



Asian Macro & Market Outlook

SMAM monthly comments & views

May 2016



Sumitomo Mitsui Asset Management

Executive summary

◆ Asian Economy

The Chinese economy is stabilizing as shown by March manufacturing PMI, which exceeded 50. Rising housing price in some metropolitan cities has also lifted up the property sector. We consider that Apr-Jun economic momentum is on an upward trend cyclically. We estimate the inflation to continue to rise in Apr-Jun as CPI is rising led by pork price due to supply shortage. When CPI approaches +3.0% inflation target set by the government, concerns for tight monetary policy would emerge and suppress the economic momentum. For the property sector, the government would put in place more restrictive measures within this year to avoid housing bubble.

Asian economies are stabilizing thanks to measures such as monetary easing and public spending. We maintain the ASEAN4 countries' GDP forecast for 2016 and 2017 and the NIES4 countries' GDP forecasts for 2016 and 2017. In most of Asian countries, potential risk of economic downturn is that downward pressure from Chinese economy would bring about capital outflow and the RMB depreciation.

◆ Asian Stock Markets

We expects the stock market will recover gradually in tandem with the growth of corporate earnings given the moderate recovery of global economy and normalized valuation level.

- ✓ Macro economy in most of Asian countries will show some recovery in 2016, but the momentum is not so strong. Although Chinese economy will recover at stronger than expected pace in the near term, key structural concerns will remain so risk for cash outflow and weaker currency will continue.
- ✓ The recovery of corporate earnings will be moderate towards 2016 as overall global economy stabilizes.
- ✓ Concerns for tighter liquidity conditions across Asia due to US rate hike continue, but it seems to be mostly priced in.
- ✓ Still many uncertainties in markets including US rate hike, Chinese economy, crude oil price and geopolitical issues, which can create high volatility in the near term, yet we consider the market will go up slightly in line with corporate earnings as these risk factors diminish or priced in.

Outlook for Asian Economy

SMAM Economic Outlook Summary

- We slightly revised down China's real GDP growth projection for 2017 to +6.2% from +6.3%.
- For other countries, we maintain the real GDP forecasts in 2016 and 2017.

Real GDP Growth Forecasts (%YoY)

Country	2014 (A)**	2015	2016 (F)**			2017 (F)		
			SMAM	Previous Mar 18th	Consensus	SMAM	Previous Mar 18th	Consensus
Australia	2.6	2.5	2.4	2.4	2.6	2.7	2.7	3.0
China	7.3	6.9	6.6	6.5	6.4	6.2	6.3	6.2
Hong Kong	2.5	2.4	1.7	1.7	1.7	1.7	1.7	2.1
India*	7.3	7.5	7.5	7.5	7.7	7.7	7.7	7.8
Indonesia	5.0	4.8	5.1	5.1	5.1	5.3	5.3	5.4
Malaysia	6.0	5.0	4.5	4.5	4.4	4.6	4.6	4.5
Philippines	6.1	5.8	6.1	6.1	5.9	6.0	6.0	5.9
Singapore	2.9	2.0	1.8	1.8	1.9	1.8	1.8	2.2
S. Korea	3.3	2.6	2.5	2.5	2.7	2.5	2.5	2.8
Taiwan	3.9	0.8	0.8	0.8	1.5	1.1	1.1	2.3
Thailand	0.9	2.8	2.7	2.7	3.1	3.2	3.2	3.3

(Source) SMAM

Consensus Forecasts (Consensus Economics Inc.) as of 18 March 2016 & SMAM Forecasts as of 14 April 2016

* India is for fiscal year starting April.

** (F): Forecast, (A): Actual

Outlook for Economy in China

SMAM Economic Outlook for China

China's Quarterly GDP Growth and Components

	2014	2015	2016E	2017E	2015				2016E				2017E	
					1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE	1QE	2QE
Real GDP, %YoY	7.3	6.9	6.6	6.2	7.0	7.0	6.9	6.8	6.7	6.8	6.6	6.3	6.2	6.1
previous	7.3	6.9	6.5	6.3	7.0	7.0	6.9	6.8	6.5	6.5	6.4	6.4	6.3	6.2
SMAM's Original Real GDP Forecast, %YoY*	6.9	6.0	5.5	5.1	6.3	6.3	5.8	5.7	5.6	5.7	5.5	5.2	5.0	5.1
previous	6.9	6.0	5.5	5.1	6.3	6.3	5.8	5.7	5.5	5.6	5.4	5.3	5.1	5.1
Consumption Expenditure, %YoY	7.3	9.1	8.2	8.2	-	-	-	-	-	-	-	-	-	-
previous	7.5	9.1	8.2	7.9	-	-	-	-	-	-	-	-	-	-
Gross Fixed Capital Investment, %YoY	7.2	5.3	4.9	4.4	-	-	-	-	-	-	-	-	-	-
previous	7.1	5.3	4.8	4.4	-	-	-	-	-	-	-	-	-	-
Net Exports, contrib.	0.2	-0.2	0.0	-0.1	-	-	-	-	-	-	-	-	-	-
previous	0.2	-0.2	0.0	0.1	-	-	-	-	-	-	-	-	-	-
Nominal GDP, %YoY	8.1	6.4	7.1	5.8	6.6	7.0	6.2	6.0	7.2	7.4	7.2	6.7	6.3	5.6
previous	8.1	6.4	6.1	5.9	6.6	7.1	6.2	6.0	6.1	6.2	6.0	6.0	5.9	5.8
GDP Deflator, %YoY	0.9	-0.4	0.5	-0.3	-0.4	0.0	-0.7	-0.7	0.5	0.6	0.6	0.4	0.1	-0.5
previous	0.9	-0.4	-0.4	-0.4	-0.3	0.1	-0.7	-0.9	-0.4	-0.3	-0.5	-0.5	-0.4	-0.4
Ind. Production, %YoY	8.3	6.1	5.8	5.2	6.4	6.3	5.9	5.9	5.8	5.9	5.6	5.1	5.2	4.8
previous	8.3	6.1	5.5	5.2	6.4	6.3	5.9	5.9	5.5	5.6	5.5	5.4	5.3	5.3
CPI, %	2.0	1.4	2.4	1.2	1.2	1.4	1.7	1.5	2.1	2.6	2.6	2.1	1.9	1.0
previous	2.0	1.4	2.4	1.2	1.2	1.4	1.7	1.5	2.2	2.6	2.5	2.1	1.9	1.0
Base Loan Rate, 1yr, period end, %	5.60	4.35	4.10	3.85	5.35	4.85	4.60	4.35	4.35	4.35	4.35	4.10	4.10	3.85
previous	5.60	4.35	4.10	3.85	5.35	4.85	4.60	4.35	4.35	4.35	4.35	4.10	4.10	3.85

Notes: SMAM estimates as of 14 April 2016. *SMAM's Original Real GDP Forecast, %YoY is originally calculated by SMAM to find out "real" Chinese economic growth using data of Industrial Production and Retail Sales. Numbers indicated in boldface are Actual.

Source: National Bureau of Statistics of China, CEIC, SMAM

Market Consensus of Chinese Market

	2014	2015	2016E	2017E
Real GDP, %YoY	7.3	6.9	6.4	6.2
Industrial Production, %YoY	8.3	6.1	5.7	5.4
Gross Fixed Capital Investment, %YoY	15.7	10.0	9.4	9.0
Retail Sales, %YoY	12.0	10.7	10.6	10.5
CPI, %	2.0	1.4	1.5	1.7
PPI, %	-1.9	-5.2	-4.0	-1.8
M2	12.2	13.3	12.1	11.4
Base Loan Rate, 1yr, period end, %	5.60	4.35	4.10	3.85

Notes: As of 14 April 2016. Numbers indicated in boldface are Actual.

