Company

Global Markets Research

Deutsche Bank

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The Investigator

The rise of the West (and Japan)

We remain bullish on Asia ex-Japan in absolute terms but continue to think the region is likely to underperform the US (and Japan).

(1) With large output gaps and asymmetric risks of "exit" policies in a pre-election year, we think policy in the US is likely to be easier for longer, and US-linked Asian markets should continue to do well. We like HK and Korea, and non-tech Taiwan. Domestically oriented markets such as onshore China, India and Indonesia have already underperformed.

(2) Japan's outperformance vs Asia ex-Japan has more room to run, driven by historically large valuation gaps and prospects for a continued rise in bond yields.

(3) Fears about China's inflation have come a year too late. On our metrics, the tightening is well advanced for the credit multiplier, M1 growth, and property stocks and the market is likely to look through uncomfortable CPI prints in the coming months. We moved from U/W to M/W last month.

(4) The discount of A- to H-shares is at a record. It moves with China's credit multiplier, which is already low**.** Is the pariah status of A-shares almost over?

(5) Bullish Risk-Love on commodities/energy is inconsistent with a sharp drop in China's credit multiplier, as is the large differential between China's moribund property stocks and strong global base material stocks. Both can't be right.

(6) India's RBI still has a lot more wood to chop than the PBoC.

(7) Asian equity issuance as a fraction of M2 is at a record high, while valuations are only neutral – firms are leaving significant sums on the table.

(8) GARP rules, and GASP (growth at a silly price) should be avoided. GARP is now dominated by (Indian) banks and transportation.

(9) The most expensive quintile of stocks in the region are at near-record valuations, especially versus the cheapest cohort of stocks. This expensive basket is dominated by semis, and should be avoided.

No country allocation changes this month. O/W: Hong Kong, Korea, Philippines and Thailand; U/W: India and Taiwan tech. We are O/W cyclical sectors like autos, retailing, capital goods and transportation and U/W tech, staples, utilities, and select telcos. We add Novatek Microelectronics and Orise Technology and remove Dongfeng Motor and Hang Lung Properties from our model portfolio. The portfolio is up 10.3% vs 8.2% for the MSCI Asia ex-Japan since inception on 17 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
China	❍	❍	❍	✓✓	××	××	❍	❍	-2
Hong Kong	❍	××	❍	✓✓	××	××	❍	❍	-4
Indonesia	❍	×	❍	❍	××	❍	❍	❍	-3
India	❍	❍	❍	××	××	❍	××	❍	-6
Korea	❍	❍	❍	✓✓	××	✓✓	❍	❍	2
Malaysia	❍	❍	❍	✓✓	✓✓	××	✓✓	❍	4
Philippines	❍	❍	❍	✓✓	××	✓✓	✓✓	✓✓	6
Singapore	❍	❍	❍	✓✓	✓✓	✓✓	❍	✓✓	8
Thailand	❍	❍	❍	❍	✓✓	❍	××	❍	0
Taiwan	❍	❍	❍	✓✓	××	××	××	❍	-4
Asia ex-Japan	❍	❍	❍	❍	❍	❍	❍	❍	0
Japan	❍	✓✓	❍	✓✓	❍	××	❍	❍	2

Sector Recommendations

Overweight
PH – banks, real estate
KR – autos, materials, retailing, utilities
HK – cap goods, consumer durables, real estate, retailing
TH – banks

Underweight
TW – consumer durables, semis, tech hardware
IN – media, real estate, telecom, utilities

Deutsche Bank AG/Hong Kong

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The rise of the West (and Japan)

Spreads, divergences, gaps

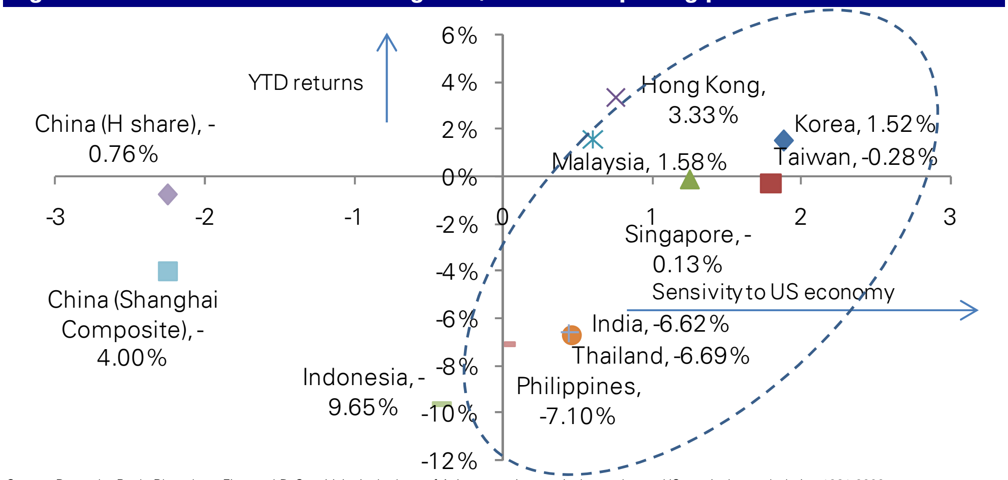
While we remain bullish on Asia ex-Japan in absolute terms, we have made the case that the region is likely to underperform the US (and Japan) for some months now. The message was as popular as a skunk at a garden party. We make a few points in this note. (1) With large output gaps, and asymmetric risks of "exit" policies in a pre-election year, policy in the US is likely to be easier for longer, and US-linked Asian markets should continue to do well. Our favourites have been HK and Korea, and we also like non-tech Taiwan. Domestically oriented markets such as onshore China, India and Indonesia have already underperformed. This is likely to continue, in our view. (2) Japan's outperformance versus Asia ex-Japan has more room to run, driven by historically large valuation gaps, and prospects for a continued rise in global bond yields. (3) Fears about China's inflation have come a year too late. On our metrics, the tightening is well advanced for the credit multiplier, M1 growth, and property stocks and the market is likely to look through uncomfortable CPI prints in the coming months. We moved from underweight to neutral last month, and likely will be looking to raise that to overweight in the coming months if we see further policy tightening. (4) The discount of A- to H-shares is at a record. It moves with China's credit multiplier, which is already low**.** Is the pariah status of domestic-listed shares almost over? (5) Highly bullish Risk-Love on commodities/energy is inconsistent with a sharp drop in China's credit multiplier, as is the large differential between China's moribund property stocks and strong global base material stocks. Both can't be right. (6) India's RBI still has a lot more wood to chop than the PBoC. (7) Asian equity issuance as a fraction of M2 is at a record high, while valuations are only neutral – firms are leaving significant sums on the table and investors should greedily take the gift and send a thank you note. (8) GARP rules, and GASP (growth at a silly price) should be avoided. GARP is currently dominated by (Indian) banks and transportation. (9) The most expensive quintile of stocks in the region are at near-record valuations, especially versus the cheapest cohort of stocks. This expensive basket is dominated by semis, and should be avoided.

Let's elaborate on these thoughts:

(1) Asia underperforms the US – more to come

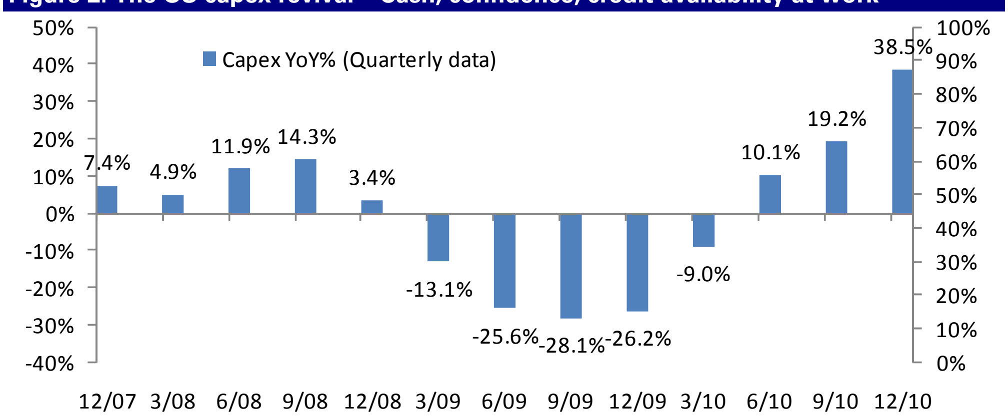
As Figure 1 shows, year-to-date, markets with a higher exposure to the US economy – Korea, Hong Kong, Singapore, Malaysia and Taiwan – have done a lot better than some of the more domestically oriented markets such as Philippines, India, Indonesia, and domestic China. The leading indicators for the US economy – the ECRI WLI leading index, the Consumer Metrics data, and the ISM new orders less inventory index – are all pointing to a strong recovery, as we have highlighted in previous "Investigators". Our US economists point to the "Credit impulse" – the second derivative of credit getting better and the low share of consumer discretionary spending of GDP as a coiled spring. We have highlighted the potential rise in capex spending, driven by cash, confidence, credit availability, substantial under-investment (70% of US firms have capex below depreciation), and a record gap between ROEs and corporate bond yields. This story is already coming through in 3Q and 4Q US earnings numbers (see Figure 2). Of course, our favourite indicator of US/Global consumption – the performance of plutonomy stocks – indicates a strong wealth effect for plutonomists. Strong global growth is now becoming a consensus view. We think that there is more juice in this theme – we are playing it by staying overweight on HK, Korea and non-tech Taiwan, and through our exposure to capital goods, autos and transportation stocks. We continue to underweight the domestics – utilities, food/beverage/tobacco.

Figure 1: US-oriented markets doing well, domestic "pricing power" markets less so



Source: Deutsche Bank, Bloomberg Finance LP. Sensitivity is the beta of Asian countries nominal growth over US nominal growth during 1981-2009.

Figure 2: The US capex revival – Cash, confidence, credit availability at work

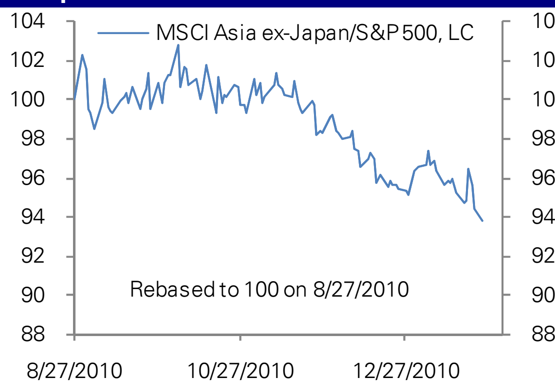


Source: Deutsche Bank, FactSet. Note: Capex growth based on quarterly reported numbers. Numbers for Q4 2007 through Q32010 are based on 1370 US companies, numbers for Q42010 are based on 210 companies

Figure 3 shows the performance of Asia-ex-Japan versus the US since August, when we first made the relative underperformance case. Why do we think that Asia ex-Japan is still likely to continue underperforming the US? Figure 4 shows that US has a large output gap while Asia's output gap is gone. We recognize that output gaps are slippery subjects, prone to significant hindsight bias, as data is revised thus adding some sodium chloride to the chart. This is the third year of the US President's term, a year when policy is generally easy, and with near-double digit employment, there is an asymmetric bias to run easy policy. The gift of rising equity prices is part of the transmission mechanism of easy US monetary policy. As Figure 5 shows, the relative output gap (slack in the economy) in Asia versus the US suggests that the US equity market should continue to outperform Asia ex-Japan – its relative monetary/fiscal policy should be a lot more supportive. (See Figure 6 for the relative policy settings in the US versus Asia.) Clearly, Asia is tightening, and the US is super-easy. We have highlighted earlier that the relative capex in Asia compared to the US is a good predictor of prospective ROE differentials. Since the US has been a lot more aggressive in cutting capex than trigger-happy Asia, we think US ROEs should easily exceed Asia ex-Japan in the coming years, the exact opposite of what we were saying in late 2002. No client we met agrees with this notion.

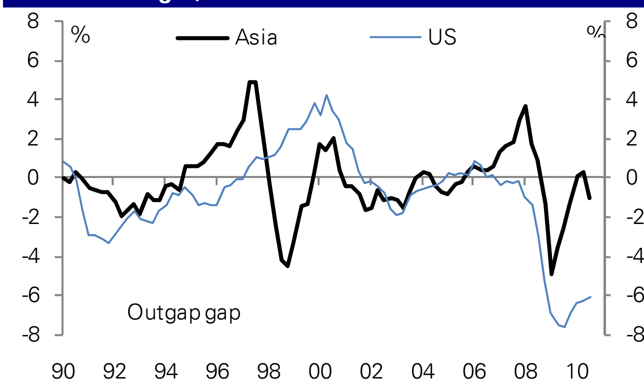
The region/sector that survives a crisis and benefits from fund flows/cheap capital fleeing a crisis suffers in due course. After the 1987 crash in the US, Japan was the beneficiary. Its bubble popped in 1990. After the US S&L crisis, emerging market equities became fashionable and bubbled up by 1993. The poorly timed World Bank study "*The East Asian Miracle*" in 1993 preceded the Asian crisis of 1997. That crisis, joined by Russia and LTCM in 1998, led to liquidity flowing to the TMT sector. That blew up by 2001/2002. The next areas to inflate as a consequence of post-2002 largesse were the US/UK/Spanish housing sectors. We know how that ended. The current liquidity infusion has pumped up global bonds, and some emerging market equities. **Beware the curse of the post-crisis liquidity receiver**. Over-confidence, over-investment and poor returns are normally well stirred into this poisoned chalice.

Figure 3: "Superior Growth Asia" underperforms the US since September 2010



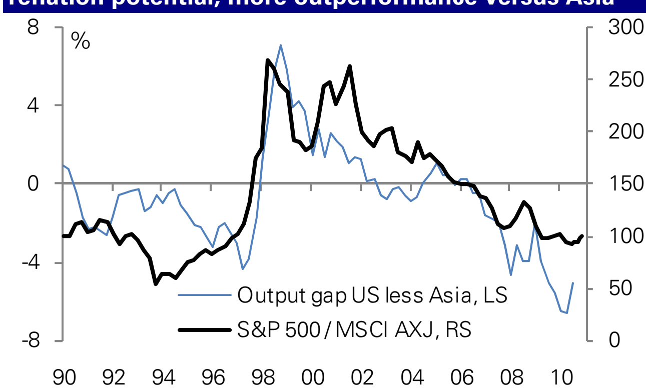
Source: Deutsche Bank, Bloomberg Finance LP

Figure 4: US output gap is large, Asian slack is gone. US easier for longer, not so Asia



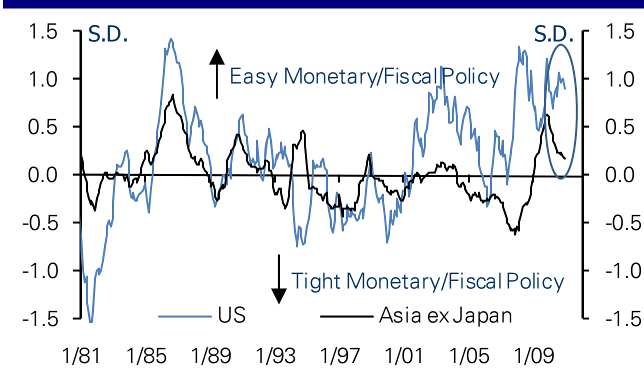
Source: Deutsche Bank. DB US and Asia Economics team. For Asia median of output gap of 10 major countries (China, HK, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand) is taken.

Figure 5: US has relatively large output gap, more reflation potential, more outperformance versus Asia



Source: Deutsche Bank. DB US and Asia Economics team. For Asia median of output gap of 10 major countries (China, HK, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand) is taken.

Figure 6: US policy is easy, Asia is tightening

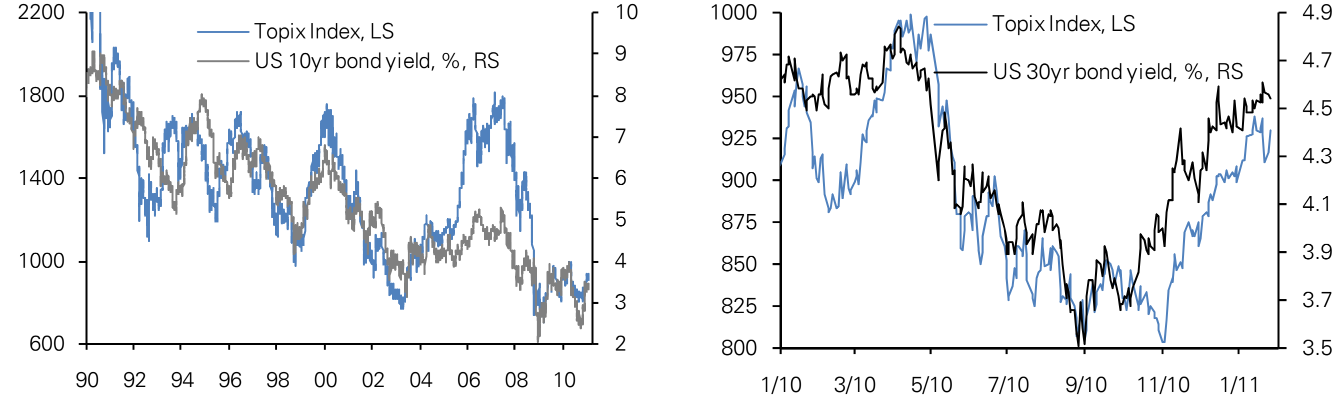


Source: Deutsche Bank, CEIC, Datastream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate yoy growth, real broad money (M2) yoy growth, real interest rate and government fiscal deficit/surplus as a percent of GDP.

(2) Asia underperforms Japan – more to come

We have argued for a while that Japanese sectors were dominating the world's cheapest sectors and had scant representation in the world's most expensive sectors. At the same time, Asia ex-Japan sectors were dominating the most expensive basket, and had few sectors that looked cheap globally. Investors had zero interest in this idea, we wrote in our "*Marketing Trip Feedback*" note from 28 October 2010. All it took was a rise in US bond yields for the Nikkei-225 to take off. (Figure 7). If you believe that funds are going to continue to flow from bonds to equities, and that global nominal growth expectations are likely to rise, Japanese equity markets are highly likely to keep beating Asian markets. While some investors have closed Japanese short/underweight positions, there is a long way to go. There are too many jaded skeptics. As Kamiyama-san, our Japan strategist has argued, Japan's corporate sector has high operating leverage – any rise in global growth/inflation expectations should have a disproportionate impact on EPS and ROE.

Figure 7: If US bond yields rise/stay stable, reflecting rising global growth expectations, Japan equities do well

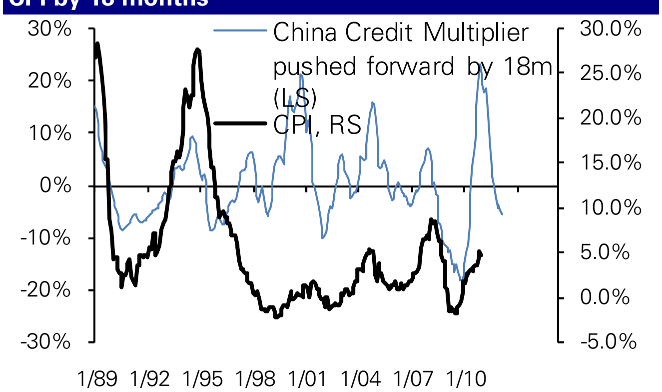


Source: Deutsche Bank, Bloomberg Finance LP

(3) China Inflation fears have arrived a year too late

Our chief China economist, Jun Ma is looking for inflation to peak out in 1H11. This seems reasonable. Most of the leading indicators of Chinese inflation – the credit multiplier (loans divided by the monetary base) and M1 growth – are already signaling lower inflation in 2H11 (see Figure 8 and Figure 9). Figure 10 shows that the credit multiplier also leads Chinese equities by six months. Both offshore and especially onshore markets in China have discounted considerable tightening that has **already** occurred.

Figure 8: China's credit multiplier drops sharply, leads CPI by 18 months

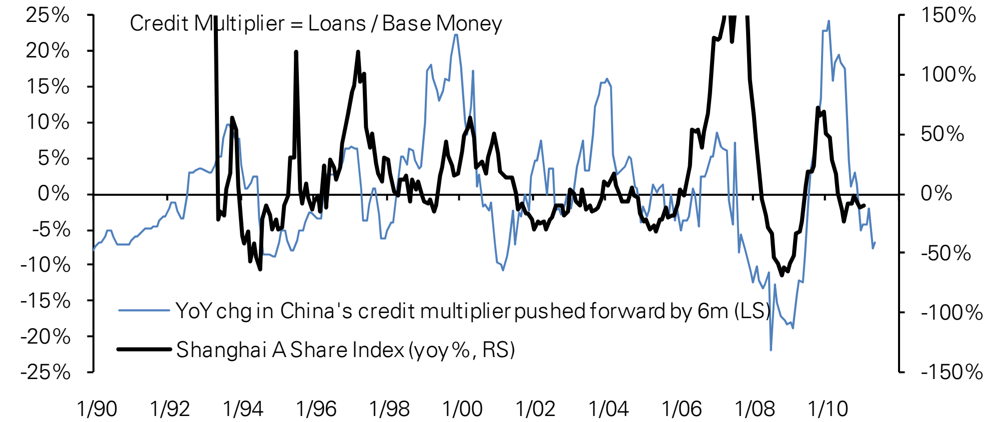


Source: Deutsche Bank, , IMF, PBoC, Datastream. Credit Multiplier = Loans /Monetary base

Figure 9: China's M1 growth drops, leads CPI by 8 months

Source: Deutsche Bank, Datastream

Figure 10: China's credit multiplier leads China's onshore equity markets – a lot of tightening in place, and increasingly discounted

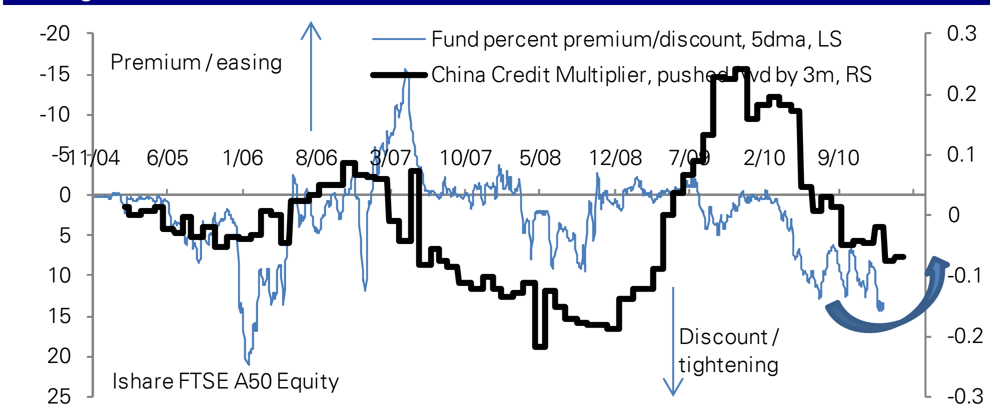


Source: Deutsche Bank, IMF, PBoC, Datastream.

(4) China's A-shares at record discounts to the H-Shares, a bottom?

Let's stay with China's credit multiplier (outstanding loans divided by the monetary base, year-on-year basis). It tends to correlate quite well with the A/H-share premium/discount. Monetary tightening, proxied by a falling credit multiplier, leads a relative valuation compression in the domestic A-shares versus their H-share cousins. This time around, as strategist Hui Miao points out, the A-shares have also suffered from lock-ups for founding investors expiring – supply pressures have been large. We think this discount is already large, and the credit multiplier has already fallen a fair bit. As it begins to rise, we think the market will be quick to close this large discount. We are watching and waiting (see Figure 11).

Figure 11: China credit tightening compresses A/H-share discount to records – a turn coming?



Source: Deutsche Bank, IMF, PBoC, Datastream. Credit Multiplier = Loans /Monetary base

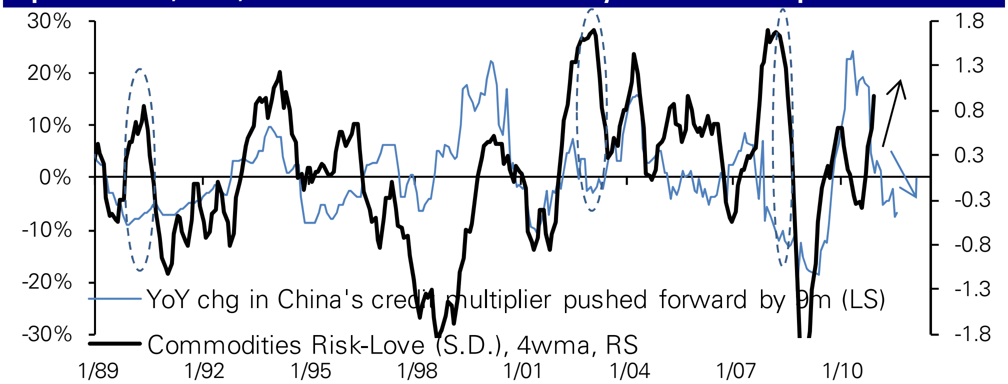
(5) Divergence between China's credit multiplier/property stocks and global materials stocks

Again, we stay with China's credit multiplier. It is a powerful leading indicator of China stocks, inflation and growth because this is a credit-driven economy, with credit growth a key policy tool. As Figure 12 shows, there is a large divergence between a collapsing Chinese credit multiplier and elevated commodity Risk-Love (sentiment). China's credit multiplier is a good leading indicator of commodities demand, and in the past these divergences have been resolved by the euphoria around commodities collapsing (i.e. 1990, 2002 and 2008).

Here's another way to say the same thing. Look at Figure 13. It shows the divergence between Chinese property stocks and global base materials stock prices. Again, weak

Chinese property stocks are a good indicator of tight policy in China. Property is a key demander of materials, on the margin. In the past, these divergences have been resolved by materials stocks respecting the message of Chinese property stocks. Is this going to be repeated? Time will tell.

Figure 12: China tightening, but commodities sentiment close to record highs? A repeat of 1990, 2002, and mid-2008 when commodity sentiment collapsed?



Source: Deutsche Bank, IMF, PBoC, Datastream. Credit Multiplier = Loans /Monetary base

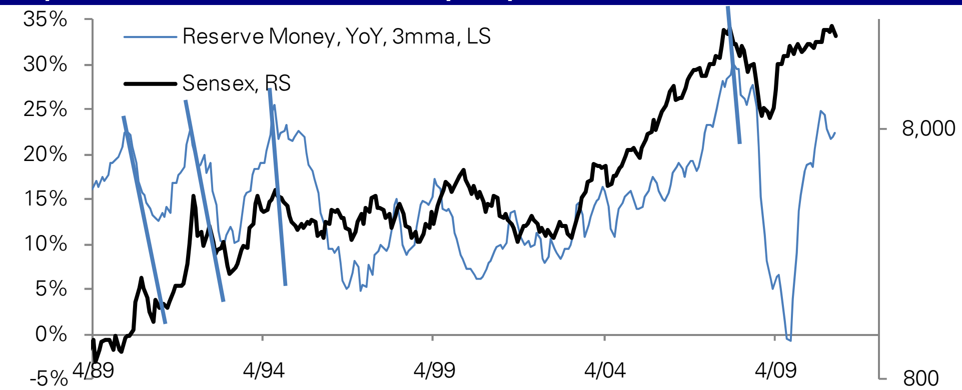
Figure 13: China property stocks and materials stocks diverge – a problem like mid-2008 for materials stocks?

Source: Deutsche Bank, Bloomberg Finance LP

(6) India RBI has a lot more wood to chop than China's PBoC

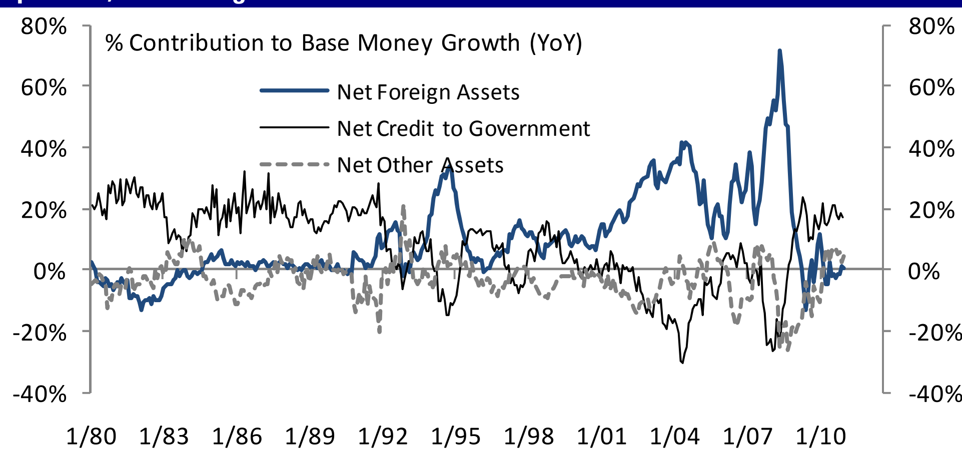
In our latest monthly note "*2011 - A Confluence of Positives*", The Investigator, 13 December 2010 we wrote "We were a bit surprised by the RBI balance sheet. As Figures 14 and 15 show, for a central bank that is worried about inflation, the rise in the monetary base to near record highs is quite puzzling. Peaks in the monetary base growth rate coincide or lead peaks in Indian equities". We repeat those Figures here. The equity market is down 4.5% since 19 December, and the RBI has a lot more wood to chop to get the monetary base growth rate to neutral levels. (Note: the credit multiplier is quite stable at around 4x, unlike its collapse in the US. Any notion that a greater monetary base is required to compensate for a flagging credit multiplier, a la Bernanke, is incorrect, in our view). We remain underweight on India, although we like the long-term story. We would stop shorting the banks – they have been punished severely, and are now showing up on our GARP screens.

Figure 14: Peaks in India's base money growth mark tops in Indian equities, although today's valuations are not elevated like prior peaks



Source: Deutsche Bank, CEIC, Bloomberg Finance LP

Figure 15: RBI balance sheet – base money growth driven by domestic asset expansion, NOT foreign inflows

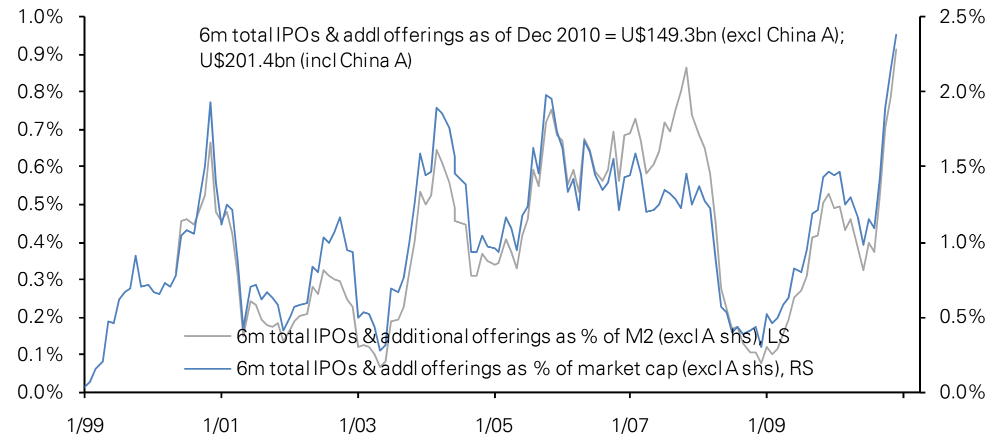


Source: Deutsche Bank, CEIC, RBI

(7) Issuance in Asia is at nosebleed levels, yet valuations are not

As Figure 16 shows, equity issuance in Asia as a fraction of market capitalisation and M2 is at record highs. Normally, this would have us worried. However, this time around, Asian equity valuations are at fair value, unlike say 2000 or mid-2007, the last two times Asian issuance was at these nosebleed levels. The implication is that issuance is being carried out at reasonable multiples and firms are leaving enough upside for investors – ergo, the over-subscriptions. We would be a lot more worried about these issuance levels if valuations were a lot more elevated. Also, we note that the terms of trade – a good predictor of Asian equity markets – have been rising in Hong Kong, Korea and Thailand.

