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Market Economics | Interest Rate Strategy | Forex Strategy

06 August 2010

Local Markets Mover

■ The FOMC meeting and China inflation will be top of the potential market-movers list next week.

■ More radical action from the Fed will probably only be prompted further deterioration in the economic outlook.

■ Rising wheat prices will spill over into substitutes and affect consumer prices globally. The weighting of food in consumer price baskets is high in local markets.

■ Overshooting Chinese inflation rates will add to uncertainty about markets that already look overstretched on the risk side in the short term.

■ Policy tightening in Asia (the BoK should be the next to move) will ensure a strong environment for Asian currencies.

■ CEE currencies should also remain strong and a Polish rate hike is on the cards.

■ Inflation expectations in Turkey should support the upcoming bond auction. South African monetary policy remains too tight.

■ The surge in wheat prices could eventually lead to appreciation of the EGP and RUB as authorities attempt to offset surging costs.

■ The Peruvian CB surprised on the hawkish side, delivering a larger-than-expected 50bp hike.

■ We keep our favourable view on Latam currencies. On rates, we stick to the long NTN-B May 2015 in Brazil.

Market Views and Data

		Current	1 Week	1 Month
Forex	EUR/USD	1.3176	↓	↓
	USD/JPY	85.85	↓	↓
UST	10y T-note Yield (%)	2.90	↔↓	↓
	2y/10y Spread (bp)	236	↔	↓
EGB	10y Bund Yield (%)	2.56	↔↓	↓
	2y/10y Spread (bp)	182	↔↓	↓

	Current	Past Week	Past Month
S&P 500 Index	1125.81	+2%	+10%
VIX Volatility Index	22.10	-6%	-25%
CRB Commodity Index	277.67	+1%	+10%
WTI Crude Oil ($/Contract)	81.76	+4%	+14%

Market Outlook

FOMC and China inflation under the spotlight

Financial markets have been rallying recently on speculation about a second round of quantitative easing from the Fed but a more pronounced deterioration in the economic outlook will probably be needed for the FOMC to announce more radical action. Apart from some potential disappointment at next Tuesday's FOMC meeting, a greater risk for financial markets is higher inflation data from China. This will create uncertainty on how China will manage the current economic slowdown in an environment of rising inflation – we expect CPI inflation to pick up to an above-consensus 3.6% y/y from 2.9% on faster food price inflation caused by floods.

The slew of PMI manufacturing releases took centre stage over the past week in **Asia**. Our in-house Asia aggregate fell to 51.8 from 52.5, the fourth consecutive monthly decline and taking it to the lowest level since April 2009. Concern will focus on China, where the PMI slid to 49.4, the first sub-50 print since March 2009. However, there are divergences across the region. The Indian and South Korean PMIs have held up far better. India in particular continues to show considerable strength.

BoK hike in the pipeline

In the coming week, given the recent talk on bank stress tests and monetary policy easing in China on growth concerns, a raft of July data releases will be closely watched. In addition to the CPI report, industrial production growth is expected to have slowed further, to 12.0% y/y from 13.1%. Fixed assets investment growth is also likely to have slowed, to 24.8% y/y from 25.5%. Another focus will be the Bank of Korea MPC meeting. Our base case remains that the next move will be in September. But with Q2 GDP surprising to the upside and monthly activity data showing few signs of cooling, the pressure remains on the Bank of Korea to quickly follow up last month's initial hike. A move at the upcoming meeting cannot be ruled out.

Still a strong environment for Asian currencies

Asian currencies continued their strong run, boosted by the weakening USD and asset market rallies in Asia. The laggards played catch-up, namely the INR, PHP and TWD. We continue to run with our relative value trade of short MYR against long KRW through 1M NDFs. Supporting this trade is the loss of earnings momentum in Malaysia whilst that of Korea has accelerated, in addition to the cyclical normalisation in the Korean curve that lagged that of the Malaysian curve. We continue to stay long INR and PHP against the USD. Note that talks of allowing foreign investors direct access to Indian shares could ignite portfolio inflows and buoy the INR further. The talk of Indonesia has been the potential redenomination of rupiah banknotes (see focus).

The market focus remains on China with bank stress tests and talks of monetary policy easing due to growth worries. Onshore USDCNY continues to push lower but NDFs have kept steady. The build out of CNY convertibility continues to be paired with the deepening of the Chinese capital markets, particularly the development of offshore CNY bond markets. In addition, the PBOC is considering adding more currencies to the onshore CFETS platform, including the MYR, KRW and RUB. We look for gradual CNY appreciation to persist. On the rates front, a strong SGD and the deepening of the SGS market should keep SGD yields low. We stay with our forward 1Y1Y SGD IRS receiver.

CEEMEA: focus on food prices

Regarding **CEEMEA** markets, drought in the CIS region has been making headlines for the past few weeks as it has led to significant increases in the price of wheat and its substitutes. Russia and Ukraine have already suspended exports and, while world stocks are substantial, food prices are likely to contribute significantly to inflation in the coming months. Against this backdrop, the coming week will see publications of CPI releases across CEE. Hungary will most likely post a sharp decline as the impact of last year's VAT increase fades, while Polish inflation will decelerate too.

Regional currencies stay strong. Polish rate hike on the cards

Conversely, the recent increase in Romanian VAT will be very visible in prices and inflation in the Czech Republic will move closer to 1.5%. At the same time, Q2 GDP data for Romania, Czech and Hungary will show some acceleration, which could help the regional currencies stay strong. We have seen some flattening pressure on the Polish curve lately as investors begin to bet on quick rate hikes, possibly as soon as October. We see chances of that scenario materialising due to still-loose fiscal policy.

Inflation expectations in Turkey to support upcoming bond auction

In Turkey, there are some concerns about the introduction of the fiscal rule, but we do not think this should determine the market behaviour to a large extent – what is more important is the shape of the budget. Nonetheless, it appears that the bond market might have depleted its potential for strengthening particularly as investors start expecting an increase in inflation in August. As a result, the coming week's auction of inflation-linked bonds should attract significant demand.

South African monetary policy remains too tight

In South Africa, manufacturing production growth will likely remain unchanged in data for the month of June. We do not see any major changes in the outlook for growth and inflation and we remain of the opinion that monetary policy is too tight. On the currency front, there have been calls from the ANC to introduce a tax on speculative flows, but we do not expect them to impact the exchange rate in any meaningful way.

Surge in wheat prices to impact EGP and RUB

We think that the surge in wheat prices could eventually lead to appreciation of the EGP and RUB as authorities attempt to offset surging costs. USDEGP has only recently turned lower but it is still almost 5% higher than in January. We suspect that the bulk of depreciation was orchestrated by the central bank, which makes a reversal under current circumstances more likely. We also analyse the impact of Ramadan, which begins on 11 August, on inflation in the MEA region (see focus).

Latam: risk-friendly trend

In **Latam**, equities and the FX market joined the global risk-friendly trend. In Brazil, activity numbers are reinforcing that – while manufacturing activity is entering Q3 with lower momentum – the opposite dynamic is being witnessed in the services sector. Rising imports are the logical outcome. In the coming week, June retail sales should add to such perception. Inflation remains low but the outlook is not that favourable, with higher commodity prices playing their part. In Mexico, consumer confidence is still struggling to improve, while the manufacturing sector remains the engine of growth (although it is losing some momentum). July inflation figures should remain at comfortable levels. In Colombia, the MPC minutes will be released this weekend. The tone of the communiqué suggests little change from the previous set. Meanwhile, deflation at the wholesale level will contribute to keep consumer prices muted.

Surprise 50bp hike in Peru

In Chile, the MPC minutes brought little news in terms of the economic outlook but showed incipient concerns about inflation expectations. Moreover, June GDP expanded by a sound and above-consensus pace. Rates will likely be hiked by 50bp again at the forthcoming meeting and the likelihood that such a pace will be maintained at subsequent meetings is rising. In Peru, FinMin Araoz, delivered a very supportive speech on the PEN, underlining that the CB is intervening only to smooth the appreciation trend of the sol, not to change it. Additionally, the CB surprised on the hawkish side, delivering a higher than expected 50bp hike due to the “strong dynamism of domestic demand”. Finally in Argentina, tax collection in June and auto sales for July continue to point to strong growth dynamics. EcoMin Boudou announced the government has upgraded its growth outlook for this year.

More positive on local currencies

On the strategy front, we keep our favourable view on Latam currencies, remaining short USD/PEN and USD/COP, but we recommend tight S/Ls. We took profits in short USD/MXN as domestic demand is failing to gain traction in Mexico. We play the short BRL via options as the BCB’s threat to resume intervening in the derivative market remains alive. On rates, we stick to the long NTN-B May 2015 in Brazil while we were stopped out in receiving 1y swap CLPxCAM.

Asia: Don't Panic

- **Our in-house Asia aggregate manufacturing PMI declined further in July.**
- **The new orders and inventories balances suggest further softness in the coming months.**
- **The decline seen thus far primarily reflects developments in China. The Indian PMI, for example, has held up well.**
- **The weaker survey readings are most likely to indicate a mid-cycle slowdown after a period of exceptional growth. However, there is a risk that this turns into something more worrying.**

Losing momentum

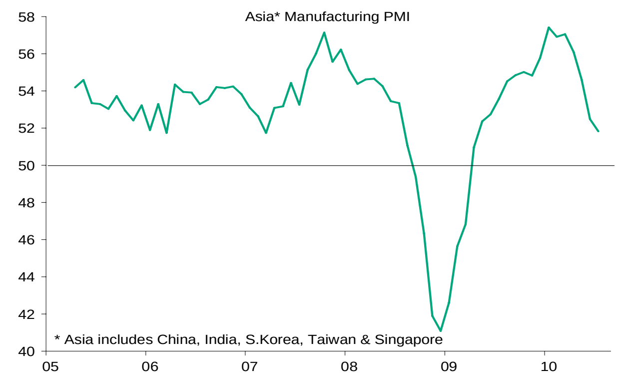
The beginning of the month saw the usual release of PMI surveys globally. In Asia these give a timely reminder of the loss of momentum in recent months and the differing dynamics unfolding across the region at present.

At the regional level, our in-house Asia-aggregate PMI confirmed a further loss of momentum in the manufacturing sector in July, although the decline was less pronounced than in previous months. The aggregate headline index dropped to 51.8 from 52.5. Given this index was up at 57.0 as recently as March, the loss of thrust has been notable. That said, at the regional level it is important not to over-play the decline in the headline PMI. Currently it is still within the range, although at the bottom of that range, seen from 2005 until the crisis struck in late 2008. Therefore, manufacturing sector growth has gone from unsustainably strong to something more normal.

By component, the regional aggregate struck a downbeat tone. The output index picked up for the first time in six months. However, the new orders and employment indices declined further while the inventories balance picked up. Given the export orders balance increased for the first time since January, the decline in overall new orders was driven by domestic developments.

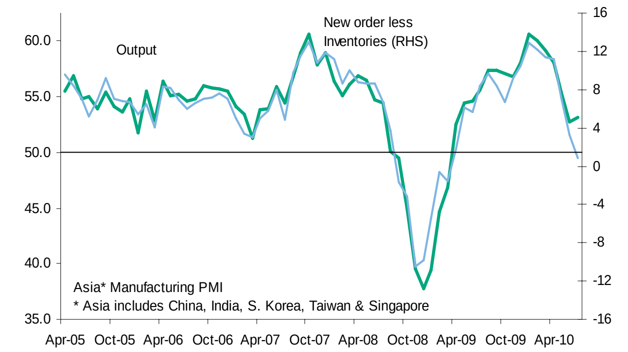
Importantly, the decline in new orders and pick-up in inventories indices point to further weakness in the output index in the coming months (Chart 2). At this stage, we still regard developments in the PMI as indicative of a mid-cycle slowdown or soft patch following an exceptionally strong bounce back from the global financial crisis. However, there is clearly a

Chart 1: Asia Headline PMI



Source: Markit, BNP Paribas

Chart 2: Asia PMI Output & New Orders less Inventories



Source: Markit, BNP Paribas

risk that the come-down from the sugar rush turns into something more serious.

China leads the way

By country, China is at the forefront of the slowdown. This is perhaps not surprising given that it is much further down the road of policy tightening than many economies in Asia. The headline Chinese PMI (for consistency's sake, we use the version supplied by Markit, the so-called HSBC PMI) dropped below 50 in July for the first time since March 2009. A further sharp decline in new orders did the damage, although the employment index also edged lower. The output index was broadly stable but again the 'new orders less inventories' balance points to a further decline in the output index in the near term. Moreover, the 'new orders less inventories' balance correlates well with the broad trend in actual industrial production growth (Chart 3). It indicates an imminent sharp slowdown.

Taiwan has also experienced a sharp deterioration in manufacturing confidence, as measured by the PMI. This is likely because of Taiwan's strong trade ties to China – around 40% of Taiwanese exports go to mainland China or Hong Kong. Certainly, little by way of marked policy tightening has occurred in Taiwan that could justify the sharp decline seen in the manufacturing PMI.

Greater resilience elsewhere

Not all countries have seen significant declines in their manufacturing PMIs. India and South Korea have seen greater resilience. India again bucked the regional trend in July seeing its PMI tick up to 57.6 from 57.3 in June. Essentially, while the PMIs elsewhere have fallen away, India's has gone sideways at an elevated level in 2010.

The contrast between the continued strength of India's industrial boom, which remains in full swing on the evidence of this survey, and the industrial deceleration in train across North Asia is most marked in terms of the survey's new orders balance. The order books of India's manufacturers continued to swell at a brisk pace in July with the new orders balance firming to 62.8 from 62.4.

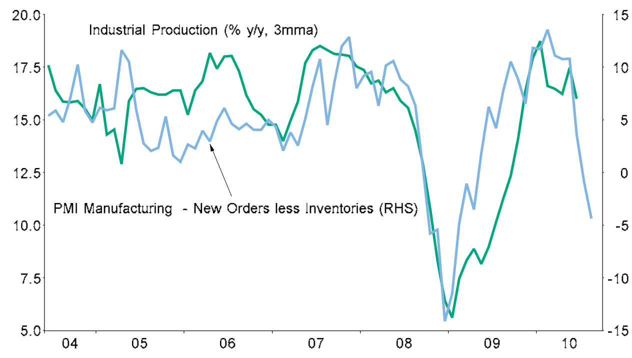
Other elements of the Indian survey were robust. The output balance, at 62.3 versus 60.5, was particularly strong in July. With base effects now becoming more challenging for Indian industrial production growth (as they are around the region), the buoyancy of this survey underlines that the initial deceleration in growth rates from the high teens to low single digits in the next few months should not be over-interpreted.

Developments in the South Korean PMI sit between the sharp decline seen in other parts of North Asia and the continued strength seen in India. The South Korean manufacturing PMI has come off from the high seen at the turn of the year. But it has stabilised of late and is still at a robust level. Doubtless helped by its still palpably undervalued exchange rate, South Korea's new orders were more or less steady at 54.7 in July vs. 54.9 in June. Moreover, other survey evidence from South Korea, for example the BoK manufacturing survey, paints a similarly robust picture (Chart 5). The South Korean manufacturing sector continues to grow at a strong pace, just slower than the wholly unsustainable rate of expansion seen early in the recovery.

Don't panic

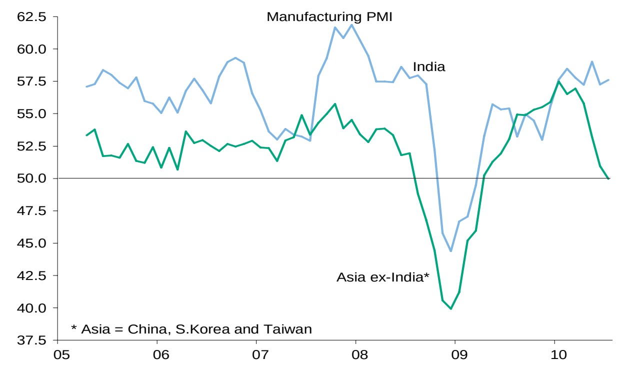
The manufacturing sector has clearly lost some momentum in Asia driven primarily by developments in China, which have had a knock on impact on Taiwan. This is the result of more aggressive policy tightening in China but also reflects an inevitable moderation after an exceptional surge. Given the

Chart 3: Chinese Industrial Production & PMI



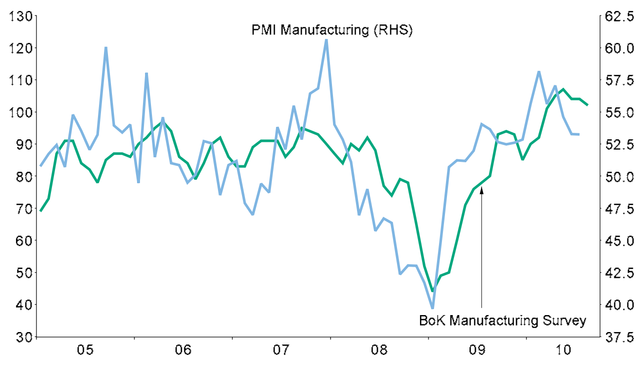
Source: Reuters EcoWin Pro, Markit, BNP Paribas

Chart 4: India & Asia ex-India PMI



Source: Markit, BNP Paribas

Chart 5: South Korean PMI & BoK Manufacturing Survey



Source: Reuters EcoWin Pro, Markit, BNP Paribas

Chinese economy was overheating, some slowdown was always desirable. The risk is that the slowing of growth morphs from a healthy mid-cycle slowdown into something more worrying.

