ASIA PACIFIC MARKET MONTHLY COMMENTARY

August 2020

Market Review

Positive news of decreasing rate of infections, plus a possible discovery of vaccine and easing of restrictions as the Asian economies reopened lifted hopes and fuelled optimism amongst investors. In addition, better than expected earnings, coupled with a dovish outlook by central banks lifted consumer sentiment and pushed equity markets higher. The MSCI Asia ex Japan Index continued its positive momentum, gaining 3.40% in August, marking 3 consecutive months of gains. The MSCI World Index outperformed, up 6.53% (in USD terms, net dividends excluded).

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Australia

- The Australia All Ordinary Index was up 3.10% in August (in local currency terms, net dividends excluded).
- Outperformance from Information Technology and Consumer Discretionary.
- Underperformance from Utilities and Communications.
- The Australian yield curve steepened, with the 2-year yield down to 0.27% while 10-year bond yield went up to 0.98%.
- The Australian dollar (AUD) appreciated in August against the US dollar (USD) while the USD index went down.
- The Reserve Bank of Australia (RBA) left rates unchanged at 0.25% and said the economic recovery will likely be both 'uneven and bumpy' with unemployment rates potentially spiking to 10% later this year.
- The unemployment rate increased from 7.4% in June to 7.5% in July, with total employment increasing by 114.7k in July.

China

- Despite increasing political noise between the US and China, MSCI China Index maintained its positive momentum, rising 5.59% in August (in USD terms, net dividends excluded).
- Investor optimism was fuelled by the better than expected macroeconomic data as well as better corporate earnings, especially within the Technology sector.
- Outperformance from Consumer Discretionary, Consumer Staples and Technology.
- Underperformance from Utilities and Financials.
- August's Purchasing Managers Index (PMI) stood at 53.1, against 52.8 in July.
- Exports also expanded by 7.2% year-on-year (yoy) in July against a 0.5% rise in June.
- On politics, hot on the heels of Huawei, TikTok became the next center of attention amidst the rife between US and China.
- President Xi's dual strategy to drive growth, leveraging on the strength of the domestic demand boosted consumer sentiment, also helped by better earnings and outlook from JD.com, Alibaba, Meituan, Xiaomi and Tencent.

Hong Kong

- MSCI Hong Kong Index went up 7.65% in August (in USD terms, net dividends excluded).
- Outperformance from Consumer Discretionary and Financials.
- Underperformance from Information Technology and Consumer Staples.
- With the third wave of COVID-19 seeming largely contained, the government has relaxed some social distancing measures.
- Consumer Price Index (CPI) inflation fell to deflation territory, largely reflecting the hit from the third wave of infections.
- Headline CPI registered a 2.3% yoy decline in July, compared to +0.7% in June.
- Netting out the effects of the government's one-off relief measures, CPI rose 0.2% yoy, lower than June at 1.2% yoy, mainly due to the decrease in costs for meals bought away from home and enlarged decreases in local transport fares.

India

- MSCI India Index was up 3.42% in August (in USD terms, net dividends excluded).
- Outperformance from Consumer Discretionary, Materials and Financials.
- Underperformance from Communication Services, IT and Consumer Staples.
- Recent high frequency indicators reflect a modest recovery in economic activity to around 80% of the pre-COVID levels.
- Performance of corporates have been better than expected with significant cost control and Indian banks have been able to raise significant capital to shore up their balance sheets.
- After the recent surge both in equity and bond yields, valuation attractiveness has shrunk, with yield spread back to historical medians.

Indonesia

- MSCI Indonesia Index rose 2.43% in August (in USD terms, net dividends excluded).
- Outperformance from Energy, Materials and Financials.
- Underperformance from Consumer Discretionary and Telecommunications.
- The proposed GDP for 2021 is up to a 5.5% deficit from the previously predicted 6.3% deficit, lifting markets in the hope of an economic recovery.

