BAKER TILLY
INTERNATIONAL

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The Eurozone White-knuckle Ride Continues

2012 has witnessed a roller coaster on the global markets, mostly in response to what is unfolding in the Eurozone. Confusion reigns. For example, some analysts claim that a Greek bond default and effective "bankruptcy" is already priced into markets, others argue to the contrary.

So what is the answer? Yes, Greece's current problems are priced into markets. However this is predicated upon the notion that the EU will continue to provide financial support for Greece and everyone else. In other words, pricing in the markets is very much dependent upon the current status quo of Eurozone economic life-support being maintained. If a significant change suddenly occurred, or an unexpected event happened, then the market impact would likely be catastrophic. Given a weakening world trade environment in 2012, Asia should be closely monitoring anything that is a potential source of another Lehman style event that could plunge their markets into chaos. We now live in a new world of hyper-connectivity and extreme inter-jurisdictional contagion risk, which either much of Asia doesn't understand, or chooses to ignore.

The 2008 crisis has cruelly exposed the underlying flaw in the Eurozone of economic and fiscal disparity between countries sharing common currency and interest rates. However, this disparity was not the cause of the crash. Very simply, what we saw in 2008 was most of the western real estate markets simultaneously turning full cycle downwards. Western banks had

ASIA PACIFIC
Australia
Bangladesh
China
Hong Kong
India
Indonesia
Japan
Macau
Malaysia
Maldives
Mauritius
Mongolia
Nepal
New Zealand
Pakistan
Philippines
Singapore
Sri Lanka
South Korea
Taiwan
Thailand
Vietnam

generated real estate credit bubbles of epic proportions, caused by lower interest rates driving excessive speculation, very similar to what we can now see developing in many Asian jurisdictions in 2012. The western crash was not caused by the then so-called 'toxic' securities. The issue with the securities was not their underlying value, but that under the then accounting rules, they were marked to market. When market confidence evaporated, the securities were suddenly marked to zero, more or less overnight, which effectively crushed bank balance sheets. Globalisation and interconnectivity just added to the confusion. Afterwards, when the markets had calmed down and there was more time to review these securities, they were reassigned a higher market-based value, and the accounting rules were changed to prevent such an outlier event occurring so dramatically again. Asia has now conveniently lulled itself into a false sense of sanctuary, claiming it does not have billions of dollars-worth of complex mark-to-mark securities within their credit system that pose a risk to the banking sector. Such assessments are irrelevant though, and completely miss the point.

Wide-spread panic occurred when the US government chose to make an example out of Lehman, and let them fail. This shocked the foundations of the western system; the view at the time was that if Lehman could fail, was anyone safe? With the benefit of hindsight, this was a catastrophic decision, and is the main reason why the EU must now continue to bail out the European banking system.

Since 2008, Asia has looked on disapprovingly at the west, firstly because of 'toxic' securities and latterly because of the burgeoning public debt liability, caused by bank bail-outs. Public debt figures in Europe currently table between 70% and 150% of GDP. This is only half the picture though. Given that either governments or the ECB are supporting sovereign banking systems, most jurisdictions are 'on the hook' for their banking system. Adding public debt to exposure from the banking system gives an overall contingent liability of 230% of EU GDP, which exceeds even that of Japan. An idea of the scale of the banking insolvency problem is clearly apparent from the Long Term Refinancing Operations (LTRO) of the ECB, who have loaned over 800 European banks more than USD1.2 trillion in the past quarter. Total bad debt in European banks is currently approaching EU4 trillion. The only effective means of reducing this liability is currency devaluation, which can only occur with structural change, or if the Eurozone breaks up. This is a no-win situation, for if fragmentation ever did materialize, the resultant inter-jurisdictional global contagion could make the 2008 crash look feeble by comparison!

Asia should also now note that the current high public debt levels in Europe were back in 2007 lower than many Asia jurisdictions in 2012. In addition to Japan, current Asian public debt levels in countries such as China, India, Malaysia, Pakistan, the Philippines, Singapore, Sri Lanka, Thailand and Vietnam are already higher than many European jurisdictions were before the 2008 Crisis. Banking exposure to GDP comparisons between Asia in 2012 and Europe in 2007 also show disturbing similarities.

