

Country	Index	Current %oya	One year ago %oya	Latest data for	Reporting lag
Brazil	BZIPYOY% Index	14.8	(11.2)	May 10	One quarter
China	CHVAIOY Index	16.5	7.3	May 10	One month
Hong Kong	HKIPIYOY Index	0.4	(10.1)	Mar 10	One quarter
Hungary	HUIPIYOY Index	13.7	(22.1)	May 10	One quarter
India	INPIINDY Index	11.5	2.1	May 10	One month
Indonesia	IDMPIYOY Index	4.8	1.4	Mar 10	One quarter
Malaysia	MAIPIINDY Index	12.5	(11.0)	May 10	One month
Mexico	MXIPTYOY Index	8.4	(11.2)	May 10	Irregular updates
Poland	POISCYOY Index	14.0	(5.2)	May 10	One month
Russia	RUIPRNYY Index	12.6	(14.5)	May 10	One month
Singapore	SIIPYOY% Index	58.6	4.9	May 10	One month
South Africa	SFPMYOY Index	8.0	(17.1)	May 10	One month
South Korea	KOIIPIY Index	21.5	(9.1)	May 10	One month
Taiwan	TWINDPIY Index	30.7	(18.4)	May 10	One month
Turkey	TUIOIYOY Index	15.6	(17.4)	May 10	One month

Source: Bloomberg.

Table 16: Consumer confidence

Country	Index	Current	Previously	One year ago	Latest data for	Reporting lag
Australia	WMCCCONN Index	101.9	108.0	100.1	Jun 10	One month
Brazil	BZCCIFGV Index	113.0	112.3	97.6	Apr 10	One month
China	CHCSCONF Index	108.0	106.6	101.2	May 10	One month
Hungary	HUCCINDX Index	(23.4)	(28.7)	(64.3)	Jun 10	One month
Indonesia	IDCCI Index	111.4	109.9	109.1	Jun 10	One quarter
Malaysia	MIERCSI Index	109.6	105.4	110.9	Dec 09	One quarter
Mexico	MXCFCONF Index	87.5	84.6	81.0	Jun 10	Irregular updates
Poland	POCCWOK Index	96.7	94.1	83.3	May 10	Irregular updates
Russia	RUCISENT Index	102.0	108.0	113.0	Mar 09	Irregular updates
South Korea	KOCCCSI Index	112.0	111.0	106.0	Jun 10	One month
Thailand	THCCECON Index	69.1	67.6	65.4	Jun 10	One month
Turkey	TUCNCC Index	86.6	85.8	83.3	May 10	One quarter

Source: Bloomberg.

Table 17: Auto/Motor vehicle sales

Country	Index	Current %oya	3m/3m %	One year ago %oya	Latest data for	Reporting lag
Argentina	ARVSCATA Index	33.5	16.7	(13.7)	May 10	One month
Australia	AUVHSALE Index	16.4	(0.4)	(12.2)	May 10	One month
Brazil	BZVLTLVH Index	(12.5)	0.5	17.2	Jun 10	One month
China*	CNVSPSGR Index	25.8	1.7	46.8	May 10	One month
Hong Kong	HKRSVOV Index	63.5	20.9	(33.0)	May 10	One month
India	INVSTOTL Index	33.3	4.3	13.5	Jun 10	One month
Indonesia*	IDVHCLOC Index	69.0	22.3	(29.4)	May 10	One month
Malaysia	MAVSTTL Index	15.7	12.1	(8.3)	May 10	One month
Mexico	MXVHTOTL Index	7.0	(3.7)	(31.3)	Jun 10	One month
Philippines	PHCSTOTL Index	33.9	12.4	(4.1)	May 10	One month
Singapore	SIRSMVEH Index	(31.9)	(20.3)	(26.8)	Apr 10	One month
South Africa	NAAMTOTL Index	13.1	(8.5)	(23.8)	Jun 10	One month
South Korea*	KOVMTOTS Index	18.6	18.2	(7.8)	Jun 10	One month
Thailand*	THVHSCAR Index	53.4	3.7	(26.2)	May 10	One month
Turkey	TUCSMT Index	16.5	(63.3)	6.8	Jun 10	One quarter

Source: Bloomberg. \*Motor/Passenger car sales.

## Consensus Asset Allocation

In this report we analyze the country asset allocation of the 46 EM fund managers surveyed by EPFR Global as of the end May 2010.

### Consensus overweight markets

Russia, Mexico, Turkey, and Indonesia

### Consensus underweight markets

Taiwan, China, Korea, Malaysia, South Africa, Thailand, Czech Republic, Philippines and Poland

Table 18: Survey of Key EM Managers Positioning Relative to MSCI EM – For major EMs

Country	>2% OW	<2% UW	OW-UW	<0.1%	EM %
Russia	16 (18)	9 (9)	7 (9)	3 (3)	6.4
Mexico	8 (7)	5 (7)	3 (0)	4 (4)	4.5
Brazil	9 (10)	9 (8)	0 (2)	0 (0)	15.4
India	8 (10)	8 (11)	0 (-1)	1 (1)	7.6
China+HK	8 (7)	15 (11)	-7 (-4)	0 (0)	18.2
South Africa	6 (5)	15 (11)	-9 (-6)	2 (2)	7.3
Korea	8 (9)	17 (17)	-9 (-8)	1 (1)	13.0
Malaysia	2 (2)	17 (16)	-15 (-14)	11 (10)	2.8
China	1 (3)	23 (20)	-22 (-17)	0 (0)	18.2
Taiwan	2 (1)	24 (22)	-22 (-21)	1 (1)	10.7

Source: EPFR Global, MSCI, J.P. Morgan calculations

Table 19: Survey of Key EM Managers Positioning Relative to MSCI EM – For EMs that are less than 2% of the benchmark

Country	>2% OW	<0.1%	OW-Zero	EM %
Turkey	14 (17)	4 (3)	10 (14)	1.6
Indonesia	11 (11)	6 (6)	5 (5)	2.2
Thailand	8 (8)	9 (8)	-1 (0)	1.4
Egypt	4 (4)	21 (19)	-17 (-15)	0.5
Hungary	3 (3)	21 (19)	-18 (-16)	0.4
Peru	3 (1)	21 (21)	-18 (-20)	0.6
Poland	1 (1)	23 (22)	-22 (-21)	1.4
Philippines	1 (1)	25 (22)	-24 (-21)	0.5
Czech Republic	1 (2)	32 (30)	-31 (-28)	0.4
Colombia	0 (0)	37 (33)	-37 (-33)	0.8
Morocco	0 (0)	44 (41)	-44 (-41)	0.2

### Other Markets

Hong Kong	17 (15)	15 (14)	0.0
Singapore	1 (1)	36 (31)	0.0
Kazakhstan	2 (1)	36 (33)	0.0
Greece	1 (1)	43 (40)	0.0

Source: EPFR Global, MSCI, J.P. Morgan calculations. Note: (1) <0.1% = zero weighting or bearish view. (2) The fund weightings are simple average of global emerging market funds country weights tracked by EPFR. The survey covers 46 fund managers. (3) The calculation of OW is greater than 2% overweight versus the MSCI benchmark. UW is less than -2% of benchmark weighting (4) Fund weightings are as of 31 May 2010 and MSCI weightings as of 1 June 2010. Numbers in brackets are the previous month values.

### Emerging Markets net fund flows:

- **2006 CY:** Net inflows US\$22.4 billion
- **2007 CY:** Net inflows US\$40.8 billion
- **2008 CY:** Net Outflows US\$39.4 billion
- **2009 CY:** Net inflows US\$64.4 billion
- **2010 YTD:** Net inflows US\$16.4 billion

Table 20: Average Asset Allocation of Global Emerging Market Funds

	Funds	Weights		Performance (%)	
		MSCI	Rel	Abs	Rel
Turkey	2.9	1.6	1.3 (0.9)	3.3	-1.1
Indonesia	3.0	2.2	0.8 (1)	10.3	5.8
Russia	7.1	6.4	0.7 (0)	0.0	-4.4
Thailand	2.0	1.4	0.6 (0.5)	6.6	2.1
Mexico	5.0	4.5	0.5 (0.7)	5.1	0.7
India	8.0	7.6	0.4 (1)	7.9	3.5
Egypt	0.9	0.5	0.4 (0.2)	-3.0	-7.4
Hungary	0.7	0.4	0.2 (0.4)	-9.2	-13.7
Peru	0.7	0.6	0.1 (-0.2)	8.1	3.6
Philippines	0.5	0.5	0 (0.3)	2.7	-1.8
Brazil	15.4	15.4	0 (-1.1)	5.0	0.5
Czech Republic	0.3	0.4	-0.1 (0.1)	-2.0	-6.5
Morocco	0.0	0.2	-0.2 (-0.2)	1.6	-2.9
Colombia	0.1	0.8	-0.6 (-0.5)	5.5	1.1
Poland	0.7	1.4	-0.7 (-0.5)	-2.9	-7.4
South Africa	6.5	7.3	-0.9 (0.2)	0.0	-4.5
China + HK	17.0	18.2	-1.2 (-1.2)	6.0	1.6
Malaysia	1.4	2.8	-1.3 (-1.1)	5.4	0.9
Korea (South)	11.1	13.0	-1.9 (-2.6)	5.8	1.4
Taiwan	8.5	10.7	-2.2 (-2.7)	2.5	-2.0
China	15.0	18.2	-3.2 (-2.7)	6.0	1.6
<b>Asia</b>	51.5	56.3	-4.8 (-4.8)	5.7	1.2
<b>Latam</b>	21.9	22.8	-0.9 (-1.2)	5.2	0.8
<b>EMEA</b>	19.6	20.9	-1.2 (0.3)	-0.3	-4.8
<b>Cash</b>	3.0	0.0	3 (1.9)		
<b>Other GEMs</b>	4.0	0.0	4 (3.9)		

Source: EPFR Global, MSCI, J.P. Morgan calculations. Note: (1) Fund weightings are as of 31 May 2010 and MSCI weightings as of 1 June 2010. (2) The survey covers 46 fund managers. Potentially China stocks have been misclassified as Hong Kong, hence the combined weight for Hong Kong and China. Hong Kong investment may be providing non-China exposure Numbers in brackets are the previous month values. The performance is from current month to date performance.

## Hindsight trades: What has worked

Table 21: Performance of sectors in EM (in US\$ terms)

Sector/Country	1M	Sector/Country	3M	Sector/Country	YTD	Sector/Country	12M
Korea Materials	14.1	Korea Cons. Disc.	6.2	Indonesia	17.2	India IT	82.7
Hungary	10.9	Thailand	3.9	Thailand	13.0	Turkey Financials	74.1
Taiwan Financials	10.5	China Telcom Services	3.5	Turkey Financials	12.7	Mexico Materials	74.1
Turkey Financials	9.5	Indonesia	2.8	Malaysia	11.5	Indonesia	62.5
Indonesia	9.4	India IT	0.4	China Telcom Services	10.8	Mexico Cons. Staples	60.5
India IT	8.6	Malaysia	(0.6)	Philippines	9.9	Turkey	56.9
Brazil Financials	8.0	Philippines	(0.8)	Korea Cons. Disc	9.3	Brazil Materials	56.7
South Africa Financials	7.2	Korea Materials	(2.2)	India IT	8.5	Korea Cons. Disc	56.1
China Industrials	7.2	India Financials	(2.7)	India Financials	7.7	Russia	55.7
Korea Industrials	7.2	Turkey Financials	(4.0)	Turkey	6.9	Brazil Financials	53.4
India Financials	7.0	Turkey	(4.6)	South Africa Financials	6.0	Korea Materials	50.9
Taiwan Materials	6.9	Brazil Financials	(4.6)	Mexico Cons. Staples	2.9	Thailand	48.4
Korea Cons. Disc	6.8	India	(4.7)	India	2.8	South Africa Cons. Disc	47.2
Korea	6.7	China Financials	(4.7)	Korea IT	2.5	India Financials	45.4
Taiwan	6.6	Korea Cons. Staples	(4.9)	Mexico Telcom Services	2.3	India	44.9
Korea Financials	6.4	SA Telcom Services	(5.5)	Mexico	0.9	Hungary	44.1
Turkey	6.4	Mexico Telcom Services	(5.6)	Korea	0.2	Mexico	43.0
Poland	5.6	India Energy	(5.8)	India Energy	(0.7)	Korea IT	42.4
SA Telcom Services	5.5	Taiwan Financials	(6.0)	Korea Cons. Staples	(0.8)	Brazil	40.1
Taiwan IT	5.3	China	(6.4)	Mexico Materials	(1.1)	Malaysia	38.7
China Financials	5.3	Korea	(6.5)	South Africa	(1.5)	South Africa Financials	38.2
Malaysia	5.3	South Africa Financials	(6.8)	Korea Materials	(1.5)	Poland	38.1
India	5.2	Korea IT	(6.9)	<b>EM</b>	<b>(2.3)</b>	Russia Energy	36.8
Philippines	5.1	Taiwan	(7.0)	Korea Industrials	(2.4)	Philippines	34.6
Korea IT	5.0	<b>EM</b>	<b>(7.6)</b>	South Africa Cons. Disc	(2.7)	Korea	34.1
Korea Cons. Staples	4.6	China Industrials	(8.0)	Brazil Financials	(3.3)	<b>EM</b>	<b>32.6</b>
China	4.3	Mexico Cons. Staples	(8.1)	Taiwan Materials	(3.7)	South Africa Materials	31.1
<b>EM</b>	<b>4.2</b>	Taiwan IT	(8.3)	China	(4.0)	Mexico Telcom Services	31.1
China Telcom Services	4.1	Mexico	(8.8)	China Financials	(4.3)	India Energy	29.8
South Africa	3.9	China Energy	(8.8)	China Energy	(4.6)	South Africa	29.4
South Africa Energy	3.5	South Africa	(9.0)	Russia	(5.2)	China Energy	27.0
Thailand	3.4	Korea Financials	(9.9)	South Africa Materials	(5.3)	Taiwan Materials	26.0
South Africa Cons. Disc	3.1	South Africa Materials	(10.2)	China Industrials	(5.4)	Korea Financials	22.0
India Energy	2.9	Taiwan Materials	(10.2)	Korea Financials	(5.8)	Taiwan IT	20.1
Russia	2.7	Mexico Materials	(11.0)	SA Telcom Services	(6.7)	Korea Industrials	19.4
Brazil	1.1	Brazil	(11.4)	Taiwan	(7.6)	Korea Cons. Staples	17.6
South Africa Materials	1.0	South Africa Cons. Disc	(12.2)	South Africa Energy	(8.3)	Taiwan	17.2
Russia Energy	0.6	Korea Industrials	(12.2)	Taiwan IT	(9.7)	China	17.2
China Energy	0.6	South Africa Energy	(13.3)	Russia Energy	(9.8)	South Africa Energy	13.9
Mexico Cons. Staples	(0.4)	Russia Energy	(14.3)	Brazil	(9.9)	China Financials	13.2
Mexico Telcom Services	(0.8)	Russia	(15.2)	Brazil Materials	(9.9)	Brazil Energy	11.6
Mexico	(2.0)	Brazil Energy	(16.2)	Taiwan Financials	(10.3)	China Telcom Services	9.1
Brazil Materials	(2.8)	Poland	(18.3)	Poland	(11.2)	China Industrials	8.6
Brazil Energy	(4.1)	Brazil Materials	(22.6)	Hungary	(11.7)	SA Telcom Services	2.3
Mexico Materials	(5.6)	Hungary	(25.5)	Brazil Energy	(21.8)	Taiwan Financials	0.9

Source: Datastream, MSCI. 12 July 2010.

Table 22: Valuation of key sectors in EM – ranked by P/E 10E

MSCI Sector	Index Value	Market Value (US\$M)	P/E 09 (x)	P/E 10E (x)	P/E 11E (x)	EPS Growth 09E (%)	EPS Growth 10E (%)	ROE 10E (%)	DY 10E (%)
Russia Energy	918	112,331	6.1	5.3	4.9	(13.0)	14.1	13.6	2.3
Russia	742	197,734	9.1	6.8	5.4	(28.1)	34.1	14.0	2.1
Korea Cons. Disc.	1,370	56,117	9.3	8.1	7.8	124.3	14.7	18.2	0.8
Turkey Financials	529	32,215	10.0	8.9	7.9	30.5	12.8	18.5	2.4
Korea Financials	238	71,073	15.6	9.2	8.0	(30.1)	69.5	11.6	2.1
Brazil Materials	1,739	125,334	19.4	9.5	6.7	(39.9)	104.4	18.7	3.2
Korea Materials	652	59,277	11.4	9.5	8.9	(2.0)	20.4	14.2	1.1
Turkey	551	52,546	11.3	9.7	8.5	3.5	17.2	17.7	3.0
Korea	324	423,105	14.1	9.8	9.4	57.7	44.0	14.0	1.2
Korea IT	486	127,491	18.0	9.9	11.1	NM	81.2	18.1	0.2
South Africa Energy	333	21,128	12.2	10.1	7.9	(21.6)	20.5	17.4	3.5
SA Telecom Services	885	28,003	12.7	10.6	9.0	(9.6)	20.0	20.0	3.0
South Africa Financials	200	60,140	13.0	10.6	8.7	(15.0)	22.0	14.9	4.6
Hungary	647	13,650	11.5	10.9	8.4	(36.6)	5.5	11.3	3.6
China Energy	624	96,254	13.7	10.9	9.8	(4.7)	25.9	17.4	3.7
EM	952	3,101,813	14.3	11.2	9.6	3.2	27.4	15.3	2.9
Brazil Energy	1,220	105,727	11.1	11.3	9.9	(10.0)	(2.0)	14.9	2.3
Taiwan IT	130	202,220	27.9	11.5	10.5	8.5	142.0	16.8	3.8
Brazil	3,220	489,185	14.2	11.6	9.3	1.4	22.2	15.9	3.3
Brazil Financials	816	125,857	12.6	11.7	9.7	38.5	8.3	16.1	3.5
China Financials	485	223,341	14.7	11.8	9.6	24.7	25.3	17.8	3.2
Thailand	250	46,438	13.6	11.8	10.1	41.3	14.8	16.0	3.9
Korea Industrials	185	58,120	15.3	12.0	10.9	28.1	27.6	11.5	1.2
Mexico Telecom Services	844	50,025	13.8	12.2	11.1	20.6	13.3	41.3	4.0
South Africa	455	223,506	16.6	12.2	9.7	(17.6)	35.8	16.4	3.3
South Africa Cons. Disc.	621	26,156	15.4	12.5	10.1	10.2	23.2	17.2	2.5
Taiwan	241	339,308	24.8	12.6	11.1	32.9	96.0	13.4	3.9
Poland	789	42,797	14.9	12.7	10.7	(25.7)	17.3	12.0	3.6
China	61	583,153	16.0	12.8	10.9	17.2	25.5	16.1	2.8
China Telecom Services	125	77,154	13.1	13.0	12.3	(4.4)	1.5	15.0	3.4
China Industrials	161	44,334	20.4	13.4	11.9	57.0	52.7	11.0	2.1
Taiwan Financials	71	51,639	20.5	13.8	11.0	NM	48.2	8.7	3.2
Korea Consumer Staples	514	19,787	15.5	14.2	12.2	6.9	9.6	14.5	1.6
Taiwan Materials	199	41,631	17.0	14.4	11.9	26.6	17.8	10.5	4.8
India Energy	1,220	38,616	20.9	14.7	12.2	(0.1)	41.8	16.3	1.2
Mexico	5,152	134,569	17.4	14.8	12.5	19.9	17.2	17.2	2.6
Indonesia	731	73,822	17.7	15.0	12.9	20.7	17.8	23.8	2.7
Malaysia	376	89,812	18.9	15.3	13.1	(0.3)	23.7	12.6	3.3
Philippines	288	14,670	17.4	15.5	13.5	24.9	12.7	15.5	3.9
Mexico Materials	225	22,565	20.0	15.6	11.0	36.9	28.3	8.1	1.5
South Africa Materials	504	61,544	47.7	16.7	11.6	(54.8)	186.5	13.9	2.2
India	478	250,415	21.4	17.0	13.5	3.6	25.7	14.8	1.3
India Financials	4,018	64,066	23.6	19.4	14.9	0.3	21.5	12.3	1.2
India IT	597	43,055	22.6	19.7	16.3	5.9	14.8	24.3	1.2
Mexico Consumer Staples	339	34,172	20.0	20.1	16.7	54.2	(0.7)	15.1	1.6

Source: Datastream, IBES, MSCI 12 July 2010.

## Composite valuation indicators

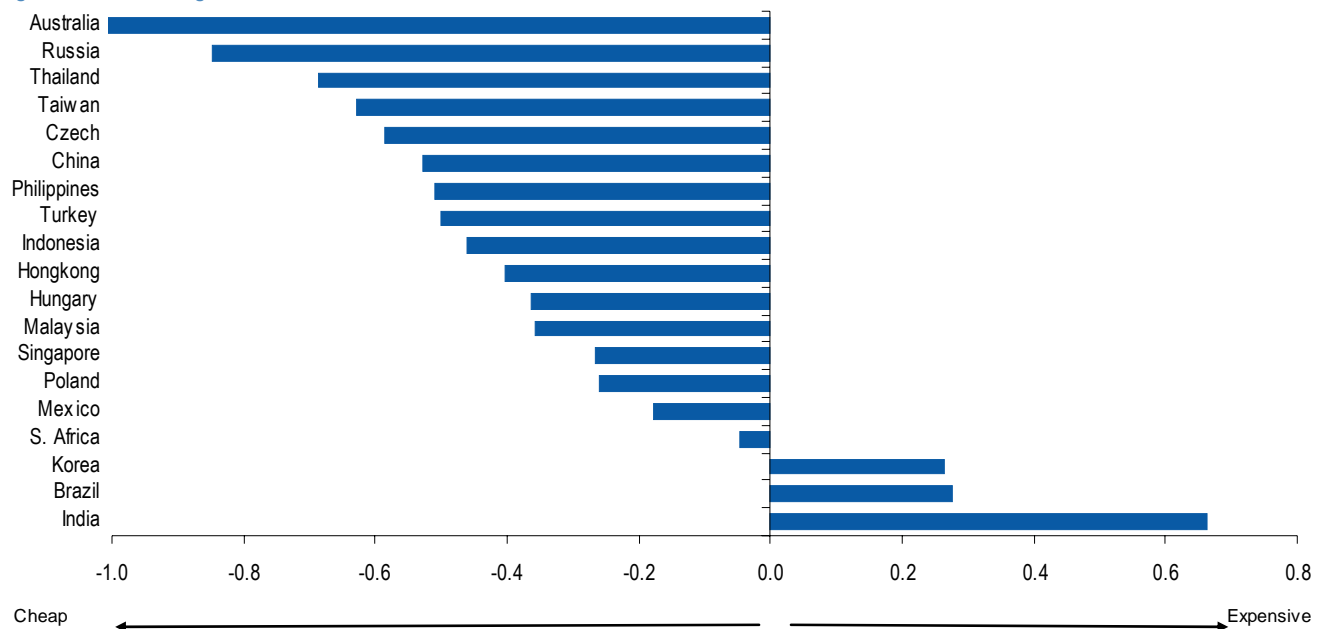
Our composite valuation indicators (CVIs) monitor valuations relative to each market’s valuation history with a focus on valuation variables that have historically been indicative of 12-month forward performance.

India is the most expensive market followed by Brazil and Korea.

On the other side, the inexpensive markets compared to its history are Australia, Russia, Thailand, Taiwan, Czech, China, Philippines, Turkey, Indonesia, Hong Kong, Hungary, Malaysia, Singapore, Poland, Mexico and South Africa..

The CVI assumes mean reversal. After years of structural decline in interest rates, reflation in Asia and economic stability helped drive a structural re-rating of emerging equity markets; arguably we are in a stage of mean reversal now.

Figure 31: CVI ranking



Source: MSCI, Datastream, J.P. Morgan. 12 July 2010.

