



MONTHLY REVIEW: EMERGING ASIA STEERS SEPTEMBER

October 2016

Central Bank dynamics dominated as global equities produced slight gains and bonds saw preference for credit versus treasuries on improved data. The USD fell against most currencies as the Fed remained on hold but the Yen rallied as the BOJ introduced yield-curve-control and refrained from cutting rates. Oil prices rose on supply cut hopes.

EQUITY

- Emerging Asia led the gains as north Asian markets including China ramped up on improved economic data and better earnings outlook.
- Developed markets eked out a slight gain aided by Europe and the US to a lesser extent.
- Japanese equity had modest losses as the strength of the JPY sapped investor enthusiasm.
- Latin America cooled over the month as the region digested a volatile Mexican Peso (US election debates) and a Colombian government peace pact with the Revolutionary Armed Forces of Colombia (FARC), on which voting public remained unconvinced.

FIXED INCOME

- With an uptick in global economic activity, investors took on more risk and allocated into credit over the month while selling out of developed government bonds.
- US high yield continued to stand out as domestic economic conditions strengthened alongside firming corporate fundamentals.
- In Asia, the JACI had a weak month but edged into positive territory as Asian credits spreads widened and sovereign bonds were affected by US yield curve volatility, in turn affected higher yielding issues.
- German bund yields turned positive during the month. Italian yields are at their highest since right after the Brexit vote. US 10-year Treasury yields are also close to their mid-September highs at almost 1.7 percent.

COMMODITIES

- Oil price rose, boosted late in the month after OPEC members agreed to a deal that would cut production for the first time in eight years.
- Coking coal continued to skyrocket, rising 54% during the month. Thermal coal also performed well.
- Base metals rose during the month, particularly Nickel, which rose on supply worries as major producer, the Philippines launched a crackdown on Nickel mines in the country.
- Gold remained flat as demand dulled on the back of insignificant buying.

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

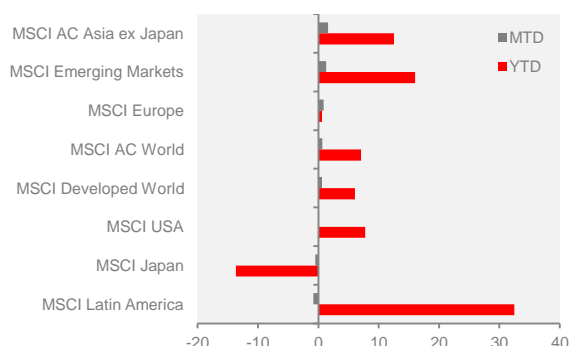


Fig.2. Bond Indices Performance in USD (%)

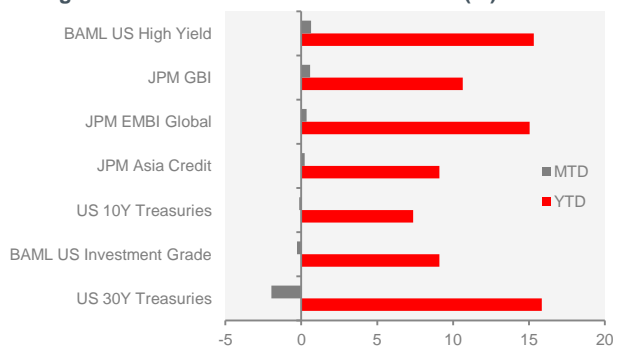
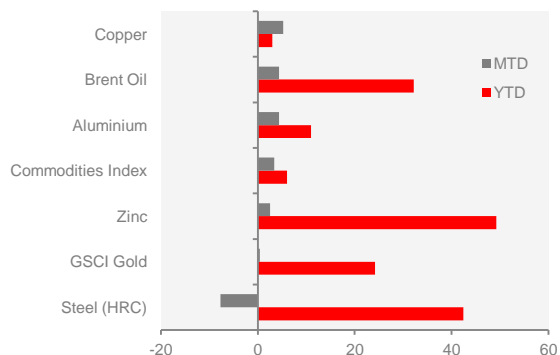


Fig.3. Commodities Performance in USD (%)



Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 30 September 2016. For representative indices and acronym details please refer to notes in the appendix.



