



HOUSEVIEW

Global Economic Outlook

World

- The global economic landscape in 2009 turned out to be much more benign than initially expected.
- While the recession has hit economic growth and employment hard, the much feared global economic meltdown did not materialize.
- The first half of 2010 will see moderate economic recovery in Western economies while economic outperformance of emerging markets looks to continue.
- Government stimulus and monetary easing remains supportive for the global economic backdrop.
- Visibility of the global economic environment in the second half of 2010 remains low as the effect of gradual fiscal and monetary tightening remains unclear.

United States

- November's ISM manufacturing index rose to 53.6 and continues to point towards expansion in activity, although the services index fell to 48.7, indicating declining activity in service industries.
- The unemployment picture surprisingly improved in the month of November with the unemployment rate declining to 10%. November only saw 11k decline in non-farm payrolls as compared to an expected job loss of 125k.
- The housing market is showing some signs of strength with pending home sales increasing 3.7% sequentially and 28.6% compared to year ago levels.

Europe

- The Eurozone showed 0.4% sequential growth in third quarter GDP though it was down 4.1% compared to year ago levels. This was generally below market expectations.
- Eurozone PMI in November showed sequential expansion in both the manufacturing and service sectors. Manufacturing and services registered a reading of 53.2 and 53.7 respectively.
- Despite the large amount of monetary easing, inflation in the Eurozone poses little threat with October CPI down 0.1% year over year.

Japan

- Japan's economic growth was stronger than expected, registering 1.2% sequential growth in the third quarter.
- Retail activity remained weak with nationwide department stores and supermarket sales down 10.5% and 5.2% respectively.
- The unemployment rate appears to be on an encouraging downward trend with the rate hitting 5.1% in October as compared to the high in July of 5.7%.

Global Market Insights

Equities

- Global equity markets continue to remain range bound and investors appear to have little conviction on the near term direction of the equity markets.
- Equity markets shrugged off the initial shock of Dubai World's debt restructuring and the market is currently willing to believe that contagion will not spread. Equity market volatility continues to decline.
- Unemployment data in the US and Japan does provide some scope for optimism though the rebound in employment in G7 economies will likely be slow and gradual.
- Base case for the market is continued moderate economic recovery next year and a positive bias towards the equity market through gains in 2010 are unlikely to match the strong gains registered in 2009.
- The exit strategy from central banks and governments remains a key investment theme next year and will likely determine the economic performance of the global economy in the second half of next year.

Bonds

- Global macro data remains broadly supportive, but unemployment is still very high and ample slack remains. Hence, in the absence of demand-pull inflation, inflation is a medium- rather than a short-term concern. Aggressive tightening from G7 central banks remains unlikely.
- Asset markets are being driven by the “liquidity-trade”, as excess liquidity supports any asset class that provides a yield that is in excess of cash. This includes bonds, and particularly spread products.
- Beyond the sharp stimulus and inventory driven rebound, we expect bonds to perform relatively well as financial markets transition into a slower, broader recovery, where demand-pull inflation is not a near-term problem.
- A sharp sell off in bond markets in the short term remains unlikely, however developed market bonds will suffer as investors increasingly focus on sovereign risk and poor fiscal dynamics.

Returns

- Global equity markets were generally stronger in November despite the market shock of Dubai World debt restructuring.
- Global government bonds rallied in November as Dubai’s debt restructuring took its toll on global risk appetite.

Equities Benchmark	November	Year-to-Date	12 Months
MSCI World (USD terms)	4.09%	27.70%	31.79%
Bond Benchmark	November	Year-to-Date	12 Months
World Govt Bond Index (USD terms, unhedged)	3.16%	7.98%	15.66%

Asia Pacific Economic Outlook

Overview

- Third quarter GDP data for most Asian economies generally met or exceeded expectations.
- The unemployment situation in most countries has generally stabilised with some selected countries showing sequential improvements in the labour market.
- Consensus expectations in 2010 are for moderate rate hike activity and monetary policy ultimately to move in sync with US central bank policy.
- 2010 will see Asian economies move back to positive growth.
- Strong capital inflows are being met with substantial new supply of equity issuances, both in terms of the IPO market and follow on placements.

