



Asian Macro & Market Outlook

SMAM monthly comments & views

November 2015



Sumitomo Mitsui Asset Management

Executive summary

◆ Asian Economy

The economic growth rate in China is falling with investment slump. The property sales have improved since April, however the property development investment is likely to slow down further for the time being as shown by the data such as Housing Start remaining in negative growth on yoy basis. Although the economy may stabilize temporarily in Oct-Dec quarter, demands for domestic investment will be weak again in early 2016 by waning property investment.

The central banks in Asia maintain monetary easing amid economic slowdown as China's downturn and each country's political or economic issues have hit Asian economies. A delay of U.S. rate hike brought recoveries in Asian financial markets, but the effect have already been discounted and would have less impact on economic momentum. As a deceleration in Chinese economy would cause sagging trade volumes in the Asian region, we expect most of Asian economies continue to move downward from the second half of 2015 to 2016.

◆ Asian Stock Markets

We expect mild upside for the market given gradual recovery of the global macro economy, accommodative monetary policy and relatively low valuation.

- ✓ Macro economies in most of Asian countries remain weak and likely to show gradual recovery towards next year. Especially the outlook for Chinese economy remains quite unclear. Risks for cash outflow and weaker currency continue.
- ✓ Timing of the recovery of corporate earnings is delayed.
- ✓ Concerns for tighter liquidity conditions across Asia due to US rate hike continue.
- ✓ These are key concerns for Asian markets and these will create volatility in the near term.
- ✓ However accommodative monetary policy and relatively low valuation will support the market. Market will go up in line with slow recovery of corporate earnings.

Outlook for Asian Economy

SMAM Economic Outlook Summary

- We have raised Korea's real GDP growth forecast for 2015 to +2.3%.
- We have raised Indonesia's real GDP growth forecast to +4.4% for 2016.
- In contrast, we have revised downward Singapore's real GDP growth projections to 1.8% for 2015 and to 1.5% for 2016.

Real GDP Growth Forecasts (%YoY)

Country	2013 (A)**	2014 (A)	2015 (F)**			2016 (F)		
			SMAM	Previous Sep 16th	Consensus	SMAM	Previous Sep 16th	Consensus
Australia	2.1	2.7	2.2	2.2	2.5	2.4	2.4	2.6
China	7.7	7.4	7.0	7.0	6.8	6.5	6.5	6.6
Hong Kong	2.9	2.3	2.3	2.3	2.3	2.0	2.0	2.2
India*	5.1	7.3	7.6	7.6	7.5	7.9	7.9	7.8
Indonesia	5.8	5.0	4.6	4.6	4.7	4.4	4.3	5.0
Malaysia	4.7	6.0	4.8	4.8	4.8	4.0	4.0	4.6
Philippines	7.2	6.1	5.6	5.6	5.7	5.9	5.9	5.9
Singapore	3.9	2.9	1.8	2.0	2.0	1.5	1.6	2.4
S. Korea	3.0	3.3	2.3	2.2	2.5	2.0	2.0	2.9
Taiwan	2.2	3.7	1.2	1.2	1.4	1.0	1.0	2.4
Thailand	2.9	0.9	2.6	2.6	2.6	2.4	2.4	3.3

(Source) SMAM

Consensus Forecasts (Consensus Economics Inc.) as of 16 September 2015 & SMAM Forecasts as of 16 October 2015

* India is for fiscal year starting April.

**F: Forecast, A: Actual

Outlook for Economy in China

SMAM Economic Outlook for China

China's Yearly GDP Growth & Relevant Indicators

	2013	2014	2015E (previous)		2016E (previous)	
Real GDP, %YoY	7.7	7.3	7.0	7.0	6.5	6.5
Consumption Expenditure, %YoY	7.4	7.5	7.9	7.7	7.2	7.3
Gross Fixed Capital Investment, %YoY	8.9	7.1	6.6	6.3	6.4	6.5
Net Exports, contrib.	-0.2	0.1	-0.2	0.1	-0.2	-0.2
Nominal GDP, %YoY	9.5	8.2	7.0	7.0	7.5	7.5
GDP Deflator, %YoY	1.7	0.8	0.0	0.0	1.0	1.0
Ind. Production, %YoY	9.7	8.3	6.4	6.4	6.1	6.1
CPI, %YoY	2.6	2.0	1.6	1.6	2.5	2.5
Base Loan Rate, %	6.00	5.60	4.60	4.60	4.60	4.60

Notes: SMAM estimates as of 16 October 2015. For Net Exports, % point contribution to GDP growth
Source: National Bureau of Statistics of China, CEIC, SMAM

China's Quarterly GDP Growth and Components

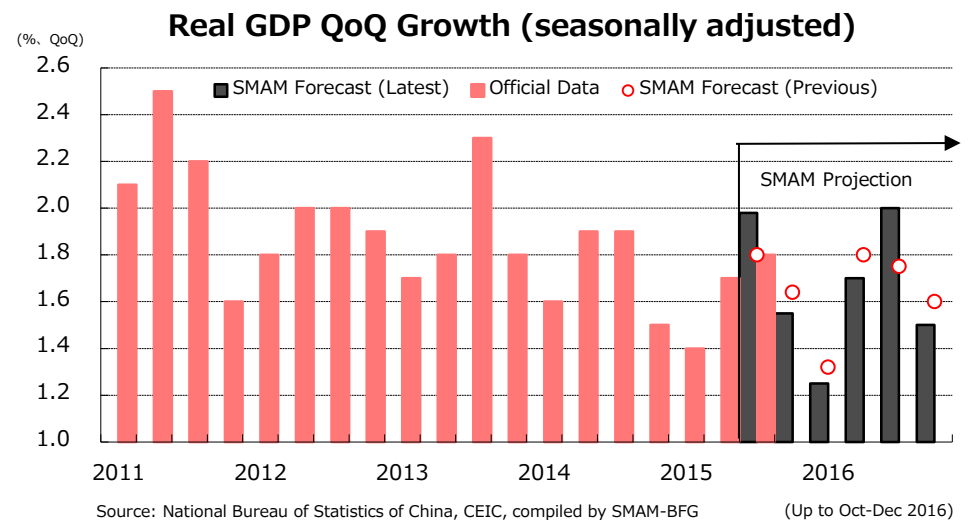
	2014		2015E				2016E			
	3Q	4Q	1Q	2Q	3Q	4QE	1QE	2QE	3QE	4QE
Real GDP, %YoY	7.2	7.2	7.0	7.0	6.9	7.0	6.4	6.5	6.7	6.6
previous	-	-	-	7.0	7.0	7.0	6.5	6.5	6.7	6.6
SMAM-BFG's Forecast for Real GDP, %YoY	6.6	6.9	6.3	6.3	5.9	5.9	5.5	5.4	5.6	5.6
previous	6.6	6.9	6.3	6.3	6.0	5.9	5.5	5.4	5.6	5.6
Consumption Expenditure, %YoY	6.0	8.8	6.9	9.1	8.4	7.8	7.2	6.8	6.5	8.3
previous	-	-	-	9.1	7.4	7.8	7.2	7.0	6.5	8.3
cont. to GDP, %	2.7	4.3	4.5	3.9	3.7	3.8	4.7	3.0	2.9	4.1
previous	-	-	-	3.9	3.3	3.8	4.7	3.1	2.9	4.1
Gross Fixed Capital Investment, %YoY	3.7	9.5	3.5	6.6	8.0	7.1	5.9	6.6	7.1	6.0
previous	-	-	-	6.6	6.6	7.1	5.9	6.7	7.1	6.0
cont. to GDP, %	1.9	4.5	1.2	3.6	4.0	3.5	2.0	3.6	3.6	2.9
previous	-	-	-	3.7	3.3	3.5	2.0	3.7	3.6	2.9
Net Exports	12.3	7.9	5.7	-1.1	-4.5	-1.0	-2.0	0.0	3.0	2.0
cont. to GDP, %	2.6	-1.6	1.3	-0.6	-0.9	-0.3	-0.2	-0.1	0.2	-0.5
previous	-	-	-	-0.6	0.1	-0.3	-0.2	-0.1	0.2	-0.5
CPI, %	2.0	1.5	1.2	1.4	1.7	2.3	2.5	2.7	2.5	2.2
previous	-	-	-	1.4	1.8	2.3	2.5	2.7	2.5	2.2
Base Loan Rate										
1yr, period end	6.00	5.60	5.35	4.85	4.60	4.60	4.60	4.60	4.60	4.60
previous	-	-	-	4.85	4.60	4.60	4.60	4.60	4.60	4.60

