



Asian Stock Market Outlook

SMAM monthly comments & views

~ July 2015~



Sumitomo Mitsui Asset Management

Executive summary

➤ Asian Economy

China's slowdown and each country's situation weigh on the economy in many Asian countries. Central banks are trying to support the economy, conducting monetary easing policy. SMAM maintains its forecast India and Philippines will accelerate in 2H 2015.

- We expect slower growth in China although economic stimulus packages boost the economy in 1H 2015.
- We cut South Korea and Thailand's real GDP for 2015 and 2016, whereas we kept Malaysia, Singapore, Indonesia and India's GDP forecast unchanged for 2015 and 2016.
- We raised Philippines' real GDP for 2016 accelerating after a respite in 1H 2015.

➤ Asian Stock Markets

We became more "Positive" about Asian market after recent market correction. Ample global liquidity and increasing policy support are the driver for re-rating of the valuation. Stabilizing corporate earnings outlook should also help the market in the medium term.

- Underlying economic conditions in Asia will improve gradually. Solid recovery of US and stabilizing China economy should be supportive.
- Revision of Corporate earning seems to be stabilized. Valuation has already come back to historical average level. It can rise further, given the ample liquidity all over the world.
- Change of US monetary policy will not significantly impact to Asian equity market as long as long bond yields remain stable.
- Some external factors including Russia, crude oil price, Greece and geopolitical turmoil in Middle East together with China will create volatility in the market in the near term.

Note: Economy and Stock markets comments are as of June 17th and 29th 2015 respectively.

Outlook for Asian Economy

SMAM Economic Outlook Summary

- We cut South Korea's real GDP growth forecasts to +2.5% for 2015 and to +3.2% for 2016.
- We cut Thailand's real GDP growth forecasts to +3.0% for 2015 and to +3.4% for 2016.
- For Philippines, we cut to +6.1% for 2015 but raised to +6.6% for 2016.
- We maintained Malaysia, Singapore, Indonesia and India's real GDP growth forecasts for 2015 and 2016.

Real GDP Growth Forecasts (%YoY)

Country	2013 (A)	2014 (A)	2015 (F)			2016 (F)		
			SMAM	Previous May 15th	Consensus	SMAM	Previous May 15th	Consensus
Australia	2.1	2.7	2.3	2.3	2.4	2.7	2.7	3.0
China	7.7	7.4	7.0	7.0	6.9	6.8	6.8	6.7
Hong Kong	2.9	2.3	2.2	2.3	2.4	2.7	2.7	2.7
India (*)	5.1	7.5	7.8	7.8	7.8	8.1	8.1	8.1
Indonesia	5.8	5.0***	4.9	4.9	5.0	5.5	5.5	5.6
Malaysia	4.7	6.0***	4.8	4.8	4.8	5.0	5.0	5.1
Philippines	7.2	6.1***	6.1	6.5	6.1	6.6	6.2	6.2
Singapore	3.9	2.9	2.7	2.7	2.8	3.3	3.3	3.3
S. Korea	3.0	3.3***	2.5	2.8	3.0	3.2	3.3	3.4
Taiwan	2.2	3.7	3.5	3.5	3.5	3.6	3.6	3.6
Thailand	2.9	0.7***	3.0	3.5	3.3	3.4	3.6	3.9

(Source) SMAM

***Consensus Forecasts (Consensus Economics Inc.) as of June 2015 & SMAM Forecasts as of 17 June 2015

* India is for fiscal year starting April. F: Forecast, A/P: Actual/Preliminary

Outlook for Economy in China

SMAM Economic Outlook for China

China's Yearly GDP Growth & Relevant Indicators

	2013	2014		2015E		2016E	
		(previous)		(previous)		(previous)	
Real GDP, %YoY	7.7	7.4	7.4	7.0	7.0	6.8	6.8
Consumption Expenditure, %YoY	7.9	7.6	7.6	7.3	7.2	7.3	7.3
Gross Fixed Capital Investment, %YoY	8.6	7.3	7.3	6.1	6.3	6.4	6.4
Net Exports, contrib.	-0.3	-0.0	0.0	0.4	0.3	0.2	0.2
Nominal GDP, %YoY	9.5	8.2	8.2	7.3	7.3	9.0	9.0
GDP Deflator, %YoY	1.7	0.8	0.8	0.3	0.3	2.2	2.2
Ind. Production, %YoY	9.7	8.3	8.3	6.7	6.7	7.0	7.0
CPI, %YoY	2.6	2.0	2.0	1.6	1.7	2.7	2.7
Base Loan Rate, %	6.00	5.60	5.60	4.85	4.85	4.85	4.85

Notes: SMAM estimates as of June 17th, 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	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE
Real GDP, %YoY	7.3	7.3	7.0	6.8	7.0	7.1	7.1	7.0	6.7	6.6
previous	-	-	-	6.8	7.0	7.1	7.1	7.0	6.7	6.6
Consumption Expenditure, %YoY	6.4	8.6	7.0	7.2	7.0	7.8	7.3	7.2	7.0	7.5
previous	-	-	-	7.2	7.0	7.7	7.3	7.2	7.0	7.5
cont. to GDP, %	2.8	4.1	4.5	3.1	3.1	3.8	4.7	3.1	3.1	3.7
previous	-	-	-	3.1	3.1	3.7	4.7	3.1	3.1	3.7
Gross Fixed Capital Investment, %YoY	3.8	9.7	3.4	6.1	6.3	7.2	7.9	6.5	5.9	5.9
previous	-	-	-	6.1	7.0	7.2	7.9	6.5	5.9	5.9
cont. to GDP, %	2.0	4.8	1.2	3.5	3.2	3.6	2.7	3.6	3.0	3.0
previous	-	-	-	3.5	3.6	3.6	2.7	3.6	3.0	3.0
Net Exports										
cont. to GDP, %	2.7	-1.8	1.3	0.4	0.5	-0.4	-0.3	0.3	0.6	0.0
previous	-	-	-	0.4	0.1	-0.3	-0.3	0.3	0.6	0.0
CPI, %	2.0	1.5	1.2	1.3	1.5	2.3	2.7	2.6	2.7	2.8
previous	-	-	-	1.6	1.6	2.3	2.7	2.6	2.7	2.8
Base Loan Rate										
1yr, period end	6.00	5.60	5.35	5.10	4.85	4.85	4.85	4.85	4.85	4.85
previous	-	-	-	5.10	4.85	4.85	4.85	4.85	4.85	4.85

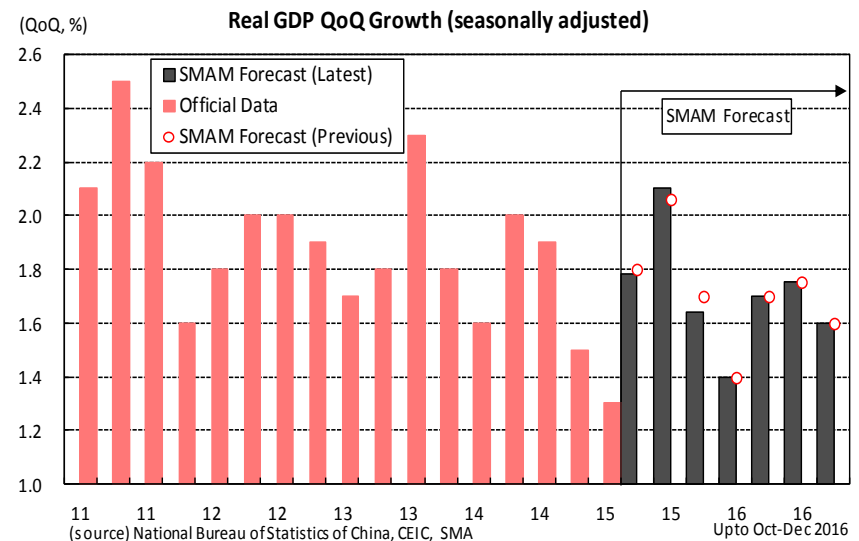
Notes: SMAM estimates as of June 17th, 2015. Consumption Expenditure and GFCI(Gross Fixed Capital Investment) are SMAM estimates

