Asia review & outlook 2012

January 2012

Market Overview

Asian equities fell in 2011, with the MSCI AC Asia Pacific ex Japan index losing 15.40% in US dollar terms. The double-digit loss was largely driven by Europe's unfolding debt crisis. To put this in context, Asian markets had risen by more than 90% in the previous two years. Last year's performance was characterised at first by optimism that a stalled global recovery would finally kick in. But with the end of the second round of quantitative easing in the middle of 2011, and little room for a third, markets became increasingly volatile. July's impasse in US debt ceiling talks finally led ratings agency Standard & Poor's to cut America's sovereign debt rating for the first time in history. As the year wound down, sentiment vacillated between hope that a lasting solution to the Eurozone debt crisis could be found, and disappointment that political stopgaps fell far short of what the market had expected.

Source: Bloomberg, end Dec 11
Percentage change in terms of total return

On the economic front, Asia continued to expand throughout 2011, albeit at a slower pace. China and India, which had been the engines of growth since the global financial crisis, faced headwinds that were largely self-induced. At first, both countries contended with inflationary pressures that had accompanied the rapid growth of the previous two years. Natural catastrophes, such as Japan's earthquake and the floods in Australia, Thailand and the Philippines, as well as political turmoil in the Middle East and North Africa, added to these pressures. In the first half of 2011, India, took a more active approach in tightening monetary policy via interest rate hikes, while China lifted the reserve requirement ratio for lenders successively.

Aberdeen

But growth prospects took a turn for the worse. This was due in part to the debt contagion in Europe that appeared to be spreading from the peripheral to the core economies. In Asia, economies dependent on export markets in the West saw shipments fall. Even the two fastest expanding economies of China and India were forced to change tack in view of the expected global slowdown. China loosened monetary policy in November for the first time in three years by relaxing the reserve requirements for banks, while India, which had been aggressively raising benchmark rates until October, has had to put monetary tightening on hold.

Outlook

Asian stockmarkets will continue to face more of the same external headwinds in the year ahead. Global growth is likely to slow in 2012. Europe appears headed for a recession under the weight of austerity measures, while the US is still deleveraging, despite the recent improvement in short-term economic data. Asia is unlikely to escape these external problems unscathed. In particular, the more open export-driven economies of Korea, Singapore and Taiwan will have to worry about lacklustre demand from developed markets. Within the region, there are also other concerns, such as growing fears of a hard landing in China and its potential fallout in the region, whereas India continues to grapple with policy stasis and is still suffering from elevated inflation.

Although there appears much to be cautious about, Asia's long-term prospects remain undiminished. This is because inflationary pressures appear to be ebbing, allowing central banks greater leeway in supporting growth. At the same time, governments in the region are in much better fiscal shape than those in developed countries. They have the policy tools to stimulate their flagging economies. Our strategy remains to seek out well-run firms that have clear and sustainable business models backed by solid finances and a healthy regard for minority shareholders. We remain confident in our holdings and believe that they will continue to deliver superior results over the longer term.

For more information

Client Services Team
Tel: +65 6395 2701
Fax: +65 6438 0743

Aberdeen Asset Management Asia Limited
21 Church Street
#01-01 Capital Square Two
Singapore 049480
Tel: +65 6395 2700
Fax: +65 6535 7159
www.aberdeen-asia.com

Important information

Aberdeen Asset Management Asia Limited, Registration Number 199105448E

Aberdeen