

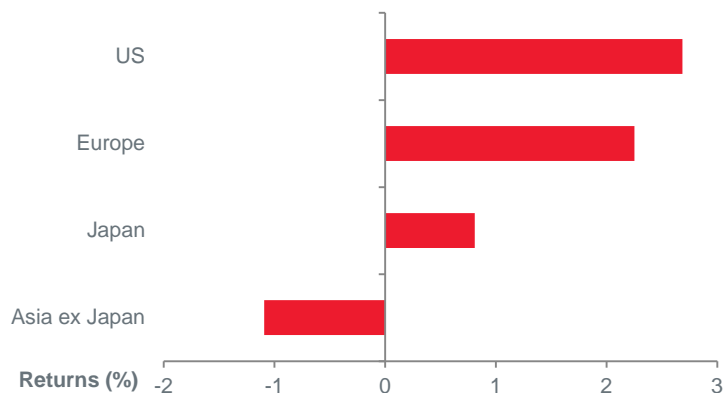
# Macro Briefing

A monthly review of the economy and markets – December 2013

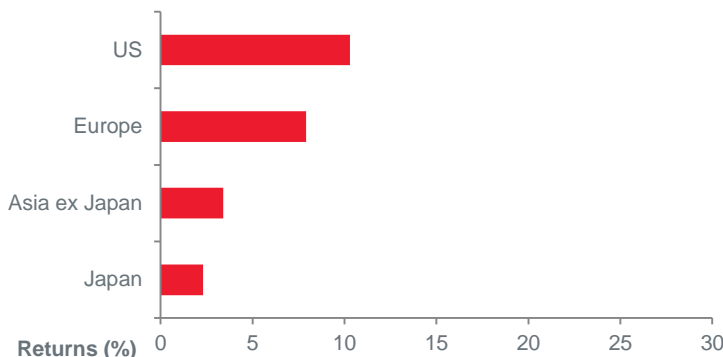


## Stock Markets Performance

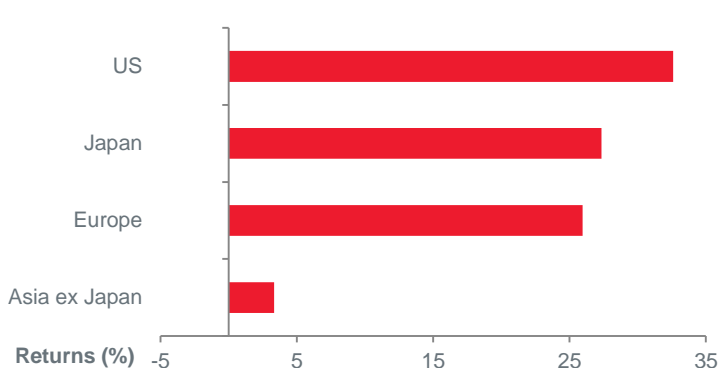
December 2013



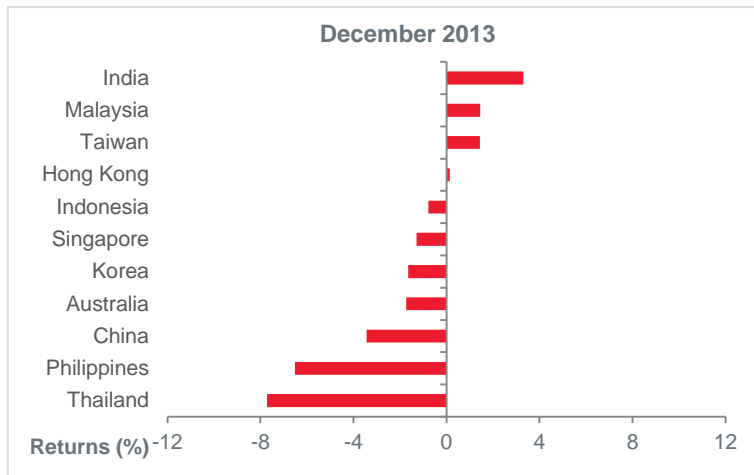
3 Months



Year-To-Date

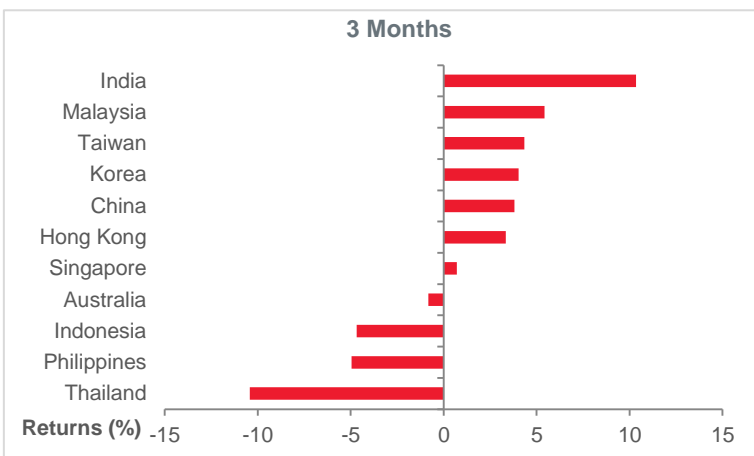


- **US equities** rose strongly in December, its fourth consecutive monthly rise which helped the major indices to post record gains. On a year to date basis, the US market has been the top performer. Fed's announcement to begin tapering as well as keep short term interest rates near 0% spurred demand for stocks.
- Valuations have risen in tandem and are reaching the high end of fair territory. Further upside will need more convincing economic recovery data.
- **European equities** extended the rally that began in November after ECB cut rates to 0.25%. European markets have performed well in 2013. Sentiment has been boosted by signs of recovery, albeit inconsistent across the region.
- Corporate earnings remain depressed due to lack of new orders and production. But restructuring has made many companies nimble and thus able to ride the recovery from the prolonged recession.