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

Chinese Economy Outlook

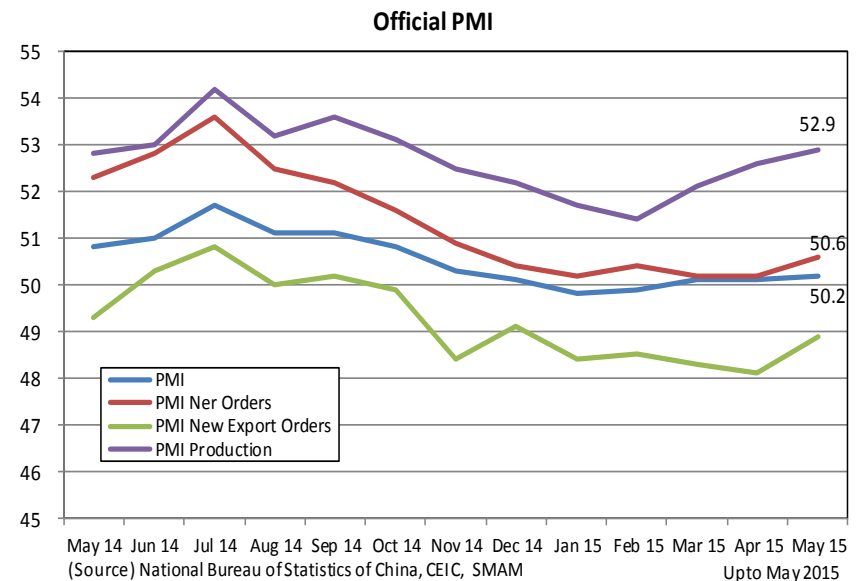
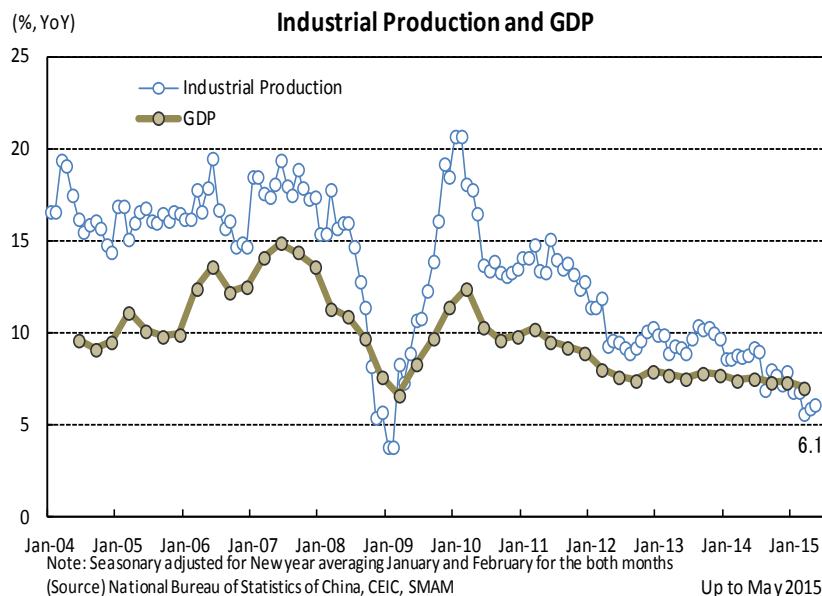
- We maintained real GDP forecast at +7.0% for 2015 and +6.8% for 2016. On the GDP component for 2015, we revised upward Consumption Expenditures from +7.2% to +7.3% and Net Exports from +0.3ppt to +0.4ppt, whereas revised downward Gross Capital Investment from +6.3% to +6.1% for 2015.
- We cut CPI forecast from +1.7% to +1.6% for 2015. We still expect additional rate cut by 75bp in policy rate and 250bp in RRR this year. The PBOC has announced that it lowers the RRR (reserve requirement ratio) for targeted financial institutions and also lowers the benchmark interest rate by 25 bps, effective June 28th.

Note: Economy outlook is as of June 17th 2015.



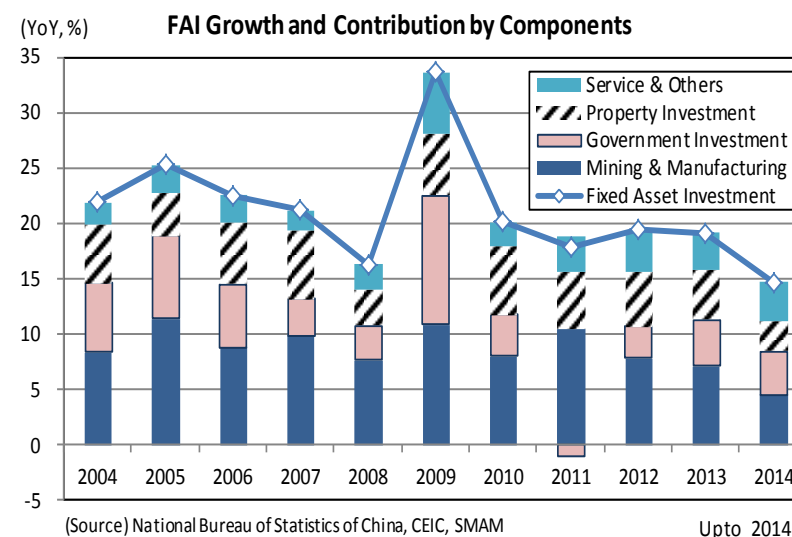
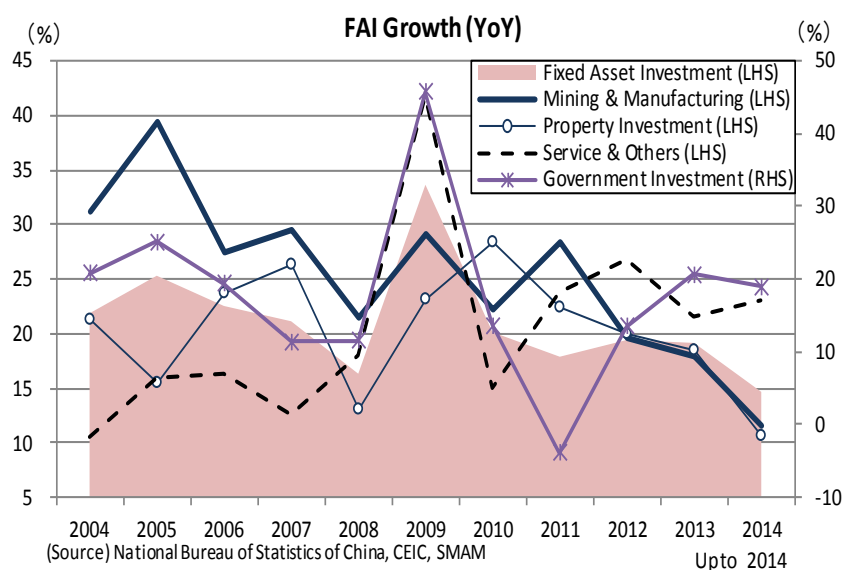
China: Slow IP growth continuing under inventory pressure, but PMI shows early recovery sign

- Industrial Production slightly gained to +6.1% YoY in May, higher than consensus of +6.0%, from +5.9% YoY in April. IP remains under inventory pressure and will continue slower recovery for the time being.
- May official manufacturing PMI inched up to 50.2, slightly lower than consensus of 50.3 from 50.1 in April. However, PMI new orders and production gained by 0.3pt to 50.6 and by 0.4pt to 52.9. Improving PMI data shows early signs of production recovery.
- June flash manufacturing PMI came in, increasing to 49.6 from 49.2 in May, and was also above the market and expectations of 49.4.
- May Industrial profit growth slowed down to +0.6% YoY (+0.5% MoM ann.) from +2.6% YoY in April (+32.7% MoM ann.), but remained positive.



