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Global

The Global Monetary Analyst Could Hyperinflation Happen Again?

One stark lesson from the ongoing financial and economic crisis is that so-called black swans – large-impact, hard-to-predict and seemingly rare events – can occur more frequently than generally believed. With policymakers around the world throwing massive conventional and unconventional monetary and fiscal stimuli at their economies, we think that it is worth exploring the black swan event of very high inflation or even hyperinflation. While such an outcome is clearly not our main case, the risk of hyperinflation cannot be dismissed very easily any longer, in our view. We discuss the historical evidence, the conditions that can lead to very high or hyperinflation, and whether and how it might happen again.

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Key Central Bank Risk Events

Date	Country	Event
28-Jan	US	Rate decision: Expect on-hold
29 Jan	New Zealand	Rate decision: Expect 100bp cut
30-Jan	Norway	Dep Governor Qvigstad speech
30-Jan	Colombia	Rate decision: Expect 50bp cut
03-Feb	Australia	Rate decision: Expect 50bp cut
04-Feb	Romania	Rate decision: Expect 50bp cut
04-Feb	South Africa	Rate decision: Expect 100bp cut
04-Feb	Indonesia	Rate decision: Expect 25bp cut
04-Feb	Norway	Rate decision: Expect 50bp cut
05-Feb	Euro Area	Rate decision: Expect on-hold
05-Feb	UK	Rate decision: Expect on-hold
05-Feb	Czech Rep.	Rate decision: Expect 50bp cut
05-Feb	Chile	Monetary Policy Meeting minutes
05-Feb	Peru	Rate decision: Expect on hold

What's Changed?

	Forecast Changes Since Last Week
US	GDP: -6.5% end 4Q08; prev. -6.0%
Turkey	Policy rates: 11.5, 12.5% end '09, '10; prev. 12, 13%
Israel	Policy rates: 0.5, 3% end '09, '10; prev. 1, 3.5%
UAE	Policy rates: 1, 3% end '09, '10; prev. 1.5, 3.5%

Where Do We Differ Most from the Market?

ECB to cut more aggressively (to 1%) this quarter than mkt expects (p 14)
Bank of Japan expected to move to ZIRP this quarter (page 14)
Bank of England expecting fewer cuts than the market (page 14)

For important disclosures, refer to the Disclosure section.

Could Hyperinflation Happen Again?

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- One stark lesson from the ongoing financial and economic crisis is that so-called black swans – large-impact, hard-to-predict and seemingly rare events – can occur more frequently than generally believed.
- With policymakers around the world throwing massive conventional and unconventional monetary and fiscal stimuli at their economies, we think that it is worth exploring the black swan event of very high inflation or even hyperinflation.
- While such an outcome is clearly not our main case, the risk of hyperinflation cannot be dismissed very easily any longer, in our view. We discuss the historical evidence, the conditions that can lead to very high or hyperinflation, and whether and how it might happen again.

According to Philip Cagan’s (1956) classical definition, hyperinflation is an episode where the inflation rate exceeds 50% *per month*. The historical examples of hyperinflation mostly occurred in the 1920s, when Austria, Germany, Hungary, Poland and Russia experienced galloping price increases. For example, Germany in 1923 recorded an astronomical inflation rate of 3.25 million percent in a single month. Since the 1950s, hyperinflations have been confined to developing and transition economies. Some recent examples include Argentina (1989-90), Bolivia (1984-85), Brazil (1989-90), Peru (1990), Ukraine (1991-94) and Zimbabwe in the past several years.

The root cause of hyperinflation is excessive money supply growth, usually caused by governments instructing their central banks to help finance expenditures through rapid money creation. Hyperinflations have mostly occurred in a context of political instability, adverse economic shocks and chronically high fiscal deficits. Hyperinflationary episodes are characterised by a general loss of confidence in the value of money, a flight into real assets and hard currencies, a surge in barter trade, and a shrinkage of financial intermediation and thus of the banking system.

An important empirical feature of hyperinflations is the high correlation of money supply growth and inflation rates. Exhibit 1, which lists the average growth rates of the price level and the money supply during hyperinflationary periods, illustrates this point.

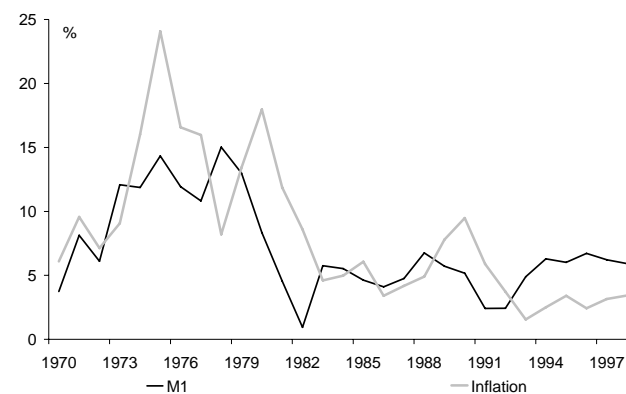
Exhibit 1
Historical Hyperinflations: Average Money Growth and Inflation

Country	Start	End	Average monthly inflation (%)	Average monthly money growth (%)
Austria	Oct. 1921	Aug. 1922	47	31
Germany	Aug. 1922	Nov. 1923	322	314
Greece	Nov. 1943	Nov. 1944	365	220
Hungary (I)	Mar. 1923	Feb. 1924	46	33
Hungary (II)	Aug. 1945	Jul. 1946	19800	12200
Poland	Jan. 1923	Jan. 1924	82	72
Russia	Dec. 1921	Jan. 1924	57	49

Source: Blanchard (2003), *Macroeconomics*

Money growth and inflation rates are also highly correlated in milder versions of high inflation episodes. Exhibits 2-5 show how past bouts of high inflation in the UK, Italy, New Zealand and Mexico were preceded and accompanied by high growth rates of the money supply.

Exhibit 2
Money Growth and Inflation, United Kingdom

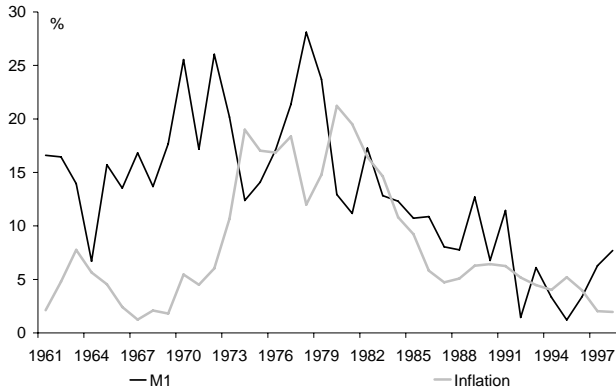


Source: IMF, Bank of England, Morgan Stanley Research

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Exhibit 3

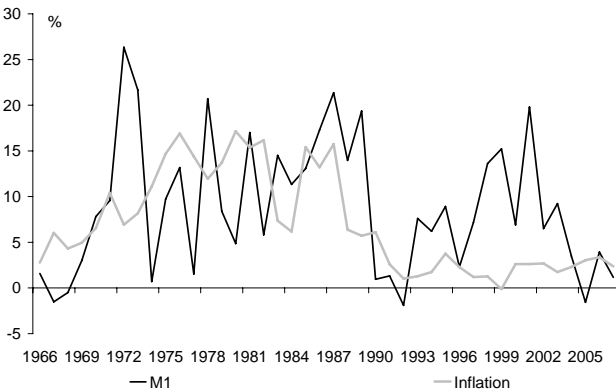
Money Growth and Inflation, Italy



Source: IMF, Morgan Stanley Research

Exhibit 4

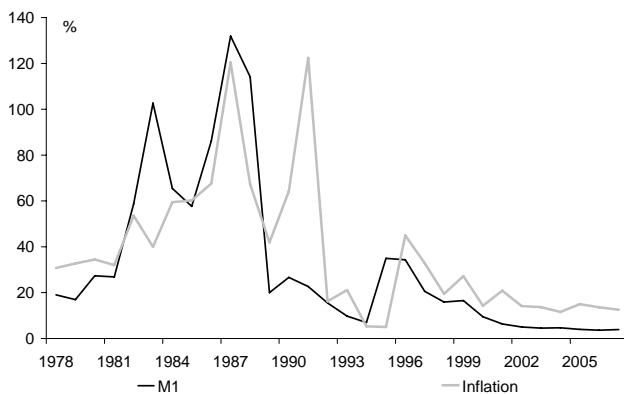
Money Growth and Inflation, New Zealand



Source: OECD, Morgan Stanley Research

Exhibit 5

Money Growth and Inflation, Mexico

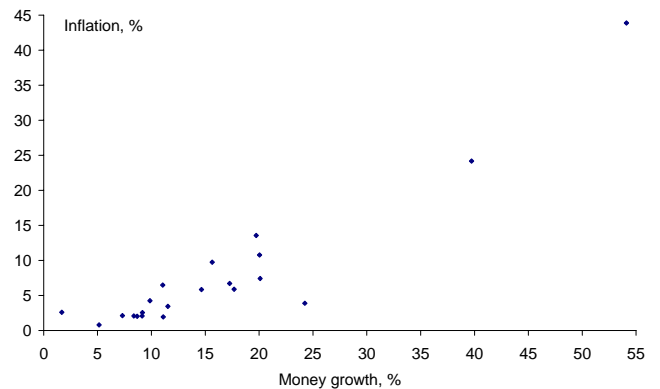


Source: OECD, Morgan Stanley Research

It is important to note that in low-inflation and low-monetary growth environments, the relationship between money growth and prices is much weaker or altogether non-existent. As Exhibit 6 shows, average money growth rates have varied substantially between countries that have experienced relatively low (single-digit) inflation rates. However, countries with sustained high money growth rates have also experienced sustained high inflation, as the Exhibit illustrates.

