



EQUITIES – Asia ex-Japan	1 Mth	3 Mth	YTD	12 Mth
MSCI AC Asia ex-Japan	1.3	-5.8	-5.3	15.4
MSCI Far East Free ex-Japan	1.0	-6.2	-6.1	14.1
MSCI China	0.7	-6.3	-8.2	4.7
MSCI Hong Kong	2.7	-7.3	-5.7	7.0
MSCI India	3.9	-2.9	1.8	30.2
MSCI Indonesia	5.3	3.2	13.0	56.6
MSCI Korea	0.7	-7.7	-5.6	25.9
MSCI Malaysia	2.8	-0.4	7.3	25.6
MSCI Philippines	2.3	2.0	5.2	27.1
MSCI Singapore	3.4	-1.5	-3.3	20.7
MSCI Taiwan	-2.2	-9.5	-13.3	8.8
MSCI Thailand	3.5	-3.4	8.4	25.8

Returns in Singapore dollars. Source: Bloomberg, 30 June 2010

Asian equity markets declined in the month as risk aversion returned on concerns over the uncertainty of Europe's sovereign debt woes. Over in Asia, the region's economies grew in unison to post a robust set of numbers in 1Q10, which mostly exceeded expectations. This led to an overall move towards policy normalisation by most central banks in the region. Exports also continued to grow very strongly during the quarter and are likely to moderate going forward as favourable base effects wear off.


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OUTLOOK AND STRATEGY

	Policy	Change	Comment
Industrials and Utilities	Overweight	–	The alternative energy sector is set to grow strongly as countries hasten their efforts to diversify energy sources. We favour Nuclear and Wind energy plays due to favourable long term dynamics. Growth potential is the strongest in Asia, with China, India and Korea leading the way. In Water & Waste Management, companies specialising in turning waste to energy look interesting, especially in China.
Healthcare	Overweight	–	Healthcare spending currently accounts for only 4.5% of GDP in China and we expect government policies to remain very favourable. January 2010's RMB850bn incremental healthcare budget and April 2010's New Healthcare Reform plan should boost pharmaceutical sales growth to 25% in the next two years.

With China's manufacturing Purchasing Manager Indices stepping down in June, this suggests industrial activity growth momentum has been easing steadily along with the monetary normalisation and policy curbs targeting at the property market. Looking ahead, we expect industrial activity to expand at a moderate pace in the coming months.

We think China's policy shift towards a more flexible RMB will be viewed positively by the market. Although we expect the appreciation of the RMB to be modest, we expect the move to be positive on investors' overall risk appetite. The debt problems in Europe and concerns that the global economy may enter a double-dip recession have led to a retreat from Emerging Market assets and an overall flight to safety in recent months.

This announcement by China is a reminder to global investors of the potential strength of Emerging Market currencies, the potential for stronger spending power of Emerging Market consumers and the value of equity and fixed income investments in Emerging Markets.

On a longer term perspective, Asian currencies have been kept artificially low for a long time as Asian governments have relied on exports to drive their economies. We think China's RMB announcement, although small in itself, symbolically marks a shift toward stronger Asian currencies. This ultimately means that Asia is reducing its reliance on exports and depending more on Asia's own consumption demand. The emergence of Asia's consumption power is the investment case for Asia for which we have long argued.



Market Commentary

July 2010

We continue to hold a positive view in Asian markets. Asian economies are in relatively good shape with most countries running at healthy current account surpluses and low government debt to GDP ratios. Having registered robust GDP growth in the first quarter, economic growth is likely to peak over the next two quarters as the recent manufacturing boom is expected to cool to moderate levels later in the year. Although concerns over Europe's sovereign debt woes and monetary tightening in Asia will persist, we believe the market has more or less priced these in and will focus again on fundamentals.

Our key strategy going forward is to maintain our growth bias and focus on Asia's robust domestic demand, which in our view will drive corporate earnings growth and valuation expansion.

We maintain our overweight positions in the Consumer, Healthcare and Industrials sectors as we target domestic consumption growth in these areas. We downgrade Properties and Financials on policy risks and maintain our underweight in relatively slower growth sectors like Telecoms.



Market Commentary

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Contact Details

Address 80 Raffles Place UOB Plaza 2 Level 3 Singapore 048624
24-hour Hotline 1800 222 2228 (Local) • (65) 6222 2228 (International)
Fax (65) 6532 3868
Email uobam@uobgroup.com
Website uobam.com.sg

Regional Offices

Singapore

Institutional Investments
Dennis Siew
Senior Director

Retail Investments
Norman Wu
Senior Director

Regional Investments
Faizal M. Fazluddin
Senior Director

Structured Investments
Chong Jiun Yeh
Executive Director

International Business (China)
Jasmine Lim
Senior Director

Brunei

Kamal Muhd
General Manager

Japan

Masashi Ohmatsu
Chief Executive Officer

Malaysia

Lim Suet Ling
Chief Executive Officer

Taiwan

Juang San Tay
General Manager

Thailand

Vana Bulbon
Chief Executive Officer



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