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Look for Lion

Market Outlook Report
October 2008
(3Q08 review/4Q08 outlook)

A member of the OCBC Group

CONTENTS

EXECUTIVE SUMMARY

MARKET VALUATIONS

Country	As at 30 September 2008 MSCI Index (in local currency)	YTD % change (in local currency)	YTD % change (in SGD)	2008E EPS Growth (%)	2009E EPS Growth (%)	2008E PER (X)	2009E PER (X)
Australia	2841.21	-24.9	-33.0	-3.5	25.0	13.3	10.7
China	246.96	-45.1	-45.3	13.3	16.5	10.7	9.3
Hong Kong	30828.44	-40.2	-40.3	-26.7	8.3	12.8	11.8
Taiwan	121.24	-30.3	-30.2	-20.1	11.7	12.5	11.2
Korea	357.35	-21.6	-39.6	3.6	14.8	10.9	9.4
Singapore	432.32	-29.1	-29.1	-3.4	7.1	11.5	10.9
Malaysia	190.34	-29.5	-32.8	-11.9	4.9	11.8	11.1
Indonesia	677.59	-34.1	-34.8	15.0	29.0	10.3	8.0
Thailand	311.45	-29.3	-30.1	113.3	7.2	8.3	7.8
Philippines	165.54	-27.2	-36.6	-1.5	14.1	13.8	12.1
Vietnam *	456.70	-50.7	-52.8	6.0	17.0	11.9	11.2
India	335.59	-39.9	-49.9	13.9	23.2	13.7	11.5
AC Asia Pac ex-Japan **	224.51	-37.6	-38.0	-2.0	17.1	11.6	10.1
AC World **	116.35	-25.5	-26.0	2.6	18.0	11.9	10.2
USA	2654.58	-19.5	-20.1	3.3	22.9	14.1	11.5
Europe	3190.48	-26.4	-31.1	0.1	13.3	9.6	8.6
Japan	1098.28	-26.1	-22.7	-3.7	15.2	13.3	12.1

* Ho Chi Minh Stock Index

** Indices in USD terms

Source: MSCI /IBES /Rimes /Citigroup /Lion Global Investors

Bond Indices	Index closing end Sep 08	Month-to-date % change	Year-to-date % change	Index closing end Dec 07
Citi WGBI	1067.77	-0.0	1.6	1050.54
JACI Composite Total Return	157.44	-3.8	-4.6	165.03
UOB SGBIALL	170.84	-0.2	0.9	169.26

Source: Bloomberg
All indices are in SGD terms

MARKETS AT A GLANCE

Global Equities

Review

Global equity markets ended a volatile quarter 10.8% lower in Singapore dollar terms. Only two equity markets managed to end the quarter up, Philippines, up 8.4% and Vietnam, up 22.1%. The rejection of the US$700 billion bailout bill by the House of Representatives resulted in a widespread sell-off in equity markets towards the end of the quarter.

In the US, IndyMac and Washington Mutual were seized by the authorities. The collapse of Lehman Brothers which was forced to file for Chapter 11 bankruptcy triggered a chain of events with calamitous consequences which eventually reverberated around the world. Fannie Mae and Freddie Mac were placed into conservatorship by the US government with the government recapitalising both Fannie Mae and Freddie Mac. AIG was also bailed out by the government to the tune of US$85 billion for a 79.9% stake in AIG. Wachovia's banking operations were being acquired by Citigroup and Bank of America bought Merrill Lynch in an all-stock deal. In September, as a result of a change in regulations, Goldman Sach and Morgan Stanley became bank holding companies, ending the era of investment banks in the US. Warren Buffet acquired US$5 billion in preferred stock of Goldman Sach while Mitsubishi UFJ took a 21% stake in Morgan Stanley for a US$9 billion capital injection.

Europe also had its fair share of bank failures and bailouts. Bradford and Bingley was nationalised by the UK government, Fortis was bailed out by the Belgium, Dutch and Luxembourg governments, Dexia was also bailed out by the French, Belgium and Luxembourg governments, while Hypo Real Estate was bailed out by the German government and a consortium of German banks.

Crude oil corrected from a high of US$147 to a low of US$95.70 before ending the quarter down 28% at US$100.65. The CRB Commodity Index also ended the quarter down 13.5% on expectations of weaker demand in basic materials as global economic activity slows. This resulted in the Materials sector declining 32.3% during the quarter. On the other hand, the Consumer Staples sector rose 3.4% on expectations that the sector’s earnings are more predictable in a weaker economic environment.

Outlook

The global economy is downshifting rapidly in response to tighter credit conditions, falling wealth, weaker property markets, and still high energy and food prices. The US economy is projected to slow further in 2H08 and will slow down significantly for a number of quarters ahead. Economic expansion was already fragile and is now facing additional drags, i.e. tighter financial market conditions including a decline in private wealth as a result of a decline in equity markets and higher job losses due to corporate cost cutting.

In Europe, 2Q08 quarter-on-quarter GDP growth had already turned negative. The deepening financial crisis resulting in tighter liquidity conditions and the recent sharp decline in Euro area business surveys with September PMI dipping to the lowest level since 2001, indicates that GDP will slow further in 3Q08.

In Japan, the economic slowdown was confirmed with the release of the April-June quarter GDP, -3.0% quarterly annualised. Key economic indicators like consumer confidence, unemployment rate, job-applicant ratio, wages and small business confidence continue to deteriorate, all pointing to further slowdown in the economy. In addition, the September Tankan survey marked the first negative reading since June 2003.

With inflation outlook expected to remain in check in response to a sharp correction in commodity and oil prices, global central banks have some leeway to ease monetary policy in response to weak economic data.

Global equity markets can be expected to remain volatile given the still rather uncertain economic outlook. This is the first time we are witnessing a financial crisis on a globlal scale.

Asia Pacific ex Japan Equities

Review

It was a treacherous third quarter with the benchmark index heading south, closing the quarter at 185.11 in SGD terms, representing the worst quarterly fall of 20% this year. Year-to date, the index gave up 38%.

The steep fall mirrored the steepest decline seen on Wall Street since 1987 as market sentiment took a beating after the initial rejection of Paulson's US$700 billion rescue plan by the House of Representatives. This was followed by unprecedented consecutive announcements of bank bailouts in Europe and the failure of Lehman, Washington Mutual and takeover of Wachovia. Markets around the world were seized by fear, with the VIX index driven to 46.7 on 29 September, just a touch away from its historic high during 11 September 2001.

Notwithstanding the eventual passage of the rescue plan, the overwhelming concerns on the economy weighed on markets. Within Asia, slowing growth concerns transcended to the corporate level. Earnings estimates continued to be revised downwards throughout the year, with the latest consensus earnings per share forecast at -2% while no visibility for 2009's earnings is in sight.

Except Philippines, almost all markets recorded hefty double-digit quarterly losses led by Australia (-23%), Indonesia (-22%), Taiwan (-21%) and China (-21%). By sectors, materials and energy bore the brunt as a global slowdown is expected to crimp demand for these sectors. Not surprisingly, defensives i.e. healthcare, utilities and consumer staples held up better albeit losing ground as well.

Outlook

Valuation for Asia Pacific ex-Japan on 6 October has compressed to 11x 2008 earnings. Despite being more than 1 standard deviation below its long-term mean on earnings multiple, other metrics such as price to book and dividend yield are at its long-term mean. Given the continued fund outflows (due to redemptions and increased risk aversion), we expect that in the near term prices are still looking for stabilization. With deleveraging impact working through the real economy, we believe investors will continue to de-risk their portfolios. Consequently, Asian equities will continue to suffer collateral damage in the near term as it is perceived to be a 'risky asset class'.

In the midst of the worst financial crisis since the 1930s, it bodes well to maintain a current defensive strategy until the credit market stress shows signs of abating. As we continue to believe that the long-term structural growth story of Asia remains intact, we are of the view that the current financial turmoil also provides opportunities for the patient long-term investors. We are hopeful that China will introduce strong countercyclical measures to stimulate growth in various sectors of their economy and provide the uplift for regional markets.

Global Bonds

Review

The global money market crisis and credit turmoil have intensified in recent weeks in the US and Europe. This development has substantial negative implications for economic growth globally, increasing the probability of economies in US and Europe sliding into recessions quickly and significant slowing of growth in emerging countries. Slower growth, weaker demand for commodities, and rising slack in labour markets should induce a slowing of global inflation. Against this backdrop, we saw investors reallocate to safer assets resulting in global government bonds rallying sharply in September. The JP Morgan Global Government Bond Index registered +0.24% for the month and +2.56% for 3Q08, led by the US Treasuries rallying +0.60% for the month and +2.39% for 3Q08. In contrast, global inter-bank lending rates were elevated reflecting systemic fear in money markets. Global credit markets were similarly dislocated and basically frozen in September with major credit indices selling off massively amidst irrational despondency.

