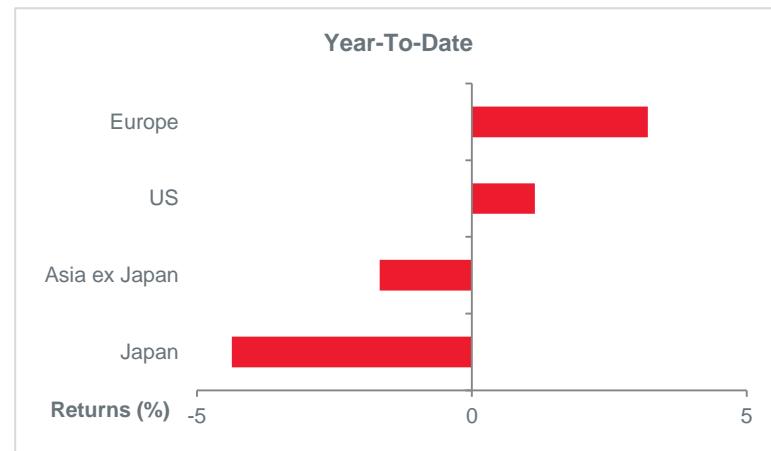
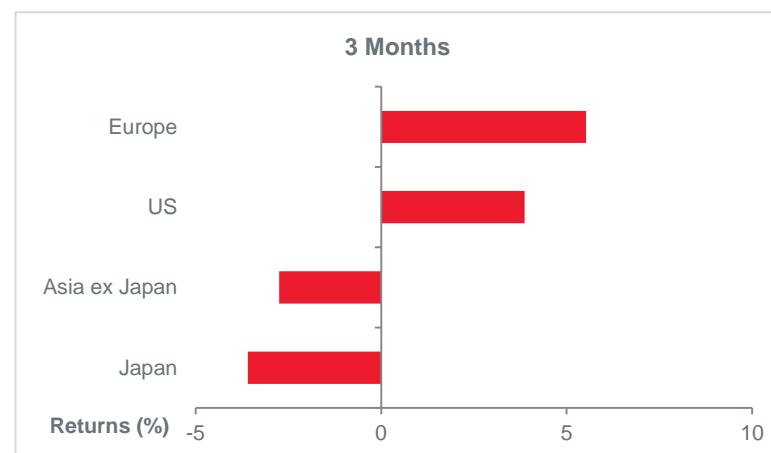
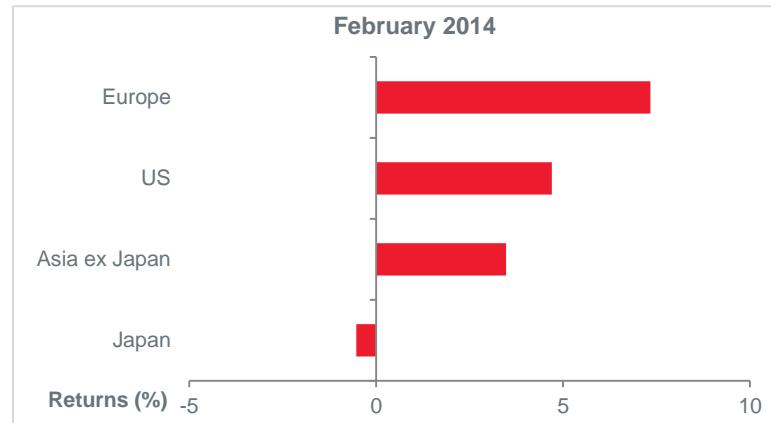


Macro Briefing

A monthly review of the economy and markets – February 2014

MARKETS

Stock Markets Performance



› **US equities** rallied in February on a growing belief that the economy is strong enough to withstand the monetary stimulus cuts. Favourable earnings data too lifted sentiment.

› Most of the US economic data was less encouraging with the weak January payroll data reinforcing the “low rates for longer” refrain of recent months.

› Whilst the favourable fourth quarter company earnings support the case for higher valuations, current market valuations appear to have discounted it.