For those in Asia that find comfort in the belief that low bank NPL ratios somehow provide protection against market correction, they are deceiving themselves. Asian NPL ratios range between 1% and 5%, with Singapore leading the pack at an apparent healthy 0.8%. Back in 2007, European banks were, if anything, better than Asia. In Europe, Ireland topped the list, also at 0.8%, with Spain close behind at 0.9%. The fact is that NPL ratios are meaningless when markets downturn, which is clearly evidenced in Ireland and Spain where NPL levels have in 2012 soared to 21% and 16% respectively, and rising! We must all remember, at the risk of repeating ourselves that the western crash was caused by overexposure to real estate and overleverage, problems that are currently clearly and obviously now apparent throughout much of Asia. What is more this time around, governments in Asia should also appreciate that, once a downturn occurs, current-day markets now absolutely expect the authorities to fully bail out any and all domestic banks that fail within their jurisdiction!

China's Foreign Invasion

The recent discovery of several fake *Apple* Stores in Kunming, the capital and largest city of Yunnan Province in south-west China, shows the importance of foreign brands but also indicates the scale of the fake goods industry problem. In this case, the employees themselves genuinely believed they were working for *Apple!* Entire factories in Shenzhen are devoted to producing rip-off '*Louis Vuitton', 'Burberry'* and '*Nokia*' products. The Asia Business Council estimates the contribution of the counterfeit goods sector in China to be as high as eight per cent of GDP. And while many of these goods are exported, there is a strong demand within China for products that consumers know to be falsely branded. The reason for the strong appetite for brands, even fake brands, is that in the highly capitalist and increasingly status-conscious society of modern-day China, consumers see them as a way of demonstrating wealth and conferring prestige.

China will always have a market for $10 fakes. But there is a growing recognition among the Chinese middle class that branded products can't denote social status when everyone owns the same knock-off goods. A fake *Gucci* bag counts for nothing if everyone has one! So wealthier Chinese consumers are now differentiating themselves by seeking out authentic brands. The rise of websites and retail outlets selling second-hand branded handbags, jewelry and designer clothing, such as the Japanese chain *Brand Off* in Hong Kong and Shanghai, and *Milan Station* in Hong Kong, are evidence of this trend. Chinese tourists, queuing outside luxury goods stores in Paris and Rome for branded products, copies of which they could buy at home for one-hundredth the price, are another sign of this flight to authenticity. This shift presents a real opportunity for branded goods manufacturers, particularly those with expensive brands. The Chinese middle class, already a driving force in the world economy, is burgeoning, and companies able to build strong brand equity among this important demographic will reap dividends.

For many wealthy Chinese, 'Made in China' still carries associations with variable health, safety and quality control standards, a concern that a recent series of safety scandals has done nothing to allay. The one that made the biggest splash in the Western press was the contamination of milk with melamine in 2008, which poisoned 300,000 babies, killing eight of them. In 2011, the authorities discovered that pork in Hunan province was contaminated with the illegal steroid Clenbuterol. Outside the food industry, Chinese producers of rabies vaccines, toys, lead paint and condoms have been rocked by allegations that faulty products posed a threat to consumers.

Such scandals have led many Chinese consumers to seek out foreign branded products wherever possible, especially those manufactured outside China. It seems ironic that that the Chinese people are growing wealthier on the back of surging exports of products that they refuse to buy themselves. But this openness to Western goods is a golden opportunity for Western companies. The automotive and personal banking sectors afford the strongest growth potential for international brands in China. Both sectors have strong Chinese brands, yet both also appeal to the wealthy Chinese consumers who prefer foreign goods and services. The government is unlikely to allow Western banks to challenge the position of the Chinese 'Big Four' banks, but more niche private wealth management and personal banking services could find it relatively easy to expand in China. Companies that can position their brands as being trusted and respected in a sector in which foreign expertise or quality is valued are well placed to capture a slice of the Chinese consumer market. But while Chinese

consumers may be more open to Western products than their counterparts in Japan or Korea, they are also more political. And because foreign brands in China trade heavily on the reputation of their country of origin, they are strongly affected by swings in Chinese popular opinion. So, for example, the Chinese boycotted *Citroën* and *Carrefour* after pro-Tibetan protests in Paris during the 2008 Olympic torch relay through the city. Some reports estimate that sales of French cars in China fell by 25 per cent during the Olympics, and there were mass protests outside *Carrefour* hypermarkets. It seems that Chinese consumers are as aware of foreign politics as they are of foreign brands, but these boycotts also underline the vulnerability of foreign brands in China to forces outside their control. Even more significantly, the boycotts demonstrate that Chinese consumers don't passively accept Western brands, but are active participants in a process that is changing how branding works worldwide.

