Deutsche Bank

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The Investigator

Logically "irrational" behavior

What changed, and can it continue? In the past few months, seven drivers have helped markets move north. We examine how many of these can continue upwards, or indeed reverse after exhausting climbs. First, and most importantly, the leadership at the ECB changed. The Fed announced swap lines for Europe, put in an inflation target and promised to ease until 2014, an extra year. The BoJ got into the competitive debasement game. Second, earnings revisions across the world were bottoming late last year. Third, the US economic surprises were so low, that they could only go higher. Fourth, Risk-Love was in the tank by early October. Fifth, positive seasonality from October was about to kick in. Sixth, there was a "bubblet" in the social networking space. Seventh, the US recession call, that some credible independent forecasters were looking for, just did not happen.

Can central banks get logically "irrational" The upside risk now is that central banks could have learned that in a debt deflation, continuous blood transfusions might be needed for longer than any inflationista can comprehend. What if central banks have figured out that any cessation of a blood transfusion/balance sheet expansion leads to sharp plunges in risk appetite that cuts off the self-feeding potential spiral of growth, and rising money and credit multipliers? And that not just a Bernanke put option (easing when sentiment is in panic) but a Bernanke call option is also called for (staying easy, even when sentiment is in euphoria) – a real inflation-creating commitment? If this quasi-crazy assumption is correct, then risk assets would be the target of central bank bubble creation, and the rally has legs.

Massive reversal in themes – value is back, momentum, stability, quality suffer For now, we think that the large anomalies that opened up on themes/styles in Q3 2011 have closed. We would stick to our longer-term bias to value stocks with some price/EPS momentum.

Asia ex-Japan Our concern about a globally contagious, broad yet shallow recession has been repudiated by the ECB's easing, coupled with the actions of other central banks. If there is no recession, Asian equities look undervalued, despite the recent run-up. Risk-Love is low, the EPS revisions cycle is turning up, EPS growth expectations are modest at 9.6%, the policy cycle is in easing mode, and the technicals are quite robust. Foreign inflows YTD have come in at USD23.4bn, and this exceeds the USD14.5bn outflow from all of last year. Client positioning is getting a bit more aggressive. Importantly, the best predictor of the EPS cycle – the terms of trade (export prices divided by import prices) have begun to curl up across the region. Analysts could well spend the rest of the year revising 2012 numbers UP. We have upgraded Indonesia on account of reasonable valuations compared to its own history, excellent earnings revisions, better ROE and EBIT margins within the region. YTD underperformance is getting a bit stretched. We add SJM Holdings (880 HK), PT United Tractors (UNTR IJ), PT Perusahaan Gas Negara (Persero) (PGAS IJ) and Dongbu Insurance (005830 KS) to the model portfolio, which is up 5.7% vs MSCI AXJ since September 2010.

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Absolute Return Drivers

	Liquidity	Valuation	Sentiment (Risk-Love)	Technicals	Growth	Current Account Balance	Real Exchange Rate	Policy	Total Score	Total Score (last month)
China	◘	✓✓	◘	✓✓	××	××	××	◘	-2	-2
Hong Kong	◘	◘	✓	✓✓	××	××		◘	-1	2
Indonesia	◘	◘	✓	◘	××		✓✓	◘	1	4
India	◘	◘	◘	✓✓	✓✓		✓✓	◘	6	1
Korea	◘	◘	◘	✓✓	××	××	◘	◘	-2	-5
Malaysia	◘	◘	◘	✓✓	××	××	××	◘	-4	-1
Philippines	◘	×	×	✓✓	✓✓	××	✓✓	✓✓	4	2
Singapore	◘	✓✓	◘	✓✓	✓✓	✓✓	◘	✓✓	10	1
Thailand	◘	◘	✓✓	✓✓	××		◘	✓✓	4	5
Taiwan	◘	◘	◘	✓✓	✓✓	××	✓✓	◘	4	-2
Asia ex-Japan	◘	✓	◘	✓✓	×	×	◘	◘	1	-2
Japan	◘	✓✓	◘	✓✓	××	××	◘	◘	0	-4

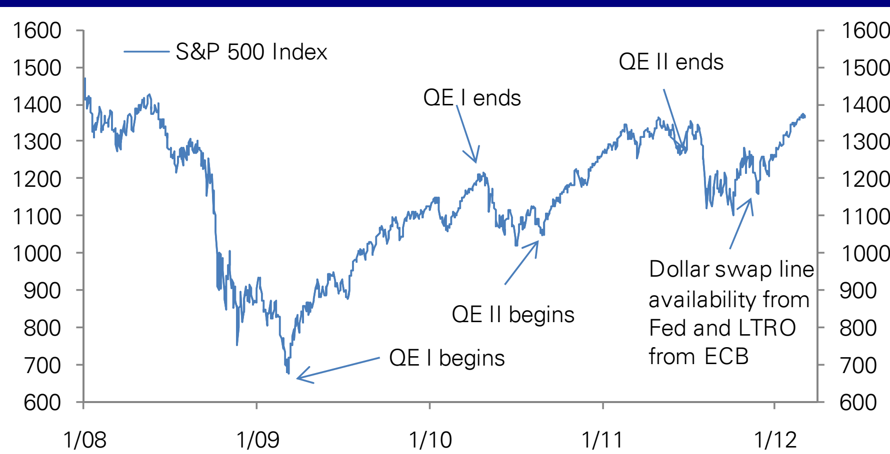
Logically "irrational" behavior

What changed, and can it continue?

In the past few months, seven drivers helped markets move north. We examine how many of these can continue upwards, or indeed reverse after exhausting climbs. First, and most importantly, the leadership at the ECB changed. The Fed announced swap lines for Europe, put in an inflation target and promised to ease until 2014, an extra year. The BoJ got into the competitive debasement game. Second, earnings revisions across the world were bottoming late last year. Third, the US economic surprises were so low, that they could only go higher. Fourth, Risk-Love was in the tank by early October. Fifth, positive seasonality from October was about to kick in. Sixth, there was a "bubblet" in the social networking space. Seventh, the US recession call, that some credible independent forecasters were looking for, just did not happen. In hindsight it is all so easy and clear (it certainly wasn't to us in real-time).

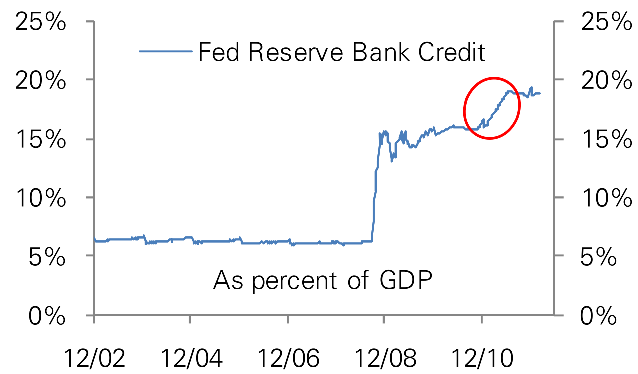
Let's start with the first point. We think the clear catalyst for this recent rally is quite well understood – it was central bank balance sheet expansion, primarily by the European central banks (see Figures 1 to 9). The experience of Japan in the past 20 years, and that in the US/Europe since 2008 clearly suggests that the ONLY periods when risk assets do well is when the central banks are engaged in blood transfusions. As soon as they stop, the patient falls into a coma, and another transfusion is administered. And so on. The upside risk now is that central banks could have learned that in a debt deflation, *continuous* blood transfusions might be needed for longer than any inflationista can comprehend. In other words, a democratic policy-setting framework, in an environment of attenuating demographics, high leverage, falling money multipliers, i.e. a regime change, might just be generals fighting the last war. We wrote about this constraint in our debate comparing the US and Japan. See The Investigator, *Is the US following Japan? A debate,* 17 October 2011. What if central banks have figured out that any cessation of a blood transfusions/balance sheet expansion leads to sharp plunges in risk appetite that cut off the self-feeding potential spiral of growth, rising money and credit multipliers, etc? And, that not just a Bernanke put option (easing when sentiment is in panic) but a Bernanke call option is also called for (staying easy, even when sentiment is in euphoria) – a real inflation-creating commitment? If this quasi-crazy assumption is correct, then risk assets would be the target of central bank bubble creation, and the rally has legs. Of course, a lot of smart policymakers would be shrieking in inflationary horror if this actually happened. But we should consider this alternative policy outcome.

Figure 1: Living in a QE world



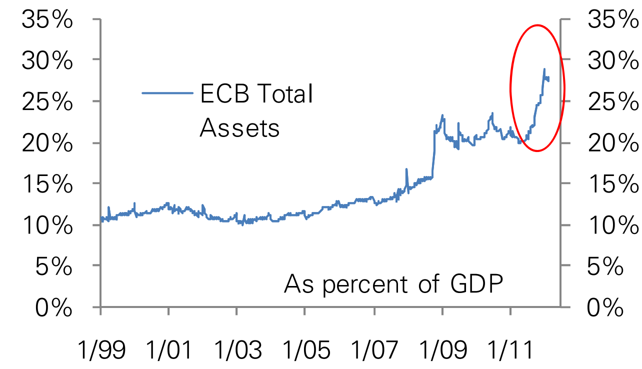
Source: Courtesy contraryinvestor.com

Figure 2: Fed balance sheet



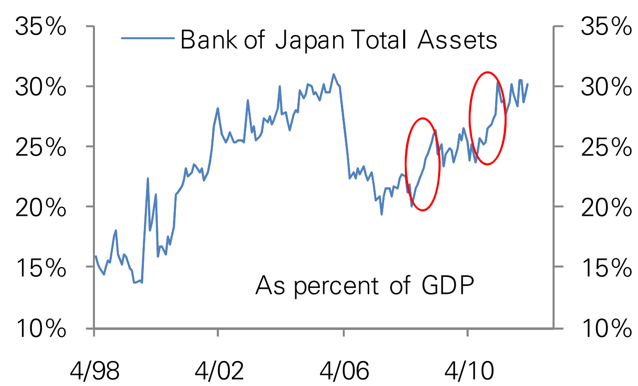
Source: Deutsche Bank, Federal Reserve Board, IMF

Figure 3: ECB balance sheet



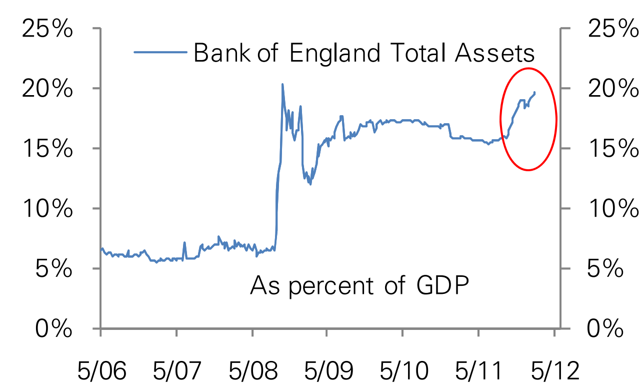
Source: Deutsche Bank, ECB, IMF

Figure 4: Bank of Japan balance sheet



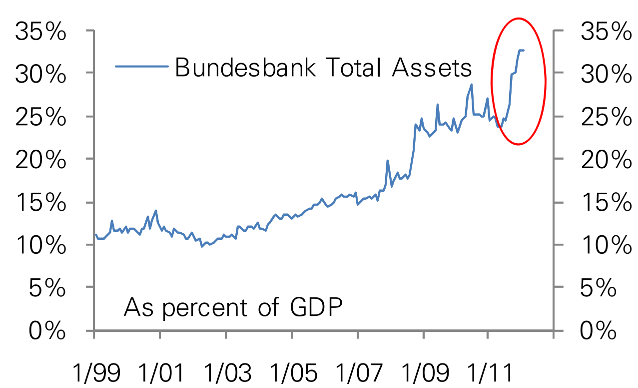
Source: Deutsche Bank, Bank of Japan, IMF

Figure 5: Bank of England balance sheet



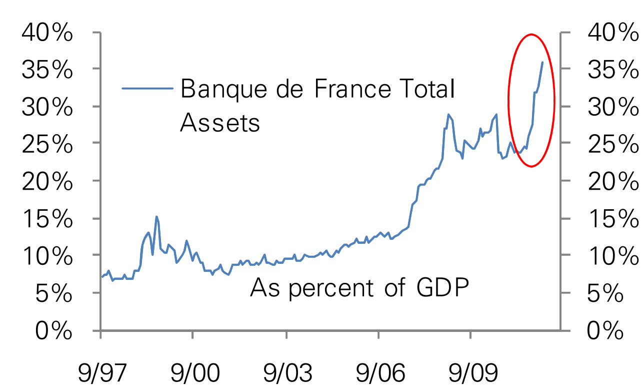
Source: Deutsche Bank, Bank of England, IMF

Figure 6: Bundesbank balance sheet



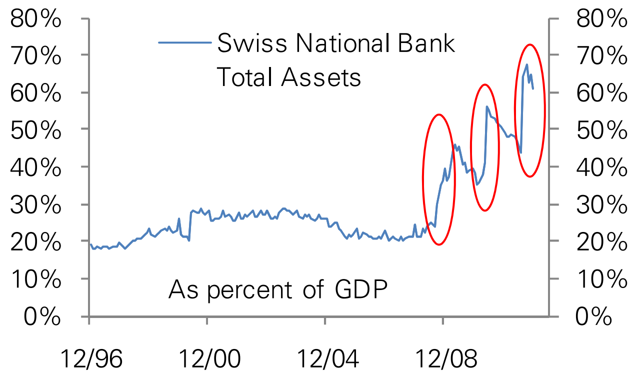
Source: Deutsche Bank, Bundesbank, IMF

Figure 7: Banque de France balance sheet



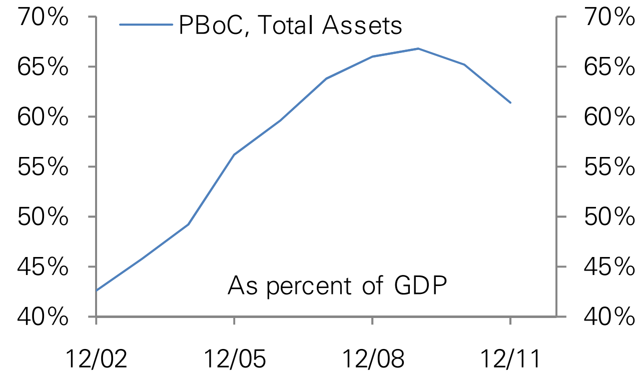
Source: Deutsche Bank, Banque de France, IMF

Figure 8: Swiss National Bank balance sheet



Source: Deutsche Bank, Swiss National Bank, IMF

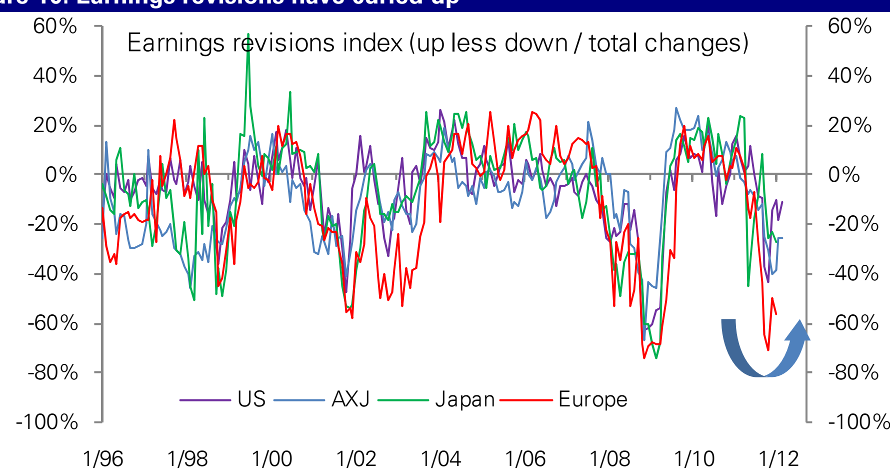
Figure 9: PBoC balance sheet



Source: Deutsche Bank, PBoC, IMF

Second, earnings revisions have curled up, and have a lot further to go if policy remains easy in developed markets and easier in emerging markets (see Figures 10 and 11).

Figure 10: Earnings revisions have curled up



Source: Deutsche Bank. Factset. Based on I/B/E/S universe.

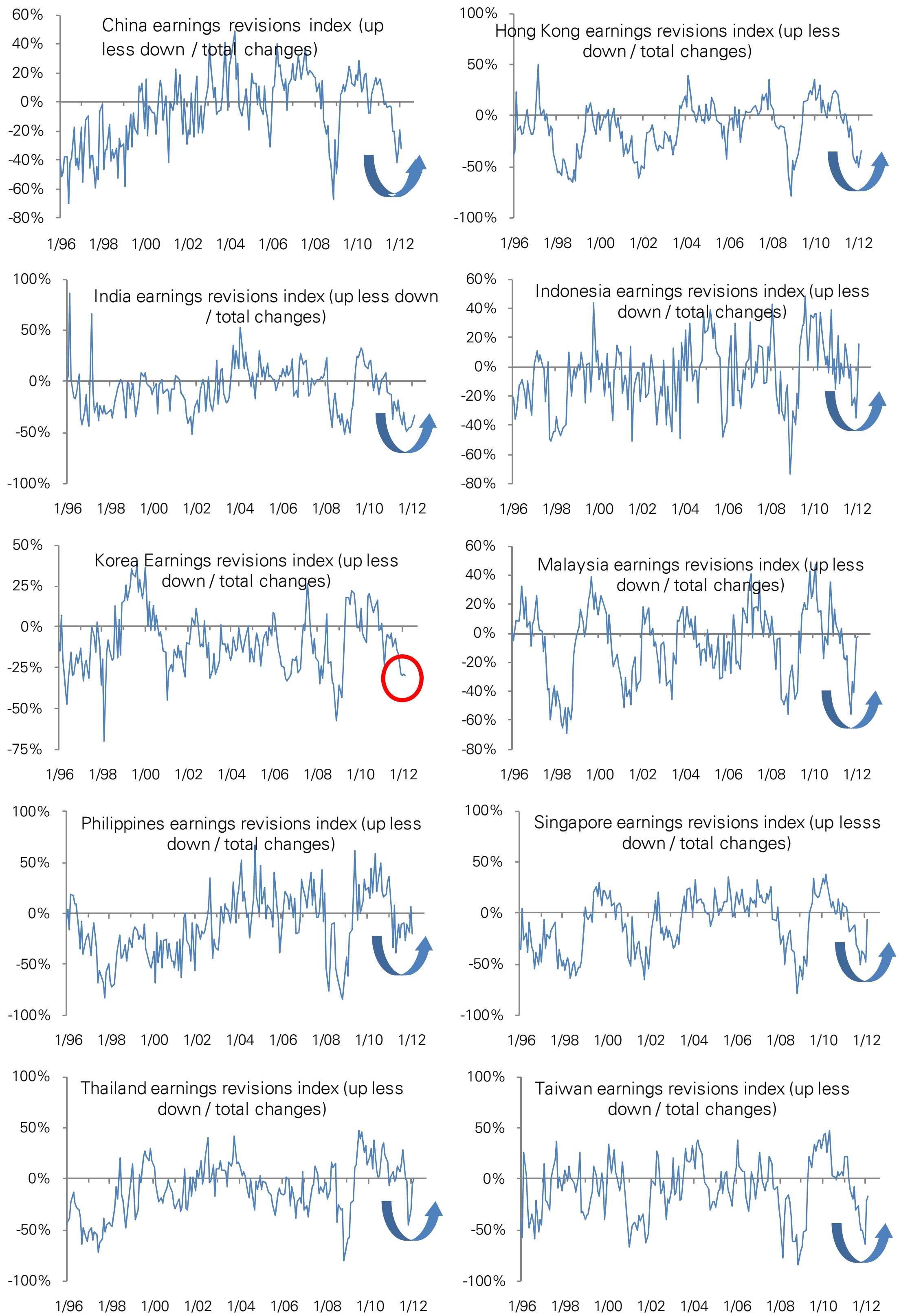
Third, and somewhat related, are economic surprises. As Figure 12 shows (the US and Asian lines for economic surprises), the US economic surprises went from very low to very high, and are now beginning to roll over. Meanwhile in Asia, the surprises have just started turning better. As an example, at the DB Access India conference in Mumbai, we were pleasantly surprised that most corporate and policymakers thought that the economy is bottoming about now.

Fourth, as we have been pointing out for a few weeks now, Risk-Love has gone from panic levels in October to euphoria. Again, this does not by itself imply a market correction, but does raise the vulnerability to any shocks (see Figures 13 and 14).

Fifth, the positive seasonality effect lasts from late October to April, so we should have a few more happy months left.

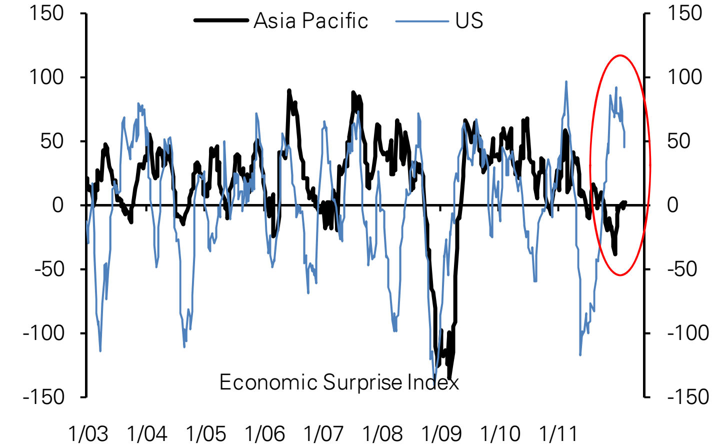
Sixth, on the social networking euphoria, we are agnostic as to how long it might continue, and, if so, how big it could get.

Figure 11: Except Korea, earnings revisions have curled up in all Asian countries



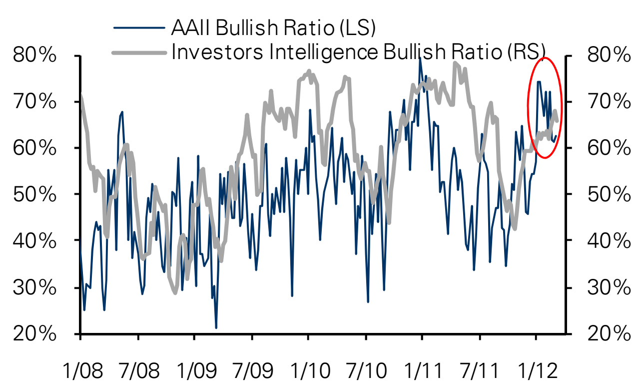
Source: Deutsche Bank, Factset. Based on I/B/E/S universe.

Figure 12: Economic surprise index for US and Asia – the gap is closing



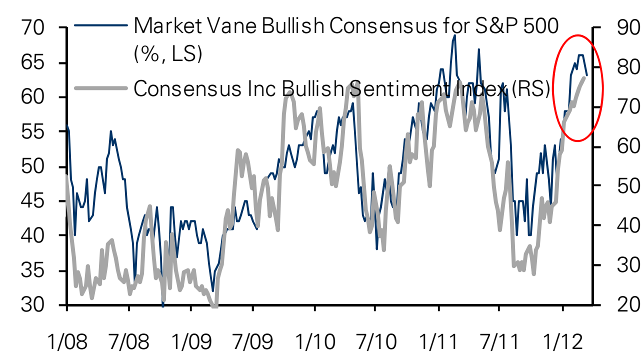
Source: Citigroup

Figure 13: Risk-Love in euphoria – I



Source: Deutsche Bank, Bloomberg Finance LP , American Association of Individual Investors, Investor Intelligence

Figure 14: Risk-Love in euphoria – II



Source: Deutsche Bank, Market Vane Corporation, Consensus Inc

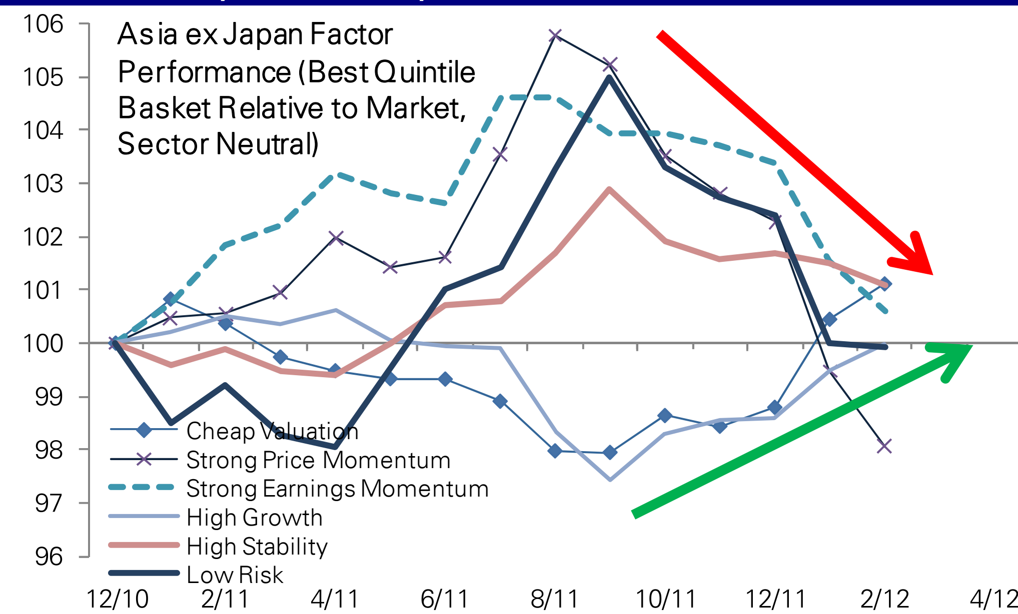
Seventh, on the US recession call, while some independent forecasters we follow are still sticking to their call, our own economists don't believe so, and a battery of other indicators we follow seem to be quite relaxed.

As a final observation, Figure 15 shows the massive reversal in themes from late last year to now. The January to September period last year was marked by the substantial outperformance of high quality, high stability and high price and earnings momentum stocks; while value got crushed, in just the past five months this performance has reversed entirely. Most investors with style mandates would find this terribly frustrating. Only the most nimble investors who could turn over their entire portfolio and do the opposite would have benefitted from this. For now, we think that the large anomalies that opened up on themes/styles have closed. We would stick to our longer-term bias to value stocks with some price/EPS momentum.

So where does this all leave us? Our models are bullish on liquidity, technicals and growth, but acknowledge that Risk-Love is too exuberant. This combination leads to satisfactory markets, but with high risks of drawdowns if any shock hits. So our advice is not to be too brave, to buy some cheap protection, or to implement replacement strategies by buying call options instead of straight cash exposure. The upside risk is some logically "irrational" behavior from central banks who ease symmetrically (i.e. in any state of the world). The downside risks are early liquidity withdrawal, a Mid-East flare-up, or an expectation of redistributive economic policies.

