

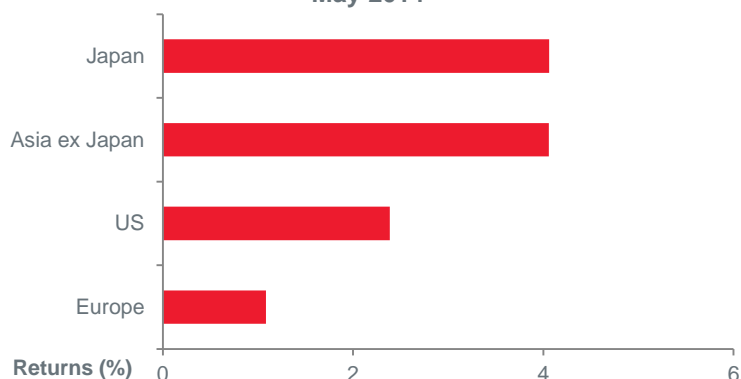
Macro Briefing

A monthly review of the economy and markets – May 2014

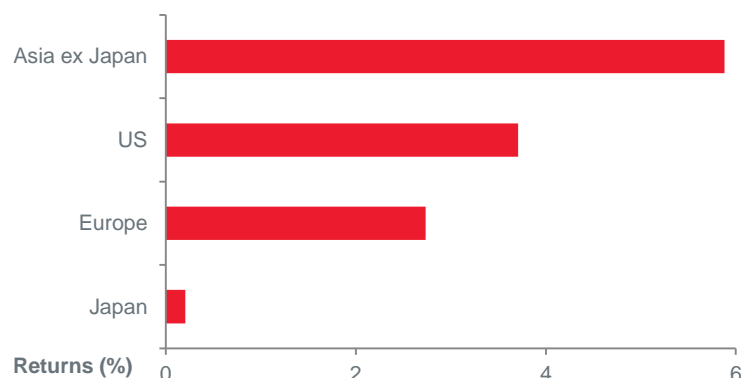


Stock Markets Performance

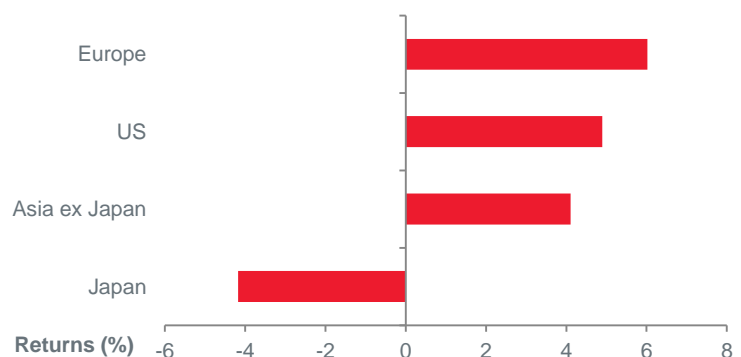
May 2014



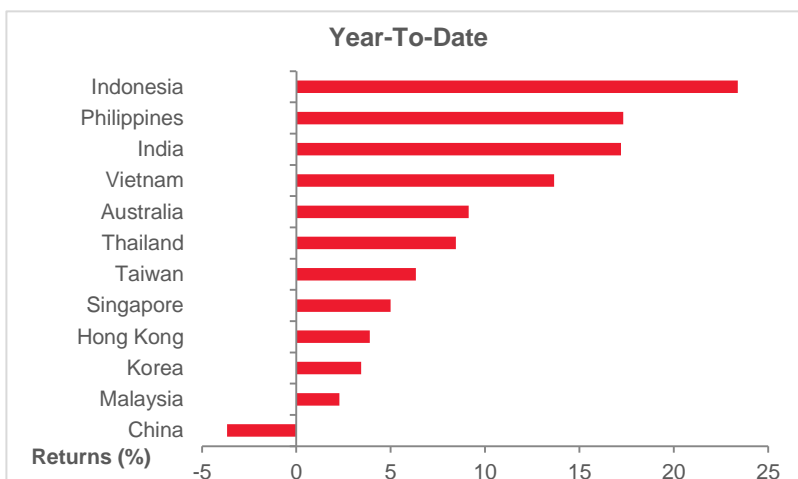
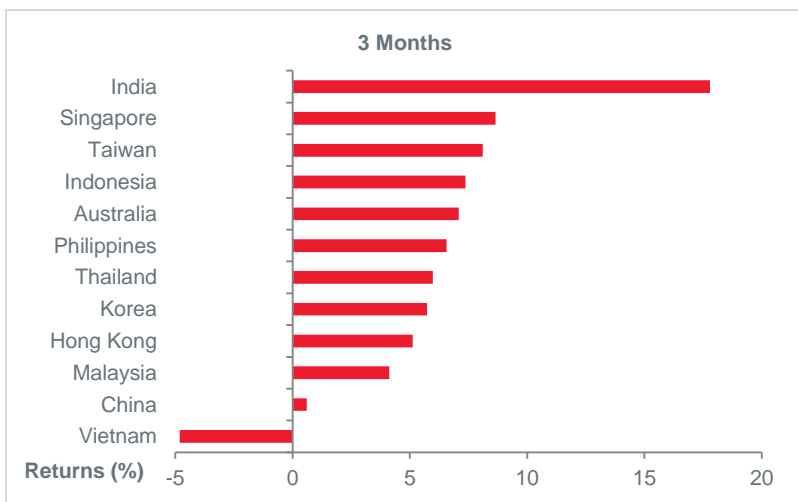
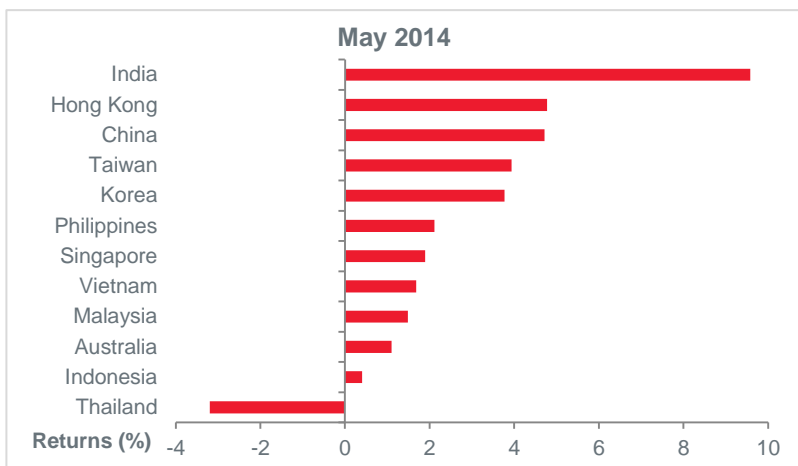
3 Months



Year-To-Date



- **US equities** rose in May after an upbeat assessment of the economy by the US Federal Reserve Board. Interest rates however are expected to remain lower for longer due to slow jobs growth and weakness in the housing sector.
- First quarter company earnings have exceeded consensus earnings expectations for nearly three-quarters of the companies in the S&P 500. While this bodes well, stocks that led market returns in 2013 came under selling pressure in May on concerns over the high valuations.
- **European equities** rose on anticipation of further quantitative easing measures from the European Central Bank.
- Although Eurozone's 2014 and 2015 growth rates are expected to be only 1.1% and 1.4% respectively, many companies will likely generate stronger revenues and earnings following their business restructuring operations since the sovereign debt crisis.
- **Japanese equities** rose for the first time this year as recent economic data pointed to a continuing recovery in the domestic economy in spite of the newly implemented consumption tax. On a year to date basis, however, the market has underperformed.
- Most **Asia ex-Japan markets** advanced along with the gains in the US and other equity markets on falling bond yields, favorable political outcome in India and better Chinese PMI data.



► **India** gained the most in May as the clear majority by a single party in May's national elections boosted hopes for an economic revival. **Hong Kong** shares were led by financials and industrials.

► **China's** stock market rose in May after two consecutive month-on-month declines on hopes of more stimulus measures by the government to buttress the world's second-largest economy. Chinese equities also benefitted from the news that the HSBC manufacturing PMI rose to 49.7, reversing five consecutive monthly declines.

► **Thailand's** equity market was the sore spot in the region as the military declared martial law and took over the government following months of political unrest. Thailand's equity market witnessed outflows of over US\$1 billion in May.

