STRATEGY RESEARCH | Global

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The Strategist

Here A Vol, There A Vol, Everywhere A Vol Vol

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Following on from our first note in early December, our core theme remains that the USD is set to strengthen, currency volatility to be high, Asian rates to trend down and Asian currencies to weaken. All this implies a largely defensive strategy.

Our cover chart updates the link between implied currency volatility and the S&P500 where the former leads the latter. For global companies, we think higher currency volatility implies a higher cost of capital. The high currency volatility we see now we reckon will result in lower global equity prices.

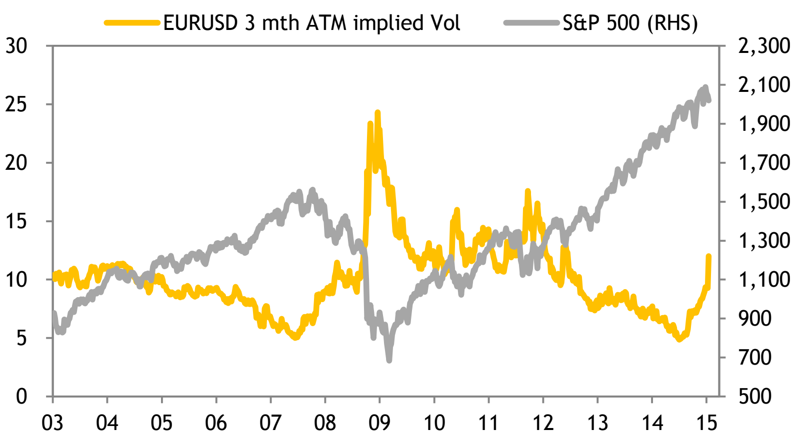
Furthermore, we continue to think it is likely the costs of USD strength and higher FX volatility will overwhelm any positive impact of lower oil prices.

We still recommend Asian investors focus on structural stories and relative value strategies. We introduce a new relative value trade, Long Singapore equities against a Short in Thailand equities.

Finally, we remain NEUTRAL on China but tactically Long the banks. If anything, we are concerned that local interest rates are too high and we need to see monetary policy ease. Returns on capital are still too low. China PPI inflation has been negative now for three years.

With margin debt very high, we think the A-H premium is set to narrow with A-shares correcting rather than H-shares rallying. Further out, with the supply of RMB set to rise, a broad USD acceleration means we still think RMB weakening is a core risk.

Currency implied vol and the S&P 500



Source: Bloomberg, Maybank Kim Eng Research

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Back on the farm

Following on from our launch (Must… FiX… This… December 5, 2014), our core theme remains that the USD is set to strengthen, and currency volatility set to remain high, implying a largely defensive strategy.

1) The USD that is breaking out of a 30-year downtrend.
2) Many corporations have borrowed USD or have local debt markets funded by USD lenders. A USD rally poses threats to funding and therefore economic activity.
3) Our cover chart shows how in the past 10 years, higher EUR/USD implied volatility has led the S&P500. The recent rise in this measure suggests a negative stance to US equities.
4) For Asia ex Japan equity investors, currency-based models already suggest that equities in this region could return to trough valuations, or over 20% below current levels.
5) With little inflation threat, central banks in the region are likely to let their currencies weaken.
6) Finally, returns on capital in China are very low compared to the cost of capital. In coming months, the supply of RMB is set to increase because China needs to further cut their interest rates. That suggests a weaker RMB this year.
7) The implication of this is to stay with structural stories: India, the Philippines, Vietnam.
8) And to like Relative Value Trades: including, Long Financials, Short Non-Financials; Long Financials, Short Tech; Long China, Short Taiwan. To that we add Long Singapore, Short Thailand.

Financial market volatility meets the oil price decline

The key non-linear problem we have is how a stronger USD and higher currency volatility translates directly to negative economic activity. While we can calculate the impact of lower oil prices on global growth, the impact of higher volatility in the “financial economy” is harder to estimate.

Also, one needs to be able to argue that this volatility needs to be sustained. Our simplistic approach is to argue that currencies rally if the economy attracts capital compared to others. In our last note, we argued that we see little in Japan and Europe to suggest they will be significant attractors of capital. And that the USD is also likely to strengthen against Asian currencies.

Our bias has been that the negative impact of currency moves and volatility is likely to be greater than the positive benefits of oil price declines. The arguments behind that was that:

- First, higher FX volatility implies a higher cost of capital for global companies (ie, FX vol to equity price moves);
- Second, a simple FX + commodity price valuation model implies significant equity downside for this region (ie, FX and commodity moves to equity valuation); and,

- Third, that investing in a stronger USD environment is very different than otherwise, given the explosion of USD debt issued by companies during the QE period.

As we go into the ECB this week, not much has changed from our perspective.

FX vol as a tax on globalization

Our cover chart is a reproduction from our first note (Must… FiX… This… December 5, 2014). The underlying logic behind the relationship is the higher FX vol, for global companies, raises the cost of hedging and investment hurdle rates for offshore investments. In that sense, it implies a higher cost of capital and lower equity multiples.

With almost 50% of revenues in the S&P500 from outside the US, the stronger USD has the potential to impact profits. Indeed, last week, Apple increased the prices of some Apps across Europe. While Apple has pricing power, it's unclear other companies do.

Added to this is rising FX vol. The EUR/USD is arguably the most important currency pair. In the last BIS triennial Survey in 2013, the cross accounted for 24% of all FX trading.

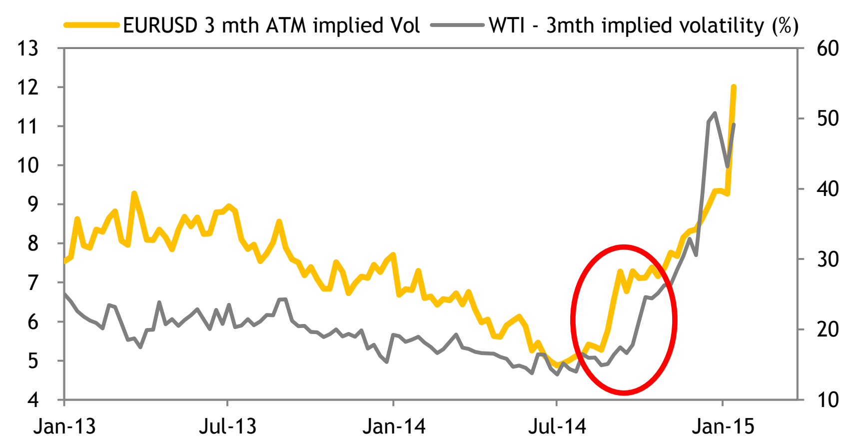
We should add that the link only works for 10 years – though the past 10 years were arguably when the world became much more globalized. In 2004, average daily turnover in the currency markets was a little less than USD2t from a little more than USD1t in 2001. In 2013, average daily turnover was USD5.3t.

Global trade is particularly interesting: in 1995, global exports (from WTO statistics) amounted to USD5.2t. Six years later is was USD6.2t. In 2004, it had grown to USD9.2t. In 2013, it was USD18.8t. So, perhaps that the correlation is strong in the last 10 years is not too surprising.

USD vol leading oil vol?

The financial economy is also very integrated. And higher volatility in one asset class has the potential to spill over to other asset classes.

Figure 1: Currency implied vol leading commodity implied vol

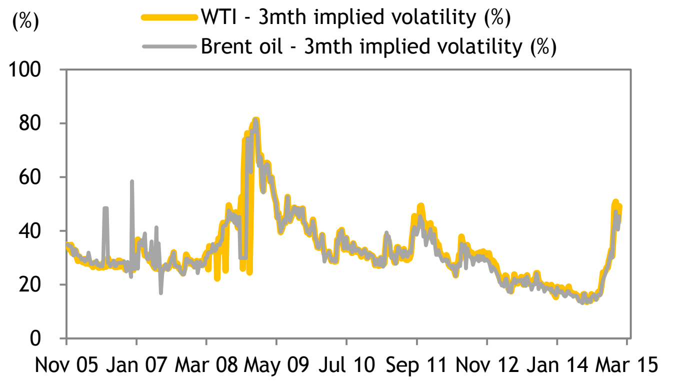


Source: Bloomberg, Maybank Kim Eng Research

The chart above shows EUR/USD 3-month ATM implied vol leading oil vol. This may be due to the often cited correlation of USD to commodity prices.

