2012 Outlook

16 December 2011

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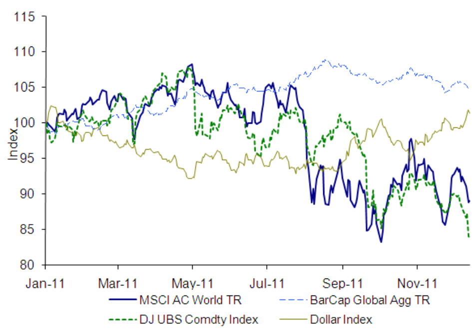
Year-to-date major asset class performance

Indexed, 1-Jan-2011=100



Data as of December 15th 2011

Source: Bloomberg, Barclays Capital, Standard Chartered

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VIP investment strategy

- **In 2011, equity markets started on a strong note and then faltered. Growth in the US proved anaemic and the European crisis escalated. Growth in Asia was robust early in the year, before faltering**
- **2012 promises significant volatility with policy decisions again being critical to the outlook**
- **We recommend a VIP strategy to navigate this environment: (manage) Volatility, (protect against) Inflation, (be) Paid.**

2012 starting point much worse than in 2011

- 2012 will start on a mixed economic footing with the US surprising on the upside while Europe and Asia disappoint
- Europe has yet to solve the debt crisis and is likely in recession
- US politicians are preparing for a duel that is inhibiting policy making at a dangerous time
- Fears of a hard landing in China remain elevated as property prices start to falter

Policy response will be key

- We looked at several scenarios and believe the most likely outcome is a muddle-through/mild recession with the risks skewed to the downside
- Policy response from the US, Europe and China will be critical
- China has started loosening policy, Europe is taking the crisis more seriously and Bernanke loses the three hawkish FOMC voting members in 2012

We recommend a VIP strategy in 2012: (manage) **Volatility**, (protect against) **Inflation** and (be) **Paid**.

- **(Manage) Volatility**
  - Markets are expected to remain volatile in 2012 and extremely policy-driven. Therefore, even more than usual, managing volatility is going to be key
  - Construct portfolios to reduce downside risk while maintaining enough exposure to a possible rebound. Inclusion of **alternative strategies that allow managers go long or short asset classes** can help
- **(Protect against) Inflation**
  - Inflation is always a threat to savers, but it is even more so when governments are as indebted as they are now.
  - **Gold and gold equities** remain our favoured investments to manage the threat of a loss of purchasing power
  - Remain exposed to equity markets
- **(Be) Paid**
  - Cash generating assets usually outperform in periods of slow growth. Therefore, their benefits extend beyond retirees
  - We favour **high dividend yield equities, high yield bonds**

2011 in Review

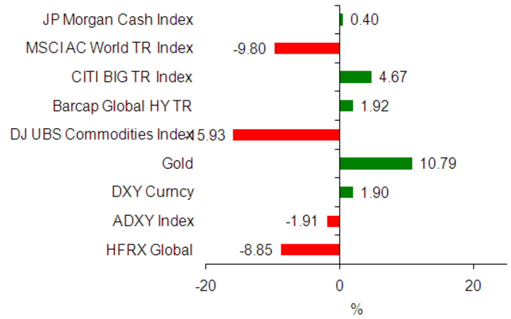
It has been a very turbulent 2011. Equity markets began on a promising note, before peaking in May. Losses accelerated in August as the US sovereign rating was downgraded by Standard and Poor's with politicians playing chicken with a potential (technical) debt default. Meanwhile, Europe disappointed time and again, failing to meet market expectations in dealing with the crisis that was gripping sovereign debt markets and the banking sector.

Gold remained the safe-haven of choice as central banks continue to stand ready to pursue further quantitative easing in need, particularly in the US and the UK. US Treasuries performed well as growth faltered and the Fed switched to buying longer term bonds as part of Operation Twist. This allowed them to shrug off the still-huge budget deficit and the debt ceiling/sovereign downgrade debacle. European bond markets saw huge divergence with peripheral bond yields soaring while core yields remained low.

Finally, commodities were extremely volatile with the slowdown in the global economy having a significant impact on base metals in particular. After rising early in the year, oil prices slumped on reduced demand and Saudi Arabia's commitment to keep oil markets more orderly.

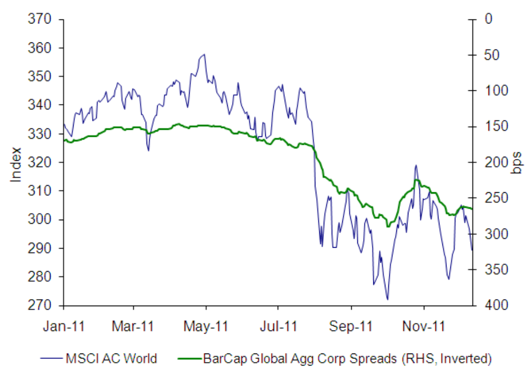
While sentiment has stabilised somewhat in more recent times, there are still very significant concerns surrounding the European debt crisis, the economic outlook for Western economies and the potential for a hard landing in China in 2012.

