

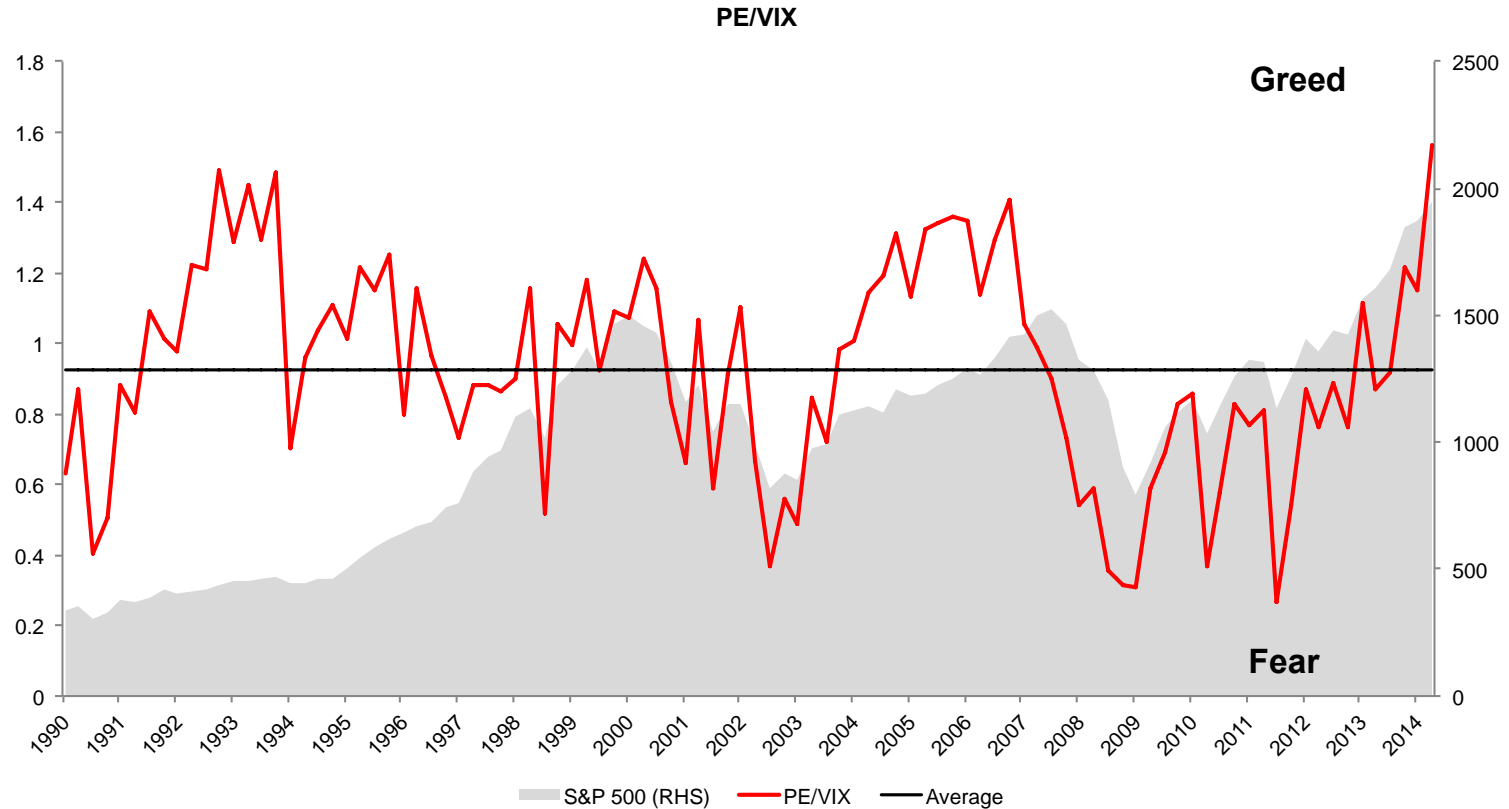
A dramatic, high-contrast black and white photograph of two bull heads. The bull on the left is in deep shadow, its form mostly obscured. The bull on the right is brightly lit, showing the texture of its skin and the sharp points of its horns. Both animals are facing each other, creating a sense of tension and confrontation.

THE EQUITIES BULL : Continuation, Rotation or Termination?

Lim Say Boon

Chief Investment Officer, Group Wealth Management
& Private Banking, DBS Bank

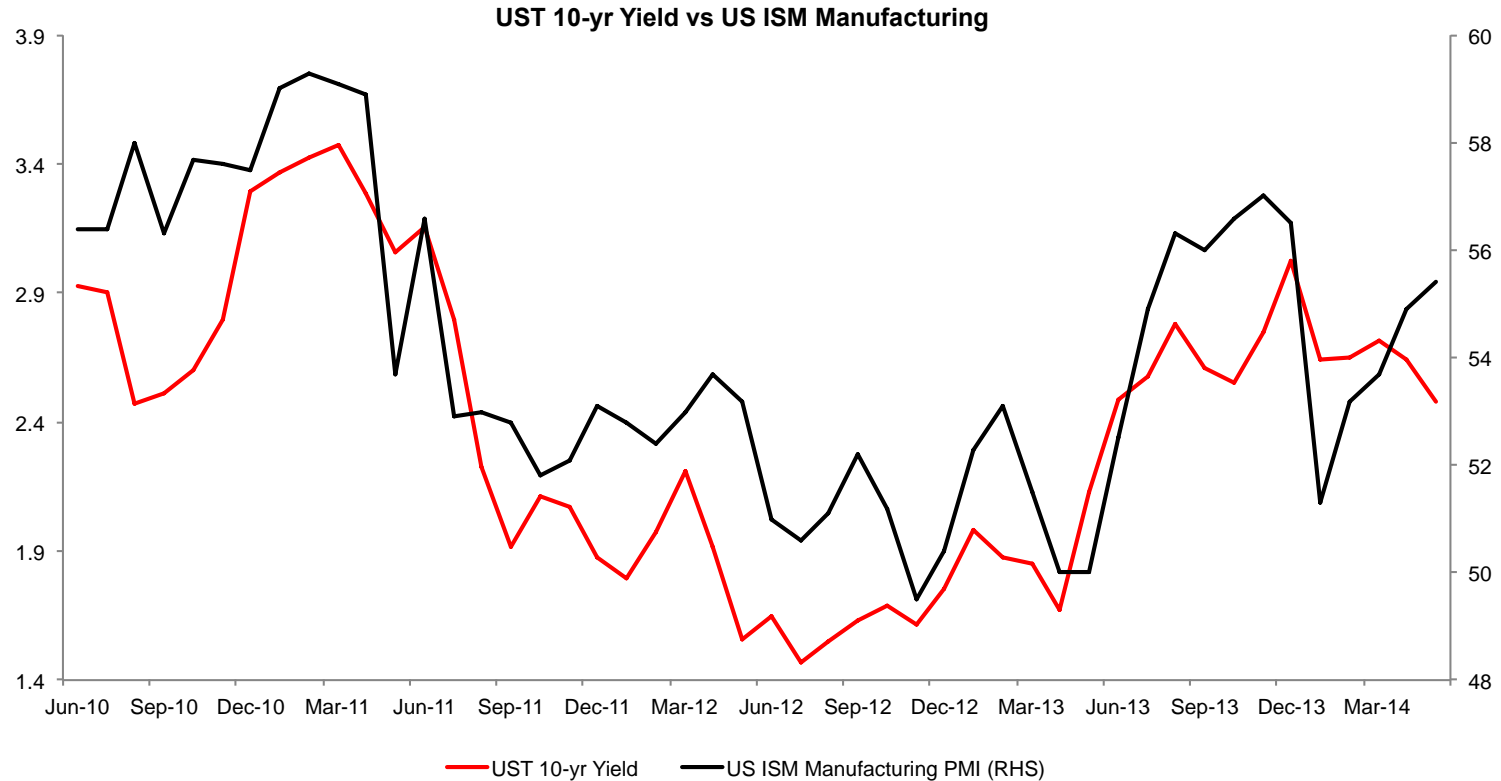
High level of complacency reflected in our US “Greed/Fear Index”



Source: Bloomberg, DBS CIO Office

Moderate growth, cheap money and low volatility

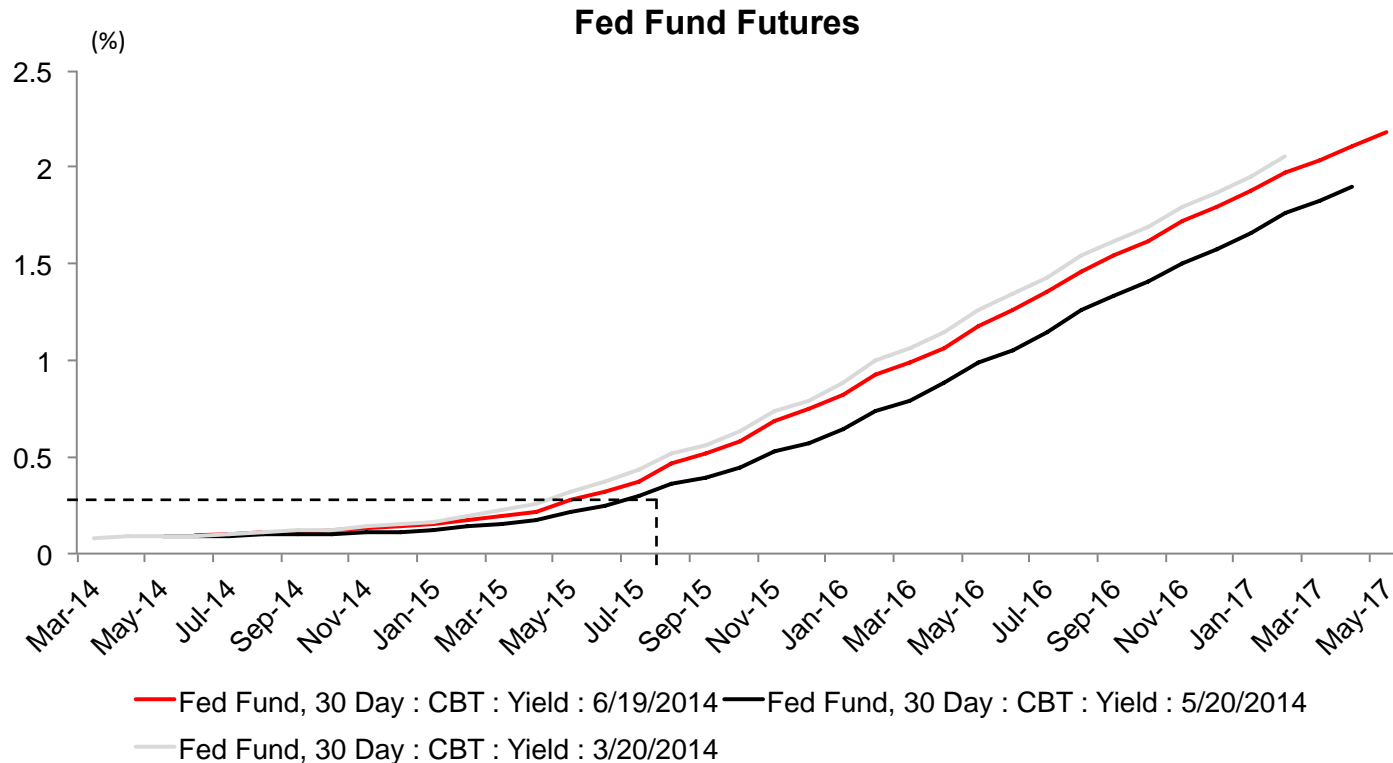
Moderate US economic growth has kept 10-year Treasury bond yield and inflation relatively low



Source: DBS CIO Office, Bloomberg

Moderate growth, cheap money and low volatility

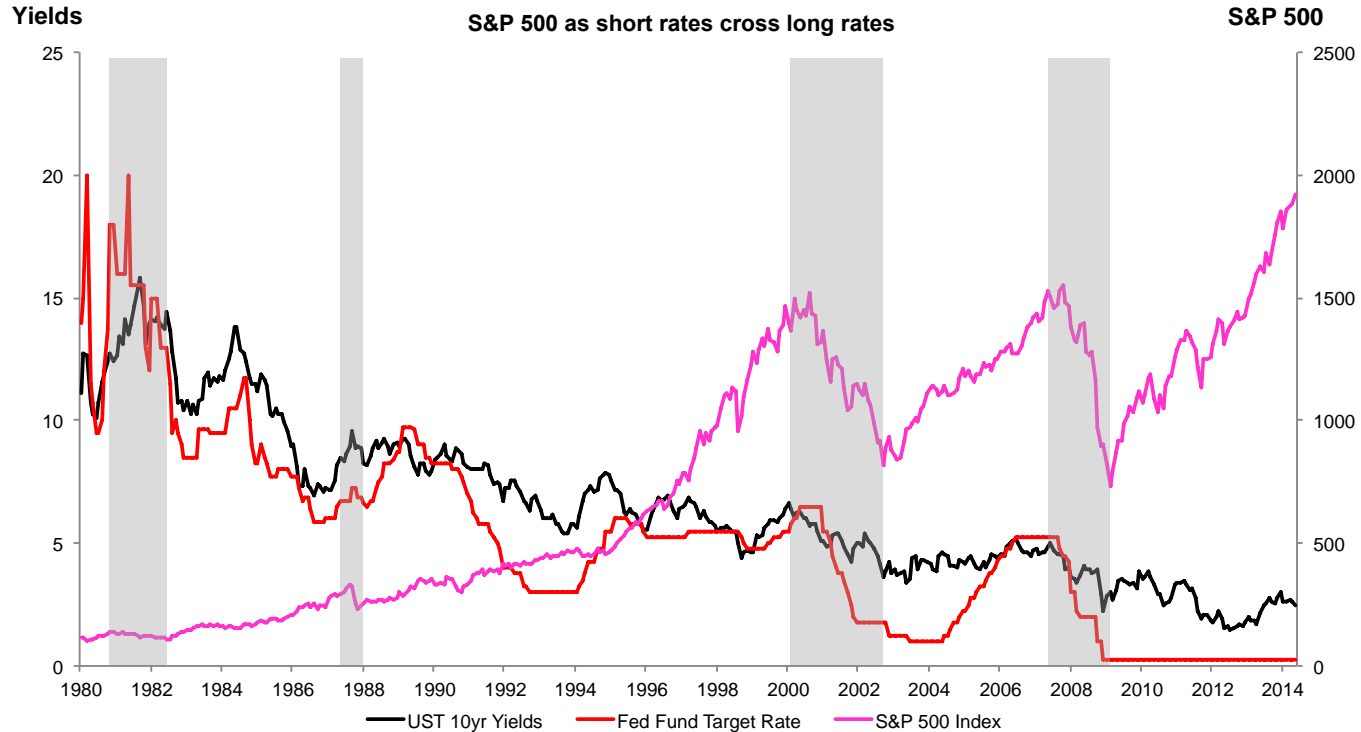
Markets see first Fed Fund rate hike in 2H14



