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Look for Lion

Market Outlook Report
December 2008

CONTENTS

EXECUTIVE SUMMARY

MARKET VALUATIONS

Country	As at 28 November 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	2369.04	-37.4	-51.4	8.8	7.2	10.1	9.4
China	199.11	-55.8	-53.4	5.8	10.0	9.5	8.6
Hong Kong	24079.18	-53.3	-50.8	-36.4	-4.5	10.4	10.9
Taiwan	91.01	-47.6	-46.5	-38.6	-14.2	11.5	13.4
Korea	266.86	-41.4	-60.9	-15.7	13.0	8.9	7.9
Singapore	315.05	-48.3	-48.3	-10.3	-8.9	8.7	9.6
Malaysia	163.35	-39.5	-42.2	-20.8	-0.7	10.6	10.7
Indonesia	461.00	-55.2	-63.3	12.2	14.2	7.3	6.4
Thailand	209.83	-52.3	-52.6	188.0	-4.5	6.2	6.4
Philippines	129.62	-43.0	-49.7	-6.6	11.1	11.9	10.7
Vietnam *	314.74	-66.0	-66.4	0.1	-6.4	9.2	10.9
India	228.66	-59.0	-66.2	6.2	12.2	9.5	8.5
AC Asia Pac ex-Japan **	158.74	-55.8	-53.7	-9.9	4.4	9.7	9.3
AC World **	87.16	-44.2	-41.5	-6.7	6.6	9.9	9.3
USA	2035.19	-38.3	-35.4	-4.8	9.9	11.4	10.3
Europe	2629.72	-39.3	-46.7	-8.7	4.9	8.4	8.0
Japan	829.20	-44.2	-31.4	-17.3	2.1	11.7	11.5

* Ho Chi Minh Stock Index

** Indices in USD terms

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

Bond Indices	Index closing end Nov 08	Month-to-date % change	Year-to-date % change	Index closing end Dec 07
Citi WGBI	1143.28	5.7	8.8	1050.54
JACI Composite Total Return	147.69	7.0	-10.5	165.03
UOB SGBIALL	179.33	3.7	5.9	169.26

Source: Bloomberg
All indices are in SGD terms

MARKETS AT A GLANCE

Global Equities

Review

Global equity markets remained volatile in November with the MSCI World Index ending the month down 4.9%. Initial euphoria over US President-elect Obama's victory and China's announcement of a large fiscal stimulus package was short-lived as investors looked beyond Barack Obama's historic win and focused on disappointing economic data and the possibility of policy limbo in the transition period between the outgoing and incoming presidents.

On 12 November 2008, US Treasury Secretary Paulson announced that the government had shelved its plan to purchase troubled mortgage-related assets under the Emergency Economic Stabilization Act (otherwise known as "TARP"), thereby fanning concerns that the Treasury was "changing the rules in the middle of the game". This volte-face in policy precipitated a seize up of the credit markets. Mortgage securities backed by Fannie Mae and Freddie Mac fell, and an index of leveraged loans fell to a new low. Even the safest corporate debt fell and there was also some concern in the CMBS market. All this stoked renewed worries of a new round of write-downs by banks. To top this off, Citigroup agreed to acquire the remaining assets from structured investment vehicles that it had advised at their current value of approximately US$17.4 billion. Whilst the valuation for these vehicles had been US$21.5 billion as of 30 September 2008, US$1.1 billion in market declines as well as US$3 billion in debt that had matured or had been sold whittled down the valuation.

News that the US government would invest US$20 billion in Citigroup and guarantee up to US$306 billion of the company's troubled assets provided some relief for the market and global equities recovered some ground. In return for cash and guarantees, the government will get US$27 billion of preferred shares paying an 8% dividend. Towards the latter half of the month, the announcement of President-elect Obama's economic recovery team and the nomination of Timothy Geithner to the Treasury, Larry Summers to the National Economic Council and appointment of Paul Volcker as senior economic advisor helped bolster investor sentiment.

Reaching deeper into its tool kit to combat the credit malaise, the Fed announced on 25 November 2008 the creation of a consumer financing facility as well as a new mortgage purchase program. In creating the Term Asset-Backed Securities Loan Facility (TALF), the Fed stood ready to lend up to US$200 billion on a non-recourse basis to holders of AAA-rated consumer-related ABS, with a focus on student and auto loans, credit card debt, and small business loans. Additionally, the Fed was slated to start purchasing US$100 billion in direct GSE obligations - Fannie, Freddie, Ginnie Mae and FHLB obligations and up to US$500 billion in GSE-sponsored MBS before year-end over several quarters. These measures, which have at their heart the intention to increase access to credit at less prohibitive rates for the relevant stakeholders, would be paid for by the Fed through quantitative easing, i.e. the printing of money. If successfully implemented, these moves could lower the funding costs of the GSEs, engender lower mortgage rates and stabilize the housing market.

During the month on the corporate front, BHP scrapped its takeover bid for Rio Tinto on concerns over the continued deterioration of the near term global economic conditions, whilst Standard Chartered Plc announced plans to raise GBP 1.8 billion in a rights offer to bolster its capital base. In a sign that further governmental aid is required for those that have fallen on the wayside, the Fed announced that it would restructure its aid package to AIG, increasing the rescue package quantum from the original US$85 billion to US$152 billion while General Electric said the FDIC agreed to insure as much as

US$139 billion in debt for its lending arm, GE Capital Corp, under the Temporary Liquidity Guarantee Program.

During the month, the financial sector declined 11.2% on concerns over the possibility of further asset write-downs. On the other end of the performance spectrum, the telecom sector outperformed, rising 6.6% as investors moved into the defensive sector.

Outlook
The global economic outlook continued to deteriorate in November, with major economies expected to slide into a synchronized recession in 4Q08. US GDP contracted at a revised 0.5% annual rate in 3Q08, with the weakness apparent from the downward revision in final sales and an upward revision to inventories. Signs of weakness could also be seen from the deteriorating November 2008 ISM Manufacturing Indices' readings.

In Europe, many Eurozone economies have entered into technical recession following two consecutive quarters of negative quarter-on-quarter GDP growth. The continued sharp decline in Eurozone PMI suggests that economic activity will remain weak.

Japan also officially slipped into recession in the third quarter, when the 3Q08 GDP shrank at an annualised rate of 0.4%, the second consecutive quarter of economic contraction. Other key economic indicators also continued to deteriorate, suggesting that the economy is likely to remain fragile.

With inflation pressures easing, global central banks have switched tack and are using loose monetary policy tools to foster growth in response to weak economic data or signs of financial market stress.

Global equity markets can be expected to remain volatile as equity markets adjust to the deteriorating economic outlook.

Asia Pacific ex Japan Equities

Review
The rout in regional equities continued with a 4.8% fall in the benchmark MSCI AC Asia Pacific ex-Japan index in November, bringing the year-to-date decline to 55%. Stocks continued to slide as a worsening outlook for businesses overshadowed China's RMB 4 trillion stimulus plan and pledges by the Group of 20 nations to bolster economic growth. Policy makers had yet to succeed in thawing the global credit freeze while effects of the financial crisis spread to the real economy. Economic data continued to point to a deepening recession even though stocks rebounded after US President-elect Obama unveiled his economic team and the US government bailed out Citigroup Inc.

Still, some dramatic moves took place in the month. By markets, the loss was led by the tumble in the Korean and Indonesian bourses which fell 16% and 10% respectively. Sectorally, almost all sectors except telecom services and utilities recorded losses, led by information technology and consumer discretionary stocks which fell 17% and 12% respectively.

