ING ORANGE VIEW

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Global Economic Outlook

World

- Economic data points have continued to be better than very depressed expectations as policy makers have aggressively stepped up efforts in March and April.
- Capital markets have gradually became convinced that a great depression type scenario has been avoided and investors have warmly greeted these developments, creating significant rallies in equity and credit markets.
- Expectations of a early revival in the Chinese economy has led to strong gains in commodity prices most notably copper and oil.
- Repairing sentiment towards global economies has also boosted commodity prices both hard and soft. On the flip side, Gold prices have corrected as risk tolerance has increased.
- Emerging market currencies, by and large, (except for Eastern Europe) have recovered all their losses against the US dollar as confidence in these economies have been recently bolstered.

United States

- The "stress test" of the US financial system, primarily the 19 largest lenders is over, the results have been welcomed and the necessary capital raising, for now, has met with a generous response. However, lingering concerns remain over whether the adverse scenario assumptions in the stress tests were too lenient.
- Economics is never too far removed from politics and in that regard the Obama administration has shown a remarkable hand in playing the confidence game by a combination of providing acceptable detail, larger subsidies and reassuring statements.
- Future trajectory of unemployment will remain a key issue for the US economy. Currently at 8.9%, the unemployment levels are expected to reach higher levels. A dislocation in the auto industry may be an unwelcome development.

Europe

- GDP in the 16-member Euro region fell 2.5% from the fourth quarter, from a year earlier the economy shrank 4.6%. Germany, the largest member of the union declined a larger than expected 3.8% from the fourth quarter.
- The European Central Bank has reduced the main policy rate by 25bps to 1% and has indicated that it is now open to considering quantitative easing as well as even lower interest rates. The reason for this U-turn probably resides in a downward assessment of the growth outlook relative to the March forecast.
- Recently, Europe has also seen a moderation in the deterioration of economic indicators, however, the improvement has been more erratic than in the US.

Japan

- The IMF's latest estimate of government gross debt as a percentage of GDP for 2009 exceeds 200% - the highest among all developed economies. Further stimulatory measures, if required, is therefore going to be fiscally immensely painful.
- This also brings into question the value of the Yen and the currently prevailing deflationary sentiment. The possibility of a sharp decline in the value of the Yen and surging inflation is increasing. If debt levels continue to pile up as is currently foreseen, the possibility will become a certainty.

Global Market Insights

Equities

- While "green shoots" of economic and financial recovery are present, sentiment associated with this appear to be running ahead of fundamentals
- While Q1 reporting season has generally surprised on the upside versus expectations, management guidance has been mixed. Non-financial sectors remain most exposed to second round effects and single digit earnings growth in 2010 is more realistic than the 20%-plus consensus.
- The equity markets are currently discounting nothing short of a strong economic recovery in the coming months. The Global P/E ratio at 17x has recovered to levels existing prior to the crisis signalling a strong recovery in corporate earnings. Notwithstanding the uptick in economic conditions and improvement in sentiment we believe the pace of recovery will be shallower than expected, therefore, caution is warranted.

Bonds

- Government bond yields were higher, and yield curves steepened over the month. US bonds in particular sold off as a result of increased appetite and better than expected economic data, with quantitative easing incapable of keeping US 10 yr yields below 3%.
- We believe the FED and the BoJ will keep their policy rates close to zero for a sustained period, combined with quantitative easing measures. More easing is likely in Europe, with at least another rate cut likely in Q3 09, which would bring the Refi rate to 0.75%. Even though the ECB recently announced modest purchases of so-called covered bonds, various institutional and political hurdles significantly complicate the implementation of more aggressive quantitative easing further down the road.
- We expect continued heavy government bond issuance to be absorbed by increased savings, with anaemic growth and easy monetary policy also helping in keeping bond yields low.
- The recovery in risk appetite has put pressure on the USD, particularly vs EUR. While this momentum may persist for now, weak EUR growth fundamentals and insufficiently recognized problems in the banking system will ultimately cap the upside of EUR. Very weak growth in Japan, combined with current account deficits, and JPY having lost it's status as beneficiary of deleveraging flows, is further muddling the outlook for G3 currencies, making it difficult to identify a clear winner.

