Global Market Outlook

February 2012

Contents

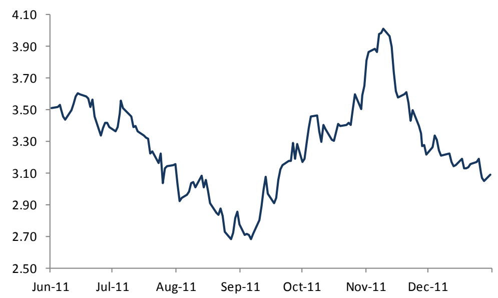
Asset allocation

	3-mth	12-mth
Cash	N	N
Fixed Income	UW	UW
Equity	N	N
Commodities	N	UW
Gold	OW	OW
Alternatives	N	OW

Note: OW = Overweight, N = Neutral, UW = Underweight.
See pages 11-12 for more details

Little impact of S&P downgrade

Yield-to-Maturity of EFSF 07/21 bond (%)



Source: Bloomberg, Standard Chartered

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The storm before the calm

- **Positive sentiment at risk in the short term from Europe event calendar and potential for slower global growth**
- **We expect policymakers to ultimately address the risks and pursue quantitative easing**
- **The "VIP Strategy" of managing *Volatility*, protecting against *Inflation* and getting *Paid* is, in our view, the best way of navigating today's investing environment**

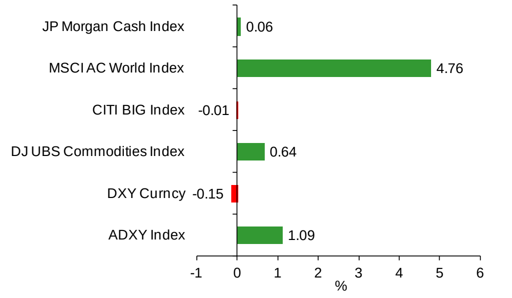
Downbeat economic outlook for early 2012

- **Growth outlook bleak in Q1 as US data may begin to disappoint, Europe likely remains in recession and China slows**
- **Europe is still the key event risk, although the importance of ECB's quantitative easing should not be underestimated**
- **Markets took European sovereign downgrades in their stride**

Investment strategy implications

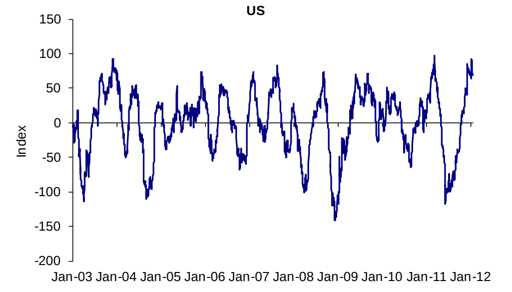
- **Cash: Retain Neutral (3m & 12m)**
  Returns still not keeping up with the pace of inflation
- **Bonds: Retain Underweight (3m & 12m)**
  Prefer corporate credit (IG and HY) over sovereigns
  Keep duration short, below market benchmark
  CNH our favoured Asian local currency bond market, for now
- **Equities: Retain Neutral (3m & 12m)**
  Focus on high quality names with stable cash flows
  Prefer gold and energy equities
  Prefer China/EM for long term, but US in the near term
  Move Japan to neutral on 3m & 12m basis
- **Gold: Retain Overweight (3m & 12m)**
  Fundamental drivers intact, but USD strength is key near-term risk
- **Other commodities: Retain Neutral (3m), Underweight (12m)**
  Energy prices face tug-of-war between weak demand and geopolitical risks
- **Alternatives: Retain Neutral (3m), Overweight (12m)**
  Macro/CTA strategies exhibit ability to perform even in difficult years
- **Currencies: USD strength likely in short term**
  Dollar may weaken thereafter if risk aversion eases – as we expect

Asset Performance (USD)*



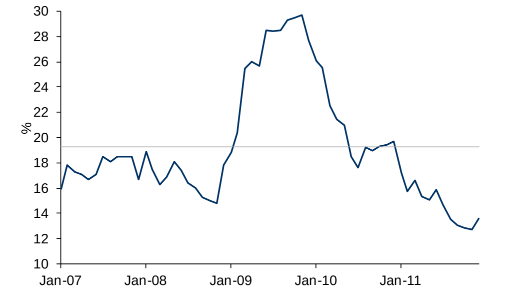
** For the period 31 Dec 2011 to 19 Jan 2012*
Source: Bloomberg, Standard Chartered

US economic surprises may be peaking
US Economic Surprise Index



Source: Citigroup, Bloomberg, Standard Chartered

China M2 growth may have troughed
China M2 Money Supply, y/y %



Source: Bloomberg, Standard Chartered

Market performance

Markets kicked off 2012 on a wobbly note. But sentiment has been steadily improving through the first month of the year as risks in the Euro area began proving themselves to have a smaller market impact than initially feared. Positive Italian and Spanish auction results in particular helped risk appetite improve and pushed equity markets higher. The Euro continued to weaken, though, which pushed the US Dollar index higher.