Figure 16: Asian equity issuance – nosebleed levels like 2000 and 2007, but valuations a lot more reasonable this time around

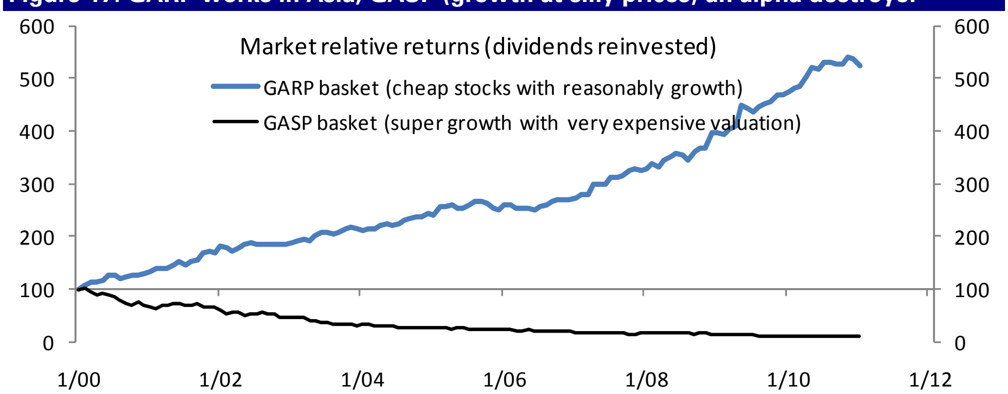


Source: Deutsche Bank, Bloomberg Finance LP.

(8) GARP rules, GASP a loser

In our latest note, "*Stock-picking – Minefields, fertile acres*", The Investigator, 10 January 2011, we highlighted the power of GARP investing. Buying cheap stocks with reasonable (not super-strong growth metrics) does exceptionally well in Asia. Conversely, GASP (super growth at silly prices) does poorly. Figure 17 shows the performance of the two styles. Given the large moves in markets in the past few weeks, we updated these two baskets. Currently, the GARP basket is dominated by banks and transportation (Figure 18). The GASP basket is in Figure 19.

Figure 17: GARP works in Asia, GASP (growth at silly prices) an alpha destroyer



Source: Deutsche Bank, FactSet, Bloomberg Finance LP

Note: Relative returns are based on equal weighted average total returns (dividends reinvested) of the GARP and GASP baskets versus all stocks in the universe which covers top 90% of Asia (ex Japan) total market capitalization (including 1000 stocks with market cap above U$1bn as of Jan 2011).

The stock universe of is divided into value quintiles based on 12-month forward PE, trailing PE, P/operating income, PB, P/S, P/FCF, EV/EBIT, EV/EBITDA, EV/Capital employed, EV/S, EV/operating cash flow, EV/FCF and dividend yield. This is represented by V1, V2…V5. Then each of these quintiles are divided into growth quintiles on the basis of 3yr trailing sales growth, 5yr trailing sales growth, 3yr trailing EPS growth, 5yr trailing EPS growth, long term growth, FY11 EPS growth estimates and FY12 EPS growth estimates. These are represented by G1, G2,…G5. The baskets are rebalanced monthly. GARP is the basket of stocks with cheapest valuation and high (not the highest) growth (V1G2). GASP is the basket of stocks with most expensive valuation and lowest growth (V5G5).

Figure 18: GARP basket – attractive

	Ticker	Company	Sector	Mkt	DB Rec	Mcap (U$mn)	Avg T/O 20D (U$ mn)	1m perf (%)	YTD perf (%)	Trailing P/E	P/B
1	682 HK	Chaoda Modern Agriculture Holdings Ltd.	Food/Bev/Tobacco	CH	NR	2,281	9.8	-11.6	-8.7	3.8	0.7
2	1186 HK	China Railway Construction Corp. Ltd.	Capital Gds	CH	H	13,844	7.8	3.4	3.7	13.0	1.9
3	200625 CH	ChongQing Changan Automobile Co. Ltd.	Autos	CH	NR	2,943	2.4	-4.3	-2.4	6.6	1.3
4	525 HK	Guangshen Railway Co., Ltd.	Transport	CH	NR	3,771	2.0	5.2	5.6	13.9	0.8
5	323 HK	Maanshan Iron & Steel Co., Ltd.	Materials	CH	B	4,121	10.0	2.0	1.0	12.2	1.0
6	1899 HK	Xingda International Holdings Ltd.	Materials	CH	NR	1,501	3.3	-6.3	-8.7	10.9	2.4
7	293 HK	Cathay Pacific Airways Ltd	Transport	HK	B	10,705	15.0	-1.6	-1.2	7.8	1.7
8	754 HK	Hopson Development Holdings Ltd.	Real Estate	HK	NR	2,130	3.7	13.1	13.3	2.4	0.5
9	751 HK	Skyworth Digital Holdings Ltd.	Cons Dur/App	HK	NR	1,667	12.7	11.3	9.3	11.7	2.1
10	20 HK	Wheelock & Co. Ltd.	Real Estate	HK	NR	8,476	3.4	8.9	3.3	5.5	0.9
11	BBNI IJ	PT Bank Negara Indonesia (Persero) Tbk	Banks	ID	B	6,910	16.5	-8.8	-13.5	15.0	2.5
12	BJHI IN	Bajaj Holdings & Investment Ltd.	Div Financials	IN	NR	1,736	1.7	-13.4	-14.1	5.6	1.4
13	BOB IN	Bank of Baroda	Banks	IN	B	6,926	10.4	-2.1	-2.9	10.0	2.0
14	BOI IN	Bank of India	Banks	IN	H	5,383	13.0	5.9	4.1	13.8	1.7
15	CRPBK IN	Corporation Bank	Banks	IN	NR	1,776	1.1	-13.1	-11.3	6.9	1.4
16	IDBI IN	IDBI Bank Ltd.	Banks	IN	NR	2,409	16.2	-7.6	-7.9	10.8	1.1
17	INBK IN	Indian Bank	Banks	IN	NR	2,148	2.6	-10.6	-7.4	28.9	1.2
18	OBC IN	Oriental Bank of Commerce Ltd.	Banks	IN	NR	1,929	5.9	-14.6	-13.2	7.8	1.1
19	PNB IN	Punjab National Bank	Banks	IN	B	7,850	8.5	-6.4	-7.0	9.0	1.9
20	SESA IN	Sesa Goa Ltd.	Materials	IN	B	6,131	26.3	3.3	-0.7	10.1	3.4
21	UNBK IN	Union Bank of India	Banks	IN	H	3,712	4.6	3.4	-3.3	8.2	1.6
22	001040 KS	CJ Corp.	Capital Gds	KO	NR	2,058	16.1	-2.0	0.8	12.8	1.0
23	004800 KS	Hyosung Corp.	Materials	KO	NR	2,921	56.5	-11.1	-12.7	9.1	1.1
24	003600 KS	SK Holdings Co., Ltd.	Capital Gds	KO	NR	6,441	34.8	8.7	7.2	21.9	0.9
25	HLFG MK	Hong Leong Financial Group Bhd.	Banks	MY	NR	3,051	0.4	-1.8	-0.4	9.0	1.6
26	YTL MK	YTL Corp Bhd.	Utilities	MY	NR	5,082	1.1	-2.5	-3.0	15.5	1.5
27	URC PM	Universal Robina Corp.	Food/Bev/Tobacco	PH	H	1,608	2.2	-4.5	-0.7	9.2	1.8
28	2324 TT	Compal Electronics, Inc.	Tech Hardware	TA	B	5,773	13.4	-3.6	-2.2	7.9	1.6
29	5522 TT	Farglory Land Development Co. Ltd.	Real Estate	TA	NR	1,898	7.6	-0.3	-0.8	8.6	2.4
30	THAI TB	Thai Airways International Public Co. Ltd.	Transport	TH	B	2,926	8.0	-14.0	-15.3	3.3	1.1
		Median				2,997	7.9	-2.3	-2.3	9.1	1.5

Source: Deutsche Bank, FactSet, Bloomberg Finance LP.

Figure 19: GASP basket – avoid these names

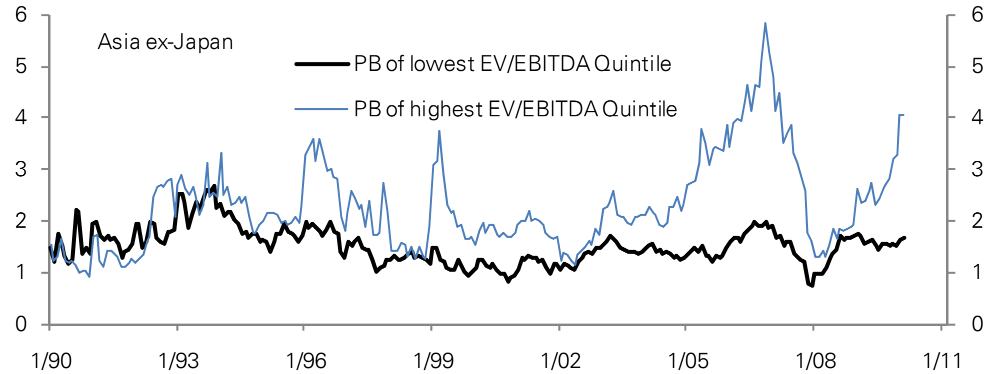
	Ticker	Company	Sector	Mkt	DB Rec	Mcap (U$mn)	Avg T/O 20D (U$ mn)	1m perf (%)	YTD perf (%)	Trailing P/E	P/B
1	276 HK	Mongolia Energy Corp. Ltd.	Energy	HK	NR	1,811	1.3	0.9	-0.4	neg	1.1
2	HCP IN	Hindustan Copper Ltd.	Materials	IN	NR	5,636	5.1	-16.5	-15.9	166.5	22.9
3	NFL IN	National Fertilizers Co. Ltd.	Materials	IN	NR	1,125	0.9	-3.1	-8.0	30.0	3.2
4	RCF IN	Rashtriya Chemicals & Fertilzers Ltd.	Materials	IN	NR	1,018	6.9	-11.9	-17.3	19.8	2.5
5	011780 KS	Korea Kumho Petrochemical Co., Ltd.	Materials	KO	NR	2,965	25.5	45.1	45.5	neg	5.7
6	PX PM	Philex Mining Corp.	Materials	PH	S	1,729	1.8	-1.1	-3.0	23.8	4.2
7	HMT IN	HMT Ltd.	Capital Gds	IN	NR	1,122	1.8	2.1	-2.0	neg	neg
8	002990 KS	Kumho Industrial Co., Ltd.	Capital Gds	KO	NR	1,580	1.7	-3.6	-4.5	neg	neg
9	2866 HK	China Shipping Container Lines Co., Ltd.	Transport	CH	H	7,525	30.7	13.0	8.7	neg	1.4
10	2227 TT	YULON NISSAN MOTOR CO LTD	Autos	TA	NR	1,220	1.8	-16.0	-15.7	54.1	2.3
11	001800 KS	Orion Corp. (Korea)	Food/Bev/Tobacco	KO	H	2,246	10.2	11.0	9.6	59.7	4.7
12	PEP MK	PPB Group Bhd.	Food/Bev/Tobacco	MY	NR	6,639	6.5	1.7	-0.9	17.0	1.6
13	UNVR IJ	PT Unilever Indonesia Tbk	Hhold Prod	ID	H	11,941	3.0	-11.6	-14.2	32.6	27.2
14	BNII IJ	PT Bank Internasional Indonesia Tbk	Banks	ID	S	4,046	0.4	-19.8	-16.7	108.6	5.2
15	467 HK	United Energy Group Ltd.	Real Estate	CH	NR	2,296	2.0	-9.7	-9.7	neg	7.2
16	ULHB MK	UEM Land Holdings Bhd.	Real Estate	MY	NR	3,479	9.1	10.6	11.5	53.2	3.9
17	CT SP	CapitaMall Trust	Real Estate	SG	H	4,796	8.6	3.2	-0.5	22.7	1.2
18	9945 TT	RUENTEX DEVELOPMENT COMPANY LIMITED	Real Estate	TA	NR	1,199	8.8	-14.3	-10.6	67.4	3.3
19	2038 HK	Foxconn International Holdings Ltd.	Tech Hardware	HK	H	5,166	5.7	3.3	2.9	neg	1.5
20	981 HK	Semiconductor Manufacturing International Corp.	Semis	CH	NR	2,177	4.3	6.9	10.7	neg	1.0
21	522 HK	ASM Pacific Technology Ltd.	Semis	HK	S	4,779	10.5	0.6	-4.3	18.4	9.3
22	000660 KS	Hynix Semiconductor, Inc.	Semis	KO	H	14,584	245.5	18.4	14.2	neg	3.0
23	3532 TT	Formosa Sumco Technology Corp.	Semis	TA	NR	1,790	0.5	11.5	11.9	neg	2.8
24	2408 TT	NANYA TECHNOLOGY CORP	Semis	TA	S	2,313	9.7	0.3	1.8	neg	1.5
		Median				2,305	5.4	0.7	-1.4	32.6	3.1

Source: Deutsche Bank, FactSet, Bloomberg Finance LP.

(9) Expensive quite Asian stocks have become exceptionally expensive – avoid

Figure 20 shows the valuation for the cheapest and most expensive quintile of Asian stocks. The valuation of the expensive names is higher than anytime since mid-2007. They should be avoided like the bubonic plague. They are dominated by China retailing, China food beverage and tobacco, Indonesia energy and India food beverage and tobacco.

Figure 20: Most expensive cohort of Asian stocks now super-expensive – avoid



Source: Deutsche Bank, FactSet

In sum, we reiterate that Asian stocks have decent absolute return prospects this year. In relative terms, however, they are highly likely to underperform Japan, the US and even Europe. A majority of our clients are positioned overweight in the region and underweight Japan and/or the US/Europe. We think this positioning is likely to hurt alpha. Asian exposure should focus on globally oriented sectors, and away from over-priced domestic demand stories from 2010. Avoiding GASP stocks and focusing on GARP names should be the key focus in stock selection. The most expensive quintile of stocks is now very dear and should continue to be purged from portfolios. China's leading indicators tell us not to worry excessively about impending inflation – we worry more about high commodity Risk-Love and inflation in India.

Regional views and country summary

Asia ex-Japan equity valuations are at long-term averages. Serious capital-threatening overvaluation like early 1994, 2000, or mid-2007 is simply not an issue. EBIT margins are recovering, but are unlikely to hit earlier highs, given increasing capex in China, India, Indonesia, and now Malaysia. Versus Asian cash and property yields, equities look attractive. Versus Japan, Asian markets are at almost historic over-valuation levels. Their PB premium versus the US is unwarranted by prospective ROE differentials. The markets are increasingly recognizing this, as the US, Europe and Japan are all outperforming ex-Japan Asia this year. Asian Risk-Love has receded somewhat as some markets have come under pressure. There has been a fund flow rotation out of India/ASEAN into Korea and Taiwan so far in the year. EPS growth forecasts for Asia at 13.6% are low, especially in Korea, HK, Singapore, and Taiwan. While policy is tightening from super-easy settings, and some domestic sectors could be constrained, growth indicators in the US and now Europe, are surprisingly strong – the externally oriented markets should see their EPS expectations go up in the coming months. Hedge fund estimated exposure is back to average levels, a good thing. The Marshallian k (money growth less nominal growth) is also strong. However, equity offerings as a percentage of market capitalization have now crossed the 2% warning level.

Figure 21: Equity markets and their key drivers

	Liquidity	Valuation	Sentiment (Risk-Love)	Technicals	Growth	Current Account Balance	Real Exchange Rate	Policy	Total Score
China	O	O	O	✓✓	××	××	O	O	-2
Hong Kong	O	××	O	✓✓	××	××	O	O	-4
Indonesia	O	×	O	O	××	O	O	O	-3
India	O	O	O	××	××	O	××	O	-6
Korea	O	O	O	✓✓	××	✓✓	O	O	2
Malaysia	O	O	O	✓✓	✓✓	××	✓✓	O	4
Philippines	O	O	O	✓✓	××	✓✓	✓✓	✓✓	6
Singapore	O	O	O	✓✓	✓✓	✓✓	O	✓✓	8
Thailand	O	O	O	O	✓✓	O	××	O	0
Taiwan	O	O	O	✓✓	××	××	××	O	-4
Asia ex-Japan	O	O	O	O	O	O	O	O	0
Japan	O	✓✓	O	✓✓	O	××	O	O	2

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.

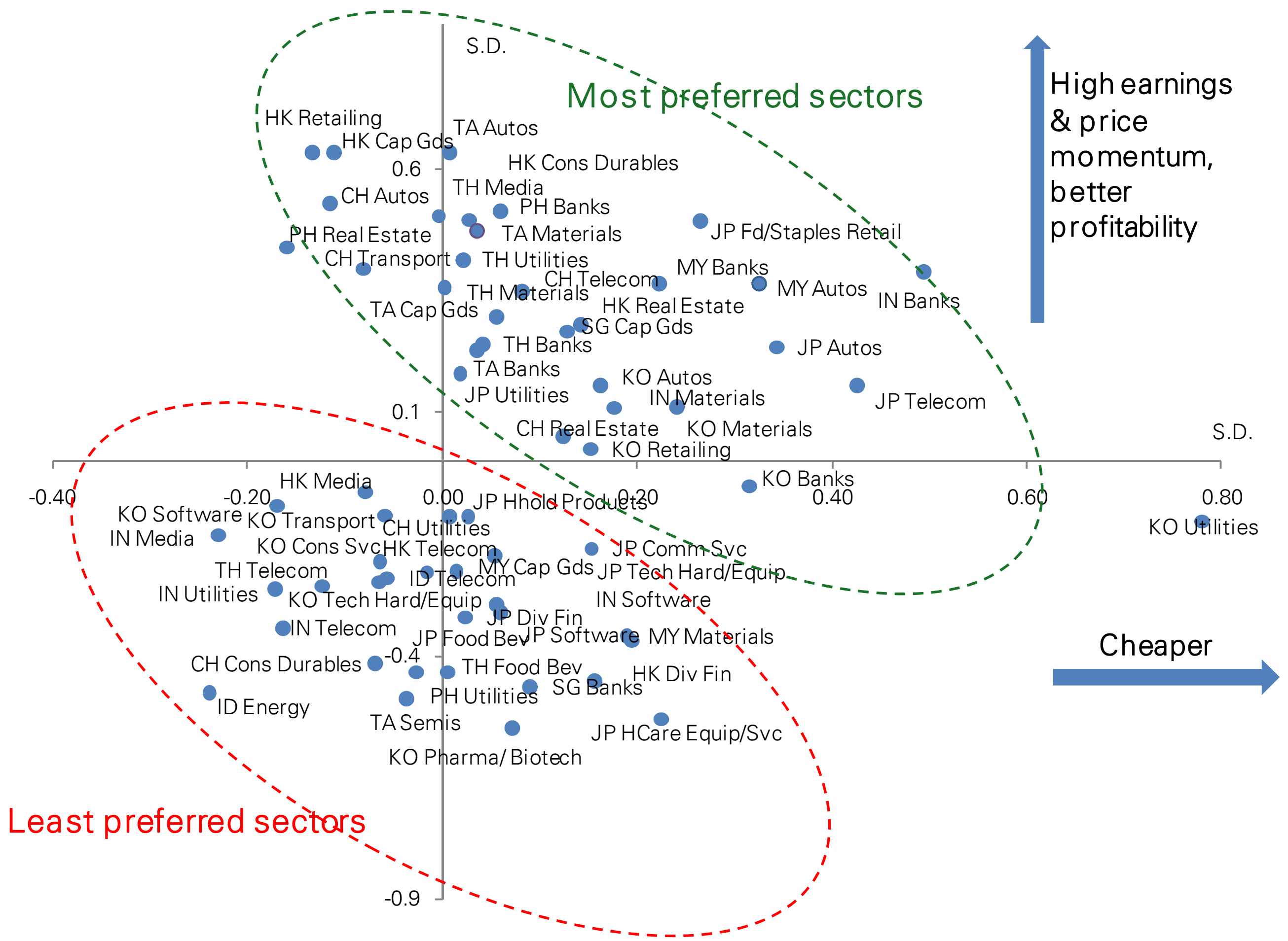
Country summary

Japan – Japanese equity valuations are the most attractive in the world. Japanese sectors still dominate the world's cheapest quartile of sectors, and have zero representation in the world's dearest sectors. Compared to its own history, Japan has only been cheaper during the Lehman's crisis and in the rout of 1973. Investor positioning is gradually respecting this remarkable value opportunity. Risk-Love is still low – clients we speak to are blasé and apathetic, including our Japanese clients. Kamiyama-San, our Japan strategist points out that operating leverage in Japan is high – any positive global growth surprise, should lead to EPS upgrades.
China (M/W) – Equity valuations are at fair levels, but we note that the market is being de-rated versus the region as EBIT margins are declining versus the rest of the region. ROEs are being held up by rising asset turnover from legacy investment in telecoms and utilities. The momentum in China's credit multiplier is falling sharply, in line with a falling OECD leading economic indicator. The current worries about over-heating and inflation could possibly be reflecting upward moves in liquidity measures more than a year ago. We have more respect for leads and lags. Stocks we like: 3988.HK, 0939.HK, 0941.HK, 0883.HK, 0817.HK, 1813.HK, 2727.HK, 0386.HK, 0410.HK, YAZG.SI
Hong Kong (O/W) – Relative to its own history and to other regional markets, Hong Kong equities are looking expensive. Technicals in HK are robust – there are few new lows, and a rising number of new highs. Policy settings are at neutral, leading indicators are ate neutral, and the too-low EPS growth estimates are being revised up for 2011. Expect more upward revisions. Rising terms of trade are a positive backdrop for the HSI and EBIT margins. Stocks we like: 0293.HK, 0709.HK, 0016.HK, 0880.HK, 0004.HK
India (U/W) – India is no longer trading at peak relative valuations versus the region, but is still in the upper reaches. The recent declines in equities have taken Risk-Love from euphoria to neutral and weakened technicals. Overall policy settings are at neutral. Leading indicators are falling back to neutral, and the 2011 EPS forecasts look a bit too punchy. The Marshallian K is rising sharply. Monetary base growth is close to record highs. Stocks we like: INTP.JK, ASPN.BO, BOB.BO, ONGC.BO
Indonesia (M/W) – Despite the recent declines in Indonesian equities, the market looks expensive versus history and the region. Sentiment is at neutral. Leading economic indicators are still robust, supporting punchy 20%-plus EPS expectations for 2011. Foreign fund flows have reversed sharply, worried about inflation and valuations. Stocks we like: INTP.JK
South Korea (O/W) – Valuations are moving up the upper reaches (top 30%) now, compared with history, except on PE. Relative to the region, however, the market remains at an unjustified discount (ROEs are in line with the region, the cost of equity is lower, gearing is under control). Sentiment is only at neutral levels. Technicals improve sharply. We think a recovery in global industrial production should benefit Korea disproportionately, taking projected EPS up. Stocks we like: 069960.KS, 009540.KS, 012330.KS, 003690.KS, 033780.KS, 051910.KS, 002350.KS, 010060.KS, 028050.KS
Malaysia (M/W) – The market is at fair value compared with its own history. It is at the upper limits of its relative valuations versus the region since 1999. Sentiment is euphoric and technicals are robust. Policy settings are neutral, and EPS expectations for 2011 are still rising gently, we expect more upward revisions. This economy has a high exposure to the global cycle, which is likely to surprise positively. Stocks we like: DSOM.KL, GENT.KL
Philippines (O/W) – The Philippine market is trading at peak relative valuations versus the region. Compared with its own history, the market is a fair value. The recent drop in the equity market has brought Risk-Love down to neutral from euphoria. Unlike most other markets, the Philippines is seeing very strong leading economic indicators, and easy policy. The Marshallian k is down, and the surge in fund flows that we saw in 3Q last year is reversing sharply, as investors rotate into north Asia. Stocks we like: AP.PS
Singapore (M/W) – The market is at fair value compared with history. Also, compared with the region, the market is at fair value. Sentiment is at euphoria, technicals are reasonably strong. Leading economic indicators are falling from elevated levels, and policy settings are still easy, which means that the paltry 10% EPS growth projection for 2011 is too low. The terms of trade are declining. Cash-equity ratios are at neutral. Stocks we like: Stocks we like: SCIL.SI, SCMN.SI
Taiwan (U/W) – Compared to its own history, Taiwan is fairly valued. Compared with the region, valuations are close to record lows. Leading economic indicators are falling, and policy settings have gone from super-easy to neutral. This market is exposed to the global cycle and the tech cycle, both of which look good to us. However, the currency is at its most uncompetitive compare to its own two-year rolling history. Normally, this marks trouble for equities. This time around, the tech/global growth cycle, and controlled inflation might come to the rescue. Stocks we like: 2308.TW, 1326.TW, 3034.TW, 3545.TW
Thailand (O/W) – Valuations are at fair value versus history. The market continues to be re-rated versus the region, despite the downdraft in its EBIT margins. Sentiment is back to neutral after spiking to records in 4Q10. Policy settings are easy, and leading economic indicators are still strong. We think the 20% projected EPS for 2011 is very do-able. The terms of trade are flat/rising, a positive. The currency is getting to the upper reaches of its competitiveness band. Stocks we like: KBAN.BK, KTB.BK, PTT.BK

Sector selection

We are overweight cyclical sectors like autos, retailing, capital goods and transportation. We are underweight tech, staples, utilities and select telcos.

Figure 22: We prefer sectors with good value, high EPS momentum and profitability



Source: Deutsche Bank, FactSet

Figure 23: Our most preferred 20 country-sectors. Most-preferred have cheaper valuations, better EPS momentum, higher ROE, better technicals, and lower EPS expectations (all metrics refer to MEDIAN data)

Top 20				Valuation			Earnings Momentum		Profitability	Technicals	12m Fwd EPS est.				
	Country	Sector	Mkt Cap (US$ bn)	P/B	12m fwd P/E	EV/EBIT	FY1 EPS Momentum	FY2 EPS Momentum	ROE (%)	RSI	12 month Fwd EPS est.	Valuation	Earnings Momentum	Profitability	Technicals
1	India	Banks	60.1	1.5	6.8		1.0	0.3	18.6	1.2	23%	++	++	++	++
2	China	Autos	15.4	3.1	11.4	22.1	1.0	0.7	16.7	1.2	19%	-	++	++	++
3	Hong Kong	Retailing	20.9	1.7	15.3	15.9	1.0	1.0	14.9	1.2	24%	-	++	+	++
4	Philippines	Banks	4.0	1.6	11.3		1.0	0.7	13.1	1.2	13%	+	++	+	++
5	Hong Kong	Real Estate	126.6	0.7	14.4	6.6	0.4	0.6	11.4	1.1	6%	+	+	O	+
6	Malaysia	Autos	1.4	1.0	8.0	7.0	0.7	0.6	14.1	1.1	15%	++	++	+	+
7	Korea	Autos	64.8	1.3	7.9	10.7	0.3	0.3	11.4	1.2	14%	++	+	O	++
8	Hong Kong	Cons Durables	2.6	1.3	10.3	14.9	0.6	1.0	8.6	1.1	27%	O	++	-	O
9	Malaysia	Banks	29.8	2.0	11.9		0.6	0.6	15.3	1.1	13%	++	++	+	O
10	Taiwan	Materials	60.7	1.3	12.9	13.1	0.5	1.0	10.5	1.1	11%	+	++	O	+
11	Thailand	Utilities	0.6	1.5	10.6	13.5	0.7	0.7	15.2	1.2	1%	O	++	+	++
12	Hong Kong	Cap Gds	27.3	1.2	13.1	21.3	1.0	1.0	5.4	1.1	30%	-	++	- -	O
13	China	Transport	21.8	1.5	12.5	16.1	0.7	0.6	8.4	1.1	10%	-	++	-	+
14	Korea	Retailing	5.8	1.3	10.5	7.3	0.1	0.2	15.4	1.1	10%	+	O	+	++
15	Korea	Materials	77.5	1.0	8.4	11.7	0.3	0.3	8.9	1.1	15%	++	+	-	+
16	Thailand	Banks	23.4	1.7	12.8		0.4	0.5	12.0	1.1	25%	+	+	+	++
17	Philippines	Real Estate	3.0	1.1	13.5	19.1	1.0	0.5	7.6	1.1	18%	- -	++	-	++
18	Hong Kong	Transport	11.4	1.4	16.0	10.5	0.3	0.5	11.5	1.1	0%	O	+	O	+
19	China	Energy	128.0	2.4	12.2	16.0	0.4	0.1	16.9	1.1	17%	-	+	++	+
20	Indonesia	Cap Gds	3.7	2.1	12.1	10.0	-0.6	0.1	15.2	1.2	23%	+	-	+	++
		Median	21	1.4	12.0	13.3	0.60	0.61	12.5	1.1	15%				
		Average	34	1.5	11.6	13.5	0.57	0.57	12.6	1.1	16%				

Source: Deutsche Bank, Datastream. FactSet, EPS momentum is the number of upward less downward revisions in respective financial year EPS estimate in last 3 months. RSI is the ratio of 65-day to 260-day moving average in stock price. All the metrics shown above except market cap and Deutsche Bank analyst views are median data for the sector.

Figure 24: Our least-preferred 20 country-sectors. Least-preferred have expensive valuations, poor EPS momentum, low ROE and bad technicals (all metrics refer to MEDIAN data)

				Valuation			Earnings Momentum		Profitability	Technicals	12m Fwd EPS est.				
Bottom 20	Country	Sector	Mkt Cap (US$ bn)	P/B	12m fwd P/E	EV/EBIT	FY1 EPS Momentum	FY2 EPS Momentum	ROE (%)	RSI	12 month Fwd EPS est.	Valuation	Earnings Momentum	Profitability	Technicals
1	Malaysia	Energy	1.0	1.5	16.4	14.5	-0.6	-1.0	10.9	1.0	20%	-	- -	O	-
2	Taiwan	Cons Durables	7.2	1.4	11.9	14.2	-0.9	-1.0	8.5	1.1	19%	O	- -	-	+
3	India	Utilities	15.5	2.5	15.1	17.4	-0.3	-0.2	9.7	1.0	17%	- -	- -	O	- -
4	India	Telecom	1.6	1.9	30.2	16.6	-0.3	-0.4	9.4	1.0	4%	- -	- -	O	- -
5	Taiwan	Semis	112.3	1.9	11.4	12.9	-0.3	-0.8	14.3	1.0	12%	O	- -	+	- -
6	Indonesia	Energy	13.4	4.6	14.3	15.8	-0.8	-0.3	15.3	1.2	79%	- -	- -	+	++
7	Indonesia	Telecom	9.0	3.5	15.1	15.6	-0.2	-0.2	3.3	1.0	21%	-	-	- -	O
8	India	Media	1.3	2.3	19.2	18.5	-0.1	-0.1	4.4	1.0	24%	- -	-	- -	- -
9	Thailand	Telecom	2.5	3.5	17.0	17.2	-0.1	-0.3	15.8	1.1	5%	-	-	++	+
10	Singapore	Banks	57.9	1.6	12.4		-0.5	-0.6	11.4	1.0	7%	+	- -	O	-
11	China	Utilities	12.3	1.1	10.8	19.0	-0.1	0.0	6.8	1.0	24%	O	-	-	- -
12	Malaysia	Cap Gds	14.2	0.8	14.0	13.7	-0.4	0.0	5.6	1.1	26%	O	-	- -	+
13	Taiwan	Tech Hard/Equip	143.5	1.6	10.9	12.3	-0.1	-0.3	10.8	1.0	17%	+	-	O	- -
14	India	Pharma/ Biotech	13.3	3.6	18.1	16.0	-0.2	0.0	18.6	1.1	22%	- -	-	++	++
15	India	Real Estate	5.6	1.1	7.6	17.2	-0.5	-0.4	7.3	1.0	43%	O	- -	-	- -
16	China	Food Bev	22.6	2.4	12.8	15.1	0.0	0.0	13.7	1.1	23%	-	O	+	O
17	China	Tech Hard/Equip	8.5	1.6	11.5	12.6	0.2	-0.2	12.7	1.1	20%	-	-	+	O
18	Malaysia	Utilities	9.6	1.1	13.2	10.4	-0.1	0.2	11.7	1.0	12%	+	O	+	O
19	China	Software	27.8	2.8	12.7	15.8	0.3	0.0	18.1	1.0	25%	- -	O	++	-
20	Malaysia	Div Fin	5.1	0.8	14.2		-1.0	0.8	5.1	1.1	22%	+	-	- -	+
		Median	11	1.8	13.6	15.7	-0.26	-0.19	10.9	1.0	21%				
		Average	24	2.1	14.4	15.3	-0.30	-0.24	10.7	1.0	22%				

Source: Deutsche Bank, Datastream. FactSet, EPS momentum is the number of upward less downward revisions in respective financial year EPS estimate in last 3 months. RSI is the ratio of 65-day to 260-day moving average in stock price. All the metrics shown above except market cap and Deutsche Bank analyst views are median data for the sector.

