



Asian Macro & Market Outlook

SMAM monthly comments & views

January 2017



Sumitomo Mitsui Asset Management

Executive summary

◆ Outlook for Chinese and Asian Economies

In December, China's top leaders pledged to stabilize the economy and to maintain supply reform in the Central Economic Work Conference through the neutral monetary policy and the proactive fiscal policy, while they also expressed concern over housing bubble. We stay with our view that private investment is on a recovery phase according to November Fixed Asset Investment (FAI). November Producer Price Index (PPI) continued to accelerate, which means that demand-supply is well-managed. The government announced to raise the sales tax on small cars to 7.5% and maintain it during the year of 2017. Prior to Chinese New Year on January 28, interbank rates are likely to face an upward pressure.

In Asia, economic momentum is moving up in general led by China's economic recovery and positive effects by economic measures in ASEAN countries. Also, an economic upturn in US would lift up the GDP in Asia toward 2018. We foresee the GDP in ASEAN4 to grow from +4.9% in 2016 to +5.1% in 2017 and +5.2% in 2018 on a YoY basis. The GDP in NIES4 would rise to +2.2% YoY in 2018 after a short drop to +1.9% YoY in 2017 from +2.1% YoY in 2016. In our view, India can settle down cash chaos and achieve the stable economic growth until 2018 with private consumption and investments.

◆ Outlook for Asia-Pacific Stock Markets

We expect Asian equity markets to go up mildly in line with growth of corporate earnings. The macro economy seems to be stabilized but there is less support from valuation side.

- ✓ Risk factor including rising US bond yield and weak emerging currencies are materialized due to the surprising result of US election. Although detailed policy of Mr. Trump is still not clear, his accommodative stance of fiscal stimulus can be a trigger of changing the direction of US bond yield upwards, which is negative for emerging currencies.
- ✓ Market volatility is likely to increase based on news flow and a risk appetite for emerging markets should be diminished in the near term.
- ✓ We expect the market will hover sideways with high volatility in the near term due to uncertainty over US policies to be addressed by new President. However, the market will start to go up mildly in line with growth of corporate earnings in the medium term.

Outlook for Economy in China

SMAM Economic Outlook for China

China Forecast Table

China	YoY[%]			YoY[%]												Market Consensus	
	2015	2016	2017	2015				2016				2017				2016	2017
				Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec		
Real GDP	6.9	6.7	6.5	7.0	7.0	6.9	6.8	6.7	6.7	6.7	6.7	6.6	6.5	6.4	6.4	6.7	6.4
	<i>Previous</i>	6.9	6.7	6.5	7.0	7.0	6.9	6.8	6.7	6.7	6.7	6.6	6.5	6.4	6.4	6.6	6.4
Real GDP qqar on seasonally adjusted basis	6.9	6.6	6.3	6.3	7.2	7.4	5.9	4.7	7.6	7.2	6.3	5.6	7.0	7.0	6.1	-	-
	<i>Previous</i>	6.9	6.6	6.3	6.3	7.2	7.4	5.9	4.7	7.6	7.2	6.3	5.6	7.0	7.0	6.1	-
Compiled Growth Tracker	6.0	5.5	5.2	6.3	6.3	5.8	5.7	5.6	5.5	5.4	5.4	5.3	5.2	5.2	5.2	-	-
	<i>Previous</i>	6.0	5.5	5.2	6.3	6.3	5.8	5.7	5.6	5.5	5.4	5.4	5.3	5.2	5.2	-	-
Real GDP Consumption	9.1	8.9	8.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<i>Previous</i>	9.1	8.9	8.8	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP Investment	5.3	5.0	4.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<i>Previous</i>	5.3	5.0	4.7	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP Net export (contribution)	▲0.2	▲0.2	▲0.3	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	<i>Previous</i>	▲0.2	▲0.2	▲0.3	-	-	-	-	-	-	-	-	-	-	-	-	-
Nominal GDP	6.4	7.5	7.5	6.7	7.2	6.0	6.1	7.1	7.3	7.8	7.8	7.7	7.4	7.5	7.3	-	-
	<i>Previous</i>	6.4	7.4	7.4	6.7	7.2	6.0	6.1	7.1	7.3	7.8	7.7	7.4	7.5	7.3	-	-
GDP deflator	▲0.4	0.8	1.0	▲0.3	0.1	▲0.9	▲0.6	0.4	0.6	1.0	1.1	1.0	0.9	1.0	0.9	-	-
	<i>Previous</i>	▲0.4	0.8	1.0	▲0.3	0.1	▲0.9	▲0.6	0.4	0.6	1.0	1.0	0.9	1.0	0.9	-	-
Industrial production	6.1	6.0	5.7	6.4	6.3	5.9	5.9	5.8	6.1	6.1	6.1	5.8	5.6	5.6	5.5	5.9	5.6
	<i>Previous</i>	6.1	6.0	5.7	6.4	6.3	5.9	5.9	5.8	6.1	6.1	5.8	5.6	5.6	5.5	5.8	5.5
CPI inflation	1.4	2.0	1.4	1.2	1.4	1.7	1.5	2.1	2.1	1.7	2.0	1.6	1.4	1.4	1.2	1.9	1.9
	<i>Previous</i>	1.4	1.9	1.4	1.2	1.4	1.7	2.1	2.1	1.7	1.8	1.6	1.4	1.4	1.0	1.9	1.9
Base lending interest rate	4.35	4.35	4.10	5.35	4.85	4.60	4.35	4.35	4.35	4.35	4.35	4.35	4.10	4.10	4.10	4.10	4.10
	<i>Previous</i>	4.35	4.35	4.10	5.35	4.85	4.60	4.35	4.35	4.35	4.35	4.35	4.10	4.10	4.10	4.10	4.10

Historical Record of amendment (GDP)

Date of amendment	YoY[%]			YoY[%]											
	2015	2016	2017	2015				2016				2017			
				Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec
16.11.16 Latest	6.9	6.7	6.5	7.0	7.0	6.9	6.8	6.7	6.7	6.7	6.7	6.6	6.5	6.4	6.4
16.10.19	6.9	6.7	6.5	7.0	7.0	6.9	6.8	6.7	6.7	6.7	6.7	6.5	6.5	6.5	6.4
16.10.17 last month meeting	6.9	6.7	6.5	7.0	7.0	6.9	6.8	6.7	6.7	6.7	6.7	6.6	6.5	6.4	6.4

Note: Arrows illustrate the direction of the change from last time prediction
Source: CEIC, compiled by SMAM Economic Research Department, Previous= Last month meeting's projection
As of 20 December 2016

SMAM Economic Outlook for China

China November economic performance

	consensus	actual	Oct	Sep	Aug	Jul	Jun	May	Apr	May	Feb	Jan
real GDP				6.7			6.7			6.7		
mfg PMI	51.0	51.7	51.2	50.4	50.4	49.9	50.0	50.1	50.1	50.2	49.0	49.4
Caixin mfg PMI	51.0	50.9	51.2	50.1	50	50.6	48.6	49.2	49.4	49.7	48.0	48.4
steel PMI	NA	51	50.7	49.5	50.1	50.2	45.1	50.9	57.3	49.7	49.0	46.7
industrial production	6.1	6.2	6.1	6.1	6.3	6.0	6.2	6.0	6.0	6.8	5.4	5.4
fixed asset investment (ytd)	8.3	8.3	8.3	8.2	8.1	8.1	9.0	9.6	10.5	10.7	10.2	10.2
SOE fixed asset investment	NA	8.8	8.8									
private fixed asset investment	NA	17.3	16.1									
fixed asset investment	NA	4.9	5.9	9.0	8.2	3.9	7.3	7.4	10.1	11.2	10.2	10.2
property investment	NA	5.7	13.5	7.8	6.2	1.4	3.3	6.6	9.7	9.7	3.0	3.0
floor space sold	NA	7.7	26.0	35.3	19.1	16.7	14.2	22.0	45.9	40.3	30.4	30.4
100 cities housing price (mmar)	NA	11.1	21.7	39.8	29.4	21.5	17.0	22.4	18.9	25.4	7.4	5.1
retail sales	10.2	10.8	10.0	10.7	10.6	10.2	10.6	10.0	10.1	10.5	10.2	10.2
retail sales (real basis)	NA	9.2	8.8	9.6	10.2	9.8	10.3	9.7	9.3	9.7	9.6	9.6
auto sales units (th)	NA	2,938.7	2,649.9	2,564	2,071	1,852	2,071	2,092	2,122	2,440	1,581	2,501
auto sales units (%)	NA	17.1	19.3	26.6	24.4	23.2	14.6	9.9	6.4	8.9	-0.8	7.8
exports (RMB)	-1.0	5.9	-3.2	-5.6	5.9	2.9	1.3	1.2	4.1	18.7	-20.6	-6.6
imports (RMB)	3.6	13.0	3.2	2.2	10.8	-5.7	-2.3	5.1	-5.7	-1.7	-8.0	-14.4
international reserves (USDbn)	3,060.7	3,051.6	3,120.7	3,166.4	3,185.2	3,201.1	3,205.2	3,191.7	3,219.7	3,212.6	3,202.3	3,230.9
CPI	2.2	2.3	2.1	1.9	1.3	1.8	1.9	2.0	2.3	2.3	2.3	1.8
PPI	2.3	3.3	1.2	0.1	-0.8	-1.7	-2.6	-2.8	-3.4	-4.3	-4.9	-5.3
M2	11.5	11.4	11.6	11.5	11.4	10.2	11.8	11.8	12.8	13.4	13.3	14.0
new loans (RMB bn)	720.0	794.6	651.3	1,220.0	948.7	463.6	1,380.0	985.5	555.6	1,370.0	726.6	2,510.0
social aggregate financing (RMB bn)	1,100.0	1,740.0	896.3	1,720.0	1,469.7	487.9	1,629.3	659.9	751.0	2,336.0	824.5	3,425.3

Note: Italic letters present numbers for January and February compared with the corresponding period of the previous year.