Credit markets in Asia exhibited high volatility. In July, the markets saw some optimism trickling back with JACI spreads tightening 11 bps in July and posting +1.12% return. However, the positive momentum fizzled in August and September on the back of weakening in the financial sector and deepening housing markets woes in the US. In August, JACI spreads widened by 28 bps but posted positive returns of 0.54% due to a rally in the underlying Treasury bonds. In September, JACI spreads widened significantly by 116 bps over Treasuries in its largest monthly move since inception in 1998 and posted -4.9% monthly returns. All sub-indices in the JACI index registered negative returns during the month; high-grade corporates had - 4.55% total return, financials lost -6.08%, while high yield corporates delivered -11.77%. Only one issuer managed to tap the credit markets in September: Wing Hang Bank printed a US$225 million subordinated bond with a perpetual non-call 5 structure. The deal was priced at a 9.375% yield in US, a record high ever paid by the bank on its capital securities. It is reported that about 60% of the transaction was placed to private customers, reflecting caution amongst institutional accounts. After the deal was done in the first week of September, the market deteriorated sharply, and no more new public capital market issues were launched in Asia.

During 3Q08, we witness a spate of weakening economic data for Singapore. July and August NODX numbers have shown contractions and the latest September PMI at 49.5 (below 50 implies contraction) is likely to imply more weakness ahead. However, bond markets in Singapore are still largely driven by the development of the global financial crisis. Interest rates dropped sharply in July on the back of a flight to quality as negative news escalated and placed enormous pressures on the US financial sector, which eventually led to some casualties, even in the likes of AIG being bailed out by the US Fed. Positions unwinding by hedge funds and sometimes forced selling, resulted in some sporadic weakness in the SGS market given the thin liquidity. Indeed, proprietary traders were unwilling to put on positions, especially for corporate bonds. Credit spreads widened in sympathy with international market, but by much less. Some concerns were also raised over local property developers who have substantial exposures in China and Vietnam. Bid-offer spreads have widened and generally, it has become a buyer's market. As banks continue to hoard liquidity, overnight rates have seen intra-day spikes to hit 2%.

The last Singapore Government 3-month T-bill auction prior to quarter-end saw cut-off yield at 2%, as liquidity was especially tight. The UOB Singapore Government Bond Index was up 2.3% over the quarter and yield curves flattened. 2-year SGS yield rose 24 bps whilst 10-year SGS yield fell about 38 bps.

Outlook

The US$700 billion Troubled Asset Relief Program in the US that aims to remove bad assets and generates new bank lending, and the UK special liquidity and guarantee package should contribute in some measure to a gradual return of trust in the financial sector. Inter-bank and bank lending to non-banks need to be normalized, but how quickly this rebound occurs will depend on how effectively liquidity programs are implemented. A next key focal point is a co-ordinated pan-European policy response that needs to be put together in a race against time to underpin the deepening crisis in Europe. The full restoration of trust in the banking system will require some combination of injection of public capital and a move to much more conservative levels of leverage than seen in recent years on a global scale. This will take time, and for this reason, trust in the system will return only gradually. Hence, we expect the credit crunch to drag growth down, albeit at diminishing rates over time, for a few quarters.

We do not see a sustainable recovery in credit markets near term. Any meaningful market rebound is likely to be followed by risk reduction. However, the possibility that financial contagion may spread to Asia's relatively liquid and well-capitalised banks is an immediate concern. The prospects of accelerated credit rationing in Asia mean that high grade corporates especially financials, could underperform on a relative basis in the short run. Given the current market turmoil, it does not look like the primary market is going to reopen soon, with new dollar bond issuance out of Asia to remain negligible for the rest of the year. Total primary issuance during the January-September 2008 period stood at US$10.6 billion compared to US$28.3 billion during the previous corresponding period in 2007. The reluctance of banks to lend is likely to imply higher funding costs, reduced availability of funds and a weaker economic environment means a squeeze on corporate profits. We maintain a cautious outlook towards credits, particularly in the high yield corporate space.

In Singapore, officials and economists are revising their growth outlook for Singapore downwards. Concerns about deepening liquidity/credit crunch in the US in the months ahead coupled with the poor 2QGDP growth numbers, not helped by the recent weakness in the Industrial Production and Non-Oil Domestic Export numbers, imply sentiments remaining risk-averse. Inflation outlook is anchored down by the weak economic conditions. This is reinforced by declining commodity prices (or USD strength), whilst the current elevated prices moderate with weaker demand. These are bond positive factors. Market is expecting a change in monetary policy stance, either one of gentler slope (slower appreciation) and or a re-centre of the trade-weighted exchange rate. We see two opposing forces on short-end rates – limited appreciation potential on SGD versus intent to keep market liquid. Any upside bias is likely to be capped as it appears MAS is maintaining a higher level of liquidity in the banking system. Lingering uncertainty implies volatility will remain high. On the other hand, flattening curve trade momentum is likely to continue in the near term as negative headlines news (both on the financial sector as well as global economic data) continue and the roll down carry trade still offers value.

The deleveraging process is painful and takes time. What is important is to be able to stay solvent longer than the market stays in irrational sell-off mode. What is needed is various financial assistance and liquidity packages and concerted central bank actions to continue to restore confidence in the markets. No one measure alone is sufficient. Comprehensive solutions comprising fresh and innovative rescue measures are essential. We do not rule out a concerted rate cut by central banks towards year end. Until the system is "unjammed", for the bond portfolios, we would look to reduce risk in the credit markets and stay neutral to slightly long duration to take advantage of monetary policy stance, although the recent sharp price rally in government bonds indicate policy rate cuts are largely priced in.

8 October 2008

ASIAN EQUITIES

SINGAPORE

Outlook

Our market view

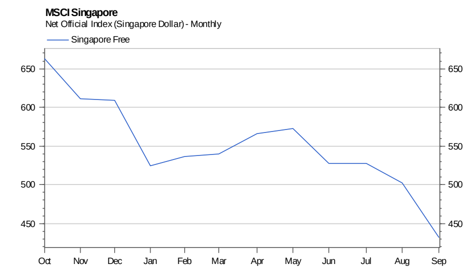
- August non-oil domestic exports data was weaker than expected, falling 13.8% yoy in SGD terms. August inflation rose 0.1% mom, driving prices of consumer goods up 6.4% yoy. While inflation remains steady in the near term, it is expected to trend down over the months ahead as growth slows. However, the weakness in exports is beginning to adversely impact economic growth and demand for office space, residential property investment and air travel.

What we like

- While we remain positive on Singapore's economic restructuring potential over the medium term, we are getting cautious on the possibility of a near term slowdown in the economy. Much depends on how events unfold in the US financial sector. We see value in the financials, boosted by continued construction spending and a strong domestic franchise. We also like domestic oriented sectors such as telecoms and transport. Companies with strong balance sheets are better likely to weather the economic turmoil.

What we are wary about

- Deterioration of US economy and continuing credit market issues.
- Increasing oil prices that could slow down economic growth momentum over the medium term.
- A reversion to high inflation, driven by oil and food prices, could pose challenges to economic growth and domestic consumption.
- Severe downturn in real estate market especially residential.



Source: FactSet

Review

How the market performed

- MSCI Singapore was down -18.1% in SGD terms in 3Q 2008.

What happened

- SIA's traffic rose 5% yoy, a deceleration from July's +7% but largely in line with year-to-date's +5%. Load factors fell 2 percentage points to 79% as demand still failed to keep pace with SIA's 8% capacity growth.
- Sembcorp Marine added SGD1 billion worth of new orders to its order book in September, comprising three jack-ups and one tanker to FDPSO conversion. Cosco Corp announced that it secured shipbuilding and conversion contracts worth US$256.2 million.
- CapitaLand announced the resignation of Pua Seck Guan, CEO of CapitaLand Retail and manager of CapitaMall Trust, and his replacement, Lim Beng Chee, who currently is CEO and manager of CapitaRetail China Trust.
- IDA announced that the OpenNet consortium, comprising SingTel (30% stake), Axia NetMedia (30%), SPH (25%) and SP Tel (15%), has won the NetCo (passive infrastructure) portion of Singapore's next-generation nation-wide national broadband network.

