



HOUSEVIEW

Global Economic Outlook

World

- A sense of political renewal in the United States along with a flurry of policy action from the fiscal authorities and central banks across all regions have been welcomed by the asset markets but beyond that there has been no material improvement.
- The interplay between policy action leading to hopes of economic revival and the ensuing effect of debasing the currency will ensure the three major currencies USD, EUR and JPY remain unstable against each other. Currency movements will therefore be crucial in determining eventual asset market and regional equity returns.
- Credit markets continue to improve with interbank rates moving lower as markets gain confidence that any further disruption in the banking sector will be prevented.
- Most commodity prices have now declined to levels where selling prices are at or below cash costs with copper being a notable exception.

United States

- The much anticipated 4Q08 US GDP came in far better than expected at -3.8% as expectations of up to -7% growth was averted. However, this seemingly positive outcome was offset by a string of other disappointments as industrial production, house prices, employment data, etc. failed to meet expectations. We forecast a -2% GDP for 2009.
- The downturn in GDP is expected to intensify this quarter ahead of expected stabilisation in the second half of the year and recent incoming data supports this view.
- Bank lending has continued to decline even after the release of the first tranche of the TARP funds. The nature of the use of the second tranche is currently focussing on the prospect of an asset guarantee or a bad bank scheme or a combination of the two.

Europe

- Capacity utilisation in the Euro area fell by 6.4 points to a level of 75.2, by far the largest quarterly decline ever seen. This implies further falls in corporate capital spending and core inflation falling to levels close to zero.
- Unemployment is now rising in every country of the region as December unemployment rose to 8% in December. Hardest hit is Spain with unemployment rising to 14.4%
- The UK economy remains in the midst of its deepest recession since at least the early 1990s with all indicators pointing to a continuation of depressed economic activity.

Japan

- The mainstay of the Japanese economy, exports, declined 35% yoy in December. As Japan entered the recession with a weak domestic economy and relatively strong export sector, the outlook for economic growth in Japan has further deteriorated. We now expect GDP growth to be -3% in 2009.
- As policy rates in the US and Euro area come down to levels prevailing in Japan the JPY has surged against both the major currencies as well as against the Chinese Renminbi compounding problems for the export industry.
- Unless the JPY were to depreciate significantly against other currencies the outlook for Japan will remain dim and at best will be viewed as a beta play on global economic revival.

Global Market Insights

Equities

- The sharp downturn in economic activity has been handled exceptionally well by non-financial companies with y-o-y earnings declining a modest 2%- 3% in 2008. This will change in the course of 2009 as the disruption in the financial sector spills over to the real economy. A consensus earnings decline of "only" 2.7% for the world will prove very optimistic in our view.
- Risk aversion is below levels seen in 4Q08 but is still very high. Cash levels are high and expectations low. This will lead to bear market rallies every once in while as very poor economic and earnings data compete with pro-growth policy action and improving credit markets.
- Volatility is sure to be a continuing feature through the course of this year and intra-year lower equity market levels certainly cannot be ruled out. However, investors with a longer term horizon may be well served by accumulating equities around current levels.

Bonds

- Global bond markets continue to be underpinned by global deleveraging, collapsing economic growth and deflation fears.
- Central Banks remain in easing mode. With rapidly retreating inflation pushing real interest rates higher, we expect more rate cuts in markets where nominal rates are still positive, and quantitative easing measures in countries where interest rates approach the 'zero bound'. European bond markets are in the first category: with the ECB expected to deliver more rate cuts, we expect European bond markets to outperform the US and Japan.
- Fiscal pump priming, increasing deficits and increased bond supply however exert upward pressure on bond yields. The recent back-up in bond yields reflect these pressures, notably in the US but at current levels we believe the upside in yields is limited.
- We recommend a modest underweight exposure to international bonds.

Returns

- 2009 kicked off in much the same way as 2008 – down. All regions declined with Europe (-11.04%) being worst and Latin America (-0.31%) best.
- Global bonds lost ground after the sharp rally in December, with yields backing up across markets. US bonds returned -3.05%, whereas Japanese bonds outperformed (+0.33%). European bonds (-8.92%) performed the poorest on the back of a sharply weaker Euro.