Figure 25: Asian country sector heat-map for all covered sectors

	China	Hong Kong	Indonesia	India	Korea	Malaysia	Philippines	Singapore	Thailand	Taiwan	Japan
Energy	36		118	88		126			43		51
Materials	59		81	17	23	103			11	16	63
Capital Goods	33	19	44	80	41	102		24		26	94
Commercial Services & Supplies											98
Transportation	20	34			99	48		70			85
Automobiles & Components	2			65	8	7				3	12
Consumer Durables & Apparel	104	9			38					125	64
Hotels Restaurants & Leisure	54	50			110	72					89
Media		98		112					14		55
Retailing	53	4			22	40					52
Food & Staples Retailing											21
Food Beverage & Tobacco	82		35	77	76	46		57	111		115
Household & Personal Products				66							106
Health Care Equipment & Services											117
Pharmaceuticals & Biotechnology	37			87	124						91
Banks	60	68	45	1	31	13	5	108	25	15	56
Diversified Financials		97		39	67	69		49		32	119
Insurance	62				58						84
Real Estate	28	6		83		42	29				61
Software & Services	73			96	107						120
Technology Hardware & Equipment	79	74			116					93	101
Semiconductors & Semiconductor Equipment					90					121	127
Telecommunication Services	30	114	113	122	86	75		71	109	92	27
Utilities	105	47		123		78	100		18		95

Source: Deutsche Bank. Numbers are ranks, lower is better. Green colour = Most attractive country sectors, Red colour=Least attractive country sectors. Yellow colour = Neutral country sectors. White space = sector unavailable.

Asia model portfolio

We look at valuations, profitability and EPS momentum as key drivers of stock performance in Asia. Other factors are less important. Analysts have veto power.

We add Orise Technology (3545.TW) and Novatek Microelectronics (3034.TW).
We remove Dongfeng Motor (0489.HK) and Hang Lung Properties (0101.HK)

Orise Technology: "Despite Orise's 4Q10 earnings having been considerably impacted by unfavourable currency movements, its full-year results remained impressive. We expect its monthly sales to improve in January vs. December as orders from its current smartphone customer begin recover. We reiterate our view that Orise is one of the major beneficiaries of the strong growth in smartphone demand.

In addition to its several design wins in smartphone driver ICs, Orise is also seeing some initial results from tablet PCs. We consider the trend moving from NB PCs to tablet PCs as positive for Orise as it had no exposure in the large-sized driver IC segment while tablet PCs offer an encouraging new opportunity for the company." *(Jessica Chang, 12 January 2011)*

Novatek Microelectronics: "For 4Q10, Novatek guides sequential sales to decline by low-teens percentage points. Nevertheless, it expects monthly sales to improve sequentially on warming demand with lean channel inventory. Novatek expects demand in the NB segment to be stable and demand in the TV segment to strengthen later this quarter. In addition, the company expects mobile phone growth momentum to continue into 4Q10. GM may inevitably be affected by ASP pressure and currency changes. We estimate GM erosion of around 1-2ppt.

Novatek expects to further expand its market share in the large-sized driver IC segment in 2011. The company disclosed that it has several smartphone customers, having achieved design wins in 2H10 for new models in 2011. We expect this to moderately benefit the company. Also, Novatek considers iPad-like products, with higher ASP and GM, to be another source of growth." *(Jessica Chang, 27 October 2010)*

Figure 26: Asia model portfolio

Company	BB Ticker	Mkt	DB Rec	Date Added	Price Added	Close 24Jan11	1m Rtn (%)	YTD Rtn (%)	Holding Period Rtn (%)	Beta**	Mcap (U$m)	20D Avg Daily T/O (U$ m)	FY 11 PE (DB est)	FY 11 EPSg (DB est)	Valuation	Profitability	Price Momentum	Earnings Momentum	Stability	Risk	Growth	Earnings Quality	Consensus Rating
Energy																							
CNOOC Ltd	883 HK	CN	B	10Dec10	18.08	18.84	3.7	2.2	4.2	1.1	107,608	94.6	12.4	-1.4	+	++	++	o	+	++	o	o	-
ONGC	ONGC IN	IN	B	13Sep10	1375.90	1138.70	-12.0	-12.0	-14.9	0.9	52,922	29.5	8.5	18.4	++	o	+	o	+	++	o	o	o
PTT	PTT TB	TH	B	13Sep10	291.00	321.00	0.9	0.3	10.3	1.2	30,545	61.9	9.5	12.6	++	++	+	o	o	o	o	o	++
Sinopec-H	386 HK	CN	B	10Dec10	7.18	7.83	6.7	5.2	9.1	0.9	110,864	73.7	7.0	2.1	++	+	++	o	--	+	o	o	+
Materials																							
Asian Paints	APNT IN	IN	B	13Sep10	2797.65	2622.30	-9.2	-8.8	-6.0	0.6	5,616	4.1	22.0	28.6	--	++	++	-	--	o	o	--	o
Formosa Chems & Fibre	1326 TT	TW	B	13Sep10	75.10	96.00	-0.8	-2.2	27.8	0.8	18,804	25.3	12.8	3.8	o	+	++	++	--	o	o	++	++
Indocement	INTP IJ	ID	B	13Sep10	18400	13500	-17.2	-15.4	-26.6	1.2	5,423	7.4	7.7	30.7	-	++	-	--	+	++	o	o	++
LG Chem	051910 KS	KR	B	13Sep10	348500	398000	4.3	1.8	14.2	1.0	23,570	103.9	10.1	13.5	-	++	++	++	--	o	o	++	o
OCI Company	010060 KS	KR	B	13Sep10	339000	384000	17.8	16.4	13.3	1.0	7,945	72.1	10.6	16.3	-	++	++	++	o	o	o	o	++
Capital Goods																							
Hyundai Heavy	009540 KS	KR	B	10Dec10	377000	476500	4.4	7.6	26.4	1.4	32,423	105.7	10.6	-7.9	+	++	++	++	--	o	o	++	++
Samsung Eng	028050 KS	KR	B	13Sep10	136500	189500	0.8	-1.3	38.8	1.1	6,765	47.5	10.1	35.3	-	++	++	++	-	++	o	++	o
Sembcorp Industries	SCI SP	SG	B	13Sep10	4.42	5.10	1.8	-0.8	15.4	1.0	7,131	9.9	11.9	7.5	++	++	++	++	o	+	o	o	-
Sembcorp Marine	SMM SP	SG	B	10Dec10	5.12	5.28	4.3	-1.7	3.1	1.3	8,506	19.0	13.1	9.1	+	++	++	++	--	++	o	o	o
Shanghai Electric	2727 HK	CN	H	13Sep10	3.94	4.97	-2.4	-3.1	27.9	1.1	14,226	8.4	12.4	16.8	o	+	++	++	o	+	-	o	-
Yangzijiang Shipbldg	YZJ SP	CN	B	13Sep10	1.69	1.96	2.1	2.6	16.0	1.1	5,923	26.7	12.2	3.5	+	++	++	++	--	++	o	o	+
Transportation																							
Cathay Pacific	293 HK	HK	B	13Sep10	21.00	20.70	-3.9	-3.5	-1.4	0.9	10,445	13.6	6.6	0.9	+	++	++	+	--	o	++	o	o
Automobiles & Components																							
Hyundai Mobis	012330 KS	KR	B	13Sep10	243500	288000	-0.3	1.2	18.3	0.9	25,108	76.9	8.8	9.8	-	+	++	+	o	o	o	+	--
Nexen Tire	002350 KS	KR	H	13Sep10	7500.00	10550	29.3	25.6	40.7	0.9	906	10.0	8.3	20.3	o	++	o	--	o	o	--	o	--
Consumer Services																							
Genting Bhd	GENT MK	MY	B	10Dec10	11.02	11.30	4.4	1.1	2.5	1.5	13,703	11.3	11.0	21.5	+	++	++	++	o	--	o	--	
SJM	880 HK	HK	B	13Sep10	7.77	13.80	14.6	11.8	78.2	0.9	10,090	22.4	13.2	17.9	o	++	++	++	o	--	++	o	
Retailing																							
Giordano	709 HK	HK	B	13Sep10	4.41	4.76	9.7	5.1	7.9	0.7	921	1.9	13.5	7.3	o	++	++	o	o	+	o		++
Hyundai Dept Store	069960 KS	KR	B	13Sep10	137500	127000	-4.5	-9.0	-7.6	0.8	2,554	13.1	8.3	13.4	o	+	o	--	o	++	o		--
Food, Beverage & Tobacco																							
KT&G	033780 KS	KR	B	13Sep10	62700	60800	-5.9	-6.0	1.8	0.4	7,487	20.4	10.5	5.6	++	++	+	+		+	o		o
Banks																							
Bank of Baroda	BOB IN	IN	B	13Sep10	866.85	873.95	-1.7	-2.5	0.8	1.0	6,915	8.9	7.4	17.1	++	++	o	++	--	o	--	o	+
Bank of China	3988 HK	CN	B	13Sep10	3.92	4.11	2.0	0.2	4.8	1.0	139,263	106.6	6.8	15.2	++	++	o	--	o	--	o	o	-
China Construction Bank	939 HK	CN	B	13Sep10	6.55	6.92	2.1	-0.7	5.7	1.1	222,060	178.5	7.9	19.8	++	++	o	o	o	o	o	o	++
Kasikornbank	KBANK TB	TH	B	10Dec10	128.00	112.50	-10.7	-10.4	-12.1	1.3	8,786	29.9	9.0	16.9	o	o	o	++	o	o	o	o	++
Krung Thai Bank	KTB TB	TH	B	10Dec10	16.60	17.00	-1.2	-1.7	2.4	1.1	6,247	23.6	9.0	18.3	o	-	o	++	o	--	o	o	++
Insurance																							
Korean Reinsurance	003690 KS	KR	B	2Nov10	12600	12950	11.6	9.7	2.8	0.8	1,329	4.5	5.7	16.4	o	o		++	o		++		o
Real Estate																							
Franshion	817 HK	CN	B	10Dec10	2.35	2.35	0.9	0.4	0.0	0.9	2,750	1.8	10.7	40.7	++	o	o	o	+	-	-	--	-
KWG Property	1813 HK	CN	B	10Dec10	6.39	6.57	10.8	11.0	2.8	1.4	2,438	7.2	6.4	24.8	o	o	o	o	-	o	++	--	-
SHK Properties Ltd	16 HK	HK	B	10Dec10	129.80	134.20	4.4	4.0	3.4	1.0	44,341	65.3	19.5	8.0	o	o	++	o	+	o	o	o	-
SOHO China	410 HK	CN	B	2Nov10	6.54	6.32	6.0	9.3	-3.4	1.0	4,206	4.0	15.5	67.8	++	++	++	--	o	--	++	o	++
Wharf	4 HK	HK	B	13Sep10	46.80	60.95	8.8	1.9	31.0	1.0	21,584	28.1	18.8	13.3	o	o	++	o	++	o	o	o	o
Technology Hardware & Equipment																							
Delta Electronics	2308 TT	TW	B	13Sep10	125.00	134.50	-2.9	-5.6	7.6	0.9	11,065	17.2	17.7	7.8	-	+	++	++	++	++	++	-	o
Semiconductors & Semiconductor Equipment																							
Novatek Microelectronics*	3034 TT	TW	B	24Jan11	95.60	95.60	-0.4	1.7	0.0	1.2	1,961	11.6	10.4	9.1	++	++	o	--	o	o	o	o	++
Orise Technology*	3545 TT	TW	B	24Jan11	61.40	61.40	-5.2	-3.3	0.0	1.2	289	4.2	12.0	20.7	o	o	o	++	++	o	o	o	+
Telecommunication Services																							
China Mobile	941 HK	CN	H	13Sep10	77.80	77.05	0.8	-0.2	-1.0	0.9	198,318	204.5	11.6	0.5	++	++	+	+	++	++	o	--	o
DiGi.Com	DIGI MK	MY	B	13Sep10	24.86	25.44	1.5	3.4	4.3	0.4	6,358	1.8	14.6	6.5	o	++	+	++	++	++	o	--	o
Utilities																							
Aboitiz Power	AP PM	PH	H	13Sep10	21.75	28.20	-10.5	-9.3	29.7	0.8	4,677	6.3	9.1	-0.3	o	++	-	++	--	o	++	o	o
Asia Model Portfolio (Average)							1.6	0.5	10.3	1.0	29,802	39.1	11.1	14.7									
MSCI Asia ex-Japan, LC							1.0	-0.3	8.2														

Source: Deutsche Bank, FactSet, Bloomberg Finance LP

*Note: *New additions as of Jan 24, 2011. **Beta is calculated based on two years of weekly returns on stocks versus local market indices*

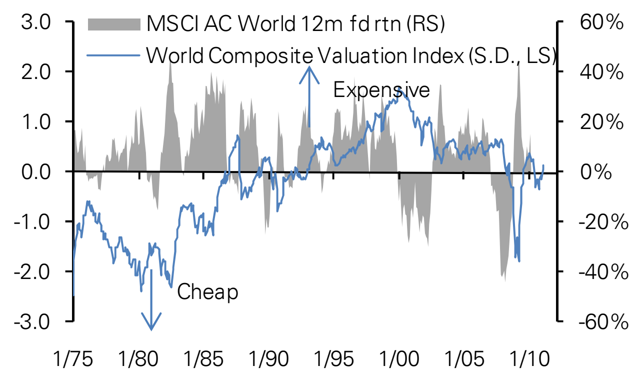
Stocks are sorted by names in alphabetical order within each sector. Factor scores are given on a country and sector relative basis. Very Favourable (++), Favourable (+), Neutral (0), Unfavourable (-), Very Unfavourable (--), Not Applicable (Blank). For a detailed explanation please see appendix A. Performance is measured in local currency.

As of close Jan 24, 2011, the Asia model portfolio (equal weighted) and MSCI AC Asia ex Japan local currency total returns (dividends reinvested) since inception (Sep 13, 2010) are 10.3% and 8.2% respectively. For the list of portfolio changes since inception, please see appendix B.

Global – valuation

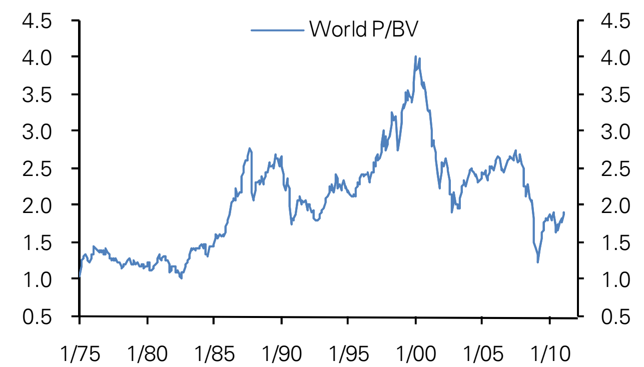
Globally, equity valuations are at long-term averages. Adjusted for current inflation expectations, and for government/corporate bond yields, equities look undervalued. Global EBIT margins and ROEs are bouncing back nicely, but are well below peak levels.

Figure 27: Composite valuation index



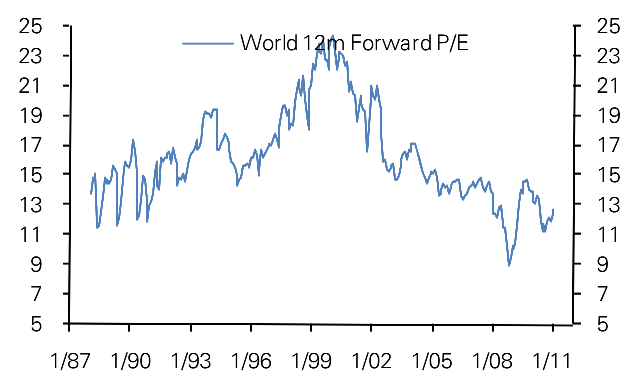
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales normalized over entire history

Figure 28: Price-to-book value



Source: Deutsche Bank, MSCI, Datastream

Figure 29: 12-month forward P/E

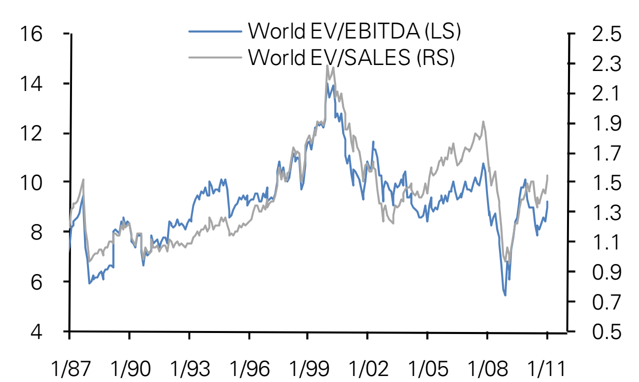


Source: Deutsche Bank, MSCI, I/B/E/S

Figure 30: 12-month trailing P/E

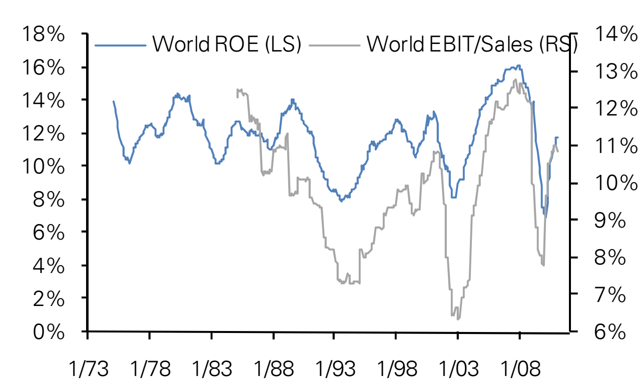
Source: Deutsche Bank, MSCI, Datastream

Figure 31: EV multiples



Source: Deutsche Bank, MSCI, FactSet

Figure 32: ROE and EBIT margin

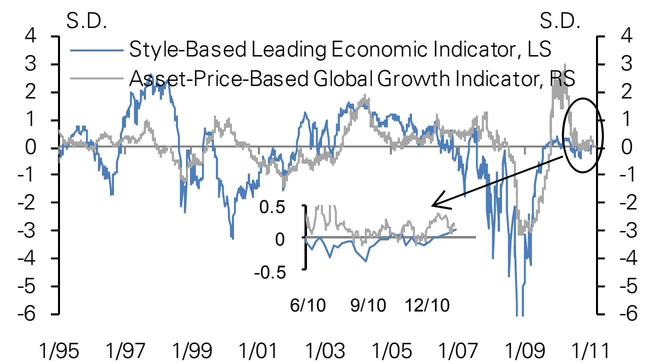


Source: Deutsche Bank, MSCI, FactSet

Global metrics

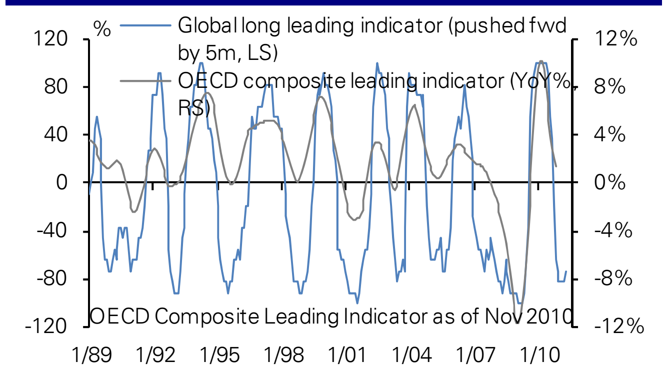
Global growth metrics are cycling up, especially in the US and Europe. MOMLI – the mother of leading indicators – is turning up, as are market-implied measures of growth. Global money multipliers are also gaining traction, as credit availability and take-up are improving. However, global EPS growth forecasts for 2011 remain subdued at 15%, and have been revised down in the past six months. We think this is illogical, and EPS growth estimates are likely to move north, in line with improving prospects for revenue growth, and modest EBIT margin expansion. Sentiment toward equities is exceptionally high, and as Brad Jones points out, protection is cheap and should be bought. Commodity and energy Risk-Love is also elevated, and is at variance with China's collapsing credit multiplier, reminiscent of mid-2008 when this divergence was sorted by the commodity complex collapsing. US and European policy settings are super-easy, while Asia policy is tightening. No wonder then that Spanish equities are up 10% YTD, India/Indonesia down about 10%.

Figure 33: Market-implied global growth leading indicators



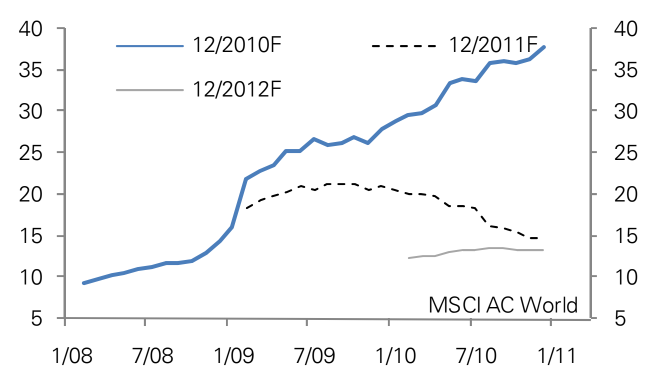
Source: Deutsche Bank

Figure 34: Global long leading indicator (MOMLI)



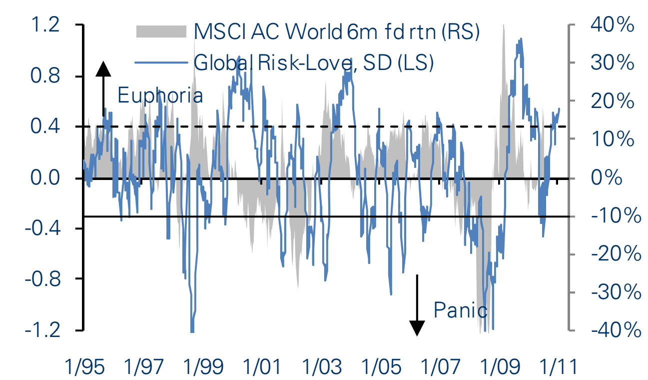
Source: Deutsche Bank, OECD

Figure 35: Earnings growth forecast (%)



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

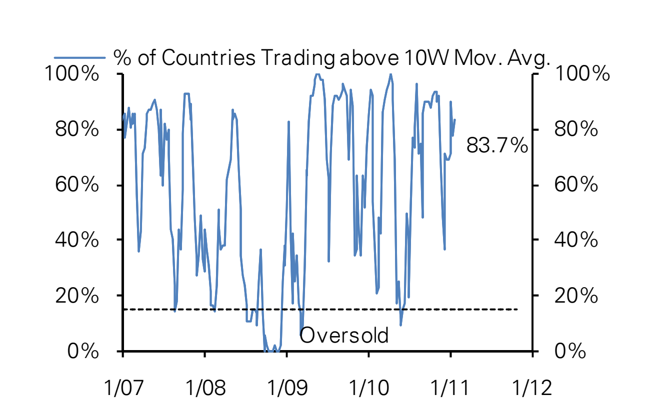
Figure 36: Global equity Risk-Love indicator



Source: Deutsche Bank, MSCI

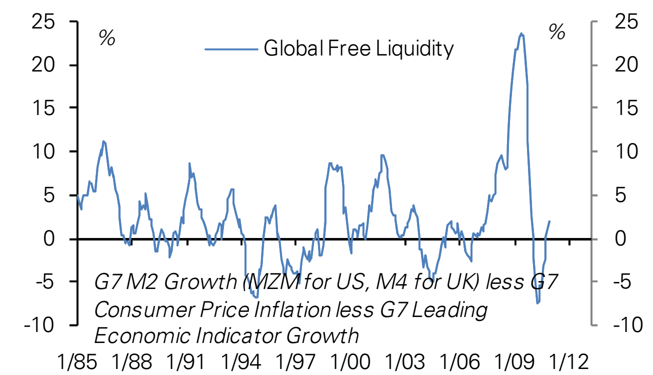
Global metrics (continued)

Figure 37: Percentage of countries above their 10-WMA



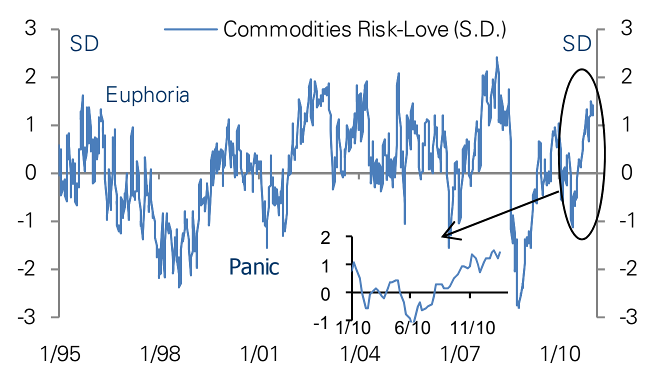
Source: Deutsche Bank. Includes 49 Markets.

Figure 38: Global free liquidity



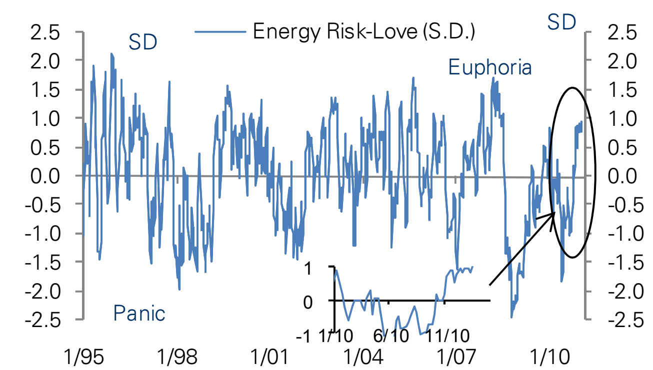
Source: Deutsche Bank, Citigroup, Bloomberg Finance LP.

Figure 39: Commodity Risk-Love indicator



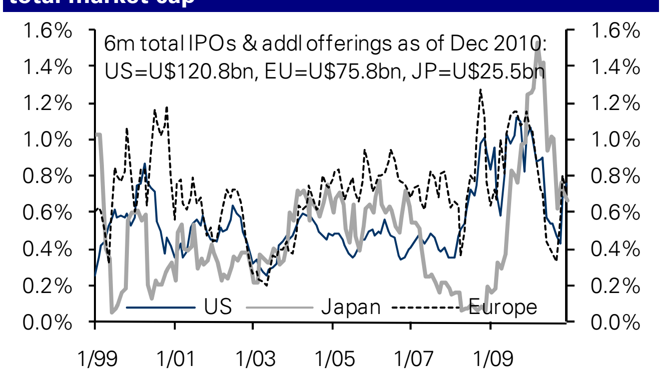
Source: Deutsche Bank

Figure 40: Energy Risk-Love indicator



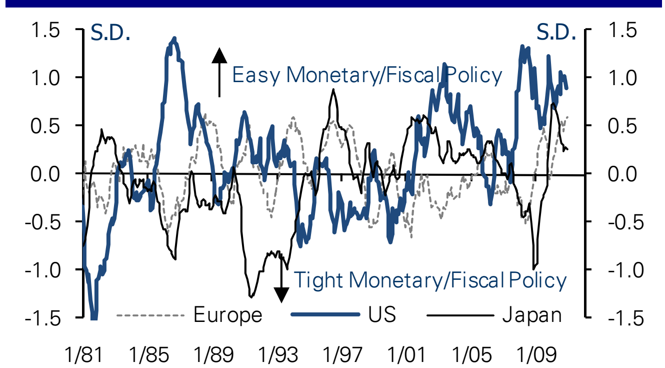
Source: Deutsche Bank

Figure 41: 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. Data as of close Sep 9, 2010.*

Figure 42: 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 43: Market intelligence by country

