

Asia ex-Japan Equity

EQUITIES – Asia ex-Japan	1 Mth	3 Mth	YTD	12 Mth
MSCI AC Asia ex-Japan	0.5	0.9	-0.5	6.0
MSCI Far East Free ex-Japan	1.0	0.7	0.8	7.6
MSCI China	-1.8	0.1	-0.8	-2.8
MSCI Hong Kong	-0.8	-4.6	-3.3	9.2
MSCI India	-4.0	3.1	-10.7	-6.4
MSCI Indonesia	1.8	16.6	4.6	10.2
MSCI Korea	3.4	6.1	8.1	16.8
MSCI Malaysia	-1.4	-0.1	0.3	10.4
MSCI Philippines	2.7	7.9	-3.7	8.4
MSCI Singapore	1.8	-0.2	-0.8	6.2
MSCI Taiwan	3.5	-5.4	-2.7	9.3
MSCI Thailand	2.4	14.5	4.1	35.9

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

Asian equity markets rose on the back of the Federal Reserve renewing its pledge to stimulate growth by keeping the funds rate unchanged at 0.25-0.00%. In Asia, growth was well supported by the robust domestic demand and a resilient financial sector. While Asian export growth moderates, the overall economic conditions in the region should stay firm. We continue to expect rising inflationary pressures, underpinned by robust domestic demand recovery against the backdrop of elevated global commodity prices. Inflation is a global phenomenon and following the European Central Bank's interest rate hike, we expect further monetary tightening in the US and Europe as well as Asia.

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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. We favour companies that sell to higher income groups, have strong brand names and are more likely to be able to pass on cost increases to customers.
Healthcare	Overweight	–	Healthcare spending currently accounts for only 4.5% of GDP in China and the long term structural trend for healthcare demand is positive.
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.
Technology	Overweight	–	The outlook is positive given the move towards hi-tech lifestyle goods, and the growing prevalence of smartphones and mobile computing. In particular, we expect strong demand for tablet PCs in 2011 and 2012, benefitting component suppliers.

Inflation remains in focus as continued political unrest in Africa and the Middle East keeps oil prices at elevated levels, adding to price pressures already faced by many Asian economies. The inflation pressure stems from rising food and commodities prices, the narrowing output gap, foreign fund inflows and asset price appreciation. We believe that governments in Asia will try to combat the rise in inflation with higher interest rates and currencies, as well as using administrative measures to target specific segments of the market.

We are cautiously optimistic on Asian equity markets as we do not expect a high likelihood of an energy supply shock destabilising the global economic recovery. Inflation is still the focus, but we expect these concerns to ease by the second half of 2011.

We maintain our overweight positions in the Consumer, Technology, Healthcare and Industrials sectors as we target growth in these areas. We have raised our position in Energy and Financials as these sectors are beneficiaries of rising commodity prices and interest rates in Asia. We maintain our underweight in relatively slower growth sectors like Telecoms and Real Estate where further property cooling measures remain an overhang.

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

Structured 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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