ASIA PACIFIC MARKET MONTHLY COMMENTARY

September 2020

Confidence must be earned

Market Review

Investors took risk off their pedals on the escalating tensions between US and China and rising uncertainties surrounding the US Presidential election. For this reason, the MSCI Asia ex Japan Index continued its decline by -1.68% in September (in USD terms, net dividends excluded) on profit taking, after 3 months of consecutive gains. The MSCI World Index also saw losses in September, down -3.59% (in USD terms, net dividends excluded).

CANBERRA • BEIJING • HONG KONG

Australia

- The Australia All Ordinary Index was down -3.79% in September (in local currency terms, net dividends excluded).
- Outperformance from Healthcare and Industrials.
- Underperformance from Energy and Consumer Staples.
- The Australian yield curve flattened a bit, with the 2-year yield down to 0.18% whilst the 10-year bond yield went down to 0.85%.
- The Australian dollar (AUD) depreciated in September against the US Dollar (USD) while the USD index went up.
- The Reserve Bank of Australia (RBA) left rates unchanged at 0.25%, but unexpectedly boosted the size of its term funding facility to around AUD200 billion at a fixed rate of 25 bps for three years.
- Australia's 2Q GDP contracted -6.3% year-on-year (yoy) as the economy was hit by coronavirus curbs which paralysed business activity.
- The unemployment rate decreased from 7.4% in July to 6.8% in August whilst the participation rate increased from 64.7%.in July to 64.8% in August.

China

- MSCI China Index retreated -2.86% in September (in USD terms, net dividends excluded) amidst rising tensions with the US and ahead of the US Presidential election.
- Outperformance from Consumer Discretionary, Utilities and Communications Services.
- Underperformance from Technology, Energy and Real Estate.
- Sanctions on technology names in China, including WeChat, TikTok and SMIC had a negative repercussion on the supply chain, triggering a selloff in technology stocks.
- Real Estate took a hit towards the last week of September on fears of credit default by China Evergrande, but with the approval for listing of its subsidiary, the fears quickly subsided.
- Macroeconomic indicators remained positive with Purchasing Manufacturing Index (PMI) rising 0.5 points to 51.5 on rising global demand.
- Industrial production rose 5.6% yoy in August.

Hong Kong

- MSCI Hong Kong Index went down in September (-5.63%, in USD terms, net dividends excluded).
- Outperformance from Industrials and Utilities.
- Underperformance from Consumer Discretionary and Consumer Staples.
- The government further relaxed some social distancing measures, yet announced the roll-out of the third round of anti-epidemic stimulus amounting to HKD24 billion.
- Consumer Price Index (CPI) remains in deflation territory, falling 0.4% yoy in August compared to -2.3% in July, largely reflecting the hit from COVID-19 from Hong Kong's third wave of infections.
- Retail sales volume contracted 13.4% yoy in August, improving from the decline of 23.8% in July, partly due to the low base.
- Supermarkets sales stayed resilient, up 10.8% yoy, as residents stocked up on household items amid the third wave of infections.

India

- MSCI India Index was up 0.59% in September (in USD terms, net dividends excluded).
- Outperformance from IT, Healthcare and Energy.
- Underperformance from Utilities, Communication Services, and Financials.
- Auto sales remained strong, led by improved mobility, festive season inventory build-up (Diwali holiday) and a stronger rural economy.
- Although broader consumer sentiments are still depressed, manufacturing activity has seen to be picking up (currently faster than service-related economic activity).
- A second round of fiscal stimulus is also expected in the current quarter, though we do not expect any overtly large stimulus owing to already stressed balance-sheet positions.

Indonesia

- MSCI Indonesia Index registered the greatest loss in the region in September (-13.02%, in USD terms, net dividends excluded).
- Outperformance from Energy.
- Underperformance from Utilities, Financials, Consumer Discretionary and Communication Services.
- Investors fled on the resurgence of the virus and the possible negative impact to the economy on the second wave of lockdown.
- As expected, Bank Indonesia kept the policy rate unchanged at 4% to maintain forex stability, despite a muted inflation of -0.5% month-on-month (mom) in September.
- Trade balance reached USD2.7 billion surplus, on weak imports and improvements in exports but Purchasing Managers Index (PMI) dropped from 50.8 in August to 44.9 in September.

