

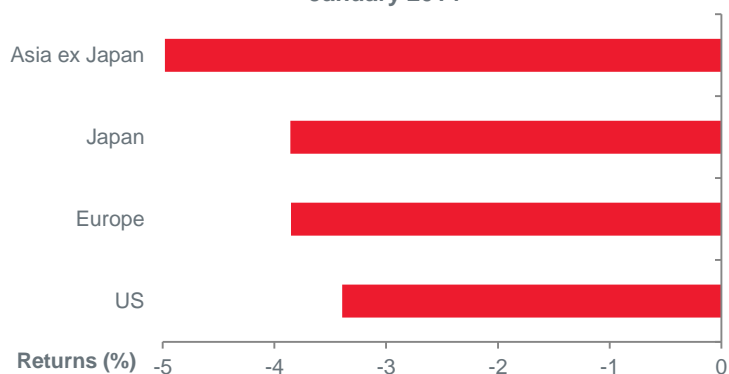
Macro Briefing

A monthly review of the economy and markets – January 2014

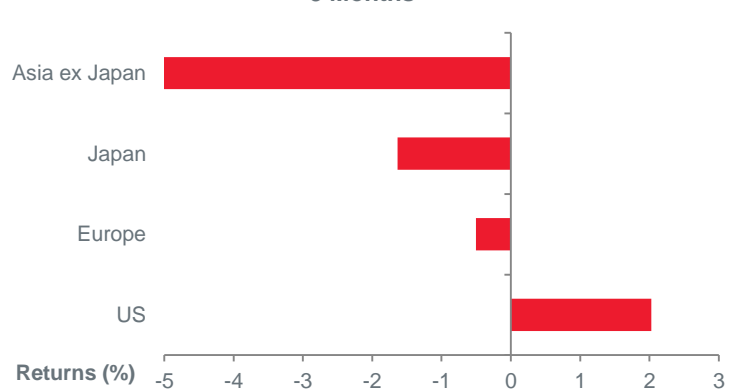


Stock Markets Performance

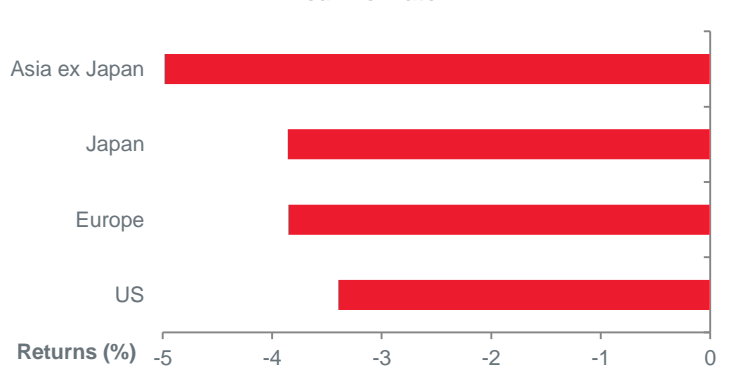
January 2014



3 Months

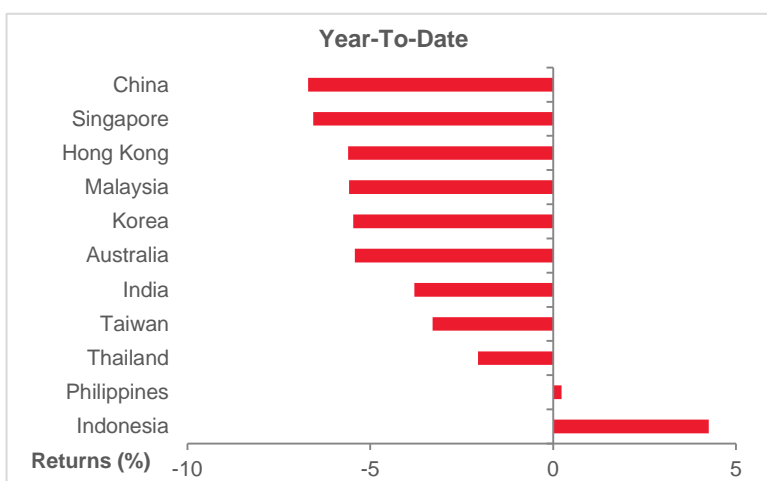
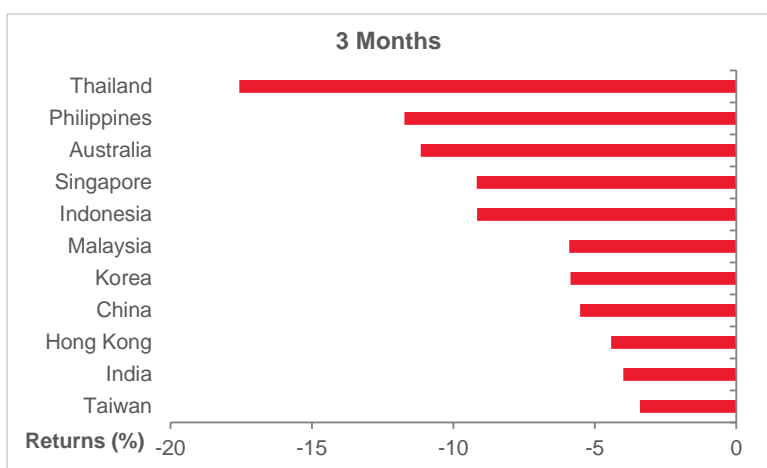
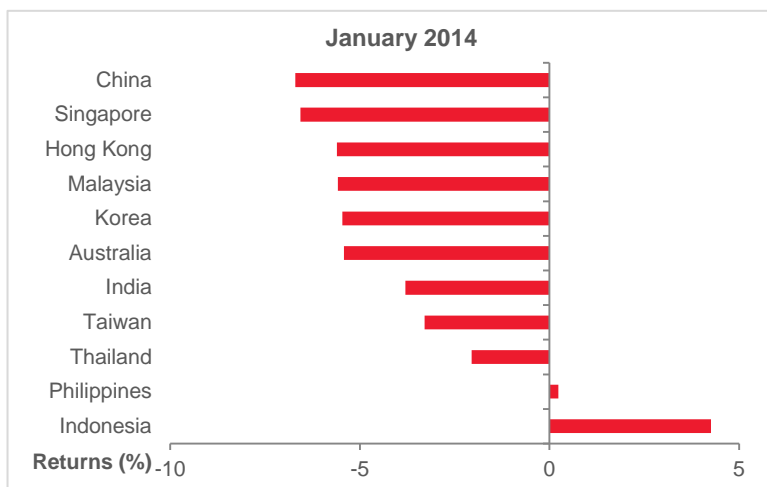


Year-To-Date



- **US equities** fell along with the global sell-offs triggered by renewed Chinese growth concerns. Rumors of a probable default by a Chinese investment trust too raised fears of ripple effects in the country's shadow banking system.
- On the other hand, the US economic recovery seems on track; manufacturing showed healthy expansion while consumer and business spending seem to be trending up.
- Whilst this is supportive for corporate earnings, current market valuations seem to have priced in these improvements.
- **European equities** were not spared with most of eurozone succumbing to the fears. Specifically, deflation continued to be a concern, prompting the European Central Bank to leave interest rates unchanged.
- On a more positive note, the overall Purchasing Managers' Index for eurozone jumped to 53.2 in January, the highest since mid-2011 giving some support to the idea that stronger activity can be expected in the coming months.
- Should the growth momentum continue to pick up in the region, European equities may become 2014's favourites.

- **Japanese equities** fell sharply in line with poor global sentiment. Nonetheless the economy seems to be edging towards a recovery. The industrial production and labor market figures were generally strong.
- **Asian ex Japan equities** continued to be hit badly by emerging market concerns, namely slowing economic growth, political uncertainties, sharp slides in currencies, and large fiscal and current-account deficits.