CURRENCIES

- › The US dollar generally fell against most major currencies as the US Fed remained on hold.
- › The British Pound weakened against most major currencies as the market continues to adjust to a post-Brexit era and the deliberation of "divorce" proceedings with the EU.
- › The Japanese Yen rallied on increased financial market volatility and after the Bank of Japan refrained from cutting interest rates.
- › Commodities sensitive currencies such as the Brazilian Real gained versus the US dollar as the price of oil recovered.

ECONOMICS

- › US economic data was mixed over the month. August's ISM Manufacturing index fell while non-farm payrolls grew weaker-than-expected. Housing starts for August also fell on a month on month basis but the September Housing Market Index came in much stronger than expected.
- › China meanwhile showed resilience as the 'official' manufacturing PMI for August rose and industrial production was also stronger-than-expected. Chinese fixed asset investment growth for January-August period grew at 8.1% year on year. Retail sales, new loans and home prices also grew.
- › Eurozone second quarter GDP came in at 0.3%, down from the first quarter's 0.5% rate. The UK inflation rate was unchanged in August, at 0.5% and its second quarter GDP was revised up to 0.7%, from the previous 0.6% rate. The German LFO Business Confidence Index increased to 109.5, its highest level since May 2014.

CENTRAL BANKS

- › The ECB left its interest rates unchanged and did not increase its stimulus expenditure. It left open the possibility of extending the March 2017 termination date for bond buying.
- › The Bank of England kept its rates unchanged, although it hinted at lower rates soon.
- › The Bank of Japan too kept its interest rate unchanged, at -0.1%, as it confirmed its commitment to an aggressive policy, set a new yield-curve control policy, and said additional rate cuts were possible.
- › The Reserve Bank of Australia made no change and hinted that it would not change interest rates until next year in order to help support growth.
- › The FOMC meeting ended with no change in interest rates and no change in the perception of when it would change, though 3 of the 10 voting members dissented, wanting to increase interest rates.

Fig.4. Currencies Performance versus USD (%)

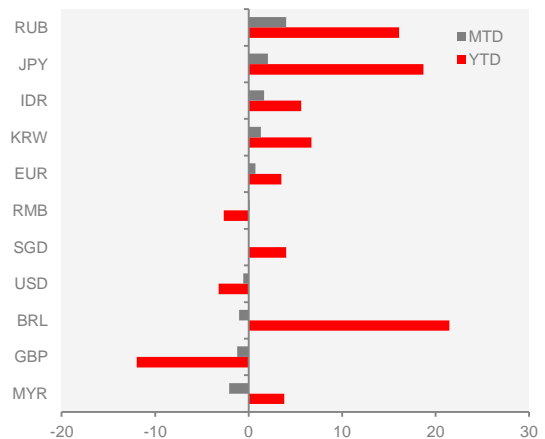


Fig.5. Global Leading Indicator

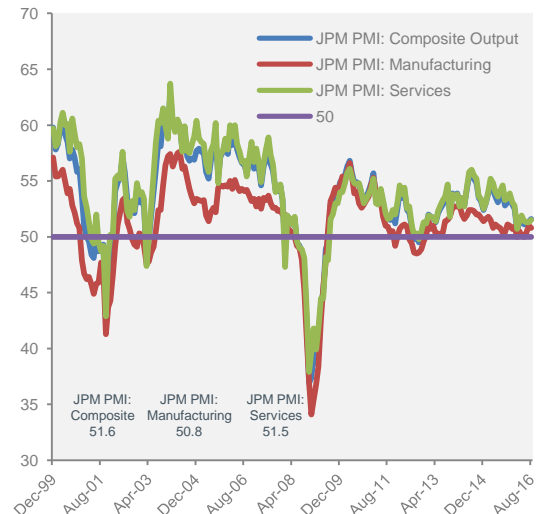


Fig.6. Central Banks Interest Rate (%) (Upper Band)

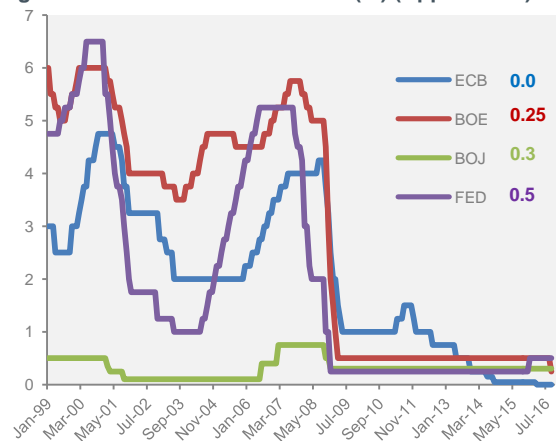




Fig.7. Key Regional Price-to-book Valuations (x)

