# Asian Stock Market Outlook

SMAM monthly comments & views

September 2015

SMAM

Sumitomo Mitsui Asset Management

# Executive summary

## ◆ Asian Economy

China's economy is expected to remain on a declining trend whereas full-fledged economic stimulus package will lead to a temporary upturn in the late 2015. Public investments by those measures will contribute to Fixed Asset Investment (FAI) growth and property market in China. SMAM cut eight countries' growth forecasts as Asian region suffers from a slowdown in China and/or individual reasons such as accelerating food inflation.

- ✓ We revised China's real GDP forecast downward to +6.7% for 2016 on expectations for deteriorating Exports in 2016.
- ✓ We cut real GDP growth forecasts of Taiwan, South Korea, Philippines, Thailand, Singapore and Indonesia for both 2015 and 2016.
- ✓ For Hong Kong and Malaysia, we raised real GDP forecasts for 2015 to +2.3% and +4.9% respectively.

## ◆ 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 will continue in the short term.

- ✓ Macro economy in most of Asian countries are not growing as expected, however it is likely to bottom out by strong policy supports especially in China. We expect global economy continues to recover gradually.
- ✓ Revisions of Corporate earnings are still weak but they will stabilize as macro economy improves.
- ✓ Valuations have become attractive again.
- ✓ Change of US monetary policy will not significantly impact to Asian equity markets as long as long bond yields remain stable.
- ✓ Some external factors including Russia, Greece, geopolitical turmoil in Middle East and volatile crude oil price, together with China's downturn will create volatility in the market in the near term.

Note: Economy and Stock markets comments are as of August 17th and 27th 2015 respectively.

# Outlook for Asian Economy

# SMAM Economic Outlook Summary

- We revised China's real GDP forecast downward to +6.7% for 2016.
- We cut real GDP growth forecast of Taiwan, South Korea, Philippines, Thailand, Singapore and Indonesia for both 2015 and 2016.
- For Hong Kong and Malaysia, we raised real GDP forecasts for 2015 to +2.3% and +4.9% respectively.
- We maintained 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 Jul 16th | Consensus | SMAM | Previous Jul 16th | Consensus |
| Australia | 2.1 | 2.7 | 2.3 | 2.3 | 2.5 | 2.7 | 2.7 | 2.8 |
| China | 7.7 | 7.4 | 7.0 | 7.0 | 6.9 | 6.7 | 6.8 | 6.7 |
| Hong Kong | 2.9 | 2.3 | 2.3 | 2.2 | 2.3 | 2.5 | 2.5 | 2.6 |
| India (*) | 5.1 | 7.3 | 7.8 | 7.8 | 7.7 | 8.1 | 8.1 | 8.0 |
| Indonesia | 5.8 | 5.0 | 4.7 | 4.9 | 4.8 | 5.2 | 5.5 | 5.2 |
| Malaysia | 4.7 | 6.0 | 4.9 | 4.8 | 4.8 | 4.9 | 5.0 | 5.0 |
| Philippines | 7.2 | 6.1 | 5.8 | 6.1 | 5.8 | 6.2 | 6.6 | 6.0 |
| Singapore | 3.9 | 2.9 | 2.2 | 2.4 | 2.3 | 2.5 | 2.9 | 2.8 |
| S. Korea | 3.0 | 3.3 | 2.4 | 2.5 | 2.6 | 2.9 | 3.2 | 3.3 |
| Taiwan | 2.2 | 3.7 | 2.1 | 3.1 | 2.6 | 3.3 | 3.4 | 3.3 |
| Thailand | 2.9 | 0.9 | 2.7 | 3.0 | 2.9 | 3.0 | 3.4 | 3.6 |

(Source) SMAM

Consensus Forecasts (Consensus Economics Inc.) as of July 2015 & SMAM Forecasts as of 17 August 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 | 2015E (previous) | 2016E | 2016E (previous) |
|---|---|---|---|---|---|---|
| Real GDP, %YoY | 7.7 | 7.4 | 7.0 | 7.0 | 6.7 | 6.8 |
| Consumption Expenditure, %YoY | 7.3 | 7.3 | 7.7 | 7.4 | 7.4 | 7.3 |
| Gross Fixed Capital Investment, %YoY | 8.9 | 7.5 | 6.4 | 6.2 | 6.5 | 6.4 |
| Net Exports, contrib. | -0.2 | 0.1 | 0.1 | 0.4 | 0.0 | 0.2 |
| Nominal GDP, %YoY | 9.5 | 8.2 | 7.0 | 7.0 | 8.3 | 8.4 |
| GDP Deflator, %YoY | 1.7 | 0.8 | 0.0 | 0.0 | 1.6 | 1.6 |
| Ind. Production, %YoY | 9.7 | 8.3 | 6.7 | 6.7 | 7.0 | 7.0 |
| CPI, %YoY | 2.6 | 2.0 | 1.6 | 1.6 | 2.6 | 2.7 |
| Base Loan Rate, % | 6.00 | 5.60 | 4.60 | 4.60 | 4.60 | 4.60 |

Notes: SMAM estimates as of 17 August 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 | 7.0 | 7.0 | 7.1 | 6.8 | 6.9 | 6.7 | 6.6 |
| previous | - | - | - | 7.0 | 7.0 | 7.1 | 7.1 | 7.0 | 6.7 | 6.6 |
| Consumption Expenditure, %YoY | 6.3 | 7.9 | 6.8 | 9.1 | 7.2 | 7.8 | 7.2 | 7.0 | 6.5 | 8.5 |
| previous | - | - | - | 7.8 | 7.0 | 7.8 | 7.3 | 7.2 | 7.0 | 7.5 |
| cont. to GDP, % | 2.8 | 3.8 | 4.5 | 3.9 | 3.2 | 3.8 | 4.7 | 3.1 | 2.9 | 4.2 |
| previous | - | - | - | 3.4 | 3.1 | 3.8 | 4.8 | 3.1 | 3.1 | 3.7 |
| Gross Fixed Capital Investment, %YoY | 3.9 | 9.9 | 3.5 | 6.6 | 6.7 | 7.4 | 7.4 | 7.0 | 6.0 | 5.9 |
| previous | - | - | - | 6.1 | 6.3 | 7.4 | 7.9 | 6.5 | 5.9 | 5.9 |
| cont. to GDP, % | 2.0 | 4.8 | 1.2 | 3.7 | 3.4 | 3.6 | 2.5 | 3.9 | 3.0 | 2.9 |
| previous | - | - | - | 3.4 | 3.2 | 3.6 | 2.7 | 3.6 | 2.9 | 2.9 |
| Net Exports | 12.3 | 7.9 | 5.7 | -1.1 | 2.0 | 3.0 | 1.0 | 6.0 | 8.0 | 4.0 |
| cont. to GDP, % | 2.7 | -1.5 | 1.3 | 0.4 | 0.5 | -0.4 | -0.3 | 0.3 | 0.6 | 0.0 |
| previous | - | - | - | 0.4 | 0.5 | -0.4 | -0.3 | 0.3 | 0.6 | 0.0 |
| CPI, % | 2.0 | 1.5 | 1.2 | 1.4 | 1.6 | 2.3 | 2.5 | 2.7 | 2.5 | 2.7 |
| previous | - | - | - | 1.4 | 1.4 | 2.3 | 2.7 | 2.6 | 2.7 | 2.8 |
| 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 17 August 2015. Consumption Expenditure and Gross Fixed Capital Investment are SMAM estimates
Source: National Bureau of Statistics of China, CEIC, SMAM

# Chinese Economy Outlook

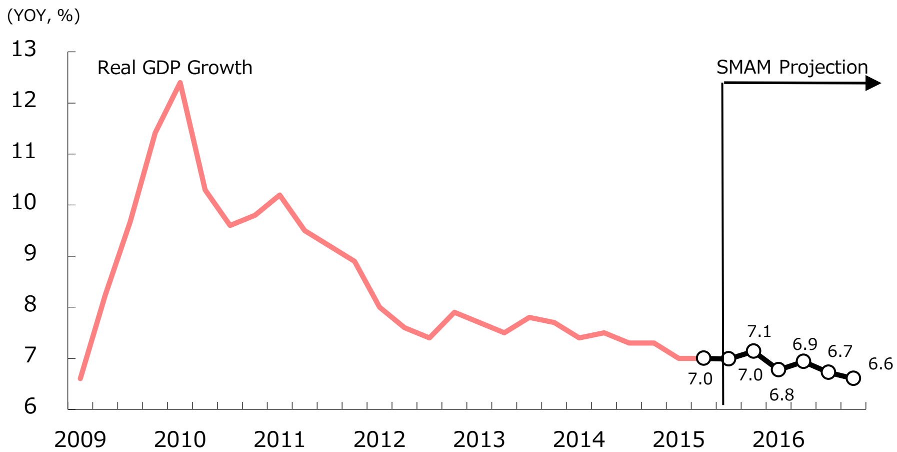
- For China's 2016 real GDP forecast, we revised downward to +6.7% on downward-revised forecasts for exports in 2015 and 2016.

