ASIA PACIFIC MARKET MONTHLY COMMENTARY

July 2020

Market Review

Global markets performances diverged as COVID-19 cases increased sharply across large swathes of the US, as well as in Japan, Spain, Hong Kong and Australia. As a result, many states in the US and other governments paused easing lockdowns and put back some social distancing measures, which put questions on the recovery path. In addition, US-China tensions has further escalated as the US ordered China to close down its Houston Consulate whilst China fought back by ordering the US to close its consulate in Chengdu. Overall, the MSCI World Index continued to rally with a gain of 4.69% (in USD terms, net dividends excluded) whilst the MSCI Asia ex Japan Index outperformed, up 8.02% (in USD terms, net dividends excluded).

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Australia

- The Australia All Ordinary Index was up 0.95% in July (in local currency terms, net dividends excluded).
- Outperformance from Materials and Information Technology.
- Underperformance from Healthcare and Industrials.
- The Australian yield curve flattened a bit, with the 2-year yield up to 0.28% while 10-year bond yield went down to 0.83%.
- The Australian Dollar (AUD) appreciated in July against the US Dollar (USD) while the USD index went down.
- The Reserve Bank of Australia (RBA) left rates unchanged at 0.25% and announced that it will help buttress the economic recovery by maintaining its accommodative approach for as long as it is required.
- Unemployment rate increased from 7.1% in May to 7.4% in June despite the participation rate increasing from 62.9% in May to 64% in June.
- However, full time employment continued to drop and part-time employment surged.

China

- Despite escalating tensions between US and China, MSCI China Index was up 8.90% during the month (in USD terms, including net dividend).
- All the sectors garnered positive returns in July on better-than-expected corporate earnings and investors piling into China on expectations of further monetary easing and expansionary fiscal stimulus, as well as accelerated capital market reforms.
- Outperformance from Materials, Consumer Staples and Consumer Discretionary.
- Underperformance from Energy and Financials.
- 2Q GDP rebounded by 3.2% year-on-year (yoy), beating expectations and showed the Chinese economy is poised for a V-shaped recovery as it emerges from the pandemic.
- June's Purchasing Managers Index (PMI) beat expectations again, rising 0.5 points to 51.2 while industrial and service production registered gains of 4.8% yoy and 2.3% yoy respectively.
- Capital inflows through the Stock Connect platform and surging issuance of equity and mutual funds drove active participation in the domestic A share market this month.

Hong Kong

- MSCI Hong Kong Index went down -0.84% in July (in USD terms, including net dividend).
- Outperformance from Information Technology and Consumer Discretionary.
- Underperformance from Real Estate and Utilities.
- It was also announced that the legislative election, scheduled for this September, will be delayed by a year.
- Hong Kong's 2Q GDP (advanced estimates) fell 9% yoy.
- Fixed investment also declined by 20.6% yoy whereas government spending increased 9.6% yoy.
- Hong Kong's retail sales volume contracted 25.4% yoy in June, following the notable decline of 34% yoy in May.
- Sales for luxury goods stayed weak due to the sharp decline in tourism, while department store, food, and beverage sales fell by 7.5% yoy and 16.5% yoy respectively.

India

- MSCI India Index rallied 10.11% in July (in USD terms, net dividends excluded).
- Outperformance from IT, Energy and Healthcare.
- Underperformance from Utilities, Industrials and Communication Services.
- Even as India continues to battle the Coronavirus spread, economic activity has started showing some signs of plateauing at approximately 20-25% below pre-COVID 19 levels.
- Fading-off of pent-up demand, continued surge in virus infections, and cautious consumers and businesses are probably leading to this.
- Going forward, the magnitude of benefit to the real economy will depend on the virus situation and the extent to which the economy is open both officially but more importantly in terms of actual people behaviour.

Indonesia

- MSCI Indonesia Index was up 4.27% in July (in USD terms, net dividends excluded).
- Outperformance from Energy, Utilities and Financials.
- Underperformance from Materials and Telecommunications.
- Bank Indonesia's (BI) 25 bps cut in its policy rate to 4% was within expectations and expectations of another 25 bps rate cut by end 2020 was in the cards.
- BI noted that May 2020 likely marked the worst of economic contractions and subsequent market data should show some improvements as June trade balance reached USD1.3 billion surplus.
- The easing monetary stimulus and the increase fiscal stimulus to a total of USD50 billion was warmly welcomed as the market rose by a marginal 4.8%.