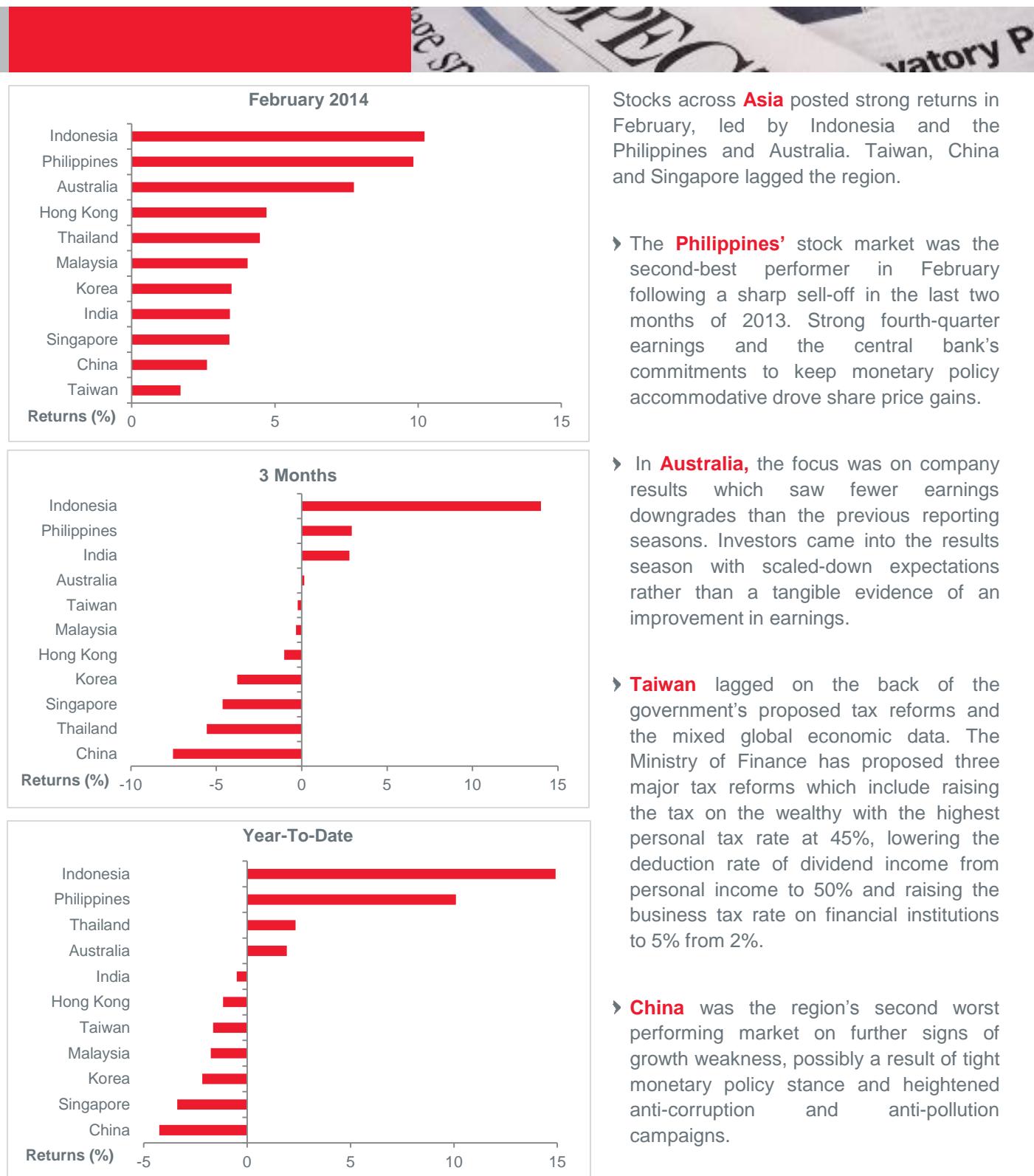
› **European equities** were the best performers as a region. Data such as positive GDP growth of 0.3% for the fourth quarter of 2013 and surpluses in the countries’ current account balances shored sentiment.

› The lower cost structure in European companies have also reignited investors’ interest. Company earnings, however, have yet to show significant recovery.

› Should the growth momentum continue to pick up in the region, European equities may become 2014’s favourites.

