



# Asian Macro & Market Outlook

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SMAM monthly comments & views

November 2016



Sumitomo Mitsui Asset Management

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# Executive summary

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## ◆ Chinese and Asian Economies

Chinese economy appears to enter a stable phase as Jul-Sep GDP (+6.7% YoY as projected) was same as the previous two quarters. We see the government would continue the current pro-growth policy stance in 2017, however if Prime Minister was newly elected next autumn, the stance for 2018 may change. In September, the Fixed Asset Investment (FAI) accelerated on a recovery in private investment. Through infrastructure investment, Producer Price Index (PPI) has shown an uptick on growing demands of materials such as steel since February 2012.

Considering rooms for additional easing, we stay with our view that the economic growth for India and ASEAN would boost, but that for NIEs can deteriorate moderately. As for Thailand, we take a cautious stance for bearish consumer sentiment as downside risk even after a year-long mourning period for Thai King Bhumibol Adulyadej. In Australia, the economy is deemed as stable even slowly supported by non-resource sector growth.

## ◆ Asia-Pacific Stock Markets

We have slightly changed our outlook for Asian equity markets to mild upside in coming 3 to 6 months supported by a recovery of corporate earnings and relatively attractive valuation level against developed markets.

- ✓ 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 it will continue to slow gradually in the medium term.
- ✓ Property market in China remains a key risk.
- ✓ The recovery of corporate earnings will be moderate towards 2017 as overall global economy stabilizes.
- ✓ Liquidity condition has been supporting emerging markets thanks to the delay of US rate hike.
- ✓ **Overall market environment has been stabilized, and we expect Asian equity markets will follow the move of global equity markets.**

Note: Economy and Stock markets comments are as of October 21<sup>st</sup> and 27<sup>th</sup> 2016 respectively.

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# Outlook for Chinese Economy

# 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	6.7	6.5	7.0	7.0	6.9	6.8	6.7	6.7	6.7	6.7	6.6	6.5	6.4	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	6.6 ↑	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	4.7	7.6	7.2	6.3	5.6	7.0	7.0	-	-	
<i>Previous</i>	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 ↑	-	-	
Compiled Growth Tracker	6.0	5.5	5.2	6.3	6.3	5.8	5.7	5.6	5.5	5.4	5.4	5.3	5.2	5.2	-	-	
<i>Previous</i>	6.0	5.5	5.1 ↑	6.3	6.3	5.8	5.7	5.6	5.5	5.4	5.4	5.2 ↑	5.1 ↑	5.0 ↑	-	-	
Real GDP Consumption	9.1	8.9	8.8	-	-	-	-	-	-	-	-	-	-	-	-	-	
<i>Previous</i>	9.1	8.9	8.7 ↑	-	-	-	-	-	-	-	-	-	-	-	-	-	
Real GDP Investment	5.3	5.0	4.7	-	-	-	-	-	-	-	-	-	-	-	-	-	
<i>Previous</i>	5.3	4.9 ↑	4.4 ↑	-	-	-	-	-	-	-	-	-	-	-	-	-	
Real GDP Net export (contribution)	▲0.2	▲0.2	▲0.3	-	-	-	-	-	-	-	-	-	-	-	-	-	
<i>Previous</i>	▲0.2	▲0.2	▲0.3	-	-	-	-	-	-	-	-	-	-	-	-	-	
Nominal GDP	6.4	7.5	7.5	6.7	7.2	6.0	6.1	7.1	7.3	7.8	7.8	7.7	7.4	7.5	-	-	
<i>Previous</i>	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 ↑	-	-	
GDP deflator	▲0.4	0.8	1.0	▲0.3	0.1	▲0.9	▲0.6	0.4	0.6	1.0	1.1	1.0	0.9	1.0	-	-	
<i>Previous</i>	▲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 ↑	-	-	
Industrial production	6.1	6.0	5.7	6.4	6.3	5.9	5.9	5.8	6.1	6.1	6.1	5.8	5.6	5.6	5.8	5.5	
<i>Previous</i>	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	
CPI inflation	1.4	1.9	1.4	1.2	1.4	1.7	1.5	2.1	2.1	1.7	1.8	1.6	1.4	1.4	1.9	1.9	
<i>Previous</i>	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	
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		
16.10.17 Latest	6.9	6.7	6.5	7.0	7.0	6.9	6.8	6.7	6.7	6.7	6.7	6.6	6.5	6.4		
16.10.07	6.9	6.7 ↑	6.5 ↑	7.0	7.0	6.9	6.8	6.7	6.7	6.7 ↑	6.7 ↑	6.6 ↑	6.5 ↑	6.4 ↑		
16.09.14 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 October 2016

# SMAM Economic Outlook for China

## China September economic performance

	consensus	actual	Aug	Jul	Jun	May	Apr	May	Feb	Jan
										(%, YoY)
real GDP	6.7	6.7			6.7			6.7		
mfg PMI	49.8	50.4	50.4	49.9	50.0	50.1	50.1	50.2	49.0	49.4
Caixin mfg PMI	50.1	50.1	50	50.6	48.6	49.2	49.4	49.7	48.0	48.4
steel PMI	NA	49.5	50.1	50.2	45.1	50.9	57.3	49.7	49.0	46.7
industrial production	6.4	6.1	6.3	6.0	6.2	6.0	6.0	6.8	5.4	5.4
fixed asset investment (ytd)	8.2	8.2	8.1	8.1	9.0	9.6	10.5	10.7	10.2	10.2
fixed asset investment	NA	9.0	8.2	3.9	7.3	7.4	10.1	11.2	10.2	10.2
property investment	NA	7.8	6.2	1.4	3.3	6.6	9.7	9.7	3.0	3.0
floor space sold	NA	35.3	19.1	16.7	14.2	22.0	45.9	40.3	30.4	30.4
100 cities housing price (mmar)	NA	39.8	29.4	21.5	17.0	22.4	18.9	25.4	7.4	5.1
retail sales	10.7	10.7	10.6	10.2	10.6	10.0	10.1	10.5	10.2	10.2
retail sales (real basis)	NA	9.6	10.2	9.8	10.3	9.7	9.3	9.7	9.6	9.6
auto sales units (th)	NA	2,564	2,071	1,852	2,071	2,092	2,122	2,440	1,581	2,501
auto sales units (%)	NA	26.6	24.4	23.2	14.6	9.9	6.4	8.9	-0.8	7.8
exports (RMB)	2.9	-5.6	5.9	2.9	1.3	1.2	4.1	18.7	-20.6	-6.6
imports (RMB)	0.7	2.2	10.8	-5.7	-2.3	5.1	-5.7	-1.7	-8.0	-14.4
international reserves (USDbn)	3,190.0	3,166.4	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	1.9	1.3	1.8	1.9	2.0	2.3	2.3	2.3	1.8
PPI	-0.9	0.1	-0.8	-1.7	-2.6	-2.8	-3.4	-4.3	-4.9	-5.3
M2	11.6	11.5	11.4	10.2	11.8	11.8	12.8	13.4	13.3	14.0
new loans (RMB bn)	850.0	1,220.0	948.7	463.6	1,380.0	985.5	555.6	1,370.0	726.6	2,510.0
social aggregate financing (RMB bn)	1,000.0	1,720.0	1469.7	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