Source: CEIC, compiled by SMAM

As of 20 December 2016

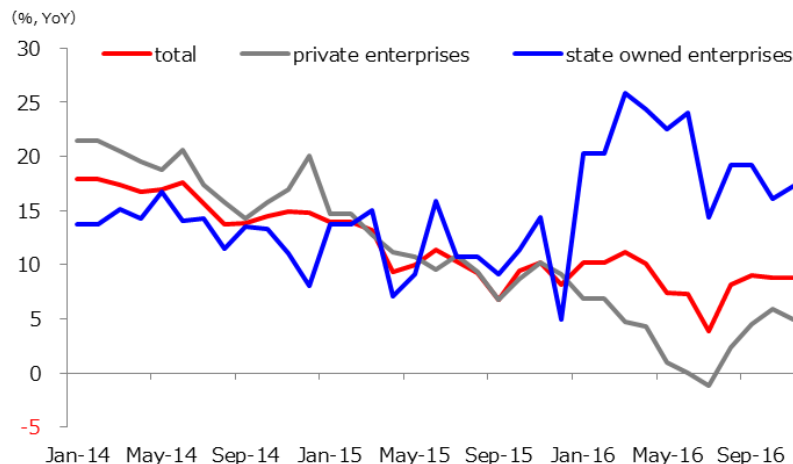
SMAM Economic Outlook for China

Current Economic Situation in China

China faces both a private investment recovery and breakout of deflation

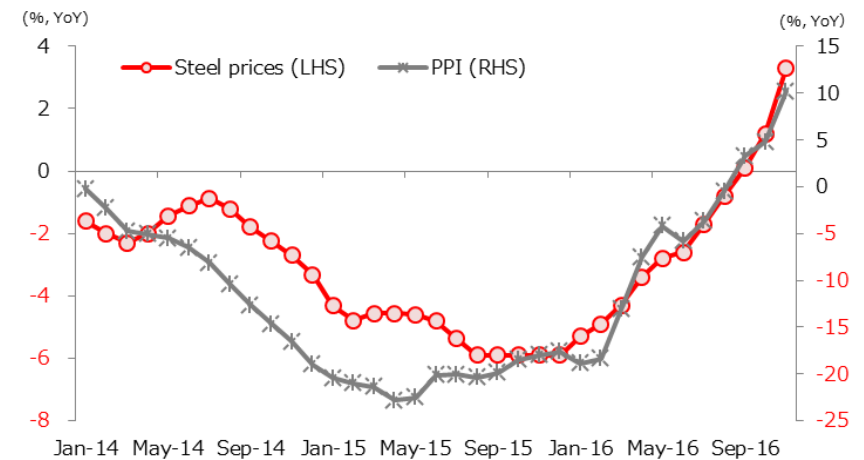
- ✓ In November, the Fixed Asset Investment (FAI) growth stabilized on a YTD basis, while that by private enterprises slightly softened. We stay with our view that a recovery trend in private investments will continue.
- ✓ As Producer Price Index (PPI) kept a further acceleration in November, we see the end of deflation in China.
- ✓ Demand for raw materials is growing through demand management by infrastructure investment. Management on supply and demand for materials was successful.
- ✓ We think that further infrastructure investments along with the New-type Urbanization policy would bring economic stability and curb deflation.

Fixed Asset Investment Growth



Source: CEIC, compiled by SMAM
Up to November 2016

PPI and Steel Prices



Source: CEIC, compiled by SMAM
Up to November 2016

SMAM Economic Outlook for China

China's economy is stabilizing as a result of a recovery of private investment and the slowing deflationary pressure

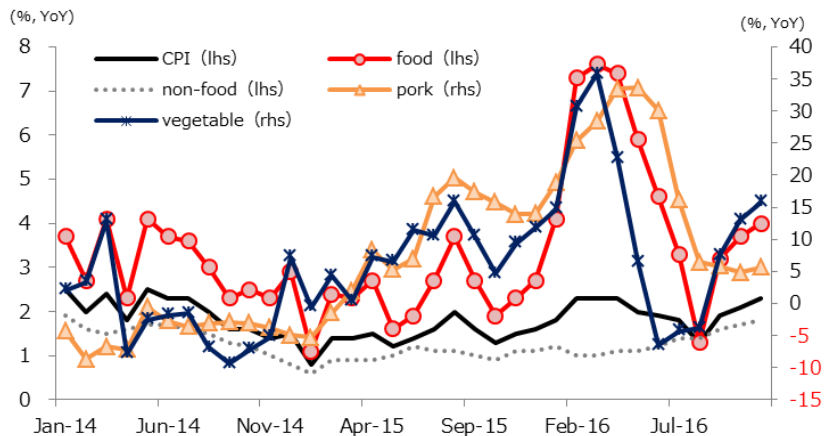
- Looking at November PPI, inflation accelerated led by infrastructure investment.
- Regarding FAI, the private sector shows a pickup and this would affect the economy positively.
- The government continues tax cut itself on small cars, but plans to halve the rate of tax reduction from 10% to 7.5% in 2017.
- China's currency renminbi (RMB) would be swayed by US dollar. Rising US dollar tends to cause a fall of RMB and capital outflow as well.
- Indicators relating to shadow banking in China's total social financing (TSF) turned to gain in November, and showed a sign of speculative level. We think expectation for rate hike in China seems to heighten to prevent the asset bubble.

Outlook: The economy is expected to be stable until 2018, but capital outflow and trade policies with US would be risk factors

- Our main scenario is the economy to be stabilized (2016: +6.7% YoY, 2017: +6.5% YoY, 2018: +6.5% YoY).
- We also stay with our GDP deflator forecasts (2016: +0.8% YoY, 2017: +1.0% YoY, 2018: +1.1% YoY).
- We do not see interest rate rises in China to avoid returning to deflation while expectation for rate hike tends to grow.
- In the plenum of the Communist Party of China in fall 2017, Wang Qishan is seen to become a new Premier, where sudden policy change may happen.

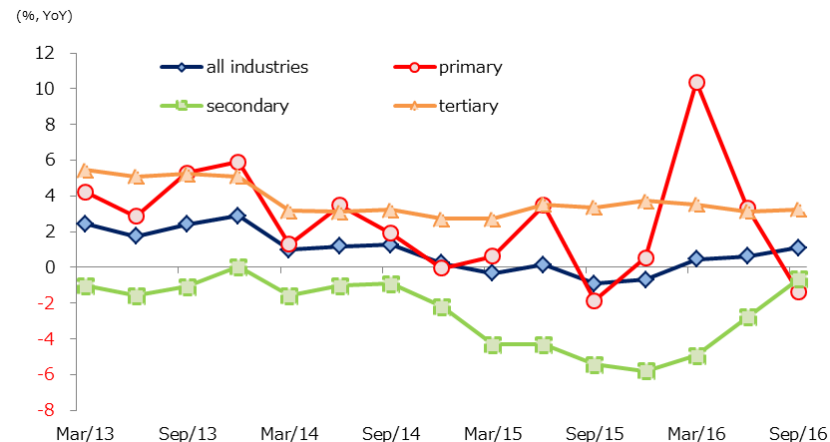
SMAM Economic Outlook for China

CPI



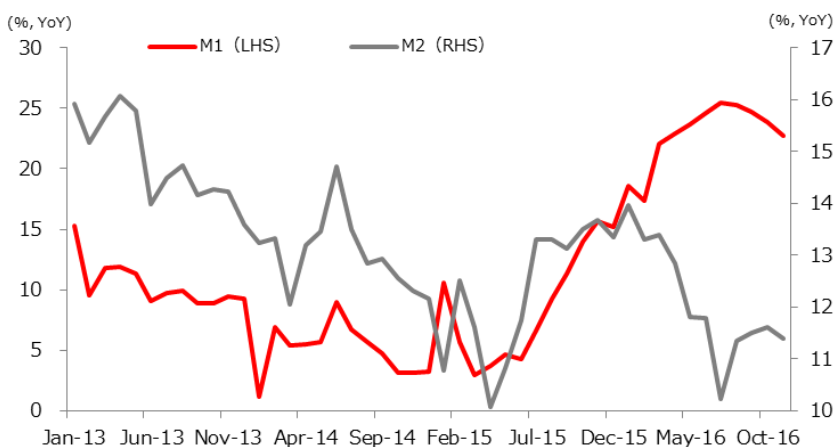
Note: The data series=steel production - steel export
 Source: CEIC, compiled by SMAM
 Up to November 2016