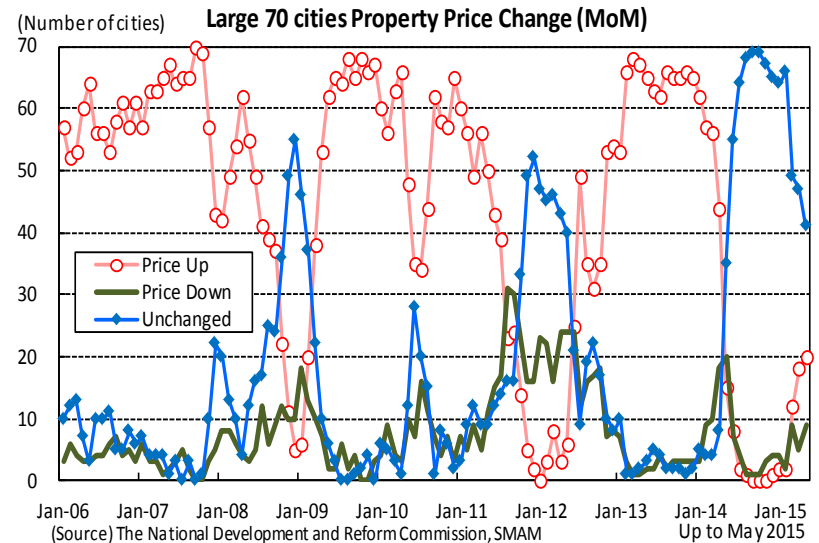
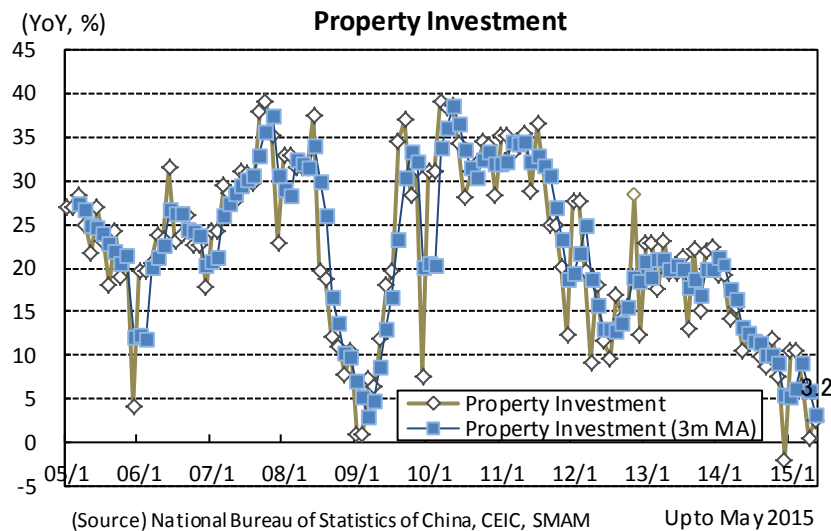
China: Fixed Asset Investment

- May Fixed Asset Investment (FAI) slightly rose to +10.0% from +9.4% in April, remaining at a weak level. FAI for New projects slowed to +1.2% in May as large projects delay to start.
- The slowdown is mainly due to anemic Property Investment which is expected to recover after the slowdown in 2014-2015.
- FAI is anticipated to accelerate in 2H 2015 as central government strengthens to move FAI projects forward with financial support and policy side. Due to a large economic package in May, FAI projects are likely to proceed and the economy will pick up from July-September.



China: Property Investment slump continuing

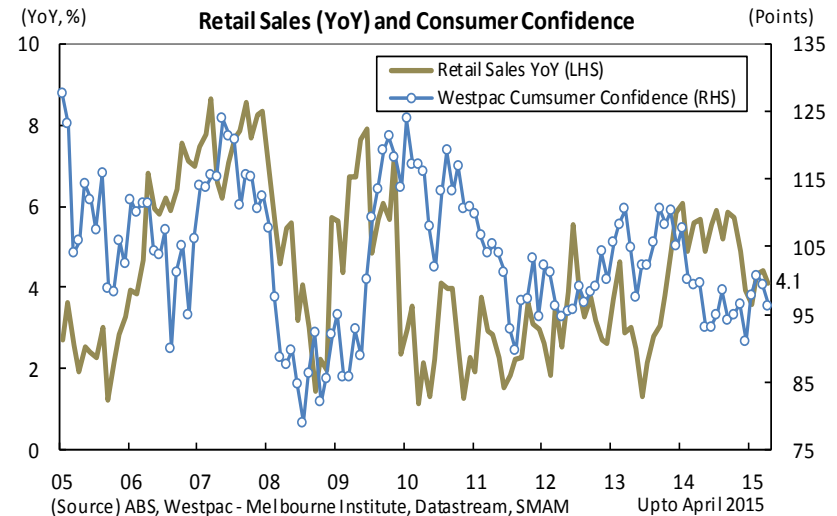
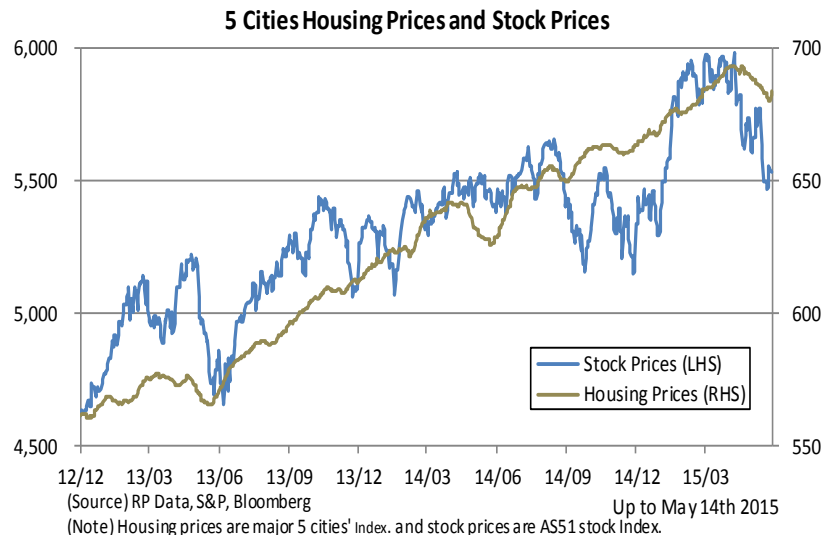
- May Property Investment grew to +2.4% YoY from +0.5% YoY in April, but still remain slower pace of +3.2% on 3 month MA basis.
- Average Housing price in 100 cities seems to hit the bottom in May. Based on National Bureau of Statistics 70-cities housing price data, average housing prices in the primary market increased +0.1% MoM in May, the first MoM increase since April last year. However, we expect it would take some time for a solid recovery as early as October-December, as heavy inventory puts downward pressure on the property market.



Outlook for Economies in Asia

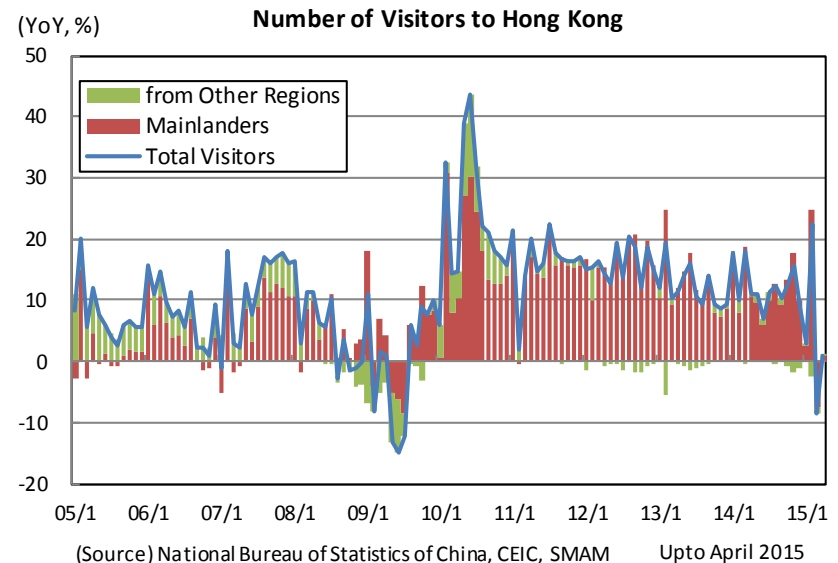
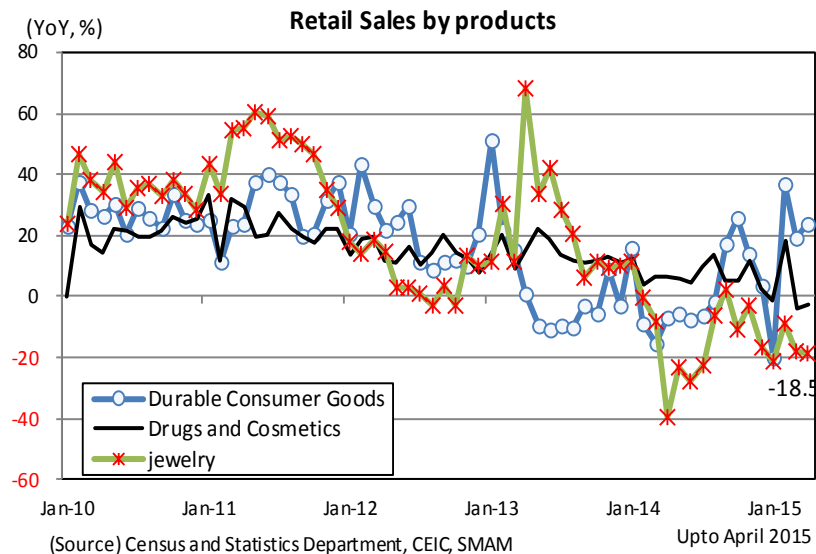
Australia

- We maintained real GDP growth forecasts at +2.3% and +2.7% for 2015 and 2016.
- Consumption is likely to grow at a slower pace in April-June quarter after the expansion in January-March led by wealth effect and real wages gain due to subdued inflation. April Retail Sales decelerated to +4.1% YoY (0.0% MoM) from +4.4% YoY (+1.0% MoM) in March although wealth effect and lower rate should support consumption.
- Employment is expected to slightly improve. We revised Unemployment rate downward by 0.1ppt to 6.2% for 2015 and 6.1% for 2016.
- RBA cut the policy rate by 25bp in May. We expect RBA keeps the current rate on hold until the end of 2016 as the bank removed its forward guidance which had suggested lower rate and job market is likely to improve.



