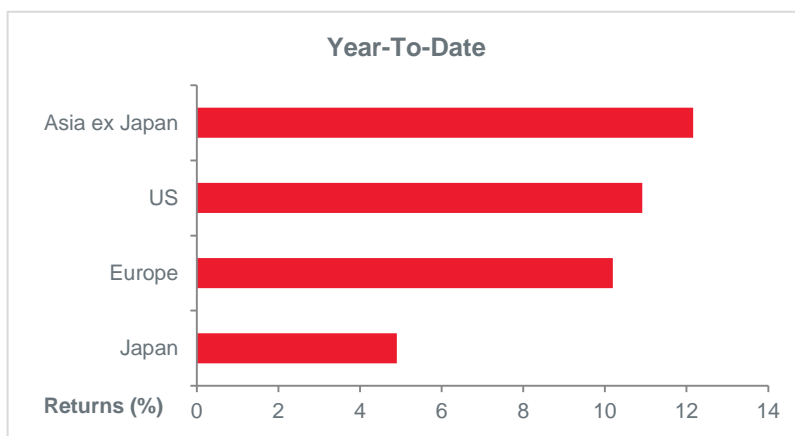
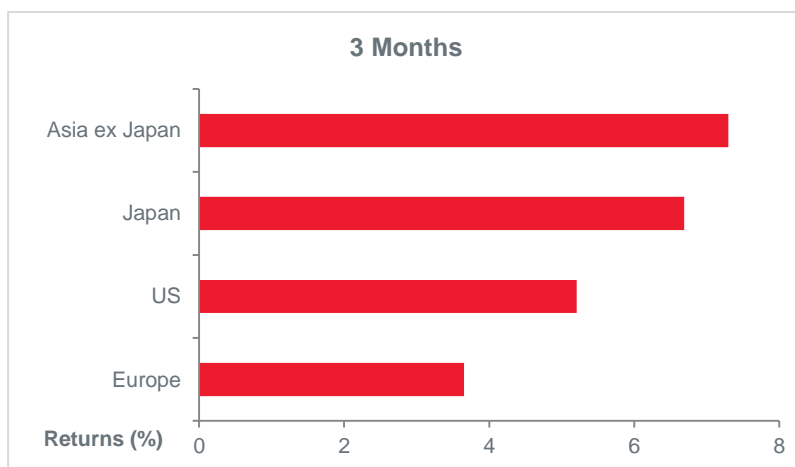
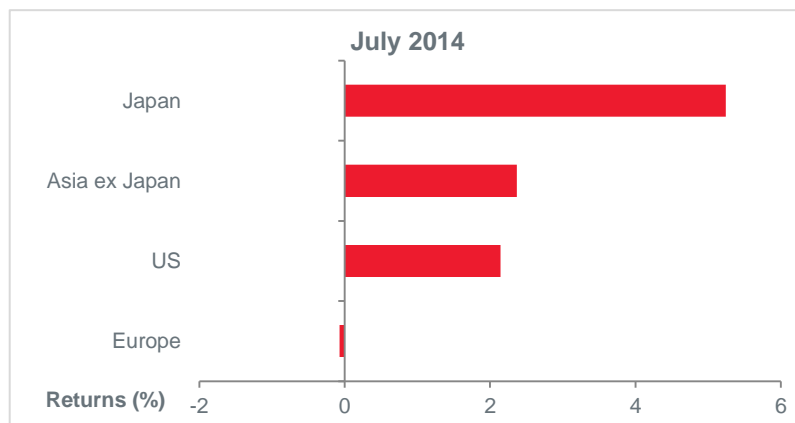


Macro Briefing

A monthly review of the economy and markets – July 2014

Stock Markets Performance



› **US equities** rose in July on encouraging economic data but the gains were capped by a number of issues. Ongoing geopolitical tensions i.e. the Israel and Gaza conflict and tougher sanctions against Russia kept investors jittery.