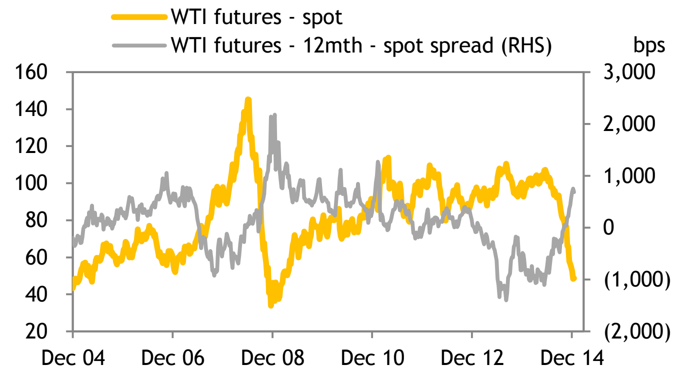
And EUR/USD implied vol was unusually low so some rise may not have been too surprising. That said, the current level of implied vol on WTI near month contract of 49 is very high and suggests oil could bounce. In addition, oil futures have already entered into contango and the last time we saw this kind of big spread was in 2009. These two together suggest the potential for some near-term stabilization in near-term oil prices.

Figure 2: Oil price 3-month implied volatility



Source: Bloomberg, Maybank Kim Eng Research

Figure 3: Contango opportunity

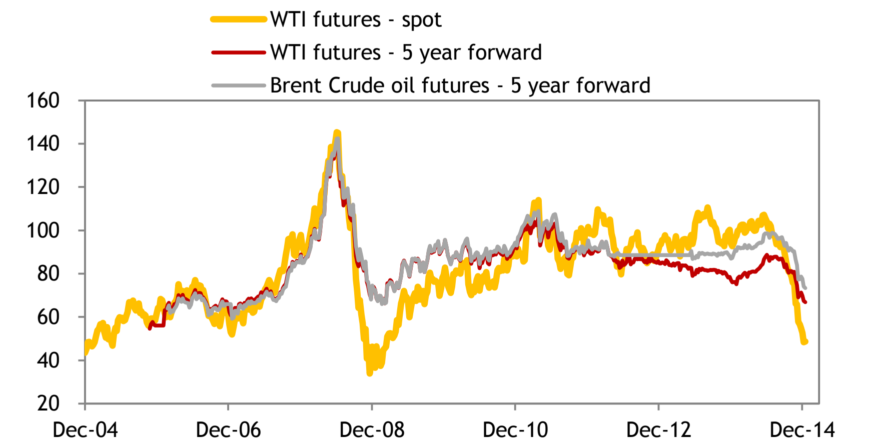


Source: Bloomberg, Maybank Kim Eng Research

Near and far oil

However, the move that interests us is the move in long-term oil. Specifically, 5-year oil – arguably a better reflection of what capex plans would be based on, has fallen sharply.

Figure 4: Oil futures and their 5-year forward

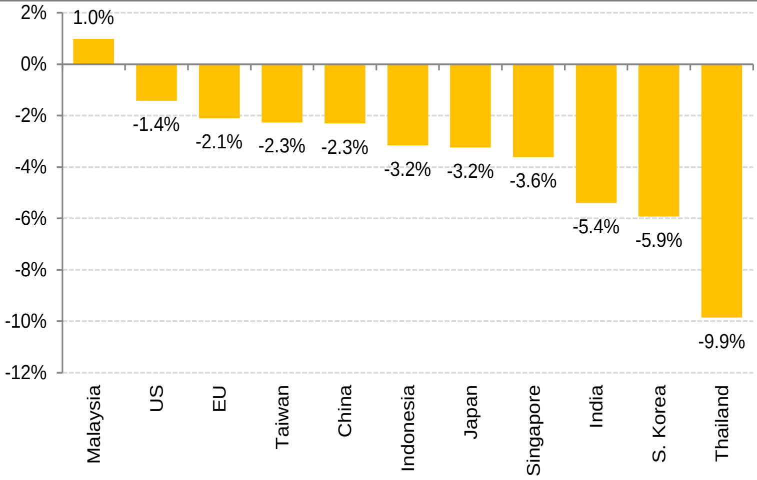


Source: Bloomberg, Maybank Kim Eng Research

The impact of the decline in long term is potentially very worrying for the oil services industry. Oil capex is already being cut. However, some oil services companies may have over-built capacity, and given that some are leveraged, pricing power could disappear and we could see discounting of rates. That could potentially accelerate the downside for the sector and ultimately force consolidation.

While long-term oil dropping may indicate a return to USD100 oil is unlikely, lower oil prices have arguably a positive impact on growth via lower costs for consumers. Even though we can expect capex to be cut – and even in the US, energy capex is as much as 2% of GDP – overall, we can expect positive impact. Particularly, for many Asian countries, which are net importers, as shown below in a chart by Suhaimi Ilias, our Chief Economist.

Figure 5: Crude oil / petroleum products trade balance (% of GDP)

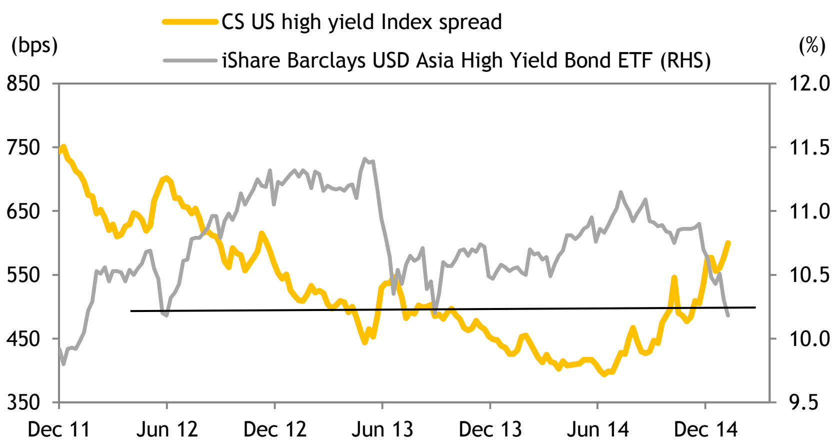


Source: IMF, CEIC, Maybank Kim Eng

USD funding rates

But some energy companies also borrowed in USD. In the US, high yield spreads are back to what they were at the end of 2012. In Asia, the chart below also shows the Asian High Yield ETF, listed in Singapore. While Bloomberg shows a yield of 6%, this was recently cut by 10%. The price performance of the ETF has been poor.

Figure 6: US high yield spread and Asia high yield ETF

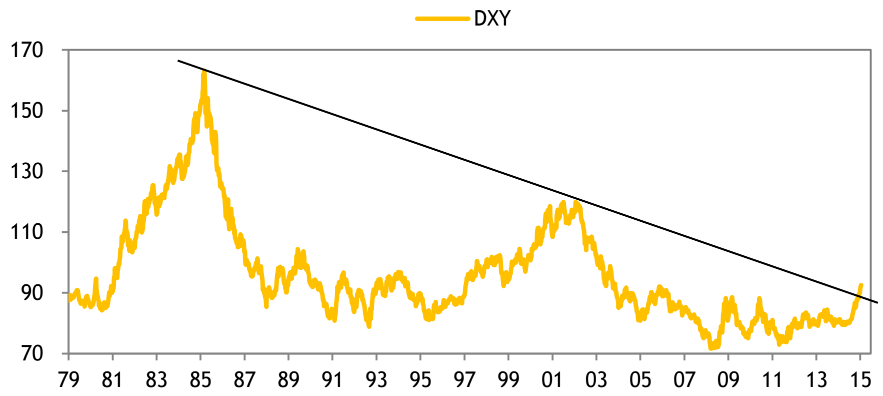


Source: Bloomberg, Maybank Kim Eng Research

Financial economy shock; Real economy impact

In open capital account countries, central banks can control interest rates or the currency but not both. The fixation with controlling interest rates has meant that it's the currency that is moving. Rather than bond yields breaking out – the dreaded Bond Equity Great Rotation – it actually appears to be the USD that is.

Figure 7: The DXY has broken a 30-year downtrend



Source: Bloomberg, Maybank Kim Eng Research

Financial economy shock, credit multipliers, SNB

For many investors, the post-GFC period of quantitative easing has been a tussle between what is often described as the Financial and Real economies. As more money has been pumped in by central bankers, with developed market banks not lending, there has been little transmission into the real economy. So QE money piles into financial markets, but does not quite make it into the real economy.

It's never so simple, but there is some element we are sympathetic with. In this language, what strikes us is that this bout of FX vol is largely a financial market event. One that is occurring as policymaker actions adjust as economic divergences have gotten too wide. That may explain the USD move. In Europe, we reckon it was Swiss National Bank's (SNB) frustration with having to keep buying a depreciating euro that was behind their desire to drop the EUR/CHF limit.