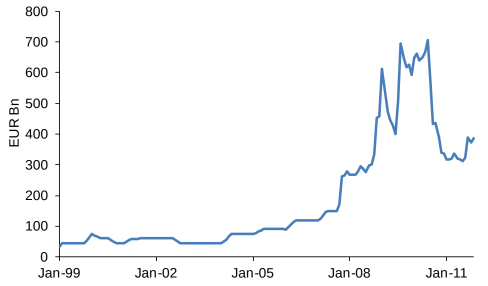
Economic and monetary outlook

The start of 2012 has taken us headlong into some of the key event and growth risks that we highlighted in our annual outlook. Markets have taken European ratings downgrades in their stride, but we remain cautious due to continued event risk in Europe, and the risk of negative growth surprises, particularly in the US.

1. Data still poor on an absolute measure

- US data continues to maintain the pace of upside surprises, which has been an important factor supporting improved risk sentiment. We remain concerned that the economic surprise index may be peaking as the expiry of the investment tax credit is likely to undermine corporate investment in Q1. This is likely to weaken macro surprises as a driver of market performance in the near term.
- The US debt ceiling is likely to be raised without much of the bluster surrounding the previous rise. News flow also suggests there is a high probability the payroll tax exemption will be extended beyond February, avoiding a further fiscal drag.
- Continued austerity measures and high unemployment levels are likely to continue to drag on European growth, pushing the economy into a technical recession. The pace of resolution of the sovereign debt crisis over the next few months is likely to determine whether the recession is shallow, or deep.
- Key data from China has supported the view that the economy will avoid a sharp slowdown. Growth slowed but was stronger than expected, while inflation continued to drift lower. Together, they support the view that monetary easing may occur in a targeted, specific manner (such as lower reserve requirements or higher loan volumes), but broader policy easing through rate cuts is unlikely to be forthcoming.
- Monetary policy elsewhere in Asia was on hold as policymakers continued to strike a balance between keeping policy tight enough to hold back inflation against the risk of slower growth due to troubles in the Euro area. Korea’s central bank left policy unchanged while Indonesia lowered deposit rates on central bank deposits, giving banks a greater incentive to buy government bonds. Lower inflation in India raised the probability of gradually looser monetary policy in the coming months.

ECB quantitative easing?
ECB Long Term Re-Financing Operation



Source: Bloomberg, Standard Chartered

Conclusion: Data and events continue to support the view that we remain in a muddle-through economic environment. We remain mindful of the potential for growth to worsen somewhat from here, particularly in the US.

2. Quantitative easing: ECB in the limelight

- Is the ECB already pursuing quantitative easing? The bank has lent close to half a trillion Euro to European banks via its new 3-year loan facility. Continued stress in the inter-bank market has meant that a bulk of this appears to have returned to the ECB as deposits, but it may be an important step towards further monetary easing.
- Chicago Fed President Evans noted that recent improvements in the unemployment rate may be transitory and could be partially reversed. Soggy growth and employment data combined with continued risks emanating from Europe mean we continue to believe the Fed will initiate QE3 in the first half of the year.

Conclusion: We continue to expect further quantitative easing from both Europe and the US. The ECB has already started quasi-QE, but the economic environment may have to deteriorate further before the ECB and Fed do more.

Europe faces event risks
Upcoming events in the Euro area

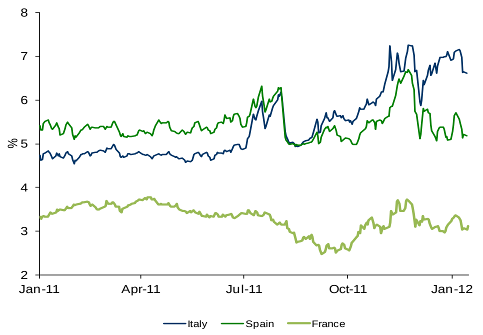
Date	Country	Event
Jan	Greece	Bond swap conducted
1-Feb	Italy	First major bond redemption of the year (EUR 25.8bn)
29-Feb	Italy	Bond redemption (EUR 10.6bn)
1-Mar	Italy	Bond redemption (EUR 27.2bn)
1-2 Mar	EU27	EU Council Summit
20-Mar	Greece	Bond redemption (EUR 14.4bn)

Source: Bloomberg, Standard Chartered

3. Europe faces a busy risk event calendar

- Europe still faces a formidable calendar of risks over the next few months. S&P's rating downgrades appeared to be largely priced into bond markets, but the risk of a more disorderly Greek default has not yet been removed. Italy also faces significant redemption payments beginning in February.
- Amidst the gloom, we should not be blind to the possibility that an agreement between Greece and private bondholders and the lack of an outright bond market riot in Italy and Spain could open the possibility of improving risk appetite. We have pointed out before that the December EU summit took significant steps towards addressing some of the longer-term fiscal issues in the Euro area. The ECB has arguably taken more steps to address some of the short-term risks than markets appear to be willing to give it credit for. History could well regard this period as a turning point, even if the improvement in risk appetite is slow to return.

