

Asia Pacific region



Overview

Asian equity markets ended mixed in June as some markets were better able than others to ignore weak US economic data and ongoing concerns that the global recovery may stall. Continued signs of buoyancy in Asia provided some respite, along with China's move to increase the flexibility of its exchange rate, even though it was largely viewed as a political ploy. In other market news, India's publicly-listed companies were told to increase their free float from 10% to 25% over the medium term. In Japan, an appreciating yen and a raft of disappointing economic data hurt investor sentiment.

On the economic front, data stayed positive but there were signs that growth may be starting to slow slightly, particularly in China where the pace of manufacturing output decelerated. India saw growth accelerate in the quarter to March, with exports and factory output improving further. Fitch raised the country's credit rating outlook to stable from negative as revenue from the sale of wireless airwaves should improve the fiscal situation. Elsewhere, Australia's GDP continued to rise in the first quarter while Korean growth exceeded estimates.

Inflation in India rose by double digits in May, triggering calls for a rate hike soon, while consumer prices in China, Korea and Indonesia also advanced. Most central banks, however, continued to hold interest rates steady, except for Taiwan and New Zealand. Separately, Korea unveiled a raft of measures to control currency flows, while the Japanese central bank kept interest rates steady and announced a ¥3 trillion low-interest lending scheme to spur growth.

Japan's new prime minister Naoto Kan moved to cut the national debt and may double the consumption tax, while Taiwan signed a trade pact with Beijing that will see lower tariffs and increased market access for services. Australia's Julia Gillard became the first female prime minister after she ousted Kevin Rudd, while Korea's main opposition party was victorious in key provincial elections. The Indian government unexpectedly backtracked on its decision to postpone the hike in fuel prices and will now let petrol prices move freely. The Chinese banking regulator warned of rising bad debts, especially from the industry's exposure to property. Benigno Aquino III was sworn in as the new president of the Philippines.

Economies appear at a crossroads, with leading indicators pointing to slower growth. Even China, the world's engine room, is experiencing a deceleration, although growth remains positive for now. Clouding the outlook further is the slew of austerity measures being introduced in Europe. Such fiscal prudence at a time when final private demand is still weak risks pushing the world back into recession.

Market volatility is thus likely to remain high and equity indices may face further downside. Hence, we remain cautious but are confident that our holdings, which are characterised by their solid balance sheets, experienced management, and sound business practices, will remain resilient and able to weather the challenges that lie ahead. We are also sure that Asia will continue to perform better than the developed world, given its stronger balance sheets and greater growth potential.

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Corporate news

Australia: Rio Tinto will invest US\$469m nickel and copper mine in the US after receiving the necessary approvals, a positive development that highlights the diversity of the group's asset base and its growth profile. **BHP Billiton** agreed with Western Australia to amend iron ore royalty rates and various state contracts. The move will enable its existing operations to run more efficiently as well as aid the proposed joint venture between BHP and Rio, which still requires approvals from both regulators and shareholders.

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. **Sun Hung Kai Properties** won the bid for a prime residential site in Hong Kong for HK\$10.9 billion. The average land cost exceeds market expectations by up to 20%, suggesting that the developer holds a bullish long-term view of the high-end residential segment.

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.

Indonesia: Unilever Indonesia plans to acquire Sara Lee Body Care Indonesia to further expand in the archipelago. The company will also build more factories over the next two to three years to cement its market position domestically as well as across Southeast Asia. Singapore-listed **OCBC** increased its stake in **Bank OCBC NISP** to 81.9% after it bought out International Finance Corp.

Japan: Labour issues in China dominated headlines, with both **Honda Motor** and **Toyota Motor** suspending production, albeit temporarily. The disputes were quickly resolved through the promise of better pay increases. While the labour movement might appear worrying at first glance, we believe the impact to both companies' cost structures will be minimal, while the longer-term implications seem positive as it is a necessary step in the development of domestic consumption in China. More notably, both carmakers appear increasingly confident of a recovery in global demand, as Toyota resumed construction of a new US plant, while Honda launched of a new low-priced hybrid model to strengthen its position in the segment. Elsewhere, **Takeda Pharmaceutical** will invest in a new R&D centre to bolster its pipeline of new drugs.

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, expanding its presence in the region. The lender is also like to benefit from the privatisation of several state-owned companies, such as Percetakan Nasional Berhad and Nine Bio Sdn Bhd, because is the key leader in the domestic investment banking segment.