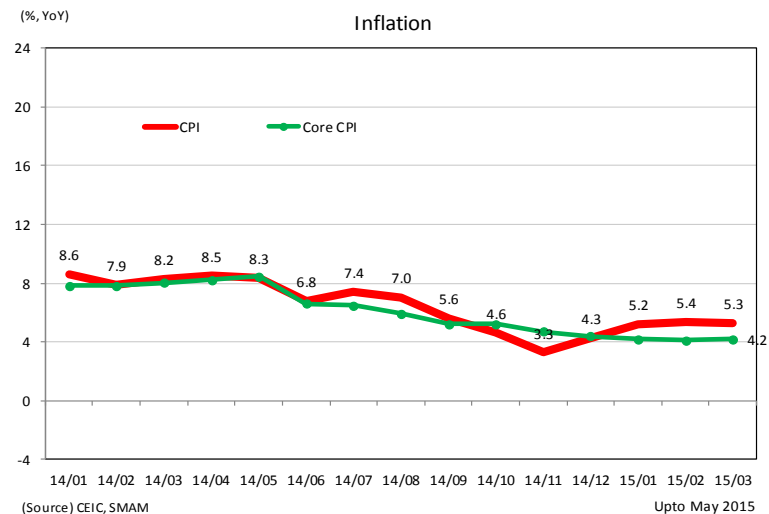
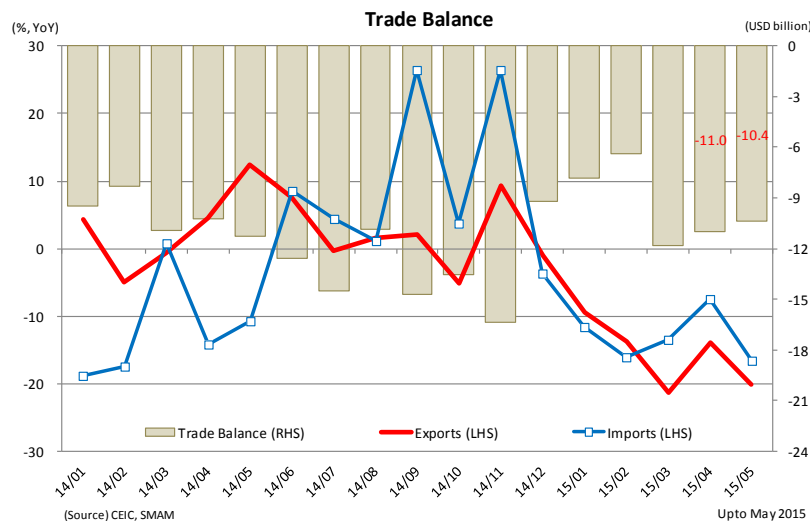
Hong Kong

- We expect GDP growth to slow to +2.0% in April-June 2015.
- April the number of visitors from mainland rose to +1.0% YoY from -10% YoY in March, but remains weak. Consumption expenditures per tourist have been also stagnated.
- April Retail sales fell -2.2% YoY for 5 consecutive months. Jewellery Retail Sales continued contracting -18% YoY in April for 7 consecutive months.
- Bank loans lending to borrowers in Hong Kong region decelerated to +6.6% in April from +13.1% at the end of 2014.



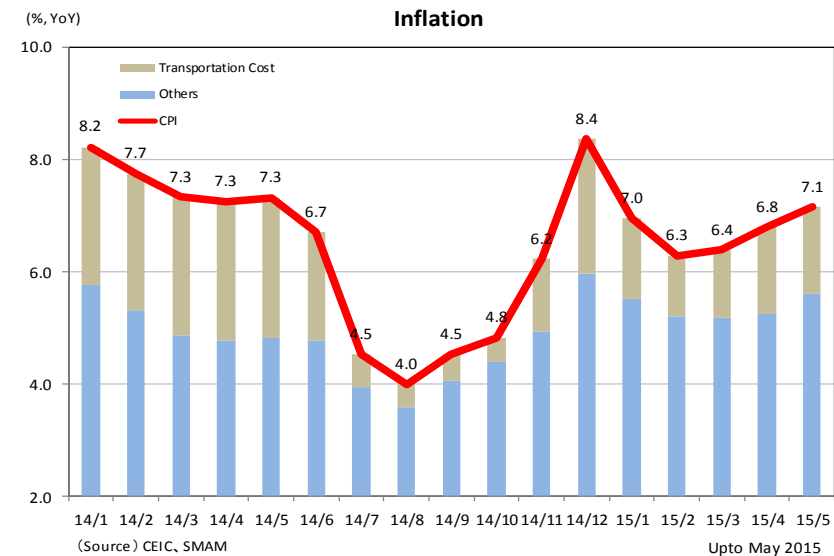
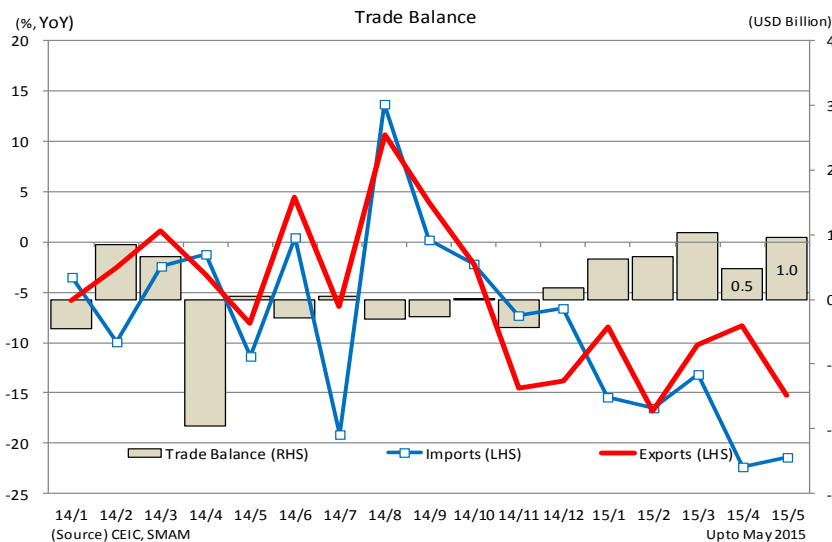
India

- January-March GDP came in at +7.5% YoY, higher than consensus of +7.3% from 6.6% YoY (revised down from 7.5% YoY) in Q4 2014.
- The economy is less vulnerable to global economic cycle as the Exports to GDP is 15%, lower than in other Asian countries. The economy is likely to grow 8% in FY2015 and FY2016 on the solid domestic demand amid low inflation pressure. We maintain GDP forecast at +7.8% and +8.1% for 2015 and 2016.
- India's Trade deficit narrowed further to US\$10.4 billion in May from US\$11.0 billion in April.
- April Industrial Production rose to +4.1% YoY from +2.5% YoY in March (revised up from +2.1% YoY). IP grew at +2.5% MoM, seasonally adjusted after declining in March, too.
- RBI cut the repo rate by 25bps to 7.25% in line with consensus expectations. The central bank raised its inflation forecast to +6% by January 2016 from +5.8%. CPI headline inflation moved up to +5.0% YoY in May from +4.9% YoY in April, in line with consensus.



