



HOUSEVIEW

Global Economic Outlook

World

- Economic data points have continued to be better than very depressed expectations as policy makers have aggressively stepped up efforts in March and April.
- Capital markets have gradually become convinced that a great depression type scenario has been avoided and investors have warmly greeted these developments, creating significant rallies in equity and credit markets.
- Expectations of an early revival in the Chinese economy has led to strong gains in commodity prices most notably copper and oil.
- Repairing sentiment towards global economies has also boosted commodity prices both hard and soft. On the flip side, Gold prices have corrected as risk tolerance has increased.
- Emerging market currencies, by and large, (except for Eastern Europe) have recovered all their losses against the US dollar as confidence in these economies have been recently bolstered.

United States

- The "stress test" of the US financial system, primarily the 19 largest lenders is over, the results have been welcomed and the necessary capital raising, for now, has met with a generous response. However, lingering concerns remain over whether the adverse scenario assumptions in the stress tests were too lenient.
- Economics is never too far removed from politics and in that regard the Obama administration has shown a remarkable hand in playing the confidence game by a combination of providing acceptable detail, larger subsidies and reassuring statements.
- Future trajectory of unemployment will remain a key issue for the US economy. Currently at 8.9%, the unemployment levels are expected to reach higher levels. A dislocation in the auto industry may be an unwelcome development.

Europe

- GDP in the 16-member Euro region fell 2.5% from the fourth quarter, from a year earlier the economy shrank 4.6%. Germany, the largest member of the union declined a larger than expected 3.8% from the fourth quarter.
- The European Central Bank has reduced the main policy rate by 25bps to 1% and has indicated that it is now open to considering quantitative easing as well as even lower interest rates. The reason for this U-turn probably resides in a downward assessment of the growth outlook relative to the March forecast.
- Recently, Europe has also seen a moderation in the deterioration of economic indicators, however, the improvement has been more erratic than in the US.

Japan

- The IMF's latest estimate of government gross debt as a percentage of GDP for 2009 exceeds 200% - the highest among all developed economies. Further stimulatory measures, if required, is therefore going to be fiscally immensely painful.
- This also brings into question the value of the Yen and the currently prevailing deflationary sentiment. The possibility of a sharp decline in the value of the Yen and surging inflation is increasing. If debt levels continue to pile up as is currently foreseen, the possibility will become a certainty.

Global Market Insights

Equities

- While "green shoots" of economic and financial recovery are present, sentiment associated with this appear to be running ahead of fundamentals
- While Q1 reporting season has generally surprised on the upside versus expectations, management guidance has been mixed. Non-financial sectors remain most exposed to second round effects and single digit earnings growth in 2010 is more realistic than the 20%-plus consensus.
- The equity markets are currently discounting nothing short of a strong economic recovery in the coming months. The Global P/E ratio at 17x has recovered to levels existing prior to the crisis signalling a strong recovery in corporate earnings. Notwithstanding the uptick in economic conditions and improvement in sentiment we believe the pace of recovery will be shallower than expected, therefore, caution is warranted.

Bonds

- Government bond yields were higher, and yield curves steepened over the month. US bonds in particular sold off as a result of increased appetite and better than expected economic data, with quantitative easing incapable of keeping US 10 yr yields below 3%.
- We believe the FED and the BoJ will keep their policy rates close to zero for a sustained period, combined with quantitative easing measures. More easing is likely in Europe, with at least another rate cut likely in Q3 09, which would bring the Refi rate to 0.75%. Even though the ECB recently announced modest purchases of so-called covered bonds, various institutional and political hurdles significantly complicate the implementation of more aggressive quantitative easing further down the road.
- We expect continued heavy government bond issuance to be absorbed by increased savings, with anaemic growth and easy monetary policy also helping in keeping bond yields low.
- The recovery in risk appetite has put pressure on the USD, particularly vs EUR. While this momentum may persist for now, weak EUR growth fundamentals and insufficiently recognized problems in the banking system will ultimately cap the upside of EUR. Very weak growth in Japan, combined with current account deficits, and JPY having lost its status as beneficiary of deleveraging flows, is further muddling the outlook for G3 currencies, making it difficult to identify a clear winner.

Returns

- Equity markets continued to recover in a 'V' shaped trajectory from the current cycle low in early March. Emerging markets once again outperformed developed markets.
- Global bonds had an uneventful month. G3 FX were range bound, while returns from G3 bonds disappointed: yields generally ended the month higher, notably so in the US. This was to some extent offset by returns from several peripheral markets which benefited from better investor sentiment.