Source: Bloomberg, DBS CIO Office

Moderate growth, cheap money and low volatility

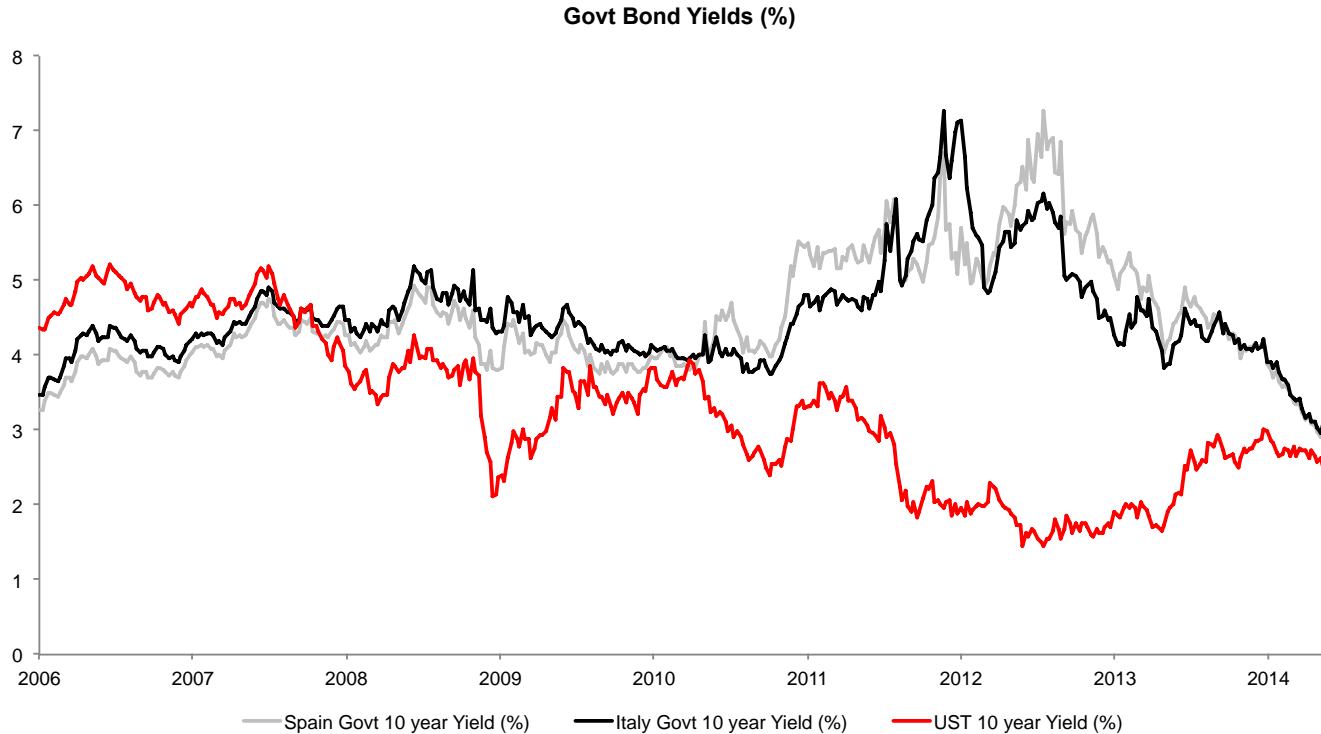
Still a long way before the Fed policy rate cuts above the 10-year US Treasury yield. This predicted 3 of the 4 bear markets and every US recession since 1980



Source: DBS CIO Office, Bloomberg

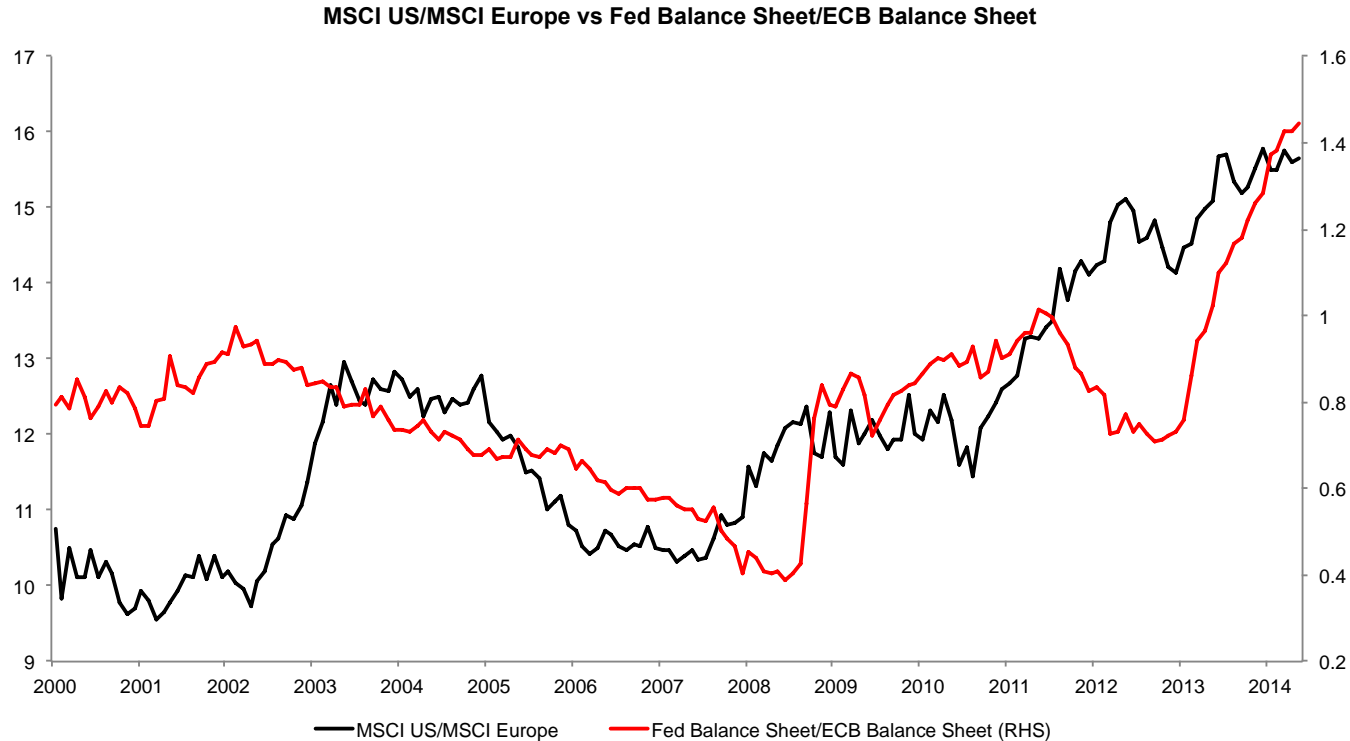
- **Global equities: Remain overweight 3M, 12M**
- **US equities: Remain overweight 3M, 12M**

Spanish and Italian 10-yr yields now trading at same level as US 10-yr yield



Source: Bloomberg, DBS CIO Office

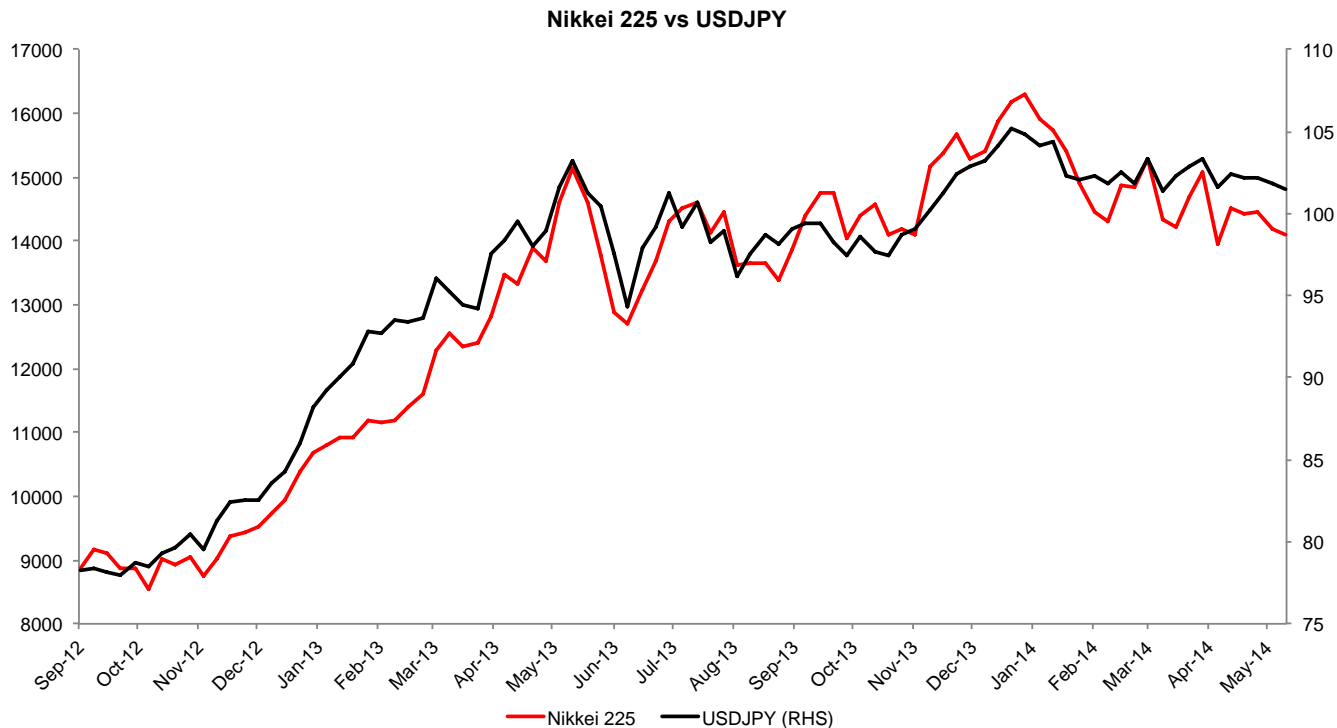
Expansion of the ECB balance sheet relative to the size of the Federal Reserve's balance sheet could translate to outperformance for European stocks



Source: Bloomberg, DBS CIO Office

European equities: Remain overweight 3M , 12M

Japanese equities: It's a USD/JPY story – hence our reduction in weighting in 2Q-14

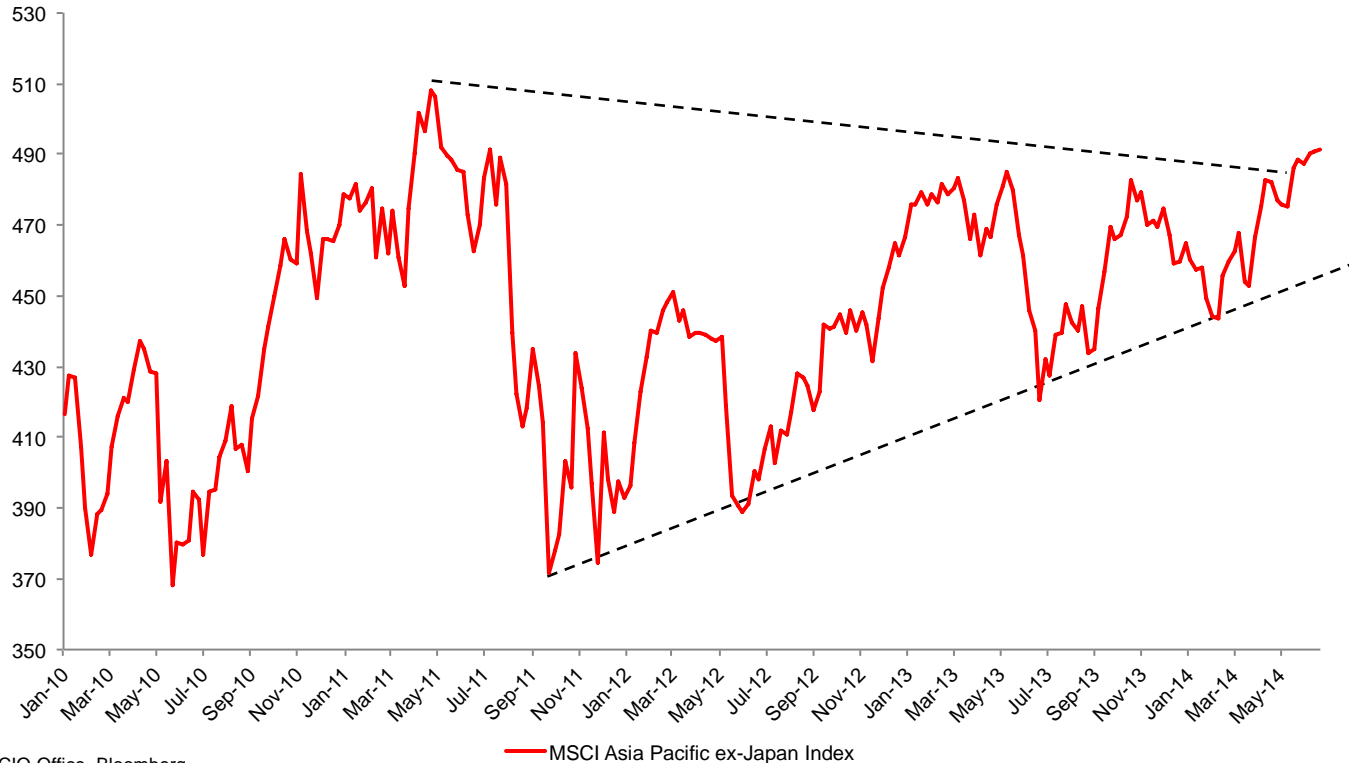


Source: DBS CIO Office, Bloomberg

Japanese equities: Return to overweight 3M, 12M

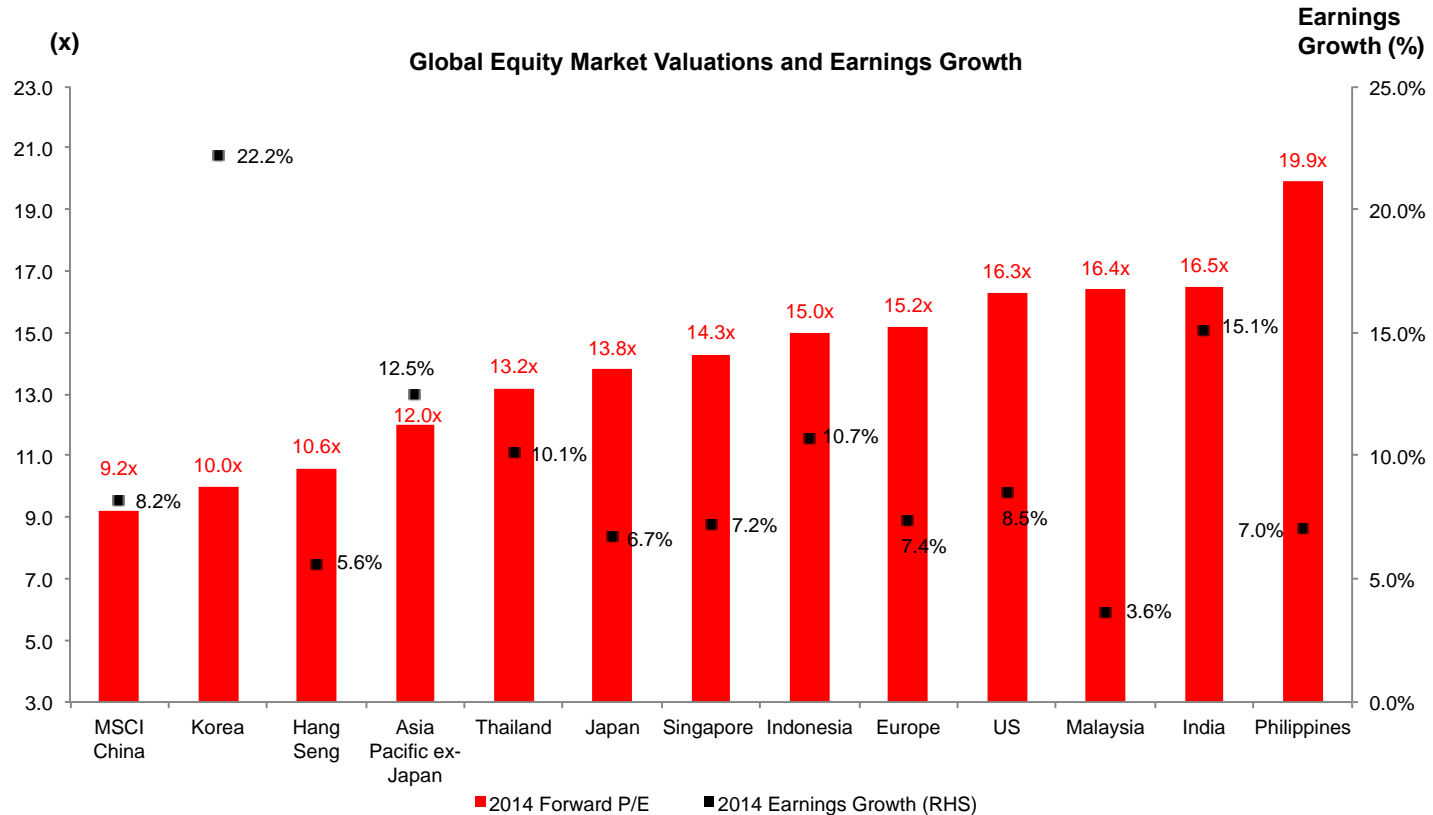
The battle intensifies: Both bulls and bears are getting more impatient

