

## MONTHLY REVIEW: AUGUST'S APPETITE FOR ASIA

August 2016

Global equity markets rose with Asian shares powering past its global peers. Central banks were in focus driving the US yield curve flatter as expectations for a near-term Fed rate hike increased. Oil prices rocketed on the back of lower supply while the USD gained against oil sensitive currencies and weakened against majors like the GBP and the JPY.

### EQUITY

- ▶ Emerging markets did better than developed markets.
- ▶ Asia had a bumper month driven largely by China (Shenzhen-Hong Kong Connect, strong corporate results, better economic data).
- ▶ Japanese equity had modest gains in spite of JPY strength and BOJ confidence issues
- ▶ Latin America rose again as Brazil's senate finalized the vote to impeach Rousseff and made Temer the new president.
- ▶ US equity markets ended muted after registering new highs in the DJIA, S&P500 and the Nasdaq while Jackson Hole rhetoric turned hawkish.

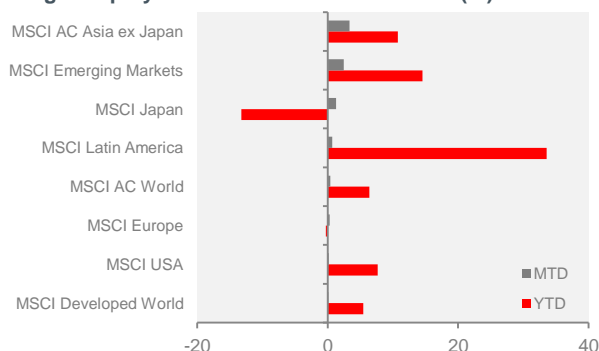
### FIXED INCOME

- ▶ Global government bond returns were mixed but investment-grade corporate bonds, high-yield bonds, EM sovereign and EM corporate bonds all provided positive returns.
- ▶ An aggressive easing of policy from the Bank of England (BoE), including a 0.25% Bank Rate cut, renewed asset purchases and a term funding scheme for the banks, together supported all UK bonds and especially supported sterling-denominated corporate bonds. In the US, the Fed shifted its message towards a bias to tighten and market expectations of a near-term rate increase rose.
- ▶ In Asia, the JACI gained as Fed hawks resulted in weakness in US Treasuries, but Asian credit spreads saw some tightening driven by Investment Grade Quasi-Sovereigns.

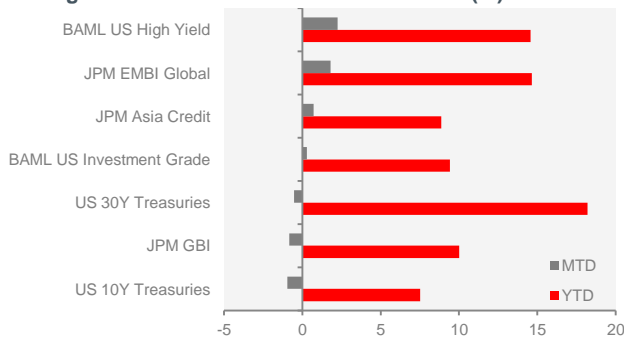
### COMMODITIES

- ▶ Oil rose on prospects of an output freeze by major producers as well as signs of a US production increase.
- ▶ Zinc also had a strong month as Chinese buying boosted prices. Closures, coupled with a lack of exploration for zinc and minimal new mine developments, has led to a looming zinc shortage.
- ▶ Prices of base metals such as Copper and Nickel fell on news that Chinese imports were diminishing.
- ▶ Gold price fell during the month as investors rotated out of safe haven assets.

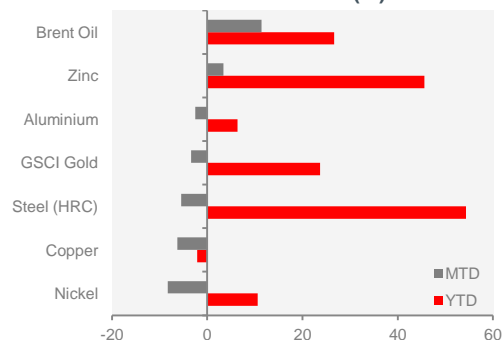
**Fig.1. Equity Indices Performance in USD (%)**



**Fig.2. Bond Indices Performance in USD (%)**



**Fig.3. Commodities Performance in USD (%)**





## CURRENCIES

- ▶ The USD steadied post hawkish US Fed's comments, reiterating case for gradual rate hikes at the Jackson Hole meeting on 26 August.
- ▶ The GBP managed to claw some gains as economic data out of the UK was surprisingly strong post "Brexit".
- ▶ The JPY finished the month slightly stronger on foreign buying of Japanese assets but was held back by a stronger USD.
- ▶ The MYR was poor on weaker than forecasted 3Q GDP while the IDR softened on poor investor sentiment on policy issues.

