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Asia: Some of the rest but not necessarily the best: Singapore, Malaysia and Taiwan

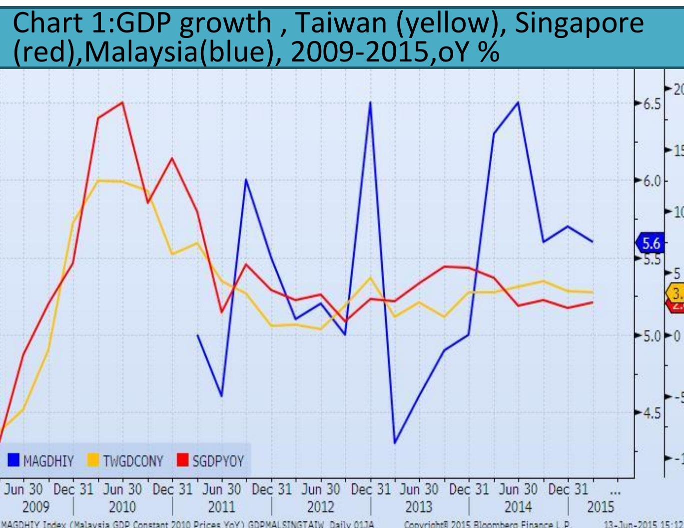
Summary	Investment Conclusions
The three economies examined here share certain common traits, even if in the negative. Singapore and Taiwan are major exporters to other Asian economies, to China in particular, and to the G3 and, hence, were impacted by the slowdown in these economies. Taiwan has very special investment and trading links with China which did not, however, help trigger a stock market boom. Singapore sound, but boring macros, translated to negative rather than low market performance. Last but not least, Malaysia's GDP growth, and hence earnings expectations, were hit by falling commodity prices and by poor business confidence levels and by a weak MYR.	Of these economies, Taiwan is most likely to benefit from a recovery in the G3 economies and in China because it has big exposure to both. Malaysia may need to wait for improvements in its domestic economy and in commodities prices, while Singapore will rely on its more diversified economy. Except for a sharp recovery in China impacting quickly Taiwan, there are no likely "events" which would make these three markets outperform. Hence it is an issue of relative than absolute preference which leads us to prefer Taiwanese equities for the rest of 2015.

The macro outlook, boring but necessary

Strangely enough, at first sight the macros of **Malaysia** are not that bad. Overall growth came to 6.0% in 2014 but is now slipping towards the 4.5-4.8 % mark for 2015. Growth for 1Q.15 came to -4.3% QoQ, but then negative first quarter growth rates are common in Malaysia. (Chart 1 blue). Exports growth has decelerated, but so did imports thus leaving the trade and current account balances still in surplus. However, there is evidence of capital outflows and/or efforts by the central bank to keep the USD/MYR under control, as forex reserves, which stood at USD 127 bl in June 2014, dropped to USD 101 bl in April this year. Central bank policy has stayed neutral with rates hiked once in mid 2014 and then kept unchanged. The USD/MYR has been weak throughout 2014 and for most of 2015, with no sign of bottoming and, although inflation is benign, the weaker currency environment does not help. (Chart 2 blue). Politics have been volatile and this may have caused a very poor business and consumer confidence indices, coupled with an overall neutral-to- tight fiscal policy and a monetary policy which does not show signs of loosening. All-in-all not an environment not encouraging for equities.

Singapore's growth trajectory (Chart 1, red) remains flat rather than decelerating. Exports' growth remains negative as does imports' growth thus neting out an overall surplus with the current account surplus rising as percent of GDP ! Oil- related exports have been hit hard with the falling prices and electronics exports also reflect the weak global recovery till now.

