



Executive Summary

Economic Update:

Many economies in Asia are still looking at tightening their monetary policies. As such, we think that one should reduce their exposures in these areas. On the other hand, the very low interest rate environment, rising consumer and business confidence and reviving private sector spending are generally positive for the US economy. Hence, we maintain our view that investors should increase their allocation in the United States.

Asset Class Update: Stay Cautious in may; Rally in Oil price

overdone.

Equities – Thailand equities will be a cautious play moving forward. Global equities may expect a down market in light of the upcoming World Cup.

Commodities – Oil price is creeping higher together with the OPEC output. Sluggish performance in soft commodities expected in near term.

Fixed income – An update on the Greece's debt problems; Contagious on PIIGS spread as the 5-year CDS and 10-year bond yield spreads against German bunds surged.



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ECONOMIC UPDATE

Executive Summary

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China – Reduce but not exit

Previously, we mentioned that fundamentally, the Chinese economy remains sound although we do note that some key indicators have turned south on a month-on-month basis. In the latest reading, data has once again improved. The Purchasing Manager Index for instance, rose to 55.1 percent from 52 percent in the previous month. Exports grew strongly in March too. It increased as much as 18 percent from the previous month.

All eyes are still on the Chinese economy with regards to the new measures that would be taken to prevent the domestic economy from overheating. Previously, the People's Bank of China raised the required reserve ratio and instructed banks to recall their loans. Despite the measures, total loan creation in the first quarter of 2010 still amounted to RMB 2.6 trillion. That is approximately 34.7 percent of the target amount of RMB 7.5 trillion.

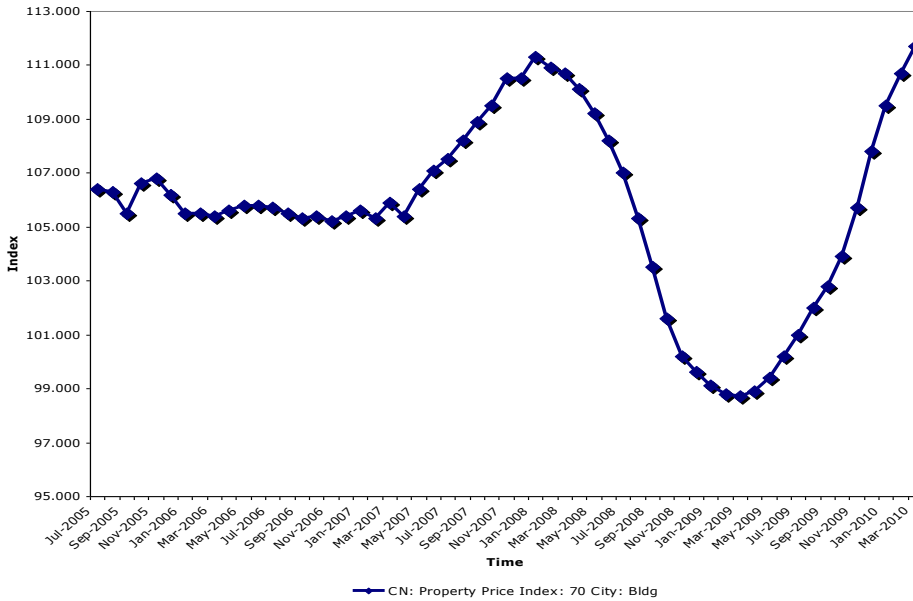
In the latest effort, China's State Council announced policies targeting specifically at the property sector. This is done in a bid to curb housing speculation as soaring property prices are becoming a concern. Indeed, as shown in figure 1, property prices in China as measured by the China Property Price Index has risen above the peak registered in January 2008.