- July activity data was weaker than market expectations including Industrial Production (IP), Retail Sales and FAI growth. Especially, auto sales continued to slump with -6.6% yoy in July.

- However, we foresee July-Sep GDP to grow at the similar pace as in Apr-Jun GDP as shown in improving leading economic indicators. For Oct-Dec GDP, we expect the intensive government supports in July and an improvement of property sales have positive impacts on it.

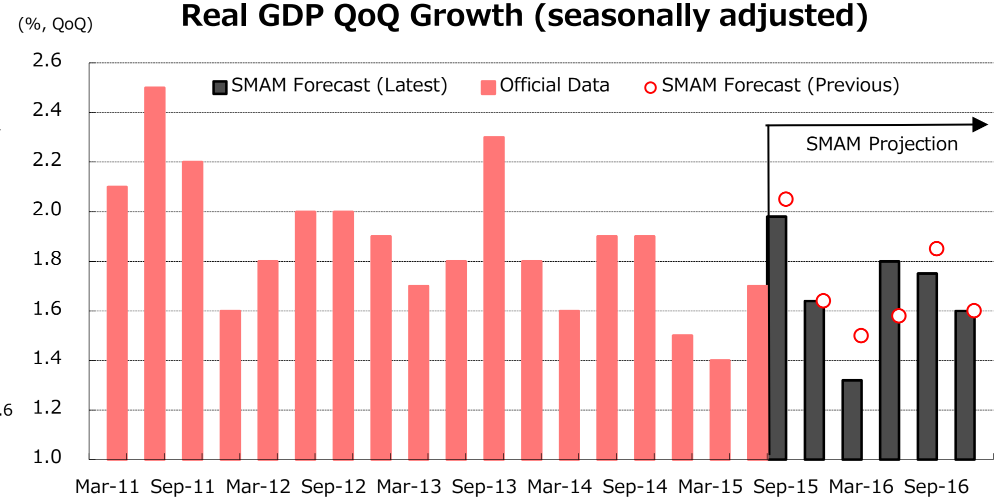
Note: Economy outlook is as of 17 August 2015

**China's GDP Growth and Outlook**




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

**Real GDP QoQ Growth (seasonally adjusted)**

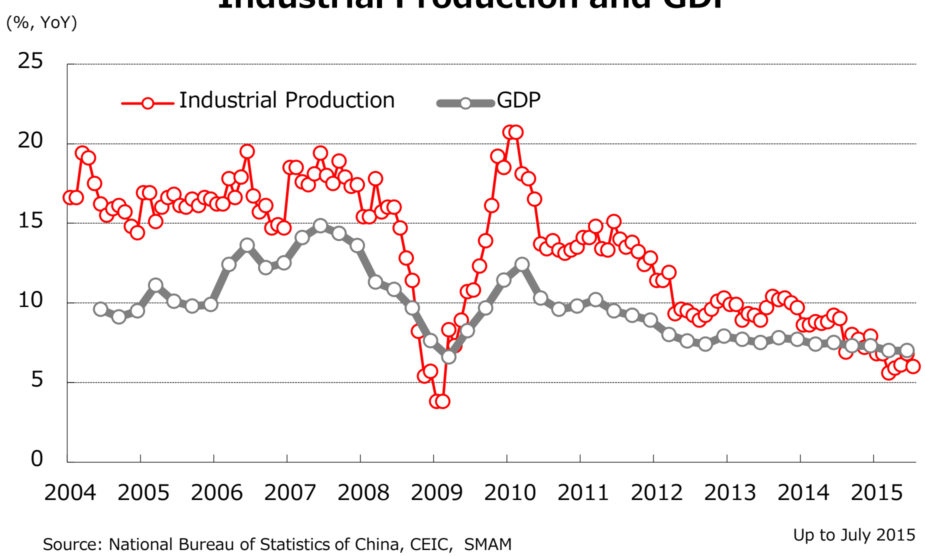



Source: National Bureau of Statistics of China, CEIC, compiled by SMAM-BFG (Up to Oct-Dec 2016)

# China: IP growth remains under inventory pressure

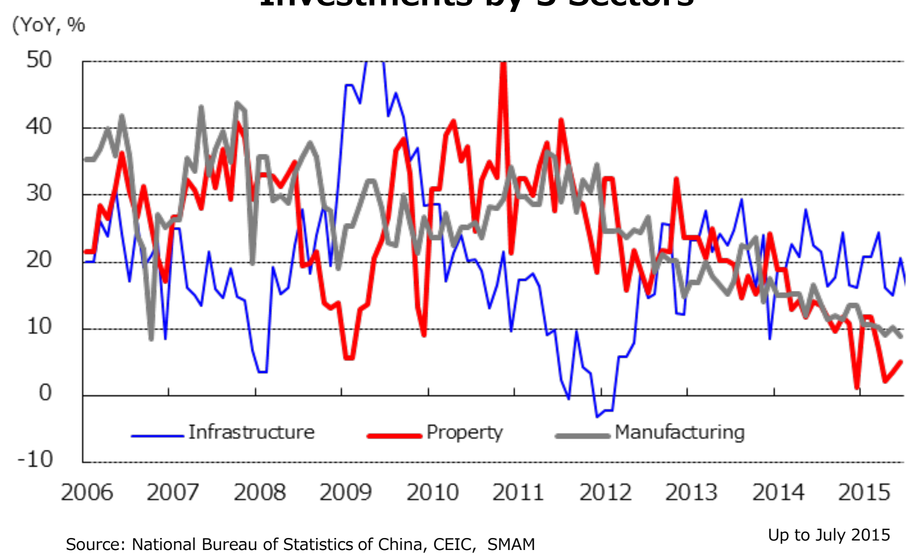
- July's IP growth slowed down to +6.0% yoy from +6.8% yoy in June on weaker sequential exports growth. The material industry weighed on IP growth due to inventory reduction for price stabilization.
- FAI growth in July came in, decreasing to +10.3% yoy from the previous month. July year-to-date FAI (+11.2% yoy) was below market consensus, however, total investments for new projects showed a recovery.
- The government has strengthened measures to support FAI growth since the end of July as all key indicators showing activity growth missed consensus estimates. July's infrastructure investment (+16.2% yoy), falling to below +20%, failed to support total FAI. Nevertheless, we foresee those measures have ripple effects of investments after Q4 2015.

