

# Emerging Markets Weekly

## Weekly Commentary

9 January 2012

### Overview

- Emerging market equities rose last week as optimism over improving manufacturing data from China, India and the US outweighed resurgent worries about Europe's debt crisis.
- China's property prices fell for a fourth straight month in December after the government reiterated plans to maintain industry curbs.
- Consumer prices accelerated in Chile and Turkey. In turn, Turkey's central bank said it would tighten liquidity. In contrast, inflation eased in Indonesia, Thailand and the Philippines as food prices stabilised.
- Industrial output contracted in Brazil in November from a year earlier. Conversely, it accelerated in the Czech Republic, driven by the production of motor vehicles.
- 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.
- Russia's crude oil production rose to a post-Soviet high in 2011, as companies took advantage of higher prices to boost output.
- Thailand's November exports dropped for the first time in two years as supply chain disruptions caused by the floods took a toll on the manufacturing sector.

### Corporate News

**Brazil:** **Petrobras** discovered a new light oil and natural gas accumulation in the Golfinho Concession, off the southeastern coast of the country. Initial analyses indicated excellent oil quality, condensate and natural gas. Shopping mall operator **Multiplan**'s preliminary results for the fourth quarter were solid, driven by growth in sales and rental revenues. **Bradesco** sold US\$750 million of five-year dollar-denominated bonds, classified as investment grade, with a 4.5% yield. The bank will use the proceeds to make US-dollar loans to domestic companies. **Vale** raised US\$1 billion in 10-year bonds at the rate of 4.425% per annum, the lowest coupon ever paid out on such debt. Separately, the miner signed a contract with Whiting Equipment Canada for the supply of salt evaporators and potash crystallisers for its potash project in Argentina.

**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.

**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.

**Mexico: ASUR** reported strong passenger traffic growth in December. Separately, the chairman concluded the sale of a 49% stake of ITA, the company's strategic partner, to Grupo Ado.

**Poland: Bank Pekao's** parent Unicredit announced a €7.5 billion rights issue at a 43% discount, highlighting Unicredit's eagerness to strengthen its balance sheet and improve its capital ratios.

**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** because of fears that operating costs may rise should the central bank impose new fees and charges.

**Turkey: Akbank** expects more muted loan growth of 12-15% this year. Separately, the bank's chief executive resigned for personal reasons and will be replaced by the former deputy chief executive of consumer banking and corporate communications Hakan Binbagil; though no major changes are expected.

We hold all the above companies highlighted.

## Indices Performance Table

| REGION/COUNTRY                          | INDEX/FUND                           | US DOLLARS |        | LOCAL CURRENCY |        |
|-----------------------------------------|--------------------------------------|------------|--------|----------------|--------|
|                                         |                                      | WOW        | YTD    | WOW            | YTD    |
| <b>REGIONAL/FUNDS/DEVELOPED MARKETS</b> |                                      |            |        |                |        |
| Emerging Markets                        | MSCI Emerging Markets                | 1.16%      | 1.16%  | 1.09%          | 1.09%  |
|                                         | MSCI Emerging Markets Small Cap      | 0.94%      | 0.94%  | 1.03%          | 1.03%  |
| US                                      | Dow Jones                            | 1.17%      | 1.17%  | 1.17%          | 1.17%  |
| US                                      | NASDAQ Composite                     | 2.65%      | 2.65%  | 2.65%          | 2.65%  |
| UK                                      | FTSE Allshare                        | 0.79%      | 0.79%  | 1.37%          | 1.37%  |
| Europe                                  | FT Europe ex UK                      | -1.61%     | -1.61% | 0.39%          | 0.39%  |
| World                                   | MSCI AC World Free                   | 0.82%      | 0.82%  | 1.24%          | 1.24%  |
| World                                   | Citigroup World Government Bond*     | -1.18%     | -1.18% | -1.18%         | -1.18% |
| <b>EMERGING MARKETS ASIA</b>            |                                      |            |        |                |        |
| EM Asia                                 | MSCI Emerging Markets Asia           | 0.74%      | 0.74%  | 0.86%          | 0.86%  |
|                                         | MSCI Emerging Markets Asia Small Cap | 0.93%      | 0.93%  | 1.04%          | 1.04%  |
| China                                   | MSCI China                           | 0.39%      | 0.39%  | 0.37%          | 0.37%  |
| Hong Kong                               | MSCI Hong Kong                       | 0.35%      | 0.35%  | 0.34%          | 0.34%  |
| India                                   | MSCI India                           | 3.51%      | 3.51%  | 2.76%          | 2.76%  |
| Indonesia                               | MSCI Indonesia                       | 1.21%      | 1.21%  | 1.52%          | 1.52%  |
| Korea                                   | MSCI Korea                           | -0.05%     | -0.05% | 0.90%          | 0.90%  |
| Malaysia                                | MSCI Malaysia                        | 0.08%      | 0.08%  | -0.63%         | -0.63% |
| Pakistan                                | MSCI Pakistan                        | -0.72%     | -0.72% | 0.08%          | 0.08%  |
| Philippines                             | MSCI Philippines                     | 1.83%      | 1.83%  | 2.50%          | 2.50%  |

