

Highlights

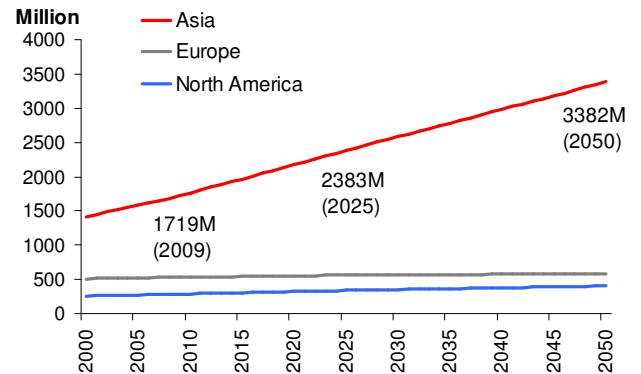
The United Nations expects the urbanisation rate of Asia to increase from 41.7% in 2009 to 49.9% in 2025. In other words, 664 million or 38.6% more people will be living in urban areas by 2025, compared with 2009.

- Government policies have a great impact on the urbanisation rate. Specifically, in its 12th Five-Year Plan, the Chinese government targets to increase its urbanisation rate from 47.5% in 2010 to 51.5% in 2015.
- Increasing urbanisation is generally expected to have a positive impact on businesses related to domestic consumption, infrastructure development, natural resources and agribusiness. In turn, that would create immense business and investment opportunities.
- However, investors are reminded that urbanisation is a long-term driving force. Over a short period of time, a lot of other factors may dominate the performance of equity markets.

Monthly Market Review

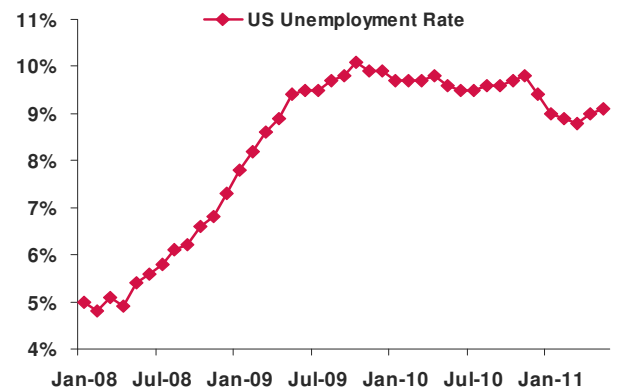
- The performance of equity markets was mixed in June with the Greek debt crisis as the major backdrop. Countries with continued monetary tightening underperformed. Crude oil prices dropped on worries of a slowdown in economic growth and the International Energy Agency's (IEA) surprised release of strategic oil reserves. US treasuries dropped due to uncertainty over a decreasing demand for US treasuries when US government stops new buying after the end of QE2.
- US equity markets fell on worries over the Greek debt issues, uncertainties about the end of QE2, and the weak US labour market.
- Germany's DAX rose as economic figures in the eurozone was generally positive and the Greek debt issues appeared to fade a little at the end of June.
- Performance of Asia and the emerging markets was mixed. Economic growth appeared to slow down in these regions and countries with continued monetary tightening underperformed.
- Going forward, the outlook remains murky. European debt issues remain as unfinished business. The market still needs to digest the implications of the end of QE2. Inflation pressure will determine whether tightening measures will decrease, especially in emerging markets. The Obama administration may launch more stimulus measures to support the economy and his election efforts. Japan may eventually start its rebuilding efforts. Reporting season in the US, which will start again in mid July, will provide a catalyst for market movement.

Figure 1: Population in urban areas is expected to increase to 2,383 million in Asia in 2025 and then to 3.382 million in 2050, according to the United Nations.



Source: United Nations

Figure 2: The labour market in the US remained weak. In May, the unemployment rate rose to 9.1%.



