

# China and the world

Dong Tao

Chief Economist, Non-Japan Asia Economics Research

+852 2101 7469

[dong.tao@credit-suisse.com](mailto:dong.tao@credit-suisse.com)

ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES ARE IN THE DISCLOSURE APPENDIX. FOR OTHER IMPORTANT DISCLOSURES, PLEASE REFER TO <https://fireresearchdisclosure.credit-suisse.com>.

# The big trends

## Ten years ago:

- Surge in exports
- Deflation

## Five years ago:

- Housing boom
- Infrastructure boom

**Today**

**Return of inflation**

**Exports vs domestic consumption**

**Financial market liberalization**

# Past versus present

## Shenzhen

1980



2004



## Shanghai (Pudong)

1990



2004



Source: Credit Suisse

# The problems

**Major progress has been made in recapitalizing the banking sector, but we believe that is still the weakest link in the economy**

**More than 200 mn people are either unemployed or underemployed. Job pressure remains heavy**

**Income gap widening; rural/urban gap widening. Social unrest is a real threat in the medium term**

**There is virtually no social security safety net; health care system has practically collapsed; education is inadequate**

# But China has become more important for the rest of the world

**China is still only one-fifth the size of the US economy, but it contributed 1.2 p.p. of the 4.9% global growth in 2007, while the US contributed 0.5 p.p. and Japan 0.1 p.p.**

**Urbanization in China is running at the equivalent pace of building two cities the size of Boston per year, and accelerating**

**40% of steel and 60% of cement produced globally are being used in China's property boom and infrastructure drive**

**Mainland Chinese own 550 million mobile phones, and demand is robust**

# How did China get here?

**Very low wage rate – one third of Mexico's – with a huge reserve of migrant workers**

**Very low cost of capital – depositors are subsidizing industrialization through obsolete banks**

**Rapidly improved infrastructure, hence rising productivity**

**Growth focused political structure**

# Projection of global consumption growth

China's private consumption is expected to count for 21% of global consumption in 2020

<i>(% share of global consumption)</i>	<u>2006</u>	<u>2007E</u>	<u>2008F</u>	<u>2009F</u>	<u>2010F</u>	<u>2015F</u>	<u>2020F</u>
US	31.1	30.2	29.3	28.4	27.5	23.3	20.7
Japan	8.4	8.2	7.9	7.7	7.5	6.4	5.8
Germany	5.8	5.6	5.4	5.3	5.1	4.3	3.7
UK	5.1	5.0	4.9	4.8	4.6	4.0	3.6
<b>China</b>	<b>4.7</b>	<b>5.4</b>	<b>6.4</b>	<b>7.6</b>	<b>8.9</b>	<b>16.9</b>	<b>21.4</b>
France	4.3	4.2	4.1	3.9	3.8	3.2	2.8
Italy	3.7	3.6	3.4	3.3	3.2	2.7	2.3
Spain	2.4	2.4	2.3	2.3	2.2	1.9	1.7
Canada	2.4	2.3	2.3	2.2	2.1	1.9	1.7
Mexico	1.9	1.9	1.8	1.8	1.8	1.7	1.6

Source: CEIC, © Datastream International Limited ALL RIGHTS RESERVED, IMF, Credit Suisse estimates.

Assumption: China's private consumption growing 1 pp above GDP growth, along with a 10% annual currency appreciation against the US\$ until the RMB/US\$ exchange rate reaches 4:1.

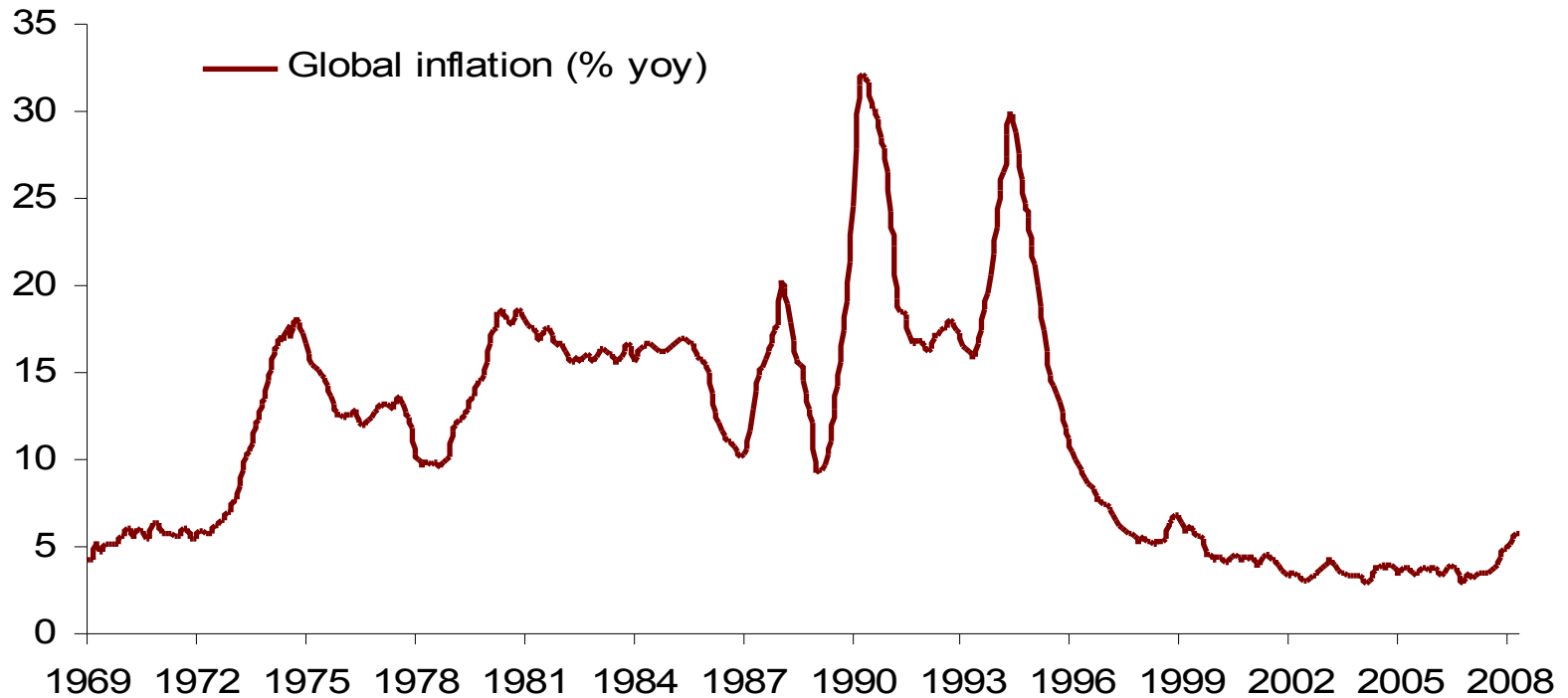


# China

## Growth, inflation and property

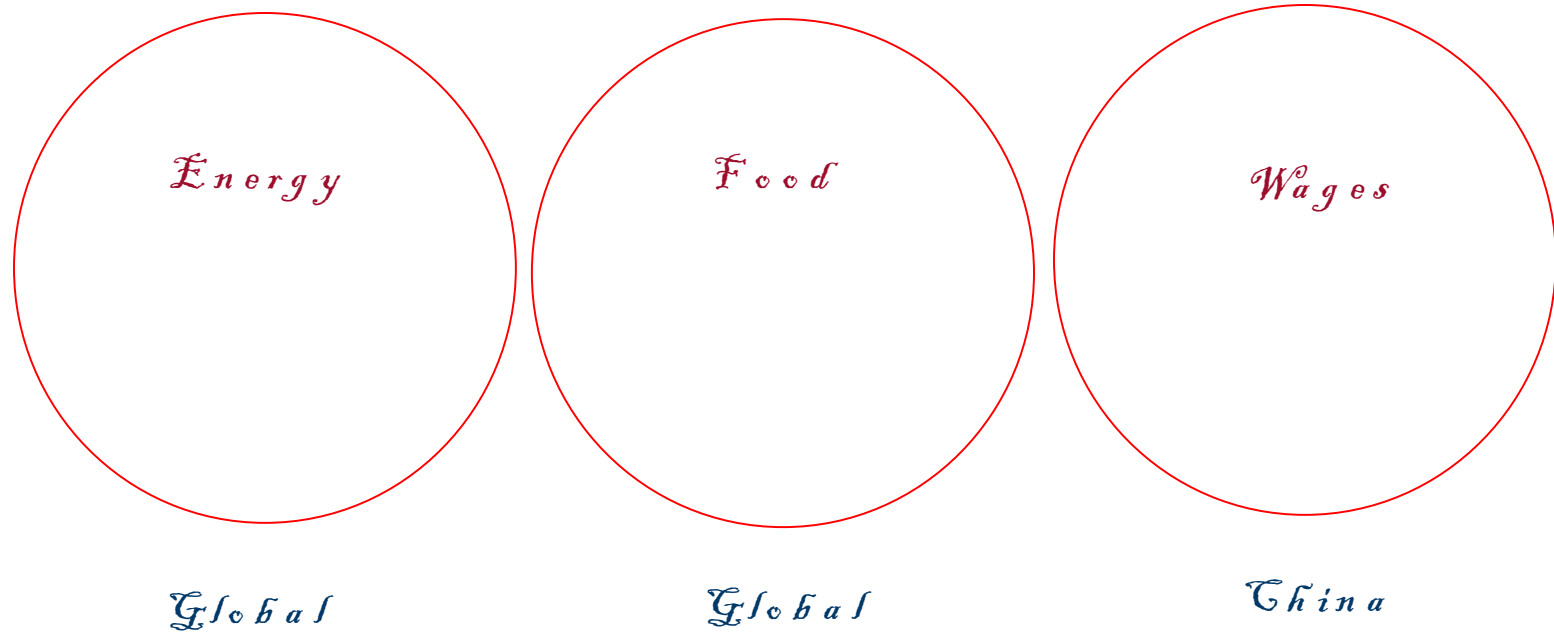


# Return to normal pattern



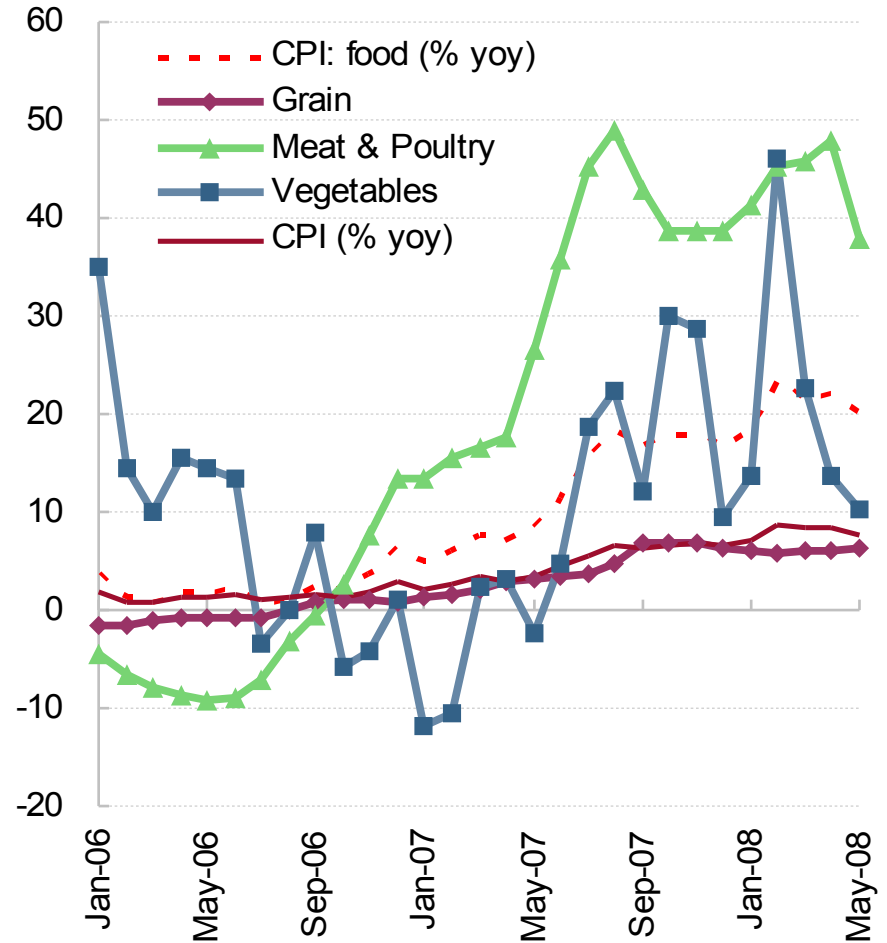
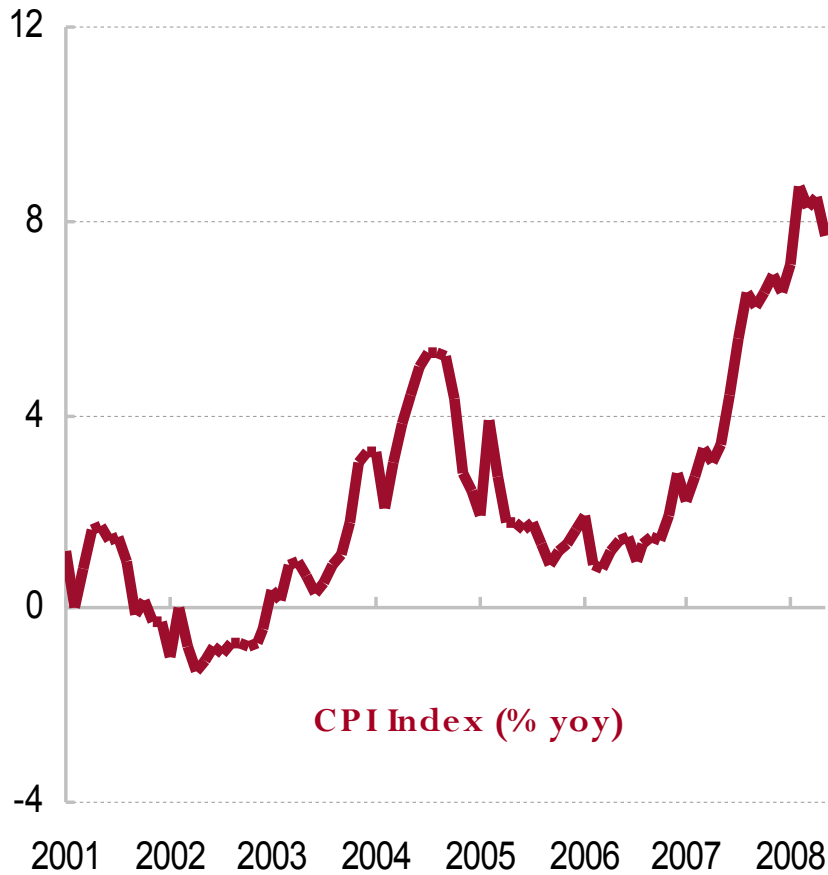
Sources: IMF, Credit Suisse

