

Asia ex-Japan Equity

EQUITIES – Asia ex-Japan	1 Mth	3 Mth	YTD	12 Mth
MSCI AC Asia ex-Japan	-3.2	-3.4	-4.3	8.0
MSCI Far East Free ex-Japan	-3.6	-3.0	-3.2	9.9
MSCI China	-5.0	-6.0	-5.1	-3.4
MSCI Hong Kong	-4.5	-4.5	-7.0	7.9
MSCI India	1.2	-6.3	-12.8	-6.0
MSCI Indonesia	0.6	3.8	6.7	13.2
MSCI Korea	-2.4	-1.7	2.7	24.6
MSCI Malaysia	1.1	0.2	2.0	15.0
MSCI Philippines	0.9	0.1	-6.1	6.3
MSCI Singapore	-2.1	-2.0	-4.5	6.9
MSCI Taiwan	-5.3	-1.5	-7.4	15.4
MSCI Thailand	-4.6	-5.5	-4.0	22.1

Returns in Singapore dollars. Source: Bloomberg, 30 June 2011

Asian equity markets were volatile during the quarter as risk aversion returned on the back of renewed concerns over sovereign credit risks of peripheral European countries and weaker-than-expected recovery in the US. The Federal Reserve kept its ultra-low interest rate policy unchanged, but lowered its US growth and unemployment outlook. Also, inflation forecast was revised higher but still remained benign. The Fed also decided to end its Second Quantitative Easing programme (QE2), completing its US\$600 billion asset purchase programme by end-June with no additional easing measures in the pipeline. In Asia, the economies continued to lead the global recovery, with many posting strong growth in the 2nd quarter of the year, driven by domestic demand. The markets managed to claw back some losses in the last week of June as the Greek Parliament approved austerity measures to avoid defaulting on its debt.

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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.

With investors' focus now on the global economic weakness as seen by the latest economic data points, we expect the market to trade sideways. Our view is that the current weakness is a soft patch on the road to economic recovery rather than a hard landing. 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 phone 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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