



## Market Commentary

October 2009

The month of October signalled the start of the quarterly earnings report season and investors started to anticipate the release of positive news. However, the Asean40 index entered the month lower, lugging negative data from the previous month and continued on its downtrend with the release of weaker-than-expected U.S. unemployment data. Closer to home, Australia gave markets a positive surprise by deciding to lift their overnight rates, which illustrated possible growth to the economy. Coincidentally, commodities surged as gold prices peaked a record high of US\$1,060 to help boost sentiment and lift markets to reclaim previous losses. Prices of other commodities rallied even further and investors took it as signs to a better-than-expected earnings season. Intel started the season by posting higher-than-expected profits, which led the Dow Jones to break the 10,000 level. To add to this, several companies affirmed they were confident that this quarter's results would beat forecast results and guided for even better results in the next quarter. More good news came as oil prices surged and broke the US\$80 barrier. Regrettably, the mood was

short lived as data pertaining to U.S. housing data took any unexpected turn for the worse. After five successive months, numbers for U.S. new home sales took a dip and brought back worries as investors became concerned on the state of recovery and its sustainability. Regionally, investors also scrambled to rake in gains as China started to show early signs of monetary tightening, which brought fear that the road to recovery was still a long road to travel. Most markets could not hold ground, as many bourses plummeted and entered negative territory. As the month approached its end, the U.S. released data, which recorded a 3.5% growth in GDP for the first time after four quarters of contraction. This encouraging news brought an air of relief to investors who could start to breathe easy after back to back negative news. Despite the plunge in markets, the Asean40 index still ended the month 0.4% higher but with minimal gains of 29.16 points to settle at 7,709.77. Bourses closed in a mix, with only KLCI, HSI and PCOMP closing in positive territories, 4.8%, 3.8% and 3.8% higher, respectively. Major gainers were CIMB Group (12.4%), Capitaland (11.3%) and Philippine Long Distance (7.7%), while major losers were Singapore Telecommunications (-9.5%), Siam Commercial Bank (-9.1%) and Advanced Info Service (-8.5%).

## Corporate News

October 2009

### Indonesia

**Bank Mandiri**, Indonesia's largest financial-services company by assets, posted a 26% increase in 3Q09 profit as loan demand increased in Indonesia's economy. Net income rose to Rp1.69tr (US\$175.8m) from Rp1.34tr a year earlier. Net interest income, or the difference between revenue from lending and payments to depositors, climbed more than eight times to Rp4.52tr as Indonesia's economy showed signs of bouncing back from the global downturn. Outstanding loans rose to Rp188.3tr as of 30 Sep 09 from Rp162.8tr a year earlier.

**Bank Rakyat Indonesia**, the nation's second-largest bank, plans to sell as much Rp3tr (US\$320m) of bonds at the end of this year. Bank Rakyat named Danareksa Sekuritas, Bahana Securities and Mandiri Sekuritas to help manage the debt sales. Proceeds from the sale at the end of this year will be used to strengthen Bank Rakyat's capital.

**Perusahaan Gas Negara's** 9M09 profits doubled after the company completed a pipeline project last year to meet rising demand. Net income rose to Rp4.4tr (US\$463m) in Jan through Sep 09, from Rp1.79tr in the same period a year ago. Sales climbed by 50% to Rp13.5tr. PGN distributed 776m cubic feet of gas a day in the first nine months of the year, 37% more than the year-ago period.

**Telekomunikasi Indonesia**, the nation's biggest telephone company, is seeking US\$735m to help finance its expansion plans next year. The company plans US\$2.1bn in capital expenditure next year. It will secure 35% of this through either bond sales or bank loans. The company also allotted US\$2.1bn for capital expenditure this year.

**Corporate News**

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**Malaysia**

**DIGI Telecommunications**, the country's third largest mobile service provider by subscribers, hopes to extend the coverage of its "Turbo 3G" mobile and broadband service to cover the whole of Penang island by next year. As at May this year, coverage on the island for the broadband service stood at 31%.