We are making some adjustments in our portfolio: We are adding SJM Holdings Ltd. (880 HK), PT United Tractors Tbk (UNTR IJ), PT Perusahaan Gas Negara (Persero) Tbk (PGAS IJ) and Dongbu Insurance Co., Ltd. (005830 KS. We have removed Amorepacific Corp. (090430 KS), Hong Leong Bank Bhd. (HLBK MK), Industrial Bank of Korea (024110 KS) and KT&G Corp. (033780 KS) as all of these have dropped to the lowest quintile in our multi-factor stock ranking model. With all these changes we are now overweight Indonesia and have increased our underweight bet size for Korea. On our bottom-up work, except valuation, Indonesia ranks highly on earnings revisions, profitability (ROE) and price technicals as compared to other countries within the region. Compared to its own history, Indonesia is now trading at its long-term average on our composite valuation index. Indonesia's JCI is lagging behind MSCI Asia by around 10% YTD. With Indonesia Risk-Love in slight panic, this should help regain its outperformance. Korea is the only major country within the region where earnings revisions are still falling along with leading economic indicators. However, Korean analysts have been revising up EPS growth estimates for 2012, quite different from the rest of the region. We think the 16% EPS growth expectation may be a bit stretched.

Figure 15: Massive reversal in style from late last year to now



Source: Deutsche Bank, Factset. Based on a universe of around 1000 largest stocks in Asia ex-Japan.

Summary

Global

Global equities trade at a 2012E PE of 12.2x, and a 2012E PB of 1.6x. Projected ROE this year for the MSCI ACWI is 13%, with short rates at around zero percent. These excess returns on capital are mispriced, unless we are in for years of debt deflation in the developed markets, burdened by falling working age population ratios, high leverage and still expensive property prices. Comparing equity market free cash flow yields to cash or corporate bond yields also suggests equities are relatively undervalued. There is a broad-based improvement in leading earnings growth indicators – cyclical assets are rallying, and MOMLI – the mother of all leading indicators – has hooked up nicely. Yet, global EPS growth forecasts for the year have been revised down from about 15% last August to just 10% now. These projections are quite conservative, given the improvement in leading growth indicators. European balance sheet expansion in the past few months has been impressive (mainly at the SNB, the Banque de France, and the Bundesbank). Central bankers are properly worried about debt deflation and are taking pre-emptive heterodox easing steps. The risks mount when they get complacent. The most bullish "risk-on" case is if the reaction of the world's central banks is to stay easy, even as sentiment and growth become elevated, rather than panicking into easing only when the system is on the edge. In other words, buy Bernanke's put AND call options. Now that would establish debt deflation-fighting credibility.

Asia ex-Japan

Asian equities remain well below fair value. Our concern about a globally contagious, broad yet shallow recession has been repudiated by the ECB's ease, coupled with the actions of other central banks. If there is no recession, Asian equities look undervalued, despite the recent run-up. Risk-Love is low, the EPS revisions cycle is turning up, EPS growth expectations are modest at 9.6%, the policy cycle is in easing mode, and the technicals are quite robust. Investor sentiment is recovering gingerly. Foreign inflows YTD have come in at USD21bn, and this exceeds the USD14.5bn outflow from all of last year. Client positioning is getting a bit more aggressive. The Tape was washed out in October 2011 – it has since recovered nicely in all countries, most recently in China. All markets we cover are trading above their 200-day moving averages. The composite leading economic indicator is bottoming, economic surprises have been improving, and 2012 EPS growth forecasts have been sliced from 15% last July to 9.6% now. Importantly, the best predictor of the EPS cycle – the terms of trade (export prices divided by import prices) have begun to curl up across the region. Analysts could well spend the rest of the year revising 2012 numbers UP. Fund flows have recovered nicely YTD. It is likely that free liquidity – the gap between narrow money growth and economic activity – is likely bottoming out. So far, this year has been all about the remarkable recovery of value investing, and the sharp reversal of momentum investing. Also, safety and low risk have been pedestrian this year, after last year's stellar performance.

Japan

Japanese equities are quite undervalued. Japanese sectors continue to dominate the world's cheapest quartile of sectors. Trading at a PB of 1, an ROE of 8% and a JGB yield of around 1%, the gap between ROEs and debt costs is a high 7%, larger than that in ex-Japan Asia, which trades at 1.8 PB. At 13.5x 2012E earnings, the PE is slightly higher than the global PE multiple of 12.2x. Sentiment in Japan is still subdued, despite the recent market rally and BoJ inflation targeting monetary ease. The technicals have gone from really bad last October to quite resilient now. The question we are asking is – are technicals contrary indicators or confirming indicators in an environment of frequent recession? Perhaps the latter in Japan? Japanese policy indicators are at expansionary settings, especially given the recent weakness in the Yen, and monetary easing by the BoJ. The sales tax, if it happens, is still a long way off in 2014. IPOs are moribund. The correlation between the long bond yield and the Nikkei-225 is intact. As MOMLI (the mother of leading indicators) curls up decisively, the expectation of stronger nominal global economic growth has revived the Japanese equity market. Value remains a long-term winner.

China

Valuations still remain fair value. While the downtrend in EBIT margins suggests that future valuation peaks will be lower than previous ones, even getting back to fair value leaves enough upside potential. Our concerns about a leverage and asset turnover-led business model remains. In the end, markets don't pay up for this model. Ask Taiwan. Sentiment still remains moribund, despite the recent rally. From these levels of pessimism, the one-year forward returns have been very positive. Last month, we thought that technicals were so bad, they could only get better. That seems to be coming true now. We are comforted that the three market indicators we watch – the SZSMEC (Shenzen small/mid-cap index), the SHPROP (property stocks) and the Liv-ex Fine Wine 100 index – have begun to break out on the upside. The high frequency indicators like the PMIs seem to be improving, including the export components. EPS growth forecasts for 2012 have taken an unreal tumble for the worse, dropping to just 10% from 16-17% in July last year. This low hurdle is an easy one to jump over. The credit multiplier – the ratio of loans to broad money – expressed in year-on-year terms is the best leading indicator of the equity market that we know. After being in free-fall for over a year, it is now decisively curling up. The appreciation of the currency in inflation-adjusted terms has so far not impeded the export orders component of the PMI. More aggressive RRR cuts are required to counter the bleeding of the deposit base, otherwise growth could be at risk. See Tracy Yu's *Improvement in fundamentals below expectations; implies more easing*, 29 February 2012, stability and quality – have all taken a beating so far. Last year's loser – value – has come back roaring. We expect this to continue.

Hong Kong

The recent rally has taken Hong Kong equities just shy of fair value, from deep undervaluation in October. The good news is that Hong Kong's EBIT margins are moving closer to previous highs and ROEs remain very robust. Sentiment has perked up in the SAR, thanks to possible easing in China, but more importantly the Draghi put option is bring purchased with glee. Like elsewhere, Hong Kong market technicals have improved sharply, with new lows vanishing. EPS growth rate projections for 2012 have plunged to -10%. We think the EPS revisions cycle and the economic cycle are all close to a bottom. Projected easing of monetary policy in China is likely to leak out in part to Hong Kong. The Draghi put option benefits financial centres like Hong Kong disproportionately. The pull-back in newer/smaller players in the financial sector in town seems like a good contrary indicator of better times to come. It is when they build out that we get worried. Value is back, momentum a dog.

India

The market's substantial rally has taken it from moderately undervalued to fair value. The market trades at a PE of 15x 2012E earnings, and a PB of 2.2x. The ROE numbers are 15% for this year compared with 13.6% for the region as a whole. With much higher interest rates, we don't see why India needs to trade at 50% PB premium to the region. Sentiment has improved somewhat with the huge rally in the market. Both the EPS revisions index and the OECD leading indicator are curling up. The EPS growth projection has held steady at around 17% for 2012, probably about right. Indian analysts did the capitulation thing last year when they slashed 2011 EPS forecasts from 22% to 7% over the course of 2011. We don't think this year is going to be anything close. Some policy easing is probably also going to support EPS forecasts by the second half. The yield curve is so flat/inverted it can only get more bullish from here for growth. As inflation falls, free liquidity is improving. As elsewhere, value is dominant this year, while momentum, quality and stability have all taken a beating.

Indonesia

The market is at fair value. The ROE is an excellent 23%, and the gap between ROs and interest rates a massive 15%; for this paying 3x PB is reasonable. The question is about EBIT margin sustainability. EPS growth projections for 2012 have dropped a tad to 14% from close to 20% a few months ago. These are achievable estimates, since an easing cycle has begun, the EPS revisions index is spiking up and the policy indicator has moved into expansionary territory. Free liquidity is abundant. Value just keeps working here.

Korea

The market is at fair value compared with history, trading at 1.5x PB, and 9.5x 2012E earnings. The market's 20% PE discount to the region, we think is unwarranted. ROEs almost match the region, while the brand power of Korean firms should translate into more sustained EBIT margins. The re-rating process is likely to continue as investors fully discount Korean brand power. Leading economic indicators and the EPS revisions index are still falling, but Korean analysts have been revising EPS growth estimates for 2012 UP, quite different from the rest of the region. We think the 16% EPS growth expectation is a bit punchy. The yield curve is flat, in line with the LEIs and EPS revisions index, suggesting possible downside risk to EPS growth projections. Momentum has taken a rather severe flogging YTD, after a stellar first half in 2011.

Malaysia

The market is slightly below fair value compared with history, trading at 14.5x 2012E earnings and at 1.9x PB. Technicals went from being very oversold in October to a lot more robust now. There are no new lows, and a lot more new highs. The EPS revisions index has spiked up sharply, EPS growth projections are robust at 14%, and our composite policy indicator is in easy territory.

Philippines

The market is moderately above fair value. The re-rating versus the region has been impressive – the market trades at a 50% PB premium to the region. But then the EBIT margins are 20%-plus, twice the Asian average. Previous under-investment suggests that these EBIT margins are quite sustainable. New highs have exploded to elevated levels. New lows are scarce. This is a strong Tape. Export growth numbers are so bad, that they can only get better. The leading economic indicators have begun to curl up from neutral levels, and the EPS revisions index is rising. We think 11% EPS growth forecasts for 2102 are do-able.

Singapore

The market is moderately undervalued at 1.4x PB. Singapore's EBIT margins peaked out in 1997, and ROEs have also been experiencing lower highs. Still, the market is re-rating versus the region since the global financial crisis, in large part for a stable, low-risk macro environment. It has little to do with corporate fundamentals. Technicals have improved, in line with the rest of the region. The EPS revisions index has spiked up, signalling that the growth trough is here. Still, conservative Singapore analysts have taken a hatchet to their 2012 EPS growth forecasts, which have declined from 12% last summer to only 5% now. These numbers are highly likely to be revised upwards. We highlight that the terms of trade – the ratio of export to import prices – and a good leading indicator of the equity markets has started to curl up.

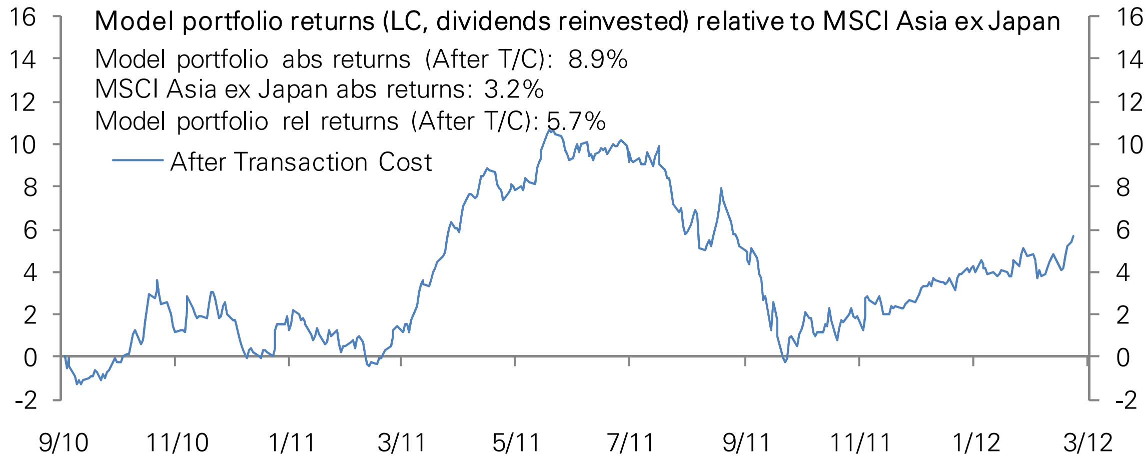
Thailand

The market is at fair value compared with history, trading at 2.1x PB, and 11.5x 2012E earnings. The market is trading at close to record PB relative versus the region. Is the re-rating complete? Of course, Thai ROEs are almost 30% higher than those in the region, so a 30% PB premium is justifiable. Our concern is that the ROE is asset turn-driven, not margin-driven. The EPS revisions index and the LEI are both spiking up. In our view, the 2012 EPS growth forecast of 22% is a bit punchy. The terms of trade – an excellent leading indicator of the market – is still falling and has diverged from recent market performance. The yield curve has gone from completely flat to a bit positive, in line with rising EPS revisions and LEIs.

Taiwan

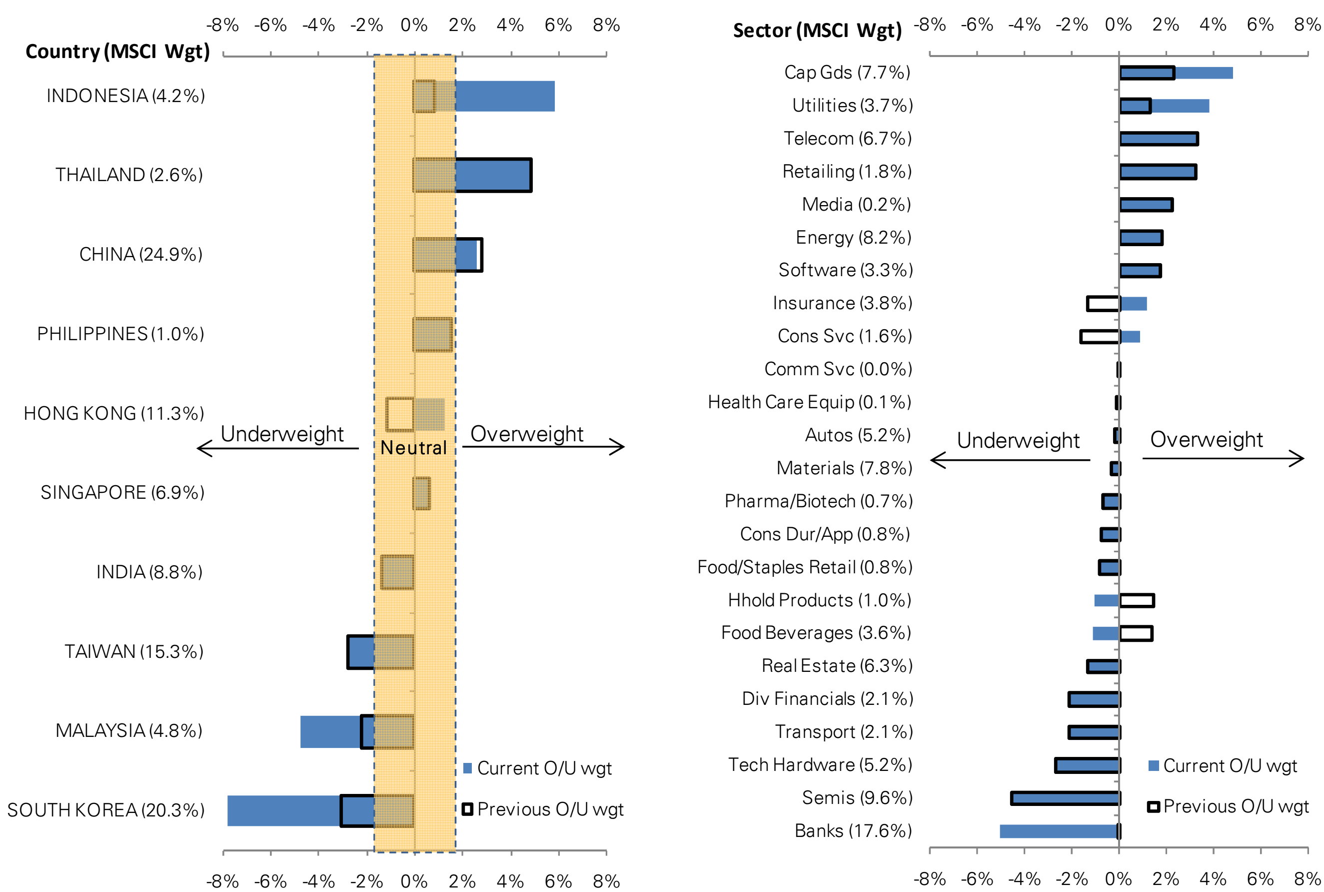
The market is at fair value. The re-rating versus the region since 2008 is intact, largely due to a stable macro story, and also better relations with the mainland. Margins remain in secular decline. This story of a re-rating with falling margins resembles the one in Singapore. Taiwan has moved from a washed out Tape in October 2011 to a pretty robust one now. There are few new highs, but the new lows have vanished. Growth LEIs are curling up, and the EPS revisions index is spiking up. The terms of trade – a good leading indicator of profit margins and the equity market – seems to be moving up but has taken a dip recently as oil prices have risen.

Figure 16: Model portfolio performance since inception (13 September 2010)



Source: Deutsche Bank, MSCI, FactSet
*Note: Performance is measured in local currency. Stock changes are effective as of close one day after they are officially published (i.e. Changes published on 4th May 2011 will be effective as of close 5th May 2011). *New additions. Assume 50bps on both buying and selling as proxy for transaction cost. Prices as of close 6 March, 2012.*

Figure 17: Model portfolio country and sector overweights/underweights



Source: Deutsche Bank, MSCI.
Note: Numbers in parenthesis are sector and country weights in MSCI AC Asia ex Japan index. The model portfolio is equal weighted, each stock has weighting of 2.5%. Data as of close 6 March 2012.

Figure 18: Asia model portfolio

Company	BB Ticker	Mkt	DB Rec	Date Added	Close 6Mar12	Hldg Per Rtn (%)	Mcap (U$bn)	20D ADT (U$ m)	FY 12 PE (DB est)	Valuation	Profitability	Price Mo	Earnings Mo	Stability	Risk	Growth	Earnings Quality	Cons Rec
Energy - MSCI wgt: 8.2%, portfolio wgt: 10.0%																		
CNOOC Ltd	883 HK	CN	B	11Dec10	16.96	-3.4	99.0	131.5	7.9	+	++	+	o	o	++	o	o	o
ONGC	ONGC IN	IN	B	14Sep10	281.60	-15.0	48.9	34.0	8.2	++	+	+	o	++	++	-	o	+
Oil India	OINL IN	IN	B	30Sep11	1263.20	-3.5	6.1	3.4	NA	++	o	+	o	++	++	-	o	o
PTT	PTT TB	TH	H	14Sep10	353.00	31.7	33.3	66.5	NA	++	o	o	o	+	o	o	o	++
Materials - MSCI wgt: 7.8%, portfolio wgt: 7.5%																		
Formosa Chems & Fibre	1326 TT	TW	B	14Sep10	92.50	33.7	17.7	21.1	10.5	+	++	++	- -	o	+	o	++	++
Indocement	INTP IJ	ID	B	14Sep10	17650	-2.6	7.0	6.2	15.8	-	++	++	++	++	++	o	++	o
LG Chem	051910 KS	KR	B	14Sep10	382000	13.9	22.3	114.0	NA	-	++	++	++	o	o	o	+	+
Capital Goods - MSCI wgt: 7.7%, portfolio wgt: 12.5%																		
China Comms Construct	1800 HK	CN	B	5May11	7.53	10.9	14.7	23.4	6.4	o	o	++	++	o	o	o	o	-
PT United Tractors Tbk*	UNTR IJ	ID	B	8Mar12	29600	NA	12.1	12.7	15.7	o	++	++	++	o	++	o	o	++
Sembcorp Industries	SCI SP	SG	B	14Sep10	5.06	17.0	7.3	12.7	10.4	o	++	++	++	o	+	o	o	++
Sembcorp Marine	SMM SP	SG	B	11Dec10	5.06	5.9	8.6	26.2	12.7	-	++	o	++	o	++	- -	o	++
Yangzijiang Shipbldg	YZJ SP	CN	H	14Sep10	1.25	-22.5	3.9	30.1	6.1	++	++	++	++	o	++	o	o	- -
Commercial Services & Supplies - MSCI wgt: 0.0%, portfolio wgt: 0.0%																		
Transportation - MSCI wgt: 2.1%, portfolio wgt: 0.0%																		
Automobiles & Components - MSCI wgt: 5.2%, portfolio wgt: 5.0%																		
Hyundai Mobis	012330 KS	KR	B	14Sep10	286000	18.5	24.8	138.8	8.6	-	++	- -	++	- -	o	o	+	- -
Hyundai Motor	005380 KS	KR	B	30Aug11	216500	11.1	43.2	148.0	5.9	o	++	o	++	o	o	- -	+	- -
Consumer Durables & Apparel - MSCI wgt: 0.8%, portfolio wgt: 0.0%																		
Consumer Services - MSCI wgt: 1.6%, portfolio wgt: 2.5%																		
SJM Holdings Ltd.*	880 HK	HK	B	8Mar12	15.36	NA	11.0	30.4	12.1	++	++	++	-	- -	++	++	o	
Media - MSCI wgt: 0.2%, portfolio wgt: 2.5%																		
BEC World PLC	BEC TB	TH	B	11Nov11	48.50	30.2	3.1	3.1	20.1	-	++	o	o	o	++	o	o	o
Retailing - MSCI wgt: 1.8%, portfolio wgt: 5.0%																		
Belle Int'l Holding	1880 HK	CN	B	5May11	12.98	-12.4	14.3	40.5	15.4	-	++	-	- -	o	++	o		o
Giordano	709 HK	HK	H	14Sep10	6.39	52.1	1.2	2.8	11.0	+	++	++	++	o	++	o		+
Food & Staples Retailing - MSCI wgt: 0.8%, portfolio wgt: 0.0%																		
PT Charoen Pokphand	CPIN IJ	ID	B	11Nov11	2575.00	0.0	4.7	4.2	14.3	-	-	o	++		o	++		++
Household & Personal Products - MSCI wgt: 1.0%, portfolio wgt: 0.0%																		
Health Care Equipment & Services - MSCI wgt: 0.1%, portfolio wgt: 0.0%																		
Pharmaceuticals & Biotechnology - MSCI wgt: 0.7%, portfolio wgt: 0.0%																		
Banks - MSCI wgt: 17.6%, portfolio wgt: 12.5%																		
Bank of China	3988 HK	CN	B	14Sep10	3.23	-13.2	129.6	122.9	6.6	++	+		+	o	o	o	o	o
BOC Hong Kong	2388 HK	HK	B	5May11	21.20	-7.2	29.5	34.8	12.8	++	+		-	o	o	o	o	+
China Construction Bank	939 HK	CN	B	14Sep10	6.23	-1.1	203.0	210.4	8.4	o	++		+	o	o	o	o	++
ICBC	1398 HK	CN	B	5May11	5.26	-14.6	240.8	204.5	8.0	++	++		o	o	o	o	o	++
Krung Thai Bank	KTB TB	TH	H	11Dec10	17.20	6.7	6.3	31.8	9.3	o	-		++	o	- -	o	o	++
Diversified Financials - MSCI wgt: 2.1%, portfolio wgt: 0.0%																		
Insurance - MSCI wgt: 3.8%, portfolio wgt: 5.0%																		
Dongbu Insurance Co., Ltd.*	005830 KS	KR	B	8Mar12	47650	NA	3.1	10.6	6.6	o	++		++	- -		++		++
Hyundai M&F Insurance	001450 KS	KR	B	22Jul11	33200	-3.1	2.7	13.6	7.1	o	+		++	- -		++		++
Real Estate - MSCI wgt: 6.3%, portfolio wgt: 5.0%																		
SHK Properties Ltd	16 HK	HK	B	11Dec10	115.00	-8.8	39.5	82.2	12.9	o	o	++	o	+	o	o	o	++
Wharf	4 HK	HK	H	14Sep10	44.70	2.1	17.8	29.2	11.4	+	++	o	o	++	o	o	- -	++
Software & Services - MSCI wgt: 3.3%, portfolio wgt: 5.0%																		
SouFun	SFUN US	CN	B	30Aug11	16.70	-0.7	1.3	4.8	10.7	o	++	++	++	- -	- -	o	o	o
Wipro	WPRO IN	IN	B	20Jan12	430.80	4.6	21.3	9.9	16.9	o	+	++	++	o	+	o	o	- -
Technology Hardware & Equipment - MSCI wgt: 5.2%, portfolio wgt: 2.5%																		
Simplo Technology	6121 TT	TW	B	5May11	218.00	20.0	2.0	20.6	11.0	o	++	++	o	-	++	++	o	++
Semiconductors & Semiconductor Equipment - MSCI wgt: 9.6%, portfolio wgt: 5.0%																		
MStar Semiconductor	3697 TT	TW	B	30Sep11	191.50	17.8	3.4	38.9	12.0	+	++	o	++	- -	o	o	- -	+
Novatek Microelectronics	3034 TT	TW	H	28Jan11	87.50	-3.4	1.8	20.9	11.9	+	++	o	o	o	++	o	o	+
Telecommunication Services - MSCI wgt: 6.7%, portfolio wgt: 10.0%																		
China Mobile	941 HK	CN	H	14Sep10	80.70	7.7	208.6	168.6	9.8	++	o	+	++	++	++	o	- -	- -
China Comm Services	552 HK	CN	B	30Sep11	3.92	11.3	3.2	4.5	7.0	++	-	++	o	o	++	o	- -	++
Far EasTone Telecom	4904 TT	TW	B	30Sep11	58.50	28.6	6.5	19.5	17.3	-	+	++	++	-	++	- -	o	++
Starhub	STH SP	SG	B	30Sep11	2.93	4.2	4.0	5.1	16.6	o	++	+	o	++	++	o	- -	-
Utilities - MSCI wgt: 3.7%, portfolio wgt: 7.5%																		
Aboitiz Power	AP PM	PH	H	14Sep10	32.75	58.5	5.7	5.6	11.6	++	++	++	-	- -	++		o	o
Guangdong Investment	270 HK	CN	B	30Sep11	5.18	7.8	4.1	5.8	10.2	o	++	o	o	o	++		o	o
PT Perusahaan Gas Negara (	PGAS IJ	ID	B	8Mar12	3775.00	NA	10.1	8.7	9.9	++	++	o	o	o	++		o	o
Asia Model Portfolio (eq-wgt)**						8.9	34.6	49.7	11.1									
MSCI Asia ex-Japan, LC						3.2												

*Source: Deutsche Bank, FactSet, Bloomberg Finance LP. Note: Stocks are sorted by names in alphabetical order within each sector. Factor scores are given on a country and sector relative basis. Very Favourable (++), Favourable (+), Neutral (0), Unfavourable (-), Very Unfavourable (--), Not Applicable (Blank). For a detailed explanation please see appendix A. Performance is measured in local currency. Stock changes are effective as of close one day after they are officially published (i.e. Changes published on 4 May 2011 will be effective as of close 5 May 2011). *New additions. **Assume 50bps on both buying and selling as proxy for transaction cost.*

Country selection

Figure 19: Equity markets and their key drivers

	Liquidity	Valuation	Sentiment (Risk-Love)	Technicals	Growth	Current Account Balance/GDP	Real Exchange Rate	Policy	Total Score
China (latest month)	O	✓✓	O	✓✓	××	××	××	O	-2
China (last month)	✓✓	✓✓	✓✓	××	××	××	××	O	-2
Hong Kong (latest month)	O	O	✓	✓✓	××	××		O	-1
Hong Kong (last month)	✓	✓✓	✓	O	××	××		✓✓	2
Indonesia (latest month)	O	O	✓	O	××		✓✓	O	1
Indonesia (last month)	O	O	✓✓	✓✓	××		✓✓	O	4
India (latest month)	O	O	O	✓✓	✓✓		✓✓	O	6
India (last month)	O	✓	✓✓	××	××		✓✓	O	1
Korea (latest month)	O	O	O	✓✓	××	××	O	O	-2
Korea (last month)	O	✓	O	××	××	××	O	O	-5
Malaysia (latest month)	O	O	O	✓✓	××	××	××	O	-4
Malaysia (last month)	O	✓	O	✓✓	××	××	O	O	-1
Philippines (latest month)	O	×	×	✓✓	✓✓	××	✓✓	✓✓	4
Philippines (last month)	O	O	O	✓✓	××	××	✓✓	✓✓	2
Singapore (latest month)	O	✓✓	O	✓✓	✓✓	✓✓	O	✓✓	10
Singapore (last month)	✓	✓✓	O	××	××	××	✓✓	✓✓	1
Thailand (latest month)	O	O	✓✓	✓✓	××		O	✓✓	4
Thailand (last month)	O	✓	✓✓	✓✓	××		O	✓✓	5
Taiwan (latest month)	O	O	O	✓✓	✓✓	××	✓✓	O	4
Taiwan (last month)	O	O	O	O	××	××	✓✓	O	-2
Asia ex-Japan (latest month)	O	✓	O	✓✓	×	×	O	O	1
Asia ex-Japan (last month)	✓	✓	✓	×	××	××	O	O	-2
Japan (latest month)	O	✓✓	O	✓✓	××	××	O	O	0
Japan (last month)	O	✓✓	O	O	××	××	××	O	-4

Source: Deutsche Bank.
Blank cell represents factor not used in the model for that country.

