

# Global Investment Perspective

May 2010

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## Highlights

In April, fears of Greek debt default and contagion to other peripheral Eurozone countries caused sharp market volatility. Greece asked its Eurozone partners and the IMF to activate a rescue package as the country's budget deficit reached a record high of 13.6% of GDP in 2009, considerably above previous estimates of 12.7%. The delay by Germany to approve the rescue package due to opposition at home created significant market swings in the last week of April.

Reflecting the market's growing concern, the yield on Greek debt soared in April and credit rating agencies Moody's and Standard & Poor's downgraded Greece and Portugal's debt ratings. Adding to investor uncertainty was the ongoing drive by US President Barack Obama to tighten the regulation of financial institutions. If implemented, it could restrict the level of risks that banks can take and the market is concerned that this may reduce credit supply and hurt global demand.

## April market Recap

Global equities declined marginally last month. The MSCI World Index fell by 0.16% in April. Despite the deterioration in Eurozone debt markets that sparked a bout of risk aversion, from a macroeconomic perspective, manufacturing data remained positive across most of the developed and emerging markets, with the latter continuing to lead growth, supported by encouraging retail sales and domestic demand.

However, a contrasting inflation outlook for developed and emerging markets has intensified. While developed-market governments have pledged to maintain extremely low interest rates for an extended period, further monetary tightening was seen in emerging markets. For instance, in April, India raised interest rates in order to control inflation and to stop the economy from overheating.

## Outlook & Strategy

To address the risk of contagion stemming from the crisis in Greece, a series of exceptional measures have been agreed by European Governments, IMF and the ECB. The sums involved in the rescue plans are large, amounting to a possible EUR 750bn of EU and IMF money; plus, the ECB will intervene in the secondary market for private and public sector debt securities to provide liquidity as needed. Such strong measures seem to have helped reassure investors, with both the equity markets and the debt of the so-called PIIGS (Portugal, Italy, Ireland, Greece and Spain) rallying strongly as a response. While the measures definitely help with the immediate liquidity problem and reduce contagion risk, the medium-term challenges of restoring the public finances to health are still to be tackled and are likely to continue cause volatility in the market-place, especially for sovereign debt.

We maintain a moderate underweight in equities versus cash. Our reasons are four-fold. First, equity markets could come under pressure if earnings do not meet expectations, as analyst forecasts for 2010-2011 remain optimistic despite subdued demand and high unemployment in developed markets. Second, while valuations are not demanding, they are considerably above the attractive levels seen in 1Q09. Third, fiscal austerity packages, such as the ones needed to repair the budget deficits in countries like Greece, may result in a slowdown of growth during the second half of the year. Fourth, monetary tightening in emerging markets could slow the pace of growth and affect global markets. As such, we maintain our preference for defensive sectors over cyclicals and financials as the more stable earnings profile of these companies are more attractive in the current economic cycle.

Our preference for Latin-America equities over Emerging Asia has been beneficial. Although the valuation discount between Latin America and Emerging Asia has narrowed, our preference for Latin America over Emerging Asia remains. Latin America still has the potential for positive growth surprises, especially regarding Brazil due to robust domestic demand and strong export of commodities to Asia.

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# Short-term Investment Outlook (6-12 months)



