



Asian Macro & Market Outlook

SMAM monthly comments & views

February 2016



Sumitomo Mitsui Asset Management

Executive summary

◆ Asian Economy

In China, economic downside risks still remain despite accelerated monetary policy implementation. As the government expresses its clear intention to keep eliminating overcapacity, gradual inventory adjustment would continue. Thus, we revised down the real GDP forecast and SMAM's original real GDP forecast for 2016. However, we stay with our view that the property sector in the second half of 2016 would rebound on recovering housing price and land acquisition.

Asian economies are stabilizing thanks to measures such as monetary easing and public spending in spite of China's slowdown. In most of Asian countries, potential risk of economic downturn resides in slowing Chinese economy, crop failure and food inflation due to bad weather including El Nino phenomenon and financial market turmoil on risk-off mode triggered by US rate hike forecast.

◆ Asian Stock Markets

We expect high volatility continues in the near term given the very risk averse sentiments in the market, however we consider the market starts to recover as overall macro economy stabilizes. Attractive valuation is also supportive.

- ✓ Macro economies in most of Asian countries remain weak and are likely to show gradual recovery in 2016. Especially the outlook for Chinese economy remains quite unclear. Risks for cash outflow and weaker currency continue.
- ✓ The recovery of corporate earnings is delayed.
- ✓ Concerns continue for tighter liquidity conditions across Asia due to US rate hike.
- ✓ These are key concerns for Asian markets and these will create volatility in the near term.
- ✓ However accommodative monetary policies and relatively low valuation will support the market. Market will go up in line with slow recovery of corporate earnings.

Outlook for Asian Economy

SMAM Economic Outlook Summary

- For China's real GDP estimate in 2016, we slightly downgraded to +6.5% from +6.6%.
- Regarding Taiwan, we slightly revised down real GDP estimate in 2016 to +0.9% from +1.0%.
- We cut India's real GDP growth projection for 2015 to +7.4% from +7.5%.

Real GDP Growth Forecasts (%YoY)

Country	2013 (A)**	2014 (A)	2015 (F)**			2016 (F)		
			SMAM	Previous Dec 17th	Consensus	SMAM	Previous Dec 17th	Consensus
Australia	2.1	2.7	2.3	2.3	2.3	2.4	2.4	2.6
China	7.7	7.3	6.9	6.9	6.5	6.5	6.6	6.3
Hong Kong	2.9	2.5	2.4	2.4	2.4	2.0	2.0	2.0
India*	5.1	7.3	7.4	7.5	7.4	8.0	8.0	7.8
Indonesia	5.8	5.0	4.7	4.7	4.7	4.8	4.8	4.9
Malaysia	4.7	6.0	5.0	5.0	4.8	4.5	4.5	4.4
Philippines	7.2	6.1	5.7	5.7	5.6	5.9	5.9	5.8
Singapore	3.9	2.9	2.0	2.0	1.9	1.8	1.8	2.1
S. Korea	3.0	3.3	2.5	2.5	2.6	2.5	2.5	2.8
Taiwan	2.2	3.9	0.8	0.8	1.0	0.9	1.0	2.0
Thailand	2.9	0.9	2.8	2.8	2.7	2.9	2.9	3.1

(Source) SMAM

Consensus Forecasts (Consensus Economics Inc.) as of 17 December 2015 & SMAM Forecasts as of 18 January 2016

* India is for fiscal year starting April.

**F: Forecast, A: Actual

Outlook for Economy in China

SMAM Economic Outlook for China

China's Quarterly GDP Growth and Components

	2014	2015E	2016E	2015				2016			
				1Q	2Q	3Q	4QE	1QE	2QE	3QE	4QE
Real GDP, %YoY	7.3	6.9	6.5	7.0	7.0	6.9	6.9	6.5	6.5	6.6	6.6
previous	-	6.9	6.6	-	-	-	7.0	6.6	6.5	6.7	6.6
SMAM's Original Real GDP Forecast, %YoY*	6.9	6.0	5.6	6.3	6.3	5.9	5.7	5.5	5.5	5.8	5.8
previous	6.9	6.1	5.8	6.3	6.3	5.9	5.9	5.8	5.5	5.9	5.9
Consumption Expenditure, %YoY	7.4	7.7	7.4	-	-	-	-	-	-	-	-
previous	7.5	8.0	7.3	-	-	-	-	-	-	-	-
Gross Fixed Capital Investment, %YoY	7.2	6.5	6.0	-	-	-	-	-	-	-	-
previous	7.1	6.6	6.5	-	-	-	-	-	-	-	-
Net Exports, contrib.	0.1	-0.1	-0.1	-	-	-	-	-	-	-	-
previous	-	-0.2	-0.2	-	-	-	-	-	-	-	-
Nominal GDP, %YoY	8.2	6.6	6.3	6.6	7.1	6.2	6.6	6.4	6.3	6.5	6.4
previous	8.2	6.9	7.6	-	-	-	-	-	-	-	-
GDP Deflator, %YoY	0.9	-0.3	-0.2	-0.3	0.1	-0.7	-0.3	-0.1	-0.2	-0.1	-0.2
previous	-	0.0	1.0	-	-	-	-	-	-	-	-
Ind. Production, %YoY	8.3	6.1	5.7	6.1	6.3	5.9	5.9	5.6	5.6	5.7	5.7
previous	-	5.9	6.1	-	-	-	-	-	-	-	-
CPI, %	2.0	1.4**	1.3	1.2	1.4	1.7	1.5**	1.5	1.4	1.2	1.3
previous	-	1.4	2.1	-	-	-	1.5	1.9	2.2	2.1	2.1
Base Loan Rate, 1yr, period end, %	5.6	4.35**	4.1	5.4	4.9	4.6	4.35**	4.1	4.1	4.1	4.1
previous	-	-	4.1	-	-	-	-	4.1	4.1	4.1	4.1

Notes: SMAM estimates as of 18 January 2016. *SMAM's Original Real GDP Forecast, %YoY is originally calculated by SMAM to find out "real" Chinese economic growth using data of Industrial Production and Retail Sales. **CPI and Base Loan Rate for 2015 and 4Q2015 are actual numbers.

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

SMAM Economic Outlook for China

- We cut the real GDP forecast for 2016 to +6.5% YoY from +6.6% YoY as well as SMAM's original on revised down industrial production outlook under capital stock adjustment pressure. Yet, we maintain our view of economic momentum to recover gradually in the second half of 2016 thanks to counter-cyclical economic measures.
- The deflationary pressure would cause the market sentiment to keep unstable. We expect the GDP deflator for 2016 to end in a negative growth due to mounting deflationary pressure caused by the stock adjustment process. In that sense, we also revised down CPI inflation outlook in 2016 whereas some upside risk would remain caused by pork prices.