AUSTRALIA

Outlook

Our market view

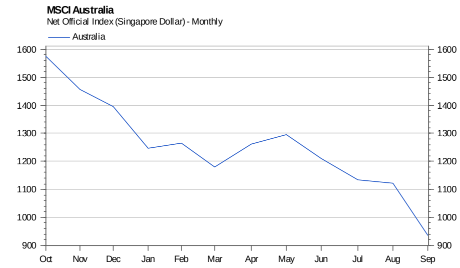
- With domestic economic conditions deteriorating rapidly and rising inflation, risks in corporate earnings need to be balanced against increasingly attractive valuations, which currently stand at 11x forward PER versus a long term average of 14x. In light of weakening commodity prices, the materials sector should see sizeable earnings downgrades. This should result in the market trading at higher PER multiples given the large weighting of the sector.
- While the credit crunch is ongoing globally, the rising cost of debt is not going away in the near term. As such, we think that capital raisings and preference for quality companies will be a feature in the next year.

What we like

- Generally defensive. Underweight financials (banks, insurance and property trusts). Underweight materials (prefer diversified resource and gold exposure).

What we are wary about

- The drought continues in 2009.
- China GDP growth slows significantly; China over-tightens monetary policy.



Source: FactSet

Review

How the market performed

- MSCI Australia was down -22.7% in SGD terms in 3Q 2008.

What happened

- The Australian market fell to levels achieved two years ago as the developing contagion from the US credit crisis picked up pace. The sub-prime crisis matured into a full-blown credit and liquidity crisis, bringing down Lehman Brothers and the US Fed having to rescue American International Group. Base metal and oil prices declined significantly as investors turned to gold, the USD and bonds as safe havens to escape crumbling markets. The daily Australian market movements were highly dependent on the developments in the US.
- Over the quarter, the healthcare sector did very well, helped by the weaker AUD. Materials stocks performed the worst as investors gave up on global growth. The AUD declined about 13% against the SGD over the quarter.
- The Reserve Bank of Australia cut interest rates for the first time in seven years, reducing it by 0.25% to 7%. The market continues to price in further cuts in light of the fast weakening domestic and external economic outlook.
- To-date the share price declines have been driven largely by PE de-ratings in anticipation of increasing earnings risk with relatively little by way of negative earnings revisions coming through outside of those companies with excess leverage. The August reporting season turned out to be relatively uneventful, with most companies delivering results within expectations. Outlook statements were, however, downbeat.
- The economic data flow during the quarter provided further evidence that the domestic economy is slowing, with retail sales, building approvals and credit growth all continuing to soften.

CHINA

Outlook

Our market view

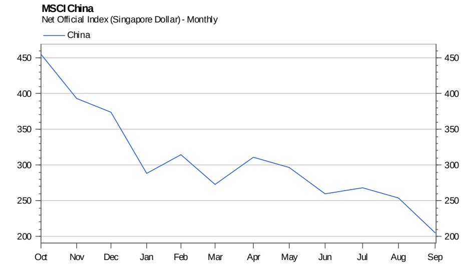
- Headline CPI eased impressively to 4.9% in August on moderating food inflation. Food CPI will likely trend down going forward, due to favourable base effects, improved supply and another year of good summer and autumn harvest. Although non-food CPI should be boosted by possible further energy price liberalization, headline CPI is expected to maintain its easing momentum.
- The government surprised the market with a swift rate cut, indicating its intention to ease monetary policy, amidst intensified concerns on export slowdown and property market correction. This could be a prime signal of a series of monetary easing and fiscal stimulus, such as tax reforms and more direct spending on infrastructure.
- Despite our positive stance on China's economic growth prospects in the medium to longer term, China is facing more challenges in the short run given the deterioration of global financial crisis, external demand slowdown, slump in property sales and still elevated commodity prices.
- We are expecting corporate earnings to see more cyclical headwinds in the near term due to production cost inflation, policy distortions and economic slowdown.
- We believe that China remains attractive as a market for investing in the long term on the back of sturdy economic fundamentals, RMB appreciation and shifting of growth model.

What we like

- We remain positive on the banks as a proxy to its domestic economy.
- We like the defensive sectors of the economy.

What we are wary about

- The broadened slowdown in developed countries would adversely impact external demand.
- Deeper-than-expected property market correction may trigger the rebound of NPL ratio in the banking system.



Source: FactSet

Review

How the market performed

- MSCI China was down -21.3% in SGD terms in 3Q 2008.

What happened

- Trade surplus for August grew to US$28.7 billion, compared to US$25.3 billion in July. Export growth in August moderated to 21.1% yoy, down from +26.9% in July. Import for the month grew 23.1% yoy, decelerated sharply from 33.7% in July.
- Industrial production growth slowed down further from +14.7% yoy in July to +12.8% yoy in August, the slowest pace in six years, on weaker export demand and factory shutdown for the Olympics.
- Retail sales rose +23.2% yoy in August, compared to +23.3% yoy growth during the previous month.
- CPI eased sharply to +4.9% yoy in August, lower than the +6.3% yoy rise in July, attributed to falling food price.
- PPI edged up slightly to 10.1% in August from 10.0% in July, reflecting the lagged impact of energy price hikes in July.
- PBoC cut the benchmark bank lending rate by 27 basis points to 7.2%, its first rate cut in six years, effective 16 September. It left the benchmark deposit rate unchanged.
- PBoC also reduced RRR by 100 basis points to 16.5%, effective 25 September, for most banks except the top 5 banks (ICBC, ABC, CCB, BoC, and BoComm) and China Postal Saving Bank. This is PBoC's first RRR cut since November 1999.
- The government removed the stamp duty on the purchase of shares; however, the stamp duty on the sale of shares remained intact.
- China's sovereign fund CIC announced plan to buy shares of ICBC, CCB and BoC in the A-share market directly.
- SASAC announced that it is encouraging all listed central government-controlled companies to buy back their own shares.

HONG KONG

Outlook

Our market view

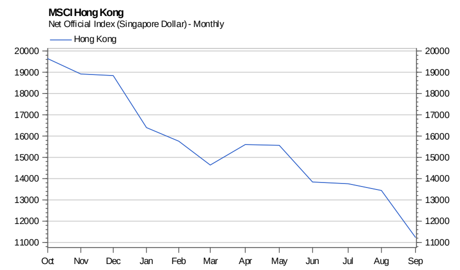
- GDP growth of 5.8% is expected for 2008 versus 6.0% for 2007, supported by buoyant domestic consumption and low interest rates.
- Retail sales data remain relatively firm with 8M08 growth coming in at 15.0% vs 8M07's +10.6%. Fuel had the strongest growth at +31.0%, followed by luxury goods (+21.7%) and clothing, footwear and allied products (+13.3%).
- Money supply growth grew in August. M1 rose 12.2%, M2 0.1% and M3 0.2%.
- Based on latest reported August data, HKD deposits rose 0.2% to HKD 2,856 billion while foreign currency deposits rose 14.5% to HKD 2,825 billion, reflecting a shift to foreign currencies.
- Total advances grew 23.6% in August to HKD 3,423 billion.
- In September HKD strengthened 0.5% mom (+0.1% yoy) against the USD to HKD 7.7653. Against the RMB, HKD strengthened at 0.6% mom (-8.7% yoy) to HKD 1.1343.
- Primary property transactions slowed significantly.

What we like

- We are positioned in companies with more defensive earnings stream.
- Property developers and investors are trading at valuations reflecting low expectations. We have turned cautious on the sector given rising HIBOR and mortgage rates.

What we are wary about

- We are cautious given that the market continues to trade at a premium to the region, but near the low end of its range.
- Sharp slowdown in the US will impact Hong Kong's export growth.
- Slowing growth in China has an adverse impact on Hong Kong given the dependence on the China market.



Source: FactSet

Review

How the market performed

- MSCI Hong Kong was down -18.9% in SGD terms in 3Q 2008.

What happened

- The best performing sector was utilities, while the worst performing was information technology.
- Unemployment rate in August stood flat month-on-month at 3.2%.
- CPI rose +4.6% yoy in August, against the 6.3% in the previous month, due to higher food prices, rising rentals, transport and utilities.
- Retail sales rose +10.4% yoy in August, lower than the +13.8% yoy rise in the previous month.
- Trade deficit for August contracted to HKD 12.9 billion compared to HKD 19.5 billion in July. Imports for the month rose only 1.5% yoy, while exports were up 1.9% yoy.
- Hong Kong plans to develop its own oil futures market as China tries to counter the effect of the commodity's rising prices.
- The Hong Kong government has endorsed the relief measures related to salaries and tax under personal assessment announced in the 2007-2008 Budget.

