



McKinsey&Company

ASEAN Insights: Regional trends

July 2018



1. Global trends

BUSINESS CONFIDENCE REMAINS STRONG; INFLATION RISES WHILE UNEMPLOYMENT RATES FALL

The global economic environment remains firmly in expansionary territory. Global purchasing managers' indexes (PMIs) for services rose in June. The services PMI rose to a three-year high of 54.6 in June, while the manufacturing PMI remained robust at 53.0, easing slightly from May's 53.1.

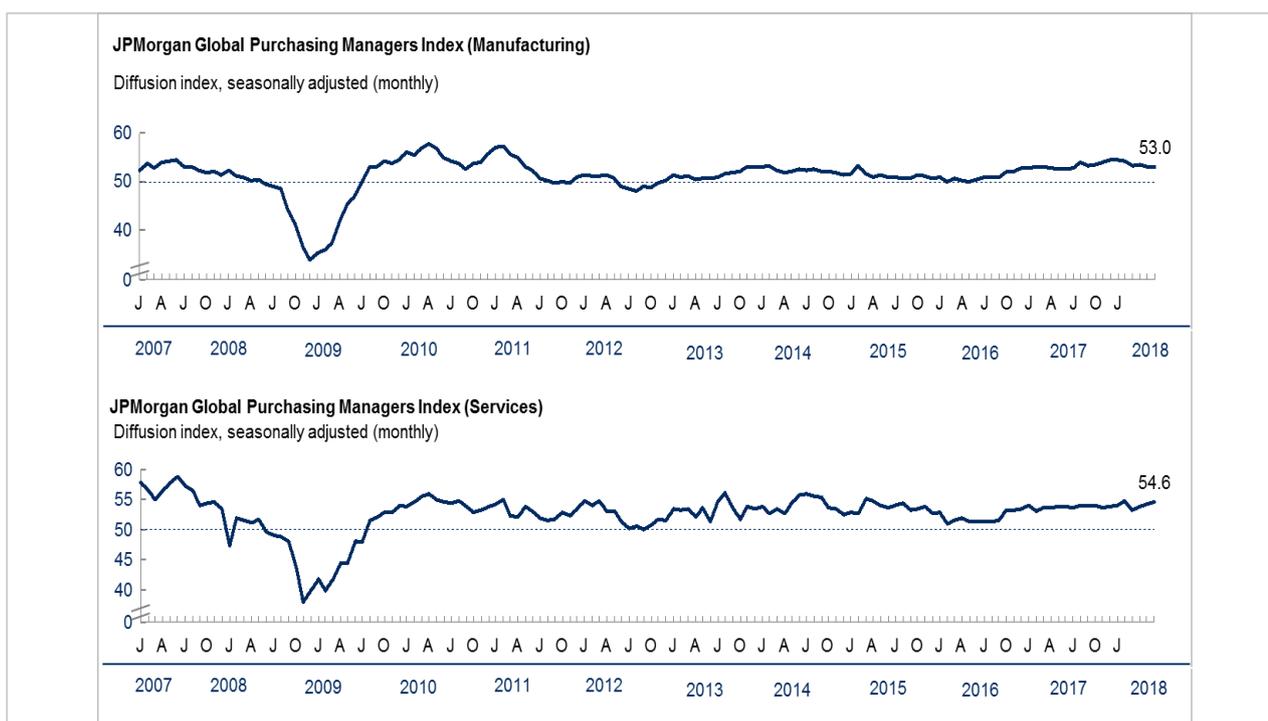
Inflation in the United States rose to its highest in nearly six-and-a-half years in June. Consumer prices rose by 2.9 percent year on year in June, up from 2.8 percent in the previous month and the highest since February 2012. The core consumer price index, which excludes volatile food and energy prices, also edged up to 2.3 per cent from 2.2 per cent, an 18-month high. Meanwhile, inflation in the Eurozone went up to a 16-month high of 2.0 percent in June, from 1.9 percent in May. The higher inflation was driven by energy and food prices.

Unemployment rates declined throughout major economies. The unemployment rate in the United States and Eurozone fell by 0.1 percentage points to 3.8 and 8.4 percent respectively.

Global equities improved in July, after a disappointing June. Most major markets experienced rallies, with the S&P 500 hitting a five-month high in mid-July after strong corporate earnings. However, ASEAN equities performed poorly, as fears over a trade war and foreign investor outflows weighed on sentiment.

Central banks of all major economies held interest rates steady this month.

