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December outlook seems gloomy at the moment

Executive Summary

Equities – Global equities were mostly up in November with the onset of QE2. Chinese equities suffer on tightening fears.

Commodities – Grains and precious metals outperformed year-to-date while soft commodities remained the laggard. Weak dollar is expected to further support commodities in coming months.

Fixed income – Ireland debt crisis dominates the European bond market and Portugal and Spain may have further downgrades in time to come.

Equities

In November, equities witnessed slower growth as compared to the previous two months, with Hang Seng Index and Shanghai SE Composite being the laggard. On 16 November 2010, the Shanghai SE Composite tumbled 4 percent to close at its one-month low as policy makers expressed concerns regarding rising inflation rates and property prices. As a result, fears of continued monetary tightening increased selling pressure on the domestic A-shares.

The S&P 500 Index gained 2.64 percent in the one month period and is nearing its 52 week high. Stocks have been gaining since September on the back of the earnings season, the U.S. mid-term elections, and the Federal Reserve's move of further easing. However, as the abovementioned events have been announced and largely finalised, we feel that the United States market lacks another round of catalyst and is likely to remain range-bound for the month of December.

Major global equities were mostly up on a monthly basis. Shanghai SE Composite and Hang Seng Index were laggards.

Table 1: Selected Equity Stock Market Index Returns

Country	Index	Nov. 19	1-mth % gain/loss	3-mth % gain/loss	6-mth % gain/loss	YTD % gain/loss	52 week High	52 week Low
Japan	Nikkei 225	10022.39	5.06 ▲	7.05 ▲	-1.61 ▼	-4.97 ▼	11408.17	8796.45
Korea	KOSPI Index	1939.53	4.43 ▲	8.98 ▲	18.98 ▲	15.34 ▲	1976.46	1519.40
Indonesia	Jakarta Composite Index	3697.991	2.93 ▲	19.08 ▲	35.48 ▲	45.91 ▲	3777.92	2370.53
United States	S&P 500 Index	1196.69	2.64 ▲	11.25 ▲	7.32 ▲	7.32 ▲	1227.08	1010.91
World	MSCI World	1234.12	2.09 ▲	11.49 ▲	12.63 ▲	5.62 ▲	1269.14	1026.19
Thailand	Stock Exch of Thai Index	1002.61	1.35 ▲	12.50 ▲	30.97 ▲	36.49 ▲	1055.25	669.34
Asia Pac ex Jap	MSCI Asia ex Japan	551.8	0.92 ▲	12.00 ▲	21.75 ▲	13.78 ▲	577.22	425.24
Malaysia	FTSE Bursa Malaysia	1500.71	0.81 ▲	7.77 ▲	14.71 ▲	17.91 ▲	1531.99	1224.37
Singapore	Straits Times Index	3195.25	0.09 ▲	8.43 ▲	15.16 ▲	10.35 ▲	3313.61	2648.15
Hong Kong	Hang Seng Index	23284.41	-2.02 ▼	10.50 ▲	18.93 ▲	6.46 ▲	24988.57	18971.52
China	Shanghai SE Composite	2822.061	-5.99 ▼	4.99 ▲	9.05 ▲	-13.52 ▼	3361.39	2319.74

Source: Bloomberg, as of 19 Nov 2010

Table 2: Market Valuations (Top: Cheapest) (Weighted Avg)

Country/Region	Dividend Yield	Price-to-Book	Forward PE	Current PE
Singapore	2.60	1.76	15.63	12.66
Thailand	3.52	1.99	14.11	14.48
South Korea	1.27	1.34	10.89	13.44
Hong Kong	2.70	1.97	14.64	14.39
MSCI World	2.45	1.79	13.68	15.26
Malaysia	3.39	2.43	16.06	13.00
United States	1.93	2.13	14.07	15.00
MSCI AC Asia ex Japan	2.19	2.05	14.25	15.03
Japan	1.74	1.32	17.83	19.48
China	1.49	2.61	15.94	18.09
Indonesia	1.80	3.40	17.98	31.70

Source: Bloomberg, as of 19 Nov 2010

China equities are looking increasingly expensive while Singapore looks like the cheapest.

