

Asia ex-Japan Equity

EQUITIES – Asia ex-Japan	1 Mth	3 Mth	YTD	12 Mth
MSCI AC Asia ex-Japan	-1.3	-5.1	-5.5	4.0
MSCI Far East Free ex-Japan	-0.9	-4.9	-4.1	5.6
MSCI China	-2.9	-7.1	-7.8	-7.6
MSCI Hong Kong	-0.1	-3.8	-7.0	4.7
MSCI India	-4.8	-7.0	-17.0	-8.5
MSCI Indonesia	4.6	6.6	11.6	15.5
MSCI Korea	-0.4	-5.3	2.4	18.6
MSCI Malaysia	-2.4	-0.8	-0.5	9.5
MSCI Philippines	4.5	1.9	-1.8	11.2
MSCI Singapore	2.5	-1.3	-2.1	4.3
MSCI Taiwan	-3.3	-8.0	-10.5	7.3
MSCI Thailand	9.3	0.8	4.9	29.1

Returns in Singapore dollars. Source: Bloomberg, 29 July 2011

Asian equity markets were choppy as risk aversion returned on the back of heightened Euro zone contagion concerns and uncertainty about the possibility of a US debt default or credit rating downgrade. On the global front, the Federal Reserve disappointed the markets as it would not embark on any renewed quantitative easing, quashing hopes of QE3 in the near term. In Asia, while growth has moderated amid weaker external demand, domestic economic activity continues to provide strong support to growth momentum.

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Outlook and Strategy

	Policy	Change	Comment
Consumer	Overweight	–	Domestic consumption growth across Asia is expected to provide support for growth in the region. We favour tourism stocks and luxury goods retailers, hotels, high-end auto distributors and alternate retail channels.
Energy	Overweight	–	The energy sector is driven by ongoing shortage of oil on the back of demand from emerging economies. We like exploration companies, coal producers and offshore & marine industry.
Technology	Overweight	–	The tech sector driven by the adoption of smart-gadgets provides investment opportunities. We like component suppliers, panel producers and camera lens producers.

We expect the market to trade sideways as the focus now turns to the global economic weakness as seen by the latest economic data points. We expect the current weakness to be a soft patch on the road to economic recovery. We continue to watch the PMI new orders closely for signs of sustained contraction. We retain our cautious view and avoid cyclical stocks relating to global trade and transportation and focus on domestic consumption and structural growth trends. The key risks are the European debt crisis, rising inflation and economic growth in the US stalling.

We see investment opportunities in domestic consumption stocks with the growing affluence in the Asian economies underpinning demand. We also see investment opportunities in technology stocks in the “smart-gadget” space where we expect to see robust growth in the smart phones and tablet PC markets. Another area where we see opportunities is in energy stocks as the world continues its search for fuel. With oil remaining at elevated levels and demand for fuel remaining high as economies continue to recover, we expect companies in the energy sector to benefit.

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