

Emerging Markets Weekly



Overview

- Emerging markets rose last week as worries over lending curbs in China eased and corporate earnings were broadly positive, though an unexpected rise in US jobless claims pared gains.
- Manufacturing activity expanded in India, Hungary and Russia in July, but eased in China, Korea and Taiwan. Brazil's industrial output fell in June. In South Africa, second-quarter investor confidence weakened as the European debt crisis remained a worry.
- Indonesia's second-quarter GDP growth was boosted by domestic consumption, exports and investment. The central bank kept policy rates unchanged despite accelerating inflation in July; it also gave reassurances that the rupiah's value will be unaffected when the currency is rebased.
- Elsewhere, Turkey and Russia's inflation slowed in July. Beijing told banks to assess the impact of a fall of up to 50% in house prices in key cities where prices have risen sharply.
- India exempted state-owned listed companies from the two-month old law requiring them to have at least 25% of their shares traded. Other listed companies will still have to comply with the rule.
- Russia declared a state of emergency after fires swept across the country, leaving thousands homeless; the heat wave and drought also stoked inflationary fears. State workers in South Africa rejected a proposed 7% pay rise and threatened to strike. Meanwhile, Korean president Lee Myung Bak named a former provincial governor as the next prime minister and replaced half his Cabinet in a mid-term reshuffle to push through his pro-business reforms.

Corporate News

Argentina: **Tenaris'** second-quarter results improved from the previous three months, but fell from a year ago because of lower product prices.

Brazil: Weaker cigarette exports hurt **Souza Cruz's** second-quarter results. **Vale** announced that it will not buy a stake in rival MMX nor raise its offer price for shares in copper company Parapanema. Large investors requested oil companies, such as **Petrobras**, to outline plans to contain oil spills, following the Gulf of Mexico leak.

China/Hong Kong: Interim corporate earnings were broadly upbeat. **Swire Pacific's** results were driven by the sharp turnaround in Cathay Pacific and solid performance from its property arm. **Pacific Basin's** decent results were aided by healthy charter rates and revenues; its purchase of new vessels underlined a positive outlook. **Stan Chartered's** record earnings were boosted by broad-based improvements in asset quality, expenses control and wholesale banking momentum.

Hungary: **Gedeon Richter's** second-quarter results beat expectations, helped by better US sales, a milestone payment from US-based Forest Labs for the drug Cariprazine, which they are jointly developing, and a foreign exchange gain.

India: **ICICI Bank's** profits rose, as it strengthened its capital base and loan book by selectively pursuing growth. Paint company **Kansai Nerolac** demonstrated its ability to pass on rising costs to customers in its results. **Gail's** earnings rose on higher gas transmissions and robust performances from its LPG and liquid hydrocarbons units. Although **Grasim** suffered from weak cement prices, its viscose staple fibre business reported good results. It is on track in consolidating its cement businesses under Ultratech Cement.

Indonesia: Quarterly results were mixed. **Bank OCBC NISP's** results were lifted by better net interest margins and lower provisions. Higher prices and sales volumes aided **Inco's** earnings. **Telkom's** margins were hurt by rising operating expenses. **Astra's** subsidiary United Tractor's performance reflected margin compression in two key business units.

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Korea: The government plans to sell its stake in Woori Finance's two regional banks, Kyongnam and Kwangju, as part of a wider restructuring of the Woori Group. Our two Korean regional bank holdings, **Daegu** and **Busan**, were reportedly interested in the deal which could potentially double the asset size if one of them is successful.

Malaysia: In quarterly earnings news, increased sales volume during the World Cup and higher selling prices underpinned **Guinness Anchor's** profits. **F&N** gained from soft drinks sales, which rose on the back of promotions at major sports events.

Mexico: Airport operator **Asur** and lender **Banorte** could be impaired by Mexicana's bankruptcy, as the airline accounts for 10% of domestic traffic and owes the bank 1.6 billion pesos. Meanwhile, the investor Jmex plans to sell its 16% stake in Asur, which saw passenger volume rise 16.2% year-on-year in July.

