SINGLE COUNTRIES

SINGAPORE (4.0 STARS — VERY ATTRACTIVE)

- GDP Growth y-o-y came in at 2.6% in 3Q 18, down from an upward-revised 4.1% growth in 2Q 18
- Purchasing Managers Index came in at 52.4 in Sep 18, down from 52.6 in Aug 18
- Electronics sector PMI came in at 51.4 in Sep 18, down from 52.0 in Aug 18
- Retail sales fell -0.4% y-o-y in Aug 18, from a downward-revised -2.7% y-o-y fall in Jul 18
- Retail sales ex-autos rose 2.4% y-o-y in Aug 18, after a downward-revised 0.1% y-o-y gain in Jul 18
- Non-oil domestic exports rose 8.3% y-o-y in Sep 18, after a 5.0% y-o-y increase in Aug 18
- Electronic exports fell -0.9% y-o-y in Sep 18, after a -1.5% y-o-y decline in Aug 18
- CPI came in at 0.7% y-o-y in Sep 18, unchanged from a 0.7% y-o-y rise in Aug 18
- Core CPI came in at 1.8% y-o-y in Sep 18, declining from a 1.9% y-o-y rise in Aug 18
- Industrial production fell -0.2% y-o-y in Sep 18, after an upward-revised 3.7% rise in Aug 18

MARKET OUTLOOK

Corporate earnings trends of Singaporean corporations (represented by the Straits Times Index) were hardly changed, with 2018's estimates and 2019's estimates lowered -0.1% and -0.3% respectively (as of 25 October 2018). The companies that have their 2019 earnings estimates cut substantially are Keppel Corp (-7.1%) and Genting Singapore Ltd (-1.5%). The earnings cut for Keppel Corp could possibly be due to the ongoing acquisition of M1, where 2019 earnings could be reduced due to higher expenses from corporate restructuring. Year-to-date, 2018's and 2019's earnings estimates have been raised 3.0% and 4.3% respectively. Earnings are still projected to grow by 13.1% in 2018 and by 7.6% in 2019, and we think that it is likely for them to be achieved.

The biggest news in October would be the tightening of monetary policy by the Monetary Authority of Singapore (MAS). MAS increased slightly the slope of the SGD Nominal Effective Exchange Rate (NEER) while leaving the width and the centre level unchanged. MAS Core Inflation is expected to come in within the forecast range of 1.5 – 2% for 2018 and average between 1.5 – 2.5% in 2019. Year-on-year GDP growth for third quarter of 2018 came in at 2.6%, beating the consensus forecast of 2.4% but below the upward-revised prior of 4.1%. MAS expects GDP growth to be around 3.0 – 3.5% in 2018 while expecting GDP growth in 2019 to moderate due to trade friction and lower growth in the manufacturing sector. Furthermore, Singapore economy is operating slightly above its potential.

In terms of economic data, non-oil domestic exports (NODX) rose 8.3% year-on-year in September, increasing from a prior of 5.0% year-on-year increase but missing the forecast of an 11.1% year-on-year rise. The headline number was boosted by pharmaceuticals, rising 67.5% year-on-year in September. Electronic NODX continued its downtrend, declining -0.9% year-on-year in September, after a prior of -1.5% year-on-year decrease and weighing on overall exports data. Decrease of -22.5% in exports of diodes and transistors contributed the most in the decline. However, exports of integrated circuits recorded positive year-on-year growth of 11.7%, breaking 9 months of consecutive year-on-year decline. Overall NODX shipments to US, EU, Thailand, India and Indonesia rose, while exports to South Korea, Hong Kong, Malaysia and China fell. Electronic exports should stabilise for the rest of the year, however a slowdown in China's economy could weigh in on future levels.

September's headline CPI rose 0.7% year-on-year, unchanged from 0.7% year-on-year in August but missing the forecast of 0.8%. Core CPI, which excludes energy, private transport and accommodation costs, rose 1.8% year-on-year in August, below the forecast and prior of 1.9%. The Monetary Authority of Singapore (MAS) and the Ministry of Trade and Industry (MTI) continue to forecast higher imported inflation due to higher oil prices and stronger demand for commodities.

Industrial production disappointed in September 2018, falling -0.2% year-on-year and -4.9% month-on-month. It also fell short of the forecast of 3.5%. Pharmaceuticals and petrochemicals output were the big culprits, falling -11.1% and -14.3% year-on-year respectively. The former contracted due to a different mix of active pharmaceutical ingredients being produced, while the latter contracted due to maintenance shutdowns.

After a decent month in September, the Straits Times Index fell -8.8% in tandem with the global equities sell-off to close at 2972 as of 26 October 2018. The worst performers were Genting Singapore Ltd (-18.4%), Keppel Corp Ltd (-14.8%) and Venture Corp Ltd (-13.0%). Most major constituents did not escape the sell-off, while Singtel and Wilmar International only decreased by -2.1% and -1.0%. Consequently, the Singapore equity market trades at 12.0X and 11.2X 2018's and 2019's estimated earnings, comparing favourably to its fair PE ratio of 15.0X. **We maintain a 4.0 Stars "Very Attractive" rating on the Singapore equity market.**

RECOMMENDED FUND:
NIKKO AM SINGAPORE DIVIDEND EQUITY FUND - MYR CLASS