|                                                   |                                      |        |        |        |        |
|---------------------------------------------------|--------------------------------------|--------|--------|--------|--------|
| Sri Lanka                                         | MSCI Sri Lanka                       | -1.30% | -1.30% | -1.27% | -1.27% |
| Taiwan                                            | MSCI Taiwan                          | 1.05%  | 1.05%  | 0.90%  | 0.90%  |
| Thailand                                          | MSCI Thailand                        | -0.41% | -0.41% | -0.17% | -0.17% |
| <b>EMERGING MARKETS EUROPE MIDDLE EAST AFRICA</b> |                                      |        |        |        |        |
| EMEA                                              | MSCI EMEA                            | 1.11%  | 1.11%  | 1.64%  | 1.64%  |
|                                                   | MSCI EMEA Small Cap                  | -0.17% | -0.17% | 0.66%  | 0.66%  |
| Czech Republic                                    | MSCI Czech Republic                  | -5.64% | -5.64% | -2.11% | -2.11% |
| Egypt                                             | MSCI Egypt                           | 0.12%  | 0.12%  | 0.21%  | 0.21%  |
| Hungary                                           | MSCI Hungary                         | -7.48% | -7.48% | -5.00% | -5.00% |
| Morocco                                           | MSCI Morocco                         | 0.97%  | 0.97%  | 2.73%  | 2.73%  |
| Poland                                            | MSCI Poland                          | -2.44% | -2.44% | 0.22%  | 0.22%  |
| Russia                                            | MSCI Russia                          | 3.67%  | 3.67%  | 3.22%  | 3.22%  |
| South Africa                                      | MSCI South Africa                    | 0.69%  | 0.69%  | 1.60%  | 1.60%  |
| Turkey                                            | MSCI Turkey                          | -1.38% | -1.38% | -1.92% | -1.92% |
| <b>MIDDLE EAST</b>                                |                                      |        |        |        |        |
| Bahrain                                           | Bahrain All Share Index              | -0.52% | -0.52% | -0.52% | -0.52% |
| Kuwait                                            | Kuwait Stock Exchange Index          | -1.73% | -1.73% | -1.56% | -1.56% |
|                                                   | MSCI Kuwait                          | -2.27% | -2.27% | -2.08% | -2.08% |
| Oman                                              | Muscat Securities Market Index       | 0.63%  | 0.78%  | 0.63%  | 0.78%  |
|                                                   | MSCI Oman                            | -0.06% | -0.05% | -0.06% | -0.05% |
| Qatar                                             | Doha Securities Market Index         | 0.56%  | 0.56%  | 0.57%  | 0.57%  |
|                                                   | MSCI Qatar                           | 0.64%  | 0.64%  | 0.64%  | 0.64%  |
| Saudi                                             | Tadawul All Share Index              | 1.28%  | 0.78%  | 1.28%  | 0.78%  |
| UAE - Abu Dhabi                                   | Abu Dhabi Securities Market          | -0.66% | -0.66% | -0.66% | -0.66% |
| UAE - Dubai                                       | Dubai Financial Market General Index | -1.36% | -1.36% | -1.36% | -1.36% |
|                                                   | MSCI UAE                             | -1.14% | -1.14% | -1.14% | -1.14% |
| Israel                                            | MSCI Israel                          | 5.85%  | 5.85%  | 6.64%  | 6.64%  |