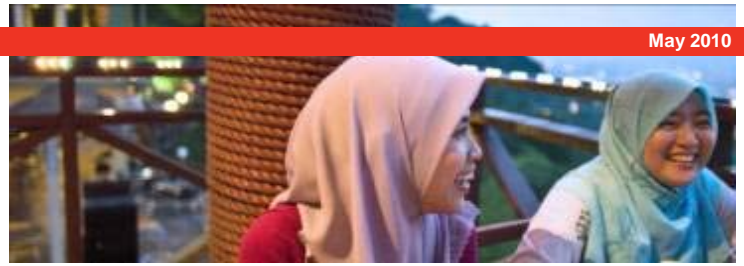
	Asset Class	Current View	Reasoning
Equity	Global Developed Market Equity	Neutral	<ul style="list-style-type: none"> <li>While equity valuations are no longer as attractive as in 1Q09, strong liquidity remains a tailwind to support markets, given interest rates are likely to remain low for sometime yet in developed economies.</li> </ul>
	US Equity	Neutral	<ul style="list-style-type: none"> <li>US economic activity is positive, but the pace of improvement is showing signs of slowing down and the risk from weak consumption and high unemployment persists. As such, the sustainability of US growth is in doubt.</li> </ul>
	Europe Equity (including the UK)	Neutral	<ul style="list-style-type: none"> <li>While market liquidity support remains strong, high levels of unemployment, fiscal-debt issues and potential reduction of stimulus support in Europe add risk to the growth outlook.</li> </ul>
	Japan Equity	Neutral	<ul style="list-style-type: none"> <li>Further JPY strength would add to Japan's deflation pressure, although improvement in manufacturing and trade, low interest rates and ongoing government support are positive.</li> </ul>
	Asia ex-Japan Equity	Neutral	<ul style="list-style-type: none"> <li>From a macroeconomic perspective the outlook remains generally positive given strong domestic consumption and ample liquidity. But from a valuation perspective, market prices have largely reflected the positive news flow.</li> </ul>
	Global Emerging Markets	Neutral	<ul style="list-style-type: none"> <li>Emerging markets are likely to continue to lead the recovery due to robust domestic consumption and strong intra-regional trade. That said, the positive news flow is reflected in valuations and monetary tighten could slow the pace of growth.</li> </ul>
	Latin America Equity	Positive	<ul style="list-style-type: none"> <li>Economic data remains strong in the region and there is potential for positive surprises, especially from Brazil, although the valuation discount to Emerging Asia has narrowed.</li> </ul>
	Middle East Equity	Neutral	<ul style="list-style-type: none"> <li>Economic data from the region has been highly encouraging and 2010-2011 forecasts are positive. In addition, valuations remain reasonable. Key risks include US demand for oil could slow down and the increase in budget deficits among some of the countries in the region.</li> </ul>
	Eastern Europe Equity	Neutral	<ul style="list-style-type: none"> <li>Similar to other emerging markets, manufacturing data has been encouraging. That said, weak labour market conditions and the high level of government debt are weighing on the outlook for the region. While valuations are not excessively cheap, it's not overly demanding either.</li> </ul>
	Indonesia	Neutral	<ul style="list-style-type: none"> <li>Fundamental outlook remain positive supported by strong domestic consumption, growing exports and investment, and manageable inflation pressure. However, uncertainty over Europe's debt crisis and possibility of tighter monetary policies in most Asian countries, may drive risk aversion to rise and may pressure Indonesian market.</li> </ul>

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# Short-term Investment Outlook (6-12 months)



