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MARKET REVIEW ASEAN

January 2016

OVERVIEW

Equity markets launched a volatile and difficult start to the year, falling sharply in the first three weeks of January. Weak Chinese manufacturing data gave rise to renewed concerns regarding growth in China, and fears of contagion to the global economy resurfaced. Further, weak retail sales and industrial production in the US and the continued collapse in oil prices exacerbated the sentiment. Global equity markets were down as much as -10% at one point in January.

Markets later began to stabilize on hopes that the major central banks would loosen monetary policy further in response to the downside risks to growth and inflation. For example, the Bank of Japan surprised investors when it announced a negative deposit interest rate of -0.1% at its January meeting. Likewise, the European Central Bank suggested that all policy options will be considered at its March meeting, including further reductions in the deposit rate. Finally, growing speculation among economists that US Federal Reserve rate hikes might be more subdued than initially expected is leading to talk of a "one and done" scenario.

Zahid Siddique
Senior Equity Analyst

US Federal Reserve rate hikes might be more subdued than initially expected leading to talk of a "one and done" scenario.

Malaysia

As widely anticipated, the government recalibrated the 2016 Federal Budget on the back of falling crude oil prices. Across-the-board expenditure cuts primarily will offset the estimated MYR7-9 billion oil revenue shortfall. Further, Malaysia's GDP growth forecast for 2016 was revised down from 4%-5% to 4%-4.5%. Interestingly, the fiscal deficit target of 3.1% of GDP remained unchanged.

Separately, Bank Negara kept its overnight policy rate unchanged at 3.25% but cut the statutory reserve requirement of banking institutions by 50 basis points. This cut is expected to release an estimated MYR6 billion of liquidity into the system. As a result, the Malaysian ringgit strengthened 3.3% against the dollar from a month ago to end at 4.15. The FBM KLCI however declined by -1.46% in January, ending at 1,667.8. Foreign investors' participation was particularly strong in the final week of the month, but the net flow for January 2016 remained negative at MYR975 million.

Market Indicators	Current Value	1 Month	YTD	1 Year
FBM EMAS Shariah (RM)	12,421	-2.90% ▼	-2.90% ▼	-0.79% ▼
FBM KLCI (RM)	1,668	-1.46% ▼	-1.46% ▼	-3.54% ▼
S&P 500 (US$)	3,632	-4.96% ▼	-4.96% ▼	-0.67% ▼
Dow Jones Industrial Average (US$)	16,466	-5.39% ▼	-5.39% ▼	-1.67% ▼
FTSE All World (US$)	248	-6.03% ▼	-6.03% ▼	-6.15% ▼
MSCI All Country World Index (US$)	375	-6.00% ▼	-6.00% ▼	-6.24% ▼
MSCI Emerging Markets (US$)	319	-6.49% ▼	-6.49% ▼	-20.91% ▼
Dow Jones ASEAN Islamic (RM)	7,963	-4.85% ▼	-4.85% ▼	-5.42% ▼
Jakarta Composite Index (RM)	4,615	-2.00% ▼	-2.00% ▼	-17.27% ▼
Philippine Stock Exchange Index (RM)	6,688	-8.33% ▼	-8.33% ▼	-17.85% ▼
Straits Times Index (RM)	2,629	-12.50% ▼	-12.50% ▼	-23.69% ▼
Stock Exchange of Thailand (RM)	1,301	-1.56% ▼	-1.56% ▼	-22.06% ▼

	Current	1 Month Ago	1 Year Ago
Ringgit per US$	4.15	4.29	3.63
Crude oil (US$)	$33.62	$37.04	$48.24
Crude palm oil (RM)	RM 2,349	RM 2,398	RM 2,154

Indonesia

Bank Indonesia cut its policy rate 25 basis points to 7.25% in January. Additionally, the bank stated there could be another rate cut in February 2016 should market and economic conditions warrant it. Separately, the World Bank lifted Indonesia's 2016 growth forecast from 4.7% to 5.3%,

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arguing that the economy would be supported by increased government spending and exports as China's economy may recover. Foreign exchange reserves improved by US$5.6 billion in December 2015 to US$105.9 billion.

The Jakarta Composite Index closed at 4,615.2, up 0.48% over December. In ringgit terms, the Index returned -2.00%. Foreign investors disposed of US$135 million in equities during the month.

Philippines

The Philippines' fourth quarter GDP growth beat all estimates, coming in strong at 6.3%. For the whole of 2015, growth of 5.8% was driven by strong private consumption and government spending. Cash remittances by overseas workers in November 2015 amounted to US$2.2 billion, 3.2% higher year-over-year, bringing the 11-month tally up 3.6% over 2014 to US$22.8 billion.

Foreign investors began 2016 with net selling of US$43 million of equities. The Philippine Stock Exchange Index closed at 6,687.6, down -3.80% from December 2015. In ringgit terms, the Index declined by -8.33%. In the coming months, the dynamics of the upcoming election may to some degree dictate the direction of the stock market.

Singapore

Singapore's manufacturing sector remained weak, with the Purchasing Managers' Index shrinking for a seventh straight month in January, driven mainly by the China slowdown. Economists downgraded Singapore's GDP growth rate for 2016 to 1.4% percent from 2% projected during the fourth quarter of 2015. Singapore's economy grew at the weakest pace in 2015 since the global financial crisis, expanding by 2.1% compared with 2.9% in 2014. Overall, there are signs that the economic trends in Singapore are stabilizing. Growth could pick up towards the end of 2016, driven by services sector growth and potential manufacturing sector stabilization driven by a recovery in China.

Singapore's Straits Times Index fell -8.75% in January to 2,629.1. In ringgit terms, the Index fared even worse, declining -12.50% in the month.

Thailand

The Stock Exchange of Thailand Index closed up 1.05% in January. In ringgit terms, the Index declined -1.56% in the month. As expected, the Bank of Thailand kept interest rates at a five-year low of 1.5 percent. The bank had delivered back-to-back rate cuts in March and April last year in a bid to spur inflation and growth, but held steady this year in order to preserve its leverage when needed.

Domestic activity improved slightly towards the end of last year, driven by the tourism industry. However, agricultural and manufacturing exports, private spending, and the informal economy remain generally weak. Further, uncertainty related to the military government and its transition plans is proving to be an Achilles' heel for gaining back investor confidence.

PORTFOLIO TACTICS

We continue to be cautious on the ASEAN region in the near to mid-term as tepid exports, weak currencies, China slowdown, and Fed rate hikes continue to impact the economies of this region. Volatility in the capital markets is here to stay due to actions of the major central banks. We will continue to look for exciting catalysts in this region and take appropriate long-term positions. Within the region, we favor Indonesia, Singapore, and the Philippines over Malaysia and Thailand.

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