

# ASEAN EQUITIES REVIEW

Overall ASEAN markets were only down a little in September, falling by less than half a percent. However, that hid a significant amount of volatility and some real pressure in the Philippine market, which fell by 8.6% in Singapore dollar terms as measured by the MSCI AC ASEAN index. Meanwhile, Malaysia fell by 1.9% and Indonesia wasn't much better, down 1.8%. The two strongest markets were Singapore, up 1.8% and Thailand up 2.9%. From these moves it's quite clear that investors are moving assets to the economies least at risk from rising rates and foreign exchange risks, even if it means investing in the slower growth economies within the region.

Economic pressure is certainly building in the Philippines. The main factor has been inflation, particularly rising food prices, which appear to have become entrenched. The attitude of corporates in the country is that this is a return to the 'usual' operating environment; however, it is now several years since this was an issue and the central bank clearly needs to raise rates. Indeed, there was another 50-basis point (bps) rise in rates in September and economists are increasingly expecting more – clearly putting growth targets under pressure. The Duterte administration will also be under pressure given that tax changes were one of the contributing features and the growth expected from infrastructure investment will now be needed even more than before.

Thailand has been relatively immune to the interest rate and currency concerns hitting the region and although growth is fairly pedestrian, it does appear to be improving. However, the long-term trends are conspiring against Thailand, specifically an ageing population and a heavily indebted one at that. But today tourism and exports are driving a decent recovery. The improvement is not widespread – the consumer isn't really spending and the small and medium-sized enterprise (SME) sector is suffering, in part due to exposures to sectors which are struggling. On the macro side, Thailand operates a current account surplus and as the manufacturing sector benefits from a weaker baht, the Bank of Thailand has been able to stand back and watch as regional peers have been raising rates. Inflation is around 1.6%, and the policy rate at 1.5%, rates are negative. This relatively benign, if unexciting economic situation has led to a relatively strong stockmarket performance of late compared with regional peers.

Indonesia sadly is in the midst of a humanitarian disaster following an earthquake and tsunami affecting Sulawesi. What impact this will have isn't yet clear, although the reconstruction will undoubtedly prove a strain. Economically Indonesia continues to struggle with the issues we have highlighted over the previous few months, namely a weak rupiah forcing the central bank to raise interest rates at a time when the domestic economy doesn't actually require it. Two of the factors driving this outcome are a current account deficit coupled with a bond market with large overseas participation. Recently, the government has imposed additional import taxes on a range of goods to try to stem the deficit, but it is too early to judge the success of this policy. At the same time, Bank Indonesia has raised rates yet again by 25 bps to 5.75%. Exact numbers aren't available, but it appears that the bond market hasn't seen a great deal of outflow as yet, suggesting fixed income investors are somewhat reassured by the proactive policy. This of course is good news, but also suggests that this remains a risk if things deteriorate.

The changed political landscape in Malaysia continues to mean a great deal of uncertainty. While we remain hopeful that eventually this can lead to structural reform, the initial changes concern the fiscal policy. The goods and services (GST) tax has been removed and infrastructure projects cancelled. This could suggest fiscal pressure from reduced tax receipts and

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a slower growth impetus from government spending. In the short term, however, the higher oil price is very beneficial in alleviating these pressures, but further changes will be necessary to address the economic slowdown.

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