✓✓ Most Favourable, ✓ Favourable, O Neutral, × Less Favourable and ×× Least Favourable.

Liquidity is based on yoy change in M2/Market Cap ratio, valuation is based on composite valuation index (based on trailing P/E, 12m fwd P/E, P/cash earnings, P/book, dividend yield, EV/EBIDTA and EV/Sales), sentiment is based on Risk-Love indicator, technicals are based on several price based indicators like percentage of stocks above 200-d moving average, number of 52-Weeks new lows and new highs, indices above/below their 200-d moving average etc., growth is based on leading economic indicators and earnings revision index, current account balance/GDP is based on deviation from 3-year moving average trend, real exchange rate is based on deviation from 2-year moving average trend and policy is based on policy indicator.

Country-sector selection

Figure 20: We prefer sectors with value, high earnings and price momentum, and better profitability

Source: Deutsche Bank, FactSet

Figure 21: Our most-preferred 20 country-sectors; most-preferred have cheaper valuations, better EPS momentum, higher ROE and better technicals (all metrics refer to MEDIAN data)

				Valuation			Earnings Revisions		Profitability	Technicals				
	Country	Sector	Mkt Cap (U$ bn)	P/B	12m fwd P/E	EV/EBIT	FY1 EPS Revisions	FY2 EPS Revisions	ROE (%)	RSI	Valuation	Earnings Revisions	Profitability	Technicals
1	Thailand	Energy	24,081	1.9	11.0	8.7	-0.3	-0.9	20.5	0.96	++	-	+	O
2	Hong Kong	Utilities	42,065	2.0	13.9	16.5	0.3	0.2	13.2	0.99	-	++	O	+
3	Korea	Banks	49,572	0.6	6.3		-0.4	-0.7	12.1	0.90	++	-	-	-
4	Indonesia	Capital Goods	5,426	4.0	11.2	11.5	1.0	1.0	18.5	1.12	O	++	+	++
5	Hong Kong	Capital Goods	23,360	1.3	10.7	7.5	1.0	-1.0	15.8	0.88	++	+	O	- -
6	Indonesia	Automobiles & Components	15,527	2.6	13.7	16.4	1.0	0.4	23.2	1.06	-	++	++	++
7	China	Banks	145,794	1.4	6.5		0.0	-0.3	22.8	0.95	++	+	++	O
8	India	Software & Services	43,251	3.5	13.8	14.3	0.6	0.6	22.8	0.95	- -	++	++	O
9	Korea	Insurance	13,770	1.6	7.4		-0.3	0.1	15.3	1.01	++	+	O	+
10	Thailand	Banks	26,354	1.5	10.8		-0.5	-0.2	11.5	0.99	+	O	-	+
11	Korea	Telecommunication Services	5,840	0.9	8.8	8.7	-0.4	-0.2	7.1	0.94	++	+	- -	O
12	China	Telecommunication Services	83,094	1.3	12.4	6.7	-0.4	-0.8	12.7	1.01	+	-	O	+
13	Indonesia	Food Beverage & Tobacco	9,149	3.0	12.5	11.8	0.2	-0.3	30.5	1.01	O	+	++	+
14	Korea	Retailing	7,362	1.3	11.5	10.5	0.0	-0.5	12.3	0.97	+	+	-	O
15	Hong Kong	Diversified Financials	18,806	0.9	8.4		-0.8	1.0	10.4	0.87	++	++	-	- -
16	China	Real estate	34,850	1.0	6.1	5.3	-1.0	-0.8	18.2	0.87	++	- -	+	- -
17	Malaysia	Food Beverage & Tobacco	14,996	2.2	14.6	10.7	0.3	0.3	18.8	1.09	-	++	+	++
18	Taiwan	Capital Goods	9,133	1.7	12.7	12.1	1.0	0.0	14.1	0.94	O	++	O	O
19	Thailand	Materials	6,915	1.5	10.5	10.8	0.0	0.3	15.9	0.99	+	++	+	+
20	Taiwan	Telecommunication Services	20,816	2.8	15.7	15.2	0.3	0.3	13.0	1.07	-	++	O	++
		Median	19,811	1.5	11.1	10.8	0.00	-0.08	15.6	0.98				
		Average	30,008	1.9	10.9	11.1	0.07	-0.07	16.4	0.98				

Source: Deutsche Bank, DataStream. FactSet. EPS revisions is calculated for each stock as the number of analysts revising up the FY1 EPS estimate less number of analysts revising down the FY1 EPS estimate divided by total number of changes in the past three months. We then take the median of these EPS revisions scores for all individual stocks in the country-sector. RSI is the ratio of 65-day to 260-day moving average in stock price. All the metrics shown above except market cap are median data for the sector.

Changes: *Deleted Hong Kong telecom, India Autos, Korea Energy, Thailand telecom, Taiwan insurance. Added Indonesia capital goods and autos, Hong Kong diversified financials, Taiwan capital goods and Taiwan telecom.*

Figure 22: Our least-preferred 20 country-sectors; least-preferred have expensive valuations, poor EPS momentum, higher ROE and bad technicals (all metrics refer to MEDIAN data)

				Valuation			Earnings Revisions		Profitability	Technicals				
	Country	Sector	Mkt Cap (U$ bn)	P/B	12m fwd P/E	EV/EBIT	FY1 EPS Revisions	FY2 EPS Revisions	ROE (%)	RSI	Valuation	Earnings Revisions	Profitability	Technicals
1	Korea	Household & Personal Products	7,254	3.9	20.2	17.6	-0.3	-1.0	10.5	1.09	- -	-	-	++
2	Singapore	Hotels Restaurants & Leisure	7,839	0.9	18.2	10.9	-1.0	-1.0	7.7	0.89	O	- -	- -	-
3	Korea	Semiconductors & Semiconductor Equipment	146,315	2.4	11.6	16.0	-0.5	-1.0	18.7	1.01	-	- -	+	+
4	Taiwan	Semiconductors & Semiconductor Equipment	107,697	1.7	17.2	14.8	0.0	-0.6	7.9	0.89	-	O	- -	-
5	China	Technology Hardware & Equipment	9,151	1.4	8.2	10.0	-0.3	-0.3	13.9	0.83	+	+	O	- -
6	Malaysia	Transportation	4,444	1.8	15.8	12.9	-0.5	-0.5	11.7	0.95	-	O	-	O
7	India	Real Estate	3,485	1.2	13.6	14.8	-0.8	-0.8	4.6	0.95	-	- -	- -	O
8	India	Capital Goods	11,468	2.8	12.2	10.6	-0.7	-0.8	18.8	0.90	O	-	+	-
9	Singapore	Transportation	12,236	1.8	14.4	14.9	-0.7	-1.0	11.5	0.91	-	- -	-	-
10	China	Food Beverage & Tobacco	20,141	1.6	14.4	16.7	-0.6	-1.0	12.3	0.94	-	- -	-	O
11	Taiwan	Technology Hardware & Equipment	120,749	1.7	11.6	11.4	-0.5	-0.6	12.6	0.87	+	-	-	- -
12	India	Food Beverage & Tobacco	10,397	2.8	18.3	14.6	-1.0	-1.0	17.1	0.98	-	- -	+	+
13	India	Utilities	11,003	1.9	14.4	12.8	-0.1	-0.2	12.4	0.89	-	+	-	-
14	Singapore	Diversified Financials	4,944	1.3	14.5		0.0	-0.9	11.2	0.91	O	O	-	-
15	India	Pharmaceuticals & Biotechnology	12,134	4.0	16.3	17.8	-0.3	-0.1	19.7	0.97	- -	+	+	O
16	India	Telecommunication Services	999	1.9	23.8	23.8	-0.4	-0.7	4.6	0.95	-	-	- -	O
17	Indonesia	Telecommunication Services	9,493	1.6	14.3	14.0	-0.3	-0.5	6.1	0.96	O	O	- -	O
18	China	Food & Staples Retailing	5,540	4.2	20.5	19.4	-1.0	-1.0	21.3	0.87	- -	- -	++	- -
19	China	Household & Personal Products	6,687	2.6	22.6	(7.1)	-1.0	1.0	(9.9)	0.94	- -	++	- -	O
20	India	Household & Personal Products	7,545	10.2	24.1	26.5	-0.7	-0.7	34.5	1.00	- -	-	++	+
		Median	9,322	1.8	15.1	14.8	-0.50	-0.75	12.0	0.94				
		Average	25,976	2.6	16.3	14.3	-0.53	-0.63	12.4	0.93				

Source: Deutsche Bank, DataStream. FactSet. EPS revisions is calculated for each stock as the number of analysts revising up the FY1 EPS less number of analysts revising down the FY1 divided by total number of changes in the past three months. We then take the median of these EPS revisions scores for all individual stocks in the country-sector. RSI is the ratio of 65-day to 260-day moving average in stock price. All the metrics shown above except market cap are median data for the sector.

Changes: Deleted Korea tech hardware and Malaysia utilities. Added Korea household products and China food and staples retailing.

Figure 23: Asian country sector heat-map for all covered sectors

	China	Hong Kong	India	Indonesia	Korea	Malaysia	Philippines	Singapore	Thailand	Taiwan	Japan
Energy	38		62	116	117				54		15
Materials	85		80	49	108	88				121	89
Capital Goods	67	26	118	2	119	110	41	42		16	70
Commercial Services & Supplies											64
Transportation	74	113			23	100		124		139	13
Automobiles & Components	56		99	6	69	83				104	63
Consumer Durables & Apparel	122	78			52				91	53	51
Hotels Restaurants & Leisure		29				81		132			32
Media			136						94		5
Retailing	127				50			3		115	8
Food & Staples Retailing	140										1
Food Beverage & Tobacco	129		134	40	47	11		68	35		66
Household & Personal Products	135		123	4	131						111
Health Care Equipment & Services	137										68
Pharmaceuticals & Biotechnology			82	43	90						48
Banks	17	106	58	61	31	39	44	95	57	112	7
Diversified Financials	-10	12	86		75	105	101	79		87	30
Insurance	130				22					109	138
Real Estate	76	46	128				25	55		93	27
Software & Services	77		18								36
Technology Hardware & Equipment	73	107			37					96	98
Semiconductors & Semiconductor Equipment		97			126					103	133
Telecommunication Services	65	71	125	84	10	20	9	114	102	28	14
Utilities	45	33	72	24	19	34	92				120
Overall (bottom-up ranking) - Latest month	6	2	8	4	10	5	1	9	3	11	7
Overall (bottom-up ranking) - Last month	5	4	6	8	9	7	2	10	3	11	1
Overall (bottom-up ranking) - Avg of last 2 months	6	3	7	6	10	6	2	10	3	11	4
Valuation - Latest month	4	3	7	10	2	9	11	6	5	8	1
Valuation - Last month	1	2	5	10	3	9	11	7	4	8	6
Earnings Revisions - Latest month	7	4	6	2	11	3	1	10	8	9	5
Earnings Revisions - Last month	7	8	6	4	10	5	2	9	3	11	1
Profitability - Latest month	3	5	2	1	8	6	7	9	4	10	11
Profitability - Last month	3	5	2	1	9	6	7	8	4	10	11
Technicals - Latest month	9	10	8	4	6	2	1	7	3	11	5
Technicals - Last month	10	9	8	4	5	3	1	7	6	11	2

Source: Deutsche Bank. Numbers are ranks, smaller is better. Green colour = Most attractive country sectors, Red colour=Least attractive country sectors. Yellow colour = Neutral country sectors. White space = sector market cap too low or data unavailable.

Asia model portfolio

We added SJM Holdings Ltd. (880 HK), PT United Tractors Tbk (UNTR IJ), PT Perusahaan Gas Negara (Persero) Tbk (PGAS IJ) and Dongbu Insurance Co., Ltd. (005830 KS) to the model portfolio. We have removed Amorepacific Corp. (090430 KS), Hong Leong Bank Bhd. (HLBK MK), Industrial Bank of Korea (024110 KS) and KT&G Corp. (033780 KS) as all of these have dropped to the lowest quintile in our multi-factor stock ranking model.

SJM Holdings Ltd. (880 HK):
"Best value Macau stock on 13x 2012E PE, 9x EV/EBITDA & 4.5% yield. Since we see event risks for Sands China and Galaxy in late March, we now consider SJM as our top pick. Raise target price from HK$15 to HK$20 (23% upside potential). Grand Lisboa plans to add 40 VIP tables before October. Some will be added on 31/F in 1H12. It also plans to add more tables on the mass floors by taking away the 10 poker tables and some slot machines. This should also improve table yield as fewer players per table allows the croupiers to deal more hands per hour. Given management's yield enhancing strategies, we raise 2012E EBITDA by 8% to HK$7,922mn. We think the risk on market share loss is now well-flagged, and we applaud mgmt for returning excess cash to shareholders. As such, we raise target EV/EBITDA multiple from 10x to 12x, in line with peer average. Hence, we raise our target price to HK$20. Key risks include changes of shareholding at parent company STDM and worse-than-expected market share loss after Sands Cotai Central opening." (Karen Tang, 29 February 2012)

PT United Tractors Tbk (UNTR IJ):
"Positive earnings outlook; reiterating Buy rating. We maintain our Buy rating on United Tractors given what we consider to be its positive earnings outlook, in light of a high coal price that accounts for 90% of its consolidated earnings and gives rise to stronger heavy equipment demand, as well as greater demand for mining contracting services and coal output. The stock is trading at 14.8x 2012E earnings and at our target price of Rp34,300 offers 21% upside potential from current levels." (Rachman Koeswanto, 28 February 2012)

PT Perusahaan Gas Negara (Persero) Tbk (PGAS IJ):
"Our DCF-based target price (12m IDR5,100) is based on a WACC of 10.9% (Rfr of 6% and equity risk premium of 9%, beta of 1, and pre-tax cost of debt of 6%) to discount PGN's cash flow, along with terminal growth of 5%, reflecting our expectation of Indonesia's long-term inflation trend. Risks are a slower-than-expected volume ramp-up than anticipated, lower-than-forecast price increases and unexpected changes in government policy with regard to pricing of gas sales." (Cherie Khoeng, 12 December 2011)

Dongbu Insurance Co., Ltd. (005830 KS)
"Raising our target price to W70,000; reiterating our Buy rating. We upgrade our target price on Dongbu Insurance by 3%, to W70,000, implying 36% upside potential. We increase our base BPS by 6.1% by moving from Mar12E to Mar13E. Our current March13E PBR is just 1.30x, with 22-23.5% FY11-12E ROE. We believe our target price is justified, given the company's superior earnings and premium growth trends. We believe recent market concerns on investor rotations and group risks have been overdone. Reiterating Buy." (Francis Yim, 8 January 2012)

Figure 24: Deletions from model portfolio since inception (13 September 2010)

Company	BB Ticker	Mkt	Date Added	Date Removed	DB Rec	Close 6Mar12
Deletions as of 2 Nov 2010						
Agri. Bank of China	1288 HK	CN	13Sep10	2Nov10	B	3.65
Anta Sports	2020 HK	CN	13Sep10	2Nov10	H	8.08
Fraser & Neave	FNN SP	SG	13Sep10	2Nov10	B	6.63
Deletions as of 10Dec2010						
China Shineway	2877 HK	CN	13Sep10	10Dec10	H	13.12
Chunghwa Tel	2412 TT	TW	13Sep10	10Dec10	H	92.50
Far EasTone Telecom	4904 TT	TW	13Sep10	10Dec10	B	58.50
First Philippine Hldgs	FPH PM	PH	13Sep10	10Dec10	B	62.00
LIG Insurance	002550 KS	KR	13Sep10	10Dec10	B	26200
Perusahaan Gas Negara	PGAS IJ	ID	13Sep10	10Dec10	B	3775.00
PLUS Expressways	PLUS MK	MY	13Sep10	10Dec10	NR	NA
SATS	SATS SP	SG	13Sep10	10Dec10	H	2.44
Top Glove	TOPG MK	MY	13Sep10	10Dec10	S	4.74
Wynn Macau	1128 HK	HK	13Sep10	10Dec10	H	21.15
Deletions as of 24 Jan 2011						
Dongfeng Motor	489 HK	CN	2Nov10	24Jan11	B	13.94
Hang Lung Properties	101 HK	HK	13Sep10	24Jan11	B	27.60
Deletions as of 4 May 2011						
Delta Electronics	2308 TT	TW	13Sep10	4May11	B	78.60
Franshion	817 HK	CN	10Dec10	4May11	B	1.98
Genting Bhd	GENT MK	MY	10Dec10	4May11	H	10.92
Kasikornbank	KBANK TB	TH	10Dec10	4May11	B	144.00
Nexen Tire	002350 KS	KR	13Sep10	4May11	H	16100
Orise Technology	3545 TT	TW	27Jan11	4May11	B	38.95
Shanghai Electric	2727 HK	CN	13Sep10	4May11	B	4.14

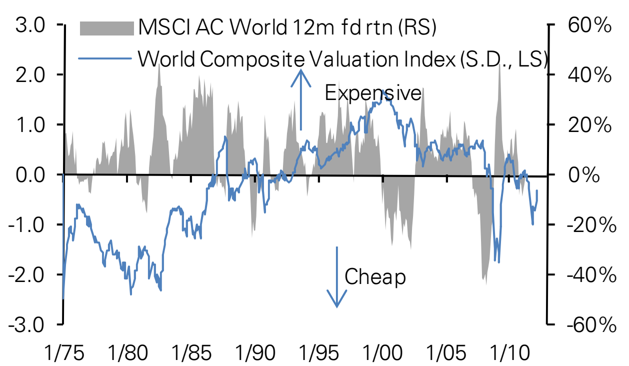
Company	BB Ticker	Mkt	Date Added	Date Removed	DB Rec	Close 6Mar12
Deletions as of 6 Jun 2011						
DiGi.Com	DIGI MK	MY	13Sep10	6Jun11	H	4.11
Bank of Baroda	BOB IN	IN	10Dec10	6Jun11	B	802.10
Deletions as of 21 Jul 2011						
China CITIC	998 HK	CN	4May11	21Jul11	H	4.95
Asian Paints	APNT IN	IN	13Sep10	21Jul11	H	3171.05
Hyundai Heavy	009540 KS	KR	10Dec10	21Jul11	B	328500
Korean Reinsurance	003690 KS	KR	2Nov10	21Jul11	B	14050
Deletions as of 29 Aug 2011						
Sinopec-H	386 HK	CN	11Dec10	29Aug11	B	8.71
Cathay Pacific	293 HK	IN	14Sep10	29Aug11	B	15.10
Maanshan-H	323 HK	KR	7Jun11	29Aug11	H	2.30
Siliconware Precision	2325 TT	KR	7Jun11	29Aug11	B	32.55
Deletions as of 30 Sep 2011						
DSME	042660 KS		22Jul11	30Sep11	B	34100
OCI Company	010060 KS		14Sep10	30Sep11	NR	265500
BRI	BBRI IJ		30Aug11	30Sep11	B	6600.00
Samsung Eng.	028050 KS		14Sep10	30Sep11	H	234000
Siam Cement	SCC TB		22Jul11	30Sep11	B	352.00
KWG Property	1813 HK		11Dec10	30Sep11	B	4.67
SOHO China	410 HK		3Nov10	30Sep11	B	5.48
Deletions as of 11 Nov 2011						
Hyundai Dept Store	069960 KS		14Sep10	11Nov11	B	170000
SJM	880 HK		14Sep10	11Nov11	B	15.36
Taiwan Cement	1101 TT		30Aug11	11Nov11	H	35.55
Deletions as of 19 Jan 2012						
Powertech Technology	6239 TT		5May11	19-Jan-12	S	53.80
Deletions as of 8 March 2012						
Amorepacific Corp.	090430 KS		30Sep11	8Mar12	B	1057000
Hong Leong Bank Bhd.	HLBK MK		11Nov11	8Mar12	B	12.40
Industrial Bank of Korea	024110 KS		22Jul11	8Mar12	H	13300
KT&G Corp.	033780 KS		14Oct10	8Mar12	B	71400

Source: Deutsche Bank, FactSet, Bloomberg Finance LP

Global – valuation

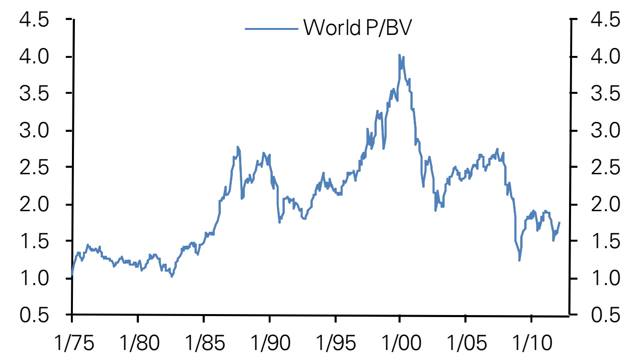
Global equities trade at a 2012 PE of 12.2x, and a 2012 PB of 1.6x. Projected ROE this year for the MSCI ACWI is 13%, with short rates at around zero percent. These excess returns on capital are mispriced, unless we are in for years of debt deflation in the developed markets, burdened by falling working age population ratios, high leverage and still expensive property prices. Comparing equity market free cash flow yields to cash or corporate bond yields also suggests equities are relatively undervalued.

Figure 25: Composite valuation index



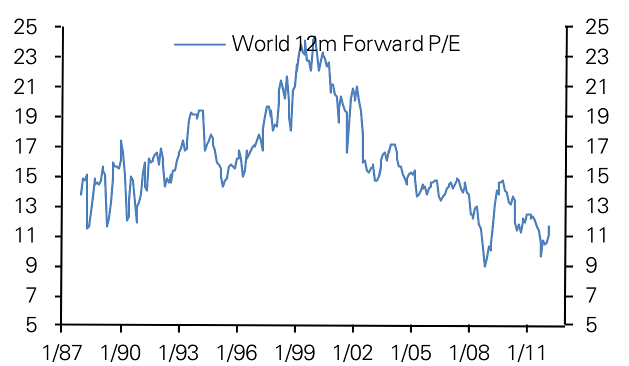
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history

Figure 26: Price-to-book value



Source: Deutsche Bank, MSCI, DataStream

Figure 27: 12m forward P/E

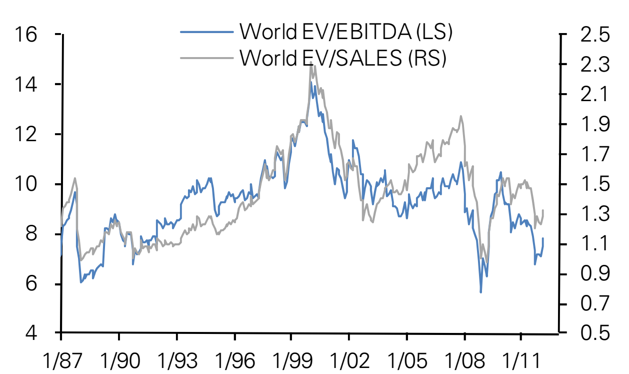


Source: Deutsche Bank, MSCI, I/B/E/S

Figure 28: 12m trailing P/E

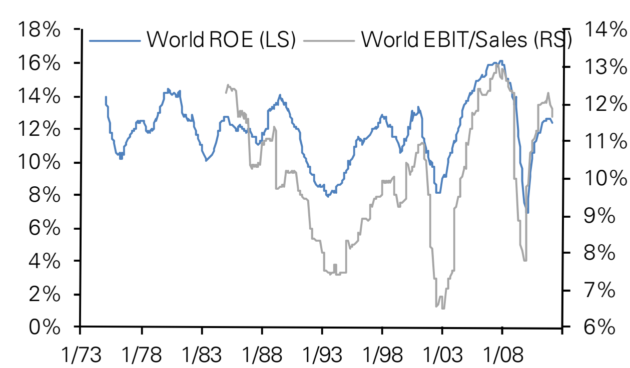
Source: Deutsche Bank, MSCI, DataStream

Figure 29: EV multiples



Source: Deutsche Bank, MSCI, FactSet

Figure 30: ROE and EBIT margin

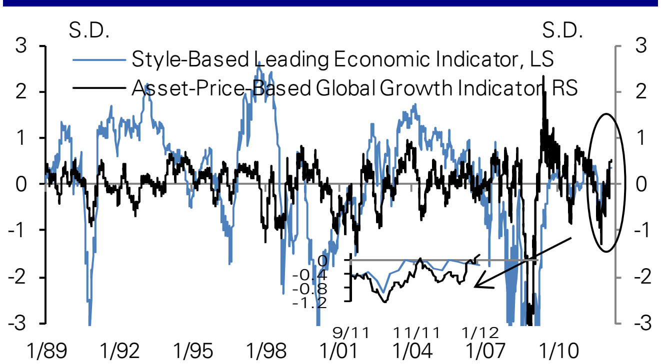


Source: Deutsche Bank, MSCI, FactSet

Global metrics

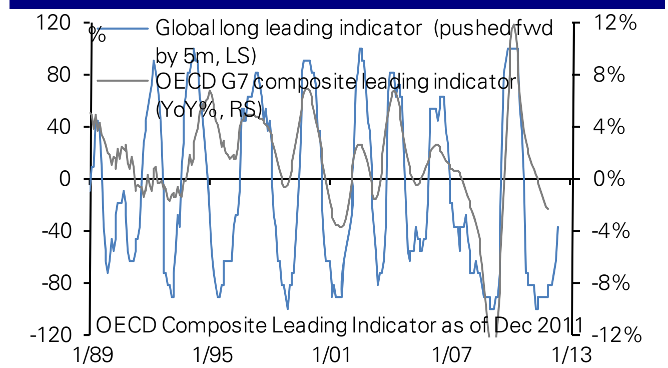
There is a broad-based improvement in leading earnings growth indicators – cyclical assets are rallying, and MOMLI – the mother of all leading indicators – has hooked up nicely. Yet, global EPS growth forecasts for the year have been revised down from about 15% last August to just 10% now. These projections are quite conservative, given the improvement in leading growth indicators. European balance sheet expansion in the past few months has been impressive (mainly by the SNB, the Banque de France, and the Bundesbank). Central bankers are properly worried about debt deflation and are taking pre-emptive heterodox easing steps. The risks mount when they get complacent. The most bullish "risk-on" case is if the reaction function of the world's central banks is to stay easy, even as sentiment and growth become elevated, rather than panicking into easing only when the system is on the edge. In other words, buy Bernanke's put AND call options. Now that would establish debt deflation-fighting credibility.