The SNB move itself we think is very interesting from an interest rate perspective. The Swiss government bond curve now has negative yields to over 10 years. In Germany, we are negative out to 5 years. Removing the EUR/CHF limit meant a huge appreciation of the Swiss currency but banks in the interbank market will get -75bps over 3 months. Essentially, excess cash will yield quite a bit less. So, Swiss banks have the choice of either cutting their own deposit rates or try to lend the money out. We will be very interested to see who will be borrowing for what purpose.

Focus on what is going to attract capital!

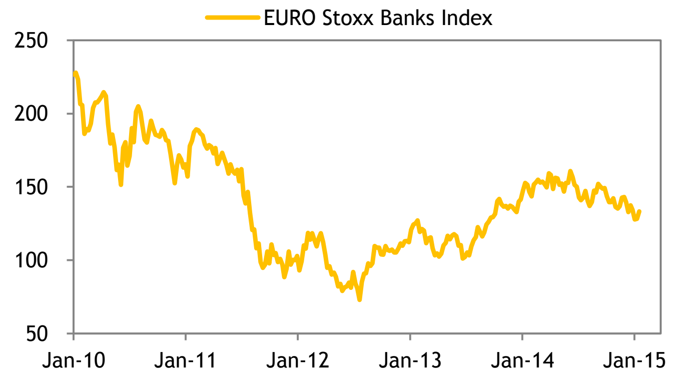
Our investment strategy, even with currencies, is to focus on what is going to attract capital. The events of the past month have not changed our strategy much. Rather, it's re-enforced our view of a very choppy first half of the year.

Buy the QE rumour, sell the fact

Given our cover chart, we suspect a lot of positives have been priced into equities. Investors already expect the ECB to move and the PBoC as well.

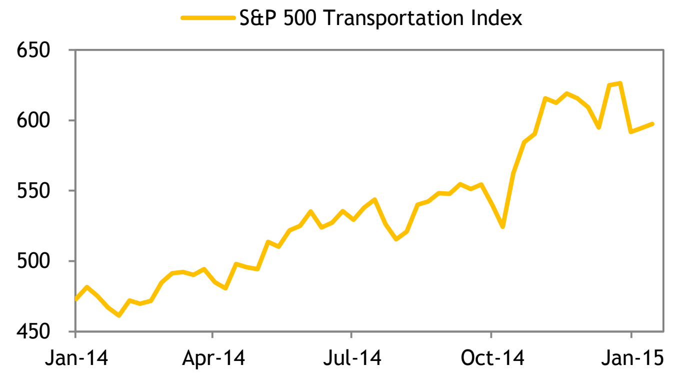
There are two other market charts that we are watching that suggest caution. First, while the European equity market is at or near multiyear highs, bank shares are trading poorly. And the recent capital raise by Santander was very poorly received. If Europe is doing better, should not the banks be doing better too? Second, it is interesting to see the Dow Transports not hit new highs despite very low oil prices.

Figure 8: EURO Stoxx Banks Index



Source: Bloomberg, Maybank Kim Eng Research

Figure 9: S&P 500 Transportation Index



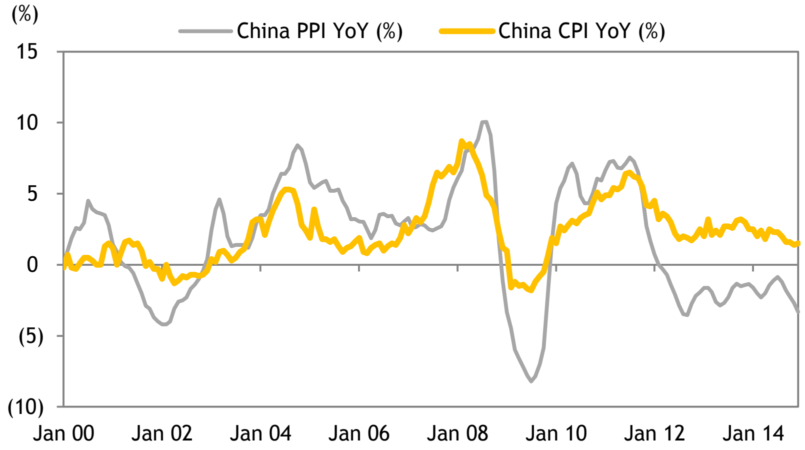
Source: Bloomberg, Maybank Kim Eng Research

QE may have been ultimately deflationary

In our last note, we argued that there is a chance that QE, by spurring investment into sectors that accelerated innovation, could have been deflationary. Not just with investments such as in robotics, but with acceleration of services offered on the web, it is very possible that wage inflation may be subdued for some time as well. Added to this is that defaults that might have occurred didn't. Now, for tradable goods, with commodities coming off, there is little sign of inflation anywhere in the system.

The other potential factor is that low rates prevented adjustment and bankruptcies not just in the developed economies, but also in emerging markets. In Asia, what has been interesting for us is Producer Price Inflation trends, particularly in China. The chart below shows that PPI inflation has been negative for 3 years already. And could be set to fall further given what has been happening to some industrial products.

Figure 10: China PPI and CPI YoY (%)



Source: CEIC, Maybank Kim Eng Research

What do we do in Asia?

We continue to think that there is little inflationary pressure, and rather than raise rates, central banks will likely let the currency depreciate. Indeed, since 1 Dec, only 3 countries in the Asian region have seen higher interbank rates and a weaker currency: Malaysia, Singapore and China. A stabilization in oil prices (given where implied vols are) may provide some respite for Malaysia.

Figure 11: Asia FX rate and 3-month interbank rate between 1 Dec 2014 and 20 Jan 2015

Fx rate				3-mth Interbank rate			
Country	20-Jan-15	1-Dec-14	% change	Country	20-Jan-15	1-Dec-14	bps change
DXY	93	88	5	US	0.3	0.2	2
Euro dollar	1.2	1.2	(7)	Europe	0.1	0.1	(2)
Japanese yen	118	118	0	Japan	0.1	0.1	(1)
Australian dollar	0.82	0.85	(3)	Australia	2.7	2.7	(0)
Renminbi	6.22	6.15	(1)	China	4.9	4.2	72
Renminbi 12mth forward	6.32	6.26	(1)				
Hong Kong dollar	7.75	7.76	0	Hong Kong	0.4	0.4	1
Korean won	1,088	1,114	2	Korea	2.0	2.1	(4)
Taiwan dollar	32	31	(2)	Taiwan	0.8	0.8	(1)
Singapore dollar	1.34	1.31	(2)	Singapore	0.6	0.4	22
Malaysian ringgit	3.61	3.43	(5)	Malaysia	3.9	3.8	4
Indonesia rupiah	12,583	12,281	(2)	Indonesia	7.1	7.2	(11)
Thailand baht	33	33	0	Thailand	2.2	2.2	(1)
Philippines peso	45	45	0	Philippines	2.0	1.9	12
Indian rupee	62	62	0	India	8.5	8.7	(14)
Vietnamese dong	21,365	21,398	0				

Source: Bloomberg, Maybank Kim Eng

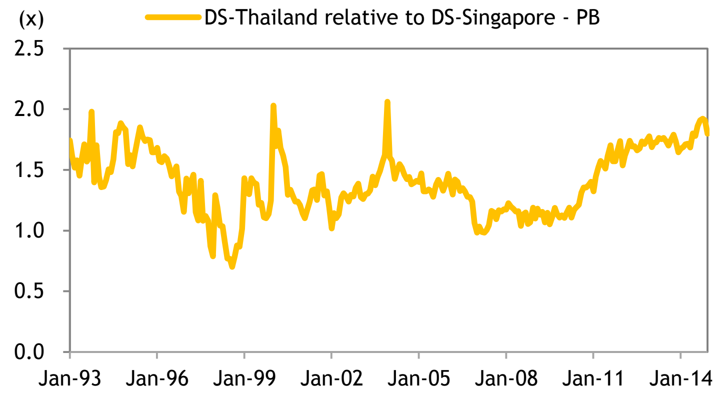
We continue to like structural stories such as India, the Philippines and Vietnam. Indeed, the Reserve Bank of India's rate cut last week resulted in higher equities, lower rates and a stronger currency: the market is happy to reward policymakers who do the right thing.