The PMIs in India, in particular, and South Korea have held up better and are consistent with continued robust growth. This highlights that gradual policy tightening remains on the agenda for a number of countries outside China.

Turkey: Downward Surprise on Inflation

■ **At -0.48% m/m, July CPI inflation came in slightly lower than the market consensus (-0.30%) and broadly in line with our expectation (-0.45%).**

■ **The decline came mostly on the back of seasonal discounts in clothing and the continued fall in food prices.**

■ **Annual inflation is likely to fluctuate due to strong base effects in the coming months.**

■ **In light of the outlook for core inflation and service prices, the CBT is likely to postpone rate hikes to beyond the July 2011 general election despite recent warnings from the IMF.**

■ **In the medium term, once the output gap has narrowed further, we expect price pressures to intensify in the manufacturing industry.**

■ **Barring a global double-dip scenario, we believe the CBT will find it difficult to keep inflation close to its medium-term target of 5% in 2011 and onwards.**

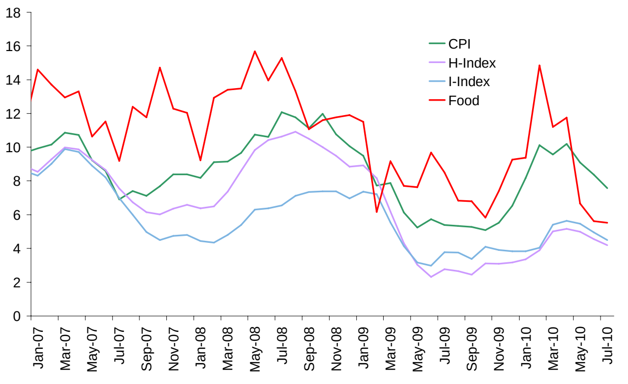
At -0.48% m/m, July CPI inflation came in slightly lower than the market consensus (-0.30%) and broadly in line with our expectation (-0.45%)

Due to favourable base effects, annual inflation fell to 7.58% in July from 8.37% in June. Core H and I indices also continued their decline, falling to 4.20% and 4.50% from 4.56% and 4.95% respectively.

The decline comes mostly on the back of seasonal discounts in clothing and the continued decline in food prices

On a monthly basis, clothing prices fell by 5.2% and food prices declined by 0.7% on the back of seasonal effects. Service prices remained tame in July as well while annual increases in rents and hotel/restaurant prices continued to ease. However, the price discounts in clothing were smaller than those in the same month in 2009, bringing annual inflation in clothing to 5.86% – its highest level since August 2007. In clothing, the capacity utilisation rate has almost reached its pre-crisis level, due to strong external demand and capacity losses during the crisis. Hence, the output gap for this particular sector remains lower than for the manufacturing sector as a whole. We do not believe that the evolution of clothing prices poses a significant threat to inflation outlook in the near term; however, in the medium term, once the output gap has narrowed further, price pressures are likely to intensify in manufacturing.

Chart 1: CPI and Core Inflation (% y/y)



Source: CBT

Annual inflation is likely to fluctuate on the back of strong base effects in the coming months

The seasonal price declines in food took place earlier this year than in 2009. In addition, the Ramadan effect is likely to put upward pressure on food prices in late August. Hence, we expect annual inflation to climb to around 8.5% in the coming months. However, in the last quarter, favourable base effects will again weigh and we expect annual inflation to decline to 7% by end-year – absent a significant rebound in food prices. In Q1 2011, favourable base effects are likely to become more evident and we expect annual inflation to fall to around 5%.

In light of the outlook for core inflation and service prices, the CBT is likely to postpone rate hikes to beyond the July 2011 general election despite recent warnings from the IMF

At the same time, barring a global double-dip scenario, we believe the CBT will find it difficult to keep inflation near its medium-term target of 5% through 2011 and beyond, since the narrowing output gap will generate price pressures in the manufacturing industry, as shown by the July inflation data.

Selim Çakır / Emre Tekmen

Colombia: Set for a Comeback

■ Q1 GDP growth, calculated using a new base, surprised markets and authorities to the upside. We have revised up our 2010 and 2011 growth forecasts to 4.6% and 4.0%, respectively.

■ The surprise resulted from a combination of strong government spending and recovering internal demand. We expect consumption and investment to remain robust.

■ Our inflation forecasts are unchanged at 3.7% at end-2010 and 3.5% at end-2011.

■ Despite our more positive view on growth, we now expect the first rate hike in January 2011 (previous expectation: October 2010). The CB, clearly comfortable with the inflation scenario, will likely opt to leave rates in stimulatory mode.

We have raised our growth forecasts for Colombia for 2010 and 2011 as a consequence of the release of new series methodology by Colombia's statistical bureau DANE and renewed momentum in the economy. Q1 GDP data surprised markets and the authorities with strong growth of 4.3% y/y or 1.5% q/q s.a. (the consensus was for 3.6% y/y). The new methodology, which includes among other things a new 2005 base and chain-weighted calculations, has brought some changes to the past data as well. 2009 growth, for example, was revised from 0.4% to 0.8%, It is also interesting that growth was only negative in Q1 last year; the old dataset painted a much worse picture (contraction in the three first quarters of 2009).

The breakdown of the Q1 2010 data shows a couple of interesting readings. The construction sector grew 15.9% y/y or 2.2% q/q s.a. while retail, repair, hotels and restaurants posted growth of 3.6% y/y or 3.3% q/q s.a. On the demand side, government consumption went up by 6.1% y/y or 1.3% q/q s.a., while fixed investment rose 8.0% y/y or 3.9% q/q s.a.

After putting the pieces together, we see that: i/ construction was largely boosted by public projects (+37.2% y/y) while construction of buildings remained weak (-2.3% y/y); ii/ social services expenditure continued to be boosted by government spending; and iii/ private demand remains relatively subdued, although we now see clear signs of recovery.

Looking ahead, the monthly data point to the

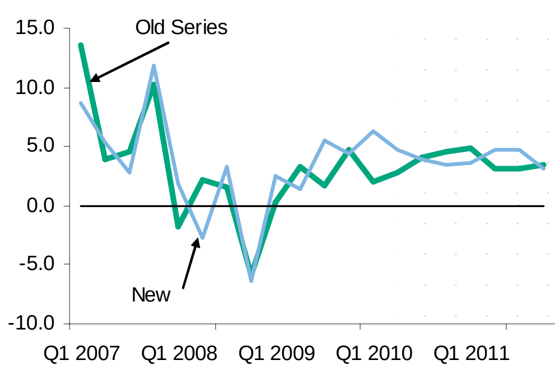
Colombia: Economic Forecasts

	2008	2009	2010(f)	2011(f)
GDP growth (Y/Y %)	2.7	0.8	4.6	4.0
Inflation (Y/Y %)	7.7	2.0	3.7	3.5
Trade balance (US$bn)	0.5	1.7	1.5	2.1
Current account (US$bn)	-6.9	-5.1	-6.6	-6.2
Current account (as a % of GDP)	-2.9	-2.2	-2.4	-2.2
Fiscal Balance (as a % of GDP)	0.9	-4.1	-5.6	-5.2
Gross Gov. Debt (% GDP) (2)	31.0	39.7	42.5	45.0
Interest Rate	9.5	3.5	3.0	5.5
USDCOP	2246	2040	1875	1875

(1) Forecast (2) End Period

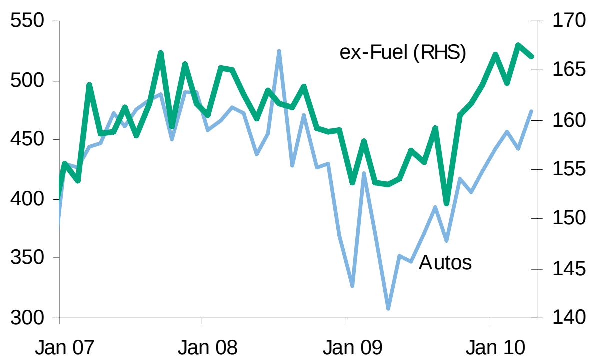
Source: BNP Paribas

Chart 1: GDP Growth Comparison (% q/q SAAR)



Source: Reuters EcoWin Pro, BNP Paribas

Chart 2: Colombia Retail Sales ex Fuel, Autos (Index s.a.)



Source: Reuters EcoWin Pro, BNP Paribas

recovery in private demand continuing in Q2. For instance, May retail sales were up by 13.1% y/y (+2.0% m/m s.a., on our calulations) with renewed momentum in durables such as household appliances, hardware and office supplies (Chart 2). Auto sales (+52.4% y/y in May, the highest reading since July 2008) are another important indication that a firmer recovery in internal demand is under way. Consumer credit has now been on an upward trend for a couple of quarters while consumer confidence has also being showing signs of sustained rebound (Chart 3).

Even the industrial sector, which has suffered from weaker exports due to a trade dispute with neighbouring Venezuela, is now showing more signs of life. Output was up 7.2% y/y on a 3-month moving-average basis, or 0.8% m/m s.a. Not only do we expect internal demand to pick up through the year, but we also note Colombia's ability to diversify its export destinations; it has significantly increased sales to the US and other Latin American economies (Chart 4) – thus opening up new markets for the manufacturing sector.

Also encouraging are the signs brought by the latest employment report for June. Employment at the national level is now growing again, up an estimated 42k s.a. in June; January and March had seen sharp losses. The labour force has shown some signs of recovery as well, indicating renewed confidence among job seekers (Chart 5).

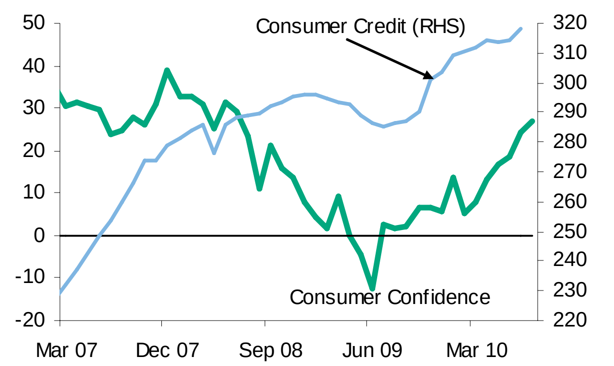
We therefore revise our GDP growth forecast for 2010 to 4.6% (our previous estimate was 3.4% on the old base) and to 4.0% for 2011 (from 3.6%). While the revisions are not directly comparable due to the change in base, we are more positive on the growth outlook for Colombia – this being the main reason why we have raised our estimates.

Additionally, we now expect growth this year to outpace that in 2011; previously, we had expected the recovery to only gather steam at the end of this year. Our forecast is in line with the CB's (also newly revised) projection for 2010 of 3.5-5.5%. We now expect a much better performance in H2 2010 (4.7% q/q SAAR) than we did before, although Q1 2010 should represent the peak in growth on a q/q basis (6.2% q/q SAAR).

We are keeping our inflation forecasts for end-2010 and end-2011 at 3.7% and 3.5%, respectively. We believe the risks are to the downside as we continue to see soft readings on non-housing items. The El Niño phenomenon was much milder than expected, keeping food inflation very well behaved.

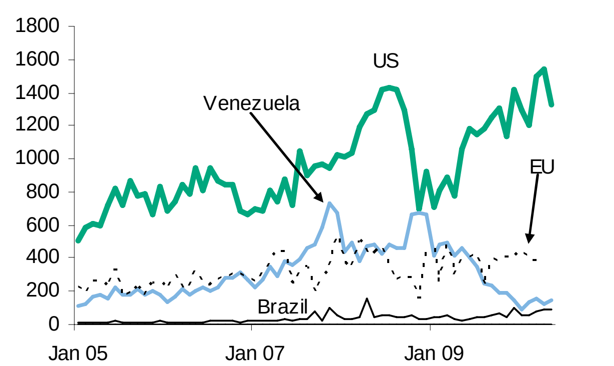
In terms of rates, we have also updated our call, expecting no rate hikes this year (previously we had expected the first hike this October). Despite our upward revisions to growth, we expect the CB to maintain a loose stance over the remainder of 2010. The monetary authority has indicated that it is comfortable leaving rates unchanged for H2 2010 as it seeks to give an extra boost to lending and ultimately consumption and investment.

Chart 3: Colombia: Real Credit (s.a, CPI deflated) vs. Consumer Confidence (s.a.)



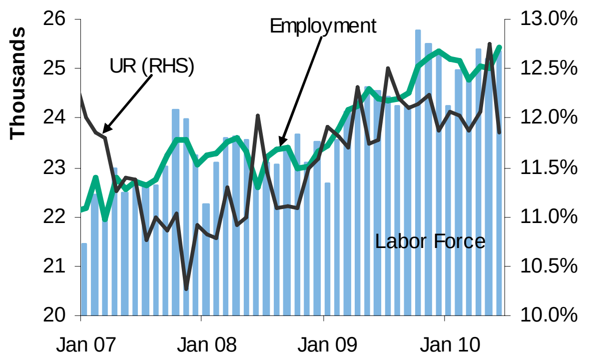
Source: Reuters EcoWin Pro, BNP Paribas

Chart 4: Colombia: Exports by Destination (USDmn)



Source: Reuters EcoWin Pro, BNP Paribas

Chart 5: Colombia Employment, Labour Force and Unemployment (s.a.)



Source: Reuters EcoWin Pro, BNP Paribas

Chile: Inflation Expectations Under Scrutiny

■ **BCCh remains embarked on a tightening cycle; central bank to hike 50bp in August.**

■ **Domestic outlook remains bright although global risks are biased to the downside.**

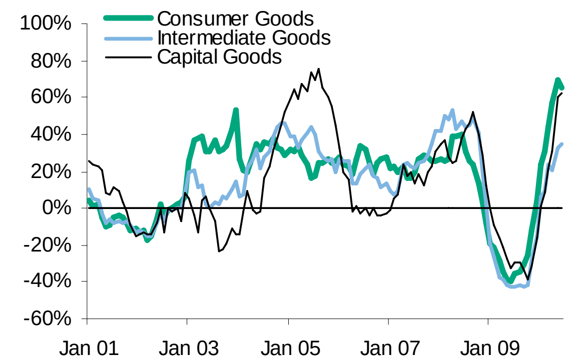
■ **Inflation expectations to be closely monitored; market expectations remain well anchored.**

The minutes of BCCh's July monetary policy meeting unveiled this week showed consensus among board members about the need to hike the policy rate by 50bp last month. As expected, the board discussed global economic and financial conditions extensively and concluded that the prospects for both the global and Chilean economies were not materially different from the scenario laid out in the June monetary policy report (which had been conservative in terms of the global outlook). We thus kept our forecast unchanged following the release of the minutes (50bp hike next week, 25bp monthly increases thereafter).

Inflation pressures have remained subdued (currently at 1.2% and 0.1% y/y in the case of headline and core prices, respectively) and risks related to the global scenario remain biased to the downside. But the pace of domestic spending has remained robust and inflation is on a clear uptrend — headline prices are expected to reach the upper zone of BCCh's 2-4% tolerance range in the near term. These two developments translate into steady tightening efforts ahead in our view.

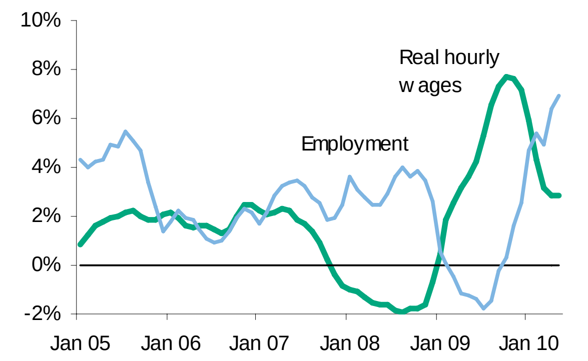
The monetary authority cautioned that robust growth trends in several components of economic activity could prove temporary. Indeed, consumer and capital goods imports have accelerated steadily and are currently running at an unsustainable pace (Chart 1). But beyond temporary reconstruction-related boosts to growth, we agree with the monetary authority on the view that the medium-term outlook remains benign. Indeed, domestic spending is benefiting from the stimulative policy mix and healthy labour-market conditions. Employment advanced a robust 8.4% y/y in June and real wage growth has moderated but still stands at a strong 2.8% y/y (3mma, Chart 2), suggesting that labour income continues to expand at a healthy clip. Moreover, credit has turned around and is also contributing to increased domestic spending (although the recovery is incipient and still modest, Chart 3).