Global economic conditions remain firmly expansionary

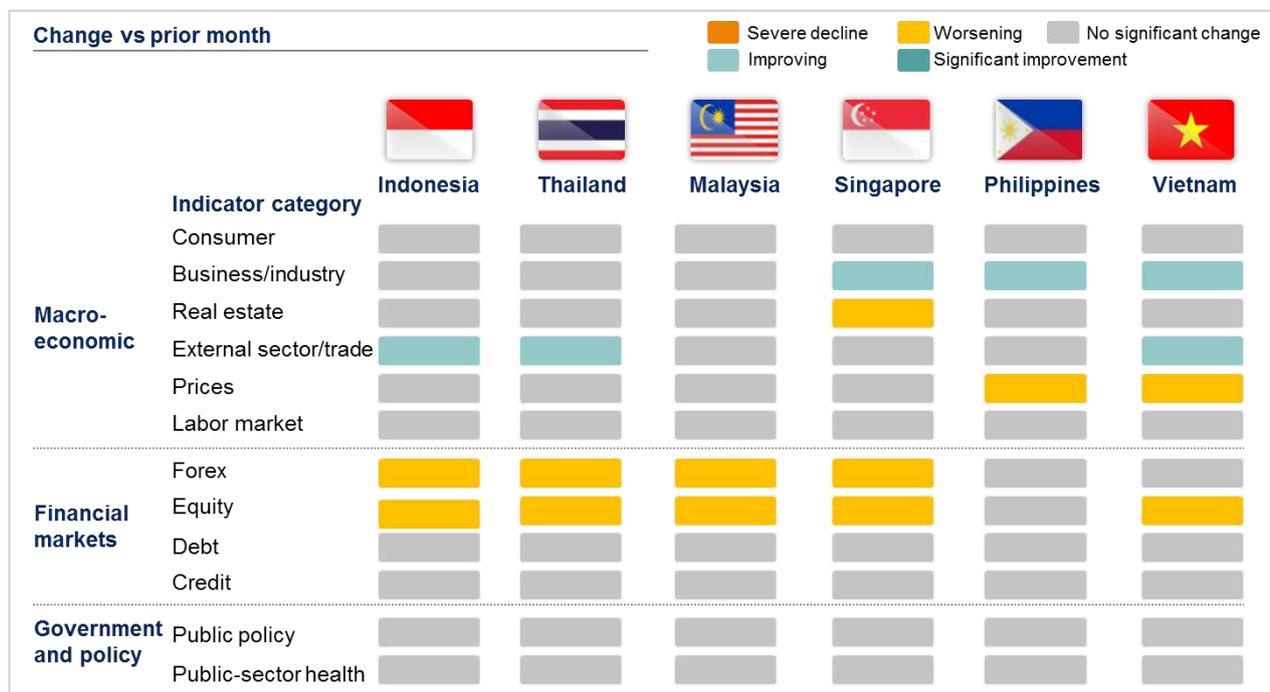


Note: A reading above 50.0 indicates expansionary conditions, while a reading under 50.0 indicates contractionary conditions.

2. Regional trends: ASEAN

Q2 2018 GDP GROWTH MODERATES; ASEAN TRADE CONTINUES TO GROW BUT AT SLOWER PACE

Leading economic indicators remain generally positive but slowing down; ASEAN equity markets fall again; Singapore implements new measures to cool property market



Macroeconomic trends

Singapore's Q2 GDP growth moderated to 3.8 percent year on year, below analyst forecasts of a 4.0 percent growth and lower than the 4.3 percent expansion in the first quarter. Momentum in both services and manufacturing eased. Meanwhile, Vietnam saw GDP grow by 6.8 percent year on year in Q2, down from 7.4 percent in Q1. Despite the slowdown, the Q2 growth in 2018 is the strongest Q2 growth rate in 11 years.

ASEAN trade continued to improve, but the growth rate slowed a little. Exports in Indonesia and Thailand again rose by double-digits, but Malaysian export volumes increased by only 3.4 percent year on year in May, down from 14.0 percent a month earlier. Non-oil domestic exports from Singapore went up by 1.1 percent year on year in June, a sharp moderation from the 15.5 percent surge in May. The deceleration in growth was mainly due to a fall in electronic exports, which declined by 7.9 percent year on year.

Headline inflation outcomes were mixed. Thailand's consumer price inflation slowed from a 16-month high of 1.5 percent in May, with prices rising by 1.4 percent in June. This slowdown was mainly due to a decline in food prices. Inflation in Indonesia eased to 3.1 percent in June, from 3.2 percent in the preceding month. Meanwhile, inflation in the Philippines rose to 5.2

percent in June, from 4.6 percent in the prior month. This was the highest since October 2011. New taxes, higher oil prices, and higher imported inflation as a result of the weak peso all contributed to the uplift in inflation. Meanwhile, inflation in Vietnam spiked to a 15-month high of 4.7 percent in June, from 3.9 percent in May.

PMIs were in expansionary territory for all ASEAN countries, with the exception of Malaysia. Nonetheless, Malaysia's manufacturing PMI rose to 49.5 in June, from 47.6 in May. That said, Indonesia, Thailand, Singapore, and the Philippines all saw a moderation in PMI, although they remained in the expansionary zone. More positively, Vietnam saw its PMI jump to 55.7 in June, from 53.9 the preceding month.

Financial markets

All ASEAN equity markets fell this month, with Vietnam's VN Index erasing all its 2018 gains. The VN Index has fallen around 25 percent since its record high in April. ASEAN currencies dropped against the US dollar, with sentiment affected by concerns over rising trade protectionism and the possible impact of faster-than-expected US rate hikes.