Figure 31: Market-implied global growth leading indicators



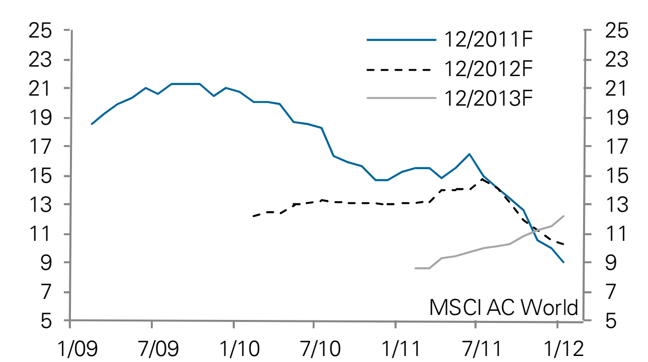
Source: Deutsche Bank

Figure 32: Global long leading indicator (MOMLI)



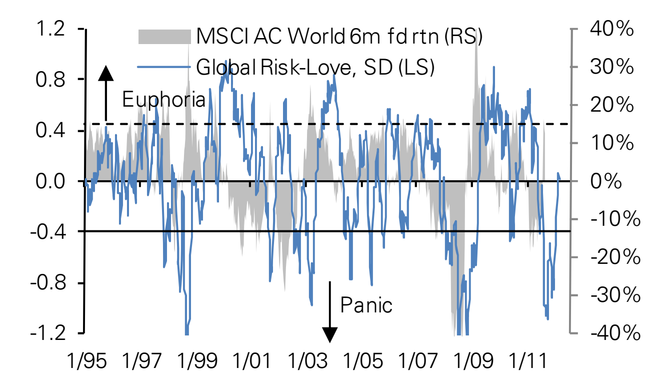
Source: Deutsche Bank, OECD

Figure 33: Earnings growth forecast (%)



Source: Deutsche Bank, I/B/E/S, MSCI

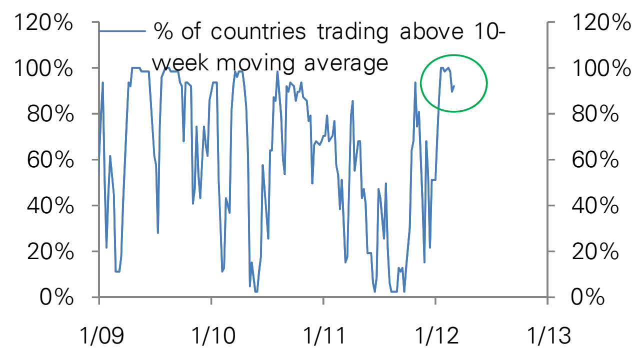
Figure 34: Global equity Risk-Love indicator



Source: Deutsche Bank, MSCI

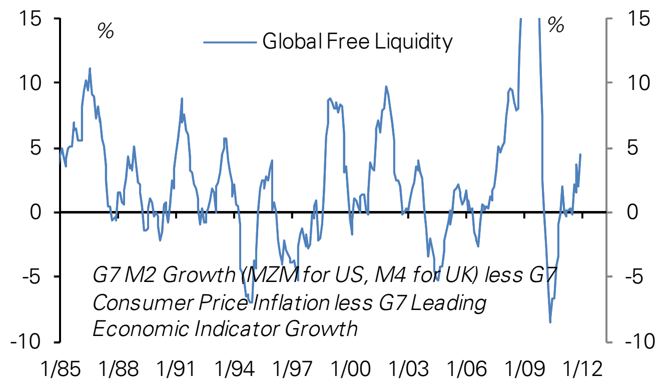
Global metrics (continued)

Figure 35: Percentage of countries above their 10-WMA



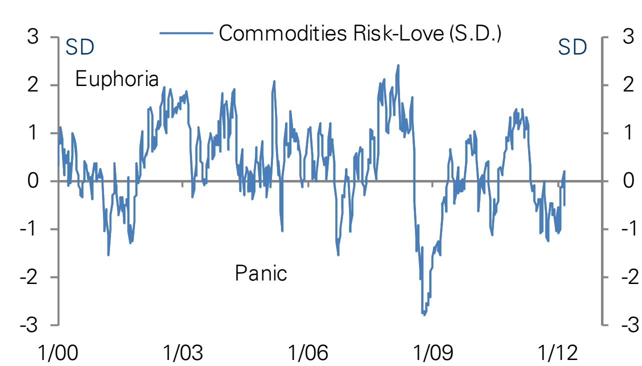
Source: Deutsche Bank. Includes 49 Markets.

Figure 36: Global free liquidity



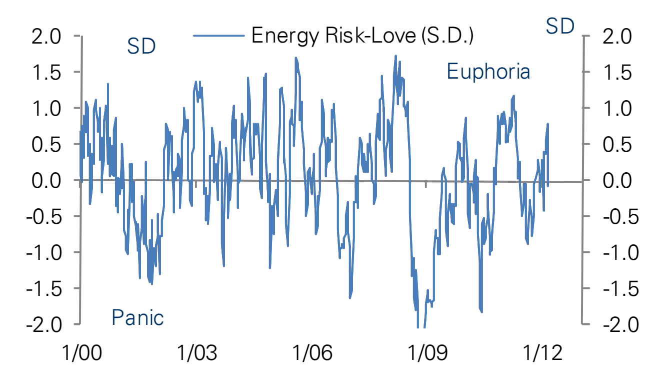
Source: Deutsche Bank

Figure 37: Commodity Risk-Love indicator



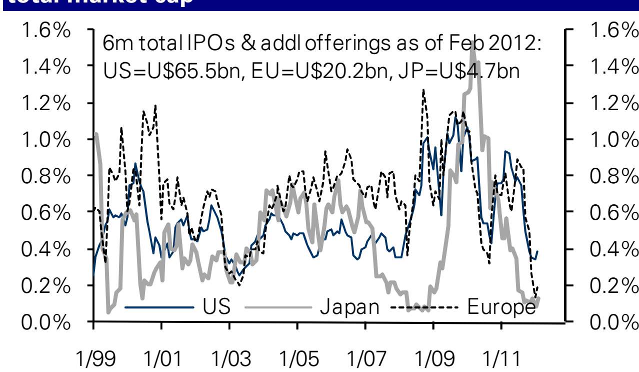
Source: Deutsche Bank

Figure 38: Energy Risk-Love indicator



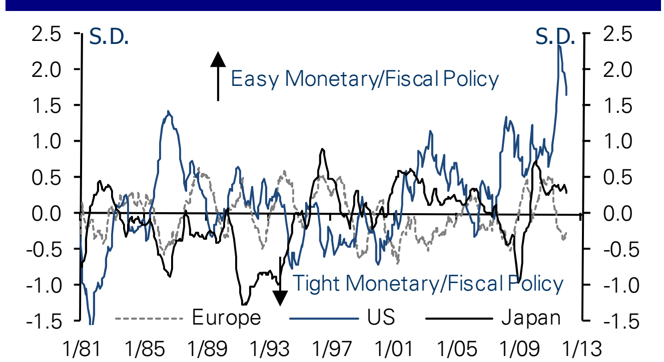
Source: Deutsche Bank

Figure 39: 6m total equity offerings* as percentage of total market cap



Source: Deutsche Bank, Bloomberg Finance LP, DataStream
*Note: *Equity offerings include IPO and additional equity offerings of primary and secondary shares.*

Figure 40: Composite policy indicator



Source: Deutsche Bank, DataStream, CEIC, IMF. Note: Composite policy indicator is an equal weighted index of real effective exchange rate yoy growth, real broad money (M2) yoy growth, yield curve (long minus short term interest rate) and government fiscal deficit/surplus as % of GDP.

Global – market intelligence

Figure 41: Market intelligence by country

1Mar12	Mcap	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
Region/Country (#Co)	U$m	1m	YTD	CY11	CY12	CY13	CY11	CY12	CY13	CY11	CY12	CY13	CY11	CY12	CY13	CY11	CY12	CY13
North America (687)	14,247,418	3.7	9.3	14.4	13.1	11.6	2.2	2.0	1.8	1.9	2.1	2.3	15.1	9.1	12.6	9.8	14.7	15.4
Canada (101)	1,270,209	1.8	6.6	14.6	13.2	11.5	1.9	1.7	1.5	2.5	2.7	2.9	19.3	9.2	12.7	13.8	12.7	13.5
US (586)	12,977,209	3.8	9.6	14.3	13.1	11.6	2.2	2.0	1.8	1.9	2.1	2.3	14.7	9.1	12.6	9.4	14.9	15.6
Europe (462)	6,896,261	2.9	8.5	11.8	11.0	9.8	1.5	1.4	1.3	3.6	3.9	4.3	-0.8	6.2	11.9	11.5	12.5	13.0
Austria (8)	27,852	4.9	18.7	10.4	9.2	7.8	0.8	0.8	0.8	3.5	3.9	4.5	-8.0	11.5	17.2	8.5	9.2	10.0
Belgium (13)	103,159	5.5	11.0	16.3	13.8	12.4	1.5	1.4	1.3	2.7	3.1	3.8	-48.8	118.6	12.8	9.4	11.0	11.3
Denmark (13)	114,884	10.6	16.7	22.9	17.8	13.9	2.3	2.2	2.0	1.7	1.9	2.3	-17.9	28.7	28.0	9.8	12.2	14.5
Finland (17)	93,597	2.8	12.5	13.3	14.3	11.7	1.4	1.4	1.4	4.9	4.9	5.2	-20.3	-2.9	23.0	10.9	10.0	11.7
France (75)	978,330	4.0	11.1	11.1	10.5	9.6	1.2	1.1	1.1	3.8	4.0	4.4	-1.5	2.7	11.6	11.2	10.6	11.2
Germany (52)	896,357	4.9	17.3	11.8	10.7	9.7	1.4	1.3	1.2	3.5	3.6	3.9	-6.0	8.5	11.3	13.1	12.3	12.7
Greece (8)	11,830	-8.5	12.4	11.9	13.6	7.8	2.1	1.5	1.3	0.4	1.8	2.2	-144.4	-198.8	56.1	-1.5	7.3	7.1
Ireland (4)	29,919	2.3	3.2	17.1	16.4	13.3	1.9	1.3	1.3	3.1	2.7	2.9	11.9	3.9	na	13.7	8.2	9.5
Italy (30)	307,379	3.2	11.5	11.1	9.6	8.0	0.9	0.9	0.9	3.1	4.5	5.3	-19.9	21.0	21.1	4.7	6.6	7.6
Netherlands (22)	257,759	0.5	5.1	11.6	12.0	9.3	1.5	1.5	1.3	3.2	3.4	4.0	-8.3	13.3	10.7	12.8	13.2	13.6
Norway (11)	105,166	7.2	10.7	11.7	10.7	9.7	1.6	1.5	1.4	4.1	4.5	5.0	7.2	21.5	11.5	13.9	13.8	14.2
Portugal (8)	21,730	4.2	-0.1	12.4	11.1	9.6	1.3	1.4	1.3	5.1	1.9	4.5	-1.8	5.0	14.9	10.5	9.7	10.5
Spain (28)	317,293	-1.6	-0.1	9.1	9.5	8.6	0.9	1.1	1.0	5.3	5.3	5.7	-9.8	-4.0	10.9	9.5	11.4	11.2
Sweden (33)	336,201	4.3	12.5	13.9	13.3	11.8	1.9	1.8	1.6	3.6	3.9	4.3	-5.2	4.4	12.7	12.6	13.4	14.0
Switzerland (37)	883,330	1.1	3.7	14.1	12.5	11.3	2.1	1.9	1.8	3.5	3.7	4.1	-9.0	12.4	10.8	12.7	15.4	15.8
UK (103)	2,411,474	2.5	6.4	11.2	10.4	9.4	1.8	1.6	1.5	3.7	4.1	4.4	14.9	0.8	10.2	15.2	15.1	15.4
Japan (316)	2,255,343	10.6	14.8	16.9	13.6	11.5	1.1	1.0	0.9	2.3	2.4	2.6	-10.7	41.3	26.4	6.2	7.6	8.3
Asia Pac ex Japan (695)	3,582,975	3.5	10.9	13.1	11.8	10.5	1.7	1.6	1.4	3.6	3.4	3.7	4.0	9.0	13.4	13.6	13.4	13.7
Asia ex Japan (621)	2,664,586	4.6	13.4	13.5	11.9	10.5	1.8	1.6	1.4	3.0	2.8	3.1	2.7	9.7	14.3	13.7	13.3	13.6
Australia (69)	905,975	0.1	4.2	12.4	11.5	10.4	1.7	1.6	1.5	4.8	5.2	5.6	6.8	7.7	11.0	13.6	13.7	14.1
China (148)	651,109	4.8	15.6	10.8	9.7	8.7	1.7	1.5	1.4	3.0	3.3	3.7	11.1	10.3	12.8	16.4	16.2	16.0
Hong Kong (41)	308,956	7.6	17.4	14.1	16.0	14.2	1.1	1.2	1.2	3.0	2.9	3.2	16.4	-11.8	12.8	8.8	8.1	8.8
India (72)	240,575	2.2	15.9	16.4	14.6	12.5	2.4	2.2	1.9	1.3	1.6	1.8	8.9	13.9	15.6	15.0	15.2	15.6
Indonesia (25)	97,353	-2.1	1.0	14.7	13.1	11.3	3.3	3.0	2.6	2.5	3.0	3.5	21.4	12.2	15.4	23.3	23.5	23.3
Korea (104)	552,468	4.1	11.7	19.5	9.8	8.6	1.2	1.3	1.1	1.6	1.3	1.4	-46.4	58.5	14.0	5.7	12.7	12.8
Malaysia (41)	119,267	2.7	2.8	16.0	14.6	13.2	1.9	1.9	1.8	3.0	3.5	3.7	7.9	11.4	10.5	11.6	13.4	13.7
New Zealand (5)	12,414	1.7	3.1	14.5	14.2	12.5	1.5	1.5	1.5	4.6	5.7	6.1	-1.1	2.4	13.5	10.3	10.6	11.7
Philippines (15)	26,127	5.2	14.0	18.1	16.4	14.7	2.9	2.6	2.4	2.5	2.5	2.7	6.8	10.7	11.1	15.9	16.1	16.3
Singapore (32)	186,418	3.8	14.7	14.1	13.8	12.5	1.5	1.4	1.4	4.2	3.6	3.8	-2.1	4.4	11.0	10.2	10.4	10.8
Taiwan (122)	409,052	6.3	13.2	15.7	14.3	12.5	2.1	1.8	1.7	3.9	3.8	4.1	-28.4	24.0	22.3	14.4	12.9	13.9
Thailand (21)	73,262	9.3	16.1	14.5	11.8	10.2	2.2	2.2	1.9	3.4	3.7	4.2	13.8	22.5	15.2	16.7	17.5	18.0
EM EU/M East/Africa (139)	697,652	2.4	11.4	11.7	10.5	9.2	1.4	1.3	1.1	3.3	3.6	4.1	27.3	2.4	7.7	16.7	15.0	14.5
Czech Republic (3)	12,516	2.2	5.4	11.2	10.8	10.6	1.9	1.8	1.7	4.3	6.0	6.7	-12.4	2.9	1.9	16.8	16.2	15.7
Egypt (9)	12,981	14.3	48.5	12.0	10.1	8.7	2.0	1.7	1.6	2.7	3.2	4.7	18.2	53.6	21.9	5.3	8.6	9.7
Hungary (4)	11,834	0.1	15.2	9.3	8.7	7.1	1.0	0.9	0.8	2.3	3.9	4.8	1.2	6.6	22.3	10.9	10.6	11.9
Israel (13)	65,573	-1.4	5.8	9.1	8.2	7.7	1.6	1.3	1.2	4.3	3.1	3.4	6.7	9.1	7.6	17.7	15.7	15.0
Morocco (3)	5,340	1.4	4.5	14.5	13.1	14.2	3.7	3.7	4.2	5.2	5.5	5.8	-3.2	10.6	3.9	25.7	28.0	29.4
Poland (22)	52,565	-1.8	7.7	11.4	10.0	9.9	1.2	1.2	1.1	4.3	4.6	5.3	21.4	-9.9	0.1	14.3	11.7	11.2
Russia (27)	260,365	4.2	15.8	9.2	9.7	8.0	0.9	0.8	0.7	3.0	2.9	3.3	39.7	-7.6	4.0	18.5	14.6	13.6
South Africa (49)	292,601	1.3	6.6	13.9	11.2	9.9	2.3	2.0	1.8	3.4	3.9	4.4	21.3	24.0	12.7	16.0	17.8	17.8
Turkey (22)	49,450	1.5	17.3	10.9	9.7	8.5	1.6	1.5	1.3	3.0	3.0	3.6	-9.1	11.8	14.0	15.0	14.9	15.3
Latin America (136)	878,421	2.8	10.0	13.3	12.1	10.6	1.6	1.5	1.5	2.8	3.2	3.7	-2.0	13.4	12.9	11.6	12.8	13.9
Brazil (83)	590,165	2.9	12.9	12.0	10.8	9.6	1.4	1.3	1.3	3.0	3.5	3.9	-4.9	10.1	11.9	11.7	12.2	12.8
Chile (18)	58,645	5.3	8.2	19.5	16.6	15.2	2.4	2.2	2.0	1.9	2.8	3.3	-7.9	17.0	9.2	12.1	13.4	14.0
Colombia (9)	34,846	6.1	7.5	18.0	16.9	14.1	1.8	1.6	1.5	2.1	3.5	4.0	33.9	9.3	9.7	10.1	8.3	12.9
Mexico (23)	172,983	1.0	1.9	16.9	15.6	12.7	2.4	2.4	2.5	1.4	2.3	3.2	7.9	33.5	19.8	9.4	15.0	20.0
Peru (3)	21,783	-0.1	10.9	12.5	12.1	11.4	4.1	2.9	2.5	2.5	3.0	3.3	34.8	3.6	6.3	35.4	24.3	22.1
Developed Markets (1625)	24,878,357	4.0	9.5	13.7	12.4	11.0	1.7	1.6	1.5	2.6	2.8	3.0	7.2	9.7	13.3	9.9	12.8	13.4
Emerging Markets (823)	3,745,285	3.6	11.8	13.0	11.3	10.0	1.7	1.5	1.4	2.9	3.0	3.3	7.2	10.3	12.6	14.8	14.2	14.5
World (2448)	28,623,642	3.9	9.8	13.6	12.3	10.8	1.7	1.6	1.5	2.6	2.8	3.1	7.2	9.8	13.2	10.4	13.0	13.5

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI AC World index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year end) with current prices. All numbers are free-float adjusted.

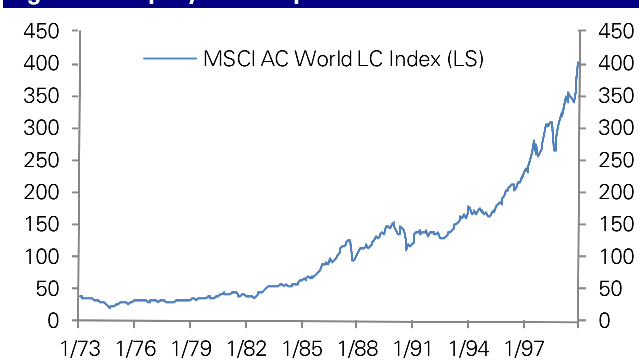
Global – market intelligence (continued)

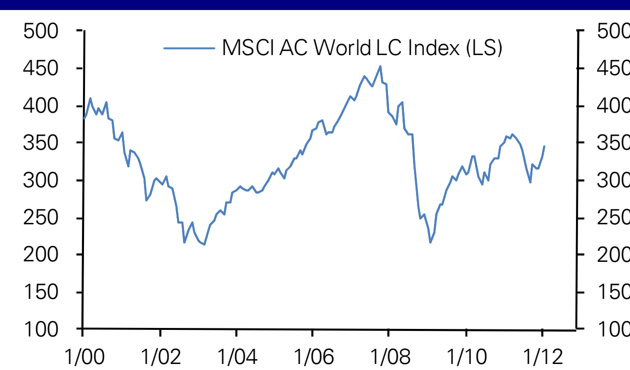
Figure 42: Market intelligence by sector

1Mar12	Mcap	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
Sector (#Co)	U$m	1m	YTD	CY11	CY12	CY13	CY11	CY12	CY13	CY11	CY12	CY13	CY11	CY12	CY13	CY11	CY12	CY13
Energy (168)	3,426,716	4.5	8.4	11.7	10.9	9.7	1.5	1.5	1.3	2.7	2.7	2.9	26.8	-0.3	10.6	14.4	14.3	14.5
Materials (282)	2,352,237	1.0	12.2	12.4	11.5	9.8	1.7	1.6	1.4	2.4	2.6	2.7	17.6	8.3	16.1	13.9	13.6	14.4
Capital Goods (244)	2,253,263	3.9	13.3	13.3	12.5	10.9	2.0	1.8	1.7	2.5	2.7	2.9	17.1	8.3	12.5	15.1	14.8	15.2
Comm Svc (35)	206,793	4.6	9.5	17.5	16.2	14.4	2.3	2.3	2.2	2.5	2.7	2.9	8.1	8.2	12.1	12.3	13.5	14.3
Transportation (100)	567,348	1.8	7.2	18.1	15.2	12.9	1.6	1.7	1.6	2.0	2.3	2.5	-13.4	21.6	20.9	9.4	11.6	12.8
Autos (71)	736,453	8.1	21.8	12.7	10.4	8.8	1.3	1.2	1.1	1.9	2.1	2.5	7	15	21.2	9.2	11.9	12.9
Cons Durables (68)	432,642	7.3	18.0	23.4	16.9	13.9	1.9	1.9	1.7	1.7	1.9	2.1	-45.9	155.6	41.9	8.8	12.2	12.5
Cons Svc (48)	417,401	2.2	6.4	19.6	17.4	15.3	3.3	3.2	2.9	2.1	2.3	2.5	15.4	7.7	14.6	18.5	19.1	19.9
Media (58)	626,296	4.9	11.4	15.6	13.5	11.7	2.1	2.0	1.8	1.9	2.2	2.4	19.3	16.0	15.3	13.1	13.8	14.9
Retailing (77)	720,301	5.8	11.1	18.7	16.6	14.3	3.3	2.9	2.6	1.5	1.6	2.0	14.0	10.8	15.3	16.3	15.7	18.0
Food/Staples Retail (50)	619,987	0.5	0.5	14.6	13.4	12.2	1.9	1.8	1.8	2.7	3.0	3.3	6.6	9.7	10.5	12.5	13.0	14.6
Food Beverage (109)	1,773,082	4.1	3.4	17.2	15.7	14.2	3.1	2.8	2.6	3.0	3.3	3.6	7.6	9.3	10.3	17.5	17.6	18.0
Household Products (25)	443,414	3.8	2.5	17.5	16.5	15.2	3.0	3.1	2.9	2.9	3.1	3.3	2.3	6.3	9.1	17.2	19.0	19.0
Health Care Equip/Svc (62)	645,465	1.6	8.6	14.4	13.2	12.0	2.5	2.2	1.9	1.2	1.3	1.3	11.4	8.6	10.7	16.7	16.5	16.1
Pharma & Biotech (72)	1,870,382	0.8	1.9	11.9	11.8	11.0	2.7	2.4	2.2	3.2	3.4	3.6	4.0	1.3	6.9	19.8	20.2	19.6
Banks (196)	2,600,672	4.3	13.2	10.3	9.7	8.7	1.1	1.1	1.0	3.6	3.9	4.4	4.1	7.4	12.4	9.8	10.1	10.5
Div Financials (100)	1,184,390	6.0	20.8	13.0	10.7	8.8	0.8	0.9	0.8	1.8	2.2	2.7	-16.5	26.4	18.2	6.7	7.9	8.8
Insurance (97)	1,092,627	3.9	12.4	15.3	10.5	9.3	1.0	1.0	0.9	3.4	3.5	4.1	-8.1	44.5	12.1	6.9	9.3	10.0
Real Estate (122)	693,897	3.2	11.7	17.7	19.0	16.3	1.3	1.2	1.2	3.4	3.5	3.7	8.6	-4.6	12.6	7.7	6.4	7.4
Software (74)	1,500,365	6.3	12.3	16.1	14.5	12.7	4.3	3.5	3.0	1.1	1.3	1.4	14.0	10.9	12.9	23.3	24.0	22.9
Tech Hard/Equip (99)	1,475,502	9.7	19.8	15.3	12.4	10.9	2.3	2.0	1.8	1.0	1.2	1.3	10.3	20.4	13.4	16.0	16.5	16.6
Semis (59)	657,255	3.2	12.5	14.0	13.5	11.4	2.6	2.2	1.9	2.1	2.1	2.3	-11.3	0.9	21.5	16.9	16.4	17.0
Telecom (96)	1,293,292	2.1	0.0	12.1	11.5	10.7	1.6	1.6	1.5	4.8	5.3	5.7	-0.5	4.0	8.7	2.9	13.9	14.3
Utilities (136)	1,033,863	2.3	1.5	14.8	13.0	12.3	1.2	1.3	1.2	4.5	4.6	4.8	-19.1	16.3	18.2	8.2	9.7	9.8
World (2448)	28,623,642	3.9	9.8	13.6	12.3	10.8	1.7	1.6	1.5	2.6	2.8	3.1	7.2	9.8	13.2	10.4	13.0	13.5

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI AC World index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year end) with current prices. All numbers are free-float adjusted.

Figure 43: Equity market performance



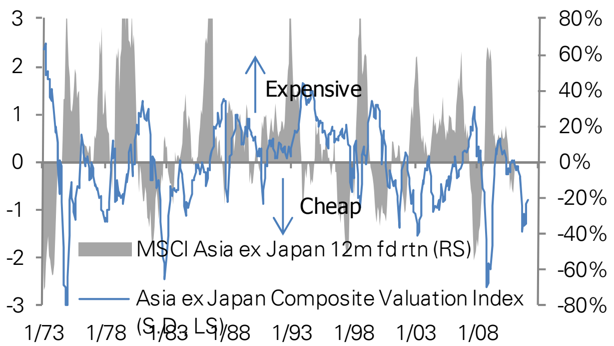


Source: Deutsche Bank, MSCI

Asia – valuation

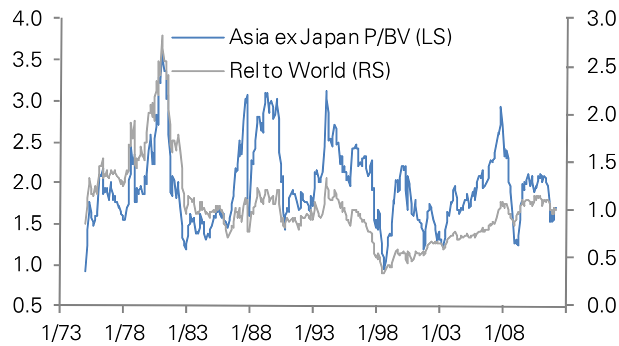
Asian equities remain well below fair value. Our concern about a globally contagious, broad yet shallow recession has been repudiated by the ECB's ease, coupled with the actions of other central banks. If there is no recession, Asian equities look undervalued, despite the recent run-up. Risk-Love is low, the EPS revisions cycle is turning up, EPS growth expectations are modest at 9.6%, the policy cycle is in easing mode, and the technicals are quite robust.