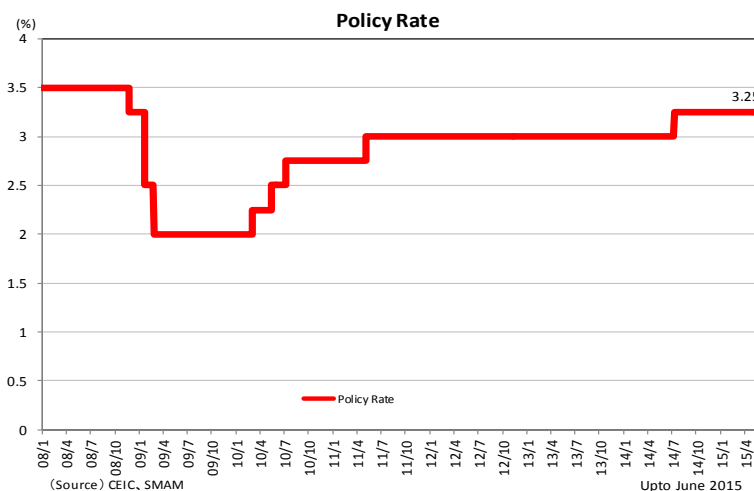
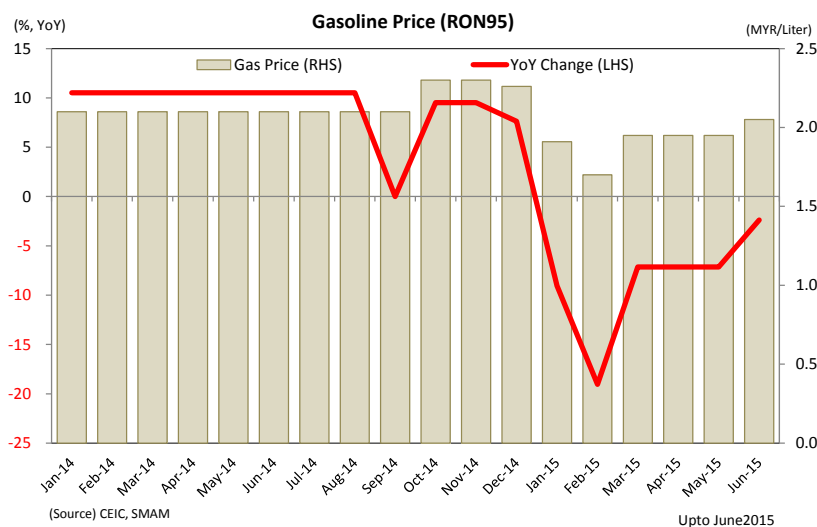
Indonesia

- Weaker than expected January-March real GDP came in, slowing to +4.7%, lower than consensus of +4.9%, from +5.0% in the previous quarter. Year growth below +5% was for the first time since 2009.
- Although low crude oil price is generally a tailwind on the macro economy for a net oil importer, Indonesia, the low commodity prices put downward pressure on its export goods prices. Trade balance marked a surplus of USD1.0 billion in May, double from the previous month's surplus of USD0.5 billion. We maintained real GDP forecast to +4.9% for 2015 and +5.5% for 2016.
- Headline inflation in May picked up to +7.1% YoY more than expectation of +7.0% on higher food costs from +6.8% in the previous month. Bank Indonesia kept the benchmark policy rate, overnight deposit rate and the lending rate unchanged at 7.5%, 5.5% and 8.0%, respectively in the MPC on June 18th.



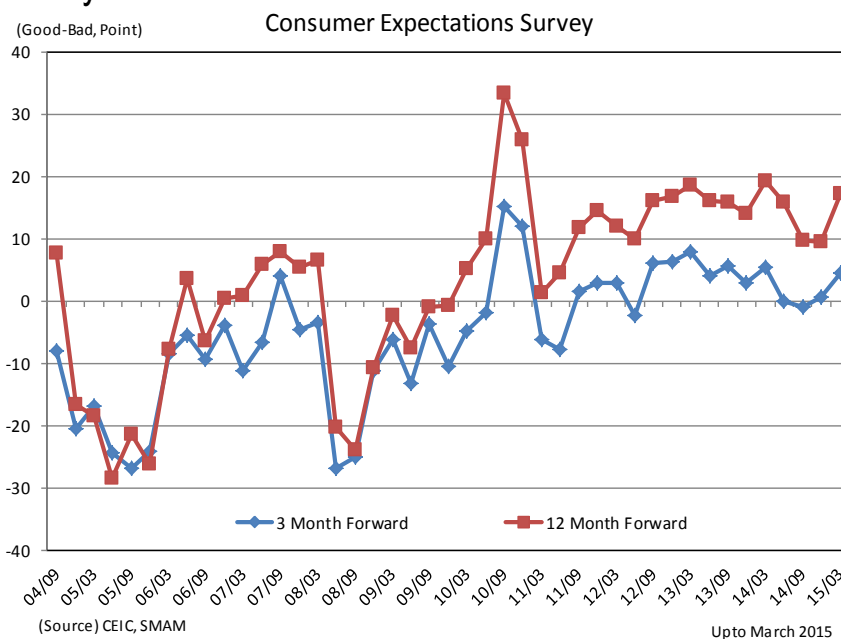
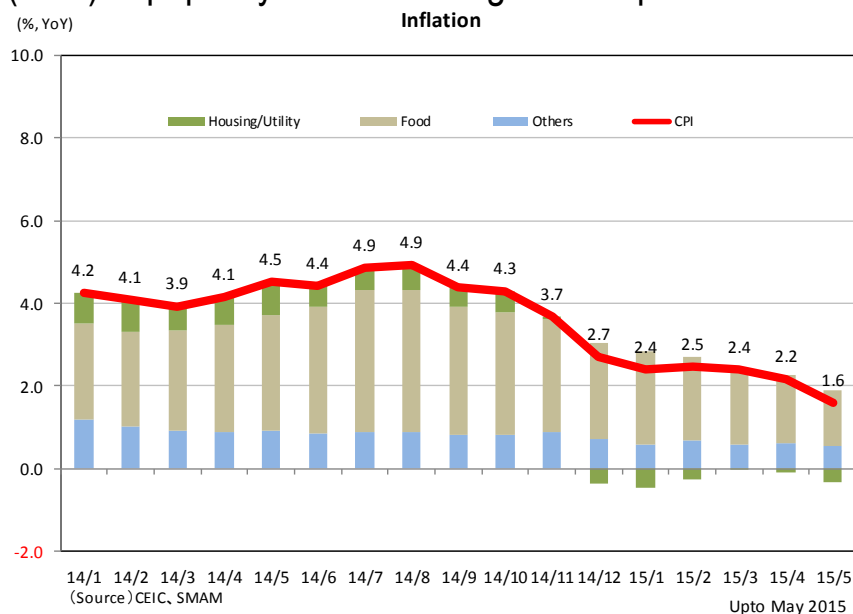
Malaysia

- We maintained real GDP forecast at +4.8% for 2015 and +5.0% for 2016.
- April Trade surplus widened slightly (on a seasonally adjusted basis) with lower mineral fuel and machinery-transport equipment Imports. April Exports slid to -8.4% YoY, lower than consensus of -5.5% from +2.3% YoY in March. Imports fell to -7.0% YoY, lower than consensus of +0.9% from +5.8% YoY in March.
- Inflation pressure has been eased down since fuel price subsidies ended, however domestic demand remains under pressure as 6% GST was introduced in April 2015. Headline inflation rose to +2.1% YoY in May on higher food and housing & utilities costs, in line with market consensus of +2.1% YoY from +1.8% YoY in April. Core inflation jumped to +3.4% YoY, its highest recorded level since the global financial crisis in 2008.



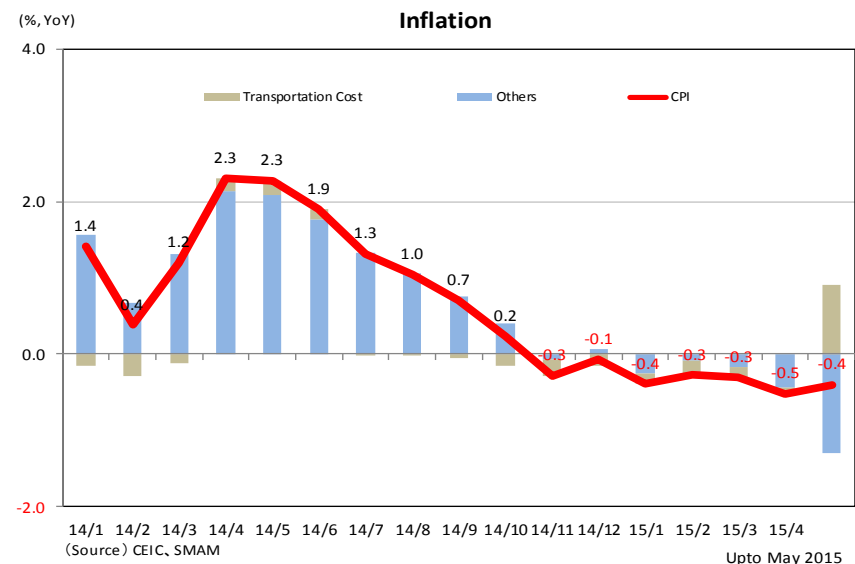
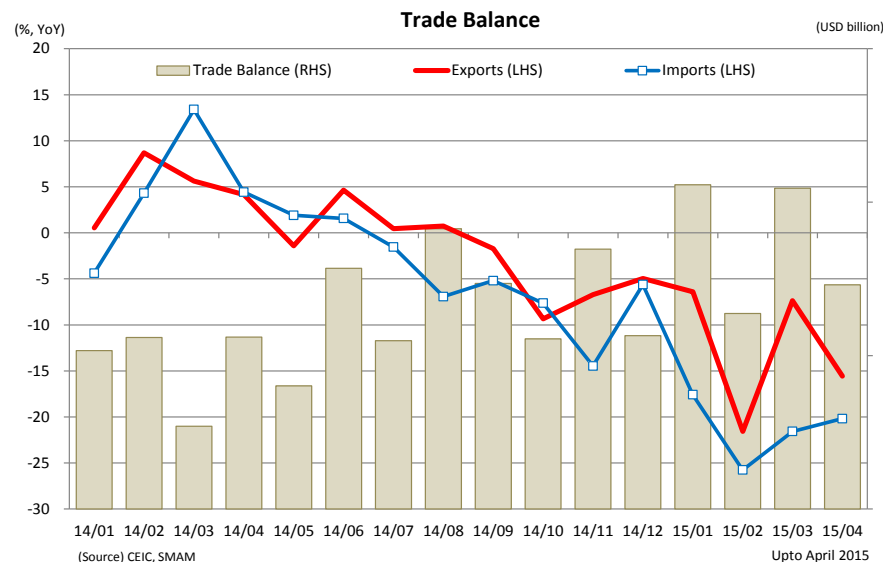
Philippines