Euro periphery yields still high
Italy, Spain, France 10 yr yields

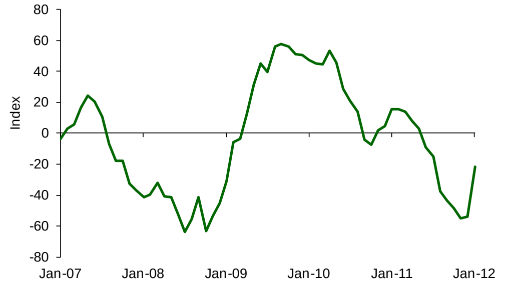


Source: Bloomberg, Standard Chartered

Conclusion: The Euro project is likely to be saved, but the region faces significant event risks over the next few months. We are cautious, but also increasingly open to the view that successful navigation of upcoming event risks could gradually improve risk appetite.

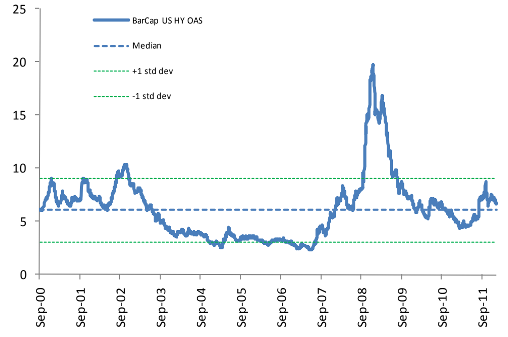
In our 2012 outlook, our scenario analysis suggested that the most likely outcome for the global economy was a muddle-through economic environment supported by quantitative easing, an outcome that should ultimately be positive for equities and commodities. However, we are mindful that an assembly of risks in the months ahead may yet hold back these asset classes.

European sentiment weak
Germany ZEW survey



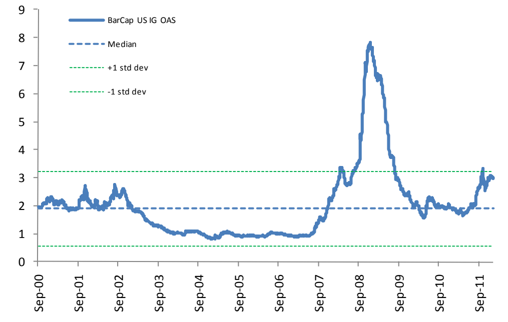
Source: Bloomberg, Standard Chartered

High yield bonds offer value
Barclays Capital US HY OAS



Source: Barclays Capital, Bloomberg, Standard Chartered

Investment grade spreads wide
Barclays Capital US IG OAS



Source: Barclays Capital, Bloomberg, Standard Chartered

Thus, we continue to advocate a VIP investment strategy:

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

We continue to believe this is the best way to navigate an investment environment where downside risks remain real and considerable, but upside risks are also increasingly probable.

Investment Strategy

- ## Fixed income – UW both 3m and 12m

High conviction preference for corporate credit over sovereign bonds (both investment grade and high yield) – We remain underweight fixed income largely due to our preference to underweight G3 sovereign bonds. We do, however, strongly prefer corporate credit, both investment grade and high yield. This is amongst our highest conviction views.

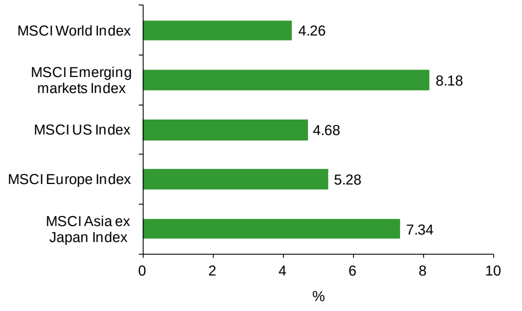
Our strong preference for corporate credit comes from a combination of attractive valuations, the strength of corporate balance sheets, and the likelihood of strong yielding assets to do well in today's uncertain environment. We have emphasised often that corporate high yield bonds offer value because spreads appear to be pricing in a high probability of a recession, which is not our base case. We are adding an overweight position on corporate investment grade bonds because the same factors hold here as well. We recognise investment grade bonds are more vulnerable to a spike in Treasury yields compared with high yield but current spread levels offer reasonable compensation for this risk in our view. Regionally, we continue to prefer corporate credit in the US and Asia.