**Genting Malaysia** has completed the subscription to US\$15m (RM50.5m) 7.875% first mortgage notes issued by Wynn Las Vegas. The notes, which are due in 2017, were issued as part of a US\$500m private placement exercise, proceeds of which will be used by Wynn to part settle some of its outstanding debts and for general corporate purposes.

**Petronas** has awarded two production sharing contracts (PSCs) worth a combined US\$192m (RM649m) for Block SB309 and Block SB310 offshore Sabah to a partnership between Talisman Malaysia Ltd and Petronas Carigali Sdn Bhd. Under the terms of contracts, Talisman Malaysia, with participating interest of 70% in each block, will operate both Block SB309 and Block SB310. Petronas Carigali, its exploration and production unit, will own the remaining 30%.

**Tenaga Nasional** has signed a Renewable Energy Power Purchase Agreement (REPPA) with Sediaplas Sdn Bhd for 21 years, to purchase electricity from the company for RM18.4m/year. The plant has an export capacity of 10MW. With this, the total capacity under the REPPA is 74.55MW.

**Singapore**

**Keppel Corp** recorded 3Q09 core profit of S\$320m, which was 7% below consensus. Offshore & marine margins continued to expand on the back of efficient execution. Order book was lower (S\$6bn) but there is anticipation in improvements over the next six months in light of potential Petrobras orders and a FPSO conversion contract from Ezra.

**OCBC** announced that it is buying Singapore-based IAPB for US\$1,463m (S\$2.048m) in cash. The acquisition will quadruple OCBC's team of relationship managers and triple its AUM to US\$22.5bn. In short, OCBC paid S\$2bn for 150 relationship managers, US\$15.8bn AUM and 5,000 high-net-worth clients. Subject to regulatory approval, the deal should be completed by end-2009.

**Singapore Technologies Engineering's** land system subsidiary, VT Miltope, in the US announced that it has secured a 5-year Indefinite Delivery Indefinite Quantity contract. The contract, worth US\$500m, is to supply rugged laptops, test equipment and instruments to the US army.

**Thailand**

**Kasikornbank (KBANK)** expects its mortgage loans to exceed their target for this year, saying consumers are responding to its quality products and services. The bank now expects mortgage loans of around 32 billion baht this year, higher than the 28 billion forecasted earlier. It booked new mortgage loans of 22 billion for the first nine months. The bank would expand its total mortgage loan portfolio to around 123-125 billion baht by the end of the year, up 10% from 113 billion at the end of last year.

**PTT Exploration and Production (PTTEP)** expanded its overseas portfolio by buying another exploration block in Australia. The company signed a sales and purchase agreement with Stuart Petroleum Ltd (Stuart) and Albers Group to acquire a 100% stake of the AC/P33 petroleum block, at a purchase price of approximately US\$35 million.

**PTT Plc (PTT)**, Thailand's largest energy group, will lodge an appeal to request a reversal of the court verdict that withdrew operating permits for 76 industrial projects in Map Ta Phut. 25 ongoing projects by PTT, worth 120 billion baht, are among 76 projects with a value of 400 billion baht that the Administrative Court ordered to suspend construction.

**Economic News**

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**Indonesia**

Indonesia's credit rating outlook was raised to positive from stable by Standard & Poor's, citing the country's "prudent" fiscal and debt management policies. Standard & Poor's rates Indonesia's long-term, foreign-currency debt at BB-, three levels below investment grade.

Indonesian President Susilo Bambang Yudhoyono aims to achieve economic growth of 7% by the end of his second five-year term in 2014 and ensure that all the country's citizens benefit. President Yudhoyono's 2014 target for unemployment is 5-6% from 8.1% now.