Figure 44: Composite valuation index



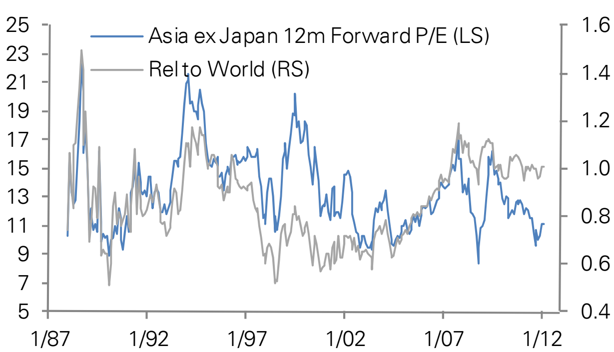
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history

Figure 45: Price-to-book value



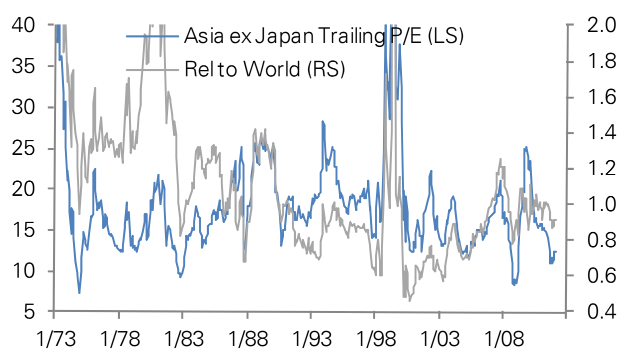
Source: Deutsche Bank, MSCI, DataStream

Figure 46: 12m forward P/E



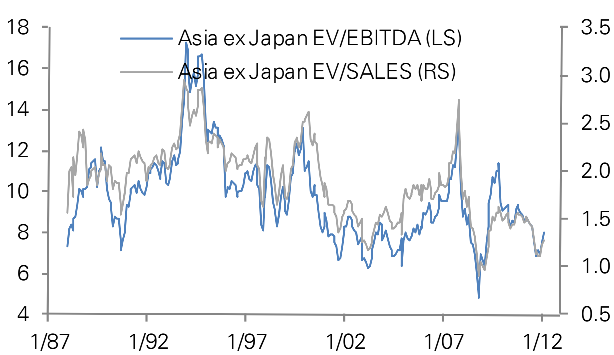
Source: Deutsche Bank, MSCI, I/B/E/S

Figure 47: 12m trailing P/E



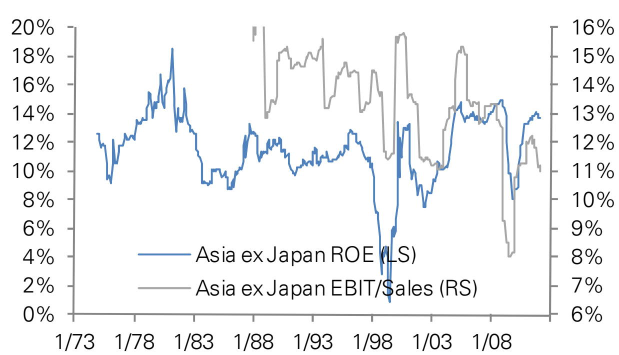
Source: Deutsche Bank, MSCI, DataStream

Figure 48: EV multiples



Source: Deutsche Bank, MSCI, FactSet

Figure 49: ROE and EBIT margin

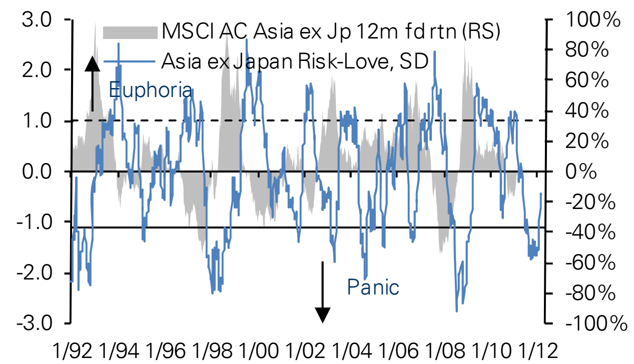


Source: Deutsche Bank, MSCI, FactSet

Asia – investor sentiment

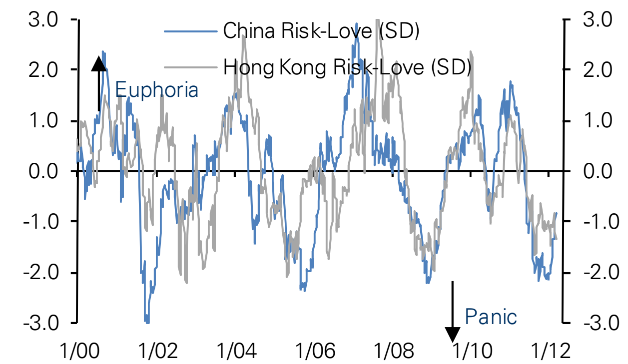
Investor sentiment is recovering gingerly. Foreign inflows YTD have come in at USD21bn, and this exceeds the USD14.5bn outflows from all of last year. Client positioning is getting a bit more aggressive.

Figure 50: Asia Risk-Love indicator



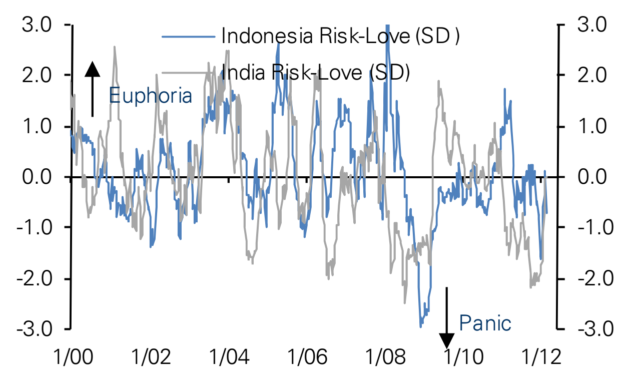
Source: Deutsche Bank, MSCI

Figure 51: China and Hong Kong Risk-Love indicator



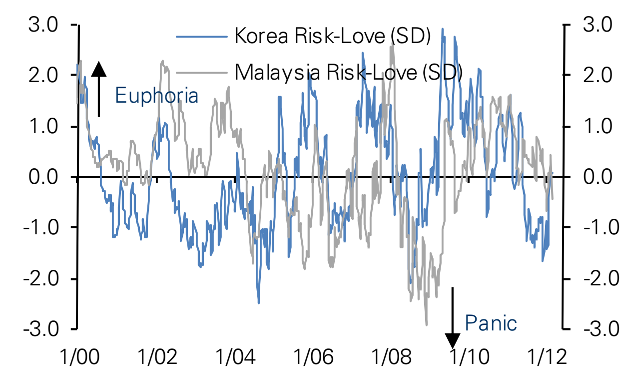
Source: Deutsche Bank

Figure 52: India and Indonesia Risk-Love indicator



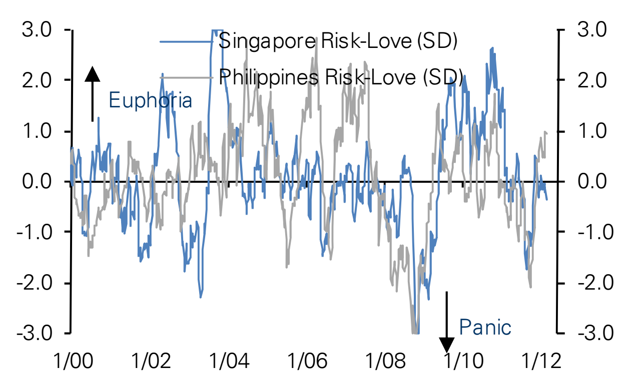
Source: Deutsche Bank

Figure 53: Korea and Malaysia Risk-Love indicator



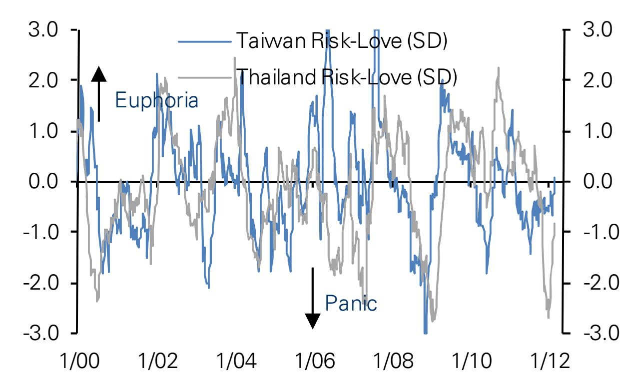
Source: Deutsche Bank

Figure 54: Philippines and Singapore Risk-Love indicator



Source: Deutsche Bank

Figure 55: Taiwan and Thailand Risk-Love indicator

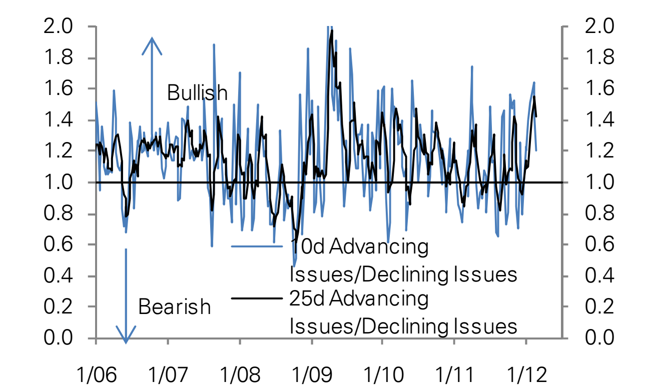


Source: Deutsche Bank

Asia – technicals

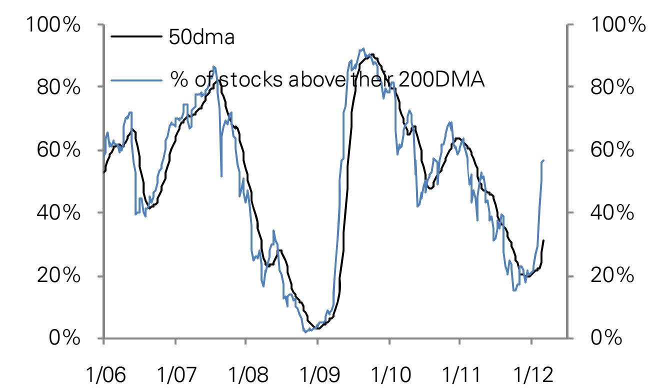
The Tape was washed out in October 2011 – it has since recovered nicely in all countries, most recently in China. All markets we cover are trading above their 200-day moving averages.

Figure 56: Advance/decline ratio



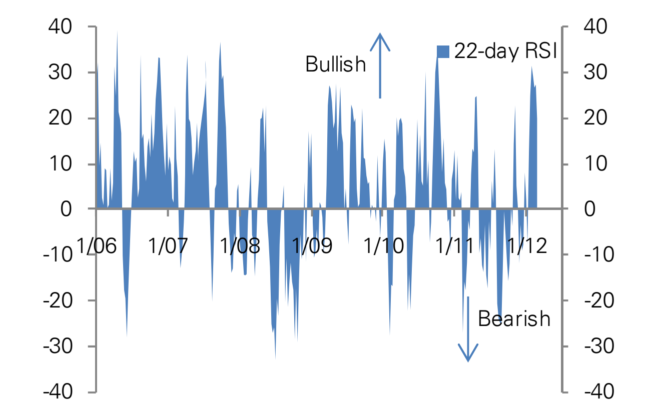
Source: Deutsche Bank, DataStream, FactSet

Figure 57: Percentage of stocks above their 200dma



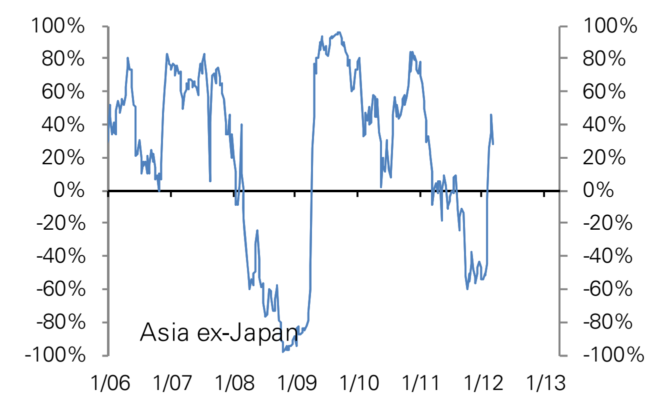
Source: Deutsche Bank, DataStream, FactSet

Figure 58: Relative Strength Index



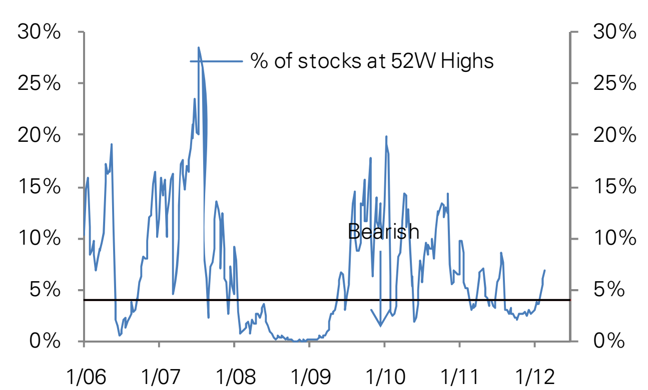
Source: Deutsche Bank, DataStream, FactSet

Figure 59: Market breadth



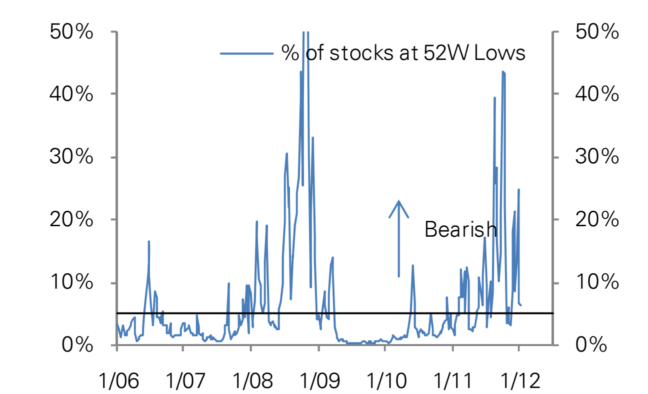
Source: Deutsche Bank, DataStream, FactSet. Market breadth is defined as (# of sub-sectors up on 6 months basis minus # of sub-sectors down on 6 months basis) / total sub-sectors available.

Figure 60: Percentage of stocks at 52w Highs



Source: Deutsche Bank, DataStream, FactSet

Figure 61: Percentage of stocks at 52w Lows

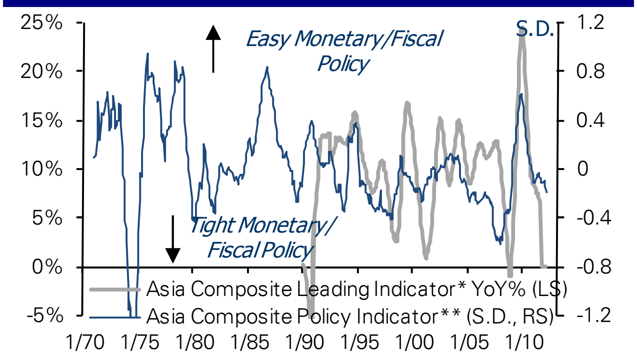


Source: Deutsche Bank, DataStream, FactSet

Asia – growth and earnings

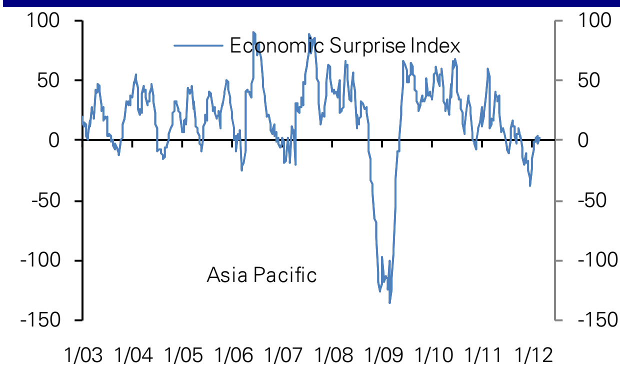
The composite leading economic indicator is bottoming, economic surprises have been improving, and 2012 EPS growth forecasts have been sliced from 15% last July to 9.6% now. Importantly, the best predictor of the EPS cycle – the terms of trade (export prices divided by import prices) have begun to curl up across the region. Analysts could well spend the rest of the year revising 2012 numbers UP.

Figure 62: Leading economic and composite policy indicators



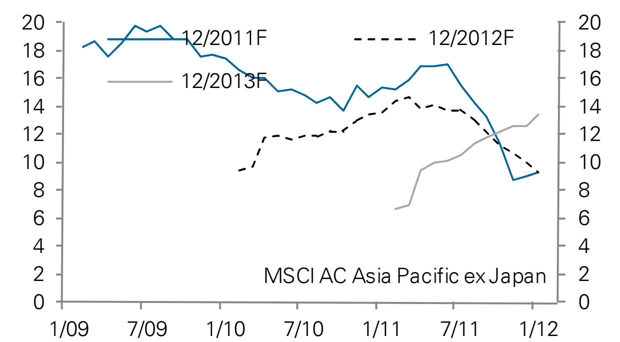
*Source: Deutsche Bank, CEIC, DataStream, Bloomberg Finance LP. Note: *Market cap weighted average of composite leading economic indicators growth for China, India, Korea and Taiwan. **GDP weighed average of composite policy indicators for China, HK, India, Indonesia, Korea, Malaysia, Philippines, Spore, Taiwan & Thailand.*

Figure 63: Economic surprises



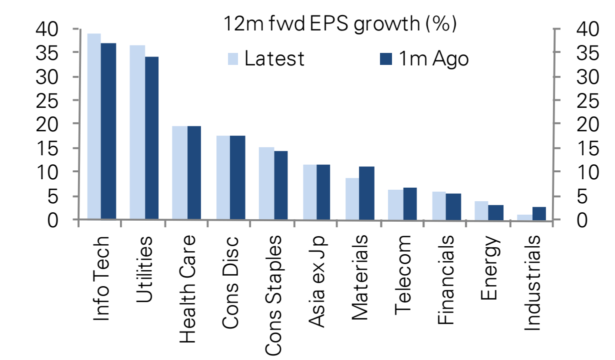
Source: Citigroup, Bloomberg Finance LP

Figure 64: Earnings growth forecast (%)



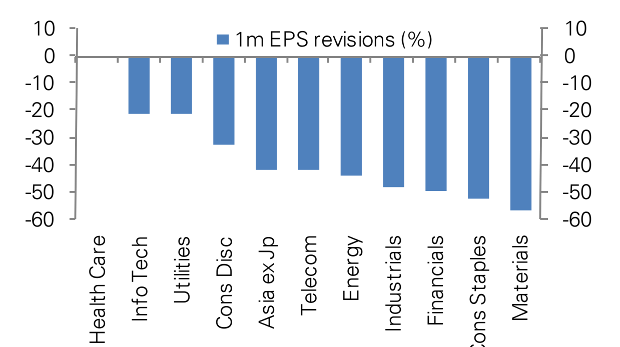
Source: Deutsche Bank, I/B/E/S, MSCI

Figure 65: 12m forward growth forecast by sector



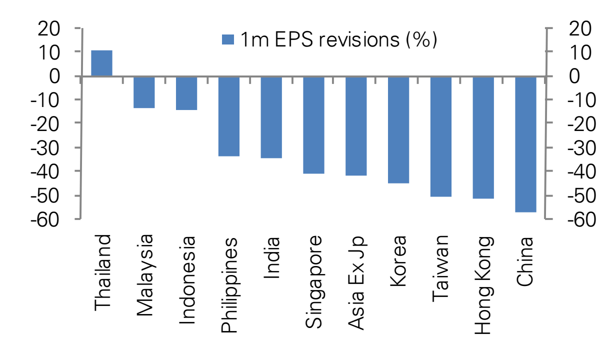
Source: Deutsche Bank, I/B/E/S, MSCI

Figure 66: 12m forward EPS revisions by sector



Source: Deutsche Bank, I/B/E/S, MSCI

Figure 67: 12m forward EPS revisions by country

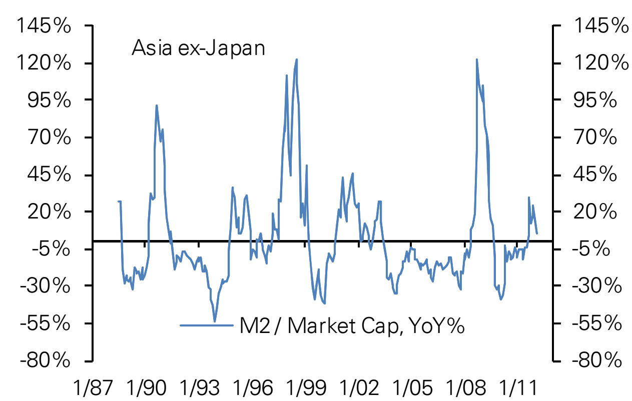


Source: Deutsche Bank, I/B/E/S, MSCI

Asia – liquidity

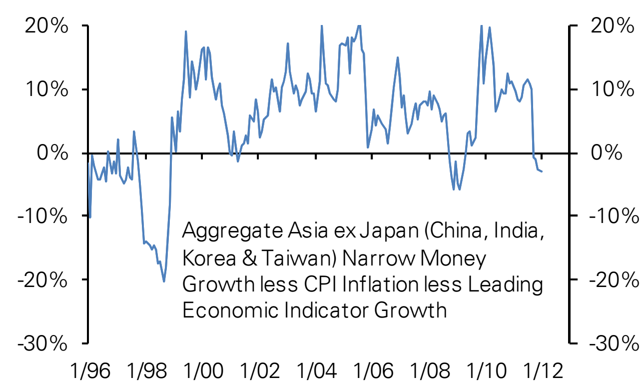
Fund flows have recovered nicely YTD. It is likely that free liquidity – the gap between narrow money growth and economic activity – is bottoming out.

Figure 68: M2/market cap



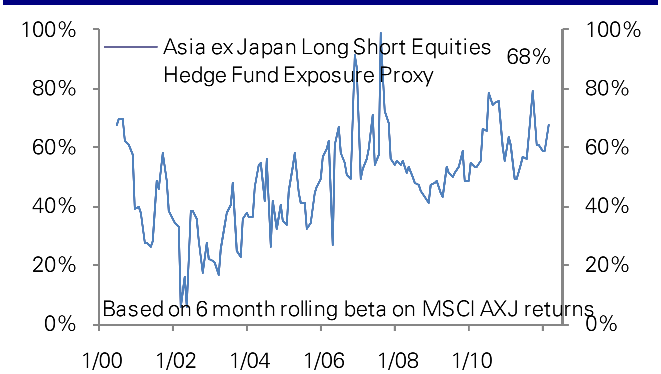
Source: Deutsche Bank, DataStream, Bloomberg Finance LP

Figure 69: Free liquidity



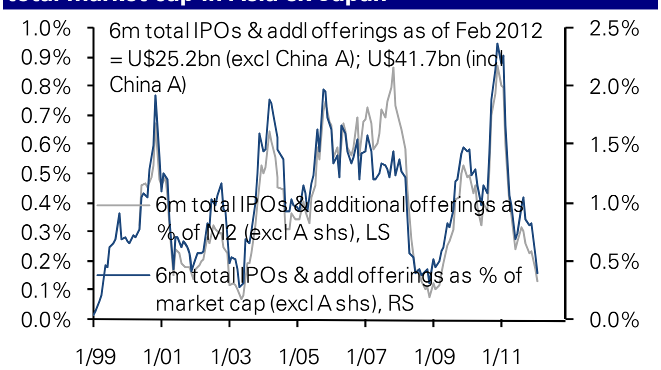
Source: Deutsche Bank, DataStream, Bloomberg Finance LP

Figure 70: Asia-focused hedge fund exposure estimates



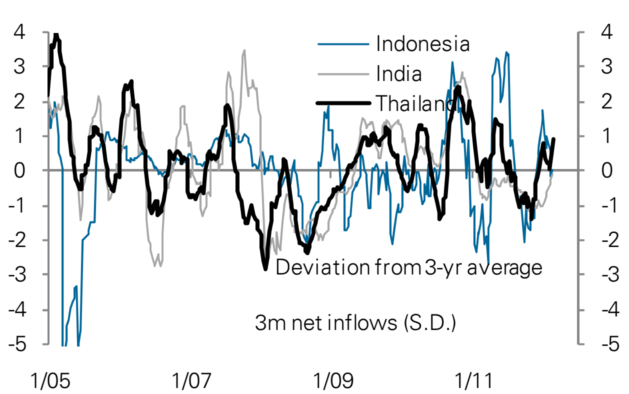
Source: Deutsche Bank, Bloomberg Finance LP

Figure 71: 6m total equity offerings* as percentage of total market cap in Asia ex Japan



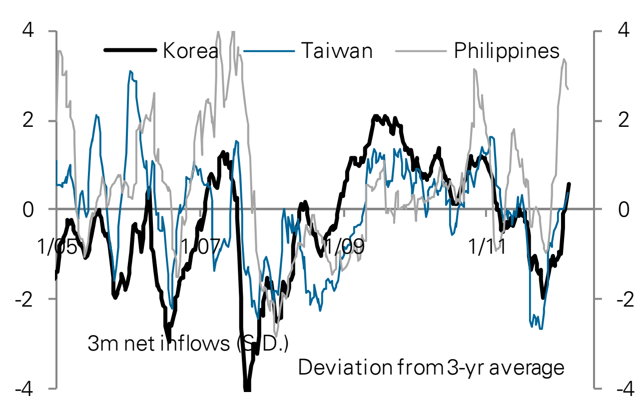
*Source: Deutsche Bank, Bloomberg Finance LP, DataStream. Note: *Equity offerings include IPO and additional equity offerings of primary and secondary shares. Data as of close 5 March, 2012.*

Figure 72: Foreign fund flows



Source: Deutsche Bank, Bloomberg Finance LP

Figure 73: Foreign fund flows

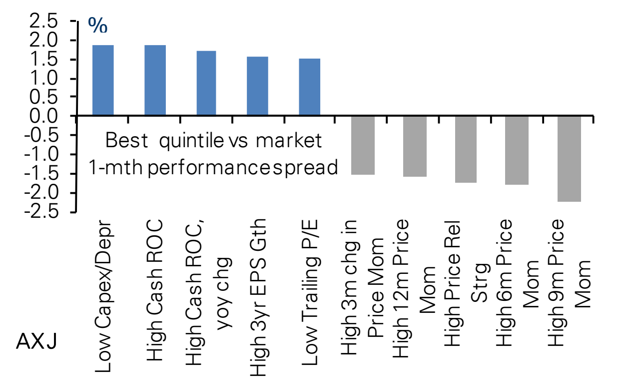


Source: Deutsche Bank, Bloomberg Finance LP

Asia – factor performance

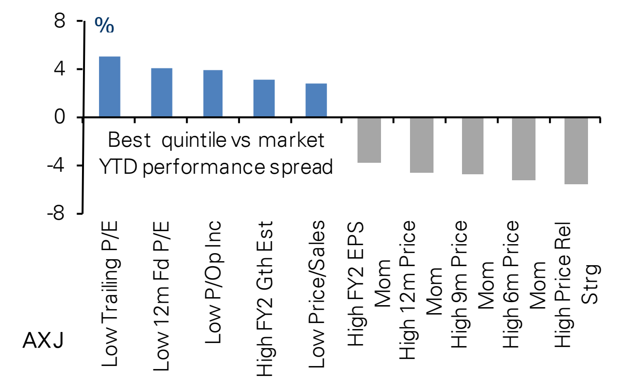
So far, this year has been all about the remarkable recovery of value investing, and the sharp reversal of momentum investing. Also, safety and low risk have been pedestrian this year, after last year's stellar performance.