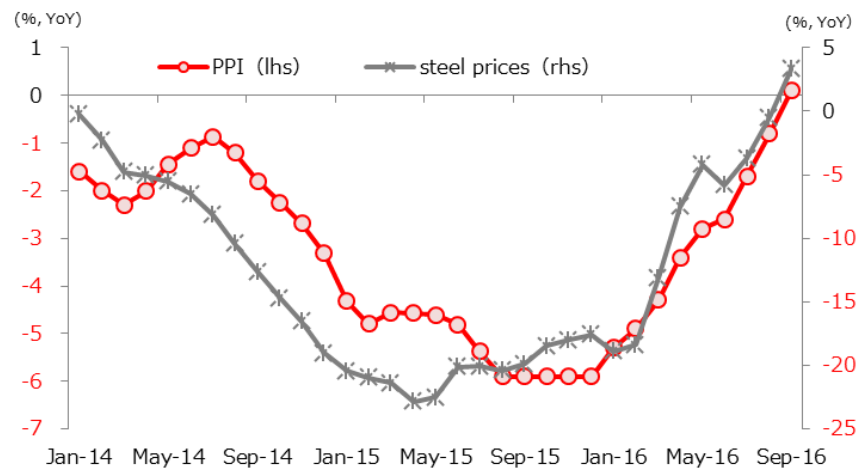
As of 21 October 2016

# SMAM Economic Outlook for China

## Current Economic Situation in China

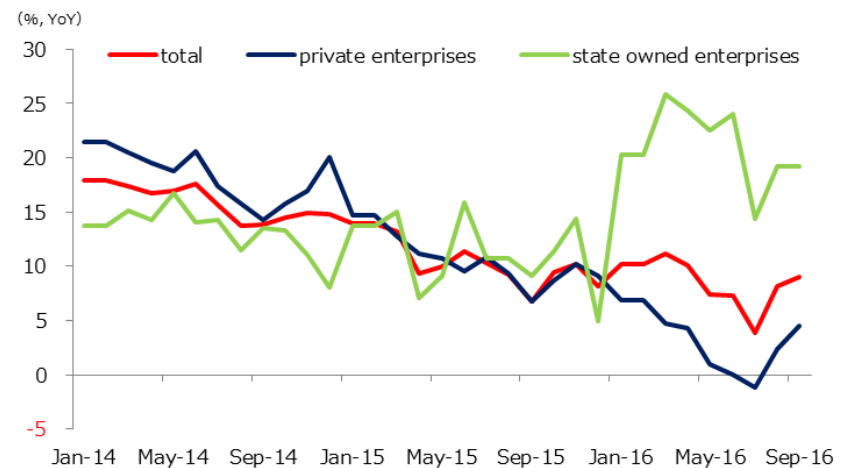
- We judged that oversupply issue of materials once receded with overcoming deflation.
  - ✓ Finally, PPI has turned to positive in September on a YoY basis since February 2012.
  - ✓ Demand for raw materials is growing through demand management by infrastructure investment. Excess supply problem for materials including steel is diminishing.
  - ✓ Expanding infrastructure with urbanization would lead to stabilize the domestic economy and to bring deflation to an end.

### PPI and Steel Prices



Source: CEIC, compiled by SMAM  
Up to September 2016

### Fixed Asset Investment Growth



Source: CEIC, compiled by SMAM  
Up to September 2016

# SMAM Economic Outlook for China

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## **More details for the current situation: China's economy is stabilizing on improvement in oversupply conditions**

- ❑ In September customs statistics, downturns in exports and imports are noticeable, but we need to consider that a number of working days in September was smaller than in the previous month.
- ❑ Steel production is now on a stable trend. Exports in steel material dropped as consumption for that material expanded in China.
- ❑ Demand for raw materials seems to be recovering led by infrastructure investment. PPI turned to inflation from deflation.
- ❑ The Premier Li Keqiang made a remark about the strong economy for Jul-Sep and hope for the 2017 economy to stabilize.
- ❑ After the last G20 meeting in this year, China's currency renminbi (RMB) depreciated against US dollar due to UK's pound fall. Yet, RMB moves stably within the currency basket. The Ministry of Finance indicated its intention to consider a budget deficit.
- ❑ As for Money Supply, M2 growth slowed down, whereas M1 growth accelerated. This means that more household purchase, cash-rich company, and municipal bond issue appear.
- ❑ PPI deflation is easing led by growing demands for material with the need for infrastructure.
- ❑ The Ministry of Finance indicated its intention to review a budget deficit after G20 meeting.

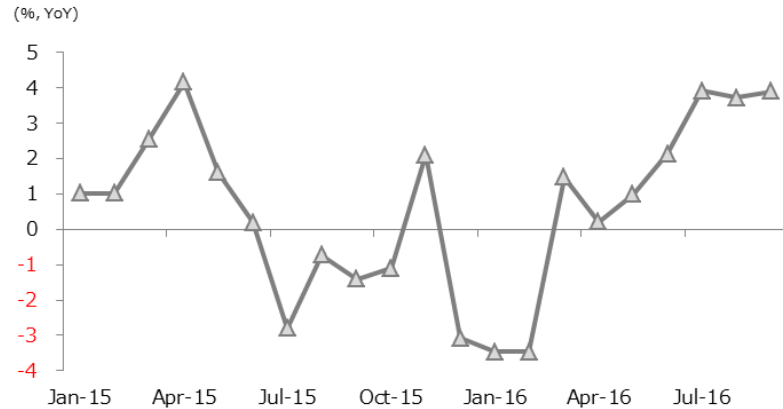
## **Outlook for 2016 & 2017: We see the stable economy in 2017 led by the fiscal policy**

- ❑ We revised up the real GDP growth for Jul-Sep to +6.7% YoY from +6.6% YoY.
- ❑ For 2017, we raised the real GDP growth to +6.5% YoY from +6.3% YoY.
- ❑ In the wake of slowing deflationary pressure in the PPI, we raised GDP deflator projection on expectation for its positive growth in 2017
- ❑ In the plenum of the Communist Party of China in fall 2017, Wang Qishan is seen to become a new Premier, where sudden policy change may happen.

Note: Economy outlook is as of 17 October 2016

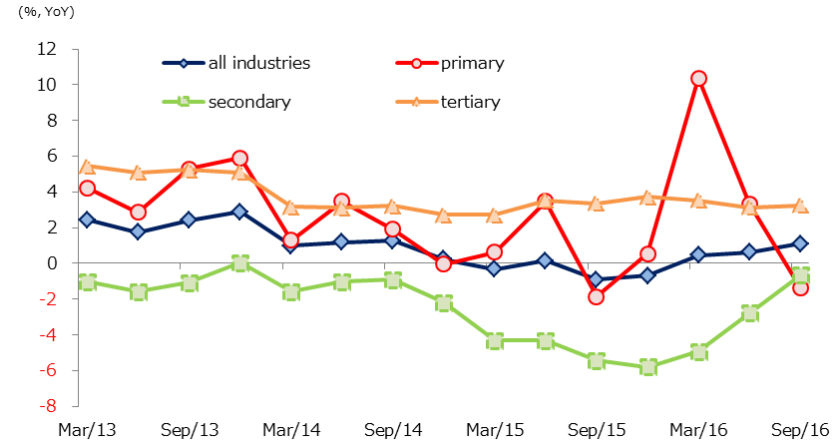
# SMAM Economic Outlook for China

## Domestic Demand for Steel



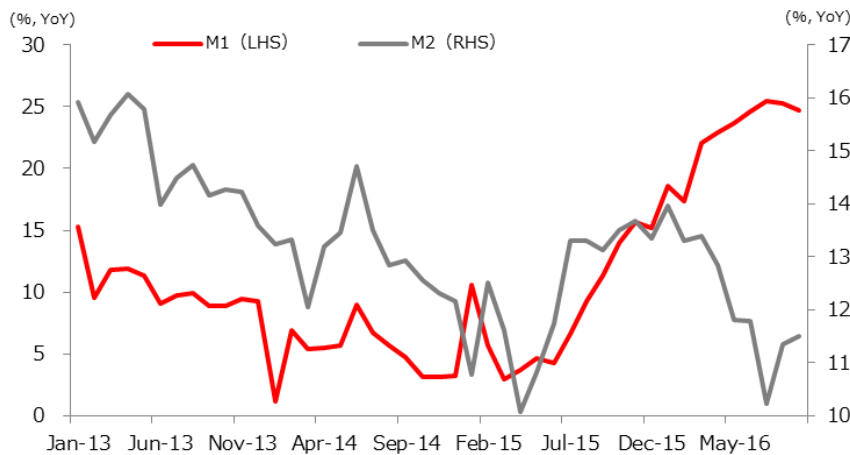
Note: The data series=steel production - steel export  
 Source: CEIC, compiled by SMAM  
 Up to September 2016

## GDP Deflator by Industries



Source: CEIC, compiled by SMAM  
 Up to September 2016

## Money Supply



Source: CEIC, compiled by SMAM  
 Up to August 2016

## Total Social Finance

(RMB bn)