**Malaysia**

At the 2010 Budget, Malaysia's deficit-to-GDP ratio is projected to be brought down to 5.6% in 2010 from 7.4% forecast for 2009. Operating expenditure is projected to be cutback by 13.7% and gross development expenditure by 4.4%. Malaysia's GDP growth is expected to range between 2-3% in 2010 from an estimated contraction of 3% in 2009.

The international reserves of Bank Negara Malaysia fell by US\$0.1bn to US\$95.9bn (RM334.2bn) as at 15 Oct 09 from US\$96bn as at end-Sep. The reserves position is sufficient to finance 9.5 months of retained imports and is 3.9 times the short-term external debt.

Bank Negara Malaysia has left the benchmark interest rate unchanged at 2.00%, opting to keep borrowing costs at a record low to support a nascent economic recovery as the government prepares to cut spending to trim its budget deficit.

The Malaysian government cut income tax for a second straight year, aiming to spur consumer spending and private investment and help the economy recover from a recession. The top personal tax rate will be reduced to 26% in 2010 from 27%.

**Philippines**

The Philippines budget deficit widened in Sep 09, amid weak tax revenue and higher spending, bringing the nine-month gap to 95% of a full-year target that will now be harder to meet. The shortfall of PHP27.5bn (US\$588m) in Sep 09 widened the nine-month deficit to PHP237.5bn.

Growth in remittances sent home by Philippine citizens abroad slowed in Aug 09 as demand for Filipino engineers, sailors and housekeepers overseas slackened amid the global recession. Money sent back to the Philippines increased 2.8% yoy in Aug 09 to US\$1.37bn. Remittances grew 9.3% in July.

**Singapore**

Singapore's industrial production fell for the first time in three months in September as output at pharmaceutical companies dropped. Manufacturing production declined 7.7% yoy following a revised 11.8% increase in August.

Singapore's consumer prices fell for a sixth month in September as a stronger currency reduced the cost of imports and housing and transportation prices eased. The consumer price index declined 0.4% yoy, after falling 0.3% in August. Economists expected a 0.2% drop.

Singapore's exports fell less than expected in Sep 09, matching the smallest drop in almost a year, as a recovery in the global economy improved demand for pharmaceutical and other goods. Non-oil domestic exports fell 7.2% yoy in Sep 09, after a revised contraction of a similar rate in August. The median forecast surveyed was for -7.9%.

Singapore's private home sales fell in September from the previous month after a rebound in property prices and the introduction of government measures to prevent excessive price swings. Sales declined to 1,143 in September from a revised 1,804 units in August. That's still almost three times the number of homes sold in the same period a year earlier.

### Economic News

October 2009

#### Thailand

Thailand's exports dropped the least in 11 months in September as electronics and automotive companies received more orders. Shipments fell 8.5% yoy to US\$14.9bn. That follows an 18.4% contraction in August. A median estimate was for a 15.9% contraction.

Thailand's central bank kept its benchmark interest rate unchanged at 1.25% for a fourth straight meeting to support the economy's recovery from a recession. This came widely expected, as the nation's economic recovery is "fragile" and accommodative monetary policy is still necessary.

Some of Thailand's US\$42bn investment program aimed at restoring economic growth may face legal hurdles that could stall construction projects. A pending court ruling could delay projects accounting for about 6% of Thailand's "absolutely necessary" three-year stimulus plan. About one-third of the THB240bn earmarked for mostly energy related projects from state-run companies is at stake.

