Confidence must be earned

ASIA PACIFIC MARKET MONTHLY COMMENTARY

February 2021

Market Review

Global equity markets got off to a good start in the beginning of February amidst a positive roll-out of vaccines, which continued to support the macroeconomic recovery and repricing of inflationary expectations. However, markets retreated in the latter half of the month amidst worries of higher inflation and tightening financial conditions. Commodity prices staged a rally given the strong global macro momentum as WTI crude prices rose almost 18%, also given the colder weather conditions in the US, which halted production in some refineries. Against this backdrop, MSCI Asia ex Japan Index gained 1.22% in February (in USD terms, net dividends excluded), slightly underperforming the MSCI World Index which gained 2.45% during the month (in USD terms, net dividends excluded).

CANBERRA • BEIJING • HONG KONG

Australia

- Australia All Ordinary Index was up 1.01% in February (in local currency terms, net dividends excluded).
- Outperformance from Materials and Financials.
- Underperformance from Information Technology and Utilities.
- The Australian yield curve steepened, with the 2-year bond yield flat at 0.12%, while the 10-year bond yield went up to 1.85%.
- The Australian Dollar (AUD) appreciated in February against the US Dollar (USD) even as the USD index went up.
- Unemployment rates decreased from 6.6% in December to 6.4% in January, as total employment increased and full time employment showed stronger growth.
- The Reserve Bank of Australia (RBA) maintained its cash rate at 0.1% and extended its bond buying program by another AUD100 billion, pledging to keep rates on hold until at least 2024, when core inflation moves into its 2% - 3% target band.

China

- MSCI China Index was down -1.04% in February (in USD terms, net dividends excluded).
- Sector rotation out of growth into value was evident, with Chinese internet, electric vehicles and consumer stocks plunging on profit taking pressure while rates-sensitive sectors gained momentum.
- Purchasing Manager Indices (PMIs) eased further in February.
- Headline Consumer Price Index (CPI) fell back to the deflation territory in January at -0.3% year-on-year (yoy), primarily driven by non-food inflation.
- Looking forward, the earnings results season and policies announcements during the National People's Congress in March will give investors some guidance on asset allocation.
- Expectations of global inflation and changes in US treasury yields could have a profound impact on global liquidity and China's domestic market volatility may also increase.

Hong Kong

- MSCI Hong Kong Index was up 4.70% in February (in USD terms, net dividends excluded).
- Outperformance from Consumer Discretionary and Real Estate.
- Underperformance from Information Technology and Financials.
- During the month, the government announced a relaxation of social distancing measures and mass vaccinations began to roll out for the five priority groups at the end of February.
- Meanwhile, the fiscal deficit has reached a record high of HKD257.6 billion, due to the counter-cyclical measures and several rounds of anti-epidemic funds carried out since the COVID-19 outbreak.
- Fiscal reserves are expected to drift lower to HKD902.7 billion by March 2021, approximately 33% of GDP.
- Meanwhile, headline CPI growth surprised on the upside and rose 1.9% yoy in January.

NEW DELHI • JAKARTA • TOKYO • KUALA LUMPUR

India

- MSCI India Index was up 5.13% in February (in USD terms, net dividends excluded).
- Outperformance from Utilities, Energy and Industrials.
- Underperformance from Consumer Staples, IT and Healthcare.
- Domestically, the focus was on the growth-oriented Union Budget and some uptick in new COVID-19 infections.
- On the macro front, India's GDP growth turned positive and grew by 0.4% in 4Q20, indicating that the economy is finally starting to move past the pandemic-inflicted slowdown, after witnessing two consecutive quarters of negative growth in 2020.
- Over the next six months, year-on-year growth for the economy could be strong because of favourable base effect but focus needs to be on the underlying momentum.