- January-March real GDP slowed down on weak exports to +5.2%, much lower than consensus of +6.6% from +6.6% in October-December 2014. We cut real GDP forecast to +6.1% for 2015 after the 1Q GDP released, but raised 2016 growth forecast accelerating to +6.6%.
- The economy is expected to accelerate in 2H 2015 on the back of solid domestic demand. The Philippines' economy is less vulnerable to global economic cycle as the Exports to GDP is 20%, lower than other Asian countries. As the population of middle income class increases, the Consumption-led domestic demand is expected to expand under subdued inflation environment.
- Headline inflation fell in May to +1.6% YoY from +2.2% YoY in the previous month on lower food costs and energy prices. Core inflation decelerated to +2.2% YoY from +2.5% YoY in April. Bangko Sentral ng Pilipinas (BSP) kept policy rates unchanged as expected in the Monetary Board on June 25th.



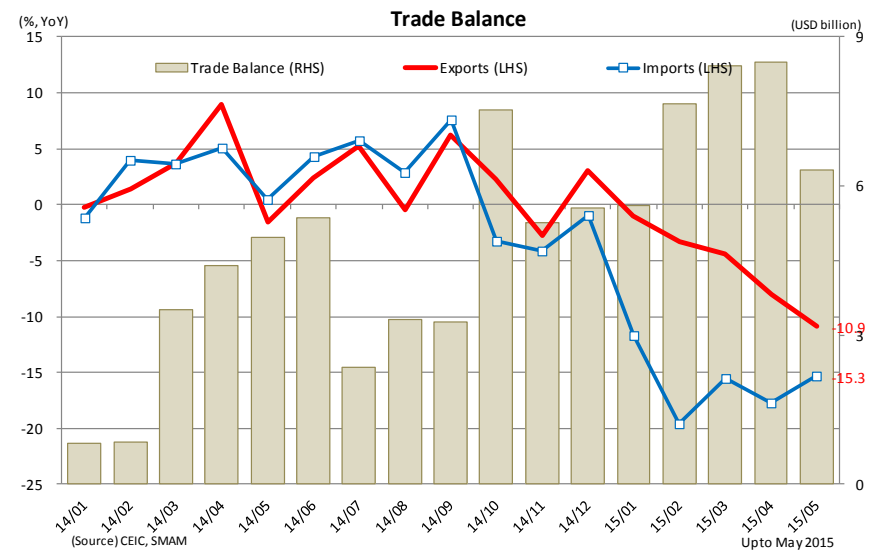
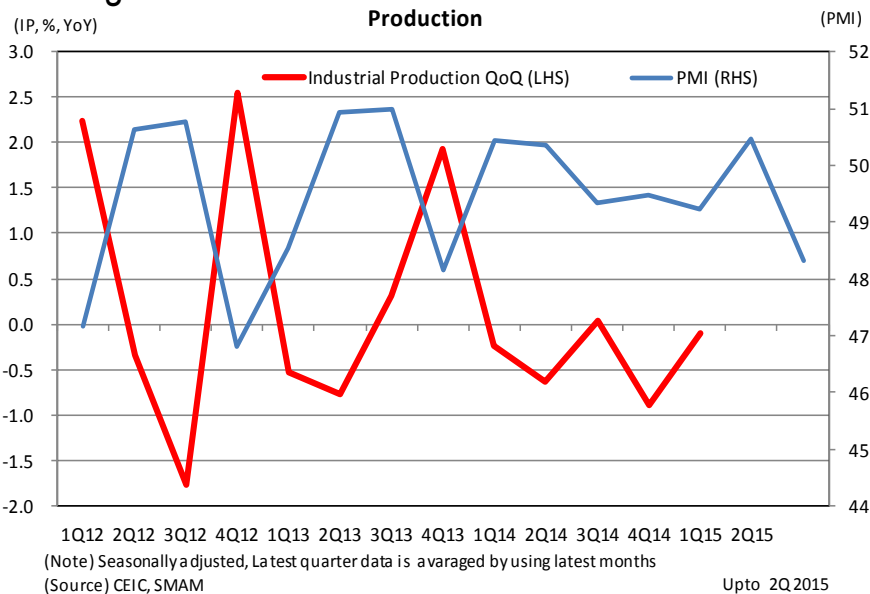
Singapore

- January-March revised GDP came in on May 26th, which beat consensus of +2.2% YoY and grew to +2.6% YoY from advanced estimate of +2.1% YoY in April.
- The Singapore's economy is vulnerable to global economic cycle as the Exports to GDP is extremely high at 130%. The high Export sensitive economy is dragged by weak China's economy. Additionally, slowdown of Malaysia, an important trade partner should soften the economy of Singapore in 2015. We maintained real GDP forecast at +2.7% and +3.3% for 2015 and 2016.
- Headline inflation in May came in at -0.4% YoY, up from -0.5% in April, in line with market consensus. Negative inflation was 7 consecutive months. Private road transportation costs (weighing 11.5% in CPI basket) contributed to the pickup in headline inflation to +1.0% YoY in May from -2.1% YoY in April. whereas, food prices (weighing 21.7%) moderated to +1.8% YoY from +2.1% YoY previously and accommodation costs (weighing 22.9%) remained unchanged.



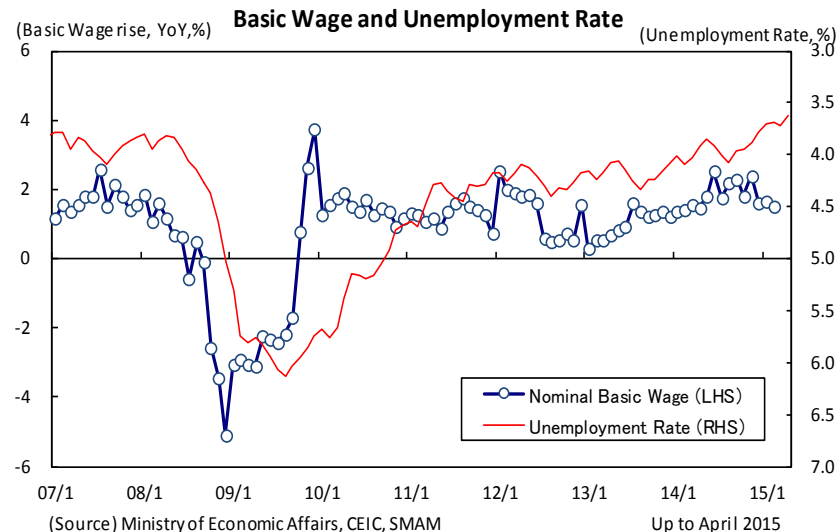
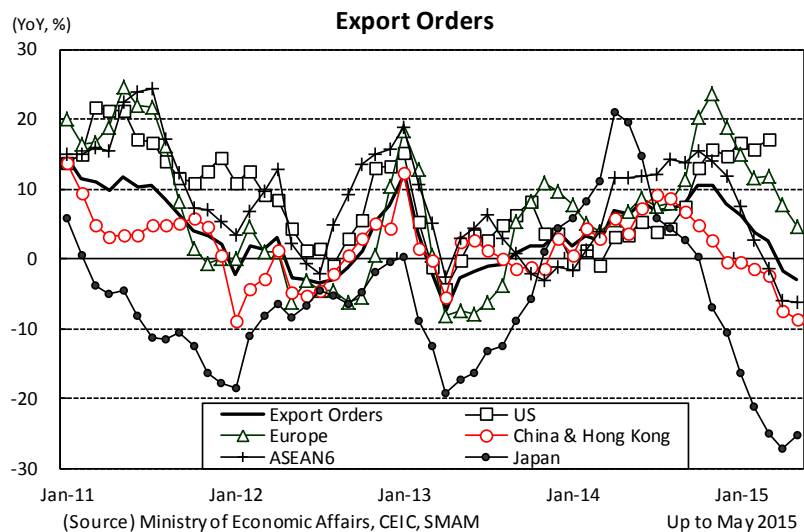
South Korea

