

EMERGING MARKETS WEEKLY PERSPECTIVE

October 24, 2007

Contents

Latin America	2
Asia	5
Emerging Europe	9
Middle East/Africa	10

Global Economic Research

Contributors

James Barrineau
 x1-6866

Anthony Chan
 +852 2918 7846

Daniel Hewitt
 x1-6134

Alexander Moseley
 x1-3420

	Rating Moody's / S&P	Rating Trend	Foreign Currency Debt	Local Currency Debt
LATIN AMERICA				
Argentina	B3 (Positive)/B+	↔	Underweight	Underweight
Brazil	Ba2 (Positive)/BB+ (Positive)	↑	Overweight	Overweight
Chile	A2/A (Positive)	↔	Market Weight	Underweight
Colombia	Ba2 (Positive)/BBB-	↔	Market Weight	Overweight
Costa Rica	Ba1/BB+	↔	Market Weight	Overweight
Dominican Republic	B2/B+	↑	Market Weight	Overweight
Ecuador	Caa2 (Negative)/CCC (Negative)	↔	Market Weight	
Jamaica	B1/B	↔	Underweight	Underweight
Mexico	Baa1/BBB+	↔	Underweight	Market Weight
Panama	Ba1/BB (Positive)	↑	Overweight	
Peru	Ba2/BB+ (Positive)	↑	Overweight	Overweight
Uruguay	B1/BB- (Positive)	↔	Market Weight	Overweight
Venezuela	B2/BB-	↔	Market Weight	
ASIA				
China	A1/A (Positive)	↑	Market Weight	Underweight
Hong Kong	Aa2/AA (Positive)	↑	Market Weight	Underweight
India	Baa2/BBB-	↑	Market Weight	Market Weight
Indonesia	Ba3/BB-	↑	Overweight	Overweight
Korea	A2/A	↑	Market Weight	Market Weight
Malaysia	A3/A- (Positive)	↔	Market Weight	Market Weight
Philippines	B1/BB-	↑	Overweight	Overweight
Singapore	Aaa/AAA	↔	Market Weight	Overweight
Thailand	Baa1/BBB+	↔	Underweight	Market Weight
EMERGING EUROPE				
Bulgaria	Baa3 (Positive)/BBB+	↑	Market Weight	
Czech Republic	A1 (Positive)/A	↑	Market Weight	Market Weight
Hungary	A2/BBB+	↔	Market Weight	Overweight
Kazakhstan	Baa2/BBB-	↓	Underweight	Underweight
Poland	A2/A-	↔	Market Weight	Market Weight
Romania	Baa3/BBB-	↔	Market Weight	Market Weight
Russia	Baa2/BBB+	↔	Overweight	Market Weight
Slovakia	A1/A	↔		Market Weight
Ukraine	B1 (Positive)/BB- (Negative)	↔	Market Weight	
MIDDLE EAST/AFRICA				
Egypt	Ba1/BB+		Underweight	
Lebanon	B3 (Negative)/B- (Negative)	↔	Market Weight	Underweight
Nigeria	NA/BB-	↑	Market Weight	Overweight
South Africa	Baa1 (Positive)/BBB+	↔	Market Weight	Market Weight
Turkey	Ba3/BB-	↔	Overweight	Overweight

This document reflects the views of AllianceBernstein as of the dates cited. No representation or warranty is made concerning the accuracy of cited data. Nor is there any guarantee that any projection, forecast or opinion will be realized. The views expressed may change at any time. References to stocks, securities or investments should not be considered recommendations to buy or sell. The value of investments, and the income from them, can fall as well as rise and you may not get back the original amount invested. Past performance is not a guide to future performance. The value of overseas securities will be subject to exchange-rate fluctuations. Under no circumstances should this information be construed as investment advice. Nor should it be construed as sales or marketing material for any financial instrument, product or service sponsored or provided by AllianceBernstein or its affiliates or agents.