	30 October 2009	YTD (USD) %	M-M (USD) %
INDU Index	9,712.73	10.7	0.0
MXAPJ Index	392.32	58.6	-0.4
Asean40 Index	7,709.77	54.0	0.4
Hang Seng Index	21,752.87	51.2	3.8
HSCEI Index	12,769.36	61.8	7.7
JCI Index	2,367.70	102.1	-4.0
KLCI Index	1,243.23	43.4	4.8
KOSPI Index	1,580.69	49.1	-6.5
PSEi Index	2,908.50	54.9	3.8
SENSEX Index	15,896.28	71.0	-4.9
SET Index	685.24	58.3	-4.5
STI Index	2,651.13	54.2	-0.1
TWSE Index	7,340.08	61.3	-3.9

### Risk Reward Trade-off Charts: 6 Months Risk vs Returns

October 2009

The Asean40 Index has a superior risk return profile over a 6-month period compared to other major indices. The Asean40 Index clearly lies above the “Efficient frontier” as shown in the below charts except for comparisons to ASEAN country indices as it falls slightly lower from the “Efficient frontier”.

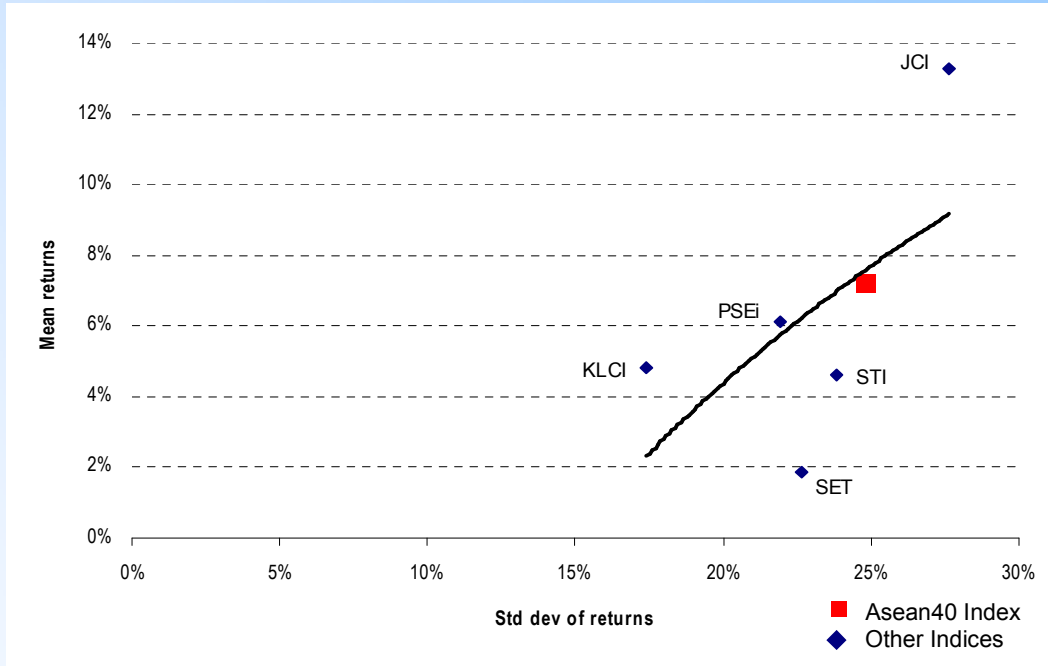


Figure 1: Asean40 Index compared to ASEAN country indices of KLCI, FSSTI, JCI, SET and PSEi

