

# Global Emerging Markets Update



## Economic and market overview

Buoyant economic data and firmer crude oil prices boosted emerging markets in March. The assurance of aid for Greece and the US pledge to keep interest rates low also lifted sentiment, overriding concerns about monetary tightening in China.

The rise in fourth-quarter GDP from Brazil and Argentina to Turkey and Korea underscored the recovery across emerging economies. More recent data showed that China's exports accelerated in February, while India's industrial output improved in January. Standard & Poor's raised Indonesia's credit rating and India's rating outlook on signs that both countries are recovering strongly.

Inflationary pressures, however, have begun to build, especially in parts of Asia. India, Malaysia and Israel hiked interest rates. To prevent property asset bubbles from forming, China ordered state-owned firms, whose core business is not in property, to exit the sector, while Hong Kong plans to sell subsidised apartments to boost supply.

In other news, Argentina's government won the latest round in a legal battle to unlock central bank reserves to repay debt. Indonesia's parliament ruled that the government bailout of Bank Century in 2008 was illegal, despite mounting street protests. The Thai prime minister rejected calls for fresh elections. The Thai domestic market, however, defied expectations, rallying strongly during the month.

In the near term, attention will likely be trained on policy action, both in the developing and developed economies. Interest rates are likely to rise across Asia, in what would be a normalisation of monetary conditions as economies recover. Separately, China is under growing pressure from the West to revalue the renminbi. Developed countries face a quandary of their own: end demand remains weak, but enormous deficits are increasing pressure for the reversal of unprecedented stimulus measures.

Market volatility is therefore likely to continue, although we would view weakness as a buying opportunity as the long-term outlook for emerging markets remains attractive, supported by a strong financial footing in most countries.

## Portfolio activity

There were no significant changes to the portfolio during the month.

## Corporate news

**Brazil: Petrobras** bought an oil block in the Campos Basin from Repsol and Statoil. In addition, Congress approved a government plan to grant Petrobras the right to produce up to five billion barrels of oil from offshore fields in exchange for company shares. **Vale** secured tentative iron ore price hikes of 90% with major Asian steel companies; the miner also sold €750 million-worth of eight-year bonds to finance investments in nickel production. Elsewhere, **Banco Bradesco** raised US\$750 million in a five-year bond issue. In earnings news, Petrobras' fourth-quarter results were lifted by higher domestic demand and a recovery in oil prices, while new mall openings and store expansions boosted **Multiplan**.

**China/Hong Kong:** Most of our holdings reported good full-year results. **Standard Chartered Bank** 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; it will continue tapping the rural market and offer more value-added services to grow its business.

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**Hungary: Teva Pharmaceutical** is buying generic drug maker Ratiopharm for US\$5 billion to expand its presence in Germany.

**India: 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.

**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.

**Mexico: Asur** is among the companies reportedly interested in the government tender offer for the new Riviera Maya airport project on 15 April.

**Poland: Bank Pekao's** fourth-quarter results reflected improved asset quality and capital adequacy.

**Russia:** Despite higher revenues, **Lukoil's** fourth-quarter net income was hurt by a weaker rouble, lower oil and gas prices, as well as impairment charges related to domestic and Iranian assets. In other news, the oil company, together with Ghana National Petroleum Corp, made a significant oil and gas discovery off Ghana's coast.

**Taiwan:** The economics ministry may block **Taiwan Mobile's** pending deal with cable operator Kbro.

**Turkey:** Discount retailer **BIM** benefited from catering to price-conscious customers during the downturn, as full-year profits rose sharply boosted by higher sales.

