



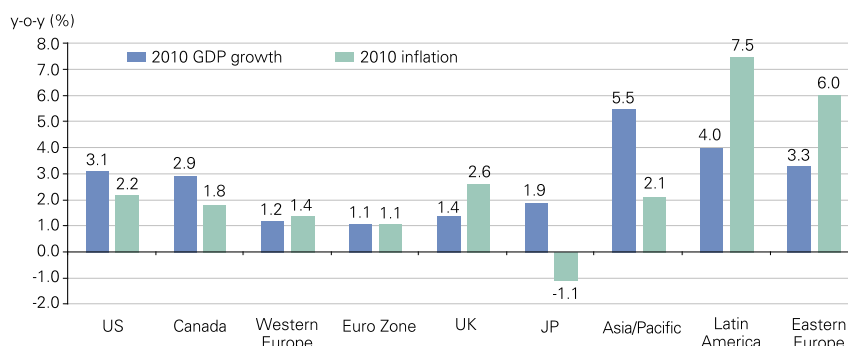
Global Investment *Perspective*

May 2010

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The MSCI World Index rose by about 6.6% last month, bringing the quarterly performance to 4.8%. Encouraging economic data largely contributed to the positive move in March. Economic activity continues to recover but the pace of improvement is likely to slow in the near term. Consumption remains mixed and unemployment is still extremely high in developed economies, adding further risk to the outlook for economic growth.



March 2010 Consensus Real GDP growth and inflation

Source: HSBC Global Asset Management, Thompson Datateam, Bloomberg, Barclays Capital.

Despite ongoing concerns, the risk regarding the debt situation of Greece as well as other peripheral European sovereigns appears to be well priced in. As such, we maintain our preference for peripheral European bonds. Estimates for 2010 corporate earnings growth remain rather optimistic, which is creating greater risk for negative surprises. Therefore we prefer a moderately cautious position in equities overall and maintain our preference for defensive sectors. We continue to see potential in Turkish equities among emerging markets and maintain our preference for Latin America over Emerging Asia.

Inflation is picking up in emerging markets due to a pick up in domestic demand and the sharply stronger economic growth versus the developed economies. This continues to raise concern that governments in emerging markets may need to further unwind stimulus measures and that central banks will act to ease inflationary pressures.

We are positive on investment grade and high yield corporate bonds as the current yield spread levels are still attractive relative to history and to the low yields offered by government bonds. We continue to have some conviction on longer-term strengthening of the EUR versus the GBP but worries over Greece cloud short-term outlook for the EUR.

▶ Market/Commodity

US

Economic recovery building momentum but uncertainties remain such as unemployment and government debt

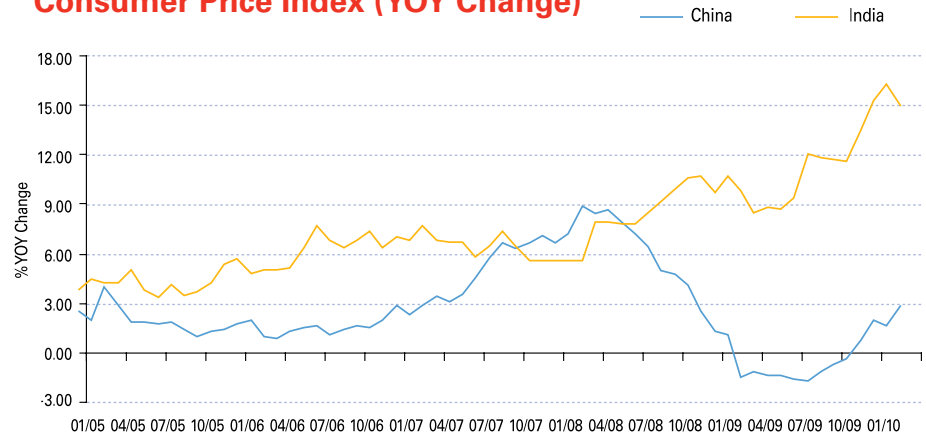
While the US economic recovery is building momentum, major uncertainties remain, with employment and government fiscal balances showing little progress. Therefore, we maintain our moderately cautious view on equities for the US and elsewhere, and reiterate our preference for defensive sectors over cyclicals.