## ECONOMICS

- ▶ Both the US manufacturing and non-manufacturing ISM index for July fell although both remained above the 50-level indicating expansion. Non-farm payrolls rose better-than-expected, unemployment rate held steady at 4.9%, industrial production grew stronger-than-expected and durable goods orders ex-transportation rose stronger-than-expected.
- ▶ UK Q2 2016 inflation increased by 0.6%, up from the prior quarter's 0.5%. Unemployment came in unchanged for the period and retail sales in July increased 1.4%. German Q2 GDP was up 0.4%, as trade increased. However, the German LFO Institute's August Business Climate Index declined to 106.2 from July's 108.3.
- ▶ China's 'official' manufacturing PMI for July fell to 49.9, the first sub-50 reading in five months. In July, industrial production and new lending grew weaker-than-expected while fixed asset investment slowed to just under 4% year on year. However, the Markit/Caixin manufacturing PMI for July rose better-than-expected to 50.6. Chinese housing prices increased also 7.9% year-over-year for July. Japanese Q2 2016 GDP declined to an annualised 0.2% rate, much weaker than the 2.0% rate for the first quarter. Japanese exports declined 14% year-over-year for July, marking the 10th monthly decline, and imports declined 24.7%.

## CENTRAL BANKS

- ▶ Comments from the FOMC retreat had a hawkish undertone, acknowledging the conditions may be ripe for a rate hike sooner than later.
- ▶ Early in the month, in addition to new easing measures, the Bank of England cut interest rates for the first time since 2009.
- ▶ As was widely expected, the Reserve Bank of Australia cut its official cash rate by 25 basis points to a new record low of 1.50%, noting that "prospects for sustainable growth in the economy, with inflation returning to target over time, would be improved by easing monetary policy at this meeting".
- ▶ The BOJ mentioned that more easing might be on the cards pending results of a review at its September 20-21 board meeting. BOJ Governor Kuroda also mentioned there was "technically" room for deeper negative rates while ruling out the use of so-called helicopter money.
- ▶ In early September, the ECB held interest rates at record lows and remained coy on further easing, disappointing markets that were looking for a more decisive tone.

Fig.4. Currencies Performance versus USD (%)