Philippines: **Ayala Land** posted decent second-quarter profits because of higher property sales; the developer increased its residential sales target for the year on the back of recovering demand. Separately, its subsidiary partnered Sino-Singapore Tianjin Eco-City Investment and Development to develop a residential project in China.

Poland: **Bank Pekao's** loan and deposit growth were better than expected in the second quarter.

Sri Lanka: The stockmarket regulator imposed a daily 10% upward and downward price band on all listed securities, after heavy speculation last week led to 'unusual price increases' in some counters. In earnings news, **Aitken Spence's** strong first-quarter results were supported by its tourism, logistics and services segments. **Commercial Bank of Ceylon** reported good results, although the stronger rupee affected income from abroad.

Thailand: Higher revenue supported **Advanced Info Service's** earnings.

Turkey: **Akbank's** second-quarter profits disappointed as net interest margins narrowed, as the lender aggressively grew its loan book last quarter.

We hold all the above companies highlighted.

Indices Performance Table

REGION/COUNTRY	INDEX/FUND	US DOLLARS		LOCAL CURRENCY	
		WOW	YTD	WOW	YTD
REGIONAL/FUNDS/DEVELOPED MARKETS					
Emerging Markets	MSCI Emerging Markets	1.97%	2.17%	1.24%	1.39%
	MSCI Emerging Markets Small Cap	2.21%	5.63%	1.41%	4.78%
US	Dow Jones	1.79%	2.16%	1.79%	2.16%
US	NASDAQ Composite	1.50%	0.85%	1.50%	0.85%
UK	FTSE Allshare	3.14%	-1.40%	1.41%	-0.26%
Europe	FT Europe ex UK	3.39%	-7.45%	1.49%	-1.95%
World	MSCI AC World Free	2.38%	-0.93%	1.57%	-1.01%
World	Citigroup World Government Bond*	1.89%	4.50%	1.89%	4.50%
EMERGING MARKETS ASIA					
EM Asia	MSCI Emerging Markets Asia	2.36%	2.30%	1.57%	1.34%
	MSCI Emerging Markets Asia Small Cap	2.50%	4.02%	1.69%	3.01%
China	MSCI China	2.13%	-1.62%	2.10%	-1.52%
Hong Kong	MSCI Hong Kong	3.57%	3.86%	3.54%	3.97%
India	MSCI India	1.79%	4.22%	1.24%	3.36%
Indonesia	MSCI Indonesia	-1.45%	17.91%	-1.57%	12.17%
Korea	MSCI Korea	3.02%	5.14%	1.18%	4.90%
Malaysia	MSCI Malaysia	1.24%	15.11%	0.15%	5.80%