Asset performance (USD)



2011 year-to-date (as of December 14th 2011)
Source: Bloomberg, Standard Chartered

Markets have stabilised slightly in recent times
MSCI AC World index and US corporate credit spreads



Source: Bloomberg, Barclays Capital, Standard Chartered

2012 Outlook

As we head into 2012, the challenges facing investors are significant. We expect volatility to remain elevated entering 2012 before policy actions, likely in the first half of the year, lead to a resurgence in risk appetite.

We envisage three possible scenarios:

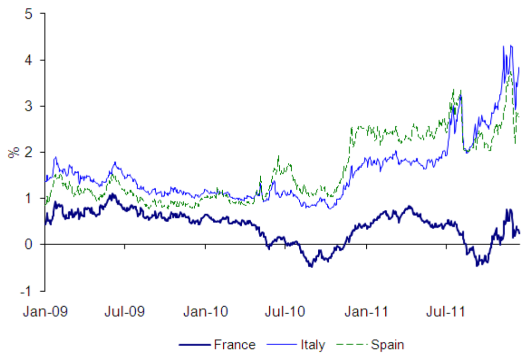
1) Muddle through/mild recession in the West, leading to a bumpy landing in the East (60% probability)
2) Deep recession in the West leads to sharply slower growth in the East (30% probability)

3) Strong global recovery (10% probability)

We will explore these scenarios in context of the economic and policy implications for Europe, the US and China which are going to be the key inputs into the investment decision making process over the next 12 months.

Bond markets took only temporary relief from December EU summit

10 year spreads over Germany bunds



Data as of December 14th 2011

Source: Bloomberg Standard Chartered

Scenario 1: Muddle through/mild recession in the West, leading to a bumpy landing in the East (60%)

We believe this is the most likely outcome.

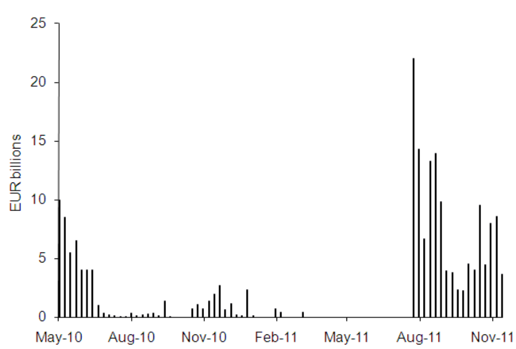
Europe was the starting point for our scenario analysis. The good news is that we believe the latest 'grand plan' announced on December 9th is a significant step forward. Europe has taken a two-step approach to resolving the crisis:

1. Address the structural weaknesses of the Euro area
2. Tackle the immediate crisis at hand

This approach acknowledges the political reality that until a structural fiscal solution is provided, a monetary solution to the crisis is not politically acceptable. In effect, any solution requires the core countries to underwrite the periphery's debts. Without a fiscal framework being put in place first, the risk is that the cost of the bailout continues to grow.

ECB bond purchases not nearly enough

ECB weekly purchases



Source: Bloomberg Standard Chartered

On the first point, there was significant progress at the December EU summit with countries agreeing to a fiscal framework and the need for an enforcement mechanism – although more details are still required.

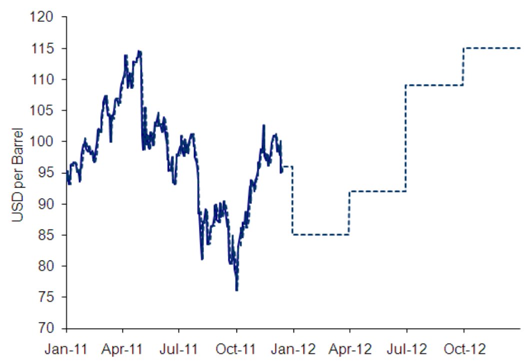
On the issue of addressing the immediate crisis, we saw some progress with the EU central banks going to lend EUR 200bn to the IMF to help resolve the crisis. However, the method of deployment of these funds is not clear, and the magnitude is clearly insufficient to address the liquidity challenges being faced by the peripheral countries and the banking sector. The reality is Europe is heading towards a very severe credit crunch. Avoiding this will depend on gaining support from other funding sources and the ECB significantly scaling up its intervention in the bond market.

Our central scenario remains that the Euro area will survive. However, the road to this outcome is unclear and there are numerous potential potholes to be avoided. To achieve this outcome, we will likely need to see significantly increased government bond purchases from the ECB or a sizeable IMF lending package. Meanwhile, we believe the ECB will need to ease policy significantly in order to avoid increased fears of deflation emerging.

The **US** economy has surprised significantly on the upside in the past 3 months as oil prices receded and the effects of the supply chain disruption following the Japan earthquake and tsunami receded. However, we are sceptical that this will be sustained into 2012 for three reasons:

1. Oil prices have once again started to move up on the back of rising tensions between the West and Iran over its alleged nuclear weapons program.
2. Fiscal policy is likely to contract in Q1 as some of the tax cuts/breaks and temporary spending increases expire. Key in this regard will be the payroll tax cut, corporate investment tax credit and extended unemployment benefits. The importance of fiscal policy is reinforced by the fact that the apparent bounce in the consumer sector's savings rate is equivalent to the increased social transfer payments from the government.
3. The threshold for the economy to surpass expectations has increased dramatically in the past 2-3 months with the economic surprises index now at cyclical highs.