Exhibit 6

Average Inflation and Money Growth (1996-2007), 22 Countries



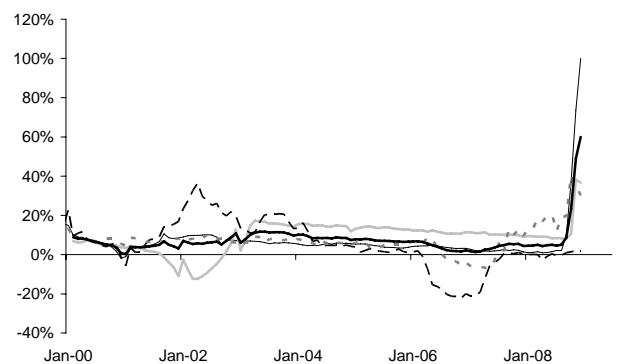
Source: OECD, Morgan Stanley Research

Against this backdrop, could hyperinflation or high inflation happen again? Possibly yes, under certain circumstances.

First, the rapid expansion of the monetary base that the Fed, the ECB, the Bank of England and others have engineered in the last several months (see Exhibit 7) would have to continue and, importantly, would have to feed into a more rapid and sustained expansion of money in the hands of the general public.

Exhibit 7

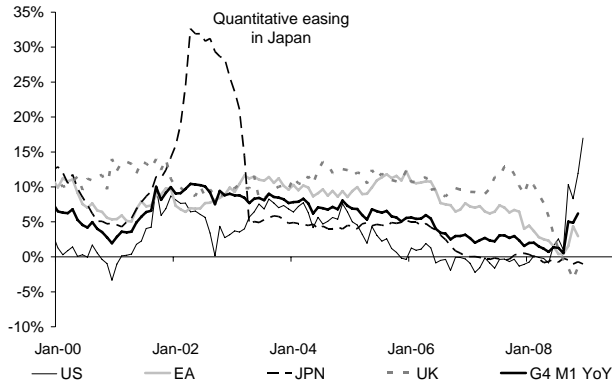
G4: Base Money Growth



Source: Haver Analytics, Morgan Stanley Research

Exhibit 8

G4: M1 Growth



Source: Haver Analytics, Morgan Stanley Research

As Exhibit 8 illustrates, money supply M1 (consisting of currency in circulation and sight/checking deposits by non-banks) has gained momentum recently, especially in the US. We will be watching closely how this measure of money will evolve in the coming months.

Second, governments would have to face difficulties in financing rapidly rising expenditures on the various stimulus and bailout packages through taxes and selling bonds to the general public. In such circumstances, political pressures on central banks to monetise government spending would probably rise. This could be done through central bank loans to the government, central bank buying of government bonds at auction, outright unsterilised purchases of government bonds in the open market or additional lending to banks against government collateral.

Last, but not least, a combination of sustained monetary growth and high fiscal deficits would have to undermine the general public's confidence in both the government's ability to service the debt without taking resort to the printing press, and in the central bank's ability or willingness to resist such pressures. A sudden surge in inflation expectations on the back of such a loss in confidence would induce people to reduce their deposits and cash holdings and pile into real assets. The velocity of money and inflation would rise, and the government/central bank would have to keep printing ever more money to finance government spending.

Clearly, this is an extreme scenario. Governments and central banks would have to jettison their commitment to long-term fiscal sustainability and keeping inflation low, and the public would have to lose confidence in their credibility. Given the reputation that central banks have built up, and given the commitment of central bankers to maintaining low inflation, a return to high inflation or even hyperinflation would seem to us to be no more than a distant possibility.

However, given the size of the current and prospective economic and financial problems, and given the size of the monetary and fiscal stimulus that central banks and governments are throwing at these problems, investors would be well advised not to ignore this tail risk, especially as markets are priced for the opposite outcome of lasting deflation in the next several years. Put differently, we believe that buying some insurance against the black swan event of high inflation or even hyperinflation makes sense and is relatively cheap currently.

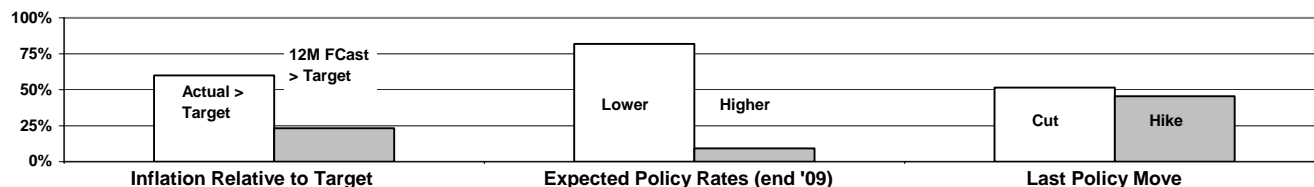
Inflation Target Monitor & Next Rate Move

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	Inflation target	Latest Month	12M MS FCast	Next Rate Decision	Current Rate	Market Expects (bp)	MS Expects (bp)	Risks to our call
United States	1.8-2.0% core PCE (u)	1.9%	1.1%	28 Jan	0.125	1	0	Fed effectively at ZIRP, focus now on quant. easing
Euro Area	<2% HICP (u)	1.6%	2.2%	05 Feb	2.00	0	0	1% target might be reached only in 2Q
Japan	0-2% CPI (u)	1.0%	-0.5%	19 Feb	0.10	1	0	Rate cut in Feb MPM depending on market
United Kingdom	2% CPI	3.1%	0.9%	05 Feb	1.50	-45	0	Subjective 45% chance of a rate cut
Canada	1-3% on CPI	1.2%	1.7%	03 Mar	1.00	-35	-25	Bank of Canada may pause after March cut
Switzerland	<2% CPI (u)	0.7%	0.9%	12 Mar	0.50	-	-25	Intermeeting cut before March 12 possible
Sweden	2.0% CPI	0.9%	1.2%	11 Feb	2.00	-55	-50	Risks tilting to further easing
Norway	2.5% CPI	2.1%	2.5%	04 Feb	3.00	-	-50	Downside: single 100bp cut possible
Australia	2-3% over the cycle	3.7%	2.7%	03 Feb	4.25	-92	-50	Risk of a larger cut
New Zealand	1-3% CPI	3.4%	3.3%	29 Jan	5.00	-139	-100	Risk of a larger cut
Russia	-	13.3%	10.9%	-	13.00	-	-	-
Poland	2.5% (+/- 1%) CPI	3.4%	2.0%	25 Feb	4.25	-86	-50	Sticky CPI in 2009
Czech Republic	3.0% (+/-1%) CPI	3.6%	1.9%	05 Feb	2.25	-121	-50	CZK weakness
Hungary	3.0% CPI	3.7%	2.6%	23 Feb	9.50	-52	-50	Weaker HUF could make NBH pause
Romania	3.5 (+/-1%) CPI	6.3%	4.3%	04 Feb	10.25	-	-50	Possible FX weakness could delay easing
Ukraine	none	22.3%	16.8%	-	12.00	-	-	-
Turkey	7.5% CPI end '09	10.1%	6.8%	19 Feb	13.00	-100	-	CBT might cut less than 100bp
Israel	1-3% CPI	3.8%	1.3%	23 Feb	1.00	-	-	BoI might ease 25bp
UAE	-	-	8.6%	-	1.00	-	-	-
South Africa	3-6% CPI	12.1%	5.0%	04 Feb	11.50	-55	-100	ZAR blows out, SARB cuts 50bp only
Nigeria	-	15.1%	3.8%	01 Apr	9.75	-	0	Rising inflation, currency weakness force policy rethink
China	-	2.4%	-0.8%	-	5.31	-	-27	Tilted slightly to the downside
India	5% WPI	5.6%	3.0%	21 Apr	5.50	-	0	-
Hong Kong	-	2.0%	2.0%	-	0.50	-	-	Downside risks on growth
Korea	2.5-3.5% CPI	4.1%	2.8%	10 Feb	2.50	-	-75	Downside risks on growth
Taiwan	-	1.2%	0.0%	09 Mar	1.50	-	-50	Downside risks on growth
Singapore	1.5% (long-term CPI) (u)	4.4%	0.6%	01 Apr	0.66	-	-	Changes in the FFTR and SGD appreciation pace
Indonesia	4.5% +/- 1.0%	11.1%	8.5%	04 Feb	8.75	-	-25	Evenly balanced risks
Malaysia	-	4.4%	1.3%	24 Feb	2.50	-	-50	Evenly balanced risks
Thailand	0.5-3.0% core CPI	0.4%	0.0%	25 Feb	2.00	-	-50	Evenly balanced unless further downside growth surprise
Brazil	4.5% +/- 2.0% IPCA	5.9%	6.0%	11 Mar	12.75	-75	-50	Larger cut in light of growth recession?
Mexico	3% +/-1% CPI	6.5%	4.0%	20 Feb	7.75	-50	-50	-
Argentina	15.5-24.2% M2 growth	7.2%	10.5%	-	12.37	-	-	Inflation could be under-reported
Chile	3% +/-1% CPI	7.1%	4.5%	12 Feb	7.25	-75	-75	-
Peru	2% +/-1% CPI	6.7%	4.9%	05 Feb	6.50	0	0	-
Colombia	5% +/-0.5% CPI	7.7%	5.1%	30 Jan	9.50	-50	-50	-

(u) = unofficial

Notes: Inflation numbers in red indicate values above target; MS expectations in red (green) indicate our rate forecasts are above (below) market expectations; China: inflation numbers is an objective announced by the Government; Thailand: the target for Core CPI is 0-3.5%;



Source: National Central Banks, Morgan Stanley Research

Notes: (u) = unofficial target; Interest rate expectations are implied by overnight indexed swap (OIS) curves and may differ from those implied by other instruments; where adequate OIS data are not available, FRAs, foreign exchange swaps, and/or interbank cash rate futures are used; due to varying risk premia (such as liquidity, basis, credit, term, reserve management, calendar turns, etc.), these figures should be used as estimates only; where such instruments are not available, we have inserted our best guess of what markets expect based on consensus estimates.