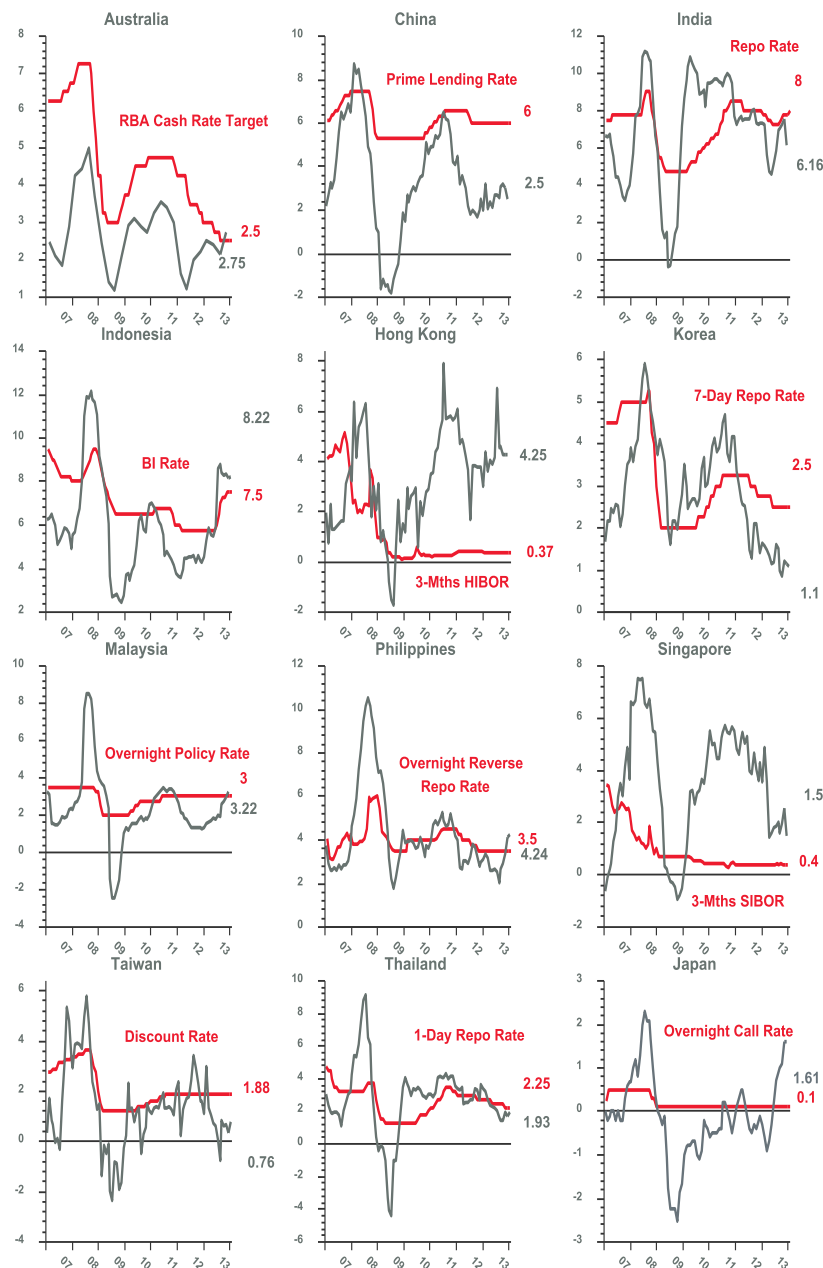
Stocks across **Asia** continued to retreat in January, led by China and Singapore. Bucking the trend were the Philippines and Indonesia.

► **Indonesia** was the best performer as investors cheered news of improving trade balance and stable inflation. The Rupiah was a beneficiary of the subsiding fears over the extent of the current account deficit. **Philippines** emerged the second-best performing stock market. Financials led the gains followed by utilities while consumer discretionary and industrials fell the most among sectors. GDP rose 6.5% in 4Q13 from a year earlier, slower than the 6.9% expansion the previous quarter but was still a positive surprise given the destruction wrought by Super Typhoon Haiyan in November 2013.

► **China** was the worst performer in January. Weak manufacturing data and credit risks associated with shadow banking weighed down by weak domestic demand. **Singapore** was affected by slowing growth fears; advance estimate figure for 4Q13 year-on-year growth was 4.4% versus 5.9% recorded in the 3Q. **Hong Kong** market's decline tracked China. Industrials, financials and utilities led the decline.

► Although **Thailand** declined the least amongst the Asian markets, it is still the worst performer over the latest 3-month period ended January 2014. Political tensions will continue to remain an overhang on investors' sentiment in the near term.

