



# Asian Stock Market Outlook

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SMAM monthly comments & views

October 2015



Sumitomo Mitsui Asset Management

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# Executive summary

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## ◆ Asian Economy

The slowdown in China and each country's political or economic issues have hit Asian economies. The central banks are supporting the business condition by monetary easing. However, most of Asian countries would easily move downward from the second half of 2015 to 2016 as deteriorating Chinese economy has negative impacts on their trade volumes.

- ✓ We have maintained China's real GDP forecast of +7.0% for 2015 but cut that for 2016 to +6.5%.
- ✓ For Hong Kong, we have cut real GDP projection for 2016 to +2.0% but maintained at +2.3% for 2015.
- ✓ We have cut 2015 and 2016 real GDP growth forecasts of the following countries: Australia, India, Indonesia, Malaysia, Philippines, Singapore, South Korea, Taiwan and Thailand.

## ◆ Asian Stock Markets

We maintain our positive stance about Asian market in the medium term given its attractive valuation and panicked aspect in the market, however high volatility should continue in the short term.

- ✓ Macro economy in most of Asian countries is slowing down and likely remains weak towards the next year. Especially the outlook for Chinese economy remains quite unclear.
- ✓ Timing of the recovery of corporate earnings is delayed.
- ✓ Risk for cash outflow and weaker currencies continue.
- ✓ Concerns for tighter liquidity conditions across Asia due to US rate hike continue.
- ✓ These are key concerns for Asian markets, and likely to create volatility in the short to medium term.
- ✓ However, valuation and technical analysis already indicate that these negative news are mostly priced in. We consider there are decent upside room for Asian markets once too-bearish market sentiment is stabilized.

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# Outlook for Asian Economy

# SMAM Economic Outlook Summary

- We have cut Australian real GDP growth forecasts for 2015 and 2016 to +2.2% and +2.4% respectively.
- Regarding 2015 and 2016 real GDP forecasts in India, we revised downward to +7.6% and +7.9% respectively.
- We revised down Taiwan's GDP projections for 2015 and 2016 to +1.2% and +1.0% respectively.
- For Indonesia, Malaysia, Philippines, Hong Kong, Singapore, South Korea and Thailand, GDP growth projections were revised downward especially for 2016.

## Real GDP Growth Forecasts (%YoY)

Country	2013 (A)**	2014 (A)	2015 (F)**			2016 (F)		
			SMAM	Previous Aug 17th	Consensus	SMAM	Previous Aug 17th	Consensus
Australia	2.1	2.7	2.2	2.3	2.5	2.4	2.7	2.9
China	7.7	7.4	7.0	7.0	6.8	6.5	6.7	6.6
Hong Kong	2.9	2.3	2.3	2.3	2.3	2.0	2.5	2.5
India*	5.1	7.3	7.6	7.8	7.6	7.9	8.1	7.9
Indonesia	5.8	5.0	4.6	4.7	4.8	4.3	5.2	5.2
Malaysia	4.7	6.0	4.8	4.9	4.8	4.0	4.9	4.7
Philippines	7.2	6.1	5.6	5.8	5.8	5.9	6.2	6.0
Singapore	3.9	2.9	2.0	2.2	2.2	1.6	2.5	2.7
S. Korea	3.0	3.3	2.2	2.4	2.5	2.0	2.9	3.2
Taiwan	2.2	3.7	1.2	2.1	2.1	1.0	3.3	3.0
Thailand	2.9	0.9	2.6	2.7	2.7	2.4	3.0	3.4

(Source) SMAM

Consensus Forecasts (Consensus Economics Inc.) as of 30 September 2015 & SMAM Forecasts as of 16 September 2015

\* India is for fiscal year starting April.

\*\*F: Forecast, A: Actual

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# Outlook for Economy in China

# SMAM Economic Outlook for China

## China's Yearly GDP Growth & Relevant Indicators

	2013	2014	2015E		2016E	
			(previous)	(previous)	(previous)	(previous)
Real GDP, %YoY	7.7	7.4	7.0	7.0	6.5	6.7
Consumption Expenditure, %YoY	7.3	7.3	7.7	7.7	7.3	7.4
Gross Fixed Capital Investment, %YoY	8.9	7.5	6.3	6.4	6.5	6.5
Net Exports, contrib.	-0.2	0.1	0.1	0.1	-0.2	0.0
Nominal GDP, %YoY	9.5	8.2	7.0	7.0	7.5	8.4
GDP Deflator, %YoY	1.7	0.8	0.0	0.0	1.0	1.6
Ind. Production, %YoY	9.7	8.3	6.4	6.5	6.8	6.9
CPI, %YoY	2.6	2.0	1.6	1.6	2.5	2.6
Base Loan Rate, %	6.00	5.60	4.60	4.60	4.60	4.60

Notes: SMAM estimates as of 16 September 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

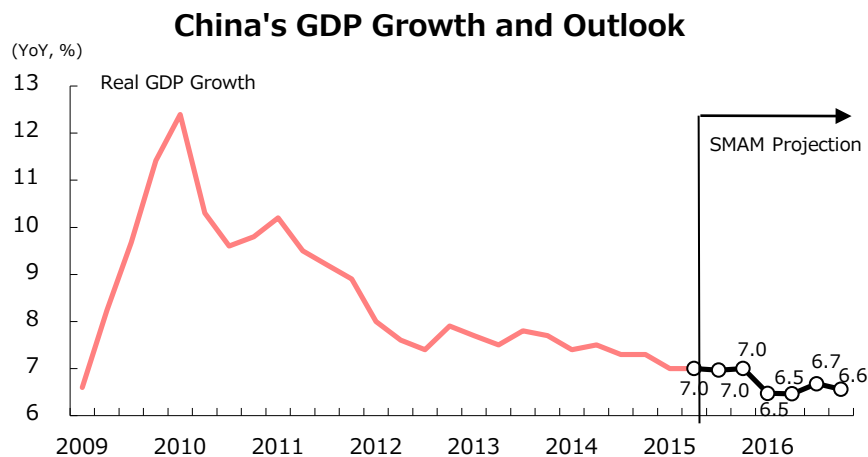
	2014		2015E				2016E			
	3Q	4Q	1Q	2Q	3QE	4QE	1QE	2QE	3QE	4QE
Real GDP, %YoY	7.3	7.3	7.0	7.0	7.0	7.0	6.5	6.5	6.7	6.6
previous	-	-	-	7.0	7.0	7.1	6.8	6.9	6.7	6.6
SMAM-BFG's Forecast for Real GDP, %YoY	6.6	6.9	6.3	6.3	6.0	5.9	5.5	5.4	5.6	5.6
previous	7.1	7.0	6.5	6.4	6.4	6.7	6.5	6.7	6.7	6.6
Consumption Expenditure, %YoY	6.3	7.9	6.8	9.1	7.4	7.8	7.2	7.0	6.5	8.3
previous	-	-	-	9.1	7.2	7.8	7.2	7.0	6.5	8.5
cont. to GDP, %	2.8	3.8	4.5	3.9	3.3	3.8	4.7	3.1	2.9	4.1
previous	-	-	-	3.9	3.2	3.8	4.7	3.1	2.9	4.2
Gross Fixed Capital Investment, %YoY	3.9	9.9	3.5	6.6	6.6	7.1	5.9	6.7	7.1	6.0
previous	-	-	-	6.6	6.7	7.4	7.4	7.0	6.0	5.9
cont. to GDP, %	2.0	4.8	1.2	3.7	3.3	3.5	2.0	3.7	3.6	2.9
previous	-	-	-	3.7	3.4	3.6	2.5	3.9	3.0	2.9
Net Exports	12.3	7.9	5.7	-1.1	-3.0	-1.0	-2.0	0.0	3.0	2.0
cont. to GDP, %	2.7	-1.5	1.3	-0.6	0.1	-0.3	-0.2	-0.1	0.2	-0.5
previous	-	-	-	-0.6	0.1	-0.3	-0.4	0.2	0.8	-0.5
CPI, %	2.0	1.5	1.2	1.4	1.8	2.3	2.5	2.7	2.5	2.2
previous	-	-	-	1.4	1.6	2.3	2.5	2.7	2.5	2.7
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 September 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