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
<b>DEVELOPED MARKETS</b>							
US	Dow Jones	5.31	4.82	4.82	5.31	4.82	4.82
UK	FTSE Allshare	6.49	0.20	0.20	6.81	6.52	6.52
Europe	FT Europe ex UK	7.01	-2.30	-2.30	7.42	2.49	2.49
World	MSCI AC World Free	6.48	3.24	3.24	6.53	4.35	4.35
World	Citigroup World Government Bond	-1.70	-1.33	-1.33	-1.70	-1.33	-1.33
<b>ASIA PACIFIC</b>							
EM Asia	MSCI Emerging Markets Asia	7.73	1.39	1.39	6.13	-0.29	-0.29
	MSCI Emerging Markets Asia Small Cap	9.31	3.94	3.94	7.59	2.09	2.09
China	MSCI China	5.42	-1.57	-1.57	5.43	-1.44	-1.44
Hong Kong	MSCI Hong Kong	5.53	2.43	2.43	5.55	2.57	2.57
	MSCI Zhong Hua	5.45	-0.41	-0.41	5.47	-0.28	-0.28
India	MSCI India	9.24	4.85	4.85	6.37	1.16	1.16
Indonesia	MSCI Indonesia	11.94	10.02	10.02	9.11	6.56	6.56
Korea	MSCI Korea	9.35	4.03	4.03	6.66	1.08	1.08
Malaysia	MSCI Malaysia	9.08	9.07	9.07	4.48	3.91	3.91
Pakistan	MSCI Pakistan	7.78	10.10	10.10	6.55	9.72	9.72
Philippines	MSCI Philippines	5.61	5.20	5.20	3.47	2.83	2.83
Sri Lanka	MSCI Sri Lanka	8.52	4.46	4.46	7.98	4.14	4.14
Taiwan	MSCI Taiwan	6.75	-3.83	-3.83	5.71	-4.51	-4.51
Thailand	MSCI Thailand	14.62	13.26	13.26	12.09	9.84	9.84
<b>GLOBAL EMERGING MARKETS</b>							
Global Emerging Markets	MSCI Emerging Markets	8.08	2.45	2.45	6.24	1.43	1.43
	MSCI Emerging Markets Small Cap	8.85	5.11	5.11	6.90	3.77	3.77
<b>EMERGING MARKETS EUROPE MIDDLE EAST AFRICA</b>							
EMEA	MSCI EMEA	10.16	6.25	6.25	7.63	5.29	5.29
	MSCI EMEA Small Cap	11.23	11.47	11.47	8.38	11.16	11.16
Czech Republic	MSCI Czech Republic	2.35	-0.20	-0.20	1.11	1.83	1.83
Egypt	MSCI Egypt	2.75	11.87	11.87	3.02	12.28	12.28
Hungary	MSCI Hungary	17.78	12.62	12.62	17.12	17.43	17.43
Morocco	MSCI Morocco	3.01	6.69	6.69	3.80	11.99	11.99
Poland	MSCI Poland	11.03	4.24	4.24	9.70	3.93	3.93
Russia	MSCI Russia	10.04	6.76	6.76	8.59	4.20	4.20
South Africa	MSCI South Africa	10.79	4.57	4.57	6.16	4.29	4.29
Turkey	MSCI Turkey	16.07	3.99	3.99	14.63	5.60	5.60
<b>MIDDLE EAST</b>							
Bahrain	Bahrain All Share Index <sup>A</sup>	1.91	6.09	6.09	1.91	6.10	6.10
Kuwait	Kuwait Stock Exchange Index <sup>A</sup>	2.49	7.00	7.00	2.10	7.54	7.54
	MSCI Kuwait	3.63	18.38	18.38	4.44	19.78	19.78
Oman	Muscat Securities Market Index <sup>A</sup>	0.12	5.15	5.15	0.12	5.16	5.16
Qatar	Doha Securities Market Index <sup>A</sup>	8.43	7.26	7.26	8.58	7.23	7.23
	MSCI Qatar	7.27	9.19	9.19	7.45	9.20	9.20
Saudi	Tadawul All Share Index <sup>A</sup>	5.64	11.11	11.11	5.65	11.10	11.10
UAE - Abu Dhabi	Abu Dhabi Securities Market <sup>A</sup>	7.58	6.01	6.01	7.58	6.01	6.01
UAE - Dubai	Dubai Financial Market General Index <sup>A</sup>	15.73	2.21	2.21	15.73	2.21	2.21
	MSCI UAE	25.20	7.07	7.07	25.20	7.07	7.07
Israel	MSCI Israel	7.36	10.04	10.04	5.11	7.48	7.48
Jordan	MSCI Jordan	1.88	-5.59	-5.59	1.92	-5.49	-5.49
<b>LATIN AMERICA</b>							
Latin America	MSCI Latin America	7.07	1.67	1.67	5.29	2.33	2.33

