

Market Snapshot

Wednesday, 21 August 2013

Tide Turns For EMs as Outflows Hit Southeast Asia

Key Global Indices

Index	Last	Change (%)	YTD (%)
US DJIA	15002.99	-0.05	14.49
US S&P 500	1652.35	0.38	15.86
US NASDAQ	3613.59	0.68	19.67
UK FTSE 100	6453.46	-0.19	9.42
Nikkei 225	13396.38	-2.63	28.87
Europe DJ STOXX 600	302.25	-0.83	8.07

Global Equities

US equities stopped the rot on Tuesday, with two of Wall Street's three big indices closing higher. Treasuries were higher while the dollar weakened (*more below*) as several top consumer-related companies reported better-than-expected earnings. The upward move in US stocks was in contrast to the bleeding in Emerging Market economies, where stock markets have tanked and currency values fallen on concerns the US Federal Reserve will begin reducing the amount it buys every month under its quantitative easing programme. The minutes of the US Federal Reserve's policymaking body will be released later today, and investors will read into the tea leaves for clues as to when and by how much the easy money drawdown will be. The Dow Jones Industrial Average was little changed, while the S&P 500 closed 0.4% up, led by gains in Best Buy Co, Urban Outfitters and TJX following their earnings and forecast reports. The Nasdaq meanwhile, ended 0.7% up.

Europe shares took their lead from the sea of red in Asia on concerns over Fed taper plans. The DJ Stoxx 600 was down 0.8%, its lowest close since late July. Of the 18 Western Europe indices tracked by Bloomberg News, 17 were in the red. Elsewhere, German Finance Minister Wolfgang Schaueble said Greece would probably require another bailout.

Southeast Asia

Southeast Asia stocks were hit hard on Tuesday, as widespread concern – and a bit of panic – hit Emerging Markets. **Singapore's** STI fell 1.4% while **Malaysia's** KLCI fell 1.8%. In **Indonesia**, the pain was felt in equities, bonds and currency markets. The JCI sank 3.2%, and has now fallen around 11% in the past four trading sessions after the government said the current account deficit widened to a record last quarter and the economy grew by less than 6% in 2Q – its lowest number since 2010. **Thailand's** SET meanwhile, fell a further 2% and the Baht closed at its lowest against the USD in more than a year (*more below*).

North Asia

China shares fell, but not on concerns over US Federal Reserve plans. The SHCOMP was down 0.6% with blue chips dragging the broader market lower on concerns over the health of the local economy. **DBS** remains Neutral China on a 3M basis.

Japan stocks finished lower as the US dollar did. The fall was on concern over the depth and timing of the reduction in Federal Reserve bond-buying, currently at USD85 billion a month. The Nikkei 225 fell 2.6%, its biggest one-day loss in a fortnight.

Hong Kong equities were sharply lower ahead of the release of Federal Reserve minutes that could indicate how it will deal with its asset-purchase plans amid signs of an improving economy. The HSI closed 2.2% in nervy, choppy trade.

Taiwan stocks retreated 0.9% on similar concerns hitting the rest of Asia. The exception was Hon Hai, which rose 0.9% after a report said Apple Inc. had asked the supplier to begin shipping its latest version of the iconic iPhone.