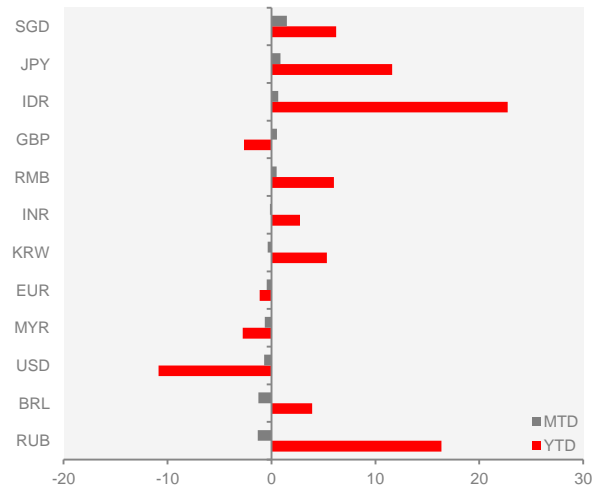


Fig.5. Global Leading Indicator

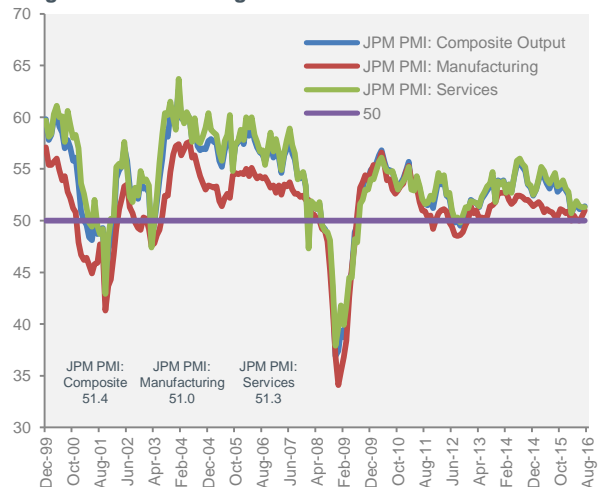
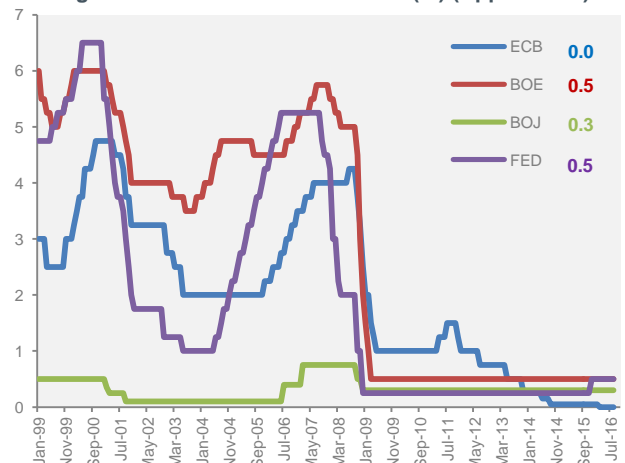
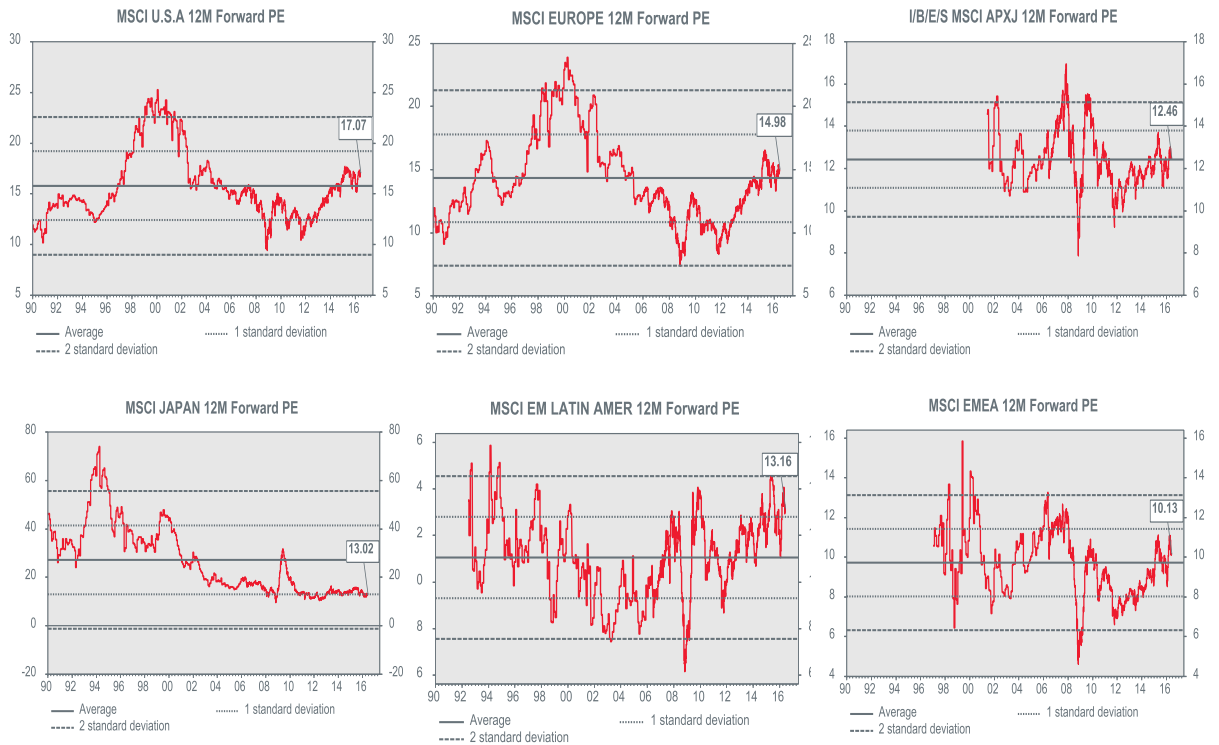


Fig.6. Central Banks Interest Rate (%) (Upper Band)