Relative value: Singapore over Thailand

We continue to also favour relative value trades. The relative PB valuation between Thailand and Singapore is trading at near the highs of the last 20 years. Furthermore, looking at the earnings upgrade-downgrade ratio, since 3Q14, the Street has downgraded Thailand's more relative to Singapore's. While a decline in oil prices is very positive for Thailand, a lot may already be priced in relative to Singapore.

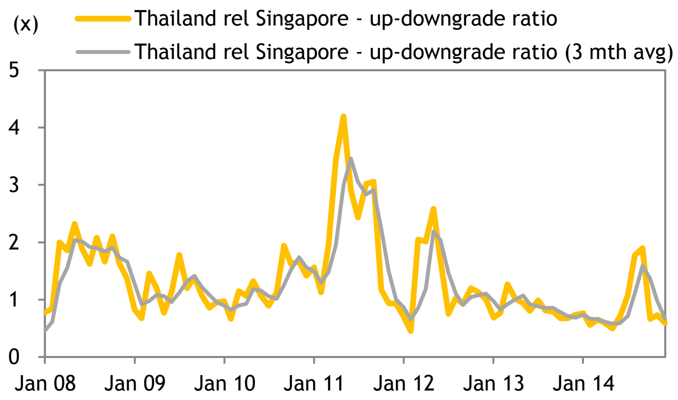
We therefore initiate a tactical Long Singapore and Short Thailand. Our Head of Research in Thailand, Maria Lapiz, thinks the retail sector is overpriced and the falling oil price will not boost consumption growth because the wealthy will use the extra savings to spend on overseas brands and the cost of living for mass market remains elevated because the government removed the subsidy on LPG and raised transportation fares. In addition, Maria also does not favour contractors because their valuation is already above 1 standard deviation over long-term mean and the big infrastructure projects have not started yet.

Figure 12: Thailand to Singapore, relative PB



Source: Datastream, Maybank Kim Eng Research

Figure 13: Thailand rel Singapore, upgrade-downgrade ratio



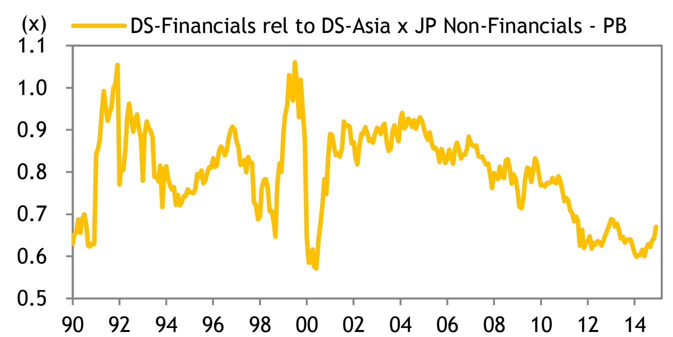
Source: MSCI, Maybank Kim Eng Research

Valuation trumps: the financials and currency oddity

We have been OVERWEIGHT financials. This is actually a bit odd considering that a stronger domestic currency is typically better for domestic banks. But we think it's the relative valuation that is the dominant factor. The first chart below shows financials' relative PB is still low to non-financials.

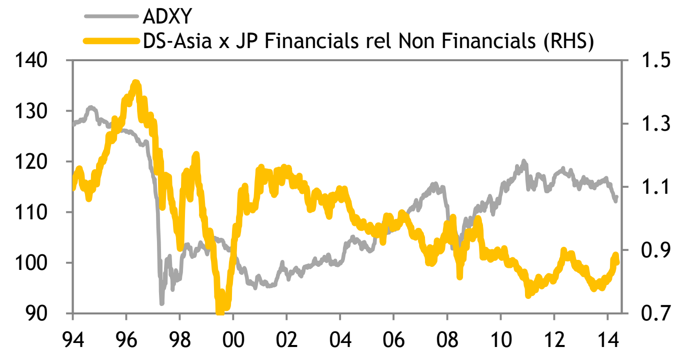
The second chart shows the relative performance of financials to non-financials when looked at with the ADXY (Asian FX to the USD). It shows that financials usually underperform non-financials when the ADXY is weak. However, it was not the case in the period of 2000-2001 when the valuation for financials was at trough levels. Right now the PB valuation for financials is back to near 2000 levels already and financials has continued to outperform non-financials.

Figure 14: Financials to non-financials, relative PB



Source: DataStream, Maybank Kim Eng Research

Figure 15: ADXY & financials rel non financials



Source: DataStream, Maybank Kim Eng Research

Rising risks in China

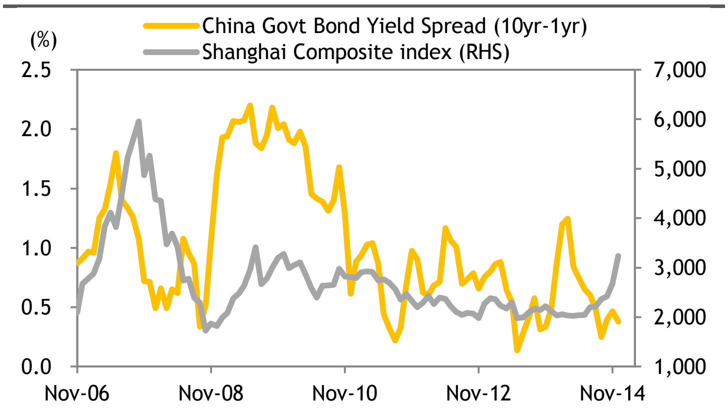
The surprise interest rate cut on 21 Nov 2014, the first time since 2012, has triggered the expectation of further monetary policy easing in China. The Shanghai Composite Index has surged by more than 28% since the rate cut. The financial sector has gained 14%, the best performing sector within MSCI China, while the technology sector has dropped -1%.

However economic, corporate and liquidity conditions have not seen improvement after the recent rate cut and this round of rally is mainly driven by margin financing. Therefore we believe the recent rally in Shanghai A index is not sustainable and their volatility will increase sharply which will also increase the market cost of capital. We maintain NEUTRAL on China, Long Chinese banks and Short technology. We still think China's property sector is likely to fade. (Must… FiX… This… December 5, 2014).

The rate cut is still not effective and not enough

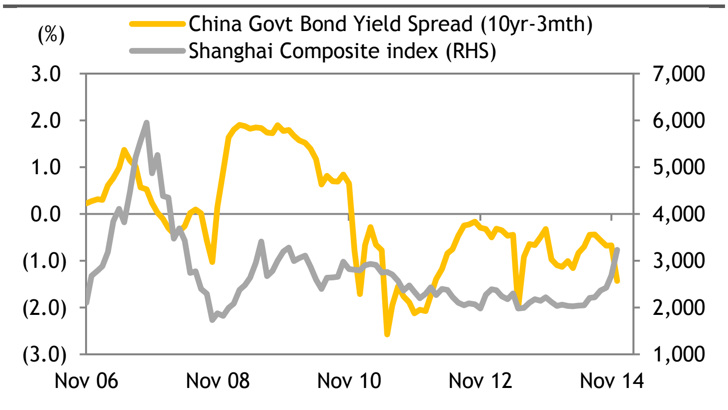
The message from the bond and money markets shows that the recent rate cut has not had the desired effect. The spread between the 10-year government bond and 1-year bond started to narrow after the interest rate cut however it has started to flatten again. This suggests little economic improvement. The 10-year government bond less 3-month Shibor has inverted even further and also suggests that market liquidity is still very tight even after the recent rate cut. Therefore the recent rate cut is still not enough. We believe China still has room to do more easing because real interest rates are still at high levels.

