County Updates: For the month ending October 2018

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by Team

of Matthews Asia

China/Hong Kong

In October, the MSCI China Index returned -11.30% and Hong Kong's Hang Seng Index returned -9.97%, both in local currency terms. China's domestic CSI300, the A share index, returned -8.26% in local currency terms (-9.67% in U.S. dollar terms). The renminbi (RMB), ended the month at 6.98 against the U.S. dollar (USD).

Especially hard hit among China shares in October were consumer-related businesses with exposure to a perceived slowdown of the Chinese economy. U.S.—China trade tensions escalated early in the month only to diminish in the last days of October as news broke that President Trump and President Xi spoke on the phone, which spurred speculation that trade talks could progress during the G20 meetings to be held in late November in Buenos Aires. Economic data disappointed investors in October and threats of a 25% tariff prompted media reports of a "Chinese slowdown." The Chinese government has been mildly proactive in communicating its willingness to provide economic stimulus if needed. It has stressed the use of lower taxes as opposed to large government spending programs and has continued to resist the notion of a significantly weaker RMB to offset higher tariffs on exports to the U.S. The MSCI China Index was down almost 30% (from end of January to end of October) from year-to-date highs in January and there seems to be some "selling fatigue" at this level of index valuation. For more on China, please read the latest issue of Sinology.

India

In October, the S&P Bombay Stock Exchange 100 Index returned -6.17% in U.S. dollar terms (-4.21% in local currency terms).

India's equity market was weak in October, although slightly better than September in USD terms. A hangover from macro headwinds continued in October with a slightly weaker Indian rupee along with increased inflationary pressures convincing market participants that India's central bank (RBI) would orchestrate an economic slowdown via higher policy rates. That said, one of the major headwinds for India's current account diminished in October as oil prices fell almost US$10 during the month. In addition, the fall of equity prices, especially among small-cap stocks, has made overall market valuations much more reasonably priced and closer to long-term averages. Local mutual fund inflows bounced in October while foreigners were net sellers.

Japan

In October, the Tokyo Stock Price Index returned -9.41% in local currency terms (-9.05% in U.S. dollar terms). The yen ended the month at 112.94 against the U.S. dollar.

Japanese shares were some of the weakest in the region during October after posting good results in September. Trade tensions between the U.S. and China exacerbated fears that China and the rest of the global economy could slow. Therefore, growth stocks in Japan, especially those that sell into China, were some of the hardest hit. In addition, quality, smaller-cap securities that outperformed earlier in the year were underperformers. Earnings season is pointing to reasonable index aggregate earnings growth in the mid-single digits—a bit ahead of early year expectations positively influenced by a competitive Japanese yen, relatively robust domestic demand and sustained capital spending.

South Korea

In October, the Korea Composite Stock Price Index (KOSPI) returned -15.81% in U.S. dollar terms (-13.37% in local currency terms). The Korean won declined by -2.68% against the U.S. dollar.

South Korean equities were some of the worst regional performers in October after posting decent outperformance in September. Consumer-related companies were hardest hit, especially consumer staples, discretionary and health care. Government policies have shown mixed results as corporate earnings and hiring tendencies have been negatively affected by stiff hikes in the minimum wage over the past two years. As a result, although consumption is steady, domestic investment is lagging, which is lowering overall economic growth expectations for 2018.

Southeast Asia

In October, concerns surrounding trade tensions and tightening U.S. monetary policy continued to weigh on Asian markets, pushing the MSCI ASEAN Index lower by -6.24%, although the ASEAN index fared better than the MSCI Asia ex Japan, which fell -10.85%.

Singapore's STI Index fell by -8.59% (and -7.29% in local currency terms) during the month. Slowing growth momentum has become visible in areas such as non-oil domestic exports, particularly for electronic products, contributing to a moderation in industrial production figures. The latest reading came in at 0.2% year over year (YoY) compared to the 2018 first half average of 10% YoY. On the policy front, Singapore tightened its monetary policy slightly by raising the Singapore dollar nominal effective exchange rate (NEER) slope by a likely 50 basis points (0.50%). Rising core inflation concerns may have outweighed downside risks to growth from escalations in the U.S.—China trade war. Domestic demand appears to be holding up despite external headwinds, mainly supported by stable employment growth and a moderate uptick in wage growth.

Indonesia's JCI index fell -4.27% (and -2.32% in local currency terms) in October and the Indonesian rupiah breached the psychologically important 15,000 rupiah/USD level. Bank Indonesia (BI), the country's central bank, held policy rates at 5.75% after raising rates by 150 basis points (1.50%) since May this year. BI's more modest move likely reflects the absence of inflationary pressures and recent implementation of various non-rate measures to rein in the current account deficit. These include import duties on various consumer goods and mandating use of 20% biofuel across the country to reduce fuel imports. There have been some early indications that the measures are having the desired effect with the latest trade balance recording a US$227 million surplus.

The Philippines PSEi index returned -0.71% (and -1.86% in local currency terms). The market was the best performer in the region and outperformed the MSCI Asia ex Japan Index by 10% as concerns of a further surge in inflation abated after the government took steps to import more rice. Rice, which makes up 9% of the consumer price index basket, had been facing dwindling supplies and was the largest contributor to the rise in inflation throughout the year. Infrastructure spending continued to ramp up, year-to-date increasing 49.8% YoY*, and without spending on any major project. The stronger public sector infrastructure spending will help to offset a likely slowdown in private investment activity as credit tightens and funding costs rise.

Sources: Bloomberg except the data on Philippines infrastructure spending.

*CEIC
