ASIA PACIFIC MARKET MONTHLY COMMENTARY

October 2020

Confidence must be earned
Amundi ASSET MANAGEMENT

Market Review

October was another bumpy ride as investors shied away from risk assets ahead of the US elections. With the election now over, we expect risk assets in Asia, including equities and high yield bonds to perform as policies are more predictable and stable and the new administration is expected to take on a more collaborative and negotiation-based approach. Furthermore, investors started to take profit in a handful of crowded YTD outperformers (namely Tech companies) with the unveiling of the 3Q earnings season. In summary, the MSCI Asia ex Japan Index gained 2.37% in October (in USD terms, net dividends excluded), outperforming the MSCI World Index which saw a loss of -3.14% during the month (in USD terms, net dividends excluded).

CANBERRA • BEIJING • HONG KONG

Australia

- Australia All Ordinary Index was up 2.06% in October (in local currency terms, net dividends excluded).
- Outperformance from Information Technology and Financials.
- Underperformance from Industrials and Utilities.
- The Australian yield curve steepened a bit, with the 2-year yield down 6bps to 0.12% while the 10-year bond yield went down 2bps to 0.83%.
- The Australian Dollar (AUD) depreciated in October against the US Dollar (USD) while the USD index went up.
- The release of the federal budget highlighted the pandemic's significant adverse impact on Australia's fiscal outlook, with an AUD213.7bn deficit projected for 2020-21.
- The Reserve Bank of Australia (RBA) left rates unchanged at 0.25%, but hinted at further monetary easing as it looks to create jobs in the coronavirus-ravaged economy.
- 3Q Consumer Price Index (CPI) surged as a result of one-off rebates linked to the coronavirus and petrol prices rebounded, but annual inflation stayed stubbornly below the 2-3% target band which may pose to further policy easing.

China

- MSCI China Index rebounded by 5.27% in October (in USD terms, net dividends excluded).
- Outperformance from Telecommunications and domestic Consumer Discretionary on positive tourists numbers in the Golden Week holidays and in anticipation of warmer ties between the US and China.
- Underperformance from Energy.
- 3Q GDP rose 4.9% year-on-year (yoy) with signs of continued pickup with industrial production rising 6.9% yoy and fixed asset investment rising 8.7% yoy.
- Against a backdrop of rising geo-political tensions, global easing in monetary policies and rising costs, the fifth Plenum session was held in which the 14th Five-year Plan (2021-2025) was discussed.
- The overarching sentiment of the communique was on economic transformation from high-growth to high-quality, sustainable growth with key points of focus on fostering domestic demand, the digitalization of the economy and technological innovation and upgrades.

Hong Kong

- MSCI Hong Kong Index went down -1.21% in October (in USD terms, net dividends excluded).
- Outperformance from Industrials and Utilities.
- Underperformance from Consumer Discretionary and Real Estate.
- Meanwhile, the government also announced measures on reviving tourism by establishing a travel bubble with Singapore and allowing travel agents to organize local group tours of not more than 30 people.
- 3Q GDP rebounded by 12.6% quarter-on-quarter (qoq).
- Regardless, CPI remains in deflation territory, falling 2.2% yoy in September, mainly due to the waiver of public housing rentals in September 2020.

India

- MSCI India Index remained relatively flat in October, up 0.95% (in USD terms, net dividends excluded).
- Outperformance from Financials, IT and Materials.
- Underperformance from Energy, Healthcare and Consumer Discretionary.
- During the month, the Finance Minister announced measures to boost consumer spending, capital expenditure and create additional demand to the tune of INR 730bn (0.35% of GDP).
- Economic activity continued to show signs of improvement as reflected in the Index of Industrial Production (IIP) data which picked up to -8.0% yoy in August vs. -10.8% in July.
- There was a broad-based improvement in activity across categories such as mining, manufacturing and power.
- A mix of easing lockdown, increased mobility and festive period should offer some support to higher consumption and thereby output in the months ahead.

Indonesia

- MSCI Indonesia Index staged a strong comeback in October, up 8.61% (in USD terms, net dividends excluded).
- Outperformance from Consumer Discretionary and Utilities.
- Underperformance from Energy and Healthcare.
- Bank Indonesia held the policy rate steady at 4% as parliament passed the Omnibus Bill on job creation, reducing severance payout from a maximum of 32 months to a maximum of 19 months, as well as adjustments to the methodology of calculating minimum wage.
- Trade surplus remained flat at USD2.4bn as inflation was muted at 1.4% yoy.

