UOB Asset Management
大華資産管理

Market Commentary

November 2010

ASIA EX-JAPAN EQUITY

EQUITIES – Asia ex-Japan	1 Mth	3 Mth	YTD	12 Mth
MSCI AC Asia ex-Japan	0.8	6.9	3.8	11.5
MSCI Far East Free ex-Japan	1.0	6.5	3.1	10.1
MSCI China	2.1	4.3	-2.7	0.5
MSCI Hong Kong	0.4	11.2	7.9	8.7
MSCI India	1.5	16.1	18.8	33.2
MSCI Indonesia	1.0	8.4	25.5	37.1
MSCI Korea	-0.2	5.2	3.9	13.8
MSCI Malaysia	0.9	9.0	20.0	22.0
MSCI Philippines	-0.1	20.7	26.8	36.9
MSCI Singapore	1.5	4.5	6.1	17.1
MSCI Taiwan	1.0	5.9	-4.6	7.9
MSCI Thailand	0.1	19.5	33.8	44.9

Returns in Singapore dollars. Source: Bloomberg, 29 October 2010

Asian equity markets rose as corporate earnings released in October beat expectations, thus boosting investors' confidence. Although the strength seen in regional currencies means that Asian export growth could moderate, the drag should be mitigated by the rapid acceleration in private consumption and moderation in capex spending. Furthermore, the announcement of quantitative easing (QE) in Japan and growing expectations of QE2 in the US resulted in a rise in capital inflows to the Asia ex-Japan region.

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.

The US Federal Reserve's expected announcement of a second round of quantitative easing has given a liquidity boost to the market, and we expect Asian equities to benefit from the continued low interest rate environment and strong liquidity. Although Asian economic growth momentum is forecast to slow as we enter the second half of the year (purchasing managers' indices in the United States and China have already peaked), we remain sanguine as this moderation is not unexpected and in line with historical experience.

Earnings revisions following the 2Q10 earnings season have remained positive, albeit growing at a slower pace than at the start of the year. In our opinion, an overall downward earnings revision is not likely given that we do not expect a double-dip recession.

Therefore, our key strategy ahead 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. We are also underweight Materials sector due to weak demand/supply dynamics.

Contact Details

Address 80 Raffles Place UOB Plaza 2 Level 3 Singapore 048624
24-hour Hotline 1800 222 2228 (Local) • (65) 6222 2228 (International)
Fax (65) 6532 3868
Email uobam@uobgroup.com
Website uobam.com.sg

Regional Offices

Singapore
Institutional Investments
Dennis Siew
Senior Director

Retail Investments
Norman Wu
Senior Director

Regional Investments
Faizal M. Fazluddin
Senior Director

Structured Investments
Chong Jiun Yeh
Executive Director

International Business (China)
Jasmine Lim
Senior Director

Brunei
Kamal Muhd
General Manager

Japan
Masashi Ohmatsu
Chief Executive Officer

Malaysia
Lim Suet Ling
Chief Executive Officer

Taiwan
Juang San Tay
General Manager

Thailand
Vana Bulbon
Chief Executive Officer

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