MSCI Asia Pacific ex-Japan Index



Source: DBS CIO Office, Bloomberg

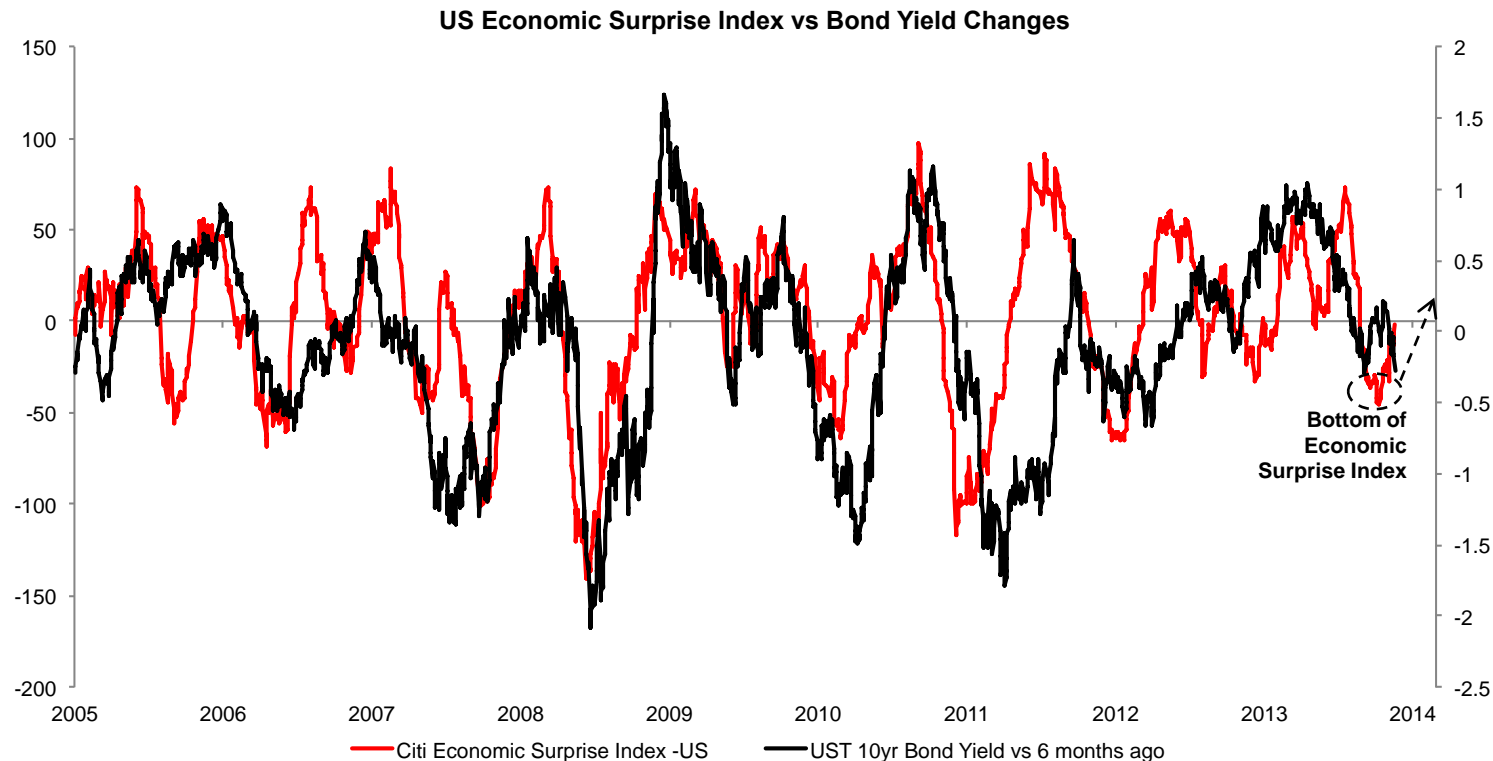
Asia: Looking for growth at a reasonable price



Source: IBES, Datastream, DBS CIO Office

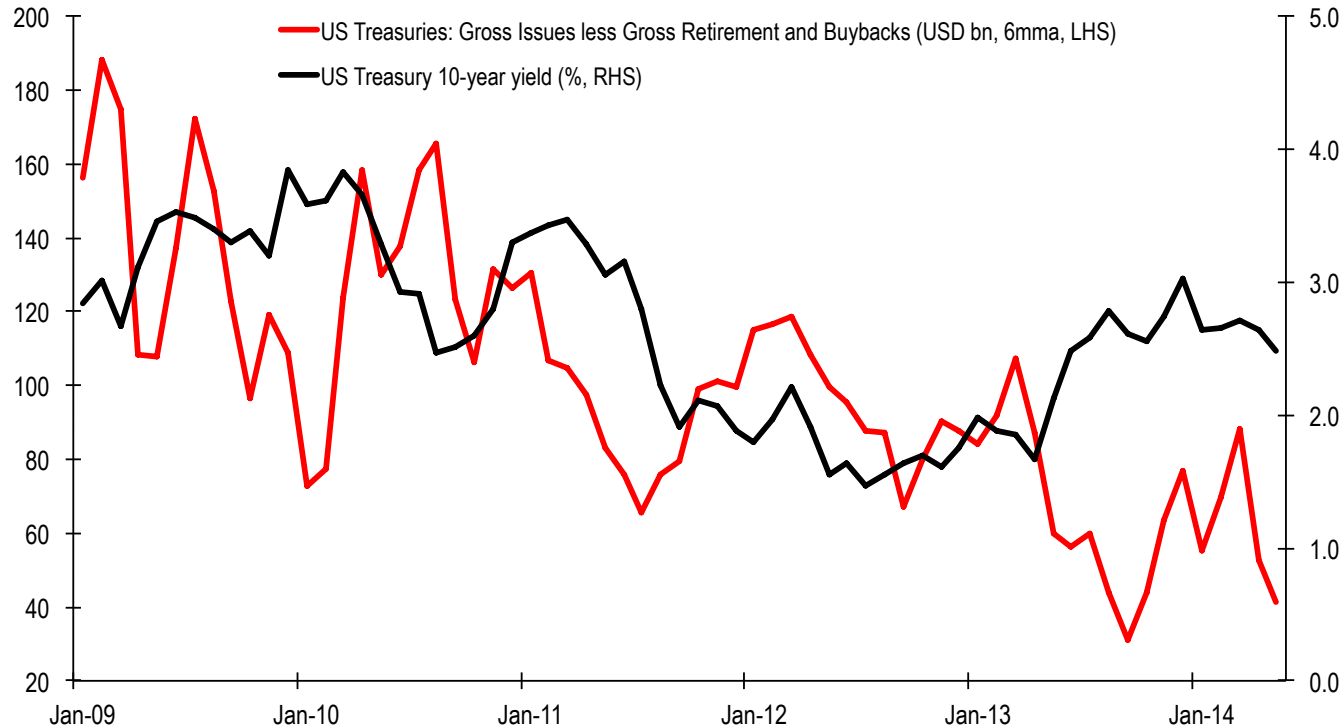
Asia ex-Japan/Emerging Markets: Neutral 3M, Overweight 12M

Bonds: 10-year US Treasury yield could edge up as economic data disappointment ends although a sharp spike in yield unlikely at this stage



Source: Bloomberg, DBS CIO Office

Gains in the 10-year US Treasury yield could be kept moderate by lower net issuance

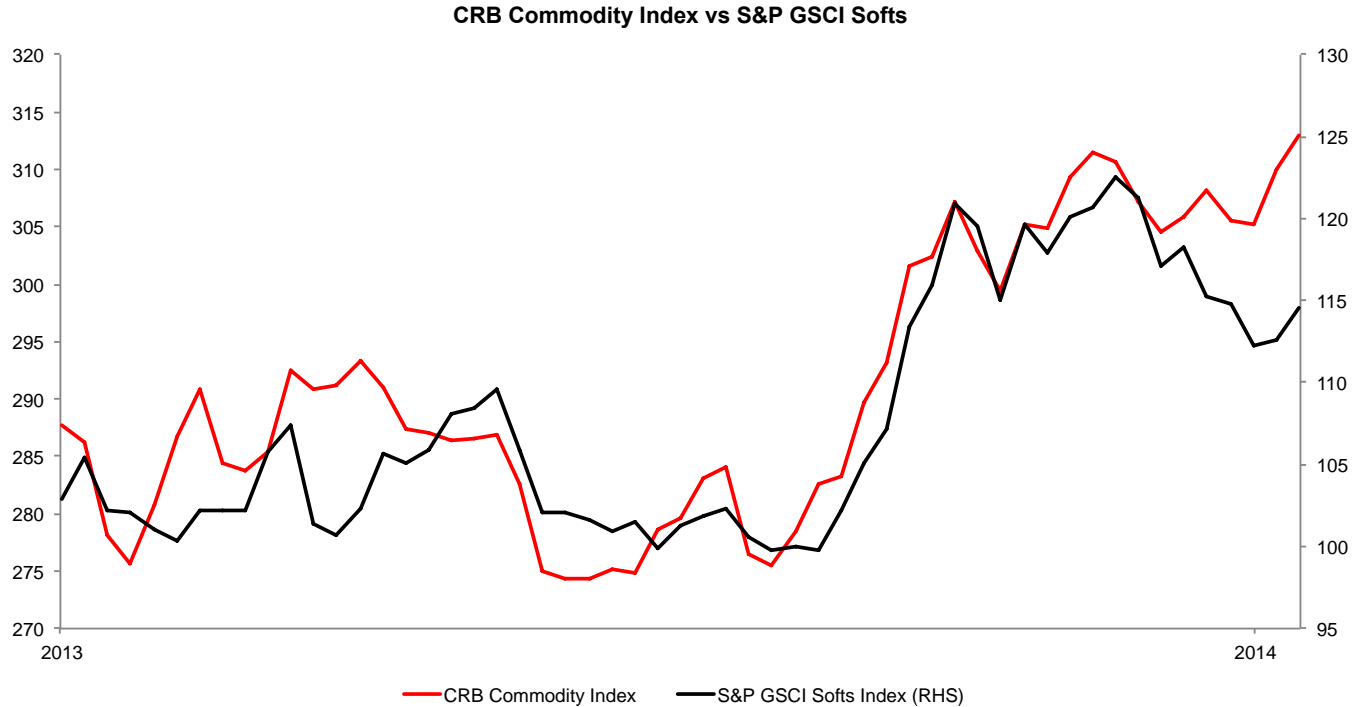


Source: DBS CIO Office, Bloomberg

- **Global bonds: Underweight 3M, 12M**
- **Developed Markets government bonds: Underweight 3M, 12 M**
 - **Developed Markets corporate bonds: Neutral 3M, 12 M**
 - **EM/Asia ex-Japan bonds: Neutral 3M, 12M**

Commodities: A mixed bag with rotation of leadership

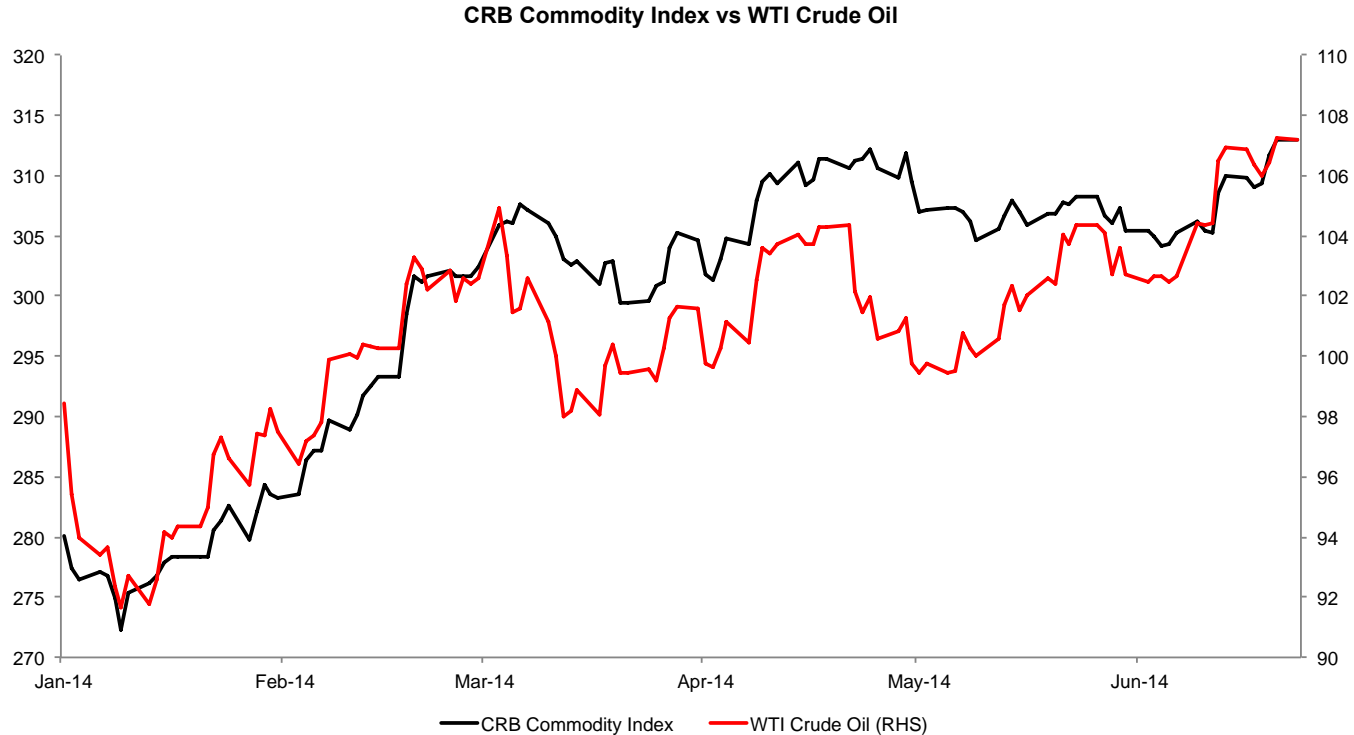
Soft commodities led the upturn at the start of the year