Japan

- Japanese stocks were up 7.59% in August (MSCI Japan Index, in USD terms, net dividends excluded).
- Speculation over the potential resignation of Prime Minister Abe arose during market hours on 28th August, and caused a small dip in share prices.
- A further contraction in economic activity took place in August, as the Japanese economy remains severely disrupted by the pandemic. Both manufacturers and service providers reported a contraction in new orders and output levels.
- Although corporate profits are clearly under pressure, the recent quarterly earnings season brought more positive surprises than might have been expected.
- The economy continues to bounce back from the second quarter dip, albeit at a slower pace entering August amid a COVID-19 resurgence.
- Despite this, the risk of recurring epidemic waves adds uncertainties to the recovery path, together with a worse-than-expected GDP performance in the second quarter.

Korea

- Korea's KOSPI Index gained 3.41% in August (in local currency terms, net dividends excluded).
- Outperformance from Materials and Consumer Discretionary.
- Underperformance from Technology.
- Despite worse than expected 2Q GDP, Bank of Korea surprised the markets by holding its policy rate steady at 0.5%.
- The central bank remains cautious on further monetary easing despite the rising uncertainties in the growth outlook, as it appears the main focus is to rein in housing prices.
- In July, consumer prices rose 0.3% yoy as unemployment was at 4.2%.
- PMI registered 48.5, still below the expansion phase as the economy continue to grapple with the rising rate of infections.

Malaysia

- August was a negative month for the FTSE Bursa Malaysia Index as it closed down -4.90% (in local currency terms, net dividends excluded).
- Weakness was across all sectors, with almost every index component closed in the red except for Press Metal, Telekom, Top Glove, SIME and KLCC.
- On fund flows, foreign selling on Malaysian equities tapered off to RM1.5 billion in August versus an average of RM2.8 billion in the previous 4 months.
- Palm oil prices continued to climb in August on the back of improved demand, coupled with a slowdown in production.
- The June unemployment rate declined mom to 4.9% from a record-high of 5.3% in May, as more sectors reopened due to the implementation of the nation's recovery movement control order (RMCO), which has been extended to the end of the year.

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New Zealand

- The New Zealand SE 50 Index went up 1.64% in August (in local currency terms, net dividends excluded).
- The New Zealand Dollar (NZD) appreciated in August against the USD while USD index went down.
- The Reserve Bank of New Zealand (RBNZ) kept the official cash rate (OCR) rate unchanged at 0.25%.
- However, RBNZ surprised markets by expanding its bond-buying programme and warned that policy rates might have to go below zero to revive the pandemic-battered economy as the country plunged back into lockdown.
- RBNZ expanded its large scale asset purchase (LSAP) programme to as much as NZD100 billion from NZD60 billion previously, and extended the deadline for purchases out to mid-2022.
- 2Q unemployment rate was 4%, dropping from 4.2% in 1Q.
- However, participation rates dropped from 70.4% in 1Q to 69.7% in 2Q.

The Philippines

- MSCI Philippines Index was up a moderate 0.79% in August (in USD terms, net dividends excluded), continuing its downward spiral on disappointing macro and rising number of infections.
- Outperformance from Consumer Staples and Telecommunications.
- Underperformance from Financials, Industrials and Consumer Discretionary.
- 2Q GDP fell by 16.5% yoy on the sluggish domestic demand.
- Bangko Sentral ng Pilipinas (BSP) kept the policy rate unchanged at 2.25% and slashed reserve requirements for small banks by 100 bps.
- Corporates reported a 70% yoy decline in earnings in 2Q.

Singapore

- MSCI Singapore rose 0.97% in August (in USD terms, net dividends excluded), buoyed by additional fiscal stimulus, better than expected macro-economic data and corporate earnings.
- The fiscal stimulus introduced key additional measures including enhancing the job support scheme, creating new jobs, transforming the workforce and the economy towards healthcare, sustainability and artificial intelligence.
- Outperformance from Technology and Financials.
- Underperformance from Industrials.
- PMI was 50.2 in July, signalling a possible recovery in global growth.
- CPI rose 0.1% in July, but headline CPI was -0.4% yoy despite an expansion in retail sales.

