EMERGING MARKETS

Positive news from emerging Asia

- Recent economic signals about the health of the emerging Asian economies have been favourable. In particular the data for China show a very pronounced bounceback from the effects of SARS. Year-on-year GDP growth was 9.1% in Q3, up from 6.7% in Q2. Moreover in September exports were 31.5% higher than a year ago while imports shot up by 39.9%. These results are stronger than expected and show an impressive degree of momentum behind both foreign trade and domestic demand. And if this degree of strength persists into early 2004 the Chinese authorities may be much more willing to contemplate a widening of the yuan's exchange rate bands and an effective currency revaluation as such a move would help prevent the economy overheating.

Exports (seasonally adjusted in US$)

	Quarterly % change					
	2002			2003		
	Q2	Q3	Q4	Q1	Q2	Q3
China	6.3	10.1	6.0	7.3	7.1	6.7
Korea	7.5	4.0	5.7	1.9	2.2	5.9
Taiwan	5.0	2.6	-0.4	3.5	-2.4	8.6
Singapore	11.2	-1.2	2.9	7.5	-3.3	6.2
Malaysia*	3.7	1.5	0.0	2.4	1.8	-6.0
Thailand	9.7	1.7	2.5	7.9	2.8	-3.6
Brazil	0.3	23.8	3.0	-1.1	7.6	-2.7
Mexico	6.7	0.2	-1.1	1.8	-3.3	2.6
US imports*	*5.3*	*1.5*	*1.5*	*0.7*	*1.4*	*-1.0*

** estimates based on July & August data*

…particularly China & Taiwan

- However, the positive signs have not just come from China. Taiwan's industrial output grew by 6.5% year-on-year in Q3 compared to –0.3% in Q2 (and the seasonally adjusted increase in Q3 was a massive 6.8%). And in contrast to 2002 the recent pick up has started to broaden out across the economy; bank lending growth has resumed while the seasonally adjusted unemployment rate has fallen below 5% for the first time since mid-2001. But while a great deal of this recovery has been caused by the growing economic links between Taiwan and China there are now some signs that increased US demand is also starting to come through. Export orders to the US were up 20% on a year ago in September. Moreover US orders for computers and electronic products have risen steadily over the last six months. Singapore has also reported a more positive industrial and export picture, benefiting from a surge of pharmaceuticals output – much of it destined for the US market.

Manufacturing Output (seasonally adjusted)

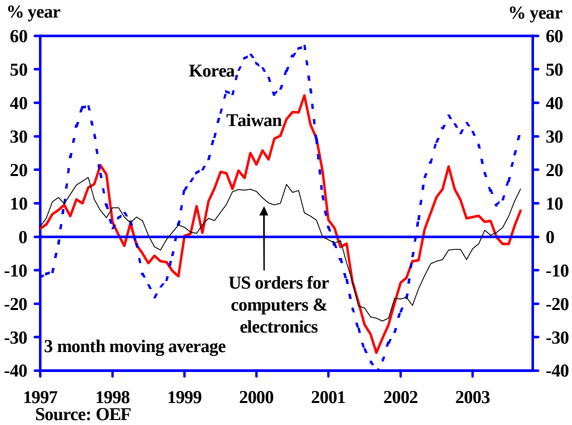
	Quarterly % change					
	2002			2003		
	Q2	Q3	Q4	Q1	Q2	Q3
Korea	1.6	1.5	1.9	0.4	-0.4	1.1
Taiwan*	4.3	-0.1	1.2	0.7	-2.4	6.8
Singapore*	8.7	-2.3	-3.0	2.3	-4.2	8.5
Malaysia"	3.7	1.1	-0.7	3.0	4.3	1.7
Thailand	2.9	3.0	2.9	4.7	2.8	-1.1
Asia ex China	*3.1*	*1.2*	*1.4*	*1.8*	*0.1*	*2.4*
Brazil*"	2.0	-0.2	1.8	-1.1	-2.5	-0.1
Mexico*"	1.5	-0.6	-0.3	0.1	-0.8	-1.1
Argentina*	1.5	2.6	5.6	7.3	0.3	1.7

