



# Asian Macro & Market Outlook

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SMAM monthly comments & views

October 2016



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# Executive summary

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## ◆ Chinese and Asian Economies

August economic data took an upturn in general thanks to an increase in the number of working days and a recovery from flood damage in Yangtze River. We slightly revised up the GDP growth for Jul-Sep to +6.6% YoY on expectation for the current pro-growth policy stance to continue. As for GDP deflator forecast, the government would implement supply-side reform with the gradualist approach not hasty. Accordingly, we see that Producer Price Index (PPI) is less likely to face a substantial fall in 2017. As the pace of capital outflows from China has slowed, fears of sharp yuan devaluation seem to fade away.

Amid receded expectation for US rate hike, there seems to be ample room for further monetary easing in the Asian region. We foresee that Indian economy would accelerate and ASEAN countries would also enjoy a gradual recovery, while NIEs can slow down moderately. Regarding Consumer Price Index (CPI), we cut the outlook for India, Korea and Singapore and ASEAN countries.

## ◆ Asia-Pacific Stock Markets

We maintained our outlook for Asian equity market to move sideways in coming 3 to 6 months given the rich valuation and limited support by corporate earnings.

- ✓ Macro economy in most of Asian countries will show some recovery in 2016/17, but the momentum is not so strong. **China economy has been stabilized by strong policy support but will continue to slow down gradually in the medium term.**
- ✓ The recovery of corporate earnings will be moderate towards 2016/17 as overall global economy stabilizes.
- ✓ Liquidity condition has been supporting emerging markets thanks to the delay of US rate hike.
- ✓ Yet, it is likely to create market volatility again towards the year end.
- ✓ **Overall market environment has been stabilized, however it seems to be priced in given 12 months forward P/E has already reached to an upper end after the Lehman crisis.**

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# Outlook for Economy in China

# SMAM Economic Outlook for China

## China Forecast Table

China	YoY[%]			YoY[%]												Market Consensus[%]	
	2015	2016	2017	2015				2016				2017				2016	2017
				Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep			
Real GDP	6.9	6.6	6.3	7.0	7.0	6.9	6.8	6.7	6.7	6.6	6.6	6.4	6.3	6.2	6.6	6.3	
<i>Previous</i>	6.9	6.6	6.3	7.0	7.0	6.9	6.8	6.7	6.7	6.5	6.6	6.4	6.3	6.2	6.6	6.3	
Real GDP qqar on seasonally adjusted basis	6.9	6.6	6.3	6.3	7.2	7.4	5.9	4.9	7.2	6.8	6.1	5.4	7.1	6.3	-	-	
<i>Previous</i>	6.9	6.6	6.3	6.3	7.2	7.4	5.9	4.9	7.2	6.4	6.7	5.1	7.1	6.1	-	-	
Compiled Growth Tracker	6.0	5.5	5.1	6.3	6.3	5.8	5.7	5.6	5.5	5.3	5.4	5.2	5.1	5.0	-	-	
<i>Previous</i>	6.0	5.5	5.1	6.3	6.3	5.8	5.7	5.6	5.5	5.3	5.4	5.2	5.1	5.0	-	-	
Real GDP Consumption	9.1	8.9	8.7	-	-	-	-	-	-	-	-	-	-	-	-	-	
<i>Previous</i>	9.1	8.9	8.7	-	-	-	-	-	-	-	-	-	-	-	-	-	
Real GDP Investment	5.3	4.9	4.4	-	-	-	-	-	-	-	-	-	-	-	-	-	
<i>Previous</i>	5.3	4.9	4.4	-	-	-	-	-	-	-	-	-	-	-	-	-	
Real GDP Net export (contribution)	▲0.2	▲0.3	▲0.3	-	-	-	-	-	-	-	-	-	-	-	-	-	
<i>Previous</i>	▲0.2	▲0.3	▲0.3	-	-	-	-	-	-	-	-	-	-	-	-	-	
Nominal GDP	6.4	7.3	6.8	6.7	7.2	6.0	6.1	7.1	7.3	7.4	7.6	7.2	7.0	6.8	-	-	
<i>Previous</i>	6.4	7.1	5.9	6.7	7.2	6.0	6.1	7.1	7.3	7.1	6.9	6.3	5.8	5.7	-	-	
GDP deflator	▲0.4	0.7	0.6	▲0.3	0.1	▲0.9	▲0.6	0.4	0.6	0.8	1.0	0.8	0.7	0.5	-	-	
<i>Previous</i>	▲0.4	0.5	▲0.4	▲0.3	0.1	▲0.9	▲0.6	0.4	0.6	0.6	0.3	▲0.1	▲0.5	▲0.5	-	-	
Industrial production	6.1	6.0	5.3	6.4	6.3	5.9	5.9	5.8	6.1	6.1	6.0	5.7	5.3	5.1	5.9	5.5	
<i>Previous</i>	6.1	5.9	5.2	6.4	6.3	5.9	5.9	5.8	6.1	5.9	6.0	5.6	5.3	5.1	5.8	5.5	
CPI inflation	1.4	1.9	1.4	1.2	1.4	1.7	1.5	2.1	2.1	1.6	1.8	1.6	1.4	1.5	2.0	1.9	
<i>Previous</i>	1.4	1.2	1.4	1.2	1.4	1.7	1.5	2.1	2.1	1.7	1.7	1.5	1.4	1.4	2.0	2.0	
Base lending interest rate	4.35	4.35	4.10	5.35	4.85	4.60	4.35	4.35	4.35	4.35	4.35	4.35	4.10	4.10	4.10	4.10	
<i>Previous</i>	4.35	4.35	4.10	5.35	4.85	4.60	4.35	4.35	4.35	4.35	4.35	4.35	4.10	4.10	4.10	4.10	

### Historical Record of amendment (GDP)

Date of amendment	YoY[%]			YoY[%]												
	2015	2016	2017	2015				2016				2017				
				Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep		
16.09.14 Latest	6.9	6.6	6.3	7.0	7.0	6.9	6.8	6.7	6.7	6.6	6.6	6.4	6.3	6.2		
16.08.18 last month meeting	6.9	6.6	6.3	7.0	7.0	6.9	6.8	6.7	6.7	6.5	6.6	6.4	6.3	6.2		

Note: Arrows illustrate the direction of the change from last time prediction  
Source: CEIC, compiled by SMAM Economic Research Department, Previous= Last month meeting's projection  
As of 21 September 2016

# SMAM Economic Outlook for China

## China August economic performance

(% YoY)

	consensus	actual	Jul	Jun	May	Apr	May	Feb	Jan
real GDP				6.7			6.7		
mfg PMI	49.8	50.4	49.9	50.0	50.1	50.1	50.2	49.0	49.4
Caixin mfg PMI	50.1	50	50.6	48.6	49.2	49.4	49.7	48.0	48.4
steel PMI	NA	50.1	50.2	45.1	50.9	57.3	49.7	49.0	46.7
industrial production	6.2	6.3	6.0	6.2	6.0	6.0	6.8	5.4	5.4
fixed asset investment (ytd)	7.9	8.1	8.1	9.0	9.6	10.5	10.7	10.2	10.2
fixed asset investment	NA	8.2	3.9	7.3	7.4	10.1	11.2	10.2	10.2
property investment	NA	6.2	1.4	3.3	6.6	9.7	9.7	3.0	3.0
floor space sold	NA	19.1	16.7	14.2	22.0	45.9	40.3	30.4	30.4
100 cities housing price (mmar)	NA	29.4	21.5	17.0	22.4	18.9	25.4	7.4	5.1
retail sales	10.2	10.6	10.2	10.6	10.0	10.1	10.5	10.2	10.2
retail sales (real basis)	NA	10.2	9.8	10.3	9.7	9.3	9.7	9.6	9.6
auto sales units (th)	NA	2,071	1,852	2,071	2,092	2,122	2,440	1,581	2,501
auto sales units (%)	NA	24.4	23.2	14.6	9.9	6.4	8.9	-0.8	7.8
exports (RMB)	2.9	5.9	2.9	1.3	1.2	4.1	18.7	-20.6	-6.6
imports (RMB)	0.7	10.8	-5.7	-2.3	5.1	-5.7	-1.7	-8.0	-14.4
international reserves (USDbn)	3,190.0	3,185.2	3,201.1	3,205.2	3,191.7	3,219.7	3,212.6	3,202.3	3,230.9
CPI	1.7	1.3	1.8	1.9	2.0	2.3	2.3	2.3	1.8
PPI	-0.9	-0.8	-1.7	-2.6	-2.8	-3.4	-4.3	-4.9	-5.3
M2	10.5	11.4	10.2	11.8	11.8	12.8	13.4	13.3	14.0
new loans (RMB bn)	750.0	948.7	463.6	1,380.0	985.5	555.6	1,370.0	726.6	2,510.0
social aggregate financing (RMB bn)	900.0	1,470.0	487.9	1,629.3	659.9	751.0	2,336.0	824.5	3,425.3

