

Emerging Markets Weekly

Weekly Commentary

30 January 2012

Overview

- Emerging-market stocks rose last week as sentiment was bolstered by the Federal Reserve's pledge to hold interest rates low and consider more asset purchases.
- Inflation in Mexico came in above expectations for the first half of January, while India suffered from stubbornly high inflation. However, India chose to cut banks' cash reserve requirement to alleviate a liquidity crunch and held interest rates unchanged whereas Thailand's central bank lowered its benchmark interest rate to spur growth.
- Domestic demand in Russia ended on a high note last year, driven by growth in real wages, retail sales and investments. Conversely, business confidence in Turkey continued to weaken since November.
- Exporters in Latin America were hit by slower growth in China, which dampened commodity prices. Floods caused Thai exports to shrink and imports to rise. From October to November, Sri Lanka's exports rebounded and imports rose sharply; while imports growth eased markedly in the Philippines.
- The IMF cut its forecast for global growth and warned that the European debt crisis threatens to derail the world economy. In particular, growth forecasts for China, India and Brazil were lowered.
- In politics, Egypt's stock markets rebounded after the demonstrations on the first anniversary of the anti-Mubarak uprising advanced peacefully and talks on an international aid package looked to gain momentum.

Corporate News

Brazil: **Petrobras** will nominate its current director of Gas & Energy, Maria das Gracas Foster, as the chief executive; this is a positive development as she has been with the company for more than 30 years and was responsible for transforming the gas and energy segment into a profitable business. **Vale** obtained an environmental licence that allows it to mine a new deposit of high quality iron ore, strengthening the miner's position as the leading global producer.

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, **Grasim Industries'** net profits rose sharply as demand recovered; its unit **Ultratech Cement's** earnings almost doubled on firmer selling prices. **Godrej Consumer Products** and **Asian Paints** 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.

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.

Mexico: **Banorte** reported solid fourth-quarter results driven by robust loan growth and improvement in asset quality.

Russia: **Sberbank** completed the acquisition of Troika Dialog, creating a new investment banking division in a bid to keep

pace with rival VTB. **Lukoil** intends to increase its dividend pay-out. Senior management increased their stakes in the company, reflecting their confidence in the oil and gas producer.

South Africa: Brewing firm **SABMiller** will transfer its eastern European beer businesses to Turkish brewing group Anadolu Efes in return for a 24% stake in the enlarged company. The move is a bid to boost sales in Russia, other former Soviet states, Turkey and the Middle East.

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**. **Siam Commercial Bank's** profits expanded on higher loans and decent margins whereas **Siam Cement's** earnings were hurt by the floods.

Turkey: **Garanti** expects monetary policy to ease this year and banking profits to rise.

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	2.16%	10.94%	0.98%	7.05%
	MSCI Emerging Markets Small Cap	2.29%	9.43%	1.26%	6.26%
	Aberdeen Global Emerging Markets Fund	2.28%	10.64%	2.28%	10.64%
	Aberdeen GEM Small Cap Fund	1.93%	9.00%	1.93%	9.00%
	Danske Invest NYE Markeder Fund*	1.57%	9.79%	-0.18%	8.20%
US	Dow Jones	-0.47%	3.63%	-0.47%	3.63%
US	NASDAQ Composite	1.07%	8.11%	1.07%	8.11%
UK	FTSE Allshare	1.24%	4.89%	0.14%	3.53%
Europe	FT Europe ex UK	1.95%	6.75%	0.36%	5.27%
World	MSCI AC World Free	1.01%	6.07%	0.39%	5.04%
World	Citigroup World Government Bond**	1.32%	1.08%	1.32%	1.08%
EMERGING MARKETS ASIA					
EM Asia	MSCI Emerging Markets Asia	1.90%	10.12%	1.22%	7.88%
	MSCI Emerging Markets Asia Small Cap	1.90%	8.73%	1.21%	6.45%
China	MSCI China	2.26%	11.88%	2.16%	11.71%
Hong Kong	MSCI Hong Kong	2.17%	10.36%	2.08%	10.19%
India	MSCI India	5.21%	21.13%	3.09%	12.47%
Indonesia	MSCI Indonesia	-0.39%	5.49%	-0.09%	4.39%
Korea	MSCI Korea	1.66%	11.00%	0.66%	8.22%
Malaysia	MSCI Malaysia	2.21%	4.30%	0.07%	0.10%
Pakistan	MSCI Pakistan	3.36%	10.79%	3.41%	11.21%
Philippines	MSCI Philippines	-0.10%	9.91%	-1.06%	7.42%