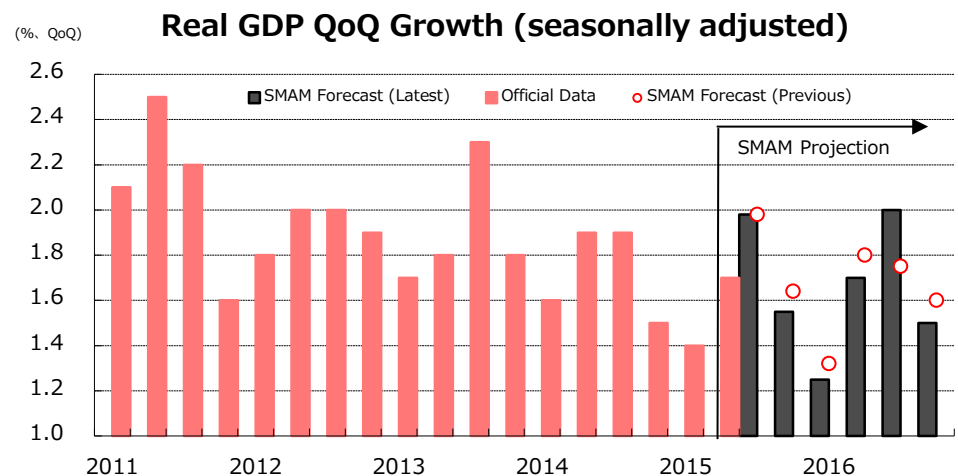
# SMAM Economic Outlook for China

- For pursuing China's real GDP forecast, we newly adopted SMAM-BFG model, calculated based on a new method for the real GDP originated by SMAM-BFG. According to the calculation, we estimate China's GDP projections in 2014, 2015 and 2016 to +7.1%, +6.1% and +5.5% respectively.
- We revised the real GDP forecasts in 2015 and 2016 downward on slowing investment in property sector and production adjustment for inventory reduction. However, the growth of tertiary industry, which accounts for a half of GDP, is expected to maintain around 7%.
- Thus, we assume a slowdown in Chinese economy until mid-2016 as the upside is limited.

Note: Economy outlook is as of 17 September 2015



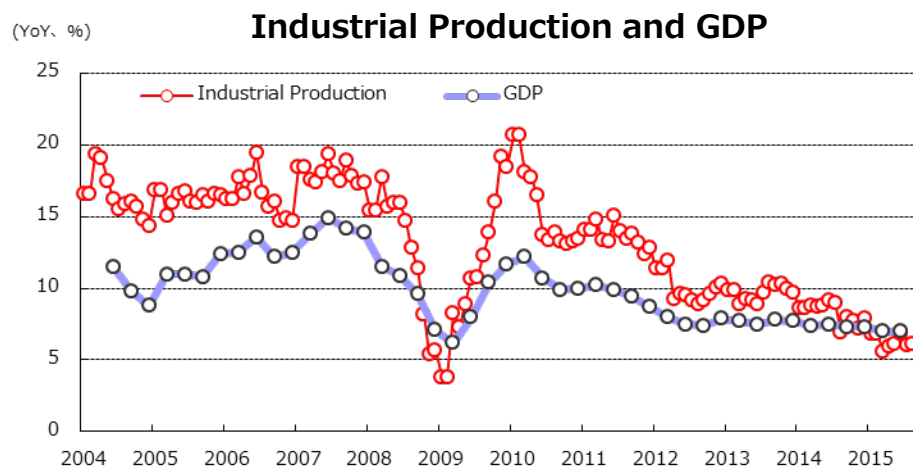
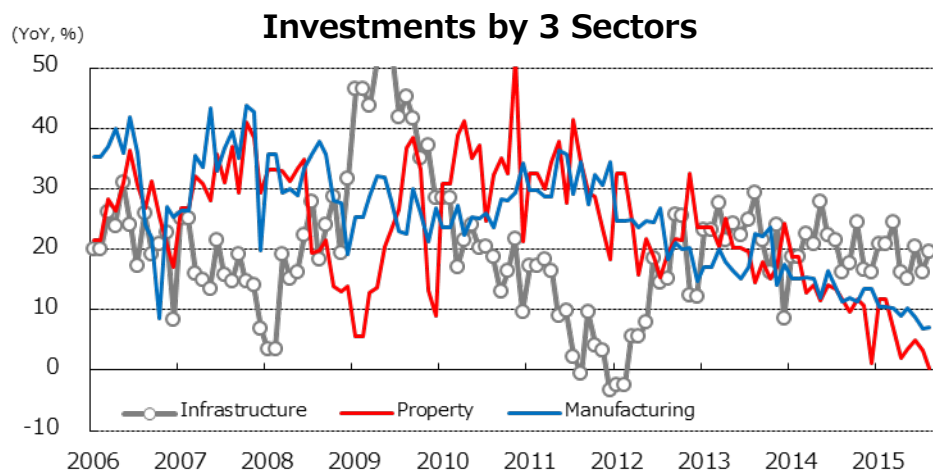
Source: National Bureau of Statistics of China, CEIC, compiled by SMAM-BFG (Up to Oct-Dec 2016)



Source: National Bureau of Statistics of China, CEIC, compiled by SMAM-BFG (Up to Oct-Dec 2016)

# China: Activity growth below market expectations

- ▣ 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).
- ▣ August Industrial Production (IP) did not show a significant recovery but gained slightly to +6.1% yoy from +6.0% yoy in July. Especially, IP for materials subsequently remains at low level.
- ▣ In our view, 3Q2015 business sentiment would show a downward trend. We expect 4Q2015 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

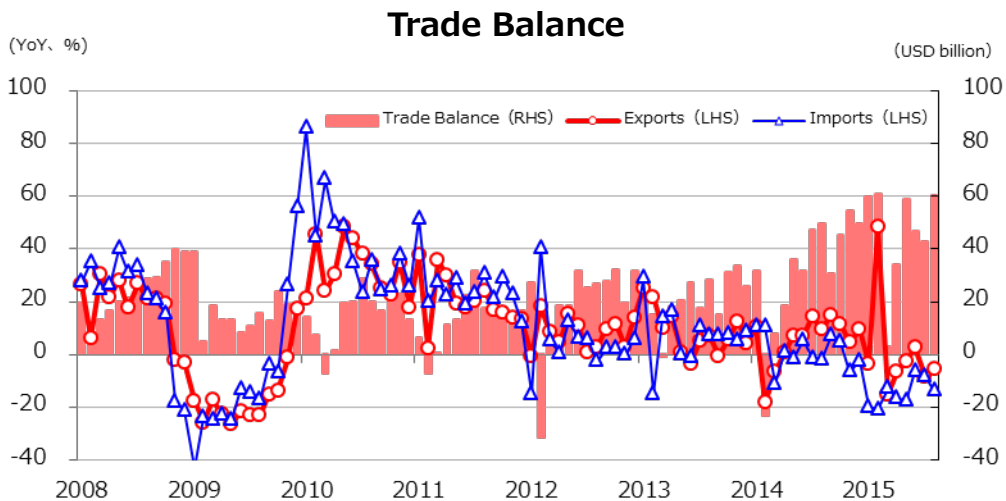
Source: National Bureau of Statistics of China, CEIC, SMAM

