Asia Pacific Market Monthly Commentary

After a strong performance from equity markets in June, the Asia ex Japan region experienced a pull-back with the MSCI AC Asia ex Japan index registering a negative performance of -2.17% (in USD terms, dividend excluded). Although the macro backdrop remained supportive overall with Asian central banks easing policy (Korea and Indonesia cut rates) downward revisions to earnings growth resulted in broad-based equity market sell-offs.

Index (end of July 2019)	Return (excl. dividend) in local currency				Return (excl. dividend) in USD			
	1 Month	3 Months	1 Year	YTD	1 Month	3 Months	1 Year	YTD
Australia All Ordinary	2.95%	7.45%	8.33%	20.79%	1.11%	5.22%	0.44%	18.26%
CSI 300	0.26%	-1.99%	9.03%	27.39%	0.00%	-4.11%	8.10%	27.03%
Hang Seng China Enterprises	-1.90%	-7.51%	-3.17%	5.44%	-2.09%	-7.30%	-2.93%	5.46%
Hang Seng Index	-2.68%	-6.47%	-2.82%	7.48%	-2.87%	-6.26%	-2.58%	7.50%
India National	-5.87%	-5.54%	-3.57%	0.45%	-5.54%	-4.48%	-3.85%	1.95%
Jakarta Composite	0.50%	-1.00%	7.65%	3.16%	1.29%	0.64%	10.74%	5.84%
Nikkei 225	1.15%	-3.31%	-4.58%	7.53%	0.38%	-0.82%	-1.62%	8.66%
Korea Composite	-4.98%	-8.12%	-11.79%	-0.81%	-7.26%	-9.29%	-16.60%	-6.45%
FTSE Bursa Malaysia KLCI	-2.23%	-0.45%	-8.37%	-3.30%	-2.15%	-0.30%	-9.83%	-3.17%
New Zealand SE 50	3.37%	7.84%	17.57%	21.12%	1.58%	6.72%	13.97%	19.22%
Philippine SE Composite	0.58%	1.17%	4.87%	7.77%	1.26%	3.61%	9.44%	11.36%
FTSE Singapore Straits Times	-0.63%	-2.92%	-0.58%	7.56%	-1.86%	-3.56%	-1.17%	7.18%
Taiwan Weighted	0.87%	-1.31%	-2.11%	11.27%	0.75%	-1.93%	-3.63%	9.99%
Bangkok SET	-1.06%	2.30%	0.60%	9.47%	-1.34%	6.19%	8.82%	15.89%
MSCI AC Asia ex Japan	-1.76%	-5.62%	-4.72%	7.62%	-2.17%	-5.51%	-5.34%	7.02%
MSCI AC Pacific ex Japan	-0.53%	-2.98%	-2.32%	10.70%	-1.29%	-3.37%	-4.25%	9.55%
Dow Jones Industrial	0.99%	1.02%	5.70%	15.16%	0.99%	1.02%	5.70%	15.16%
S&P Composite	1.31%	1.17%	5.83%	18.89%	1.31%	1.17%	5.83%	18.89%
FTSE 100	2.17%	2.27%	-2.09%	12.76%	6.20%	8.89%	4.89%	17.29%
CAC 40	-0.36%	-1.21%	0.14%	16.66%	-2.58%	-1.85%	-4.71%	13.63%
DAX 30	-1.69%	-1.26%	-4.81%	15.44%	-3.88%	-1.90%	-9.42%	12.43%
MSCI Europe	0.61%	-0.47%	-1.43%	14.17%	-1.99%	-2.11%	-6.21%	10.95%
MSCI World	1.11%	0.52%	2.64%	16.62%	0.42%	0.41%	1.60%	16.12%

Amundi ASSET MANAGEMENT 東方匯理 資產管理

July 2019

Hong Kong

Korea

The Korean equity market fell by a significant -4.98% (KOSPI, in local currency terms, dividend excluded), dragged down by escalating trade dispute between Japan and Korea. On 1 July, Japan said it would tighten controls on exports to South Korea on three chemicals used in semiconductor and smartphone manufacturing that could also be used for military applications. South Korea's technology giants Samsung Electronics and SK Hynix are among the biggest buyers of these chemicals.