Europe

Government debt poses threat to business confidence and economic growth

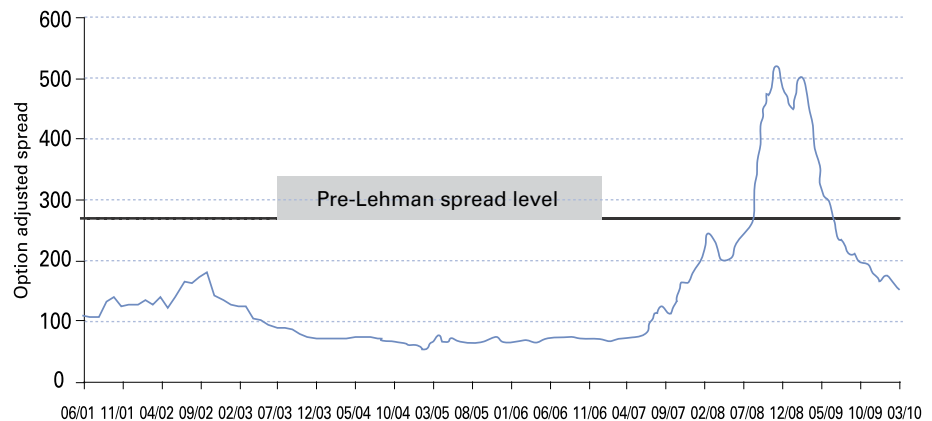
Concern over the UK and the Eurozone's government debt level continued to pose a threat to business confidence and economic growth. In addition, unemployment remains high and consumption has failed to improve. Overall, we reiterate our moderately cautious stance on European equities.

Consumer Price Index (YOY Change)



Source: Hsbc Global Asset Management, Thompson Datastream, Bloomberg, Barclays Capital.

Global Corporate Option Adjustment Spread



Source: HSBC Global Asset Management, Bank of America Merrill Lynch



“Inflation is picking up in emerging markets due to a pick up in domestic demand and the sharply stronger economic growth versus the developed economies.”

Japan

Weak consumption and rising public debt remain headwinds to sustainable growth

With interest rates at historic low levels, and the potential for further government support, liquidity is likely to be a positive factor again this year. But as valuations are not particularly attractive and risks to growth persist, we maintain a moderately cautious view on Japanese equities.

Asia ex-Japan

Risk of early monetary tightening in Asia and weak global demand create growth concern

The strong rebound in economic activity is creating major concerns for investors, because inflation is rising quickly, meaning that authorities are more likely to take measures to prevent overheating. Furthermore, levels of consumer demand in developed economies remain disappointing, which may affect exports. Therefore, we maintain an underweight allocation to Asia ex-Japan relative to cash.

Emerging Markets

Uncertainty regarding global demand and concerns of accelerating monetary tightening weigh on growth outlook

Rising inflation and the possibility of early monetary tightening are making the backdrop for emerging equities less positive relative to a year ago. Therefore, we maintain a moderately cautious view on the asset class in general, recommending a moderate underweight position against cash.

Hong Kong & China

Positive economic data confirming recovery whilst inflation remains a concern

The recent stronger-than-expected economic data could add risk to economic overheating and push authorities to tighten policy. However, if the authority implements the proper tightening measures, the Chinese economy should have a stronger foundation with lower risk of run-away inflation which is favorable for the market. Having said that, the valuation is gradually improving.

Oil

Excess capacity is likely to keep oil trading in a target range of US\$65-85

Supply and demand dynamics continue to improve as do global growth prospects, but the overall level of economic activity is likely to continue to keep oil demand at subdued levels. We expect the oil price to keep fluctuating in the US\$65-85 range.