Note: Economy outlook is as of 18 January 2016

Market Consensus of Chinese Market

	2014	2015	2016E	2017E
Real GDP, %YoY	7.3	6.8	6.5	6.3
Ind. Production, %YoY	8.3	5.9	5.8	5.5
Gross Fixed Capital Investment, %YoY	15.7	8.2	10.0	9.8
Retail Sales, %YoY	12.0	11.1	10.6	10.5
CPI, %	2.0	1.4	1.6	1.7
PPI, %	-1.9	-5.2	-3.4	-1.6
M2	12.2	13.3	11.5	11.3
Base Loan Rate, 1yr, period end, %	5.60	4.35	3.85	NA

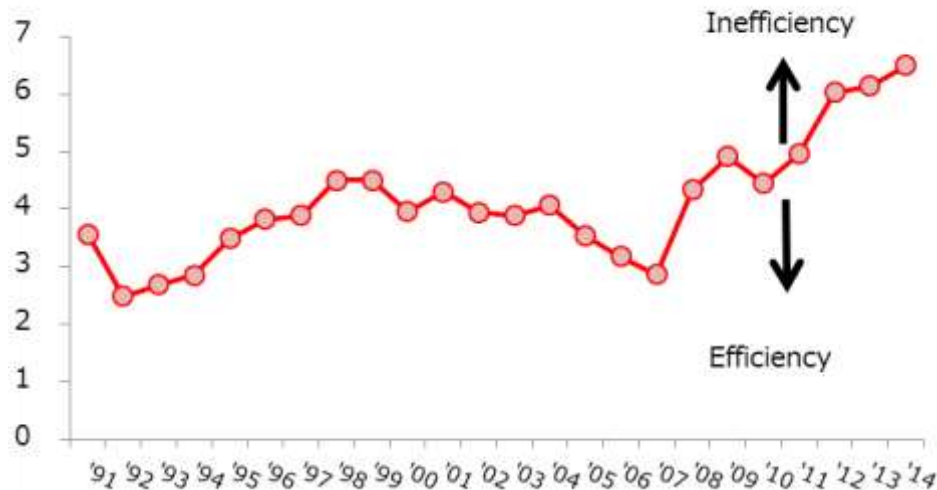
Notes: As of 18 January 2016. Numbers indicated by boldface are Actual.

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

China: 4 points highlighted in Chinese economy

- Firstly, the Incremental Capital Output Ratio (ICOR, $\Delta K/\Delta Y$) has increased especially since 2008, when the government took the huge amount of economic measures worth for CNY 4 trillions. Obviously, the graph shows that China's capital productivity has been worsening. The less efficient impact of the investment on economy can explain the reason why the government decided the supply-side reform led by decrease in excess output facility.
- Secondly, the government's fiscal expenditure growths exceeded +30% QoQ in October and November 2015, although Oct-Dec real GDP growth decelerated to +6.8% YoY. Sagging private demand and the capital stock adjustment might cause fears over economic downturn.

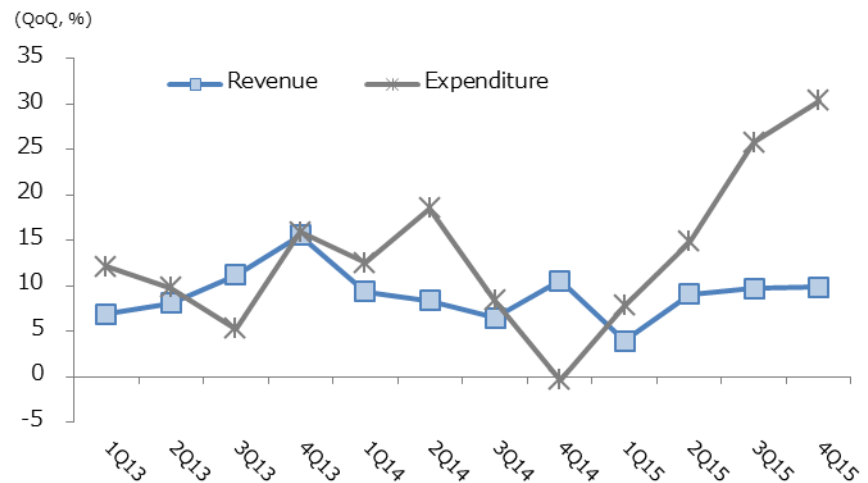
ICOR



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

Up to 2014

Fiscal Expenditure (Quarterly)



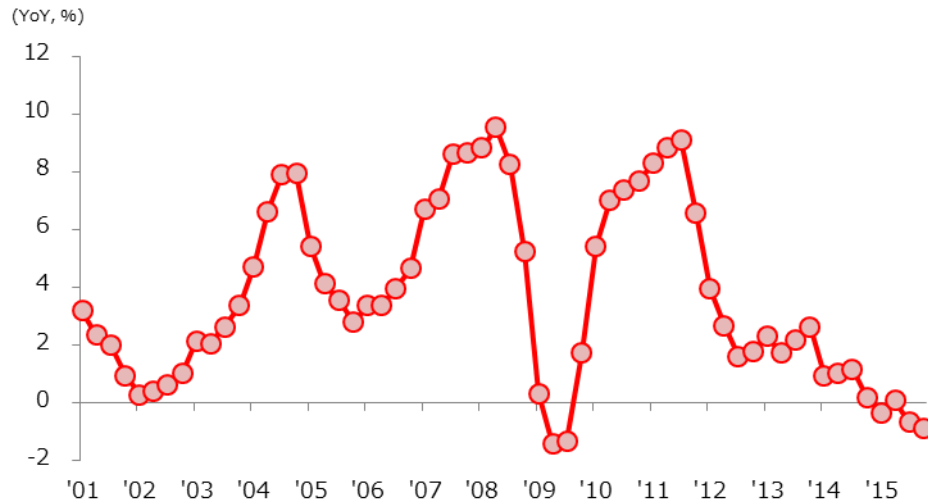
Note: The number in 4Q2015 is the average of that during Oct-Nov
Source: Ministry of Finance of China, CEIC, compiled by SMAM

Up to 4Q2015

China: 4 points highlighted in Chinese economy

- The 3rd point is Oct-Dec GDP deflator. It decelerated to -0.9% YoY from -0.7% YoY in the previous quarter, despite lower commodity prices, which can cause GDP deflator to push up through lower import prices.
- The last one is the stabilized labour market as shown by job opening-to-application ratio in China's city area, despite slowing economy. As a result, the government seems to refrain from large size of economic measures as in 2008. We expect the potential for economic growth to be lower due to less labor input.