We expect oil prices to continue higher
WTI Crude

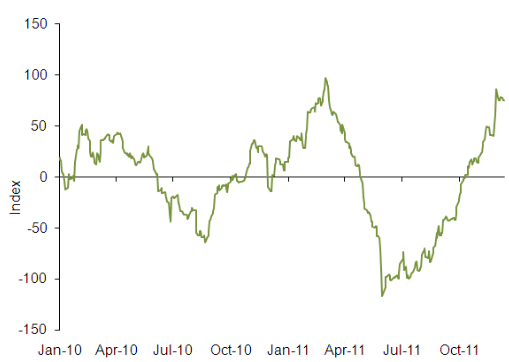


Source: Bloomberg, Standard Chartered

Therefore, we expect the US economy to slow in Q1 2012 while inflation and inflation expectations moderate. This should warrant another round of quantitative easing, either late in Q1 or in Q2.

As far as **China** is concerned, we expect growth to be comfortably above 7%, which we define as the threshold between hard and bumpy landings. It is important to note that much of the economic slowdown has been due to policy tightening over the past two years and there is significant scope for both monetary and fiscal policy easing in 2012 should this become necessary.

US economy set to disappoint in early 2012
US economic surprises index



Source: Bloomberg, Citi, Standard Chartered

This ability to spur economic activity in the face of a global recession was highlighted in 2008-9 and we believe this could still be repeated in need. Meanwhile, the importance of the political transition on policy decisions should not be under-estimated and there is a higher than normal incentive to keep the economy on an even keel in 2012.

Favoured asset classes: High Yield debt/equities, gold

Scenario 2: Deep recession in the West leads to sharply slower growth in the East (30%)

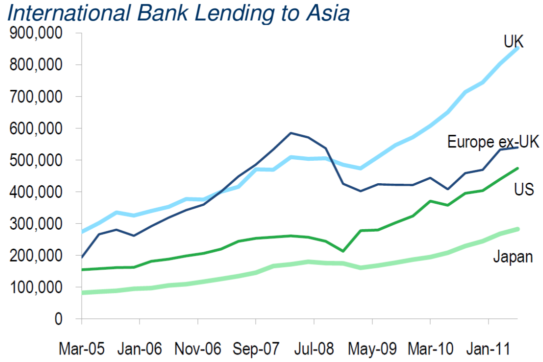
Significant number of political events in 2012

Event	Expected date
Taiw an Presidential election	January 2012
Russia Presidential election	March 2012
S Korea Parliamentary election	April 2012
France Presidential election	April/May 2012
Hong Kong Legislative election	September 2012
US Presidential elections	November 2012
China leadership transition	October 2012

Source: International Foundation of Electoral Systems, Standard Chartered

Wider Euro crisis can impact Asia via financial system linkages

International Bank Lending to Asia



Source: BIS, Standard CharteredResearch

The second most likely scenario we envisage is a global hard landing. In this scenario, the Euro area fragments leading to widespread sovereign defaults and a severe credit crunch in Europe that spreads through the global financial system.

The key challenge facing Europe today is that the environment is very politically charged with fiscal austerity getting increasingly unpopular. Even in our central scenario, the Euro area is expected to experience a full year recession in 2012. Therefore, these pressures are likely to intensify and the risks of policy mistakes increase. One event to watch out for in this regards will be the French Presidential election (April/May) with the leading candidate already indicating that he wants to renegotiate the December EU summit's 'grand plan'.

This scenario follows a similar pattern to 2008. Although with fiscal dynamics already challenging, the onus will increasingly be on the central banks to try to avert a debt-deflation cycle spinning out of control.

Clearly, in this scenario, no economy would be spared and the risk of China experiencing a hard landing would increase to over 50%. Critical to China's outlook will be the strength of investment spending. Infrastructure projects are already finding it harder to gain financing as banks face rising non-performing loans (NPLs) from the property sector and local government investment vehicles. Therefore, in the above scenario, the government would have to nationalise NPLs in order to ensure that the credit mechanism remains functional.

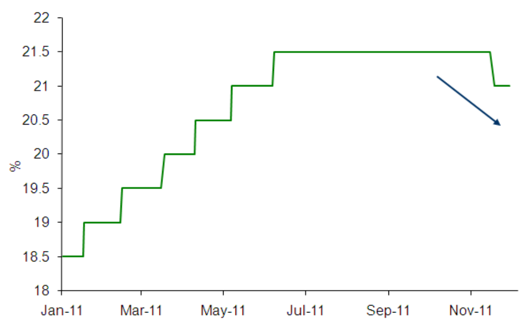
Favoured asset classes: Cash, IG Bonds, Alternative Strategies that can go long or short different asset classes, Gold

Scenario 3: Strong global recovery (10%)

This is viewed as the least likely scenario, but it is important to note that such an outcome is possible. The global corporate sector has seen its balance sheet improve significantly in the past 24 months and their reliance on bank lending has fallen dramatically.