**Industrial output "estimate based on July & Aug. data*

…though Korea continues to struggle

- Elsewhere the news has been more mixed. Thailand's economy appears to have slowed in Q3, though with the world economy picking up this is likely to prove a temporary pause in otherwise buoyant growth. And in both the Philippines and Malaysia while exports have struggled – probably losing market share to China – their domestic economies have remained reasonably resilient. By contrast, the performance of Korea has been just the opposite – exports have grown rapidly while domestic demand has been very weak. And though seasonally adjusted industrial output recorded a 1.1% increase on the quarter in Q3, wholesale and retail sales volumes posted a modest 0.6% gain after two quarters of major declines – a slower

Asia: ICT exports (US$)



Source: OEF

turnaround than many had expected. In addition the indicator of business investment was also negative throughout the quarter. Moreover the President's decision to seek a referendum on his leadership has added increased political uncertainty to the country's problems. As a result the economy may struggle to record much more than 2% growth this year, though next year should see a more robust performance as the global recovery boosts confidence.

…as do Brazil and Mexico

- Compared to emerging Asia, evidence of recovery is much less convincing in Mexico and Brazil. The Mexican global activity indicator (a monthly GDP proxy) fell 0.5% on the month in August to stand only 0.2% higher than a year ago. However, the September trade figures were more encouraging, suggesting that increased US demand is now starting to materialise. Manufacturing exports were up 4.8% on the year – easily the best performance in 2003. Meanwhile, in Brazil the continued easing of monetary policy (interest rates fell another 1% in mid-October) should eventually lead to a pick up in the depressed domestic economy, particularly when inflation actually falls into single figures.

Strong Polish recovery…but risks ahead

- In central Europe growth has been more robust throughout this year and should accelerate in 2004, helped by signs that the Euro-zone economy is now stabilising. This pick up is set to be most pronounced in Poland where GDP growth next year is now widely expected to be in the 4-5% range, with forecasts having generally risen by about 0.5% in recent months. However, while part of this improvement reflects the lagged effects of the sustained easing of monetary policy through 2002 and 2003H1, some has been prompted by the government's loosening of fiscal policy in 2004 and the weakness of the zloty throughout this year. And while the country has scope to make up for the sharp underperformance of its neighbours in 2001 and 2002 there are still concerns that the government will not be willing to implement sustained fiscal consolidation in future years, forcing any necessary adjustment to be made by the central bank alone. Indeed the latest European Commission forecasts of the accession countries indicate that their estimates of the budget deficits in Poland, Hungary and the Czech Republic for 2004 have all increased significantly from those made in April.

Turkish lira starts to slide

- After nearly six months of strength, the Turkish lira started to decline in October, falling over 9% during the month. Moreover with the current account deficit increasing and inflation still way above that of its major trading partners this downward pressure is likely to gather momentum. Although this is unlikely to lead to a crisis situation, given the current policy framework and IMF support, it may well lead to slower growth in 2004 and a pause in the disinflation process.

GDP forecast for Emerging Markets

(Annual percentage changes unless otherwise specified)

	2001	2002	2003	2004	2005	2006	2007
Asia							
China	7.3	8.0	8.7	8.2	7.1	7.3	8.1
India	4.7	4.7	5.9	6.8	6.8	6.7	6.6
Indonesia	3.4	3.7	4.0	4.5	4.7	5.5	5.8
Korea	3.1	6.3	2.4	5.3	6.0	5.5	5.3
Malaysia	0.3	4.1	4.5	5.8	6.2	6.3	5.6
Philippines	3.0	4.4	3.6	4.6	4.2	4.2	4.2
Thailand	1.9	5.3	6.2	6.3	6.0	5.6	5.2
Latin America							
Argentina	-4.4	-10.9	6.1	4.2	3.9	3.7	3.5
Brazil	1.5	1.5	0.5	3.3	4.8	4.6	4.0
Chile	3.1	2.1	3.1	4.4	4.6	4.5	4.4
Mexico	-0.3	1.0	1.4	3.6	5.2	4.7	4.4
South Africa	2.8	3.0	2.0	2.4	3.5	3.7	3.7
Eastern Europe							
Czech Rep	3.1	1.9	2.5	3.2	3.9	4.3	4.5
Hungary	3.9	3.3	2.4	3.3	4.4	5.0	5.0
Poland	1.0	1.4	3.6	4.8	4.3	4.3	4.4
Russia	5.1	4.3	6.3	4.9	5.0	4.8	4.6
Turkey	-7.5	7.8	4.3	4.7	6.4	5.0	5.3