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Q4

2 0 1 8

- Sentiment index 63 in Q4 vs 58 in Q3
- Companies cite trade war as chief risk to six-month outlook
- Philippines firms most positive, Taiwan least
- Financial sector most positive, metals & chemicals least

Thomson Reuters/INSEAD Asian Business Sentiment Survey

Asian business confidence wallows near 3-year low on trade worries



Pedestrians prepare to cross a main road in the central business district of Sydney, Australia, Nov. 8, 2018. **REUTERS/DAVID GRAY**

BY JOHN GEDDIE

A very cautious optimism remains among Asian companies in the fourth quarter as they wait to see whether there will be any breakthrough in a trade dispute between the United States and China, a Thomson Reuters/INSEAD survey showed.

Representing the six-month outlook of 84 firms, the Thomson Reuters/INSEAD Asian Business Sentiment Index edged up

to 63 in the October-December quarter, slightly above a near three-year low of 58 seen in the previous period.

Anything above 50 indicates a positive outlook. But the latest result still marks one of the lowest readings since a rout in Chinese stocks in mid-2015 rattled world markets.

"This confirms the reading of the previous quarter: there is more uncertainty, there are increasing concerns about growth," said Antonio Fatas, a Singapore-based

economics professor at global business school INSEAD.

"This doesn't mean there is going to be a crisis over the next quarters, but if there is one, this is an indication that it wouldn't be a large surprise to some."

Once again, a global trade war was cited as the chief business risk by respondents. A slowdown in the world's second-biggest economy China and higher interest rates were also cited as risk factors. The survey

was conducted in 11 Asia-Pacific countries, across a range of sectors from Nov. 30 to Dec. 14.

U.S. President Donald Trump and Chinese leader Xi Jinping earlier this month agreed to a truce that delayed a planned Jan. 1 increase of U.S. tariffs to 25 percent from 10 percent on \$200 billion of Chinese goods while they negotiate a trade deal.

But that deal remains far from certain.

Trump has long railed against China's trade surplus with the United States, and Washington accuses Beijing of not playing fairly on trade. China calls the United States protectionist and has resisted what it views as attempts to intimidate it.

UNDER PRESSURE

The dispute between the world's two biggest economies, threatens businesses throughout the region due to global value chains.

Firms in the tech and telecoms sector

– where valuations have already been hit by concerns over slowing global demand – were one of the most pessimistic in the survey with their lowest-ever reading of 44.

“Everyone is under pressure from valuations anyway in this sector,” said Suresh Sidhu, chief executive officer of Malaysian telecoms firm edotco Group.

“The fact that the trade war and currencies, particularly if you are Asian, start to mess with your revenue and earnings models has added another whammy.”

Firms in Taiwan, an important node in the global electronics industry, had the most negative outlook by country in the survey at 17. On a country basis, that marked the steepest fall in the quarter, from 58 in Q3.

Companies in other mature economies such as Korea and Japan were among the most pessimistic, while firms in the Philippines, Thailand, Malaysia – the rapidly developing Southeast Asia region – were the most optimistic.

However, even for emerging Asia, there are concerns over the scramble to keep up with rising U.S. interest rates as regional central banks move to defend their currencies against a strengthening U.S. dollar.

