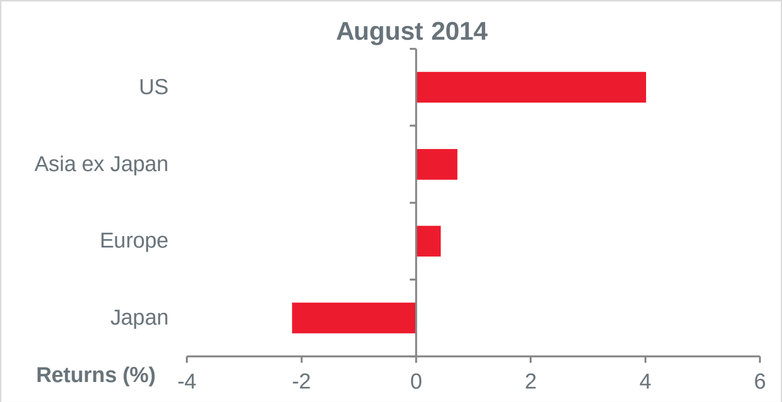
瀚亞投資 eastspring investments

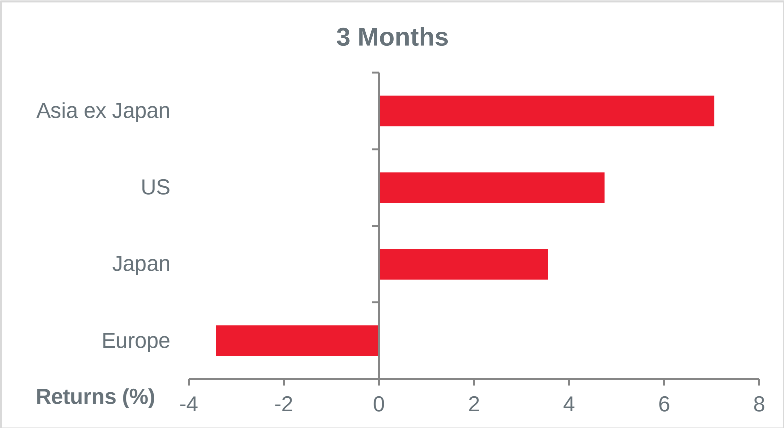
A member of Prudential plc (UK)

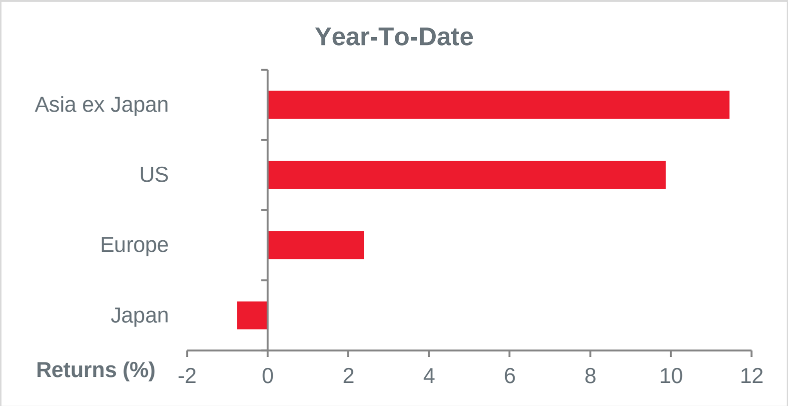
Macro Briefing

A monthly review of the economy and markets – August 2014

Stock Markets Performance







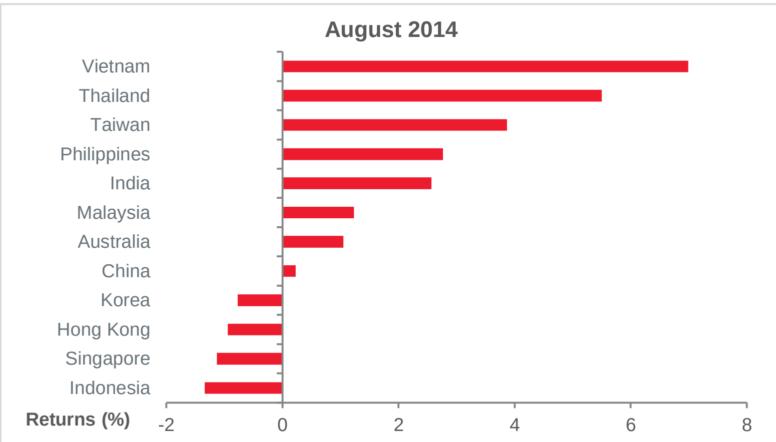
- **US equities** continued to rise in August underpinned by positive economic data. The second quarter growth was revised upwards to 4.2% y-o-y. Both the manufacturing and housing sectors also showed improvement. Nonetheless concerns about the impact of future policy tightening by the Federal Reserve remained in focus.
- Fed Chairman, Janet Yellen said labor market conditions were improving more quickly than expected, which could lead to interest rates being raised earlier in 2015 than the Fed's current estimate.