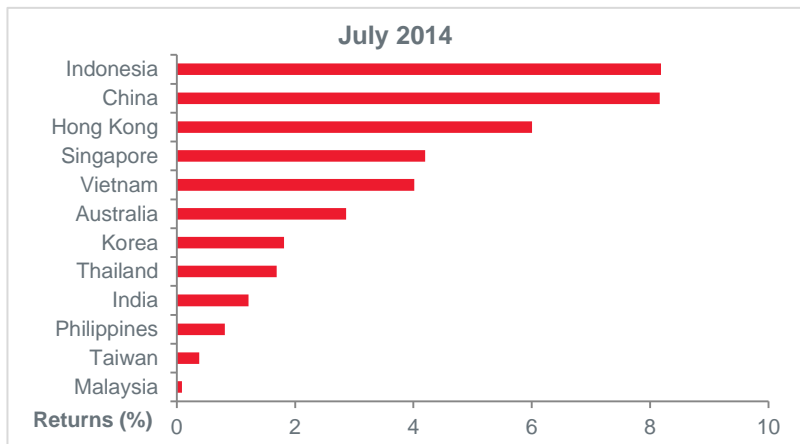
› Despite the improving economic data, the US Federal Reserve remains cautious and reaffirmed their dovish stance in the July meeting. Considerable slack in the economy requires keeping interest rates low for the foreseeable future.

› **European equities** continued to fare poorly. Weak German economic data was one reason. Furthermore a number of companies in Europe missed their second quarter earnings forecasts. This too dampened sentiment.

› The European Central Bank's recent liquidity measures may however serve as a boost for equities in the region.

› **Japanese equities** outperformed other regions in July. It was also the third consecutive month of gains. The weaker yen provide the boost for corporate earnings. Equally, good corporate fundamentals will likely underpin the equity market.

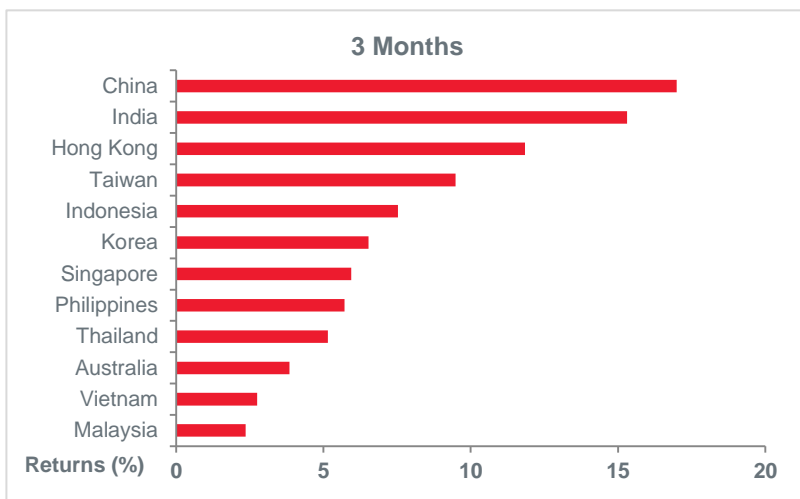
› **Asia ex-Japan markets** continued to push higher in July, led by Indonesia and China. Both positive economic news from US and China contributed to the gains. On a year-to-date basis, the region's equities have overtaken the developed markets.



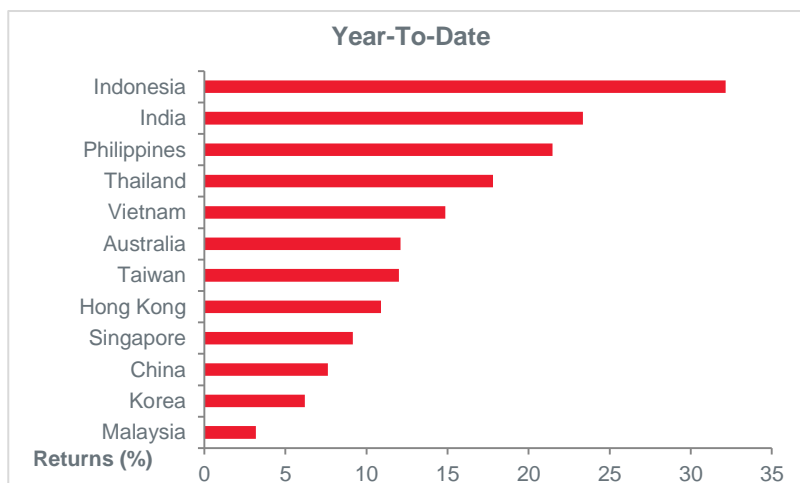
➤ **Indonesia** was the best performing market. The run up to the presidential elections' results boosted domestic equities.

➤ **China** was second in line, supported by the stabilising economy and pro growth measures. News about a new monetary tool called the pledged supplementary lending (PSL) helped drive up equity markets in July. The second quarter year-on-year growth of 7.5% was another factor that led to improving sentiment as data showed the economy has bottomed out. But on a year to date basis, China is one of the bottom three equity markets.