Table 23: Updated market valuations

Country	12 July	LT	LT	3Y	3Y	LT	Index	LT	Index	Percent from		#SD	#SD	
Valuation Measure	Index	Avg	SD	Avg	SD	High	Level	Low	Level	High	Low	(LT)	(ST)	CVI
<b>US</b>	1025													
P/E	16.1	21.3	5.1	18.2	3.0	34.6	1079	11.6	784	-54%	39%	(1.03)	(0.71)	
P/B	1.9	3.1	0.9	2.5	0.5	5.5	1446	1.4	701	-65%	35%	(1.38)	(1.29)	
D/Y	2.1	2.2	0.7	2.2	0.4	4.0	282	1.1	1453	-47%	96%	0.11	0.16	
12m Fwd PER	11.9	16.2	3.6	14.4	1.4	25.2	1367	10.2	282	-53%	17%	(1.21)	(1.84)	
Bond/Earnings Yield Ratio	0.5	1.1	0.4	0.7	0.2	1.9	1465	0.3	854	-75%	58%	(1.64)	(1.59)	
Bond / Dividends Yield Ratio	1.4	2.7	1.0	1.9	0.5	5.7	1465	0.8	854	-75%	85%	(1.25)	(1.02)	
<b>Composite Score</b>												<b>(1.22)</b>	<b>(1.29)</b>	<b>-1.23</b>
<b>Australia</b>	903.1													
P/E	14.6	17.1	2.5	15.0	1.5	21.8	655	11.1	690	-33%	31%	(1.00)	(0.27)	
P/B	1.8	2.1	0.3	2.2	0.4	2.8	1361	1.4	690	-35%	31%	(0.86)	(1.08)	
D/Y	4.3	3.9	0.8	4.3	0.6	6.4	690	2.8	624	-32%	53%	(0.50)	0.03	
12m Fwd PER	11.3	14.3	2.5	13.7	1.7	20.7	624	8.0	307	-45%	41%	(1.23)	(1.41)	
Bond/Earnings Yield Ratio	0.7	1.2	0.3	0.8	0.1	1.9	357	0.5	728	-61%	56%	(1.39)	(0.70)	
Bond / Dividends Yield Ratio	1.2	1.8	0.5	1.3	0.2	2.9	433	0.7	728	-59%	77%	(1.34)	(0.54)	
<b>Composite Score</b>												<b>(1.05)</b>	<b>(0.66)</b>	<b>-1.05</b>
<b>Hong Kong</b>	9885.5													
P/E	16.3	14.9	3.2	16.6	2.0	22.8	7022	7.8	7533	-29%	109%	0.45	(0.15)	
P/B	1.4	1.6	0.3	1.6	0.3	2.6	8220	0.9	3962	-48%	54%	(0.61)	(0.71)	
D/Y	3.2	3.6	0.8	3.3	0.7	6.2	1995	2.3	14463	-49%	35%	0.53	0.18	
12m Fwd PER	15.1	14.0	3.3	15.9	2.1	21.9	8525	7.1	2170	-31%	112%	0.33	(0.40)	
Bond/Earnings Yield Ratio	0.4	0.8	0.3	0.6	0.2	1.4	6063	0.2	6555	-73%	160%	(1.72)	(1.07)	
Bond / Dividends Yield Ratio	0.8	1.7	0.6	1.1	0.4	3.0	9231	0.2	6555	-75%	232%	(1.57)	(0.90)	
<b>Composite Score</b>												<b>(0.14)</b>	<b>(0.80)</b>	<b>-0.40</b>
<b>Singapore</b>	345.3													
P/E	15.3	18.7	4.8	14.0	2.1	37.7	212	8.0	193	-59%	91%	(0.69)	0.62	
P/B	1.8	1.8	0.4	1.8	0.3	2.7	322	0.9	130	-34%	88%	(0.09)	0.07	
D/Y	3.4	2.7	1.2	4.0	0.7	6.0	193	1.2	365	-44%	178%	(0.55)	0.87	
12m Fwd PER	13.6	15.9	2.9	14.0	1.9	24.0	210	8.2	215	-43%	67%	(0.77)	(0.18)	
Bond/Earnings Yield Ratio	0.4	0.7	0.3	0.4	0.1	1.7	212	0.2	193	-78%	124%	(1.06)	(0.38)	
Bond / Dividends Yield Ratio	0.7	1.6	0.8	0.7	0.1	3.3	327	0.3	193	-78%	110%	(1.02)	(0.14)	
<b>Composite Score</b>												<b>(0.26)</b>	<b>0.14</b>	<b>-0.26</b>
<b>Korea</b>	487.4													
P/E	11.2	15.5	5.5	12.2	2.4	45.5	121	7.7	256	-75%	46%	(0.78)	(0.42)	
P/B	1.44	1.3	0.3	1.5	0.2	2.1	558	0.5	63	-30%	207%	0.55	(0.32)	
D/Y	1.1	1.8	0.5	1.7	0.5	2.9	87	1.0	481	-63%	10%	1.54	1.19	
12m Fwd PER	9.0	11.9	4.1	10.0	1.6	25.5	121	5.5	126	-65%	66%	(0.69)	(0.60)	
Bond/Earnings Yield Ratio	0.6	1.3	0.9	0.6	0.2	5.2	121	0.3	256	-89%	87%	(0.85)	(0.48)	
Bond / Dividends Yield Ratio	4.6	5.0	2.3	3.4	1.1	11.7	115	1.4	256	-61%	233%	(0.20)	1.13	
<b>Composite Score</b>												<b>0.55</b>	<b>0.08</b>	<b>0.26</b>
<b>Taiwan</b>	271.1													
P/E	16.2	24.8	9.3	17.0	4.4	68.9	477	11.7	245	-76%	38%	(0.92)	(0.17)	
P/B	1.8	2.4	0.7	1.9	0.3	4.4	232	1.2	160	-59%	50%	(0.83)	(0.41)	
D/Y	3.4	2.1	1.4	3.9	1.1	7.8	160	0.6	477	-56%	518%	(0.98)	0.44	
12m Fwd PER	12.1	18.7	6.6	14.2	4.5	61.6	199	9.5	244	-80%	27%	(1.00)	(0.48)	
Bond/Earnings Yield Ratio	0.2	1.2	1.0	0.3	0.1	3.8	208	0.2	271	-94%	0%	(1.05)	(1.68)	
Bond / Dividends Yield Ratio	0.4	3.8	3.3	0.5	0.2	13.4	288	0.2	173	-97%	124%	(1.05)	(0.76)	
<b>Composite Score</b>												<b>(0.97)</b>	<b>(0.63)</b>	<b>-0.63</b>
<b>China</b>	60.9													
P/E	13.8	15.4	4.2	15.6	3.6	31.2	26	7.2	20	-56%	92%	(0.39)	(0.49)	
P/B	2.1	1.8	0.7	2.4	0.6	4.8	103	0.5	20	-55%	372%	0.44	(0.40)	
D/Y	2.7	2.6	0.7	2.6	0.5	5.7	20	1.2	26	-53%	128%	(0.08)	(0.19)	
12m Fwd PER	12.1	13.1	4.5	13.0	3.0	35.0	33	6.0	20	-65%	101%	(0.24)	(0.32)	
Bond/Earnings Yield Ratio	0.4	0.8	0.4	0.6	0.2	1.9	26	0.3	35	-77%	36%	(1.05)	(0.69)	
Bond / Dividends Yield Ratio	1.2	2.3	1.1	1.5	0.5	5.8	97	0.8	35	-79%	47%	(0.97)	(0.60)	
<b>Composite Score</b>												<b>(0.60)</b>	<b>(0.45)</b>	<b>-0.53</b>

Source: Datastream, MSCI, J.P. Morgan calculations. Note: #SD refers to the number of standard deviations from the long-term (LT) and short-term (ST) means.



Country	12 July	LT	LT	3Y	3Y	LT	Index	LT	Index	Percent from		#SD	#SD	
Valuation Measure	Index	Avg	SD	Avg	SD	High	Level	Low	Level	High	Low	(LT)	(ST)	Index
<b>India</b>	720.1													
P/E	18.6	16.3	4.4	16.7	2.6	33.7	169	10.4	102	-45%	79%	0.52	0.71	
P/B	2.7	2.9	0.7	3.2	0.8	4.6	148	1.5	340	-42%	75%	(0.27)	(0.73)	
D/Y	1.2	1.6	0.3	1.5	0.3	2.5	126	0.9	169	-54%	29%	1.22	0.92	
12m Fwd PER	16.0	13.7	3.4	15.6	2.9	23.6	163	8.2	383	-32%	95%	0.67	0.12	
Bond/Earnings Yield Ratio	1.4	1.6	0.7	1.3	0.3	3.8	169	0.6	126	-62%	130%	(0.16)	0.77	
Bond / Dividends Yield Ratio	6.6	6.3	2.3	5.3	1.3	12.5	169	2.3	126	-47%	184%	0.14	0.94	
<b>Composite Score</b>												<b>0.47</b>	<b>0.92</b>	<b>0.66</b>
<b>Malaysia</b>	483.4													
P/E	16.7	20.1	4.9	16.6	2.3	45.5	257	12.2	317	-63%	37%	(0.69)	0.06	
P/B	2.0	2.1	0.7	2.0	0.3	4.9	455	0.6	101	-59%	210%	(0.17)	0.18	
D/Y	3.0	2.6	0.8	3.3	0.4	5.1	101	1.1	455	-41%	174%	(0.50)	0.55	
12m Fwd PER	13.9	16.0	3.8	13.9	1.4	27.2	455	7.8	101	-49%	78%	(0.55)	(0.01)	
Bond/Earnings Yield Ratio	0.7	1.2	0.7	0.7	0.1	3.5	257	0.4	327	-81%	65%	(0.81)	(0.36)	
Bond / Dividends Yield Ratio	1.3	2.7	1.6	1.3	0.2	8.4	455	0.8	327	-85%	65%	(0.86)	0.01	
<b>Composite Score</b>												<b>(0.36)</b>	<b>(0.36)</b>	<b>-0.36</b>
<b>Thailand</b>	324.8													
P/E	12.6	15.7	5.5	13.1	4.6	43.2	114	8.2	267	-71%	54%	(0.56)	(0.11)	
P/B	2.0	2.0	0.7	2.0	0.3	5.1	639	0.6	74	-61%	221%	(0.03)	0.09	
D/Y	3.6	3.2	1.0	4.0	0.7	6.3	166	0.9	217	-43%	292%	(0.43)	0.60	
12m Fwd PER	10.4	14.3	7.7	10.0	1.2	44.9	156	5.4	345	-77%	94%	(0.51)	0.38	
Bond/Earnings Yield Ratio	0.43	1.0	0.7	0.6	0.2	2.6	521	0.3	185	-84%	48%	(0.94)	(0.66)	
Bond / Dividends Yield Ratio	0.9	2.6	1.7	1.2	0.3	8.5	217	0.5	185	-89%	100%	(0.97)	(0.76)	
<b>Composite Score</b>												<b>(0.72)</b>	<b>(0.66)</b>	<b>-0.69</b>
<b>Indonesia</b>	3976.8													
P/E	16.0	16.7	6.4	15.5	3.9	49.0	829	5.3	451	-67%	200%	(0.12)	0.13	
P/B	3.8	2.5	0.9	3.4	0.9	5.5	3960	0.9	316	-30%	341%	1.40	0.55	
D/Y	2.5	2.7	1.0	3.1	0.5	5.9	475	0.8	961	-58%	208%	0.20	1.22	
12m Fwd PER	13.3	12.0	5.3	11.5	2.3	35.4	860	3.7	406	-63%	261%	0.25	0.77	
Bond/Earnings Yield Ratio	1.3	2.1	0.8	1.7	0.4	6.5	829	0.7	475	-80%	92%	(0.96)	(1.03)	
Bond / Dividends Yield Ratio	3.3	6.7	5.6	3.7	0.6	31.5	576	2.1	475	-90%	60%	(0.61)	(0.63)	
<b>Composite Score</b>												<b>(0.27)</b>	<b>(1.03)</b>	<b>-0.46</b>
<b>Phil</b>	637.9													
P/E	16.5	19.0	6.6	16.4	3.2	47.7	256	7.9	277	-65%	109%	(0.38)	0.02	
P/B	2.5	2.2	0.9	2.2	0.4	4.7	830	0.9	210	-47%	194%	0.39	0.63	
D/Y	3.9	2.0	1.2	3.5	0.8	5.2	374	0.6	884	-25%	576%	(1.60)	(0.46)	
12m Fwd PER	14.1	13.6	3.8	13.3	1.9	21.8	777	4.0	176	-35%	255%	0.13	0.43	
Bond/Earnings Yield Ratio	1.3	2.2	1.0	1.4	0.2	6.2	256	1.0	374	-79%	33%	(0.92)	(0.73)	
Bond / Dividends Yield Ratio	2.0	8.7	5.8	2.8	1.3	29.5	884	1.4	374	-93%	37%	(1.16)	(0.63)	
<b>Composite Score</b>												<b>(0.51)</b>	<b>(0.43)</b>	<b>-0.51</b>
<b>South Africa</b>	711.1													
P/E	13.2	13.1	1.9	12.5	1.6	17.7	182	9.1	221	-26%	45%	0.05	0.42	
P/B	2.0	2.1	0.3	2.3	0.3	2.9	248	1.4	138	-30%	48%	(0.20)	(0.90)	
D/Y	3.1	3.2	0.5	3.3	0.4	4.7	221	2.3	248	-33%	35%	0.27	0.56	
12m Fwd PER	10.5	10.8	1.8	10.6	1.3	15.5	174	6.7	545	-32%	56%	(0.17)	(0.08)	
Bond/Earnings Yield Ratio	1.1	1.5	0.6	1.0	0.2	3.0	182	0.7	513	-63%	67%	(0.71)	0.47	
Bond / Dividends Yield Ratio	2.8	3.7	1.3	2.6	0.4	6.9	182	1.5	513	-60%	84%	(0.70)	0.43	
<b>Composite Score</b>												<b>(0.24)</b>	<b>0.15</b>	<b>-0.05</b>
<b>Brazil</b>	217724													
P/E	11.6	12.2	4.7	12.2	2.6	42.6	21547	6.5	24255	-73%	79%	(0.12)	(0.25)	
P/B	1.9	1.4	0.7	2.2	0.4	3.2	291681	0.4	17017	-40%	396%	0.59	(0.83)	
D/Y	3.4	4.0	1.2	3.5	0.8	7.6	25508	2.1	263964	-55%	63%	0.53	0.06	
12m Fwd PER	11.8	8.4	2.7	9.9	2.7	15.8	291681	4.2	50366	-25%	181%	1.28	0.70	
Bond/Earnings Yield Ratio	1.4	1.9	0.7	1.6	0.3	5.0	61568	1.0	161860	-73%	41%	(0.80)	(0.80)	
Bond / Dividends Yield Ratio	3.5	4.1	0.9	4.0	0.9	7.3	37879	2.2	161860	-53%	54%	(0.72)	(0.64)	
<b>Composite Score</b>												<b>1.28</b>	<b>(0.73)</b>	<b>0.27</b>

Source: Datastream, MSCI, J.P. Morgan calculations. Note: #SD refers to the number of standard deviations from the long-term (LT) and short-term (ST) means.

Country	12 July	LT	LT	3Y	3Y	LT	Index	LT	Index	Percent from		#SD	#SD	
Valuation Measure	Index	Avg	SD	Avg	SD	High	Level	Low	Level	High	Low	(LT)	(ST)	Index
<b>Mexico</b>	29484													
P/E	14.5	15.1	7.5	13.9	1.5	79.1	2566	9.0	2558	-82%	62%	(0.08)	0.37	
P/B	2.3	2.2	0.9	2.8	1.3	6.0	18728	0.7	17106	-61%	240%	0.16	(0.36)	
D/Y	2.7	2.0	0.4	2.2	0.6	3.5	17106	1.0	18728	-25%	176%	(1.35)	(0.80)	
12m Fwd PER	12.7	11.6	1.7	12.7	1.7	16.2	26503	8.0	17106	-21%	59%	0.63	0.00	
Bond/Earnings Yield Ratio	0.7	2.2	2.0	1.0	0.2	13.9	2302	0.7	28815	-95%	1%	(0.78)	(2.04)	
Bond / Dividends Yield Ratio	1.8	8.0	6.0	3.9	1.7	25.6	3098	1.8	28815	-93%	2%	(1.04)	(1.21)	
<b>Composite Score</b>												<b>(0.05)</b>	<b>(0.30)</b>	<b>-0.18</b>
<b>Russia</b>	706.4													
P/E	7.3	11.5	7.4	9.3	2.4	54.0	83	3.4	379	-87%	111%	(0.57)	(0.84)	
P/B	1.0	1.3	0.5	1.5	0.5	2.4	1567	0.2	38	-59%	395%	(0.65)	(1.07)	
D/Y	1.7	1.4	0.8	1.4	0.5	3.2	265	0.1	223	-47%	1162%	(0.39)	(0.54)	
12m Fwd PER	5.6	8.1	2.8	8.7	2.4	22.8	332	2.5	59	-75%	126%	(0.89)	(1.29)	
Bond/Earnings Yield Ratio	0.3	2.5	5.2	0.6	0.1	43.8	83	0.3	706	-99%	0%	(0.42)	(2.36)	
Bond / Dividends Yield Ratio	2.6	28.6	43.6	6.3	3.6	249.1	223	1.8	503	-99%	51%	(0.59)	(0.99)	
<b>Composite Score</b>												<b>(0.58)</b>	<b>(0.85)</b>	<b>-0.85</b>
<b>Poland</b>	1616.4													
P/E	13.0	16.0	10.6	11.7	1.9	98.7	861	6.3	917	-87%	107%	(0.28)	0.69	
P/B	1.7	1.8	0.4	1.9	0.4	3.1	589	0.9	1192	-47%	80%	(0.46)	(0.64)	
D/Y	2.5	2.5	1.4	3.8	1.2	6.3	2253	0.8	1463	-60%	204%	(0.05)	1.03	
12m Fwd PER	11.4	12.0	3.4	12.1	1.9	25.1	1630	5.5	618	-55%	109%	(0.17)	(0.35)	
Bond/Earnings Yield Ratio	0.5	1.8	1.2	0.6	0.1	6.6	861	0.3	917	-92%	94%	(1.02)	(0.46)	
Bond / Dividends Yield Ratio	1.6	7.2	6.6	1.5	0.6	22.0	1463	0.7	2253	-92%	136%	(0.85)	0.22	
<b>Composite Score</b>												<b>(0.10)</b>	<b>(0.46)</b>	<b>-0.26</b>
<b>Turkey</b>	841292													
P/E	10.1	12.5	6.8	11.2	3.1	46.2	234490	5.0	369781	-78%	100%	(0.35)	(0.37)	
P/B	1.8	2.1	1.0	1.6	0.3	6.7	237918	0.9	527988	-74%	95%	(0.35)	0.54	
D/Y	3.4	3.9	2.0	3.7	1.5	9.4	13825	1.0	237918	-63%	246%	0.21	0.21	
12m Fwd PER	9.1	8.2	3.1	9.3	1.8	18.7	264873	2.7	34351	-51%	235%	0.31	(0.10)	
Bond/Earnings Yield Ratio	0.9	6.0	5.5	1.9	0.8	27.7	234490	0.7	662862	-97%	28%	(0.93)	(1.28)	
Bond / Dividends Yield Ratio	2.7	16.2	12.1	5.3	2.4	46.4	189935	1.5	553055	-94%	73%	(1.11)	(1.10)	
<b>Composite Score</b>												<b>0.09</b>	<b>(1.19)</b>	<b>-0.50</b>
<b>Hungary</b>	1265.1													
P/E	11.3	11.6	4.6	8.0	2.7	22.1	872	3.5	559	-49%	226%	(0.08)	1.24	
P/B	1.5	2.0	0.7	1.9	0.6	3.7	616	0.6	148	-59%	172%	(0.73)	(0.69)	
D/Y	2.5	2.1	0.9	2.9	0.6	5.3	857	0.9	752	-54%	165%	(0.38)	0.84	
12m Fwd PER	9.8	10.2	2.0	9.8	1.9	17.0	872	4.3	810	-42%	130%	(0.18)	0.02	
Bond/Earnings Yield Ratio	0.6	1.1	0.7	0.6	0.2	2.5	596	0.3	559	-76%	81%	(0.74)	0.02	
Bond / Dividends Yield Ratio	2.1	5.1	3.2	2.7	0.5	13.3	545	1.4	984	-84%	58%	(0.92)	(0.99)	
<b>Composite Score</b>												<b>(0.36)</b>	<b>0.76</b>	<b>-0.36</b>
<b>Czech</b>	350.8													
P/E	11.0	14.7	5.0	15.7	4.0	39.6	111	7.3	76	-72%	51%	(0.73)	(1.18)	
P/B	2.1	1.4	0.8	2.2	0.5	3.1	470	0.5	104	-33%	289%	0.90	(0.24)	
D/Y	5.4	4.1	2.8	5.9	2.5	10.0	374	0.8	540	-47%	563%	(0.46)	0.21	
12m Fwd PER	10.4	13.4	3.7	13.6	2.9	28.7	135	6.7	318	-64%	55%	(0.81)	(1.11)	
Bond/Earnings Yield Ratio	0.4	0.7	0.3	0.6	0.1	2.6	111	0.4	119	-84%	16%	(0.76)	(1.60)	
Bond / Dividends Yield Ratio	0.7	1.6	1.9	1.0	1.0	8.2	110	0.3	332	-91%	118%	(0.49)	(0.32)	
<b>Composite Score</b>												<b>(0.58)</b>	<b>(0.59)</b>	<b>-0.59</b>

Source: Datastream, MSCI, J.P. Morgan calculations. Note: #SD refers to the number of standard deviations from the long-term (LT) and short-term (ST) means.

## EMBIG100

**Table 24: Cheaper valuations and higher ROE than the US**

	EMBIG Median	US Median
2010 PE	12.7	14.6
2011 PE	11.3	12.7
2010 DY	2.6	1.3
2010 ROE	18.9	14.4

Source: J.P. Morgan.

**Table 25: Quartile valuation ranking**

	P/E	
	2010E	2011E
Min	4.0	3.4
Lower Quartile	10.7	8.8
Median	12.7	11.2
Top Quartile	16.6	14.3
Max	34	40.0

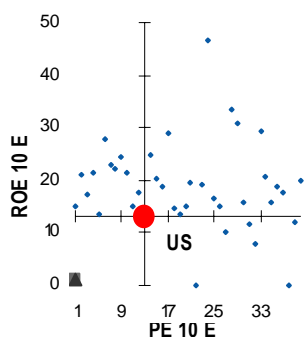
Source: J.P. Morgan.

**Table 26: Quartile valuation ranking**

	Div Yld	ROE
	2010E	2010E
Min	0.0	3.0
Lower Quartile	1.4	14.7
Median	2.6	18.9
Top Quartile	3.8	23.8
Max	10.1	50.3

Source: J.P. Morgan.

**Figure 32: ROE vs. P/E**



Source: J.P. Morgan, IBES. Scatter plot of ROE and P/E. Stocks in second quadrant have higher ROE and lower P/E than the MSCI US median. US position is indicated by the red dot.

The equity EMBIG100 is the top 100 companies in the MSCI Emerging markets free index sorted by MSCI free float market capitalization. We are interested in tracking the major stocks in the emerging market universe as country and sector aggregates can hide key trends. Also these names need to be attractive relative to global valuations and growth in order to attract net flows in emerging markets. This table gives a valuation summary for these stocks.