Source: DBS CIO Office, Bloomberg

Commodities: A mixed bag with rotation of leadership

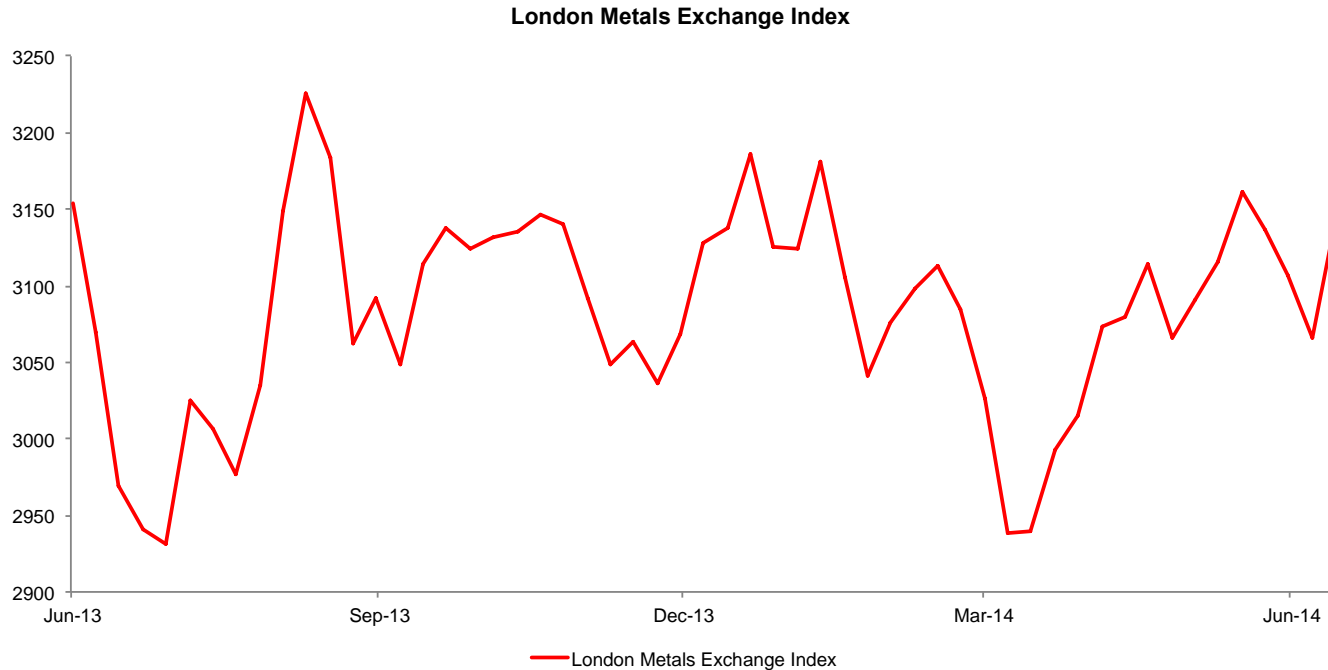
Crude oil taking over as driver amidst Iraqi conflict



Source: DBS CIO Office, Bloomberg

Commodities: A mixed bag with rotation of leadership

*Metals struggling sideways amidst oversupply, high inventories
and allegations of financing fraud in China*



Source: DBS CIO Office, Bloomberg

Commodities: Neutral 3M, 12M

Tactical Asset Allocation

Asset Class	3-Month Basis		12-Month Basis	
	3Q14	2Q14	3Q14	2Q14
Equities	Overweight	Overweight	Overweight	Overweight
US Equities	Overweight	Overweight	Overweight	Overweight
Europe Equities	Overweight	Overweight	Overweight	Overweight
Japan Equities	Overweight	Neutral	Overweight	Overweight
Asia Pacific ex-Japan Equities	Neutral	Underweight	Overweight	Overweight
Emerging Markets ex-Asia Equities	Neutral	Underweight	Overweight	Overweight
Bonds	Underweight	Underweight	Underweight	Underweight
Developed Markets (DM) Bonds	Underweight	Underweight	Underweight	Underweight
• DM Government Bonds	Underweight	Underweight	Underweight	Underweight
• DM Corporate Bonds	Neutral	Neutral	Neutral	Neutral
Emerging Markets (EM) Bonds	Neutral	Underweight	Neutral	Neutral
Alternatives	Underweight	Underweight	Underweight	Underweight
Commodities	Neutral	Neutral	Neutral	Neutral
Gold	Underweight	Underweight	Underweight	Underweight
Hedge Funds	Neutral	Neutral	Neutral	Neutral
Cash	Underweight	Underweight	Underweight	Underweight

Notes: ■ Down from previous rating; ■ Up from previous rating;

Source: DBS CIO Office

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ASIA OUTLOOK 2H 2014

Timothy Wong
Regional Head
DBS Group Research

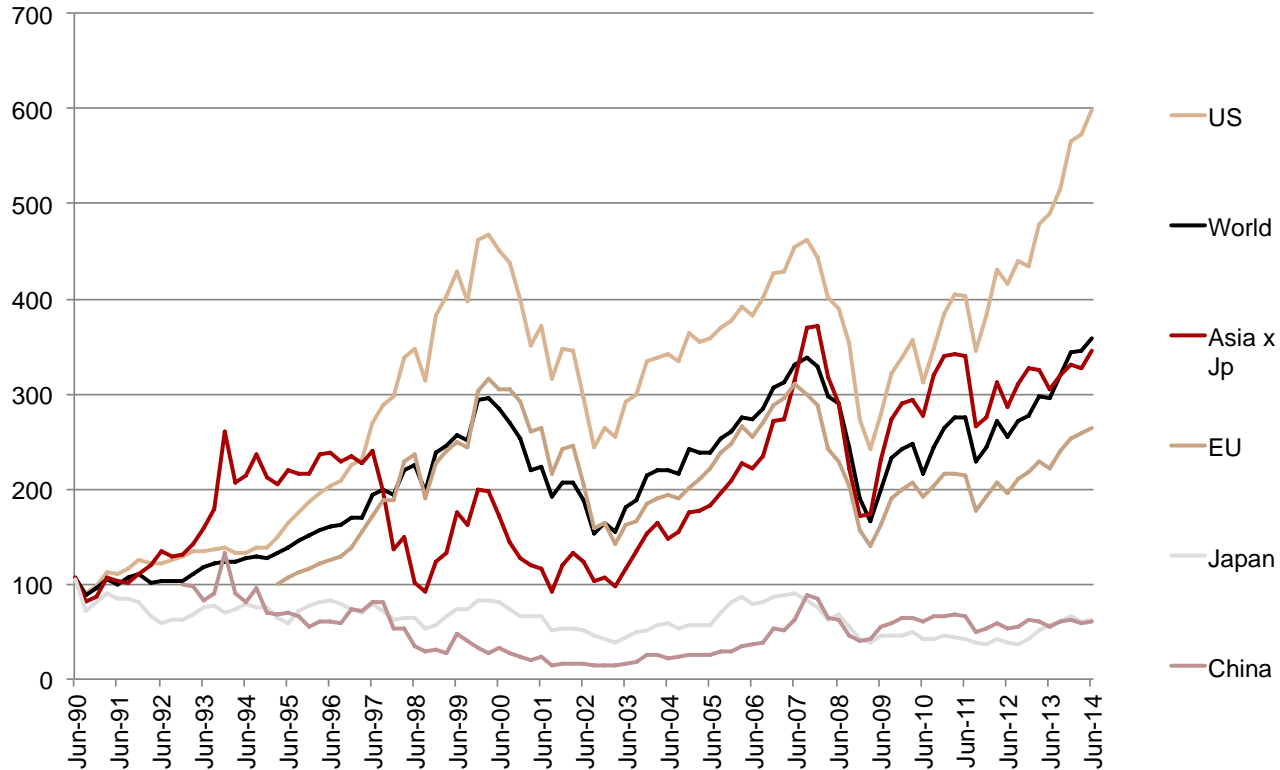
Where were you on 4 July, 1990?



Fast forward....24 years later to 4 July 2014

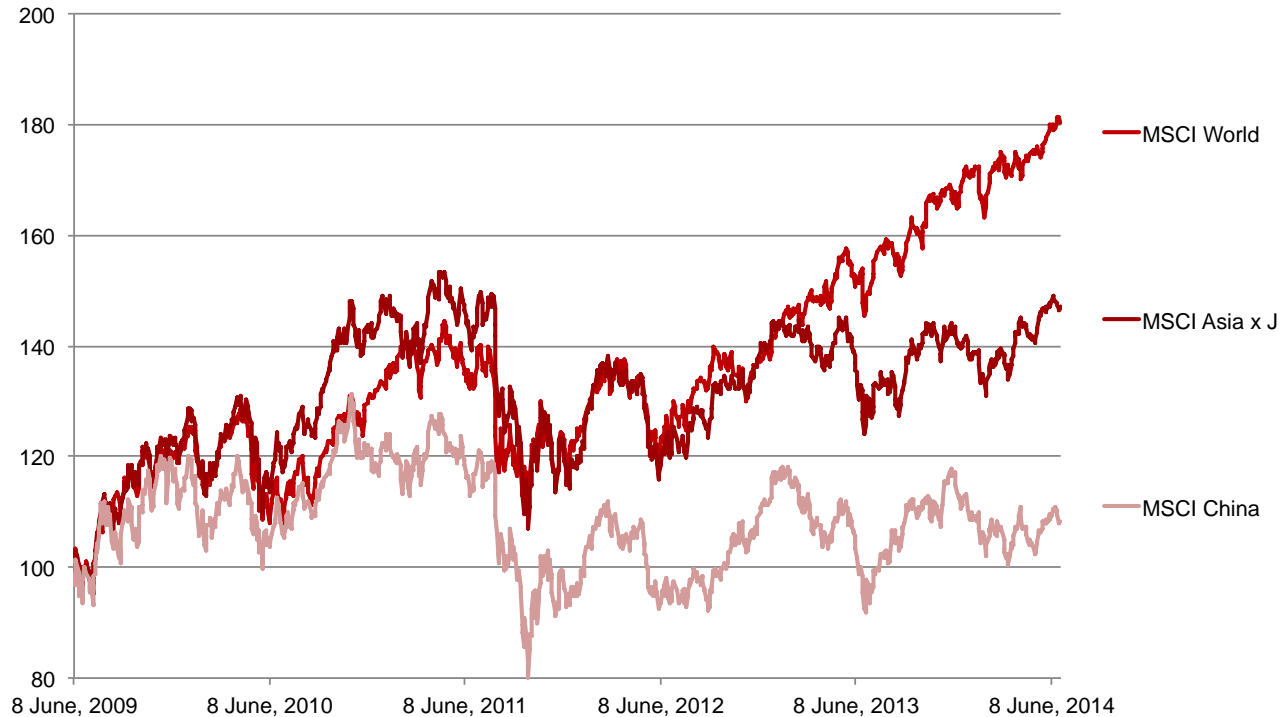


Global Equity Markets Since 1990



What about the next 6 months?

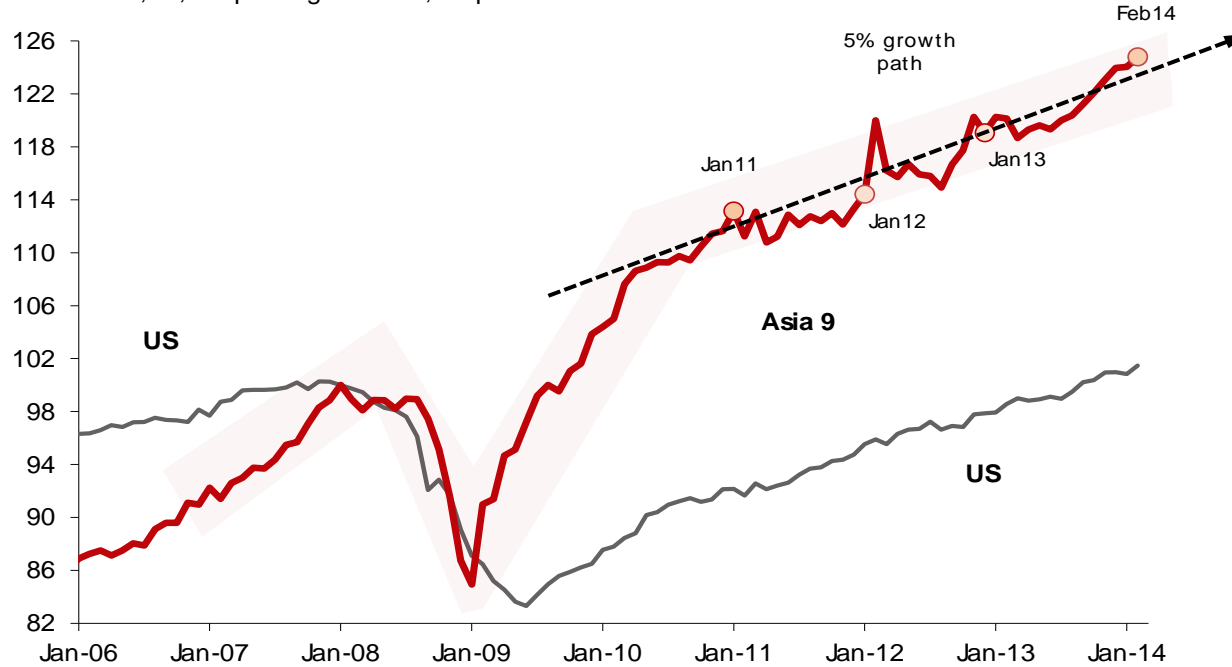
Asia has lagged Global Equities since 2013...



...Even as Asia macros have been steady

US and Asia 9 – industrial production

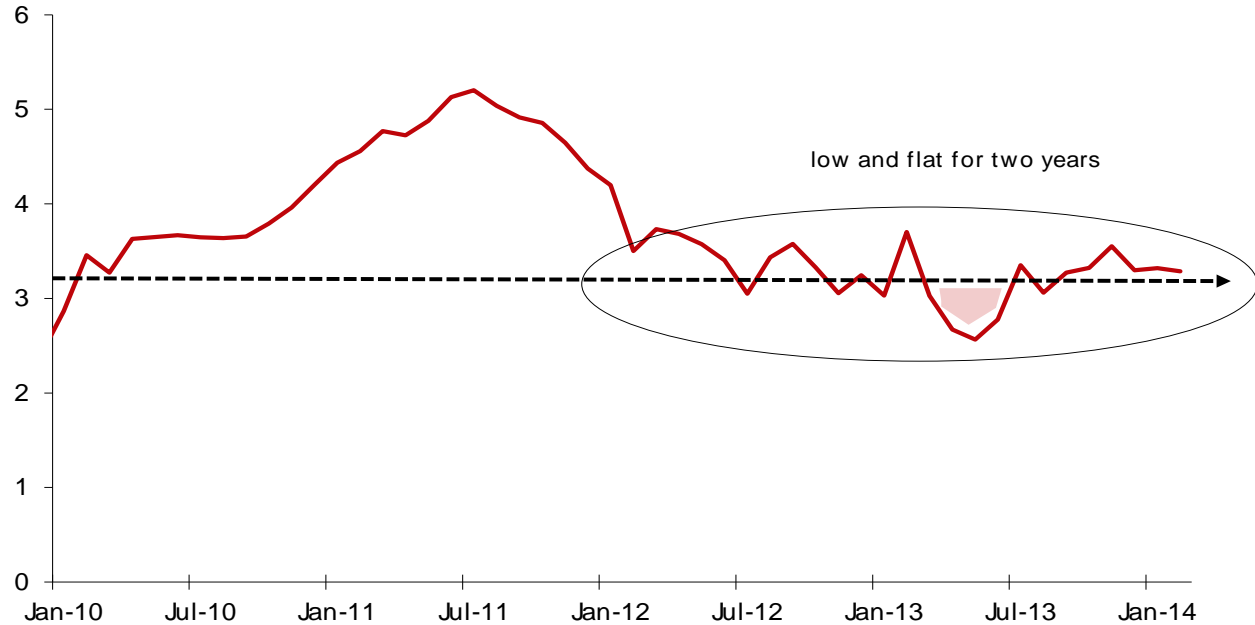
Jan08=100, sa, simple avg for Asia, ex-pharma for SG



Asia10: inflation low and steady

Asia10 – CPI inflation

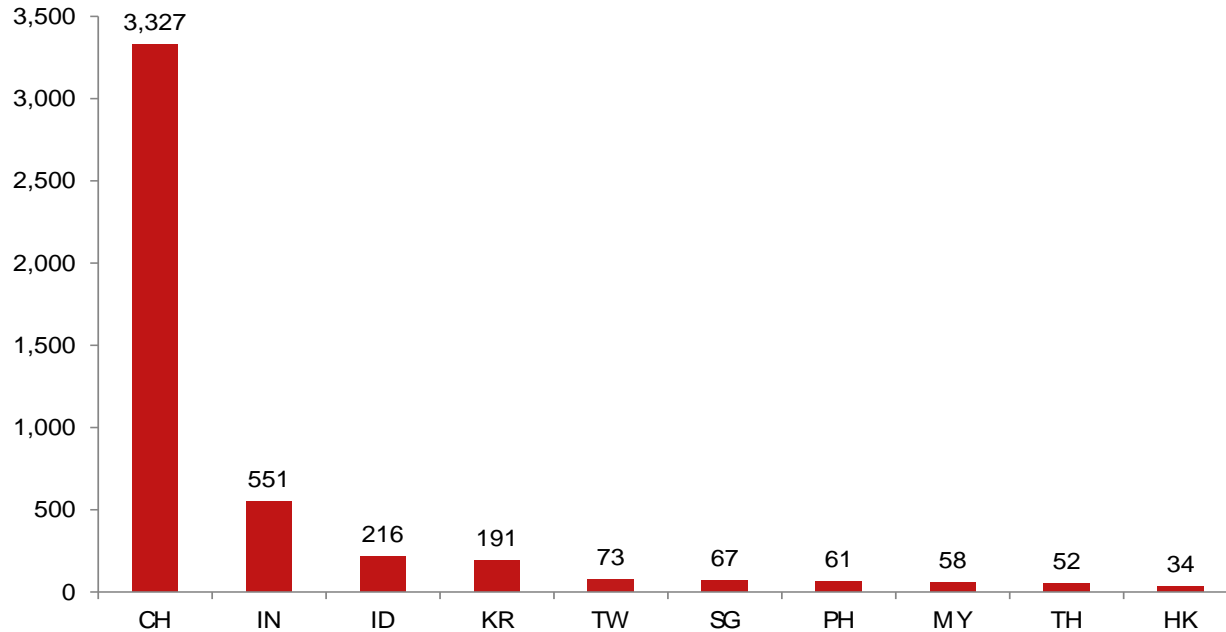
% YoY, simple avg



China dominates Asia's Growth...