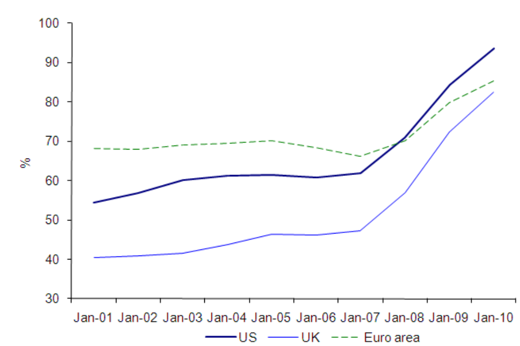
In the US, the recent improvement in labour market conditions could prove sufficient to spur consumer spending. We have highlighted in other publications that consumers have bought 18 million less cars in the past 30 months than pre-crisis averages

China policy environment offers plenty of flexibility in case of a worse-than-expected outcome
China Required Rate of Reserves %



Source: Bloomberg, Standard Chartered

Western sovereign indebtedness still rising
Govt Debt to GDP%



Source: Bloomberg, Standard Chartered

would imply, leading to a dramatic rise in the average vintage of cars on the road.

Meanwhile, US companies are very lean with significant cash stockpiles, limited inventory and have made only modest investments in the past 2-3 years. Therefore, the response to any pick-up in consumer demand would likely be swift.

In this scenario, Europe could escape with just a technical recession as the recovery boosts fiscal receipts and suddenly makes debt dynamics look more manageable. Naturally, a solution to the crisis would still need to be provided, but the recovery makes this more affordable and less politically challenging.

In Asia, the rebound would be swift, although it would likely be inflationary as well which could swiftly shift the focus to managing inflation rather than boosting growth.

Favoured asset classes: Equities, Commodities, High Yield debt

Conclusion: We believe the most likely scenario is that the global economy muddles through with Europe going into recession, but the US and China avoiding a hard landing. This view is premised on significant monetary policy easing being undertaken in all three geographies.

VIP Investment Strategy

2012: Introducing the VIP Investment Strategy

Given the major uncertainties facing the macroeconomic and policy outlook, we believe three strategies will be critical to managing your investments in 2012:

V =	(manage)	**Volatility**
I =	(protect against)	**Inflation**
P =	(be)	**Paid**

(Manage) Volatility

We expect financial market volatility to remain elevated in 2012. As discussed above, the macroeconomic environment remains highly uncertain and financial markets will be dominated by policy decisions at a time when there are leadership changes/elections in the three critical regions – US, Europe (France) and China.

As such, we believe having significant allocations to asset classes that are either less volatile in their own right or significantly dampen portfolio volatility due to low correlations with equity markets makes sense.

Alternative strategies are an asset class that offers this category of exposure, while gold can help hedge the risk of a worst-case outcome. Both are expected to generate significantly positive returns in 2012 under our most likely scenario. Meanwhile, within our equity allocations, we remain generally overweight the more defensive sectors (see page 14 for more details).

Conclusion - we remain overweight both the gold and macro /CTA alternative strategies.

Gold has not been immune to rise in volatility

Gold 1Y at-the-money implied volatility

Source: Bloomberg, Standard Chartered

(Protect against) Inflation

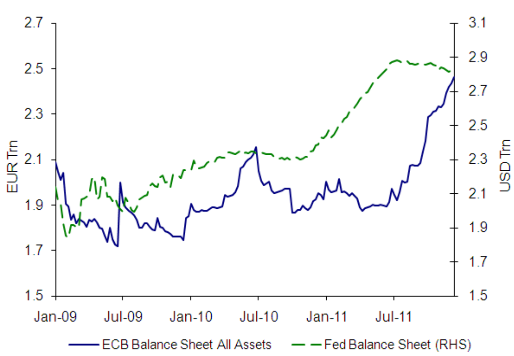
The outlook for inflation remains a key variable in the investment decision-making process. Unfortunately, the outlook is far from certain. High debt levels in developed markets raise the risk of a sharp deleveraging process, which would be deflationary as growth slumps, output gaps widen and unemployment rises, but they also increase the incentive for policy makers to inflate.

High debt levels can be resolved by four methods:

1. Real growth
2. Default
3. Austerity
4. Inflation

We expect further quantitative easing in 2012

Central Bank size of balance sheet



Source: Bloomberg, Standard Chartered

Growth is very difficult to achieve given the current reliance on debt for growth.

Default is clearly something that governments try to avoid. Given that debt is dominated in local currencies, in theory, central banks can print money to ensure debt sustainability.

Fiscal austerity is required over the longer term, but only in Europe is this being pursued with any great fervour. Meanwhile, policy makers will be very keen to avoid a situation where any – public or private sector – austerity turns into a destructive debt deleveraging cycle.

This leaves a combination of inflation and modest austerity measures as the most likely outcome, in our opinion.

Thus, we expect an asymmetrically strong policy response to any emerging deflationary pressures over inflation and this should mean that risks are skewed to significantly higher inflation rather than prolonged deflation.