Indonesia

- MSCI Indonesia Index was up 1.44% in February (in USD terms, net dividends excluded).
- Indonesia's economy shrank 2.19% yoy in 4Q20, bringing the full year 2020 GDP to a 2.07% contraction - Indonesia's first recession in more than two decades.
- Bank Indonesia cut the policy rate by 25bps to 3.50%, the sixth time it has cut rates since the COVID-19 pandemic started.
- The Central Bank also lowered the overnight deposit facility and lending facility rates by the same amount, to 2.75% and 4.25%, respectively.
- Meanwhile, the signing-off of the implementing regulations for the Omnibus Law on Job Creation in mid-February officially kick-started the reforms, bringing hopes of a pick-up in investment activities.
- As such, the outlook on Indonesia remains positive, given that it will benefit from both structural tailwinds and from the relatively quicker economic recovery post-COVID, supported by the country ability for further fiscal support as well as the economy's main reliance on domestically driven activities.

Japan

- MSCI Japan Index was up 1.48% in February (in USD terms, net dividends excluded).
- In light of an improving global economic situation, the outlook on Japan appears positive, given the market's cyclicals and industrials tilt.
- The country's improving shareholder focus and growing return on equity is not yet appreciated by the market.
- Meanwhile, economic recovery continued in 4Q despite the winter outbreak, with all sectors managing to expand from last quarter.
- Exports were exceptionally strong, where growth strengthened further.
- Forecasts for 1Q21 have been helped by resilient external demand likely to cancel out weaknesses in private consumption.
- Inflation is expected to climb out of negative territory on firmer demand, but the full-year average will stay subdued at close to zero.

Malaysia

- The FTSE Bursa Malaysia Index was up 0.72% in February (in local currency terms, net dividends excluded).
- The economy contracted by 3.4% yoy in 4Q20, bringing the full year 2020 GDP growth to -5.6%.
- Bank Negara Malaysia (BNM) kept its policy rate unchanged at a record low of 1.75% in the latest meeting, supported by signs of improvements in external demand and continued consumer spending.
- Going forward, BNM projects growth to improve from the second quarter onwards, driven by the recovery in global demand, increased public and private sector expenditure amid continued support from policy measures and more targeted containment measures.
- Regardless, the Malaysian market remains one to be cautious of as despite the country officially starting their vaccination campaign and starting to slowly re-open more, with more economic activities, lingering political risk will remain as an overhang for the market as the country will likely head towards a general election at the end of the COVID-19 pandemic.

New Zealand

- The New Zealand SE 50 Index went down -6.95% in February (in local currency terms, net dividends excluded).
- The New Zealand Dollar (NZD) appreciated in February against USD even as the USD index went up.
- 4Q20 unemployment rate was at 4.9%, which declined from 3Q (5.3%).
- The major drivers were job growth and participant rates, which increased in 4Q.
- The Reserve Bank of New Zealand (RBNZ) kept its Official Cash Rate (OCR) at 0.25% and will maintain its current stimulatory monetary settings until it is confident that consumer price inflation will be sustained at the 2% per annum target midpoint.

The Philippines

- MSCI Philippines Index was up 1.86% in February (in USD terms, net dividends excluded).
- The market experienced a sharp recovery in early February but failed to sustain the momentum after delayed vaccine arrivals diminished hopes for a nationwide easing of quarantine measures by March.
- However, over the longer-term, the market outlook appears positive, given the structural tailwinds and the domestic-driven nature of this economy.
- On the inflation front, inflation spiked higher for the fourth consecutive month to 4.2% yoy in January.
- This was the highest inflation recorded since February 2019 and breached the upper-end of the central bank's 3.0 ± 1.0% inflation target.

Singapore

- MSCI Singapore Index was up 2.59% in February (in USD terms, net dividends excluded).
- During the month, it was announced that Budget 2021 will shift from "containment to restructuring" as Singapore's economy continues to reopen.
- The stated focus of the budget was to continue to buffer the economy against COVID-19 impacts in the short-term, while accelerating the medium-term economic transformation to weather structural challenges and favourably position the economy to take advantage of longer-term trends.
- The budget projects the overall fiscal deficit to be SGD11 billion (2.2% of GDP) in 2021, improving from a historical deficit of SGD64.9 billion (13.9% of GDP) in 2020.
- Looking forward, the market remains optimistic on the expectation of a sharp economic recovery and a well-executed COVID-19 vaccination plan.