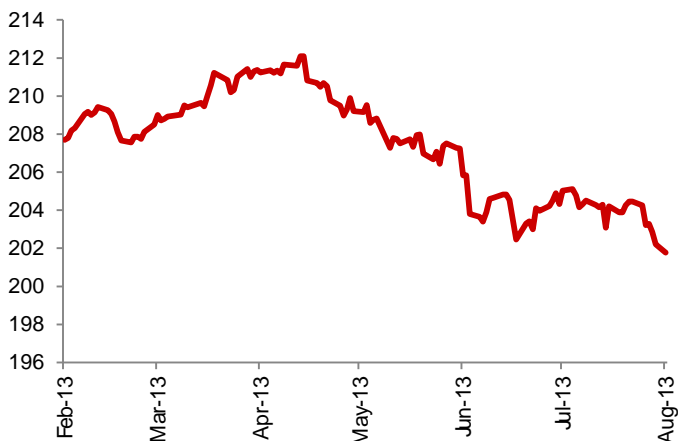
Asia & Emerging Markets

Index	Last	Change (%)	YTD (%)
Singapore STI	3128.75	-1.40	-1.21
Hong Kong Hang Seng	21970.29	-2.20	-3.03
Shanghai SE Composite	2072.60	-0.62	-8.66
India Sensex	18246.04	-0.34	-6.08
Taiwan TWSE	7832.65	-0.86	1.73
Malaysia KLCI	1745.42	-1.85	3.34
Korea KOSPI	1887.85	-1.55	-5.47
Indonesia JCI	4174.98	-3.21	-3.28
Thailand SET	1370.86	-1.98	-1.51
Brazil BOVESPA	50507.02	-2.07	-17.14
Russia RTS	1317.77	-0.34	-13.70

Fixed Income

	Last	Previous Day Close	Change (bps)
2-yr US Treasury	0.34	0.35	-1.20
5-yr US Treasury	1.54	1.61	-6.28
10-yr US Treasury	2.81	2.88	-6.62
3M Sibor	0.37	0.37	0.00
3M Libor	0.26	0.26	-0.10

iBoxx US Treasuries TR Index (USD)



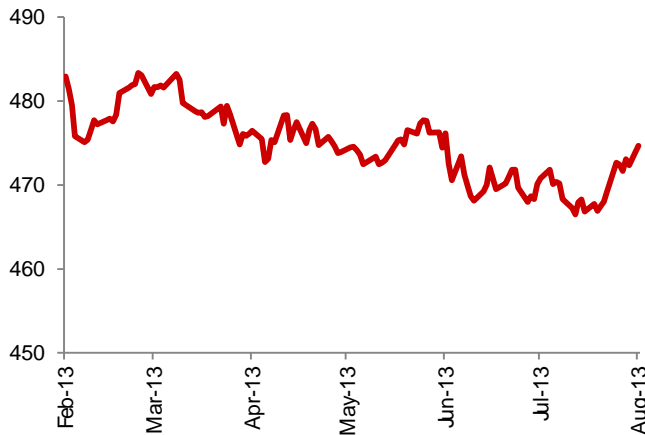
Source: Bloomberg, iBoxx Limited.

Data stated in local currency terms and is as of the last business day.

Commodities

	Last	O/N Change (%)	52-week High	52-week Low
Gold	1371.23	0.38	1796.08	1180.57
Crude oil	104.96	-2.00	109.32	84.05
Wheat	634.25	-1.13	926.50	623.00
Corn	483.75	-1.93	834.00	453.75
Soybean	1309.25	-0.96	1794.75	1271.00
Sugar	488.50	-0.59	582.70	458.40
Coffee	118.80	-3.22	200.00	118.15

Commodities Research Bureau (CRB) Index



Source: Bloomberg, iBoxx Limited
 Data stated in local currency terms and is as of the last business day where applicable.
 O/N represents overnight.

South Asia

India's Sensex fell, but not as much as in the previous few trading sessions, after the government said it was planning an overseas rupee bond to shore up its ailing currency. The sub-continent's main bourse closed 0.3% lower and has fallen around 6% the past three sessions.

Fixed Income

US Treasuries rose to end a three-day losing streak, as the benchmark 10-year UST led a flight to safety amid the capitulation in Emerging Markets. The 10-year UST was up 19/32 to yield 2.81%. Overnight, the yield was close to 2.9%, its highest since July 2011. It was as low as 1.63% in May. With yields high, bonds appear more attractive than some stocks which pay out similar dividends, because of its safety.

Commodities

Oil on the Nymex for September dropped sharply amid speculation of a taper in Fed asset-purchases. The American Petroleum Institute said stockpiles fell by 1.2 million barrels last week with the summer driving season in full swing.

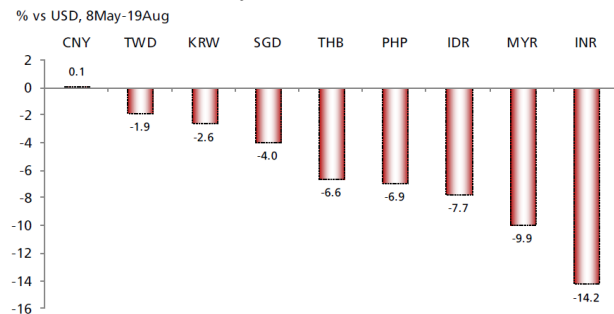
Gold futures hit a two-month high as USD losses stoked demand for the precious metal. The **DBS CIO** office revised its 3M weighting for gold to Neutral from Underweight on Tuesday.