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Central Bank Watch

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US: Head Fake?

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Beware the head fake – recovery is coming but not at hand: Signs of stability have spurred hopes that the worst is over, and with pervasively negative sentiment, any good news could promote a rally in risky assets. Some think production cuts have been extreme, so inventories are razor-thin. Interest rates and energy prices are down, frozen markets are thawing, and fiscal stimulus is coming. But inventories are still excessive, and false dawns are common in recessions.

While risks are more balanced around a weak baseline, the fundamentals are still negative: The full impact of the tightening in credit is still playing out, so it's too soon to expect a reversal. Global activity has just begun to fall. And cyclical forces are promoting steep capex declines.

Fed rescue efforts to continue: With interest rates effectively at zero now, it is crucial for the Fed to continue to expand its menu of financing facilities and purchases of long-term securities to ease the credit crunch. The TALF will go into operation next month and could be a template for helping other markets. The Fed will also continue its aggressive purchases of residential MBS and agency debt through the spring, which should support those markets until the new administration can begin to use the housing GSEs' balance sheets to support housing finance. For the Fed, purchasing longer-term Treasuries off the table seems less likely than buying other assets, unless rates back up significantly under the weight of heavy Treasury supply. And Fed officials likely will collaborate with the incoming Treasury team to explore options for cleaning up bank balance sheets and mitigating mortgage foreclosures.

US: Inventory-Sales Ratios Signal Stock Overhangs



Note: November 2008E = Morgan Stanley estimates
Source: Bureau of Economic Analysis, Morgan Stanley Research

Central Bank Watch

Euro Area: ECB to Pause Before Easing Further

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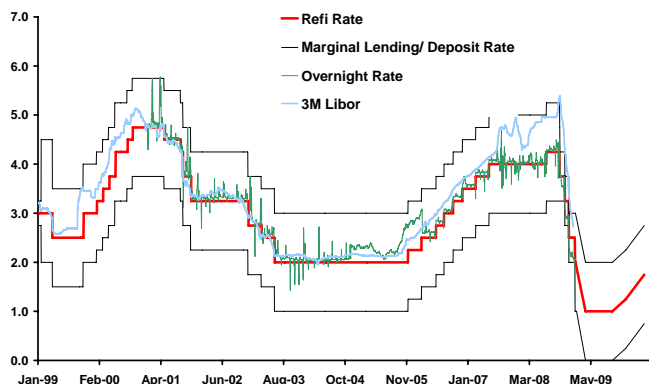
We see the ECB on hold in February: On balance, we expect the ECB to remain on hold at the next ECB Council Meeting on February 5 and leave the refi rate unchanged at 2%. In the Q&A of the January press conference, ECB President Trichet strongly hinted at a pause at the next meeting. Against this backdrop, further policy action only seems to be on the cards in March.

Note though that the Council's initial intention back in December to pause and wait for past rate cuts to be transmitted to the financial system and the real economy was subsequently abandoned. Instead, the ECB followed with another 50bp rate cut in January.

Little reason for ECB to change its stance: Since the last meeting, business sentiment has stabilised, if not recovered, in a number of euro area countries. In addition, oil prices have recovered a little bit and the euro has weakened further. Ahead of this week's key data, there seems to be little in the data flow that could cause the Council to change its mind (again).

Rising reluctance to embark on ZIRP: A holding operation at the upcoming ECB Council meeting also implies that our 1% target for the refi rate might be only reached in 2Q. Since the last meeting, comments by a number of Council Members hint at a rising reluctance by the ECB to embark on a zero interest rate policy.

Euro Area: EONIA Overnight Rate Heads Lower



Source: ECB, Haver Analytics, Morgan Stanley Research

Japan: Policy Reaction Continues

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CP buying programme should limit economic downside for Japan: The BoJ released detail of its commercial paper buying programme, announced in December. The maximum amount was set at ¥3 trillion, with a ceiling for each company at ¥100 billion. We expect this unprecedented measure to contribute to the relaxation of corporate financing ahead of the accounting period end, limiting economic downside due to disorderly bankruptcies, together with CP buying by the Development Bank of Japan.

At the same time, the BoJ cut its assessments of overall economic conditions again, by adding adverbs such as “substantially” and “significantly” to its statement. Indeed, there were material changes to the forecasts of the majority of the policy board members on real growth and prices (see Exhibit). In the January Monthly Report, the BoJ explicitly stated that prices would “moderate further and become negative”, due partly to “increasing slackness in supply and demand conditions in the overall economy” (indicating a negative output gap).

Policy responses likely to continue ahead of accounting period end: The BoJ's increasing concern about deflation and deteriorating economic conditions is consistent with our view that more easing is coming. We look for not only a rate cut but also deeper direct involvement in corporate financing ahead in addition to CP buying. Indeed, the BoJ revealed that it is now considering buying corporate bonds, although it has yet to do so. Going forward, we look for not only CP or corporate bond buying, but also more aggressive measures that could include increased JGB buying, direct buying of foreign bonds (equivalent to the MoF's currency market intervention) and even direct buying of equities. Indeed, central banks can potentially monetise every asset class, and the deterioration of the economic and market situation is likely to draw stronger policy responses, especially ahead of the accounting period's March-end.

Japan: Forecasts of Majority of Policy Board Members

Forecast period	Real GDP	Dom. CGPI	CPI*
F3/09 Majority of Board	-2.0 ~ -1.7	+3.0 ~ +3.2	+1.1 ~ +1.2
Median	<-1.8>	<+3.1>	<+1.2>
All Board	-2.0 ~ -1.6	+2.8 ~ +3.2	+1.0 ~ +1.2
F3/10 Majority of Board	-2.5 ~ -1.9	-7.0 ~ -6.0	-1.2 ~ -0.9
Median	<-2.0>	<-6.4>	<-1.1>
All Board	-2.8 ~ -1.8	-7.0 ~ -5.0	-1.3 ~ -0.8
F3/11 Majority of Board	+1.3 ~ +1.8	-1.5 ~ -0.8	-0.6 ~ 0.0
Median	<+1.5>	<-0.9>	<-0.4>
All Board	+1.2 ~ +2.0	-1.8 ~ -0.5	-0.7 ~ 0.0

Source: Bank of Japan; *Excluding fresh food

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Norway: More Rate Cuts on the Way

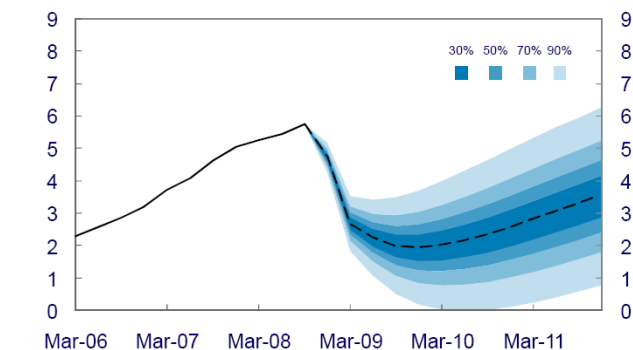
Spyros Andreopoulos (44 20) 7677 0528

We see 50bp cuts both next week and in March: Norges Bank cut the policy rate by an unprecedented 175bp to 3.00% at its December meeting, and forecast the sight deposit rate to be 2-3% prior to the publication of the next Monetary Policy Report on March 25. We maintain our view that NB will cut by 50bp next week, a move that will likely be followed by another 50bp on March 25 for a terminal rate of 2.00% in this cycle.

We believe that there is both scope and need for further monetary stimulus in Norway: The world economy fell off a cliff in 4Q08, and all indications are that the recession will indeed be as deep and possibly longer-lasting than previously envisaged. The large December cut was, in our view, Norges Bank's response to a shift in the base case scenario for global growth. However, recent developments indicate to us that we are likely to be in the worst case scenario, and we expect Norges Bank to act accordingly by easing further. There are also domestic reasons for further cuts. Recent data indicate that house price declines have picked up pace, while December inflation came in meaningfully below NB's own estimates. Finally, a terminal rate of 2.00% is not too low in the environment of the worst post-war recession, considering that in the previous cycle policy rates bottomed at 1.75%.

Risks skewed towards a larger cut: Norges Bank may actually pause next week, possibly because it expects recent commodity price increases to be a sign that Norway's most important export prices have found a bottom, and because of the recently announced fiscal stimulus package (2.3% of GDP). However, we think that the risk management approach Norges Bank is following would, on balance, favour further front-loaded easing. This would make a single 100bp cut a possibility for next week's meeting.

Norway: Projected Key Policy Rate with Fan Chart



Source: Norges Bank

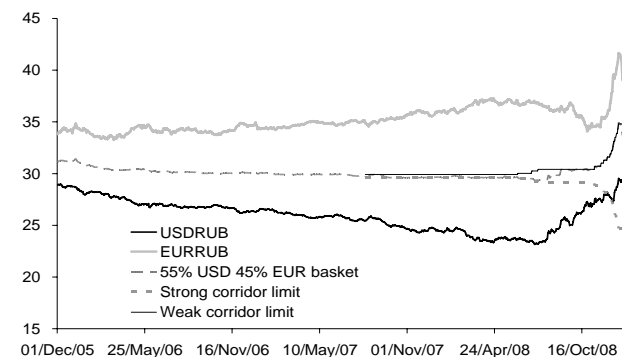
Russia: How Firm a Floor?

