

Global Emerging Markets Update



Economic and market overview

Emerging markets fell in January, as concerns over policy tightening in China, risk on sovereign debts and uncertainty surrounding US banking reforms dented investor sentiment and erased early-month gains. Solid US GDP data did little to mitigate the losses. Latin America was the worst performing region, as it bore the brunt of falling commodity prices.

Most central banks kept interest rates unchanged, but Hungary cut rates yet again to boost growth. Amid recurring fears about overheating, China raised bank reserve requirements and ordered several lenders to halt lending temporarily. India also increased reserve ratios as wholesale prices advanced further.

Economic data were generally encouraging during the month. China's fourth-quarter GDP rose sharply, but South Korea's pace of growth eased. In South Africa, manufacturing activity expanded in December as exports recovered, though job losses hurt November retail sales. Investor confidence in Eastern Europe reached a record high.

In other news, Turkey's government bond rating was upgraded a notch by Moody's, reflecting growing confidence in the government's ability to weather financial shocks, while Fitch raised Russia's credit rating outlook to stable after higher oil prices boosted its public finances.

In politics, Sebastian Pinera, Mahinda Rajapaksa and Ivo Josipovic became newly elected presidents in Chile, Sri Lanka and Croatia respectively. Argentina's central bank chief quit amid a dispute with the government over the use of the country's reserves. Meanwhile, president Hugo Chavez in Venezuela, where we do not have exposure, ordered the takeover of a foreign-owned supermarket chain, after accusing it of raising prices.

In the near term, emerging markets are likely to come under some pressure. In developed countries, focus has turned to policymakers' ability to sustain fiscal stimulus and quantitative easing as deficits and debt burdens rise. But a premature exit from these policies could have a significant impact on what is still a fragile global economic recovery. Emerging economies face different issues, as rising inflation and growing asset bubbles force policymakers to start raising interest rates. This is creating uncertainty and could well depress sentiment, though markets, supported by strong liquidity, are unlikely to fall to the record lows of 2008. We would view any further correction as desirable on two fronts. First, it will bring markets back in line with fundamentals. Second, and more importantly, it will present a good opportunity to buy into well-run businesses with long-term growth prospects as the fundamentals for emerging economies remain sound.

Portfolio activity

We added to China Mobile on relative price weakness in January.

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Corporate news

Brazil: **Vale** entered into a deal to acquire Yara Brasil Fertilizantes' stake in Fosfertil and will also buy Bunge's Brazilian fertiliser business. **Petrobras'** petrochemical joint venture Braskem will take over rival Quattor. **Multiplan** plans to raise capital by issuing 1.5 million shares. **Lojas Renner's** proposal to distribute 75% of its 2009 net income as dividends will seek shareholders' approval in April. Meanwhile, the central bank approved the bonus dividend by **Bradesco**, which separately agreed to buy credit card administrator IBI Mexico. In fourth-quarter results, Multiplan posted robust sales growth, but Bradesco performed slightly weaker than expected.

China/Hong Kong: **PetroChina** pulled out of a deal to buy natural gas from Western Australia, while subsidiary CNPC HK will invest HK\$10 billion to develop its own natural gas business. In other news, **China Mobile** added 4.24 million new subscribers in December amid fierce competition and **Standard Chartered** received regulatory approval to be a market maker for domestic interbank bonds.

India: The quarterly results of **ICICI Bank** were positive. **Hindustan Unilever's** earnings was boosted by increased consumption, while steady demand aided cement holding **Grasim's** performance and **Infosys** posted better-than-expected profits.

Israel: **Teva Pharmaceutical** settled lawsuits involving patent disputes with AstraZeneca. The company expects to double its revenue by 2015, while its credit rating was upgraded by Moody's from Baa1 to A3. **Check Point Software** posted record fourth-quarter results, with revenue rising 25% year-on-year.

Korea: Fourth-quarter results were mixed. **Daegu Bank** was hurt by its exposure to Kumho Group's losses, although its core operating performance was encouraging. **Samsung Electronics** benefited from stronger earnings from its semiconductor and LCD divisions, and expects sales of flat screen TVs to grow 30% this year. Separately, the electronics giant will pay US\$900 million to settle legal claims with Rambus and invest US\$200 million in the company. Elsewhere, **Shinsegae** cut prices of certain products by around 37% to boost sales.

