MEDIA RELEASE

OCBC BANK: FUND MANAGERS UPBEAT ON EQUITIES IN 2007, BUT ADVISE CAUTION

Kuala Lumpur, 12 January 2007 – As part of an annual exercise, OCBC Bank's Wealth Management Unit recently polled 18 global fund managers for their views on global equity markets and prospects for 2007.

According to OCBC Bank (Malaysia) Berhad's Head of Wealth Management, Mr Lim Wyson, overall, fund managers came across as positive for equities in 2007. Nevertheless, he said, they also warned that investors should not take the good times for granted and throw caution to the wind.

"Our poll suggests that equities would remain the preferred asset class and that emerging markets, especially in Asia, would be favoured…with China stocks continuing to do well. In addition, the U.S. economy is unlikely to slip into recession and, although its interest rates may have peaked, they remain unlikely to fall sharply," he said.

Lim said that although equity markets have done extremely well in the past year and over the last three years, fund managers were unanimous in their preference for equities over bonds as they are fairly sanguine on the outlook for the global economy and inflation.

"Also despite the bull-run in equity markets in the past few years, fund managers said that equity valuations are still not excessive and they are also more attractive than bonds. Nevertheless, fund managers highlighted that investors should have some bonds in their portfolios, as bonds provide a good hedge against the risk of a weaker-than-expected economic slowdown. They also offer diversification benefits, which investors should not ignore," he said.

Good growth, decent profits, acceptable valuations and an abundance of liquidity were cited as some reasons for the preference of emerging markets, especially in Asia, over other regions.

"Some fund managers highlighted the Japanese bourse, which underperformed other major bourses in 2006, as a market to watch in 2007. Japan is seen as benefiting from the economic boom in India and China. This, coupled with the solid domestic recovery in Japan, makes the country's economy less vulnerable to a U.S. economic slowdown. Valuations for the Japanese bourse are also seen as cheap relative to its historical trading bands.

"European markets which did well in 2006, remained favoured by some fund managers as they see the region offering good value and significant potential for mergers and acquisitions (M&A). Earnings growth in Europe is also projected to be robust, against a backdrop of strong economic growth. European bourses look set to benefit from improved liquidity as more international fund managers overweight the region," he said.

Despite China's blistering pace of growth and seemingly high equity valuations, many fund managers remain positive about its economy and stock market. They say that inflation remains in check and the economy is not facing any major bottlenecks. Some even expect the economy and corporate earnings in China to grow at double-digit rates in 2007.

From a top-down perspective, some fund managers view China as one of the most exciting growth stories in Asia and see an abundance of liquidity and a renewed interest in initial public offers as additional factors supporting Chinese equities in 2007.

"China aside, India is another market which fund managers favour for its promising long-term growth potential. However, the short-term outlook is less uncertain as the Indian bourse has already done extremely well in the last few years. Southeast Asian markets like Singapore, Malaysia and Indonesia were other Asian bourses cited by fund managers. Singapore's successful economic restructuring initiatives and rising real estate prices were among the reasons mentioned by fund managers for their positive outlook on the country's stock market.

"The Indonesian stock market, which outperformed other Southeast Asian markets in 2006, remains favoured by fund managers for its large domestic economy and resilient domestic demand. The country has a sizeable population base which stands to benefit from economic prosperity, lower interest rates and higher foreign direct investments.

"After being off the radar screens of fund managers for a few years, the Malaysian stock market looks set to make a comeback. Fund managers said that increased M&A activity and a pick-up in the momentum of government restructuring are factors favouring the Malaysian bourse," Lim added.

Soft landing in the US

A pick-up in inflationary pressures in the U.S., a sharper-than-expected slowdown in the U.S. economy, a slump in the U.S. dollar, excessive monetary tightening in Europe and Japan, and higher oil prices were the key risk factors cited by fund managers.

"Most fund managers foresee the U.S. economy heading for a soft landing. They do not see it slipping into a recession in 2007 although the U.S. housing market is already in a recession and could slip further. This is because they see growing business investments and continued strength in U.S. consumer spending - emanating from moderate oil prices, rising incomes and a relatively robust job market - helping to offset the negative effects from falling homes prices.

“Inflation remains above the U.S. Federal Reserve’s (Fed’s) comfort zone but fund managers said that they do not see it getting out of hand. Nevertheless, given evidence of continued inflationary pressures in the U.S. economy, many fund managers do not see the Fed cutting interest rates anytime soon. However, many of them do expect the U.S. central bank to lower rates sometime in 2007, although they do not expect any sharp cuts as the Fed remains worried about inflationary pressures in the U.S. economy.

“As for the timing of potential rate cuts, the views are somewhat divided. Some see rates being cut only in the second half of 2007, while some others expect the Fed to reduce rates in the second quarter of the year,” he said.

So, are commodities still a good bet?

“They seemed divided about the outlook for commodities, with some predicting that it will head higher due to production shortages while others felt that slower global growth and waning speculative demand could have a knock-on effect on the asset class, at least in the short-term,” Lim said.

The fund managers polled were Aberdeen Asset Management, ABN AMRO Asset Management, Allianz Global Investors, Barclays Capital, BNP Paribas Asset Management, DBS Asset Management, Deutsche Asset Management, First State Investments, Henderson Global Investors, HSBC Investments, ING Investment Management, Lion Capital Management, Phillip Capital Management, Prudential Asset Management, Schroder Investment Management, SG Asset Management, UBS Global Asset Management and UOB Asset Management.

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