

Asia Pacific region



Overview

Asian stockmarkets rose in July, backed by upbeat economic data and corporate results, along with positive stress tests for European banks. These encouraging factors outweighed fears of a double-dip recession that were triggered by decelerating growth in China and the anaemic recovery in the West, as well as a larger-than-expected interest rate hike in India. In Japan, the rising yen dimmed prospects for exporters and hampered equity prices.

Economic growth was uneven across the region. China's second-quarter growth slowed but remains high. On the other hand, Singapore registered record GDP expansion and Korea's exceeded expectations. Exports remained the key growth driver, particularly because of intra-regional trade as Asian demand remained robust. Singapore upgraded its official full-year forecast, as did Japan, Korea and Thailand. In Japan, large manufacturers turned optimistic for the first time in two years, according to the second-quarter Tankan survey, but subsequent data highlighted a fragile recovery.

Inflation remained a threat, accelerating in India, Hong Kong, Malaysia and Singapore. Central banks in Korea, Malaysia and New Zealand responded with interest rate hikes, while India raised rates by more than expected and Thailand increased borrowing costs for the first time in two years. Conversely Sri Lanka cut interest rates after the European Union withdrew trade concessions.

In politics, Japan's ruling Democratic Party was defeated in upper house elections, continuing the country's stasis. India's opposition organised a one-day protest against the government's liberalisation of fuel prices, highlighting the difficulties of improving market-driven policies. Australia set its general election for late August and it will be a close contest. Hong Kong approved its first minimum wage bill, bumping up costs for those businesses employing low-cost labour.

Policymakers in Hong Kong agreed with China to lift restrictions on using the yuan, including allowing Hong Kong banks to sell yuan-based financial products. The mainland will also maintain relatively loose monetary policy for the rest of 2010, while curbing property speculation. Concerns about local government debt persisted, with an estimated 20% of such loans at risk of default, prompting scrutiny by the banking regulator. We share these concerns but the ultimate parent, the state, has very deep pockets. In India, banking sector stress tests will be conducted every six months, but we do not foresee any great issues.

While the global economy did not suffer a severe relapse, the recovery in the West remains fragile, with deep structural problems still unresolved. In Asia, leading indicators have undoubtedly started to signal slower growth after the sharp rebound, but governments have sufficient reserves to pump prime should the situation demand. Although we maintain a cautious outlook, we are confident that our holdings, which are characterised by solid balance sheets, experienced management and sound business practices, will be able to meet whatever challenges lie around the corner.

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Corporate news

Australia: QBE Insurance's share price fell after the company downgraded its profit expectations because of rising claim liabilities and a fall in investment returns, which we had anticipated but do not consider detrimental to the insurer's long-term attractiveness. Rio Tinto's produced great results but it is wise to be cautious, given widespread fears of a double-dip recession and slowing growth in China. The miner announced a A\$200 million expansion at its Pilbara operations. We are also optimistic about its Guinea joint venture with Chinalco, which can add significant value and help heal the rift with the Chinese. BHP Billiton's Newcastle Third Port Project was completed ahead of schedule and on budget.

China: Rejigging within the Swire Pacific group ended with Swire owning 75% of HAECO after failing to garner sufficient shareholder support and Swire delivered very respectable first-half results. ASM Pacific Technology also produced an extremely robust set of results due to solid demand and ongoing cost cuts. Hang Lung Group and Hang Lung Properties' full-year performance was boosted by positive rental reversion and contribution from residential sales in Hong Kong.

India: The results of our holdings generally benefited from stronger domestic demand in the quarter ended June. They included lenders HDFC and HDFC Bank, drugmaker GlaxoSmithKline India and Infosys. Profits for consumer sector holdings Hindustan Lever and Hero Honda were pared by rising costs. In other news, Piramal Healthcare will sell its non-core diagnostics business and Tata Power will sell stakes worth US\$300 million in two units that own Indonesian coal mines.

Japan: US officials admitted not finding any fault with Toyota Motor's electronic throttle controls, which should help mitigate the fallout from the carmaker's previous recalls. In earnings news, our holdings Canon and Shin-Etsu Chemical benefited from improved business conditions in Asia. Labour disputes disrupted production at Honda Motor's Chinese plant. While wage hikes could translate into higher costs in the short run, it should also boost Chinese consumption – and demand for Japanese products – in the longer term.

Korea: Second-quarter corporate earnings reflected the improved economic backdrop. Recovering domestic consumption aided retail holding Shinsegae, which posted double-digit growth for both sales and operating profits. Samsung Electronics registered exceptional operating profit growth, driven by buoyant demand for semiconductors. Although it warned of a possible oversupply in DRAM chips in the latter half of 2010, it remains committed to its capital investment programme so that it can preserve its technology leadership. Lender Busan Bank's profits exceeded our expectations as its loan book began to grow again.

