



Summary

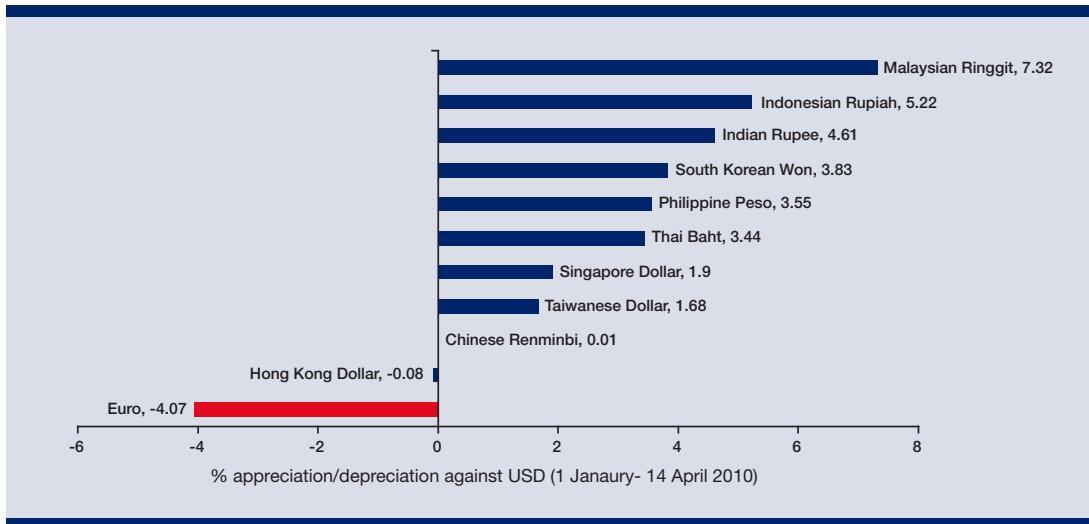
**Asian currencies likely to continue appreciating**

*Singapore tightens monetary policy and revalues Singapore dollar upwards*

The Monetary Authority of Singapore today re-centred the Singapore dollar policy band upwards and also shifted its policy stance from zero appreciation to one of 'modest and gradual' appreciation. The Singapore dollar jumped up about 1% against the US dollar following the announcement. The revaluation of the Singapore dollar comes on the back of very strong economic growth in the first quarter of 2010. The Singapore government has revised its full year growth forecast for 2010 from 4.5% – 6.5% to 7% – 9%.

Singapore is the latest economy in Asia to tighten monetary policy, following China, Malaysia and India. This cycle is unusual in that Asian central banks are tightening monetary policy before the US Federal Reserve and this has led to a general appreciation of Asian currencies. This appreciation has occurred even though the Euro has declined. The appreciation of Asian currencies is likely to boost inflows into the Asian fixed income and equity markets.

**Year to date performance of Asian currencies and Euro against US dollar**



Source: Bloomberg, 14 April 2010

The initial moves by Asian central banks, in particular China, to tighten monetary policy led to some volatility in equity markets but we believe that equity markets have largely priced in the policy uncertainty. Early tightening will keep inflation pressures under control and reduce the need of more severe tightening later, lowering the risk of a 'hard landing'.



## Equity Market Comment

14 April 2010

### **Singapore dollar likely to appreciate further**

The Monetary Authority of Singapore (MAS) today re-centred the Singapore dollar policy band upwards and also shifted its policy stance from zero appreciation to one of 'modest and gradual' appreciation. The revaluation of the Singapore dollar comes on the back of very strong economic growth in the first quarter of 2010. For the first three months, Singapore's GDP surged by 32.1% on a quarter-on-quarter basis, and 13.1% on a year-on-year basis. The 32.1% rise is the strongest quarterly rise since the data series started in 1975.

The Singapore government today also revised its full year growth forecast for 2010 from 4.5% – 6.5% to 7% – 9%. The Ministry of Trade and Industry believes that even though the growth momentum will slow down in the coming quarters, economic activity is likely to be sustained at a relatively high level.

With the first quarter expansion, the Singapore economy has fully recovered all the output lost during the recession and the economy's 'output gap' has turned positive. The unemployment rate has returned to its pre-crisis level of 3%, having reached 5% in September 2009. As there is no longer any slack or spare capacity in the economy, inflation pressures are returning. The MAS expects the Consumer Price Index (CPI) to range between 2.5% to 3.5% in 2010. The CPI averaged 0.6% in the first two months of the year.