| Jordan                                            | MSCI Jordan                          | -3.41% | -3.41% | -3.44% | -3.44% |
| MSCI GCC ex SA                                    | MSCI GCC ex Saudi Arabia             | -1.22% | -1.22% | -1.12% | -1.12% |
| <b>LATIN AMERICA</b>                              |                                      |        |        |        |        |
| Latin America                                     | MSCI Latin America                   | 2.30%  | 2.30%  | 1.25%  | 1.25%  |
|                                                   | MSCI Latin America Small Cap         | 2.48%  | 2.48%  | 1.43%  | 1.43%  |
| Argentina                                         | MSCI Argentina                       | 10.82% | 10.82% | 10.82% | 10.82% |
| Brazil                                            | MSCI Brazil                          | 2.85%  | 2.85%  | 2.09%  | 2.09%  |
| Chile                                             | MSCI Chile                           | 1.95%  | 1.95%  | 0.40%  | 0.40%  |
| Colombia                                          | MSCI Colombia                        | 4.20%  | 4.20%  | 1.36%  | 1.36%  |
| Mexico                                            | MSCI Mexico                          | 0.61%  | 0.61%  | -0.93% | -0.93% |
| Peru                                              | MSCI Peru                            | 0.07%  | 0.07%  | 0.06%  | 0.06%  |
| <b>FRONTIER MARKETS</b>                           |                                      |        |        |        |        |
| FM (FRONTIER MARKETS)                             | MSCI Frontier Markets                | -0.32% | -0.32% | -0.01% | -0.01% |
| Botswana                                          | MSCI Botswana                        | -0.75% | -0.75% | 0.00%  | 0.00%  |
| Bulgaria                                          | MSCI Bulgaria                        | -4.89% | -4.89% | -2.88% | -2.88% |
| Croatia                                           | MSCI Croatia                         | -2.03% | -2.03% | 0.23%  | 0.23%  |
| Estonia                                           | MSCI Estonia                         | 2.19%  | 2.19%  | 4.34%  | 4.34%  |
| Ghana                                             | MSCI Ghana                           | -0.39% | -0.39% | 0.76%  | 0.76%  |
| Jamaica                                           | MSCI Jamaica                         | -2.06% | -2.06% | -1.94% | -1.94% |
| Kazakhstan                                        | MSCI Kazakhstan                      | 0.39%  | 0.39%  | 0.39%  | 0.39%  |
| Kenya                                             | MSCI Kenya                           | -1.27% | -1.27% | 0.93%  | 0.93%  |
| Lebanon                                           | MSCI Lebanon                         | 0.40%  | 0.40%  | 0.40%  | 0.40%  |

|           |                |        |        |        |        |
|-----------|----------------|--------|--------|--------|--------|
| Lithuania | MSCI Lithuania | -1.32% | -1.32% | 0.75%  | 0.75%  |
| Mauritius | MSCI Mauritius | -0.62% | -0.62% | 0.23%  | 0.23%  |
| Nigeria   | MSCI Nigeria   | -0.77% | -0.77% | -0.93% | -0.93% |
| Romania   | MSCI Romania   | -1.38% | -1.38% | 1.38%  | 1.38%  |
| Serbia    | MSCI Serbia    | -2.22% | -2.22% | -1.34% | -1.34% |
| Slovenia  | MSCI Slovenia  | -7.72% | -7.72% | -5.78% | -5.78% |
| Tunisia   | MSCI Tunisia   | -0.92% | -0.92% | 0.81%  | 0.81%  |
| Ukraine   | MSCI Ukraine   | 0.30%  | 0.30%  | 0.61%  | 0.61%  |

\* Local Currency of Citigroup WGB Index in USD

Source: Bloomberg, 6 Jan 12

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