

## ASIA INTELLIGENCE

MFC Global Investment Management's regular roundup of market views from our investment teams on-the-ground in ten markets across Asia.

### Round up of the region's equity indices – as at September 22, 2009

Index	% increase/decrease year to date <sup>1</sup>
Ho Chi Minh Index (Vietnam)	86%
Jakarta Composite (Indonesia)	71%
CSI 300 (China)	61%
Taiex Index (Taiwan)	58%
Stock Exchange of Thailand	53%
PSI (Philippines)	41%
Straits Times Index (Singapore)	40%
Hang Seng Index (Hong Kong)	40%
FTSE Bursa Malaysia	32%
Nikkei 225 (Japan)	14%

<sup>1</sup> Year to date is defined as period 06/01/09-22/09/09. (Source: Bloomberg). The exception is the Jakarta Composite which is 06/01/09 – 17/09/09 and FTSE Malaysia and Nikkei 225 which are 06/01/09-18/09/09 due to markets being closed for holidays.

### Asia Equity Markets Viewpoint

By Colin Ng, Hong Kong

Asia's markets have seen some profit taking following the strong rise in regional and global markets since March. Economic indicators continued to be favorable, with several data-points surprising the market positively.

We believe that valuations across the region remain close to fair value, and consensus earnings expectations are continuing to

improve. Numerous companies have reported better than expected earnings in the recent earnings reporting season and companies' earning guidance has also been broadly positive.

We are overweight in Thailand as we believe the country offers some attractive bottom-up valuations. After recent consolidation in the Taiwan market, we believe that the prospects here too look good as it will likely benefit

from the positive global demand recovery, particularly in the technology sector. This is another key overweight for us.

Meanwhile, we are maintaining an underweight in Malaysia where we expect to see lower growth than elsewhere in the region.

Overall, we have been adding to laggard valuation stocks while taking profit in some cyclical stocks where valuations are fair.

### Asia Fixed Income Markets Viewpoint

By Victoria Ip-Cheung, Hong Kong

We have recently seen news coming out of Indonesia impacting the local bond market, a market we are carefully monitoring as we expect it to be one of the key markets in our Asia Total Return Fund. Chief amongst these was the Moody's upgrade of Indonesia's sovereign debt from Ba3 to Ba2.

According to Moody's, the country's relatively strong resilience to the global recession as well as its healthy medium-term growth prospects prompted the rating upgrade.

Certainly Indonesia has fared better than many Asian nations during the recent recession. With a population of a quarter of a billion people to drive domestic consumption, it does not need to rely on exports and so there is little pressure to keep the Indonesian Rupiah weak in order to remain competitive. Medium to longer term we do expect further currency appreciation, given both the responsible fiscal and monetary actions carried out by Indonesia. Foreign interest is also likely to be a supportive factor for the fixed income market. Although we expect to see the return to higher inflation – possibly up to the 4% year-on-year level by the end of the year from its current level of 2.75% year-on-year - we believe interest rates will not

rise since that this is already priced into local rates.

Elsewhere, we expect to see the price of Korean bonds increasing over time. This is because we believe that the bond market has priced in too many rate hikes on the back of positive news of a strong recovery in western markets. When the market re-prices their expectations, we expect bonds to start performing again.

### Hong Kong Markets Viewpoint

Equity market - by Matthew Lee, Hong Kong

The Hong Kong market went through a correction in August, impacted by the sharp decline in the domestic A share market, which has decreased 20% from its peak in early August.

The drop was prompted by fears of earlier than expected policy tightening to rein in liquidity and that lending growth was also bound for a slowdown following the rampant lending growth seen during the first half of the year.

The August Purchasing Manufacturers' Index (PMI) saw the sixth consecutive month of PMI above 50, signaling that the economic expansion in China is well sustained.

Meanwhile in Hong Kong, mortgage lending in July hit a post-1997 high, supported by the low interest rate environment, prompting the Monetary Authority to warn of early signs of increased speculation in the market.

Earnings results from most of the Hong Kong and China corporates were generally in line with expectations. While the Chinese banks saw a decline in year-on-year earnings, earnings growth is expected to pick up in the second half, because of likely strong H1 lending growth, benign asset quality and net interest margins bottoming out.

We expect concerns about slowing growth and possible tightening measures in China to continue to cap the market upside in the short term. While market valuations do not look excessive – they are at par with average long-term valuations – we expect minor corrections in the market amid the incrementally less favourable liquidity situation.