Asia-10: incremental GDP growth, 2008-2013

constant 2013 USdollars

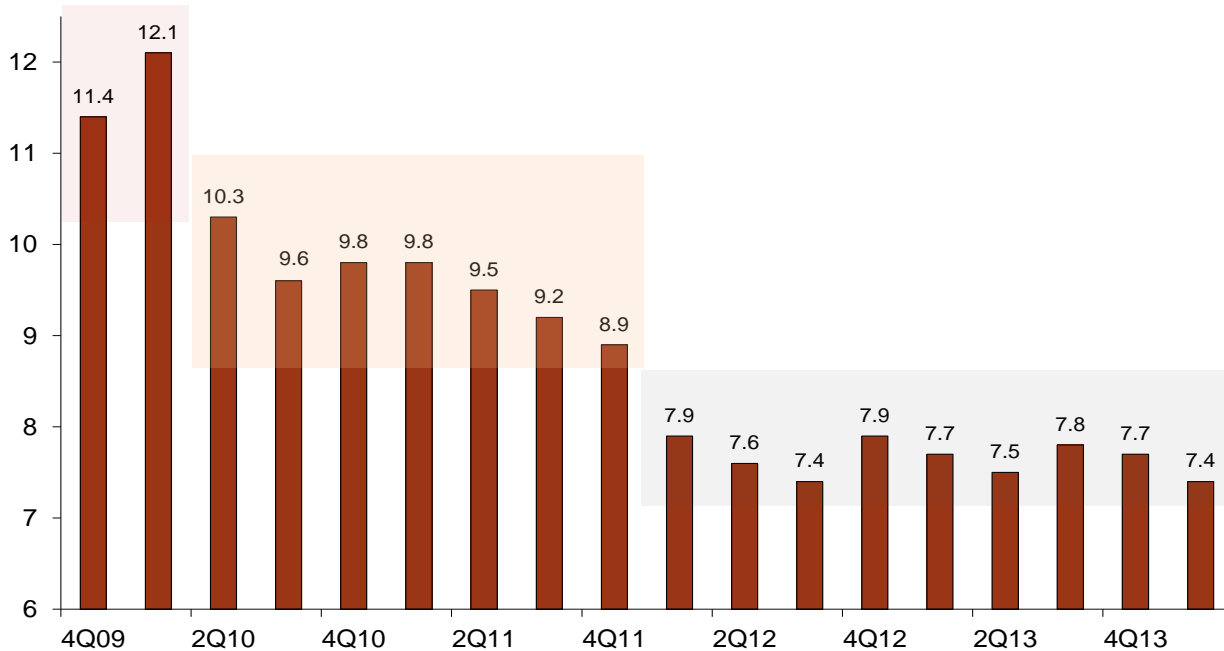


...keeping Asian markets on edge

Focus remains on long-run structural change, reform

China – GDP growth

% YoY



China's long-term focus

Financial sector reform is getting most attention at the moment

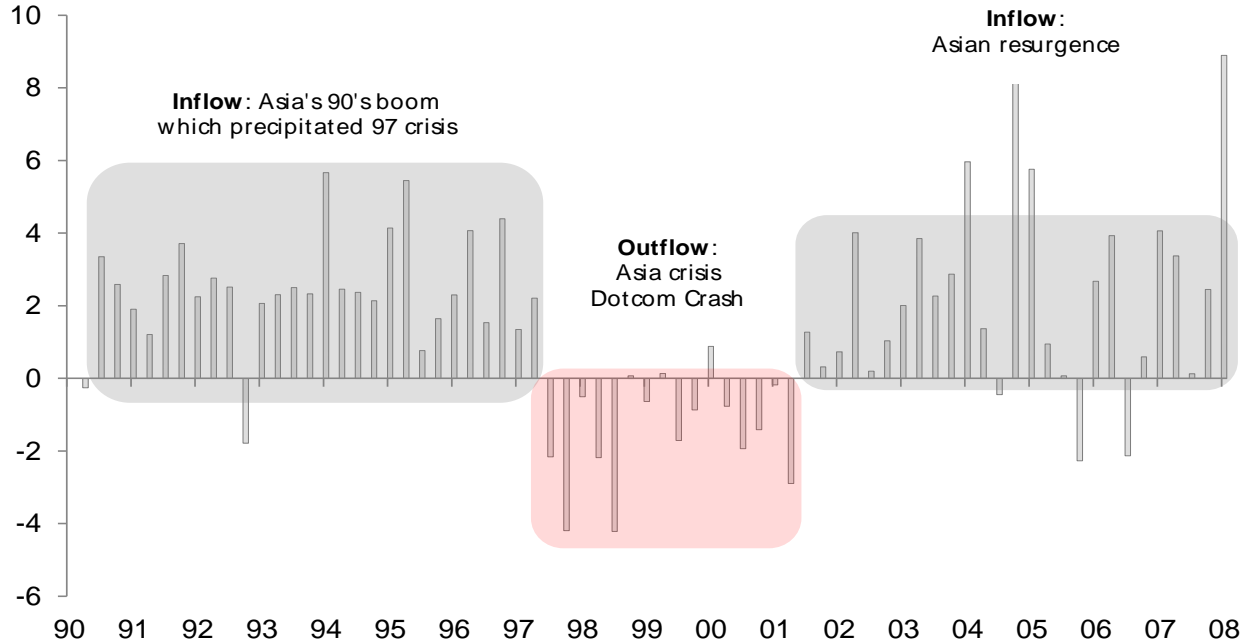
China – structural changes ahead

Macro changes		Micro changes
Real economy	Financial economy	
<ul style="list-style-type: none">1. Raise consumption as a driver of GDP2. Lower exports as a driver of GDP3. Lower investment as a driver of GDP	<ul style="list-style-type: none">1. Clean up bad debts2. Interest rate liberalization3. FX liberalization4. Globalize the RMB5. Open capital account (implied by 4)6. Raise supervision of shadow banks7. Tax reform	<ul style="list-style-type: none">1. Lessen role of state-owned enterprises in the economy2. Pension / social security reform3. Healthcare reform4. Urbanization5. Inland development vs coastal areas6. Lower production capacity of steel, alum, other metals, concrete, paper7. More private investment in airports, urban transit, energy, shipping.8. Allow more private capital in banking

Asia: inflow-outflow from a LT perspective

Asia 10 – capital inflow/outflow

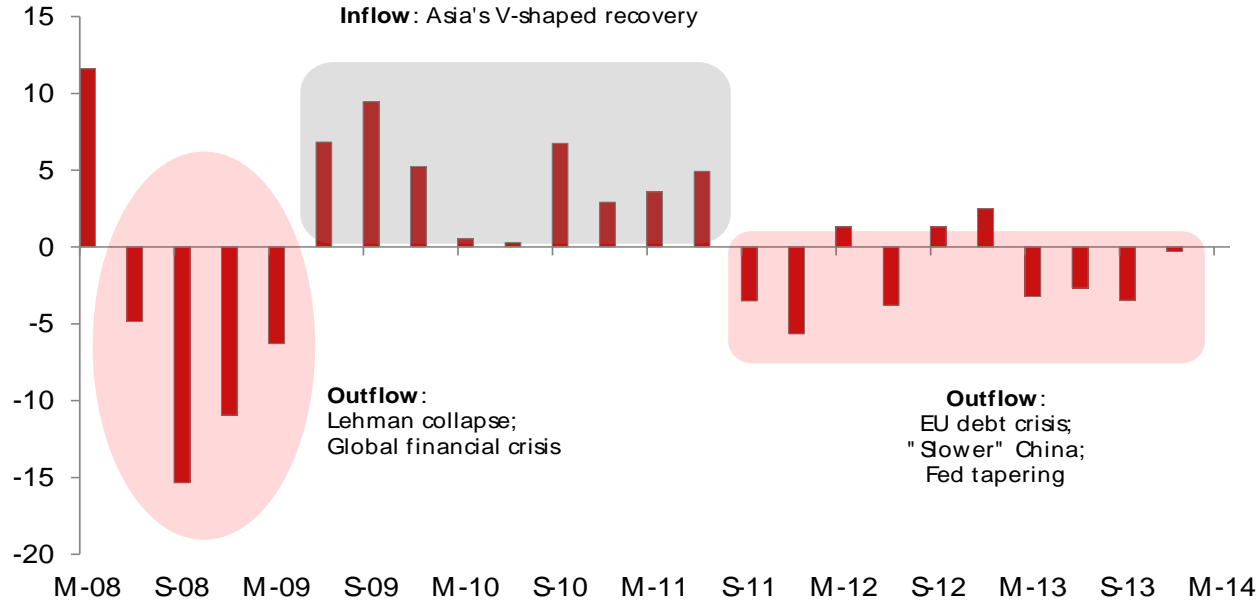
% of GDP, BoP capital account surplus



Asia: not a dollar of inflow for 2 years

Asia 10 – capital inflow/outflow

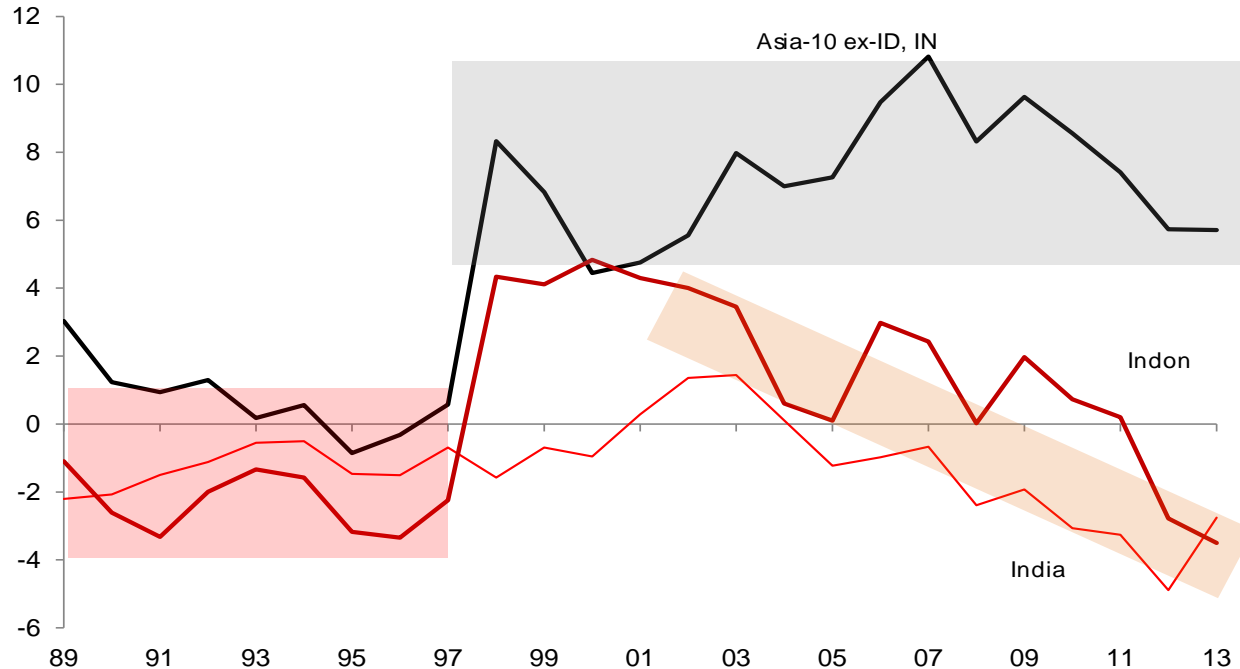
BoP capital acct surplus/deficit as % of GDP



