



OVERVIEW

June 2016

ASEAN equity markets performed well in June as Malaysia, Indonesia, the Philippines, Thailand, and Singapore all delivered positive local-currency returns. The Philippines, in particular, delivered yet another strong performance driven by the election victory of popular candidate Rodrigo Duterte. Indonesia also had healthy returns as infrastructure projects picked up steam and the market responded positively to the tax amnesty plan announced in early July. In general, investors likely believe that in a post-Brexit era the Asia Pacific region may offer better investment returns over the long run.

On June 23, the UK voters decided via referendum to exit the European Union, a decision not expected by most observers. The exit vote sent shockwaves throughout the global markets – with most markets retreating sharply – as it created significant uncertainty with regards to both the UK and eurozone economies. Some investors even began to question the viability of the eurozone as an economic unit. Markets stabilized after several days of volatility as investors now seem to be betting that the event may not be as catastrophic as anticipated.

Separately, capital outflows from China accelerated in recent months, as reflected in the country's foreign exchange reserves, which fell to \$3.19 trillion in May, the lowest since December 2011. However, large-scale infrastructure spending and an accommodative fiscal policy should likely cushion against any hard landing for the Chinese economy.

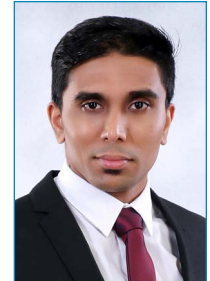
Elsewhere, oil prices stabilized around \$50, and US manufacturing and services activities expanded in June to relatively healthy levels aided by improved consumer spending and construction activity. The June minutes of the US Federal Open Market Committee showed caution, raising expectations that rate increases will be deferred.

As we move forward, Brexit dynamics, the scope of a Chinese recovery, oil and commodity prices, the health of the US economy, and the ongoing actions of the global central banks will continue to dictate investor sentiment.

Malaysia

Slower growth persists in the manufacturing and services sectors amidst weakening exports. Further, rising costs crimp business investment while the decline in crude prices has hurt government finances. Notably, the economy is forecasted to grow at a subpar rate of between 4.0% and 4.5% in 2016. Equity markets saw heavy foreign selling in June mainly on the back of MSCI's index rebalancing that reduced Malaysia's weighting by 34 basis points to 3.09%. Net selling in the month was \$425 million.

Despite all of that, the KLCI Index rose 1.93% in June to 1654.08. Year-to-date, the index



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Market Indicators	Current Value	1 Month	YTD	1 Year
FBM EMAS Shariah (RM)	12,103	1.85% ▲	-4.27% ▼	1.72% ▲
FBM KLCI (RM)	1,654	1.93% ▲	-0.73% ▼	0.00% ◆
S&P 500 (US\$)	3,968	0.26% ▲	3.84% ▲	3.99% ▲
Dow Jones Industrial Average (US\$)	17,930	0.95% ▲	4.31% ▲	4.50% ▲
FTSE All World (US\$)	264	-0.57% ▼	1.60% ▲	-3.06% ▼
MSCI All Country World Index (US\$)	399	-0.56% ▼	1.57% ▲	-3.14% ▼
MSCI Emerging Markets (US\$)	364	4.00% ▲	6.41% ▲	-12.05% ▼
Dow Jones ASEAN Islamic (RM)	8,647	2.61% ▲	2.41% ▲	3.82% ▲
Jakarta Composite Index (RM)	5,017	5.44% ▲	8.25% ▲	12.50% ▲
Philippine Stock Exchange Index (RM)	7,796	1.54% ▲	5.31% ▲	7.13% ▲
Straits Times Index (RM)	2,841	0.87% ▲	-2.33% ▼	-5.49% ▼
Stock Exchange of Thailand (RM)	1,445	0.19% ▲	9.08% ▲	1.90% ▲

	Current	1 Month Ago	1 Year Ago
Ringgit per US\$	4.03	4.13	3.77
Crude oil (US\$)	\$48.33	\$49.10	\$59.47
Crude palm oil (RM)	RM 2,400	RM 2,635	RM 2,224

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declined -0.73%. Meanwhile, the ringgit appreciated as there was general calm on the Malaysian political front.

Indonesia

The Indonesian parliament in late June passed the much awaited tax amnesty law aimed at improving the government's revenues and encouraging wealthy citizens with assets abroad to come clean. We believe that the additional revenues will come in handy for the government to fund its subsidy programs.

On the economic front, exports plummeted by -9.75% in May, dragged down mainly by low commodity prices. Imports meanwhile contracted -4.12%. However, foreign investors flocked to the equity market with net buying of US\$518 million in June as Brexit fear dissipated and investors cheered the tax amnesty legislation. The Jakarta Composite Index closed at 5,016.65, up 4.95% in local currency and up 5.44% in ringgit terms over the prior month. Year-to-date, the index is up 10.96% in local currency and up 8.25% in ringgit terms.

Philippines

Post-election exuberance continued in June with investors showing approval of now-President Rodrigo Duterte's victory. Duterte took office in late June and announced his cabinet. Most investors like his tough stance on terrorism and have a generally favorable view of his Cabinet, particularly Finance Minister Carlos Dominguez. The Philippines has been one of the fastest-expanding economies in the region in recent times, 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. The Duterte government calls for continued strong growth for the Philippines, forecasting between 6% and 7% in 2016.

The Philippine Stock Exchange Index closed at 7,796.25, up 5.44% in June over May. In ringgit terms, the index was up 1.54%. Year-to-date, the index has risen 13.53% in local currency and 5.31% in ringgit terms.

Singapore

Singapore's manufacturing sector remained weak, with activity shrinking for a twelfth straight month in June, driven by contraction in factory output and a faster rate of contraction

in both new orders and new exports. Manufacturing, which makes up a fifth of the Singapore economy, has been hit hard by tepid global growth and ongoing restructuring. Overall, demand and supply remained tepid in the near term for Singapore's manufacturers as they continued to pile up inventory, and many economists project weakness in the quarters ahead. The country's central bank recently eased its monetary stance, and the government announced a \$5 billion spending plan to boost growth, but it is too early to predict the impact of these expansionary policies.

Singapore's Straits Times Index rose 1.79% in June to 2,840.93. In ringgit terms, the index rose 0.87% in the month. Year-to-date, the index is up 0.25% in local currency but is down -2.33% in ringgit terms.

Thailand

The Stock Exchange of Thailand Index closed up 1.46% in June to 1,444.99. In ringgit terms, the index gained 0.19% in the month. Year-to-date, the index is up 14.61% in local currency and up 9.08% in ringgit terms.

Thailand's industrial production picked up pace in May as major industries boosted manufacturing activity. Data showed Thailand's automotive production jumped 24.7% in May, while electronics and electrical appliance manufacturing rose 4.5% and rubber production increased 9.8%. The improvement in production was offset by declines in other sectors, including textile, apparel, and food.

Consumer sentiment declined to a six-month low in May, as the worst drought in over twenty years hurt the farm sector and concerns lingered over the global economy, Brexit, and Thailand's political future.

PORTFOLIO TACTICS

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

Vol. 7 No. 06

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