**Industrial Production and GDP**




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

**Investments by 3 Sectors**



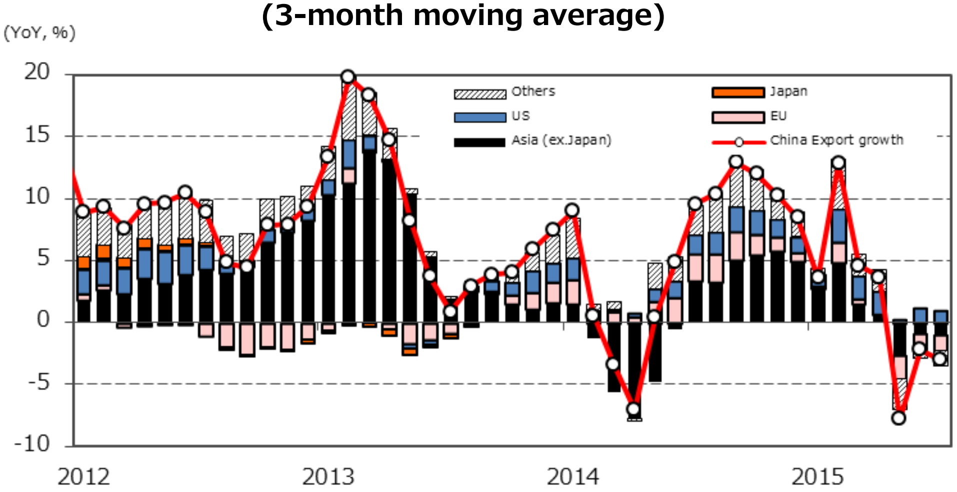

Source: National Bureau of Statistics of China, CEIC, SMAM

# China: Exports growth was weaker than market consensus

- Exports slightly deteriorated to -8.3% yoy for July, much lower than market consensus of -1.5% yoy. July imports of -8.1% yoy slightly contracted after a strong rebound in June. We foresee that further export growth in China is limited. We maintain an outlook that Chinese economy bottomed out in May-June period and would turn to a slow recovery.

- July official manufacturing PMI retreated to 50.0 from 50.2 in June due to weak new orders and new export orders indices, which were below 50 (49.9 and 47.9 respectively), the lowest reading since July 2013.

**China Exports growth and the Contribution rate**
**(3-month moving average)**

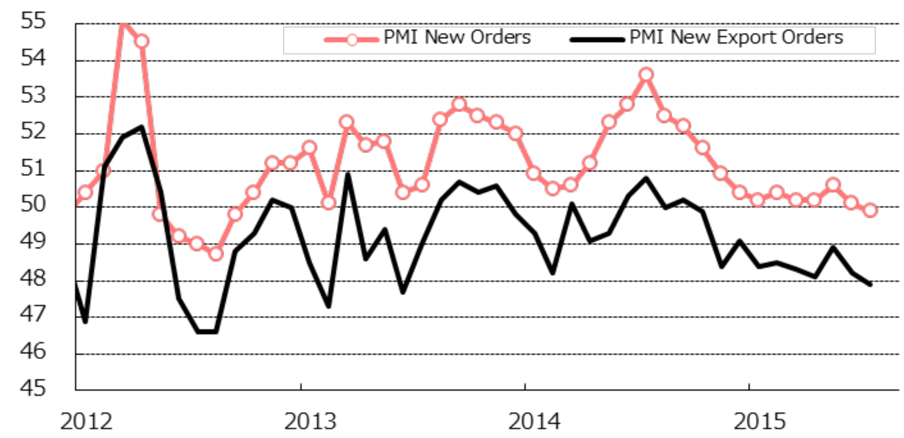



Note: Asia (ex. Japan) is composed of ASEAN, Hong Kong, South Korea, Taiwan and India

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

Up to July 2015

**Official PMI**




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

Up to July 2015

# China: Interest rate and RRR cuts

- The People's Bank of China (PBoC) announced the interest rates and Reserve Requirement Ratio (RRR) to be lowered.

1. 1-year benchmark bank lending rate was cut by 25 bps to +4.6% and 1-year benchmark deposit rates also cut by 25bps to +1.75%.
2. RRR for financial institutions will be lowered by 50bps. For agriculture cooperatives and agriculture commercial banks, additional RRR cuts (50bps) will be given. Leasing financial companies and automobile financial companies can enjoy additional RRR cuts of 350bps.

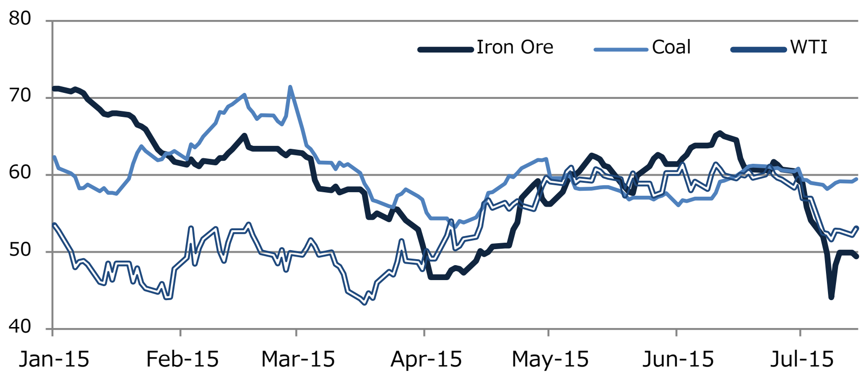
- PBOC has cut interest rates/RRR five times this year; There is still room for more cuts especially for RRR; We expect RMB to be more stable from here with two more RRR cuts combining to 100bps by the end of 2015, despite a strong devaluation expectation especially in offshore market.

# Outlook for Economies in Asia

# Australia

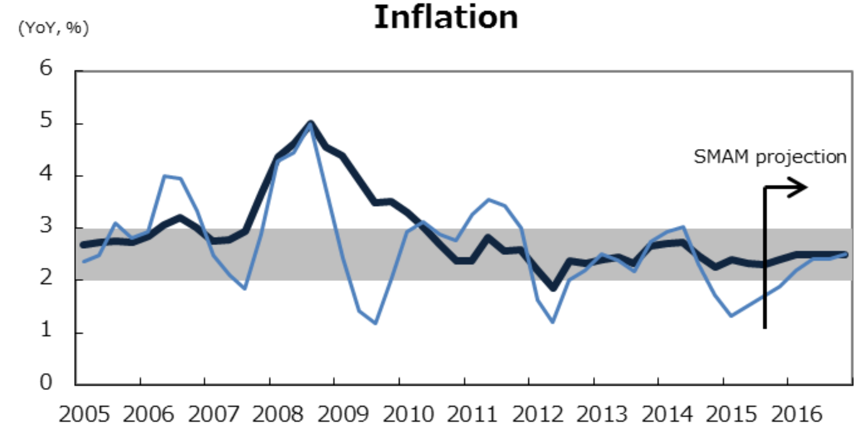
- We maintained real GDP growth forecasts at +2.3% and +2.7% for 2015 and 2016 respectively. We expect the GDP growth will recover moderately at just under cruising speed after correction in 2Q 2015.
- 2Q CPI went up to +1.5% yoy, but core CPI moderated to +2.3% yoy. We revised down CPI forecasts to +1.6% yoy for 2015 and to +2.4% yoy for 2016 on crude oil price falls and wage decreases. However, in our view, an underlying upward trend of inflation will continue headed by trading goods. The inflation rate for non-trading goods remain sluggish.
- Iron ore price, which is on a track to recovery, would be an important factor to accelerate economy or push down the inflation rate.
- July employment rose by 38,500, larger than expectation. The lift in unemployment rate to +6.3% was not a negative sign as the rise was due to growing number of job-seekers who restarted job-hunting.

**Commodity Prices**




Note: Iron Ore Price=Iron ore fines 62% Fe - CFR Tianjin Port (China), Coal Price=Newcastle coal price
Source: Steel Index. ICE. CME. Datastream
Up to July 2015

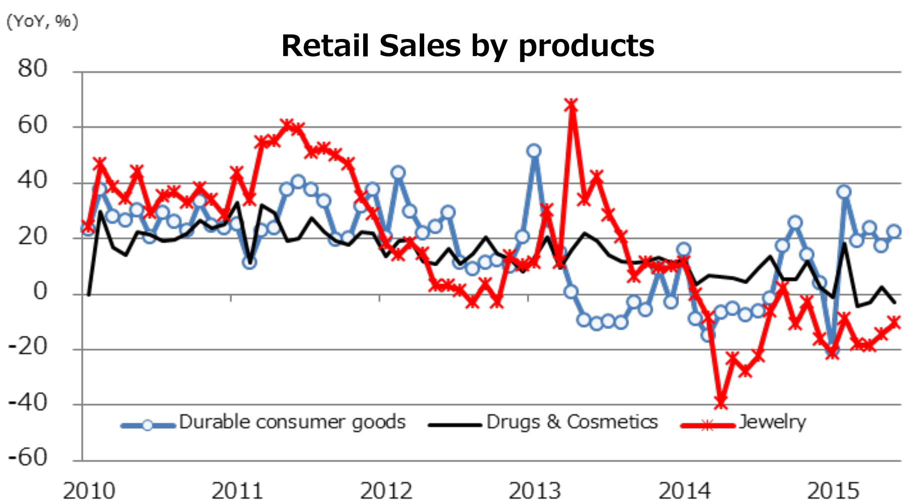
**Inflation**




Note: An inflation target of RBA is +2.0-3.0% YoY. Core CPI is the average of trimmed and weighted mean.
Source: ABS, Datastream
Up to June 2015