Japan

- MSCI Japan Index was down -1.61% in October (in USD terms, net dividends excluded).
- The latest data confirmed the view of a slow economic recovery.
- The second wave of COVID-19 cast a shadow over consumption and business sentiment, while mobility and domestic tourism were less hit than in April, thanks to the government's Go To Travel scheme and less stringent restriction measures.
- External demand started to bottom out, but Japanese export recovery lags behind its East Asian peers.
- Overall, pro-cyclical markets such as Japan should be supported by global growth prospects and attractive valuations.
- Investments are expected to bounce back at a slower pace than exports and consumption, and forecast GDP remaining below pre-pandemic levels until 2022.

Korea

- Korea's KOSPI Index fell -2.61% during the month of October (in local currency terms, net dividends excluded).
- Outperformance from Financials.
- Underperformance from Telecommunications, Healthcare and Energy.
- 3Q GDP rose 7.9% qoq after 2 consecutive quarters of declines.
- Retail sales rose 1.7% month-on-month (mom).
- Despite these positive data points, Bank of Korea maintained its policy rate of 0.5%, as inflation remained muted with CPI only rising 0.1% yoy.
- Regardless, the democratic win in the US looks positive for Korea, given its economy is leveraged to trade issues.

Malaysia

- The FTSE Bursa Malaysia Index posted a third consecutive monthly loss, closing down -2.52% in October (in local currency terms, net dividends excluded).
- Outperformance from Healthcare and Materials.
- Underperformance from Utilities, Industrials and Energy.
- A state of emergency was rejected by the King, who called upon all political parties to work towards the welfare of the people.
- Conditional Movement Control Order (CMCO) was re-implemented as the number of infected cases continued to rise.
- Macro-economic data suggests an uneven growth trajectory.
- Exports rose 11.6% mom while imports rose 4% mom in September on pent up demand for electronics, but domestic demand remained sluggish amidst the implementation of the CMCO.

New Zealand

- The New Zealand SE 50 Index went up 2.86% in October (in local currency terms, net dividends excluded).
- The New Zealand Dollar (NZD) was almost flat in October against the USD while USD index went up.
- 3Q CPI was up 0.7% qoq, rebounding from 2Q.
- The major drivers were food prices, household contents and services.
- The reading reflected an economic rebound after COVID-19 restrictions eased, but still fell short of the Reserve Bank of New Zealand's (RBNZ) expectations as the RBNZ forecast for a 1.1% rise in August.
- As a result, there is an expectation that more near-term stimulus will be discussed.

The Philippines

- MSCI Philippines Index rebounded in October, up 7.91% (in USD terms, net dividends excluded) on positive news flow, including a PHP4.5bn national budget as well as a declining number of COVID-19 infections.
- Overseas remittance declined by -4.0% to USD2.5bn, which was also better than expectation.
- With the inflation rate at a low of 2.4%, the governor of Bangko Sentral ng Pilipinas said it will allow the bank to ease further, but is not inclined to do so as unemployment, growth in remittances and improving manufacturing activities suggest the recovery is on track.

Singapore

- MSCI Singapore Index was down -2.92% in October (in USD terms, net dividends excluded).
- Outperformance from Financials and Technology.
- Underperformance from Consumer Staples and Telecommunications.
- 3Q GDP contracted -7.0% yoy despite a 10.0% mom increase in industrial production and a steady unemployment rate of 3.6%.
- Headline inflation was flat in September, with core inflation inched up to -0.1% yoy, from -0.3% the previous month.
- Border restrictions between Singapore and China will be lifted on 6th November and a travel bubble is to start between Singapore and Hong Kong, exempting travelers from quarantine as long as they test negative for COVID-19.