Chart 1: Import Breakdown (3m y/y)



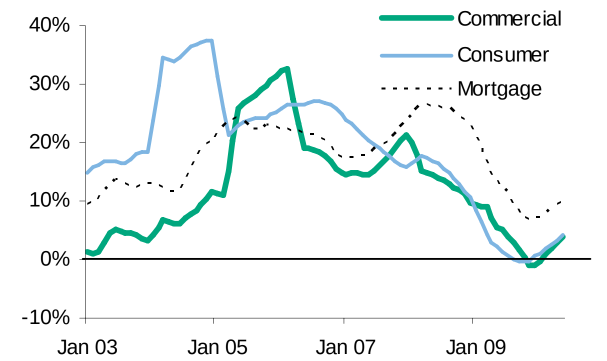
Source: Reuters EcoWin Pro, BNP Paribas

Chart 2: Employment and Real Wages (3m y/y)



Source: Reuters EcoWin Pro, BNP Paribas

Chart 3: Loan Growth (3m y/y)



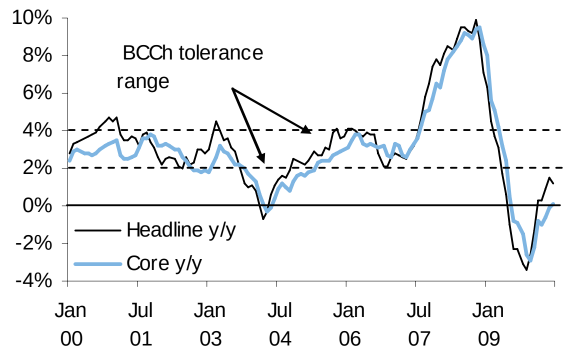
Source: Reuters EcoWin Pro, BNP Paribas

Hitherto, the inflation acceleration has been considered a temporary phenomenon as medium-term inflation expectations remain firmly anchored around the 3% official target. Interestingly, in the minutes of July's monetary policy meeting one board member expressed concerns about a potential deterioration in medium-term inflation expectations and the pass-through to actual inflation readings. In particular, one board member mentioned that several analysts participating in their monthly survey were now looking for CPI inflation to stand above the BCCh's 3% target in two years' time (the policy horizon) and for stronger real GDP growth next year. He also cautioned that what the central bank considered an optimistic scenario had now probably become the base case for several analysts.

We highlight that the median estimate for CPI inflation in two years still stands at 3% according to the latest BCCh survey. It is worth noting that the central bank's targeting regime has enjoyed strong credibility. Indeed, in the past three and a half years two-year inflation expectations (according to the BCCh's monthly survey) only differed from the 3% target in ten instances. Additionally, market inflation expectations — gauged by the B/E inflation rates implied by nominal and real swap rates — remain generally benign, at close to or even below the central bank's 3% target. The 1y/1y inflation measure currently stands exactly at 3%, while 1y/2y expectations stand at a lower 2.7%. The exception is expectations for the next 12-months, when markets look for a temporary CPI inflation acceleration to 4.2%.

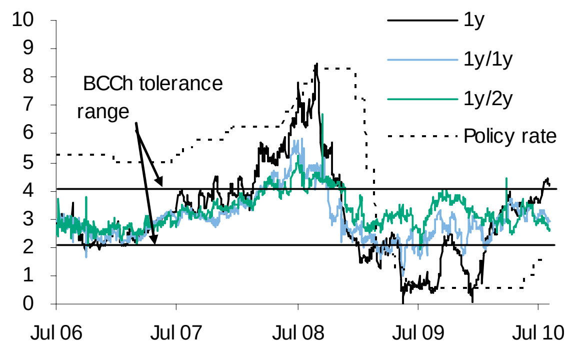
Considering the incipient concerns expressed in the minutes of the latest monetary policy meeting, any persistent additional deterioration in medium-term inflation expectations could prompt a speeding up of the tightening pace. We currently expect BCCh to hike the policy rate by 50bp next week and then to moderate the tightening pace to a monthly 25bp, but we will continue to monitor inflation expectations closely to evaluate whether that expected trajectory alters.

Chart 4: Headline and Core CPI (% y/y)



Source: Reuters EcoWin Pro, BNP Paribas

Chart 5: B/E Inflation Implied In Market Swap Rates Versus Policy Rate



Source: Reuters EcoWin Pro, Bloomberg, BNP Paribas

Asia Strategy Review

	PV01 / Notional	Entry Date	Entry level	Current	Target	Stop	P/L	P/L kUSD
Interest Rates								
Long 10Y HKD Bond Swap This trade is driven by technicals; we look for mean reversion.	12	10-May-10	39	39	90	30	**0 bp**	0.0
2-5Y MYR ND IRS Flattener We have entered a 2-5Y MYR ND IRS flattener. Positive macro trends underpin the tactical trade.	10	3-Mar-10	80	46	Open	60	**+34 bp**	340.0
2-5-10Y TWD ND IRS Butterfly Receiver We have moved to receive the belly of a 2-5-10Y TWD ND IRS butterfly on the shape of the curve.	25	11-Jan-10	46	21	10	30	**+25 bp**	625.0
1Y Forward 2-5Y TWD ND IRS Steepener The 2Y TWD ND IRS at 1.00% and the 5Y ND IRS at 1.60% are very low compared to regional comparables. Indeed, even when nominal levels of the rates ranged higher – as was the case in June 2008 when 2Y ND IRS ran around 2.80% and 5Y ND IRS was at 3.11% – the spread was still above 30bp. Policy hikes notwithstanding, our sense is that the ND IRS spread will hold above 30bp now as well.	20	24-Jun-10	37	34	55	31	**-3 bp**	-60.0
Receive 1Y1Y SGD IRS With the SGD NEER trading near the top of its currency band, this rates trade resonates well with the management mechanics of Singapore's monetary policy, especially if the city-state's monetary authority is compelled to buy USDSGD in its forward FX book to assure only a "gradual and modest" pace of SGD appreciation. For those interested in a relative value approach to the trade, receiving 1Y1Y SGD IRS versus US comparables might be of some interest.	15	1-Jul-10	1.33	1.11	0.99	1.50	**+22 bp**	330.0
Long THB 5Y Bond Swap This is a mean reversion trade. It was 20bp and dropped to par then bounced back again when fixing collapsed.	12	6-May-10	19	9	-15	19	**+10 bp**	120.0
FX								
Short USDINR	5000	8-Jul-10	46.85	46.19	45.60	46.40	**1.4%**	71.4
Buy 1M USDMYR NDF vs. Sell 1M USDKRW NDF	10000	22-Jul-10	374.43	369.07	362.00	374.43	**1.5%**	145.2
Short USDPHP	3000	27-Jul-10	46.03	44.94	44.60	45.45	**2.4%**	72.8
Sell USDSGD on rallies to 1.3680 with a stop at 1.3750								
Sell USDMYR on rallies to 3.2000 with a stop at 3.2402								
							TOTAL	1644.4
							Rates	1355.0
							FX	289.4

EMEA Strategy Review

	PV01 / Notional	Entry date	Entry level	Current	Target	Stop	P/L	P/L kUSD
Interest Rates								
Buy CZGB5 4/19 The CNB's outlook on growth and inflation remains very dovish. While we do not think that rates can be lowered further, we see downside risks to inflation	3k USD	16-Jul-10	3.90	3.55	3.50	4.10	**+35 bp**	105
Sell 10yr CZK ASW 10yr bond auction went extremely well and we still see tightening of the ASW.	2k USD	16-Jul-10	125	90	80	110	**+35 bp**	70
PLN Buy 3m2y payer @5.00 vs. sell 3m2y receiver @4.66 We don't think that the MPC should hike rates but we could see the market position for such a scenario given fiscal and inflation concerns and would hedge using swaptions	5k USD	16-Jul-10	0	4.70			**n/a**	n/a
Receive 1s5s RUB xccy Swap We see room for consolidation at the front end of the curve	3k USD	02-Jul-10	200	200	50	230	**0 bp**	0
Pay Dubai 5y CDS vs Sell Qatar 5y CDS We expect further restructuring in Dubai amid tense global capital markets whereas Qatar can rely on long-term LNG contracts to support growth.	5k USD	18-Jun-10	380	361	500	330	**-19 bp**	-95
Receive 5y5y Spread to Euro (CLOSED ON 06/08/2010)	10k USD	27-May-10	189	150	150	180	**+39 bp**	390
Buy TURKGB10.5 Inflation has undershot expectations and the currency resilience suggests that long duration is the best position in Turkey at this point.	5k USD	2-Jun-10	10.57	8.83	8.50	9.00	**+174 bp**	870
Pay 2y XCCY RON The NBR could consider hiking, which along with the pressure on the RON could bring xccy higher	3k USD	8-Jun-10	6.50	6.10	8.50	6.00	**-40 bp**	-120
Buy 6m ATMF BUBOR3M floor at 5.65% for 8.5bp The failure of negotiations with the IMF makes the positive pay-off on this strategy unlikely but we keep the option on the book.	5k USD	6-Jul-10		5.33			**n/a**	n/a
Receive 1yr ZAR 2yrs fwd (CLOSE) 03/08/2010	5k USD	6-Jul-10	7.83	7.40	7.40	7.60	**+43 bp**	215
Receive 3y TRY xccy Swap (CLOSE) 03/08/2010	5k USD	2-Jun-10	8.78	7.67	7.30	7.65	**+111 bp**	555
FX								
Sell USDUAH 6m NDF @ 7.98 With the signature of the IMF deal and a relatively strong BoP, we expect the NBU to be in a position to both accumulate some reserves and let the UAH rise. In addition, commidity prices (wheat and metals) should support Ukrainian exports	USD10m	2-Aug-10	7.98	7.90	7.6	8.1	**1.0%**	101
Sell USDKZT 9m NDF @ 147.80 We expect a one-move revaluation of the tenge as the NBK may prefer to avoide massive capital inflows.	USD10m	25-Jun-10	147.8	148.20	135	150	**-0.3%**	-27
Sell EURTRY @ 1.9580 We are fundamentally more positive on Turkey than on most EMKs even though weaker European growth will undoubtedly weigh on its exports	EUR10m	24-May-10	1.96	1.98	1.85	2.02	**-1.3%**	-178
Sell EURILS @ 5.00 The BoI surprised markets by resuming the rate hike cycle which is likely to support the shekel going	EUR10m	25-Jul-10	5.00	5.00	4.70	5.10	**-0.1%**	-8
Sell ZARINR @ 6.36 The divergence in monetary policies between the SARB and RBI should be reflected in currencies and lead to the outperformance of the Indian rupee versus the South African rand	USD10m	27-Jul-10	6.36	6.38	6.10	6.41	**-0.2%**	-24
Sell GBPHRK @ 6.36 We expect tourism inflows to boost the kuna in Q3 whereas the British pound will come under downside pressures	EUR10m	5-Aug-10	8.71	8.68	8.30	8.90	**0.3%**	30
Buy EURCZK @ 24.76 (CLOSED O 06/08/2010)	EUR10m	29-Jul-10	24.76	24.70	25.50	24.60	**-0.2%**	-24
Buy USDPLN @ 3.06 (CLOSE) 03/08/2010	EUR10m	30-Jul-10	3.01	3.06	3.15	3.03	**-1.7%**	-171
							TOTAL	1,413
							Rates	1,815
							FX	-402

Latam Strategy Review

	PV01 / Notional	Entry Date	Entry level	Current	Target	Stop	P/L	P/L kUSD
Interest Rates								
Long NTN-B 2015 We see the last COPOM decision as dovish, mainly taking into consideration the tone of the statement. Inflation expectations remains above target and economic slack at historical lows. We believe the market will start to price in more inflation as the BCB, in our view, is now ready to take more risks on the inflation front.	10k USD	27-Jul-10	6.40	6.33	5.90	6.60	**+7 bp**	66
Receive 1y CLPxCAM Swap	10k USD	30-Jul-10	3.43	3.60	3.10	3.60	**-17 bp**	-171
Receive PRExDI Jan'17	10k USD	21-Jun-10	12.14	11.90	11.80	12.20	**+27 bp**	269
Pay 1y CLPxCAM Swap	10k USD	4-Jun-10	2.31	2.75	2.75	2.50	**+38 bp**	381
Pay 1y PRExDI Swap	10k USD	16-Jul-10	11.11	11.00	11.25	11.00	**-14 bp**	-136
FX								
Long 1-month BRL Put Spread (Buy 1.800 BRL Put; Sell 1.850 BRL Put) AND Sell 1.90 BRL put The recent noise regarding BCB intervention in the derivative market increases the likelihood of a sharp BRL correction. As risk-reversals remains high and the front end of volatility curve remains low, to buy a BRL put-spread one would be benefiting from both.	USD10m	27-Jul-10	1.770	1.753	2.61%	-0.16%	**0.1%**	6
Taking Profits Short USDMXN The MXN is the weakest link in Latam with the more dynamic part of the world, i.e. Asia. Mexico's tight connection with the US and the still disappointing domestic demand figures should limit MXN positive dynamics. While the MXN is the cheapest currency in the region in terms of valuation, we will wait for more attractive levels to resume buying pesos.	USD10m	20-Jul-10	12.8	12.6	12.4	12.7	**1.9%**	186
Short USDCOP The trade conflicts with Venezuela have allowed the country to increase very significantly its share of exports to the US. Structurally speaking, this represents a very favourable shift, supporting further the outlook for FDI. The economic recovery has lagged that in other Latam countries, but it should catch up soon as the CB is holding rates at a very stimulating level.	USD10m	14-Jul-10	1871.7	1818.4	1800.0	1830.0	**3.0%**	299
Short USDPEN The PEN is moving north in light of the improving terms of trade and global liquidity conditions. The trade surplus is rising despite firmer growth figures while infrastructure needs should ensure a sound flow on the capital account.	USD10m	10-Nov-09	2.89	2.80	2.83	2.75	**3.8%**	381
Long USDBRL	USD10m	23-Jul-10	1.774	1.750	1.825	1.750	**-1.5%**	-154
Long Latam (BRL/MXN / Short CEE (PLN/HUF)	USD10m	24-Jun-10	100.0	95.0	110.0	95.0	**-5.0%**	-500
Short USDMXN	USD10m	1-Jul-10	13.0	12.9	12.9	12.3	**0.8%**	75
Long BRL / Short (EUR/GBP)	USD10m	8-Apr-10	100.0	102.0	110.0	102.0	**2.0%**	200
Short USDBRL	USD10m	7-Jun-10	1.881	1.833	1.833	1.860	**2.7%**	273
Short EURMXN	USD10m	24-May-10	16.10	15.60	15.00	15.60	**3.5%**	346
Short EURMXN	USD10m	21-Jun-10	15.40	15.70	14.90	15.70	**-1.8%**	-184
Long USDCOP	USD10m	17-Jun-10	1902.20	1880.00	1950.00	1880.00	**-1.3%**	-125
							TOTAL	1,213
							Rates	410
							FX	803

Wheat: Problem in the Baking

- **Drought in Russia's Black Sea area has raised concerns about the supply of grains (and wheat in particular) in the coming months.**
- **Ukraine and Russia have banned exports and short positions on the wheat futures market have been all but squeezed in a violent move.**
- **While the near-term volatility in food prices is going to be sizeable, the supply constraint will most likely stay.**
- **Central banks in the CIS could encourage currency appreciation in order to provide for cheaper imports. Egyptian authorities will also be acutely interested in strengthening the pound in order to limit inflation.**

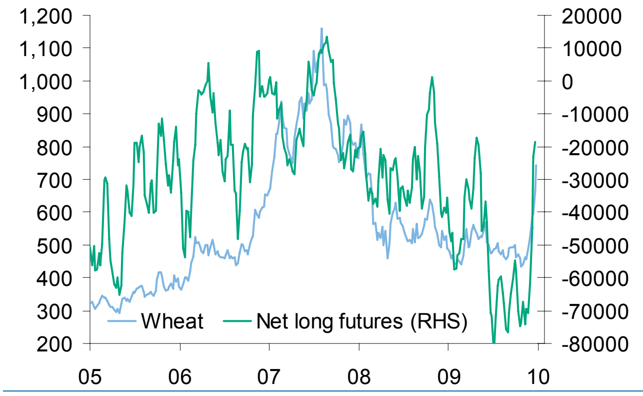
El Niño, drought and positioning

The press has been full of headlines about the recent rally in wheat prices. The main culprit seems to be severe drought in Russia, which will significantly impair crops. Our Russian economist Julia Tsepliaeva wrote about this two weeks ago ("Russia: Heat Wave to Stoke Inflation", *LMM* 23 July) and indeed we are expecting to see a substantial effect on inflation this year. Table 1 shows estimates of wheat crops for this year and next. These estimates have been recently revised lower by the International Grains Council on the back of "concerns about the outcome of this year's harvests in some key northern hemisphere exporters". It is not certain whether this is the last revision.

A year ago in June, news services were full of speculation that El Niño was behind rapid increases in wheat prices. Between mid-May and the beginning of June 2009 prices grew by almost 15%. This is nothing compared with the 50%+ jump we have witnessed since the beginning of July. Coincidentally, news reports of the impact of El Niño on prices coincided with the top in wheat prices, which subsequently fell by a third. For this reason, the popular interest in the recent surge could be risky for those willing to open fresh longs.

However, Chart 1 shows that up until the beginning of June, positioning on the CBOT was extremely negative and that the market is still net short wheat. In the run-up to the El Niño euphoria, positioning moved closer to zero and we are not there yet. Additionally, this time around we are not dealing with *expectations* but *actual* shortage. Consider this headline from last year "Wheat Futures Climb on Concern Drought May Curb Global Supply". It turns out that the market was right, but one year too early, which given the nature of agricultural commodities (i.e. storage) makes a huge difference.