Outlook

Development in the global credit markets are fast transmitting through to the Asia Pacific ex-Japan economies in the form of external demand shock and higher cost of capital as the vicious loop of continued rise in credit defaults keeps risk aversion high. Fortunately, retracement in commodity prices negates some of the negative impact as sharply narrowing commodity trade deficit and peaking inflation for most countries in the region prompted a loosening monetary policy, while reduced subsidy burden creates room for pursuing loose fiscal policy.

Nonetheless, we believe that earnings revision risk remains on the downside. Consensus estimate of 17% EPS growth for 2009 in early November is too high in view of the global economic recession, especially since the regional economies were already weakening even before the reflexive impact of the severe financial dislocations. We believe that the credit crunch will worsen the outlook for growth and result in decline in profit margin for businesses. As many economic variables are undergoing almost unprecedented collapse, we believe that earnings estimates continue to be on the downside.

In our opinion, current valuation of 9x P/E for 2009 is below the historical range on unadjusted earnings. Adjusting for further earnings decline, we are of the view that valuations are at fair levels relative to long term average. However, with expectations of worsening macroeconomic and corporate news, we will maintain our conservative country and sector positioning in this environment. We will continue to restructure the portfolio opportunistically, focusing on quality stocks. Whilst some investors may speculate that US President-elect Obama's economic team will bolster growth, we believe that conditions remain challenging for regional equities in the near term. On the other hand, any major sell-off would be an opportunity to gain entry for the long term investors. We believe that globally competitive companies in this region will ride out the downturn and emerge stronger in the long run.

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Global Bonds

Review

The global economy is already in recession and we would most likely continue to see global GDP contraction in 2009, followed by a few years of below trend growth. Proactive measures from governments worldwide (i.e. debt guarantees, recapitalisation, and liquidity injections, amongst others) helped to avert a financial system catastrophe in October but market conditions are not back to normal yet, as could be evinced by the differential or spread between interbank rates and risk-free rates. This spread has remained persistently wide. With consumers buffeted by a confluence of negative factors including heavy debt burdens, falling income, huge declines in personal wealth and rising foreclosure risk, the golden age of borrowing and spending is generally thought to be over. Instead, we could be beginning a new phase of saving and deleveraging which could last many years. With economic indicator readings (e.g. ISM, consumer confidence) testing new lows as the backdrop, government bonds rallied further in November with the JPM Government Bond Index up 3.03% on a USD hedged basis; US government bonds were the best performing (+5.63%). Following the onset of global recessionary forces, credit spreads widened further in November; The JP Morgan US investment grade corporate index, JULI, widened by 26 bps in November after a 92 bps gapping out in October. Credit markets are pricing in a very bleak outlook for fundamentals but the extremism could have been exaggerated by the continued deleveraging and de-risking of balance sheets by financial institutions and hedge funds.

In November, Asian cash bonds performed better following a massive sell-off in October. Although credit spreads widened by 34 bps to 765 bps, the JACI composite index posted a positive month-to-date return of 4.99% in USD terms. This was due to the strong rally in the US government treasury bonds. On a year-to-date basis, the Index's return was -14.9%, with a large part of this return attributable to performance in the months of September and October. During the month, the Sovereign High Yield index underperformed, generating a -0.3% return versus that of the Sovereign High Grade (+4.7%), the Corporate High Grade (6.7%) and the High Yield (5.6%) indices. The underperformance of the Sovereign High Yield index was mainly due to the negative returns posted by the Indonesian and Philippine bonds. Flows in the cash bond markets were better during the month. We saw risk addition in high grade papers and Chinese property bonds from institutional as well as retail accounts. In the high yield space, China commandeered attention with a larger-than-expected 1.08% rate cut to stimulate its economy. The concomitant greater interest in property sector valuations helped fuel a 4-6 point rally in Chinese property bonds on the back of new risk addition and short covering. In particular, there was a heavy squeeze in convertible bond shorts.

For Singapore, the interest rate markets rallied strongly in the month of November with Singapore government bonds and interest rate swap yields falling by 0.28% ~ 0.94% and 0.23% ~ 1.16% respectively across the curve. In general, both curves flattened, though the money market curve (<1 year) outperformed the 2-year sector. The rally was in line with bullish US Treasuries, continued deterioration in economic data and flushed liquidity. Following the dismal 3Q GDP release, October's non-oil exports continued its sixth consecutive decline at -15.3% on a year-on-year basis, with industrial production faring no better at -12.6% on a year-on-year basis. Globally, with Hong Kong, Europe and Japan in technical recession, the underlying weakening trend seemed to have intensified. The drop in USD Libor rates and the aggressive easing by global and regional central banks helped to drive money market rates lower. Overnight rates remained below 1% and the cut-off yields for 3-month T-bill ranged from 0.52%-0.70%. For the month, the UOB Singapore Government Bond Index was up by 3.7%.

Outlook

With the continued deterioration of the macro environment, we expect to see more monetary easing by central banks which will help to bring down short-term interest rates. Governments around the world will continue to announce more fiscal stimulus packages to boost domestic consumption but this may result in a sharp increase in the net issuance of government bonds which may pressure bond yields higher, especially at the long end. At the same time, there are technical factors that may result in further flattening of the yield curve such as Bernanke's recent proposal to buy long-dated Treasuries as well as further convexity hedging as mortgage rates fall. Hence, we are inclined towards a long duration strategy and look for yield curves to flatten especially in the US.

As for the credit market, although the current spread levels have priced in a deep recession, we feel there will be further volatility in the near term on the back of increased supply and higher actual default rates as well as event risk in the US auto sector. For Asian credits, the markets should stabilize in the near term. Seasonality mavens might soon be heard calling for a technical rebound in spreads as the 4Q redemption wave recedes and active investors shift their focus to planning for 2009. Flows are likely to dry up as we approach year-end. Given the deteriorating macro environment, vulnerabilities will remain. However, due to the current dislocation in the markets, some high-grade banks and corporates are trading at compelling valuations and pricing in aggressive implied default risks.

Our strategy is to move up the credit curve, and stay in defensive sectors and credits. We will focus on entities with strong market positions and shareholders, sound liquidity, access to funds, and good corporate governance. We think the new government guaranteed senior bank debts in developed markets offer good yield pickup to government bonds, for essentially the same risk.

For Singapore, the balance of risks continues to shift from inflation towards significantly slower growth. Despite October's inflation coming in at 6.4% on a year-on-year basis (largely due to a spike in electricity tariffs), next year's inflation is forecasted to be in the vicinity of only 1-2%. On the other hand, with G2 growth heading towards the trough in 2009, the outlook is weak especially for open economies like Singapore. The SGD interest rate outlook is predicated on the global economic outlook. On their own, yields are already near the lows registered during the SARs period. While rates may remain low, the downside could be limited. Quantitative easing by the Fed and further monetary easing across the region should anchor Singapore short-end rates. Interest rates on the swap curve on the long end have flattened out tremendously and imply little value, especially when SGS yields trade above that. However, on the less than 5-year tenor, the relatively steeper yield curve and swap spread over the SGS still looks attractive. We prefer to take exposure via statutory board bonds as credit outlook is still uncertain and liquidity remains poor. Overall, the weak macro environment is bond-positive but going into year-end, we prefer to be in a neutral position for Singapore interest rates and trade the range.

9 December 2008

ASIAN EQUITIES

SINGAPORE

Outlook

Our market view

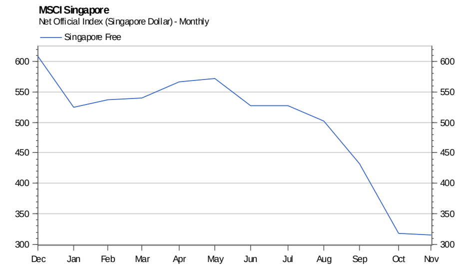
- While inflation remains steady in the near term, it is expected to trend down over the months ahead as growth slows. However, the weakness in exports is beginning to adversely impact economic growth and demand for office space, residential property investment and air travel.