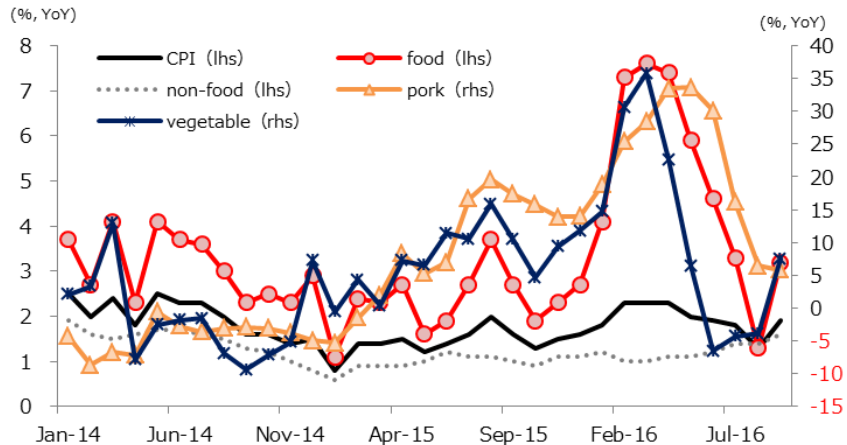
	Total	New lending	Entrusted loan	Trust loan	Bankers' acceptance	Corporate bonds	Others
2012	15,763	8,204	1,284	1,285	1,050	2,255	1,686
2013	17,317	8,892	2,547	1,840	776	1,811	1,451
2014	16,413	9,781	2,507	518	-128	2,382	1,354
2015	15,406	11,269	1,591	43	-1,057	2,939	620
Jan	3,425	2,537	217	55	133	458	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	243	62
May	684	937	157	12	-507	-18	103
Jun	1,684	1,314	172	81	-272	236	152
Jul	488	455	177	21	-512	219	128
Aug	1,470	797	143	74	-38	331	163
Sep	1,720	1,267	143	106	-224	291	137

Note: new lending excludes interbank transactions.  
 Source: CEIC, compiled by SMAM  
 Up to September 2016



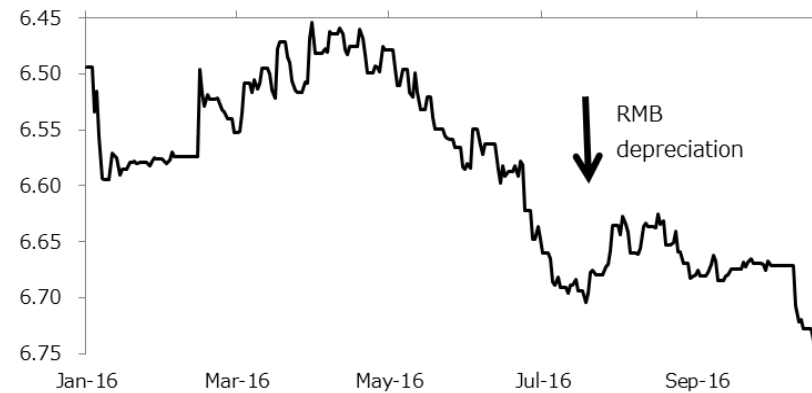
# SMAM Economic Outlook for China

## CPI Inflation



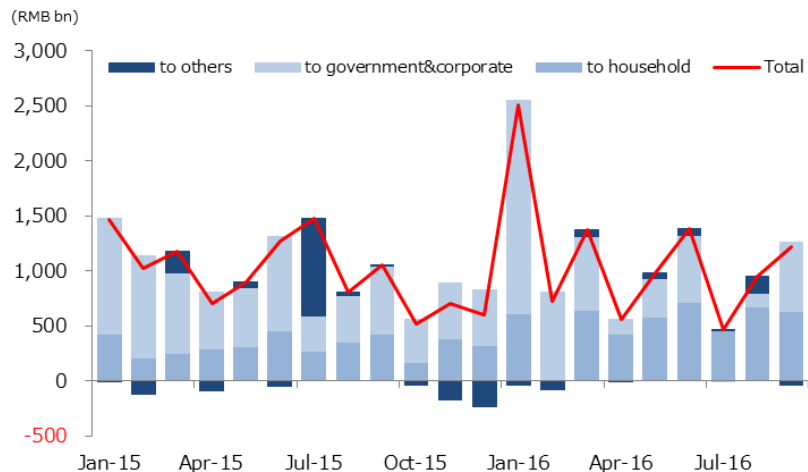
Note: The data series=steel production - steel export  
 Source: CEIC, compiled by SMAM  
 Up to September 2016

## RMB against USD



Source: CEIC, compiled by SMAM  
 Up to 19 October 2016

## New Lending



Source: CEIC, compiled by SMAM  
 Up to 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	7.6	7.7	8.0	6.7	7.5	7.6	7.2	7.9	7.1	7.7	8.2	7.8	8.0	7.8	7.6	7.7	
Previous	7.6	7.7	8.0	6.7	7.5	7.6	7.2	7.9	7.1	7.7	8.2	7.8	8.0	7.8	7.6	7.7	
NIEs4	2.1	1.9	1.7	2.8	1.9	1.9	2.0	1.7	2.4	1.6	1.8	1.7	1.7	1.8	2.0	2.2	
Previous	2.1	1.9	1.8	2.8	1.9	1.9	2.0	1.8	2.4	1.6	1.9	1.7	1.7	1.8	2.0	2.3	
Korea	2.6	2.5	2.4	2.4	2.2	2.8	3.1	2.8	3.3	2.0	2.2	2.2	2.2	2.5	2.6	2.6	
Previous	2.6	2.5	2.4	2.4	2.2	2.8	3.1	2.8	3.3	2.0	2.2	2.2	2.2	2.5	2.6	2.6	
Taiwan	0.6	0.9	0.9	4.0	0.6	▲0.8	▲0.9	▲0.7	0.7	1.6	1.8	1.2	1.1	0.8	1.0	1.7	
Previous	0.6	0.9	0.9	4.0	0.6	▲0.8	▲0.9	▲0.7	0.7	1.6	1.8	1.2	1.1	0.8	1.0	1.7	
Singapore	2.0	1.5	1.3	2.7	1.7	1.8	1.8	2.0	2.0	0.6	1.5	1.2	1.2	1.8	1.7	1.8	
Previous	2.0	1.8	1.4	2.7	1.7	1.8	1.8	2.1	2.1	1.2	1.8	1.3	1.5	1.4	1.7	1.8	
Hongkong	2.4	0.8	0.6	2.4	2.9	2.2	1.9	0.8	1.7	0.5	0.4	0.8	0.8	0.5	1.3	1.7	
Previous	2.4	0.8	0.6	2.4	2.9	2.2	1.9	0.8	1.7	0.5	0.4	0.8	0.8	0.5	1.2	1.5	
ASEAN4	4.6	4.8	4.9	4.6	4.5	4.5	4.7	4.7	4.9	4.8	4.8	4.7	4.8	5.0	4.7	4.8	
Previous	4.6	4.8	4.9	4.6	4.5	4.5	4.7	4.7	4.9	4.8	4.8	4.7	4.8	5.0	4.6	4.9	
Indonesia	4.8	5.2	5.4	4.7	4.7	4.7	5.0	4.9	5.2	5.2	5.3	5.3	5.3	5.4	5.0	5.3	
Previous	4.8	5.2	5.4	4.7	4.7	4.7	5.0	4.9	5.2	5.2	5.3	5.3	5.3	5.4	5.0	5.3	
Thailand	2.8	3.2	3.3	3.0	2.7	2.9	2.8	3.2	3.5	3.2	3.0	2.9	3.1	3.5	3.2	3.2	
Previous	2.8	3.2	3.3	3.0	2.7	2.9	2.8	3.2	3.5	3.2	3.0	2.9	3.1	3.5	3.1	3.2	
Malaysia	5.0	4.1	4.4	5.7	4.9	4.7	4.5	4.2	4.0	4.1	4.2	4.2	4.3	4.5	4.1	4.3	
Previous	5.0	4.1	4.4	5.7	4.9	4.7	4.5	4.2	4.0	4.1	4.2	4.2	4.3	4.5	4.1	4.3	
Philippines	5.9	6.7	6.3	5.0	5.9	6.2	6.5	6.8	7.0	6.5	6.5	6.1	6.1	6.5	6.5	6.1	
Previous	5.9	6.7	6.3	5.0	5.9	6.2	6.5	6.8	7.0	6.5	6.5	6.1	6.1	6.5	6.4	6.1	
Australia	2.5	2.9	2.5	2.3	2.1	2.7	2.9	3.0	3.3	2.8	2.7	2.2	2.4	2.6	3.0	2.8	
Previous	2.5	2.9	2.5	2.3	2.1	2.7	2.9	3.1	3.2	2.7	2.5	2.1	2.4	2.6	2.9	2.8	