Sources: Bloomberg, DBS Group Research and Vickers (DBS), Dow Jones Newswires, Reuters

ASIAN INSIGHTS

Asia Currencies: The Sky is Falling!

Asia Currencies Since 8 May 2013



Source: DBS Group Research

Asian currencies have fallen considerably since early May, thanks in part to worries about US Federal Reserve tapering, in part to a purported recovery in the West and, in the case of India, to fundamental problems. The rupee is down by 14% since early May but the Malaysian ringgit has fallen almost as much at 10%. The Indonesian rupiah is off by 7.5%. The 7% drop in the Philippine peso shows that this regional selloff, like most, is indiscriminate when it comes to fundamentals. Improvements in the Philippines had earlier pushed the peso to its strongest level since December 1999

Is this the end of the road for Asia's currencies? Hardly. India needs some structural reform, that's for sure. The 'twin' deficits (government and external) have been festering for years, the economy needs to be opened up to more competition and the political leaders can't seem to deliver. But elsewhere in the region it's mostly case of jitters about an imminent drawdown in the US Federal

Reserve's asset-purchase programme and a perception that growth in the West has returned. Capital is flowing out of the region for both reasons. It probably won't take long to return.

Capital has flowed into Asia over the past 3-4 years for cyclical and structural reasons. The first reason gets all the attention: US interest rates are at zero, the Fed is pursuing QE3: money comes flooding to Asia. That's part of the story – the part that was never going to last. At some point, the US and Europe were always going to recover and central banks were always going to normalise policy.

Those flows are going home, if probably a bit too soon. The so-called recovery isn't that grand. In fact it's pretty weak. In the US, we're used to thinking of growth grinding along at a 2%-ish sort of rate. But growth has averaged only 1% over the past three quarters and only 1.4% over the past four. In Europe, growth has finally turned positive but everyone expected that would happen about now and no one expects a return to 'normal' growth anytime soon. When it comes to cyclical inflows, quantitative easing might be winding down, but interest rates are likely to remain on the floor for a long time to come in the US, Europe and Japan.

The bigger and longer lasting reason behind capital inflows into Asia has always been structural. Asia is where the growth is. It's where the new dollars of demand are being generated. And for this reason, it's where businesses will want to invest.

Recovery might be coming in Europe. But Germany – Europe's biggest driver – would, if it grew at a 1.5% rate per year, double in size once every 50 years. Asia, by contrast, 'adds' a Germany every four years, right here in Asia. If you're a business, where would you want to invest? Where a new Germany gets created every 50 years? Or every four? It's not rocket science. Asia will be the destination for a lot of capital inflow for a long time to come.

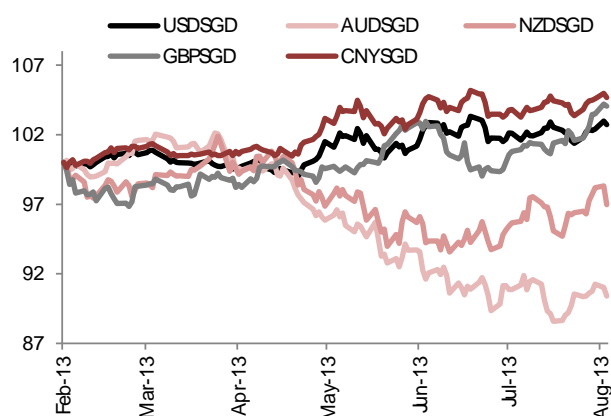
Source: Source report: DBS Group Research. Daily Breakfast Spread, 20 August 2013.
 (Summarised by DBS Group Wealth Management /CIO Office.)