	Asset Class	Current View	Reasoning
Other Investments	Oil	Range of between US\$65-85 per barrel	<ul style="list-style-type: none"> <li>We expect oil price to keep fluctuating in the US\$65-85 range as improved demand is balanced out by the clouded economic growth outlook. Fluctuation in risk appetite will also contribute to oil price volatility.</li> </ul>
	Gold	Neutral Range of between \$1,000 to \$1,200 per troy ounce	<ul style="list-style-type: none"> <li>Inflation pressure and concern over the USD as a reserve currency make gold an investable long-term theme. But in the near term, gold price could be constrained by relative USD strength and supply concerns as the IMF intends to sell some of its gold reserves.</li> </ul>
	Commercial Real Estate	Neutral	<ul style="list-style-type: none"> <li>High unemployment, falling occupancy rates and declining rental values in the US and Europe warrant a cautious/negative outlook for these two markets in general. But within Europe, we have a positive view on the UK relative to other direct markets due to the increase in investor interest in UK properties and the lack of quality supply. The outlook for Asia Pacific is improving, although there is regional divergence and concern that price bubbles are forming in markets such as Hong Kong and China.</li> </ul>
Currency	EUR vs. USD	Neutral	<ul style="list-style-type: none"> <li>The Euro is susceptible to both positive and negative surprises depending on how resolution of the 'PIGS' (Portugal, Italy, Greece, Spain) fiscal difficulties unfolds. Valuation indicators are not sending any signals at present so in the short term, we recommend a neutral Euro position overall. GBP is also susceptible to event risk from the resolution of the hung parliament situation. Nevertheless, on a medium term basis we continue to prefer the EUR to GBP given the weaker fiscal position of the UK compared to the core Euro zone countries.</li> </ul>
	GBP vs. USD	Neutral	
	JPY vs. USD	Neutral	
	IDR vs. USD	Neutral	<ul style="list-style-type: none"> <li>Positive economic outlook may attract overseas investors to enter the nation's equity and bond market, supporting rupiah. Central bank said that it will guard the currency's stability, particularly when risk aversion emerge in the market driven by negative sentiment from overseas such as debt crisis in Europe and/or tighter monetary policy in Asia.</li> </ul>

## Summary

For equities, as a result of valuations and current growth concerns, we maintain our preference for defensive sectors, such as healthcare and telecommunication services, over financials and cyclical stocks. By region, we continue to see potential in Turkish equities on attractive valuations. We also maintain our preference for Latin America over Emerging Asia, although the valuation discount has narrowed.

For currencies, we continue to have some conviction on longer-term strengthening of the EUR versus the GBP because of the greater deterioration in the UK's public sector finances compared with those of the major Eurozone countries. However, we prefer to hold a neutral position for the GBP versus the EUR, as Greece's fiscal difficulties create uncertainty for the EUR.

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# Macro Assessment



The global economic recovery continues with a well-established lead from emerging markets, but risk remains as government debt issues intensify in developed economies.

## US

The US economic rebound is gaining momentum, but the risk from a fiscal drag and low consumer demand persists.

- Economic data was largely positive in April, as signs of a recovery continued. The ISM manufacturing index rose for the eighth month running in April to 60.4, beating consensus estimates and accelerating at its fastest pace since July 2004.
- Retail sales and real personal expenditure also improved, rising by 1.6% and 0.3% m-o-m respectively, with encouraging auto sales underlining the gradual progress in consumer activity.
- However, jobless claims failed to improve, with both continuing and initial claims coming in above consensus forecasts in April, suggesting the private sector is still tentative on hiring.

## Europe

The macroeconomic picture remains mixed for the Eurozone, amid fears of sovereign-risk contagion and disappointing labour data.

- The economic newsflow was mixed in April with good activity data but worrying development on the fiscal policy side.
- The downgrades by Standard & Poor's of Greece's credit rating to "junk" status, and Portugal's to A-, drew all market participants' attention to the seriousness of fiscal challenges in the region.
- Regarding Greece, a provision of funds from a combination of the IMF and other Eurozone members was agreed at the beginning of May, but key concerns remain, such as the ability of Greece to balance their budgets deficit over the longer term.

## UK

Economic activity improved but concerns regarding the country's fiscal challenges continue to weigh on the outlook for growth.

- The economic data in April continued to reflect a manufacturing/industrial-led rebound in the UK. However, the strength of the rebound continued to disappoint, which was well reflected in the lower-than-expected GDP growth for 1Q, at 0.2% q-o-q, against consensus of 0.4% q-o-q.
- High unemployment remains the key concern for consumption, which was partly reflected in the sharp drop in the consumer confidence index, to 72 in March from 81 in February.
- The lack of clarity over the outcome of the elections continued to fuel uncertainty on the ability of the next government to rein in the spiralling deficit, particularly as it will have to implement some measures of fiscal austerity.

## Japan

Difficult labour market conditions and rising government debt remain a concern in Japan, but overall economic activity is showing positive improvement.