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 October 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	5.0	5.4	5.3	5.1	3.9	5.3	5.3	5.7	5.1	4.6	4.7	4.9	5.6	5.1	5.1	
Previous		4.9	5.2 ↓	5.4	5.3	5.1	3.9	5.3	5.7	5.3 ↓	4.8 ↓	4.9 ↓	5.1 ↓	5.4 ↑	5.2 ↓	5.1		
NIEs4	Korea	0.7	1.0	1.6	0.6	0.5	0.7	1.1	1.0	0.9	0.8	1.3	1.6	1.6	1.6	0.9	1.4	
	Previous	0.7	1.0	1.6	0.6	0.5	0.7	1.1	1.0	0.9	0.8 ↑	1.3	1.6	1.6	0.9	1.4 ↓		
	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	1.3	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	▲0.4	0.8	
Previous	▲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		
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	1.7	2.5	2.1	
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	1.7	2.4 ↑	2.2 ↑	
ASEAN4	Indonesia	6.4	3.4	3.9	6.5	7.1	7.1	4.8	4.3	3.5	3.0	3.2	3.0	4.0	4.3	3.6	4.3	
	Previous	6.4	3.4	3.9	6.5	7.1	7.1	4.8	4.3	3.5	3.0 ↑	3.2	3.0	4.0	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	0.3	0.6	1.4	1.0	0.9	0.3	1.7	
	Previous	▲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 ↓	
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	2.1	2.6	
Previous		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	
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	1.7	3.0	
Previous		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	1.8 ↓	2.9 ↑		
Australia		1.5	1.3	1.7	1.3	1.5	1.5	1.7	1.3	1.0	1.2	1.3	1.7	1.6	1.7	1.2	2.1	
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	1.7	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	6.00	6.00	5.75	6.25	6.00	
Previous		6.75	6.25	5.75	7.50	7.25	6.75	6.75	6.75	6.50	6.50	6.25 ↓	6.00 ↓	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	1.25	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 ↑	1.00	
	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	1.250	1.250	
	Previous	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	
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	#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	#N/A	
ASEAN4	Indonesia	7.50	4.75	5.00	7.50	7.50	7.50	7.50	6.75	6.75	5.00	4.75	4.75	4.75	4.75	#N/A	#N/A	
	Previous	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	
	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	1.50	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	3.00	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	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	3.00	3.25	
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	3.00	3.00	3.38 ↓	
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. Indonesia has changed policy rate from BI rate (6.50%) to 7days reserve repo (5.25%) on 19 Aug.

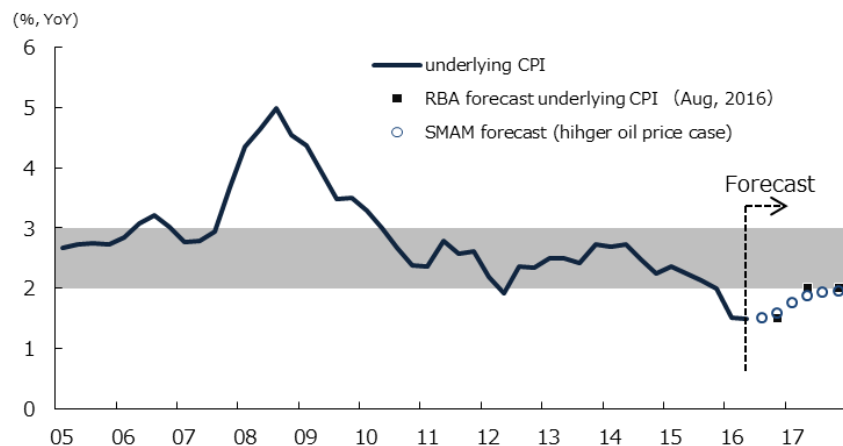
Arrows illustrate the direction of the change from last time prediction.

As of 21 October 2016

# Australia

- Due to slowing capex in the natural resources sector, the GDP growth would be on a path of a moderate recovery below the potential growth rate until the second half of this year. On another front, improvements in private consumption and housing investment are expected to underpin the economy. From the first half of 2017, we think the economy would accelerate slightly on a moderate rate of correction in capex.
- The unemployment rate would maintain a moderate declining trend led by job creation in the service sector.
- We expect the CPI growth 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 central bank's target.
- We foresee an additional rate cut in Jan-Mar 2017 as CPI in Oct-Dec seems to be weaker than the inflation 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. Under high oil price scenario, oil price would remain at \$53 throughout the period.  
 Source: ABS, IMF, BIS, Datastream, compiled by SMAM  
 Up to Q2 2016

### AUD vs Terms of trade

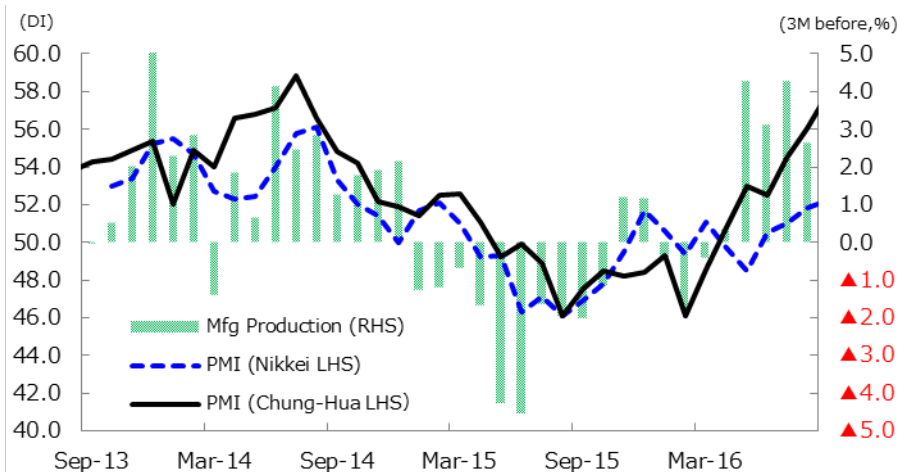


Source: Citi, Bloomberg, compiled by SMAM  
 Up to 20 October 2016

# Taiwan

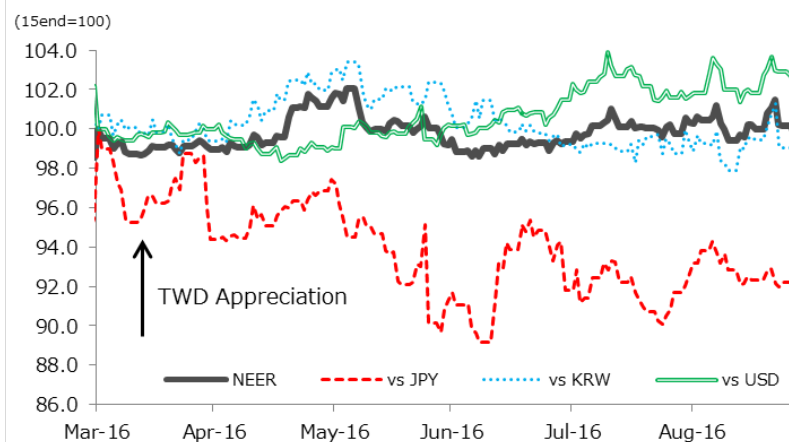
- We left real GDP forecasts for both 2016 and 2017 unchanged at +0.9% YoY each.
- Taiwan, the contribution ratio of exports to GDP is approx. 64%, is likely to be affected by the global economic conditions. While September export value was lower than expected caused by typhoon, the impacts are deemed as temporal. Considering robust export orders and PMI, the export value would rebound toward October. We believe an upturn in production activity toward the second half of 2016 on inventory correction currently in progress 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 September 2016

