LION GLOBAL INVESTORS

Lion Global Investors Ltd
One George Street #08-01
Singapore 049145

TEL (65) 6417 6800
FAX (65) 6417 6801
www.lookforLion.com

Co Reg No.: 198601745D

Look for Lion

Market Outlook Report November 2008

A member of the OCBC Group

CONTENTS

EXECUTIVE SUMMARY

MARKET VALUATIONS

Country	As at 31October 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	2529.86	-33.2	-48.2	-5.5	30.7	10.3	8.9
China	190.45	-57.7	-56.1	13.1	13.5	8.7	7.7
Hong Kong	24226.26	-53.0	-51.3	-27.3	5.4	10.1	9.7
Taiwan	101.09	-41.8	-41.0	-24.7	9.3	11.8	11.6
Korea	282.38	-38.0	-53.7	-2.6	15.8	9.4	8.1
Singapore	318.59	-47.7	-47.7	-4.5	4.6	8.6	8.5
Malaysia	162.04	-40.0	-42.4	-13.5	3.8	10.3	9.8
Indonesia	473.37	-54.0	-59.1	16.3	29.0	7.2	5.8
Thailand	216.23	-50.9	-51.4	111.3	6.1	5.8	5.8
Philippines	130.24	-42.7	-50.2	-2.8	13.6	10.9	9.6
Vietnam *	347.05	-62.6	-63.3	10.0	17.0	12.4	11.9
India	252.73	-54.7	-62.8	9.7	22.1	10.7	9.3
AC Asia Pac ex-Japan **	169.56	-52.8	-51.4	-4.6	16.9	9.8	8.8
AC World **	93.29	-40.3	-38.5	-0.9	15.4	10.2	9.3
USA	2199.44	-33.3	-31.3	-0.9	19.0	12.1	10.6
Europe	2760.03	-36.3	-43.7	-2.9	11.1	8.5	7.9
Japan	867.03	-41.6	-31.7	-7.9	15.8	11.3	10.7

* Ho Chi Minh Stock Index

** Indices in USD terms

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

Bond Indices	Index closing end Oct 08	Month-to-date % change	Year-to-date % change	Index closing end Dec 07
Citi WGBI	1081.16	1.3	2.9	1050.54
JACI Composite Total Return	137.96	-12.4	-16.4	165.03
UOB SGBIALL	172.97	1.3	2.2	169.26

Source: Bloomberg
All indices are in SGD terms

MARKETS AT A GLANCE

Global Equities

Review

Global equity markets continued to unravel as fears of a deeper-than-expected recession took hold, resulting in a sell-off in the equity markets. The stock market's collapse accelerated as bank lending remained stubbornly clogged and on concern that the credit crisis will spread from banks to consumer companies and energy producers, and as a result investors remained unwilling to hold equities, drove the MSCI World index down 16% in October. Waves of hedge fund selling and mutual fund redemptions also helped to drive the market to fresh five-year lows as retail investors sought to cut their losses.

Realising the gravity of the financial market situation, the UK government unveiled a plan to recapitalize domestic banks while, at the same time, guaranteeing a large amount of their upcoming short and medium-term debt issuance to help unclog the financial system and took stakes in Royal Bank of Scotland Group Plc and HBOS Plc. Continental Europe also announced a similar plan a week later amounting to some Euro 1.3 trillion to guarantee bank loans and take stakes in banks to prevent the seizing up of the financial system.

The global effort to address the burgeoning financial market crisis evolved rapidly. The US government also announced a two-part plan along similar lines. First, the Treasury announced the voluntary Capital Purchase Program (CPP) which will use US$250 billion of the US$700 billion Troubled Asset Relief Program (TARP) to purchase senior preferred shares in the US banking system. This programme saw JP Morgan, Citigroup, Bank of America, Goldman Sachs and Morgan Stanley amongst others tapping the programme. The second US initiative was the Temporary Liquidity Guarantee Program (TLGP). Under this program, the Federal Deposit Insurance Corporation (FDIC) will guarantee new, senior unsecured debt issued by a FDIC participating US bank, thrift, or holding company. While the recapitalization program attacks the financial market crisis at its root cause by bringing the Treasury's massive balance sheet to aid in the deleveraging of the financial system, the TLGP addresses the most pressing near-term problem of a lack of interbank lending beyond overnight maturity. In addition to this, the Federal Reserve unleashed its balance sheet on European US Dollar funding markets by removing the limit on US Dollar swap lines with the Bank of England, ECB, and Swiss National Bank. The Federal Reserve also announced that the unsecured Commercial Paper Funding Facility (CPFF) will be operational on 27 October. With the FDIC guaranteeing any new supply of CP and the Federal Reserve providing any needed demand, the log-jam in the Commercial Paper market should open.

On top of this, was a coordinated 50 bps interest rate cut rate by 6 central banks including the Fed, ECB, BoE and the central banks of Canada, Switzerland and Sweden. Their shared communique cited a decline in inflation risk and any accompanying increase in growth risk stemming from the financial crisis.

During the month, Berkshire Hathaway took a US$3 billion preferred share stake in General Electric while Wachovia accepted an all-scrip bid from Wells Fargo trumping Citigroup's offer and BNP Paribas bought a majority stake in Fortis Belgium and Luxembourg.

Crude oil continued to correct declining 33% to US$67.81. The CRB commodity Index also ended the month down 22% on expectations of weaker demand in basic materials as global economic activity slows. This resulted in the Materials sector declining 23.9% during the month. On the other hand, the Healthcare sector declined 7.6% on expectations that the sector's earnings are more predictable in a weaker economic environment.

Outlook

The Global economy is expected to slide into a synchronized recession in 4Q08 as the credit squeeze hits the real economy. US GDP contracted at a 0.3% annual rate in 3Q08 tempered by positive contributions from net exports and business inventories while domestic demand declined at a 3.1% annual rate. In Europe, 2Q08 quarter-on-quarter GDP growth had already turned negative. The recent sharp decline in Eurozone business surveys with September PMI dipping to its lowest level since 2001 indicates that GDP will slow further in 3Q08.

In Japan, besides the weak October Tankan survey, economic data for September was mixed but remained soft in general. Indicators like consumer confidence, unemployment rate, wages and industrial production saw slight rebounds, but small business confidence and the job-to-applicant ratio continued to deteriorate pointing to continued weakness in the economy. To stem the economic downturn, the government raised the size of the economic stimulus package from yen 1.7 trillion to yen 5 trillion.

With inflation pressures easing as a result of the sharp correction in commodity and oil prices, global central banks have room to ease monetary policy in response to weak economic data or further signs of financial market stress.

Global equity markets can be expected to remain volatile as equity markets adjust to the financial market turmoil and slowing economic outlook.

Asia Pacific ex Japan Equities

Review

The month of October marked the sharpest fall in stock markets not seen since 2001. Falling in tandem with global equities, the Asian stock markets underperformed global equities, ending the month down 21.6% in SGD terms. Volatility across all asset classes reached unprecedented levels, with the VIX index hitting uncharted level of 80 while currency moves were in the order of 20-30%. Equities, credits, commodities and currencies all fell while emerging market sovereign credit default swaps rose rapidly. However, at time of writing, Asian credits have mostly reversed the severe losses in light of continued aggressive government intervention globally.

By markets, the steepest falls were seen in Indonesia (-37.3%), Thailand (-30.5%) and Singapore (-26.3%), while Malaysia, (-14.3%), Taiwan (-15.6%), Hong Kong (-18.3%) and China (-19.8%) outperformed the benchmark index. Sectorally, industrials (-28.3%) and energy (-28.2%) bore the brunt of selling while defensive sectors such as healthcare (-17.2%), consumer staples (-17.3%) and utilities (-16.8%) continued to outperform.