Notes: SMAM estimates as of 16 October 2015. Consumption Expenditure and Gross Fixed Capital Investment are SMAM estimates
SMAM-BFG's Forecast for Real GDP, %YoY is calculated according to Industrial Production and Retail Sales by SMAM-BFG
Source: National Bureau of Statistics of China, CEIC, SMAM

SMAM Economic Outlook for China

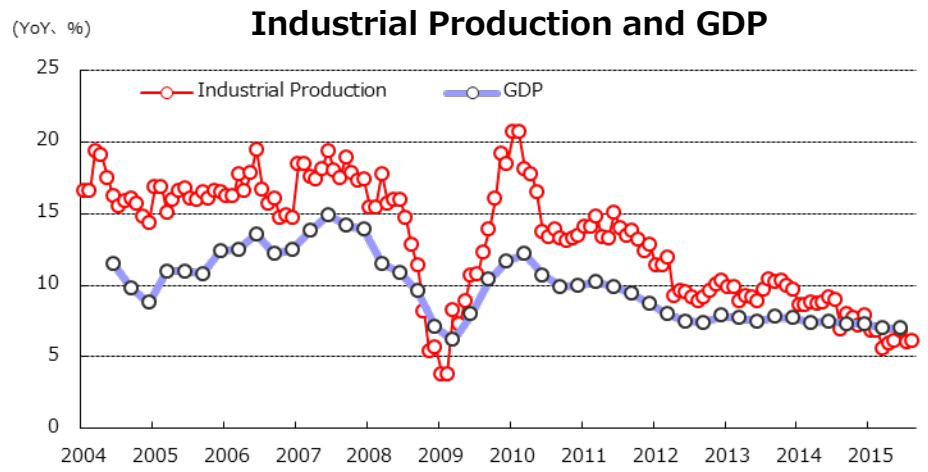
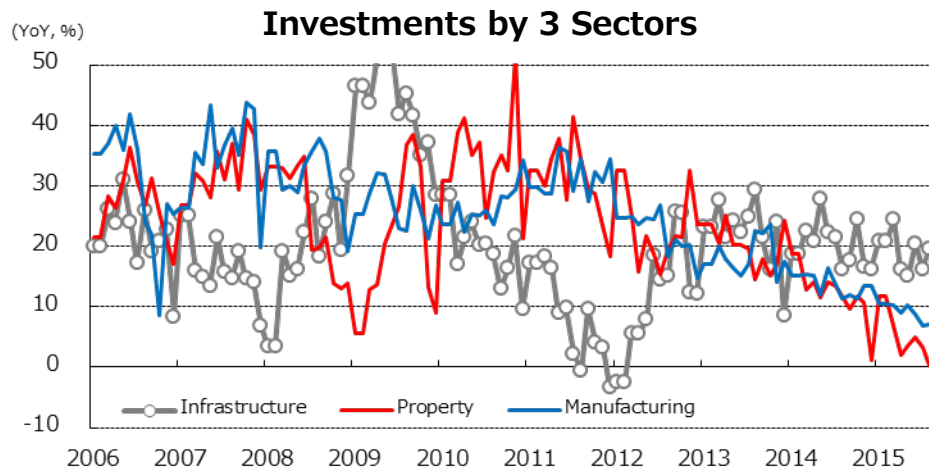
- 3Q2015 real GDP was released at +6.9% yoy decreasing by 0.1% from the previous quarter, but better than consensus of +6.8% yoy. The gross fixed capital investment increasing 8.0% yoy contributed to the GDP growth whereas the consumption expenditure was weak, slowing to +8.4% yoy from +9.1% yoy from 2Q2015 as well as decelerating net exports.
- Nevertheless, it is hard for us to verify the accuracy. An increase of 1.4% points in gross fixed capital investment between 2Q2015 and 3Q2015 does not seem to be explainable.
- The GDP growth rate is highly likely to stagnate further at least until mid-2016, although it may experience a temporary stabilization supported by strengthened economic stimulus measures.

Note: Economy outlook is as of 16 October 2015



China: Activity growth

- ▣ Disappointing Fixed Asset Investment (FAI) data in August came in at +9.2% yoy, which was below market consensus of +10.4% yoy. August FAI continued to decline from the previous month due to deteriorating investments by property (+0.3% yoy) and manufacturing industries (+7.2% yoy) despite growing investments by infrastructure (+19.7% yoy).
- ▣ September Industrial Production (IP) slowed again to 5.7% yoy from 6.1% yoy in August. Especially, IP for materials subsequently remains at low level.
- ▣ In our view, 3Q2015 business sentiment would show a downward trend. We expect the next quarter's sentiment would stabilize for a while thanks to economic measures, however, have to be careful about the downside risks.



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

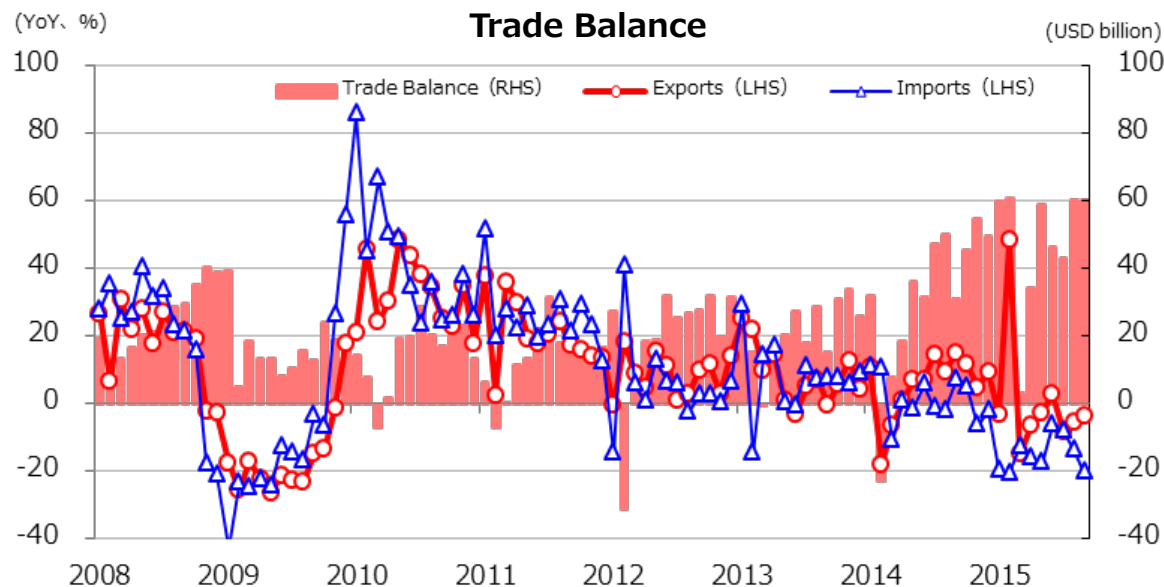
Up to August 2015

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

Up to August 2015

China: Weak net exports in Jul-Sep weighed on GDP growth

- Higher-than-expected September Exports came in at -3.7% yoy, marginally improving from -5.5% yoy in August. We forecast the export growth not to rebound steadily due to emerging countries' corrections. In the short term, it would be stabilized as the leading indicators for exports to Taiwan and Korea show recovery from a decline in July-August.
- In contrast, Imports fell to -20.4% yoy in September from -13.8% yoy in August, lower than consensus of -16.0% yoy. Shortage of domestic demands, material price fall and weaker CNY caused the negative growth in imports.