**Table 27: EMBig100 valuation summary (ranked by 2010 PE)**

Stock	Code	Country	Rec	Price 14-Jul-10	P/E 2010	P/E 2011E	DY 2010E	ROE 2010E
Mobile Tele	MBT US	Russia	OW	21.0	4.0	3.4	9.0	NA
Gazprom	GAZP RU	Russia	OW	5.2	4.3	3.5	1.9	13.7
LG Display	034220 KS	Korea	OW	39550.0	5.2	5.5	1.8	23.8
Lukoil	LKOH RU	Russia	N	53.4	5.7	5.5	3.6	13.6
Rosneft	ROSN LI	Russia	OW	6.3	5.7	6.2	1.8	19.4
KGHM	KGH PW	Poland	NR	95.3	6.0	6.1	7.5	27.4
LG Electronics	066570 KS	Korea	N	99200.0	6.0	5.5	0.9	21.1
Hynix Semi	000660 KS	Korea	N	25150.0	6.2	9.2	0.0	33.8
Hyundai Motor	005380 KS	Korea	OW	139500.0	7.0	6.4	1.1	16.6
Sinopec	386 HK	China	OW	6.1	7.6	6.7	3.3	17.1
Vale Pn	VALE/P US	Brazil	OW	21.7	8.0	7.1	2.1	21.1
KB Financial	105560 KS	Korea	OW	51500.0	8.2	6.8	1.9	11.7
OTP Bank	OTP HB	Hungary	OW	5280.0	8.2	6.0	3.6	13.4
Petrobras	PETRA BZ	Brazil	N	27.3	8.2	6.2	3.3	14.9
Banco Brasil On	BBAS3 BZ	Brazil	N	28.3	8.5	8.0	4.7	20.2
Sider Nacional	SID US	Brazil	UW	15.3	8.7	6.6	10.1	43.9
Posco	005490 KS	Korea	OW	487000.0	8.8	8.5	1.5	14.8
Garanti Bankasi	GARAN TI	Turkey	OW	7.5	8.8	8.0	3.4	23.8
PTT	PTT TB	Thailand	OW	247.0	9.4	8.1	3.8	16.4
CEZ	CEZ CP	Czech	NR	882.8	9.7	9.6	5.9	23.1
Bank Of China	3988 HK	China	OW	4.1	9.8	7.4	4.4	18.9
Samsung Electro	005930 KS	Korea	N	820000.0	10.3	11.7	0.0	17.3
Hyundai Mobis	012330 KS	Korea	OW	207500.0	10.6	9.5	0.5	19.3
TSMC	2330 TT	Taiwan	OW	60.3	10.6	9.7	5.0	27.7
Banco Itau PN	ITSA4 BZ	Brazil	NR	12.2	10.7	8.8	3.4	20.7
PLDT	TEL PM	Philippines	NR	2460.0	10.7	10.3	8.1	42.2
Bank of Comm.	3328 HK	China	OW	8.5	10.8	9.0	3.0	21.1
Hyundai Heavy In	009540 KS	Korea	UW	255000.0	10.9	16.0	NA	20.3
MTN Group	MTN SJ	South Africa	OW	10902.0	10.9	8.8	2.0	19.5
Sberbank	SBER RU	Russia	OW	2.7	11.1	5.8	9.6	19.2
China Const Bank	939 HK	China	OW	6.4	11.1	9.4	3.9	21.6
Shinhan Financial	055550 KS	Korea	OW	49000.0	11.2	9.5	1.4	10.0
Firstrand	FSR SJ	South Africa	OW	1965.0	11.4	9.3	3.9	17.1
KEPCO	015760 KS	Korea	OW	31750.0	11.4	8.4	0.0	3.9
Femsa	FMX US	Mexico	OW	46.4	11.5	10.1	1.2	10.7
ICBC	1398 HK	China	OW	5.7	11.7	9.5	3.8	22.1
Petrochina	857 HK	China	UW	8.6	11.9	11.4	3.8	15.0
Sasol	SOL SJ	South Africa	OW	28440.0	11.9	7.6	0.0	NA
LG Chem	051910 KS	Korea	OW	321000.0	12.0	11.7	1.1	27.5
Bradesco	BBDC4 BZ	Brazil	OW	29.4	12.2	10.4	2.8	20.3

Source: IBES, Datastream, J.P. Morgan estimates. All estimates are for the calendar year. IBES estimates for non-rated (NR) stocks. NM = not meaningful due to negative numbers. SA stands for South Africa, CZ stands for Czech Republic.

EMBig100 valuation summary (cont'd)

Stock	Code	Country	Rec	Price 14-Jul-10	P/E 2010	P/E 2011E	DY 2010E	ROE 10E
CNOOC	883 HK	China	N	12.3	12.3	12.0	4.5	24.9
Fubon Finl Holdings	2881 TT	Taiwan	OW	38.7	12.4	10.3	5.0	11.7
Hon Hai Precision	2317 TT	Taiwan	OW	123.0	12.5	11.1	1.6	17.6
China Steel	2002 TT	Taiwan	OW	30.4	12.5	12.0	3.3	12.2
Telkom	TLKM IJ	Indonesia	NR	7950.0	12.5	11.4	4.4	29.0
Mediatek	2454 TT	Taiwan	N	463.0	12.6	11.2	5.6	33.4
Gerdau	GGBR4 BZ	Brazil	NR	23.9	12.6	7.0	1.8	12.9
Banco Itau	ITUB4 BZ	Brazil	OW	37.1	12.6	10.7	2.7	24.6
Standard Banking	SBK SJ	South Africa	N	11057.0	12.6	10.3	3.3	15.0
Siam CommBank	SCB TB	Thailand	N	83.8	12.7	11.2	3.0	15.2
Grupo Mexico	GMEXICOB MM	Mexico	OW	31.2	13.3	11.8	6.2	26.3
China Mobile	941 HK	China	NR	78.4	13.5	13.1	3.2	21.5
Tenaga	TNB MK	Malaysia	OW	8.6	13.7	12.1	2.5	10.1
MMC Norilsk Nickel	GMKN RU	Russia	N	162.5	13.7	11.0	2.2	16.2
Brasil Foods	BRFS3 BZ	Brazil	N	24.1	13.9	7.1	1.9	5.5
AMX	AMX US	Mexico	OW	49.8	14.0	11.0	0.8	22.9
Chunghwa Telecom	2412 TT	Taiwan	NR	65.8	14.1	14.4	6.9	12.1
Bank Rakyat	BBRI IJ	Indonesia	UW	9750.0	14.2	11.5	1.7	27.8
Malayan Banking	MAY MK	Malaysia	N	7.7	14.3	13.2	3.5	14.7
Turkcell	TCELL TI	Turkey	N	8.2	14.3	12.2	3.2	NA
CIMB Group Holdings	CIMB MK	Malaysia	N	7.1	14.4	12.1	2.8	16.4
PKO Bank	PKO PW	Poland	UW	39.0	14.4	9.7	1.7	15.5
Bmf Bovespa	BVMF3 BZ	Brazil	OW	11.7	14.4	12.3	NA	NA
Itissalat Al Maghrib	IAM MC	Morocco	NR	154.0	14.5	14.3	6.8	50.3
China Overseas	688 HK	China	OW	16.4	14.5	13.9	1.5	20.2
Ecopetrol	ECOPETL CB	Colombia	UW	2930.0	14.8	10.0	4.1	27.1
Anglogold Ashanti	ANG SJ	South Africa	OW	31270.0	14.9	12.7	1.2	30.7
Credicorp	BAP US	Peru	N	97.8	15.0	12.8	2.1	21.5
Astra International	ASII IJ	Indonesia	OW	49500.0	15.4	14.3	2.6	29.8
Orascom Construction	OCIC EY	Egypt	NR	230.7	15.9	11.2	4.4	17.9
Televisa	TLEVICO MM	Mexico	NR	48.0	16.1	14.5	2.1	18.7
China Shenhua Enrgy	1088 HK	China	N	28.3	16.2	NA	2.2	18.9
Perusahaan Gas	PGAS IJ	Indonesia	UW	4000.0	16.6	15.1	3.2	44.3
Nan Ya Plastics	1303 TT	Taiwan	UW	58.0	16.6	13.1	3.3	10.5
Formosa Plastics	1301 TT	Taiwan	UW	69.1	16.6	15.0	5.8	11.2
CMB - H	3968 HK	China	N	19.3	16.7	13.2	1.2	21.4
Ambev	ABV US	Brazil	N	105.6	16.8	15.8	4.3	29.2
NHN	035420 KS	Korea	NR	192000.0	18.3	15.3	0.0	41.6
High Tech Computer	2498 TT	Taiwan	UW	571.0	19.2	19.0	4.0	31.9
IOI	IOI MK	Malaysia	N	5.1	19.5	16.8	2.6	17.8
Bank Central Asia	BBCA IJ	Indonesia	OW	5900.0	19.6	16.1	2.4	24.8
Naspers	NPN SJ	South Africa	OW	28513.0	19.8	15.2	0.9	15.6
Gold Fields	GFI SJ	South Africa	OW	10124.0	21.3	11.4	1.9	7.8
Impala Platinum	IMP SJ	South Africa	N	18608.0	21.8	12.0	1.7	12.1
Tata Consltncy Servcs	TCS IN	India	OW	777.6	22.1	20.5	3.0	36.8
Reliance Industries	RIL IN	India	OW	1072.7	22.3	14.2	0.7	14.6
China Life	2628 HK	China	UW	33.3	23.8	20.4	NA	15.0
ICICI Bank	ICICIB IN	India	N	889.6	24.6	21.0	1.3	8.0
Cathay Financial	2882 TT	Taiwan	N	50.8	24.8	16.9	2.2	9.3
Walmex	WALMEXV MM	Mexico	N	29.8	24.8	21.4	1.2	17.8
Infosys Technologies	INFO IN	India	OW	2752.9	25.4	22.7	0.9	28.8
China Unicom H	762 HK	China	NR	10.1	26.0	40.0	1.3	3.0
Ping An Insurance	2318 HK	China	OW	64.4	26.7	21.8	0.9	15.7
HDFC	HDFC IN	India	N	3029.0	30.8	25.2	1.2	20.0
Cemex	CX US	Mexico	OW	10.0	31.8	14.3	NA	NA
HDFC Bank	HDFCB IN	India	OW	2064.5	32.0	24.1	0.6	16.1
Larsen & Toubro	LT IN	India	OW	1877.3	32.3	26.2	0.0	19.4
Sime Darby	SIME MK	Malaysia	N	7.8	32.5	14.3	2.8	6.6
Tencent Hldg	700 HK	China	OW	136.4	33.7	26.1	0.3	46.8
OGX Petroleo	OGXP3 BZ	Brazil	OW	17.9	NM	NM	0.0	4.1

Source: IBES, Datastream, J.P. Morgan estimates. All estimates are for the calendar year. IBES estimates for non-rated (NR) stocks. NM = not meaningful due to negative numbers. SA stands for South Africa, CZ stands for Czech Republic.

Table 28: Quartile earning growth ranking

	Earnings growth	
	2010E	2011E
Min	-40.0	-12.5
Lower Quartile	11.3	11.5
Median	24.1	17.3
Top Quartile	32.6	23.0
Max	613.6	89.6

Source: J.P. Morgan calculations.

Table 29: EMBig100 earnings growth

NAME	RIC	Country	Reco	Earnings Growth			CAGR 2008-11E
				2009	2010E	2011E	
Ping An Insurance	2318 HK	China	OW	1.9	2.2	2.7	306.7
Cathay Financial	2882 TT	Taiwan	N	404.3	79.9	46.9	137.1
Perusahaan Gas Negara	PGAS IJ	Indonesia	UW	NM	-7.1	9.7	115.6
Walmex	WALMEXV MM	Mexico	N	NM	-40.0	15.8	84.9
LG Electronics	066570 KS	Korea	N	325.2	15.8	9.5	75.3
Nan Ya Plastics	1303 TT	Taiwan	UW	69.7	67.3	26.3	53.1
Tencent Hldg	700 HK	China	OW	84.8	44.8	29.2	51.2
Hyundai Motor	005380 KS	Korea	OW	104.5	32.4	10.3	44.0
Sinopec	386 HK	China	OW	116.5	11.3	14.4	40.2
Fubon Financial Holdings	2881 TT	Taiwan	OW	70.7	29.9	19.7	38.5
Sberbank of Russia	SBER RU	Russia	OW	-80.4	613.6	89.6	38.4
LG Display	034220 KS	Korea	OW	6.1	136.4	-4.8	33.6
China Overseas	688 HK	China	OW	56.5	41.6	4.3	32.2
Mediatek	2454 TT	Taiwan	N	88.0	8.7	12.1	31.8
Samsung Electronics	005930 KS	Korea	N	76.6	40.1	-12.5	29.4
Bank Of China	3988 HK	China	OW	26.0	30.3	31.0	29.1
China Life	2628 HK	China	UW	71.8	5.6	16.6	28.4
Bmf Bovespa	BVMF3 BZ	Brazil	OW	35.6	32.8	17.3	28.3
Garanti Bankasi	GARAN TI	Turkey	OW	63.9	16.0	10.1	27.9
LG Chem	051910 KS	Korea	OW	70.5	18.9	2.2	27.5
CIMB Group Holdings	CIMB MK	Malaysia	N	37.5	24.1	18.9	26.6
Femsa	FMX US	Mexico	OW	12.3	53.4	13.8	25.2
Gold Fields	GFI SJ	South Africa	OW	-2.0	6.7	86.3	24.9
HDFC Bank	HDFCB IN	India	OW	17.6	22.1	33.1	24.1
Larsen & Toubro	LT IN	India	OW	30.7	13.3	23.3	22.2
ICBC	1398 HK	China	OW	16.1	27.8	22.2	21.9
Bank Rakyat Indonesia	BBRI IJ	Indonesia	UW	22.6	16.1	22.6	20.4
China Const Bank	939 HK	China	OW	15.3	26.1	17.8	19.6
Hyundai Mobis	012330 KS	Korea	OW	51.0	2.0	10.9	19.5
Credicorp	BAP US	Peru	N	31.2	10.7	17.3	19.4
Hon Hai Precision	2317 TT	Taiwan	OW	35.0	11.1	12.5	19.1
Naspers	NPN SJ	South Africa	OW	5.6	22.4	30.1	18.9
PTT	PTT TB	Thailand	OW	14.8	24.7	16.9	18.7
TSMC	2330 TT	Taiwan	OW	-9.8	65.0	9.6	17.7
Bank of Comm.	3328 HK	China	OW	5.6	27.3	19.8	17.2
Bank Central Asia	BBCA IJ	Indonesia	OW	17.9	8.8	22.0	16.1
Astra International	ASII IJ	Indonesia	OW	12.0	29.8	7.5	16.0
Infosys Technologies	INFO IN	India	OW	29.8	6.3	12.0	15.6
Tata Consltny Svcs	TCS IN	India	OW	3.5	32.9	8.0	14.1
Banco Itau	ITUB4 BZ	Brazil	OW	-1.3	26.7	18.4	14.0
Ambev	ABV US	Brazil	N	4.6	30.6	6.5	13.3
Reliance Industries	RIL IN	India	OW	-7.7	-0.6	56.5	12.8
Grupo Mexico	GMEXICOB MM	Mexico	OW	-14.3	50.0	11.1	12.6
HDFC	HDFC IN	India	N	-6.4	22.7	22.2	11.9
MTN Group	MTN SJ	South Africa	OW	-16.6	32.5	23.3	10.9
CMB - H	3968 HK	China	N	-13.5	21.5	26.9	10.1
Formosa Plastics	1301 TT	Taiwan	UW	30.6	-7.5	10.4	10.1
KB Financial	105560 KS	Korea	OW	-71.0	274.9	19.7	9.2

Source: IBES, Datastream, J.P. Morgan estimates. All estimates are for the calendar year. IBES estimates for non-rated (NR) stocks. NM = not meaningful due to negative numbers. SA stands for South Africa. CZ stands for Czech Republic Recommendations: OW = Overweight, N = Neutral, UW = Underweight, NR = Not rated. 14 July 2010.

EMBig100 earnings growth (cont'd)

Stock	RIC	Country	Reco	Earnings Growth			CAGR 2008-11E
				2009	2010E	2011E	
Mobile Tele	MBT US	Russia	OW	-25.8	46.5	18.1	8.7
PKO Bank	PKO PW	Poland	UW	-21.4	10.2	48.1	8.6
AMX	AMX US	Mexico	OW	30.1	-25.1	27.1	7.4
China Steel	2002 TT	Taiwan	OW	-21.9	51.2	4.2	7.2
Petrochina	857 HK	China	UW	-9.7	28.0	4.2	6.4
Siam Commercial Bank	SCB TB	Thailand	N	-1.9	7.8	13.9	6.4
Chunghwa Telecom	2412 TT	Taiwan	NR	-10.8	-5.1	-1.7	6.3
Tenaga	TNB MK	Malaysia	OW	-64.7	197.9	12.7	5.9
Vale Pn	VALE/P US	Brazil	OW	-61.7	172.0	12.9	5.6
Petrobras	PETR4 BZ	Brazil	N	-12.2	0.3	32.9	5.4
Shinhan Financial	055550 KS	Korea	OW	-47.7	86.5	18.4	4.9
Standard Banking	SBK SJ	South Africa	N	-19.8	16.6	22.3	4.6
Firststrand	FSR SJ	South Africa	OW	-31.2	36.4	21.7	4.5
ICICI Bank	ICICIBC IN	India	N	-9.7	6.9	17.4	4.3
Posco	005490 KS	Korea	OW	-28.7	52.9	3.5	4.1
Gazprom	GAZP RU	Russia	OW	-31.7	22.1	33.6	3.7
Sasol	SOL SJ	South Africa	OW	-25.5	-6.1	56.4	3.1
China Mobile	941 HK	China	NR	0.7	3.7	3.1	2.5
CNOOC	883 HK	China	N	-33.6	51.8	2.6	1.1
Banco Brasil On	BBAS3 BZ	Brazil	N	14.1	-15.9	6.3	0.7
Ecopetrol	ECOPETL CB	Colombia	UW	-46.3	27.9	48.0	0.6
Itissalat Al Maghrib	IAM MC	Morocco	NR	-0.9	-0.5	1.4	0.0
CEZ	CEZ CP	Czech	NR	8.0	-6.1	1.8	-1.0
Malayan Banking	MAY MK	Malaysia	N	-80.0	346.5	8.1	-1.2
OTP Bank	OTP HB	Hungary	OW	-37.3	10.8	37.9	-1.4
IOI	IOI MK	Malaysia	N	-11.9	-6.5	16.0	-1.5
Sime Darby	SIME MK	Malaysia	N	-35.1	-36.5	127.3	-2.1
KGHM	KGH PW	Poland	NR	0.7	3.7	3.1	-2.4
Lukoil	LKOH RU	Russia	N	-25.4	14.6	3.1	-4.1
Rosneft	ROSN LI	Russia	OW	-41.4	60.7	-8.3	-4.8
High Tech Computer	2498 TT	Taiwan	UW	-21.1	3.8	0.9	-6.2
PLDT	TEL PM	Philippines	NR	7.0	8.2	4.8	-6.2
Televisa	TLEVICPO MM	Mexico	NR	-32.8	64.3	10.7	-6.5
Orascom Construction	OCIC EY	Egypt	NR	-30.9	27.1	41.3	-6.9
Turkcell	TCELL TI	Turkey	N	-3.4	-29.5	17.3	-7.2
Cemex	CX US	Mexico	OW	-80.8	84.5	122.6	-7.5
Telkom	TLKM IJ	Indonesia	NR	7.1	9.6	10.1	-8.2
Gerdau	GGBR4 BZ	Brazil	NR	-26.7	34.5	49.5	-12.1
NHN	035420 KS	Korea	NR	15.9	14.9	20.2	-14.5
Sider Nacional	SID US	Brazil	UW	-71.7	66.0	32.4	-14.7
Hyundai Heavy Ind	009540 KS	Korea	UW	-14.8	-7.6	-32.0	-18.8
Impala Platinum	IMP SJ	South Africa	N	-65.6	-14.6	82.0	-18.8
Banco Itau PN	ITSA4 BZ	Brazil	NR	43.6	26.2	21.9	-23.2
OGX Petroleo	OGXP3 BZ	Brazil	OW	NM	-96.4	-66.7	-30.7
MMC Norilsk Nickel	GMKN RU	Russia	N	NM	42.9	24.8	NM
Brasil Foods	BRFS3 BZ	Brazil	N	NM	91.2	94.8	NM
China Unicom H	762 HK	China	NR	NM	NM	NM	NM
Korea Electric Power	015760 KS	Korea	OW	NM	NM	36.5	NM
Hynix Semi	000660 KS	Korea	N	NM	NM	-33.0	NM
Bradesco	BBDC4 BZ	Brazil	OW	NA	17.6	16.6	NA
Anglogold Ashanti	ANG SJ	South Africa	OW	NA	NA	17.5	NA
China Shenhua Enrgy	1088 HK	China	N	10.6	6.5	NA	NA

Source: IBES, Datastream, J.P. Morgan estimates. All estimates are for the calendar year. IBES estimates for non-rated (NR) stocks. NM = not meaningful due to negative numbers. SA stands for South Africa. CZ stands for Czech Republic. Recommendations: OW = Overweight, N = Neutral, UW = Underweight, NR = Not rated. 14 July 2010.



Table 30: Ranked total returns of EMBig100

Name	3-month return		Name	6-month return		Name	12-month return	
	LC	US\$		LC	US\$		LC	US\$
High Tech Computer	39.0	36.1	Astra International	41.6	43.5	LG Chem	142.0	160.3
Hyundai Mobis	30.4	20.6	High Tech Computer	45.1	43.4	Sberbank of Russia	129.9	143.1
LG Chem	27.4	17.9	LG Chem	42.4	32.8	Grupo Mexico	123.5	142.0
China Unicom H	16.0	15.9	Credicorp	31.5	31.5	Astra International	102.8	128.3
Astra International	16.1	15.7	Hyundai Mobis	39.1	29.7	MMC Norlisk Nickel	100.4	112.0
Bank Rakyat Indonesia	15.2	14.7	Ecopetrol	21.0	27.5	Tata Consltny Servcs	95.0	104.5
Larsen & Toubro	17.6	12.0	Bank Rakyat Indonesia	24.7	26.4	Hyundai Motor	85.9	99.9
Credicorp	11.4	11.4	Hyundai Motor	32.4	23.4	Hyundai Mobis	81.4	95.1
Ecopetrol	7.9	11.3	Bank Central Asia	21.8	23.4	Bank Central Asia	72.5	94.2
HDFC	13.4	8.0	HDFC Bank	24.7	21.8	Hynix Semi	74.6	87.7
Hyundai Motor	14.6	6.1	HDFC	23.4	20.6	OGX Petroleo	63.5	82.9
Ambev	6.9	5.6	Malayan Banking	13.7	18.6	Garanti Bankasi	79.8	80.1
Chunghwa Telecom	7.6	5.4	Hyundai Heavy Ind	25.7	17.2	Credicorp	71.0	71.0
Anglogold Ashanti	6.5	3.7	CIMB Group Holdings	7.7	12.3	CIMB Group Holdings	52.1	70.6
Bank Central Asia	3.9	3.5	CMB - H	12.3	12.1	Banco Itau PN	50.1	67.9
Tenaga	3.0	3.1	Garanti Bankasi	17.7	11.4	Ambev	50.1	67.9
Malayan Banking	2.7	2.8	Tenaga	6.5	11.1	Walmex	54.5	67.3
HDFC Bank	7.7	2.5	Perusahaan Gas Negara	9.0	10.5	Banco Brasil On	46.0	63.3
Telkom	2.7	2.3	Larsen & Toubro	12.9	10.3	Bank Rakyat Indonesia	44.8	63.0
Gold Fields	4.7	2.0	China Const Bank	10.4	10.2	HDFC Bank	54.5	62.0
Bank Of China	1.7	1.6	Bank Of China	9.2	9.0	Infosys Technologies	53.4	60.8
Perusahaan Gas Negara	1.8	1.4	Firststrand	9.5	7.8	Sider Nacional	41.7	58.6
Brasil Foods	2.4	1.1	China Overseas	8.0	7.8	Banco Itau	40.9	57.6
CIMB Group Holdings	0.7	0.8	Standard Banking	9.4	7.8	Malayan Banking	40.3	57.3
China Mobile	0.8	0.7	Mobile Tele	7.1	7.1	Vale Pn	40.4	57.0
OGX Petroleo	1.6	0.3	AMX	6.2	6.6	Mobile Tele	57.0	57.0
China Overseas	0.0	(0.1)	Femsa	6.1	6.5	Hyundai Heavy Ind	45.8	56.8
Formosa Plastics	2.0	(0.2)	Banco Itau PN	5.5	5.8	Shinhan Financial	45.7	56.7
China Const Bank	(1.3)	(1.5)	ICICI Bank	8.2	5.7	PKO Bank	60.4	56.1
Bradesco	(0.4)	(1.6)	China Unicom H	5.6	5.4	Tencent Hldg	54.3	53.8
Siam Commercial Bank	(1.8)	(1.8)	Brasil Foods	5.1	5.3	Nan Ya Plastics	47.0	51.5
ICBC	(1.8)	(2.0)	ICBC	4.2	4.0	Bradesco	34.5	50.4
Bmf Bovespa	(0.9)	(2.1)	Shinhan Financial	11.6	4.0	Firststrand	35.9	49.1
Fubon Financial Holdings	(0.4)	(2.5)	CNOOC	4.1	4.0	Gerdau	31.0	46.5
TSMC	(0.6)	(2.7)	Chunghwa Telecom	5.0	3.8	Femsa	34.3	45.4
CMB - H	(2.8)	(2.9)	Bank of Comm.	4.0	3.8	OTP Bank	60.5	44.9
Itissalat Al Maghrib	2.6	(3.0)	PTT	1.5	3.3	Larsen & Toubro	38.1	44.9
Hyundai Heavy Ind	4.7	(3.2)	MTN Group	4.1	2.5	Perusahaan Gas Negara	26.2	42.1
AMX	0.8	(3.4)	Itissalat Al Maghrib	13.1	1.7	Samsung Electronics	31.2	41.1
PTT	(3.9)	(3.9)	China Mobile	1.6	1.4	CNOOC	40.7	40.3
Firststrand	(1.5)	(4.1)	MMC Norlisk Nickel	4.9	0.9	High Tech Computer	35.6	39.7
Femsa	0.1	(4.1)	Formosa Plastics	2.0	0.8	ICICI Bank	32.9	39.4
Banco Itau PN	(2.9)	(4.2)	Grupo Mexico	0.2	0.6	Formosa Plastics	35.0	39.1
Petrochina	(4.4)	(4.5)	Infosys Technologies	2.6	0.2	HDFC	31.6	38.0
Bank of Comm.	(4.4)	(4.6)	Siam Commercial Bank	(1.6)	0.2	Naspers	25.4	37.6
MTN Group	(2.4)	(5.0)	Anglogold Ashanti	1.5	(0.0)	Ecopetrol	23.2	35.5
Cemex	(1.1)	(5.2)	Gold Fields	1.3	(0.3)	Standard Banking	22.6	34.5
CNOOC	(5.2)	(5.3)	Ambev	(0.9)	(0.6)	KGHM	38.2	34.4
Standard Banking	(3.0)	(5.6)	NHN	6.6	(0.6)	Brasil Foods	19.0	33.2
Infosys Technologies	(0.9)	(5.6)	Banco Itau	(1.0)	(0.7)	Siam Commercial Bank	25.9	32.9
CEZ	2.5	(6.1)	TSMC	0.4	(0.8)	AMX	21.7	31.7
Sinopec	(6.2)	(6.3)	Banco Brasil On	(1.3)	(1.1)	Cemex	21.4	31.4
IOI	(6.4)	(6.3)	Tata Consltny Servcs	1.1	(1.2)	CMB - H	31.7	31.4
Mobile Tele	(6.3)	(6.3)	Fubon Financial Holdings	(0.4)	(1.5)	IOI	16.8	31.0
Garanti Bankasi	(2.6)	(6.7)	Walmex	(2.1)	(1.7)	Lukoil	23.6	30.7
PLDT	(3.2)	(6.8)	Bradesco	(2.0)	(1.8)	LG Display	20.7	29.8
Ping An Insurance	(7.1)	(7.2)	IOI	(6.2)	(2.1)	Fubon Financial Holdings	25.2	29.0
Shinhan Financial	0.2	(7.3)	Ping An Insurance	(3.3)	(3.5)	Rosneft	21.7	28.7
Banco Itau	(6.2)	(7.4)	Naspers	(2.1)	(3.6)	Gazprom	18.9	25.8
Cathay Financial	(5.7)	(7.6)	OGX Petroleo	(4.6)	(4.4)	Sime Darby	12.1	25.7
Walmex	(3.7)	(7.7)	Sinopec	(5.2)	(5.3)	Orascom Construction	28.1	25.6

Source: Datastream. 14 July 2010.