Gold-related equities have lagged Gold spot price

Gold Spot & FTSE Gold Mines index

Source: Bloomberg, Standard Chartered

In this environment, we believe gold will continue to perform well. Within the equity space, we believe gold-related companies will also provide a good hedge against inflation. We have seen considerable underperformance of gold equities versus the underlying commodity over the past 18 months. As gold price assumptions are adjusted higher, we expect gold stocks to play catch-up with gold.

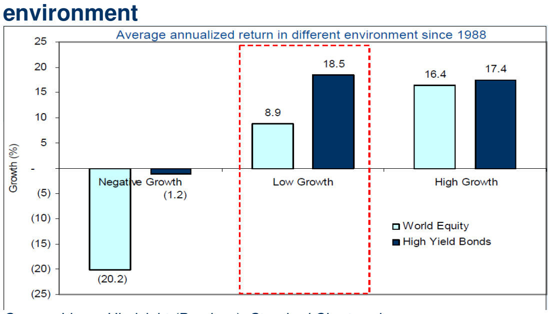
Gold is testing key support in the 1600-1650 area. The strength of the USD while the US economy continues to surprise on the upside are significant headwinds for gold in the short term. However, longer term, we expect gold to remain supported.

Conclusion - we remain overweight both gold and gold equities to help mitigate the potentially deleterious effects of inflation on investment portfolios.

(Be) Paid

Assets that are cash-generating are generally recommended to people in or approaching retirement in order to cover living expenses without eating into accumulated capital. However, we believe the current environment warrants a greater focus on this attribute for all investors.

HY bonds outperform equities in low growth environment



Source: Lipper Hindsight (Barclays), Standard Chartered

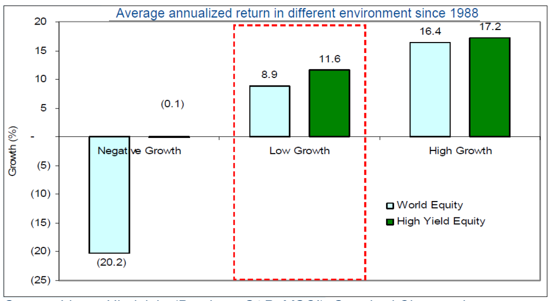
We see a 60% probability of a 'muddle-through' or 'mild recession' scenario playing out in 2012 with a 30% probability of a 'deep recession' scenario. High yield bonds and high yield equities generally significantly outperform in both of these environments. This is likely due to the fact that 1) investors take comfort from assets that generate cash in an environment where there is significant risk to capital and 2) companies are generally being fairly conservative in terms of investments and this helps improve balance sheets and dividend coverage ratios.

Our philosophy is that a successful investment strategy for 2012 needs to have three components:

1) **Diversified portfolios are key** – asset allocation got a bad rap during the global financial crisis as correlations converged. However, we still believe that, outside of

extremely severe situations, asset allocation is critical to managing volatility. In particular, this allows construction of a portfolio that helps manage downside volatility (through alternatives, for example) while still providing sufficient exposure to a possible rebound in risky assets (through the equities allocation, for instance).

High yield equities outperform in slow growth environment



Source: Lipper Hindsight (Barclays, S&P, MSCI), Standard Chartered

2) **Ride through the ups and downs** – market timing with core portfolios is difficult and exiting the market often means that you sell low and buy high.
3) **Average into assets offering long term value –** this helps make volatility your friend over the long term. Equities are cheap on a standalone basis and extremely cheap relative to investment grade debt. Averaging in as markets remain weak in the short term makes sense in our opinion.

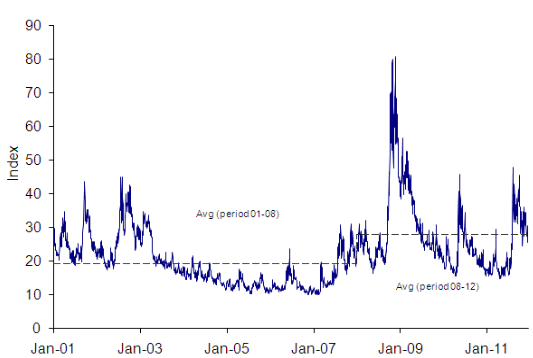
Conclusion - we are overweight HY bonds and high dividend paying equities.

Asset Allocation Update

We continue to believe we are well-positioned to navigate the next 12 months. We are generally positioned for our central scenario, due to our overweight in high yield debt, high dividend equities and gold. Meanwhile, within equity we are generally skewed in favour of the more defensive sectors.

However, from a relative performance perspective, our overweight Alternatives stance should protect us from the scenario under which the global economy goes into a deep recession. Normally, this would be implemented by an overweight bond holding. However, with yields so low and the developed markets having very high and rising debt levels, we prefer to underweight this asset class for now.