What we like

- We are cautious on the slowdown in the economy. We expect the economy to contract more severely in 1Q and 2Q09 before stabilising. Much depends on how events unfold in the global economy. 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. REITs could face further downward pressure from refinancing concerns and capital raising over the next two quarters.

What we are wary about

- Deterioration of US economy and continuing credit market issues.



Source: FactSet

Review

How the market performed

- MSCI Singapore was down -1.1% in SGD terms in November 2008.

What happened

- At current levels, the Singapore equity market indices are at multi-year lows. Average daily trading volume slipped 9% to 1.2 billion shares and average daily trading value collapsed 27% mom to SGD 1 billion, as volatility sapped investor interest.
- Singapore's PMI fell 3.7 points in October to 45.8, leaving the index below expectations. September retail sales ended 3Q on a negative note, falling -0.9% mom, seasonally adjusted, after a modest gain in the previous month.
- October NODX fell 11.2% mom, seasonally adjusted in USD terms, leaving export growth weaker than expected at -16.1% over a year ago. Singapore's economy contracted 6.8% qoq, seasonally adjusted annual return in 3Q, leaving growth at -0.6% over a year ago.
- Singapore banks' loans grew 23.2% yoy in October, dominated by business lending. Mortgages accounted for 31% of October 2008 disbursements and are gaining pace on deferred payment loans.
- Singapore's IP fell 12.7% mom, seasonally adjusted in October, leaving the over-year-ago growth weaker than expected at -12.6%.
- The URA announced adjustments to the Government Land Sales Programme with a suspension of the remaining Confirmed List Land Tenders in 2008.

AUSTRALIA

Outlook

Our market view

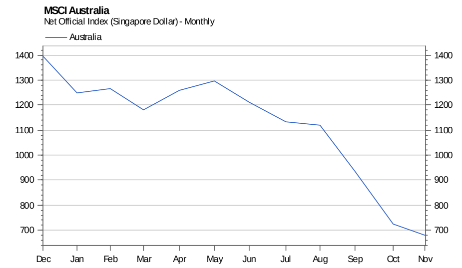
- Domestic economic conditions are clearly deteriorating rapidly. However, Australia stands on relatively strong ground insofar as fiscal budget flexibility is concerned. Taking aim at arresting the decline in growth, the Reserve Bank of Australia has also helped by cutting interest rates at one of the fastest pace in its history.
- While market valuations are arguably attractive, the materials sector should continue to see sizeable earnings downgrades. This should result in the market trading at higher adjusted PER multiples given the large weighting of the sector. In the medium term, the banks might face higher credit costs and lower credit growth.
- Over the next year, we think that capital raisings and preference for quality companies will be an important focus.

What we like

- Prefer diversified resource and gold exposure 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 -6% in SGD terms in November 2008.

What happened

- The Australian market completed another difficult month. External macro news, especially those from the US and increasingly China, painted a picture of a global economic downturn that is materialising faster than expected despite the best efforts of numerous central banks globally.
- In a reversal from last month, resource stocks outperformed the banking sector. Despite most major commodity prices declining, iron ore prices seemed to stabilise somewhat aided by the Chinese stimulus package and BHP walking away from RIO saw its share price rebound. November in Australia was dominated by capital raisings and the market struggled to digest the flood of these. The biggest raisings included NAB ($3 billion), QBE ($2 billion) and GPT ($1.6 billion).
- The Reserve Bank of Australia cut interest rates by a much larger-than-expected 0.75% (to 5.25%), with a clear understanding that this is likely to continue in an environment where it appears likely that spending and activity will be weaker than expected.

CHINA

Outlook

Our market view

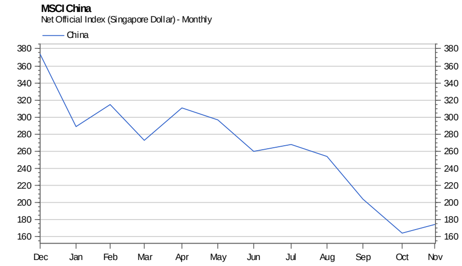
- In view of the slowdown of growth momentum, Chinese government has unveiled RMB 4 trillion stimulus package, including tax reform, more investment on infrastructures and affordable housing, as well as measures to boost disposable income for urban and rural households. The package, together with monetary easing, suggests the government's determination to prevent its economy from hard landing.
- Despite our positive stance on China's economic growth prospects 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 up 6.3% in SGD terms in November 2008.

What happened

- Trade surplus for October grew to a new record of US$35.2 billion, compared to US$29.3 billion in September. Export growth in October rose +19.2% yoy, down from +21.5% in September. Import growth for the month decelerated to +15.6% yoy, in contrast to +21.3% yoy growth in September.
- Industrial production growth slowed down further from +11.4% yoy in September to +8.2% yoy in October, the slowest pace in seven years.
- Retail sales growth rose +22.0% yoy in October, down slightly from +23.2% yoy growth in September.
- CPI eased further to +4.0% yoy in October, lower than the +4.6% yoy rise in September.
- PMI plunged further from 44.6 in October to 38.8 in November, the lowest reading in the four years of the PMI's existence.
- PBoC cut the benchmark interest rate by 108 bps, bringing one-year lending rate to 5.58% and deposit rate to 2.52%, effective 27 November.
- PBoC also reduced reserve rate requirement (RRR) by 100 bps for major banks and 200 bps for smaller banks.
- China announced a RMB 4 trillion fiscal stimulus package over next two years, around 15% of the country's GDP, to boost the economy growth.

HONG KONG

Outlook

Our market view

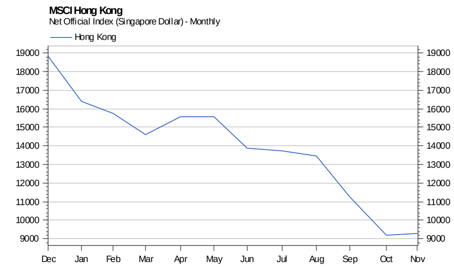
- GDP growth for 2008 has been cut to 3-3.5% from 4-5%. This is due to slowing demand triggered by the global-wide stock market crash and resulting spillover into the property and job markets.
- Retail sales growth weakened yoy in September and October. On a year-to-date period, it remained relatively firm with 10M08 growth coming in at 12.7% vs 10M07's +11.7%. Fuel had the strongest growth at +30.7%, followed by luxury goods (+29.0%) and other consumer goods (+12.6%).
- Money supply growth fell in October. M1 fell 11.0%, M2 -14.9% and M3 -14.7%.
- Based on latest reported October data, HKD deposits fell 16.0% to HKD 2,955 billion while foreign currency deposits rose 7.5% to HKD 2,855 billion, reflecting a shift to foreign currencies.
- Total advances grew 7.0% in October to HKD 3,411 billion.
- In October HKD remained flat mom (+0.5% yoy) against the USD to HKD 7.7502. Against the RMB, HKD weakened 0.1% mom (-7.2% yoy) to HKD 1.1339.
- 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 and a softening economy.

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 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 up 1% in SGD terms in November 2008.