GDP Deflator



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

Up to December 2015

Job Opening-to-application Ratio



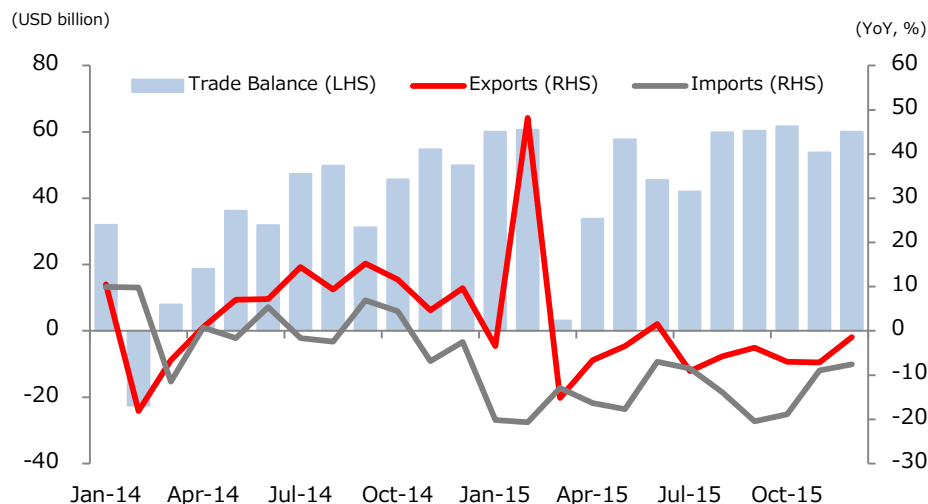
Source: Ministry of Human Resources and Social Security of China, CEIC, compiled by SMAM

Up to 3Q2015

China: Trade Balance

- December trade data released, however we are not optimistic about the results. December exports (-1.4% YoY), which were better than market projection of -8.3% YoY, improved from -7.1% YoY in November. Imports (-7.6% YoY) were also higher than consensus of -11.0% YoY.
- The exports from China to Hong Kong surged in December as exporters could take advantage of lower offshore CNH against USD than onshore CNY. However, the incentive would disappear while narrowing the gap between CNH and CNY caused by PBOC's heavy intervention of RMB in Hong Kong offshore markets. We foresee the momentum of exporters to Hong Kong to be cooled down.

Trade Balance



Exports by Destination Country

	Total Share	HK 15%	ASEAN 12%	Japan 6%	EU 16%	US 18%
Apr	-6.6	-9.0	-6.6	-13.3	-10.4	3.1
May	-3.5	-9.5	-0.1	-8.1	-6.9	7.8
Jun	1.5	-0.5	8.4	-6.0	-3.4	12.0
Jul	-9.1	-14.9	1.4	-13.0	-12.3	-1.3
Aug	-5.7	-3.9	-4.6	-5.9	-7.5	-1.0
Sep	-3.8	-23.0	6.0	-4.6	-0.2	6.7
Oct	-7.0	-17.5	-10.9	-7.7	-2.9	-0.9
Nov	-7.1	-0.5	-2.9	-10.6	-9.5	-6.4
Dec	-1.4	10.8	-6.4	-4.6	1.7	-3.7

(YoY, %)

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

Up to December 2015

Note: Exporting share data is based on the data in 2015,

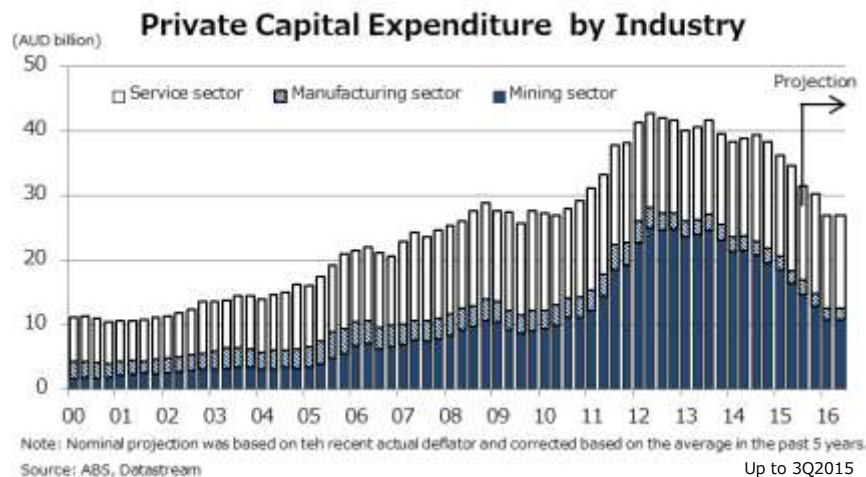
Source: National Bureau of Statistics of China, CEIC, compiled by SMAM

Up to December 2015

Outlook for Economies in Asia

Australia

- We maintain our view the GDP growth is on a path of a gradual recovery at just under cruising speed until mid-2016. Later in 2016, the economic growth would accelerate moderately on the back of bottoming out of China's property market after correction in capex.
- The job market condition shows a steady improvement whereas the number of employed persons in December decreased 1 thousand. We foresee the unemployment rate to keep a gradual declining trend. Employment is increasing led by the service sector as a result of monetary easing.
- Oct-Dec CPI was released at +1.7% YoY, accelerating from +1.5% YoY in the previous quarter on price increase in import goods. However, Oct-Dec Core CPI slightly softened to +2.0% YoY from +2.1% YoY in the last quarter reflecting slowing service prices.
- We stay with our expectation that RBA holds cash rate until end-2016. Yet, RBA is likely to maintain the easing bias.



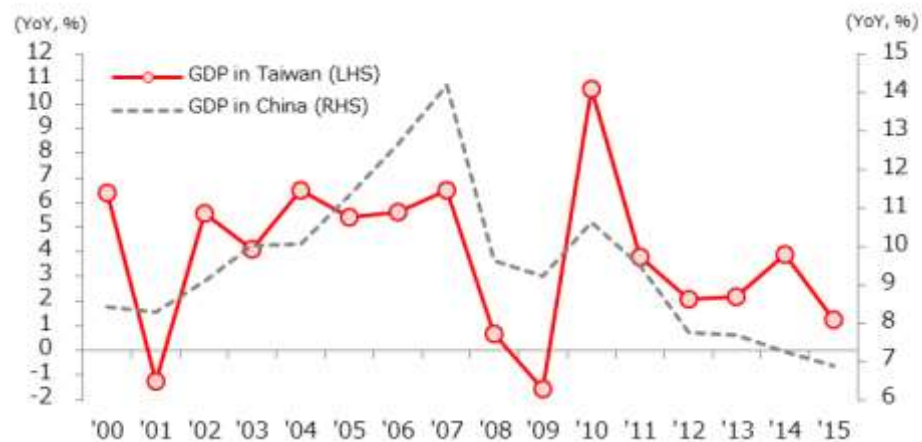
Hong Kong and Taiwan

- Despite the peg with USD, Hong Kong dollar (HKD) should continue to appreciate against USD. The strengthening HKD can cause less CPI inflation in Hong Kong. In addition, increasing interest rates on a real basis led by US rate hike should have negative impacts on the property sector.
- We slightly revised down the Taiwan's real GDP growth forecast for 2016. As shown by the correlated GDP growths, Taiwan economy has a close relationship with Chinese economy. In that sense, our GDP outlook is more pessimistic than market consensus.
- At the presidential election on 16th January, Tsai Ing-wen, the opposition Democratic Progressive Party (DPP) presidential candidate, won. DPP, which has an intention of seeking independence from China, also got landslide victory with 68 of the total 113 seats at the Legislative Yuan election.