Japan

- Japanese stocks were up 0.25% in September (MSCI Japan Index, in USD terms, net dividends excluded).
- Better global growth prospects should favour cyclical and export oriented markets such as Japan.
- Outperformance from Consumer Discretionary.
- Underperformance from Consumer Staples.
- While the new Prime Minister, Yoshihide Suga, is likely to continue the economic support provided by the previous administration, investors should stay watchful.
- The second wave of COVID-19 in Japan left its mark on the economic recovery, with household spending turning sluggish moving into Q3 and mobility remaining flat.
- Business sentiment was mixed in September but we maintain our view of a soft recovery ahead and do not expect the economy to return to pre-COVID levels in 2021.

Korea

- Korea's KOSPI Index gained a modest 0.07% in September (in local currency terms, net dividends excluded).
- Outperformance from Technology and Consumer Discretionary.
- Underperformance from Healthcare.
- Demand for OLED display panels for smartphones, in particular suppliers to Apple iPhone 12 models, led to positive performance of Korean LCD panel manufacturers
- Economic data showed strength with the Business Confidence Index rising from 61 in August to 68 in September
- Exports rose 7.7% yoy in September, the first increase in 7 months.
- CPI ticked up by 0.6% mom in August as the unemployment rate fell from 4.2% in July to 3.2% in August, supporting the 1% rise in retail sales and 4.5% yoy rise in housing prices.

Malaysia

- The FTSE Bursa Malaysia Index posted a second consecutive monthly loss, closing down -1.34% in September (in local currency terms, net dividends excluded).
- Market weakness was attributable to profit-taking activities on glove players, heightened political uncertainty, end of loan moratorium and rising new COVID-19 cases.
- The central bank (Bank Negara) left the Overnight Policy Rate (OPR) unchanged at 1.75% during its meeting on 10 September.
- On the fiscal side, the government announced another stimulus package amounting to RM10 billion under the "Kita Prihatin" supplementary package to cushion the economic fallout from COVID-19.

New Zealand

- The New Zealand SE 50 Index went down -2.19% in September (in local currency terms, net dividends excluded).
- The New Zealand Dollar (NZD) depreciated in September against the USD while USD index went up.
- New Zealand's 2Q GDP shrank 12.4% yoy, reflecting the full impact of coronavirus lockdowns on business.
- The contraction was better than economist forecasts for a 12.8% fall and the central bank's projection for a 14.2% drop.
- The Reserve Bank of New Zealand (RBNZ) kept the Official Cash Rate (OCR) unchanged at 0.25% and maintained its large scale asset purchase (LSAP) programme up to NZD100 billion.
- RBNZ will continue studying to deploy additional monetary instruments, such as Funding for Lending Programme (FLP), a negative OCR and purchases of foreign assets.

The Philippines

- MSCI Philippines Index was down -0.78% in September (in USD terms, net dividends excluded).
- Outperformance from Consumer Discretionary and Financials.
- Underperformance from Communication Services.
- With Philippines remained under General Community Quarantine until end October, consumer sentiment remains low, with auto sales falling 40% in August and loans slowing 0.9% mom.
- To offset potential economic slowdown, the government announced PHP165 billion of additional stimulus (0.9% of GDP).
- Bangko Sentral ng Pilipinas (BSP) kept the interest rates on credit cards at 24%.

Singapore

- MSCI Singapore Index was down -3.09% in September (in USD terms, net dividends excluded),
- Outperformance from Consumer Staples.
- Underperformance from Communication Services and Consumer Discretionary.
- Industrial production in August rose 13.9% mom, following a 1.6% rise in July.
- The government had also opened more green lanes for overseas travellers from Malaysia, Brunei, China, Vietnam, Australia (except Victoria), New Zealand and these should lift the pace of economic recovery.
- Monetary policy is unlikely to remain loose given the positive macro backdrop and the authorities is set on price stability and quality growth.