Table 40: Ranked total returns of EMBig 100 (cont'd)

%

Name	3-month return		Name	6-month return		Name	12-month return	
	LC	US\$		LC	US\$		LC	US\$
NHN	(0.5)	(8.0)	Sider Nacional	(5.6)	(5.4)	KB Financial	16.7	25.5
Banco Brasil On	(7.1)	(8.3)	Televisa	(6.0)	(5.6)	Impala Platinum	14.4	25.5
Tata Consltny Svcs	(3.8)	(8.4)	Hynix Semi	1.2	(5.7)	Reliance Industries	19.5	25.3
Lukoil	(3.5)	(8.6)	Lukoil	(2.4)	(6.1)	Tenaga	11.4	24.9
Reliance Industries	(4.0)	(8.6)	Reliance Industries	(4.0)	(6.2)	TSMC	20.6	24.3
ICICI Bank	(4.1)	(8.6)	LG Display	0.0	(6.8)	Bmf Bovespa	9.5	22.5
Naspers	(6.2)	(8.7)	PLDT	(6.0)	(7.1)	KEPCO	13.6	22.2
Sime Darby	(9.4)	(9.4)	Samsung Electronics	(0.4)	(7.1)	PTT	14.8	21.3
Sasol	(7.0)	(9.5)	China Life	(7.2)	(7.4)	China Steel	17.5	21.0
China Life	(9.6)	(9.8)	Petrochina	(7.3)	(7.4)	Bank Of China	21.1	20.8
Samsung Electronics	(2.5)	(9.8)	Sasol	(6.3)	(7.7)	Posco	12.2	20.7
Televisa	(7.3)	(11.2)	Sime Darby	(11.9)	(8.0)	NHN	12.1	20.6
LG Display	(5.6)	(12.7)	CEZ	1.9	(9.0)	ICBC	20.5	20.2
Sberbank of Russia	(7.9)	(12.7)	Sberbank of Russia	(6.2)	(9.7)	China Const Bank	20.3	20.0
KB Financial	(6.5)	(13.5)	Nan Ya Plastics	(9.1)	(10.1)	Anglogold Ashanti	9.2	19.8
Tencent Hldg	(13.8)	(13.9)	PKO Bank	1.0	(11.5)	Sasol	8.9	19.5
China Steel	(12.1)	(13.9)	Telkom	(12.7)	(11.5)	Gold Fields	8.4	19.0
Turkcell	(10.2)	(14.0)	Bmf Bovespa	(12.8)	(12.6)	PLDT	12.2	17.1
Nan Ya Plastics	(12.2)	(14.0)	Cemex	(13.4)	(13.1)	Hon Hai Precision	12.3	15.7
Impala Platinum	(12.1)	(14.4)	China Steel	(12.5)	(13.5)	Chunghwa Telecom	11.9	15.3
Hynix Semi	(7.7)	(14.6)	Impala Platinum	(12.2)	(13.6)	Telkom	2.4	15.2
Hon Hai Precision	(13.0)	(14.8)	Cathay Financial	(13.0)	(14.0)	Televisa	6.4	15.2
MMC Norilsk Nickel	(10.9)	(15.6)	Orascom Construction	(10.4)	(14.7)	Mediatek	11.3	14.7
Mediatek	(13.8)	(15.6)	LG Electronics	(9.1)	(15.3)	Petrochina	13.7	13.4
Gazprom	(11.5)	(16.2)	KB Financial	(9.2)	(15.4)	Bank of Comm.	13.2	12.9
Posco	(9.9)	(16.6)	Vale Pn	(16.7)	(16.5)	Ping An Insurance	13.2	12.9
Grupo Mexico	(14.3)	(17.9)	KEPCO	(11.8)	(17.8)	China Life	12.1	11.8
KEPCO	(11.4)	(18.1)	Mediatek	(17.1)	(18.1)	China Shenhua Enrgy	11.3	11.0
Petrobras	(17.5)	(18.6)	Gerdau	(18.5)	(18.3)	China Mobile	11.0	10.7
China Shenhua Enrgy	(19.0)	(19.1)	Hon Hai Precision	(17.4)	(18.3)	Cathay Financial	6.0	9.3
PKO Bank	(10.2)	(20.3)	Gazprom	(15.9)	(19.1)	Petrobras	(5.3)	6.0
Orascom Construction	(18.8)	(21.4)	KGHM	(7.7)	(19.1)	Turkcell	4.0	4.2
Sider Nacional	(20.7)	(21.7)	Tencent Hldg	(19.5)	(19.7)	Itissalat Al Maghrib	10.7	2.8
Gerdau	(21.1)	(22.1)	Petrobras	(22.3)	(22.1)	Sinopec	2.8	2.5
LG Electronics	(19.0)	(25.1)	China Shenhua Enrgy	(22.0)	(22.2)	China Overseas	1.7	1.4
KGHM	(15.6)	(25.1)	Posco	(17.5)	(23.1)	China Unicom H	1.4	1.1
Vale Pn	(25.2)	(26.1)	OTP Bank	(14.2)	(27.7)	MTN Group	(9.4)	(0.6)
Rosneft	(22.2)	(26.3)	Rosneft	(27.3)	(30.0)	CEZ	6.6	(1.2)
OTP Bank	(25.3)	(34.3)	Turkcell	(26.5)	(30.4)	LG Electronics	(19.5)	(13.4)

Source: Datastream. Price as of 14 July 2010.

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# Emerging Market Dashboards

## Emerging Markets Strategy Dashboards

### Summary: Regional and Countries Valuations

	16-Jun-10 MSCI Index	P/E (x)						Div. Yield (%)				P/BV (x)				Earnings growth (%)				ROE (%)				
		Hist.^		P/ EPS		Current 12m		Prospective				Hist.^		Current		Prospective		Earnings growth (%)				ROE (%)		
		Trough	(Trend)	Trailing	Fwd	2009	2010E	2011E	Peak	Trailing	2010E	2011E	Trough	Trailing	2010E	2011E	2008	2009E	2010E	2011E	2009E	2010E	2011E	
Global*	310	9.5	11.9	13.6	11.4	15.2	12.4	10.6	4.3	2.7	2.8	3.1	1.2	1.7	1.6	1.5	-33.4	-11.5	22.7	16.9	11.5	13.4	14.4	
USA	1,041	11.6	11.0	17.6	12.0	28.6	13.1	11.1	4.0	2.2	2.2	2.3	1.4	1.9	1.8	1.7	-30.6	2.1	27.0	20.3	11.7	13.9	15.1	
Europe*	1,089	7.0	9.6	14.9	10.2	18.7	11.1	9.4	6.2	3.6	3.8	4.4	1.1	1.5	1.5	1.3	-24.6	-21.1	27.6	21.0	12.6	15.6	17.9	
Japan*	541	11.5	23.9	NM	13.7	NM	15.1	12.5	3.0	1.9	2.3	2.5	0.9	1.1	1.0	0.9	-17.8	NM	NM	21.3	NM	6.8	7.8	
Emerging Markets*	42,273	9.1	12.3	12.6	10.4	15.1	11.0	9.9	3.6	2.5	2.7	3.3	1.0	1.9	1.8	1.6	6.8	2.1	36.7	11.4	13.6	17.1	17.0	
EMF Asia	605	10.3	15.5	13.7	11.4	16.0	12.2	10.7	3.4	2.4	2.6	3.0	1.0	2.0	1.9	1.7	-32.0	13.5	31.6	13.2	13.4	16.1	16.3	
EMF LatAm*	6,991,512	8.6	12.6	13.5	11.1	14.9	12.5	10.1	5.7	2.8	3.0	3.8	0.6	2.1	2.0	1.8	5.6	8.5	19.6	23.8	11.2	17.0	18.9	
EMF EMEA*	380	6.1	7.8	10.7	8.4	12.5	9.5	7.6	5.1	2.7	3.0	3.7	1.0	1.5	1.4	1.3	-18.8	-24.4	31.4	25.2	14.3	15.9	17.5	
China	61	7.2	10.5	13.9	11.6	15.8	12.6	10.8	5.7	2.7	2.8	3.4	0.5	2.2	2.0	1.8	-10.9	17.1	25.3	17.2	15.4	17.1	17.8	
Brazil*	218,816	6.5	7.8	12.3	10.1	13.6	11.4	9.1	7.6	3.1	3.3	4.2	0.4	2.0	1.8	1.6	3.9	7.1	19.1	25.1	16.2	17.5	19.0	
Korea	498	7.7	10.9	11.4	9.6	14.2	9.8	9.4	2.9	1.1	1.2	1.4	0.5	1.5	1.4	1.2	-38.9	57.0	44.9	4.1	11.5	14.9	13.6	
Taiwan	274	11.7	13.3	16.7	12.0	25.3	12.9	11.3	7.8	3.4	3.8	4.7	1.2	1.8	1.7	1.6	-69.2	32.9	96.0	13.8	7.8	14.1	14.8	
South Africa*	718	9.1	10.2	13.9	10.7	16.5	12.2	9.7	4.7	2.9	3.2	4.0	1.4	2.2	2.0	1.8	-24.9	-15.3	36.1	25.6	14.1	17.7	19.4	
India	724	10.4	20.0	18.8	15.0	21.4	17.0	13.5	2.5	1.2	1.3	1.4	1.5	2.7	2.5	2.2	-16.9	4.1	25.3	26.0	14.4	15.8	17.2	
Russia*	716	3.4	3.5	7.9	6.0	9.4	6.9	5.3	3.2	1.6	2.2	2.8	0.2	1.0	1.0	0.8	-22.8	-36.6	35.4	29.5	13.6	15.0	17.0	
Mexico*	29,870	9.0	10.2	15.5	13.0	17.1	14.4	12.0	3.5	2.6	2.5	3.5	0.7	2.4	2.5	2.5	-27.2	19.9	18.9	19.5	8.8	16.8	20.6	
Malaysia	489	12.2	16.5	16.9	14.2	19.0	15.4	13.3	5.1	3.0	3.3	3.6	0.6	2.0	2.0	1.8	-13.0	0.5	23.0	16.3	11.2	13.1	14.2	
Indonesia	4,043	5.3	15.6	16.1	13.7	17.6	15.0	12.8	5.9	2.5	2.7	3.3	0.9	3.9	3.6	3.1	4.8	20.7	17.8	16.9	26.4	26.0	25.8	
Turkey*	854,542	5.0	5.9	10.7	9.4	11.6	10.0	8.9	4.0	3.6	2.9	3.6	1.4	1.9	1.8	1.6	3.7	5.0	16.5	12.8	18.6	18.8	18.8	
Thailand	323	8.2	6.6	12.7	11.0	13.7	11.9	10.2	6.3	3.6	3.9	4.1	0.6	2.0	1.9	1.7	14.6	41.3	15.3	16.4	16.0	16.8	17.6	
Poland*	1,639	6.3	11.3	13.8	11.8	14.9	12.9	10.9	6.3	3.0	3.5	4.4	0.9	1.6	1.5	1.4	-28.1	-25.7	15.8	18.0	11.3	12.5	13.5	
Czech Republic*	354	7.3	6.7	11.3	10.9	11.1	11.4	10.5	10.0	5.5	5.9	6.2	0.5	2.0	2.0	1.8	1.2	16.6	-2.7	8.9	19.3	17.7	18.2	
Egypt*	1,257	5.9	5.3	12.7	10.0	15.0	11.2	9.2	8.4	3.1	3.6	4.4	1.0	1.4	1.4	1.3	-32.0	-33.7	33.3	21.9	12.0	12.7	14.7	
Philippines	652	7.9	21.4	16.6	14.6	17.7	15.7	13.7	5.2	3.9	3.8	3.4	0.9	2.5	2.4	2.3	-13.2	24.8	12.7	14.5	15.2	16.1	17.1	
Hungary*	1,296	3.5	5.4	11.9	10.0	12.2	11.6	8.9	5.3	2.7	3.3	4.5	0.6	1.4	1.3	1.2	-36.6	-36.6	5.4	30.5	12.8	12.0	14.0	

Source: I/B/E/S, MSCI, J.P. Morgan. Updated 14 July 2010.

\* Market forecast numbers are derived from bottom-up calculations of each individual MSCI constituents using I/B/E/S estimates. IBES Estimates are not available for Morocco, Jordan, Peru and Colombia.

For all other markets, forecast numbers are derived from bottom-up calculations of each individual MSCI constituents using JPM estimates for covered stocks and I/B/E/S estimates for the rest.

Hist.^ refers to the historically lowest valuation of the MSCI indices since Jan 1991. Trough PE represents the lowest 12 month trailing PE. For dividend yield the highest values are taken to represent the best multiple.

P/ EPS (Trend) uses the trend EPS for the indices calculated by the linear regression on the natural log of trailing EPS. For more, please refer to 'Mayday call for the shorts - Perspectives and Portfolios', 5 May 2009, Mowat et al.

P/ EPE (Trend)' is NM for indices where the modeled relationship is weak with a less than 0.50 R-square. The start dates China and Singapore models are modified to make them more relevant. Sector indices inputs have not been altered.

## Market Performance: MSCI AC Performance by Regions, Countries and Sectors

2010 Year to date	Global	North America	Europe	Japan	EMF	EMF Asia	EMF Latin America	EMEA	EMF Asia	Korea	Taiwan	China	India	Malaysia	Thailand	Indonesia	Philippines
Consumer Discretionary	1.5%	4.8%	-0.7%	-9.2%	2.4%	6.6%	-7.5%	-4.8%	6.6%	10.6%	-1.1%	-7.0%	13.4%	2.6%	15.9%	42.5%	34.5%
Consumer Staples	0.2%	0.5%	-1.5%	-2.4%	6.1%	5.4%	5.4%	3.6%	5.4%	2.7%	3.2%	1.8%	8.0%	-0.5%	43.2%	19.5%	
Energy	-11.2%	-7.6%	-17.8%	-0.2%	-10.6%	-4.1%	-20.8%	-9.4%	-4.1%	3.2%	-5.6%	-7.3%	0.2%	9.2%	0.4%	-5.4%	
Financials	-4.6%	2.9%	-13.5%	-8.0%	-0.4%	-1.3%	-0.2%	-0.7%	-1.3%	-1.8%	-8.6%	-6.2%	9.0%	8.2%	5.6%	25.0%	16.5%
Healthcare	-7.0%	-6.2%	-10.0%	-7.3%	2.6%	2.5%	0.0%	10.7%	2.5%	-7.3%	3.2%	8.1%	8.1%			0.0%	
Industrials	1.4%	3.5%	-2.1%	-1.4%	-0.5%	0.2%	0.1%	-3.7%	0.2%	3.6%	5.6%	-6.0%	1.8%	-1.0%		22.9%	34.6%
Information Technology	-3.6%	-4.2%	-4.0%	-1.5%	-5.3%	-5.4%	-0.3%	-9.5%	-5.4%	6.6%	-9.7%	-15.0%	3.5%				
Materials	-8.9%	-4.8%	-13.3%	-9.8%	-6.7%	-7.7%	-7.8%	-0.6%	-7.7%	0.0%	-4.1%	-20.7%	-12.5%	4.0%	20.9%	10.5%	
Telecoms	-6.3%	-5.9%	-12.6%	5.3%	0.3%	5.0%	-1.0%	-5.8%	5.0%	0.2%	3.0%	8.4%	11.1%	12.4%	5.6%	-14.9%	-5.9%
Utilities	-8.8%	-3.2%	-20.7%	2.3%	-2.6%	-1.9%	-5.8%	3.3%	-1.9%	-6.4%		-4.7%	-5.7%	2.2%	15.2%	3.8%	-5.0%
<b>Region / Country Benchmark</b>	<b>-4.5%</b>	<b>-1.7%</b>	<b>-10.5%</b>	<b>-4.8%</b>	<b>-2.8%</b>	<b>-1.7%</b>	<b>-6.0%</b>	<b>-3.3%</b>	<b>-1.7%</b>	<b>3.6%</b>	<b>-7.6%</b>	<b>-5.6%</b>	<b>2.4%</b>	<b>4.1%</b>	<b>6.9%</b>	<b>11.9%</b>	<b>9.1%</b>
<b>Change vs dollar</b>				5.5%						-3.3%	-0.5%	0.8%	-0.4%	6.9%	3.4%	3.9%	-0.4%

2010 Year to date	EMF Latin America	Brazil	Mexico	Argentina	Peru	Colombia	EMEA	South Africa	Russia	Turkey	Poland	Hungary	Czech Republic	Egypt	Morocco
Consumer Discretionary	-7.5%	-7.0%	-14.3%				-4.8%	2.4%		-3.2%	13.1%			0.0%	
Consumer Staples	5.4%	4.4%	0.8%	-4.9%		-7.2%	3.6%	23.3%	-19.2%	16.9%			0.0%		0.0%
Energy	-20.8%	-21.8%		0.3%		17.6%	-9.4%	-3.9%	-8.8%	5.0%	5.7%	21.8%			0.0%
Financials	-0.2%	-3.8%	10.1%	14.0%	24.1%	15.7%	-0.7%	8.5%	-0.3%	17.3%	2.9%	-2.5%	-8.1%	13.8%	14.5%
Healthcare	0.0%	0.0%					10.7%	2.1%				5.4%		0.0%	
Industrials	0.1%	-8.0%	10.4%				-3.7%	-6.3%		4.0%	7.5%			-7.1%	25.7%
Information Technology	-0.3%	0.7%					-9.5%				-9.5%				
Materials	-7.8%	-10.5%	-2.9%		1.6%	4.8%	-0.6%	-2.5%	8.3%	-9.3%	-10.4%			-2.1%	0.0%
Telecoms	-1.0%	-14.0%	1.5%	8.4%			-5.8%	-5.5%	1.4%	-14.4%	-3.9%	-4.6%	4.5%	-10.6%	13.7%
Utilities	-5.8%	-5.4%				-1.2%	3.3%		0.0%	0.0%	-13.6%		2.2%		
<b>Region / Country Benchmark</b>	<b>-6.0%</b>	<b>-9.9%</b>	<b>-0.5%</b>	<b>8.5%</b>	<b>7.9%</b>	<b>10.7%</b>	<b>-3.3%</b>	<b>1.6%</b>	<b>-3.5%</b>	<b>9.9%</b>	<b>0.1%</b>	<b>4.8%</b>	<b>-1.3%</b>	<b>-0.5%</b>	<b>15.3%</b>
<b>Change vs dollar</b>		-1.0%	2.9%	-3.4%	2.4%	9.2%		-2.4%	-1.6%	-2.7%	-10.0%	-13.7%	-8.1%	-3.7%	-9.4%

Source: Bloomberg, MSCI. 14 July 2010.

Notes: Regional headings first sorted by regional weights in the MSCI EMF and then country headings from left to right by relative weights within the MSCI EMF

Indices: Regions in US\$ and countries in local currency. Local currency movements against the dollar: appreciation / (depreciation).

Country and sector cross sections in italic blue have outperformed their indices by more than 2%; numbers in red have underperformed their indices by more than 2%.

## Equity Markets Liquidity Monitor

Country	Stock Exchange	FF Mkt Cap (US\$ Bn)	Daily Trading Value (US\$ bn)			Daily Velocity Ratio (%)		
			1 Wk Avg	3 MMA	09 Avg	1 Wk Avg	3M Avg	09 Avg
<b>Developed Markets</b>								
US	NYSE + NASDAQ + AMEX	12,632	37	54	40	0.29	0.42	0.35
UK	London Stk Exchange	2,598	6.3	8.9	7.7	0.24	0.35	0.32
Japan	Tokyo Stk Exchange	2,708	1.4	16	15	0.50	0.61	0.47
Australia	ASX	1,061	3.1	4.8	3.3	0.29	0.45	0.39
HK	HKSE	1,408	4.8	5.7	6.0	0.34	0.40	0.34
Singapore	SSE	270	1.0	1.1	1.0	0.38	0.43	0.30
<b>EM Asia</b>								
China	Shanghai & Shenzhen A	1,279	16	19	30	1.26	1.39	1.09
India	BSE & NSE	470	3.7	3.8	4.3	0.79	0.82	0.46
Indonesia	JSE	111	0.4	0.4	0.4	0.38	0.43	0.26
Korea	KSE	548	4.7	4.7	4.6	0.86	0.89	0.72
Malaysia	Bursa Malaysia	132	0.3	0.3	0.3	0.26	0.27	0.14
Philippines	PSE	33	0.1	0.1	0.1	0.25	0.31	0.16
Taiwan	TWSE & OTC	517	4.0	3.8	4.2	0.78	0.77	0.78
Thailand	TSE	71	0.8	0.7	0.5	1.10	1.04	0.39
<b>EMEA</b>								
Russia	RTS + MICEX + DR	252	0.8	2.2	1.9	0.30	0.87	0.52
South Africa	Johannesburg Stk Exchange	474	1.3	1.6	1.2	0.28	0.33	0.27
Turkey	Istanbul Stk Exchange	84	1.2	1.5	1.2	1.43	1.91	0.75
Poland	Warsaw Stk Exchange	66	0.4	0.5	0.4	0.61	0.84	0.44
Egypt	Egyptian Exchange	33	0.1	0.1	0.0	0.24	0.17	0.00
<b>LatAm</b>								
Brazil	Bovespa + DR	709	4.5	6.1	4.6	0.63	0.88	0.49
Mexico	Mexico Stk Exchange + DR	228	0.7	1.2	0.9	0.30	0.52	0.31
Colombia	Bogota Stk Exchange	39	0.12	0.07	0.05	0.32	0.20	0.05
Peru	Lima Stk Exchange	35	0.01	0.02	0.02	0.04	0.05	0.04
Argentina	Argentina Stk Exchange	26	0.09	0.09	0.08	0.36	0.34	0.26

Source: Bloomberg, J.P. Morgan. Notes: Market cap uses all exchanges covered by Bloomberg for a specific country and primary security of company only.

The latest one week average is red (gray box in B&W, dark blue in blue scale) if less than 90% of the three month average or blue (solid black box in B&W, light blue in blue scale) if greater than 110% of the three month average.

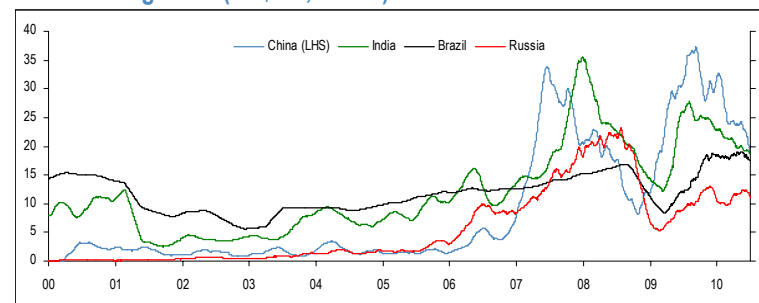
To calculate the free float we use the MSCI free float factor for all markets except for Hong Kong, Russia and South Africa where we calculate the free float for the Hong Kong Composite Index, MICEX, and JSE.