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Figure 1: China Property Price Index



Source: CEIC. As of March 2010

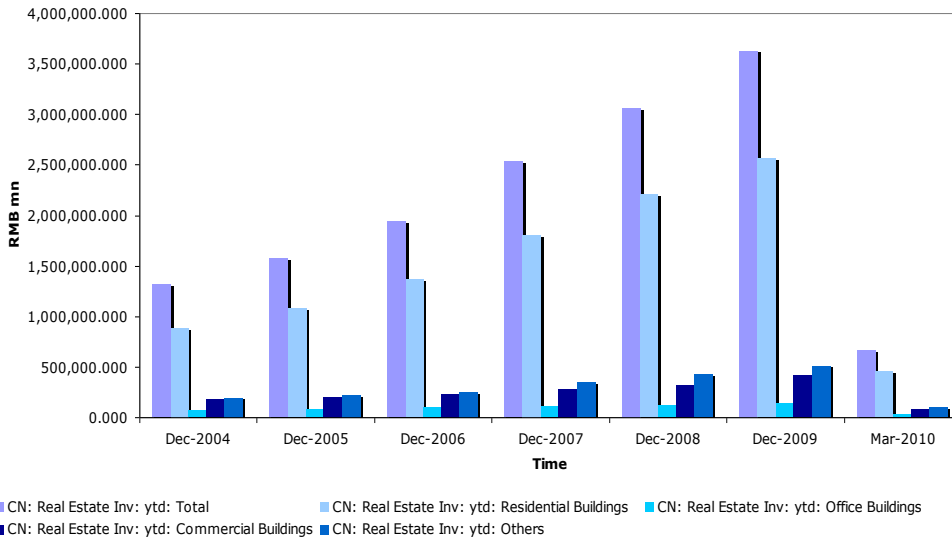
Starting 15 April 2010, first time home buyers purchasing a property with a gross floor area more than 90 square meters, would need to make a downpayment of at least 30 percent. Previously, first-home buyers need only pay a 20-30 percent downpayment regardless of the size of the property. Second-home purchasers on the other hand would have to pay at least 50 percent for downpayment; almost 20 percent more relative to the past. In addition, second-home buyers have to pay a 10 percent premium over the best lending rate. Before, these buyers can get up to 30 percent discount from the best lending rate. Other than the above, the central government is also urging local government to take any necessary measures to put restrictions on the number of homes to be bought in a certain period of time.

From the above, it's clear that the policies are directed towards controlling residential property prices and less so of commercial properties. This is logical as the bulk of the real estate investments are in residential properties. This is shown in figure 2.

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Figure 2: Real Estate Investment

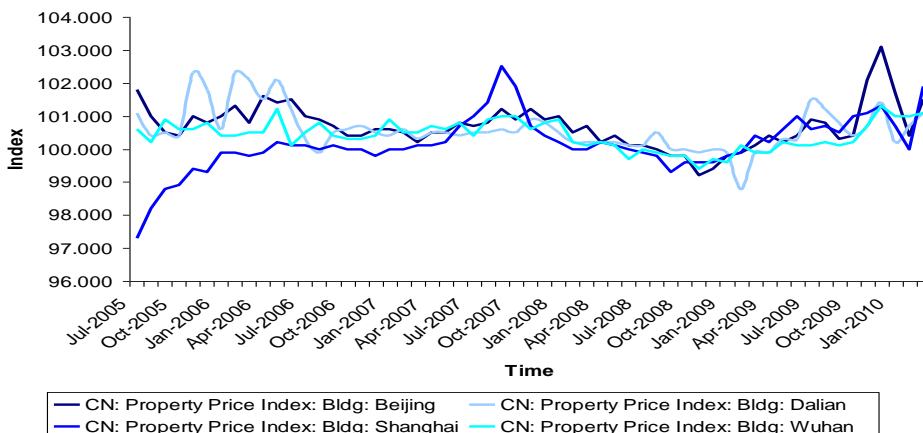


Source: CEIC. As of March 2010

It is also evident that the measures are aimed at discouraging the purchase of a second property for investment. Impact on first time home purchasers is minimal given that only those who are purchasing a bigger property will need to pay a higher sum of downpayment. As shown in figure 3, there is a disparity between property prices in developed cities and those in the second and third tier cities in China. Hence, it is also apparent that the policies are targeting property prices in areas like Beijing and Shanghai and less so of prices in the second and third tier cities. Indeed, the government announced on the same day that they would increase the amount of land supplied in areas with small sized apartments and how cost housing.

It is also evident that the measures are aimed at discouraging the purchase of a second property for investment. Impact on first time home purchasers is minimal.

Figure 3: Property price index in various cities



Source: CEIC. As of March 2010



We think that measures implemented could help to consolidate the property sector in China and reduce the disparity in prices. This would be beneficial for the sector in the long run. However, until prices fall to a level where the government is comfortable, we can expect more measures to be implemented.