Chart 1: Positioning Has Come Back From Extremely Short Levels



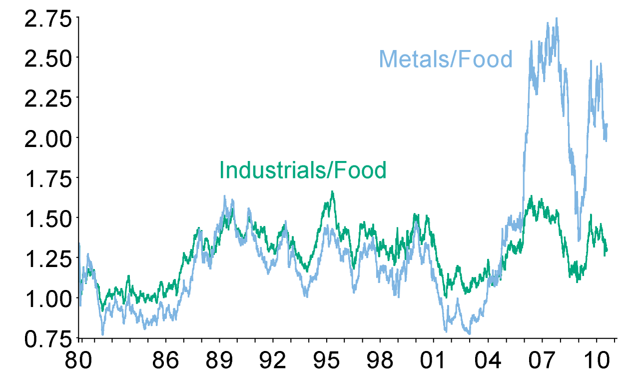
Source: Bloomberg, BNP Paribas

Table 1: Wheat Crops Forecasts (mn tonnes)

	06/07	07/08	08/09	09/10 est	10/11 forecast 24-Jun	10/11 forecast 29-Jul
Production	598	609	686	677	664	651
Trade	111	110	136	124	120	120
Consumption	610	613	639	648	658	655
Carryover stocks	124	121	168	197	201	192
year/year	-13	-3	47	29		-5

Source: International Grains Council

Chart 2: Food Prices Are Only Now Catching Up With Other CRB Components



Source: Reuters EcoWin Pro, BNP Paribas

Industrial versus agricultural inflation

The global recovery that we have witnessed for just over a year has been mainly driven by manufacturing. To this end, many investors have believed that it was a good idea to buy metals and other industrial commodities. This strategy had indeed worked very well until Q1, after which credit problems in the eurozone and deceleration in the US housing market raised concerns about the durability of the recovery. Meanwhile, Chart 2 shows that soft commodities had become very cheap versus metals and industrials. Therefore, it is quite likely that soft commodities will attract some (perhaps belated) inflows. A quick glance at the TOP AGR page on Bloomberg a few days ago showed that eight out of twelve headlines had something to do with some agricultural prices surging – be it wheat, corn, palm oil, bacon or cotton. Note that news-flow about floods in China, dry weather in the US and La Niña could boost the bullish sentiment further.

Is everything already reflected in prices?

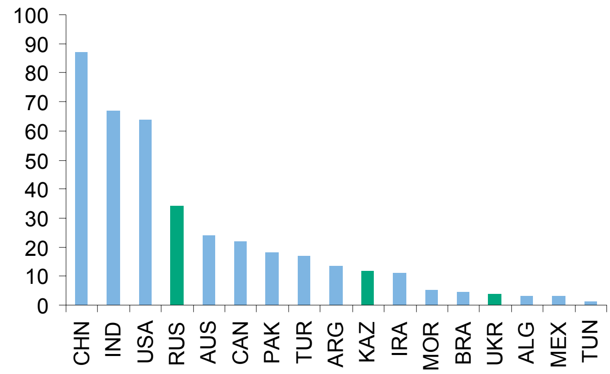
Perhaps. After all, popular interest in rallies is usually very closely correlated with market tops. However, what we are facing is a real shortage of some foodstuffs globally and we have already seen the first political decisions to protect against that. For example, Ukraine has decided to ban wheat exports and Russia might do the same soon. Note that Egypt – one of the biggest wheat importers in the world – buys the bulk of its grain from Russia.

It seems clear that food prices will surge across the CIS. Importantly, many countries may be forced to buy more from their neighbours, which could result in two separate themes:

- Countries that have generally had positive external balances and have been keeping their exchange rates artificially weak could be inclined to let their currencies appreciate. This would favour RUB, UAH or EGP.
- Countries with a significant weight of food in inflation baskets (i.e. emerging markets) will see substantial acceleration in CPIs. In some countries, e.g. Poland, central banks have been very responsive to increases in food prices in the past, as they affect expectations significantly.

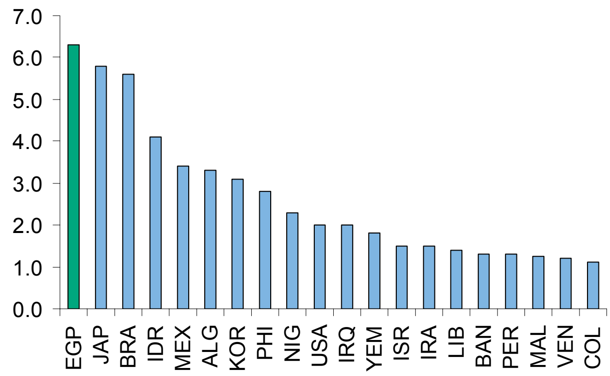
Overall, while wheat prices could be prone to speculation in the near term, supply conditions have changed enough to expect a long-lasting effect on FX and rates.

Chart 3: Wheat production (mn tonnes)



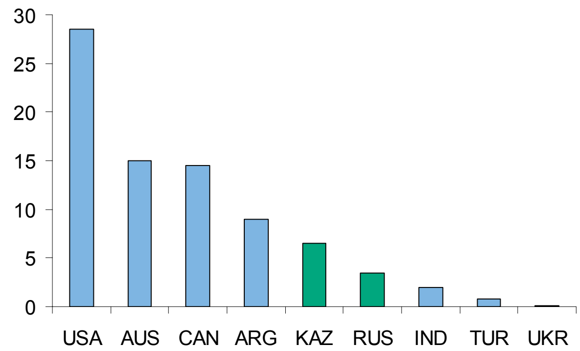
Source: USDA

Table 4: Wheat imports (mn tonnes)



Source: USDA

Chart 5: Wheat exports (mn tonnes)



Source: USDA

Implications of IDR Re-Denomination

- **Bank Indonesia is considering a re-denomination of the IDR, potentially eliminating two or three zeros from the currency's nominal value. It will consult parliament before deciding.**
- **If the re-denomination is executed properly, only muted inflationary pressures are expected, which should not unseat the IDR from its current trusted position.**

Bank Indonesia (BI) is considering a re-denomination, of the IDR, potentially eliminating two or three zeros from the currency's nominal value. The plan needs to pass through parliament and will probably be published by year-end. The incoming BI Governor said that the re-denomination process would start in 2013 and conclude by 2020.

The case for re-denomination is not being driven by domestic inflationary pressures, as was true for re-denominations in Zimbabwe, Turkey and, in 1923, Germany, which was the first country to go through re-denomination when 12 zeros were cut from the currency during the country's hyperinflationary period. Rather, Indonesia's re-denomination is aimed at reducing transaction inefficiencies associated with too many zeros in the currency.

The current rupiah denominations consist of coins from 25 rupiah up to 1,000 rupiah (1 rupiah coins are legal tender but are effectively worthless and not circulated) and from banknotes of 1,000 rupiah up to 100,000 rupiah. With the exchange rate at USD/IDR 9000, the largest Indonesian banknote is therefore worth only around USD 11. Due to the low value and general shortage of small denomination coins (below 100 rupiah), it is common to have amounts rounded up (or down) or to receive sweets in lieu of the last few rupiah of change in supermarkets and stores. The sub-unit, the *sen*, still exists despite its negligible value. While most price tags for goods and services neglect the sen, it is still found in financial reports and bank statements.

Re-denomination thus has several aims: to reduce the overall cost and risk of carrying large volumes of notes, to make payment systems more efficient, to simplify accounting records, and to reduce the cost of banknote production. Easier business transactions could enhance trade and increase the use of the IDR versus the USD.

Erasing zeros off banknotes for the IDR could also have a positive psychological effect. Most developed countries have smaller denominations against the USD (except the KRW), so re-denomination will increase the credibility of, and confidence in, the IDR. However, no near-term effect is expected as implementation will not be immediate: the BI has indicated that it would take five to ten years to execute, if passed by parliament.

Table 1: Inflation Before, During and After Re-Denomination In Eastern And Central Europe

Country	Inflation During Previous Year	Inflation During Re-Denomination Year	Inflation During Next Year
Poland	3.2%	27.8%	19.9%
Ukraine	376.7%	80.3%	15.9%
Russia	14.6%	27.6%	85.7%
Bulgaria	22.3%	2.6%	10.3%
Turkey	12.0%	8.0%	4.0%
Romania	9.3%	7.0%	5.0%

Source: BNP Paribas, BNR, National Banks

The BI has said that there would be no inflationary impact apart from some rounding-up effects. We concur. Indeed, some previous cases in Eastern and Central Europe saw inflationary pressures ease after re-denomination (Table 1).

However, investors might be cautious about re-denomination given previous failed attempts – for example, in 1959 when a zero was eliminated from 500 rupiah and 1,000 rupiah banknotes. At the same time, 90% of current account and time deposits worth more than 25,000 rupiah were replaced by long-term savings by the government. Furthermore, the re-denomination coincided with a quantitative credit restriction policy and the rupiah was devalued from USD 11.40 to USD 45, with the multiple exchange rate system changed to a fixed rate system. The measures reduced banks' liquidity, making them unable to lend to companies to fund production, causing inflation to rise from 22% in 1959 to 38% in 1960. Notably, there was a lack of co-ordination between the government and BI. As a result, the then BI governor, Loekman, resigned.

The failure in 1959 offers valuable lessons. Also, today's economic context differs drastically from 1959 where inflation was a serious issue. At 6.2% y/y, CPI is within the BI's comfort zone.

As long enough time is given to phase out the old notes and the plan is well communicated to the public to mitigate any psychological fears of a one-off devaluation, this re-denomination should not unseat the IDR from its current trusted position gained from sound economic policies, progress in reducing the fiscal deficit and a balanced growing economy.

Ramadan and EM inflation

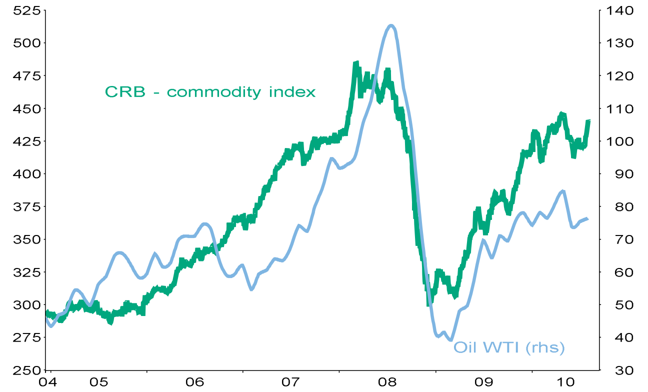
- **Ramadan starts on 12 August. Rather counter-intuitively, food prices tend to rise during this period.**
- **An already tense situation in agricultural prices is likely to rapidly pass through to unprocessed food prices.**
- **This should increase headline inflation pressures in most Muslim countries and could feed through to the average inflation rate in EM.**
- **There are a few places where we would monitor those developments particularly closely: Egypt, Turkey, Indonesia and Pakistan.**

There are about 1.5bn Muslims in the world with a large proportion of them starting a month of fasting and celebration on 11 August. Rather counter intuitively, because it is a celebration period Muslims actually have higher calorie intakes despite fewer meals a day during the holy month of Ramadan. This leads frequently to shortages of food items as consumption increases and consumers tend to hoard stock ahead of a relatively quiet business period. There is thus a significant seasonal impact on inflation which can be more or less acute and more or less long-lasting based on underlying commodity prices and aggregate demand conditions.

Arguably, aggregate demand conditions are not likely to create vicious inflationary dynamics although, in most emerging economies, output gaps have closed and demand conditions remain robust. In addition, recent surges in commodity prices have created additional pressure on producers and Ramadan offers an opportunity to pass on those increased costs to consumers. This could be a moment when headline inflation starts to creep higher more visibly, driven in particular by processed and unprocessed food items. The lags vary but for a country such as Egypt, where producers tend to pass on their costs quickly, we still observe a six-month lag between the peak in commodity prices and inflation – suggesting that, if the immediate pass-through is quick, strong inertia may be generated when food prices start to rise. Such inertia could prove difficult to counteract.

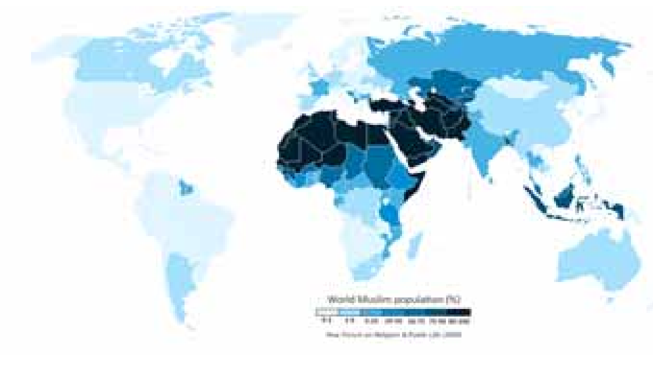
By historical standards, food inflation in most large Muslim countries has been relatively contained as demand conditions have been weak; however, this also means that upside risks are relatively high. The degree to which those Muslim countries might trigger a more global phenomenon of surging food prices is unclear but could well be material – especially if policymakers are behind the curve.

Chart 1: Soft Commodity Prices on a Sharp Rebound



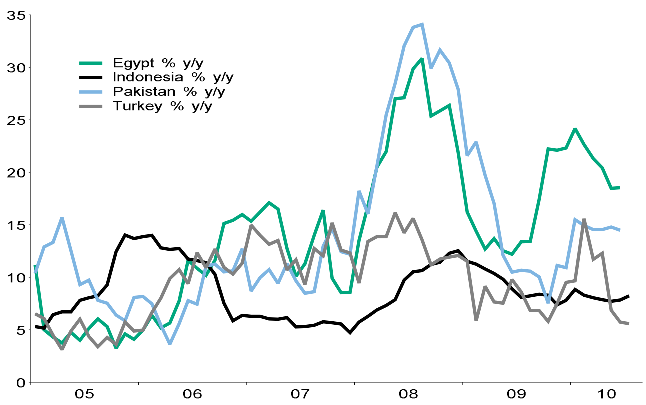
Source: Reuters Ecowin Pro, BNP Paribas

Chart 2: Density of Muslim Population



Source: BNP Paribas, Pew Forum on Religion and Public Life (2009)

Chart 3: Food Inflation in Pakistan, Turkey, Indonesia and Egypt

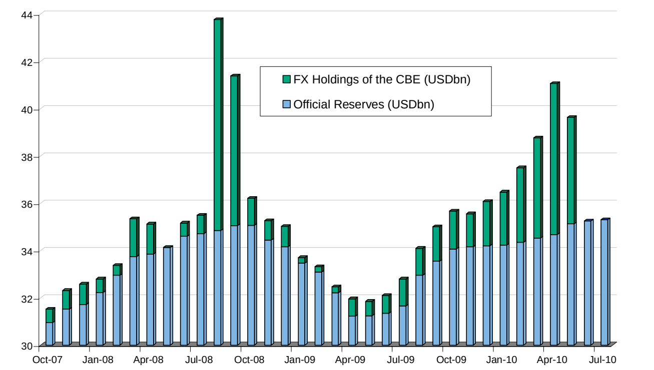


Source: Reuters Ecowin Pro, BNP Paribas

Egypt: Wheat Versus the CBE

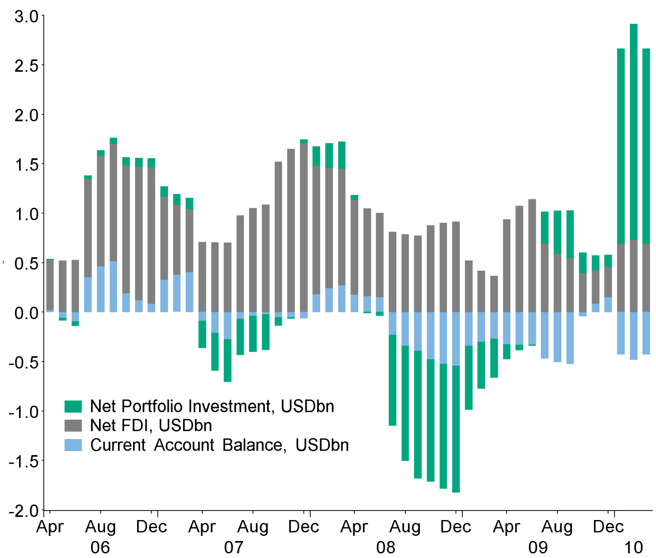
- **With soft commodities rising fast and the month of Ramadan beginning, the CBE will have to respond to inflationary pressures.**
- **"Hidden reserves" show that despite relatively strong BoP inflows, the CBE was accumulating reserves with the intention of weakening the EGP.**
- **This policy is likely to come to an end shortly, given upside risks to inflation and the need to contain a rise in imported food prices.**
- **STRATEGY: Go long EGP vs EURUSD basket by purchasing 3m Tbills. At maturity consider rolling Tbills vs 12m NDF.**

Chart 1: CBE Was Rebuilding "Hidden Reserves" in 2010



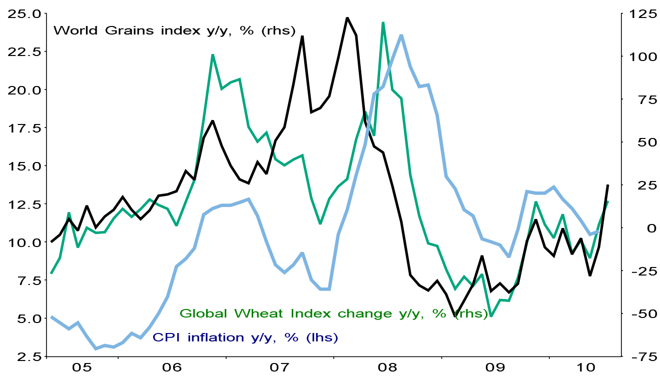
Source: CBE, BNP Paribas

Chart 2: Balance Of Payment Remains Strong



Source: Reuters Ecowin Pro

Chart 3: Grains Lead CPI by 6m



Source: Reuters EcoWin Pro, BNP Paribas

CBE builds up reserves

The balance of payment has remained strong in the last few months. The current account, which had moved into a small surplus at the end of 2009 returned to a moderate deficit. This was matched by large FDI and portfolio flows. As a result, the CBE was in a position to rebuild reserves, which it did starting April 2009, and then rebuild its infamous "hidden reserves", which help to provide an additional buffer in case of capital outflow without showing excessive volatility in the headline Official Reserves Number. The pattern of accumulation suggests that the CBE was actually deliberately weakening the EGP beyond what market forces and the BoP would have suggested. Inflation was on the decline and weak external demand meant that tourism and exporting industries, which are the biggest source of employment, were going through a soft patch, driving the CBE to keep the EGP relatively weak. Moderate inflation risks and the activity data justified the CBE's approach.