➤ **Malaysia, Taiwan and the Philippines** were the bottom three in July.



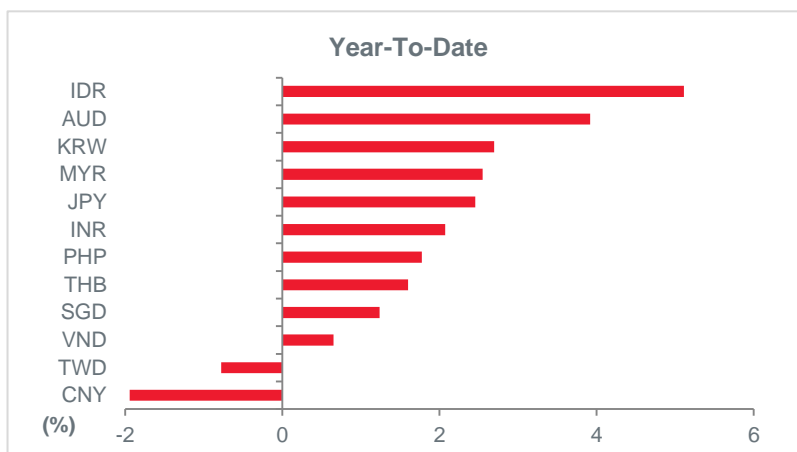
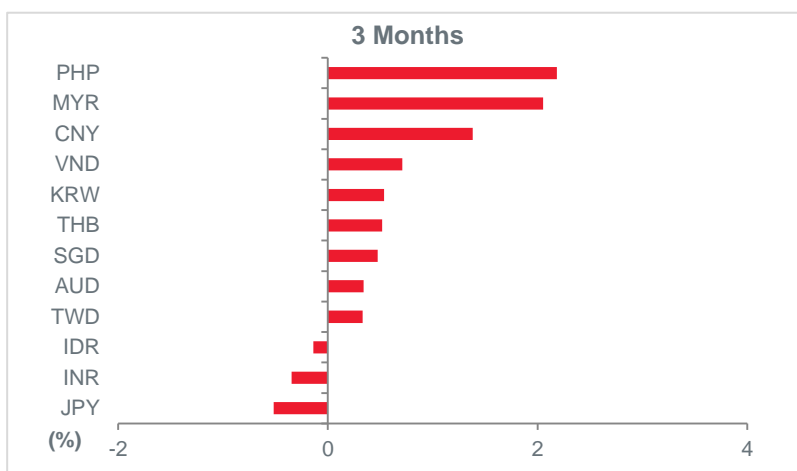
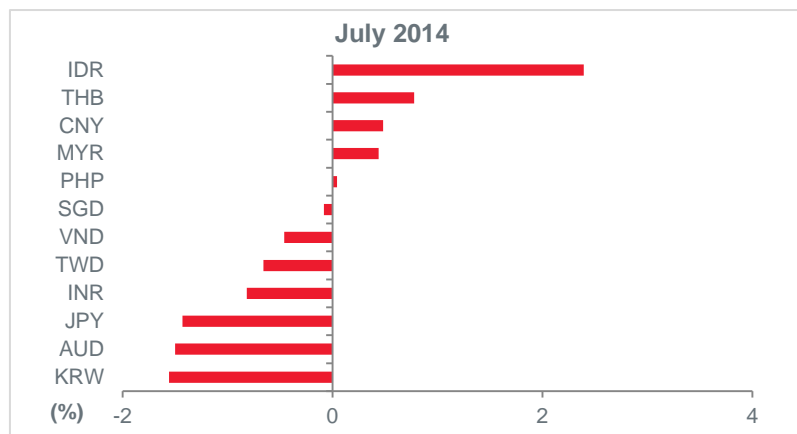
➤ **Philippines** shares seem to be taking a breather ahead of the second quarter earnings. With the market valuations above historical average, investor caution appears justified.



➤ **Taiwan's** IT sector led the poor show after semiconductor makers lowered expectations.

➤ **Malaysian** shares were affected by the crash of a Malaysian airlines flight in Ukraine.