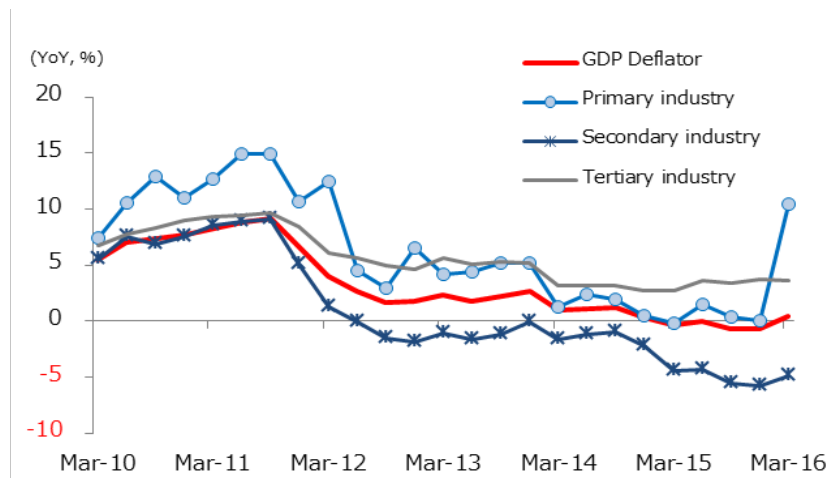
Source: National Bureau of Statistics of China, CEIC, compiled by SMAM

SMAM Economic Outlook for China

- In China, we revised up real GDP 2016 full-year forecast to +6.6% YoY from +6.5% YoY reflecting strong Apr-Jun and Jul-Sep growth forecasts led by real estate industry. Some March economic statistics related to property such as property investment and new housing prices showed signs of recovery. We also foresee Industrial Production (IP) to accelerate in Apr-Jun and Jul-Sep, although viewing IP to slow down from Oct-Dec.
- Much higher than expected Jan-Mar GDP deflator came in at +0.5% YoY, returning to positive territory after an absence of nearly a year driven by the primary sector. Looking into the breakdown of the figures, Jan-Mar deflator in the primary sector soared to +10.4% YoY on surging pork prices, whereas those in the secondary and tertiary sectors were almost stayed unchanged. Accordingly, we revised up deflator for 2016 to +0.5% on the jump in pork prices.

Note: Economy outlook is as of 18 April 2016

GDP Deflator by Industries



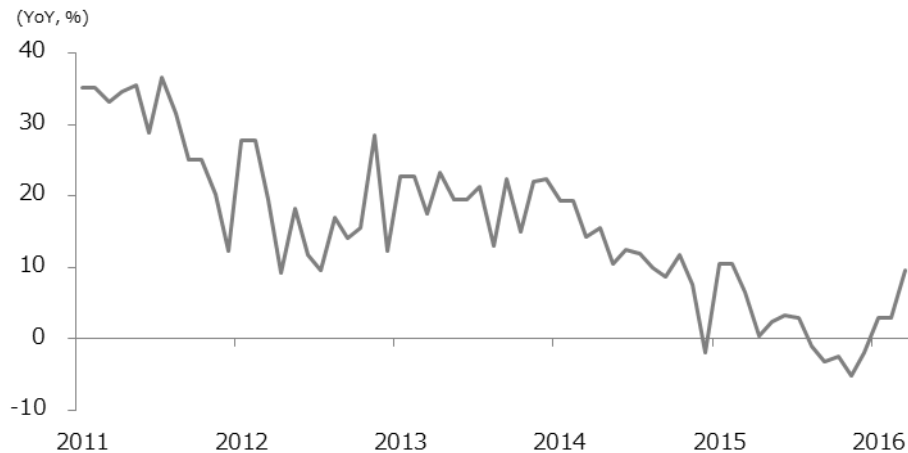
Source: CEIC, compiled by SMAM

Up to March 2016

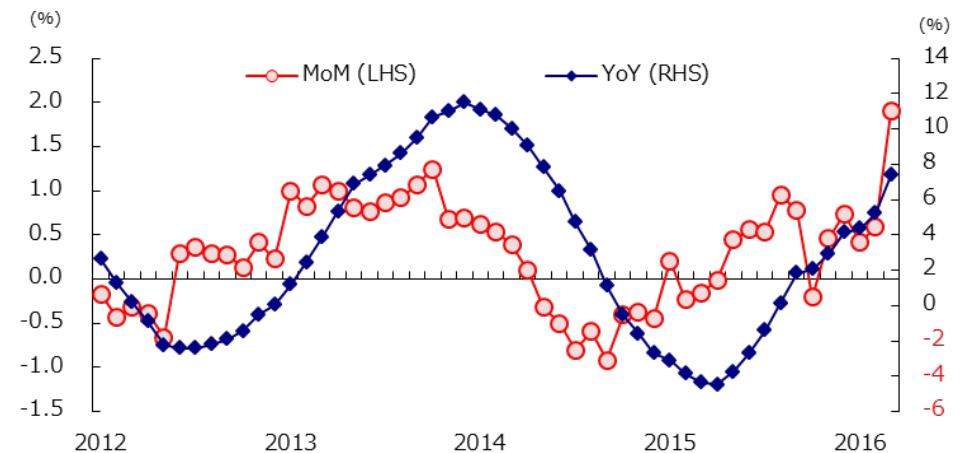
China: Highlights of Chinese economy

- Real estate sector showed improvements in March as property investment posted a steep growth (+9.7% YoY) and producer price index (PPI) re-entered positive territory on a MoM basis on the back of demands for building materials. Furthermore, new housing prices continue to accelerate. March average new home prices in 100 Chinese cities soared by 1.9% MoM. From this movement, we are sure that economic momentum is improving due to the strong property sector.
- However, from the second half of 2016, we foresee weakening economic momentum on concerns over possible monetary tightening after growth acceleration in Apr-Jun. From this perspective, we cut real GDP 2017 full-year forecast to +6.2% YoY from +6.3% YoY. Concerns over housing bubble and its bust still remains.

Property Investment (ytd)



Average New House in 100 Major Cities



Note: Data of housing prices for low income group is not included
Source: CEIC, compiled by SMAM

