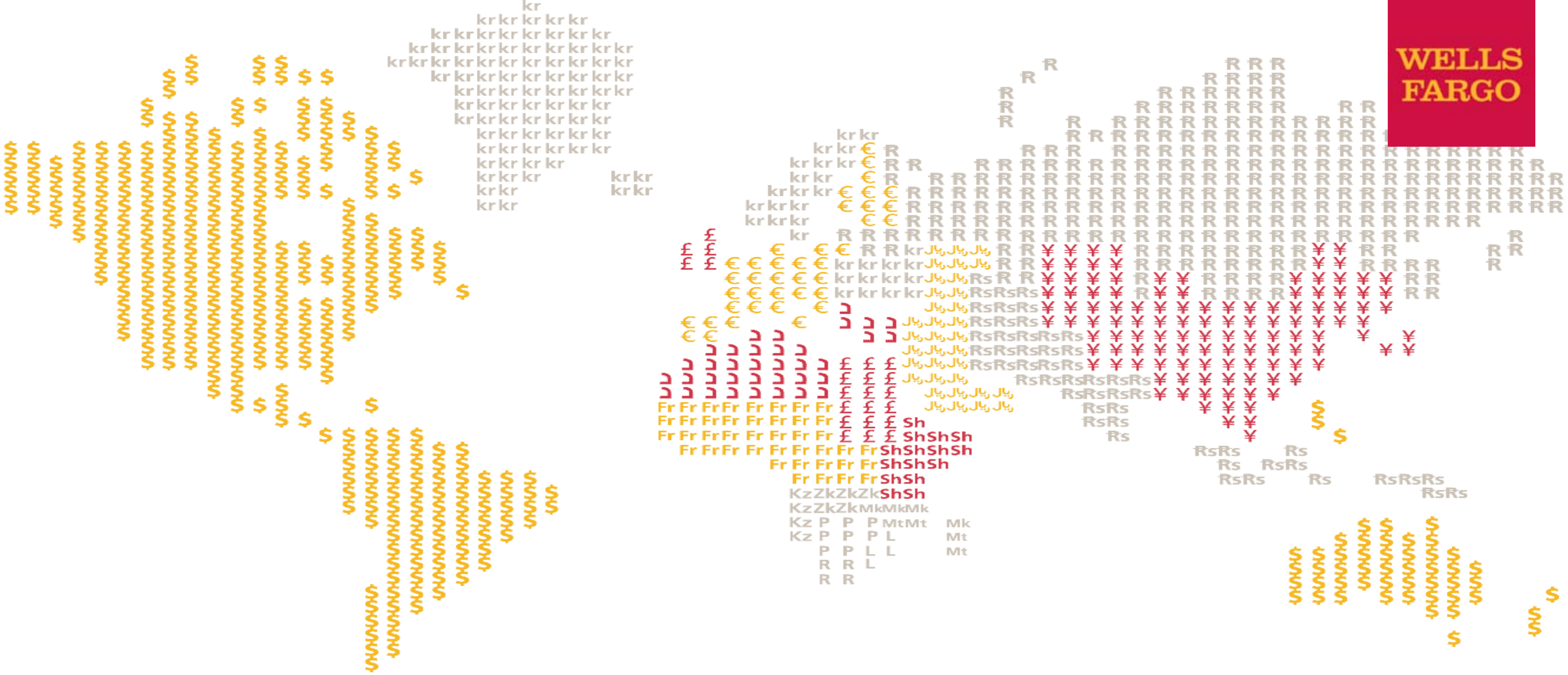

# GLOBAL EMERGING MARKETS

## Outlook and Challenges - 2010

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# I. Initial Outlook

# II. Trends and Concerns in 2010

# III. Regional Perspectives

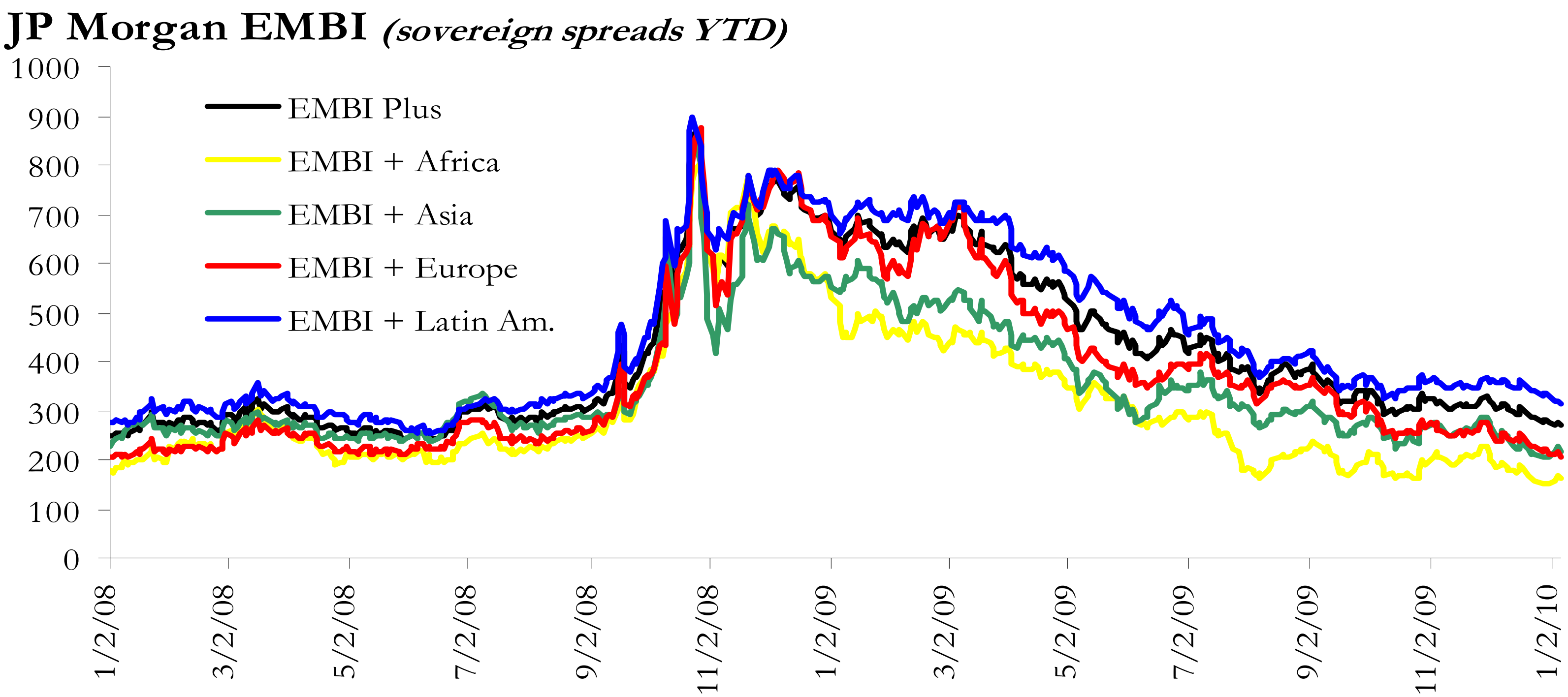
- Asia
- EEMEA
- Latin America

# IV. Conclusions

# V. Q & A

# Global Emerging Markets -- Initial Outlook

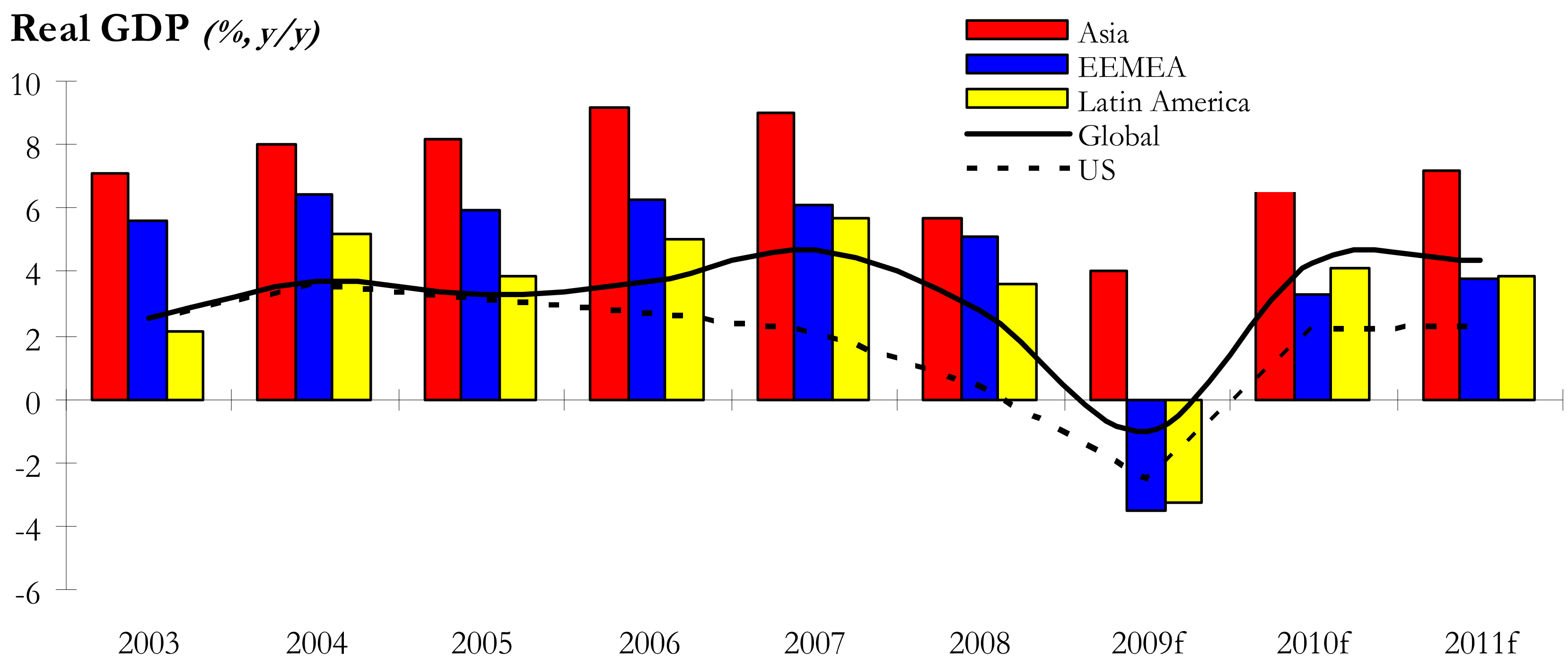
GEM asset prices affected by the financial turmoil, ensuing recession.




Source:JP Morgan

# Global Emerging Markets -- Initial Outlook

Sustained economic expansion in recent years, but impacted by the crisis.




Source: Wells Fargo CRM

# Global Emerging Markets -- Initial Outlook

## GEMs fared better than most

1. Firmer macroeconomic foundation
2. Well-regulated financial systems
3. Aggressive and timely policy responses
4. Multilateral support
5. Improving political stability

# Global Emerging Markets -- Trends

- **GEM outperformance to continue in 2010**
- **Slow fiscal consolidation**
- **Subdued inflation**
- **Gradual monetary policy normalization**
- **Continued external liquidity support**