We believe Treasuries do not offer value unless we enter deflation. We do not see deflation as very likely due to the Fed's commitment to avoid it. A similar case could be made for German bunds as well.

Asian local currency bonds remain on our watch list due to their attractive combination of high yields, likelihood of monetary easing and improving credit quality. However, we are concerned about near-term FX risks and hence would avoid allocating more weight at this time. CNH bonds remain our preferred asset class in this space because (a) bonds are now more reasonably valued after October's sell-off, and (b) CNY has exhibited greater stability during times of financial market stress, such as 2008.

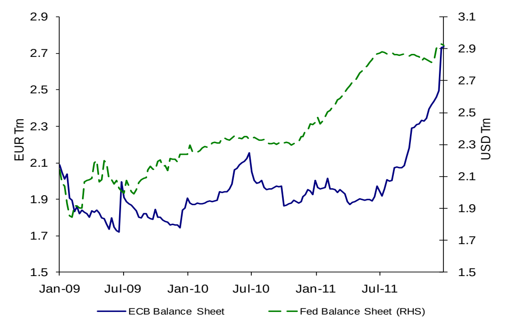
Conclusion: We strongly believe corporate credit, both high yield and investment grade, look attractive at this time. There continues to be a risk of spread-widening in the short term, but we would be happy using such volatility to average into corporate bonds.

“Risk on” mode
*MSCI Indices across regions**



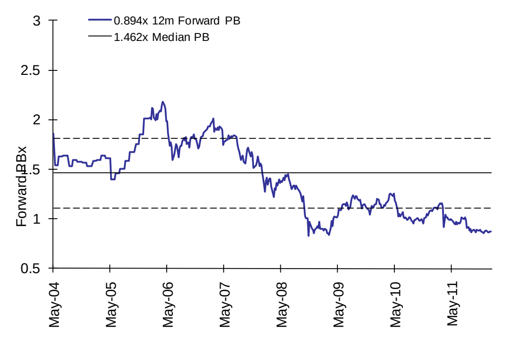
** For the period 31 Dec 2011 to 19 Jan 2012*
Source: Bloomberg, Standard Chartered

Expect further QE to lift gold prices
Balance sheets of Central Banks



Source: Bloomberg, Standard Chartered

Japan still offers significant value, awaits catalyst
TOPIX 12m Fwd P/B Chart



Source: Bloomberg, Standard Chartered

• Equities – N both 3m and 12m

The recent action taken by the ECB in its LTRO program is both significant and supportive of the equity markets. We continue to believe that our Key Investment Themes (K.I.T) should remain the core of an investor’s arsenal in dealing with the current highly volatile environment. These are:

1. Remain Neutral on equity markets. We advocate exposure to high quality, blue chip names, with high ROAs, stable cash flows and a high income share from emerging markets.
2. Bullish on Gold and Gold equities as a hedge against uncertainty, heightened geopolitical risk and future inflation. Recent actions by the ECB reaffirm our conviction in this K.I.T.
3. Bullish on the Energy majors, as a hedge against heightened geopolitical risk in the Middle East.
4. Optimistic on China and EM over the longer term. At the regional level, we prefer EM over DM due to healthier economic fundamentals. In the short term, we maintain the OW to the US on the basis of valuations and market liquidity.

We recently reviewed our K.I.T and key highlights include:

1. Turning Neutral on Japan

We have reduced our rating for the Japan equity market from OW to N, on both a 3m and 12m basis, due to the concern that, while we believe the market is cheap and offers significant potential upside, it was difficult to determine the catalyst for driving this turnaround. In short, we are concerned that Japan may become a value trap over the next few quarters until some resolution is identified for stabilising the Euro debt crisis. The technicals for the market, based on the Topix, also look relatively unattractive, having fallen below the lows of 2003 and 2009. The Nikkei, on the other hand, is still slightly above these levels.

Longer term though, we maintain the view that the Japanese market offers significant upside. Investors should certainly maintain it on their radar screens because when the rally comes it is likely to be fairly intense, as was the case from ’03 to ’05 when the market rallied 100% and outperformed most other markets. Of note is local Japanese investors are significantly overweight the local government bond market, while underweight the equity market. Should their preference change, this would likely induce a significant and sustained rally in the Japanese equity market. We have reallocated our reduced position in Japan towards US equities in our asset allocation.

2. Maintain Underweight on Europe despite ECB’s actions

The ECB’s balance sheet has increased massively over the past 6 months.

While much of this new liquidity flows back to the ECB as reserves, it still has the direct impact of increasing the monetary base.