- The Bank of Japan commented that the economy "has been picking up", after reporting that demand for bank loans had started recovering in 1Q 2010.
- That said, a couple of key factors remained a concern. For example, companies were still cautious about spending and reluctant to hire, as machine orders dropped in February, by 5.4% y-o-y, while unemployment rose to 5.0% in March, from 4.9% a month ago.
- Furthermore, despite some improvements in consumer confidence, with the nationwide index coming in at 41 in March from 40 in February, retail sales were still weak, with department store sales down 3.5% y-o-y in March.

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# Macro Assessment

## Emerging Markets

Economic activity remained strong, but potential acceleration in monetary policy tightening is causing concern.

- China continued to drive the recovery in the region, as real GDP rose 11.9% y-o-y in 1Q 2010. That said, other Asian economies also showed strong performance, in manufacturing and trading activity.
- In Latin America, Brazil remained a key driver of the economic rebound, with industrial production up 18.4% y-o-y in February.
- In Eastern Europe however, labour data was weak. For example in Russia, the unemployment rate remained at 8.6% in March. Furthermore, retail sales remained in negative territory for many countries.



## Indonesia

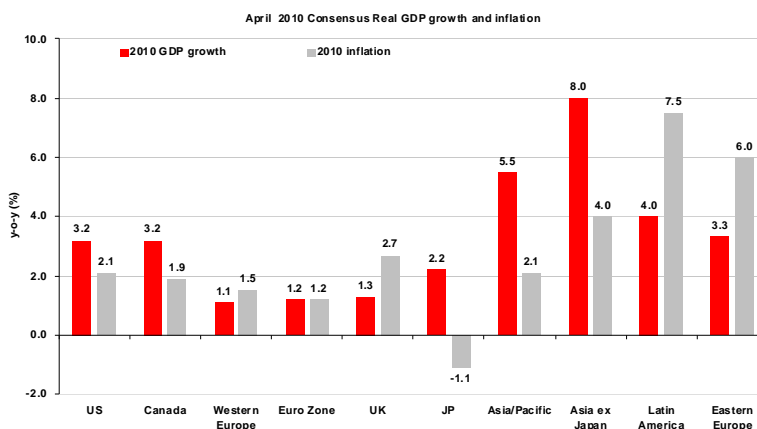
Strong domestic consumption and low inflation pressure support positive economic outlook

- Difference from China and India, inflation pressure in Indonesia remained low in April. Consumer prices was reported rising slightly by 3.91% in April, but still below central bank's target range of 4%-6% as food prices remained stable due to harvest season. At such, Bank Indonesia still has room to hold interest rates at low level of 6.5% and this may provide support to lending growth. Government forecasted credit growth to rise around 17% - 20% this year.
- Rising automotive sales and cement usage in April, combined with faster growth in imports rather than exports, added to signs of strong domestic consumption. Exports rose 46.6% in April, while imports rose 68.6% on the same month.
- Gross domestic product was reported to grow at 5.7% in the first quarter from a year earlier, faster than the 5.43% growth in the last quarter of 2009. All economic numbers point to positive economic outlook, and finance minister raised economic growth assumption in 2010 from 5.5% to 5.8%.

## GCC

Gulf business confidence strengthens; Saudi leads way

- Gulf business confidence rose strongly in Q1 2010, led by gains in Saudi Arabia. Outlook for revenues, margins and employment also show q-o-q improvement.
- We expect the region's largest economies – Saudi Arabia, the UAE and Kuwait – to post high annual nominal growth over the next decade. The GCC should become one of the leading global economic hubs as its economy is set to double in size over this period.
- The outlook for oil prices and the increasing importance of the emerging economies in Asia, especially China and India, as trade and business partners for the GCC region, should boost the current account surpluses in the years to come. As Western demand for hydrocarbons is expected to stamp down, the increasing role of emerging markets is critical for the GCC region.