What happened

- The best performing sector was utilities, while the worst performing was information technology.
- Unemployment rate in October increased 0.1 percentage point month-on-month to 3.5%.
- CPI fell to +1.8% yoy in October, against the +3.0% in the previous month, due to lower utilities, alcohol/tobacco, clothing and durable goods.
- Retail sales rose 0.3% yoy in October, lower than the +7.0% yoy rise in the previous month.
- Trade deficit for October fell to HKD 14.3 billion compared to HKD 16.0 billion in September. Imports for the month rose 11.3% yoy, while exports were up 9.4% yoy.
- 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

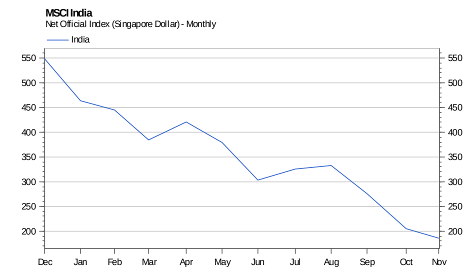
- While the terrorist attacks in Mumbai were tragic, the reaction of the stock market was nothing short of extraordinary, having hardly flinched after trading was resumed. Politically, this event might have shifted support away from the incumbent ruling coalition, possibly into the hands of the Bharatiya Janata Party (BJP). In the near term, election results in a number of states might provide some evidence of that in early December.
- The rate of decline in inflation is now surprising on the downside but the downward trend should continue given the decline in oil and commodity prices remain unabated. This should continue into 1Q09 and could be seen as supportive of the incumbent parties returning to power in the general elections in 2Q09.

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 manu-facturing.

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 09.



Source: FactSet

Review

How the market performed

- MSCI India was down -9.2% in SGD terms in November 2008.

What happened

- The Indian stock market touched a new low in November. Investor confidence remained weak largely a result of weak global economic news and the terrorist attack in Mumbai further worsened sentiment. The market was closed on the day of the attack. Defensive sectors like healthcare, utilities and consumer staples were relative outperformers.
- 2Q FY09 GDP growth came in at 7.6% yoy, a figure which was above expectations. Growth was driven by government spending and investment.
- FIIs continued to remain net sellers having sold US$644 million during the month and US$13.6 billion YTD. The Rupee weakened another 1.3%, bringing the YTD decline to 27%.
- The Reserve Bank of India announced further measures to stabilise the domestic credit market. These include higher liquidity injections into the banking system for the non-bank financial companies and mutual funds, increased ceiling for foreign currency deposits, lower risk weights for real estate assets and reduced general provisioning for banks.
- Inflation (as measured by the Wholesale Price Index) declined rapidly to 8.84% as at 15 November compared with 10.7% a month earlier.

INDONESIA

Outlook

Our market view

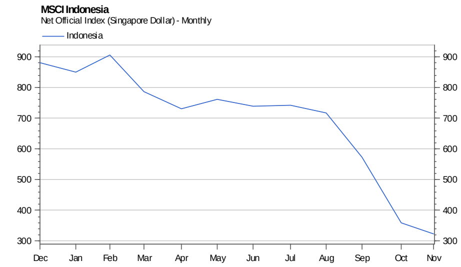
- The market continued to be weighed down by inflation and interest rate concerns although the rate tightening cycle has ended when the Central Bank reduced interest rate by 25 bps on 4 December 2008. While the Indonesian economy is expected to grow in 2009, valuations and growth expectations have been downgraded amid the global economic slowdown and currency concerns. We expect domestic consumption to slow next year amid falling commodity prices, high interest rates and challenges for small businesses and individuals to secure bank financing.

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 the weakening domestic demand.

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 continues to be on a weakening trend.



Source: FactSet

Review

How the market performed

- MSCI Indonesia was down -10.3% in SGD terms in November 2008.

What happened

- The JCI closed at 1,241 at end November, a minor drop during the month of just over 1%, but dollar returns were down over 12%. The JCI mining index was the major drag, as shares of sector heavyweight Bumi Resources plunged on resumption of trading early in the month. Bakrie Group stocks, in general, were poor performers in November. Beaten-down commodity stocks were surprised outperformers. Average trading value rose to US$230 million, up 27% from October.
- The IDR/USD rate declined to 12,360, a 12.3% depreciation in November. The trade surplus for October narrowed to US$1.99 billion, on lower exports and stable non-oil imports.
- Inflation continued to ease in November to 11.61% yoy and 0.12% mom. The World Bank announced that it was coordinating a standby donor facility in case the financial crisis disrupted Indonesia's access to bond markets, even as the Indonesian government set up bilateral swap lines and made other moves to combat the impact of the financial crisis.
- Bakrie & Brothers announced that Northstar partners would take on the collateral pledged by BNBR and assume US$575 million worth of debt. BNBR's management expects to fully resolve its debt issues by the end of the year. Bumi Resources resumed trading after almost a month's suspension. The company announced a MTN issue to fund a proposed 17% buyback. The Indonesian deposit guarantee agency (LPS) took control of Bank Century (BCIC IJ/JK) after it failed to meet settlement obligations.

JAPAN

Outlook

Our market view

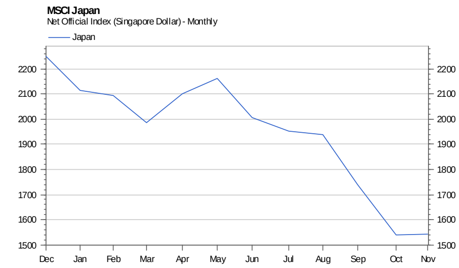
- 2Q FY08 corporate earnings have been concluded, with aggregate recurring profit declined sharply by 23.8% yoy. The results have taken a turn for the worse, especially for the exporters as both domestic and global demand continues to weaken and the yen has strengthened sharply against major currencies. 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. As such, the consensus recurring profit growth in FY08 has been revised down from -7% yoy to -20% yoy. 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.

Our Strategy

- 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. Other measures to support small and medium businesses and the financial sector will also provide some support to the economy.
- While the coordinated actions taken by various governments around the world to prevent the financial crisis from deepening have eased some concerns, we await the specific steps that will be taken by the new US administration led by Obama.
- The popularity of the new PM Taro Aso has been declining rather quickly in the midst of the slumping economy. This poses a problem for the LDP as Lower House elections are due by September 2009. Political instability will likely further add to the stock market woes.



Source: FactSet

Review

How the market performed

- MSCI Japan was up 0.4% in SGD terms in November 2008.

What happened

- The Japanese market continued to sell down for the sixth straight month in November in tandem with global markets. In early November, the Japanese market was bought on the back of US market rally and yen depreciation. However, the upward trend did not last when US market plunged as US officially entered into a recession as indicated by the economic data. In addition, mounting concerns over the financial strength of US auto majors (GM, Ford and Chrysler) and US financial majors continue to send global stock prices further south. On the domestic front, sharp downward revision by export majors like Toyota and Sony, and the worsening domestic economic data added to the pessimism. However, restructuring plans and the bail-out of Citigroup by the US government as well as economic measures committed by numerous countries provided some support before the month ended.
- The economic releases for October data continued to worsen. The domestic economy officially entered into recession with third quarter 2008 GDP down an annualised 0.4%, the second consecutive quarter of economic contraction. Other key economic indicators like consumer confidence, job-to-applicant ratio, household spending, industrial production and small business confidence index continued to deteriorate.
- In November, the top performing sector was Pulp & Paper, which was bought on the expectation that earnings will improve on the back of lower material/fuel costs stemming from a decline in crude prices and yen appreciation. On the other hand, the automotive sector was the worst performing and was sold off on weak earnings outlook after the sharp earnings downward revisions by the auto-makers led by Toyota Motor.

