UOB Asset Management 大華資産管理

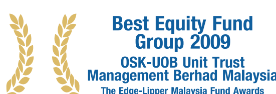
# Market Commentary

May 2009

| EQUITIES – Asia ex-Japan | 1 Mth | 3 Mth | YTD | 12 Mth |
|---|---|---|---|---|
| MSCI AC Asia ex-Japan | 13.1 | 21.0 | 20.2 | -35.9 |
| MSCI Far East Free ex-Japan | 12.8 | 21.4 | 20.1 | -34.7 |
| MSCI China | 7.6 | 19.9 | 15.6 | -33.2 |
| MSCI Hong Kong | 13.0 | 12.3 | 18.6 | -31.9 |
| MSCI India | 16.1 | 17.6 | 21.0 | -44.8 |
| MSCI Indonesia | 26.7 | 40.4 | 35.7 | -30.8 |
| MSCI Korea | 17.8 | 22.9 | 23.1 | -37.6 |
| MSCI Malaysia | 12.5 | 11.7 | 14.8 | -25.4 |
| MSCI Philippines | 3.6 | 11.3 | 14.4 | -24.0 |
| MSCI Singapore | 12.8 | 9.5 | 8.6 | -40.7 |
| MSCI Taiwan | 14.0 | 38.3 | 30.9 | -35.2 |
| MSCI Thailand | 13.6 | 12.2 | 13.2 | -42.3 |

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

Asian equity markets surged in April, following more evidence that the global economy is stabilising and indications that banks in the US would not need as much new capital as earlier feared. Overall, the Asian equity market outperformed the global equity market as the outlook for economic growth in Asia is stronger than in the developed economies. There are signs that the monetary policy actions and fiscal stimulus of the last few months are starting to gain traction, this is particularly the case in China. In general, the governments in Asia have greater flexibility than the developed economies to introduce more aggressive fiscal policies, given the significant consolidation in their budgetary positions in the past few years.



## OUTLOOK AND STRATEGY

| | Policy | Change | Comment |
|---|---|---|---|
| Consumer staples | Overweight | – | High savings rates and urbanisation underpin sustained domestic consumption growth in China. Elsewhere in Asia, low real interest rates should be supportive of credit-led consumption. Palm oil plays will benefit from better demand/supply fundamentals and fund flows. |

We view that the current liquidity conditions could continue to buoy the markets in the short term given the large amount of funds held in money markets and in cash. Holding risk-free instruments is a very unattractive option for investors given the extremely low level of global interest rates. Over the medium to longer term, the risk is that inflation returns before economic growth returns to trend. The authorities may then have to restrain fiscal and monetary expansion, which may rein in markets.

We favour the reflation trades that will benefit from increased liquidity, e.g. financials, properties and certain types of commodities (e.g. Oil, palm oil, gold and tradable commodities). Hence, we are moving up our weights in Financials and Real Estate to neutral. With the continued decline in exports and slow economic growth, industrial cyclical demand and consumer discretionary demand would likely still remain weak. Hence, we will move to underweight in Industrials and Consumer Discretionary. We remain overweight in Consumer Staples, particularly palm oil which benefits from better demand/ supply fundamentals and fund flows.

We bring down the Conglomerates weight and keep the underweight in Materials (particularly steel) and Energy, as they have run up too fast in the short term and look overbought. We keep our underweight in Technology. The sector has already outperformed significantly and we are unconvinced of evidence that final sell-through demand will materialise.

## 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) 6534 3909
***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
Ho Yew Weng
Director

**Malaysia**
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**Thailand**
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Chief Executive Officer

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