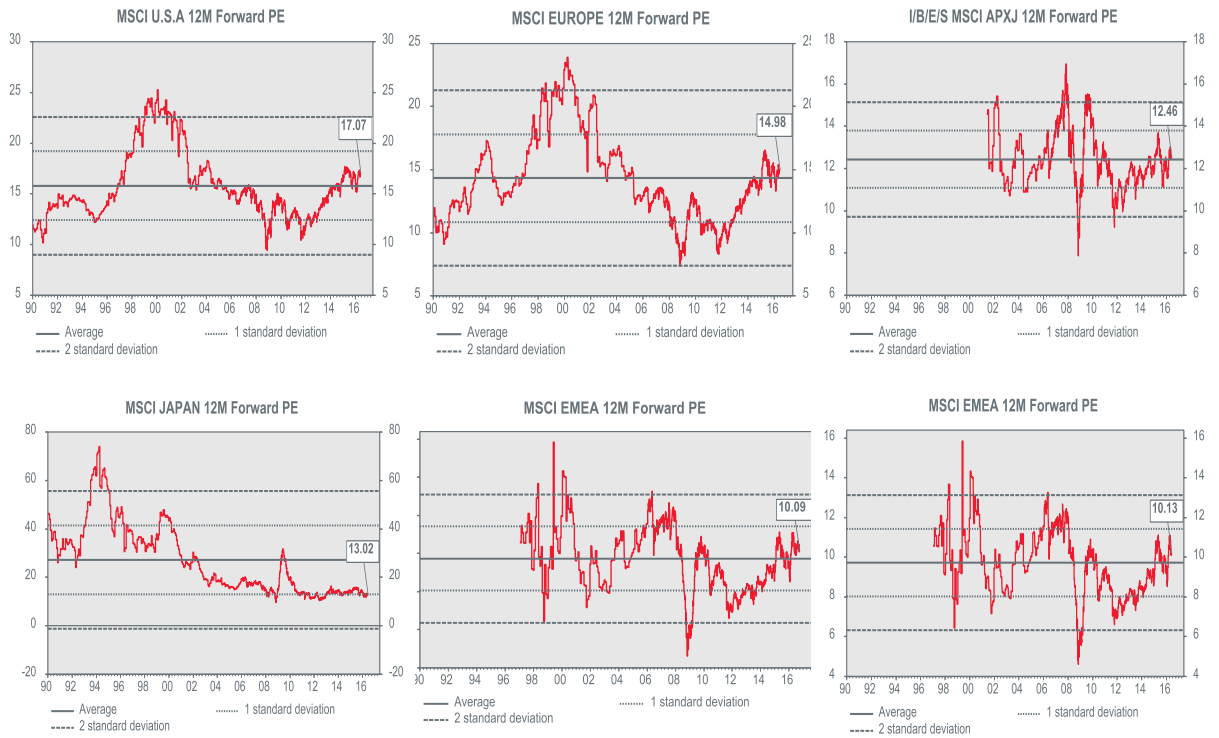
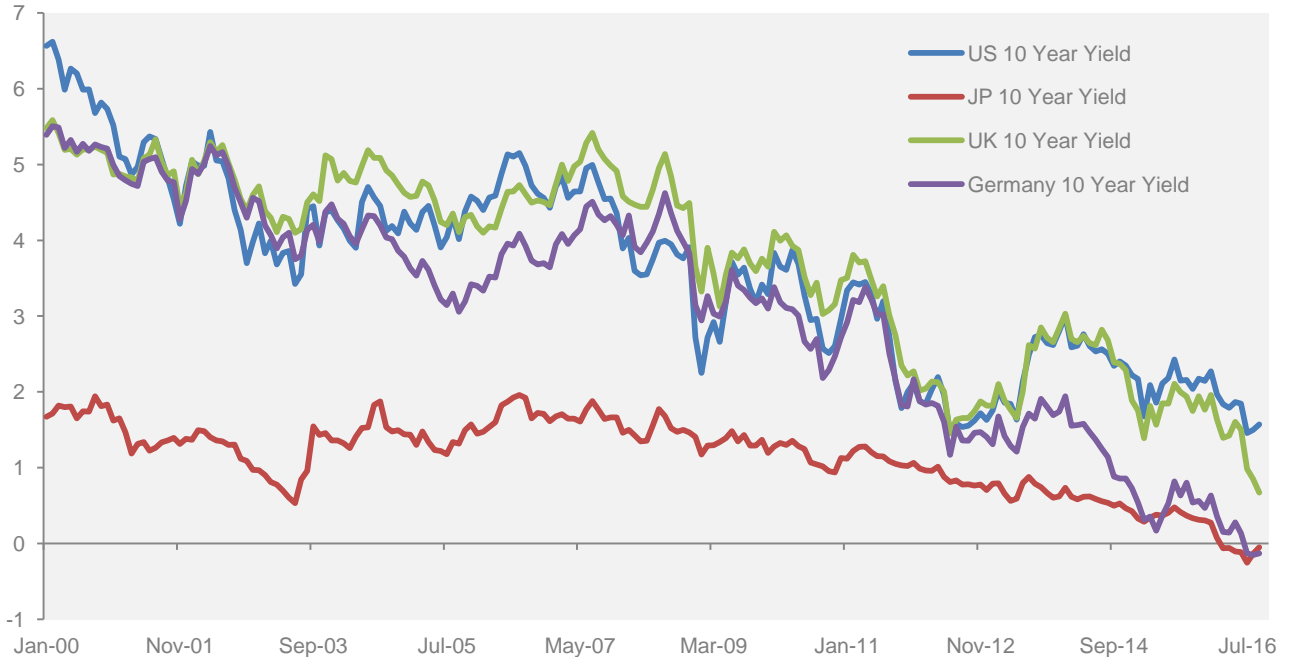