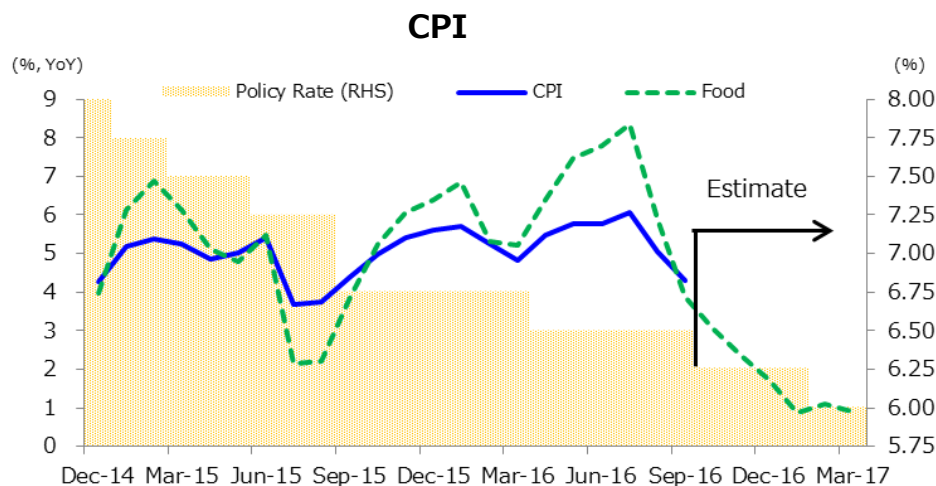
### Foreign Exchange



Note: NEER is calculated by SMAM based on BIS weight  
Source: Bloomberg, BIS, compiled by SMAM  
Up to 28 September 2016

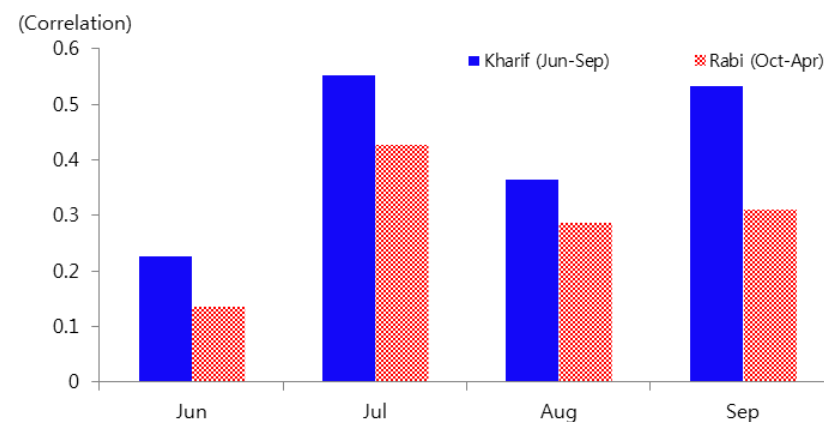
# India

- India is less vulnerable to the global economy as the contribution ratio of exports to GDP is low at approx. 13%. Thanks to abundant rainfall in this year's monsoon season, crop sowing area in 2016 increased from the previous year. We see that inflation would decelerate and economic growth would accelerate driven by the agricultural sector.
- India's inflation, which faced a significant decline toward September, seems to continue this slowing trend due to base effect. In October Monetary Policy Committee (MPC), the authority indicated accommodative stance would continue. Accordingly, we expect an additional rate cut in February.
- In our view, the economy would rebound moderately. Currently, infrastructure investment is weak. Yet, the government is planning to expand the investment toward 2020 and as the business condition is expected to improve by enactment of legislation on Goods and Services Tax (GST), and Insolvency and Bankruptcy code.



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

### Relationship between Rainfall & Agri Production

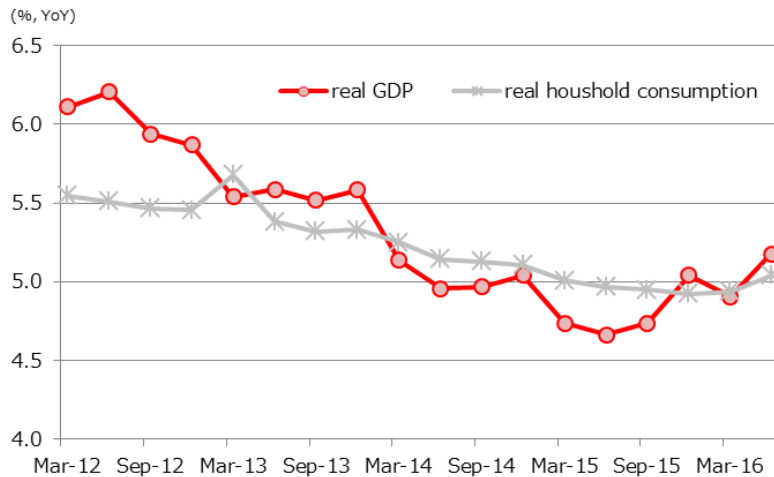


Note: Data period is from FY1967 to FY2013. We calculated correlation by using regression analysis (Dependent variable= Agri production on a YoY basis). Explanatory variable: Rainfall (Departure from normal).  
 Source: CEIC, IMD, compiled by SMAM

# Indonesia

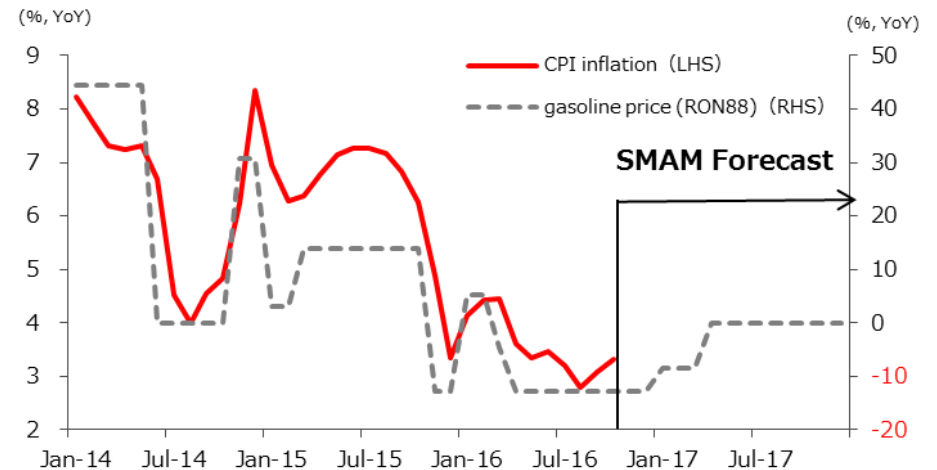
- The inflation rate has been well controlled as remaining within the target range since November last year. The government's additional gasoline price cut on April 1 can be a supportive factor for boosting private consumption through curbing inflation.
- The President Joko Widodo appointed Sri Mulyani as the country's new finance minister in a cabinet reshuffle. This would show how keen the government is to implement tax amnesty.

### GDP & Consumption



Source: CEIC, compiled by SMAM  
Up to July 2016

### Gasoline Price & CPI Inflation

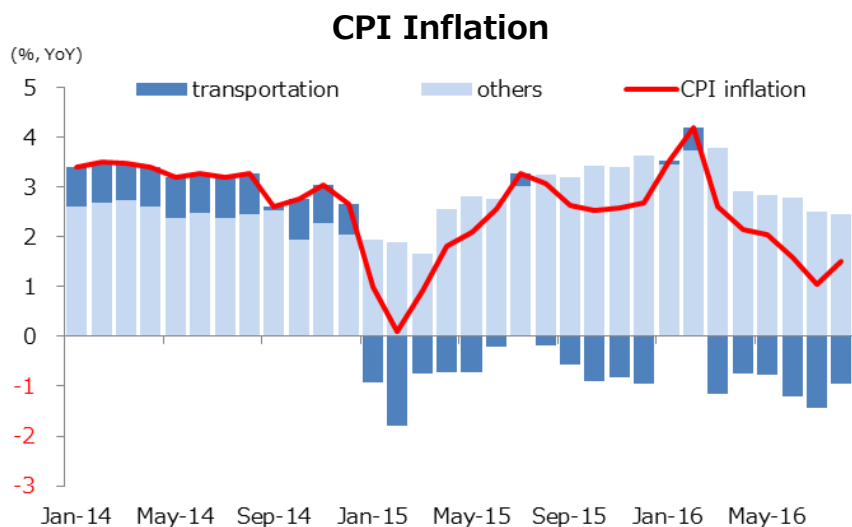


Source: CEIC, compiled by SMAM  
Up to October 2016



# Malaysia

- 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 prices can cause dwindling tax revenues, which leads to limited growth of expenditures. Accordingly, the government, under restriction of on-budget expenditure, would try to achieve public investment growth by the use of off-budget facility such as state owned enterprises.
- 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.