Source: Bloomberg

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- The United Nations expects the urbanisation rate of Asia to increase from 41.7% in 2009 to 49.9% in 2025. In other words, 664 million or 38.6% more people will be living in urban areas by 2025, compared with 2009.
- Government policies have a great impact on the urbanisation rate. Specifically, in the 12th Five-Year Plan, the Chinese government targets to increase its urbanisation rate from 47.5% in 2010 to 51.5% in 2015.
- Increasing urbanisation is generally expected to have a positive impact on businesses related to domestic consumption, infrastructure development, natural resources and agribusiness. In turn, that would create immense business and investment opportunities.
- However, investors are reminded that urbanisation is a long-term driving force. Over a short period of time, a lot of other factors may dominate the performance of equity markets.

The degree of urbanisation in Asia is currently far below its counterparts in Europe and North America. Supported by government policies and the population's desire to improve the standard of living, Asia will become increasingly urbanised over the next decade and this would create immense business and investment opportunities.

Urbanisation Trends in Asia

According to the United Nations (UN), the urbanisation percentage of Asia in 2009 was 41.7%, far below Europe (72.5%) and North America (81.9%). The UN forecast that Asia's urbanisation percentage would increase to 49.9% in 2025 and then to 64.7% in 2050. Combined with an increase in population, higher urbanisation rate would mean 664 million or 38.6% more people living in urban areas by 2025, compared with 2009. Such a change would create substantial business and investment opportunities.

Government Policies

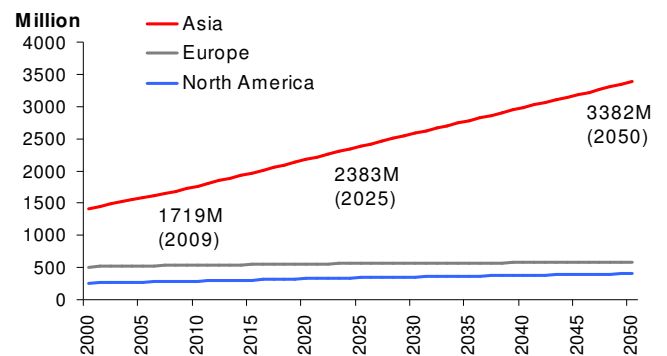
Government policies have a great impact on the speed of urbanisation. Take China as an example. In its 12th Five-Year Plan, the Chinese government targets to increase its urbanisation rate from 47.5% in 2010 to 51.5% in 2015. In order to do so, a significant amount of infrastructure development and other facilities are needed.

As stated in its "National Main Functional Area Planning", the Chinese government plans to build several new big city clusters and several new regional cities linked by land and river transportation, with people moving from rural areas to urban areas in an organised way.

Individual Decisions

Apart from government policies, individual decisions also play an important part. Urbanisation, historically, is triggered by a concentration of investment and employment opportunities in urban areas. In simpler terms, salaries are higher and opportunities are more abundant in cities. In order to improve their standard of living, individuals have an incentive to move to urban areas.

Figure 4: Population in urban areas is expected to increase to 2,383 million in Asia in 2025 and then to 3,382 million in 2050, according to the UN.



Source: United Nations

Domestic Consumption

In general, household in urban areas make more money than household in rural areas. Since individual purchasing power should be higher when income is higher, household consumption, from a country-wise perspective, should also grow alongside urbanisation. Such a trend should create substantial opportunities for businesses related to domestic consumption.

Infrastructure

The increasing urbanisation trend should translate into rising infrastructure investment and more construction projects. When more people live in urban areas, more infrastructure in areas such as housing, energy, transportation and communications are required. Companies involved in this sector should benefit from the urbanisation trend.

Natural Resources

Urbanisation's impact on natural resources is direct. An increasing demand in domestic consumption and infrastructure creates more demand for natural resources. The trend should be positive to businesses producing natural resources.

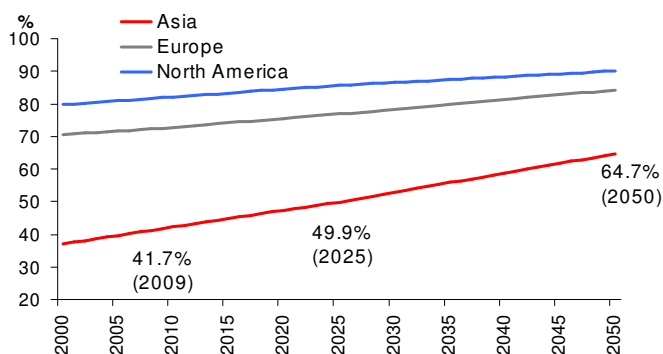
Agribusiness

Urbanisation means an increase in the population moving from rural areas to urban areas. In order to provide enough food for the population, apart from importing, domestic agriculture productivity needs to increase. This translates into opportunities for companies that provide services and/or products to enhance agricultural productivity.

