Asia Pacific Market Monthly Commentary

The Asia ex Japan market went through a painful month of May, underperforming the global equities and posting an negative performance of -8.94% (MSCI AC Asia ex JP index, in USD terms, dividend excluded). All countries ended up in negative territory, except Philippines and India. China was the key drag, losing -13.53% (MSCI China index, in USD terms, dividend excluded).

Index (end of May 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	1.14%	3.82%	6.01%	13.70%	-0.44%	1.11%	-2.92%	11.90%
CSI 300	-7.24%	-1.08%	-4.54%	20.56%	-9.48%	-4.19%	-11.48%	19.91%
Hang Seng China Enterprises	-10.01%	-8.62%	-13.28%	2.59%	-9.95%	-8.52%	-13.24%	2.45%
Hang Seng Index	-9.42%	-6.05%	-11.71%	4.08%	-9.37%	-5.94%	-11.67%	3.93%
India National	1.48%	9.60%	9.09%	7.91%	1.28%	11.86%	5.63%	8.10%
Jakarta Composite	-3.81%	-3.64%	3.77%	0.24%	-3.97%	-5.02%	1.02%	0.99%
Nikkei 225	-7.45%	-3.67%	-7.21%	2.93%	-5.06%	-1.23%	-7.15%	4.01%
Korea Composite	-7.34%	-7.00%	-15.74%	0.03%	-9.11%	-12.17%	-23.73%	-6.27%
KLSE Composite	0.52%	-3.34%	-5.16%	-2.36%	-0.78%	-6.17%	-9.96%	-3.64%
New Zealand SE 50	0.86%	7.13%	12.90%	13.28%	-1.42%	2.47%	4.89%	10.12%
Philippine SE Composite	0.22%	3.43%	6.31%	6.75%	0.12%	2.56%	7.07%	7.62%
FTSE Singapore Straits Times	-8.31%	-2.95%	-9.06%	1.60%	-9.43%	-5.00%	-11.77%	0.66%
Taiwan Weighted	-4.28%	1.05%	-3.46%	7.93%	-6.43%	-1.62%	-8.50%	4.94%
Bangkok SET	-3.18%	-2.01%	-6.18%	3.60%	-2.34%	-2.43%	-5.17%	6.59%
MSCI AC Asia ex Japan Free	-8.35%	-4.69%	-10.74%	4.51%	-8.94%	-5.79%	-13.22%	3.14%
MSCI AC Pacific ex Japan	-7.31%	-4.16%	-9.29%	5.75%	-8.11%	-5.82%	-12.75%	4.17%
Dow Jones Industrial	-6.69%	-4.25%	1.63%	6.38%	-6.69%	-4.25%	1.63%	6.38%
S&P Composite	-6.58%	-1.16%	1.73%	9.78%	-6.58%	-1.16%	1.73%	9.78%
FTSE 100	-3.46%	1.23%	-6.73%	6.44%	-0.15%	6.83%	-1.53%	7.56%
CAC 40	-6.78%	-0.63%	-3.53%	10.08%	-7.31%	-2.75%	-7.91%	7.31%
DAX 30	-5.00%	1.83%	-6.97%	11.06%	-5.54%	-0.34%	-11.19%	8.26%
MSCI Europe	-5.28%	-0.38%	-3.62%	8.65%	-6.26%	-3.22%	-8.03%	6.25%
MSCI World	-6.01%	-1.32%	-0.87%	9.06%	-6.08%	-1.90%	-2.23%	8.62%

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ASSET MANAGEMENT
東方匯理 資產管理

May 2019

Korea

The Korean equity market suffered in May, lagging behind the Asia ex Japan market broader region. All sectors ended up in negative territory, with Healthcare posting a double digit negative performance. Financials and Communication Services were relative performers. The equity market was mainly driven down by macro and political uncertainties such as the US-China trade war, which significantly affects the Korean industry. The depreciating KRW also weighed on the equity valuation, triggering foreign money outflow.

India

MSCI India index ended flat (up 0.13%, in USD terms, dividend excluded), outperforming MSCI EM Asia index (down 9.06%, in USD terms, dividend excluded). Industrials & Financials were the best performing sectors; while Healthcare & IT underperformed. Midcaps and Smallcaps performed in line with Largecaps. Indian equities outperformed emerging markets on back of a strong mandate for Prime Minister Modi in the general elections, even as global markets sold off in May on US-China trade tensions.

Taiwan

The Taiwanese equity market suffered in May (-7.78%, MSCI Taiwan index, in USD terms, dividend excluded), in the wake of the Asia ex Japan region. This is the first negative performance of the Taiwanese market, after a 4-month long rally since YTD. Heathcare and IT were the two main detractors to the performance, both in double digit negative returns.

The IT sentiment plummeted further after US placed Chinese telecommunication giant Huawei on a trade blacklist. This marginally helped the others sectors which benefitted from the rotation out of Tech names.

On the economic side, the GDP growth surprised on the upside as the economy expanded by 0.5% QoQ in 1Q, faster than 0.4% in the previous quarter. The headline number is quite encouraging for 2019, but the underlying details show some key lags. Contribution from domestic demand and exports declined, but a big fall in imports helped lift headline growth.

China

The Chinese equity market took a strong hit in May, plummeting -13.53% (MSCI China index, in USD terms, dividend excluded). All sectors ended the month in negative territory, with Consumer Discretionary, IT and Communication being the worst contributors.

The significant sell-off was triggered by the return of US-China trade tensions, the weaker-than-expected China April macro data suggesting a fragile economic recovery and renewed expectations of global central bank easing led by the Fed confirms weakening global growth outlook. That said, Amundi sees some positive signs on trade data on the way, showing: (1) Early signs of spill over from China's stimulus and (2) exports in the region and global trade look on the way of recovering, although still weak.