Outlook

In the midst of this ‘once in a century’ financial crisis, there is no doubt that earnings will be severely crimped even as global central banks join in a coordinated move to resuscitate the liquidity and credit situation. While stock prices have discounted a recession scenario, question remains on the extent and depth of the economic crisis.

On current valuations, regional valuation is trading at about 45% discount to its 5-year average, with expected earnings contraction of 5% this year. Consensus forecast of 16% growth next year is clearly overly optimistic in our view given indications that the US economy is already in recession while Europe and Japan are also in bad shape. In recent days, liquidity has returned to the markets, thanks to the coordinated efforts of central banks. Hence, a relief rally cannot be discounted notwithstanding a weak macroeconomic outlook.

We will continue to remain defensive and opportunistic at the same time. While a highly risky outlook may be discounted in some sectors, the deleveraging cycle may have yet to complete. In general, we will continue to focus on domestic stocks while avoiding exporters. We view any recovery rally as an opportunity to further rebalance the portfolio and major sell-offs a rare chance to gain entry for the long-term investors.

Global Bonds

Review

A cautious tone is likely to persist across the global capital markets. Although we have seen more concerted government policy efforts to re-capitalize banks, flood liquidity into the systems and cut policy rates on a global basis, investor confidence remains fragile. The comprehensive and coordinated efforts to solve the financial crisis, and the provision of government guarantees on deposits and/or bank funding in various forms, may have limited the solvency concerns for many of the major financial institutions, but it is not a cure-all for either the capital markets or the economy. Beyond the turmoil in the financial system, a global recession is unfolding and capital markets continue to come under severe pressure. The adverse technicals in the capital markets are progressively impacting the fundamental concerns of a global recession and a retrenching consumer. Evidence of this is growing: the US posted a negative -0.3% qoq GDP for 3Q08 and the UK posted its first quarterly contraction (-0.5% for 3Q) since 1992. Against the weakening economic backdrop, global bonds rallied +0.74% for October 2008 (JPM Government Bond Index) led by European bonds (Germany +1.94%; France +1.55% USD hedged terms) which saw European Central Bank joining other central banks in a concerted 50 bps rate cut on 8 October 2008.

The credit markets appear to be in oversold condition for even a weakening fundamental outlook. Within credit, anecdotal evidence points to an advanced stage of balance sheet reduction among the dealer community and a slowing in deleveraging activity by many hedge funds. However, the process remains complicated and produces a moving target for how much risk reduction is necessary. As a result, the unwind process may be slowing in credit, but is biased to play out over the next several months. There was extreme volatility with the VIX index rising to an all time high of 80 after hovering around 20-30 for most of this year through August. With yields averaging more than 20%, the current credit spreads of non-investment grade corporate bonds are pricing in exceptionally high default rates which we think are not realistic.

October 2008 marks the worst month for credit markets in Asia. The JACI index plunged 15% in USD terms and its spread widened by 270 bps, its worst monthly performance since incpetion. Even the credit default swap ("CDS") spread on China reached an unprecedented high of 296 bps on 24 October, higher than the average of 249 bps of Indonesia's CDS for the first nine months of this year. Although the Asian credit market recovered slightly in the last week, the tone remains cautious. As expected, there was no new issuance during the month. There were two major corporate events: 1) Bankruptcy of 3D-Gold Jewellery, the first in the Asian dollar bond space in more than two years, and 2) US$2 billion loss from unauthorized foreign currency bets by Citic Pacific.

In Singapore, bank CDS spreads tightened post the passage of TARP in the US and capital injections by the government but credit spreads on cash bonds remained wide. Demand and supply drove the wide bid/offer spreads for corporate bonds in Singapore. Whilst SGD has been depreciating against USD post the change in MAS stance to a neutral policy, the strength of USD (on the back of trade unwinds and repatriation of funds back to the US) saw SGD depreciates to a high of 1.51 levels against USD before reversing back to 1.48 levels. Risk aversion was a key driver for SGS positive performance (flight to safety) but general profit-taking activities in the long-end, largely due to interbank positioning, shaved earlier gains. As a result, UOB Singapore government bond index was up 1.3% for the month. The Singapore yield curve flattened to the belly but steepened at the long-end.

Outlook

We expect the recent improved interbank lending conditions and the Fed's Commercial Paper purchases and Liquidity Guaranty Program to underline some improvement in investor confidence. However, the technical situation remains weak due to the vicious cycle spurred on by a rolling deleveraging process that is global, and spans across multiple investor bases. Although portfolio leverage among dealers and hedge funds may be quite a way down its path, we think deleveraging among consumers and corporations will also need to play out. With unemployment poised to rise further, consumers will be biased to moderate their spending and try to reduce leverage. Hence we would expect central banks to continue to reduce policy rates to provide a cushion for the economic downslide, and this would be positive for bond prices. A lengthening of portfolio duration in the 2 to 5-year part of the curve is recommended.

With easing monetary policies and further policy rate cuts, short-end rates are expected to move lower. The long-dated maturities are expected to be weighed by supply issues with expectations of increased debt issuances which would push yields higher, particularly in the US. These factors would result in yield curves generally steepening in most countries.

Credit spreads will remain volatile in the next few months until hedge fund redemptions and portfolio liquidation abate. Business investments will suffer from the lack of avenues to raise funds while private consumption will decelerate with rising unemployment and slowing wage growth. These, together with falling asset prices, will mean weaker financial performance for companies in coming quarters. Even if markets stabilize, credit spreads will remain wide and any positive catalyst will continue to be overwhelmed by the underlying deterioration in fundamentals. We do see value in good quality corporates whose bond spreads have priced in excessive default risk. We also see value in Asian banks which in general, are well capitalized, have limited exposure to toxic assets and enjoy strong implicit government support.

Singapore's economic conditions have taken a downturn and have slipped into a technical recession in 3Q08. Official forecast for 2008 GDP is revised downwards to around 3% from 4-5% and is likely to remain below trend in 2009. Recent data remains weak and seems to broaden beyond manufacturing and exports. Cost of credit has risen substantially. Job cuts seemed to be only beginning and this may put pressure on service sectors and property market. The declining commodity prices and slowing growth implies that inflation risks are likely to recede. MAS also released its SGS issuance calendar for next year. There are five re-openings and only three new bond issues (5 years, 10 years and 15-year tenors), a relatively cautious calendar.

Globally, efforts to maintain liquidity are likely to continue. All these paint a bond-supportive backdrop. However, trading conditions remain choppy ahead driven by global risk appetite. Risky assets are already priced at low levels and a sharp rebound may be possible. Furthermore, demand and supply will also be a major driver in a thin market. Fundamentally, we are positive on the fixed income market but will only recommend to accumulate credits on weakness in a dislocated market.

7 November 2008

ASIAN EQUITIES

SINGAPORE

Outlook

Our market view

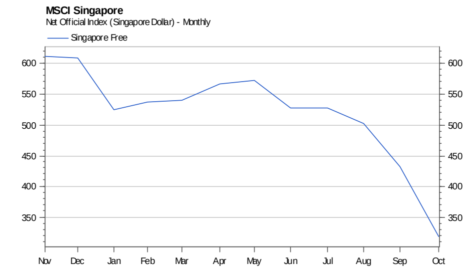
- While inflation remains steady in the near term, it is expected to trend down over the months ahead as growth slows. However, the weakness in exports is beginning to adversely impact economic growth and demand for office space, residential property investment and air travel.