Up to August 2015



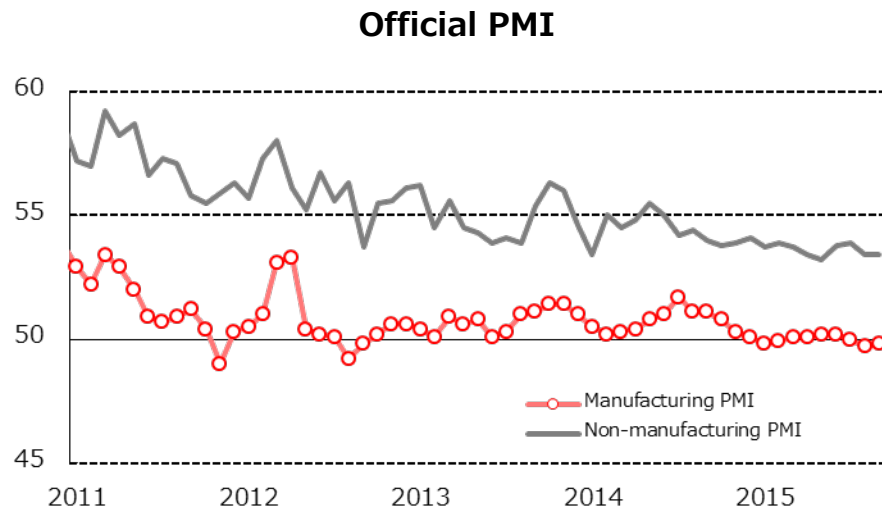
# China: Exports growth was weaker than market consensus

- August trade balance showed a weak economic momentum from both exports (-5.5%) and imports (-13.8%). While export growth to developed countries was stable, that to emerging countries increased deficit. Regarding imports, crude oil, iron ore and autos lowered the growth.
- September official manufacturing PMI of 49.8 was slightly higher than the market consensus of 49.7, but still below 50. Non-manufacturing PMI remained at the same level as August (53.4).
- Assuming Chinese economy to remain in a declining trend during 3Q2015, we expect the real economic growth to drop to around +6.0% from +6.3% in 1Q and 2Q in 2015. In monetary policy, 100bp reserve requirement ratio cut would be implemented in 2015. An additional interest rate cut of 25bp in this year is not a main scenario, but we do not exclude the possibility.



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

Up to August 2015



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

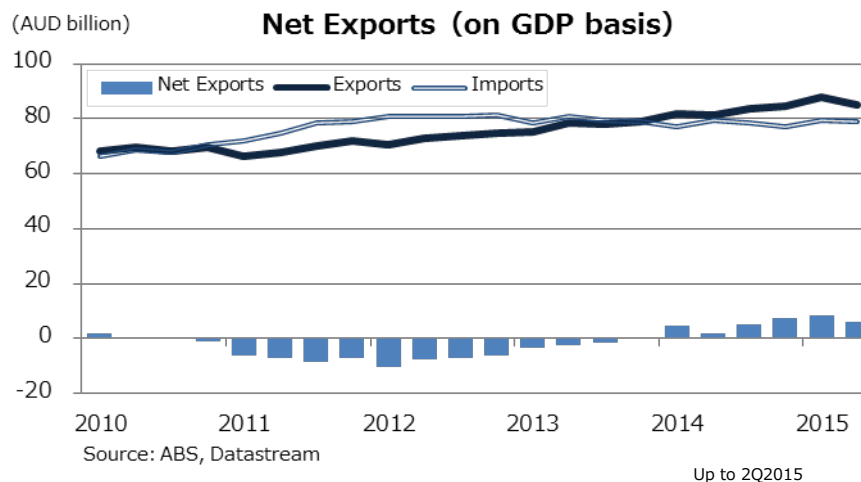
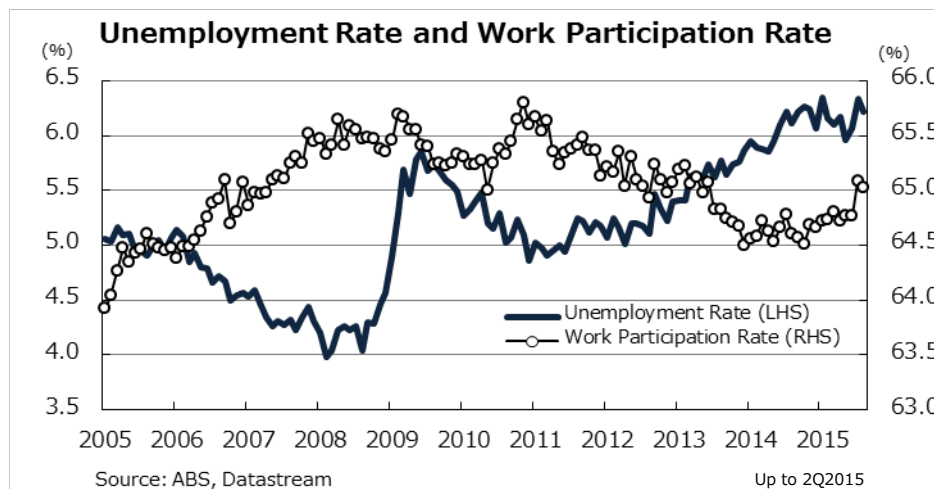
Up to September 2015

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# Outlook for Economies in Asia

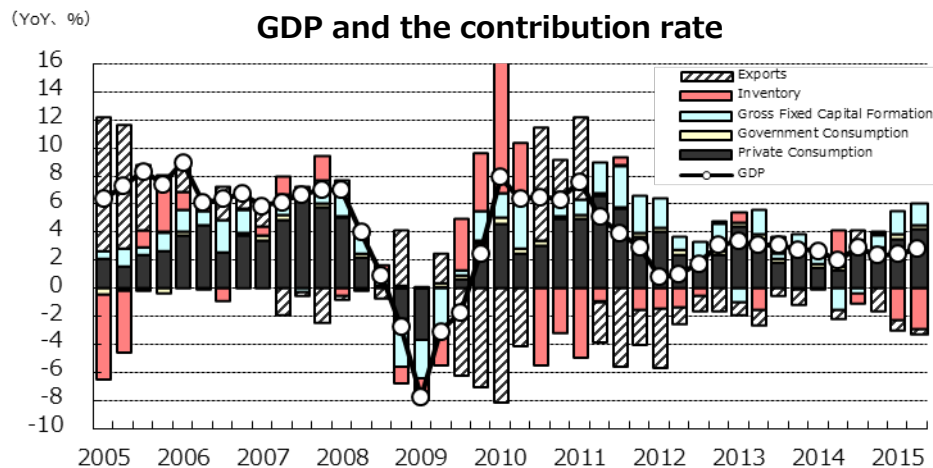
# Australia

- We expect a gradual recovery in the GDP growth at just under cruising speed after correction until mid-2016 while we slightly revised 2015 and 2016 GDP growth projections downward.
- Supported by wealth effect and low interest rates, consumption would accelerate on growing employment and income. We forecast unemployment rate in 2015 to continue to stay nearly flat offsetting increased labor population by rising employment. From the middle of 2016, unemployment would enter into a recovery trend with business upturn.
- Net exports would keep contributing positively on GDP growth due to weak imports. We expect a growing trend in exports with production capacity expansion even at a slow pace caused by flagging demands from China. Yet, imports are likely to stagnate on dull capital investment.



