



OVERVIEW

May 2016

ASEAN equity markets were mixed once again in May as Malaysia, Indonesia, and Singapore delivered negative local currency returns given the dearth of positive news during the month. The Philippines, by contrast, delivered strong performance driven by the election victory of popular candidate Rodrigo Duterte. Thailand also performed well as tourist arrivals remained strong and infrastructure projects picked up steam.

At the macro level, ASEAN imports and exports – and their underlying economies – remain dependent on China, where manufacturing activity has stabilized in recent months, albeit at depressed levels. China's first quarter GDP growth fell to a seven-year low of 6.7%, and its exports remained weak. Fiscal and monetary stimulus measures undertaken earlier in the year could potentially help uplift the Chinese economy in the coming months, although at the expense of rising debt.

Elsewhere, oil prices stabilized around US\$50, and US manufacturing activity expanded after many months of declines, aided by improved consumer spending and construction activity. However, the improvement was undermined by a dismal jobs report for May, which Federal Reserve Chair Janet Yellen called "concerning." Whether the jobs report alters the central bank's measured interest rate hike path remains to be seen. Separately, eurozone economic growth remained subdued during May, with the rate of expansion achieved so far during the second quarter a touch below that seen in the first quarter.

Malaysia

The Malaysian economy expanded 4.2% in the first quarter of 2016, the lowest rate since the global financial crisis, amidst slower growth in the manufacturing and services sectors and weakening exports. Further, rising costs continue to crimp business investment while the decline in crude oil prices has hurt government finances. Notably, the economy is forecasted to grow at a subpar rate of 4.0% to 4.5% in 2016.

The ruling coalition party Barisan Nasional, which is led by Prime Minister Najib Razak, orchestrated a solid victory in Sarawak state elections, winning 72 of 82 seats. This highlights the resilience of the coalition government.

The FBM KLCI Index closed at 1626.00 in May, down -2.26% over April. Year-to-date, the index has declined -2.61%. Meanwhile, the ringgit depreciated -5.1% to 4.13 in anticipation of possible Fed hikes.



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Market Indicators	Current Value	1 Month	YTD	1 Year
FBM EMAS Shariah (RM)	11,923	-2.07% ▼	-6.00% ▼	-2.73% ▼
FBM KLCI (RM)	1,626	-2.26% ▼	-2.61% ▼	-4.01% ▼
S&P 500 (US\$)	3,958	1.80% ▲	3.57% ▲	1.72% ▲
Dow Jones Industrial Average (US\$)	17,787	0.49% ▲	3.34% ▲	1.39% ▲
FTSE All World (US\$)	266	0.22% ▲	2.18% ▲	-4.74% ▼
MSCI All Country World Index (US\$)	403	0.21% ▲	2.13% ▲	-4.85% ▼
MSCI Emerging Markets (US\$)	350	-3.73% ▼	2.32% ▲	-17.63% ▼
Dow Jones ASEAN Islamic (RM)	8,387	1.52% ▲	-0.20% ▼	0.84% ▲
Jakarta Composite Index (RM)	4,797	1.63% ▲	2.66% ▲	2.03% ▲
Philippine Stock Exchange Index (RM)	7,402	9.35% ▲	3.71% ▲	6.67% ▲
Straits Times Index (RM)	2,791	1.61% ▲	-3.17% ▼	-6.03% ▼
Stock Exchange of Thailand (RM)	1,424	4.38% ▲	8.87% ▲	4.50% ▲

	Current	1 Month Ago	1 Year Ago
Ringgit per US\$	4.13	3.90	3.67
Crude oil (US\$)	\$49.10	\$45.92	\$60.30
Crude palm oil (RM)	RM 2,635	RM 2,572	RM 2,170

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Indonesia

Indonesian GDP grew a lower-than-expected 4.9% in the first quarter as private investments and government spending moderated. In a bid to prompt fixed and capital investments in Indonesia and facilitate foreign business formation, President Jokowi unveiled programs that would allow for higher foreign ownership in various sectors, including tourism, retail, transportation, and the film industry. Separately, the rupiah depreciated against the dollar while foreign investors were slight net sellers of equities in the month.

The Jakarta Composite Index closed at 4,796.87, down -0.16% in local currency and up 1.63% in ringgit terms over the prior month. Year-to-date, the index is up 5.72% in local currency and 2.66% in ringgit terms.

Philippines

As expected, Rodrigo Duterte, longtime mayor of Davao, easily won the presidential elections held on May 9. Markets subsequently rallied as election risk was taken off the table. However, questions remain around Duterte's economic policies. The Philippines has been one of the fastest-expanding economies in the region, with growth averaging 6.2% in the last six years under the outgoing President Benigno Aquino, driven by fiscal deficit improvement and growth-focused reforms. It is expected that the Duterte government will focus on improving infrastructure, easing investment policies, and reducing bureaucratic red tape. Most economists call for continued strong growth for the Philippines, assuming Duterte doesn't make any major missteps.

The Philippine Stock Exchange Index closed at 7,401.60, up 3.67% over April in local currency. In ringgit terms, the index was up 9.35%. Year-to-date, the index has risen 7.67% in local currency and 3.71% in ringgit terms.

Singapore

Singapore's manufacturing sector remained weak, with activity shrinking for an eleventh straight month, driven by weak exports and lower new orders. Manufacturing, which makes up a fifth of the Singapore economy, has been hit hard by tepid global growth and ongoing restructuring. Singapore's economy grew 1.8% during the first quarter over last year, led by strength in the construction sector and a stable services sector. However, the growth came in flat on a sequential basis, and many economists project weakness in the quarters ahead.

Singapore's Straits Times Index fell -0.99% in May to 2,791.06. In ringgit terms, the index rose 1.61% in the month. Year-to-date, the index is down -1.51% in local currency and -3.17% in ringgit terms.

Thailand

The Stock Exchange of Thailand Index closed up 1.72% in May to 1,424.28. In ringgit terms, the index gained 4.38% in the month. Year-to-date, the index is up 12.95% in local currency and 8.87% in ringgit terms.

Thailand's economy picked up speed in the first quarter with its GDP growing at 3.2%, compared with 2.8% a quarter ago, largely on the back of government spending and robust tourism growth. However, exports, which account for two-thirds of GDP, are down -5.4% year-to-date.

PORTFOLIO TACTICS

We continue to be cautious on the ASEAN region in the near to mid-term, as tepid exports, volatile currencies, China slowdown, and future Fed rate hikes continue to impact the economies of the region. We will continue to look for exciting catalysts and take appropriate long-term positions. Within the region, we favor Indonesia, Singapore, and the Philippines over Malaysia and Thailand.

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