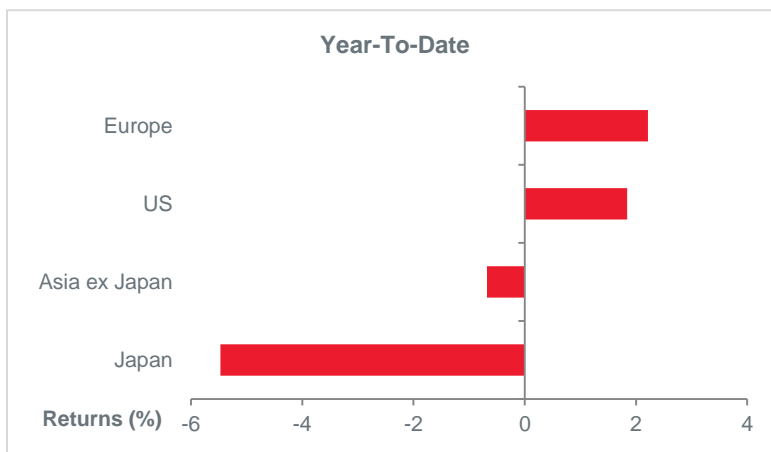
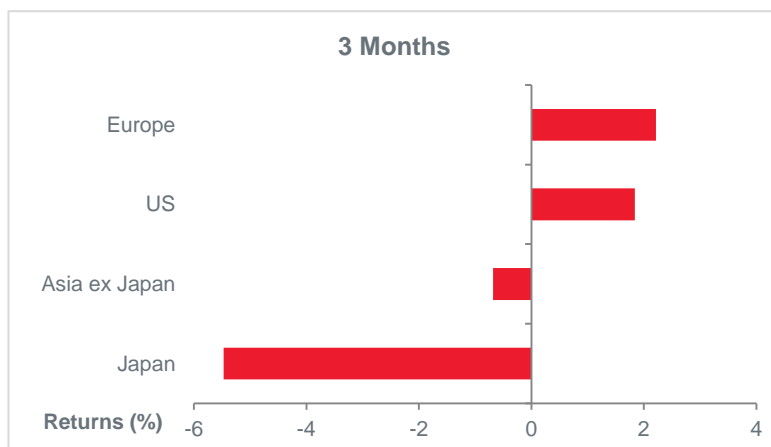
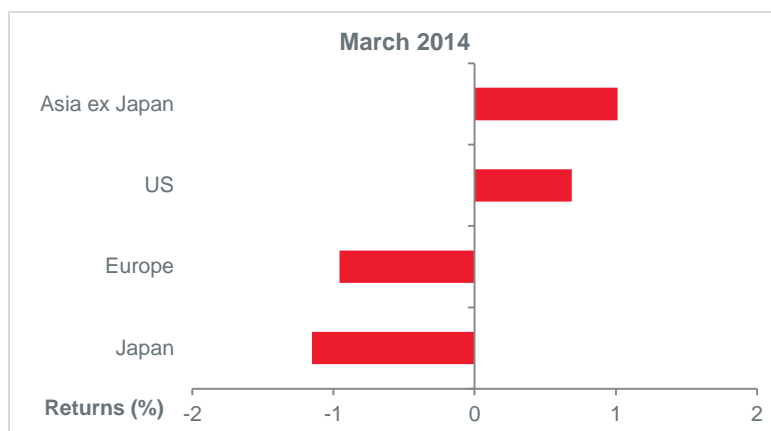


