ASIA PACIFIC MARKET MONTHLY COMMENTARY

December 2019

Market Review

Markets ended 2019 on an extremely positive note with notable gains across most global equity markets amidst a broad risk-on sentiment. The main catalyst for the strong performance in December was the progress on trade negotiations between US and China. Although the terms of the Phase One trade-deal were vague, investor sentiment was boosted by the roll-back of US tariffs on USD$120 billion of Chinese goods from 15% to 7.5% and an agreement from China to increase purchases of US goods. Asian equity markets were among the top beneficiaries of the risk-on investor sentiment. MSCI Asia ex Japan rallied (6.42%) and significantly outperformed the MSCI World Index (2.89%).

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Australia

- Australia's All Ordinary Index dropped -2.10% (in local currency terms, net dividends excluded) in December
- Outperformance from Materials and Utilities
- Underperformance from Consumer Staples and Real Estate Investment Trusts (REITs)
- Yield curve steepened slightly, with 2-year and 10-year bond yields up 23bps and 34bps respectively
- Australian Dollar appreciated in December against the US Dollar as the US Dollar index went down
- 3Q19 GDP rose 0.4%, down from a revised 0.6% the previous quarter
- Annual growth edged up to 1.7%, from a revised 1.6%, but remained far below the 2.75% pace of the expected "trend"
- The unemployment rate in November came in at 5.2% compared to 5.3% in October and participation rate stayed flat at 66%

China

- MSCI China Index up +8.29% (in USD terms, net dividends excluded), prompted by the agreement between the US and China on a Phase One trade deal
- Chinese authorities also passed amendments to the country's securities law, introducing looser profitability criteria for IPO candidates and higher protection for financial market participants
- Sector-wise, cyclical sectors were the main winners for the month with outperformance from Real Estate and Materials and Healthcare sectors
- Underperformers included Utilities, Consumer Staples
- People's Bank of China (PBOC) guided commercial banks to convert old benchmark lending rates into Loan Prime Rates (LPR) for both existing and new loan books, alongside a 50bp reserve requirement ratio (RRR) cut
- This is part of the PBOC's plan to use monetary policy tools to manage the moderate economic slowdown as well as to inject liquidity during the Lunar New Year period
- More easing and a further reduction in the LPR is expected to follow

Hong Kong

- MSCI Hong Kong Index went up in December (+3.97%, in USD terms, net dividends excluded)
- Outperformance from Consumer Discretionary and Information Technology
- Underperformance from Telecommunication Services and Consumer Staples
- November data came in above expectations and reinforced Amundi's view of a cyclical bottoming-out
- Economic activity slowed further, severely hitting consumption and tourism-related segments
- Unemployment rose to 3.2% in November, after staying at a record-low 2.8% for 14 consecutive months
- Underlying Consumer Price Index (CPI) gained 2.9%, slightly lower than the 3.1% in October, largely due to a decrease in charges for package tours and inbound/outbound transport fares

India

- MSCI India Index rose +1.51% (in USD terms, net dividends excluded)
- Outperformance from Information Technology and Financials
- Underperformance from Consumer Staples, Healthcare and Industrials
- Reserve Bank of India (RBI) decided to hold their policy rate at 5.15% during their December policy meeting
- RBI announced its plan to launch a bond sale-and-purchase operation to buy long-term and sell near-term government securities
- Aim to bring down the term premium without adding further liquidity into the system and improving the transmission of earlier rate cuts
- Amundi expects the government to announce further reform measures to kick-start economic activity

Indonesia

- The Indonesian equity market was one of the strongest performing markets during the month, adding gains of +6.99% (MSCI Indonesia Index, in USD terms, net dividends excluded) amidst positive investor sentiment
- Overperformance from Utilities, Energy and Financials
- Underperformance from Consumer Staples, Real Estate and Communication Services
- Foreign ownership has moved up to 51% in November
- The central bank, Bank Indonesia, opted not to cut rates in December amidst benign inflation data
- Core inflation came in at 3% in December, down from 3.3% in September, reflecting subdued domestic demand
- November trade balance reported a deficit of US$1.33 billion compared to a surplus of US$173 million in October