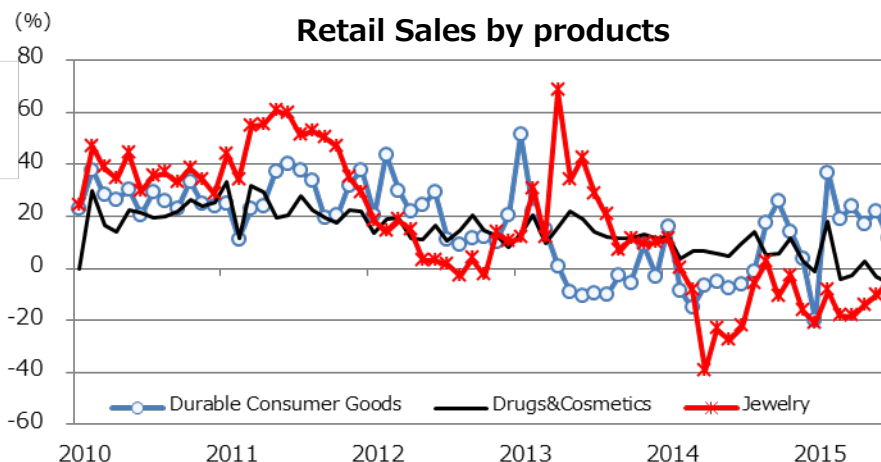
# Hong Kong

- We have maintained real GDP growth forecast for 2015 at +2.3% but have cut that for 2016 to +2.0% from +2.5%. Weak inbound tourism and external trade weighed on the economy.
- Strong 2Q2015 GDP was contributed by private consumption increase. Yet the sustainability seems to be weak. The consumption growth in early 2015 was just a rebound after a sharp decline in Chinese tourists' demands for jewelry on gold price correction in early 2014. We expect 3Q2015 GDP growth to slow down again on failing other economic numbers such as merchandise exports.



Source: Census and Statistics Department, CEIC, SMAM

Up to June 2015

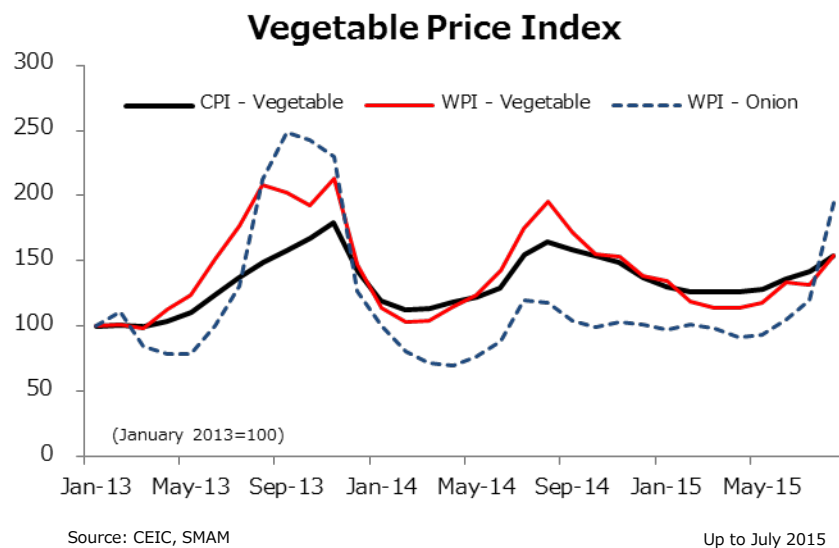
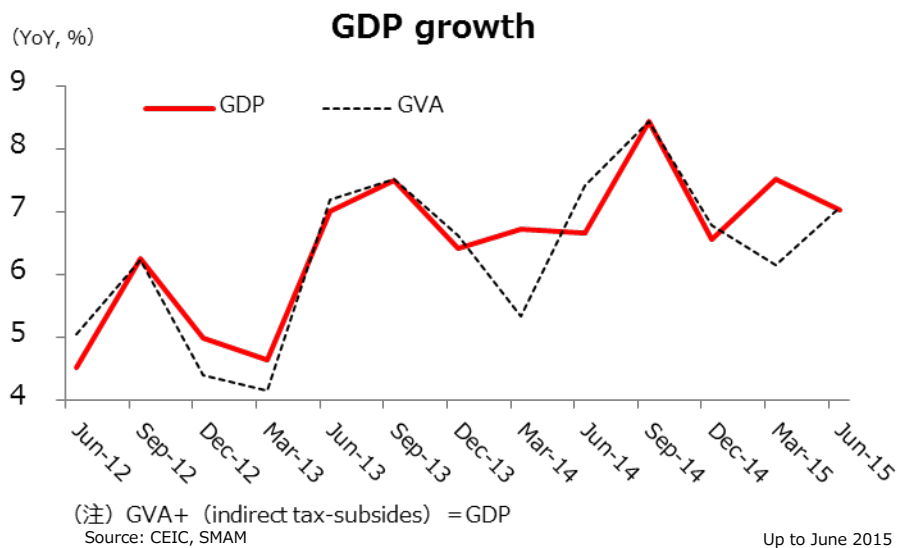


Source: Census and Statistics Department, CEIC, SMAM

Up to July 2015

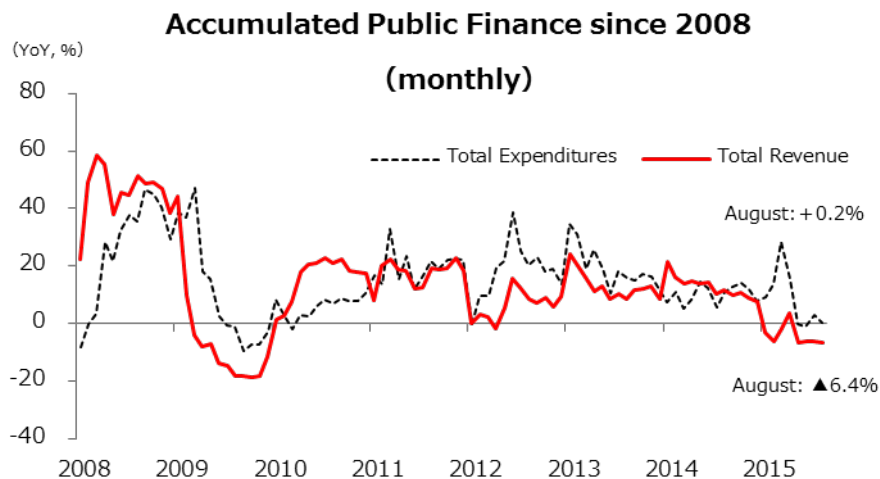
# India

- The economy is less vulnerable to global economic cycle and Chinese economy as the contribution ratio of exports to GDP is only 16% in 2014, lower than in other countries. Thus, we believe that domestic demands can continue to lead the economy in 2016.
- Real Gross Value Add (GVA) growth accelerated to +7.1% yoy in 2Q2015 from +6.1% in 1Q2015, although real GDP growth slowed to +7.0% in 2Q2015 from +7.5% in 1Q2015. We believe that the government underestimated “indirect tax-subsides” in 2Q2015 due to some technical reasons. In other words, we maintain our view that the economy should continue to recover led by domestic demands under stable and low inflation.
- The Reserve Bank of India (RBI) reduced the policy rate by 50bp to 6.75% on lower inflation and a delay in US rate hike. Whereas onion and bean prices have soared in these months, the RBI showed confidence to reach the 6% inflation target in 2016.