Low Inflation in Hong Kong



GDP growth in Taiwan and China



Source: Bloomberg, The People's Bank of China, CEIC, compiled by SMAM

Up to December 2015

Note: Data of the real GDP in 2015 is the actual number between Jan and Sep 2015
Source: Directorate-general of budget accounting and statistics, compiled by SMAM

Up to September 2015

India

- We cut the real GDP forecast in 2015 with downwardly revised Oct-Dec GDP forecast on unseasonal heavy rainfall and flood in the southern part including Chennai.
- December CPI came in at +5.6% YoY, which was higher than the market consensus of +5.5% YoY but below the target range of +6% YoY. Looking at a decline in vegetable prices and slower pace of pulse price rise, food inflation risk seems to be limited. We should pay careful attention to the government's budget plan for 2016/17.
- November Industrial Production (IP) decreased to -3.2% YoY from +9.9% YoY in the previous month on seasonal and unseasonal effects: Diwali holiday and heavy rain in the South area.

CPI Inflation

	CPI Inflation	Food & Beverages	Vegetables	Pulses	CPI Inflation	Food & Beverages	Vegetables	Pulses
	YoY	Weight	Weight	Weight	MoM	Weight	Weight	Weight
Sep-14	5.6	3.0	0.1	0.2	-0.17	-0.30	-0.31	0.02
Oct-14	4.6	2.1	-0.8	0.2	0.00	-0.15	-0.27	0.01
Nov-14	3.3	1.0	-1.6	0.2	0.00	-0.11	-0.22	0.02
Dec-14	4.3	2.1	-0.3	0.2	-0.58	-0.57	-0.60	0.01
Sep-15	4.4	2.1	0.0	0.7	0.48	0.33	0.22	0.11
Oct-15	5.0	2.6	0.2	1.0	0.56	0.33	-0.09	0.29
Nov-15	5.4	2.9	0.3	1.1	0.40	0.22	-0.10	0.11
Dec-15	5.6	3.0	0.3	1.1	-0.39	-0.47	0.54	0.01

Source: CEIC, SMAM

Up to December 2015

GDP Growth



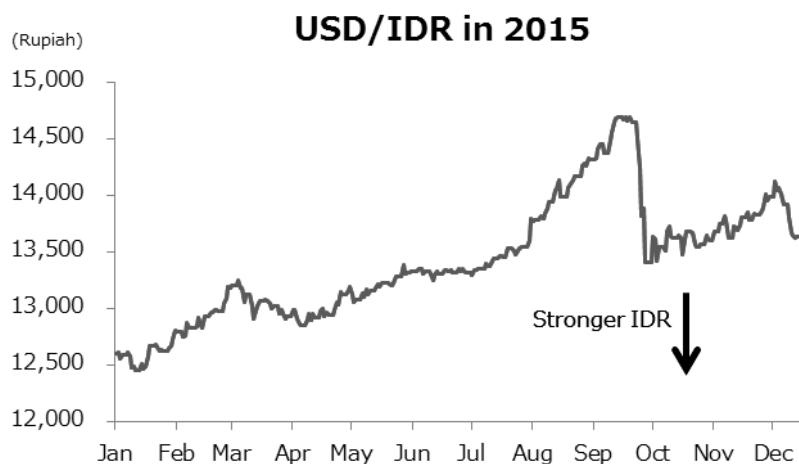
Note: GVA+ (indirect tax-subsides) = GDP

Source: CEIC, SMAM

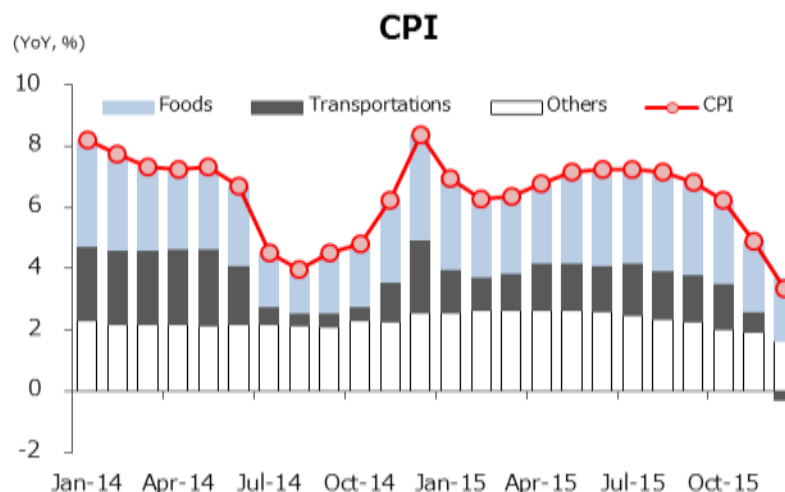
Up to September 2015

Indonesia

- We foresee the current account deficit in 2016 to be pushed up to just over 2% comparing to GDP growth on a rebound in imports.
- December trade data showed negative growths on a year-on-year basis in imports and exports for 15th consecutive months. The growth in exports except for gas and crude oil ended in negative result affected by weak coal and palm oil prices. However, the domestic demand seems to stop deteriorating. Looking closely at the quarterly data of imported goods by use, the growth rates in capital and consumer goods improved in the second half of 2015.
- As expected, Bank Indonesia decided to move on a rate cut to 7.25% from 7.50% at the meeting held on 14th January in the stable currency condition. Indonesian Rupiah (IDR) against USD was little changed with 0.3% loss while USD/RMB dropped 1.2% from the end of 2015 to 13th January 2016. We maintain our view of the additional rate cut to be implemented in 2Q2016 on the basis that IDR is under the stable environment.