# Inflation is a global issue



Inflation is a global issue...  
...but central banks' power varies by country

# Food inflation may be peaking...



Sources: National Bureau of Statistics, Credit Suisse

# ...but wage growth is worrying

## Cost surprise in Q1 2008 company results

Q108 results	Cost surprise on the upside	Material cost surprise on the upside	Wage cost surprise on the upside
<i>(number of reporting companies/all companies)</i>			
A-share	544/650	327/456	411/456
H-share	257/315	163/198	184/198

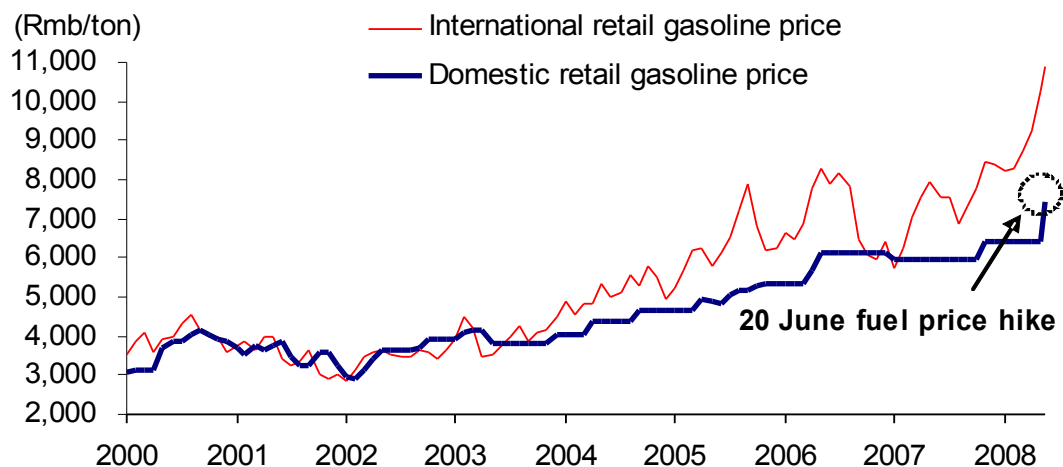
Source: WinBound, the BLOOMBERG PROFESSIONAL™ service, Credit Suisse

## Summary of CPI projections

	Q107	Q207	Q307	Q407	Q108	Credit Suisse Forecast						
						Q208	Q308	Q408	Q109	Q209	Q309	Q409
<i>(%yoy, ya)</i>												
Food Inflation	6.2	8.9	16.8	17.5	21.0	23.0	17.0	15.0	11.0	10.0	10.5	11.0
Non-food inflation	0.9	1.0	1.0	1.3	1.6	1.8	2.7	3.0	4.5	6.5	7.5	9.0
Headline CPI	2.7	3.6	6.1	6.6	8.0	8.2	7.0	6.6	6.5	7.6	8.4	9.6

Source: CEIC, Credit Suisse estimates.

# Energy price adjustment adds further inflationary pressures



Note: (1) Weighted average of prices in the US, Europe, and Singapore  
Source: the BLOOMBERG PROFESSIONALTM services, Credit Suisse.

## Estimated impact of fuel and power price hike on CPI inflation

<i>(Percent point contribution to CPI, annualized)</i>	Direct impact	Indirect impact 1st yr	Total
<b>Scenario One</b>			
15% hike in fuel prices	0.54	0.5	1.04
4.7% hike in power tariffs			
<b>Scenario Two</b>			
15% hike in fuel prices			
4.7% hike in power tariffs	0.98	1.3	2.28
PLUS 8% rise in public transportation fares			

Note: (1) Fuel is assumed to have a 3% weight in CPI; (2) Power tariff is assumed to have a 2% weight in CPI;

(3) Public transportation is assumed to have a 5.5% weight in CPI Source: CEIC, Credit Suisse estimates

# Scenario A

- Food inflation moderates substantially
- Wage growth does not shoot up
- USD appreciates, so commodity prices fall



*6-7% inflation, 10% GDP growth in 2009*

# Scenario B

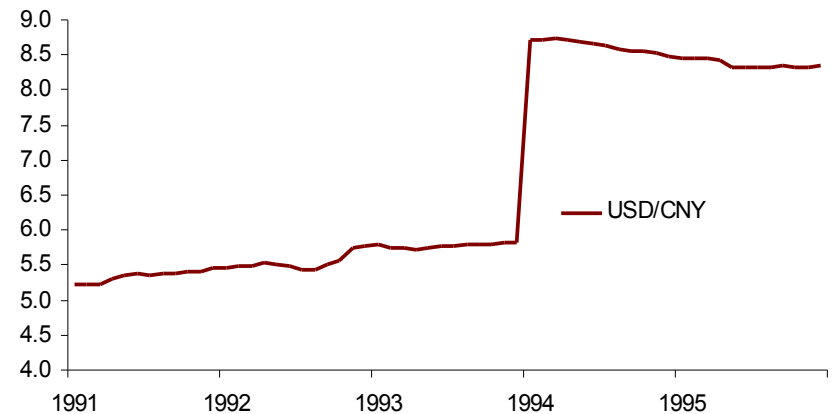
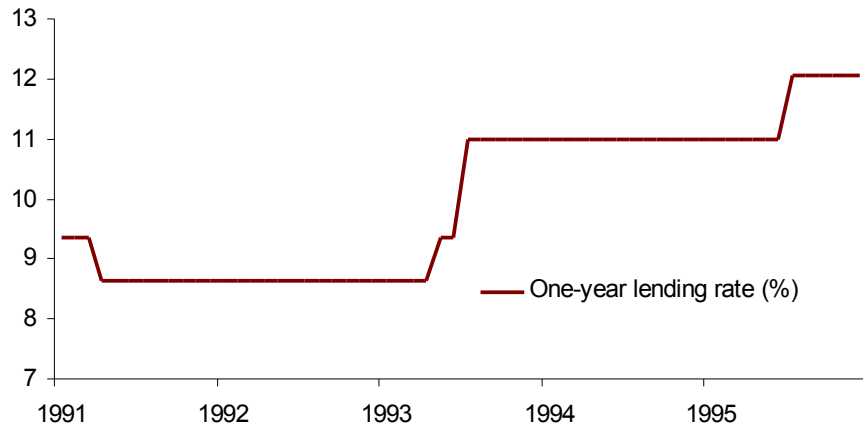
- Wage – price spiral
- Energy/commodity prices stay high



*Zhu Rongji's 1993 - 95 austerity measures*

# What did Zhu do?

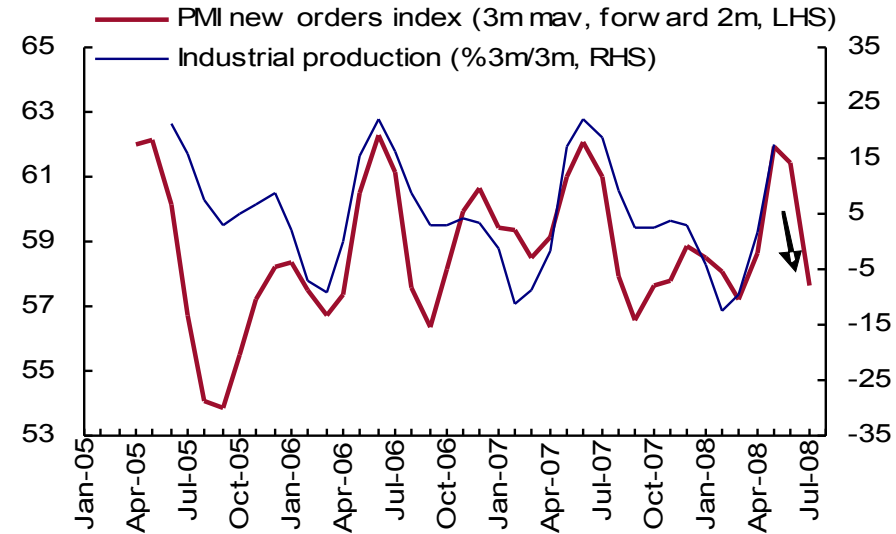
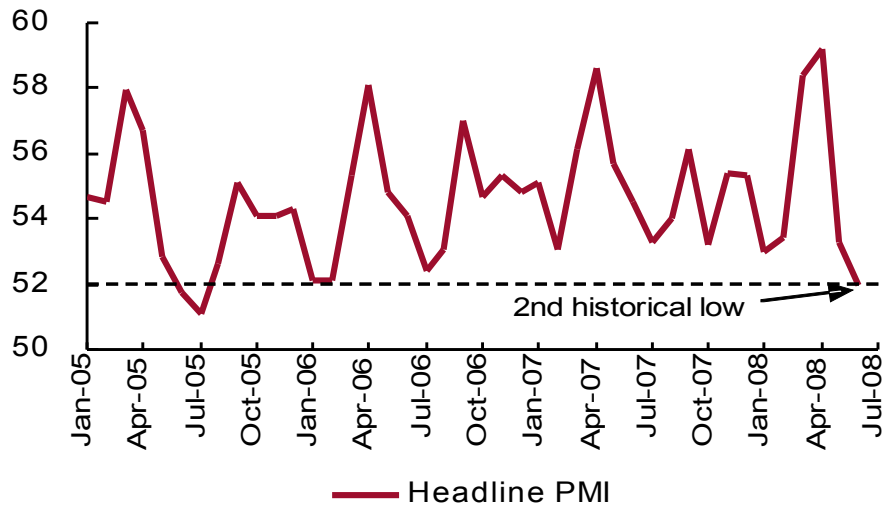
- Harsh ban on bank credit
- Interest rate up 342bps
- RMB dropped by 33%