GDP Deflator by Industries



Source: CEIC, compiled by SMAM
 Up to September 2016

Money Supply



Source: CEIC, compiled by SMAM
 Up to November 2016

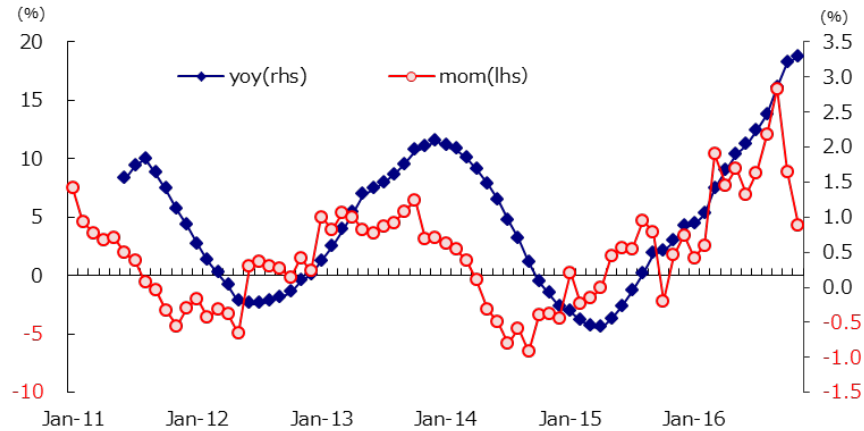
Total Social Finance

	Total	New lending	Entrusted loan	Trust loan	Bankers' acceptance	Corporate bonds	Others
							(RMB bn)
2012	15,763	8,204	1,284	1,285	1,050	2,255	1,686
2013	17,317	8,892	2,547	1,840	776	1,811	1,451
2014	16,413	9,781	2,507	518	-128	2,382	1,354
2015	15,406	11,269	1,591	43	-1,057	2,939	620
Jul	488	455	177	21	-512	219	128
Aug	1,470	797	143	74	-38	331	163
Sep	1,720	1,267	143	106	-224	291	137
Oct	896	601	73	53	-180	244	106
Nov	1,740	846	199	163	117	287	128

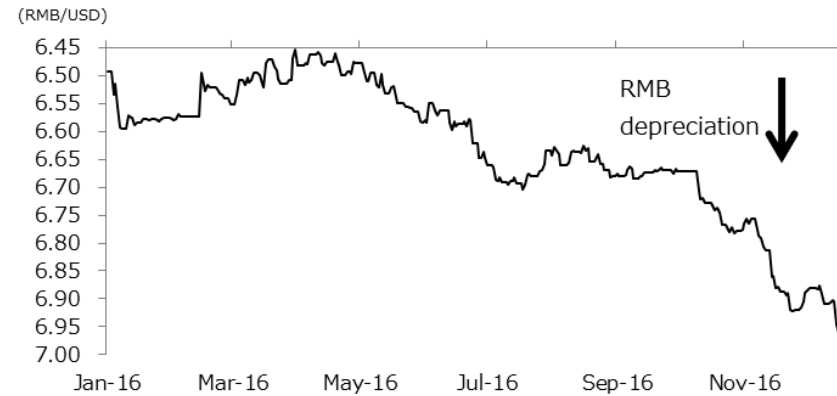
Note: new lending excludes interbank transactions.
 Source: CEIC, compiled by SMAM
 Up to November 2016

SMAM Economic Outlook for China

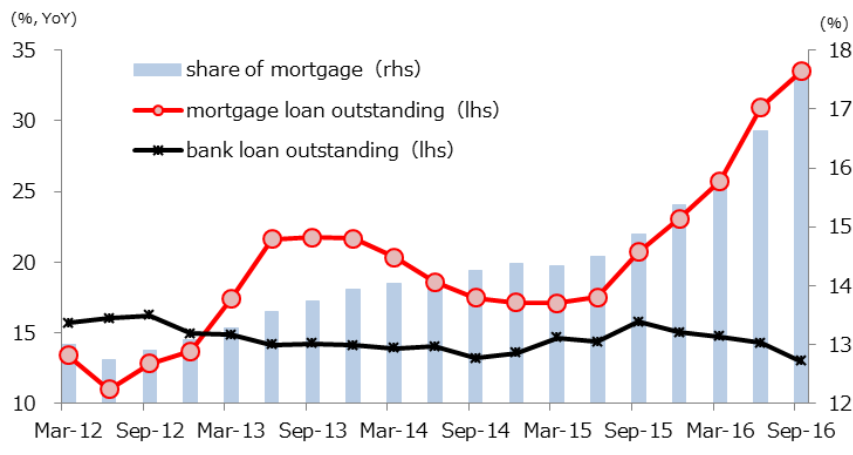
New Housing Prices in Soufun 100 cities



RMB against USD



Bank Lending & Mortgage Loan



Outlook for Asia-Pacific Economy

SMAM Economic Outlook for Asia and Oceania

Real GDP	YoY[%]			YoY[%]												Market Consensus	
	2015	2016	2017	2015				2016				2017				2016	2017
				Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec		
China	6.9	6.7	6.5	7.0	7.0	6.9	6.8	6.7	6.7	6.7	6.7	6.6	6.5	6.4	6.4	6.6	6.4
Previous	6.9	6.7	6.5	7.0	7.0	6.9	6.8	6.7	6.7	6.7	6.7	6.6	6.5	6.4	6.4	6.6	6.3
India	7.6	7.7	8.0	6.7	7.5	7.6	7.2	7.9	7.1	7.7	8.2	7.8	8.0	7.8	8.1	7.6	7.6
Previous	7.6	7.7	8.0	6.7	7.5	7.6	7.2	7.9	7.1	7.7	8.2	7.8	8.0	7.8	8.1	7.6	7.7
NIEs4	2.1	2.0	1.6	2.8	1.9	1.9	2.0	1.7	2.4	2.1	1.7	1.6	1.5	1.5	1.7	2.0	2.2
Previous	2.1	1.9	1.7	2.8	1.9	1.9	2.0	1.7	2.4	1.6	1.8	1.7	1.5	1.5	1.7	2.0	2.2
Korea	2.6	2.6	2.0	2.4	2.2	2.8	3.1	2.8	3.3	2.5	2.0	1.7	1.8	2.0	2.5	2.7	2.6
Previous	2.6	2.8	2.4	2.4	2.2	2.8	3.1	2.8	3.3	2.0	2.2	2.2	2.2	2.5	2.6	2.6	2.6
Taiwan	0.6	1.1	1.0	4.0	0.6	▲0.8	▲0.9	▲0.7	0.7	2.1	2.1	1.4	1.5	0.5	0.7	1.1	1.7
Previous	0.6	0.9	0.9	4.0	0.6	▲0.8	▲0.9	▲0.7	0.7	1.6	1.8	1.2	1.1	0.8	0.5	1.0	1.7
Singapore	2.0	1.5	1.3	2.7	1.7	1.8	1.8	2.0	2.0	0.6	1.5	1.2	1.2	1.8	1.4	1.3	1.5
Previous	2.0	1.5	1.3	2.7	1.7	1.8	1.8	2.0	2.0	0.6	1.5	1.2	1.2	1.8	1.4	1.7	1.8
Hongkong	2.4	1.1	0.6	2.4	2.9	2.2	1.9	0.8	1.7	1.9	0.1	0.8	0.2	0.2	1.3	1.3	1.7
Previous	2.4	0.8	0.6	2.4	2.9	2.2	1.9	0.8	1.7	0.5	0.4	0.8	0.8	0.5	0.3	1.3	1.7
ASEAN4	4.6	4.8	4.9	4.6	4.5	4.5	4.7	4.7	4.9	4.8	4.8	4.7	4.8	5.0	5.1	4.7	4.8
Previous	4.6	4.8	4.9	4.6	4.5	4.5	4.7	4.7	4.9	4.8	4.8	4.7	4.8	5.0	5.1	4.7	4.8
Indonesia	4.8	5.1	5.4	4.7	4.7	4.7	5.0	4.9	5.2	5.0	5.2	5.2	5.3	5.5	5.5	5.0	5.3
Previous	4.8	5.2	5.4	4.7	4.7	4.7	5.0	4.9	5.2	5.2	5.3	5.3	5.3	5.4	5.5	5.0	5.3
Thailand	2.8	3.2	2.9	3.0	2.7	2.9	2.8	3.2	3.5	3.2	3.0	2.5	2.6	2.9	3.5	3.2	3.2
Previous	2.8	3.2	3.3	3.0	2.7	2.9	2.8	3.2	3.5	3.2	3.0	2.9	3.1	3.5	3.8	3.2	3.3
Malaysia	5.0	4.1	4.4	5.7	4.9	4.7	4.5	4.2	4.0	4.3	4.1	4.2	4.3	4.5	4.5	4.1	4.3
Previous	5.0	4.1	4.4	5.7	4.9	4.7	4.5	4.2	4.0	4.1	4.2	4.2	4.3	4.5	4.4	4.1	4.3
Philippines	5.9	7.0	7.0	5.0	5.9	6.2	6.5	6.8	7.0	7.1	6.9	6.8	6.8	7.1	7.1	6.5	6.1
Previous	5.9	6.7	6.3	5.0	5.9	6.2	6.5	6.8	7.0	6.5	6.5	6.1	6.1	6.5	6.4	6.5	6.1
Australia	2.5	2.9	2.5	2.3	2.1	2.7	2.9	3.0	3.3	2.8	2.7	2.2	2.4	2.6	2.8	2.9	2.8
Previous	2.5	2.9	2.5	2.3	2.1	2.7	2.9	3.0	3.3	2.8	2.7	2.2	2.4	2.6	2.8	3.0	2.8

Source: CEIC, compiled by SMAM
 Note: Economic Research Department, Previous= Last month meeting's projection.
 Arrows illustrate the direction of the change from last time prediction.
 As of 20 December 2016