# Global Emerging Markets -- Trends

## Economic activity across the Global Emerging Markets will continue to out-perform the developed bloc in 2010 and 2011

**Real GDP** *(%, y/y)*

| | 2008 | 2009f | 2010f | 2011f |
|---|---|---|---|---|
| **Emering Markets** | **5.0** | **0.8** | **5.9** | **6.1** |
| **Developed Bloc** | **0.4** | **-3.3** | **2.3** | **2.5** |
| **US** | 0.4 | -2.5 | 2.2 | 2.3 |
| **EU** | 0.6 | -3.9 | 1.9 | 2.5 |
| **UK** | 0.6 | -4.6 | 1.7 | 2.3 |
| **Japan** | -0.7 | -5.3 | 2.3 | 1.6 |
| **Canada** | 0.4 | -2.5 | 2.3 | 2.8 |

Source: Wells Fargo Economics, Wells Fargo CRM

# Global Emerging Markets -- Trends

The need to maintain an accommodative fiscal stance will remain a priority as final demand conditions remain inherently weak. Consolidation of the fiscal accounts will be slow and gradual.

**Fiscal Balance *(% of GDP)***

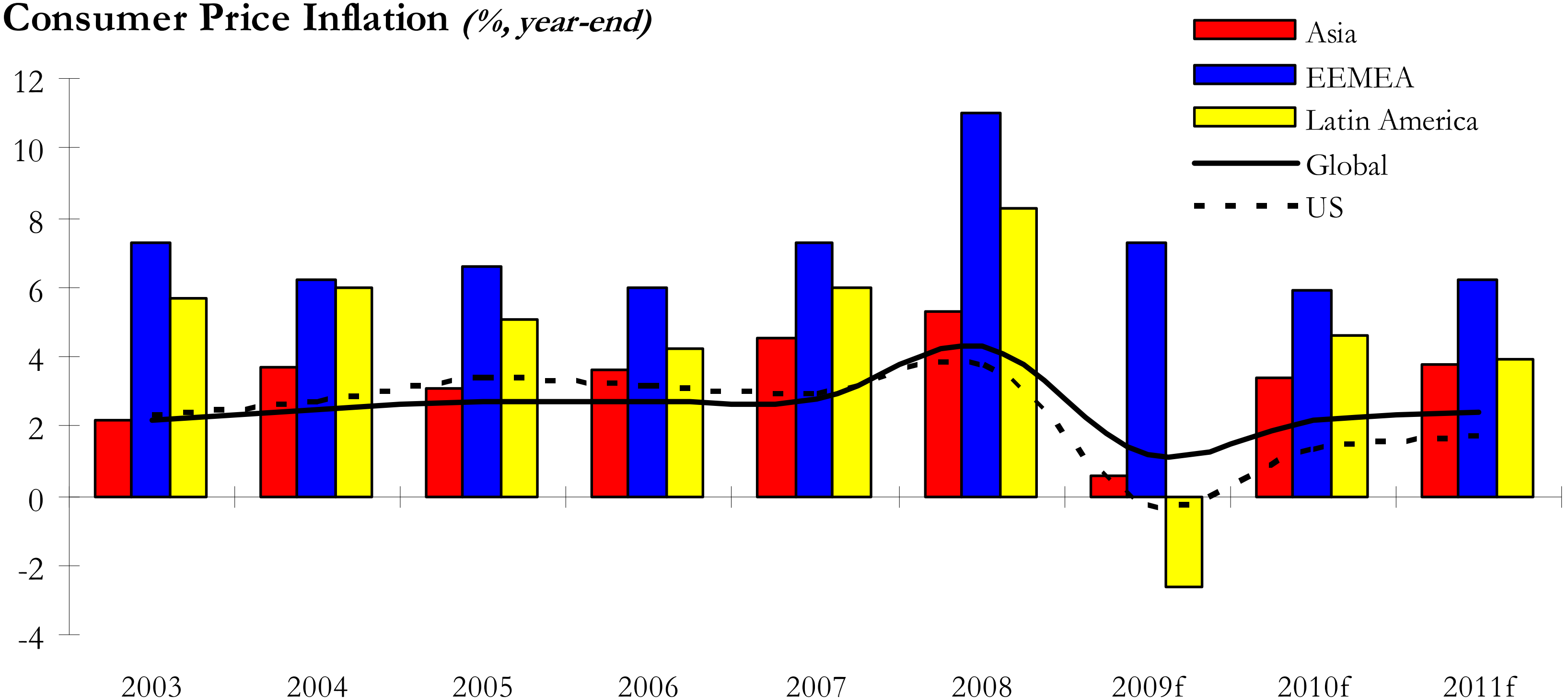
| | 2008 | 2009f | 2010f | 2011f |
|---|---|---|---|---|
| **Developed Bloc** | **-3.4** | **-8.8** | **-7.9** | **-7.2** |
| **Emering Markets** | **-1.3** | **-4.5** | **-3.5** | **-3.4** |
| **Asia** | -1.5 | -4.2 | -3.1 | -2.8 |
| **EEMEA** | -0.3 | -6.5 | -5.5 | -5.2 |
| **Latin America** | -0.9 | -3.2 | -2.8 | -2.8 |

