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Martin Currie

March 2018

ASEAN EQUITIES REVIEW

March proved to be a volatile month for ASEAN equity markets. The headline fall in the MSCI AC ASEAN (Net) index of 3.1% in Singapore dollar terms, hid very poor performance from Indonesia and the Philippines, which were both down more than 6%. This was, in part, due to exchange rate moves, and in the case of the Philippines, the peso was down against the already weak US dollar by 4.3% for the first quarter.

We commented in January that it was likely regional central banks would be looking at tighter policy into 2018, as the US Federal Reserve (Fed) raised rates. Despite the Fed rate rise in March, it is becoming fairly clear ASEAN banks are reluctant to tighten too early. This is a delicate balancing act; on one hand, they do not want to get behind the curve, given the inherent risks for later policy and potential foreign-exchange issues. On the other, many economies are only just beginning to show signs of improvement and higher real rates risk choking off a nascent recovery. It is early days but, given all the talk about a weak US dollar, it is worth noting that on top of the mentioned drop in the Philippine peso, the Indonesian rupiah has also weakened against the greenback.

The Bank of Thailand, has kept rates unchanged at 1.50%. However, one of the seven Monetary Policy Committee members voted for a 25 basis-point rate rise, suggesting at least a little uncertainty. At the same time, the bank raised its economic growth forecasts to 4.1%, while lowering its predictions for inflation. Meanwhile, the Monetary Authority of Singapore (MAS) is widely expected to tighten policy, via an appreciating currency at its next policy review.

Malaysia is the one country which has already hiked rates and would appear to be on hold for the foreseeable future. The focus now is undoubtedly on the election which will take place over the coming months.

However, in Indonesia, given the persistently high real rates in the economy and lack of consumption growth, there is even some discussion about a rate cut. We spoke to several of the big banks in Indonesia this month and although they tend to agree a rate rise is eventually inevitable to maintain stability, they also highlighted the lack of loan growth caused by the high real rates. In addition to the mysterious lack of a consumption recovery, there also appears to be a reluctance to invest ahead of the early 2019 Presidential elections.

Elsewhere, the risk in the Philippines comes from a slowing of the two recent economic drivers – namely the business process outsourcing (BPO) sector and overseas remittances. This possible slowdown has combined with a trade deficit which, although small, is moving the wrong way; as well as perceived budget risks from the ambitious ‘Build, Build, Build’ infrastructure programme. Together these factors have clearly driven the abovementioned currency pressure. The recently instituted tax-reform package, coupled with the weaker peso, both risk resulting in higher inflation. As discussed, this will make for difficult central bank decisions. On the other hand, the infrastructure spend can be expected to add a short-term stimulative effect to the economy and, if successful, will be incredibly beneficial to long-term development.

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* As of 28 February 2018.

With effect from 1 August 2017, the sub-manager of Legg Mason Southeast Asia Special Situations Trust has been changed from Havenport to Martin Currie Investment Management limited (Martin Currie). In addition, the fund name has been changed from Legg Mason Southeast Asia Special Situations Trust to Legg Mason Martin Currie Southeast Asia Trust.

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