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The CBR announced that it will set a floor for the RUB at 41 to the basket, 11% below current levels and equivalent to RUBUSD at 36.2 with EURUSD at 1.30. Remaining FX reserves and likely current account developments in 1Q suggest to us that at current oil prices this level is likely to be defensible for 1Q. If oil makes another substantial move lower, we believe that speculation will rebuild and reserve losses re-accelerate. In the very short term, we would expect some capitulation of expensively funded short RUB positions, but medium-term risks look still skewed to the weak side. A lightening of speculative pressure on the RUB is likely to be positive for economic activity, given that the one-way depreciation appears to have encouraged RUB working capital balances to be diverted to FX speculation. However, sustaining this floor also seems likely to require maintenance of relatively tight monetary conditions. That the CBR may be pressured by the government to step up cheap RUB liquidity support seems, along with oil prices, the main risk to the new floor.

A credible even if temporary floor on the RUB appears positive both for the economy and asset prices: Market expectations of rapid devaluation had made RUB credit almost unpriceable and diverted economic activity into 1998-style speculation. However, RUB strength in the last few days reflects tight liquidity conditions, driven largely by tax deadlines that end on January 28. The liquidity squeeze may ease in the short term as speculative pressure also declines, but we see little room for meaningful easing of monetary policy. Governor Ignatyev said that the CBR will not cut rates "in the next month or two" but "it's quite possible" that it cuts thereafter. Pressure on the CBR to ease policy and maintain cheap RUB funding of banks and corporates is likely to remain high.

Russia: RUB, Basket and New Corridor



Source: CBR, Haver, Morgan Stanley Research calculations

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Central Bank Watch

Poland: NBP Cuts 75bp; Downplays Weak PLN

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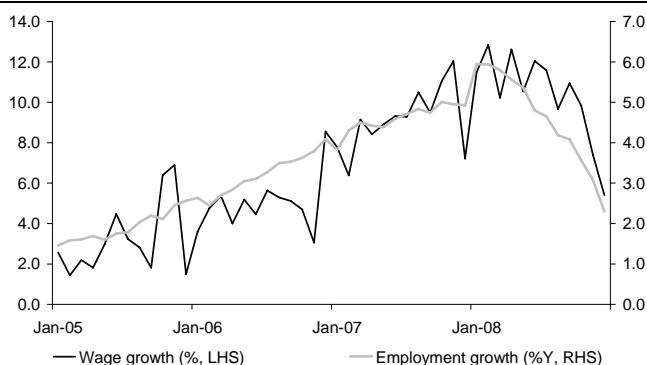
On January 27, the NBP cut rates by 75bp, to 4.25% (MS: -75bp, consensus: -50bp), maintaining an explicit easing bias. The statement sounds dovish, with the bank noting that the slowdown in Poland's trading partners is gaining momentum, lending conditions have tightened and inflationary pressures are diminishing due to declining employment and wage growth. Among factors that may slow the decline in inflation, the bank noted the "significant" zloty depreciation of the last few months, though reiterating that its CPI impact may be limited against the current economic backdrop.

NBP surprisingly relaxed about zloty weakness, for now:

While we thought that the macro backdrop justified another aggressive rate cut, we were surprised that the MPC still sounds relaxed about PLN weakness (-7% versus the euro since the December meeting). The December minutes showed that the majority of the Council thought that aggressive easing could boost growth and ultimately benefit PLN. Now, judging from post-meeting comments by dove Nieckarz, this still seems to be the case.

More rate cuts, but watch PLN and fiscal policy: Given the statement's tone and that CPI is likely to slow in the months ahead, further cuts appear likely to us. We think that rates will trough at 3.50%, though we cannot rule out a lower level. While yesterday's comments do not show preoccupation with PLN weakness, we would caution against interpreting this as a sign that the NBP is indifferent to the zloty. With unemployment on the rise, wage growth falling sharply and CHF/PLN up over 40% from last summer's lows, it will not be long before FX borrowers feel the pinch. And while the CPI backdrop is still favourable, the FX passthrough from a weaker currency is lower than during an economic upswing, but is not zero.

Poland: Falling Wages and Employment



Source: Haver, Morgan Stanley Research

Hungary: An Eye on HUF, the Other on the Economy

Pasquale Diana (44 20) 7677 4183

The NBH cut rates by 50bp to 9.50%: This move was in line with our and consensus expectations. The statement mentioned that rates can come down further, subject to financial stability concerns. As in December, the statement also mentioned "narrow room for manoeuvre" for monetary policy, given the still high level of uncertainty. In the press conference, Deputy Governor Karvalits said that the alternatives considered were a 75bp or a 100bp cut. This strikes us as a fairly dovish outcome: we would have thought that there was a non-negligible probability that the MPC might cut 25bp or even temporarily pause the easing cycle, given recent HUF weakness. Instead, Karvalits stressed that not only does the recent slide in HUF not alter the benign CPI outlook, but it also does not affect financial stability. This is consistent with the fact that we are still around 15% away from levels which cause serious asset quality issues (320-330 on EUR/HUF). However, we also stress that the ongoing slump in industry and the prospect of future layoffs may well mean that the 'pain threshold' is lower.

Further cuts will likely follow: The tone and the comments on HUF suggest that official rates will continue to come down as long as HUF depreciation remains reasonably orderly and rate cuts pose no immediate threat to financial stability. We continue to look for some near-term HUF weakness and rates to trough at around 6.50% later this year. The possibility of a VAT hike to help budget revenues skews CPI risks to the upside somewhat, but in the current growth environment, the NBH is more likely to look through any temporary CPI overshoots than it otherwise would. Note also that in February the NBH will slash its growth forecasts, as anticipated by Governor Simor this week: the new 2009 GDP forecast will likely be even worse than the 1.7% contraction expected as a worst case in the November report. This should pave the way for another cut at the next meeting.

SNB-NBH swap deal: Meanwhile, the newswires report that the NBH has reached an agreement with the Swiss National Bank to swap EUR for CHF. The details are not available yet. The issue at stake here is still that local banks have granted credit generously in CHF over the last years (over 50% of mortgages are now in FX, mostly CHF), and therefore need FX liquidity to refinance these loans. By helping banks to get access to this liquidity more cheaply, the NBH hopes to ensure that lending activity does not decelerate too dramatically this year and banks remain solvent. This could cushion the downturn somewhat, but we remain negative on the outlook and forecast a 3.3% GDP contraction this year.

January 28, 2009
The Global Monetary Analyst

Central Bank Watch

Israel: Policy Rate Cut Was a Non-Event

Tevfik Aksoy (90 212) 339 0022

The Bank of Israel (Bol) lowered the main policy rate by 75bp to a new record-low of 1% against the consensus and our expectation of 50bp. The decision did not come as a surprise as, a day prior to the MPC meeting, the central bank lowered its 2009 growth forecast to -0.2% from 1.5% previously and the statements suggested that the risks to the forecast were tilted to the downside. We also revised our 2009 real GDP growth forecast to 0% recently as the data on economic activity had been coming out softer than anticipated. Following the policy rate decision, the central bank issued a press release that explained the basis of the monetary easing. The main considerations were:

- **Growth:** According to the Bol, the effects of the deteriorating global sentiment on economic activity had been evident and the data had been indicating a marked decline in overall demand. The ongoing weakness in world trade had a marked influence on domestic activity, and the central bank expects further weakness in the coming period.
- **Inflation:** Falling commodity prices and the recent decline in headline CPI prints had been encouraging, and inflation expectations had been pointing to the possibility of inflation remaining below the 1-3% target. We also expect headline inflation to ease substantially to 1.1% at end-2009, and we project inflation to remain within the 1-3% target band throughout 2010 as well.
- **Global rates:** The rate cuts from many central banks worldwide also seemed to have affected the Bol's rate decision. In our view, this is particularly true for the US Fed.

We see further rate cuts to 0.5%: Similar to the case in many countries, the monetary easing has so far resulted in minimal, if any, impact on the real economy. We expect the picture to remain challenging and, despite the Bol's efforts to stimulate the economy via rate cuts, we do not believe that the task will be accomplished without a noticeable improvement in global demand conditions, as local banks are unlikely to pass on lower borrowing costs. Looking forward, we expect the Bol to ease rates further to 0.5% and bring the policy rate almost in line with the US Fed.

South Africa: Bye Bye CPIX

Andrea Masia (27 11) 507 0887

The December print of the now-discontinued CPIX inflation series was released by Statistics South Africa this morning. The reading came in at 10.3%Y (-0.9%M) – below our forecast of 10.4%Y and consensus of 10.6%Y. The extent of deflation in a few key categories caught us off-guard. Overall, we remain on track for around a 350bp drop in the January CPI, when the reweighted and revised inflation basket is introduced.

Deflation surprise: For the first (and last) time ever in the CPIX series, housing costs turned negative, registering -0.1%M from an average 0.6%M through 2008. We find this rather curious, although we do acknowledge that there has been some anecdotal evidence suggesting a softening in the repairs and maintenance category of the housing sub index. Similarly, at a mere 0.1%M in December, household consumables struggled to maintain the 3%M momentum exhibited through 2H08. Although historical inflation readings would have suggested some deceleration in this category at year-end, the sharp moderation in today's reading is more than we had anticipated, indicating that demand destruction is probably already suppressing inflation at the shop-shelf.