- We cut real GDP forecast to +2.8% for 2015 and to +3.3% for 2016.
- Due to slowdown in China's economy and rising real effective exchange rates, Exports fell -10.9% YoY in May, the sharpest decline since September 2009. The number was in line with consensus of -10.7% YoY.
- April Industrial Production fell to -1.2% MoM, much lower than consensus of +0.2%, weakening further from -0.4% MoM in the previous month.
- Bank of Korea cut its policy rate by 25bp to a historical low of 1.5% in the MPC on June 11th. May headline CPI inflation rose slightly to +0.5% YoY after declining for 6 months, marginally above consensus of +0.4% YoY from +0.4% in April. Core inflation recovered slightly to +2.1% YoY from +2.0% YoY in April.
- On June 25th, Ministry of Strategy and Finance (MOSF) released economic stimulus measures for 2H 2015, including an extra budget of over KRW15 trillion for promoting overseas financial investment. The MOSF revised down growth and inflation forecasts for 2015 to +3.1% and +0.7% from +3.8% and +2.0% respectively.



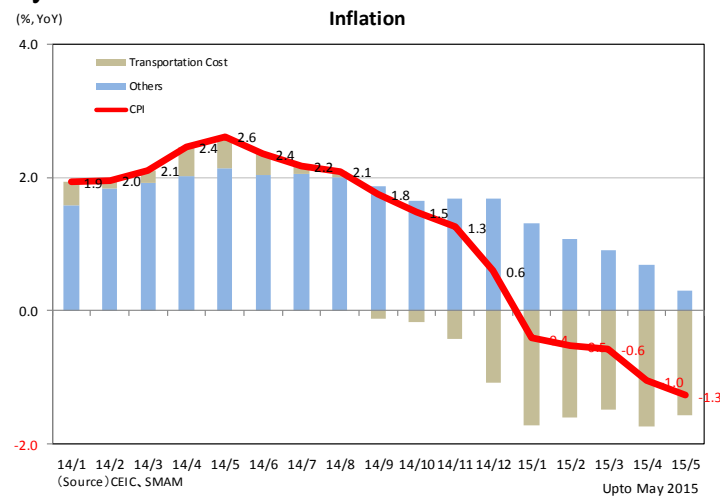
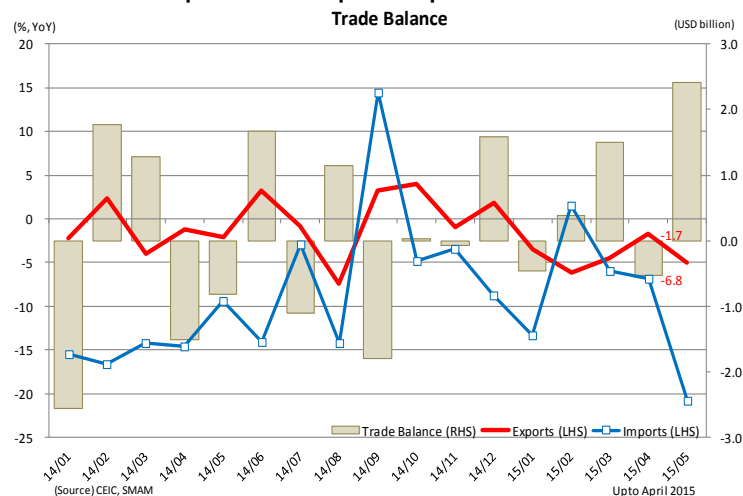
Taiwan

- We maintain +3.5% growth forecast in 2015. Due to softening global growth, Export Orders from China and Hong Kong rapidly contracted in April.
- We expect Taiwan's real GDP to accelerate to +3.7% in 2H 2015 after a slight slowdown to +3.3% in April-June. A tight job market and steady growth in Consumption will support the economy.
- May Industrial Production growth contracted to -3.2% YoY, the first year-on-year decline since Jan 2014, slowing further from +1.3% YoY in April and below consensus of +1.4% YoY.
- May Exports and Imports declined to -3.8% YoY and -5.4% YoY respectively, but both improved from steep declines of -11.7% and -22.1% in the previous month.
- We keep CPI forecast and policy rates on hold as inflation pressure remains subdued. May headline inflation remained negative at -0.7% YoY, in line with consensus. Taiwan's central bank (CBC) left policy rates unchanged (discount rate at 1.875%) in the MPC on June 25th, in line with market expectations.



Thailand

- January-March real GDP was released at +3.0%, weaker than consensus of +3.4% on weaker government expenditures. Although we expect acceleration in 2015, ongoing recovery would be a bounce-back from political turmoil in 1H 2014.
- We cut real GDP forecast to +3.0% for 2015 and to +3.4% for 2016 on concern over weaker government expenditures led by delay of public works. Policy making and execution are key issues. Economic measures often take long until execution as three top officials make decision on the economic policy making. Weak Consumption is likely to continue as the increases in repayment burden on higher debts decreases disposable income for household. Regional economy has stagnated since rice-collateralized loans were abolished.
- Trade balance returned to surplus in May and posted its largest surplus since September 2010. Exports in May fell to -5.0% YoY from -1.7% YoY in April, whereas Imports contracted to -20.0% YoY from -6.8% YoY.
- Headline inflation in May declined further to -1.3% YoY, lower than consensus of -1.1% from -1.0% YoY in April. We expect additional rate cut during this year although Bank of Thailand kept policy on hold in MPC on June 10th as "inflation is expected to pick up in the second half of the year."



Outlook for Asian Stock Markets

Stock Market Performance - Global

	Indices as of 29 Jun 2015	Px Last	Mtd	Qtd	Ytd	3m	1yr	2yr	3yr
1	S&P 500 INDEX	2,101.49	-0.3%	1.6%	2.1%	2.0%	7.2%	30.8%	54.3%
2	DOW JONES INDUS. AVG	17,946.68	-0.4%	1.0%	0.7%	1.3%	6.5%	20.4%	39.3%
3	NASDAQ COMPOSITE INDEX	5,080.51	0.2%	3.7%	7.3%	3.9%	15.5%	49.3%	73.1%
4	STOXX Europe 50 € Pr	3,423.68	-0.6%	-0.3%	14.0%	0.0%	13.6%	31.5%	43.8%
5	NIKKEI 225	20,333.69	-1.1%	5.9%	16.5%	5.4%	34.7%	48.7%	125.8%
6	TOPIX	1,634.51	-2.3%	5.9%	16.1%	5.3%	30.4%	44.2%	112.3%
7	BRAZIL BOVESPA INDEX	54,016.97	2.4%	5.6%	8.0%	7.8%	1.6%	13.8%	-0.6%
8	RUSSIAN RTS INDEX \$	943.01	-2.7%	7.1%	19.3%	10.1%	-31.7%	-26.1%	-30.2%
9	BSE SENSEX 30 INDEX	27,811.84	-0.1%	-0.5%	1.1%	1.3%	10.8%	43.4%	59.6%
10	HANG SENG INDEX	26,280.34	-4.2%	5.5%	11.3%	7.3%	13.2%	26.3%	35.2%
11	HANG SENG CHINA AFF. CRP	4,870.41	-5.9%	4.7%	12.0%	7.1%	12.2%	20.9%	28.3%
12	HANG SENG CHINA ENT INDX	12,945.59	-8.2%	4.9%	8.0%	8.8%	25.6%	39.0%	35.2%
13	CSI 300 INDEX	4,433.22	-8.4%	9.4%	25.5%	11.6%	106.2%	101.5%	80.1%
14	TAIWAN TAIEX INDEX	9,301.60	-4.1%	-3.0%	-0.1%	-2.1%	-0.1%	15.4%	27.5%
15	KOSPI INDEX	2,058.45	-2.7%	0.9%	7.5%	1.9%	3.5%	10.5%	11.0%
16	STRAITS TIMES INDEX	3,283.12	-3.2%	-4.8%	-2.4%	-4.8%	0.4%	4.2%	14.1%
17	FTSE Bursa Malaysia KLCI	1,698.38	-2.8%	-7.2%	-3.6%	-6.3%	-9.7%	-4.2%	6.2%
18	STOCK EXCH OF THAI INDEX	1,518.03	1.5%	0.8%	1.4%	1.5%	2.3%	4.6%	29.5%
19	JAKARTA COMPOSITE INDEX	4,884.83	-6.4%	-11.5%	-6.5%	-9.5%	0.8%	1.4%	23.5%
20	PSEi - PHILIPPINE SE IDX	7,520.16	-0.8%	-5.3%	4.0%	-4.5%	9.9%	16.3%	43.3%
21	HO CHI MINH STOCK INDEX	581.75	2.1%	5.6%	6.6%	5.5%	0.5%	20.9%	37.7%
22	S&P/ASX 200 INDEX	5,437.20	-5.9%	-7.7%	0.5%	-8.2%	-0.1%	13.2%	32.8%
23	NZX 50 INDEX	5,699.01	-2.5%	-2.3%	2.3%	-2.7%	10.8%	28.4%	67.6%
24	MSCI World Free Local	438.23	-0.7%	1.1%	5.5%	1.3%	9.1%	31.3%	59.7%
25	MSCI All Country Asia Ex Japan	716.68	-3.1%	0.7%	6.0%	2.1%	7.6%	24.1%	31.0%
26	MSCI EM Latin America Local	69,560.89	1.5%	3.6%	4.1%	4.9%	-1.4%	8.3%	1.8%
27	MSCI Emerging Markets Europe M	499.87	1.1%	0.4%	5.4%	2.5%	1.7%	19.5%	24.3%