Trading value calculation for Russia, Mexico and Brazil, includes value of depository receipts traded (DR) along with local stock exchange turnover.

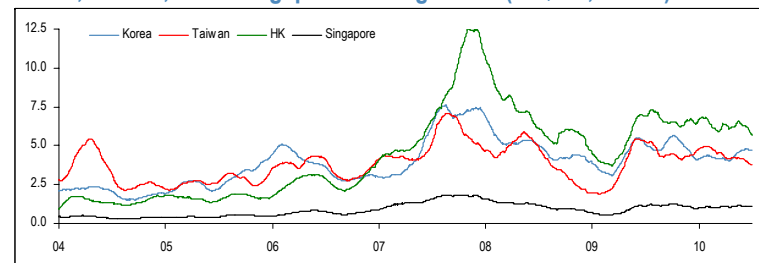
South Africa and Australia market capitalization and trading value includes only local listed portion of dual listed stocks. Velocity Ratio = (Trading Value / Free float market cap) \* 100

Updated 14 July 2010

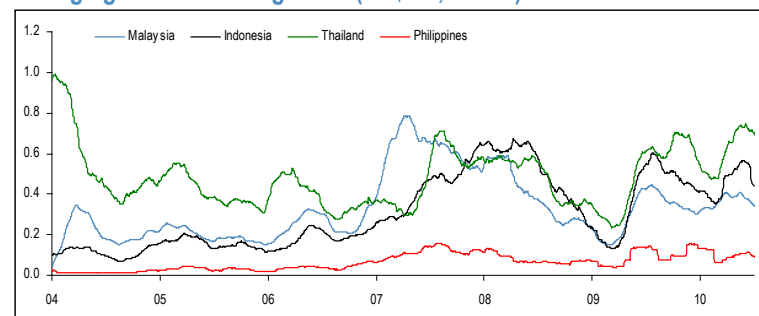
BRIC Trading value (US\$ bn, 3MMA)



Korea, Taiwan, HK & Singapore Trading Value (US\$ bn, 3MMA)



Emerging ASEAN Trading Value (US\$ bn, 3MMA)



## Monitoring Inflation: The real threat to EM equities

Country	Inflation Rate	Central bank	JPM f'cast	CPI (YoY)	CPI (YoY)		Food CPI (YoY)		CPI (%)		FX (%)		Policy	Policy Rate	Policy Rate
		Inflation			Target/Est (%)	Date	Previous	Latest	Previous	Latest	MoM	3M ann	YoY		
United States	Chained CPI	na	1.6	May-10	2.2	2.0	0.3	0.6	(0.2)	(0.7)	5.0	14.7	0.1	16 Dec 08 (-87.5bp)	4Q 11 (+37.5bp)
US core PPI	Core PPI SA	na	na	May-10	1.0	1.1	-	-	0.2	2.1	5.0	14.7	-	-	-
US core CPI	Urban core CPI	na	na	May-10	1.0	0.9	-	-	0.1	0.8	5.0	14.7	-	-	-
US Unit Labor Cost	LC Nonfarm	na	na	Mar-10	(5.2)	(4.2)	-	-	NA	(1.3)	5.0	14.7	-	-	-
Euro Area	CPI	Under 2%	1.4	Jun-10	1.6	1.4	(0.2)	0.2	0.0	2.4	(9.6)	(22.2)	1.0	7 May 09 (-25bp)	On hold
Japan	CPI	na	-1.1	May-10	(1.2)	(0.9)	(0.7)	(0.9)	0.1	1.6	6.8	23.5	0.1	19 Dec 08 (-20bp)	2Q 12 (+15bp)
Australia	CPI	2 - 3	3.5	Mar-10	2.1	2.9	1.9	0.7	NA	3.6	9.8	(20.8)	4.5	4 May 10 (+25bp)	Aug 10 (+25bp)
Hong Kong	CPI	na	2.7	May-10	2.4	2.5	1.9	2.0	(0.2)	(0.7)	(0.3)	(0.6)	0.5	17 Dec 08 (-100bp)	4Q 11 (+37.5bp)
Singapore	CPI	# 2.5 - 3.5	3.2	May-10	3.2	3.2	1.2	1.3	0.6	6.5	5.5	(0.4)	-	-	-
<b>EM Asia</b>															
China	CPI	# 3%	3.2	Jun-10	2.9	3.1	43.3	53.1	(0.6)	(2.0)	0.8	3.0	5.3	22 Dec 08 (-27bp)	3Q 10 (+27bp)
Korea	CPI	2 - 4	3.0	Jun-10	2.7	2.6	2.9	4.1	(0.2)	1.8	5.7	(27.8)	2.3	9 Jul 10 (+25bp)	4Q 10 (+25bp)
Indonesia	CPI	4 - 6	4.4	Jun-10	4.2	5.1	6.7	10.3	1.0	5.8	11.9	(1.4)	6.5	5 Aug 09 (-25bp)	1Q 11 (+25bp)
India	WPI	# 8.5%	5.0	Jun-10	10.2	10.6	na	na	0.7	10.5	4.1	(17.7)	5.5	2 Jul 10 (+25bp)	27 Jul 10 (+25bp)
India (CPI)	CPI Ind. Workers	na	6.5	May-10	13.3	13.9	16.5	14.6	1.2	4.8	4.7	(17.7)	-	-	-
Malaysia	CPI	na	2.2	May-10	1.5	1.6	2.2	2.5	0.3	1.1	11.1	(0.6)	2.8	13 May 10 (+25bp)	On hold
Philippines	CPI	3.5 - 5.5	5.3	Jun-10	4.3	3.9	3.1	3.1	0.2	2.2	3.4	(15.0)	4.0	9 Jul 09 (-25bp)	24 Aug 10 (+25bp)
Thailand	CPI	# 3.5 - 5.5	4.8	Jun-10	3.5	3.3	4.6	6.1	0.3	3.9	5.5	(0.7)	1.3	8 Apr 09 (-25bp)	14 Jul 10 (+25bp)
Taiwan	CPI	# 0.9	1.0	Jun-10	0.7	1.2	(0.4)	1.6	0.3	4.1	2.6	(9.1)	1.4	24 Jun 10 (+12.5bp)	3Q 10 (+25bp)
<b>Latin America</b>															
Argentina	CPI	na	8.0	Jun-10	10.7	11.0	15.1	15.7	0.7	9.6	(2.9)	(5.9)	-	-	-
Brazil	CPI IPCA	4.5 (±2)	5.4	Jun-10	5.2	4.8	6.8	5.1	0.0	4.1	9.6	(3.4)	10.3	9 Jun 10 (+75bp)	21 Jul 10 (+75bp)
Colombia	CPI	4.0 (±0.5)	2.5	May-10	2.0	2.3	1.0	1.5	0.1	3.3	7.8	17.1	3.0	30 Apr 10 (-50bp)	1Q 11 (+50bp)
Mexico	CPI	3.0 (±1)	4.7	Jun-10	3.9	3.7	3.0	2.0	(0.0)	(3.9)	6.5	(16.1)	4.5	17 Jul 09 (-25bp)	4Q 11 (+25bp)
Peru	CPI	2.0 (±1)	1.4	Jun-10	1.0	1.6	1.3	2.6	0.3	2.1	6.8	1.9	2.0	8 Jul 10 (+25bp)	9 Sep 10 (+25bp)
<b>Europe, Middle East and Africa</b>															
Czech Republic	CPI	2.0 (±1)	1.9	Jun-10	1.1	1.2	(0.2)	0.8	0.0	1.6	(8.3)	(26.7)	0.8	6 May 10 (-25bp)	2Q 11 (+25bp)
Hungary	CPI	3.0 (±1)	4.8	Jun-10	5.9	5.3	(1.3)	1.1	0.2	6.6	(11.4)	(37.6)	5.3	26 Apr 10 (-25bp)	3Q 11 (+25bp)
Poland	CPI	2.5 (±1)	2.5	Jun-10	2.1	2.3	1.9	3.0	0.3	4.1	(4.7)	(36.5)	3.5	24 Jun 09 (-25bp)	2Q 11 (+25bp)
Russia	CPI	6.5 - 7.5	6.3	Jun-10	6.0	5.8	4.6	4.6	0.4	4.9	4.4	(18.3)	2.8	31 May 10 (-50bp)	2Q 11 (+25bp)
South Africa	CPI	3.0 - 6.0	5.1	May-10	4.8	4.6	0.3	0.1	0.2	4.8	7.3	(12.9)	6.5	25 Mar 10 (-50bp)	2Q 11 (+50bp)
Turkey	CPI	6.5 (±2)	8.6	Jun-10	9.1	8.4	6.7	5.6	(0.6)	(1.3)	(0.9)	(17.0)	7.0	-	Jul 11 (+50bp)

Source: J.P. Morgan Economics, Bloomberg. Note: Current inflation data for countries which outside/above target range is highlighted.

# Countries where central banks target is not available. We have given J.P. Morgan Economic estimates.

No target is available for China, but general expectation is that the Central Bank would continue raising rates when the headline CPI rises above 3.0 %

Updated as of 14 July 2010

In case of Taiwan, Estimate by DGBAS, CB targets M2 growth (2.5-6.5% for 2010)

Russia's CBR is not yet in a full-fledged inflation targeting, so they can change the target during the year.



## Outlook: Market Drivers

### Global and developed market drivers

Country	Positive	Negative
Global	Record low interest rate, Private demand driving the recovery, Healthy corporate balance sheets	High policy risk as governments reduce fiscal deficits and business fear populist regulation
US	Steep yield curve, Improving Private Debt Ratio, Inventory/IP cycle, strong household income & corporate profit	Fiscal Deficit, Stronger dollar, Fragile consumer confidence.
Europe	Euro Weakness, Increasing US/Europe Bond yield spread, Cheaper valuations, Strong corporate profits and Positive Payrolls.	Fiscal Situation in peripheral countries, Mixed Dataflow
UK	Faster recovery in financial markets, firm commodity and energy prices	Fiscal deficit, disappointing economic data
Japan	Leveraged to global industrial production cycle.	Strong Yen, weaker than expected recovery
Australia	Fiscal flexibility, resilient economy	Overheating risk, rising short rates with high debt levels, exposure to bulk commodity price correction
Hong Kong	Record low mortgage rates, Leveraged to a recovery in global trade and financial services	Asset inflation story is consensus
Singapore	Domestic catalysts powering strong GDP growth, strong hub for intra-Asia growth	Exposed to external sector weakness, especially G3 economies

### Emerging Market Drivers

Country	Positive	Negative
China	Consensus underweight market, RMB appreciation. Rebalancing from fixed investment to consumption good for long term sustainable growth	Policy tightening, trade friction over the RMB, negative earnings revisions, monetary supply growth to slow. Near term impact of rebalancing could be lower commodity prices and lower profit margins
Brazil	Upside risks to growth, Closed economy and large state, resilient consumption.	Commodity Driven Market, 2010 elections, Regulatory risks, Largest tightening cycle in EM.
Korea	Undervalued currency, cheap valuations, possible removal of price controls post elections, global cyclical exposure, large consensus underweight	Weaker global demand, structurally weak domestic economy, high private sector debt
Taiwan	Global cyclical exposure, Fiscal stimulus, corporate tax cuts, realizing closer cross-straits links, investment positioning (consensus UW position among FIs), ongoing M&A deals	Weak euro hurts price hurting price elasticity of tech products, wage inflation in China causing higher manufacturing costs
South Africa	Earnings growth rebound off a decimated base, sustained low interest rates in SA through 2010 vs. tightening in many EM countries, SA underowned by foreigners, huge domestic investor cash holdings.	Low beta MSCI SA in a high beta Rand environment.
India	Constructive consumption & investments outlook. Lower dollar funding cost. Reform process	Rising inflation, Relatively expensive valuation compared to peer group EMs.
Russia	Cheap valuations, high earnings growth, macro-economic recovery, accommodative monetary policy, low debt/output	Elevated exposure to global slowdown/risk of a double dip, consensus overweight, political risk, budget deficit
Mexico	Leveraged to our above consensus US Recovery story, 11.0% point swing in GDP, Resilient corporate profitability	Fiscal and Rating Concerns (Fiscal Revenue/ GDP is only 22%), Foreign owned banking system.
Malaysia	Strong domestic demand, GLC reforms, Government pump-priming under 9MP, greater than expected fiscal stimulus package	Sectarian political issues, Low beta play, high valuations
Indonesia	Recovering currency, declining inflation, improving liquidity, recovery in the business and credit cycle, improving terms of trade	Consensus OW, need to encourage long term investment, political turmoil
Turkey	Robust banking sector, inexpensive valuations, lower political tensions, secular decline in interest rates.	Politics, higher oil prices, inflation, threat to CBRT credibility.
Thailand	Valuations, Improving fiscal spending data, sustained export strength, Earnings momentum has picked up sharply - upgrades in Property and Consumer/Media sectors	Confrontational political environment, lagging earnings estimate revisions.
Poland	Domestic demand, market-friendly political setting	Wage and margin pressures
Czech Republic	Diversified growth, low interest rates, reformed banking sector	CDS spread narrowing relatively less than other emerging markets
Philippines	Improved confidence leading to stronger consumption, acceleration of corporate capex, growth in remittances and BPO activity, post election reform expectations, underowned market.	Global risks to affect risk appetite on emerging economies
Hungary	IMF support, low possibility of entering the Euro zone by 1 Jan 2012 target date	High exposure to FX-denominated loans by households, poor growth prospects

Updated as of 14 July 2010.

## Profit Outlook: Earnings Forecasts Matrix for Countries and Sectors

Emerging Markets	Weight (%)	EPS Growth					
		JPMorgan			Consensus		
		Median	2010	2011	Median	2010	2011
<b>Total Market</b>	<b>100.0</b>	-	-	-	<b>19.1</b>	<b>36.7</b>	<b>11.4</b>
Consumer Discretionary	6.5	-	-	-	19.0	18.9	16.5
Consumer Staples	6.8	-	-	-	17.5	18.1	14.1
Energy	13.9	-	-	-	18.5	61.7	-12.0
Financials	25.9	-	-	-	20.6	25.5	22.1
Health Care	0.8	-	-	-	21.7	21.0	18.3
Industrials	6.8	-	-	-	17.9	20.4	18.7
Information Technology	13.3	-	-	-	33.0	57.6	7.5
Materials	14.0	-	-	-	34.3	57.7	29.1
Telecommunication Services	8.3	-	-	-	7.3	9.5	10.4
Utilities	3.7	-	-	-	9.9	14.8	16.6

Indonesia	Weight (%)	EPS Growth					
		JPMorgan			Consensus		
		Median	2010	2011	Median	2010	2011
<b>Total Market</b>	<b>100.0</b>	<b>15.7</b>	<b>17.8</b>	<b>16.9</b>	<b>19.3</b>	<b>20.3</b>	<b>20.1</b>
Consumer Discretionary	14.5	29.8	29.8	7.5	23.3	23.3	14.0
Consumer Staples	10.9	16.8	14.0	21.2	18.1	17.1	13.9
Energy	12.0	1.1	23.8	50.6	-3.0	23.1	54.3
Financials	29.9	24.5	18.0	20.4	25.3	26.3	18.2
Health Care	0.0	NA	NA	NA	NA	NA	NA
Industrials	4.2	7.5	7.5	-7.0	8.6	8.6	15.5
Information Technology	0.0	NA	NA	NA	NA	NA	NA
Materials	10.1	60.5	35.3	-3.3	69.8	34.9	12.6
Telecommunication Services	12.9	9.6	9.6	10.6	9.6	9.6	10.6
Utilities	6.5	-7.1	-7.1	9.7	4.5	4.5	16.7

Philippines	Weight (%)	EPS Growth					
		JPMorgan			Consensus		
		Median	2010	2011	Median	2010	2011
<b>Total Market</b>	<b>100.0</b>	<b>13.3</b>	<b>12.7</b>	<b>14.5</b>	<b>17.2</b>	<b>24.2</b>	<b>11.9</b>
Consumer Discretionary	4.3	16.6	16.6	12.8	16.6	16.6	12.8
Consumer Staples	0.0	NA	NA	NA	NA	NA	NA
Energy	0.0	NA	NA	NA	NA	NA	NA
Financials	44.6	11.6	14.0	21.9	17.9	17.4	18.0
Health Care	0.0	NA	NA	NA	NA	NA	NA
Industrials	11.8	13.6	13.6	12.1	10.7	10.7	16.5
Information Technology	0.0	NA	NA	NA	NA	NA	NA
Materials	0.0	NA	NA	NA	NA	NA	NA
Telecommunication Services	21.3	1.1	4.8	4.4	1.1	4.8	4.4
Utilities	18.0	25.8	26.8	19.4	138.0	123.9	9.6

South Africa	Weight (%)	EPS Growth					
		JPMorgan			Consensus		
		Median	2010	2011	Median	2010	2011
<b>Total Market</b>	<b>100.0</b>	-	-	-	<b>22.2</b>	<b>36.1</b>	<b>25.6</b>
Consumer Discretionary	11.9	-	-	-	25.4	22.5	18.7
Consumer Staples	5.7	-	-	-	12.8	10.6	14.7
Energy	9.6	-	-	-	18.4	18.4	27.8
Financials	27.0	-	-	-	21.9	21.9	21.1
Health Care	2.0	-	-	-	25.8	25.7	18.7
Industrials	4.2	-	-	-	-6.8	1.1	19.2
Information Technology	0.0	-	-	-	NA	NA	NA
Materials	27.3	-	-	-	42.2	191.8	45.3
Telecommunication Services	12.4	-	-	-	9.1	22.5	17.4
Utilities	0.0	-	-	-	NA	NA	NA

Russia	Weight (%)	EPS Growth					
		JPMorgan			Consensus		
		Median	2010	2011	Median	2010	2011
<b>Total Market</b>	<b>100.0</b>	-	-	-	<b>41.9</b>	<b>35.4</b>	<b>29.5</b>
Consumer Discretionary	0.0	-	-	-	NA	NA	NA
Consumer Staples	2.9	-	-	-	31.3	25.7	38.8
Energy	57.9	-	-	-	12.4	15.8	18.4
Financials	12.7	-	-	-	522.2	522.2	66.5
Health Care	0.0	-	-	-	NA	NA	NA
Industrials	0.0	-	-	-	NA	NA	NA
Information Technology	0.0	-	-	-	NA	NA	NA
Materials	13.7	-	-	-	55.3	84.3	71.9
Telecommunication Services	7.0	-	-	-	96.3	170.0	22.2
Utilities	5.9	-	-	-	NM	NM	NM

China	Weight (%)	EPS Growth					
		J.P. Morgan			Consensus		
		Median	2010	2011	Median	2010	2011
<b>Total Market</b>	<b>100.0</b>	<b>23.9</b>	<b>25.3</b>	<b>17.2</b>	<b>21.1</b>	<b>23.9</b>	<b>16.6</b>
Consumer Discretionary	5.4	22.6	28.0	15.6	21.3	20.8	17.3
Consumer Staples	6.2	17.2	16.8	16.2	20.8	15.0	18.4
Energy	16.5	12.2	25.9	10.6	34.3	31.5	12.3
Financials	38.3	25.7	25.3	22.0	21.0	18.7	18.9
Health Care	0.8	24.2	17.6	30.2	21.7	16.6	30.1
Industrials	7.6	22.0	51.1	13.9	19.8	65.5	18.8
Information Technology	4.9	64.3	178.1	10.3	47.7	107.9	43.6
Materials	5.0	51.4	47.2	28.4	36.0	79.4	23.5
Telecommunication Services	13.2	2.4	1.3	5.6	2.4	1.3	5.6
Utilities	2.0	NM	NM	20.1	NM	NM	20.9

Korea	Weight (%)	EPS Growth					
		JPMorgan			Consensus		
		Median	2010	2011	Median	2010	2011
<b>Total Market</b>	<b>100.0</b>	<b>17.4</b>	<b>44.9</b>	<b>4.1</b>	<b>18.5</b>	<b>53.1</b>	<b>6.4</b>
Consumer Discretionary	13.2	12.2	14.7	4.5	14.0	16.9	10.9
Consumer Staples	4.7	23.0	28.1	-0.4	27.1	31.6	-8.0
Energy	2.2	18.5	18.6	12.5	72.1	61.8	16.3
Financials	16.9	18.6	69.2	15.2	18.6	75.6	13.5
Health Care	0.5	25.8	21.0	23.7	25.8	21.0	23.7
Industrials	13.8	12.4	27.6	10.0	13.8	38.7	10.2
Information Technology	30.1	75.5	81.1	-10.3	75.5	91.1	-1.5
Materials	14.0	12.7	20.5	7.2	16.9	22.7	4.1
Telecommunication Services	2.9	26.0	55.9	10.8	26.0	55.9	10.8
Utilities	1.8	NM	NM	NM	NM	NM	NM

Taiwan	Weight (%)	EPS Growth					
		JPMorgan			Consensus		
		Median	2010	2011	Median	2010	2011
<b>Total Market</b>	<b>100.0</b>	<b>27.8</b>	<b>96.0</b>	<b>13.8</b>	<b>25.0</b>	<b>88.5</b>	<b>13.2</b>
Consumer Discretionary	2.7	-4.8	76.2	34.1	4.7	91.4	30.4
Consumer Staples	1.6	17.5	17.7	10.3	21.5	19.6	11.2
Energy	0.8	-2.6	-2.6	8.3	-3.2	-3.2	19.3
Financials	15.3	31.7	48.2	25.4	17.9	27.7	24.9
Health Care	0.0	NA	NA	NA	NA	NA	NA
Industrials	3.3	13.1	-200.6	42.2	9.3	-384.9	13.4
Information Technology	59.5	32.8	142.5	10.3	33.5	129.8	12.3
Materials	12.3	28.0	17.7	20.9	33.9	34.7	9.5
Telecommunication Services	4.6	0.8	-2.8	0.7	0.8	-2.8	0.7
Utilities	0.0	NA	NA	NA	NA	NA	NA

Brazil	Weight (%)	EPS Growth					
		JPMorgan			Consensus		
		Median	2010	2011	Median	2010	2011
<b>Total Market</b>	<b>100.0</b>	-	-	-	<b>21.7</b>	<b>19.1</b>	<b>25.1</b>
Consumer Discretionary	5.1	-	-	-	60.0	32.7	34.6
Consumer Staples	8.9	-	-	-	16.8	34.0	25.5
Energy	21.6	-	-	-	55.5	-5.1	14.9
Financials	25.7	-	-	-	21.7	5.5	20.0
Health Care	0.0	-	-	-	NA	NA	NA
Industrials	3.0	-	-	-	-8.0	-44.2	30.9
Information Technology	2.2	-	-	-	12.8	12.8	5.4
Materials	25.3	-	-	-	55.5	106.7	41.6
Telecommunication Services	2.8	-	-	-	21.8	-14.4	15.6
Utilities	5.4	-	-	-	-2.5	5.4	10.1