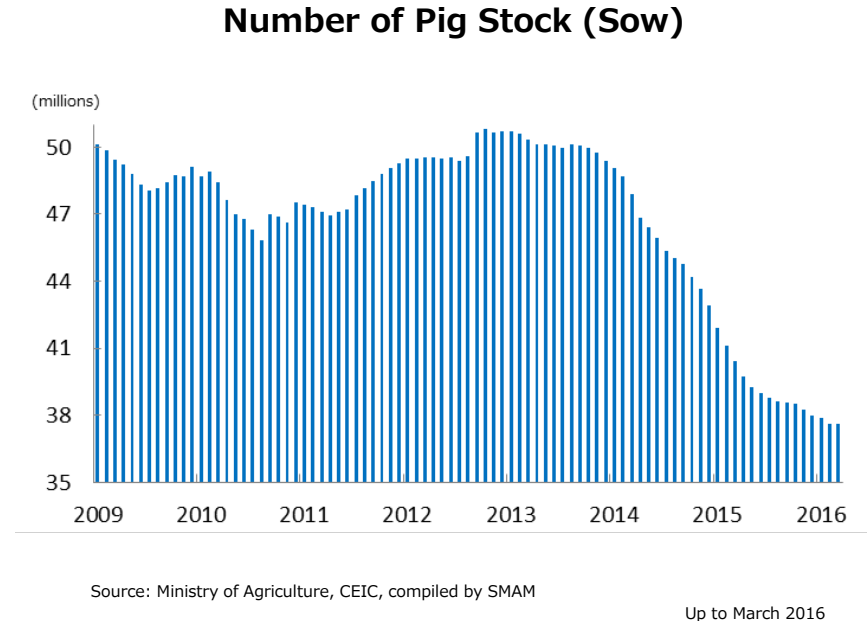
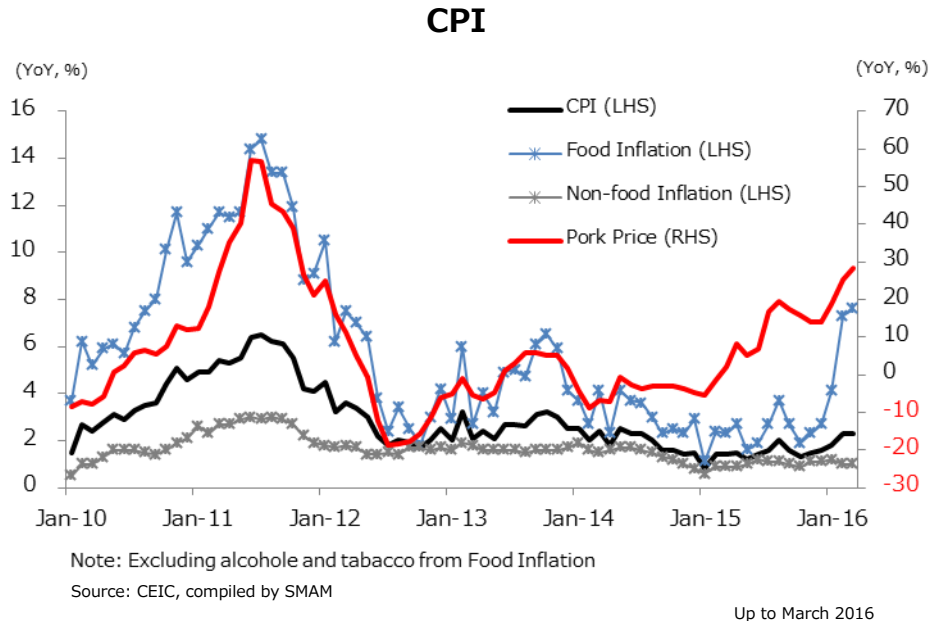
Source: CEIC, compiled by SMAM

Up to March 2016

Up to March 2016

China: Highlights of Chinese economy

- According to Chinese media, housing bubble shows a sign of cooling down in Tier1 cities after introduction of regulation for illegal housing loans. Instead, the boom seems to move to Tier2 cities. If the bubble burst occurs, it should cause losses to households and banking system, although some local governments can enjoy benefits recently from rising land price. As Chinese Communist Party elites regard monetary easing as the root of the problem, the current monetary policy stance may be reviewed when concerns over the housing boom expand across the whole country.
- Our forecast for inflation is that CPI will accelerate to +2.4% YoY in 2016 mainly on surging pork prices due to supply shortage of breeding sows. The number of sows continued to decrease to 37.6 million at the end of March as many small-sized hog breeders have abandoned their business due to tightening regulation such as Environmental Protection Law in 2015.



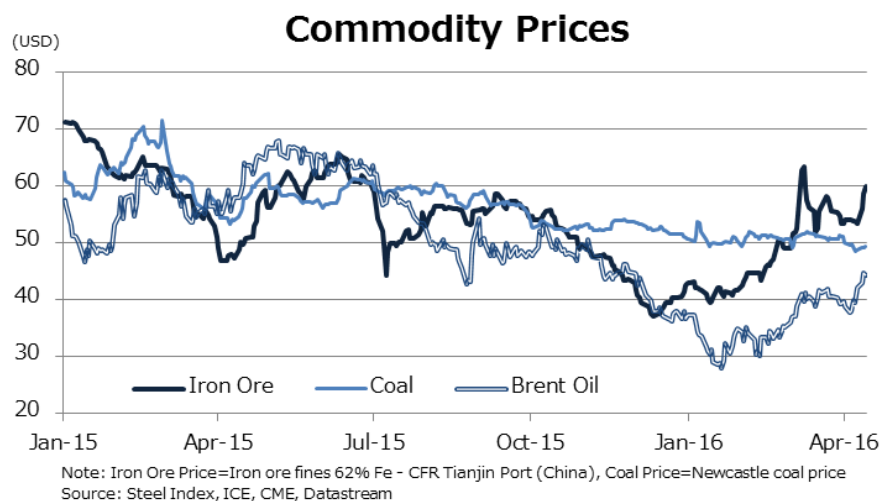
China: Highlights of Chinese economy

- As a whole, money supply indicators in March recorded positive growth reflecting an upturn in economic momentum and housing bubble. March total social financing (TSF), rising sharply to CNY2.34trn from CNY0.8trn in February, beat the market projection of CNY1.4trn. The notable rises in loans, off-balance-sheet lending including shadow banking and corporate bonds pushed up the amount of TSF.
- March M2 growth came in at +13.4% YoY, below the projection of +13.5% YoY, although it slightly increased from +13.3% in February. As for M1 growth, it continued to accelerate to +22.1% YoY from +17.4% YoY in February. As Chinese companies tend to make a payment by demand deposit, this credit growth should indicate their business expansion.
- Regarding forex, we believe CNY would accelerate against USD, if the positive economic growth induces more foreign investments to China. In addition, A-shares inclusion into “Emerging” of MSCI category should support inflow to China. Under expectation for CNY appreciation, more liquidity supply caused by currency intervention to sell CNY should encourage property bubble.

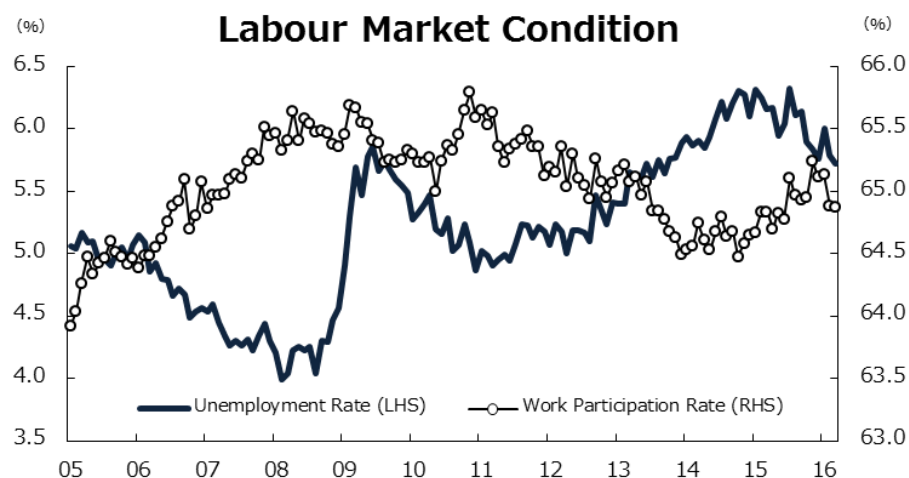
Outlook for Economies in Asia

Australia

- We slightly raised the GDP growth forecast for 2Q to +0.7% YoY on improved momentum of Chinese economy. For 2016, we maintain our scenario of the GDP to be on a path of a moderate recovery below the potential growth rate until the second half. Later, the growth would speed up slightly while correction in capex would be coming to an end.
- Higher-than-expected March job data was released. The number of seasonally adjusted employed persons increased by 26,100, above the consensus of 17,000 and unemployment rate was down to 5.7% from 5.8% in February. We foresee the unemployment rate to continue an improving trend even at slow pace along with economic upturn.
- CPI is expected to remain flat or rise moderately toward mid-2017 but within the target. The uptick would be supported by bottoming out of wage and a pause in lowering oil prices.
- Given these conditions, we stay with our expectation that the Reserve Bank of Australia (RBA) holds cash rate at 2.00% until end-2017. Yet, a possibility of rate cut remains considering RBA's dovish forward guidance.