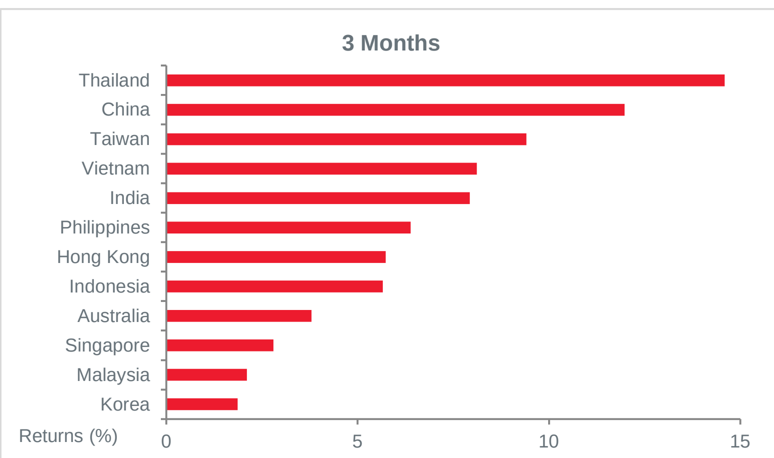
- **European equities** posted positive returns in August solely boosted by expectations that the European Central Bank would introduce further easing measures.
- Economic data from the region was disappointing with both German and Italian economies showing contraction. Eurozone's August inflation hit a fresh five-year low at 0.3% well below the ECB's inflation target of just below 2%.

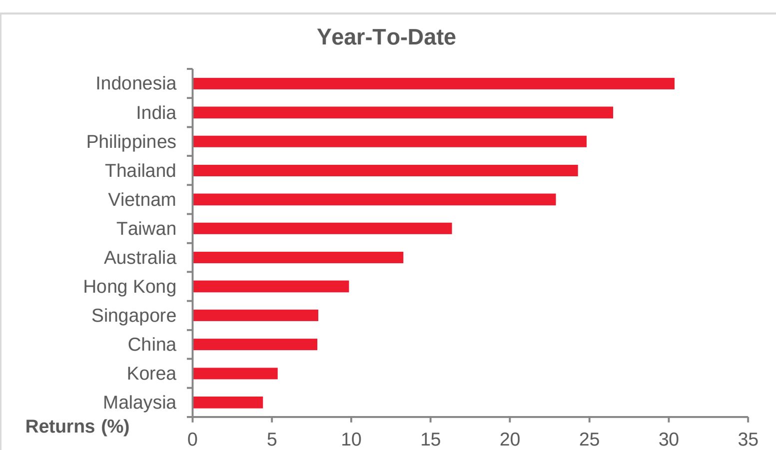
- **Japanese equities** posted losses after 3 consecutive months of gains amid data suggesting that April's sales tax hike may be weighing more heavily on economic growth than initially expected.

- **Asia ex-Japan markets** rose marginally as 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.

Source: MSCI Total Return Index from Thomson Reuters DataStream as of 31 August 2014 (US dollar currency).







- **Thai equities** gained 5% driven by positive political progress and improving macro data. The valuation of the Thai market is becoming unattractive relative to other Asian equity markets given the year to date outperformance. Underlying political differences remain despite the positive sentiment following the military coup so far.

- **Taiwan equities** were driven by a rally in tech stocks on the back of strong earnings news and excitement around product launches by Apple Inc. **Philippines equities** benefitted from a weight increase in six Philippine large cap stocks.

- **Indonesia, Singapore and Hong Kong** were the bottom three in August.