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 August 2016

## Malaysia Composition of Public Investment (FY2016)

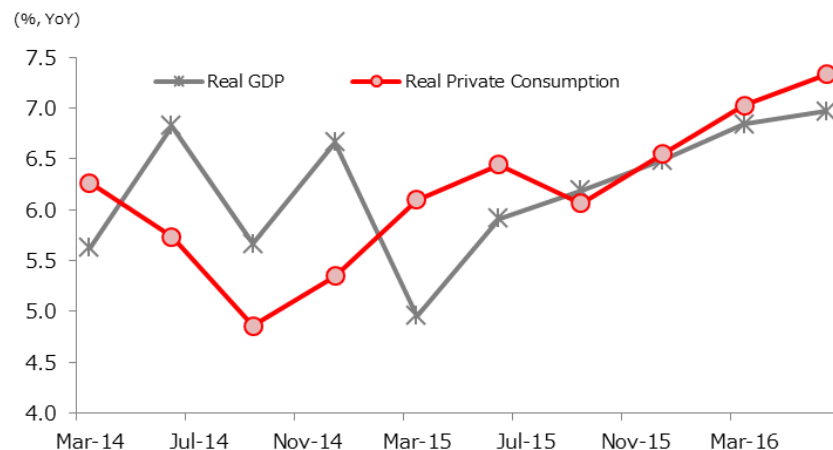
	amount MYR bn	share %	as of GDP %
total	169.4	100.0	13.7
on-budget	60.0	35.4	4.8
off-budget (SOEs)	109.4	64.6	8.8

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

# Philippines

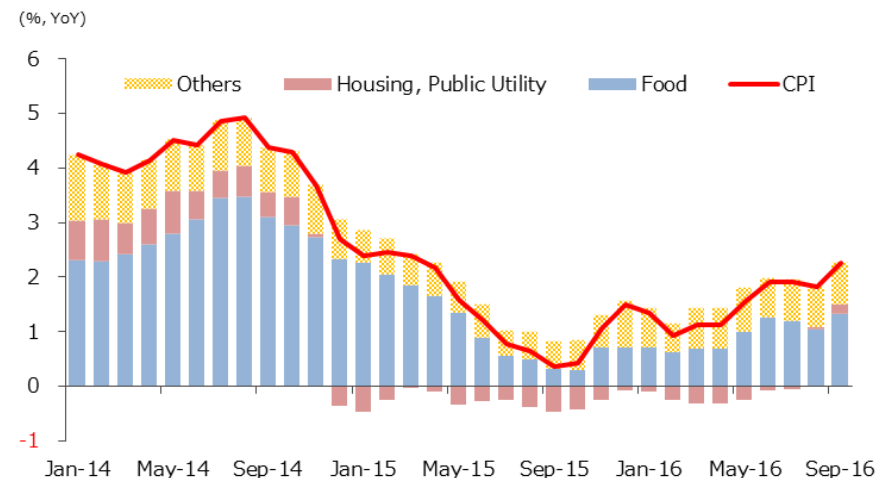
- The economy is less vulnerable to global economic cycle as the contribution ratio of exports to GDP is only around 20%, lower than in other countries.
- The government foresees the economic growth to +7-8% for 2016. In our view, private consumption would be firm thanks to elections in the first half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

### Real GDP by Expenditures



Source: CEIC, compiled by SMAM  
Up to June 2016

### CPI

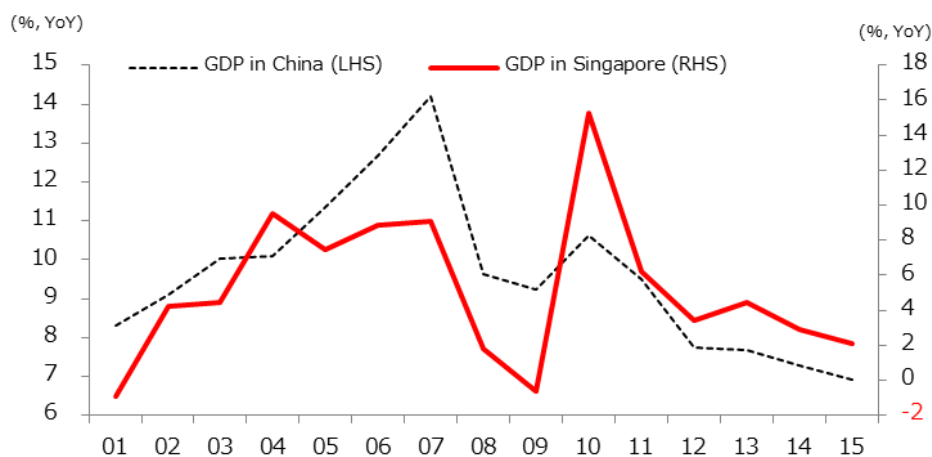


Source: CEIC, compiled by SMAM  
Up to September 2016

# Singapore

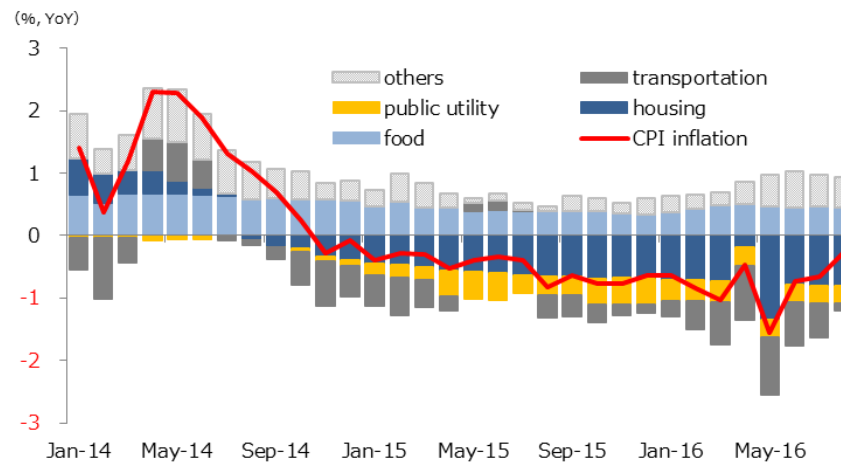
- Singapore has been struggled with deflation. We cut the CPI forecasts for 2016 and 2017 to -0.7% YoY and +0.4% YoY.
- This country's economy is sensitive to other Asian economies, particularly to China, due to heavy export dependence (approx. 130%). In accordance with China's continuing economic stagnation, Singapore is likely to face a further downward pressure on its economy.
- 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, biomedical manufacturing in particular, as upside and downside risks.