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

Source: CEIC, compiled by SMAM

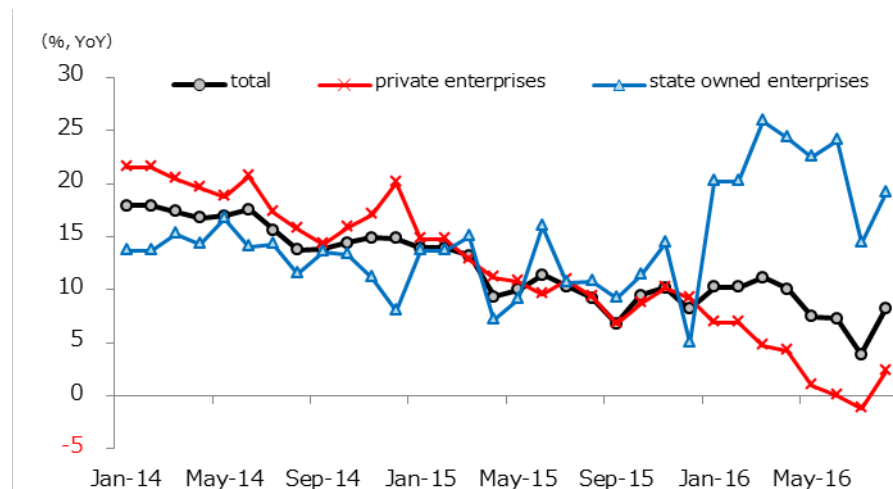
As of 21 September 2016

# SMAM Economic Outlook for China

## Current Economic Situation in China

- August economic data tended in general toward upturn led by more working days, pro-growth policy, and a recovery from flood damage in Yangtze River.
  - ✓ Overall, August economic indicators showed improvements.
  - ✓ China has room to expand the budget deficit by the use of off-budget accounts. The National People's Congress (NPC) standing committee can approve higher ceiling of the deficit for more aggressive fiscal policy.
  - ✓ We stay with our view that the Chinese economy would stabilize in 2H2016 since the Communist Party of China (CPC) and the government place emphasis on economic stimulus measures by fiscal policy.

### Fixed Asset Investment Growth



Source: CEIC, compiled by SMAM  
Up to August 2016

### China Fiscal Budget

	2015		2016
	budget	actual	budget
total revenue	15,530	16,027	15,892
(%, YoY)	10.5	13.4	2.3
revenue	15,430	15,222	15,720
(%, YoY)	10.6	8.5	1.9
from off-budget	100	806	172
total expenditure	17,150	17,647	18,072
(%, YoY)	11.3	14.0	5.4
expenditure	17,150	17,577	18,072
(%, YoY)	12.1	15.9	5.4
to off-budget	0	70	0
fiscal balance	-1,620	-1,620	-2,180
(% of GDP)	-2.3	-2.4	-3.0
fiscal balance (monthly)	-1,720	-2,355	-2,352
off-budget balance	100	735	172

Note: Budget (YoY) was compared with that in the previous year and actual (YoY) was also compared with the last year.  
Source: MOF, compiled by SMAM  
As of 21 September 2016

# SMAM Economic Outlook for China

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## More details for the current situation: China's economy is stabilizing due to economic stimulus measures

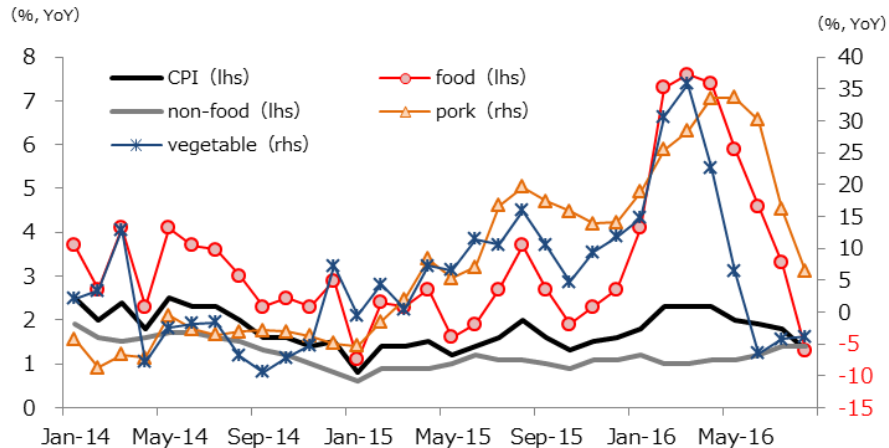
- August economic indicators improved in general mainly due to an increase of the number of working days and a recovery from the flood damage.
- CPI inflation would stabilize at a low level as pork prices faced a sharp fall in August.
- PPI deflation is easing led by growing demands for material with the need for infrastructure.
- As for Money Supply, M2 growth slowed down, whereas M1 growth accelerated.
- The Ministry of Finance indicated its intention to consider a budget deficit after G20 meeting.
- CPC decided on a policy to avoid housing bubble in July committee.

## Outlook for 2016 & 2017: We see the stable economy in 2H2016 led by the fiscal policy

- We revised up the real GDP growth for Jul-Sep to +6.6% YoY from +6.5% YoY.
- As demand for reconstruction including damaged road repair is expected to surge, we maintain our view that China can avoid the sputtering economy.
- We raised GDP deflator projection on expectation for positive growth in 2017 led by raw material prices.
- Prior to the plenum of the Communist Party of China held in fall 2017, a power struggle within the party tends to occur and policy change may happen.

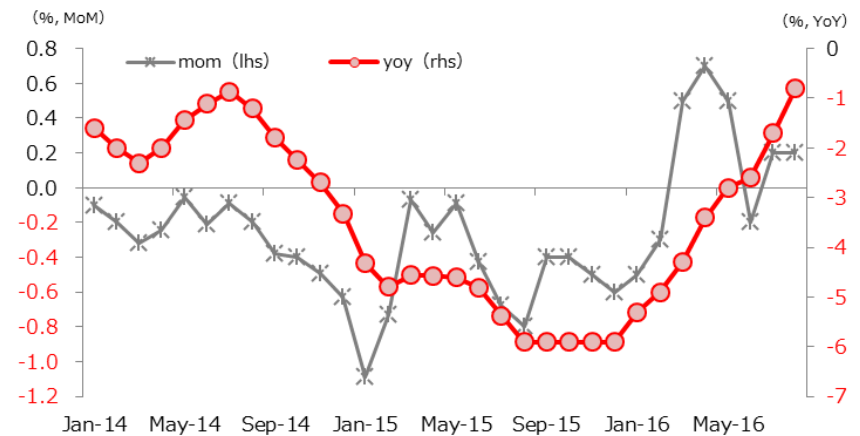
# SMAM Economic Outlook for China

## CPI Inflation



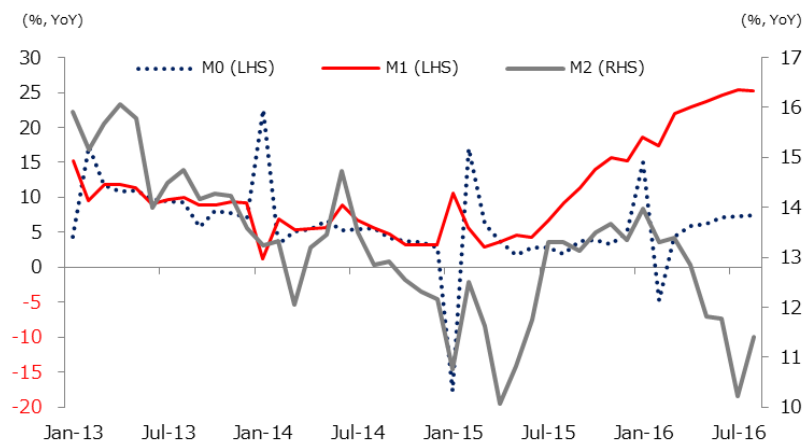
Source: CEIC, compiled by SMAM  
Up to August 2016