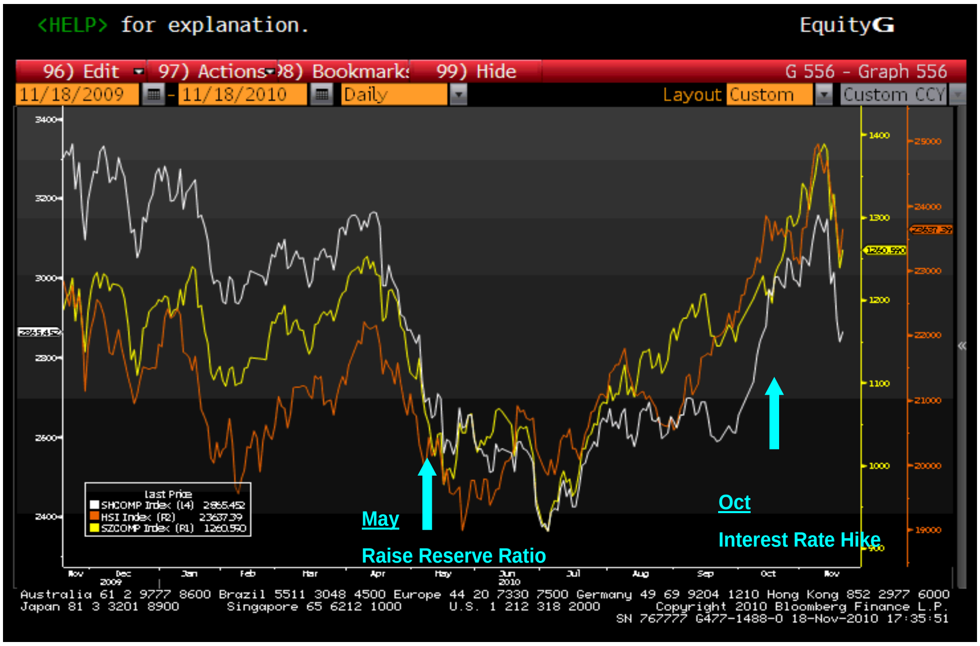
China – Increasing tightening fears

The tightening process in China began back in Q3 2009 as its central bank ordered banks to set aside larger reserves, draining cash from the financial system to limit inflation and asset-bubble risks in the world's fastest-growing major economy. China's big four state-owned banks will now have to comply with a reserve requirement ratio of 18.5 percent and smaller banks will face a ratio of 16 percent to 16.5 percent. On this note, there are good reasons to believe further tightening may be in the pipeline. The market is projecting more than RMB 500 billion to be injected into the Chinese market in December as bills and repos mature and the two-month differentiated reserve requirement imposed on six major banks in October comes to an end. Further tightening by the People's Bank of China on the additional liquidity is highly likely.

On the other front, property prices had been rising since April 2009 despite the various tightening measures, signaling heightened risk of an overheated property market. Rising inflation has brought real interest rate to a negative level since February 2010 and as low as -1.9 percent in October 2010. Rising property prices and inflation will remain a deep concern ahead on market sentiments.

We believe that with further tightening in sight, near term weakness on the Chinese shares is a likely scenario. Together with heightened tension across the Korea peninsular, market sentiments are likely to be further dampened. Despite the near term headwinds, we continue to be positive on Chinese stocks on the back of the China growth story in the long term. Optimism continue to lie within the manufacturing and economic activity as China posted a larger than forecast US$27.1 billion trade surplus in its most recent October.

Chart 1: Chinese Equities (18th Nov 2009 – 18th Nov 2010)



Source: Bloomberg, as of 19 Nov 2010

Chinese equities came off their recent highs on the back of rising inflation and tightening measures.

Chart 2: Shanghai Composite Index (23 Nov 2005 – 22 Nov 2010)

Source: Bloomberg, as of 22 Nov 2010

Shanghai Composite Index still well off its all-time high despite overheated talks. However, short term technical outlook shows that it has more room to fall.

India – Signs of overheated market

The Indian Sensex closed at its highest level in recent history on 9 Nov at 20,932.48 while showing signs of weakness with the recent pullback (See Chart 3 below). Short term resistance will be at the 21,000 level, which is unlikely to be breached before the year end.