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REGION/COUNTRY	INDEX/FUND	USD DOLLARS			LOCAL CURRENCY		
		MOM	3M	YTD	MOM	3M	YTD
	MSCI Latin America Small Cap	1.94	2.02	2.02	0.16	2.52	2.52
<b>Argentina</b>	MSCI Argentina	14.18	5.31	5.31	14.18	5.31	5.31
<b>Brazil</b>	MSCI Brazil	7.30	-0.09	-0.09	5.86	2.29	2.29
<b>Chile</b>	MSCI Chile	-1.86	0.30	0.30	-2.36	3.76	3.76
<b>Colombia</b>	MSCI Colombia	3.26	10.36	10.36	2.72	3.81	3.81
<b>Mexico</b>	MSCI Mexico	10.31	7.83	7.83	6.44	1.80	1.80
<b>Peru</b>	MSCI Peru	3.75	0.60	0.60	3.75	0.60	0.60
<b>FRONTIER MARKETS</b>							
	MSCI Frontier Markets	7.85	11.44	11.44	8.14	12.56	12.56
<b>Botswana</b>	MSCI Botswana	-1.66	4.71	4.71	-4.02	6.56	6.56
<b>Bulgaria</b>	MSCI Bulgaria	-1.47	-6.16	-6.16	-0.63	-0.49	-0.49
<b>Croatia</b>	MSCI Croatia	3.65	8.37	8.37	4.12	14.41	14.41
<b>Estonia</b>	MSCI Estonia	8.70	38.90	38.90	9.63	47.28	47.28
<b>Ghana</b>	MSCI Ghana	13.02	21.62	21.62	12.52	20.69	20.69
<b>Jamaica</b>	MSCI Jamaica	13.93	12.69	12.69	13.56	12.76	12.76
<b>Kazakhstan</b>	MSCI Kazakhstan	4.81	1.83	1.83	4.81	1.83	1.83
<b>Kenya</b>	MSCI Kenya	5.34	12.88	12.88	5.99	15.07	15.07
<b>Lebanon</b>	MSCI Lebanon	4.59	1.83	1.83	4.59	1.83	1.83
<b>Lithuania</b>	MSCI Lithuania	3.39	16.57	16.57	4.28	23.61	23.61
<b>Mauritius</b>	MSCI Mauritius	0.23	-5.94	-5.94	-0.42	-5.47	-5.47
<b>Nigeria</b>	MSCI Nigeria	14.71	28.55	28.55	14.41	28.93	28.93
<b>Romania</b>	MSCI Romania	13.21	21.42	21.42	13.77	24.54	24.54
<b>Serbia</b>	MSCI Serbia	2.42	7.39	7.39	3.18	18.21	18.21
<b>Slovenia</b>	MSCI Slovenia	5.59	-0.35	-0.35	6.50	5.66	5.66
<b>Tunisia</b>	MSCI Tunisia	-0.29	1.35	1.35	0.65	7.37	7.37
<b>Ukraine</b>	MSCI Ukraine	24.29	48.59	48.59	23.45	46.96	46.96

