

For Immediate Release

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WESTERN ASSET: RATE HIKES IN ASIA UNLIKELY IN NEAR TERM

Singapore – 26 November 2009 – Investment decisions over the next few months will require correct anticipation of policy's response to the stronger foreign capital flows into the region, said fixed income manager Western Asset. Central banks in Asia will unlikely increase interest rates too rapidly as long as the Fed, ECB and BOJ keep their policies accommodative since higher domestic interest rates will only increase flows into the region, thereby putting further upward pressure on their respective currencies.

"Central banks are also worried that higher interest rates might slow domestic growth, which is precisely the part of the economy that needs to grow in order to compensate for weaker export markets," said Rajeev De Mello, Head of Asian Investment at Western Asset.

Easy liquidity are encouraging overwhelming capital flows into Asia, boosting currencies, equities and bond prices as portfolio flows become more important relative to foreign direct investment. Asian policy-makers' intervention to avoid their currencies appreciating too rapidly has led to an increase in foreign reserves and domestic liquidity, and in turn pushing up asset prices, particularly property prices.

De Mello said policy makers may instead choose to tighten bank reserve requirements to absorb part of the capital inflows but the weight and sequencing of the policies will vary by country.

Commodity-exporting countries such as Indonesia and Malaysia may allow their currencies to appreciate faster as their exports are less sensitive to higher prices due to strong commodities demand; India and Korea, which are more concerned about domestic inflation, may move towards an increase in interest rates by 1Q10; China, Singapore, Hong Kong and Taiwan will likely keep interest rates low to avoid currency appreciation and implement administrative measures to contain their booming property sectors.

In light of these views, Western Asset is maintaining overweight currency positions in Indonesia, Malaysia, India and Korea. The firm is still comfortable with Indonesian bonds and modestly overweight Thai bonds. It is also maintaining an overweight in long-term Chinese yuan currency forwards.

"We continue to believe that in the medium term, China will return to its pre-July 2008 policy of allowing its currency to modestly appreciate" De Mello added.

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Note to Editors

About Western Asset

Western Asset is one of the world's leading fixed income managers with over US\$506.4 billion (September 30, 2009) under management. With offices in the United States, London, Tokyo, Singapore, Hong Kong, Melbourne and Sao Paulo, the company offers clients a full range of local and cross-border fixed income products. By devoting all of its resources to fixed income, Western Asset can provide a full commitment to clients in every area. This focused approach has generated positive long-term returns in a variety of products with varying risk disciplines. Western Asset's long performance track record and global presence has positioned the company to continue its commitment to excellence in fixed income investment management and client service.

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