Malaysia: Public Bank posted good interim results, with profits driven by robust growth in net interest and financing income, while asset quality was better than its peers. Conversely, BAT Malaysia's profits proved disappointing because of lower cigarette sales and higher packaging costs.

Philippines: Ayala Land increased the supply of residential units, given the strong demand for high-end homes. Separately, its REIT plan may be postponed because of rumours that the new government may change the existing rules for such instruments. The Bank of the Philippine Islands' bottom line was lifted by growth from both net interest and non-interest income.

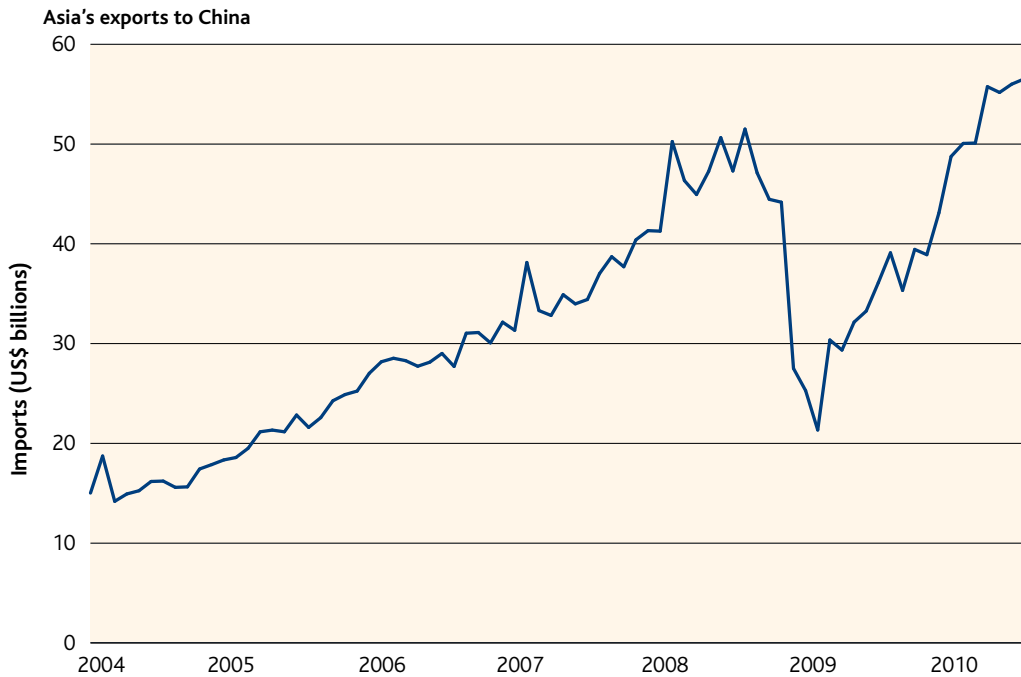
Singapore: Singapore Airlines reported healthy profits boosted by a strong recovery in both passenger and cargo demand. DBS posted a net loss because of an impairment charge for its Hong Kong operations. However, excluding the non-cash goodwill charge, the lender saw healthy net profits on stable income and lower provisions.

Taiwan: TSMC delivered solid results that exceeded expectations, thanks to higher capacity utilisation, cost cuts and a better product mix that resulted in improved margins. The company also extended its lead with the migration to a significantly more complex 20-nanometre technology that should also drive costs down. Taiwan Mobile's performance was less impressive, with second-quarter profitability weighed down by asset write-offs that were brought forward.

Thailand: Our holdings generally reported robust second-quarter results: Siam Cement was aided by its paper business and volume growth from its new chemicals complex, while PTTEP benefited from increased sales volume and prices.

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Focus: Back to trend



source: CEIC, Macquarie Research, Heading for the exit - 21 July 2010

Asian exports to China rose sharply last year, after Beijing implemented aggressive measures to stimulate domestic demand in the wake of the plunge in exports at the height of the credit crisis. Clearly, the region has benefited from the mainland's pump priming efforts. However, Chinese import growth has slowed in recent months as policy normalisation starts to deliver slower growth. This is likely to mean a more moderate expansion for the rest of the region as well, hopefully at a more sustainable long-term level.