Asia: the biggest difference between 1997 and today

Asia – current account balance

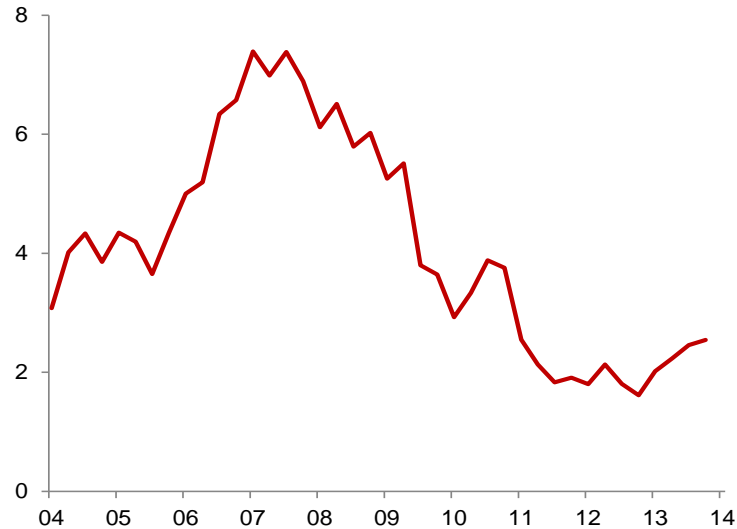
% of GDP, simple avg



Asia's currencies are holding up

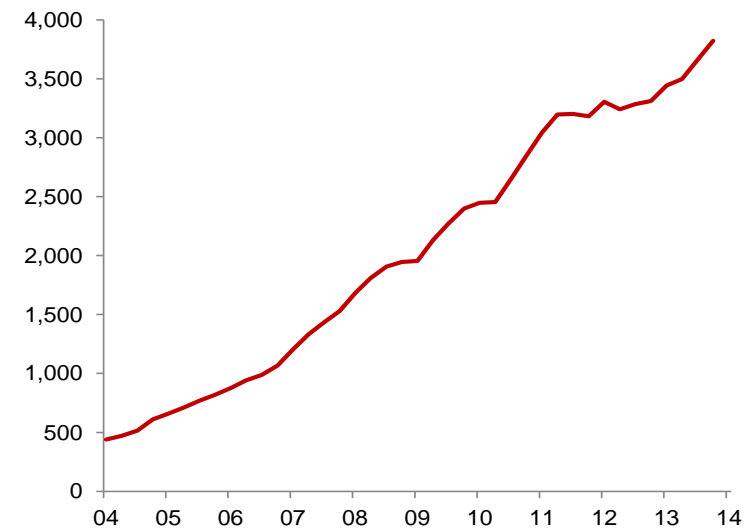
Asia 10 – current account balance

% of GDP

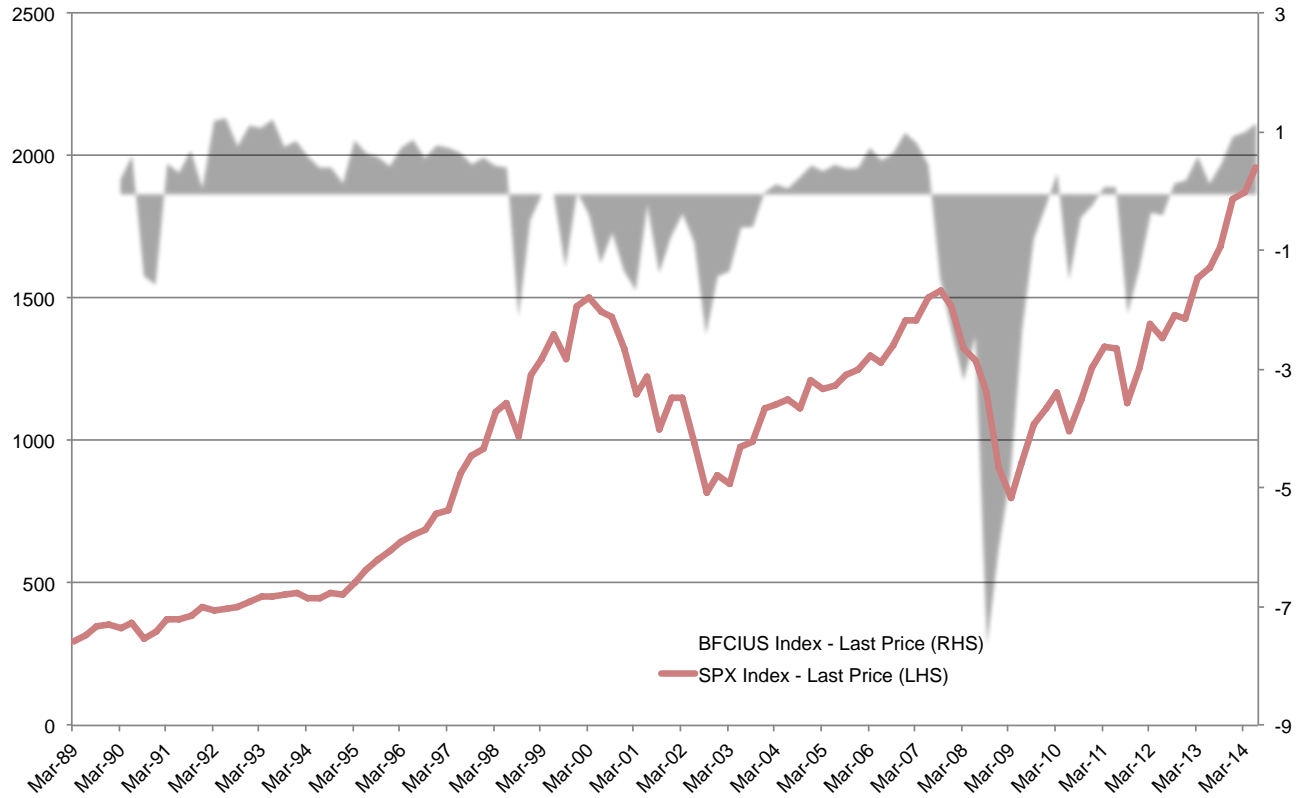


Asia 10 – foreign reserves

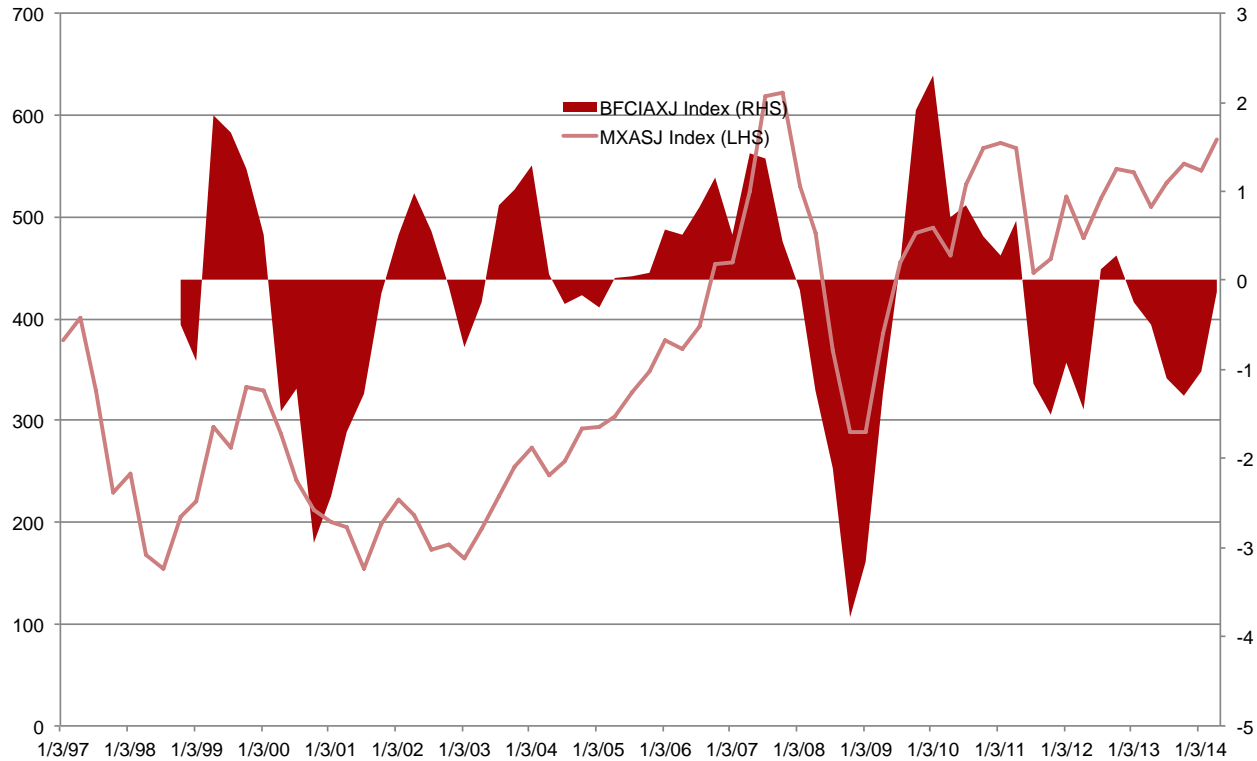
US\$bn, includes fwd ccy commitments



US Financial Conditions vs S&P 500

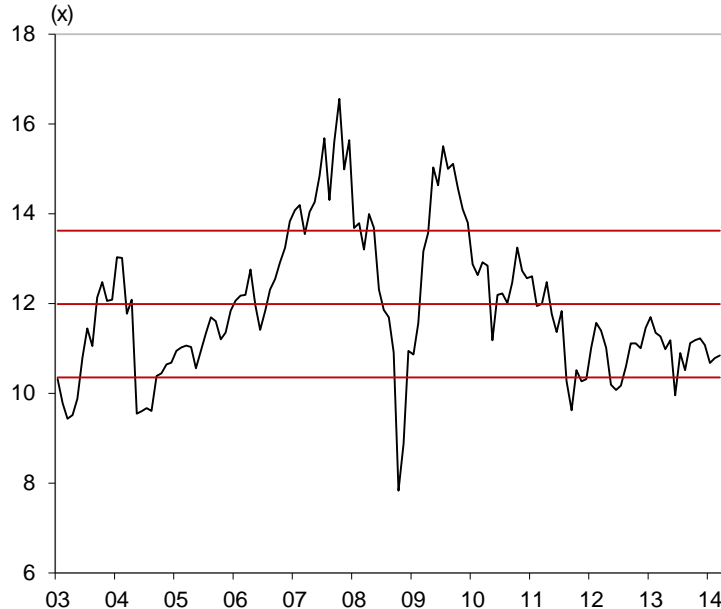


Asia Financial Conditions Index vs MXASJ



2014 Expected Asian Equity Returns: 16% (+/- 10% Swing Factor)

MSCI AXJ: 12-month forward PER trading below mean (x)

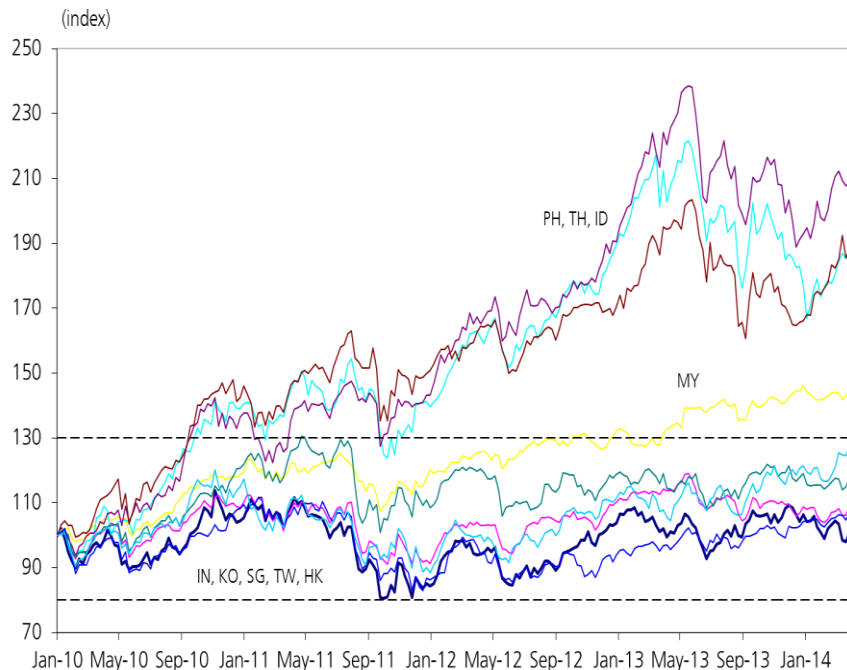


Source: Datastream, IBES, DBS

- **Target return**
 - Earnings growth about 13%
 - Dividend yield 2.6%
 - Potentially for valuation reversion to mean at about 10%
- **Volatility and risks**
 - Rising bond yields not necessarily negative
 - More aggressive US tapering could tamper liquidity flowing back into this region (negative for emerging ASEAN, positive for North Asia by default)
 - Short rates movement currently expected 2015 (Singapore / Hong Kong most sensitive)

Asia markets long run outlook favors ASEAN

Regional market indices, rebased




Source: Datastream, DBS

- **HK/China : Wildcard**
- **Philippines/Thailand / Indonesia: long term re-rating supported by favourable demographics**
 - No Asia crisis
 - Prudent policies
 - 2015 AEC mid term drivers
 - Balanced against valuations
- **Malaysia / Singapore: externally driven, domestic drivers**
- **North Asia: need a very strong external environment to perform**
- **India: Reform progress key**

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CURRENCIES 2014

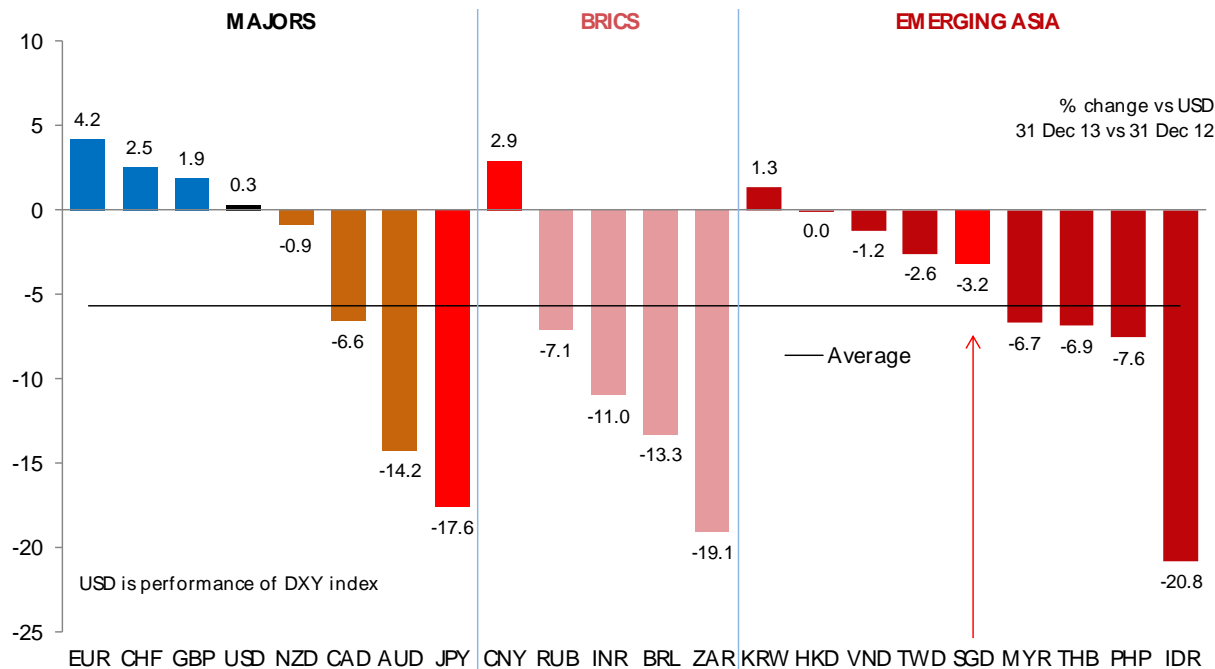
Not the Same Game

Philip Wee

Senior Economist, DBS Bank

2013 – Buy Developed, Sell Emerging Markets

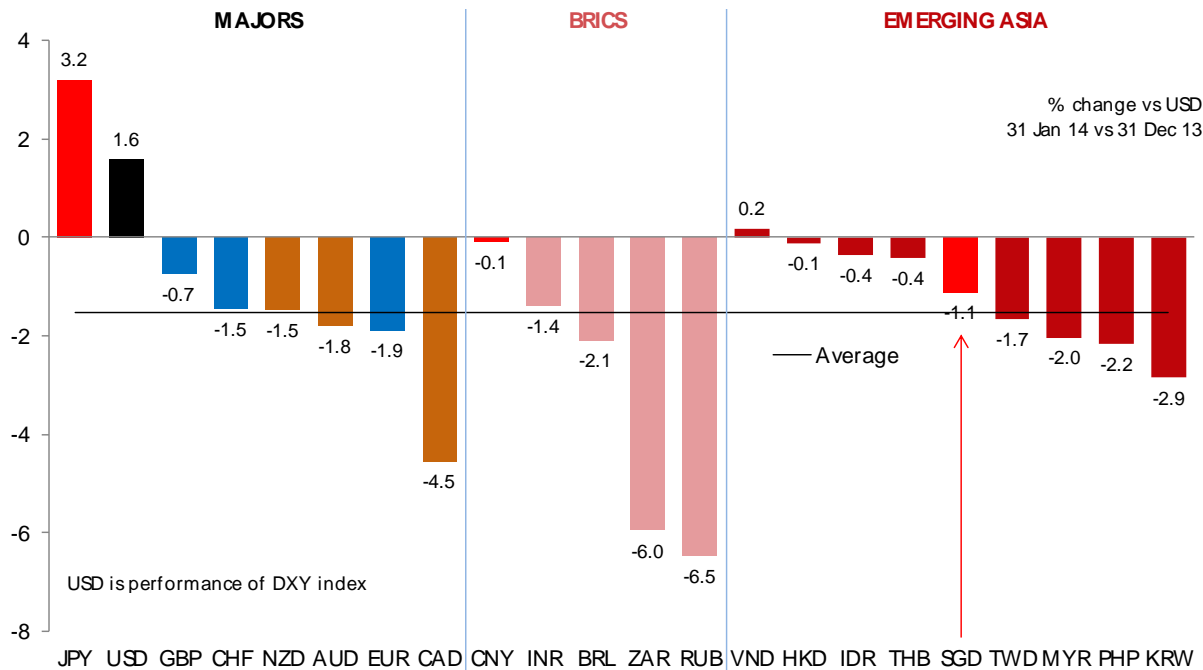
Fed Taper asset purchases + Abenomics Weak JPY