Malaysia: **Public Bank** did well on the back of higher net interest and financing income. **CIMB Group Holdings'** subsidiary CIMB Thai posted a small profit for the full year; the company was also the top domestic dealmaker in 2009, with a total M\$52.46 billion-worth of bonds issued last year.

Mexico: **Femsa** agreed to sell its brewery division to Heineken in exchange for a 20% stake in the company; the beverage conglomerate also increased prices to account for inflation. **Asur** reported a decline in total passenger numbers for December, dragged down by falls in both international and domestic traffic.

Philippines: **Ayala Land** launched its high-end condominium project Park Terraces and aims to sell a record 9200 homes this year.

South Africa: Retailers **Massmart** and **Truworths** reported generally encouraging trading updates, thanks to positive sales growth across their business segments.

Taiwan: Fourth-quarter earnings were robust. **TSMC** reported its largest net profits in two years, underpinned by a recovery in global chip demand. Meanwhile, the bulk of its capital expenditure budget for 2010 will be earmarked for leading edge technology, while its 12-inch wafer plant should be ready for production by the third quarter. **Taiwan Mobile's** results met expectations, with cable revenue growth offsetting the contraction in its mobile business. The telco expects only a limited impact from the regulator's plans to cut fees for both fixed-line and mobile phones for three years from April.

Thailand: **Siam Cement's** full-year earnings rebounded on the back of a recovery in volumes and margins, whereas **PTT Exploration and Production's** profits fell by less than expected, despite lower product prices and expenses related to the Montara oil spill.

We hold the companies highlighted above.

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Performance of Global Emerging Stock Markets (%)

REGION/COUNTRY	INDEX/FUND	MOM	USD DOLLARS		LOCAL CURRENCY		
			3M	YTD	MOM	3M	YTD
DEVELOPED MARKETS							
US	Dow Jones	-3.32	4.36	-3.32	-3.32	4.36	-3.32
UK	FTSE Allshare	-4.38	0.97	-4.38	-3.56	3.67	-3.56
Europe	FT Europe ex UK	-6.43	-2.66	-6.43	-3.65	2.62	-3.65
World	MSCI AC World Free	-4.30	1.77	-4.30	-3.70	3.11	-3.70
World	Citigroup World Government Bond	0.13	-1.90	0.13	0.13	-1.90	0.13
ASIA PACIFIC							
EM Asia	MSCI Emerging Markets Asia	-5.95	1.37	-5.95	-6.09	0.36	-6.09
	MSCI Emerging Markets Asia Small Cap	-5.10	6.35	-5.10	-5.31	5.05	-5.31
China	MSCI China	-8.64	-5.96	-8.64	-8.50	-5.77	-8.50
Hong Kong	MSCI Hong Kong	-6.59	-5.82	-6.59	-6.44	-5.63	-6.44
	MSCI Zhong Hua	-8.04	-5.94	-8.04	-7.90	-5.75	-7.90
India	MSCI India	-5.30	6.26	-5.30	-6.04	4.47	-6.04
Indonesia	MSCI Indonesia	2.02	11.44	2.02	1.53	9.11	1.53
Korea	MSCI Korea	-4.35	4.43	-4.35	-4.57	2.62	-4.57
Malaysia	MSCI Malaysia	-0.88	1.03	-0.88	-1.25	0.99	-1.25
Pakistan	MSCI Pakistan	1.41	1.90	1.41	2.07	3.69	2.07
Philippines	MSCI Philippines	-5.85	1.72	-5.85	-5.30	-0.66	-5.30
Sri Lanka	MSCI Sri Lanka	0.28	18.10	0.28	0.50	17.94	0.50
Taiwan	MSCI Taiwan	-6.48	5.43	-6.48	-6.60	3.56	-6.60
Thailand	MSCI Thailand	-5.31	2.27	-5.31	-5.72	1.57	-5.72
GLOBAL EMERGING MARKETS							
Global Emerging Markets	MSCI Emerging Markets	-5.56	2.40	-5.56	-4.38	2.90	-4.38
	MSCI Emerging Markets Small Cap	-3.68	7.48	-3.68	-3.16	6.72	-3.16
EMERGING MARKETS EUROPE MIDDLE EAST AFRICA							
EMEA	MSCI EMEA	-0.64	7.04	-0.64	0.14	7.01	0.14
	MSCI EMEA Small Cap	2.05	7.90	2.05	3.08	6.28	3.08
Czech Republic	MSCI Czech Republic	2.03	-0.81	2.03	4.32	3.84	4.32
Egypt	MSCI Egypt	7.32	-3.44	7.32	6.96	-3.57	6.96
Hungary	MSCI Hungary	0.71	2.97	0.71	4.27	7.97	4.27
Morocco	MSCI Morocco	4.30	-3.71	4.30	6.98	1.03	6.98
Poland	MSCI Poland	-1.12	4.66	-1.12	0.19	5.26	0.19
Russia	MSCI Russia	2.39	8.25	2.39	2.44	11.99	2.44
South Africa	MSCI South Africa	-5.29	4.82	-5.29	-2.96	1.04	-2.96
Turkey	MSCI Turkey	2.26	14.31	2.26	1.63	13.61	1.63
MIDDLE EAST							
Bahrain	Bahrain All Share Index ^A	1.37	-3.12	1.37	1.37	-3.12	1.37
Kuwait	Kuwait Stock Exchange Index ^A	0.10	-4.95	0.10	0.29	-4.39	0.29
	MSCI Kuwait	-5.62	-16.75	-5.62	-5.27	-16.15	-5.27
Oman	Muscat Securities Market Index ^A	2.69	2.94	2.69	2.57	2.79	2.57
Qatar	Doha Securities Market Index ^A	-5.63	-7.96	-5.63	-5.76	-8.08	-5.76
	MSCI Qatar	-4.87	-7.71	-4.87	-4.89	-7.73	-4.89
Saudi	Tadawul All Share Index ^A	2.16	-0.25	2.16	2.14	-0.26	2.14
UAE - Abu Dhabi	Abu Dhabi Securities Market ^A	-4.02	-12.89	-4.02	-4.02	-12.89	-4.02
UAE - Dubai	Dubai Financial Market General Index ^A	-11.85	-27.64	-11.85	-11.84	-27.65	-11.84
	MSCI UAE	-9.77	-23.39	-9.77	-9.78	-23.38	-9.78
Israel	MSCI Israel	0.31	12.56	0.31	-1.36	11.89	-1.36
Jordan	MSCI Jordan	-1.14	-2.08	-1.14	-1.07	-2.08	-1.07

