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MARKET REVIEW ASEAN

OVERVIEW

July 2016

ASEAN equity markets mostly continued their strong performance in July as Indonesia, the Philippines, and Thailand delivered upbeat local-currency returns. Indonesia benefited from accelerating infrastructure projects and the tax amnesty plan announced in early July. Investors also rewarded the Philippines as they cheered the new policies of President Rodrigo Duterte. Thailand rallied as the Thais voted in a referendum to accept a new military-backed constitution that would pave the way for an election next year and reduce political uncertainty. Singapore's returns were more modest, and Malaysia finished roughly flat. In general, investors are demonstrating support for the Asia Pacific and the ASEAN regions in a post-Brexit era.

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China may reignite concerns over global economic growth after posting in July a disappointing -4.4% drop in exports and a -12.5% tumble in imports. Exports have declined there for 12 straight months. The figures do not bode well for global demand as China is a key driver of the global economy. Economists generally expect Beijing to weaken the yuan in an attempt to stimulate the economy. The yuan is mostly stable for now (though hovering near six-year lows), and capital outflows have eased. If and when China decides to weaken the yuan, we could see further pressure on capital outflows and the Chinese economy.

Fiscal and monetary stimulus measures undertaken earlier in the year could potentially help uplift the Chinese economy...

Elsewhere, eurozone investors have mostly shrugged off the shock of Britain's Brexit vote, with British consumption rising 1.9% in July over last year and European markets mostly advancing. Separately, oil prices retreated meaningfully in July to around $42 on supply glut, sparking speculation that OPEC may finally initiate an output freeze. US manufacturing activity slowed in July as orders fell broadly, and construction spending dropped. By contrast, the jobs report showed healthy gains in the economy. Notably, the recent minutes of the US Federal Open Market Committee suggested caution, raising expectations of a deferral of rate increases.

Malaysia

Bank Negara surprised financial market participants by cutting its key interest rate on July 13 for the first time in seven years in a bid to help the country remain on a "steady growth path." The rate was reduced 25 basis points to 3.00%. The move came on the heels of moderating growth in the advanced economies, with potential downside risks from the Brexit vote, low oil prices, and economic slowdown in China.

Separately, Malaysia and Singapore agreed to build a 350 kilometer high-speed rail between Kuala Lumpur and Singapore over 10 years. Details on the project remain sketchy, but it will likely keep the construction sector buoyant. Malaysia's Manufacturing Index declined slightly to

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Market Indicators	Current Value	1 Month	YTD	1 Year
FBM EMAS Shariah (RM)	12,199	0.88% ▲	-3.43% ▼	1.13% ▲
FBM KLCI (RM)	1,653	-0.03% ▼	-0.77% ▼	-1.04% ▼
S&P 500 (US$)	4,115	3.69% ▲	7.66% ▲	5.61% ▲
Dow Jones Industrial Average (US$)	18,432	2.94% ▲	7.38% ▲	7.01% ▲
FTSE All World (US$)	275	4.35% ▲	6.02% ▲	0.29% ▲
MSCI All Country World Index (US$)	416	4.34% ▲	5.98% ▲	0.16% ▲
MSCI Emerging Markets (US$)	382	5.03% ▲	11.77% ▲	-0.75% ▼
Dow Jones ASEAN Islamic (RM)	8,819	3.39% ▲	5.88% ▲	8.59% ▲
Jakarta Composite Index (RM)	5,216	6.15% ▲	14.90% ▲	20.89% ▲
Philippine Stock Exchange Index (RM)	7,963	3.66% ▲	9.17% ▲	10.23% ▲
Straits Times Index (RM)	2,869	2.89% ▲	0.49% ▲	-0.22% ▼
Stock Exchange of Thailand (RM)	1,524	7.97% ▲	17.77% ▲	16.48% ▲

	Current	1 Month Ago	1 Year Ago
Ringgit per US$	4.03	3.99	3.83
Crude oil (US$)	41.60	48.33	47.12
Crude palm oil (RM)	RM 2,374	RM 2,400	RM 2,120

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47.1 in June from 47.2 in the previous month. The index has stayed below 50 for 15 consecutive months, indicating that the country's production has been contracting during this period.

The FBM KLCI was flat month-on-month in July at 1,653.26. Year-to-date, the index is down -0.77%, while the Malaysian ringgit appreciated by 6% to 4.03.

Indonesia

President Jokowi announced the reshuffling of his Cabinet in late July. Of note is the re-appointment of Sri Mulyani, who was Minister of Finance from 2005 to 2010. In general, Mulyani has a good track record, and her experience at the World Bank could help prioritize infrastructure development and increase foreign participation in infrastructure financing.

Indonesian GDP grew 5.18% in the second quarter, beating the 5.00% consensus estimate and surpassing 4.91% growth in the first quarter. Further, Indonesia reported its sixth consecutive trade surplus in June at $900 million as exports increased 10.6% over the prior month, led by non-oil and gas exports. July's equity market remained a star performer in the region with the Jakarta Composite Index gaining another 4.01% in local currency and 6.15% in ringgit terms to end the month at 5,215.99. Year-to-date, the index has gained 15.41% in local currency and 14.90% in ringgit terms.

Philippines

Most investors continue to like President Duterte's tough stance on corruption and have a generally favorable view of his Cabinet, particularly Finance Minister Carlos Dominguez. Dominguez recently spoke at an investor conference we attended in Manila. He called for 7-8% GDP growth for the country in the coming years, driven by infrastructure spending, increased tax collection, and improved ease of doing business. Other key priorities for the government include poverty and crime reduction, anti-corruption strategies, and rural sector development. The Philippines has been one of the fastest-expanding economies in the region in recent times. Growth averaged 6.2% in the last six years under the outgoing President Benigno Aquino, driven by fiscal deficit improvement and growth-focused reforms.

The Philippine Stock Exchange Index closed at 7,963.11, up 2.18% in July over June. In ringgit terms, the index was up 3.66%. Year-to-date, the index has risen 15.99% in local currency and 9.17% in ringgit terms.

Singapore

Singapore's manufacturing and services sectors remained gloomy. Manufacturing activity shrank for a thirteenth straight month in July (to 49.3 from 49.6 in June) driven by contraction in factory output, new orders, and exports. Manufacturing, which makes up a fifth of the Singapore economy, has been hit hard amid slowing trade flows in Asia that have reduced demand for its products. Singapore's manufacturers expect business conditions to turn even worse in the second half of 2016, according to figures by the Economic Development Board, and economists continue to project weakness in the quarters ahead. Also, second-quarter GDP saw an anemic 0.8% growth in the economy.

Singapore's Straits Times Index rose 1.13% in July to 2,868.69. In ringgit terms, the index rose 2.89% in the month. Year-to-date, the index is up 1.38% in local currency and up 0.49% in ringgit terms.

Thailand

The Stock Exchange of Thailand Index closed up 5.54% in July to 1,524.07. In ringgit terms, the index gained 7.97% in the month. Year-to-date, the index is up 20.95% in local currency, and is up 17.77% in ringgit terms.

The Thai stock market rallied following a referendum vote to accept a new military-backed constitution that is likely to pave the way for an election next year and help reduce political uncertainty. Thailand's industrial production picked up pace in June as production of automobiles, electronics goods, electrical appliances, and steel increased.

PORTFOLIO TACTICS

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

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