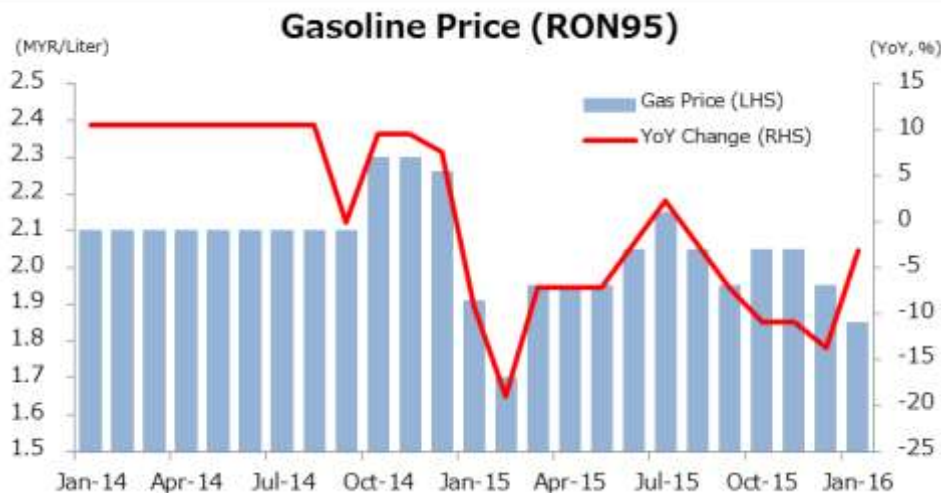
Up to December 2015



Up to December 2015

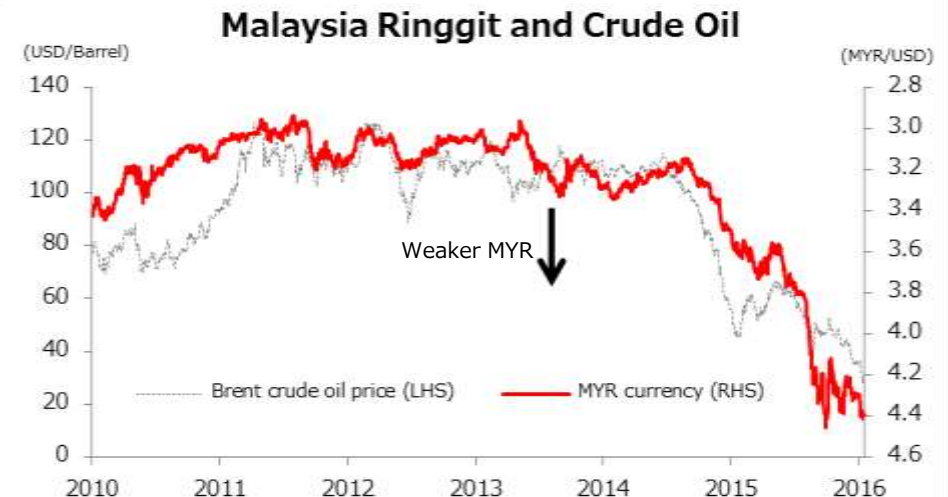
Malaysia

- Bank Negara Malaysia cut the statutory reserve requirement (SRR) ratio to 3.50% from 4.00%, however left the policy rate unchanged at 3.25%, in line with market consensus. The central bank announced a reduction of the SRR is for ensuring sufficient liquidity in the domestic financial system, not a sign of monetary policy stance.
- We hold the GDP growth forecast for 2016 at +4.5% YoY. The weakening Malaysia Ringgit (MYR) has contributed to export competitiveness except for primary products but slowing Chinese economy still weighs on Malaysia's export. In addition, we expect that the government would take advantage of state owned enterprises' public investment, which is out of strict fiscal discipline, to sustain the economy.
- Lower oil prices have negative impacts to the economy in Malaysia, a net exporter of crude oil. However, a decline in oil prices led to lower gasoline prices, which improved consumer sentiment for domestic consumption.



Source: CEIC, SMAM

Up to January 2016

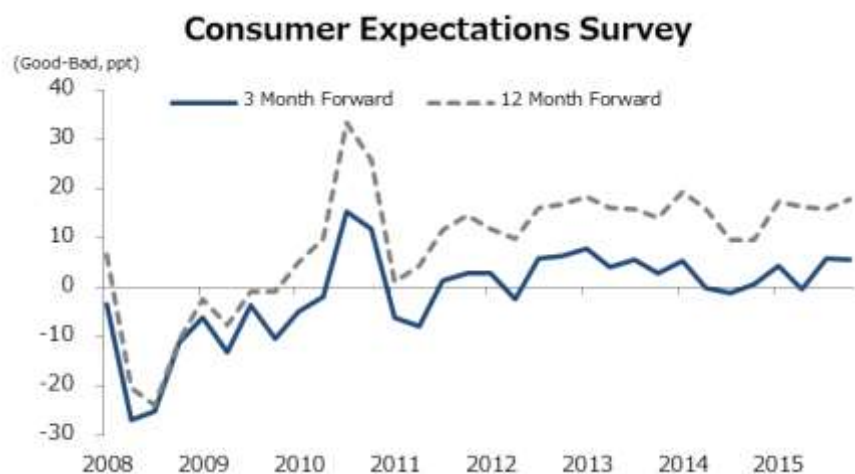


Source: Bloomberg, CEIC, compiled by SMAM

Up to January 2016

Philippines

- We maintain the GDP growth forecast for 2016 at 5.9% YoY and our view of Philippines's economy to recover led by domestic consumption.
- Oct-Dec real GDP growth came in at +6.3% YoY, higher than our estimate and market consensus of +5.9% YoY. As a result, the GDP growth in 2015 was +5.8% YoY, under the government's projection of +7-8% YoY. Mr. Balisacan, the National Economic and Development Authority (NEDA) Director-General, indicated a possibility of economic growth in 2016 to be revised down to +6-7% YoY although the government maintained its projection at +7-8% YoY.
- The economy has been supported by private consumption thanks to expanding middle income consumers under low inflation. The presidential election in May would lift up the consumption, but in the second half of 2016, the recoil reduction can turn to a downturn risk.



Source: CEIC, SMAM

Up to December 2015

CPI Inflation

		Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15
CPI	yoy	0.8	0.6	0.4	0.4	1.1	1.5
Food	yoy	0.6	0.5	0.3	0.3	0.7	0.7
Rice	yoy	0.0	-0.1	-0.2	-0.3	-0.3	-0.3
Fuels & Lubricants	yoy	-0.2	-0.2	-0.2	-0.2	-0.1	-0.1
Electricity	yoy	-0.3	-0.3	-0.4	-0.4	-0.4	-0.3
Education	yoy	0.1	0.1	0.1	0.1	0.1	0.1
Core CPI	yoy	1.9	1.6	1.4	1.5	1.8	2.1