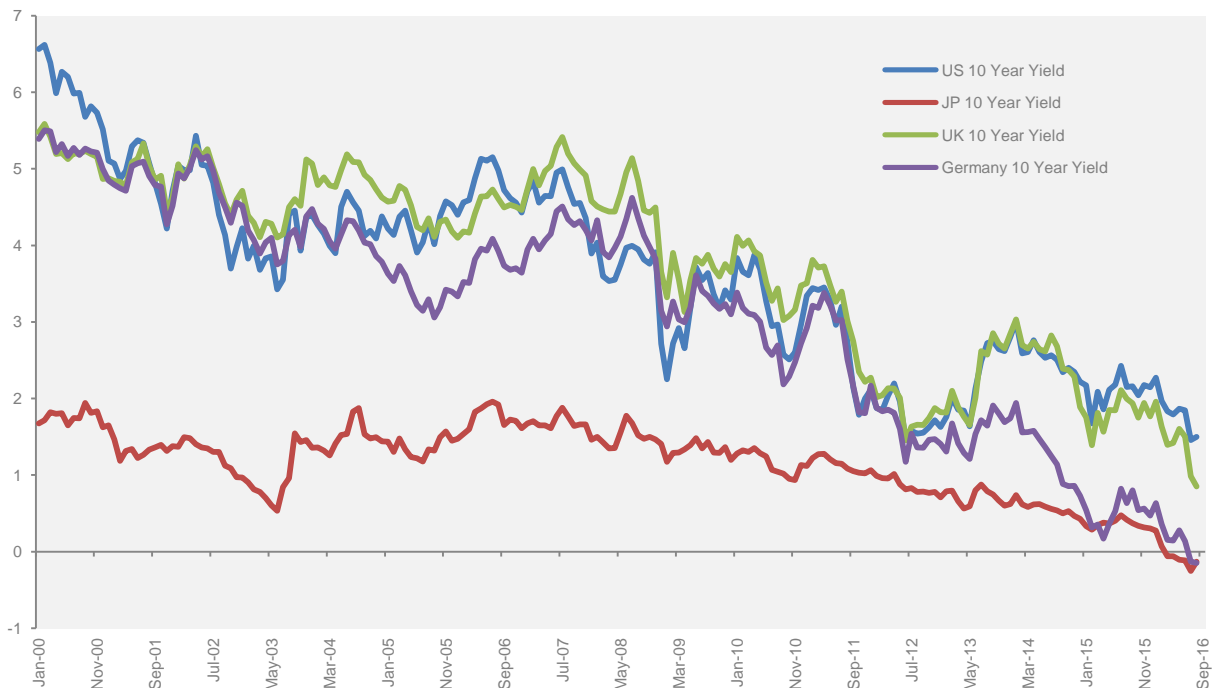




**Fig.7. Key Regional Price-to-book Valuations (x)**



**Fig.8. Key Bond Yields (%)**



Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 31 August 2016. For representative indices and acronym details please refer to notes in the appendix.



Fig.8. Selected Economic Data

Developed Markets	Real GDP Growth (QoQ)	Real GDP Growth (YoY)	Manufact. PMI	CPI Headline (YoY)	CPI Core (YoY)	Policy Rate	Current Acct % of GDP	FX Reserves (USD, Mn)	Govt. Budget % of GDP	Equity (YTD LC, %)	10Y Govt. Bond Yield (YTD, %)	Currency vs. USD (YTD, %)
United States of America	1.2	1.2	52.9	1.0	2.3	0.5	-2.6	108149	-2.8	6.3	-36.0	-3.2
Euro Area	0.3	1.6	52.0	0.1	0.9	0.0	3.2	252892	-2.1	-6.5	-118.9	-2.8
Australia	1.1	3.1	56.4	1.0	1.6	1.8	-5.1	50307	-1.9	5.6	-34.9	-3.9
Japan	0.5	0.1	49.3	-0.4	0.4	0.0	3.6	1194500	-6.7	-12.9	-171.7	17.9
Hong Kong	-0.4	0.8	47.2	2.4	2.4	0.8	3.8	360643	0.6	-0.1	-36.9	0.1