Volatility likely to remain elevated in 2012
VIX Index



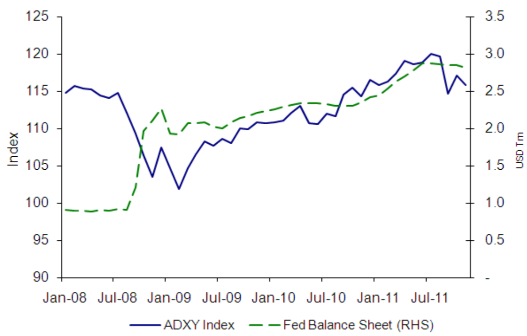
Source: Bloomberg, Standard Chartered

From a relative performance perspective, the key risk to our current stance would be the strong growth scenario where we would expect equities and non-gold commodities to do well. We believe this outcome is currently the least likely scenario. However, it is a possibility we should stay alert to, especially if the US economy surprises on the upside in Q1.

FX Outlook

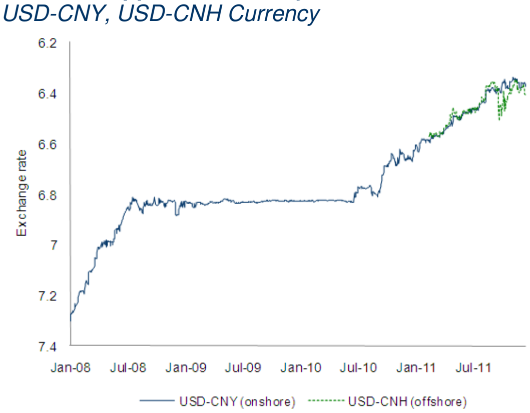
We expect risk aversion to remain elevated in the beginning of the year on the back of continued uncertainty emanating from Europe as well as disappointment on the performance of the US economy. This should keep the pressure on the USD to

Quantitative easing should support Asian FX
ADXY Index & Fed Balance Sheet



Source: Bloomberg, Standard Chartered

Renminbi appreciation likely to continue
USD-CNY, USD-CNH Currency



Source: Bloomberg, Standard Chartered

appreciate in Q1. This outlook is reaffirmed by recent break higher of the USD index through the key 80 level.

However, as we move through the year, we expect the USD to resume its weakening trend, especially against Asia ex-Japan currencies. This is predicated on a significant policy response in Europe as well as a third round of quantitative easing in the US.

In addition to increasing the supply of USDs, we also expect quantitative easing to lead to at least a temporary bounce in risk appetite which is normally associated with a decline in the USD's value.

China remains a critical piece of the puzzle. While we have seen a significant tightening of CNH liquidity in recent times as exporters start hoarding USDs, we expect this to be temporary. As the Chinese authorities become more comfortable that a hard landing is likely to be avoided, we expect them to start guiding USD-CNY lower through its daily fixing operations. This should clear the way for Asian currencies to appreciate significantly after weakening in Q1.

Key Risks

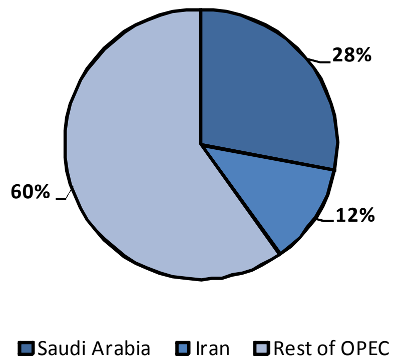
Outside of the risks highlighted above, there are several risks that need to be watched to see if they are likely to escalate to levels at which they will change the global landscape. As always, more attention is paid to the potential downside 'known-unknowns', but we also highlight a couple of upside risks that the global economy may benefit from in 2012.

Downside risks

1. Iran tensions escalate

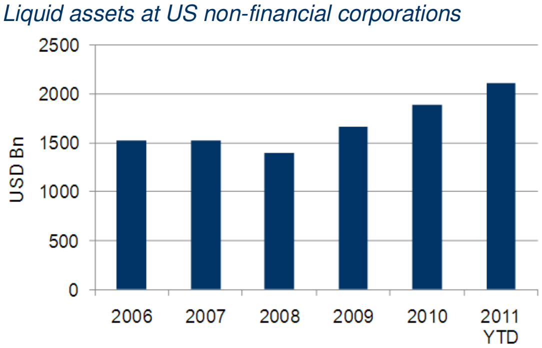
We have already seen a slight escalation in the tensions regarding Iran's alleged nuclear program. While military action is not seen likely, the further deterioration in diplomatic relations between Iran and the West is worrying. Given Iran's status as a significant oil producer at a time when spare capacity is limited, and its strategic location next to shipping lanes, merely the risk of military intervention could lead to sharply higher oil prices. The economic impact of higher oil prices was illustrated in early 2011 when growth in the US faltered after the Arab spring placed a higher risk premium on oil prices (the tsunami in Japan hit global growth at the same time).

Iran is now OPEC's second-largest oil producer
OPEC crude oil production share %



Source: Bloomberg, Standard Chartered

US corporates hold larger cash balances
Liquid assets at US non-financial corporations



Source: Federal Reserve, Standard Chartered

2. Currency/trade war

Slower growth, escalating social tensions and the US Presidential election suggest currency manipulation rhetoric will remain on the front pages through 2012. We doubt this will lead to a full blown trade war, but the risk of unhelpful policy initiatives remains elevated.