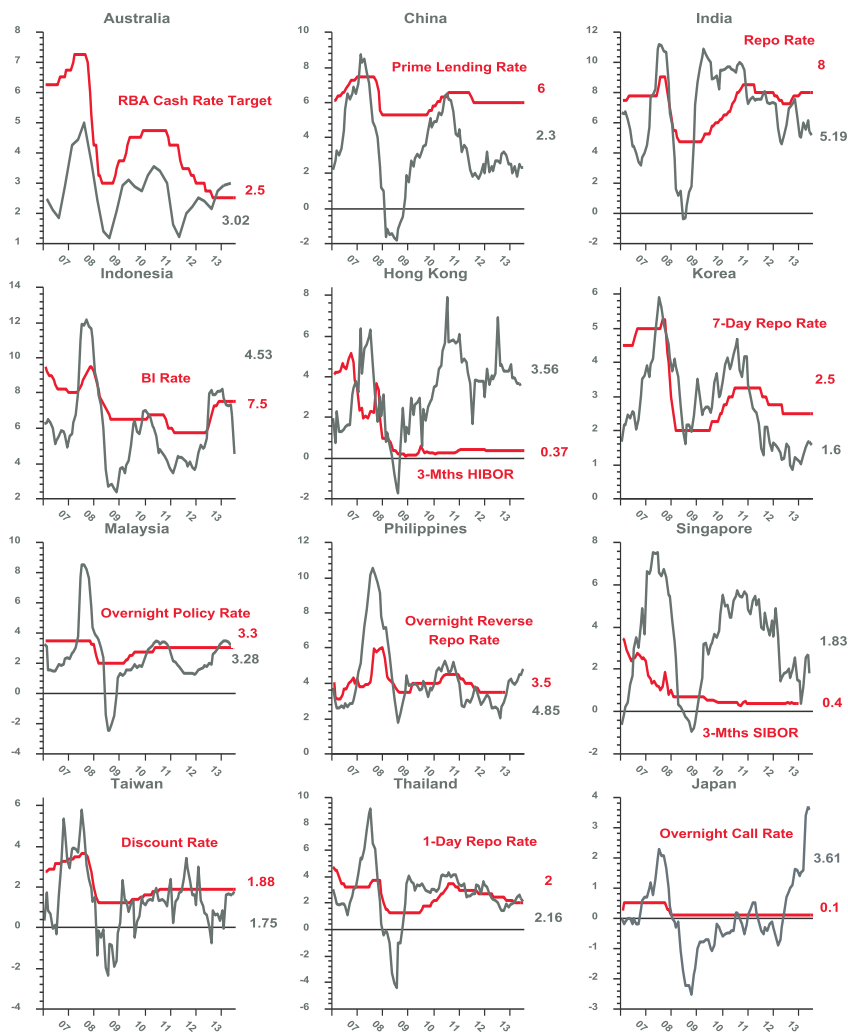
Major Currencies Against USD (% change)



- The **Indonesian Rupiah** reversed the previous month's losses due to rising oil price concerns to become July's top performer. The rupiah has been firm as investors bet on a election win by Jokowi, who is perceived as more business-friendly than his rival, former general Prabowo Subianto.
- The **Thai Baht** continued to reap gains from the more stable political climate after the military took power in May to end months of turmoil. Foreign flows are also likely to underpin the currency.
- The **Philippine Peso's** gains were limited following a judicial ruling that disbursements for an economic acceleration programme were illegal. Concerns centered on the fact that this ruling would affect economic growth which has been slowing.
- The **Chinese yuan** rose in July, its third straight month of rise on improving Chinese data. But on a year-to-date basis, the currency continues to be the top underperformer mainly due to the central bank's policies which are aimed to stop speculative inflows.
- Stronger 2Q14 US growth increased the demand for the US dollar and triggered a weakening of the **Korean Won**.



