UOB Asset Management
大華資產管理

ASIA EX-JAPAN EQUITY

Market Commentary

September 2010

EQUITIES – Asia ex-Japan	1 Mth	3 Mth	YTD	12 Mth
MSCI AC Asia ex-Japan	-1.8	2.0	-4.7	7.4
MSCI Far East Free ex-Japan	-1.8	2.3	-4.9	6.8
MSCI China	-3.2	-1.0	-9.7	0.4
MSCI Hong Kong	0.3	6.1	-2.6	5.4
MSCI India	-1.6	2.9	0.8	20.2
MSCI Indonesia	-3.1	4.6	12.2	28.0
MSCI Korea	-3.1	2.1	-4.3	7.0
MSCI Malaysia	5.7	11.4	16.3	24.8
MSCI Philippines	4.2	6.5	9.5	16.4
MSCI Singapore	-1.8	6.6	-0.4	12.0
MSCI Taiwan	-2.6	-1.0	-12.2	4.2
MSCI Thailand	8.3	15.7	21.2	33.5

Returns in Singapore dollars. Source: Bloomberg, 31 August 2010

Asian equity markets slid in August amidst signs the recovery in the world's biggest economies are cooling as US Federal Reserve Chairman Ben Bernanke said the central bank will do 'all it can' to ensure the continuation of the economic recovery. GDP growth in Asia, which have been tracking above analyst forecasts, is likely to moderate due to the wearing off of favourable base effects as well as the easing inventory cycle ahead.

OUTLOOK AND STRATEGY

	Policy	Change	Comment
Industrials and Utilities	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. Growth potential is the strongest in Asia, with China, India and Korea leading the way. In Water & Waste Management, companies specialising in turning waste to energy look interesting, especially in China.
Healthcare	Overweight	–	Healthcare spending currently accounts for only 4.5% of GDP in China and we expect government policies to remain very favourable. January 2010's RMB850bn incremental healthcare budget and April 2010's New Healthcare Reform plan should boost pharmaceutical sales growth to 25% in the next two years.

We expect Asian economic growth momentum to slow as we enter the second half of the year. Purchasing manufacturing indices in the United States and China have peaked and are pointing to a moderation in exports growth over the next two quarters. Nonetheless, we remain positive as this typically happens a year into the economic recovery.

The 2Q10 earnings season has been encouraging so far with the majority of Asian corporates continuing to beat analysts' projections. Earning revisions have thus remained positive, albeit at a slower pace than at the beginning of the year. In our opinion, an overall downward earnings revision is not likely given that we do not expect a double-dip recession.

Over in Europe, concerns over its sovereign debt woes and government efforts to reduce debt burdens may weigh on global demand. However, we think faster growing Asian economies should continue to fuel trade in the region. While we think policy tightening in Asia will persist, we believe the market is pricing these worries in and will focus again on fundamentals.

Our key strategy going forward is to maintain our growth bias and focus on Asia's robust domestic demand, which in our view will drive corporate earnings growth and valuation expansion.

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.

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