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Look for Lion

Market Outlook Report January 2009

(Y2008 review/Y2009 outlook)

A member of the OCBC Group

CONTENTS

EXECUTIVE SUMMARY

MARKET VALUATIONS

Country	As at 31 December 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	2351.55	-37.9	-50.6	-1.2	2.5	10.6	10.4
China	220.02	-51.1	-50.8	2.5	7.7	10.8	10.0
Hong Kong	24998.99	-51.5	-51.2	-36.4	-6.4	11.2	12.0
Taiwan	94.19	-45.8	-46.4	-42.6	-39.1	12.8	21.1
Korea	274.16	-39.8	-55.2	-21.7	10.7	10.6	9.6
Singapore	321.24	-47.3	-47.3	-8.8	-9.9	9.0	10.0
Malaysia	166.14	-38.5	-41.2	-21.1	-3.6	11.0	11.4
Indonesia	519.36	-49.5	-56.4	9.0	6.4	8.5	8.0
Thailand	234.23	-46.8	-48.4	181.5	-5.9	7.1	7.6
Philippines	124.31	-45.3	-52.5	-9.3	10.0	11.9	10.8
Vietnam *	315.62	-66.0	-68.8	2.4	0.2	11.0	11.4
India	244.01	-56.3	-64.6	5.7	8.2	10.3	9.5
AC Asia Pac ex-Japan **	172.83	-51.9	-51.9	-13.5	-0.6	10.7	10.8
AC World **	90.32	-42.2	-42.1	-10.8	2.2	10.4	10.2
USA	2059.87	-37.6	-37.5	-9.0	4.2	11.9	11.4
Europe	2647.94	-38.9	-46.4	-12.0	2.2	8.7	8.5
Japan	853.33	-42.6	-29.1	-26.6	-1.0	13.7	13.8

* Ho Chi Minh Stock Index
** Indices in USD terms
Source: MSCI /IBES /Rimes /Citigroup /Lion Global Investors

Bond Indices	Index closing end Dec 08	Month-to-date % change	Year-to-date % change	Index closing end Dec 07
Citi WGBI	1163.37	1.8	10.7	1050.54
JACI Composite Total Return	148.61	0.6	-9.9	165.03
UOB SGBIALL	181.71	1.3	7.4	169.26

Source: Bloomberg
All indices are in SGD terms

MARKETS AT A GLANCE

Global Equities

Review

2008 was a tumultuous year for global equity markets. It suffered one of its worst performances to end the year 41% lower as the credit crisis with its roots in the sub-prime mortgage market dragged global economies into a recession. What began as a mild recession a year ago in the US has turned into the worst downturn experienced since the early 1980s. The sustained and severe downturn in housing pared down consumer spending and negatively impacted capital spending; weakened export volumes have served to exacerbate the economic downturn.

Financial sector events dominated in 2008. As a result of the sub-prime meltdown, several US and European banks have had to write down billions of dollars in value of their sub-prime portfolios, thereby depleting their capital reserves; many financial institutions have had to do several rounds of capital raising to maintain capital ratios. The liquidity crunch eventually resulted in the rescue of Bear Stearns by JP Morgan; while in the UK, Northern Rock and Bradford and Bingley were nationalised. When the situation deteriorated in 3Q08, IndyMac and Washington Mutual were seized by the US authorities. In the quasi-government space, Fannie Mae and Freddie Mac were placed into conservatorship by the US government, with the government recapitalising both institutions. AIG had to be bailed out by the US government to the tune of US$150 billion whilst Lehman Brothers was forced to file for Chapter 11 bankruptcy. Wachovia's banking operations were eventually acquired by Wells Fargo and Bank of America bought Merrill Lynch in an all-stock deal. Goldman Sachs and Morgan Stanley became bank holding companies, ending the era of investment banks in the US.

Realising the gravity of the financial market logjam, the UK, Continental Europe and US moved to help unclog and prevent the seizing up of their financial systems. In the UK, the government took controlling stakes in Royal Bank of Scotland Group Plc and HBOS Plc while in the US, JP Morgan, Citigroup, Bank of America, Goldman Sachs and Morgan Stanley amongst others, tapped the recapitalisation programme funds.

In addition to the banking recapitalisation programme, 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 giving non-US banks access to US Dollar funding. On top of this, there was a coordinated 50 bps interest rate cut rate by six central banks including the Fed, ECB, BoE and the central banks of Canada, Switzerland and Sweden. Explaining their rationale for the display of solidarity, their shared communiqué cited a decline in inflation risk and any accompanying increase in growth risk stemming from the financial crisis as the impetus for action. The Fed subsequently cut interest rates to 0.25%, effectively adopting a zero interest rate policy (ZIRP).

The US government has also thrown a lifeline to the US auto sector; it committed to extending an initial US$13.4 billion to both GM and Chrysler, with GM receiving up to US$9.4 billion by January 2009, and promised an additional US$4 billion to GM contingent on the incoming Obama administration being able to persuade Congress to release the second tranche of the US$350 billion TARP funds.

In the light of these adverse developments, it was not surprising that the financial sector was the worst performing sector; it declined 54% on a year-on-year basis. On the other end of the performance spectrum, the defensive Healthcare sector was the best performing sector; it declined by 21% on a year-on-year basis.

Commodity prices (CRB Index) together with oil prices peaked in July 2008 before declining 36% and 54% respectively for the year as global economies slipped into recession.

Outlook

Global economies have succumbed to recession; the United States, Euro area, Japan, and the United Kingdom have all fallen into recession for the first time since 1982. The dramatic decline in key economic indicators and the speed with which the business survey readings have collapsed and the levels they have plumbed in 4Q08 are unprecedented; this suggests that the recession could be deeper than expected.

In the United States, reported economic data tell of a continued contraction of GDP in 4Q08. The December 2008 ISM manufacturing survey reading declined to 32.4, the lowest reading since June 1980. In addition, consumer confidence also declined to a recent low in December, suggesting that private consumption would remain weak. To help the US economy weather this economic storm, the incoming Obama administration is expected to push through a large fiscal stimulus package soon after his inauguration.

In Europe, a recession is now underway; the first since the region's inception in 1999. The December 2008 PMI reading of 38.3 suggests that economic activity is still contracting.

In Asia, Japan officially slipped into recession in 3Q08. Economic data released for November continued to show deterioration, with key economic indicators like consumer confidence, the job-to-applicant ratio, industrial production and the small business confidence index readings continuing to weaken. In addition, a sharp decline in the December Tankan Survey reading indicates that the Japanese economy is still contracting.

With economic growth faltering, global central banks have increasingly turned to easy monetary policy tools for respite. With US policy interest rates close to zero, the Fed will have to resort to less orthodox measures such as quantitative easing ("printing money") to try to jumpstart the economy.

Global equity markets are expected to remain weak as equity markets adjust to the weaker corporate earnings and deteriorating economic outlook. While valuations appear to be at very depressed levels already, the markets may yet test the October/November lows if earnings decline or the economic downturn is more serious than expected.