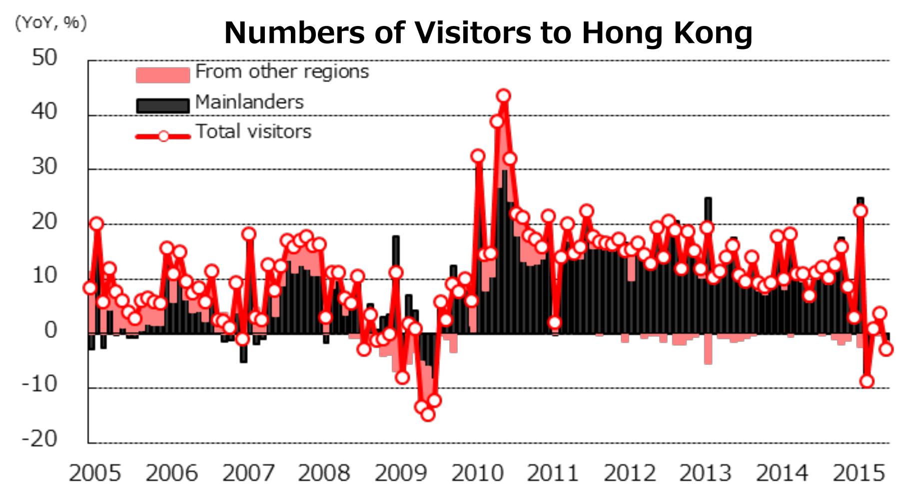
# Hong Kong

- Stronger-than-expected Apr-Jun GDP came in at +2.8%, pushed up by the strong private consumption. However, sustainability of the consumption growth seems to be weak. A consumption increase in early 2015 was just a rebound after a sharp decline in Chinese tourists' demands for jewelry and other goods affected by gold price correction in early 2014.
- We raised real GDP growth forecasts to +2.3% for 2015 from +2.2%. Yet, Jul-Sep GDP growth is likely to moderate as inbound tourism and external trade remain weak.
- June Retail Sales slightly dropped -0.4% yoy for 4 consecutive months. Jewelry sales recovered but still in negative territory. The total number of visitors in June contracted -2.9% yoy.
- Bank loans lending to borrowers in Hong Kong region decelerated to +6.0% yoy in May from +13.1% yoy at the end of 2014.




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

Up to June 2015

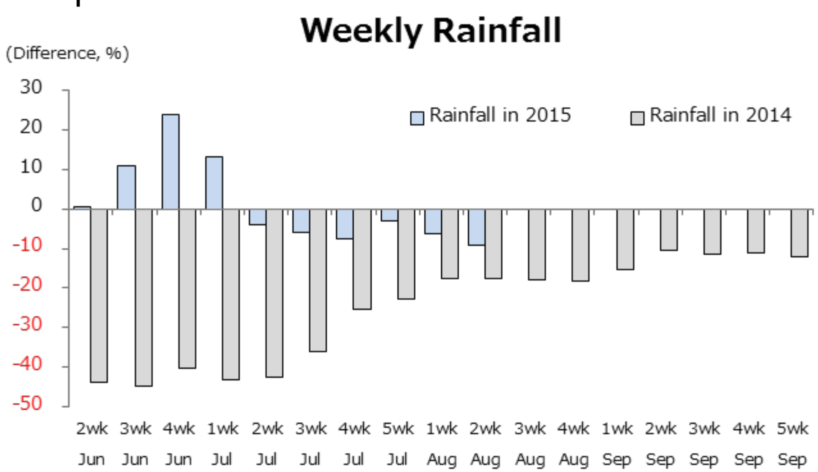



Source: Census and Statistics Department, CEIC, SMAM

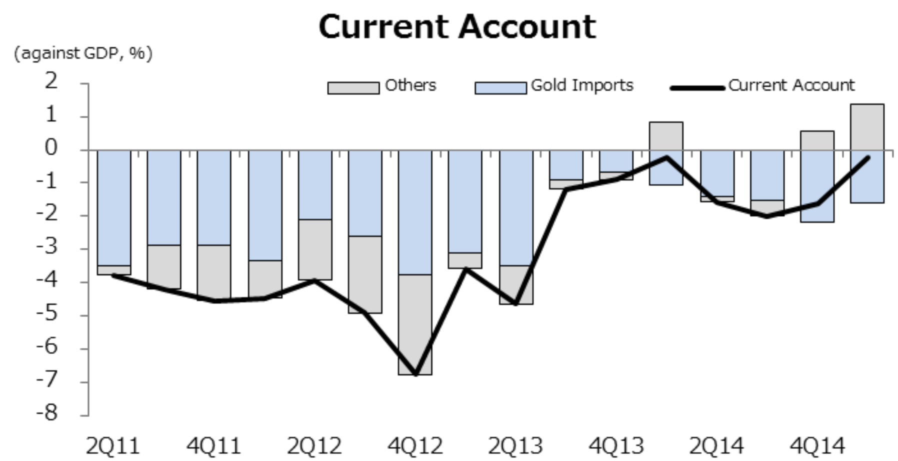
Up to June 2015

# India

- We have maintained GDP forecast at +7.8% for 2015 and +8.1% for 2016 on an economic recovery led by solid domestic demand amid low inflation pressure.
- The economy is less vulnerable to global economic cycle and Chinese economy as the contribution ratio of exports to GDP is 15%, lower than in other countries.
- The softness in July inflation has increased the probability that RBI would cut the current policy rate by the end of Sep 2015. Concerns over inflation were retreated as July CPI sank to +3.8% yoy from +5.4% yoy in June by weak food inflation. Rainfall from Jun 1 to Aug 12, which was 9.0% less than the long-term average, contributed to a fall in food prices, especially vegetables.
- More gold imports cause trade deficit as well as current account deficit to widen. July trade deficit widened to USD 12.8 billion from USD 10.8 billion in June driven by a pick-up in gold imports.



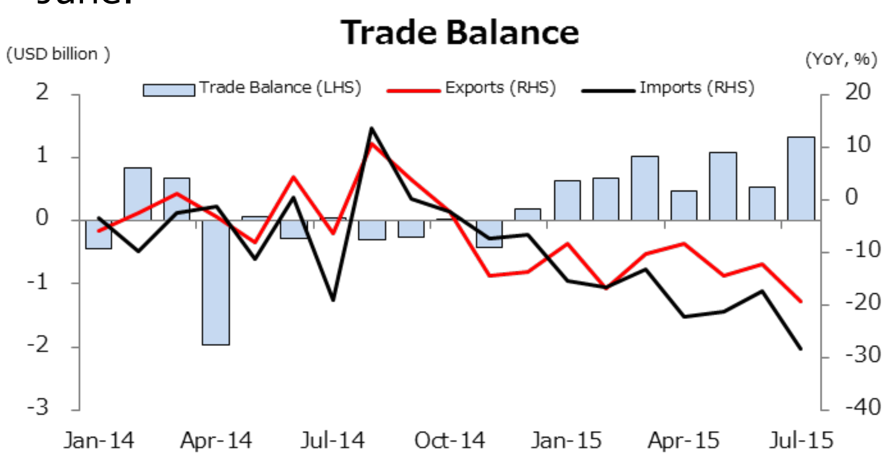

Note: Cumulative rainfall from June 1. Difference with the Long-term average, the average of rainfall during past 50years (1951-2000).
Source: CEIC, SMAM
Up to July 2015