FX Pulse

FX Round-up

	Last	O/N Change (%)	O/N High	O/N Low
EUR/USD	1.3417	0.61	1.3452	1.3324
USD/JPY	97.27	-0.29	97.86	96.91
AUD/USD	0.9071	-0.42	0.9133	0.9027
NZD/USD	0.7979	-1.10	0.8075	0.7952
GBP/USD	1.5668	0.13	1.5696	1.5629
USD/SGD	1.2741	-0.27	1.2800	1.2734
USD/CNY	6.1248	0.03	6.1273	6.1186
EUR/AUD	1.4791	1.04	1.4841	1.4602
AUD/SGD	1.1557	-0.69	1.1662	1.1526
NZD/SGD	1.0165	-1.38	1.0317	1.0156
GBP/SGD	1.9961	-0.15	2.0023	1.9957
AUD/NZD	1.1368	0.69	1.1392	1.1288
EUR/SGD	1.7093	0.34	1.7143	1.7021
EUR/GBP	0.8564	0.50	0.8574	0.8517

SGD VERSUS MAJOR CURRENCIES



Source: Bloomberg

Data stated in local currency terms and is as of the last business day where applicable. O/N represents overnight.

TECHNICAL SUMMARY

Currency	Short term Direction	Support 1	Support 2	Resistance 1	Resistance 2
EUR/USD	Bullish	1.3310	1.3205	1.3505	1.3658
GBP/USD	Bullish	1.5573	1.5421	1.5751	1.6050
USD/JPY	Range	95.79	93.78	98.64	99.94
AUD/USD	Range	0.9000	0.8846	0.9132	0.9232
NZD/USD	Range	0.7933	0.7815	0.8074	0.8162
USD/CAD	Range	1.0335	1.0243	1.0445	1.0539
USD/SGD	Range	1.2667	1.2555	1.2800	1.2859
AUD/SGD	Range	1.1491	1.1249	1.1659	1.1753
NZD/SGD	Bullish	1.0048	0.9909	1.0232	1.0397
GBP/SGD	Bullish	1.9802	1.9535	2.0275	2.0678
EUR/SGD	Bullish	1.7000	1.6915	1.7406	1.7670
EUR/AUD	Range	1.4593	1.4437	1.4992	1.5253
AUD/NZD	Bearish	1.1217	1.1024	1.1458	1.1537
XAU/USD	Bullish	1352	1314	1394	1423

Source: DBS CIO Office

Note: These are short-term technical readings with a two-week horizon. All figures are as of last business day.

Currencies

India's rupee sank to a record low of 64.11 against the USD, but recouped some losses after the Reserve Bank of India said it would buy back around INR80 billion of longer-term government bonds and issue an overseas rupee-denominated bond. India is facing a large current account deficit and because of its reliance on energy imports, analysts are projecting a spike in already lofty inflation data. New Delhi is struggling to convince investors it has the tools to deal with a reduction in the amount of bond-buying by the US Federal Reserve. The additional liquidity made available by the Fed has flowed freely into Emerging Markets, but the imminent pullback has spooked investors.

In other Emerging Market currencies, the rupiah fell around 2% to the USD, and is down 4.5% since July, while the Malaysian ringgit plummeted to a three-year low before recovering when the central bank jumped in to sell more than USD1 billion to shore up the Southeast Asian currency. The Thai baht also suffered, hitting its lowest level in more than two years as the malaise surrounding the US Fed possible end or pullback in its easy money programme spread across the region.

The USD gained against the yen in early Asian trade ahead of the release of July's Federal Reserve minutes later today. If the Fed decides to reduce its easy money supply, the USD will likely benefit.

The euro rose, and was among the beneficiaries of flows out of Emerging Markets. The single currency reached its highest level since February against the USD. The currency was buoyed by a reading of manufacturing and services in Germany, the region's biggest economy, which both beat analyst expectations and are in expansionary territory.

Sources: Bloomberg News, Dow Jones Newswires, Reuters.

Economic Calendar – 21 August 2013

Country	Event	Period	Survey	Actual	Prior
MA	CPI (YoY)	Jul	2.00%	--	1.80%
MA	GDP (YoY)	2Q	4.80%	--	4.10%
US	Existing Home Sales	Jul	5.15M	--	5.08M
TH	1-day Repo Rate	21-Aug	2.50%	--	2.50%

Focus

Malaysia inflation and GDP numbers are on tap alongside existing US home sales.

Source: Bloomberg

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