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.



Source: FactSet

Review

How the market performed

- MSCI Singapore was down -26.3% in SGD terms in October 2008.

What happened

- MSCI Singapore also underperformed against the broader index of MSCI Asia Pacific ex-Japan (-22%) and developed market peer in MSCI Pacific ex-Japan (-21%). Average daily trading volumes remained steady at SGD1.4 billion despite the volatility.
- PMI fell 1.1-point in September to 49.5. August retail sales volume rose 0.9% mom, seasonally adjusted following declines in the two previous months. September NODX fell 1.5% mom, seasonally adjusted in USD terms, leaving export growth better than expected at -0.4% over a year ago. September CPI inflation rose 0.1% mom, seasonally adjusted for the second consecutive month, extending the moderation in sequential inflation that started in 2Q.
- The 3Q unemployment rate was better than expected as it remained unchanged at 2.2%, seasonally adjusted. However, with the economy expected to expand at a below-trend pace in coming quarters, the unemployment rate is likely to rise.
- Singapore banks disbursed SGD5.1 billion in September 2008 and SGD11.8 billion in 3Q08, taking loan growth to 24.8% year-on-year.

AUSTRALIA

Outlook

Our market view

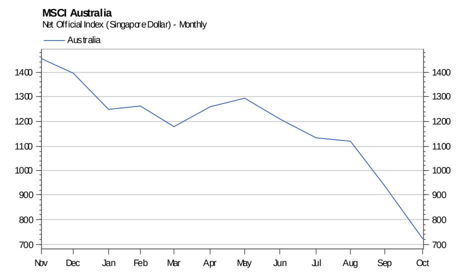
- With domestic economic conditions deteriorating rapidly and rising inflation, risks in corporate earnings need to be balanced against increasingly attractive valuations, which currently stand at 10x forward PER versus a long term average of 14x. In light of weakening commodity prices, the materials 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 next year, which already is happening among the Australian REITs who are scrambling to raise equity to bridge funding gaps.

What we like

- Generally defensive. Underweight financials (banks, insurance and property trusts). Underweight materials (prefer diversified resource and gold exposure) but looking to add to this sector given the significant correction. Valuations in this sector appear reasonable if one were to assume that FY10 earnings will be half of FY09 earnings, given the extent of commodity price falls.

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 October 2008.

What happened

- The Australian market fell to levels achieved in 2005 in AUD terms but hit levels achieved in 2003 in SGD terms because of a very weak currency. The AUD fell close to 12% against the SGD in the month. As concerns of a global credit crisis turned into concerns over a severe global recession, almost all sectors returned negatively for the month. The ongoing theme of removing leverage across all asset classes saw the AUD (which previously benefited from wide interest rate differential) was hit hard as a result.
- The consumer discretionary energy and materials sectors did badly while defensive sectors like consumer staples, telecom and utilities outperformed.
- The Reserve Bank of Australia cut interest rates by a much larger-than-expected 1% (to 6%), with commentary highlighting the fast developing risk to growth.
- Earnings for 2H08 for the banks were largely in line with expectations, with higher provisions being a common theme across their results.
- CPI data came in slightly higher than expected at 4.6% year-on-year while the unemployment stayed stable at 4.3%.

CHINA

Outlook

Our market view

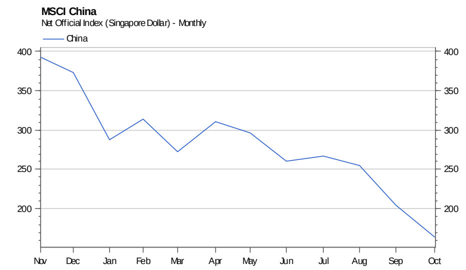
- In view of the slowdown of growth momentum, Chinese government has unveiled its economic stimulus package, including tax reform, interest rate cuts, approval of spending on various infrastructure projects, and initiatives to boost the ailing property markets. We expect more government stimulus initiatives given the rapidly deteriorating external demand and the sharper-than-expected slowdown of the domestic economy. Meanwhile, headline inflation continues to trend downwards, paving the way for further loosening of monetary policy.
- The land reform in rural area underscored the government's determination to grow farmers' income, in an attempt to cultivate the domestic demand from China's massive rural population. Nevertheless, an immediate impact on the domestic consumption is not expected as the land reform will take a few years to implement.
- Despite the positive stance on China's economic growth prospectus in the medium to longer term, China is facing intensified headwinds in the short run given the global financial turmoil, external demand slowdown and slump in property market.
- We are expecting corporate earnings to see more cyclical headwinds in the near term due to slowdown of the economy. Nonetheless, we believe that China remains attractive as a market for investing in the long term on the back of sturdy economic fundamentals, shifting growth model and stable political environment.

What we like

- We like the defensive sectors and prefer companies with strong balance sheet, earning visibility and sustainable cash flow generation capability amidst current turbulent market.
- With the massive sell-offs, opportunities have arisen for the long-term investors.

What we are wary about

- Risk of worse and longer-than-expected slowdown in the economy caused by ailing export sector and sluggish property market.
- Rebound of NPL ratio in the banking system triggered by deeper-than-expected property market correction and slowdown in the manufacturing sector.



Source: FactSet

Review

How the market performed

- MSCI China was down -19.8% in SGD terms in October 2008.

What happened

- Trade surplus for September grew to a new record of US$29.3 billion, compared to US$28.7 billion in August. Export growth in September rose slightly to 21.5% yoy, up from +21.1% in August. Import for the month grew 21.3% yoy, decelerated from 23.1% in August, mainly due to the steep decline in commodity prices.
- Industrial production growth slowed down further from +12.8% yoy in August to +11.4% yoy in September, the slowest pace in six years.
- Retail sales growth kept flat at +23.2% yoy in September.
- CPI eased further to +4.6% yoy in September, lower than the +4.9% yoy rise in August.
- PPI moderated to 9.1% in September from its peak of 10.1% in August, reflecting the recent correction of commodity prices.
- PMI plunged from 51.2 in September to 44.6 in October, the lowest reading in the four years of the PMI's existence.
- PBoC cut the benchmark interest rate twice with 27 bps each, bringing one year lending rate to 6.66% and deposit rate to 3.6%, effective 9 October and 30 October respectively.
- PBoC also reduced reserve rate requirement (RRR) by 50 bps to 16%, effective 15 October.
- China's GDP growth slowed from 10.1% in 2Q08 to 9% yoy in 3Q08, dragging down the average GDP growth in the first three quarters to 9.9%, first time in 4 years that it falls below 10%.
- The government suspended the 5% tax on deposit interest income, and increased the export tax rebate for a broad range of industries.
- China announced a series of initiatives to boost the property market, including reducing first-home down payment to 20%, setting a lower mortgage rate floor for first-home borrowers, and cutting or suspending various taxes on property transaction.

HONG KONG

Outlook

Our market view

- GDP growth of 4-5% is expected for 2008 versus 6.4% for 2007, as firm labour market conditions provide support for local consumption.
- Retail sales data remains relatively firm with 9M08 growth coming in at 14.1% vs 9M07's +11.2%. Fuel had the strongest growth at +30.7%, followed by luxury goods (+20.0%) and consumer durable goods (+12.3%).
- Money supply growth grew in September. M1 fell 7.4%, M2 -7.6% and M3 -7.4%.
- Based on latest reported September data, HKD deposits fell 8.0% to HKD 2,946 billion while foreign currency deposits rose 16.5% to HKD 2,902 billion, reflecting a shift to foreign currencies.
- Total advances grew 12.6% in September to HKD 3,426 billion.
- In October HKD strengthened 0.2% mom (flat yoy) against the USD to HKD 7.7503. Against the RMB, HKD strengthened at 0.1% mom (-8.4% yoy) to HKD 1.1331.
- Primary property transactions slowed signifi-cantly.

