

Economic and Stock Market Outlooks

Economic Outlook

Recent Reports

- April Retail Sales down 2.6% YoY, but up 7.4% YoY ex-vehicles
- May Non-Oil Domestic Exports (NODX) declined marginally by 0.1% MoM seasonally adjusted, with YoY growth easing to 24.4% from April's 30.0%.
- May CPI rose 3.2% YoY, matching April's inflation
- May Manufacturing Output jumped 58.6% YoY after April's 49.7% rise, beating consensus of 37.2%. Ex-biomedical manufacturing, output grew 30.6% YoY.
- May Visitor Arrivals grew 30.3% YoY to 946,000 – a record high for the month of May and the sixth straight month of record visitor arrivals.

Upcoming Reports

- **July 5:** June Purchasing Managers Index
- **July 15:** May Retail Sales
- **July 17:** June Non-Oil Domestic Exports

Long Term Outlook

- Economic data so far this year remains positive, indicating solid growth in 2010. Manufacturing output is powering on, growing 5.2% MoM seasonally adjusted (SA) in May, beating expectations of a pull-back after the surge of 17.7% MoM SA in April.
- However, there is concern that slowing global economic growth, may result in some weakness in 2H10. Ominously, growth in NODX to Europe slowed to 5.7% YoY in May from 21.0% in April, fueling concerns that Europe's debt crisis is beginning to dampen demand.
- Having said that, S&P's base case scenario remains to be one of sluggish growth and not a double dip. Our current GDP forecasts for Europe and the U.S. are 1.2% and 3.3%, respectively.
- Inflation remains a concern, with May's 3.2% exceeding the 3.0% expected by the market.

Market Outlook

Fundamental Outlook

- June was a much better month for the stock market, with the FSSTI rising 3.0% after falling 7.5% during a dismal May. This reflects improved risk appetite after the euro (EUR) stabilized and Spain successfully issued EUR3.5 bln of bonds during mid-June.
- Investor sentiment remains fragile, however, with global economic growth expected to moderate going forward. Job growth in the U.S. remains sluggish, Europe has its debt problems and China wants to slow down its economy to avoid overheating.
- We maintain Consumer Discretionary at Underweight, despite recent upgrades to sector earnings estimates, as we feel that valuations are too rich at current levels. We also keep Real Estate at Marketweight despite home prices reaching record levels, as we think growth is moderating.

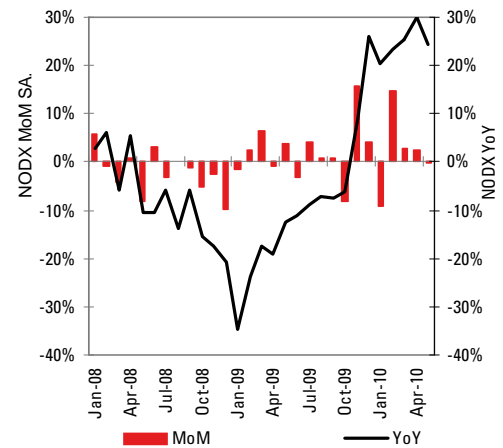
Performances* (%)

Index	June	2Q	1Q	YTD
FTSE STI	3.0	-1.8	-0.4	-2.1
FTSE ST All Share	3.1	-2.0	-0.3	-2.3

*As at Jun 30, 2010

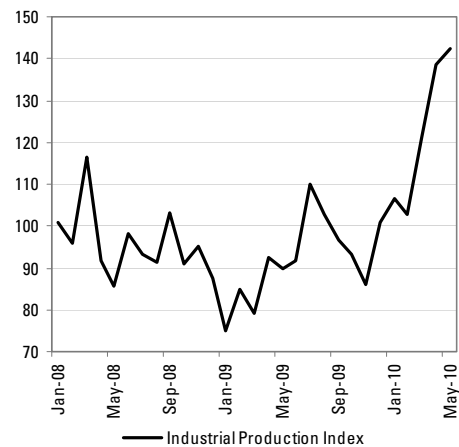
Source: Bloomberg

NODX Growth Eases in May



Source: CEIC

Manufacturing Output Climbing Rapidly



Source: CEIC

S&P Equity Research Singapore FSSTI Recommended Sector Weightings							
	2010e PER	2010e EPS	2010 Div Yld	2010 PBV	Actual Index	Recommended	Previous
	X	Growth %	est. %	X	Weight %	S&P Sector Emphasis	Recommendation
Consumer Discretionary	26.8	13.3	3.5	2.8	6.4	Underweight	
Consumer Staples	14.9	(10.6)	1.6	2.0	9.4	Overweight	
Financials - Banks & Fls	13.6	21.4	3.8	2.3	30.1	Marketweight	
Financials - Real Estate	19.8	(31.8)	2.3	1.1	15.3	Marketweight	
Industrials	12.4	49.5	3.1	2.0	28.7	Overweight	
Industrials excl. SIA	12.2	(0.1)	3.1	2.1	N.A.		
Telecom Services	12.1	2.3	5.0	5.3	10.2	Marketweight	
FSSTI	15.0	15.9	3.3	2.4	100.0		
FSSTI excl. SIA	15.0	(0.6)	3.3	2.4	N.A.		
<i>Select economic reports sourced from Action Economics</i> # Sector ratios based on Bloomberg Market Consensus as at June 30, 2010							Overweight = Increased exposure to sector Marketweight = No change in exposure Underweight = Decreased exposure to sector

Singapore Investment Policy Committee Notes

July 2, 2010

Economic and Stock Market Outlooks

U.S. Outlook:

- **Economy:** The declines in new and existing home sales suggest that the housing recovery was more tax-driven than we thought. Existing home sales fell 2.2% in May, while new home sales plunged 32.7% in May to a record low 300,000 (annual rate). New home sales lead existing home sales because of the way they are counted; new home sales are counted when the contract is signed, while existing home sales aren't counted until final settlement. We had expected a sharp drop in new home sales in May because anyone intending to buy a new home should have bought in April and saved some money. But the size of the decline was still a surprise and suggests that the underlying demand could be weaker than we had thought.
- **Market:** S&P's Investment Policy Committee has elected to lower its 12-month target for the S&P 500 to 1,190 from 1,270, and reduce its recommended exposure to U.S. equities citing intensifying headwinds that include a sluggish housing recovery, the unwinding of economic stimulus measures, continued consumer de-leveraging, anemic European economic growth, recent signs of a slowdown in Asia growth, and financial regulation. We now recommend a 40% exposure to U.S. equities versus 45%, and raised the allocation to bonds to 30% from 25%. High volatility, caused by global growth concerns and sovereign debt worries, increases the range of investment outcomes, in our view, and merits a larger-than-average fixed income allocation.
- **Technical:** Major chart support for the major indices is giving way, suggesting to us that this correction may morph into a bear market. We think the market is likely to remain weak into the fall months, with a potential bottom in September or October. The first major support for the S&P 500 is 950, which is from the top of the major reversal formation traced out in 2008 and 2009. The 950 level also represents a 50% retracement of the bull market. There is potential for further damage as a completion of the large head-and-shoulders pattern could give us a measured move to 883, which also corresponds to a key Fibonacci retracement of 61.8% of the bull market. We then see a strong rally to occur during the last two to three months of the year.

China Outlook:

- **Economy:** PBoC stated that it would remove the yuan (CNY) from its USD peg and allow for greater flexibility in its currency. We expect China to resume a gradual appreciation of up to 5% per annum in 2011. For 2010, we see limited change of around 2.0%, in light of the EUR weakness.
- While China's May exports were up a higher-than-expected 48.4% YoY there are signs that pockets of the economy are showing some easing. Some of this has been anticipated given the government's tightening measures and the fall in the stock market. On the whole, we would not be too alarmed either way and the latest data should support an overall view that growth in the country remains relatively strong but is easing to more sustainable levels.
- **Market:** June has so far been more joyous for the markets after a dismal May. Data supporting a sustained global growth outlook and the promise of CNY appreciation provided a lift to China issues. The reality, however, is that any rise is likely to

be gradual. Nonetheless the move does favor those companies selling to China as the move is seen to boost domestic consumption. In this regard, we believe the Industrials are likely to be key beneficiaries.

Real Estate (Marketweight): Private Home Prices Hit All-Time High

- Flash estimates by URA reveal that the private home price index rose 5.2% QoQ in 2Q10 to 184.1 points. This represents an all-time high, as it is 1.5% above 2Q06 peak levels and 4% above the recent peak in 2Q08. Nevertheless, growth momentum has moderated, as prices grew 5.6% QoQ in 1Q10 and 7.6% QoQ in 4Q09. In addition, we estimate a slowdown in transaction volumes, as we believe developers only sold about 600 to 700 units in June 2010, markedly lower than the 1,078 units recorded in May 2010 and 2,207 units in April 2010. In our opinion, the government's policies to cool the sector have taken effect, with more stringent measures unlikely in the near term.
- Prices are likely to hold steady in the near term, as HDB prices rose 3.8% QoQ compared with 2.8% in 1Q10 (and 3.9% in 4Q09) to another record 160.9. This will continue to underpin demand from upgraders and maintain current price levels. However, with the aggressive rollout of the Government Land Sales program, in our opinion, continued increases at the mass market segment are unlikely. We maintain our Neutral call on the sector.

Telecom Services (Marketweight): Singapore, Malaysia Telecoms: Lower Roaming Charges

- Telecommunications regulators from Singapore and Malaysia - the Infocomm Development Authority of Singapore (IDA) and the Malaysian Communications and Multimedia Commission (MCMC) - announced that they have tabled a proposal to their mobile operators to progressively reduce the mobile roaming charges in both countries, reports the Business Times. The proposal could see up to a 30% reduction in mobile voice calls while text messaging rates could be halved between the two countries.
- With international roaming revenue accounting for a respective 15%-25% and 5%-10% of Singapore and Malaysia operators' turnover, the percentage impact on the bottom line from a cut in roaming rates is estimated to be in the low single-digits. Nevertheless, the potential loss of revenue could be partly offset by a subsequent increase in minutes of use.
- The regulators are expected to provide further updates on this proposal in 3Q10, pending discussions with local mobile operators.

SERI Reports Issued in June

Company	Report
Datapulse	3QFY10 Results Review
Food Empire	Updates
Xpress Holdings	3QFY10 Results Review
Pan Asian Water Solutions	Updates

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A+	Highest	B-	Lower
A	High	C	Lowest
A-	Above Average	D	In Reorganization
B+	Average	NR	Not Ranked
B	Below Average		

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CAPEX- Capital Expenditures
CY- Calendar Year
DCF- Discounted Cash Flow
EBIT- Earnings Before Interest and Taxes
EBITDA- Earnings Before Interest, Taxes, Depreciation and Amortization
EPS- Earnings Per Share
EV- Enterprise Value
FCF- Free Cash Flow
FFO- Funds From Operations
FY- Fiscal Year
P/E- Price/Earnings
PEG Ratio- P/E-to-Growth Ratio
PV- Present Value
R&D- Research & Development
ROE- Return on Equity
ROI- Return on Investment
ROIC- Return on Invested Capital
ROA- Return on Assets
SG&A- Selling, General & Administrative Expenses
WACC- Weighted Average Cost of Capital

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