

Asian Weekly

Weekly Commentary

9 January 2012

Overview

- Asian stockmarkets rose last week following improving manufacturing data from Australia, China and India.
- In a key step towards improving Japan's stretched finances, the government and the ruling DPJ agreed on a draft plan to raise the consumption tax from 2014. Separately, the cabinet approved a US\$1.16 trillion budget for the 2012 fiscal year, with a record 49% financed by bonds even as the country struggles to rein in its massive public debt.
- India will allow foreign nationals, trusts and pension funds to invest directly in local listed companies from mid-January onwards to attract more funds and reduce market volatility.
- China's property prices fell for a fourth straight month in December after the government reiterated plans to maintain industry curbs.
- Thailand's exports dropped for the first time in two years as supply chain disruptions caused by the floods took a toll on manufacturing in November. Inflation in Indonesia, Thailand and the Philippines eased in December as food prices stabilised.
- Singapore and Malaysia are studying the possibility of including an underground road link to the proposed mass railway system between the city state and Johor Bahru.

Corporate News

Australia: Rio Tinto's Canadian aluminium production unit, Rio Tinto Alcan, reportedly locked out about 800 employees after the union rejected its proposal for a new labour contract.

China/Hong Kong: China increased the threshold on a windfall tax on crude oil production to US\$55 a barrel from the previous US\$44. The move, which effectively cuts taxes for oil companies such as **PetroChina** and **CNOOC**, should help to mitigate the impact of a higher resource tax and increasing costs. The mainland is also testing a new gas-pricing scheme in Guangdong and Guangxi, in which natural gas prices in the two provinces will be linked to the prices of alternative energy, such as imported fuel oil and LNG. The move will benefit PetroChina as the new pricing mechanism is more market oriented. Separately, PetroChina will take over full ownership of a Canadian oil sands project for the first time after Athabasca Oil

Sands Corp sold its remaining 40% stake. **Swire Pacific** is listing its property arm, Swire Properties, with a market debut scheduled on 18 January.

Japan: **McDonald's Japan** posted record monthly sales in December as its restructuring efforts and focused strategy flowed through. In third-quarter results, supermarket operator **Maxvalu Tokai's** sales rose year-on-year, but higher costs eroded profits. Retailers **Seven & i Holdings**, **San-A** and facilities manager **Aeon Delight's** results broadly met our expectations.

Korea: **Samsung Electronics'** fourth-quarter operating profits exceeded expectations, boosted by robust performance of its handset business and the sale of its hard disk drive unit.

Malaysia: The central bank's recently issued Basel 3-based guidelines should benefit local lenders as the Tier 1 capital ratio requirement of 7% is lower than the expected 8-9%. This means that lenders, including **Public Bank**, will not need to raise cash in the short term. **Pos Malaysia** appointed the former group director of DRB-Hicom as its new group chief executive to lead efforts to enhance efficiency and build synergy between Pos Malaysia and DRB-Hicom Group.

Singapore: **Keppel Corp's** subsidiary bought a 49.9% stake in Norway's OWEC Tower, a designer of offshore wind turbine foundations, for about US\$10 million, to further develop its offshore wind energy business. **City Developments** is actively expanding its footprint in China, as its fully-owned unit CDL China bought a prime site in Chongqing for 540 million yuan, its third acquisition in just over a year.

Sri Lanka: The central bank expects the economy to grow by

8% in 2012 despite the global slowdown. We view the announcement as very positive for our six Sri Lankan holdings which are well positioned to benefit from the favourable economic environment.

Thailand: The cabinet's decision to transfer responsibility for 1.14 trillion baht in outstanding debt left over from the 1997 Asian financial crisis to the central bank will give the government room to borrow more to fund fresh programmes. The securities regulator will curb the sale of bills of exchange by commercial banks to protect individuals. From July, banks may sell such debt with a minimum investment of 10 million baht to individuals. The news weighed on local lenders, including **Siam Commercial Bank**, **Kasikornbank** and **TISCO Financial Group**, because of fears that operating costs may rise should the central bank impose new fees and charges.

We hold all the above companies highlighted.

Asian Fixed Income

Yields in most bond markets rose on the back of better-than-expected US economic data. US Treasuries underperformed across most regional Asian bond markets, with 10-year yields rising marginally. Indonesian bonds felt some light selling pressure ahead of an upcoming auction, whereas Indian bonds outperformed, boosted by foreign buying and the central bank's bond buyback.

Asian currencies started the year on a better footing, led by the ringgit. The rupee rebounded, although the rupiah and peso – the two currencies that typically benefit from improving sentiment – underperformed.

Indices Performance Table

	WOW	YTD	WOW (US\$)	YTD (US\$)	06/01/2012
Australia All Ords	1.30%	1.30%	1.05%	1.05%	4,164.50
Hang Seng	0.86%	0.86%	0.87%	0.87%	18,593.06
MSCI China (US\$)	0.39%	0.39%	0.39%	0.39%	53.03
MSCI Zhong Hua (US\$)	0.38%	0.38%	0.38%	0.38%	286.72
India NSE50	2.81%	2.81%	3.55%	3.55%	4,754.10
Indonesia JCI	1.24%	1.24%	1.78%	1.78%	3,869.42
Japan Topix	0.14%	0.14%	0.04%	0.04%	729.60
Korea KOSPI	0.95%	0.95%	0.58%	0.58%	1,843.14
FTSE Bursa Malaysia KLSE	-1.08%	-1.08%	-0.36%	-0.36%	1,514.13
New Zealand 50	-0.65%	-0.65%	-0.52%	-0.52%	3,253.43
Pakistan KSE100	-1.96%	-1.96%	-2.73%	-2.73%	11,125.35
Philippines PCOMP	2.55%	2.55%	1.87%	1.87%	4,483.36
Straits Times Index	2.62%	2.62%	2.89%	2.89%	2,715.59
Taiwan TWSE	0.68%	0.68%	0.84%	0.84%	7,120.51
Thailand SET	1.07%	1.07%	0.65%	0.65%	1,036.26
Sri Lanka	-2.37%	-2.37%	-2.30%	-2.30%	5,930.52

US DJ	1.17%	1.17%	1.17%	1.17%	12,359.92
UK FTSE 100	1.39%	1.39%	0.81%	0.81%	5,649.68
Nasdaq Composite	2.65%	2.651%	2.65%	2.651%	2,674.22
MSCI AC AP Free X Japan (US\$)	0.85%	0.85%	0.85%	0.85%	396.13
MSCI AC Asia Pac X Japan Small Cap (US\$)	1.06%	1.06%	1.06%	1.06%	799.26

Source: Aberdeen Asset Management Asia Limited, Bloomberg, Reuters, IRESS, 06 Jan 12

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