As such, while we remain upbeat on the long term prospect of the Chinese economy, we are cautious in the near term. Indeed, in the latest instance, the Shanghai Composite index edged down as much as 4.5 percent in a single day when policies to curb property prices were announced. We continue to think that investors should not exit totally from this country but there should be a reduction in exposure.

United States

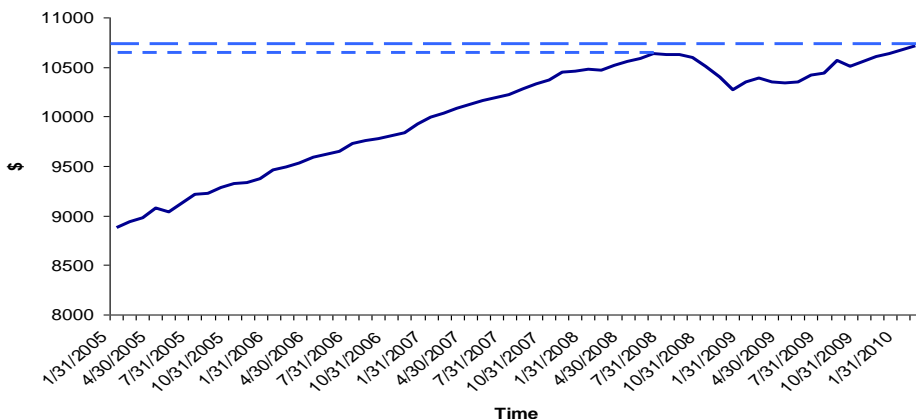
Previously, we mentioned that we were generally more upbeat on the United States on the back of a stronger dollar, improving purchasing manager index and reduction in current account deficit. Also, we were of the view that interest rates will remain low for an extended period of time as inflation is not a concern at the moment. A low interest rate environment creates an attractive environment for businesses.

We continue to maintain our stance that investors should overweight this region as economic data remains encouraging. For instance, the ISM manufacturing index hit 59.6 percent in March. This marks the eighth consecutive month in which the index has risen and is the highest level since July 2004. With gradual restoration in the country's economic condition, consumers will be encouraged to spend. This is crucial as historically, consumer spending has always led the business cycle out of a recession.

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Economic data remains encouraging. For instance, consumption has not only turned the corner in April 2009, the level of spending has risen above pre-crisis levels.

Figure 4: Personal outlay



Source: Bloomberg, as of Feb 2010

— Personal Consumption



In addition, inventory levels remain highly depressed and with the recovery in consumption, businesses will soon have to start to re-stock their much depleted inventory levels. This will in turn give the recovery process another boost.

While economic conditions are generally positive in the United States, there are areas which we will be watching for. This is so as these areas could potentially lead to conditions that would be counterproductive to longer term recovery. One area in particular is the possibility of a financial overhaul. Equity markets have been volatile recently as investors remain concerned that the wrong mix of rule tightening could hamper profits at large financial companies. In addition, we will be watching the housing price level. Housing prices got a boost lately due to a surge in sales. Sales came about as many rushed to buy a home before the tax credit expires in April. We are concerned if prices can hold up as demand might weaken after the tax credit program ends. Housing prices are of a concern as it affects individual net asset worth. Lower housing prices would lead to lower net asset value which in turn will affect consumption levels.

In sum, the very low interest rate environment, rising consumer and business confidence and reviving private sector spending are generally positive for the US economy. At the minimum, there are no signs that would suggest that this recovery process will turn into a flop in the near term. Hence, we maintain our stance that investors should look into increasing exposure to this area.

Conclusion

Other than China, other parts of Asia continue to look at reining in their loose monetary policies. For instance, India raised their rates again. They raised the repurchase rate by a quarter-percentage point to 5.25 percent and the reverse repurchase rate by a quarter point to 3.75 percent. Singapore on the other hand has also conducted some monetary tightening through the exchange rate to keep a lid on prices.

Based on the fact that many economies in Asia are still looking at tightening their monetary policies, we think that one should reduce their exposures to these areas. On the other hand, conditions are favorable for the States and thus allocation to this country should increase.

There are areas which we will still be watching for. One in particular is the possibility of a financial overhaul. Sustainability of the housing prices is another area that will be closely monitored.