Figure 74: Best- and worst-performing factors (1-mth)



Source: Deutsche Bank

Figure 75: Best- and worst-performing factors (YTD)



Source: Deutsche Bank

Figure 76: Factor performance (sector neutral)**

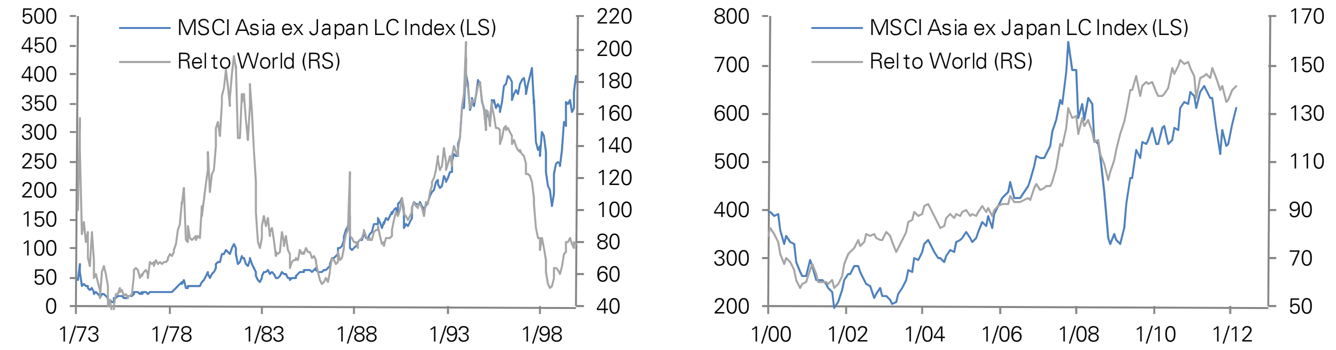
Asia ex Japan Feb 29, 12	Returns YTD	 1m	 3m	 6m	 12m	Ann. Rtn. 5y	 10y	 15y
Valuation								
Low 12m Fd P/E	4.1	1.5	4.2	6.6	3.5	6.9	8.3	6.5
Low Trailing P/E	5.0	1.5	5.5	5.7	3.4	9.3	9.5	8.2
Low P/Op Inc	3.9	0.9	4.6	5.5	3.6	8.5	8.5	7.7
Low P/BV	2.2	-0.1	2.2	2.4	-4.7	4.1	3.8	1.3
Low Price/Sales	2.8	0.4	3.1	1.5	-4.0	1.9	3.3	2.3
Low P/FCF	-0.2	1.0	-0.7	-0.8	-2.1	3.8	3.5	5.3
Low EV/EBIT	2.5	0.6	3.1	4.4	3.7	7.9	8.2	8.4
Low EV/EBITDA	2.6	0.3	3.5	4.8	2.8	6.9	7.5	8.4
Low EV/Cap Emp	2.0	-0.7	2.8	4.6	-1.7	2.9	3.5	2.4
Low EV/Sales	2.2	1.0	2.5	3.0	2.8	5.6	5.9	6.0
Low EV/Op CF	1.5	0.3	2.5	3.3	0.2	6.4	7.0	9.9
Low EV/FCF	0.6	1.3	0.8	0.9	1.6	4.6	3.8	6.5
High Dividend Yield	1.2	0.6	1.0	-0.3	0.7	7.2	8.8	10.4
Average	*2.3*	*0.7*	*2.7*	*3.2*	*0.8*	*5.8*	*6.3*	*6.4*
Price Momentum								
High 6m Price Mom	-5.1	-1.7	-6.0	-9.2	-3.4	-3.3	-1.0	-0.3
High 9m Price Mom	-4.5	-2.2	-5.1	-8.5	-2.4	-3.9	-0.1	1.4
High 12m Price Mom	-4.5	-1.6	-5.0	-8.2	-1.8	-3.5	0.1	1.1
High Price Rel Strg	-5.4	-1.7	-5.8	-7.6	-3.3	-3.0	0.2	2.4
High 3m chg in Price Mon	-1.2	-1.5	-1.8	-5.4	-2.7	-2.2	-0.1	-1.1
High Price Up/Dn Days	-2.8	-0.7	-2.7	-5.0	-0.7	0.3	1.3	1.8
Average	*-3.9*	*-1.6*	*-4.4*	*-7.3*	*-2.4*	*-2.6*	*0.1*	*0.9*
Earnings Momentum								
High FY1 EPS Mom	-2.8	-1.4	-3.1	-2.4	-0.7	0.2	2.3	1.7
High FY2 EPS Mom	-3.6	-1.5	-3.8	-3.4	-1.3	1.5	5.0	4.9
High 12m Fd EPS Mom	-3.3	-1.0	-3.4	-3.5	-1.1	0.5	4.3	4.0
High FY1 EPS Rev	-1.9	-0.2	-2.2	-5.5	-0.4	0.7	3.9	3.8
High FY2 EPS Rev	-2.8	-1.2	-3.3	-6.5	-2.4	-0.1	3.8	3.7
Average	*-2.9*	*-1.1*	*-3.2*	*-4.3*	*-1.2*	*0.6*	*3.9*	*3.6*
Capex Deployment & Earnings Accruals								
Low Capex/Depr	1.1	1.9	0.9	1.9	4.4	-0.2	-2.2	-1.4
Low Capex/Sales	-0.7	0.9	-0.6	-1.5	4.3	3.6	1.9	2.0
Low Capex/FA	0.6	1.4	0.1	1.3	1.3	-2.4	-2.9	-3.7
High Receivables yoy chg	0.2	0.5	0.0	1.0	3.1	0.8	0.4	0.7
Low Inventory yoy chg	-0.8	0.1	-1.5	-1.5	2.5	-1.1	0.6	2.7
Low Payables yoy chg	1.3	-0.3	2.0	1.0	-1.1	-2.1	-1.3	-0.5
Average	*0.3*	*0.8*	*0.2*	*0.4*	*2.4*	*-0.2*	*-0.6*	*0.0*

	Returns YTD	 1m	 3m	 6m	 12m	Ann. Rtn. 5y	 10y	 15y
Profitability								
High Cash ROC	1.0	1.9	1.2	2.1	6.5	6.5	4.5	7.7
High Cash ROC, yoy chg	2.5	1.7	2.4	3.2	6.2	4.0	3.4	3.8
High ROE	1.0	0.7	0.9	1.8	8.6	3.4	3.1	3.9
High ROE, yoy chg	1.6	0.7	1.9	2.7	4.8	5.0	3.4	3.5
Average	*1.5*	*1.2*	*1.6*	*2.4*	*6.5*	*4.7*	*3.6*	*4.7*
Growth								
High 3yr Sales Gth	1.2	0.6	1.3	2.5	-3.0	-1.6	-2.0	-4.2
High 5yr Sales Gth	2.4	0.3	2.6	3.7	-0.5	-1.3	-0.9	-2.1
High 3yr EPS Gth	1.1	1.5	1.0	1.6	5.7	-0.6	0.6	-2.2
High 5yr EPS Gth	1.2	0.9	0.2	0.1	2.7	-1.3	-0.3	-0.6
High LT Gth Est	0.9	0.9	0.5	-0.5	-2.6	-1.3	1.5	0.7
High FY1 Gth Est	0.2	-0.2	0.3	0.1	-1.4	-0.7	1.1	-1.3
High FY2 Gth Est	3.1	0.0	3.7	4.2	-0.8	-2.2	0.1	-1.4
Average	*1.5*	*0.6*	*1.4*	*1.7*	*0.0*	*-1.3*	*0.0*	*-1.6*
Stability								
Low EPS Vola	-0.8	0.1	-1.2	-0.9	0.6	1.6	1.2	1.7
Low Op Inc Vola	-1.9	-0.9	-1.5	-1.1	1.9	1.3	1.8	3.3
Low Book Value Vola	-0.1	-0.1	0.3	0.8	-1.5	-0.4	1.3	0.9
Low Sales Vola	0.3	-0.9	0.3	-0.7	1.4	-1.6	0.3	2.2
Low EPS Est Vola	-0.5	-0.3	-0.3	-1.2	3.7	1.1	-2.0	0.9
Average	*-0.6*	*-0.4*	*-0.5*	*-0.6*	*1.2*	*0.4*	*0.5*	*1.8*
Risk								
Low FY1 EPS Disp	-3.2	-0.6	-3.8	-5.5	-0.1	0.3	1.1	4.5
Low FY2 EPS Disp	-3.5	-1.2	-3.5	-3.8	-0.8	-0.9	0.1	3.2
High EBIT/Int Exp	-0.8	0.9	-0.9	-0.6	2.1	3.8	3.2	5.0
Low Debt/Equity	-1.5	0.6	-1.8	-1.8	1.3	2.3	1.3	2.5
High Altman Z Score	-3.0	0.0	-3.7	-4.6	0.9	-2.1	-1.3	-1.0
High Market Cap	-1.9	-1.3	-1.6	1.0	0.8	0.1	0.2	2.1
Average	*-2.3*	*-0.3*	*-2.5*	*-2.5*	*0.7*	*0.6*	*0.8*	*2.7*
Consensus Ratings								
High Analyst Rec	0.1	0.6	0.1	2.5	5.0	2.7	3.7	7.2
High Analyst Rec 1m chg	1.4	-0.2	1.4	1.9	2.2	4.4	5.1	4.9
Average	*0.8*	*0.2*	*0.7*	*2.2*	*3.6*	*3.6*	*4.4*	*6.0*

*Source: Deutsche Bank, FactSet, I/B/E/S. Note: *1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended Feb 2012. **Quintile baskets are formed on a regional sector relative basis. Relative performance is based on equal weighted average returns of the best quintile basket and the market. For description on factors please see appendix A.*

Asia – market intelligence

Figure 77: Equity market performance



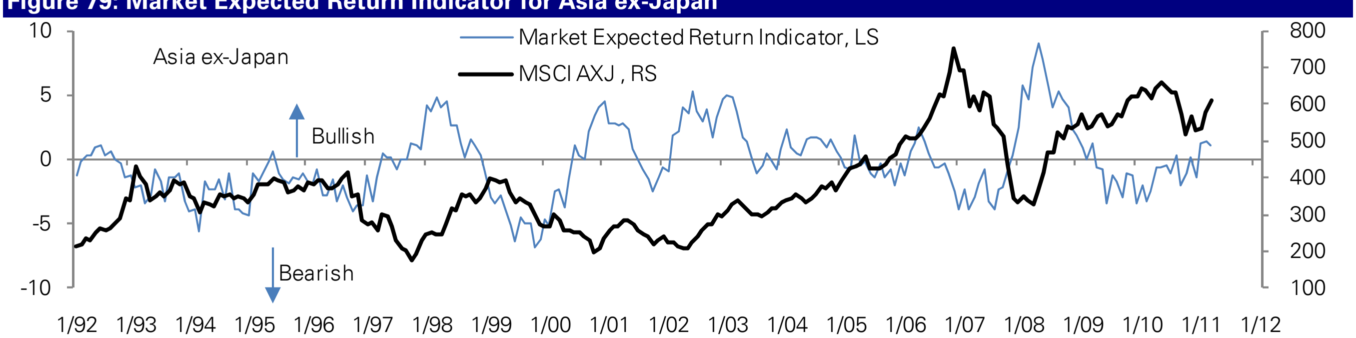
Source: Deutsche Bank, MSCI.

Figure 78: Market intelligence by sector

1Mar12	Mcap	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
Sector (#Co)	U$m	1m	YTD	CY11	CY12	CY13	CY11	CY12	CY13	CY11	CY12	CY13	CY11	CY12	CY13	CY11	CY12	CY13
Energy (27)	215,010	3.5	17.2	10.9	9.8	9.0	1.9	1.7	1.5	3.0	3.2	3.5	15.0	8.4	8.8	17.6	16.8	16.2
Materials (74)	215,617	4.6	16.5	12.0	10.9	9.6	1.6	1.4	1.3	3.8	2.9	3.1	6.9	2.0	12.8	14.1	13.1	13.3
Capital Goods (75)	214,534	6.4	20.1	11.0	11.8	10.6	1.4	1.4	1.3	2.7	2.3	2.4	27.9	-12.9	10.9	14.5	12.2	12.4
Comm Svc (1)	832	-4.2	-6.0	na	13.2	11.9	na	2.4	2.2	na	2.3	2.3	na	na	10.8	na	18.3	18.5
Transportation (34)	55,025	3.9	14.8	21.1	15.9	13.1	1.2	1.2	1.1	2.8	2.7	3.1	nm	25.8	52.1	7.5	7.5	8.5
Autos (26)	126,417	0.9	4.0	14.5	9.0	7.9	2.7	1.8	1.5	1.6	1.4	1.6	8.7	13.1	14.1	19.3	20.1	19.1
Cons Durables (15)	22,410	5.9	13.7	13.6	14.3	11.2	1.9	1.5	1.4	3.5	2.6	2.8	-15.1	15.0	27.1	13.4	10.4	12.1
Cons Svc (12)	46,536	3.3	12.1	19.5	16.0	13.6	3.7	2.8	2.4	1.3	1.9	2.1	23.1	18.7	18.1	12.8	16.1	17.9
Media (3)	7,142	3.0	3.4	17.7	16.7	15.8	3.3	3.2	3.2	5.4	5.2	5.4	-11.2	5.8	5.7	18.9	19.4	19.9
Retailing (15)	46,493	5.1	13.2	19.9	15.8	13.1	3.2	2.2	1.9	2.3	2.4	2.9	-0.1	12.2	20.7	14.9	13.2	14.3
Food/Staples Retail (6)	20,905	1.1	6.2	21.3	17.9	15.2	2.0	2.3	2.1	1.6	2.0	2.4	11.1	18.9	17.7	10.8	12.8	13.6
Food Beverage (25)	86,333	-0.5	1.6	18.8	15.8	14.0	3.7	2.4	2.2	2.3	2.6	3.0	12.9	12.6	12.8	18.2	15.3	15.7
Household Products (6)	24,620	1.3	-2.1	33.5	25.2	21.1	7.9	5.1	4.5	2.0	1.9	2.3	13.0	23.0	19.2	24.4	22.5	23.5
Health Care Equip/Svc (2)	3,573	7.4	7.1	24.4	21.1	16.9	3.1	2.7	2.3	1.0	1.2	1.5	29.2	15.9	24.6	12.5	12.7	13.6
Pharma & Biotech (11)	18,367	-1.7	4.9	21.9	17.9	15.3	3.5	2.9	2.5	1.1	1.1	1.3	14.7	22.0	16.7	15.8	16.0	16.3
Banks (66)	463,248	3.0	13.9	10.4	9.3	8.3	1.7	1.3	1.2	3.7	3.7	4.1	14.7	8.7	11.6	16.9	14.2	14.3
Div Financials (22)	62,550	4.8	18.4	16.4	15.8	14.1	1.5	1.3	1.7	2.8	2.9	3.2	13.2	0.9	12.4	10.8	11.8	12.3
Insurance (13)	105,265	6.6	17.4	19.7	15.5	13.5	2.2	1.9	1.7	1.4	1.6	1.9	-5.9	26.9	15.2	12.4	12.2	12.5
Real Estate (52)	178,769	9.0	22.9	12.5	13.2	11.8	0.9	0.9	0.8	3.0	2.9	3.1	10.1	-1.0	13.0	7.4	7.2	7.8
Software (10)	85,393	6.8	11.7	23.0	18.9	16.0	6.4	5.0	4.0	1.1	1.0	1.2	24.8	19.1	18.4	28.2	26.5	25.1
Tech Hard/Equip (44)	147,554	9.0	22.3	16.0	12.8	11.1	1.9	1.6	1.5	2.9	3.2	3.5	-49.4	98.8	30.1	13.2	13.8	14.8
Semis (29)	260,090	7.6	13.0	16.5	12.3	10.4	2.7	1.9	1.7	3.3	2.0	2.2	-39.2	14.7	20.5	16.9	15.6	16.2
Telecom (24)	162,295	2.0	2.2	13.5	12.5	11.5	1.9	1.8	1.7	4.2	4.5	4.8	5.3	5.4	8.8	14.8	14.1	14.3
Utilities (29)	95,610	4.8	6.7	16.6	14.8	13.0	1.9	1.8	1.7	2.4	2.8	3.0	4.5	15.9	13.4	10.7	9.6	10.1
Asia ex Japan (621)	2,664,586	4.6	13.4	13.5	11.9	10.5	1.8	1.6	1.4	3.0	2.8	3.1	2.7	9.7	14.3	13.7	13.3	13.6

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI AC Asia ex Japan index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year end) with current prices. All numbers are free-float adjusted.

Figure 79: Market Expected Return Indicator for Asia ex-Japan



Source: Deutsche Bank, MSCI, Bloomberg Finance LP

Japan strategy

1. **Political and economic events:** Prime Minister Yoshihiko Noda won Cabinet approval on 17 February for a broad framework for social security and tax reform, including an increase in the consumption tax. Under the scheme, the consumption tax would be increased from the present 5% to 8% in April 2014 and to 10% in October 2015. The government plans to submit draft legislation to the Diet by the end of March. Recall that the Aso government during the LDP's reign also obtained Cabinet approval in 2009 for a consumption tax hike to be introduced in FY11, however, it was never implemented. The Noda administration has ceded partial authority to the ruling party (DPJ Policy Research Council), but it is not clear whether it can overcome opposition within the party. Moreover, even if the legislation passes the Lower House, it may not make it past the Upper House, where the opposition maintains control. The government may try to strike a deal with the opposition whereby it agrees to dissolve the Diet and hold an election in exchange for cooperation in passage of a consumption tax hike. Its political leadership in such a case could be further damaged.

   Labour statistics for December reveal that gross cash compensation edged up 0.1% yoy. The January Consumer Confidence Index fell 3.6% yoy, but was up, if only barely, on a mom basis. At the same time, December core machinery orders (private-sector orders excluding ships and electric power) declined 7.1% mom (+6.4% yoy), considered a minor drop after the previous month's impressive rise. External demand (exports) was up for a third month running.

2. **Corporate earnings and investment opinions:** The IBES 12-month forward earnings estimate revisions [(upward revisions – downward revisions) divided by the number of target stocks] came to -15% in February, showing a preponderance of downward revisions.

   Our analysts have raised Nippon Building Fund (8951, ¥779,000) from Hold to Buy; lowered Nippon Sheet Glass (5202, ¥136), Toyota Boshoku (3116, ¥1,019), Nikon (7731, ¥2,201) and Tokyo Tatemono (8804, ¥331) from Buy to Hold; and lowered Elpida Memory (6665, ¥7) and Hoya (7741, ¥1,892) from Hold to Sell. **Investor trends:** TSE investor data showed that foreigners became net purchasers in January while individuals were net sellers. Trust banks remained net buyers. Transaction value is on the rise in a growing risk-on mood. The QSS (QUICK survey) in early January found that investors on average remained heavily underweight in utilities and finance and overweight in autos, and were increasingly overweight in construction and real estate. At the same time, investors significantly reduced their overweighting in electrical, precision and general machinery and steel.

3. **This month's events:** Sustainability of improvement in US employment data. Possible political progress on the European debt problem.

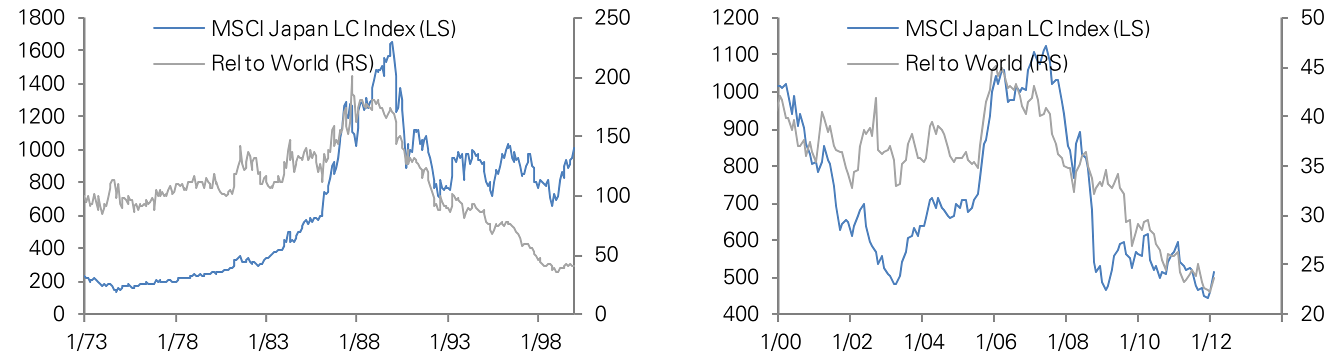
4. **Top stock ideas:** Toray Industries, 3402.T, Gree, 3632.T, Rakuten, 4755.OS, Rinnai, 5947.T, Toyota Motor, 7203.T, Aisin Seiki, 7259.T, Honda Motor, 7267.T, Itochu, 8001.T, SMFG, 8316.T, and Sumitomo R&D, 8830.T

   For our Top Ten stock picks, we remove Kajima (1812) and NTT Docomo (9437) and add Toyota (7203) on growing confidence in the US economic recovery, and Sumitomo Mitsui Financial Group (8316) due to additional easing by the BoJ and expectations for a decline in European financial market risk. Our auto industry analyst Kurt Sanger reaffirmed his Buy rating on Toyota on 24 February, citing its projected earnings recovery and valuations. Our bank sector analyst Yoshinobu Yamada has raised his target price for the major Japanese banks and confirms his Buy rating for SMFG (dated 16 February).

Naoki Kamiyama, CFA

Japan – market intelligence

Figure 80: Equity market performance



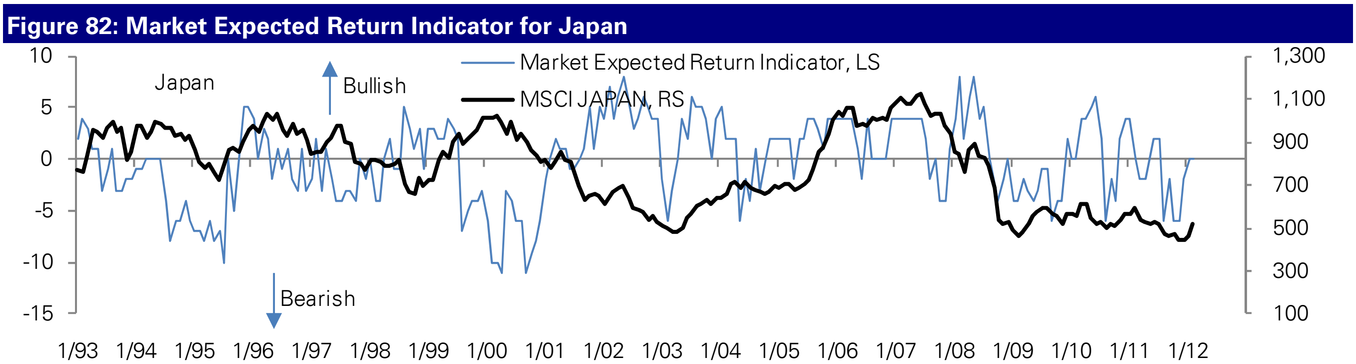
Source: Deutsche Bank, Bloomberg Finance LP, DataStream.