Argentina (Jim Barrineau)

B3 (Positive)/B+

RATING TREND ↔

Foreign Currency Debt: UNDERWEIGHT

Local Currency Debt: UNDERWEIGHT

Recent polls show that Christina Kirchner should win fairly easily in the presidential election this weekend—a result that has been fully anticipated for some time. The base case for many analysts is that she will institute roughly the same policies as her husband, but she has talked about maintaining a fiscal surplus which has led some to believe she may be more orthodox. Most analysts believe that, post-election, the government will begin to report inflation in a manner closer to the truth. We think that will be very difficult since it will immediately result in higher wage demands and reveal the previous manipulation. Despite higher commodity prices, reserve accumulation has stopped and the trade surplus is dwindling. In our view, it would be too optimistic to expect these trends to reverse under a new administration.

Brazil (Jim Barrineau)

Ba2 (Positive)/BB+ (Positive)

RATING TREND ↑

Foreign Currency Debt: OVERWEIGHT

Local Currency Debt: OVERWEIGHT

The central bank paused last week, ending a string of interest rate cuts that totaled a staggering 850 basis points over more than two years. Stronger growth was the key factor in our view, and we think that as long as this continues, the bank will be more conservative. The finance minister suggested last week that Brazil could create a sovereign wealth fund when reserves hit US\$180 billion (currently US\$164 billion), but as reserve growth has stalled and the trade surplus appears (to us) to be set to shrink fairly aggressively in coming months, we thought the timing of the announcement seemed a bit odd. Recently, the central bank has allowed more appreciation with less intervention than in previous periods, which also makes continued strong reserve accumulation less likely.

Chile (Jim Barrineau)

A2/A

RATING TREND ↔

Foreign Currency Debt: MARKET WEIGHT

Local Currency Debt: UNDERWEIGHT

Total financial system loans grew 14.3% in August, and consumer loans were up 12%. Some lending regulations were tightened, but robust domestic demand is keeping the credit markets expanding and growth should be over 5% this year and next.

Colombia (Jim Barrineau)

Ba2 (Positive)/BBB-

RATING TREND ↔

Foreign Currency Debt: MARKET WEIGHT

Local Currency Debt: OVERWEIGHT

The central bank will meet Friday and we expect no change in interest rates. Inflation is moving toward the 4.5% target ceiling, and growth in industrial production in August slowed to just over 7% from multiple months at double-digit levels, suggesting that the rate hikes implemented earlier this year are providing the economy with a relatively soft landing and a lower inflation outlook.

Ecuador (Jim Barrineau)

Caa2 (Negative)/CCC (Negative)

RATING TREND ↔

Foreign Currency Debt: MARKET WEIGHT

The high price of oil is masking poor policy choices here as in other oil-producing countries. After having previously passed a decree stating that the government would take 99% of an oil company's profits above a certain level, President Correa suggested upping it to 100% this week, which would effectively force every private company into a service contract. We think this policy is going to be problematic if a private company decides to pull out. Indeed, Petroecuador, the government oil company, does not have the capacity to keep production at the same level, and the government will likely suffer.

Mexico (Jim Barrineau)

Baa1/BBB (Positive)

RATING TREND ↔

Foreign Currency Debt: MARKET WEIGHT

Local Currency Debt: MARKET WEIGHT

The finance minister was quoted at the IMF meetings saying Mexican growth will be 3% this year and 3.7% next year, with no pickup in inflation. He seemed to be lobbying for the central bank to keep rates steady at this Friday's meeting, an outcome that we expect. The central bank has been comfortable with rates near the ceiling of its target band, and we see little reason to doubt the bank will become more aggressive as food price hikes have slowed somewhat. Nevertheless, the market is growing more comfortable with an implicit target of 4% rather than the official 3%, a development the bank is probably concerned with but unsure about how or when to address.

