

Market Review

Global equity markets were not able to sustain the momentum from previous months as broader risk appetite proved choppy in May amidst concerns related to rising inflation. Whilst COVID-19 cases in UK and US showed an improving trend, India and South-East Asia remain quite serious, raising concerns over a resurgence of the number of cases worldwide if vaccines are less effective toward this new variant of COVID-19. Concerns on corporate margins were also apparent in the first half of the month, although dollar weakness helped stage a strong recovery in the latter half. Against this backdrop, MSCI Asia ex Japan Index was up 1.00% in May (in USD terms, net dividends excluded), underperforming the MSCI World Index which gained 1.26% during the month (in USD terms, net dividends excluded).

CANBERRA • BEIJING • HONG KONG

Australia

- Australia All Ordinary Index was up 1.59% in May (in local currency terms, net dividends excluded).
- Outperformance from Financials and Health Care.
- Underperformance from Information Technology and Utilities.
- The Australian yield curve flattened, with the 2-year yield dropping 2bps at 0.07% while 10-year bond yield went down 4bps to 1.66%.
- The Australian Dollar (AUD) appreciated in May against the US Dollar as the USD index went down.
- The Reserve Bank of Australia (RBA) left its cash rate at record lows and reiterated its lower-for-longer policy stance even as data showed the country's economic output was above its pre-pandemic level and house prices were shooting through the roof.
- RBA's baseline scenario implies inflation will stay below the mid-point of its 2-3% target band until mid-2023 while wages growth is seen hovering around 2%.

China

- MSCI China Index was up 0.55% in May (in USD terms, net dividends excluded).
- During the month, China's NBS manufacturing PMI fell to 51.1 in April from 51.9 in March while Caixin manufacturing PMI improved to 51.9 in April from 50.6 in March.
- Other prints were weaker than expected with the biggest disappointment coming from retail sales, which was soft after the rebound in March.

- Considering the growth rate per annum in the past two years, growth decelerated from 6.3% per annum in March to 4.3% per annum in April, with the slowdown broad based.
- The fixed asset investment (FAI) confirmed also a second wave interruption early in the year, but the subsequent recovery has been rapid, with the 2-year compounded annual growth rate rising from 4.2% in March to 5.9%.
- Manufacturing investment continued to underperform but the sequential momentum improved, while real estate investment continued to outperform in the near term despite housing tightening measures.
- During the month, the unemployment rate dropped to a post-pandemic low at 5.1%.

Hong Kong

- MSCI Hong Kong Index was up 0.49% in May (in USD terms, net dividends excluded).
- Outperformance from Utilities and Financials.
- Underperformance from Information Technology and Consumer Discretionary.
- Headline CPI rose 0.7% yoy in April, attributed to higher local transport fares and rising energy and food prices.
- Housing price inflation fell 0.3% mom, on sequential contraction for three consecutive months.
- Hong Kong's labour market also recovered further on the back of a sharp rebound in 1Q21 GDP, with the unemployment rate falling to 6.4% in April.
- In particular, employment in the trade sector expanded another 0.7% mom in April, benefitting from the rebound in trade sector recovery.

NEW DELHI • JAKARTA • TOKYO • SEOUL • KUALA LUMPUR

India

- MSCI India Index was up 8.53% in May (in USD terms, net dividends excluded).
- Outperformance from Real Estate, Utilities and Materials.
- Underperformance from Communication Services, Health Care and IT.
- Real GDP grew by 1.6% in 1Q21, led by sharp pick-up in demand due to a steep increase in government spending.
- Consumption oriented indicators (such as employment, auto sales) have deteriorated considerably, business sentiments are at 10-month low and industrial output likely contracted on 2-year CAGR basis.
- The improving COVID-19 situation and pick-up in the vaccination drive in the coming months are also expected to support growth recovery.

Indonesia

- MSCI Indonesia Index was up 1.12% in May (in USD terms, net dividends excluded).
- Real GDP contracted by 0.7% yoy in 1Q21, at a more moderate pace than the 2.2% shrinkage in the previous quarter.
- Private consumption spending was still in contraction but the pace slowed to -2.2% yoy in Q1 from -3.6% in Q4 last year despite the second round of COVID-related movement restrictions.
- Fixed investment growth improved significantly to -0.2% yoy in Q1 from -6.2% yoy in Q4 mainly attributed to much higher government capex spending.
- Bank Indonesia kept its 7-day reverse repo rate, deposit and lending facility rates unchanged at 3.50%, 2.75% and 4.25% respectively as expected.
- On domestic economic growth, Bank Indonesia maintained its 2021 GDP growth forecast of 4.1-5.1% with increasing exports and non-building investment being the major drivers and remained confident of keeping 2021 inflation within its 2-4% target.