We are maintaining our overweight position in Chinese consumption and industrials sectors and are adding exposure to export-related stocks.

#### **Bond Market – by Victoria Ip, Hong Kong**

Ample liquidity remains in the Hong Kong cash market which is keeping short end HK interest at low levels.

Market attention is focusing on the new 2 year bond issue by the HK SAR Government in early September, market response to which has been positive. In terms of the issuance market, we expect demand to pick up in the longer end local Hong Kong corporate names as the yield curve remains steep, enticing investors to look into the further end of the curve.

Equally, with absolute yields at a reasonable level, corporates will likely want to lock in longer term funding to improve the status of their balance sheet.

The market is also expecting the Chinese Government to announce the issuance of new Reminbi bonds in Hong Kong of up to RMB 6 Billion which will solidify Hong Kong's status as a major bond center in the region.

#### **Japanese Markets Viewpoint**

##### **Equity Market - by Hidehiro Tomioka, Toyko**

The Japanese stock market rose for the sixth consecutive month in August, due largely to

better than expected earnings results for Q2 2009. Earnings benefited from aggressive cost-cutting and a rebound in demand from previous lows. Economic indicators, both in Japan and the US were also mildly positive.

The last day of August saw the Democratic Party of Japan (DPJ)'s landslide election victory. Initial market reaction was positive but the market lost ground later in the day as the yen appreciated against foreign currencies and China's A shares fell.

Overall, the market seems to be continuing its rally from the March lows, supported by improving fundamentals. After a long period of advances, the market may be vulnerable to a short-term correction but on a mid to long term basis, the market is likely to be supported by improving fundamentals, as well as the very easy liquidity conditions globally and because of this, we are maintaining our cautiously optimistic view.

The DPJ's election win is likely to be neutral for the stock market. Although the DPJ plans to increase spending in various areas to support household income, this will be financed by cuts in government spending, resulting in a minimal effort on overall economic growth. Meanwhile, fears that some of the DPJ's policies may be detrimental to large corporations and high income individuals may continue to weigh on the stock market.

##### **Bond Market by Keisuke Tsumoto, Toyko**

10-year JGB yields declined from 1.4% to 1.3% in August. This decline in interest rates was in line with other developed bond markets. Japanese credit spreads have tightened slightly this month, but at a slower pace than previous months.

The DPJ's election win is also likely to be neutral for the bond market. DPJ's economic stimulus plans for households will be generally financed by cuts in other government spending, not by incremental issuance of government bonds, resulting in overall neutral to economic growth.

Our view on the Japanese bond market is unchanged. Yields will remain low and range bound as the output gap remains while prices decline. Credit spreads will continue moderate tightening as corporate profits recover.

Our portfolios remain overweight in corporate bonds and slightly longer duration than benchmark with overweight in intermediate maturities.

### Singapore Markets Viewpoint

#### Equity market - by Amy Low, Singapore

Following the government's release of better than expected 2<sup>nd</sup> quarter GDP data, the Monetary Authority of Singapore's (MAS) statement seemed to suggest liquidity would remain in the system at the current levels. This confirms our view that there is minimal risk of near term tightening despite better than expected quarterly economic data.

Earnings results continued to exceed expectations. Sectors that reported better than expected results included banks, media, commodities and healthcare. The market has since reverted to mean valuations of 1.7x price/book value and 18.7x price/earnings.

Going forward, we expect earnings' upgrades to be a driver of market performance. We believe that earnings will surprise on the upside in the coming months as the economy continues its path of recovery. We continue to favour properties and soft commodities.

However, given the openness of the Singapore economy and its sensitivity to global growth, any unexpected deterioration in the OECD economies will have a negative impact on our economic recovery and earnings' growth expectations.

#### Bond market – by Akira Okada, Singapore

We witnessed more encouraging economic data in August which implies that the Singapore economy may have hit the bottom.

Industrial production surged the most in 16 months in July, rising 12.4% year-on-year as pharmaceuticals output rose and the fall in electronics eased.

Exports dropped the least in 11 months in August, falling 7.1% year-on-year, after contracting 8.7% year-on-year in July. The government revised up its 2009 forecast of exports to 10% to 12% drop from its previous estimate of 13% decline, considering global economy's recovery.