What we like

- We are positioned in companies with more defensive earnings stream.
- Property developers and investors are trading at valuations indicating low expectations and reflecting a softening economy.

What we are wary about

- The market continues to trade at a premium to the region, but near the low end of its range.
- Sharp slowdown in the global economy 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 -18.3% in SGD terms in October 2008.

What happened

- The best performing sector was telecom, while the worst performing was materials.
- Unemployment rate in August stood increased month-on-month at 3.4%.
- CPI fell to +3.0% yoy in September, against the +4.6% in the previous month, due to lower utilities, alcohol/tobacco, clothing and durable goods.
- Retail sales rose +6.9% yoy in September, lower than the +10.2% yoy rise in the previous month.
- Trade deficit for September increased to HKD 16.0 billion compared to HKD 12.9 billion in August. Imports for the month rose 3.9% yoy, while exports were up 3.6% yoy.
- Hong Kong plans to develop its own oil futures market as China tries to counter the effect of rising prices of commodities.
- 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

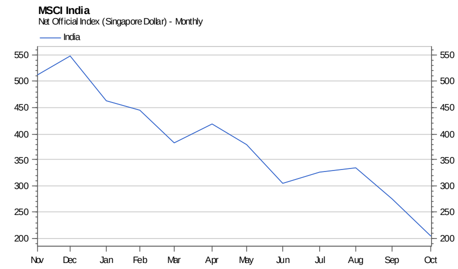
- As highlighted in previous commentaries for the year, India's inflationary data will trend down into 4Q08. Aided by concerns of global recession which depressed oil and commodity prices, inflation data has been coming in lower than expected. This should continue into 1Q09 and could be seen as supportive of the incumbent parties returning to power in the general elections in 2Q09.
- In the ongoing 2Q08 (ended September 2008) results season, most reports are coming in showing weaker top line growth and higher-than-expected expenses, and thus weaker margins. We have been expecting this to happen and this should thus provide more fodder for analysts to downgrade earnings expectations with more conviction. Instances of an unwinding of financial-related (i.e. Forex-related) losses have also begun to surface with rising regularity. While the market looks cheap on a prospective PER of about 9x, these downgrades should make the market trade on an adjusted PER in the low teens.

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 over the long term 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. The healthcare sector also continues to look attractive, particularly those which are involved in the generic chronic drugs segment or contract research and manufacturing.

What we are wary about

- Higher oil price and associated geopolitical risks.
- Inflation surprising on the upside.
- Political noise as we move towards the general elections which are due by May 2009.



Source: FactSet

Review

How the market performed

- MSCI India was down -25.8% in SGD terms in October 2008.

What happened

- During the month the market touched a low last seen in 2005 on fears of a global recession and on aggressive withdrawal of funds out of the Asian region. Even with oil prices declining by a third and thus converting what was previously a stiff economic headwind into a tailwind, investors have chosen to be significantly more risk-wary. India, with its twin deficits in its current account and fiscal budget, is bearing the brunt of capital withdrawal.
- The IT, consumer and healthcare sectors did relatively well while cyclical sectors like materials, energy, and industrials declined relatively more.
- Foreign institutional investors continued to be net sellers, raising another US$3.6 billion in the month alone, bringing the year-to-date outflow to US$12.8 billion. The Rupee weakened a further 5% against the USD, bringing the year-to-date decline to 20%.
- Inflation (as measured by the Wholesale Price Index) declined to 10.68% as at end of the month, helped by lower oil prices. In tandem with central banks around the region, the Reserve Bank of India again lowered both its cash reserve ratio and repo rate during the month.

INDONESIA

Outlook

Our market view

- 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 stabilises 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 -37.3% in SGD terms in October 2008.

What happened

- The Indonesian bourse suffered heavy losses in October, declining by 31% during the month.
- All the JCI sub-indices suffered sharp losses. The JCI Index fell by over 10% on 6 October and again on 8 October, when trading was suspended by the authorities and resumed on 13 October.
- The average trading value dipped to US$180.7 million, down 47% from September. The Indonesian authorities made changes to buyback regulations, and upper and lower price limits that stocks could fluctuate within during a trading session.
- 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.

JAPAN

Outlook

Our market view

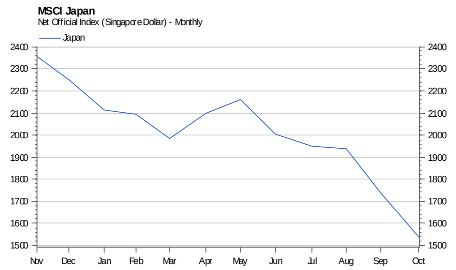
- 1HFY08 corporate earnings announcements have begun in earnest in October. Thus far, earnings results have taken a turn for the worse, especially for the exporters as both domestic and global demand continues to weaken and the yen has strengthened sharply against major currencies. Given the deteriorating business conditions and the negative sensitivity to the strong yen, many Japanese exporters have revised down their full year earnings sharply alongside the announcement of 1H results. 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 government raised the size of the economic stimulus package from yen 1.7 trillion to yen 5 trillion earmarked for fiscal spending. Given the current pessimism, we expect the package to provide a positive impetus to the domestic economy.
- 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.



Source: FactSet

Review

How the market performed

- MSCI Japan was down -11.6% in SGD terms in October 2008.

What happened

- In tandem with global markets, the Japanese market continued to be down for the 5th straight month and hit a 26-year low level before rebounding at the end of the month. With Yen/USD strengthening to 13-year high, Japanese exporters began to revise down their full year earnings sharply given their new exchange rate assumptions and weak outlook for global economies. In addition, the market sell-off triggered concerns over the financial soundness of the Japanese banks as major financials like MUFJ, Mizuho Financial Group and SMFG were reportedly considering large scale capital raising to offset latent losses from their equity holdings. The market finally rebounded from the extreme pessimism level in tandem with the global stock markets on expectations of new rounds of coordinated global interest rates cuts, including that from the Bank of Japan, and additional economic stimulus package from the Japanese government.
- On the domestic front, besides the weak Tankan survey released on 1 October, economic releases for September data were mixed but remained soft in general. Indicators like consumer confidence, unemployment rate, wages and industrial production saw slight rebounds, however small business confidence and the job-to-applicant ratio continued to deteriorate.
- During the month, the top performing sector was the utilities sector on expected favourable earnings from the strong yen and declining crude oil prices. On the other hand, the worst performing sector was shipping, which was sold on concerns over earnings deterioration from a drop in Baltic Dry Index (dry bulk freight rates).

KOREA

Outlook

Our market view

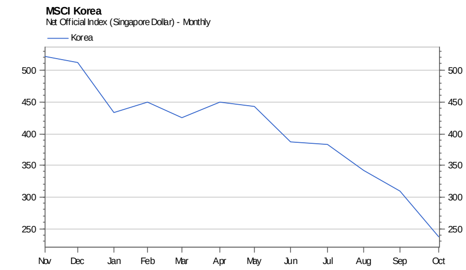
- Depreciation of KRW, global credit crunch, worsening global economic condition and earnings revision risk could all worsen the risk/reward tradeoff. Current market sentiment is extremely fragile.
- In the longer term, domestic institutional demand will likely increase because of structural changes 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 lineup, 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. We expect further deregulation, transactions to pick up and home prices to rise.