INDIA

Outlook

Our market view

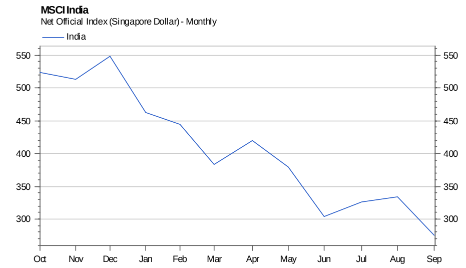
- It is noted that inflation is behaving as expected by declining. Going into the fourth quarter, the favourable base effect should help push down the data series further.
- In terms of corporate profits, going into the quarterly reporting season, we should expect pressure on profit margins to show because commodity and raw material prices were high. As it is, in the year-to-date, although significant downward revision to FY09 earnings data has just surfaced, the magnitude appears to be insufficient considering the extent of impact of the global credit crisis.
- While we think that the general elections are likely to occur only next year, the period leading into the elections typically suggests that capex spending by the government will slow, leaving the capital goods sector vulnerable to slowing earnings expectations.

What we like

- We will continue to focus on sectors geared towards domestic growth rather than global growth as the outlook for the latter has been steadily deteriorating. We like the theme of investment spending and rural income growth and have positioned into stocks that will benefit from these long term structural themes.
- While we recognize that the information technology services sector is leveraged to any slowdown emerging from the US (given its earnings exposure to the US outsourcing theme), we like the sector given its undemanding valuations and earnings consistency.

What we are wary about

- China GDP growth slows significantly; China over-tightens monetary policy.
- Higher oil price and associated geopolitical risks.
- Inflation surprising on the upside.
- Political noise.



Source: FactSet

Review

How the market performed

- MSCI India was down -9.4% in SGD terms in 3Q 2008.

What happened

- The market touched a 15-month low in September on account of weak overseas cues, coupled with fears of a global economic meltdown and political uncertainty. Towards the end of the quarter, despite much lower oil prices (and thus inflationary data) and a more stable political picture, the market failed to rally, preferring to discount risks of a large global recession because of the global credit crisis.
- The consumer sectors did well while materials sector was the largest under-performer.
- Foreign institutional investors continued to be net sellers, raising another US$2.7 billion in the quarter, bringing the year-to-date outflow to US$9.2 billion. The Rupee weakened a further 8% against the USD, bringing the year-to-date decline to 16%.
- Inflation (as measured by the Wholesale Price Index) declined to 11.99% as at mid-September 2008, helped by lower oil prices.

INDONESIA

Outlook

Our market view

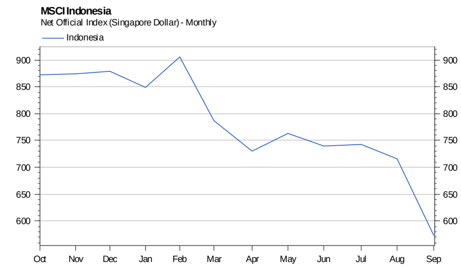
- During the period under review, mining and plantation stocks continue to suffer heavy selling. The market continued to be weighed down by inflation and interest rate concerns although we believe the end of the rate tightening cycle is near. While the Indonesian economy remains relatively resilient, valuations and growth expectations have been downgraded amid the global economic slowdown. We expect negative sentiment to prevail in financial markets until the global financial turmoil stabilizes over time.

What we like

- In the near to medium term, the volatility presents a buying opportunity for exposure into the long term structural growth of the commodity sector, driven by China and India. We prefer large domestic companies with strong franchise and market share in sectors like financials and telecoms. The resource sector such as mining and energy should benefit from increased investment spending in the long term. We avoid consumption stocks in the near term due to inflation pressures.

What we are wary about

- The slowdown in global economies could pose a threat to the export demand in Indonesia's mining and resources sectors.
- Another risk is the medium term stability of the Indonesian Rupiah, which appears to have been on a weakening trend.



Source: FactSet

Review

How the market performed

- MSCI Indonesia was down -22.5% in SGD terms in 3Q 2008.

What happened

- Indonesia recorded a surprised current account deficit in 2QFY08. The Rupiah weakened to close at Rp9,500 due to the current account deficit but recovered on reported central bank intervention.
- Bank Indonesia raised its reference rate by 25 bps to 9.25% in September. The one-month SBI rate ended at 9.71%, an increase of 35 bps during September. The benchmark 10-year government bond was priced to yield 13.1% by end September, compared with 12.20% at the end of August.
- After initially receiving approval from Bank Negara Malaysia on concessions from Bapepam, MayBank announced that the Malaysian Central Bank had revoked its approval for MayBank's proposed acquisition of Bank Internasional Indonesia, and would review its decision only if the price of the acquisition (Rp510 per share) was re-negotiated lower. BII shares went into a tailspin on the news.

JAPAN

Outlook

Our market view

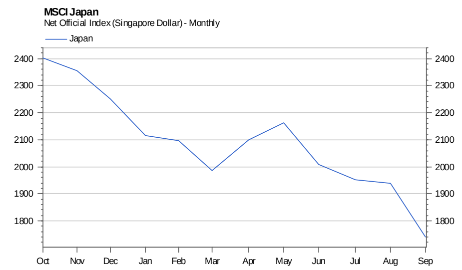
- Business condition index in the September Tankan survey (released on 1 October) marked the first negative reading since June 2003. In 2QFY08, business condition deteriorated across all segments and is expected to continue to worsen in 3Q. Although the terms of trade have shown improvement (as input costs declined), FY08 recurring profit, margins and capital expenditure forecasts are revised downward given the slump in both domestic and overseas supply-demand conditions. We expect sentiment to remain weak in the current environment. While valuations remain attractive on a historical basis, weak corporate earnings in the coming year are likely to remain a concern. Evidence of a global economic recovery is required before we can expect a sustained market rally.
- Many Japanese companies are highly competitive globally and have penetrated major developed and emerging markets. They are also now financially stronger in both profitability and balance sheet strength and are raising dividends and conducting share buy-backs to enhance shareholders' values. We believe the globally competitive Japanese companies will ride out the short-term cyclical downturn and emerge stronger vis-à-vis their competitors in the longer term.

What we like

- We will continue to adhere to our strategy of bottom up stock-picking, focusing on companies that operate in growth markets or possess growth products, and have good financial positions and profitability.

What we are wary about

- The prolonged period of high input costs and weak domestic economy have put many small and medium sized businesses under increasing pressure. In particular, the real estate and construction industries have suffered from poor housing demand and we are seeing some companies in trouble now. Japanese banks are also seeing rising credit costs from bankruptcies. While we do not expect a major credit crunch to emerge in the Japanese financial system, we expect the current situation to persist until economic conditions improve.
- Taro Aso was officially made the new Prime Minister, replacing Yasuo Fukuda as Japan's 92nd PM. The new PM aims to rebuild the Japanese economy by introducing economic stimulus in the short term, fiscal restructuring in the medium term and reforms aimed at economic growth over the long term. While it is still too early to evaluate the effectiveness of these policies given the lack of details, we expect the near-term economic stimulus package to be greater than the existing package of Yen 1.7 trillion, announced by Mr Fukuda.



Source: FactSet

Review

How the market performed

- MSCI Japan was down -13.3% in SGD terms in 3Q 2008.

What happened

- The Japanese market continued to be sold down during the quarter and was down for the fourth straight month in September. Both the economy and business sentiment remained weak for the quarter. Bankruptcies continued among small domestic real estate companies. On the external front, the global economy outlook appeared pessimistic. The US financial crisis took a turn for the worst in September following the collapse of Lehman Brothers, the bailout of AIG and the rejection by the US government on the USD$700 billion bailout plan. Besides the US, concerns about the soundness of financial institutions in Europe began to emerge. With emerging markets showing signs of slowing, in particular China, the likelihood of a global recession ahead has increased.
- On the domestic front, key indicators like consumer confidence, unemployment rate, job-applicant ratio, wages and small business confidence continue to deteriorate, all pointing to a slowdown in the economy. The economic slowdown was confirmed with the release of the April-June quarter GDP, -3.0% quarterly annualised, the weakest performance since July-September 2001.
- For the July-September quarter, the top performing sectors were the rubber products and defensive sectors like utilities and pharmaceuticals. The rubber products sector did well as material costs declined on the back of falling crude oil prices. At the same time, the defensives are favoured given the uncertain global economic environment. On the other hand, the worst performing sectors were the marine transport and the wholesale trading. While marine transport was sold on concerns over earnings deterioration from a drop in Baltic Dry Index (dry bulk freight rates), the wholesale trading sector was adversely affected by the falling crude oil and commodity prices.