Japan

- MSCI Japan Index was up 1.48% in May (in USD terms, net dividends excluded).
- From a medium-term perspective, growth should be supported by exports, rising wages and the yen's weakening.
- Q1 GDP came in much weaker than expected, with all sectors registering some moderation.
- The contraction in domestic demand, particularly in private consumption, was the main culprit amid soft restrictions on mobility.

- Looking ahead, Japan's slow pace of vaccination is concerning, making it vulnerable to new waves of infection and the spreading of variants.
- In contrast to brisk external demand, consumption is only likely to recover at a slow pace, curbing the increase in inflation.
- After the Bank of Japan's upgrade to its growth forecasts on 28 April, Japan's recovery outlook has dimmed again, with the latest growth and inflation data both surprising on the downside.

Korea

- Korea's KOSPI Index was up 1.78% in May (in local currency terms, net dividends excluded).
- Korea's 1Q21 real GDP expanded 1.8% yoy compared to -1.2% yoy in the final quarter last year, well above expectations.
- Domestic demand rebounded significantly to 1.9% qoq, after a -0.3% qoq contraction in the previous quarter, led by large gains in investment.
- Exports continued a three-quarter streak of growth, though the growth pace slowed down to 1.9% qoq from the surge in previous two quarters. Meanwhile, imports accelerated to 2.4% qoq from 2.2% in the previous quarter.
- Meanwhile, Bank of Korea revised up 2021 GDP growth forecast to 4.0% from 3.0%, as the strengthening economic recovery has been evident from sustained export buoyancy, robust recovery in facilities investment and gradually improving private consumption growth.
- On inflation, the Central Bank noted the core inflation has moved up considerably but remained confident that inflation will be contained this year.

Malaysia

- FTSE Bursa Malaysia Index was down -1.13% in May (in local currency terms, net dividends excluded) as market sentiment was dented by rising COVID-19 cases.
- Outperformance from Financials, Communication Services and Utilities.
- Underperformance from Health Care.
- During the month, the Malaysian Ringgit weakened slightly as the USD/MYR rate rose up 0.9% month on month.
- Separately, palm oil prices eased from peak levels, with the commodity closing down 8.7% mom.
- The government also revised its 2021 deficit target to 6% of GDP, from 5.4% previously, after factoring in the continued measures from the 2020 economic stimulus packages, as well as the PERMAI and PEMERKASA packages launched in 1Q21.

New Zealand

- New Zealand SE 50 Index was down -3.35% in May (in local currency terms, net dividends excluded).
- The New Zealand Dollar (NZD) appreciated in May against USD as USD index went down and a potential interest rate increase in 2022.
- The Reserve Bank of New Zealand (RBNZ) kept the official cash rate (OCR) at a record low of 0.25%, while also continuing quantitative easing and Funding for Lending Programme (FLP) tools to support a market hit by the COVID-19 pandemic.
- RBNZ also forecasted for its key rate will increase starting in mid-2022, even though this forecast is highly conditional, given ongoing virus-related restrictions, sectoral unevenness of economic recovery, and the weak level of business investment.
- New Zealand 1Q21 unemployment dropped from 4.9% in 4Q20 to 4.7% in 1Q21 with the main driver being job growth.

The Philippines

- MSCI Philippines Index was up 5.42% in May (in USD terms, net dividends excluded).
- It was a broad-based rally, fuelled by vaccine and reopening optimism and as the decline in the daily reported COVID-19 cases continues to be encouraging.
- In the short term, a minor market pullback is expected, caused by profit-taking activities after the sharp rally last month.
- However, over the longer-term, market sentiment remains positive, given the structural tailwinds and the domestic-driven nature of this economy.
- In terms of macro data, overseas remittances in the Philippines rose 2.6% yoy in 1Q21.
- There was a boost off the low base in 1Q20, but also overseas Filipino workers have responded to the severe plight of family members in the persistent COVID pandemic which has seen remittances regain the role as a key economic lifeline for the Philippines.

Singapore

- MSCI Singapore Index was down -0.93% in May (in USD terms, net dividends excluded) amidst dampened investor sentiment following a pick-up in local virus cases which has since led to tightened social distancing measures.
- However, the market outlook remains optimistic, supported by a declining COVID-19 cases and a well-executed vaccination plan, which may lead to a possible easing of restriction by mid-June.

- Over the longer-term, the pace of Singapore's economy and equity market to recover is premised on the reopening of its borders due to its regional and global exposures, which means their economic recovery will likely recover later than Indonesia and the Philippines.
- 1Q21 GDP was revised up to 1.3% yoy from the preliminary result of 0.2% yoy, supported by a stronger-than-expected manufacturing sector and is the highest growth rate since the last quarter of 2019.
- Meanwhile, the government warned of heightened uncertainties arising from COVID-19 cases and maintained its 2021 economic growth forecast of 4-6% yoy.