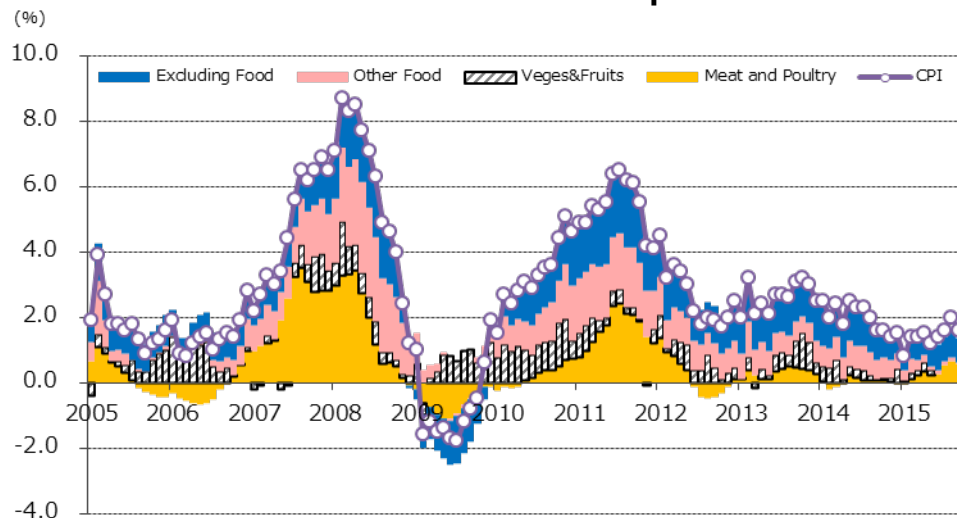
Source: The General Administration of Customs, CEIC, SMAM-BFG

Up to September 2015

China: Slower-than-expected September CPI inflation

- ▣ Headline CPI inflation moderated to +1.6% yoy in September from +2.0% yoy in August, which is lower than market forecast of +1.8% yoy, due mainly to food price. However, we expect moderate inflation of +2.3%, +2.5% and +2.7% yoy from 4Q2015 to 2Q2016, as the pork price upswing until Jan-Mar 2016 will correct supply-demand imbalances.
- ▣ September core-inflation (excluding food & energy) slightly declined to +1.6% yoy, but was still in stabilized movement as service CPI at around +2.1% yoy.
- ▣ PPI for September remained weak at -5.9% reflecting falling global commodity prices. Drop in weekly material price index weighted on the PPI on the back of slowing demands for production and construction.

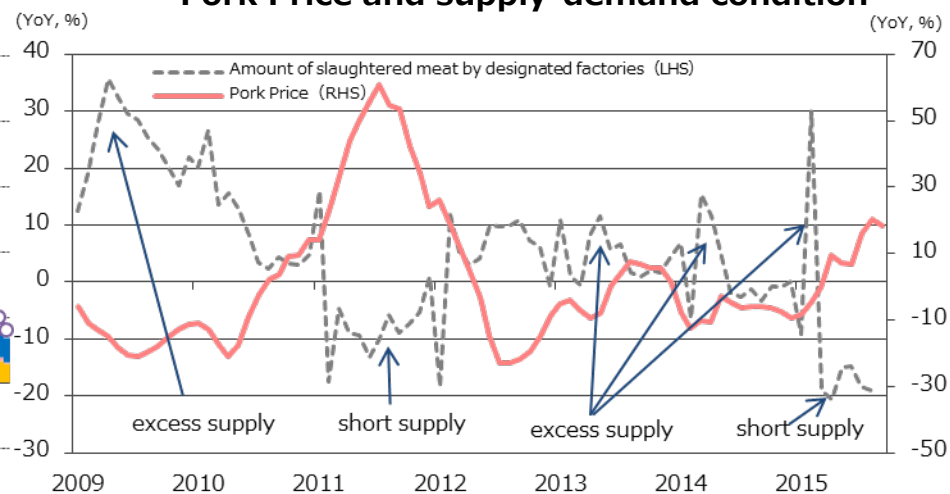
CPI Inflation and Components



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

Up to September 2015

Pork Price and supply-demand condition



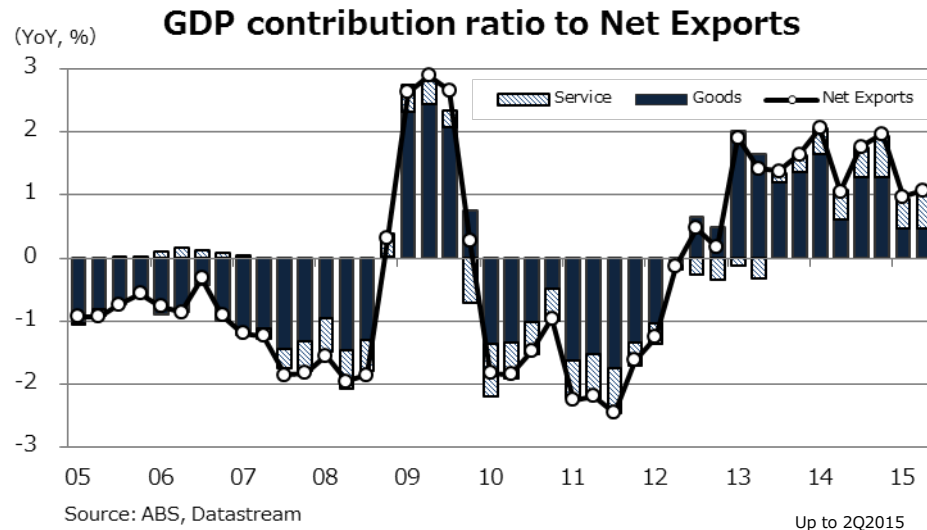
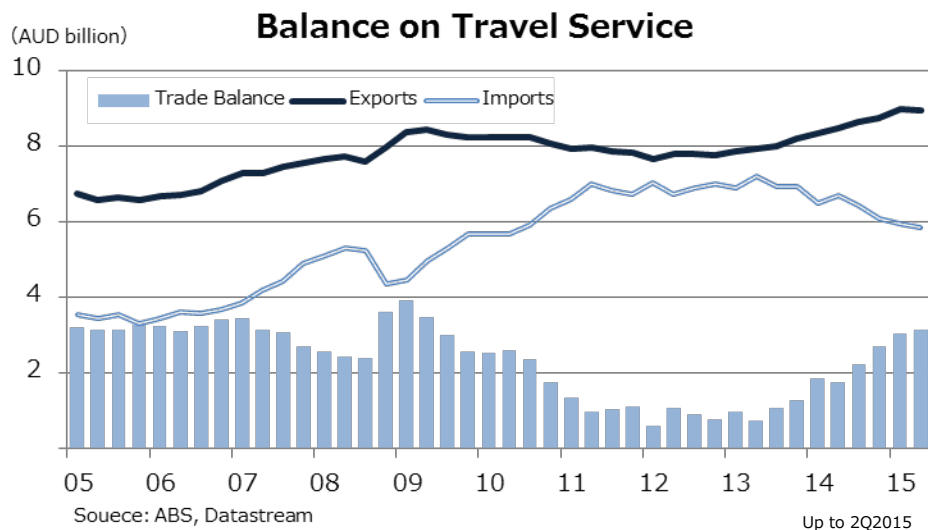
Source: Ministry of Commerce of China and Ministry of Agriculture of China, CEIC, SMAM

Up to September 2015

Outlook for Economies in Asia

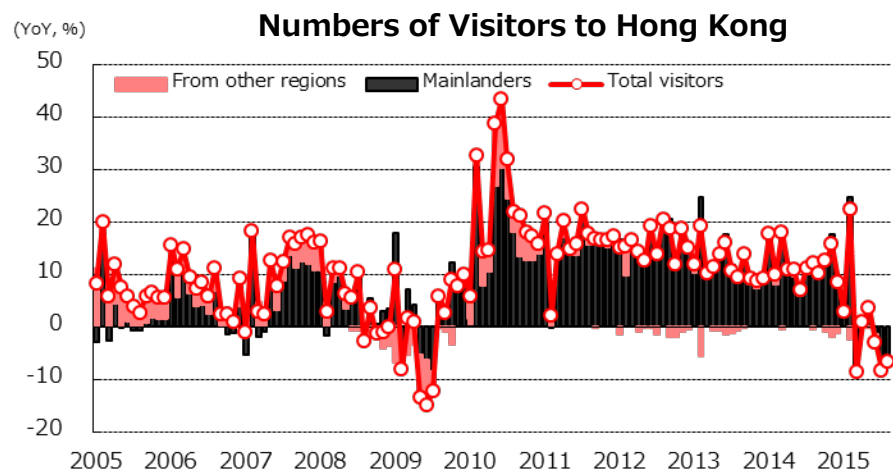
Australia

- We expect a gradual recovery in GDP growth until mid-2016 at just under cruising speed after correction. Later in 2016, the economic growth would slightly accelerate after adjusting for capital expenditure (capex) and bottoming out of Chinese economy.
- The depreciation of AUD contributes to the economy. Travel balance, which is composed in service balance, has risen since 2013 on growing number of foreign tourists and students. Additionally, the cash inflow from foreign countries is increasing especially for real estate as the Australia's asset price declines on USD basis.
- Consumption is expected to grow moderately with improving employment and income supported by wealth effect and low interest rates. For private investment, the capex would continue a declining trend until 2016 looking at new capital expenditure in plants.
- We stay with our expectation that RBA holds policy rate until end-2016 due to a high probability of underlying inflation moving in the established range.

