

# Asia Pacific region



## Overview

Asian markets fell in January, with sentiment hurt by fears over monetary tightening in China, along with proposed banking reforms in the US. Although equities started the year brightly on the back of encouraging economic data from around the region, market sentiment deteriorated quickly over the month. This was due largely to Beijing's attempts to tighten monetary policy, which triggered worries about the potential impact on the still fragile global economic recovery. Adding to that were US president Barack Obama's proposals to cap the size of financial institutions and reduce risk taking, as well as anaemic employment numbers. Among the regional market laggards were China, Hong Kong and Taiwan, whereas Indonesia and Japan outperformed the regional benchmark.

Notably, Japan's performance appeared out of sync with economic fundamentals. Even though Japanese industrial output improved, driven by exports that rose for the first time in 14 months in December, the recovery was frail at best. This was underscored by falling retail sales and declining consumer prices. Recognising this, the government approved a record trillion-dollar budget for 2010. Standard & Poor's, however, downgraded the nation's sovereign credit rating outlook from stable to negative because of the lack of a credible plan to tame the burgeoning deficit.

In China, the government told banks to set aside larger reserves and scrutinise new mortgages more stringently. Several lenders had to stop extending new loans temporarily and others were ordered to call back part of their January lending. Elsewhere, India hiked lenders' reserve ratios, while Taiwan moved to curb speculative capital inflows and stem the local currency's appreciation against the US dollar. The Philippines increased the rediscount rate as it began to unwind stimulus measures. In comparison, most central banks in the region continued to keep interest rates at record lows, even as inflation crept higher.

Exports rose sharply across most of the region, boosted by China's sharp fourth-quarter GDP growth. The mainland posted a 10.7% year-on-year expansion in the final three months, its fastest since 2007. This lifted full-year growth to 8.7%, exceeding the official 8% target. China's growth spurt drove the rebound in regional exports, particularly in Taiwan, Singapore, Thailand and the Philippines. Only Korea experienced a deceleration in its growth rate, posting its slowest pace in three quarters amid declining exports, consumer demand and government spending.

In politics, Japan's new finance minister Naoto Kan softened his call for a weaker yen after a rebuke from the prime minister. Sri Lanka's incumbent president Mahinda Rajapaksa won the nation's first peacetime election in decades.

Looking ahead, it is uncertain how long the market correction will last. In the near term, sentiment appears highly sensitive to worries about sovereign defaults, the removal of fiscal stimulus and the start of the monetary tightening cycle. Given the extent of last year's rally, however, such a pullback would be healthy as market valuations will realign with fundamentals and present buying opportunities. As bottom-up stock pickers with a focus on quality, we are cautiously optimistic about the year ahead, believing that markets will become more discriminating after last year in which, generally, the shares of weaker companies performed best. Our focus will remain on well-run businesses that have good long-term prospects, and which have emerged from the downturn in a stronger position than they entered it.

**Australia:** Both **Rio Tinto** and rival **BHP Billiton** posted sharply increased fourth-quarter output, buoyed by Chinese demand. The latter's copper production, however, was depressed by strikes and repair work. The miner acquired Canada's Athabasca Potash Inc for US\$320 million; it will also expand capacity in both Western Australia, as well as its copper and zinc operations in northern Peru.

**China/Hong Kong:** **PetroChina** pulled out of a deal to buy natural gas from Western Australia,

## Asia Pacific region

while subsidiary CNPC HK will invest HK\$10 billion to develop its own natural gas business. In other news, **China Mobile** added 4.24 million new subscribers in December, amid fierce competition; and **Standard Chartered** received regulatory approval to be a market maker for domestic interbank bonds.

**India:** The quarterly results of our holdings in lenders, **HDFC Bank** and **ICICI Bank**, were largely positive; **Hindustan Unilever's** earnings was boosted by increased consumption; steady demand and healthy prices aided cement holding **Grasim's** performance; and **Infosys** posted better-than-expected profits.

**Japan:** Exporters such as robot maker **Fanuc** posted decent corporate results, while **Canon** exceeded expectations, mainly through good cost control. Retail chain operator **Seven & I Holdings** posted lacklustre figures on the back of its struggling GMS and department store operations and may close up to four Sogo & Seibu department stores. Carmaker **Toyota Motor** plans to double the global production of hybrids to one million units in 2011; its faulty accelerator pedal problems seem set to worsen, with the number of recalled vehicles worldwide approaching the total number of units sold by its parent last year. Rival **Honda Motor** plans to expand into the digital broadcasting business by delivering content for use in car electronics systems and portable devices; its Chinese joint venture Dongfeng Honda Automobile will build a second assembly plant to lift capacity. **Mitsubishi Estate** and Mitsubishi Group will construct up to 1000 charging stations for electric cars by 2012. **Takeda Pharmaceutical** is seeking approval to sell a combination diabetes and blood pressure medication, along with obesity-fighting drugs.