Taiwan

- MSCI Taiwan Index gained 1.30% in October (in USD terms, net dividends excluded).
- Outperformance from Industrials and Technology.
- Underperformance from Consumer Discretionary, Consumer Staples and Energy.
- Guidance for 4Q was also much higher than consensus expectations on higher demand and capital expenditure, particularly on 5G, and higher penetration of mobile and wireless devices in China.
- Industrials were boosted by higher freight rates and rising utilization in containership.
- The manufacturing index gained 3 points as industrial production rose 10.7% in September.
- 3Q GDP also rose 3.3% yoy on rising domestic consumption and exports.

Thailand

- Political uncertainties, social unrest and rising infections continue to weigh on the Thai equity market, with the MSCI Thailand Index registering a further loss of -2.32% in October (in USD terms, net dividends excluded).
- Outperformance from Materials and Financials.
- Underperformance from Consumer Staples, Utilities and Consumer Discretionary.
- A state of emergency was declared in mid-October, but was soon lifted on 22nd October, under the pressure of massive protests.
- 3Q GDP rose 30.0% qoq on account of a 55% expansion in manufacturing activities while inflation remained muted with a fall of -0.3% mom.

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Index (as of end October 2020)	Return (dividend excluded) in local currency				Return (dividend excluded) in USD			
	1 Month	3 Months	1 Year	YTD	1 Month	3 Months	1 Year	YTD
Australia All Ordinary	2.06%	1.24%	-9.44%	-9.84%	0.00%	-0.87%	-7.70%	-9.93%
CSI 300	2.35%	0.01%	20.80%	14.62%	4.04%	4.17%	26.85%	19.16%
Hang Seng China Enterprises	3.86%	-2.79%	-7.34%	-12.61%	3.80%	-2.84%	-6.35%	-12.19%
Hang Seng Index	2.76%	-1.98%	-10.40%	-14.48%	2.70%	-2.04%	-9.45%	-14.07%
India National	2.89%	5.03%	-2.32%	-4.21%	2.43%	6.03%	-6.51%	-7.74%
Jakarta Composite	5.30%	-0.42%	-17.66%	-18.59%	7.14%	-0.59%	-20.97%	-22.73%
Nikkei 225	-0.90%	5.84%	0.22%	-2.87%	0.04%	7.04%	3.64%	0.97%
Korea Composite	-2.61%	0.79%	8.82%	3.16%	0.38%	5.83%	11.57%	5.14%
FTSE Bursa Malaysia KLCI	-2.52%	-8.53%	-8.20%	-7.67%	-2.50%	-6.59%	-7.76%	-9.03%
New Zealand SE 50	2.86%	2.25%	9.40%	3.11%	2.84%	1.45%	12.75%	1.01%
Philippine SE Composite	7.84%	6.67%	-20.72%	-19.08%	8.02%	8.31%	-16.88%	-15.33%
FTSE Singapore Straits Times	-1.73%	-4.19%	-24.96%	-24.79%	-1.36%	-3.43%	-25.23%	-25.79%
Taiwan Weighted	0.25%	-0.94%	10.46%	4.58%	1.50%	1.46%	17.55%	9.60%
Bangkok SET	-3.40%	-10.05%	-25.39%	-24.36%	-1.79%	-10.01%	-27.71%	-27.31%
MSCI AC Asia ex Japan	2.08%	3.06%	11.97%	5.67%	2.76%	4.46%	13.42%	6.37%
MSCI AC Pacific ex Japan	2.13%	2.38%	8.56%	3.13%	2.50%	3.28%	10.51%	3.93%
Dow Jones Industrial	-4.61%	0.28%	-2.01%	-7.14%	-4.61%	0.28%	-2.01%	-7.14%
S&P Composite	-2.77%	-0.04%	7.65%	1.21%	-2.77%	-0.04%	7.65%	1.21%
FTSE 100	-4.92%	-5.43%	-23.05%	-26.05%	-4.94%	-4.01%	-23.00%	-24.24%
CAC 40	-4.36%	-3.96%	-19.82%	-23.15%	-4.99%	-5.39%	-16.28%	-20.25%
DAX 30	-9.44%	-6.15%	-10.18%	-12.77%	-10.04%	-7.55%	-6.22%	-9.48%
MSCI Europe	-5.42%	-4.02%	-14.53%	-17.67%	-5.73%	-5.37%	-11.24%	-15.66%
MSCI World	-3.13%	-0.32%	1.61%	-3.44%	-3.14%	-0.52%	2.66%	-2.78%