Up to March 2016

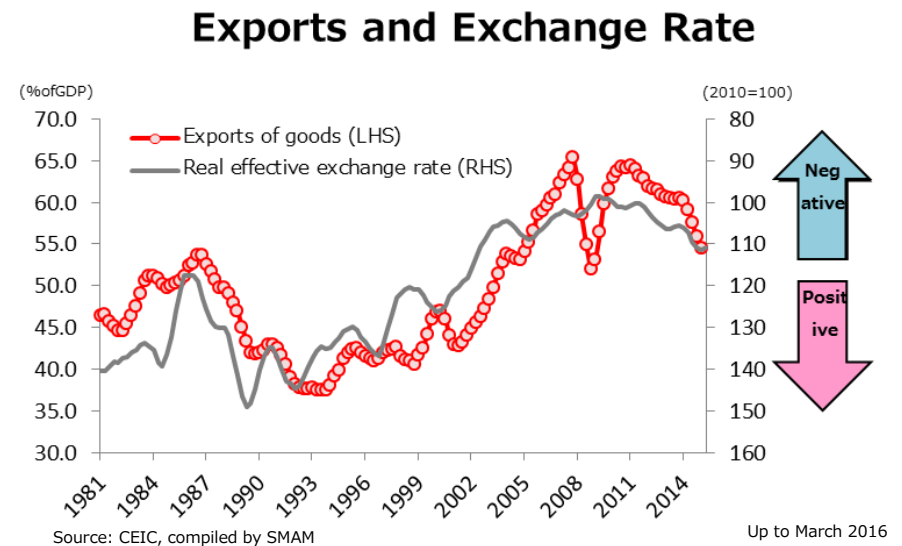
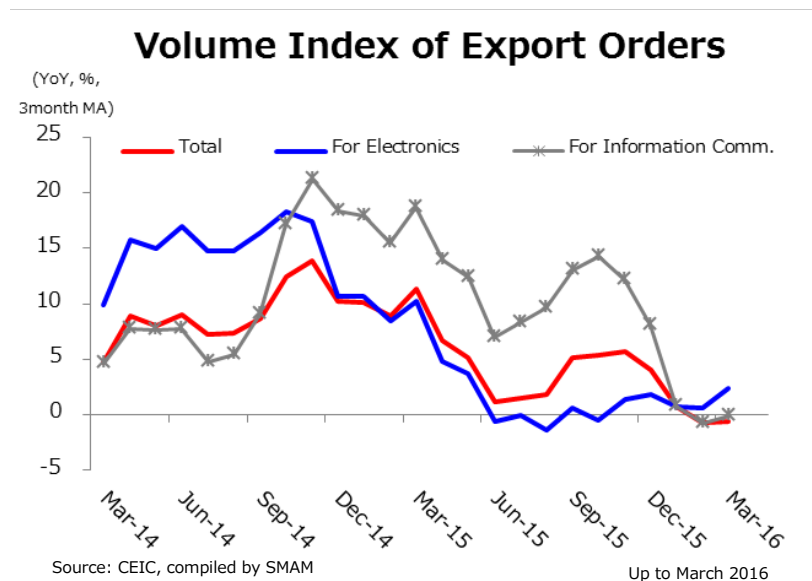


Source: ABS, Datastream

Up to March 2016

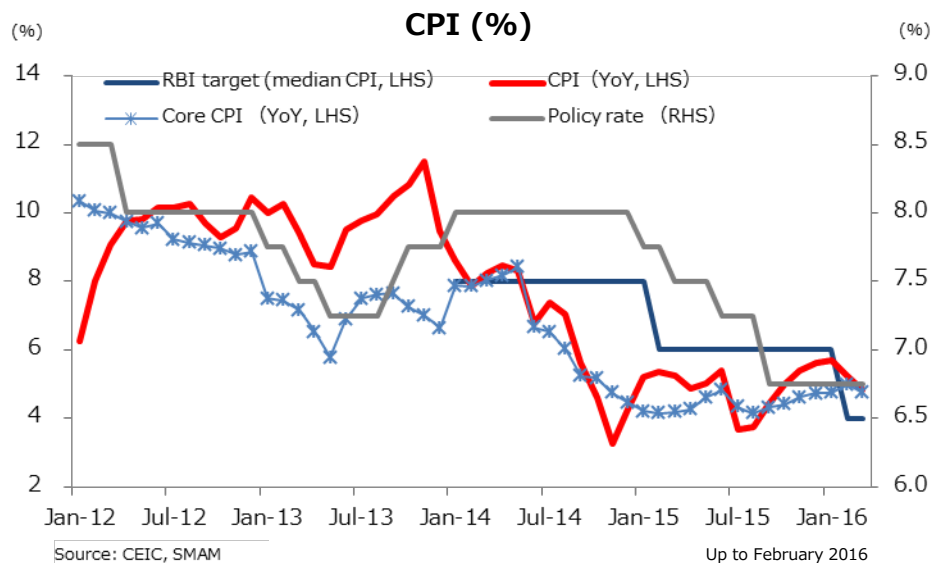
Hong Kong and Taiwan

- As for real GDP growth in Hong Kong and Taiwan, we maintain its forecasts both in 2016 and 2017.
- In Taiwan, March volume index of export orders showed a rise on a YoY basis from the previous month. We consider the uptick was mainly due to the depreciation of Taiwan New Dollar and recent recovery in China's economic momentum. Export orders of electronics, for Asia, China and Hong Kong especially, showed rises. This sector has the second largest weight in the total volume with 25.6% following the information and communication sector.
- Yet, this upward trend may not seem to accelerate as Apple is expected to cut back production of iPhones in Apr-Jun. Solid recovery of the volume would take more time while the progress of inventory correction seems to be slow.



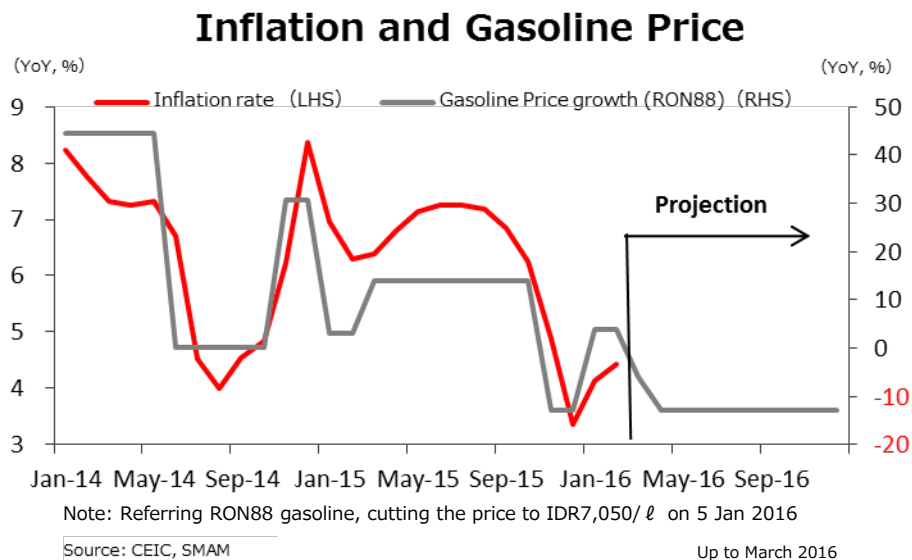
India

- India, which is less vulnerable to global economic cycle, is on a positive trend toward economic recovery led by domestic demands on the back of low inflation environment. Yet, we keep our GDP growth forecast for 2016 unchanged at +7.5% YoY as well as that for 2017 at +7.7% YoY due to weak investment.
- The Reserve Bank of India (RBI) announced to cut policy rate by 25bp to 6.50% from 6.75% on 5th April. In addition, RBI implemented various accommodative measures including the cut of Statutory Liquidity Ratio (SLR) by 25bp to 21.25% and the reduction of the minimum daily Cash Reserve Ratio (CRR) balance to 90% from 95%. Furthermore, the central bank implemented Marginal Cost of Funds Based Lending Rate (MCLR) to improve the transmission of policy rate into the lending rates.
- Based on average monsoon rainfall forecast released by India Meteorological Department, we estimate CPI Inflation would keep around +5.0% in line with the RBI's projection (+5.1% in 16/17 Jan-Mar quarter).