Thailand

- MSCI Thailand Index was up 1.56% in February (in USD terms, net dividends excluded).
- Thailand's trade surplus decreased to USD1.9 billion in January from USD2.8 billion in the prior month.
- Exports contracted 0.3% yoy in January while imports contacted 6.9% in January compared to the smaller shrinkage of 0.1% in December.
- The Bank of Thailand left its key interest rate unchanged at a record low of 0.50% in its February meeting.
- The Cabinet also approved a stimulus worth approximately USD1.24 billion to help low-income workers amid the COVID-19 outbreak.
- Thailand is still in the early stages of their vaccination campaign, and with lingering political risk on the constitutional amendments panning out later in March.
- However, caution still surrounds the country as any disruptions in the vaccination progress would pose risks and would delay economic recovery, further heightened with Thailand's higher reliance on tourism-related activities, which is a late-stage recovery theme.

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Index (as of end February 2021)	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	1.01%	2.94%	6.59%	1.31%	1.93%	8.16%	27.99%	1.65%
CSI 300	-0.28%	7.59%	35.45%	2.41%	-0.27%	9.63%	46.56%	3.67%
Hang Seng China Enterprises	0.34%	6.64%	9.17%	4.74%	0.30%	6.58%	9.67%	4.69%
Hang Seng Index	2.46%	10.02%	10.91%	6.42%	2.42%	9.95%	11.42%	6.38%
India National	6.71%	12.82%	30.39%	4.42%	5.95%	13.70%	28.05%	3.83%
Jakarta Composite	6.47%	11.21%	14.47%	4.39%	2.85%	10.28%	15.34%	3.00%
Nikkei 225	4.71%	9.58%	37.00%	5.55%	2.90%	7.25%	38.70%	2.28%
Korea Composite	1.23%	16.27%	51.63%	4.85%	0.79%	14.52%	63.91%	1.38%
FTSE Bursa Malaysia KLCI	0.72%	0.96%	6.42%	-3.04%	0.63%	1.61%	10.81%	-3.81%
New Zealand SE 50	-6.95%	-4.52%	6.19%	-6.70%	-6.12%	-1.22%	24.48%	-5.78%
Philippine SE Composite	2.76%	0.05%	0.10%	-4.83%	1.82%	-0.86%	5.17%	-5.80%
FTSE Singapore Straits Times	1.60%	5.10%	-2.06%	3.70%	1.84%	5.93%	2.97%	3.33%
Taiwan Weighted	5.39%	16.26%	41.28%	8.29%	5.95%	18.97%	53.59%	9.24%
Bangkok SET	2.03%	6.28%	11.66%	3.27%	1.34%	6.69%	16.92%	2.67%
MSCI AC Asia ex Japan	1.38%	11.93%	34.89%	5.79%	1.22%	12.22%	38.98%	5.25%
MSCI AC Pacific ex Japan	0.87%	10.36%	29.35%	5.36%	0.93%	11.39%	37.06%	4.96%
Dow Jones Industrial	3.17%	4.37%	21.74%	1.06%	3.17%	4.37%	21.74%	1.06%
S&P Composite	2.61%	5.23%	29.01%	1.47%	2.61%	5.23%	29.01%	1.47%
FTSE 100	1.19%	3.47%	-1.48%	0.35%	-0.62%	-1.20%	-9.99%	-1.88%
CAC 40	5.63%	3.35%	7.41%	2.73%	5.54%	4.87%	18.69%	1.92%
DAX 30	2.63%	3.73%	15.95%	0.49%	2.54%	5.25%	28.12%	-0.31%
MSCI Europe	2.25%	3.36%	7.33%	1.19%	2.30%	5.44%	17.87%	0.77%
MSCI World	2.54%	5.14%	24.15%	1.68%	2.45%	5.57%	27.36%	1.37%