Source: Consensus Economics, as at April 2010

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# Equity Markets



## Global Developed Markets

We retain a moderately cautious view toward global developed market equities relative to cash. The loose monetary policy bias of central banks is likely to remain for the medium term and should support equities. However our optimism is tempered by the risks posed to equity market appreciation by analysts' ambitious forecasts for earnings, which could be disappointed, particularly if fiscal austerity packages slow down growth in the second half of 2010

### US

- The economic recovery is on track, but employment and government fiscal balances remain a concern.
- Furthermore, until we see more progress in US labour markets, the outlook for consumption remains mixed. This increases the risk for disappointment in earnings growth, as analysts' estimates remain overly optimistic for 2010, at 30%.
- From a valuation perspective, US equities continue to trade in neutral territory, at a 12-month forward PE of 14.2x. Given the risk to earnings on the one hand, and support from low interest rates on the other, we maintain our moderately cautious view on equities in the US and elsewhere.
- At the sector level, we maintain our preference for defensive sectors such as healthcare and telecommunications services against the more cyclical sectors and financials

### Japan

- The deterioration in unemployment has eased in Japan, but it has not given way to improvement yet. In addition, prices continue to fall, reflecting a deflationary environment. Finally, fiscal challenges remain high.
- However, a normalisation of monetary policy is still some way off and we expect liquidity to remain supportive in 2010 and 2011.
- From a valuation perspective, Japan's equity markets are trading at a 12-month forward PE of 17.3x, which is about the level seen in early 2007.
- Therefore, with valuation in neutral territory, ongoing risks to growth, but further support from strong market liquidity, we maintain a moderately cautious view on Japanese equities.

### Europe

- Concerns over the Eurozone debt situation pose a threat to the improvement in confidence and economic growth for the Eurozone and the UK. In addition, unemployment remains high and consumption weak, supporting our view of anaemic growth in 2010.
- We continue to feel that the current stock prices reflect an overly optimistic level of earnings growth, particularly as consumption may falter.
- That said, with both the European Central Bank and the Bank of England pursuing a clear accommodative monetary policy, we expect liquidity to be supportive.
- Overall, we reiterate our moderately cautious stance on European equities and maintain our moderate underweight against cash.

### Global-Emerging markets

- While developed nations are struggling to bring their fiscal balances under control, many emerging nations do not share these difficulties which, coupled with better growth prospects, provides a favourable backdrop for their equity markets.
- However, rising inflation and tightening of monetary conditions are raising questions over the sustainability of the high levels of growth and the potential for negative earnings surprises.
- On balance, we continue to adopt a modestly cautious view on emerging-market equities as we do for developed ones, largely driven by the risk of negative surprises.
- However, equity valuations for both Turkey (against emerging markets generally) and Latin America (against Emerging Asia) remain attractive and continue to be our favourite positions within emerging markets.

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# Equity Markets

## Asia ex-Japan

- Asia ex Japan economies are likely to remain the driver of the global recovery, particularly as a rebound in domestic activity is now more established.
- However, such economic strength is creating some concerns, because inflation is rising quickly, pushing authorities to take measures to prevent overheating.
- The better outlook for consumer demand may justify the optimistic forecasts by analysts for earnings growth in Asia for both 2010 and 2011. That said, central banks and governments are reducing their levels of economic support, while in developed economies, the levels of consumer demand remain disappointing.
- Given the withdrawal of support and weak consumption in the developed world, it may prove more challenging for companies to meet analysts' ambitious growth estimates, thereby increasing the risk for earnings disappointment. Therefore, in line with other equity markets, we retain an underweight stance on Asian equities.