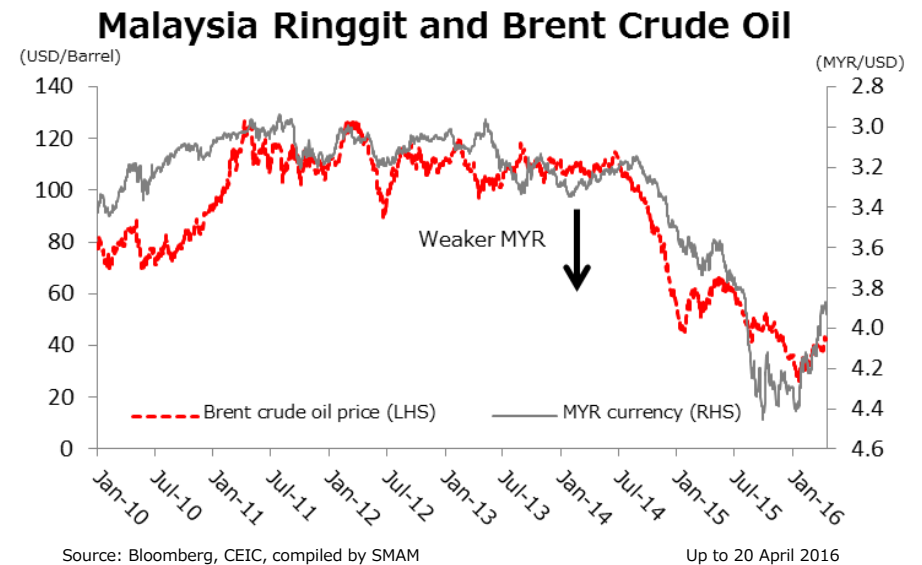
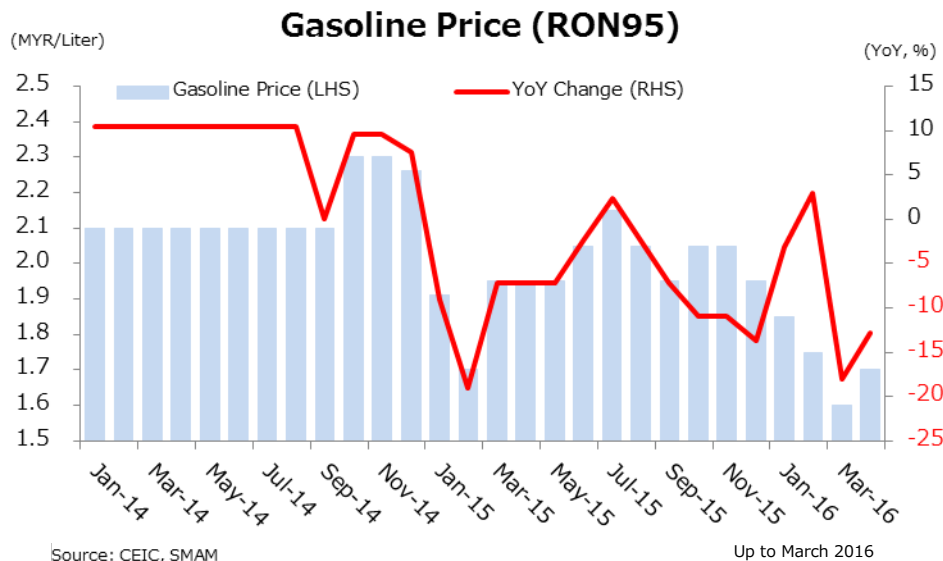
Indonesia

- Bank Indonesia (BI) will replace Bank Indonesia rate (6.75%) with 7 day reverse repo rate (5.5%) as its policy interest rate on 19th August. In addition, BI will reduce interest rate corridor to 150bp from 250bp. The reduction should cause transmission mechanism in interbank markets to improve.
- Highlighting three positive factors for the economy as follows. The cuts in gasoline prices should be beneficial for the economy through not only improvement of economic sentiment but also receded expectation for inflation. The government cut gasoline price (RON88) by almost 7.2% from IDR 6,950/ℓ to IDR 6,450/ℓ and diesel price from IDR 5,650/ℓ to IDR 5,150/ℓ on 1st April.
- Another point is the public investment increased by more than four times on a YoY basis in the first two months of 2016. Furthermore, the recent higher prices of palm oil, accounting for approx. 10% of Indonesian export earnings, should lift up exports.



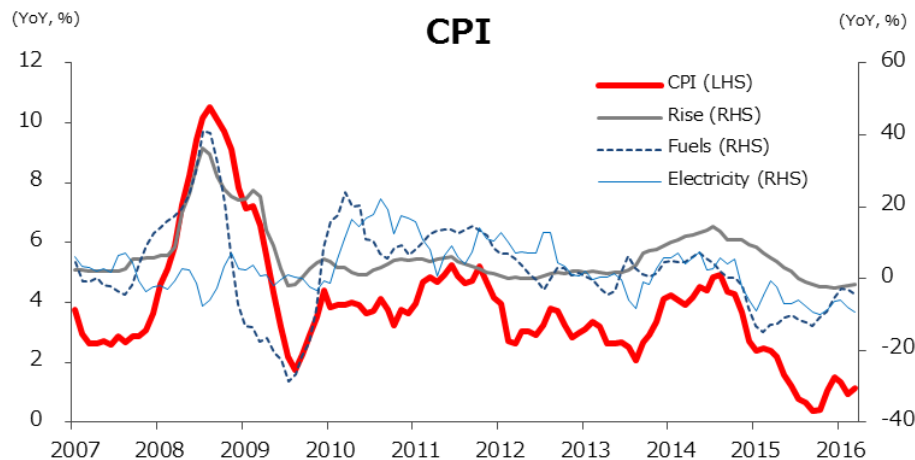
Malaysia

- We hold the GDP growth forecast for 2016 and 2017 at +4.5% YoY and +4.6% YoY. Weakening Malaysia Ringgit (MYR) has contributed to export competitiveness except for primary products. Moreover, recent higher palm oil prices should lift up the economy.
- The government is trying to take advantage of front-loading investment of state owned enterprises under restriction of on-budget expenditure. Lower oil prices still have negative impacts on Malaysia's expenditure budget, a net exporter of crude oil, although it leads to gasoline price fall, which improve consumer sentiment for domestic consumption.
- One of concerns is the Panama papers, which may trigger political turmoil with finance scandal.



Philippines

- We hold our expectation for the GDP growth forecast, +6.1% YoY for 2016 and +6.0% YoY for 2017 while economic momentum continues to gain led by consumption prior to the Presidential and Congress elections on 9th May.
- The economy is less vulnerable to global economic cycle as the contribution ratio of exports to GDP is only 22%, lower than in other Asian countries. We believe the economic recovery would continue in early 2016 on firm consumption supported by election-related spending. The economy would accelerate in 2016 and 2017 under expanding middle-income groups and the low-inflation environment, which is a catalyst for stimulating consumer demands.
- Under assumption of delay in electricity price hike, we maintain our view for policy rate in 2016 to be unchanged. Bangko Sentral ng Pilipinas will change its monetary policy interest rates scheme in Apr-Jul.



