

Monthly Market Review

Asia ex Japan

REGIONAL OVERVIEW

- May was a tough month for global, as well as Asian, equities with macro themes continuing to dominate the investment arena. All Asian indices ended the month in the red.
- The South Korean market was hardest hit as tensions between North and South Korea re-emerged.

China (inc. Hong Kong)

- The key major macro indicators released in China during May suggested that the country's economy continued its steady expansion and showed solid momentum in private sector demand. On the policy front, amid uncertainty on both the global and domestic fronts, Chinese policymakers have remained cautious, maintaining a relatively accommodative monetary stance and keeping fiscal stimulus in place in 2010.
- Market sentiment in Hong Kong stayed weak. The core property market stayed sluggish on the back of lower transaction volumes in the residential property segment and the weaker-than-expected land auction results.
- Ironically in Hong Kong, in view of its stock market's performance, the economy posted a stronger than anticipated growth rate for Q1 2010, expanding by 8.2% on an annualized basis. The trade sector also grew significantly, helped by active intra-Asia activity. Retail sales remained robust, with a 17.2% per annum gain for March 2010 (based on volume). The unemployment rate stayed unchanged at 4.4%.

Korea

- The South Korean market endured a very uncomfortable May. This was due to concerns over a possible contagion from Europe's sovereign debt default risks, and a resurfacing of political tensions with North Korea.
- The country's trade surplus did provide some encouragement, having widened a further US \$4.4 billion in May. Industrial production also remained on a relatively even keel, rising by 19.9% per annum in April. In addition, the unemployment rate fell to 3.8% in April to make the third monthly decline in a row.
- Tensions between North and South Korea held the attention of financial markets, but eventually showed signs of stabilizing. Interestingly, the local bond markets stayed firm, even as both the Korean won and equity prices fell sharply.

MSCI INDEX

MAY %

MSCI INDEX		MAY %	
Asia ex Japan	↓	-8.81	-6.20
China	↓	-6.49	-8.51
Hong Kong	↓	-7.11	-5.03
Korea	↓	-13.36	-5.94
Taiwan	↓	-9.82	-11.07
Indonesia	↓	-7.67	7.67
Singapore	↓	-9.46	-0.88
India	↓	-8.16	-2.03
Malaysia	↓	-7.09	4.77
Thailand	↓	-2.86	5.08
Philippines	↓	-4.88	3.16

MSCI Index returns (price) in USD terms over periods to 31 May 2010.

Taiwan

- Taiwan's seasonally-adjusted unemployment rate fell to 5.43% in April, while its GDP for Q1 2010 continued to show steady growth, rising 13.3% per annum.
- The legislative assembly passed the third reading of the Industrial Innovation Bill, in which the corporate tax rate is being earmarked for a cut from 20% to 17%, to be effective in 2011.

Indonesia

- Indonesia retreated in May, being unable to sustain a positive opening. Its currency, the Rupiah, posted a monthly decline for the first time in 9 months, slipping by 1.8%.
- The country's inflation continued to tick up, with an annualized gain of 4.2% for March, primarily due to higher food prices. Nonetheless, with the CPI within the central bank's target range, benchmark interest rates were left unchanged at 6.5%.
- The surprise resignation of finance minister Sri Mulyani was the major political development. President Bambang Yudhoyono subsequently appointed Agus Martowardojo (the former chief executive of one of the country's most established banks, Bank Mandiri) as her replacement. This was generally well received by investors.

Singapore

- One of Singapore's leading indicators, the purchasing managers' index, rose 0.8 points in April to 51.9. The country's non-oil domestic exports posted another solid monthly gain in the same month, registering per annum growth of 40.9% in US\$ terms.

India

- It was an extremely volatile month for Indian equities as performance was closely linked to the sovereign risk developments in Europe and sentiment among foreign institutional investors.
- India's Q4 real GDP for fiscal 2010 grew 8.6% on an annualized basis, the fastest in eight quarters. Growth was largely driven by industrial output with robust expansion in mining and manufacturing.
- In addition, the government's sale of 3G and wireless licenses turned out to be better received than expected, raising around US \$11 billion. This led to hope that the fiscal deficit could end up much lower than budgeted.

Malaysia

- Malaysia's GDP achieved annualized growth of 10.1% in the first quarter, the fastest pace in 10 years. This was driven by domestic demand and improved exports. The central bank, Bank Negara, announced that it raised its overnight policy rate by 25 basis points to 2.5% to guard against price pressures as a result of the economic rebound.
- Malaysia and Singapore came to an agreement on a long-standing political issue regarding the re-location of a train station in the latter operated by Malayan Railways. This move is expected to generate a couple of joint economic development projects on both sides of the border.

Thailand

- Despite major street confrontations during the month, featuring an anti-government protest group dubbed the "Red Shirts", Thailand proved relatively resilient, with a relatively modest decline of 2.9% for May.
- The April economic data prints are suggesting some moderation in the very strong pace of activity seen during Q1 2010. In addition, the mainstay tourism sector could see some adverse impact stemming from the widely publicized civil unrest, even if tensions have begun to ease somewhat, following the forcible eviction of the Red Shirts in Bangkok.

Philippines

- The Philippines relatively outperformed the region in a volatile May. Sentiment toward the end of the month was boosted by a perceived positive presidential election outcome, and by better-than-expected GDP numbers.
- In Q1 2010, the economy surged 12.9% on a quarter-on-quarter basis, following a strong 7.6% gain on a similar basis in Q4 2009. The growth in Q1 2010 was helped primarily by external demand, with exports up a visible 83.4% quarter-on-quarter.

AIG Investments is a group of international companies that provide investment advice and market asset management products and services to clients around the world. AIG Investments is a registered mark of American International Group, Inc. (AIG). Services and products are provided by one or more affiliates of AIG.

Certain statements provided herein are based solely on the opinions of AIG Investments and are being provided for general information purposes only. Any opinions provided on economic trends should not be relied upon for investment decisions and are solely the opinion of AIG Investments. Past performance is not indicative of future results.

Certain information may be based on information received from sources AIG Investments considers reliable; AIG Investments does not represent that such information is accurate or complete. Certain statements contained herein may constitute projections, forecasts and other forward-looking statements that do not reflect actual results and are based primarily upon applying retroactively a hypothetical set of assumptions to certain historical financial information. Any opinions, projections, forecasts and forward-looking statements presented herein are valid only as of the date of this document and are subject to change. AIG Investments is not soliciting or recommending any action based on any information in this document. AIG Investments Europe Limited is authorised and regulated by the Financial Services Authority ("FSA"). In the UK this communication is a financial promotion solely intended for professional clients as defined in the FSA Handbook and has been approved by AIG Investments Europe Limited.