

ANDBANK RESEARCH

Global Economics &
Markets

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Working paper - 60

A reasonable Strategy: "Long Equity in Exporters of NIEs economies"

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December PMIs for Emerging Asia point to gradually improving conditions in the region's manufacturing sector

- PMIs for six countries in South Asia rose in four of the six economies (with India and Australia being the exceptions).
- The most striking feature was the rise in the output component recorded everywhere but India.
- New orders were not so strong across the board but they are higher than a couple of months ago in most economies, which bodes well for the coming months.
- This fits with the view that the region's manufacturing sectors are on gradual road to recovery supported by loose monetary policy and strengthening in external demand.
- Indonesia's rate tightening cycle is over. The slower increase in its input & output price indices does fit with the evidence that inflation has probably peaked.
- India's PMI manufacturing continued to expand in December albeit at a slower rate (PMI dipped to 50.7 from 51.3). Similarly, new orders rose at a more gradual

Chart 1: Headline PMIs

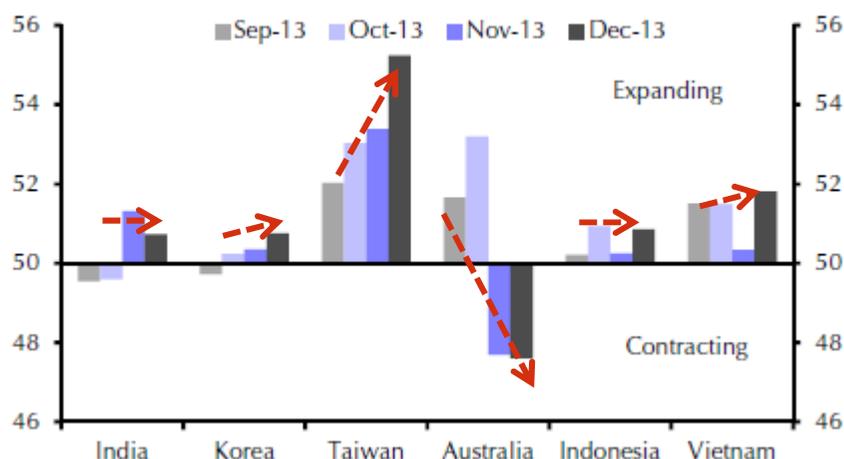
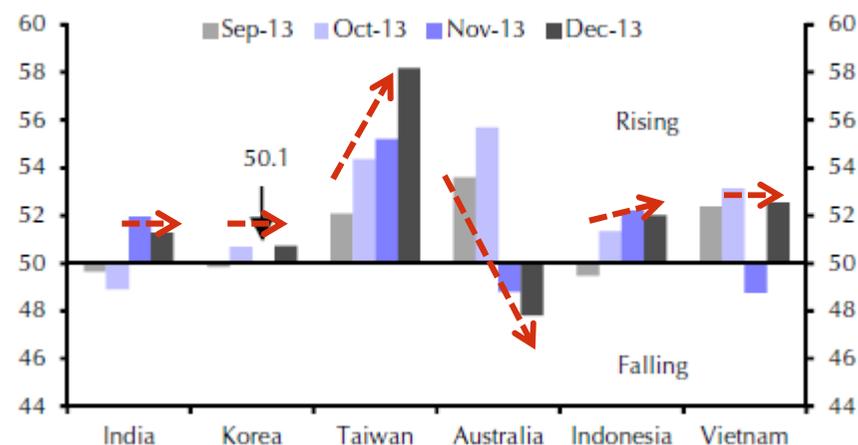


Chart 2: New Orders



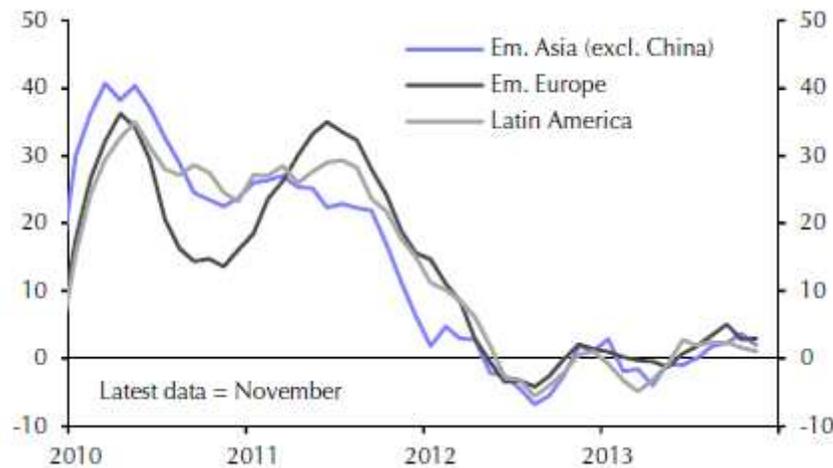
Source: Markit, Capital Economics

Asia's export recovery to gain momentum

Exports from Emerging Asia staged a mild recovery in the second half of the year – a performance that has been broadly in line with that of other major EM regions-