Equities Benchmark	January	Year-to-Date	12 Months
MSCI World (USD terms)	-8.51%	-8.51%	-42.06%
Bond Benchmark	January	Year-to-Date	12 Months
World Govt Bond Index (USD terms, unhedged)	-4.34%	-4.34%	2.28%

Asia Pacific Economic Outlook

Overview

- Exports have now turned deeply negative for many Asian countries.
- Intra-Asia trade also weakened significantly as exports to China has slowed.
- Restocking of inventory in China is expected to help boost demand for commodities in the short term.
- Asian Economic growth assumptions are being rapidly revised downwards.
- Economic growth in the region nevertheless will remain stronger than the rest of the world.

China

- While Economic growth in China has slowed, the January rebound in PMI to 45.3 marks the second consecutive month of improvement.
- Infrastructure spending from the stimulus package is beginning to show signs of improvement in commodity demand and industrial activity.
- Loan growth has also accelerated since the start of the year as lending restrictions have been eased.

North Asia

- Hong Kong's economy is being cushioned by Chinese spending with retail sales +0.8% in December buttressed by mainland tourists.
- Korean export and industrial production fell 32.8% and 18.6% respectively as demand from end markets sagged.
- Taiwan exports and industrial production fell 33% and 32.4% respectively. Taiwan was particularly hard hit due to reliance on technology exports.

South Asia

- Indonesia exports fell 20% in December, much lower than expectations and continued to weigh on the Rupiah throughout the month.
- Industrial Production in Malaysia remained in a downward trend, falling 7.7% in November.
- Thailand saw interest rate cut by another 75bps to 2%, the lowest level in 4 years.
- OFW remittance grew 14.6% in November providing support to domestic consumption in The Philippines.

Pacific

- Australia announced a A\$42 billion economic stimulus package equating to 4% of GDP in an effort to cushion the effects of a global economic downturn.

Asia Pacific Market Insights

Equities

- Weakening consumer demand across the globe caused by low household credit availability and rising unemployment is exacting a large toll on export orientated countries such as Taiwan and Korea.
- Commodity driven economies such as Indonesia, Thailand and Australia are also being hit by sharply lower commodity prices.
- Financial and credit markets however appear to be improving with credit spreads tightening in January.
- Sharp falls in 2008 earnings have led to continued cuts in earnings estimates for 2009 and 2010. Earnings visibility remain very low. Market trading volumes also remain very low as investors wait on the sidelines pending clarity.
- Asia Pacific's 2009 estimated PE stands at 10.8X with an estimated earnings growth of -25.5%. While PE multiple does not appear to be significantly below average, average earnings estimates have been reduced substantially providing a much better base for investor expectations for 2009.
- This year will remain a difficult year for most Asia Pacific economies though aggressive monetary easing and large scale stimulus plans will help cushion the downturn. Nevertheless, economic growth targets have been aggressively revised downwards for 2009.
- Expectation of a second half recovery remain consensus though conviction remains low. Our base case remains a general economic recovery or at least no further deterioration in the latter half of 2009, which could position the market for a summer rebound.

Bonds

- The current crisis is a global crisis, and not EM originated, and Asia entered this crisis with generally solid fundamentals. Whereas in typical EM crises central banks have to significantly tighten monetary policy to stabilise the macro situation, virtually every Asian central bank now has the flexibility to ease monetary policy to help sustain growth.
- With commodity prices collapsing and domestic demand decelerating rapidly, inflation in Asia is no longer a concern. As with their global counterparts, regional central banks are aggressively cutting rates and pumping liquidity into systems to help ease strains in domestic money markets.
- Most Asian countries were in decent fiscal shape going into the crisis, and with Asian banking systems less exposed to problem assets, bank recapitalisation needs are limited. We don't expect fiscal pump priming to represent a major risk for Asian bond markets, and after the recent back up in yields the near term upside in yields is limited.
- In several markets, yield curves may steepen as a result of continued monetary policy easing anchoring the short end and increased bond supply exerting upward pressure on the back-end of yield curves.
- Deterioration in foreign investors risk appetite may negatively impact markets which have higher foreign participation, such as Indonesia. In other markets, where outflows have already occurred, we believe the downside potential is much more limited going forward.
- We recommend being neutral in this asset class.