13Jan11	Mcap	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
Region/Country (#Co)	US$m	1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
North America (691)	13,559,254	3.3	1.9	15.5	13.5	11.9	2.1	2.0	1.8	1.8	1.9	2.1	37.4	15.2	13.5	13.6	14.5	15.0
Canada (100)	1,301,521	0.9	-0.4	18.4	14.6	13.0	1.9	1.8	1.6	2.2	2.3	2.5	13.0	23.7	12.1	10.7	12.2	12.7
US (591)	12,257,734	3.6	2.1	15.2	13.4	11.8	2.2	2.0	1.8	1.7	1.9	2.1	40.0	14.4	13.6	14.0	14.7	15.3
Europe (466)	7,204,214	2.1	2.7	12.6	11.1	10.0	1.1	1.6	1.4	3.4	3.8	4.1	34.9	14.7	12.1	12.9	14.0	14.4
Austria (8)	36,250	2.3	-0.4	12.8	10.2	8.6	1.2	1.1	1.0	2.7	3.1	3.6	-480.4	25.9	18.4	9.2	10.8	11.7
Belgium (14)	102,226	0.3	2.2	14.9	13.8	12.4	1.5	1.6	1.3	2.6	2.8	3.2	37.5	7.6	12.0	10.5	10.5	10.9
Denmark (11)	110,051	2.0	0.4	19.2	15.5	13.0	2.5	2.3	2.0	1.1	1.5	1.8	68.0	24.0	19.4	12.9	14.6	15.6
Finland (17)	125,901	6.4	3.3	15.3	13.0	11.7	2.0	1.9	1.7	4.1	4.3	4.6	30.9	17.8	11.4	12.9	14.4	14.9
France (76)	1,089,444	2.0	4.1	12.2	10.9	9.8	1.4	1.3	1.2	3.8	4.0	4.5	38.8	13.0	12.4	11.3	11.9	12.5
Germany (54)	927,261	0.7	2.3	12.7	11.3	10.1	1.5	1.5	1.4	3.2	3.4	3.7	55.4	12.1	13.5	12.6	13.1	13.6
Greece (8)	28,016	-6.0	3.5	13.3	9.5	8.8	1.1	1.0	0.9	2.1	3.0	4.2	-43.7	25.5	33.3	7.7	9.2	11.5
Ireland (5)	24,978	-0.9	0.3	18.4	15.7	10.7	1.2	1.1	1.0	2.9	2.9	3.5	-8.1	163.2	nm	7.1	7.3	8.9
Italy (29)	291,043	3.5	5.4	12.0	9.9	8.3	1.1	1.0	1.0	4.2	4.8	5.3	7.2	21.8	19.3	7.8	9.1	10.2
Netherlands (21)	282,727	3.5	2.6	11.9	11.6	10.7	1.7	1.5	1.4	2.8	3.3	4.0	68.9	15.0	9.2	14.2	15.1	15.1
Norway (9)	93,258	4.2	1.2	13.1	10.4	9.3	1.8	1.6	1.5	3.8	4.4	4.9	35.7	25.0	12.2	13.5	15.4	15.7
Portugal (9)	29,202	-4.3	1.7	14.4	12.3	10.6	2.2	1.7	1.6	4.6	4.9	5.3	-5.4	17.2	15.5	10.3	10.0	11.0
Spain (28)	380,594	2.6	5.9	10.0	9.3	8.1	1.4	1.3	1.2	5.9	6.4	6.3	-0.6	7.9	14.2	14.1	14.2	15.2
Sweden (33)	364,522	2.9	1.5	15.5	13.8	12.3	2.2	2.0	1.9	2.9	3.4	3.8	35.0	12.4	12.6	14.0	15.2	15.5
Switzerland (37)	873,731	0.4	1.8	13.2	11.9	10.8	2.2	2.0	1.8	3.2	3.5	3.9	29.4	11.1	10.4	14.5	16.9	16.8
UK (107)	2,445,011	2.8	2.2	12.5	10.7	9.7	0.0	1.7	1.6	3.0	3.5	3.9	39.0	17.2	10.1	15.0	16.1	16.0
Japan (340)	2,502,838	4.4	4.3	17.6	14.2	12.6	1.2	1.1	1.0	1.9	2.1	2.3	165.6	23.4	12.7	6.7	7.8	8.3
Asia Pac ex Japan (679)	3,785,459	1.9	1.3	14.9	13.0	11.5	2.1	1.9	1.7	2.8	3.1	3.4	32.5	14.1	13.0	14.0	14.5	14.8
Asia ex Japan (602)	2,817,589	2.4	1.4	15.1	13.1	11.5	2.1	1.9	1.7	2.3	2.6	2.9	40.3	13.6	14.2	14.1	14.4	14.8
Australia (72)	956,175	0.3	1.0	14.6	12.6	11.5	2.0	1.9	1.7	4.0	4.3	4.7	14.7	15.6	9.7	13.9	14.9	15.1
China (140)	703,809	2.7	4.1	14.3	12.4	10.7	2.3	2.0	1.8	2.4	2.8	3.2	30.4	15.2	16.3	16.2	16.5	17.0
Hong Kong (41)	331,425	4.1	5.0	19.6	17.5	15.7	1.7	1.6	1.6	2.4	2.6	2.8	25.7	9.1	11.9	9.1	9.4	9.9
India (66)	289,843	-2.6	-6.3	19.0	15.8	13.2	3.2	2.7	2.3	1.2	1.3	1.5	25.6	22.6	19.6	16.7	16.9	17.3
Indonesia (24)	81,523	-5.4	-5.2	16.5	13.5	11.7	4.0	3.3	2.9	2.5	3.1	3.7	18.5	22.2	16.1	23.9	24.7	24.3
Korea (102)	560,287	4.6	1.8	12.1	10.5	9.3	1.7	1.5	1.3	1.2	1.4	1.5	51.5	12.4	12.9	14.3	14.0	14.0
Malaysia (40)	115,821	4.6	3.9	17.8	15.4	13.8	2.4	2.2	2.0	3.0	3.2	3.5	28.4	16.0	11.5	13.3	13.9	14.1
New Zealand (5)	11,695	5.1	3.9	15.6	13.8	11.8	1.7	1.6	1.5	5.4	5.3	6.0	-6.6	13.1	16.5	10.6	11.6	13.0
Philippines (14)	19,749	0.1	-2.7	16.7	15.2	13.4	2.7	2.4	2.2	2.5	3.0	3.3	31.0	9.6	13.9	16.0	16.1	16.5
Singapore (31)	193,852	2.6	2.2	16.0	14.6	13.3	1.9	1.8	1.6	3.0	3.3	3.6	21.6	10.0	9.9	11.9	12.1	12.4
Taiwan (122)	455,065	3.1	0.3	14.7	13.2	11.8	2.0	1.9	1.8	3.7	4.2	4.6	92.7	9.5	12.3	14.0	14.5	15.3
Thailand (22)	66,216	0.5	1.0	15.2	12.4	10.7	2.4	2.1	1.9	2.8	3.3	4.0	18.6	22.4	15.8	15.6	17.1	17.8
EM EU/M East/Africa (153)	828,904	3.1	1.8	13.9	11.5	10.0	1.8	1.6	1.4	2.4	3.0	3.5	31.4	20.5	14.5	15.1	16.1	16.5
Czech Republic (3)	13,518	5.9	4.5	10.6	10.8	10.3	2.0	1.9	1.8	5.7	5.8	6.0	-3.4	-1.1	4.4	19.2	18.1	17.8
Egypt (11)	18,425	3.7	0.2	13.9	11.3	9.9	1.7	1.6	1.5	3.4	3.8	4.3	24.6	22.9	34.1	12.0	13.9	17.6
Hungary (4)	14,795	4.6	5.3	11.9	9.7	8.0	1.3	1.2	1.1	2.6	3.1	4.2	1.9	22.0	20.9	10.9	12.3	13.5
Israel (14)	89,960	1.3	2.5	12.7	11.0	9.6	2.1	1.8	1.7	2.3	3.0	2.9	29.4	15.3	12.8	16.2	16.8	17.1
Morocco (3)	6,391	6.5	7.9	18.2	16.4	15.2	5.5	5.0	4.9	4.0	4.3	4.4	4.7	10.7	7.7	30.1	30.8	31.9
Poland (23)	63,350	-1.5	-0.9	13.6	11.5	10.7	1.6	1.5	1.4	2.8	3.8	4.5	23.9	17.9	8.1	11.9	12.9	13.0
Russia (29)	264,630	5.1	3.8	14.5	11.2	9.5	1.3	1.1	0.9	1.2	1.7	2.0	48.5	23.0	13.9	14.7	15.5	15.7
South Africa (47)	297,413	2.5	0.2	15.1	12.0	10.3	2.4	2.1	1.9	2.8	3.4	4.1	29.1	25.6	16.4	15.7	17.5	18.2
Turkey (19)	60,422	1.3	3.0	11.2	10.5	9.3	2.0	1.8	1.6	2.5	3.1	3.5	16.8	6.0	12.9	18.2	17.1	17.2
Latin America (133)	922,622	1.4	0.6	15.1	12.5	11.1	2.2	2.1	1.9	2.4	3.1	3.6	14.6	20.6	12.8	14.1	16.8	17.1
Brazil (81)	627,711	2.5	1.8	13.7	11.1	10.1	2.0	1.9	1.7	2.5	3.0	3.6	16.9	18.3	13.6	13.9	15.8	16.2
Chile (17)	62,485	-1.1	-0.9	19.0	17.0	15.1	2.2	2.1	2.0	1.7	2.2	2.7	23.8	11.4	12.3	10.0	11.3	12.5
Colombia (9)	31,641	-3.0	-1.4	25.7	20.9	15.5	2.6	2.5	2.5	2.0	2.7	2.7	35.6	23.0	21.1	6.6	6.4	7.4
Mexico (23)	175,194	0.4	-1.2	17.9	15.3	13.1	2.9	2.7	2.4	2.3	3.5	3.8	0.0	29.9	9.7	14.9	23.2	22.5
Peru (3)	25,592	-8.6	-7.7	18.6	12.8	12.1	4.9	4.0	3.4	2.2	3.1	3.5	27.9	45.9	5.8	26.1	31.5	28.5
Developed Markets (1660)	24,849,414	2.9	2.3	14.7	12.8	11.3	1.7	1.7	1.6	2.4	2.6	2.8	40.8	15.6	12.8	12.2	13.2	13.7
Emerging Markets (802)	3,953,879	2.2	1.0	14.5	12.4	10.8	2.1	1.9	1.7	2.3	2.7	3.2	34.3	17.1	14.3	14.9	15.8	16.2
World (2462)	28,803,293	2.8	2.2	14.7	12.7	11.3	1.7	1.7	1.6	2.3	2.6	2.9	39.9	15.8	13.0	12.6	13.5	14.0

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.

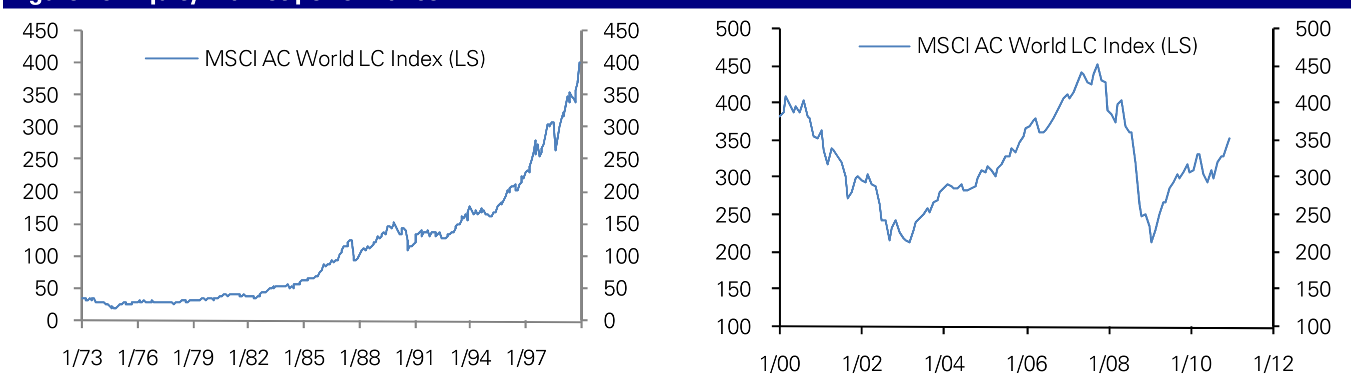
Global – market intelligence (continued)

Figure 44: Market intelligence by sector

13Jan11	Mcap	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
Sector (#Co)	U$m	1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Energy (163)	3,310,429	5.1	2.6	14.2	12.3	10.7	1.8	1.7	1.5	2.2	2.5	2.7	33.2	14.7	15.2	13.5	14.2	14.8
Materials (274)	2,622,549	2.5	0.8	16.2	12.4	11.1	2.1	1.9	1.7	1.7	2.1	2.3	74.9	31.9	11.6	12.8	15.5	15.3
Capital Goods (241)	2,339,023	4.7	3.3	16.7	13.9	12.0	2.2	2.0	1.8	2.0	2.3	2.5	31.6	20.7	15.2	13.4	14.6	15.2
Comm Svc (34)	197,843	1.7	0.9	18.6	16.4	14.4	2.5	2.3	2.0	2.4	2.5	2.6	15.9	13.4	13.2	12.7	13.5	14.1
Transportation (99)	579,916	2.7	3.0	17.3	14.9	12.9	2.0	1.8	1.7	1.9	2.1	2.4	105.0	17.2	15.2	11.5	12.7	13.4
Autos (67)	749,843	4.8	6.6	14.4	11.8	10.1	1.4	1.4	1.3	1.3	1.6	2.0	na	22	18.2	9.5	10.8	12.7
Cons Durables (72)	435,481	-1.3	-0.1	20.9	16.1	13.6	1.9	1.7	1.6	1.6	1.8	2.0	119.2	35.1	20.5	8.9	10.8	11.9
Cons Svc (48)	378,096	2.0	0.9	19.3	16.8	14.8	3.6	3.1	2.8	1.8	2.1	2.3	18.7	16.0	13.6	18.4	18.6	19.1
Media (61)	611,952	2.5	1.6	16.2	14.0	12.1	1.8	1.7	1.6	2.1	2.3	2.5	22.4	15.7	15.7	11.4	12.2	13.3
Retailing (78)	665,648	-1.0	-0.2	18.5	16.2	14.0	2.9	2.6	2.4	1.6	1.7	1.9	23.5	14.3	14.7	15.4	15.9	16.9
Food/Staples Retail (51)	632,312	1.6	0.4	15.7	14.1	12.6	2.1	2.0	1.8	2.4	2.7	3.0	13.3	11.1	12.6	13.7	14.0	14.6
Food Beverage (113)	1,549,717	-0.6	-1.3	16.1	14.4	13.0	3.1	2.7	2.5	3.1	3.4	3.7	10.5	11.3	11.0	18.1	18.6	19.1
Household Products (24)	433,362	1.1	0.4	17.1	16.2	14.7	3.7	3.5	3.3	2.7	2.9	3.2	4.6	6.0	10.1	21.7	20.0	20.7
Health Care Equip/Svc (63)	597,602	4.7	3.4	14.7	13.8	12.2	2.4	2.2	1.9	0.9	1.1	1.2	12.7	6.5	12.7	16.6	15.9	15.7
Pharma & Biotech (75)	1,719,562	1.3	1.3	11.6	10.8	10.4	2.4	2.2	1.9	3.1	3.4	3.6	8.2	7.8	4.4	20.0	20.0	18.6
Banks (202)	2,789,188	2.2	3.0	12.7	10.7	9.2	1.3	1.2	1.1	3.1	3.6	4.2	63.6	20.0	17.6	10.2	11.3	12.2
Div Financials (104)	1,454,412	5.9	5.5	13.4	11.3	9.5	1.1	1.0	1.0	1.3	1.7	2.5	205.0	21.5	18.4	8.3	9.5	10.4
Insurance (99)	1,121,589	2.8	2.5	12.0	10.5	9.5	1.1	1.1	1.0	3.1	3.3	3.5	10.9	15.3	9.3	8.8	10.1	10.4
Real Estate (122)	684,512	4.0	2.3	22.2	19.3	17.1	1.3	1.2	1.2	3.0	3.1	3.3	40.1	14.7	12.3	5.8	6.3	7.6
Software (77)	1,360,358	2.5	1.9	16.7	14.8	13.0	4.1	3.6	3.0	1.1	1.1	1.2	15.5	13.1	12.4	24.0	23.7	22.9
Tech Hard/Equip (99)	1,519,792	5.0	4.2	16.1	13.7	12.2	2.3	2.2	1.9	1.0	1.1	1.2	83.4	17.1	12.5	14.6	15.9	15.8
Semis (62)	639,806	3.4	3.5	12.9	12.3	11.3	2.5	2.2	2.0	2.0	2.1	2.2	198.0	2.5	9.1	20.0	17.8	17.4
Telecom (96)	1,309,573	0.7	0.5	12.4	11.6	10.8	1.7	1.6	1.5	5.0	5.3	5.4	3.8	7.9	8.7	14.3	14.1	14.3
Utilities (138)	1,100,727	1.5	1.1	13.1	12.7	11.9	1.4	1.3	1.3	4.4	4.5	4.7	1.4	3.0	6.4	10.5	10.2	10.4
World (2462)	28,803,293	2.8	2.2	14.7	12.7	11.3	1.7	1.7	1.6	2.3	2.6	2.9	39.9	15.8	13.0	12.6	13.5	14.0

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 45: Equity market performance

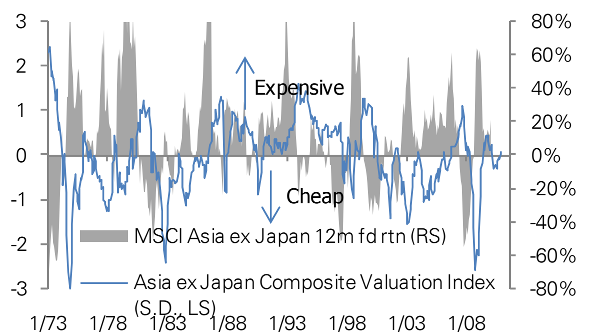


Source: Deutsche Bank, MSCI

Asia ex Japan – valuation

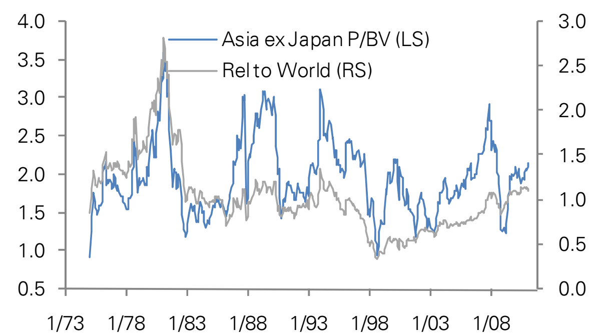
Asia ex-Japan equity valuations are at long-term averages. Serious capital-threatening overvaluation like in early 1994, 2000, or mid-2007 is simply not an issue. EBIT margins are recovering, but are unlikely to hit earlier highs, given increasing capex in China, India, Indonesia, and now Malaysia. Versus Asian cash and property yields, equities look attractive. Versus Japan, Asian markets are at almost historic over-valuation levels. Their PB premium versus the US is unwarranted by prospective ROE differentials. The markets are increasingly recognizing this, as the US, Europe and Japan are all outperforming ex-Japan Asia this year.

Figure 46: Composite valuation index



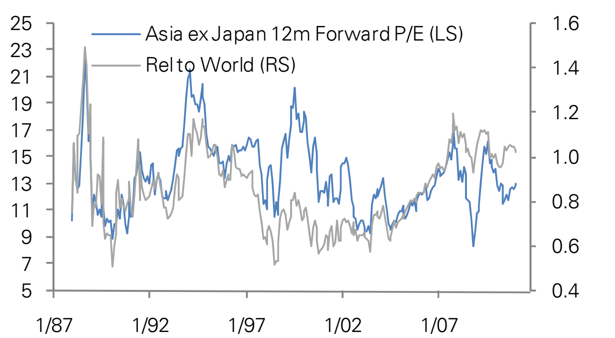
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales normalized over entire history

Figure 47: Price-to-book value



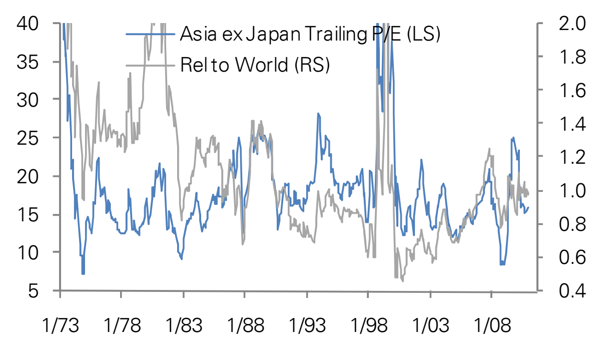
Source: Deutsche Bank, MSCI, Datastream

Figure 48: 12-month forward P/E



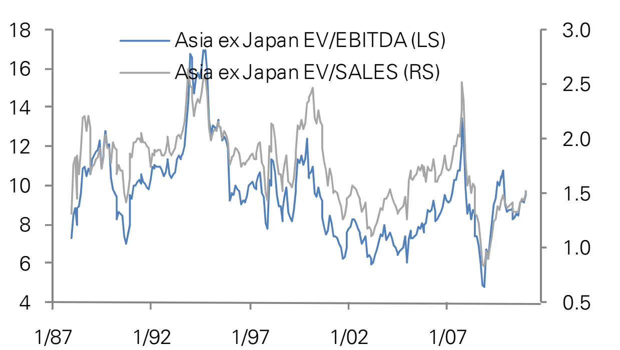
Source: Deutsche Bank, MSCI, I/B/E/S

Figure 49: 12-month trailing P/E



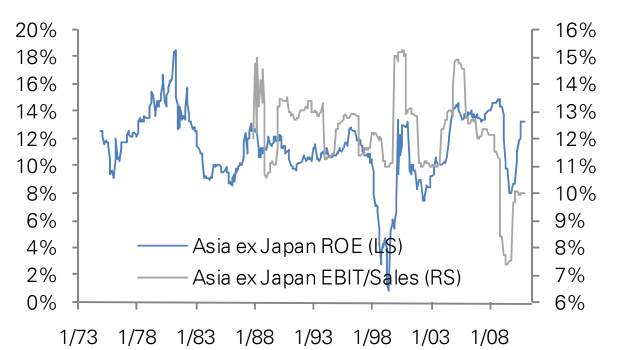
Source: Deutsche Bank, MSCI, Datastream

Figure 50: EV multiples



Source: Deutsche Bank, MSCI, FactSet

Figure 51: ROE and EBIT margin

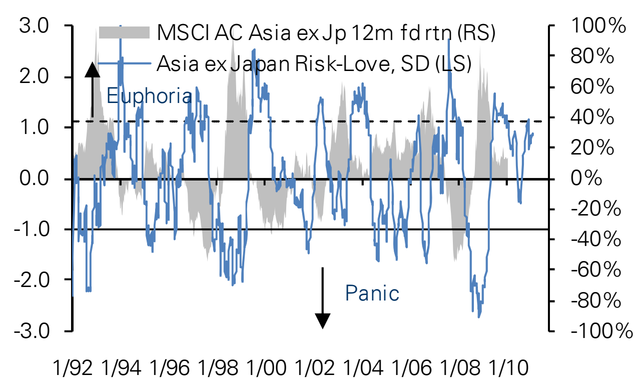


Source: Deutsche Bank, MSCI, FactSet

Asia ex Japan – investor sentiment

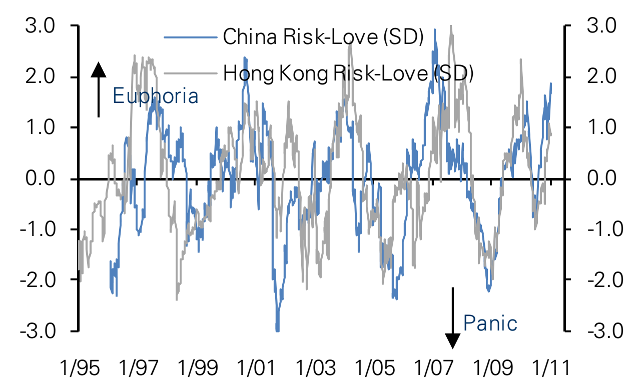
Asian Risk-Love has receded somewhat as some markets have come under pressure. So far this year, there has been a fund flow rotation out of India/ASEAN into Korea and Taiwan.

Figure 52: Asia Risk-Love indicator



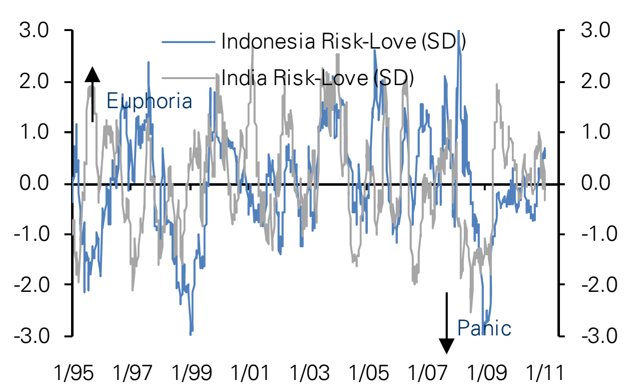
Source: Deutsche Bank

Figure 53: China and Hong Kong Risk-Love indicator



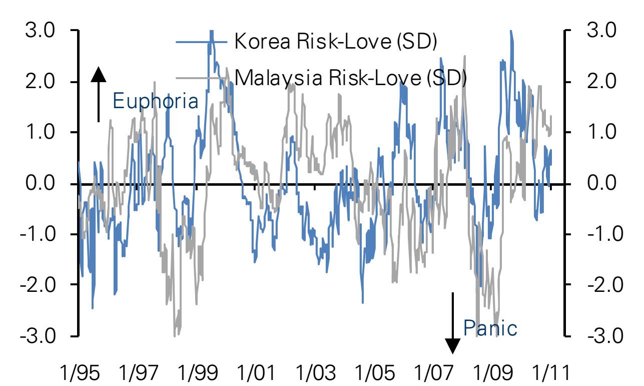
Source: Deutsche Bank

Figure 54: India and Indonesia Risk-Love indicator



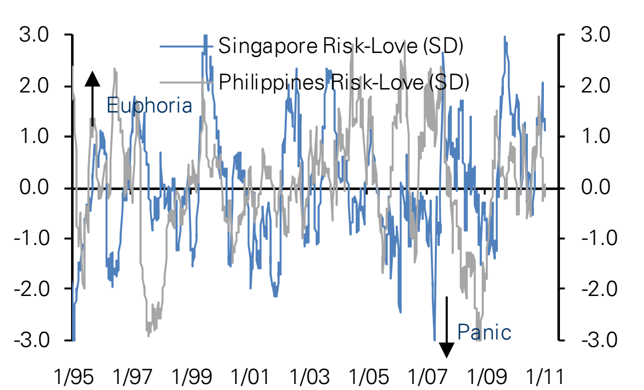
Source: Deutsche Bank

Figure 55: Korea and Malaysia Risk-Love indicator



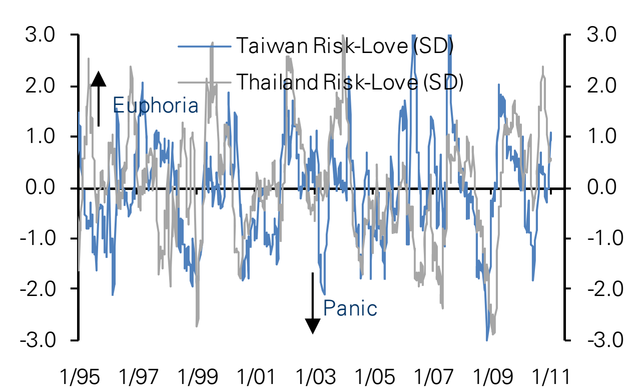
Source: Deutsche Bank

Figure 56: Philippines and Singapore Risk-Love indicator



Source: Deutsche Bank

Figure 57: Taiwan and Thailand Risk-Love indicator

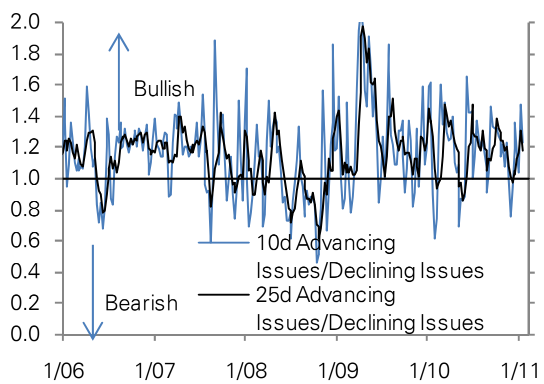


Source: Deutsche Bank

Asia ex Japan – technicals

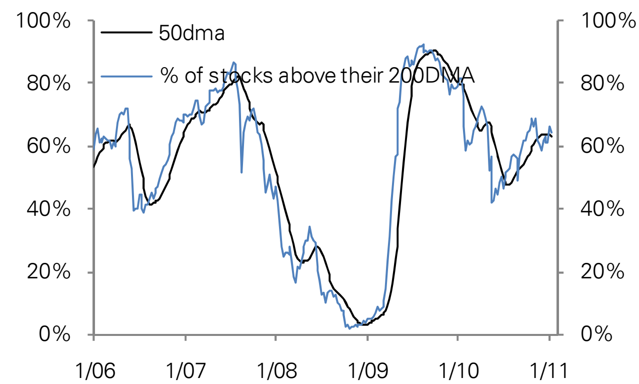
For the region, technicals look robust – market breadth is high, new lows are scant, and new highs are rising.

Figure 58: Advance/decline ratio



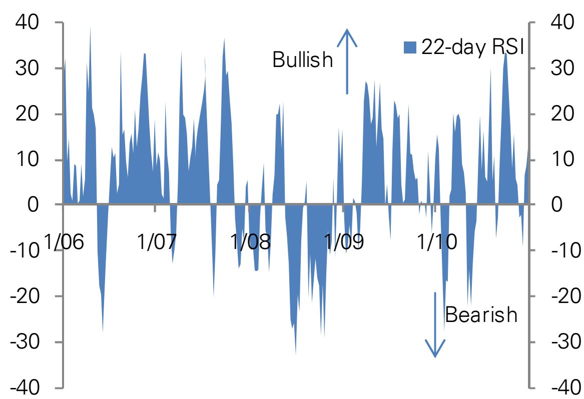
Source: Deutsche Bank, Datastream, FactSet

Figure 59: Percentage of stocks above their 200dma



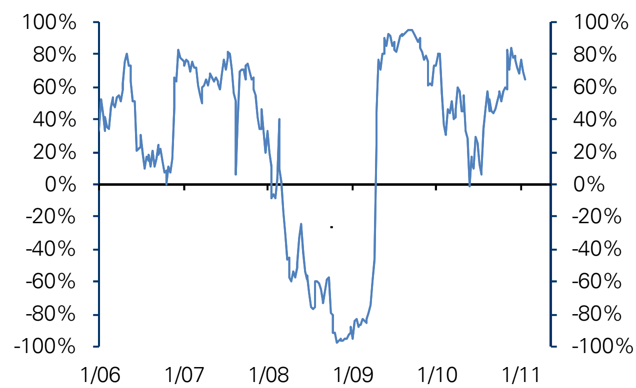
Source: Deutsche Bank, Datastream, FactSet

Figure 60: Relative Strength Index



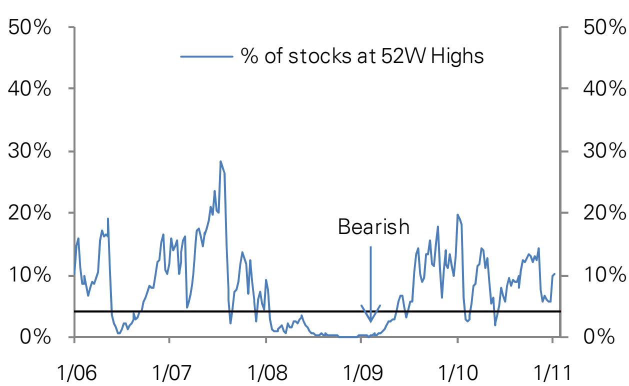
Source: Deutsche Bank, Datastream, FactSet

Figure 61: Market breadth



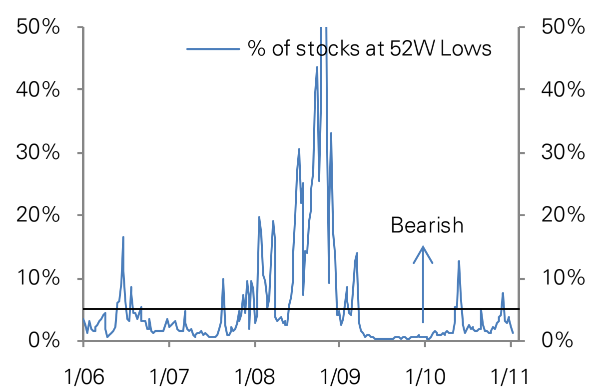
Source: Deutsche Bank, Datastream, FactSet. Market breadth is defined as (# of sub-sectors up on 6 months basis minus # of sub-sectors down on 6 months basis) / total sub-sectors available.

Figure 62: Percentage of stocks at 52W Highs



Source: Deutsche Bank, Datastream, FactSet

Figure 63: Percentage of stocks at 52W Lows

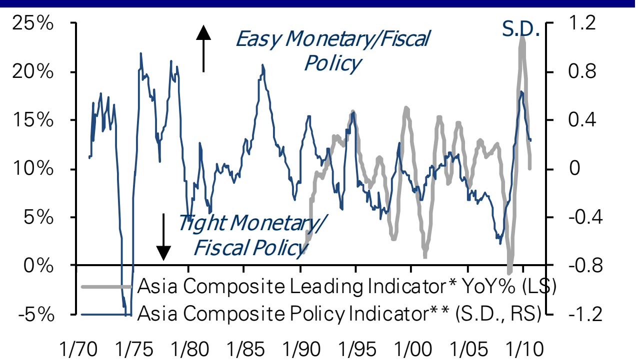


Source: Deutsche Bank, Datastream, FactSet

Asia ex Japan – growth and earnings

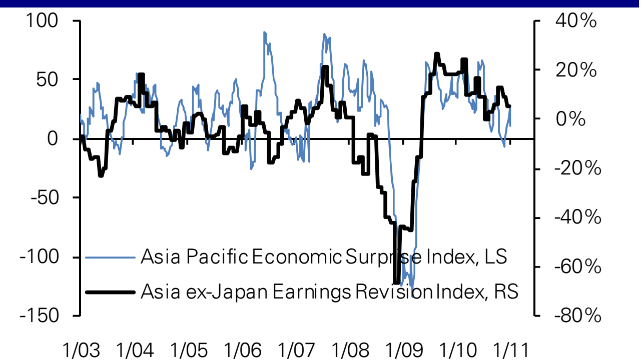
EPS growth forecasts for Asia at 13.6% are low, especially in Korea, HK, Singapore, and Taiwan. While policy is tightening from super-easy settings, and some domestic sectors could be constrained, growth indicators in the US and now Europe, are surprisingly strong – the externally oriented markets should see their EPS expectations go up in the coming months, in our view.

