WEEKLY EM VIEW

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Spot Level	BBH Outlook* 1wk	1mo	Driving Forces	Capital Market Trends
Chinese yuan 6.8348	↔	↔	• CNY should continue trading sideways in Q4 and Q1; PBOC will continue to cut rates and reserve requirements in 2009. • Oct data suggests slowdown is deepening, so we see more fiscal stimulus ahead as well; 12-mo NDFs pricing in 2.7% depreciation.	Yields: Slowing growth will keep rate cut cycle alive in 2009.
Malaysian ringgit 3.6325	↑	↑	• Central bank should cut rates when it meets next week, as growth is slowing even as inflation eased to 7.6% y/y in Oct from 8.2%. • Political uncertainty continues despite the failure of opposition leader Anwar to unseat the government.	Yields: Central bank likely to commence easing soon due to growth concerns.
Philippine peso 49.71	↑	↑	• Central bank kept rates steady this week, citing concerns about the weak peso fanning inflation; we think this is misguided. • Growth is very much at risk, and so we see rate cuts commencing by Q1 at the latest.	Yields: Central bank likely to start cutting rates soon due to growth concerns.
Vietnam dong 16972	↑	↑	• Central bank cut rates another 100 bp this month, and has eased 300 bp since Oct; it will continue cutting rates as inflation eases. • Growth is slowing, so govt planning to cut taxes and boost spending; we do not see any major dong devaluation.	Yields: Central bank likely to continue cutting rates due to slowing growth.
Israeli shekel 3.9827	↑	↑	• Central bank cut 2009 growth forecast to 1.5% from 2.7%; Gov Fischer sees further easing, and 25 bp cut is expected next week. • Leading index has fallen five straight months, so risks to the economy are rising; govt proposed $5.5 bln fiscal stimulus plan.	Yields: Central bank likely to cut rates further in Q4 and in 2009.
Latvian lat 0.5656	↑	↑	• Rumors of a devaluation are making the rounds even as Latvia is in talks with IMF about $2.1 bln loan program. • Central bank is burning through reserves defending the peg against EUR, but this is unsustainable in our view.	Equities: GDP contracted 4.2% y/y in Q3, and 2009 outlook is poor for growth and equities.
South African rand 10.6340	↑	↑	• Inflation likely eased even further in Oct, so with growth concerns rising, SARB likely to cut rates in Dec. • ZAR to remain under pressure, as fundamentals remain weak; political risks are rising with the split in the ruling ANC.	Yields: SARB to cut rates regularly in 2009, perhaps totaling 300-400 bp.
Turkish lira 1.6780	↑	↑	• Central bank surprised markets with 50 bp cut this week, so if IMF has signed off on this easing, more cuts are likely in 2009. • Current account deficit fell sharply in Sep, and should narrow further as growth slows; however, Turkey remains vulnerable.	Equities: Growth outlook has improved with rate cut, but equities are still vulnerable.
Argentine peso 3.3340	↑	↑	• Economy is already slowing sharply; fiscal stimulus plan being discussed, but funding it will be difficult. • Kirchner's move to seize control of private pension funds is a sign of desperation, with crisis likely sooner (2009) rather than later.	Equities: Growth outlook is worse due to policy mistakes by the government.
Brazilian real 2.4395	↑	↑	• Next COPOM meeting Dec 9/10; bank cannot think about tightening further, and will eventually cut rates in 2009. • Fundamentals remain sound, but BRL is vulnerable to lower commodity prices and overall pessimism on EM.	Yields: Market now sees end-2008 policy rate at the current 13.75% and end-2009 at 13.25%.
Chilean peso 682.60	↑	↑	• Central bank kept rates steady in Nov; no move is seen in Dec, and slow growth should lead to rate cut by Q1. • Inflation remains high at 9.9% y/y in Oct, but policy-makers should be more worried about recession risks.	Equities: Slower growth is likely to weigh on equities.
Mexican peso 13.926	↑	↑	• Recent weak data suggests fallout from US slowdown is being felt; central bank not expected to cut next week, though. • Congress passed 2009 budget; deficit projected due to extra spending, but Mexico has leeway to use fiscal stimulus.	Yields: Given weakness in economy, we think central bank will cut rates in Dec or Q1.

*** Directional arrows reflect the expected trends in the dollar against the stated currency.**

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