China

- China’s PMI was 55.2 in the month of November remaining the same as the previous month.
- Industrial production was up 16.1% in October from previous year levels.
- Despite a drop in exports of 13.8% in October, the economy recorded a better than expected US\$24 billion trade surplus.

North Asia

- Hong Kong’s economy contracted a larger than expected 2.4% in the third quarter although it improved 0.4% on a sequential basis.
- The economic environment continues to improve and the unemployment rate actually fell in October to 3.4%, the lowest level witnessed in nine months.
- Taiwan’s industrial production grew 6.6% from year ago levels and while third quarter GDP contracted 1.3% from previous year levels, it was a dramatic improvement over the 7.5% fall in the previous quarter.

South Asia

- While Indonesia’s 4.2% third quarter GDP growth was only in line with expectations, exports returned to positive growth in October, up 10.1% year on year.
- The economy in Malaysia remains anemic with third quarter GDP contracting 1.2% and industrial production down 6.0% from last year.
- Philippines’ OFW remittance rose to US\$1.45 billion, up 8.6% as overseas workers sent home more money after a series of typhoons hit the country.
- India’s economic performance surprised positively with second quarter GDP up 7.9% and industrial production up 9.1% from year ago levels.

Pacific

- Australia continues to be ahead of the curve and hiked interest rates by another 25bps to 3.75%.

Asia Pacific Market Insights

Equities

- Strong third quarter GDP numbers helped to underpin the theme that Asia remains one of the few regions with strong economic growth globally.
- The Dubai World debt restructuring will have limited impact on Asian economies and equity markets, but as both belong to the emerging market asset class, risk of contagion cannot be ruled out.
- IPO markets remain buoyant as corporates take advantage of strong capital inflows. We are likely to see increased secondary placements as well, as listed companies use this window of opportunity to enhance balance sheets.
- Asian governments and regulators understand the potential threat of an asset bubble in Asia, though so far only token measures have been implemented to tackle the issue.
- Asia Pacific's 2010 estimated PE stands at 13.8X with an estimated earnings growth of +21.7% and three months earnings revision of +7.2%.

Bonds

- The recovery in Asian economies is likely to result in Asian central banks withdrawing accommodative monetary policy ahead of developed market central banks.
- We expect the amount of rate hikes to be modest: headline inflation will drift higher in the region, but core inflationary pressures remain muted.
- The degree of tightening priced into most yield curves is exaggerated as the longer term growth outlook and final demand from the developed world remains uncertain. Moreover, Asian policy makers are likely to resort to other tightening options.
- Currency appreciation is one of these alternatives. We therefore remain fundamentally bullish on Asian currencies, and expect China to move back to a crawling peg sometime in 2010. Other Asian currencies will most likely follow.

Returns

Asia Pacific ex-Japan rose in the month of November despite the uncertainty created by the Dubai World debt restructuring.

- Asian government bonds performed well in November on the back of appreciating Asian currencies and lower yields.

Equities Benchmark	November	Year-to-Date	12 Months
MSCI Asia Pacific Ex Japan (USD terms)	2.78%	67.23%	82.06%
Bond Benchmark	November	Year-to-Date	12 Months
HSBC Asia Local Bond Index (USD terms)	1.78%	6.58%	16.95%

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

	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 revision 	<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"> Accommodative monetary stance Deficit spending and bond supply Muted core inflation and weak consumer demand 	<ul style="list-style-type: none"> Return of risk appetite/ demand for risky assets Exit of accommodative monetary policies Inflation worries escalating Increasing fiscal deficits, rising public debt 	Medium Low Low Low
Asian Equities	<ul style="list-style-type: none"> Extent to which 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"> Bond supply and fiscal stance Excess liquidity Extent of growth rebound 	<ul style="list-style-type: none"> Higher G3 bond yields Increased inflation and higher commodity prices Premature and excessive monetary policy tightening 	Low Medium Low

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