Figure 64: Leading economic and composite policy indicators



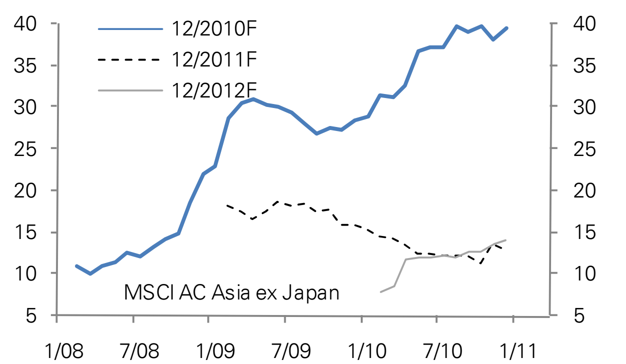
*Source: Deutsche Bank, CEIC, Datastream, Bloomberg Finance LP. Note: *Market cap weighted average of composite leading economic indicators growth for China, India, Korea and Taiwan. **GDP weighed average of composite policy indicators for China, HK, India, Indonesia, Korea, Malaysia, Philippines, Spore,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

Figure 65: Economic surprises



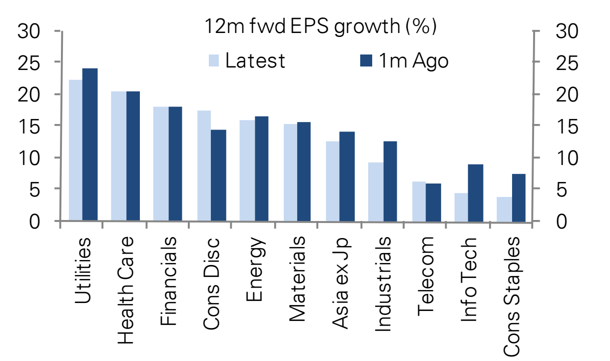
Source: Deutsche Bank, Citigroup, Bloomberg Finance LP

Figure 66: Earnings growth forecast (%)



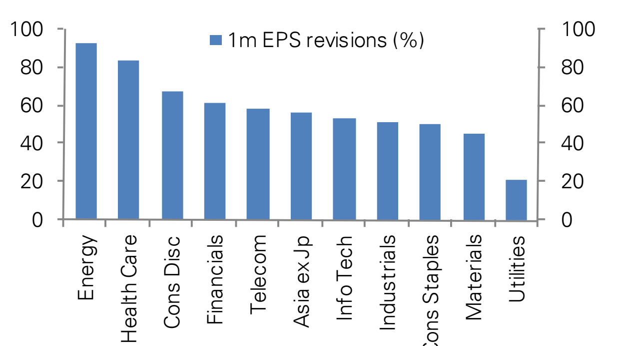
Source: Deutsche Bank, I/B/E/S, MSCI

Figure 67: 12-month forward growth forecast by sector



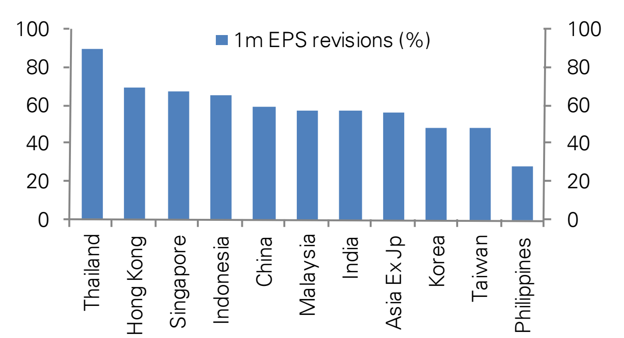
Source: Deutsche Bank, I/B/E/S, MSCI

Figure 68: 12-month forward EPS revisions by sector



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

Figure 69: 12-month forward EPS revisions by country

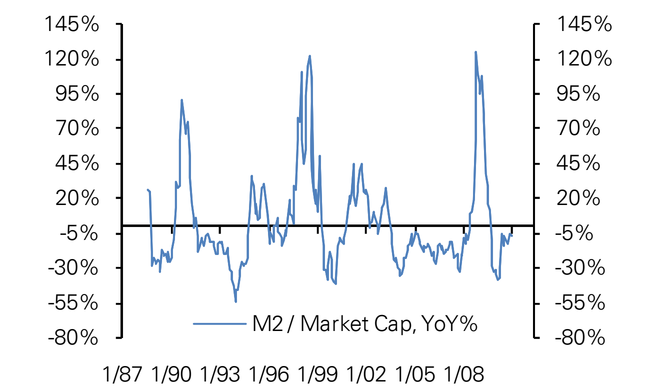


Source: Deutsche Bank, I/B/E/S, MSCI

Asia ex Japan – liquidity

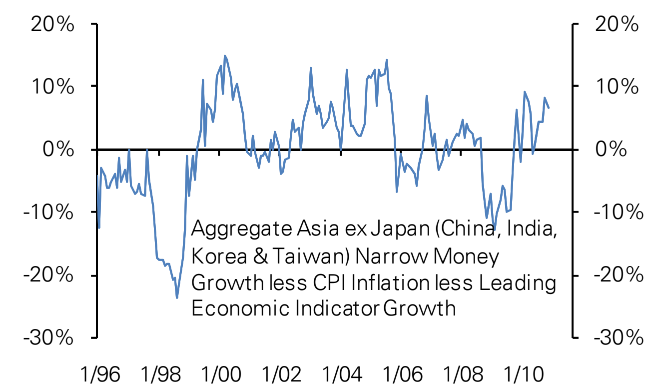
Hedge fund estimated exposure is back to average levels, a good thing. The Marshallian k (money growth less nominal growth) is also strong. However, equity offerings as a percentage of market capitalization have now crossed the 2% warning level.

Figure 70: M2/market cap



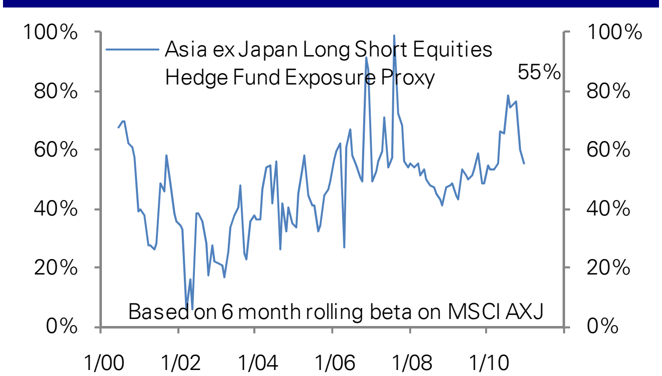
Source: Deutsche Bank, Datastream, Bloomberg Finance LP

Figure 71: Free liquidity



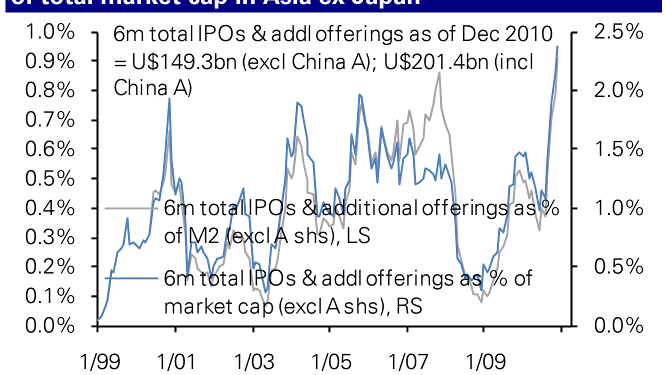
Source: Deutsche Bank, Datastream, Bloomberg Finance LP

Figure 72: Asia focused hedge fund exposure estimate



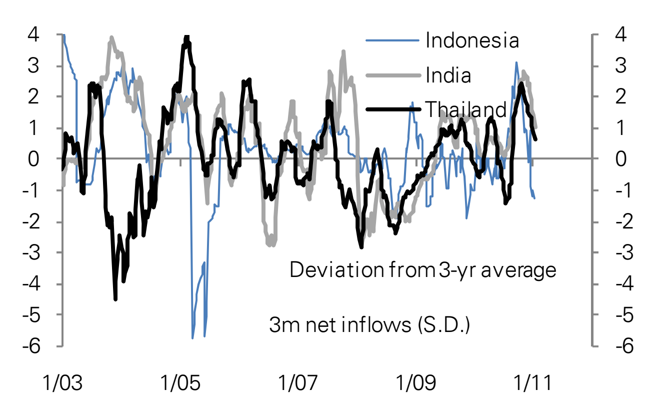
Source: Deutsche Bank, Bloomberg Finance LP

Figure 73: 6-month total equity offerings* as percentage of total market cap in Asia ex Japan



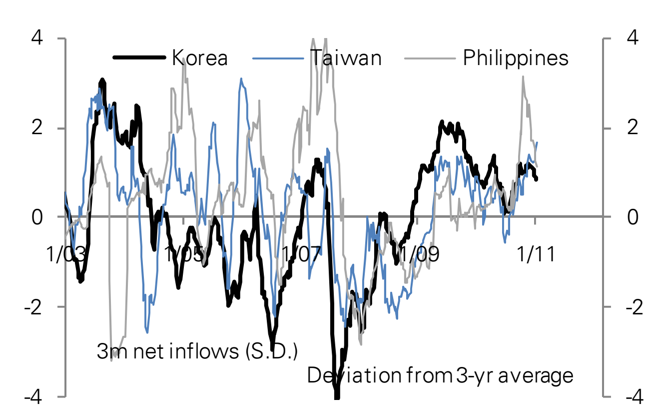
Source: Deutsche Bank, Bloomberg Finance LP, Datastream
*Note: *Equity offerings include IPO and additional equity offerings of primary and secondary shares.*

Figure 74: Foreign fund flows



Source: Deutsche Bank, Bloomberg Finance LP

Figure 75: Foreign fund flows

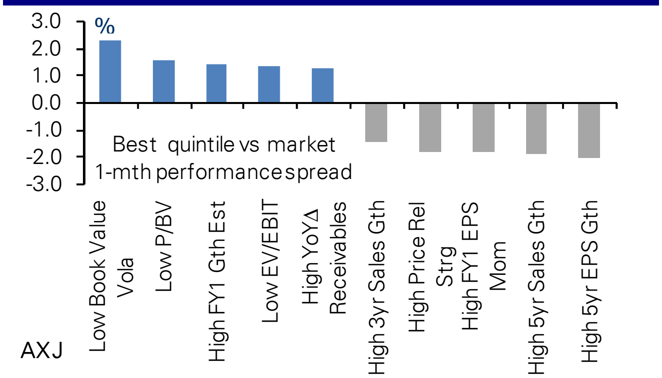


Source: Deutsche Bank, Bloomberg Finance LP

Asia ex Japan – factor performance

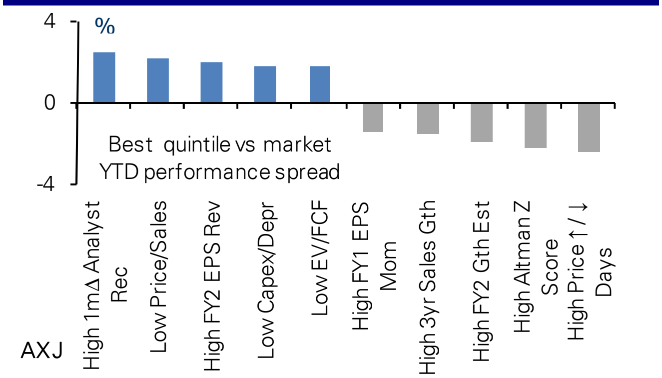
GARP (reasonably strong growth at reasonably cheap prices) is king, and GASP (strongest growth at silly prices) is to be avoided, as we detailed in our note from last week

Figure 76: Best- and worst-performing factors (one month)



Source: Deutsche Bank

Figure 77: Best- and worst-performing factors (YTD)



Source: Deutsche Bank

Figure 78 Best quintile vs. market relative performance (%,sector neutral)**

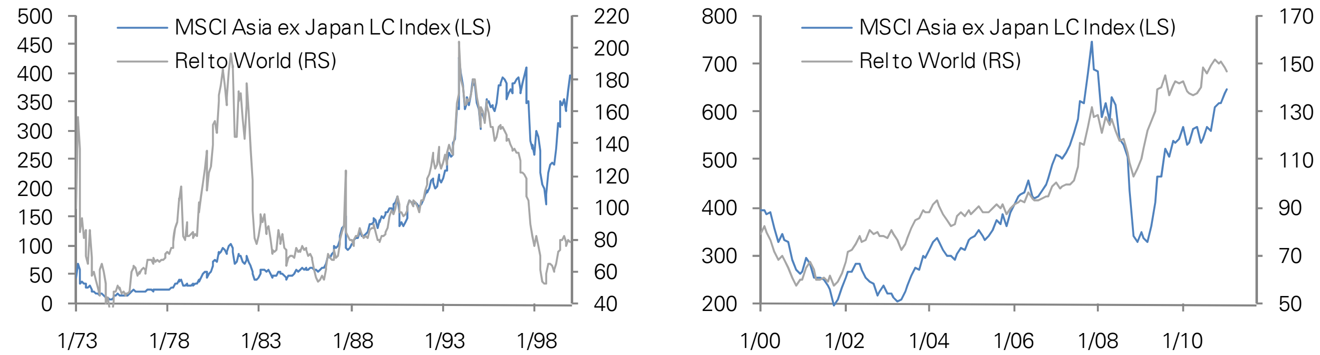
Asia ex Japan	Returns					Ann. Rtn.		
Jan 18, 11	YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*
Valuation								
Low 12m Fd P/E	0.5	0.0	2.0	4.9	11.4	6.6	10.0	6.9
Low Trailing P/E	0.4	-0.3	-0.4	1.3	11.8	9.7	11.0	7.7
Low P/Op Inc	0.8	-0.2	-1.3	1.0	5.9	8.0	9.4	7.6
Low P/BV	0.5	1.6	1.3	2.1	6.3	4.9	4.5	1.9
Low Price/Sales	2.2	-0.4	-2.8	-2.0	0.4	3.8	4.9	2.2
Low P/FCF	-0.1	0.3	0.6	1.5	5.6	5.0	4.9	5.6
Low EV/EBIT	-0.6	1.4	1.9	2.0	6.7	8.4	9.7	7.7
Low EV/EBITDA	1.4	0.9	-0.2	1.0	6.8	7.5	9.3	8.0
Low EV/Cap Emp	-0.1	1.0	1.3	0.3	5.0	4.1	5.1	3.5
Low EV/Sales	-0.1	0.6	1.2	2.3	3.6	6.3	7.4	5.9
Low EV/Op CF	-1.1	0.5	-0.7	0.7	6.7	7.1	9.4	9.2
Low EV/FCF	1.8	0.8	1.3	2.7	6.4	4.8	4.7	6.5
High Dividend Yield	-0.9	-0.6	0.3	0.8	7.0	8.0	11.0	10.2
Average	*0.4*	*0.4*	*0.3*	*1.4*	*6.4*	*6.5*	*7.8*	*6.4*
Price Momentum								
High 6m Price Mom	-0.9	0.1	1.1	0.0	0.0	-3.3	-0.7	0.2
High 9m Price Mom	-0.5	-1.4	0.4	-1.0	-0.1	-3.6	0.4	1.8
High 12m Price Mom	-0.5	-1.0	0.9	1.2	0.4	-2.8	1.1	1.5
High Price Rel Strg	-0.2	-1.8	-0.9	-2.6	-1.4	-2.5	1.0	2.9
High 3mΔ in Price Mom	-0.3	0.4	2.0	0.3	0.6	-1.6	0.6	-0.5
High Price ↑/↓ Days	-2.4	-0.6	0.2	0.8	2.0	1.0	1.0	2.4
Average	*-0.8*	*-0.7*	*0.6*	*-0.2*	*0.3*	*-2.1*	*0.6*	*1.4*
Earnings Momentum								
High FY1 EPS Rev	0.4	0.3	0.4	1.5	4.3	0.1	1.0	1.5
High FY2 EPS Rev	2.0	0.8	2.2	2.4	6.5	3.5	4.7	5.1
High 12m Fd EPS Rev	1.3	0.7	1.6	3.4	6.7	2.1	3.9	4.3
High FY1 EPS Mom	-1.4	-1.8	-1.3	-2.0	2.0	1.8	4.7	4.0
High FY2 EPS Mom	-0.7	-1.0	0.5	0.4	6.4	2.8	4.2	4.4
Average	*0.3*	*-0.2*	*0.7*	*1.1*	*5.2*	*2.1*	*3.7*	*3.9*
Capex Deployment & Earnings Accruals								
Low Capex/Depr	1.8	0.6	2.4	0.9	-1.0	-1.5	-3.2	-1.5
Low Capex/Sales	1.7	1.2	4.4	3.3	-0.2	1.7	1.6	2.3
Low Capex/FA	-0.3	0.5	1.9	0.9	-1.8	-3.3	-4.0	-3.9
High YoYΔ Receivables	-0.9	1.3	2.9	5.1	4.9	0.1	0.5	0.6
Low YoYΔ Inventory	0.5	0.8	2.2	1.6	2.7	-1.2	1.3	2.7
Low YoYΔ Payables	-0.9	0.3	-0.9	-0.7	-1.4	-1.7	-1.7	-0.2
Average	*0.3*	*0.8*	*2.1*	*1.8*	*0.5*	*-1.0*	*-0.9*	*0.0*

	Returns					Ann. Rtn.		
	YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*
Profitability								
High Cash ROC	-0.6	-0.5	0.3	-0.3	2.9	6.4	4.2	7.6
High YoYΔ Cash ROC	0.5	0.1	0.3	-1.3	3.8	3.5	2.9	3.8
High ROE	0.0	-1.0	0.0	-0.1	3.8	2.7	3.1	2.7
High YoYΔ ROE	0.2	-0.2	0.0	0.0	4.3	4.8	3.3	3.0
Average	*0.0*	*-0.4*	*0.1*	*-0.4*	*3.7*	*4.4*	*3.4*	*4.3*
Growth								
High 3yr Sales Gth	-1.5	-1.5	-0.2	1.3	0.1	-1.1	-2.6	-3.5
High 5yr Sales Gth	0.5	-1.8	-2.2	-0.1	-3.9	-0.5	-1.3	-1.9
High 3yr EPS Gth	-0.3	-1.4	-1.4	-0.5	3.6	-0.6	-0.2	-2.2
High 5yr EPS Gth	0.6	-2.1	-1.1	1.1	2.8	-1.0	-0.1	-0.7
High LT Gth Est	-1.2	-0.3	1.7	1.9	-0.6	1.1	0.0	0.9
High FY1 Gth Est	1.4	1.4	2.8	5.6	4.4	-0.2	0.2	-1.4
High FY2 Gth Est	-1.9	1.1	0.6	1.7	-0.7	-1.6	-0.1	-1.2
Average	*-0.4*	*-0.6*	*0.0*	*1.6*	*0.8*	*-0.5*	*-0.6*	*-1.4*
Stability								
Low EPS Vola	0.6	1.1	-0.1	-0.4	-1.0	0.9	1.7	2.1
Low Op Inc Vola	-0.9	0.2	-0.3	-2.5	-0.8	1.2	2.9	3.9
Low Book Value Vola	0.5	2.3	1.7	-0.5	0.5	0.3	1.1	1.1
Low Sales Vola	0.1	1.1	2.0	-0.1	-3.0	-2.4	0.5	2.7
Low EPS Est Vola	0.3	-0.9	0.0	-1.4	-3.0	-1.0	-1.8	0.8
Average	*0.1*	*0.8*	*0.7*	*-1.0*	*-1.5*	*-0.2*	*0.8*	*2.1*
Risk								
Low FY1 EPS Disp	0.4	-0.5	-0.1	-1.2	-1.1	0.2	1.8	4.5
Low FY2 EPS Disp	0.1	-0.6	-0.8	-1.6	-0.7	-0.5	0.7	3.3
High EBIT/Int Exp	0.1	-0.3	0.2	0.2	4.4	3.7	3.5	5.1
Low Debt/Equity	-0.5	0.3	0.1	-0.1	1.2	1.4	1.8	2.6
High Altman Z Score	-2.2	-0.4	-1.4	-2.9	-4.0	-1.9	-1.4	-1.1
High Market Cap	0.9	-0.5	-0.1	-1.1	-3.1	-0.3	-1.1	1.8
Average	*-0.2*	*-0.3*	*-0.3*	*-1.1*	*-0.5*	*0.4*	*0.9*	*2.7*
Consensus Ratings								
High Analyst Rec	-0.8	-0.6	0.1	-0.3	2.3	1.9	4.5	7.1
High 1mΔ Analyst Rec	2.5	0.2	2.1	3.8	2.3	4.7	5.1	5.1
Average	*0.9*	*-0.2*	*1.1*	*1.8*	*2.3*	*3.3*	*4.8*	*6.1*

*Source: Deutsche Bank, FactSet, I/B/E/S. Note: *1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended Dec 2010. **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 ex Japan – market Intelligence

Figure 79: Equity market performance



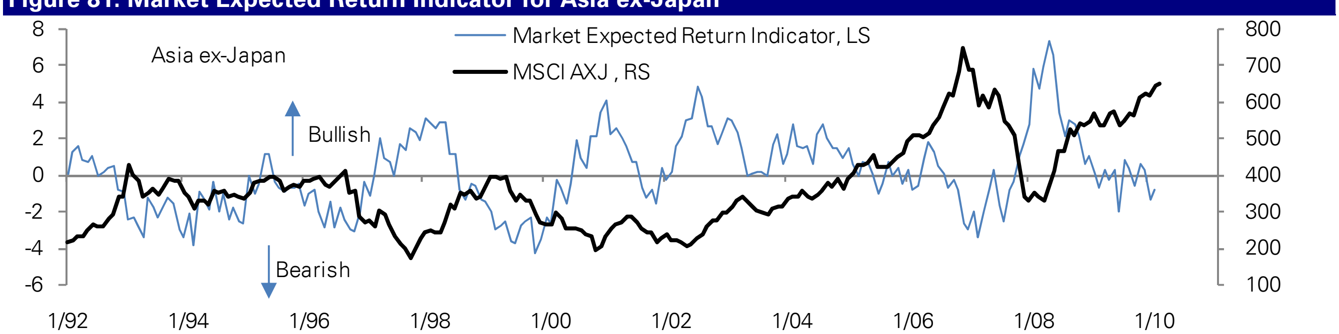
Source: Deutsche Bank, MSCI.

Figure 80: Market intelligence by sector

13Jan11	Mcap	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
Sector (#Co)	U$m	1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Energy (30)	231,920	4.4	2.2	14.0	12.0	10.6	2.3	2.0	1.8	2.2	2.6	2.9	34.1	17.1	12.6	16.5	17.0	17.0
Materials (65)	232,006	4.4	1.5	13.4	11.7	10.2	2.0	1.8	1.6	2.4	2.7	3.0	36.4	15.7	13.8	14.8	15.1	15.3
Capital Goods (70)	246,570	5.5	2.9	16.0	13.8	12.0	2.1	1.9	1.7	1.6	1.8	2.0	30.0	16.4	12.9	13.5	13.9	14.0
Comm Svc (1)	870	4.4	1.3	18.7	15.4	13.9	3.0	2.6	2.3	2.1	2.3	2.4	8.6	21.5	10.8	16.0	17.1	16.8
Transportation (33)	68,576	4.2	4.1	12.4	11.9	10.8	1.7	1.5	1.4	2.5	2.6	2.9	na	-2.8	10.5	14.3	12.7	12.8
Autos (23)	109,800	1.5	3.8	12.0	10.6	9.6	2.7	2.2	1.8	1.1	1.3	1.5	49.3	12.8	10.4	22.2	20.6	19.0
Cons Durables (16)	29,638	-4.1	-2.9	20.1	12.9	10.2	2.1	1.9	1.8	2.6	3.1	3.0	-40.3	57.5	33.0	10.3	14.9	18.0
Cons Svc (12)	44,634	7.5	6.4	24.2	19.9	17.1	3.7	3.2	2.8	1.1	1.1	1.2	107.1	21.6	16.2	15.3	16.2	16.3
Media (3)	7,039	-2.1	-2.4	15.4	16.2	14.9	3.2	3.1	3.0	4.5	5.1	5.4	6.9	-4.8	8.4	20.6	19.1	19.8
Retailing (13)	49,231	1.7	3.6	21.3	18.0	15.4	3.4	3.0	2.8	2.0	2.4	2.9	19.7	18.1	17.0	15.8	16.9	17.9
Food/Staples Retail (7)	23,068	-0.2	-1.4	15.2	18.9	16.2	2.7	2.5	2.2	1.4	1.5	1.7	81.9	-19.2	16.7	17.8	13.0	13.7
Food Beverage (25)	85,045	-0.5	-0.1	18.8	16.4	14.5	2.8	2.5	2.2	2.2	2.4	2.7	23.0	8.3	14.6	16.7	16.2	16.5
Household Products (5)	20,799	-3.4	-3.0	29.2	24.8	21.1	9.7	8.2	6.9	1.8	2.1	2.4	15.2	17.5	17.8	33.1	33.1	30.8
Health Care Equip/Svc (2)	3,894	-8.3	-5.3	41.9	31.4	24.4	6.0	5.2	4.5	0.5	0.8	1.0	25.3	33.2	28.7	14.4	16.7	18.6
Pharma & Biotech (10)	18,823	-2.8	-2.5	24.6	20.6	17.3	4.7	4.0	3.3	0.7	0.8	1.0	27.2	19.9	18.7	19.0	19.2	19.0
Banks (64)	488,534	2.4	1.0	13.7	11.5	9.8	1.8	1.7	1.5	2.8	3.3	3.9	29.1	19.9	16.5	13.3	14.5	15.3
Div Financials (23)	79,952	3.8	1.8	21.8	18.0	15.8	2.6	2.4	2.2	2.3	2.8	3.2	4.0	20.9	13.7	11.9	13.4	14.1
Insurance (13)	112,308	2.3	1.0	23.3	18.7	15.6	2.6	2.3	2.1	1.0	1.4	1.8	10.9	23.7	20.1	11.4	12.3	13.2
Real Estate (52)	208,011	3.8	4.2	17.2	15.6	13.7	1.3	1.2	1.1	2.2	2.2	2.5	20.6	12.5	15.1	7.6	7.9	8.5
Software (10)	90,961	4.8	-0.2	27.8	22.4	18.4	8.1	6.1	4.8	0.9	0.9	1.0	45.2	23.9	22.0	29.1	27.4	26.2
Tech Hard/Equip (44)	174,876	-2.1	-1.5	14.9	12.2	10.3	2.0	1.8	1.7	2.7	3.3	3.9	100.0	23.4	17.5	13.6	15.1	16.3
Semis (29)	236,281	2.9	1.5	11.1	11.0	10.0	2.2	1.9	1.7	2.6	2.8	2.8	115.2	-6.1	11.2	20.9	17.5	17.2
Telecom (24)	163,069	-0.2	0.0	13.0	12.1	11.2	1.9	1.8	1.7	4.4	4.7	5.0	4.1	6.5	8.2	15.2	15.0	15.1
Utilities (28)	91,685	-1.1	-0.6	18.0	14.6	13.1	2.1	1.9	1.8	2.7	2.9	3.1	13.2	23.3	11.8	9.0	10.5	10.9
Asia ex Japan (602)	2,817,589	2.4	1.4	15.1	13.1	11.5	2.1	1.9	1.7	2.3	2.6	2.9	40.3	13.6	14.2	14.1	14.4	14.8

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 81: Market Expected Return Indicator for Asia ex-Japan



Source: Deutsche Bank, MSCI, Bloomberg Finance LP

Japan strategy

Political and economic events

The BoJ began its purchasing of ETFs and JREITs in December. Some JREITs have seen their dividend yields fall from 6% to around 5%, and prices have risen. Meanwhile, the latest large manufacturer business sentiment index in the BoJ's quarterly Tankan survey came to +5. Though the figure beat the consensus forecasts of +3, the market reaction was almost mute. The markets are most likely anticipating poor results for October-December 2010 with the end of the government's Eco Car subsidy programme. The Kan administration is seeking a 5% reduction in corporate taxes, but financing problems jeopardize passage of the bill in the Upper House, where the ruling DPJ is in the minority. If the government turns to corporations to fund the measure, such as eliminating special tax breaks or introducing an environmental tax, the tax cut could come to less than 1% in real terms.

Labour statistics in November showed cash compensation at a virtual standstill, dipping only 0.2% yoy. The Consumer Confidence Index for November also posted a slight mom decline despite a 2.3% yoy gain. In addition, core machinery orders (private-sector orders excluding ships and electric power company orders) slid 1.4% mom.

Corporate earnings and investment opinions

Topix consensus 12-month-forward estimate revisions based on IBES earnings [(upward revisions – downward revisions) divided by target stocks, December] improved to +6% in November.

Our analysts upgraded their rating for Olympus from Hold to Buy, Toshiba from Hold to Buy, and El Pida from Sell to Hold, but downgraded Square Enix from Buy to Hold, and Fujitsu from Buy to Hold. Refer to the respective analyst reports for details.

Investor trends

TSE reports that foreigners were net buyers in November, while individuals were net sellers. The QSS (QUICK survey) in early December showed that investors on average were overweight on automobiles and electrical and precision machinery, but underweight on utilities, financials, and pharmaceuticals/food products.

This month's events

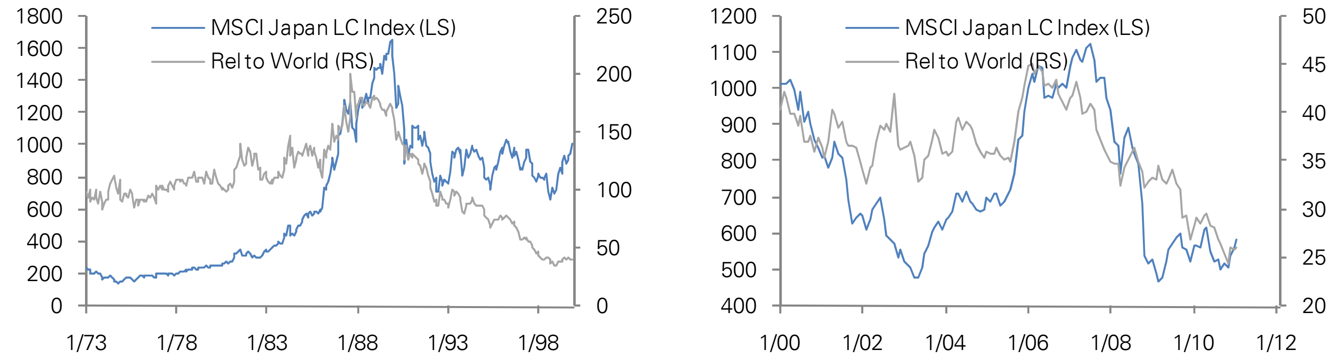
Upward pressure on the yen could weaken further if global markets interpret the Fed's recent monetary easing as its final easing action. One main point is likely to be whether investors regain confidence in the prospect of a US employment recovery. In Japan, the focus should be on the progress of budget deliberations in the Diet, including deliberations over the proposed corporate tax cut. A show of leadership by the prime minister would be a plus for the markets, while further infighting within the DPJ could heighten political uncertainties.

Top stock ideas: Teijin, Mitsubishi Tanabe, Nippon Electric, Mitsubishi Electric, Aisin Seiki, Honda Motor, Itochu, SMFG, Mitsui Fudosan and All Nippon Airways.