Source: CEIC, SMAM
Up to March 2015

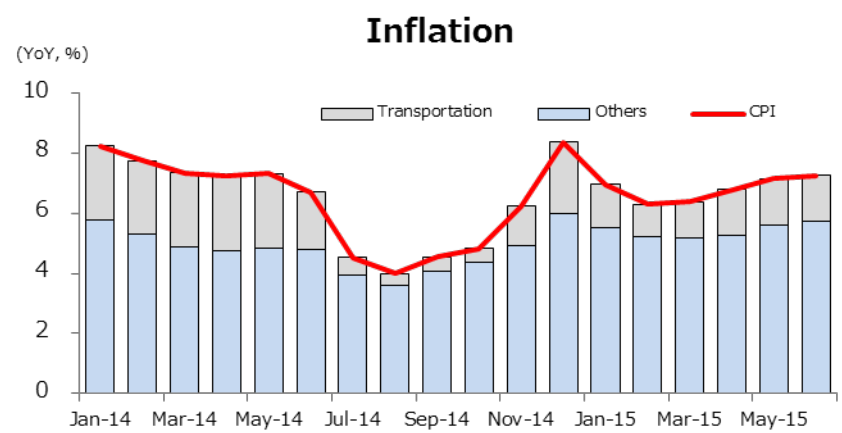
# Indonesia

- We cut the real GDP forecasts to +4.7% for 2015 from +4.9% and to +5.2% for 2016 from +5.5%, whereas Apr-Jun GDP of +4.7% was stronger than market consensus of +4.6%.
- Although low crude oil price is generally a tailwind on the economy for Indonesia, a net oil importer, the low commodity prices put downward pressure on the export goods prices.
- Higher gasoline prices cause inflation to accelerate. The government would increase the gasoline price to improve deteriorating financial condition of Pertamina, the state oil company. Assuming the gasoline price hike, we raised CPI inflation forecasts for 2015 and 2016 to +7.1% yoy and +5.9% yoy respectively.
- Weak domestic demands caused trade balance surplus to increase. July trade surplus widened to +USD 1.3 billion on a sharp decline in imports to -28.4% yoy in July from -17.3% yoy in June.




Source: CEIC, SMAM

Up to July 2015

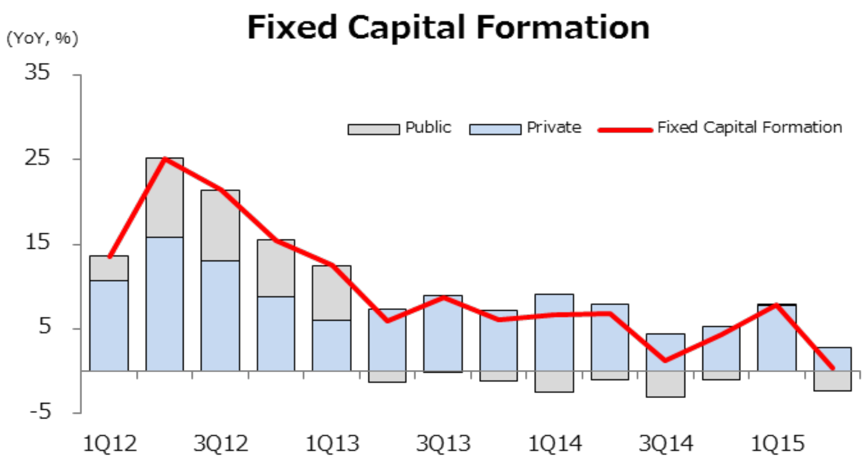



Source: CEIC, SMAM

Up to July 2015

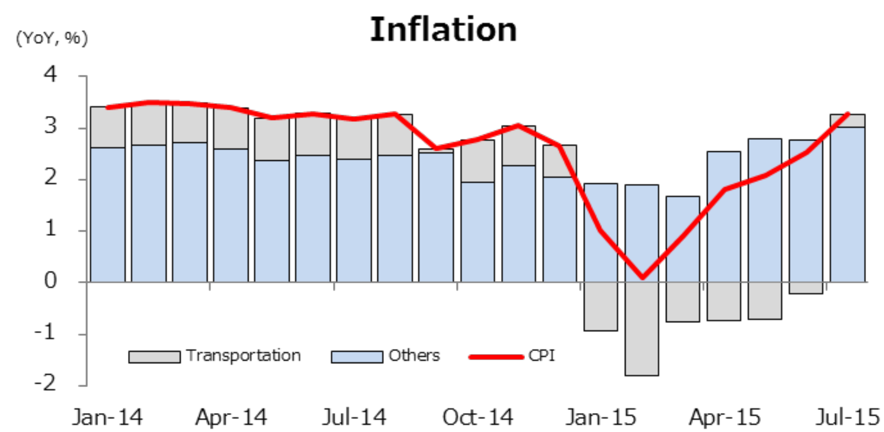
# Malaysia

- Higher than market consensus Apr-Jun GDP came in, at +4.9% yoy. An additional tax, Goods and Services Tax (GST) weighed on the economic growth, especially the private consumption declined to +6.4% yoy in Apr-Jun from +8.8% yoy in Jan-Mar.
- We slightly raised the real GDP forecasts for 2015 to +4.9% and cut the GDP forecast for 2016 to +4.9% amid weak Malaysia Ringgit (MR) led by oil price falls.
- Lower oil prices have caused weaker MR and less aggressive public investment through lower revenue. However, June trade performance (+RM8.0bn) was remarkable, beating market expectation (+RM5.5bn) due to the strong export on the back of weakening ringgit.
- CPI accelerated following the introduction of GST. July CPI rose to +3.3% yoy, higher than market expectation of +2.9% yoy, mainly due to transportation segment.




Source: CEIC, SMAM

Up to June 2015




Note: The government newly applied a controlled float mechanism for gasoline price on Dec 2014. Goods and Services Tax (GST) from Apr 2015 pushed up 1.1ppt inflation rate.

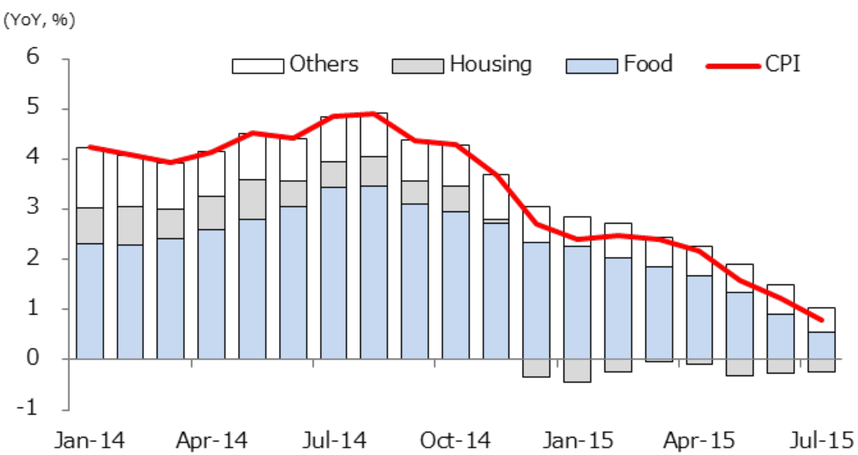
Source: CEIC, SMAM

Up to July 2015

# Philippines

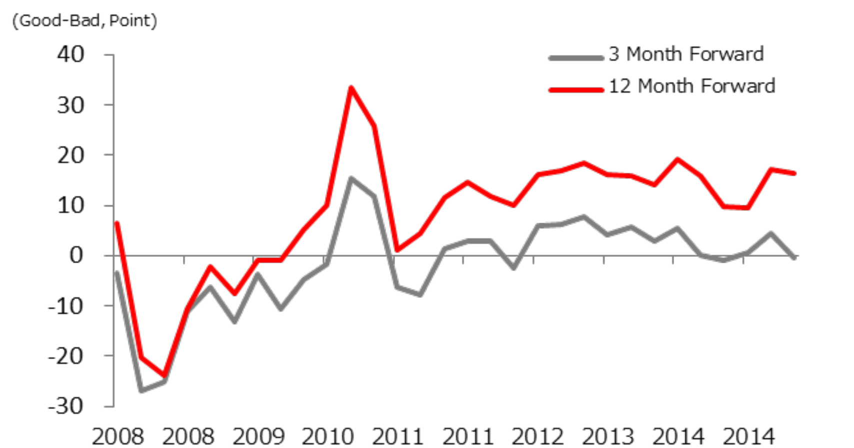
- We cut the real GDP forecasts to +5.8% for 2015 and to +6.2% for 2016 on concerns over the export growth, which is expected to be dragged by weak China's economy.
- July headline CPI decelerated to +0.8% yoy on lower food costs. However, Bangko Sentral ng Pilipinas (BSP) foresees an acceleration of inflation after August due to following possible factors: robust economy, electric rate hike and rising food prices. BSP kept policy rates unchanged in August and we also expect the rates will be held steady till the end of the year.
- Consumer survey is still strong. The economy is less vulnerable to global economic cycle as the contribution ratio of exports to GDP is 22%, lower than in other Asian countries. Additionally, the consumption-led domestic demand is expected to expand under subdued inflation environment and the growing population of middle-income class.