Macro Briefing

A monthly review of the economy and markets – March 2014



Stock Markets Performance

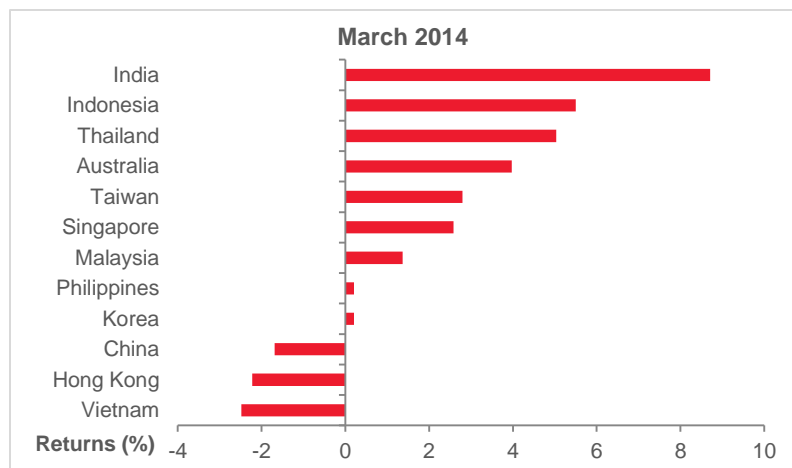


- ▶ A late rally lifted **US equities** in March. Assurance by the new Federal Reserve Chairman, Janet Yellen, that interest rates would likely remain low for some time met with positive reaction by investors.
- ▶ US economic data was mixed. February's manufacturing index rose to 53.2, better than expectations while non-manufacturing ISM fell to a worse-than-anticipated 51.6 from the previous 54. The unemployment rate rose to 6.7% from the previous 6.6%.

- ▶ **European equities** on the whole posted negative returns. Low inflation continues to be a problem and the European Central Bank has not ruled out further monetary stimulus if prices remain subdued. They kept interest rates unchanged based on the overall subdued outlook for inflation extending into the medium term.

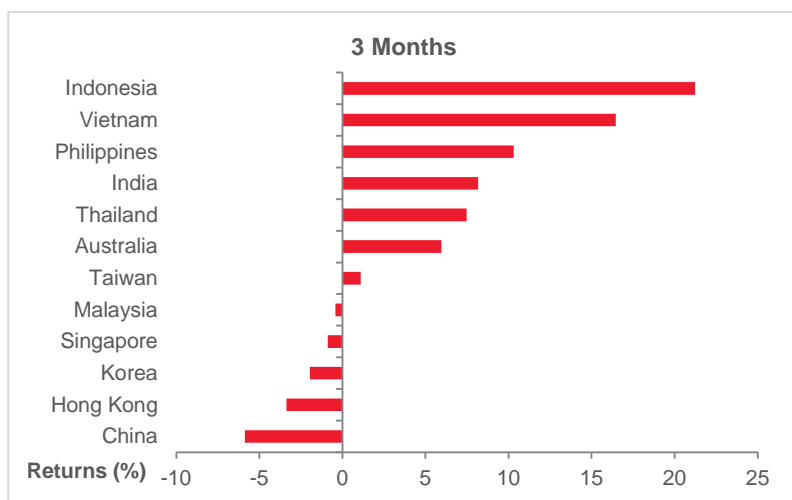
- ▶ **Japanese equities** continued to post losses for the third consecutive month this year. The impact of the upcoming consumption tax on the economy appears to be one reason for investor caution.

- ▶ Most of the equity markets in **Asia Pacific ex-Japan** extended gains in March led by India and Indonesia as their current account deficits significantly narrowed and currencies stabilized. Market speculation of a "mini stimulus" by the Chinese government bolstered equities in the second half of the month after the first half saw weakness due to disappointing Chinese economic data and the geopolitical stress resulting from Russia's incursion into Crimea.