Public transport much stronger than expected: Although expecting an increase in public transports costs, the 3.7%M rise in this category was a lot higher than the 1.5%M we had priced in. The increase here is mostly attributable to the sharp increase in train fares, after a 5-year Metrorail price moratorium signed in 2003 expired in 2008. With rail input costs rising sharply (particularly electricity), we suspect that margin compression was no longer possible, thus forcing the service provider to finally pass on cost increases to the consumer.

Acceleration in policy easing likely: Today's number should not be much of a surprise to the SARB, and does not affect our view of a step-wise reduction in targeted inflation on conversion to the new CPI in February. Historical data on this new index will be released by Statistics South Africa next week – one day prior to the start of the February MPC meeting. We believe that the SARB's central inflation forecast would have improved rather markedly compared to the profile presented at its December meeting, thanks to a much bleaker growth outlook, the sustained weakness in oil prices and the scrapping of the fuel slate levy.

India: RBI Keeps Rate Unchanged

Chetan Ahya (65) 6834 6738
Tanvee Gupta (91 22) 2209 7927

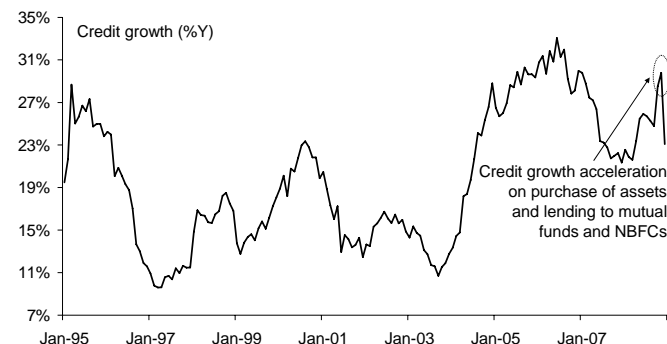
Taking a pause: In the monetary policy review, the RBI kept rates unchanged (repo 5.5%, reverse repo 4%). The cash reserve ratio was also kept at 5%. We saw a 50-50 chance of a 50bp cut in the repo rate. Consensus was also split almost 50:50 on the possibility of a cut. The key reason for the RBI's decision appears to be the fact it had front-loaded its moves, with the last rate cut of 100bp done recently on January 2.

Growth outlook – risks to the downside: In the policy statement, the RBI revised downwards the GDP growth forecast for F2009 (YE-March) versus the 7.5-8% range estimated earlier. Note that our forecast for F2009 is 6.7%. However, the RBI also indicated its concerns on the growth outlook, mentioning that the “the global crisis will dent India's growth trajectory as investments and exports slow. Clearly, there is a period of painful adjustment ahead of us”. In its pre-monetary policy statement, the RBI also highlighted that the balance of risks on growth is tilted to the downside.

Inflation outlook – more deceleration ahead: The pre-monetary policy statement highlighted that the outlook on inflation had shifted to the downside and inflation by end-March 2009 was expected to be significantly lower than that projected. In the monetary policy statement, the RBI reduced its inflation forecasts to below 3% by end-March 2009 from 7% projected earlier. We expect the WPI Index to see deflation from the quarter beginning April 2009.

Easing cycle – last leg still ahead of us: We maintain our view that weaker domestic and external demand will lower GDP growth to 4.4% in F2010. We see increased risk of banking sector stress due to a sharp increase in NPLs. The vicious loop of rising credit defaults, shrinking risk capital pool and slowing growth is unveiling. We expect the RBI to cut the policy rate by another 100bp to 4.5% by end of 2Q09.

India: Credit Growth Trend Decelerating



Source: RBI, CEIC, Morgan Stanley Research

Korea: Has to Survive on its Own

Sharon Lam (852) 6834 6738

Lowering 2009E GDP growth to -2.8%: Korea's economic slowdown in 2008 was actually the mildest among Tiger economies in Asia. However, we think it is too early for sentiment to rebound pending a reality check. Although we still do not expect crisis in Korea, we see the KRW remaining weak in 1Q09 and possibly testing 1,500 again. Our bear case GDP growth estimate is -5%, with our bull case at +0.2%.

Mild recovery in 2010 until infrastructure projects run at full steam: The growth rate trajectory shows a V-shaped rebound, but we think it is more technical than fundamental. We expect 2010 GDP growth of 3.8%. We applaud the government's efforts in stimulating the economy with 15% of GDP infrastructure projects in the pipeline, but these work with a time lag. Strong growth will likely return to Korea, yet not in the next 12 months.

We expect the BoK to keep cutting interest rates...

Korea's inflation rate is easing slower than in other countries due to its weak currency, rigid labour costs and high food prices. We forecast CPI inflation to average 2.8% in 2009, down from 4.7% in 2008, but in contrast to economies in the region that are facing deflation risks. We expect the BoK to keep cutting interest rates, as we believe that the macro data will continue to disappoint in 1Q09, causing sentiment to deteriorate again. The real interest rate turned negative in mid-2008, and we expect that it will remain so throughout 2009. This may not be desirable in economic terms, but at least it helps to provide some relief to asset prices in Korea as compared with countries facing deflation.

...before rates normalise post-recession: Some may argue that the BoK should not cut interest rates so aggressively when inflation is just within its target range, not lower. However, we see interest rates as more of a tool now in managing consumer confidence to avoid any vicious cycle, and also as an immediate support for the economy while waiting for the fiscal policies to become effective. Meanwhile, low interest rates should not cause the KRW to depreciate since Korea's capital flows are driven more by growth prospects rather than interest rate parity. We do not expect low interest rates to prevail in Korea, but rather to act as a temporary buffer; we look for rates to start to normalise after the recession.

Central Bank Watch

Brazil: Aggressive Start to Easing Cycle

Marcelo Carvalho (55 11) 3048 6272

Larger-than-expected policy rate cut: Brazil's monetary policy committee (COPOM) cut the policy rate last week by 100bp to 12.75% in a split vote (five for 100bp, three for 75bp). This was more aggressive than consensus expectations of a 75bp cut, and seems to fit a pattern seen elsewhere around the globe recently, with sharper-than-expected rate cuts. The move probably reflected the dramatic worsening in recent growth data, besides benign inflation numbers.

COPOM likely to be pragmatic going ahead: The accompanying statement indicated that the COPOM is starting a monetary easing cycle with a rate cut that should already be a "relevant part" of the full easing cycle, and without putting at risk the inflation targets. Markets will now wonder what a 'relevant part' means: A third? A quarter? Keep in mind that last year the COPOM used similar 'front-loading' language at the start of a hiking cycle, but later was forced to do more than initially planned. We believe that the COPOM will again prove pragmatic going ahead, adapting policies according to circumstances.

All eyes now turn to the minutes, out tomorrow: We suspect that they will downplay previous concerns on potential currency pass-through to inflation, and will underscore recent growth weakness. In all, we believe that the COPOM decision increases the risks that rates can finish the year lower than previously assumed.

Brazil: Selic Rate



Source: BCB, Morgan Stanley Latam Economics

Mexico: More Pain Ahead

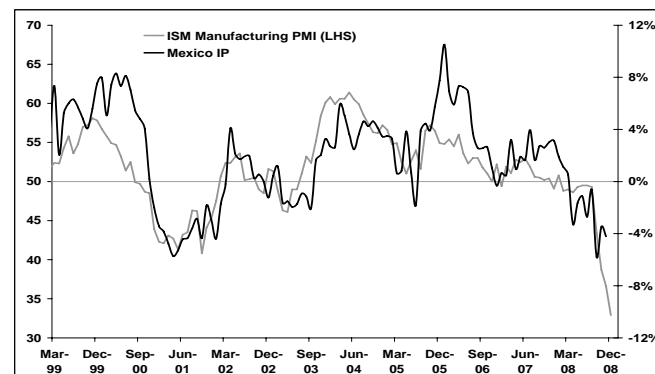
Luis Arcentales (1 212) 761 4913

Growth worries not misplaced: For well over a year, Mexico watchers have been cautious about the country's growth prospects, due to concerns from its links to the US, mainly in industry but also via remittances and capital flows. These concerns are not misplaced: after all, Mexico ships 80% of its exports to the US, Mexicans working in the US send back home almost US\$24 billion per year (2.4% of GDP) and, since 1999, the US has accounted for US\$116 billion or 55% of total FDI inflows. And of all the ties between the Mexican and US economies, the link is strongest in industrial production (see Exhibit). These fears are only likely to intensify in the coming months due to a deepening in the production slump and further retrenchment of consumers, both of which set the stage for a larger-than-expected recession this year. Indeed, in its Quarterly Inflation Report released January 27, Mexico's central bank slashed its GDP growth forecast range to a contraction of between -0.8% and -1.8% for 2009.

Getting worse before getting better: Even though Mexico's industrial sector has been sluggish for most of 2008, conditions are set to get much worse before they get any better during 2009. Indeed, in the final months of 2008 it seems that the downturn intensified in Mexico's industrial sector, as the US manufacturing slump worsened and demand from non-US exports partners dried up.

We forecast deeper rate cuts for Mexico in 2009, following Banco de Mexico's decision to cut rates by 50bp on January 16. We expect the bank to ease rates by a total of 300bp this year, bringing rates down to 5.25% by end-2009 from 8.25% at the start of the year.

Mexico: IP and US ISM Manufacturing Index (IP: Six-month smoothed annualized rate of change)



Source: ISM, INEGI, Morgan Stanley Latam Economics

Central Bank Watch

Chile: Credit Tightening Intensifies

Luis Arcentales (1 212) 761 4913

Chile’s banking system tightened lending standards further during 4Q08, according to a central bank survey.