Financials not yet pricing in severe crisis
MSCI World Financials historical P/B

Sources: Bloomberg, Standard Chartered

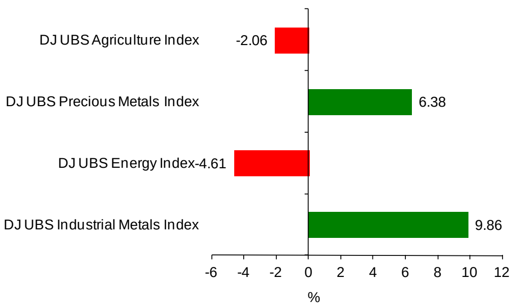
By implication, ECB involvement has significant positive ramifications for EU equity markets and particularly the financials, both of which we are UW. Our reservation here is there is still a significant risk of policy mistakes and there is at least some risk of a 'Lehman' type of event occurring before policy makers are 'forced' to define the shape and format of the future Europe. The recent ECB action does, however, reduce the probability of a 'Lehman' type event.

3. Maintain Underweight on US Financials

3rd quarter 2011 results from the handful of banks that reported were not too encouraging. One key negative was weak top line growth, weighed down by lacklustre investment banking fees. Having said that, this was largely expected as investment banking fees are very much correlated with the overall market sentiment, which was very weak over this period.

Conclusion: We continue to advocate investors maintain a Neutral positioning to the equity markets, taking exposure to those high quality companies that will prosper regardless of the immediate environment, while trading at attractive valuations.

Industrial & precious metals pushed higher
DJ UBS Commodities Indices



* For the period 31 Dec 2011 to 19 Jan 2012
Source: Bloomberg, Standard Chartered

• Commodities – N 3m, UW 12m

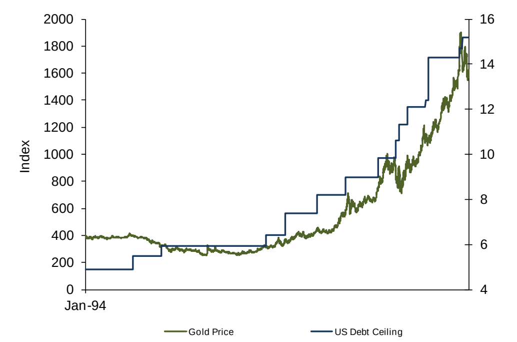
We have maintained our 3m and 12m commodities stance of neutral and underweight respectively.

Gold: We maintain our OW position on both a 3m and 12m basis. The key fundamental factors underlying our stance are the following:

- high and rising G7 government debt levels, especially in the US
- negative real interest rates in the US
- the likelihood of further monetary easing globally
- strong demand from India and China
- increasing central bank demand
- limited growth in gold supply.

- In the near term, escalation of the debt crisis in the Euro area has provided a significant boost to the rebound in gold prices, returning them to their upward trend. The rebound in gold prices was also supported by the return of mild inflows of USD 215 million to gold ETFs in the second week of Jan 2012.
- However, strong safe haven demand for the USD in the present volatile environment is likely to lead to a general appreciation of the USD. The appreciation of the USD may lead to some consolidation in gold prices through the currency effect.

Rising debt supportive of gold prices
US Debt Ceiling and Gold Prices



Source: Bloomberg, Standard Chartered

Non-gold commodities: We have maintained our 3m neutral and 12m underweight outlook for non-gold commodities.

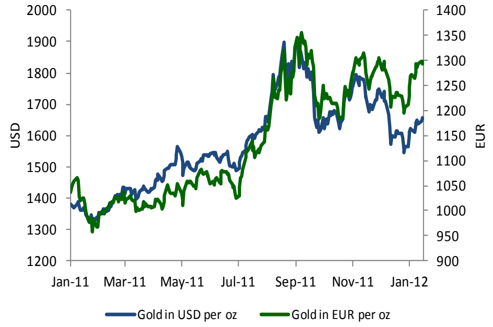
- **Energy** prices are expected to remain elevated as they continue to serve as a hedge against geo-political uncertainty in the Middle

East. Given the dependency of many Euro area countries on Iranian oil, there is unlikely to be any aggressive actions taken that will cause a sharp spike in oil prices in the near term.

- Current demand for **industrial metals** is likely to be sustained as China avoids a hard landing (China's imports of copper and copper products reached another record high of 508.9 thousand tonnes in December). However, bearish sentiment arising from the Euro area debt crisis is likely to keep any further upside limited in the short term. We expect prices to continue on an uptrend after Q1 2012.
- High inventory supply and weather concerns (La Nina brings about drier than normal conditions) are likely to keep **agriculture** prices range-bound in the near term.

Conclusion: We continue to prefer gold and oil within the commodities asset class. Gold is a key investment under the VIP Strategy, providing protection against rising inflation levels. Investments in oil provide a portfolio hedge against any escalation of Middle East tensions.