Government policy

Singapore raised stamp duties and tightened loan restrictions for property purchases, which came into effect on July 6.

3. ASEAN insights: Country analysis

THE REGION AT A GLANCE

MYANMAR

- Myanmar's manufacturing PMI dipped to 50.0 in June, significantly down from 52.6 in May, and below April's record high of 55.5.

THAILAND

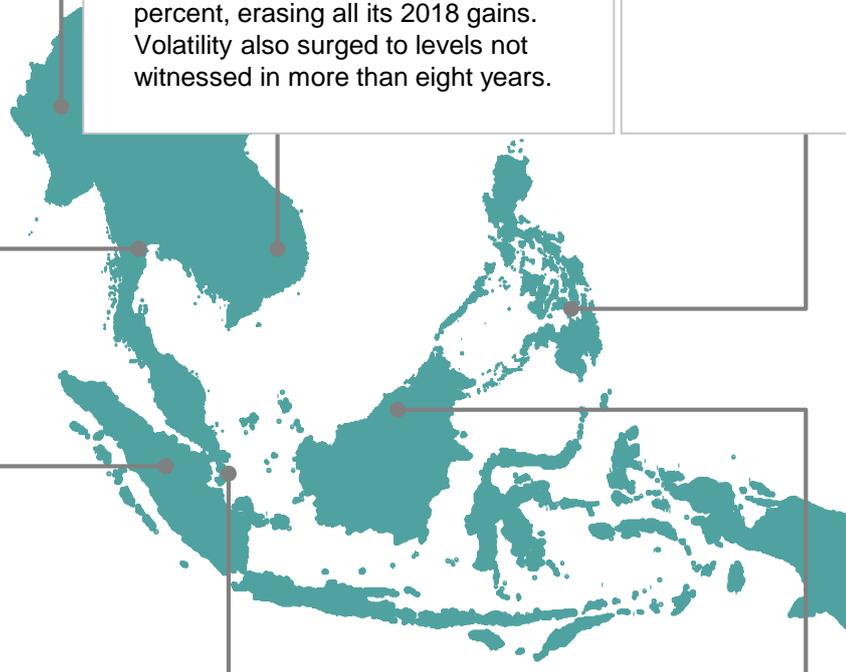
- Export sales went up by 11.4 percent year on year in May, with sales increasing for electronics and automobiles.
- The manufacturing PMI declined to 50.2 in June, from 51.1 a month earlier.
- The benchmark SET Index dropped by around 3 percent month on month, while the Thai baht fell against the US dollar, also by 3 percent.

VIETNAM

- Vietnam saw Q2 GDP grow by 6.8 percent year on year, down from 7.4 percent in Q1.
- The manufacturing PMI jumped to the second highest on record in June. The PMI was recorded at 55.7, up from 53.9 in May. Both output and new orders rose strongly.
- The benchmark VN Index fell by around 7.5 percent month on month. Since its peak in April this year, the index has dropped by around 25 percent, erasing all its 2018 gains. Volatility also surged to levels not witnessed in more than eight years.

PHILIPPINES

- Inflation in the Philippines rose to 5.2 percent in June, the highest since October 2011. This breached the 2–4 percent target range set by the central bank for the fourth consecutive month.
- After falling to the lowest point since 2006 last month, the Philippine peso was volatile around the 12-year low mark.



INDONESIA

- Indonesian trade volumes rose by double-digits in June. Exports rose by 11.5 percent year on year, with sales of oil and gas products surging by more than 30 percent.
- Despite the strong trade figures, the manufacturing PMI in Indonesia fell to a five-month low of 50.3 in June, from 51.7 the previous month.
- Indonesia's central bank, Bank Indonesia raised rates for the third time in six weeks. Bank Indonesia increased the benchmark seven-day reverse repo rate by 50 basis points to 5.25 percent.

SINGAPORE

- Singapore's Q2 GDP growth moderated to 3.8 percent year on year, below analyst forecasts of a 4.0 percent growth and lower than the 4.3 percent expansion in the first quarter.
- Singapore's non-oil domestic exports (NODX) rose at a much slower pace in June. NODX went up by 1.1 percent year on year, a sharp moderation from the 15.5 percent surge in May.
- Singapore raised the Additional Buyer Stamp Duty by 5 to 10 percentage points for all purchases of residential properties, with the exception of Singaporean citizens buying their first property.

MALAYSIA

- Export growth slowed down to 3.4 percent year on year in May, after a 14 percent rise a month earlier. Sales continued to grow for electronics and oil-related products, but went down for rubber and timber products.
- Consumer price inflation rose to 1.8 percent in May, from 1.4 percent the preceding month. This was the highest since January, with prices rising for housing and transport.
- A new central bank governor, Nor Shamsiah Mohamad Yunus, was appointed with her five-year term starting this month.

EXPORTS GROW BY DOUBLE DIGITS; RUPIAH FALLS; BANK INDONESIA RAISES RATES FOR THIRD TIME IN SIX WEEKS

Indonesian trade volumes rose by double digits in June. Exports rose by 11.5 percent year on year, with sales of oil and gas products surging by more than 30 percent.