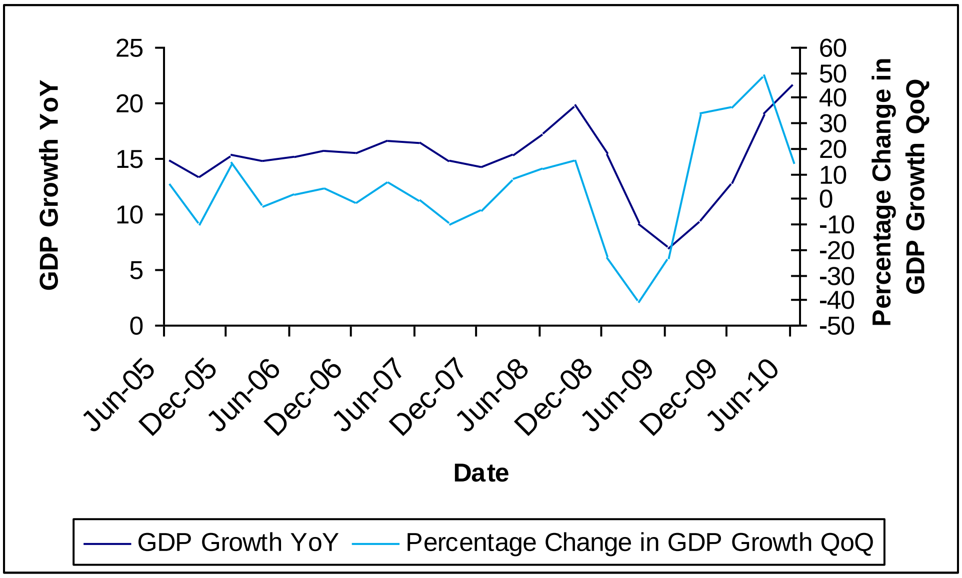
A further look at the GDP numbers showed that although the Indian GDP Growth year-on-year is still in the double digit region, there has been a slowing of GDP Growth in the last quarter. (Table 3)

Chart 3: Sensex Index (23rd Nov 2005 – 22nd Nov 2010)

Source: Bloomberg, as of 22 Nov 2010

Sensex Index came off its recent highs as price action points to the downside.

Table 3: India GDP Growth



Source: Bloomberg, as of 19 Nov 2010

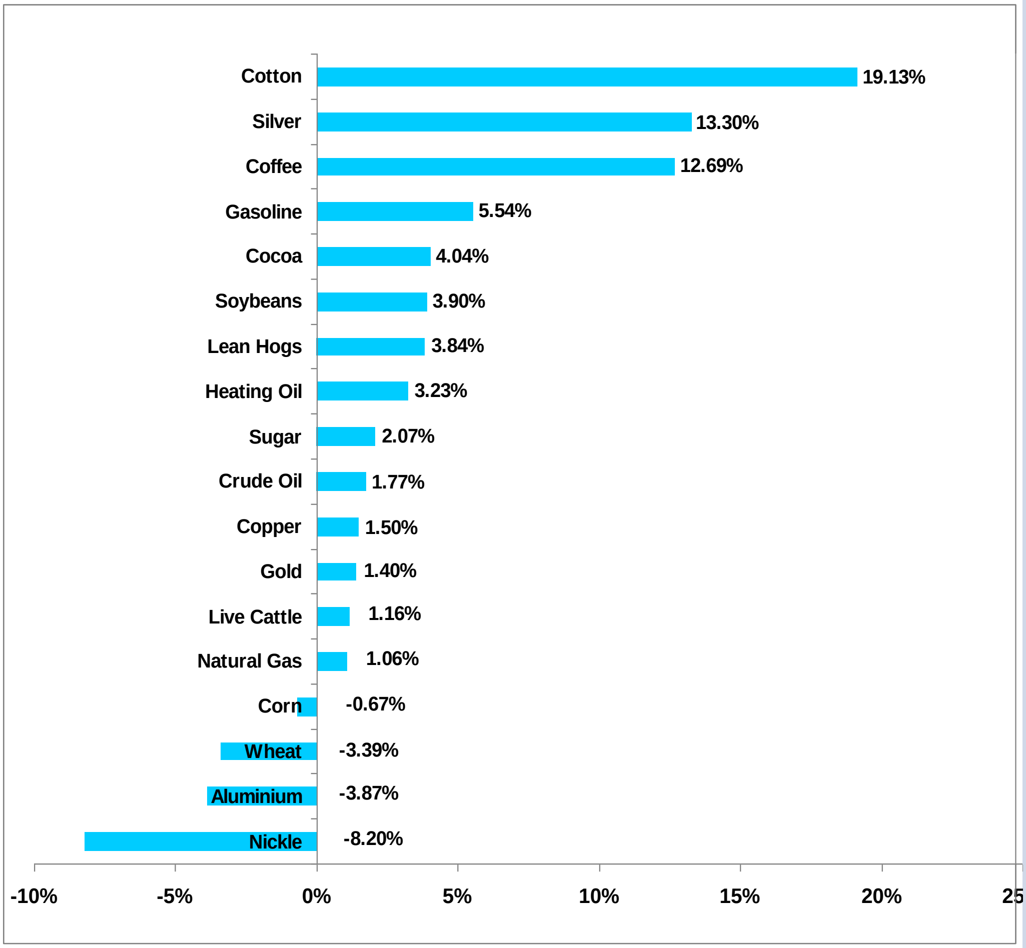
India GDP growth slowed in the most recent quarter.