Asia Pacific ex Japan Equities

Review

2008 marked an exceptionally painful year for global stock markets, with the Asian stock markets taking big blows and suffering collateral damage. Since bottoming from the SARS crisis in 2003, Asian stock markets had enjoyed an uninterrupted rally, culminating in its peak in October 2007.

From the start of 2008, Asian markets plumbed new lows every quarter as a spate of financial shocks (from the collapse of Bear Stearns, bailouts of Fannie Mae and Freddie Mac, roller coaster price movements of oil and commodities, Lehman's failure and Madoff's Ponzi scheme) assailed the markets continually throughout the year. The benchmark MSCI AP ex-Japan index fell a hefty 52%, underperforming MSCI World by 11% in 2008.

The year was also marked by unprecedented volatility across asset classes. The VIX index and crude oil prices hit their all-time highs. The first 9 months of the year was characterized by relatively tight monetary policy with an aim to pre-empting inflation as concerns stemming from escalating food, oil and commodity prices rose. The de-rating impact on stocks was subsequently met by a 'demand-destruction' shock in 4Q08 as the credit crisis in US and Europe deteriorated further. With the sharp slowdown in economic growth and concomitant dissipation of inflationary fears, Asian central banks have changed tack and switched to monetary easing mode. Asian currencies were not spared in the midst of this turmoil. All currencies, except the Yen and Yuan, depreciated against the SGD. The Korean Won led the depreciation by falling 26%, followed by NZD at 25% and AUD at 20%.

Markets in the region were all battered, with India, Indonesia and Korea leading the fall at 65%, 56% and 55% respectively in the year. China, however, was able to recoup much of the losses in December as investors reacted to aggressive easing of monetary and fiscal policies.

By sectors, the defensives such as healthcare, consumer staples and utilities outperformed the cyclicals throughout the year as risk aversion remained elevated. The industrials and consumer discretionary sectors were the worst performing; both sectors were hit by weaker- than-expected demand and earnings downgrades.

Outlook

The economic outlook for the new year remains grim. We believe that economic and corporate news, particularly in the first half, will deteriorate further as Asia which is highly export dependent feels the impact of a synchronized global recession. However, a short-lived rebound in the Asian stock markets would not be unexpected given the severity of the sell off in the final quarter of 2008.

While globally banks continue to deleverage and maintain capital adequacy, Asian banks in general are well capitalised and liquid. Furthermore, emerging economies such as China and India, with either larger domestic markets and/or greater policy flexibility, are more likely to register moderate growth. We believe that China will remain the world's fastest growing economy and should contribute to economic stability in the region.

Policymakers' adoption of an easing stance, both monetary and fiscal, will have positive effects on equity markets when confidence returns. Historically, equities tend to trough between two and four quarters ahead of the economy. More importantly, valuations in Asia have corrected to trough (or near) valuations on most parameters. Current price earnings multiples are about two standard deviations below their long-term mean. However, at this stage, there remains considerable uncertainties over the near-term earnings outlook given the severity of the current downturn. Whilst it is impossible for any investor to time the bottom of a market, we take confidence that on most valuation parameters, they are mostly at least one standard deviation from their long-term average in all markets.

While mindful of near-term headwinds in the form of continued deleveraging by hedge funds and negative macro data points, we will continue to capitalise on the market volatility to seek out long-term investment ideas, focusing on quality and sustainable earnings and strong cash flows. In our view, a crisis such as this provides a golden entry opportunity for the long-term investors.

Global Bonds

Review

2008 was a grim year. The severe tightening in global financial conditions produced a deep and synchronized downturn in the world economy. Central bank officials responded forcefully; the efforts were led by the US Federal Reserve which cut the Fed funds rate essentially to zero and introduced an alphabet soup of new facilities using their "unusual and exigent circumstances" powers. Additionally, the US government passed a US$700 billion rescue plan for the financial system; about half of these rescue (TARP) funds have been earmarked.

Amidst aggressive policy rate cuts by central banks globally, with an aim to dampening the severity of the global slowdown, government bonds rallied sharply (+9.21% JP Morgan Global Bond Index) in 2008 as panicked investors fled to safety. US Treasuries outperformed, rallying +14%. To underscore the heightened risk aversion, the 3-month Treasury bills rate was bid at an unprecedented 0% end-December. In terms of performance, Australian government bonds performed the best; it rallied +15% (in USD terms). European, UK and Canadian government bonds performed relatively well; these bonds rallied approximately +10% (in USD terms) for the year.

The flight to the safety of government bonds was accompanied by a huge sell-off in the credit markets, with investment grade and high yield credit indices trading out to historical wides. Credit markets deteriorated over most of the year, but went into almost total arrest after Lehman failed in mid-September. Even as the frozen credit markets pushed an already teetering real economy over the edge, sentiment swung quickly from fear of spiralling price increases to fear of spiralling price decreases as the output gap widened. What was noteworthy was that economic activity in the emerging economies decelerated sharply in relative tandem with that in the developed economies.

Massive fund redemptions and a general exodus from risky markets and assets exacerbated the widening of credit spreads. The JACI Asia credit index posted a negative annual return (in USD terms) in 2008 for the first time since its inception in December 1998, despite a strong rally in US Treasuries. JACI credit spread levels started the year at 2.3%, widened out to 8.1% on 27 October 2008 before easing to close at 7.2% at year end. The non-investment grade sector underperformed with a -17.7% return whilst the investment grade sector weighed in at -6.2%. The consumer & retail sector was the worst performing sector (-28.7%), followed by financials (-15.6%). The best performing sectors were the quasi-sovereign (-3.7%), oil & gas (-4.5%) and utilities (-5.1%). While we note that new issuances in the Asia Pacific region in 2008 dwindled to less than half of that in 2007, we do not envisage a repeat of what happened during the 1997/98 Asian financial crisis. This time round, Asian banks are generally better capitalised, less leveraged and have limited exposures to toxic assets. Governments also have stronger reserves and balance sheets to provide support for the financial markets.

In Singapore, interest rates fell in line with global interest rates in 2008. Monetary policy was tightened initially in April, with MAS re-centering the policy band of the trade-weighted exchange rate at the prevailing level (at the strong end of the band), with no change to the slope or width. Policy was subsequently loosened in October when the slope of the band was changed to neutral from an appreciating one. Capital flows into Singapore hitherto focused on the SGD appreciation story largely reversed as the credit crunch forced massive fund redemptions and worldwide deleveraging. Whilst this had some impact on SGD interest rates, the impact was largely contained at the short end of the curve. In terms of performance, the UOB Singapore Government Bond Index returned 7.4% for the year, as average yields fell 80 bps. Whilst the yield curve steepened with short-end yields falling more, long-end bonds outperformed in total return terms. Corporate issuers in sectors like financials, property and cyclicals such as airlines, were the worst hit in the environment of massively widened credit spreads brought about by poor liquidity.

