Asia ex-Japan Equity

Equities - Asia Ex-Japan	1 Mth	3 Mth	6 Mth	YTD	1 Yr	3 Yrs
MSCI AC Asia Ex-Japan	-7.1	-14.7	-11.4	-5.0	-4.9	24.0
MSCI Far East Free Ex-Japan	-7.2	-15.9	-11.5	-5.6	-5.8	22.1
MSCI China	-9.0	-22.0	-11.1	-3.6	2.7	38.6
MSCI Hong Kong	-10.3	-12.8	-5.4	2.2	3.6	45.7
MSCI India	-6.2	-2.7	-11.1	0.8	4.4	46.0
MSCI Indonesia	-6.2	-15.5	-20.4	-17.7	-15.1	-9.5
MSCI Korea	-3.6	-12.7	-12.1	-7.5	-16.4	2.5
MSCI Malaysia	-12.6	-16.3	-20.7	-18.1	-25.6	-12.2
MSCI Philippines	-5.0	-5.6	-8.7	2.0	9.4	56.7
MSCI Singapore	-8.9	-13.1	-12.5	-12.1	-10.9	4.1
MSCI Taiwan	-4.7	-12.4	-10.1	-3.6	-3.4	33.9
MSCI Thailand	-3.7	-8.5	-14.1	-8.0	-8.4	11.1

Returns in percentage and in Singapore dollars. Source: Bloomberg, data as at 31 August 2015.

Asia ex-Japan equities saw steep declines in August continuing from the fall in July as concern deepened over China's growth trajectory spilling over to global growth. Volatility in currencies and the oil price, and the timing of the US Federal Reserve's (Fed's) impending rate increase also weighed on markets. Global equity markets similarly declined as Emerging Markets (EM) underperformed Developed Markets (DM) and all regions posted losses. Fixed income markets fared better with G7 and Investment Grade (IG) credits gaining while Asia and High Yield (HY) declined. Energy recovered in August with gains while Gold was the best-performing asset class on increased risk aversion.

All sectors across Asia ex-Japan declined in August with the cyclical sectors, financials and energy, being the worst performers. In contrast, the defensive healthcare sector outperformed. Across markets, Malaysia, Hong Kong, China and Singapore were the worst-performing markets. Currency weakness, driven by the Chinese renminbi depreciation, was the main drag on Malaysia's market performance while Hong Kong/China was the epicentre of global growth concerns. Thailand and Korea were the best-performing markets while Taiwan and the Philippines also fared better with smaller losses.

Global economic leading indicators weakened in August across all regions except Japan. China's official Purchasing Managers' Index (PMI) for August came in at 49.7, falling back into contraction after five months of staying above the 50-level, although the August reading was within expectations. The final August reading of the private-sector Caixin PMI rose to 47.3 from the preliminary flash reading of 47.1 and continues the declining and contraction trend from March this year.

China depreciated its currency by a record 1.86% and moved to a more market-based mechanism for setting the exchange rate earlier in the month. It described the move as a one-time adjustment with plans to keep the renminbi stable at a "reasonable" level and strengthen the market's role in determining currency fixing. In the last week of August, the central bank again cut interest rates and the reserve requirement ratio (RRR) by 25 basis points (bps) and 50 bps respectively. This was after the domestic equity markets plunged 7.6% in a four-day decline that was the steepest fall since 1996 as recent economic data pointed to a worrying deceleration in growth. The latest real activity indicators such as industrial production and retail sales dipped again in July after a slight uptick in June. Exports in July showed a decline of 8.3% year-on-year (yoy), resuming the negative trend for the year after turning in a positive 2.8% growth in June. Property sales have picked up, although new construction starts have yet to see improvement given the inventory situation and lacklustre new land sales.

Asia ex-Japan Equity

ASEAN markets underperformed the broader Asia market with currency weakness being a key drag following the renminbi depreciation. Malaysia ringgit is the weakest performer among the Asian currencies with a 15% decline against the US dollar year-to-date. Indonesia ranks as the second weakest currency followed by the Thai baht, Singapore dollar and Philippine peso. Singapore growth weakened and inflation continued to stay negative for the ninth straight month on declining private transport costs while the 3-month swap offer rate (SOR) used to price loans jumped to 1.4% – a level not seen since January 2009. Parliament was dissolved and Singaporeans will vote in a General Election on 11 September. Indonesia held rates steady "to stabilise the rupiah amid uncertainty in the global economy" and its July trade surplus widened on a sharp decline in imports. In Thailand, the central bank held policy rates unchanged on increased downside risk to the economy and as a tragic bomb blast in Bangkok killed 20 people. The Philippines similarly held rates unchanged, while analysts cut the 2015 GDP growth forecast to 6% on slower-than-expected government spending and weaker external demand.

Outlook and Strategy

Growth in Asia has decelerated due to a combination of domestic and external factors as well as the spill-over from China's growth slowdown. However, inflation rates in Asia have mostly declined, allowing central banks to ease monetary policy. With the US expected to raise interest rates eventually, this could be a headwind for the region with changes in US monetary conditions transmitting into many domestic monetary systems via pegged and linked exchange rates, and/or external debt. As a result, Asia markets could also face fund outflows.