GDP may decline 3.6% in 2009, according to the median forecast in a quarterly survey of economists by the Monetary Authority of Singapore (MAS) in September. The June survey showed a 6.5% contraction and the government forecasts 4% to 6% shrinkage.

In tandem with U.S Treasury market, Singapore's bond market has been range bound for the past 1 month, with 10 year benchmark government bonds trading between 2.35% and 2.55%.

Singapore's economy has shown more signs of recovery, but the market is discounting a slow recovery with no inflation concerns. July CPI declined 0.5% year-on-year and MAS forecasts CPI in 2009 of between -0.5% and 0.5%.

We forecast that Singapore bond market will continue to be range bound due to lack of

driving factors which imply a clear direction. We believe that MAS will not change the current monetary policy at its October semi-annual meeting.

While we have seen some new primary issues, the secondary market has continued to be quiet. Singapore swap spreads have tightened slightly, however they are still at historic widths at the moment, and new issues' spreads have given investors attractive yield pick-up over government bonds, so they have been well received in the market and their credit spreads have tightened after issuance.

We expect to see more primary issues going forward which will continue to be well received and we believe the credit spreads will continue to show a tightening bias.

## Indonesia Markets Viewpoint

### Equity market - by Raymond Gin, Jakarta

China has been in the spotlight recently and has been a key driver of market movements in Indonesia in September, given the ongoing debate about how much tightening the government will implement to slow down credit growth. We expect China to maintain its accommodative monetary policy given that the country currently faces unemployment and economic growth challenges.

With almost no fiscal constraints, China should be able to support about 8% economic growth going forward, which will be positive for markets like Indonesia and overall for Asia.

Domestically, the Bank Indonesia finally ended its interest rate cuts by holding rates steady at 6.5%. This is in line with market expectations given that the Indonesia economy has held up better than expected. We expect that inflation should continue easing until the end of the year before rising

to 4-6% in 2010 as the economic recovery accelerates.

We maintain our positive stance on equities driven by a mix of a recovery in corporate earnings, a prolonged period of relatively low interest rates and improving investor sentiment. Indonesia companies are likely to resume the high double-digits earnings growth in 2010 supported by a relatively robust domestic economy. Indonesia should also be a key beneficiary of global fund flows as risk appetite improves further.

### Bond market – by Raymond Gin, Jakarta

The Indonesian bond market gave up some of its July gains in August. The decrease in bond prices coincided with weaknesses in other risk appetite indicators such as 5-year Indonesia credit default swaps spreads and in the Indonesian Rupiah.

We expect to see local participation in government bonds, especially from pension funds, to continue to move higher as the central bank has made 14 national banks commit to cap time deposit interest rates to 1.5% above the Bank Indonesia rate and then to gradually trim to 0.5% over the next two months.

Pension fund portfolios which are still heavily concentrated in high rate short term time deposits will eventually move to the bond market as an alternative. This has caused the yield curve to experience a bear flattening at the belly. This was due to the flow from pension funds supporting the back end of the curve which still offers a yield above 11% while the other end of the curve experienced profit taking.

As these kind of flows are still expected to continue in the coming months, the bond market could be supported well in the near term despite the lack of fresh drivers. The

flows could easily match the government bond issuance plan for the rest of the year.

While we see the market likely being supported by flows of funds because of the time deposit rates cap, it is difficult to see where other drivers might come from at this time. Therefore, we are wary about extending duration at current yields levels unless there is a positive surprise in fundamentals or an adjustment in valuations.

### China Markets Viewpoint

#### Equity market - by David Chen, Shanghai

August's economic data was largely in line with market expectations. Fixed Asset Investment (FAI) and retail sales remained stable while exports and imports continued to be sluggish.

We believe that China's economic recovery will be mainly driven by FAI and domestic demand.

Despite falls in August, there are signs that China's equity market is stabilizing, supported by a favourable policy environment and encouraging micro data.

Most of the government's news has already been released well ahead of the traditional National Day holiday season. We expect the market to be largely range-bound in the coming weeks.

Meanwhile, investor confidence appears to be gradually returning thanks to the upward trend of the market so far in September.

However, as the market expects that liquidity will not be enough to be the key engine for the stock market in the rest of the year, we expect that the focus will shift to considering economic fundamentals again in the near term.

#### Bond market - by David Chen, Shanghai

Both the Consumer Purchasing Index (CPI) and Producer Price Index (PPI) continued in a negative range in August. Looking forward, we do not see an immediate threat from inflation even though market expectation is that inflation will likely turn positive.