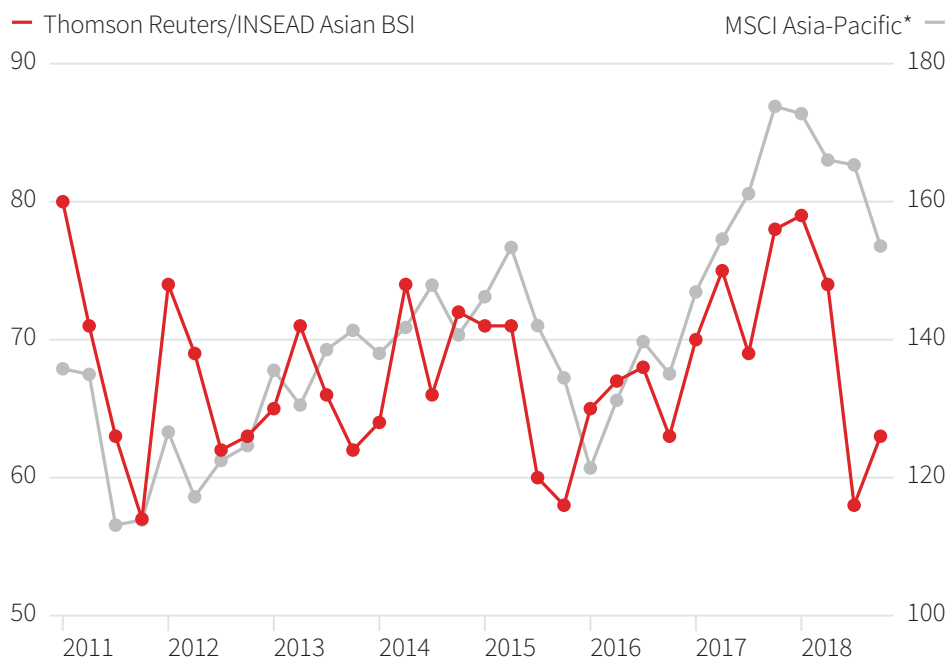
Rising rates was a concern flagged by Thai-based hotel operator Minor International, which recently acquired a Spanish hotel group in a multi-billion dollar deal.

“This is the biggest acquisition we have done in our history so any movement in interest rates definitely impacts our cost of funding,” said the firm's investor relations director Supitcha Fooanant.

Other respondents to the survey included Mahindra and Mahindra, Kalbe Farma, Hanson International, Canon, Suzuki Motor, Metropolitan Bank and Trust and Sencorp Marine.

Note: Companies surveyed can change from quarter to quarter.

Business sentiment index



Source: Thomson Reuters/INSEAD *MSCI International All Country Asia Pacific Price Index USD

Biggest perceived risks to business outlook

By number of responses



Note: Total no. of valid responses = 75. Poll conducted Nov. 30-Dec. 14, 2018

*Includes oil prices, local politics, end demand, etc.

Source: Thomson Reuters/INSEAD

Links

Previous surveys



Q4
2017

- Sentiment index 76 vs 69 in Q3; highest since Q1 2011
- Sudden asset price correction cited as chief risk
- Australia, Indonesia firms most positive
- Household, F&B sector most positive

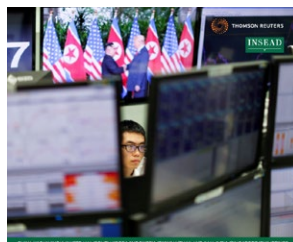
Thomson Reuters/INSEAD
Asian Business Sentiment Survey



Q1
2018

- Sentiment index 79 in Q1 vs 78 in Q4; highest since Q1 2011
- Companies cite increasing trade friction as chief risk
- Thailand firms most positive; S. Korea least
- Autos, retail & leisure firms most positive; real estate least

Thomson Reuters/INSEAD
Asian Business Sentiment Survey



Q2
2018

- Sentiment index 74 in Q2 vs 75 in Q1
- First drop since September 2017
- Companies cite mounting trade friction as chief risk
- Retail & leisure sector most positive

Thomson Reuters/INSEAD
Asian Business Sentiment Survey



Q3
2018

- Sentiment index 58 in Q3 vs 74 in Q2
- Companies cite trade war as chief risk to six-month outlook
- Thai firms most positive, Chinese least
- Metals and chemicals sector most positive; real estate least

Thomson Reuters/INSEAD
Asian Business Sentiment Survey

December 2017

March 2018

June 2018

September 2018

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COVER PHOTO: An employee talks on a phone
at an office building in Seoul, South Korea,
Oct. 2, 2018. **REUTERS/KIM HONG-JI**



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