Sri Lanka	MSCI Sri Lanka	1.98%	-1.77%	1.91%	-1.82%
Taiwan	MSCI Taiwan	0.00%	3.62%	0.00%	2.51%
Thailand	MSCI Thailand	3.17%	6.47%	1.91%	5.24%
EMERGING MARKETS EUROPE MIDDLE EAST AFRICA					
EMEA	MSCI EMEA	4.06%	11.77%	1.33%	6.82%
	MSCI EMEA Small Cap	3.88%	9.72%	1.32%	5.10%
Czech Republic	MSCI Czech Republic	3.64%	3.33%	0.85%	0.81%
Egypt	MSCI Egypt	15.64%	23.27%	15.54%	23.35%
Hungary	MSCI Hungary	8.10%	25.33%	3.08%	15.92%
Morocco	MSCI Morocco	0.47%	3.23%	-0.92%	2.17%
Poland	MSCI Poland	5.24%	13.97%	1.55%	6.97%
Russia	MSCI Russia	4.43%	14.23%	1.36%	8.55%
South Africa	MSCI South Africa	2.48%	7.97%	0.20%	3.98%
Turkey	MSCI Turkey	7.35%	18.49%	4.45%	11.82%
MIDDLE EAST					
Bahrain	Bahrain All Share Index	-0.20%	-0.38%	-0.19%	-0.39%
Kuwait	Kuwait Stock Exchange Index	1.39%	1.17%	1.04%	0.75%
	MSCI Kuwait	0.50%	-0.98%	0.25%	-1.18%
Oman	Muscat Securities Market Index	0.05%	-1.77%	0.05%	-1.77%
	MSCI Oman	0.28%	-2.99%	0.28%	-2.99%
Qatar	Doha Securities Market Index	-0.04%	-3.87%	-0.04%	-3.86%
	MSCI Qatar	-0.49%	-4.65%	-0.48%	-4.64%
Saudi	Tadawul All Share Index	1.62%	2.13%	1.62%	2.14%
UAE - Abu Dhabi	Abu Dhabi Securities Market	3.93%	1.26%	3.93%	1.26%
UAE - Dubai	Dubai Financial Market General Index	5.02%	3.56%	5.02%	3.56%
	MSCI UAE	5.60%	3.35%	5.60%	3.35%
Israel	MSCI Israel	0.28%	10.34%	-0.17%	8.48%
Jordan	MSCI Jordan	0.09%	-8.36%	0.21%	-8.30%
MSCI GCC ex SA	MSCI GCC ex Saudi Arabia	0.99%	-1.36%	0.86%	-1.47%
LATIN AMERICA					
Latin America	MSCI Latin America	1.41%	12.40%	0.13%	5.21%
	MSCI Latin America Small Cap	2.84%	13.79%	1.51%	6.51%
	Aberdeen Global Latin American Equity Fund - A2	2.00%	13.98%	2.00%	13.98%
Argentina	MSCI Argentina	0.64%	21.20%	0.64%	21.20%
Brazil	MSCI Brazil	1.49%	15.08%	0.37%	7.70%
Chile	MSCI Chile	-0.18%	7.43%	-1.48%	0.39%
Colombia	MSCI Colombia	-0.68%	5.58%	-1.58%	-1.20%
Mexico	MSCI Mexico	1.61%	7.38%	-0.52%	-0.36%
Peru	MSCI Peru	5.68%	10.92%	5.67%	10.89%
FRONTIER MARKETS					
FM (FRONTIER MARKETS)	MSCI Frontier Markets	0.83%	0.53%	0.62%	0.46%
Botswana	MSCI Botswana	0.99%	-2.32%	-0.67%	-4.56%
Bulgaria	MSCI Bulgaria	4.89%	0.65%	3.21%	-0.50%
Croatia	MSCI Croatia	1.72%	0.16%	0.13%	-0.31%
Estonia	MSCI Estonia	0.85%	4.89%	-0.78%	3.68%
Ghana	MSCI Ghana	3.94%	-1.73%	0.22%	0.88%
Jamaica	MSCI Jamaica	3.02%	-4.84%	3.02%	-4.62%

Kazakhstan	MSCI Kazakhstan	2.38%	6.98%	2.38%	6.98%
Kenya	MSCI Kenya	1.53%	3.70%	0.35%	3.64%
Lebanon	MSCI Lebanon	-0.03%	-1.55%	-0.03%	-1.55%
Lithuania	MSCI Lithuania	0.47%	4.10%	-1.15%	2.91%
Mauritius	MSCI Mauritius	0.04%	-2.72%	-0.47%	-3.05%
Nigeria	MSCI Nigeria	0.85%	-0.34%	0.72%	-1.17%
Romania	MSCI Romania	9.63%	10.75%	7.80%	9.95%
Serbia	MSCI Serbia	-0.34%	-4.61%	-1.13%	-5.68%
Slovenia	MSCI Slovenia	2.72%	-3.83%	1.05%	-4.93%
Tunisia	MSCI Tunisia	0.89%	-1.15%	0.03%	-0.70%
Ukraine	MSCI Ukraine	4.06%	-1.88%	4.08%	-1.59%

* Danske fund price as of 26 Jan 12

** Local Currency of Citigroup WGB Index in USD

Source: Bloomberg, 27 Jan 12

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