Figure 81: Market intelligence by sector

1Mar12	Mcap	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
Sector (#Co)	U$m	1m	YTD	CY11	CY12	CY13	CY11	CY12	CY13	CY11	CY12	CY13	CY11	CY12	CY13	CY11	CY12	CY13
Energy (7)	38,423	7.7	9.9	8.5	9.9	9.6	0.8	0.8	0.7	2.3	2.3	2.4	30.9	-22.8	3.0	10.6	7.7	7.5
Materials (35)	161,325	10.0	13.8	20.8	14.6	11.1	1.0	0.9	0.9	2.0	2.1	2.4	-18.0	51.8	30.4	4.5	6.5	8.0
Capital Goods (49)	348,087	9.3	17.6	11.3	10.8	9.1	1.2	1.1	1.0	2.4	2.5	2.7	23.1	13.4	9.9	10.8	11.2	11.3
Comm Svc (3)	20,110	5.5	10.3	21.3	18.2	15.8	0.8	0.8	0.7	2.9	2.9	3.0	-12.4	16.8	15.1	3.7	4.2	4.7
Transportation (18)	102,585	6.8	7.2	22.0	16.5	13.9	1.1	1.0	1.0	1.6	1.7	1.8	-21.9	38.5	24.1	5.1	6.5	7.3
Autos (22)	293,360	14.9	25.9	19.1	13.7	10.5	1.1	1.1	1.0	1.6	1.9	2.4	nm	45.9	31.8	5.9	7.8	9.4
Cons Durables (14)	88,504	14.6	12.9	-180.9	21.2	13.5	0.9	0.9	0.9	1.7	1.8	2.0	na	na	508.5	-0.5	4.5	6.4
Cons Svc (3)	10,161	3.7	2.6	22.5	17.1	14.8	1.9	1.7	1.6	1.7	1.8	1.9	14.2	31.3	15.6	8.4	10.1	10.8
Media (4)	10,849	3.4	7.3	23.2	18.6	16.7	1.2	1.1	1.1	1.4	1.6	1.7	6.0	24.5	11.5	5.2	6.1	6.5
Retailing (11)	42,814	7.3	8.0	17.0	13.9	13.2	1.5	1.4	1.2	1.3	1.4	1.5	35.6	22.9	4.8	8.8	9.7	9.4
Food/Staples Retail (4)	34,600	3.6	2.4	15.4	13.1	11.9	1.1	1.1	1.0	2.7	2.8	2.9	17.7	18.1	9.5	7.2	8.0	8.3
Food Beverage (13)	69,952	9.3	10.1	22.7	17.1	15.2	1.4	1.3	1.2	1.9	2.1	2.3	8.7	32.9	12.6	6.0	7.6	8.1
Household Products (3)	25,974	5.5	2.7	24.4	21.2	19.0	2.2	2.1	2.0	2.5	2.5	2.6	8.3	14.8	12.1	8.9	9.7	10.3
Health Care Equip/Svc (7)	22,084	9.8	13.4	26.3	18.6	15.2	1.5	1.5	1.4	1.5	1.6	1.7	-12.1	41.3	22.6	5.3	7.9	9.1
Pharma & Biotech (14)	111,031	6.6	4.5	17.6	17.0	15.4	1.4	1.3	1.3	3.9	4.0	4.1	-18.0	3.5	10.4	7.8	7.9	8.4
Banks (23)	217,145	12.7	21.4	8.0	9.0	9.4	0.7	0.7	0.6	3.1	3.1	3.2	18.1	-11.7	-3.8	8.8	7.3	6.7
Div Financials (7)	41,635	17.6	34.0	39.8	17.2	11.5	0.7	0.7	0.6	1.8	2.0	2.1	-28.7	130.7	43.1	1.6	3.7	5.5
Insurance (6)	84,940	14.2	27.6	-27.3	39.5	18.0	0.9	0.9	0.9	3.1	3.1	3.1	-123.0	na	118.7	-3.3	2.3	4.8
Real Estate (14)	79,318	13.2	22.9	21.0	18.6	16.9	1.4	1.3	1.3	1.6	1.6	1.7	19.8	12.6	10.0	6.7	7.2	7.5
Software (12)	42,827	11.4	8.3	28.9	20.3	15.8	1.7	1.6	1.5	1.8	1.6	1.9	-44.4	42.1	28.5	5.9	7.9	9.4
Tech Hard/Equip (25)	216,335	12.7	12.6	17.4	15.3	12.3	1.2	1.1	1.1	2.2	2.3	2.5	-9.0	26.6	23.7	6.1	7.4	8.6
Semis (5)	17,501	0.9	10.2	35.5	29.9	16.4	1.1	1.1	1.0	1.8	1.6	2.1	-359.7	na	na	2.9	3.5	6.1
Telecom (4)	94,241	6.5	2.4	10.1	9.1	8.4	1.1	1.0	0.9	2.6	2.7	2.9	14.6	11.4	8.0	10.6	10.8	10.8
Utilities (13)	81,540	9.4	8.8	-47.0	19.1	17.0	0.8	0.9	0.8	3.3	3.1	3.1	na	na	na	-1.8	5.2	5.5
Japan (316)	2,255,343	10.6	14.8	16.9	13.6	11.5	1.1	1.0	0.9	2.3	2.4	2.6	-10.7	41.3	26.4	6.2	7.6	8.3

Source: Deutsche Bank, I/B/E/S, MSCI. Note: Data in the table are compiled based on MSCI country index universe. P/E, P/B, dividend yield, EPS growth and ROE are aggregated using I/B/E/S consensus estimates (calendarized to December year end) with current prices. All numbers are free-float adjusted.

Figure 82: Market Expected Return Indicator for Japan

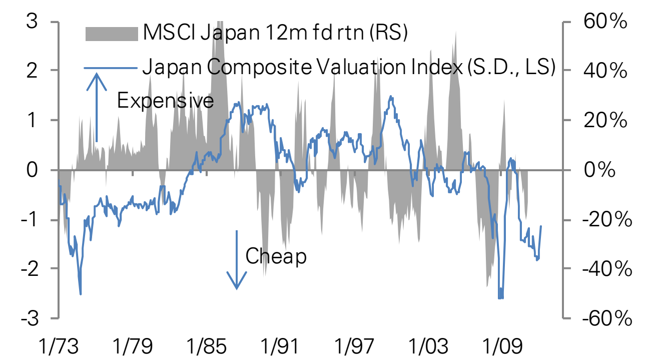


Source: Deutsche Bank, MSCI, Bloomberg Finance LP

Japan – valuations

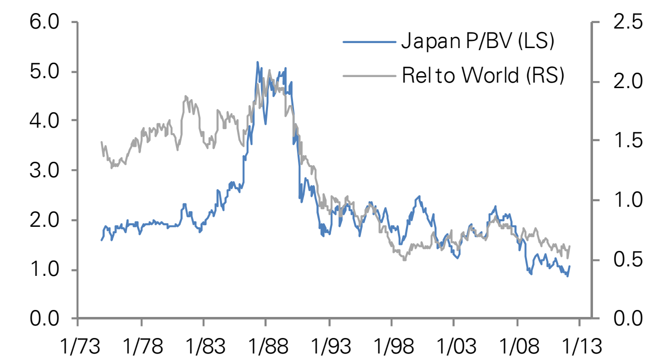
Japanese equities are quite undervalued. Japanese sectors continue to dominate the world's cheapest quartile of sectors. Trading at a PB of 1, an ROE of 8% and a JGB yield of around 1%, the gap between ROEs and debt costs is a high 7%, larger than that in ex-Japan Asia, which trades at 1.8 PB. At 13.5x 2012E earnings, the PE is slightly higher than the global PE multiple of 12.2x.

Figure 83: Composite valuation index



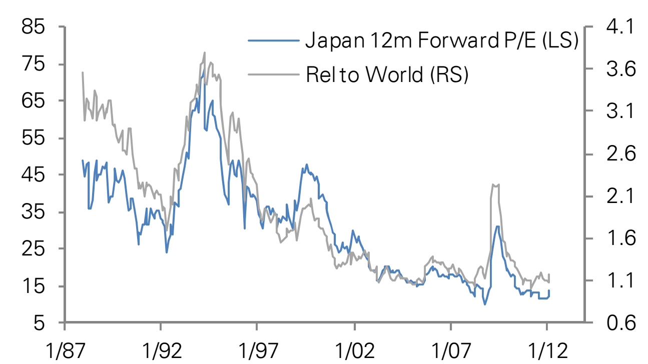
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales, normalized over entire history.

Figure 84: Price-to-book value



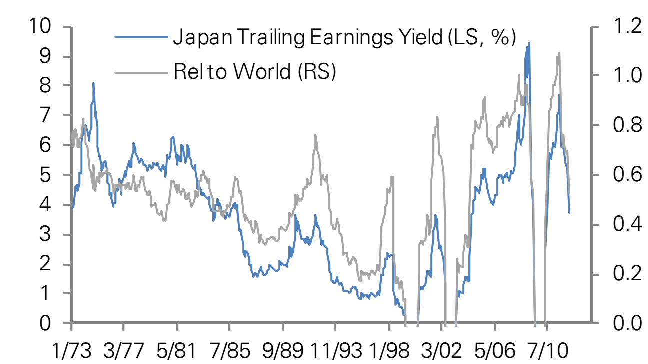
Source: Deutsche Bank, MSCI, DataStream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 85: 12m forward P/E



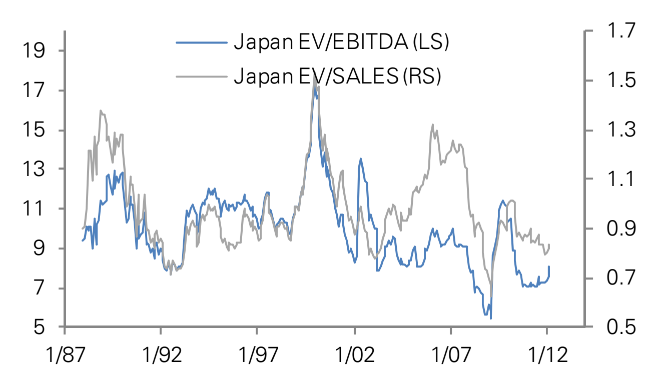
Source: Deutsche Bank, MSCI, I/B/E/S. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 86: 12m trailing earnings yield



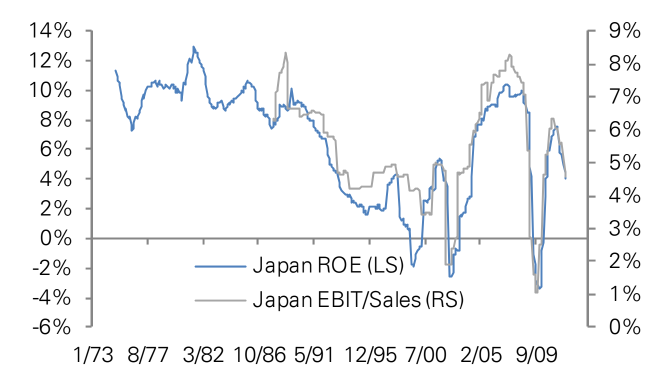
Source: Deutsche Bank, MSCI, DataStream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 87: EV multiples



Source: Deutsche Bank, MSCI, FactSet

Figure 88: ROE and EBIT margin

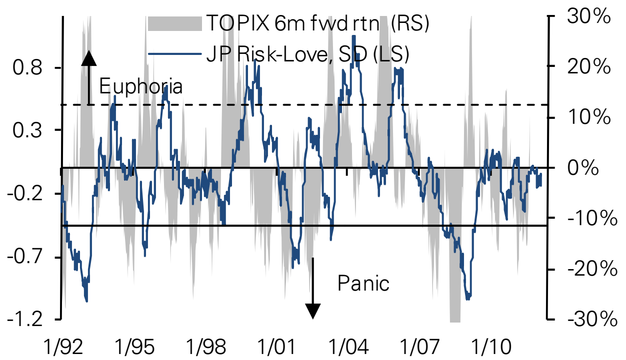


Source: Deutsche Bank, MSCI, FactSet

Japan – investor sentiment

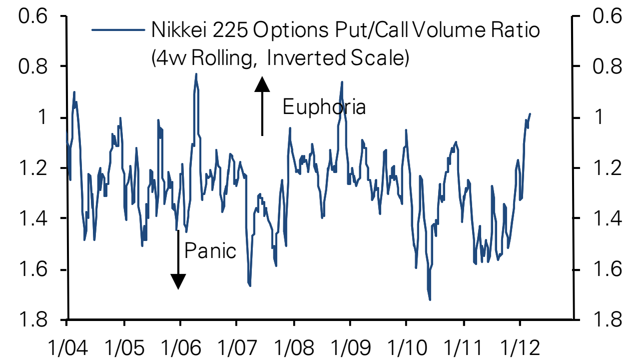
Sentiment is Japan is still subdued, despite the recent market rally and BoJ inflation targeting monetary ease.

Figure 89: Equity Risk-Love indicator



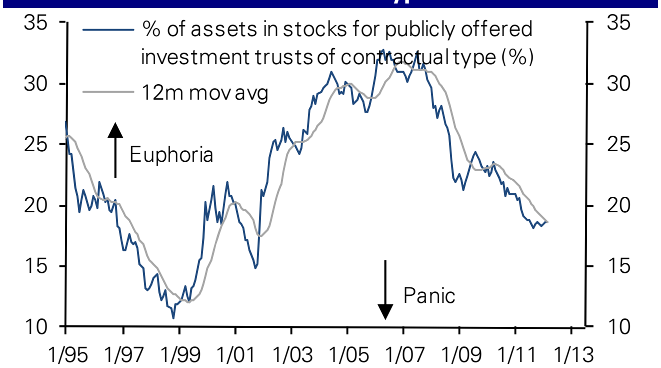
Source: Deutsche Bank, Bloomberg Finance LP

Figure 90: Market volatility (inverted scale)



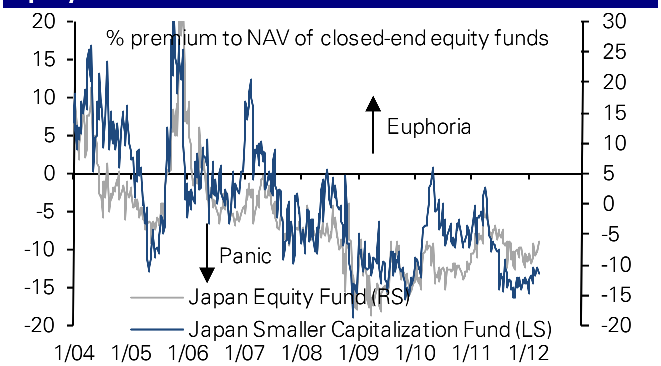
Source: Deutsche Bank, DataStream

Figure 91: Asset allocation to stocks for publicly offered investment trusts of contractual type



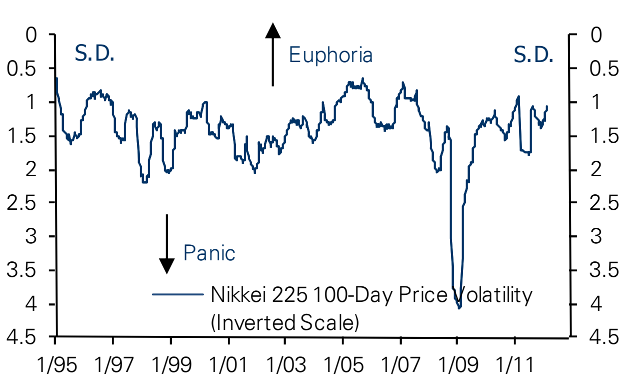
Source: Deutsche Bank, SENTIX Capital Markets Survey.

Figure 92: Percentage premium to NAV of closed-end equity funds



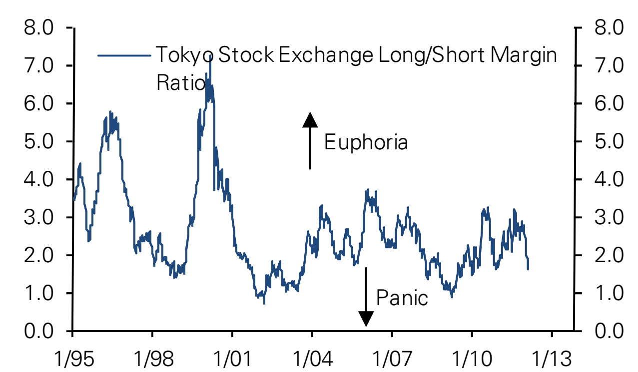
Source: Deutsche Bank, Cabinet Office, Shoko Chukin Bank.

Figure 93: Market volatility



Source: Deutsche Bank, DataStream

Figure 94: Margin ratio

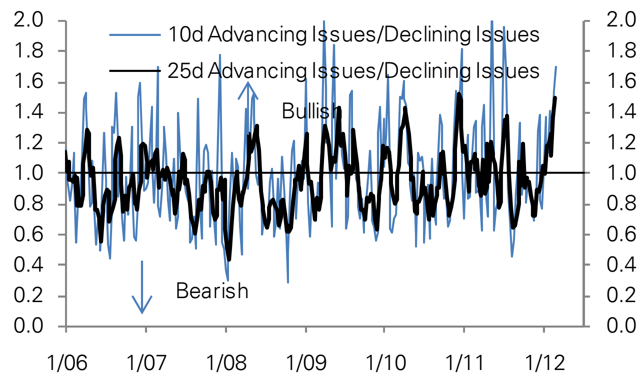


Source: Deutsche Bank, Tokyo Stock Exchange.

Japan – technicals

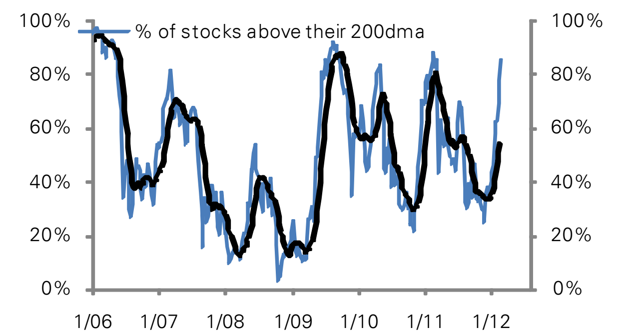
The technicals have gone from really bad last October to quite resilient now. The question we are asking is – are technicals contrary indicators or confirming indicators in an environment of frequent recession? Perhaps the latter in Japan?

Figure 95: Advance/decline ratio



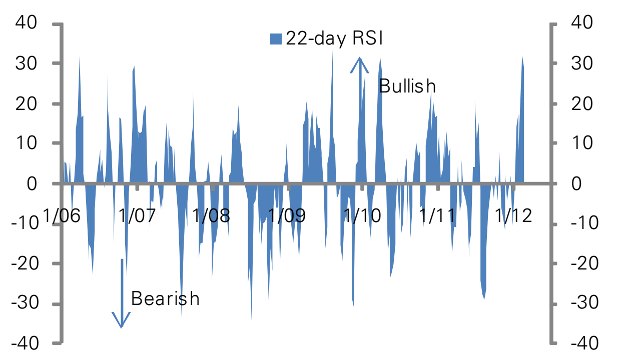
Source: Deutsche Bank, DataStream, FactSet

Figure 96: Percentage of stocks above their 200dma



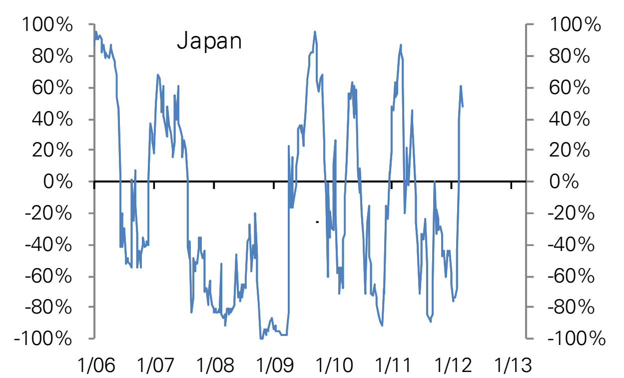
Source: Deutsche Bank, DataStream, FactSet

Figure 97: Relative Strength Index



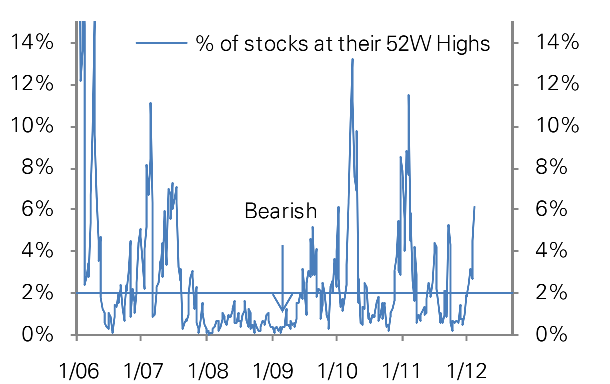
Source: Deutsche Bank, DataStream, FactSet

Figure 98: Market breadth



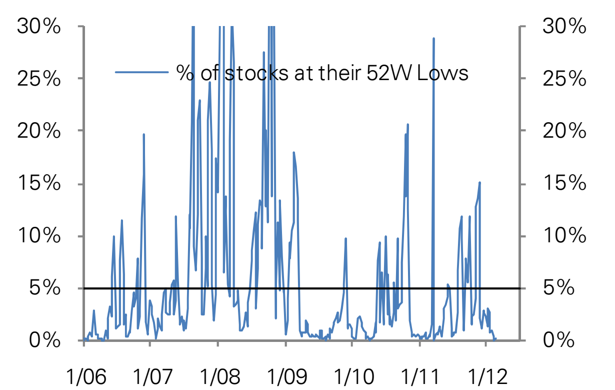
Source: Deutsche Bank, DataStream, FactSet. Market breadth is defined as (# of sub-sectors up on 6 months basis minus # of sub-sectors down on 6 months basis) / total sub-sectors available.

Figure 99: Percentage of stocks at 52w Highs



Source: Deutsche Bank, DataStream, FactSet

Figure 100: Percentage of stocks at 52w Lows

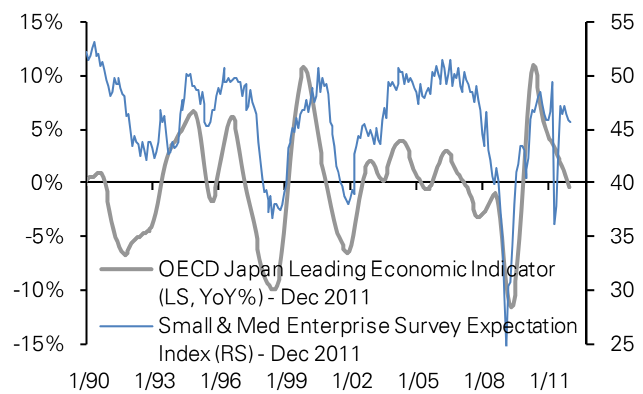


Source: Deutsche Bank, DataStream, FactSet

Japan – growth and earnings

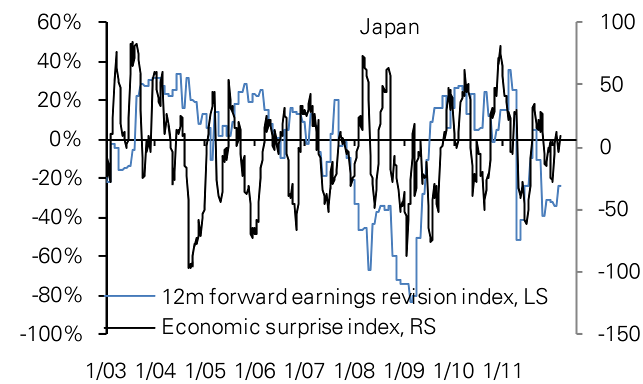
Japanese policy indicators are at expansionary settings, especially given the recent weakness in the Yen, and monetary easing by the BoJ. The sales tax, if it happens, is a long way off in 2014.

Figure 101: Leading economic indicators



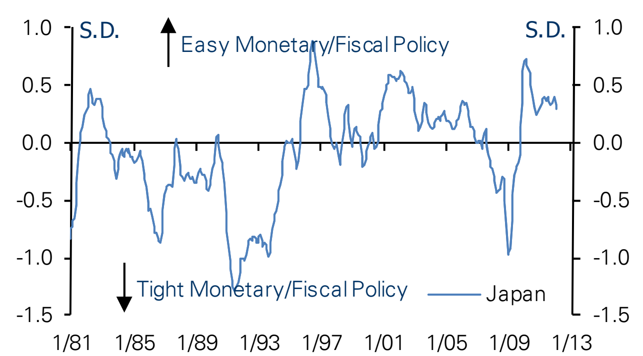
Source: Deutsche Bank, OECD, DataStream

Figure 102: Earnings revisions and economic surprises



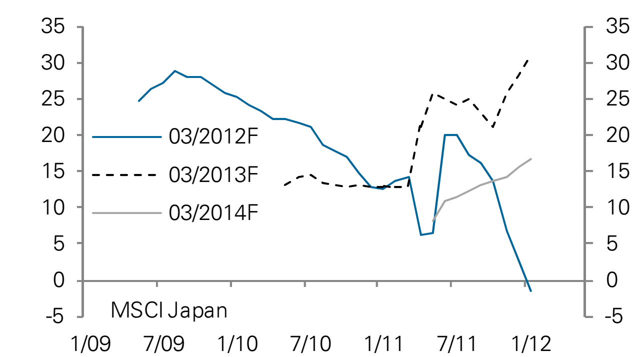
Source: Citigroup, Factset

Figure 103: Composite policy indicator



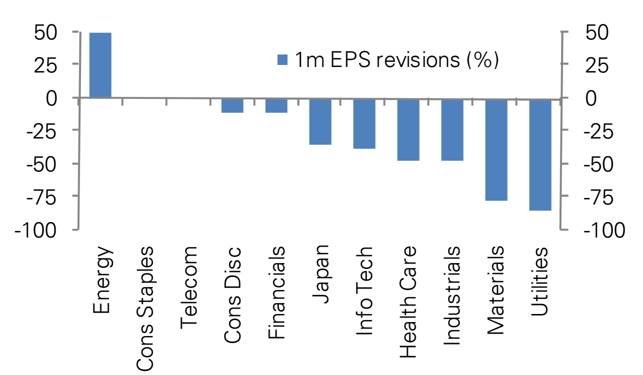
Source: Deutsche Bank, CEIC, DataStream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate yoy growth, real broad money (M2) y-o-y growth, short term real interest rate and government fiscal deficit/surplus as a % of GDP.

Figure 104: Earnings growth forecast (%)



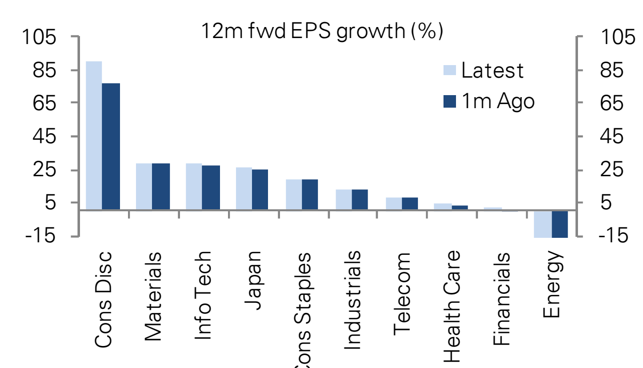
Source: Deutsche Bank, MSCI, I/B/E/S

Figure 105: 12m forward EPS revisions by sector



Source: Deutsche Bank, MSCI, I/B/E/S. Note: EPS revisions = number of upward less downward revisions as % of total number of revisions in one month.

Figure 106: 12m forward EPS growth forecast by sector

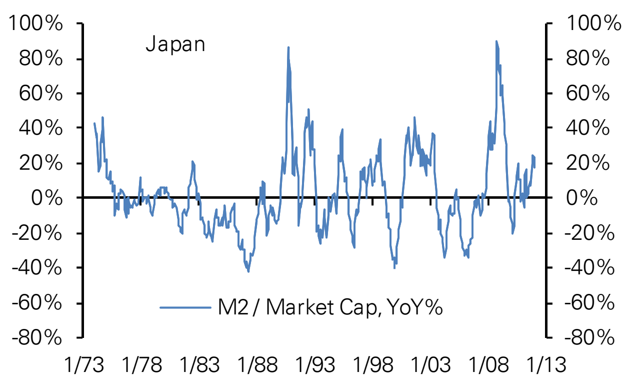


Source: Deutsche Bank, MSCI, I/B/E/S

Japan – liquidity

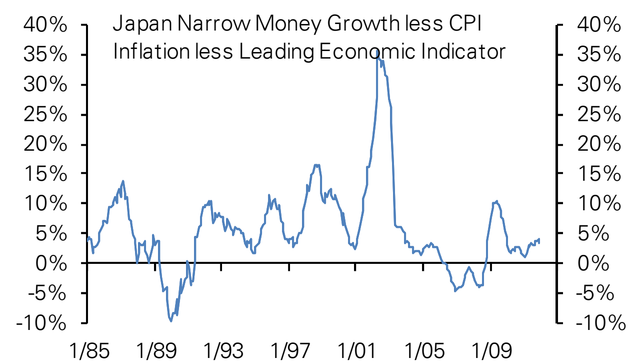
IPOs are moribund. The correlation between the long bond yield and the Nikkei-225 is intact. As MOMLI (the mother of leading indicators) curls up decisively, the expectation of stronger nominal global economic growth has revived the Japanese equity market.