- **Japanese equities** continued to rise in December in line with the accommodative monetary policy. On a year to date basis, it was the second best performer after the US. Prospects for 2014 will depend on whether "Abenomics" seems on course to propel the economy out of deflation.
- **Asian ex Japan equities** fared poorly in December and finished the year at the bottom of the league. Emerging markets have been sidelined in favour of developed markets despite valuations looking attractive in some of these emerging markets.

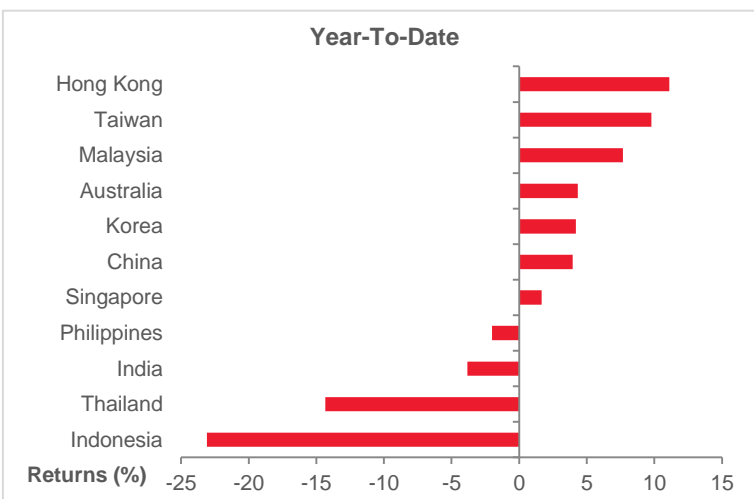


Stocks across **Asia** continued to retreat in December, led by Thailand, Philippines and China. Bucking the trend were India, Malaysia and Taiwan.

► **India's** stock market rose on news of victory by the opposition Bharatiya Janata Party in four out of five state elections ahead of national poll due in May 2014. A narrowing in the current account deficit also underpinned sentiment. **Malaysia** and **Taiwan** were basically seen as less vulnerable to the Fed's tapering on account of strong current account positions.

