


## Asia: Need to Take a Rest!




## Microscope

On the macro-basis, statistics for the 2<sup>nd</sup> quarter around the globe may suggest the global economy is starting to turn. However, the stock and commodity markets were apparently losing its strong momentum during the past few weeks. At the same time, Japanese investors now seem to have started to feel it is safe to buy fixed-income securities. According to Bloomberg, Japan's 10-year bonds gained the most in four months as local stocks snapped a three-week rally, spurring demand for the relative safety of government debt. The spread between two- and five-year notes narrowed to the smallest in two weeks. While there is lingering optimism about the economy, many investors in Japan are still worried about the credit risk and reluctant to spend heavily on riskier assets. In fact, many big companies are still feeling pressure. General Electric Co. Vice Chairman last week said he isn't seeing an increase in orders even as U.S. economic statistics suggest the world's largest economy may soon shift to a recovery. Moreover, companies with lots of cash on their balance sheet are still worried about the economy and are cutting spending. 

Asian stocks fell for the first week in five, the most since March 6. The MSCI Asia Pacific Index of stocks dropped 3.8% last week as investors weighed the pace of economic recovery against valuations near the highest levels in five years. MSCI's Asian index plunged by a record 43% last year as the credit crunch and "flight to quality" tipped the world's largest economies into recession. The rally in the stockmarket since March has been fueled by optimism government stimulus measures and interest-rate cuts worldwide will succeed in reviving global growth. But the markets are assumed to have been going too far and too fast. Shares in the MSCI Asia Pacific index traded at 41 times earnings last week, near levels not seen since June 2003, according to Bloomberg. The Fed said last week the downturn may be slowing in almost half of its regions, though a weak labor market persists. Although the US has

reported the smallest decrease in jobs in May since the financial tsunami, the mild job losses are still expected to weigh on consumer spending. In addition, the indicator of global demand is still weak. For example, petroleum products demand in the US, the world's largest energy user, fell 6% over the past four weeks to June 12 from a year before, according to the Energy Department of the US. In June, manufacturing conditions in New York State worsened after rebounding from their lowest levels on record, according to the Federal Reserve's Empire State Manufacturing Survey. Orders remained low and shipments fell, blunting some hopes that the economy had reached a definitive bottom. Although the financial system is not likely to tumbling into the abyss again, unemployment in the US is climbing, consumers are wary about spending and investors

are unsure about how rising mortgage rates could affect any incipient economic recovery. Accordingly, we're probably more into a grinding period for the economy rather than a rapid recovery. Traders have worried in recent weeks that an economic recovery will be more subdued than originally hoped and that the huge run-up in stocks may have been overdone, especially in Asia. One of the risk appetite indicators, the Bloomberg -JPMorgan Asia Dollar Index, which gauges the strength of the 10 most-active Asian currencies excluding the yen, slumped 0.5% last week. This indeed raised concern over the upcoming pull-back. By the way, Fed's policy makers meet this week amid indications the pace of a recession that began in 2007 is easing, with housing starts rising more than forecast last month. 

### MARKET BRIEFING


#### YTD % (local curr)

<b>US DJ</b>	8,539 (-2.7%)
<b>Nasdaq</b>	1,827 (15.9%)
<b>Euro Stoxx 50</b>	2,434 (-0.7%)
<b>HSI</b>	17,920 (24.6%)
<b>Japan NK225</b>	9,786 (10.5%)
<b>China Shanghai Composite</b>	2,880 (58.2%)
<b>Singapore</b>	2,273 (29%)
<b>India BSE30</b>	14,521 (50.5%)
<b>Brazil BOVESPA</b>	51,373 (36.8%)
<b>Aus All Ord</b>	3,894 (6.4%)
<b>US-10yr Bond</b>	Yield 3.78%


As at 19/06/09

## Insight: "Bearish Signal"

In investing context, it is believed that there are market trends that can be classified as primary trends, secondary trends (short-term), and secular trends (long-term). The belief in trends incorporates the idea that market cycles occur with regularity and persistence. There is bearish signal that a bear market will happen. For example, there is a steady drop in the stock market over a period of time. It is described as being accompanied by widespread pessimism. Investors anticipating further losses are often motivated to sell, with negative sentiment feeding on itself in a vicious circle. To take the example of a

US signal, it is not a simple decline, but a substantial drop, say 20%, in the prices of the majority of stocks over at least a two-month period. The most famous bear market in history followed the Wall Street Crash of 1929 and erased 89% of market capitalization by July 1932, marking the start of the Great Depression. After slowly regaining nearly 50% of its losses, a longer bear market from 1937 to 1942 occurred in which the market was again cut in half. Moreover, if an exaggerated bull market fueled by overconfidence and/or speculation can lead to a market bubble. Recently, there is concern that the increase in stock and commodities prices during a primary trend bear market is a kind of a bear market rally. Bear market rallies typically begin suddenly and are often short-lived. 

## A-Z Financial Tools

**Yield spread** is an indication of the risk premium for investing in one investment product, which is riskier, over another. In case the yield spreads widen between bonds with different quality ratings it implies that the market is factoring more risk of default on lower grade bonds. This means that investors are afraid of riskier assets, especially during an contracting period. 



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