Despite the strong trade figures, the manufacturing PMI in Indonesia fell to a five-month low of 50.3 in June, from 51.7 in the previous month. Output rose the least in five months, while confidence dropped to its lowest since October 2012.

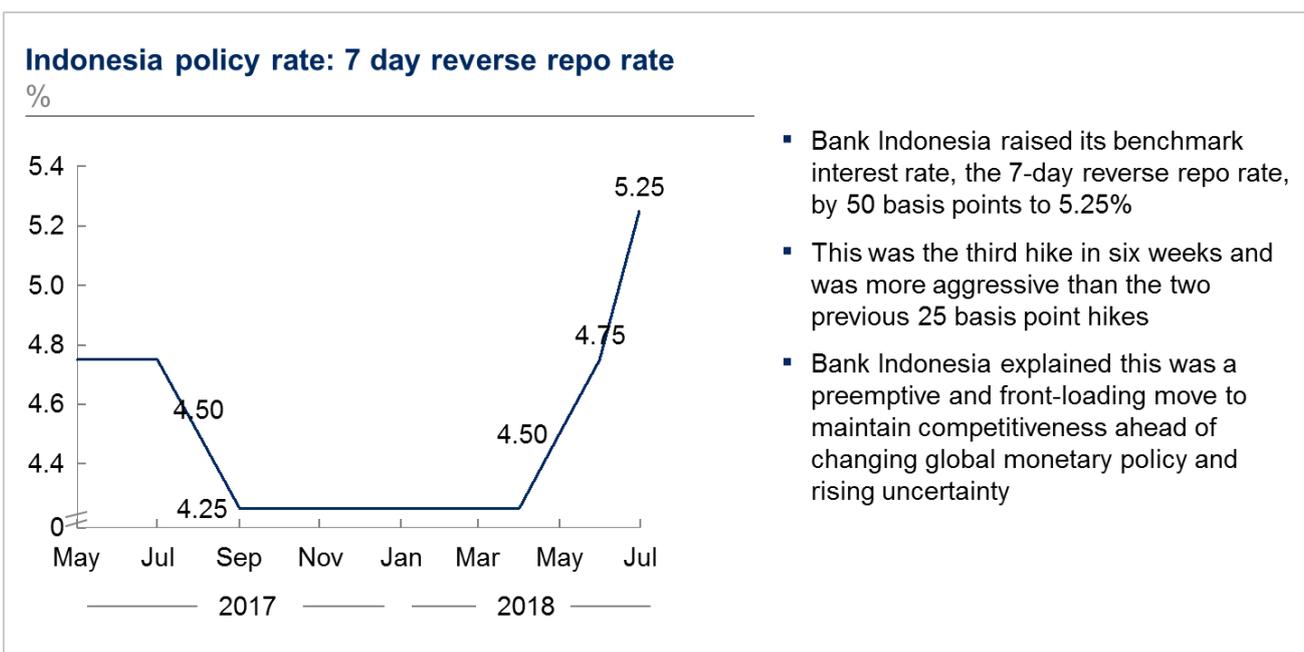
Inflation eased slightly to 3.1 percent in June, from 3.2 percent in May. This was the lowest rate so far this year, with inflation for housing and healthcare easing.

The Indonesian rupiah fell against the US dollar this month, with pressure from the US Federal Reserve rate hike and rising uncertainty over trade tensions.

Indonesia's central bank, Bank Indonesia, raised rates for the third time in six weeks. Bank Indonesia increased the benchmark seven-day reverse repo rate by 50 basis points to 5.25 percent. This came on top of two separate 25 basis point hikes earlier. This latest hike was more aggressive than market expectations, with Bank Indonesia explaining that this was a "preemptive, front-loading, and ahead-of-the-curve move to maintain the domestic financial market's competitiveness against several countries' changing monetary policies as well as high global uncertainty."

Bank Indonesia also implemented accommodative macroprudential policy by easing the loan-to-value (LTV) ratio for property. This was done "in order to maintain domestic economic recovery momentum and financial system stability."

Bank Indonesia raised rates for the third time in six weeks





Thailand

TRADE VOLUMES REMAIN ROBUST; INFLATION EASES FROM 16-MONTH HIGH; EQUITIES PERFORM POORLY AS THAI BAHT FALLS

Trade volumes continue to be robust in Thailand. Export sales went up by 11.4 percent year on year in May, with sales increasing for electronics and automobiles. Imports rose by 11.7 percent year on year in May. Imports in Thailand were supported by strong demand for raw materials, which are assembled into completed goods and then shipped out again.

The manufacturing PMI declined to 50.2 in June, from 51.1 a month earlier. While output rose at a quicker pace, new orders contracted.

After recording a 16-month high of 1.5 percent in May, inflation slowed to 1.4 percent in June. This was mainly due to a fall in food prices. Inflation remains near the lower end of the Thai central bank's inflation target range of 1–4 percent.