Hong Kong

MSCI Hong Kong index went down in May (-7.69%, in USD terms, dividend excluded). The best performing sector were Telecommunication Services and Utilities, while the worst performing sectors were Consumer Staples and Consumer Discretionary.

The 1Q19 real GDP growth of Hong Kong came in lower than expected. Investment remained the main drag of headline growth, while private consumption picked up, benefitting from tight labor market condition and housing wealth effect.

Singapore

Indonesia

The Indonesian equity market went through a roller-coaster month, with the performance plunging in beginning of the month, before consolidating and ending the month at -4.03% (MSCI Indonesia index, in USD terms, dividend excluded). Ultimately, the country outperformed the Asia ex Japan region, with Telecommunication and Consumer Discretionary leading the way.

Global geopolitical factors explained part of the drawdown and performance, like rising Energy prices since the beginning of the year (before the recent correction). As Indonesia is a net oil & gas importer, a rise in oil prices confers a terms of trade loss for a widening current account deficit. However, rising commodity (compare to oil) prices, including palm oil, provides an offset.

Thailand

The Thai equity market lagged in absolute terms in May, but managed to outperform the Asia ex Japan market significantly, the MSCI Thailand index ended the month with a -2.40% performance (in USD terms, dividend excluded). Consumer Discretionary and Telecommunication were the only two sectors posting positive performance. Market wise, corporate earnings reported this month are mostly in-line and below consensus expectations.

On the economic side, the latest GDP growth measure showed a worrying picture. This is a stronger slowdown than anticipated by the government and consensus. Pre-election uncertainty curbed spending in 1Q19 as confidence waned in the private sector. Another main factor of GDP growth slowdown was the exports numbers, which contracted sharply for a significant drag on 1Q19 GDP growth. This used to be a strong contributor to GDP growth over the last 4 years.

Singapore

The Singaporean equity market suffered in May, posting its worst monthly return since 2015 (-10.39%, MSCI Singapore index, in USD terms, dividend excluded). Financials suffered, posting the worst performance, while Communication Services was the only positive sector. Main triggers of the drawdown were mostly global related: re-escalation of US-China trade tensions, fear of global capex slowdown, and downward revision of growth estimates.

Singapore is one of the most exposed countries to slowdown in global trade, and the geopolitical environment weighted down on the trade data in April, as exports to the EU and US slowed down. More generally, the slowing developed market demand will continue to pose as a headwind in 2019 and 2020. The usual measure of exports is the Non-oil domestic exports (NODX) failing to recover from the plunge in previous month. In spite of negative trends of exports to the developed markets, the regional trends showed a brighter picture.

The Philippines

The Philippines equity market was one of the best performers over the month, ending with a +0.56% performance (MSCI Philipines index, in USD terms, dividend excluded). Within the Asia ex Japan market, this slightly positive performance was a breather, on the back of very strong push from Telecommunication and Consumer Staples.

The inflation felt down at 3.3% YoY, right in the middle of the central bank 2-4% inflation target. This was a strong support for the Bangko Sentral to cut rate to 4.5% and to announce reserve requirement. Since the central bank governor, Diokno, was recently quoted as follows, ‘It’s just a matter of timing. We can cut policy rates and reduce RRR’, the move is highly anticipated by the market.

Malaysia

The FTSE Bursa Malaysian index closed the month of May with a positive return of 0.52% (in local currency terms, dividend excluded). The index remained flat in the month as the trade tensions between US and China became the centre of attention.

On the macro front, May was headlined by Bank Negara reducing its overnight policy rate as a pre-emptive move to help to drive the economy. The impact of such measure would only be felt gradually. Meanwhile, despite better industrial production and GDP numbers, loan growth and loan applications remain subdued.

New Zealand

The New Zealand SE 50 index went up 0.86% n May (in local currency terms, dividend excluded).

New Zealand's 1Q19 unemployment rate dropped. The reason for the decline was due to the lowered participation rate in the workforce.

As expected, Reserve Bank of New Zealand (RBNZ) cut the official cash rate from 0.25% to 1.5%. The cut was due to the slowing of global economic growth and risk of US-China trade dispute. RBNZ signaled a balanced view on interest rate movement. However, if the growth is still below trend line, another rate cut later this year is expected.

Japan

In May, Tokyo stocks recorded the largest retreat since last December (-3.99%, MSCI Japan index, in USD terms, dividend excluded) reflecting increasing anxieties for slowing global economic growth due to escalation of US-China trade dispute.

Following threat to hike tariffs on broader Chinese imports in early May, US President Trump signed an executive order in mid-May to restrict Huawei and ZTE from selling their equipment in the U.S. The Tokyo market has been already vulnerable to correction on the heels of disappointingly slow recovery in machinery orders and exports. Therefore the reinforced sanction crumbled electronics and semiconductor production equipment companies. On the domestic front, anemic consumer sentiment induced selling into consumer-related shares.

Real estate was the only sector that demonstrated a gain. In contrast, commodity, metal and steel sector were heavily sold.

Australia

The Australia All Ordinary index rose 1.14% (in local currency terms, dividend excluded) in May with 7 out of 11 Global Industry Classification Standard (GICS) sectors finishing in the green. Communication Services was the strongest sector.

The Australian curve was flattered as long-term rate further declined. AUD depreciated in May against USD as rate hike is expected after the speech of governor of Reserve Bank of Australia on 21 May. He mentioned that with the absence of improvement in the labour market, rates would fall to lift inflation towards target, which also means that there will be a rate cut in June.

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