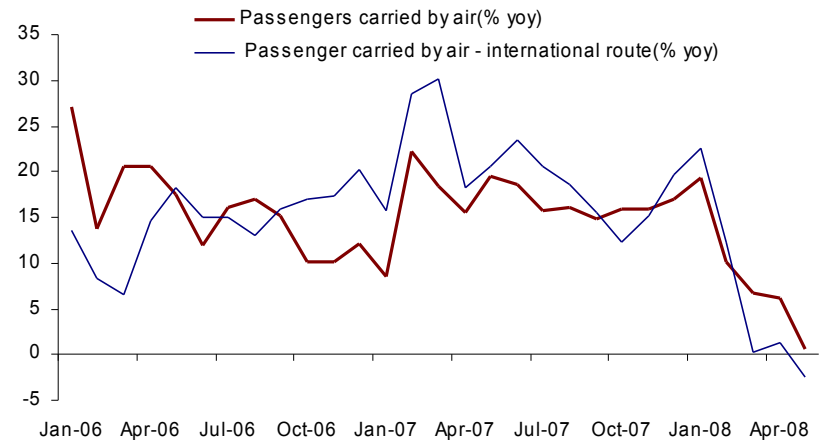
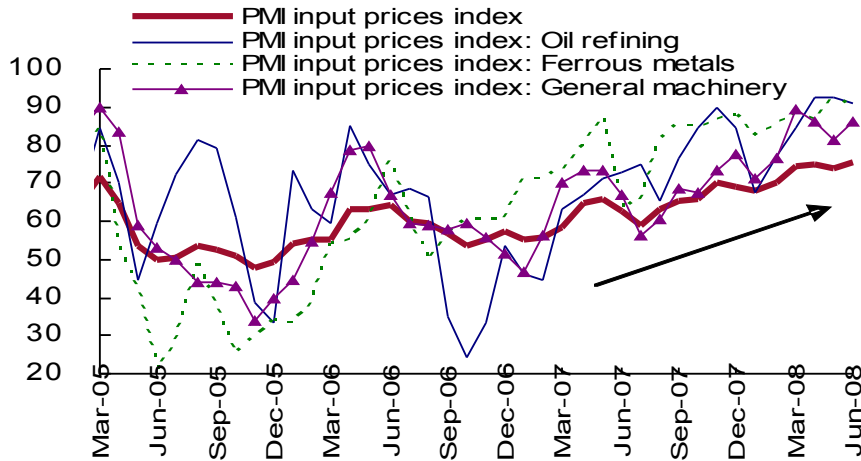
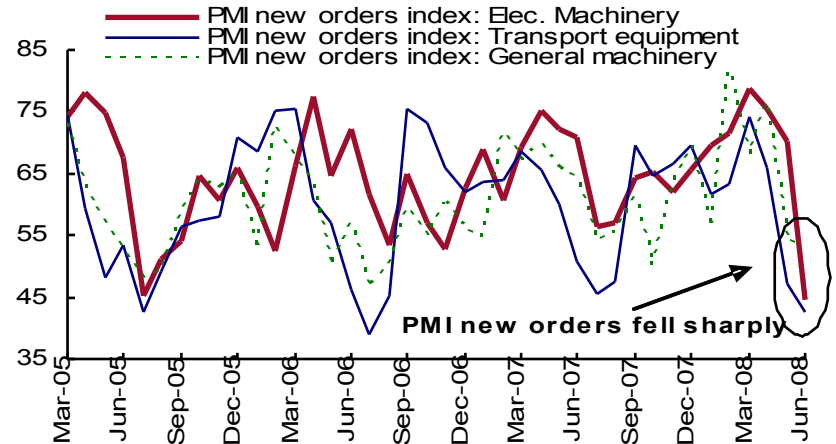
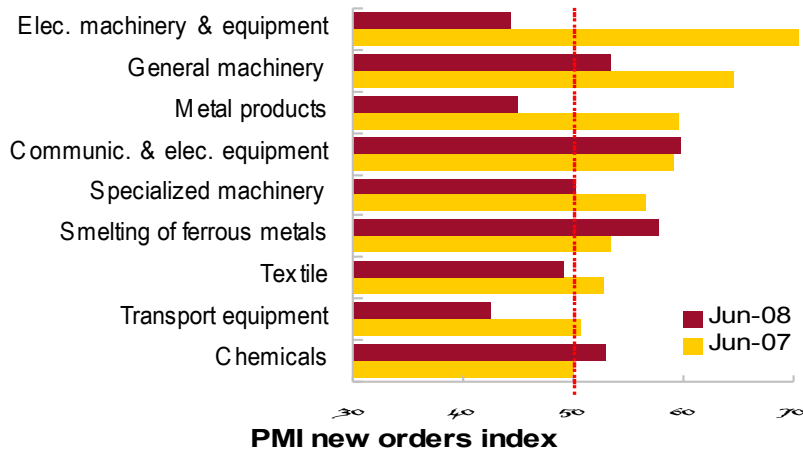
Sources: CEIC, Credit Suisse



# Growth risk is emerging now, too...

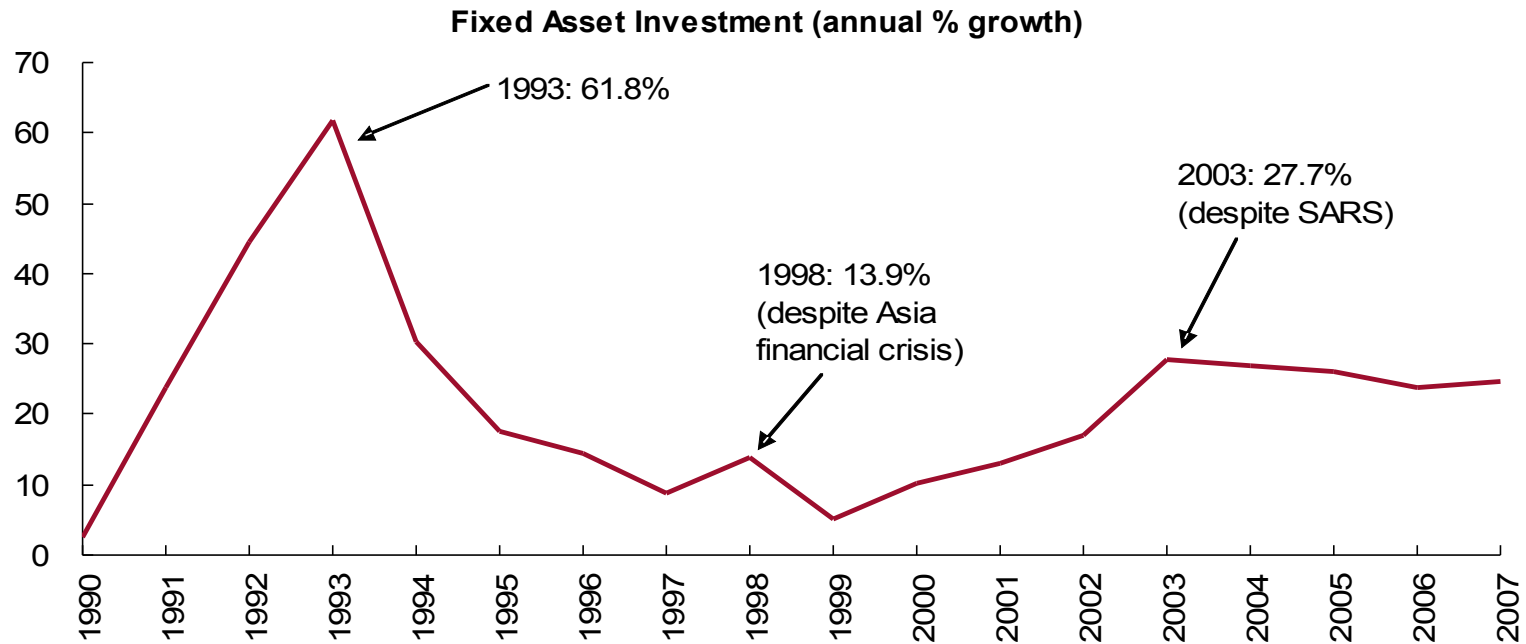


# PMI continued to be weak in June



Sources: CLIC, CEIC, Credit Suisse

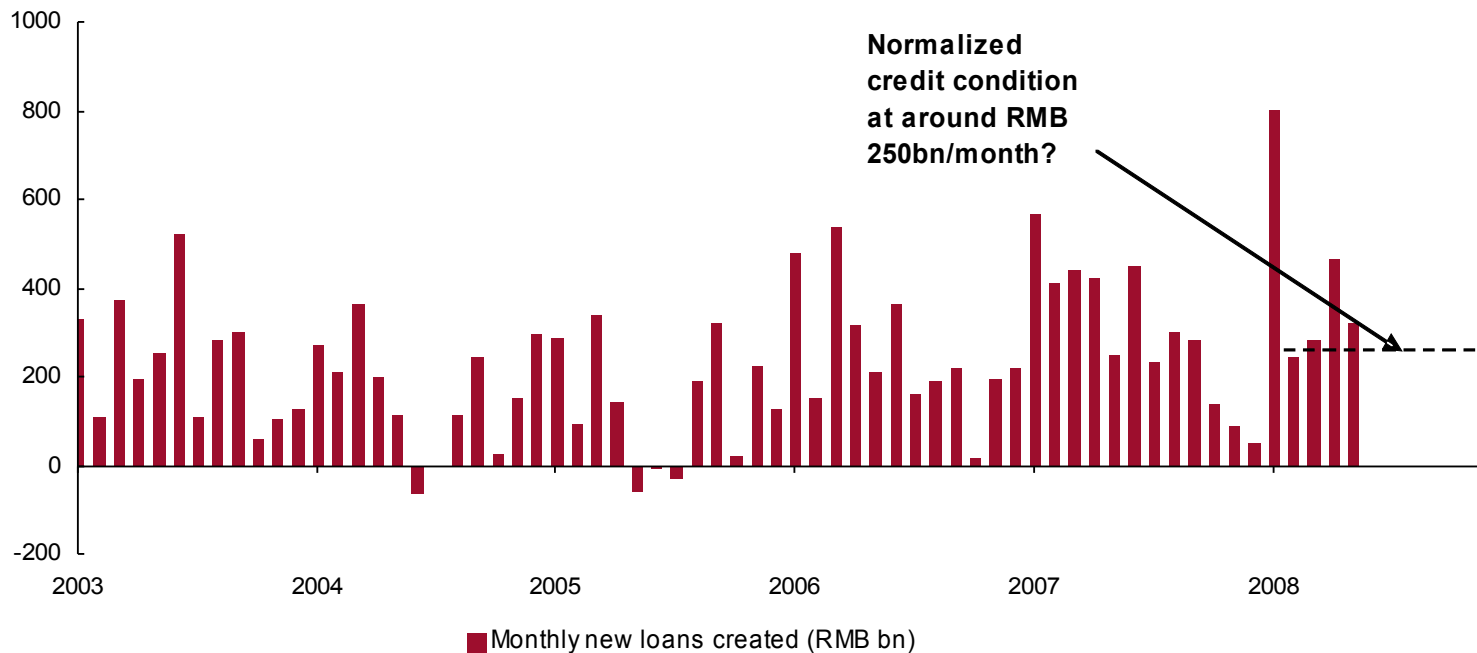
# A new investment wave by local governments?



Sources: CEIC, Credit Suisse

# A selective easing in 2008

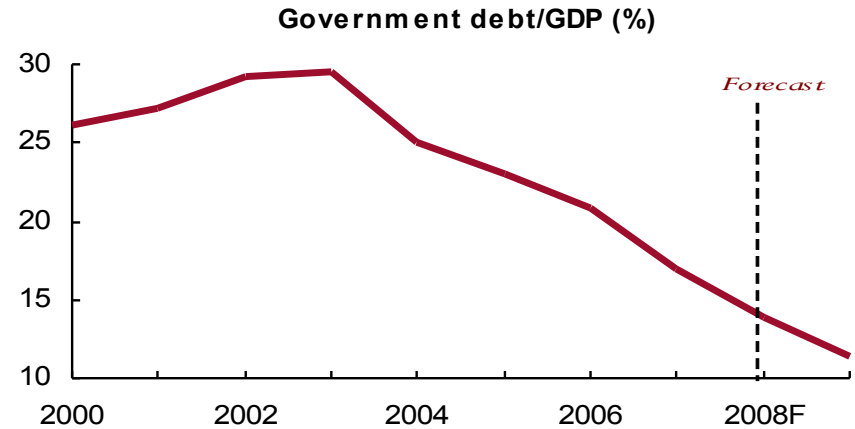
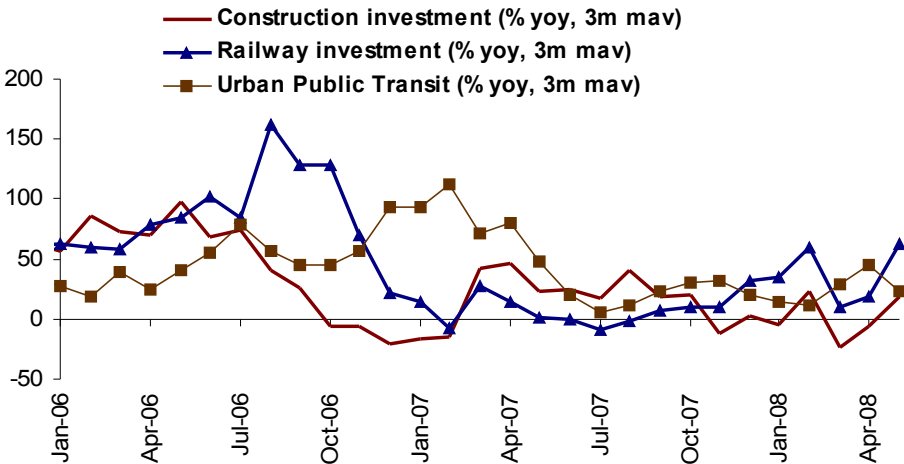
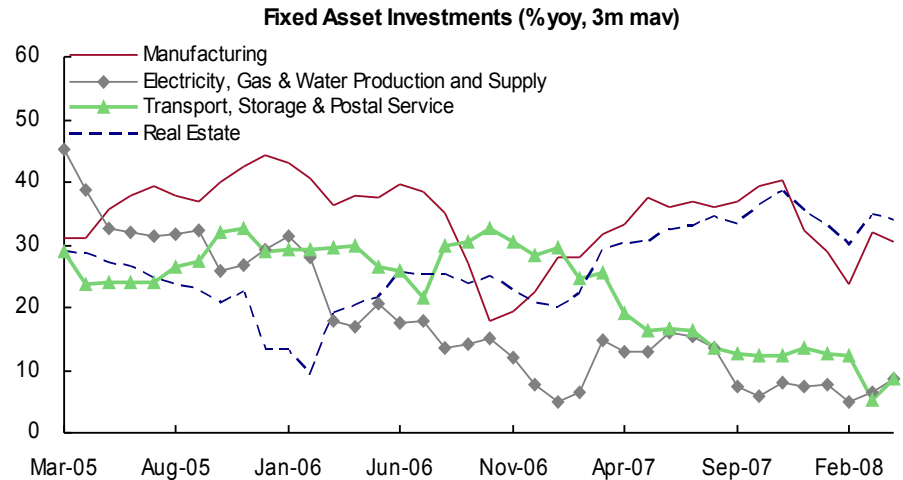
- A normalization in credit environment is taking place