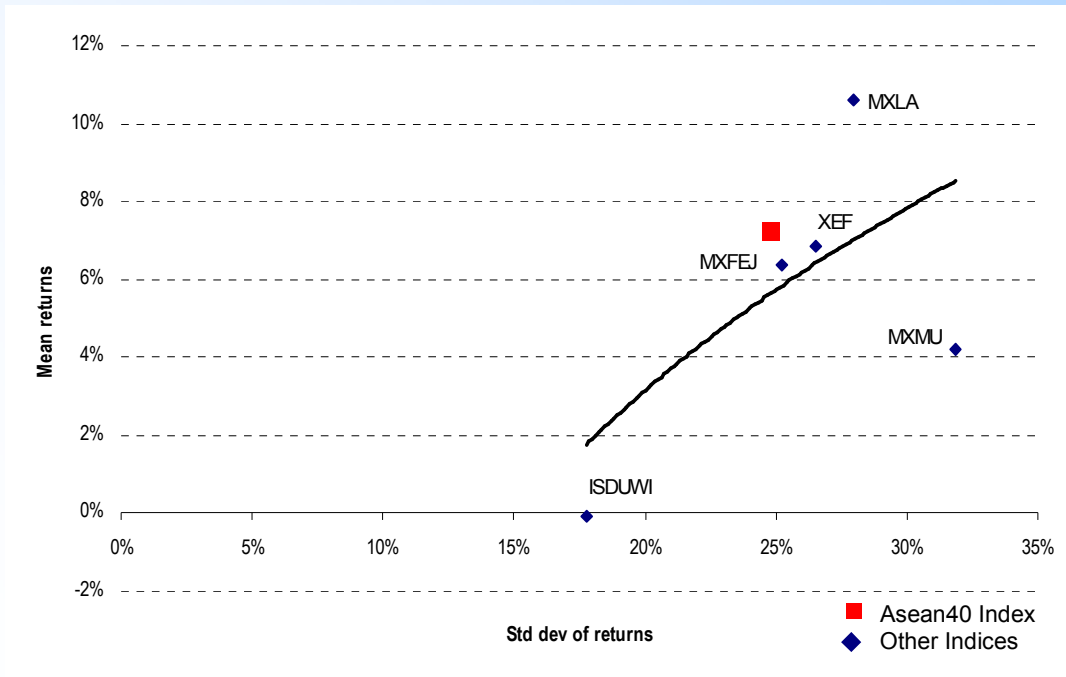


Figure 2: Asean40 Index compared to MSCI country and global indices

### Risk Reward Trade-off Charts: 6 Months Risk vs Returns

October 2009

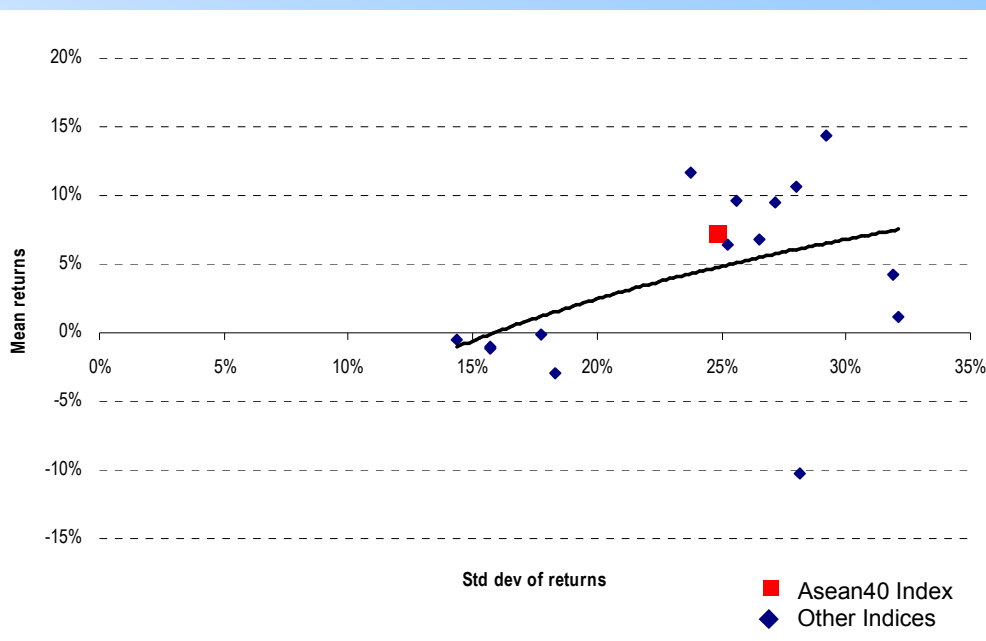


Figure 3: Asean40 Index compared to MSCI country, regional and global indices

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