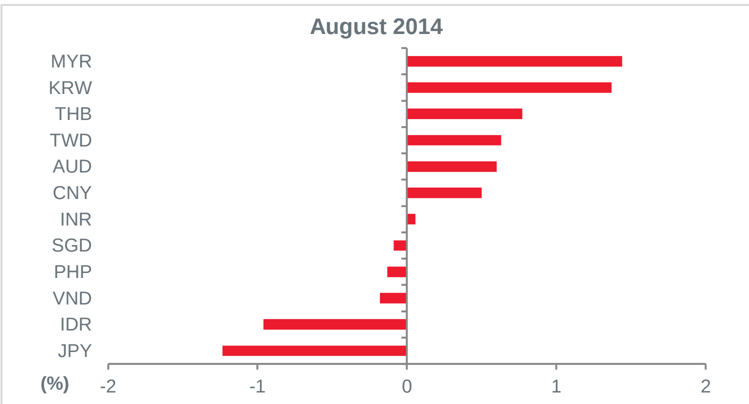
- **Indonesian** shares fell the most in August as foreigners became net sellers but retained the position as the best year to date performer.

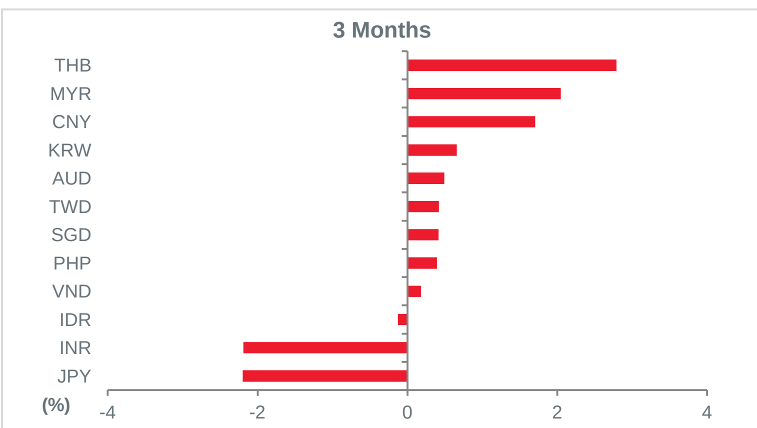
- **Singapore shares** were affected by poor sentiment following signs of moderating growth in the manufacturing sector.

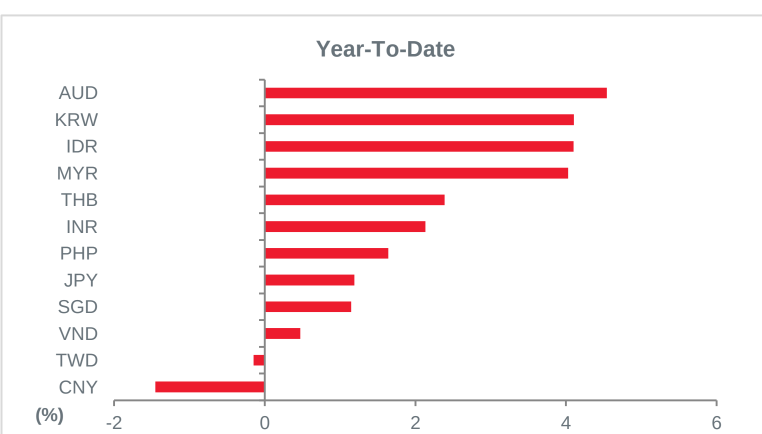
- **Hong Kong's** stock market retreated in August after four consecutive months of gains on the back of weak China macro numbers and Hong Kong's softer-than-expected economic growth. Gaming stocks fell in August on a slower-than-expected recovery in Macau gross gaming revenue and concerns of labor strikes.

Source: MSCI Total Return Index from Thomson Reuters DataStream as of 31 August 2014 (US currency).

Major Currencies Against USD (% change)







- Expectations that the European Central Bank will introduce further quantitative easing measures led to hopes that more cheap money will likely be invested in some of the higher yielding Asian markets. This led to some Asian currencies chalking up gains.