Sources: National Bureau of Statistics, People's Bank of China, Credit Suisse

# We look for 9.8% GDP growth for 2008

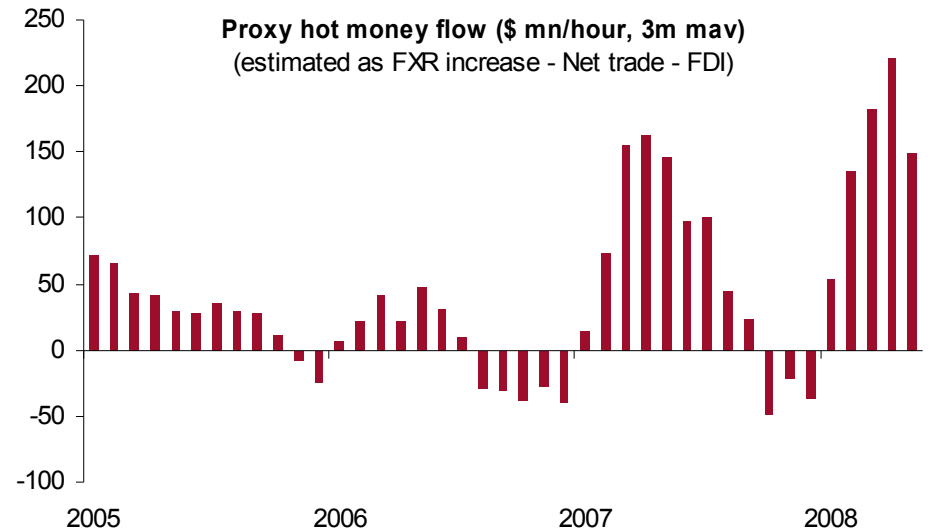
- The economy is “de-banking,” with only 19% of investments relying on bank loans.
- Companies are cash-rich, and the capital market is robust, so industrial investment looks strong.
- Consumption remains healthy.
- Property sector correction is likely to be a repeat of that in Shanghai in 2005.



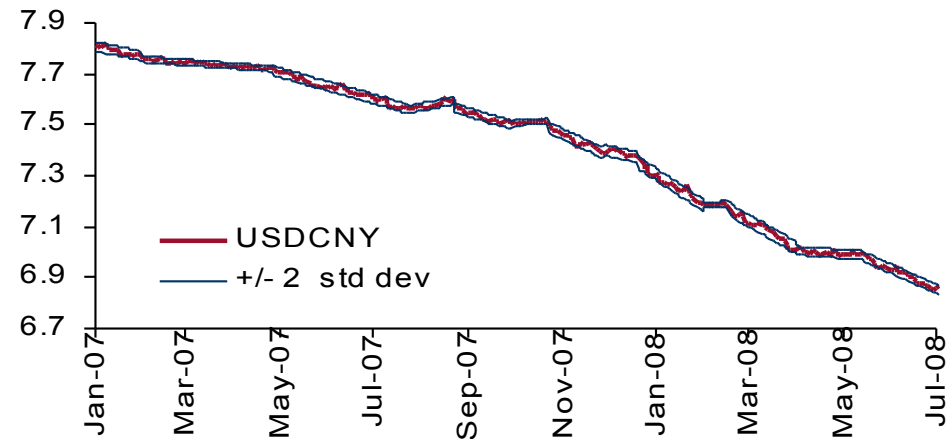
Sources: National Bureau of Statistics, Credit Suisse

# Currency appreciation slows down a little in H2 08

- Rate hikes become difficult amid a global easing cycle
- Reserve requirement ratio is not an effective policy tool
- Increasingly amount of imported commodities, and possibly foods



We look for RMB to appreciate 4-5% against US D  
in H2 08



Sources: the BLOOMBERG PROFESSIONAL™ service, CEIC, Credit Suisse

# Exports: the end of an era

## The Labour Contract Law the last straw on camel's back

### Overtime work must be compensated

- 1) Outside 40 hours/week:  
wage x1.5 on weekdays x2 on weekends x3 on public holidays
- 2) Maximum overtime on weekdays  
3 hours/day or 36 hours/month overtime work on weekdays

### Worker can only be dismissed when contract expires or for causes defined in the law

Severance pay at the rate of one month's salary per year of service is re

### Written contract is compulsory

Wage x2 for each month working without a written contract  
After one-year, contract becomes open-ended

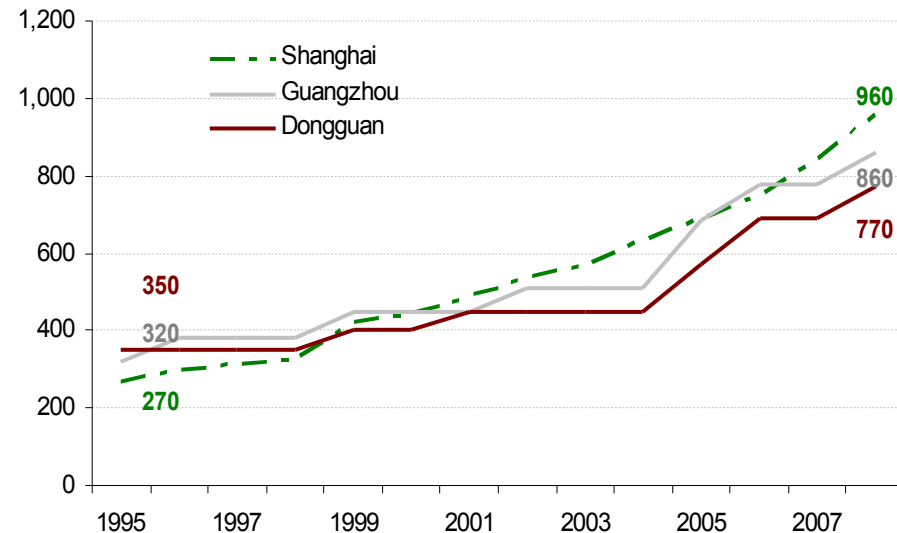
### Compulsory enrollment in social security program

Rate set by local government, average at 13-15% of wage

### Open-ended contract is required, if a worker has

- 1) 10 years of continuous employment with the firm; or
- 2) worked under two fixed-term contracts previously

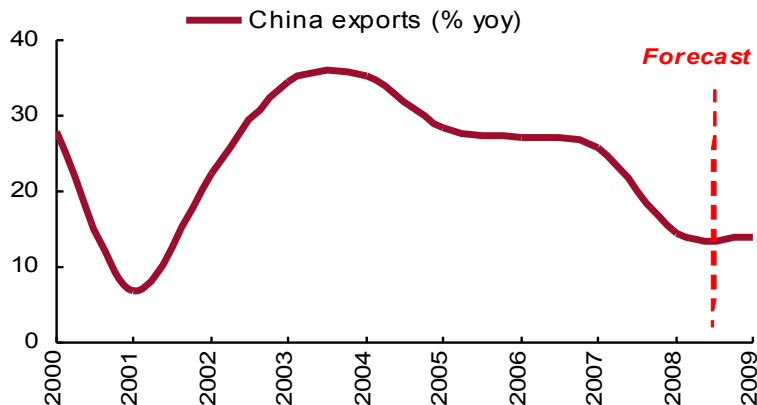
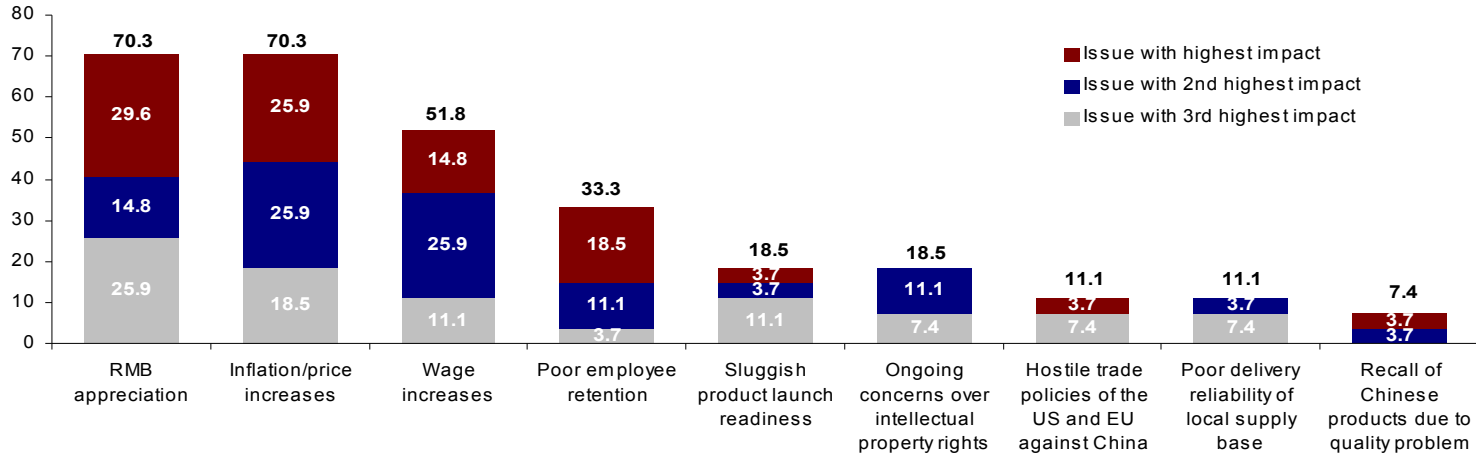
## Minimum wages (RMB/month)



## Average annual growth of minimum wages

(% yoy)	1995-2004	2004-2008
<b>Dongguan</b>	2.8	14.4
<b>Guangzhou</b>	5.3	14.0
<b>Shanghai</b>	10.0	10.9

# 1/3 of export factories in Guangdong may be closed in 3 years



## Average monthly wage for female migrant workers (unskilled, but with one-year experience)

	Shoe factory in Dongguan, Guangdong	Toy factory in Foshan, Guangdong	Textile factory in Ningbo, Zhejiang	Electronics factory in Suzhou, Jiangsu
<b>Manufacturing</b>				
Monthly wage (yuan)	1100	1200	1600	1700
<b>Services</b>				
	Nanny in Chongqing	Supermarket clerk in Tianjin	Restaurant waitress in Shanghai	Foot masseur in Shenzhen, Guangdong
Monthly wage (yuan)	1800	1900	2200	2500

Sources: CEIC, Booz Allen Hamilton, Various local labor market authorities, Credit Suisse

