Asia Pacific Market Monthly Commentary

Renewed talks between US and China, tariff delays and accommodative central bank policy helped global equity markets stage a recovery in September. MSCI Asia Pacific ex Japan index posted a gain of 1.50% (in USD terms, dividend excluded) but underperformed MSCI World, which gained 1.91% (in USD terms, dividend excluded) for the period. However, the market rally stalled at the end of the month due to two major drone attacks on Saudi oil facilities (equivalent to 5% of total world oil supply) and impeachment related inquiries against President Trump.

Index (end of September 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	1.53%	1.51%	7.51%	19.11%	0.65%	-2.03%	-0.27%	12.46%
CSI 300	0.39%	-0.29%	10.92%	26.70%	0.49%	-4.06%	6.92%	21.86%
Hang Seng China Enterprises	1.17%	-6.26%	-7.41%	0.75%	1.37%	-6.07%	-7.28%	0.46%
Hang Seng Index	1.43%	-8.58%	-6.10%	0.95%	1.63%	-8.40%	-5.97%	0.66%
India National	3.96%	-2.76%	3.95%	3.76%	4.75%	-5.29%	6.33%	2.22%
Jakarta Composite	-2.52%	-2.98%	3.22%	-0.41%	-2.59%	-3.44%	8.36%	2.15%
Nikkei 225	5.08%	2.26%	-9.80%	8.70%	3.20%	1.94%	-5.20%	11.06%
Korea Composite	4.84%	-3.17%	-11.95%	1.08%	6.16%	-6.53%	-18.35%	-5.71%
FTSE Bursa Malaysia KLCI	-1.75%	-5.28%	-11.67%	-6.31%	-1.18%	-6.55%	-12.80%	-7.53%
New Zealand SE 50	0.82%	2.84%	12.84%	20.50%	0.24%	-3.99%	6.73%	12.69%
Philippine SE Composite	-2.51%	-2.76%	6.90%	4.19%	-2.09%	-3.87%	11.44%	5.71%
FTSE Singapore Straits Times	0.43%	-6.07%	-4.21%	1.67%	0.85%	-8.11%	-5.28%	0.36%
Taiwan Weighted	1.99%	0.92%	-1.61%	11.33%	3.26%	1.04%	-3.16%	10.30%
Bangkok SET	-1.07%	-5.38%	-6.79%	4.69%	-1.11%	-5.13%	-1.44%	11.45%
MSCI AC Asia ex Japan	1.01%	-4.30%	-4.83%	4.84%	1.44%	-5.34%	-5.73%	3.55%
MSCI AC Pacific ex Japan	1.03%	-3.32%	-2.88%	7.59%	1.36%	-4.81%	-5.19%	5.65%
Dow Jones Industrial	1.95%	1.19%	1.73%	15.39%	1.95%	1.19%	1.73%	15.39%
S&P Composite	1.72%	1.19%	2.15%	18.74%	1.72%	1.19%	2.15%	18.74%
FTSE 100	2.79%	-0.23%	-1.36%	10.11%	4.25%	5.38%	3.72%	15.61%
CAC 40	3.60%	2.51%	3.35%	20.02%	2.56%	-1.87%	-2.99%	14.46%
DAX 30	4.09%	0.24%	1.48%	17.70%	3.05%	-4.04%	-4.75%	12.22%
MSCI Europe	3.01%	1.57%	1.92%	15.25%	2.63%	-2.25%	-3.77%	10.66%
MSCI World	2.15%	1.07%	0.87%	16.57%	1.94%	0.08%	-0.18%	15.72%

Amundi
ASSET MANAGEMENT
東方匯理 資產管理

September 2019

Hong Kong

Korea

Korea was one of the strongest performers in September (+5.59%, KOSPI, in local currency terms, dividend excluded) due to outperformance from Technology, Consumer Staples and Financials sectors. Korean equities generally benefited from an investment of almost KRW 5 trillion from pension funds and local institutions.

The headline Korean Purchasing Managers' Index (PMI) rebounded to a 4-month high, but remains in contraction territory due a slow-down in fixed investment growth resulting from deteriorating global growth.

