

## Asean: Upside Surprise?



ASEAN is a geo-political and economic organization of 10 countries located in Southeast Asia, which was formed in 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand. Unlike the European Union, ASEAN is a loose grouping of countries like the Commonwealth of Nations. Recently, political event triggered selling pressure of Thai stocks. Thai stocks fell the most in more than two months last week and the cost to protect government bonds from default rose to a two-week high after Prime Minister declared a state of emergency in Bangkok. But the degree of decline in stockmarket was much smaller as some investors might see this as a great buying opportunity to accumulate cheap stocks. Thailand's benchmark SET Index still hovered around year's high last week. Nevertheless, the situation may deteriorate rapidly and that will put downward pressure on the baht and Thai assets.

Comparatively speaking, Indonesia, benefits from the event. Indonesia has experienced capital inflow from slow-growing advanced economies since 2009. The benchmark index climbed to a record last week and was the best performer among 20 Asia-Pacific benchmarks monitored by Bloomberg over the past 12 months on anticipation of accelerating economic growth and after Standard & Poor's upgraded the nation's sovereign debt ratings, with over 140% return in US dollar terms. Over the past few months, foreign investors were snapping up Indonesia's stocks and bonds. They bought a net 4.9 trillion rupiah of shares in March after selling 1.6 trillion rupiah in the first two months of this year, according to data from the Jakarta stock exchange. Bloomberg also quoted Finance Ministry as saying that foreign holdings of

Indonesian bonds rose to 133.7 trillion rupiah as of April 6, up from 108 trillion rupiah at the end 2009. The rupiah has also risen 3.7% this year, making it one of the top three gainers among the 10 most actively traded currencies in Asia, according to Bloomberg. Indonesia has become a magnet for capital since the last quarter of 2009 due to change of monetary policies in other major emerging markets while Indonesia maintains status quo. Brazil's government imposed a 2% tax on foreigners' stock and bond purchases in October to stem capital flows that helped send the real to a 34% gain against the dollar until that date last year. In addition, policy makers in China have been aiming to restrain speculation in the property market since last year, and the central bank has twice ordered banks to raise the ratio of assets held in reserve. **E**

## Microscope

As a matter of fact, the central bank of Indonesia last year discussed the risks posed by an influx of foreign funds, and studied the feasibility of imposing capital controls. As yet, no action has been taken. Bloomberg quoted the central bank as saying that the bank is confident Indonesia can cope. Moreover, any capital controls would be temporary. On the other hand, if China moves forward with the plan to revalue its currency, it may help to boost exports of palm oil from Indonesia to the world's fastest-growing major economy by at least 21%, according to the Indonesia Palm Oil Association. Now, Indonesia is the world's largest palm oil producer. A rise in the yuan would make palm oil, traded in dollars, cheaper for Chinese buyers. Shipments of palm oil and byproducts to China may gain by at least 500,000 metric tons this year from 2.37 million in 2009, according to the Association. In fact, a yuan revaluation should benefit all commodities. In 2005, the Reuters/Jefferies CRB Index, which tracks 19 commodities, surged about 10% in the six weeks after China ended a decade-long peg of about 8.3 per dollar in July. Could history repeat? **E**

### MARKET BRIEFING

#### YTD % (local curr)

<b>US DJ</b>	10,997 (5.5%)
<b>Nasdaq</b>	2,454 (7.2%)
<b>Euro Stoxx 50</b>	2,993 (0.9%)
<b>HSI</b>	22,208 (1.5%)
<b>Japan NK225</b>	11,204 (6.2%)
<b>China Shanghai Composite</b>	3,145 (-4.0%)
<b>Singapore</b>	2,971 (2.6%)
<b>India BSE30</b>	17,933 (2.7%)
<b>Brazil BOVESPA</b>	71,417 (4.1%)
<b>Aus All Ord</b>	4,972 (1.8%)
<b>US-10yr Bond</b>	Yield 3.88%
As at 09/04/10	

## Insight: "Investing Psychology"

Many researchers believe that the study of psychology can explain many market bubbles, and crashes. As an example, some believe that the outperformance of value investing results from investor's irrational overconfidence in exciting growth companies and from the fact that investors generate pleasure and pride from owning growth stocks. Under extreme scenario, individuals are much more distressed by prospective losses than they are happy by equivalent gains. Some economists have concluded that investors typically consider the loss of \$1 dollar twice as painful as the pleasure received from a

\$1 gain. They also found that individuals will respond differently to equivalent situations depending on whether it is presented in the context of losses or gains. As such, investors are willing to take more risks to avoid losses than to realize gains. Faced with sure gain, most investors are risk-averse, but faced with sure loss, investors become risk-takers. In addition, investors typically tend to become more optimistic when the market goes up and more pessimistic when the market goes down. As an example, at the peak of the Japanese market during 1990s, 14% of Japanese investors expected a crash, but after it did crash, 32% expected a crash. To conclude, when there are high percentages of participants become overly optimistic or pessimistic about the future, it is a signal that the opposite scenario will occur. **E**

## Financial "In & Out"

**IN:** Asian currencies will continue to benefit from fund flows from Europe due to the stability in banking and financial system, and optimism over robust economic growth.

**OUT:** On the other hand, Euro would continue to face selling pressure amid the worries that Greece cannot refinance by itself and other PIIGS counties encounter the same problem. **E**



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