Perhaps the most visible manifestation of China's impact on global brands is the increasing number of Western brands being snapped up by Chinese companies. Attempted Chinese takeovers of US oil firm *Unocal* in 1995 and US digital electronics manufacturer *3Com* two years later failed in the face of Western political opposition to Chinese control of 'strategic industries'. But the number of foreign acquisitions by Chinese firms is accelerating. Buyers have easy access to credit from domestic banks, and there is a growing array of troubled Western companies looking for big-spending foreign saviours. Western brands pass into Chinese hands on an increasingly frequent basis. One of the highest-profile Chinese takeovers was that of *Volvo Cars* by Zhejiang Geely Holding Group in 2010. There were similarities with Lenovo's 2005 acquisition of IBM's *ThinkPad* line of personal computers. *Geely Automobile* and *Volvo Cars* will continue to operate as separate brands, in China and abroad, much as *Volvo* used to operate within the *Ford* family of brands. The two car brands won't be officially merged, but the acquisition will enhance the *Geely* brand in China because of the halo effect that the international and well-designed *Volvo* brand will have on the traditionally quite down-market *Geely*. *Volvo*, meanwhile, will benefit from wider distribution.

The desire of Zhejiang Geely Holding Group to use a traditionally Swedish brand to sell cars in China shows the important role that brands play in Chinese acquisitions of overseas companies. Chinese companies actively seek international brands, not only to increase their presence abroad, but also to improve their market position at home. The trend is most pronounced in the fashion industry, where several Chinese companies have bought near extinct foreign brands to sell only within China.

Hong Kong-based Trinity Limited bought the ailing British menswear brand *Kent and Curwen* in 2008, and now runs over 80 *Kent and Curwen* stores in mainland China, trading on the company's British heritage and 1920s aesthetic. The *Kent and Curwen* brand commands a price premium in China, despite only having just one store in Britain. Another Hong Kong investor has followed the same model with British trench-coat maker *Aquascutum*, which is now sold across China decades after losing market share in its home market.

While Chinese acquisitions abroad are often portrayed as attempts by Chinese companies to gain control of natural resources or advanced technology, many are in fact motivated by a desire to capture Western brand names in order to enhance the buyers' domestic standing as much as to boost exports. Whichever way you look at it, as far as far as branded foreign goods are concerned, it seems that foreign invaders are very welcome in China!

More information about the Chinese market for foreign goods can be obtained from Brand Finance China plc: rpurser@brandfinance.com

Australian Business Failures Mounting

The number of small Australian businesses going bankrupt jumped by close to 50% in the past year, according to the latest information available. This worrying negative development coincides with a small business start-up fall of 95% over the same period and widespread downgrading of well over 100,000 firms that are projected to experience financial difficulty in 2012.

Australian business failures have trended steadily upwards since the 2008 Global Financial Crisis, a drift which looks increasingly likely to escalate as a result of the current global slowdown and regional economic deceleration. In spite of recent Australian rate cuts there is a tangible profound lack of confidence in the current operating business arena. Long standing global uncertainty is now clearly deterring new businesses to enter the market.

Business failures have been most pronounced in the service (up nearly 60%), finance (up nearly 60%), and construction (up nearly 70%) sectors; whilst start-ups in the last quarter of 2011 in the manufacturing, service and finance sectors fell by nearly 100%. Outside the mining sector, sentiment is still generally poor whilst the strong Australian dollar is stretching profits, which may well lead to an increase in business failures in 2012.

Overall, since the 2008 Global Financial Crisis, failures in the services sector have risen substantially more than failures in manufacturing. In contrast, not surprisingly, the mining industry has recorded almost no insolvency action, with failure actually falling by 20% in the past three years, though it remains to be seen what will happen next in a sector driven by recently falling exports to China.

As a result of this steadily increasing bankruptcy trend, many analysts are now grouping Australia in the same risk category as some Eurozone countries such as Italy, Portugal and Spain.

Focus on Myanmar

April 2012 marked a critically important point in the history of Myanmar, as the long-ruling military leadership continued to ease its grip on power. The month was remarkable not only for the news that Aung San Suu Kyi and her opposition National League for Democracy party had won a landslide victory in parliamentary by-elections, but it also marked the first trading day of the newly floated local currency, the Kyat.

