

Global Emerging Markets Update



Economic and market overview

Emerging markets continued to fall in June, as Hungary's hasty comments that it might face a Greek-like debt crisis, coupled with harsh austerity measures announced across Europe, weighed on sentiment, though losses were mitigated by positive economic data and China's pledge to reintroduce exchange rate flexibility. Hungarian officials later backtracked on their pessimistic prognosis, while China's announcement was seen as a largely political ploy ahead of the G20 meeting.

First-quarter GDP rose in India, Brazil, Turkey and Hungary, while Chile's monthly economic growth quickened in April. The higher growth momentum prompted Brazil and Taiwan to hike interest rates in June. Elsewhere, factory output and exports were boosted by the global recovery. In addition, Fitch was optimistic over India's ability to reduce its debt and Brazil's strong fundamentals, raising both countries' credit rating outlook as a result. Conversely, Poland's economic growth slowed in the first quarter and South African business confidence dipped. In Russia, the central bank lowered rates to support its recovery.

In other policy news, India passed new regulations requiring listed companies to increase their free floats to 25% by annual increments of at least 5%. To reduce their deficits, Hungary will freeze state spending, cut civil service wages and impose a tax on financial institutions, while Turkey will restructure the debt of five state-owned utilities. China and Taiwan agreed to lower tariffs on goods and open their services markets further. Beijing also cancelled its export tax rebate, which is expected to help rebalance the economy.

In politics, Poland's Bronislaw Komorowski from the ruling party was narrowly elected the new president, while Thai prime minister Abhisit Vejjajiva won a vote of confidence following the end of anti-government protests in Bangkok. In Mexico, a high-level opposition official was assassinated, hurting sentiment and weighing on the peso. Tensions rose in the Middle East after Israel enforced its blockade and forcibly boarded Gaza-bound aid ships.

In the West, deteriorating leading indicators have intensified fears of a double-dip, splitting opinion on whether or not stimulus should be maintained. While some favour extending stimulus, Europe's burgeoning debt problems have increased the call for fiscal discipline and austerity. However, this comes at a time when final private demand is still anaemic and risks derailing the global recovery. At the same time, rising inflation poses an opposing problem, namely, the risk of overheating in many emerging economies.

Taken together, these imbalances are likely to cause volatility to remain high across asset classes. However, we are focused on long-term company prospects. Within emerging markets, we see plenty of companies with robust finances and sound businesses, which are supported by demand from a fast-growing middle class. We are therefore looking past short-term market pressures for buying opportunities.

Portfolio activity

There were no major portfolio changes during the month.

Corporate news

Brazil: Fitch upgraded **Vale's** local and foreign currency credit ratings and affirmed its stable outlook. The miner, which will reportedly raise iron ore prices soon, plans to invest US\$90 billion in the next five years. **Petrobras** won congressional approval to issue new shares in exchange for access to offshore oil reserves. New regulations also paved the way for guaranteeing that the oil company will get a minimum stake in all oil joint ventures. Additionally, the company is expected to benefit from lower production costs as a ban on drilling in the US depresses rents for oil rigs. **Banco Bradesco** completed its purchase of Ibi Mexico, the consumer finance arm of Mexican clothing retailer C&A, for 297.6 million reais. Separately, the lender will buy back 15 million shares over the next six months. **Lojas Renner** plans to open 25 stores in 2011.

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China/Hong Kong: Chinese industrial companies' profits rose 82% year-on-year in the first five months of 2010, reflecting the strength of the economic rebound. **Swire Pacific** is buying Cathay Pacific's remaining 15% stake in Hong Kong Aircraft Engineering Company for HK\$2.62 billion, or a 20% premium.

India: Hindustan Unilever's board approved a share buyback at a premium to the prevailing market price, which is a positive signal for the company's shares.

Israel: Teva Pharmaceutical's Plan B contraceptive pill is likely to face more competition, after Watson Pharmaceutical's alternative Ulipristal was approved for sale. Teva is also being sued by Bayer for selling a generic version of its birth control pill Yaz. Separately, the drugmaker raised US\$2.5 billion via a bond issue to help finance its acquisition of Germany's Ratiopharm. **Check Point Software** bought US-based Liquid Machines, which will broaden its extensive data security portfolio.