KOREA

Outlook

Our market view

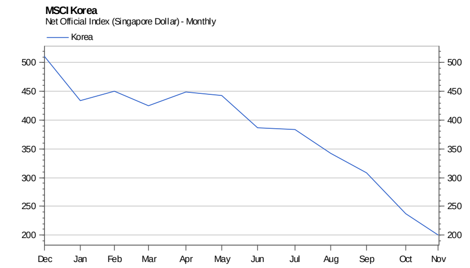
- We maintain our cautious view and expect the market to be volatile as key macroeconomic and financial indicators signal more protracted credit and recessionary pressures globally. Going forward, homegrown issues will become as dominant a market driver as global issues, with the domestic banking industry scaling back balance sheet causing deleveraging of heavily geared households imminent. Downward earnings revision and weakening earnings growth momentum will be key downside catalyst. On the other hand, stabilization of KRW would be a prerequisite for a technical rebound in equities.
- 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 the major non-life insurers because their new business and premium growth are resilient and their earnings from insurance business should be enough to offset investment losses. Furthermore, FSC has recently announced a favorable bill for insurance deregulation.
- We also like the Korean exporters in the technology sector because of their successful product lineup, strong brand recognition in the global marketplace and well diversified export destinations. Given the current favorable KRW/JPY cross rate, they have an enviable option between better profit margin from currency translation and market share gain on aggressive product pricing.

What we are wary about

- Global concerns: hard landing in China's economy, global depression and global risk aversion.
- Excessive depreciation of KRW causing a delay in interest rate cuts.
- Rapid deterioration of domestic banking industry's asset quality raising solvency concerns.
- Policy miscalculation or a lack of aggressive monetary and fiscal policy moves.
- Collapse of the North Korea regime.



Source: FactSet

Review

How the market performed

- MSCI Korea was down -15.6% in SGD terms in November 2008.

What happened

- Volatility remained elevated with lacklustre US macroeconomic data reconfirming a weak economy, while Fitch downgraded Korea's outlook to negative due to concerns regarding potential erosion of sovereign's external credit strengths. Concern about liquidity in the construction industry also caused the index to swing in a wide range throughout the month.
- Foreigners continued selling US$1.2 billion worth of stocks while KRW/USD fell 11.1% to 1,469.
- The worst performing sectors were consumer discretionary, financials and technology. Weakness in automobile stocks was led by heightened worries about global demand slowdown while filing for court receivership by Shinsung Engineering & Construction and C & Group weighed heavily on sentiment for banks. Technology stocks under-performed due to Circuit City's bankruptcy news and ongoing price weakness of technology products on the back of slower demand.
- Macro wise, current account turned to surplus of US$4.9 billion in October from a US$1.2 billion deficit a month ago while the consumer price index moderated to 4.8% from 5.1%. As a result, the Bank of Korea cut the base rate by 25 bps to 4.00%. In addition, the government announced an increase in fiscal spending for 2009 by KRW 10 trillion (1% of GDP), including KRW 4.6 trillion for infrastructure spending.

MALAYSIA

Outlook

Our market view

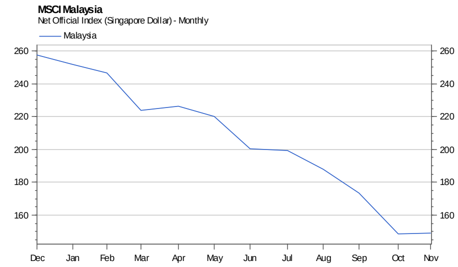
- Domestic political uncertainty has started to ease, with the political leadership of Malaysia expected to be handed from PM Badawi to Deputy PM Najib in March 2009. Cries from the opposition party to dethrone the incumbent BN party has started to soften, as the global economic crisis begin to take centre stage.
- All eyes are on Najib and his ability to unify UMNO as one united strong party. Initial observations from Najib's actions with the announcement of the MYR 7 billion stimulus package, and relaxation of the Bumiputera equity participation rule, seem positive. It signals the intent from the ruling party to both pump prime the economy out of an impending economic slowdown and also implement pro-reform policies. These are, however, early days, and more has to be seen on the implementation and execution of these infrastructure projects and reform policies before passing judgement on the new PM.

What we like

- Construction and property sectors should start to pick up as the government starts to focus on infrastructure related pump priming measures. We also 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 on the tussle between the incumbent BN and the opposition party.
- Delay in pump priming measures such as the award of infrastructure projects.
- Further downtrend in commodity prices as global demand destruction escalates.



Source: FactSet

Review

How the market performed

- MSCI Malaysia was up 0.4% in SGD terms in November 2008.

What happened

- In November, MSCI Malaysia rose marginally, outperforming the MSCI Asia Pacific ex-Japan which declined 4.8%.
- A total of MYR 7 billion will be spent by the government in its stimulus package to boost the country's economy. This package is to be spent on housing, infrastructure and public transport.
- Bank Negara has cut its benchmark Overnight Policy Rate (OPR) by 25 bps to 3.25% and signalled that it was ready to cut the rate further. The statutory reserve requirement for banks was also reduced to 3.5% from 4%.
- The GDP grew 4.7% yoy in 3Q08, against 6.7% yoy in 2Q08. The government cut its economic growth forecast for 2009 to 3.5% from 5.4% and announced that the inflation rate is expected to drop next year to between 3% and 4%, provided that crude oil prices continued to fall.
- Petrol prices were reduced twice this month. It now stands at about MYR 2.00 per litre.
- Deputy prime minister Najib Razak announced that the government was relaxing a major listing requirement, i.e. the 30% Bumiputera equity participation rule. Companies seeking listing on Bursa Malaysia can now open their shares to the public if all efforts to get the 30% Bumiputera equity participation fail.
- Nominees running for the UMNO deputy presidency are Tan Sri Muhyiddin Yassin, Datuk Seri Mohd Ali Rustam, and Tan Sri Muhammad Muhammad Taib, while eight others will be running for the three vice presidents' posts.

PHILIPPINES

Outlook

Our market view

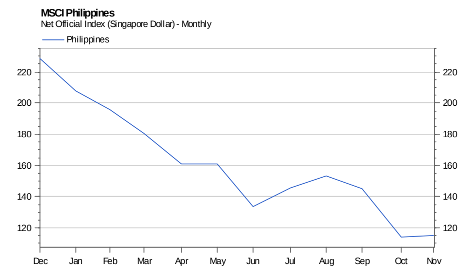
- The Philippine government expects GDP growth in 2008 to decelerate from the strong growth seen in 2007 due to sluggish growth in the US and European economies. Private consumption has started to weaken on inflationary pressures and concerns of a global slowdown.
- Inflationary concerns which have taken 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 despite being resilient so far this year are starting to show signs of reaching a plateau. With about 40% of overseas Filipino workers plying their trade in the US, the risk is in the US economy deteriorating into a deep recession, causing rising number of retrenchments in the OFWs. Hence, we are 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 significant 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 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 their 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 being sticky downwards.



Source: FactSet

Review

How the market performed

- MSCI Philippines was up 1.1% in SGD terms in November 2008.

What happened

- The MSCI Philippines managed to close mom higher due to a major rally in the US markets going into the Thanksgiving holiday. The increase was, however, on very thin volumes. The average daily turnover dropped to US$53 million from US$76 million in October.
- 3Q08 GDP grew by 4.6% yoy (consensus: 4.4%). The solid reading was driven by consumption, with private consumption in particular showing a smart rebound after the two consecutive poor quarters. Also adding to the 3Q growth was an upturn in real government spending, which had been very modest through 1H.
- The BSP has cut the regular reserve requirement of banks by 200 bps to 10%. The liquidity impact is expected to amount to Php50-70 billion. Meanwhile, it kept its policy rate unchanged at 6.00% with the statement and comments sounding more hawkish than the last meeting.
- October CPI was negative (seasonally adjusted) for the first time since June 2002. The 0.1% mom, seasonally-adjusted decline in the index left the level up less than expected at 11.2% yoy (consensus: 11.4%).
- OFW remittances in September grew by 16.9% yoy to US$1.32 billion, bringing 9M08 inflows to US$12.3 billion or 17.1% yoy higher.