Outlook

The severity of the global downturn is likely to intensify in 1H09. Central banks look set to continue to tackle the slowdown on two fronts: boosting liquidity to limit systemic risk and lowering policy rates to stimulate growth. In the developed economies, policy rates are quickly nearing zero and the focus going forward would be on quantitative easing measures. In the emerging markets, easing is occurring more gradually, with Asian central banks leading but Latin banks yet to lower rates. With falling commodity prices as the backdrop, the stage is set for a tepid recovery to begin in 2H09 but overall growth is most likely to be lacklustre; this may add to slack and may raise deflationary concerns in some countries if growth continues to stay subpar in 2010.

In this credit environment, it is unlikely there will be a rapid recovery in risk appetite in 2009. This is because extensive intervention does not automatically translate into benefits for the private sector. The outlook for credit fundamentals remains bleak. Earnings and margins will continue to be pressured by deteriorating demand, with refinancing risk likely to become a serious concern as capital markets remain impaired and banks tighten their lending standards. On the technical side, weak sentiment, further redemptions and deleveraging will put a cap on any relief rally. However, valuations are starting to look attractive: particularly in Asia as a JACI investment grade spread of +6% is associated with a default probability of close to 40% on a 5-year basis; this is highly improbable. That said, with economic indicators likely to surprise on the downside in 2009 and more defaults expected, it would be wise to stay defensive in credits of fundamentally sound companies with strong liquidity. Sector-wise, in Asia, we continue to like banks especially those in Singapore, Hong Kong and Malaysia as they are more defensive than corporates and have implicit support from the government. Other defensive sectors we like include quasi-sovereigns, telecoms and utilities.

The economic environment for Singapore looks weak. The official GDP forecast for 2008 was revised down to 1.5% from 2.5%. For 2009, the GDP growth range forecast was shifted down to -2% to 1% from -1% to 2% previously. To ameliorate the endemic economic weakness, the Singapore government have had to introduce measures such as a guarantee on all deposits, subsidies for re-training, increased participation with regard to SME financing and to reiterate its focus on saving jobs. In a further sign that the prognosis for the economy remains grim, the budget announcement date has been brought forward to 22 January; expectations are for generous handouts to boost competitiveness in the longer term. Even with this as backdrop, we do not expect a quick turnaround in the local economy as weaknesses in the externally-oriented sectors have been transmitted to domestically-oriented sectors. In terms of valuation, statutory board bonds in the short-end are trading at attractive spreads to government bonds and may be the better choice (as compared to the latter). On corporate bonds, the wide spreads look increasingly attractive as liquidity has begun to flow back into the market. However, we will continue to stay defensive on quality and short-duration as the economic cycle does not support credit fundamentals. We will, however, re-assess the credit markets after key refinancing deals come through in the market.

We now expect global GDP growth of just 1%~2% in 2009. Specifically, we expect the 2009 GDP of major industrial economies to contract 1.6% whilst emerging economies are likely to do worse with an expected contraction of 3.9% in 2009; the worst emerging market performance in eight years. A bright spot in all this is our belief that global government policy interventions may start to produce results that could in turn start to gain traction in 2H09; and deliver a boost to growth in 2010. Whilst a weak macro environment tends to favour bonds, do note that financial markets tend to be forward looking. If expectations for a recovery are in place, risky assets may be favoured instead.

9 January 2009

ASIAN EQUITIES

SINGAPORE

Outlook

Our market view

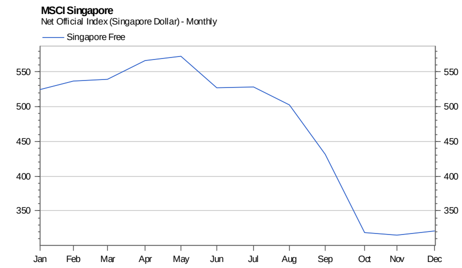
- During the first half of 2008, spiralling food, energy and commodity prices led to inflationary concerns. In October, as the US housing and credit problems worsened and led to a financial market meltdown, sentiment turned very negative. The economy is now in a recession and continues to face downside risks from asset/wealth deflation. Plunging exports, a result of the global economic slowdown, have caused Singapore's export-dependent economy to weaken; this has also adversely impacted the demand for office space, residential property investment, private consumption and air travel.
- On the back of risk aversion amongst investors, the Singapore market was sold down along with the region. The MSCI Index now trades at the lower band of its 10-year PER average (PER of 10x, dividend yield of 5.8% and 1.1x price to book).

What we like

- We see value in the financials which is likely to be boosted by continued construction spending and a strong domestic franchise. We also like domestic-oriented sectors such as telecoms and transport. Additionally, companies with strong balance sheets are likely to weather the economic turmoil better. REITs, however, could face further downward pressure from refinancing concerns and capital raising over the next two quarters.

What we are wary about

- The external environment continues to deteriorate and the various massive stimulus efforts fail to stem the slowdown.



Source: FactSet

Review

- The MSCI Singapore Index had one of its worst years, shedding 47.3%.
- Singapore's PMI fell 1.5 points in November to 44.3, bringing the PMI to a record low. October retail sales volumes started 4Q on a sour note, falling 3.7% mom. On a sequential trend basis, retail sales volumes contracted 7.5% qoq.
- November NODX collapsed in USD terms, falling 20.8% year-on-year.
- Singapore's consumer price index (CPI) rose to a high of 7.5% yoy (in May 2008) on the back of higher food, housing and transport costs. In line with inflation, construction costs have risen across the board by at least about 13% in the first six months of 2008. However, the second half of the year saw a moderation with November CPI inflation down 0.2% mom, leaving consumer prices higher by 5.5% over a year ago. The moderation in November inflation was broad-based and sequential trend inflation has eased.

AUSTRALIA

Outlook

Our market view

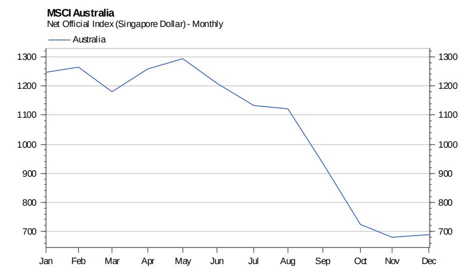
- Domestic economic conditions are clearly deteriorating rapidly. Leading economic indicators suggest Australia will not be able to avoid a recession in 2009 – its first since the early 1990s. However, Australia stands on relatively strong ground insofar as fiscal budget flexibility is concerned; it was able to put money into the hands of its citizens in December 2008. Also, the Reserve Bank of Australia has helped to mitigate the economic weaknesses through the adoption of a more aggressive interest rate easing stance. With the rate at 4.25% currently, the Reserve Bank still has further room to cut should the need arise.
- While market valuations are arguably attractive, the materials sector should continue to see sizeable earnings downgrades. Given the large weighting of the materials sector, this should result in the market trading at higher adjusted PER multiples. 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/don't like

- Generally more defensive sectors offering high and sustainable dividend yields.
- Underweight materials (prefer diversified resource and gold exposure) but looking to add to this sector given the significant correction. Given the extent of recent declines, valuations in this sector appear reasonable.

What we are wary about

- Australia's high debt ratios (Household).
- China GDP growth slows significantly.
- Commodity price weakness.