Returns

- Equity markets continued to recover in a 'V' shaped trajectory from the current cycle low in early March. Emerging markets once again outperformed developed markets.
- Global bonds had an uneventful month. G3 FX were range bound, while returns from G3 bonds disappointed: yields generally ended the month higher, notably so in the US. This was to some extent offset by returns from several peripheral markets which benefited from better investor sentiment.

Equities Benchmark	May	Year-to-Date	12 Months
MSCI World (USD terms)	11.22%	-2.04%	-39.33%

Bond Benchmark	May	Year-to-Date	12 Months
World Govt Bond Index (USD terms, unhedged)	0.04%	-4.78%	-0.49%

Source: Bloomberg

Asia Pacific Economic Outlook

Overview

- Export growth remained in negative territory though improved across the region on month on month basis.
- There were further signs that China's eonomic growth is accelerating again led by fiscal stimulus and strong lending growth
- Economic indicators across the region are showing signs of sequential improvements.
- Asian currency strength witnessed across the board due to reduced levels of risk aversion.
- Asian equity markets witnessing strong capital inflows from overseas investors reversing the trend of capital outflows.

China

- China's PMI rose to 53.5 in March above the critical 50 mark for the second month in a row.
- Export slowdown moderated in March with exports falling only by 17.1%.
- China's 1QGDP growth slowed to 6.1% though stilll one of the fastest growing economies globally.

North Asia

- Hong Kong's retail sales fell 7.7% in March indicating continued softness in the economy.
- Industrial production in Korea fell 10.6% from year ago levels in March though nevertheless improved 4.8% month over month.
- While still deeply negative at -34.3%, Taiwan's exports nonetheless improved in the month of April.

South Asia

- Encouragingly, Indonesia's consumer confidence continues to improve in April to 102.5.
- Malaysia saw its industrial production data improve in February by falling 14.7%.
- Thailand's political unrest appears to have subsided for now with business sentiment index at 40% in March.
- Philippines' OFW remittance showed resilience and grew 4.9% in Februrary.
- As evidence of robust domestic demand, India's car sales actually rose 12.1% month over month in March.

Pacific

- Australia's unemployment rate actually fell to 5.4% in April compared to 5.7% in the previous month though most attribute this to a statistical aberration.

Asia Pacific Market Insights

Equities

- High frequency economic releases are showing incremental sequential improvements across the Asian region.
- Captial inflow from foreign investors along with deployment of domestic liquidity helped to boost equity markets as risk aversion subsided.
- Asian currencies are also witnessing strength as global liquidity and capital markets improve.
- Earning growth downward revision appears to have moderated with selective upgrades occuring after better than expected first quarter results.
- Market volume picked up significantly unlike the rally in January where price gains were not matched with volume gains.
- Asia Pacific's 2009 estimated PE stands at 14.7X with an estimated earnings growth of -8.4% and 3 months earnings revision of -14.7%. Downward earning revision momentum is slowing with selective upgrades in recent weeks.
- The market currently percieves that the worst part of the economic cycle is now over and while recovery is tentative, risk appetite and liquidity have returned to the equity market.

Bonds

- Regional bond markets have taken a cue from recent signs that the worst may be over. With increased optimism on Asian growth prospects, bond yields have trended higher in markets where an inverse relation between bonds and equity markets exist. Bonds performed much better in markets where risk prem ia have declined on the back of lower macro risks, with Indonesia as a prime example
- Fundamentals remain broadly bond-supportive, as even with the growth decline slowing, growth will remain substantially below potential across Asia for the foreseeable future. While most of the monetary easing in the form of rate cuts is behind us, most Central Banks are expected to maintain an accomodative monetary stance by keeping rates on hold.
- Bond supply concerns may persist as fiscal policy needs to remain loose, however ample liquidity in most markets will limit an excessive back up in yields in our view.
- The rebound in Asian currencies continued in April on the back of increased risk appetite and inbound portfolio flows. We don't rule out the rally has a few more legs to go, and in such an environment we expect credit sensitive currencies such as the Korean Won and Indonesian Rupiah to outperform growth senstive currencies.

Returns

- The Asia Pacific region continued to build on solid gains in the previous month with Indonesia (30.5%) and South Korea (21.4%) leading. The Philippine stock market was the weakest but still gained an impressive 7%.
- Asian local currency debt performed well in April. Asian currencies generally appreciated over the month. Bond market performance was more mixed, with high yielding markets such as Indonesia outperforming.