Currency liberalization is a key financial step. For Myanmar this was a bold, positive stride, which once again distances the country from its former sole sponsor, China, who still remains locked into an essentially managed currency peg. The opening rate of Kt. 818 to the dollar was a huge move away from the previous official rate of Kt. 6.4 and more in line with the unofficial previous black market rate. Floating of the Kyat enables the Myanmar government to intervene to influence the exchange rate, something the experts say is essential. The aim is to create a cushion against the impact of expected heavy inflows of aid and investment that could push up inflation. Projected at 4.2 per cent for the 2011 financial year, inflation is clearly and obviously on the rise, and is expected to rise to 5.8 per cent or higher in 2012, given the likely increase in foreign investment and aid flows. That in turn has lent greater urgency to financial reforms, including the moves to grant the central bank independence from the finance ministry.

The orderly conduct of Myanmar's April 1 by-elections has met an important western benchmark for easing sanctions. The result is a frenzy of diplomatic maneuvering both from within and outside the country, and a steady stream of investors, many of whom are already unloading cash. Myanmar is already drawing a steady stream of tourists, but is targeting close to 1m visitors in 2014, up from about 300,000 in 2011.

Myanmar's labour force is largely unskilled. However, with wages as low as Kt. 700 a day for a worker in a garment factory, it is an attractive low-cost manufacturing destination, and a number of Chinese based manufacturers have already set up production facilities there. With a per capita income of less than $800 a year, mobile phones and computers have been limited to the affluent classes only. SIM cards for mobile telephones that previously cost from $3,000 upwards are now available for $250. There are still no cash machines for foreigners' use, with credit cards only accepted by a few luxury hotels.

Already, the reformist government is reeling out changes at an incredible pace. The legal system is based on English Law, being an extension of the old British India Code. However, a more liberal foreign investment law will emerge to replace the existing, restrictive code within weeks. A land use bill improving rights for farmers, who constitute most of the 60m population, has just been passed. Sweeping financial, banking and other economic reforms are in motion. Some banks have recently gained permission to install cash machines. One company has proposed introducing a Kt. 5,000 ($7) SIM card. Expectations both from foreign investors and local business people are understandably high.

Many argue in favour of a phased easing of sanctions, to maintain pressure on the government for further reform. Others warn of economic disruption from a flood of foreign investment that could accompany a broad lifting of restrictions. Whichever strategy unfolds, Asian and Western businesses are equally keen to access the resource-rich country. Reforms include a foreign investment code, now being finalised, that is understood to offer strong incentives for companies to set up in Myanmar. At the same time, the government is planning to liberalize current account transactions and develop capital markets, including allowing the entry of foreign banks, and to encourage banks to lend rather than holding government bonds.

Government actions have now also begun to reflect a keener appreciation of public approval in a way that has also affected foreign governments and businesses. The abrupt suspension last September of a $3.6bn Chinese hydropower dam project in the north of Myanmar was an example of the changing attitude. The decision followed a public outcry over the environmental impact and commercial terms that meant 90 per cent of the power generated would go to China. The decision, though applauded by many, shocked China and would-be investors, putting pressure on the government to accelerate a new foreign investment code to assure investors that suspension of a mega-project was a one-off. Subsequently, the government has discreetly assured China that its other projects, including up to six dams, a massive pipeline and a port development, are still on track.

Also last year, a Thai-led project to build a coal-fired power plant in a planned $56bn port development in the country's south was suspended. One Yangon-based commentator says the government again used the decision to signal to investors that big projects would be welcome only if they fitted with its new-found concerns about the environment and local impact. Both issues are addressed in new environmental laws.

The IMF said in January that it saw “high growth potential” for Myanmar. Citing stronger commodity exports and higher investment, supported by robust credit growth and improved business confidence, it estimated economic growth of 5.5 per cent in the 2011-12 fiscal year and forecast a rise to at least 6 per cent in the current year to March 2013.

Given recent events and lifting of some sanctions by major countries, Baker Tilly Thailand felt it was time to establish a presence in Myanmar. For more information about our services please contact:

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Baker Tilly Asia Pacific Regional Banking Advisory Group

Baker Tilly is pleased to announce the formation of a new regional banking advisory group, (BAG) leveraging off our tremendous track record in banking advisory, compliance, funds management, loan servicing, asset management, M & A, NPL loan and portfolio diligence, valuation and sale.