Chart 1:GDP growth , Taiwan (yellow), Singapore (red),Malaysia(blue), 2009-2015,oY %



Source: Bloomberg

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Continuing the tale of exporters

Singapore's MAS has no interest rate policy but guides the SGD through a weighted basket of currencies,an appreciating trend implying a tighter monetary policy.In April the MAS maintained an effectively neutral/ mildly tightening policy. The yield curve has steepened and Chart 2 shows that the USD/SGD (red) has been weakening, not to be confused with the policy guidance within a weighted basket ! Overall business expectations are flat. Under these circumstances of flat macro and no likelihood yet of an equivalent rate cut, it is not surprising that the equity market has performed poorly.

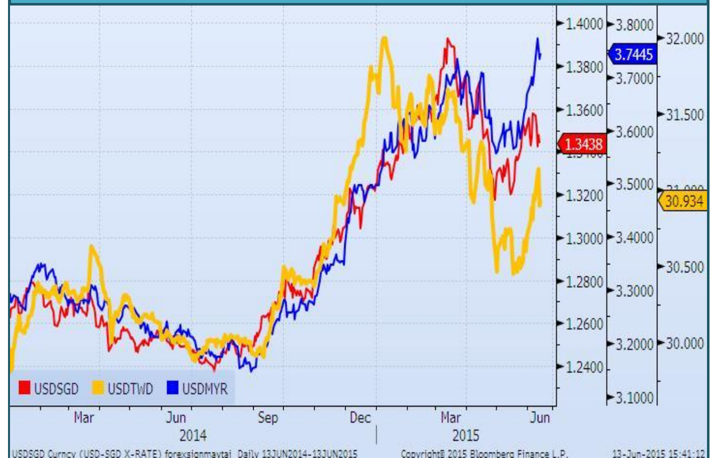
Strictly speaking, the same conclusions over the equity market should not have applied to **Taiwan**, given its tight links with China. But then, the equity market in Taiwan has no direct connections with the Shanghai, as Hong Kong has.Market performance was modest so far, but at least positive YTD in USD terms (See Factbox). However, the economy is growing at a modest pace, in 2014 at 3.8% and in 2015 possibly at around the same pace. (Chart 1 yellow). Both exports and imports shrank during February to May 2015 but still keeping the trade and current account balances in surplus. Inflation has fallen to deflation for five months to May this year, but monetary policy has been neutral with the Central Bank having hiked only once in July 2011.The USD/TWD rate followed fairly similar patterns to those of other Asian exchange rates with relative weakness in 2014 and then some appreciation to April/May this year. Given the strong external balances of Taiwan and official interest rates which, clearly, do not move with USD rates, the impending hike by the US Fed may have a muted impact.

FACT BOX: Index metrics and performance

	P/E 12M fwrd	P/B 12M fwrd	USD YTD %
Singapore	13.9	1.2	-1.6
Taiwan	13.0	1.6	+2.3
Malaysia	15.9	1.8	-8.1

The explanation of the overall poor performance of these markets need to be sought outside their rather expensive valuations, especially so in the case of Malaysia (Bloomberg)

Chart 2: Forex USD,Sing(red),Taiwan(red),Malaysia (blue) 2014-2015



Source : Bloomberg

Fitting the parts together

Both **Singapore** and **Taiwan** have the blessing and curse of being major exporters of industrial and high tech goods thus paying the price of the global slowdown. Taiwan is particularly exposed, whereas Singapore made major strides to diversify its economy towards services but this may take more than one cycle to show its benefits. Both economies have very conservative monetary and fiscal policies and their strong external positions will insulate them from any impact of US rate hikes. This does mean, however, that there are no policy suprises in the pipeline. This leaves **Malaysia** with a combination of cyclical and strctural issues, especially the important commodities sector, and oil in particular, where low oil prices may persist for years as the shale oil revolution plays out. **Taiwan's** dependence on China could not spill over to the stock market for reasons we have explained. Indeed this dependence on China has become a political issue with strong opposition to any futher trade deals with China which could make the ties tighter. But the likelihood that any G3 recovery may coincide with China's cycle bottoming out, makes **Taiwan relatively more attractive for equity investment for the resst of 2015 purely on the basis of macros.** It is unlikely that the central bank will cut rates now, especially with actual deflation registered.

Andrew Freris

(Writing completed on 14/6/2015)