

2013: A Year of Transition



This commentary reflects the views of the Wealth Management Group of Standard Chartered Bank

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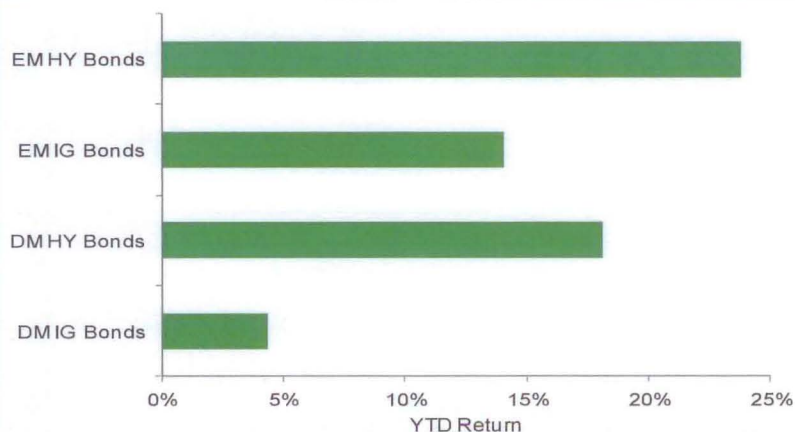
Outlook 2013

Bonds: It's mainly about the yield

Bonds in 2012

An excellent year for bonds

Year-to-date performance



- High Yield was the top performer in 2012
- Capital gains were a key part of this return
- Low G3 sovereign yields a drag on Developed Market IG

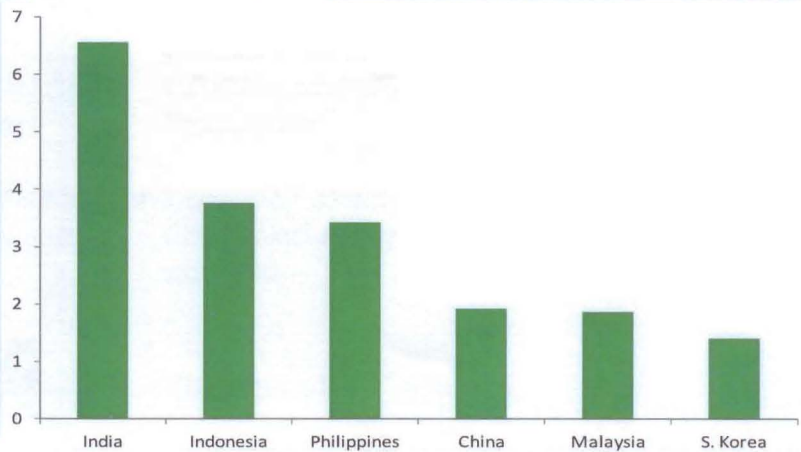
Source: Citigroup, Barclays Capital, JPMorgan, Bloomberg, Standard Chartered
As of 7 Dec 2012

ให้ผลตอบแทนพอสมควรในปี 2013, โดยมีความเสี่ยงเพิ่มขึ้นตลอดปี

Asia local currency bonds our top pick in 2013

Asian local bonds offer sizeable premium over US Treasuries

Local market 10yr bond yield – US Treasury 10yr bond yield



- Significant yield premium over inflation and US Treasuries
- Currency strength likelihood a key support
- Path of local yields the key risk

Source: Bloomberg, Standard Chartered
As of 10 Dec 2012

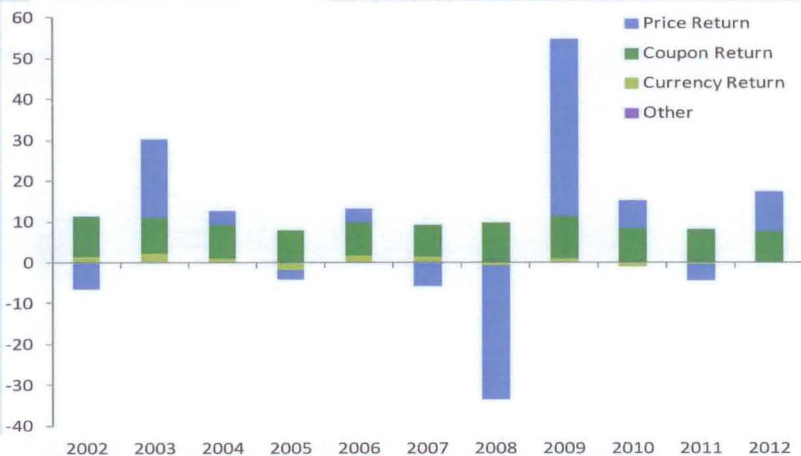
Asian local currency bonds น่าจะยังคงให้ผลตอบแทนที่

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Yield likely to provide bulk of 2013 returns

Coupon the most consistent source of return over time

Barclays Capital Global HY Index, decomposed returns



- Price return was key driver of 2012 returns
- Room for further price gains looks limited
- Coupon likely to be main source of return in 2013