Gold returns to its upward trend
Gold prices in USD and EUR



Source: Bloomberg, Standard Chartered

Alternative strategies – N 3m, OW 12m

We continue to favour alternative investment strategies in an uncertain environment. The ability to go long and short different asset classes is likely to be beneficial as soon as a trend re-emerges. Their lower volatility and lower correlations with other asset classes will likely help manage portfolio volatility, one of the key components of our VIP investment strategy.

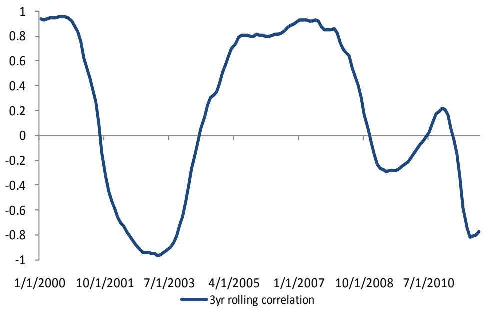
Specifically, we favour macro and commodity trading strategies because

1. They are able to take positions across asset classes
2. Both have performed well in a variety of investing environments.

Both strategies have strong performance records over the past decade in both good and difficult years. This record, in our eyes, makes these strategies very attractive in an uncertain investing environment like today.

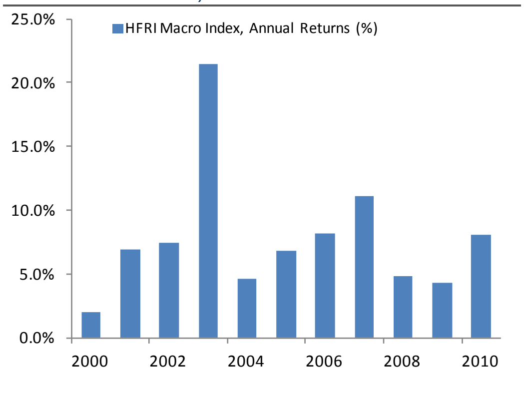
Conclusion: We favour macro and CTA alternative strategies for their ability to manage portfolio volatility and do well in a variety of investment environments.

Alternatives help manage volatility
CTA Index correlation with MSCI AC World



Source: Bloomberg, Standard Chartered

Macro has done well in difficult years
HFRI Macro Index, Annual returns %

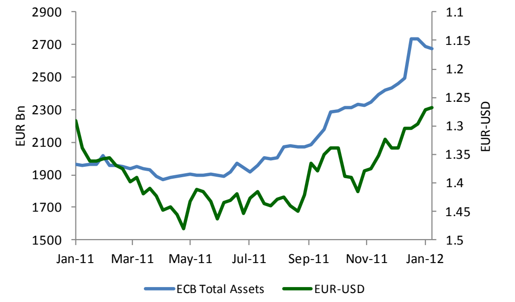


Source: Bloomberg, Standard Chartered

Foreign Exchange

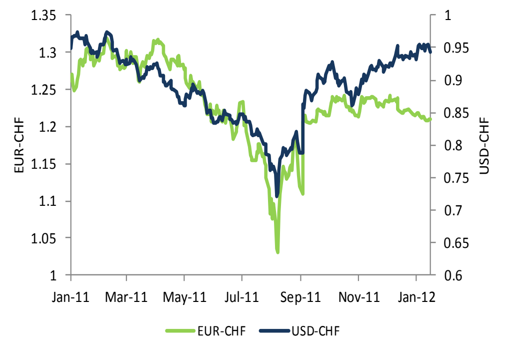
The USD is expected to retain its safe-haven demand status through Q1 2012, driven mainly by the ongoing uncertainty in the Euro area. However, recent better-than-expected global economic growth data and the adjustment of expectations given excessive pessimism surrounding developments in the Euro area have contributed to a 'risk-on' environment. This has placed some downward pressure on the USD which is likely to be temporary. In the medium term, the USD is expected to weaken broadly given extremely loose monetary conditions.