## PPI inflation



Source: CEIC, compiled by SMAM  
Up to August 2016

## Money Supply



Source: CEIC, compiled by SMAM  
Up to August 2016

## Total Social Finance

	total	new lending	entrusted loan	trust loan	bankers' acceptance	corporate bonds	others
2012	15,763	8,204	1,284	1,285	1,050	2,255	1,686
2013	17,317	8,892	2,547	1,840	776	1,811	1,451
2014	16,413	9,781	2,507	518	-128	2,382	1,354
2015	15,406	11,269	1,591	43	-1,057	2,939	620
Jan	3,425	2,537	217	55	133	458	25
Feb	824	811	165	31	-370	132	57
Mar	2,404	1,318	166	73	17	719	111
Apr	787	564	169	27	-278	242.8	62
May	684	937	157	12	-507	-18.4	103
Jun	1,684	1,314	172	81	-272	236.5	152
Jul	488	455	177	21	-512	218.8	128
Aug	1,470	797	143	74	-38	330.6	163

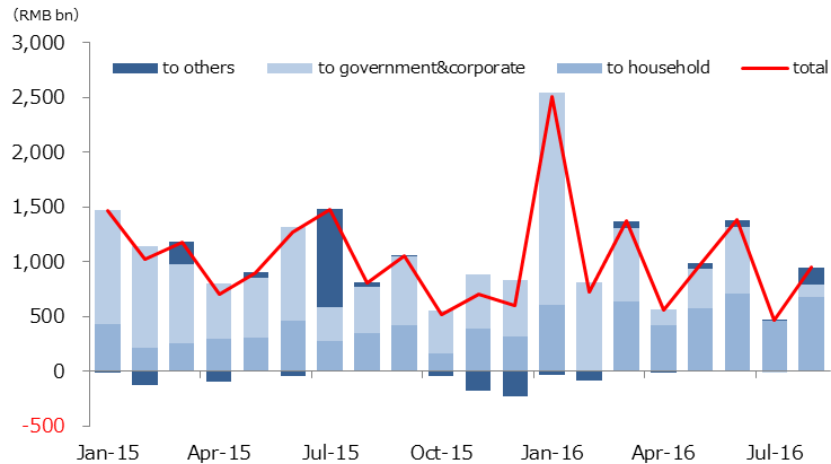
Note: new lending excludes interbank transactions.

Source: CEIC, compiled by SMAM  
Up to August 2016



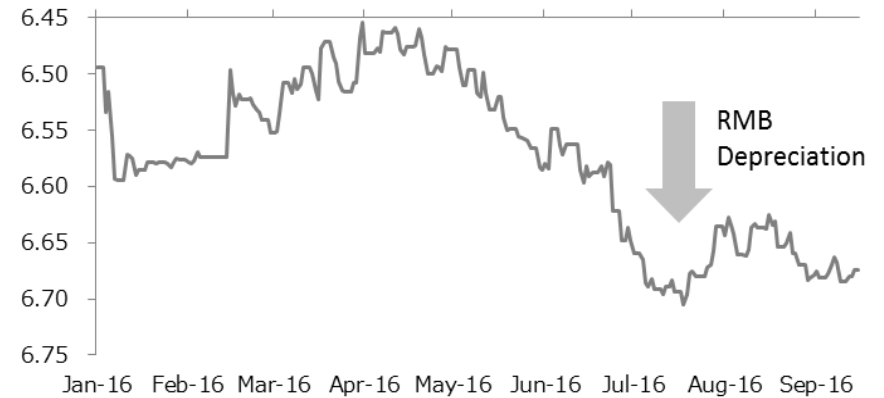
# SMAM Economic Outlook for China

## New Lending



Source: CEIC, compiled by SMAM  
Up to August 2016

## RMB against USD



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

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# Outlook for Asia-Pacific Economy

# SMAM Economic Outlook for Asia and Oceania

Forecast Table

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

Source: CEIC, compiled by SMAM  
 Note: Economic Research Department, Previous= Last month meeting's projection.  
 Arrows illustrate the direction of the change from last time prediction.  
 As of 21 September 2016

# SMAM Economic Outlook for Asia and Oceania

CPI inflation		YoY[%]			YoY[%]										Market Consensus[%]			
		2015	2016	2017	2015				2016				2017		2016	2017		
					Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun			Jul-Sep	
India		4.9	5.2	5.4	5.3	5.1	3.9	5.3	5.3	5.7	5.3	4.8	4.9	5.1	5.4	5.2	5.1	
	Previous	4.2	5.6 ↓	5.6 ↓	5.3	5.1	3.9	5.2	5.3	5.7	5.8 ↓	5.5 ↓	5.2 ↓	5.2 ↓	5.5 ↓	5.2	5.1	
NIEs4	Korea	0.7	1.0	1.6	0.6	0.5	0.7	1.1	1.0	0.9	0.6	1.3	1.6	1.6	1.6	0.9	1.6	
		Previous	0.7	1.1 ↓	1.6	0.6	0.5	0.7	1.1	1.0	0.9	1.0 ↓	1.3	1.6	1.6	1.0 ↓	1.6	
	Taiwan	▲0.3	1.1	1.1	▲0.6	▲0.7	▲0.3	0.3	1.7	1.3	0.7	0.9	0.9	1.3	1.3	1.1	1.1	
		Previous	▲0.3	1.1	1.1	▲0.6	▲0.7	▲0.3	0.3	1.7	1.3	0.7	0.9	0.9	1.3	1.1	1.1	
	Singapore	▲0.5	▲0.7	0.4	▲0.3	▲0.4	▲0.6	▲0.7	▲0.8	▲0.9	▲0.7	▲0.4	▲0.2	0.3	0.6	▲0.6	0.8	
	Previous	▲0.5	▲0.1 ↓	0.7 ↓	▲0.3	▲0.4	▲0.6	▲0.7	▲0.8	▲0.9	▲0.1 ↓	0.5 ↓	0.7 ↓	0.6	▲0.6	0.9 ↓		
	Hongkong	3.0	2.5	1.7	4.3	2.9	2.5	2.3	2.8	2.8	2.5	2.1	1.7	1.7	2.4	2.3 ↑	1.9	
	Previous	3.0	2.5	1.7	4.3	2.9	2.5	2.3	2.8	2.8	2.5	2.1	1.7	1.7	2.4	2.3 ↑	1.9	
ASEAN4	Indonesia	6.4	3.4	3.9	6.5	7.1	7.1	4.8	4.3	3.5	2.7	3.2	3.0	4.0	4.3	3.9	4.6	
		Previous	6.4	4.1 ↓	4.4 ↓	6.5	7.1	7.1	4.8	4.3	3.5	3.8 ↓	4.2 ↓	4.1 ↓	4.6 ↓	4.3	3.9	4.6
	Thailand	▲0.9	0.2	1.0	▲0.5	▲1.1	▲1.1	▲0.9	▲0.5	0.3	0.4	0.6	1.4	1.0	0.9	0.4	1.8	
		Previous	▲0.9	0.3 ↓	1.2 ↓	▲0.5	▲1.1	▲1.1	▲0.9	▲0.5	0.3	0.6 ↓	1.2 ↓	1.6 ↓	0.9 ↑	1.0 ↓	0.5 ↓	1.9 ↓
	Malaysia	2.1	2.2	2.5	0.7	2.2	3.0	2.6	3.4	1.9	1.4	2.0	2.8	2.2	2.6	2.2	2.6	
	Previous	2.1	2.2 ↓	2.4 ↑	0.7	2.2	3.0	2.6	3.4	1.9	2.1 ↓	2.0	2.6 ↑	2.6 ↓	2.3 ↑	2.2	2.6	
	Philippines	1.4	1.6	2.5	2.4	1.7	0.6	1.0	1.1	1.5	1.8	2.0	2.2	2.5	2.5	1.8	2.9	
	Previous	1.4	1.8 ↓	2.7 ↓	2.4	1.7	0.6	1.0	1.1	1.5	2.2 ↓	2.2 ↓	2.4 ↓	2.8 ↓	2.8 ↓	1.9 ↓	2.9	
Australia		1.5	1.2	1.7	1.3	1.5	1.5	1.7	1.3	1.0	1.2	1.3	1.7	1.6	1.3	1.3	2.2	
	Previous	1.5	1.2	1.7	1.3	1.5	1.5	1.7	1.3	1.0	1.2	1.3	1.7	1.6	1.3	1.3	2.2	