Policy Rate versus Inflation Rate



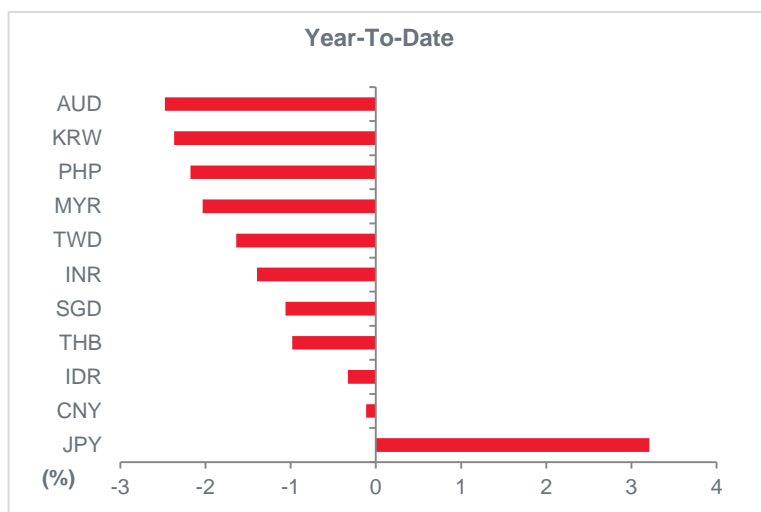
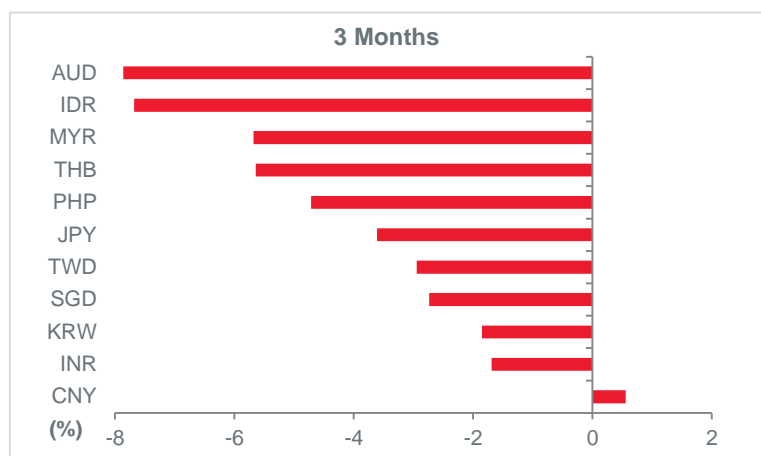
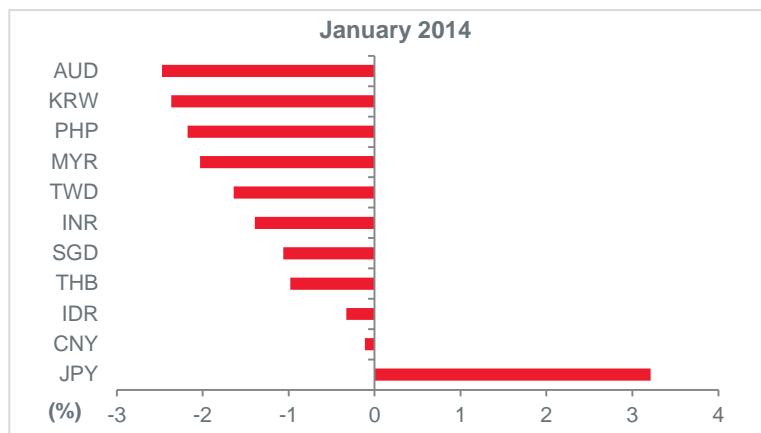
► **The Reserve Bank of India** surprised the market by keeping rates on hold after raising the benchmark rate in September and October 2013. Inflationary pressures are still on the rise but the rationale for the decision not to act was based on the weak economic activity.

► **Bank Indonesia** kept its benchmark interest rate unchanged at 7.5% on the back of improving current account balance and lower inflation.

► **Bangko Sentral Pilipinas** too intentionally kept the rates unchanged to help the economy recover from the effects of the typhoon. But rising inflationary pressures could force a rethink on their part.

► The **Bank of Thailand** kept its policy rate at 2.25% as the committee deems the current stance to be appropriately supportive of economic recovery and felt the need to safeguard financial stability.

Major Currencies Against USD (% change)



➤ Asian currencies broadly depreciated against the US dollar in January. The **Japanese Yen** bucked the trend as growing volatility amid a market selloff spurred investors to reverse carry trades while seeking haven assets.