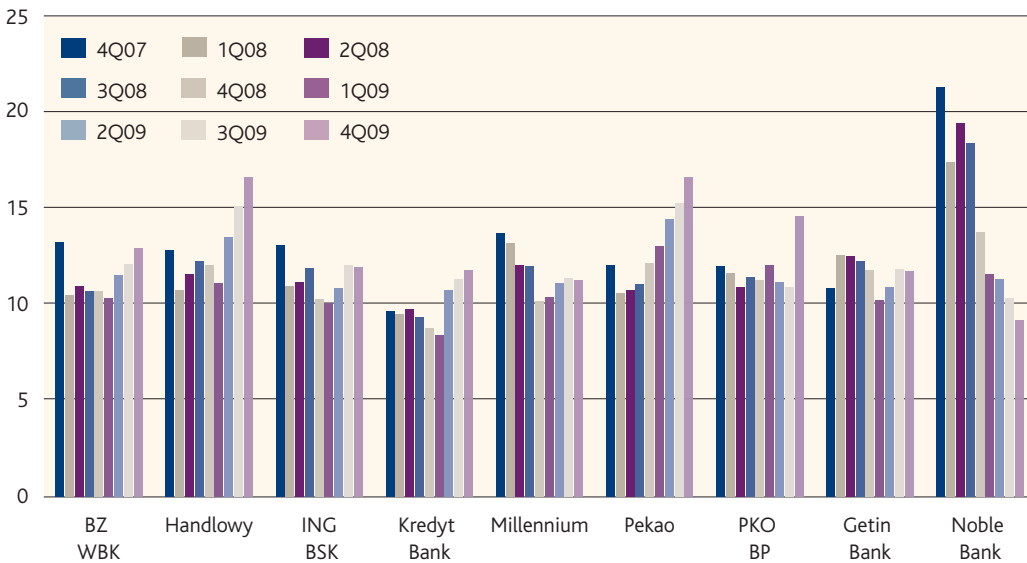
As at 31 March 2010.

All performance are measured using total return except for those marked <sup>A</sup>

Source: Bloomberg

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## Focus – Poland’s Bank Pekao: improving capital adequacy boosts defensive quality



Source: banks, BRE Bank Securities, 19 Jan 2010.

We recently introduced Polish lender Pekao into our portfolios. As one of Eastern Europe’s most prudent banks, it has proven itself more resilient than its peers. During the recent downturn, it was one of the few banks in the region not to offer foreign-currency mortgages and the asset quality of its loan book has held up relatively well overall. It also continued to improve its capital adequacy even as the credit crisis worsened; its capital adequacy ratio is now among the highest in Eastern Europe. With a management focused on long-term profitability and a sector ripe for consolidation, the bank looks well placed to benefit from the relatively low penetration of financial products and a recovery in economic activity in Poland.

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### During the month, we met with the following companies:

**Argentina:** Tenaris.

**Austria:** Vienna Insurance Group.

**Brazil:** American Banknote, AMIL, BM&FBovespa, Bradesco, BRF Brasil Foods, CCR, Cielo, Cremer, Fosfertil, Iguatemi, Itau Unibanco, Localiza, Lojas Renner, Mills, MRV, Natura, Odontoprev, OSX, Petrobras, Rossi Residencial, Santos Brasil, Totvs, Vale, Wilson Sons.

**Chile:** Banco de Chile, Banco Santander de Chile, Cencosud, Colbún, Embotelladora Andina, La Polar.

**Czech Republic:** Cez, Komerčni, Pegas Nonwovens, Telefonica O2 Czech Republic.

**Hungary:** Allami Nyomda, Danubius, Magyar Telekom, MOL, PannErgy, Richter.

**India:** Hindustan Unilever, Grasim Industries, JP Morgan India, Sun Pharmaceutical Industries, Tata Consultancy Services, Castrol India, GlaxoSmithKline India, Godrej Consumer Products, HDFC Bank, Housing Development Finance Corp (HDFC), ICICI Banking Corp, Tata Power, Piramal Life Sciences, DLF Ltd, Cairn India, Hero Honda, Hotel Leelaventure.

**Israel:** Bezeq, Check Point Software, Israel Chemicals, Mizrahi-Tefahot Bank.

**Jordan:** Hikma Pharmaceuticals, Palestine Telecom.

**Kazakhstan:** Eurasian Natural Resources Corporation (ENRC).

**Mexico:** Banorte.

**Morocco:** Maroc Telecom.

**Panama:** Copa.

**Poland:** Central European Distribution Corporation (CEDC), EM&F Group, Eurocash, GTC, ING Bank Slaski, Orbis, Pekao.

**Russia:** Bank St. Petersburg, Lukoil, Rosneft, VimpelCom, Wimm-Bill-Dann.

**Senegal:** Sonatel.

**South Africa:** Murray & Roberts Holdings, SAB Miller.

**Turkey:** Garanti, Turk Ekonomi Bankasi.

**Zambia:** Zambeef.

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### For more information

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