Source: FactSet

Review

- The Australian stock market lost 50.6% (SGD terms) in 2008, one of its worst years. Stocks collapsed as the prospects of a synchronized global recession, including China's growth slowing to 5-8% range, became more apparent and commodity prices collapsed.
- Unsurprisingly, the financial sectors (i.e. Banking and Real Estate) led the market down. Commodities and energy both held up well in the 1H08, only to collapse in the second as evidence of demand destruction stemming from the global slowdown surfaced.
- The RBA made two interest rate hikes within 1Q08 in the light of then rising inflation but was forced to cut by a massive 3% on four occasions within the second half of the year as a global recession loomed. The Australian dollar behaved in a similar fashion, rising to almost parity versus the US dollar in the early part of the year but subsequently collapsed falling to $0.60 in a matter of 5 weeks.

CHINA

Outlook

Our market view

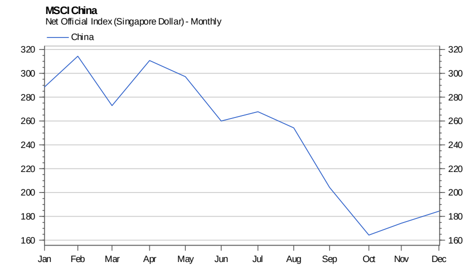
- Whilst we are positive on China's economic growth prospects in the medium to longer term, we are cognizant that China is facing intensified headwinds in the short run given the global financial turmoil, external demand slowdown and slump in the property market.
- The Chinese government has moved to arrest the slowdown of growth momentum through monetary easing as well as the unveiling of a CNY 4 trillion fiscal stimulus package; the package includes tax reform, investment in infrastructure and affordable housing, as well as income boosting measures for households. We expect the government to unveil more initiatives to stimulate the economy going forward.
- Cyclical headwinds in the near term are likely to adversely impact corporate earnings; we reiterate our belief that China remains attractive as a market for investing in the long term with a stable political environment, high savings, export competitiveness and competent macroeconomic management.

What we like

- Defensive sectors; prefer companies with strong balance sheets, earnings visibility and sustainable cash flow generation capability amidst the current turbulent market.
- Sectors that would benefit from increased public spending.

What we are wary about

- Risk of a 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 a deeper-than-expected property market correction and a protracted slowdown in the manufacturing sector.



Source: FactSet

Review

- The MSCI China Index fell 50.8% (SGD terms) in 2008.
- Trade surplus for November rose to a record of US$40.1 billion, compared to US$35.2 billion in October, helped by a steep fall in imports which declined 17.9% yoy.
- Industrial production rose at the slowest pace in seven years, registering 5.4% growth year-on-year in November due to a decline in export demand and weakness in the domestic property market.
- Retail sales rose 20.8% year-on-year in November, lower than October's 22% gain.
- CPI rise of 2.4% year-on-year in November was attributed to a decline in food prices (change of 4.0% year-on-year registered in October).
- Electricity output decline of 11% year-on-year in November (-4% year-to-year fall in October) was attributed to a decline in demand from heavy industry; steel, non-ferrous metals, construction materials and chemicals demand slumped.
- China's official manufacturing Purchasing Managers Index (PMI) rebounded to 41.2 in December from the record low of 38.8 in November. Components that led to the rebound were production, new orders and purchasing prices. The December PMI reading showed that manufacturing activity was still in contraction mode as the PMI was still below the 50 threshold; note though that the pace of contraction decelerated month-on-month in December.
- The central bank cut its benchmark lending rate by 27 basis points to 5.31% and also the benchmark deposit rates by 27 basis points to 2.25% on 22 December 2008; this was the 5th rate cut in 3 months.
- On 18 December 2008, the Chinese government cut petrol prices by 14%, diesel prices by 18% and kerosene prices by 32% to boost the country's flagging oil demand.

HONG KONG

Outlook

Our market view

- A contraction is projected for 2009; the economy has slipped into recession in 3Q08 with economic contraction of 2.2% expected for 2009.
- We expect Hong Kong to be badly affected by global macro shock and the slowdown of growth in China, given the openness of its economy and its reliance on the Chinese market.
- After the steep correction, the MSCI Hong Kong is trading at close to trough valuations. The Hong Kong government has unveiled measures to stabilize the labour market and bolster domestic confidence.
- We expect market to remain weak on the back of worsening economic data and continued earnings downgrades.

What we like

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

What we are wary about

- Sharp slowdown in the global economy will impact Hong Kong's export growth given its high trade dependency.
- Slowing growth in China has an adverse impact on Hong Kong given the latter's dependence on the China market.

Source: FactSet

Review

- MSCI Hong Kong was down -51.2% in SGD terms in 2008.
- The best performing sector in December was information technology, while the worst performing sector was utilities. For 2008, the best performing sector was utilities whilst the worst performing sector was information technology.
- Unemployment rate in November increased 0.3% month-on-month to 3.8%.
- CPI's rise of +3.1% yoy in November, (+1.8% yoy in October) was mainly due to the government resuming rental charges for public-housing residents.
- Retail sales' rise of 1.1% yoy in November (+0.3% yoy rise in October) was mostly attributable to higher sales volume of fuels (+9.3%) and furniture and fixtures (+5.8%).
- Trade deficit for November fell to HKD 8.2 billion (compares favourably to HKD 14.3 billion in October). Imports for the month fell 7.9% yoy, whilst exports fell 5.3% yoy.
- The Hong Kong government has endorsed relief measures related to salaries and tax under personal assessment announced in the 2007-2008 Budget.

INDIA

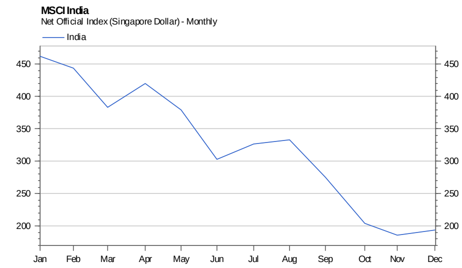
Outlook

Our market view

- While the terrorist attacks in Mumbai were tragic, the stock market hardly flinched when trading resumed. This suggested the market had priced in significant negative outcomes before the attacks and therefore should offer an attractive medium entry point.
- Politically, this event might have shifted support away from the incumbent ruling coalition, possibly into the hands of the Bharatiya Janata Party (BJP). However, it appears that the stock market is ambivalent so long as either the BJP or the ruling United Progressive Alliance is in power.
- The rate of decline in inflation is now surprising on the downside; the downward trend should continue as the decline in oil and commodity prices is expected to continue apace. This should continue into 1Q09 and could be seen as supportive of economic growth.

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 segments which are involved in the generic chronic drugs, contract research or manufacturing.