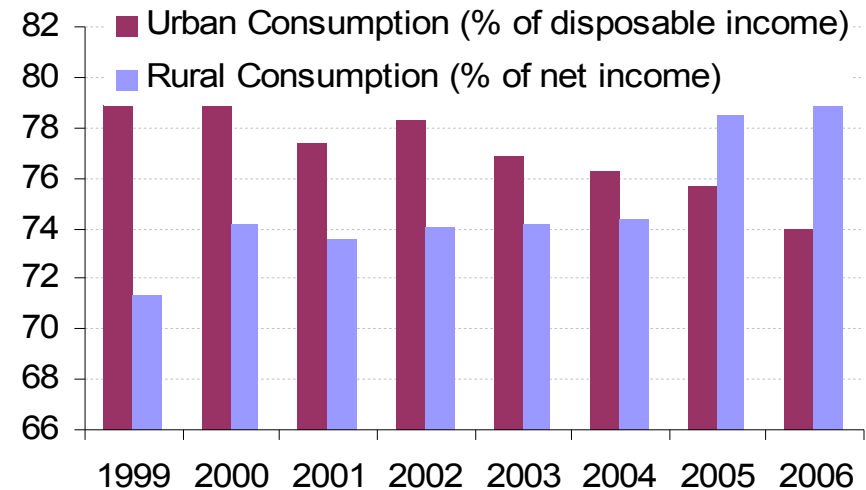
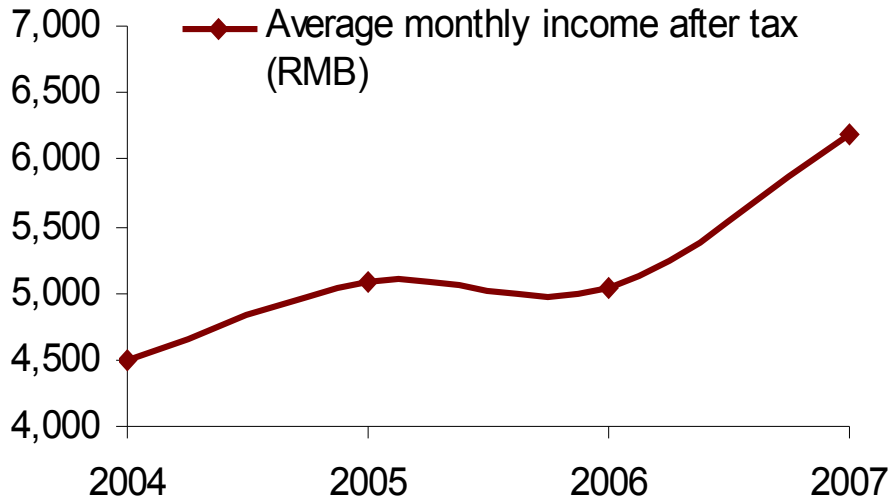


# Private consumption is rising

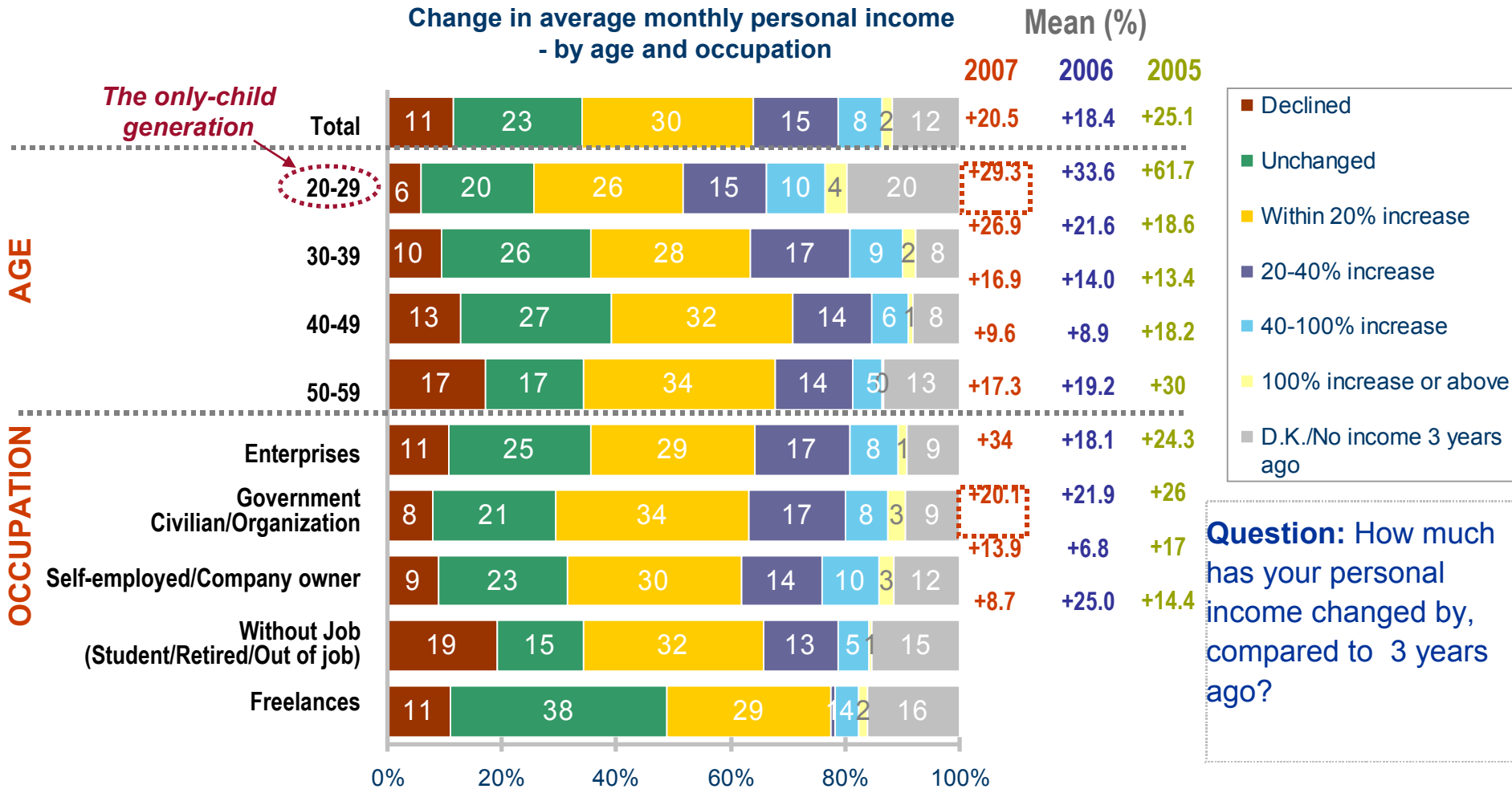
- Retail sales data grossly underestimate the momentum in private consumption.
- Service demand and purchasing power from the rural sector.
- Rising inflation encourages spending.
- Home ownership has reached 60%, so crowding out effect is down.

After-tax monthly household income distribution  
(% of total households)

	RMB 1000- 2000*	RMB 2000 - 3000	RMB 3000 - 4000	RMB 4000 - 5000	RMB 5000 - 6000	RMB 6000 - 7000	RMB 7000 - 8000	RMB 8000 - 9000	RMB 9000 - 10000	RMB 10000 +
2004	24.7	21.0	16.2	12.0	8.9	4.4	3.2	1.5	2.0	6.1
2005	22.2	20.5	16.5	11.0	9.8	3.8	3.6	2.2	2.3	8.1
2006	20.3	17.3	17.7	13.3	10.3	4.4	4.6	1.7	3.3	7.1
2007	17.5	15.6	12.9	13.6	11.7	4.9	5.7	2.4	3.4	12.3



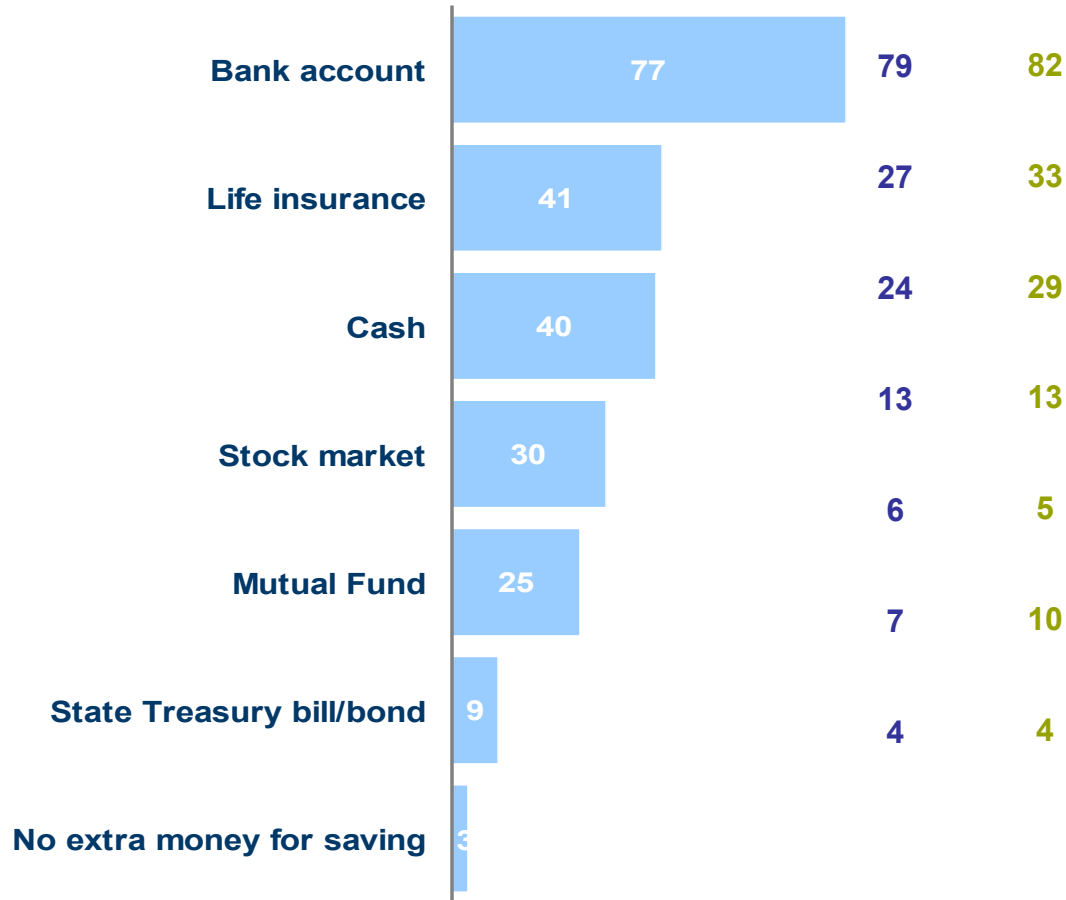
# ...with younger generation leading the way



Sources: Credit Suisse

# More wealth into securities and insurance

**Methods for saving money**      **2007**      **2006**      **2005**



**Q:** How do you usually save?  
 [May choose more than one answers if applicable]

Sources: Credit Suisse



The world

# Is the worst behind us?

*Liquidity Crisis*  
(money market,  
credit market)

*Q 07*

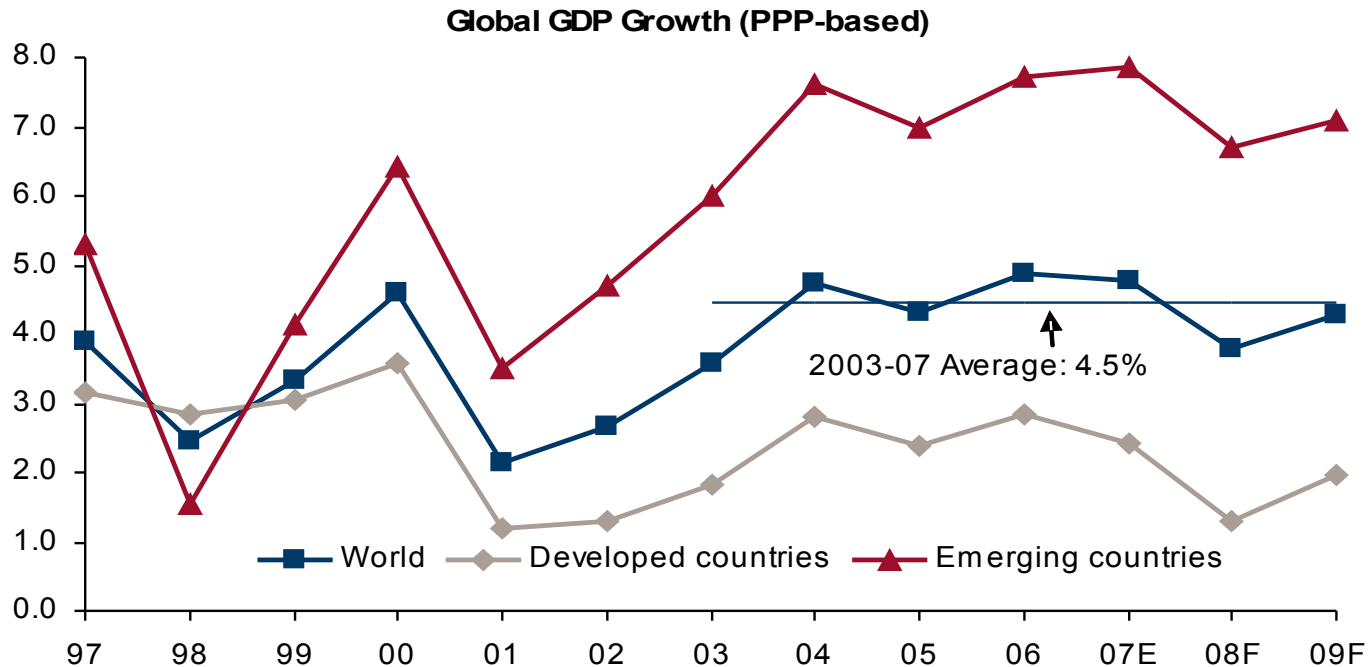
*De-leveraging*  
*Crisis*  
(investment banks,  
hedge funds)