Taiwan

- MSCI Taiwan Index was down -1.20% in May (in USD terms, net dividends excluded).
- The recent spike and related social distancing measures remain a major uncertainty that could potentially hit local production on the supply side.
- Industrial production came in lower than expected, moderating to 13.6% yoy in April from 16.1% yoy in March, with tech-related sectors being the main drag to sequential industrial production growth.
- Growth in Taiwan's April export orders remains robust at 42.6% yoy in April after reporting 33.3% yoy in March.
- Advanced 1Q21 real GDP expanded 8.2% yoy following solid growth of 5.1% yoy in 4Q20.
- 1Q21 GDP growth accelerated to 3.1% qoq from 1.4% qoq the previous quarter, with the rapid growth in exports of goods and services driving the GDP expansion.

Thailand

- MSCI Thailand Index went down -0.89% in May (in USD terms, net dividends excluded).
- The Thai market experienced a sharp correction in early-May due to investors' fears over the impact of COVID-19 and reflecting a profit-taking strategy among traders and asset allocation strategies shifting from growth stocks into value stocks, amid the expectation of a rising inflation outlook.
- In the immediate term, the market is expected to remain choppy as investors' focus will be fixed on Thailand's pace of vaccination and inflation expectations in the US.
- Over the longer term, an improving vaccination rate should pave the way for market recovery, yet the market should remain cautious on any disruptions that would delay economic re-opening/recovery.
- This is further heightened by Thailand's higher reliance on tourism-related activities (a late-stage recovery theme).

ASIA PACIFIC MARKET MONTHLY COMMENTARY

May 2021

| Index (as of end May 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 | 1.59% | 6.72% | 26.13% | 8.12% | 1.80% | 6.69% | 47.08% | 8.45% |
| CSI 300 | 4.06% | -0.10% | 37.87% | 2.31% | 5.88% | 1.46% | 54.89% | 5.19% |
| Hang Seng China Enterprises | 0.59% | -3.18% | 13.89% | 1.40% | 0.66% | -3.23% | 13.74% | 1.31% |
| Hang Seng Index | 1.49% | 0.59% | 26.96% | 7.05% | 1.56% | 0.54% | 26.79% | 6.95% |
| India National | 6.66% | 7.46% | 63.15% | 12.21% | 8.79% | 8.74% | 69.88% | 12.90% |
| Jakarta Composite | -0.80% | -4.72% | 25.11% | -0.53% | 0.34% | -4.98% | 28.01% | -2.13% |
| Nikkei 225 | 0.16% | -0.37% | 31.91% | 5.16% | 0.08% | -2.97% | 29.91% | -0.75% |
| Korea Composite | 1.78% | 6.34% | 57.86% | 11.50% | 1.90% | 7.53% | 75.96% | 9.02% |
| FTSE Bursa Malaysia KLCI | -1.13% | 0.37% | 7.49% | -2.68% | -1.90% | -1.58% | 13.09% | -5.32% |
| New Zealand SE 50 | -3.35% | 0.00% | 10.77% | -6.70% | -1.94% | 0.13% | 30.22% | -5.66% |
| Philippine SE Composite | 4.04% | -2.45% | 13.52% | -7.16% | 5.04% | -0.76% | 20.49% | -6.52% |
| FTSE Singapore Straits Times | -1.68% | 7.30% | 26.03% | 11.27% | -1.25% | 7.71% | 34.66% | 11.30% |
| Taiwan Weighted | -2.84% | 6.99% | 55.99% | 15.86% | -1.68% | 7.95% | 69.66% | 17.92% |
| Bangkok SET | 0.66% | 6.47% | 18.67% | 9.95% | 0.35% | 2.72% | 20.86% | 5.46% |
| MSCI AC Asia ex Japan | 0.46% | 0.24% | 42.59% | 6.05% | 1.00% | 0.69% | 48.53% | 5.98% |
| MSCI AC Pacific ex Japan | 0.13% | 0.51% | 37.97% | 5.89% | 0.48% | 0.80% | 46.30% | 5.80% |
| Dow Jones Industrial | 1.93% | 11.63% | 36.03% | 12.82% | 1.93% | 11.63% | 36.03% | 12.82% |
| S&P Composite | 0.55% | 10.31% | 38.10% | 11.93% | 0.55% | 10.31% | 38.10% | 11.93% |
| FTSE 100 | 0.76% | 8.32% | 15.57% | 8.70% | -1.86% | 6.53% | 0.51% | 4.53% |
| CAC 40 | 2.83% | 13.04% | 37.31% | 16.14% | 4.44% | 13.87% | 50.92% | 16.05% |
| DAX 30 | 1.88% | 11.86% | 33.09% | 12.41% | 3.48% | 12.67% | 46.29% | 12.33% |
| MSCI Europe | 1.89% | 9.83% | 25.73% | 11.13% | 3.72% | 10.92% | 39.31% | 11.78% |
| MSCI World | 0.85% | 8.97% | 34.89% | 10.80% | 1.26% | 9.12% | 38.54% | 10.62% |

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