



HOUSEVIEW

Asia Pacific market insights and outlook

Overview

- Last week, the Chinese central bank regulator hinted at a possible exchange rate policy change, calling the current de-facto currency peg "a special currency policy" put in place to fight the negative impact from the global crisis. For the first time since the renminbi was pegged in the summer of 2008, there are indications that the authorities are probably close to a decision to let the renminbi appreciate again. Two reasons support this:
- The Chinese export recovery has clearly materialised with a year-on-year growth rate of 21% and inflationary pressure is rising. At this point it is too early to speak of an inflation problem, but next to a tightening of monetary policy, it makes sense to counteract rising prices with an appreciating currency.
- Asian credit spreads widened during the first half of February, but ended the month largely unchanged as market concerns with respect to Greece receded.
- Asian currencies in general strengthened slightly, while local rates markets also had a slightly stronger tone as rate hike expectations were pared back.

Asia Pacific equities review

- Global equity markets remained jittery as we entered the month of February as concerns over the Greece debt default, China tightening and the Fed's decision to increase the discount rate weighed on investor sentiment. Markets rallied however towards the latter half of the month as dovish comments from the Fed, signs of stabilisation in Greece and indications that the loose monetary policy will continue in China helped the global markets recover lost ground with S&P 500 (+2.9%), Nikkei 225 (+1.2%), MSCI Europe (-2.0%) and MSCI Asia ex Japan (+0.5%).
- MSCI Philippines (+5.8%) and MSCI Thailand (+4.4%) were among the best performing markets in the region. Better-than-expected fourth quarter earnings, and upward revision in government 1Q10 GDP forecast to more than 2.6% boosted the Philippines equity market. The official campaigning for Presidential elections also got underway, and while the two leading candidates appear evenly matched in the pre-election polls, the markets will likely to react positively regardless of the results as long as there is a smooth transition of power. A stronger-than-expected fourth quarter GDP of +5.8% growth and an optimistic forecast of 4.5% growth in 2010 provided a more bullish outlook for Thai equities. The Prime Minister's commitment to continue with stimulus measures in 2010 and 2011 provided assurance of continued economic growth.
- MSCI Indonesia (-3.7%) and MSCI Taiwan (-3.7%) were among the worst performing markets in the region. The Indonesia market underperformed the region this month as the Finance Minister and Vice President have come under question in the way that the Bank Century bailout was handled. The headline risk triggered nervousness among investors despite GDP growth of 5.4% in the fourth quarter. The Central Bank refrained from curbing economic growth and kept interest rates unchanged at 6.5%. Taiwan underperformed in the month of February as the technology sector performed poorly. While exports jumped +75.8% in the month of January, the number was more of a reflection how poor January 2009 fared than the show of current strength; indeed exports on a sequential basis remains relatively subdued. More encouraging was the improvement in the unemployment figures which showed a 10bps decline sequential with the latest unemployment rate in January falling to 5.7%.

Outlook

- The markets will likely remain volatile in the foreseeable future as market sentiment oscillates between fear over monetary tightening and sovereign debt risk to optimism on economic recovery and better-than-expected corporate profits. However, an improving global economy, a still accommodative monetary regime, buoyant earnings and an environment conducive for M&A activity should keep equity markets well supported. As external demand improves we expect solid gains in Asian exports which in turn should benefit the more open export oriented economies. These markets will therefore be overweight in our portfolio. Within the larger countries like China and India where the economic recovery is more well-established we favour domestic demand-oriented sectors such as property, consumer discretionary and financials.

Returns

- The Asia Pacific ex Japan index rallied towards the latter half of the month as there were signs that the Greece sovereign debt situation would stabilise.
- February returns from Asian hard currency bonds driven by coupon income as both credit spreads and U.S. Treasury yields ended the month largely unchanged.

Equities Benchmark	Feb 2010	Year-to-Date	12 Months
MSCI Asia Pacific Ex Japan (USD terms)	1.29%	-5.10%	88.91%
Bond Benchmark	Feb 2010	Year-to-Date	12 Months
HSBC Asia Local Bond Index (USD terms)	0.59%	1.49%	16.86%