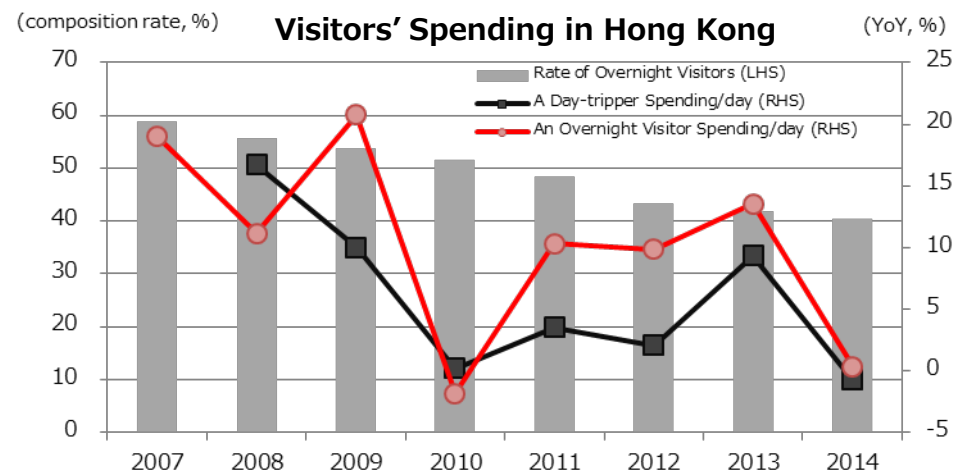


Hong Kong

- We maintain our forecasts for the GDP forecasts in 2015 and 2016 at 2.3% and 2.0% respectively. Service sector seems to be weak for the time being on shrinking global trade volume, declining amount of external lending by the financial sector and a decline of tourists number from mainland.
- Monthly indicators show ever-worsening consumption and tourism. The number of visitors from mainland marked negative growth for 3 consecutive months, for the first time since the financial crisis. During the Anniversary of the Founding of PRC, the hotel rates in HK lost 15-20% yoy and the hotel occupancy rate also dropped to the lower level than that in usual year. The growth rate of tourist numbers from mainland in the first 5 days increased only 4.3% yoy.



August 2015

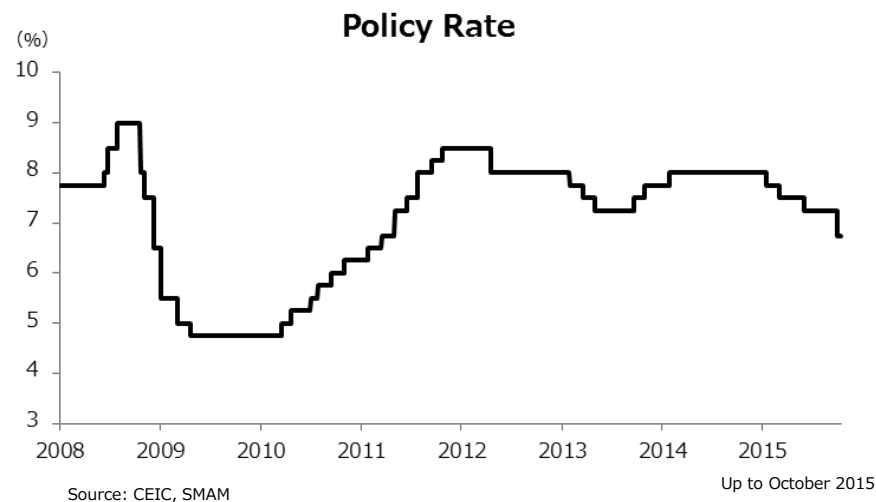
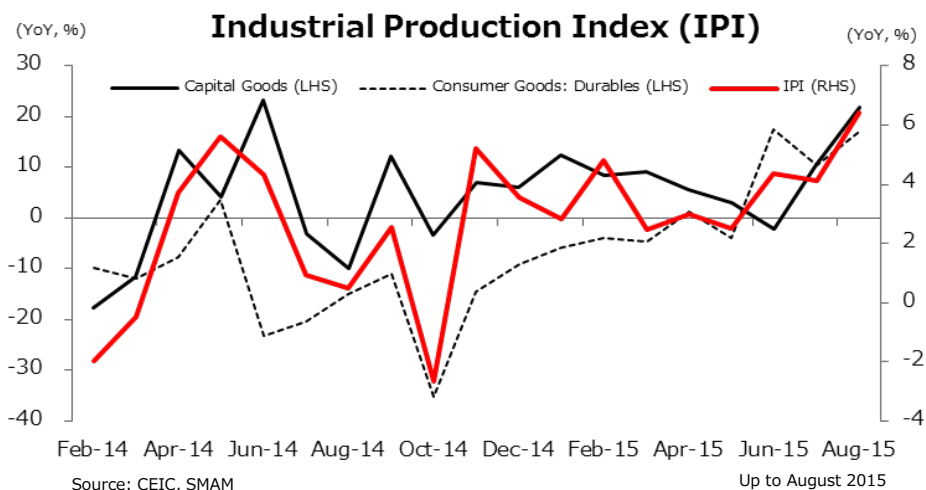


Source: National Bureau of Statistics of China, CEIC SMAM-BFG

Up to May 2015

India

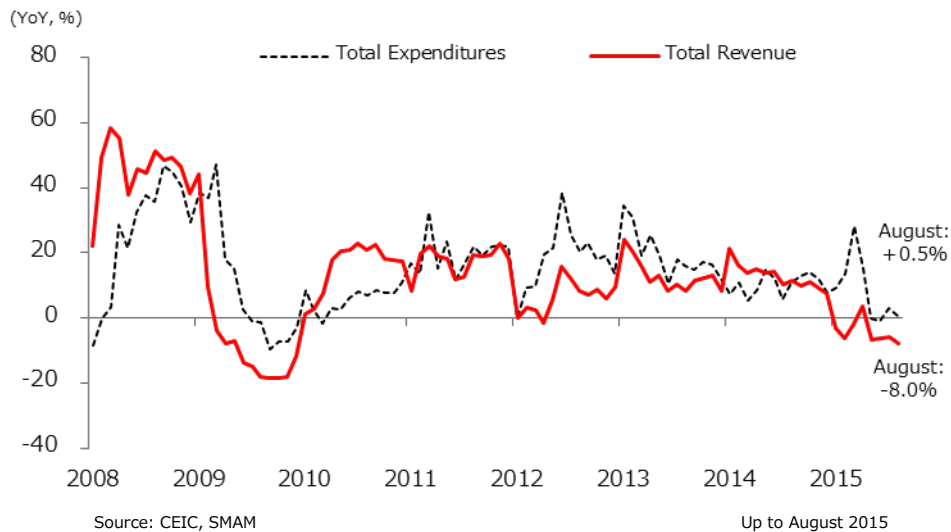
- India, which is less vulnerable to global economic cycle, starts on a positive trend toward economic recovery led by domestic demands on the back of low inflation environment. Toward 2016-2017, we expect the GDP growth to accelerate.
- Both IP and capital goods production in August showed strong growths. IP came in at +6.4% yoy rising from the previous month of +4.1% yoy, and capital goods production doubled to +21.8% yoy from +10.6% yoy. The uptrend of capital goods suggests a recovery of investment.
- September trade balance showed narrower trade deficit on a steep decline of imports at -25.4% yoy. Gold imports, in particular, deteriorating to -45.6% yoy from 140% yoy in August, extended the sluggish growth in imports.
- The Reserve Bank of India (RBI) cut its policy interest rate by 50bp, larger than consensus of 25bp, on 29 September. RBI showing confidence in inflation control showed its content to continue to pursue an accommodative policy.