On the macro front, in a surprising move, the Bank of Korea (BoK) cut its policy rate given risks to Korea's external demand due to trade tensions and subsequent impact on GDP growth forecast for 2019. The ban on US companies to sell technology and software to Chinese Huawei (although relaxed in June) has had an adverse impact on inventories and pricing among semiconductors and memory. On the other hand, idiosyncratic events such as the Toshiba power stoppage in Japan and the exclusion of Korea from the "white list" has triggered a rebound on spot prices. This may signal an end of downward pressures and prices.

India

MSCI India index ended the month with a negative performance of -5.49% (in USD terms, dividend excluded) underperforming MSCI EM Asia index (down 2.04%, in USD terms, dividend excluded). Information Technology, Healthcare and Consumer Staples were the best performing sectors; while Consumer Discretionary, Industrials & Energy underperformed. Midcaps and Smallcaps underperformed Largecaps. Indian equities corrected amidst concerns related to increased taxes for foreign institutional investors, and limited measures to stimulate consumption in the Union Budget.

Going forward, Amundi believes revival in economic growth is likely to be gradual, given limited policy levers. Budget corroborates this view. That said corporate earnings are recovering, led by asset quality improvement in corporate banks, and should aid market performance.

Taiwan

Despite a worsening economic outlook given the slow-down in export, the Taiwanese equity market recorded a positive return in July (+1.56%, MSCI Taiwan index, in USD terms, dividend excluded) due to strong gains from the Technology and Healthcare sector. The Technology sector benefited from better industrial production data and a constructive outcome from the G-20 summit.

China

China's equity markets recorded a negative performance in July (-0.93%, MSCI China index, in USD terms, dividend excluded) dragged down by cyclical sectors including Materials, Energy and Financials. The market remains fragile and exposed to trade tensions with the US, whose outcome is uncertain. The political situation in Hong Kong is also creating headwinds.

Moreover, macro data prints in July are showing signs of weakness. 2Q19 GDP slowed down compared to previous quarter. Although this is in line with expectations, it notably marks a 3 year low. In the services sector, companies are showing a slight improvement in new orders, and support for public consumption seems to be showing its first effects. However, new orders from abroad are down for the first time in 9 months. China's slowing trade flows are consistent with the softness in global demand indicators and trade data of other Asian economies.

Hong Kong

MSCI Hong Kong index went down by 3.33% in July (in USD terms, dividend excluded). The best performing sectors were Information Technology and Telecommunication Services, while the worst performing sectors were Real Estates and Industrials. The weak market performance was due to the ongoing social movements in Hong Kong which raised concerns over the potential slowdown in residential demand, consumer spending and tourist arrivals.

Indonesia

The Indonesian equity market was one of the few Asian markets to post a positive performance in July (+1.32%, MSCI Indonesia index, in USD terms, dividend excluded). Industrials, Materials and Telecommunication Services were the best performing sectors in July, while Energy and Consumer Discretionary were the biggest detractors. The main catalyst was the easing in monetary policy by the central bank on the back of growing concerns on domestic growth given weakness in non-oil and gas imports.

Nearly two years after Bank Indonesia (BI) made its last easing move, the central bank cut the 7-day repo rate as expected by the market. The move was also aided by a rather dovish Fed and backed by the strong desire of newly re-elected president Joko Widodo to put faltering economic growth back on track. BI sees room for further monetary policy adjustment, citing the need to support growth momentum amid low inflation. That said, an accommodative monetary policy stance does not necessarily imply a series of rate cuts.

Thailand

Thailand's equity market ended in negative return (-2.60%, MSCI Thailand index, in USD terms, dividend excluded) due to significant losses within Materials and Financials sectors amidst a backdrop of weakening economic growth, which reflects weak domestic demand (subdued imports). Against the backdrop of easier global financial conditions, the Bank of Thailand (BoT) appears to be more concerned about external and domestic risks as well as currency volatility.