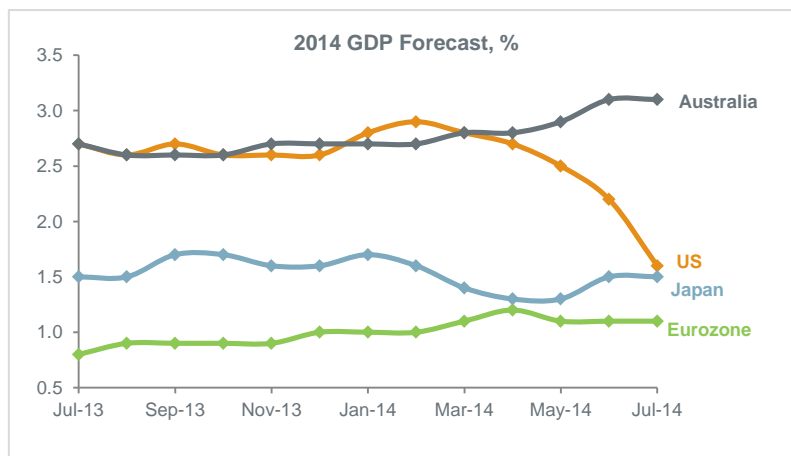
Policy Rate versus Inflation Rate



- While the US continues to reiterate interest rates to remain lower for longer, many other Asian countries have moved to a tightening bias due to rising inflationary pressures.
- Inflation was behind **Bank Negara Malaysia's** move to hike the overnight policy rate by 25 basis points to 3.25%, the first hike in three years. The hike was not unexpected as inflation has been above 3% in recent months following the removal of food subsidies and higher electrical tariffs.
- Bangko Sentral Pilipino** raised its policy rates by 25 basis points on July 31 for the first time in more than 3 years in a "pre-emptive" move to keep inflation under control.
- Similarly the **Monetary Authority of Singapore** is keeping a close watch on inflation. Domestic cost pressures remain elevated due to tight labour market conditions.
- The **Bank of Korea's** rates remained on hold given the recent weak data.

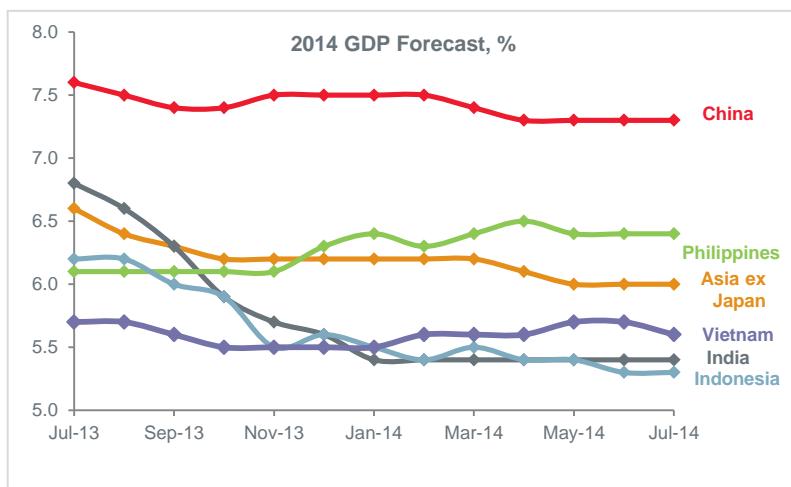


Real GDP Growth Consensus Forecast, %



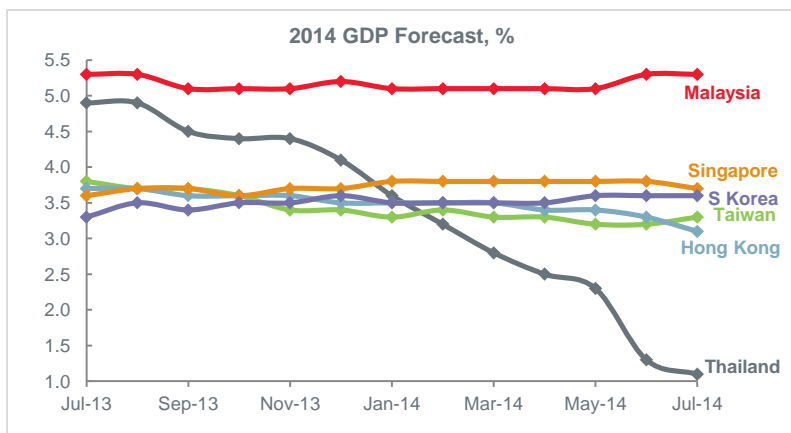
➤ The **US's** 2014 growth forecast has been on a downward trend and were further slashed after the final reading of the Q1 GDP confirmed that the economy contracted by 2.9% quarter-on-quarter, on an annualized basis. Nonetheless recent improved Q2 data have led many to suggest that the Q1 reading will likely be a one-off due to weather related disruptions to economic activity.

➤ Recent industrial production weakness in Germany and France have renewed concerns over the **Eurozone**.



➤ **Japan's** 2014 growth has been revised up as first quarter growth was boosted by front-loading of consumer spending ahead of the introduction of the consumption tax in April.

➤ Within Asia, growth forecasts were revised upwards only for Taiwan while Thailand, Vietnam, Singapore and Hong Kong faced downgrades.



➤ **Taiwan's** growth outlook has improved with Purchasing Manager's Index hitting a four month high in June.