Equities Benchmark	May	Year-to-Date	12 Months
MSCI World (USD terms)	11.22%	-2.04%	-39.33%
Bond Benchmark	May	Year-to-Date	12 Months
World Govt Bond Index (USD terms, unhedged)	0.04%	-4.78%	-0.49%

Asia Pacific Economic Outlook

Overview

- Export growth remained in negative territory though improved across the region on month on month basis.
- There were further signs that China's economic growth is accelerating again led by fiscal stimulus and strong lending growth
- Economic indicators across the region are showing signs of sequential improvements.
- Asian currency strength witnessed across the board due to reduced levels of risk aversion.
- Asian equity markets witnessing strong capital inflows from overseas investors reversing the trend of capital outflows.

China

- China's PMI rose to 53.5 in March above the critical 50 mark for the second month in a row.
- Export slowdown moderated in March with exports falling only by 17.1%.
- China's 1Q GDP growth slowed to 6.1% though still one of the fastest growing economies globally.

North Asia

- Hong Kong's retail sales fell 7.7% in March indicating continued softness in the economy.
- Industrial production in Korea fell 10.6% from year ago levels in March though nevertheless improved 4.8% month over month.
- While still deeply negative at -34.3%, Taiwan's exports nonetheless improved in the month of April.

South Asia

- Encouragingly, Indonesia's consumer confidence continues to improve in April to 102.5.
- Malaysia saw its industrial production data improve in February by falling 14.7%.
- Thailand's political unrest appears to have subsided for now with business sentiment index at 40% in March.
- Philippines' OFW remittance showed resilience and grew 4.9% in February.
- As evidence of robust domestic demand, India's car sales actually rose 12.1% month over month in March.

Pacific

- Australia's unemployment rate actually fell to 5.4% in April compared to 5.7% in the previous month though most attribute this to a statistical aberration

Asia Pacific Market Insights

Equities

- High frequency economic releases are showing incremental sequential improvements across the Asian region.
- Capital inflow from foreign investors along with deployment of domestic liquidity helped to boost equity markets as risk aversion subsided.
- Asian currencies are also witnessing strength as global liquidity and capital markets improve.
- Earning growth downward revision appears to have moderated with selective upgrades occurring after better than expected first quarter results.
- Market volume picked up significantly unlike the rally in January where price gains were not matched with volume gains.
- Asia Pacific's 2009 estimated PE stands at 14.7X with an estimated earnings growth of -8.4% and 3 months earnings revision of -14.7%. Downward earning revision momentum is slowing with selective upgrades in recent weeks.
- The market currently perceives that the worst part of the economic cycle is now over and while recovery is tentative, risk appetite and liquidity have returned to the equity market.

Bonds

- Regional bond markets have taken a cue from recent signs that the worst may be over. With increased optimism on Asian growth prospects, bond yields have trended higher in markets where an inverse relation between bonds and equity markets exist. Bonds performed much better in markets where risk premia have declined on the back of lower macro risks, with Indonesia as a prime example
- Fundamentals remain broadly bond-supportive, as even with the growth decline slowing, growth will remain substantially below potential across Asia for the foreseeable future. While most of the monetary easing in the form of rate cuts is behind us, most Central Banks are expected to maintain an accommodative monetary stance by keeping rates on hold.
- Bond supply concerns may persist as fiscal policy needs to remain loose, however ample liquidity in most markets will limit an excessive back up in yields in our view.
- The rebound in Asian currencies continued in April on the back of increased risk appetite and inbound portfolio flows. We don't rule out the rally has a few more legs to go, and in such an environment we expect credit sensitive currencies such as the Korean Won and Indonesian Rupiah to outperform growth sensitive currencies.

Returns

- The Asia Pacific region continued to build on solid gains in the previous month with Indonesia (30.5%) and South Korea (21.4%) leading. The Philippine stock market was the weakest but still gained an impressive 7%.
- Asian local currency debt performed well in April. Asian currencies generally appreciated over the month. Bond market performance was more mixed, with high yielding markets such as Indonesia outperforming.

