

LION'S

thoughts

2013

A quarterly newsletter by
Lion Global Investors

Jul - Sep 2013

1st Quarter

2nd Quarter

3rd Quarter

4th Quarter

Third Quarter Outlook



What We Expect

- The long-term outlook for Japan has turned more positive under PM Abe's growth strategy and Bank of Japan's monetary easing policy - the most coordinated and resolute effort yet to put the economy back on a sustainable growth track. Market corrections faced so far represent good buying opportunities for long-term investors
- In Asian ex-Japanese markets, we see further market re-positioning and risk re-pricing in the near-term. However, the recent correction in Asian equity markets has made equity valuations more attractive and presents the opportunity to add quality stocks
- Globally, mixed data is expected to persist in the near term as deleveraging forces in Europe and the leadership transition in China are offset by rising confidence in US and Japan
- Although US growth is currently stabilising at a low level, look ahead to a re-acceleration in the second half of 2013 when fiscal headwinds moderate
- In Europe, we expect sequential growth improvements, even if very muted
- The correction in bond interest rates is long overdue as bond markets have been pricing in a lower-rates-for-longer environment
- Investors may have over-reacted to concerns about tapering as the Fed will still be expanding their balance sheet. Any eventual tapering by the Fed will not pose a threat to stock markets as the reason for doing so is for a stronger economy
- Trading in Singapore Government Securities is expected to remain choppy, along with US Treasuries' movement. Buy only on dips as the broadening USD strength may deter inflows into SGD for now

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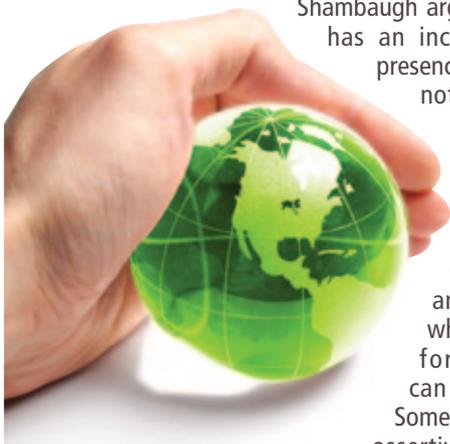
Charts & Indicators

Sector Focus:
Financials
(Chinese Banks)

LION'S Selects

China Goes Global: The Partial Power

by David Shambaugh



Shambaugh argues that China has an increasing global presence but this does not automatically translate into power or even influence.

He suggests that China is suffering from an identity crisis which means that foreign policy can be confusing.

Sometimes Beijing is assertive, sometimes cooperative. Sometimes it

has clear aims, sometimes it stands on the side. China is investing hugely in information, education and cultural diplomacy but the messaging remains poor with too much emphasis on outdated slogans. China's problems with soft power are balanced with problems in hard power. Despite significant budget increases the Chinese military simply cannot project power outside its region. Shambaugh's conclusion is that China is a partial global power – more of an actor than a real power able to exert influence and shape events and outcomes. Whether this will change over time will depend on internal developments in China.

Review by Jan de Bruijn, Head of Asian Equities

Blue Ocean Strategy: How to Create Uncontested Market Space and Make Competition Irrelevant

by W Chan Kim and Renee Mauborgne

Kim and Mauborgne use the blue ocean as a metaphor for expanding, competitor-free markets and present concepts on how to think differently and create a market niche. My favourite example in the book used to identify a blue ocean strategy is Southwest Airlines. At a time when the airline industry's price wars result in bankruptcies and low profit margins, the company created a new market, offering the speed of air travel with the low cost and flexibility of driving. An interesting point that the authors assert is that "blue ocean" did not depend upon a new technology. Rather, each company pursued a strategy which enabled it to free itself from industry boundaries. For Dell, that meant mass production of bespoke computers sold directly to consumers. From an investment perspective, investors often fall into the trap of peer multiples or comparisons and this book provides helpful tools to identify blue ocean companies which can continue to earn above-average returns and hence, command premium and expanding valuation for a long time.