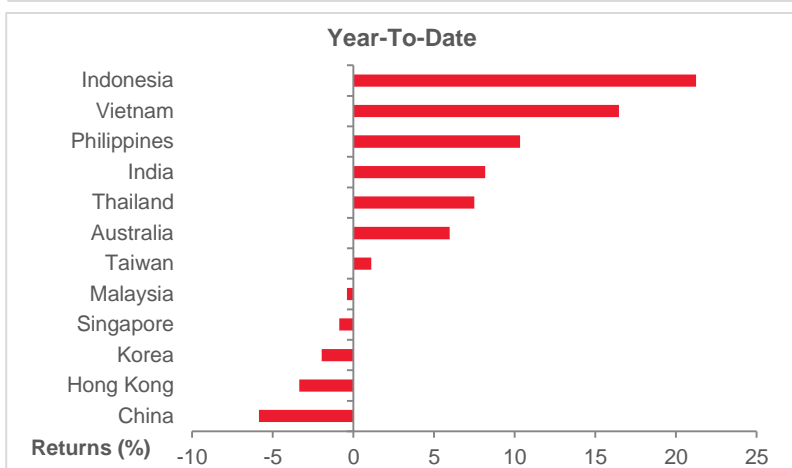
Stocks in **Asia** continued to post strong gains, led by India and Indonesia. China, Hong Kong and Vietnam posted losses.

► Investor sentiment rose in **India** on a belief that a coalition led by the opposition Bharatiya Janata Party (BJP) will do well in forthcoming national elections. The fall in the 3rd quarter current account deficit to 0.9% of GDP, its lowest reading in eight years, too shored sentiment.



► **Indonesia** emerged as the region's best performing market in the first three months of the year. Declining inflation, improving trade and rising foreign exchange reserves burnished the attractiveness of Indonesian assets.

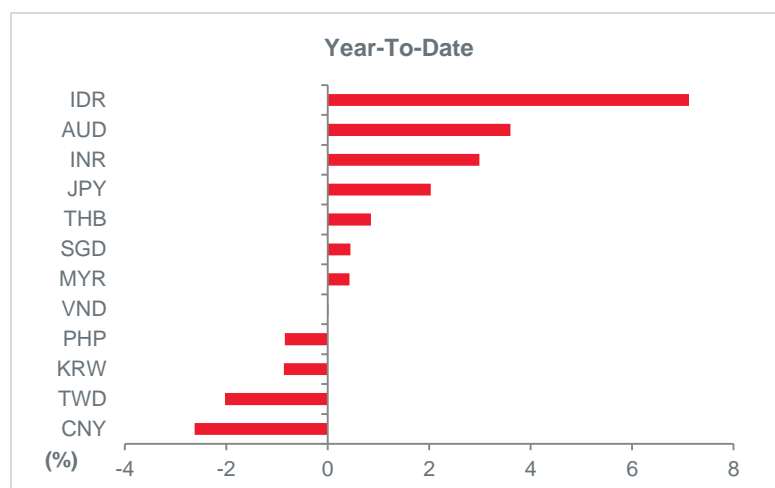
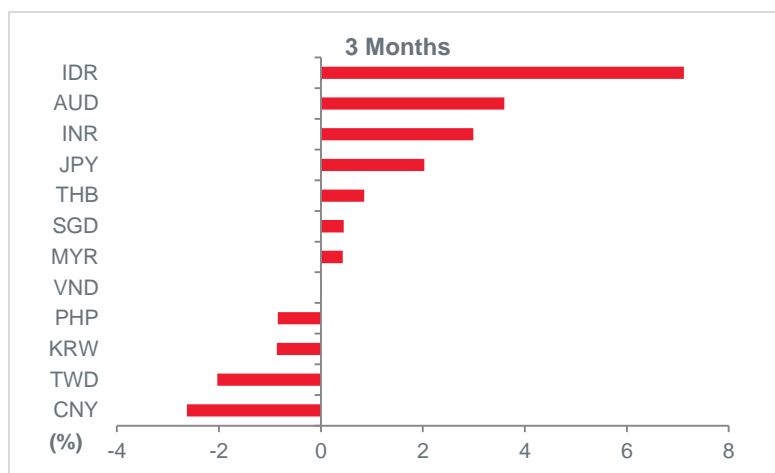
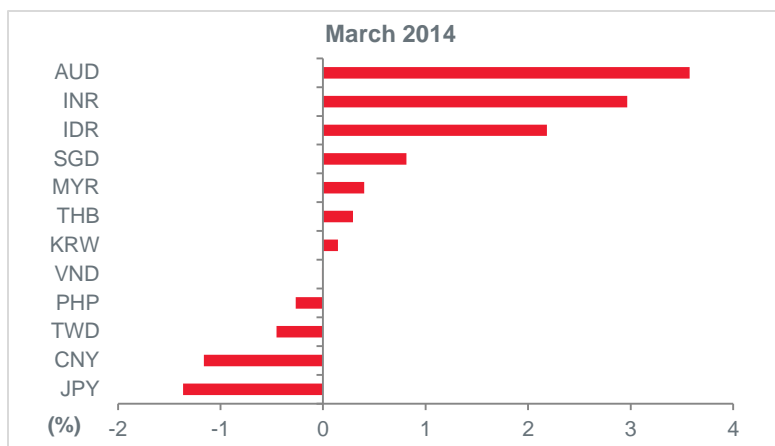
► **Thailand** stocks extended gains for a second consecutive month. Slow credit growth, low domestic deposit rates and decent dividend yields prompted good inflow of local money into the market despite the soft macro data and the ongoing political stalemate.