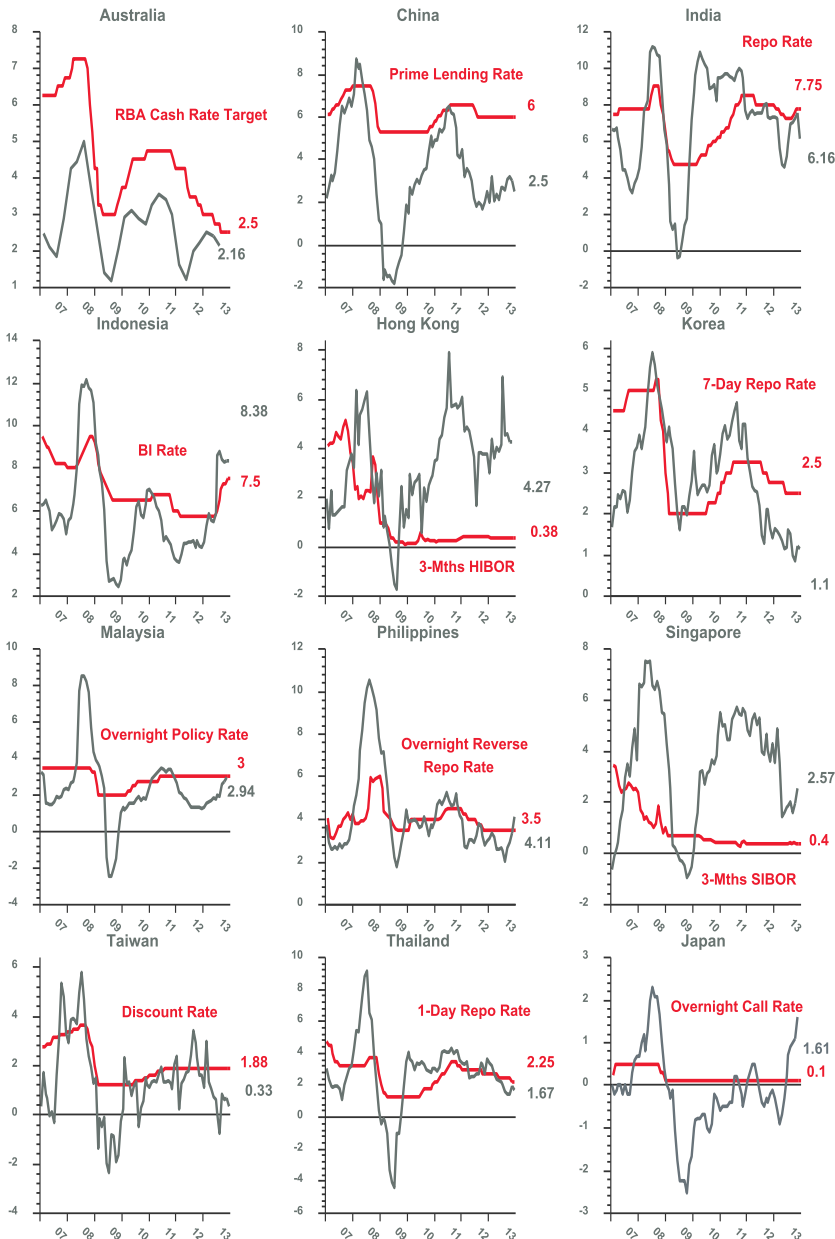


► **Thailand** was the worst performer in December, weighed down by the political crisis and weak domestic demand. **Philippines** was affected by growth concerns arising from the impact of the Super Typhoon Haiyan while liquidity concerns following the news of the government's reform package dented demand for **China's** stocks.



► The **Indonesian** market has been the worst performer in 2013. The Rupiah's volatility continues to scare investors while the slowdown in 2013's Q2 and Q3 growth to below 6% added to overall concerns on the economy.