Sources: DBS Research, Reuters data

January 2014 – Very Bullish USD

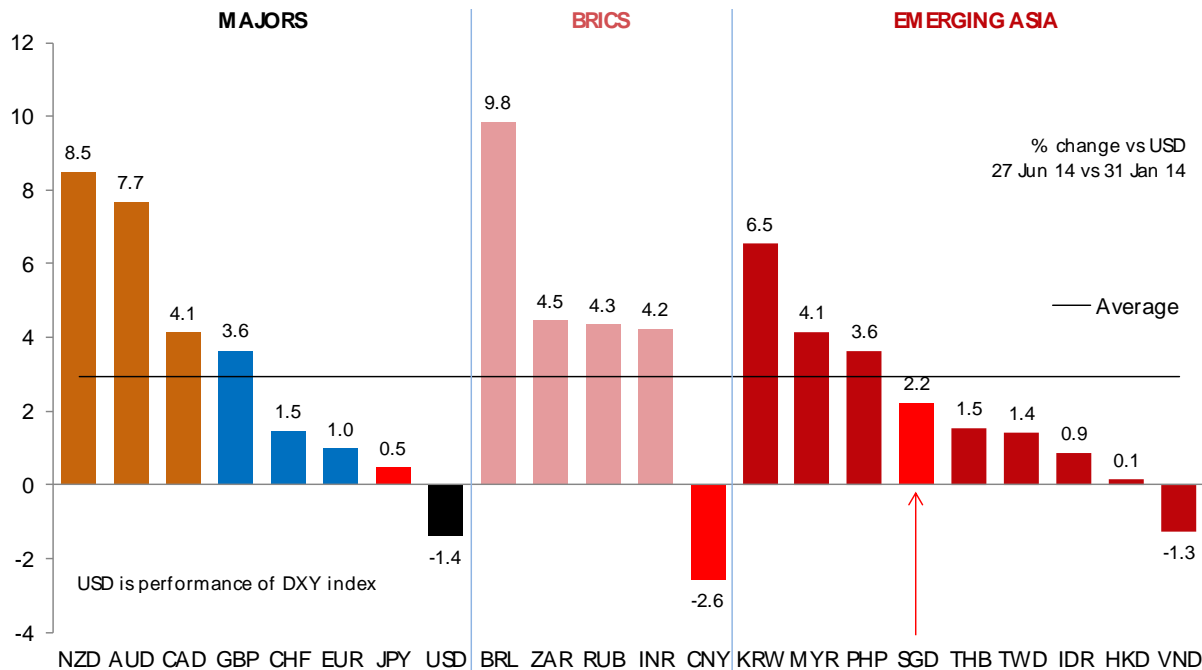
Fed Tapers ⇒ Fed Hikes ⇒ Strong USD



Sources: DBS Research, Reuters data

After Chinese New Year – USD disappoints

Rest of the World – Performed better than America

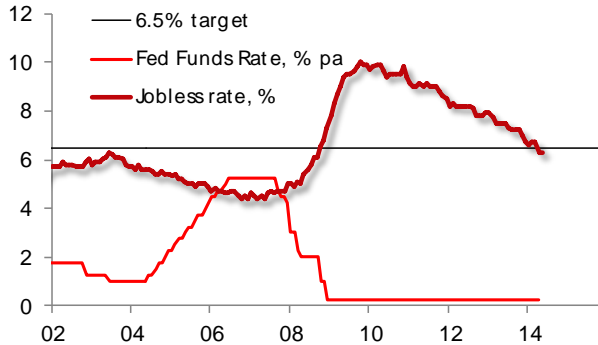


Sources: DBS Research, Reuters data

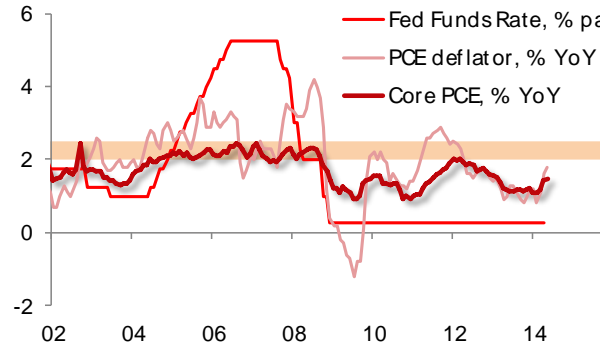
US rate hike guidance – a moving target



Fed abandoned unemployment target



Inflation target set at 2.0-2.5%



Sources: DBS Research, Bloomberg data



New York
Fed President
William Dudley

Markets say Fed will hike in mid-2015 I won't put too much weight on this

(24 Jun 14)

Fed can get unemployment rate considerably lower without an inflation problem

(24 Jun 14)



San Francisco
Fed President
John Williams

We are about 2 years off from being an economy with normal unemployment and inflation

(24 Jun 14)

See Fed Funds Rate at 2.00-2.50% by end-2016

(30 May 14)



Prof & President Emeritus
Harvard University
Lawrence Summers

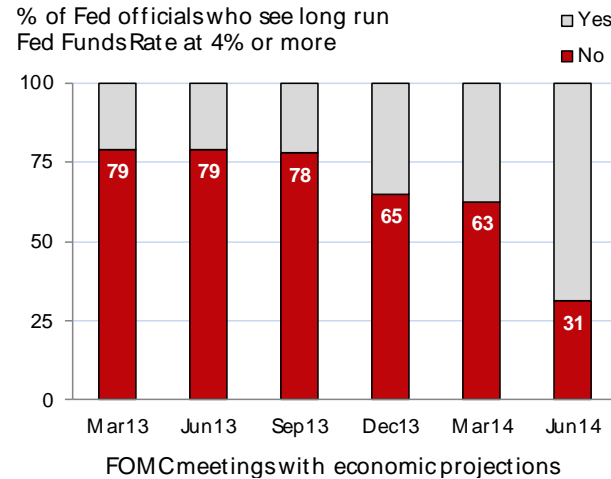
“There is increasing concern that we may be in an era of **secular stagnation**

in which there is **insufficient investment demand** to absorb all the financial savings done by households and corporations,

even with **interest rates so low as to risk financial bubbles.**”

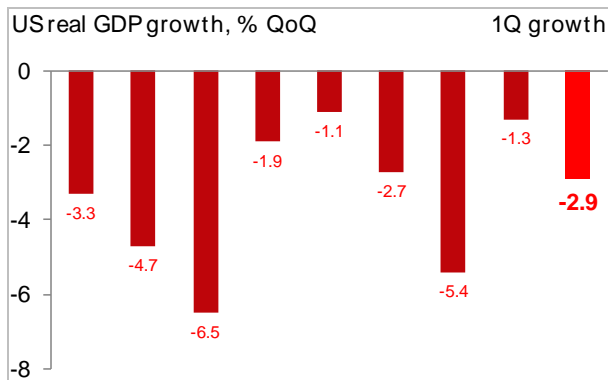
(Boston Globe, 11 Apr 2014)

**Fewer & fewer Fed officials
see Fed Funds Rate rising
to 4% or more after 2016**

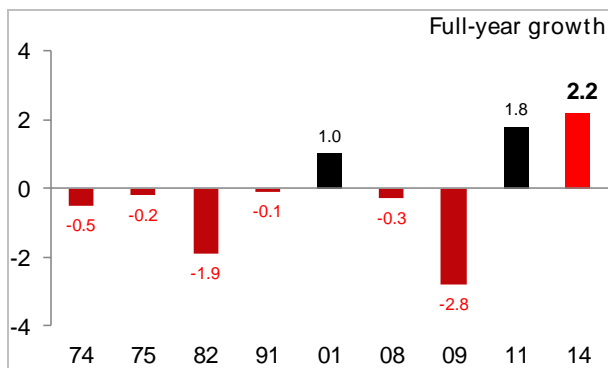


Sources: DBS Research, Federal Reserve

Still too high – Fed's 2014 growth projection



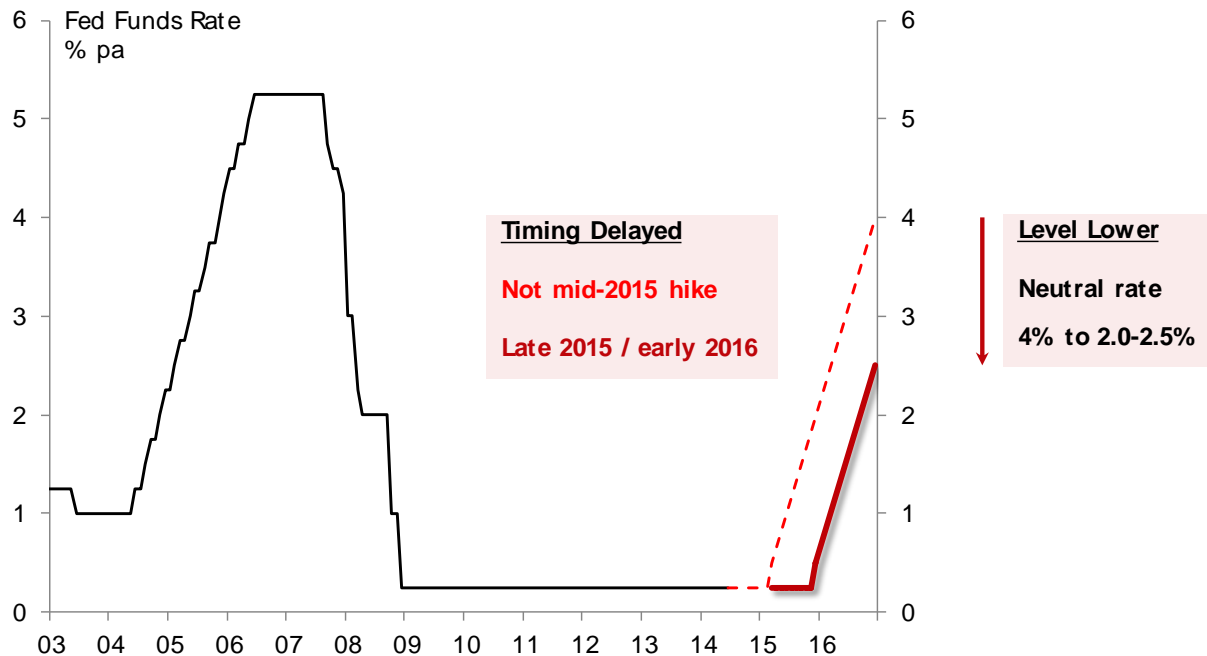
When US economy
disappoints in 1Q



full-year growth
tends to disappoint
as well

Sources: DBS Research, Bloomberg data

US rate hike view – what has changed?



Sources: DBS Research, Bloomberg data

Singapore dollar

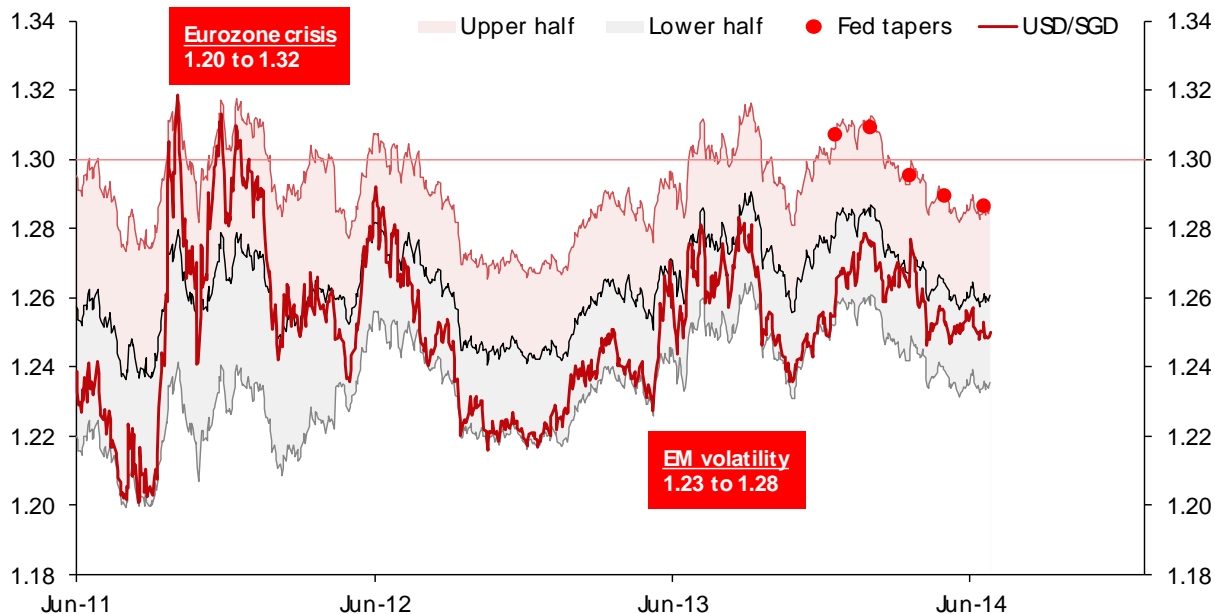
Stable, not weak

USD/SGD forecasts

	<u>27-Jun</u>	<u>3Q14</u>	<u>4Q14</u>	<u>1Q15</u>	<u>2Q15</u>
DBS	1.25	1.23	1.22	1.21	1.20
Consensus		1.26	1.27	1.26	1.27

USD/SGD and DBS trade-weighted policy band

Time stamp: 25 Jun 14 3:41 PM

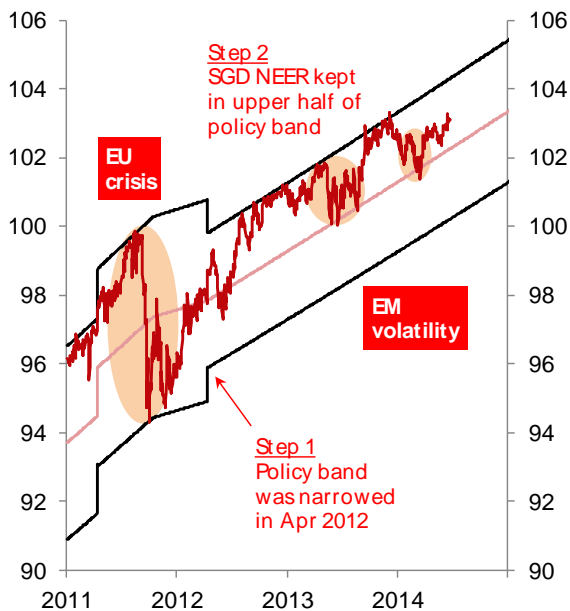


Sources: DBS Research, Bloomberg data

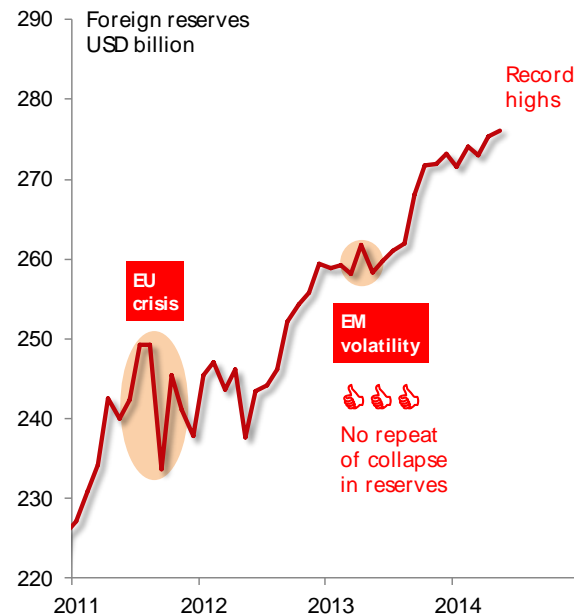
MAS managed SGD volatility well

Capital inflows, not outflows

DBS SGD NEER policy band

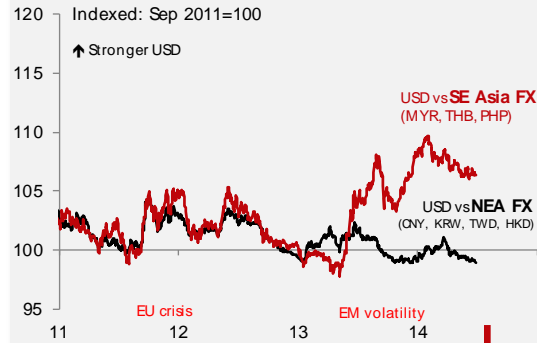


Record high foreign reserves

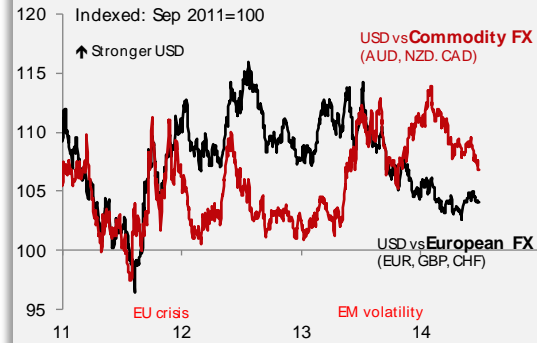


Sources: DBS Research, Bloomberg data

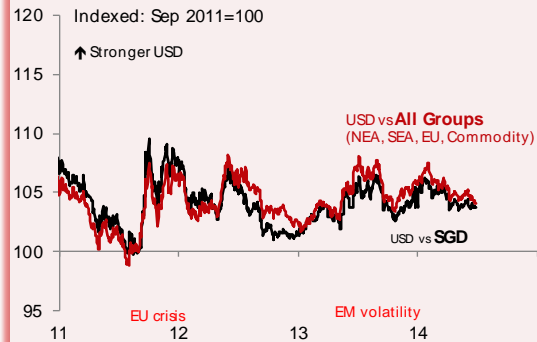
Northeast Asian vs Southeast Asian currencies



