

Asia Pacific region



Overview

Asian markets rose in March, encouraged by good economic news, better corporate results and improving employment and consumer spending data in the US. The US Federal Reserve's move to hold interest rates near record lows also boosted sentiment. At the month-end, however, the gains were capped by concerns about the advancing monetary-tightening cycle in Asia and lingering worries over European sovereign debt. Among the best performing markets were Thailand and Indonesia, whereas Singapore and China lagged. In Japan, stocks rose to an 18-month high on the back of the weaker yen, along with the central bank's decision to extend its lending programme and keep interest rates low.

Exports continued to rebound strongly across Asia in February. In particular, China, India, Singapore, Taiwan and Korea experienced a sharp pick-up in shipments, which in turn drove manufacturing output. The strengthening economic recovery led ratings upgrades for both India and Indonesia. In Japan, fourth-quarter GDP growth was revised downwards but monthly economic data started to turn positive. The unemployment rate fell, demand for services expanded and household sentiment improved. As a result, the government lifted its economic outlook for the first time in eight months.

In policy news, most central banks in the region continued to hold benchmark interest rates unchanged but Australia, Malaysia and India raised theirs. Elsewhere, policymakers utilised other tools to prevent the formation of asset bubbles. China implemented measures to cool the property market after prices accelerated sharply in February. The Philippines pared back a bank-lending programme, while Taiwan will withdraw liquidity and tighten property lending. However, sustaining economic recovery remains an imperative, with Japan approving a record ¥92.3 trillion budget while India plans to double infrastructure spending.

On the political front, Thai prime minister Abhisit Vejjajiva held talks with protestors who are demanding early elections. Indonesia's parliament ruled that the government bail-out of Bank Century in 2008 was illegal.

Much of the economic improvement in Asia has been due to restocking, government stimulus and easy money. While there is a need to normalise policy, governments appear hesitant to act, less on the account of their own economies than the still sickly nature of demand in the West. Ultimately, Asia remains very export dependent. Fortunately, most economies in the region are on a firmer footing than they were in the financial crisis of the 1990s.

Australia: Rio Tinto completed the sale of its Alcan Packaging Food Americas division to Bemis. The miner agreed to develop an iron ore project in Guinea with Chinese metals group Chinalco, a turnaround for both companies which had fallen out recently over another deal. The project will harness Rio's mining expertise and China's huge demand and financing capabilities. Rival BHP Billiton and its customers agreed to pricing terms for a significant portion of its hard coking coal volumes for 2010.

China/Hong Kong: Most of our holdings reported good full-year results. Property firms, such as Sun Hung Kai Properties, saw higher occupancy rates, positive rental reversion and strong residential sales. Financial holdings, such as Standard Chartered Bank, also reported significant profit growth on the back of lower provisions and increased contribution from its foreign operations. Most importantly, it remains well capitalised and is poised to benefit from the economic recovery. In comparison, China Mobile's profit growth slowed because of aggressive competition. However, the company still has the best infrastructure domestically and will offer more value-added services; it will continue tapping the rural market to grow its business.

India: HDFC Bank and ICICI Bank raised rates on home and auto loans to maintain profitability. Infosys will raise salaries for its staff in April, its second pay increase since October, which may signal that operating conditions are firming.

Indonesia: Despite rising competition, Unilever Indonesia's solid sales growth lifted its full-year net profits.

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Japan: Automobile giant Toyota Motor continued to dominate headlines. After several public apologies over its slow safety recall, it promised to improve quality as it launched a promotional campaign in the US that included a five-year interest-free loan on some vehicles. The carmaker also decided to rationalise its production lines further, both domestically as well as in the US and Europe.

Korea: Shinsegae reported solid February sales for its department and discount stores.