Wheat prices and other subsidies

However, with agricultural commodities on the rise and the start of Ramadan (see our piece on the issue), the CBE is unlikely to be in a position to maintain this policy. Food prices are particularly volatile and Egypt is also one of the largest wheat importers (incidentally, from Russia). Indeed, high bread consumption and a generous subsidy policy is leading to overproduction of bread (which has ended up feeding donkeys on the streets of Cairo). Therefore, wheat shortages could lead to disruption in one of the most important items in the consumption basket of the poor. Those subsidies are not only at the heart of important distortions (excessive bread and energy consumption); they are also crippling the fiscal accounts. The government had pledged to start removing them but is only doing so at a very slow pace. The government is concerned about inflationary and social consequences of hasty changes. Recent attempts to remove subsidies had significant political ramifications. In a relatively tense political context and the upcoming presidential elections in 2011, the government will certainly contain food prices and any associated social discontent.

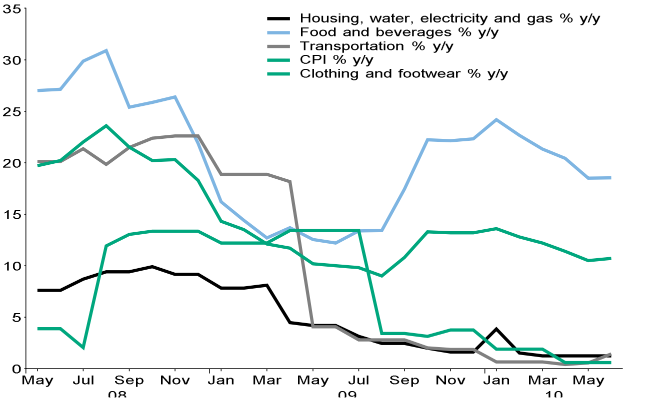
Political risks despite good BoP data

Political tension remains high and the memories of food riots back in 2008 remain very vivid. Recurrent rumours of President Hosni Mubarak's deteriorating health have taken hold in recent weeks and are contributing to political uncertainty. A string of public appearances by Mubarak have attempted to stifle the rumours and officials have vehemently denied his ill-health. However, any upset in the context of uncertain political transition could open the door to street protests, especially given calls for democratic reform by figures such as Mohamed El Baradei, the former of Head of IAEA, who might also run for the presidency. The most interesting point about El Baradei's demands for change is that the country's largest (banned) opposition party, the Muslim Brotherhood, uncharacteristically threw its weight behind a petition for reform, creating a loose coalition of coinciding interests.

But given their divergent views on virtually all other agenda items, it is unlikely that El Baradei's National Association for Change and the Muslim Brotherhood would present a united front capable of convincingly marginalising the current regime. It seems for now that the only realistic candidate for succession is President Mubarak's son, Gamal, the head of the National Democratic Party (NDP). His popularity among the people is low and he could gain acceptance in a context of shared economic welfare, which would be severely challenged by rising food prices.

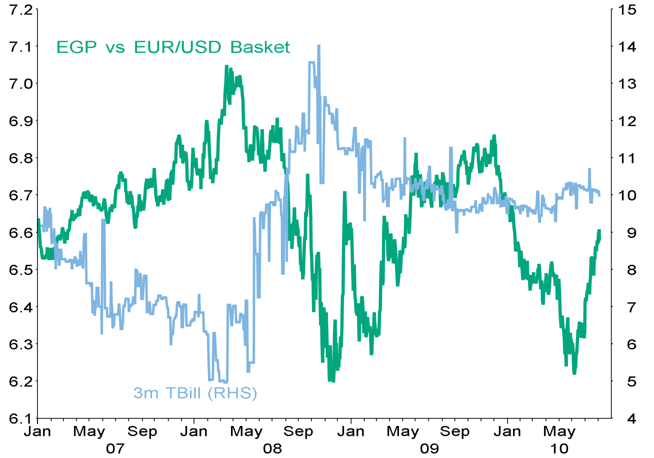
Strategy: Although, from a BoP and monetary policy standpoint, there are limited doubts that the outlook for the EGP is very bright, the political outlook and the surrounding uncertainty could pose a threat. As a result, we would only recommend getting long EGP versus a basket of EUR and USD through the purchase of 3m T-bills. We would then keep short dated Tbills positions against NDF to be rolled on short dates in order to reduce interest rate risk given the CBE is likely to hike interest rates. The political outlook creates potential digital events adverse to the currency.

Chart 4: Contribution of Food Price Inflation to Headline CPI is Significant



Source: CBE, BNP Paribas

Chart 5: EGP/Basket Versus 3m Tbills

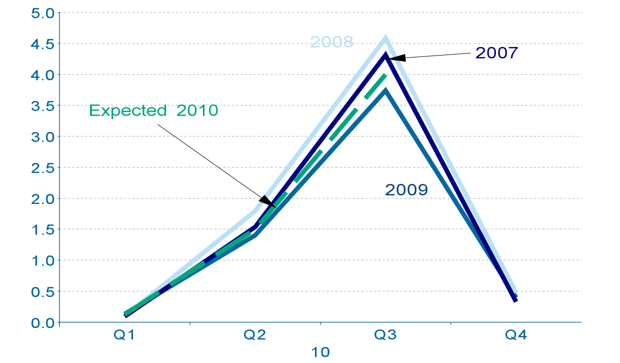


Source: Reuters Ecowin Pro

Croatia: Trading Inflows From UK Tourists

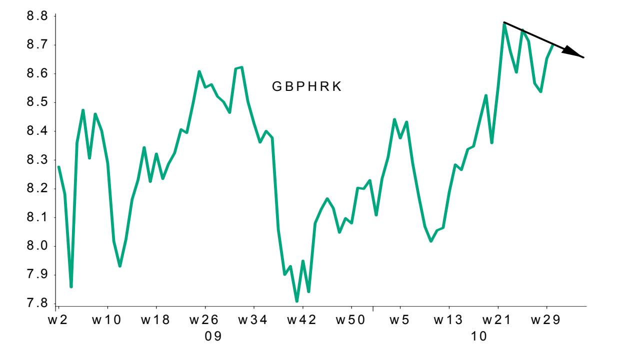
- **The tourism season has always been welcomed by Croatian markets, bringing a significant inflow in foreign currencies.**
- **This year should be no different and we expect tourism-related inflows to trigger a move lower in EUR/HRK**
- **STRATEGY: Given the potential for the CNB to intervene in EUR/HRK and our expectations of a weaker GBP, we favour long kuna positions against the pound. SELL GBP/HRK @ 8.71, S/L 8.90, target 8.35.**

Chart 1: Peak of Services Inflows in Q3 (EUR bn)



Source: BNP Paribas

Chart 2: GBP/HRK Toppish



Source: Reuters EcoWin Pro, BNP Paribas

All about tourism

The financial crisis, particularly in 2009, severely affected Croatia's economy, both via the exports channel and services revenues. This year will see fairly limited growth but we are entering the height of the tourism season (which accounts for circa 20% of GDP). Tourism will bring substantial inflows, especially since mainland Europe has recovered somewhat and the influx of tourists from emerging markets (Russia in particular) has remained strong. Hence we expect the HRK to undergo a period of seasonal strength concomitant with the surge in services revenues (Chart 1). The country has quite high expectations for the industry this year since July saw a 450,000 increase in foreign visitors compared with the same period last year. Prime Minister Kosor recently noted that the tourism industry should perform well during this summer season, based on these early indications from July.

Recovery of FDI inflows will help too

Expectations are high for a pick-up in foreign investment from H2 this year, particularly since news in March that China and Croatia have signed bilateral agreements to create the conditions for co-operation. There have been talks recently between representatives of the Beijing government and Croatia on the possibility of major investments in a series of big projects across shipping, airports, tourism and the timber industry, amounting to EUR 10bn. Moreover the EBRD is currently strengthening its involvement in the country and recently finalised the disbursement of a further EUR 8mn in new financing to the port authorities to support the development of the regional transport infrastructure and the tourism network. As far as M&A deals are concerned, Turkish airlines is reportedly interested in buying Croatia's flag carrier, Croatia Airlines, while the Russian Lukoil has won approval from Croatia's anti-monopoly agency to buy fuel retailer Crobenz from national oil and gas group INA. Another Russian interest is the Croatian company Fantazija Projekt, which could see a EUR 200mn invested in its tourism project near Zagreb. All of this will support the HRK in the near term.

Buy the kuna, sell the pound

The pound has been performing particularly well against most currencies, making the cost of a holiday in Croatia cheaper than it has been for some time. According to the International Currency Exchange, Croatia will be a key destination for British travellers this year, with the kuna being the company's third most popular currency in July. GBP/HRK has reached a two-year high at around 8.90, bouncing off this level, and we could see a repeat of H2 2009 when the pair plunged on seasonally-related inflows. Finally, selling GBP/HRK is one of the fashionable trades to offer on the back of rapidly rising food prices. The UK is a net importer of food products, whereas Croatia is a wheat exporter and very much self-sufficient thanks to its historically strong agricultural sector.

Brazil: More Intervention for BRL

- **We see the BRL being subject to more intervention by officials.**
- **While the Ministry of Finance took a number of administrative measures to weaken BRL…**
- **...the BCB has recently been promoting a more aggressive FX intervention policy.**
- **The BCB purchased much more than the actual spot flow this year and is threatening players with the possibility of buying USD in the derivatives market.**
- **To be outright long USD/BRL is expensive for investors. Trading using options is the best alternative.**
- **STRATEGY: Long BRL 1-month put spread (1.800/1.850) and sell 1.900 BRL put.**

When the Minister of Finance, Guido Mantega, took office in the cabinet in March 2006, the market experienced a short-term bearish move in response to his perceived less-orthodox bent, particularly with regard to the exchange rate. However, it wasn't until 2008 that a number of measures were introduced to weaken the BRL under the classic reasoning of supporting exports.

Administrative measures

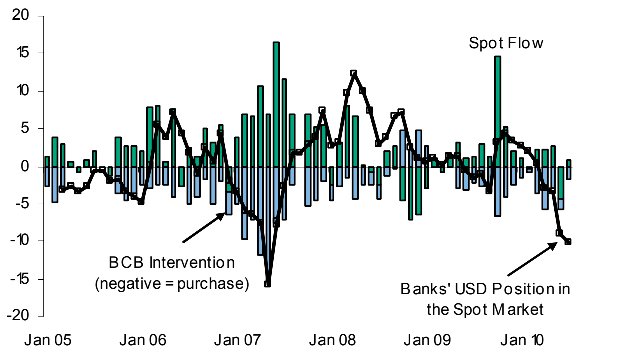
The chronology of the administrative interventions is as follows (see also Chart 1):

- In March 2008, Mantega announced that foreign investments in local bonds, including sovereign bonds, would be subject to a 1.5% flat financial tax (called the IOF). The market impact was that the BRL moved down by more than 5% against the USD, from 1.66 to 1.75.
- In October 2008, with the financial crisis already under way, Mantega announced that the 1.5% flat financial tax would also be levied on foreign investments in equities. The market impact was to worsen the already extremely fragile position of the BRL, which reached 2.62 intraday in December 2008.
- In October 2009, Mantega re-introduced the IOF for foreign investments (it had briefly been removed during the height of the financial crisis), with a higher bracket of 2.0%. Only FDI flows remained exempt. The market impact was to push the BRL down by almost 4% against the USD, from 1.70 to 1.76.
- In March 2010, the National Monetary Council (CMN) announced updates on operational rules in the FX markets. The most important change allowed the National Treasury to buy USD for future settlement 750 days in advance (previously 360 days), which opened a window for purchasing USD 5bn. The market impact was to push the BRL down by almost 3% against the USD, from 1.78 to 1.83.

Chart 1: Dates of Key Actions to Weaken BRL*

*Source: BNP Paribas, Reuters EcoWin Pro *dates refer to actions taken by officials to weaken BRL – see text for details.*

Chart 2: Spot Flow (USD bn)



Source: BCB, BNP Paribas

BCB's actions in the FX market

Beyond administrative measures, the BCB assumed a more aggressive approach in the FX market in 2010. In our view, we suspect it was also targeting a weaker BRL (also shown in Chart 1).

On 29 April 2010, the USD/BRL reached 1.73 and on the same day the BCB purchased USD 1.5bn in the spot market. Over the next two days, the BCB bought another USD 1.7bn, therefore purchasing a total of USD 3.1bn in just three days. Together with a sharp fall in equities markets globally, the BRL moved down by almost 10% against USD, from 1.73 to 1.89.

On 23 July 2010, toward the end of the trading session, the BCB called dealers asking for demand to reactivate the reverse currency swaps (the BCB would assume a long USD exposure in the derivatives market). The market reaction was to push BRL down against the USD by 1% from 1.75 to 1.77. Although the move was small compared with responses to previous actions by officials, the BRL underperformance among its peers was very clear amid a scenario of ample global liquidity.

Finally, note that since December 2009, the BCB has purchased more than the actual spot flow. In April 2010, banks' position in the spot market became short dollars by USD 3.0bn. By the end of July 2010, banks' short USD position reached a sizeable USD 10bn (Chart 2). Such an approach by the monetary authority is rare, but, when analysed in light of all the measures taken since 2008, it reinforces our view that the BCB's interventions – at least over the past months – were designed more to prevent further BRL appreciation than to simply accumulate reserves alone.

Why did the USD/BRL 1.75 level become relevant?

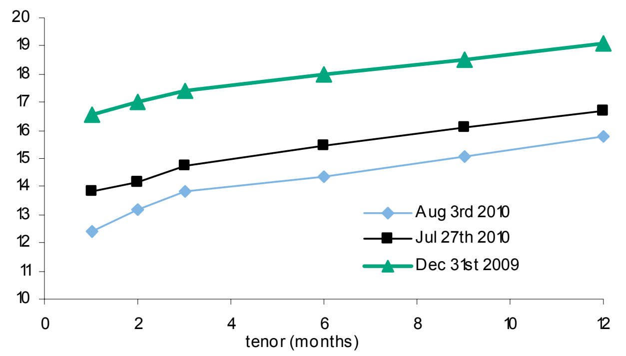
Most of the measures described above were taken when the USD/BRL reached close to 1.75, which explains why the market is reluctant to trade below this resistance level.

From a macro point-of-view, as long as Brazilian growth remains solid and real rates abnormally high by international standards, the BRL will stay well bid. A level of 1.70 is feasible, though the noise coming from officials is a serious threat for BRL dynamics in the short-term. Thus, we recommend that investors trade the bearish view for the BRL via options.

Strategy

Being outright long USD/BRL could hurt investors as the overall outlook for the BRL and risk assets is sound. Using options therefore looks like the best alternative. On 27 July, we opened a one-month (30 August 2010 maturity) BRL put spread (1.800/1.850) and sold a 1.90 BRL put to take advantage of the low volatility (Chart 3) in the short-end of the curve, and the relatively high risk reversals. The cost was 0.16% of the notional amount, with a reference BRL spot at 1.77. It is interesting to note that since then, risk reversals have declined so much (Chart 4) that even with USD/BRL now close to 1.75, the unwinding of this position would produce a small 0.1% profit.

Chart 3: Implied USD/BRL Volatility Curve (%)



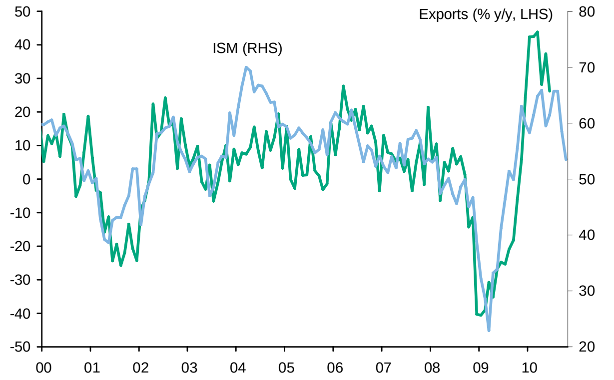
Source: BNP Paribas

Chart 4: USD/BRL 1-Month Risk Reversal (%)

Source: BNP Paribas

Key Data Preview: Asia

Chart 1: Philippines: Exports



Source: BNP Paribas, CEIC

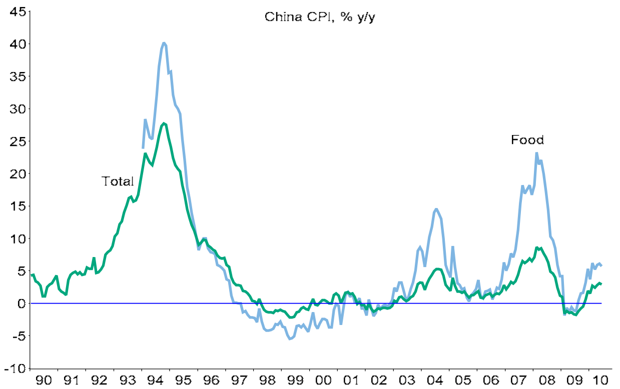
BNP Paribas Forecast: Slowing

Philippines: Exports (June)
Release Date: Tuesday, 10 August

- Philippine export growth rose 37.3% y/y in May, compared with 28.2% y/y in April, but the 3mma still shows the deceleration of exports after the peak in March. Exports of key electronic products, which account for more than half of total exports, picked up pace. As a result, export growth rose from 30.2% y/y to 41.0% y/y.
- We expect growth to moderate further, as seen from the slowing in ISM new orders, which fell to 53.5 from a reading of 58.5 earlier, but we do not expect a hard landing for Philippine exports as restocking of electronic inventory in the US is still under way.