Emerging Markets	Real GDP Growth (QoQ)	Real GDP Growth (YoY)	Manufact. PMI	CPI Headline (YoY)	CPI Core (YoY)	Policy Rate	Current Acct % of GDP	FX Reserves (USD, Mn)	Govt. Budget % of GDP	Equity (YTD LC, %)	10Y Govt. Bond Yield (YTD, %)	Currency vs. USD (YTD, %)
Brazil	-0.3	-5.4	46.0	8.8	7.7	14.3	-2.5	354830	-10.1	32.2	-28.5	-18.0
Russia	-0.6	-3.7	49.5	7.5	7.5	10.5	4.1	319823	-2.7	10.4	-7.6	-9.1
India	2.1	7.9	51.7	1.6	1.2	7.0	-1.1	339025	-3.9	8.5	-7.3	1.3
China	1.8	6.7	50.6	1.9	1.6	4.4	3.0	3212600	-3.4	-14.1	-2.1	2.2
Korea	0.7	3.2	50.1	0.8	1.7	1.3	7.9	363450	0.0	2.8	-33.7	-4.4
Taiwan	0.4	0.7	51.0	0.9	0.8	1.4	14.4	434	-0.2	7.8	-29.7	-3.1
Thailand	0.9	3.2	-3.3	0.4	0.8	1.5	10.3	488695	-2.3	18.5	-17.7	-3.5
Indonesia	-0.3	4.9	48.4	3.5	3.5	6.5	-2.1	97858	-2.4	13.6	-20.8	-5.0
Philippines	1.1	6.9	-7.1	1.9	1.9	3.0	2.3	73960	-1.5	14.5	-33.6	0.5
Singapore	0.8	2.2	50.7	-0.7	1.1	0.9	18.9	250132	-0.7	-0.5	-30.5	-5.1
Malaysia	-4.6	4.2	48.1	1.6	2.1	3.3	2.4	93880	-3.1	-2.3	-14.0	-5.3
Vietnam	5.6	5.5	51.9	2.4	1.9	6.5	1.4	20876	-5.5	12.6	-2.8	-0.9

Source: Eastspring Investments. Table data from Bloomberg and individual country sources. Data sourced on 4 September 2016. Please contact us for source and definitions of individual data points.

**KEY TERMS**

CA	Current Account
CBR	Central Bank of Russia
COPOM	Central Bank of Brazil
CPI	Consumer Price Index
DM	Developed Markets
ECI	Employment Cost Index
EM	Emerging Markets
EM Currencies	MSCI Emerging Markets Currency Index
EM Equities	MSCI Emerging Markets Index
EM Local Currency Bonds	JP Morgan Emerging Local Currency Bond Index
EM USD Bonds	JP Morgan Emerging Market Bond Index
EMU	European Monetary Union
EU	European Union
Fed	The Federal Reserve Board of the United States
FOMC	Federal Open Market Committee
GDP	Gross Domestic Product
Global Developed Equities	MSCI Developed Markets Index
Global Equities	MSCI All Country World Index
Global Government Bonds	Citigroup World Government Bond Index
IP	Industrial Production
M2	M2 Money
mom	Month on month
PBoC	Peoples Bank of China
qoq	Quarter on quarter
Repo	Repossession
SDRs	Special Drawing Rights
SELIC	Sistema Especial de Liquidação e CU.S.todia (SELIC) (Special Clearance and Escrow System)
Tankan	Japan Large Business Sentiment Survey
TSF	Total Social Financing
UK	United Kingdom
y/y	Year on year

**REPRESENTATIVE INDICIES**

Aluminum	S&P GSCI Aluminum Index
Asia Local Bond (ALBI)	HSBC Asia Local Bond Index
Brent Oil	Cash settlement price for the InterContinental Exchange (ICE) Brent Future based on ICE Futures Brent index
Commodities	Datastream Commodities Index
Copper	S&P GSCI Copper Index
EMU 10 Year	Datastream EMU 10 Year
Global Emerging Bond	JPM Global Emerging Bond Index
Gold	S&P GSCI Gold Index
Japan 10 Year	Datastream Japan 10 Year
JACI	JP Morgan Asia Credit Index
MSCI Dev World	MSCI Developed Markets Index
MSCI EM	MSCI Emerging Markets Index
MSCI Europe	MSCI Europe Index
MSCI Japan	MSCI Japan Index
MSCI Latam	MSCI Latin America Index
MSCI Russia	MSCI Russia Index
MSCI U.S.	MSCI U.S. Index
MSCI World	MSCI All Country World Index
Steel (HRC)	TSI Hot Rolled Coil Index
UK 10 Year	Datastream UK 10 Year
U.S. 10 Year Treasuries	Datastream U.S. 10 Year Treasuries
U.S. 30 Year Treasuries	Datastream U.S. 30 Year Treasuries
U.S. High Yield	BAML U.S. High Yield Constrained II
U.S. Investment Grade	BAML Corporate Master
DXY	U.S. Dollar Index
Zinc	S&P GSCI Zinc Index



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