SMAM Economic Outlook for Asia and Oceania

CPI inflation		YoY[%]												Market Consensus					
		2015	2016	2017	2015				2016				2017				2016	2017	
					Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec			
China		1.4	1.9	1.4	1.2	1.4	1.7	1.5	2.1	2.1	1.7	1.8	1.6	1.4	1.4	1.4	1.4	1.9	1.9
	Previous	1.4	1.9	1.4	1.2	1.4	1.7	1.5	2.1	2.1	1.7	1.8	1.6	1.4	1.4	1.4	1.4	1.9	1.9
India		4.9	5.0	5.4	5.3	5.1	3.9	5.3	5.3	5.7	5.1	4.6	4.7	4.9	5.6	5.6	5.0	5.1	
	Previous	4.9	5.0	5.4	5.3	5.1	3.9	5.3	5.3	5.7	5.1	4.6	4.7	4.9	5.6	5.6	5.1	5.1	
NIEs4	Korea	0.7	1.0	1.6	0.6	0.5	0.7	1.1	1.0	0.9	0.8	1.3	1.6	1.6	1.6	1.6	0.9	1.6	
		Previous	0.7	1.0	1.6	0.6	0.5	0.7	1.1	1.0	0.9	0.8	1.3	1.6	1.6	1.6	1.6	0.9	1.6
	Taiwan	▲0.3	1.1	1.1	▲0.6	▲0.7	▲0.3	0.3	1.7	1.3	0.7	0.9	0.9	1.3	1.3	1.2	1.1	1.2	
		Previous	▲0.3	1.1	1.1	▲0.6	▲0.7	▲0.3	0.3	1.7	1.3	0.7	0.9	0.9	1.3	1.3	1.2	1.1	1.2
	Singapore	▲0.5	▲0.7	0.4	▲0.3	▲0.4	▲0.6	▲0.7	▲0.8	▲0.9	▲0.7	▲0.4	▲0.2	0.3	0.6	0.6	▲0.4	0.8	
		Previous	▲0.5	▲0.7	0.4	▲0.3	▲0.4	▲0.6	▲0.7	▲0.8	▲0.9	▲0.7	▲0.4	▲0.2	0.3	0.6	0.6	▲0.4	0.8
	Hongkong	3.0	2.8	1.8	4.3	2.9	2.5	2.3	2.8	2.8	3.1	2.6	2.1	2.0	1.7	1.5	2.5	2.0	
		Previous	3.0	2.5	1.7	4.3	2.9	2.5	2.3	2.8	2.8	2.5	2.1	1.7	1.7	1.7	2.5	2.1	
ASEAN4	Indonesia	6.4	3.4	3.9	6.5	7.1	7.1	4.8	4.3	3.5	3.0	3.2	3.0	4.0	4.3	4.3	3.6	4.2	
		Previous	6.4	3.4	3.9	6.5	7.1	7.1	4.8	4.3	3.5	3.2	3.0	4.0	4.3	4.3	3.6	4.2	
	Thailand	▲0.9	0.2	1.0	▲0.5	▲1.1	▲1.1	▲0.9	▲0.5	0.3	0.3	0.6	1.4	1.0	0.9	0.9	0.2	1.7	
		Previous	▲0.9	0.2	1.0	▲0.5	▲1.1	▲1.1	▲0.9	▲0.5	0.3	0.4	0.6	1.4	1.0	0.9	0.9	0.3	1.7
	Malaysia	2.1	2.2	2.5	0.7	2.2	3.0	2.6	3.4	1.9	1.4	2.0	2.8	2.2	2.6	2.6	2.1	2.6	
		Previous	2.1	2.2	2.5	0.7	2.2	3.0	2.6	3.4	1.9	1.4	2.0	2.8	2.2	2.6	2.1	2.6	
	Philippines	1.4	1.8	2.9	2.4	1.7	0.6	1.0	1.1	1.5	2.0	2.4	2.6	2.8	3.0	3.1	1.7	2.9	
		Previous	1.4	1.6	2.5	2.4	1.7	0.6	1.0	1.1	1.5	2.0	2.2	2.5	2.5	2.6	1.7	3.0	
Australia		1.5	1.2	1.7	1.3	1.5	1.5	1.7	1.3	1.0	1.3	1.3	1.7	1.6	1.7	1.7	1.3	2.1	
	Previous	1.5	1.2	1.7	1.3	1.5	1.5	1.7	1.3	1.0	1.2	1.3	1.7	1.6	1.7	1.7	1.2	2.1	

Policy Rate		Annual rate[%]												Market Consensus				
		2015	2016	2017	2015				2016				2017				2016	2017
					Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec		
China		4.35	4.35	4.10	5.35	4.85	4.60	4.35	4.35	4.35	4.35	4.35	4.35	4.10	4.10	4.10	4.35	4.10
	Previous	4.35	4.35	4.10	5.35	4.85	4.60	4.35	4.35	4.35	4.35	4.35	4.35	4.10	4.10	4.10	4.35	4.10
India		6.75	6.25	5.75	7.50	7.25	6.75	6.75	6.75	6.50	6.50	6.25	6.00	6.00	5.75	5.75	6.25	6.00
	Previous	6.75	6.25	5.75	7.50	7.25	6.75	6.75	6.75	6.50	6.50	6.25	6.00	6.00	5.8	5.8	6.25	6.00
NIEs4	Korea	1.50	1.00	1.00	1.75	1.50	1.50	1.50	1.50	1.25	1.25	1.00	1.00	1.00	1.00	1.00	1.25	1.00
		Previous	1.50	1.00	1.00	1.75	1.50	1.50	1.50	1.25	1.25	1.00	1.00	1.00	1.00	1.00	1.25	1.00
	Taiwan	1.625	1.375	1.125	1.875	1.875	1.750	1.625	1.500	1.375	1.375	1.375	1.250	1.125	1.125	1.125	1.250	1.250
		Previous	1.625	1.375	1.125	1.875	1.875	1.750	1.625	1.500	1.375	1.375	1.250	1.125	1.125	1.125	1.250	1.250
	Singapore	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
		Previous	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
	Hongkong	0.75	#N/A	#N/A	0.50	0.50	0.50	0.75	0.75	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
		Previous	0.75	#N/A	#N/A	0.50	0.50	0.50	0.75	0.75	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A
ASEAN4	Indonesia	7.50	4.75	4.50	7.50	7.50	7.50	7.50	6.75	6.75	5.00	4.75	4.75	4.75	5.00	5.00	#N/A	#N/A
		Previous	7.50	5.00	5.00	7.50	7.50	7.50	7.50	6.75	6.75	5.00	4.75	4.75	4.75	5.00	#N/A	#N/A
	Thailand	1.50	1.50	1.25	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.25	1.25	1.25	1.25	1.50	1.50
		Previous	1.50	1.50	1.25	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.25	1.25	1.25	1.25	1.50	1.50
	Malaysia	3.25	3.00	2.50	3.25	3.25	3.25	3.25	3.25	3.25	3.00	3.00	2.75	2.50	2.50	3.00	3.00	2.75
		Previous	3.25	2.75	2.75	3.25	3.25	3.25	3.25	3.25	3.00	3.00	2.75	2.75	2.75	3.00	3.00	3.00
	Philippines	4.00	3.00	3.25	4.00	4.00	4.00	4.00	4.00	3.00	3.00	3.00	3.00	3.00	3.25	3.25	3.00	3.25
		Previous	4.00	3.00	3.00	4.00	4.00	4.00	4.00	4.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.25
Australia		2.00	1.50	1.25	2.25	2.00	2.00	2.00	2.00	1.75	1.50	1.50	1.25	1.25	1.25	1.25	1.50	1.25
	Previous	2.00	1.50	1.25	2.25	2.00	2.00	2.00	2.00	1.75	1.50	1.50	1.25	1.25	1.25	1.25	1.50	1.25

Source: CEIC, compiled by SMAM

Note: Economic Research Department, Previous= Last month meeting's projection. Indonesia has changed policy rate from BI rate (6.50%) to 7days reserve repo (5.25%) on 19 Aug.

Arrows illustrate the direction of the change from last time prediction.

As of 20 December 2016

Australia

- We cut real GDP forecasts for 2016 to +2.4% YoY from +2.9% YoY and for 2017 to +2.3% YoY from +2.5% YoY due to weaker than expected Q3 GDP.
- Due to slowing capex in the natural resources sector, the GDP growth would be on a path of a moderate recovery below the potential growth rate until the first half of 2017. On another front, improvements in household consumption and dwelling investment are expected to underpin the economy. From the second half of 2017, we think the economy would accelerate slightly on a moderate rate of correction in capex.
- We expect the CPI growth to rise toward late 2017 and then to remain flat since effects of lower oil prices calm down and wage growth seems to bottom out.
- As for the fiscal policy, we foresee the policy rate to be left unchanged as inflation is likely to rise toward late 2017 under the central bank's CPI forecast. Yet, CPI may move around the bottom of the target range.

Export Commodities Spot Price



Source: Bloomberg, compiled by SMAM
Up to 19 December 2016

Economic Forecasts

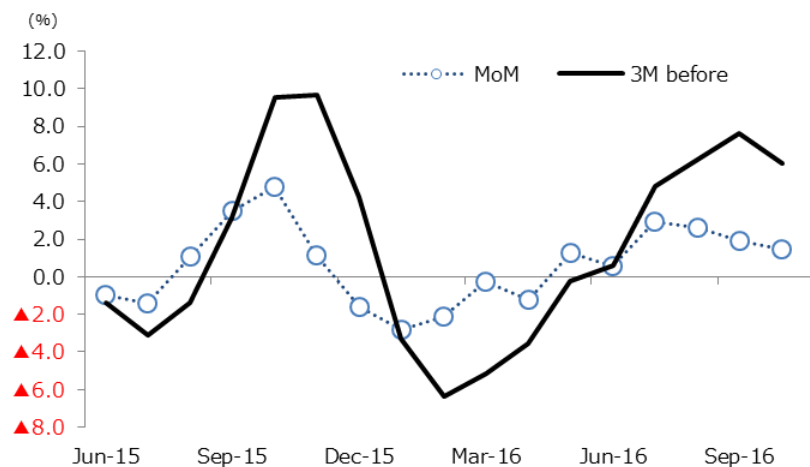
	15-16	16-17	17-18		
	Outcome	Budget	MYEFO	Budget	MYEFO
Real GDP	2.70	2.50	2.00	3.00	2.75
Household consumption	2.90	3.00	2.75	3.00	3.00
Dwelling investment	10.80	2.00	4.50	1.00	2.50
Business investment	▲ 10.40	▲ 5.00	▲ 6.00	0.00	0.00
Public demand	3.40	2.25	3.00	2.00	2.25
Net export	1.40	0.75	0.75	0.75	0.50
Wage	2.10	2.50	2.25	2.75	2.50
Unemployment rate	5.70	5.50	5.50	5.50	5.50
Terms of trade	▲ 10.20	1.25	14.00	0.00	▲ 3.75