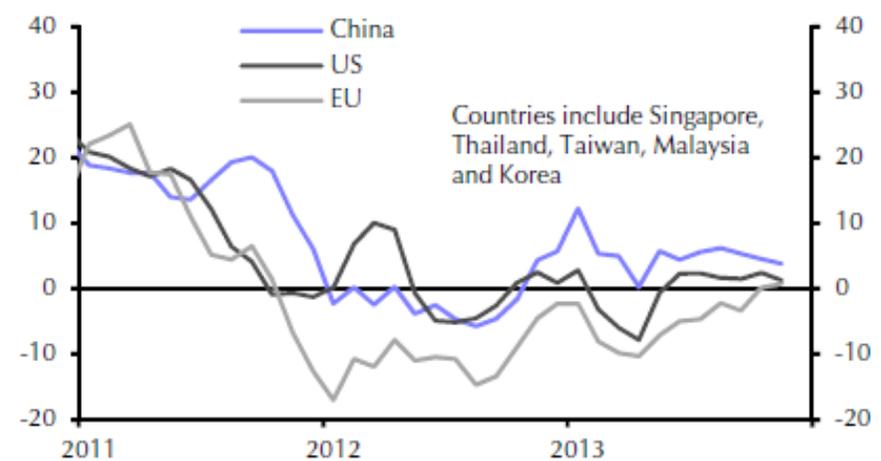
The most encouraging recent development for Asian exporters has been a turnaround in demand from the EU.

EXPORTS (US\$, 3M AVG., % Y/Y)



Capital Economics, Thomson Datastream

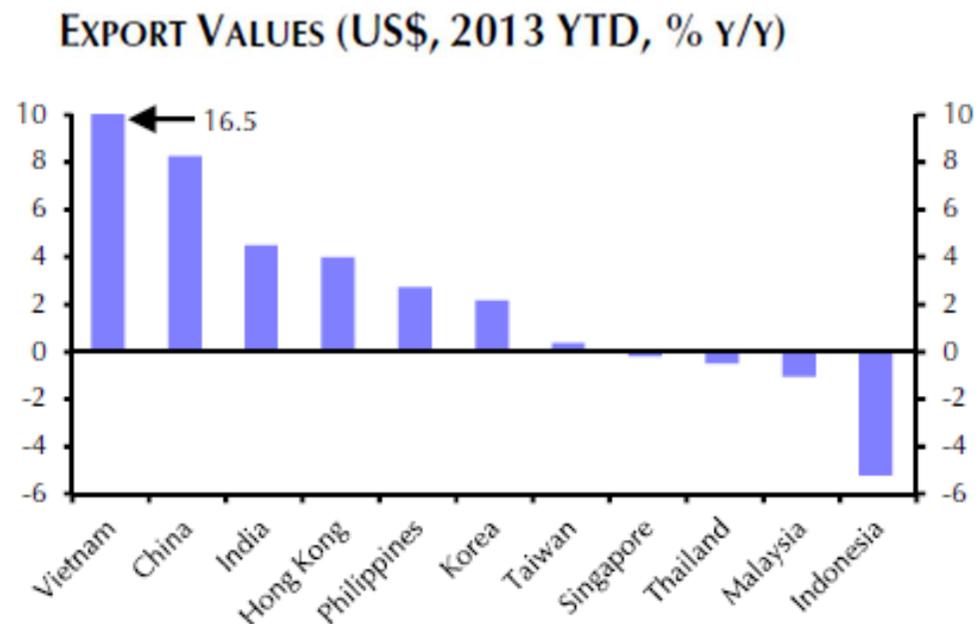
EXPORTS BY DESTINATION (US\$, 3M AVG., % Y/Y)



Capital Economics, Thomson Datastream

Exporters of manufactured products move faster. Commodity exporters lagging

- The best performing exporter is Vietnam.
- The country's success reflects the emergence of a competitive export-oriented manufacturing sector ...
- ... that is benefiting from the relocation of low-end manufacturing away from China (which has been steadily moving up the value chain).
- Commodity exporters have suffered from softer commodity prices.