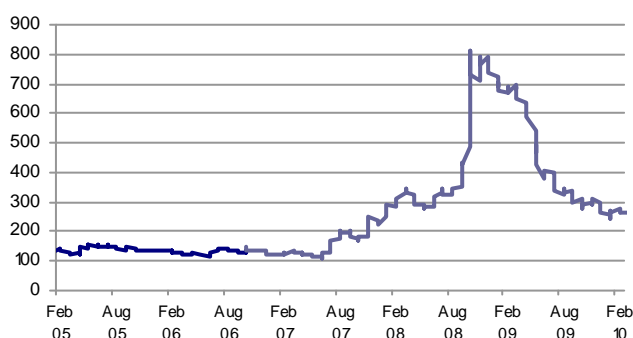
Asia Pacific bonds review

- Moody's translated its revised methodology for rating subordinated bank debt, which it announced in November last year, into ratings actions on Asian bank capital, and completed the reviews for most of the Asian banks in February. Although it did cause several tier 1 and upper tier 2 securities from banks in India, Korea, Hong Kong and Malaysia to lose their investment grade ratings, the actions were widely expected since the rating agency published its request for comment in June last year. Therefore, most of the affected securities continued to trade up over the month of February, as investors priced in an increasing likelihood of calls. Higher yielding credits in Asia had a strong month in general over February, with subordinated bank capital as well as Asian high yield corporates bucking the trend in developed high yield markets by ending the month tighter, as inflows into emerging markets provided a continued strong bid for the bonds and issuance volumes continued to be reasonably light.
- Asian local bond markets delivered a moderately positive performance in February, although risk sentiment remained volatile over the month. Recent economic data releases point to a slight moderation in upside surprises. Export numbers in Korea and Singapore, manufacturing production in Thailand and Q4 GDP in India, to name a few, all came in weaker than expected. Korean bonds were the best performers in the region in February, with sustained offshore flows, renewed speculation about inclusion of Korea in Citi WGBI and an increasingly dovish tone of the central bank all contributing to the strong momentum in the local curve. Asian currencies weathered another volatile month, but ended with marginal gains against the U.S. Dollar. The Philippine Peso was the best performer in the region, appreciating 0.8%, as the currency clawed back most of its January underperformance aided by light positioning.

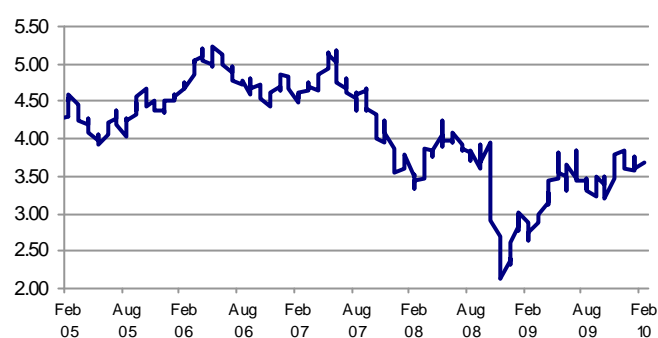
Outlook

- **Hard currency** Fiscal sustainability in developed markets led to an increase in risk aversion earlier this year. After the recent recovery in risk appetite, the focus will also shift to Asia's superior fiscal dynamics. On average, Asian countries have half the public debt and much smaller fiscal deficits relative to G7 countries. Moreover, Asian corporate credit is still trading cheap relative to similarly rated credits in the U.S. and Europe. This spread differential is not justified based on fundamentals and see scope for relative outperformance of Asian credit. Nevertheless, for credit globally, upside and downside risks remain much more balanced, and as such, we position for carry and relative value rather than for substantial further tightening in spreads.
- **Local currency** In Asian rates markets, countries like Korea and Singapore have witnessed some slowdown in recovery momentum and expectations of policy tightening have as a result been pared down. However, countries that lagged behind in the recovery earlier (e.g. Malaysia, Thailand) have seen a sustained strength in macro data of late which, coupled with recent central bank rhetoric, points towards a credible risk of earlier than expected tightening in some of these economies. With China and India already having taken initial steps towards policy 'normalisation', we continue to expect Asian central banks to tighten ahead of their G3 counterparts. Our view on Asian currencies remains unchanged, and we maintain our expectations of further performance of Asian FX on the back of robust fundamentals, strong capital flows and earlier monetary tightening.

JPMorgan Asian Credit Index - spread (bp)



U.S. 10-year Treasury yields (%)



Source: Bloomberg. Data as of February 5, 2010

Global market insights and outlook

Overview

- The global economy remains on an upward trend but the recovery remains uneven. From a sectoral perspective it is predominantly led by industry while services still lag behind. From a regional perspective growth is mainly driven by the emerging markets as well as a recovery in US domestic demand.
- Eurozone is likely to do whatever it takes to prevent a default of Greece (or any other member state).
- Overall sentiment regarding Sterling remains very weak. The combination of an ultra dovish central bank combined with poor debt and fiscal dynamics remains a strong headwind for GBP.

