



## Issue of August

# Emerging Financial Market Watch

## Overview

Concerns about the US and Euro area remain as the Fed cut its 2010 growth forecast to 3.0-3.5% YoY from 3.2-3.7% YoY in April and the Euro market remains weak. On the other hand, economic growths of major emerging Asian countries such as China and Singapore are showing signs of cooling down. Singapore's economic growth is expected to expand 10% in 2010 before easing to 4.9% in 2011.

### Focus: Global deflation less likely given China's rising energy consumption

The International Energy Agency (IEA) has recently announced that China has overtook the US to become the world's largest energy user, consuming 2,252 m tons of oil in 2009, 4% higher than the US, as the country has superseded Japan to become the world's second largest economy in 2Q10.

China's rising energy consumption reflects not just the country's economic prowess, but also the growing influence of the emerging world as a whole, which has significantly increased its share of global energy consumption throughout the past 30 years of rapid economic development. The fact that their economies are driven by manufacturing and energy-intensive industries has also increased their per-capita consumption, despite concerns about environmental sustainability.

Contrary to the weaker demand from Western countries, rising energy demand from emerging countries is likely to support global energy prices. Moreover, the increase in Chinese production cost, as a result of the rise in commodity prices, unit labor cost and RMB appreciation, will lead to imported inflation in other countries. Therefore, the inflationary pressure from emerging countries is likely to weaken the deflationary forces from advanced economies.

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Performance of stock or sector relative to MSCI-China over next 6 months after research publications

	Rating	Remark
Stock rating	Buy	Relative performance over MSCI-China Index >20%
	Overweight	Relative performance over MSCI-China Index 5% ~ 20%
	Hold	Relative performance over MSCI-China Index -10% ~ 5%
	Sell	Relative performance over MSCI-China Index > -10%
	NR	Not rated
Sector rating	Outperform	Relative performance over MSCI-China Index >10%
	Neutral	Relative performance over MSCI-China Index -10% ~10%
	Underperform	Relative performance over MSCI-China Index > -10%

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