

Market Alert

Ad Hoc News Update

HSBC Investments (Singapore)

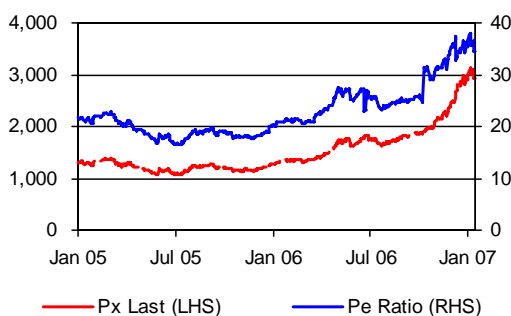
27 February 2007

Asian Equity Markets Correct

Equity markets corrected significantly today, in fairly widespread profit taking. Within Asia, China equity markets fell the most with A and B share markets falling close to 9%. Banks were among those that were hardest hit, with the Chinese Central Bank recently raising reserve ratio requirements, making less funds available for commercial lending purposes. Profit taking however, was broad based for the market and not just sector specific. Stocks may have reacted to speculation that the government would soon hike interest rates again, and may also impose a capital gains tax on fund investors

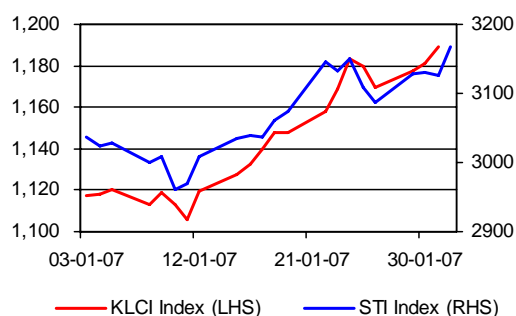
China equities, especially A-shares, have been stellar performers in the past year. However after the strong run up in Chinese equity markets in 2006, especially at the tail end, performance in 2007 turned volatile. Recently, on the 31st of January, A-shares fell around 5%, but subsequently rose 15%, before today's correction. The strong run up in the market has caused valuations to spike. The A-share market currently trades at a price to earnings ratio of around 33 times for the Shanghai A-share index, compared to cheaper valuations for H-shares and red chips, as well as Asian equities in general. As such, investors may have been looking to take profit, specifically after the Chinese New Year period.

China A-share Index



Singapore and Malaysian equity markets also experienced notable falls in the region. The Singapore and Malaysia equity market corrected 2.3% and 2.8% respectively, as interest rate sensitive stocks and China related stocks bore the brunt of the decline. Both markets had performed relatively well year to date, with the Malaysian equity market benefiting from a pick up in soft commodity plays, as well as sector rotation out of other Asian markets and into Malaysian equities. Despite the correction, the Malaysian equity market is still up 12.8% year to date.

Malaysia and Singapore Equity Markets



The fall in Asian equity markets could also have been affected by concerns facing US equity markets, which also fell today. Specifically, investors are worried that the sub-prime lending sector, which makes loans to households with poor credit ratings, may affect the financial system. If this happens, then the Fed may look to cut rates. Bond yields have also fallen, suggesting that investors are anticipating potentially lower interest rates.

We have noted previously in our monthly investment view that there was a fair deal of investor complacency about the markets, and in some emerging markets there were clear signs of



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near term overheating. As such, we view a correction at this juncture as healthy. The fundamental environment for equities is supportive in that growth is solid, valuations are attractive and global monetary policy will be tightened only slowly. We expect that equities will move higher over the medium term, and would look to accumulate into a correction.

Sources of Data – Bloomberg, HSBC Investments. Local currency terms.

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