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 -23.3% in SGD terms in October 2008.

What happened

- The main focus of the Korean equity market was on the announcements of a financial market stabilization package and supporting measures for the construction sector by the government and the emergency interest rate cut by the Bank of Korea. However, all these measures failed to bring the equity market up as sentiment continued to deteriorate.
- The rebound towards the end of the month was mainly driven by the US Federal Reserve's decision to provide USD liquidity to the Korean financial market via FX swap with the Bank of Korea as investors were worried about the ability and willingness of the government to spare enough USD from the FX reserve to help tight liquidity conditions in the Korean financial market.
- During the month, foreign investors were net sellers of US$3.5 billion worth of stocks, staying as net sellers for 5 consecutive months, while KRW/USD fell from 1,206 at the end of last month to a low of 1,494 before settling at 1,306 at the end of this month.
- All sectors weakened. Among others, the worst performing sectors were industrials, financials and materials.
- Macro wise, real GDP growth slowed down to 3.9% in 3Q from 4.8% in the previous quarter. On the other hand, the current account deficit narrowed to US$1.2 billion in September from US$4.7 billion a month ago, with both the merchandise and service balances slimming. The consumer price index also moderated to 5.1% from 5.6%. Hence, the Bank of Korea reduced the base rate by 75 bps to 4.25% - the largest rate action in its history.

MALAYSIA

Outlook

Our market view

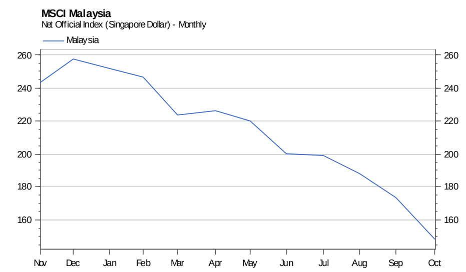
- Domestic political uncertainty will continue to take centre stage, and there is little sight of a near term recovery in the market. The political stalemate has resulted in delays and cancellations of infrastructure projects, slowdown in government spending and weakening of consumer sentiment. The worst 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.



Source: FactSet

Review

How the market performed

- MSCI Malaysia was down -14.3% in SGD terms in October 2008.

What happened

- In October, the MSCI Malaysia outperformed MSCI Asia Pacific ex-Japan, which declined 22% as buying by local institutional funds absorbed the selling by foreigners.
- Malaysia's international reserves stood at MYR 371.8 billion as at 15 October, slightly declining from the MYR 379.3 billion as of 30 September. This is sufficient to finance 8.7 months of retained imports and is 4x the short-term external debt.
- Bank Negara kept the overnight policy rate on hold at 3.5%, in line with market expectations. The policy statement was dovish, emphasizing strongly the downside risks to growth, and its readiness to "take swift monetary policy action to provide support to the economy".
- CPI inflation moderated in September, but remained elevated at 8.2% in September, down from a 26-year high of 8.5% in August. This was slightly higher than market expectations of 8.1%. On a mom (seasonally unadjusted) basis, inflation fell 0.2%, from a 0.2% increase in August.
- Malaysian government has guaranteed all bank deposits until December 2010.
- The government is doubling the size of Valuecap Sdn Bhd to MYR 10 billion to invest in companies that are undervalued.
- Datuk Najib Tun Razak has won the UMNO presidency unopposed by amassing 140 nominations. This puts him beyond the reach of any challenger, who would need to secure a minimum of 58 nominations to qualify to contest for presidency.

PHILIPPINES

Outlook

Our market view

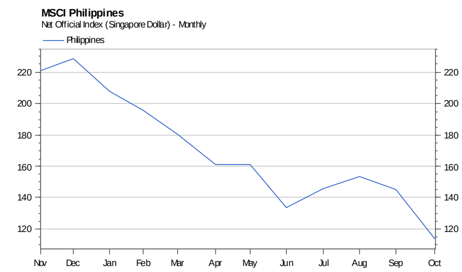
- The Philippine government expects GDP growth in 2008 to decelerate from the strong growth seen in 2007 due to sluggish growth in the US and European economies. Private consumption has started to weaken on inflationary pressures and concerns of a global slowdown.
- Inflationary concerns which have taken 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 US$ 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 down -21.5% in SGD terms in October 2008.

What happened

- The MSCI Philippines had a volatile month in October after huge declines in the US and regional markets. The sell-off was seen across the board, as investor fears were aggravated by August OFW remittances slowing down to +10.4% yoy growth from a robust +24.6% yoy in July.
- The government's budget deficit in September reached Php21.6 billion, a 48.9% yoy increase from the Php14.5 billion shortfall in the same month last year. This brought the 9M08 budget deficit to Php53.4 billion, or Php18.2 billion higher than the programmed ceiling of Php35.1 billion due to below target revenues and increased expenses.
- The BSP kept its policy rate unchanged at 6%, with the statement and comments from the BSP decidedly dovish due to falling inflation and slowing economic growth.
- September CPI was flat (seasonally adjusted), leaving the index level up 11.9% on the year (consensus estimate of 12.4% yoy). On a sequential basis, both food and non-food prices were unchanged.
- OFW inflows in August grew 10.4% yoy to US$1.3 billion, bringing total remittances in the first eight months of the year to US$10.9 billion or a 17.2% yoy expansion over the same period last year.
- President Gloria Arroyo announced plans to establish a Php100 billion fund that will help insulate the economy from a global slowdown. Under her proposal, half of the Php100 billion will be raised by the government and the other half will be in the form of investments from the private sector.

TAIWAN

Outlook

Our market view

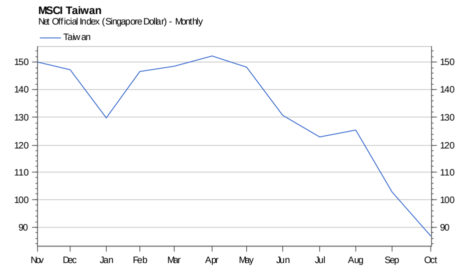
- High dividend yield, attractive valuation and improving cross-strait economic relations are constructive for the index. However, global credit crunch, worsening global economic condition and earnings revision risk will continue to threaten the risk/reward tradeoff. Current market sentiment is extremely 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 -15.6% in SGD terms in October 2008.

What happened

- The index declined on light trading turnover due to the global financial crisis and negative domestic economic data. The Executive Yuan reduced the trading range from -7% - +7% to -3.5% - +7.0%, intending to ease selling pressure, but it limited market liquidity and even led to panic selling, causing the index to limit down on a few days.
- The rebound towards the end of the month was mainly driven by the government's full guarantee of bank deposits, interest rate cut by the Central Bank of China, support of the market by the National Stabilization Fund, positive expectations of Chen Yunlin, the Chairman of the Association for Relations Across the Taiwan Straits visiting Taiwan, and the late month rally in the US.
- During the month, foreign investors net sold US$3.6 billion worth of stocks while local investment trust companies net sold US$ 222 million.
- All sectors with the exception of energy weakened. Among others, the worst performing sectors were financials, information technology and industrials. In the financial sector, Chinatrust's Chairman was questioned by the prosecutors to clarify the ongoing probe into alleged money laundering by former Taiwan President Chen Shui-bian and his family. In the information technology sector, AU Optronic's CEO indicated that the current industry down-cycle would last over one year and result in 6 consecutive quarters of losses.
- Macro wise, exports surprised significantly on the downside, falling 1.6% in September compared with 18.4% in the previous month, while export orders rose only 2.8% compared with 5.4% a month ago. Meanwhile, seasonally adjusted un-employment rate rose to 4.1% from 3.9%. Hence, the Central Bank of China cut the discount rate by 25 bps to 3.0% - the third interest rate cut in less than 2 weeks.