In mid-July, BoT announced some measures to enhance the surveillance of short-term capital flows to reduce hot money inflows. The measures aim to prevent Thai Baht speculation in order to avoid unfavourable macroeconomic repercussions and enhance reporting requirements for non-residents' holdings of locally issued debt securities. Amundi maintains the outlook for the central bank remaining on hold for the time being although it is acknowledged that the macro economic weakness seen in 1Q19 has continued in 2Q19 and the risk of a more dovish BoT has increased.

Singapore

The Singapore equity market recorded a negative return (-1.44%, MSCI Singapore index, in USD terms, dividend excluded) in July. Although the local government has forecast growth between 1.5-2.5% in 2019, activity data in Singapore has been persistently disappointing driven by the slowdown in world trade growth. 2Q19 data indicated a significant QoQ contraction with disinflationary pressures setting in. The Monetary Authority of Singapore's core inflation measure has moved further away from its near 2% implicit target and its 2019 forecast, already downgraded in April. Forward-looking inflation indicators such as oil and property prices are rolling over.

The Philippines

The Philippines equity market outperformed in July, posting a modest gain of +0.58% (MSCI Philippines index, in USD terms, dividend excluded) primarily due to performance from the Financials sector. Meanwhile, Consumer Discretionary and Telecommunication Services dragged the market lower.

The Bangko Sentral ng Pilipinas (BSP) last rates cut was in May and has kept policy rate unchanged since then given balance of payments and exchange rate risk. However, markets are expecting a move given the slowdown in growth. Between May and July, the BSP has cut the reserve requirement ratio (RRR) – the amount that banks need to hold on to in their reserves and boost liquidity into the financial system.

Malaysia

The FTSE Bursa Malaysia KLCI index closed the month of July with a negative performance of -2.23% (in local currency terms, dividend excluded). This came as hopes for a breakthrough in trade negotiations between China and US faded following the meeting between President Trump and Xi at the G-20 Summit in June. Further weighing sentiment, economic data from China showed signs of further weakening and International Monetary Fund (IMF) revised down this year's global growth forecasts again.

New Zealand

The New Zealand SE 50 index went up (+3.37%, in local currency terms, dividend excluded) in July.

NZD depreciated in July against USD as USD index went up.

New Zealand's 2Q19 CPI has increased, compared to previous quarter. Higher fuel and housing costs were the reason for the increase, but the market is still expecting an interest rate cut this year to bolster the slowing economy.

Japan

In July, Tokyo equity market jump-started from the outset as President Trump and Xi met in Osaka at the end of June to resume trade talks. Although expectation of a progress in the negotiation soon receded, speculation of an imminent Fed easing bolstered US stocks and buoyancy spilt over the Japanese market. Stock prices lost ground thereafter since a marked increase in US nonfarm payrolls dashed hope of a Fed's rate cut while poor machinery orders and consumer sentiment in Japan discouraged investors. Then hints of rate cuts by the Federal Open Market Committee (FOMC) officials in the middle of the month triggered the appreciation of the Yen, exacerbating outlook of Electronics and devise industry.

However share prices rebounded afterwards, in accordance with decline of the Yen when market participants discarded a hefty US rate cut speculations. Yet the ascent was hampered by worse-than-expected earnings reporting by major Electronics and Machinery companies.

Australia

The Australia All Ordinary index rose 2.95% (in local currency terms, dividend excluded) in July with all 11 Global Industry Classification Standard (GICS) sectors finishing in the green. Staples topped the table while Materials was the weakest GICS sector.

The cash rate cut by Reserve Bank of Australia (RBA) marked the first back-to-back cut since mid-2012. The RBA minutes followed up on the July decision statement, tapering the dovish guidance. The RBA noted that the Board will continue to monitor developments in the labour market closely and adjust monetary policy if needed.

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