*Q 08*

*Housing,*  
*consumer loans?*

Source: Credit Suisse

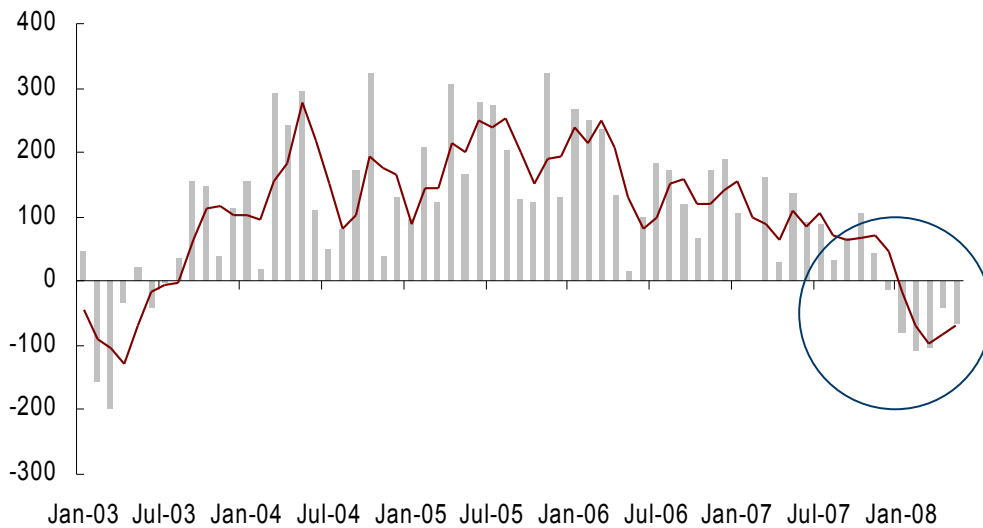
# Slowdown in growth is set to be asymmetrical?



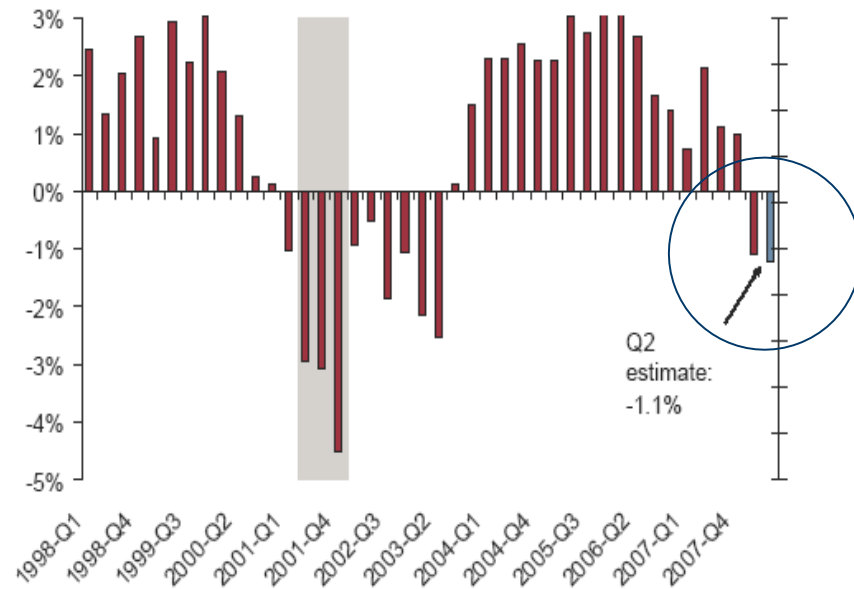
Source: © Datastream International Limited ALL RIGHTS RESERVED, Credit Suisse

# ... With the US in recession

Private payrolls, in thousands



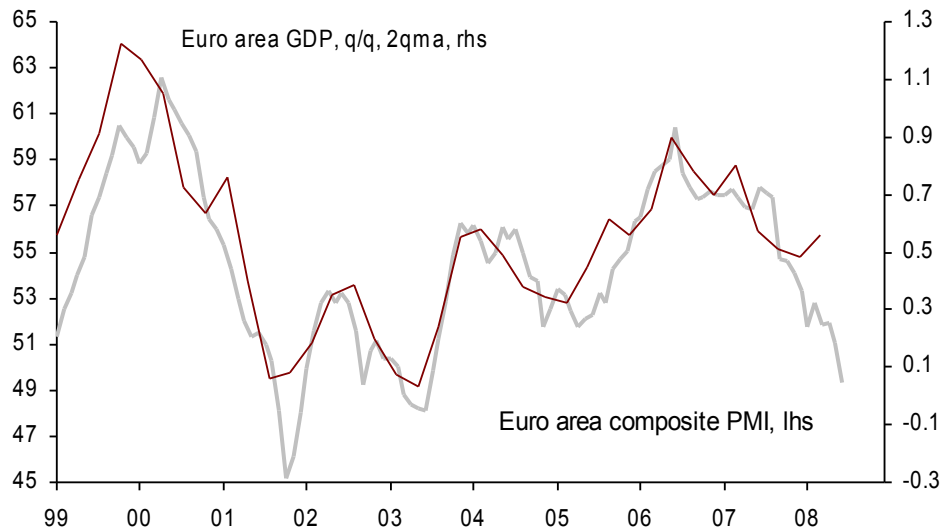
Aggregate weekly hours, total private industries, Q/Q saar