Panama (Daniel Hewitt)

Ba1/BB (Positive)

RATING TREND ↑

Foreign currency debt: OVERWEIGHT

Economic growth has averaged 8% per annum during the last 5 years and is accelerating in 2007. Several positive trends are gaining momentum. First, Panama Canal revenues have increased by 15% per annum because of higher tolls and increased usage. Recent toll increases ensure that revenues will continue to rise. A closely related area affecting revenue is the expansion of ports—recent improvements in facilities and higher canal activity are behind this surge. Second, tourism in Panama is growing at a rate of 20% per annum. Recent private-sector investment in tourism facilities has expanded capacity in a sector that had a relatively low base to begin with. Third, construction has boomed at a rate of about 20% per annum. The boom in construction is a Central America-wide phenomenon. Finally, the canal expansion program is just getting started and will add 1% to 1½% to GDP per annum. Thus, the solid growth will continue.

Peru (Daniel Hewitt)

Ba2/BB+ (Positive)

RATING TREND ↑

Foreign currency debt: OVERWEIGHT

Local currency debt: OVERWEIGHT

Peru is a classic example of good economic policies becoming a habit. The country switched direction in economic policy in the early 1990s, bringing about a most impressive improvement in macroeconomic fundamentals and performance. Remarkably, the fourth government since this reformation, Garcia II, has not changed course or slowed reform—an indication that, rather than suffering from the often cited **Reform Fatigue**, Peru instead may have **Reform Euphoria**. Indeed, after completing a long list of reforms, the current government is moving into a whole new set. For instance, the government lowered tariff duties substantially last week so that 70% of goods have a zero tariff rate and the average rate is under 2% compared to 11% 10 years ago. The government has plans to improve the efficiency of the tax system, pass a labor reform law, and pass a new financial-sector law. These no doubt will keep productivity growth at high levels.

Last week, the Canadian rating agency DBRS upgraded Peru's foreign currency debt to investment grade. This is the first agency to do so. The rest will probably follow in 2008. Note that local currency debt is already at investment grade by all agencies.

Uruguay (Jim Barrineau)

B1/BB- (Positive)

RATING TREND ↔

Foreign Currency Debt: MARKET WEIGHT

Local Currency Debt: OVERWEIGHT

The approval rating of the president has fallen to 46% from 59%, an indication that the economy may not be perceived as having great prospects despite the strong growth of previous quarters. Uruguay is closely tied to Argentina, so any slowdown there will spill over quickly, but high inflation may be the key culprit as prices have risen around 9% year-over-year.

Venezuela (Jim Barrineau)

B2/BB-

RATING TREND ↔

Foreign Currency Debt: MARKET WEIGHT

The parallel exchange rate is near 6,000 to one versus the official rate of 2,100 and the government is not gearing up to issue any paper that would provide dollars to the market. The product shortages that are a result of price controls are causing imports to soar, and that along with runaway dollar spending means the government is reluctant to increase the supply of dollars to address the distortions of the parallel rate. We expect this to continue, and wouldn't be surprised if the Chavez administration were creating significant wealth for its members that play the difference between the exchange rates using their official positions. The perverted policy mix is likely to continue.

China (Anthony Chan)

A1/A (Positive)

RATING TREND ↑

Foreign Currency Debt: MARKET WEIGHT

Local Currency Debt: UNDERWEIGHT

The release of September economic data and third-quarter GDP were delayed to this week because of the 17th Party Congress, held last week. Government officials have, however, informally announced several key numbers which indicate that consumer price inflation has slowed to 6.2% year-on-year (from 6.5% in August), third-quarter real GDP growth eased mildly to around 11.5% year-on-year (from 11.8% in the second quarter), year-to-date fixed-asset investment moderated to 25.7% year-on-year (from 26.7% in August) and year-to-date retail sales grew further to 15.9% (from 15.7%).

The CPI trend reinforces our view that high food inflation is largely transitional and headline inflation will peak this year. We retain our CPI forecast for 2007 and 2008 at 4.6% and 3.5%, respectively. Moreover, lower inflation combined with the slight easing of fixed investment and a continued consumption recovery is in line with the policy target for re-balancing growth. We do not think these outturns will alter the direction of economic tightening, though they should help reduce the bank's urgency to intensify tightening in the near term. Excess liquidity remains the headache to policymakers and this is where tightening will continue to be focused, in order to check real activity growth.