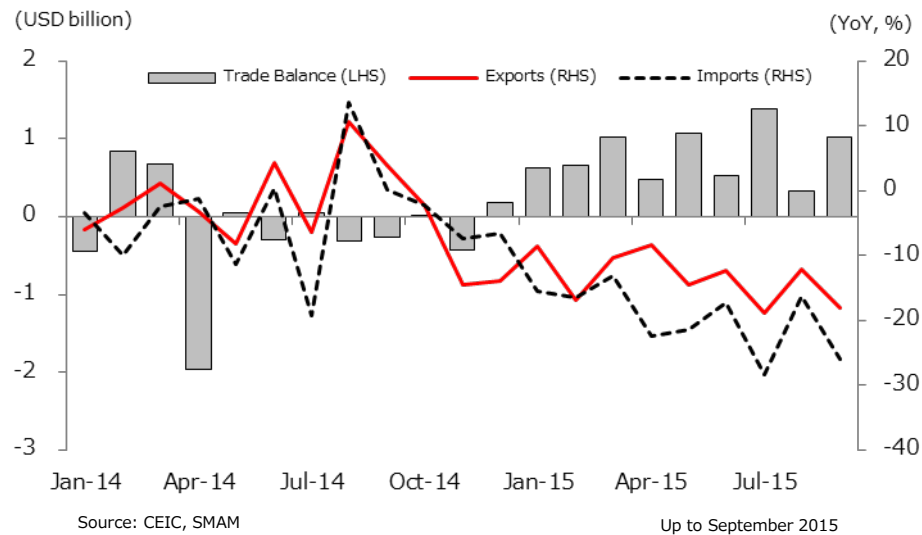
Indonesia

- September Imports dropped -26.0% yoy from -16.2% yoy in August, below the market forecast of -20.0% yoy. The decreasing imports suggest weaker domestic demands. Exports of -18.0% yoy were also weaker than consensus of -15.0% yoy. As a result, trade surplus expanded from USD 0.33 billion to USD 1.02 billion.
- Revenue dropped 8.0% yoy on August ytd basis, affected by several downside pressures such as a slowdown in raw material markets and sluggish domestic demands.
- On 15 October, Bank Indonesia (BI) held the BI rate at 7.50% and the GDP growth forecast range for 2015 between 4.7-5.1% on the back of positive effects by the on-going government's policy packages.
- We keep our view that BI will cut policy rate by 25bp in or before December while IDR is stable against USD. We have raised Indonesia's GDP growth forecast for 2016 to +4.4% yoy, although maintained that for 2015 at +4.6% yoy.

Monthly Public Finance (on ytd basis)



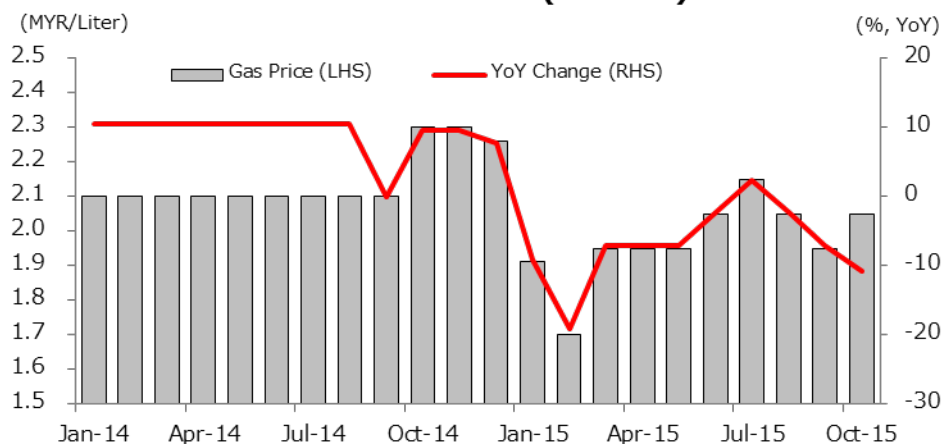
Trade Balance



Malaysia

- Malaysia released its August trade. Exports dropped to -18.6% yoy from -13.4% yoy in July, but imports showed a sharp downturn. In addition to the weakening MYR, the weak imports caused by slowed domestic demands contributed to trade surplus.
- The October RON95 gasoline price decelerated to -10.9% yoy from -7.1% yoy in September, mainly due to base effect from a year earlier, although the government raised the RON95 price/ℓ to MYR2.05 (+MYR0.1) in October.
- The proposed budget was released by PM Najib on 23 October. The key points are: ①Fiscal deficit for 2016 to GDP ratio is expected to reduce, but marginally, despite Goods and Services Tax (GST) implementation. ②Oil price falls would lead to deteriorating current account as well as a slump in revenue. ③The Malaysian economy forecast for 2016 would be dragged down by lower revenue on a slowdown in raw material markets.

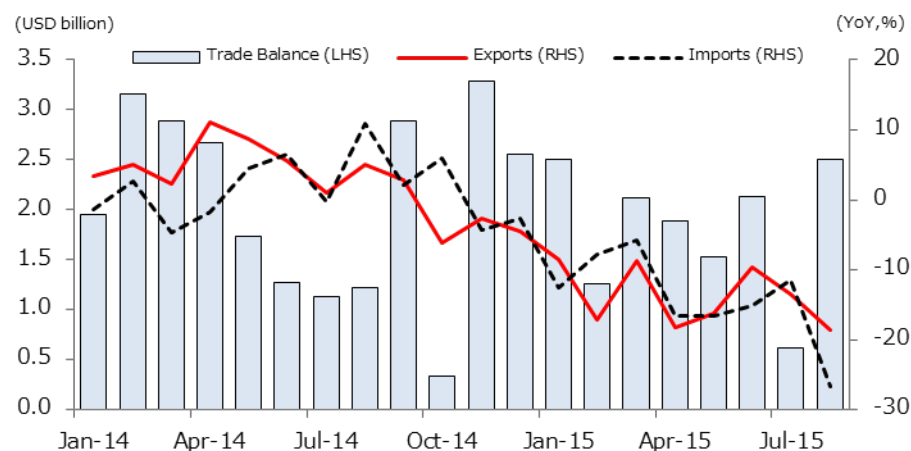
Gasoline Price (RON95)



Source: CEIC, SMAM

Up to October 2015

Trade Balance



Source: CEIC, SMAM

Up to August 2015

Philippines

- 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 and then accelerate in 2016 under expanding middle-income groups and the low-inflation environment, which is a catalyst for stimulating consumer demands. However, August trade deficit swelled as high consumer spending reflected upbeat imports.
- September CPI inflation declined to +0.4% yoy, which is below market expectation of +0.6 yoy, due to slowing electricity and rice prices. One of major factors influencing CPI is electricity tariff cut by the government. However, we hold our view of limited possibility for rate cut until the end of 2016, because Bangko Sentral ng Pilipinas has held a cautious stance on upside risk to inflation in 2016.

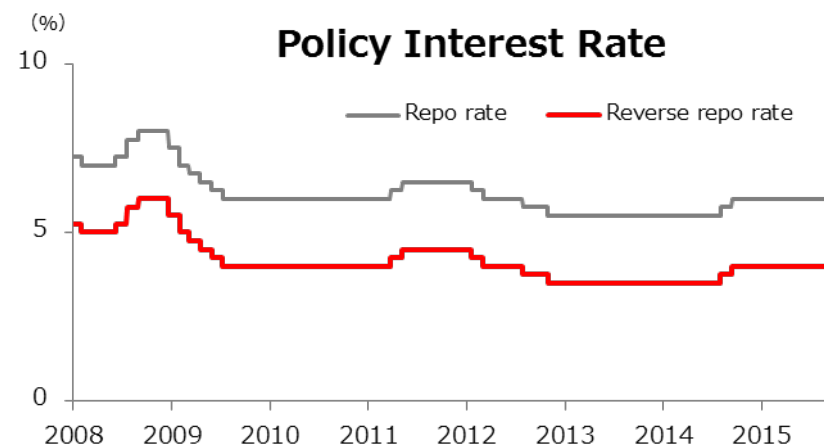
Inflation

		Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15
CPI	yoy	2.2	1.6	1.2	0.8	0.6	0.4
Food	yoy	1.7	1.3	0.9	0.6	0.5	0.3
Rice	yoy	0.5	0.3	0.2	0.0	-0.1	-0.2
Fuels & Lubricants	yoy	-0.2	-0.2	-0.2	-0.2	-0.2	-0.2
Electricity	yoy	-0.1	-0.3	-0.3	-0.3	-0.3	-0.4
Education	yoy	0.2	0.2	0.1	0.1	0.1	0.1
Core CPI	yoy	2.5	2.2	2.0	1.9	1.6	1.4