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REGION/COUNTRY	INDEX/FUND	MOM	USD DOLLARS		LOCAL CURRENCY		
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LATIN AMERICA							
Latin America	MSCI Latin America	-8.87	0.86	-8.87	-4.19	5.59	-4.19
	MSCI Latin America Small Cap	-3.97	11.61	-3.97	0.60	16.30	0.60
Argentina	MSCI Argentina	-3.19	-0.20	-3.19	-3.19	-0.20	-3.19
Brazil	MSCI Brazil	-10.93	-2.02	-10.93	-4.38	5.07	-4.38
Chile	MSCI Chile	3.22	18.21	3.22	6.78	16.66	6.78
Colombia	MSCI Colombia	2.26	11.28	2.26	-0.70	10.65	-0.70
Mexico	MSCI Mexico	-6.23	6.07	-6.23	-6.80	4.62	-6.80
Peru	MSCI Peru	-10.09	-5.61	-10.09	-10.09	-5.61	-10.09
FRONTIER MARKETS							
	MSCI Frontier Markets	-2.12	-8.85	-2.12	-1.67	-8.03	-1.67
Botswana	MSCI Botswana	2.42	-0.27	2.42	4.65	0.00	4.65
Bulgaria	MSCI Bulgaria	0.30	-1.69	0.30	3.53	4.34	3.53
Croatia	MSCI Croatia	5.50	1.87	5.50	9.17	9.34	9.17
Estonia	MSCI Estonia	49.25	42.45	49.25	54.06	51.21	54.06
Ghana	MSCI Ghana	1.15	2.72	1.15	1.12	2.60	1.12
Jamaica	MSCI Jamaica	-17.23	-2.13	-17.23	-16.96	-1.64	-16.96
Kazakhstan	MSCI Kazakhstan	1.15	13.50	1.15	1.15	13.50	1.15
Kenya	MSCI Kenya	8.89	13.90	8.89	8.96	14.96	8.96
Lebanon	MSCI Lebanon	-4.08	-7.58	-4.08	-4.08	-7.58	-4.08
Lithuania	MSCI Lithuania	18.95	7.83	18.95	22.78	14.46	22.78
Mauritius	MSCI Mauritius	2.60	0.90	2.60	1.41	0.07	1.41
Nigeria	MSCI Nigeria	8.48	5.65	8.48	9.52	5.67	9.52
Romania	MSCI Romania	8.39	14.43	8.39	8.39	15.59	8.39
Serbia	MSCI Serbia	0.47	-21.55	0.47	6.34	-12.40	6.34
Slovenia	MSCI Slovenia	-0.57	-12.32	-0.57	2.63	-6.93	2.63
Tunisia	MSCI Tunisia	4.59	8.97	4.59	7.40	14.02	7.40
Ukraine	MSCI Ukraine	8.38	-7.43	8.38	8.38	-8.45	8.38