On the financial market front, the benchmark SET Index fell by around 3 percent month on month. This was mainly due to selling by foreign investors. Investor sentiment was affected by China's slowdown in economic growth, as well as lower fee income in the banking sector. Thailand's four largest banks waived off digital transaction fees to retain retail customers, in light of competition from new channels for online payments and electronic wallets. This move was expected to hit profits by up to 5 percent.

The Thai baht fell by around 3 percent month on month against the US dollar, a trend that followed the rest of the region. The US dollar appreciated as a result of improved investor sentiment in the US economy, as well as potential interest rate hikes by the US Federal Reserve.

Thai equities fell this month





Malaysia

EXPORT GROWTH SLOWS; INFLATION RISES; MALAYSIA APPOINTS NEW CENTRAL BANK GOVERNOR

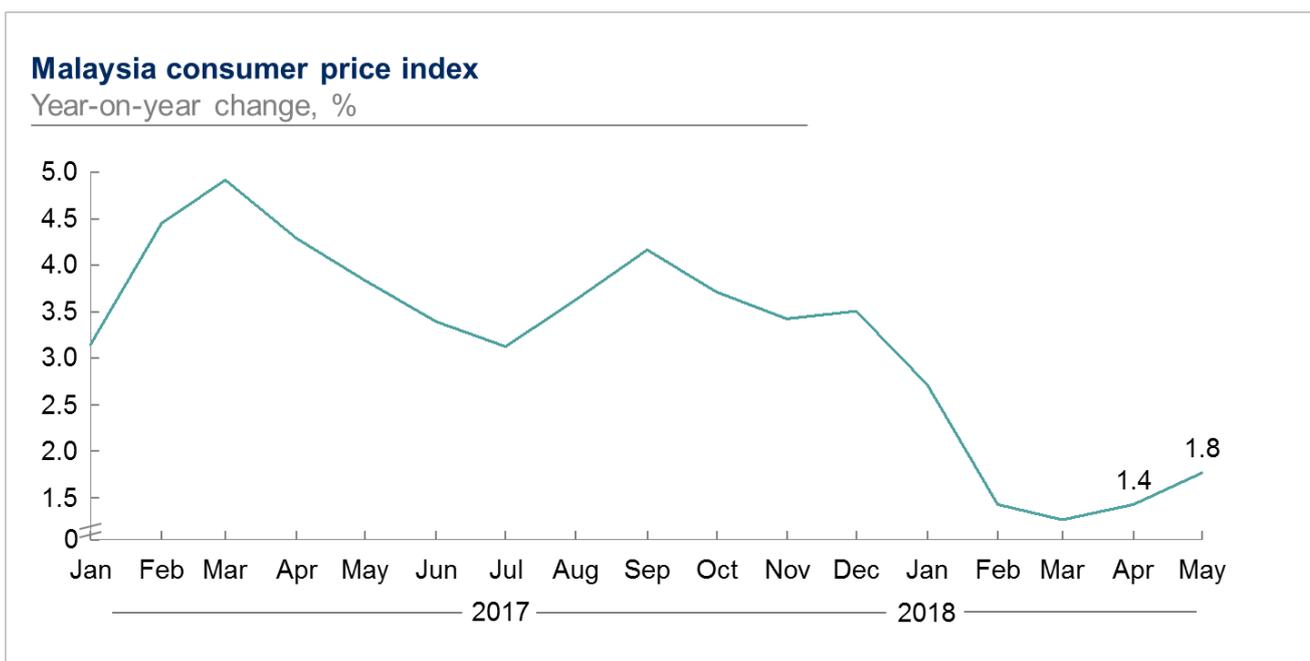
Export growth slowed to 3.4 percent year on year in May, after a 14 percent rise a month earlier. Sales continued to grow for electronics and oil-related products, but went down for rubber and timber products.

A new central bank governor, Nor Shamsiah Mohamad Yunus, was appointed with her five-year term starting this month. She succeeds Muhammad Ibrahim, who resigned early last month three years before his term was due to expire.

The manufacturing PMI rose to 49.5 in June, from 47.6 in May. This was the highest reading since March this year, as output and new orders fell the least in three months. Malaysia remains the only ASEAN country with the PMI in the contractionary zone.

Consumer price inflation rose to 1.8 percent in May, from 1.4 percent in the preceding month. This was the highest since January, with prices rising for housing and transport.