## Latin America

- Latin-America equity performance was weak in April, declining by 2.6%, pushing it into negative territory for the year as a whole (-0.3%).
- Economic growth in the dominant Brazilian economy remained strong, with February industrial production rising 18.4% y-o-y and retail sales up 12.3% y-o-y in March.
- In other key countries in the region such as Mexico and Colombia, that rank 2nd and 5th in terms of GDP, industrial production growth was also encouraging, coming in at 4.4% y-o-y and 3.0% y-o-y respectively.
- However, inflation has risen in the region and combined with the generally strong economic rebound, this has led Brazil's central bank to start tightening monetary policy by raising interest rates by 0.75% to 9.5%.

## Indonesia

- Indonesian market continued to outperformed other Asian market in April, driven by rising overseas fund flow to the market particularly after economic growth was reported to accelerate faster in the first quarter.
- Low inflation pressure supported market expectation that central bank will keep interest rates for the eight month time at low level of 6.5% and sent positive sentiment to interest rates sensitive shares. Combined with positive Q1-2010 earnings results, helped JCI to reach new record high at the end of April.
- Negative news from overseas, including rating downgrade in Europe peripheral nations, concern over Greece's fiscal problem, Goldman Sachs possible fraud case, and China's move in preventing assets bubble, all drove risk aversion to rise and limited JCI gains in April.



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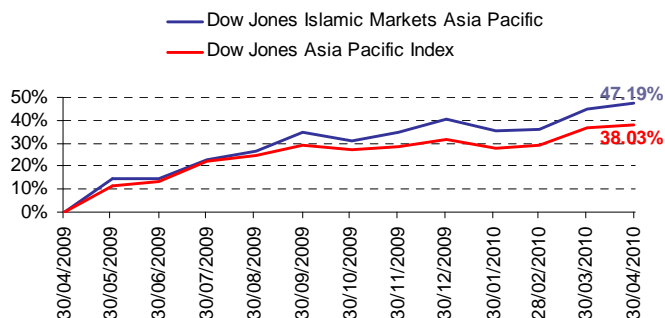
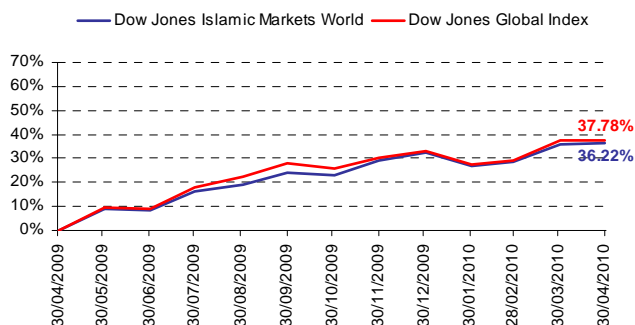
# Equity Markets



## Eastern Europe

- In Eastern Europe, labour data was weak.
- In Russia, the unemployment rate remained at 8.6% in March, while the consensus estimate expected a drop to 8.5%. Furthermore, retail sales growth remained in negative territory for many countries.
- However, some readings improved. Industrial production rebounded, not only in Russia, but also in other countries like Poland, while in Russia real wages and disposable income growth surprised on the upside, coming in at 3.4% y-o-y and 4.2% y-o-y in March respectively.
- Similar to other emerging markets, manufacturing data has been encouraging. That said, weak labour market conditions and the high level of government debt are weighing on the outlook for the region. And while valuations are not excessively cheap, they are not overly demanding either.