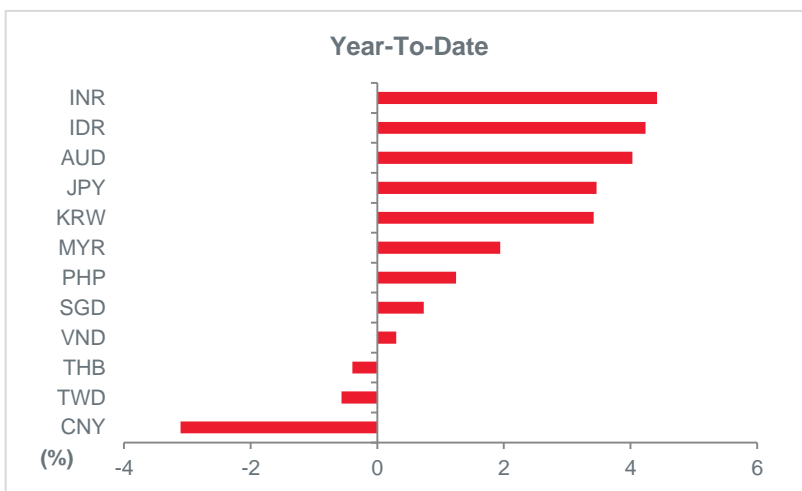
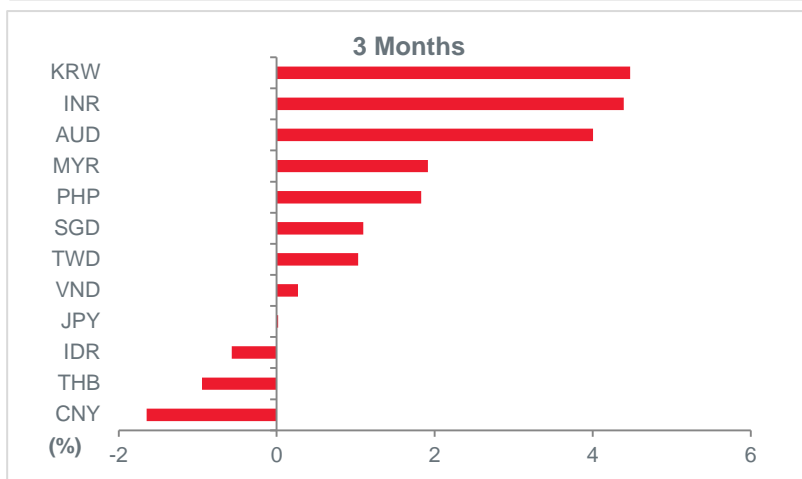
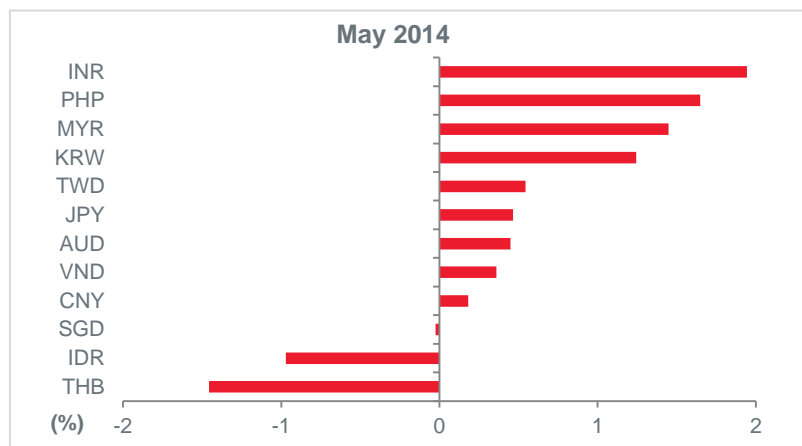
► **Taiwan** posted positive returns led by technology firms. In addition, after the rather soft export orders in the first three months of the year, Taiwan's April export orders came in on the strong side.

► **Korean** shares rose on strong foreign investor buying.

► **Philippines** shares rose after the rating agency, Standard and Poor upgraded the country by one notch to BBB from BBB-. The strong fiscal and balance of payment metrics were reasons for the upgrade.



Major Currencies Against USD (% change)



➤ The **Indian Rupee** was the best performing currency in May on optimism following the election verdict. Year to date it has appreciated the most with gains of more than 4%.

➤ The **Philippine Peso** was another outperformer in May. With inflation creeping up steadily over the past few months, expectations of a rate hike are being priced in.

