

Asian Weekly



Overview

- **Most Asian stockmarkets rose last week on the back of solid corporate earnings news but Indian equities fell after a larger-than-expected interest rate hike.**
- **China's banking regulator will inspect bank loans to local government investment vehicles as about 20% of these are at risk of default. The mainland's manufacturing output decelerated in July but the central bank does not expect a double-dip recession.**
- **In Japan, data highlighted a fragile recovery. Although retail sales accelerated, unemployment worsened and factory output fell amid persistent deflation.**
- **Elsewhere, South Korea's exports and industrial production remained strong. Hong Kong's shipments were driven by Asian demand. In contrast, Singapore's manufacturing growth was depressed by the pharmaceuticals sector.**
- **In policy news, India will conduct banking sector stress tests every six months. New Zealand raised interest rates again, but the prospect of another Australian rate hike dimmed after the modest gain in inflation.**

Corporate News

Australia: **Rio Tinto** and Chinalco's iron-ore joint venture in Guinea heralded a return to warmer relations and Chinalco is expected to add significant value to the project. **QBE's** share price slumped after it cut its profit forecast owing to higher claim liabilities and lower investment income. In the longer term, the insurer's business prospects remain intact. **Leighton Holdings** won an A\$100 million contract with Queensland's Ergon Energy.

China/Hong Kong: **ASM Pacific's** half-year profits were boosted by good demand and cost cuts. **Hang Lung Properties** posted robust full-year results thanks to better rental income and strong residential sales. Its parent, **Hang Lung Group**, also did well. Meanwhile, **Swire Pacific** walked away from buying **HAECO** after failing to garner sufficient shareholder support. **XinAo Gas'** subsidiary Zhanjiang XinAo will form a joint venture with XinAo Property and Zhanjiang Property.

India: In quarterly results, both **Hindustan Unilever** and **Hero Honda** enjoyed significant volume growth. However, the former was weighed down by pricing pressures and higher marketing costs, while the latter's margins declined on higher inflation. **Sun Pharmaceutical** was aided by healthy formulation sales and the one-time sale of generic oxaliplatin distributed by subsidiary Caraco. **GlaxoSmithKline India** was hurt by a vaccine supply shortage but it still posted steady interim growth. Price pressures weighed on **Samruddhi** and **ABB India**.

Indonesia: **Astra International's** second-quarter results were driven by its automotive division. **Holcim Indonesia** posted solid revenue growth, but this was eroded by operating costs. In first-half results, **Unilever Indonesia** met expectations, while **Multi Bintang's** net profits were helped by higher sales and better cost control.

Japan: Although demand remained below pre-crisis levels and currency trends were unfavourable, exporters **Canon** and **Omron** outperformed in the first quarter on the back of better business conditions in Asia, good cost controls and new products. **East Japan Railway** met expectations amid recovering passenger traffic.

Korea: **Busan Bank's** second-quarter earnings were better than expected thanks to a decline in provisions and higher net interest income.

Malaysia: **CIMB Group's** shareholders approved the purchase of a 19.7% stake in Bank CIMB Niaga for M\$1.9 billion. It will suspend new acquisitions pending clearer rules on global banking reforms. **Tasek's** first-quarter net profits rose on lower costs.

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Philippines: **Bank of the Philippine Islands'** quarterly performance was buoyed by healthy net interest and non-interest income. It also announced a 10 billion peso rights issue to bolster its balance sheet. **Ayala Land** increased the supply of homes for sale this year because of firm demand.

Singapore: June-quarter results were generally positive. **Singapore Airlines'** profits were driven by the recovery in passenger and cargo demand. Both **SATS** and **SingPost** also posted higher earnings. **CDL Hospitality Trusts** benefited from the better hospitality performance and contributions from its newly acquired Australia Hotels. **DBS** posted a net loss because of an impairment charge for its Hong Kong operations. However, excluding the goodwill charge, the lender saw healthy net profits on stable income and lower provisions. Separately, **F&N** could extend its product range following Kirin Holdings' 14.7% stake purchase.

Sri Lanka: **Chevron Lubricants Lanka** saw good growth in the first half on lower costs and higher financial income.

Taiwan: **TSMC's** robust results were attributable to higher capacity utilisation, cost improvements and a better product mix. In contrast, **Taiwan Mobile's** net profits fell because of asset write-offs.

Thailand: **Phatra Securities'** quarterly results were underpinned by its investment banking business and the reversal of impairment loss. Earnings at **PTT Exploration and Production** rebounded owing to higher sales and selling prices, while recovering domestic demand helped **Siam City Cement**. **Siam Cement** was buoyed by its paper business. Conversely, **Ratchaburi Electricity Generating** was affected by lower sales, higher costs and weak contributions from its affiliates.

We hold all the above companies highlighted.

Asian Fixed Income

Bond yields moved lower last week. Indonesia and Singapore outperformed, but Indian bonds lagged.

Firmer sentiment saw Asian currencies strengthen against the US dollar, led by the Philippine peso, won and rupee.

Indices Performance Table

	WOW	YTD	WOW (US\$)	YTD (US\$)	30/07/2010
Australia All Ords	0.72%	-7.69%	1.81%	-7.06%	4,507.40
Hang Seng	1.03%	-3.85%	1.03%	-4.03%	21,029.81
MSCI China (US\$)	0.34%	-3.68%	0.34%	-3.68%	62.43
MSCI Zhong Hua (US\$)	0.56%	-2.55%	0.56%	-2.55%	323.41
India NSE50	-1.50%	3.20%	-0.44%	3.31%	5,367.60
Indonesia JCI	0.90%	21.11%	2.23%	27.86%	3,069.28
Japan Topix	0.98%	-6.40%	1.92%	0.00%	849.50
Korea KOSPI	0.07%	4.55%	1.41%	2.94%	1,759.33
FTSE Bursa Malaysia KLSE	1.13%	6.92%	1.31%	15.23%	1,360.92
New Zealand 50	1.33%	-6.05%	0.84%	-6.27%	3,034.62
Pakistan KSE100	2.17%	12.06%	2.29%	10.88%	10,519.02
Philippines PCOMP	0.32%	12.26%	2.16%	13.88%	3,426.95
Straits Times Index	0.48%	3.11%	1.39%	6.50%	2,987.70
Taiwan TWSE	-0.01%	-5.22%	0.50%	-5.12%	7,760.63
Thailand SET	1.86%	16.51%	1.73%	20.56%	855.83
Sri Lanka	5.43%	52.45%	5.39%	54.57%	5,161.42
US DJ	0.40%	0.36%	0.40%	0.36%	10,465.94
UK FTSE 100	-1.03%	-2.86%	0.85%	-5.59%	5,258.02
Nasdaq Composite	-0.65%	-0.64%	-0.65%	-0.64%	2,254.70
MSCI AC AP Free X Japan (US\$)	1.20%	-1.79%	1.20%	-1.79%	409.08

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MSCI AC Asia Pac X Japan Small Cap (US\$)	1.19%	-0.40%	1.19%	-0.40%	880.09
Merrill Lynch Asian US Dollar Bond	0.85%	8.91%	0.85%	8.91%	292.94
JPM Singapore Govt Bonds	1.35%	5.67%	2.26%	9.15%	158.85

Source: Aberdeen Asset Management Asia Limited, Bloomberg, Reuters, IRESS.

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