Source: FactSet

Review

- MSCI India was down -64.6% in SGD terms in 2008.
- The Indian stock market started the year on a weak footing characterised by heightened fears of a US recession fanned by more sub-prime related downgrades, a huge trading scandal at a large European bank and the then imminent downgrades of bond insurers. By the middle of the year, the gains in 2007 were totally given up. Clearly, the perception of India being more insulated versus global equity markets turned out to be illusory. As the sub-prime crisis evolved into a global credit crisis that claimed Lehman Brothers and AIG, risk aversion became more pointed and capital was pulled out of India, bringing the market back down to its 2005 levels. While the terrorist attacks in Mumbai in November were disastrous in terms of negative news flow, the equity market proved to be relatively resilient.
- Materials, telecommunications, industrials and financials sectors underperformed whilst the consumer staples, healthcare and IT services sectors did relatively well. The Rupee declined by about 20% for the year, reflecting the outflow of capital from the country.
- Inflation peaked at nearly 13% (as measured by the Wholesale Price Index) in August, mostly because of a lowering of fuel subsidies. By early December, fuel prices were cut because of falling crude prices, almost halving inflation from peak levels. In line with the fast declining inflation rates, the Reserve Bank of India has turned more accommodative in setting borrowing costs lower in the economy by cutting various policy rates by moves of between 1% and 2% over the course of the year.

INDONESIA

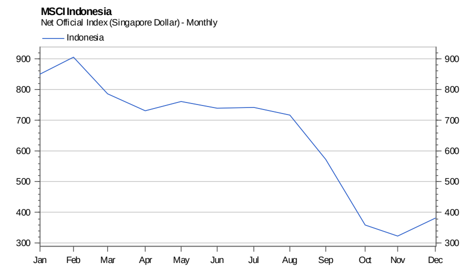
Outlook

Our market view

- Inflation and interest rates fears started to recede during the second half; exports had slowed in the second half amidst a collapse in commodity prices worldwide attributed to the global financial and economic downturn. As forex reserves plunged, the central bank began to reduce interest rates towards the year-end to stoke demand. We expect exports to remain weak and domestic consumption to slow substantially on the back of weak commodity prices and plunging demand. We also expect that it would continue to be challenging for small businesses and individuals to secure bank financing. The election this year could prove to be a non-event if President SBY were to win; we expect the political environment to be largely stable.

What we like

- In the near to medium term, the volatility presents an opportunity for gaining exposure to the long term structural growth of the commodity sector, which is driven by China and India. The resource sector, such as mining and energy (amongst others), should benefit from increased investment spending in the long term. We prefer large domestic companies with strong franchises and market shares in sectors like the coal, palm oil, financials and telecoms. We would avoid consumption stocks in the near term, given our expectation of weakening domestic demand.



Source: FactSet

Review

- MSCI Indonesia was down -56.4% in SGD terms in 2008.
- December's returns brought some cheer to the market, with the Jakarta Composite Index advancing over 14% in SGD terms.
- The Rupiah managed to register a 10% gain during the month, resulting in a healthy 20% dollar return over December. On a full year basis, however, the Rupiah had depreciated by 14% against SGD.
- The finance minister revised down 2009 growth expectations to 4.5%. When the BI chose to cut interest rates by 25 bps, a move that was not widely anticipated, this signalled that inflation fears were thought to be receding. To aid the cooling of inflationary pressures, the 8% gasoline price cut on 1 December 2008 was followed by a broader 8-12% cut in retail fuel prices. As inflation abated further in December, the CPI declined by 0.04% month-on-month.
- The first half of 2008 saw a rapid rise in commodity prices, with oil prices peaking US$145 in July 2008, boosting Indonesia's coal and palm oil exports and its equity market.

JAPAN

Outlook

Our market view

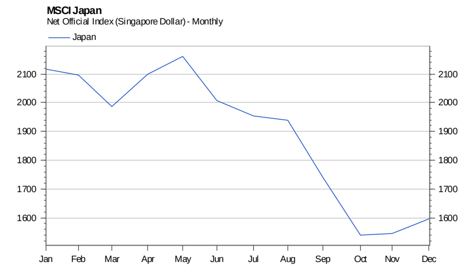
- A sharp deterioration in the Japanese economy was evidenced from the December Tankan Survey (released on 15 December 2008). In 3QFY08, business condition across all segments deteriorated sharply and is expected to continue to worsen in 4QFY08. Sales, profit and margins for FY08 were revised down significantly given the weak global demand situation and strong yen. Alongside the weak earnings projections, firms reported an increase in excess capacity and revised down capex plans in FY08 , this marked the first yoy decline in capex since 2002.
- From December, companies (starting with the retailers) will be announcing their third quarter results. We expect the corporate results to be weak due to the slump in demand and the strong yen.

What we like

- We believe many Japanese companies are highly competitive globally and have penetrated major developed and emerging markets. Many of them now have stronger balance sheets and therefore are better able to withstand a downturn and to continue investing in product development and capital expenditure. We believe this will enhance their competitiveness against their global peers and they will benefit more when the recovery eventually comes about. We will continue our strategy of bottom-up stock-picking and look to invest in such companies while their valuations are cheap.

What we are wary about

- The government raised the size of the economic fiscal stimulus package from yen 1.7 trillion to yen 5 trillion. Included in this package are measures to support small and medium businesses and the financial sector.
- Lack of specifics from the Obama camp on the upcoming US fiscal stimulus package; whilst the coordinated actions taken by various governments around the world to prevent the financial crisis from deepening have eased some concerns, they have yet to gain traction.
- Political instability adding to stock market woes: the popularity of the new PM Taro Aso has been declining quickly in the midst of the slumping economy. This poses a problem for the LDP as Lower House elections are due by September 2009.



Source: FactSet

Review

- MSCI Japan was down -29.1% in SGD terms in 2008.
- The Japanese stock market declined sharply during the year, buffeted by weak external and domestic demand and earnings disappointment. The unexpected bankruptcy of Lehman Brothers in the US in September and a global credit crunch caused a climatic sell-off in October. Although Japanese banks and companies managed to avoid the sub-prime problems suffered by many US and European financials, they could not escape the subsequent credit crunch and collapse in global demand where even previously high-growth emerging economies like China, suffered sharp slowdowns. The yen also strengthened sharply as the yen-carry trade was unwound globally, causing more pain for the export sector.
- The domestic economy entered into recession following 2 consecutive quarters of GDP contraction at -3.7% qoq annualized in 2Q and -1.8% qoq annualized in 3Q08. The Bank of Japan cut its overnight target rate twice during the course of the year to 0.1% (as at December 2008).
- The economic data releases for November continued to worsen, with key economic indicators like consumer confidence, the job-to-applicant ratio, industrial production and small business confidence continuing to show deterioration.
- For the year 2008, defensives and domestic demand-oriented sectors like the utilities and railway sectors were the best performing. In contrast, the cyclical sectors such as industrial, technology and autos were the worst performing as earnings were adversely impacted by the strong yen and unprecedented slump in global demand.

KOREA

Outlook

Our market view

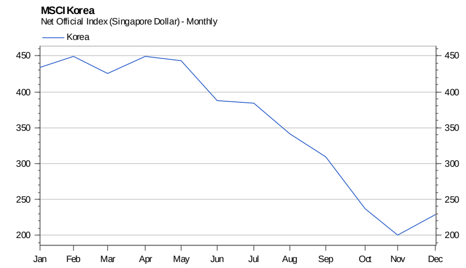
- We maintain our cautious view and expect the market to be volatile as key macroeconomic and financial indicators signal more protracted credit and recessionary pressures globally. Going forward, homegrown issues will become as dominant a market driver as global issues, with the domestic banking industry scaling back balance sheet, causing deleveraging of heavily geared households. 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 the re-rating of the market.