	June (f)	May	April	March
Exports (% y/y)	**26.2**	**37.3**	28.2	43.8

Chart 2: China: CPI Inflation



Source: BNP Paribas, Reuters EcoWin Pro

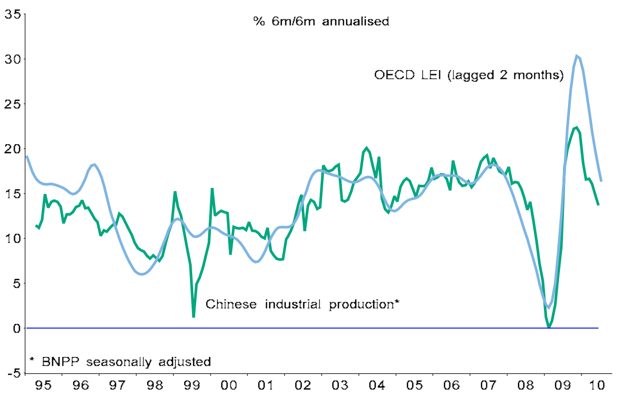
BNP Paribas Forecast: Ticking Higher

China: CPI (July)
Release Date: Wednesday 11 August

- China's headline CPI inflation slowed to 2.9% y/y in June, from May's 3.1% y/y.
- Most of the softness reflects food price inflation, which slowed to 5.7% from 6.1%. Excluding food components, inflation was flat at 1.6% y/y as inflation in housing, the dominant component of non-food inflation, was unchanged at 5.0% y/y.
- However, the recent storm and floods in Southern China are expected to have triggered a rally in food prices, which account for close to one-third of the CPI.
- Consequently, headline CPI inflation is expected to have bounded back to 3.6% in July.

	July (f)	June	May	April
CPI (% y/y)	**3.6**	2.9	3.1	2.8

Chart 3: China: Industrial Production



Source: BNP Paribas, Reuters EcoWin Pro

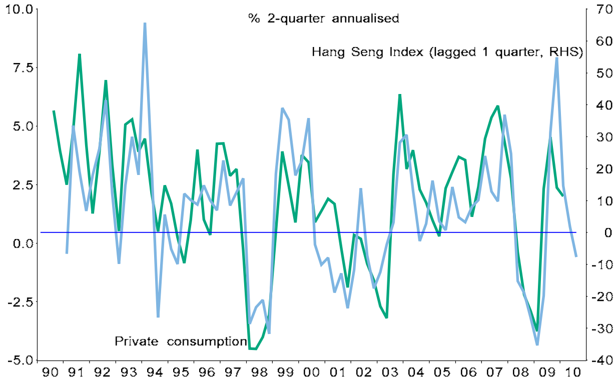
BNP Paribas Forecast: Slower Annual Growth

China: Industrial Production (July)
Release Date: Wednesday 11 August

- Chinese industrial production growth softened to 13.7% y/y in June. It was the fourth month in a row in which production growth has slowed on a y/y basis. Power generation echoed the deceleration of industrial production growth, softening to 11.4% y/y from May's 18.9%.
- Industrial production growth is expected to have slowed further to 12.0% in July.
- The recent deceleration in industrial production growth is consistent with the weakness seen in the PMI manufacturing surveys. However, it also partly reflects the authorities' efforts to close down energy-inefficient industrial enterprises in order to achieve their energy conservation target by year-end.

	July (f)	June	May	April
Industrial Production (% y/y)	**12.0**	13.7	16.5	17.8

Chart 4: Hong Kong: Private Consumption



Source: BNP Paribas, Reuters EcoWin Pro

BNP Paribas Forecast: Slower Growth

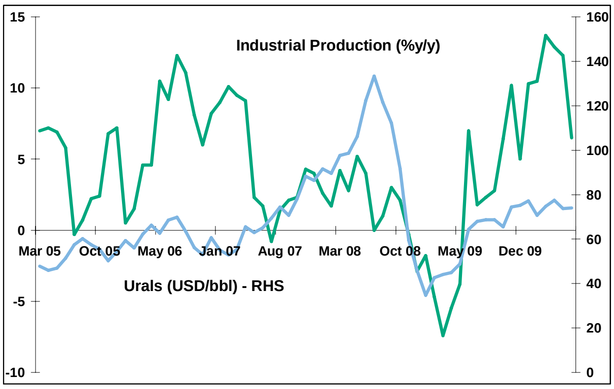
Hong Kong: GDP (Q2)
Release Date: Friday 13 August

- In Q2, real retail sales fell by 2.6% q/q or 10.1% q/q annualised. The weakness seen in the retail sector is largely the result of the fall in equity prices. Private consumption is therefore expected to have remained sluggish after Q1's 0.1% q/q gain.
- Meanwhile, with the ratio of inventory change to GDP at its highest since the early 1990s in Q1, inventory accumulation is also expected to have slowed in Q2.
- GDP is forecast to have risen by a slower 1.2% q/q after Q1's 2.4% gain. However, monthly trade volume data suggest there was strong support from exports while imports slid, pointing to some upside risks to our forecast.

	Q2 (f)	Q1	Q4	Q3
GDP (% y/y)	**6.3**	8.2	2.5	-2.4
GDP (% q/q)	**1.2**	2.4	2.4	0.3

Key Data Preview: Russia, CIS and CEE

Chart 1: Kazakhstan: IP (% y/y)



Source: ASRK, Reuters, BNP Paribas

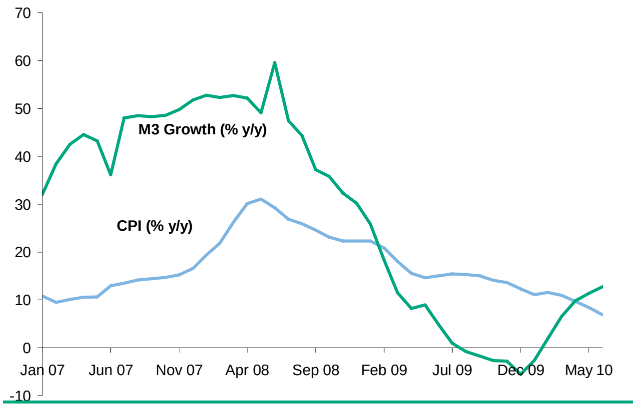
BNP Paribas Forecast: Decelerating

Kazakhstan: IP (July)
Release Date: Monday 9 & Tuesday 10 August

- Base effects have become less supportive for industrial recovery. In June, industrial growth slowed to 6.5% y/y and we expect a similar result for July.
- We maintain our forecast of 6.9% y/y for 2010 as a whole
- We expect oil prices to exceed USD 80/bbl in H2 2010, which will support industry in the coming months

	July (f)	June	May	April
IP (% y/y)	6.5	6.5	6.5	12.3

Chart 2: Ukraine: CPI (% y/y)



Source: SSCU, BNP Paribas

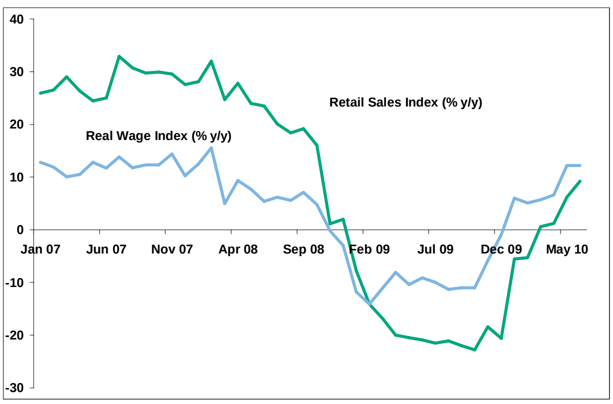
BNP Paribas Forecast: Disinflation

Ukraine: CPI (July)
Release Date: Friday 6 & Monday 9 August

- We expect disinflation to continue in July. The drastic CPI slowdown indicates that hryvnya devaluation has been fully priced in while the effects of the rebound in consumer demand are yet to kick in.
- We expect acceleration in inflation on the back of the 50% hike in gas tariffs on 1 August.
- The NBU is more than likely to consider stimulation of credit expansion as its main priority in 2010-11, strengthening incentives for further easing.

	July (f)	June	May	April
CPI (% y/y)	6.5	6.9	8.5	9.7

Chart 3: Ukraine: Retail Sales (% y/y)



Source: SSCU, BNP Paribas

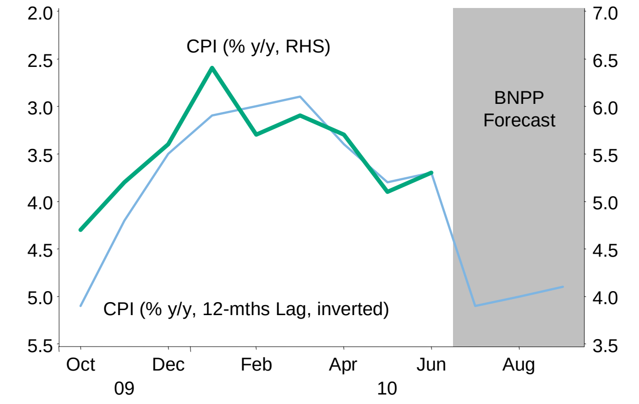
BNP Paribas Forecast: Rising

Ukraine: Retail Sales (July)
Release Date: Tuesday 10 & Tuesday 17 August

- Retail sales growth returned to positive territory in Q2 2010, indicating a steady recovery in consumption. We expect retail sales growth to remain high in July.
- The rebound in retail sales is mainly being driven by improvements in wage and income growth. Real wages expanded 7.2% y/y in H1 2010.
- Credit expansion should also stoke consumption, but only from 2011.

	July (f)	June	May	April
Retail sales (% y/y)	8.5	9.2	6.2	1.2

Chart 4: Hungary: CPI (% y/y)



Source: Reuters EcoWin Pro, BNP Paribas

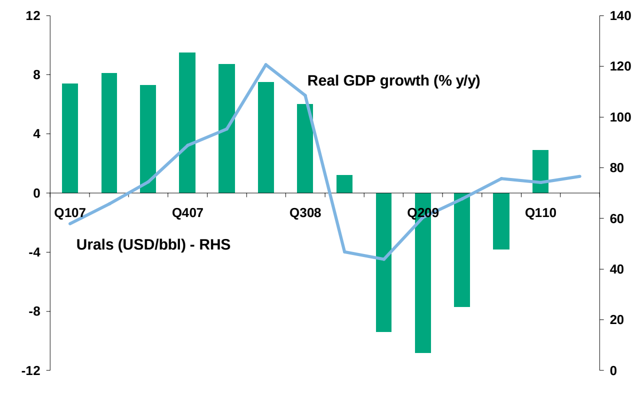
BNP Paribas Forecast: Sharply Lower

Hungary: CPI (July)
Release Date: Wednesday 11 August

- We expect CPI inflation to have plunged in July to 3.6% y/y, reflecting the fading impact of last year's VAT hike on inflation.
- While underlying inflationary pressure remains non-existent, and this will not change in our view until late 2011 at least, supply side factors are a potential upside risk to CPI.
- The recent increases in food prices on global markets, coupled with a softer harvest outlook for Central and Eastern Europe, point to somewhat higher headline inflation readings.

	July (f)	Jun	May	Apr
CPI (% y/y)	**3.6**	5.3	5.1	5.7

Chart 5: Russia: GDP (% y/y)



Source: FSSS, Bloomberg, BNP Paribas

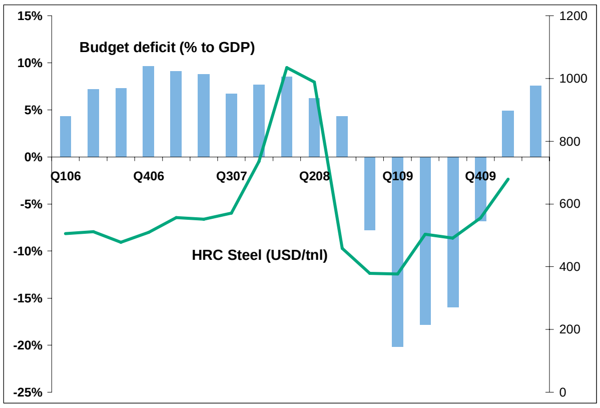
BNP Paribas Forecast: Accelerating

Russia: GDP (Q2)
Release Date: Wednesday 11 & Thursday 12 August

- We expect significant acceleration of economic growth to 5% y/y in Q2 2010 and maintain our forecasts for growth of 4.7% and 4.2% in 2010 and 2011 respectively.
- Recovery in consumption has accelerated, which makes economic recovery solid and sustainable in 2010 and beyond.
- An expected rebound in oil prices to above USD 80/bbl in H2 2010 will support further acceleration.

	Q2'10 (f)	Q1'10	Q4'09	Q3'09
GDP (% y/y)	**5.0**	**2.9**	**-2.0**	**-8.9**

Chart 6: Ukraine: GDP (% y/y)



Source: SSCU, BNP Paribas

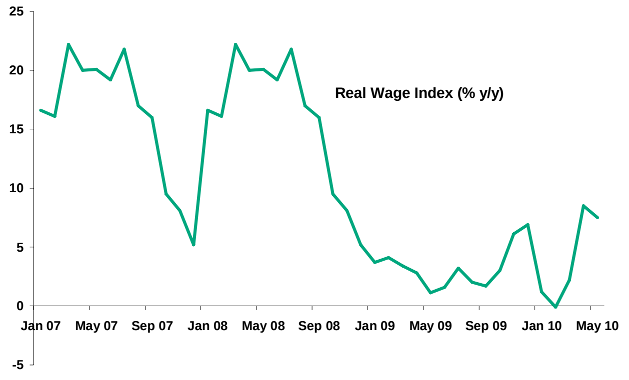
BNP Paribas Forecast: Set to Slow

Ukraine: GDP (Q2 2010)
Release Date: Wednesday 11 & Wednesday 18 August

- Base effects were very supportive for economic recovery in H1 2010 but will become less supportive in H2 2010.
- The acceleration we expect in Q2 is unlikely to be sustainable in H2. We maintain our forecasts of GDP growth at 4.2% and 3.5% in 2010 and 2011 respectively.
- Steel conjuncture (hot roll prices above USD 680-700/ tonne) and stabilisation in the banking sector are key to the pace of recovery in H2 2010-2011.

	Q2'10 (f)	Q1'10	Q4'09	Q3'09
GDP (% y/y)	**7.6**	**4.9**	**-6.8**	**-16.0**

Chart 7: Kazakhstan: Real Wages (% y/y)



Source: ASRK, BNP Paribas

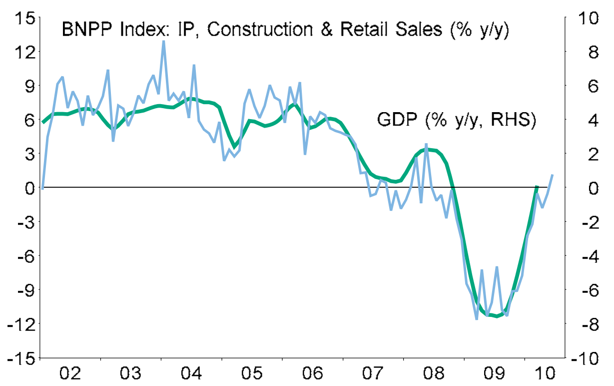
BNP Paribas Forecast: Private Sector Lags

Kazakhstan: Real Wages (July)
Release Date: Wednesday 11 & Friday 13 August

- A sizable increase in the salaries of government employees (25% from 1 April 2010) was crucial for pushing up wage growth in general.
- The rebound in wages in the private sector continues to lag. Consequently, real wage growth is likely to gradually slow.
- We expect real wage growth of 4.8% in 2010 as a whole.