Source: CEIC, SMAM

Up to March 2016

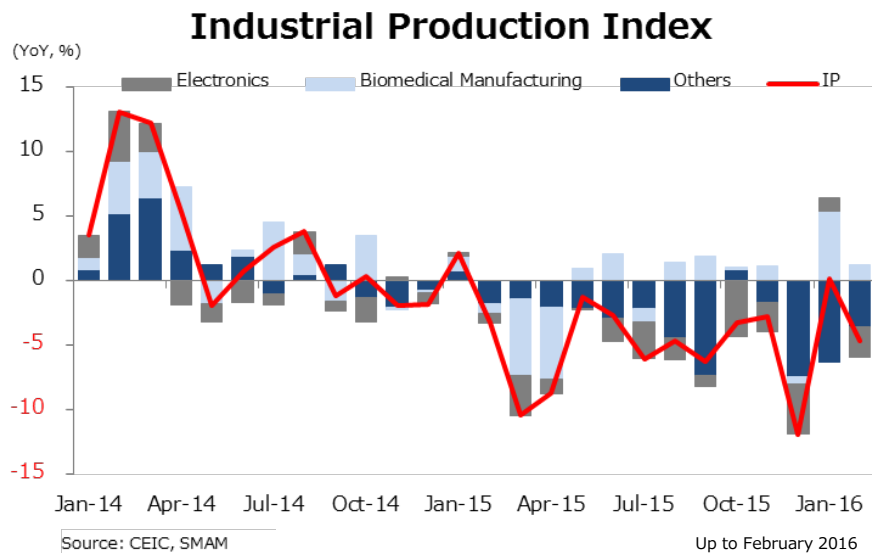


Source: CEIC, SMAM

Up to December 2015

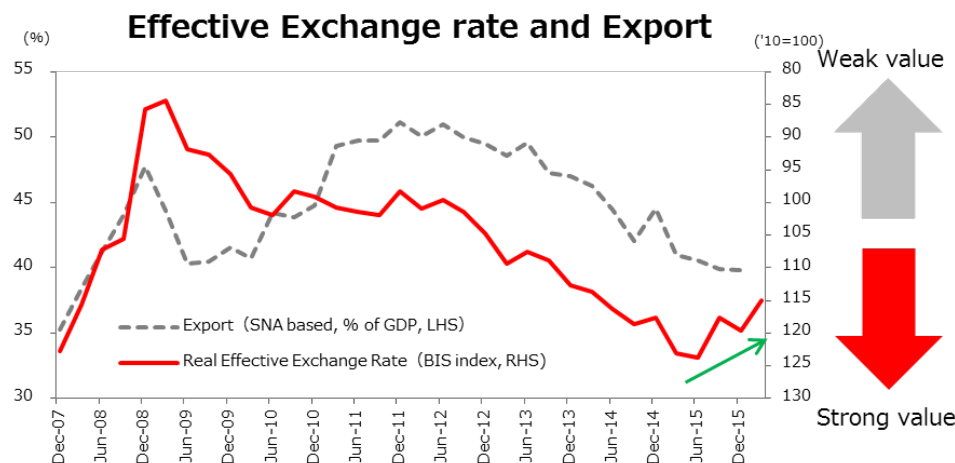
Singapore

- The advanced estimate of 1Q real GDP came in at 0.0% QoQ on a seasonally adjusted basis. The government maintained its real GDP growth outlook at +1-3% YoY for 2016. Monetary Authority of Singapore unexpectedly cut the slope of appreciation of Singapore Dollar Nominal Effective Exchange Rate to 0% at Monetary Policy Committee on 14th April, due to lingering deflation concern.
- We keep real GDP forecasts for both 2016 and 2017 unchanged at +1.8% YoY, slowing down from that for 2015 (+2.0% YoY). Since its exports exceed total GDP, Singapore economy is sensitive to other Asian economies, particularly to China.
- Furthermore, the weak economy in Malaysia, an important trading partner for Singapore, may drag down the exports. Looking at Industrial Production (IP), biomedical output remains volatile. Thus, we take a careful attention to the IP numbers as upside and downside risks.



South Korea

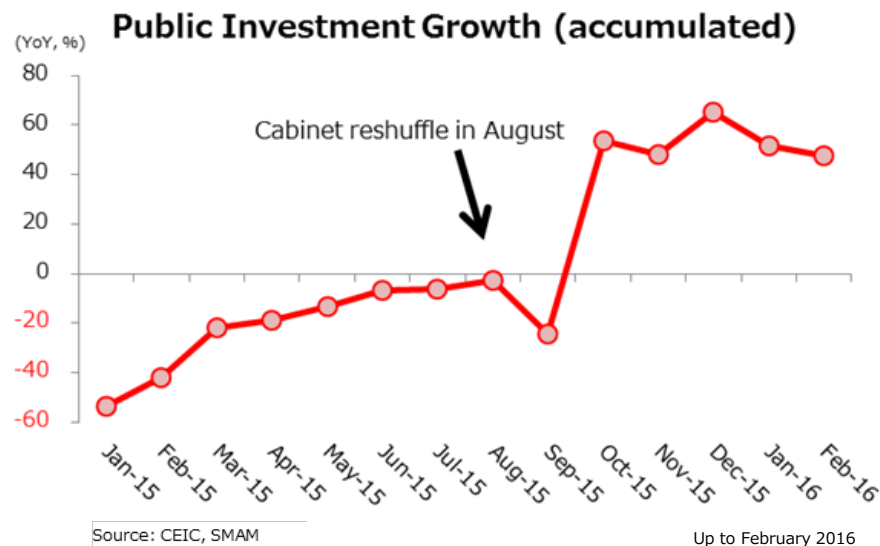
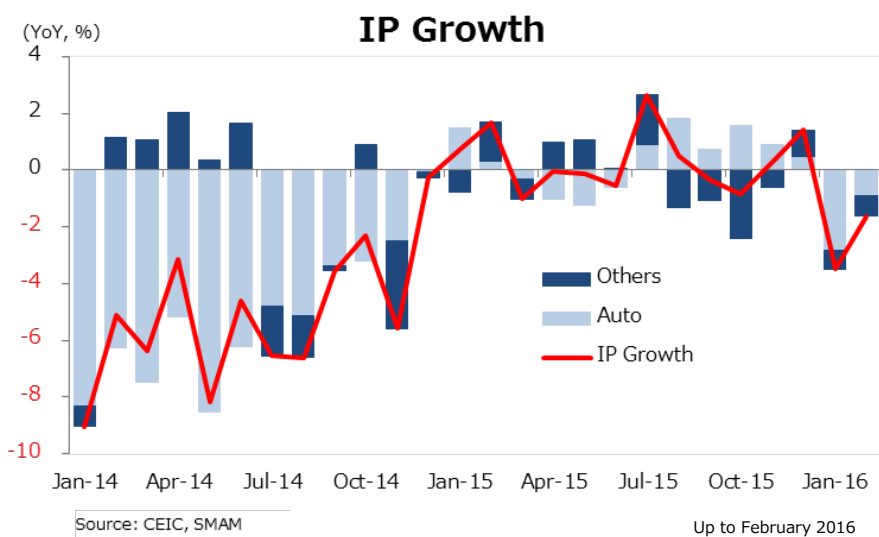
- South Korea's Ruling Saenuri party was surprisingly defeated in a parliamentary election held on 13th Apr, securing only 122 seats out of 300, down from current 146 seats. The government would lose momentum and face more deadlock to push through campaign promises, policies pledged by the ruling party, such as Korean-style quantitative easing to boost a sluggish economy due to destabilized political power.
- Jan-Mar GDP growth was +0.4% QoQ with growth rate declining for the two consecutive quarters. However, we revised up YoY real GDP forecasts for Apr-Jun to +3.1% and for Jul-Sep to +2.3% led by exports in the first half of 2016. Prolonged depreciation of Korean won (KRW) from mid-2015 and recent China's economic recovery would boost exports. On the other hand, we cut GDP forecasts for Oct-Dec and for 2017 to +2.1% and +2.4% respectively, since we see Chinese economy to slow down in the latter half of this year, which will weigh on Korea's export.
- As for monetary policy, Bank of Korea (BOK) left the policy rate unchanged at 1.50% on 19th Apr meeting, as market expected. BOK cut GDP growth forecast for 2016 to +2.8% YoY from 3.0% YoY and CPI forecast for 2016 to 1.2% from 1.4%. Destabilizing government power would have negative impacts on monetary easing but considering recent weak KRW and economic recovery of China, we expect the rate cut to be postponed to Oct-Dec from Apr-Jun.