What we like

- The major non-life insurers should experience resilient new business and premium growth and their earnings from insurance business should 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.



Source: FactSet

Review

- MSCI Korea was down -55.2% in SGD terms in 2008.
- Since the beginning of the year, the MSCI Korea Index had been under the cloud of concerns about the US credit crisis. It followed a series of negative news flows, including substantial write-downs by the US banks, and the path of the US equity market. It fell 16.82% in SGD terms during the first 3 months.
- Although it recovered partially in April following liquidity injection and policy rate reduction by the US Federal Reserve, the index trended down again from June, initially due to continuous rise in global oil price to US$147 per barrel, followed by KRW's depreciation, the global financial turmoil following Lehman's collapse in September, concerns over a global economic recession and Fitch's downgrade of Korea's outlook to negative due to concerns regarding potential erosion of the sovereign's external credit strengths. In view of increased uncertainties, foreign investors had net sold US$30.5 billion worth of Korean equities aggressively in 2008 and the KRW/USD fell 26.0%.
- Thanks to aggressive monetary easing, liquidity injection and the government's plan for restructuring the domestic construction sector amid a severe real estate downturn, the index ended the year with a 14.4% rebound in SGD terms in December.
- During the year, weakness was broad-based across all sectors. The worst performing sectors were industrials, financials and consumer discretionary.

MALAYSIA

Outlook

Our market view

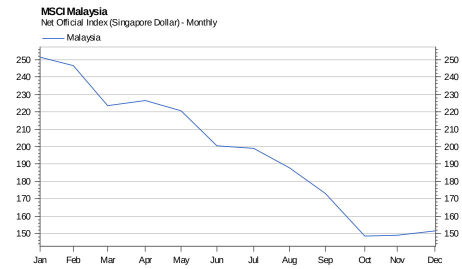
- A wave of changes swept the political landscape in Malaysia during the 12th General Elections held on 8 March 2008 when the ruling party, Barisan Nasional (BN) lost 2/3 majority in the Parliament and 5 states to the opposition: Kelantan, Kedah, Penang, Perak and Selangor.
- The political temperature has subsided since then, as opposition leader Anwar Ibrahim had admitted difficulty in seizing control of the government, especially after PM Abdullah Ahmad Badawi announced that he will hand over his office to his deputy, Najib Tun Razak by March 2009.
- PM Abdullah Ahmad Badawi announced a pro-growth 2009 budget to counter the downturn expected in the next few quarters. The budget deficit is expected to reach 4.8% in 2008. The government also announced a market-driven subsidy restructure scheme such as (1) a 41% and 63% increase in petrol (MYR 2.70) and diesel (MYR 2.58) prices, which were later cut to MYR 1.80 and MYR 1.70 respectively, and (2) electricity hike of 18%-26% for household and commercial/industrial.
- BNM also cut banks' statutory reserve requirement rate by 50 bps to 3.50%.
- 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, seems positive. It signals the intent from the ruling party to both pump prime the economy out of an impending economic slowdown and also to 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 judgment on the new PM.

What we like

- Construction and property sectors should start to pick up as the government commences 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 amidst 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 gathers pace.



Source: FactSet

Review

- MSCI Malaysia was down -41.2% in SGD terms in 2008.
- The retail prices of petrol were revised down twice last month to MYR 1.80 per litre. The government has decided against setting a floor price for fuel, but the price of premium petrol would be capped at MYR 2.70 per litre.
- The Malaysian IP fell 2.1% mom, seasonally adjusted in October due to weak output across three major sectors (manufacturing, mining and electricity). This decline in October sequential trend growth was the weakest since June 2001.
- October exports fell 20.1% mom, seasonally adjusted in USD terms, marking the worst monthly performance since February 1985 (-21.9%). Weakness was most severe in electronics, but non-electronic exports dropped significantly too.
- The Prime Minister unveiled two elements of his reform agenda in the Dewan Rakyat, tabling a bill to fight corruption and another to make judicial appointments more transparent.
- PAS has stood firm that Hudud and Qisas Laws would be implemented should Pakatan Rakyat take over the government. The push has not only resulted in criticism from Barisan Nasional parties, but also from its Pakatan Rakyat partner, DAP.

PHILIPPINES

Outlook

Our market view

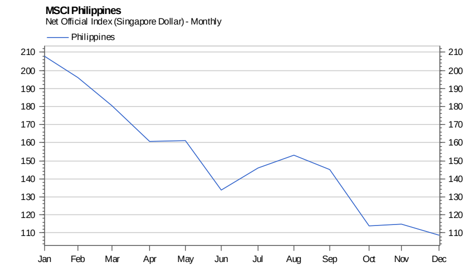
- During 2008, the Philippines stock market saw sharp declines, on fears of a global economic slowdown. Rising risk aversion caused global investors to aggressively pare down their positions in emerging market equities. This was exacerbated in the months of April and May where inflationary concerns dominated headlines. The global rise in energy and food prices especially, hit countries with lower disposable income.
- Inflationary concerns which have taken centre stage are showing signs of easing on slowing global demand and receding commodity prices. Despite this, prices are expected to be sticky downwards. With Philippines having a lower GDP per capita, domestic consumption is still likely to remain weak in the short term.
- In 2H08, concerns over a rapidly slowing US economy started to raise concerns over the sustainability of OFW deployment and remittances; these remittances have historically been a significant contributor to GDP growth.
- OFW remittances despite being resilient so far in 2008 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 falling into a deep recession; it is feared that large numbers of OFWs would be retrenched as a consequence. A protracted slowdown in the US may impact domestic spending in the Philippines as remittances start to decline.
- Political risk is another concern; there may be renewed calls for President Arroyo to step down amidst increased concern over the slowing economy. Due to the above headwinds, we have turned cautious on the Philippines 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 the production stage, and on the back of increased foreign investments.

What we are wary about

- A prolonged recession in the US.
- Slowdown in OFW remittances.



Source: FactSet

Review

- MSCI Philippines was down -52.5% in SGD terms in 2008.
- The BSP cut its key policy rate by 50 bps to 5.50% against consensus expectation of only a 25 bps cut. Rates on the term RRPs, RPs, and special deposit accounts were adjusted accordingly.
- November CPI was negative in the month (seasonally adjusted); that was the first time since 1999 that the sequential series have been negative for two consecutive months. The large 0.5% mom, seasonally-adjusted decline in the index left the level up less than expected at 9.9% yoy.
- OFW remittances in October grew by just 3.3% yoy. The inflow of US$1.43 billion, however, was still the second highest on record. Total remittances for January-October period hit US$13.7 billion, +15.5% yoy.
- The unemployment rate inched up by 50 bps to 6.8% in October 2008 compared to a year ago. 860,000 new jobs were generated between October 2007 and 2008 as against some 1.5 million new workers that join the labour force annually.
- Seasonally-adjusted October exports gapped down by 9.2% mom, leaving headline export growth at a much weaker-than-expected -14.6% yoy (consensus -5.0%). This was the fourth consecutive monthly decline in exports.