There are no signs at the moment that would suggest that the recovery process will turn into a flop in the near term.

We maintain our view that investors should reduce exposure in Asia and increase allocation to the United States.



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STAY CAUTIOUS IN MAY; RALLY IN OIL PRICE OVERDONE

Executive Summary

Equities – Thailand equities will be a cautious play moving forward. Global equities may expect a down market in light of the upcoming World Cup.

Commodities – Oil price is creeping higher together with the OPEC output. Sluggish performance in soft commodities expected in near term.

Fixed income – An update on the Greece's debt problems; Contagious on PIIGS spread as the 5-year CDS and 10-year bond yield spreads against German bunds surged.

Equities – Upside momentum intact

Majority of the global indices were up for most part of the month. In particular, the Indonesian equities led the pack with a monthly gain of 7.04%. Indonesian equities were up a sounding 83% on a one year basis. Within the same month, the Chinese equities were down 2.13% with ongoing tightening property measures such as rules on uncompleted homes sales, curbs on loans for third-home purchases, increased down payment requirements and higher mortgage rates. Global investors got uneasy over the securities fraud charges against Goldman Sachs earlier the month. The U.S. earnings season kicked off during the middle of the month and corporate earnings are picking up recovery momentum. At the same time, Greece and Ireland contributed to the widening total budget gap for the 16-nation euro region, standing at 6.3% of gross domestic product for last year, the biggest since the introduction of the euro in 1999, from 2% in 2008. On South Korea, Moody's Investors Service upgraded the nation's credit ratings to A1 from A2, citing accelerating economic growth and a "relatively small" deficit.

Table 1: Selected Equity Stock Market Index Returns

Country	Index	Apr. 22	1-mth % gain/loss	3-mth % gain/loss	6-mth % gain/loss	52 week High	52 week Low
Indonesia	Jakarta Composite	2892.58	7.04 ▲	10.81 ▲	18.88 ▲	2916.55	1574.23
Korea	Kospi Index	1739.52	4.00 ▲	3.28 ▲	6.70 ▲	1748.19	1298.86
United States	S&P 500 Index	1205.94	3.44 ▲	10.46 ▲	10.34 ▲	1213.92	835.45
Singapore	Straits Times Index	2971.10	2.84 ▲	5.37 ▲	10.78 ▲	3037.97	1791.45
Hong Kong	Hang Seng Index	21365.26	2.06 ▲	3.08 ▲	-3.81 ▲	23099.57	14457.99
Taiwan	Taiwan Taiex Index	7978.69	1.82 ▲	0.65 ▲	4.87 ▲	8395.39	5571.93
India	BSE Sensex 30	17617.86	1.19 ▲	4.50 ▲	4.93 ▲	18047.86	10715.66
Japan	Nikkei 225	10949.09	1.15 ▲	3.39 ▲	6.64 ▲	11408.17	8493.77
China	Shanghai Composite	3009.00	-2.13 ▼	-3.82 ▼	-1.39 ▼	3478.01	2372.34

Source: Bloomberg, as of 22 April 2010

Major global equities maintained their upside momentum in the month of April; Chinese equities underperformed.



On the regional market, the threat posed by the clashes between the Thai army and anti-government protesters hit the Thailand's benchmark stock index hard, pulling the equities down 6.8% for the week of 14 April. During the month, the threat posed by the unrest was highlighted by Fitch Ratings, which cut its outlook on Thailand's local-currency credit rating to negative from stable, citing "an escalation in political uncertainty at the moment." At the same time, Thailand's central bank kept its benchmark interest rate at a five-year low, refraining from raising borrowing costs as a political conflict threatens to derail the nation's economic recovery.

With regards to the fundamentals, Thailand's \$261 billion economy, Southeast Asia's largest after Indonesia, expanded 5.8 percent in the three months through December from a year earlier after contracting for four consecutive quarters. However, the ongoing domestic unrest situation is going to be a drag on the tourism industry. Tourist arrivals are expected to fall by 20 percent for the year, the finance ministry said on April 12. Lower tourism revenue is likely to bring down the country's GDP growth in the next few quarters even though the central bank maintains its accommodative monetary stance.

On this note, it is fair to emphasize on the prematurity to venture into Thailand equities with so much ongoing uncertainties. A conservative technical support put us at the 660-680 region on the Thailand's benchmark stock index (See Chart 1 below), which is about 10% away from the recent close.