Hong Kong (Anthony Chan)

Aa2/AA (Positive)

RATING TREND ↑

Foreign Currency Debt: MARKET WEIGHT

Local Currency Debt: UNDERWEIGHT

Consumer price inflation held up nicely in September, at a low 1.6% year-on-year (the same as August) thanks to disinflation in clothing, utilities and miscellaneous items that have offset the rise in food prices. Year-to-date inflation averaged a mere 1.5% year-on-year which suggests that the price pressure induced by a weak HK\$ (due to its peg with the US\$) is less severe than earlier envisaged. We retain our full-year 2007 inflation forecast at 1.7% and still expect the CPI will only move higher to 2.8% in 2008 as the inflationary pressure spurred by the economy's robust growth and surging asset prices will only get worse.

India (Anthony Chan)

Baa2/BBB-

RATING TREND ↑

Foreign Currency Debt: MARKETWEIGHT

Local Currency Debt: MARKETWEIGHT

The local equity market sold off sharply on October 17 (the index was down some 10% at one point before recovering in subsequent trading sessions) in response to the news that the government is considering restriction of equity inflows through Participatory Notes (P-notes). The recent influx of capital inflows into the equity market has been a headache to the central bank in its fight against rupee appreciation and the bank has been intervening heavily into the foreign exchange market in order to alleviate the appreciation pressure.

The proposed measure to restrict foreign participation in local equity investment is aimed at curbing foreign inflows into so called 'sub-accounts' where the investment is not directly registered with market regulators, and possibly derivative-related investment through these accounts. The proposed timeframe for investors to wind down these trades is within the next 18 months. The move may be considered a form of capital control but authorities argue that the prime objective is merely to increase the 'transparency' of the source of foreign investment into local equities.

Meanwhile, the Securities and Exchange Board of India (SEBI) said that, following a short period of consultation with market participants, it would come out with a finalized package. Most investors believe that what has been proposed by the SEBI will be too drastic to implement in full and expect the final version to be very much diluted in order to minimize disruption. The bottom line is that, in our view, market sentiment is likely to stay poor for a while and rupee appreciation should slow until things are cleared out.

Indonesia (Anthony Chan)

Ba3/BB-

RATING TREND ↑

Foreign Currency Debt: OVERWEIGHT

Local Currency Debt: OVERWEIGHT

Moody's upgraded Indonesia's sovereign rating by one notch to Ba3, putting it in line with S&P's and Fitch's BB- (note that Fitch has a positive outlook). The upgrade is a reward to Indonesia's track record of fiscal prudence and improvements in its external position as well as ongoing structural reforms and sound policy management. In our view, the upgrade by Moody's is long overdue. Indeed, our risk-ranking model has placed the sovereign at the higher level of the BBB range for a while. This means Indonesia is still underrated by at least 3-4 notches, based on our own assessment.

Korea (Anthony Chan)

A2/A

RATING TREND ↑

Foreign Currency Debt: MARKET WEIGHT

Local Currency Debt: MARKET WEIGHT

The unemployment rate (seasonally adjusted) was unchanged at 3.2% in September, with job growth maintaining its year-long 1.3% year-on-year growth rate. Improving consumption is set to stimulate more service-sector hiring, especially at retail/wholesale firms, which was down by 0.5% year-on-year last month. Third-quarter GDP will be released on Thursday but already the central bank has hinted that it will raise its 2007 economic growth forecast to 5% (from 4.5% currently), in line with our 5% projection. We expect third-quarter growth to show a recovery to a rate of around 5.5% year-on-year from 5% in the second quarter. The growth recovery plus an expected gradual inflation pickup support our forecast for higher bond yields over the next 6 months. We retain our 6-month forecast for 10-year yields at 5.8% vs. the current 5.48%.

Malaysia (Anthony Chan)

A3/A-

RATING TREND ↔

Foreign Currency Debt: MARKET WEIGHT

Local Currency Debt: MARKET WEIGHT

Central bank Governor Zeti reiterated her usual argument that the current policy rate—at 3.5% for the overnight rate—is ‘appropriate’ for growth despite the fact that the US housing recession threatens to cause a curbing of demand for the country’s exports. Near-term food-induced inflation risk and the government’s stepped-up fiscal stimulation during coming years will continue to limit the flexibility of monetary policy. We retain our call for no change in the policy rate over the next six months with back-end bond yields drifting higher as economic recovery gathers pace. We maintain our six-month forecast for the 10-year bond yield of 3.9% vs. the current 3.7%.

