

Asia ex-Japan equities weekly (Indices: 28 Nov to 5 Dec 2008)

9 December 2008

| Region | WoW% | Close |
|----------------------------|------|---------|
| MSCI AC ASIA PAC EX JP U\$ | -4.5 | 217.2 |
| MSCI AC ASIA PAC EX JP | -3.7 | 257.3 |
| MSCI WORLD U\$ | -5.0 | 848.4 |
| MSCI EM U\$ | -5.6 | 497.5 |
| NE Asia | | |
| HANG SENG | -0.3 | 13846.1 |
| TAIWAN SE WEIGHTED | -5.3 | 4225.1 |
| KOREA SE COMPOSITE | -4.5 | 1028.1 |
| TOPIX | -5.9 | 786.0 |
| China Indices | | |
| SHANGHAI SE A SHARE | 7.9 | 2119.8 |
| MSCI CHINA | 3.2 | 38.1 |
| SE Asia | | |
| SINGAPORE STRAITS TIMES | -4.2 | 1659.2 |
| KLCI COMPOSITE | -3.2 | 838.3 |
| BANGKOK SET | -2.2 | 392.9 |
| PHILIPPINE SE COMPOSITE | -4.2 | 1889.0 |
| JAKARTA SE COMPOSITE | -3.2 | 1202.3 |
| ASX ALL ORDINARIES | -6.7 | 3427.2 |
| INDIA BSE NATIONAL | -0.8 | 4565.6 |

Stock markets in the Pacific region declined as fears for the health of the global economy intensified. The MSCI Asia Pacific ex-Japan Index ended the week down 4.5% in USD and 3.7% in local currency terms. Australia's All Ordinaries fell 6.7%. 3Q'08 saw the Australian economy expand at the slowest pace in eight years (+0.1% qoq) as household spending weakened. The threat of Australia's first recession in 17 years prompted the central bank to lower its policy interest rate to a 6-year low of 4.25% on 2 Dec. Indonesia's JCI fell 3.2%. Thursday, Bank Indonesia unexpectedly lowered its key interest rate from 9.5% to 9.25%, marking its first rate reduction in a year. The rate announcement came despite the country's sticky inflation (+11.7% in Nov) and a depreciating rupiah (-23.5% over the past 3 months). Chinese A Shares rose 7.9% on hopes that a government stimulus package and a large interest rate cut would support economic growth and corporate earnings. This was despite latest economic data, which showed manufacturing activity had fallen by a record amount in November and export orders had plunged as demand slowed from the US and Europe.

Over the weekend, Indian Prime Minister Manmohan Singh said the government plans to allocate an extra INR200bn (USD4bn) as part of a total INR3trn spending plan for the rest of the financial year ending 31 March. The announcement came a day after the Reserve Bank of India's decision on 6 Dec to lower interest rates for the third time in less than two months. The central bank lowered its repurchase rate from 7.5% to 6.5%, and the reserve repurchase rate at which it borrows overnight from 6% to 5%. Indeed, interest rate moves were made easier after the government reduced fuel prices last week by as much as 10%, which may further drive down inflation from the current 7-month low of 8.4%.

Source : TF Datastream. All returns in local currency except where stated otherwise.

Economics/Politics

- **Korea's** ruling and opposition parties reached an agreement on reductions in income and corporate taxes proposed by the government to help bolster economic growth. Income taxes will be reduced by a total of 2% gradually from 2009 through 2010, while corporate tax on companies with net income exceeding KRW200m will be lowered to 20% by 2010 from the current 25%. Korea's economy expanded 0.5% qoq in 3Q'08, the slowest pace since 2004.
- According to Bloomberg news, **China's** national pension fund, the National Social Security Fund (NSSF) has allotted RMB10bn to purchase domestically traded A Shares in November. The equity investment was in line with NSSF Chairman's earlier remarks that the Fund intended to help bolster the market. Reportedly, Beijing is encouraging the NSSF and the nation's USD200bn sovereign wealth fund CIC's investment arm Central Huijin to acquire shares at the current low prices to underpin investors' confidence.

Companies

- Chinese leaders, meeting yesterday in Beijing to set next year's course for the economy, is considering reducing the business tax imposed on bank's revenue to 3% from the current 5%. Also, it is reported that the tax basis will likely be changed from total revenue to net interest income. According to Citigroup Research, a 2% reduction in the business tax would lift Chinese banks' projected 2009 earnings by an average 6%. In 1H'08, **China Construction Bank (CCB)** paid RMB7.7bn of business tax, 36% more than a year ago due to higher income from interest and fees. Banks are among the most heavily taxed industries in the Mainland as they are also subject to a 25% income tax on their pretax profit. Last week, Bank of America said it has increased its holdings in CCB to 19.13% from 10.8% after buying 19.58bn H-Shares from CCB's biggest shareholder, Central Huijin Investment. Separately, Central Huijin, the investment arm of China's USD200bn sovereign wealth fund China Investment Corp, said that it has bought 70.8m CCB's A-Shares in the secondary market between 19 Sept and 28 Nov.