## Policy Rate versus Inflation Rate



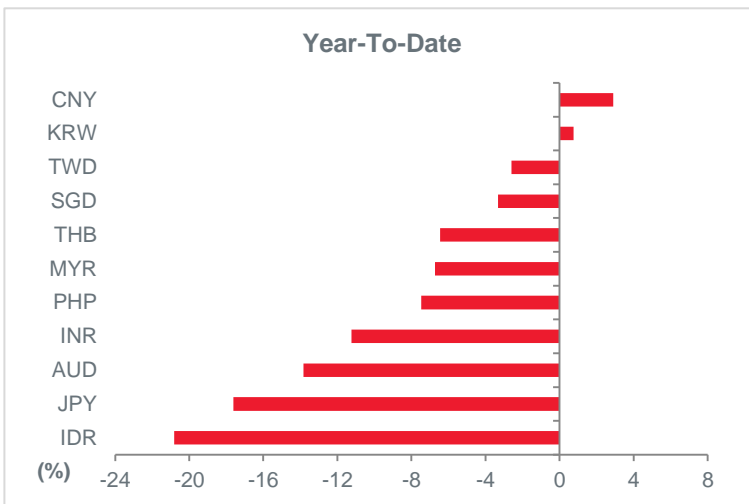
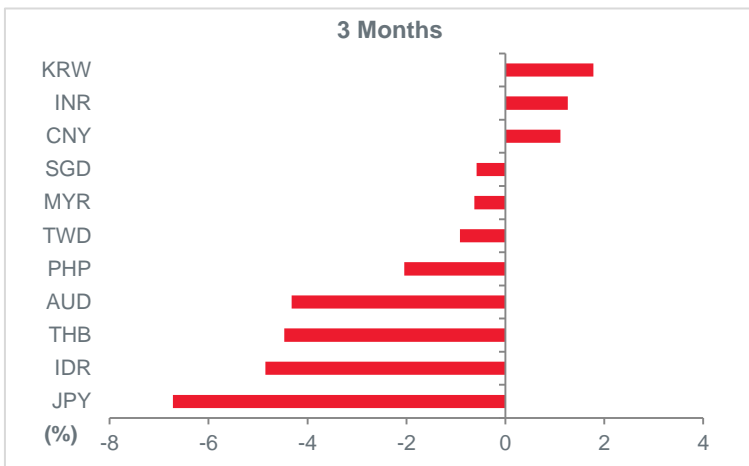
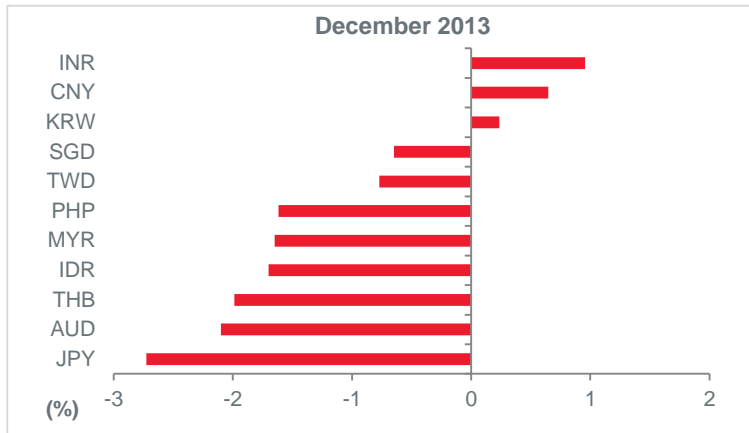
► **The Reserve Bank of Australia** maintained its record low of interest rates of 2.5% with GDP remaining below desired levels.

► **Taiwan's central bank** kept its benchmark interest rate unchanged at 1.875% for a 10th consecutive meeting, joining other Asian economies such as Indonesia and India in holding rates in December to boost growth.

► In an unexpected move, **Reserve Bank of India** opted not to increase interest rates even as India's consumer price index rose in November from a year earlier. Wholesale prices rose 7.5% in November, the fastest pace in 14 months. The repo rate was kept at 7.75%.

► The **Bank of Thailand** has not ruled out another rate cut should growth figures continue to disappoint.

## Major Currencies Against USD (% change)



➤ Asian currencies mostly weakened against the US dollar in December on Fed's announcement that tapering would commence shortly. **The Indian Rupee** bucked the trend on intervention by the Reserve Bank of India and strong foreign institutional investment inflows.

➤ The **Indonesian Rupiah** is the worst performing currency in the Asia-Pacific region, weakening close to 20% against the US dollar in 2013. Concerns about the US Federal Reserve's cut in its stimulus program as well as the potential worsening of the country's current-account deficit once a planned ban on ore exports is implemented has weighed on the currency.