► **China's** equity market retreated in March as disappointing economic indicators for the first two months of the year heightened worries about the deceleration of the mainland's economic growth. **Hong Kong** shares retreated on weak Chinese macro economic data for January-February and fears of shadow-banking defaults.

► **Vietnam** shares fell on profit-taking. The market experienced consolidation after a strong start this year.

Major Currencies Against USD (% change)



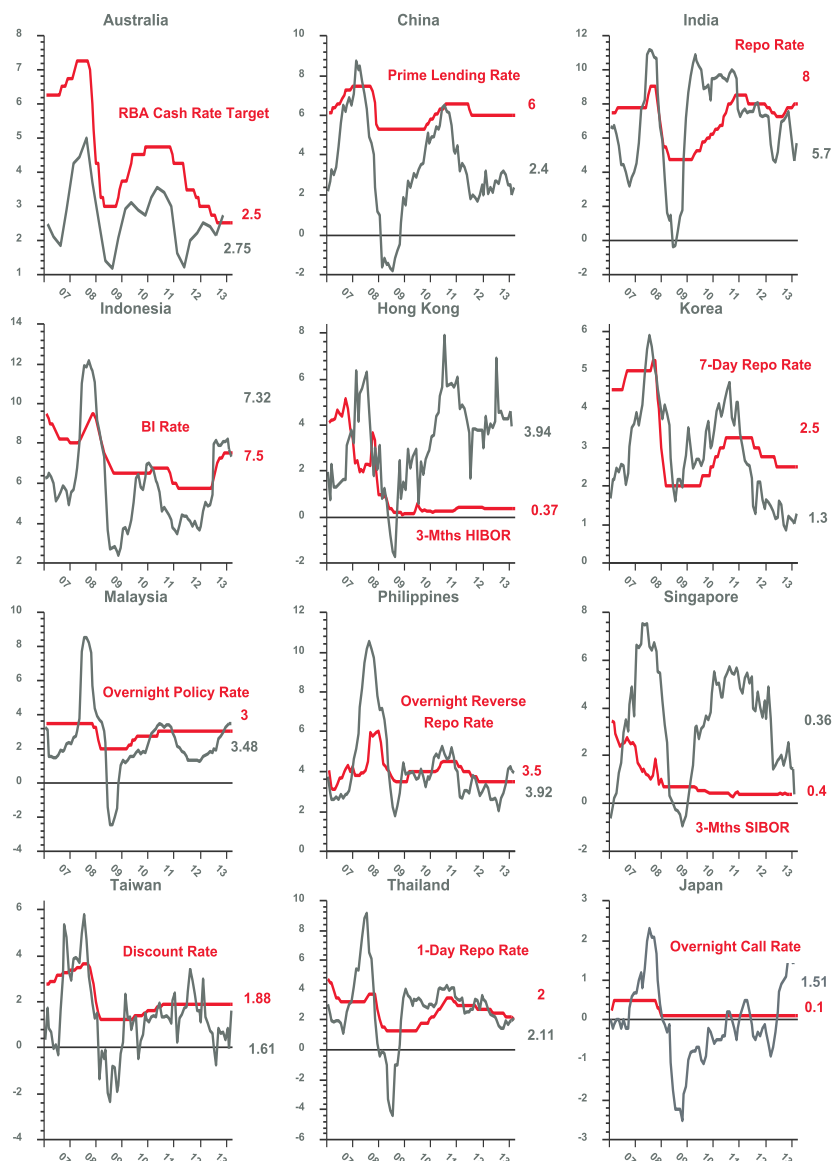
➤ The **Australian Dollar** rose over 3% against the US dollar in March to emerge as the best-performing currency in the Asia Pacific ex-Japan region. The **Indian Rupee** came in the second-best performing currency in the region, followed by the **Indonesian Rupiah**.