### GDP growth in China and Singapore



Source: CEIC, compiled by SMAM  
Up to 2015

### CPI Inflation

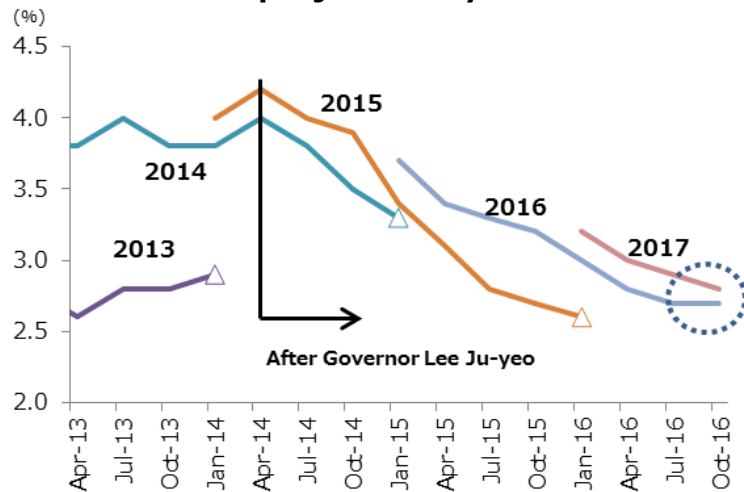


Source: CEIC, compiled by SMAM  
Up to August 2016

# South Korea

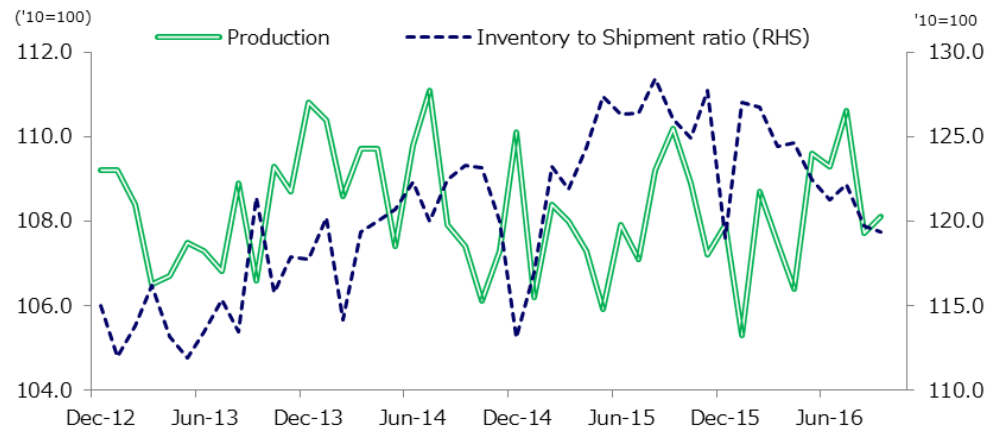
- Still inventory rate remains high. The propensity to consume is declining under mounting household debt. Furthermore, following several factors would be downward pressure on the economy. They include a) the bankruptcy of the Hanjin shipping, b) end of car tax reduction, c) strike by workers at Hyundai Motor, d) total halt of Samsung's Galaxy Note 7 production, e) the anti-corruption law and f) stricter loan screening.
- We consider the Bank of Korea would go with additional rate cut in November on a downturn in economic momentum.

**GDP projection by BOK**



Source: BoK, compiled by SMAM  
 Note: △=Actual number  
 Up to October 2016

**Production & Inventory to Shipment ratio (Mfg,SA)**

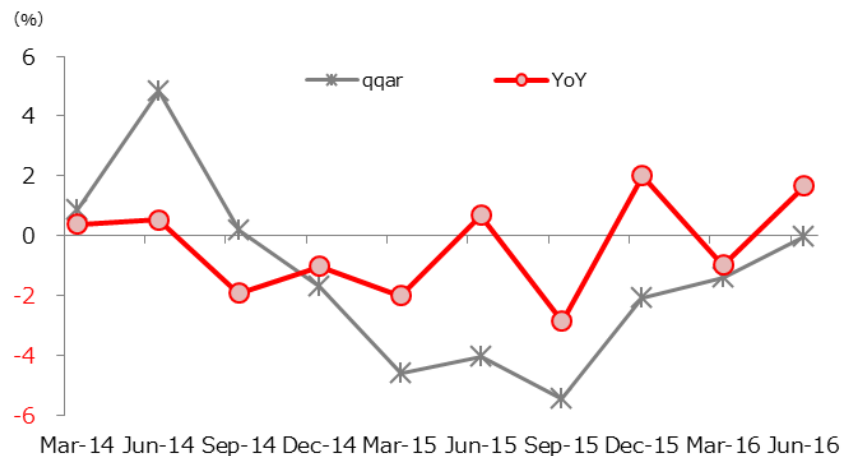


Source: CEIC, compiled by SMAM  
 Up to August 2016

# Thailand

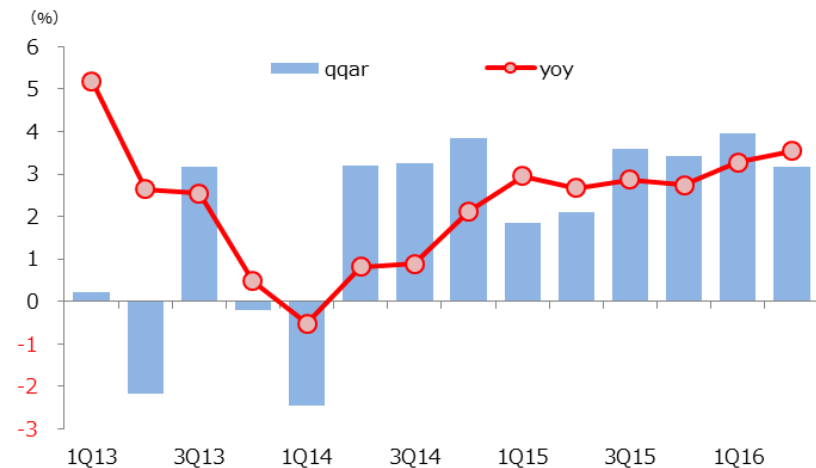
- Thanks to Deputy Premier Somkid Jatusripitak exercising strong leadership, public investment maintains high growth from September and is expected to keep accelerating in the second half of 2016.
- Thai King Bhumibol Adulyadej has passed away and Thai people have been asked to avoid "joyful events" for 30 days. We take a cautious stance for bearish consumer sentiment on a year-long mourning period.

### Agriculture Growth



Source: CEIC, compiled by SMAM  
Up to June 2016

### GDP Growth



Source: CEIC, compiled by SMAM  
Up to 2Q 2016

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# Outlook for Asia-Pacific Stock Markets

# Stock Market Performance - Global

Indices as of 31 Oct 2016	Px Last	Mtd	Qtd	Ytd	3m	1yr	2yr	3yr
S&P 500 INDEX	2,126.15	-1.9%	-1.9%	4.0%	-2.2%	2.3%	5.4%	21.0%
DOW JONES INDUS. AVG	18,142.42	-0.9%	-0.9%	4.1%	-1.6%	2.7%	4.3%	16.7%
NASDAQ COMPOSITE INDEX	5,189.14	-2.3%	-2.3%	3.6%	0.5%	2.7%	12.1%	32.4%
STOXX Europe 50 € Pr	2,813.29	-1.1%	-1.1%	-9.3%	-2.2%	-12.5%	-6.2%	-2.3%
NIKKEI 225	17,425.02	5.9%	5.9%	-8.5%	5.2%	-8.7%	6.2%	21.6%
TOPIX	1,393.02	5.3%	5.3%	-10.0%	5.3%	-10.6%	4.5%	16.6%
BRAZIL BOVESPA INDEX	64,924.52	11.2%	11.2%	49.8%	13.3%	41.5%	18.8%	19.7%
RUSSIAN RTS INDEX \$	988.74	-0.2%	-0.2%	30.6%	6.6%	16.9%	-9.4%	-33.2%
BSE SENSEX 30 INDEX	27,930.21	0.2%	0.2%	6.9%	-0.4%	4.8%	0.2%	32.0%
HANG SENG INDEX	22,934.54	-1.6%	-1.6%	4.7%	4.8%	1.3%	-4.4%	-1.2%
HANG SENG CHINA AFF.CRP	3,762.24	-2.6%	-2.6%	-7.2%	1.3%	-9.3%	-17.0%	-17.3%
HANG SENG CHINA ENT INDX	9,559.39	-0.2%	-0.2%	-1.1%	6.7%	-8.1%	-11.1%	-10.0%
CSI 300 INDEX	3,336.28	2.6%	2.6%	-10.6%	4.1%	-5.6%	33.0%	40.6%
TAIWAN TAIEX INDEX	9,290.12	1.3%	1.3%	11.4%	3.4%	8.6%	3.5%	9.9%
KOSPI INDEX	2,008.19	-1.7%	-1.7%	2.4%	-0.4%	-1.0%	2.2%	-1.1%
STRAITS TIMES INDEX	2,813.87	-1.9%	-1.9%	-2.4%	-1.9%	-6.2%	-14.1%	-12.4%
FTSE Bursa Malaysia KLCI	1,672.46	1.2%	1.2%	-1.2%	1.2%	0.4%	-9.8%	-7.4%
STOCK EXCH OF THAI INDEX	1,495.72	0.8%	0.8%	16.1%	-1.9%	7.2%	-5.6%	3.7%
JAKARTA COMPOSITE INDEX	5,422.54	1.1%	1.1%	18.1%	4.0%	21.7%	6.5%	20.2%
PSEi - PHILIPPINE SE IDX	7,404.80	-2.9%	-2.9%	6.5%	-7.0%	3.8%	2.6%	12.4%
HO CHI MINH STOCK INDEX	675.80	-1.4%	-1.4%	16.7%	3.6%	11.3%	12.5%	35.9%
S&P/ASX 200 INDEX	5,317.73	-2.2%	-2.2%	0.4%	-4.4%	1.5%	-3.8%	-2.0%
NZX 50 INDEX	6,960.68	-5.4%	-5.4%	10.1%	-5.3%	16.3%	29.2%	41.8%
MSCI World Free Local	422.20	-0.7%	-0.7%	1.5%	-0.5%	-0.3%	3.5%	13.9%
MSCI All Country Asia Ex Japan	667.62	-0.6%	-0.6%	7.1%	3.4%	3.6%	-1.5%	3.2%
MSCI EM Latin America Local	76,847.20	7.3%	7.3%	29.7%	7.9%	22.5%	7.7%	6.8%
MSCI Emerging Markets Europe M	470.97	-0.5%	-0.5%	5.0%	-2.1%	-1.5%	-4.0%	-2.8%