Japan

- Tokyo stocks recorded expansion for four consecutive months, up +1.95% in December (in USD terms, net dividends excluded)
- The Japanese market was initially dampened by the somber manufacturing index in the US
- Stocks skyrocketed mid-month after government announced a sizable economic package as well as the news that the US and China had reached a Phase One trade deal
- Market enthusiasm was also fuelled by a resiliency in the service sector illustrated by the Bank of Japan's corporate survey (Tankan)
- Share prices moved weaker thereafter in a quiet market before Christmas and year-end with a lack of incentives

Korea

- Korean equity markets benefited from the Phase One trade deal between the US and China, posting gains of +5.25% (KOSPI, in local currency terms, net dividends excluded) in December
- Top performing sector was Technology, rallying on the back of rising demand of 5G applications and the bottoming-out of the memory inventory cycle
- Underperformance from Financials, Consumer Staples and Utilities
- Manufacturing Purchasing Managers' Index (PMI) increased in November after appearing to have bottomed-out in July amidst abating trade tensions
- Real GDP grew 0.4% in 3Q19, driven by manufacturing and exports
- Stronger external demand appears to have resulted in a jump in new orders as new export orders index rose during the month
- Employment index fell to 47.5, reversing the gain from the previous two months

Malaysia

- Malaysia FTSE Bursa Malaysia Index closed the month of December up +1.73% (in local currency terms, net dividends excluded)
- Market sentiment was strong as the month progressed, buoyed by the announcement of a Phase One trade deal being agreed upon between US and China
- Prospect of an increase in index representation by Petronas-related stocks further supported the market, coinciding with the year-end rally

New Zealand

- New Zealand SE 50 Index went up (+1.34, in local currency terms, net dividends excluded) in December
- New Zealand Dollar appreciated in December against the US Dollar due to the US Dollar index going down and stronger than expected 3Q19 GDP growth
- New Zealand's economy grew at a faster-than-expected pace in 3Q19, boosted by robust retail spending
- 3Q19 GDP grew 0.7%, stronger than the 0.5% pace recorded in 2Q19
- Data came in higher than the central bank's forecast of 0.3% earlier this year
- Retail industry growth of 2.4% during 4Q19 was boosted by robust spending on electronics

The Philippines

- The Philippines equity market was one of the main underperformers in Asia this month, posting a gain of +1.58% (MSCI Philippines Index, in USD terms, net dividends excluded) in December amidst lackluster macro data prints
- Outperforming sectors were Consumer Discretionary and Real Estate
- Underperformance from Consumer Staples and Communication Services
- Headline inflation bottomed-out in October at -0.9% and rose 1.3% in November mainly due to an uptick in food prices
- Trade balance printed a deficit of US$3.3 billion in October versus a deficit of US$3 billion in September
- The foreign exchange reserves for November stood at US$ 86.2 billion compared to US$ 86 billion in October

Singapore

- The Singapore equity market gained +2.96% (MSCI Singapore Index, in USD terms, net dividends excluded)
- Outperformance from Financials and Technology
- Underperformance from Real Estate, Consumer Staples and Industrials
- Purchasing Managers' Index (PMI) rose from 49.6 in October to 49.8 in November but remains in contraction
- Technology sector was the primary drag, led by a significant fall in semi-conductors output
- Retail sales contracted by 2.2% month-on-month in October compared to a 2% expansion in September
- Non-oil domestic exports expanded 5.8% month-on-month in November compared to a contraction of 3.1% in October

Taiwan

- The Taiwan stock market gained +7.18% (MSCI Taiwan Index, in USD terms, net dividends excluded), benefiting from positive developments on the US-China trade negotiations
- The Technology sector was the top performer, due to blue chip names such as TSMC, Largan and Mediatek
- Outperformance from Industrials, Consumer Discretionary and Financials
- Only underperformer was Communication Services
- Headline manufacturing Purchasing Managers' Index (PMI) rose 50.8 in December, due to broad-based improvements in production, new orders and export orders
- Exports were up 3.3% year-on-year, mainly benefiting from a rebound of exports to China and Hong Kong and to the US
- Technology exports appear to be growing since 2Q19 while non-tech exports have been sluggish in 2019
- Pick-up in imports in November may be indicative of a positive and sustained uptrend in investment