➤ **Thailand's** 2014 GDP continues to be downgraded due to the still fragile outlook despite the recent stability brought about by the military.

➤ **Hong Kong** has been affected by softer economic activity from mainland China; in particular the retail sector.



APPENDIX

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

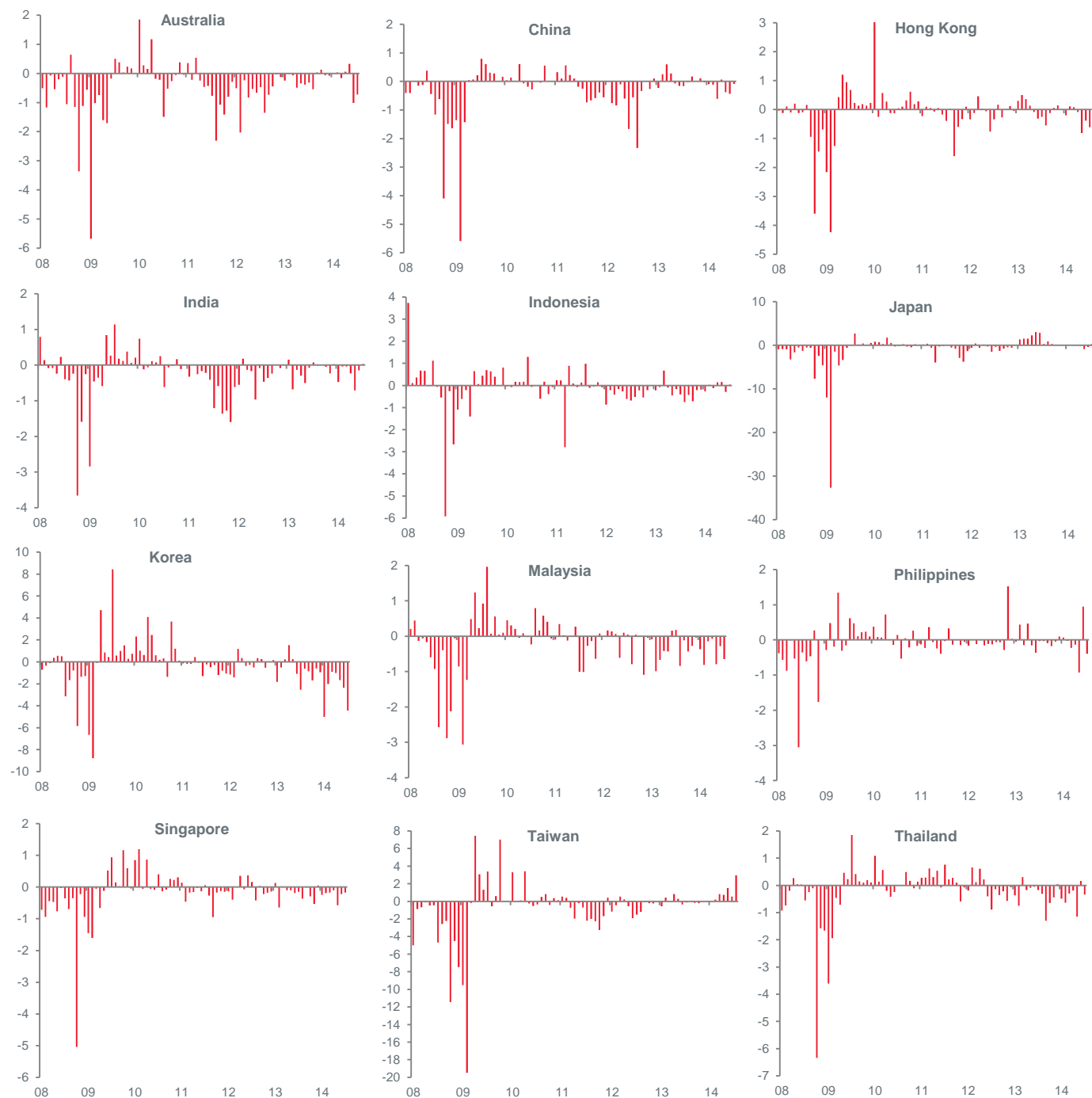


Source: IBES MSCI from Thomson Reuters DataStream as of 28 July 2014. Note: The forward price earnings multiple shown above is calculated on an 12-month rolling basis. The horizontal lines represent the average (the middle line) and one standard deviation either side of this average for the period shown.



APPENDIX

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



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



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