TAIWAN

Outlook

Our market view

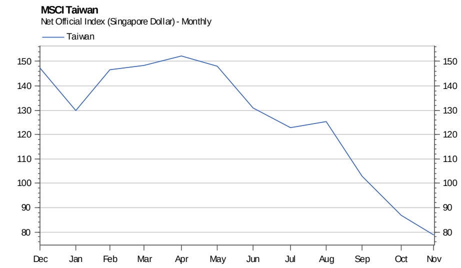
- We see volatility and modest returns as key macroeconomic and financial indicators signal more protracted credit and recessionary pressures globally. The current state of domestic economic conditions combined with imminent government actions should make domestic sectors relatively more resilient than external sectors in the global economic recession. Earnings revision risk on the downside is high but the market is undervalued.
- In the longer term, deepening cross-strait economic co-operation and enhanced business returns in Taiwan will propel the market to perform and catalyze a re-rating.

What we like

- We like telecom services operators because their earnings visibility remains high given relatively benign competition in the mobile market. Their healthy balance sheet and solid free cash flow result in minimal credit exposure and their dividend yield of 7-9% could be enhanced by potential capital reduction.
- We also like construction companies and building material suppliers because government plans to begin partially executing i-Taiwan 12 Projects by spending NTD 400 billion in 4 years in infrastructure construction. Furthermore, there is plenty of scope to significantly increase infrastructure spending in order to stimulate the domestic economy and make Taiwan a better place in the long run.

What we are wary about

- Global concerns: hard landing in China's economy, global depression and global risk aversion.
- Excessive depreciation of NTD causing a delay in interest rate cuts.
- Policy miscalculation or a lack of aggressive monetary and fiscal policy moves.
- Delay in implementation of cross-strait economic co-operation.



Source: FactSet

Review

How the market performed

- MSCI Taiwan was down -9.3% in SGD terms in November 2008.

What happened

- The index saw sell-off pressure across the board after the government released lower than expected 2008/2009 GDP growth guidance.
- During the month, foreign investors net sold US$1.7 billion worth of stocks while local investment trust companies net sold US$149 million.
- The worst performing sectors were technology, consumer discretionary and energy. In the technology sector, both Taiwan Semiconductor Manufacturing Company and Mediatek indicated that 4Q sales may decrease qoq. Furthermore, Intel announced that 4Q's business will be below its previous outlook due to significantly weaker-than-expected demand in all geography and market segments, while Nokia cut industry outlook for 4Q08 and now expects decline in unit shipments in 2009.
- Macro wise, 3Q GDP came in much weaker than expected by falling 1%, with not only weakening exports but also significant decline in domestic consumption and investment demand. Seasonally adjusted unemployment rate rose to 4.3% in October, compared with 4.1% a month ago. As the impact of the ongoing global recession intensifies, the Executive Yuan announced that it would give each individual NTD 3,600 (US$108) in shopping vouchers to support domestic demand. The Central Bank of China also cut the discount rate by 25 bps - the fourth interest rate cut in less than 2 months - to 2.75%.

THAILAND

Outlook

Our market view

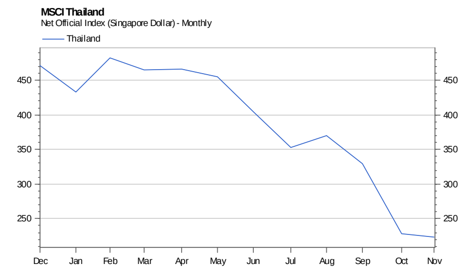
- The stock market has been affected by both political uncertainty and more recently by worries over a sharp slowdown in global economies. With inflation falling sharply and global central banks cutting interest rates, we expect domestic interest rates to be cut in December. In the short term, the political situation in Thailand is likely to remain messy. The worse 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 6.4x forward earnings and dividend yield of 6.2%.

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 -2.6% in SGD terms in November 2008.

What happened

- The Thai stock market fell in November as political turmoil took a turn for the worse as the People's Alliance for Democracy (PAD) escalated their protests against the government. Most major sectors saw a decline on increasing signs of recession although the more defensive consumer staples and telecom sectors rose due to recovery from oversold levels in October.
- October economic data showed signs of further moderation. Private investment expanded at a subdued rate while private consumption moderated. Exports, imports and manufacturing production growth were down and the trade balance moved back into deficit.
- Inflation fell to 2.2% yoy in November as price pressures eased. Bank of Thailand held interest rates steady at 3.75% with expectations of a cut in December.
- The government approved the extension of tax breaks for the property sector to March 2010.
- The PAD upped the stakes in their bid to force the government to resign when it took over both Bangkok airports, resulting in chaos for tourists as well as air freight. Around 300,000 tourists were affected by the airport closures. Due to the escalating political situation, Standard & Poors and Fitch downgraded their outlook for Thailand to negative from stable.

VIETNAM

Outlook

Our market view

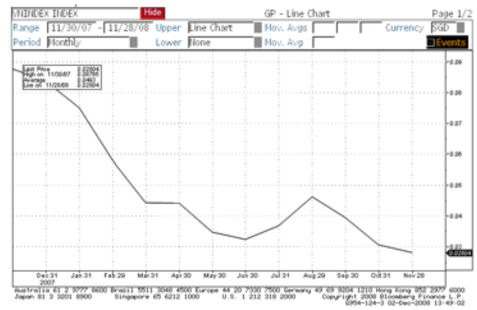
- With concerns over the inflationary pressures and the stability of the Vietnamese Dong subsiding, the government has now turned its focus to measures to stimulate the domestic economy.
- In response to the slowing economy, the State Bank of Vietnam has aggressively cut interest rates since October. Given the slowing economy and weaker external demand, the growth outlook for most sectors has deteriorated with the worst-hit sectors being consumer, construction materials and materials.
- The recent weakness in the market has brought valuations down to 9x 2008 Price/Earnings ratio. The market is currently trading below the previous lows seen during the middle of the year when there were concerns over Vietnam's balance of payment. 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 -8.6% in SGD terms in November 2008.

What happened

- The Vietnam stock market fell in November as foreigners continued to sell both Vietnam stocks and bonds.
- Vietnam's exports have been falling steadily on the back of the global economic slowdown. Exports in November rose 6.3% yoy to US$4.8 billion. Year-to-November export turnover rose to US$58.5 billion, up 34% from last year.
- Inflation rose to 24.2% yoy in November, easing from October's 26.7% figure. The government has forecasted inflation of 22% for 2008.
- Vietnam cut its economic growth target to 6.7% for 2008, lower than its earlier forecast of 7%.
- State Bank of Vietnam cut key policy rate to 11% in November amid moves to stimulate the economy as well as lower the interest burden for corporates.
- Vietnam government announced that a package of measures to boost production and exports, stimulate domestic consumption, increase loans, support the poor as well as review taxes, in a bid to avert a recession.
- Key uncertainty for the market is earnings risk which is likely to deteriorate on write-offs by banks and property companies.