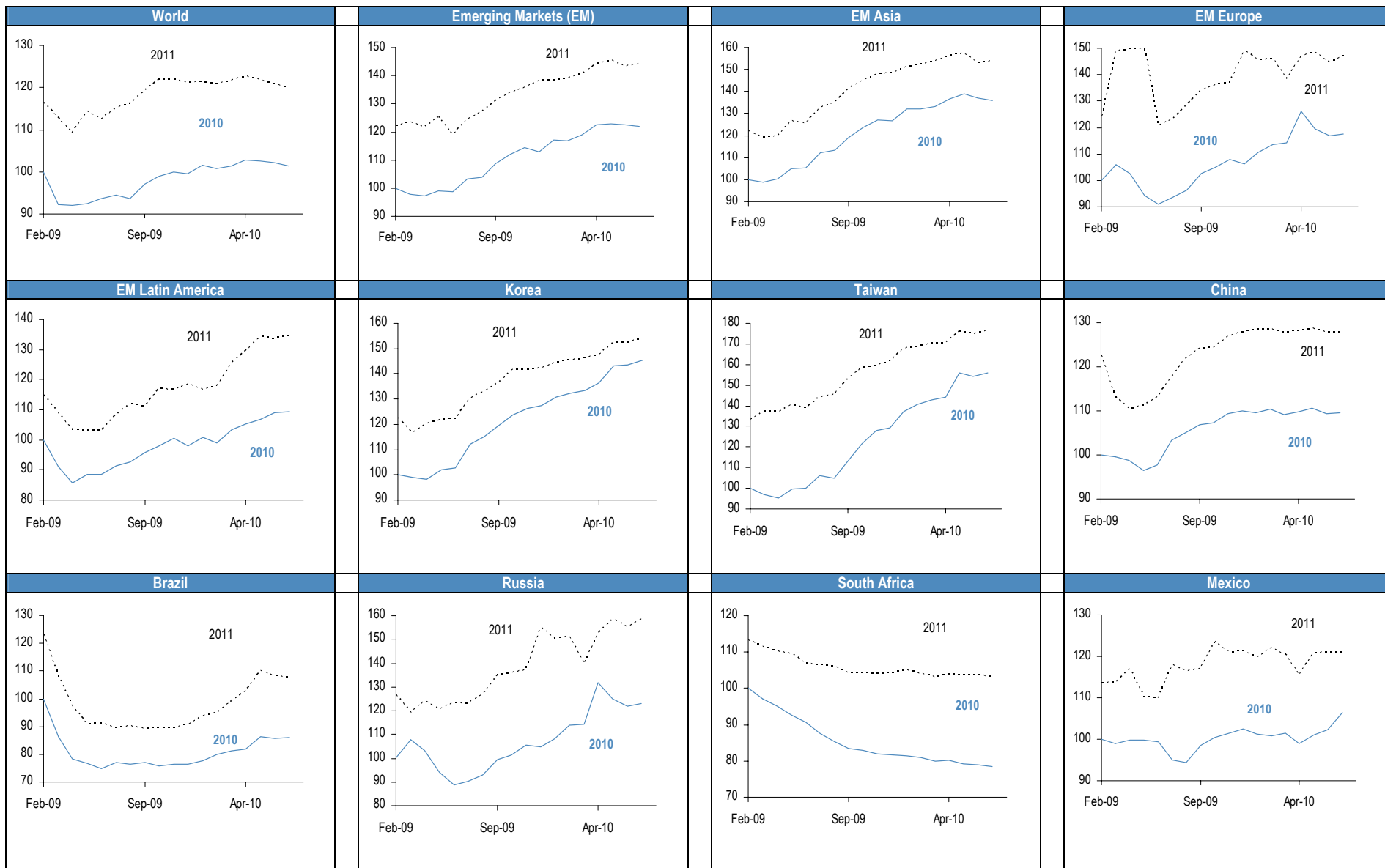
Poland	Weight (%)	EPS Growth					
		JPMorgan			Consensus		
		Median	2010	2011	Median	2010	2011
<b>Total Market</b>	<b>100.0</b>	-	-	-	<b>14.7</b>	<b>15.8</b>	<b>18.0</b>
Consumer Discretionary	2.6	-	-	-	6.4	3.2	21.7
Consumer Staples	1.5	-	-	-	14.7	14.7	15.3
Energy	14.1	-	-	-	-27.5	-19.1	24.5
Financials	54.2	-	-	-	30.1	52.3	26.8
Health Care	0.0	-	-	-	NA	NA	NA
Industrials	1.5	-	-	-	5.2	5.2	10.5
Information Technology	2.6	-	-	-	-13.8	-13.8	5.6
Materials	9.1	-	-	-	34.7	34.7	-1.4
Telecommunication Services	7.0	-	-	-	-8.6	-8.6	7.2
Utilities	7.4	-	-	-	-21.5	-21.5	16.0

India	Weight (%)	EPS Growth					
		JPMorgan			Consensus		
		Median	2010	2011	Median	2010	2011
<b>Total Market</b>	<b>100</b>	<b>21.8</b>	<b>25.3</b>	<b>26.0</b>	<b>18.6</b>	<b>22.3</b>	<b>20.9</b>
Consumer Discretionary	5.1	22.6	23.7	11.7	12.7	11.9	13.8
Consumer Staples	5.7	18.4	18.3	18.6	15.0	21.9	19.0
Energy	15.5	34.8	41.8	20.6	16.2	22.8	11.6
Financials	25.3	22.3	21.4	29.3	23.0	24.0	30.5
Health Care	4.0	21.1	33.1	16.0	21.1	33.1	16.0
Industrials	10.0	25.5	24.9	69.8	28.7	31.3	37.9
Information Technology	17.1	15.5	14.8	20.8	13.4	15.5	18.3
Materials	10.4	20.9	37.3	22.3	18.7	26.6	14.8
Telecommunication Services	0.9	-31.2	-31.2	35.4	-4.9	-4.9	28.8
Utilities	5.9	8.3	9.9	27.7	14.1	15.3	18.6

Malaysia	Weight (%)	EPS Growth					
		JPMorgan			Consensus		
		Median	2010	2011	Median	2010	2011
<b>Total Market</b>	<b>100.0</b>	<b>13.1</b>	<b>23.0</b>	<b>16.3</b>	<b>14.5</b>	<b>22.0</b>	<b>12.9</b>
Consumer Discretionary	11.6	3.9	-2.8	40.0	20.1	19.6	16.3
Consumer Staples	13.6	32.4	18.6	-1.5	34.4	23.6	-1.4
Energy	0.8	5.2	5.2	-0.2	5.2	5.2	-0.2
Financials	31.2	15.2	29.2	15.5	16.9	18.9	14.3
Health Care	0.0	NA	NA	NA	NA	NA	NA
Industrials	18.8	27.1	36.8	30.4	21.8	34.3	26.7
Information Technology	0.0	NA	NA	NA	NA	NA	NA

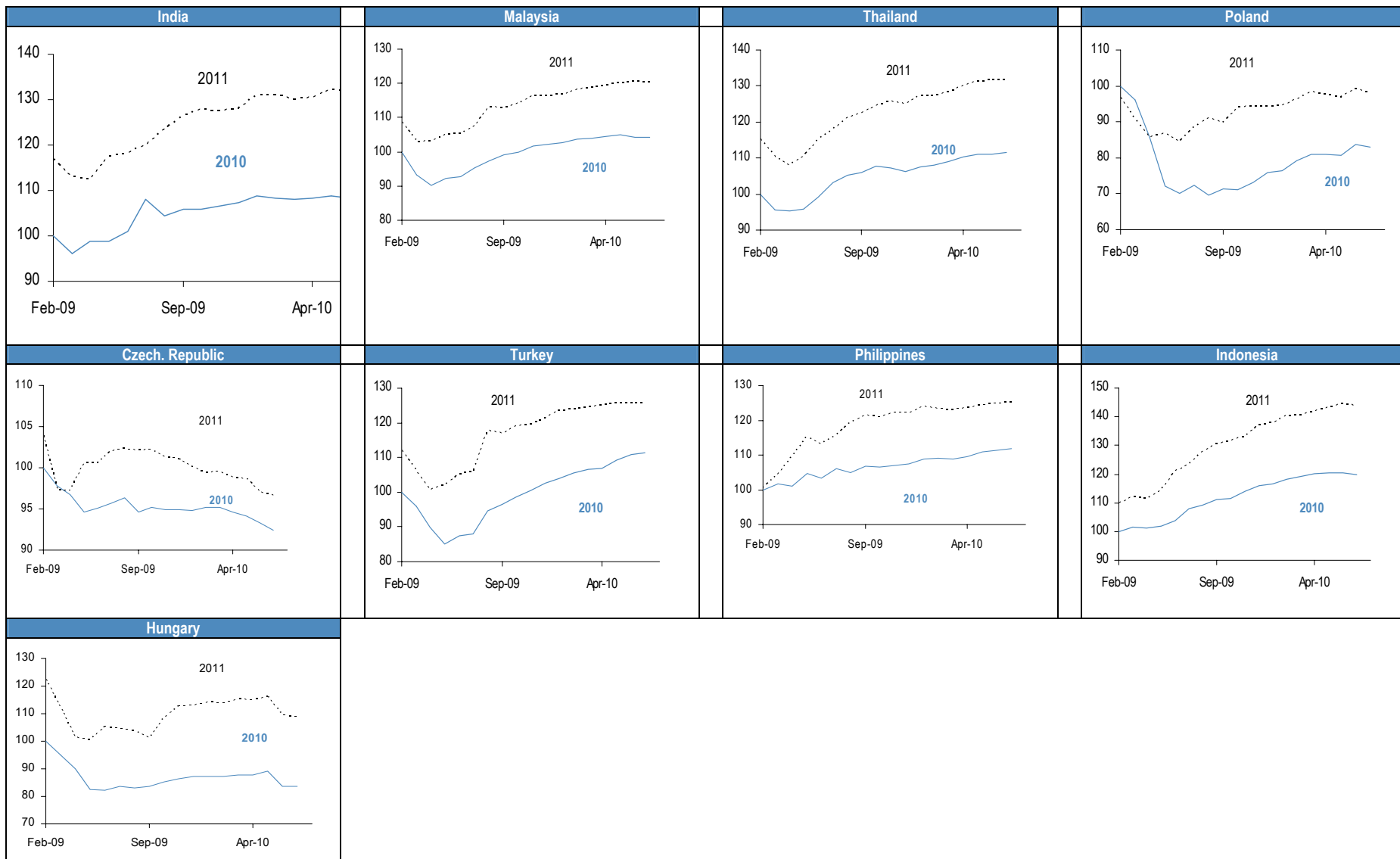
## Profit Outlook: Changes in 2010 and 2011 EPS Forecasts



Source: I/B/E/S

Notes: The dashboard aims to show changes in earnings expectations. All year ends are for December. EPS figures are normalized, starting at 100 on base date Feb 2009 for ease of comparison. These numbers are directly from IBES aggregate and may differ from those in the growth expectations pages where adjustments are made for exceptional items. Countries earnings revisions are in local currencies term whereas APxJ regions earnings revisions is in US \$ term. Updated 14 July 2010.

### Profit Outlook: Changes in 2010 and 2011 EPS Forecasts



Source: I/B/E/S. Notes: The dashboard aims to show changes in earnings expectations. All year ends are for December. EPS figures are normalized, starting at 100 on base date Feb 2009 for ease of comparison. These numbers are directly from IBES aggregate and may differ from those in the growth expectations pages where adjustments are made for exceptional items. Countries earnings revisions are in local currencies term whereas APxJ regions earnings revisions is in US \$ term. Updated 14 July 2010.

## Value: PE Matrix for Countries and Sectors

12-month forward PE	USA	Emerging Markets	EMF EMEA	EMF LATAM	EMF Asia	Korea	Taiwan	China	India	Malaysia	Indonesia	Thailand	Philippines
Consumer Discretionary	13.1	11.8	11.1	13.6	11.5	7.9	16.2	14.5	13.3	15.7	14.2	19.9	22.3
Consumer Staples	13.0	17.0	15.9	18.3	16.2	12.4	16.4	18.1	22.3	16.0	18.5	14.4	NA
Energy	11.2	6.7	5.6	10.1	10.1	7.4	18.0	9.9	13.2	11.7	11.0	10.0	NA
Financials	11.4	11.2	9.9	11.4	11.5	8.7	12.7	10.5	17.3	12.9	13.9	10.8	17.1
Health Care	10.8	17.0	13.5	NA	19.7	14.3	NA	27.7	18.3	NA	NA	NA	NA
Industrials	13.5	12.4	9.5	19.2	11.8	11.3	19.9	12.8	19.6	15.6	15.8	NA	14.5
Information Technology	12.1	11.0	11.7	12.0	11.0	10.6	11.1	22.5	18.2	NA	NA	NA	NA
Materials	13.9	9.6	10.3	8.8	10.1	9.3	13.6	10.3	8.6	13.1	14.9	11.6	NA
Telecommunication Services	13.0	11.1	9.9	10.2	12.1	7.9	13.9	12.6	12.3	16.0	12.0	13.8	10.4
Utilities	12.1	11.6	11.5	10.4	13.1	NM	NA	12.8	16.6	12.7	15.6	12.4	15.8
<b>Market Aggregate</b>	<b>12.0</b>	<b>10.4</b>	<b>8.4</b>	<b>11.1</b>	<b>11.4</b>	<b>9.6</b>	<b>12.0</b>	<b>11.6</b>	<b>15.0</b>	<b>14.2</b>	<b>13.7</b>	<b>11.0</b>	<b>14.6</b>
<b>Sector Neutral**</b>	<b>12.8</b>	<b>10.7</b>	<b>9.5</b>	<b>11.3</b>	<b>11.1</b>	<b>8.8</b>	<b>13.6</b>	<b>12.4</b>	<b>14.4</b>	<b>12.7</b>	<b>12.7</b>	<b>11.1</b>	<b>12.2</b>

12-month forward PE	EMF EMEA	Russia	South Africa	Poland	Turkey	Hungary	Czech Republic	EMF LATAM	Brazil	Mexico
Consumer Discretionary	11.1	NA	10.7	17.1	10.0	NA	-15.3	13.6	12.1	16.0
Consumer Staples	15.9	20.4	14.4	7.3	19.3	NA	NA	18.3	17.5	18.3
Energy	5.6	4.9	9.1	12.5	8.5	10.3	NA	10.1	9.8	NA
Financials	9.9	9.4	9.9	13.5	8.9	8.6	10.9	11.4	11.0	13.8
Health Care	13.5	NA	12.5	NA	NA	15.4	NA	NA	NA	NA
Industrials	9.5	NA	9.0	13.0	8.4	NA	NA	19.2	20.9	14.5
Information Technology	11.7	NA	NA	11.7	NA	NA	NA	12.0	12.0	NA
Materials	10.3	7.3	13.3	6.0	10.5	NA	NA	8.8	7.6	11.9
Telecommunication Services	9.9	9.1	9.8	16.1	8.9	10.1	13.1	10.2	8.0	10.8
Utilities	11.5	13.4	NA	11.3	NA	NA	9.6	10.4	8.9	NA
<b>Market Aggregate</b>	<b>8.4</b>	<b>6.0</b>	<b>10.7</b>	<b>11.8</b>	<b>9.4</b>	<b>10.0</b>	<b>10.9</b>	<b>11.1</b>	<b>10.1</b>	<b>13.0</b>
<b>Sector Neutral**</b>	<b>9.5</b>	<b>8.8</b>	<b>10.6</b>	<b>10.8</b>	<b>9.8</b>	<b>10.3</b>	<b>11.5</b>	<b>11.4</b>	<b>10.5</b>	<b>11.5</b>

Source: IBES, MSCI, J.P. Morgan. Note: Market forecast numbers are derived from bottom-up calculations of each individual MSCI constituents using I/B/E/S estimates. IBES Estimates are not available for Morocco, Jordan, Peru and Colombia.

\*\*Sector neutral PE are calculated by using sector weights of MSCI EM and sector PE of respective markets (MSCI EM sector PE used where country sector does not exist)

Updated 14 July 2010.

## Value: Distribution Tables for PE, PBR, DY and RoE

### 2010E: Price to Earnings Ratio (x)

	Average	Weighted Quartiles				Max
		Min	Lower	Median	Higher	
Global*	12.4	2.0	11.0	14.0	17.8	465.6
USA*	13.1	4.1	11.4	14.2	18.3	465.6
Europe*	11.1	4.6	10.7	13.7	17.3	398.8
Japan*	15.1	4.5	12.5	14.9	18.8	54.5
Emerging Markets*	11.0	2.0	10.3	13.3	17.6	359.5
China	12.6	4.6	10.1	13.7	21.7	261.9
Brazil*	11.4	6.0	10.1	12.6	18.8	232.5
Korea	9.8	4.1	7.7	10.9	15.4	99.5
Taiwan	12.9	7.3	10.8	13.4	16.9	359.5
South Africa*	12.2	6.5	10.2	11.2	13.9	75.9
India	17.0	6.1	11.8	18.2	22.5	62.9
Russia*	6.9	2.0	8.0	11.1	15.4	34.7
Mexico*	14.4	9.0	13.9	16.5	18.8	43.1
Malaysia	15.4	6.9	12.9	14.8	18.5	83.2
Indonesia	15.0	9.1	13.6	15.1	16.7	33.9
Turkey*	10.0	6.6	8.9	9.5	13.4	26.3
Thailand	11.9	7.2	11.0	12.4	13.9	21.3
Poland*	12.9	6.0	12.2	14.2	16.3	22.5
Czech Republic*	11.4	9.7	10.7	11.6	12.5	13.4
Egypt*	11.2	7.7	9.6	10.1	12.0	15.9
Philippines	15.7	10.0	12.7	16.4	19.3	36.6
Hungary*	11.6	9.9	10.1	11.2	13.2	16.4

### 2010E: Dividend Yield (%)

	Average	Weighted Quartiles				Max
		Min	Lower	Median	Higher	
Global*	2.8	0.0	1.1	2.2	3.7	14.8
USA*	2.2	0.0	0.0	1.5	3.0	14.8
Europe*	3.8	0.0	1.9	3.0	4.7	12.5
Japan*	2.3	0.0	1.4	2.0	2.5	6.9
Emerging Markets*	2.7	0.0	1.2	2.3	3.8	14.7
China	2.8	0.0	1.1	1.9	2.9	6.8
Brazil*	3.3	0.0	1.4	2.6	4.6	14.7
Korea	1.2	0.0	0.5	1.3	2.4	5.9
Taiwan	3.8	0.0	1.9	3.2	4.9	8.4
South Africa*	3.2	0.3	2.7	3.7	4.7	9.0
India	1.3	0.0	0.6	1.0	1.7	3.3
Russia*	2.2	0.0	0.4	1.7	3.1	5.5
Mexico*	2.5	0.0	0.8	1.4	2.5	7.2
Malaysia	3.3	0.0	1.9	3.1	4.4	8.3
Indonesia	2.7	1.3	2.1	2.6	3.2	5.0
Turkey*	2.9	0.0	0.9	2.2	3.0	9.5
Thailand	3.9	2.6	3.0	3.7	4.6	8.3
Poland*	3.5	0.0	0.5	2.6	3.5	9.6
Czech Republic*	5.9	0.0	3.8	5.5	6.6	8.7
Egypt*	3.6	0.7	1.8	3.0	4.9	7.0
Philippines	3.8	0.4	1.6	2.4	5.0	9.0
Hungary*	3.3	1.7	2.4	2.7	4.7	10.6

Source: Datastream, IBES, MSCI, J.P. Morgan. Updated 14 July 2010.

Note: Weighted average numbers based on aggregate of MSCI constituents. Consensus numbers are used for stocks not covered by J.P. Morgan. \* only consensus numbers are used

### 2010E: Price to Book Value Ratio (x)

	Average	Weighted Quartiles				Max
		Min	Lower	Median	Higher	
Global*	1.6	0.3	1.1	1.6	2.6	45.5
USA*	1.8	0.5	1.2	1.9	2.9	45.5
Europe*	1.5	0.3	1.0	1.8	2.7	30.7
Japan*	1.0	0.3	0.8	1.0	1.3	6.1
Emerging Markets*	1.8	0.4	1.3	1.8	2.8	37.0
China	2.0	0.5	1.3	1.8	2.7	10.9
Brazil*	1.8	0.4	1.4	1.8	2.9	24.8
Korea	1.4	0.4	1.0	1.4	2.0	7.8
Taiwan	1.7	0.7	1.2	1.6	2.3	8.2
South Africa*	2.0	0.5	1.5	2.1	3.5	11.9
India	2.5	0.4	1.8	2.5	3.7	19.8
Russia*	1.0	0.6	1.0	1.7	2.1	6.3
Mexico*	2.5	0.7	1.7	2.3	3.4	11.7
Malaysia	2.0	1.1	1.6	1.9	2.8	37.0
Indonesia	3.6	1.4	2.7	3.4	4.5	26.7
Turkey*	1.8	0.8	1.2	1.9	2.1	14.4
Thailand	1.9	1.1	1.3	1.7	2.8	8.1
Poland*	1.5	0.5	1.2	1.6	2.1	8.7
Czech Republic*	2.0	1.2	1.7	2.0	2.0	2.1
Egypt*	1.4	0.6	1.0	1.6	2.5	4.0
Philippines	2.4	1.5	1.9	2.5	3.1	4.3
Hungary*	1.3	1.1	1.3	1.4	1.6	2.0

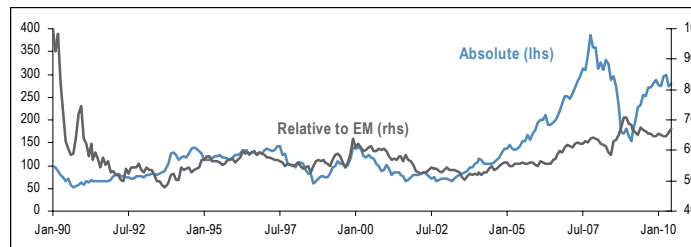
### 2010E: Return on Equity (%)

	Average	Weighted Quartiles				Max
		Min	Lower	Median	Higher	
Global*	13.4	-2.2	7.7	12.5	18.6	471.5
USA*	13.9	0.3	8.5	13.5	19.4	471.5
Europe*	15.6	0.1	7.7	13.0	18.9	194.5
Japan*	6.8	1.0	5.1	7.1	9.6	53.9
Emerging Markets*	17.1	-2.2	10.4	14.8	20.4	202.0
China	17.1	0.4	10.5	14.3	19.6	37.5
Brazil*	17.5	2.6	10.2	14.5	22.1	202.0
Korea	14.9	2.0	10.1	13.5	17.6	33.9
Taiwan	14.1	0.4	7.8	11.7	17.4	48.5
South Africa*	17.7	1.6	13.3	17.7	26.2	98.6
India	15.8	2.5	10.6	17.8	21.7	88.3
Russia*	15.0	5.1	13.1	17.1	21.5	43.1
Mexico*	16.8	3.4	11.3	14.1	20.0	62.1
Malaysia	13.1	2.1	9.8	13.5	16.3	219.5
Indonesia	26.0	8.6	19.4	23.9	28.0	78.9
Turkey*	18.8	2.9	13.2	17.0	20.2	54.8
Thailand	16.8	8.9	13.6	15.1	22.0	39.7
Poland*	12.5	4.6	8.6	10.7	14.6	61.7
Czech Republic*	17.7	-2.2	10.7	15.6	17.7	21.9
Egypt*	12.7	7.8	10.4	12.7	17.0	42.9
Philippines	16.1	7.9	10.9	14.0	17.5	40.1
Hungary*	12.0	10.6	10.8	11.6	12.8	14.1

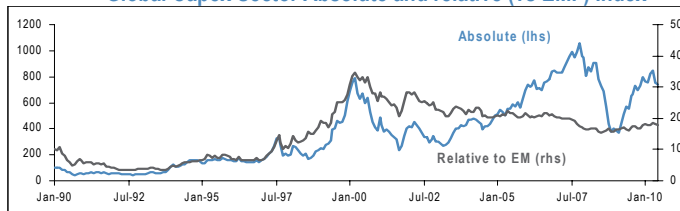
## Value: Demand Classification: MSCI Emerging Markets Index Composition by Countries

MSCI Emerging Markets Free Index	Domestic Demand	Global Capex	Global Consumer	Global Price Takers	Total
China	14.2	0.5	0.2	3.7	18.6
India	4.3	1.4		2.3	8.0
Indonesia	2.0			0.3	2.4
Korea	5.6	2.4	3.6	2.1	13.7
Malaysia	2.3			0.6	2.9
Philippines	0.5				0.5
Taiwan	3.1	3.3	3.2	1.3	11.0
Thailand	1.0			0.5	1.5
<b>Asia</b>	<b>33.0</b>	<b>7.5</b>	<b>7.0</b>	<b>10.9</b>	<b>58.5</b>
Czech Republic	0.4				0.4
Egypt	0.5				0.5
Hungary	0.2			0.2	0.5
Morocco	0.2				0.2
Poland	1.2			0.2	1.5
Russia	1.9	0.1		4.5	6.4
South Africa	4.6			2.6	7.3
Turkey	1.6				1.7
<b>EMEA</b>	<b>10.6</b>	<b>0.1</b>	<b>0.1</b>	<b>7.6</b>	<b>18.4</b>
Brazil	8.6			7.1	15.7
Colombia	0.6	0.1		0.2	0.8
Mexico	3.7	0.3		0.4	4.4
Peru	0.2			0.4	0.7
<b>LatAm</b>	<b>14.6</b>	<b>0.4</b>		<b>8.1</b>	<b>23.1</b>
<b>Total</b>	<b>58.3</b>	<b>8.0</b>	<b>7.1</b>	<b>26.6</b>	<b>100.0</b>

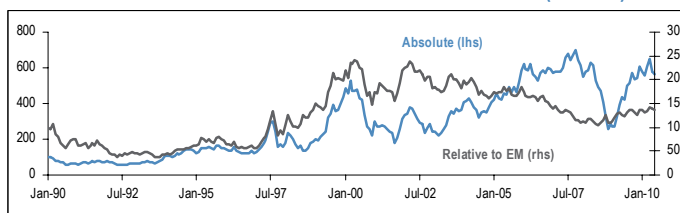
EM Domestic Demand Sector Absolute and relative (vs EMF) Index



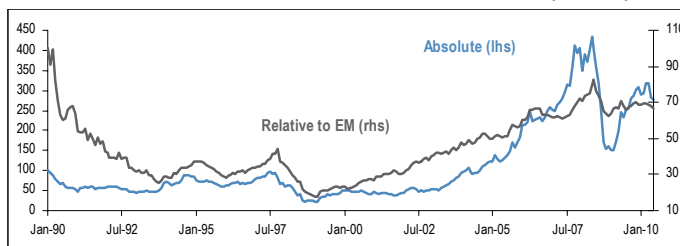
Global Capex Sector Absolute and relative (vs EMF) Index



EM Global Consumer Sector Absolute and relative (vs EMF) Index



EM Global Price Taker Sector Absolute and relative (vs EMF) Index



Source: Datastream, MSCI, J.P. Morgan. MSCI emerging markets companies have been classified in five categories. Of the five categories, Global Consumer/Capex (Tech-Hardware) weighting equally divided between Global consumer and Global Capex. The above table contains MSCI free float market capitalization as a percentage of MSCI emerging markets. Charts show the relative absolute and relative performance of emerging markets sectors by demand classification. Updated 14 July 2010.