Figure 107: M2/market cap



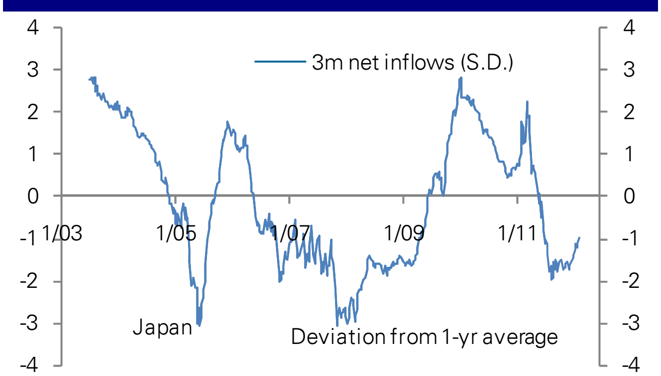
Source: Deutsche Bank, DataStream

Figure 108: Free liquidity



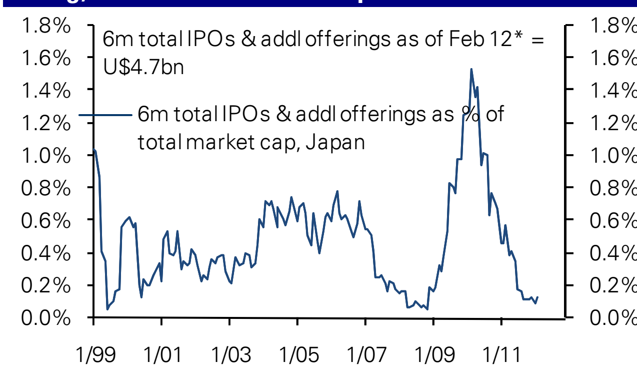
Source: Deutsche Bank, DataStream

Figure 109: Foreign fund flows into equities



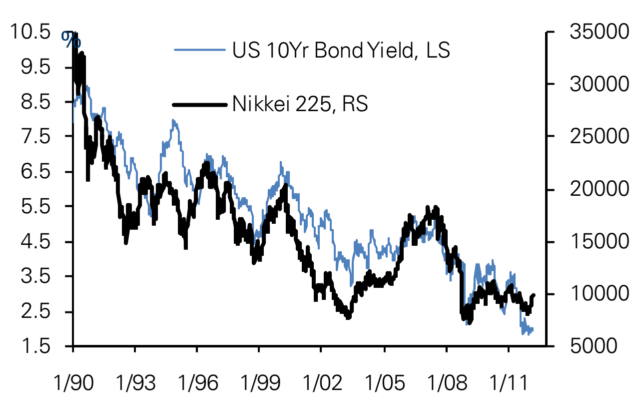
Source: Deutsche Bank, Bloomberg Finance LP

Figure 110: IPOs and additional equity offerings (6m rolling) as % of total market cap



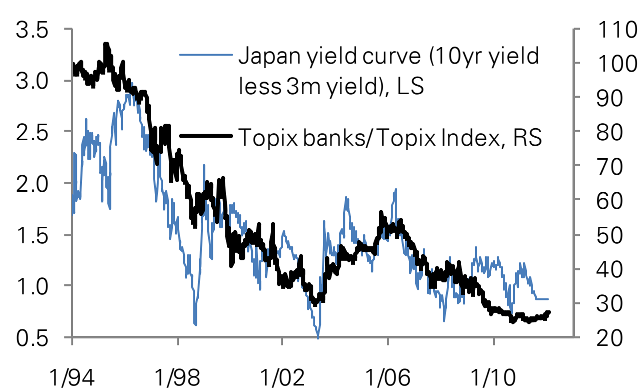
*Source: Deutsche Bank, Bloomberg Finance LP, DataStream. Note: *Equity offerings includes IPO and additional equity offerings of primary and secondary shares.*

Figure 111: US ten-year bond yield and Nikkei 225



Source: Deutsche Bank, DataStream

Figure 112: Japan yield curve



Source: Deutsche Bank, DataStream

China strategy

1. **Policy and economics:** February PMI rebounded to 51, suggesting that the moderating GDP growth trend has stabilized as external demand improved and government support for SME showed some effect. The main concern is that money growth is below target and January inflation (+4.5% yoy) surprised on the upside. The macro data are hard to read given the seasonal effect from the Chinese New Year. January export growth still managed to grow 5% yoy sa, with robust demand from the US and emerging markets offsetting the weakness from Europe. Domestic demand remains resilient due to a strong labour market and has offset the weak external demand. Inflation pressure started to level off with February CPI expected to be 3.5% yoy. We expect recently falling agriculture prices and a favourable base effect will lead to further disinflation for the next few months.
   In the first two months of 2012, property sales in 39 key cities (source: Soufun) declined by 46% yoy and the average property price fell 6% yoy, with buyers choosing to wait on the sidelines as price cuts becomes more widespread nationwide. The softening property sector together with the reduction in informal lending will lower the prospects for economic growth in 2012; however, we are close to the bottom of GDP growth as the policy environment and external demand will improve in 2H12. In response to slow new loan growth and the rising interbank rate, RRR was cut by 0.5% in February. The flexibility displayed by policymakers reduced the hard landing risk from over tightening. We expect two more RRR cuts in 1H12 to limit the impact from slow capital inflows while maintaining reasonable credit growth. The fiscal budget will be released next month and is expected to be modestly expansionary.

2. **Company ratings changes:** 1) downgrading Sinoma, Sohu, China Oilfield Service, CRC, CRG to Hold; 2) downgrading Renren to Sell on losing the momentum of new users; 3) upgrading Anhui Conch and China COSCO to Hold on better business outlook; and 4) upgrading CNBM and Shanshui to Buy on improving outlook.

3. **Fund flows and investor views:** MSCI China index rallied by 7% in February on the RRR cut and improved global risk appetite. High beta sectors like finance, materials, consumer discretionary and IT outperformed defensive sectors like utility, consumer staples and telecoms. 12-month FPE recovered from 8.3x at the beginning of year to its current level of 9.5x. We still expect 15% upside potential from here to reach our targeted FPE of 10.5x following the lessening of hard landing fears.

   However, over the next 12 months, the broad direction and objective of the future policy easing will continue to unravel. We believe the forthcoming policy easing is likely to include more RRR cuts (two more cuts within the next six months), selective credit easing, some tax reductions, and some increase in independent bond issuance by local governments. The beneficiaries from these policies are likely to include banks, insurance, consumers, IPP, transportation/logistics, infrastructure projects, public housing and SMEs.

4. **Events/data/risks to watch:** 1) pace of Chinese policy easing towards property and RRR; 2) National People's Congress and fiscal budget; and 3) Chinese monthly new bank loans.

5. **Top stock ideas:** Our top Buys are ICBC, Baidu, CNOOC, Dongfeng Motor, Ping An Insurance, CR Land, China Container Shipping Line, Mindray, ZTE, Belle and Huaneng Power.

Hui Miao, Ph.D.

Hong Kong strategy

1. **Policy and economics:** Economic activity is improving on loosening monetary environment and steady economic momentum. 4Q11 GDP rose 0.3% qoq SA, better than consensus of -0.1%. December retail sales, boosted by Chinese tourists, rose 23.5% yoy. January exports fell 8.6% yoy largely due to the CNY seasonal effect. Leading indicators such as PMI continue to surprise on the upside in US/EU/China, which is likely to support Hong Kong's external demand.

   The job market is still tight. The unemployment rate edged down to 3.2% in January, but recent announcements of some job cuts in the financial sector are likely to increase the unemployment rate in the next few months. January CPI remains high at 6.1% yoy due to the higher food price and rental inflation. Inflation pressure is likely to remain high in 2012 (our estimate 4.2% in 2012).

   With global capital returns to Hong Kong on improved risk appetite, money growth rebounded (January M2 +6.1% yoy); banks responded with lowering mortgage rates by 30bps. The composite HKD interest rate edged down to 0.49%. The monetary environment is becoming more stimulating. Moreover, the 2012 Hong Kong government budget released a HK$80bn fiscal stimulus package to help stabilize the economy.

   The property market, and mass market segment particularly, had a small rebound in volume and price as pent-up demand from end users came back to the market. But we are sceptical about the sustainability of rising property prices.

2. **Company visits/results:** 1) CLP upgraded to Buy on potential listing of Australian asset and attractive dividend yield, and 2) Melco Crown downgraded to Hold on valuation and competition.

3. **Fund flows and investor views:** MSCI Hong Kong index rallied 9% in February 2012 following China's RRR cut and improved global risk appetite. High beta names like the casino, trading companies, shipping and financials outperformed. Particularly, AIA and HSB rallied more than 10% after the strong result. Defensive players such as utilities and infrastructure players lagged. The gradual policy relaxation in China will reduce the hard landing risk and boost stocks exposed to Chinese demand.

   The index valuation (FPE 15x) is still below the long-term average (16x) with earnings having been slightly revised up following the 2011 results. The market valuation is still reasonable given the better liquidity condition. We prefer sectors exposed to US and Chinese recovery over defensive players. Shipping, casino and local big banks will benefit from the ongoing recovery of the Chinese and US economies.

4. **Events/data/risks to watch for:** 1) Chinese policy easing such as RRR cuts; 2) Chinese property sector stability and pace of policy easing; and 3) Hong Kong local election and property sector policy.

5. **Top stock ideas:** Our top Buys are BOC (Hong Kong), AIA, Hang Seng Bank, Lifestyle, Oriental Overseas, SHK, Sands, Cathay Pacific and Wharf.

Hui Miao, Ph.D.

Indonesia strategy

1. **Policy and economics**:

•Fuel subsidy: Due to the higher oil price (Indonesian crude oil price reached USD115/bbl in January 2012 vs. USD90/bbl assumed in the budget), the budget deficit is in danger of violating the threshold of 3% of GDP. On the back of this, the government submitted a proposal to parliament earlier this week to raise the subsidised fuel price by Rp1,500/ltr (+33%). The impact on the real economy should be manageable, in our view. The economy is now much better positioned to absorb higher fuel prices. Indeed, since 2005, fuel prices have increased by 200% on average (subsidised gasoline +150%, diesel +173% and kerosene +260%), but at the same time 1) the economy more than doubled with GDP/capita at c.USD3,500 vs. USD1,300 in 2005, 2) minimum wages have increased by 2.5x since 2005, 3) FX reserves quadrupled, 4) the unemployment rate consistently declined from 11% to 6.5%, and 5) company sales and earnings have generally more than doubled (e.g. Astra's auto-segment EBIT was up more than threefold, car sales almost tripled while motorcycle doubled and in terms of stock price, it re-rated ninefold).

•Inflation: February CPI (3.56% yoy) remained benign and came close to a two-year low, below consensus expectation of 3.8%. The lower inflation was led by food price inflation, which remained muted at 2.9% in February vs. 3.3% in January. Other key components, such as healthcare (3.7% vs. 4.3%), processed food (4.6% vs. 4.7%), housing (3.4% vs. 3.5%) and transport (1.75% vs. 1.8%) were also in line or below trend. In contrast, clothing prices rose to 8.7% from 7.3%. Importantly, core inflation remained unchanged at 4.3% for three months in a row. A spike in headline inflation is expected in April on the back of the fuel price hike. Nonetheless, we believe this is one-off and administrative-hike induced, while underlying inflation will continue to remain benign supported by fast supply-side response on the growing economy. BI expects inflation to rise to 7.0-7.5%yoy on the back of the fuel price hike.

•Trade balance: Indonesia's trade balance improved in January as exports growth accelerated while imports slowed. Exports grew by 6.1% yoy in January from 1.5% (revised from 2.2%) in December, above our forecast of 4.5%. Within this segment, both oil and gas (13.7% vs. 6.9%) and non-oil and gas (4.4% vs. 0.2%) exports reported strong growth during the month. Meanwhile, imports growth slowed to 16.0% in January from 25.3% in December, widening the trade surplus to USD0.9bn from USD0.6bn.

•Monetary policy: From our recent meeting with BI, we believe the bank continues to see muted underlying inflation on the back of fast supply-side response and the fuel-price-hike induced inflation as a one-off. Hence, we think BI is unlikely to reverse its course on the BI rate, though it may resort to other monetary policy tools (e.g. reserve requirement). More importantly, we think the policy rate is increasingly irrelevant; indeed, not many financial products are priced based on the BI rate, and only a handful of banks have excess liquidity placed in short dated instruments, which are affected by the rate. Rather, lending and deposit rates today are largely influenced by market forces and dynamics, e.g. intensifying competition means the credit environment should continue to be easier and cheaper. We believe the recent rate cut, while largely misperceived as BI's dovish stance, is in fact a technical adjustment to make it a more influential monetary policy tool, bringing it closer to the current overnight (FASBI) rate of 3.75%. In any case, average lending rates are still around 11-12%, well into positive real rates.

2. **Market outlook**: We believe the market will remain range-bound in the near term, at least until inflation peaks in April. Historically, fuel price hikes led to considerable upheaval in equity, bonds and currency, but this time round, there are reasons to believe the severity could be much less, not only given BI's ability to defend the IDR (FX reserves have quadrupled since 2005) and intervention in the bond market, but also thanks to significant fundamental developments in the economy (as above). From our discussions with investors thus far, most seem to agree that any near-term market pull-back presents a buying opportunity.

3. **Fund flows**: Foreign net sold equities and bonds in February (c.USD165mn and USD620mn of equity and bonds [excluding SBI as data not out yet], respectively). Decent turnover in February of c.USD570mn (vs. USD470mn average past three months).

4. **Top stock ideas:** Bank Negara Indonesia, Astra International, Gudang Garam, Jasa Marga, Bukit Asam, Bumi Serpong, Indomobil, Indofood CBP, Gajah Tunggal, Charoen Pokphand, and Wintermar.

Heriyanto Irawan

Korea strategy

1. **Policy and economics**: We expect Korea's growth momentum to weaken in 1Q12, but expect a recovery ahead. GDP growth decelerated further, to 0.4% qoq sa in 4Q11, from 0.8% (revised up from 0.6%) in 3Q11. Re-stocking in 4Q11 suggests weaker growth in 1Q12. Deutsche Bank now expects GDP growth of 3.2% in 2012, a decline from our earlier forecast of 3.4%. However, we continue to expect growth to bottom in 1Q12, followed by a modest recovery thereafter, leaving growth higher at 4.1% in 2013. While the consumer sentiment index continued to fall to 98 in January from 99 in December, the business sentiment index (on future conditions) rose to 91.0 in February from 88.3 in January, led by expectations of an improvement in domestic and external demand. Indeed, the ISM/PMI data out of the US and Euroland point to a rebound in manufacturing activities, boding well for Korean exports in 2Q12. January and February combined exports growth was 7.0% yoy. Despite this large goods trade account deficit, the KRW appreciated 2.5% vs. the US dollar in January, as risk aversion moderated and foreign investments returned to Korea. We believe the KRW will strengthen along with investment inflow. We continue to expect the Bank of Korea (BoK) to keep its policy rate unchanged this year, as inflation remains above the BoK's target. While we expect a further fall in inflation in February, as the Lunar New Year affects drop-out of data, we expect it to remain above 3.0%.

2. **2012 outlook:** The resolution on the Greek bailout and successful debt swap could cautiously be a turning point for Korea's economy and future export growth, which we expect to recover from 2Q-3Q12. Improving US economy, ECB's LTRO and China's easing policies have triggered over W10tr foreign investment inflows coming into 2012 and could be a starting point for long-term investment inflow that should lift up the KOSPI significantly. A depreciating JPY and rising oil price could potentially weaken the economy and exports in the short term but should not have any significant impact in the medium and long term. Our one-year KOSPI target is 2,250.

3. **Fund flows and investor views:** Foreign investment inflows into the KOSPI typically increased during past quantitative easing (QE) periods, and central banks' QEs often were the starting point for a long-term equity market rally. During February, foreign net inflow into the KOSPI continued to be positive at +W4.3tr. Local institutions continued to sell the KOSPI by W2.8tr (W2.0tr for mutual funds and W0.8tr for pensions). Local retail investors sold W1.3tr of KOSPI during February. We believe local mutual funds and pensions might continue to sell due to their investment strategies and redemptions at equity mutual funds, but retail investors could return to purchasing mode soon.

4. **Events/data/risks to watch for:** 1) further aggravation of the European sovereign debt crisis and Greek debt swap progress; and 2) possible military conflict in the Middle East could push up oil prices and dry up global demand for Korean exports. FX rate depreciation and oil price hikes could pose serious risks to the inflation and stock market.

Francis Yim

Malaysia strategy

Policy and economics: The economy is benefiting from the government's fiscal spending. In 4Q11 alone, government consumption contributed 20% to GDP growth, the highest level since 2005, offsetting weaker exports. This has started to filter into the broader economy. 2011 was a record year for FDI (third in ASEAN), amounting to USD11bn. We visited several 'high-impact' infrastructure sites recently and met with management too. We found management to be pleased with the progress achieved thus far and we also found construction sites busy. There is good progress being made across infrastructure projects, from basic jobs, e.g. walkway upgrades and rural roads, to larger megaprojects, e.g. the MRT, LRT extension, KLIA 2 and power plants. These are 'productive' jobs, and should address the country's desperate need for a more comprehensive infrastructure network.

The MYR has been one of the best-performing Asian currencies YTD (rising c. 5.7%) due to its high beta to risk sentiment. The MYR is a comparatively liquid 'EM home' in Asia given the local bond market is open, deep and very accessible to foreign investors. The NDF market is also liquid and, more recently, BNM has tended to interfere less with daily fluctuations. Finally, Malaysia is a net exporter of oil.

1. **Company visits/results**: We visited a number of Malaysian companies in January/February. Three key takeaways: 1) Malaysian corporates are (surprisingly) confident – despite the elevated global economic uncertainty; 2) cash flow generation is strong and gearing is low; 3) they continue to push ahead with their domestic/regional expansion plans, ignoring Malaysian politics. Although littered with 'lumpy' exceptionals (year-end kitchen sinking, asset sale recognition, etc.), the 4Q11 reporting season was solid with 29% of companies under our coverage beating expectations. Sime Darby (industrials up strongly), UEM Land (new property sales), Bumi Armada (higher OSV utilisation) and CIMB (highest sector loan growth) surprised on the upside. For a change, too, there were no unexpected 'disasters' this quarter. Dividends still matter – the telcos delivered better-than-expected dividend payout ratios, e.g. TM, and Malaysia still offers the highest dividend payout ratio in TIPM. Cyclicals also improved as palm oil production recovered and construction margins moved up.

2. **Fund flows and investor views**: Foreign shareholding is still flat at 22.4%. A poor track-record on project implementation over the past five years certainly ranks highly as a reason why investors are avoiding the market. We believe the ETP is making reasonable progress in some areas but Malaysia's restructuring proposition requires a longer period of 'getting the job done' before the market is able to win over long-term sceptics. Malaysia continues to lag AxJ YTD – due to a combination of mean reversion, politics and beta rotation. While the market is slowly evolving as corporates expand their regional footprints, investors still view this as the default defensive, low beta market in the region for the time being.

3. **Events/data/risks:** The most significant concern for the market remains politics. We are likely to see a general election in 2012. Investors could take profits ahead of the announcement and sit it out. We expect corporate activity to remain elevated due to: 1) ongoing M&A; 2) tycoon stake sell-downs; 3) GLC restructurings; 4) more mid-cap IPOs; and 5) O&G contract awards. But tighter lending standards (directed by BNM on auto loans and credit cards) could curb bank loan growth.

4. **Top stock ideas:** IJM Corp, Genting Malaysia, Public Bank, and AirAsia

Su-Yin Teoh

Philippines strategy

1. **Policy and economics:** As expected, the Bangko Sentral ng Pilipinas (BSP) cut policy rates by 25bps for a second time this year, with its overnight borrowing rate down to 4%. The move was spurred by erstwhile benign inflation, with CPI up just 3.7% in January, down from 4.2% in December and a peak of 5.2% earlier in 2011. We expect the BSP to pause at these levels. We are wary, as oil prices start to push up again. There are no fuel or power subsidies in the Philippines, so there is a direct pass through to consumers and an indirect impact on the broad economy with a 2-3 month lag. The Philippine government has also gone into "growth" mode. After severe under-spending in 2011, the budget department claims it has already approved and released funding for 85% of public infrastructure projects for the whole of 2012. This, however, does not yet include the big-ticket projects to be bid out via public private partnership (PPP). PPP was a major source of disappointment last year. However, the government claims it has at least five large projects up for launch by early 2Q. While the bid process, awarding, and financial close may take the better part of 12 months, this could provide a boost to the economy in the medium term.

2. **Company visits/results:** Companies remain bullish. Business and consumer sentiment continue to rise, as does public approval of the President. Bank lending ended 2011 up 19%, only the second year since 1997 above 10%. And this time growth was broad-based, with the manufacturing sector posting >20% loan growth for the first time since pre-1997 Asian Financial Crisis. Early indicators – such as electricity consumption, which is up 6% in the first six weeks of 2012 – point to strong macro activity.

3. **Fund flows and investor views:** Fund flows continue to pour in. Since mid-October, the Philippine stock market has only seen two weeks of net foreign selling (including one in which a local controlling shareholder sold a stake in its firm held in a foreign-domiciled entity). Even domestic funds are shifting assets to equities, with yields on the 25-year risk free down to sub-6%. The main PCOMP index continues to hit new highs – closing above the 5,000 index mark for the first time on 2 March – despite pedestrian earnings growth estimates.

4. **Events/data/risks to watch for:** 1) increased government spending; 2) impeachment trial of Supreme Court Chief Justice; 3) acceleration or delays in PPP infrastructure auctions; and 4) upward pressure on oil prices.

Rafael Garchitorena

Singapore strategy

1. **Policy and economics**: Singapore's real GDP grew by 3.6%yoy in 4Q411. Seasonally adjusted, the qoq annualized rate fell 2.5%, marking the second time that the economy has contracted in 2011. Meanwhile, Singapore's NODX fell 2.1% yoy in January following a rise of 9.0% in December. The absolute level of S$16bn was identical. Encouragingly, non-electronic exports continued to grow, driven by pharmaceutical and machinery exports. Singapore's industrial production rose 3.3% (SAAR mom), despite the effects of Chinese New Year, driven by rising the biomedical and O&M sectors, which grew 27% yoy each. We estimate that the 2012 budget will provide 0.25% of GDP of fiscal impulse to the economy in 2012. This is modest compared to 2008/09, where the estimated impulse was c.5% of GDP. Total domestic credit rose 15.0% yoy in January, vs. a 15.8% yoy gain in December. Credit to the private sector rose 18.4% yoy vs. 18.6% in December. December Core inflation rose to a three-year high of 3.5%. Given rising inflation and firming macro data from the region and the US, we believe that MAS will not change its policy stance in April.

2. **Company visits/results:** Despite cutting earnings for more than a year, 4Q earnings still fell 7% below our estimates, as several large caps materially missed forecasts. Key earnings misses came from Wilmar, Genting Singapore, UOB and NOL. The good news is that after FY11 EPS contracted 3% (on par with the 2001 recession and only exceeded by the two financial crises); the earnings cycle finally appears to bottoming. We forecast a modest 7% EPS rebound this year with upside potential if macro recovery trends continue. Broader earnings trends are also looking better with 30% exceeding, 42% in line and 28% falling short. On property data points, competition remains firm for well located land tenders, with heated bids coming for the prime Jervois road site. The top bid of S$881psf was well above market expectations.

3. **Fund flows and investor views:** Following the recent rally, investor enquiries focused on where to take profits and laggards. Investors remain positive on the O&M space, with feedback from our US conglomerate investor meetings and Keppel Corp's NDR focusing on: the potential in the ultra-deepwater space (UDW); global demand prospects (apart from Petrobras); competition; positioning of the Singapore yards in Brazil; and risks. Several investors were interested in potential small/mid-cap beneficiaries of the improvement in the O&M space, with Ezra featuring strongly in our discussions.

4. **Events/data/risks to watch for:** 1) broader macro indicators such as PMI (5 March), Unemployment (15 March), Retail Sales (15 March), NODX (16 March), CPI (23 March) and Industrial Production (26 March). 2) Property-related data points such as new residential launches and land tenders. Continued sales momentum may raise the risk of additional measures.

5. **Top stock ideas:** Ascendas Real Estate, Capitacommercial Trust, Capitamalls Asia, DBS Group, Ezra Holdings, Fraser & Neave, Keppel Corp, Mapletree Commercial Trust, Neptune Orient Lines, and Sembcorp Industries.

Gregory Lui, CFA

Taiwan strategy

1. **Policy and economics**: Depressed by the Lunar New Year holiday effects (17 working days in January 2012 vs. 21 working days in January 2011), exports fell sharply, by 16.8% yoy in January, vs. 0.6% growth in December. This was a broad-based decline, led by exports of mineral products, which fell 27.2% in January, vs. a 13.9% increase in December. Discounting the LNY holiday effects -- taking into account only the first 20 days of the month -- exports and imports actually rose 3.3% yoy and 8.2% yoy, respectively, in January, according to the finance ministry. Looking forward, we expect a notable rebound in export growth in February, as the LNY effects drop out of the data.

   Taiwan's leading index continued to improve in January, rising 1.0% mom sa, at the same rate of increase as in December. However, different factors drove this improvement in the past two months. In January, this rise was led by a 2.8% mom increase in exporter orders and an increase of 0.1 in the semi book-to-bill ratio, to 0.95. Moreover, monthly average overtime (hrs/month) went up to 8.2 in January, after remaining at 8.0 for three consecutive months previously. In contrast, rising building permits and liquidity led the improvement in leading index in December. Meanwhile, the coincident index rose 0.2% in January, vs. no change in December and 0.1% fall in 4Q11, suggesting recovery in growth in 1Q. While technical factors will render the yoy GDP growth weaker in 1Q12, vs.4Q11, we continue to look for qoq expansion in 1Q, vs. the 0.1% fall in 4Q, effectively pushing Taiwan out of the recession.

2. **Company visits/results**: For the companies that have released 4Q11 results, only about 19% beat the estimates. Others are either in line or missed. Given the downward earnings revisions in Taiwan in 2011 have been steepest in the region, the small percentage of the beats means the end results were even worse than the downward revised figures. 1Q12 could continue to see further downside because of CNY break and low seasonality. However, fundamentals should begin to pick up in March.

3. **Fund flows and investor views**: Foreigners continued to be net buyers of the market in February. Local ITC holdings have increased significantly in February. Margin long balance also improved. All these are consistent with the relatively strong performance of the TWSE. While liquidity is a good support for the market, investors are getting hesitant to chase at this level until further indication on fundamental progress in terms of surprises or misses.

4. **Events/data/risks to watch for**: 1) Inflation risk; 2) Taiwan/China/US/Europe; and 3) Taiwan export growth.

5. **Top stock ideas:** HTC, MStar, TPK, Simplo, Unimicron, Chailease, FCFC, Cheng Shin Rubber, Far Eastern Dept Store, and Formosa Int'l Hotel.

Joelian Tseng

Appendix 1

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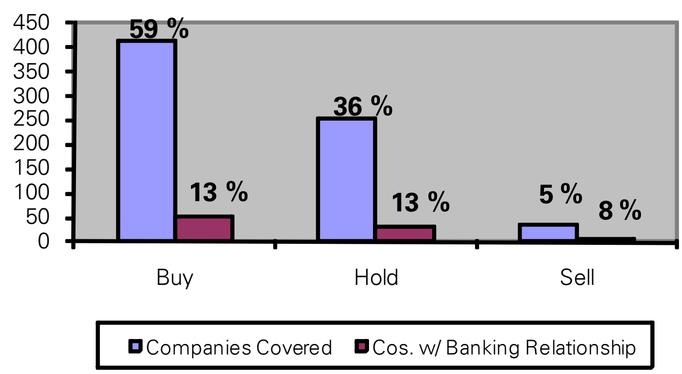

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