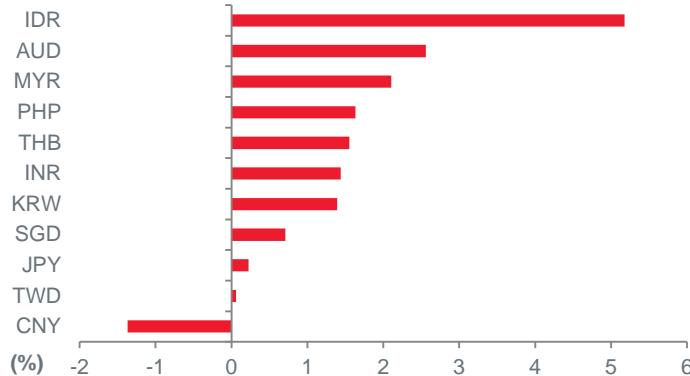
› **Japanese equities** continued to post losses for the second month this year. The impact of the upcoming consumption tax on the economy appears to be one reason for investor caution.

› **Asian ex Japan equities** recovered in February as emerging market meltdown fears receded. In an environment where the US Federal Reserve is tapering its monetary stimulus measures, investors are generally rewarding countries with improving current account balances which include Indonesia, India, Thailand, the Philippines and Malaysia.

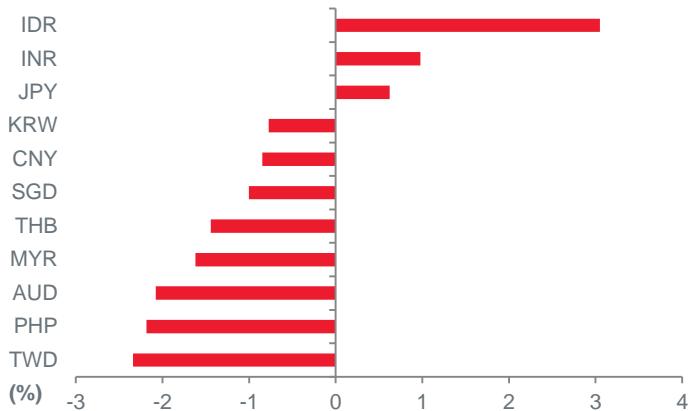


Major Currencies Against USD (% change)