## Value: Equities relative to Bonds

### Relative out performance of equities versus bonds by country (%)

Country	1-month	3-month	6-month	12-month	36-month	36-month annualized
Brazil	-2.0	-10.4	-13.1	12.1	-1.2	-0.4
China	2.0	-7.8	-7.7	14.4	-9.1	-3.1
Colombia	5.0	-0.7	-2.9	18.7	45.8	13.4
Czech	1.4	-2.8	-6.1	-2.6	-22.7	-8.2
Hungary	6.0	-9.7	-7.7	37.4	-39.7	-15.5
India	2.1	-2.5	-2.2	30.6	12.1	3.9
Indonesia	4.2	0.0	-1.9	22.0	34.3	10.3
Malaysia	2.7	-1.1	0.7	19.4	-0.8	-0.3
Mexico	-1.2	-9.2	-8.7	18.0	-12.3	-4.3
Peru	-0.7	4.5	9.2	63.8	12.8	4.1
Poland	0.7	-7.3	-4.5	28.4	-37.8	-14.6
Russia	0.7	-12.5	-14.3	22.5	-50.2	-20.7
South Africa	-0.2	-6.1	-6.2	5.7	-0.4	-0.1
Thailand	2.0	1.5	2.3	31.3	-3.9	-1.3
Turkey	3.3	-3.3	3.7	42.2	-5.3	-1.8
Brazil	-2.0	-10.4	-13.1	12.1	-1.2	-0.4

JPMorgan's GBI - EM bond indices track local currency government bonds issued by emerging economies.

The indices are easily replicable and represent the local bond portfolio that can be accessed by an international investor.

For more information on these indices please visit [www.jpmorganmarkets.com](http://www.jpmorganmarkets.com) or contact Gloria Kim at [gloria.m.kim@jpmorgan.com](mailto:gloria.m.kim@jpmorgan.com)

The table shows the difference between the MSCI equity benchmark returns in local currency and the GBI - EM benchmark returns for each country.

Positive numbers indicate outperformance by equities.

### Relative value of equities versus bonds by country

Country	Generic 10 years	Bond Maturity (years)	Bond Yield To Maturity	Earnings Yield	Dividend Yield	DDM Implied Growth
Brazil	12.3	11.5	10.2	10.4	4.1	12.9
China	3.2	6.7	3.1	8.5	2.8	5.1
Colombia	7.9	10.2	6.4	8.0	4.1	7.7
Czech	4.0	6.7	3.5	9.5	6.3	1.8
Hungary	7.3	5.0	7.1	10.8	4.2	8.5
India	7.6	8.4	7.7	6.6	1.3	10.6
Indonesia	8.2	11.5	8.8	7.2	2.7	10.6
Malaysia	3.9	5.3	3.7	7.1	3.3	5.2
Mexico	6.7	7.5	6.5	7.9	3.1	8.7
Peru	5.9	15.9	6.3	11.2	5.5	4.4
Poland	5.8	5.0	5.4	9.0	4.2	4.6
Russia	5.0	2.5	6.0	17.8	2.6	8.2
South Africa	8.6	10.0	8.5	9.8	3.9	9.2
Thailand	3.4	7.4	3.4	9.2	3.9	4.2
Turkey	8.8	2.5	8.6	11.4	3.4	9.6

For 'DDM Implied Growth', we use a dividend discount model based on expected payout ratios for 2007 (except Colombia and Peru where we use current trailing payout ratio)

Perpetual Implied Growth Rates are calculated based on the Gordon Growth Model:

$$G = R - D/V$$

G = Implied Growth Rate

R = Required Growth Rate (Risk free rate + Equity Risk Premium)

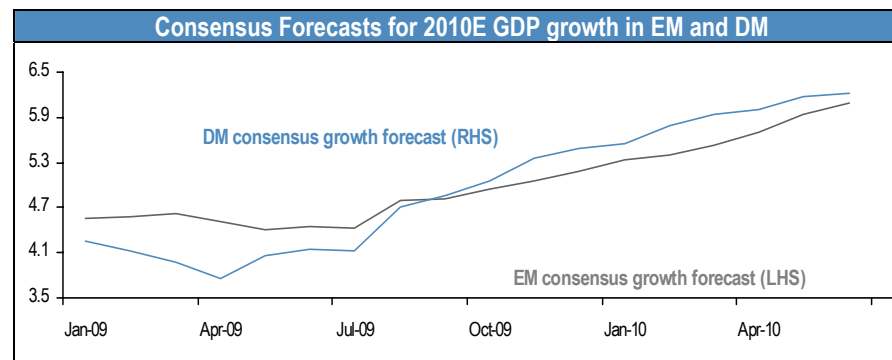
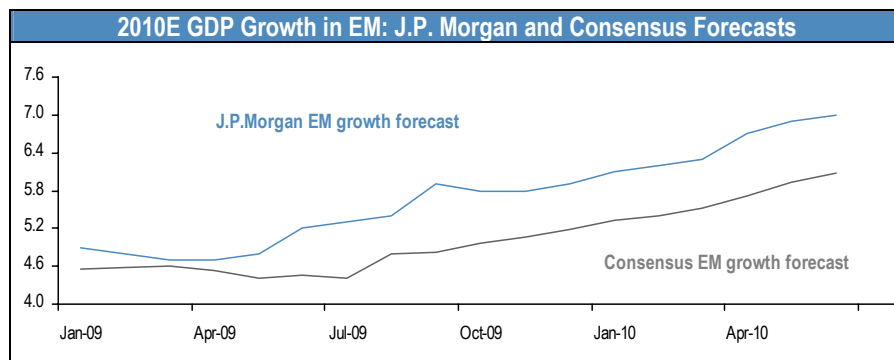
D = Index Dividend

V = Index Value

Note: Equity risk premium of 4%. Risk free rates are 10-year benchmark or nearest equivalent.

## Economic Forecasts: Changes in Real GDP Forecasts

	Real GDP Growth (% Y/Y)				Change in Forecasts Past 3 months (%)				Economic Momentum				Inflation	
	JPM		Consensus		JPM		Consensus		GDP SAAR				(% Y/Y)	
	2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E	1Q 10E	2Q 10E	3Q 10E	4Q 10E	2010E	2011E
US	3.1	2.9	3.1	2.8	-0.5	-0.2	0.1	-0.2	2.7	3.2	3.0	3.5	1.6	1.1
Euro	1.3	1.4	1.1	1.3	-0.2	-0.7	-0.2	-0.2	0.8	3.0	2.0	1.0	1.4	1.0
Japan	3.6	2.2	3.3	1.7	1.3	0.3	1.9	-0.1	5.0	2.8	2.5	2.5	-1.1	-0.1
China	10.7	9.4	10.1	9.3	0.7	0.0	0.6	0.4	13.1	9.4	9.3	9.0	3.2	2.5
Brazil	7.5	4.0	6.6	4.5	1.3	0.0	1.8	0.3	11.4	6.0	4.0	3.3	5.4	5.0
S Korea	5.9	4.0	5.3	4.4	0.6	-0.1	0.3	-0.1	8.8	4.0	3.8	3.8	3.0	3.5
Taiwan	9.2	4.8	4.6	4.0	2.2	0.0	0.0	0.0	11.3	3.3	3.5	3.5	1.0	1.8
South Africa	3.0	3.5	3.2	3.6	0.0	0.0	0.3	0.1	4.6	4.0	3.5	3.7	5.1	5.8
India	8.3	8.5	8.2	8.3	0.5	0.2	0.2	na	9.2	8.1	8.0	8.9	11.2	8.5
Russia	5.5	5.0	4.1	4.2	0.0	0.0	0.7	0.0	2.2	13.5	4.0	4.0	6.3	6.9
Mexico	4.5	3.5	4.4	3.6	0.0	0.0	0.9	0.2	-1.4	3.2	-1.8	4.2	4.7	4.0
Malaysia	7.7	4.8	5.0	4.5	2.7	-0.3	0.5	0.0	5.0	4.0	5.0	5.0	2.2	2.4
Indonesia	6.2	5.7	5.8	6.2	0.7	-0.9	0.2	0.1	5.4	7.0	6.0	6.0	4.4	5.4
Turkey	5.9	5.0	5.5	4.0	1.6	-0.5	1.5	-0.2	-	-	-	-	8.6	6.6
Thailand	8.5	5.0	5.3	4.4	2.0	1.0	1.3	0.1	16.0	-2.0	2.8	2.8	4.8	4.0
Poland	3.2	3.7	2.9	3.5	0.0	-0.5	0.7	0.3	2.0	3.0	2.5	2.5	2.5	2.8
Czech Republic	2.0	3.2	1.6	2.7	0.0	-0.8	-0.4	0.2	2.0	2.5	2.5	2.3	1.9	2.7
Peru	7.3	6.0	6.1	5.4	1.8	0.0	1.8	0.4	7.3	9.5	4.0	4.5	1.4	2.3
Egypt	na	na	na	na	na	na	na	na	na	na	na	na	na	na
Colombia	4.5	4.1	3.3	3.9	1.5	0.0	0.8	-0.1	4.9	4.8	3.2	3.0	2.5	3.8
Philippines	6.8	4.3	4.2	4.3	2.3	0.0	-0.2	0.2	12.9	3.6	4.9	4.0	5.3	4.9
Hungary	0.8	3.0	0.0	3.0	0.3	-1.0	0.0	0.4	3.6	2.0	2.0	1.0	4.8	3.5
Morocco	na	na	na	na	na	na	na	na	na	na	na	na	na	na



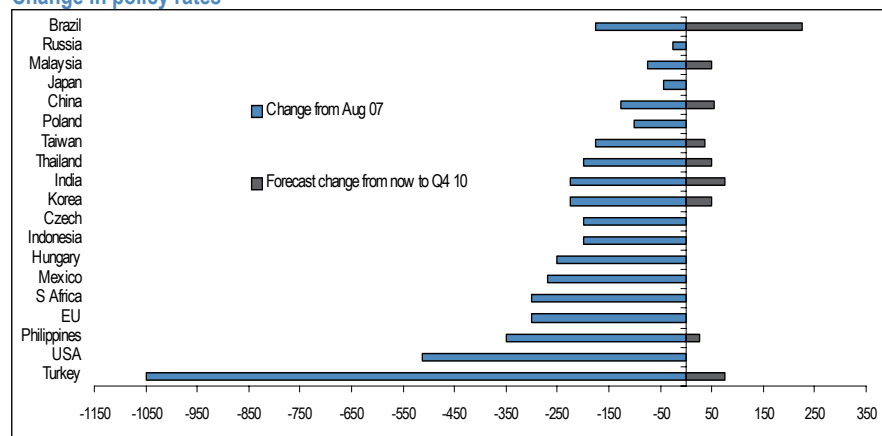
Source: Bloomberg, J.P. Morgan estimates. Updated 14 July 2010.

Note: Consensus estimates for Jordan, Egypt, and Pakistan sourced from WES and Morocco from EIU.

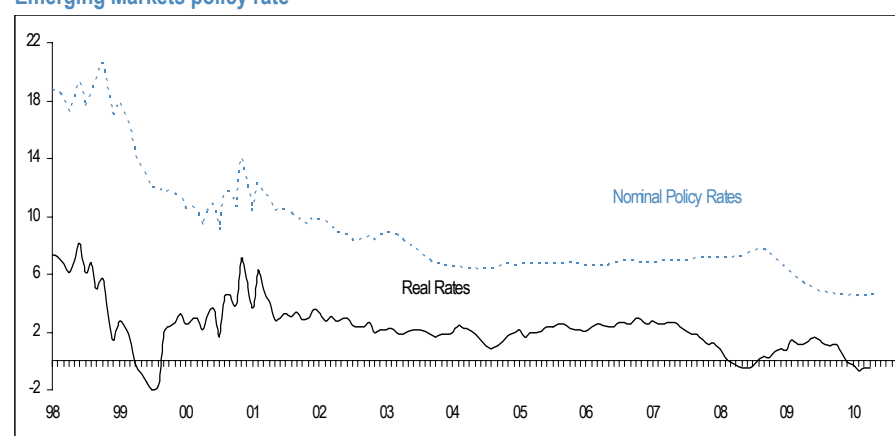
## Economic Forecasts: Policy Rate Trend and Forecasts

Country	Official interest rate	3Q'09	4Q'09	1Q'10F	Current	2Q'10F	3Q'10F	4Q'10F	1Q'11F	Policy Rate	
										Last Change	Next Change
<b>Developed Markets</b>											
United States	Federal funds rate	0.13	0.125	0.125	0.125	0.125	0.125	0.125	0.125	16 Dec 08 (-87.5bp)	<b>4Q 11 (+37.5bp)</b>
Euro Area	Refi Rate	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	7 May 09 (-25bp)	On hold
Japan	Overnight Call Rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	19 Dec 08 (-20bp)	<b>2Q 12 (+15bp)</b>
<b>Latin America</b>											
Brazil	SELIC overnight rate	8.75	8.75	10.25	10.25	11.50	12.50	12.50	12.50	9 Jun 10 (+75bp)	<b>21 Jul 10 (+75bp)</b>
Mexico	Repo rate	4.50	4.50	4.50	4.50	4.50	4.50	4.50	4.50	17 Jul 09 (-25bp)	<b>4Q 11 (+25bp)</b>
<b>Europe, Middle East and Africa</b>											
Czech Republic	2-week repo rate	1.00	1.00	0.75	0.75	0.75	0.75	0.75	1.00	6 May 10 (-25bp)	<b>2Q 11 (+25bp)</b>
Hungary	2-week deposit rate	6.25	5.50	5.25	5.25	5.25	5.25	5.25	5.25	26 Apr 10 (-25bp)	3Q 11 (+25bp)
Poland	7-day intervention rate	3.50	3.50	3.50	3.50	3.50	3.50	3.50	3.75	24 Jun 09 (-25bp)	<b>2Q 11 (+25bp)</b>
Russia	1-week deposit rate	4.00	2.75	3.50	2.75	2.75	2.75	2.75	3.25	31 May 10 (-50bp)	2Q 11 (+25bp)
South Africa	Repo rate	7.00	6.50	6.50	6.50	6.50	6.50	6.50	7.00	25 Mar 10 (-50bp)	<b>2Q 11 (+50bp)</b>
Turkey	1 week repo rate	6.50	7.00	6.50	7.00	7.00	7.00	7.00	7.00	-	<b>Jul 11 (+50bp)</b>
<b>EM Asia</b>											
China	1-year working capital	5.31	5.31	5.31	5.31	5.58	5.85	6.12	6.12	22 Dec 08 (-27bp)	<b>3Q 10 (+27bp)</b>
Korea	Overnight call rate	2.00	2.00	2.00	2.25	2.25	2.50	2.75	2.75	9 Jul 10 (+25bp)	<b>4Q 10 (+25bp)</b>
Indonesia	BI rate	6.50	6.50	6.50	6.50	6.50	6.50	6.75	7.00	5 Aug 09 (-25bp)	<b>1Q 11 (+25bp)</b>
India	Repo rate	4.75	5.25	5.00	5.50	6.00	6.00	6.50	6.75	2 Jul 10 (+25bp)	<b>27 Jul 10 (+25bp)</b>
Malaysia	Overnight policy rate	2.00	2.50	2.25	2.75	2.75	2.75	2.75	2.75	8 Jul 10 (+25bp)	On hold
Philippines	Reverse repo rate	4.00	4.00	4.00	4.00	4.25	4.25	4.50	4.75	9 Jul 09 (-25bp)	<b>24 Aug 10 (+25bp)</b>
Thailand	1-day repo rate	1.25	1.25	1.25	1.25	1.50	1.75	2.00	2.00	8 Apr 09 (-25bp)	<b>14 Jul 10 (+25bp)</b>
Taiwan	Official discount rate	1.25	1.38	1.25	1.38	1.63	1.75	1.88	2.00	24 Jun 10 (+12.5bp)	<b>3Q 10 (+25bp)</b>

### Change in policy rates

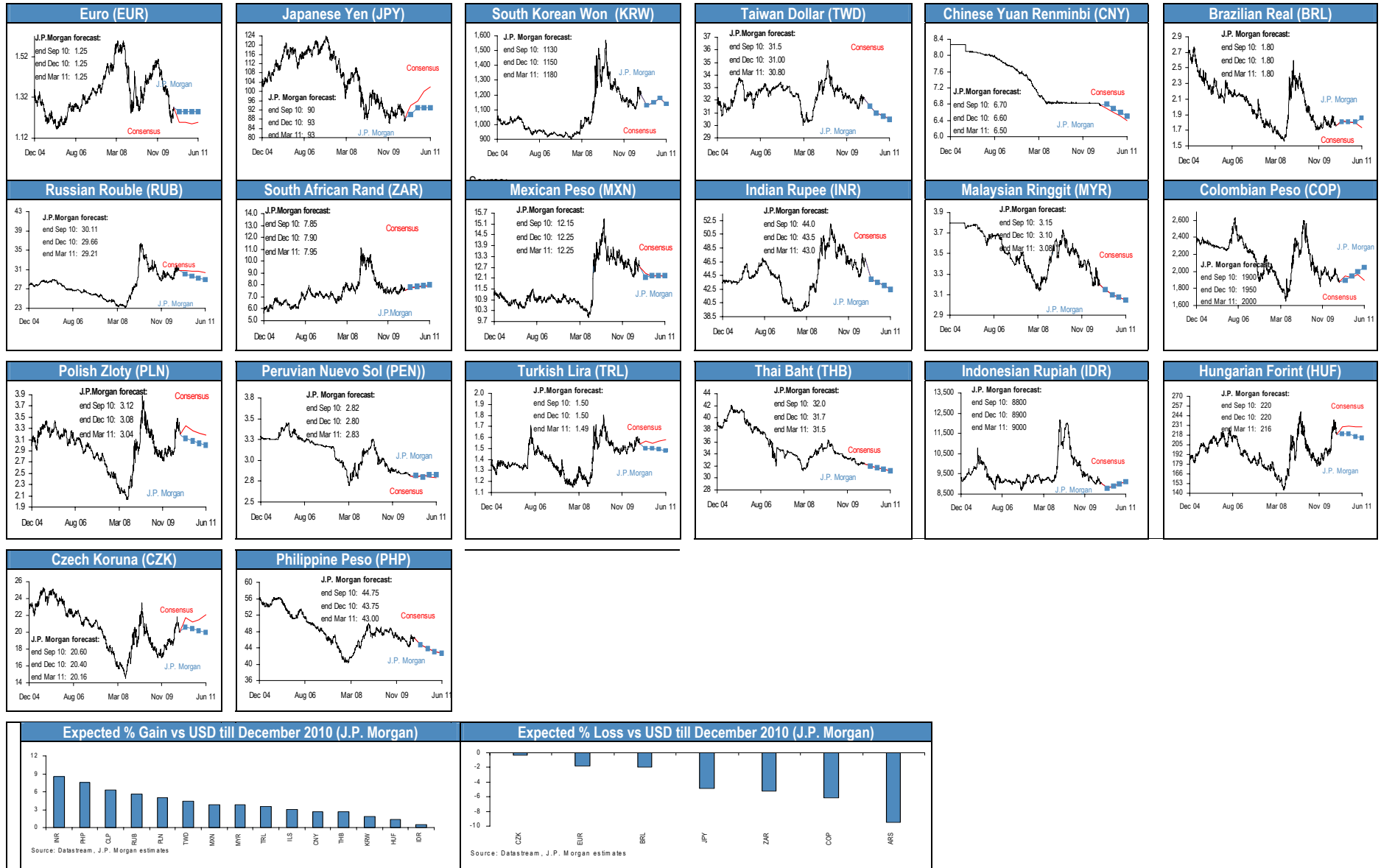


### Emerging Markets policy rate



Source: J.P. Morgan Economics, Bloomberg. Bold figures on next column indicate tightening. Updated 14 July 2010.

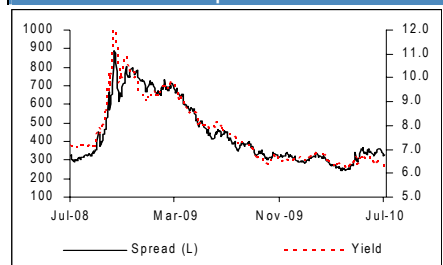
## Economic Forecasts: Currency Movements and Forecasts



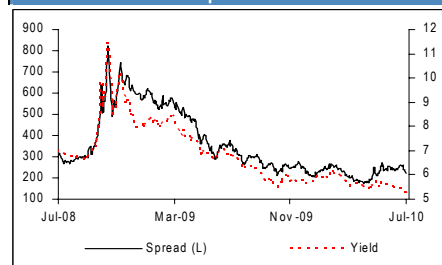
### Economic Forecasts: Credit Risk

	External (2010E)				Fiscal Position				Sovereign Ratings (Long Term Foreign Debt)						
	Current Account		External Debt		Fiscal Deficit		Public Sector Debt		Moody's			S & P			
	Foreign Reserves (US\$bil)	2010F** % GDP	2011F** % GDP	2010F** (US\$bil)	2010F** %GDP	2010F** % GDP	2011F** % GDP	2009** % GDP	2010F** % GDP	Rating	Action	Date	Rating	Action	Date
China	2447	4.6	3.8	414	7.0	-2.1	-1.8	19.3	19.0	A1	O/L changed to (+), Affirmed	Nov-09-09	A+	Affirmed, O/L stable	Jan-12-10
Brazil	250	-3.2	-3.4	294	14.5	-3.4	-2.5	64.1	61.7	Baa3 (+)	Upgrade, O/L (+)	Sep-22-09	BBB-	Upgrade, O/L stable	Apr-30-08
Korea	270	1.8	0.4	365	35.3	-0.5	0.5	44.4	42.8	A1	Upgrade, O/L stable	Apr-14-10	A	Affirmed, O/L stable	Jan-12-10
Taiwan	360	7.4	7.0	80	17.9	-2.5	-2.0	na	na	Aa3	Affirmed, O/L stable Jan-24-02	Jan-24-02	AA-	O/L changed to (-), Affirmed	Apr-14-09
South Africa	37	-4.0	-4.7	73	20.4	-5.7	-4.6	32.9	38.2	A3	Upgrade, O/L changed to stable	Jul-16-09	BBB+	O/L changed to (-), Affirmed	Nov-11-08
India	255	-2.4	-2.4	260	15.9	-5.5	-4.8	42.3	41.1	Baa3	Upgrade, O/L stable	Jan-22-04	BBB-	O/L changed to stable, Affirmed	Mar-18-10
Russia	436	5.1	3.4	503	33.5	-4.1	-2.1	8.0	7.9	Baa1	O/L changed to stable, Affirmed	Dec-12-08	BBB	O/L changed to stable, Affirmed	Dec-21-09
Mexico	97	-0.8	-1.3	189	17.8	-2.8	-2.2	37.4	34.1	Baa1	Upgrade, O/L stable	Jan-06-05	BBB	Downgrade, O/L changed to stable	Dec-14-09
Malaysia	96	15.5	16.5	65	29.0	-5.2	-4.5	53.3	46.9	A3	Upgrade, O/L stable	Dec-16-04	A-	O/L changed to stable, Affirmed	May-15-08
Indonesia	75	2.0	1.4	143	20.5	-2.0	-1.0	35.8	32.5	Ba2	Affirmed, O/L stable	Jan-21-10	BB+	Upgrade, O/L (+)	Mar-12-10
Poland	89	-2.5	-3.5	260	48.3	-5.8	-4.5	51.0	53.2	A2	Affirmed, O/L stable	Jan-05-10	A-	O/L changed to stable, Affirmed	Oct-27-08
Turkey	72	-4.3	-4.4	271	37.3	-3.7	-1.8	55.4	49.0	Ba2	Upgrade, O/L stable	Jan-08-10	BB	Upgrade, O/L (+)	Feb-19-10
Thailand	143	4.7	5.7	72	22.4	-2.5	-3.0	34.2	34.4	Baa1	Affirmed, O/L (-)	Apr-13-10	BBB+	Affirmed, O/L (-)	Apr-13-10
Czech Republic	39	-1.8	-3.3	84	42.3	-4.5	-3.5	35.3	38.5	A1	O/L changed to stable, Affirmed	Dec-08-08	A	Affirmed, O/L stable	Dec-21-09
Peru	35	0.2	-1.8	36	24.1	-1.8	-1.0	24.7	22.1	Baa3	Upgrade, O/L changed stable	Dec-16-09	BBB-	Upgrade, O/L stable	Jul-14-08
Egypt*	17	-2.6	-2.1	na	na	na	na	na	na	Ba1	O/L changed to stable, Affirmed	Aug-19-09	BB+	Affirmed, O/L stable	Mar-26-10
Colombia	26	-2.1	-2.9	56	20.6	-3.7	-3.5	48.8	47.9	Ba1	Upgrade, O/L stable	Jun-19-08	BB+	Affirmed, O/L stable	Feb-25-08
Philippines	47	5.2	4.5	59	31.7	-3.5	-2.5	52.6	49.3	Ba3	Affirmed, O/L stable	Mar-29-10	BB-	Affirmed, O/L stable	Apr-18-08
Hungary	46	-1.0	-2.4	208	142.9	-4.2	-3.5	78.3	79.3	Baa1	Downgrade, O/L (-)	Mar-31-09	BBB-	O/L changed to stable, Affirmed	Oct-2-09
Morocco*	14	-5.0	-4.4	na	na	na	na	na	na	Ba1	O/L changed to stable	Jun-18-03	BB+	Upgrade, O/L stable	Mar-23-10
Emerging Asia	3703	4.4	3.6	1449	14.3	-	-	na	na	-	-	-	-	-	-
Emerging Europe	781	0.5	-0.3	1372	41.4	-	-	na	na	-	-	-	-	-	-
Latin America	482	-1.1	-1.5	896	21.3	-	-	na	na	-	-	-	-	-	-