Source: MYEFO 16-17, compiled by SMAM
Up to 20 December 2016

Taiwan

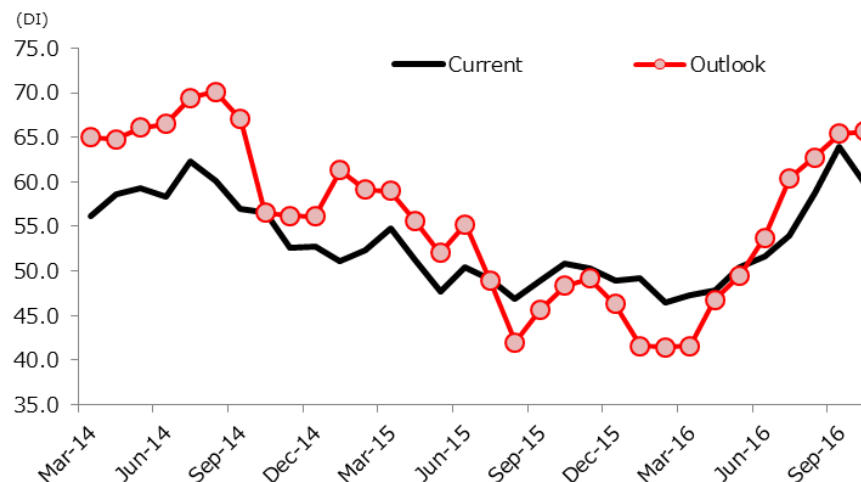
- We raised real GDP forecasts for 2016 to +1.1% YoY and for 2017 to +1.0% YoY.
- Taiwan, with the contribution ratio of exports to GDP is approx. 64%, is likely to be affected by the global economic conditions. Demands for iPhone 7 seem to peak out in 3Q, however, we expect an economic upturn led by China and US economies, important export destinations for Taiwan.
- So far, slow domestic demand growth is likely to continue as the Democratic Progressive Party seems to keep a cautious stance on short-term economic stimulus measures.

Taiwan Export Orders



Source: CEIC, compiled by SMAM
Up to October 2016

PMI (EI parts & Optical SA)

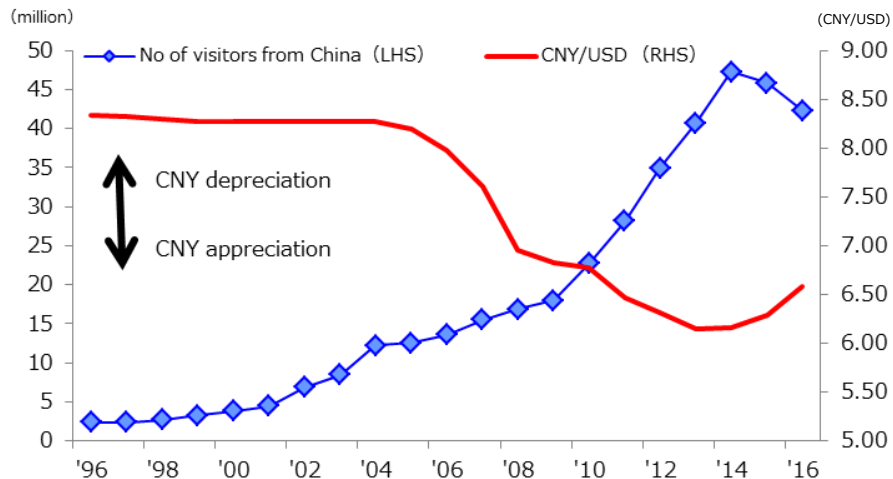


Source: CEIC, compiled by SMAM
Up to October 2016

Hong Kong

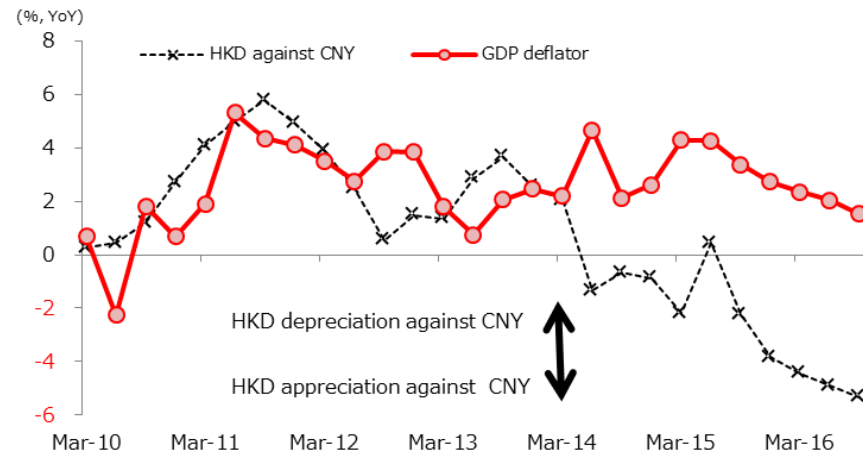
- Capital inflow by mainland China lifted up the property market in Hong Kong. However, the government takes measures such as introduction of property stamp duty to cool down the hot market. Amid the Chinese economy has stabilized and expectation for gradual growth in the US economy in 2018 increases, the economy in Hong Kong is also deemed to improve moderately.
- The Chinese Yuan Renminbi (CNY), which continues downward trend against the US dollar behind US currency appreciation. This currency movement would affect negatively on asset prices in Hong Kong as the depreciating CNY and appreciating HK dollar tend to cause deflationary pressure through import prices.

Visitors to HK from China & CNY/USD



Note: Visitors number is annualized for 2016. CNY for 2016 is average from 1Q16 to 3Q16.
 Source: CEIC, compiled by SMAM
 Up to September 2016

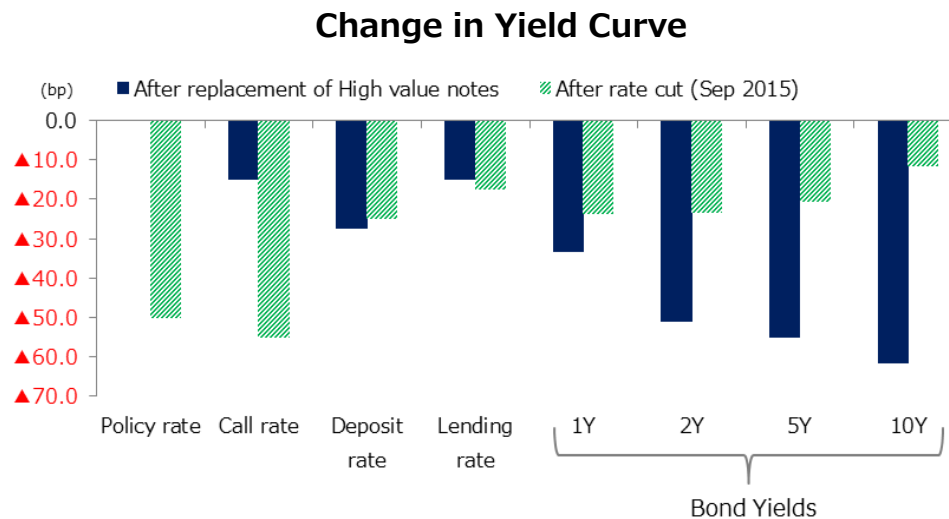
GDP Deflator & HKD/CNY



Source: CEIC, compiled by SMAM
 Up to September 2016

India

- We believe India's GDP numbers for Oct-Dec to be weak on sluggish private consumption due to confusion by India's banknotes ban and introduction of new series of currency notes instead. Yet, we think that this cash chaos would settle down in a few months and the economy would face an upturn on increase in consumer spending on the rebound effects.
- In addition, long-term yields, which dramatically dropped, would spur financing activities. Thus, the private investment is likely to show a recovery since companies are foreseen to have a proactive stance on investment after the second half of 2017 despite recent weak figures. In our view, the central bank would hike its interest rate in 2018 as inflation upturn led by economic improvements would add to rate hike pressure.



Note: 4 weeks after policy change
 Source: Bloomberg, compiled by SMAM
 As of 15 December 2016

Indonesia

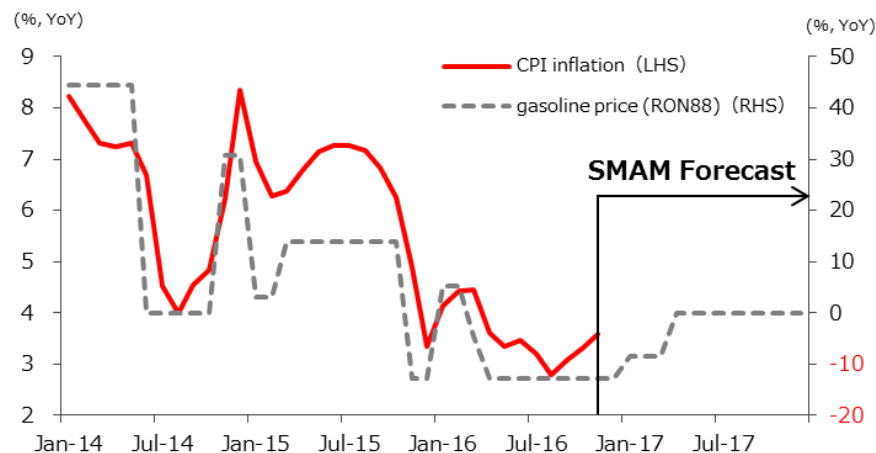
- Lower than expected Jul-Sep GDP came in at +5.0% YoY. As for 2017, we maintain our view of the real GDP forecasts at +5.4% YoY.
- The inflation rate remains within the target range since November last year. The government's additional gasoline price cut on last April has been a supportive factor for boosting private consumption through curbing inflation.
- The President Joko Widodo appointed Sri Mulyani as the country's new finance minister in a cabinet reshuffle. This would show how keen the government is to implement tax amnesty.