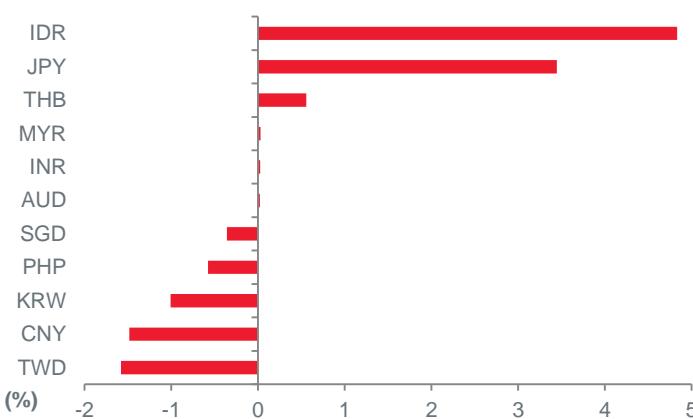
February 2014



3 Months



Year-To-Date



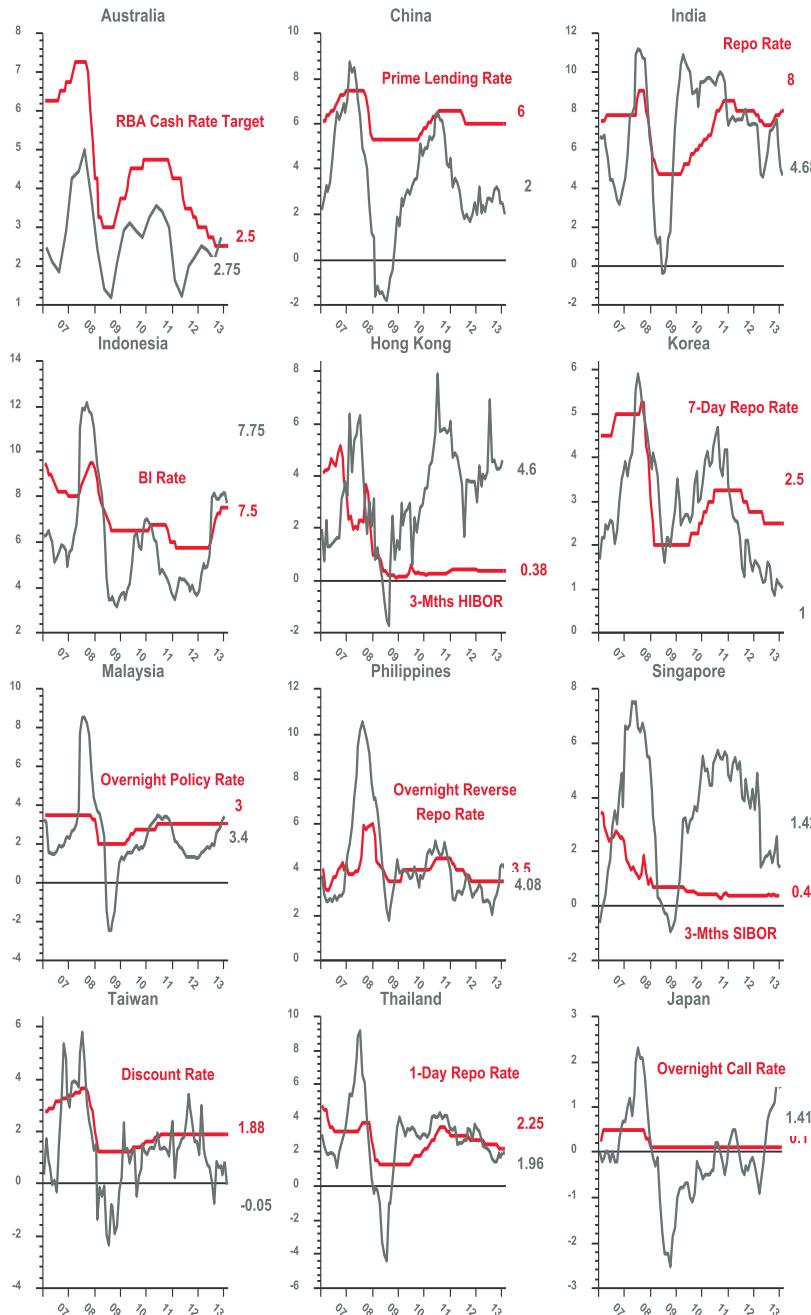
➤ Asian currencies mostly appreciated against the US dollar in February on improved investor sentiment.

➤ The **Chinese Yuan** was an exception. The currency hit a record low versus the US dollar on speculation that the People's Central Bank of China will widen the currency's trading band. The yuan slid as much as 0.9% on Feb. 28, the largest decline since China unified official and market exchange rates in 1994.

➤ The **Indonesian Rupiah**, again, outperformed strongly given the positive tone in the recent economic data after being one of the region's weaker performers in 2013.

➤ The **Australian Dollar** benefited from the positive sentiment stemming from a more balanced outlook from the Reserve Bank of Australia. The central bank kept its benchmark rates on hold at 2.5%, stating that it felt that further rate cuts were unwarranted as it expected balanced growth prospects for the Australian economy going forward.

Policy Rate versus Inflation Rate



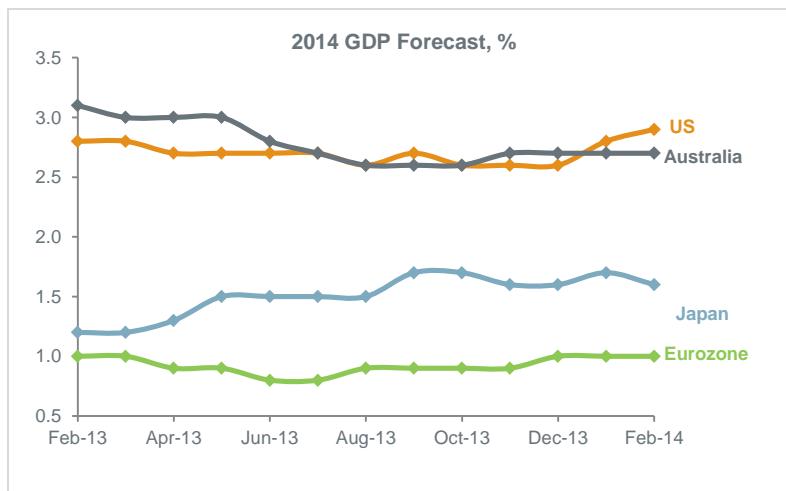
► **The Reserve Bank of India** once again surprised the market. The benchmark repo rate – the central bank's interest rate on loans to commercial banks – was raised unexpectedly in January to 8% from 7.75% which shows that inflation was still clearly the focus. This is despite good news that January wholesale price index dipped to 5.1% from 6.2% in December as vegetable prices declined.