Note: Real effective exchange rate figure for January to March 2016 is average figure of January and February 2016
 Source: CEIC, SMAM Up to March 2016

Thailand

- Thanks to the Deputy Prime Minister Somkid Jatusripitak, public investment in Thailand has accelerated from last September. We keep our real GDP forecast for 2016 at +2.7% YoY due to negative contribution by slowing auto production, but, maintain our view of the economic upturn toward 2017.
- February IP growth came in at -1.6% YoY, above the market consensus of -3.1% YoY. Auto production, in particular, weighed on the growth for 2nd consecutive months. We expect the auto production to be a downside risk for IP growth in 2016 with less fiscal support from the government. In addition, weather conditions are another headwind for the agricultural sector, which accounts for around 7% of real GDP.
- The Bank of Thailand (BoT) left its policy rate unchanged at 1.50% at March monetary policy meeting. BoT reduced its growth forecast for 2016 to +3.1% YoY from +3.5% YoY on downturn in auto production and sales. We postpone the rate cut timing to 4Q16 from 2Q16, because the recent economic recovery of China can give some relief to BOT.



Outlook for Asian Stock Markets

Stock Market Performance - Global

Indices as of 30 Apr 2016	Px Last	Mtd	Qtd	Ytd	3m	1yr	2yr	3yr
S&P 500 INDEX	2,065.30	0.3%	0.3%	1.0%	6.4%	-1.0%	9.6%	29.3%
DOW JONES INDUS. AVG	17,773.64	0.5%	0.5%	2.0%	7.9%	-0.4%	7.2%	19.8%
NASDAQ COMPOSITE INDEX	4,775.36	-1.9%	-1.9%	-4.6%	3.5%	-3.4%	16.1%	43.5%
STOXX Europe 50 € Pr	2,856.28	2.4%	2.4%	-7.9%	-1.6%	-16.9%	-4.1%	4.8%
NIKKEI 225	16,666.05	-0.6%	-0.6%	-12.4%	-4.9%	-14.6%	16.5%	20.2%
TOPIX	1,340.55	-0.5%	-0.5%	-13.4%	-6.4%	-15.8%	15.3%	15.1%
BRAZIL BOVESPA INDEX	53,910.51	7.7%	7.7%	24.4%	33.4%	-4.1%	4.4%	-3.6%
RUSSIAN RTS INDEX \$	951.11	8.5%	8.5%	25.6%	27.6%	-7.6%	-17.7%	-32.4%
BSE SENSEX 30 INDEX	25,606.62	1.0%	1.0%	-2.0%	3.0%	-5.2%	14.2%	31.3%
HANG SENG INDEX	21,067.05	1.4%	1.4%	-3.9%	7.0%	-25.1%	-4.8%	-7.3%
HANG SENG CHINA AFF.CRP	3,749.34	-0.6%	-0.6%	-7.5%	8.0%	-32.5%	-10.0%	-15.8%
HANG SENG CHINA ENT INDX	8,939.47	-0.7%	-0.7%	-7.5%	8.5%	-38.1%	-8.6%	-18.1%
CSI 300 INDEX	3,156.75	-1.9%	-1.9%	-15.4%	7.2%	-33.5%	46.2%	29.0%
TAIWAN TAIEX INDEX	8,377.90	-4.2%	-4.2%	0.5%	2.9%	-14.7%	-4.7%	3.5%
KOSPI INDEX	1,994.15	-0.1%	-0.1%	1.7%	4.3%	-6.3%	1.6%	1.5%
STRAITS TIMES INDEX	2,838.52	-0.1%	-0.1%	-1.5%	8.0%	-18.6%	-13.1%	-15.7%
FTSE Bursa Malaysia KLCI	1,672.72	-2.6%	-2.6%	-1.2%	0.3%	-8.0%	-10.6%	-2.6%
STOCK EXCH OF THAI INDEX	1,404.61	-0.2%	-0.2%	9.1%	8.0%	-8.0%	-0.7%	-12.1%
JAKARTA COMPOSITE INDEX	4,838.58	-0.1%	-0.1%	5.3%	4.8%	-4.9%	0.0%	-3.9%
PSEI - PHILIPPINE SE IDX	7,159.29	-1.4%	-1.4%	3.0%	7.1%	-7.2%	6.7%	1.2%
HO CHI MINH STOCK INDEX	598.37	6.6%	6.6%	3.3%	9.7%	6.4%	3.5%	26.1%
S&P/ASX 200 INDEX	5,252.22	3.3%	3.3%	-0.8%	4.9%	-9.3%	-4.3%	1.2%
NZX 50 INDEX	6,820.58	1.0%	1.0%	7.8%	10.5%	17.8%	30.3%	47.8%
MSCI World Free Local	408.21	0.7%	0.7%	-1.8%	3.8%	-6.6%	4.8%	19.4%
MSCI All Country Asia Ex Japan	616.53	-1.0%	-1.0%	-1.1%	6.1%	-18.1%	-3.3%	-2.6%
MSCI EM Latin America Local	68,553.18	4.0%	4.0%	15.7%	18.0%	-3.7%	-0.4%	-5.0%
MSCI Emerging Markets Europe M	484.40	1.2%	1.2%	8.0%	10.6%	-7.0%	3.8%	10.2%

Note: All data are as of 30 April 2016

Compiled by SMAM based on Bloomberg

Investment Outlook: Macro & Stock Market – Global & Asia Pacific

Outlook for Global Markets

- We expects the stock market will recover gradually in tandem with the growth of corporate earnings given the slow recovery of global economy and normalized valuation level.

Outlook for Asia Pacific Region

- Macro economy in most of Asian countries will show some recovery in 2016, but the momentum is not so strong. Although Chinese economy will recover at stronger than expected pace in the near term, key structural concerns will remain intact and risk for cash outflow and weaker currency will continue.
- The recovery of corporate earnings will be moderate towards 2016 as overall global economy stabilizes.
- Concerns for tighter liquidity conditions across Asia due to US rate hike continue, but it seems to be mostly priced in.
- Still many uncertainties in markets including US rate hike, Chinese economy, crude oil price and geopolitical issues, which can create high volatility in the near term, yet we consider the market will go up slightly in line with corporate earnings as these risk factors diminish or priced in.