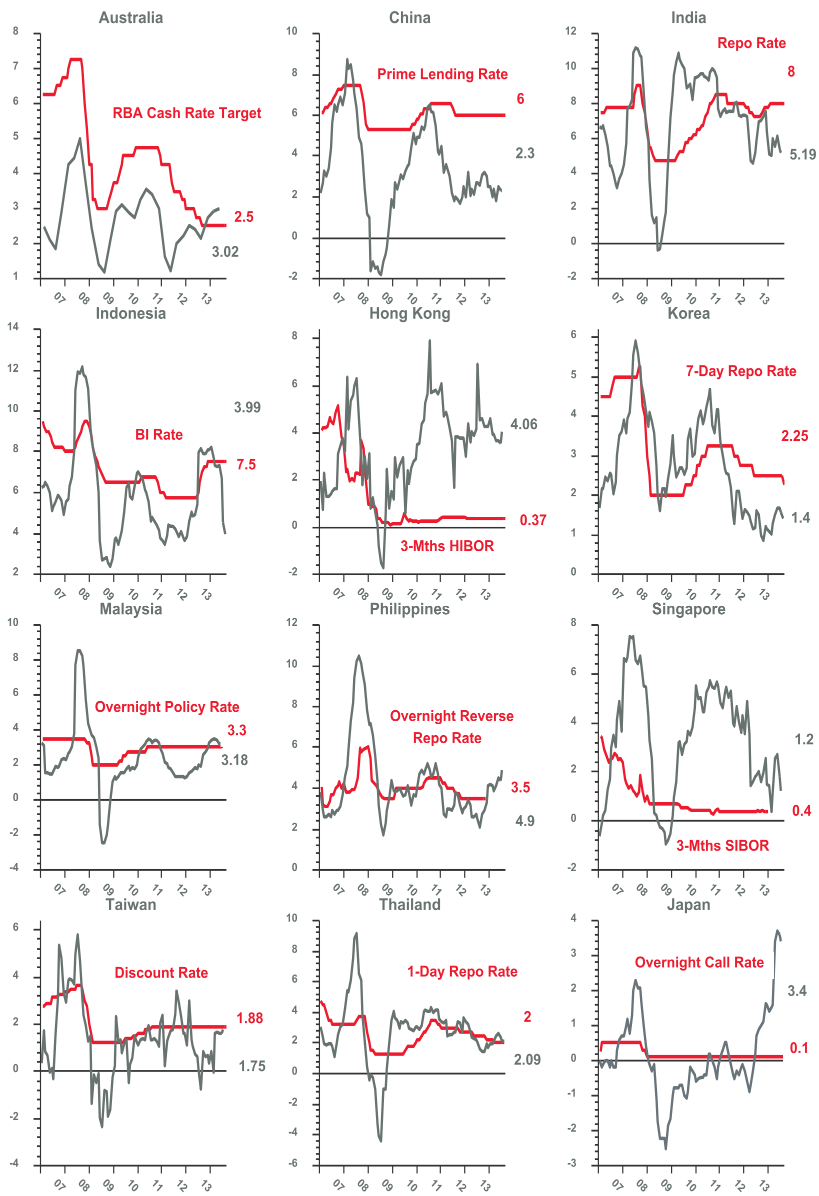
- Both the **Malaysian Ringgit** and the **Korean Won** were the top performers for the month. The Ringgit benefitted from strong Q2 GDP data while the won strengthened helped by the government's stimulus packages and the central bank's forecast of a record current-account surplus.

- The **Indonesian Rupiah** was the month's laggard, reversing its strong July gain. The **Japanese Yen** was another underperformer with the Bank of Japan continuing its easing policy while the US seems headed towards tightening. Further yen weakening does not seem a concern for BOJ as it will be beneficial for Japanese exporters.

- The **Chinese yuan** continued to rise in August, its fourth straight month of gains 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.

Source: Thomson Reuters DataStream as of 31 August 2014.

Policy Rate versus Inflation Rate



- The **Reserve Bank of Australia** left the cash rate at 2.5%, noting the country's growth to be "a little bit below trend over the year ahead" due to the decline in investments in the resources sector and the moderate growth expected from capital spending.