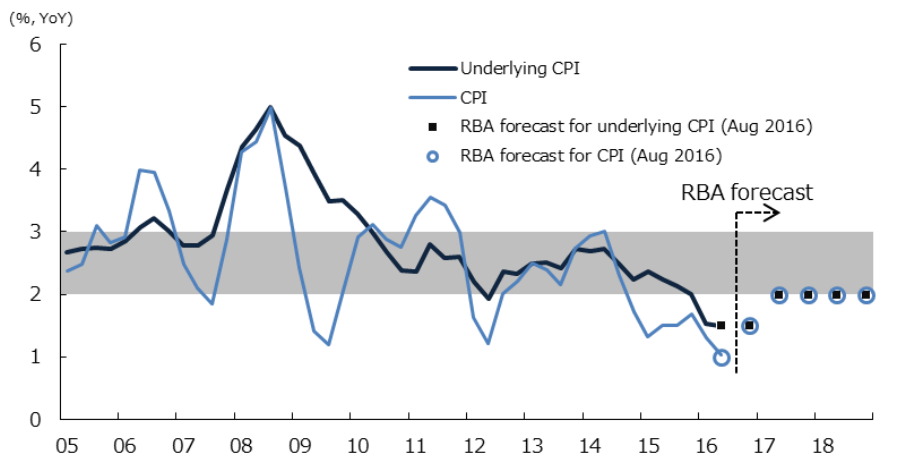
Policy Rate		Annual rate [%]			Annual rate [%]										Market Consensus [%]			
		2015	2016	2017	2015				2016				2017		2016	2017		
					Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun			Jul-Sep	
India		6.75	6.25	5.75	7.50	7.25	6.75	6.75	6.75	6.50	6.50	6.25	6.25	6.00	5.75	6.25	6.25	
	Previous	6.75	6.25	5.75	7.50	7.25	6.75	6.75	6.75	6.50	6.50	6.25	6.25	6.00	5.8	6.25	6.25	
NIEs4	Korea	1.50	1.00	1.00	1.75	1.50	1.50	1.50	1.50	1.25	1.25	1.00	1.00	1.00	1.00	1.00	1.00	
		Previous	1.50	1.00	1.00	1.75	1.50	1.50	1.50	1.50	1.25	1.25	1.00	1.00	1.00	1.00	1.00	1.25 ↓
	Taiwan	1.625	1.375	1.125	1.875	1.875	1.750	1.625	1.500	1.375	1.375	1.375	1.250	1.125	1.125	1.375	1.250	
		Previous	1.625	1.375	1.125	1.875	1.875	1.750	1.625	1.500	1.375	1.375	1.250	1.125	1.125	1.375	1.250	
	Singapore	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	
	Previous	### #	### #	### #	### #	### #	### #	### #	### #	### #	### #	### #	### #	### #	### #	### #		
	Hongkong	0.75	#N/A	#N/A	0.50	0.50	0.50	0.75	0.75	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A		
	Previous	0.75	#N/A #	#N/A #	0.50	0.50	0.50	0.75	0.75	#N/A #	#N/A #	#N/A #	#N/A #	#N/A #	#N/A #	#N/A #		
ASEAN4	Indonesia	7.50	5.00	5.00	7.50	7.50	7.50	7.50	6.75	6.75	5.00	5.00	5.00	5.00	5.00	#N/A	#N/A	
		Previous	7.50	5.00	5.00	7.50	7.50	7.50	7.50	6.75	6.75	5.25 ↓	5.00	5.00	5.00	#N/A #	#N/A #	
	Thailand	1.50	1.50	1.25	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.25	1.25	1.25	1.50	1.50	
		Previous	1.50	1.50	1.25	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.25	1.25	1.3	1.50	1.50	
	Malaysia	3.25	2.75	2.75	3.25	3.25	3.25	3.25	3.25	3.25	3.00	2.75	2.75	2.75	2.75	3.25	3.00	
	Previous	3.25	2.75	2.75	3.25	3.25	3.25	3.25	3.25	3.25	3.00	2.75	2.75	2.75	3.25	3.00		
	Philippines	4.00	3.00	3.00	4.00	4.00	4.00	4.00	4.00	3.00	3.00	3.00	3.00	3.00	3.00	#N/A #	#N/A #	
	Previous	4.00	3.00	3.00	4.00	4.00	4.00	4.00	4.00	3.00	3.00	3.00	3.00	3.00	#N/A #	#N/A #		
Australia		2.00	1.50	1.25	2.25	2.00	2.00	2.00	2.00	1.75	1.50	1.50	1.25	1.25	1.25	1.50	1.25	
	Previous	2.00	1.50	1.25	2.25	2.00	2.00	2.00	2.00	1.75	1.50	1.50	1.25	1.25	1.25	1.50	1.25	

Source: CEIC, compiled by SMAM  
 Note: Economic Research Department, Previous= Last month meeting's projection.  
 Arrows illustrate the direction of the change from last time prediction.  
 As of 21 September 2016

# Australia

- We stay with our scenario of the GDP to be on a path of a moderate recovery below the potential growth rate until the second half. Later, we expect the economy to be underpinned by improvements in exports of resources and employment and to accelerate slightly after the first half of 2017 on correction in capex, which would be coming to an end.
- The unemployment rate would maintain a moderate declining trend led by the service sector.
- As for CPI growth, we expect to remain flat and then to rise slightly toward late 2017 since effects by lower oil prices calm down and wage growth seems to stop declining. Yet, we see the CPI would move slightly below the inflation target.
- We foresee an additional rate cut in Jan-Mar 2017 if inflation in Oct-Dec 2016 is weaker than the central bank's target.

### CPI 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, IMF, BIS, Datastream, compiled by SMAM  
 Up to Q2 2016

### Labour Market Condition

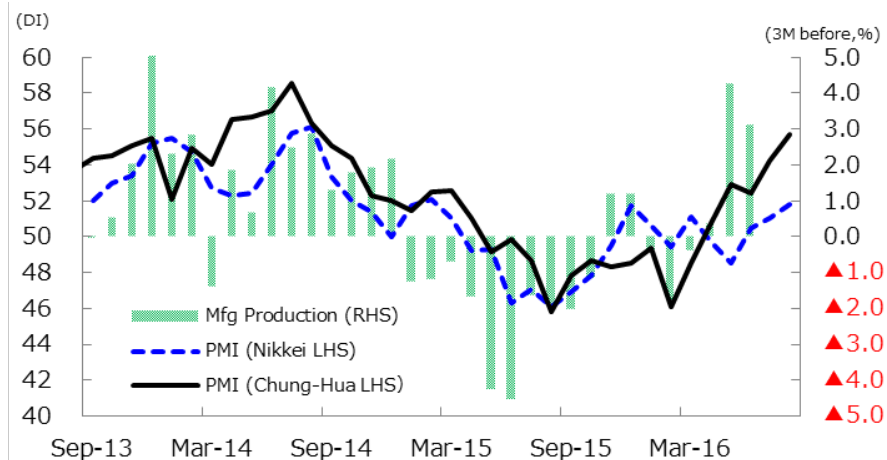


Source: ABS, Datastream, compiled by SMAM  
 Up to July 2016

# Taiwan

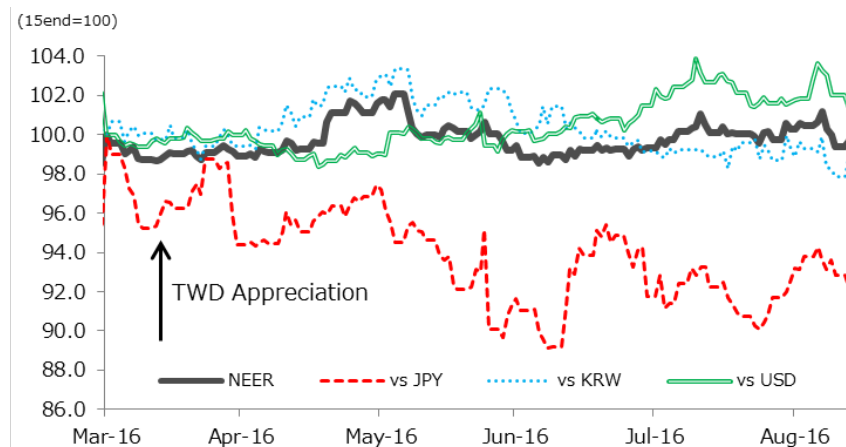
- We left real GDP forecasts for both 2016 and 2017 unchanged at +0.9% YoY each.
- Taiwan, the contribution ratio of exports to GDP is approx. 64%, is likely to be affected by the global economic conditions. Electronic parts, main exports in Taiwan, enjoyed a rapid growth toward August reflecting sales growth in smartphones. Results of export orders and manufacturing PMI indicate positive outlook. We believe an upturn in production activity toward the second half of 2016 as inventory correction proceed supported by stable demands.
- Yet, slowing domestic demand is expected as the Democratic Progressive Party seems to keep a cautious stance on short-term economic stimulus measures.