Chart 1: Price Performance of Thailand Equity Benchmark Index



The Thailand's benchmark stock index was down due to ongoing political unrest and may test its previous lows at the start of the year.

Source: Bloomberg, as of 22 April 2010



Table 2: Stock Indices Valuations (Cheapest to Expensive)

Country/Region	Dividend Yield	Price-to-Book	Forward PE	Current PE
Indonesia	1.95	0.55	15.06	20.72
South Korea	1.25	1.27	10.84	15.36
Thailand	3.86	1.60	11.41	13.62
Singapore	2.70	1.69	15.00	14.64
MSCI World (Region)	2.31	1.91	14.81	21.22
Asia (Region)	2.00	2.00	13.68	18.10
Australia	3.66	2.10	15.89	---
Brazil	2.79	2.12	13.21	17.25
Taiwan	2.35	2.12	15.29	32.39
Phillipines	3.67	2.17	13.32	14.86
Malaysia	2.88	2.22	15.73	18.75
United States	1.78	2.31	15.24	18.55
Vietnam	1.53	2.36	12.33	12.34
China	1.31	3.06	17.67	25.01
India	1.12	3.47	16.91	26.54

Valuations of global indices are mixed; with the China and India seemingly overvalued at the moment.

Source: Bloomberg, as of 22 April 2010

In terms of valuations (See Table 2 above), Indonesia, South Korea, Thailand and Singapore equities are trading at a relatively lower Price-to-Book ratio compared to their peers. On the other hand, countries like India and China are deemed more expensive on a relative basis. Given that the Reserve Bank of India and Chinese officials are facing mounting pressure to continue to tighten their policies at the moment, the equities outlook on the two Asian powerhouse are less than rosy.

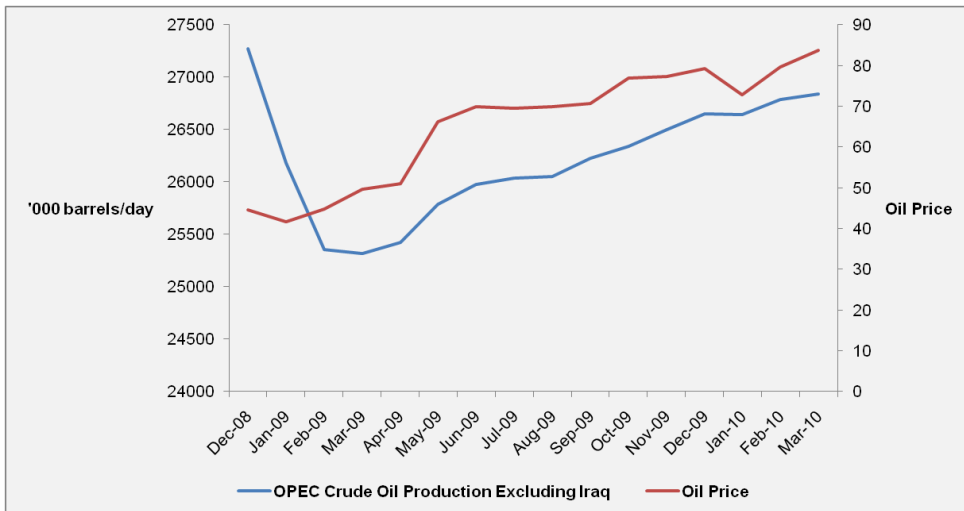
Historically, equities tend to take a breather during the World Cup period. The 2002 World Cup coincided with a 20 percent drop in U.S. S&P 500 from April to end-July. The most recent World Cup in 2006 took place with the U.S. S&P 500 down an approximate 2 percent over the same period. Together with the fact that the VIX Index is starting to head up after staying low for most part of the month, there are good reasons to believe that a near term correction is increasingly likely to occur. Nevertheless, any possible dips may be deemed as a buying opportunity into markets trading at a cheaper valuation. To sum up, we are less than optimistic on the performance of equities heading into the month of May and June with a downside bias.