Review by Mansi Singhal, CFA, Analyst, Asian Equities

Irrational Exuberance

by Robert J. Shiller

The book touches on the famous concept "irrational exuberance" that was coined by ex-US Federal Reserve Chairman Allan Greenspan to describe the behaviour of stock market investors during the late 1990s dotcom bubble. Shiller examines and discusses speculative market behaviour, human vulnerability to error and capitalist system instability. In addition, he also examines the change in thought processes of people whose actions drive the markets and how even the smartest people can make errors of human judgement as a result of over-confidence, ignorance of details and putting too much trust in the judgement of others.

Review by Kelvin Phang, Analyst, Fixed Income

Currency Wars: The Making of the Next Global Crisis

by James Rickards

In 1971, US President Nixon ended the gold standard and put the nation back on the fiat currency system in order to restore faith in the US dollar. Today, we might be facing a new currency war. Currency wars are amongst the most destructive and feared outcomes in the area of international trade and investment. Rickards argues that they not only allow countries to steal economic growth from others, but may degenerate into bouts of inflation, recession, retaliation, and even actual wars. If left unchecked, the next currency war could lead to a crisis worse than what was experienced in 2008.

Review by William Goh, Analyst, Fixed Income

The Signal and the Noise: The Art and Science of Prediction

by Nate Silver

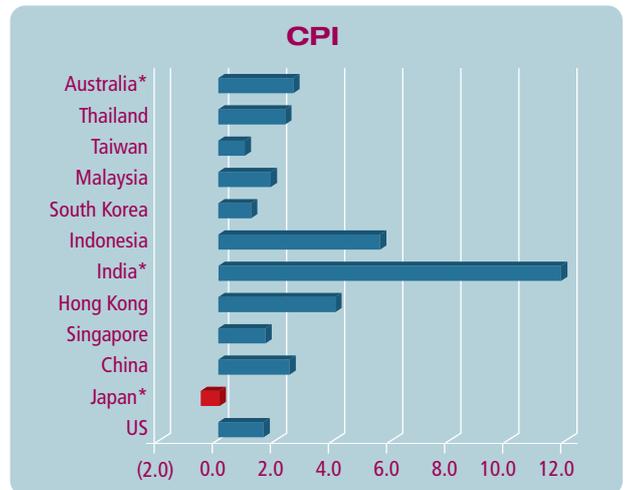
Silver is a statistician and political forecaster, who correctly predicted the outcome of all 50 states in the 2012 US Elections. In this book, Silver takes examples from stock market, poker games and the economy to explain why some predictions succeed and others fail. He uses the Bayes' theorem on conditional probability and applies it to different hypothetical problems to show how we can think differently. His anecdotes such as why the TV meteorologist might overstate the chances of shower keep the readers' interest alive. In today's world where all of us are exposed to information overload, it is important to separate the 'noise' from the 'signal' to make less mistakes and plan our future better.

Review by D R Rao, CFA, Fund Manager, Asian Equities

Charts & Indicators



All data quarterly annualised and correct as at 31 March 2013
* Data correct as at 30 June 2013



All data correct as at 30 June 2013
* Data correct as at 31 March 2013

Equity Indices

	Price-Earnings		
	as at 30 Jun 2013	High	Low
Australia	17.2	34.1	11.8
Thailand	14.8	21.1	9.7
Taiwan	20.9	25.1	11.5
Malaysia	16.1	22.6	11.9
South Korea	15.4	32.1	11.6
Indonesia	17.6	19.5	9.8
India	16.1	31.6	12.1
Hong Kong	9.9	26.0	7.1
Singapore	12.5	17.3	8.4
China	9.2	22.2	8.6
Japan	23.3	34.0	14.9
US	16.0	23.7	12.3

