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STAR RATINGS REVIEW

MONTHLY MORNING MEETING JUL 2010. PRESENTED BY iFAST FINANCIAL PTE LTD ©

EMERGING MARKETS (4.5 STARS – VERY ATTRACTIVE)

1. Estimated valuations for Emerging Market equities are 11.3X and 9.7X for 2010 and 2011 respectively (as at 30 Jun 2010). While valuations for the Asia ex-Japan region are higher, Russia's valuation for 2010 and 2011 at respective 6.5X and 5.4X helped to bring down the valuations for emerging markets.
2. Earnings are forecast to rise a hefty 37% in 2010, followed by 16.8% in 2011. Heavyweights like Taiwan and Korea lifted the estimated earnings growth in 2010. Russia is also expected to post very strong earnings growth in 2010.
3. Economies in Asia have done well in the calendar first quarter of 2010, with China leading the pack with a 11.9% y-o-y growth. India follows closely behind with a 8.6% growth. Brazil has also turned in an impressive 9.8% q-o-q annualized growth in the first quarter. Russia posted its first positive q-o-q of 2.9% since 2008 on the back of stronger average oil prices.
4. In Asia, central banks have tightened monetary policies by either raising interest rates or banks' cash reserve requirements ratio. Brazil has also tightened its monetary policy in an aggressive manner. While growth is expected for the Russian economy in 2010, the weaker economic growth relative to other developing economies suggest that Russia could still be in the rate cut cycle.
5. Within the BRIC, Brazil and China are more dependent on European's economies as Europe is one of their largest export markets. However, domestic consumption has weathered the current crisis well in all BRIC countries and we believe impact of slower export growth could be mitigated by strong domestic consumption.
6. In the Eastern, Europe and Africa region where a larger number of countries is more dependent on trade with Western Europe, the austerity measures taken by the West Europe will hurt the EEMEA growth. However, subdued inflationary figures will allow relaxed monetary policy which in turn would lend support to domestic demand.
7. Global emerging market equities fell 7.2%(in USD terms) in the first half of 2010, dragged down by heavyweights like Brazil and Russia. However, strong earnings growth and attractive valuations led us to maintain a 4.5 Stars "Very Attractive" rating on the market.