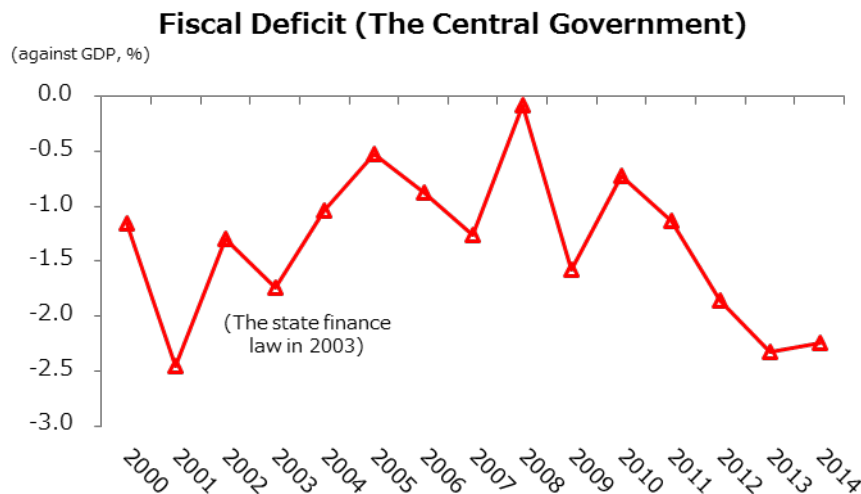
# Indonesia

- We forecast Indonesian economy to be sluggish on several downside pressures especially in 2015. In addition to a slowdown in China and oil price slump, higher inflation than the target, which would suppress domestic demands, weigh on the economy.
- The government is losing room for fiscal policy by strict fiscal discipline under lower fiscal revenues. The revenue dropped to -6.4% yoy for the first 8 months of FY2015 on lower commodities markets as well as slowing domestic demands.
- The government must control the annual fiscal deficit within 2.5% of GDP as it has introduced the state finance law since 2003. The strict fiscal discipline shall cause the government to cut the fiscal expenditure in 4Q2015 under smaller fiscal revenue amounts.



Source: CEIC, SMAM

Up to August 2015



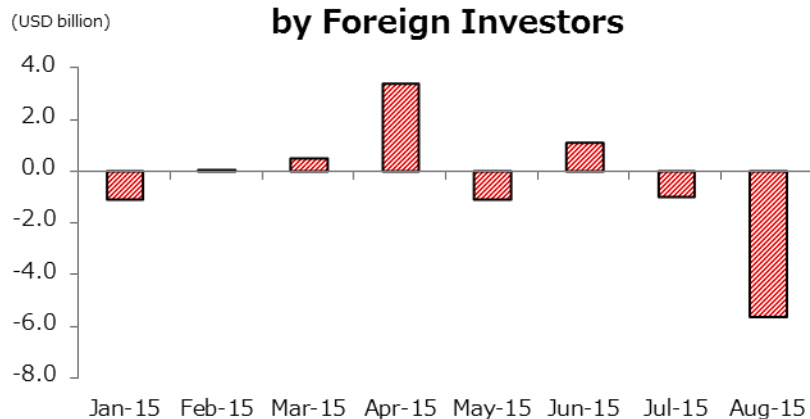
Source: CEIC, SMAM

Up to the end of 2014

# Malaysia

- We lowered GDP growth forecast for 2016 significantly from +4.9% to +4.0%. The economy is dragged by slowing Chinese economy and less room for fiscal policy through lower revenue due to lower oil prices whereas the weakening Malaysia Ringgit (MYR) has contributed to export competitiveness except for primary products.
- The outstanding of Malaysian debts held by foreign investors fell by USD5.6bn in August. The capital outflow caused MYR to depreciate further.
- Apr-Jun Public investment turned to a negative growth area. Low commodities markets shall cause less room for fiscal policy through lower fiscal revenue.

## Outstanding of Malaysian debts held

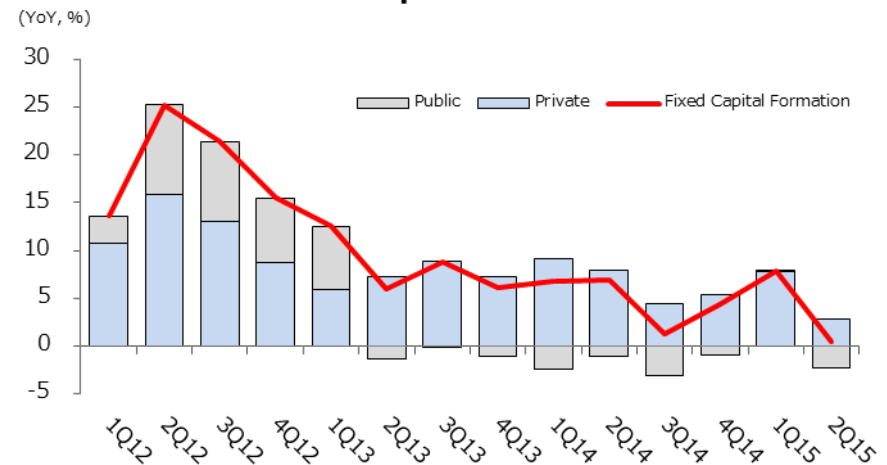


Note: The difference of outstanding of the Malaysian Gov't Bonds held by foreign investors from the previous month. The coverage is different from the balance of international payments

Source: CEIC, SMAM

Up to August 2015

## Fixed Capital Formation

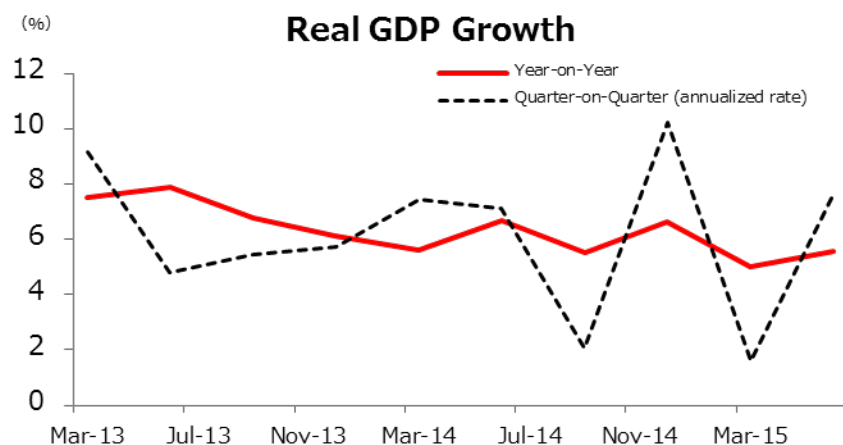


Source: CEIC, SMAM

Up to June 2015

# Philippines

- We have cut real GDP forecasts for 2015 and 2016 to +5.6% and +5.9% respectively, but still showing strong figures. 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. Moreover, we believe domestic demands led by private consumption can continue to lead the economy in 2016.
- Bangko Sentral ng Pilipinas (BSP) held its overnight policy rate at 4.00%. We expect BSP to maintain the rate until the end of 2016. 2Q2015 real GDP accelerated to +5.6% yoy led by domestic demands on a seasonally adjusted basis from +1.6% yoy in 1Q2015.
- August CPI inflation slowed to +0.6% yoy for several reasons. The government continued to cut electricity tariff. In addition, agricultural and transportation fuel inflation continued to drop.