Therefore, we think it unlikely that the government will adopt a tightening policy before there are clear signs of sustained economic recovery. We expect that macro policies will be inclined towards liquidity control through strengthened open market operations as opposed to aggressive rate adjustments, which we believe are unlikely in the near term.

We believe that the bond market will continue to be driven by market liquidity. Investment demand from the banking sector is expected to increase along with slower credit supply.

We expect that ample liquidity will constrain any significant upward shifts in the yields along the curve, especially at the long term end. We anticipate that the yield curve will flatten in the near term, broadly due to a faster increase in yields from short end tenors.

### Taiwan Markets Viewpoint

#### Taiwan Equity Market – by Yili Liu, Taipei

Performance of the TAIEX has been impacted by the drop in the Mainland China index, as the correlation between China and Taiwan's stock markets has been increasing.

In addition TAIEX sentiment has been negatively affected by the worst flood in 50 years because of Typhoon Morakot and the rapid spread of the H1N1 virus in August.

Looking ahead, a variety of factors are in play. The first is the Q4 outlook for the technology section where there seems to be more positives than negatives as recent sell-

through for notebook PCs globally has been strong and new product cycles such as LED TV, Windows 7 launch etc are expected to drive Q4 production build.

However, there are concerns about the inventory build up in the pipeline and that if the national holidays in China in October do not bring strong sales of 3C electronic products, there could be a correction in Q4 sales momentum and share prices.

The Cabinet reshuffle may affect sentiment in the short term while the market will also be looking for any signs of progress in the Cross-Strait relationship with China. Recent talks of a delay in signing a Memorandum of Understanding (MOU) have been negatively affecting financial stocks.

We are turning more positive on the outlook for Taiwan's stocks compared to last month as we feel that a lot of negative factors have already been priced in. We expect the index trading range to trend upwards to between 6800-7400, backed by improving global GDP and demand outlook, resulting in consensus earnings upwards revision and the expansion of valuation multiples. As we approach Q4, market will also start to discount the 2010 earnings outlook.

#### **Taiwan Bond Market – by Andrew Wang, Taipei**

In August, Taiwan revised up its 2009 GDP forecast from -4.25% to -4.04% amid signs of a global recovery. Q2 GDP jumped to 20.69%, more than recovering Q1's loss of more than 10%. Meanwhile, July's index of leading indicators increased 2.3% month-on-month from June and was the sixth consecutive month of increases.

Both the GDP and leading indicators index figures suggest that Taiwan's economy has probably bottomed out and is recovering. On the other hand, the unemployment rate has

continued to climb and headline CPI continued to decrease, suggesting domestic demand is still weak. Hence the Central Bank of China (Taiwan) will likely keep its accommodative monetary policy stance for an extended period, keeping the NT dollar weak and maintaining low interest rates for a while.

On the bond markets, Taiwan yield curve slightly flattened in August, with the 10 year bond yield almost unchanged at around 1.5%.

The Ministry of Finance has raised the typhoon Morakot reconstruction budget to NTD120bn (for three years) and announced that all the funding will come from borrowing. Concerns over Taiwan's budget deficit will likely prevent Taiwan's bond yield moving lower. However, excess liquidity conditions remain and this, together with current uncertainty over the equity market, is likely to continue to support bond prices. Overall, we expect 10 year bond yields to stay between 1.40%~1.55% in the coming month and expect the yield curve to steepen from August's level.

#### **Malaysia Markets Viewpoint**

##### **Equity market – by Yeow Kok Kien, Kuala Lumpur**

We are upbeat on the economic prospects following the better-than-expected 2Q09 economic statistics. Subsequent economic releases suggest that economic conditions have stabilized further and that the domestic economy may have passed its worst.

In addition, the results of corporate Malaysia for 2Q09 have generally shown improvement compared to the previous quarter. Most research houses are now starting to roll over their valuation horizon to 2010 reflecting higher price targets in anticipation of a meaningful economic recovery next year.

We will concentrate on the key sectors expected to benefit most from an economic recovery namely banking and finance, plantation, construction and the property sectors.

The market's direction was largely driven by regional markets in the early part of September due to the lack of major domestic catalysts. We only expect domestic market activities to pick up in the latter part of the month in the run up to the 2010 Federal Budget in October.