GLOBAL BONDS

Outlook

US

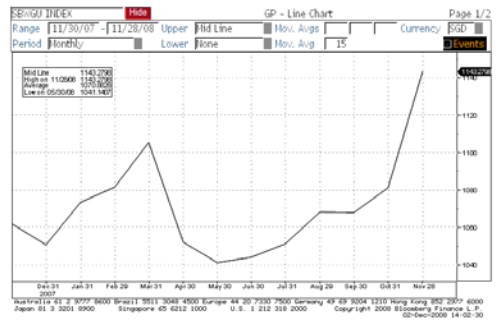
3Q real GDP contracted 0.5% qoq, above the advance estimate of 0.3%. Economic indicators are presenting a very negative picture from almost all perspectives: 1.2 million jobs have been lost year-to-date and the pace of loss is intensifying. ISM manufacturing and consumer confidence are testing the lows in the last 50 years and retail sales plunged 4.1% yoy in October, weakest on record. In the last decade, the world's largest economy saw a sharp increase in debt levels, much faster than historical trend, especially for financials and households. As such, the deleveraging cycle which has just begun, will probably last for quite a while. Furthermore, with bank lending standards at the tightest since the 1980s, we will see further contraction in consumer spending and corporate investments. With policy rate already at a historical low of 1%, Fed is now shifting to quantitative easing to boost demand for goods and services through its various liquidity injection programs. The US general government budget deficit (on a national accounts basis) will more than double in 2009 from 3.1% in 2008 on the back of supplementary fiscal stimulus package and the $250 billion bank recap program under the TARP.

Euroland

The eurozone economy fell into its first technical recession in 15 years, confirmed by a second successive contraction of 0.2% in GDP in 3Q, the result of high sensitivity to external demand. UK's manufacturing sector is in a severe slump with PMI falling to an all-time low. The surprisingly large policy rate cuts on 4 December (75 bps by ECB, 175 bps by the Swedish Riksbank and 100 bps cut by BoE) signalled the urgent need to catch up with the US and arrest the sharp GDP contraction expected in the next few quarters. With inflation risk coming off rapidly, more monetary easing can be expected. We continue to hold the view that UK is more adversely affected by both housing market downturn and the financial crisis than either the US or the euro area. With policy rates at the lowest since 1951, UK is turning to fiscal pump priming and has announced intention to borrow GBP 78 billion this fiscal year or about 6% GDP.

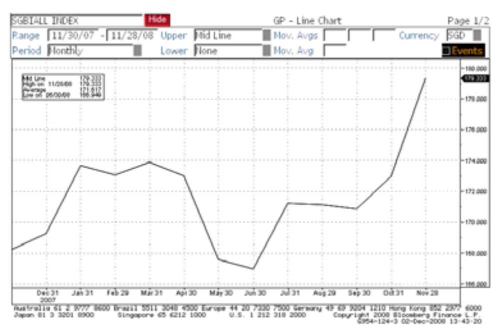
Asia

3Q GDP reports have been published for all Asian economies. Other than Indonesia and Philippines which had held up relatively well, the other economies witnessed an apparent weakness in the 3Q growth



______ Citi WGBI
(in SGD terms)

______ JACI Composite Total Return
(in SGD terms)



______ UOB SGBIALL
(in SGD terms)

Source: Bloomberg

versus that of the 2Q. Upcoming economic data will be more adverse as the severe economic downturn has only just started. Hong Kong and Singapore are already in “technical” recession due to impact of the global slowdown on their relatively more open economies, and Taiwan and South Korea are likely to join them. Lower commodity prices and declining inflation have allowed central banks to cut interest rates. China cut rates by 108 bps – 162 bps since September – which was the largest cut in 11 years. The Central Bank of China in Taiwan also cut rates by 87.5 bps, reversing nearly two years of rate hikes. Including the HKMA, seven central banks have cut rates so far except Indonesia, Philippines and Thailand. During first week of December, Bank of Thailand also cut its policy rate by 100 bps while Bank Indonesia surprised the market with a 25 bps cut. As a result of the continued weak economic readings in the region, and anticipation of imminent easing, interest rates across Asia rallied across the board during the month. We expect further downside in the bond yields as the central banks in the region continue to adopt aggressive monetary and fiscal policies to support growth.

Singapore

Prospects for global growth have worsened further. The biggest driver is export contraction and drying up of trade credit facilities can only worsen conditions. The slowdown in trade and regional hub services is negative for an open economy like Singapore. Domestically, the weak asset markets also imply negative wealth effects for consumers. Employment prospects have weakened. Flushed liquidity, weak currency and the recent fiscal stimulus package that focuses on credit for local firms and worker training programs can only cushion to some degree the demand-led global recession in the near term. On the fiscal front, the budget will be announced earlier and measures to take effect in 1Q09. As for monetary policy, MAS has tended to signal changes in policy stance by allowing SGD to trade consistently at the top or bottom of the trade-weighted exchange rate policy band and we have seen the currency trading near the bottom these days. Still, whilst the next shift in policy may be biased easing in view of the poor state of economic conditions, a demand-led recession may argue for a widening of the policy band instead of a re-centering.

CURRENCIES

USD

Outlook

The Dollar will remain strong in a risk-averse environment as the global fundamentals deteriorate.

- The downward revision of the 3Q08 GDP to a contraction of 0.5% annualised rate largely reflects weaker consumer spending which was revised down to -3.7% qoq from -3.1% qoq. Consumer weakness is set to continue 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, the business sector has also weakened. The pace of job cuts is accelerating and the unemployment rate has risen sharply to 6.5% in October 2008 from 5.0% in April 2008. The dislocation of capital markets has led businesses to cancel investment plans.
- 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.
- The US Dollar has somewhat assumed the role of safe haven as the global fundamentals continue to deteriorate. Investors favour the Dollar because of a preference for liquidity, supportive central bank rate convergence, falling commodity prices and fund redemption and repatriation. The principal risk to US Dollar strength has to be earlier-than-expected economic recovery or rebound in demand for risky assets, but neither is going to happen any time soon. Therefore the US Dollar will remain strong in a risk-averse environment.

USD

Review

Source: Bloomberg

- The US Dollar Index rallied to a high of 88.46 in November 2008 before giving up some gains to close at 86.52 at the end of the month.

Economic data

- 3Q08 GDP contracted 0.5% annualised, more than the advance estimate of 0.3% contraction, following a 2.8% growth rate in the second quarter.
- US trade deficit narrowed 4.4% to US$56.5 billion in September 2008 from a trade gap of US$59.1 billion in August 2008.
- Net long-term international purchases of US securities (equities, notes and bonds) increased to US$66.2 billion in September 2008, from US$21 billion (revised from US$14 billion) in August 2008.
- Core inflation, which excludes food and energy, slowed to 2.2% yoy in October 2008 after a 2.5% yoy increase in September 2008.
- Unemployment rate rose to 6.5% in October 2008, the highest level since 1994, from 6.1% in September 2008. Non-farm payrolls fell by 240,000 in October 2008 and the revisions to the previous month added 125,000 more to increase the jobless number to 284,000.
- There was no FOMC meeting in November 2008. The benchmark interest rate and discount rate remained at 1.0% and 1.25% respectively.

EURO

Outlook

Structural decline in EUR remains intact while ECB starts easing rates aggressively as the recession worsens.