THAILAND

Outlook

Our market view

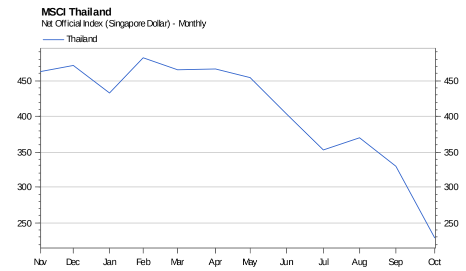
- The stock market has been affected by both political uncertainty and more recently by worries over a sharp slowdown in global economies. With inflation falling sharply and global central banks cutting interest rates, we expect domestic interest rates to be cut in December. In the short term, the political 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 7x forward earnings and dividend yield of 6.4 %.

What we like

- We continue to favour the financial sectors on the back of likely interest rate cuts. 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 -30.5% in SGD terms in October 2008.

What happened

- The Thai stock market plunged in tandem with global equity markets. As the selling was broad-based, all sectors saw a decline with the worst hit sectors being the petrochemical sector, followed by the property sector.
- Domestic demand was mixed with private investment flat and private consumption edging up in September. Due to falling oil prices, trade balance shifted back into surplus. However, the outlook for exports is deteriorating with September exports weakening. Weaker tourism figures due to recent political developments hurt the current account balance.
- Inflation fell to 3.9% yoy in October as energy and transport prices fell. Bank of Thailand (BOT) held interest rates steady at 3.75%.
- BOT revised GDP growth in 2009 from 4.3-5.8 % to 3.8-5%.
- Economic minister unveiled preliminary fiscal package to address the impact of the global economic slowdown including stock market support measures, accelerated disbursement of 2009 fiscal budget and mega project investment, export promotion and tourism boosting measures.
- Political developments took a turn for the worst following a clash between the police and the People's Alliance for Democracy (PAD). PM Somchai refused to resign despite military pressure. He will step down and call for fresh elections only after completing amendments to the Constitution. Ex-PM Thaksin was found guilty by the Supreme Court in a land purchase case and sentenced to a 2-year jail term.

VIETNAM

Outlook

Our market view

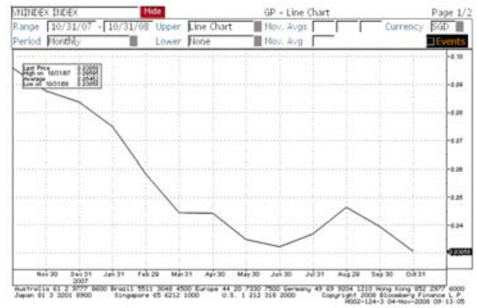
- With concerns over the inflationary pressures and the stability of the Vietnamese Dong subsiding, the government has now turned its focus to measures to stimulate the domestic economy.
- The recent interest rate cuts by the State Bank of Vietnam are in response to the slowing economy. The high interest rate environment has slowed credit growth to 20% in the first 10 months of 2008, versus the government's original target of 30% as businesses have been hesitant to borrow at high interest rates. Given the slowing economy and weaker external demand, the growth outlook for most sectors has deteriorated somewhat with the worst hit sectors being consumer, construction materials and materials.
- The recent weakness in the market has brought valuations down to 11x 2008 Price/Earnings ratio. The market briefly traded below the previous lows seen during the middle of the year when there were concerns over Vietnam's balance of payment. The macroeconomic environment has improved compared to a few months ago as worries over a devaluation of the Vietnamese Dong have subsided. Nevertheless, the Vietnam stock market is expected to face headwinds on the back of the global economic environment as well as selling by foreign investors as they reduce their exposures to emerging market risks.

What we like

- 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 down -22.2% in SGD terms in October 2008.

What happened

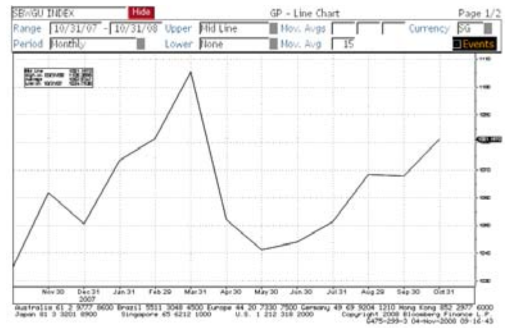
- The Vietnam stock market fell in October as foreigners turned net sellers of Vietnam stocks for the first time since March 2007 on increased risk aversion to emerging markets.
- Inflation rose to 26.7% yoy in October, suggesting that inflation has peaked. Food, housing and construction material prices have slowed notably while transport and communication prices are still rising due to lagged effect of price increases.
- Domestic demand has started to show signs of weakening due to high interest rates and inflation. Trade deficit in October was US$463 million as export and import growth trend slowed due to weakening domestic and external demand.
- Vietnam cut its economic growth target to 6.7% for 2008, lower than its earlier forecast of 7%.
- FDI commitments of US$60 billion were registered in the first ten months of 2008. With the global credit crunch, capital disbursement for investment projects will likely face hurdles as the number of FDI projects has been declining since June.
- State Bank of Vietnam cut key policy rate to 12% from 14%.
- Key uncertainty is earnings risk which is likely to deteriorate on write-offs by banks and property companies.

GLOBAL BONDS

Outlook

US

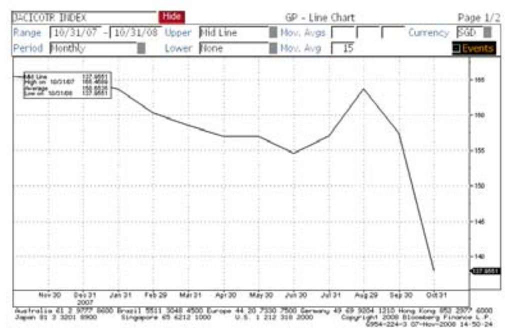
Third-quarter GDP may not have been quite as weak as consensus forecasts but it still was negative and will probably mark the start of the official recession in the US. Recessionary conditions already exist. A very sharp decline in US output appears to be taking place in 4Q, with a likely inventory liquidation under way now in response to a substantial weakening of consumer spending that has already occurred. On a positive note, macroeconomic policies have been aggressively stimulative in the US so far in this cycle, with the Fed having cut rates to 1-1/2%, and Congress having passed a stimulative tax rebate program. We expect both more Fed rate cuts and aggressive further fiscal stimulus to come. Owing to the drop in energy prices, the rise in unemployment, and slowing non-oil import price inflation, we expect inflation to fall. Key concern would be the US general government budget deficit (on a national accounts basis) which is likely to roughly double in 2009 as a result of (1) spending related to the support of the banking system and mortgage markets, (2) other fiscal stimulus on the spending side, and (3) tax cuts and reductions in tax revenues resulting from the economic downturn. The larger deficit and supply concerns would offset some of the price rally that is currently priced in for easy monetary policies.