3. Internal unrest

Protests are on the rise around the globe and the risks of this feeding into the economy remain ever present. The avoidance of a hard landing in China should help alleviate these pressures, but watch the impact of any quantitative easing on food prices.

4. South China Sea tensions

China suffered a blow to how its deals with territorial disputes when its regional partners, at the US's behest, sought a multi-lateral resolution process. Economic ties make confrontation unlikely.

5. Another Arab spring

The structural challenge for the Middle East remains job creation given a very young demographic profile. Saudi Arabia is the focus going forward and, in 2011, the authorities responded to tensions elsewhere in the region with a fiscal stimulus. While this looks affordable in the short-to-medium term, its break-even oil price continues to rise.

Upside risks

1. Lean companies

Corporate balance sheets are generally in much stronger shape than before. Larger cash holdings make firms less susceptible on average from risks to growth, while giving them greater firepower to respond to any increase in demand. Indeed, corporate replacement investment alone could result in a boost to economic activity.

2. Pent-up consumer demand

Consumers in the West have cut durable purchases for a long time. Autos is an excellent example where purchases since July 2008 have been cumulatively 18m less than normal levels would suggest. While we do not expect a significant improvement in labour market conditions, any reduction in uncertainty could help spur consumer activity in the West

Conclusion

2012 promises to be another volatile year, particularly in the first half as we continue to work through the overhang of the global financial crisis and the continuing crisis in Europe. We expect equity markets to have a significantly better year than in 2011, after a challenging start. Indeed, if everything goes to plan from a policy perspective, we could see very strong gains in the second half of the year as quantitative easing kicks in, potentially at the time when Europe finally gets a grip on the crisis.

That said, we believe holding overweight positions in gold and gold equities, high yield bonds and high yield equities, and alternative strategies is appropriate given the opportunities and risks facing the global economy over the next 12 months.

Please note: *This document represents the view of Standard Chartered's Global Investment Committee.*

Asset Allocation Summary

Tactical Asset Allocation - January 2012 (12M)

All figures are in percentages — *Currency : USD*

Asset Class	Region	View vs. SAA	Conservative	Moderate	Moderately Aggressive	Aggressive
Cash & Cash Equivalents	USD Cash	N	25	5	5	5
Investment Grade	IG Developed World	UW	27	15	0	0
	IG Emerging World	UW	4	8	0	0
High Yield	HY Developed World	OW	0	7	6	0
	HY Emerging World	OW	6	7	11	5
Developed Market Equity	North America	UW	4	7	11	16
	Europe	UW	4	7	11	16
	Japan	OW	1	3	4	6
Emerging Market Equity	Asia ex-Japan	OW	8	13	22	30
	Other EM	N	3	5	7	12
Commodities	Commodities ex-Gold	UW	0	5	5	0
	Gold	OW	5	5	5	5
Hedge FoF/CTAs		OW	13	13	13	5

Tactical Asset Allocation - January 2012 (3M)

All figures are in percentages — *Currency : USD*

Asset Class	Region	View vs. SAA	Conservative	Moderate	Moderately Aggressive	Aggressive
Cash & Cash Equivalents	USD Cash	N	25	5	5	5
Investment Grade	IG Developed World	UW	27	16	0	0
	IG Emerging World	UW	4	9	0	0
High Yield	HY Developed World	OW	0	6	6	0
	HY Emerging World	OW	6	6	11	5
Developed Market Equity	North America	OW	6	9	15	21
	Europe	UW	4	7	11	17
	Japan	OW	1	3	4	6
Emerging Market Equity	Asia ex-Japan	UW	6	11	18	25
	Other EM	UW	3	5	7	11
Commodities	Commodities ex-Gold	N	5	10	10	0
	Gold	OW	3	3	3	5
Hedge FoF/CTAs		N	10	10	10	5

Strategic Asset Allocation 2011 (Global)

All figures are in percentages — *Currency : USD*

Asset Class	Region	Conservative	Moderate	Moderately Aggressive	Aggressive
Cash & Cash Equivalents	USD Cash	25	5	5	5
Investment Grade	IG Developed World	30	20	0	0
	IG Emerging World	5	10	5	0
High Yield	HY Developed World	0	5	5	0
	HY Emerging World	5	5	10	5
Developed Market Equity	North America	5	8	13	18
	Europe	5	8	12	18
	Japan	0	2	3	4
Emerging Market Equity	Asia ex-Japan	7	12	20	28
	Other EM	3	5	7	12
Commodities		5	10	10	5
Hedge FoF/CTAs		10	10	10	5

Source: Standard Chartered

Equity Sector Views

US Sector Weightings

Sector	View	Rationale
Precious Metals	OW	Good hedge against inflation and supported by our long term view of gold prices
Consumer Staples	OW	Slowing economy and heightened risk of recession makes it a safe haven play
Energy	OW	Valuations are supportive as are our longer term forecasted increase in oil prices
Health Care	N	Cheap valuations but risk of lower government healthcare spending
Information Technology	N	Attractive valuations and strong cash flows
Consumer Discretionary	N	Typically 'out of favour' during recessionary segment of business cycle
Telecommunication Services	N	Stable cash flows, High dividends but face challenges in customer retention
Utilities	N	Highly defensive
Financials	UW	Banks have significant exposure to sovereign risk, increase in non-performing loans
Industrials	UW	Highly cyclical and sensitive to an economic slowdown