METALS	
GOLD	706.95
SILVER	12.52
COPPER	339.20
PLATINUM	1297.0

“Rising inflation and the possibility of early monetary tightening are making the backdrop for emerging equities less positive relative to a year ago.”

► Currency

USD

Remain neutral given uncertainty on the investment outlook for 2010

Our recommendation is to maintain a neutral view on the USD given the uncertainties surrounding the investment outlook for 2010 and whether the USD's inverse link with the 'risk trade' has really been broken.

EUR

Outlook clouded by uncertainty of the extent of fiscal support Greece will receive from European-member countries

We continue to have some conviction on longer term strengthening of the EUR against the GBP because of the greater deterioration in the UK's public sector finances and less favourable growth and inflation prospects for the UK economy compared to the major Eurozone countries.

GBP

Short-term volatility likely given UK political uncertainty and the debt issue of peripheral Eurozone governments

We continue to believe that an underweight GBP position against EUR is justified by the UK's worse fiscal position compared to that of the major Eurozone countries although both the GBP and EUR could be subject to short-term volatility given the political uncertainty in the UK and the ongoing fiscal difficulties of the peripheral Eurozone countries.

JPY

Lasting appreciation or depreciation trend unlikely

While some short-term factors may appear supportive of near-term weakness, given the uncertainties on global growth and question marks on the fiscal situation in the US and Europe, it is difficult to see lasting appreciating or depreciating trends among the major currency pair from a fundamental perspective.

CAD

Some modest appreciation expected

The currency's short-term direction is likely to continue to be driven by global equity markets performance. The recent strength in commodity prices is also a fundamental positive for the currency. But given the strong appreciation over the past year, some consolidation could be expected.

AUD

Currency direction dictated by commodities and China market

Data outcomes in Australia in the past month were softer than expected. Due to the elevated nature of the currency as well as our expectation that the commodities outlook is relatively neutral, and China may have to hike rates more aggressively to prevent inflation from rising much faster, we are concerned that the downside risks persist.



► Interest rate/Profit rate

US Government Bonds

Remain neutral on US treasuries versus cash with preference for corporate debt

In the absence of inflationary pressure, supply concerns remain the key factor driving US Treasury prices, particularly now that the quantitative easing measures have finished on 31 March. We continue to recommend a neutral position in US Treasuries relative to cash. Within fixed income assets, we prefer to own corporate debt, where we see greater total return opportunities.

Eurozone Government Bonds

Retain preference for corporate debt on valuation grounds

While Greece's fiscal situation is likely to continue to generate volatility in markets, currently the concerns appear to be well reflected in prices. But overall, given the exceptionally low yields offered by government bonds, our preference remains for corporate debt on valuation grounds.

Asian Government Bonds

Neutral position balances positive macro environment with relatively poor valuations

The macro environment is positive for Asia with solid growth and decent external and fiscal balance positions. However, valuations are becoming expensive as spreads on Asian bonds have contracted to almost pre crisis levels. Combining the positive macro environment with relatively poor valuations leaves us with a neutral view.

Investment Grade Corporate Bonds

Valuations and the demand for yield remain supportive

Implied default rates for investment grade issues are still much higher than actual default rates, therefore there is still value in investment grade credit, despite spreads having tightened dramatically from the peaks. Overall, valuations are historically attractive, company fundamentals are improving and technicals should stay supportive of investment grade bonds.

High Yield Bonds

Ample liquidity and low inflation favourable for asset class

Ample liquidity and low inflation should continue to foster a favourable environment for high yield bonds. The ongoing search for yield from investors is also playing in favour of credit. Overall, we re-iterate our positive view on the asset class.

USD-denominated Emerging Market Debt

Valuations remain less attractive than high yield corporate bonds

The asset class continues to enjoy favourable flows that currently are one of the main drivers of the performance. However, on valuation basis, emerging market debt continues to look less attractive relative to other riskier fixed income markets, such as high yield corporate debt. Overall, we maintain our negative stance on the asset class.

“The macro environment is positive for Asia with solid growth and decent external and fiscal balance positions.”

