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MARKET REVIEW ASEAN

OVERVIEW

March 2016

After months of volatility, confidence is returning to Asian stocks with ASEAN markets receiving record equity inflows in March. Regional currencies, particularly the Malaysian ringgit, staged a strong rebound. As global oil prices and the Chinese economy have begun to stabilize, investors hope that the worst might be over. China's manufacturing activity rebounded in March to its highest level since late August.

In the US, the jobs data continues to highlight economic improvement, and the possibility of an impending recession has receded for now. The US Federal Reserve will likely continue on a measured interest rate hike path. Separately, recent manufacturing activity in the eurozone suggests that the region may have lost some momentum in the first quarter of 2016. On March 10, the European Central Bank cut its benchmark interest rates to a new low and expanded its quantitative easing package to revive the continent's flagging economic recovery. However, the ECB talked down the prospect of further rate cuts, reintroducing volatility into the global markets.

Going forward, ongoing actions of the global central banks, the extent of a Chinese recovery, oil prices, and the US economy will continue to dictate investor sentiment. We will likely see periods of stock market stability, interrupted at times by bouts of volatility, as the global economic landscape takes shape.

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As global oil prices and the Chinese economy have begun to stabilize, investors hope that the worst might be over.

Malaysia

The Malaysian equity market performed well on the back of strong foreign funds inflows, reversing the massive outflows from the financial markets in 2015. The strengthening Malaysian ringgit and a stable crude oil market drove cumulative net foreign purchases of Malaysian equities to the near-record level of MYR6.1 billion in March. The Malaysian ringgit broke the MYR4.00 psychological resistance level to end the month at MYR3.90 against the US dollar. Separately, Bank Negara reserves stood at US$96.1 billion as of March 15, slightly higher from the prior month. The FBM KLCI gained 4.16% in March and rose 2.21% for the quarter and year-to-date.

Indonesia

The central bank of Indonesia lowered benchmark interest rates by 25 basis points yet again to 6.75%. This was the third interest rate cut in 2016 as the fear of inflation dissipated and the rupiah strengthened against the US dollar. Foreign investors continued to be net buyers of Indonesian equities in the month. The Jakarta Composite Index closed at 4,845.37, up 1.73%

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Market Indicators	Current Value	1 Month		YTD		1 Year	
FBM EMAS Shariah (RM)	12,498	2.33%	▲	-1.83%	▼	-2.15%	▼
FBM KLCI (RM)	1,718	4.16%	▲	2.21%	▲	-3.20%	▼
S&P 500 (US$)	3,873	6.78%	▲	1.35%	▲	1.78%	▲
Dow Jones Industrial Average (US$)	17,685	7.22%	▲	2.20%	▲	2.08%	▲
FTSE All World (US$)	263	7.56%	▲	0.42%	▲	-3.62%	▼
MSCI All Country World Index (US$)	398	7.48%	▲	0.39%	▲	-3.79%	▼
MSCI Emerging Markets (US$)	361	13.23%	▲	5.71%	▲	-12.03%	▼
Dow Jones ASEAN Islamic (RM)	8,254	-0.83%	▼	-2.01%	▼	-4.15%	▼
Jakarta Composite Index (RM)	4,845	-4.53%	▼	0.49%	▲	-10.96%	▼
Philippine Stock Exchange Index (RM)	7,262	4.27%	▲	-2.85%	▼	-9.41%	▼
Straits Times Index (RM)	2,841	2.80%	▲	-6.48%	▼	-13.14%	▼
Stock Exchange of Thailand (RM)	1,408	-0.37%	▼	2.01%	▲	-10.53%	▼

	Current	1 Month Ago	1 Year Ago
Ringgit per US$	3.90	4.20	3.70
Crude oil (US$)	$38.34	$33.75	$47.60
Crude palm oil (RM)	RM 2,690	RM 2,479	RM 2,136

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in local currency but down -4.53% in ringgit terms from the previous month. Year-to-date, the index is up 5.68% in local currency and 0.49% in ringgit terms.

Philippines

The political landscape in the Philippines remains dynamic as we move towards the presidential election slated for May 9. The latest surveys indicate that the top two presidential candidates, Grace Poe and Rody Duterte remain in a virtual tie. On the economic front, overseas Filipino workers (OFW) remittances continued to grow strongly, rising 3.2% year-over-year to US$2.2 billion despite global volatility and the slowing economies in the Middle East. The Philippine Stock Exchange Index closed at 7,262.30, up 9.54% over February. In ringgit terms, the index gained 4.27%. Year-to-date, the index has risen 5.24% in local currency but is down -2.85% in ringgit terms.

Singapore

In late March, Singapore announced an expansionary fiscal budget to boost growth, pledging support for companies facing labor constraints amidst a faltering global outlook, and higher wages for low-income earners. The government will increase spending by SG$5.0 billion (US$3.7 billion), or 7.3 percent, from a year earlier.

Singapore's manufacturing sector remained weak, with manufacturing activity shrinking for a ninth straight month in March. Further, economists continue to downgrade Singapore's GDP growth rate for 2016 with some now calling for a recession. Singapore's recovery will certainly depend on economic conditions in China, which likely will remain subdued into the foreseeable future.

Singapore's Straits Times Index rose 6.64% in March to 2,840.90. In ringgit terms, the index advanced 2.80% in the month. For the first quarter, the index fell -1.22% in local currency and declined -6.48% in ringgit terms.

Thailand

The Stock Exchange of Thailand Index closed up 6.34% in March and 10.38% for the quarter. In ringgit terms, the index fell -0.37% in the month but rose 2.01% for the quarter.

The Bank of Thailand revised down its 2016 economic growth forecast in March to 3.1% from 3.5% after it projected the country's exports to contract 2.0% for the year. The central bank previously projected exports to be flat in 2016.

Consumer sentiment declined to a five-month low in March, as the worst drought in over twenty years hurt the farm sector and concern lingered over the global economy. Agricultural and manufacturing exports, private spending, and the informal economy remain generally weak. Further, uncertainty related to the military government and its transition plans may continue to hamper investment.

PORTFOLIO TACTICS

We continue to be cautious on the ASEAN region in the near to mid-term, as tepid exports, volatile currencies, the China slowdown, and future Fed rate hikes continue to impact the economies of this region. We will continue to look for exciting catalysts and take appropriate long-term positions. We favor Indonesia, Singapore, and the Philippines over Malaysia and Thailand.

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