Equity Indices

	Indices		
	End 2Q 2013	High	Low
Australia	986	1,069	650
Thailand	518	573	154
Taiwan	289	328	152
Malaysia	639	649	301
South Korea	534	640	261
Indonesia	5,553	6,149	1,490
India	756	839	315
Hong Kong	11,006	12,380	4,855
Singapore	1,655	1,826	817
China	55	73	27
Japan	704	844	427
US	1,532	1,617	645

Bonds

	10 Year Govt Bond Yields	
	End 2Q 2013	End 1Q 2013
Australia	3.76	3.41
Thailand	3.73	3.51
Taiwan	1.42	1.31
Malaysia	3.63	3.47
South Korea	3.40	2.80
Indonesia	7.13	5.57
India	7.46	7.96
Hong Kong	2.00	1.12
Singapore	2.35	1.54
China	3.61	3.59
Japan	0.85	0.55
US	2.49	1.85

Commodities

	End 2Q 2013	End 1Q 2013
Gold	1,234.57	1,598.75
Oil (Brent)	102.16	109.27
Oil (WTI)	96.44	97.30
Silver	19.67	28.46
Platinum	1,327.40	1,571.50
Copper	6,731.00	7,509.75
Nickel	13,643.50	16,589.50
Sugar	178.11	185.89
Steel	590.00	582.50
Palm Oil	2,330.00	2,335.50
Coal	77.75	87.80
Rice	15,750.00	16,718.00

Forex

Against USD	End 2Q 2013	End 1Q 2013
Australia	1.09	0.96
Thailand	31.05	29.26
Taiwan	29.98	29.83
Malaysia	3.16	3.09
South Korea	1142	1111
Indonesia	10004	9735
India	59.39	54.28
Hong Kong	7.76	7.76
China	6.14	6.21
Japan	99.14	94.22
Singapore	1.27	1.24

Forex

Against SGD	End 2Q 2013	End 1Q 2013
Australia	0.86	0.77
Thailand	24.49	23.60
Taiwan	23.65	24.05
Malaysia	2.50	2.50
South Korea	901	896
Indonesia	7923	7854
India	46.94	43.71
Hong Kong	6.12	6.26
China	4.84	5.01
Japan	78.21	75.92
US	0.79	0.81

All data from Bloomberg

Sector Focus: Financials (Chinese Banks)

By Emily Fang, Analyst, Asian Equities

Recent Developments:

- Chinese banking shares plummeted in June due to the sudden spike of interbank rates
- To tighten supervision on the sector that contributed to the liquidity crunch, Chinese financial regulators introduced various measures, including:
 - New regulations announced in late March targeted at the wealth management products (WMP) business of commercial banks that limit non-standard credit assets to less than 35% of a bank's WMP outstanding or 4% of a bank's assets, whichever is lower
 - Rectification of the "substitute holding" business and irregular class C account trading activities in the interbank bond market and imposition of a ban on the opening of new class C accounts by the People's Bank of China (PBOC) aimed at improving the quality and supervision of the interbank bond market
 - Investigations into bill transactions of rural credit unions and rural commercial banks by the China Banking Regulatory Commission
 - Requirement of all foreign and domestic banks to observe a loan-to-deposit ratio of 75% for all foreign currency loans

Key Observations:

- Overnight Shanghai Interbank Offered Rate (SHIBOR) started to creep up in May and jumped to over 13% on 20 June. The market was spooked by the lack of PBOC intervention amidst rumors of bank default in the interbank market
- The market started to calm down after PBOC issued two announcements on 24 and 25 June to assure ample liquidity in the system
- Overnight SHIBOR eased to 3 - 4% for second half of 2013

Our Views:

- We believe PBOC's intention was to discourage banks from aggressively using interbank business to circumvent regulatory restrictions and grow profits
- However, PBOC might have underestimated the impact on the real economy, and the market is now worried about a hard-landing scenario in China
- We expect a short-term rebound from current depressed levels as the leadership reassures stability but the Chinese banking sector continues to face many long-term structural issues and therefore the strategy for this sector would remain a trading one



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