➤ The **Japanese yen** has fallen over 17% versus the US dollar following the stimulus measures by the Bank of Japan aimed at battling deflation.

➤ The **Australian dollar** has also been one of the worst performing currencies in 2013. Declining demand for commodity shipments from China has been a major drag on the currency.

➤ Improvement in **China's** economic data along with better external sentiment has helped the currency to remain resilient year-to-date.

➤ The **Korean won** continued to benefit from robust exports and current account surplus.

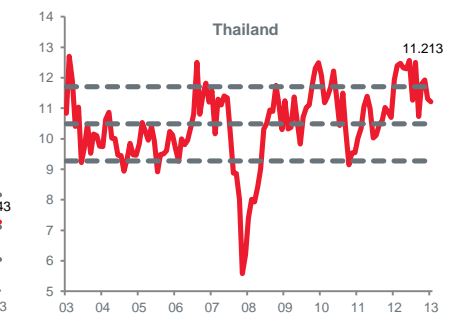
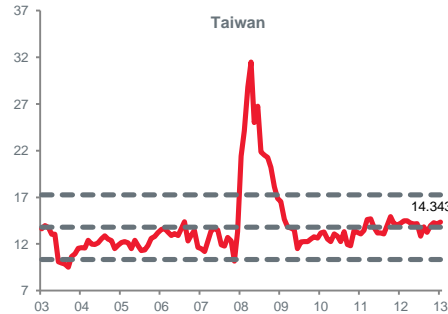
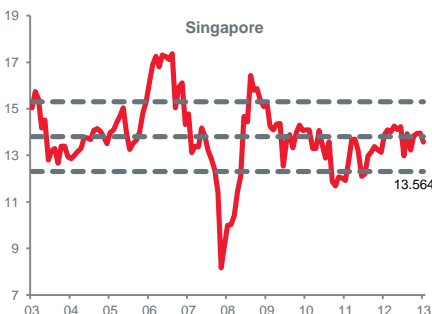
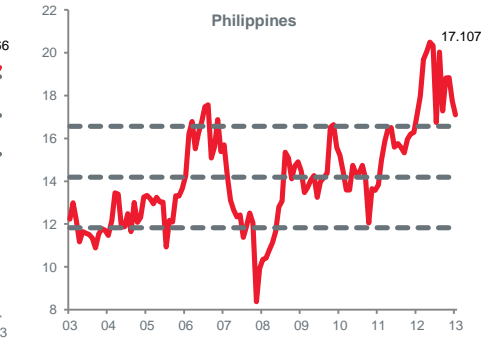
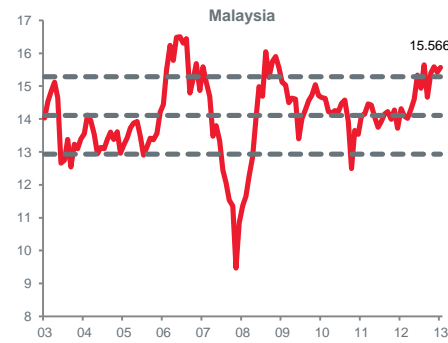
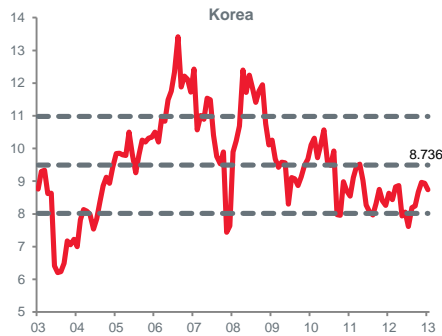
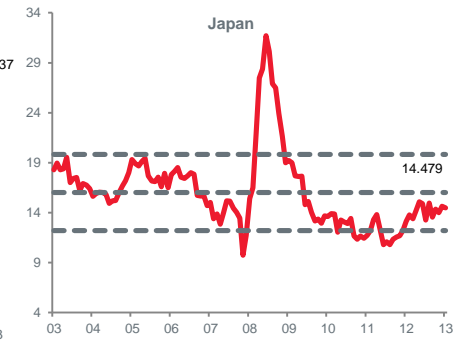
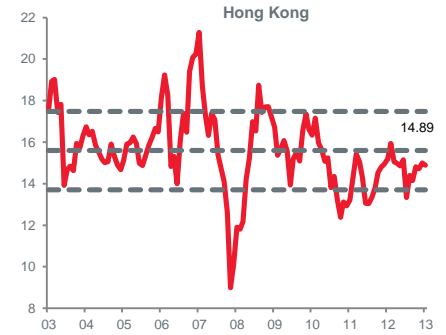
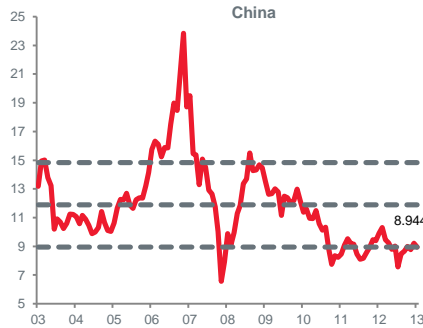
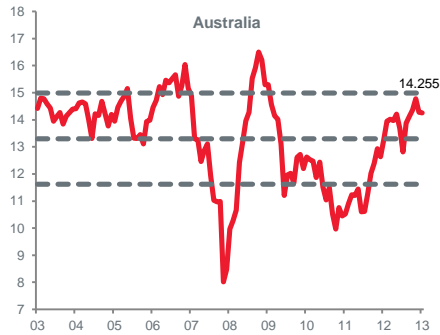
### Consensus Forecasts as of December 2013