Source: CEIC, SMAM

Up to June 2015

## Inflation (%)

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

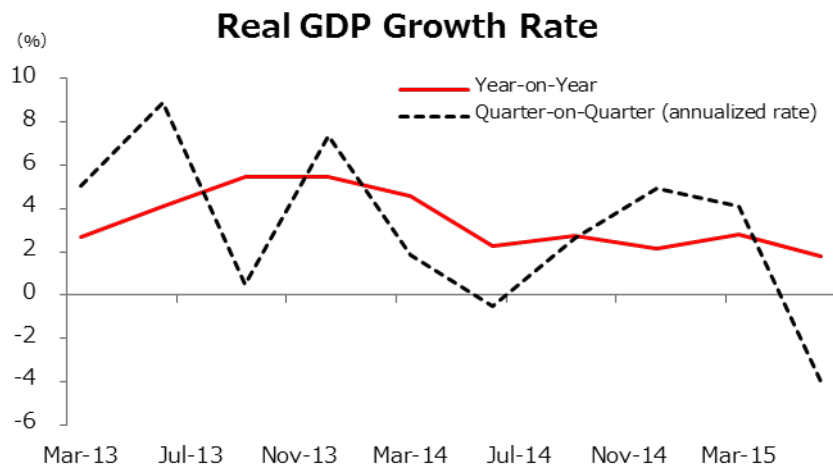
Source: CEIC, SMAM

Up to August 2015



# Singapore

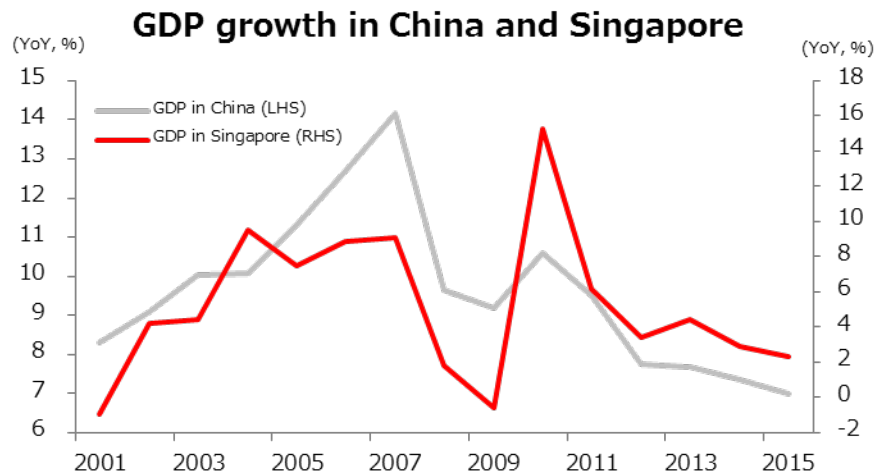
- We have cut real GDP forecast to +2.0% for 2015 and to +1.6% for 2016 on anxieties about a slowdown in exports through weak China's economy. 2Q2015 real GDP growth dropped 4.0% on a seasonally adjusted basis, decelerating from +4.1% in 1Q2015.
- Singapore's economy is vulnerable to global economic cycle as the contribution ratio of exports to GDP is extremely high at 130%. The highly export-sensitive economy is dragged by slowdown in China. In addition, Malaysia, an important trade partner, should put downward pressure on the economy in 2015.
- Widely fluctuating biomedical manufacturing could be a catalyst/risk for IP. August IP data came in at -7.0%, significantly lower than expected.



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



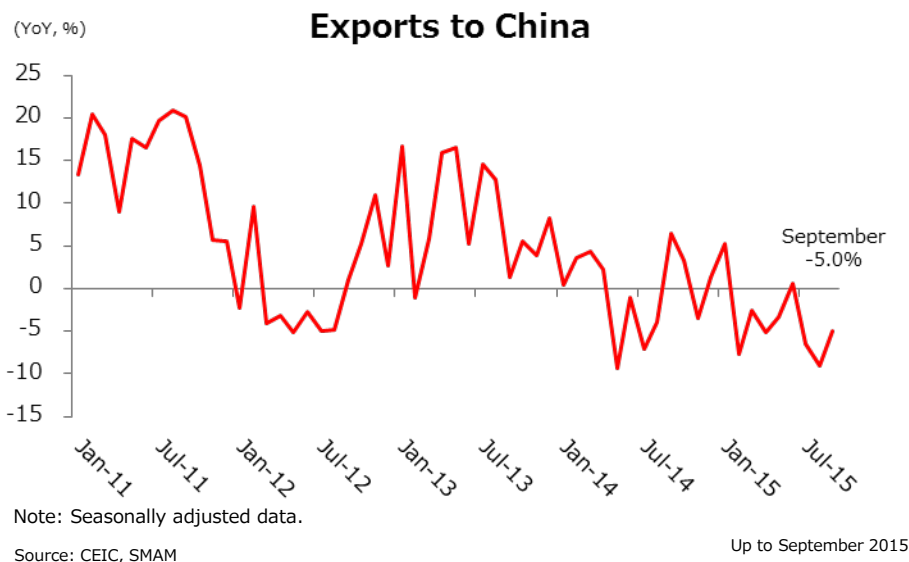
Note: Historical data on an annual basis. The latest real GDP is as of 2015 (the first half of 2015).

Source: CEIC, SMAM

Up to June 2015

# South Korea

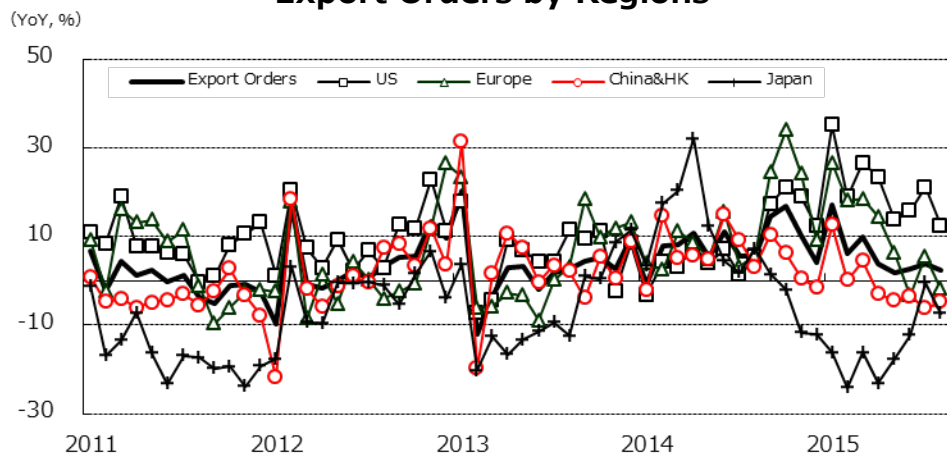
- We have cut real GDP forecasts to +2.2% for 2015 and +2.0% for 2016, much lower than market expectations of +2.5% and +3.2%. Korea is facing downside risk to economy as China's economy is expected to slow further in 2016.
- September exports of -8.3% yoy was higher than August exports of -14.9% yoy, however, still depressed. In September, exports to China accounting for around 25% of the total exports showed a recovery to -5.0% yoy.
- A continuing high inventory level can cause the IP growth to decelerate. In fact, the ratio of inventory to shipment for July rose to +1.29, higher than the inventory rate for December 2008 after the Lehman shock.
- We expect Bank of Korea to cut its policy interest rate further by 50bp by the end of 2016.



# Taiwan

- We have revised GDP forecasts downward to +1.2% from +2.1% for 2015 and to +1.0% from +3.3% for 2016. The economy has been dragged down by inventory pressure and deteriorating exports driven by sluggish demands in China and ASEAN countries. We expect 3Q2015 and 4Q2015 GDP forecasts to continue to be weak at +1.5% and +3.0% respectively.
- In August, export orders to China and Hong Kong are likely to show signs of bottoming out. On the other hand, exports to US, Europe and Japan dropped again after rebounds in July.
- Basically, domestic consumption is estimated to be solid as nominal wage has been growing at a moderate pace since 2013, but the momentum started to decline. Unemployment rate slightly deteriorated in August although it continued to improve to +3.6% in May 2015 from +6.1% the middle of 2009.

