

1. Summary of Investment Themes (December 2009) Dubai And Re-pricing Of Risk

Overview - Government

Policies Remain

Pro-Growth. See

Opportunities

In Dubai Crisis.

- The world economy is recovering. The combination of ample liquidity, ultra low rates and massive fiscal spending has worked. The questions now asked are, how sustainable is growth? Is the world able to make the necessary transition from public stimulus to private sector-led growth? And how soon can government policies be tightened? Is there an easy exit?
- In the US, recovery is basically “jobless” and lacks conviction. Europe is lacklustre and Japan is still fighting deflation. Across Asia, we are seeing more robust growth. But we stress that Asia cannot boom if the G3 is not booming. The trouble in Asia is still its heavy dependency on exports.
- Global economic recovery is, at best, patchy and unbalanced. The pressure remains on Asian economies to drive domestic demand, save less, consume and import more. The reverse is true for the West.
- The main short-term risk is clearly that the nascent recovery will stall. Premature exit from accommodative monetary and fiscal policies seems a significant risk and must be avoided. Fortunately, government policies remain steadfastly pro-growth.
- The Fed, ECB and BOJ are in no hurry to tighten. Easy money at record-low interest rates will continue to encourage investors to actively seek risks for higher returns through various forms of carry-trades, using the US Dollar as the main funding currency. The so-called “dollar-arbitrage” will continue for a while.
- This said, there is no smooth sailing in the high seas of investing. The Dubai debt crisis and the economic hardship in Greece, Italy, Vietnam and Eastern Europe is a stinging reminder to us that significant dislocations remain in the global financial system. Altogether, the Dubai incident will inevitably lead to some degree of risk aversion and a re-pricing of risk. Investors need to remain ever vigilant on taking risk.
- When the dust settles, we do not believe that development in Dubai will have long-term adverse impact on Asia or better-positioned EM economies. On balance, we should see new investment opportunities arising from the Dubai crisis, with assets more correctly priced in terms of risk-reward.

USD - May Rebound In

Q1 -2010 Before

Retreating.

- USD is now heavily oversold and may stage a technical rebound over the coming 3 to 6 months. FX markets may gradually factor in weaker growth prospects in 2010 as policy stimulus fades over time.
- Our best estimate is that this correction will come sooner than later, most likely in Q1-2010. However, we expect it to be temporary. Thereafter, we look for the USD to resume its multi-year downtrend on the realisation that global economic recovery will continue, as any policy-exit will be gradual and measured.
- The USD bounce may get further support from concerns over capital controls being imposed in emerging economies, especially in China, South Korea and Brazil.
- When the USD rebounds, we expect the £, A\$, NZ\$, KRW and IDR to be hit the hardest.
- Investors should use this bounce to add to long positions in AXJ, especially KRW, IDR and INR. Commodity currencies (A\$, NZ\$, C\$) and gold are also viable alternatives.
- Ultimately, USD will resume its long-term downtrend due to the highly expansionist fiscal and monetary policies in the US. The Fed is unlikely to raise rates until early 2011 when it is certain that the nascent US economic recovery is durable.

Bonds – Stay Defensive.

**Focus On Strong
Sovereigns .**

- We continue to remain cautious in the near-term for a number of reasons:
 1. investor fatigue on the large volume of new issuance,
 2. the lack of liquidity as markets approach the holiday season,
 3. potential profit-taking by investors after a bumper year, and
 4. the relative tightness of credit spreads across the curve.
- Investors should keep their powder dry and look for better entry points. We are more positive on the markets going into Q1-2010 as global growth decelerates.
- We see value in Korean and Indonesian sovereign bonds.
- On Middle East credit, we advise investors not to throw the baby with the bathwater. We see value in select Abu Dhabi and Qatar issues such as Dolphin, Mubadala and NBAD. Volatility will be extremely high here. *So, caveat emptor or buyer beware.*

Equities -Expect Corrections.