Equities Benchmark	May	Year-to-Date	12 Months
MSCI Asia Pacific Ex Japan (USD terms)	15.24%	15.19%	-40.68%

Bond Benchmark	May	Year-to-Date	12 Months
HSBC Asia Local Bond Index (USD terms)	4.01%	-0.87%	-1.96%

Source: Bloomberg

Recommended Asset Exposures	
International Equities	Neutral
Asian Equities	Neutral
International Bonds	Neutral
Asian Bonds	Neutral
Cash	Overweight

Indian Economic Outlook

India

- In its Annual Policy Review for FY10, RBI cut key policy rates (repo and reverse repo) by 25bps each with immediate effect. Repo and reverse repo rates now stand at 4.75% and 3.25%, respectively. CRR and SLR, however, remain unchanged at 5.0% and 24.0%, respectively.
- IIP data continues to disappoint. Index decline 1.2% yoy in February vs growth of 0.4% yoy in January (revised).
- Credit growth improved to 21.62%yoy in March end against 20.51% yoy registered in the previous month.
- The Wholesale Price Index (WPI)-based inflation for the week-ended April 11 came in at 0.26% yoy. After softening significantly from the peak of 241.7 during September, WPI has either been on the rise or remained constant over the last five weeks.
- Corporate earnings continued to be under pressure as seen from the 4Q results declared so far. While many companies are yet to come out with their results, early indications suggest continued pressure on demand and margins.

Source: www..rbi.gov.in

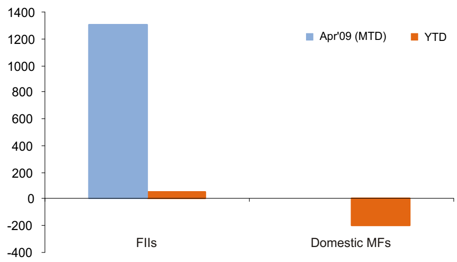
Indian Equity Market Insights

India

- Global markets continued to inch higher in April as the risk appetite returned to the market. Almost all indices delivered positive returns in the month of April.
- April saw huge inflows coming from FIIs which led to Sensex recovering strongly. FIIs bought US$ 1301m worth of securities in April. Domestic MFs also were net buyers during the month.
- Indian markets also went up on back of global cues, reversing losses of first two months of the year. Midcaps and small caps fared better and outperformed the Sensex during the month.
- All the sector indices delivered positive returns with Realty sector registering the highest gain (up 45%). Banks, Metals and Capital goods sector also delivered returns above 20%.

Source: ING IM Internal Research Team & www.sebi.gov.in

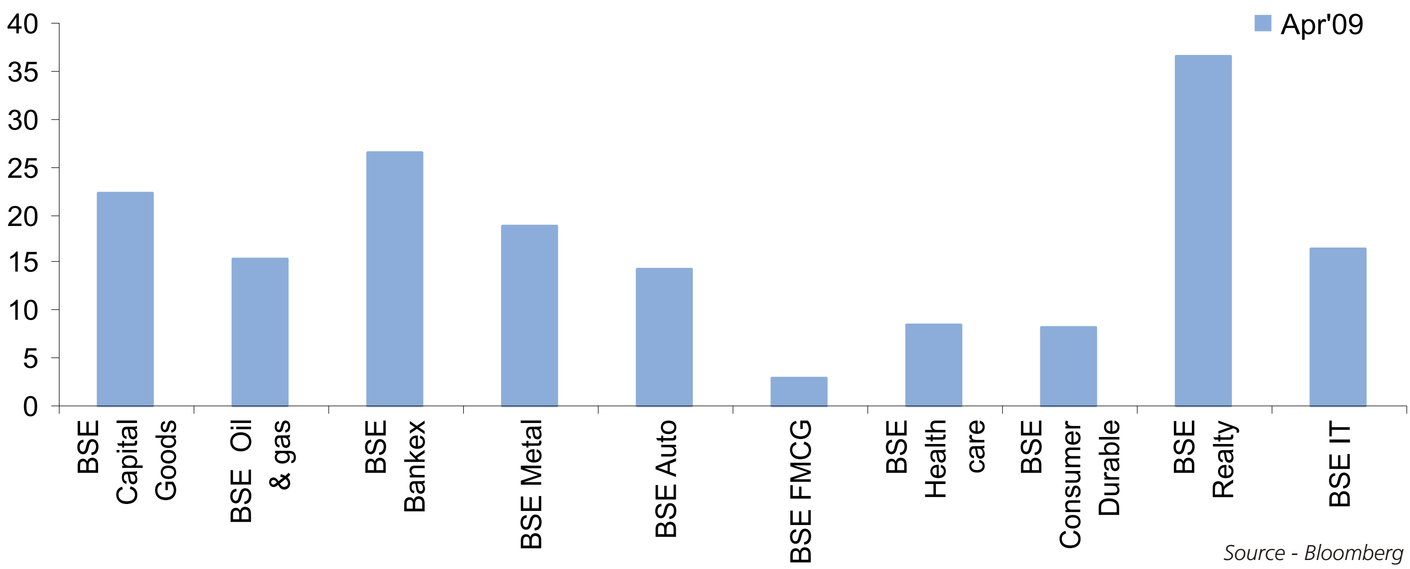
FII and MF Trend (Inflows)