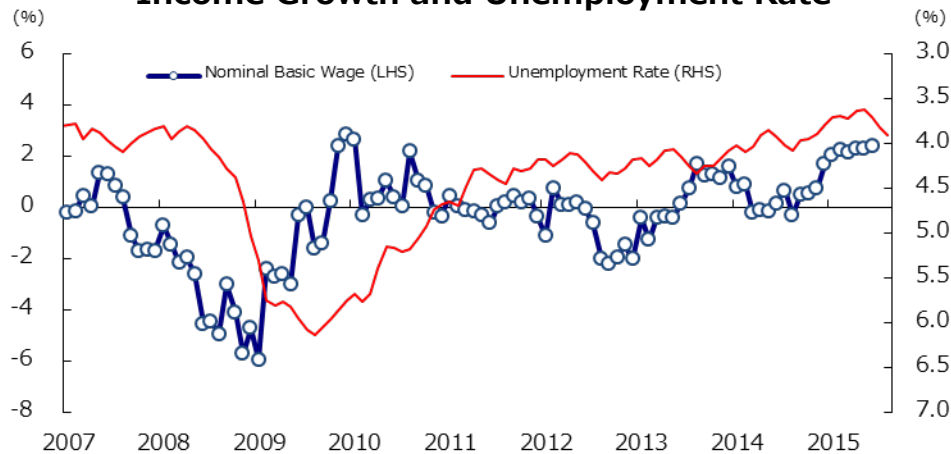
### Export Orders by Regions



Source: Ministry of Economic Affairs, CEIC, SMAM

Up to August 2015

### Income Growth and Unemployment Rate

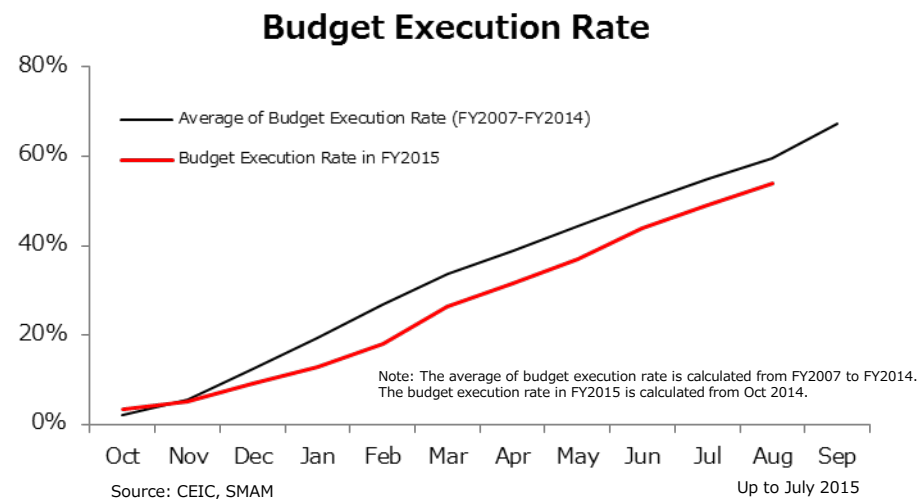
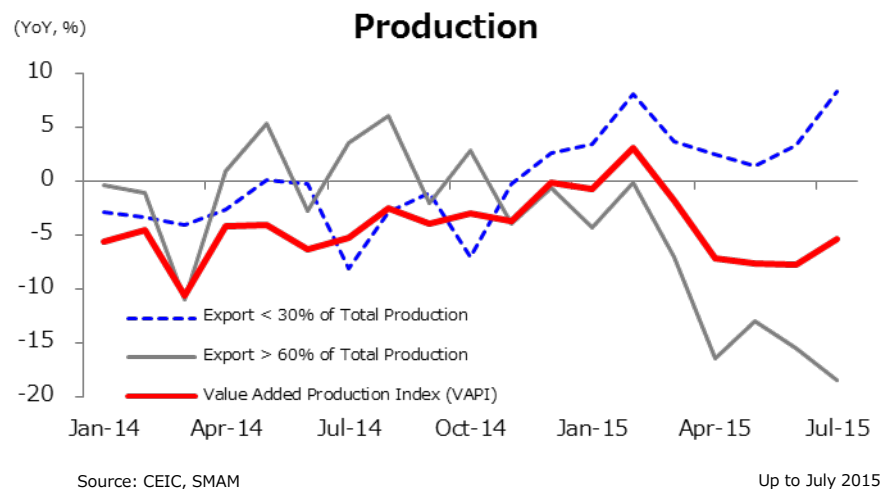


Source: Ministry of Economic Affairs, CEIC, SMAM

Up to August 2015

# Thailand

- The economy is damaged by slowing Chinese economy and weak regional economy caused by falling agriculture price and draught. The stimulus package released by new economic team headed by Deputy PM Somkid shall not cause a momentum to turn to upward trend. We expect Bank of Thailand to cut its policy interest rate by 50bp by the end of 2016.
- IP came in at -5.3% yoy for July, a negative growth for the fifth consecutive month, mainly due to further drop in production for exports.
- The disbursement ratio of public investment to the budget rose to +54% in FY2015 ytd, which ends in September 2015. The ratio was lower than 60% for the long average period, although there was no political conflict under the military government. We have paid attention to this data, which implies political stability.
- We see a probability that the BoT would cut its policy rate in November MPC.



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# Outlook for Asian Stock Markets

# Stock Market Performance - Global

Indices as of 30 Sep 2015	Px Last	Mtd	Qtd	Ytd	3m	1yr	2yr	3yr
S&P 500 INDEX	1,920.03	-2.6%	-6.9%	-6.7%	-6.9%	-2.6%	14.2%	33.3%
DOW JONES INDUS. AVG	16,284.70	-1.5%	-7.6%	-8.6%	-7.6%	-4.4%	7.6%	21.2%
NASDAQ COMPOSITE INDEX	4,620.17	-3.3%	-7.4%	-2.4%	-7.4%	2.8%	22.5%	48.3%
STOXX Europe 50 € Pr	2,976.73	-4.3%	-9.4%	-0.9%	-9.4%	-3.0%	7.2%	18.2%
NIKKEI 225	17,388.15	-8.0%	-14.1%	-0.4%	-14.1%	7.5%	20.3%	96.0%
TOPIX	1,411.16	-8.2%	-13.4%	0.3%	-13.4%	6.4%	18.2%	91.4%
BRAZIL BOVESPA INDEX	45,059.34	-3.4%	-15.1%	-9.9%	-15.1%	-16.7%	-13.9%	-23.9%
RUSSIAN RTS INDEX \$	789.73	-5.3%	-16.0%	-0.1%	-16.0%	-29.7%	-44.5%	-46.5%
BSE SENSEX 30 INDEX	26,154.83	-0.5%	-5.9%	-4.9%	-5.9%	-1.8%	35.0%	39.4%
HANG SENG INDEX	20,846.30	-3.8%	-20.6%	-11.7%	-20.6%	-9.1%	-8.8%	0.0%
HANG SENG CHINA AFF.CRP	3,901.65	-3.5%	-20.0%	-10.3%	-20.0%	-11.4%	-10.9%	-4.4%
HANG SENG CHINA ENT INDX	9,405.50	-3.4%	-27.5%	-21.5%	-27.5%	-8.8%	-8.8%	-4.3%
CSI 300 INDEX	3,202.95	-4.9%	-28.4%	-9.4%	-28.4%	30.7%	33.0%	39.7%
TAIWAN TAIEX INDEX	8,181.24	0.1%	-12.2%	-12.1%	-12.2%	-8.8%	0.1%	6.0%
KOSPI INDEX	1,962.81	1.1%	-5.4%	2.5%	-5.4%	-2.8%	-1.7%	-1.7%
STRAITS TIMES INDEX	2,790.89	-4.5%	-15.9%	-17.1%	-15.9%	-14.8%	-11.9%	-8.8%
FTSE Bursa Malaysia KLCI	1,621.04	0.5%	-5.0%	-8.0%	-5.0%	-12.2%	-8.3%	-1.0%
STOCK EXCH OF THAI INDEX	1,349.00	-2.4%	-10.3%	-9.9%	-10.3%	-14.9%	-2.5%	3.9%
JAKARTA COMPOSITE INDEX	4,223.91	-6.3%	-14.0%	-19.2%	-14.0%	-17.8%	-2.1%	-0.9%
PSEi - PHILIPPINE SE IDX	6,893.98	-2.9%	-8.9%	-4.7%	-8.9%	-5.3%	11.3%	29.0%
HO CHI MINH STOCK INDEX	562.64	-0.4%	-5.1%	3.1%	-5.1%	-6.0%	14.2%	43.3%
S&P/ASX 200 INDEX	5,021.63	-3.6%	-8.0%	-7.2%	-8.0%	-5.1%	-3.8%	14.5%
NZX 50 INDEX	5,593.36	-1.1%	-2.3%	0.5%	-2.3%	6.4%	18.1%	45.9%
MSCI World Free Local	392.98	-3.7%	-8.1%	-5.4%	-8.1%	-2.6%	10.1%	31.9%
MSCI All Country Asia Ex Japan	605.35	-1.6%	-14.6%	-10.5%	-14.6%	-8.8%	-3.2%	1.8%
MSCI EM Latin America Local	60,988.06	-3.5%	-11.3%	-8.7%	-11.3%	-14.8%	-11.6%	-15.0%
MSCI Emerging Markets Europe M	457.42	-3.5%	-8.4%	-3.6%	-8.4%	-4.9%	-1.7%	5.9%