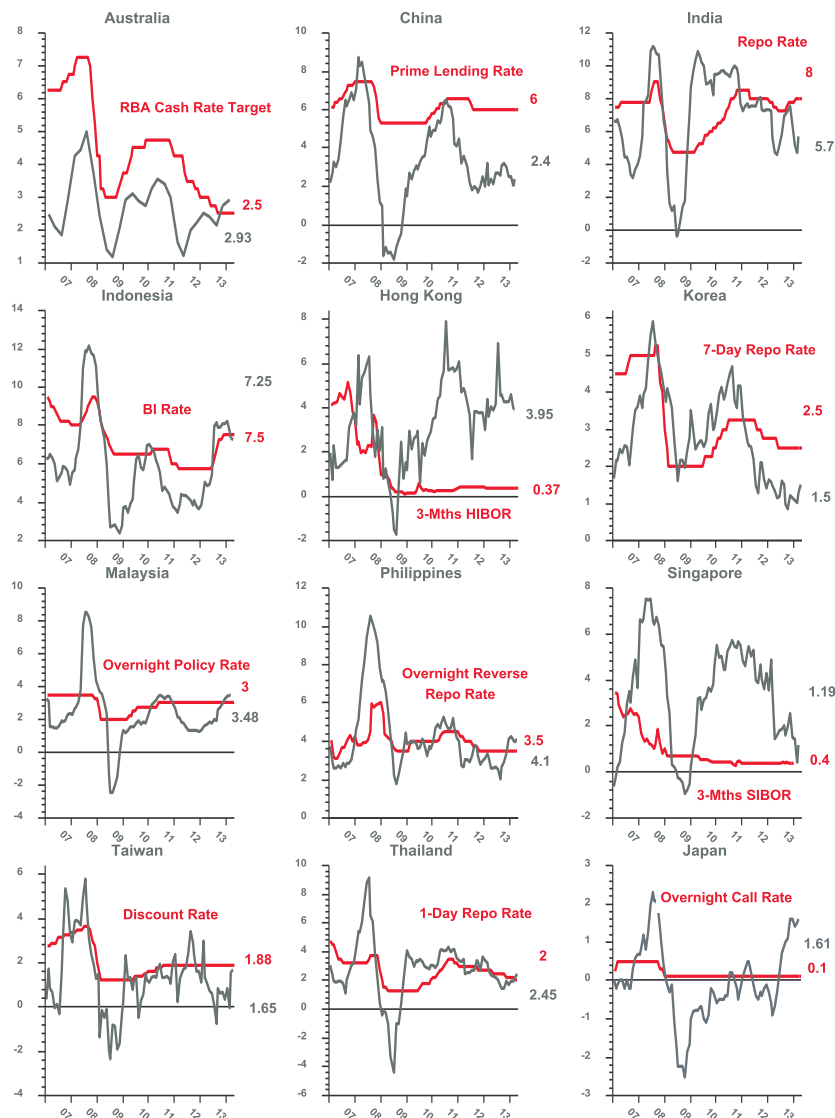
➤ The **Malaysian Ringgit** was a beneficiary of positive economic data; the 1Q14 growth came in stronger at 6.2%, exceeding economists' median forecast of 5.7%.

➤ The **Thai Baht** was the worst performing currency after the army coup dented sentiment. It has since recovered ground as more feel that the involvement of the military will bring about stability after months of political turmoil.

➤ The **Indonesian Rupiah** continued to come under pressure for the second month due to various domestic issues, namely the elections as well as fuel subsidies.