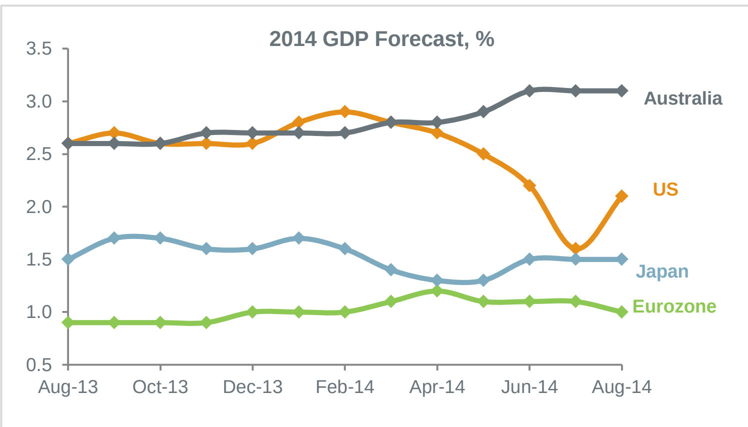
- The **Bank of Thailand** left its policy rate unchanged at 2.0% as current accommodative monetary policy provided sufficient support to ongoing economic recovery without posing risks to overall financial stability.

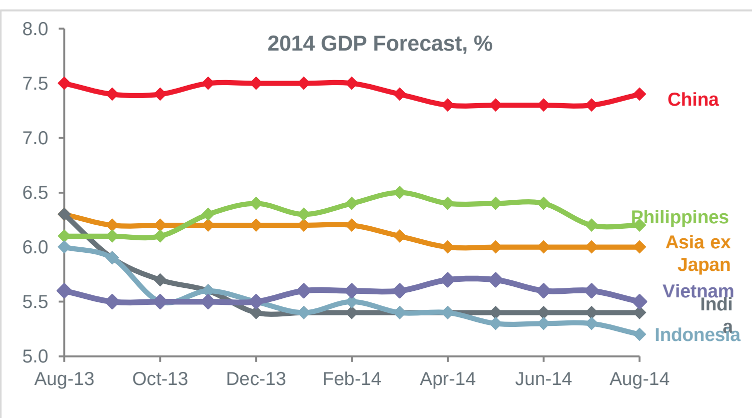
- As headline inflation eased to 4.5% year-on-year in July 2014, **Bank Indonesia** decided to hold the benchmark policy rate and overnight deposit rate unchanged at 7.5% and 5.8% respectively, stating that this is consistent with efforts to guide inflation towards its target corridor of 4.5±1% in 2014 and 4.0±1% in 2015.

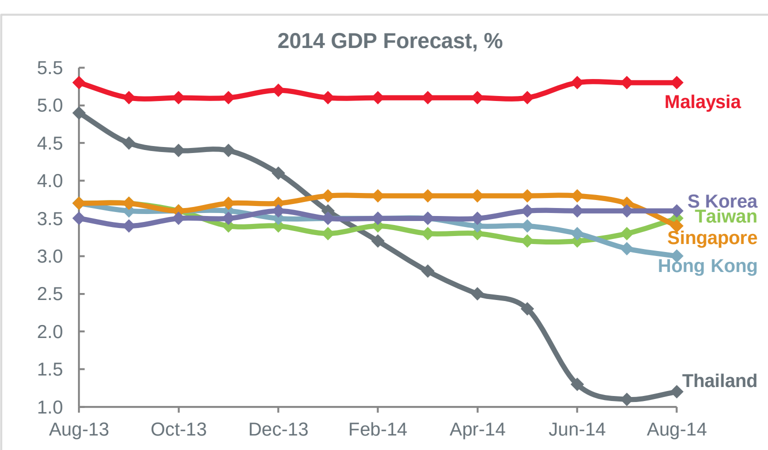
- **Reserve Bank of India** left the benchmark repurchase rate at 8% for a third consecutive meeting in August as the market expected. This despite the rise in the consumer price index of 7.96% in July from a year earlier, compared with a revised 7.46% in June.

Source: Data from Thomson Reuters DataStream as of 31 August 2014 .

Real GDP Growth Consensus Forecast, %







- Growth forecasts for the **US** were upgraded after months of downgrade triggered by a poor Q1 GDP reading. The reversal came on the heels of better than expected Q2 figures which registered an expansion of 3.9% versus Q1's 2.1% (quarter on quarter annualised) contraction. A build up in private inventories by companies to meet growing demand contributed to growth.

- In contrast, the **Eurozone** growth forecast was downgraded. Renewed weakness in demand from the region has affected trade figures for bigger economies i.e. Germany and France. Deflationary pressures continue to plague the region.