Inflation rises to highest point since January this year





Philippines

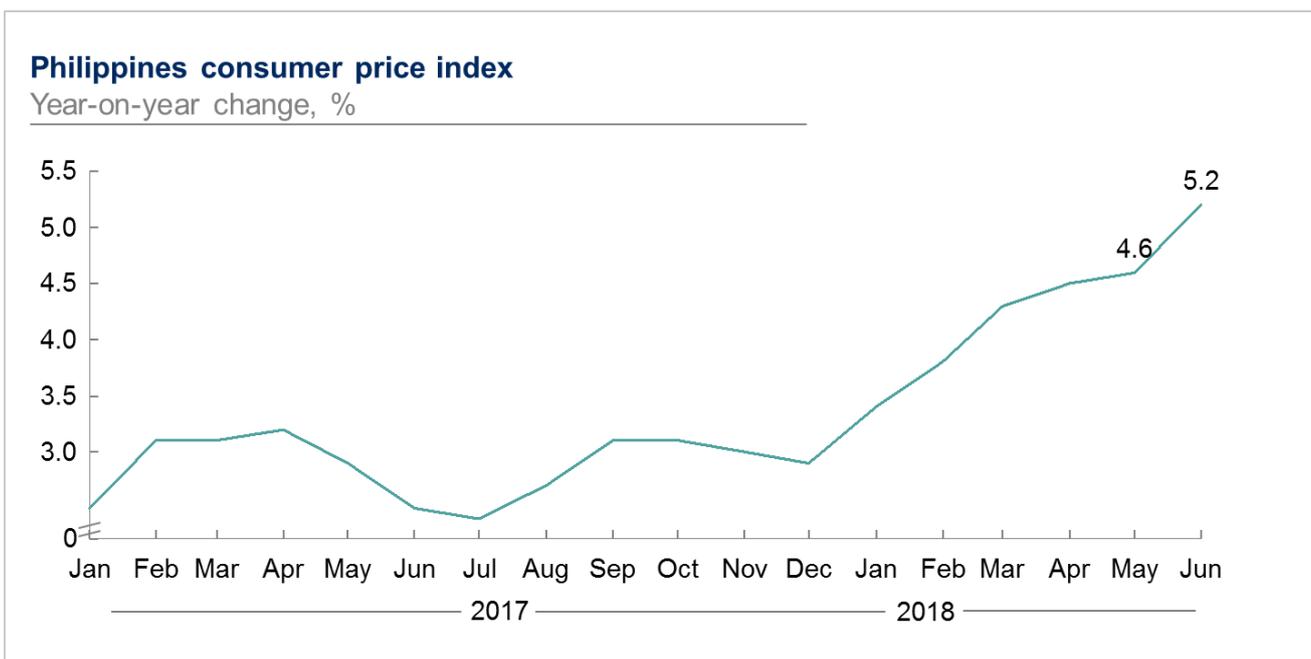
INFLATION HIGHEST SINCE OCTOBER 2011; PESO REMAINS VOLATILE AROUND 12-YEAR LOWS

Inflation in the Philippines rose to 5.2 percent in June, the highest since October 2011. This breached the 2–4 percent target range set by the central bank for the fourth consecutive month. Prices rose most strongly for alcohol, tobacco, food, and transport. The higher inflation readings in the Philippines are attributable to new excise taxes on sugar, tobacco, and fuel, while firmer oil prices and a weak peso have increased cost pressures on transportation and imported goods, respectively.

After falling to its lowest point since 2006 last month, the Philippine peso was volatile around the 12-year low mark. The Philippine peso was supported by a fall in oil prices after Saudi Arabia offered extra crude volumes to some buyers in Asia, but a widening trade deficit weakened investor sentiment.

Against this backdrop of high inflation and lower peso, market analysts are expecting the Bangko Sentral Ng Pilipinas to raise interest rates at its next Monetary Board meeting, scheduled for August 9.

Inflation surges to its highest level since 2011



ECONOMIC GROWTH LOWER IN Q2; EXPORT PERFORMANCE DISAPPOINTS; PROPERTY COOLING MEASURES IMPLEMENTED

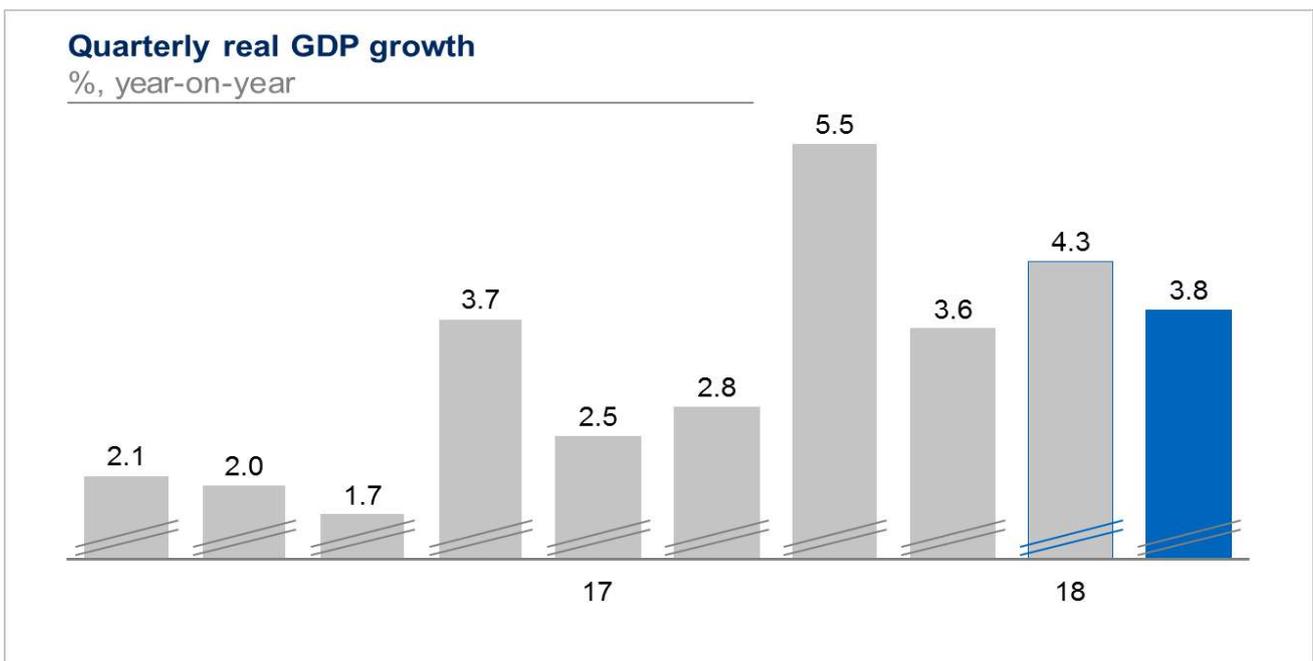
Singapore's Q2 GDP growth moderated to 3.8 percent year on year, below analyst forecasts of a 4.0 percent growth and lower than the 4.3 percent expansion in the first quarter. Momentum in both services and manufacturing eased, with services expanding by 3.4 percent year on year in Q2, down from 4.0 percent in Q1.