### PMI & Manufacturing Production (SA)



Source: CEIC, compiled by SMAM  
Up to August 2016

### Foreign Exchange

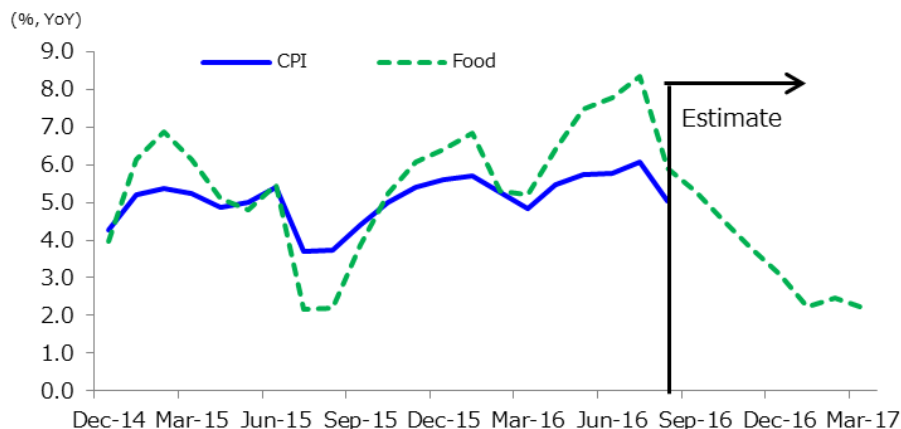


Note: NEER is calculated by SMAM based on BIS weight  
Source: Bloomberg, BIS, compiled by SMAM  
Up to 14 September 2016

# India

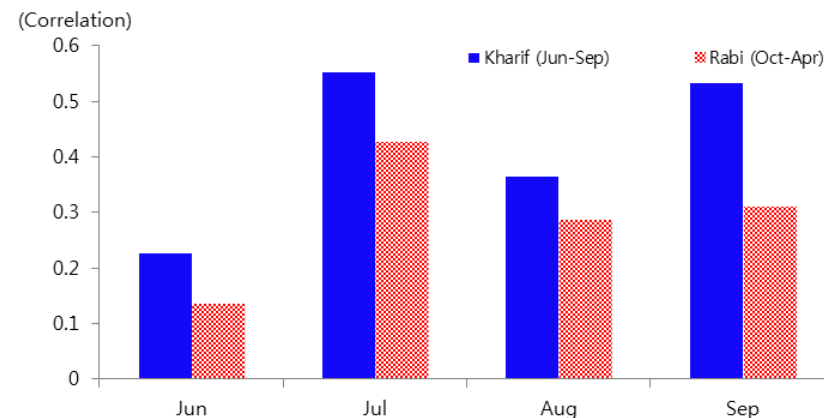
- India is less vulnerable to the global economy as the contribution ratio of exports to GDP is low at approx. 13%. We foresee the positive growth in private consumption on the back of wage increase and income growth in rural areas thanks to abundant rainfall in rainy season. Infrastructure is also seen to pick up gradually with a continuing inflow of direct investment on hopes for the economic growth and relaxation of regulations despite the current weak trend.
- We lowered CPI forecasts to +5.2% YoY from +5.6% YoY for 2016 and to +5.4% YoY from +5.6% YoY for 2017. The inflation in August slowed to +5.0%, which is the RBI's target level for March 2017. It is expected to soften by the year end due to base effect and heavy rain. Accordingly, we believe a 25bp rate cut in Oct-Dec.

### CPI



Source: CEIC, compiled by SMAM  
 Estimate: Assuming the index of food price remains at a same level  
 Up to July 2016

### Relationship between Rainfall & Agri Production

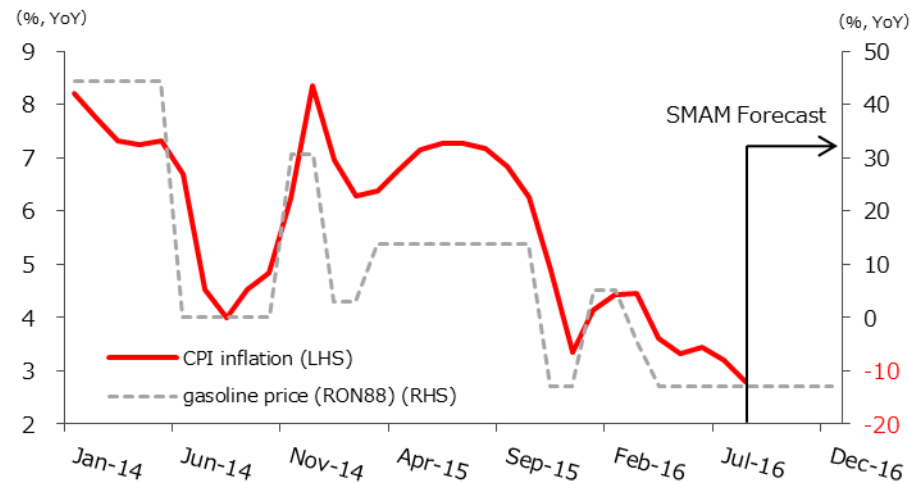


Note: Data period is from FY1967 to FY2013. We calculated correlation by using regression analysis (Dependent variable= Agri production on a YoY basis). Explanatory variable: Rainfall (Departure from normal).  
 Source: CEIC, IMD, compiled by SMAM

# Indonesia

- Stronger than expected Apr-Jun real GDP came in at over +5% YoY.
- The inflation rate has been well controlled as remaining within the target range since November last year. The government's additional gasoline price cut on April 1 would spur optimism for boosting private consumption through curbing inflation. We also think an additional 50 bp rate cut in Jul-Sep. The President Joko Widodo appointed Sri Mulyani as the country's new finance minister in a cabinet reshuffle. This would show the government's enthusiasm for successful tax amnesty.

### Gasoline Price & CPI Inflation



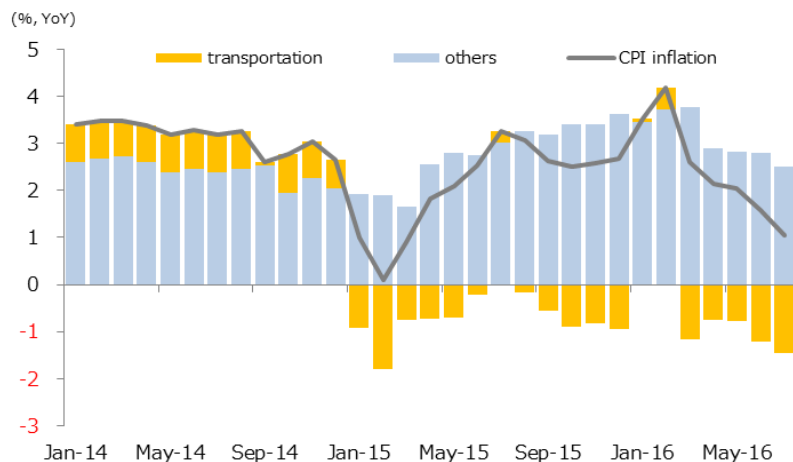
Source: CEIC, compiled by SMAM  
Up to July 2016



# Malaysia

- We cut CPI forecast for 2016 to +2.2%% YoY from +2.7% YoY, but raised that for 2017 marginally to +2.5% YoY.
- Thanks to Malaysia Ringgit (MYR) depreciation, the export competitiveness except for primary products is improving. Yet, sluggish Chinese economy tends to volume down Malaysia's exports. Looking at the government side, lower oil price can cause dwindling tax revenues, which lead to limited growth of expenditures. Accordingly, the government would try to achieve public investment growth by the use of off-budget, state owned enterprises under restriction of on-budget expenditure.
- Bank Negara Malaysia (BNM) suggested maintaining the current policy rate next a couple of times and the movement of MYR has been stable since expectation for US rate hike receded. However, we think BNM would implement an addition rate cut in Oct-Dec.