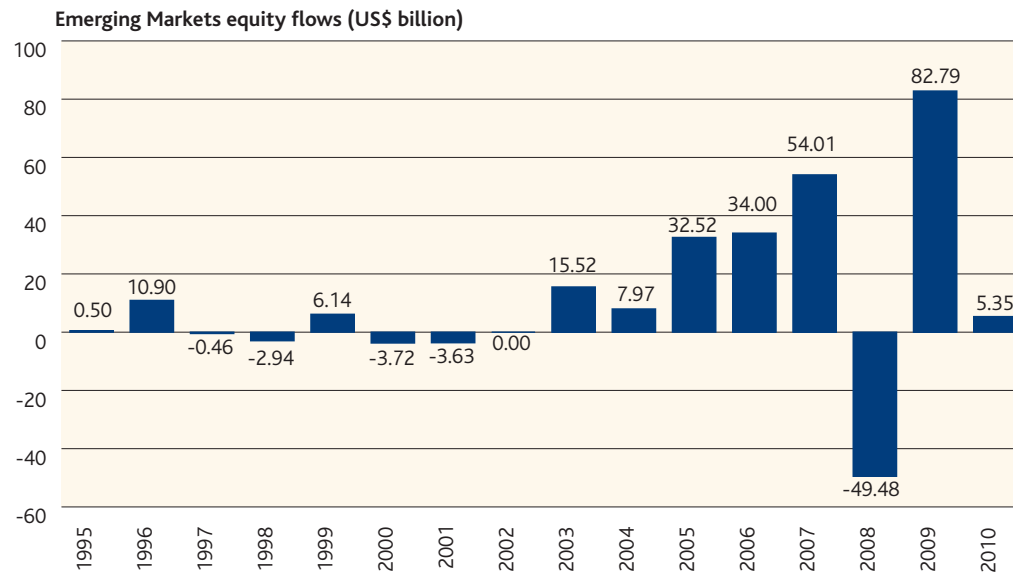
As at 31 January 2010.

All performance are measured using total return except for those marked ^.

Source: Bloomberg

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Focus – A record 2009 sparks caution in the new year



Source: EPFR Global, Morgan Stanley Research, 3 February 2010.

Emerging markets saw record inflows in 2009. With the global financial crisis abating, equity inflows more than offset redemptions in 2008. Net inflows totalled US\$48 billion in the second half of 2009 alone, almost as much as the previous record for the whole of 2007. It remains to be seen if this trend can continue. Though the strength of the rally has prompted China to tighten lending to stem speculation, the long-term trend for the asset class remains positive.

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During the month, we met with the following companies:

Brazil: Aliansce, AMIL, Banco Santander, BM&FBovespa, Brookfield Incorporacoes, Cremer, Embraer, MRV, Multiplan, Natura, PDG Realty, Totvs, Usiminas, Vivo, WEG, Wilson Sons.

Chile: Banmedica, Endesa, Enersis, Parque Arauco, Sigdo Koppers, Sonda.

Colombia: Bancolombia, Cementos Argos, Ecopetrol, Éxito, Grupo Nacional de Chocolates.

Israel: Babylon Ltd, Blue Square, Clal Insurance, Dan Vehicle, Oil Refineries Ltd.

Mexico: Alsea, Femsa, Pasa.

Morocco: Attijariwafa Bank.

Qatar: Commercial Bank of Qatar.

Russia: Rusal, Svyazinvest, X5 Retail Group.

Thailand: PTT Exploration & Production.

Turkey: Akbank.

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