UOB Asset Management 大華資產管理

Market Commentary

March 2011

ASIA EX-JAPAN EQUITY

EQUITIES – Asia ex-Japan	1 Mth	3 Mth	YTD	12 Mth
MSCI AC Asia ex-Japan	-4.6	-3.5	-5.9	6.7
MSCI Far East Free ex-Japan	-4.8	-2.5	-4.7	8.0
MSCI China	-2.4	-6.6	-3.2	-3.2
MSCI Hong Kong	-3.9	-4.8	-2.6	9.7
MSCI India	-1.8	-8.2	-14.7	6.2
MSCI Indonesia	5.4	-4.9	-5.4	15.3
MSCI Korea	-7.2	2.1	-5.4	15.0
MSCI Malaysia	-2.7	0.0	-2.2	18.7
MSCI Philippines	-2.0	-7.4	-12.6	4.9
MSCI Singapore	-5.7	-4.5	6.2	7.2
MSCI Taiwan	-9.3	1.9	-6.7	11.9
MSCI Thailand	5.0	-4.0	-4.6	33.0

Returns in Singapore dollars. Source: Bloomberg, 28 February 2011

Asian equity markets fell in February as risk aversion returned on the back of tighter monetary policy in China and ongoing series of protests occurring in the North African state of Libya against its government and head of state. The biggest implication to the markets is the threat of a disruption in oil production resulting in a surge in oil prices. Consequently, the WTI touched the psychological level of US$100/barrel and Brent hovered at 30-month highs. However, market managed to recover some of the losses as oil prices stabilised after Saudi Arabia said it could offset any disruptions in oil production from Libya.

Meanwhile, the Asia growth outlook remains positive, with many of its economies posting strong growth in the 4th quarter of the year, driven by domestic demand. However, inflation remains a key concern, driven by high commodity and food prices. If tensions in the Middle East and Africa escalate, oil prices could rise further and threaten global economic growth.

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Asia Asset Management
THE JOURNAL OF INVESTMENTS & PENSIONS
BEST OF THE BEST AWARDS
BEST RETAIL HOUSE (SINGAPORE) 2009

OUTLOOK AND STRATEGY

	Policy	Change	Comment
Consumer	Overweight	–	Domestic consumption growth across Asia is expected to provide cushion for moderation in exports growth in the region.
Healthcare	Overweight	–	Healthcare spending currently accounts for only 4.5% of GDP in China and we expect government policies to remain very favourable.
Industrials	Overweight	–	The alternative energy sector is set to grow strongly as countries hasten their efforts to diversify energy sources. We favour Nuclear and Wind energy plays due to favourable long term dynamics.

Political unrest in Africa and Middle East has taken centre-stage and investors are likely to remain cautious until tensions subside. The biggest implication to the markets is the threat of a disruption in oil production, and the fear that Asian economic growth will be derailed due to higher oil prices. So far, oil production has not been significantly affected, but there is a risk that the violence may escalate and the contagion spreads to Iran or Saudi Arabia (which is the largest oil exporter and the biggest producer in the OPEC). This could send oil prices even higher. The main drivers of this social unrest are high inflation, high unemployment and high poverty levels. However, the richer Gulf Cooperation Council (GCC) countries are in a better position due to their higher GDP per capita and vast financial resources – oil revenues, large foreign reserves and smaller populations.

Higher oil prices add to the inflationary pressure already facing Asian economies due to rising food and commodities prices, narrow output gaps, and foreign fund inflows and asset price appreciation. We expect inflation will remain a concern in Asian economies. We believe that governments in Asia will try to combat the rise in inflation with higher interest rates and currencies, as well as administrative measures to target specific segments of the economy. We expect that moderate and stable inflation accompanied by some degree of monetary tightening will not end the rally in Asian equities.

In summary, we are cautiously optimistic on Asian equity markets as it is difficult to predict the political end-game at this stage and we do not see high likelihood of an energy supply shock that could destabilize the global economic recovery. We will continue to monitor the risks of political contagion.

We maintain our overweight positions in the **Consumer**, **Technology**, **Healthcare** and **Industrials** sectors as we target domestic consumption growth in these areas. We maintain our underweight in relatively slower growth sectors like **Telecoms**. We are underweight the **Financials** sector due to our negative view on the real estate sector, where further property cooling measures remain an overhang. However we are more positive on banks and insurers which are net beneficiaries of rising interest rates.

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