Note: All data are as of 30 September 2015

Compiled by SMAM based on Bloomberg

## Outlook for Global Markets

- We maintain our positive stance about Asian market in the medium term given its attractive valuation and panicked aspect in the market, however high volatility should continue in the short term.

## Outlook for Asia Pacific Region

- Macro economy in most of Asian countries is slowing down and likely remains weak towards the next year. Especially outlook for Chinese economy remains quite unclear.
- Timing of the recovery of corporate earnings is delayed.
- Risk for cash outflow and weaker currencies continue.
- Concerns for tighter liquidity conditions across Asia due to US rate hike continue.
- These are key concerns for Asian markets, likely to create volatility in the short to medium term.
- However, valuation and technical analysis already indicate that these negative news are mostly priced in. We consider there are decent upside room for Asian markets once too-bearish market sentiment is stabilized.

Note: As of 30 September 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	- <b>Increasing uncertainty from China.</b> - <b>Relatively stable in terms of currency and corporate fundamentals.</b>	Stable More focus on Economy side.	X <b>The pace of recovery is slower than expected. ↓</b> ○ Tightening policy for property is behind us.	Int. rate remain super low. Gradual approach for the rate hike in the US / Inflation will be moderate.	Trade deficit narrows, CA surplus stays at this level.	Stable	xRevision is gradually weakening.	○ <b>Attractive. ↑</b>
China	- Lost in government's credibility. - Tough challenge towards New Normal. - Strong Policy support can be expected. - Value has emerged after a sharp sell-off.	Stable, but <b>becomes less clear.</b>	X Weaker than expected although Hard landing should be avoided. Economic growth will lose momentum gradually. Structural rebalancing should be the key challenge.	○ More accommodative monetary policy is expected. / Int. rate will come down / Inflation will not be a key concern.	Surplus- but it is declining	<b>Downward bias.</b>	xRevision is gradually weakening.	○ Become attractive again.
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 <b>The pace of economic recovery is slower than expected. ↓</b> 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.	○ attractive
Korea	- Still in the transition. Structural re-rating will not happen soon. - Weaker KRW supports exporters.	Stable. But current government is not strong enough to implement structural reform.	X 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.	xRevision is weakening.	Attractive. However there is a reason for the discount.
Singapore	- Stable Mkt and policy headwind is easing.	<b>The landslide victory of PAP should create political stability.</b>	X <b>The pace of economic recovery is slower than expected. ↓</b> 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.	○ <b>Attractive ↑</b>
Malaysia	- Mounting uncertainty in both Politics and economy. - Investor's sentiment becomes too negative.	X <b>Political turmoil is increasing</b>	X Stable economic growth can be expected, but concern for smaller fiscal spending due to lower oil related income	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 <b>Downward pressure will continues. ↓</b>	xRevision is very weak.	Fair
Thailand	- Subdued economy will continue. - Increasing social unrest after Bangkok Bombing.	<b>Unclear</b> The timing of general election is delayed.	X Slow economic growth is likely to continue.	○ Accommodative monetary policy continues / Inflation will be stable. Liquidity is improving.	Surplus will continue.	X <b>Downward pressure will continues. ↓</b>	xRevision is very weak.	Fair
Indonesia	- <b>Increasing headwinds for Macro economy and corporate earnings.</b> - <b>Policy initiative becomes less clear.</b>	Honeymoon period of President Jokowi is behind us.	X <b>Underlying economy is weaker than expected due to delay of FAI and weaker export. ↓</b>	x No room for rate cut to protect IDR.	X <b>CA deficit will continue at current level. ↓</b>	X <b>Downward pressure will continues. ↓</b>	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.	○ 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. <b>Current a/c surplus will expand.</b>	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 after the landslide victory of BJP.	○ <b>Growth rate will accelerate driven by domestic consumption.</b>	○ Rate cut started and further room for rate cut / Inflationary pressure peaked out.	X <b>Trade / CA deficit will remain at same level. ↓</b>	Downward Bias.	x Revision remains weak	<b>Fair</b>
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): India – Overweight continued

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## 【Summary】

We have maintained India equity market at Overweight as macro fundamentals are expected to improve on the back of its strong policy supports although expectation for Modi government's economic reform has receded.

- US rate hike is a big concern in terms of investors' sentiment, however, material impacts should be limited.
- Macro economy seems to be stabilized. Positive impact by the sharp drop of crude oil price can be expected. Accommodative monetary policy by RBI continues.
- India's "Consensus Overweight" market, which was overheated before, has been cooling down by stock correction. Valuation including P/E and P/B become fair and corporate earnings seem to be weak. We expect re-evaluation movements for attractive stocks after fundamentals bottom out.
- In sector wise, we have positive outlook for Consumer Staples & Healthcare, Financials and IT, but negative outlook for Energy, Materials and Utilities.

## Market Focus ( ii ): Hong Kong – Upgraded to Overweight

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### 【Summary】

We forecast a market recovery in Hong Kong driven by the policy support, bottoming out macro economy and improved valuation such as low P/E and P/B. However, currently, the market would be sensitive on concerns for slowing China.

- ❑ Possibility of negative impact by slower economic growth in China remains although strong policy support can be expected.
- ❑ Rate hike in the US is a potential concern, however ample global liquidity will continue.
- ❑ Tight policy for properties is behind us. The property market is getting active as the number of transactions is recovering.
- ❑ Equity market has already been oversold as the current level of Relative Strength Index shows.
- ❑ Relatively stable in terms of currency and corporate fundamentals.
- ❑ In sector wise, we have positive outlook for Consumer Discretionary, Telecommunication Services and negative outlook for Financials.

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