Source: www.sebi.gov.in

Snapshot of Sectoral Trend

% change compared to previous month.



Source - Bloomberg

ING Overview of Sectoral Trend

Industrial Manufacturing and Construction

- There has not been any sign of recovery in the sector so far with IIP data continuing in negative zone. Credit growth has slowed vis-à-vis the previous years leading to slow down in capex for most companies. Due to slow down in the overall economy, demand has also come down leading to severe revenue and margin pressures. Government spending is the only silver lining in otherwise hazy outlook for the sector. However, we don't expect a quick recovery in the sector and maintain a cautious outlook.

Information Technology

- Most IT services came out with average set of numbers for 4th quarter. More importantly, the guidance for FY10 is muted. Most companies expect both pricing and volumes to be under pressure in the coming year. While application maintenance budgets have more or less been finalised, discretionary spending remains under pressure. We expect a flat to negative growth for most IT companies in the next year. We maintain our cautious view on the sector.

Steel

- Re-stocking, increased infrastructural spending from governments, low prices with substantial import substitution have led to rebound in domestic volumes in Q4FY09. However, global demand continues being weak as reported world crude steel production for the March 2009 quarter was down ~23% yoy. Domestic steel consumption is expected to be at last year's level with major domestic steel producers benefitting marginally at the cost of small players and imports substitution. Domestic steel prices seem to be well protected at current levels on news flow of production cuts, improving liquidity situation and government contemplating imposition of anti-dumping duty.

Media

- Slow down in ad spending was visible in 4Q results of broadcasting companies with many registering negative ad growth for the quarter. The outlook for the next year also looks challenging with expectation of flat growth due to overall slowdown in economy. In print space also, the advertisement is likely to witness zero or negative growth rate in the coming year. We maintain our bearish stance on the media sector.

Telecom

- Entry of new players in telecom space has started a new round of tariff war with most players coming with innovative and cheaper tariffs to lure customers to their networks. We expect it to have a negative impact on revenue and margins of all players in the market. We continue to maintain a cautious view on the sector in spite of high subscriber addition run rate due to increasing competition and expected margin pressures.

Bank

- During the 4QFY09, banks are likely to report moderate NII growth due to slowdown in credit offtake. Margins are expected to decline on the back of strong deposit growth rates and cut in PLRs. Treasury gains are likely to be lower but provisioning cost are expected to rise for most of the banks. Asset quality is likely to deteriorate further. However, the current valuation of the sector is factoring in doubling of non performing assets. PSU banking stocks are still trading at attractive valuations compared to their private sector peers.

Shipping, Shipyards and Logistics

- Like last few months, Dry Shipping indices on the Baltic continue to mirror global equity markets, thus indicating the common theme of global trade revival expectation. On the other hand, the Wet shipping indices continue to remain subdued on the face of lackluster crude oil markets and cautious exploration and refining activity. Moving ahead, we expect increase in scrapping of older ships the world over, coupled with cancellations in newly ordered ships. This has the potential of tilting the balance slightly in favour of demand vis a vis supply. "On the Logistics sector, view remains cautious with import export mismatch leading to empty running of containers, thus increased cost and lower margins for container operators. The operators to look out for, will be the ones with growth in market share in such challenging times.