KOREA

Outlook

Our market view

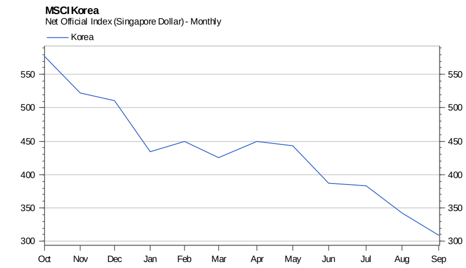
- Depreciation of KRW, global credit crunch, worsening global economic condition and earnings revision risk could all worsen the risk/ reward tradeoff. Current market sentiment is extremely fragile.
- In the longer term, domestic institutional demand will likely increase because of structural changes in domestic funds flow. Diplomatic termination of North Korea's nuclear program and establishment of permanent peace on the Korean peninsular may also lower risk premium and act as a catalyst for market re-rating.

What we like

- We like Korean exporters who have successful product line-up, enhanced brand recognition in the global marketplace, well diversified export destinations, are enjoying strong sales growth from key products in developing countries and whose earnings outlook are boosted by a weak KRW.
- We also like the major non-life insurers who have affiliated life insurers, whose distribution channel will be strengthened after the launch of cross-selling and who are likely to widen their lead by acquiring a larger number of cross-selling agents given their strong brand name and product leadership.
- We favor beneficiaries of a potential real estate market recovery too. The government intends to deregulate the real estate sector to unlock backlogged supply given the need to resolve the inherent lack of housing and revive the construction sector.

What we are wary about

- Global concerns: worsening global economic condition, credit crunch resulting in heightened systemic risk and de-risking of risky assets.
- Excessive depreciation of KRW resulting in even higher imported inflation.
- Excessive monetary tightening by BOK resulting in even slower growth.
- Renewed military hostility on the Korean peninsular negatively altering South Korea's economic outlook.



Source: FactSet

Review

How the market performed

- MSCI Korea was down -20.3% in SGD terms in 3Q 2008.

What happened

- The index had a volatile month, mostly driven by the US financial turmoil and uncertainty of a US bailout plan. It marked its low after falling 9.9% in the first half of the month but partially recovered during the latter half with short covering flows due to Financial Supervision Services' strict control on short selling.
- Daily average turnover picked up 45% mom while KRW/USD fell 9.8% during this period, settling above the 1,200 level for the first time since December 2003. During the month, foreign investors remained as net sellers by net selling US$2.6 billion worth of stocks.
- The worst performing sectors were financials, utilities and materials. Banks' exposure to the risk of over-hedged exporters' possible bankruptcy due to losses from foreign exchange option contracts, and HSBC's decision to terminate the deal with Lone Star in acquiring a 51% stake of Korea Exchange Bank, weighed on sentiment.
- Macro wise, the current account saw a US$4.7 billion deficit in August, following a US$2.5 billion deficit in July. Although the consumer price index moderated to 5.6%, compared with 5.9% a month ago, Bank of Korea retained its policy rate at 5.25%.

MALAYSIA

Outlook

Our market view

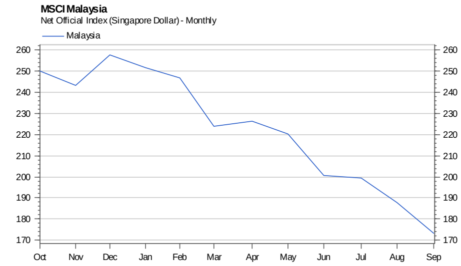
- Domestic political uncertainty will continue to take centre stage, and there is little sight of a near term recovery in the market. The political stalemate has resulted in delays and cancellations of infrastructure projects, slowdown in government spending and weakening of consumer sentiment. The worst hit sectors are construction and property.
- All eyes are on how the tussle for seats between the incumbent BN party and opposition coalition DAP will eventually unfold. We are, however, getting positive in the area of valuation, where steep falls in stock prices are starting to present opportunities for longer term investors.

What we like

- Construction and property sectors should continue to slow as government spending is being re-evaluated. We continue to remain invested in the structural growth trend of soft commodities like crude palm oil. We have also taken a defensive stance preferring to invest in the higher yielding telecom sector as well as companies with resilient earnings visibility and stable business model.

What we are wary about

- Worsening political climate as the tussle between BN and the opposition party continues to show no resolution, hence affecting investor sentiment.
- Delay in pump priming measures such as the award of infrastructure projects.
- Downtrend in commodity prices as global demand destruction sets in.
- Risk on further reduction of fuel subsidies.



Source: FactSet

Review

How the market performed

- MSCI Malaysia was down -13.6% in SGD terms in 3Q 2008.

What happened

- In September, the MSCI Malaysia declined 7.8%, outperforming the MSCI Asia Pacific ex-Japan, which declined 15.9%.
- Anwar Ibrahim's self-imposed 16 September 2008 deadline passed uneventfully with the opposition failing to provide proof to the public for any defections from Barisan Nasional so far.
- Prime Minister Datuk Seri Abdullah Ahmad Badawi and his deputy Datuk Seri Najib Tun Razak swapped the finance and defence portfolios between them where his deputy is now appointed as finance minister.
- Malaysian IP fell 0.7% mom, in July, by a weaker-than-expected 1.8% yoy. Manufacturing and electricity led the drop in production growth while mining gained.
- Malaysia's economy expanded 3.7% qoq in 2Q, resulting in stronger than expected growth at 6.3% yoy. Domestic demand drove growth, while net exports contributed a bit less.
- The government announced the 2009 budget. This was an expansionary budget aimed at countering the potential effects of an export slowdown. Announced measures were slanted towards helping households deal with rising living costs and to improve household disposable income.
- Datuk Seri Anwar Ibrahim won the Permatang Pauh by-election with a bigger majority. Anwar garnered 31,195 votes to beat the Barisan candidate who had 15,524 votes.

PHILIPPINES

Outlook

Our market view

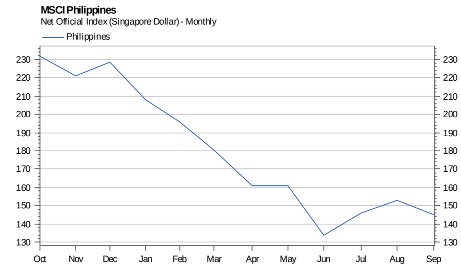
- The Philippine government expects GDP growth in 2008 to decelerate from the strong growth seen in 2007 due to sluggish growth in the US and European economies. Private consumption has started to weaken on inflationary pressures and concerns of a global slowdown.
- Inflationary concerns which have taken centre stage in recent months are however expected to ease as commodity prices recede. Despite this, prices are expected to be sticky downwards. With Philippines having a lower GDP per capita, domestic consumption is likely to remain weak in the short term.
- OFW remittances continue to be resilient, showing no indication of stress. With about 40% of overseas Filipino workers plying their trade in the US, the risk is a weaker USD and its impact on remittances in Philippine Peso terms. We are also concerned that a protracted slowdown in the US would start to impact domestic spending in the Philippines as remittances start to decline. We have, however, yet to see any slowdown in recent remittances numbers.
- Political risk is another concern, as there may be renewed calls for President Arroyo to step down on increased concerns over rising food prices and a slowing economy. Due to the above headwinds, we have turned cautious on the Philippine market.

What we like

- We like the utilities sector due to the ongoing privatization of power generating/transmission assets. Telecommunication stocks are also attractive for its defensive nature, and attractive yields. We are also positive on the outlook for the mining sector as several mining projects advance to production stage in 2008, and on the back of increased foreign investments.

What we are wary about

- A prolonged recession in the US.
- Slowdown in OFW remittances.
- High inflationary pressures.



Source: FactSet

Review

How the market performed

- MSCI Philippines was up 8.4% in SGD terms in 3Q 2008.

What happened

- The MSCI Philippines ended September on a sour note shedding 5.3% mom, to close at 145.05 (SGD terms). The market took its cue from the developments in the ongoing global financial market crisis which explained the large volatility and high risk aversion.
- July exports were up 4.3% yoy (consensus 5.1%). In seasonally adjusted monthly terms, exports fell 0.6% mom. Electronics fell 4.2% mom, while non-electronics rose 1.3% mom.
- August inflation was in line with expectations rising 12.5% yoy and was up 0.5% mom, lifted primarily by non-food costs.
- July OFW remittances rose by 24.6% yoy to US$1.4 billion, bringing 7M08 inflows to US$9.6 billion or 18.2% yoy growth over the same period last year. The July growth marked the fourth month this year that remittances grew by a double-digit rate.
- The Monetary Board increased key policy rates twice in the last 3 months (July to September) by 50 bps and 25 bps. The policy rate has been hiked from 5.25% to 6%.
- The 2Q08 GDP was weaker than expected, rising by 4.6% yoy (consensus 5.0% yoy) and up 6.2% qoq. Growth was mixed with weakness seen in private and government consumption which fell 1.1% qoq and 6.1% qoq, respectively. This was offset by the strong 42.6% qoq growth of fixed investment driven mainly by an increase in private construction activities.