______ Citi WGBI
(in SGD terms)

Euroland

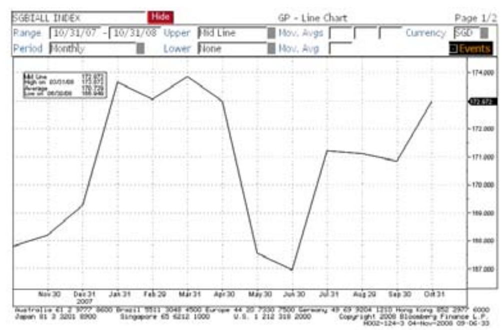
The economic contraction should be more pronounced in Europe. The euro area will be badly affected by the housing market downturn and financial crisis as the US. However, the policy response in the euro area has been more sluggish so far, and we think this is unlikely to change materially in the future. The ECB is now correcting its mistaken monetary tightening and likely to push policy rates lower on the back of a steep drop in inflation. But the fiscal policy response to the downturn by euro area governments is likely to be slow in coming, and less forceful and effective than in the US on account of a lack of close coordination. We expect the government deficit to rise from 0.6% of GDP in 2007 to 4.3% in 2010.



_______ JACI Composite Total Return
(in SGD terms)

Asia

Faced with the heightened risk of global recession, central banks across Asia joined the concerted global rate cut efforts. Except for Indonesia and Philippines which were subject to risk aversion of foreigner investors, all the local currency government bond markets rallied as investors retreated to safe haven amid growth concerns. As capital outflow intensified and FX reserves declined sharply, the external positions of countries such as Pakistan and Indonesia were called into question and the respective



______ UOB SGBIALL
(in SGD terms)

Source: Bloomberg

currencies were battered as a result. Drastic measures including blanket guarantees on bank deposits and massive liquidity injection had to be taken to instill confidence in Asian domestic banking systems. Going forward, Asian governments are expected to rely on monetary easing and fiscal pump-priming to support growth which may cause yield curves to steepen.

Singapore

The economy moved into technical recession with 3Q08 GDP coming in at -6.3% qoq, extending 2Q08 contraction of -5.7% qoq. Whilst the decline in 2Q was largely due to steep fall in industrial production, the slippage extended to construction as well as a broad range of service industries in the 3Q08. This was mirrored in the NODX which has been contracting since May as external demand slowed. MAS October monetary policy statement shifted to a neutral policy stance from an appreciating one. Whilst our banking system generally remained healthy, MAS had to announce a guarantee over all deposits placed with licensed financial institutions in Singapore following Hong Kong to prevent potential capital outflows. Singapore was also extended a US$30 billion swap facility arranged by US Fed which also involves the central banks of South Korea, Brazil and Mexico. This is in light of Singapore being one of the largest USD funding and FX centres in Asia outside Japan. In the near term, interest rate market is likely to be driven by fluctuations in global risk appetite. Key leading indicators suggest that manufacturing recession will extend into 1H09. Fundamentals support bonds but in light of the market dislocations, to accumulate credits only selectively.

CURRENCIES

USD

Outlook

As US enters recession, the Dollar continues to strengthen due to preference for liquidity, supportive central bank rate convergence, falling commodity prices and fund redemption and repatriation.

- The US economy contracted 0.3% annualised in 3Q08, as consumers and businesses greatly pared back spending. Consumption fell 3.1%, its first quarterly decline since 1991, as the negative effect of declining housing and financial wealth, job losses, weakening wages, tight credit and fading tax rebate effect more than offset the stimulus from sharply lower oil prices.
- In the face of ever-tightening credit conditions, businesses are accelerating the pace of job cuts and canceling investment plans. Payroll employment has declined for a ninth consecutive month, pushing the jobless rate to a five-year high of 6.1%.
- After cutting 50 bps in coordination with other major central banks on 8 October 2008, the FOMC eased again by 50 bps on 30 October 2008, bringing the rate to 1%. The Committee made it clear that its outlook for the economy had worsened while the risks to inflation subside and signaled an easing bias. Therefore the market is expecting the Fed to lower its target rate again on 16 December 2008 by as much as another 50 bps.
- As the US heads into a recession, the US Dollar is strengthening sharply as risk aversion and deleveraging surged to new highs. Investors favour the Dollar because of a preference for liquidity, supportive central bank rate convergence, falling commodity prices and fund redemption and repatriation. As the rest of the world is slowing down sharply and their currencies depreciating, the Dollar will be well supported because most exchange rates are quoted against the Dollar.
- Although the US Dollar rally looks stretched, the trend is here to stay albeit further gains will be at a slower pace. There is still much more room for US Dollar repatriation to continue supporting the Dollar for now.

USD

Review

Source: Bloomberg

- The US Dollar Index propelled to a high of 87.88 in October 2008 but failed to hold on the gains and eased to 85.63 at the end of the month.

Economic data

- 3Q08 GDP contracted 0.3% annualised, the biggest decline since 2001, following a 2.8% growth rate in the second quarter.
- US trade deficit narrowed 3.5% to US$59.1 billion in August 2008 from a trade gap of US$61.3 billion in July 2008 (revised from US$62.2 billion).
- Net long-term international purchases of US securities (equities, notes and bonds) increased to US$14 billion in August 2008, from US$8.6 billion (revised from US$6.1 billion) in July 2008.
- Core inflation, which excludes food and energy, remained unchanged at 2.5% yoy in September 2008, similar to the previous two months.
- Unemployment rate was unchanged at 6.1% in September 2008 from the previous month. Non-farm payrolls fell by 159,000 in September 2008, the biggest reduction in 5 years.
- The US FOMC lowered the benchmark interest rate and discount rate twice on 8 October 2008 and 30 October 2008 in steps of 50 bps to 1.0% and 1.25% respectively.

EURO

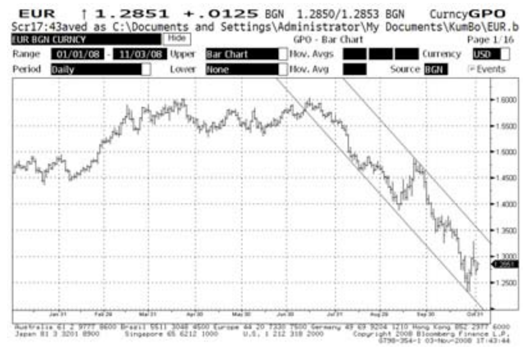
Outlook

EUR will remain under pressure with ECB starting easing cycle as the economy enters recession.

- Although a technical recession in the Eurozone in 2Q08 and 3Q08 is a certainty, the recent data flow is now pointing at negative growth extending as far as the 1Q09. In October 2008, the Economic Sentiment Indicator plunged to its lowest since the aftermath of the ERM crisis in the early nineties. The Eurozone PMI manufacturing and PMI composite reached new lows, while PMI services dropped to its lowest since 9-11. Domestic measures of business confidence across all regions also confirm a very pessimistic view of the economy.
- In the wake of a recession, inflation fell further to 3.2% in October 2008, well below its 4.0% peak in June/July 2008 which had startled the ECB into making a rather unwarranted rate hike. The labour market also continues to worsen. While the unemployment rate held steady at 7.5% in September 2008, the number of jobless continued to increase, especially in Spain, Italy and more recently, in France as well.
- The deterioration in leading indicators and the onset of recession amid a credit crunch argue for significantly lower ECB rates. The fall in headline inflation has removed the barrier for ECB to move rates lower. Therefore, following the 50 bps rate cut in coordination with other major central banks on 8 October 2008, the ECB is expected to move rates lower by as much as 100 bps in the coming months.
- The Euro continued its sharp decline against the Dollar in October 2008, falling near 1.23 before managing a slight rebound. The structural decline remains intact since falling from the high of 1.6038 on 15 July 2008. The EUR/USD will continue to remain under pressure as the current macroeconomic environment continues to bode ill for EUR denominated assets and capital flow continues to work against the single currency.