Naoki Kamiyama

Japan – market intelligence

Figure 82: Equity market performance



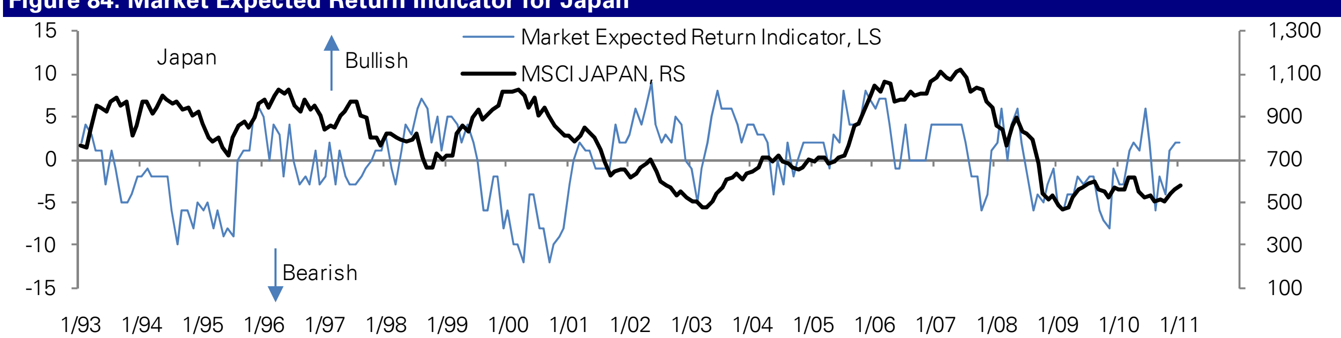
Source: Deutsche Bank, Bloomberg Finance LP, Datastream.

Figure 83: Market intelligence by sector

13Jan11	Mcap	LC Perf		P/E (x)			P/B (x)			Div Yld (%)			EPSg (%)			ROE (%)		
Sector (#Co)	U$m	1m	YTD	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12	CY10	CY11	CY12
Energy (7)	39,331	7.1	5.6	14.9	9.6	10.3	1.0	0.9	0.8	1.8	2.2	2.2	130.3	34.9	-12.7	6.1	9.5	7.9
Materials (40)	196,168	5.1	4.7	18.6	13.3	11.5	1.1	1.1	1.0	1.7	1.9	2.1	398.8	40.1	15.7	6.1	8.0	8.9
Capital Goods (50)	375,739	5.9	6.2	15.1	11.8	10.6	1.4	1.3	1.2	1.6	2.0	2.2	80.2	29.4	11.9	9.2	10.8	11.0
Comm Svc (3)	22,818	1.8	2.6	19.3	16.7	15.9	0.9	0.9	0.9	2.6	2.6	2.7	74.3	16.0	4.9	4.7	5.3	5.4
Transportation (18)	105,950	1.5	2.4	18.9	14.5	12.8	1.2	1.1	1.0	1.7	1.8	2.0	42.5	29.6	13.3	6.3	7.7	8.2
Autos (22)	305,928	6.7	7.7	18.7	14.2	11.7	1.2	1.1	1.0	1.3	1.7	2.1	2,363.0	31.1	21.9	6.4	7.9	9.0
Cons Durables (15)	113,248	2.2	3.8	36.7	19.2	15.0	1.0	1.0	0.9	1.3	1.4	1.5	na	91.3	27.9	2.7	5.1	6.2
Cons Svc (3)	9,376	-0.9	0.8	21.4	17.4	16.4	1.8	1.7	1.6	1.8	2.0	2.1	11.1	22.6	6.3	8.5	9.8	9.7
Media (5)	11,783	6.0	4.6	26.4	21.3	18.2	1.2	1.2	1.1	1.3	1.4	1.5	27.6	23.5	17.3	4.6	5.4	6.0
Retailing (13)	41,941	-1.5	-0.4	18.1	15.4	13.9	1.5	1.4	1.3	1.2	1.2	1.3	63.2	17.5	10.5	8.1	8.7	9.0
Food/Staples Retail (5)	34,818	3.7	1.7	19.7	18.1	15.6	1.1	1.0	1.0	2.5	2.5	2.6	83.8	8.9	15.9	5.5	5.8	6.5
Food Beverage (15)	65,215	3.4	3.6	22.6	16.6	14.9	1.2	1.2	1.1	1.8	1.9	2.1	0.7	36.5	11.5	5.4	7.1	7.5
Household Products (3)	26,761	0.9	1.4	23.1	20.5	18.2	2.2	2.0	1.9	2.3	2.4	2.5	9.9	12.9	12.3	9.3	10.0	10.6
Health Care Equip/Svc (7)	25,581	0.3	0.5	21.1	18.6	15.9	1.8	1.7	1.6	1.3	1.3	1.4	30.3	13.8	16.5	8.2	8.8	9.6
Pharma & Biotech (15)	114,889	1.1	1.0	15.2	14.6	14.8	1.4	1.3	1.3	3.6	3.7	3.8	5.5	4.0	-1.4	9.3	9.1	8.6
Banks (28)	236,339	9.2	6.2	10.7	11.1	11.2	0.8	0.8	0.7	2.7	2.7	2.7	280.9	-5.2	-0.5	7.4	6.7	6.4
Div Financials (9)	54,981	7.6	6.5	28.4	21.4	14.7	0.8	0.8	0.8	1.5	1.7	2.0	na	28.9	49.8	3.0	3.9	5.5
Insurance (6)	70,416	3.6	4.1	20.7	20.0	17.6	1.0	1.0	0.9	1.8	2.2	2.2	38.9	7.2	13.7	4.8	4.8	5.2
Real Estate (15)	87,885	10.3	5.7	26.4	22.9	20.8	1.5	1.5	1.4	1.3	1.3	1.3	14.4	15.4	10.1	5.8	6.3	6.7
Software (12)	53,885	0.3	1.1	22.7	19.7	16.7	2.1	1.9	1.8	2.3	2.3	2.5	-34.0	13.4	18.1	9.1	9.7	10.7
Tech Hard/Equip (26)	259,680	4.5	3.5	21.6	15.5	13.4	1.4	1.3	1.2	1.7	1.9	2.0	na	39.4	15.4	6.6	8.6	9.3
Semis (6)	26,161	2.6	5.0	25.1	18.1	15.4	1.3	1.2	1.1	1.3	1.8	2.0	na	141.0	17.8	5.0	6.6	7.4
Telecom (4)	95,070	-1.1	1.8	12.1	11.1	10.2	1.2	1.1	1.0	2.4	2.5	2.6	12.0	9.4	8.9	9.6	9.8	9.9
Utilities (13)	128,875	-0.7	0.3	21.3	16.5	13.5	1.0	1.0	0.9	2.9	2.9	3.0	17.2	28.9	22.7	4.7	5.9	7.0
Japan (340)	2,502,838	4.4	4.3	17.6	14.2	12.6	1.2	1.1	1.0	1.9	2.1	2.3	165.6	23.4	12.7	6.7	7.8	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 84: Market Expected Return Indicator for Japan

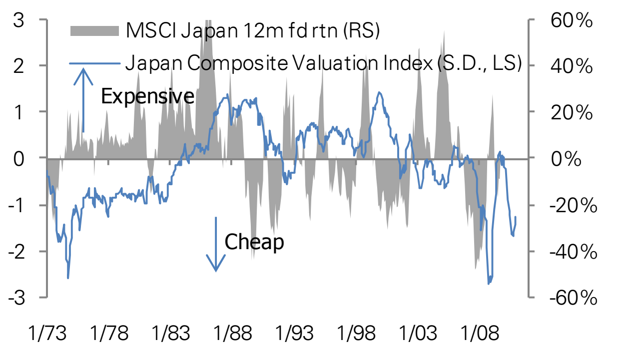


Source: Deutsche Bank, MSCI, Bloomberg Finance LP

Japan – valuations

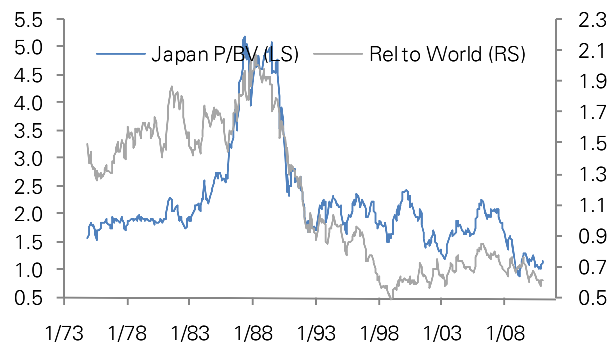
Japanese equity valuations are the most attractive in the world. Japanese sectors still dominate the world's cheapest quartile of sectors, and have zero representation in the world's dearest sectors. Compared to its own history, Japan has only been cheaper during the Lehman's crisis and in the rout of 1973. Investor positioning is gradually beginning to respect this remarkable value opportunity.

Figure 85: Composite valuation index



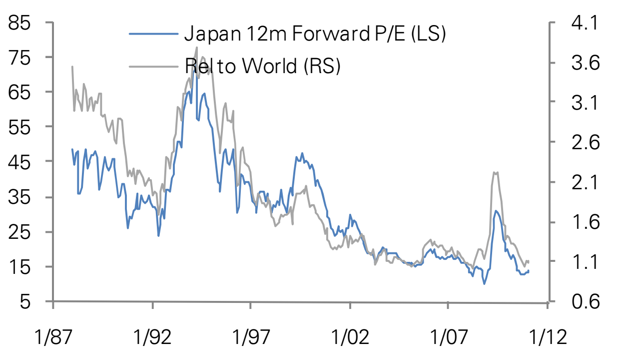
Source: Deutsche Bank, IBES, MSCI. Note: Composite valuation index is the average of trailing P/E, 12m forward P/E, P/Cash Earnings, P/BV, Dividend Yield, EV/EBITDA and EV/Sales normalized over entire history.

Figure 86: Price-to-book value



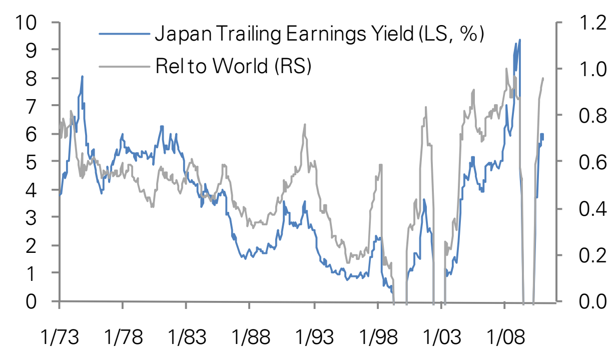
Source: Deutsche Bank, MSCI, Datastream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 87: 12-month forward P/E



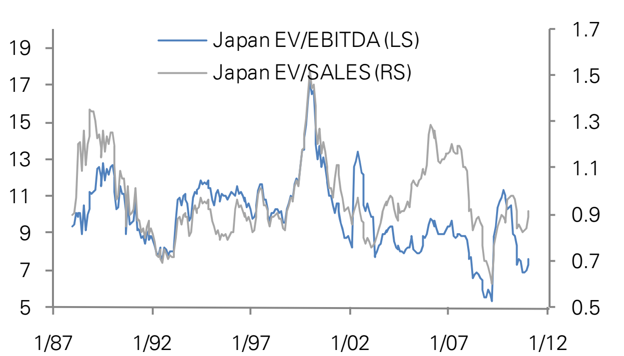
Source: Deutsche Bank, MSCI, I/B/E/S. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 88: 12-month trailing earnings yield



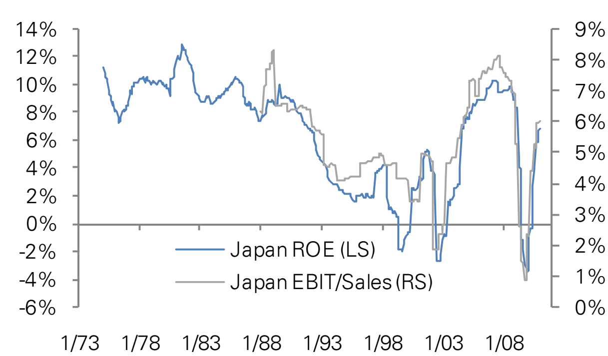
Source: Deutsche Bank, MSCI, Datastream. Note: Market relative = relative to MSCI AC Asia ex Japan.

Figure 89: EV multiples



Source: Deutsche Bank, MSCI, FactSet

Figure 90: ROE and EBIT margin

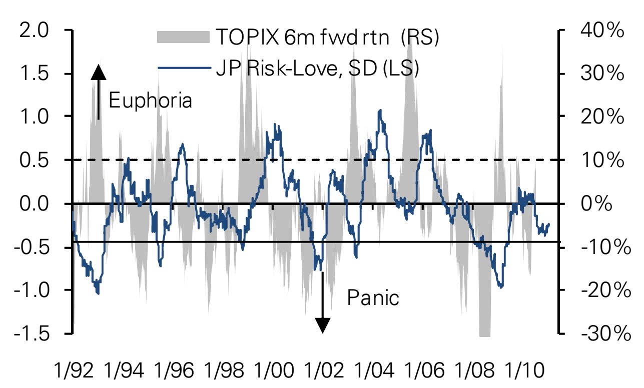


Source: Deutsche Bank, MSCI, FactSet

Japan – investor sentiment

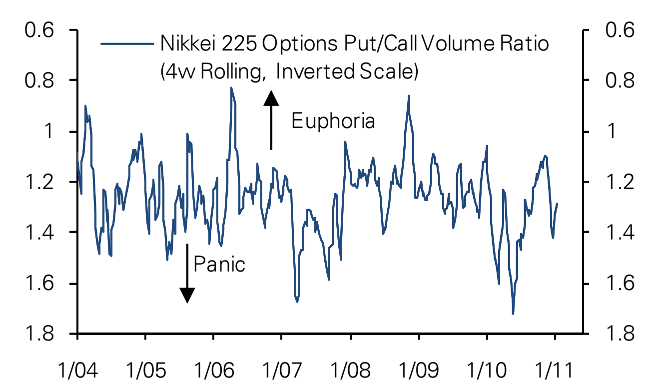
Risk-Love is still low – clients we speak to are blasé and apathetic, including our Japanese clients. Such revulsion and apathy are important markers of a low.

Figure 91: Equity Risk-Love indicator



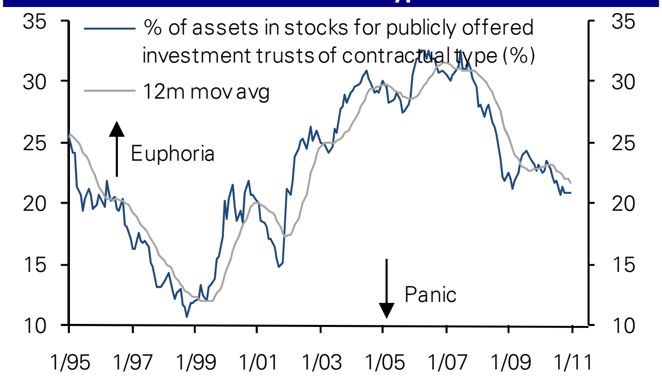
Source: Deutsche Bank, Bloomberg Finance LP

Figure 92: Market volatility



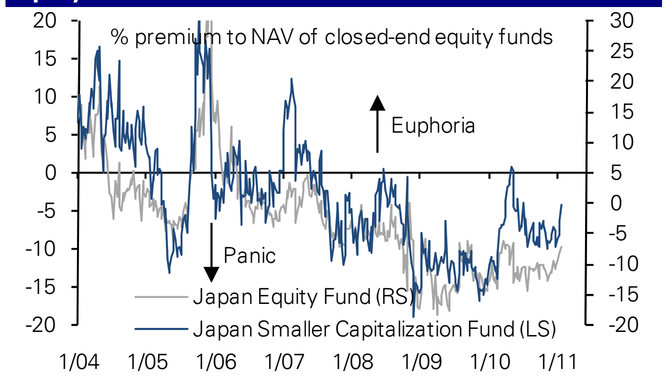
Source: Deutsche Bank, Datastream

Figure 93: Asset allocation to stock for publicly offered investment trusts of contractual type



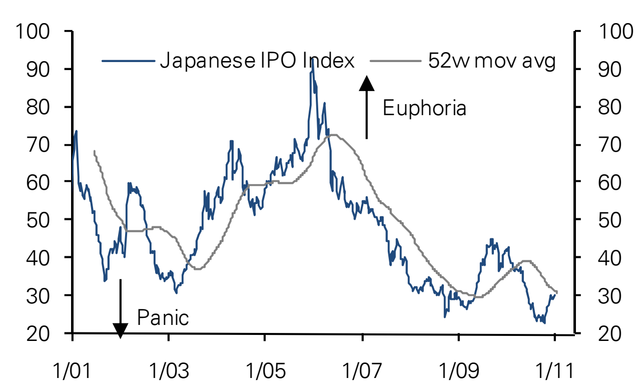
Source: Deutsche Bank, SENTIX Capital Markets Survey.

Figure 94: Percentage premium to NAV of closed-ended equity funds



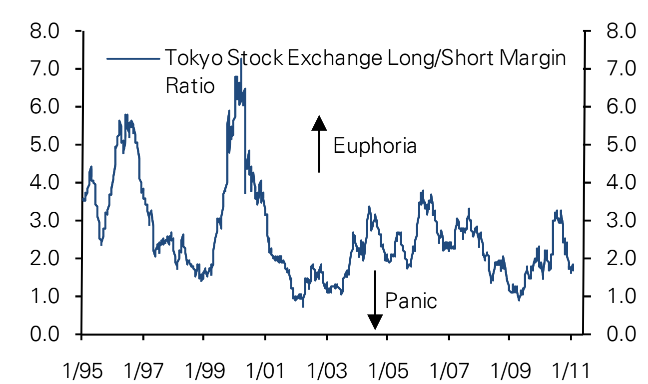
Source: Deutsche Bank, Cabinet Office, Shoko Chukin Bank.

Figure 95: IPO Performance



Source: Deutsche Bank, Bloomberg Finance LP.

Figure 96: Margin ratio

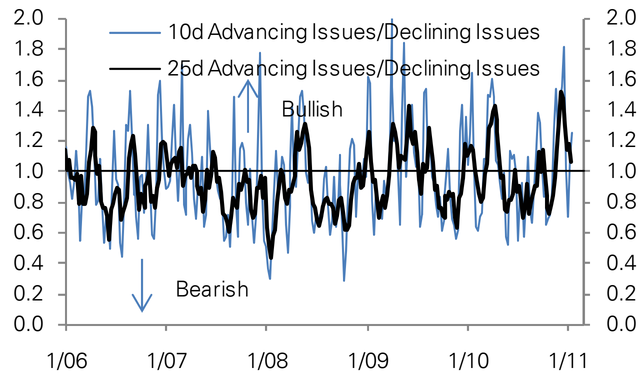


Source: Deutsche Bank, Tokyo Stock Exchange.

Japan – technicals

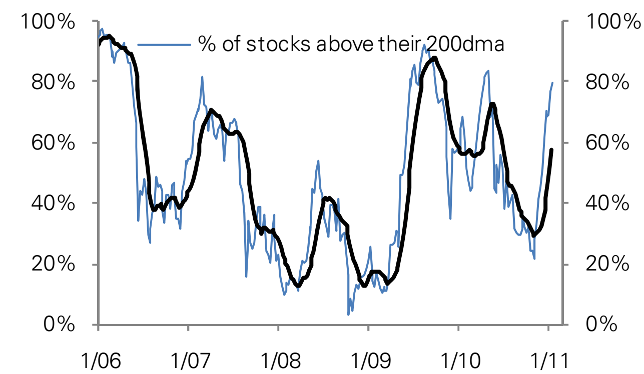
Japanese technicals have improved in the past few months, as the market has rallied. Breadth is strong, new lows have vanished from a worrying 20% number last summer.

Figure 97: Advance/decline ratio



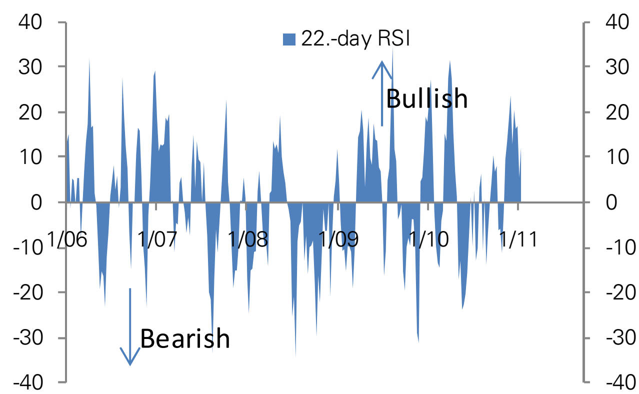
Source: Deutsche Bank, Datastream, FactSet

Figure 98: Percentage of stocks above their 200dma



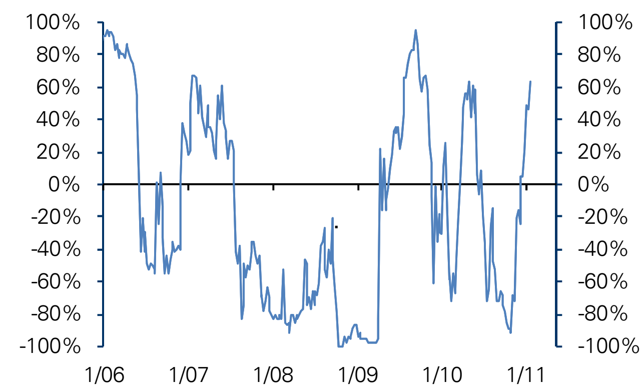
Source: Deutsche Bank, Datastream, FactSet

Figure 99: Relative Strength Index



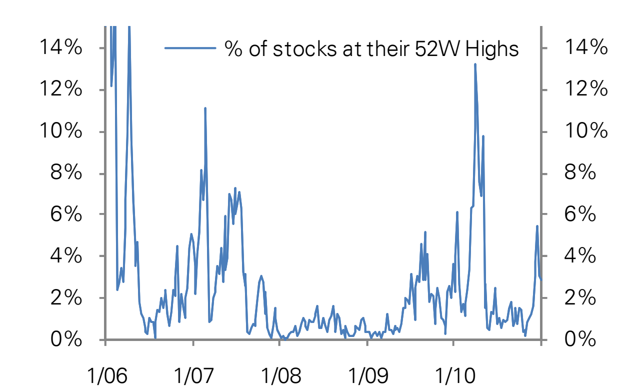
Source: Deutsche Bank, Datastream, FactSet

Figure 100: Market breadth



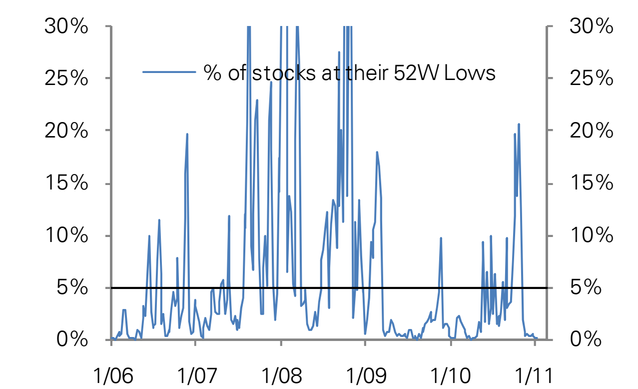
Source: Deutsche Bank, Datastream, FactSet. Market breadth is defined as (# of sub-sectors up on 6 months basis minus # of sub-sectors down on 6 months basis) / total sub-sectors available.

Figure 101: Percentage of stocks at 52W Highs



Source: Deutsche Bank, Datastream, FactSet

Figure 102: Percentage of stocks at 52W Lows

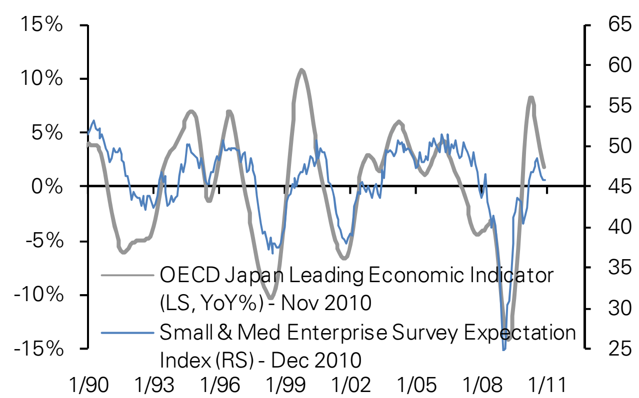


Source: Deutsche Bank, Datastream, FactSet

Japan – growth and earnings

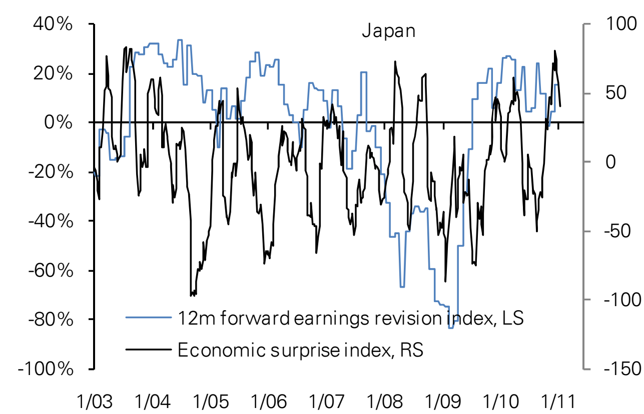
Policy settings are moving from super-easy to less-easy, and leading indicators are rolling over. Kamiyama-San, our Japan strategist points out that operating leverage in Japan is high – any positive global growth surprise, should lead to EPS upgrades.

Figure 103: Leading economic indicators



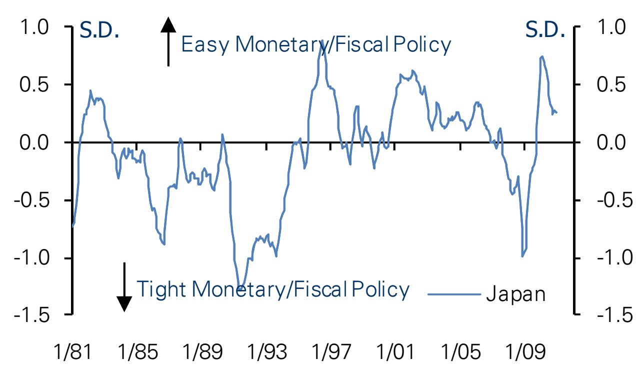
Source: Deutsche Bank, I/B/E/S, OECD, Datastream

Figure 104: Earnings revisions and economic surprises



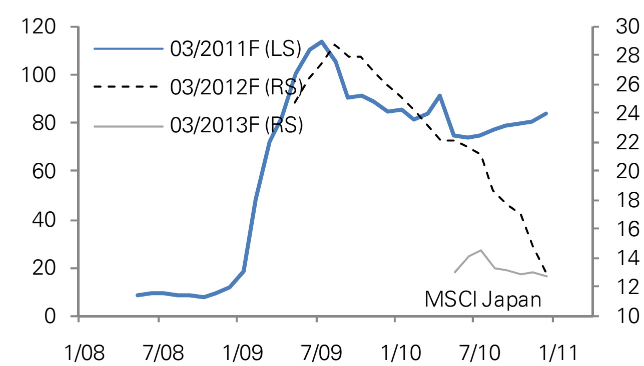
Source: Deutsche Bank, Datastream

Figure 105: Composite policy indicator



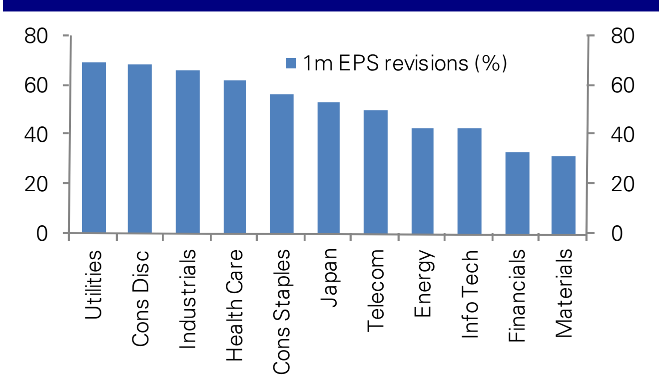
Source: Deutsche Bank, CEIC, Datastream, Bloomberg Finance LP, IMF. Note: Composite policy indicator is a normalized average of real effective exchange rate yoy growth, real broad money (M2) y-o-y growth, short term real interest rate and government fiscal deficit/surplus as a % of GDP.

Figure 106: Earnings growth forecast (%)



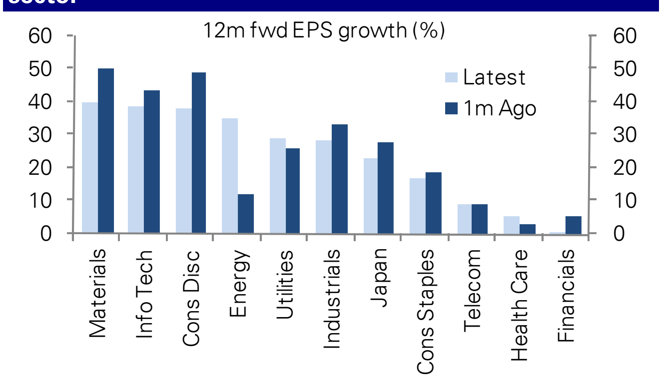
Source: Deutsche Bank, MSCI, I/B/E/S

Figure 107: 12-month 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 108: 12-month forward EPS growth forecast by sector

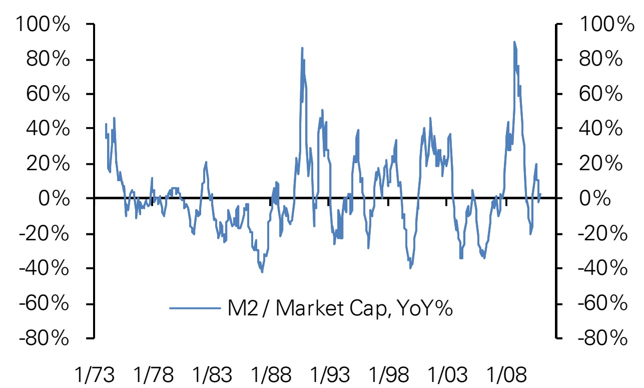


Source: Deutsche Bank, MSCI, I/B/E/S

Japan – liquidity

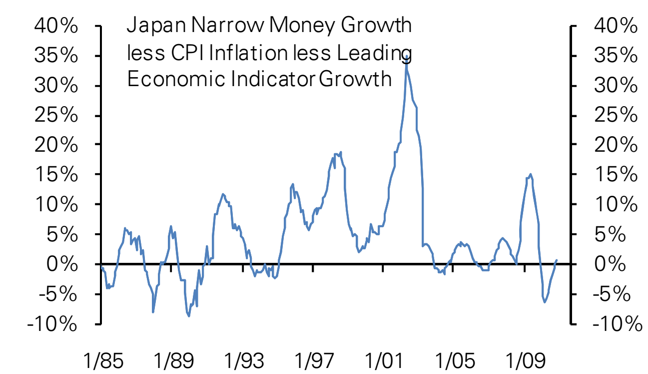
The correlation between US 10-year bond yields and Japanese equities remains robust. The key risk to Japanese equities remains a global deflationary shock, or a lowering in global growth expectations.