### **Bond market – by Yeow Kok Kien, Kuala Lumpur**

Domestic headline inflation registered a second consecutive month of contraction in July. The consumer price index fell 2.4% year-on-year in July this year after sliding 1.4% year-on-year in June. Due to the high base effect when fuel prices were raised substantially in June last year, inflation is likely to remain in contraction until Q409. Notwithstanding the deflationary reading, we expect that the official overnight policy rate will be maintained at the current level of 2.0% until economic recovery is firmly entrenched.

This extended low interest rate environment, coupled with benign inflation, will continue to attract buying interest in government bonds until concerns on the state of economic recovery dissipates. We expect credit spreads for corporate bonds to tighten gradually when risk appetite returns.

### **Philippines Markets Viewpoint**

#### **Equity market – by Aira Gaspar, Manila**

The widely anticipated market correction failed to materialize in August as the PSEi gained another 3% to close at 2,884.

Market sentiment remained upbeat fuelled by positive macro news that strengthened the prospects of economic recovery and by encouraging second quarter corporate results.

Liquidity played a vital role in the market's ascent as evidenced by continued improvement of daily value turn over, which increased to an average of US\$81 million from US\$70 million last month. Domestic investors provided the lift to the local bourse while foreigners took advantage of the rally to unload their holdings.

Leading the market gainers was the property sector on account of the continued growth of remittance flows as well as the significant recovery in residential sales.

The mining index went up by 22% month-on-month due to the upsurge in metal prices and the lingering talks on ownership battles. The financial (+4%), service (+2%) and holding companies (+7%) all posted decent returns while the industrial sector succumbed to a sell-off led by Meralco as speculation about management control of the company, which had caused the stock to rise significantly, temporarily waned.

Emerging signs that the economy will stay on the recovery path are expected to bode well for the local equities market. As the recovery story progresses, upward revisions of corporate earnings could ensue. We continue to prefer issues that are expected to benefit from the economic turnaround story. Of these, bank and property sectors remain at the top of our list.

#### **Bond market – by Aira Gaspar, Manila**

The local bond market continued to be weighed down in August by rising fiscal risk, which pushed bond yields higher. The bearish sentiment engendered by expectations of a wider fiscal gap was stoked

further by indications that the sustained period of monetary easing has reached its end, after the better than expected performance of the economy.

The fiscal gap for the first seven months of the year has reached 75% of the government's full year target as a result of weak revenues and higher fiscal spending.

The silver lining, however, is that the government's fiscal stimulus and the rebound in private consumption has helped the economy elude recession. Second quarter GDP grew 1.5% year-on-year, better than the previous quarter's dismal 0.6% year-on-year growth. Private consumption grew by 2.2% year-on-year while government consumption spending accelerated by 9.1% year-on-year. Resilient remittance flows, which went up 2.9% year-on-year in the first half of the year, continued to support private consumption.

The local central bank's decision to keep its policy rate steady despite continued the downtrend of inflation has created a bearish bias in the local bond market. The rebound in economic growth has reinforced the view that the easing cycle has ended, creating further pressure on local bond yields.

Meanwhile, Republic of the Philippines (ROP) dollar-denominated bonds continued to benefit from improving risk appetite globally driven by indications that the global economic environment is on the mend. Encouraging macro news on the local front such as the strengthening external liquidity of the Republic of the Philippines, resilient remittance flows and better-than-expected second quarter GDP growth also provided support to ROP bonds.

We expect local bond yields to maintain an upward bias in the coming months as inflation starts its ascent and as the government

accelerates its fiscal spending to ensure that the nascent economic rebound gains traction.

Upward pressure on local bond yields could be mitigated by flush market liquidity. On the other hand, the pace of tightening of spreads of ROP bonds is likely to slow down as investors appear to have priced in all potential improvements in economic trends. A retracement to levels that are more in line with fundamentals is possible.

### Thailand Markets Viewpoint

#### Equity market – by Panukorn Chantaraprapab, Bangkok

The Thai index reached a one year high earlier in September, outperforming regional peers.

For Thai corporate earnings, based on the gross profit recovery in 2Q09 (and the recovery in net interest margins at banks), our perception is that many Thai businesses are through the worst with revenue back to 2Q07 levels and gross profit back at the 1Q08 level.

Forward Price-to-earnings ratio is now at 11.4x vs 10-year average of 12x. Price-to-book ratio jumped from 1x early 2009 to 1.6x now. However, the Thai equity market is still relatively cheap compared to its regional peers.

