


Europe: Bubble Deflation?




Microscope

In UK, the situation was not so good to allow any "Exit" strategy yet as liquidity still failed to be channelled to the economy effectively. Shares of Royal Bank of Scotland Group Plc (RBS) and Lloyds Banking Group Plc tumbled last week because the two banks were failing to meeting lending targets after the UK Treasury spent £117bn rescuing the banking industry, according to the National Audit Office. Between them, RBS and Lloyds have lent 50bn pounds to companies since February. At the same time, the banks' customers have repaid £60bn, leaving RBS short of its commitment to lend £16bn net of repayments and Lloyds short of its pledge to lend £9bn. On the other hand, the value of UK commercial real estate debt in default or in breach of key lending agreements more than doubled to about £30bn in the first six months of the year, adding pressure on the banking sector, according to Bloomberg. In fact, UK banks have also extended or refinanced an extra £16bn in the first-half of the year, rolling over maturing debt that could not be paid back by cash-strapped borrowers or restructuring loans when breaches were threatened owing to the steep fall in values. 

The European Central Bank (ECB) announced last week to end long-term emergency loans and tighten the terms of its final 12-month tender. In addition, the move to tie the rate on the 12-month loans to the ECB's key rate rather than setting a fixed rate of 1% means any increase in the benchmark will also affect banks' funding costs. This will certainly give greater traction to any rate increases in 2010 should policy makers deem them necessary. The decision indicated the central bank was withdrawing stimulus measures faster than economists anticipated. Furthermore, the ECB is withdrawing its non-standard operations at a somewhat quicker pace than we had expected. As a matter of fact, ECB council member Axel Weber said last week it's a balancing act for central banks to withdraw stimulus measures without threatening their economic recoveries. The changes announced by the ECB nevertheless pave the way for a

return to normal refinancing operations, in which the interest rate on its loans is determined by market demand. After the collapse of Lehman Brothers Holdings Inc. in September last year made banks reluctant to lend to each other, the ECB said it would lend them as much cash as they wanted at its benchmark rate. While the economy's recovering, ECB echoed Federal Reserve to prepare for an exit strategy as Federal Reserve Chairman Ben S. Bernanke promised a smooth withdrawal of stimulus in the US as the world's two biggest economies pull out of recession. Nevertheless, the risk for the ECB is that any indication it could raise rates sooner than the Fed may fuel further gains in the euro and undermine the region's economic recovery. According to Bloomberg, the euro has gained 20% against the greenback since mid-

February, threatening to slow the region's recovery by hurting exports. For example, Daimler AG, the world's second-largest maker of luxury cars, said yesterday it will shift some production to Alabama from Germany as it seeks to benefit from the cheaper dollar. Moreover, although the ECB raised its economic outlook, forecasting growth of 0.8% next year and 1.2% in 2011, it said price pressures remain subdued. Inflation is expected to average 1.3% next year and 1.4% in 2011, below the bank's medium-term goal of just less than 2%, according to Bloomberg. Whatsoever, the financial markets around the globe have been injected with endless liquidity since the collapse of Lehman. Many central bankers are certainly worried that it might be too late to take action to withdraw excessive liquidity. 

MARKET BRIEFING


YTD % (local curr)

US DJ	10,388 (18.4%)
Nasdaq	2,194 (39.1%)
Euro Stoxx 50	2,910 (18.7%)
HSI	22,498 (56.4%)
Japan NK225	10,022 (13.1%)
China Shanghai Composite	3,317 (82.2%)
Singapore	2,791 (58.4%)
India BSE30	17,101 (77.3%)
Brazil BOVESPA	67,603 (80.0%)
Aus All Ord	4,721 (29.0%)
US-10yr Bond	Yield 3.47%


As at 04/12/09

Insight: "MPF Planning Strategies"

HK's Mandatory Provident Fund Scheme has been operating for almost 10 years. This allows any employee, aged 18 to aged below 65 and employed for a period of not less than 60 days, his employer, to enrol him in an MPF Scheme. Now, employees cannot change MPF scheme provider at their own discretion. While HK's Mandatory Provident Fund Schemes (Amendment) Bill 2009 was passed on 8 July, it would provide employees more control over their MPF contributions and investment choices. The changes will give employees the option to transfer the accumulated balance of their own mandatory contributions

to an MPF product chosen by them. The effective date of these changes has yet to be announced, but it is expected to take place within 12 to 18 months. According to the new regulation, the employee can instruct the trustee of the employer's chosen MPF product to transfer the accumulated employee mandatory balance to a personal account under an MPF product selected by the employee over every calendar year, while the employer's 5% contribution will remain in the employer's chosen MPF product. Employees can then move benefits from their previous employment that they had initially transferred into their current employer's fund. This move will encourage employees to consolidate their balances into a single provider of their choice. Employees can, to a certain extent, effectively manage their own pension. 

A-Z Financial Tools

Weak-form efficiency is a pricing theory, meaning that the price of a security or commodity reflects the past price and trading history of the security. It asserts that financial markets are informationally efficient and instantly change to reflect new information. Therefore, the theory implies that security prices follow a random walk. We cannot make money with the help of technical analysis. 



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Next Insight

"Regular vs. Lump Sum Investment"