Equities

- Worries regarding sovereign debt problems in peripheral Europe still fog the sound fundamentals for equities. Combined with a gradual normalisation of monetary policy via a 25 basis point hike in the US discount rate and some emerging markets like China, India and Brazil, this may lead to volatile range trading markets over the coming period. This consolidation phase—which is not the start of a new bear market—may last until investors have more clarity regarding a solution for Greece.
- The global economic recovery is still on track even if it shows some scattered signs of fatigue. A subpar growth environment in the developed world has always been our central scenario. Asian growth on the other hand is strong as witnessed by figures for Thailand, Taiwan and China. We also witness divergence between Europe (a bit weaker than expected) and the US (somewhat stronger) as well as between the services sector and the industrial sector.
- Although we will continue to see a normalisation of monetary policy and a gradual reversal in non-conventional policy measures, monetary policies are expected to remain loose until at least the end of 2010. This is motivated by the positive though lacklustre economic growth expected for this and next year. Asian economies and Brazil may need to be a bit more aggressive in their policy tightening. But this is to be considered as pre-emptive to curb potential bubbles and as a sign of strength instead of weakness.
- Fourth quarter results came in above expectations with both bottom line top line revenue growth beating predictions. The improvement in corporate earnings' quality is also confirmed by increasing profit margins. This is what we considered as crucial for equity market performance.

Bonds

- Since the beginning of the year we have been of the view that the recovery will be modest in developed markets; that disinflation of underlying prices pressures would persist; and that central banks in the G4 (US, UK, Eurozone, Japan) would keep official interest rates lower for longer than markets anticipated. Despite the fact that markets have reduced their rate hike expectations over the last two months, we still hold on to the 'low for longer' view and expect the majority of G4 treasury markets to range trade through most of the year.
- Obviously the recent focus in markets on sovereign solvency risks has altered the picture a bit compared to the start of the year. For now, however, this will mainly impact several cross-country spreads in sovereign space, but not result in an outright collapse of G4 treasury markets. The high volatility and still elevated yield levels in the government bond (and CDS) markets of the peripheral Eurozone countries (Greece, but also Portugal, Ireland and Spain) underscore this point as this manifests itself without seriously putting upward pressure on yields of the 'core' countries in the Eurozone like Germany, France and the Netherlands.

Returns

- Returns have corrected since the middle of January. Global equity markets rallied towards the latter half of February as the Greece sovereign default risk appeared under control and the US Fed reiterated its stance for loose monetary policy.
- There were modest returns from Asian local currency bonds on marginal gains of Asian currencies against the U.S. dollar.

Equities Benchmark	Feb 2010	Year-to-Date	12 Months
MSCI World (USD terms)	1.41%	-2.78%	54.30%

Bond Benchmark	Feb 2010	Year-to-Date	12 Months
World Govt Bond Index (USD terms, unhedged)	0.25%	0.38%	10.90%

Strategy Recommendations

	+	=	-
Tactical Asset Allocation	Equity	REIT	Fixed Income
Equity			
<ul style="list-style-type: none"> Sector 	Health Care IT Energy Telecoms Materials	Consumer Staples	Financials Consumer Discretionary Industrials Utilities
<ul style="list-style-type: none"> Regions 	Global Emerging Markets	Europe Japan Asia	USA
<ul style="list-style-type: none"> Size 	Large		Small Medium
<ul style="list-style-type: none"> Style 	High Dividend Value		Core Growth
Fixed Income			
<ul style="list-style-type: none"> Markets 	EMD Local Currency ABS SBL EMD HC High Yield Government	IFL	Investment Grade Corporates

Disclaimer

ING Investment Management Asia Pacific (Hong Kong) Limited or its affiliates or any director or employee of ING Investment Management Asia Pacific (Hong Kong) Limited or its affiliates do not make any express or implied representations or warranties as to the accuracy, timeliness or completeness of the statements, information, data and content contained in this presentation and any materials or information (written or otherwise) provided in conjunction with this presentation (collectively "Information"). The Information contained in this presentation has been prepared solely for informational purposes. The contents of this presentation have not been reviewed by any regulatory authority in any jurisdiction where such presentation has been made. All such Information should not be relied upon and does not constitute investment advice. ING Investment Management Asia Pacific (Hong Kong) Limited or its affiliates or any director or employee of ING Investment Management Asia Pacific (Hong Kong) Limited or its affiliates will not be liable or responsible to you or anyone else for any and all liabilities arising directly or indirectly from any reliance by any person or party on the Information. This presentation and the Information do not constitute a distribution, an offer to sell or the solicitation of an offer to buy any securities in any jurisdiction in which such distribution or offer is not authorised to any person. Under no circumstances should this Information or any part of it be copied, reproduced or redistributed. ING Investment Management Asia Pacific (Hong Kong) Limited or its affiliates or any directors or employee of ING Investment Management Asia Pacific (Hong Kong) Limited or its affiliates may or may not have a position in or with respect to the securities mentioned. Please note that past performance is not a reliable indicator of future performance.