➤ The **Australian dollar** appreciated after the Reserve Bank of Australia shifted to a neutral monetary policy stance in February. The Aussie dollar has also appreciated on hopes that weak Chinese economic data will prompt some stimulus from Beijing.

➤ The **Chinese Renminbi** lagged the most among the currencies in the Asia ex-Japan region, down 1.16% against the US dollar while the offshore Chinese Renminbi weakened 1.54% versus the USD. The People's Bank of China widened the trading range for the renminbi and the US dollar to 2% from 1%, a step forward in the exchange rate regime.

➤ The **Japanese Yen** weakened on anticipation that an imminent increase in the consumption tax will trigger more stimulus from the Bank of Japan to prevent any fall in economic momentum.

Policy Rate versus Inflation Rate



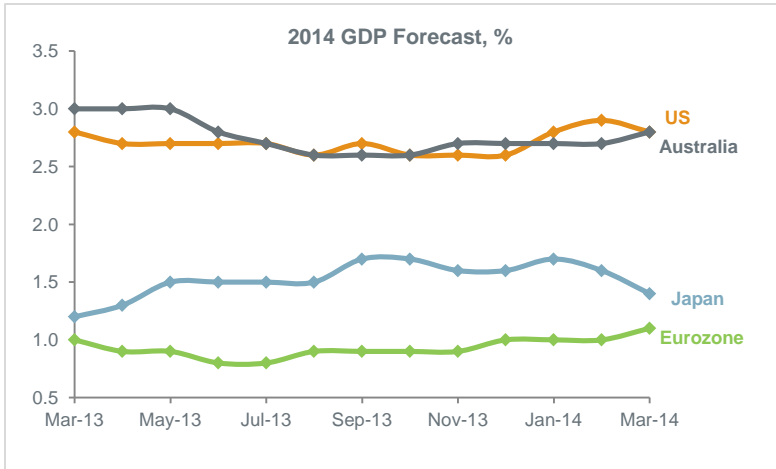
➤ **Indonesia's** consumer price index continued declining on an annual basis in March to 7.3% versus 7.8% in February and 8.1% in December 2013. This eased pressure for a rise in benchmark interest rates. The central bank left its benchmark policy interest rate unchanged at 7.5%. The rate had moved 175 basis points higher in June-November 2013.

➤ **Bangko Sentral Pilipinas** chilled investor sentiment by raising the reserve requirement on Peso deposits for universal and commercial banks by 1%, to 19%. Benchmark interest rates and the rates on special deposit accounts, or SDAs, were left unchanged.