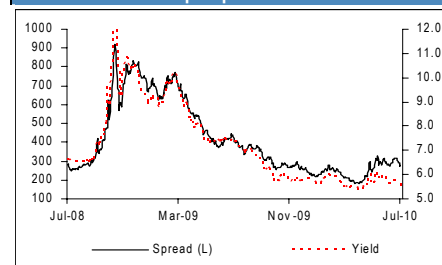
EMBI Global Spreads and Yields



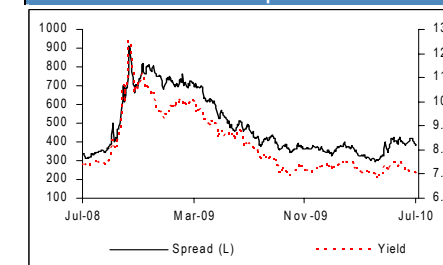
EMBI Asia Spreads and Yields



EMBI Europe Spreads and Yields



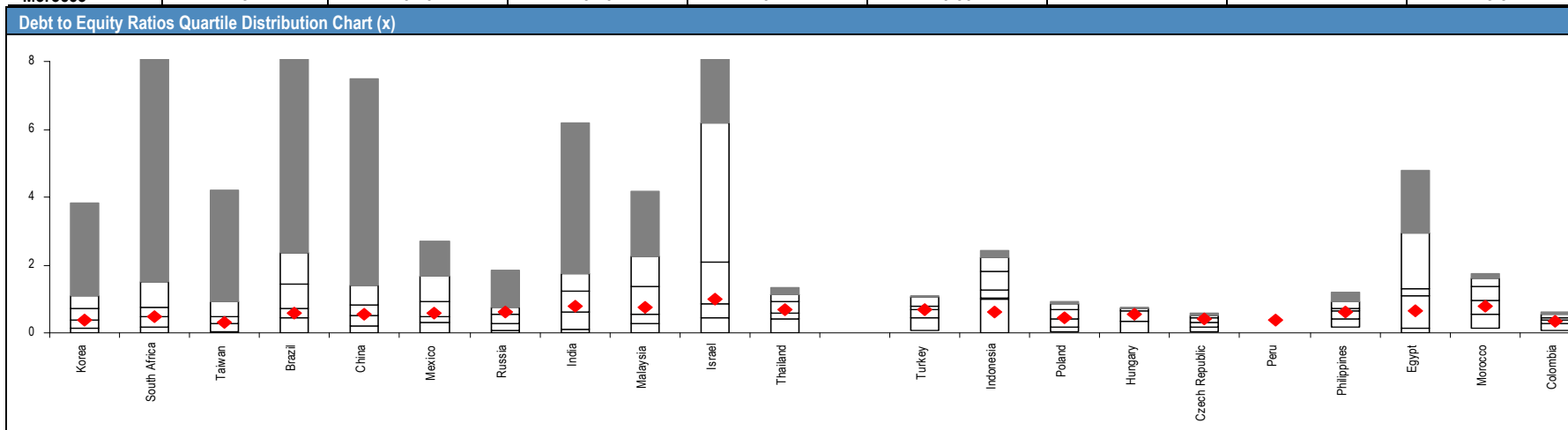
EMBI Latin America Spreads and Yields



Source: CEIC, J.P. Morgan estimates, Moody's, Standard & Poor's, Bloomberg \* Data from World Economic Outlook for April 2006 for Current Account data, \*\* F denotes forecast Note: Forex reserves as of 30 April 2010 or latest available data. Updated 14 July 2010.

## Perspective: Emerging Markets Balance Sheets

	No. of Companies	Debt/Equity	Debt/Assets	Debt/Market. Cap	Asset Turnover	Current Ratio	Interest Coverage	Altman Z Score
China	105	0.56	0.26	0.66	0.77	1.03	7.8	4.9
Brazil	67	0.59	0.27	0.49	0.56	1.58	7.4	3.3
Korea	78	0.39	0.20	0.21	0.94	1.13	7.3	3.4
Taiwan	99	0.32	0.19	0.15	1.04	1.36	7.7	3.9
South Africa	34	0.46	0.22	0.17	0.87	1.31	5.2	4.3
India	52	0.80	0.33	0.23	0.73	1.42	5.9	4.1
Russia	25	0.60	0.32	0.66	0.53	1.28	9.8	3.7
Mexico	21	0.56	0.26	0.32	0.66	1.25	6.4	4.1
Malaysia	33	0.75	0.34	0.38	0.47	1.68	4.5	4.2
Indonesia	17	0.61	0.28	0.11	0.84	1.21	11.2	7.7
Turkey	12	0.67	0.27	0.37	1.14	1.17	6.1	3.3
Thailand	15	0.70	0.34	0.34	1.45	1.44	6.8	4.6
Poland	11	0.43	0.23	0.38	1.03	1.03	5.5	3.6
Czech Republic	2	0.40	0.19	0.17	0.43	0.85	22.6	3.1
Peru	2	0.38	0.22	0.05	0.65	2.11	22.2	9.7
Egypt	9	0.65	0.27	0.22	0.56	1.22	5.9	2.2
Colombia	5	0.35	0.23	0.17	0.44	1.30	1.1	5.5
Philippines	8	0.62	0.27	0.20	0.62	1.12	7.2	2.8
Hungary	3	0.56	0.28	0.35	1.00	1.35	4.6	5.1
Morocco	3	0.79	0.29	0.21	0.59	1.17	14.2	3.5



Source: Datastream, Bloomberg, J.P. Morgan. Data as of 10 February 2010

Note: 1. All ratios are calculated from latest financial reports available ex Financial sector and calculations are based on weighted average of companies in the MSCI EMF universe. For Altman z-score, its application on company level is such that a score of less than 1.8 indicates bankruptcy likely, between 1.8-2.7 bankruptcy likely within 2 years and more than 3 most likely safe from bankruptcy. For market as a whole, the ratio is a weighted average of companies' z-score, thereby giving a general quality of companies in the market. 2. For the debt to equity distribution chart, each box indicates quartile levels and markets with values exceeding the scale are indicated by the open-ended top box. The diamond indicates weighted average for each market. 3. Quartile Distribution Charts: each quartile is separated by a line, with the exception of the top quartile which is subdivided in order to show the top decile of companies, shaded in blue. Markets with values exceeding the scale are indicated by the open-ended top box. The diamond indicates the weighted mean for each market.

## Perspective: Demographic and Key Economic Statistics

	Population and demographics					Nominal GDP				Real GDP	
	Population##		Age		Gross Enrollment Ratio Secondary**	2010		10 year CAGR***		10 year CAGR***	
	2010 million	Growth %YoY	Dependency Ratio*			US\$ billion	Per capita (US\$)	Total (%)	Per capita (%)	Total (%)	Per capita (%)
			Young	Old							
<b>USA</b>	<b>310</b>	<b>1.0</b>	<b>na</b>	<b>na</b>	<b>98</b>	<b>14,839</b>	<b>47,836</b>	<b>4.2</b>	<b>3.2</b>	<b>3.0</b>	<b>2.0</b>
China	1354	0.6	0.3	0.1	73	5963	4465	17.6	16.8	9.9	9.3
Brazil#	194	1.2	0.4	0.1	102	2061	10645	12.3	11.0	3.1	1.7
India	1184	1.3	0.5	0.1	54	1712	1415	13.8	12.1	9.5	8.3
Russia#	141	-0.1	0.2	0.2	93	1606	11369	20.0	20.5	5.9	6.4
Mexico	111	1.0	0.5	0.1	80	1064	9610	6.2	4.9	1.5	0.4
Korea	48	0.1	0.3	0.1	91	1017	21673	7.0	6.6	6.3	5.6
Indonesia	233	1.2	0.4	0.1	64	734	3121	16.0	14.5	5.1	3.8
Turkey	76	1.2	0.4	0.1	79	712	9400	13.6	12.1	3.2	1.9
Poland	38	-0.1	0.2	0.2	97	463	12167	10.4	10.6	3.6	3.8
Taiwan	23	0.3	0.3	0.1	na	430	19222	3.1	2.8	3.0	2.7
Argentina	41	1.0	0.4	0.2	86	382	9426	3.0	2.0	3.2	2.2
South Africa	49	0.7	0.5	0.1	90	350	7153	10.2	9.1	3.2	2.2
Thailand	68	0.7	0.3	0.1	77	318	4703	10.2	9.2	4.0	3.3
Colombia	46	1.5	0.5	0.1	75	286	6167	13.1	12.0	3.9	2.2
Malaysia	28	2.0	0.5	0.1	76	242	8463	10.2	8.1	10.4	8.1
Egypt	78	2.0	0.5	0.1	87	216	2759	8.1	5.9	4.9	2.8
Philippines	94	1.8	0.6	0.1	86	194	2054	9.8	7.7	4.5	2.5
Czech Rep.	10	0.2	0.2	0.2	96	190	18262	12.8	12.7	3.1	3.0
Peru	30	1.2	0.5	0.1	92	149	5061	10.9	9.1	5.4	3.8
Hungary	10	-0.1	0.2	0.2	97	127	12667	10.2	10.4	1.9	2.1
<b>MSCI EM</b>	<b>3,918</b>	<b>1.0</b>				<b>18,731</b>	<b>4,801</b>	<b>13.6</b>	<b>13.2</b>		

Source: CEIC, Datastream, Bloomberg, US Consensus Bureau, World Bank, UNESCO, J.P. Morgan estimates

\* Age dependency ratio defined as dependents to working-age population.

\*\* Gross Enrollment Ratio is defined as pupils enrolled in a secondary level, regardless of age expressed as a percentage of the population in the relevant official age group

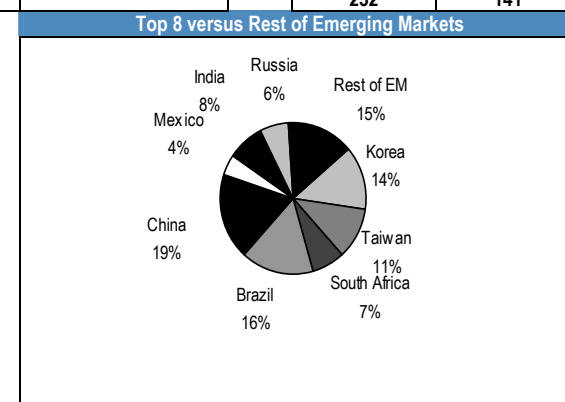
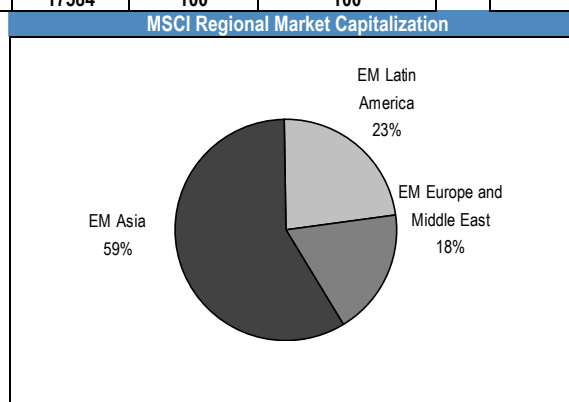
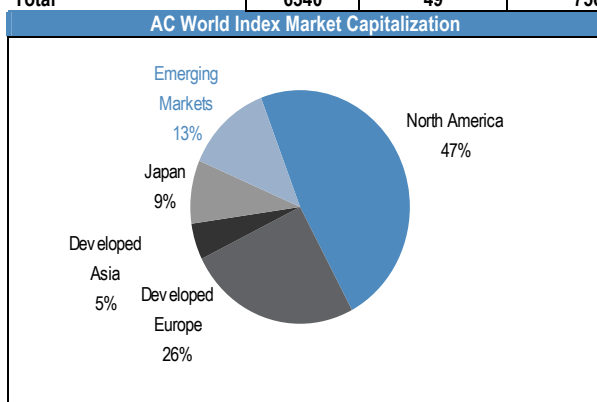
\*\*\* 10-year CAGR for period 2000-2010, in local currency. # CAGR for period 2000-2010 ## Population data based on IMF estimate as on October 2009.

Data for Gross enrollment is data for 2004 except for Malaysia, Brazil and Argentina which is for 2003. Updated 14 July 2010.



## Perspective: Global Emerging Capital Markets

	MSCI EMF Index						Markets Concentration		JPM EMBI Global	
	Total Market Cap	Estimated Free Float	Companies	Average Daily Turnover	% of Emerging Market Trading Volume	Weighting in MSCI EMF	Stocks constituting 75% of Country Market Cap	Stocks constituting 75% of Country Market Cap	Market Cap	Issues
	US \$ bn.	(%)	Number	US \$ mn.	%	(%)	Number	(%)	US \$ bn.	Number
China	1213	48	123	3471	19.7	18.6	9	15	7.0	8
Brazil	831	59	76	2772	15.8	15.7	16	17	49.5	23
Korea	676	63	99	3772	21.4	13.7	28	18	na	na
Taiwan	487	71	118	1893	10.8	11.0	31	25	na	na
India	726	34	61	349	2.0	8.0	22	33	na	na
South Africa	331	69	45	929	5.3	7.3	17	40	4.3	4
Russia	572	35	28	1775	10.1	6.4	5	25	32.8	4
Mexico	241	57	21	346	2.0	4.4	7	29	49.5	29
Malaysia	225	40	41	213	1.2	2.9	20	59	9.1	7
Indonesia	181	41	22	238	1.4	2.4	10	41	5.7	5
Turkey	168	32	20	597	3.4	1.7	11	60	22.0	14
Thailand	131	35	20	350	2.0	1.5	14	70	na	na
Poland	104	44	22	265	1.5	1.5	7	23	3.4	3
Colombia	106	24	8	32	0.2	0.8	4	50	7.4	7
Peru	43	47	3	165	0.9	0.7	2	67	7.8	8
Egypt	33	46	10	85	0.5	0.5	7	30	1.2	1
Philippines	46	33	12	37	0.2	0.5	7	67	19.0	14
Hungary	24	59	4	123	0.7	0.5	2	75	1.4	1
Czech Republic	39	33	4	59	0.3	0.4	3	50	na	na
Morocco	27	21	3	11	0.1	0.2	4	100	0.7	1
<b>Total</b>	<b>6340</b>	<b>49</b>	<b>756</b>	<b>17584</b>	<b>100</b>	<b>100</b>			<b>232</b>	<b>141</b>



Source: MSCI, J.P. Morgan. Updated 14 July 2010.

## Perspective: MSCI Emerging Market Index Composition by Countries and Sectors

Number of Companies: 756 Total Market Capitalization (in billion US\$): 6340

Estimated Free float : 50%

MSCI Emerging Markets Free Index	Consumer Discretionary	Consumer Staples	Energy	Financials	Health care	Industrials	Information Technology	Materials	Telecom Services	Utilities	Total
China	1.0	1.2	3.0	7.2	0.1	1.4	0.9	0.9	2.5	0.4	18.6
Korea	1.8	0.6	0.3	2.3	0.1	1.9	4.1	1.9	0.4	0.2	13.7
Taiwan	0.3	0.2	0.1	1.7		0.4	6.5	1.3	0.5		11.0
India	0.4	0.5	1.2	2.1	0.3	0.8	1.3	0.8	0.1	0.5	8.0
Malaysia	0.3	0.4	0.0	0.9		0.5		0.0	0.3	0.4	2.9
Indonesia	0.4	0.3	0.3	0.7		0.1		0.2	0.3	0.2	2.4
Thailand	0.0	0.1	0.6	0.5				0.1	0.1	0.0	1.5
Philippines	0.0			0.2		0.1			0.1	0.1	0.5
<b>Asia</b>	<b>4.2</b>	<b>3.2</b>	<b>5.6</b>	<b>15.6</b>	<b>0.5</b>	<b>5.2</b>	<b>12.9</b>	<b>5.3</b>	<b>4.2</b>	<b>1.7</b>	<b>58.5</b>
South Africa	0.9	0.4	0.7	2.0	0.1	0.3		2.0	0.9		7.3
Russia		0.2	3.6	0.9				0.9	0.4	0.4	6.4
Poland	0.0	0.0	0.2	0.8		0.0	0.0	0.1	0.1	0.1	1.5
Turkey	0.0	0.2	0.1	1.1		0.2		0.0	0.2		1.7
Hungary			0.1	0.2	0.1				0.0		0.5
Egypt				0.2		0.1		0.0	0.1		0.5
Czech Republic	0.0			0.1					0.1	0.2	0.4
Morocco				0.1					0.1		0.2
<b>EMEA</b>	<b>0.9</b>	<b>0.8</b>	<b>4.8</b>	<b>5.3</b>	<b>0.2</b>	<b>0.6</b>	<b>0.0</b>	<b>3.0</b>	<b>2.0</b>	<b>0.7</b>	<b>18.4</b>
Brazil	0.8	1.4	3.4	4.0		0.5	0.4	4.0	0.4	0.8	15.7
Mexico	0.4	1.1		0.3		0.2		0.7	1.6		4.4
Peru				0.2				0.4			0.7
Colombia		0.0	0.2	0.3				0.2		0.1	0.8
<b>LatAm</b>	<b>1.3</b>	<b>2.8</b>	<b>3.6</b>	<b>5.0</b>		<b>1.0</b>	<b>0.4</b>	<b>5.6</b>	<b>2.1</b>	<b>1.4</b>	<b>23.1</b>
<b>Total</b>	<b>6.5</b>	<b>6.8</b>	<b>13.9</b>	<b>25.9</b>	<b>0.8</b>	<b>6.8</b>	<b>13.3</b>	<b>14.0</b>	<b>8.3</b>	<b>3.7</b>	<b>100.0</b>

Source: MSCI, J.P. Morgan. Updated 14 July 2010.

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Emerging Markets Equity Research  
19 July 2010

J.P.Morgan

**Companies Recommended in This Report (all prices in this report as of market close on 19 July 2010, unless otherwise indicated)**

America Movil SA (AMX/\$48.00 [16-July-2010]/Overweight), Anglo Platinum (AMSJ.J/71,300c [16-July-2010]/Overweight), Arm Holdings Plc (ARM.L/304p [16-July-2010]/Underweight), Cemex S.A. (CX/\$9.23 [16-July-2010]/Overweight), First Cash Financial (FCFS/\$22.52 [16-July-2010]/Overweight), Globaltrans (GLTRq.L/\$13.43 [16-July-2010]/Overweight), Hynix Semiconductor (000660.KS/W23,700/Neutral), Hyundai Department Stores (069960.KS/W118,000/Overweight), Hyundai Heavy Industries (009540.KS/W245,500/Underweight), Hyundai Mobis (012330.KS/W200,000/Overweight), Hyundai Motor Company (005380.KS/W134,000/Overweight), KB Financial Group (105560.KS/W49,100/Overweight), KEPCO (015760.KS/W30,850/Overweight), LG Chem Ltd (051910.KS/W325,500/Overweight), LG Display (034220.KS/W37,150/Overweight), LG Electronics (066570.KS/W97,500/Neutral), LG Innotek (011070.KS/W188,000/Overweight), POSCO (005490.KS/W491,500/Overweight), Rosneft (ROSNq.L/\$6.04 [16-July-2010]/Overweight), Samsung Electro-Mechanics (009150.KS/W159,500/Overweight), Samsung Electronics (005930.KS/W795,000/Neutral), Samsung SDI (006400.KS/W187,000/Overweight), Semen Gresik (Persero) Tbk (SMGR.JK/Rp9,300/Overweight), Seoul Semiconductor (046890.KQ/W49,850/Overweight), Shinhan Financial Group (055550.KS/W47,200/Overweight), S-Oil Corp (010950.KS/W54,200/Neutral), Ternium (TX/\$33.43 [16-July-2010]/Overweight), Tisco Financial Group Pcl. (TISCO.BK/Bt28.25/Neutral), Woori Financial Group (053000.KS/W14,400/Overweight)

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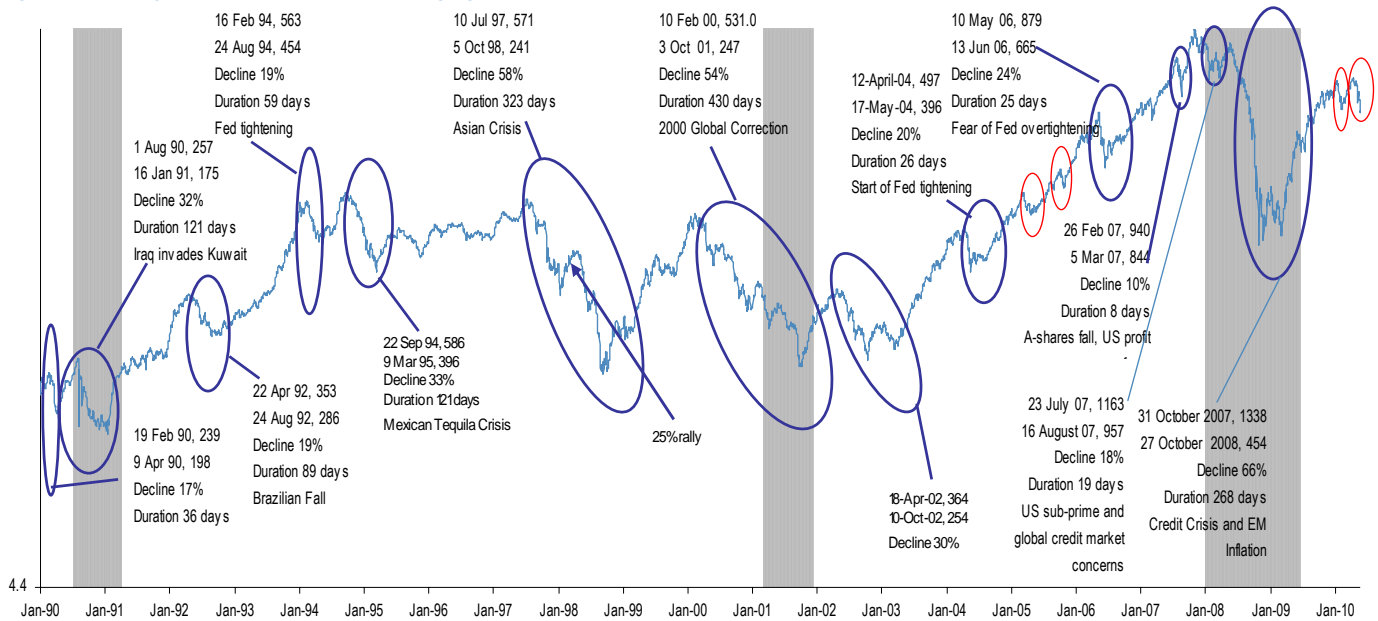
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Figure 33: History of corrections in MSCI Emerging Markets: 20% corrections common in a bull market



Source: Datastream, J.P. Morgan.

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