GDP Growth and Contributions

	(YoY, ppt)				
	3Q15	4Q15I	1Q16	2Q16	3Q16
real GDP	4.7	5.0I	4.9	5.2	5.0
domestic demands	5.6	3.8I	4.6	4.8	3.9
external demands	1.1	0.4I	0.0	0.1	-0.6
private consumption	2.7	2.7I	2.7	2.7	2.7
government consumption	0.6	0.9I	0.2	0.5	-0.2
gross fixed capital formation	1.5	2.3I	1.8	1.6	1.3
inventory	0.8	-2.1I	-0.1	-0.0	0.1
exports	-0.1	-1.6I	-0.9	-0.5	-1.3
imports	-1.3	-1.9I	-0.9	-0.6	-0.8

Source: CEIC, compiled by SMAM
Up to 3Q 2016

Gasoline Price & CPI

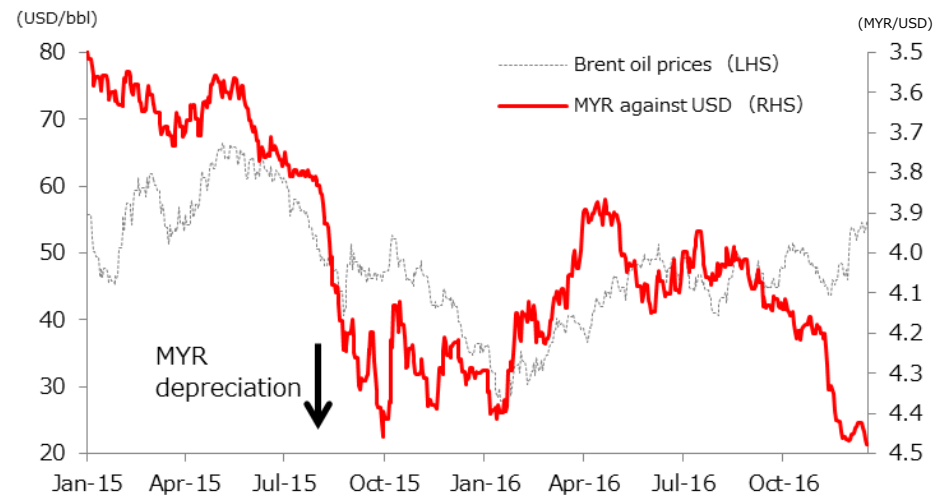


Source: CEIC, compiled by SMAM
Up to November 2016

Malaysia

- Looking at the government side, cheaper oil prices cause dwindling tax revenues, which leads to limited growth of expenditures. Accordingly, the government, under restriction of on-budget expenditure, would try to achieve public investment growth by the use of off-budget facility such as state owned enterprises.
- Malaysian Prime Minister Najib Razak announced the 2017 budget with a suggestion of the possible early dissolution of the parliament and general election. In 2017, all available economic measures such as rate cut or fiscal expansion would be exploited. If the Malaysia Ringgit moves stably, we think that Bank Negara Malaysia (BNM) would implement an addition rate cut in Jan-Mar or Apr-Jun 2017.

MYR and Oil Price



Source: CEIC, compiled by SMAM
As of 17 December 2016

Philippines

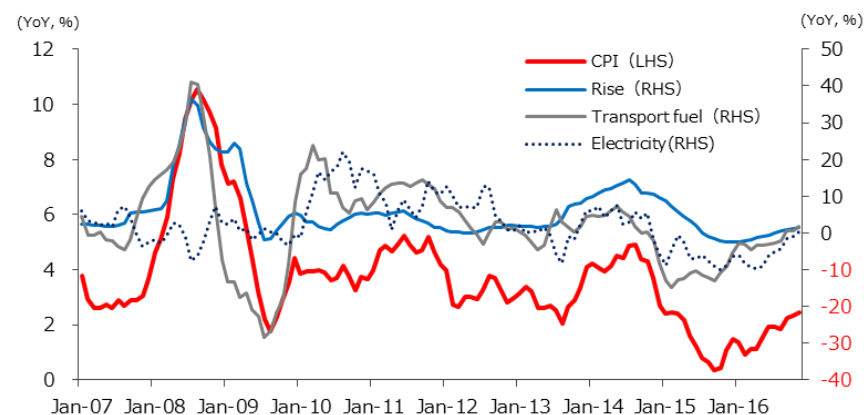
- The economy is less vulnerable to global economic cycle as the contribution ratio of exports to its GDP is only around 20%, lower than in other countries.
- The economic rebound is expected led by domestic demands. Consumer spending has been expanding in the second half of 2016 on the back of low inflation as well as the growing middle class even after general election.
- Bangko Sentral ng Pilipinas (BSP) has shifted in its monetary operations to an interest rate corridor since 7 June. Its range is quite narrow, as the upper and lower band is at 3.5% and 2.5% respectively. If the GDP growth for 2017 is higher than the government's forecast (+6.5-7.5%), a rate hike may occur.

Real GDP by Expenditures

	real GDP	private consumption	government consumption	gross fixed capital formation	inventory (contribution)	exports	imports
	(% YoY, ppt)						
1Q15	5.0	6.1	0.2	8.8	0.8	10.6	12.2
2Q15	5.9	6.4	2.4	12.7	1.4	5.1	12.6
3Q15	6.2	6.1	15.7	13.9	0.2	9.8	16.2
4Q15	6.5	6.5	15.8	24.2	-1.9	10.9	14.9
1Q16	6.8	7.0	11.8	28.2	-0.2	7.3	19.0
2Q16	7.0	7.4	13.5	24.6	0.1	10.0	23.2
3Q16	7.1	7.3	3.1	23.5	-0.7	8.8	14.2

Source: CEIC, compiled by SMAM
Up to 3Q 2016

CPI

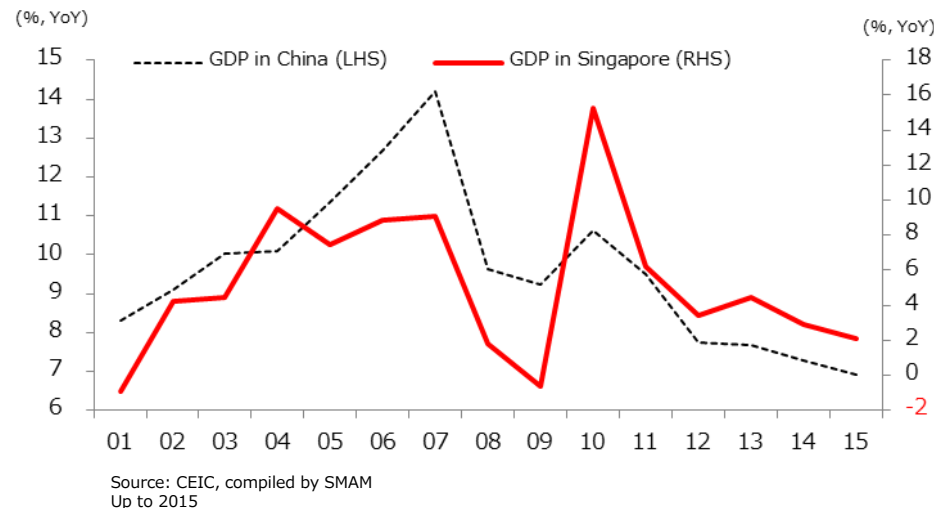


Source: CEIC, compiled by SMAM
Up to November 2016

Singapore

- The Singapore's economy is sensitive to the global economy. However, we take a careful attention to biomedical manufacturing production, which is quite volatile, as upside and downside risk factors.
- Main upside risk is stronger-than-expected rebounds in US and Chinese economies, which lead to favorable environment for exporting. An increase in biomedical production is also the positive factor.
- On the other hand, further economic downturns in China and Malaysia would have negative impacts on exports in Singapore. Movement towards protectionism by US President-elect Donald Trump would result in stagnation of exports.