Figure 16: China bond curve and equities I



Source: Bloomberg, Maybank Kim Eng Research

Figure 17: China bond curve and equities II

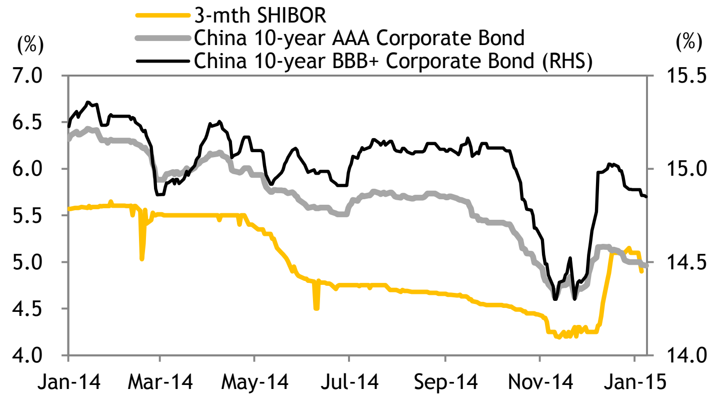


Source: Bloomberg, Maybank Kim Eng Research

Domestic liquidity is tight

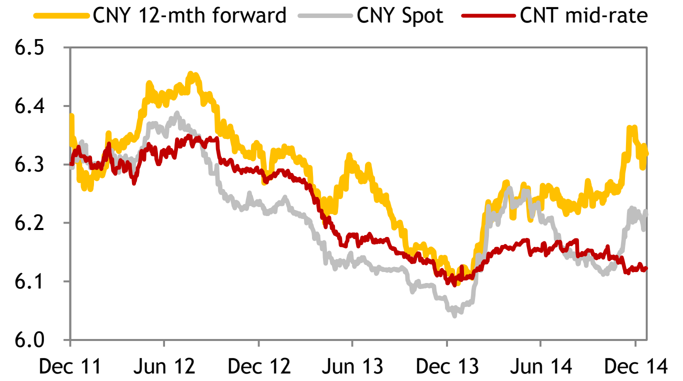
In the middle of Dec 2014, the PBoC provided liquidity to banks by rolling over part of the maturing CNY500b medium-term lending facility (MLF) and also injecting liquidity to banks via Short-term Liquidity Operations (SLO). However, the 3-month SHIBOR still rose by 72bps since 1 Dec 2014.

Figure 18: Shanghai 3-mth interbank & corporate bond yield



Source: Bloomberg, Maybank Kim Eng Research

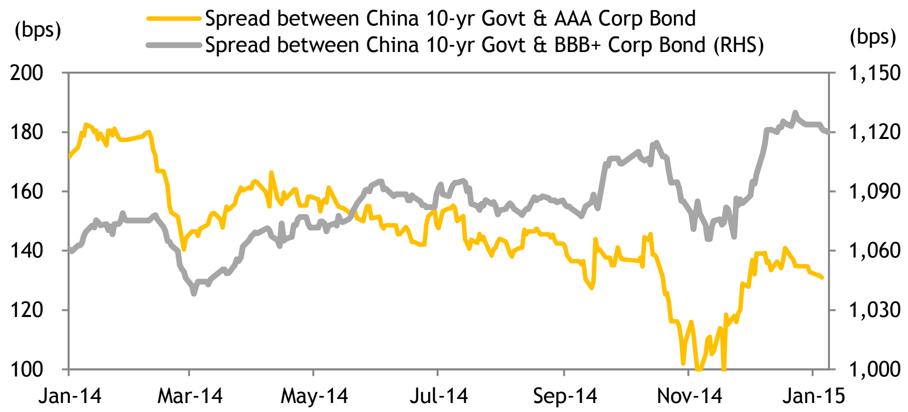
Fig 19: CNY 12-mth fwd vs % between CNY spot & mid-rate



Source: Bloomberg, Maybank Kim Eng Research

If we look at China corporate bond data, the 10-year AAA and 5-year BBB+ corporate bond yields have also spiked in the last 1 month after the rate cut. Their spreads to the government 10-year bond have widened to +131bps for AAA corporate bond and to +1120 bps for BBB+ corporate bond. Therefore the corporate funding cost has not really improved much. In Oct 2014, the Ministry of Finance requested local governments to report their 2014 year-end debt levels by much stricter and comprehensive measures. The local governments are required to submit their final numbers on 5 Jan 2015 and the results could be announced before Mar 2015. We believe the results could be much higher than previous audits. The central government is going to force local governments to raise capital from the bond markets going forward and that could potentially tighten liquidity conditions in the credit markets further.

Figure 20: Spread between 10-yr govt & AAA, BBB+ corp bond



Source: Bloomberg, Maybank Kim Eng Research

From the currency perspective, the RMB 12-month forward has also corrected by 1% since the rate cut in November. Even comparing the CNY spot and CNY mid-rate (figure 19), the CNY spot rate also corrected by 1.3% while the government has tried to lift the CNY mid-rate.

If we link-up the above pictures, they show us that market liquidity is still tight after the rate cut and domestic money goes to the stock market rather than the real economy. And that RMB pressures could be building.

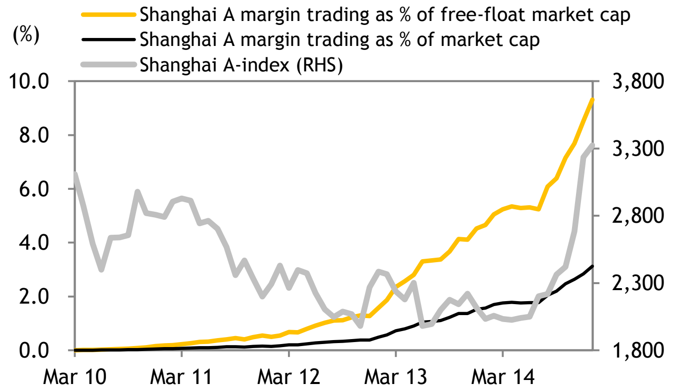
Rising risk of margin trading to the market

A key risk to the A-share market is also the degree of margin financing and funding from different trust products. Margin leverage can be between 2x from brokers' margin financing to 3-4x from trust products. Already, the government has banned individual investors from investing in bonds issued by SMEs through private placement. They also prohibited money from financial products sold to individual investors and not managed by them from being invested in private SME.

As of Dec 2014, the amount of margin financing has already accounted for 3.1% of Shanghai A index's market capitalization or 9.3% of free float market capitalization. Compared to Taiwan, a market also dominated by domestic investors, the average margin trading as a percentage of market capitalization accounted for 7.8% during the internet bubble in 1998-99 or 12% during the Asian Financial Crisis in 1997. The significant high margin trading ratio usually raises the risk that the market has peaked.

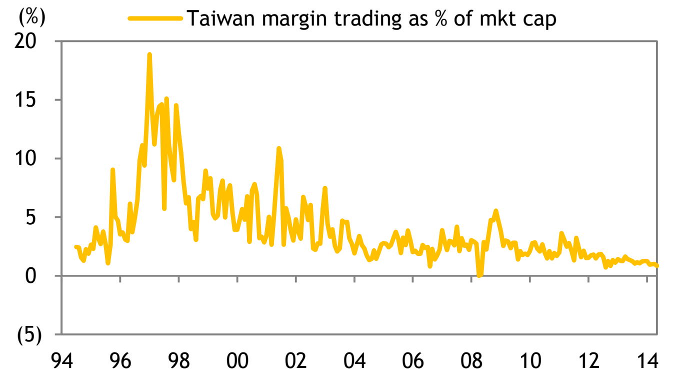
The risk of margin trading is investors are forced to unwind under margin calls and accelerate the magnitude of correction. Therefore, we think the current levels of Shanghai A index are already at an unsustainable level.

Figure 21: % of margin trading to Shanghai A share market



Source: Wind, Bloomberg, Maybank Kim Eng Research

Figure 22: % of margin trading to Taiwan market

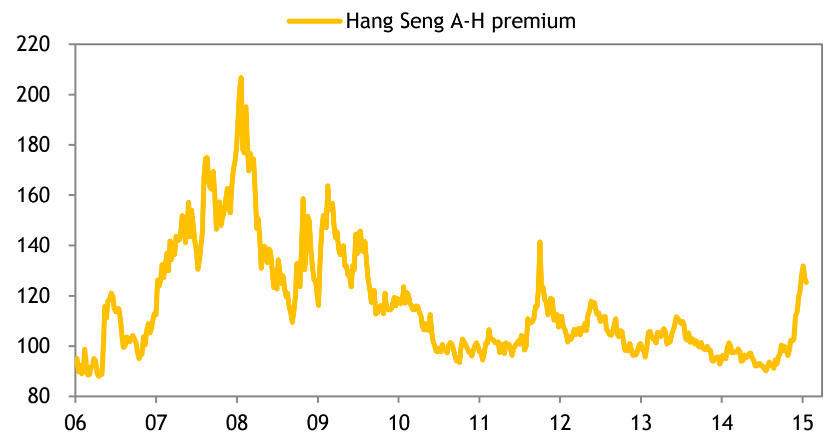


Source: CEIC, Bloomberg, Maybank Kim Eng Research

A-H premium – 25% premium to H-index

When compared to Hong Kong's H-share index, a market mainly influenced by institutional investors, the Hang Seng A-H Premium index shows that the A-share index is trading at 25% premium already. It means many institutional investors remain sceptical of this rally. In terms of valuation, the Shanghai A-share is trading at 12.1x 2015 PE, which is 54% higher than the H-share index.