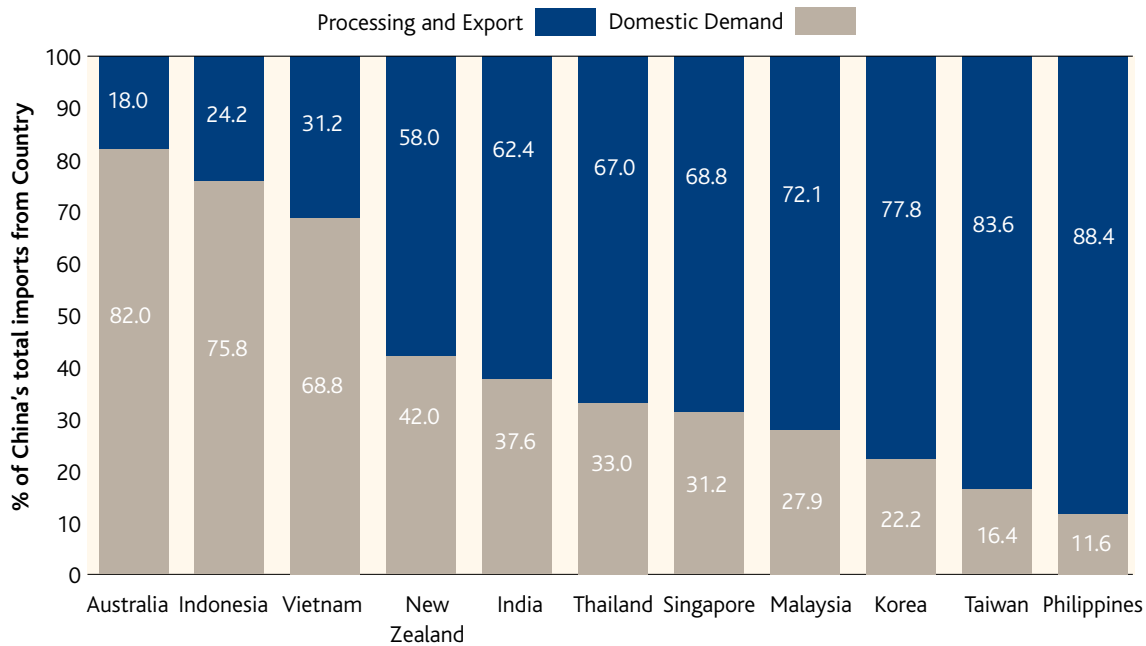
Malaysia: The central bank's interest rate hike is likely to benefit CIMB Group Holdings because it holds a large portion of variable rate loans in its portfolio. The group's Vietnam unit, CIMB Investment Bank, will acquire 10% of Vinashin Shipbuilding Finance Company Securities. Although the investment amount is small, it is in line with the group's vision of becoming a Southeast Asian banking group. The lender also applied for a Cambodian banking licence.

Singapore: Corporate results of our holdings were largely positive. In banking, United Overseas Bank's fourth-quarter results were boosted by writebacks. We see this as a positive signal that the decline in asset quality is over. In technology, Venture Corp's fourth-quarter results were lifted by non-recurring losses, as well as improved operating results as the company continues pruning its lower margin businesses.

Taiwan: The economics ministry may block Taiwan Mobile's pending deal with cable operator Kbro because of existing regulatory restrictions on the ownership of media companies.

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Focus: If the renminbi rises



Source: CEIC and Citi Investment Research and Analysis, 26 March 2010

Much can be learned about an economy by looking at its exports, particularly those going to China where growth is currently very high. Some, like Australia, send goods that are consumed, such as commodities. Others, like the Philippines, focus on intermediate products, such as electronic components, that will end up re-exported as part of a PC or a mobile phone for example.

With all the rising prospect of renminbi appreciation, how a country is affected will depend on which type of exports it ships to China. For those producing goods consumed by the Chinese, renminbi appreciation is positive, so countries such as Australia, Indonesia and Vietnam stand to benefit. But for the rest, whose shipments end up as re-exports, an appreciating currency will lead to a fall in China's export competitiveness, which in turn, will hurt suppliers of these intermediate goods.

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Performance of Asia Pacific stock markets