TAIWAN

Outlook

Our market view

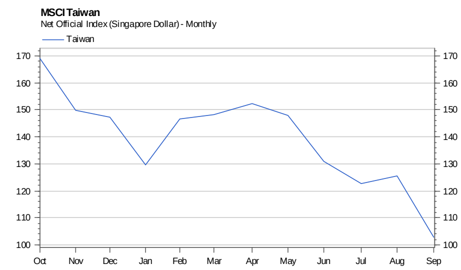
- High dividend yield, attractive valuation and improving cross-strait economic relations are constructive for the index. However, global credit crunch, worsening global economic condition and earnings revision risk will continue to threaten the risk/reward tradeoff. Current market sentiment is extremely fragile.
- In the longer term, deepening cross-strait economic relations will propel the market to perform and catalyze a re-rating.

What we like

- We like beneficiaries of an impending tourism boom. We expect relaxation of travel and visa restrictions and China's move to allow mainland tourists to visit Taiwan to bring significant economic gains for the island.
- We also like beneficiaries of increasing commercial property demand since opening of Taiwan to China will stimulate the Taiwanese economy, inspire occupiers of Grade B and C space to upgrade and bring more Taiwanese and expatriate staff to Taipei, thereby creating an enormous squeeze in office market.
- We favor the financial sector as closer cross-strait relations will help restore consumer and business confidence, encourage investments and stimulate demand for credit too. Relaxation of the 40% net-worth investment cap will help stimulate corporate credit demand as Taiwanese companies will be able to increase financing from banks to invest in their China operations. Relaxation of restrictions on Taiwanese banks selling China-related mutual funds will also allow them to offer a fuller range of investment products and strengthen their wealth management fee income growth potential. All these would result in a significant increase in pre-tax earnings of financial holding companies.

What we are wary about

- Global concerns: worsening global economic condition, liquidity crunch resulting in heightened systemic risk and de-risking of risky assets.
- Excessive appreciation of NTD or monetary tightening by CBC resulting in even slower growth.
- Implementation of cross-strait economic policies taking longer than expected.



Source: FactSet

Review

How the market performed

- MSCI Taiwan was down -21.4% in SGD terms in 3Q 2008.

What happened

- The index had a volatile month, mostly driven by the US financial turmoil and uncertainty of a US bailout plan. Although there were short covering and some bargain hunting after Financial Supervisory Council announced to forbid short selling, heavy selling across all sectors continued leading the index on a downward trend through month end.
- During the month, foreign investors net sold US$3.1 billion worth of stocks while local investment trust companies net bought US$252 million.
- All sectors weakened. Among others, the worst performing sectors were industrials, consumer discretionary and financials. In the financial sector, Taishin Financial Holdings booked impairment losses for its exposure to Lehman Brothers and announced a recapitalization plan while one of Mega Investment Trust's bond funds faced huge redemption.
- Macro wise, export orders continued its sluggish trend after rising 5.4% in August compared with 8.0% in the previous month, confirming a further downshift in the global manufacturing cycle. The consumer price index also moderated to 4.8% in August compared with 5.9% a month ago, owing to easing fuel prices. As such, Central Bank of China cut the policy rate by 12.5 bps to 3.5%, a reversal of the 4-year rate increase cycle since 3Q04.

THAILAND

Outlook

Our market view

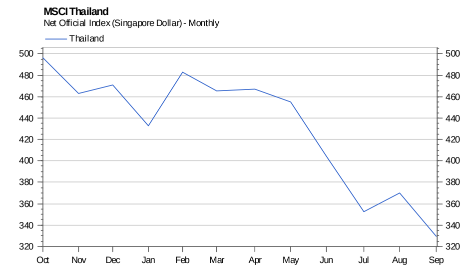
- The stock market has been affected by both political uncertainty as well as rising inflation. With inflation falling, we expect interest rates to remain on hold for the time being. In the short term, the political situation in Thailand is likely to remain messy. The worst case scenario of widespread violence is unlikely to be played out as all parties involved seem keen to avoid violence with the military and police unwilling to use force.
- Thailand stock market is one of the cheapest in Asia, trading at 9x forward earnings and dividend yield of 3.6%. The market also scores well due to its forward earnings growth.

What we like

- We continue to favour the banking sectors on the back of encouraging strong earnings momentum and loan growth. The property sector should benefit from the government's pump priming efforts. We maintain our neutral stance on energy related sector.

What we are wary about

- Slowing global economy.
- Deterioration in domestic political situation.
- Weakness in current account and trade balance.



Source: FactSet

Review

How the market performed

- MSCI Thailand was down -18.6% in SGD terms in 3Q 2008.

What happened

- The Thai stock market fell during the quarter on renewed political uncertainty as well as on the back of global financial turmoil. With the exception of consumer staples, all sectors fell with material and industrial sectors the worst performing sectors.
- Thailand's economic data in August showed signs of stabilization in domestic demand. Private investment grew slightly in July while private consumption grew for a second consecutive month. Nevertheless, exports weakened in August, rising at its slowest pace in five months, as the outlook for global demand deteriorated.
- Inflation rate slowed to 6.0% yoy in September due to moderating fuel and energy costs.
- BOT raised interest rates to 3.75%, indicating that the rate hike should be sufficient to contain inflationary pressure on the back of decline in oil prices.
- Political developments continued to dominate the local market news. Prime Minister Samak Sundaravej tendered his resignation following the Constitutional Court's ruling that he violated Article 267 of the Constitution. Mr Somchai Wongsawat was elected as the new Prime Minister and a new cabinet line-up was announced.

VIETNAM

Outlook

Our market view

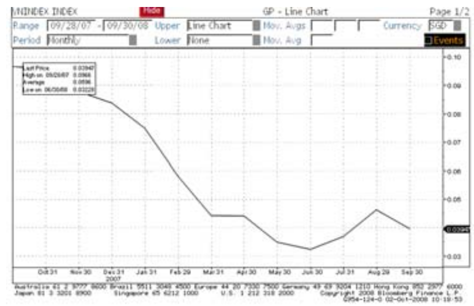
- With concerns over the stability of the Vietnamese Dong subsiding due to high interest rate regime adopted by the central bank, the government has now turned its focus to stabilizing inflationary pressures through administrative measures.
- Our assessment is that domestic interest rates are likely to remain high as the government tries to control inflation as well as to attract foreign capital. This is likely to result in further economic slowdown which will affect corporate profits in the short term. We are hopeful that inflation may be peaking as seen in recent falls in international rice prices as well as measures by the government to extend price controls and undertake more austere fiscal measures to stabilize the economy.
- The recent recovery in the market has brought valuations to 15x 2008 Price/Earnings ratio. The macro economic environment has improved compared to a few months ago as worries over a devaluation of the Vietnamese Dong subsided. Nevertheless, the recovery in the market is fragile as corporate earnings remain under pressure from high interest rates, falling margins as well as bursting of asset bubble.

What we like

- With the rapid deterioration in inflation and aggressive monetary tightening, the outlook for corporate earnings has been impacted due to rising interest rates and input costs. Bearing in mind the difficulties faced by the economy, we remain defensive in our stock selection, adding to our positions in consumer discretionary and staple stocks and avoiding companies which have no pricing power and poor balance sheets.

What we are wary about

- Slowing global economy.
- Earnings growth for the market diluted by increasing capital raisings by companies.
- Corporate governance and transparency.
- Deviation from core business into non-core activities.



Source: Bloomberg

Review

How the market performed

- The Ho Chi Minh Stock Index was up 22.1% in SGD terms in 3Q 2008.