Figure 109: M2/market cap



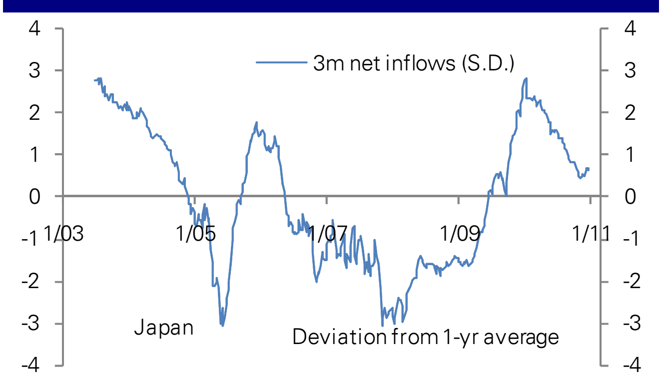
Source: Deutsche Bank, Datastream

Figure 110: Free liquidity



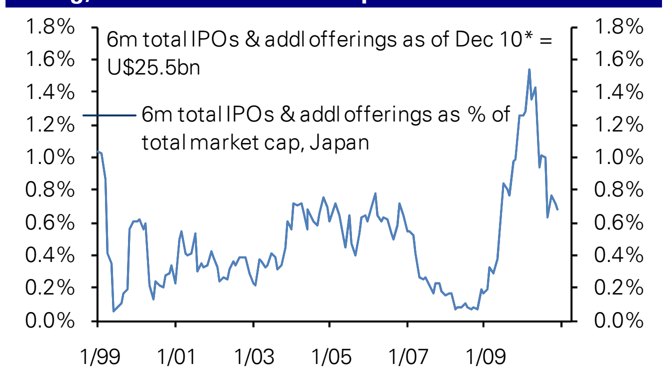
Source: Deutsche Bank, Datastream

Figure 111: Foreign fund flows into equities



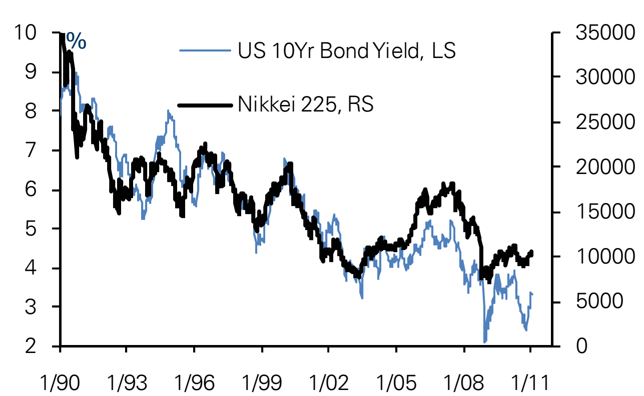
Source: Deutsche Bank, Bloomberg Finance LP

Figure 112: IPOs and additional equity offerings (6m rolling) as % of total market cap



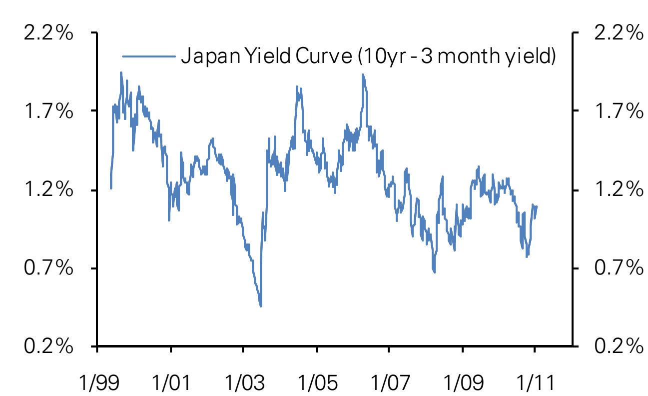
Source: Deutsche Bank, Bloomberg Finance LP, Datastream
*Note: *Equity offerings include IPO and additional equity offerings of primary and secondary shares.*

Figure 113: US 10-year bond yield and Nikkei 225



Source: Deutsche Bank, Bloomberg Finance LP

Figure 114: Yield curve

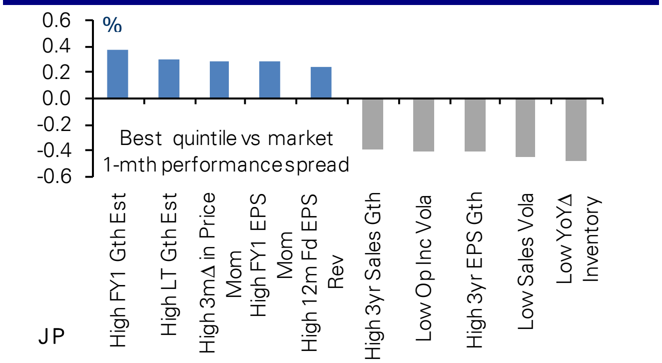


Source: Deutsche Bank, Bloomberg Finance LP

Japan – factor performance

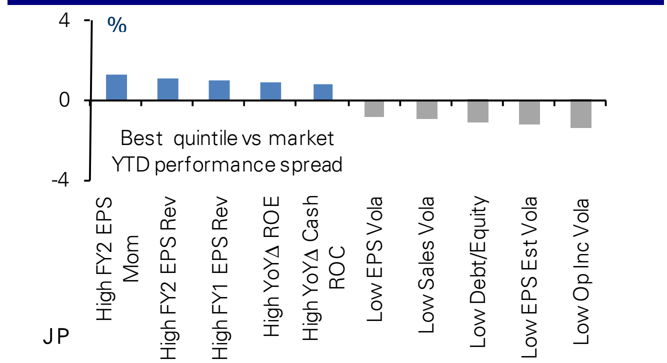
As in Asia, Japan stock selection should focus on value, and little else. Indeed, price momentum and EPS momentum, work in reverse, as do growth and risk.

Figure 115: Best- and worst-performing factors (one month)



Source: Deutsche Bank

Figure 116: Best- and worst-performing factors (YTD)



Source: Deutsche Bank

Figure 117: Best quintile vs market relative performance (%, sector neutral)**

Japan	Returns					Ann. Rtn.		
Jan 18, 11	YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*
Valuation								
Low 12m Fd P/E	0.1	-0.2	1.9	0.6	1.7	-0.2	5.5	6.2
Low Trailing P/E	0.5	0.1	1.3	1.6	2.4	2.8	6.0	8.3
Low P/Op Inc	0.5	-0.3	0.6	0.3	1.8	7.5	8.0	6.4
Low P/BV	0.3	0.1	0.6	-0.5	5.0	8.5	7.4	5.8
Low Price/Sales	0.3	0.1	1.9	1.0	6.4	2.6	5.0	2.9
Low P/FCF	-0.1	-0.2	1.5	2.8	3.1	8.4	7.6	7.0
Low EV/EBIT	-0.1	-0.3	-0.7	-1.3	-0.8	3.1	5.3	5.5
Low EV/EBITDA	-0.1	-0.2	-0.5	0.0	0.6	4.6	6.6	4.5
Low EV/Cap Emp	0.3	-0.1	-0.3	-1.5	0.3	4.6	6.5	4.9
Low EV/Sales	0.2	-0.1	0.6	-0.4	2.0	2.5	4.8	2.8
Low EV/Op CF	0.1	-0.2	0.3	1.2	2.6	6.0	8.2	6.2
Low EV/FCF	0.7	-0.1	0.5	1.1	1.4	5.7	6.3	5.8
High Dividend Yield	-0.2	0.1	0.4	0.7	7.0	8.4	9.0	7.6
Average	*0.2*	*-0.1*	*0.6*	*0.4*	*2.6*	*5.0*	*6.6*	*5.7*
Price Momentum								
High 6m Price Mom	0.5	0.2	-2.2	-4.0	-9.3	-6.3	-3.4	-0.7
High 9m Price Mom	0.2	0.1	-1.5	-2.9	-8.6	-6.7	-3.9	-0.7
High 12m Price Mom	0.3	0.2	-0.8	-2.5	-5.0	-5.1	-2.1	-0.3
High Price Rel Strg	0.3	0.0	-1.9	-3.5	-8.9	-6.6	-2.1	0.8
High 3mΔ in Price Mom	0.6	0.3	-0.4	-0.9	0.9	-1.4	-0.5	1.0
High Price ↑ / ↓ Days	0.3	0.0	-1.5	-2.4	-3.1	-2.4	-1.6	0.3
Average	*0.3*	*0.1*	*-1.4*	*-2.7*	*-5.7*	*-4.7*	*-2.3*	*0.1*
Earnings Momentum								
High FY1 EPS Rev	1.0	0.1	-0.5	-0.5	-2.4	-4.6	0.3	1.4
High FY2 EPS Rev	1.1	0.0	-1.5	-1.9	-2.7	-4.2	-0.5	0.4
High 12m Fd EPS Rev	0.7	0.2	-0.4	-1.1	0.4	-3.8	0.5	2.0
High FY1 EPS Mom	-0.3	0.3	-0.1	-0.3	-1.1	-4.1	1.3	4.2
High FY2 EPS Mom	1.3	0.0	-0.5	-2.1	-2.6	-3.1	2.2	3.0
Average	*0.8*	*0.1*	*-0.6*	*-1.2*	*-1.7*	*-4.0*	*0.8*	*2.2*
Capex Deployment & Earnings Accruals								
Low Capex/Depr	0.3	0.0	0.6	-0.7	-1.3	2.6	2.8	1.7
Low Capex/Sales	0.7	-0.4	0.7	-0.9	-0.4	0.1	0.7	0.2
Low Capex/FA	0.1	-0.3	-0.2	-2.4	-0.2	0.4	1.4	0.2
High YoYΔ Receivables	0.3	-0.1	1.2	3.8	3.3	2.1	2.1	0.9
Low YoYΔ Inventory	0.1	-0.5	-0.8	-1.0	0.6	-1.9	-0.8	-2.2
Low YoYΔ Payables	-0.4	-0.1	-1.4	-2.6	-0.4	-0.5	-1.1	-0.7
Average	*0.2*	*-0.2*	*0.0*	*-0.6*	*0.3*	*0.5*	*0.8*	*0.0*

	Returns					Ann. Rtn.		
	YTD	1m*	3m*	6m*	12m*	5y*	10y*	15y*
Profitability								
High Cash ROC	0.3	-0.2	-1.0	0.2	-0.1	0.3	1.5	2.3
High YoYΔ Cash ROC	0.8	0.1	1.1	0.8	-0.3	2.0	3.0	2.5
High ROE	0.3	-0.1	-0.4	-0.1	-1.3	-2.9	-0.6	2.2
High YoYΔ ROE	0.9	0.2	2.1	2.0	0.3	-2.3	1.2	2.1
Average	*0.6*	*0.0*	*0.5*	*0.7*	*-0.4*	*-0.7*	*1.3*	*2.3*
Growth								
High 3yr Sales Gth	-0.2	-0.4	-1.5	-1.5	-0.7	-2.2	-0.2	-0.5
High 5yr Sales Gth	-0.1	-0.1	-0.6	0.1	-1.4	-1.2	-0.5	0.6
High 3yr EPS Gth	-0.1	-0.4	-1.4	-2.7	-4.3	-1.1	0.4	1.7
High 5yr EPS Gth	0.0	-0.3	0.4	0.6	-0.1	-0.9	-0.5	1.0
High LT Gth Est	-0.3	0.3	2.6	2.1	5.7	0.2	1.2	0.2
High FY1 Gth Est	0.4	0.4	1.6	3.6	0.7	-2.9	0.2	-0.5
High FY2 Gth Est	-0.3	0.0	1.3	2.1	1.7	-0.5	1.6	0.8
Average	*-0.1*	*-0.1*	*0.3*	*0.6*	*0.2*	*-1.2*	*0.3*	*0.5*
Stability								
Low EPS Vola	-0.9	-0.3	-1.6	-2.2	-5.1	0.7	-0.7	-0.4
Low Op Inc Vola	-1.4	-0.4	-1.2	-0.9	-1.7	0.7	0.0	0.8
Low Book Value Vola	-0.5	-0.1	-0.5	-0.2	-0.7	3.4	0.3	-1.4
Low Sales Vola	-0.9	-0.5	-2.2	-1.5	-3.9	-0.4	-0.5	-0.9
Low EPS Est Vola	-1.2	-0.2	-2.3	-2.7	-3.4	-0.9	-0.2	0.2
Average	*-1.0*	*-0.3*	*-1.6*	*-1.5*	*-3.0*	*0.7*	*-0.2*	*-0.3*
Risk								
Low FY1 EPS Disp	-0.2	-0.1	-1.8	-2.3	-4.1	-0.3	-1.1	0.0
Low FY2 EPS Disp	-0.2	0.0	-1.7	-2.5	-3.5	-2.0	-2.6	-0.6
High EBIT/Int Exp	-0.6	-0.1	-0.7	-0.7	-2.7	-0.2	-1.7	0.8
Low Debt/Equity	-1.1	0.0	-1.0	-1.6	-1.8	-0.3	-1.3	1.6
High Altman Z Score	-0.3	0.1	-0.8	-0.6	-3.8	-1.6	-2.9	-0.7
High Market Cap	-0.3	0.1	0.9	2.4	-2.1	-2.7	-3.7	-0.9
Average	*-0.4*	*0.0*	*-0.8*	*-0.9*	*-3.0*	*-1.2*	*-2.2*	*0.1*
Consensus Ratings								
High Analyst Rec	0.2	-0.1	-0.8	-0.4	-3.2	-4.7	-0.6	-0.1
High 1mΔ Analyst Rec	0.0	0.2	0.8	1.7	-1.3	-1.1	0.4	2.2
Average	*0.1*	*0.0*	*0.0*	*0.6*	*-2.3*	*-2.9*	*-0.1*	*1.0*

*Source: Deutsche Bank, FactSet, I/B/E/S. Note: *1m, 3m, 6m, 12m, 5yr, 10yr and 15yr returns are as of month ended Aug 2010. **Quintile baskets are formed on a 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.*

China strategy

1. **Policy and economics:** Markets reacted negatively to the strong China GDP number released on 20 January (up 9.8% yoy in 4Q10 beating consensus forecast of 9.4%). The acceleration of GDP growth was driven by buoyant domestic demand as retail sales and FAI are stronger while the contribution from external trade declined from the previous quarter. Given this solid growth momentum and the fact that the 2011 M2 growth target of 16% remains too loose, we raised our 2011 real GDP growth forecast to 9.2% from the previous 8.7%.

   December CPI inflation is at consensus of 4.6% (higher than our forecast of 4.3%). The decline from November CPI of 5.1% is mostly driven by base effect. mom CPI uptrend has been steady. In particular, the high-frequency data of the daily agriculture price index published by the Ministry of Agriculture showed a 6.9% hike in the past three weeks after a brief pause in December 2010. Given the strong pipeline inflation from rental, food and PPI, we revised up our annual CPI inflation forecast to 5% this year, vs our previous expectation of 4.4% and the government target of 4%. We now expect CPI inflation to peak in June 2011 at 6%.

   The strong 4Q GDP data and rising inflation risks increased the pressure for the government to tighten policies more forcefully through both monetary and administrative tools. RRR was hiked 50bps again on 14 January 2011. We expect 75bps interest rate hike for next six months and an additional 75bps hike in RRR.

2. **Company visits/results:** We upgraded our rating on Tencent to Buy on improving earnings outlook from games. We initiated coverage on Angang, Magang and Boshiwa with Buy ratings.

3. **Fund flows and investor views**: The market has been occupied with inflation risks while the Shanghai composite A-shares index is down another 6% and MSCI China is largely flat in January. It is hard to know whether enough tightening and inflation has priced in the equity market. Currently, the bond market has priced in nearly 70bps hikes in first half of 2011 vs 40bps last week, largely in line with our forecast. But, the Chinese equity market can't usually rally in the middle of a hiking cycle given the economic and policy uncertainty associated with the rising inflation. We remain cautious about the market outlook in the near term.

   MSCI China is trading at 12X 2011 earnings, close to its long-term average. The current bottom-up MSCI China EPS growth forecast of 15% looks reasonable against the GDP and inflation outlook. The economic risks of stagflation and hard landing at this moment are still minimal. However, if policy makers were to fail to implement austerity measures in a timely manner, the inflation outlook could worsen given that policy makers are already behind the curve. Market multiples will be under pressure until clear signs emerged on the containment of inflation risk.

4. **Events/data/risks to watch**: (1) CPI, FAI, IP, New bank loan in February; (2) more price control and PBoC tightening measures.

5. **Top stock ideas**: Agriculture Bank of China, CSR, ZTE, Geely, Longyuan Power, Evergrande, CRE, China Eastern Airline, Yangzijiang Shipping and Soufun.

Hui Miao, Ph.D

Hong Kong strategy

1. **Policy and economics:** Inflation edged up slightly to 3.1% yoy in December on higher food price and rental price. Exports and retail sales as the main sources of income generation in Hong Kong both displayed strong growth in November, up 16.6% yoy and 17.9% yoy respectively. HKD loans increased at a brisk pace of 17.3% yoy in November though slight lower than 22.3% in October. The economic growth outlook is largely supported by active capital market and links to Chinese economy while we expect CPI inflation will accelerate on high imported food price and rising property rentals.

   The negative impact of property tightening measures by the Hong Kong government has largely faded out as the residential property prices resumed its uptrend following a short pause in late 2010. The property stocks rebounded as well. Given the low single-digit vacancy rate, the commercial property sector also reported a big increase in rental rates.

   RMB inflows from the mainland to Hong Kong remained strong and total RMB deposits in Hong Kong exceeded RMB300bn. China approved a set of new measures to liberalise Outward Direct Investment in RMB. More financial products denominated in RMB are becoming actively traded in Hong Kong.

2. **Company visits/results:** We raised our target price for TVB on improved local ads and Chinese business outlook and initiated coverage on Citic Pacific with Buy on its iron ore production.

3. **Fund flows and investor views**: The market recovered quickly from the loss in November 2010 on improved global risk appetite. The rebound of around 6% in January 2011 is facing some short-term resistance on China tightening fears. In addition, the overall underperformance of emerging markets vs developed markets this year triggered some capital outflows from Hong Kong; HKD has weakened significantly to near 7.80, the lowest level since July 2010.

   In the near term, the worsening China inflation risk and general cautious investor attitude toward emerging markets will likely cap the gain for the MSCI Hong Kong index. But the strong market fundamentals from strong growth and reasonable valuation will support the market. Recently EPS growth for MSCI Hong Kong has been revised upward to 15% from DB's bottom up approach. Currently MSCI HK is trading at 17X 2011 earnings, which is considered fair value given the zero interest rate policy in the OECD world. The expanding RMB business will increase the growth potential for Hong Kong and lead to re-rating opportunity.

   Our sector view is unchanged, we like commercial properties on rising asset inflation, local banks on expanding RMB business, and consumer discretionary on a positive wealth effect and increasing spending by Chinese tourists.

4. **Events/data/risks to watch**: Key events/data: (1) the 2011-12 government Budget Speech on 23 February 2011; (2) China January CPI and PBoC rate decision.

5. **Top stock ideas**: BOC Hong Kong, SJM, Sands China, Shangri-La, SHK Properties Ltd, Sino Land Co, Giordano, Esprit, PCCW and Cathay Pacific.

Hui Miao, Ph.D.

India strategy

1. **Policy and economics**: Stressing that "inflation is clearly the dominant concern," the Reserve Bank of India resumed monetary policy tightening in today's third quarter monetary policy review. In line with our expectations, the central bank raised the repo and reverse repo rates to 6.5% and 5.5%, respectively. With respect to food price inflation, the central bank warned that while the current spike was driven by one-off seasonal factors that should be transitory, there was considerable demand-supply mismatches in several food items (such as dairy, meat, and pulses). Hence the upside risk to food price inflation remained. On fuel price, again the risk was that global prices would head higher, posing upside risk to domestic prices. A key concern was that high food and fuel prices would spill over to core inflation. The central bank sees emerging demand side risk to inflation as well. Given these risks, the central bank revised up its inflation forecast for March 2011 to 7% (from 5.5%), a little lower than our projection of 7.5%. While we remain convinced about the long-term India investment story, the Indian market is set to face a gale of headwinds in the short term. For long-term investors, a downdraft in the short term will be an excellent opportunity to pick value. For 1H11 we are concerned about the persistence and nature of already elevated inflation, particularly in a year that is likely to see a resurgence in global commodity prices. We believe that permitting FDI in multi-brand retail and implementing agricultural reforms may assuage investor concerns. Markets may also react positively if global commodity prices show a decelerating trend. We are setting our year end (December-2011) Sensex target at 21,000, implying a 10% return from current levels.

   Improving global macro, resilient domestic consumption – key positives: We are, however, enthused by the resilience of the Indian consumer and the improving global macro environment both of which should bode well for equity markets. In our view, 2011 should also witness a rotation from global fixed income markets to equity markets and in such a scenario the Indian equity market will not remain insulated.

   An intriguing paradox: While rising international commodity prices will stress the Indian macro environment, the impact of higher commodity prices and improving global macro has a positive impact on BSE Sensex earnings with sectors geared to global recovery, i.e. oil, metals, software and international automobiles (Tata-Jaguar Land Rover) constituting 45-50% of Sensex earnings. With inflation worries reigning supreme – at least in 1QCY11, we would like to stay cautious on rate-sensitive stocks and our sector preferences would be biased towards global cyclicals and global recovery plays like IT Services. We are also particularly excited about global commodities and telecom.

2. **Fund flows and investor views**: FII flows have started 2011 on a rather negative note with YTD outflows amounting to ~USD891m, which is in sharp contrast to the USD29bn of net inflows seen in CY2010. Domestic institutions have YTD net bought ~USD1bn.

3. **Events/data/risks to watch for**: (1) December IIP growth data on 11 February 2011; (2) January monthly WPI inflation on 14 February 2011; (3) December exports/imports growth on 1 February 2011; and (4) Risks: upside risks: (i) resolution of the current political inertia, (ii) earnings upgrades and (iii) re-emergence of confidence in capex cycle. Inflation remaining persistently elevated in 2HCY11 is the key downside risk.

4. **Top stock ideas**: Cairn India, Sterlite, SAIL, Infosys, TCS, Tata Motors, ITC, Asian Paints, Bharti and Mahindra and Mahindra.

Abhay Laijawala

Indonesia strategy

1. **Policy and economics**: Concerns on inflation and the perception that Bank Indonesia is behind the curve have led to a significant 25-30% pull-back in big caps. Regional trade, moving away from inflation to disinflation countries and emerging to developed markets may have also exacerbated the market sentiment. As such, nuances on the nature of inflation; weather-related with no scenario of run-away inflation, gets washed out. So, unless inflation peaks out or Bank of Indonesia acts to quell such concerns, the negative sentiment may linger, contrary to fundamentals. Importantly, earnings impact from food price induced inflation is limited. Not only are the cost pressures relatively contained, there are significant drivers to cushion earnings, e.g. 3-4% job growth from strong investment pick-up, 10-15% wage increases, etc. Indeed the structural growth outlook as the economy definitively breaks away from its lost decade, far outweighs the near-term headwinds.

2. **Fund flows and investor views**: So far YTD, there has been a net USD700m plus outflow in foreign holding in equity, almost 20% of the entire inflow last year. In comparison, foreign net selling in fixed income related, USD1.1bn, amounted to less than 10% of entire FY10 inflow amount. However, in spite of the c.USD2bn outflow, the Rupiah has held up relatively well, thanks to the hefty build-up in FX reserves last, which reached USD96.2bn, an increase of USD30bn, much more than the collective inflow in bonds and equity of USD16bn.

Heriyanto Irawan

Korea strategy

1. **Policy and economics:** Bank of Korea raised the base rate by 25bps to 2.75% in January after 25bps hikes implemented in July and November 2010, on concerns of inflationary pressure. The factory utilization rate in November came down to 80.9% from record high at 84.8% in July due to seasonal effect. Inventory restocking is still in progress and shipment remains robust. December CPI rose 3.5% yoy. The yearly preliminary trade surplus for 2010 came in USD41.7bn. Exports came in USD467.4bn (up 28.6% yoy) and imports came in USD425.7bn (up 31.8% yoy) in 2010. MKE commented that Korea was one of the fastest countries in overcoming the financial crisis and posted record high exports in 2010 mainly driven by semiconductor, automobiles, machinery, and steel.

   2011 outlook: We maintain our 2011E year-end target at 2,350, implying low probability of a double dip in the global economy and improving local liquidity conditions for equities. Our target comprises 12% upside potential from the current KOSPI at 2,107 in Korean won terms. Corporate earnings momentum is decelerating in 2011 compared with the previous two years but is still in line with the earnings growth of its Asian peers. Our key investment highlights are: (1) The Korean market has the most attractive valuations vs. global peers: currently trading at 10.3x 2011E earnings and 1.3x 2011E book, with 14% ROE, over the Asian peers, the market is trading at a 27% discount; (2) Korea is one of the best markets for an inflationary environment: From our analysis, we note that Korea is one of the best countries for inflation play in Asia. Within Korea, petrochem/refining, metal, IT, insurance, and auto/shipbuilding look like the best sectors for the inflationary environment. (3) Limited earnings risk – Buy on operating leverage: we forecast 13% earnings growth in 2011 and 2012 after 60% earnings growth in 2010, compared with the consensus estimates of 14% and 11% in 2011 and 2012, respectively.

2. **Fund flows and investor views:** Local funds continue to fly out of equity-type funds due to profit taking once the KOSPI set a new record high in December. Equity-type funds saw a net outflow of W2.9tr in December, resulting in a total outflow of W25.2tr in 2010, while bond-type funds and MMFs also saw a net outflow of W0.7tr and W8.9tr during the period, but a net inflow of W6.9tr for bonds and a net outflow of W4.8tr for MMFs in 2010. Customer deposits in brokerage firms witnessed a decrease of W1.0tr in the month but an increase of W2.3tr in 2010, while wrap accounts recorded a net inflow of about W36.4tr up to November. Foreign investors net bought W3.6tr in December, contributing to a total of W21.4tr net buying for the year 2010. On the other hand, domestic institutions net sold W12.1tr in 2010 due to continued local redemption. Retail investors remained sellers for December by dumping W0.6tr in the month and W5.4tr in the year.

3. **Events/data/risks to watch for:** The Bank of Korea's monetary policy meeting on 11 February. Risks: (1) Sharper-than-expected currency strength and steeper-than-expected policy rate hikes; (2) geopolitical concern; and (3) overly aggressive capital controls following the introduction of a withholding tax for foreign bond holdings and a bank levy for short-term foreign currency borrowings.

4. **Top stock ideas:** GS Holdings, HDS, Hyundai Heavy Ind., Hyundai Mobis, Hyundai Motor Co., KB Financial Group, Korea Life, Korean Re, LG H&H and Samsung Electronics.

Chanik Park

Malaysia strategy

1. **Policy and economics**: Positive momentum on the government's Economic Transformation Program (ETP) has continued in early 2011 after the announcement of 19 new Entry Point Projects (EPPs). Together, they represent almost USD21bn in investment, and come on the back of 18 EPPs worth more than USD12bn previously unveiled in October/November 2010. In the most recent round of announcements, the oil and gas sector led the way with four projects including an investment in excess of USD3bn by ExxonMobil and Petronas Carigali in new oil and gas assets throughout Malaysia.

   The government continues to bravely cut Malaysia's huge subsidy bill. Malaysia's subsidy bill for fuel, food, etc has been colossal (c.10% of GDP). The introduction of the subsidy rationalisation plan came into effect in July 2010, much to the dismay of the general public. Since then, the government raised fuel/food prices in early December and again in early January 2011. In the last two rounds, there were no public protests. The cut back in subsidies is a positive and much needed move, we believe. This tells us that the government is increasingly (politically) brave enough to implement unpopular measures.

2. **Company visits/results**: Malaysian corporates are confident, as evident by the greater number of property launches and increasing capex/working capital in many sectors. The construction sector is particularly vibrant. In 2010 alone, local projects almost doubled to RM11.2bn. After a five-year lull, the oil and gas sector is buzzing again thanks to large-scale ETP/Petronas contracts and firm oil prices. In the forthcoming results season, we expect financials, plantations, property and construction sectors to outperform in the 1H, driven by confident consumers and corporates and the knock-on effects of positive ETP newsflow. On the flip side, we expect telcos to underperform due to increasing competition in the broadband space and below-market average growth rates. Rubber glove manufacturers' margins continue to be negatively impacted by strong latex prices and MYR – up 56% and 12.8%, respectively, in 2010.

3. **Fund flows and investor views**: Malaysia was recently upgraded by FTSE from "Secondary Emerging" to "Advanced Emerging" status (same category as Taiwan), effective June 2011. The upgrade in status will likely induce an additional c.USD392m of equity inflow into Malaysia from passive funds. Moreover, it should be positive for investor sentiment. Liquidity has picked up substantially in early 2011 – ADTV on Bursa has averaged c.USD830m/day (vs. USD480m/day in 2H10) – levels not seen since 2007. Foreign institutions remain net buyers on Bursa and quarterly net inflows by foreigners into equities have risen to the highest level since 4Q06.

4. **Events/data/risks to watch for**: The biggest risk remains the failure of the government to deliver on its ETP ambitions. With rising inflation (led by food prices and oil) across Asia, monetary tightening in ASEAN is a risk to Malaysian earnings, particularly for those names with a heavy regional footprint. However, the threat of tightening/inflation in Malaysia appears relatively benign compared to the rest of ASEAN. China's monetary policy also poses a risk given 21% of Malaysia's market cap is commodity-linked and China is Malaysia's major trading partner, accounting for around 12% of exports.

5. **Top stock ideas:** AirAsia, AMMB Holdings, CIMB Group, IJM Corp, Kuala Lumpur Kepong, Petronas Chemicals Group and SP Setia.

Su-Yin Teoh

Philippines strategy

1. **Policy and economics**: Inflation is the current hot-button topic. However, Philippine CPI has been surprisingly benign, growing just 3% yoy in December, slower than the 2010 average of 3.8%. That said, the country's CPI is heavily weighted towards food, at 50% of the basket. Thus, while the Philippines has no subsidy on oil or power (e.g. coal), the headline weights are small. As a result, inflation tends to lag the global commodity cycle by two to four months. We remain relatively sanguine, however, as rice (roughly 10% of CPI) supply remains stable. We expect inflation to breach 6% in 3Q11, but expect full-year average inflation to fall within the central bank's 3.5-5.5% range. The Bangko Sentral ng Pilipinas (BSP) has historically refrained from reacting to cost-push inflation, but we expect policy rates to rise by 100bps this year, with the initial increase in 2Q11. Financial markets, though, have already discounted this, with yields on Peso sovereigns already up 75bps in the last few weeks.

2. **Company visits/results**: Corporates remain bullish on the investment cycle and are raising cash ahead of it. The government has lined up at least ten infrastructure projects up for bidding this year. Outside of that, companies are investing in new capacity in the power sector. Property consultants are reporting demand for industrial property, for the first time since the 1990s. The BPO (outsourcing) sector continues to grow in the 20%+ range. In some sectors, though, high margins and falling costs of capital are inviting new competitors which could hurt incumbents.

3. **Fund flows and investor views**: Foreigners have turned net sellers, taking some profits off the table after the PCOMP jumped 38% in 2010. The main index is now off c.6% year-to-date, following Indonesia down. Investor interest in the Philippines' though, remains high. Our marketing schedule in Asia is full. Clients are looking out for entry points for fundamentally strong names. We have 12 Philippine companies attending our Access Philippines in Hong Kong and Singapore from 22 February.

4. **Events/data/risks to watch for**: (1) first public-private partnership (PPP) project to be auctioned in 2Q11; (2) imported inflation, particularly for oil, coal, etc; (3) Bangko Sentral action on inflation, currency intervention.

5. **Top stock ideas**: Energy Dev't Corp, Semirara Corp, DMCI Holdings, Metrobank and Security Bank.

Rafael Garchitorena

Singapore strategy

1. **Policy and economics**: The latest government estimate is that 4Q GDP rebounded by 6.9% qoq, +12.5% yoy implying 2010 growth of 14.7%, underpinned by manufacturing, which increased 39.8% yoy in November. Based on a recent surge in new home sales and prices, the government has implemented a 16% stamp duty on consideration for first year re-sales and also lowered the LTV to 50% to non-individuals, 60% on second mortgages to individuals. Following these measures, we expect a drop in volumes of 30-40% and a delayed launch schedule. However, we do not anticipate aggressive price cuts, given the strong balance sheets of developers and low interest rates. Meanwhile, rising inflation has become of increasing importance as the MAS has warned that SG inflation may reach 5% in coming months, although we estimate it to be closer to 4%. Loan growth remains strong as the MAS reported November bank lending rose 14.5% yoy, the fastest since January 2009. Tourism remains a strong growth driver as November visitor arrivals grew 16.1% to 963,000, with tourism receipts growing to SGD13.7bn January-September 2010. Finally, it appears that the government has begun to implement a more restrictive stance on immigration as it granted only 29,265 PR passes last year vs. 59,460 in 2009, representing the lowest PR intake in five years.