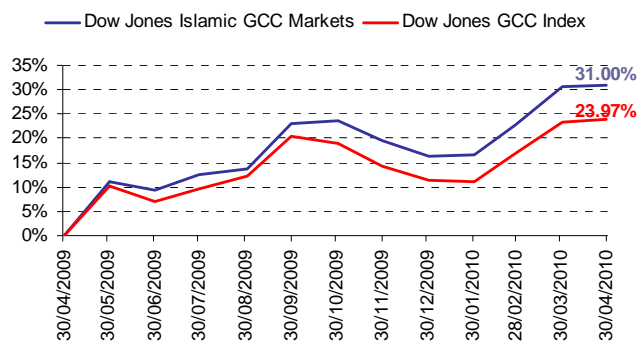
## Islamic indices performances\*



\*Source: Bloomberg as of end of April 2010

## Middle East

- The economic outlook for the MENA economies is positive and improving. The IMF recently increased its forecast for 2010 GDP growth to 4.5% for the region.
- The key driver of the rebound remains the fiscal and monetary stimulus in place, with government investment programs, especially in infrastructure, boosting domestic demand in the near term in many MENA economies. Amongst oil producers, Qatar is expected to be the strongest performer in 2010, with forecast of real GDP growth of 10.7% (HSBC Research). This is largely due to expansion of natural gas production and government infrastructure spending. Saudi, the largest Arab economy and oil exporter, should grow by 4.3% in 2010 with fiscal spending being a key driver.
- That said, there are a number of headwinds to a sustainable recovery for the region. The key risks to economic growth continue to be the high levels of government indebtedness, particularly for the oil-importing economies like Egypt. Furthermore, a vulnerable financial sector and weak property markets are still weighing on the outlook for the UAE and Kuwait.
- Turning to Inflation, it is expected to be fairly muted, which should provide more flexibility to central banks to maintain the support to their respective economies. Regarding monetary policy, non-pegged FX regime have reiterated to maintain accommodative policies, whilst region that have hard pegs to the dollar (SA, UAE) will mirror the still loose US monetary policy.
- According to HSBC Research, estimates of y-o-y CPI rates for 2010 and 2011 should remain contained, albeit increase relative to 2009. For the country which was reflected in the positive revision for GDP growth to 4.5% as well as the general commitment from local authorities to and fiscal stimulus should stay in place to cement the rebound.



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# Sukuk



## Sovereign

- The Central Bank of Bahrain (CBB) announced that the monthly issue of the Sukuk Al-Salam Islamic securities has been oversubscribed by 308%. Subscriptions worth BD37m were received for the BD12m issue, which carries a maturity of 91 days. The expected return on the issue, which begins on 28 April 2010 and matures on 28 July 2010, is 0.80%. The securities are issued by the CBB on behalf of the Government of the Kingdom of Bahrain.
- The Dubai Government repaid the Dh840 million on the Dubai Civil Aviation Ijara facility. The amount is the first of three equal instalments of a \$635 million (Dh2.33 billion) Dubai Civil Aviation multi-currency Ijara facility maturing in April 2011.

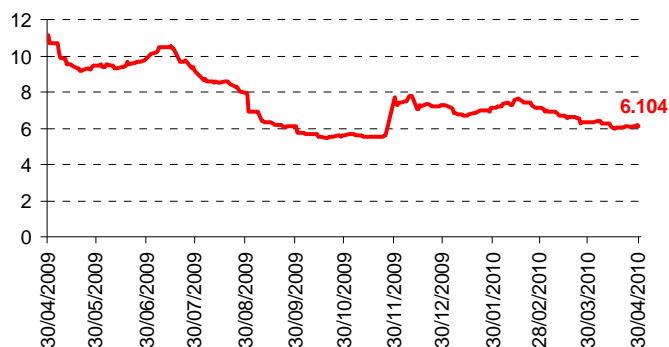
## Corporate

- Dar Al-Arkan International Sukuk Company announced periodic coupon distribution amounting to USD 6,040,000.00 for the period commencing 19 January, 2010 till 16 April, 2010. The periodic coupon distribution is based on 3 Month Libor plus a profit margin of 2.25%.
- Emirates NBD announced the launch of the Emirates Global Sukuk Fund. The fund will be managed by Emirates NBD Asset Management Limited, a provider of a full range of investment products and services and the asset management arm of the Emirates NBD Group. The fund is a Jersey-domiciled, US dollar denominated, Shariah compliant open ended fund that will invest in a portfolio of sukuk instruments issued by companies locally and globally.
- Cooling company Tabreed has deferred a payment on a dhs1.7 billion sukuk while reporting net profits of dhs40.4 million in the first quarter of this year. The company was due to make a payment on the sukuk on May 19.
- The International Finance Corporation ("IFC") confirmed the payment of its periodic distribution of USD 1,526,936 due on 3 May 2010, on its USD 100,000,000, 3.037% Trust Certificates maturing on November 3, 2014.