Singapore's non-oil domestic exports (NODX) rose at a much slower pace in June. NODX went up by 1.1 percent year on year, a sharp moderation from the 15.5 percent surge in May. This was significantly below analyst expectations of a 7.8 percent growth. The deceleration in growth was mainly due to a fall in electronic exports, which declined by 7.9 percent year on year.

Inflation rose to 0.4 percent in May, compared to 0.1 percent in the previous month. This reflected a stronger pickup in the prices of private road transport, services, and retail items, which more than offset a slowdown in food inflation.

On July 6, Singapore raised the Additional Buyer Stamp Duty by five to ten percentage points for all purchases of residential properties, with the exception of Singaporean citizens buying their first property. In addition, the Loan-to-Value ratio was reduced by five percentage points across the board. With the adjustment, borrowers will now only be able to borrow 75 percent of the property value, or 55 percent if the loan tenure is more than 30 years or extends past age 65.

Singapore's Q2 GDP growth eased





Q2 GDP GROWTH MODERATES; PMI UP TO SECOND HIGHEST ON RECORD; INFLATION SURGES AGAIN; EQUITIES DROP SIGNIFICANTLY

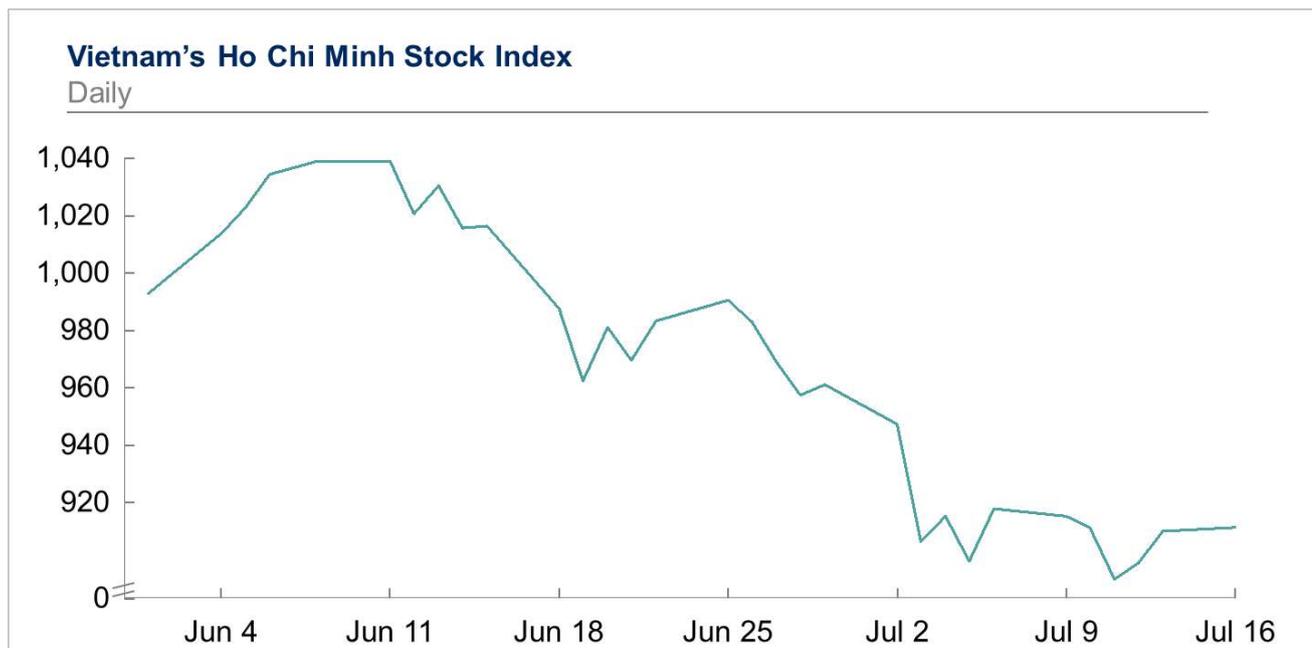
Vietnam saw Q2 GDP grow by 6.8 percent year on year, down from 7.4 percent in Q1. Despite the slowdown, the Q2 GDP growth in 2018 is the strongest Q2 growth rate in 11 years. The Vietnamese government has targeted a growth rate of 6.5–6.7 percent for 2018 as a whole.