GCC

► **Dubai offers Dubai World \$9.5 billion in new funds**

Dubai World released its plan to creditors of its debt restructuring last week, with the following headlines:

- All creditors to receive 100% repayment of their facilities
- Nakheel Sukuk holders to be repaid in full on 2010 and 2011 maturity dates
- Other bank creditors to be repaid in full but in 5 year or 8 year tranches
- Nakheel's trade creditors to get 40% upfront cash payment and 60% tradable security
- Nakheel/DW to receive USD 9.5bn to pay creditors/contractors and finish projects (of which USD 5.7bn is from the Dubai Support Fund and USD 3.8bn provided by Dubai government)
- Dubai Govt. proposing to swap \$10.1bn of debt for equity in Nakheel/DW

► **Waha Assembly approves AED 1 billion mandatory bonds or Sukuk**

The General Assembly of Waha Capital PJSC, the leading investment holding company enlisted on Abu Dhabi Exchange, approved recommendations of the Board of Directors to issue mandatory convertible AED 1 billion bonds or Sukuk, in addition to distributing 2.5% cash dividends and 10% bonus shares of the company's paid-up capital.

► **Dar al-Arkan successfully redeems US\$600 million Inaugural Sukuk**

Dar Al-Arkan Real Estate Development Company (Dar Al-Arkan), a leading residential real estate developer in the Kingdom of Saudi Arabia, announced that it has successfully redeemed its inaugural Sukuk issued in March 2007. The repayment was made on schedule. Issued by DAAR International Sukuk Company, the landmark 3-year US\$600 million issue marked the first Sukuk to be issued by a Saudi company in the international capital markets. Launched as a US\$425 issue, it received an overwhelming response from financial institutions across Europe, South East Asia and the GCC region.

Asia

► **Pakistan plans Islamic bonds to tap local demand**

Pakistan, South Asia's second-biggest economy, is looking to raise funds to finance a budget deficit that is widening as the government boosts spending to fight Taliban militants in the northwest tribal areas. The deficit will widen to 5.3% of gross domestic product in the year ended June 30 from 5.2% last fiscal year, according to the finance ministry.

► **South Korean institutions are showing increasing interest in Islamic**

There is anecdotal evidence which suggests that most sales of sukuk this year will be generated from Asia. Malaysia continues to dominate the sukuk market today with an 80% market share in the global Islamic bonds market, but last year also saw other sovereigns such as Indonesia, with its successful sukuk treble, make their way into the market. Singapore also made a relatively small but significant debut. Although a relatively latecomer to Islamic finance in Asia, South Korea is following the stated ambitions of its neighbouring countries, such as Hong Kong and Singapore, in trying to establish itself as an international Islamic capital market hub. The country's National Assembly is currently considering a bill aimed at facilitating tax neutrality for the issuance of sukuk.

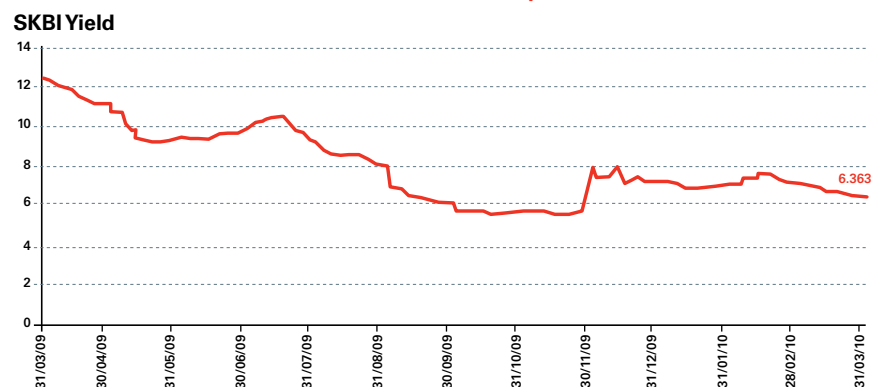
► **Indonesia aimed to sell 1 trillion rupiah**

Indonesia's finance ministry raised 620 billion rupiah (\$68.24 million) in a sukuk auction in March, well below target, as investors demanded high yields to compensate for a lack of trading liquidity in the paper. The ministry had expected to raise 1 trillion rupiah from the auction of sukuk or Islamic debt, proceeds of which would be used to finance the state budget deficit.

