Asia Pacific Equity

Equities - Asia Pacific	1 Mth	3 Mth	6 Mth	YTD	3 Yrs
MSCI Asia Pacific	-0.4	2.4	1.9	5.3	35.4
MSCI Japan	0.3	1.4	1.5	0.8	36.1
MSCI AC Asia Ex-Japan	-0.7	3.8	4.5	10.0	35.8
MSCI Australia	-0.6	0.4	-5.0	3.1	32.1

Returns in percentage and in Singapore dollars. Source: Datastream

Asia Pacific equity markets were mostly down for the month, as sharp declines in oil prices, renewed political uncertainty in Greece, and deteriorating economic outlook in Europe resulted in a risk-off mood. The falling oil price triggered a collapse in the Russian rouble, prompting the Russian central bank to raise rates from 10.5% to 17.0%.

MSCI Japan outperformed MSCI Australia and MSCI Asia Ex-Japan. The top-performing sectors in the Asia Pacific were financials, healthcare, and industrials. The worst-performing sectors were energy, telecommunication services and consumer staples.

Across the Asia ex-Japan markets, performance was mixed. The Chinese market outperformed in December despite its weakening Purchasing Managers' Index (PMI) data as the financials sector led gains on expectations that the government would ease monetary policy further. The central bank relaxed the calculation of the loans-to-deposits ratio (LDR) with the inclusion of deposits between banks and non-bank financial institutions into deposit calculations.

The Southeast Asian markets as a whole underperformed in December, dragged down by Thailand and Malaysia, while the Philippines, Singapore and Indonesia outperformed. The Thai market was hurt on the back of talks related to the King's health and as the central bank left rates unchanged. Malaysia's trade surplus fell to its lowest level since the Asian Financial Crisis as exports shrank more than expected on declining oil prices and imports rose sharply. The Philippine market was boosted by an easing of inflation on the back of low oil prices and a fall in unemployment rate. Singapore saw deflation for the first time in five years with November's CPI at -0.3% year-on-year (yoy) due largely to the sharper decline in private road transportation costs. The Indonesian government announced that it will remove the subsidy for gasoline, maintaining a fixed Rp1000/litre subsidy for diesel fuel in 2015, which is estimated to save more than Rp200 trillion from the state budget.

Australian equities fell, due mainly to the sharp decline in oil prices and weakness in the Australian dollar. Macroeconomic data releases continued to show a slowing growth trajectory. The real GDP for the third quarter of 2014 rose 0.3% quarter-on-quarter (qoq), falling short of consensus expectations for a growth of 0.7% qoq. This is attributed mainly to a deep decline in mining construction activity and disappointing consumption growth. RPData-Rismark house prices fell month-on-month (mom) in November, while the annual growth rate of 8.5% showed deceleration to its weakest rate in a year. On the policy front, the Reserve Bank of Australia (RBA) retained a neutral policy stance during its monthly policy meeting although the underlying tone was slightly dovish.

Japanese equities rose initially on the back of expectations for interest rate hikes by the US Federal Reserve (US Fed) and yen depreciation. However, the market later corrected due to external negatives and an unexpected downward revision to Japan's real GDP for the third quarter of 2014. The ruling Liberal Democratic Party's victory in the lower house elections did not lift market sentiment as the results were largely within expectations. Towards month-end, the Abe government announced an economic stimulus package amounting to JPY3.5 trillion aimed at the local economies and proposed a 2015 tax reform. The key element of the reform is corporate tax rate reduction with some measures to extend the taxable base.

Asia Pacific Equity

Outlook and Strategy

We continue to favour Asia ex-Japan over Japan and Australia due to the better longer-term growth prospects and more attractive valuations.

Growth in 2015 is expected to improve across most of the regions except in China and Malaysia. The tailwinds from lower energy prices have yet to be factored in by the market and this could present an upside surprise to earnings.

The structural challenges that China faces persist with credit and economic growth continuing to slow, though the surprise cut in interest rates by the central bank could potentially alleviate some of these concerns.

We continue to be overweight on the Thai, Indonesian and Philippine markets, which are expected to be the major beneficiaries of low oil prices. Similarly, we favour India, which is riding on macro tailwinds with lower energy and gold prices. We are less positive on Hong Kong as we expect the market to be more vulnerable to a US rate rise and China's slowdown. The overhang from the Occupy Central movement also heightens political risk.

We expect modest economic recovery in Japan over the next few quarters, helped by inventory restocking and fiscal stimulus. As with the rest of Asia, lower energy prices are positive to Japan's economy. A weaker yen, possible lower taxes, and continued share buybacks could translate to higher earnings and return-on-equity.

After the sharp pull-back, Australia's valuations are now back to historical average levels. In the longer term, however, we remain cautious on the structural outlook. We expect the country's growth trajectory to slow due to the peaking-out in mining investments. The recent slide in oil prices could also have negative economic impact, via lower liquefied natural gas (LNG) revenue. We believe that the RBA would likely maintain its easy monetary policy. Here, we continue to favour yield plays and foreign currency earners.

Besides Consumer and Information Technology, we also like the Healthcare sector.

All statistics quoted in the write-up are sourced from Bloomberg as at December 2014 unless otherwise stated.

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