| Real GDP % Growth | 2013 | Difference vs previous month | 2014 | Difference vs previous month |
|-------------------|------|------------------------------|------|------------------------------|
| US                | 1.7  | -                            | 2.6  | -                            |
| Euro zone         | -0.4 | -                            | 1.0  | ↑ 0.1                        |
| Japan             | 1.8  | ↓ 0.1                        | 1.6  | -                            |
| Asia ex Japan     | 6.0  | -                            | 6.2  | -                            |
| Australia         | 2.4  | ↓ 0.1                        | 2.7  | -                            |
| China             | 7.7  | ↑ 0.1                        | 7.5  | -                            |
| Hong Kong         | 3.0  | -                            | 3.5  | ↓ 0.1                        |
| India             | 4.6  | ↓ 0.3                        | 5.4  | ↓ 0.2                        |
| Indonesia         | 5.7  | ↑ 0.1                        | 5.5  | ↓ 0.2                        |
| Malaysia          | 4.5  | ↑ 0.1                        | 5.2  | ↑ 0.1                        |
| Philippines       | 6.9  | ↓ 0.1                        | 6.4  | ↑ 0.3                        |
| Singapore         | 3.7  | ↑ 0.5                        | 3.7  | -                            |
| South Korea       | 2.8  | ↑ 0.1                        | 3.6  | ↑ 0.1                        |
| Taiwan            | 2.0  | ↓ 0.1                        | 3.4  | -                            |
| Thailand          | 3.0  | ↓ 0.4                        | 4.1  | ↓ 0.3                        |

- ▶ Political unrest and weak external demand has weighed on **Thailand's** growth. Both 2013 and 2014 growth forecasts have been revised downwards.
- ▶ **India's** growth forecast has been revised downwards for 2013 following tepid quarter growth figures. High inflation, a weak Rupee and declining investments have capped growth over the recent four consecutive quarters below the 5% level.
- ▶ **Philippines'** 2013 forecast has been revised down due to the effects of the typhoon Haiyan. In contrast, 2014's forecast has moved up on expectations of post typhoon reconstruction and recovery-related investment.
- ▶ **Singapore's** Q3 GDP of 5.8% which exceeded Q2's GDP of 4.4% led to 2013 full year growth forecast being revised upwards from 3.2% to 3.7%. Growth has been broad-based across manufacturing, construction and wholesale & retail.