Thailand

- Thailand equity markets posted positive gains +0.83% (MSCI Thailand Index, in USD terms, net dividends excluded) but underperformed the rest of Asia-ex Japan significantly in December amidst fading global geopolitical risks, which has lowered the appeal of low beta/safe haven countries such as Thailand
- Outperformance from Healthcare and Materials
- Underperformance from Consumer Discretionary and Consumer Staples
- Consumer Confidence Index was softer in November, falling from 70.7 in October to 69.1 in November
- Consumer Price Index (CPI) inflation came in below expectations, only edging up to 0.2% in November from 0.1% reported in the previous month, dragged down by falling energy and food prices
- Trade data was also weak, with exports contracting 7.8% in November whilst imports contracted 13.9% in November
- The trade balance in November printed a surplus of US$2 billion while the current account balance for November came in at US$3.4 billion surplus

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Index (as of end December 2019)	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	-2.10%	0.03%	19.14%	19.14%	1.75%	4.25%	18.97%	18.97%
CSI 300	7.00%	7.39%	36.07%	36.07%	7.93%	10.06%	34.12%	34.12%
Hang Seng China Enterprises	8.41%	9.48%	10.30%	10.30%	8.91%	10.15%	10.84%	10.84%
Hang Seng Index	7.00%	8.04%	9.07%	9.07%	7.49%	8.70%	9.60%	9.60%
India National	0.77%	5.66%	9.63%	9.63%	1.28%	4.90%	7.23%	7.23%
Jakarta Composite	4.79%	2.11%	1.70%	1.70%	6.47%	4.41%	5.34%	5.34%
Nikkei 225	1.56%	8.74%	18.20%	18.20%	2.34%	8.14%	19.33%	19.33%
Korea Composite	5.25%	6.53%	7.67%	7.67%	7.50%	10.18%	3.89%	3.89%
FTSE Bursa Malaysia KLCI	1.73%	0.31%	-6.02%	-6.02%	3.82%	2.70%	-5.03%	-5.03%
New Zealand SE 50	1.34%	4.59%	26.04%	26.04%	6.51%	12.53%	26.81%	26.81%
Philippine SE Composite	0.99%	0.47%	4.68%	4.68%	1.32%	2.82%	8.69%	8.69%
FTSE Singapore Straits Times	0.91%	3.30%	5.02%	5.02%	2.38%	6.04%	6.42%	6.42%
Taiwan Weighted	4.42%	10.78%	23.33%	23.33%	6.28%	14.65%	26.46%	26.46%
Bangkok SET	-0.68%	-3.50%	1.02%	1.02%	0.20%	-1.47%	9.81%	9.81%
MSCI AC Asia ex Japan	5.41%	9.78%	15.09%	15.09%	6.42%	11.41%	15.37%	15.37%
MSCI AC Pacific ex Japan	4.34%	8.16%	16.37%	16.37%	5.96%	10.56%	16.80%	16.80%
Dow Jones Industrial	1.74%	6.02%	22.34%	22.34%	1.74%	6.02%	22.34%	22.34%
S&P Composite	2.86%	8.53%	28.88%	28.88%	2.86%	8.53%	28.88%	28.88%
FTSE 100	2.67%	1.81%	12.10%	12.10%	0.24%	-5.29%	7.77%	7.77%
CAC 40	1.23%	5.29%	26.37%	26.37%	3.06%	8.41%	24.08%	24.08%
DAX 30	0.10%	6.61%	25.48%	25.48%	1.90%	9.76%	23.21%	23.21%
MSCI Europe	1.61%	4.13%	20.01%	20.01%	3.85%	8.47%	20.03%	20.03%
MSCI World	2.17%	7.11%	24.86%	24.86%	2.89%	8.19%	25.19%	25.19%