Moreover, business confidence has weakened and uncertainty has increased due to Korea-Japan trade conflicts and Japan's export controls against Korea. Despite these headwinds, a re-start of the memory cycle has been a positive catalyst for the order book for Korean semi-conductors thus resulting in a strong rally in September. Meanwhile consumption slowed on weak disposable income growth, dragging the housing market and the construction sector.

India

MSCI India index ended 3.08% higher (in USD terms, dividend excluded) in September. Industrials, Energy, Consumer Discretionary and Materials were the best performing sectors while Healthcare detracted the most. The main catalyst for the market rally was the surprising across-the-board corporate tax cut announced by the government to boost manufacturing and revive growth.

The base corporate tax rate was cut with an objective of improving the competitiveness of Indian corporates on a global landscape. Stocks that benefit from this policy change and are potential divestment targets for the government were the biggest outperformers for the month.

Taiwan

Taiwan's stock market gained 3.95% (MSCI Taiwan index, in USD terms, dividend excluded) in September driven by the strong performance from Technology and Consumer Discretionary sectors. Earnings expectations have been upgraded in the past month given the improvement of macro data in recent months.

Manufacturing PMI has increased in September. Industrial production rose by a better-than-expected performance in September, primarily due to a recovery in the electronics sector, which accounts for 40% of total production.

China

China's equity markets were relatively stable in September (-0.25%, MSCI China index, in USD terms, dividend excluded) as strong performance from the Technology and Energy sector helped offset weakness in Healthcare, Utility, Consumer Discretionary and Consumer Staples . Macro data was mixed but overall indicated a deteriorating domestic economic environment, driven by the negative sentiment from US-China trade uncertainty.

US-China trade tensions and the currently high base of domestic growth makes it challenging for the Chinese authorities to sustain growth above 6%. Temporary relief on concessions on the US trade tariffs will alleviate the short-term pain.

Amundi expects gradual monetary easing, including cuts in reserve requirements, loan prime rate and medium term lending facility, as well as support for auto sector and budget fund to stimulate the economy. China has the ability to do more, but will not do more unless necessary.

Hong Kong

MSCI Hong Kong index went down in September (-1.11%, in USD terms, dividend excluded). The best performing sector were Telecommunication Services and Information Technology, while the worst performing sectors were Financials and Industrials. The weak market performance was because of prolonged social movements in Hong Kong raised concerns over the potential slowdown in residential demand, consumer spending and tourist arrivals.

Indonesia

The Indonesian equity market posted losses of 2.88% (MSCI Indonesia index, in USD terms, dividend excluded) in September led by underperformance in Consumer Staples and Materials. Utilities and Real Estate rose on the easing of monetary policy. Protests across main Indonesian cities against corruption and protection of the environment and human rights resulted in a sell-off.

Early in the month, the government announced proposals to cut the corporate income tax rate and scrap a levy on dividends in order to attract foreign investment flows. Although the regulation is not finalized, it is expected that there will be lower income population and hence consumer stocks to be the biggest beneficiaries if the regulation is implemented. The equity market continued to suffer from weak macroeconomic data, which prompted the central bank to cut rates again in September.

Thailand

Thailand's equity market lost 1.15% (MSCI Thailand index, in USD terms, dividend excluded) with Consumer Staples and Telecommunication services leading losses while Utilities posted strong gains. The trade balance reported a surplus in August as imports contracted significantly while exports also continued to decline. Headline inflation was benign rising in August and well below the Bank of Thailand (BoT)'s inflation target of 1-4%. Although the BoT left policy rates unchanged in September after cutting rates in August, the monetary policy committee lowered its growth and inflation forecast for 2019 and its growth forecast for 2020.

Below-target inflation coupled with lacklustre growth prospects are likely to prompt additional monetary loosening in the form of rate cuts. In Amundi's view, political and macroeconomic uncertainties may derail the economy. Monetary and fiscal expansion is required to support domestic growth. While investment activity remains weak, a recovery may be possible if the government pursues their infrastructure strategy.

Singapore

The Singapore equity market ended with a positive return of 1.16% (MSCI Signapore index, in USD terms, dividend excluded) in September as the Financials and Technology gained, offsetting the loss in the Consumer Staples sector. Macro data prints continued to disappoint. The headline PMI remained almost unchanged in contractionary territory in August while industrial production contracted. Retail sales declined for the 6th straight month down, although having eased in June. Core inflation expanded at but remains well below the forecasted central bank target of 2%.