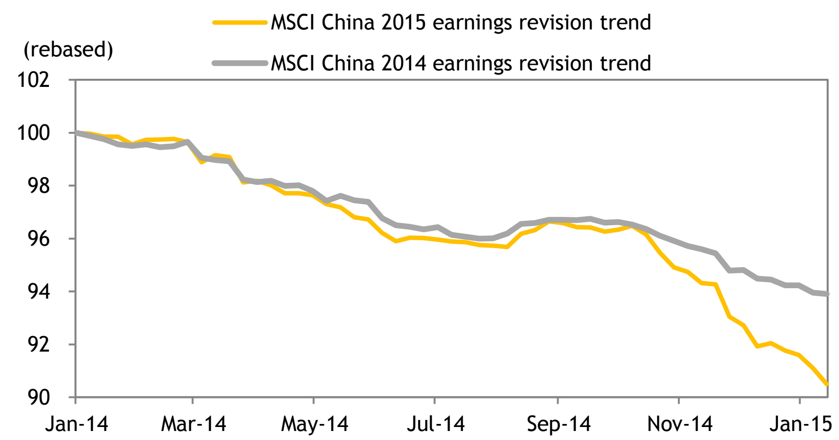
Figure 23: Hang Seng A-H premium



Source: Bloomberg, Maybank Kim Eng Research

The potential strength of the USD, the sharply higher external debt in the past 5 years, the overcapacity issues across different sectors, falling corporate earnings and that the government is going to implement much stricter and comprehensive measures to local government debts – all indicate to us that the downside risk for A-share index is a lot more than upside. We believe this A-H premium will narrow via a correction of the A-share index rather than the H-share index catching up.

Figure 24: China earnings revision in 2014 & 2015

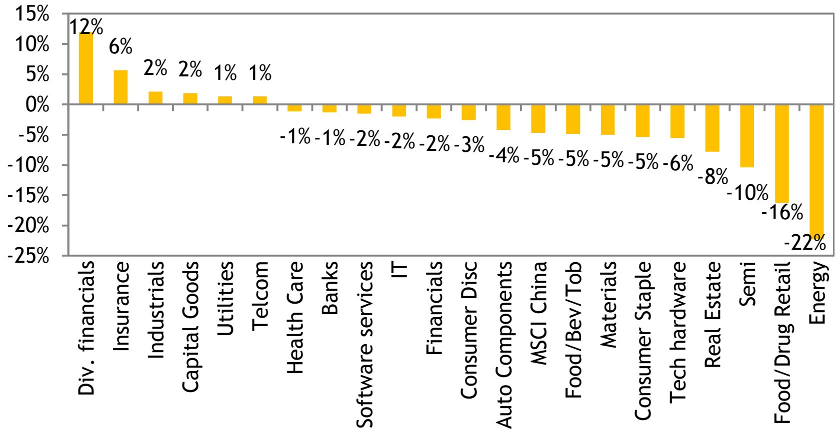


Source: MSCI, Maybank Kim Eng Research

Earnings still on a downward trend, especially cyclical sectors

The market expects China's 2015 earnings to be in a downward trend and earnings expectations have been cut aggressively after Sep 2014. Diversified financials, insurance and industrials have seen the most positive earnings revision over the past 3 months. However, cyclical sectors like energy and semiconductors have the most negative 3-month earnings revision. Food and drug retail has also been poor. We maintain NEUTRAL on China, Long Chinese banks and Short technology.

Figure 25: China 3-mth earnings revision by sector



Source: MSCI, Maybank Kim Eng Research

Performance and valuation summary

Figure 26: Equity performance by country (in local currency terms)

Name	Index level	FX rate	--- Absolute performance (local currency) --- -1w	-1m	-3m	-6m	-1y	MTD	QTD	YTD
MSCI All Country World	412		0	(2)	3	(4)	1	(1)	(1)	(1)
MSCI Emerging Market	957		(0)	1	(2)	(10)	(1)	0	0	0
MSCI Asia Pac (inc JP)	139		0	1	1	(6)	(1)	0	0	0
MSCI Asia Pac x JP	469		(0)	2	0	(6)	3	0	0	0
MSCI Asia x JP	570		(0)	3	2	(3)	6	1	1	1
MSCI Far East x JP	532		(1)	2	2	(4)	4	0	0	0
MSCI Emerging Asia	463		0	3	3	(3)	7	1	1	1
MSCI EM Latin America	2,639		0	(3)	(15)	(25)	(14)	(3)	(3)	(3)
MSCI EMMEA	268		(2)	(1)	(9)	(19)	(15)	(1)	(1)	(1)
MSCI Frontie	595		0	4	(11)	(16)	(3)	(3)	(3)	(3)
MSCI Asia x JP Small Cap	1,024		(1)	3	(2)	(7)	0	0	0	0
China - Shanghai Composite	3,173	6.2	(2)	2	35	54	59	(2)	(2)	(2)
China - H-shares	11,742	7.8	(3)	3	14	12	17	(2)	(2)	(2)
Hong Kong - HSI	23,951	7.8	(1)	4	4	2	4	1	1	1
Taiwan - TAIEX	9,252	31.6	0	3	7	(2)	7	(1)	(1)	(1)
Korea - KOSPI	1,918	1,088	0	(1)	(1)	(5)	(2)	0	0	0
Singapore - STI	3,334	1.3	(0)	2	5	1	7	(1)	(1)	(1)
Malaysia - KLCI	1,750	3.6	0	2	(3)	(7)	(3)	(1)	(1)	(1)
Thailand - SET	1,535	32.7	0	1	1	0	19	2	2	2
Indonesia - JCI	5,166	12,584	(1)	0	2	2	17	(1)	(1)	(1)
Philippines - PSEi	7,453	44.6	1	5	6	9	24	3	3	3
India - Sensex	28,785	61.7	5	5	9	12	36	5	5	5
Vietnam - Ho Chi Minh	572	21,360	(1)	9	(3)	(4)	3	5	5	5
Australia ASX 200	5,308	1.2	(2)	(1)	(0)	(4)	0	(2)	(2)	(2)
New Zealand - NZX50	5,633	1.3	(0)	2	8	10	15	1	1	1
Japan - Nikkei 225	17,366	118.3	2	(1)	15	14	11	(0)	(0)	(0)
Japan - TOPIX	1,398	118.3	2	(1)	14	11	8	(1)	(1)	(1)
S&P 500	2,023	1.0	(0)	(2)	6	2	10	(2)	(2)	(2)
Russell 2000	1,170	1.0	(1)	(2)	7	2	0	(3)	(3)	(3)
FTSE 100	6,620	1.5	1	1	6	(2)	(3)	1	1	1
Euro Stoxx	3,245	1.2	4	3	11	3	3	3	3	3

Source: Maybank Kim Eng, Factset, MSCI, data as of 20 January 2015

Figure 27: Equity performance by country (in USD terms)

			--- Absolute performance (USD) ---							
Name	**Index level**	**FX rate**	**-1w**	**-1m**	**-3m**	**-6m**	**-1y**	**MTD**	**QTD**	**YTD**
MSCI All Country World	412		0	(2)	3	(4)	1	(1)	(1)	(1)
MSCI Emerging Market	957		(0)	1	(2)	(10)	(1)	0	0	0
MSCI Asia Pac (inc JP)	139		0	1	1	(6)	(1)	0	0	0
MSCI Asia Pac x JP	469		(0)	2	0	(6)	3	0	0	0
MSCI Asia x JP	570		(0)	3	2	(3)	6	1	1	1
MSCI Far East x JP	532		(1)	2	2	(4)	4	0	0	0
MSCI Emerging Asia	463		0	3	3	(3)	7	1	1	1
MSCI EM Latin America	2,639		0	(3)	(15)	(25)	(14)	(3)	(3)	(3)
MSCI EMMEA	268		(2)	(1)	(9)	(19)	(15)	(1)	(1)	(1)
MSCI Frontie	595		0	4	(11)	(16)	(3)	(3)	(3)	(3)
MSCI Asia x JP Small Cap	1,024		(1)	3	(2)	(7)	0	0	0	0
China - Shanghai Composite	3,173	6.2	(2)	2	33	54	55	(2)	(2)	(2)
China - H-shares	11,742	7.8	(3)	3	14	12	17	(2)	(2)	(2)
Hong Kong - HSI	23,951	7.8	(1)	4	4	2	5	1	1	1
Taiwan - TAIEX	9,252	31.6	1	2	3	(7)	2	(1)	(1)	(1)
Korea - KOSPI	1,918	1,088	(0)	1	(3)	(10)	(4)	1	1	1
Singapore - STI	3,334	1.3	(0)	0	(0)	(7)	2	(2)	(2)	(2)
Malaysia - KLCI	1,750	3.6	(0)	(2)	(12)	(18)	(11)	(4)	(4)	(4)
Thailand - SET	1,535	32.7	0	2	(1)	(2)	19	3	3	3
Indonesia - JCI	5,166	12,584	(1)	(0)	(2)	(6)	12	(3)	(3)	(3)
Philippines - PSEi	7,453	44.6	1	5	6	6	25	3	3	3
India - Sensex	28,785	61.7	6	8	8	10	35	7	7	7
Vietnam - Ho Chi Minh	572	21,360	(2)	10	(3)	(5)	2	5	5	5
Australia ASX 200	5,308	1.2	(1)	(0)	(7)	(16)	(7)	(2)	(2)	(2)
New Zealand - NZX50	5,633	1.3	(1)	1	5	(2)	7	(0)	(0)	(0)
Japan - Nikkei 225	17,366	118.3	2	(1)	4	(2)	(2)	1	1	1
Japan - TOPIX	1,398	118.3	2	0	3	(5)	(5)	1	1	1
S&P 500	2,023	1.0	(0)	(2)	6	2	10	(2)	(2)	(2)
Russell 2000	1,170	1.0	(1)	(2)	7	2	0	(3)	(3)	(3)
FTSE 100	6,620	1.5	1	(2)	(1)	(13)	(10)	(2)	(2)	(2)
Euro Stoxx	3,245	1.2	2	(3)	0	(12)	(12)	(1)	(1)	(1)