Korea: Samsung Electronics will invest US\$3.6 billion in its US plant to take advantage of a global recovery in demand for consumer electronics.

Malaysia: Domestic Chinese investors can now invest in the Malaysian market after it qualified under the mainland's QDII scheme. We view this positively for Bursa Malaysia as it provides a timely boost to the low foreign inflows. **CIMB Group** plans to list on the Thai stock exchange by year-end, following its takeover of BankThai last year. The lender is also likely to benefit from the privatisation of several state-owned companies, such as Percetakan Nasional Berhad and Nine Bio Sdn Bhd, because it is the key leader in the domestic investment banking segment.

Mexico: Asur's passenger traffic rose more than 85% in May thanks to a recovery in the travel sector following last year's swine flu outbreak and economic downturn.

Philippines: The **Bank of the Philippine Islands** is planning a 10 billion peso rights issue to fund expansion. **Ayala Land** launched its first condominium in Cebu.

Poland: Bank Pekao is among several banks vying for Allied Irish Bank's stake in Bank Zachodni WBK.

Russia: Lukoil allocated US\$5 billion to finance the West Qurna project in Iraq.

Taiwan: Taiwan Semiconductor Manufacturing was allowed to receive shares in Shanghai-based Semiconductor Manufacturing International Corp that was awarded in a US lawsuit. This suggests that the Taiwanese government is relaxing restrictions on high-tech investments in the mainland. The chipmaker will acquire a 21% stake in US-based solar cell-maker Stion Corp for US\$50 million as it expands into the renewable energy sector. Meanwhile, the deadline for **Taiwan Mobile's** acquisition of cable television operator Kbro from a private equity group lapsed after the deal failed to gain regulatory approval.

Turkey: Akbank is expanding its corporate and investment banking operations in the Gulf. Its US\$1bn bonds issue in international markets was also approved.

We hold the companies highlighted above.

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Performance of Global Emerging Stock Markets (%)