### CPI Inflation



### Malaysia Composition of Public Investment (FY2016)

	amount MYR bn	share %	as of GDP %
total	169.4	100.0	13.7
on-budget	60.0	35.4	4.8
off-budget (SOEs)	109.4	64.6	8.8

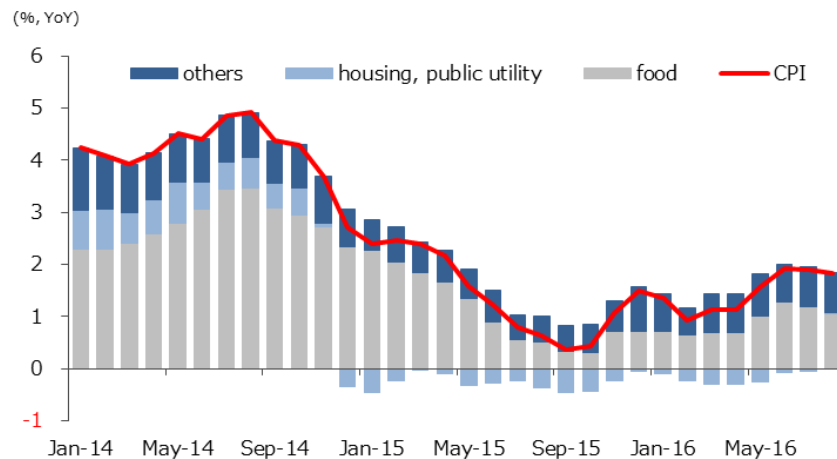
Source: CEIC, compiled by SMAM  
As of 24 August 2016

Note: The Malaysian government applied new float system for petrol prices on Dec 2014.  
Annual inflation rates have been pushed up 1.1 points by GST from April 2015 calculated by the government.  
Source: CEIC, compiled by SMAM  
Up to July 2016

# Philippines

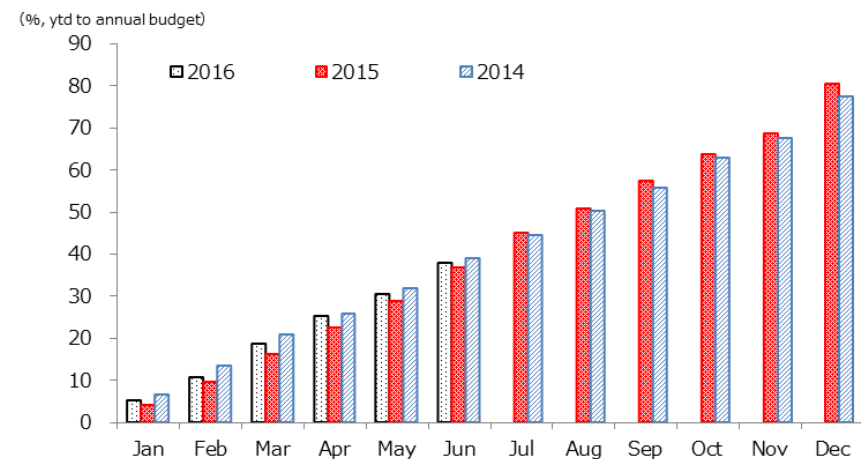
- The economy is less vulnerable to global economic cycle as the contribution ratio of exports to GDP is only around 20%, lower than in other countries.
- The government foresees the economic growth to +7-8%. In our view, private consumption would be firm thanks to elections in the first half of 2016. Even after the event, the economic recovery seems to continue led by increased middle-class consumption and low inflation environment. The upside risk in 2017 would be further infrastructure and reduction in corporate tax.
- Boosting infrastructure investment as a result of enhancing cooperation with China or Japan and reduction in corporate tax can be upside risk. We see bad weather such as typhoons or droughts accelerating inflation as downside risk.

### CPI Inflation



Source: CEIC, compiled by SMAM  
Up to August 2016

### Public Investment Disbursement Rate

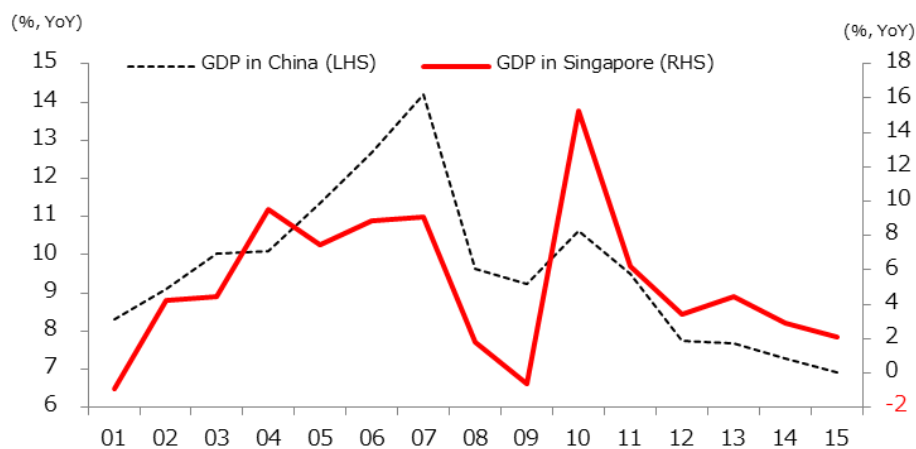


Source: CEIC, compiled by SMAM  
Up to June 2016

# Singapore

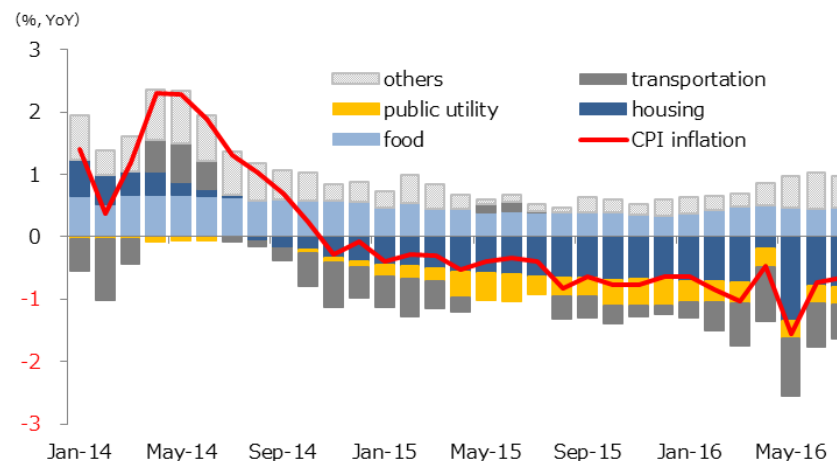
- Singapore has been struggled with deflation. We cut the CPI forecasts for 2016 and 2017 to -0.7% YoY and +0.4% YoY.
- This country's economy is sensitive to other Asian economies, particularly to China, considering heavy export dependence (approx. 130%). In accordance with China's continuing economic stagnation, Singapore is likely to face further downward pressure.
- Also, the weak economy in Malaysia, an important trading partner for Singapore, may drag down the exports. Furthermore, biomedical output in Singapore remains volatile. Thus, we take a careful attention to the IP numbers as both upside and downside risks.

### GDP growth in China and Singapore



Source: CEIC, compiled by SMAM  
Up to 2015

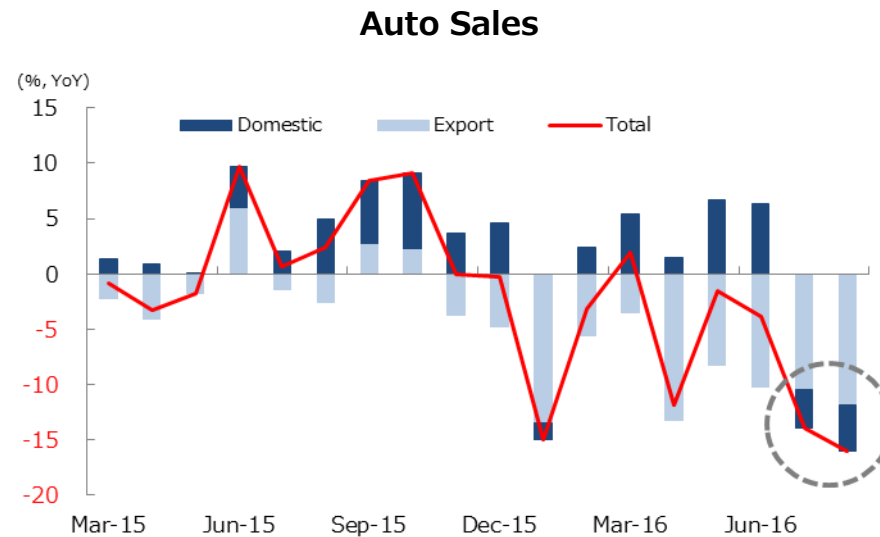
### CPI Inflation



Source: CEIC, compiled by SMAM  
Up to July 2016

# South Korea

- ❑ Still inventory rate remains high. The propensity to consume is declining under mounting household debt. Reflecting improved demand for smartphones, exports and production in electronic components posted positive numbers.
- ❑ Yet, the economic momentum is foreseen to slow down toward Jul-Sep 2016 due to a) end of car tax reduction, b) the anti-corruption law and c) stricter loan screening. Amid receded expectation for US rate hike, we consider the Bank of Korea would conduct additional rate cut in Oct-Dec after confirming the sluggish economy in Jul-Sep.