**Take Profits To Buy
Portfolio Insurance.**

- Global equities appear to be in a 'sweet spot' of easy money, moderate economic growth and earnings recovery.
- This happy state of affairs can persist, but not indefinitely. Earnings growth is primarily driven by cost cutting. Top line growth remains scanty.
- Markets are now extremely overbought. Valuations are challenging, with the S&P500 and MSCI Asia ex-Japan both trading at 22X current PER. DJ Europe 50 is also pricey at 21.5X. Dubai World's restructuring remain fluid and this could accentuate volatility and vulnerability in the near-term. Be prepared for a bumpy ride. Take some profits to buy VXX US and VXN US for portfolio insurance.
- Beyond this, we maintain our 12-month Neutral view on equities and reiterate our buy-on-dips strategy.
- Focus on Asia ex-Japan and Emerging Markets (EM). Within AXJ, overweight Greater China, Singapore and Australia. On EM, we prefer Brazil and Russia to others.

Commodity- Focus On Gold.

**Also like copper,
Corn and CPO.**

- Accumulate gold around US\$ 1100/oz. We forecast that gold will trade steadily higher in the next 12 months, towards US\$1300/oz in Q4- 2010. Our technical price objective is US\$ 1462/oz, based on Fibonacci projection.
- Gold is trading at mid-level in terms of its real prices since 1970 (chart 1), and has underperformed most commodities YTD (chart 2). Therein lays its intrinsic value.
- Market sentiment towards gold has improved significantly, with widespread buying in Europe and North America. The desire to sell gold by major central banks and producers has clearly diminished, while gold ETF continue to expand.
- China, India and Russia are publicly buying gold to diversify their holdings of foreign reserves.
- Gold provides a long-term hedge against excessive printing of fiat currencies, rising inflationary expectation and market vicissitudes.
- We expect WTI crude oil to trade between US\$ 70 to 80 per barrel in the near-term. Price upside is capped by OPEC's 5.5mbd of excess capacity and Saudi Arabia's view that US\$ 75 per barrel is the fair price.
- On base metals, copper and lead offer the most upside potential on strong China growth and demand.
- We favour corn and crude palm oil (CPO) on agricultures.

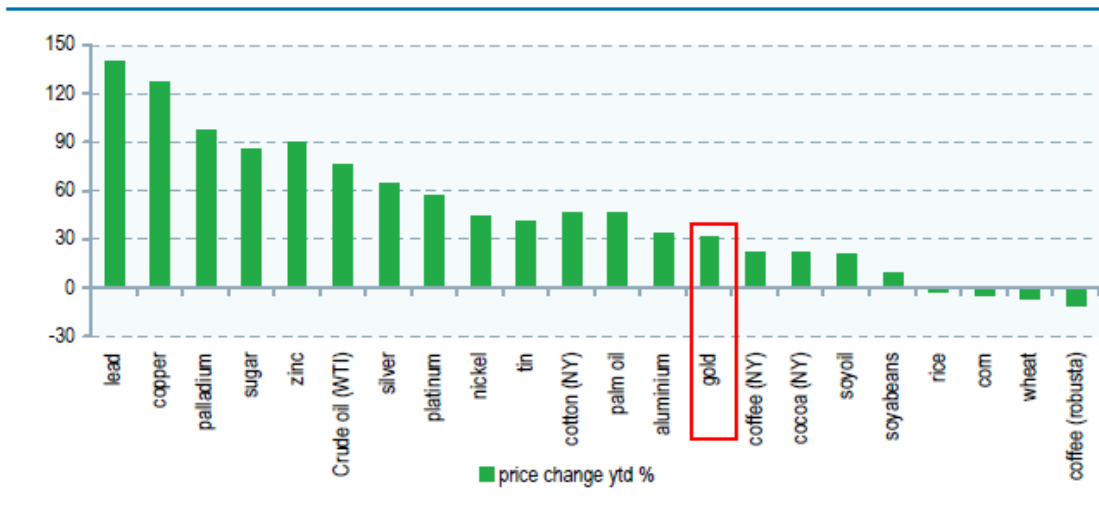
Chart 1: Real Price Of Gold Since 1970

Gold is still far below its 1980 peak, in inflation-adjusted terms.



Chart 2: Commodity Scorecard, 2009YTD

Gold is lagging most commodities, except the agricultures.



Source: Bloomberg