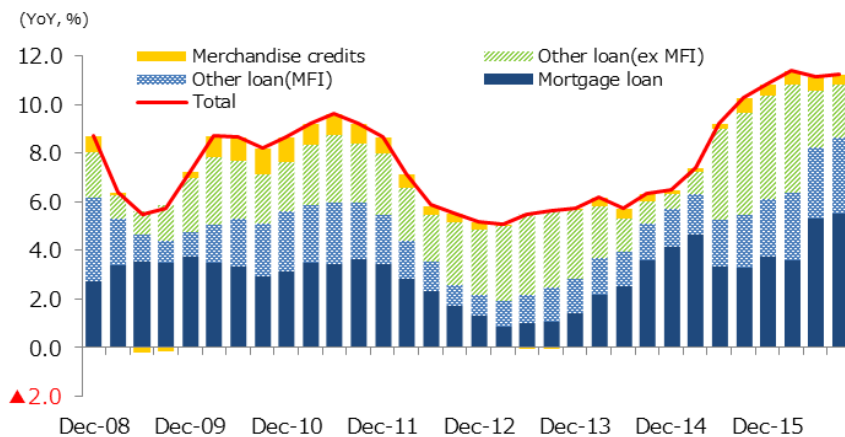
GDP growth in China and Singapore



South Korea

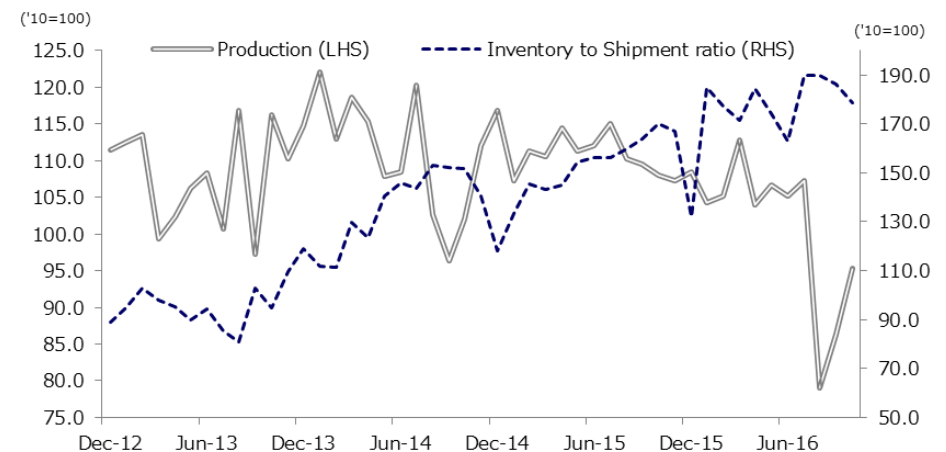
- Under mounting household debt, the propensity to consume dropped significantly. Auto inventory level still remains at high, thus automakers would need adjustment of production.
- We see that the economic momentum would slow toward Oct-Dec affected by total halt of Samsung's Galaxy Note 7 production as well as demonstration against President Park Geun-hye, held on every weekend for over one month.
- An impeachment motion against President Park Geun-hye passed with 234 votes in favor and with 56 votes against by a considerable margin. From this result, the opposition party seems to gain advantage, which would contribute to stabilization in state affairs. After the presidential scandal calms down, the real GDP would show a recovery on the back of an economic upturn in US.

Household Debt



Source: CEIC, compiled by SMAM
Up to November 2016

Inventory to Shipment ratio (Motor Vehicle, SA)

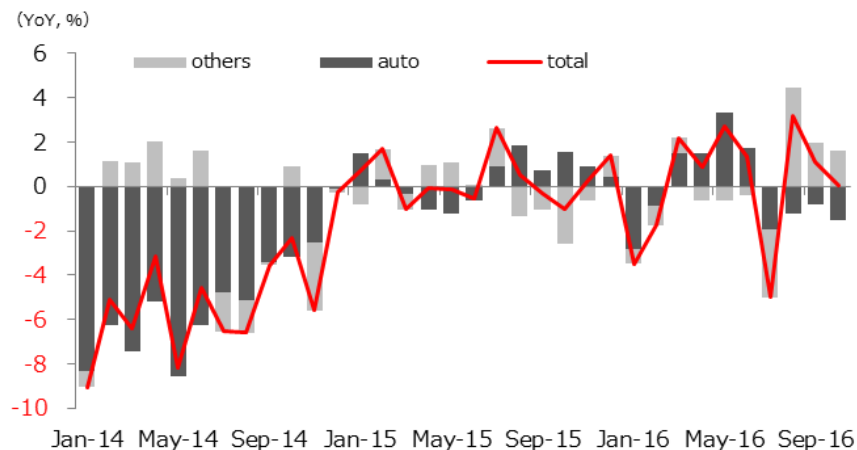


Source: CEIC, compiled by SMAM
Up to October 2016

Thailand

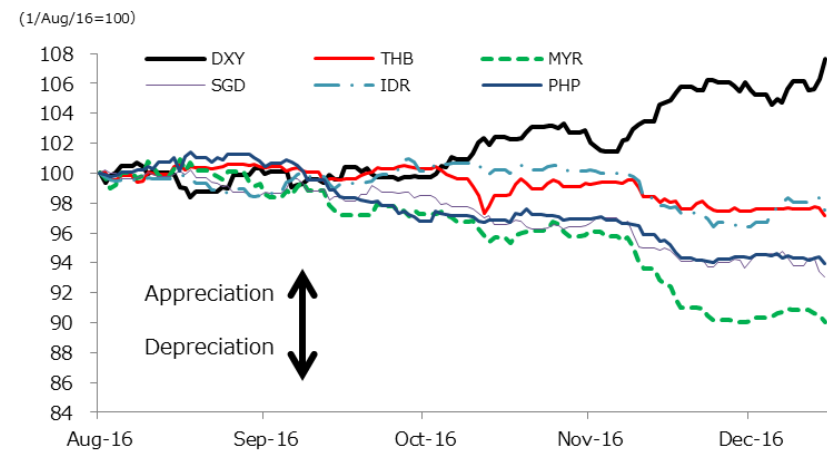
- Thanks to Deputy Premier Somkid Jatusripitak exercising strong leadership, public investment maintains high growth from September and is expected to keep accelerating in the second half of 2016.
- Thai Crown Prince Maha Vajiralongkorn has become the country's new king, succeeding his father King Bhumibol Adulyadej. We expect that a drop in consumer sentiment would stop around after January 21 on the 100 day after the former King has passed away. From these perspectives, we stay with our view that a downward pressure on the Thai economy in 2017 would be limited.

Industrial Production



Source: CEIC, compiled by SMAM
Up to October 2016

ASEAN currencies vs US Dollar Index (DXY)



Source: CEIC, compiled by SMAM
Up to 15 December 2016

Outlook for Asia-Pacific Stock Markets

Stock Market Performance - Global

Indices as of 31 Dec 2016	Px Last	Mtd	Qtd	Ytd	3m	1yr	2yr	3yr
S&P 500 INDEX	2,238.83	1.8%	3.3%	9.5%	3.3%	9.5%	8.7%	21.1%
DOW JONES INDUS. AVG	19,762.60	3.3%	7.9%	13.4%	7.9%	13.4%	10.9%	19.2%
NASDAQ COMPOSITE INDEX	5,383.12	1.1%	1.3%	7.5%	1.3%	7.5%	13.7%	28.9%
STOXX Europe 50 € Pr	3,010.55	6.4%	5.9%	-2.9%	5.9%	-2.9%	0.2%	3.1%
NIKKEI 225	19,114.37	4.4%	16.2%	0.4%	16.2%	0.4%	9.5%	17.3%
TOPIX	1,518.61	3.3%	14.8%	-1.9%	14.8%	-1.9%	7.9%	16.6%
BRAZIL BOVESPA INDEX	60,227.29	-2.7%	3.2%	38.9%	3.2%	38.9%	20.4%	16.9%
RUSSIAN RTS INDEX \$	1,152.33	12.0%	16.3%	52.2%	16.3%	52.2%	45.7%	-20.1%
BSE SENSEX 30 INDEX	26,626.46	-0.1%	-4.4%	1.9%	-4.4%	1.9%	-3.2%	25.8%
HANG SENG INDEX	22,000.56	-3.5%	-5.6%	0.4%	-5.6%	0.4%	-6.8%	-5.6%
HANG SENG CHINA AFF.CRP	3,587.99	-4.5%	-7.1%	-11.5%	-7.1%	-11.5%	-17.5%	-21.2%
HANG SENG CHINA ENT INDX	9,394.87	-4.5%	-2.0%	-2.8%	-2.0%	-2.8%	-21.6%	-13.1%
CSI 300 INDEX	3,310.08	-6.4%	1.7%	-11.3%	1.7%	-11.3%	-6.3%	42.1%
TAIWAN TAIEX INDEX	9,253.50	0.1%	0.9%	11.0%	0.9%	11.0%	-0.6%	7.5%
KOSPI INDEX	2,026.46	2.2%	-0.8%	3.3%	-0.8%	3.3%	5.8%	0.8%
STRAITS TIMES INDEX	2,880.76	-0.8%	0.4%	-0.1%	0.4%	-0.1%	-14.4%	-9.1%
FTSE Bursa Malaysia KLCI	1,641.73	1.4%	-0.7%	-3.0%	-0.7%	-3.0%	-6.8%	-12.1%
STOCK EXCH OF THAI INDEX	1,542.94	2.2%	4.0%	19.8%	4.0%	19.8%	3.0%	18.8%
JAKARTA COMPOSITE INDEX	5,296.71	2.9%	-1.3%	15.3%	-1.3%	15.3%	1.3%	23.9%
PSEi - PHILIPPINE SE IDX	6,840.64	0.9%	-10.3%	-1.6%	-10.3%	-1.6%	-5.4%	16.1%
HO CHI MINH STOCK INDEX	664.87	0.0%	-3.0%	14.8%	-3.0%	14.8%	21.9%	31.8%
S&P/ASX 200 INDEX	5,665.80	4.1%	4.2%	7.0%	4.2%	7.0%	4.7%	5.9%
NZX 50 INDEX	6,881.22	-0.2%	-6.5%	8.8%	-6.5%	8.8%	23.6%	45.3%
MSCI World Free Local	444.07	2.7%	4.4%	6.8%	4.4%	6.8%	6.9%	15.2%
MSCI All Country Asia Ex Japan	645.53	-1.6%	-3.9%	3.5%	-3.9%	3.5%	-4.6%	0.0%
MSCI EM Latin America Local	71,912.54	-1.6%	0.4%	21.3%	0.4%	21.3%	7.7%	3.6%
MSCI Emerging Markets Europe M	488.81	4.7%	3.2%	9.0%	3.2%	9.0%	3.1%	2.9%

Note: All data are as of 31st December 2016

Source: Bloomberg, compiled by SMAM

Investment Outlook: Asia-Pacific Stock Markets

Summary

- ▣ We expect Asian equity markets to go up mildly in line with corporate earnings growth. The macro economy seems to be stabilized but there is less support from valuation side.

