

## OVERVIEW

August 2016

The performance of ASEAN equity markets was mixed in August as Malaysia, Indonesia, and Thailand posted strong gains while the Philippines and Singapore ended the month in negative territory. Indonesia continued its strong performance as foreign investors remained excited about ongoing reforms and infrastructure spending there. Thailand rallied on the back of healthy GDP numbers, and Malaysia was up on relatively stronger commodity prices. Post-election optimism in the Philippines market was dented slightly in August as some questioned the government's recent tough policies related to drug trafficking. Singapore's market was flat given the absence of any strong catalyst. Overall, despite short-term volatility, investors likely believe that the Asia-Pacific and the ASEAN regions would offer better investment returns over the long-run in a post-Brexit era.

China posted some encouraging data in August. The manufacturing PMI, an index that measures the performance of the manufacturing sector, came in at 50.4, the highest since November 2014, and handily beat expectations. Further, Chinese car sales data showed strength. The equity market in particular received a boost with the approval of a Shenzhen-Hong Kong stock exchange link and the abolishment of aggregate quota limits, signaling that China is delivering on its pledge to open up its markets.

Elsewhere, the Bank of England cut the benchmark interest rate by 25 basis points to a record low of 0.25%. This was the first rate cut since the aftermath of the global financial crisis, with the aim to stimulate the ailing UK economy. In contrast, the August eurozone PMI data continues to point towards manufacturing expansion, coming in at 53.3 compared with 53.2 in July. Separately, US second-quarter GDP showed improvement, growing 1.1% compared to 0.8% in the previous quarter. This, coupled with other positive economic data, signals that a rate hike could be in the cards. Notably, crude oil prices rallied more than 7% in August in anticipation of more concrete discussion of production caps among oil majors.

## Malaysia

Malaysia's second quarter GDP grew at an in-line 4%, but lower than 4.2% in the previous quarter and 4.9% a year ago. Interestingly, quarterly GDP growth was supported mainly by strong domestic demand amidst weak external demand, highlighting resilience in the domestic economy. The economic growth target for 2016 was maintained at between 4.0% to 4.5%. Separately, exports in June grew 3.4% year-over-year, compared to a -0.9% decline in the previous month, driven by oil and refined oil products. Imports also grew strongly by 8.3%, leaving the trade balance at a surplus of US\$1.4 billion.



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**Thailand rallied on the back of healthy GDP numbers, and Malaysia was up on relatively stronger commodity prices**

Market Indicators	Current Value	1 Month	YTD	1 Year
FBM EMAS Shariah (RM)	12,431	2.18% ▲	-1.32% ▼	11.43% ▲
FBM KLCI (RM)	1,678	1.92% ▲	1.14% ▲	7.28% ▲
S&P 500 (US\$)	4,120	0.14% ▲	7.82% ▲	12.55% ▲
Dow Jones Industrial Average (US\$)	18,401	0.26% ▲	7.65% ▲	14.37% ▲
FTSE All World (US\$)	275	0.36% ▲	6.40% ▲	7.93% ▲
MSCI All Country World Index (US\$)	417	0.39% ▲	6.39% ▲	7.90% ▲
MSCI Emerging Markets (US\$)	391	2.49% ▲	14.55% ▲	11.83% ▲
Dow Jones ASEAN Islamic (RM)	9,016	1.39% ▲	7.35% ▲	11.31% ▲
Jakarta Composite Index (RM)	5,386	2.56% ▲	17.84% ▲	25.40% ▲
Philippine Stock Exchange Index (RM)	7,787	-0.11% ▼	9.05% ▲	9.34% ▲
Straits Times Index (RM)	2,821	-0.66% ▼	-0.17% ▼	1.19% ▲
Stock Exchange of Thailand (RM)	1,548	3.75% ▲	22.19% ▲	16.73% ▲

	Current	1 Month Ago	1 Year Ago
Ringgit per US\$	4.07	4.07	4.19
Crude oil (US\$)	44.70	41.60	49.20
Crude palm oil (RM)	RM 2,789	RM 2,374	RM 1,928

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Infrastructure projects gained further traction with Malaysia's MyHSR Corporation and Singapore's Land Transport Authority calling for a joint tender on August 22, 2016, to appoint a Joint Development Partner (JDP) for the Kuala Lumpur-Singapore High Speed Rail project. The JDP is expected to provide project management support, technical advice, and procurement advice related to the high speed railway systems and operations. Several other rail related contracts were also awarded to local contractors.

The FBM KLCI was up 1.92% in August at 1,678.06. Year-to-date, the index is up 1.14% while the Malaysian ringgit remained flat at 4.07.

## Indonesia

Immediately after taking office, finance minister Sri Mulyani proposed a 5-7% increase in government spending for 2017, with a higher fiscal deficit target of 2.4% in a bid to spur the economy. Separately, the tax amnesty program gained traction as IDR11.6 trillion of the total declared assets of IDR185 trillion has been repatriated thus far.

On the economic front, Indonesia recorded a trade surplus of US\$598 million in July, the seventh consecutive month with a surplus position. Core inflation in August grew controllably at 3.32%. Foreign investors continued to flock to the equity market with net purchases of US\$1.0 billion in equities in August. The Jakarta Composite Index ended the month strongly at 5,386.08 points, up 3.28% in local currency and 2.56% in ringgit terms. Year-to-date, the index is up 19.19% in local currency and 17.84% in ringgit terms.

## Philippines

President Duterte's aggressive stance to combat drug trafficking has been criticized among some domestic and Western circles. Further, his government is introducing reforms that would tax housing, auto, mining, and sugar industries in particular. Investors have turned a bit cautious ahead of these new policy measures. Longer-term, the government continues to call for 7-8% GDP growth for the country, driven by infrastructure spending, increased tax collection, and improved ease of doing business. Notably, the Philippines has been one of the fastest-expanding economies in the region with growth averaging 6.2% in the last six years.

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The Philippine Stock Exchange Index closed at 7,787.37, down -1.87% in August over July. In ringgit terms, the index was down -0.11%. Year-to-date, the index has risen 13.83% in local currency and 9.05% in ringgit terms.

## Singapore

Singapore last month narrowed its 2016 economic growth forecast to 1-2% from a 1-3% growth range, citing concerns over Brexit and weakening global demand. China, Singapore's top trading partner, is also experiencing slower economic growth. However, in line with relative stability in China in recent months, Singapore's manufacturing and services sectors showed slight improvement in August after shrinking for 13 straight months. Separately, the government expects the recent outbreak of the Zika virus to impact the Singapore economy in the near term.

Singapore's Straits Times Index fell -0.21% in August to 2,820.59. In ringgit terms, the index declined -0.66% in the month. Year-to-date, the index is up 1.17% in local currency, and is down -0.17% in ringgit terms.

## Thailand

The Stock Exchange of Thailand Index closed up 2.33% in August to 1,548.44. In ringgit terms, the index gained 3.75% in the month. Year-to-date, the Index is up 23.77% in local currency, and is up 22.19% in ringgit terms.

Thailand rallied as the economy grew 3.5% in the second quarter, slightly more than expected, driven by solid government and tourist spending. However, the government kept its forecast for 2016 unchanged as exports are expected to be worse than earlier forecast. The recent bomb explosions in the nation are expected to impact the tourism sector adversely.

## PORTFOLIO TACTICS

We continue to be cautious on the ASEAN region in the near to mid-term, as tepid exports, volatile currencies, Brexit, China slowdown, 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.