Our banking advisory team is highly experienced in dealing with local and international financial institutions, governments and regulators. It maintains strong connections with regional and global investor bases and buyer networks, with proficiency on both the buy and sell side.

BAG’s services fall into three distinct categories:

1. Consulting services, including bank strategy, performance and compliance, identifying best achievable loan book propositions, bad bank effectiveness, NPL servicing advisory and NPL staff training.

2. Transactional services, including sale of individual loans, NPL portfolios, sale of non-core bank divisions, regulatory capital trades and M & A.

3. Loan management services including asset management and manager performance, loan servicing, AMC structuring and set-up, and electronic loan trading exchanges

BAG is currently working on assignments in Australia, Singapore, Thailand, Malaysia, the Philippines, the United Kingdom and Ireland.

In conjunction with local Baker Tilly offices, the BAG team is in the process of making a number of presentations in the Asian region to banks in different jurisdictions explaining what is happening within the broader banking market and identifying the greatest threats to their future business.

Beyond immediate commercial concerns, the BAG team is also delivering further information on additional topics such as: the impact of the Eurozone Crisis; the ASEAN Economic Community; and, boosting regulatory capital in anticipation of Basel III.

For more information about the Regional Banking Advisory Group contact:

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Regional Opportunities

Loan Portfolio	Sales				
Country	Seller	Loan Type	OPB	Bid date	Status
Thailand	Bank of Ayudhya	Mixed	THB 5,266m	May 2012	100% clearance- awaiting board approval
Thailand	Government Housing Bank	Retail	THB 3,000m	March 2012	Cleared- awaiting formal announcement
Philippines	Investment Fund	Mostly Commercial	PHP 3,800m	July 2012	Legacy Portfolio open to all buyers
Thailand	Government Housing Bank	Retail	THB 10,000m	TBA	Closing during 2012
Thailand	Government TAMC	Mixed		2012	Expected announcement June 2012

M & A Opportunities					
Country	Sector	Revenues	Debt	Investment	M & A Objective
ASEAN	Motor cycle leasing co	Flexible	na	Flexible	Looking to acquire motor cycle leasing business's throughout ASEAN
Australia	Wholesale & distribution	AU$100m		AU$20m	Looking for Australian acquisitions
Australia	Furniture Packages	AU$4m			Business for sale providing furniture packages for apartments, hotels, mining accommodation
Australia	Corporate uniforms	AU$7m			Business for sale designing, manufacturing & distributing corporate uniforms
Australia	Safety Equipment	AU40m			Business for sale: Manufacturer of safety equipment and signs
Australia	Food distribution	No limit			Looking to acquire Australian food distribution businesses
New Zealand	Construction	NZ$50m		NZ$40m	Business Divestment
New Zealand	Security	NZ$10m		$12m	Business Divestment
New Zealand	Manufacturing	NZ$8m		$10m	Business Acquisition
New Zealand	Health & Fitness	NZ$12m		NZ$8m	Business Divestment
New Zealand	Civil Engineering	NZ$20m		NZ$5m	Business Divestment
New Zealand	Infrastructure Services	NZ$8m		NZ$5m	Business Divestment
New Zealand	Construction	-		NZ$5m	Business Divestment
New Zealand	Freight Forwarding	NZ$5m		NZ$3m	Business Divestment
New Zealand	Medical Supplies	NZ$4m		NZ$4m	Business Divestment
Singapore	Infrastructure	S$24m		S$12-14m	60% investment for growth & succession planning
Singapore	IT - Software as a service	S$4m		S$5-6m	Divestment to a European player for vertical integration
Vietnam	Stone Mining	US$325k	US$ 200k	US$ 5m	Acquisition of further mining rights

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Investment Opportunities					
Country	Sector	Revenues	Debt	Investment	Investment Objective
Australia	Bio-energy	AU$3m	Nil	AU$ 2m	Stage 1) Shareholder buy-back & consolidation
Australia	Bio-energy		Nil	AU$ 7m	Stage 2) Business expansion
Australia	Motel Fund	15% pre-tax levered yield	Per property	AU$ 15m	Looking for seed investors in new (2nd) Trust acquiring motels in Australia
Cambodia	Micro-finance			US$2m	Financing local small businesses
China	Industrial Park	Projected 15% IRR		US$45m	LT investment in government backed project
Malaysia	Banking Infrastructure	USD115m	Nil	USD100m	Funding for company's capital expenditure to install and operate 10,000 ATMs
Malaysia	Rubber tire manufacture			RM50m	Funding for company working capital
Maldives	New Hotel Development	Land only	Nil	US$85m	International 5 star brand Seeking mixture of debt & equity
Thailand	Resort Development	Land only	USD 30m	USD50m	Purchase of 800 acre Andaman Sea island resort
Thai/US	Technology	Start-up	Nil	THB 300m	Fund roll out h/ware
Vietnam	Food/food flavouring Manufacturer	US$2m	US$ 700k	US$ 1m	Reduce debt, fund expansion