Taiwan

- MSCI Taiwan Index fell -2.13% in August (in USD terms, net dividends excluded), after investors succumbed to profit taking and switched out of technology stocks amidst fears of further restrictions from the US on Chinese technology names.
- Outperformance from Industrials.
- Underperformance from Technology.
- Suppliers of Huawei, mainly the entire Taiwan IC design chain, were badly affected as the US had imposed restrictions on foreign-made chips produced by 3rd parties or foreign manufacturers using US technology.
- Exports continued its positive momentum with exports rising 12.5% yoy in July.
- PMI expanded to 52.2 in August, from 50.6 in July, signalling possible global growth in the months ahead.
- Unemployment rate dropped slightly from 4% in June to 3.9% in July as the inflation rate fell by 0.5% yoy.

Thailand

- MSCI Thailand Index registered a further loss of -2.66% in August (in USD terms, net dividends excluded) as political unrest continued to set the tone for equity market.
- Outperformance from Industrials and Financials.
- Underperformance from Utilities, Energy and Materials.
- 2Q GDP fell by 33.4% quarter-on-quarter (qoq).
- Exports in July contracted by 11.3% yoy.
- Headline inflation also contracted in July, as CPI fell 0.98% yoy.
- As such, Bank of Thailand kept the policy rate unchanged at 0.5%.

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Index (as of end July 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	3.10%	6.36%	-6.75%	-8.18%	6.32%	18.50%	2.35%	-3.40%
CSI 300	2.58%	24.55%	26.76%	17.57%	4.45%	29.83%	32.13%	19.47%
Hang Seng China Enterprises	-0.48%	4.50%	-0.91%	-10.54%	-0.48%	4.51%	0.18%	-10.05%
Hang Seng Index	2.37%	9.65%	-2.13%	-10.69%	2.37%	9.66%	-1.05%	-10.21%
India National	2.89%	18.39%	3.06%	-6.17%	4.57%	21.62%	-0.02%	-9.01%
Jakarta Composite	1.73%	10.20%	-17.22%	-16.84%	1.99%	10.56%	-19.37%	-20.73%
Nikkei 225	6.59%	5.77%	11.76%	-2.18%	6.27%	7.45%	11.87%	0.24%
Korea Composite	3.41%	14.61%	18.21%	5.85%	3.72%	19.49%	20.54%	3.04%
FTSE Bursa Malaysia KLCI	-4.90%	3.53%	-5.39%	-4.00%	-3.30%	7.80%	-4.42%	-5.82%
New Zealand SE 50	1.64%	9.22%	8.08%	2.49%	3.13%	19.21%	15.82%	2.68%
Philippine SE Composite	-0.75%	0.78%	-26.26%	-24.71%	0.60%	5.21%	-20.83%	-21.35%
FTSE Singapore Straits Times	0.11%	0.87%	-18.48%	-21.42%	1.23%	4.70%	-16.80%	-22.21%
Taiwan Weighted	-0.58%	15.07%	18.59%	4.95%	-0.74%	17.75%	26.95%	7.23%
Bangkok SET	-1.35%	-2.40%	-20.80%	-17.04%	-1.15%	-0.24%	-22.20%	-20.15%
MSCI AC Asia ex Japan	3.04%	18.50%	17.16%	5.65%	3.40%	20.48%	18.99%	5.29%
MSCI AC Pacific ex Japan	2.93%	16.28%	13.30%	3.68%	3.61%	19.86%	16.84%	4.26%
Dow Jones Industrial	7.57%	12.00%	7.68%	-0.38%	7.57%	12.00%	7.68%	-0.38%
S&P Composite	7.01%	14.98%	19.61%	8.34%	7.01%	14.98%	19.61%	8.34%
FTSE 100	1.12%	-1.86%	-17.26%	-20.93%	-0.88%	-9.38%	-24.74%	-21.77%
CAC 40	3.42%	5.36%	-9.73%	-17.24%	4.59%	13.28%	-1.97%	-11.83%
DAX 30	5.13%	11.72%	8.43%	-2.29%	6.33%	20.12%	17.75%	4.10%
MSCI Europe	2.51%	3.94%	-5.68%	-12.07%	3.90%	11.90%	3.10%	-7.39%
MSCI World	6.12%	12.06%	12.47%	2.80%	6.53%	14.32%	14.82%	4.11%