



HOUSEVIEW

Global Economic Outlook

World

- Recent economic releases indicate that the pace of decline in economic activity has deteriorated further in the current quarter from the previous quarter. Initial expectations of 4Q, '08 representing the nadir in this downturn thus seem misplaced.
- Prospects of an economic recovery beginning in the second half of this year is being pushed back. The World Bank has opined that the global economy, for the first time since records have been maintained, will shrink in 2009.
- Libor, the rate that banks charge each other for short term funding and a key indicator of liquidity in the financial system has been slowly rising – an indication that central bank efforts to prop up the financial sector is meeting with limited success.
- Inflation in the three largest economies, namely US, Japan and China are now bordering deflation.

United States

- The unemployment rate in February has risen to 8.1% as employers reduced payrolls by 651,000. Unemployment is certain to push higher in the coming months approaching 10% by year end.
- The household sector has responded to this adverse employment scenario by increasing the savings rate to 5% from near zero levels a year ago. We believe this adjustment in savings rate has further to go.
- Higher rates of unemployment will also raise the possibility of rising non performing loans in the prime mortgage segment where NPL levels are 'only' 2.5% as opposed to 20% in the sub-prime segment.
- We are reducing our full year GDP forecast for the US to -3% considering manufacturing, non-manufacturing, housing and spending data releases coupled with expected trajectory of unemployment and intensifying wealth effects.

Europe

- The ECB has delivered a 50bps ease in rates and with the policy rate now at 1.5%. It is gradually moving towards unconventional monetary policy.
- The Bank of England has been the first central bank to officially adopt quantitative easing in its battle against deflation and to stimulate demand.
- It is fair to say that not much differentiates Europe from the US in this current recession and the two are moving in lockstep with the European economy following the US with several months lag. The eventual outcome for the two regions is therefore expected to be quite similar.

Japan

- Japan's 4Q Ministry of Finance corporate survey revealed a historic collapse in profits. Japanese companies have slashed capex and output but not labour. This will continue to depress earnings.
- With job cuts a seeming inevitability, consumer spending will be curtailed further impacting domestic demand.
- For now Japan will remain a play on global economic revival and should provide the first signal of stabilisation and the beginning of the next business cycle.

Global Market Insights

Equities

- Global earnings downgrades accelerated over the last month with 2009 earnings of the MSCI world being downgraded by 11.8%. US earnings were adjusted 14.2% lower, led by financials. In Europe earnings were lowered by 11% with UK, France and Italy leading. Japan suffered a decline of 32% in earnings estimates.
- Outflows out of equity funds remained strong globally with US and Eastern European equity funds being hit the hardest.
- Equity markets in Asia and Latin America are clearly out-performing developed markets this year as the financials in these two regions have avoided the follies of their counterparts in the US and Europe.
- Equity market prospects remain unclear at best. While valuation excesses have been wrung out, the spectre of declining earnings loom large. While investors with a longer term perspective may begin to build positions at current low levels the risk of volatility and further disruption remains.

Bonds

- Bond markets have stabilized after the recent supply-driven back up in yields. The outlook for global government bond markets remains benign for now
- We expect heavy bond issuance by governments on the back of aggressive fiscal pump priming, but this will be absorbed by increased savings. For now, fundamentals (weak growth, disinflation/ deflation) will dominate as driver for bond yields
- Central Banks are furthermore increasingly shifting to unconventional tools, with the UK recently officially adopting quantitative easing. Near term this helps bond market momentum.
- Quantitative easing and deteriorating fiscal dynamics represent medium term risks for USD and GBP. EUR remains vulnerable to ongoing concerns about EU stability and European banking exposure to Central Europe. With the ECB behind the curve, prospective declining interest rate differentials will not work in favor of EUR either. JPY fundamentals are rapidly dereriorating (very weak growth, current account deficits), with JPY losing it's status as beneficiary of deleveraging flows.
- We recommend a neutral exposure to international bonds

Returns

- Equity markets in all regions both developed and emerging continued its downward trend in February. Of all MSCI markets only Chile, Israel and Brazil are in positive territory YTD.
- Global bonds continued to lose ground in February, on the back of modestly higher yields and a sharply weaker JPY, bringing the monthly return to -2.96%.