Financing Requirements					
Country	Sector	Loan amount	Security	LTV	Loan purpose
Cambodia	Agricultural production	US$60m			Restructure debt & finance expansion
Cambodia	Property Development	Min. US$100m	Shares & real estate		Financing incomplete developments
Singapore	Food & Beverage	S$8m			To finance a leveraged buy-out
Thailand	Commercial real estate development	Min. US$30m	Real estate		Listed real estate developer seeking joint venture equity/ subordinated debt partner in order to expand project base

Receivership Appointments					
Country	Company	Sector	Receiver	Date	Current status
Malaysia	M.K.K. Industries Sdn Bhd	Textiles	Heng Ji Keng &Michael Joseph Montiero	2 Feb 2012	Inviting offers for plant and machinery, comprising steam boilers, knitting machines & dying machines, estimated net book value RM6.6m
Malaysia	Kota Malim Sdn Bhd (In Liquidation)	Property Development	Heng Ji Keng &Michael Joseph Montiero (Liquidators of the company)	4 Feb 2010	Inviting offers for the revival / sale of an abandoned housing development of approx. 220 acres in Perak, Ipoh
Vietnam	Not permitted to disclose	Telecommunications	Baker Tilly Vietnam	2012	Receiver appointed

All Transactional opportunities listed with Asian Compass can be viewed online at:

www.e-debttrading.com

Or contact: administrator@e-debttrading.com

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Regional Economic Indicators

Country	Latest GDP growth rate	Latest Industrial Production output	Latest Consumer Price Inflation	Current account % of GDP
Australia	2.3%	2.1%	1.6%	-2.9%
China	8.1%	9.3%	3.4%	2.3%
Hong Kong	0.4%	-2.2%	4.7%	6.5%
India	6.1%	-3.5%	10.4%	-3.1%
Indonesia	6.3%	0.8%	4.5%	0.2%
Japan	2.3%	14.2%	0.5%	1.6%
Malaysia	4.7%	0.6%	1.9%	12.6%
Pakistan	4.2%	-3.6%	11.3%	-2.1%
Singapore	1.6%	-3.4%	5.4%	20.7%
South Korea	3.0%	3.0%	2.5%	1.9%
Taiwan	0.4%	8.4%	1.4%	8.1%
Thailand	0.0%	-3.2%	2.5%	-0.2%
Other Regions				
Euro Area	0.0%	-2.2%	2.6%	-0.1%
Germany	1.7%	1.5%	2.1%	4.8%
U.K.	0.0%	-2.6%	3.0%	-1.6%
USA	2.1%	5.2%	2.3%	-3.2%

GDP Growth: Global GDP growth trends continue to erode generally. The rate of growth in China has continued to reduce steadily every month since mid-2011. Hong Kong fell significantly in May, whilst latest numbers from Japan show a return to growth. Thailand returned to equilibrium during the past month as the negative impact of severe flooding in the last quarter of 2011 has receded.

Industrial Production: In tandem with GDP growth, the latest industrial production figures continue to trend downwards throughout virtually all of Asia. During the past month, Indonesia, Singapore and Malaysia slowed significantly whilst South Korea, Pakistan and India dropped substantially. Production output numbers remain muted in Hong Kong. Production figures in Japan and the USA rebounded positively during May.

Consumer Prices: Consumer prices are generally reflecting higher inflation levels. Numbers may undulate from month to month in response to individual movements in different commodities. Japans' consumer prices remained positive. The rate of increase in China and Hong Kong reduced marginally during the last month. Of greatest concern is India and Pakistan where high inflation shows no sign of softening, and if anything, is increasing. Recently reported higher inflation rates show no sign yet of slowing down in Singapore.

Current Account: With the exception of Singapore and Malaysia, current account balances are generally falling, with some turning negative. Numbers for India reduced significantly during May, driving it into negative territory. Conversely, current account balance improved during the past month in Hong Kong.

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