Note: All data are as of 31<sup>st</sup> October 2016

Source: Bloomberg, compiled by SMAM

# Investment Outlook: Asia-Pacific Stock Markets

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## Outlook for Asian Stock Markets

- We have slightly changed our outlook for Asian equity markets to mild upside in coming 3 to 6 months supported by a recovery of corporate earnings and relatively attractive valuation level against developed markets.

## 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 it will continue to slow gradually in the medium term.
- Property market in China remains a key risk.
- The recovery of corporate earnings will be moderate towards 2017 as overall global economy stabilizes.
- Liquidity condition has been supporting emerging markets thanks to the delay of US rate hike.
- **Overall market environment has been stabilized, and we expect Asian equity markets will follow the move of global equity markets.**

Note: As of 27 October 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.	X 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 some external events. / Inflation will remain low.	CA surplus continues but it is narrowing.	Stable, pressure for weaker HKD is eased.	xWeak ER, but momentum is bottomed No earnings recovery in 2017.	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 towards 19th Party Congress.	Stabilized in the near term. Gradual slowdown is expected. Structural rebalancing is a key challenge.	X monetary policy should be maintained but it may be less effective. / Int. rate will stay sideways / Low inflation will continue.	Surplus- but it is declining. The degree of capital outflow is eased but it remains a big concern.	<b>Gradual depreciation will continue, but it is well managed.</b> The degree of RMB devaluation is a big issue across Asia.	<b>Both ER and momentum are improving.</b>	○ attractive in the long term, <b>but it has come back to above average since 2010 Valuation discount is narrowed.</b> ↓
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.	○ ER is improving and momentum is solid.	○ Relatively attractive among in Asia / Fair on PER, attractive on PBR
Korea	- Still in the transition. Structural re-rating will not happen soon. - High level of inventories and slow adjustments - <b>Issues from individual names are increasing.</b>	Less stable as President Park's party loses majority	X Growth outlook is weakening some parts due to a strained relationship with China.	○ Easing bias continues / Inflation will be stable / Liquidity is improving.	Surplus will remain high	Downward bias in the near term. BOK prefers gradual depreciation of KRW.	○ ER came back to positive and momentum is solid.	PE has already come back to above historical average. Attractive on PBR.
Singapore	- Stable Mkt and policy headwind is easing. - Weak economy will continue due to slowdown of Chinese economy. Relatively big impact by Brexit. - Attractive valuation.	The landslide victory of PAP should create political stability.	xSlower 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>xER and momentum remain very weak.</b>	Fair on PER, attractive on PBR
Malaysia	- Mounting uncertainty in both Politics and economy. - <b>Investor's sentiment is improving due to recovery of crude oil price.</b>	x1MDB continues to be a risk factor. Political turmoil is still there.	xGDP growth is expected to slow in 2016. However the government can brake downward pressure by off-budget disbursement.	○ Additional rate cut is expected in 4Q16 given MYR stabilization. / Inflation will mildly pick up. / M2 growth rate is bottomed out.	Surplus will continue due to recovery of crude oil price.	Gradual downward bias continues under shaky political conditions.	<b>xER and momentum remain very weak.</b>	Fair (expensive on PER, but fair on PBR)
Thailand	- Economy is expected to bottom out. - <b>Market is stable even under uncertainty of consumption by the king's death.</b>	Military gov should continue at least until 2017. <b>The king passed away.</b>	Economy is expected to bottom out supported by fiscal stimulus. <b>Downside risk due to worsening consumer sentiment.</b>	<b>Rate cut is expected in 4Q16 to support economy.</b> / Inflation will be stable. M2 growth rate should remain low.	Surplus will continue.	Stabilizing under little concern for US rate hike.	○ ER 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. New FM, Sri Mulyani will support macro recovery.	○ Economy is expected to recover supported by lower gasoline price and public investment.	Interest rate is expected to maintain but there is still room to cut interest rate / Lower inflation due to lower gasoline price	CA deficit will continue to increase but Tax amnesty law could help finance of C/A deficit.	Stabilizing under little concern for US rate hike. Positive impact by tax amnesty.	<b>xER and momentum remain weak.</b>	Fair (Expensive on PER, but fair on PBR)
Philippines	- Still the bright spot, however headwinds by increasing inflation and weaker currency are increasing. - Political risk is increasing.	<b>President Duterte has become a wild card.</b>	○ Steady growth. Less impact by global economy.	<b>X Possible rate hike in 2017 / Int. rate will be stable. / some pressure for inflation.</b>	Trade deficit will shrink. Current a/c surplus will expand.	Stabilizing under little concern for US rate hike.	ER 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.	X Trade / CA deficit will gradually increase.	Stabilizing under little concern for US rate hike. Strong FDI can support INR.	<b>xER is weakening again, but momentum is improving.</b>	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	Rate cut is expected / Inflation stays lower than the target range.	Deficit, but it is improving	Downward bias	<b>ER is weak but it is improving.</b>	Expensive on PER, fair on PBR
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): Thailand – Overweight continued

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## 【Summary】

We foresee a stable equity market on accelerated infrastructure investments resulted from enforcing economic policy, expectation for a recovery of the macro economy and gradual improvements in corporate earnings although Thai King's death is regarded as a downside risk.

- ❑ A general election got delayed to 2017 as a drafted constitution was rejected by a national reform assembly. There are concerns over international criticism for military junta, however, public investments are expected to expand. Moreover, cabinet reshuffle seems to be positive as resulted in economically-friendly cabinet members.
- ❑ As high household debt issue still remains, **private consumption, showing a recovery phase, would face downward pressure due to the King's death.**
- ❑ However, **the equity market and economy are not bothered by considerable disruptions.** When and how US rate hike goes is a risk factor.
- ❑ **Possibility for early rate cut remains in order to support the economy.** Further infrastructure investment is also expected.
- ❑ Revision in earnings tends to improve. In terms of valuation, P/E is overvalued, but P/B stays in historical level.

## Market Focus ( ii ): Singapore – Underweight continued

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### 【Summary】

We deem fundamentals in Singapore as less appealing compared with those in other Asian markets. An upside in the stock market is limited.

- ▣ We foresee that the stock market is stable on a recovery of the global economy and receded concerns over Chinese economy. Hope for monetary easing in the Asian region would reassure the markets.
  
- ▣ Yet, a rebound of the equity market from February was faster than expected. Accordingly the valuation expansion seems to be limited.
  
- ▣ We take a stance for selecting stocks building a strong position in the industry or keeping stable earnings. We focus on holdings according to mid-long term attractiveness.
  
- ▣ Singapore's banks are safer and more defensive than other ASEAN Banks, while loan growth is sluggish. The quality of assets, especially for China or commodity, is key concern. We maintain cautious stance on the banking sector.

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