Philippines (Anthony Chan)

B1/BB-

RATING TREND ↑

Foreign Currency Debt: OVERWEIGHT

Local Currency Debt: OVERWEIGHT

The September budgetary result was better than expected once again, with the monthly deficit staying below the official target by 15% thanks to the 9.8% year-on-year jump in revenue which outpaced the 6% rise in government expenditure. This puts the first nine months’ budget deficit at only PHP40 billion, 26% smaller than targeted.

Against the backdrop of improving fiscal consolidation plus the need to curb the rapid peso appreciation, Finance Minister Teves said the portion of foreign financing needed for the 2008 budget may be reduced to 30% of total fund-raising from the original 36%. The proposed funding plan for the 2008 budget included a total of US\$2.8 billion in foreign borrowing, of which US\$1 billion would be from commercial sources. The bottom line is that Indonesia has already overtaken the Philippines as Asia’s top high-yield sovereign issuer, with its plan to issue some US\$3 billion in offshore bonds in 2008 following an estimated US\$1.5 billion in 2007.

Singapore (Anthony Chan)

Aaa/AAA

RATING TREND ↔

Foreign Currency Debt: MARKET WEIGHT

Local Currency Debt: OVERWEIGHT

Inflation surprised on the downside in September, up 2.7% year-on-year which was lower than 2.9% in August. The consensus expected above-3% inflation in September given the lingering effect from July's goods and services tax hike. The outcome suggests that the tax-induced price pressure may have receded earlier than thought. While food inflation continued to rise by 0.4% month-on-month in September, the clothing and transportation/communication components both showed a 1.2% month-on-month drop last month.

Inflation in the first nine months averaged 1.4% year-on-year, and, if we assume the CPI persists at around the 2.5-3% year-on-year growth range in the fourth quarter, we expect full-year 2007 inflation will be contained at around our 1.7% forecast level. The bottom line is that the SG\$ appreciation policy will remain and appears to have been effective in checking inflation amid a booming economy. Although asset price inflation will continue to accelerate, the government likely will focus on sector-specific supply measures to deal with rising property prices.

Overall, we expect that short-term interest rates will stay benign and continue to hold back-end yields at sub-3% levels (10-year sector) during the next 6 months.

Thailand (Anthony Chan)

Baa1/BBB+

RATING TREND ↔

Foreign Currency Debt: UNDERWEIGHT

Local Currency Debt: MARKET WEIGHT

September export growth slowed to 10.4% year-on-year from 18% in August. The renewed currency appreciation could be a reason behind the export slowdown, which also highlights the heavy foreign currency intervention by the central bank to curb baht strength over the past month. We expect the bank to cut its policy rate by 25 basis points before year-end, which should achieve the objective of boosting domestic demand as well as help alleviate currency pressure. Accordingly, we expect a bullish steepening of the local-currency yield curve, with 10-year bond yields falling to 4.5% in six months' time from the current 4.8%.

Kazakhstan (Alexander Moseley)

Baa2/ BBB-

RATING TREND ↓

Foreign Currency Debt: UNDERWEIGHT

Local Currency Debt: UNDERWEIGHT

Anecdotal evidence suggests that sentiment-driven selling pressure has eased, but deposit data for September indicate that underlying liquidity pressures on the banking system remain. Overall banking system deposits fell 2.2% in September, an increase from the 1% drop experienced in August. Since end-July, deposits have fallen by 3.1%, or US\$1 billion, which puts funding pressure on the banks as they service their external obligations.