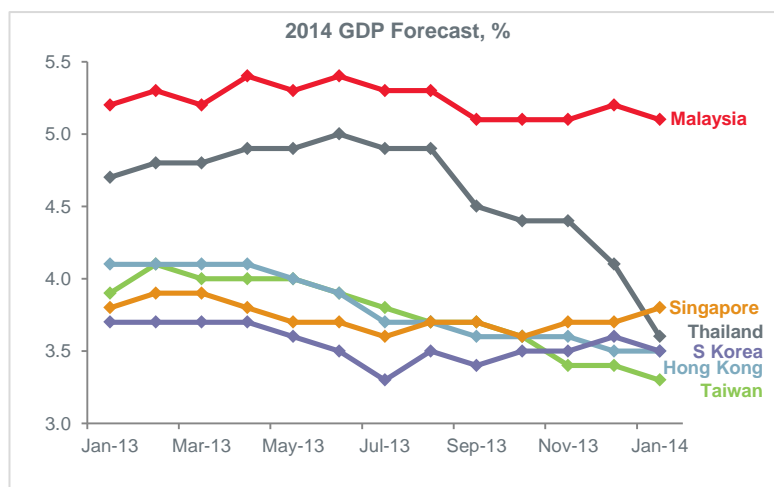
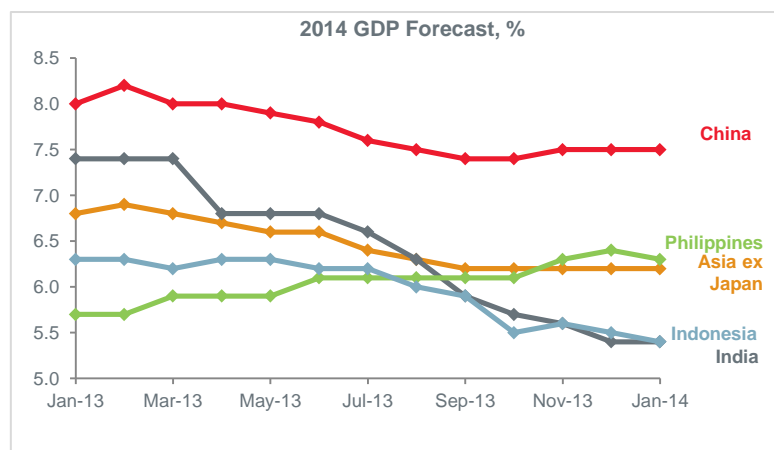
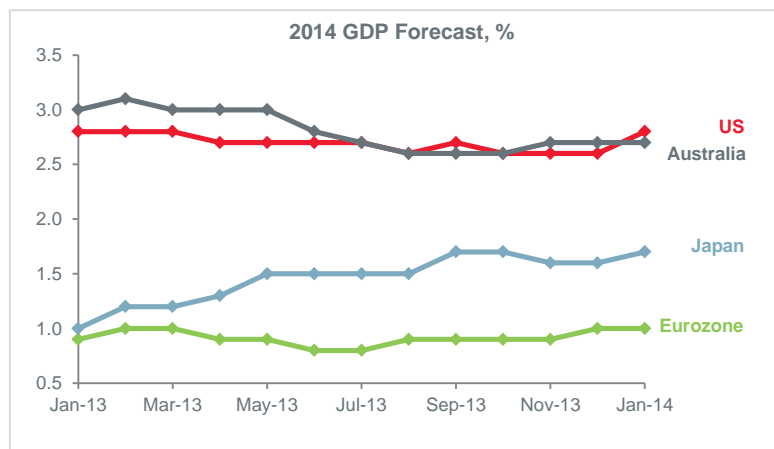
➤ The **Korean Won**, one of the best performing Asian currencies in 2013, delivered one of the worst returns in January. The **Malaysian Ringgit** and the **Philippine Peso** were also underperformers falling by more than 2% against the US Dollar.

➤ The **Indonesian Rupiah** came through as one of the least affected currencies, supported by news of a positive trade surplus in November and rising central bank's foreign exchange reserves.

➤ The **Australian Dollar** continued to slide in January. It was one of the worst performing currencies in 2013. Declining demand for commodity shipments from China has been a major drag on the currency.

➤ Although Korea's solid current and trade surplus is supportive of the **Korean Won**, its January slide should not come as a surprise. The won was ripe for some correction after being the strongest currency in the region in 2013.

