Market Commentary

December 2009

ASIA EX-JAPAN EQUITY

EQUITIES – Asia ex-Japan	1 Mth	3 Mth	YTD	12 Mth
MSCI AC Asia ex-Japan	1.5	6.5	55.6	62.3
MSCI Far East Free ex-Japan	0.8	6.0	52.4	59.3
MSCI China	1.3	9.2	52.4	60.0
MSCI Hong Kong	-2.7	4.5	46.7	44.5
MSCI India	7.2	10.8	86.9	94.6
MSCI Indonesia	2.0	6.6	101.7	138.1
MSCI Korea	-0.3	1.7	50.8	71.7
MSCI Malaysia	0.2	5.7	42.3	43.4
MSCI Philippines	3.6	2.0	50.4	41.1
MSCI Singapore	3.5	5.5	53.5	54.8
MSCI Taiwan	2.7	7.9	55.6	55.2
MSCI Thailand	-0.5	1.2	52.8	65.2

Returns in Singapore dollars. Source: Bloomberg, 30 November 2009

Asian equity markets moved higher in the beginning of the month, boosted by a string of generally better-than-estimated 3Q09 economic data and corporate earnings releases. However, the month ended with Dubai World, Dubai's flagship conglomerate, unexpectedly requesting its creditors to delay the maturity of some of its debt that was initially estimated to total US$60-80 billion. This triggered risk aversion among investors, leading to some of the earlier market gains being erased. In Asian economic news, Singapore became one of the first economies to emerge out of recession while other Asian economies contracted at a slower pace, helped by a recovery in exports within Asia. 3Q09 earnings momentum also remained encouraging as more companies reported better than expected earnings. Overall, the Asian equity markets underperformed the global equity market for the month.

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.

We are prepared for choppiness in equity markets as markets have risen significantly this year and investors may look to consolidate gains. Looking ahead, we however continue to stay optimistic that the broader recovery of the global economy is intact and that Asia is still likely to be the region with the strongest growth in 2010.

We maintain our belief that there are strong grounds for a sustainable recovery, as economic data should continue to improve. Low interest rates, the disbursement of fiscal stimulus measures and further fund inflows should also keep equity markets supported. Although valuations are now slightly above historical mean levels, we view that earnings growth and upgrades will be the main drivers for the market going forward. Markets also tend to overshoot in a recovery and we would not be surprised if markets trade above mean valuation levels. Our key thrust going forward will be stock picking. We will focus on sectors and stocks with the greatest upside in terms of earnings growth and the potential to surprise positively.

With the US expected to keep interest rates low for an extended period, we continue to expect a low interest rate environment in Asia. We expect US dollar weakness to be a near term trend going forward, which we view to be positive for Asian equity markets. The strengthening Asian currencies will likely benefit domestic consumption and commodities sectors. We further raise our overweight position in the Consumer sector and maintain our overweight in the Energy sector. These are funded by reduction in weights in the Real Estate sector as government policy risk increases and our underweight in the Telecom, Utilities and Technology sectors.

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

Alternative 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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