	31/03/10 Index	1 month (%)			Year to date (%)		
		Local currency	US\$	£	Local currency	US\$	£
MSCI AC Asia Pacific	104.60	7.23	5.97	6.35	3.06	3.87	10.58
Australia ASX All Ordinaries	4893.10	5.20	7.83	8.22	0.21	2.27	8.88
China Shanghai Se B-Share	258.59	1.78	1.78	2.15	2.45	2.45	9.06
Hong Kong - Hang Seng	21239.35	3.06	3.04	3.42	-2.89	-3.03	3.23
India Bse Sensex 30	17527.77	6.68	9.56	9.96	0.36	4.03	10.74
Indonesia Jakarta Composite	2777.30	8.96	11.77	12.18	9.59	13.14	20.45
Japan Topix	978.81	9.47	4.11	4.49	7.85	7.45	14.39
Korea Kospi Composite	1692.85	6.16	8.83	9.23	0.60	3.54	10.22
FTSE Bursa Malaysia	1320.57	3.92	8.49	8.88	3.75	8.91	15.94
NZSE All Share	761.58	1.08	2.71	3.08	-1.48	-3.93	2.27
Pakistan KSE100	10178.43	5.39	6.60	6.99	8.43	8.81	15.83
Philippines PSEi Composite	3161.80	3.88	6.03	6.41	3.57	5.96	12.80
Sri Lanka CSE Colombo All-Share	3724.59	-2.19	-1.69	-1.34	10.01	10.35	17.48
Taiwan TAIEX	7920.06	6.51	7.56	7.95	-3.27	-2.58	3.71
Thailand Bangkok SET	787.98	9.23	11.70	12.10	7.28	10.61	17.75
MSCI India	714.75	6.34	9.21	9.61	1.08	4.77	11.54
MSCI Singapore	343.08	3.64	4.21	4.59	-1.80	-1.39	4.98

Source: Factset.

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During the month we met the following companies:

Australia: Australia & New Zealand Banking, Australian Stock Exchange, AXA Asia Pacific, Bradken, Bunnings Warehouse Property Trust, Cabcharge, Corporate Express, Crane Group, David Jones, Flight Centre, Goodman Fielder, iCash Payment Systems, InvoCare, Iress Market Technology, Lihir Gold, Metcash Trading, Miclyn Express Offshore, Monadelphous, Myer, Newcrest Mining, QBE Insurance Group, Rio Tinto, SP Ausnet, Tabcorp, Tatts Group, Toll, Tower Australia Group, United Group, Westfield Group, Westpac Banking, Woolworths, WorleyParsons

China/Hong Kong: Café de Coral, China Mobile, China Resources Enterprise, China Vanke, Convenience Retail Asia, Dairy Farm, Giordano, Hang Lung Group, Hang Lung Properties, Hang Seng Bank, Home Inns & Hotels Management, Hong Kong Aircraft Engineering, Hong Kong Exchange and Clearing, Huiyin Household Appliances, Jardine Matheson/Strategic, Li Ning, Mandarin Oriental, MTR, New Oriental Education and Technology Group, Pacific Basin Shipping, Public Financial, Swire Pacific, Yantai Changyu Pioneer Wine

India: Cairn, Castrol, CMC, Container Corporation of India, DLF, GlaxoSmithKline, Godrej Consumer Products, Grasim Industries, HDFC Bank, Hero Honda, Hindustan Unilever, Hotel Leelaventure, Housing Development Finance, ICI, ICICI Banking, ICICI Prudential, JP Morgan, Piramal Healthcare, Piramal Life Sciences, Securities Exchange Board of India, Sun Pharmaceutical Industries, Tata Consultancy Services, Tata Power

Indonesia: Astra International, M.P. Evans Group

Japan: Bank of Kyoto, Dai-ichi Life Insurance, Eisai, Hulic, Komatsu, Kurita Water Industries, Linical, Monex Group, Nankai Electric Railway, Parco, Sekisui House, Start Today, Takeda Pharmaceutical, Tokyo Gas, Yahoo Japan, Yaskawa Electric

Korea: Busan Bank, Hyundai Motor, Pohang Iron & Steel, Samsung Heavy Industries, Shinsegae Department Store

Malaysia: Aeon Credit Service, Ajinomoto, Bumi Armada, Dayang Enterprise, Digicom, Guinness Anchor, Mah Sing Group, Nestle, Oriental, QL Resources, Supermax, YTL Cement

New Zealand: Air New Zealand

Philippines: Ayala Land, Bank of Philippine Islands, Cebu, GMA Network, Philippine Long Distance Telephone, PTT Exploration and Production

Singapore: Bukit Sembawang, City Developments, Eu Yan Sang, Healthway Medical, Jardine Cycle & Carriage, K-REIT, Oversea-Chinese Banking, Raffles Medical Group, ST Engineering, United Overseas Bank, Venture

Sri Lanka: Hatton National Bank

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