- Policy measures have contributed to stability in **Thailand** and a pick up in growth forecasts.

- Similarly, **China's** stimulus measures seem to have boosted Q2 growth which came in at 7.5% (year-on-year) versus Q1's 7.4%. The Q2 reading has given confidence that 2014's full year growth target of 7.5% appears on track.

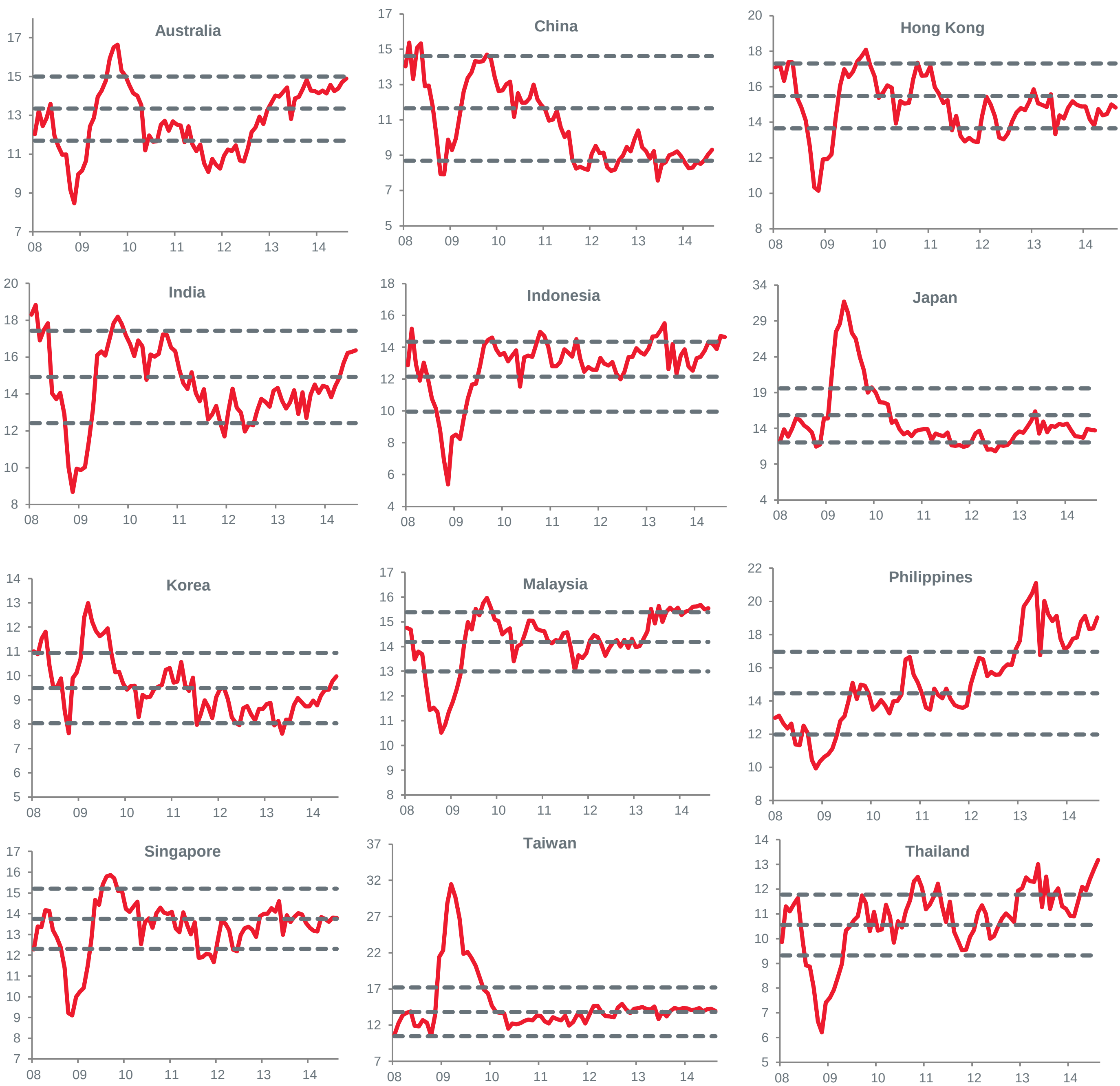
- **Singapore's** downgrade came about on the back of lacklustre Q2 reading, a result of a slump in manufacturing output.