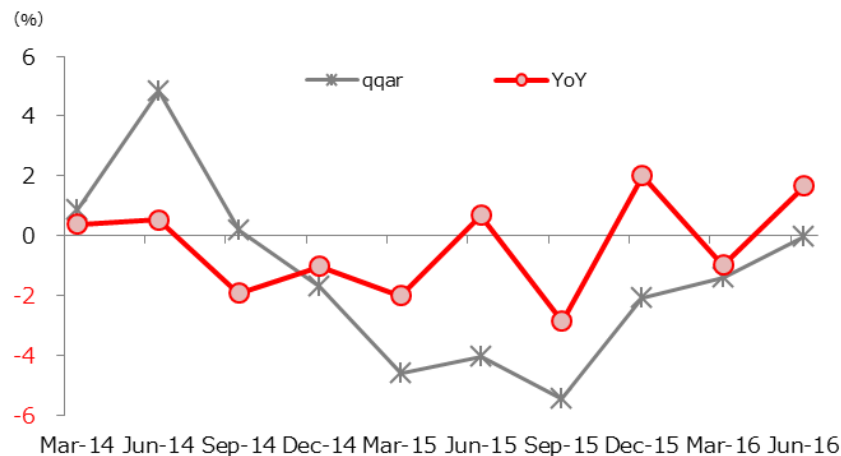


Source: CEIC, compiled by SMAM  
Up to August 2016

# Thailand

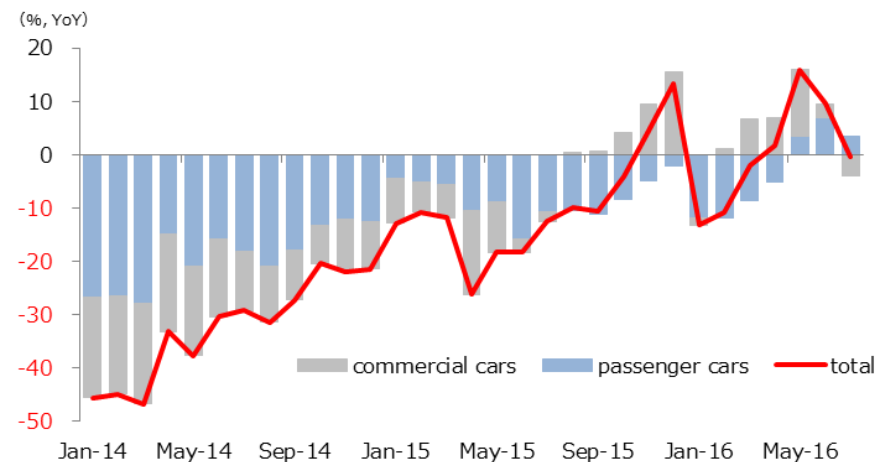
- Thanks to Deputy Premier Somkid Jatusripitak exercising strong leadership, public investment maintains high growth and is expected to keep accelerating in the second half of 2016. The income level of rural residents is also picking up after economic downturn due to negative effects on farmers caused by severe drought.
- According to stronger than expected demands for both passenger and commercial cars from early 2016 despite the tax rate hike, we consider that the private consumption has already entered a recovery phase.
- A draft constitution passed a referendum and a general election will be held during 2017. We think Prime Minister Prayuth Chan-ocha would carry out policies aggressively to bring about an economic upturn in order to move to democracy smoothly.

### Agriculture Growth



Source: CEIC, compiled by SMAM  
Up to June 2016

### Domestic Auto Sales



Note: Higher excise taxes for cars excluding eco cars since Jan 16  
Source: CEIC, compiled by SMAM  
Up to July 2016

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# Outlook for Asia-Pacific Stock Markets

# Stock Market Performance - Global

Indices as of 30 Sep 2016	Px Last	Mtd	Qtd	Ytd	3m	1yr	2yr	3yr
S&P 500 INDEX	2,168.27	-0.1%	3.3%	6.1%	3.3%	12.9%	9.9%	28.9%
DOW JONES INDUS. AVG	18,308.15	-0.5%	2.1%	5.1%	2.1%	12.4%	7.4%	21.0%
NASDAQ COMPOSITE INDEX	5,312.00	1.9%	9.7%	6.1%	9.7%	15.0%	18.2%	40.8%
STOXX Europe 50 € Pr	2,843.17	-0.7%	1.1%	-8.3%	1.1%	-4.5%	-7.3%	2.4%
NIKKEI 225	16,449.84	-2.6%	5.6%	-13.6%	5.6%	-5.4%	1.7%	13.8%
TOPIX	1,322.78	-0.5%	6.2%	-14.5%	6.2%	-6.3%	-0.3%	10.8%
BRAZIL BOVESPA INDEX	58,367.05	0.8%	13.3%	34.6%	13.3%	29.5%	7.9%	11.5%
RUSSIAN RTS INDEX \$	990.88	4.3%	6.5%	30.9%	6.5%	25.5%	-11.8%	-30.3%
BSE SENSEX 30 INDEX	27,865.96	-2.1%	3.2%	6.7%	3.2%	6.5%	4.6%	43.8%
HANG SENG INDEX	23,297.15	1.4%	12.0%	6.3%	12.0%	11.8%	1.6%	1.9%
HANG SENG CHINA AFF.CRP	3,861.20	-1.4%	6.5%	-4.7%	6.5%	-1.0%	-12.3%	-11.8%
HANG SENG CHINA ENT INDX	9,581.93	0.4%	10.0%	-0.8%	10.0%	1.9%	-7.1%	-7.1%
CSI 300 INDEX	3,253.28	-2.2%	3.2%	-12.8%	3.2%	1.6%	32.7%	35.0%
TAIWAN TAIEX INDEX	9,166.85	1.1%	5.8%	9.9%	5.8%	12.0%	2.2%	12.1%
KOSPI INDEX	2,043.63	0.4%	3.7%	4.2%	3.7%	4.1%	1.2%	2.3%
STRAITS TIMES INDEX	2,869.47	1.7%	1.0%	-0.5%	1.0%	2.8%	-12.4%	-9.4%
FTSE Bursa Malaysia KLCI	1,652.55	-1.5%	-0.1%	-2.4%	-0.1%	1.9%	-10.5%	-6.6%
STOCK EXCH OF THAI INDEX	1,483.21	-4.2%	2.6%	15.2%	2.6%	9.9%	-6.5%	7.2%
JAKARTA COMPOSITE INDEX	5,364.80	-0.4%	6.9%	16.8%	6.9%	27.0%	4.4%	24.3%
PSEi - PHILIPPINE SE IDX	7,629.73	-2.0%	-2.1%	9.7%	-2.1%	10.7%	4.8%	23.2%
HO CHI MINH STOCK INDEX	685.73	1.6%	8.5%	18.4%	8.5%	21.9%	14.5%	39.2%
S&P/ASX 200 INDEX	5,435.92	0.1%	3.9%	2.6%	3.9%	8.3%	2.7%	4.2%
NZX 50 INDEX	7,361.09	-0.5%	6.7%	16.4%	6.7%	31.6%	40.1%	55.4%
MSCI World Free Local	425.38	0.0%	4.3%	2.3%	4.3%	8.2%	5.4%	19.2%
MSCI All Country Asia Ex Japan	671.83	1.0%	8.0%	7.8%	8.0%	11.0%	1.2%	7.5%
MSCI EM Latin America Local	71,620.68	-0.3%	7.1%	20.8%	7.1%	17.4%	0.1%	3.8%
MSCI Emerging Markets Europe M	473.49	-1.3%	1.4%	5.5%	1.4%	3.5%	-1.6%	1.7%

Note: All data are as of 30<sup>th</sup> September 2016

Source: Bloomberg, compiled by SMAM

# Investment Outlook: Asia-Pacific Stock Markets

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## Outlook for Asian Stock Markets

- We maintained our outlook for Asian equity markets to move sideways in coming 3 to 6 months given the rich valuation and limited support by corporate earnings.