## Sukuk Index

- The HSBC/ DIFX US Dollar Sukuk Index (SKBI) is designed as a replicable benchmark tracking the return of an emerging sukuk portfolio. It consists of USD/ GBP/ JPY/ EUR-denominated fixed/ floating rate vanilla sukuk.
- The SKBI average yield stands at 6.104 as of end of April 2010 compared to 6.363 as of end of March 2010.

SKBI Average Yield



Source: Bloomberg as of end of April 2010

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## Other Investments



### Oil

- Oil had a good month again in April with the spot price gaining 2.9% over the month. Global demand remains strong on the back of a fairly broad pick-up in economic activity relative to a year ago, driven predominantly by emerging nations in Asia. However, the moderate level of economic activity in developed markets on the whole is likely to continue to keep oil demand at subdued levels, justifying our US\$65-85 price range.

### Gold

- Gold continues to be an investable theme, driven by concerns over future inflation associated with US government borrowings, and also confidence in the USD as a reserve currency.
- In the near term, gold prices could be constrained by factors including limited US money supply growth, the strength of the USD relative to other currencies and the perceived supply overhang associated with the IMF's intention to sell 20 tonnes of gold.
- Furthermore a stabilization of near-term inflation expectations would also be unsupportive for gold in the short term, as it is seen often as an inflation hedge

### Commercial Real Estate

- In the US, high unemployment is causing a decline in demand for space across all property types. Vacancies are rising and rents are declining in all major sectors.
- In Europe, demand continues to weaken, with the average office vacancy rate increasing to 11.1% at the end of December. This has fed through to falling rental values, which are now on average down 11.8% on the previous year, although the pace of decline has eased over the quarter.
- In the UK, investor interest and the lack of suitable supply on the market have led to a significant inward shift in yields. As a result, UK commercial property values grew by 3% in the final month of 2009, according to the IPD UK Monthly Index, the strongest monthly growth in the 23-year history of the index.
- In Asia, there is concern that a new mini-bubble is forming in some markets and several governments in the region have voiced concerns that real estate is rebounding too strongly and may take steps to cool the market.

## Currency

- Market news in April was dominated by developments surrounding the proposed solutions to the fiscal difficulties of the southern Eurozone countries, particularly Greece, causing the EUR to continue its weak trend.
- In the UK, given uncertainty over the resolution of the hung parliament, this has raised concerns that the next government will not have a strong enough mandate to push through fiscal adjustments. But despite this potentially negative backdrop, the GBP was nevertheless stronger against the EUR in April
- Event risk remains high in Eurozone. The EUR is susceptible to both positive and negative surprises depending on how resolution of the 'PIGS' (Portugal, Italy, Greece, Spain) fiscal difficulties unfolds.
- Valuation indicators are not sending any signals at present so in the short term, we recommend a neutral EUR position overall.
- The GBP is also susceptible to event risk from the general elections result. Nevertheless, on a medium-term basis we continue to prefer the EUR to the GBP given the weaker fiscal position of the UK compared to the core Eurozone countries and the possibility of ongoing political concerns if the next UK government is a coalition.
- That said, if events in the Eurozone worsen significantly, for example, with a default from Greece, this would place significant additional pressure on the EUR.
- Rupiah continued to strengthen in April driven by rising foreign inflow to the nation's equity and bond markets. In addition, the nation's foreign reserve continued to rise to a new record high of \$ 78.58 bn in April, providing enough ammunition for central bank to guard currency stability whenever there is sudden outflow in equity and bond markets driven by rising risk aversion due to global uncertainty over Europe's debt crisis.

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