**Korea:** Fourth-quarter results were mixed: **Daegu Bank** was hurt by its exposure to Kumho Group's losses, albeit its core operating performance was encouraging. **Samsung Electronics** benefited from stronger earnings from its semiconductor and LCD divisions and expects sales of flat screen TVs to grow by 30% this year. Separately, the electronics giant will pay US\$900 million to settle legal claims with Rambus and invest US\$200 million in the company. Elsewhere, **Shinsegae** cut prices of certain products by around 37% to boost sales.

**Malaysia:** **Public Bank** did well on the back of higher net interest and financing income. **CIMB Group Holdings's** subsidiary CIMB Thai posted a small profit for the full year; the company was also the top domestic dealmaker in 2009, with a total M\$52.46 billion-worth of bonds issued last year.

**Philippines:** **Ayala Land** launched its high-end condominium project Park Terraces and aims to sell a record 9200 homes this year.

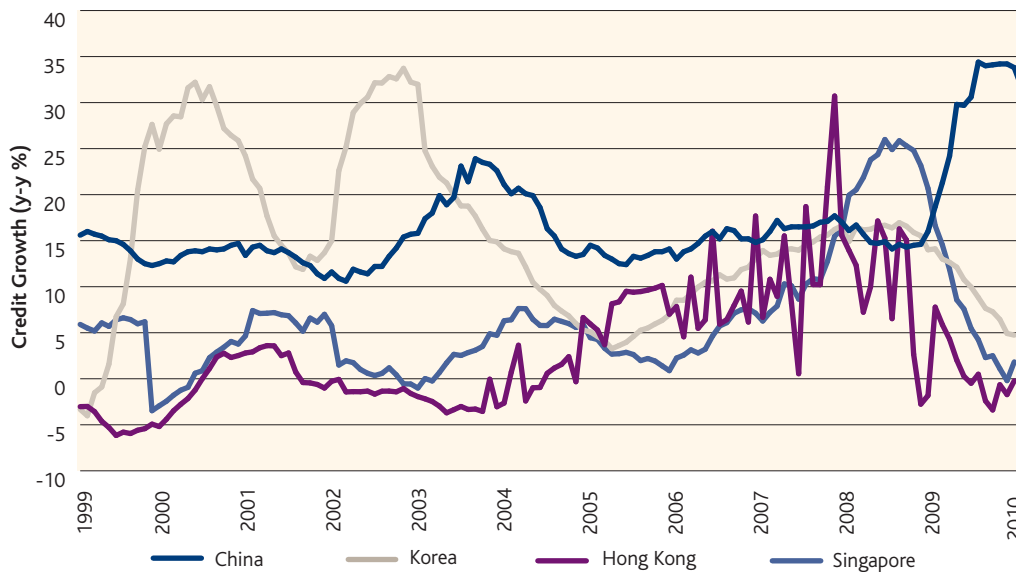
**Singapore:** **SPH's** first-quarter profits nearly doubled owing to lower newsprint costs, as well as higher contributions from property and investments.

**Taiwan:** Fourth-quarter earnings were robust: **TSMC** reported its largest net profits in two years, underpinned by a recovery in global chip demand. Meanwhile, the bulk of its capital expenditure budget for 2010 will be earmarked for leading edge technology, while its 12-inch wafer plant should be ready for production by the third quarter. **Taiwan Mobile's** results met expectations, with cable revenue growth offsetting the contraction in its mobile business. The telco expects only a limited impact from the regulator's plans to cut fees for both fixed-line and mobile phones for three years from April.

**Thailand:** **Siam Cement's** full-year earnings rebounded on the back of a recovery in volumes and margins, whereas **PTT Exploration and Production's** profits fell by less than expected, despite lower product prices and expenses related to the Montara oil spill.

## Asia Pacific region

## Focus: Credit Growth



Source: CEIC, BNP Paribas Asian Liquidity Cycles – 26 January 2010

It is easy to paint the rest of Asia with the same brush as China, where credit growth has exploded. However, the real picture is far from that which the market perceives, with other leading Asian economies at a much earlier stage of the credit cycle than Beijing. This presents very real dangers to regional economies if their central banks blindly follow China's lead and tightening is carried out too early, as this is likely to undermine the nascent recovery.