Source: Wells Fargo CRM

# Global Emerging Markets -- Initial Outlook

## Inflation to remain highly unthreatening, but uneven and reflective of still depressed domestic demand conditions

**Consumer Price Inflation** *(%, year-end)*




Source: Wells Fargo CRM

# Global Emerging Markets -- Trends

## The burden of unwinding most of the policy stimulus will lie on monetary policy, yet rate normalization will proceed in a gradual manner

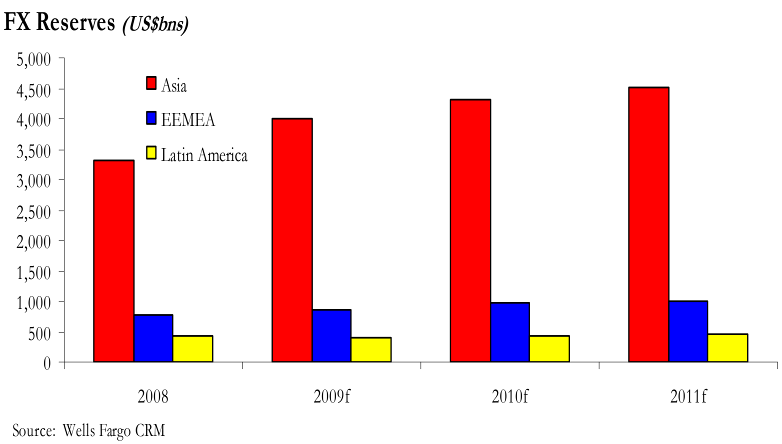
**GEM Policy Rates: Trends and Forecasts**