**Inflation**




Source: CEIC, SMAM — Up to July 2015

**Consumer Expectations Survey**

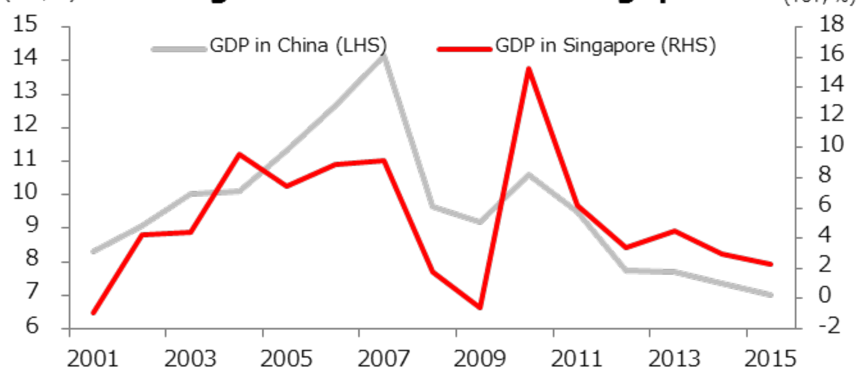



Source: CEIC, SMAM — Up to June 2015

# Singapore

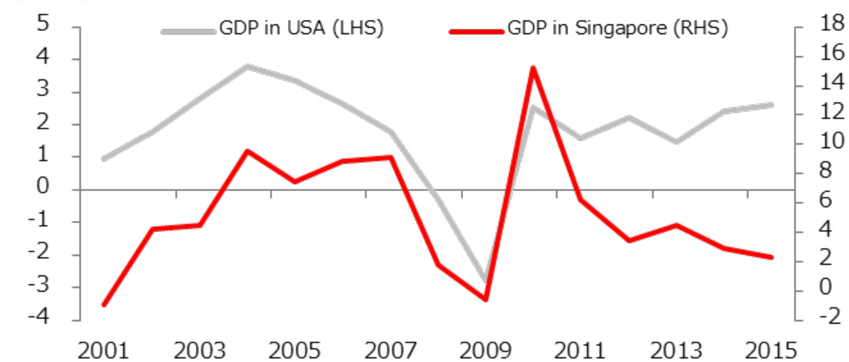
- We have cut real GDP forecast to +2.2% for 2015 and to +2.5% for 2016 on anxieties about a slowdown in exports through weak China's economy.
- The economy is vulnerable to global economic cycle as the contribution ratio of exports to GDP is extremely high at 130%. The highly export-sensitive economy is dragged by slowdown in China. Additionally, Malaysia, an important trade partner, should put downward pressure on Singaporean economy in 2015. Widely fluctuating biomedical manufacturing could be a catalyst/risk for IP.
- Headline inflation in July came in at -0.4% yoy, declining from the previous month of -0.3% yoy on the lower cost of private road transport, but core CPI turned to the positive way, rising to +0.4% yoy from +0.2% in June. Private road transportation costs (weighing 11.5% in CPI basket) contributed to the decline in CPI. On the other hand, the contribution of accommodation costs (weighing 22.9%) declined.

**GDP growth in China and Singapore**




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

**GDP growth in USA and Singapore**




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 GDP growth forecasts to +2.4% for 2015 and to +2.9% for 2016 on deteriorating exports and weak private consumption caused by MERS.
- China economic slowdown still caused Korea exports to drop. Per-day exports for the first 20 days of August declined 11.7% yoy, recording the 6th consecutive month of steep declines. Apr-Jun IP, the leading indicator, also lost momentum.
- A loss in the economic downturn by the MERS outbreak is expected to be made up by the government's new stimulus measures including a supplementary budget.
- The Monetary Policy Committee (MPC) of the BoK kept the policy rate unchanged again at 1.5% and commented that consumption and economic sentiment "appear to have improved". We maintain our view that the policy rates will be kept unchanged till the end of the year.

## Exports

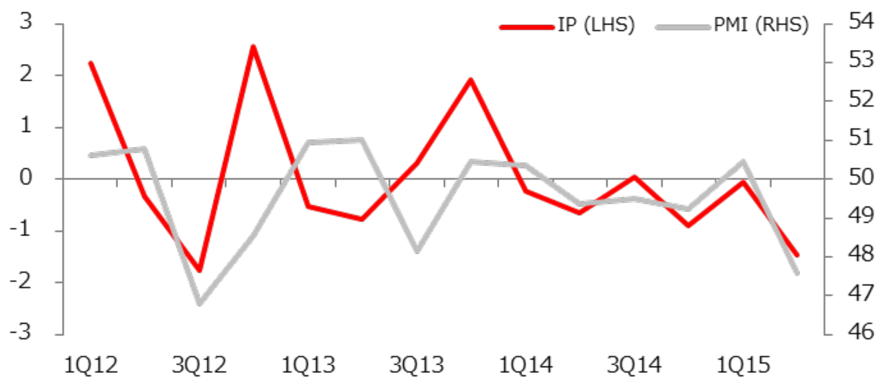
(YoY, %)

| | % of share | 1Q15 | 2Q15 | April | May | June | July |
|---|---|---|---|---|---|---|---|
| Exports | | -3.0 | -7.2 | -8.0 | -11.0 | -2.4 | -3.3 |
| China | 25% | -1.6 | -2.7 | -5.1 | -3.3 | 0.8 | -6.4 |
| Japan | 6% | -22.2 | -12.9 | -12.3 | -13.7 | -12.8 | -28.0 |
| Other Asia (ex. Japan) | 26% | -12.7 | -7.0 | -10.9 | -10.7 | 1.3 | NA |
| US | 14% | 13.3 | -1.0 | -2.6 | -7.2 | 6.9 | 1.8 |
| EU | 9% | -21.2 | -8.4 | -11.9 | -9.0 | -4.4 | -5.6 |
| Middle East | 6% | -3.6 | -6.6 | 0.7 | -12.9 | -7.9 | NA |

Source: CEIC, SMAM

Up to June 2015

## Production




Note: Seasonally adjusted data.