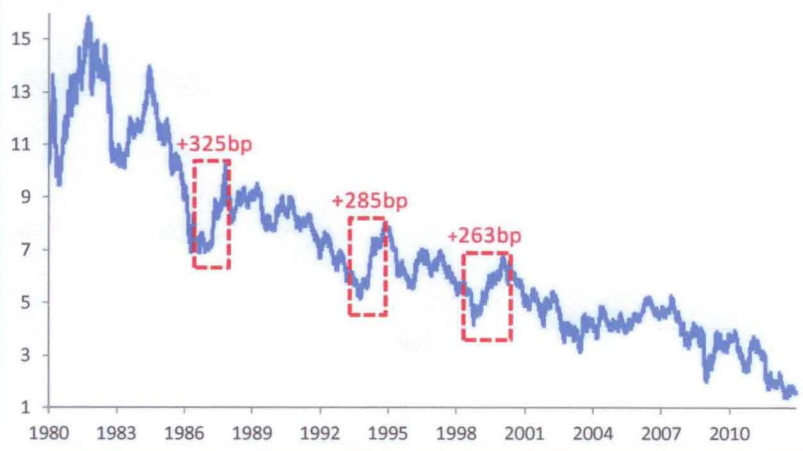
Source: Barclays Capital, Standard Chartered
As of 10 Dec 2012

ให้ผลตอบแทนพอสมควร – coupon เป็นส่วนสำคัญของ performance ในปี 2013

Be mindful of risks to USD bonds

Large, rapid rises in Treasury yields not that rare

US 10yr Treasury yield (%)



Key risks:

- Interest rate risk
- Credit risk
- Liquidity risk

Source: Bloomberg, Standard Chartered
As of 10 Dec 2012

สัดส่วนการลงทุนใน HY และ short maturity เป็นปัจจัยที่สำคัญ

Key messages - 1

Understand your risk

Be prepared to take mark-to-market losses in the short term

Invest for the medium term; aim for outperformance over time

Yield will form the bulk of the returns from fixed income instruments

Asian local currency bonds continue to offer relative value

Key messages - 2



Do not take material interest rate risk over-and-above credit risk; hence keep maturity profiles moderate

We expect continued issuances of subordinated bonds. Chosen carefully, these offer good opportunities to enhance yield

Overall, we believe the hunt for yield will continue in the foreseeable future

The objective is to be disciplined and not negative; hence be selective



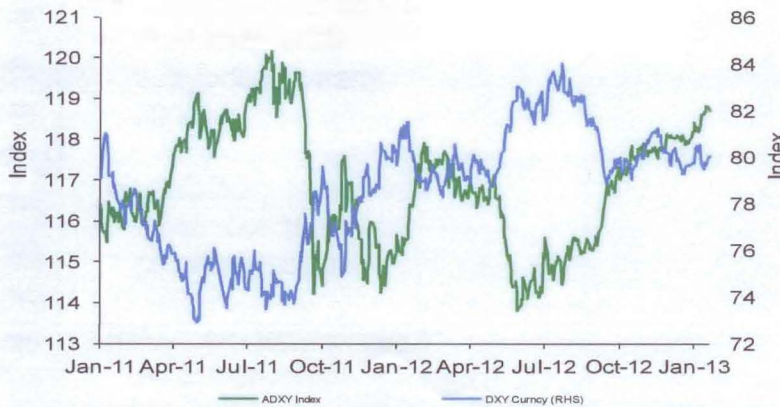
Outlook 2013

FX: USD to dictate

FX – Asia ex-Japan to outperform

Asian currencies likely to sustain strength

DXY and ADXY Indices



Note: DXY Index comprises of the weighted performance of the USD against the EUR, JPY, GBP, CAD, SEK and CHF. ADXY Index comprises of the weighted performance of the CNY, HKD, INR, IDR, KRW, MYR, PHP, SGD, TWD and THB against the USD

Source: Bloomberg, Standard Chartered Research
As of 21 Jan 2013

- Safe-haven demand may keep USD supported in early 2013
- USD likely to weaken thereafter as global growth recovers
- Asia ex-Japan likely to be performer
- Performance of Renminbi is key

คาดหวังผลตอบแทนสูงสุดจากสกุลเงิน Asia ex-Japan

Summary

Macro: 2013, Year of Transition

- 2013 expected to be a Year of Transition to strong growth in 2014
- Monetary stimulus has reduced tail risks
- Fiscal cliff avoided, debt ceiling and spending talks key
- Europe and geopolitics background risks
- From VIP to B.R.I.D.G.E.

Bonds: Favour Asia local currency, US HY

- G3 Sovereign bonds pricing high risk of recession/deflation
- Asian local currency bonds favoured asset class
- US HY likely to remain supported, but returns to moderate dramatically
- Keep maturity profile in USD portfolios short

Equity: Still the best

- Macro backdrop, strengthening growth and receding tail risks to support equities
- Equities still cheap versus history and relative to government bonds
- OW US, China. Neutral on EU.

FX: Asia FX expected to strengthen

- Asian currencies expected to perform well in 2013
- Commodity related currencies in 2nd tier from an expected return perspective
- USD, EUR and JPY expected to underperform