TAIWAN

Outlook

Our market view

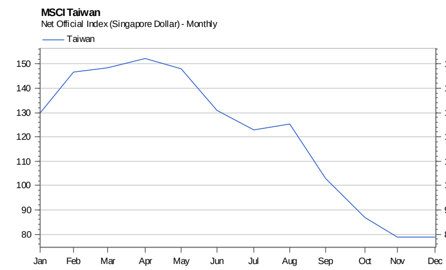
- We see volatility and modest returns as key macroeconomic and financial indicators signal more protracted credit and recessionary pressures globally. The current state of domestic economic conditions combined with imminent government actions should make domestic sectors relatively more resilient than 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 should catalyze a re-rating of the market.

What we like

- We like telecom service operators for their earnings visibility given relatively benign competition in the local mobile market. Their healthy balance sheets and solid free cash flow result in minimal credit exposure and their dividend yield of 7-9% can be enhanced by potential capital reduction.
- We also like construction companies and building material suppliers because the 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

- MSCI Taiwan was down -46.4% in SGD terms in 2008.
- At the beginning of the year, the MSCI Taiwan Index was under the cloud of concerns about the US credit crisis. It followed a series of negative news flows, including substantial write-downs by the US banks, and the path of the US equity market. It fell 11.9% in SGD terms in January alone.
- However, the market's focus quickly shifted to President Ma Ying-Jeou's friendly stance on cross-strait relations, his victory in the presidential election in March, liquidity injection and policy rate reduction by the US Federal Reserve. As a result, the index more than recovered from the correction by rising 17.3% in SGD terms in the next 3 months.
- Since mid-May, however, the index had been trending down persistently, mainly affected by renewed credit concerns in the US, the global financial turmoil following Lehman's collapse in September, concerns over a global economic recession and the government's lower-than-expected GDP growth guidance for 2008/2009. In view of increased uncertainties, foreign investors and local investment trust companies had been aggressive net sellers of Taiwanese equities. In October, the government reduced the trading range from -7% - +7% to -3.5% - +7.0%, intending to ease the selling pressure, but it limited market liquidity and led to further panic selling, causing the index to limit down for a few days. Overall, it had lost 52.9% from its peak in mid-May.
- During the year, there had been heavy selling across all sectors and the worst performing sectors were information technology, consumer discretionary and materials.

THAILAND

Outlook

Our market view

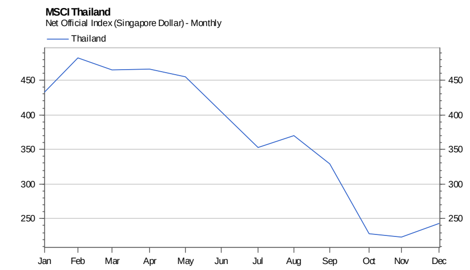
- The stock market has been affected by both political uncertainty and more recently by worries over a sharp economic slowdown due to the severe global recession. We expect the market to rally in the short term on the back of falling oil prices, the Bank of Thailand cutting interest rates, and announced steps by the new government to pump prime the economy. Although the political situation in Thailand has stabilized for the time being, tensions remain between the PAD and pro-Thaksin supporters.
- In terms of valuation, Thailand's stock market which is trading at 7.6x forward earnings and dividend yield of 5.6% is one of the cheapest in Asia.

What we like

- We continue to favour the financial sectors on the back of interest rate cuts. We maintain our neutral stance on the energy-related sector.

What we are wary about

- Slowing global economy.
- Deterioration in the domestic political situation.
- Weaknesses in the current account and trade balances.



Source: FactSet

Review

- MSCI Thailand was down -48.4% in SGD terms in 2008.
- The Thai stock market fell in 2008 on the back of increased political tension and worries over slowing economic growth brought on by the global financial crisis.
- Most major sectors experienced declines, with the defensive consumer staples and telecom sectors holding up better.
- 2008 was a year characterized by political turmoil. In May, a State of Emergency was declared after anti-government protestors besieged the government house, escalating clashes between the anti-government protestors and pro-government supporters. Prime Minister Samak was forced to resign after the Constitutional Court ruled that he violated Article 267 of the Constitution. His successor, Somchai Wongsawat, was in turn ousted when the Constitutional Court ordered the disbanding of the ruling People Power Party and two allied parties and had their executives banned from politics for five years. The eventual election of a new Prime Minister, Abhisit Vejjajiva, in December soon after the PAD protests that forced a lockdown of Bangkok airports for 8 days, marked a shift in the political climate; this new Democrat-led government is said to enjoy more support from key institutions.
- Latest economic data for November showed signs of economic moderation; private investment expanded at a subdued rate as private consumption fell. Reflecting the worsening global economic environment, exports, imports and manufacturing production growth were down sharply and the trade balance was in deficit despite the moderation in oil imports due to the sharp decline in exports.
- Inflation fell to 2.2% year-on-year in November as price pressures eased. By the end of 2008, the Bank of Thailand had cut interest rates by a larger-than-expected 100 bps to 2.75%; there are expectations of further cuts in 2009.

VIETNAM

Outlook

Our market view

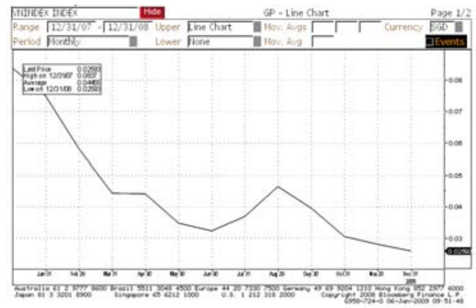
- With concerns over inflationary pressures and the stability of the Vietnamese Dong subsiding, the government has now turned its focus to measures to stimulate the domestic economy.
- In response to the slowing economy, the State Bank of Vietnam has been cutting interest rates aggressively since October. 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 11x 2008 Price/Earnings ratio. The market is currently trading below its previous lows seen during the middle of the year when there were concerns over Vietnam's balance of payment. The Vietnam's 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 diluted by increased capital raisings by companies.
- Corporate governance and transparency issues.
- Deviation from core business into non-core activities.



Source: Bloomberg

Review

- The Ho Chi Minh Stock Index was down -68.8% in SGD terms in 2008.
- Buffeted by high inflation and slower global economic growth, the Vietnamese stock market fell in 2008.
- The Vietnamese economy exhibited signs of overheating when inflation reached a high of 28.3% year-on-year in August; this in turn was driven mainly by rapidly rising food and energy costs. Moves by the State Bank of Vietnam to tackle the scourge of inflation (i.e. monetary tightening and interest rate increases) served to pressure the stock market further. The stock market weakness was exacerbated in the aftermath of the Lehman's collapse as increased risk aversion resulted in foreign investors exiting the market. Eventually, as oil prices fell and inflationary pressures eased, the State Bank of Vietnam moved to cut interest rates aggressively to boost the economy.
- Vietnam's GDP in 2008 was 6.2%, the lowest in 9 years. The trade deficit reached US$17.5 billion, the highest level ever recorded; in response to this, the State Bank of Vietnam devalued the Dong by 3%.
- In response to slowing growth, the Vietnam government announced a slew of measures to boost production and exports, stimulate domestic consumption, increase volume of loans made, provide support to the poor as well as promise to review taxes.
- Key uncertainty for the market is earnings risk; these are likely to deteriorate following write-offs by banks and property companies.