The increasingly cautious stance by banks has hit all segments, including consumers, SMEs and large businesses. Indeed, we suspect that the relatively cautious behavior of banks, which began to limit credit proactively as the economic outlook deteriorated in mid-2007, has put the system on a better footing to withstand the current bout of global market turmoil.

Moreover, proactive policy actions by the central bank and the finance ministry have helped to ease local funding pressures.

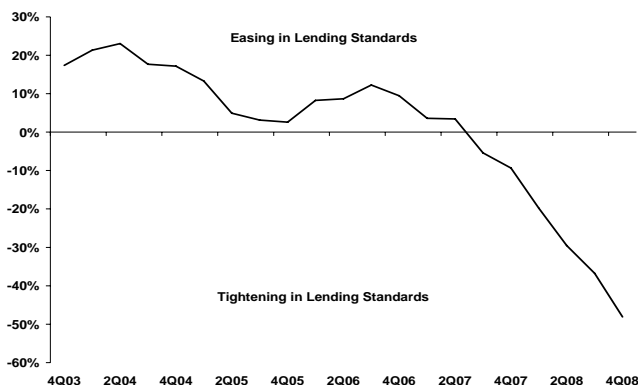
More strict lending standards were not limited to consumer loans and included mortgages, credit to SMEs and large businesses:

A net 61% of banks reported tightening lending standards to consumers – that same figure was 67% for mortgages. Meanwhile, some 72% of participants acknowledged lower demand for credit from consumers, citing higher interest rates and the worsening consumer backdrop as likely drivers. Consistent with the results on the consumer front – which were the worst since the survey started in 2003 – a net 86% of banks tightened lending standards to large businesses, 74% to SMEs and 67% to building enterprises.

Consistent with the results from the bank survey, credit to consumers has come to a standstill:

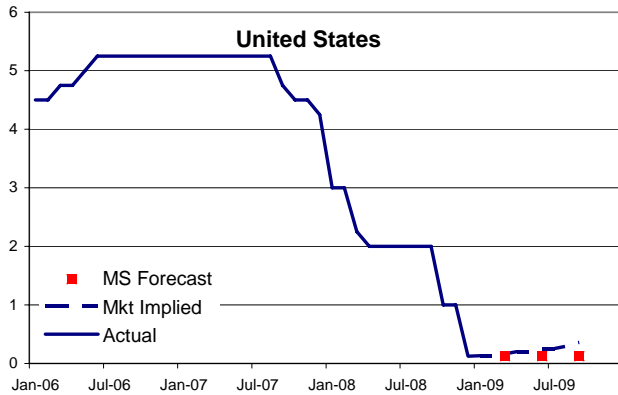
Accounting changes have made annual comparisons on bank loan balances difficult; however, recent work by the central bank shows that consumer credit contracted by 0.7%Y on average in October and November, off from growth rates in excess of 12% during 2007. Meanwhile, credit from non-bank institutions is decelerating to 11.9% in 3Q08 from 18.5% in 2007.

Chile: Bank Lending Standards on Consumer Loans (Four-quarter rolling, net percentage of answers)

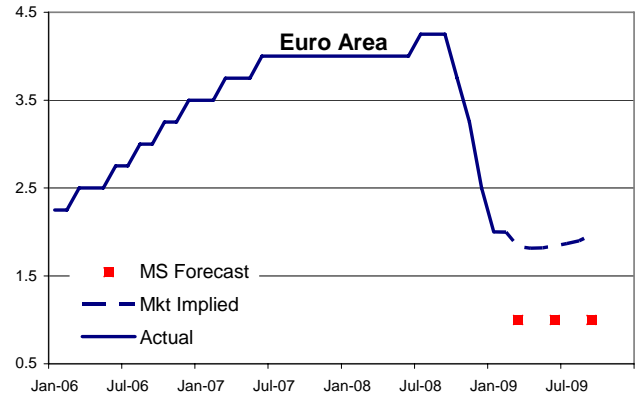


Source: Banco Central de Chile, Morgan Stanley Latam Economics

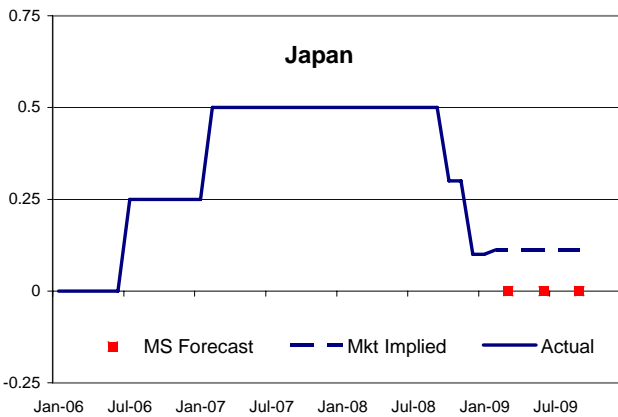
Monetary Policy Outlook – Morgan Stanley versus Markets



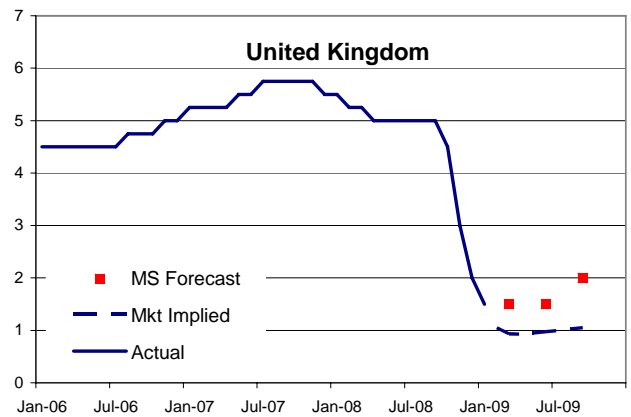
- Fed has shifted to quantitative easing policy with MBS, Agency and ABS purchase plans.
- If long-term Treasury yields continue moving higher, Fed could soon implement Treasury purchases as well.



- Our base case is for a further 100p of rate cuts by the spring, more than the market is pricing in.
- Given the ECB's intention to pause in March, this level might only be reached in 2Q.



- We expect another rate cut and further progress towards restoration of ZIRP by the Jan-Mar quarter of 2009.
- Further enlargement of the range of eligible collateral is also likely by the same quarter.

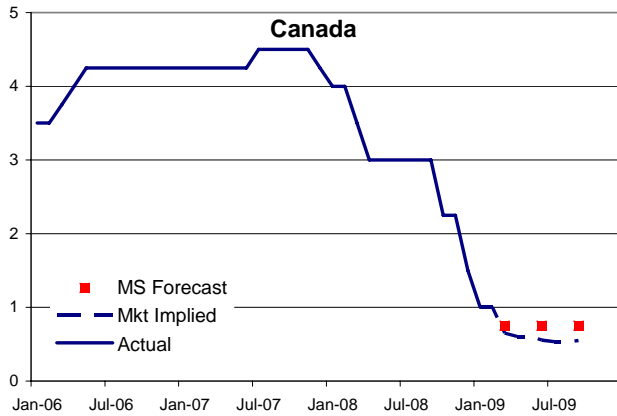


- More rate cuts priced in...we think probably too many.
- Balance of risk skewed to the downside of our central forecast, on significant risks to GDP growth.

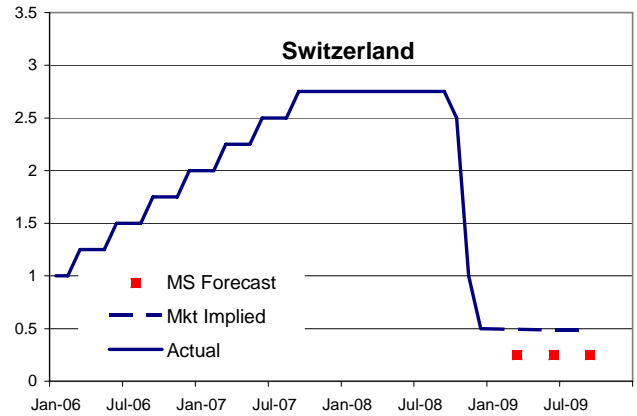
Source: National Central Banks, Morgan Stanley Research

Notes: (u) = unofficial target; Interest rate expectations are implied by overnight indexed swap (OIS) curves and may differ from those implied by other instruments; where adequate OIS data are not available, FRAs, foreign exchange swaps, and/or interbank cash rate futures are used; due to varying risk premia (such as liquidity, basis, credit, term, reserve management, calendar turns, etc.), these figures should be used as estimates only; where such instruments are not available, we have inserted our best guess of what markets expect based on consensus estimates.