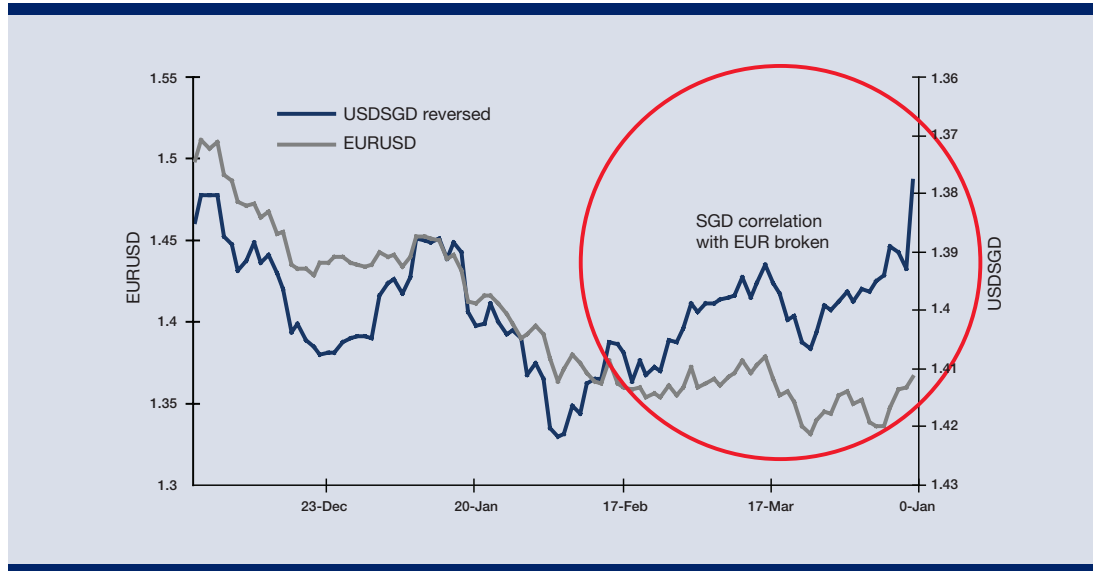
The Singapore dollar jumped about 1% against the US dollar following the announcement by the MAS. The appreciation of the Singapore dollar will help contain inflation pressures as the Singapore dollar has in recent weeks declined against the currencies of some of its key trading partners e.g. the Malaysian ringgit.

### **Early tightening by Asian central banks pushing up Asian currencies**

Singapore is the latest economy in Asia to tighten its monetary policy, following China, Malaysia and India. In a typical cycle, Asian central banks have usually waited till the US Federal Reserve begins raising its key federal funds target rate before they too tighten their own monetary policy. This is because Asian currencies are 'tied' to the US dollar. This cycle is however unusual because Asian central banks are tightening monetary policy before the US Federal Reserve as the economies in Asia have rebounded more quickly and more strongly than expected. In contrast, the ongoing process of deleveraging in the US has meant that the economic recovery in the US is sub-par and the Fed has kept its policy rate close to zero and has so far not signaled that it is about to raise interest rates.

The expectations that Asian central banks will continue to tighten monetary policy in the coming months has led to a general appreciation of Asian currencies. This appreciation has occurred even in the wake of the decline in the Euro against the US dollar. Until recently, the Singapore dollar used to track the moves of the Euro but in recent weeks this correlation has broken down.

Singapore Dollar and Euro against US dollar



Source: Bloomberg, 14 April 2010

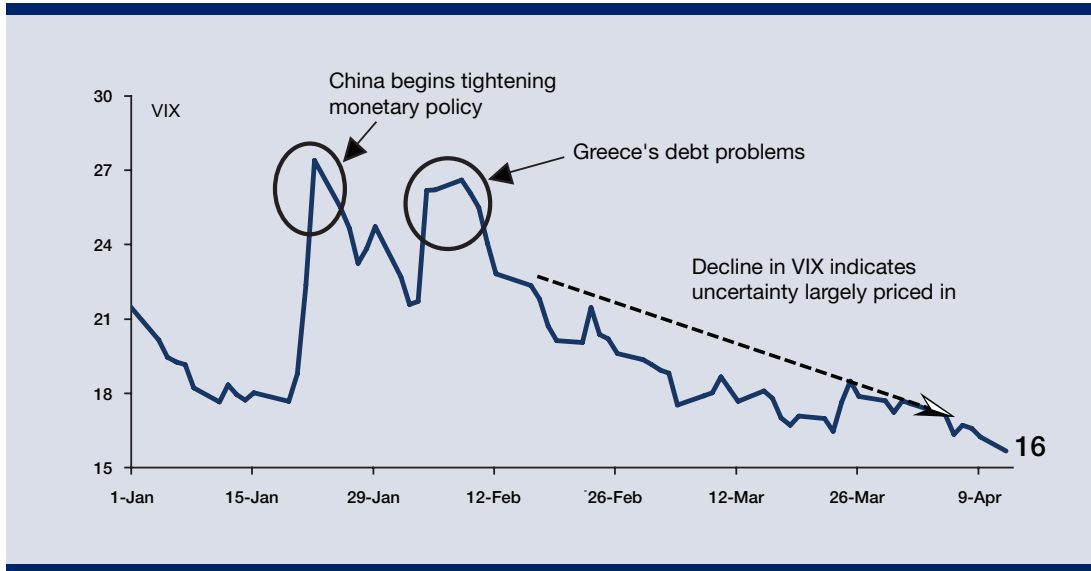
There are also expectations that China could be close to allowing the Renminbi to resume its upwards trend against the US dollar. If so, this would be another positive boost for Asian currencies. China is a major trade competitor and Asian governments would be more willing to allow their currencies to appreciate (to combat inflation pressures) if the Renminbi is moving upwards.

Overall, the appreciation of Asian currencies is likely to boost inflows into Asian fixed income and equity markets.

**Tightening by Asian central banks largely priced in by markets**

The initial moves by Asian central banks, in particular China, to tighten monetary policy led to some volatility in equity markets but we believe that equity markets have largely priced in the uncertainty. The VIX volatility index spiked to 27 in January when China embarked on its first moves to tighten monetary policy but the index has since declined and closed at 16 yesterday. Early tightening in Asia will help keep inflation pressures down and reduce the need of more severe tightening later, lowering the risk of a 'hard landing'.

VIX Volatility Index



Source: Bloomberg, 14 April 2010

We have just entered the first quarter earnings reporting season in the US and as we wrote in our recently *Quarterly Investment Strategy*, we believe that the focus of the market will return to fundamentals – the recovery of the global economy and earnings. We are sanguine on both and remain positive on equities.



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