Commodities

The Thomson Reuters/Jefferies CRB Commodities Index lost 0.04 percent in the one month period ending 19 Nov 2010 and was up 5.47 percent year-to-date. Most commodities experienced gains in the past month as we witnessed 14 gainers and 4 decliners as shown in Chart 2. It is also worth noting that gold has a mere 1.4 percent gain as compared to a 13.3 percent gain in silver.

Most commodities had strong positive returns in the one month period ending 19 November 2010.

Chart 4: Commodities 1-Month Return



Source: Bloomberg, as of 19 Nov 2010

Commodities – Grains and Precious Metals

The one month and year-to-date returns of individual commodities are shown in Table 4 and cotton and silver are the best performance both on a one month and year-to-date basis. Looking at the year-to-date returns, precious metals and grains, with returns of 25.54 and 18.44 percent respectively, significantly outperformed energy and soft commodities with 0.04 and -6.43 percent returns.

Table 4: Individual and Grouped Commodities Performance

Name	1 Month Return (%)	YTD Return (%)
Cotton	19.13	61.71
Silver	13.30	59.21
Coffee	12.69	47.04
Sugar	2.07	33.73
Corn	-0.67	23.24
Gold	1.40	22.70
Soybean	3.90	21.19
Nickle	-8.20	17.05
Live Cattle	1.16	15.38
Copper	1.50	13.00
Lean Hogs	3.84	9.70
Wheat	-3.39	9.69
Gasoline	5.54	2.14
Heating Oil	3.23	0.77
Aluminium	-3.87	-0.62
Crude Oil	1.77	-2.53
Cocoa	4.04	-10.40
Natural Gas	1.06	-38.28

Name	YTD Return (%)
Energy	0.04
Grains	18.44
Precious Metals	25.54
Soft Commodities	-6.43

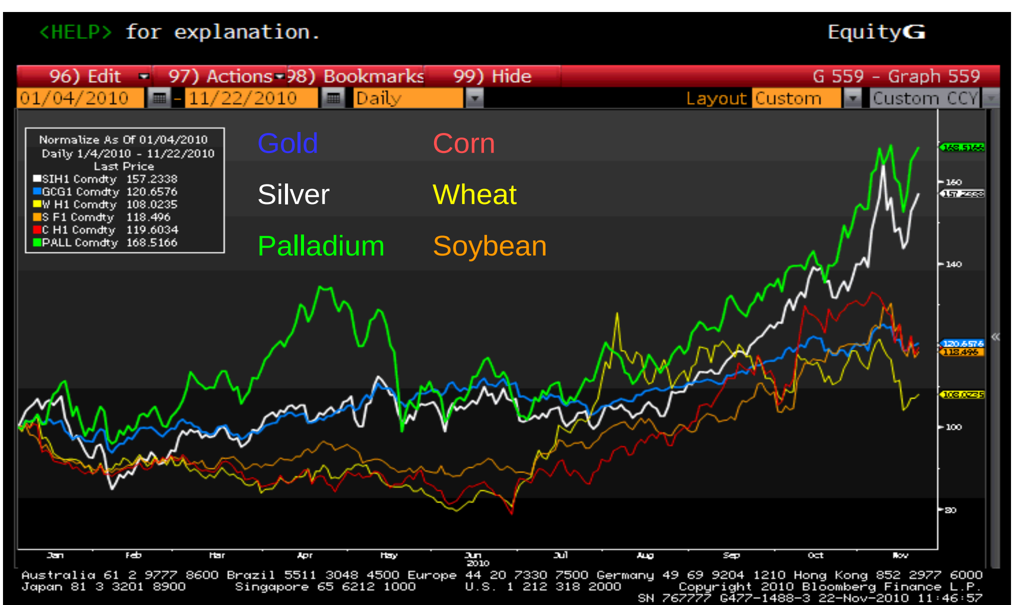
Source: Bloomberg, as of 19 Nov 2010

Precious metals and Grains outperformed while soft commodities and energy remain laggard on a year-to-date basis.