Investment Implications

Urbanisation is a long-term process. With the help of government policies, it will have a positive impact on economic growth and create many business and investment opportunities, which in turn would create opportunities for investors. However, investors are reminded that urbanisation is a long-term driving force. Over a short period of time, a lot of other factors may dominate the performance of equity markets.

Figure 3: The United Nations forecast that the urbanisation rate in Asia would increase from 41.7% in 2009 to 49.9% in 2025



Source: United Nations

- The performance of equity markets was mixed in June with the Greek debt crisis as a major backdrop. Countries with continued monetary tightening underperformed. Crude oil prices dropped on worries of a slowdown in economic growth and the IEA's surprised release of strategic oil reserves. US treasuries dropped due to uncertainty over the decreasing demand for US treasuries when US government stops new buying after the end of QE2.
- US equity markets fell on worries over the Greek debt issues, uncertainties about the end of QE2, and the weak US labour market.
- Germany's DAX rose as economic figures in the eurozone was generally positive and the Greek debt issues appeared to fade a little at the end of June.
- Performance of Asia and the emerging markets was mixed. Economic growth appeared to slow down in these regions and countries with continued monetary tightening underperformed.
- Going forward, the outlook remains murky. European debt issues remain as unfinished business. The market still needs to digest the implications of the end of QE2. Inflation pressure will determine whether tightening measures will decrease, especially in emerging markets. On positive note, the Obama administration may launch more stimulus measures to support the economy and his election efforts. Japan may eventually start its rebuilding efforts. Reporting season in the US, which starts again in mid July, may provide a catalyst for market movement.

Equities

US Equities

- US equities dropped on worries over the Greek debt issues, uncertainties about end of QE2, and the weak US labour market. The S&P 500 dropped 1.8%, Dow Jones lost 1.2% and the Nasdaq fell 2.2%.
- The Federal Reserve kept the interest rate unchanged, as expected, and announced that it would maintain record monetary stimulus to support a flagging economic recovery after completing a \$600 billion bond-purchase programme as scheduled in June.
- The labour market remained weak. In May, the unemployment rate rose to 9.1% and nonfarm payroll increased by only 54,000, much less than expected. Inflation pressure continued to increase with the CPI up to 3.6% (YoY) in May.
- Consumer confidence dropped to 58.5 in June.
- The housing market was mixed. The S&P/CS Composite-20 home price index dropped 3.96% (YoY) in April. Existing home sales dropped 3.8% (YoY) and new home sales dropped 2.1% (YoY) in May. However, housing starts rose 3.5% (MoM) in May.

European Equities

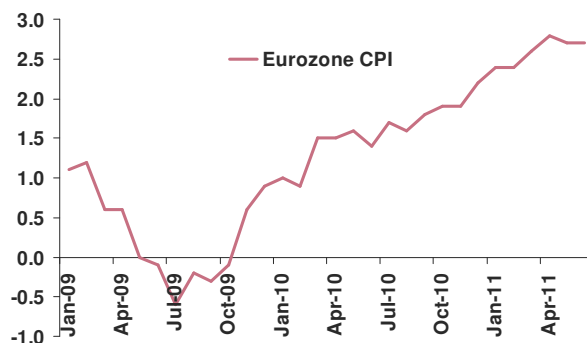
- Performance of European equities was mixed. Germany's DAX rose 1.3% as economic figures in the eurozone was generally positive and Greek debt issues appeared to fade a little at the end of June. However, UK's FTSE 100 dropped 0.7% as the country's economic situation remained worrying.
- The Greek debt crisis was the negative drag for European equity markets in June. At the end of June, Greek lawmakers passed legislation implementing an austerity programme, paving the way to get fresh aid from the EU and IMF.
- The ECB kept interest rates unchanged, as expected. The CPI dropped slightly to 2.7% (YoY) in May, but still higher than the ECB's target of 2%. Industrial production rose 5.2% (YoY) in April, higher than expected. Retail sales rose 1.1% (YoY) in April. However, trade balance turned into deficit of EUR 4.1 billion in April.
- The BoE kept the benchmark interest rate unchanged at 0.5%, as expected, while inflation remained high with the CPI at 4.5% (YoY) in May. However, the economic situation remained worrying. Industrial production dropped 1.2% (YoY) in April, much worse than expected. Retail sales rose only 0.2% (YoY) in May, much worse than expected.