Equities Benchmark	May	Year-to-Date	12 Months
MSCI Asia Pacific Ex Japan (USD terms)	15.24%	15.19%	-40.68%

Bond Benchmark	May	Year-to-Date	12 Months
HSBC Asia Local Bond Index (USD terms)	4.01%	-0.87%	-1.96%

Recommended Asset Exposures	
International Equities	Neutral
Asian Equities	Neutral
International Bonds	Neutral
Asian Bonds	Neutral
Cash	Overweight

ING IMAP Houseview

	Key Drivers	Key Risks	Risk Rating
World Economy	<ul style="list-style-type: none"> Deleveraging of consumer, financial and corporate sectors Continued co-ordinated approach to the financial and economic crises 	<ul style="list-style-type: none"> Emerging markets decline into recession Protectionism emerges 	<ul style="list-style-type: none"> High Low
Global Equities	<ul style="list-style-type: none"> Prospects for economic growth Earnings growth and the extent of revisions 	<ul style="list-style-type: none"> Earnings downgrades surprise on the downside Availability of credit diminishes 	<ul style="list-style-type: none"> High Medium
Global Bonds	<ul style="list-style-type: none"> Accommodative monetary stance Weak growth and disinflation Increased G-20 and IMF support to EM economies Deficit spending & bond supply 	<ul style="list-style-type: none"> Return of risk appetite/ demand for risky assets Inflation replacing deflation Increasing fiscal deficits, rising public debt 	<ul style="list-style-type: none"> Medium Low Low
Asian Equities	<ul style="list-style-type: none"> Extent Asia is impacted by the global economic slowdown International investors appetite for risk 	<ul style="list-style-type: none"> Earnings revisions surprise to the downside Valuations fail to halt market slide 	<ul style="list-style-type: none"> High High
Asian Bonds	<ul style="list-style-type: none"> Accommodative monetary stance Decelerating growth and disinflation Bond supply and deteriorating fiscal dynamics Increased G-20 and IMF support to EM economies 	<ul style="list-style-type: none"> Increased bond supply Higher G3 bond yields Increased inflation 	<ul style="list-style-type: none"> Low Low Low

Key Forecasts

	Real GDP				Inflation				90 Day Interest Rates*		10 Year Bond Yields	
	2009E#		2010E#		2009E#		2010E#		Actual 30-Apr-09	ING Forecast For Next 3 Months	Actual 30-Apr-09	ING Forecast For Next 3 Months
	ING	ING	ING	ING	ING	ING	ING	ING				
The World	-1.6	-	2.1	-	1.3	-	2.3	0				
USA	-2.8	0	1.7	-	-0.9	0	1.5	0	0.12	Steady	3.12	Steady
Europe	-2.6	0	0.5	-	0.6	0	1.5	0	0.75	Steady	3.18	Steady
Japan	-5.8	0	0.7	-	-1.1	0	-0.4	0	0.38	Steady	1.43	Steady
Australia	-0.3	-	1.7	0	2.1	0	2.4	0	3.08	Lower	4.57	Higher
China	7.0	-	8.3	-	0.2	+	1.7	0	2.25	Steady	3.16	Steady
Hong Kong	-3.4	-	2.4	-	1.1	+	1.4	0	0.76	Steady	2.10	Higher
India	5.2	0	7.8	-	5.3	-	5.3	-	3.28	Steady	6.23	Steady
Indonesia	3.4	-	4.7	-	6.2	0	6.3	0	8.74	Lower	11.97	Lower
Malaysia	-0.7	0	3.6	-	1.3	0	2.1	0	2.11	Steady	4.00	Higher
Philippines	1.9	-	3.6	0	4.1	0	4.8	0	4.51	Steady	8.13	Lower
Singapore	-4.7	0	3.2	-	0.1	0	1.5	0	0.67	Steady	2.04	Steady
South Korea	-3.0	0	3.5	-	1.9	-	2.3	-	2.41	Steady	4.69	Steady
Taiwan	-4.9	0	2.9	-	-0.8	+	0.9	0	0.51	Steady	1.63	Steady
Thailand	-1.6	0	3.2	0	-0.4	0	2.9	+	1.50	Lower	2.92	Higher

Consensus Forecast, ING Bias ("+" Higher, "0" in line, "-" Lower than Consensus Forecast)

* Australia 90 day BBSW Rate, Hong Kong, Malaysia, Singapore, Indonesia and Thailand 90 Day Interbank Rate, Japan and Korea 3 months CD Rate, China 1 Year Deposit Rate, India 90 Day Treasury Bill and Taiwan 90 Day Commercial paper Secondary Mkt

Asia Pacific Consensus Forecasts - Consensus Economics Inc.

INVESTMENT MANAGEMENT



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