What happened

- The Vietnam stock market rose in 3Q08 on better investor sentiment and resumption of stock repo lending services by stock brokers as the government lowered fuel prices and also raised the daily trading limits on stock trading.
- 3Q08 GDP rose 6.5% yoy. Industry and services experienced slowing growth due to weaker external demand, difficulty in obtaining credit and high raw material prices. Domestic demand was resilient with retail sales rising 6-7% yoy in real terms.
- Inflation fell from 28.3% yoy in August to 27.9% yoy in September, due mainly to slowing food price inflation.
- The State Bank of Vietnam declined to lower its base interest rate from 14% despite signs of improvement in inflation. Nevertheless, the State Bank of Vietnam raised the interest rate on reserves from 3.6% to 5%.
- Trade deficit was US$0.5 billion in September, bringing year-to-September trade deficit to US$15.8 billion.
- FDI commitments reached record levels in 9M08 to US$51.7 billion while disbursed FDI rose to US$8.1 billion.

GLOBAL BONDS

Outlook

US

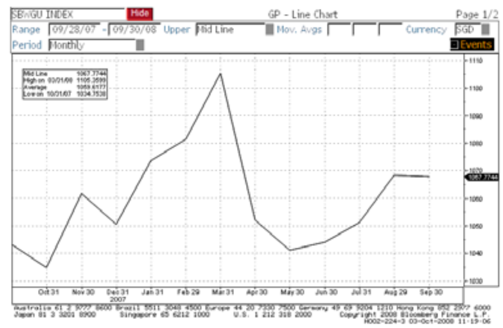
The US economy showed weakness in 3Q08 across domestic sales, net exports and government spending. The stimulative effects of the tax rebates showed up in consumer confidence and spending in mid-year but is starting to wear off. Of particular concern was the labour market which deteriorated at a faster pace through 3Q08. The labour market contraction became more widespread moving into sectors that were previously resilient. The deterioration of the labour market would result in unemployment rate rise to above 7% over the next few months. Inflation should remain benign below 2% on the back of economic slowdown and lower oil prices. Funding pressures are likely to become most intense towards year end and the Fed can be reasonably expected to avert a crisis with sufficient liquidity programs. The downturn looks likely to extend itself into next year and the effects are looking to spill into the broader economy.

Euroland

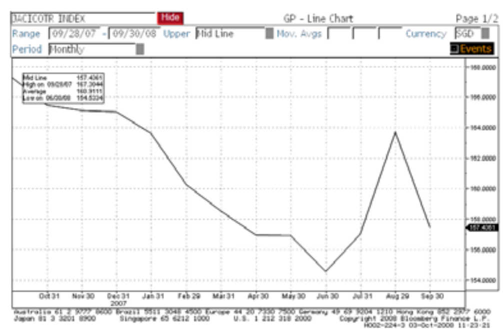
Europe is now facing up to its own banking sector problems. We see bank balance sheet deleveraging dampening euro area activity for the next couple of years. We remain concerned about housing in Europe. The turn in housing cycles in Spain, Ireland and France will be exacerbated by the credit crunch. Weaker aggregate demand combined with higher costs (e.g. wages, raw materials) will squeeze corporate finances. The cost of funds is also rising. The weaker global growth will also negate the effects of the weaker EUR currency. Economic activity in the euro area is clearly slowing and the markets are expecting the ECB to cut rates by end-2008.

Asia

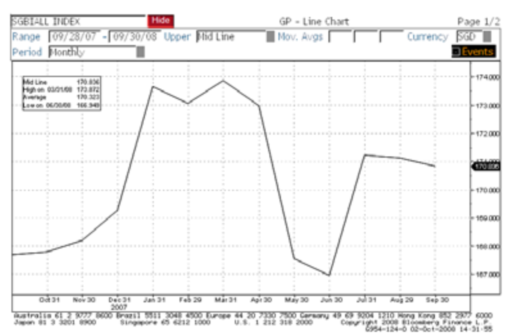
September marks the start of easing cycles in Asia as several central banks acted to loosen policy controls, led by the People's Bank of China on 15 September, with a cut in the lending rate and reserve requirement ratio. In the following days, central banks in Taiwan, Hong Kong, Korea and India followed with steps to either relax liquidity controls or add liquidity directly to the system. The dramatic turnaround of macroeconomic policies during the 3Q (from tightening in July to easing in September), probably reflected the changing risks faced by Asian economies due to deterioration of external economic conditions and past tightening efforts.



______ Citi WGBI
(in SGD terms)



______ JACI Composite Total Return
(in SGD terms)



______ UOB SGBIALL
(in SGD terms)

Source: Bloomberg

Recent economic data clearly indicated deceleration of Asian growth with economies posting weak and even negative qoq 2Q GDP growth (Hong Kong: -1.4%, Singapore: -6%). Inflation rates have receded with the expected peaking of CPI in many economies. While we are likely to see broad-based monetary policy easing across the region in the coming months, with the only possible exception of Indonesia, a speedy policy turnaround may not be expected as inflation rates were still high relative to the official rates in most economies. Nonetheless, government policies will be highly dependent on the impact of the developments in the global external conditions on Asia.

Singapore

Heightened probability of a technical recession in 3Q08 and moderating inflationary pressures have raised the odds of an easing in policy by MAS at the upcoming meeting in October. Downside risks have escalated. Manufacturing output shrank 12.2% yoy and NODX contracted 13.8% yoy in August. In particular, pharmaceutical production declined by 36% yoy following a near 70% contraction in July. Leading indicator such as PMI was only 49.5 in September, (<50), implying further contraction ahead. Indeed, recent talk by government officials seem to prepare for potential downgrade of the current 4-5% GDP forecast. Whilst money supply remains flushed, the reluctance of banks to lend and the hoarding of liquidity mean short-end interbank will continue to experience volatility. SGS will likely remain supported but we are cautious on credits in light of the risk- averse sentiments and negative news headlines spreading to other countries beyond the US. Near term focus will be on the October Monetary Policy statement whilst global events will remain the main driver of market direction.

CURRENCIES

USD

Outlook

US Dollar remains well supported by weakness in other currencies, lower oil price and USD repatriation by US overseas investors.

- GDP growth was revised down to a respectable 2.8% annual pace in 2Q08 but the economy is expected to languish over the next few quarters as Fed policy efforts have yet to boost weakened financial conditions. While lower oil prices will help cushion the expected downturn in consumption, declining wealth, falling home values, job losses, weakening wages, tight credit and fading tax rebate effect will all weigh heavily on consumer spending.
- Payroll employment declined in August for an eighth consecutive month, pushing the jobless rate to a five-year high of 6.1%.
- Core inflation is currently running above the Fed's implicit comfort level of 2% but the weaker growth outlook combined with slowing rent inflation should tame price rises.
- The FOMC unanimously held the Fed funds rate steady at 2% at its 16 September 2008 meeting. However, the current severe tight credit conditions have revived expectation of a rate cut as soon as the coming FOMC meeting on 28/29 October 2008. Meanwhile, the Fed continues to focus on tools to aid market functioning as a massive new fiscal plan unfolds.
- The US Dollar is finally turning around after declining for the past 6 years (see chart). Although the weak US fundamentals do not support a strong Dollar, exchange rates are relative prices. With the rest of the world slowing down sharply and their currencies depreciating, the Dollar stands out as the only beneficiary. In addition, lower oil prices due to demand destruction and USD repatriation by US investors rotating their overseas investments back towards domestic markets given the slowdown in the global economy, will help support the greenback in the coming months.

USD

Review

Source: Bloomberg

- The US Dollar Index initially rallied to a high of 80.37 in early September 2008 before falling to low of 75.89 and rebounding to close the month near the high at 79.45.

Economic data

- 2Q08 GDP was revised down to 2.8% annual pace from a preliminary estimate of 3.3% announced last month. The 1Q08 GDP grew at 0.9% annual rate.
- US trade deficit widened 5.7% to US$62.2 billion in July 2008 from a trade gap of US$58.8 billion in June 2008 (revised from US$56.8 billion).
- Net long-term international purchases of US securities (equities, notes and bonds) dropped sharply to US$6.1 billion in July 2008, from US$53.4 billion in June 2008.
- Core inflation, which excludes food and energy, remained unchanged at 2.5% yoy in August 2008, similar to the previous month.
- Unemployment rate climbed to five-year high of 6.1% in August 2008, from 5.7% in the previous month. Non-farm payrolls fell by 84,000 in August 2008 and revisions added another 58,000 job losses for the previous two months.
- The US FOMC kept the benchmark interest rate and discount rate unchanged at 2.0% and 2.25% respectively.

EURO

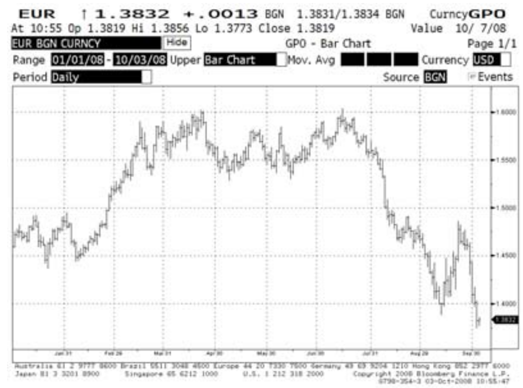
Outlook

EUR weakness to persist as Eurozone economic outlook deteriorates while ECB likely to keep rates steady in near term.