REGION/COUNTRY	INDEX/FUND	USD DOLLARS			LOCAL CURRENCY		
		MOM	3M	YTD	MOM	3M	YTD
DEVELOPED MARKETS							
US	Dow Jones	-3.43	-9.36	-5.00	-3.43	-9.36	-5.00
UK	FTSE Allshare	-1.37	-12.93	-12.75	-4.48	-11.60	-5.84
Europe	FT Europe ex UK	-0.15	-15.61	-17.56	-1.21	-8.04	-5.75
World	MSCI AC World Free	-3.05	-11.96	-9.11	-3.66	-10.33	-6.43
World	Citigroup World Government Bond	1.72	0.29	-1.04	1.72	0.29	-1.04
ASIA PACIFIC							
EM Asia	MSCI Emerging Markets Asia	1.37	-5.12	-3.80	1.79	-2.66	-2.94
	MSCI Emerging Markets Asia Small Cap	1.87	-6.59	-2.90	2.27	-4.21	-2.20
China	MSCI China	1.27	-4.48	-5.98	1.27	-4.20	-5.58
Hong Kong	MSCI Hong Kong	3.07	-5.83	-3.54	3.07	-5.55	-3.13
	MSCI Zhong Hua	1.77	-4.88	-5.27	1.78	-4.60	-4.87
India	MSCI India	4.29	-2.24	2.51	4.47	1.14	2.31
Indonesia	MSCI Indonesia	6.50	4.45	14.92	5.22	4.05	10.88
Korea	MSCI Korea	0.92	-7.57	-3.85	2.60	-0.18	0.90
Malaysia	MSCI Malaysia	3.23	0.22	9.31	2.47	-0.53	3.35
Pakistan	MSCI Pakistan	4.99	-6.87	2.54	5.32	-5.22	4.00
Philippines	MSCI Philippines	2.57	3.05	8.41	2.76	5.71	8.70
Sri Lanka	MSCI Sri Lanka	12.31	13.96	19.04	12.08	13.49	18.19
Taiwan	MSCI Taiwan	-1.91	-9.29	-12.76	-1.42	-8.22	-12.36
Thailand	MSCI Thailand	3.66	-1.67	11.36	3.28	-1.51	8.19
GLOBAL EMERGING MARKETS							
Global Emerging Markets	MSCI Emerging Markets	-0.72	-8.29	-6.04	-0.50	-5.53	-4.17
	MSCI Emerging Markets Small Cap	1.46	-6.85	-2.09	1.78	-4.00	-0.38
EMERGING MARKETS EUROPE MIDDLE EAST AFRICA							
EMEA	MSCI EMEA	-3.97	-13.26	-7.84	-3.51	-8.19	-3.34
	MSCI EMEA Small Cap	-1.73	-11.32	-1.15	-1.41	-6.15	4.32
Czech Republic	MSCI Czech Republic	-2.29	-13.03	-13.20	-1.48	-2.88	-1.11
Egypt	MSCI Egypt	-8.67	-13.39	-3.11	-8.13	-10.62	0.35
Hungary	MSCI Hungary	-10.29	-30.24	-21.44	-6.93	-17.33	-2.92
Morocco	MSCI Morocco	-1.61	-4.06	2.37	-1.36	4.11	16.60
Poland	MSCI Poland	-7.53	-21.58	-18.25	-5.96	-7.17	-3.53
Russia	MSCI Russia	-4.20	-15.36	-9.63	-3.36	-10.93	-7.19
South Africa	MSCI South Africa	-3.53	-9.53	-5.39	-3.83	-5.57	-1.51
Turkey	MSCI Turkey	0.70	-4.03	-0.20	1.37	-0.18	5.41
MIDDLE EAST							
Bahrain	Bahrain All Share Index [^]	-3.72	-9.75	-4.25	-3.72	-9.75	-4.25
Kuwait	Kuwait Stock Exchange Index [^]	-2.35	-13.96	-7.94	-2.34	-13.15	-6.60
	MSCI Kuwait	-0.41	-10.50	5.94	-3.78	-10.16	7.60
Oman	Muscat Securities Market Index [^]	-3.74	-9.54	-4.88	-3.75	-9.55	-4.88
Qatar	Doha Securities Market Index [^]	1.65	-7.56	-0.85	1.68	-7.54	-0.85
	MSCI Qatar	2.03	-3.30	5.59	2.09	-3.30	5.60
Saudi	Tadawul All Share Index [^]	-0.44	-10.40	-0.45	-0.44	-10.40	-0.46
UAE - Abu Dhabi	Abu Dhabi Securities Market [^]	-3.46	-13.56	-8.37	-3.46	-13.56	-8.37
UAE - Dubai	Dubai Financial Market General Index [^]	-7.45	-20.70	-18.95	-7.45	-20.70	-18.95
	MSCI UAE	-7.52	-21.28	-15.71	-7.52	-21.28	-15.72
Israel	MSCI Israel	-1.23	-18.38	-10.18	-1.17	-14.47	-8.08
Jordan	MSCI Jordan	-0.36	-3.67	-9.05	-0.29	-3.71	-8.99
LATIN AMERICA							
Latin America	MSCI Latin America	-3.34	-11.94	-10.47	-3.72	-10.34	-8.24

