

Asian Weekly

Weekly Commentary

30 January 2012

Overview

- Asian equities rose last week as sentiment was bolstered by the Federal Reserve's pledge to hold interest rates low and consider more asset purchases.
- India and Japan cut their respective GDP estimates for 2012 while the IMF downgraded its outlook for the global economy.
- Japan posted its first annual trade deficit in over 30 years in 2011 because of weaker exports to Europe, higher oil prices and the yen's strength. Domestic retail sales accelerated in December as consumption recovered even as deflation persisted.
- Singapore's industrial production rebounded, with pharmaceutical output offsetting the continued fall in electronics. Korea's GDP expansion was hurt by declining exports and consumer confidence deteriorated amid the more uncertain economic outlook. Floods caused Thai exports to shrink and imports to rise.
- India reduced banks' cash reserve requirement to alleviate a liquidity crunch but kept interest rates unchanged to combat stubbornly high core inflation. In Thailand, the central bank lowered its benchmark repo rate to spur growth.

Corporate News

Australia: **Rio Tinto** became the major shareholder of Canada's Ivanhoe Mines, which has been expanding gold and copper assets in Asia. **BHP Billiton** received conditional approval to expand capacity at its harbour in Western Australia to boost iron ore exports to China.

China/Hong Kong: **CNOOC**, US-based ConocoPhillips and the Chinese government will settle compensation claims relating to the oil spill in Bohai Bay, with ConocoPhillips bearing the bulk of the costs. The move paves the way for production to resume.

India: In a landmark case, the Supreme Court overturned a Mumbai high court judgement requiring Vodafone to pay US\$2.9 billion in capital gains tax for its US\$10.9 billion acquisition of Hutchison Essar in 2007. The ruling, which is in line with global tax practices, bodes well for foreign direct investments into the country.

In earnings news, **HDFC Bank** posted solid earnings and loan growth in the December-quarter despite high interest rates. **Grasim Industries'** net profits rose sharply as demand recovered; its unit **Ultratech Cement's** earnings almost doubled on firmer selling prices. **Godrej Consumer Products**, **Asian Paints** and cigarettes maker **ITC** also delivered resilient results despite moderating domestic growth. **Hero MotoCorp** was aided by brisk sales of its rebranded motorbikes. Petrochemicals and gas pipeline operator **GAIL** saw double-digit growth in sales and profits.

Japan: Results of **Shin-Etsu Chemical**, **Fanuc** and **Canon Electronics** met our expectations. Separately, Shin-Etsu plans to set up its first overseas plant in Vietnam to meet regional demand. **Kureha** will invest ¥90 billion to ramp up resin output used in lithium-ion batteries. **Toyota Motor** raised its 2012 global sales forecast on expectations of higher demand for hybrid vehicles.

Korea: **Samsung Electronics** announced a 17% year-on-year rise in fourth-quarter profits thanks to its telecommunications division.

Malaysia: Permodalan Nasional Berhad (PNB) raised its takeover offer for **SP Setia** to M\$3.95 a share. The new deal will see the chief executive stay on to provide management continuity and an opportunity for the developer to increase its land bank.

Philippines: **Jollibee Foods** completed acquiring a significant stake in Vietnam restaurant chain SuperFoods Group, which owns the Highlands Coffee and Pho24 chains across Asia, as well as the Hard Rock Cafe franchise in Vietnam, Hong Kong and Macau.

Singapore: Rig-builder **Keppel Corp's** full-year results were bolstered by the solid performance of its core offshore and marine division, and record orders worth S\$10 billion.

Sri Lanka: **Aitken Spence** finalised the sale of a 30% stake in a port-expansion project in Colombo to China Merchant Holdings on concerns the project would fail to meet initial targets. The move reflects the company's focus on shareholder returns and should lift third-quarter earnings significantly.

Thailand: **PTT Exploration & Production** may buy UK-listed Cove Energy, in line with its overseas expansion strategy. Toronto-based Fairfax Financial Holdings will acquire a 25% stake in **Thai Reinsurance**. **HSBC** is selling its local retail business to Bank of Ayudhya for 3.56 billion baht. As expected, **Kasikornbank** and **Siam Commercial Bank's** profits expanded on higher loans and decent margins whereas **Siam Cement's** earnings were hurt by the floods. **Dynasty Ceramic's** full-year results were boosted by higher sales despite a lacklustre fourth quarter.

We hold all the above companies highlighted.

Asian Fixed Income

Asian bond markets ended mixed. Thailand saw healthy buying activity particularly in the 20-year segment, which saw yields decline by 20 basis points. In India, the decision to lower banks' cash reserve ratio caused a sell-off; yields rose as much as 20 basis points in the 1-year tenor. Bond markets in the Philippines and Singapore faced selling pressure at the short end whereas Indonesia and Malaysia remained well supported across the board.

Regional currencies continued to outperform the US dollar, led by the ringgit, peso and Singapore dollar. Against the euro however, performance was mixed: the ringgit and peso were notable gainers whereas laggards included the yen, Hong Kong dollar and Indian rupee.

Indices Performance Table

Index	WOW	YTD	WOW (US\$)	YTD (US\$)	27/01/2012
Australia All Ords	1.06%	5.78%	2.66%	9.71%	4,348.48
Hang Seng	1.95%	11.21%	2.01%	11.38%	20,501.67
MSCI China (US\$)	2.26%	11.88%	2.26%	11.88%	59.11
MSCI Zhong Hua (US\$)	2.23%	11.40%	2.23%	11.40%	318.21
India NSE50	3.09%	12.55%	4.85%	21.00%	5,204.70
Indonesia JCI	0.00%	4.30%	-0.31%	6.28%	3,986.41
Japan Topix	0.75%	4.46%	1.08%	4.83%	761.13
Korea KOSPI	0.77%	7.62%	1.88%	10.97%	1,964.83
FTSE Bursa Malaysia KLCI	-0.12%	-0.64%	2.06%	3.54%	1,520.90
New Zealand 50	0.55%	0.61%	2.75%	6.14%	3,294.64
Pakistan KSE100	1.58%	5.40%	1.59%	5.02%	11,960.21
Philippines PCOMP	-1.43%	7.04%	-0.24%	9.77%	4,679.89
FTSE Straits Times Index	2.35%	10.20%	3.77%	13.84%	2,916.26
Taiwan TWSE ^	0.00%	2.29%	0.00%	3.36%	7,233.69
Thailand SET	1.67%	4.97%	3.27%	6.76%	1,076.29
Sri Lanka	-0.96%	-5.75%	-0.90%	-5.69%	5,725.44
US DJ	-0.47%	3.63%	-0.47%	3.63%	12,660.46
UK FTSE 100	0.09%	2.89%	1.19%	4.24%	5,733.45
Nasdaq Composite	1.07%	8.115%	1.07%	8.115%	2,816.55
MSCI AC AP X Japan (US\$)	2.35%	10.19%	2.35%	10.19%	432.82
MSCI AC Asia Pac X Japan Small Cap (US\$)	1.97%	9.52%	1.97%	9.52%	866.11

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

^ Price as of 18 Jan 12

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