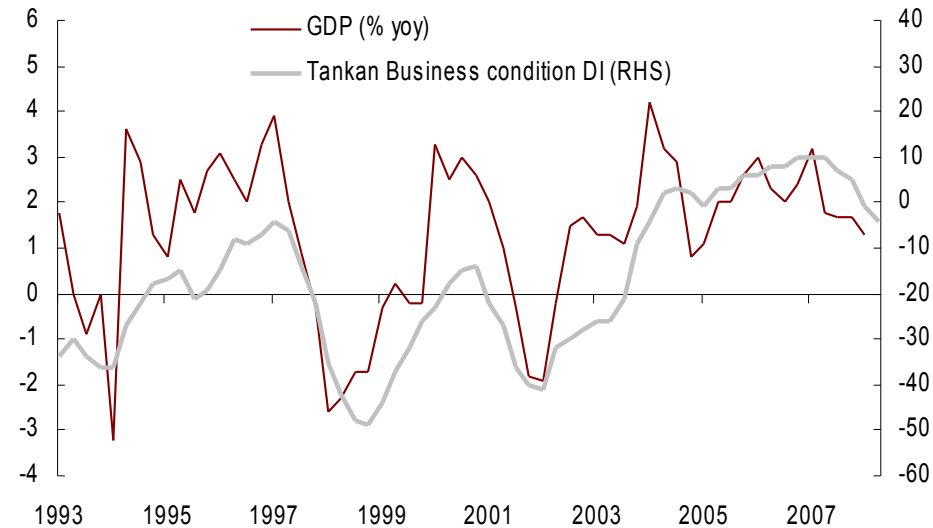
Source: BLS, Credit Suisse

# Downside risks are rising in in Europe and Japan

## EU: Composite PMI vs. GDP



## Japan: Tankan business condition DI vs. GDP

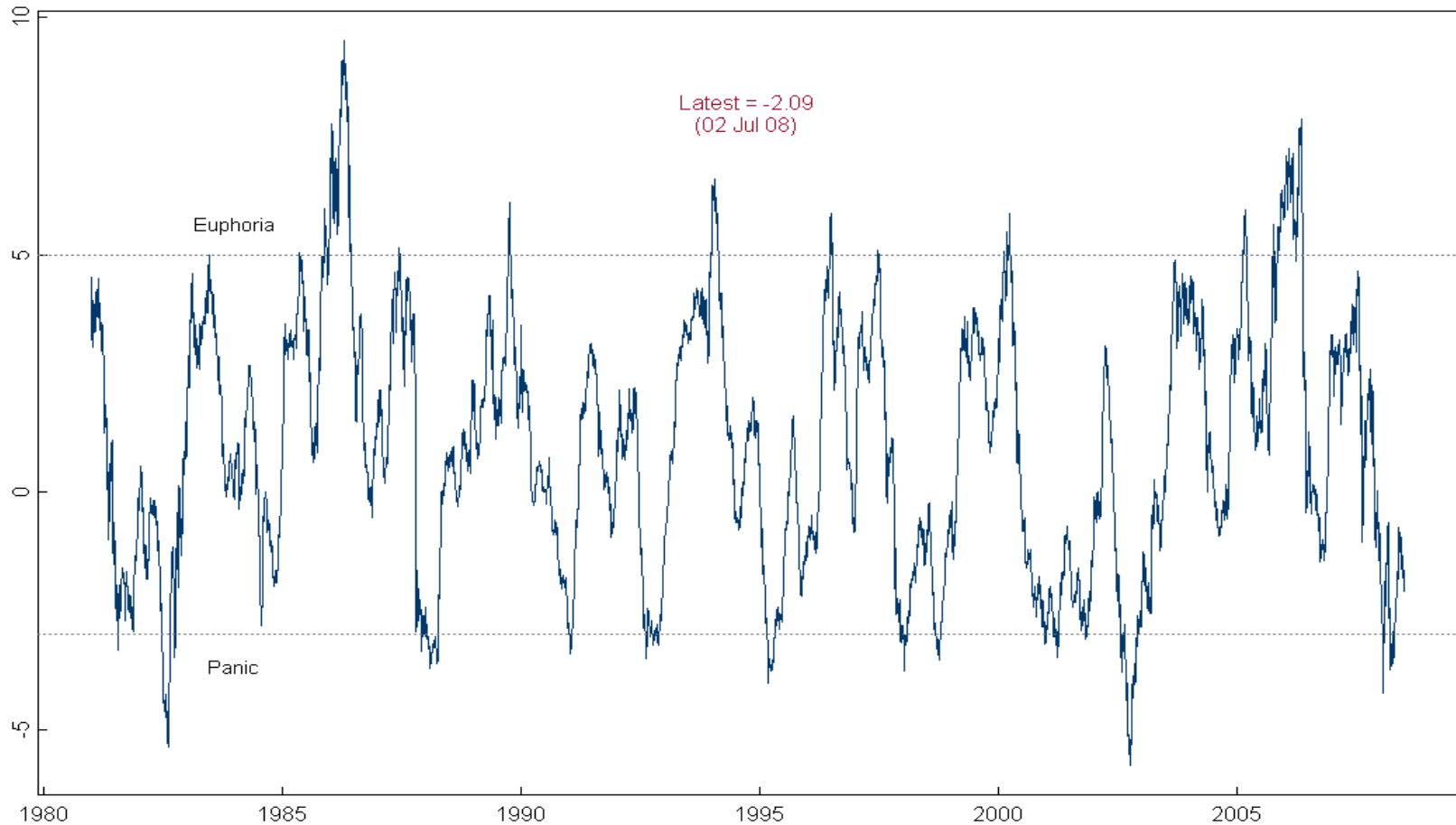


Source: © Datastream International Limited ALL RIGHTS RESERVED, Credit Suisse



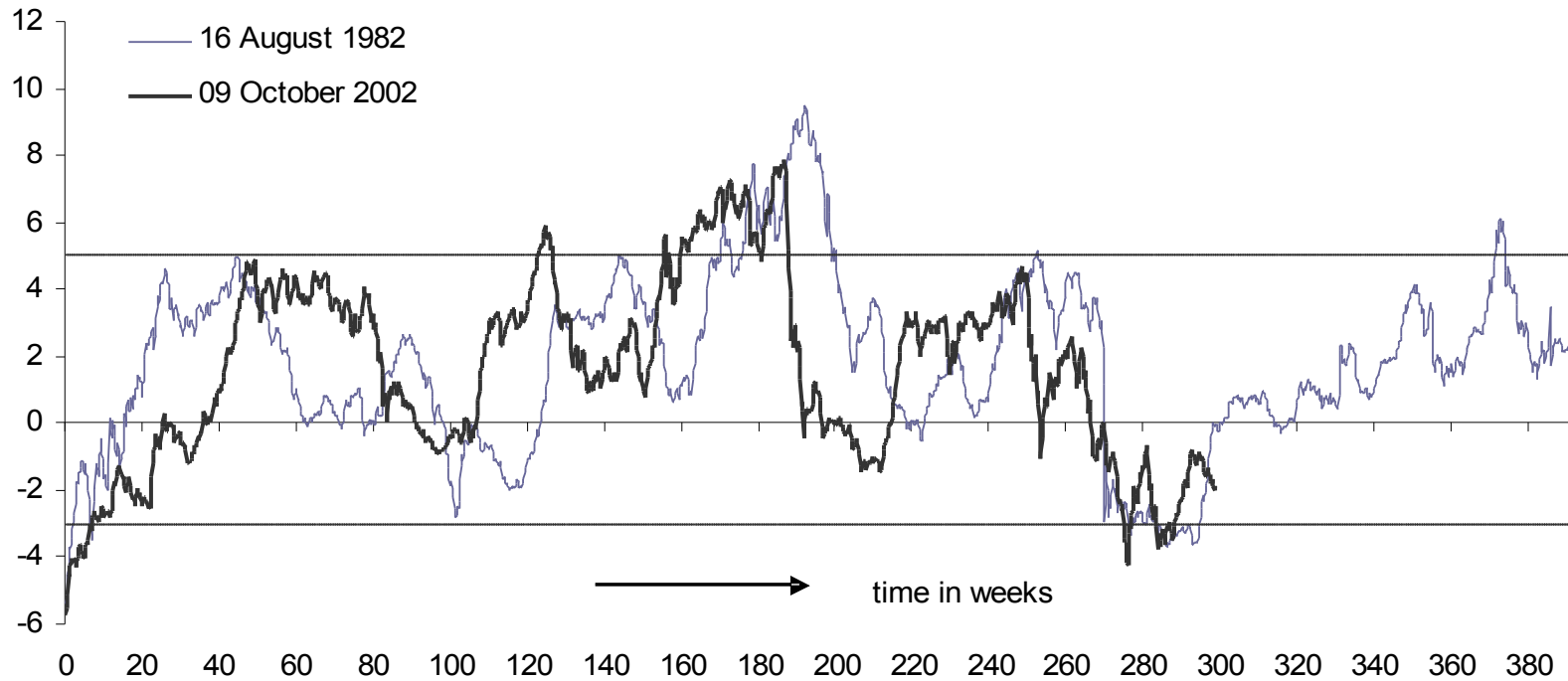
# So What Does the Recovery look like?

Global Risk Appetite Since 1981



Source: Credit Suisse

# Risk Appetite Cycles Compared



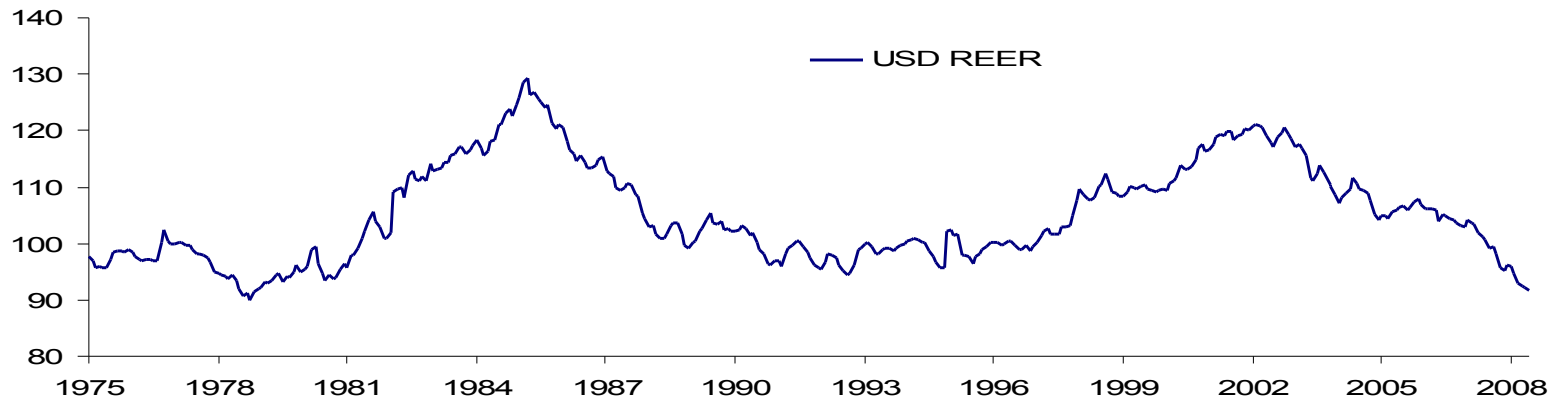
Source: Credit Suisse

# Average Asset Returns During Panics

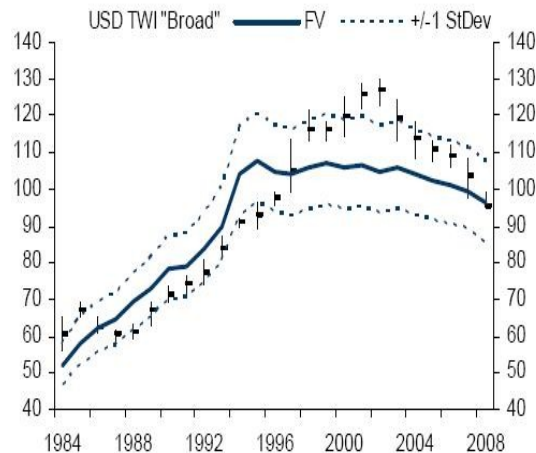
	-3 Months to entry	Entry to trough (29 days)	Trough + 3m	Trough + 12m
<b>World Wealth</b>	<b>-7.2%</b>	<b>-0.9%</b>	<b>8.8%</b>	<b>14.9%</b>
<b>World Equities</b>	-8.4%	-1.7%	13.1%	23.4%
<b>S&amp;P500</b>	-7.4%	-0.1%	14.0%	24.6%
<b>US Equities (Broad)</b>	-7.4%	0.1%	14.5%	25.8%
<b>UK Equities</b>	-9.1%	-0.8%	14.1%	22.8%
<b>German Equities</b>	-11.6%	-4.3%	11.4%	18.8%
<b>Japanese Equities</b>	-9.7%	-2.8%	5.8%	15.2%
<b>JP EMBI+</b>	-10.1%	-0.4%	12.5%	19.8%
<b>EM Equities (USD)</b>	-16.5%	-0.2%	11.6%	21.9%
<b>Commodities</b>	-4.4%	-0.2%	-2.3%	6.3%
<b>US Treasuries</b>	5.5%	3.0%	1.7%	7.6%
<b>German Govt Bonds</b>	3.3%	1.5%	2.7%	8.4%
<b>JGBs</b>	3.0%	1.4%	1.2%	6.0%
<b>G5 Equity-to-Bond Ratio</b>	-14.7%	-4.2%	9.1%	10.2%
<b>Gold</b>	0.1%	-0.3%	2.6%	6.9%

Source: Credit Suisse

# USD turning around in 2008?

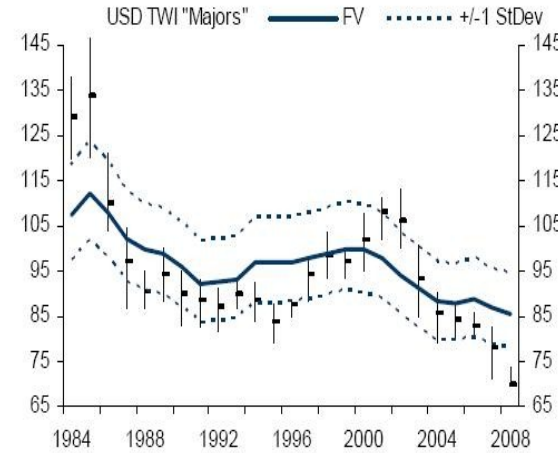


US dollar TWI (“broad”) fair value



Country	% Weight
Canada	18.8%
Euro area	21.5%
Japan	12.1%
UK	5.9%
Switzerland	1.6%
Sweden	1.3%
Australia	1.4%
Mexico	11.5%
Ex-Japan Asia	26.0%
CE4	0%

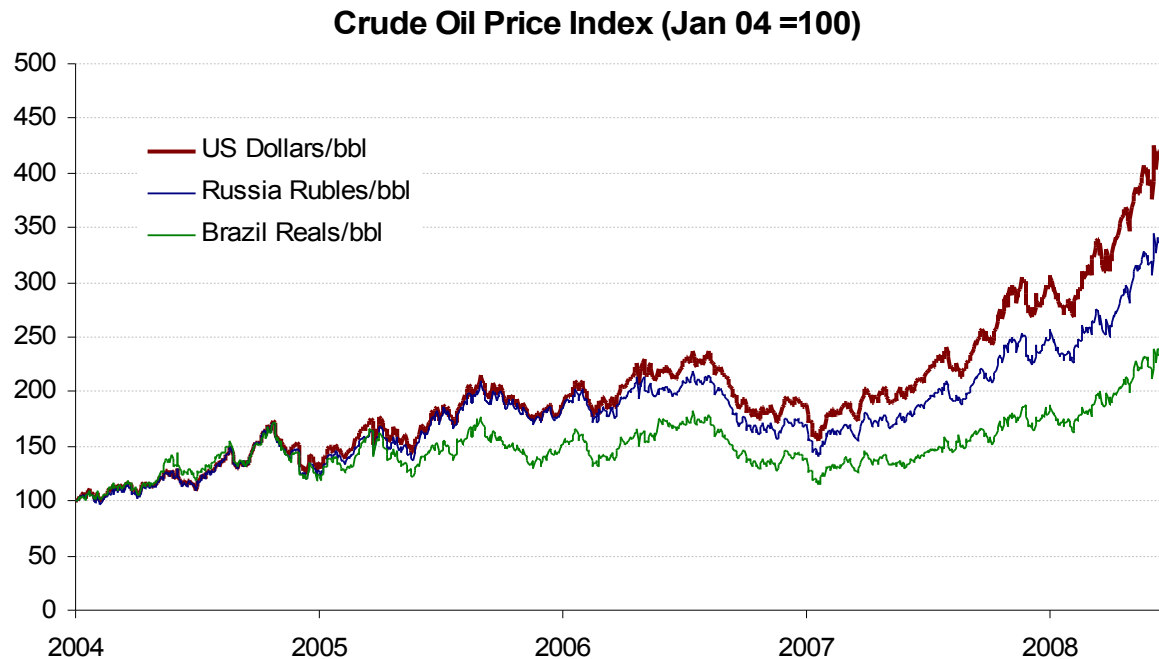
US dollar TWI (“major”) fair value



Country	% Weight
Canada	30.0%
Euro area	34.3%
Japan	19.3%
UK	9.4%
Switzerland	2.6%
Sweden	2.1%
Australia	2.3%

Source: the BLOOMBERG PROFESSIONAL™ service, © Datastream International Limited ALL RIGHTS RESERVED, US Federal Reserve, Credit Suisse

# How drastic was the oil price rise?



We expect a volatile year for hard commodities

----- US slowdown, USD, Carry trade etc.

Source: the BLOOMBERG PROFESSIONAL™ service, Credit Suisse

# Is the label of emerging market justified?

**Year 2007**

	<b>Spain</b>	<b>Korea</b>
Real GDP growth (%)	3.8	5.0
CPI inflation (% , ya)	2.8	3.6
Unemployment (% of labor force)	8.3	3.1
Current acc.(% of GDP)	-10.1	0.6
General government fiscal balance (% GDP)	2.2	1.6
Credit rating (Moody's/S&P)	Aaa/AAA	A2/A

	<b>Brazil</b>	<b>Italy</b>
Real GDP growth (%)	5.4	1.5
CPI inflation (% , ya)	3.6	2.0
Unemployment (% of labor force)	9.3	6.0
Current acc.(% of GDP)	0.3	-1.9
General government fiscal balance (% GDP)	-2.3	-2.2
Credit rating (Moody's/S&P)	Ba1/BBB-	Aa2/A+

Note: Credit rating as of 5 May 2008.