Japan

- Japanese stocks were down -1.58% in July (MSCI Japan Index, in USD terms, net dividends excluded), partly in reaction to short-term strength of the Japanese yen against a generally weak U.S. dollar.
- The economy continues to be severely impacted by the very subdued global trade, as firms kept reporting a steep contraction in business with foreign clients.
- Employment continues to fall as firms keep cutting costs in particular within the manufacturing sector.
- The reporting season began this month and, so far, a higher percentage of companies have reported positive rather than negative surprises.
- The Bank of Japan kept policy unchanged in July while lowering its growth forecasts. BoJ also highlighted that it will pay close attention to developments in credit costs, which could rise if the negative effects of COVID-19 persist.

Korea

- Korea's KOSPI Index gained 6.69% in July (in local currency terms, net dividends excluded), amidst a positive earnings surprise and better macroeconomic data.
- Outperformance from Materials and Telecommunications.
- Underperformance from Industrials.
- Following a 5% decline in 1Q GDP, 2Q GDP contracted a further 12.7% quarter-on-quarter (qoq) as global economic activities slowed.
- Exports in June rose 5.3%, similar to May, after a 23.8% drop in April, led by non-tech products.
- Industrial production rebounded 7.2% in June, which was better than expected, and could be a precursor for recovery in global production.

Malaysia

- The FTSE Bursa Malaysia Index continued its positive momentum for July, closing up 6.85% (in local currency terms, net dividends excluded).
- Trading volumes continued to rise during the month, driven by rising retail trading appetite.
- Meanwhile, palm oil prices also posted positive performance during the month closing up 9.1% month-on-month, with sentiment boosted by strong recovery in purchases by top importers and concerns over production amid labour shortage.
- Outperformance from Healthcare and Technology.
- Elsewhere, the central bank has cut its overnight policy rate (OPR) by 25bps to 1.75% and announced a targeted moratorium extension and provision of repayment flexibility to those severely impacted by the fallout from the COVID-19 pandemic.

New Zealand

- The New Zealand SE 50 Index went up 2.31% in July (in local currency terms, net dividends excluded).
- The New Zealand Dollar (NZD) appreciated in July against USD while USD index went down.
- New Zealand's 2Q Consumer Price Index (CPI) fell 0.5% qoq, the sharpest decline in four years as much of the economy closed to curb the coronavirus.
- Some services were offered for free, including public transport, while hotel prices dived amid widespread closures.
- The annual pace of CPI growth braked to 1.5%, causing a set back to the Reserve Bank of New Zealand (RBNZ) which has spent almost a decade trying to get inflation above the middle of its 1%-3% target band.

The Philippines

- MSCI Philippines Index lost -2.89% in July (in USD terms, including net dividend) after lacklustre performance in the equity market as investors remained concerned over the continued rise in COVID-19 cases, leading to more stringent lockdown measures.
- Outperformance from Telecommunications.
- Underperformance from Financials, Industrials and Consumer Discretionary.
- Inflation ticked up from 2.1% to 2.2%, but still within the target range of 1.9% to 2.7% set by Banko Sentral Philippines (BSP).
- BSP expects 2Q GDP to contract by 5.7% to 6.7% due to the full impact of the lockdown, which started in March, and mentioned the worst for the economy is over.
- In July, BSP maintained its policy rate at 2.25% with flexibility to ease, if necessary, whilst slashing reserve requirements for small banks by 100bps.

Singapore

- MSCI Singapore Index remained relatively flat for the month of July, down -0.24% (in USD terms, including net dividends).
- Outperformance from Technology.
- Underperformance from Financials and Industrials.
- The 13th general election was held in the midst of the pandemic, and without surprise, the ruling party maintained its grip with 83 seats out of 93 seats.
- The economy went into technical recession as 2Q GDP numbers fell by 12.6% yoy and inflation was flat.
- On the positive side, non-oil domestic exports rose 2.3% month-on-month (mom) on higher-than-expected exports in technology components.
- Banks, which have been viewed as safe havens and strong dividend payers, fell as the Monetary Authority of Singapore (MAS) encouraged banks to cut back the interim dividends to preserve capital.