Fig.8. Key Bond Yields (%)



Source: Eastspring Investments. Chart data from Thomson Reuters DataStream as at 30 September 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	1.4	1.3	51.5	1.1	2.3	0.5	-2.7	109,272	-2.8	6.1	-29.7	-3.3
Euro Area	0.3	1.6	52.6	0.1	0.9	0.0	3.4	256,125	-2.1	-6.3	-119.0	-3.4
Australia	0.5	3.3	49.8	1.0	1.6	1.8	-3.8	39,671	-1.9	3.4	-33.8	-4.7
Japan	0.2	0.8	50.4	-0.4	0.5	-0.1	3.8	1,193,880	-6.7	-13.6	-133.6	18.7
Hong Kong	1.6	1.7	49.3	2.4	2.4	0.8	4.3	362,843	0.2	6.3	-32.8	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	-0.6	-3.8	46.0	8.8	7.7	14.3	-1.8	360,782	-10.1	34.6	-29.8	-17.6
Russia	-0.6	-3.7	51.1	6.4	6.7	10.5	3.1	320,610	-3.8	12.3	-15.0	-13.3
India	1.4	7.1	51.7	2.1	1.3	7.0	-0.8	341,044	-4.1	8.1	-11.8	0.6
China	1.8	6.7	50.1	1.9	1.6	4.4	3.0	3,221,190	-3.4	-12.8	-4.3	2.7
Korea	0.8	3.3	47.6	0.8	1.7	1.3	7.8	362,248	0.0	4.2	-31.7	-6.3
Taiwan	0.1	0.7	52.2	0.9	0.8	1.4	14.7	434	-0.2	9.9	-40.5	-4.7
Thailand	0.8	3.5	-3.3	0.4	0.8	1.5	11.1	138,026	-2.3	16.1	-16.0	-4.0
Indonesia	4.0	5.2	50.9	3.5	3.5	6.5	-2.1	107,568	-1.9	16.8	-19.4	-5.4
Philippines	1.8	7.0	0.1	1.9	1.9	3.0	1.1	75,374	-1.9	9.7	-33.4	3.3
Singapore	0.3	2.1	52.9	-0.7	1.1	0.9	19.9	251,217	-1.0	-0.5	-31.6	-3.5
Malaysia	2.3	4.0	48.6	1.5	2.0	3.0	1.9	94,058	-3.1	-2.4	-14.9	-3.6
Vietnam	5.8	5.5	52.9	3.3	1.9	6.5	0.5	25,012	4.6	18.4	-7.2	-0.9

Source: Eastspring Investments. Table data from Bloomberg and individual country sources. Data sourced on 7 October 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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