The central bank governor said that currency interventions have essentially stopped. He repeated that the tenge should remain stable for the rest of the year, supported by a fourth quarter rise in foreign currency supply as exporters pay year-end tax bills. He also repeated government plans to make additional banking-sector liquidity support contingent upon banks agreeing to slow external loan growth since, we suspect, the central bank does not want its assistance to simply flow abroad. He also said that the central bank could raise interest rates next year as inflation has surged. In our view, the jury is still out on the outlook for reserve sales and policy tightening given the need for balance of payments adjustment and tight liquidity conditions.

Poland (Alexander Moseley)

A2/A-

RATING TREND ↔

Foreign Currency Debt: MARKET WEIGHT

NEW Local Currency Debt: MARKET WEIGHT (From Underweight)

We have upgraded our Poland local-currency debt recommendation to market weight (from underweight) to reflect the abrupt, positive shift in the outlook for structural reform given the unexpected outcome of Sunday's parliamentary elections, and a recent rise in official rate-hike expectations by the market. We are revising our currency forecast to 3.70 zloty per euro (from 3.75) and 2.69 zloty per dollar (from 2.73) to reflect the positive reform outlook, but note that volatility is likely to increase since a steadily worsening current account position suggests that capital flows will be the main driver of currency movement going forward.

Russia (Alexander Moseley)

Baa2/ BBB+

RATING TREND ↔

Foreign Currency Debt: OVERWEIGHT

Local Currency Debt: MARKET WEIGHT

Most September data show a slight slowing in the economy as expected, but a still-robust level of activity overall. Real investment growth slowed to 16.1% year-over-year from a peak of 27% in June; real retail sales grew at 15.4% versus 16.0% last month; and wage growth remained steady at 14%. Overall, we expect growth to slow slightly on a slowdown in credit growth from tight banking-sector liquidity (we already revised down our forecast in August to reflect this), but to still remain robust overall given strong foreign direct investment inflows, a rise in government investment spending, high oil prices, and booming personal consumption. Separately, reserves rose US\$8.8 billion last week (adjusted for valuation changes), marking a sharp upswing from virtually no average change since August. The rise likely reflects a surge in capital inflows as inflation accelerates.

South Africa (Daniel Hewitt)

Baa1 (Positive)/BBB+

RATING TREND ↔

Foreign currency debt: MARKET WEIGHT

Local currency debt: MARKET WEIGHT

South Africa is suffering an increase in inflation, like everyone else, due to higher food and oil prices. However, most emerging market countries are ignoring headline inflation and concentrating on core inflation and therefore their reactions to higher inflation have been only muted. For South Africa it has been different because of the timing in its business cycle. The central bank had gone through a long and extended rate increase cycle and expected to achieve results. However, just when policymakers thought inflation would start to decline, world-induced price increases sent inflation higher. The bank interpreted the high inflation as a signal that its policy tightening was not working, and has increased rates 150 basis points since April to 10.5%. Unfortunately, base effects over the next few months will cause inflation to drift still higher. Therefore, it is possible that the bank will keep raising rates. The only factor that we think would prevent further increases, other than an unexpected drop in inflation, would be clear evidence of growth deceleration. The evidence so far has been inconclusive.

Turkey (Daniel Hewitt)

Ba3/BB-

RATING TREND ↔

Foreign currency debt: OVERWEIGHT

Local currency debt: OVERWEIGHT

A military move against Kurdish rebel camps in Northern Iraq is becoming more probable. Parliament passed a bill sanctioning the move last week. The population is now pressuring the government and military to take action. PKK has upped the tensions in an apparent strategy to provoke the Turkish government. Both the Iraqis and the US would like the problem to just go away. At this juncture, concrete action will have to be taken to prevent Turkey from carrying through on its threat to attack.

The reaction of financial markets in all probability will be negative. The exact circumstances will be very important, as will the US reaction. Turkish assets will certainly trade up if a peaceful settlement can be found that avoids this attack.

Turkey is moving into a new stage of macroeconomic policy. The central bank is lowering policy rates, declaring victory over inflation. The central government is decreasing its primary surplus target, declaring victory over debt dynamics. The government will most likely succeed in implementing these policies without negative consequences, in part because economic growth is slowing somewhat. There is a risk, however, that policymakers will move too far and too fast, as happened in 2006.