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REGION/COUNTRY	INDEX/FUND	USD DOLLARS			LOCAL CURRENCY		
		MOM	3M	YTD	MOM	3M	YTD
	MSCI Latin America Small Cap	3.41	-2.44	-0.48	3.30	-0.28	2.22
	Danske Invest Latin Amerika Fund [^]	0.61	-7.93	-3.72	1.05	1.71	12.70
Argentina	MSCI Argentina	5.28	-5.75	-0.74	5.28	-5.75	-0.74
Brazil	MSCI Brazil	-4.43	-15.21	-15.28	-5.05	-14.36	-12.40
Chile	MSCI Chile	1.01	2.87	3.18	4.22	7.41	11.46
Colombia	MSCI Colombia	4.76	3.58	14.31	1.83	3.35	7.28
Mexico	MSCI Mexico	-2.86	-9.02	-1.89	-3.17	-4.89	-3.18
Peru	MSCI Peru	0.09	4.21	4.83	0.09	4.21	4.83
FRONTIER MARKETS							
	MSCI Frontier Markets	-0.65	-9.68	0.66	-1.66	-8.60	2.88
Botswana	MSCI Botswana	-0.95	-7.81	-3.47	-1.26	-3.87	2.43
Bulgaria	MSCI Bulgaria	-1.76	-19.48	-24.44	-1.60	-11.07	-11.51
Croatia	MSCI Croatia	-1.37	-16.05	-9.02	-2.16	-8.20	5.03
Estonia	MSCI Estonia	-3.84	-17.35	14.80	-3.68	-8.70	34.46
Ghana	MSCI Ghana	1.24	13.42	37.94	2.12	15.15	38.98
Jamaica	MSCI Jamaica	3.18	3.55	16.69	-0.11	-0.88	11.77
Kazakhstan	MSCI Kazakhstan	-9.75	-24.77	-23.40	-9.75	-24.77	-23.40
Kenya	MSCI Kenya	1.45	6.86	20.62	3.64	12.82	29.81
Lebanon	MSCI Lebanon	-2.78	-3.88	-2.13	-2.78	-3.88	-2.13
Lithuania	MSCI Lithuania	1.31	-13.23	1.15	1.49	-4.15	18.48
Mauritius	MSCI Mauritius	7.75	-5.01	-10.65	3.38	-0.65	-6.09
Nigeria	MSCI Nigeria	-0.63	-5.48	21.50	-1.65	-5.58	21.75
Romania	MSCI Romania	-8.99	-31.99	-17.42	-5.11	-19.91	-0.26
Serbia	MSCI Serbia	-8.20	-21.48	-15.68	-6.31	-8.99	7.59
Slovenia	MSCI Slovenia	0.67	-17.16	-17.45	0.85	-8.49	-3.31
Tunisia	MSCI Tunisia	-1.96	-2.42	-1.11	-1.35	5.83	13.63
Ukraine	MSCI Ukraine	6.70	-15.17	26.05	6.43	-15.34	24.41

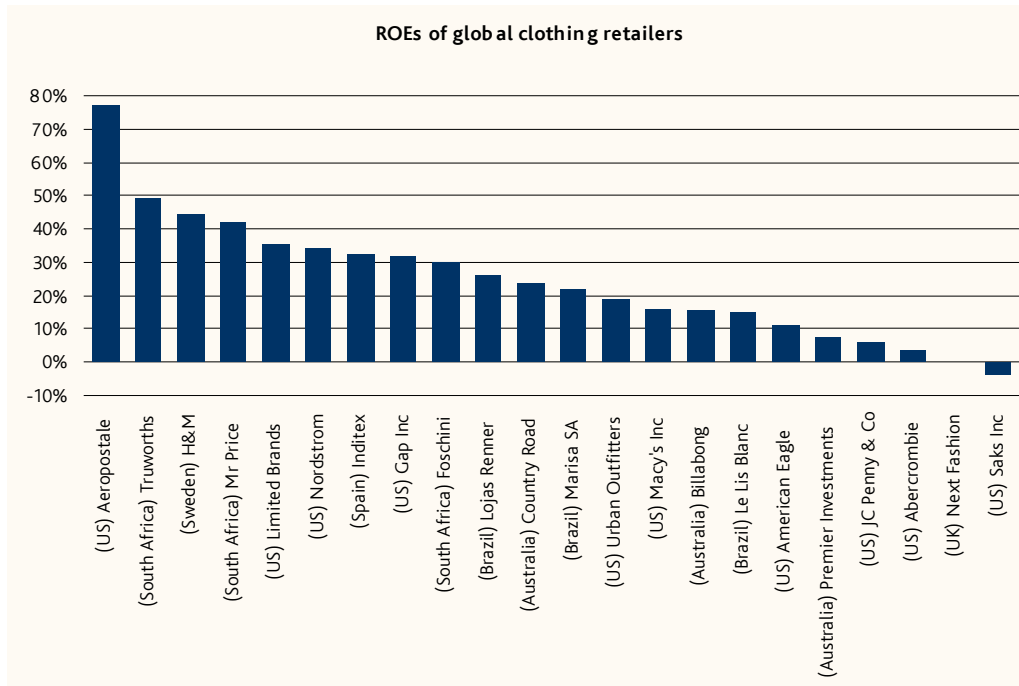
As at 30 June 2010.