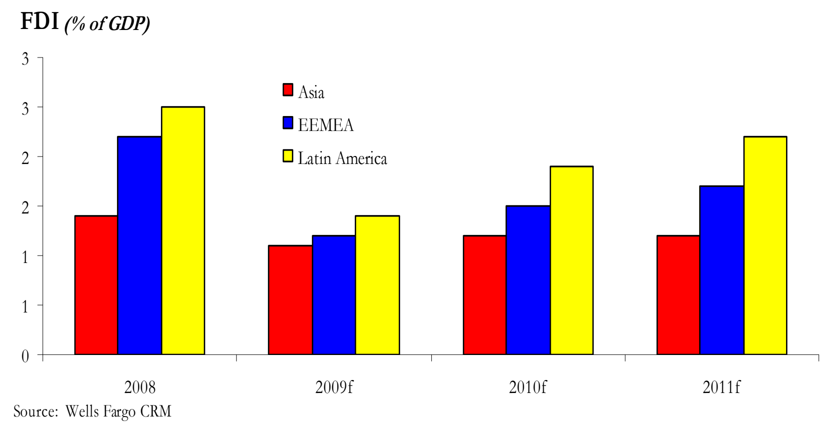
| Country | Interest Rate | Year-end 2009 | Year-end 2010 | Rate Hike Timing |
|---|---|---|---|---|
| ***Latin America*** | | | | |
| Brazil | *Selic Rate* | 8.75 | 9.50 | 2Q 2010 |
| Chile | *Discount Rate* | 0.50 | 1.50 | 3Q 2010 |
| Colombia | *Repo Rate* | 3.50 | 4.25 | On hold |
| Mexico | *Fondeo Rate* | 4.50 | 5.25 | 3Q 2010 |
| Peru | *Reference Rate* | 1.25 | 2.25 | 2Q 2010 |
| ***EMEA*** | | | | |
| Czech Rep | *2-week Repo Rate* | 1.00 | 3.00 | 3Q 2010 |
| Hungary | *2-week Discount Rate* | 6.00 | 5.25 | Easing - on hold |
| Israel | *Base Rate* | 1.00 | 4.00 | Tightening |
| Poland | *7-day Rate* | 3.50 | 4.00 | 2Q 2010 |
| Romania | *Base Rate* | 8.00 | 6.00 | Easing - on hold |
| Russia | *1-week Deposit Rate* | 4.50 | 3.00 | Easing |
| South Africa | *Repo Rate* | 7.00 | 7.50 | 4Q 2010 |
| Turkey | *Overnight Rate* | 6.50 | 7.50 | 3Q 2010 |
| ***ASIA*** | | | | |
| China | *1-year Working Capital* | 5.31 | 5.85 | 4Q 2010 |
| India | *Repo Rate* | 4.75 | 5.50 | 1Q 2010 |
| Indonesia | *BI Rate* | 6.50 | 7.00 | On hold |
| Malaysia | *Overnight Policy Rate* | 2.00 | 3.00 | 3Q 2010 |
| Philippines | *Reverse Repo Rate* | 4.00 | 4.50 | 4Q 2010 |
| South Korea | *Overnight Call Rate* | 2.00 | 3.00 | 1Q 2010 |
| Taiwan | *Discount Rate* | 1.25 | 1.50 | 4Q 2010 |
| Thailand | *1-day Repo Rate* | 1.25 | 2.00 | 3Q 2010 |
| Vietnam | *Base Rate* | 7.00 | 11.00 | 1Q 2010 |

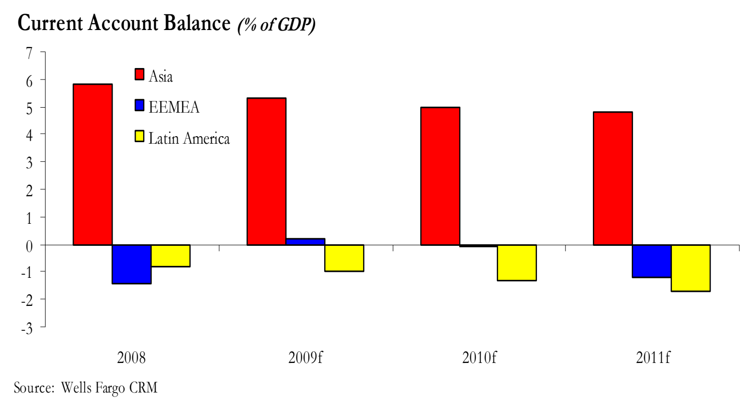
Source: Bloomberg. Forecast: Wells Fargo CRM

# Global Emerging Markets -- Initial Outlook

## Strong external liquidity cushions underscores the region's capacity to address both external and domestic shocks



# Global Emerging Markets -- Concerns for 2010

- **Sustaining the recovery, while rebalancing the economy**
- **Managing the policy un-winding**
- **Budding fiscal pressures, repercussions**
- **Intervention (FX) retention**
- **Politics still matter**