➤ The **Bank of Thailand** cut its policy rate by 25 basis points to 2%, adding that the "downsize" risks to growth have risen in the wake of the prolonged political situation.

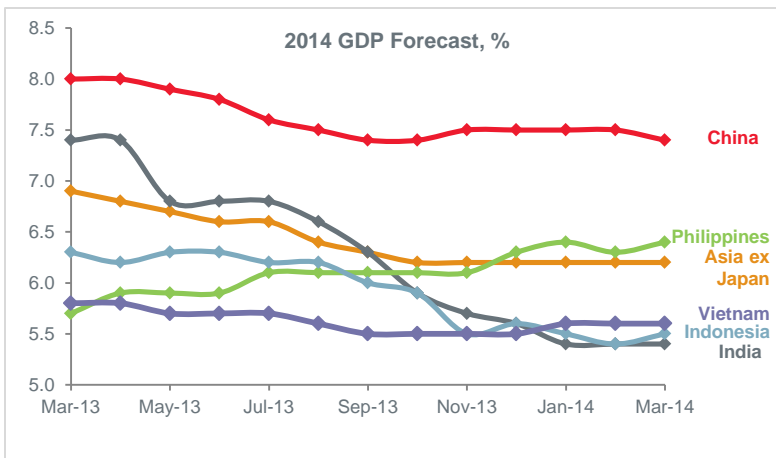
➤ Over in **Malaysia**, consumer prices rose at the fastest pace in two and half years in January driven by continued pass-through of the fuel price hikes in 2013 as well as a 15% increase in electricity prices which commenced at the start of 2014.

Real GDP Growth Consensus Forecast, %

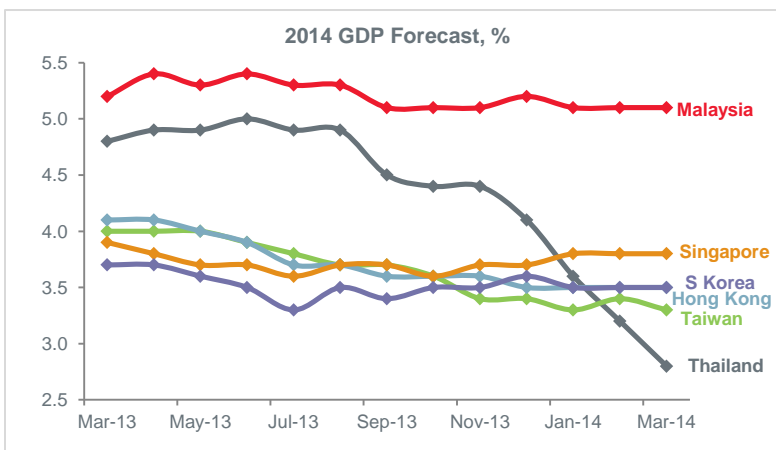


Both the US and Japan faced downgrades in 2014 forecasts. In the case of **US**, it was due to a downward revision in the 4Q13 GDP. **Japan's** downward revision comes on the back of uncertainty surrounding the effects of April's consumption tax. The last time the government raised such a tax, the economy fell into recession.

Within Asia ex Japan, forecasts have remained constant for most with a slight downward bias for some countries. **Thailand** stood out for a marked downgrade in the 2014 growth forecasts, arising from weak 4Q13 GDP data and prolonged political uncertainty following February's inconclusive election results.



Both Philippines and Indonesia saw an uptick in their 2014 growth forecasts. **Philippines** was one of the best performing economies in Asia last year. This year the government is targeting growth of 6.5% to 7.5%.



