Confidence must be earned

ASIA PACIFIC MARKET MONTHLY COMMENTARY

August 2021

Market Review

Global markets performed well in August even US Federal Reserve Chairman Powell's Jackson Hole speech mentioned about tapering. In relation to inflation, Powell was modestly dovish, reiterating his view that the recent inflation news is likely to be transitory. Delta variant became majority of cases, but this did not put US and UK back to lockdown. Numbers of COVID cases in South-East Asia are still worrying, which Vietnam imposed lockdown in its capital as well as major cities. Regulatory overhang in China continued affect Hong Kong and China market, and China's pledges for "Common Prosperity" made investors nervous on fiscal changes. Against this backdrop, MSCI Asia ex Japan Index was up 2.08% in August (in USD terms, net dividends excluded), slightly underperforming the MSCI World Index which gained 2.35% during the month (in USD terms, net dividends excluded).

CANBERRA • BEIJING • HONG KONG

Australia

- Australia All Ordinary Index was up 2.08% in August (in local currency terms, net dividends excluded).
- Outperformance from Information Technology and Healthcare.
- Underperformance from Materials and Energy.
- Australian yield curve flattened, which Australian 2-year yield declined 0.9bps to 0.02% while 10-year bond yield went down 3bps to 1.16%.
- AUD depreciated in August against USD (-0.39%) while USD index went up (+0.49%).
- The Reserve Bank of Australia (RBA) affirmed its decision to trim its purchases of government bonds to AUD$4 billion a week from September from the current weekly pace of AUD$5 billion, even recent outbreaks of the virus clouded the economic outlook for the coming months.
- However, the RBA still expects a solid 2.5% GDP growth in 2023, on top of a "little over 4%" in 2022.

China

- MSCI China Index was down 0.06% in August (in USD terms, net dividends excluded).
- On the back of the regulatory paradigm shift, flows and positioning favoured sectors with policy tailwinds such as New Energy Vehicles (NEV) and Solar.
- On macros, July's data shows a broad economic slowdown in China. Production, consumption and investment all disappointed. The broad policy tapering plus sector-level tightening were the major culprit behind the slowdown.
- Retail sales growth decelerated materially to 8.5% yoy in July from 12.1% yoy in June.
- The National Bureau of Statistics (NBS) manufacturing Purchasing Managers' Index (PMI) weakened further in August to 50.1, registering the lowest reading since March 2020.
- The softening data reflects slower demand amid the latest wave of COVID-19 cases and sluggish export orders.
- Looking ahead, in light of weakening growth momentum and inflation risks at bay, it is expected that China's policy stance leans more toward the dovish side, while People's Bank of China (PBoC) to keep an accommodative liquidity stance without rate cuts.

Hong Kong

- MSCI Hong Kong Index was down 1.02% in August (in USD terms, net dividends excluded).
- Outperformance from Industrial and Communication Services.
- Underperformance from Consumer Discretionary and Real Estates.
- Hong Kong's headline Consumer Price Index (CPI) growth came in weaker than expected, at 3.7% yoy in July.
- Netting out the effects of the government's one-off relief measures, underlying CPI surged to 1.0% yoy from 0.4% yoy in June. The larger increase was mainly due to the enlarged increases in the costs for meals out and takeaway food as well as the increases in local transport fares.
- Hong Kong's unemployment rate dropped to 5.0% in July, on rising employment and a decline in total labor force.
- HK July retail sales increased 2.9% yoy, which slower than that in June (+5.8% yoy).

NEW DELHI • JAKARTA • TOKYO • SEOUL • KUALA LUMPUR

India

- MSCI India Index was up 10.90% in August (in USD terms, net dividends excluded).
- Outperformance from Utilities, Communication Services and Information Technology.
- Underperformance from Real Estate, Materials and Consumer Discretionary.
- The strong prints on corporate earnings over the past few quarters at a time when economic growth is yet to find a footing, suggests that the over a decade long declining trend on the corporate profits to GDP ratio has been arrested.
- Regarding the pandemic situation, while the COVID-19 cases have come off sharply, it is encouraging to note that the pace of vaccination is picking up.
- Activity appears to have reached pre-COVID levels in August with external demand for goods and services being the strongest, infrastructure activities faring well, manufacturing being stronger than services, and business confidence better than consumer sentiments.
- Employment and the government tax collection showed encouraging trends in July.

Indonesia

- MSCI Indonesia Index was up 7.87% in August (in USD terms, net dividends excluded).
- In August, Bank Indonesia (BI) kept its 7-day reverse repo rate, deposit and lending facility rates unchanged at 3.50%, 2.75% and 4.25% respectively as widely expected.
- The Central Bank expects the domestic economic recovery to be slightly restrained by intense pressures in 3Q21 given the tighter mobility restrictions amidst the Delta cases surge.
- However, its overall economic growth projection for 2021 has been maintained at 3.5-4.3% as restrictions are relaxed and vaccine rollout is accelerated.
- In the near term, the lingering concerns on the spread of COVID and interest rates uncertainty will dictate market direction.
- In the worst-case scenario, BI and the Ministry of Finance would extend the burden sharing agreement which is the third one signed, allowing contingency support.