## Asia Pacific region

## Performance of Asia Pacific stock markets

	31/01/10 Index	1 month (%)			Year to date (%)		
		Local currency	US\$	£	Local currency	US\$	£
MSCI AC Asia Pacific	97.48	-3.95	-3.00	-2.25	-3.95	-3.00	-2.25
Australia ASX All Ordinaries	4596.90	-5.85	-6.95	-6.23	-5.85	-6.95	-6.23
China Shanghai Se B-Share	242.63	-3.87	-3.87	-3.13	-3.87	-3.87	-3.13
Hong Kong - Hang Seng	20121.99	-8.00	-8.14	-7.43	-8.00	-8.14	-7.43
India Bse Sensex 30	16357.96	-6.34	-5.60	-4.86	-6.34	-5.60	-4.86
Indonesia Jakarta Composite	2610.80	3.02	3.51	4.32	3.02	3.51	4.32
Japan Topix	901.12	-0.71	1.96	2.75	-0.71	1.96	2.75
Korea Kospi Composite	1602.43	-4.77	-4.55	-3.81	-4.77	-4.55	-3.81
FTSE Bursa Malaysia	1259.16	-1.07	-0.69	0.08	-1.07	-0.69	0.08
NZSE All Share	760.34	-1.64	-4.70	-3.96	-1.64	-4.70	-3.96
Pakistan KSE100	9614.19	2.42	1.76	2.55	2.42	1.76	2.55
Philippines PSEi Composite	2953.19	-3.26	-3.82	-3.07	-3.26	-3.82	-3.07
Sri Lanka CSE Colombo All-Share	3636.41	7.41	7.18	8.01	7.41	7.18	8.01
Taiwan TAIEX	7640.44	-6.69	-6.57	-5.85	-6.69	-6.57	-5.85
Thailand Bangkok SET	696.55	-5.17	-4.76	-4.02	-5.17	-4.76	-4.02
MSCI India	664.31	-6.05	-5.31	-4.57	-6.05	-5.31	-4.57
MSCI Singapore	328.21	-6.06	-6.04	-5.31	-6.06	-6.04	-5.31

Source: Factset.

## Asia Pacific region

### During the month we met the following companies:

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**Australia:** Corporate Express, Iress Market Technology

**China/Hong Kong:** Bank of China, Canadian Solar, China Communications Services, China Merchants Bank, China Telecom, CNOOC, Hang Lung Group, Hang Lung Properties, Huaxin Cement, Hung Hing Printing, International Mining Machinery, Li Ning, Parkson Retail Group, PCD Stores, Ports Design, Renhe Commercial, Sinopharm, Swire Pacific, Tingyi Cayman Islands, Tong Ren Tang, Trinity, Xinao Gas

**India:** Castrol, Jubilant Foodworks, National Thermal Power

**Indonesia:** Adaro Energy, AKR Corporindo, BW Plantation, Federal International Finance, Indofood Sukses Makmur, Kalbe Farma, Ramayana Lestari Sentosa, Tunas Ridean

**Japan:** Aeon Delight, Bank of Kyoto, Bank of Yokohama, CMIC, Daito Trust Construction, Dr Ci: Labo, Fast Retailing, Hogy Medical, Intage, Japan Drilling, Okinawa Cellular, Precision System Science, Ryohin Keikatu, Santen Pharmaceutical, Takara Printing, Tokio Marine, Village Vanguard, Yushin Precision Equipment

**Korea:** Korea Exchange Bank

**Malaysia:** Alliance Financial Group, CIMB Group, Dialog Group, ECS, Fraser & Neave, IJM Land, JCY International, Manulife, Mudajaya, Plus, Pos Malaysia, Public Bank, SP Setia, Star Publications, Tasek, UEM Land

**Singapore:** A-REIT, Asiatravel.com, CapitaCommercial Trust, CapitaMall Trust, CDL Hospitality Trusts, DBS Bank, Fraser and Neave, Frasers Commercial Trust, Hersing, Hong Leong Finance, Keppel, Keppel Land, Oversea-Chinese Banking, Raffles Medical Group, Sembcorp Marine, Singapore Airport Terminal Services, Singapore Exchange, ST Engineering, Suntec REIT, Tiger Airways, WBL

**Sri Lanka:** Chevron Lubricants Lanka

**Taiwan:** HTC

**Thailand:** Bangkok Insurance, Big C, Ek-Chai Distribution System, Goodyear, Hana Microelectronics, Indorama Ventures, Kiatnakin Finance, L.P.N Development, Minor International, Muang Thai Insurance, PTT Exploration and Production, Siam Cement, Siam Commercial Bank, Thai Reinsurance, Thai Stanley Electric, TMB Bank

## Asia Pacific region

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