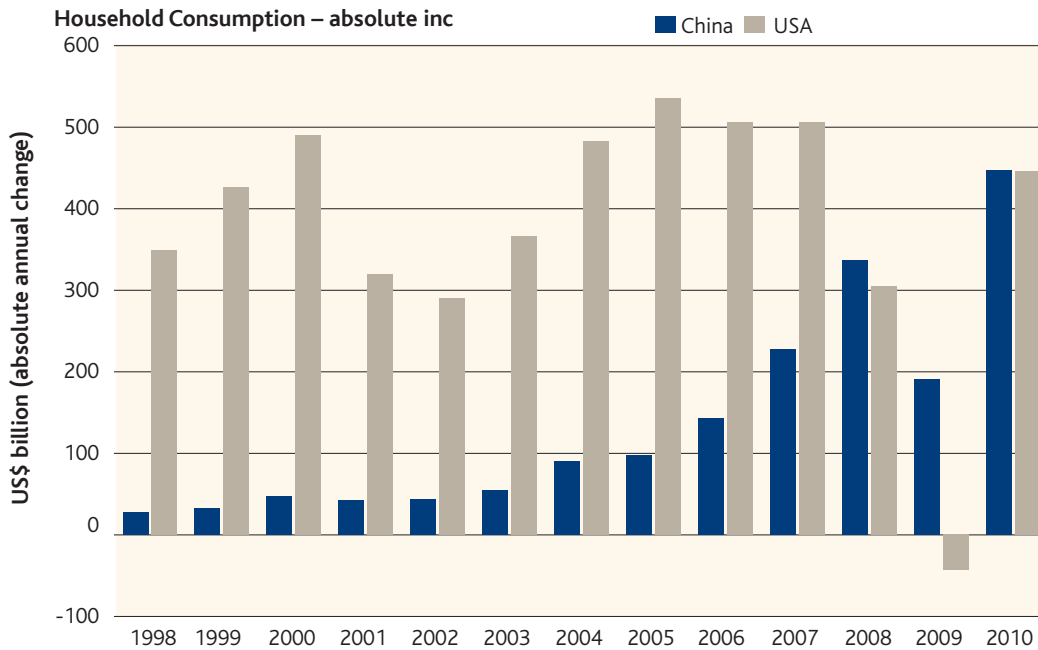
Philippines: The **Bank of the Philippine Islands** is planning a 10 billion peso rights issue to fund expansion. **Ayala Land** launched its first condominium in Cebu.

Singapore: UOB set up a euro medium-term note programme, a debt-issuing facility that allows it to borrow up to S\$5 billion in various currencies and at different maturities. **SingTel's** wholly-owned subsidiary, NCS, clinched an S\$850 million contract from the Ministry of Education. **ST Engineering's** marine arm, ST Marine, and its local partner were awarded a S\$66.5 million contract to design and construct a waste management facility in Brunei.

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.

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Focus: China rising



Source: CEIC, CLSA Asia-Pacific Markets - Eye on Asian Economies: Wall of Worry - June 2010

In the past two years, China has accounted for the bulk of the growth in global consumption and it is poised to repeat the feat again this year. In absolute terms, the mainland is already the world's largest market, having overtaken the US as the biggest buyer of motor vehicles last year. This year, the Chinese consumer is set to buy more LCD television sets than the US or Europe. All this underscores the real growth in wages, which has been independent of consumer credit availability. In addition, the demand for better wages, that affected the mainland operations of Japanese carmakers Toyota and Honda, is likely to quicken the process, boosting the overall level of consumption.

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Performance of Asia Pacific stock markets