Source: CEIC, SMAM

Up to September 2015

Policy Interest Rate

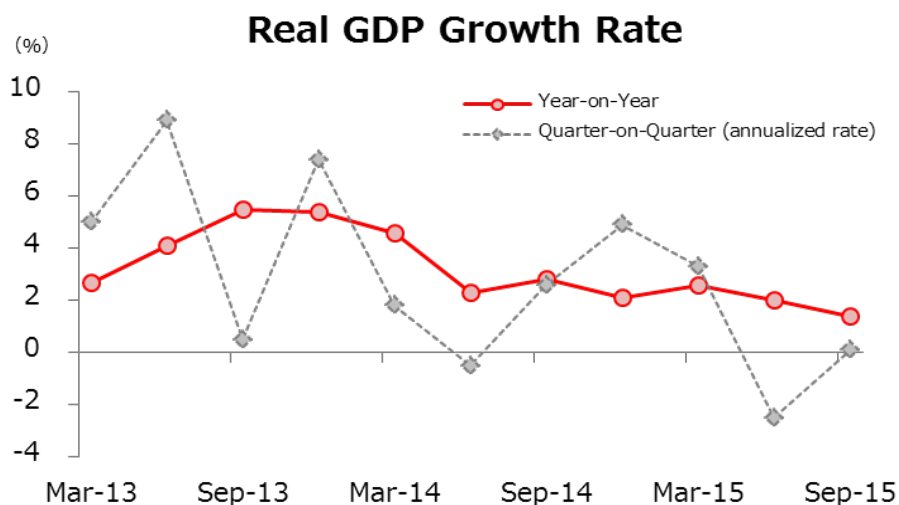


Source: CEIC, SMAM

Up to October 2015

Singapore

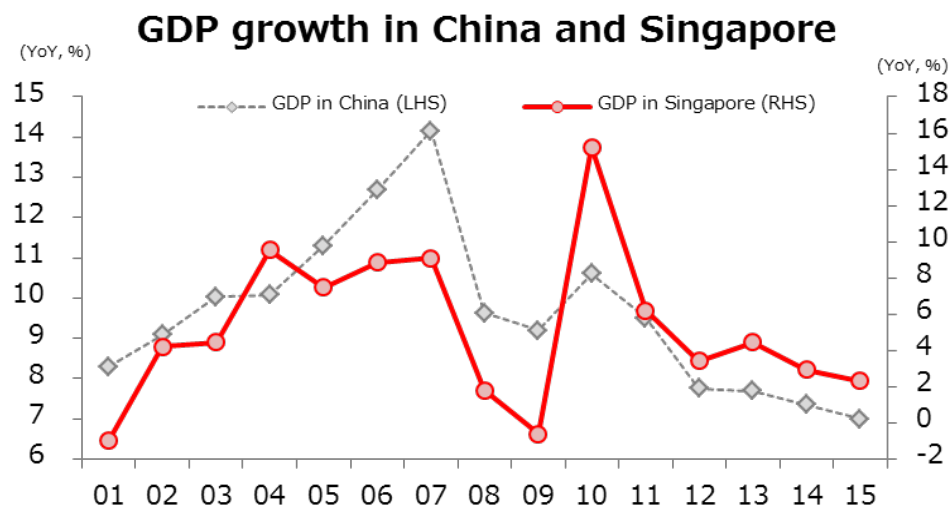
- Advanced real GDP growth came in at +0.1% qoq in 3Q2015 on a seasonally adjusted basis. Yet, the government highlighted downside risk to their GDP growth outlook of +2.0-2.5% for 2015. In these five years, Singapore real GDP growth correlates well with Chinese economic growth. Thus, we maintain the view the Singapore's GDP rate in 2016 would slow down following the China's GDP forecast.
- The Monetary Authority of Singapore (MAS) maintained the "modest and gradual appreciation" policy for SGD, but eased slightly by reducing the slope of the band. On the whole, monetary policy stance is shifting to easing.



Note: Historical data on an annual basis. The latest real GDP is as of 2015 (the first half of 2015).

Source: CEIC, SMAM

Up to September 2015



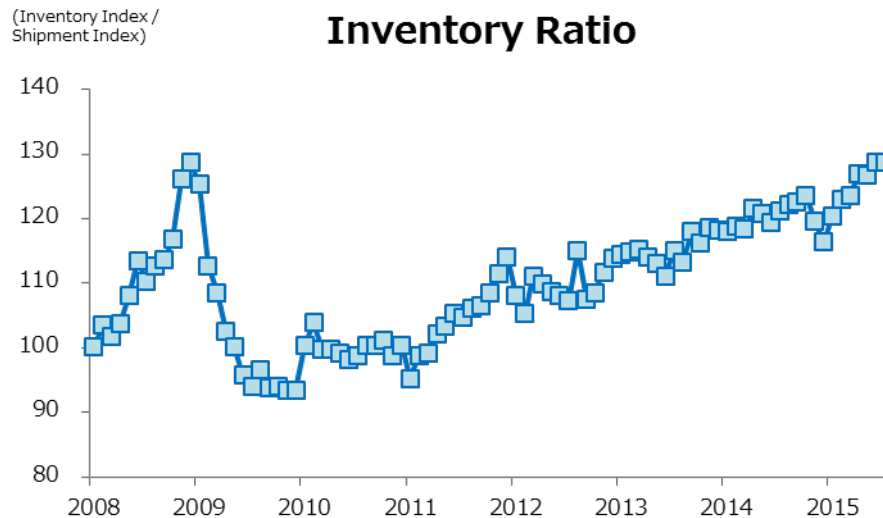
Note: Historical data on an annual basis. The latest real GDP is as of 2015 (the first half of 2015).

Source: CEIC, SMAM

Up to June 2015

South Korea

- We revised Korea's real GDP growth forecast for 2015 upward to +2.3% whereas we still see GDP growth to slow in 2016 because manufactures should cut outputs due to the high inventory ratio.
- Some signs of rebound in service output emerged in July and August showing a recovery from MERS. However, inventory ratio still stood at around 130 in August, near the high level in December 2008 after global financial crisis.
- On a seasonally adjusted mom basis, September IP accelerated to +1.9% yoy from +0.2% yoy in August. Delving into the breakdown, the lift came from semiconductor production, which was the biggest contributor (+1.5 points) resulted from increased production of iPhone.
- Nevertheless, October exports, sinking to -15.8% yoy from -8.4% yoy in September, was below the market expectation of -14.5% yoy. Exports to China, US, EU, Middle East and Viet Nam deteriorated as the export growth of iPhone slowing down rapidly would be one of the main causes of sagging export to China.