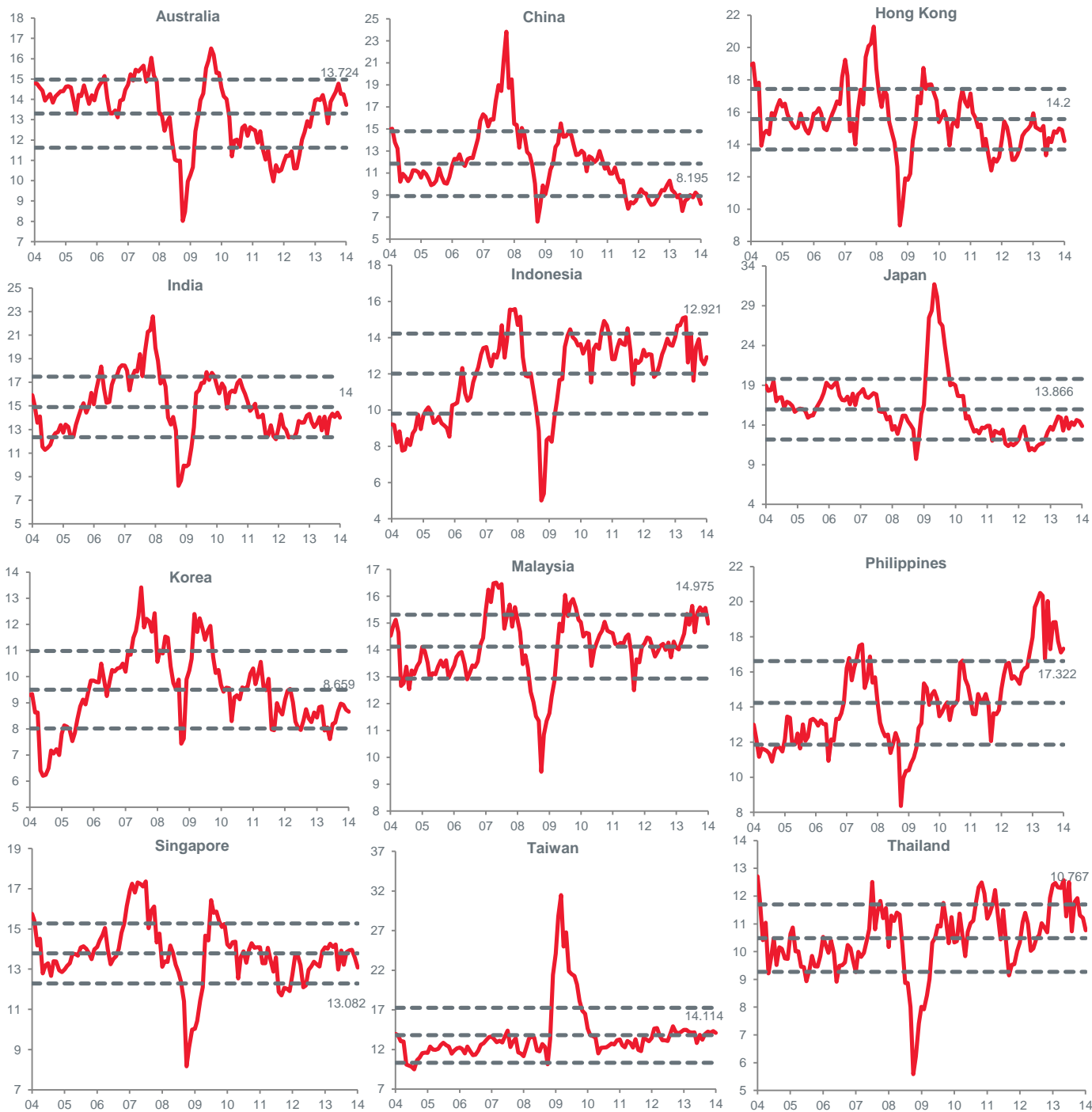
Real GDP Growth Consensus Forecast, %



- With the exception of US, Japan and Singapore, 2014 growth forecasts for the rest have either been flat or revised downwards.
- The outlook for the **US** and **Japan** has been upgraded on the back of encouraging data towards the end of 2013.
- Singapore** expanded by a healthy 3.7% in 2013. Given Singapore's open economy, expectations of a recovery in the US and Europe have buoyed the city-state's 2014 growth prospects.
- The outlook for Asia ex Japan, however, remains mixed. **Thailand** has seen a sharp downgrading of 2014 growth forecast as the widespread political protests continue to beset the country
- Philippines'** growth prospects have weakened due to the effects of the typhoon Haiyan which has already fed through to higher consumer prices. If inflation continues to edge up, monetary policy may need to move up in tandem.
- Taiwan's** 2014 GDP has been downgraded due to lacklustre trade activity over the last few months.

APPENDIX

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



Source: IBES MSCI from Thomson Reuters DataStream as of 31 January 2014. 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 Thomson Reuters DataStream as of 31 January 2014. Note: Weighted 1-month % change in the 12 month forward earnings EPS forecasts.

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