

PRU MONTHLY INVESTMENT BRIEFING

Global Market Watch

Recent economic data suggest the pace of the global recovery is waning. We are not surprised. We have always held the view that the growth momentum was likely to slow following the period of policy driven inventory restocking. Asia, while fundamentally stronger, will continue correlating with developed-world markets in the near term, we think. But an economic and market decoupling seems likely over the medium term.

Source of data: Bloomberg, Reuters, Financial Times and Prudential Asset Management (Singapore) Limited as of July/August 2010.
Source of charts: Bloomberg, as at 13 August 2010.

United States

- The first estimate of the second quarter GDP growth showed a 2.4% annualised increase, a slower rate than in the previous two quarters and short of the 2.6% growth expectations. This estimate suggests that the economic recovery is decelerating.
- Recent data continues to offer little comfort. The US housing market remains flat despite the record-low mortgage rates. Likewise the July jobs data showed a fall in payrolls; short-term census positions fell and private sector job growth remained sluggish.
- While the macro picture appears cloudy, the conditions remain favorable for US companies to refinance debt at low interest rates. Many US companies have also reported robust second quarter profits and improved balance sheets.



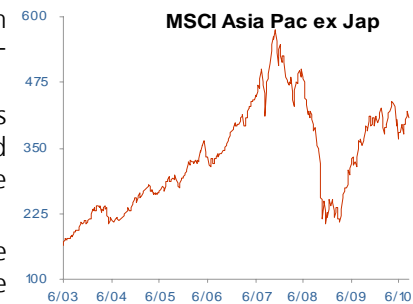
Europe

- A favourable outcome from the banks' stress tests (only 7 out of the region's 91 banks failed the test) and better-than-expected profits from a number of European-based banks underpinned equities in July. But concerns remain over the underlying health of these banks.
- European investor confidence surged to the highest in more than 2 1/2 years in August following data that showed that exports from Germany, the region's largest economy, increased on higher demand from emerging economies.
- Both the Bank of England and European Central Bank left their benchmark rates unchanged at 0.5% and 1% respectively, in line with market expectations. The Bank of England too maintained the size of its bond-stimulus purchase program at 200 billion pounds.



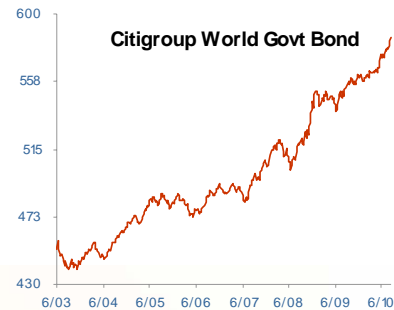
Asia Pacific ex Japan

- Asian markets posted a second consecutive month-on-month gain in July on better-than-expected economic and corporate data. The positive medium-term outlook continues to be driven by the stronger pace of growth in the region vis-à-vis the rest of the world.
- The second quarter earnings season in the region started well for markets such as Korea, Indonesia and Thailand. Korea remains relatively undervalued compared with the regional but earnings risk still remains relatively high given its large exposure to the export sector.
- With Asian growth thus far coming in stronger than the Western economies, more Asian central banks chose to hike rates; India raised key rates twice in July while Malaysia announced its third increase this year. Korea and Thailand too hiked rates in July.



Global Bonds

- With interest rates expected to remain low for an extended period, developed market bonds appear unattractive vis-à-vis corporate credits. Improving fundamentals and declining default risk too works in the favour of corporate bonds.
- US high yield bonds appear good value as these companies have not only taken advantage of the supportive liquidity conditions to refinance their debt but also maintain healthy cash balances by cutting expenditures and operating costs.
- As inflation pressure remains under control in Asia, in our view, we continue to see value in local currency corporate bonds which offer attractive yield pick-up as compared to government bonds.



PRU Asian Market Watch

Asian (excluding Japan) equity markets advanced in July as three key factors boosted investors' faith in the global economy – good second-quarter earnings, better-than-expected economic data and hopes of a shift in Chinese policy. While macro indicators released in July buttressed China's slower pace of growth, Singapore posted an unprecedented growth in the first half 2010, placing it in contention to become the world's fastest-expanding economy in 2010. The start of the earnings season in the region started well for markets such as Korea, Indonesia and Thailand.

Source of data: JP Morgan Market Wrap, Goldman Sachs Wrap, Bloomberg, Prudential Asset Management (Singapore) Limited as of July/August 2010.

China

- The MSCI China Index advanced in July, its second monthly gain.
- All sectors posted positive returns with information technology emerging as the best performer, followed by materials and industrials. Telecom was the worst performer.
- China equities rose on talks of easing in mortgage policy on the back of slowing economic growth momentum.
- China's second - quarter gross domestic product (GDP) data and other macro indicators such as retail sales, industrial production and fixed - asset investment showed that economic growth momentum has slowed.
- This came as monetary policy normalized and policy curbs targeting the property market and local government investment activities were put in place.
- Real GDP rose 10.3% in the three months to June 30 from a year earlier following the 11.9% year - on - year hike in the three months to March 31.
- Inflation as measured by consumer price index cooled in June.
- Elsewhere, manufacturing growth slowed in July.
- Trade surplus widened by 140% from a year to USD20.02 billion in June.

View : While the recent slowdown in China's growth has reduced the risk of aggressive rate hikes, the capital market could be worrying about the risk of a hard landing, in our view. Valuation of China stocks in general is fair, but it is not at a bargain level yet.