► **Bank Indonesia** kept its benchmark interest rate unchanged at 7.5%. January foreign exchange reserves rose to US\$100.7 billion, up 1.3% from December.

► **Bangko Sentral Pilipinas** too intentionally kept the rates unchanged. The January consumer price index rose 4.2% from a year earlier, a two-year high, driven by a 5.7% year-on-year increase in food prices. The central bank's target range for inflation is 3-5%.

► Benign inflation in **Taiwan** and **Korea** has meant there is no pressure on the respective central banks to raise rates.

Real GDP Growth Consensus Forecast, %



› Among the developed markets, the 2014 growth forecasts have been upgraded for the **US** due to encouraging 2013 fourth quarter growth. On a year-to-year basis, activity accelerated to 2.7% in the 4Q2013 from 2% in previous quarter.

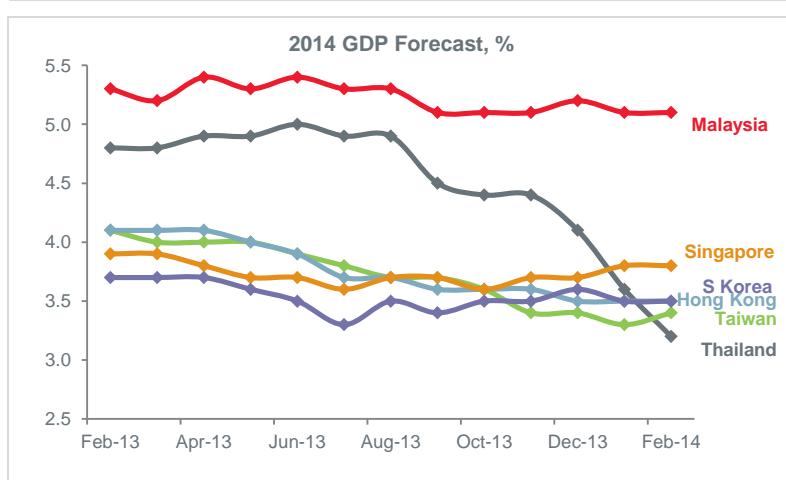
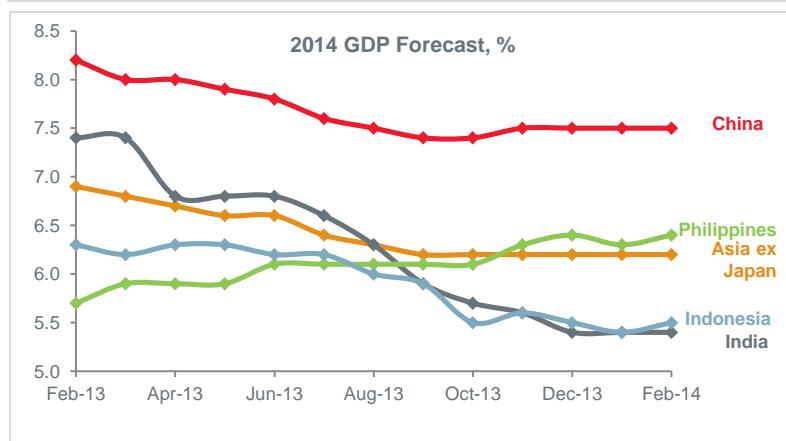
› **Japan's** downward revision comes on the back of uncertainty surrounding the effects of April's consumption tax. The last time the government raised such a tax, the economy fell into recession.

› Within Asia ex Japan, upgrades have come in for the Philippines, Indonesia and Taiwan.