Sources: IMF, the BLOOMBERG PROFESSIONAL™ service, National Statistical Offices, Credit Suisse

# A historical perspective

Share of World GDP 1820-2007  
% of World Total GDP

	1820	1870	1913	1950	1973	1997	2007
<b>Total Western Europe</b>	23.6	33.6	33.5	26.3	25.7	22.3	19.8
France	5.5	6.5	5.3	4.1	4.3	3.4	2.8
Germany	3.8	6.5	8.8	5.0	5.9	4.8	3.8
Italy	3.2	3.8	3.5	3.1	3.6	3.4	2.6
United Kingdom	5.2	9.1	8.3	6.5	4.2	3.5	3.1
<b>Eastern Europe</b>	3.3	4.1	4.5	3.5	3.4	3.4	3.5
<b>Total Latin America</b>	2.0	2.5	4.5	7.9	8.7	8.4	7.5
US	<b>1.8</b>	8.9	19.1	27.3	22.0	21.1	18.7
Mexico	0.7	0.6	1.0	1.3	1.7	1.9	1.7
<b>Total Asia (excl. Japan)</b>	<b>56.2</b>	36.0	21.9	15.5	16.4	23.7	<b>31.6</b>
Japan	3.0	2.3	2.6	3.0	7.7	8.0	6.0
China	<b>32.9</b>	17.2	8.9	4.5	4.6	9.7	<b>16.0</b>
India	<b>16.0</b>	12.2	7.6	4.2	3.1	5.0	<b>6.5</b>
<b>Africa</b>	4.5	3.6	2.7	3.6	3.3	3.3	3.4

Sources: 1820-1973: A. Maddison, "The World Economy – A Millennial Perspective", 1997-2007: IMF World Economic Outlook Database

# Disclosure Appendix

## Analyst Certification

I, Dong Tao, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

## Important Disclosures

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail, please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research:

[http://www.csfb.com/research-and-analytics/disclaimer/managing\\_conflicts\\_disclaimer.html](http://www.csfb.com/research-and-analytics/disclaimer/managing_conflicts_disclaimer.html)

Credit Suisse's policy is to publish research reports as it deems appropriate, based on developments with the subject issuer, the sector or the market that may have a material impact on the research views or opinions stated herein.

The analyst(s) involved in the preparation of this research report received compensation that is based upon various factors, including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's Investment Banking and Fixed Income Divisions.

Credit Suisse may trade as principal in the securities or derivatives of the issuers that are the subject of this report.

At any point in time, Credit Suisse is likely to have significant holdings in the securities mentioned in this report.

As at the date of this report, Credit Suisse acts as a market maker or liquidity provider in the debt securities of the subject issuer(s) mentioned in this report.

For important disclosure information on securities recommended in this report, please visit the website at <https://firesearchdisclosure.credit-suisse.com> or call +1-212-538-7625.

For the history of any relative value trade ideas suggested by the Fixed Income research department as well as fundamental recommendations provided by the Emerging Markets Sovereign Strategy Group over the previous 12 months, please view the document at <http://research-and-analytics.csfb.com/docpopup.asp?docid=3532113&type=pdf>. Credit Suisse clients with access to the Locus website may refer to <http://www.credit-suisse.com/locus>.

For the history of recommendations provided by Technical Analysis, please visit the website at <http://www.credit-suisse.com/techanalysis>.

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

## Emerging Markets Bond Recommendation Definitions

**Buy:** Indicates a recommended buy on our expectation that the issue will deliver a return higher than the risk-free rate.

**Sell:** Indicates a recommended sell on our expectation that the issue will deliver a return lower than the risk-free rate.

## Corporate Bond Fundamental Recommendation Definitions

**Buy:** Indicates a recommended buy on our expectation that the issue will be a top performer in its sector.

**Outperform:** Indicates an above-average total return performer within its sector. Bonds in this category have stable or improving credit profiles and are undervalued, or they may be weaker credits that, we believe, are cheap relative to the sector and are expected to outperform on a total-return basis. These bonds may possess price risk in a volatile environment.

**Market Perform:** Indicates a bond that is expected to return average performance in its sector.

**Underperform:** Indicates a below-average total-return performer within its sector. Bonds in this category have weak or worsening credit trends, or they may be stable credits that, we believe, are overvalued or rich relative to the sector.

**Sell:** Indicates a recommended sell on the expectation that the issue will be among the poor performers in its sector.

**Restricted:** In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

**Not Rated:** Credit Suisse Global Credit Research or Global Leveraged Finance Research covers the issuer but currently does not offer an investment view on the subject issue.

**Not Covered:** Neither Credit Suisse Global Credit Research nor Global Leveraged Finance Research covers the issuer or offers an investment view on the issuer or any securities related to it. Any communication from Research on securities or companies that Credit Suisse does not cover is a reasonable, non-material deduction based on an analysis of publicly available information.

## Corporate Bond Risk Category Definitions

In addition to the recommendation, each issue may have a risk category indicating that it is an appropriate holding for an "average" high yield investor, designated as **Market**, or that it has a higher or lower risk profile, designated as **Speculative** and **Conservative**, respectively.

## Credit Suisse Credit Rating Definitions

Credit Suisse may assign rating opinions to investment-grade and crossover issuers. Ratings are based on our assessment of a company's creditworthiness and are not recommendations to buy or sell a security. The ratings scale (AAA, AA, A, BBB, BB, B) is dependent on our assessment of an issuer's ability to meet its financial commitments in a timely manner. Within each category, creditworthiness is further detailed with a scale of High, Mid, or Low – with High being the strongest sub-category rating: **High AAA, Mid AAA, Low AAA** – obligor's capacity to meet its financial commitments is extremely strong; **High AA, Mid AA, Low AA** – obligor's capacity to meet its financial commitments is very strong; **High A, Mid A, Low A** – obligor's capacity to meet its financial commitments is strong; **High BBB, Mid BBB, Low BBB** – obligor's capacity to meet its financial commitments is adequate, but adverse economic/operating/financial circumstances are more likely to lead to a weakened capacity to meet its obligations; **High BB, Mid BB, Low BB** – obligations have speculative characteristics and are subject to substantial credit risk; **High B, Mid B, Low B** – obligor's capacity to meet financial commitments is very weak and highly vulnerable to adverse economic, operating, and financial circumstances; **High CCC, Mid CCC, Low CCC** – obligor's capacity to meet its financial commitments is extremely weak and is dependent on favorable economic, operating, and financial circumstances. Credit Suisse's rating opinions do not necessarily correlate with those of the rating agencies.

## Credit Suisse's Distribution of Global Credit Research Recommendations\* (and Banking Clients)

	Global Recommendation Distribution**	
<b>Buy</b>	5%	(of which 96% are banking clients)
<b>Outperform</b>	9%	(of which 89% are banking clients)
<b>Market Perform</b>	28%	(of which 90% are banking clients)
<b>Underperform</b>	10%	(of which 90% are banking clients)
<b>Sell</b>	1%	(of which 97% are banking clients)

\*Data are as at the end of the previous calendar quarter.

\*\*Percentages do not include securities on the firm's Restricted List.



# Disclosure Appendix cont'd

References in this report to Credit Suisse include all of the subsidiaries and affiliates of Credit Suisse operating under its investment banking division. For more information on our structure, please use the following link: [http://www.credit-suisse.com/en/who\\_we\\_are/ourstructure.html](http://www.credit-suisse.com/en/who_we_are/ourstructure.html).

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject Credit Suisse or its affiliates ("CS") to any registration or licensing requirement within such jurisdiction. All material presented in this report, unless specifically indicated otherwise, is under copyright to CS. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of CS. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of CS or its affiliates.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. CS may not have taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. CS will not treat recipients of this report as its customers by virtue of their receiving this report. The investments and services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or investment services. Nothing in this report constitutes investment, legal, accounting or tax advice, or a representation that any investment or strategy is suitable or appropriate to your individual circumstances, or otherwise constitutes a personal recommendation to you. CS does not advise on the tax consequences of investments and you are advised to contact an independent tax adviser. Please note in particular that the bases and levels of taxation may change.

Information and opinions presented in this report have been obtained or derived from sources believed by CS to be reliable, but CS makes no representation as to their accuracy or completeness. CS accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that such liability arises under specific statutes or regulations applicable to CS. This report is not to be relied upon in substitution for the exercise of independent judgment. CS may have issued, and may in the future issue, other reports that are inconsistent with, and reach different conclusions from, the information presented in this report. Those reports reflect the different assumptions, views and analytical methods of the analysts who prepared them and CS is under no obligation to ensure that such other reports are brought to the attention of any recipient of this report.

CS may, to the extent permitted by law, participate or invest in financing transactions with the issuer(s) of the securities referred to in this report, perform services for or solicit business from such issuers, and/or have a position or holding, or other material interest, or effect transactions, in such securities or options thereon, or other investments related thereto. In addition, it may make markets in the securities mentioned in the material presented in this report. CS may have, within the last three years, served as manager or co-manager of a public offering of securities for, or currently may make a primary market in issues of, any or all of the entities mentioned in this report or may be providing, or have provided within the previous 12 months, significant advice or investment services in relation to the investment concerned or a related investment. Additional information is, subject to duties of confidentiality, available on request. Some investments referred to in this report will be offered solely by a single entity and in the case of some investments solely by CS, or an associate of CS or CS may be the only market maker in such investments.

Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance. Information, opinions and estimates contained in this report reflect a judgement at its original date of publication by CS and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

Structured securities are complex instruments, typically involve a high degree of risk and are intended for sale only to sophisticated investors who are capable of understanding and assuming the risks involved. The market value of any structured security may be affected by changes in economic, financial and political factors (including, but not limited to, spot and forward interest and exchange rates), time to maturity, market conditions and volatility, and the credit quality of any issuer or reference issuer. Any investor interested in purchasing a structured product should conduct their own investigation and analysis of the product and consult with their own professional advisers as to the risks involved in making such a purchase.

Some investments discussed in this report may have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when that investment is realised. Those losses may equal your original investment. Indeed, in the case of some investments the potential losses may exceed the amount of initial investment and, in such circumstances, you may be required to pay more money to support those losses. Income yields from investments may fluctuate and, in consequence, initial capital paid to make the investment may be used as part of that income yield. Some investments may not be readily realisable and it may be difficult to sell or realise those investments, similarly it may prove difficult for you to obtain reliable information about the value, or risks, to which such an investment is exposed.

This report may provide the addresses of, or contain hyperlinks to, websites. Except to the extent to which the report refers to website material of CS, CS has not reviewed any such site and takes no responsibility for the content contained therein. Such address or hyperlink (including addresses or hyperlinks to CS's own website material) is provided solely for your convenience and information and the content of any such website does not in any way form part of this document. Accessing such website or following such link through this report or CS's website shall be at your own risk.

This report is issued and distributed in Europe (except Switzerland) by Credit Suisse Securities (Europe) Limited, One Cabot Square, London E14 4QJ, England, which is regulated in the United Kingdom by The Financial Services Authority ("FSA"). This report is being distributed in Germany by Credit Suisse Securities (Europe) Limited Niederlassung Frankfurt am Main regulated by the Bundesanstalt fuer Finanzdienstleistungsaufsicht ("BaFin"). This report is being distributed in the United States and Canada by Credit Suisse Securities (USA) LLC; in Switzerland by Credit Suisse; in Brazil by Banco de Investimentos Credit Suisse (Brasil) S.A.; in Japan by Credit Suisse Securities (Japan) Limited, Financial Instrument Dealers, Director of Kanto Local Finance Bureau (Financial Instruments) Number 66, a member of Japan Securities Dealers Association, The Financial Futures Association of Japan; elsewhere in Asia/ Pacific by whichever of the following is the appropriately authorised entity in the relevant jurisdiction: Credit Suisse (Hong Kong) Limited, Credit Suisse Equities (Australia) Limited, Credit Suisse Securities (Thailand) Limited, Credit Suisse Securities (Malaysia) Sdn Bhd, Credit Suisse Singapore Branch, and elsewhere in the world by the relevant authorised affiliate of the above. Research on Taiwanese securities produced by Credit Suisse, Taipei Branch has been prepared by a registered Senior Business Person. Research provided to residents of Malaysia is authorised by the Head of Research for Credit Suisse Securities (Malaysia) Sdn Bhd, to whom they should direct any queries on +603 2723 2020. This research may not conform to Canadian disclosure requirements.

In jurisdictions where CS is not already registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation, which will vary from jurisdiction to jurisdiction and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements. Non-U.S. customers wishing to effect a transaction should contact a CS entity in their local jurisdiction unless governing law permits otherwise. U.S. customers wishing to effect a transaction should do so only by contacting a representative at Credit Suisse Securities (USA) LLC in the U.S.

Please note that this research was originally prepared and issued by CS for distribution to their market professional and institutional investor customers. Recipients who are not market professional or institutional investor customers of CS should seek the advice of their independent financial advisor prior to taking any investment decision based on this report or for any necessary explanation of its contents. This research may relate to investments or services of a person outside of the UK or to other matters which are not regulated by the FSA or in respect of which the protections of the FSA for private customers and/or the UK compensation scheme may not be available, and further details as to where this may be the case are available upon request in respect of this report.

Copyright © 2008 CREDIT SUISSE GROUP and/or its affiliates. All rights reserved.

**Investment principal on bonds can be eroded depending on sale price or market price. In addition, there are bonds on which investment principal can be eroded due to changes in redemption amounts. Care is required when investing in such instruments.**

When you purchase non-listed Japanese fixed income securities (Japanese government bonds, Japanese municipal bonds, Japanese government guaranteed bonds, Japanese corporate bonds) from CS as a seller, you will be requested to pay purchase price only.