UOB Asset Management 大華資產管理

# Market Commentary

December 2010

ASIA EX-JAPAN EQUITY

| EQUITIES – Asia ex-Japan | 1 Mth | 3 Mth | YTD | 12 Mth |
|---|---|---|---|---|
| MSCI AC Asia ex-Japan | 0.4 | 9.4 | 4.3 | 10.3 |
| MSCI Far East Free ex-Japan | 1.1 | 9.6 | 4.3 | 10.4 |
| MSCI China | -0.4 | 7.3 | -3.1 | -1.3 |
| MSCI Hong Kong | 3.6 | 14.9 | 11.9 | 15.8 |
| MSCI India | -6.6 | 10.2 | 11.0 | 14.9 |
| MSCI Indonesia | -5.1 | 6.2 | 19.1 | 27.5 |
| MSCI Korea | 2.0 | 10.8 | 6.0 | 16.5 |
| MSCI Malaysia | -1.4 | 1.8 | 18.4 | 20.2 |
| MSCI Philippines | -11.4 | 2.6 | 12.3 | 17.0 |
| MSCI Singapore | 0.2 | 6.7 | 6.3 | 13.3 |
| MSCI Taiwan | 3.6 | 12.7 | -1.1 | 8.9 |
| MSCI Thailand | 2.3 | 13.0 | 36.9 | 49.0 |

Returns in Singapore dollars. Source: Bloomberg, 30 November 2010

Asian equity markets were down in November as risk aversion rose on renewed concerns on Europe's sovereign debt woes, China's aggressive tightening moves to ease inflation and fresh tensions on the Korean peninsula. The credit turmoil in the Euro zone once again came to the fore, with markets this time fixing their attention on the rapidly deteriorating public finances in Ireland. The country looked likely to incur €45 billion to shore up its crippled banking system, which would swell its budget deficit this year to a staggering 32% of GDP from an initial estimate of 12%.

## OUTLOOK AND STRATEGY

| | Policy | Change | Comment |
|---|---|---|---|
| Consumer | Overweight | – | Domestic consumption growth across Asia is expected to provide cushion for moderation in exports in the region. |
| Healthcare | Overweight | – | Healthcare spending currently accounts for only 4.5% of GDP in China and we expect government policies to remain very favourable. |
| Industrials | Overweight | – | The alternative energy sector is set to grow strongly as countries hasten their efforts to diversify energy sources. We favour Nuclear and Wind energy plays due to favourable long term dynamics. |

While the renewed focus on Ireland's woes highlights the sovereign risk still present in the Euro zone, so far there has been limited evidence of the troubles in the periphery economies affecting the larger economies. We view that the risks of the market recovery being derailed by an economic contagion arising from the Irish fiscal troubles appear manageable. The Euro area's economies are now far stronger than a year ago and global banks have emerged from the recent financial crisis in far better shape and should cushion any potential fallout from an Irish default if it happens.

As the near-term event risks stabilize, flushed global liquidity conditions and asset price bubbles could come back into focus in Asia. We are still expecting further interest rate normalisation as well as measures to control capital inflows and tighten domestic liquidity in Asia next year.

Our key strategy going forward is to maintain our growth bias and focus on Asia's robust domestic demand, which, in our view, will drive corporate earnings growth and valuation expansion.

We maintain our overweight positions in the Consumer, Technology, Healthcare and Industrials sectors as we target domestic consumption growth in these areas. We maintain our underweight in relatively slower growth sectors like Telecoms. We are underweight the Financials sector due to our negative view on the real estate sector, where further property cooling measures remain an overhang. However, we have turned more positive on Chinese banks on improving net interest margins. We are underweight the Energy sector on valuation concerns.

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