2. **Company visits/results**: Despite the strongest property measures since 1996, property demand is surprisingly robust. At the first major post-measure launch at Spottiswoode 18, over 75% of the 251 available units were sold in the first day. Conglomerates are expected to deliver strong results, with Keppel and Cosco possibly surprising on the upside due to improving margins, execution and rising RMB. We also expect SIA to surprise on the upside on the back of strong operating performance in the passenger business while NOL is expected to surprise on the downside as rates decline faster than expected.

3. **Fund flows and investor views**: The residential developers fell 5-6% in line with previous measures; however, the response was relatively muted given the severity of the measures, possibly reflecting the already cautious stance for the sector. The negative sentiment from the property measures did, however, spill into the banks on fears of falling mortgage growth. We think system credit growth will remain robust as it is less dependent on mortgages, and credit quality will remain strong. Commodities fell despite rising oil prices and falling USDA soy and corn harvests upholding strong CPO prices as investors switched focus into direct oil plays. Shipbuilders and Conglomerates, however, were outperformers due to order wins and rising expectations arising from industry reforms due to the Gulf of Mexico oil spill. We remain optimistic on both Commodities and Conglomerates in 2011.

4. **Events/data/risks to watch for**: (1) property-related data points such as new residential launches and land tenders especially given the latest round of property measures. Continued sales momentum may raise the risk of additional measures. (2) Broader macro indicators such as retail sales (5 February), NODX (17 February), unemployment (31 January), and PMI (1 February). (3) A swing in regional fund inflows – out of the last six liquidity driven rallies, the FSSTI has experienced a sharp correction four times as funds flow reversed.

5. **Top ten stock ideas**: DBS, Sembcorp Industries, Yangzijiang Shipbuilding, Sembcorp Marine, Singapore Exchange, CapitaLand, Suntec REIT, Singapore Airlines, CapitaCommercial Trust and Indofood Agri-Resources.

Gregory Lui, CFA

Taiwan strategy

1. **Policy and economics**: Taiwan December export orders grew at 15.27% yoy, or USD36.57bn for a record high. For the whole year, TW export orders were up by 26.14%, a six-year record in terms of yoy growth. We expect the momentum to decelerate to 6.7% yoy in 2011. We revised up TWD/USD forecasts to 28.4 by 2011-end (vs. 29.5 previously) and 27.5 by 2012-end. This can be negative for the exporter/technology sectors (55-60% of TAIEX market cap) in terms of margins and competitiveness, though historically the rising TWD actually provided liquidity to support the equity market. We also expect four rate hikes (with 12.5bps each) over the next 12 months. We expect the government to struggle between asset inflation (through FX intervention) and growth/wage/job deceleration (if TWD goes up too much). This is particularly sensitive going into the 1Q12 Presidential election.

2. **Company visits/results**: Some companies (tech upstream in particular) are reporting 4Q10 results in the next few weeks. We expect operating results to be generally in-line, but significant FX losses due to sharp TWD appreciation in November/December. The first company that reported this week (Largan) booked a FX loss that is 21% of its OP. We expect upstream tech to experience more FX loss due to higher costs in TWD (vs. USD revenues). Downstream tech, however, can better handle the FX volatility given more natural hedge (procure in USD and sell in USD). Domestic stocks should generally be in line with expectation.

3. **Fund flows and investor views**: QFII investors have been a net buyer in Taiwan in December and January (net bought USD5.2bn since 1 December). In terms of sectors, Electronics gets the biggest buy in (net buy USD2.5bn, mostly in semiconductor) and Plastics comes second (net buy USD881m). Local ITC cash level remains within a tight range (11.48% to 11.82%) in December/January. We believe most investors are looking to buy out of liquidity push. With Tech being an underperformer in 2010, and the view that developed market growth will see upside risks in 2011, we believe investors will continue to add positions in Technology in 1H11. We have an OW on Tech and UW on Non-Tech. On Financials, we have a Neutral view.

4. **Events/data/risks to watch for**: (1)TW government to release 2011 GDP outlook on 31 January; (2) TWD/USD trend as well as the competing currencies such as RMB, KWR and JPY; (3) DPP/KMT to nominate Presidential election candidates in 2Q11

5. **Top ten stock ideas**: Chinatrust FHC, China Steel, Asustek, Epistar, Hon Hai, Quanta, Compal, SPIL, Foxconn Tech and GMT.

Julian Wang

Thailand strategy

1. **Policy and economics**: The government has announced plans for a supplemental budget of Bt85bn in order to aid flood victims and fund continued fiscal largesse in advance of the elections (expected during 2Q). Tax receipts for the first three months of the fiscal year ending September-2011 came in Bt45bn above plan (full-year plan revenues Bt1.65bn) on the back of surging auto sales, and the government is eager to deploy the surplus. As regards the LPG and diesel subsidy, we estimate the cost to the government at 5% of annualized tax revenue at current USD90/bbl oil run-rate, increasing to 8% at USD100/bbl oil. We think subsidies and price caps are likely to be scaled back after the elections.

2. **Company visits/results**: Thai banks reported 4Q10 results last week. Results were a mixed bag with Thanachart Capital beating expectations, Kasikornbank, Siam Commercial bank and TMB Bank in line, and Bangkok Bank, Krung Thai Bank and Bank of Ayudhya missing. Aggregate 4Q10 net profit for the group was up 24% yoy and down 8% qoq. The standout highlight was loan growth, coming in at a massive 6.6% qoq (and 11% yoy), on the back of investment term loan draw-downs and increasing working capital financing from inventory stockpiling with the return of inflation mentality. Big banks' net interest margins were stable sequentially with the exception of SCB whose aggressive price cutting in auto lending and elsewhere took core net interest margins down 16bps.

3. **Fund flows and investor views**: Foreign selling of equities has been aggressive thus far this year, with SET aggregate net foreign selling at Bt25bn so far in January, in contrast to full-year 2010 net buying of Bt82bn. We think the potential for hot money reversal is the key risk for the SET this year, and history is against the market. In 2010, balance of payments portfolio account debt and equity securities inflows reached 4% of GDP. The previous two times this happened (1993 and 2005), the SET lost value the subsequent year in both instances, down 19% in 1994 and down 5% in 2006.

4. **Events/data/risks to watch for**: The Prime Minister stated in early January that he intends to dissolve parliament and call for early elections in 1H11, confirming the widely held expectation. It appears only terrorism/political unrest could delay the elections. We believe the market is discounting a high probability that the current government returns with at least as large a coalition majority as the existing (59%: 278 seats out of 475 total). Still, a coalition net gain could lift the SET, in our view, given the significance of a renewed mandate and policy impetus, and prospects for a sustained period of political normalcy and restored functionality.

5. **Top stock ideas**: Kasikornbank, Krung Thai Bank, Siam Cement, PTT Chemical, Charoen Pokphand Foods, Advance Info Service, Sino-Thai Engineering, Thai Airways, and Minor International.

Derek Bloomfield, CFA

Appendix A

In the stock ranking model, optimized weights based on back-tests are given to various factors to form aggregate score for each stock. Scores are given on a sector and country relative basis, and weight matrix used in each industry group varies depending on back-test results.

Figure 118: Definition of factors

Valuation Factors
12m Fd P/E: price to 12-month forward EPS
Trailing P/E: price to 12m trailing EPS
Dividend Yield: 12m trailing dividend yield
P/Op Inc: Price to operating income
P/BV: Price to book value
Price/Sales: Price to sales
P/FCF: Price to free cash flow
EV/EBIT: Enterprise value to EBIT
EV/EBITDA: Enterprise value to EBITDA
EV/Cap Emp: Enterprise value to capital employed
EV/Sales: Enterprise value to sales
EV/Op CF: Enterprise value to operating cash flow
EV/FCF: Enterprise value to free cash flow
Price Momentum Factors
6m Price Mom: 6-month price momentum
9m Price Mom: 9-month price momentum
12m Price Mom: 12-month price momentum
Price Rel Strength: 65-day to 260-day moving average in stock price
Price Mom, 3mΔ: 3-month change in 12-month price momentum
Price ↑ / ↓ Days: Number of up less down days in stock price in 130 days
Earnings Momentum Factors
FY1 EPS Rev: Weighted average on 1-, 2- and 3-month change in FY1 eps mean estimate
FY2 EPS Rev: Weighted average on 1-, 2- and 3-month change in FY2 eps mean estimate
12m Fd EPS Rev: Weighted average on 1-, 2- and 3-month change in 12-month forward eps mean estimate
FY1 EPS Mom: % of upward less downward revisions in FY1 eps estimates in 3 months
FY2 EPS Mom: % of upward less downward revisions in FY2 eps estimates in 3 months
Earnings Quality (Earnings Accruals and Capex Deployment Factors)
Capex/Depr: Capital expenditure to depreciation expense
Capex/Sales: Capital expenditure to sales
Capex/FA: Capital expenditure to fixed assets
Receivables/Ttl Assets, YoYΔ: YoY change in account receivables to total assets ratio
Inventory/Ttl Assets, YoYΔ: YoY change in inventory to total assets ratio
Payables/Ttl Assets, YoYΔ: YoY change in account payable to total assets ratio
Profitability Factors
Rtn of Capital Employed: Cash return on capital employed
Rtn of Capital Employed, YoYΔ: YoY change in cash return on capital employed
ROE: Return on equity
ROE, YoYΔ: YoY change in return on equity
Growth Factors
3yr Sales Gth: 3-year growth in sales (actual)
5yr Sales Gth: 5-year growth in sales (actual)
3yr EPS Gth: 3-year growth in eps (actual)
5yr EPS Gth: 5-year growth in eps (actual)
LT Gth Est: Consensus estimate on long term eps growth
FY1 Gth Est: Consensus estimate on FY1 eps growth
FY2 Gth Est: Consensus estimate on FY2 eps growth
Stability Factors
EPS Vola: 3-year volatility in trailing eps
Op Inc Vola: 3-year volatility in trailing operating income per share
Book Value Vola: 3-year volatility in historical book value per share
Sales Vola: 3-year volatility in trailing sales per share
EPS Est Vola: 3-year volatility in 12-month forward eps estimate
Risk Factors
FY1 EPS Dispersion: Dispersion of FY1 eps estimates
FY2 EPS Dispersion: Dispersion of all the FY2 eps estimates
EBIT/Int Exp: EBIT to interest expense
Debt/Equity: Debt to equity
Altman Z Score: (1.2 x working capital + 1.4 x retained earnings + 3.3 x EBIT + sales) / total assets + 0.6 x market value of equity / total liabilities
Market Cap: Company market capitalisation
Consensus Rating Factors
Analyst Rating: Consensus rating
Analyst Rating, 1mΔ: 1-month change on consensus rating

Source: Deutsche Bank

Figure 119: Bottom-up country sector ranking

Rank	Country	Sector	Mkt Cap (U$ mn)	P/B	12m fwd P/E	EV/EBIT	FY1 EPS Momentum	FY2 EPS Momentum	ROE (%)	Relative Strength Index	12 month Forward EPS expectation	Valuation	Earnings Momentum	Profitability	Technicals
1	India	Banks	60,133	1.5	6.8		1.0	0.3	18.6	1.2	23%	++	++	++	++
2	China	Autos	15,359	3.1	11.4	22.1	1.0	0.7	16.7	1.2	19%	-	++	++	++
3	Taiwan	Autos	5,487	1.5	9.9	19.2	1.0	1.0	6.5	1.1	16%	O	++	-	O
4	Hong Kong	Retailing	20,927	1.7	15.3	15.9	1.0	1.0	14.9	1.2	24%	-	++	+	++
5	Philippines	Banks	4,034	1.6	11.3		1.0	0.7	13.1	1.2	13%	+	++	+	++
6	Hong Kong	Real Estate	126,610	0.7	14.4	6.6	0.4	0.6	11.4	1.1	6%	+	+	O	+
7	Malaysia	Autos	1,444	1.0	8.0	7.0	0.7	0.6	14.1	1.1	15%	++	++	+	+
8	Korea	Autos	64,810	1.3	7.9	10.7	0.3	0.3	11.4	1.2	14%	++	+	O	++
9	Hong Kong	Cons Durables	2,644	1.3	10.3	14.9	0.6	1.0	8.6	1.1	27%	O	++	-	O
10	Korea	Utilities	7,462	0.5	7.3	4.5	0.0	-0.1	9.6	1.0	1%	++	-	O	-
11	Thailand	Materials	5,294	1.1	12.3	16.3	0.3	0.9	9.8	1.2	17%	O	++	O	++
12	Japan	Autos	305,928	1.3	11.6	8.4	0.6	0.3	11.2	1.0	28%	++	+	O	O
13	Malaysia	Banks	29,826	2.0	11.9		0.6	0.6	15.3	1.1	13%	++	++	+	O
14	Thailand	Media	1,013	2.0	15.6	11.5	0.6	1.0	13.2	1.1	13%	O	++	+	+
15	Taiwan	Banks	39,388	1.2	14.8		0.3	0.5	6.6	1.2	38%	+	+	-	++
16	Taiwan	Materials	60,687	1.3	12.9	13.1	0.5	1.0	10.5	1.1	11%	+	++	O	+
17	India	Materials	32,315	1.7	9.2	10.7	0.2	0.3	16.9	1.0	21%	++	+	++	O
18	Thailand	Utilities	630	1.5	10.6	13.5	0.7	0.7	15.2	1.2	1%	O	++	+	++
19	Hong Kong	Cap Gds	27,316	1.2	13.1	21.3	1.0	1.0	5.4	1.1	30%	-	++	- -	O
20	China	Transport	21,790	1.5	12.5	16.1	0.7	0.6	8.4	1.1	10%	-	++	-	+
21	Japan	Fd/Staples Retail	34,818	1.1	15.3	9.1	1.0	0.6	6.7	1.0	12%	++	++	-	- -
22	Korea	Retailing	5,841	1.3	10.5	7.3	0.1	0.2	15.4	1.1	10%	+	O	+	++
23	Korea	Materials	77,530	1.0	8.4	11.7	0.3	0.3	8.9	1.1	15%	++	+	-	+
24	Singapore	Cap Gds	37,619	1.1	11.1	11.9	0.3	0.6	10.9	1.0	9%	+	+	O	-
25	Thailand	Banks	23,448	1.7	12.8		0.4	0.5	12.0	1.1	25%	+	+	+	++
26	Taiwan	Cap Gds	9,016	1.4	10.7	12.6	0.0	1.0	9.9	1.0	12%	+	++	O	-
27	Japan	Telecom	95,070	1.1	10.6	7.9	0.4	0.3	10.7	1.0	4%	++	+	O	-
28	China	Real Estate	40,892	1.3	9.5	7.5	0.0	0.4	14.1	1.0	20%	+	O	+	O
29	Philippines	Real Estate	2,983	1.1	13.5	19.1	1.0	0.5	7.6	1.1	18%	- -	++	-	++
30	China	Telecom	78,148	1.4	13.7	8.2	0.6	0.6	10.6	1.1	15%	+	++	O	O
31	Korea	Banks	57,927	1.1	7.4		0.0	0.1	7.1	1.0	14%	++	O	-	O
32	Taiwan	Div Fin	15,654	1.3	15.1		0.0	0.6	7.4	1.1	33%	O	+	-	O
33	China	Cap Gds	37,540	2.1	11.8	14.0	0.3	0.3	12.1	1.1	18%	-	+	+	+
34	Hong Kong	Transport	11,381	1.4	16.0	10.5	0.3	0.5	11.5	1.1	0%	O	+	O	+
35	Indonesia	Food Bev	7,398	3.0	14.1	15.1	-0.2	0.6	20.4	1.2	26%	-	O	++	++
36	China	Energy	127,967	2.4	12.2	16.0	0.4	0.1	16.9	1.1	17%	-	+	++	+
37	China	Pharma/ Biotech	1,091	2.6	15.8	16.5	0.4	0.5	15.7	1.1	22%	-	+	++	+
38	Korea	Cons Durables	11,910	0.6	8.9	10.1	0.0	0.1	5.3	1.0	22%	++	O	- -	-
39	India	Div Fin	8,859	1.9	10.5		-0.2	0.0	16.5	1.1	21%	+	-	++	+
40	Malaysia	Retailing	845	2.0	12.6	9.7	0.2	0.5	17.6	1.1	6%	+	+	++	O
41	Korea	Cap Gds	86,220	0.9	11.2	11.6	0.0	0.3	4.2	1.1	23%	++	O	- -	O
42	Malaysia	Real Estate	1,385	0.7	10.1	11.0	0.5	0.1	5.2	1.1	14%	+	+	- -	+

Source: Deutsche Bank. EPS momentum is the number of upward less downward revisions in respective financial year EPS estimate in last 3 months. RSI is the ratio of 65-day to 260-day moving average in stock price. All the metrics shown above except market cap and Deutsche Bank analyst views are median data for the sector.

Figure 120: Bottom-up country sector ranking

Rank	Country	Sector	Mkt Cap (U$ mn)	P/B	12m fwd P/E	EV/EBIT	FY1 EPS Momentum	FY2 EPS Momentum	ROE (%)	Relative Strength Index	12 month Forward EPS expectation	Valuation	Earnings Momentum	Profitability	Technicals
43	Thailand	Energy	25,411	1.9	12.2	12.3	0.0	0.2	10.7	1.2	33%	+	O	O	++
44	Indonesia	Cap Gds	3,714	2.1	12.1	10.0	-0.6	0.1	15.2	1.2	23%	+	-	+	++
45	Indonesia	Banks	20,425	2.3	12.1		0.0	0.0	17.2	1.2	17%	-	O	++	++
46	Malaysia	Food Bev	15,120	1.5	13.4	12.0	0.2	0.5	11.3	1.1	17%	O	+	O	++
47	Hong Kong	Utilities	37,018	2.0	14.5	18.8	0.8	0.8	9.1	1.0	22%	-	++	O	-
48	Malaysia	Transport	7,121	1.7	12.4	11.8	0.5	0.6	9.4	1.1	19%	O	++	O	+
49	Singapore	Div Fin	5,591	0.9	21.3		0.3	0.2	7.8	1.0	18%	O	+	-	-
50	Hong Kong	Cons Svc	16,642	1.7	21.0	32.0	0.5	0.7	10.8	1.1	20%	- -	++	O	O
51	Japan	Energy	39,331	0.9	11.7	16.5	0.0	0.5	4.6	1.1	59%	++	+	- -	O
52	Japan	Retailing	41,941	1.1	13.6	9.6	0.3	0.0	9.8	1.0	11%	++	O	O	- -
53	China	Retailing	17,153	2.9	23.4	21.4	0.0	0.6	15.3	1.1	25%	- -	+	+	+
54	China	Cons Svc	674	1.9	22.7	31.4	0.6	0.6	8.7	1.0	25%	- -	++	-	O
55	Japan	Media	11,783	0.9	21.4	12.3	0.4	0.7	4.7	1.0	15%	O	++	- -	- -
56	Japan	Banks	236,339	0.6	12.7		0.2	0.0	4.3	0.9	4%	++	O	- -	- -
57	Singapore	Food Bev	12,566	2.4	14.9	10.1	0.1	-0.1	17.9	1.1	19%	O	-	++	+
58	Korea	Insurance	14,750	1.8	8.4		-0.1	0.1	13.0	1.0	21%	++	O	+	-
59	China	Materials	43,806	1.9	10.9	15.9	-0.1	-0.1	9.0	1.1	27%	-	-	O	+
60	China	Banks	160,288	2.1	9.0		0.1	-0.1	20.1	1.0	17%	O	O	++	O
61	Japan	Real Estate	87,885	1.2	19.3		0.7	0.0	5.3	1.1	15%	O	+	- -	O
62	China	Insurance	59,166	3.8	23.8		0.5	0.6	12.7	1.0	28%	- -	++	+	-
63	Japan	Materials	196,168	1.1	12.5	10.7	0.0	0.0	8.5	1.0	22%	++	O	-	-
64	Japan	Cons Durables	113,248	1.0	16.6	13.2	0.2	0.5	3.5	1.0	31%	+	+	- -	- -
65	India	Autos	11,963	2.4	13.0	12.1	-0.5	0.2	17.7	1.1	23%	O	-	++	+
66	India	Hhold Products	5,835	10.1	22.9	23.7	0.3	0.3	39.3	1.1	23%	- -	+	++	+
67	Korea	Div Fin	16,394	0.9	11.9		0.0	0.2	7.4	1.0	18%	O	O	-	-
68	Hong Kong	Banks	35,132	1.6	14.8		0.2	0.2	8.2	1.2	17%	- -	O	-	++
69	Malaysia	Div Fin	5,083	0.8	14.2		-1.0	0.8	5.1	1.1	22%	+	-	- -	+
70	Singapore	Transport	10,513	1.6	14.6	15.4	0.3	0.4	11.5	1.0	11%	-	+	O	O
71	Singapore	Telecom	20,344	2.4	12.8	15.7	0.0	0.2	17.4	1.1	5%	-	O	++	O
72	Malaysia	Cons Svc	13,231	1.3	16.0	14.9	0.2	0.1	5.2	1.2	11%	-	O	- -	++
73	China	Software	27,848	2.8	12.7	15.8	0.3	0.0	18.1	1.0	25%	- -	O	++	-
74	Hong Kong	Tech Hard/Equip	1,599	1.1	12.1	19.3	0.0	0.0	5.1	1.0	23%	O	O	- -	-
75	Malaysia	Telecom	12,144	1.8	16.4	13.1	0.7	-0.1	13.6	1.0	8%	-	+	+	-
76	Korea	Food Bev	8,785	1.0	9.0	7.2	-0.4	-0.3	11.4	1.0	16%	++	- -	O	-
77	India	Food Bev	10,903	2.1	13.5	14.7	0.0	0.3	17.6	1.1	21%	-	O	++	O
78	Malaysia	Utilities	9,591	1.1	13.2	10.4	-0.1	0.2	11.7	1.0	12%	+	O	+	O
79	China	Tech Hard/Equip	8,529	1.6	11.5	12.6	0.2	-0.2	12.7	1.1	20%	-	-	+	O
80	India	Cap Gds	28,791	2.1	12.0	12.5	-0.3	-0.3	18.3	1.0	25%	O	- -	++	- -
81	Indonesia	Materials	7,557	2.6	13.1	12.2	-0.5	-0.2	14.9	1.1	25%	O	- -	+	+
82	China	Food Bev	22,641	2.4	12.8	15.1	0.0	0.0	13.7	1.1	23%	-	O	+	O
83	India	Real Estate	5,633	1.1	7.6	17.2	-0.5	-0.4	7.3	1.0	43%	O	- -	-	- -
84	Japan	Insurance	70,416	1.4	15.6		0.0	0.0	6.5	1.0	6%	+	-	-	- -

Source: Deutsche Bank. EPS momentum is the number of upward less downward revisions in respective financial year EPS estimate in last 3 months. RSI is the ratio of 65-day to 260-day moving average in stock price. All the metrics shown above except market cap and Deutsche Bank analyst views are median data for the sector.

Figure 121: Bottom-up country sector ranking

Rank	Country	Sector	Mkt Cap (U$ mn)	P/B	12m fwd P/E	EV/EBIT	FY1 EPS Momentum	FY2 EPS Momentum	ROE (%)	Relative Strength Index	12 month Forward EPS expectation	Valuation	Earnings Momentum	Profitability	Technicals
85	Japan	Transport	105,950	1.1	15.6	20.3	0.1	0.1	5.1	1.0	15%	+	O	- -	- -
86	Korea	Telecom	13,103	1.1	8.0	12.5	-0.1	0.1	4.6	1.0	15%	++	-	- -	- -
87	India	Pharma/ Biotech	13,294	3.6	18.1	16.0	-0.2	0.0	18.6	1.1	22%	- -	-	++	++
88	India	Energy	41,959	1.5	8.5	12.2	-0.4	-0.3	18.0	1.0	19%	+	- -	++	-
89	Japan	Cons Svc	9,376	1.4	11.3	13.4	0.1	0.0	8.5	1.0	17%	+	O	-	- -
90	Korea	Semis	116,900	1.7	8.1	18.6	0.0	0.0	6.9	1.0	35%	O	O	-	O
91	Japan	Pharma/ Biotech	114,889	1.5	15.2	8.8	0.0	0.1	10.4	1.0	10%	+	O	O	- -
92	Taiwan	Telecom	21,207	2.1	14.3	11.7	0.0	0.2	12.9	1.1	4%	-	O	+	O
93	Taiwan	Tech Hard/Equip	143,548	1.6	10.9	12.3	-0.1	-0.3	10.8	1.0	17%	+	-	O	- -
94	Japan	Cap Gds	375,739	1.1	16.4	14.0	0.0	0.0	6.3	1.0	25%	+	O	-	- -
95	Japan	Utilities	128,875	1.0	16.2	27.7	0.6	0.1	4.3	0.9	23%	O	+	- -	- -
96	India	Software	51,755	1.8	10.9	8.9	-0.5	-0.1	17.2	1.0	16%	+	- -	++	- -
97	Hong Kong	Div Fin	24,910	1.0	12.4		0.0	-1.0	6.9	1.0	17%	+	- -	-	O
98	Japan	Comm Svc	22,818	1.3	16.4	8.9	-0.1	-0.2	5.3	1.0	15%	+	-	- -	- -
99	Korea	Transport	8,336	1.0	10.3	25.4	-0.1	0.0	0.5	1.1	6%	-	-	- -	O
100	Philippines	Utilities	3,959	2.6	12.9	10.4	-1.0	0.0	19.5	1.1	-1%	O	- -	++	++
101	Japan	Tech Hard/Equip	259,680	1.2	16.1	12.6	-0.2	-0.1	6.4	1.0	33%	+	-	-	- -
102	Malaysia	Cap Gds	14,215	0.8	14.0	13.7	-0.4	0.0	5.6	1.1	26%	O	-	- -	+
103	Malaysia	Materials	4,817	0.8	9.6	11.4	-0.4	-0.4	6.5	1.0	25%	++	- -	-	O
104	China	Cons Durables	6,011	2.4	12.0	13.8	-0.6	-0.3	12.7	1.1	19%	-	- -	+	O
105	China	Utilities	12,340	1.1	10.8	19.0	-0.1	0.0	6.8	1.0	24%	O	-	-	- -
106	Japan	Hhold Products	26,761	1.9	19.1	10.1	-0.2	0.1	7.3	1.0	12%	O	-	-	- -
107	Korea	Software	11,358	1.9	13.2	28.4	-0.1	0.1	5.5	1.0	21%	- -	-	- -	-
108	Singapore	Banks	57,933	1.6	12.4		-0.5	-0.6	11.4	1.0	7%	+	- -	O	-
109	Thailand	Telecom	2,454	3.5	17.0	17.2	-0.1	-0.3	15.8	1.1	5%	-	-	++	+
110	Korea	Cons Svc	2,454	2.7	15.3	9.4	0.0	-0.3	9.6	1.0	24%	-	-	O	-
111	Thailand	Food Bev	2,359	2.5	11.3	13.1	-1.0	0.0	18.3	1.1	19%	O	- -	++	+
112	India	Media	1,292	2.3	19.2	18.5	-0.1	-0.1	4.4	1.0	24%	- -	-	- -	- -
113	Indonesia	Telecom	8,967	3.5	15.1	15.6	-0.2	-0.2	3.3	1.0	21%	-	-	- -	O
114	Hong Kong	Telecom	1,847	2.1	14.3	14.5	-1.0	0.5	9.3	1.1	13%	-	-	O	O
115	Japan	Food Bev	65,215	1.0	15.9	11.5	-0.5	-0.3	5.7	1.0	8%	++	- -	- -	- -
116	Korea	Tech Hard/Equip	21,201	1.2	8.3	20.3	-0.4	0.0	5.9	1.0	62%	O	-	- -	-
117	Japan	HCare Equip/Svc	25,581	1.1	12.3	8.6	-0.8	-0.5	8.7	1.0	10%	++	- -	-	- -
118	Indonesia	Energy	13,390	4.6	14.3	15.8	-0.8	-0.3	15.3	1.2	79%	- -	- -	+	++
119	Japan	Div Fin	54,981	0.9	20.3		-0.4	-0.3	5.1	0.9	11%	O	- -	- -	- -
120	Japan	Software	53,885	1.3	15.3	11.0	-0.2	-0.4	8.3	0.9	14%	+	- -	-	- -
121	Taiwan	Semis	112,305	1.9	11.4	12.9	-0.3	-0.8	14.3	1.0	12%	O	- -	+	- -
122	India	Telecom	1,580	1.9	30.2	16.6	-0.3	-0.4	9.4	1.0	4%	- -	- -	O	- -
123	India	Utilities	15,531	2.5	15.1	17.4	-0.3	-0.2	9.7	1.0	17%	- -	- -	O	- -
124	Korea	Pharma/ Biotech	2,935	1.4	12.2	10.5	-0.8	-0.6	11.1	1.0	15%	+	- -	O	-
125	Taiwan	Cons Durables	7,246	1.4	11.9	14.2	-0.9	-1.0	8.5	1.1	19%	O	- -	-	+
126	Malaysia	Energy	999	1.5	16.4	14.5	-0.6	-1.0	10.9	1.0	20%	-	- -	O	-
127	Japan	Semis	26,161	1.3	24.5	13.3	-0.9	-0.7	5.5	0.9	45%	-	- -	- -	- -

Source: Deutsche Bank. EPS momentum is the number of upward less downward revisions in respective financial year EPS estimate in last 3 months. RSI is the ratio of 65-day to 260-day moving average in stock price. All the metrics shown above except market cap and Deutsche Bank analyst views are median data for the sector.

Appendix B

Figure 122: Deletions from the Asia model portfolio since inception (13 September 2010)

Company	BB Ticker	Mkt	Date Added	Date Removed	DB Rec	Close 24Jan11
Deletions as of 2 Nov 2010						
Agri. Bank of China	1288 HK	CN	13Sep10	2Nov10	B	3.83
Anta Sports	2020 HK	CN	13Sep10	2Nov10	B	12.80
Fraser & Neave	FNN SP	SG	13Sep10	2Nov10	NR	6.55
Deletions as of 10Dec2010						
China Shineway	2877 HK	CN	13Sep10	10Dec10	NR	20.25
Chunghwa Tel	2412 TT	TW	13Sep10	10Dec10	B	88.88
Far EasTone Telecom	4904 TT	TW	13Sep10	10Dec10	B	42.85
First Philippine Hldgs	FPH PM	PH	13Sep10	10Dec10	B	62.00
LIG Insurance	002550 KS	KR	13Sep10	10Dec10	B	24800
Perusahaan Gas Negara	PGAS IJ	ID	13Sep10	10Dec10	B	3900.00
PLUS Expressways	PLUS MK	MY	13Sep10	10Dec10	H	4.48
SATS	SATS SP	SG	13Sep10	10Dec10	NR	2.86
Top Glove	TOPG MK	MY	13Sep10	10Dec10	S	5.10
Wynn Macau	1128 HK	HK	13Sep10	10Dec10	H	19.98
Deletions as of 24 Jan 2011						
Dongfeng Motor	489 HK	CN	2Nov10	24Jan11	B	12.92
Hang Lung Properties	101 HK	HK	13Sep10	24Jan11	B	35.15

Source: Deutsche Bank, Bloomberg Finance LP. .

Appendix 1

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Equity rating key

Buy: Based on a current 12- month view of total share-holder return (TSR = percentage change in share price from current price to projected target price plus projected dividend yield) , we recommend that investors buy the stock.
Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock
Hold: We take a neutral view on the stock 12-months out and, based on this time horizon, do not recommend either a Buy or Sell.
Notes:
1. Newly issued research recommendations and target prices always supersede previously published research.
2. Ratings definitions prior to 27 January, 2007 were:
   Buy: Expected total return (including dividends) of 10% or more over a 12-month period
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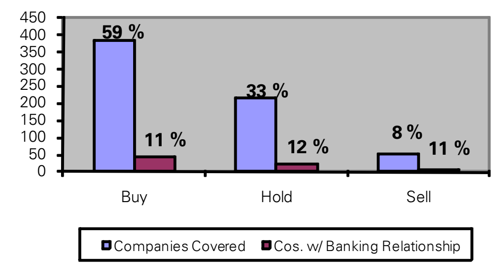
   Sell: Expected total return (including dividends) of -10% or worse over a 12-month period

Equity rating dispersion and banking relationships



Asia-Pacific Universe

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