Euro may weaken on further ECB action
ECB Balance Sheet and EUR-USD



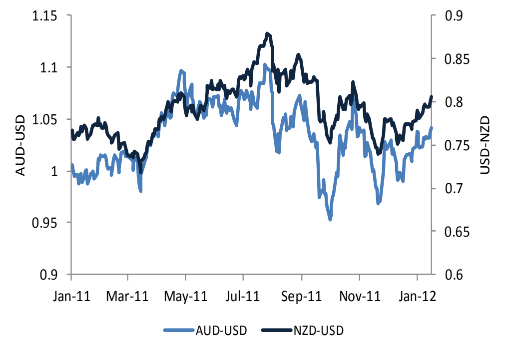
Source: Bloomberg, Standard Chartered

EUR-CHF floor likely to hold
EUR-CHF and USD-CHF



Source: Bloomberg, Standard Chartered

Growth prospects driving commodity FX
AUD-USD and NZD-USD



Source: Bloomberg, Standard Chartered

EUR-USD

- Developments surrounding the Euro area debt crisis coupled with signs of a recession in the Euro area have added significant downward pressure, with the EUR breaking though the support line of 1.30 against the USD.
- The recent improvement of the EUR has been due to the adjustment of expectations given excessive pessimism of the impact of the rating downgrade of nine Euro area member countries as well as the European Financial Stability Facility. This is expected to be temporary as the broader issues surrounding the Euro area crisis remains unresolved.
- We expect EUR-USD to meet some resistance at the 1.29 level before retesting the next support line of 1.26.

USD-JPY

- The JPY is expected to come under continued pressure to appreciate as Japanese interest rates are likely to remain higher than US rates until mid 2013 at least.
- We do not see any significant changes from the current levels of 75-76 against the USD but Japan's 220% debt to GDP ratio is a growing concern.

EUR-CHF

- We re-iterate our view that the Swiss National Bank (SNB) will continue to stand by the EUR-CHF target level of 1.20. Though macroeconomic conditions argue for ongoing FX intervention, the biggest reason for the SNB to uphold the target is its credibility.
- Given that the EUR-CHF has been trading close to 1.20, we believe the SNB is likely to implement macro-prudential measures to stem significant appreciation.

AUD-USD

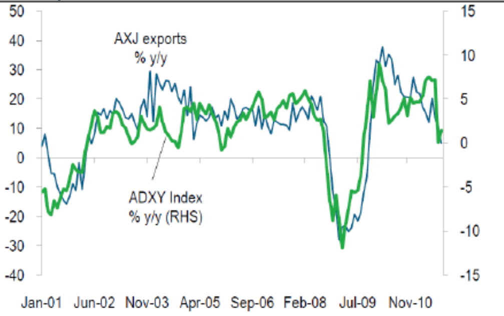
- The performance of the AUD over the past month has been driven primarily by a perceived improvement in global growth prospects and the downward re-adjustment of risks surrounding the events in the Euro area.
- Higher commodity prices and steady growth are expected to keep the AUD range-bound in the near term, but developments in the Euro area pose a threat.

NZD-USD

- Modest growth and the return of inflation to the target level are likely to allow the Reserve Bank of New Zealand (RBNZ) to leave rates unchanged in the near term.
- As with the AUD, the NZD remains vulnerable to episodes of frequent volatility arising from the Euro area.