Source: CEIC, SMAM

Up to December 2015

Singapore

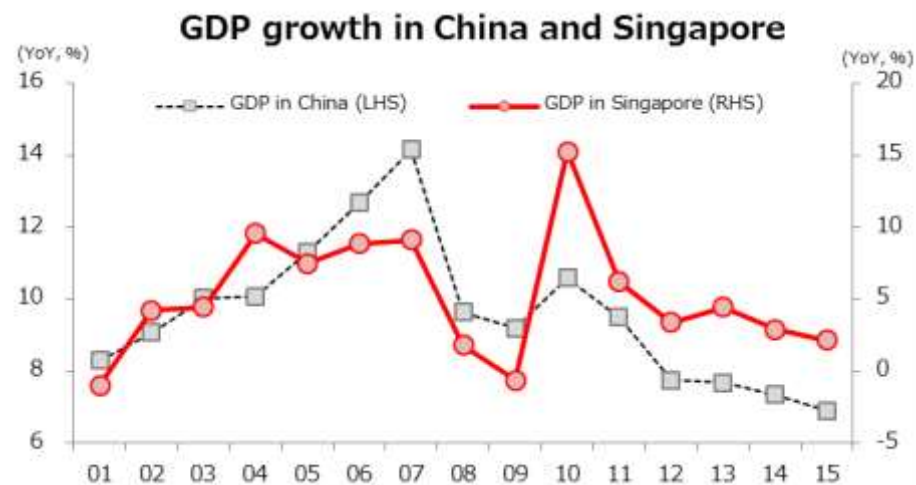
- Oct-Dec real GDP growth accelerated to +5.7% QoQ saar from +1.7% QoQ saar in Jul-Sep. For 2015, the GDP growth rate was +2.1% YoY, just above the government's projection of +2.0% YoY. The government expects the economy in 2016 to grow +1-3% YoY.
- Singapore economy is sensitive to economies in other Asian countries. We maintain our view that the economic growth should decelerate in 2016 due to slowing Chinese economy. Indeed, weakened Malaysian economy, an important trading partner, would be a downward pressure for exports.

Real GDP Growth (% YoY)					
	4Q14	1Q15	2Q15	3Q15	4Q15
Real GDP	2.1	2.7	2.0	1.8	2.0
Manufacturing	-1.3	-2.6	-4.9	-5.9	-6.0
Construction	0.7	-1.6	2.6	1.1	2.2
Services	3.1	4.2	3.5	3.4	3.2

Real GDP Growth (% QoQ saar)					
	4Q14	1Q15	2Q15	3Q15	4Q15
Real GDP	4.9	3.5	-2.8	1.7	5.7
Manufacturing	-2.5	1.0	-17.4	-3.5	-3.1
Construction	2.2	-6.5	15.0	-4.9	7.0
Services	7.8	3.7	-0.4	2.9	6.5

Source: CEIC, SMAM

Up to 4Q2015



Note: Historical data on an annual basis. The latest real GDP is as of 3Q2015.

Source: CEIC, SMAM

Up to 2015

South Korea

- Oct-Dec real GDP, which was in line with consensus, rose to +3.0% YoY from +2.7% YoY in Jul-Sep. However, on seasonally adjusted basis, Oct-Dec GDP (+0.6% QoQ) declined from that in the previous quarter (+1.3% QoQ) on weak gross fixed capital formation dragged by a slump in construction investment (Oct-Dec: -6.1% QoQ, Jul-Sep: +5.0% QoQ).
- We maintain the real GDP forecast in 2016 at +2.5% YoY whereas the estimate by the Bank of Korea (BoK) is higher with +3.0% YoY. In Jan-Mar 2016, the economic momentum seems to drop due to Lunar New Year in China, a country with the largest share of Korea's exports. Furthermore, the housing is likely to face a downward pressure by the new mortgage rule, effective from Jan-Mar 2016. The regulation would have negative impacts on the consumption and investment in construction.
- In April monetary policy committee, we foresee that BoK would revise down the current GDP growth forecast in 2016 (+3.0% YoY) on a downturn in Jan-Mar 2016 GDP growth and cut rates in the next quarter.

Exports

(YoY, %)

	% of share	1Q15	2Q15	3Q15	4Q15	Oct-15	Nov-15	Dec-15
Exports		-3.0	-7.2	-9.5	-11.7	-16.0	-4.8	-13.8
China	26%	-1.6	-2.7	-6.9	-10.5	-8.0	-6.8	-16.7
Japan	5%	-22.2	-13.1	-26.5	-19.7	-25.9	-19.0	-13.1
Vietnam	5%	18.2	36.8	35.0	10.0	12.5	12.4	5.2
Asean (excl. Vietnam)	9%	-29.5	-25.0	-22.3	-18.8	-24.1	-12.8	-19.0
US	13%	13.3	-1.0	-2.2	-9.6	-11.6	-12.4	-4.7
EU	9%	-21.2	-8.5	-3.6	7.9	-12.6	52.5	-7.6
Middle East	6%	-3.7	-6.7	-17.2	-21.5	-25.6	-24.0	-14.9

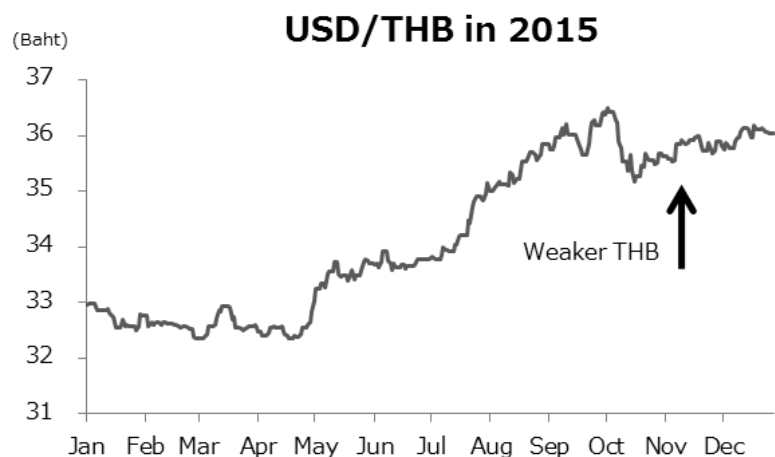
% of share was calculated according to the share in January 2015