Note: All data are as of June 29th 2015

Compiled by SMAM based on Bloomberg

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

Outlook for Global Markets

- ◆ We became more "Positive" about Asian market after recent market correction. Ample global liquidity and increasing policy support are the driver for re-rating of the valuation. Stabilizing corporate earnings outlook should also help the market in the medium term.

Outlook for Asia Pacific Region

- ◆ Underlying economic conditions in Asia will improve gradually. Solid recovery of US and stabilizing China's economy should be supportive.
- ◆ Revision of Corporate earning seems to be stabilized.
- ◆ Valuation has already come back to historical average level. It can rise further, given the ample liquidity all over the world.
- ◆ Change of US monetary policy will not significantly impact to Asian equity market as long as long bond yields remain stable.
- ◆ Some external factors including Russia, crude oil price, Greece and geopolitical turmoil in Middle East together with China will create volatility in the market in the near term.

Investment Outlook: Macro & Stock Market – Asia Pacific by Market (i)

Positive
Negative

	Outlook, Reason for OWUW	1.Macro Trend					2.Stock Market	
		Politics	Macro	Interest rate / Inflation / Liquidity	External Account	Currency	Earnings Momentum	Valuation
Hong Kong	- Big beneficiary for China's policy supports, although underlying economy is still subdued. - Market overheat is eased (RSI).	Stable More focus on Economy side.	Slow recovery is expected. o 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 expands, CA surplus will continues.	Stable	<u>Revision is still weak but seems to be bottomed out.</u>	Fair
China	- Safe Heaven from Global Risk rather than epicenter in the medium term. - Strong Policy support can be expected. - Market overheat is eased (RSI)	Stable	Hard landing risk diminished. Economic growth will lose momentum gradually. Structural rebalancing should be the key challenge.	o More accommodative monetary policy is expected. / Int. rate will come down / Inflation will not be a key concern.	Surplus- Stable	Stable (Downward pressure in the near term)	Revision is still weak but seems to be bottomed out.	Recovered to historical average level.
Taiwan	- Underlying fundamentals remains solid - IT started to lose momentum in the near term. - Relatively safe to US rate hike.	Stable, but uncertainty will increase before presidential election in 2016.	o Mildly recover driven by export and domestic demand. Stable revision of GDP forecast.	Int. rate will be stable. / Inflation will be stable. / Liquidity is improving.	Surplus will expand	Stable	Earnings Revision seems to be peaked out ↓	Fair
Korea	- Still in the transition. Structural re-rating will not happen although good inflow from overseas investors will support it in the near term.	Stable. But current government is not strong enough to implement structural reform.	X Growth outlook is eased due to weak export environment in China and higher KRW. ↓ MERS is a near term concern	o Easing bias continues / Inflation will be stable / Liquidity is improving.	Surplus will expand	Stable	Earnings Revision is bottomed out ↑	Mixed. PER : not cheap PBR: still cheap However there is a reason for the discount.
Singapore	- Stable Mkt and policy headwind is easing.	Stable General Election by Jan 2017.	X The pace of economic recovery is slow 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 continues.	Downward bias in the near term. / upward bias in the longer term.	Earnings revision is still weak.	Relatively cheap
Malaysia	- Loosing defensiveness. Underlying macro fundamentals are still weakening.	Stable, but UMNO is losing supports.	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.	Downward bias in the near term. / upward bias in the longer term.	xRevision is very weak.	Fair

Note: Compiled by SMAM as of June 29th 2015

Investment Outlook: Macro & Stock Market – Asia Pacific by Market (ii)

:Positive
 :Negative

	Outlook, Reason for OWUW	1.Macro Trend				2.Stock Market		
		Politics	Macro	Interest rate / Inflation / Liquidity	External Account	Currency	Earnings Momentum	Valuation
Thailand	- Slower recovery will continue. - Less support from Valuation side while headwinds to Corporate Earnings 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.	Back to CA surplus but it will be narrowed. ↓	Downward bias in the near term. / upward bias in the longer term.	*Revision is very weak.	Not cheap
Indonesia	- Macro headwinds continue to increase and outlook for corporate earnings become tougher. - Policy initiative becomes less clear.	Honeymoon period of President Jokowi is behind us. ↓	Underlying economy is weaker than expected due to delay of FAI and weaker export. ↓	Surprising rate cut by easing inflationary pressure. It should be positive in the near term but potential risk is increasing.	CA deficit will continue but it will be narrowed. Tailwind by low crude oil price can be expected.	Pressure of depreciation remains.	*Revision 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 be stable.	Stable	*Revision is weakening. ↓.	*Mildly Expensive
India	- Overall macro fundamentals will improve given its strong policy supports. - Consensus OW Mkt, however it becomes less clouded.	+Potential of economic reform after the land slide victory of BJP.	o Stabilized and steady growth is expected. Lower crude oil price and inflation is supportive to domestic consumption.	o Rate cut started and further room for rate cut / Inflationary pressure peaked out.	Trade / CA deficit has shrunk sharply	Pressure of depreciation remains, but RBI has already implemented proper policy.	* 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	Balanced	Gradual depreciation	Improving	Within FV range.

Note: Compiled by SMAM as of June 29th 2015

Market Focus (i): Indonesia – *Underweight from Overweight*

- Although Jokowi's policy, reduction of fuel subsidy was highly appreciated at inauguration, later than expected government expenses are pulling expectations for economic reform down. Slower government expenditures delays infrastructure investment and weighs on the macro economy. However, investment from Japan will remain at a solid pace in mid-to-long term.
- China's slowdown is a headwind on Exports, especially for commodity goods. Higher Inflation and Current Account deficit put downward pressure on Indonesia Rupiah, while Bank Indonesia conducts monetary easing policy for stimulating the economy. However, further currency depreciation like Asian currency crisis is unlikely as the fundamentals remain stable; fiscal deficit to GDP and Debt Service ratios are still low.
- MSCI Indonesia (local) fell -6.7% MTD as of June 26th, while MSCI Asia ex Japan sagged -1.7% in the same period. The stocks were the worst performer in Asian markets.
- Indonesia has remained relatively solid earnings compared with those in other Asian countries. However, we downgrade the outlook on slower earnings growth.

Market Focus (ii): South Korea – *Underweight continued*

- South Korean economy is expected to remain slower despite moderate global growth. Deceleration of JPY weighs on Korea's competitiveness. China's over-capacity in production is another headwind.
- MSCI South Korea (local) retracted -3.3% MTD as of June 26th, underperforming MSCI Asia ex Japan of -1.7% in the same period.
- In addition to external uncertainties such as Greek debt negotiation and higher bond yields in US and EU markets, spread of infection of Middle East respiratory syndrome coronavirus (MERS) drags the economy and the equity market. Airlines and retail stocks dropped, whereas health care, energy and materials stocks moved higher. Semiconductor shares plunged on lower DRAM chip prices.
- The stocks are one of the lagging markets in Asian region as Chinese stocks soared from the bottom. However, currently lower rates and higher liquidity have not pushed the P/E multiple higher. We expect lower multiple to continue for the time being and keep Underweight unchanged.

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