Equities Benchmark	February	Year-to-Date	12 Months
MSCI World (USD term)	-10.24%	-18.10%	-47.12%
Bond Benchmark	February	Year-to-Date	12 Months
World Govt Bond Index (USD terms, unhedged)	-2.96%	-7.17%	3.21%

Asia Pacific Economic Outlook

Overview

- Exports growth remains in deeply negative territory though impact on current account is small given the equally alarming slowdown in imports.
- There are tentative signs of a rebuilding of inventory in China potentially lifting intra-Asia trade.
- Stimulus measures such as infrastructure spending introduced by governments are beginning to take hold, particularly in China
- Asian currencies are weakening as a result of contagion from Eastern Europe
- Economic growth in the region nevertheless should outperform the rest of the world.

China

- China's PMI rebounded for the third month in a row with a reading of 49.0.
- Despite exports falling -17.5% in January a large trade surplus has been recorded as imports fell even faster by -43.1%.

North Asia

- Hong Kong's unemployment rate rose to a higher than expected 4.6% and the government looks to boost spending to combat recession pressures.
- Foreign exchange reserves stands at US\$201.5 billion for Korea, barely above the psychologically important US\$200 billion mark while the economy recorded a current account deficit of US\$1.4 billion in January.
- Taiwan's 4Q08 GDP fell 8.4% YoY as export orders plunged. Recent optimism on technology inventory restocking has buoyed the market.

South Asia

- Indonesia's exports fell 35.5% in January as commodity prices collapsed.
- Industrial Production in Malayisa fell an alarming 15.6% in December
- Thailand saw interest rate cut by another 50bps to 1.5%, the lowest in history.
- Offshore remittance in the Philippines grew a mere 0.8% in December which is causing worries among investors due to the importance of this income stream to the country.

Pacific

- Australia reported stronger than expected economic data with retail sales up 0.8% in 4Q08 and private sector credit acually growing 6.1% YoY,

Asia Pacific Market Insights

Equities

- Export collapse is being matched by drop off in imports hence the current account situation for Asian countries remain relatively stable.
- However, Asian currencies have been weakening, led by the fall of the Korea Won as contagion spread from Eastern Europe to other emerging markets.
- In line with her US and European counterparts Asia is beginning to see an increasing number of companies coming to market to raise equity capital which reduces liquidity in the market. However, the scale of fund raising is much smaller in Asia.
- Earning growth estimates continue to be revised down as analysts adjust earnings due to worsening global economic outlook.
- Asia Pacific's 2009 estimated PE stands at 11.5X with an estimated earnings growth of -7.4% and 3 months earnings revision of -21.7%. Earnings estimates remain far too high and is likely to see further cuts going forward. Dividend yields however, remain very attractive at 5.6%.
- Investor expectation for 2009 continue to be reset lower along with worsening corporate announcements and economic data. Second half recovery is no longer certain but looking beyond the earnings contraction for this year, Asian fundamentals remain attractive on all other measures.

Bonds

- Against the backdrop of a bearish US-T market, Asian local currency government bonds have performed poorly recently.
- Supply concerns have impacted market sentiment, and will continue to do so. However most of these risks are priced in. Moreover, while Asian countries all face budget deficits, the bond supply risks in some markets are relatively limited: countries like Hong Kong and Singapore are for example able fund the majority of their deficits from their substantial fiscal reserves. Other countries, such as Indonesia, are able to tap into alternative sources of (bilateral) funding
- Going forward, fundamentals remain broadly bond-supportive. Asian growth continues to weaken, and inflation in Asia is not longer a concern. Moreover, Asian central banks are still in the midst of cutting policy rates, although admittedly a lot of the easing has been priced in.
- Asia's weak growth prospects, collapsing exports and unsupportive capital flows will continue to exert downward pressure on Asian currencies for now.
- We recommend being neutral this asset class.

Returns

- All equity markets offering sufficient liquidity in stock markets fell dramatically. Taiwan was the only market to mark a small gain (+3.96%). All sectors recorded losses.
- Sharply weaker Asian currencies and modestly higher yields severely impacted the returns on Asian local currency debt, leading to 2nd consecutive monthly loss.