Source: Maybank Kim Eng, Factset, MSCI, data as of 20 January 2015

Figure 28: Equity performance by country – relative performance

Name	Index level	FX rate	--- Relative performance to MSCI Asia x Japan ---							
			-1w	-1m	-3m	-6m	-1y	MTD	QTD	YTD
MSCI All Country World	412		0	(4)	0	(1)	(4)	(2)	(2)	(2)
MSCI Emerging Market	957		(0)	(1)	(5)	(7)	(7)	(1)	(1)	(1)
MSCI Asia Pac (inc JP)	139		1	(2)	(1)	(3)	(6)	(1)	(1)	(1)
MSCI Asia Pac x JP	469		(0)	(1)	(2)	(4)	(3)	(1)	(1)	(1)
MSCI Asia x JP	570									
MSCI Far East x JP	532		(0)	(1)	(1)	(1)	(2)	(1)	(1)	(1)
MSCI Emerging Asia	463		0	0	0	(0)	1	0	0	0
MSCI EM Latin America	2,639		0	(5)	(17)	(22)	(19)	(4)	(4)	(4)
MSCI EMMEA	268		(2)	(3)	(11)	(16)	(21)	(2)	(2)	(2)
MSCI Frontie	595		0	1	(14)	(13)	(8)	(4)	(4)	(4)
MSCI Asia x JP Small Cap	1,024		(1)	(0)	(4)	(5)	(6)	(1)	(1)	(1)
China - Shanghai Composite	3,173	6.2	(2)	(1)	30	57	49	(3)	(3)	(3)
China - H-shares	11,742	7.8	(3)	0	12	15	11	(3)	(3)	(3)
Hong Kong - HSI	23,951	7.8	(1)	1	1	5	(1)	0	0	0
Taiwan - TAIEX	9,252	31.6	1	(0)	0	(4)	(4)	(2)	(2)	(2)
Korea - KOSPI	1,918	1,088	(0)	(2)	(6)	(8)	(10)	0	0	0
Singapore - STI	3,334	1.3	(0)	(3)	(3)	(4)	(4)	(3)	(3)	(3)
Malaysia - KLCI	1,750	3.6	(0)	(4)	(14)	(15)	(17)	(5)	(5)	(5)
Thailand - SET	1,535	32.7	0	(1)	(3)	1	14	2	2	2
Indonesia - JCI	5,166	12,584	(1)	(3)	(4)	(4)	6	(4)	(4)	(4)
Philippines - PSEi	7,453	44.6	1	2	4	9	20	2	2	2
India - Sensex	28,785	61.7	6	5	6	12	30	6	6	6
Vietnam - Ho Chi Minh	572	21,360	(1)	7	(6)	(2)	(4)	4	4	4
Australia ASX 200	5,308	1.2	(1)	(3)	(10)	(14)	(13)	(3)	(3)	(3)
New Zealand - NZX50	5,633	1.3	(1)	(2)	2	0	1	(1)	(1)	(1)
Japan - Nikkei 225	17,366	118.3	2	(3)	1	0	(8)	(0)	(0)	(0)
Japan - TOPIX	1,398	118.3	2	(3)	1	(3)	(11)	(0)	(0)	(0)
S&P 500	2,023	1.0	0	(5)	4	5	4	(3)	(3)	(3)
Russell 2000	1,170	1.0	(1)	(5)	4	4	(6)	(4)	(4)	(4)
FTSE 100	6,620	1.5	1	(4)	(3)	(10)	(16)	(3)	(3)	(3)
Euro Stoxx	3,245	1.2	2	(5)	(2)	(10)	(18)	(2)	(2)	(2)

Source: Maybank Kim Eng, Factset, MSCI, data as of 20 January 2015

Figure 29: Equity performance by MSCI Asia ex Japan sector

		--- Absolute performance ---							
Name	**Index**	**-1w**	**-1m**	**-3m**	**-6m**	**-1y**	**MTD**	**QTD**	**YTD**
MSCI Asia ex Japan	**570**	**(0)**	**3**	**2**	**(3)**	**6**	**1**	**1**	**1**
Energy	**556**	**0**	**1**	**(10)**	**(17)**	**(11)**	**0**	**0**	**0**
Materials	**286**	**(1)**	**2**	**(3)**	**(14)**	**(10)**	**0**	**0**	**0**
Industrials	**167**	**(1)**	**1**	**(1)**	**(9)**	**(1)**	**0**	**0**	**0**
Capital goods	152	(0)	1	(4)	(13)	(6)	(0)	(0)	(0)
Transportation	221	(1)	3	11	7	18	2	2	2
Consumer discretionary	**502**	**(2)**	**0**	**(6)**	**(17)**	**(15)**	**(1)**	**(1)**	**(1)**
Automobiles & Components	839	(2)	4	(0)	(14)	(5)	2	2	2
Retailing	274	(1)	(1)	(6)	(9)	(10)	(3)	(3)	(3)
Consumer staples	**430**	**1**	**4**	**(1)**	**(3)**	**5**	**3**	**3**	**3**
Food/staples retail	113	(2)	(1)	(6)	(15)	(9)	(1)	(1)	(1)
Food/beverage/tobacco	380	(0)	3	(3)	(8)	(2)	1	1	1
Health care	**752**	**1**	**5**	**2**	**10**	**22**	**3**	**3**	**3**
Financials	**325**	**(1)**	**3**	**7**	**6**	**14**	**(0)**	**(0)**	**(0)**
Banks	266	(0)	1	4	3	13	(1)	(1)	(1)
Diversified financials	559	(2)	(0)	4	7	21	(2)	(2)	(2)
Insurance	297	0	6	17	20	20	1	1	1
Real estate	197	(1)	5	6	4	11	3	3	3
Technology	**366**	**1**	**4**	**7**	**(3)**	**11**	**3**	**3**	**3**
Software services	1,771	0	7	4	3	12	8	8	8
Tech hardware	188	1	4	10	(3)	18	3	3	3
Semiconductors/equipment	360	2	0	6	(3)	11	(1)	(1)	(1)
Telecoms	**154**	**1**	**4**	**2**	**5**	**16**	**3**	**3**	**3**
Utilities	**237**	**1**	**2**	**(1)**	**(0)**	**12**	**1**	**1**	**1**

Source: Maybank Kim Eng, Factset, MSCI, data as of 20 January 2015

Figure 30: Equity performance by MSCI Asia ex Japan sector – relative performance