Pharmaceuticals

- US FDA concerns continue to weigh heavily on the sector. Most of the top brass including Sun Pharma, Ranbaxy, Lupin and now Cipla too have small to major issues to be sorted with US FDA. On the domestic front, outlook is optimistic. In the emerging geographies though, some players are trying to constrain sales due to prevailing liquidity issues in those markets. Rupee depreciation would be a positive for the sector, though the gains would flow in partially and from next year, due to current hedged positions. The earnings estimates for most of the companies in the sector are not prone to recessionary concerns. There is some slowdown expected for the companies in CRAMS space. But the coming quarterly results would definitely give us a better idea. Overall the outlook and the valuations for the sector are good, with some company specific risks.

FMCG

- Consumer Goods sector begins the year ahead of an impressive last year, with expectations of continued strong growth, margin expansion and intensifying competitive scenario. There have been a couple of new launches in some categories and there are expectations of few more coming through the year as companies continue to broaden their product portfolio in their endeavor to grab a bigger pie of consumers' spends. However, given the state of economy, premiumization and mix improvement would be highly challenging for FMCG companies.

Cement

- Cement dispatches across India for the quarter ended March 2009 grew in excess of 8% year on year, accompanied by price increases in most regions. The strong demand for cement is largely on account of the semi-urban and rural sectors, and some state-specific infrastructure spending. As we had expected, margins for cement companies in the fourth quarter of FY2009 expanded due to the combination of higher cement prices and lower power and fuel costs. However, cement prices are likely to come under pressure in the second half of 2009 as new capacities begin coming on stream. This should lead to a fall in operating profit margins for cement companies.

Auto

- Sale volumes for all auto companies have improved significantly in the 4th quarter of FY2009 over the previous quarter. Two wheeler companies with a rural focus witnessed the strongest growth in volumes. Car sales also revived, as government stimulus and company discounts helped cut the cost of ownership by over 13%. Utility vehicle sales have also grown due to pre-election demand. Commercial vehicle sales have revived on a month on month basis from the lows of December 2008 but continue to be lower on an annual basis. The lower cost of ownership and Pay Commission benefits to government employees, combined with weak metal and oil prices should result in improved sector performance.

Source: ING IM Internal Research Team

Macro Economic Matrix

FACTOR	Impact on Debt Market				
	Very Negative	Negative	Neutral	Positive	Very Positive
Economic Growth				✓	
Credit Deposit Trends					✓
Fiscal Situation	✓				
Inflation					✓
Liquidity Situation					✓
External Sector			✓		
Monetary Policy Stance					✓

Fund Recommendations

- **Short Term Funds:**

  With credit spreads ruling around levels of 150 bps these funds may be able to generate decent accrual income along with duration plays. With credit spreads expected to stabilize going forward, we expect the short term funds to perform well going forward and maintain our positive outlook for an investment horizon exceeding 6-8 months.

- **Bond/Gilt Funds:**

  Given the current environment, medium to long term horizon for fixed income funds continues to be positive, hence given that the risks are managed appropriately the returns in these funds would be on the higher end of fixed income category.

- **Liquid funds:**

  We expect liquid funds to generate steady returns going forward. These funds still remain the best avenue for risk-averse investors who do not wish to lock-in their investments.

Going Forward

- We continue to maintain bullish stance on the Fixed Income Market though some retracement cannot be ruled out since yields have come off sharply and Government is slated to borrow large amounts in the month of May.
- 25 bps cut leaves door open for further rate cuts in future as inspite of incipient signs of recovery in real economy, it will take some time before cross border flows start picking up and RBI will continue to maintain a soft monetary policy stance till it meets its objective of revival of growth.
- RBI will continue to use OMO as a strong tool to keep interest rates low.
- Inflation would continue to remain low for next few months.