	30/06/10 Index	1 month (%)			Year to date (%)		
		Local currency	US\$	£	Local currency	US\$	£
MSCI AC Asia Pacific	94.10	-1.76	-0.60	-3.47	-7.28	-6.35	1.08
Australia ASX All Ordinaries	4324.80	-2.89	-2.21	-5.03	-11.43	-16.81	-10.21
China Shanghai Se B-Share	208.93	0.67	0.67	-2.23	-17.23	-17.23	-10.66
Hong Kong - Hang Seng	20128.99	1.84	1.84	-1.10	-7.97	-8.36	-1.09
India Bse Sensex 30	17700.90	4.46	4.28	1.28	1.35	1.55	9.61
Indonesia Jakarta Composite	2913.68	4.17	5.44	2.40	14.97	19.15	28.61
Japan Topix	841.42	-4.43	-1.69	-4.52	-7.29	-2.47	5.28
Korea KOSPI Composite	1698.29	3.48	1.79	-1.15	0.92	-3.83	3.81
FTSE Bursa Malaysia	1314.02	2.26	3.02	0.04	3.24	9.19	17.85
NZSE All Share	697.19	-3.07	-1.04	-3.90	-9.81	-14.77	-8.00
Pakistan KSE100	9721.91	4.24	3.92	0.92	3.57	2.12	10.22
Philippines PSEi Composite	3372.71	3.05	2.87	-0.10	10.48	10.19	18.93
Sri Lanka CSE Colombo All-Share	4612.46	8.86	9.07	5.93	36.24	37.23	48.12
Taiwan TAIEX	7329.37	-0.60	-1.10	-3.96	-10.49	-10.90	-3.82
Thailand Bangkok SET	797.31	6.25	6.64	3.57	8.55	11.73	20.60
MSCI India	718.27	4.06	3.89	0.89	1.58	1.78	9.85
MSCI Singapore	337.66	3.34	3.62	0.63	-3.35	-2.81	4.91

Source: Factset, end June 10

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During the month we met the following companies:

Australia: APA Group, ARB, David Jones, DuluxGroup, Fisher and Paykel Appliances, Fletcher Building, GWA International, Hills Industries, iiNet, Mainfreight, Mortgage Choice, Newcrest Mining, QBE Insurance Group, SMS Management & Technology, Spotless Group, Talent2 International, Technology One, Telstra, Valemus

China/Hong Kong: 361 Degree International, 7 Days Group, Aeon Credit Service Asia, Aeon Stores, Agricultural Bank of China, Asia Satellite Telecommunications, Ausnutria Dairy, Bank of Beijing, Bank of China, Beijing Wangfujing Department Store, China Construction Bank, China Cord Blood, China Minzhong Food, China Resources Enterprise, China South City, China Travel International Investment, Dah Sing Banking Group, Dairy Farm, Giordano, Guangdong Investment, Home Inns & Hotels Management, Hong Kong and Shanghai Hotels, Hong Kong Economic Times, Huabao International, Hung Hing Printing, Industrial Bank, Jardine Matheson, Jardine Strategic, Lonking, Mindray Medical International, PCD Stores, Poly (Hong Kong) Investments, Ports Design, Shanghai Jin Jiang International Hotels, Shirbie Department Store, Swire Pacific, Tianwei Baobian, Wing Hang Bank, Xinao Gas, ZTE

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

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

Japan: Aeon Delight, Aisin Seiki, Amada, Asahi Intecc, Asics, Astellas Pharma, Dai-ichi Life Insurance, Heian Services, Japan Drilling, Japan Pure Chemical, Japan Retail Fund, Keyence, Kura, Kureha, M3, Mitsubishi, Murata Manufacturing, Musashi Seimitsu Industry, Nabtesco, Naigai Trans Lines, Nippon Accommodations Fund, Pigeon, Pronexus, Roland DG, Sawai Pharmaceutical, Sekisui House, Seven, Shimano, Shizuoka Gas, Skymark Airlines, Start Today, Sysmex, Tokio Marine, Towa Pharmaceutical, Toyota Motor, Unicharm, Yushin Precision Equipment

Korea: Samsung C&T

Malaysia: Affin Bank, Axis REIT, Boustead, British-American Tobacco, CapitaMalls Malaysia Trust, Genting, Maxis, IJM Land, Manulife, Oriental, Public Bank, Oriental, Shangri-La Hotels, SP Setia, Sunway REIT, Tan Chong Motor, Tomyapak, United Plantations, YNH Property

New Zealand: Air New Zealand, Auckland International Airport, Freightways, Millennium & Copthorne, The Warehouse Group

Philippines: Jollibee Foods

Singapore: Fraser and Neave, Hong Leong Finance, Keppel, Oversea-Chinese Banking, Sembcorp Marine, Singapore Post, Singapore Telecom, Temasek, United Overseas Bank, Venture Corporation

Thailand: Advanced Info Service, Aeon Thana Sinsap, Bangchak Petroleum, Bangkok Bank, Bangkok Dusit Medical Services, Bangkok Insurance, Bank of Ayudhya, BEC World, Capital Nomura Securities, Central Plaza Hotel, Eastern Water Resources Development, Home Product Center, Muang Thai Insurance, Ratchaburi Electricity Generating, Regional Container Lines, Sammakorn, Thai Oil

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