Commodities – Grains and Precious Metals Cont'

Looking at Chart 5, palladium and silver significantly outperformed gold and grains, and have much stronger fluctuation and rebound in recent months. Although gold has been in the media radar and much the hype for this year, its performance is in fact only 22.7 percent as compared to 59.21 percent of silver in year-to-date return. Further upside of the gold remains heatedly debated but we remain positive on the back of Europe debt crisis and weak US Dollar.

Chart 5: Comparison of Precious Metals and Grains



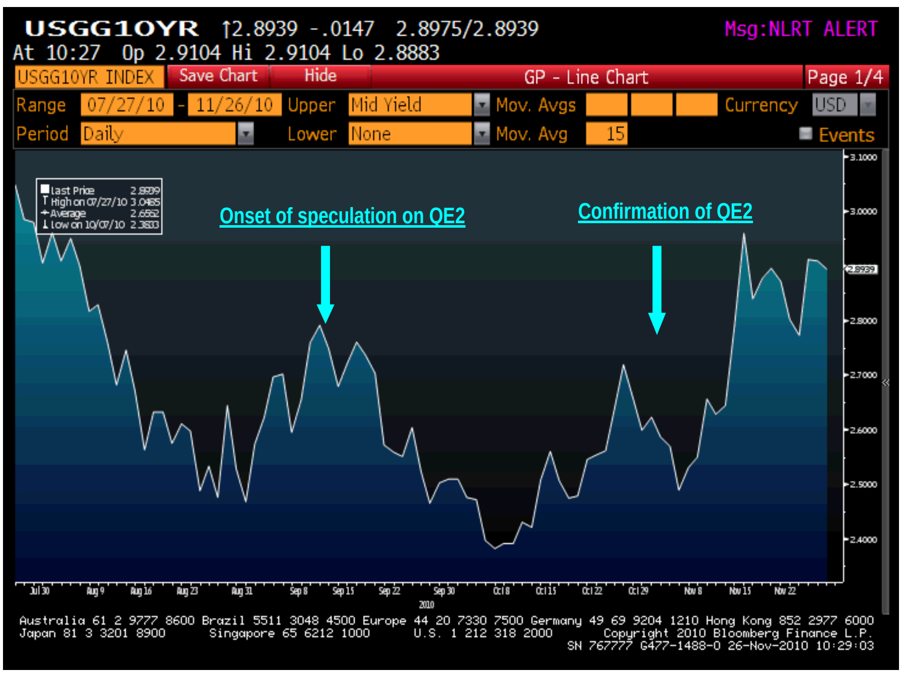
Source: Bloomberg, as of 20 Oct 2010

Palladium and silver significantly outperformed grains and gold. Silver performed twice as well as gold.

Fixed Income – Yield rebound since QE2 announcement

With the confirmation of a QE2 of US$600 million, treasuries have took another turn from the earlier speculation. As shown in Chart 7, it seems like the previous drop in yield that started with speculation on QE2 has been fully eroded since the announcement of QE2. This could be explained by profit taking for investors who had held treasuries for speculative purposes on the back of possible QE2; or fund flow from bonds to equity as investors have increased risk appetite based on capital injections. Our long term view on the treasury yield is that it will remain relatively low for a long period given the state of the US economy and the injection of capital and liquidity in the market.