	Key Drivers	Key Risks	Risk Rating
World Economy	• Deleveraging of consumer, financial and corporate sectors • Continued co-ordinated approach to the financial and economic crises	• Emerging markets decline into recession • Protectionism emerges	High Low
Global Equities	• Prospects for economic growth • Earnings growth and the extent of revisions	• Earnings downgrades surprise on the downside • Availability of credit diminishes	High Medium
Global Bonds	• Accomodative monetary stance • Weak growth and disinflation • Increased G-20 & IMF support to EM economies • Deficit spending & bond supply	• Return of risk appettite/ demand for risky assets • Inflation replacing deflation • Increasing fiscal deficits, rising public debt	Medium Low Low
Asian Equities	• Extent Asia is impacted by the global economic slowdown • International investors appetite for risk	• Earnings revisions surprise to the downside • Valuations fail to halt market slide	High High
Asian Bonds	• Accomodative monetary stance • Decelerating growth and disinflation • Bond supply and deteriorating fiscal dynamics • Increased G-20 and IMF support to EM economies	• Increased bond supply • Higher G3 bond yields • Increased inflation	Low Low Low
Indian Equities	• The estimated real GDP growth of 6.7% in FY09 is still better than most economies and is led by strong domestic consumption. Several sectors that had reported significant drop in business momentum in 3QFY09, have witnessed strong recovery in 4QFY09.	• GDP growth for FY09 is likely to decline to 6.7% on strong global headwinds and rub-off impact on the Indian economy.	Medium
	• We expect inflation to turn negative for the next six months. A deflationary environment would be conducive for both the RBI and the government to pursue more measures to stimulate growth. Lending rate cuts would lead to revival in interest rate sensitive sectors.	• The economic data for the next few months needs to be monitored for sustained revival in auto sales and cement/steel consumption. Exports and tourism will continue to decline for some more time.	Low
	• While the government may be formed through a coalition of multiple political parties (no single party is likely to win a majority on its own), the dominant party, its allies and their willingness to introduce economic reforms would be a significant catalyst for Indian equities	• Elections in April-May 2009 the key event risk.	High
Indian Bonds	• Monetary policy stance to remain accommodative to support falling economic growth • Inflation Stabilizing • Easy liquidity	• Expansionary Fiscal policies and SLR cuts • Pull back in oil prices and commodity prices • Higher borrowing from government and high issuances by corporates	High High High

Key Forecasts

	Real GDP				Inflation				90 Day Interest Rates*		10 Year Bond Yields	
	2009E#	ING	2010E#	ING	2009E#	ING	2010E#	ING	Actual 30-Apr-09	ING Forecast For Next 3 Months	Actual 30-Apr-09	ING Forecast For Next 3 Months
The World	-1.6	-	2.1	-	1.3	-	2.3	0				
USA	-2.8	0	1.7	-	-0.9	0	1.5	0	0.12	Steady	3.12	Steady
Europe	-2.6	0	0.5	-	0.6	0	1.5	0	0.75	Steady	3.18	Steady
Japan	-5.8	0	0.7	-	-1.1	0	-0.4	0	0.38	Steady	1.43	Steady
Australia	-0.3	-	1.7	0	2.1	0	2.4	0	3.08	Lower	4.57	Higher
China	7.0	-	8.3	-	0.2	+	1.7	0	2.25	Steady	3.16	Steady
Hong Kong	-3.4	-	2.4	-	1.1	+	1.4	0	0.76	Steady	2.10	Higher
India	5.2	0	7.8	-	5.3	-	5.3	-	3.28	Steady	6.23	Steady
Indonesia	3.4	-	4.7	-	6.2	0	6.3	0	8.74	Lower	11.97	Lower
Malaysia	-0.7	0	3.6	-	1.3	0	2.1	0	2.11	Steady	4.00	Higher
Philippines	1.9	-	3.6	0	4.1	0	4.8	0	4.51	Steady	8.13	Lower
Singapore	-4.7	0	3.2	-	0.1	0	1.5	0	0.67	Steady	2.04	Steady
South Korea	-3.0	0	3.5	-	1.9	-	2.3	-	2.41	Steady	4.69	Steady
Taiwan	-4.9	0	2.9	-	-0.8	+	0.9	0	0.51	Steady	1.63	Steady
Thailand	-1.6	0	3.2	0	-0.4	0	2.9	+	1.50	Lower	2.92	Higher

Consensus Forecast, ING Bias ("+" Higher, "0"in line, "-" Lower than Consensus Forecast)

* Australia 90 day BBSW Rate, Hong Kong, Malaysia, Singapore, Indonesia and Thailand 90 Day Interbank Rate, Japan and Korea 3 months CD Rate, China 1 Year Deposite Rate, India 90 Day Treasury Bill and Taiwan 90 Day Commercial paper Secondary Mkt

\# Asia Pacific Consensus Forecasts - Consensus Economics Inc.

Source: ING IM Internal Research Team

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