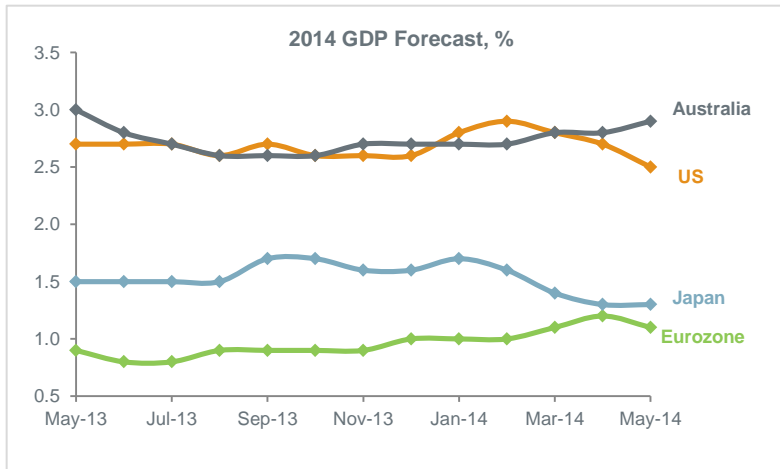


Policy Rate versus Inflation Rate



- **Australia's** central bank left policy rates on hold for a ninth consecutive month in May as inflation readings have been lower-than-expected. The inflation target remains at 2-3% range.
- **Bank of Indonesia** left its rate unchanged at 7.5% in view of the slower growth registered in the 1Q14. Inflation was also lower on account of lower food prices.
- Compared with one year ago, the consumer price index for April 2014 registered an increase of 3.4%. **Bank Negara Malaysia (BNM)** left the overnight policy rate unchanged at 3% for the eighteenth consecutive meeting. BNM expects inflation to "remain above its long-run average" going forward due to higher domestic costs.
- **Philippines'** inflation rose to a 4.5% in May from 4.1% in April and 3.9% in March due to higher food and utility prices. With inflation falling within the central bank's 3-5% target, rates were left on hold.
- **Korea's** central bank left rates unchanged for the eleventh straight month in April but the new governor signaled that rates may rise later in the year should economic growth strengthen.

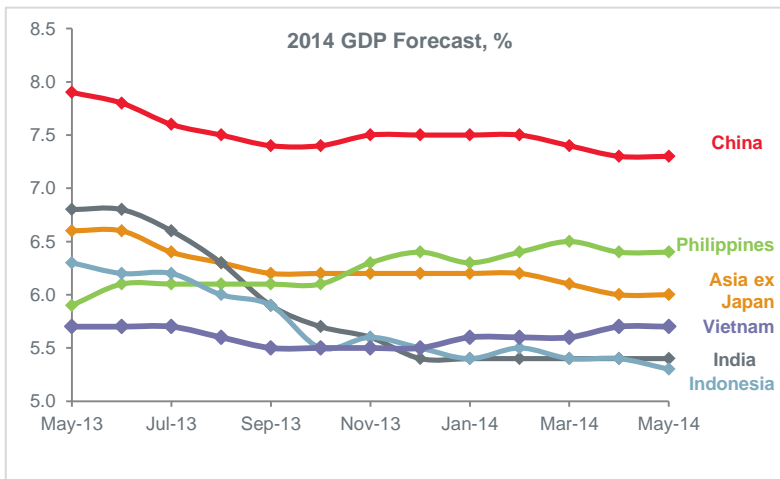
Real GDP Growth Consensus Forecast, %



➤ The **US'** 2014 growth has been on a downward trend as the 1Q14 growth was affected by severe weather conditions. Slack in the economy continues to put a lid on the forecasts.

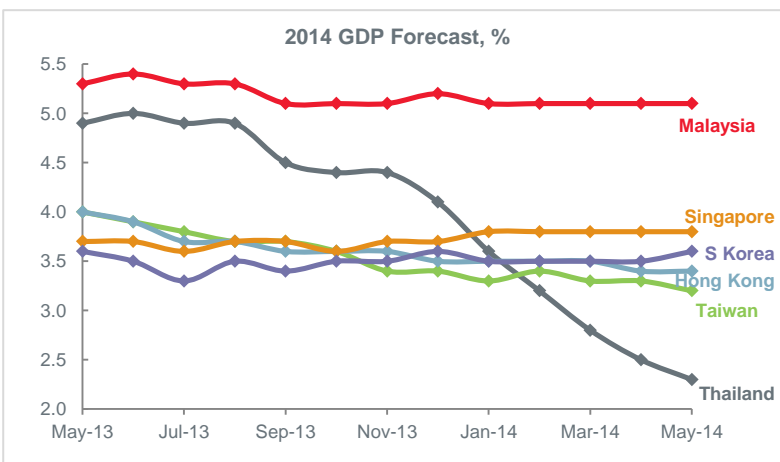
➤ The **Eurozone** recovery continues to gain traction led by Germany. Nonetheless some others such as Italy are still grappling with labour market issues.

➤ **Japan's** growth prospects have remained steady boosted by robust domestic demand.



➤ Within Asia, growth forecasts were revised downwards for Indonesia, Thailand and Taiwan. South Korea was the only country to experience an upgrade.

➤ **South Korea** posted a strong 2014 first quarter growth which prompted the upgrade. Good showing by exports and a pick up in construction activity were the main reasons for the upbeat growth numbers.



➤ **Indonesia's** 2014 first quarter growth was the slowest in more than 4 years. The key reason was the ban on exports of ores which caused a drag on growth. The high interest rates are also taking a toll on the economy.