► **Deutsche Bank (DB)**

DB is in talks to arrange sukuk issues in Brunei, Malaysia, Indonesia and Pakistan as improving credit conditions bring issuers back to the market. Deutsche said this month it had received an international Islamic banking licence from Malaysia's central bank.

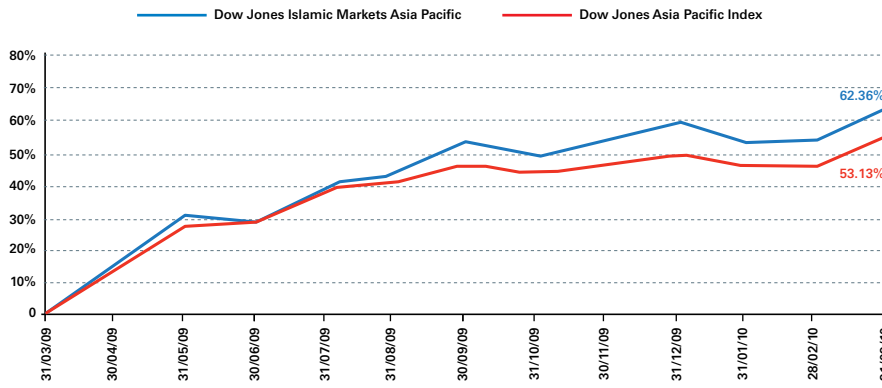
The HSBC SKBI yield stands at 6.363 as of 31 March 2010 compared to 7.145 as of end of February 2010.



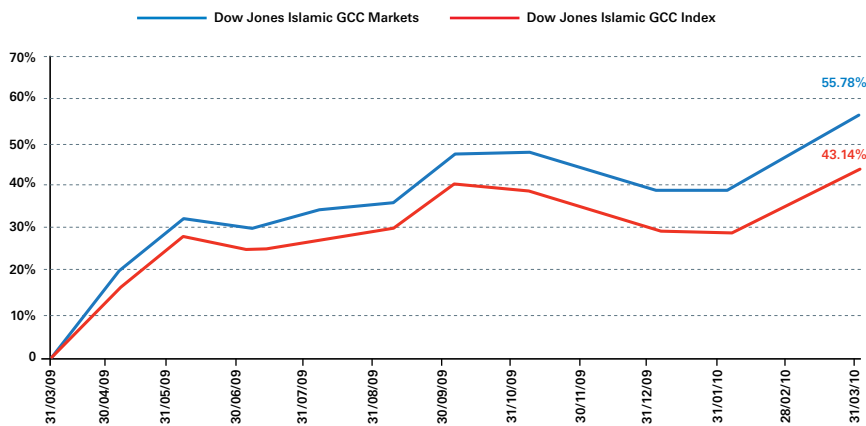
Source: Bloomberg; SKBI Average Yield figures as 31 March 2010

▶ Main Indices Performance

▶ Performance Summary



Source: Bloomberg April 2010, USD



Source: Bloomberg April 2010, USD

Index	Performance 1 year End of March 2009 to end of March 2010
Dow Jones Islamic Markets World	47.69%
Dow Jones Global Index	53.57%
Dow Jones Islamic Markets Europe	48.30%
Dow Jones European Index	52.91%
Dow Jones Islamic Markets Asia Pacific	62.36%
Dow Jones Asia Pacific Index	53.13%
Dow Jones Islamic Markets Emerging Markets	75.87%
Dow Jones Emerging Markets Index	79.90%
Dow Jones Islamic Markets GCC	55.78%
Dow Jones GCC Index	43.14%

Source: Bloomberg April 2010, USD

“Malaysia continues to dominate the sukuk market today with an 80% market share in the global Islamic bonds market”



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