Returns

- The Chinese New Year failed to bring cheer to the region as equities continued to decline through January. Hong Kong was the only market to close in the positive territory, gaining a measly 0.5%.
- Asian bond markets began 2009 poorly by posting negative returns on the back of higher bond yields and weaker Asian currencies.

Equities Benchmark	January	Year-to-Date	12 Months
MSCI Asia Pacific Ex Japan (USD terms)	-7.69%	-7.69%	-48.94%

Bond Benchmark	January	Year-to-Date	12 Months
HSBC Asia Local Bond Index (USD terms)	-3.59%	-3.59%	-5.34%

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

	Key Drivers	Key Risks	Risk Rating
World Economy	• Deleveraging of consumer, financial and corporate sectors	• Emerging markets decline into recession	High
	• Continued co-ordinated approach to the financial and economic crises	• Protectionism emerges	Low
Global Equities	• Prospects for economic growth	• Earnings downgrades surprise on the downside	High
	• Earnings growth and the extent of revisions	• Availability of credit diminishes	Medium
Global Bonds	• Monetary policy easing	• Return of risk appetite/ demand for risky assets	Low
	• Collapsing growth and disinflation	• Inflation replacing deflation	
	• Safe haven flows	• Increasing fiscal deficits, rising public debt	
	• Deficit spending and bond supply		
Asian Equities	• Extent Asia is impacted by the global economic slowdown	• Earnings revisions surprise to the downside	High
	• International investors appetite for risk	• Valuations fail to halt market slide	High
Asian Bonds	• Monetary policy easing	• Asian currency weakness	Low
	• Decelerating growth and disinflation	• Return of inflation	
	• Bond supply	• Increased bond supply	
		• Higher G3 bond yields	

Key Forecasts

	Real GDP				Inflation				90 Day Interest Rates*		10 Year Bond Yields	
	2008E#		2009E#		2008E#		2009E#		Actual 31-Jan-09	ING Forecast For Next 3 Months	Actual 31-Jan-09	ING Forecast For Next 3 Months
	ING	ING	ING	ING	ING	ING	ING	ING				
The World	3.4	-	2.0	-	4.6	-	3.4	-				
USA	1.4	-	-0.6	-	4.3	-	2.8	-	0.23	Steady	2.84	Steady
Europe	1.0	-	-0.2	-	3.5	-	2.6	-	1.12	Lower	3.30	Lower
Japan	0.6	-	0.1	-	1.4	-	1.0	-	0.38	Steady	1.30	Steady
Australia	2.5	-	2.5	-	4.2	0	3.2	-	3.41	Lower	4.10	Lower
China	9.5	-	8.1	-	7.0	-	4.8	-	2.25	Steady	3.02	Steady
Hong Kong	3.6	-	1.4	-	4.7	-	4.3	-	0.99	Steady	1.64	Steady
India	7.1	-	6.6	-	7.8	-	6.6	-	4.75	Lower	6.26	Lower
Indonesia	6.0	-	4.7	-	10.5	-	8.2	-	10.66	Lower	11.79	Steady
Malaysia	5.3	-	3.3	-	5.8	0	4.1	-	2.60	Steady	3.11	Steady
Philippines	4.2	-	3.6	-	9.9	-	7.1	-	4.69	Steady	7.49	Lower
Singapore	2.5	-	1.2	-	6.4	-	3.0	-	0.65	Higher	2.07	Steady
South Korea	4.2	-	2.8	-	4.8	-	3.6	-	2.96	Lower	4.71	Lower
Taiwan	3.7	-	2.5	-	3.8	-	2.5	-	0.74	Steady	1.53	Steady
Thailand	4.5	-	3.2	-	6.5	-	3.7	+	2.22	Lower	3.47	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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