Chart 7: 10-year Treasury Yield



Source: Bloomberg, as of 26 Nov 2010

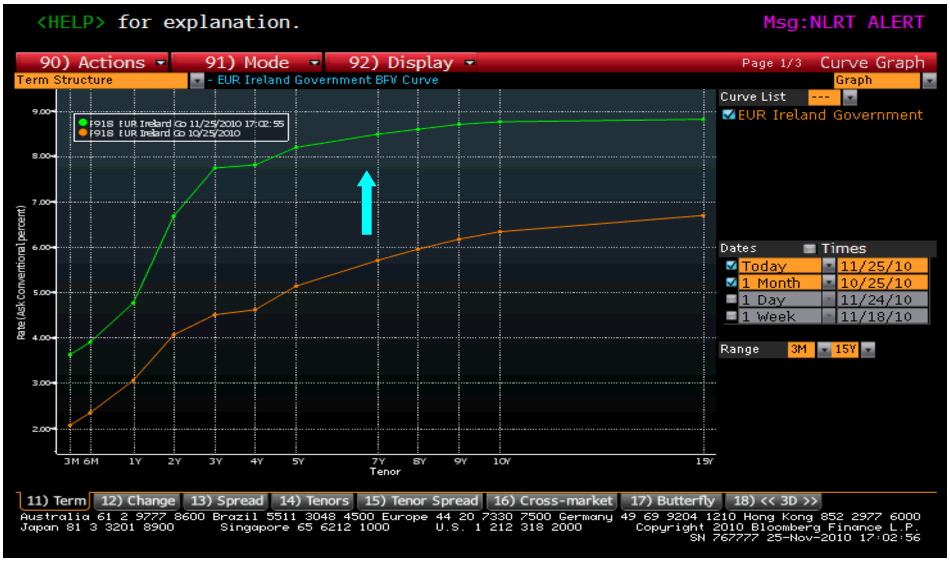
With the confirmation of QE2, yields had risen beyond pre-speculation level.

Europe Debt Crisis

On 24 Nov 2010, Ireland was downgraded from AA- to A by Standard & Poor's due to concern over the increased borrowing it will take on as a result of the European Union and International Monetary Fund bail-out. Talks on the instability of Ireland debt system have actually caused its yield to rise drastically in the past one month as shown in Chart 8.

A growing concern is whether Ireland is the last of the Europe debt crisis, or there are more to come. A comparison of various countries' S&P credit rating against 5 year Credit Default Swap (CDS) spreads in Chart 9 shows that there are more possible downgrades after Ireland.

Chart 8: Ireland Government Bond Yield



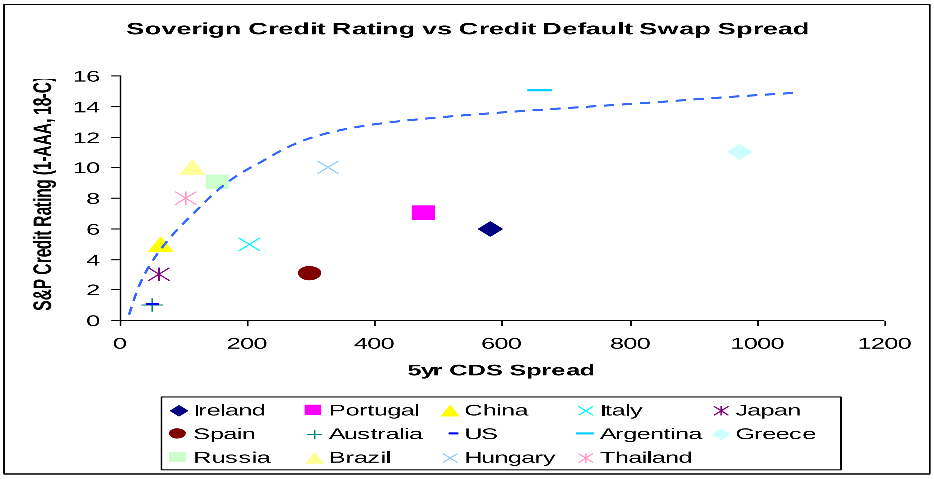
Source: Bloomberg, as of 25 Nov 2010

Ireland's bond yield has greatly increased in the past month on the back of its debt crisis.

Europe Debt Crisis – Cont'

The 5 year CDS spread showed the market expectations of a country's probabilities of default, with higher CDS spread being the riskier country. Countries higher along the y-axis had worse credit rating and less credit worthiness as evaluated by the credit bureau. Countries that falls under the curve showed that there is an inconsistency in the market's perception of credit worthiness and its respective credit rating, signally possible further downgrades. We should be especially concerned about Portugal and Spain in the coming months and will continue to monitor the situation. Meanwhile, the outlook for European bonds does not look bright in the coming months.

Chart 9: Credit Ratings vs CDS Spread



Source: Bloomberg, as of 25 Nov 2010

Portugal and Spain are the weak links at the moment and should be closely monitored in the coming months.

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