- **Hong Kong's** economy continues to be affected by the still weak external demand.

Source: Data from Consensus Economics, 11 August 2014.

APPENDIX

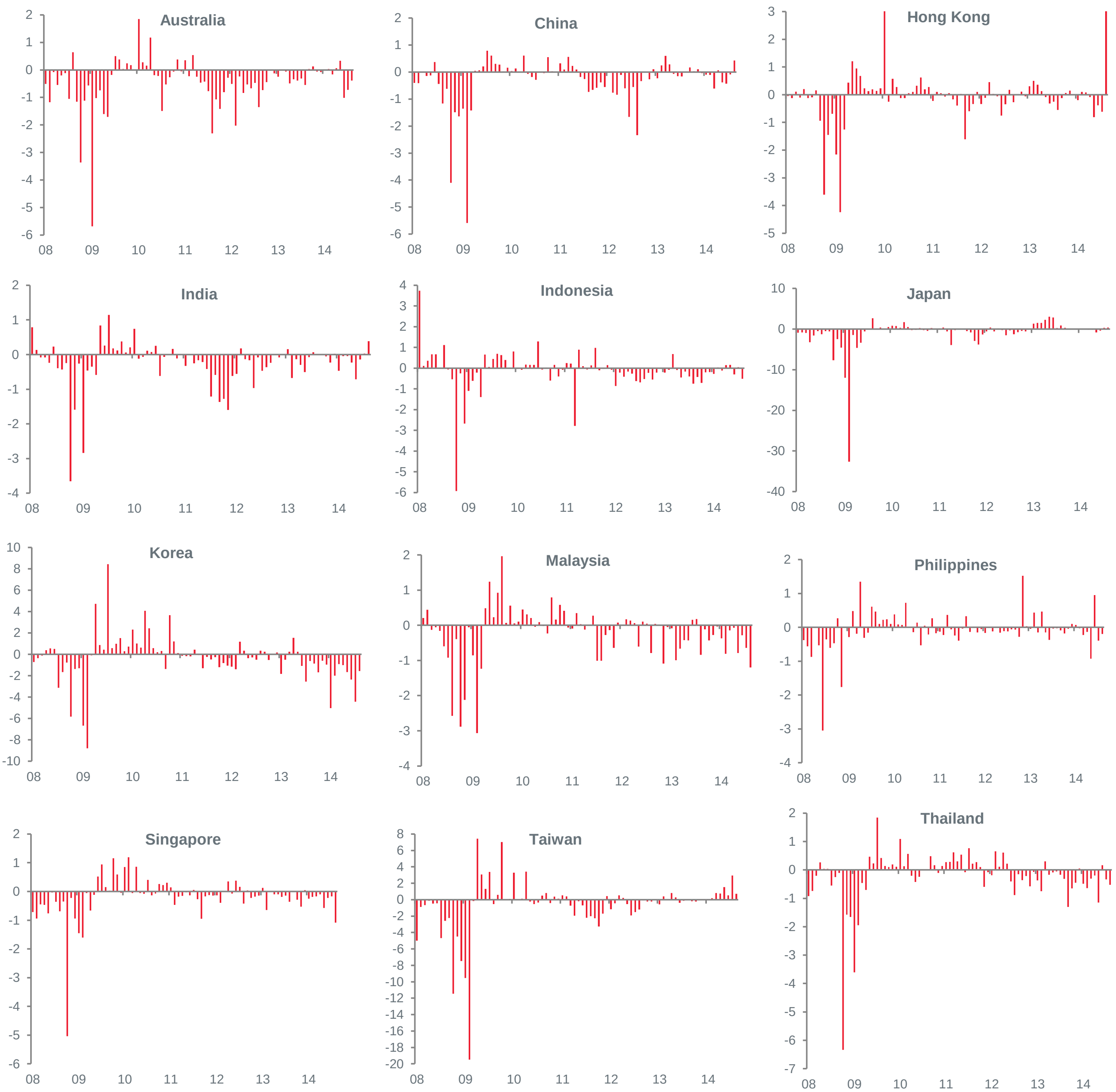
Valuations - 12-months Forward P/E (x)



Source: IBES MSCI from Thomson Reuters DataStream as of 28 August 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 29 August 2014. Note: Weighted 1-month % change in the 12 month forward earnings EPS forecasts.

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