	June (f)	May	April	March
Real wage(% y/y)	7.0	7.5	8.5	2.2

Chart 8: Hungary: GDP (% y/y)



Source: Reuters EcoWin Pro

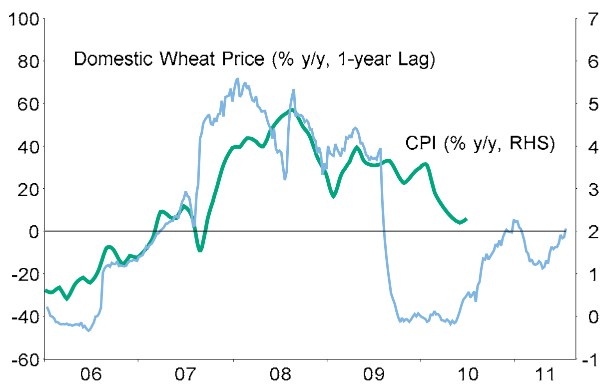
BNP Paribas Forecast: Higher

Hungary: GDP (Q2)
Release Date: Friday 13 August

- We expect GDP growth to have accelerated to 1.5% y/y in Q2, but the quality of the growth pattern to have remained weak. While we see a further substantial contribution to growth from net exports, the other factor boosting GDP readings in Q2 will have been inventories. We expect both final domestic demand components – consumption and investment – to have continued falling.
- We expect further growth acceleration in Q3 (also supported by base effects), but then a weaker final quarter of the year.

	Q2 (f)	Q1	Q4	Q3
GDP (% y/y)	1.5	0.1	-4.0	-7.1

Chart 9: Poland: CPI (% y/y)



Source: Reuters EcoWin Pro

BNP Paribas Forecast: Higher

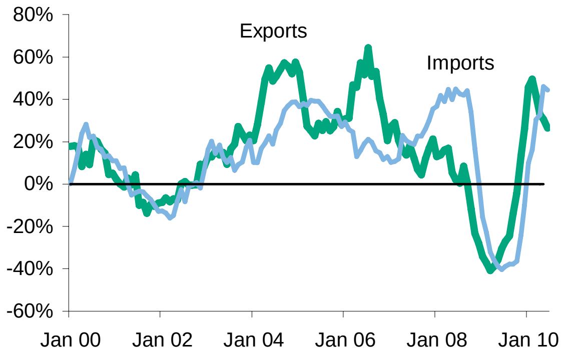
Poland: CPI (July)
Release Date: Friday 13 August

- We expect CPI to have risen to 2.4% y/y in July, driven by higher food prices.
- Disastrous floods in spring have already pushed prices of fresh foods and vegetables higher in June. Now, a weak harvest outlook, with yields seen down by 10% y/y, points to more prolonged upside risk to CPI.
- On the other hand, however, core inflation is likely to have continued drifting lower in July, reflecting the output gap and the impact of PLN appreciation since mid-2009.

	July (f)	June	May	April
CPI (% y/y)	2.4	2.3	2.2	2.4

Key Data Preview: Latam

Chart 1: Chile Exports vs Imports (3m y/y)



Source: Reuters EcoWin Pro

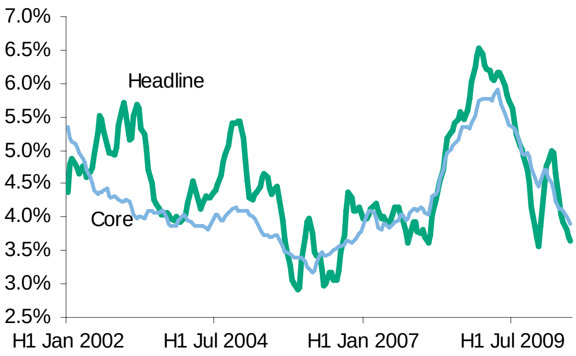
BNP Paribas Forecast: Slight Moderation

Chile: Trade Balance (July)
Release Date: Monday 9 August

- Our USD 977mn July trade surplus forecast translates into a slightly lower trade result on a 12-month sum basis (USD 15.3bn).
- Exports are expected to have kept up a stable pace (compared to the average of the previous three months), while import growth is estimated to have decelerated.

Date	July	June	May	April
USD mn	**977**	1158	729	1362

Chart 2: Mexico: Headline CPI vs Core CPI (Biweekly y/y)



Source: Reuters EcoWin Pro

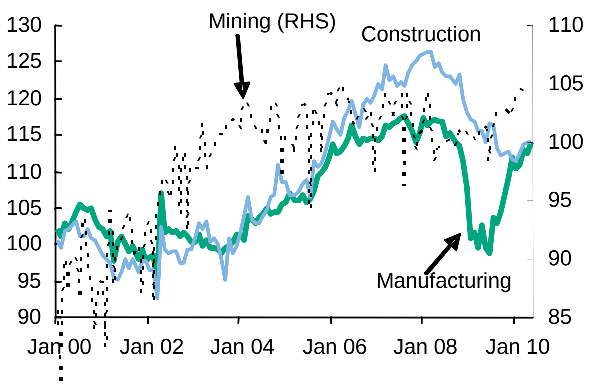
BNP Paribas Forecast: Subdued

Mexico: CPI (H2 June)
Release Date: Monday 9 August

- We expect July CPI to print 0.21% m/m on the headline and 0.25% m/m on the core. On a 12-month basis, CPI is expected to decline to 3.62% y/y on the headline and 3.85% y/y on the core.
- We expect both processed food and other merchandise to print very small but positive inflation in H2 June. Services inflation should remain subdued – being only slightly higher on a 12-month basis and rising from 3.90% y/y in May to 3.95% in June.
- Agriculture prices are likely to have registered deflation. While fruit and vegetable prices were up, meat and egg prices declined in June.

Date	July	June	May	April
% m/m headline	**0.21**	-0.03	-0.63	-0.32
% m/m core	**0.25**	0.13	0.24	0.11

Chart 3: Mexico: Industrial Production Components (Index s.a.)



Source: Reuters EcoWin Pro

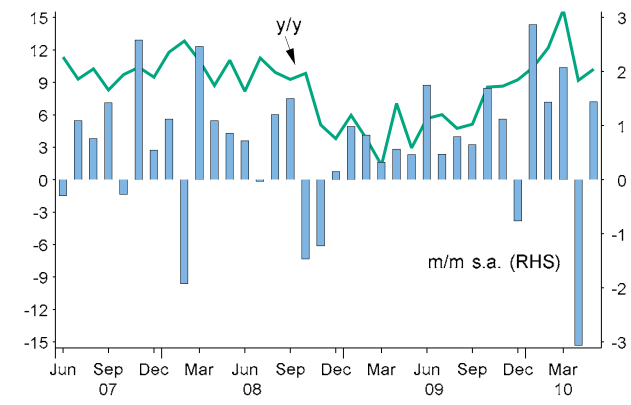
BNP Paribas Forecast: Increase

Mexico: Industrial Production (June)
Release Date: Wednesday 11 August

- We expect industrial production to print an increase of 8.7% y/y or 0.6% m/m s.a.
- Manufacturing is expected to post growth of 13.5% y/y in June. Autos continued to perform very well, while non-autos might have seen a temporary setback. Recall that manufacturing exports continued to expand in June, not yet reflecting a possible slowdown in demand from the US.
- We see some advance in construction as well, though not a robust one yet.

Date	June	May	April	March
% y/y	**8.7**	8.4	6.5	7.8
% m/m	**0.6**	0.5	0.1	1.0

Chart 4: Brazilian Retail Sales



Source: Reuters EcoWin Pro

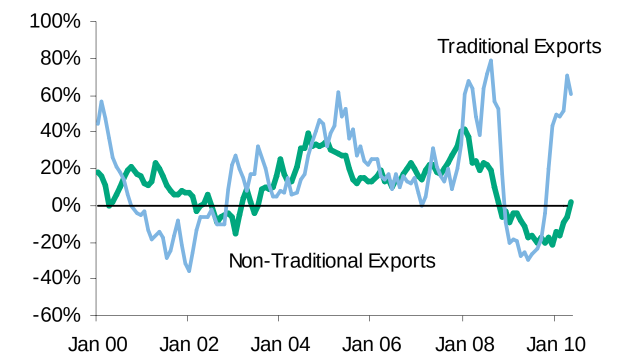
BNP Paribas Forecast: Rebounding

Brazil: Retail Sales (June)
Release Date: Wednesday 11 August

- We expect June real retail sales (RS) to increase 0.9% m/m s.a. The annual change should move up from 10.2% y/y to 11.0% y/y. The three-month average (closely monitored by the BCB) should move down a bit from 0.1% m/m s.a. to -0.3% m/m s.a.
- The broad retail sales measure, including autos and construction materials, should fall 1.0% m/m s.a. in June, reflecting a fall of 7.4% m/m s.a. in auto sales and a fall of 9.7 m/m s.a. in construction materials. On an annual basis, the broad RS should remain in positive territory at 1.2% y/y, down from 9.5% y/y in May.

	June (f)	May	April	March
RS (% m/m)	**0.9**	1.4	-3.1	2.1
RS (% y/y)	**11.0**	10.2	9.2	15.7
Broad RS (% m/m)	**-1.0**	-0.1	-6.14	6.8
Broad RS (% y/y)	**1.2**	9.5	12.2	22.1

Chart 5: Colombia Exports Breakdown (3-month average y/y)



Source: Reuters EcoWin Pro

BNP Paribas Forecast: Strong Surplus

Colombia: Trade Balance (June)
Release Date: Thursday 12 August

- We expect another important surplus in June, of USD 580mn.
- Exports of traditional goods continue to grow at good rates. The non-traditional sector has been recovering but the performance remains poor.
- Imports growth has also gathered pace as domestic demand gives momentum to intermediate goods imports. Consumer goods imports were up by 7.3 % m/m s.a. in May, another indication of strengthening internal demand.

Date	Jun	May	Apr	Mar
USD mn	**580**	508	485	208

Central Bank Watch

Asia				
Interest Rate	**Current Rate**	**Date of Last Change**	**Next Change in Coming Six Months**	**Comments**
China 1Y Bank Lending Rate	5.31%	-27bp (22/12/08)	No Change	Strong monetary tightening has slowed credit growth and boosted rates while both economic growth and inflation are decelerating. The eurozone credit crisis is further clouding the export outlook. As all these factors call for policy flexibility, we no longer expect further hikes in the RRR or any rate hikes in 2010.
Hong Kong HKMA Base Rate	0.50%	-100bp (17/12/08)	No Change	The HKMA base rate moves in lockstep with the US Fed funds rate given the currency board. As the Fed funds rate is expected to be kept on hold this year, so is the Hong Kong official rate.
Singapore	–	(14/4/10)	No Change	In April, the MAS surprised markets by re-centering upwards the midpoint of the SGD NEER policy to the prevailing level while shifting from a zero appreciation stance to a gradual appreciation.
South Korea 7 Day Repo Rate	2.25%	-25bp (9/7/10)	+25bp (Sep 10)	Despite July's 25bp rate hike, South Korean monetary policy remains exceptionally accommodative. Given the strength of economic data, further rate hikes are likely this year. We expect the next move to come in September but see a high risk of an August move.
Taiwan Discount Rate on 10 Day Loans	1.375%	+12.5bp (24/6/10)	+12.5bp (Q3 10)	The CBC surprised markets by delivering a 12.5bp hike at its Q2 meeting. With the economy having normalised and the CBC more confident about the recovery, a further hike is likely in Q3. The pace of increase should pick up thereafter.
Thailand 1 Day Repo Rate	1.50%	+25bp (14/7/10)	+25bp (Aug 10)	As in Malaysia, the BoT's recent decision to hike must be seen as a vote of confidence in the prospects of the Thai economy. The continued normalisation of policy rates by another 25bp is expected in August.
Malaysia Overnight Policy Rate	2.75%	+25bp (8/7/10)	No Change	The broad-based economic recovery prompted Bank Negara to deliver the third successive hike of 25bp at July's meeting. We expect a pause by BNM at its next meeting in September in the normalisation of rates, to assess economic growth. This is reinforced by July's policy statement saying that the new level of the OPR is "appropriate".
Indonesia 1M BI Rate	6.50%	-25bp (5/8/09)	+25bp (Q3 10)	The BI stayed on hold for the twelfth consecutive month in August despite the spike in food price inflation, citing current levels of policy rates as consistent with its inflation target of 4-6% for 2010. This will help to underpin the recovery of the economy and keep the rupiah steady.
Philippines Overnight Borrowing Rate	4.00%	-25bp (9/7/09)	+25bp (Q3 10)	The BSP left its key overnight borrowing rate unchanged at its latest meeting, citing a benign inflation outlook. On the back of slowing food inflation, the BSP cut its forecast for 2010 inflation from 4.7% y/y to 4.0% – within the target range of 4.5% ±1pp.
India Repo Rate	5.75%	+25bp (27/7/10)	+25bp (16/9/10)	The RBI continues to deliver a steady stream of rate hikes to tackle the economy's inflation problem. We expect the next 25bp hike to arrive at its mid-quarter monetary policy review in September.

Central Bank Watch (continued)

Central and Eastern Europe, Middle East

Interest Rate	Current Rate	Date of Last Change	Next Change in Coming Six Months	Comments
Czech Republic Repo Rate	0.75%	-25bp (6/5/10)	No Change	Given the weak transmission from lower interest rates into credit and thus growth, we believe that other means of easing financial and monetary conditions would be more effective than interest rate cuts.
Hungary Base Rate	5.25%	-25bp (26/4/10)	No Change	Interest rates will be determined by fiscal policy. Since the outlook for the latter is highly uncertain, we no longer expect any rate moves as our base scenario. But, dependent on the scope of fiscal cuts, both rate hikes and rate cuts are possible.
Poland Repo Rate	3.50%	-25bp (24/6/09)	No Change	Inflation is easing and growth slowing. At the same time, rising risk aversion has been pushing spreads higher and weakening the currency. The combination of macro and market factors suggests unchanged monetary policy until late 2011.
Russia Refinancing Rate	7.75%	-25bp (31/5/10)	-25bp (30/8/10)	In June, the CBR left the rate unchanged and said that rates may remain on hold in the coming months. Indeed, July saw no change. Nevertheless, we expect the refi rate to be cut to a low of 7.25% by end-2010 with tightening not expected before 2011.
Ukraine Refinancing Rate	8.5%	-100bp (8/7/10)	-50bp (8/8/10)	The sharp slowdown in inflation and reduction of risks of further hryvnya weakening are very supportive for continued aggressive policy easing. We expect the key rate to be cut to 7.5% by end-2010. Monetary tightening is unlikely in 2011, in our view.
Turkey One-Week Repo Rate	7.00%	Policy rate set as 1-week repo rate rather than overnight rate (18/5/10)	No Change	In its quarterly inflation report, the CBT revised down its end-2010 CPI forecast to 7.5% from 8.4%, envisaging rate hikes starting in 2011 rather than Q4 2010. The benign inflation picture in Q1 2011 should allow the CBT to postpone the first hike to after the July 2011 general election.

Latin America

Interest Rate	Current Rate	Date of Last Change	Next Change in Coming Six Months	Comments
Brazil Selic Overnight Rate	10.75	+50bp (21/7/10)	+50bp (26/1/11)	The BCB has become much more dovish, sounding more comfortable with the balance of risks for inflation on the heels of recent data. However, the monetary authority is likely to resume hiking rates in 2011 to tame inflation expectations.
Chile Overnight Rate	1.50%	+50bp (15/7/10)	+50bp (12/8/10)	The CB has been clear in its intent to normalise rates quickly. The strong pace of domestic demand and destruction of capital caused by the earthquakes will cause a fast narrowing of the output gap. Rates are expected to be raised to 3.0% by year-end.
Mexico Overnight Rate	4.50%	-25bp (17/7/09)	No Change	Higher than expected inflation at the beginning of the year was mostly due to tax hikes, with the underlying outlook still very benign. The economy continues to recover but there is a large amount of spare capacity. Thus the CB should remain on hold this year.
Colombia Overnight Rate	3.00%	-50bp (30/4/10)	No Change	The CB surprised the market with a rate cut in April. As the economic assessment remained basically the same – moderate growth and low inflation pressure – we conclude the motivation was to prevent an excessive appreciation of the currency.