› The upbeat report for **Indonesia** follows an unexpectedly positive December trade data. At the same time, consumption has remained stable despite recent rate hikes.

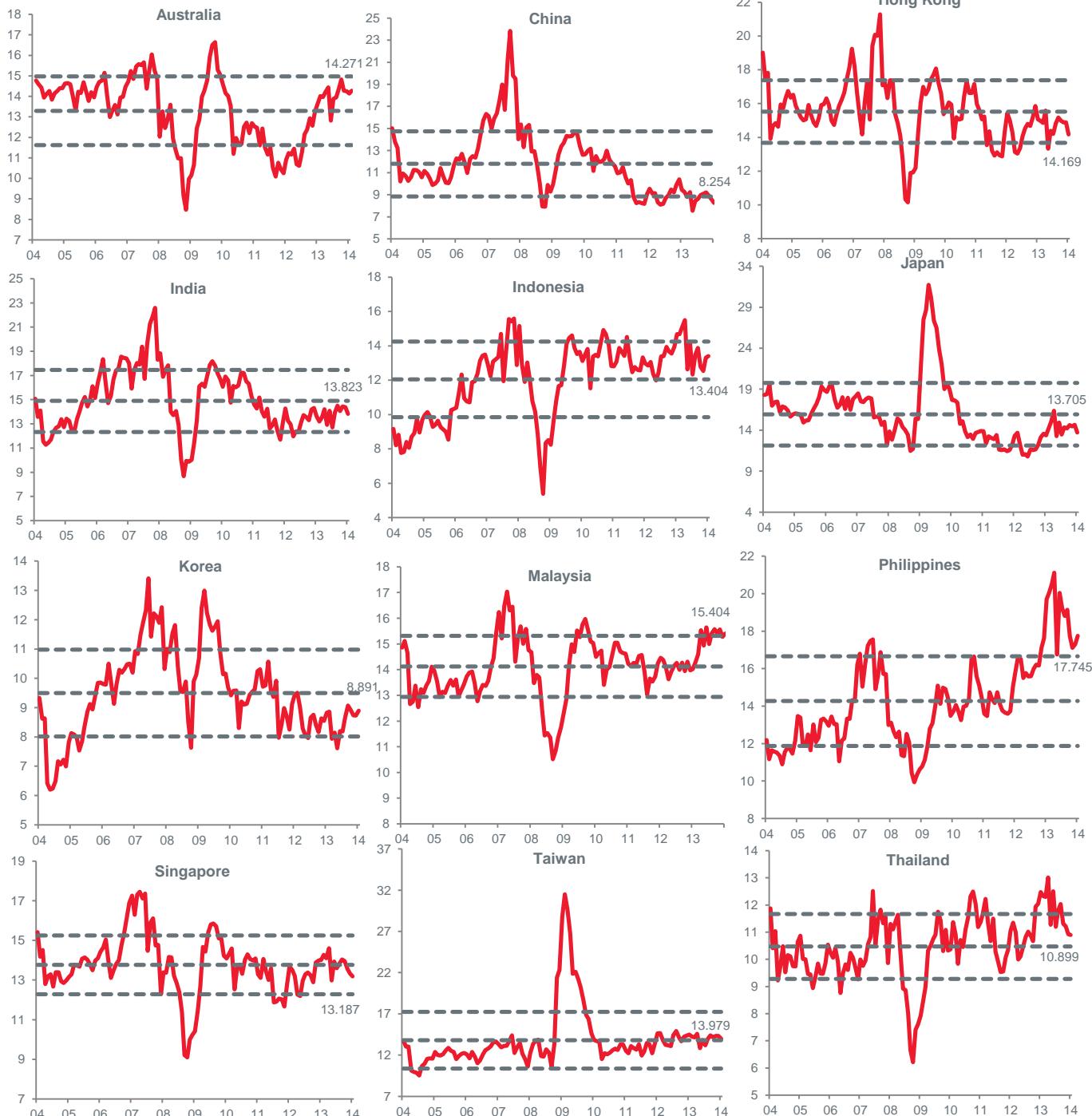
› Growth expectations have picked up in the **Philippines** as the fourth quarter GDP data was better than expected despite fears that the Super Typhoon would impact growth.