Figure 5: The US labour market remained weak. In May, the unemployment rate rose to 9.1%



Source: Bloomberg

Figure 6: The CPI dropped slightly to 2.7% (YoY) in May, but still higher than the ECB's target of 2%.



Source: Bloomberg

Japan Equities

- Japan's Nikkei 225 rebounded 1.3% as the economy passed its worst period after the quake and investors speculated Japan's government would launch more stimulus policies to boost its economy.
- Industrial production dropped 5.9% (YoY) in May, better than expected, showing substantial improvement from April's -13.6%.
- Consumer confidence rose to 34.2 in May.
- The BoJ kept the interest rate unchanged, as expected.

Asia and Emerging Market Equities

- Performance of Asia and the emerging markets was mixed. Economic growth appeared to slow down in these regions and countries with continued monetary tightening underperformed.
- China's H-shares dropped 5.2% and Hong Kong's HSI fell 5.4% on speculation of further tightening policies by the Chinese government. Industrial production growth remained robust at 13.3% (YoY) in May. However, inflation pressure was strong with the CPI rising to 5.5% (YoY) in May.
- Taiwan's Weighted Index dropped 3.7% on continued monetary tightening and concerns over the Greek debt crisis. Its CPI rose 1.66% (YoY) in May, spurring its central bank to raise the benchmark interest rate by 0.125% to 1.875%. Exports growth slowed down to 9.5% (YoY) but industrial production growth accelerated to 7.82% (YoY) in May.
- Thailand's SET lost 3.0% on uncertainties created by the elections. Its CPI rose 4.19% (YoY) in May and its central bank raised the benchmark interest rate by 0.25% to 3.0%. Exports growth slowed down to 17.6% (YoY) in May.
- Korea's KOSPI lost 2.0% as its central bank surprised the market by raising its policy rate by 0.25% to 3.25%. Its CPI dropped slightly to 4.1% (YoY) in May. Export growth decelerated to 23.5% (YoY) in May. The unemployment rate dropped to 3.3% in May, much better than expected.
- India's Sensex dropped 1.9% as its central bank raised policy rates by 0.25% to 7.5%. Industrial production growth slowed down to 4.4% (YoY) in April. Export growth slowed down to 34.4% (YoY), but still remained strong.
- Malaysia's KLCI rose 1.3% with inflation under control. Its CPI rose 3.3% (YoY) in May. Export growth accelerated to 11.1% (YoY) in April.
- Indonesia's JCI rose 1.3% as the country's inflation dropped and its central bank kept interest rates unchanged. Its CPI dropped slightly to 5.98% (YoY) in May.
- Philippines' PSEI rose 1.1% as its inflation rate dropped to 4.5% and its central bank surprised the market by keeping the interest rate unchanged. Export growth increased to 19.1% (YoY) in April, much better than expected.

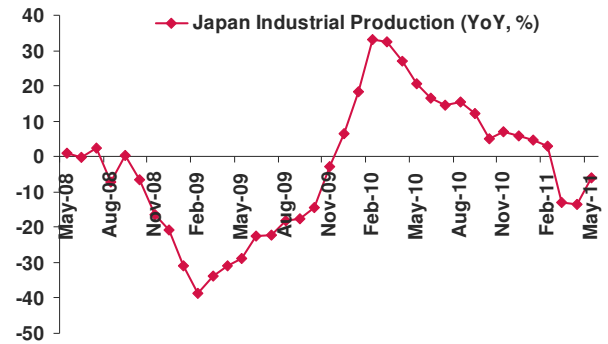
Bonds

- Yields of 10-year US Treasury (UST) rose as concerns over the Greek debt crisis faded a little and investors worried about the decreasing demand for US treasuries when US government stops buying at the end of QE2.