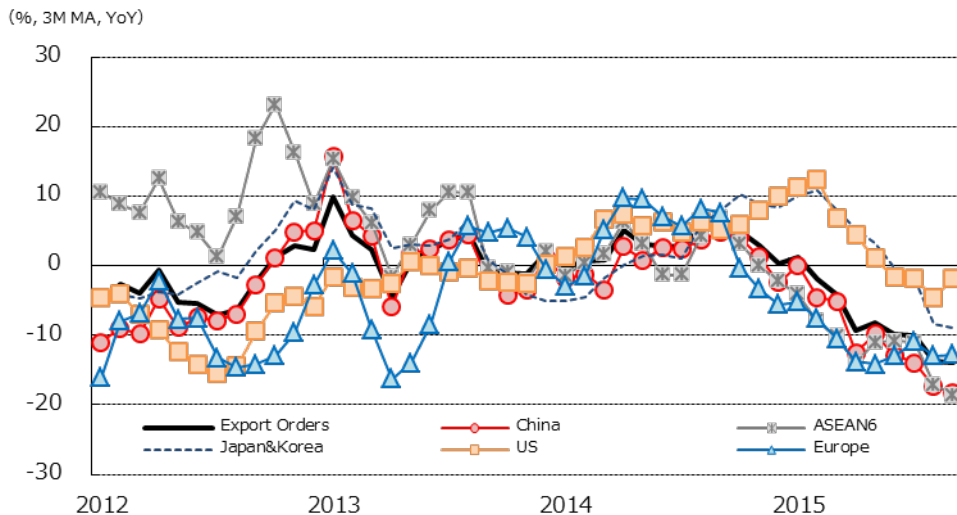
Source: CEIC, SMAM

Up to August 2015

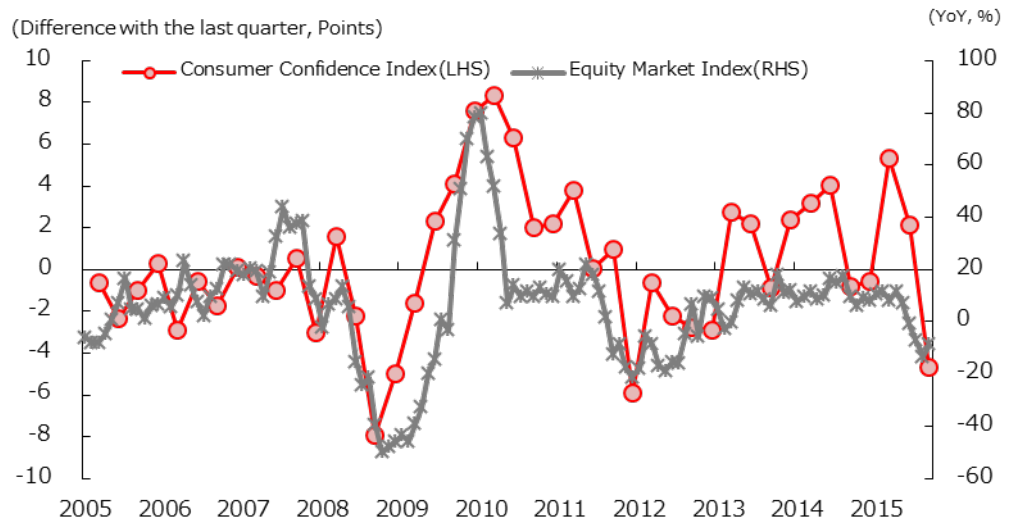
Taiwan

- 3Q2015 real GDP growth contracted to -1.01%, missing consensus markedly. According to the economist estimation, Taiwan economy for 2016 is seen to grow further (+2.4%) comparing to that for 2015 (+1.4%). However, we hold the GDP growth forecast for those two years at +1.2% yoy in 2015 and +1.0% yoy in 2016. In our view, the GDP forecast in 2016 would continue to be weak amid China's sluggish economy and mild-paced recovery in global economy.
- Following the previous month, September exports resulted in a negative growth in USD terms at around -15% yoy. New orders remain on a declining trend with worsening inventory cycle of IP growth.
- Consumer sentiment also dropped remarkably. Domestic consumption expanded a loss dragged down by retail sales index sagging for two consecutive months.

Export Orders by Regions



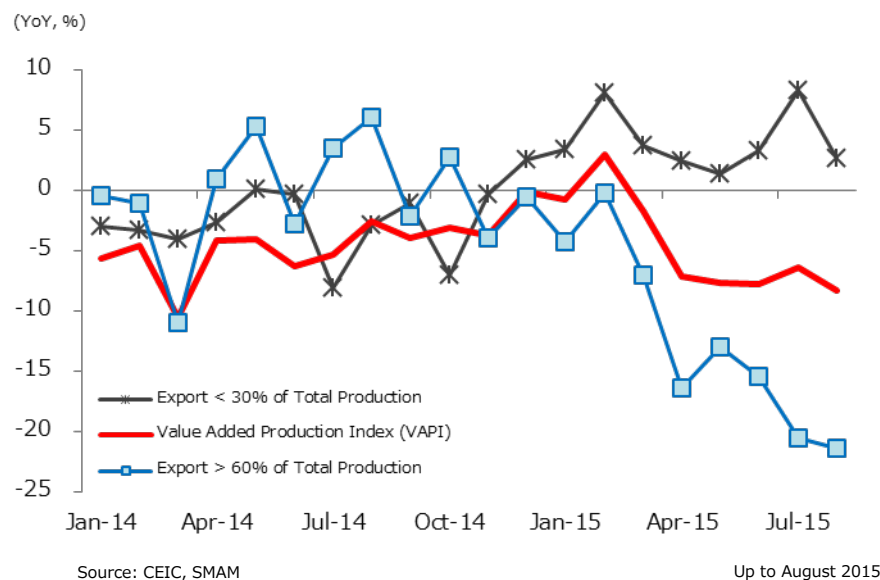
Consumer Confidence Index



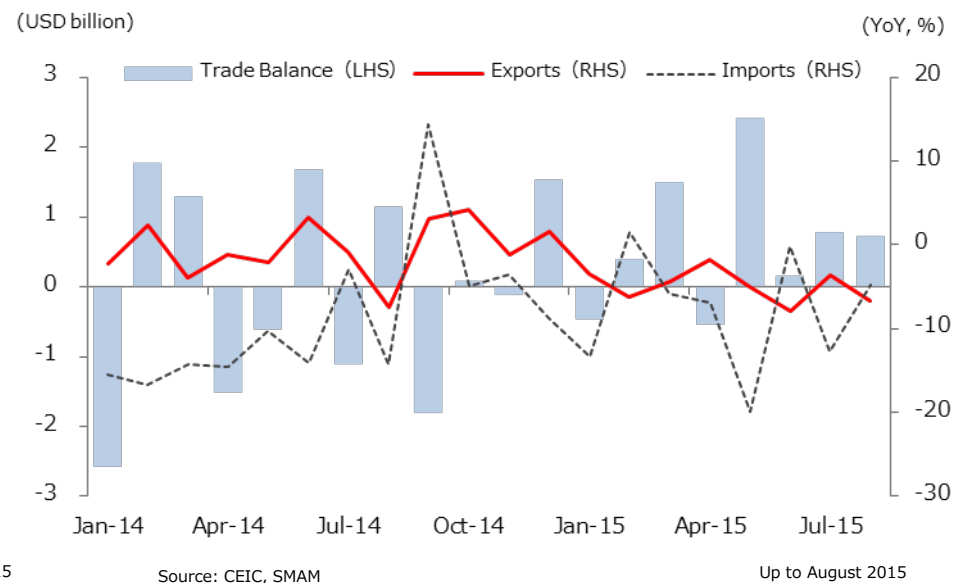
Thailand

- Manufacturing production decelerated to -8.3% yoy in August from the previous month of -6.3% yoy, caused by declining exports. August exports dropped to -6.7% yoy from -3.6% yoy in July.
- October inflation rate was better than market projection (-0.97% yoy), showing a slight rise to -0.77% yoy from -1.07% yoy in September. But again, it recorded negative growth for 10 consecutive months.
- The Monetary Policy Committee unanimously agreed to maintain the policy rate at 1.50% on 4 November. The Bank of Thailand (BoT) pointed out that China's economic slowdown put downward pressure on Asian economy in export sectors although some signs of a rebound in domestic demand have emerged on the back of fiscal policy supports. We estimate the current policy rate to be maintained in 2015 as BoT is trying to judge impacts of the fiscal policy.

Production



Trade Balance



Outlook for Asian Stock Markets

Stock Market Performance - Global

Indices as of 30 Oct 2015	Px Last	Mtd	Qtd	Ytd	3m	1yr	2yr	3yr
S&P 500 INDEX	2,079.36	8.3%	8.3%	1.0%	-1.2%	3.0%	18.4%	47.2%
DOW JONES INDUS. AVG	17,663.54	8.5%	8.5%	-0.9%	-0.1%	1.6%	13.6%	34.9%
NASDAQ COMPOSITE INDEX	5,053.75	9.4%	9.4%	6.7%	-1.5%	9.1%	28.9%	69.7%
STOXX Europe 50 € Pr	3,216.29	8.0%	8.0%	7.1%	-6.3%	7.3%	11.7%	27.4%
NIKKEI 225	19,083.10	9.7%	9.7%	9.4%	-7.3%	16.3%	33.2%	113.7%
TOPIX	1,558.20	10.4%	10.4%	10.7%	-6.1%	16.8%	30.5%	109.9%
BRAZIL BOVESPA INDEX	45,868.82	1.8%	1.8%	-8.3%	-9.8%	-16.0%	-15.5%	-19.6%
RUSSIAN RTS INDEX \$	845.54	7.1%	7.1%	6.9%	-1.5%	-22.5%	-42.9%	-41.0%
BSE SENSEX 30 INDEX	26,656.83	1.9%	1.9%	-3.1%	-5.2%	-4.3%	26.0%	44.0%
HANG SENG INDEX	22,640.04	8.6%	8.6%	-4.1%	-8.1%	-5.7%	-2.4%	4.6%
HANG SENG CHINA AFF.CRP	4,146.37	6.3%	6.3%	-4.7%	-6.2%	-8.5%	-8.9%	-1.3%
HANG SENG CHINA ENT INDX	10,396.58	10.5%	10.5%	-13.3%	-6.6%	-3.3%	-2.2%	-1.8%
CSI 300 INDEX	3,534.08	10.3%	10.3%	0.0%	-7.4%	40.9%	48.9%	56.7%
TAIWAN TAIEX INDEX	8,554.31	4.6%	4.6%	-8.1%	-1.3%	-4.7%	1.2%	19.4%
KOSPI INDEX	2,029.47	3.4%	3.4%	5.9%	0.0%	3.3%	0.0%	6.1%
STRAITS TIMES INDEX	2,998.35	7.4%	7.4%	-10.9%	-6.4%	-8.4%	-6.6%	-1.3%
FTSE Bursa Malaysia KLCI	1,665.71	2.8%	2.8%	-5.4%	-3.3%	-10.2%	-7.8%	-0.4%
STOCK EXCH OF THAI INDEX	1,394.94	3.4%	3.4%	-6.9%	-3.1%	-11.9%	-3.3%	7.4%
JAKARTA COMPOSITE INDEX	4,455.18	5.5%	5.5%	-14.8%	-7.2%	-12.5%	-1.2%	2.4%
PSEi - PHILIPPINE SE IDX	7,134.26	3.5%	3.5%	-1.3%	-5.5%	-1.1%	8.3%	31.5%
HO CHI MINH STOCK INDEX	607.37	8.0%	8.0%	11.3%	-2.2%	1.1%	22.1%	56.4%
S&P/ASX 200 INDEX	5,239.44	4.3%	4.3%	-3.2%	-8.1%	-5.2%	-3.4%	16.0%
NZX 50 INDEX	5,986.37	7.0%	7.0%	7.5%	1.1%	11.1%	21.9%	51.3%
MSCI World Free Local	423.55	7.8%	7.8%	2.0%	-3.3%	3.8%	14.3%	42.9%
MSCI All Country Asia Ex Japan	644.30	6.4%	6.4%	-4.7%	-4.2%	-4.9%	-0.4%	9.0%
MSCI EM Latin America Local	62,738.94	2.9%	2.9%	-6.1%	-6.4%	-12.0%	-12.8%	-12.6%
MSCI Emerging Markets Europe M	477.92	4.5%	4.5%	0.8%	-2.5%	-2.6%	-1.3%	10.0%