Capital Economics, Thomson Datastream

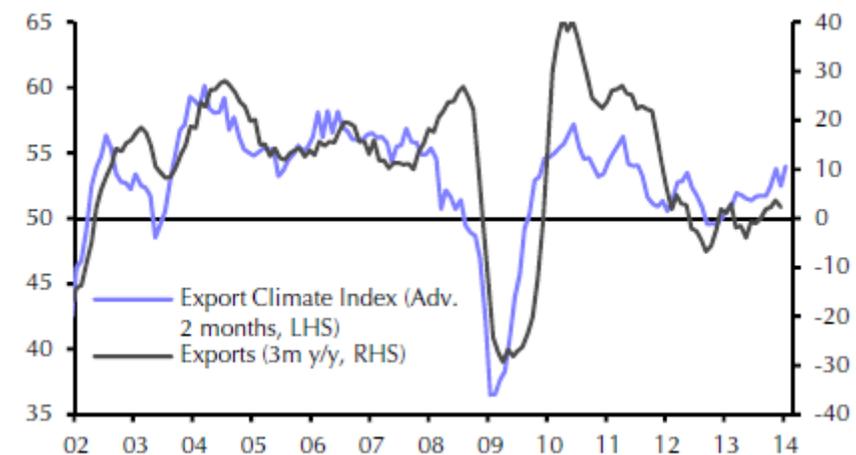
Prospects are improving

- PMI data points to Asian exports picking up further in the coming months.
- The new export orders component of the PMIs is consistent with export growth moving up into the double digits
- Indeed, the expected slowdown in China will act as a drag on demand and this will have a negative impact, specially in commodity exporters (such as Malaysia or Indonesia). Malaysia at least has a sizable manufacturing export sector (64% of total exports are manufactures), which should do well in the next couple of years. Meanwhile, manufactured goods make up a smaller proportion of Indonesia's export basket (40%)
- Nevertheless, in general terms, the Chinese slowdown is expected to be more than compensated for by stronger demand coming from the developed world, in particular the US. Overall, most Asian countries will see decent export growth in 2014.

PMI NEW EXPORT ORDERS & EXPORTS



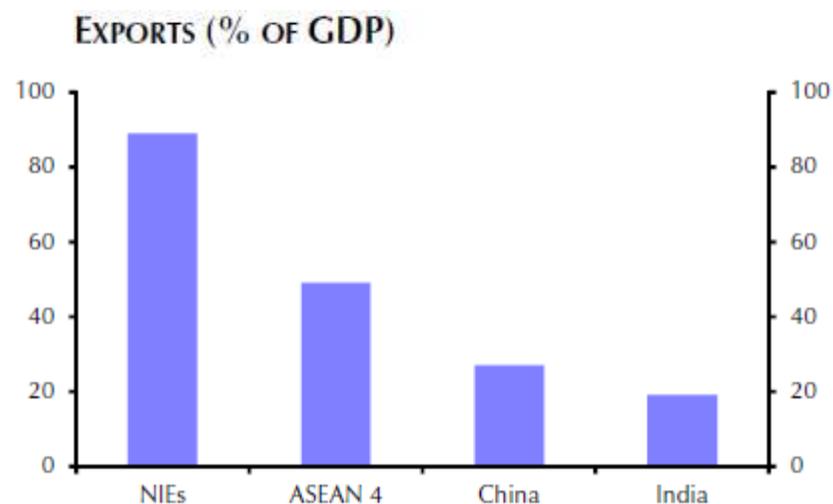
EXPORT CLIMATE INDEX & EXPORTS



Markit, Capital Economics, Thomson Datastream

What is the most judicious strategy resulting from this information?

- The **Newly Industrialized Economies –or NIEs economies- (HK, Singapore, Taiwan and Korea)**, as the most export oriented economies, stand to gain the most from an expected upturn in global demand (fuelled by demand in DM).
- The ASEAN-4 economies (Thailand, Malaysia, Indonesia and Philippines) will also benefit from global dynamics in 2014, but to a lesser extent.
- Accordingly, we consider a good strategy would be to be **long equities in exporters in NIEs markets.**



Markit, Capital Economics, Thomson Datastream

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