

Emerging Financial Market Watch

No. 3

May 05, 2009

Overview

Table of Contents

Focus	p. 2
FX Market	p. 4
Equity Market	p. 6
Bond Market	p. 8
Credit Rating	p. 10
External Debt	p. 12
Macroeconomic Data	p. 13

The financial markets in emerging economies have seen signs of stabilization, since the stimulus packages and supportive measures from the worldwide governments started to gain traction. As the US financials posted better than expected first quarter results and the investors' risk appetite continued to increase, the financial indicators extended their rebound further. We view that the global economy has gradually stabilized, but there is still a long way to go for a recovery.

Focus: What does swine flu mean for China?

The outbreak of the swine flu in Mexico and its spread to other countries have inevitably raised the questions about its economic and market impact. While the economic impact of swine flu is dependent on the severity and duration of the outbreak, we think that the negative impact could be less concerned based on the current information, though the WHO raised the alarm to Phase 5. The major reasons are:

1. Swine flu appears to be treated by the existing flue medicine including Tamiflu in particular.
2. The world is much prepared and fast reacted to the crisis particularly thanks to experience of the SARS and the persistent threat of avian flu.
3. Global tourism and trade activities have remained slow amid the financial crisis, and thus the outbreak of the flu does not bring too much additional panic and shock.

We expect the impact of swine flu on China is much smaller than the SARS. Even in the case of the SARS, the economic costs in China turned out to be much smaller than initially feared, as the consumption quickly rebounded after the panic. We will continue closely monitoring the development of the flu, but see no reasons to be panic.

Authors:

Yifan Hu

(o) 852-22379116

yifanhu@citics.com.hk

Alexis Garatti

(o) 852-22379117

alexisgaratii@citics.com.hk

Kenneth Siu

(o) 852-22379118

kennethsiu@citics.com.hk

Fei Xue

(o) 852-22379119

xuefei@citics.com.hk