ASIA EX-JAPAN EQUITY

Market Commentary

April 2010

EQUITIES – Asia ex-Japan	1 Mth	3 Mth	YTD	12 Mth
MSCI AC Asia ex-Japan	6.7	0.6	0.6	55.8
MSCI Far East Free ex-Japan	6.4	0.1	0.1	51.8
MSCI China	4.9	-2.0	-2.0	41.7
MSCI Hong Kong	4.8	1.7	1.7	47.0
MSCI India	9.2	4.8	4.8	113.6
MSCI Indonesia	11.4	9.5	9.5	120.8
MSCI Korea	8.8	2.4	2.4	62.4
MSCI Malaysia	8.0	7.8	7.8	52.7
MSCI Philippines	3.9	3.1	3.1	46.3
MSCI Singapore	3.7	-1.8	-1.8	66.9
MSCI Taiwan	6.3	-4.2	-4.2	42.9
MSCI Thailand	13.6	12.1	12.1	87.0

Returns in Singapore dollars. Source: Bloomberg, 31 March 2010

Asian equity markets edged up in March as we saw an overall move towards policy normalisation by Asian central banks like China, India and Malaysia. The market was initially spooked by sovereign debt woes in the European Union before staging a strong rebound in March. Robust Asian exports were the main highlight of the quarter and should continue to see strength as indicated by solid US ISM Purchasing Manager Index and encouraging US retail sales numbers.

OUTLOOK AND STRATEGY

	Policy	Change	Comment
Consumer discretionary	Overweight	–	High savings rates and urbanisation underpin sustained domestic consumption growth in China. Effects of government stimulus package could trickle down to consumers.
Healthcare	Overweight	–	Healthcare spending currently accounts for only 4.5% of GDP in China and we expect government policies to remain very favourable. January 2010's RMB850bn incremental healthcare budget and April 2010's New Healthcare Reform plan should boost pharmaceutical sales growth to 25% in the next two years.

Asian economies are in relatively good shape with most countries running healthy current account surpluses and low government debt to GDP ratios. With China and India showing the way, we expect Asian economies to lead the world in tightening monetary policy in the second and third quarter of 2010. In our view, the recent tightening concerns have largely factored into share prices and valuations are not excessive. As Asian economies recover from the recession, real GDP growth in Asia is likely to peak in the second quarter and moderate going into the second half of the year.

We are of the view that the recovery in earnings is likely to drive the equity market. Although concerns about tightening will persist, we believe the market has more or less priced these in and will focus again on fundamentals. In our view, the ongoing improvement in the global economy and the recovery in corporate earnings are likely to drive equity markets higher in the coming months.

Our key strategy going forward is to 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 and Energy sectors. We upgrade the Financials and Real Estate sectors mainly on attractive valuations and have a more positive view on Healthcare. We continue to underweight relatively slower growth sectors like Utilities and Telecoms.

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