Meanwhile, the manufacturing PMI jumped to the second highest on record in June. The PMI was recorded at 55.7, up from 53.9 in May. Both output and new orders rose strongly.

Inflation in Vietnam spiked to a 15-month high of 4.7 percent in June, from 3.9 percent in May. This was mainly due to two recent fuel price hikes in May 8 and May 23, which also led to higher transport costs. In addition, higher commodity prices have also played a role.

The benchmark VN Index fell by around 7.5 percent month on month. Since its peak in April this year, the index has dropped by around 25 percent, erasing all its 2018 gains. Volatility also surged to levels not witnessed in more than eight years. Among the reasons being listed for investors withdrawing from the market are global economic fluctuations, trade wars, and foreign investment outflows.

Vietnam's stock market fell significantly

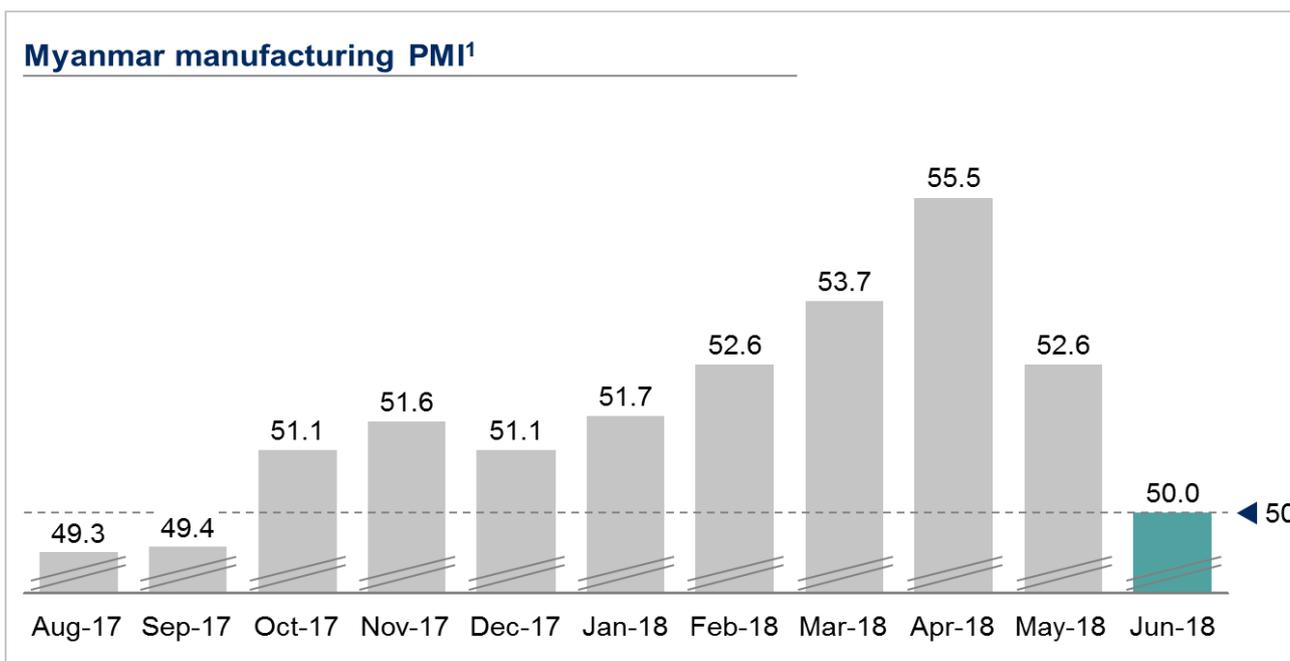


JUNE PMI SIGNALS UNCHANGED MANUFACTURING CONDITIONS

Myanmar's manufacturing PMI for May dipped to 50.0 in June, significantly down from 52.6 in May, and below April's record high of 55.5. Output growth eased to the weakest since April 2016, while new orders contracted for the first time since August 2017.

On the price front, input cost inflation remained strong. Survey respondents attributed this to "a scarcity of raw materials, exchange rate movements, and stronger demand for inputs from China."

Manufacturing PMI shows unchanged conditions



¹ A reading above 50 indicates an expansion of the manufacturing sector compared with the previous month; below 50 represents a contraction, while 50 indicates no change.

