ASIA PACIFIC MARKET MONTHLY COMMENTARY

May 2022

Market Review

Markets delivered a mixed performance in May. The macro backdrop remained volatile, with global sentiment pushed back and forth between hawkish central bank developments, the ongoing geopolitical conflict in Europe and lockdowns in China.

The Federal Reserve hiked rates by 50bps during the month. Fed Chair Powell reiterated the likelihood of further 50bps hikes until a "clear and convincing" cooling in prices. In EM Asia, CPI inflation across the region continued to soar with situation in South Korea and India coming in at multi-year highs. Accordingly, the Reserve Bank of India and the Bank of Korea hiked rates in May by 40bps and 25bps respectively.

Against this backdrop, MSCI Asia ex Japan Index went flat at 0.20% over the month (in USD terms, net dividends excluded), outperforming the MSCI World Index which dipped 0.16% (in USD terms, net dividends excluded). Taiwan outperformed all regional counterparts while India became the major laggard in the region.

CANBERRA • BEIJING • HONG KONG

Australia

- Australia All Ordinary Index slid 3.49% in May (in local currency terms, net dividends excluded).
- Materials was the only sector on the positive realm while Information Technology and Real Estates slumped.
- Australian yield curve flattened. 2-year yield was up 23bps to 2.73% and 10-year yield rose from 3.18% to 3.35%.
- AUD appreciated against USD (+1.56%) as USD index went down (-1.17%).
- Inflation rate spiked to a 20-year peak of 5.1% in 1Q22, driven by costs for petrol, housing, food and education, while core inflation of 3.7% also went above the RBA's target band for the first time since 2010.
- Consequently, the RBA lifted the cash rate by 25bps to 0.35%, and flagged more to come over the months ahead.

China

- MSCI China Index was up 0.88% in May (in USD terms, net dividends excluded).
- Utilities and Energy topped the table while Real Estate and Healthcare dragged the performance.
- A gradual sequential recovery is well on track and the YoY declines in mobility, housing sales and auto sales managed to narrow towards the end of May.
- To allay economic growth concerns, the PBOC announced a 15bps cut to the 5-year loan prime rate (LPR), and trimmed mortgage rate floor by 20bps.
- The PBOC also met with major banks, calling on them to maintain stable property loan growth and accelerate the delivery of approved loans.
- In an emergency meeting hosted by the State Council on 25 May, Premier Li Keqiang outlined a 33-point plan covering six aspects to stabilize the economy.

Hong Kong

- MSCI Hong Kong Index returned 1.87% in May (in USD terms, net dividends excluded).
- Industrials and Financials delivered a stellar performance, but their contribution was offset by Consumer Discretionary and Communication Services.
- Headline CPI continued to grow 0.2% MoM in April. The slowdown in momentum suggested the fresh vegetable price pressure due to Hong Kong – Guangdong supply chain disruption may have abated lately.
- Total labor force fell another 0.9% MoM during the month, coinciding with the increase of people departing the city in recent months.
- 1Q22 GDP came in at -4% YoY. Subsequently, the authorities lowered their 2022 GDP target down from 2-3.5% to 1-2%.

NEW DELHI • JAKARTA • TOKYO • SEOUL • KUALA LUMPUR

India

- MSCI India Index languished 6.04% in May (in USD terms, net dividends excluded).
- Consumer Discretionary, Consumer Staples and Financials were the best performing sectors, while Utilities, Materials and Real Estate were the worst.
- Mid-caps and small-caps underperformed large-caps.
- Similar to most emerging markets, the inflation momentum in India is running double the pace of central bank target with a headline CPI of 7% in mid-April, leading to a flurry of fiscal and monetary responses to combat price pressures.
- In an off-cycle move, the RBI raised its benchmark rate by 40bps.
- In the interim, we keep in view that despite the near-term turbulence, we are likely at the beginning of a new capex driven economic and earnings cycle.

Indonesia

- MSCI Indonesia Index plunged 3.59% in May (in USD terms, net dividends excluded).
- The negative performance was primarily driven by Communication Services and Financials, but partly compensated by the strong contribution from Consumer Staples.
- During the month, headline inflation came in at 3.6% YoY and rose 0.4% MoM.
- Bank Indonesia (BI) kept its policy rate unchanged at 3.5%, but accelerated the tightening in domestic liquidity conditions by announcing a series of reserve requirement ratio (RRR) hikes from 5% currently to 6% in June, 7.5% in July and 9% in September.
- Since Indonesia is a net exporter of non-oil and gas commodities, its trade balance surged to all-time record surplus of USD 7.6 billion in April amid elevated commodity prices.