Commodities – Oil overpriced on the back of firm dollar

Crude prices went above \$87 (USD/bbl.) during the month. We turned from neutral to bearish on oil prices given that the prices seemed to have ran ahead of the fundamentals at the moment. At the same time, we observed that the OPEC output has been rising together with oil price since the start of last year (See Chart 2 below). Prices and supply volume have a negative relationship from an economic perspective. Figures are showing that the OPEC may be creating a surplus in the market, with output rising to 29.2 million barrels a day in March 2010, a 5.6% jump from March 2009. Amongst OPEC members, compliance with quotas fell to 53% last month, with Venezuela, Nigeria, and Saudi Arabia increasing production, even as the organization said it will need to pump less than previously estimated this year. Together with the higher crude prices, the OPEC members will be more inclined to increase individual productions to gain a higher share of oil revenue.

Chart 2: OPEC’s output is creeping higher



The OPEC’s oil output had been on the rise steadily since February 2009. The rising oil price is unjustified.

Source: Bloomberg, as of 22 April 2010

Corn prices are down more than 13% since the start of the year. Wheat was the second worst performer, down 10% on a Year-To-Date basis (See Table 3 on the next page). Favourable supply factors such as harvest yields and field conditions are capping any upside movement. Globally, the sluggish soft commodities prices are likely to continue in the medium term. However, inflationary pressure on food prices may come into play from a long term perspective, aided by the current massive liquidity due to the quantitative easing measures taken.

Non-commercial traders are taking massive long positions on the U.S. Dollar since the start of December 2009 (See Chart 3 for details). This had reversed the previous downward trend on the U.S. Dollar Index since then as it consolidates above 80 at the moment. Commodity prices are negatively impacted with near term U.S. Dollar strength. As such, the general commodity space is likely to remain under pressure given that the U.S. Dollar is likely to stay firm in the near term.



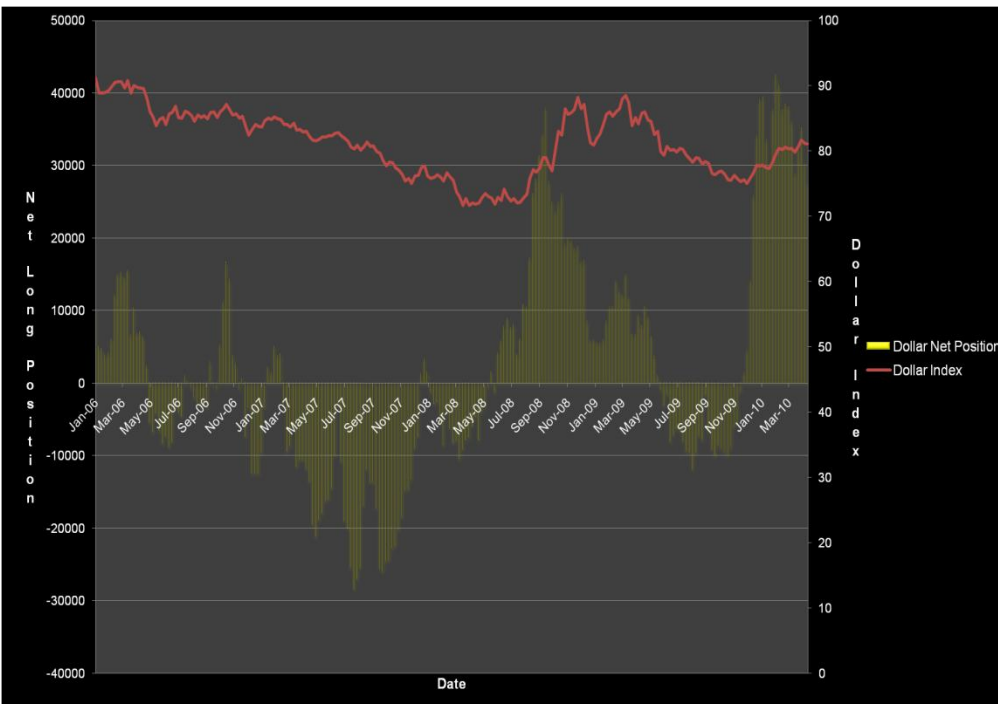
Table 3: Price Performance and Outlook of Grains & Oilseeds

Name	Market Close	MoM %	Change YTD %	Y o Y %	Outlook	Comments
Corn	357.25	-3.64	-13.81	-4.35	Neutral	Lack of supportive fundamentals such as slowing global demand and increased global yields. Should stay range-bound for now.
Soybean	992.75	2.50	-4.52	-5.09	Neutral	Recent gains have been supported by increase demand from China. A record Latin American harvest is keeping price range-bound.
Wheat	483.75	-0.57	-10.66	-6.39	Slight Bullish	A decline in US winter wheat seedings will add short term pressure on global stocks supply.