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Performance of Asia Pacific stock markets

	31/07/10 Index	1 month (%)			Year to date (%)		
		Local currency	US\$	£	Local currency	US\$	£
MSCI AC Asia Pacific	97.03	3.12	5.60	0.88	-4.39	-1.11	1.97
Australia ASX All Ordinaries	4507.40	4.22	11.70	6.71	-7.69	-7.08	-4.19
China Shanghai Se B-Share	237.59	13.72	13.72	8.64	-5.87	-5.87	-2.94
Hong Kong - Hang Seng	21029.81	4.48	4.77	0.09	-3.85	-3.99	-1.00
India Bse Sensex 30	17868.29	0.95	1.03	-3.48	2.31	2.60	5.79
Indonesia Jakarta Composite	3069.28	5.34	6.71	1.94	21.11	27.15	31.11
Japan Topix	849.50	0.96	3.09	-1.52	-6.40	0.55	3.68
Korea Kospi Composite	1759.33	3.59	7.00	2.22	4.55	2.91	6.11
FTSE Bursa Malaysia	1360.92	3.57	5.41	0.70	6.93	15.09	18.68
NZSE All Share	710.93	1.97	7.41	2.61	-8.03	-8.45	-5.60
Pakistan KSE100	10519.02	8.20	7.98	3.15	12.06	10.26	13.69
Philippines PSEi Composite	3426.95	1.61	3.40	-1.22	12.26	13.94	17.48
Sri Lanka CSE Colombo All-Share	5161.18	11.90	12.67	7.63	52.45	54.61	59.42
Taiwan TAIEX	7760.63	5.88	6.17	1.43	-5.22	-5.39	-2.45
Thailand Bangkok SET	855.83	7.34	7.72	2.91	16.51	20.36	24.10
MSCI India	721.94	0.51	0.60	-3.90	2.10	2.38	5.57
MSCI Singapore	354.66	5.03	7.86	3.04	1.51	4.83	8.09

Source: Factset

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During the month we met the following companies:

Australia: Abacus Property Group, Ardent Leisure Group, Centro Retail Trust, Chi-X, David Jones, Eastern Star Gas, Elders, GrainCorp, ING Industrial Fund, Leighton, Macquarie Atlas Roads, Molopo Energy, National Australia Bank, Platinum Asset Management, Programmed Maintenance Services, QBE Insurance Group, Riversdale Mining, SAI Global, Southern Cross Media, Woolworths

China/Hong Kong: Agricultural Bank of China, ASM Pacific Technology, Café de Coral, China Resources Land, China Resources Enterprise, Dairy Farm, Giordano, Hang Lung Group, Hang Lung Properties, Huaxin Cement, Kerry Properties, Kingmaker Footwear, Li & Fung (Trading), Li Ning, Texwinca, Yanlord

India: Bharti Airtel, Bosch, MakeMyTrip, Mphasis BFL, Reliance Industries, SKS, Tata Power

Indonesia: Petra Foods

Japan: Ain Pharmaciez, FCC, Hikari Height Varus, Hokkaido Gas, Hokuto, Mani, Maxvalu Tokai, Okinawa Cellular, PGM, Pigeon, Sankei Building, Seven & I, Showa Aircraft, Tear, Terumo, Tsuruha

Korea: LG Household & Health Care, Samsung Electronics

Malaysia: Aeon, Carlsberg, Chin Teck Plantations, Fraser & Neave, Guinness Anchor, IJM, Lafarge Malayan Cement, London & Pacific Insurance, Manulife, Nestle, Panasonic Manufacturing, Pos Malaysia, QSR Brands, SP Setia, Star Publications, Tanjong, Telekom Malaysia

Pakistan: BOC Pakistan

Philippines: Asian Terminals, Ayala Land, Bank of Philippine Islands, Philippine Long Distance Telephone

Singapore: Bukit Sembawang, ComfortDelgro, CSE Global, DBS Bank, Frasers Centrepoint Trust, Raffles Medical Group, Sembcorp Marine, Singapore Airlines, Singapore Airport Terminal Services, Singapore Bus Service, Singapore Post, Singapore Telecom

Sri Lanka: Aitken Spence, National Development Bank

Taiwan: Acer, Cathay FHC, China Life Insurance, Chroma Ate, Chunghwa Telecom, Fubon Financial, Hon Hai Precision, President Chain Store, Taiwan FamilyMart, Taiwan Mobile, Uni-President Enterprises

Thailand: Bangkok Bank, Glow Energy, Home Product Center, MFC-WHA Premium Factory and Warehouse Property Fund, PTT Chemical, Siam Cement, Siam Global House, Thai Asia Pacific Brewery

Vietnam: BaoViet, Kinh Do, Saigon Securities, Tan Tao Investment Industry, Vinamilk

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