› **Thailand** continues to see a sharp downgrading of 2014 growth forecast as the widespread political protests have affected tourism revenues.



APPENDIX

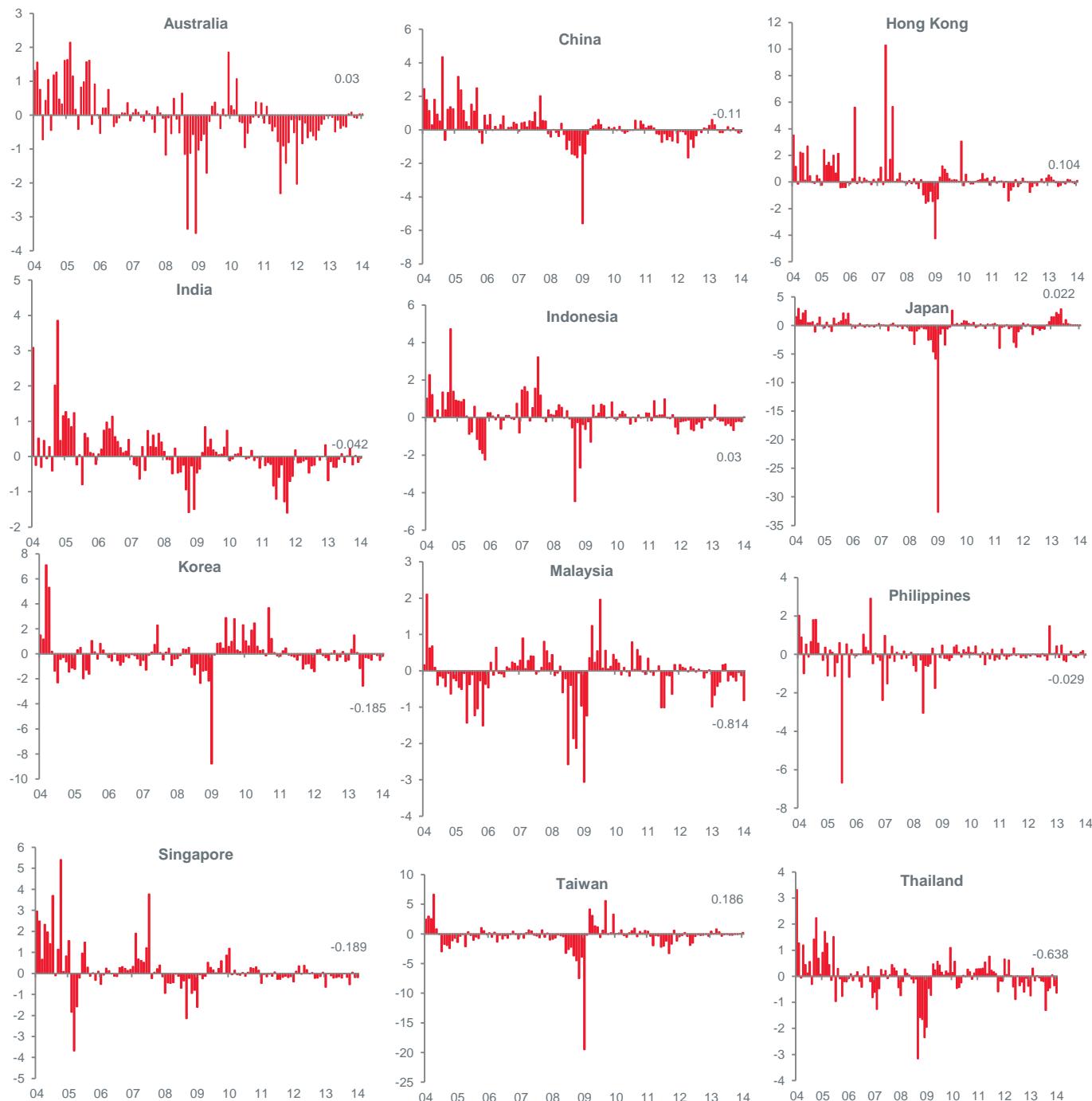
Valuations - 12-months Forward P/E (x)



Source: IBES MSCI from Thomson Reuters DataStream as of 28 February 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 %)



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