Taiwan

- MSCI Taiwan Index gained 1.79% in September (in USD terms, net dividends excluded).
- Outperformance from Technology.
- Underperformance from Industrials.
- Inflation remained muted with CPI hovering at 0.18% in August.
- A stable unemployment rate of 3.8% was recorded in August and a positive 3.6% mom rise in industrial production.
- After a 2.6% drop in August, Taiwan's technology sector rebounded with 1.8% return and was the only sector to have positive returns this month. The sector is probably the biggest beneficiary of any further escalation of tensions between the US and China and sanctions placed on Chinese technology names.

Thailand

- MSCI Thailand Index registered a further loss of -9.61% in September (in USD terms, net dividends excluded) exacerbated by rising political unrest.
- Outperformance from Industrials, Consumer Staples and Financials.
- Underperformance from Energy, Materials and Utilities.
- Bank of Thailand (BOT) left policy rates unchanged at 0.5% as economic activities and business confidence remained buoyant.
- BOT also revised down 2020 growth and raised the inflation target from -1.7% to -0.9%.
- To boost consumption, lift employment and possibly ease political tensions, the government announced a new stimulus package of THB69 billion, including cash handout between THB 500 to THB 3,000 to 14 million low income earners and sponsor half of the salaries of 260,000 new graduates for a year.

ASIA PACIFIC MARKET MONTHLY COMMENTARY

September 2020

Index (as of end September 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	-3.79%	0.13%	-11.64%	-11.66%	-6.75%	4.24%	-6.09%	-9.92%
CSI 300	-4.75%	10.17%	20.26%	11.98%	-4.13%	14.43%	26.05%	14.53%
Hang Seng China Enterprises	-5.95%	-3.70%	-7.88%	-15.85%	-5.94%	-3.70%	-6.82%	-15.40%
Hang Seng Index	-6.82%	-3.96%	-10.09%	-16.78%	-6.82%	-3.96%	-9.05%	-16.33%
India National	-0.78%	9.42%	-1.63%	-6.90%	-1.01%	11.98%	-5.51%	-9.93%
Jakarta Composite	-7.03%	-0.72%	-21.06%	-22.69%	-9.02%	-4.69%	-24.69%	-27.87%
Nikkei 225	0.20%	4.02%	6.57%	-1.99%	0.68%	6.35%	9.14%	0.93%
Korea Composite	0.07%	10.41%	12.84%	5.93%	1.65%	13.56%	15.41%	4.74%
FTSE Bursa Malaysia KLCI	-1.34%	0.26%	-4.99%	-5.28%	-0.93%	3.32%	-4.18%	-6.70%
New Zealand SE 50	-2.19%	1.71%	4.85%	0.24%	-4.35%	4.43%	10.53%	-1.78%
Philippine SE Composite	-0.34%	-5.53%	-24.62%	-24.96%	-0.33%	-2.91%	-19.41%	-21.61%
FTSE Singapore Straits Times	-2.60%	-4.76%	-20.94%	-23.46%	-3.29%	-2.95%	-20.22%	-24.77%
Taiwan Weighted	-0.60%	7.70%	15.57%	4.32%	0.70%	9.71%	23.80%	7.98%
Bangkok SET	-5.62%	-7.62%	-24.44%	-21.70%	-7.30%	-9.89%	-27.07%	-25.98%
MSCI AC Asia ex Japan	-2.02%	8.62%	13.64%	3.51%	-1.68%	9.82%	15.34%	3.52%
MSCI AC Pacific ex Japan	-2.62%	6.53%	9.21%	0.97%	-2.75%	8.09%	12.11%	1.40%
Dow Jones Industrial	-2.28%	7.63%	3.21%	-2.65%	-2.28%	7.63%	3.21%	-2.65%
S&P Composite	-3.92%	8.47%	12.98%	4.09%	-3.92%	8.47%	12.98%	4.09%
FTSE 100	-1.63%	-4.92%	-20.82%	-22.23%	1.88%	-9.13%	-24.52%	-20.30%
CAC 40	-2.91%	-2.69%	-15.40%	-19.65%	-4.80%	1.60%	-9.00%	-16.06%
DAX 30	-1.43%	3.65%	2.68%	-3.69%	-3.35%	8.22%	10.44%	0.62%
MSCI Europe	-1.00%	-0.14%	-9.35%	-12.95%	-3.39%	4.07%	-2.95%	-10.53%
MSCI World	-3.04%	6.29%	6.76%	-0.33%	-3.59%	7.52%	8.59%	0.37%