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Pakistan	MSCI Pakistan	-1.78%	6.01%	-1.75%	7.76%
Philippines	MSCI Philippines	4.62%	13.55%	3.13%	10.28%
Sri Lanka	MSCI Sri Lanka	1.91%	37.98%	1.51%	35.51%
Taiwan	MSCI Taiwan	3.29%	-3.82%	2.30%	-4.57%
Thailand	MSCI Thailand	2.95%	19.00%	2.26%	14.43%
EMERGING MARKETS EUROPE MIDDLE EAST AFRICA					
EMEA	MSCI EMEA	1.89%	4.15%	0.57%	3.17%
	MSCI EMEA Small Cap	1.48%	9.73%	0.27%	8.77%
Czech Republic	MSCI Czech Republic	5.13%	-0.56%	3.15%	0.88%
Egypt	MSCI Egypt	1.89%	1.82%	1.46%	5.09%
Hungary	MSCI Hungary	6.39%	-6.38%	2.69%	4.64%
Morocco	MSCI Morocco	1.55%	6.09%	0.08%	13.13%
Poland	MSCI Poland	5.30%	1.31%	2.93%	6.31%
Russia	MSCI Russia	2.63%	1.45%	1.14%	0.12%
South Africa	MSCI South Africa	0.48%	5.64%	-0.45%	3.80%
Turkey	MSCI Turkey	0.36%	13.41%	-0.61%	12.88%
MIDDLE EAST					
Bahrain	Bahrain All Share Index	0.47%	-4.01%	0.47%	-4.01%
Kuwait	Kuwait Stock Exchange Index	0.38%	-4.61%	0.06%	-4.90%
	MSCI Kuwait	0.31%	9.27%	-0.16%	8.98%
Oman	Muscat Securities Market Index	0.33%	-0.27%	0.33%	-0.27%
	MSCI Oman	0.75%	3.79%	0.75%	3.80%
Qatar	Doha Securities Market Index	1.52%	2.24%	1.51%	2.18%
	MSCI Qatar	1.15%	3.82%	1.15%	3.76%
Saudi	Tadawul All Share Index	0.11%	3.32%	0.11%	3.30%
UAE - Abu Dhabi	Abu Dhabi Securities Market	-0.30%	-7.87%	-0.30%	-7.87%
UAE - Dubai	Dubai Financial Market General Index	-1.11%	-17.19%	-1.11%	-17.19%
	MSCI UAE	-1.27%	-13.72%	-1.27%	-13.72%
Israel	MSCI Israel	2.24%	-10.33%	1.84%	-10.97%
Jordan	MSCI Jordan	-4.66%	-17.64%	-4.58%	-17.57%
MSCI GCC	MSCI GCC	0.34%	3.29%	0.24%	3.23%
MSCI GCC ex SA	MSCI GCC ex Saudi Arabia	0.23%	2.34%	-0.02%	2.18%
LATIN AMERICA					
Latin America	MSCI Latin America	1.09%	-0.04%	0.98%	-0.17%
	MSCI Latin America Small Cap	1.35%	8.19%	1.21%	8.10%
Argentina	MSCI Argentina	7.86%	20.22%	7.86%	20.22%
Brazil	MSCI Brazil	0.78%	-4.28%	0.75%	-3.43%
Chile	MSCI Chile	3.18%	17.34%	1.89%	19.21%
Colombia	MSCI Colombia	1.83%	30.59%	0.35%	16.08%
Mexico	MSCI Mexico	1.82%	4.86%	2.10%	1.79%
Peru	MSCI Peru	-2.11%	8.75%	-2.11%	8.75%
FRONTIER MARKETS					
	MSCI Frontier Markets	1.27%	3.72%	0.91%	4.60%
Botswana	MSCI Botswana	0.06%	1.47%	-1.12%	2.73%
Bulgaria	MSCI Bulgaria	6.40%	-12.63%	4.27%	-5.68%
Croatia	MSCI Croatia	1.96%	-10.15%	-0.23%	-3.96%
Estonia	MSCI Estonia	10.26%	35.37%	8.07%	46.13%
Ghana	MSCI Ghana	-0.17%	27.18%	-0.89%	26.95%
Jamaica	MSCI Jamaica	6.07%	23.85%	6.07%	19.29%
Kazakhstan	MSCI Kazakhstan	4.55%	-18.53%	4.55%	-18.53%
Kenya	MSCI Kenya	3.89%	26.80%	2.86%	32.65%
Lebanon	MSCI Lebanon	0.08%	-9.35%	0.08%	-9.35%

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Lithuania	MSCI Lithuania	5.04%	3.88%	2.96%	12.13%
Mauritius	MSCI Mauritius	3.19%	-2.01%	1.82%	-3.63%
Nigeria	MSCI Nigeria	1.04%	23.47%	1.04%	24.03%
Romania	MSCI Romania	3.89%	-2.22%	1.70%	5.80%
Serbia	MSCI Serbia	2.50%	-5.38%	-0.09%	12.57%
Slovenia	MSCI Slovenia	5.10%	-12.74%	3.02%	-5.81%
Tunisia	MSCI Tunisia	2.13%	9.51%	0.60%	19.22%
Ukraine	MSCI Ukraine	-4.16%	28.45%	-4.19%	26.53%

*Local Currency of Citigroup WGB Index in USD
Source: Bloomberg, 6 Aug 10

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