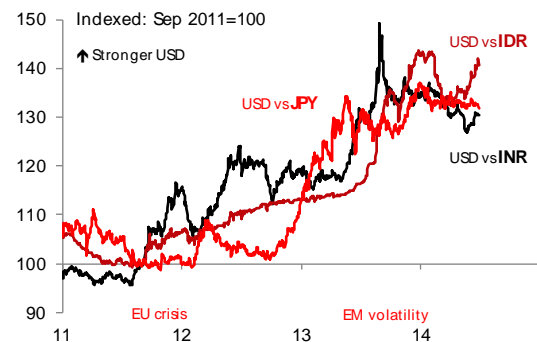
European vs Commodity currencies



SGD tracks the 4 currency baskets above



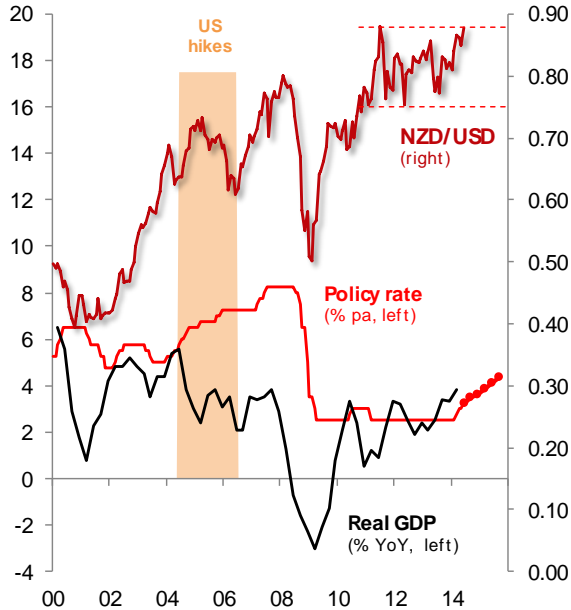
Extremely volatile Asian currencies



New Zealand dollar

First to hike – 3 times already

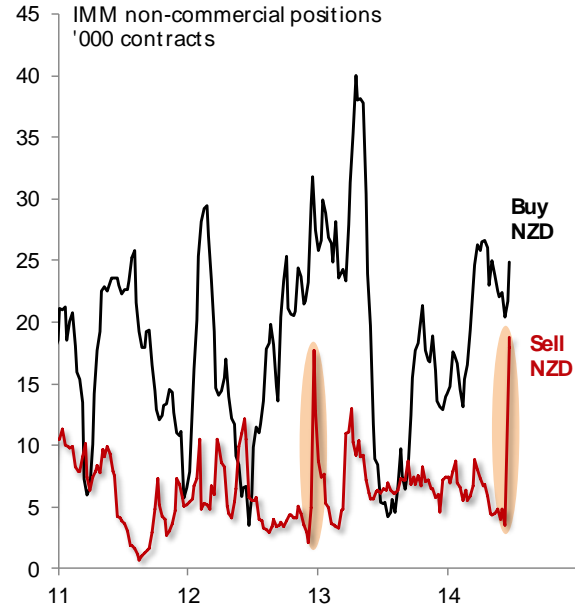
NZ rate hikes with recovery



NZD/USD forecasts

	<u>27-Jun</u>	<u>3Q14</u>	<u>4Q14</u>	<u>1Q15</u>	<u>2Q15</u>
DBS	0.878	0.86	0.87	0.87	0.88
Consensus		0.85	0.84	0.83	0.82

NZD – Buyers more convinced than Sellers



Sources: DBS Research, Bloomberg data

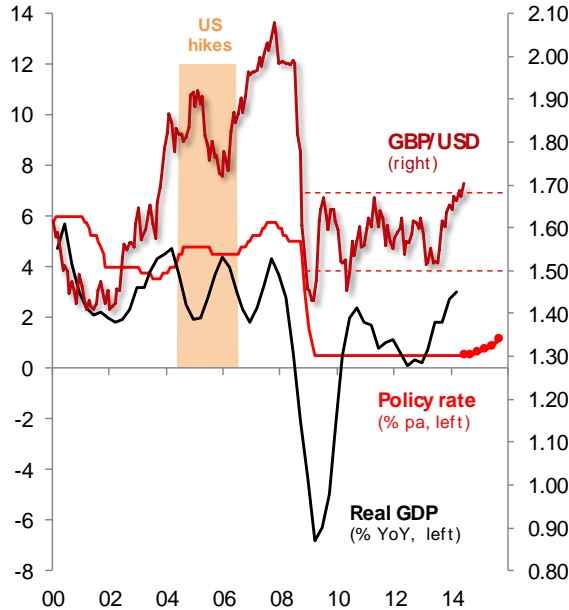
British pound

Next to hike by May 2015

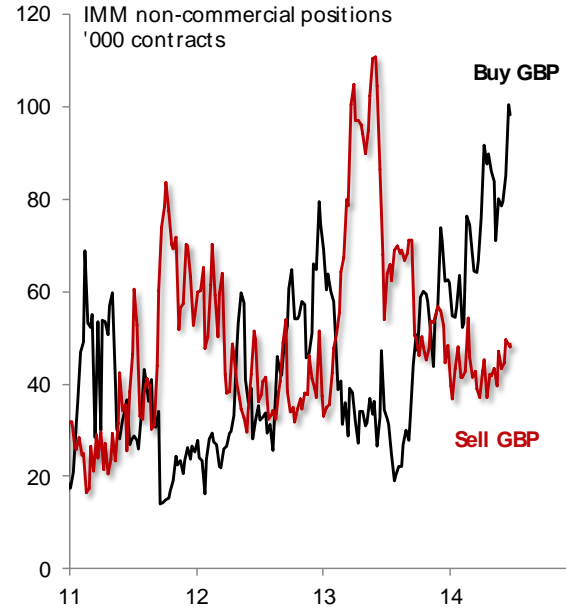
GBP/USD forecasts

	<u>27-Jun</u>	<u>3Q14</u>	<u>4Q14</u>	<u>1Q15</u>	<u>2Q15</u>
DBS	1.704	1.70	1.71	1.72	1.73
Consensus		1.68	1.67	1.67	1.66

UK recovery stronger-than-expected



GBP – Buyers committed, Sellers quit



Sources: DBS Research, Bloomberg data

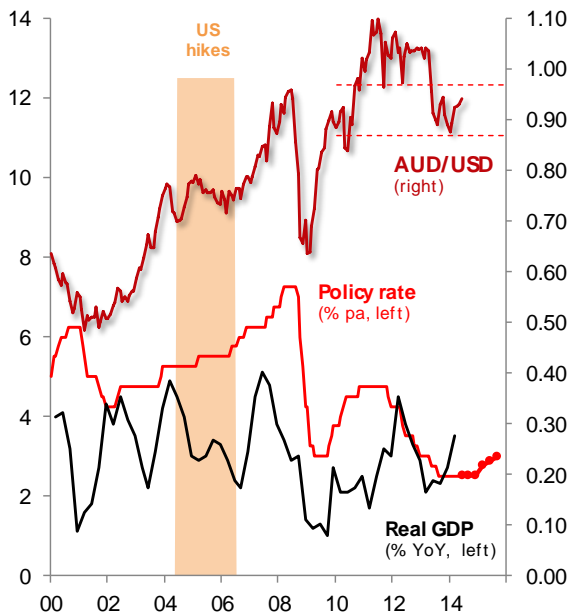
Australian dollar

“Not if, but when” RBA will hike

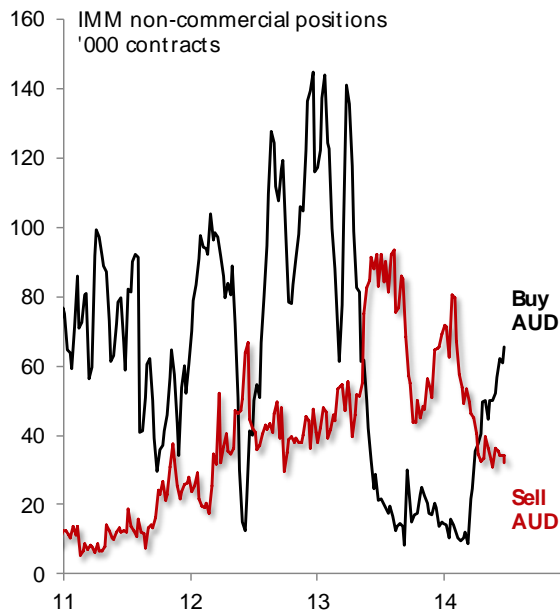
AUD/USD forecasts

	<u>27-Jun</u>	<u>3Q14</u>	<u>4Q14</u>	<u>1Q15</u>	<u>2Q15</u>
DBS	0.943	0.96	0.97	0.98	0.99
Consensus		0.92	0.91	0.90	0.88

Australia's growth recovery



AUD – Sellers quit, Buyers return

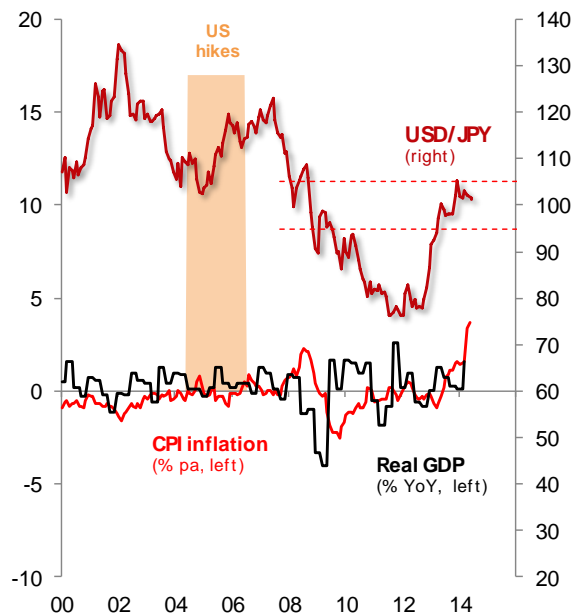


Sources: DBS Research, Bloomberg data

Japanese yen

QE2 – not a done deal

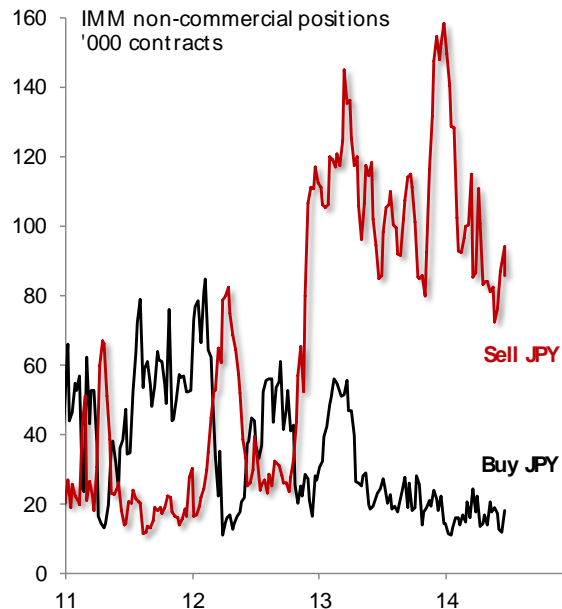
Japan – Growth & inflation up



USD/JPY forecasts

	<u>27-Jun</u>	<u>3Q14</u>	<u>4Q14</u>	<u>1Q15</u>	<u>2Q15</u>
DBS	101.42	102	103	104	105
Consensus		102	105	106	108

JPY – Sellers struggling to hold on



Sources: DBS Research, Bloomberg data

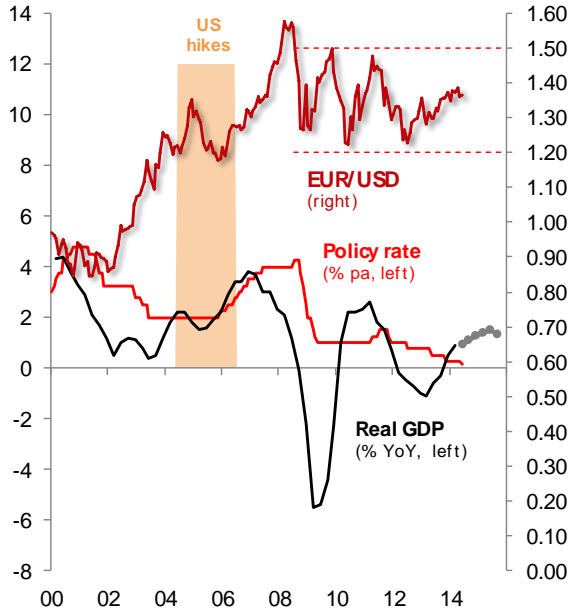
Euro

QE – no decision till mid-2015

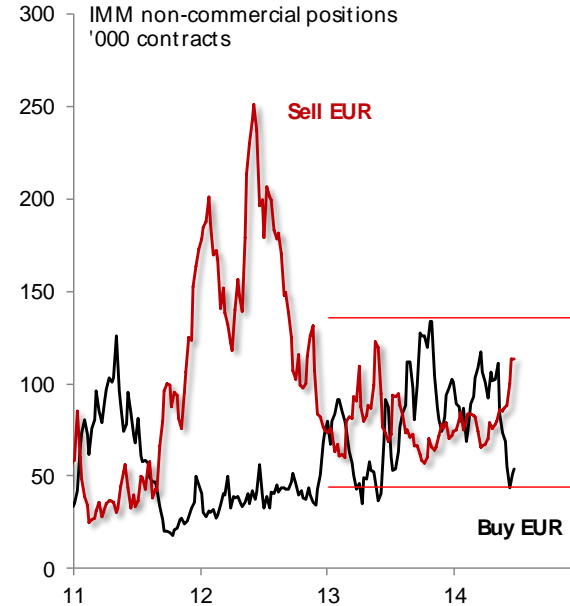
EUR/USD forecasts

	<u>27-Jun</u>	<u>3Q14</u>	<u>4Q14</u>	<u>1Q15</u>	<u>2Q15</u>
DBS	1.365	1.37	1.38	1.39	1.40
Consensus		1.36	1.34	1.31	1.30

Eurozone exited recession



EUR – Buyers & sellers lack conviction



Sources: DBS Research, Bloomberg data

2014 – From bullish to bearish USD

- US rate hike expectations tempered materially
- Recovery story strengthening in rest of the world
- Rate hike expectations strengthening in
 - NZD, GBP, AUD, MYR and PHP
- Speculators dumped the USDs they bought...
- ...and buying other currencies (for carry)
- USD/SGD in lower 1.20-1.25 range in 2H 2014

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