Market Update Note – Asian Equities ex Japan Team

Asian Equities ex Japan

Overview

- The cut in US interest rates should provide some relief to the financial system.
- Asian equity markets will remain volatile in the short-term.
- Valuations have fallen to reasonable levels.

In the light of the slide in global equity markets on 21 Jan 2008 the Asia (ex Japan) equities team at Credit Suisse comment on the market volatility and their view on the situation for the short and long term

On 22 January the US Federal Reserve shocked the market by cutting interest rates by 75 basis points in a response to the fall in the markets the previous day. On a positive note, we believe the Fed's move should assist in the interest rate reset process and relieve some stress in the financial system in the short term, as well as hopefully bolstering consumer confidence, which has remained weak recently. Moreover, capital injection into the banks shoring up their capital bases and lower interest rates, will also increase of the bank profitability in the longer term.

However, we believe these rate cuts and USD150bn fiscal stimulus are only a temporary measure to halt further erosion in consumer confidence and prevent the US slipping into a recession. We expect equity markets to remain volatile as the system needs time to clear out excesses such as slower housing starts, rising inventory, lower consumer confidence and, in turn, slower same store sales resulting from rising unemployment. Fears of inflation will continue to spook the market, particularly given the current rate cuts.

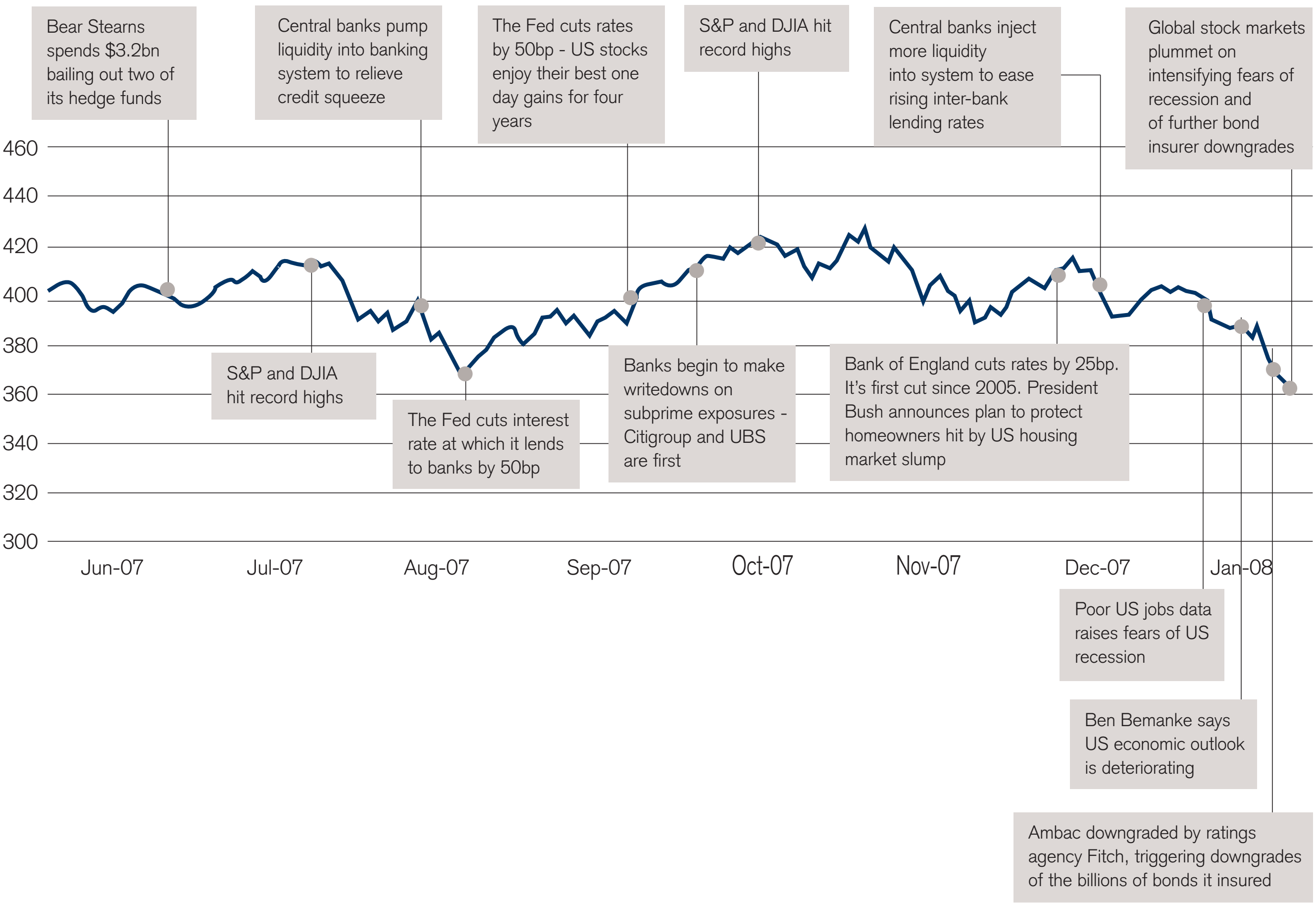
As Asia has yet to decouple from the US, we believe Asian equity markets will also remain volatile. Given this scenario, we are selectively cautious on the equity markets. Valuations have fallen to a reasonable level, with MSCI Asia Pacific index currently has a price/earnings ratio of 13.6x.

In summary:
We favour Malaysia given the election outlook and attractive valuations and China given its cheaper valuations & growth prospects.

- We are selectively positive Hong Kong property developers, given the supply/demand imbalance and negative interest rate environment.
- We are neutral to negative on the export-oriented economies of Taiwan and Singapore, especially technology, as we expect demand to soften.
- We continue to prefer upstream sectors such as palm oil where demand continues to remain robust while acreage supply growth is capped.
- We also favour the energy sector including oil & coal as demand from China, India & Indonesia for infrastructure builds out.

In the meantime, we expect volatility in the short term in conjunction with further Central Bank activity.

Global Equities
MSCI World Index



Source: Credit Suisse

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