# Global Emerging Markets -- ASIA Outlook

WELLS FARGO

## STRENGTHS

- Strong growth prospects
- Robust fiscal and external liquidity position/buffers
- Low political risks, sound banking sector dynamics

**Real GDP** ***(%, y/y)***

| | 2008 | 2009f | 2010f | 2011f |
|---|---|---|---|---|
| China | 9.0 | 8.6 | 9.5 | 9.0 |
| Hong Kong | 2.4 | -3.1 | 3.5 | 4.0 |
| India | 7.3 | 6.1 | 7.5 | 6.9 |
| Indonesia | 6.1 | 4.2 | 5.0 | 4.8 |
| Philippines | 3.8 | 1.0 | 4.5 | 4.0 |
| Malayisa | 4.6 | -3.0 | 5.0 | 3.2 |
| Singapore | 1.1 | -2.9 | 5.0 | 4.8 |
| South Korea | 2.2 | 0.3 | 4.6 | 4.9 |
| Taiwan | 0.1 | -4.2 | 4.5 | 5.0 |
| Thailand | 2.6 | -3.0 | 3.7 | 5.1 |
| Vietnam | 6.2 | 4.4 | 5.8 | 6.2 |

Source and Forecasts: Wells Fargo CRM

## CHALLENGES

- Deep dependency on external demand
- Susceptible to external shocks
- Budding inflationary worries

**Current Account** ***(% of GDP)***

| | 2008 | 2009f | 2010f | 2011f |
|---|---|---|---|---|
| China | 9.8 | 7.5 | 8.5 | 7.8 |
| Hong Kong | 14.2 | 11.7 | 10.8 | 10.2 |
| India | -2.2 | -2.1 | -2.3 | -2.5 |
| Indonesia | 0.1 | 1.0 | 0.9 | 0.6 |
| Philippines | 2.5 | 3.4 | 1.3 | 1.0 |
| Malayisa | 17.9 | 13.4 | 11.0 | 10.0 |
| Singapore | 14.8 | 10.0 | 11.5 | 10.9 |
| South Korea | -0.6 | 4.5 | 1.5 | 0.8 |
| Taiwan | 6.4 | 7.9 | 7.7 | 7.2 |
| Thailand | -0.1 | 4.9 | 2.7 | 1.5 |
| Vietnam | -11.9 | -9.7 | -9.4 | -9.4 |

Source and Forecasts: Wells Fargo CRM

# Global Emerging Markets -- EEMEA Outlook

## STRENGTHS

- Emerging recovery, deep EU links
- Flexible FX mechanisms, underlying multilateral support
- High carry appeal, FDI attraction

## CHALLENGES

- Sustaining the recovery
- Growing fiscal constraints
- Weak/vulnerable financial system
- Underlying political risks

**Real GDP** *(%, y/y)*

| | 2008 | 2009f | 2010f | 2011f |
|---|---|---|---|---|
| Azerbaijan | 10.8 | 5.5 | 6.5 | 6.0 |
| Croatia | 2.4 | -6.2 | -1.5 | 1.5 |
| Czech Rep. | 2.3 | -4.1 | 0.8 | 2.0 |
| Hungary | 0.6 | -6.3 | -0.5 | 2.0 |
| Israel | 3.9 | 0.3 | 2.9 | 3.5 |
| Kazakhstan | 3.3 | -1.2 | 2.8 | 4.5 |
| Poland | 4.8 | 0.9 | 1.8 | 2.8 |
| Romania | 7.1 | -6.2 | 0.9 | 3.0 |
| Russia | 5.6 | -7.8 | 3.8 | 4.5 |
| Slovenia | 6.8 | 3.5 | -6.5 | 0.5 |
| South Africa | 3.1 | -2.0 | 3.0 | 3.3 |
| Turkey | 1.7 | -6.1 | 4.0 | 3.9 |
| Ukraine | 2.1 | -14.0 | 2.8 | 4.0 |