Japan

- MSCI Japan Index rose 1.58% in May (in USD terms, net dividends excluded).
- Unlike its DM peers, Japan's post-pandemic recovery has remained sluggish. GDP contracted again in 1Q22, and the overall economic output stayed at a same level as in 4Q20.
- Inflation, on the other hand, has become increasingly sticky as expectations hit record high. Core inflation will rise further throughout the year, but stay comfortably below BoJ's 2% target.
- Against this backdrop, BoJ has repeatedly stated that the cost-driven increase in inflation is not sustainable. It has maintained its ultra-loose monetary policy and defended its YCC target range by committing to buy unlimited amount of Japanese Government Bonds.
- Leaving the JPY mostly to Ministry of Finance, BoJ will continue to prioritise the domestic economy and stay accommodative.

Korea

- Korea's KOSPI Index dipped 0.34% in May (in local currency terms, net dividends excluded).
- Energy, Materials and Industrials positively contributed while Consumer Staples hurt the performance.
- The improvement of the COVID-19 situation in China towards the end of the month, along with early signs of supply chain issues easing, provided positive catalysts for equity performance.
- During the month, BoK hiked the policy rate by 25bps to 1.75%.
- The institution also raised its annual inflation forecast significantly to 4.5% YoY, up from 3.1% YoY previously.

Malaysia

- FTSE Bursa Malaysia Index was down 1.90% in May (in local currency terms, net dividends excluded),
- Healthcare, Consumer Staples, Industrials and Communication Services underperformed.
- Bank Negara Malaysia (BNM) hiked the overnight policy rate (OPR) by 25bps from its record low to 2% amid global inflationary pressures.
- BNM announced that 1Q22 GDP rose 5% YoY and forecast FY22 GDP growth in the range of 5.3%-6.3%.
- This growth was driven by stronger domestic demand, expansion in external demand and further improvement in the labor market.
- The Malaysian economy continues to be on track towards recovery.

New Zealand

- New Zealand SE 50 Index slumped 4.99% in May (in local currency terms, net dividends excluded).
- NZD appreciated in May against USD (+0.88%) as USD index went down (-1.17%).
- The RBNZ raised official cash rate (OCR) from 1.5% to 2% to ensure CPI inflation returns to 1-3% target range.
- A larger and earlier increase in the OCR can reduce the risk of inflation, while also providing more policy flexibility ahead in light of the highly uncertain global economic environment.
- RBNZ expected to continue tightening monetary conditions at pace to maintain price stability and support sustainable employment.

The Philippines

- MSCI Philippines Index returned 1.09% in May (in USD terms, net dividends excluded).
- Consumer Staples, Financials and Communication Services materially drove the positive contribution but buoyed by the weakness in Consumer Discretionary.
- 1Q22 GDP rose 8.3% YoY, beating market expectations of 6.7%.
- The Bangko Sentral ng Pilipinas (BSP) lifted the policy rate by 25 bps to 2.25%, and signaled another hike next month.
- Inflation accelerated to 4.9% YoY. Driven by concerns over inflation, the Department of Agriculture flagged a looming food crisis towards the end of the year.

Singapore

- MSCI Singapore Index detracted 3.62% in May (in USD terms, net dividends excluded).
- Consumer Staples, Financials and Real Estate underperformed, wiping off the gains of Information Technology.
- 1Q22 GDP came in at 3.5% YoY, 2.8% QoQ.
- Core inflation reached 3.3% YoY in April, slightly lower than the market consensus of 3.4%.
- As more borders reopen, Singapore Air reported that passenger load factor surged to 77.4% compared to 14.4% last year.
- Overall, industrial output rose 7.8% YTD.
- With the strong inflow of passengers and rebound in industrial production, the economy is recovering.