Outlook on soft commodities remains range-bound with downside bias with favourable supply factors in play at the moment.

Source: Bloomberg, as of 22 April 2010

Chart 3: Trading Activity on Dollar Index (With Price)



Non-commercial traders are heavily on the long side of U.S. Dollar since December 2009.

Source: Bloomberg, as of 22 April 2010



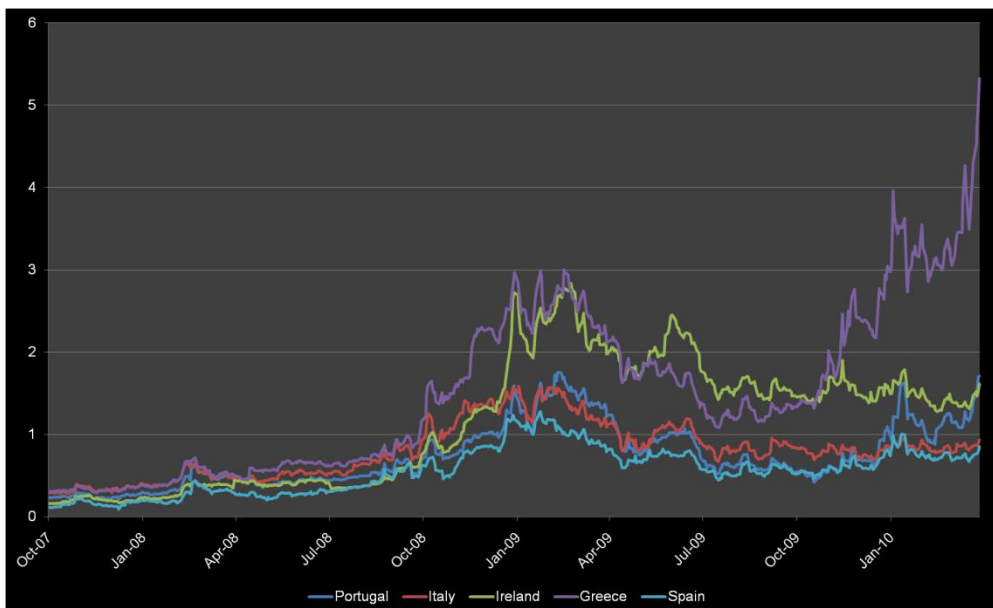
Fixed Income – Greece’s woes present opportunities in Asian bonds

The latest development in the Greece’s sovereign debt woes revealed that Greece’s budget deficit last year was worse than previously forecast with Moody’s Investors Service cutting the country’s creditworthiness. Earlier the month, Greece’s soaring financing costs have forced the EU and the International Monetary Fund to offer as much as 45 billion euros (\$60 billion) in emergency loans. As of 22 April 2010, Greece’s benchmark 10-year bond yield stood at 9.03 percent, the highest since 1998 and almost three times the comparable German rate (See Chart 4 below for 10-year bond spread against bunds).

As things stand, a sovereign credit default of any form would most likely create havoc for the global financial situation. The combined role of the European Union and IMF is crucial to halt the immediate crisis. Interest rates will be forced to stay low in the Eurozone and the search for more risk-based returns will be the dominant theme. At the same time, the historically low yields over the last two years is likely to continue to fuel fund flows into assets with higher rates of returns.

Finally, it is worth noting that Asian G3 bonds in issuance total only a little over USD 300bn – a very small percentage of the total volume of international bonds in issuance. At the same time, the Korean bond market should continue to benefit from heavy foreign inflows as a relatively dovish Bank of Korea seemed reluctant to rise rates. Expectations that Korea will be included in the MSCI developed markets index (at the June review) and potentially in the Citigroup World Government Bond Index should underpin foreign inflows.

Chart 4: 10-Year Sovereign Bond Spread against Germany



Source: Bloomberg, as of 22 April 2010

The 10-year bond yield spreads on the PIIGS against German bunds surged on renewed fears on Greece’s sovereign debt woes.



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