## Key Points

- Macro economy in most of Asian countries will show some recovery in 2016/17, but the momentum is not so strong. **China economy has been stabilized by strong policy support but will continue to slow down gradually in the medium term.**
- The recovery of corporate earnings will be moderate towards 2016/17 as overall global economy stabilizes.
- Liquidity condition has been supporting emerging markets thanks to the delay of US rate hike.
- Yet, it is likely to create market volatility again towards the year end.
- **Overall market environment has been stabilized, however it seems to be priced in given 12 months forward P/E has already reached to an upper end after the Lehman crisis.**

Note: As of 28 September 2016

Source: SMAM



# Investment Outlook: Asia-Pacific Macro & Stock Markets

	Outlook, Reason for OW/UW	1.Macro Trend				2.Stock Market		
		Politics	Macro	Interest rate / Inflation / Liquidity	External Account	Currency	Earnings Momentum	Valuation
Hong Kong	- <b>China economy seems to be stabilized in the near term.</b> - Pressure for Asset price is eased but underlying economy is weak. - Attractive dividend yield. Room to pick up high quality names.	Stable More focus on Economy side.	× The pace of recovery is slower than expected. ○ Tightening policy for property is behind us.	Potential pressure for HIBOR if financial Mkt become shaky by Brexit. / Inflation will continue to be low.	CA surplus continues but it is narrowing.	Stable, pressure for weaker HKD is eased.	× <b>Revision is weakening again, and momentum remains weak.</b> ↓	Fair on PER, attractive on PBR
China	- Tough challenge towards New Normal. - <b>China economy seems to be stabilized in the near term.</b> - Boom & bust of property Mkt is a potential concern. - SZ-HK Connect can be a positive catalyst, but sustainability is the key.	Stable, but becomes less clear.	<b>Stabilized in the near term.</b> Gradual slowdown is expected. Structural rebalancing is a key challenge.	× monetary policy should be maintained but it may be less effective. / Int. rate will stay sideways. / Inflationary pressure is eased.	Surplus- but it is declining The degree of capital outflow is eased but it remains a big concern.	Limited downward risk in the near term. The degree of RMB devaluation is a big issue across Asia.	<b>Both revision and momentum are improving.</b> ↑	○ attractive in the long term, but it has come back to above average since 2010.
Taiwan	- Export orders are bottomed out, but the pace of economic recovery should be slow. Some negative impact by Brexit. - Inventory correction on IT is progressed. - Attractive valuation with high dividend yield.	Cross strait risk is increasing under DPP president.	The pace of economic recovery is slow, but it has started improving.	First rate cut for last 6 years. ○ Further rate cut is expected. / Inflation will be stable. / Liquidity is improving.	Surplus will expand	Stable / Likely to be appreciated if Mkt turns Risk-on mode.	○ Revision is weakening again but momentum is solid.	○ Relatively attractive among in Asia / Fair on PER,
Korea	- Still in the transition. Structural re-rating will not happen soon. - High level of inventories and slow adjustments - <b>Overhang from Hanjin Shipping bankruptcy.</b>	Less stable as President Park's party loses majority	× Growth outlook is weakening due to subdued export environment in China.	○ Easing bias continues / Inflation will be stable / Liquidity is improving.	Surplus will remain high	Downward bias in the near term. BOK raised concerns for too much weakening of KRW.	○ Revision is weakening again but momentum is solid.	PE has already come back to above historical average. Attractive on PBR.
Singapore	- Stable Mkt and policy headwind is easing. - <b>Weak economy will continue due to slowdown of Chinese economy. Relatively big impact by Brexit.</b> - Attractive valuation.	The landslide victory of PAP should create political stability.	× Slower economic growth is expected due to slowdown of Chinese economy.	○ The MAS surprised by easing policy / SIBOR rate is stabilized ; Inflation is stable. / M2 growth rate is weakening.	High level of Trade & CA Surplus will continue.	Downward pressure due to easing policy by MAS / Likely to be appreciated if Mkt turns Risk-on mode.	× <b>Revision is weakening further. The weakest among Asia.</b> ↓	Fair on PER, attractive on PBR
Malaysia	- <b>Mounting uncertainty in both Politics and economy.</b> - Investor's sentiment is improving, however Brexit has become a big concern.	× IMDB continues to be a risk factor. Political turmoil is still there.	× GDP growth is expected to slow in 2016. However the government can brake downward pressure by off-budget disbursement.	○ <b>Additional rate cut is expected in 4Q16 given MYR stabilization. / Inflation will mildly pick up. / M2 growth rate is bottomed out.</b>	Surplus will be narrowed due to lower crude oil price. CPO stock to export ratio is increasing.	Stabilizing under little concern for US rate hike.	× Revision is weakening further.	Fair (expensive on PER, but fair on PBR)
Thailand	- <b>Economy outlook is improving.</b> - Investor's sentiment is improving. - Some negative impact by Brexit but weaker currency and accommodative monetary policy is supportive.	Military gov should continue at least until 2017. Strong leadership of deputy prime minister Somkid.	○ <b>Economy is expected to bottom out supported by fiscal stimulus. Consumption is expected to enter into a recovery phase.</b>	○ Rate cut is expected in 1Q17. / Inflation will be stable. M2 growth rate should remain low.	Surplus will continue.	Stabilizing under little concern for US rate hike.	○ Revision is positive. / The strongest in Asia.	Rich on PER, fair on PBR,
Indonesia	- Solid economic growth supported by public investment. - IDR is stabilizing given diminished concern for US rate hike. - <b>Investor's sentiment is improving supported by tax amnesty law.</b>	Stable under ruling parties with majority. <b>New FM</b> , Sri Mulyani will support macro recovery.	○ Economy is expected to recover supported by lower gasoline price and public investment.	○ Additional rate cut is possible in 4Q16 given IDR stabilization. / Lower inflation due to lower gasoline price.	CA deficit will continue to maintain at current level.	Stabilizing under little concern for US rate hike. <b>Positive impact by tax amnesty.</b>	× Revision is weak, but <b>momentum is improving.</b>	Fair (Expensive on PER, but fair on PBR)
Philippines	- <b>Still the bright spot, however headwinds by increasing inflation and weaker currency are increasing.</b> - <b>Political risk is increasing.</b>	<b>President Duterte has become a wild card.</b>	○ Steady growth. Less impact by global economy.	× Possible rate hike in 2017 / Int. rate will be stable. / some pressure for inflation. ↓	Trade deficit will shrink. Current a/c surplus will expand.	× PHP has shown a definite depreciation trend. ↓	Revision is weakening again but momentum is still solid.	Expensive on PER, fair on PBR
India	- Solid macro economy. Inflation is stabilized. - Relatively immune to the situation of global macro but it is a consensus OW Mkt. Limited impact by Brexit. - Investor's sentiment is improving supported by GST.	Potential of economic reform continues. BJP is gaining momentum.	○ High Growth rate will continue driven by domestic consumption.	○ Wait and see stance for further rate cut / Inflationary pressure peaked out.	× Trade / CA deficit will gradually increase.	Stabilizing under little concern for US rate hike. Currency risk continues.	× Revision is weakening again, but momentum is improving.	Fair (Expensive on PER, but fair on PBR)
Australia	Expect mild up-trend market, backed by improving domestic consumption and corporate earnings.	Stable	Mild recovery	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	
Vietnam	Steady upside can be expected supported by solid economic growth.	Step Down of PM Dung is negative for reform	solid recovery	Lower interest rate environment / Benign Inflation	Trade / CA surplus will be narrowed.	Gradual depreciation	Improving	Within FV range.

# Market Focus (i): Hong Kong – Neutral continued

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## 【Summary】

Under low inflation environment, we stay with our view that the Hong Kong's market valuation is not overvalued comparing US and European markets. Yet, a recovery of corporate earnings is still weak, even though concerns have been reduced that the Chinese economy would deteriorate.

- The Chinese government continues to seek stable domestic economy with investment expansion of railway for example. Therefore, the downside risk spurred by anxiety over falling further would be limited.
- On the other hand, the economy lacks a floating feeling weighed down by ongoing supply-side reform including cutting excess capacity. Regarding room for upside on the market valuation, it lost steam.
- We foresee the equity market to move within an established range and the upside to be limited. China's economy and corporates do not seem to be in a situation to expect a full-scale recovery.
- Selectively pick up attractive stocks based on its fundamentals. We see positive outlook for Consumer Discretionary, IT and Financials, but negative outlook for Industrials, Real Estate and Utilities.

## Market Focus ( ii ): Philippine – Neutral from Overweight

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### 【Summary】

The economic fundamentals are firm supported by domestic demands. After powerful President Rodrigo Duterte was newly elected, the progress of PPP, which tend to be delayed, draw attention. However, **his strong words caused the Philippine peso to plunge. We expect the relatively weak market on currency risk as well as inflation risk toward 2017.**

- ❑ Considering the economic structure, the dependency on export is relatively low and stably expanded Oversea Filipino Worker (OFW) remittance is extremely significant.
- ❑ From a historical perspective, the stronger USD is relatively positive to Philippines' equity market.
- ❑ The ability of the new President is still unknown. However, his leadership such as ability for action seems strong judging from his past experience as the former mayor of Davao City. A big change in economic aspect seems to be unlikely scenario.
- ❑ Philippine peso sank as foreign investors reacted negatively to the new President's insensitive comments and poor diplomatic instincts.
- ❑ Selective stock selection focused on relatively firm company earnings. We maintain a bullish stance. Comparing the average of its historical levels, the current valuation is overvalued in terms of P/E.

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