Note: All data are as of 30 October 2015

Compiled by SMAM based on Bloomberg

Outlook for Global Markets

- ▣ We expect mild upside for the market given gradual recovery of the global macro economy, accommodative monetary policy and relatively low valuation.

Outlook for Asia Pacific Region

- ▣ Macro economies in most of Asian countries remain weak and likely to show gradual recovery towards next year. Especially the outlook for Chinese economy remains quite unclear. Risks for cash outflow and weaker currency continue.
- ▣ Timing of the recovery of corporate earnings is delayed.
- ▣ Concerns for tighter liquidity conditions across Asia due to US rate hike continue.
- ▣ These are key concerns for Asian markets and these will create volatility in the near term,
- ▣ However accommodative monetary policy and relatively low valuation will support the market. Market will go up in line with slow recovery of corporate earnings.

Note: As of 29 October 2015

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	- <u>Uncertainty from China remains.</u> - Relatively stable in terms of currency and corporate fundamentals.	Stable More focus on Economy side.	X The pace of recovery is slower than expected. O Tightening policy for property is behind us.	Int. rate remain super low. O Delay of US rate hike is positive ↑ / Inflation will be moderate.	Trade deficit narrows, CA surplus stays at this level.	Stable	xRevision is gradually weakening.	Oattractive
China	- Tough challenge towards New Normal. - Strong Policy support can be expected. - Outlook for corporate earnings is still weak.	Stable, but becomes less clear.	X Weaker than expected although Hard landing should be avoided. Structural rebalancing is the key challenge.	O More accommodative monetary policy is expected. / Int. rate will come down / Inflation will not be a key concern.	Surplus- but it is declining	Downward bias.	xRevision is gradually weakening.	Oattractive
Taiwan	- Slower economic growth but new product cycle in IT is supportive. - Attractive valuation with high Dividend Yield.	Stable, Presidential election in 2016 will not a big surprise.	x The pace of economic recovery is slower than expected. Some support by new product cycle in IT.	First rate cut for last 6 years. Int. rate will be stable. / Inflation will be stable. / Liquidity is improving.	Surplus will expand	Stable	xRevision is gradually weakening.	Oattractive
Korea	- Still in the transition. Structural re-rating will not happen soon. - Weaker KRW supports exporters.	Stable, but implementation of structural reform is delayed.	X Growth outlook is weakening due to subdued export environment in China.	O Easing bias continues / Inflation will be stable / Liquidity is improving.	Surplus will expand	Downward bias in the near term.	xRevision is weakening.	Attractive. However there is a reason for the discount.
Singapore	- Stable Mkt and policy headwind is easing.	The landslide victory of PAP should create political stability.	X Economic recovery is slower than expected. Tight policy for properties will be finished soon	Int. rate will be stable. / Inflation will be stable. / M2 growth rate is bottomed out.	Surplus will continue.	Downward bias in the near term. / upward bias in the longer term.	xRevision is weakening.	Oattractive on PBR, fair on PER
Malaysia	- Mounting uncertainty in both Politics and economy. - Investors' sentiment is improving.	X Political turmoil is increasing	X Slow economic growth is likely to continue.	Policy Rate will be flat. / Inflation will mildly pick up. / M2 growth rate is bottomed out.	Surplus will be narrowed, weak oil price is a big risk.	X Downward pressure will continues.	xRevision is very weak.	Fair (Rich on PER, but fair on PBR)
Thailand	- Subdued economy will continue.	Unclear The timing of general election is delayed.	X Slow economic growth is likely to continue.	O Accommodative monetary policy continues / Inflation will be stable. Liquidity is improving.	Surplus will continue.	X Downward pressure will continues.	xRevision is very weak.	Fair
Indonesia	- Increasing headwinds for Macro economy and corporate earnings. - Policy initiative becomes less clear. - Investors' sentiment is improving.	Honeymoon period of President Jokowi is behind us.	X Underlying economy is weaker than expected due to delay of FAI and weaker export.	O Rate cut is possible due to stabilizing market. ↑	X CA deficit will continue at current level.	X Downward pressure will continues.	xRevision is very weak.	Fair (Rich on PER, but fair on PBR)
Philippines	- Still the bright spot. - Sustainability is the key.	Stable. Presidential election in 2016.	O 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.	Downward Bias.	xRevision is weak.	xMildly Expensive
India	- Overall macro fundamentals will improve given its strong policy supports. - Relatively safe but it is a consensus OW Mkt.	Potential of economic reform continues	O Growth rate will accelerate driven by domestic consumption.	O Rate cut started and further room for rate cut / Inflationary pressure peaked out.	X Trade / CA deficit will remain at same level.	Downward Bias.	x Revision remains weak	Fair
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 industry.	
Vietnam	Steady upside can be expected supported by solid economic growth.	Confrontation between Vietnam & CH is a key concern	solid recovery	Lower interest rate environment / Benign Inflation	Trade / CA surplus will be narrowed.	Gradual depreciation	Improving	Within FV range.

Market Focus (i): Indonesia – Underweight continued

【Summary】

High hopes for the new president Joko is fading. The momentum of economic growth is deteriorated although infrastructure investment, which tends to delay, is expected to expand.

- ▣ US interest rate hike is a big concern in terms of investor sentiment, however, material impacts should be limited.
- ▣ A possibility of Bank of Indonesia's rate cut, which would stabilize the market, emerges due to the delay of US rate hike.
- ▣ Investors' sentiment is improving.
- ▣ Concern for current account deficit continues but it will gradually improve.
- ▣ Headwinds for Indonesia's export of commodities are stiffening on slowing external demands.
- ▣ The corporate earnings were stable; however, slowing earnings growth is currently expected.
- ▣ We have positive outlook for stocks, which gain profits from a recovery in domestic economy based on bottomed up stock selection.

Note: Compiled by SMAM as of 26 October 2015

Market Focus (ii): Philippines – Overweight continued

【Summary】

We maintain bullish stance on stable fundamentals led by domestic demands. Concerns over inflation are easing amid slump in oil prices. Prior to the president election in 2016, progress of PPP, which tend to be delayed, will draw attention.

- ▣ Macro economy shows a slightly slowing trend, however it remains relatively firm supported by Oversea Filipino Workers' remittance showing a steady expansion.
- ▣ We expect direct investments to expand by the use of PPP promoted by the president Aquino. However, the progress of bids tend to be delayed.
- ▣ Bangko Sentral ng Pilipinas can take a wait-and-see stance under benign inflationary environment due to oil price fall. Lower inflationary pressure is positive on both consumer sentiment and corporate profitability.
- ▣ From a historical perspective, the stronger USD is relatively positive to Philippines' economy.
- ▣ Valuation is mildly expensive but earnings momentum starts recovering.

Note: Compiled by SMAM as of 26 October 2015

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