

Martin Currie

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ASEAN EQUITIES REVIEW

After two fairly flat months, Southeast Asian markets rose in October, the MSCI AC ASEAN up 2.5% in Singapore dollar terms. The best performing market was Singapore, which rose 5.4%, while Malaysia was weakest, rising 0.1%.

In Singapore, the early positive signs of an economic pickup were evident in the third-quarter GDP figures, up 4.6% year on year, boosted by a strong manufacturing sector and a steady service sector. Construction continues to be weak, although news from the property sector suggests this area might also be on cusp of a turnaround. The manufacturing numbers, which are driven partly by inventory adjustments, will prove to be temporary, but clearly the data is much improved.

We still await improvement in economic activity in Indonesia. Following two recent rate cuts, the central bank may well be back on hold for some time. One issue this year has been the negative impact from a higher tax take not finding its way to spending. Consumers meanwhile have been hurt by increased living costs – especially from higher electricity prices. However, these factors could all prove to be tailwinds going into 2018: lower rates, living-cost increases out of the way and the possibility of a more generous government-spending programme could all be in place as we enter the new year. For now, though, earnings are weak and revisions below expectations have been the order of the day.

Thailand's news has obviously been dominated by the cremation of King Bhumibol Adulyadej. Plans for an election have also been announced for November next year (although given the number of false dawns for new elections we will only really know much closer to the date if these will go ahead). Politically and economically the return of colour to Thailand (the end of the official year of mourning for the King) could produce a boost to activity, but also raises the risks of political discord. The Thai government has upgraded its economic expectations, but

at less than 4% growth (and driven largely by exports) these are still somewhat underwhelming.

In Malaysia, the focus was on the announcement of the 2018 budget, widely expected to include generous giveaways ahead of elections. There had been some fairly obvious signs, including middle-income tax cuts, subsidies to very specific groups in rural areas and special payments to public servants. However, the budget appears to have been conservative and prudent, with a deficit target of 2.8% of GDP the lowest for many years. The background to this is a speeding up of economic growth and an improved revenue contribution from the higher oil price. Overall, we would regard this positively. Indeed, the economy seems to be on a better footing than it has been for a few years.

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* As of 30 September 2017.

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