



## Asia ex Japan

### Monthly commentary

February, 2010

#### Market review

MSCI Asia ex Japan rose by 0.5% in February in a relatively quiet month with the Lunar New Year half way through as the world's primary concerns centred on the Greek debt issue. The market was weaker in the earlier part of the month on this euro debt issue and partly on China tightening concerns, but recovered its poise in the latter period on favourable economic data and expectations of renminbi appreciation.

The Philippines was the strongest market on improving risk appetite helped by 'OFW' or overseas workers remittances hitting a record high (for Dec 2009). Thailand was the second strongest market rising 4.34% with the strength coming in the final week as investors anticipated easing political tension following the Thaksin assets verdict on 26th February.

Meanwhile the two weakest markets were Indonesia and Taiwan. The latter fell 3.67% as foreigners reduced holdings of financials and technology despite Taiwan's 4Q GDP coming in much stronger than expected at 9.2% yoy. Indonesia fell 3.66% as the Bank Century investigation is to be discussed in Parliament on March 2nd. 4Q GDP also came in higher than expected at 5.4%.

Korea fell 0.67% as both consumer and business sentiment fell in February affected perhaps by the Greek debt problems, heavy snow and the lunar New Year. India rose 1.35% with no negative surprises in the budget of 26th February (budget deficit estimated to decline to 5.5% in 10/11 from 6.9% in 09/10).

#### Market outlook

I have recently returned from travelling round the region and the first point to be made would be that Asia is much more upbeat than London particularly Hong Kong where the mainlanders impact on Hong Kong retail sales and property is now substantial. However, there are some concerns and perhaps, as is increasingly often the case, the outlook seems to be dominated by what happens in China. In the short term it is possible that the outlook could be negatively affected by uncertainties over 1) China's withdrawal of the stimulus package or 'exit strategy' (as in the west) 2) upward inflationary pressures and the resultant tightening and 3) the broad transition from investment led growth to consumption led growth. However, it also seems likely that the Chinese Government will resume renminbi appreciation and it is possible, and we think likely, that this will trigger a boost to markets both in China and the region. In any case the Chinese market has been worrying about these issues for some time and the banks, as we have mentioned before, have discounted much of this we feel.

The Indian outlook post the budget also looks better than perhaps it did. Indian consensus earnings are 7% for 09/10 and 27% for 10/11. The fiscal outlook looks in control while GDP growth looks strong accelerating from 7.2% in 09/10 to over 8% in 10/11. WPI inflation has recently surged to 8.56% but this is expected to fall later in the year. FX reserves are USD254bn. Indian industrial production was 16.8% in December, the highest since March 1990. This looks pretty solid while the market is now on 16x 2010 and 13x 2011.



According to Credit Suisse/IBES numbers (as at 5th March 2010) the region as a whole (MSCI Asia ex Japan) now has consensus earnings growth of 31.6% for 2010 and 14.1% for 2011 whilst trading on a PER of 13.2x 2010 and 11.5x 2011. This seems by no means demanding and is in fact exactly on its 5 year average. We believe the market is likely to ride another 'wall of worry' in 2010 subject to western countries such as Greece et al not going into default.

### Strategy

The strategy is overweight Korea and Thailand funded by under weights in Hong Kong, Taiwan and Malaysia. However, we recently reduced the underweight in Hong Kong. India is now neutral.

The strategy is overweight the materials, technology (ex software) and real estate sectors. We are underweight energy, consumer staples and telecom sectors.

In keeping with our core philosophy, we are seeking to maintain a fully invested, fully diversified exposure to the asset class. This does not mean we are looking to take risk out of the strategy, rather that we are trying to diversify that risk by country and sector.