



HOUSEVIEW

Global Economic Outlook

World

- Global equity markets delivered a stellar performance in March gaining 7.60% with all regions participating. Unsurprisingly, emerging markets outperformed developed markets by a large margin gaining 14.38%.
- Moderation in the pace of deterioration of certain economic indicators in the key US economy notably home sales and manufacturing data have provided a fillip to investor sentiment after many months of continuously deteriorating data flow.
- The ability of the Chinese government to prevent the world's third largest economy from sliding into a stagnating state has provided the other crucial motivation for a higher level of confidence.
- Repairing sentiment towards global economies has also boosted commodity prices both hard and soft. On the flip side, Gold prices have corrected as risk tolerance has increased.

United States

- Nearly \$13 trillion, an amount approaching the US GDP in 2008 has been spent or committed so far in saving the US economy from a protracted recession. This has stalled the downward spiral at least temporarily.
- Net exports, manufacturing data, housing sales, mortgage applications, durable goods etc. have all come in slightly better than the extremely depressed levels expected. All indicators however remain near record lows consistent with a sharply contracting economy.
- The supply demand balance has turned more favourable in the US economy as inventory adjustment has been sharp and swift. The drag from tighter credit conditions on growth also seems to be fading because of aggressive policy action. Coupled together, it presents a more encouraging growth scenario in 2H2009.

Europe

- During the past two quarters Europe's economic performance was broadly in line with the US. This correlation is about to be tested as European companies have been slow in adjusting their workforce. With the pace of job shedding now gaining momentum, European households will therefore see significantly weaker income gains in the coming months with fiscal support providing only a limited cushion.
- In line with other regions, Europe has also seen a mild moderation in the deterioration of economic indicators.

Japan

- The Japanese central bank has supported money markets via its 'quantitative expansion' operations. These have been complimented by JPY 2 trillion in cash handouts and an extraordinary level of fiscal stimulus, the most recent being announced last week totalling JPY 15.4 trillion (3% of GDP).
- Such aggressive intervention is likely to lead to an upward revision in growth estimates for the Japanese GDP in the last two quarters of 2009.
- While Japanese companies have reacted swiftly in reducing capacity expansion and destocking inventory, the adjustment in the labour force has been poor. As a result, corporate profit margins have plunged to their lowest level in decades.

Global Market Insights

Equities

- The equity market rally began as a few leading financial companies in the US and Europe indicated their return to operating profitability in 1Q2009. Expectation of bank profitability has been further bolstered by changes to fair-value from mark-to-market accounting rules approved by the FASB on April 2.
- While investor sentiment has clearly improved and markets have witnessed a smart rally it is only appropriate to be reminded that such bear market rallies are indeed the norm and have occurred in all previous bear markets e.g. mid seventies (first oil crisis), early eighties (second oil crisis), early nineties (US Savings & Loans crisis), early this decade (IT bubble), not to mention the early thirties (the great depression).
- These similarities do not automatically imply that the current bear market will also follow this pattern but it is better to realise that there is a high probability that markets will dip again providing an entry point for an ensuing rally. A neutral weighting is recommended as the risk of getting sucked in at the tail end of a bear market rally is now high. The US corporate earnings season as well as the ongoing stress test for US banks may provide the next opportunity.

Bonds

- Quantitative easing (“QE”) spreads as more central banks across the globe shift to explicit measures, effectively limiting the upside risks for bond yields.
- Announcement of the US QE program pushed US bond yields lower, although after the initial sharp reaction, yields grinded higher on the back of continuing supply pressure, tentative signs of bottoming in underlying fundamentals and a rebound in risk appetite.
- We expect heavy bond issuance by governments on the back of aggressive fiscal pump priming, but this will be absorbed by increased savings and fundamentals will dominate as driver the for bond yields.
- With increasing expectations for a larger role (increased funding) by the IMF in stabilising emerging economies, pressure on the EUR on account of concerns about EU stability have diminished. Coupled with a reluctance to move to QE, EUR is likely to strengthen versus USD. JPY fundamentals continue to dereriorate (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 delivered a stellar month – a record one month rally – in many markets. Emerging markets outshone developed markets.
- Global bonds regained some lost ground in March, on the back of lower UST yields post Fed’s QE announcement and a strong performance by EUR.