APPENDIX

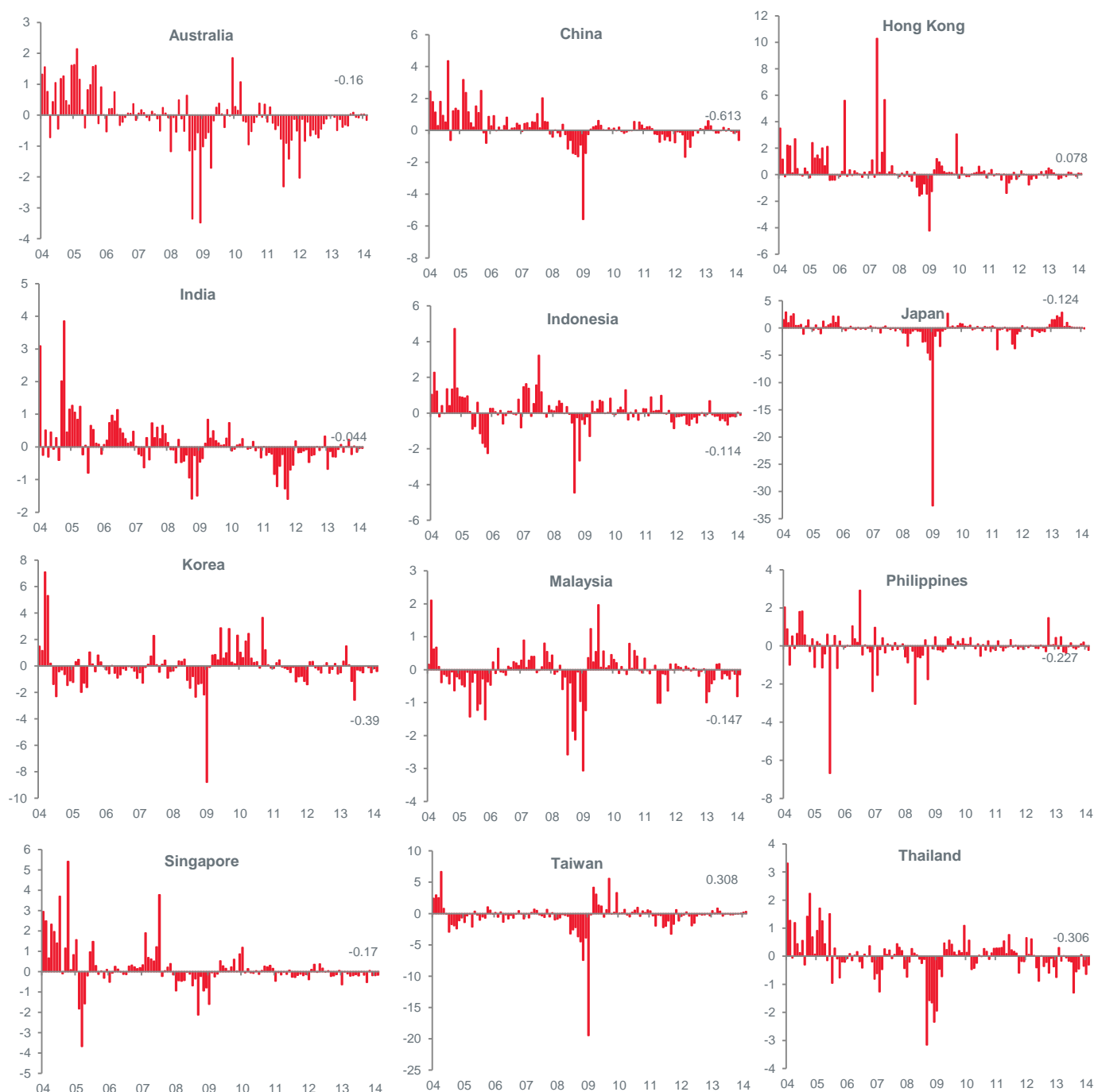
Valuations - 12-months Forward P/E (x)



Source: IBES MSCI from Thomson Reuters DataStream as of 28 March 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 28 March 2014. Note: Weighted 1-month % change in the 12 month forward earnings EPS forecasts.

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