* Precious metals in place of Materials

Source: Standard Chartered

Europe Sector Weightings

Sector	Weight	Rationale
Consumer Staples	OW	Slowing economy and heightened risk of recession makes it a safe haven play
Energy	OW	Valuations are supportive as are our longer-term price forecasts for oil
Industrials	OW	Number of stocks are attractively priced and relatively defensive
Telecommunication Services	OW	Relatively defensive. High dividend yield. Mobile still offering growth.
Health Care	N	Typically outperforms in a bear market, but risk of lower government spending
Information Technology	N	Attractive valuations, but difficult environment. Few names to pick from
Utilities	N	Highly defensive with higher than average dividend yields
Consumer Discretionary	UW	Typically 'out of favour' during recessionary segment of business cycle
Financials	UW	Significant exposure to sovereign risk and tough business model at present
Materials	UW	Concerns over economic slowdown and weak demand from China.

Source: Standard Chartered

China Sector Weightings

Sector	Weight	Rationale
Energy	OW	Several companies have excellent upstream exposure and are attractively valued
Consumer Discretionary	OW	Sector to benefit from the secular growth in domestic consumption
Telecommunication Services	OW	Increasing usage of smart phones to create opportunities for companies to grow
Utilities	OW	Infrastructure still relatively under-developed, sector to see strong capacity growth
Health Care	N	Projected robust growth, but valuations look at best fair
Industrials	N	Difficult environment, but valuations are increasingly attractive
Information Technology	N	Growth opportunites aplenty, but valuations not compelling
Materials	N	Sector usually underperforms as growth wanes. Valuations look attractive though
Consumer Staples	UW	Margins at risk while valuations look at best fair
Financials	UW	Very poor visibility on fundamentals, valuations have arguably priced in negatives

Source: Standard Chartered

3 to 12 Month Market Outlook

16 December 2011

Central bank policy rates

	Spot	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
US	0.25	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25	0-0.25
Europe	1.00	0.75	0.75	0.75	0.75	0.75	0.75
UK	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Japan	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Australia	4.25	3.75	3.75	3.75	3.75	4.00	4.25
China	6.56	6.56	6.56	6.56	6.56	6.81	6.81
Taiwan	1.88	1.88	1.88	1.88	1.88	2.00	2.13
Malaysia	3.00	2.75	2.50	2.50	2.50	2.50	2.50
Indonesia	6.00	5.75	5.75	5.75	5.75	6.25	6.25
South Korea	3.25	3.25	3.00	3.00	3.00	3.00	3.25
India	8.50	8.50	8.25	7.75	7.25	7.00	7.00
Philippines	4.50	4.25	4.00	4.00	4.00	4.00	4.00
Thailand	3.25	3.00	2.75	2.75	2.75	2.75	2.75

Forex

	Spot	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
EUR/USD	1.30	1.20	1.22	1.25	1.30	1.27	1.25
GBP/USD	1.55	1.46	1.5	1.52	1.55	1.51	1.49
USD/JPY	77.85	81	79	77	74	74	76
USD/CAD	1.03	1.1	1.08	1.02	0.98	0.98	0.96
USD/CHF	0.94	1.04	1.07	1.06	1.04	1.1	1.12
AUD/USD	1.00	0.92	0.95	1.00	1.05	1.08	1.06
NZD/USD	0.76	0.72	0.76	0.83	0.88	0.89	0.85
USD/CNY	6.37	6.36	6.31	6.26	6.21	6.18	6.15
USD/SGD	1.30	1.35	1.32	1.28	1.25	1.23	1.25
USD/MYR	3.18	3.30	3.22	3.11	3.03	2.98	3.03
USD/IDR	9015	9400	9200	9000	8700	8600	8700.00
USD/KRW	1154	1210	1155	1095	1050	1030	1050.00
USD/TWD	30.31	31.40	30.80	29.90	29.00	28.80	28.70
USD/INR	53.65	53.00	51.80	50.50	48.50	48.00	48.50
USD/THB	31.35	32.50	32.20	31.50	30.50	30.00	30.50
USD/PHP	43.96	45.25	44.50	43.50	41.50	40.50	41.00

Commodities

	Spot	Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013	Q2 2013
Gold	1580.03	1800	1800	1925	1975	2000	2000
Silver	29.36	39	39	39	39	40	40
WTI Crude oil	93.64	85	92	109	115	118	118
Copper	7211.00	8000	8500	9000	9500	10750	10750
Aluminium	1975.00	2100	2200	2300	2300	2500	2500
Corn	578.75	700	735	700	675	650	625
Soybeans	1124.25	1350	1380	1330	1340	1300	1300
Wheat	579.50	700	725	695	650	675	675

Source: Bloomberg, Standard Chartered Global Research (16 December 2011 Economics Weekly publication)
** Period averages for each quarter.*

Disclosure Appendix

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