Taiwan

- Taiwan benefited from the global technology theme this month, rising 14.94% (MSCI Taiwan Index, in USD terms, including net dividend).
- Outperformance from Technology.
- Underperformance from all other sectors.
- Earnings per share (EPS) for Taiwan was revised upwards after months of decline, mostly from the technology sector.
- PMI in July rose to 50.6 and 2Q GDP contracted by 0.7% yoy, dragged mostly by lower domestic consumption.
- Industrial production showed continued strength rising 7.3% yoy in June.
- Surprisingly, non-tech IP rose 6.8% mom, a sign that domestic economic activities are bottoming, while exports in June rose 3.7% mom.

Thailand

- MSCI Thailand Index fell -2.90% in July (in USD terms, including net dividends).
- Outperformance from Consumer Staples, Telecommunications and Energy.
- Underperformance from Industrials.
- The country's macro-economic picture remains bleak on a 23% yoy decline in exports in June.
- Headline inflation fell by 1.6% yoy.
- The Bank of Thailand (BOT) lowered the GDP growth for 2020 from -5.3% to -8.1%, despite easing restrictions, resulting in pick up in business and consumer sentiment.

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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	0.95%	8.23%	-12.16%	-10.94%	5.15%	18.55%	-8.60%	-9.14%
CSI 300	12.75%	20.00%	22.41%	14.61%	14.28%	21.25%	20.77%	14.38%
Hang Seng China Enterprises	2.88%	-0.01%	-5.95%	-10.10%	2.89%	0.02%	-5.01%	-9.62%
Hang Seng Index	0.69%	-0.20%	-11.46%	-12.75%	0.69%	-0.17%	-10.57%	-12.28%
India National	7.19%	12.14%	-0.46%	-8.80%	8.18%	12.56%	-8.48%	-12.99%
Jakarta Composite	4.98%	9.19%	-19.42%	-18.25%	2.71%	11.24%	-22.64%	-22.27%
Nikkei 225	-2.59%	7.51%	0.88%	-8.23%	-0.61%	8.73%	3.59%	-5.67%
Korea Composite	6.69%	15.50%	11.10%	2.35%	7.71%	18.12%	10.33%	-0.65%
FTSE Bursa Malaysia KLCI	6.85%	13.92%	-1.90%	0.94%	7.86%	15.53%	-4.48%	-2.60%
New Zealand SE 50	2.31%	11.01%	4.93%	0.84%	5.87%	19.86%	5.91%	-0.43%
Philippine SE Composite	-4.50%	3.99%	-26.32%	-24.14%	-3.18%	6.67%	-23.70%	-21.83%
FTSE Singapore Straits Times	-2.32%	-3.60%	-23.36%	-21.50%	-0.86%	-1.24%	-23.70%	-23.15%
Taiwan Weighted	8.98%	15.22%	17.01%	5.57%	9.76%	16.96%	24.20%	8.02%
Bangkok SET	-0.78%	2.06%	-22.40%	-15.91%	-1.66%	5.90%	-23.46%	-19.22%
MSCI AC Asia ex Japan	7.59%	13.89%	9.65%	2.53%	8.02%	14.88%	9.77%	1.83%
MSCI AC Pacific ex Japan	6.27%	12.69%	5.89%	0.73%	7.28%	15.27%	7.30%	0.63%
Dow Jones Industrial	2.38%	8.55%	-1.62%	-7.39%	2.38%	8.55%	-1.62%	-7.39%
S&P Composite	5.51%	12.32%	9.76%	1.25%	5.51%	12.32%	9.76%	1.25%
FTSE 100	-4.41%	-0.06%	-22.26%	-21.81%	-10.01%	-3.95%	-27.48%	-21.08%
CAC 40	-3.09%	4.63%	-13.32%	-19.98%	2.04%	12.96%	-7.94%	-15.70%
DAX 30	0.02%	13.37%	1.02%	-7.06%	5.31%	22.39%	7.29%	-2.09%
MSCI Europe	-1.60%	4.96%	-9.83%	-14.22%	3.69%	12.19%	-3.57%	-10.86%
MSCI World	3.30%	10.37%	3.71%	-3.13%	4.69%	12.28%	5.37%	-2.27%