Japan

- MSCI Japan Index was up 3.03% in August (in USD terms, net dividends excluded).
- The vaccination pace slowed sharply after the summer Olympics, bringing additional uncertainties to consumption, which was already lagging behind the overall recovery.
- Inflationary pressures remain subdued, with a negative output gap.
- Core inflation hovered around 0%, and is expected to strengthen more meaningfully in 2022, when the drag from mobile phone charge cuts fades away.
- The Bank of Japan (BoJ) extended the Special Funding Program by another six months at its June meeting, and maintained a cautiously optimistic outlook.
- The BoJ is expected to stay put compared with its peers, absent a full-fledged recovery and inflationary pressures.

Korea

- Korea's KOSPI Index was down 0.10% in August (in local currency terms, net dividends excluded).
- Outperformance from Healthcare and Financials.
- Underperformance from Materials and Utilities.
- The Bank of Korea (BOK) – known to be concerned about household debt levels and property market excess – initiated the move to help curb the country's household debt and home prices, which soared in recent months.
- Although private consumption has slowed down due to the COVID resurgence, exports have sustained their buoyancy and facilities investment has shown a robust trend.
- The 2021 GDP forecast was maintained at 4.0%, consistent with the forecast in May.
- The forward looking section kept the door open for further gradual policy rate adjustments, as the Korean economy is expected to continue its sound growth and inflation to run above 2% for some time, despite ongoing uncertainties over the virus.

Malaysia

- FTSE Bursa Malaysia Index was up 7.14% in August (in local currency terms, net dividends excluded).
- Outperformance from Staples (Plantation) and Industrials.
- In the month, following the resignation of Tan Sri Mahiaddin Yassin together with his cabinet after losing simple majority support, Datuk Seri Ismail Sabri is appointed as the ninth Prime Minister of Malaysia.
- Malaysia's GDP increased 16.1% yoy in 2Q21 on particularly low base after four consecutive quarters of contraction.
- As vaccination continue to roll out, 42.4% of population is fully vaccinated.
- Mobility restriction eased for those fully vaccinated in all phases of National Recovery Plan, with more sectors allowed to operate. Moving towards 4Q, it is expected that the recovery theme to pick up as the government continues to relax restrictions on mobility.

WELLINGTON • MANILA • SINGAPORE • TAIPEI • BANGKOK

New Zealand

- New Zealand SE 50 Index was up 4.68% in August (in local currency terms, net dividends excluded).
- NZD appreciated in August against USD (1%) even USD index went up (+0.49%).
- The Reserve Bank of New Zealand (RBNZ) kept Official Cash Rate (OCR) at 0.25% because of recent surge of COVID cases and lockdown for the entire nation. However, RBNZ still expected there will be a rate hike before year end.
- New Zealand 2Q unemployment rate dropped to 4% from 4.7% in 1Q. The job growth was 1% qoq, with participant rate inched up 0.1% pt to 70.5%.
- Wage growth accelerated in the June quarter with private sector labour cost index (LCI) recording a 0.9% qoq increase (or 2.2% yoy increase)

The Philippines

- MSCI Philippines Index was up 11.02% in August (in USD terms, net dividends excluded).
- At the August meeting, Bangko Sentral ng Pilipinas (BSP) kept its key policy rates unchanged as expected, and raised its 2021 inflation forecast marginally to 4.1% from 4.0% previously, citing the recent increase in global commodity prices and the depreciation of the Philippine peso (PHP).
- On growth, The Monetary Board noted that the re-imposition of COVID-related restrictions could pose a risk to the ongoing economic recovery.
- The Philippines Statistics Authority posted posted strong 2Q21 GDP growth of 11.8% yoy, -5.1% qoq, driven by strong private consumption and fixed investment.
- As vaccination continues to roll out together with encouraging GDP numbers, the recovery theme is intact with hiccups in the immediate term.

Singapore

- MSCI Singapore Index was down 2.37% in August (in USD terms, net dividends excluded).
- The Singapore PMI edged down to 50.9 in August from 51 in July as the manufacturing sector continue to face supply chain disruption arising from COVID-19 restrictions.
- CPI continued to rise and came in at 2.5% yoy in July, driven by higher electricity and gas costs.
- Core inflation edged up to 1.0 % yoy, an increase from 0.6% in June, broadly in line with expectations.
- By the end of August, Singapore had 80% of its population fully vaccinated with the government lifting restrictions and allowing employees to return to work, enabling more business to reopen.
- The government announced pilot quarantine-free travel lanes for vaccinated passengers from Germany and Brunei in its border-lifting move. The rise in covid-19 community infections remains merely noise in the near term.