Commodities

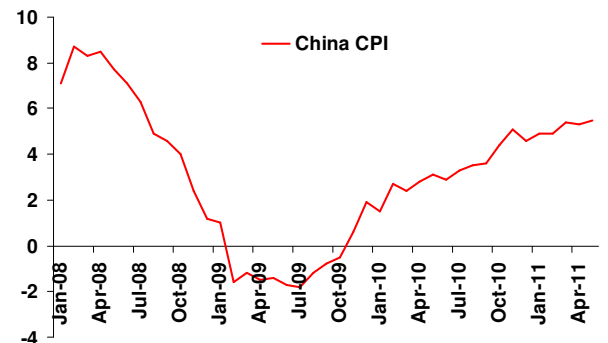
- WTI crude oil prices dropped as investors worried about US economic recovery and the IEA announced that it would release 2 million barrels a day for 30 days to help make up for a Libyan supply disruption.
- Gold prices dropped as safe-haven demand declined on speculation that the Greek government could avoid default.

Figure 7: Japan's economy appeared to pass its worst period after the quake with industrial production down 5.9% (YoY) in May, showing substantial improvement from April's -13.6%



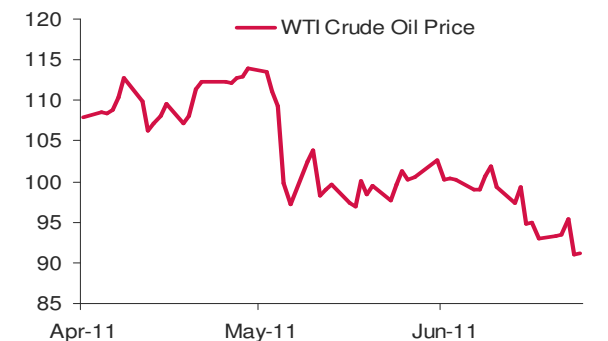
Source: Bloomberg

Figure 8: Inflation pressure in China was strong with its CPI rising to 5.5% (YoY) in May.



Source: Bloomberg

Figure 9: Gold prices rose 8.2% on higher demand for US dollar hedge and inflation hedge, triggered by higher oil prices.



Source: Bloomberg

Key Market Data

Equities	Month-end Level	Monthly Change	YTD Change
S&P 500	1,321	-1.8%	5.0%
Dow Jones	12,414	-1.2%	7.2%
Nasdaq	2,774	-2.2%	4.5%
FTSE 100	5,946	-0.7%	0.8%
DAX	7,376	1.1%	6.7%
Nikkei 225	9,816	1.3%	-4.0%
Hang Seng Index	22,398	-5.4%	-2.8%
Straits Times	3,120	-1.2%	-2.2%
Taiwan Weighted	8,653	-3.7%	-3.6%
KOSPI	2,101	-2.0%	2.4%
Brazil Bovespa	62,404	-3.4%	-10.0%
Russia RTSI	1,907	1.0%	7.6%
India SENSEX	18,846	1.9%	-8.1%
China H Index	12,577	-5.2%	-0.9%
Thailand SET	1,041	-3.0%	0.8%
Malaysia KLCI	1,579	1.3%	4.0%
Philippine PSEI	4,291	1.1%	2.1%
Jakarta JCI	3,889	1.3%	5.0%

Commodities	Month-end Level	Monthly Change	YTD Change
Gold (comex)	1,502.8	-2.2%	5.7%
WTI crude oil (nymex)	95.4	-7.1%	4.4%

Currencies	Month-end Level	Monthly Change	YTD Change
Euro (EUR-USD)	1.4502	0.7%	8.4%
JPY (USD-JPY)	80.56	1.2%	0.7%

Bonds (10-year yield)	Month-end Yield (%)	Monthly Change (Basis Points)	YTD Change (Basis Points)
US	3.16	10	-13
UK	3.38	9	-2
Germany	3.03	0	6
Japan	1.14	-2	1

As at the end of June 2011
Source: Bloomberg

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