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MARKET REVIEW ASEAN

OVERVIEW

September 2016

The ASEAN equity markets were generally weak in September as the Philippines, Thailand, Malaysia, and Indonesia all posted declines, with Singapore being the lone gainer. Regional markets were impacted by continued oil weakness, Fed rate worries, and North Korea's claims of a successful nuclear test. The Philippines retreated as investors turned skeptical of its government's drug trafficking policies and President Duterte's increasingly anti-West rhetoric. Thailand saw weakness in durable goods orders and oil-related businesses. A weak commodity environment impacted Malaysia. Indonesia was relatively stable as its government's tax amnesty proceeds exceeded expectations. Finally, Singapore rallied as investors likely favored its attractive valuation relative to other countries in the region.

China posted some encouraging data in August and September. The manufacturing PMI, an index that measures the performance of the manufacturing sector, came in at 50.4 in both months, the highest readings since November 2014. By contrast, third quarter GDP is expected to have slowed slightly to 6.6% from 6.7% earlier in the year, as China attempts to cool its soaring property market and factory employment remains sluggish.

Elsewhere, the Bank of England may cut interest rates further as the UK economy remains shaky post-Brexit and the British pound weakened to a 31-year low. The eurozone PMI survey showed that business activity has slumped to its weakest level since January 2015. By contrast, US manufacturing activity remained healthy, and the economy seems to have picked up steam. This, coupled with other positive economic data, signals that rate hikes could be in the cards. Notably, crude oil prices remain volatile amidst a supply glut and lack of clarity from OPEC.

As we move forward, Brexit dynamics, the scope of a Chinese recovery, oil and commodity prices, the health of the US economy, and the ongoing actions of the global central banks will continue to dictate investor sentiment. The results of the upcoming US elections could also have an impact on global markets.

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Malaysia

The government recently proposed to allow eligible property developers in Malaysia to apply for money lending licenses to provide loan facilities to new property buyers. It believes that the proposal would create a win-win situation for both the developers and buyers. Developers would not only gain from the sale of the property but also profit from the financing scheme provided. Buyers, meanwhile, would overcome hurdles faced in securing bank loans. However, many economists contend that the initiative could add to Malaysia's alarmingly high household debt level that currently sits at 89% of GDP. Consequently, the government has agreed to review the proposal further and make improvements.

In July, exports fell by -5.3% and imports fell by -4.8% year-over-year, leaving the trade balance at a surplus of $0.5 billion compared

Market Indicators	Current Value	1 Month		YTD		1 Year	
FBM EMAS Shariah (RM)	12,348	-0.45%	▼	-1.76%	▼	6.42%	▲
FBM KLCI (RM)	1,653	-1.09%	▼	0.04%	▲	5.32%	▲
S&P 500 (US$)	4,121	0.02%	▲	7.84%	▲	15.43%	▲
Dow Jones Industrial Average (US$)	18,308	-0.41%	▼	7.21%	▲	15.46%	▲
FTSE All World (US$)	276	0.64%	▲	7.08%	▲	12.64%	▲
MSCI All Country World Index (US$)	418	0.65%	▲	7.08%	▲	12.62%	▲
MSCI Emerging Markets (US$)	396	1.29%	▲	16.02%	▲	16.78%	▲
Dow Jones ASEAN Islamic (RM)	8,921	-0.62%	▼	6.68%	▲	10.94%	▲
Jakarta Composite Index (RM)	5,365	2.96%	▲	21.32%	▲	36.94%	▲
Philippine Stock Exchange Index (RM)	7,630	-4.16%	▼	4.52%	▲	2.67%	▲
Straits Times Index (RM)	2,869	2.84%	▲	2.66%	▲	5.05%	▲
Stock Exchange of Thailand (RM)	1,483	-2.77%	▼	18.80%	▲	12.55%	▲

	Current	1 Month Ago	1 Year Ago
Ringgit per US$	4.13	4.10	4.39
Crude oil (US$)	48.24	44.70	45.09
Crude palm oil (RM)	RM 2,775	RM 2,789	RM 2,306

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with $1.3 billion a month earlier. The shortcoming was caused by a combination of factors that include economic slowdown for major trading partner China, weak oil prices, and slumping demand for the country's commodities.

The FBM KLCI declined -1.09% to end September at 1652.55 and is flat year-to-date.

Indonesia

The Indonesian government's tax amnesty program has thus far exceeded expectations. As of September 30, total declared assets amounted to IDR3,621 trillion (US$280 billion), while penalties paid totaled IDR97.2 trillion (US$7.5 billion), already reaching 91% and 59%, respectively, of the government's targets. Additional receipts from the program would prove timely as the government focuses spending on ailing infrastructure. Separately, President Jokowi indicated recently that the government may increase capital budget spending from the current IDR300 trillion to IDR400 trillion in 2017. This bodes well for the Indonesian economy as the increased government spending would create a multiplier effect on economic expansion.

Indonesia's trade recorded a surplus of US$294 million in August for an eighth consecutive month. Inflation remained within expectations, coming in at 3.1% in September, and Bank Indonesia cut its benchmark rate by -0.25% to 5.0%. This marks the fifth rate cut by the central bank in 2016 aimed at bolstering economic growth. After three consecutive months of inflows, foreign investors were net sellers of Indonesian equities during the month. The Jakarta Composite Index ended the month slightly weaker at 5,364.80, down -0.33% from August in local currency terms but up 2.96% in ringgit terms. Year-to-date, the Index is the region's best performer, up 18.80% in local currency and 21.32% in ringgit terms.

Philippines

President Duterte's anti-West rhetoric and aggressive stance to combat drug trafficking continued to alienate some investors. 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 at least in the near-term. Longer-term, the government continues to call for 7% to 8% GDP growth for the country, driven by infrastructure spending, increased tax collection, and improved ease of doing business. We recently visited the Philippines, and long-term investor sentiment remains encouraging with most investors expecting at least 6% GDP growth over time.

The Philippine Stock Exchange Index closed at 7,629.73, down -1.97% in September over August. In ringgit terms, the Index was down -4.16%. Year-to-date, the Index has risen 11.59% in local currency and 4.52% in ringgit terms.

Singapore

The Singapore government now expects economic growth in the second half of 2016 to be just above 1% and to remain below 2% over the next few years due to a general slowdown of the global economy, partly due to ongoing restructuring in China as well as some sector-specific factors.

Singapore's Straits Times Index rose 1.78% in September to 2,869.47. In ringgit terms, the index rose 2.84% in the month. Year-to-date, the Index is up 2.97% in local currency and up 2.66% in ringgit terms.

Thailand

The Stock Exchange of Thailand Index closed down -3.97% in September to 1,483.21 as investors took profit after a few strong months. In ringgit terms, the index lost -2.77% in the month. Year-to-date, the Index is up 18.86% in local currency and up 18.80% in ringgit terms.

The Bank of Thailand kept its benchmark interest rate unchanged at 1.5% for an eleventh consecutive meeting as the economic recovery continued to gain momentum. The central bank also revised this year's economic growth forecast slightly higher to 3.2% from 3.1% due to an uptick in private consumption in the second quarter. Consumer confidence rose to a five-month high in August, buoyed by public approval of the nation's new constitution and better-than-expected economic growth in the second quarter.

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. As always, we seek exciting catalysts and take appropriate long-term positions. Within the region, we favor Indonesia and the Philippines over Malaysia, Singapore, and Thailand.

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