| Equities Benchmark | March | Year-to-Date | 12 Months |
|---|-------|--------------|-----------|
| MSCI World (USD terms) | 7.54% | -11.92% | -42.58% |
| Bond Benchmark | March | Year-to-Date | 12 Months |
| World Govt Bond Index (USD terms, unhedged) | 2.54% | -4.81% | -3.75% |

Asia Pacific Economic Outlook

Overview

- Export growth remains deeply negative though the rate of decline is slowing.
- Further signs of stablization in the Chinese economy is giving a boost to deeply cyclical sectors such as commodities and shipping.
- Current account positions have not worsened significantly as the collapse in exports are being matched with falling imports.
- Unemployment rates across the region are moving sharply higher and will add pressure to domestic demand.
- Economic growth in the region nevertheless should outperform the rest of the world.

China

- China’s PMI continued to edge higher to 49 in February showing tentative signs of possible economic stablization.
- While both exports and imports fell 25.7% and 24.1% respectively in February , the trade surplus contracted dramatically to US\$4.84 billion.
- Industrial profit year to date collapsed by -37.3% YoY.

North Asia

- Hong Kong’s unemployment rate remains on an upward trend reaching 5.0%.
- While Korea’s exports fell 17.1% in February it was nevertheless an improvement over last month and along with industrial production up 1.3% MoM in January this may point toward nacent signs of economic stablization.
- Similar to Korea, exports and industrial production in Taiwan fell 22.3% and 27.1% respectively in February and though alarming, was an improvement over previous month.

South Asia

- Indonesia cut interest rates by another 25bps further loosening monetary policy.
- With industrial production falling 20.2% in Malaysia, the 4Q08 employment rate of 3.1% is sure to climb in the near future.
- The current account surplus increased in Thailand in February as imports fell a dramatic 43.5%, far outpacing the 11.1% decline in exports.
- The unemployment rate in the Philippines shot up to 7.7% in January and along with a meager 0.1% growth in OFW remittance poses downside risk to domestic consumption.

Pacific

- As unemployment rate picks up to 5.2% in Australia and a 9.9% YoY decline in 4Q08 dwelling starts, point to a bleak outlook for the domestic property market.

Asia Pacific Market Insights

Equities

- While export growth continues to be deeply negative, recent data points suggests some level of stabilization is occurring with the pace of decline moderating.
- Current account position may not be severely eroded on specific country level as dramatic export collapse has often been matched by equally dramatic fall in imports.
- Equity capital raising to shore up balance sheets is expected to continue in Asia though the quantum is likely to be significantly smaller than it's western counterparts.
- Earning growth estimates continues to be revised downwards as analysts adjust earnings downwards due the worsening global economic outlook.
- Many investors remain on the sidelines with regards to the recent equity market rally as market consensus is that this is no more than a bear market rally with fundamental economic outlook remaining weak in the near to medium term.

Bonds

- Supply concerns remained a dominant factor for Asian local currency government bonds, resulting in successive months of weak performance.
- Quite a few central banks (India, Thailand, Indonesia, Taiwan and Korea) in the region have embarked on, or are exploring, some form of "quantitative easing" - for eg., through bond buybacks or debt switches. In addition, authorities (notably in Malaysia and Thailand) have taken greater cognizance of demand supply dynamics through changes to issuance schedules.
- Going forward, we expect the monetary easing bias to gradually lose momentum with a bulk of rate cuts being behind us. However, we believe that the fundamentals continue to remain broadly bond-supportive, in form of weak growth, low inflation and accomodative monetary stance. The supply overhang, though, may result in phases of bond weakness.
- Asian currencies rebounded strongly during March on the back of increased risk appetite. For the foreseeable future, we expect Asian currencies to continue to be largely governed by risk appetite plays and broad USD moves.
- We recommend being neutral in this asset class.

