

MEDIA RELEASE

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Monetary response to rising inflation is the key short term market uncertainty in Asia, says First State's Rippingall

Higher than expected inflation throughout Asia and the level of monetary tightening are the key uncertainties facing investors in the region, according to Susie Rippingall, investment manager of the Scottish Oriental Smaller Companies Trust plc (Scottish Oriental). The investment trust aims to achieve long-term capital growth by focusing mainly on smaller Asian quoted companies.

Rippingall comments:

'A major concern over the shorter term is that the rise in inflation across Asia has been caused not only by the recent spike in food prices but also a deteriorating demand-supply imbalance in the region. So far, the authorities' response has been modest at best and non-existent at worst, with central banks in Indonesia and the Philippines still waiting to make a move citing relatively low levels of core inflation.

'There is a risk that significantly higher interest rates will attract foreign capital inflows, which could result in currency appreciation and a loss of export competitiveness.

'A coordinated tightening of monetary policy by Asian central banks might well offset this but is unlikely for political reasons. Instead, the monetary authorities across the region are likely to take their lead from China which will continue to use a combination of high interest rates and regulations in its efforts to slow economic growth and curb the rate of inflation.'

Rippingall continues to focus on capital preservation, seeking out businesses with robust management, strong ability to generate cash, predictable and sustainable growth, as well as those which are among beneficiaries from currency weakness. Some of the currently favoured stocks include Security Bank, an independent corporate bank in the Philippines; CSE Global, a global developer of control, automation and communication IT services based in Singapore; and Media Prima, Malaysia's leading media company with exposure to TV, radio and newspapers.

In contrast, Rippingall is cautious on selected consumer related areas, which have experienced a substantial re-rating of their valuations and consequently some of the positions in them taken by Scottish Oriental have been reduced. However, the manager continues to favour the sector over the long term due to its exposure to rising living standards across the region.

Rippingall concludes:

‘There are several reasons for being optimistic about Asian equity markets over the longer term, such as the region’s superior economic growth prospects versus the developed world, relatively high savings ratios, as well as the evolution of economies increasingly driven by domestic consumption rather than exports. However, there is a risk that these positive factors are already reflected in current stockmarket valuations, particularly given the significant returns achieved by Asian markets since the onset of the global financial crisis in 2008. Sell-side analysts remain optimistic, with many continuing to forecast corporate earnings growth in excess of 20% in 2011 which, if achieved, imply reasonable rather than compelling valuations.’

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Notes to editors:

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