Equities Benchmark	February	Year-to-Date	12 Months
MSCI Asia Pacific Ex Japan (USD terms)	-5.82%	-12.98%	-54.41%
Bond Benchmark	February	Year-to-Date	12 Months
HSBC Asia Local Bond Index (USD terms)	-4.22%	-7.76%	-10.06%

Recommended Asset Exposures	
International Equities	Underweight
Asian Equities	Underweight
International Bonds	Neutral
Asian Bonds	Neutral
Cash	Overweight

	Key Drivers	Key Risks	Risk Rating
World Economy	<ul style="list-style-type: none"> Deleveraging of consumer, financial and corporate sectors Continued co-ordinated approach to the financial and economic crises 	<ul style="list-style-type: none"> Emerging markets decline into recession Protectionism emerges 	High
			Low
Global Equities	<ul style="list-style-type: none"> Prospects for economic growth Earnings growth and the extent of revisions 	<ul style="list-style-type: none"> Earnings downgrades surprise on the downside Availability of credit diminishes 	High
			Medium
Global Bonds	<ul style="list-style-type: none"> Monetary policy easing Collapsing growth and disinflation Safe haven flows Deficit spending & bond supply 	<ul style="list-style-type: none"> Return of risk appetite/ demand for risky assets Inflation replacing deflation Increasing fiscal deficits, rising public debt 	Low
Asian Equities	<ul style="list-style-type: none"> Extent Asia is impacted by the global economic slowdown International investors appetite for risk 	<ul style="list-style-type: none"> Earnings revisions surprise to the downside Valuations fail to halt market slide 	High
			High
Asian Bonds	<ul style="list-style-type: none"> Monetary policy easing Decelerating growth and disinflation Bond supply 	<ul style="list-style-type: none"> Asian currency weakness Return of inflation Increased bond supply Higher G3 bond yields 	Low

Key Forecasts

	Real GDP				Inflation				90 Day Interest Rates*		10 Year Bond Yields	
	2008E#		2009E#		2008E#		2009E#		Actual 09-Mar-09	ING Forecast For Next 3 Months	Actual 09 Mar-09	ING Forecast For Next 3 Months
	2008E#	ING	2009E#	ING	2008E#	ING	2009E#	ING				
The World	3.4	-	2.0	-	4.6	-	3.4	-				
USA	1.4	-	-0.6	-	4.3	-	2.8	-	0.20	Steady	2.88	Steady
Europe	1.0	-	-0.2	-	3.5	-	2.6	-	0.81	Lower	2.92	Lower
Japan	0.6	-	0.1	-	1.4	-	1.0	-	0.50	Steady	1.29	Steady
Australia	2.5	-	2.5	-	4.2	0	3.2	-	3.21	Lower	4.12	Lower
China	9.5	-	8.1	-	7.0	-	4.8	-	1.71	Steady	3.15	Steady
Hong Kong	3.6	-	1.4	-	4.7	-	4.3	-	0.91	Steady	1.89	Steady
India	7.1	-	6.6	-	7.8	-	6.6	-	4.40	Lower	6.50	Lower
Indonesia	6.0	-	4.7	-	10.5	-	8.2	-	9.44	Lower	13.92	Steady
Malaysia	5.3	-	3.3	-	5.8	0	4.1	-	2.10	Steady	4.12	Steady
Philippines	4.2	-	3.6	-	9.9	-	7.1	-	4.73	Steady	7.95	Lower
Singapore	2.5	-	1.2	-	6.4	-	3.0	-	0.40	Higher	1.99	Steady
South Korea	4.2	-	2.8	-	4.8	-	3.6	-	2.46	Lower	5.06	Lower
Taiwan	3.7	-	2.5	-	3.8	-	2.5	-	0.55	Steady	1.60	Steady
Thailand	4.5	-	3.2	-	6.5	-	3.7	+	1.82	Lower	3.94	Lower

Consensus Forecast, ING Bias ("+" Higher, "0" in line, "-" Lower than Consensus Forecast)

* Australia 90 day BBSW Rate, Hong Kong, Malaysia, Singapore, Indonesia and Thailand 90 Day Interbank Rate, Japan and Korea 3 months CD Rate, China 1 Year Deposit Rate, India 90 Day Treasury Bill and Taiwan 90 Day Commercial paper Secondary Mkt

Asia Pacific Consensus Forecasts - Consensus Economics Inc.

INVESTMENT MANAGEMENT



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