Up to December 2015

Source: CEIC, SMAM

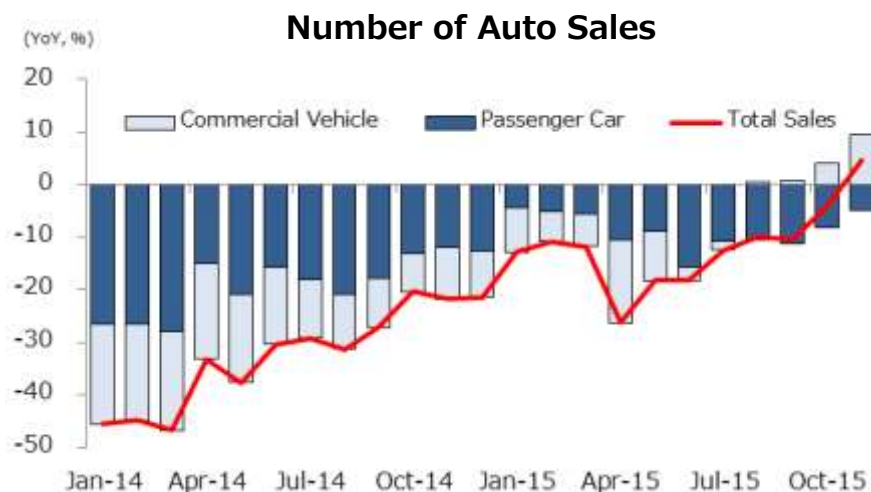
Thailand

- As market expected, the Bank of Thailand (BoT) unchanged the policy rate at 1.50% in January Monetary Policy Committee, based on the unanimous agreement. BoT indicated that the economy has improved gradually underpinned by the fiscal expenditure, private consumption and tourism from 3Q to October in 2015. Yet, BoT pointed out that the monetary policy should be on sufficiently accommodative stance due to a downturn risk of the Chinese economy.
- In addition, BoT reflected the recognition that weak Thai Baht (THB), led by US rate hike, contributed to economic upturn through increased export competitiveness.
- We maintain our view of the real GDP growth forecast in 2016 at +2.9% YoY and the current policy rate with additional rate cut in Apr-Jun 2016.



Source: Bloomberg, CEIC, compiled by SMAM

Up to November 2015



Note: Auto sales (passenger and commercial cars) in 2014 reached to 0.37mil and 0.51mil respectively (including 1t pickup truck, which reached to 0.42mil). Thai government gave tax break to first-time car buyers from Sep 2011 to Dec month end 2012.

Source: CEIC, SMAM

Up to November 2015

Outlook for Asian Stock Markets

Stock Market Performance - Global

Indices as of 31 Jan 2016	Px Last	Mtd	Qtd	Ytd	3m	1yr	2yr	3yr
S&P 500 INDEX	1,940.24	-5.1%	-5.1%	-5.1%	-6.7%	-2.7%	8.8%	29.5%
DOW JONES INDUS. AVG	16,466.30	-5.5%	-5.5%	-5.5%	-6.8%	-4.1%	4.9%	18.8%
NASDAQ COMPOSITE INDEX	4,613.95	-7.9%	-7.9%	-7.9%	-8.7%	-0.5%	12.4%	46.8%
STOXX Europe 50 € Pr	2,902.41	-6.4%	-6.4%	-6.4%	-9.8%	-9.2%	1.7%	9.9%
NIKKEI 225	17,518.30	-8.0%	-8.0%	-8.0%	-8.2%	-0.9%	17.5%	57.3%
TOPIX	1,432.07	-7.4%	-7.4%	-7.4%	-8.1%	1.2%	17.3%	52.3%
BRAZIL BOVESPA INDEX	40,405.99	-6.8%	-6.8%	-6.8%	-11.9%	-13.9%	-15.2%	-32.4%
RUSSIAN RTS INDEX \$	745.30	-1.6%	-1.6%	-1.6%	-11.9%	1.1%	-42.7%	-54.1%
BSE SENSEX 30 INDEX	24,870.69	-4.8%	-4.8%	-4.8%	-6.7%	-14.8%	21.2%	25.0%
HANG SENG INDEX	19,683.11	-10.2%	-10.2%	-10.2%	-13.1%	-19.7%	-10.7%	-17.1%
HANG SENG CHINA AFF.CRP	3,472.35	-14.3%	-14.3%	-14.3%	-16.3%	-22.5%	-17.7%	-26.1%
HANG SENG CHINA ENT INDX	8,241.36	-14.7%	-14.7%	-14.7%	-20.7%	-29.7%	-16.1%	-32.1%
CSI 300 INDEX	2,946.09	-21.0%	-21.0%	-21.0%	-16.6%	-14.2%	33.8%	9.6%
TAIWAN TAIEX INDEX	8,145.21	-2.3%	-2.3%	-2.3%	-4.8%	-13.0%	-3.8%	3.8%
KOSPI INDEX	1,912.06	-2.5%	-2.5%	-2.5%	-5.8%	-1.9%	-1.5%	-2.5%
STRAITS TIMES INDEX	2,629.11	-8.8%	-8.8%	-8.8%	-12.3%	-22.5%	-13.2%	-19.9%
FTSE Bursa Malaysia KLCI	1,667.80	-1.5%	-1.5%	-1.5%	0.1%	-6.4%	-7.6%	2.5%
STOCK EXCH OF THAI INDEX	1,300.98	1.0%	1.0%	1.0%	-6.7%	-17.7%	2.1%	-11.8%
JAKARTA COMPOSITE INDEX	4,615.16	0.5%	0.5%	0.5%	3.6%	-12.7%	4.4%	3.6%
PSEi - PHILIPPINE SE IDX	6,687.62	-3.8%	-3.8%	-3.8%	-6.3%	-13.0%	10.7%	7.1%
HO CHI MINH STOCK INDEX	545.25	-5.8%	-5.8%	-5.8%	-10.2%	-5.4%	-2.0%	13.6%
S&P/ASX 200 INDEX	5,005.52	-5.5%	-5.5%	-5.5%	-4.5%	-10.4%	-3.6%	2.6%
NZX 50 INDEX	6,170.22	-2.4%	-2.4%	-2.4%	3.1%	7.4%	26.6%	45.1%
MSCI World Free Local	393.09	-5.5%	-5.5%	-5.5%	-7.2%	-4.8%	5.4%	22.3%
MSCI All Country Asia Ex Japan	580.86	-6.8%	-6.8%	-6.8%	-9.8%	-16.2%	-6.1%	-8.7%
MSCI EM Latin America Local	58,087.59	-2.0%	-2.0%	-2.0%	-7.4%	-8.5%	-10.0%	-23.3%
MSCI Emerging Markets Europe M	437.85	-2.4%	-2.4%	-2.4%	-8.4%	-11.4%	-3.8%	-5.2%

Note: All data are as of 31 January 2016

Compiled by SMAM based on Bloomberg

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

Outlook for Global Markets

- We expect high volatility continues in the near term given the very risk averse sentiments in the market, however we consider the market starts to recover as overall macro economy stabilizes. Attractive valuation is also supportive.

Outlook for Asia Pacific Region

- Macro economies in most of Asian countries remain weak and are likely to show gradual recovery in 2016. Especially the outlook for Chinese economy remains quite unclear. Risks for cash outflow and weaker currency continue.
- The recovery of corporate earnings is delayed.
- Concerns continue for tighter liquidity conditions across Asia due to US rate hike.
- These are key concerns for Asian markets and these will create volatility in the near term.
- However accommodative monetary policies and relatively low valuation will support the market. Market will go up in line with slow recovery of corporate earnings.