We believe that the market valuations are likely to go beyond mean and we maintain our index target of 730-850 for 2010. The upside is from 1) the ongoing earnings upgrade cycle and 2) narrowing PE gap with regional peers as this is the first time since 2005 that Thailand has earnings growth at par with regional peers.

## **Bond market - by Sukkawat Prasurtying, Bangkok**

Investors have become more cautious about taking interest rate risk following some consolidation in yields. The government yield curve has shifted upwards with a steepening bias. Meanwhile, credit spreads have tightened due to low offering spreads in the primary market.

Thai economic data indicates that the economy remains on track. The manufacturing production index expanded by 1.9% month-on-month thanks to a recovery in the automotive sector and agricultural sectors. Consumer spending increased 3.4% month-on-month and private investment rose 1.6% month-on-month following an improvement in business sentiment.

As the market has mostly factored in a global economic recovery, we expect that the Thai bond market will still consolidate in short-term.

However, investors are anticipating a return of inflation in Q409 which is capping investors' appetite for long-term bonds and limiting the market upside from treasury effects.

Hence, we expect to see a greater focus on credit-picking activities to enhance portfolio returns, as current corporate spreads are higher than historical average levels. This suggests continuing outperformance in the corporate sector.

## **Vietnam Markets Viewpoint**

### **Equity market - by Mark Canizares, Ho Chi Minh City**

We believe that earnings growth will remain robust this year. Although the market expects 2009 to be the year when company earnings are given an uplift by write-backs and revaluations, our view is that 2010 will be the

time when we see core earnings take centre stage once more.

Prospects for Vietnam's economy remain bright. It is still on track to report positive GDP growth of 5.5% for the year. There are also talks that a second stimulus package will be in place in 2010. This helps ensure that gains made this year will carry on into the next year. This is certainly helping maintain the bullish sentiment on equities.

For this quarter, we believe that the focus will be on domestic consumer stocks, on account of the Mid-Autumn festival (Tết Trung Thu) slated for mid-October. Traditionally, the third quarter will be one of the biggest revenue quarters for companies directly and indirectly exposed to this festival.

We also expect the Mid Autumn festival to give us a sense into how domestic companies have managed to weather the soft economy that persisted in the early part of the year and more importantly, how they are recovering, following the various measures implemented by the government to help shore up the local economy.

Already some domestic companies have said that although they did not increase prices, there was an increase in volume this year. This, vis-à-vis a more tempered cost environment, may be an indicator of increased profitability via margin improvements in the latter part of the year.

Given the rally that started in late February, the market is certainly waiting for the next catalyst. Earnings will definitely be in focus come October, but would most likely be auspiciously ushered in via a lion dance that brings with it good luck and fortune.

**Bond market – by Putu Yudhana, Ho Chi Minh City**

The Vietnam bond market has continued to weaken due to low demands from local players and profit taking actions.

Concerns over inflation still remain and influence the market, albeit despite low August inflation numbers. The General Statistics Office announced last month inflation at 1.97% year-on-year and 0.2% month-on-month, compared to July figures at 3.3% year-on-year and 0.5% month-on-month.

There was also no change in the base rate expectations, where the Central Bank still indicated a stable rate of 7% through the end of the year.

Primary market activities were dominated by the issuance of USD government bonds. The State Treasury issued 1, 2, and 3-year bonds with yields of 2.98%, 3.75%, and 3.9%, respectively.

The total amount issued was USD 157 million, with demands concentrated in the one-year tenor. Other offerings came from Vietnam Expressway Corporation (VEC) and Vietnam

Bank for Social Policy (VBSP). However, these auctions failed due to gaps between market expectations and the ceiling rates set by the issuers.

The successful government bond auction has indicated the availability of USD in the banking sector for lending purposes. Having said that, businesses have preferred to borrow in VND due to the interest rate subsidies currently being provided, and then use the proceeds to purchase USD. This has contributed to the USD shortage in the market. The situation has somewhat eased by the end of the month, with businesses considered borrowing in USD again.

Meanwhile, commercial banks' interest rates increased during August following new restrictions on long term loans funding. The central bank now only allows commercial banks to use up to 30% of short term mobilized capital for medium and long term loans, whereas previously they had been allowed to use up to 40%.

In order to comply with the regulations, banks have been trying to obtain more short term funding from the market, which has pushed the interest rates higher.

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