EURO

Review



Source: Bloomberg

- EUR continued its sharp decline in October 2008 to a low of 1.2330 before recovering higher to close the month at 1.2726 versus 1.4100 the previous month.

Economic data

- Eurozone final 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 August 2008 stood at a deficit of EUR 7.9 billion compared with a surplus of EUR 1.1 billion (revised from a deficit of EUR 1.1 billion) in July 2008.
- Unemployment rate in the Eurozone was unchanged at 7.5% in September 2008 from the previous month.
- Eurozone inflation rate eased to 3.2% in October 2008 from 3.6% in September 2008.
- Eurozone retail sales dropped 1.8% yoy in August 2008, following a similar 1.8% yoy decline (revised from 2.8% yoy decline) in July 2008.
- Economic sentiment index extended its decline to 80.4 in October 2008 from 87.5 in September 2008.
- M3 money supply, which the ECB uses to gauge future inflation, slowed to 8.6% yoy in September 2008 from 8.8% yoy in August 2008.
- ECB cut the refinancing rate by 50 bps to 3.75% on 8 October 2008.
- The IMM Commitment of Traders report showed that net short non-commercial positions in EUR had decreased to US$4.6 billion in contract value as at 28 October 2008 from US$4.6 billion as at 30 September 2008.

SGD

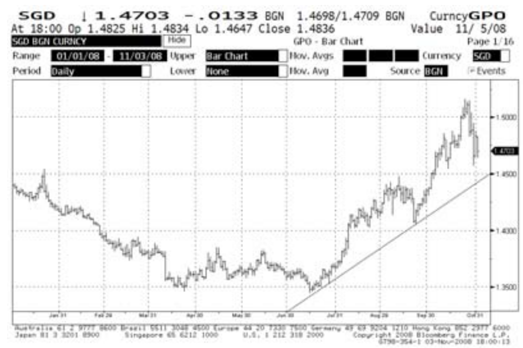
Outlook

SGD to remain weak as MAS shifts to a neutral NEER policy to soften impact of weak global economic environment.

- Singapore has slid into a technical recession in the third quarter, its first since 2001. After contracting at an annualised 5.7% in 2Q08, the economy was estimated to have contracted a further 6.3% in 3Q08. The economy also contracted on an annual basis for the first time since 2003, with output shrinking 0.5% yoy, down from a slightly revised 2.3% yoy in 2Q08. Amid the weak global economic environment and the crisis in financial markets, the MAS has revised the growth forecast for this year to about 3%, from 4-5% projected earlier.
- As the economy weakens, growth in jobs and wages will slow. Although the economy added an unprecedented 143,800 jobs in the 1H08, there were fewer new jobs created in the third quarter. Unemployment rate is likely to rise over the next few quarters and the moderation in employment growth will be felt especially in the manufacturing and financial services sectors.
- Although CPI inflation inched higher in September 2008, mainly due to rising housing costs and higher electricity tariffs, inflation is expected to moderate gradually in the coming months given the slowing food prices and declining petrol prices at the pump. The MAS expects the full year inflation rate to be 6-7% and forecasts a sharp drop to 2.5-3.5% in 2009.
- In October 2008, the MAS ended four and a half years of its monetary policy of 'gradual and modest' appreciation stance and shifted to a zero appreciation stance with no re-centering of the SGD NEER band or change to its width. This move signals that the MAS is taking a more proactive stance to soften the impact of the current weak global environment on its economy, joining the ranks of its global central bank peers to ease monetary policy.
- The USD/SGD has rallied above the 1.50 mark and if the current pullback holds up above the 1.45 level, then the next objective may be the 1.54 level.

SGD

Review



Source: Bloomberg

- USD/SGD rallied to a high of 1.5160 in October 2008 but gave up almost half of its gains to close the month at 1.4836 versus 1.4350 the previous month.

Economic data

- The advance GDP estimate showed the economy contracted at an annualised 6.3% in 3Q08, following a negative 5.7% growth in the second quarter.
- Retail sales index rose at a slower pace of 4.2% yoy in August 2008 after a strong 11.8% yoy gain in July 2008. Excluding vehicles, sales gained 6.9%.
- Non-oil domestic exports slid 5.7% yoy in September 2008 after a 13.9% yoy decline in August 2008. This is the fifth straight monthly decline as the global slowdown eroded demand for electronics and drugs.
- CPI inflation increased more than expected to 6.7% yoy in September 2008 from 6.4% yoy in August 2008. However, it is still well below the 26-year high of 7.5% recorded in 2Q08.
- Industrial production unexpectedly rose 2.4% yoy in September 2008 after a sharp fall of 12.5% yoy in August 2008. This is the first increase in three months as higher pharmaceutical output offset a decline in electronics manufacturing.
- Unemployment rate was unchanged at 2.2% in 3Q08 from the previous quarter (revised to 2.2% from 2.3%). However, there were fewer new jobs added in the third quarter. A total of 57,800 new jobs were created, compared with the 71,400 new jobs added in second quarter.

YEN

Outlook

JPY continues to strengthen on the back of externally driven risk aversion and slower capital outflow.

- Japan's ongoing recession is likely to deepen with a high likelihood of three consecutive quarters of a real GDP contraction which started in 2Q08, led by both weak external demand and domestic cyclical downturn. Exports remain restrained by slowdown in US and European economic growth, and capital investment is dragged by declining profit. Prospective gain in households' purchasing power from the recent fall in energy prices would be offset by ongoing labour market softening.
- Although the BoJ did not join the six western central banks' coordinated 50 bps rate cut on 8 October 2008, economic and political pressure grew for a rate cut, which finally materialized on 30 October 2008, whereby the overnight call rate was lowered by 20 bps to 0.30%, the first cut in seven years. Governor Shirakawa said that the rate cut decision reflected recent drastic changes in economic and financial conditions including sharply falling equities and volatile JPY exchange rates.
- The yen surged in October 2008 and in particular registered spectacular gains against the high-yield currencies as market moves became increasingly irrational and fears of problems in Asian emerging markets exacerbated risk aversion. The unprecedented volatility led to the G7 group of nations issuing a joint statement expressing their concern about the excessive movements in the yen.
- The sharp rebound in the USD/JPY after falling just below the 91 level has stalled near the 100 mark. Although the threat of BoJ intervention and the recent improvement in risk appetite have helped to support the USD/JPY, there is little to reverse the trend. Risk aversion is likely to rear its ugly head again and USD/JPY would probably gravitate towards the 90 level once more.

YEN

Review

Source: Bloomberg

- USD/JPY plunged to a 13-year low of 90.93 in October 2008 before recovering sharply to close at 98.46 at the end of the month.

Economic data

- Current account surplus narrowed for a sixth month in August 2008, shrinking 52.5% to 988.8 billion yen (US$9.7 billion) from a year ago as record oil prices pushed up the import bill.
- Unemployment rate fell to 4.0% in September 2008 from a two-year high of 4.2% in August 2008. The ratio of jobs available to each applicant fell to 0.84, the lowest since August 2004.
- Household spending dropped 2.3% yoy in September 2008, the seventh monthly decline, following a 4.0% yoy decline in August 2008.
- Housing starts rose 54.2% in September 2008, after a 53.6% increase in August 2008.
- Core consumer prices (excluding fresh food) slowed to 2.3% yoy in September 2008, after rising 2.4% yoy in August 2008.
- The BoJ cut the benchmark overnight lending rate by 20 bps to 0.30%.
- The IMM Commitment of Traders report showed that net long non-commercial positions in JPY had declined to US$4.1 billion in contract value as at 28 October 2008 from US$5.1 billion as at 30 September 2008.