Softer Asia FX to coincide with softer exports

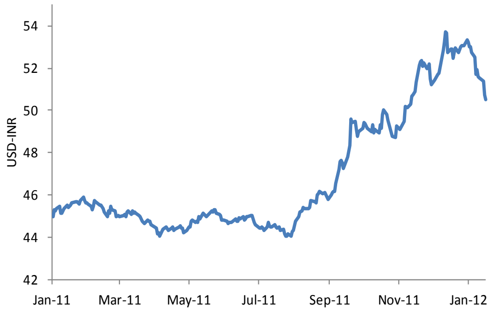
AXJ Exports and ADXY index



Source: Bloomberg, Standard Chartered

RBI measures supported Rupee

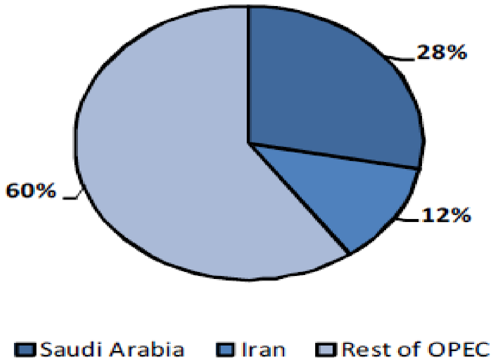
USD-INR



Source: Bloomberg, Standard Chartered

Iran a significant OPEC producer

OPEC Crude oil production share %



Source: Bloomberg, Standard Chartered

Asian currencies

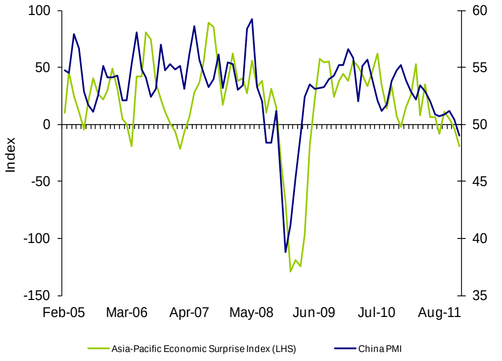
- Most Asian currencies are expected to depreciate against the USD in the early part of the year as Euro area events threaten to weigh on the region's currencies and demand for the US Dollar remains strong.
- If global monetary easing is implemented at a faster rate, Asian currencies are expected to appreciate significantly against the USD in the long term.
- Though China's economy has surprised on the upside, growth is expected to moderate in 2012 with further easing of monetary policy in operation. Any appreciation of the CNY against the USD may be limited by Chinese authorities as uncertainty surrounding the Euro area is likely to persist.
- The INR is expected to appreciate in the short term barring any shocks from the Euro area. Recent financial market liberalisation measures have been supportive of portfolio inflows. According to the Securities and Exchange Board of India, there has been an inflow of INR 179.65 billion into the capital market so far in 2012, compared with INR 4.99 billion during the same period in 2011.

Key risks

Downside risks continue to be focused on three areas:

1. Europe faces a heavy calendar of risk events. While policymakers have begun to act on both short and long-term issues, the region continues to face risk of a Greek default, a market riot in Italian or Spanish bond markets, a renewed contagion effect or a policy mistake.
2. US growth data continues to be soggy, raising the risk of a more significant slowdown in growth and inflation. Policymakers are likely to do everything they can to avoid deflation risks, but there is nothing in the data to suggest we can confidently avoid a broader slowdown.
3. Data suggests a hard landing in China may be avoided, but the final outcome will at least partly be dependent on growth outcomes in the US and Europe. Policymakers are already selectively easing policy and we expect more broad-brush measures by the end of the year. The banking and property sectors are the main areas of concern.
4. Geopolitical risk continues to simmer in the background. The Iran situation, in particular, poses the risk of a significant disruption of oil supplies which could lead to a sharp spike in energy prices.

Asian data still underwhelming
Asia Pacific Economic Surprise Index and China PMI



Source: Citigroup, Bloomberg, Standard Chartered

Conclusion

The early part of the year is littered with a number of potential risk events that cause us to continue to be somewhat cautious. Sovereign debt troubles in Europe still require resolution, but global growth may also slow in the early part of the year.

We have made two changes to our tactical asset allocation this month (moving Japan equity market down to N and moving IG corporate credit to OW), but our overall stance remains unchanged. Following an approach that manages volatility (through alternative strategies), protects against inflation risks (through gold and gold equities) and ensures investors are paid (through corporate credit and high yield equities) is likely to be a suitable investment strategy for today's continued uncertainty.

The investment environment may improve later in the year as policymakers proceed to address some of the large risks, so investors should aim to use current volatility to their advantage by averaging into assets that look cheap on a historical basis, such as equities and high yield debt.

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

Asset Allocation Summary

Tactical Asset Allocation - February 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	5	8	12	18
	Europe	UW	4	7	11	16
	Japan	N	0	2	3	4
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 - February 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	7	10	16	23
	Europe	UW	4	7	11	17
	Japan	N	0	2	3	4
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 2012 (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 -12 Month Market Outlook

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	2.75	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	4.25	4.00	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	77.1	81	79	77	74	74	76
USD/CAD	1.01	1.1	1.08	1.02	0.98	0.98	0.96
USD/CHF	0.93	1.04	1.07	1.06	1.04	1.1	1.12
AUD/USD	1.04	0.92	0.95	1.00	1.05	1.08	1.06
NZD/USD	0.80	0.72	0.76	0.83	0.88	0.89	0.85
USD/CNY	6.31	6.36	6.31	6.26	6.21	6.18	6.15
USD/SGD	1.27	1.35	1.32	1.28	1.25	1.23	1.25
USD/MYR	3.10	3.30	3.22	3.11	3.03	2.98	3.03
USD/IDR	8970	9400	9200	9000	8700	8600	8700
USD/KRW	1134	1210	1155	1095	1050	1030	1050
USD/TWD	29.97	31.40	30.80	29.90	29.00	28.80	28.70
USD/INR	50.24	53.00	51.80	50.50	48.50	48.00	48.50
USD/THB	31.51	32.50	32.20	31.50	30.50	30.00	30.50
USD/PHP	43.31	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	1656.83	1800	1800	1925	1975	1875	1875
Silver	30.60	32	34	34	35	-	-
WTI Crude Oil	100.50	85	92	109	115	100.3	100.3
Copper	8365.00	8000	8500	9000	9500	8750	8750
Aluminium	2232.00	2100	2200	2300	2300	2225	2225
Corn	609.25	700	735	700	675	703	703
Soybeans	1197.00	1350	1380	1330	1340	1350	1350
Wheat	608.25	700	725	695	650	693	693

Source: Bloomberg, Standard Chartered Global Research (20 January 2012 Economics Weekly publication)
** Period averages for each quarter.*

Disclosure Appendix

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