Taiwan

- MSCI Taiwan Index was up 3.89% in August (in USD terms, net dividends excluded).
- Outperformance from Financials and Industrials.
- Underperformance from Consumer Discretionary and Communication Services.
- Taiwan's industrial production moderated to 13.9% yoy in July from 18.0% yoy in June, below expectations and partly paying back the notable increase in June. The sequential decline was mainly driven by the contraction in production of electronic components after June's sharp gain.
- There was an uptick in food and energy prices, but core CPI inflation edged down to 1.3% from 1.4% and general services prices remained soft amid the virus impact.
- Taiwan's export sector is expected to remain relatively resilient given the global recovery and Taiwan's dominance of global semiconductor output.

Thailand

- MSCI Thailand Index went up 10.93% in August (in USD terms, net dividends excluded).
- The government proposed to achieve carbon neutrality by 2065-2070 under a new energy plan with renewable energy accounting for a 50% share of new power generation.
- Given the recent re-emergence of COVID cases, the Thai Monetary Policy Committee (MPC) 's GDP growth projection for 2021 was revised down to 0.7% from 1.8% with risk tilted to the downside.
- On inflation, Thailand's July inflation fell to 0.45% yoy, mainly from the fading base effect and impact from the utility subsidy program.
- Towards the end of the month, Thailand's infection rate started to decline from the peak. Vaccination roll out continues to accelerate.
- The government announced easing of restrictions by 1st September, allowing dine-in activities. The recovery story remains on track as the accelerating inoculation rate is leading to easing restrictions in Thailand.

ASIA PACIFIC MARKET MONTHLY COMMENTARY

AUGUST 2021

Index (as of end August 2021)	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	2.08%	5.62%	25.25%	14.20%	1.49%	-0.27%	23.78%	8.16%
CSI 300	-0.12%	-9.87%	-0.22%	-7.78%	-0.22%	-11.30%	5.83%	-6.69%
Hang Seng China Enterprises	-0.54%	-15.66%	-8.08%	-14.48%	-0.61%	-15.84%	-8.41%	-14.74%
Hang Seng Index	-0.32%	-11.23%	2.79%	-4.97%	-0.39%	-11.41%	2.43%	-5.25%
India National	7.86%	9.81%	51.34%	23.22%	9.94%	9.24%	52.58%	23.33%
Jakarta Composite	1.32%	3.41%	17.41%	2.86%	2.74%	3.54%	19.88%	1.33%
Nikkei 225	2.95%	-2.67%	21.39%	2.35%	2.85%	-3.08%	17.18%	-3.81%
Korea Composite	-0.10%	-0.15%	37.53%	11.34%	-0.89%	-4.31%	40.91%	4.31%
FTSE Bursa Malaysia KLCI	7.14%	1.13%	4.99%	-1.59%	8.77%	0.40%	5.32%	-4.95%
New Zealand SE 50	4.68%	6.65%	8.16%	-0.50%	5.56%	3.11%	12.63%	-2.73%
Philippine SE Composite	9.33%	3.42%	16.51%	-3.98%	9.85%	-0.85%	13.54%	-7.31%
FTSE Singapore Straits Times	-3.53%	-3.45%	20.63%	7.43%	-3.01%	-5.08%	22.08%	5.65%
Taiwan Weighted	1.41%	2.47%	38.91%	18.72%	2.33%	2.07%	47.07%	20.37%
Bangkok SET	7.68%	2.83%	25.03%	13.07%	9.80%	-0.35%	20.73%	5.10%
MSCI AC Asia ex Japan	1.70%	-5.30%	13.96%	0.43%	2.08%	-6.24%	15.59%	-0.63%
MSCI AC Pacific ex Japan	0.83%	-5.63%	11.97%	-0.07%	0.85%	-7.36%	13.07%	-1.99%
Dow Jones Industrial	1.22%	2.41%	24.38%	15.53%	1.22%	2.41%	24.38%	15.53%
S&P Composite	2.90%	7.58%	29.21%	20.41%	2.90%	7.58%	29.21%	20.41%
FTSE 100	1.24%	1.38%	19.39%	10.20%	2.28%	4.72%	16.15%	9.46%
CAC 40	1.02%	3.61%	35.03%	20.33%	0.56%	0.04%	33.28%	16.09%
DAX 30	1.87%	2.68%	22.32%	15.43%	1.41%	-0.86%	20.74%	11.36%
MSCI Europe	1.92%	4.86%	26.84%	16.53%	1.26%	1.52%	26.39%	13.48%
MSCI World	2.53%	6.56%	28.28%	18.08%	2.35%	5.57%	27.93%	16.78%