Source and Forecasts: Wells Fargo CRM

**Fiscal balance** *(% of GDP)*

| | 2008 | 2009f | 2010f | 2011f |
|---|---|---|---|---|
| Azerbaijan | -1.50 | -1.20 | -0.80 | -0.40 |
| Croatia | -0.80 | -3.90 | -3.60 | -3.30 |
| Czech Rep. | -2.10 | -6.20 | -5.90 | -5.00 |
| Hungary | -5.60 | -3.30 | -4.30 | -3.80 |
| Israel | -2.50 | -5.40 | -4.40 | -4.00 |
| Kazakhstan | -2.60 | -4.00 | -0.90 | 0.00 |
| Poland | -3.90 | -5.50 | -6.50 | -4.80 |
| Romania | -5.60 | -9.10 | -7.50 | -6.20 |
| Russia | 4.20 | -6.80 | -5.60 | -4.80 |
| Slovenia | 0.30 | -0.30 | -5.80 | -4.80 |
| South Africa | -1.00 | -7.00 | -6.50 | -5.90 |
| Turkey | -1.70 | -6.20 | -4.90 | -4.00 |
| Ukraine | -1.40 | -9.50 | -6.50 | -4.00 |

Source and Forecasts: Wells Fargo CRM

# Global Emerging Markets -- Latin America Outlook

## STRENGTHS

- Well-placed, yet uneven recovery
- Sound fiscal and external liquidity position/buffers
- Well-managed banking sector dynamics

**Real GDP** ***(%, y/y)***

| | 2008 | 2009f | 2010f | 2011f |
|---|---|---|---|---|
| **Argentina** | 6.8 | -2.9 | 3.0 | 3.5 |
| **Brazil** | 5.1 | 0.1 | 4.5 | 4.2 |
| **Chile** | 3.2 | -1.6 | 4.0 | 4.6 |
| **Colombia** | 2.4 | 0.2 | 2.8 | 3.9 |
| **Ecuador** | 6.5 | 0.7 | 1.3 | 2.8 |
| **Mexico** | -1.3 | -7.5 | 3.3 | 3.8 |
| **Peru** | 9.8 | 0.9 | 2.8 | 4.2 |
| **Venezuela** | 4.8 | -2.8 | 0.9 | 1.8 |
| **Caribbean Basin** | 3.0 | -0.6 | 1.6 | 1.8 |
| **Central America** | 4.2 | -0.8 | 1.8 | 2.0 |

Source and Forecasts: Wells Fargo CRM

## CHALLENGES

- Deep dependency on external demand
- Fragile domestic demand conditions
- Political pressures via elections and heterodox policy management

**CPI** ***(%, y/y)***

| | 2008 | 2009f | 2010f | 2011f |
|---|---|---|---|---|
| **Argentina** | 7.7 | 7.0 | 9.0 | 10.0 |
| **Brazil** | 5.9 | 4.4 | 4.6 | 4.7 |
| **Chile** | 7.1 | -0.7 | 2.2 | 3.0 |
| **Colombia** | 7.7 | 4.5 | 4.0 | 4.7 |
| **Ecuador** | 8.4 | 3.8 | 3.5 | 3.0 |
| **Mexico** | 5.1 | 4.3 | 4.5 | 5.0 |
| **Peru** | 6.7 | 0.6 | 2.1 | 2.8 |
| **Venezuela** | 30.4 | 29.0 | 35.0 | 39.0 |
| **Caribbean Basin** | 12.0 | 3.3 | 3.2 | 3.4 |
| **Central America** | 11.2 | 3.7 | 3.8 | 4.0 |

Source and Forecasts: Wells Fargo CRM

# Global Emerging Markets -- Conclusions

- **GEM to lead global economy, not drive growth on its own**
- **Reform fatigue to continue**
- **Politics to play a critical role in 2010**
- **Increased GEM risk segregation**

# Global Emerging Markets -- Conclusions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