- GDP growth fell again by -0.2% qoq in 3Q08, confirming the Eurozone is clearly in recession. The plunge in leading indicators such as the Purchasing Managers Indices to record lows as well as available hard data for the start of 4Q08, point to a major contraction in GDP late this year.
- Private consumption will likely stagnate in coming months as unemployment rises and the resulting increase in savings rate will likely offset the boost in real incomes from lower oil prices. Investment and exports will continue to decline because the key trading partners of the Eurozone such as the US and the UK are also contracting sharply.
- Europe's inflation rate fell by the most in almost two decades. Inflation in the euro area slowed to 2.1% in November 2008 from 3.2% in October 2008. The drop brings Eurozone inflation close to the ECB's medium-term target of 2%. Annual M3 money-supply growth, which the ECB uses as a gauge of future price developments, unexpectedly held at 8.7% in November 2008 because investors switched to cash and short-term deposit amid the financial turmoil.
- 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 150 bps in the coming months.
- After the sharp fall to a low of 1.2330 in October 2008, the EUR/USD is forming a base for the past one month, consolidating between 1.23 and 1.31. However, 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 deteriorates and the ECB starts easing rates aggressively.

EURO

Review

Source: Bloomberg

- EUR traded within a relatively narrow range of 1.2389 to 1.3080 in November 2008 and closed the month at 1.2690 versus 1.2726 the previous month.

Economic data

- Eurozone GDP growth for 3Q08 contracted 0.2% from the second quarter, during which it also contracted 0.2%. On a yearly basis, the economy slowed for a fourth straight quarter to 0.7%.
- Eurozone current account in September 2008 stood at a deficit of EUR 6.0 billion, similar to the previous month (revised from a deficit of EUR 7.9 billion).
- Unemployment rate in the Eurozone rose to 7.7% in October 2008 from 7.6% in September 2008.
- Eurozone inflation rate eased sharply to 2.1% in November 2008 from 3.2% in October 2008.
- Eurozone retail sales dropped 1.6% yoy in September 2008, following a 1.5% yoy decline (revised from -1.8% yoy) in August 2008.
- Economic sentiment index extended its decline to a 15-year low of 74.9 in November 2008 from 80.0 in October 2008.
- M3 money supply, which the ECB uses to gauge future inflation, was unchanged at 8.7% in October 2008 from the previous month.
- ECB cut the refinancing rate by 50 bps to 3.25% on 6 November 2008.
- The IMM Commitment of Traders report showed that net short non-commercial positions in EUR had decreased to US$3.4 billion in contract value as at 25 November 2008 from US$4.6 billion as at 28 October 2008.

SGD

Outlook

SGD to remain weak as MAS maintains neutral NEER policy amid slowdown in economy.

- 3Q08 GDP fell 0.6% from a year ago, slightly worse than the advance estimates, confirming that the economy is officially in technical recession for the first time since 2001. For the first three quarters of this year, the economy expanded 2.8% from a year ago, prompting the government to revise downwards its full-year GDP growth forecast to 2.5% from earlier estimate of about 3%.
- MTI also announced its forecast range for 2009 at -1% to 2%, in view of the increased uncertainties in the external environment and to reflect the significant downside risks. The MTI expects broad-based weakness next year, with financial services to be hit hard and trade-related services will be impacted by the slowdown in global demand. Electronics will continue to be a drag on manufacturing while the biomedicals and chemicals are expected to be boosted by new capacity coming on stream in late 2008 and 2009.
- CPI inflation eased lower in October 2008 and is expected to moderate gradually in the coming months given the sharp fall in global commodity prices in recent months. Although the full year inflation rate is likely to be 6-7% this year, the MAS has revised downwards their forecast for 2009 to 1-2% from the 2.5-3.5% range forecasted in October.
- MAS confirmed that there is no change to the current “neutral” monetary policy at this point in time, stating the SGD remains within the policy band. MAS also said there is no reason for undue weakness in SGD and will act to stem excess volatility.
- The USD/SGD has rallied above the 1.50 mark and is trading well within a 4-month upward trend channel. It is likely to consolidate between 1.50 and 1.54 in coming weeks with an upside bias.

SGD

Review

Source: Bloomberg

- USD/SGD rallied to a high of 1.5349 in November 2008 before closing the month a little lower at 1.5130 versus 1.4836 the previous month.

Economic data

- 3Q08 GDP contracted at an annualised 6.8% qoq (advance estimate was -6.3%) following a 5.3% contraction in the second quarter. On a yoy basis, the economy shrank 0.6% in 3Q08 compared to a 2.3% expansion in 2Q08.
- Retail sales index rose 7.2% in September 2008 following a 4.1% yoy increase in August 2008. Excluding vehicles, sales gained 8.4%.
- Non-oil domestic exports fell 15.3% yoy in October 2008 after a 5.7% yoy decline in September 2008. This is the sixth straight monthly decline as the global slowdown eroded demand for electronics and drugs.
- CPI inflation slowed to 6.4% yoy in October 2008 after increasing at 6.7% yoy in September 2008.
- Industrial production fell 12.6% yoy in October 2008, following an increase of 2.4% yoy in September 2008. This is the third decline in four months, as pharmaceutical companies and electronics manufacturers reduced output.

YEN

Outlook

JPY continues to remain firm, supported by BoJ's slower policy easing steps relative to other central banks.

- Recession in Japan is underway. Real GDP contracted at an annualized 0.4% in 3Q08 following a 3.7% contraction in the second quarter. Business investment fell by 1.7% qoq in 3Q08, the third consecutive decline, and plunging private machinery orders signal the continued downward trend at least through early 2009.
- Exports, the main engine of Japan's economic growth in the past six years, fell 7.7% in October 2008 from a year ago, the biggest drop since December 2001. Exports to Asia fell 4%, the first decline in more than six years. Shipments to China (-0.9%) fell for the first time in three years. Shipments to Europe plunged 17.2%, the largest drop since December 2001, and demand from the US dropped 19%.
- Inflation slowed for a second month in October 2008 as oil and commodity prices tumbled. Core CPI which excludes fresh food rose 1.9% yoy, slower than the 2.3% pace in September 2008. The Tokyo core CPI for November 2008 has slowed more than expected to 1.1% yoy, suggesting that more declines are likely at the national level next month.
- After cutting the overnight call rate by 20 bps to 0.30%, the first cut in seven years, BoJ Governor Shirakawa has repeated his hawkish comment that an additional rate cut from the already low levels might caused various problems related to market functioning. However, deflation risks and potential upward pressure on the JPY may prompt the BoJ to cut the overnight call rate by another 20 bps to 0.10%, most likely in 1Q09.
- The sharp rebound in the USD/JPY after falling just below the 91 level in October 2008 has met strong resistance 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 and it is likely to trade below 100 in coming months.

YEN

Review

Source: Bloomberg

- After plunging to a 13-year low of 90.93 in October 2008, USD/JPY rebounded briefly to a high of 100.55 in early November 2008 before slipping lower to close at 95.50 at the end of the month.

Economic data

- 3Q08 GDP (advance estimate) contracted at an annualized 0.4% after contracting at 3.7% (revised from -3.0%) in 2Q08.
- Current account surplus narrowed for a seventh month in September 2008, shrinking 48.8% to 1.49 trillion yen (US$15.3 billion) from a year ago as overseas demand weakened and higher energy prices pushed up the import bill.
- Unemployment rate unexpectedly fell to 3.7% in October 2008 from 4.0% in September 2008. The ratio of jobs available to each applicant fell to 0.8, the lowest since May 2004.
- Household spending fell 3.8% yoy in October 2008, the eighth monthly decline, following a 2.3% yoy decline in September 2008.
- Housing starts slowed to 19.8% yoy in October 2008, after increasing 54.2% in September 2008.
- Core consumer prices (excluding fresh food) slowed to 1.9% yoy in October 2008, after rising 2.3% yoy in September 2008.
- The benchmark overnight lending rate remained unchanged at 0.30%.
- The IMM Commitment of Traders report showed that net long non-commercial positions in JPY had increased to US$4.8 billion in contract value as at 25 November 2008 from US$4.1 billion as at 28 October 2008.