## APPENDIX

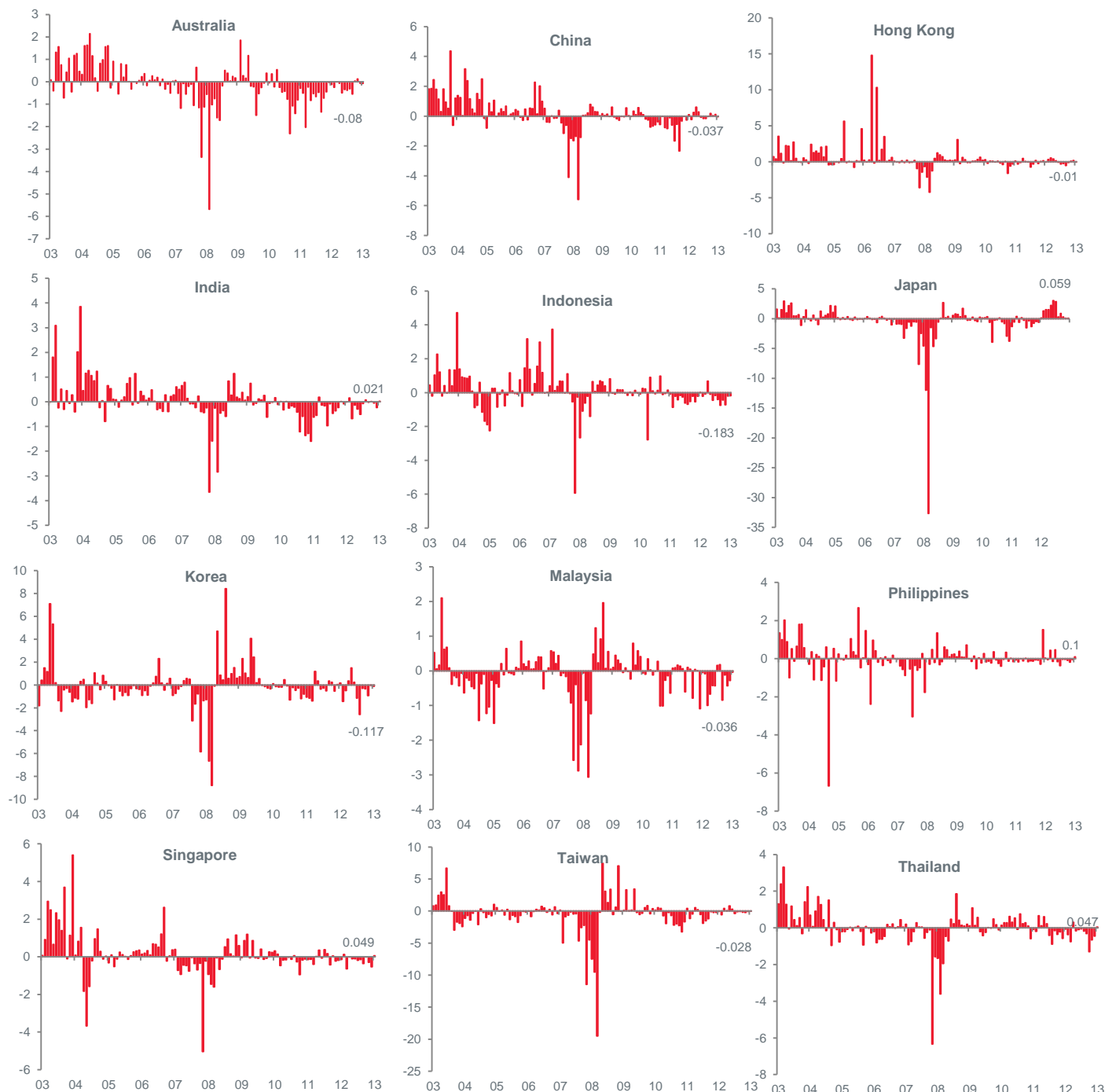
### Valuations - 12-months Forward P/E (x)



Source: IBES MSCI from DataStream as of 31 December 2013. Note: The forward price earnings multiple shown above is calculated on an 12-month rolling basis. The horizontal lines represent the average (the middle line) and one standard deviation either side of this average for the period shown.

## APPENDIX

### Earnings Forecast Revision (Month-on-Month Change %)



Source: IBES MSCI from DataStream as of 31 December 2013. Note: Weighted 1-month % change in the 12 month forward earnings EPS forecasts.

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