		--- Relative performance MSCI Asia ex Japan ---							
Name	Index	-1w	-1m	-3m	-6m	-1y	MTD	QTD	YTD
MSCI Asia ex Japan	**570**								
Energy	**556**	**1**	**(1)**	**(12)**	**(14)**	**(17)**	**(1)**	**(1)**	**(1)**
Materials	**286**	**(1)**	**(1)**	**(6)**	**(11)**	**(16)**	**(1)**	**(1)**	**(1)**
Industrials	**167**	**(1)**	**(1)**	**(3)**	**(6)**	**(7)**	**(1)**	**(1)**	**(1)**
Capital goods	152	(0)	(2)	(7)	(11)	(12)	(1)	(1)	(1)
Transportation	221	(1)	0	9	10	12	1	1	1
Consumer discretionary	**502**	**(2)**	**(2)**	**(8)**	**(14)**	**(21)**	**(2)**	**(2)**	**(2)**
Automobiles & Components	839	(2)	1	(3)	(12)	(11)	1	1	1
Retailing	274	(0)	(3)	(9)	(6)	(16)	(4)	(4)	(4)
Consumer staples	**430**	**1**	**2**	**(3)**	**(0)**	**(1)**	**2**	**2**	**2**
Food/staples retail	113	(2)	(3)	(8)	(12)	(15)	(2)	(2)	(2)
Food/beverage/tobacco	380	(0)	0	(6)	(6)	(8)	(0)	(0)	(0)
Health care	**752**	**1**	**3**	**(0)**	**13**	**17**	**2**	**2**	**2**
Financials	**325**	**(0)**	**(0)**	**4**	**9**	**9**	**(1)**	**(1)**	**(1)**
Banks	266	(0)	(2)	2	6	7	(2)	(2)	(2)
Diversified financials	559	(2)	(3)	2	9	15	(3)	(3)	(3)
Insurance	297	0	3	14	22	14	0	0	0
Real estate	197	(1)	3	4	6	6	2	2	2
Technology	**366**	**1**	**1**	**5**	**(0)**	**5**	**2**	**2**	**2**
Software services	1,771	0	4	2	6	6	7	7	7
Tech hardware	188	1	2	8	(0)	12	2	2	2
Semiconductors/equipment	360	2	(2)	3	(0)	5	(2)	(2)	(2)
Telecoms	**154**	**1**	**1**	**(1)**	**8**	**10**	**2**	**2**	**2**
Utilities	**237**	**1**	**(1)**	**(3)**	**2**	**6**	**(1)**	**(1)**	**(1)**

Source: Maybank Kim Eng, Factset, MSCI, data as of 20 January 2015

Figure 31: MSCI country valuation

	PE (x)			EPS growth YoY (%)			RoE(%)			PB (x)			DY (%)		
	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Asia-ex-Japan	12.9	11.7	10.6	8	10	10	12	12	12	1.5	1.4	1.3	2.6	2.8	3.1
China	10.2	9.5	8.5	7	7	12	14	14	14	1.4	1.3	1.2	3.2	3.3	3.7
Hong Kong	15.5	15.1	13.3	10	3	9	8	8	8	1.3	1.2	1.1	2.9	3.1	3.7
Taiwan	13.9	12.5	11.8	28	11	7	13	14	14	1.8	1.7	1.6	3.1	3.5	3.9
Korea	11.5	9.6	9.0	(3)	19	7	9	10	10	1.0	0.9	0.9	1.4	1.5	1.6
Singapore	14.3	13.3	12.1	9	8	10	9	10	10	1.3	1.3	1.2	3.6	3.8	4.1
Malaysia	16.3	15.1	13.8	6	8	9	12	12	12	1.9	1.8	1.7	3.2	3.3	3.6
Thailand	14.8	13.6	11.9	(7)	9	14	14	14	15	2.1	2.0	1.8	2.9	3.2	3.5
Indonesia	16.2	14.7	12.9	11	11	14	20	20	20	3.3	2.9	2.5	2.4	2.6	2.9
Philippines	21.8	19.5	17.0	24	12	11	14	15	15	3.2	2.9	2.5	2.1	2.2	2.4
India	19.9	17.4	14.9	13	15	17	15	16	16	3.1	2.7	2.4	1.4	1.5	1.7
Japan	15.4	13.9	12.6	20	11	10	9	9	9	1.3	1.3	1.2	1.9	2.0	2.2
US	18.3	16.6	14.8	8	2	13	15	15	15	2.8	2.5	2.3	2.0	2.1	2.2
Europe	22.3	13.8	12.4	3	7	12	7	9	9	1.5	1.4	1.3	3.7	3.7	4.0

Source: Maybank Kim Eng, Factset, MSCI, Bloomberg data as of 20 January 2015

Figure 32: MSCI Asia ex-Japan sector valuation

	PE (x)			EPS growth YoY (%)			RoE(%)			PB (x)			DY (%)		
	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F	2014F	2015F	2016F
Asia-ex-Japan	**12.9**	**11.7**	**10.6**	**8**	**10**	**10**	**12**	**12**	**12**	**1.5**	**1.4**	**1.3**	**2.6**	**2.8**	**3.1**
Energy	**10.5**	**11.0**	**9.4**	**(10)**	**(4)**	**17**	**10**	**9**	**10**	**1.1**	**1.0**	**0.9**	**3.6**	**3.1**	**3.6**
Materials	**15.7**	**12.4**	**10.8**	**(1)**	**27**	**15**	**7**	**8**	**9**	**1.1**	**1.0**	**1.0**	**2.6**	**2.8**	**3.0**
Industrials	**17.8**	**13.6**	**11.9**	**21**	**31**	**14**	**7**	**9**	**9**	**1.3**	**1.2**	**1.1**	**2.3**	**2.4**	**2.6**
Capital goods	16.0	12.3	10.8	22	30	13	7	9	9	1.2	1.1	1.0	2.3	2.4	2.6
Transportation	25.2	18.5	15.9	18	37	17	6	7	8	1.4	1.4	1.3	2.3	2.5	2.7
Consumer discretionary	**11.1**	**9.9**	**9.0**	**0**	**12**	**11**	**15**	**15**	**14**	**1.6**	**1.4**	**1.3**	**2.4**	**2.5**	**2.7**
Automobiles & Components	8.3	7.4	6.8	(1)	12	10	15	15	15	1.3	1.1	1.0	1.6	1.8	2.0
Retailing	15.6	13.6	11.8	8	15	15	9	10	10	1.4	1.3	1.2	1.9	2.1	2.3
Consumer staples	**25.3**	**21.3**	**18.5**	**5**	**19**	**15**	**12**	**13**	**13**	**3.0**	**2.8**	**2.5**	**1.8**	**2.1**	**2.3**
Food/staples retail	25.3	21.2	18.0	(11)	20	18	8	9	10	2.0	1.9	1.7	1.8	2.0	2.2
Food/beverage/tobacco	22.5	19.0	16.4	5	19	14	11	12	13	2.5	2.4	2.1	2.1	2.4	2.7
Health care	**28.2**	**23.1**	**18.8**	**34**	**22**	**23**	**14**	**15**	**16**	**4.0**	**3.4**	**3.0**	**0.8**	**1.0**	**1.1**
Financials	**10.5**	**9.8**	**8.7**	**13**	**6**	**10**	**11**	**11**	**11**	**1.2**	**1.1**	**1.0**	**3.2**	**3.4**	**3.9**
Banks	8.5	7.9	7.2	9	7	9	14	14	14	1.2	1.1	1.0	4.0	4.3	4.6
Diversified financials	15.3	14.6	13.3	49	5	10	12	12	12	1.8	1.7	1.6	2.4	2.8	3.1
Insurance	16.6	15.3	12.2	38	9	13	12	12	12	2.0	1.8	1.4	1.4	1.5	1.9
Real estate	12.4	11.8	10.9	5	4	9	7	7	7	0.8	0.8	0.8	3.2	3.3	3.6
Technology	**13.9**	**12.9**	**11.7**	**3**	**8**	**10**	**16**	**15**	**15**	**2.2**	**1.9**	**1.7**	**1.8**	**2.1**	**2.3**
Software services	29.3	24.0	19.7	31	22	22	25	25	24	7.4	6.0	4.8	0.8	0.9	1.0
Tech hardware	10.8	11.0	10.0	39	(1)	10	13	12	12	1.4	1.3	1.2	2.1	2.3	2.4
Semiconductors/equipment	13.2	11.1	10.5	45	18	6	20	21	19	2.7	2.3	2.0	2.2	2.8	3.2
Telecoms	**17.5**	**16.1**	**14.7**	**1**	**9**	**10**	**12**	**12**	**13**	**2.1**	**2.0**	**1.9**	**3.4**	**3.6**	**3.9**
Utilities	**13.8**	**11.0**	**12.4**	**34**	**26**	**(11)**	**11**	**13**	**11**	**1.5**	**1.4**	**1.3**	**2.9**	**3.1**	**3.3**

Source: Maybank Kim Eng, Factset, MSCI, Bloomberg data as of 20 January 2015

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