Note: As of 28 January 2016

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	- Uncertainty from China is increasing. - Pressure for Asset price is increasing. - Attractive valuation with good corporate fundamentals.	Stable More focus on Economy side.	X The pace of recovery is slower than expected. ○ Tightening policy for property is behind us.	X Pressure for HIBOR to protect currency board system. ↓ / Inflation will be moderate.	Trade deficit narrows, CA surplus stays at this level.	Stable, but pressure is increasing.	xRevision is weak.	○Very attractive
China	- Tough challenge towards New Normal. - Pressure for capital outflow and weaker RMB. - Outlook for corporate earnings is still weak. - Consensus UW, technically oversold & attractive valuation.	Stable, but becomes less clear.	Gradual slowdown is expected, however hard landing should be avoided. Structural rebalancing is 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 X The degree of capital outflow is a big concern. ↓	X Downward bias. The degree of RMB devaluation is a big issue across Asia.	xRevision is weakening again.	○Very attractive
Taiwan	- Slower economic growth due to weak export. - Inventory correction on IT is progressed. - Attractive valuation with high dividend yield.	Stable, Watch out for cross strait talks after DPP government.	x The pace of economic recovery is slower than expected.	First rate cut for last 6 years. Int. rate will be stable. / Inflation will be stable. / Liquidity is improving.	Surplus will expand	Stable	xRevision is weakening again.	○Very attractive
Korea	- Still in the transition. Structural re-rating will not happen soon. - Weaker KRW supports exporters.	Stable, but implementation of structural reform is delayed.	X Growth outlook is weakening due to subdued export environment in China.	○ Easing bias continues / Inflation will be stable / Liquidity is improving.	Surplus will expand	Downward bias in the near term.	xRevision is weakening.	Attractive. However there is a reason for the discount.
Singapore	- Stable Mkt and policy headwind is easing. - Pressure for asset price is increasing. - Macro outlook is quite subdued and big pressure for corporate earnings continues.	The landslide victory of PAP should create political stability.	X The pace of economic recovery is slower than expected. Tight policy for Properties will be finished soon	X SIBOR rate is increasing ↓; Inflation will be stable. / M2 growth rate is bottomed out.	Surplus will continue.	Downward pressure continues upward bias in the longer term.	xRevision is very weak.	○Attractive on PBR, fair on PER
Malaysia	- Mounting uncertainty in both Politics and economy. - Investor's sentiment is improving.	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 pressure is easing, but downward bias will continue.	xRevision is still weak, but its momentum is easing.	Fair(Rich on PER, but fair on PBR)
Thailand	- Subdued economy will continue. - Credit cycle is already bottomed out. - Increasing policy support by more pump-priming. - Investor's sentiment is improving.	Unclear timing of general election. Strong leadership of deputy prime minister Somkid.	X Slow economic growth is likely to continue. ○ More pump-priming to boost domestic demand ↑	○ Rate cut is expected in 2Q16 for further depreciation of THB. / Inflation will be stable. Liquidity is improving.	Surplus will continue.	Downward pressure is easing, but downward bias will continue. BOT is seeking further depreciation. ↑	xRevision is weakening.	Fair
Indonesia	- Investor's sentiment turned positive following stimulus packages and signs of progresses in infrastructure projects.	Honeymoon period of President Jokowi is behind us.	X Underlying economy is weak but ○ more pump-priming to boost domestic demand. ↑	○ Rate cut is expected due to stabilizing market. Lower inflation due to expected gasoline price cut in 2016.	X CA deficit will continue at current level.	Downward pressure is easing, but downward bias will continue. ↑	xRevision is weak, but negative momentum is eased.	Fair (Rich on PER, but fair on PBR)
Philippines	- Overall macro environment is still resilient, although loan volume growth is slowing down.	Stable. Presidential election in 2016.	○ Steady growth	Wait and See stance on monetary policy / Int. rate will be stable. / Inflation is stabilized by low oil price	Trade deficit will shrink. Current a/c surplus will expand.	Downward pressure is eased, but downward bias will continue in long term.	xRevision is weak.	xMildly Expensive(Rich on PER, but fair on PBR)
India	- Overall macro fundamentals will improve given its strong policy supports. Low inflation is likely maintained. - Relatively safe but it is a consensus OW Mkt.	Potential of economic reform continues	○ Growth rate will accelerate driven by domestic consumption.	○ Rate cut started and further room for rate cut / Inflationary pressure peaked out.	X Trade / CA deficit will remain at same level.	Downward Bias.	xRevision is very weak.	Fair
Australia	Expect mild up-trend market, backed by improving domestic consumption and corporate earnings.	Stable	Mild recovery	Int. rate will be stable./Inflation stays lower than the target range.	Deficit, but it is improving	Downward bias	Revision is weak especially for Mining	
Vietnam	Steady upside can be expected supported by solid economic growth.	Confrontation between Vietnam & CH is a key concern	solid recovery	Lower interest rate environment / Benign Inflation	Trade / CA surplus will be narrowed.	Gradual depreciation	Improving	Within FV range.

Market Focus (i): Singapore – Underweight from Neutral

【Summary】

We expect high volatility due to investor sentiment in the short term. But in the mid-term, the stock market would rise moderately on a cyclical recovery in Chinese economy and expanding global economy.

- ▣ We have positive outlook for consumer staples & healthcare and negative outlook for consumer discretionary, industrials, financials and telecommunication services.
- ▣ Banks with strong fundamentals in ASEAN region such as SG bank would be safer although loan growth is sluggish. Asset quality is a key concern. Concerns on balance sheet, especially exposure to China and commodities, remain.
- ▣ For the real estate sector, commercial property remains concerns about oversupply and residential property may face downward pressure on asset price after rate hike.
- ▣ In telecommunication, which is a matured and very stable sector, competition is expected to intensify. Moreover, this sector would receive lesser impact from a recovery of global economy.

Market Focus (ii): Indonesia – Neutral from Underweight

【Summary】

We foresee a relatively stable market on improved sentiment by a rate cut and the government support such as lower gasoline price, despite a gradual business recovery.

- ▣ We have positive outlook for consumer staples & healthcare and financials and negative outlook for consumer discretionary and telecommunication.
- ▣ Honeymoon period by the new presidency seems to be finished. Expectations for execution capability seem to be heightened as the new president Joko launched key policies such as fuel subsidy cut. Yet, intervention in cement, utilities, financials and expressway sectors can be negative for the stock market.
- ▣ US rate hike is a big concern in terms of investor sentiment. However, material impacts should be limited.
- ▣ In consumer staples & healthcare, high demand for tobacco remains regardless of tax increase. Its valuation becomes more attractive.
- ▣ Outlook for automobile demand is weak. Consumer purchasing power is recovering on improving economic outlook and job market. Increasing competition in auto industry is also another concern.

Note: Compiled by SMAM as of 22 January 2016

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