Note: As of 26 April 2016

Source: SMAM

Investment Outlook: Macro & Stock Market – Asia Pacific by Market

	Outlook, Reason for OW/UW	1.Macro Trend					2.Stock Market	
		Politics	Macro	Interest rate / Inflation / Liquidity	External Account	Currency	Earnings Momentum	Valuation
Hong Kong	- Uncertainty from China continues. - Pressure for Asset price is eased but underlying economy is weak. - Attractive valuation with good corporate fundamentals.	Stable More focus on Economy side.	× The pace of recovery is slower than expected. ○ Tightening policy for property is behind us.	Pressure for HIBOR is eased. / Inflation will be moderate.	CA surplus continues but it is narrowing.	Stable, pressure for weaker HKD is eased.	× Revision is weak, but momentum is improving.	○ attractive
China	- Tough challenge towards New Normal. - Pressure for capital outflow and weaker RMB is eased. - Potential for A shares inclusion in MSCI and HK/SZ stock connect can be near term catalysts. - Cyclical recovery of the economy but property market is a big risk.	Stable, but becomes less clear.	Gradual slowdown is expected, however hard landing should be avoided. Structural rebalancing is a key challenge.	○ More accommodative monetary policy is expected. / Int. rate will come down / Deflationary pressure continues.	Surplus- but it is declining × The degree of capital outflow is eased but it remains a big concern.	× Revision is weak. ○ Downward bias is eased in the near term. (↑) The degree of RMB devaluation is a big issue across Asia.	× Revision is weak. ○ very attractive in the long term, but it has come back to average since 2011.	
Taiwan	- Slower economic growth due to weak export. - Inventory correction on IT is progressed. - Attractive valuation with high dividend yield.	Stable, Watch out for cross strait talks after DPP government.	× The pace of economic recovery is slower than expected.	First rate cut for last 6 years. Int. rate will be stable. / Inflation will be stable. / Liquidity is improving.	Surplus will expand	Stable / Likely to be appreciated if Mkt turns Risk-on mode.	× Revision is weak. ○ attractive	
Korea	- Still in the transition. Structural re-rating will not happen soon. - High level of inventories and slow adjustments - Weaker KRW supports exporters.	Less stable as President Park's party loses majority.	× Growth outlook is weakening due to subdued export environment in China.	○ Easing bias continues / Inflation will be stable. / Liquidity is improving.	Surplus will expand	Downward bias in the near term. BOK raised concerns for too much weakening of KRW.	× Revision is weak, but it has started to be bottomed out.	Attractive. However there is a reason for the discount.
Singapore	- Stable Mkt and policy headwind is easing. - Weak economy will continue due to Chinese economy slowdown. - Attractive valuation.	The landslide victory of PAP should create political stability.	× Slower economic growth is expected due to Chinese economy slowdown.	○ The MAS surprised by easing policy ↑ / SIBOR rate is stabilized; Inflation is stable. / M2 growth rate is weakening.	High level of Trade & CA Surplus will continue.	Downward pressure due to easing policy by MAS / Likely to be appreciated if Mkt turns Risk-on mode.	× Revision is weak, but momentum is bottomed out.	Fair on PER, attractive on PBR
Malaysia	- Mounting uncertainty in both politics and economy. - Investor's sentiment is improving.	× 1MDB investigation was closed. But political turmoil continues.	× GDP growth is expected to slow in 2016. However the government can brake downward pressure by off-budget disbursement.	Policy Rate will be flat. / Inflation will mildly pick up. / × M3 growth rate is weakening.	Surplus will be narrowed due to lower crude oil price. However recent hike of palm oil should	Stabilizing under little concern for US rate hike. Expected bottom out of oil price shall help MYR	× Revision is weak.	Fair (Rich on PER, but fair on PBR)
Thailand	- Economy is expected to bottom out. - Investor's sentiment is improving.	Military gov should continue at least until 2017. Strong leadership of deputy prime minister Somkid.	Economy is expected to bottom out supported by fiscal stimulus. However sluggish auto industry should cause the economic momentum to slow in 2016.	○ Rate cut is possible, but we expect it to suspend in 4Q16 due to economy momentum in China. / Inflation will be stable. M2 growth rate should remain low.	Surplus will continue.	Stabilizing under little concern for US rate hike.	× Revision is still weak, but its momentum is improving.	Fair (Rich on PER, but fair on PBR)
Indonesia	- Economy is expected to recover. - IDR is stabilizing given little concern for US rate hike. - Investor's sentiment is improving.	Honeymoon period of President Jokowi is behind us.	○ Economy is expected to recover supported by lower gasoline price and public investment.	Rate cut is expected to suspend following economic recovery. ↓ / Lower inflation due to lower gasoline price.	× CA deficit will continue at current level.	Downward pressure is easing, but risk of weak currency will continue.	× Revision is still weak, but its momentum is improving.	Fair (Rich on PER, but fair on PBR)
Philippines	- Still the bright spot. - Sustainability is key.	Stable. Presidential election in 2016.	○ Steady growth	Wait and See stance on monetary policy / Int. rate will be stable. / Inflation is stabilized by low oil price	Trade deficit will shrink. Current a/c surplus will expand.	Stabilizing under little concern for US rate hike.	Revision is weak but it is improving.	Rich on PER, fair on PBR
India	- Overall macro fundamentals will improve given its strong policy supports. Low inflation is likely maintained. - Relatively immune to the situation of global macro but it is a consensus OW Mkt.	Potential of economic reform continues.	○ High Growth rate will continue driven by domestic consumption.	○ Rate cut started and further room for rate cut / Inflationary pressure peaked out.	× Trade / CA deficit will remain at same level.	Stabilizing under little concern for US rate hike. Currency risk continues.	× Revision has recovered from very weak level. ↑	Fair on historical level. Most expensive among AxJ.
Australia	Expect mild up-trend market, backed by improving domestic consumption and corporate earnings.	Stable	Mild recovery	Int. rate will be stable. / Inflation stays lower than the target range.	Deficit, but it is improving	Downward bias	Revision is weak especially for Mining	
Vietnam	Steady upside can be expected supported by solid economic growth.	Step Down of PM Dung is negative for reform	solid recovery	Lower interest rate environment / Benign Inflation	Trade / CA surplus will be narrowed.	Gradual depreciation	Improving	Within FV range.

Market Focus (i): Taiwan – Overweight continued

【Summary】

We maintain a view that a recovery of the global economy is weak. We take a stance for selecting stocks, holding a growth driver, carefully.

- Despite a slower than expected recovery of IT related production, inventory correction is expected to be progressed. Weak sales for iPhone6S/Plus have been factored into the Taiwan's market. We foresee that the effects by Kumamoto earthquakes on ICT production through supply chain disruption would be limited and not protracted.
- In 2016 Presidential election, Democratic Progressive Party (DPP) led by a chairwoman Tsai Ing-wen won as expected and secured a majority in the legislature for the first time in history. Whereas big concerns over cross-strait relations still remain, the policy implementation is foreseen to be improved.
- Attractive valuation as Taiwan's stock market is undervalued following China and Korea due to current low level of share prices.

Note: Compiled by SMAM as of 22 April 2016

Market Focus (ii): Hong Kong – Neutral continued

【Summary】

We forecast Hong Kong's equities to be lifted up by gradual recovery of corporate performance. The stock prices have moved firmly on receded concerns over Chinese economy and RMB.

- ▣ Expectation for USD appreciation is eased as US rate hike is seen to be slower than Fed's estimate. The HK market would move firmly on stable CNY and diminished anxiety about changing the current currency-peg system.

- ▣ Room for the market valuation to expand is shrinking as recent stock market is recovering faster than estimated along with rebounds of commodity markets.

- ▣ Risk factors are deflationary pressure on general prices caused by excess production capacity and property bubble in some metropolitan cities such as Shenzhen.

- ▣ Corporate performance is less likely to boost share prices.

Note: Compiled by SMAM as of 22 April 2016

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