We continue to stay cautious on the fundamentals of China's economy. We expect that following the central bank's move to cut interest rates and lower banks' RRR, there is room for the Chinese authorities to ease monetary policy further to support growth. However, we are uncertain about the extent to which these monetary easing measures can help revive the real economy. We think that more importantly, China must re-engage the investment interests of the private sector. In order to achieve that, the country needs reforms. There have been some positive developments on this front such as developing the public-private partnership (PPP) model for infrastructure investments, rather than simply using public spending to replace private investment. However, the execution and impact of reforms take time and we cannot expect to see near-term economic growth improvement from them.

We believe China is taking the right path of economic reforms rather than taking the easy way out with a big fiscal and monetary stimulus like in 2008 which will give a short-term growth boost, but has longer term negative consequences. We acknowledge that it will be a challenging balancing act to achieve much needed but painful reforms while not letting the economy slip into a hard landing. However, valuations of China equity have fallen back to the lows seen during the global financial crisis and 2003 SARS period on a price-to-book basis. Despite the difficult issues the economy faces, we do not believe that the situation is dire enough to merit such a punishing valuation.

We continue to be mindful that China's transition in its economic growth structure will create winners and losers and the nascent capital market is prone to huge volatility as we had witnessed in June to August. We continue to monitor macroeconomic and corporate developments closely to seek out more attractive niches.

All statistics quoted in the write-up are sourced from Bloomberg as at 31 August 2015 unless otherwise stated.

Contact Details

SINGAPORE
UOB Asset Management Ltd

Address 80 Raffles Place UOB Plaza 2 Level 3 Singapore 048624
Tel 1800 222 2228 (Local) • (65) 6222 2228 (International)
Fax (65) 6532 3868
Email uobam@uobgroup.com
Website uobam.com.sg

MALAYSIA
UOB Asset Management (Malaysia) Berhad

Address Level 22, Vista Tower, The Intermark
No. 348 Jalan Tun Razak, 50400 Kuala Lumpur
Tel (03) 2732 1181
Fax (03) 2732 1100
Website uobam.com.my

THAILAND
UOB Asset Management (Thailand) Co., Ltd

Address 23A, 25 Floor, Asia Centre Building, 173/27-30, 32-33
South Sathon Road, Thungmahamek, Sathon, Bangkok 10120, Thailand
Tel (66) 2786 2000
Fax (66) 2786 2377
Website uobam.co.th

BRUNEI
UOB Asset Management (B) Sdn Bhd

Address FF03 to FF05, The Centrepoint Hotel, Gadong,
Bandar Seri Begawan BE 3519, Brunei Darussalam
Tel (673) 2424806
Fax (673) 2424805

TAIWAN
UOB Investment Advisor (Taiwan) Ltd

Address Union Enterprise Plaza, 16th Floor, 109 Minsheng East Road, Section 3,
Taipei 10544
Tel (886)(2) 2719 7005
Fax (886)(2) 2545 6591

JAPAN
UOB Asset Management (Japan) Ltd

Address 13F Sanno Park Tower, 2-11-1 Nagatacho, Chiyoda-ku,
Tokyo 100-6113 Japan
Tel (813) 3500-5981
Fax (813) 3500-5985

Important Notice and Disclaimers

This publication shall not be copied or disseminated, or relied upon by any person for whatever purpose. The information herein is given on a general basis without obligation and is strictly for information only. This publication is not an offer, solicitation, recommendation or advice to buy or sell any investment product, including any collective investment schemes or shares of companies mentioned within. Although every reasonable care has been taken to ensure the accuracy and objectivity of the information contained in this publication, UOB Asset Management Ltd and its employees shall not be held liable for any error, inaccuracy and/or omission, howsoever caused, or for any decision or action taken based on views expressed or information in this publication.

The information contained in this publication, including any data, projections and underlying assumptions are based upon certain assumptions, management forecasts and analysis of information available and reflects prevailing conditions and our views as of the date of this publication, all of which are subject to change at any time without notice. UOB Asset Management Ltd ("UOBAM") does not warrant the accuracy, adequacy, timeliness or completeness of the information herein for any particular purpose, and expressly disclaims liability for any error, inaccuracy or omission. Any opinion, projection and other forward-looking statement regarding future events or performance of, including but not limited to, countries, markets or companies is not necessarily indicative of, and may differ from actual events or results. Nothing in this publication constitutes accounting, legal, regulatory, tax or other advice. The information herein has no regard to the specific objectives, financial situation and particular needs of any specific person.

You may wish to seek advice from a professional or an independent financial adviser about the issues discussed herein or before investing in any investment or insurance product. Should you choose not to seek such advice, you should consider carefully whether the investment or insurance product in question is suitable for you.

UOB Asset Management Ltd Co. Reg. No. 198600120Z