

Aberdeen Asian Market Review and Outlook



Economic and market review

Asian markets fell in the second quarter, with the bulk of the losses incurred in May as benchmarks fell to their lowest level in 10 months. Sentiment was hurt by Europe's debt crisis, particularly in the wake of rumours that China would review its Continental debt holdings, as well as the Eurozone's fixation with austerity measures in spite of the still fragile global recovery. In Asia, the growing impetus to normalise monetary policy across the region, Beijing's anti-speculation rules aimed at cooling the overheating property market, and political tension on the Korean peninsula added to concerns. However, continued signs of buoyancy provided some respite, along with China's move to de-peg the renminbi from the US dollar, even though it was largely viewed as a political ploy. In other market news, India's publicly-listed companies were told to increase their free float from 10% to 25% over the medium term.

On the economic front, data stayed positive but there were signs that growth may be starting to slow slightly, particularly in China where the pace of manufacturing output decelerated. India saw growth accelerate in the quarter to March, with exports and factory output improving further. Fitch raised the country's credit rating outlook to stable from negative as revenue from the sale of wireless airwaves should improve the fiscal situation. Elsewhere, Korean growth exceeded estimates.

Inflation continued to advance across most of Asia, most notably in India where wholesale prices rose by double digits in May compared with a year earlier. To cope with inflationary pressures, central banks in India, Malaysia, Taiwan and New Zealand raised interest rates, while China and India increased banks' reserve ratios. Separately, Korea unveiled a raft of measures to control currency flows.

In politics, Taiwan signed a trade pact with Beijing that will see lower tariffs and increased market access for services. Korea's main opposition party was victorious in key provincial elections. The Indian government unexpectedly backtracked on its decision to postpone the hike in fuel prices and will now let petrol prices move freely. The Chinese banking regulator warned of rising bad debts, especially from the industry's recent and large exposure to property. Elsewhere, Indonesia's embattled finance minister Sri Mulyani Indrawati quit to join the World Bank; Sri Lanka's ruling party won the first parliamentary elections by a landslide; and Benigno Aquino III was sworn in as the new president of the Philippines.

Outlook

Economies appear at a crossroads, with leading indicators pointing to slower growth. Even China, the world's engine room, is experiencing a deceleration, although growth remains positive for now. Clouding the outlook further is the slew of austerity measures being introduced in Europe. Such fiscal prudence at a time when final private demand is still weak risks pushing the world back into recession.

Market volatility is thus likely to remain high and equity indices may face further downside. Hence, we remain cautious but are confident that our holdings, which are characterised by their solid balance sheets, experienced management and sound business practices, will remain resilient and able to weather the challenges that lie ahead. We are also confident that Asia will continue to perform better than the developed world, given its stronger balance sheets and greater growth potential.

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Further information

Please feel free to contact us at:

Aberdeen Asset Management

Level 6, 201 Kent Street, Sydney, NSW,
2000, Australia

GPO Box 4306, Sydney, NSW, 2001 Australia

Phone +61 2 9950 2888

Web www.aberdeen-asset.com.au