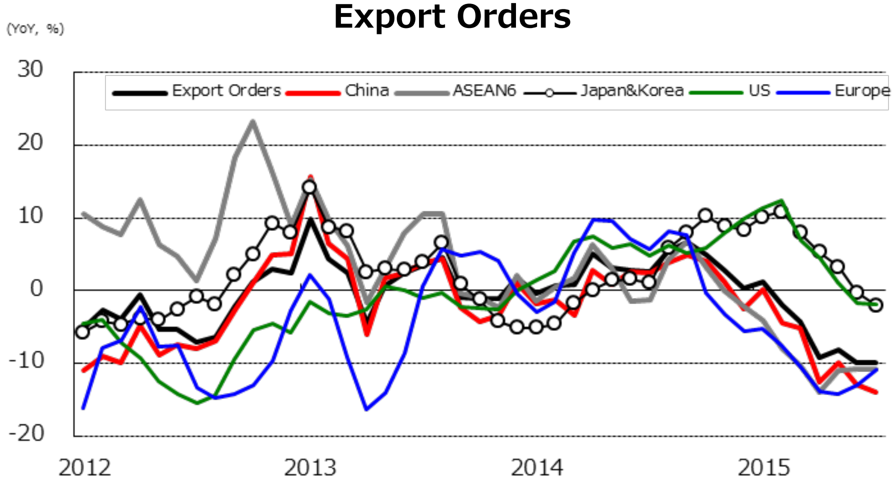
Source: CEIC, SMAM

Up to June 2015

# Taiwan

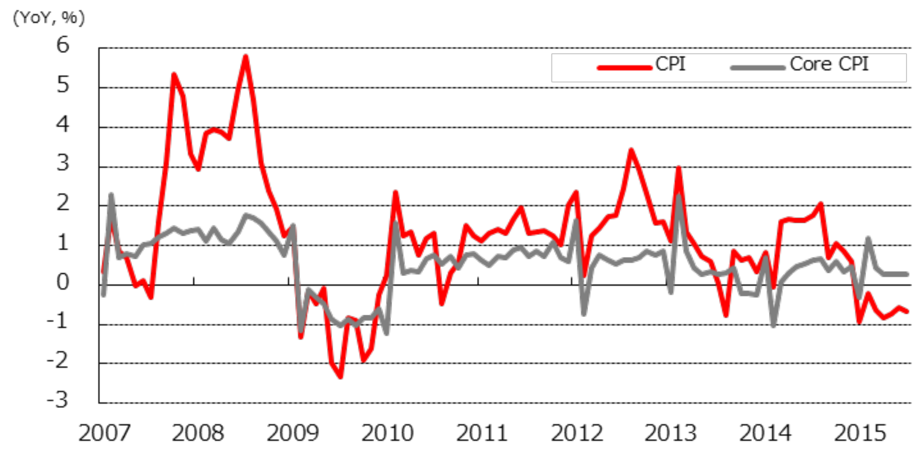
- Apr-Jun GDP growth rate was released at +0.5%, a steep decline from the previous quarter of +3.4% under inventory pressure caused by deteriorating Export.
- We revised 2015 GDP forecast downward to +2.1% from +3.1% and 2016 growth forecast to +3.3% from +3.4%. Jul-Sep growth rate is expected at +1.5% on weakness in exports by China's demand decline in the Jul-Sep period.
- A weaker RMB is negative for the Taiwan's export competitiveness. July export orders significantly declined to -11.9% yoy caused by sharp declines in exports to China and ASEAN countries. Exports to US and Europe showed signs of bottoming out and a mild recovery.
- Weighed on transportation and communication costs, Headline CPI decelerated to -0.7% yoy in July, whereas core CPI inched up to +0.7% yoy. We foresee the policy rates to be on hold for a while.

**Export Orders**




Source: Ministry of Economic Affairs, CEIC, SMAM Up to July 2015

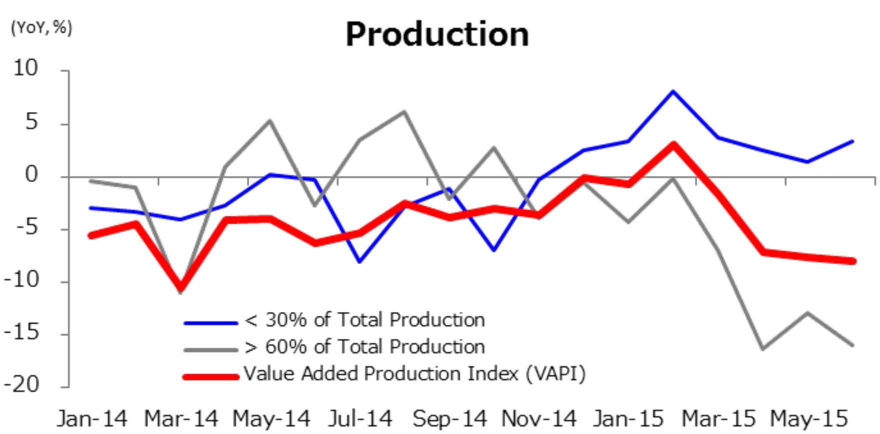
**CPI**



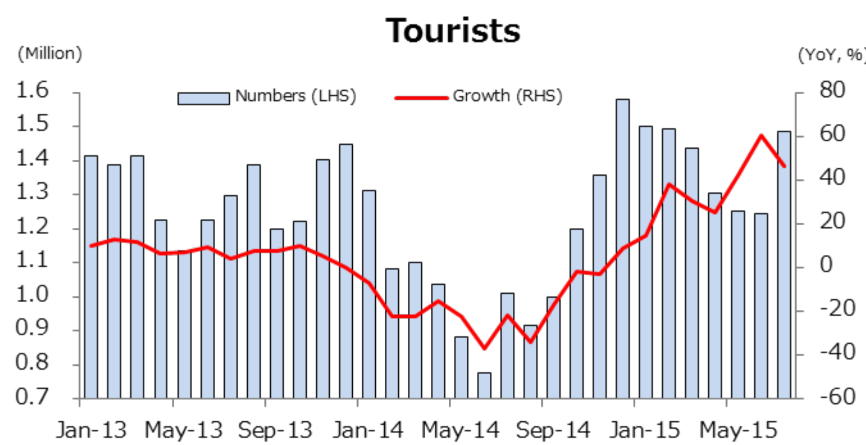

Source: Ministry of Economic Affairs, CEIC, SMAM Up to July 2015

# Thailand

- Apr-Jun GDP was released at +2.8%, slower than the previous quarter on weak private consumption and fixed capital formation, but in line with consensus forecasts. Tourism added 2.8 points to Headline GDP.
- We have cut GDP growth forecast to +2.7% for 2015 from the previous month of +3.0% and to +3.0% for 2016 from +3.4%. China's economic slowdown has worsened exports.
- Weak consumption is likely to continue on high household debts and low incomes in the agriculture sector. Regional economy has stagnated since rice-collateralized loans were abolished. Economic measures are often taking long until execution and uncertainties over next regime after general election deter large infrastructure investments.
- We see a high probability that the BoT would cut its policy rate in September MPC.