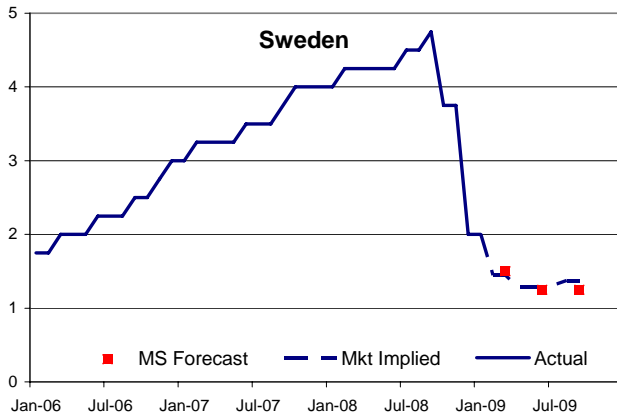
Monetary Policy Outlook – Morgan Stanley versus Markets



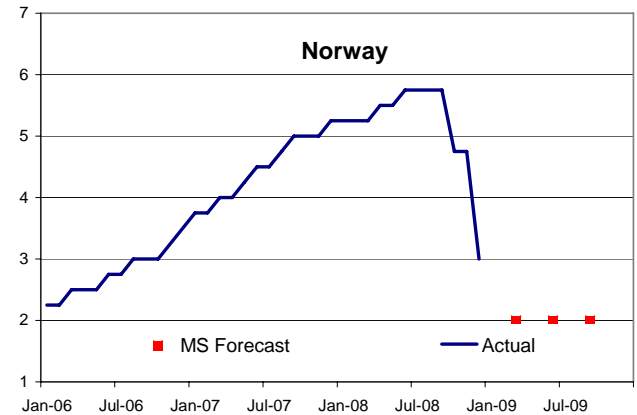
- External shocks have pushed the Canadian economy into a recession.
- Protracted currency weakness could serve as a substitute for BoC rate cuts.



- Looking for one more cut to 0.25% in 1Q.
- A move to ZIRP is possible if financial woes don't subside.



- Riksbank hinted at steady rates in 2009.
- Downside risks to an extended holding operation exist. We expect further rate cuts.

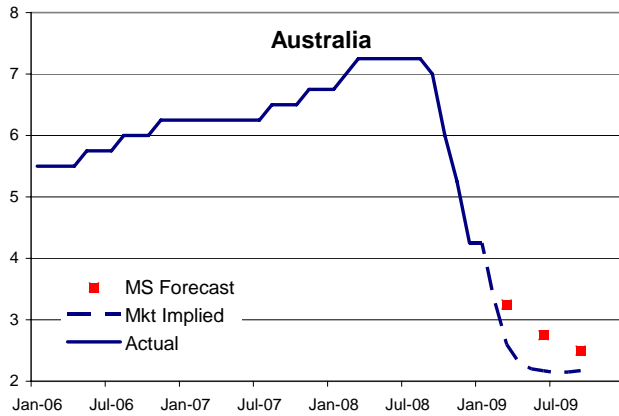


- Two instalments of 50bp likely going forward...
- ...but a single 100bp move is also possible.

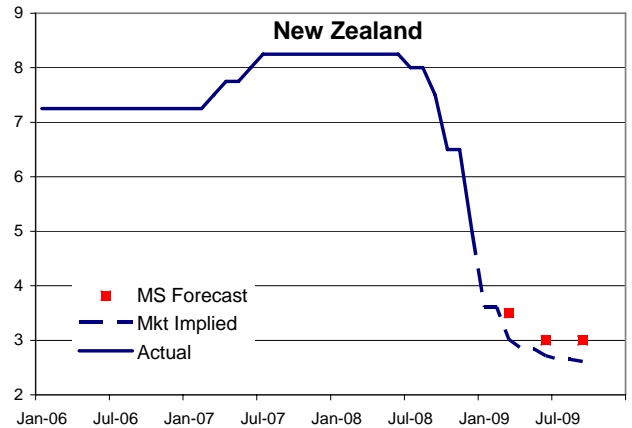
Source: National Central Banks, Morgan Stanley Research

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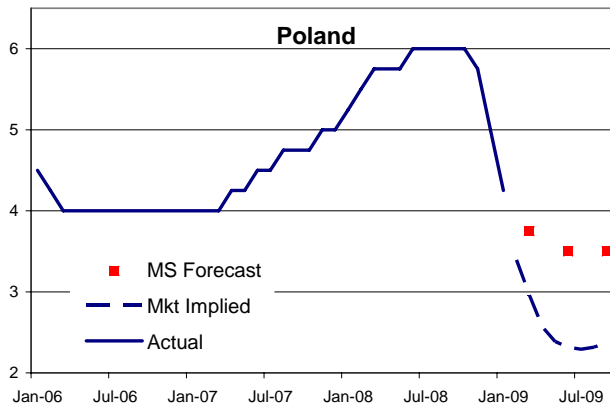
Monetary Policy Outlook – Morgan Stanley versus Markets



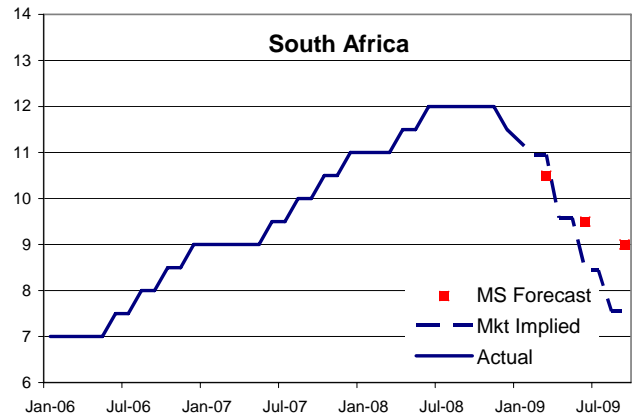
- Market expects 75bp cut at February RBA Board meeting. We expect 50bp, and another 50bp in March.
- Market sees cash rate at 2.25-2.5% at cycle low (mid-year). We agree.



- We expect the RBNZ to cut rates by 100bp at its next meeting, with a terminal rate of 3% by 2Q09.
- Markets are pricing in more than a 100bp, and we agree that such downside risks remain persistent.



- MPC has turned dovish; we see rates moving much lower by mid-2009.
- Zloty weakness could slow rate cuts, however.



- We expect 250bp of rate cuts in 2009. Market expects 400bp, buoyed by recession and deflationary fears.

Source: National Central Banks, Morgan Stanley Research

Notes: (u) = unofficial target; Interest rate expectations are implied by overnight indexed swap (OIS) curves and may differ from those implied by other instruments; where adequate OIS data are not available, FRAs, foreign exchange swaps, and/or interbank cash rate futures are used; due to varying risk premia (such as liquidity, basis, credit, term, reserve management, calendar turns, etc.), these figures should be used as estimates only; where such instruments are not available, we have inserted our best guess of what markets expect based on consensus estimates..

January 28, 2009
The Global Monetary Analyst

Global Monetary Policy Rate Forecasts

Global Economics Team

	Current	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10	Last change (bps)	Since peak /trough (bp)	Since Dec 06 (bp)
United States	0.125	0.125	0.125	0.125	0.125	0.75	1.50	2.25	3.00	-87.5 (16/12/08)	-512.5	-512.5
Euro Area	2.00	1.00	1.00	1.00	1.25	1.75	2.25	2.50	2.75	-50 (01/15/09)	-225	-100
Japan	0.10	0.00	0.00	0.00	0.00	0.00	0.00	0.25	0.25	-20 (19/12/08)	-40	-40
United Kingdom	1.50	1.50	1.50	2.00	2.50	3.25	3.50	3.75	4.00	-50 (08/01/08)	-425	-350
Canada	1.00	0.75	0.75	0.75	1.25	2.00	2.50	3.00	3.50	-50(20/01/09)	-350	-325
Switzerland	0.50	0.25	0.25	0.25	0.25	0.50	0.75	1.00	1.50	-50 (11/12/08)	-225	-150
Sweden	2.00	1.50	1.25	1.25	1.25	1.75	2.00	1.25	2.50	-175 (04/12/08)	-275	-100
Norway	3.00	2.00	2.00	2.00	2.00	2.25	2.50	2.75	3.00	-175 (17/12/08)	-275	-75
Australia	4.25	3.25	2.75	2.50	2.50	3.00	3.25	3.50	4.00	-100 (02/12/08)	-300	-100
New Zealand	5.00	3.50	3.00	3.00	3.00	3.00	3.25	3.50	4.00	-150 (04/12/08)	-325	-225
Russia	13.00	14.00	14.00	13.00	13.00	12.00	11.00	11.00	11.00	+100 (28/11/08)	300	-
Poland	4.25	3.75	3.50	3.50	3.50	3.75	4.00	4.25	4.25	-75 (27/01/09)	-175	25
Czech Republic	2.25	1.25	0.75	0.75	1.00	1.50	1.75	2.00	2.25	-50 (06/11/08)	-150	-25
Hungary	9.50	8.50	7.00	6.50	6.50	6.50	6.50	6.50	6.50	-50 (19/01/09)	-200	150
Romania	10.25	9.75	9.25	9.00	8.50	8.25	8.00	7.75	7.50	+25 (03/07/08)	325	150
Ukraine	12.00	14.00	15.00	15.00	15.00	15.00	15.00	14.00	13.00	+200 (01/04/08)	400	-
Turkey	13.00	11.50	11.50	11.50	11.50	12.00	12.50	12.50	12.50	-200 (15/01/09)	-225	-450
Israel	1.00	0.50	0.50	0.50	0.50	1.00	1.75	2.50	3.00	-75 (26/01/09)	-325	-250
UAE	1.00	1.00	1.00	1.00	1.00	1.50	2.00	2.50	3.00	-50 (19/01/09)	-425	-425
South Africa	11.50	10.50	9.50	9.00	9.00	9.00	9.00	9.00	9.00	-50 (11/12/08)	-50	250
Nigeria	9.75	9.75	9.75	9.25	8.75	8.75	8.75	8.75	8.75	-50 (18/09/08)	-50	-25
China	5.31	4.50	3.96	3.96	3.96	3.96	3.96	3.96	3.96	-27 (23/12/08)	-216	-81
India	5.50	5.00	4.50	4.50	4.50	4.75	5.00	5.25	5.50	-100 (02/01/09)	-350	-175
Hong Kong	0.50	0.50	0.50	0.50	0.50	1.00	1.50	2.00	3.00	-100 (17/12/08)	-625	-625
Korea	2.50	1.25	1.00	1.00	1.00	1.00	1.25	1.50	1.75	-50 (08/01/08)	-275	-200
Taiwan	1.500	1.00	0.50	0.50	0.50	0.50	0.75	1.00	1.25	-50 (07/01/09)	-213	-125
Singapore	0.66	0.78	0.73	0.68	0.63	0.70	0.90	1.20	1.80	-	-	-
Indonesia	8.75	8.25	8.00	8.00	8.00	8.00	8.00	8.00	8.00	-50 (07/01/09)	-300	-00
Malaysia	2.50	1.75	0.75	0.75	0.75	0.75	1.25	1.75	2.25	-75 (21/01/09)	-20	-100
Thailand	2.00	1.50	0.50	0.50	0.50	0.75	1.75	2.50	3.00	-75 (14/01/09)	-100	-100
Brazil	12.75	12.75	11.75	11.75	11.75	11.75	11.75	11.75	11.75	+75(10/09/08)	-100	-50
Mexico	7.75	6.75	5.25	5.25	5.25	5.75	6.25	6.50	6.50	-50 (16/01/08)	-50	50
Chile	7.25	6.75	5.25	5.25	5.25	5.75	6.25	6.50	6.50	-100 (08/01/09)	-100	200
Peru	6.50	6.50	6.25	6.25	6.00	6.00	5.75	5.75	5.50	0 (11/13/08)	200	200
Colombia	9.50	9.00	8.50	8.25	8.00	7.75	7.50	7.50	7.50	-50 (12/19/08)	-50	200
Global Policy Rate	3.0	2.6	2.4	2.4	2.4	2.7	3.0	3.3	3.6			
std. deviation	4.3	4.4	4.4	4.3	4.2	4.0	3.9	3.6	3.4			
# countries above	18	17	17	17	18	0	0	0	0			
# countries below	15	16	16	16	15	33	33	33	33			
G10 Policy Rate	1.0	0.6	0.6	0.6	0.7	1.3	1.8	2.2	2.7			
std. deviation	1.4	1.0	0.9	0.9	1.0	1.1	1.1	1.2	1.2			
# countries above	6	6	6	6	6	0	0	0	0			
# countries below	3	3	3	3	3	9	9	9	9			