Taiwan

- MSCI Taiwan Index climbed 3.62% in May (in USD terms, net dividends excluded).
- Energy, Information Technology and Consumer Discretionary were key performers of the month, while Financials became the major laggard.
- Disappointing 1Q22, lockdowns in China and hawkish global central bank developments pressured Taiwanese equities for the majority of the month.
- However, Information Technology rebounded towards the end of the month amid reports of easing restrictions in Shanghai.
- On the macro front, industrial production and merchandise exports for April beat expectations.

Thailand

- MSCI Thailand Index rose 2.24% in May (in USD terms, net dividends excluded).
- The strong performance delivered by Energy and Industrials was offset by the weakness in Information Technology.
- 1Q22 GDP came in at 2.2% YoY, beating consensus expectations of 1.7%. This was largely attributable to a robust private consumption and a historically elevated goods and services trade surplus.
- Headline inflation rose 4.7% YoY, which fell below market expectations of 4.8%, whereas core inflation came in line with market expectations at 2.0%.
- During the month, BoT kept its policy rate unchanged.
- Thailand's unemployment rate declined to the lowest level since the start of the pandemic.
- The government continued to ease mobility, with authorities approving the reopening of night entertainment outlets in 31 provinces effective 1 June.

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Index (as of end May 2022)	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	-3.49%	1.80%	0.65%	-4.16%	-2.58%	0.64%	-6.72%	-5.44%
CSI 300	1.87%	-10.70%	-23.26%	-17.18%	0.81%	-15.34%	-26.67%	-20.71%
Hang Seng China Enterprises	1.62%	-7.57%	-31.89%	-9.95%	1.63%	-7.94%	-32.62%	-10.52%
Hang Seng Index	1.54%	-5.71%	-26.54%	-8.47%	1.55%	-6.10%	-27.33%	-9.05%
India National	-3.91%	-0.91%	6.73%	-4.18%	-5.38%	-3.83%	-0.16%	-8.26%
Jakarta Composite	-1.11%	3.79%	20.20%	8.62%	-1.68%	2.26%	17.72%	6.18%
Nikkei 225	1.61%	2.84%	-5.48%	-5.25%	2.33%	-7.93%	-19.62%	-15.19%
Korea Composite	-0.34%	-0.49%	-16.17%	-9.80%	1.17%	-3.29%	-24.72%	-13.33%
FTSE Bursa Malaysia KLCI	-1.90%	-2.37%	-0.85%	0.16%	-2.61%	-6.47%	-6.58%	-4.80%
New Zealand SE 50	-4.99%	-6.51%	-10.60%	-14.10%	-4.71%	-10.07%	-20.06%	-18.33%
Philippine SE Composite	0.65%	-7.34%	2.21%	-4.89%	0.29%	-9.31%	-6.95%	-7.42%
FTSE Singapore Straits Times	-3.71%	-0.30%	2.16%	3.48%	-2.96%	-1.15%	-1.43%	2.13%
Taiwan Weighted	1.30%	-4.78%	-1.53%	-7.75%	2.87%	-8.03%	-6.34%	-12.06%
Bangkok SET	-0.24%	-1.29%	4.38%	0.35%	-0.15%	-5.75%	-4.72%	-2.04%
MSCI AC Asia ex Japan	-0.03%	-5.76%	-19.44%	-10.32%	0.20%	-7.82%	-23.00%	-12.84%
MSCI AC Pacific ex Japan	0.16%	-4.63%	-19.15%	-9.28%	0.77%	-6.53%	-22.93%	-11.47%
Dow Jones Industrial	0.04%	-2.66%	-4.46%	-9.21%	0.04%	-2.66%	-4.46%	-9.21%
S&P Composite	0.01%	-5.53%	-1.71%	-13.30%	0.01%	-5.53%	-1.71%	-13.30%
FTSE 100	0.84%	2.00%	8.33%	3.02%	0.45%	8.60%	22.19%	10.72%
CAC 40	-0.99%	-2.85%	0.34%	-9.57%	0.54%	-7.35%	-12.09%	-14.81%
DAX 30	2.06%	-0.50%	-6.70%	-9.42%	3.64%	-5.10%	-18.25%	-14.67%
MSCI Europe	-1.04%	-1.88%	-0.78%	-8.06%	0.05%	-6.67%	-12.08%	-13.61%
MSCI World	-0.47%	-4.79%	-2.80%	-12.05%	-0.16%	-6.28%	-6.21%	-13.64%

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