APPENDIX

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

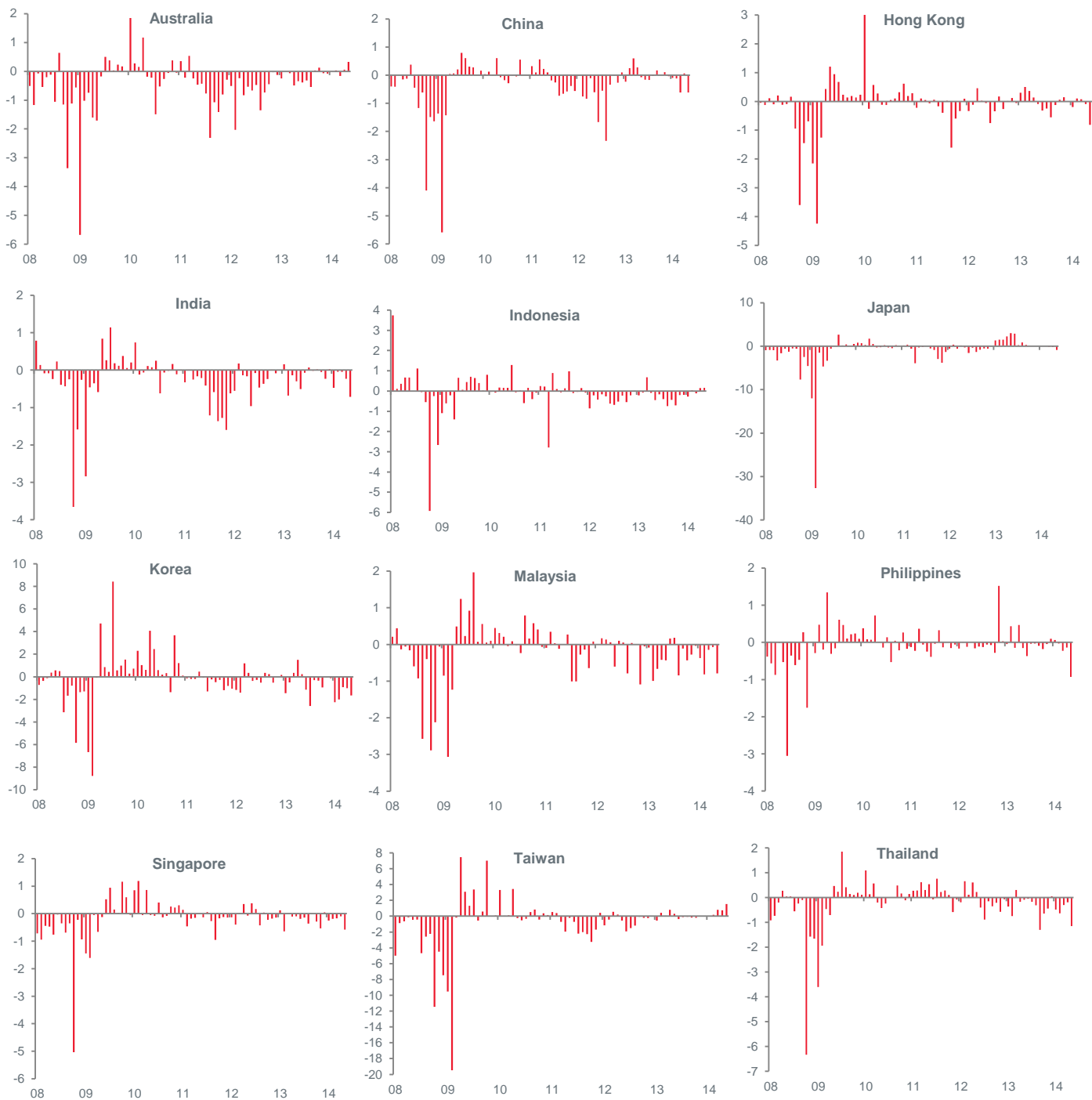


Source: IBES MSCI from Thomson Reuters DataStream as of 28 May 2014. Note: The forward price earnings multiple shown above is calculated on an 12-month rolling basis. The horizontal lines represent the average (the middle line) and one standard deviation either side of this average for the period shown.



APPENDIX

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



Source: IBES MSCI from Thomson Reuters DataStream as of 30 May 2014. Note: Weighted 1-month % change in the 12 month forward earnings EPS forecasts.



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