Source: CEIC, SMAM Up to June 2015




Source: CEIC, SMAM Up to July 2015

# Outlook for Asian Stock Markets

# Stock Market Performance - Global

| Indices as of 31 Aug 2015 | Px Last | Mtd | Qtd | Ytd | 3m | 1yr | 2yr | 3yr |
|---|---|---|---|---|---|---|---|---|
| S&P 500 INDEX | 1,972.18 | -6.3% | -4.4% | -4.2% | -6.4% | -1.6% | 20.8% | 40.2% |
| DOW JONES INDUS. AVG | 16,528.03 | -6.6% | -6.2% | -7.3% | -8.2% | -3.3% | 11.6% | 26.3% |
| NASDAQ COMPOSITE INDEX | 4,776.51 | -6.9% | -4.2% | 0.9% | -5.8% | 4.3% | 33.1% | 55.7% |
| STOXX Europe 50 € Pr | 3,110.31 | -9.4% | -5.3% | 3.5% | -9.7% | 2.2% | 16.5% | 24.0% |
| NIKKEI 225 | 18,890.48 | -8.2% | -6.6% | 8.3% | -8.1% | 22.5% | 41.1% | 113.7% |
| TOPIX | 1,537.05 | -7.4% | -5.7% | 9.2% | -8.2% | 20.3% | 39.0% | 110.1% |
| BRAZIL BOVESPA INDEX | 46,625.52 | -8.3% | -12.2% | -6.8% | -11.6% | -23.9% | -6.8% | -18.3% |
| RUSSIAN RTS INDEX $ | 833.60 | -2.9% | -11.3% | 5.4% | -14.0% | -30.0% | -35.4% | -40.0% |
| BSE SENSEX 30 INDEX | 26,283.09 | -6.5% | -5.4% | -4.4% | -5.6% | -1.3% | 41.2% | 50.8% |
| HANG SENG INDEX | 21,670.58 | -12.0% | -17.4% | -8.2% | -21.0% | -12.4% | -0.3% | 11.2% |
| HANG SENG  CHINA AFF.CRP | 4,042.55 | -8.6% | -17.1% | -7.1% | -21.9% | -16.0% | -4.8% | 5.9% |
| HANG SENG CHINA ENT INDX | 9,741.41 | -12.5% | -25.0% | -18.7% | -30.9% | -11.1% | -0.9% | 5.0% |
| CSI 300 INDEX | 3,366.54 | -11.8% | -24.7% | -4.7% | -30.5% | 44.0% | 45.5% | 52.7% |
| TAIWAN TAIEX INDEX | 8,174.92 | -5.7% | -12.3% | -12.2% | -15.7% | -13.4% | 1.9% | 10.5% |
| KOSPI INDEX | 1,941.49 | -4.4% | -6.4% | 1.4% | -8.2% | -6.1% | 0.8% | 1.9% |
| STRAITS TIMES INDEX | 2,921.44 | -8.8% | -11.9% | -13.2% | -13.9% | -12.2% | -3.5% | -3.4% |
| FTSE Bursa Malaysia KLCI | 1,612.74 | -6.4% | -5.5% | -8.4% | -7.7% | -13.6% | -6.6% | -2.0% |
| STOCK EXCH OF THAI INDEX | 1,382.41 | -4.0% | -8.1% | -7.7% | -7.6% | -11.5% | 6.8% | 12.6% |
| JAKARTA COMPOSITE INDEX | 4,509.61 | -6.1% | -8.2% | -13.7% | -13.5% | -12.2% | 7.5% | 11.1% |
| PSEi - PHILIPPINE SE IDX | 7,098.81 | -6.0% | -6.2% | -1.8% | -6.4% | 0.7% | 16.8% | 36.6% |
| HO CHI MINH STOCK INDEX | 564.75 | -9.1% | -4.8% | 3.5% | -0.8% | -11.3% | 19.5% | 42.6% |
| S&P/ASX 200 INDEX | 5,206.98 | -8.6% | -4.6% | -3.8% | -9.9% | -7.4% | 1.4% | 20.6% |
| NZX 50 INDEX | 5,656.25 | -4.5% | -1.2% | 1.6% | -3.2% | 8.3% | 24.6% | 54.3% |
| MSCI World Free Local | 408.16 | -6.8% | -4.6% | -1.7% | -7.5% | 0.0% | 18.4% | 39.6% |
| MSCI All Country Asia Ex Japan | 615.05 | -8.5% | -13.3% | -9.1% | -16.8% | -11.3% | 2.1% | 8.8% |
| MSCI EM Latin America Local | 63,186.49 | -5.7% | -8.1% | -5.4% | -7.8% | -18.7% | -5.0% | -9.4% |
| MSCI Emerging Markets Europe M | 473.88 | -3.3% | -5.1% | -0.1% | -4.2% | -3.5% | 8.0% | 11.7% |

Note: All data are as of 31 August 2015

Compiled by SMAM based on Bloomberg

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

## 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 will continue in the short term.

## Outlook for Asia Pacific Region

- Macro economy in most of Asian countries are not growing as expected, however it is likely to bottom out by strong policy supports especially in China. We expect global economy continues to recover gradually.
- Revisions of Corporate earnings are still weak but they will stabilize as macro economy improves.
- Valuations have become attractive again.
- Change of US monetary policy will not significantly impact to Asian equity markets as long as long bond yields remain stable.
- Some external factors including Russia, Greece, geopolitical turmoil in Middle East and volatile crude oil price, together with China's downturn will create volatility in the market in the near term.

Note: As of 27 August 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** | **- Increasing uncertainty from China.**<br>**- Value has emerged after a sharp sell-off.** | Stable<br>More focus on Economy side. | Slow recovery is expected.<br>○ Tightening policy for property is behind us. | Int. rate remain super low.<br>Gradual approach for the rate hike in the US / Inflation will be moderate. | Trade deficit narrows, CA surplus stays at this level. | Stable | ×Revision is gradually weakening.↓ | Fair |
| **China** | **- Lost in government's credibility.**<br>**- Tough challenge towards New Normal.**<br>**- Strong Policy support can be expected.**<br>**- Value has emerged after a sharp sell-off.** | Stable, but becomes unclear. | X Weaker than expected although Hard landing should be avoided. ↓<br>Economic growth will lose momentum gradually.<br>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 | Downward bias. | ×Revision is gradually weakening.↓ | ○Become attractive again.↑ |
| **Taiwan** | **- Slower growth mainly from IT.**<br>**- Attractive valuation with high dividend yield.**<br>**- Relatively safe to US rate hike.** | Stable, Presidential election in 2016 will not a big surprise. | The pace of economic recovery is slower than expected.↓ | Int. rate will be stable. / Inflation will be stable. / Liquidity is improving. | Surplus will expand | Stable | ×Revision is weakening.↓ | ○Become attractive again.↑ |
| **Korea** | **- Still in the transition. Structural re-rating will not happen soon.**<br>**- Weaker KRW supports exporters.** | Stable.<br>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. | Earnings revision is weakening again.↓ | Attractive.<br>However there is a reason for the discount. |
| **Singapore** | **- Stable Mkt and policy headwind is easing.** | Stable<br>General Election in Sep/15. | The pace of economic recovery is slow<br>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. | ×Revision is weakening.↓ | Relatively cheap |
| **Malaysia** | **- Mounting uncertainty in both Politics and economy.**<br>**- Investor's sentiment becomes too negative.** | X Political turmoil is increasing↓ | 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. | ×Revision is very weak. | Fair |
| **Thailand** | **- Subdued economy will continue.**<br>**- Increasing social unrest after Bangkok Bombing.** | **Unclear**<br>**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 expand | 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.**<br>**- 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.<br>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.**<br>**- Sustainability is the key.** | Stable.<br>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.<br>Current a/c surplus will expand. | Downward Bias. | ×Revision is weak. | ×Mildly Expensive |
| **India** | - Overall macro fundamentals will improve given its strong policy supports.<br>- Relatively safe but it is a consensus OW Mkt. | +Potential of economic reform after the land slide victory of BJP. | ○ Growth rate will accelerate driven by domestic consumption. | ○ Rate cut started and further room for rate cut / Inflationary pressure peaked out. | Trade / CA deficit will remain at same level. | Downward Bias. | × Revision remains weak | Rich↓ |
| **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. |

Note: Compiled by SMAM as of 27 August 2015

**Positive** (light blue) **Negative** (yellow)

Sumitomo Mitsui Asset Management

# Market Focus (i): China – Down to Neutral from Overweight

- Strong policy supports can be expected in both monetary and fiscal side. Policy reaction will be strengthened to avoid a hard landing and to build "New Normal". Concerns for property market, rising Non-Performing Loans and default of Wealth-Management Products continue, but it should not be out of control.

- Market over-heat is eased by recent correction. Valuation has recovered to historical average after a sharp sell-off. Corporate earnings are still weak but seem to have bottomed out. Technically, it is already in oversold area.

- Telecom sector (-4.5%) was the best performer followed by Staples (-10.7%), whereas Financials (-16.3%) and Discretionary (-16%) were the worst since July 27.

- We expect weak and volatile trading patterns in the near term, but a bull market supported by the government's economic stimulus in the long run. Positive factors: forming of new economy growth engines; moving up global value chain through technology upgrade and efficiency improvement; narrowing wealth gap with sustainable and balanced household income growth and improving consumer confidence. On the contrary, if reform fails, China could fall to "middle income trap".

Note: Compiled by SMAM as of 27 August 2015

# Market Focus ( ii ): Australia – No Rating

- Mild recovery is expected on improvements in the economy as private consumption and corporate earnings expand, while uncertainty over China's economy is growing. Correction of commodity prices and slowdown in capex are still headwinds for the economy. However, consumption will be pushed up on stable housing market, current low-interest-rate environment and wealth effect, and finally boost the real economy.

- More specifically, non-natural resource sectors are estimated to achieve slightly increased profit underpinned by correction of strong AUD and solid housing market.

- MSCI Australia rose 2.4% month-to-date as of July 27. Amid global commodity price fall, Materials and Energy sectors lost. Consumer Discretionary showed a firm performance on rebounds in Game and Real estate related stocks.

- Stock valuation is not attractive on higher-than-historical-average, but comparing to bond valuation, the stock valuation level remains undervalued.

Note: Compiled by SMAM as of 27 August 2015

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