GLOBAL BONDS

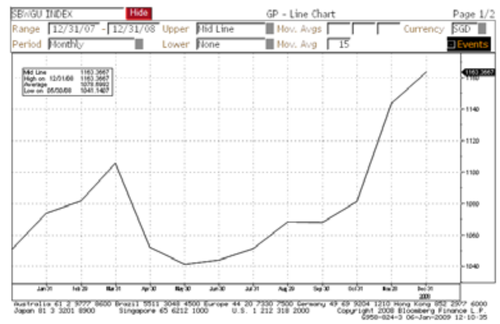
Outlook

US

The relatively mild recession throughout the first half of this year turned into a deep downturn when the credit markets seized up. Data since September has shown a very sharp downside break in activity, with the forecasted decline in real GDP in 4Q08 and 1Q09 expected to be the largest two-quarter contraction since the early 1980s. Real consumer spending is especially weak, as households are shell-shocked by the combination of slowing income growth, rising unemployment, massive destruction of stock market wealth and housing wealth contraction. The Fed has lowered official interest rates to record low levels and is providing unconventional support to the market for residential mortgages, commercial paper, and consumer ABS. The incoming Obama administration has pledged to present a very substantial fiscal stimulus package to be quickly passed by Congress. Policy support should bring about a return to economic growth by 3Q09. However, the recovery will likely remain tepid as lenders and borrowers remain cautious. High levels of slack in the economy will exert downward pressure on inflation, with core inflation expected to recede to 1.0% or less by the end of 2010. We expect US interest rates to be range-bound in the near term but move up in the latter part of the year.

Euroland

The euro area is stumbling towards protractedly weak growth. Both the speed with which the business surveys readings have collapsed and the levels they have reached are unprecedented, and point to large GDP contractions at the turn of the year. We expect a very slow recovery following GDP declines in 1H09, as tight credit conditions and weak global demand continue to restrain growth. The wider policy response is modest thus far. The European Commission recently attempted to harmonize fiscal responses across the EU to maximize policy impact. But not all governments are able and willing to implement large fiscal stimuli, with fiscal responses looking piecemeal and relatively weak overall (less than 0.5% of GDP in 2009). Rapidly diminishing inflation risks give the ECB significant scope for easing. Euro area inflation has almost halved since its 4% peak in July, mainly owing to sharp falls in commodity prices. We expect the ECB to cut rates, reaching as low as 1%. A long duration stance is recommended for European interest rate markets.



______ Citi WGBI
(in SGD terms)

______ JACI Composite Total Return
(in SGD terms)

______ UOB SGBIALL
(in SGD terms)

Source: Bloomberg

Asia

Asia is set to continue to face difficult macro conditions. As income levels fall and banks become more reluctant to lend, consumers and companies will curtail their spending. Government spending will have to take over to support growth. With the exception of India, Vietnam and Sri Lanka which have been running wide fiscal deficits, most of the Asian governments have the capacity to implement fiscal stimulus packages to boost consumption; but this will lead to supply risk in 2009. We expect to see further monetary easing, lower interest rates in Asian bond markets and yield curve steepening as increased government issuance pushes long-end yields higher.

Singapore

4Q08 GDP came in at -2.6% yoy or -12.5% qoq. The implied full year 2008 GDP growth of 1.5% is down from the government's earlier forecast of 2.5%. The drag on growth was chiefly attributable to the manufacturing services sector (-9% yoy). Construction, which had been holding up GDP growth, slowed to 13.3% yoy 4Q08 from 18.6% yoy in 3Q08. Services only expanded 1.1% due to the collapse in world trade and declines in financial activity. An expansionary fiscal stance is expected. Economic data will likely be dismal given the high base in 1H08. Near-term, we look to trim some duration as the curve has flattened and would continue to stay defensive on credit quality.

CURRENCY

SGD

Outlook

USD/SGD likely to be range-bound with upside bias as MAS maintains neutral NEER policy amid slowdown in economy.

- In order to fight high inflation the MAS at its monetary policy review in April 2008, re-centered the SGDNEER policy band to a stronger level, while maintaining the upward slope and width of the policy band. In October 2008, the MAS shifted to a neutral exchange rate policy or a zero appreciation pace for its SGDNEER policy band. This shift towards an easier policy was to soften the impact of the weak global environment on its economy.
- The Singapore economy entered into a technical recession in 3Q08, its first since 2001, when it posted a second straight quarter of negative annualized qoq growth. The contraction in 4Q08 was worse than market expectations, bringing full year 2008 GDP growth to 1.5%, significantly below the government's previous forecast of 2.5%. MTI has revised down its 2009 forecast range to -2 to 1% (previous -1 to 2%) to reflect the likelihood that the contraction in 1H09 could be deeper than previously expected.
- While the economy could potentially contract in 2009, the growth deceleration is more gradual compared to the previous recessions in 1997/98 and 2001/02. Hence maybe a less drastic monetary stimulus is required in this recession. The SGDNEER is likely to undergo an extended period of weakness into 2009, drifting towards the lower end of the policy band heading into the MAS monetary policy review in April 2009. Unless the global financial crisis becomes more protracted and dire, the neutral SGDNEER policy is likely to remain unchanged throughout 2009. The USD/SGD is likely to consolidate in a broad 1.45-1.55 range with an upside bias in 1H09 before moving lower below 1.45 in the second half of 2009.

SGD

Review

Source: Bloomberg

- USD/SGD broke down a 4-month rising channel and fell sharply to 1.4167 low in December 2008 before closing the month at 1.4300 versus 1.5130 the previous month.

Economic data

- The advance estimate of 4Q08 GDP showed the economy contracted at an annualised 12.5% qoq, more than twice the pace of the 5.4% fall in 3Q08. On a yoy basis, the economy shrank 2.6% in 4Q08 compared to a 0.3% contraction (revised from -0.6%) in the third quarter.
- Retail sales index fell 3.6% yoy in October 2008 after a 6.9% increase in September 2008. Excluding vehicles, sales gained 3.1%.
- Non-oil domestic exports fell 17.5% yoy in November 2008, the biggest fall in more than six years, after a 15.4% yoy decline in October 2008.
- CPI inflation eased in November 2008 to 5.5% yoy after increasing at 6.4% yoy in October 2008.
- Industrial production fell 7.5% yoy in November 2008, following a decline of 12.1% yoy in October 2008. Electronics production, which accounts for about 30% of total manufacturing output, plunged 19.4% yoy.