Source: National Central Banks, Morgan Stanley Research
Note: Global policy rates are GDP weighted averages of national policy rates

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Global GDP and Inflation Forecasts

	Real GDP (%)					CPI Inflation (%)				
	2006	2007	2008E	2009E	2010E	2006	2007	2008E	2009E	2010E
Global Economy	5.1	5.1	3.4	0.1	3.2	3.7	4.1	6.2	2.3	3.6
Industrial World (52.1)	2.8	2.4	0.9	-1.9	1.4	2.4	2.2	3.3	-0.1	2.3
Developing World (47.9)	7.6	8.0	6.0	2.1	4.8	5.1	6.0	9.1	4.6	4.9
US (21.3)	2.8	2.0	1.1	-2.4	2.1	3.2	2.9	3.8	-1.3	2.8
Australia (1.2)	2.9	4.0	2.3	-1.1	2.3	3.5	2.3	4.6	2.7	1.6
Canada (2.0)	3.1	2.7	0.7	-1.5	0.3	2.0	2.1	2.4	-0.1	2.2
New Zealand (0.2)	1.5	3.0	0.4	-0.4	0.5	3.4	2.4	4.2	2.3	2.7
Europe (20.4)	3.0	2.7	0.8	-1.5	1.2	2.2	2.2	3.3	1.1	2.3
EMU (15.9)	3.0	2.6	0.9	-1.6	1.1	2.2	2.1	3.3	1.1	2.2
Austria (0.5)	3.4	3.1	1.5	-1.6	0.9	1.7	2.2	3.3	1.5	2.4
Belgium (0.6)	3.0	2.6	1.3	-0.9	1.6	1.8	1.8	4.5	1.4	2.1
Denmark (0.3)	3.3	1.6	-0.9	-1.4	0.8	1.9	1.7	3.4	1.0	2.1
Finland (0.3)	4.9	4.4	1.6	-0.9	1.5	1.6	2.5	4.1	1.8	2.6
France (3.2)	2.4	2.1	0.7	-1.4	0.9	1.7	1.5	2.8	0.8	1.8
Germany (4.3)	3.0	2.5	1.3	-2.3	1.3	1.6	2.3	2.6	0.9	1.6
Greece (0.6)	4.5	4.0	2.9	-0.1	2.3	3.3	3.0	4.2	1.6	3.0
Ireland (0.3)	5.7	6.0	-0.8	-1.9	1.7	2.7	2.9	3.2	1.4	1.7
Italy (2.8)	1.9	1.4	-0.5	-1.3	0.8	2.1	1.8	3.3	1.1	2.0
Netherlands (1.0)	3.4	3.5	1.8	-1.5	1.1	1.2	1.6	2.5	1.5	2.6
Portugal (0.4)	1.4	1.9	0.3	-1.8	0.5	3.1	2.4	2.7	0.8	2.2
Spain (2.1)	3.9	3.7	1.1	-2.0	0.4	3.5	2.8	4.1	1.4	2.7
Sweden (0.5)	4.3	2.7	0.7	-1.0	1.6	1.4	2.2	3.4	0.2	1.4
UK (3.3)	2.8	3.0	0.7	-1.3	2.0	2.3	2.3	3.6	1.0	2.6
CEEMEA (8.6)	7.0	6.6	4.1	0.3	3.2	7.2	7.6	11.7	7.8	7.5
Czech Republic (0.4)	6.8	6.0	3.7	-0.5	3.2	2.5	2.9	6.4	1.0	2.1
Hungary (0.3)	4.1	1.1	1.0	-3.3	0.6	3.4	7.8	6.1	2.1	2.9
Israel (0.3)	5.2	5.4	3.7	0.0	3.4	2.1	0.5	3.6	1.1	1.4
Kazakhstan (0.3)	10.6	9.5	2.5	0.0	1.5	8.6	10.7	17.5	9.0	9.0
Poland (1.0)	6.2	6.7	4.8	1.1	3.2	0.9	2.3	4.2	2.2	2.2
Romania (0.4)	7.9	6.0	7.5	1.7	4.5	6.6	4.9	7.9	5.1	4.5
Russia (3.2)	7.4	8.1	5.5	1.5	3.0	9.7	9.0	14.1	10.4	10.6
Turkey (1.4)	6.9	4.6	1.4	-0.5	3.8	9.6	8.8	10.5	7.5	6.5
South Africa (0.7)	5.4	5.1	3.2	0.8	3.6	4.6	6.5	11.4	5.3	5.7
Ukraine (0.5)	7.1	7.6	2.0	-7.0	2.5	9.0	12.8	25.3	20.0	15.0
United Arab Emirates (0.3)	9.4	7.4	6.4	3.8	4.7	9.3	11.1	12.0	8.6	7.1
Japan (6.6)	2.0	2.4	-0.1	-2.0	0.2	0.1	0.0	1.5	-0.1	0.6
Asia ex-Japan (22.2)	9.4	10.1	7.1	3.5	6.5	3.4	4.6	6.4	1.4	2.7
China (10.8)	11.6	13.0	9.0	5.5	8.0	1.5	4.8	5.9	-0.8	1.5
Hong Kong (0.5)	7.0	6.4	2.8	-3.8	2.5	2.0	2.0	4.5	2.0	-1.5
India (4.6)	9.8	9.3	7.5	4.3	6.1	6.3	6.4	8.2	4.8	5.0
Indonesia (1.3)	5.5	6.3	6.0	1.9	4.4	13.1	6.4	9.8	8.5	7.3
Korea (1.9)	5.1	5.0	2.5	-2.8	3.8	2.2	2.5	4.7	2.8	3.0
Malaysia (0.5)	5.8	6.3	5.5	-1.0	4.0	3.0	2.2	5.6	1.3	2.7
Singapore (0.3)	8.2	7.7	1.5	-3.5	3.0	1.0	2.1	6.5	0.6	1.0
Taiwan (1.1)	4.9	5.7	1.8	0.5	4.0	0.6	1.8	3.5	0.0	2.0
Thailand (0.8)	5.3	4.9	3.9	0.7	3.4	4.7	2.2	5.5	0.0	2.2
Latin America (7.4)	5.4	5.8	4.5	-0.4	2.6	5.4	5.8	8.0	9.0	7.2
Argentina (0.8)	8.5	8.7	6.7	-2.2	1.0	10.9	8.8	8.6	10.0	8.0
Brazil (2.8)	3.7	5.7	5.4	0.0	3.0	4.2	3.6	5.7	6.4	5.2
Chile (0.4)	4.3	5.1	4.0	1.5	3.0	3.4	4.4	8.7	7.1	4.0
Colombia (0.5)	6.8	7.7	3.5	1.5	2.5	4.5	5.7	7.7	4.8	5.1
Mexico (2.1)	4.9	3.2	1.8	-1.5	2.2	3.6	4.0	5.1	5.0	4.3
Peru (0.3)	7.6	9.0	9.5	4.0	5.0	1.1	3.9	6.7	4.7	5.0
Venezuela (0.5)	10.3	8.4	5.0	-1.0	2.0	17.0	22.5	30.9	45.0	35.0

Source: National Statistics Offices, IMF, Morgan Stanley Research estimates
Note: Figures in parenthesis indicate the country's or region's weight (in %) in global GDP, using PPPs.

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