Key Points

- ▣ Risk factor including rising US bond yield and weak emerging currencies are materialized due to the surprising result of US election. Although detailed policy of Mr. Trump is still not clear, his accommodative stance of fiscal stimulus can be a trigger of changing the direction of US bond yield upwards, which is negative for emerging currencies.
- ▣ Market volatility is likely to increase based on news flow and a risk appetite for emerging markets should be diminished in the near term.
- ▣ We expect the market will hover sideways with high volatility in the near term due to uncertainty over US policies to be addressed by new President. However, the market will start to go up mildly in line with growth of corporate earnings in the medium term.

Note: As of 28 December 2016

Source: SMAM

Investment Outlook: Asia-Pacific Macro & Stock Markets

	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	- China economy seems to be stabilized - Tightening policy for property continues. - Attractive dividend yield. Room to pick up high quality names. - SZ-HK Stock connect has not been a big driver	Stable. More focus on Economy side.	xThe pace of recovery is slower than expected. xTightening policy for property continues.	Potential pressure for HIBOR if financial Mkt become shaky by some external events. / Deflationary pressure by rising USD and weakening RMB.	CA surplus will expand towards 2017.	Stable / Relatively strong against other Asian currencies	oER has turned positive and momentum is bottomed. Very slow earnings recovery in 2017.	Fair on PER, attractive on PBR
China	- Tough challenge towards New Normal. - Economic stability as basic tone in 2017. - China economy seems to be stabilized by strong policy support. Sign of relief on positive PPI and increasing private investments. - Property Mkt, NPL and capital outflows are potential concerns.	Stable, but becomes less clear towards 19th Party Congress.	Stabilized by strong policy support. Gradual slowdown is expected. Structural rebalancing is a key challenge.	xmonetary policy should be less dovish in 2017. / Int. rate will stay sideways / PPI has turned positive.	Surplus- but it is declining The degree of capital outflow remains a big concern.	Gradual depreciation will continue, but it is well managed. The degree of RMB devaluation is a big issue across Asia.	oBoth ER and momentum are improving. Positive PPI is supportive for corporate earnings.	oattractive in the long term, but it has come back to above average since 2010 Valuation discount is narrowed.
Taiwan	- Export orders are bottomed out, but the pace of economic recovery should be slow. Some negative impact by Brexit. - Inventory correction on IT is progressed. - Stable Mkt. Relatively safe when Mkt become volatile.	Cross strait risk is increasing under DPP president.	The pace of economic recovery is slow, but it has started improving.	First rate cut for last 6 years. oFurther rate cut is expected. / Inflation will be stable. / Liquidity is improving.	Surplus will expand due to weak domestic consumption	Stable / Likely to be appreciated if Mkt turns Risk-on mode.	oER is improving and momentum is solid.	oRelatively attractive among in Asia / Fair on PER, attractive on PBR
Korea	- Structural re-rating will not happen soon. - Relatively immune from rising US bond yields. Weak KRW will support export. - We have revised up our economic outlook for 2017. - Political uncertainty is increasing.	Less stable by President Park's scandal.	Economic momentum to gain in 1Q/17 thanks to a faster execution of fiscal expenditure. ↑	oEasing bias continues / Inflation will be stable / Liquidity is improving.	Surplus will remain high	Downward bias in the near term. BOK prefers gradual depreciation of KRW.	oER came back to positive and momentum is solid.	PE has already come back to above historical average. Attractive on PBR.
Singapore	- Stable Mkt. Relatively safe when Mkt become volatile. - We expect economic growth will pick up gradually supported by US economy. - Attractive valuation.	The landslide victory of PAP should create political stability.	GDP growth is expected to recover gradually thanks to US economy. ↑	Int. rate will be stable. / Inflation will remain low. / MAS shifted to a zero rate of appreciation of the S\$NEER policy band.	High level of Trade & CA Surplus will continue.	Depreciation bias by US treasury yield hike.	xER and momentum remain very weak.	Fair on PER, attractive on PBR
Malaysia	- Mounting uncertainty in both Politics and economy. - Investor's sentiment is improving due to recovery of crude oil price. - MYR depreciation is key concern.	xIMDB continues to be a risk factor. Political turmoil is still there.	GDP growth is expected to bottom out in 2017 by off-budget disbursement. ↑	Rate cut is expected in 1Q17 given MYR stabilization. / Inflation will mildly pick up. / M2 growth rate is bottomed out.	CA Surplus will continue.	xDepreciation pressure by US treasury yield hike.	xER and momentum remain very weak.	Fair(expensive on PER, but fair on PBR)
Thailand	- Economy is expected to bottom out. - MKT is stable even under uncertainty of consumption by the king's death.	Military gov should continue at least until 2017. The king passed away.	Economy is expected to bottom out supported by fiscal stimulus. Downside risk due to worsening consumer sentiment.	Rate cut is expected in 1Q17 to support economy. / Inflation will be stable. M2 growth rate should remain low.	Surplus will continue.	THB continues to have downward pressure as US bond yield increases.	xER is weakening again ↓	Rich on PER, fair on PBR,
Indonesia	- Solid economic growth supported by public investment. - IDR continues to have pressure by rising US bond yield. - Investor's sentiment is improving supported by tax amnesty law.	Stable under ruling parties with majority. New FM, Sri Mulyani will support macro recovery.	oEconomy is expected to recover supported by lower gasoline price and public investment.	Rate cut is expected in 1Q17 given IDR stabilization / Lower inflation due to lower gasoline price.	CA deficit will continue to increase but Tax amnesty law could help finance of C/A deficit.	IDR continues to have downward pressure as US bond yield increases.	xER and momentum remain weak.	Fair (Expensive on PER, but fair on PBR)
Philippines	- Still the bright spot. / Sustainability is the key. - Foreign investors are concerned about Duterte's political stance.	President Duterte has become a wild card.	oSteady growth. Less impact by global economy.	xPossible rate hike in 2017 / Int. rate will be stable. / some pressure for inflation.	Trade deficit will shrink. Current a/c surplus will expand.	PHP continues to have downward pressure as US bond yield increases.	ER is weakening again but momentum is still solid.	Expensive on PER, fair on PBR
India	- Solid macro economy. Inflation is stabilized. - Consensus OW Mkt. Negative impact can be expected when EM money outflow continues. - Relatively immune from the situation of global economy.	Potential of economic reform continues BJP is gaining momentum.	oHigh Growth rate will continue driven by domestic consumption.	oWait and see stance for further rate cut / Inflationary pressure peaked out.	xTrade / CA deficit will gradually increase.	INR continues to have downward pressure as US bond yield increases.	xER is weakening again, but momentum is improving.	Fair (Expensive on PER, but fair on PBR)
Australia	Expect mild up-trend market, backed by improving domestic consumption and corporate earnings.	Stable	Mild recovery	Current interest rate will be maintained / Benign Inflation	Deficit, but it is improving	sideway	ER is weak but it is improving.	Expensive on PER, fair on PBR
Vietnam	Steady upside can be expected supported by solid economic growth.	Step Down of PM Dung is negative for reform	solid recovery	Current interest rate will be maintained / mild pick up of Inflation	Trade / CA surplus will be maintained.	side way	Improving	Within FV range.

Market Focus (i): Korea – Underweight continued

【Summary】

Despite looming uncertainty over the political factor including President Park Geun-hye's impeachment, we eased a cautious stance on judgment that Korea would increase a comparative advantage at a phase that Asian currencies remain under pressure.

- ❑ The Korean stock market is correlated with the global economy. **Positive effects from a soft landing of the Chinese economy and US economic recovery are big.**
- ❑ Current account surplus are expanding and economic fundamentals are relatively firm. Thus, fear over foreign capital outflow due to risk-off mood is relatively limited. In such a volatile situation for emerging markets, the Korean market is regarded as relatively attractive. However, increasing housing debts is negative factor. Stronger regulation for mortgage loan would prevent a rebound of domestic demands.
- ❑ Corporate earnings momentum was recovering faster than other markets, but **the revision recently turned to a declining trend. Looking back 2016, Korea would be only one market which seems to achieve a profit increase among North Asian markets. The Korean companies are foreseen to record double-digit earnings growth rate for the next year, quite challenging though.**
- ❑ Attractiveness of stock valuations has already removed and seems to be at the historically overvalued level.

Market Focus (ii): Malaysia – Underweight continued

【Summary】

We maintain a cautious stance on the Malaysian markets under our view that uncertainties in terms of both political and economic factors continue. The economic recovery is weak.

- ▣ Effects of GST, which introduced in April 2016, have gradually emerged. In the short term, we see the economic growth in Malaysia to remain at a low level.
- ▣ The 1MDB investigation seems to finish in the country once. However, the global investigative authorities push for harsh punishment for a Swiss private bank against money laundering and this issue may come up again.
- ▣ The macro economy is relatively stable but a recovery of corporate earnings remains weak.
- ▣ Unsolved problems in political and economic sectors are piling up. The stock market dropped more significantly than other markets caused by falling Malaysia Ringgit (MYR). Yet, we think that the current valuation level almost priced in these negative factors.
- ▣ **Along with rising US treasury yields, MYR depreciation issue has been paid attention again.** China's sluggish economy and currency devaluation are still concerns. Oil prices are recovering.

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