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

Source: Bloomberg

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Focus – In the overtaking lane



Source: Company data, RMB Morgan Stanley Research, Modelware, 1 June 2010

Clothing retailers Truworths and Lojas Renner recently reported improved sales on the back of economic recovery. On a return-on-equity basis, both rank ahead of many of their global competitors. South Africa's Truworths also leads its domestic counterparts, while Brazil's Lojas Renner is first among emerging market peers outside of South Africa. Truworths continues to be supported by prudent cost management and strong cash flow generation, while Lojas Renner will benefit from new store openings and rising profit margins. Both are also under-represented in their domestic markets with plenty of room for further expansion

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During the month, we met with the following companies:

Brazil: Bradesco, Odontoprev, Petrobras, Saraiva, Totvs, Ultrapar.

Chile: Banco Credito Inversiones (BCI), Banco de Chile, Banco Santander de Chile, Banmedica, CCU, CMPC, Concha Y Toro, Copec, E-CL, Endesa, Enersis, ENTEL, Falabella, Inversiones Aguas Metropolitanas (IAM), La Polar, LAN, Parque Arauco, Salfacorp, Sigdo Koppers, Sonda, SQM.

China: 361 Degree International, Bank of China, Beijing Wangfujing Department Store, China Construction Bank, China Minzhong Food, China Resources Enterprise, China South City, China Travel International Investment, Home Inns & Hotels Management, Mindray Medical International, PCD Stores, Ports Design, Shirble Department Store.

Croatia: T-Hrvatski Telekom.

Egypt: National Societe Generale Bank.

Hong Kong: Aeon Credit Service Asia, Aeon Stores, Asia Satellite Telecommunications, Dairy Farm, Guangdong Investment, Hong Kong and Shanghai Hotels, Hong Kong Economic Times, Hung Hing Printing, Jardine Matheson, Swire Pacific.

India: Bharti Airtel, Ambuja Cements, Asian Paints (India), Bajaj Auto, BOC India, CMC, Dabur India, GlaxoSmithKline Consumer Healthcare, Godrej Consumer Products, Grasim Industries, HDFC Bank, Hero Honda, Hindustan Unilever, HDFC, Idea Cellular, Infosys Technologies, ING Vysya Bank, Kansai Nerolac Paints, Mphasis, Persistent Systems, Piramal Healthcare, Ranbaxy Laboratories, Siemens India, Sun Pharmaceutical Industries, Titan Industries.

Indonesia: AKR Corporindo, Indo Tambangraya Megah, Indonesia Stock Exchange, Unilever Indonesia.

Jordan: Hikma.

Kazakhstan: KazMunaiGas.

Korea: Samsung.

Lebanon: Blom Bank.

Malaysia: Genting, Maxis, Public Bank, Tan Chong Motor.

Mexico: Banorte, Chedraui, Soriana, Walmex.

Peru: Grana Y Montero.

Philippines: Jollibee Foods.

Poland: Orbis.

Russia: Eurasia Drilling, Kalina, Monocrystal, Novatek, X5 Retail Group.

Saudi Arabia: Almarai.

Slovenia: Krka.

South Africa: Clicks Group, Mediclinic.

Thailand: Advanced Info Service, Home Product Center.

Turkey: Akbank, Aksigorta, Bank Asya, BIM, Carrefour, Coca-Cola Icecek, Garanti, Halkbank, Koc Holding, Sabanci Holdings, Sinpas REIT.

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