Indonesia

- The MSCI Indonesia Index rose in July. Telecoms emerged as the best performing sector while energy was the worst.
- Inflationary pressures are rising given the recent electricity tariff hike and the start of the Muslim fasting month on Aug 11. Consumer prices rose a higher-than-expected 6.22% in July from a year earlier, the highest in 15 months.
- Despite the pick-up in inflation, Bank Indonesia left its benchmark rate unchanged at 6.5% and commented that the current benchmark rate is adequate to maintain inflation expectations.

- The Japan Credit Rating Agency (JCR) raised Indonesia's sovereign debt rating to investment grade, citing enhanced political and social stability, sustainable economic growth outlook and prudent fiscal management.

View : We remain positive on Indonesia in view of the structural improvements in macro fundamentals and decline in cost of capital. However, valuation is no longer compelling relative to history and other Asia emerging markets.

India

- MSCI India inched up the least in July , underperforming the MSCI AC Asia ex - Japan Index. Financials led the relative outperformance followed by materials and information technology services. Telecom underperformed the most followed by energy and utilities.
- Quarterly earnings failed to bring cheer to the market as a larger number of results disappointed than in previous quarters except for earnings of the financial sector which beat expectations.
- The Reserve Bank of India (RBI) on July 27 raised the reverse repurchase rate to 4.5% from 4.0% and the repurchase rate to 5.75% from 5.5%.
- The RBI forecast the inflation rate to reach 6.0% by March 31, higher than the 5.5% projected in April.
- Growth in India's economy may accelerate to 8.5% for the year to March 2010, faster than the previous estimate of 8%, the RBI said.
- The interest rate hike was followed by five months of wholesale inflation exceeding 10%. Prior to the latest rate hike, the RBI increased rates on July 2 by a quarter point in an unscheduled announcement.
- Other economic data disappointed. Data such as industrial production rose 11.5% in May from a year earlier, slower than the revised 16.5% output jump in April.

View : The latest rate increase is in line with the central bank's preference for a calibrated approach to tightening. We view the rate increase as positive. While we expect inflation to moderate, more increases are likely before the end of the year.

Hong Kong

- The MSCI Hong Kong Index advanced in July, its biggest month - on - month gain since September 2009 as investors were less concerned about liquidity drain and have started to price in a potential policy relaxation in the near term. Solid earnings outlook also helped the market.
- Information technology sector posted the biggest return while utilities registered the least. July saw a strong pick - up in property stocks following last month's consolidation and on the back of strong primary residential sales. Financials also performed well as fundraising activities picked up substantially in July.
- Macro economic data released in July were generally positive. The unemployment rate was steady at 4.6% in June. Exports grew 26.7% year-on-year in June compared to a 24.4% rise the previous month while imports rose 31% from a year earlier following a 29.7% jump year-on-year.
- The government in July announced that it signed an agreement with China to remove some restrictions on the Yuan usage and its circulation in Hong Kong. The deal will allow more Yuan - denominated investment products such as wealth management plans and insurance policies.

View : Hong Kong's strong recovery has been driven by the strength of China's economy and stabilization in the developed economies. Whilst valuations are modestly more attractive, continued earnings delivery is required to sustain current valuations.

Korea

- The MSCI Korea Index advanced in July. The energy sector emerged the best performer followed by industrials and materials. Telecom was the worst performing sector, followed by information technology and utilities.

- Better-than-expected second quarter 2010 earnings bolstered the market despite a second quarter gross domestic product (GDP) data that showed that the pace of economic growth has slowed.
- GDP grew 1.5% in the second quarter from the previous three months, beating economists' estimates, but slower than the 2.1% growth in the first quarter.
- On July 9th, South Korea's central bank raised its key interest rate by 25 basis points to 2.25%, joining India, Malaysia, Thailand and Taiwan in increasing borrowing costs.
- July saw a slowdown in macroeconomic indicators. Industrial production gained 16.9% in June from a year earlier, a 12th month of expansion, but it slowed from May's 21.7% rise.
- The unemployment rate rose for the first time in five months in June at 3.5% from 3.2% in May.

View : Korea is relatively undervalued compared with the rest of the markets in the region. However, earnings risk still remains relatively high given its large exposure to the export sector.

Asia Bond Markets

- Whilst economic momentum in Asia showed signs of peaking, the region delivered a still - robust set of economic data in July.
- Exports were up strongly compared to a year ago and second quarter economic growths in a number of Asian countries surprised on the upside.
- Investor sentiment was also buoyed towards mid-month as better-than- expected corporate earnings in the US and relatively benign results of the European bank stress tests eased fears of a "double - dip" in global economy.
- Asian central banks joined the path of rate normalization during the month.
- Korea and Thailand raised policy rates for the first time since the global credit crisis broke. India and Malaysia also persisted with their rate hike cycle.
- Although inflation rates remained generally within governments' target rates in Asia (apart from India), the higher imprints of inflation rates in recent months provided some impetus for monetary tightening.
- Central banks in Indonesia and the Philippines, however, kept rates unchanged from previous month.
- Nevertheless, liquidity flows were the key drivers in the Asian domestic bond markets in July.
- The outperformers during the month were markets which benefited from strong fund flows, such as Indonesia, the Philippines and Singapore.
- Thailand, on the other hand, was the key underperformer.
- In the currency markets, Asian currencies strengthened broadly against USD amidst the strong risk appetite.
- SGD and the KRW , which had been the laggards in the currency markets, played catch up in July. Strong economic growths in the two countries raised expectations of currency appreciation in the two countries.

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