EMK Economic Calendar: 9 - 13 August 2010

ASIA

	GMT	Local			Previous	Forecast	Consensus
Mon 09/08	03:00	12:00	**S. Korea**	Producer Price Index (y/y): Jul	4.6%		
	08:00	16:00	**Taiwan**	Exports (y/y): Jul	34.1%	33.0%	30.4%
	08:00	16:00		Imports (y/y): Jul	40.4%	43.6%	39.7%
	08:00	16:00		Trade Balance (USD): Jul	1.41bn	1.07bn	1.20bn
Tue 10/08			**China**	Trade Balance (USD): Jul	20.02bn	21.0bn	20.0bn
				Exports (y/y): Jul	43.9%	37.1%	33.0%
				Imports (y/y): Jul	34.1%	30.3%	30.0%
	01:00	09:00	**Philippines**	Exports (y/y): Jun	37.3%	26.2%	
	04:01	12:01	**Malaysia**	Industrial Production (y/y): Jun	12.5%		
	04:01	12:01		Manufacturing Sales (y/y): Jun	19.9%		
	09:00	17:00	**Singapore**	Foreign Reserves (USD): Jul	199.96bn		
Wed 11/08	00:00	08:00	**S. Korea**	Unemployment Rate: Jul	3.5%	3.5%	
	02:00	10:00	**China**	Producer Price Index (y/y): Jul	6.4%	5.0%	5.8%
	02:00	10:00		Consumer Price Index (y/y): Jul	2.9%	3.6%	3.4%
	02:00	10:00		Retail Sales (y/y): Jul	18.3%	18.5%	18.5%
	02:00	10:00		Industrial Production (y/y): Jul	13.7%	12.0%	13.1%
	02:00	10:00		Urban Fixed Asset Investment (ytd, y/y): Jul	25.5%	24.8%	25.1%
	03:00	12:00	**S. Korea**	Money Supply M2 (y/y): Jun	9.3%		
	03:00	12:00		Bank Lending To HH (KRW): Jul	417.9tn		
Thu 12/08			**India**	Industrial Production (y/y): Jun	11.5%	6.2%	
	02:00	10:00	**S. Korea**	***BoK Rate Announcement***	***2.25%***	***2.25%***	***2.50%***
	03:30	10:30	**Thailand**	Consumer Confidence (Index): Jul	69.1		
	06:30	12:00	**India**	WPI Primary Articles (y/y): Week Ended 31 Jul	14.36%		
	06:30	12:00		WPI Food Articles (y/y): Week Ended 31 Jul	9.53%		
	06:30	12:00		WPI Fuel Power Light (y/y): Week Ended 31 Jul	14.26%		
Fri 13/08	05:00	13:00	**Singapore**	Retail Sales (y/y): Jun	-3.4%		
	08:30	16:30	**Hong Kong**	GDP (y/y): Q2	8.2%	6.3%	6.3%
	08:30	16:30		GDP (q/q): Q2	2.4%	1.2%	2.1%
During Week	05-10		**Indonesia**	Foreign Reserves (USD): Jul	76.32bn		
	10-13		**China**	Money Supply M2 (y/y): Jul	18.5%	18.2%	18.5%
	10-13			New Loans (RMB): Jul	603.4bn	550.0bn	600.0bn

Release dates and forecasts as at c.o.b. prior to the date of publication *Source: BNP Paribas*

EASTERN EUROPE/MENA

	GMT	Local			Previous	Forecast	Consensus
Mon 09/08	07:00	09:00	**Czech R.**	CPI y/y : Jul	1.2%	1.5%	
	07:00	09:00		Unemployment Rate : Jul	8.5%	8.7%	
	07:00	10:00	**Romania**	IP y/y : Jun	4.0%	4.0%	
	07:00	10:00		Trade Balance : Jun	EUR-0.96bn	EUR-1.00bn	
	07:00	10:00	**Turkey**	Industrial Production, June, y/y	15.6%	11.0%	10.0%
Wed 11/08	07:00	09:00	**Hungary**	CPI y/y : Jul	5.3%	3.6%	3.7%
	07:00	10:00	**Romania**	CPI y/y : Jul	4.4%	7.1%	
	07:00	10:00		Current Account : Jun	EUR-0.73bn	EUR-0.75bn	
	07:00	10:00	**Turkey**	Current Account Balance, June, USD bn	-3.0	-3.5	-3.6
	08:00	10:00	**Czech R.**	Current Account : Jun	CZK-24.0bn	CZK1.0bn	
	12:00	14:00	**Poland**	Current Account : Jun	EUR-268mn	EUR-500mn	
	12:00	14:00		Trade Balance : Jun	EUR-455mn	EUR-500mn	
Fri 13th	07:00	09:00	**Czech R.**	GDP y/y : Q2 (flash estimate)	1.1%	1.3%	
	07:00	09:00	**Hungary**	GDP y/y : Q2 (preliminary)	0.1%	1.5%	0.7%
	07:00	10:00	**Romania**	GDP y/y : Q2 (flash estimate)	-2.6%	-2.0%	
	12:00	14:00	**Poland**	CPI y/y : Jul	2.3%	2.4%	
	12:00	14:00		M3 Money Supply y/y : Jul	7.1%	7.4%	

Release dates and forecasts as at c.o.b. prior to the date of publication: See EMK Daily Eastern European Spotlight *for any revision* *Source: BNP Paribas*

LATIN AMERICA

	GMT	Local			Previous	Forecast	Consensus
Mon 09/08	11:00	08:00	**Brazil**	IPC-S m/m : 1p Aug	-0.21%	-0.25%	
	11:00	08:00		IGP-M m/m : 1p Aug	0.15%	0.10%	
	11:30	08:30		Focus Consensus Survey : 1p Aug			
	14:00	11:00		Trade Balance : 1p Aug	USD -127 mn	USD 400 mn	
	14:00	11:00		Exports 1p Aug	USD 3795 mn	USD 3900 mn	
	14:00	11:00		Imports : 1p Aug	USD 3922 mn	USD 3500 mn	
			Chile	Trade Balance: Jul	USD 1157 mn	USD 977 mn	USD 1275 mn
				Economic Expectation Survey : Aug			
	14:00	09:00	**Mexico**	CPI m/m : Jul	-0.03%	0.21%	0.25%
	14:00	09:00		CPI Core m/m : Jul	0.13%	0.25%	0.26%
			Colombia	Banrep's Intervention Report : Jul			
Tue 10/08	8:00	5:00	**Brazil**	IPC-Fipe m/m : 1p Aug	0.17%	0.16%	0.15%
	19:30	16:30	**Mexico**	Gross Fixed Investments y/y : May	0.5%	6.6%	
				Auction: MXN 7.0 bn of 10y			
			Peru	Trade Balance: Jun	USD 287 mn	USD 250 mn	
Wed 11/08	12:00	09:00	**Brazil**	Retail Sales y/y : Jun	10.2%	11.0%	
	12:00	09:00		Retail Sales m/m (sa) : Jun	1.4%	0.9%	
	12:00	09:00		Broad Retail Sales y/y : Jun	9.4%	1.2%	
	12:00	09:00		Broad Retail Sales m/m (sa) : Jun	0.1%	-1.0%	
	15:30	12:30		FX Flow Report : 1p Aug	USD 3.0 bn	USD 1.3 bn	
	15:30	12:30		FX Flow – Trade Operations : 1p Aug	USD 0.8 bn	USD 0.4 bn	
	15:30	12:30		FX Flow – Financial Operations : 1p Aug	USD 2.2 bn	USD 0.9 bn	
				Fiesp's Labor Market : Jul			
	14:00	09:00	**Mexico**	Industrial Production y/y : Jun	8.4%	8.7%	7.4%
Thu 12/08	22:00	18:00	**Chile**	***Overnight Target Rate***	1.50%	2.00%	2.00%
	21:00	16:00	**Colombia**	Trade Balance : Jun	USD 508 mn	USD 580 mn	
Fri 13/08			**Argentina**	CPI % m/m: Jul	0.7%	0.9%	0.8%
				WPI % m/m : Jul	0.9%		
			Mexico	USDMXN Non-Commercial Position (IMM)			
During Week			**Mexico**	Auto Sector Report : Jul			
		09-13		Nominal Wages : Jul			
			Colombia	Inflation Expectation Survey : Aug			

Release dates and forecasts as at c.o.b. prior to the date of publication: See EMK Daily Latin America Spotlight *for any revision* *Source: BNP Paribas*

Economic Forecasts

Economic Forecasts (% y/y)

Asia	Real GDP					Inflation				
	2008	2009	2010(1)	2011(1)	2012(1)	2008	2009	2010(1)	2011(1)	2012(1)
China	9.6	8.7	9.8	8.4	9.0	5.9	-0.7	3.5	3.0	3.6
India	7.4	6.7	9.0	9.0	9.1	9.1	2.1	8.7	5.1	4.5
South Korea	2.3	0.2	6.3	3.5	3.8	4.7	2.8	2.7	3.2	3.1
Indonesia	6.0	4.5	5.9	5.8	6.0	9.8	4.8	4.4	5.2	5.4
Taiwan	0.7	-1.9	9.1	3.1	4.4	3.5	-0.9	0.9	0.6	1.2
Thailand	2.5	-2.3	7.8	5.0	5.5	5.5	-0.8	3.0	3.7	3.5
Malaysia	4.6	-1.7	8.2	7.0	6.3	5.4	0.6	2.0	2.6	2.5
Hong Kong	2.2	-2.8	6.9	4.8	5.5	4.3	0.5	2.6	1.8	2.9
Singapore	1.8	-1.3	8.6	5.8	6.5	6.5	0.2	2.5	1.9	1.5
Phillipines	3.8	0.9	5.4	5.1	5.0	9.3	3.3	4.0	3.5	3.4

CEE	Real GDP					Inflation				
	2008	2009	2010(1)	2011(1)	2012(1)	2008	2009	2010(1)	2011(1)	2012(1)
Russia	5.6	-7.9	4.7	4.2	4.5	14.1	11.8	6.3	8.1	9.8
Poland	5.2	1.7	2.9	2.0	2.8	4.1	3.5	2.3	1.9	1.5
Hungary	0.8	-6.3	1.5	1.2	2.1	5.6	4.3	4.2	2.5	1.4
Czech Republic	2.3	-4.0	1.8	2.7	3.0	6.0	1.1	1.3	2.0	2.0
Bulgaria	6.1	-4.9	-2.5	1.8	4.1	12.0	2.3	-0.3	1.6	1.2
Romania	7.7	-7.1	-0.6	0.8	0.9	7.7	5.6	4.0	2.3	1.0
Slovakia	6.4	-4.7	3.8	1.4	3.1	3.9	0.9	1.0	2.9	2.6
Slovenia	3.5	-7.8	0.8	1.2	1.6	5.2	1.0	1.8	1.5	1.1
Ukraine	2.1	-15.0	4.0	3.5	3.7	22.3	12.3	9.0	11.5	10.5
Kazakhstan	3.3	1.1	4.0	5.0	5.0	9.5	6.2	7.0	7.0	6.5
Turkey	0.7	-4.7	7.0	4.0	4.0	10.4	6.3	9.0	7.5	6.7

Latam	Real GDP					Inflation				
	2008	2009	2010(1)	2011(1)	2012(1)	2008	2009	2010(1)	2011(1)	2012(1)
Brazil	5.1	-0.2	7.2	4.6	4.4	5.9	4.3	5.2	4.5	4.5
Mexico	1.5	-6.5	5.3	4.4	3.6	6.5	3.6	4.7	3.7	3.9
Argentina	6.8	0.9	7.5	4.5	3.0	7.2	7.7	13.0	11.0	11.0
Chile	3.7	-1.5	5.3	5.4	5.1	7.1	-2.6	3.4	3.4	3.2
Colombia	2.4	0.4	3.0	3.8	4.4	7.7	2.0	3.7	3.5	4.2
Venezuela	4.8	-3.3	-2.0	-1.0	1.4	30.9	25.1	39.4	34.9	56.2

Regional GDP Forecasts

Main Regions	2008	2009	2010(1)	2011(1)	2012(1)
Asia Ex Japan(2)	7.2	5.9	8.9	7.6	8.0
CEE inc Russia(2)	5.1	-5.8	3.4	3.1	3.8
Latam(2)	3.9	-1.9	5.7	4.0	4.0
US	0.4	-2.4	2.9	2.8	3.2
Eurozone	0.4	-4.1	1.3	0.6	1.0
Japan	-1.2	-5.2	3.6	2.3	1.8
UK	0.7	-4.9	1.6	1.0	1.5
World(2)	3.2	-0.6	4.5	3.9	4.2

Source: BNP Paribas (1) Forecast (2) BNP Paribas estimates based on country weights used in the IMF World Economic Outlook, *April 2010*

FX Forecasts*

USD Bloc	Q3 '10	Q4 '10	Q1 '11	Q2 '11	Q3 '11	Q4 '11	Q1 '12	Q2 '12	Q3 '12	Q4 '12	Q1 '13
EUR/USD	1.20	1.15	1.12	1.11	1.10	1.12	1.15	1.18	1.20	1.20	1.17
USD/JPY	85	88	94	101	106	114	118	121	124	126	123
USD/CHF	1.11	1.15	1.16	1.19	1.21	1.20	1.17	1.15	1.15	1.17	1.21
GBP/USD	1.43	1.40	1.38	1.34	1.29	1.32	1.35	1.36	1.35	1.33	1.31
USD/CAD	1.02	0.98	0.95	0.90	0.87	0.90	0.95	1.00	1.02	1.09	1.11
AUD/USD	0.88	0.90	0.94	0.97	0.97	0.95	0.92	0.93	0.92	0.90	0.87
NZD/USD	0.72	0.74	0.78	0.78	0.75	0.73	0.72	0.69	0.67	0.66	0.64
USD/SEK	7.75	7.91	8.21	8.20	8.45	8.30	8.00	7.97	8.00	8.08	8.12
USD/NOK	6.58	6.78	6.96	6.94	6.91	6.70	6.43	6.36	6.33	6.25	6.24

EUR Bloc	Q3 '10	Q4 '10	Q1 '11	Q2 '11	Q3 '11	Q4 '11	Q1 '12	Q2 '12	Q3 '12	Q4 '12	Q1 '13
EUR/JPY	102	101	105	112	117	128	136	143	149	151	144
EUR/GBP	0.84	0.82	0.81	0.83	0.85	0.85	0.85	0.87	0.89	0.90	0.89
EUR/CHF	1.33	1.32	1.30	1.32	1.33	1.34	1.35	1.36	1.38	1.40	1.41
EUR/SEK	9.30	9.10	9.20	9.10	9.30	9.30	9.20	9.40	9.60	9.70	9.50
EUR/NOK	7.90	7.80	7.80	7.70	7.60	7.50	7.40	7.50	7.60	7.50	7.30
EUR/DKK	7.46	7.46	7.46	7.46	7.46	7.46	7.46	7.46	7.46	7.46	7.46

Central Europe	Q3 '10	Q4 '10	Q1 '11	Q2 '11	Q3 '11	Q4 '11	Q1 '12	Q2 '12	Q3 '12	Q4 '12	Q1 '13
USD/PLN	3.50	3.48	3.75	3.74	3.68	3.53	3.39	3.26	3.17	3.13	3.16
EUR/CZK	26.5	26.0	25.8	25.5	25.0	24.7	24.3	24.0	23.9	23.8	24.0
EUR/HUF	275	270	275	270	270	265	250	250	250	245	235
USD/ZAR	7.80	8.00	7.90	8.20	8.00	8.00	7.80	7.80	7.50	7.70	7.00
USD/TRY	1.56	1.59	1.60	1.60	1.61	1.62	1.60	1.58	1.56	1.54	1.45
EUR/RON	4.50	4.40	4.35	4.25	4.20	4.05	4.00	3.95	3.90	3.80	3.90
USD/RUB	30.28	30.44	30.60	30.49	30.43	29.89	29.04	28.45	27.98	27.71	29.73
EUR/PLN	4.20	4.00	4.20	4.15	4.05	3.95	3.90	3.85	3.80	3.75	3.70
USD/UAH	7.9	8.0	7.5	7.7	7.5	7.5	7.4	7.2	7.0	7.5	-----
EUR/RSD	110	110	105	115	105	100	90	86	87	85	86

Asia Bloc	Q3 '10	Q4 '10	Q1 '11	Q2 '11	Q3 '11	Q4 '11	Q1 '12	Q2 '12	Q3 '12	Q4 '12	Q1 '13
USD/SGD	1.36	1.34	1.33	1.32	1.31	1.30	1.30	1.30	1.30	1.30	-----
USD/MYR	3.15	3.10	3.07	3.05	3.03	3.00	3.00	3.00	3.00	3.00	-----
USD/IDR	8800	8600	8500	8400	8300	8200	8100	8000	8000	8000	-----
USD/THB	32.30	32.00	31.70	31.50	31.30	31.00	31.00	31.00	31.00	31.00	-----
USD/PHP	44.00	43.00	42.50	42.00	41.50	41.00	41.00	41.00	41.00	41.00	-----
USD/HKD	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	7.80	-----
USD/RMB	6.70	6.80	6.75	6.70	6.64	6.60	6.54	6.49	6.45	6.41	-----
USD/TWD	31.00	30.00	29.70	29.50	29.30	29.00	29.00	29.00	29.00	29.00	-----
USD/KRW	1100	1050	1030	1020	1010	1000	1000	1000	1000	1000	-----
USD/INR	43.50	42.00	41.00	40.00	39.00	38.00	38.00	38.00	38.00	38.00	-----
USD/VND	20000	20500	20500	20500	20500	20500	20500	20500	20500	20500	-----

LATAM Bloc	Q3 '10	Q4 '10	Q1 '11	Q2 '11	Q3 '11	Q4 '11	Q1 '12	Q2 '12	Q3 '12	Q4 '12	Q1 '13
USD/ARS	4.10	4.20	4.25	4.35	4.45	4.50	4.60	4.70	4.80	4.90	4.95
USD/BRL	1.80	1.75	1.72	1.70	1.70	1.75	1.80	1.85	1.90	1.90	1.91
USD/CLP	520	510	500	490	485	495	505	510	510	515	520
USD/MXN	12.20	11.90	11.70	11.50	11.40	11.60	11.85	11.90	12.00	12.00	12.00
USD/COP	1900	1875	1850	1825	1825	1875	1900	1925	1950	1950	1955
USD/VEF (Priority) (1)	4.29	4.29	4.29	4.29	4.29	4.29	8.80	8.80	8.80	8.80	8.80
USD/VEF (Oil) (1)	2.59	2.59	2.59	2.59	2.59	2.59	5.30	5.30	5.30	5.30	5.30

Others	Q3 '10	Q4 '10	Q1 '11	Q2 '11	Q3 '11	Q4 '11	Q1 '12	Q2 '12	Q3 '12	Q4 '12	Q1 '13
USD Index	86.76	89.39	91.66	93.02	94.38	94.32	93.29	92.55	92.21	93.18	94.68

***End Quarter**

(1) Following the devaluation of the VEF, there is now an official 'priority' exchange rate and a so-called 'oil' exchange rate used for certain transactions
Source: BNP Paribas

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