Returns

- There was broad participation from Asian stock markets in the global equity rally with Korea and Indonesia leading. Signs of stabilisation in the Chinese economy was the key positive influence.
- Asian local currency debt recorded a positive return after two successive months of losses, as the rebound in Asian currencies more than offset the impact of modestly higher bond yields.

| Equities Benchmark | March | Year-to-Date | 12 Months |
|--|--------|--------------|-----------|
| MSCI Asia Pacific Ex Japan (USD terms) | 14.86% | -0.04% | -44.31% |

| Bond Benchmark | March | Year-to-Date | 12 Months |
|--|-------|--------------|-----------|
| HSBC Asia Local Bond Index (USD terms) | 3.21% | -4.70% | -6.55% |

| Recommended Asset Exposures | |
|-------------------------------|-------------|
| International Equities | Underweight |
| Asian Equities | Neutral |
| International Bonds | Neutral |
| 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 | • Accomodative monetary stance | • Return of risk appetite/ demand for risky assets | Low |
| | • Collapsing growth and disinflation | • Inflation replacing deflation | |
| | • Increased G-20 and IMF support to EM economies | • Increasing fiscal deficits, rising public debt | |
| | • Deficit spending & 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 | • Accomodative monetary stance | • Asian currency weakness | Low |
| | • Decelerating growth and disinflation | • Return of inflation | |
| | • Bond supply | • Increased bond supply | |
| | • Increased G-20 and IMF support to EM economies | • Higher G3 bond yields | |

Key Forecasts

| | Real GDP | | | | Inflation | | | | 90 Day Interest Rates* | | 10 Year Bond Yields | |
|--------------------|----------|-----|--------|-----|-----------|-----|--------|-----|------------------------|--------------------------------|---------------------|--------------------------------|
| | 2009E# | ING | 2010E# | ING | 2009E# | ING | 2010E# | ING | Actual 31-Mar-09 | ING Forecast For Next 3 Months | Actual 31-Mar-09 | ING Forecast For Next 3 Months |
| | | | | | | | | | | | | |
| The World | -1.6 | - | 2.1 | - | 1.3 | - | 2.3 | 0 | | | | |
| USA | -2.8 | 0 | 1.7 | - | -0.9 | 0 | 1.5 | 0 | 0.20 | Steady | 2.66 | Steady |
| Europe | -2.6 | 0 | 0.5 | - | 0.6 | 0 | 1.5 | 0 | 0.68 | Lower | 2.99 | Lower |
| Japan | -5.8 | 0 | 0.7 | - | -1.1 | 0 | -0.4 | 0 | 0.38 | Steady | 1.35 | Steady |
| Australia | -0.3 | - | 1.7 | 0 | 2.1 | 0 | 2.4 | 0 | 3.14 | Lower | 4.42 | Lower |
| China | 7.0 | - | 8.3 | - | 0.2 | + | 1.7 | 0 | 2.25 | Steady | 3.16 | Steady |
| Hong Kong | -3.4 | - | 2.4 | - | 1.1 | + | 1.4 | 0 | 0.90 | Steady | 1.95 | Higher |
| India | 5.2 | 0 | 7.8 | - | 5.3 | - | 5.3 | - | 4.72 | Lower | 7.01 | Lower |
| Indonesia | 3.4 | - | 4.7 | - | 6.2 | 0 | 6.3 | 0 | 9.33 | Lower | 12.66 | Steady |
| Malaysia | -0.7 | 0 | 3.6 | - | 1.3 | 0 | 2.1 | 0 | 2.11 | Steady | 3.82 | Steady |
| Philippines | 1.9 | - | 3.6 | 0 | 4.1 | 0 | 4.8 | 0 | 4.61 | Steady | 8.16 | Lower |
| Singapore | -4.7 | 0 | 3.2 | - | 0.1 | 0 | 1.5 | 0 | 0.67 | Higher | 2.03 | Steady |
| South Korea | -3.0 | 0 | 3.5 | - | 1.9 | - | 2.3 | - | 2.43 | Lower | 5.17 | Lower |
| Taiwan | -4.9 | 0 | 2.9 | - | -0.8 | + | 0.9 | 0 | 0.54 | Steady | 1.54 | Steady |
| Thailand | -1.6 | 0 | 3.2 | 0 | -0.4 | 0 | 2.9 | + | 1.77 | Lower | 3.34 | 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 Deposite 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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