- The Eurozone economy contracted 0.2% qoq in 2Q08 for the first time since 1993 and the prospects for 3Q08 are bleak. Facing headwinds from the lagged negative impact of the earlier euro appreciation and a slowdown in global demand, net exports will have a negative contribution to growth in the coming quarters. Furthermore, the combination of the credit crunch and high private debt is likely to significantly dampen domestic demand for a prolonged period of time.
- Inflation is likely to have peaked at 4% in June/July 2008, twice the ECB's medium-term target. The recent easing in oil prices and slower growth in food prices will help push inflation down sharply at the end of 2008.
- After maintaining rates at 4.25% at its 4 September 2008 meeting, the ECB lowered its growth forecast from 1.8% to 1.4% for 2008 and from 1.5% to 1.2% for 2009. ECB President Trichet reiterated that the ECB views the inflation risk as lying to the upside and that the central bank has only "one needle in our compass". Although this seems to virtually rule out a rate cut in the next few months, the market reaction was to price in more easing in the medium term.
- The EUR/USD high of 1.6038 on 15 July 2008 marked the peak of its multi-year rally and a structural decline has now begun. The market has acknowledged that the Eurozone is experiencing a serious economic slowdown and will not be able to decouple itself from the US economy. Therefore the EUR/USD will gravitate towards 1.30 in the coming months but the movement will be volatile as seen in the month of September 2008.

EURO

Review



Source: Bloomberg

- EUR initially fell sharply in September 2008 to a low of 1.3882 and then rallied to a high of 1.4866 before giving up most of its gain to close the month at 1.4100 versus 1.4675 the previous month.

Economic data

- Eurozone GDP growth for 2Q08 contracted 0.2% from the first quarter, during which it grew 0.7%. The year-on-year growth rate slowed for a third straight quarter to 1.4%.
- Eurozone current account in July 2008 stood at a deficit of EUR 1.1 billion compared with a surplus of EUR 1.1 billion (revised from a deficit of EUR 1.0 billion) in June 2008.
- Unemployment rate in the Eurozone increased to 7.5% in August 2008 from 7.4% (revised from 7.3%) in July 2008.
- Eurozone inflation rate eased to 3.8% in August 2008 from 4.0% in July 2008 which was the fastest pace in more than 16 years.
- Eurozone retail sales dropped 2.8% yoy in July 2008, following a 3.2% yoy decline (revised from 3.1% yoy) in June 2008.
- Economic sentiment index dropped to 87.7 in September 2008 from 88.5 in August 2008.
- M3 money supply, which the ECB uses to gauge future inflation, slowed to 8.8% yoy in August 2008 from 9.1% yoy in July 2008.
- ECB refinancing rate remains at 4.25%.
- The IMM Commitment of Traders report showed that net short non-commercial positions in EUR had decreased to US$5.1 billion in contract value as at 30 September 2008 from US$6.2 billion as at 26 August 2008.

SGD

Outlook

Weak export and growth data coupled with broad-based USD strength weigh on the SGD.

- The Singapore economy has deteriorated rapidly since 2Q08, when growth slowed to 2.1% yoy (-6.0% qoq annualised basis) from 6.9% in the first quarter. With external demand falling sharply, industrial production and non-oil domestic exports have continued to surprise on the downside with the key drag coming from the pharmaceutical industry. Many of Singapore's key trading partners are also experiencing slower growth, which will weigh on the small and open economy.
- CPI inflation slowed for the second month to 6.4% in August 2008, well below the peak of 7.5% in 2Q08 as the base effect from the 2% GST hike dropped out of year-on-year comparison. The decline was largely due to slowing food prices and softer petrol prices at the pump. Given slower growth and the prospect of softer commodity prices, inflation is expected to moderate gradually for the rest of the year. This will bring the full year inflation rate close to the MAS forecast of 6-7%.
- The MAS tightened its exchange rate policy in the last two policy reviews to fight multi-year high inflation. However, inflationary pressure has dissipated while growth outlook has deteriorated rapidly. With the economy in recession and the highly uncertain external environment, the MAS announced a change in its policy to a flat, no appreciation stance.
- The USD/SGD is trending higher, supported by the broad-based USD strength. The SGD NEER has been trading just below the midpoint, which means there is still room for further SGD weakness if the rest of the non-USD currencies continue to weaken. The USD/SGD has rallied past the 1.4400 resistance level, and the next resistance to watch out for is the 1.4800 level.

SGD

Review

Source: Bloomberg

- USD/SGD traded a very wide range in September 2008, touching a high of 1.4478 before dropping to low of 1.4052 and then closing the month at 1.4350 versus 1.4160 the previous month.

Economic data

- Retail sales index recovered sharply to 11.8% yoy in July 2008, reversing a 3.2% yoy decline in June 2008. The increase was largely exaggerated by the low base from a year ago due to the pullback in spending post GST hike, as well as higher prices. Excluding vehicles, sales gained 9.2%.
- Non-oil domestic exports contracted more than expected by 13.8% yoy in August 2008, down from 5.8% yoy decline in July 2008. This is the sharpest monthly dip in 20 months as the global slowdown eroded demand for electronics and drugs.
- CPI inflation eased to 6.4% yoy in August 2008 from 6.5% yoy in July 2008, well below the 26-year high of 7.5% recorded in 2Q08.
- Industrial production dropped 12.2% yoy in August 2008, after a revised 21.5% yoy decline in July 2008, on declining electronics and pharmaceutical output.

YEN

Outlook

JPY strengthens on the back of externally driven risk aversion and slower capital outflow.

- Real GDP contracted at an annualized 3.0% in 2Q08, confirming that the Japanese economy has entered into a cyclical downswing. Although Japan continues to run a large current account surplus over 4% of GDP and its banks have largely avoided the worst of the credit crunch, the slowdown in the global economy nevertheless is crunching Japan's export, the main driver of growth for the past six years.
- The latest monthly data shows that Japan's trade balance for August 2008 fell into a deficit of 324 billion Yen (US$3 billion). The weak export growth was led by a record drop in shipments to the US while exports to the rest of the world continued to slow.
- Terms of trade are deteriorating and corporate profits are being squeezed due to surging raw material prices. Falling profits are likely to stifle corporate appetite for capex. Meanwhile, the labour market is still weak, with higher unemployment rate in August 2008 and the ratio of jobs available to each application continuing to trend down.
- Core inflation excluding fresh food has probably peaked at 2.4% yoy in July/August 2008, assuming no renewed upward trend in oil prices. With the economy slowing and overall wage growth remaining subdued, inflation is likely to gradually ease, dropping below 2% yoy at the year-end. Therefore, the Bank of Japan is expected to maintain a neutral stance and keep rates steady through 2008.
- Risk aversion and slower capital outflows caused the USD/JPY to trade lower after breaking below the uptrend channel beginning from the low of 95.76 in March 2008 (see chart). The USD/JPY will grind lower towards the 100 level but the risk is on the upside because of weak global growth and the return of carry trades when the financial market sentiment stabilises.

YEN

Review

Source: Bloomberg

- USD/JPY traded a broad range between 103.54 and 109.18 in September 2008 before closing at 106.10 at the end of month.

Economic data

- 2Q08 GDP contracted at an annualized 3.0%, more than the advanced estimate of 2.4%.
- Current account surplus in July 2008 shrank 17.3% to 1.53 trillion Yen (US$14.3 billion) from a year ago as higher oil prices pushed up the import bill to a record.
- Unemployment rate increased to 4.2% in August 2008 from 4.0% in July 2008. The ratio of jobs available to each applicant fell for the seventh month to 0.86, the lowest since September 2004.
- Household spending dropped 4.0% yoy in August 2008, the sixth monthly decline, following a 0.5% yoy decline in July 2008.
- Housing starts rose 53.6% in August 2008, after a 19% increase in July 2008.
- Core consumer prices (excluding fresh food) remained unchanged at 2.4% yoy in August 2008, similar to the previous month.
- The benchmark overnight lending rate remained unchanged at 0.5%.
- The IMM Commitment of Traders report showed that net non-commercial positions in JPY were long US$5.1 billion in contract value as at 30 September 2008 compared with a net short of US$2.3 billion as at 26 August 2008.

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