The Philippines

The Philippines equity market fell 1.97% (MSCI Philippines index, in USD terms, dividend excluded) in September, dragged down by Consumer Staples, Consumer Discretionary and Communication Services suffered the biggest losses while Utility and Real Estate benefited with gains. In terms of macro data releases in September, the trade deficit grew in July due to a rebound in capital goods while headline exports remained flat.

Softer levels of inflation have prompted the possibility of additional monetary easing by the Bangko Sentral ng Pilipinas (BSP) in the form of cuts in reserve requirements and policy rates to boost consumption. Moreover, monetary data should reinforce BSP's inclination to continue cutting interest rates. Bank credit and broad M3 money supply growth appear to have bottomed but remained relatively subdued.

Malaysia

The FTSE Bursa Malaysia KLCI index closed the month with a loss of -1.75% (in local currency terms, dividend excluded). The US-China trade war remained as the key overhang, although there was a more conciliatory stance struck between the two parties, with US delaying slapping additional tariffs by two weeks and China exempting some tariffs on selected US imports.

Locally, Bank Negara decided on keeping its (Overnight Policy Rate) OPR unchanged this month. Economic conditions locally remained relatively stable to allow for a delay in its decision to cut interest rates, but the postponement may also be due to the weak MYR during the month.

The weakness in the MYR can be attributed to overhang from the uncertainty in Malaysia's continued inclusion in the World Government Bond Index which FTSE Russell announced its decision at the end of the month to have Malaysia remain within the index. However, the overhang is likely to persist until the next review in March 2020 as they also decided to keep Malaysia on the watchlist for a potential downgrade.

New Zealand

The New Zealand SE 50 index went up 0.82%, in local currency terms, dividend excluded) in September.

The Reserve Bank of New Zealand (RBNZ) kept the Official Cash Rate (OCR) and mentioned that global trade and other political tensions remain elevated and continue to subdue the global growth outlook, dampening demand for New Zealand's goods and services. As a result, keeping the OCR at low levels is needed to ensure inflation increases to the mid-point of the target range, and employment remains around its maximum sustainable level.

New Zealand's 2Q19 GDP grew, which was slower than that in previous quarter. Service industries, which represent about two-thirds of the economy, were the main contributor to GDP growth in the quarter. But food manufacturing, mining and construction eased.

Australia

The Australia All Ordinary index raised 1.53% (in local currency terms, dividend excluded) in September. Banks and Energy topped the table, while Healthcare, Communication Services and REITS were the weakest Global Industry Classification Standard (GICS) sector.

Reserve Bank of Australia (RBA) minutes in September delivered quite a distinct change in tone from the central bank. The RBA stated that "... the upward trend in wages growth appeared to have stalled." The minutes noted evidence from the liaison program that retailers are yet to benefit from income tax rebates, potentially threatening the Bank's forecast of improvement in domestic demand. As a result, market expected that there will be more rate cut in near future.

Japan

Tokyo equity market recorded the largest gains among the developed countries in September (3.18%, MSCI Japan index, in USD terms, dividend excluded). Stocks opened weaker as US ISM manufacturing index dipped below the boom-or-bust line for the first time in three years.

The market quickly set for upward march, taking a cue from the official withdrawal of a controversial extradition bill by Chief Executive of Hong Kong and the approval of Brexit delay bill in the UK Parliament. Reduction in Chinese required reserve ratio fueled rally. In the meantime, optimism on US–China trade continued to lift stocks. Share prices drifted higher when market participants found the Bank of Japan (BOJ) became affirmative to further credit easing.

However the market gradually lost strength toward the month-end due to 1) prolonged and escalating social movements in Hong Kong, 2) tension in the Middle-East on the heels of an attack on Saudi Arabia's oil processing facilities and 3) impeachment inquiry against President Trump by House Democrats. Agreement between Japan and the US on bilateral trade failed to ignite rally as speculation that the US government could restrict the investment in the Chinese securities snapped global stock market.