

Asian Macro & Market Outlook

SMAM monthly comments & views

September 2016



Sumitomo Mitsui Asset Management

Executive summary

◆ Chinese and Asian Economies

July economic data was weaker than expected due to floods and fewer working days. Alternatively, the data for August tends to take an upturn considering numbers of working days. A possible negative factor for August Industrial Production could be a decline in factory utilization as G20 summit is held. Regarding monetary policy, the PBOC's head of the Survey and Statistics Department took a skeptical view of impacts by additional rate cut and insisted to implement in the fiscal policy. We see the economic downside risk in 2H16 to be limited as stimulus measures are expected to keep the economic growth. Globally, China risk is almost receded. As the Communist Party decided to mitigate risk of effecting asset bubble, we maintain our view that the next rate cut will not be carried out in 2016.

On the back of room for additional easing and robust consumption led by wage growth and increased income in rural areas, India would accelerate the economic growth. We see that ASEAN countries would also enjoy a gradual recovery contributed by the economies especially in Indonesia and Philippines to be boosted by increase in FDI, currency stabilization and appreciation if the corporate tax rate is reduced. Yet, NIEs would slow down moderately.

◆ Asian 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.
- ✓ Although China economy will continue to slow down gradually, policy support is expected to avoid hard landing.
- ✓ 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 PER has already reached to the upper end after Lehman crisis.

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	6.5	6.6	6.4	6.3	6.2	6.6	6.3
<i>Previous</i>	<u>6.9</u>	<u>6.6</u>	<u>6.3</u>	<u>7.0</u>	<u>7.0</u>	<u>6.9</u>	<u>6.8</u>	<u>6.7</u>	<u>6.7</u>	<u>6.5</u>	<u>6.6</u>	<u>6.4</u>	<u>6.3</u>	<u>6.2</u>	<u>6.5</u> ↑	<u>6.3</u>
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	6.4	6.7	5.1	7.1	6.1	-	-
<i>Previous</i>	<u>6.9</u>	<u>6.6</u>	<u>6.3</u>	<u>6.3</u>	<u>7.2</u>	<u>7.4</u>	<u>5.9</u>	<u>4.9</u>	<u>7.2</u>	<u>6.4</u>	<u>6.7</u>	<u>5.1</u>	<u>7.1</u>	<u>6.1</u>	-	-
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>	<u>6.0</u>	<u>5.5</u>	<u>5.1</u>	<u>6.3</u>	<u>6.3</u>	<u>5.8</u>	<u>5.7</u>	<u>5.6</u>	<u>5.5</u>	<u>5.3</u>	<u>5.4</u>	<u>5.2</u>	<u>5.1</u>	<u>5.0</u>	-	-
Real GDP Consumption	9.1	8.9	8.7	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Previous</i>	<u>9.1</u>	<u>8.9</u>	<u>8.7</u>	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP Investment	5.3	4.9	4.4	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Previous</i>	<u>5.3</u>	<u>4.9</u>	<u>4.4</u>	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP Net export (contribution)	▲0.2	▲0.3	▲0.3	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Previous</i>	<u>▲0.2</u>	<u>▲0.3</u>	<u>▲0.3</u>	-	-	-	-	-	-	-	-	-	-	-	-	-
Nominal GDP	6.4	7.1	5.9	6.6	7.0	6.2	6.0	7.2	8.4	8.0	7.6	6.9	6.3	5.7	-	-
<i>Previous</i>	<u>6.4</u>	<u>7.1</u>	<u>5.9</u>	<u>6.6</u>	<u>7.0</u>	<u>6.2</u>	<u>6.0</u>	<u>7.2</u>	<u>8.4</u>	<u>8.0</u>	<u>7.6</u>	<u>6.9</u>	<u>6.3</u>	<u>5.7</u>	-	-
GDP deflator	▲0.4	1.4	▲0.4	▲0.3	0.1	▲0.9	▲0.6	0.4	0.6	0.6	0.3	▲0.1	▲0.5	▲0.5	-	-
<i>Previous</i>	<u>▲0.4</u>	<u>1.4</u>	<u>▲0.4</u>	<u>▲0.3</u>	<u>0.1</u>	<u>▲0.9</u>	<u>▲0.6</u>	<u>0.4</u>	<u>0.6</u>	<u>0.6</u>	<u>0.3</u>	<u>▲0.1</u>	<u>▲0.5</u>	<u>▲0.5</u>	-	-
Industrial production	6.1	5.6	5.2	6.4	6.3	5.9	5.9	5.8	6.1	5.9	6.0	5.6	5.3	5.1	-	-
<i>Previous</i>	<u>6.1</u>	<u>5.6</u>	<u>5.1</u> ↑	<u>6.4</u>	<u>6.3</u>	<u>5.9</u>	<u>5.9</u>	<u>5.8</u>	<u>6.1</u>	<u>5.4</u> ↑	<u>5.6</u> ↑	<u>5.5</u> ↑	<u>5.2</u> ↑	<u>5.1</u>	-	-
CPI inflation	1.4	1.9	1.2	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
<i>Previous</i>	<u>1.4</u>	<u>2.1</u> ↓	<u>1.2</u>	<u>1.2</u>	<u>1.4</u>	<u>1.7</u>	<u>1.5</u>	<u>2.1</u>	<u>2.1</u>	<u>2.2</u> ↓	<u>1.9</u> ↓	<u>1.6</u> ↓	<u>1.3</u> ↑	<u>0.9</u> ↑	<u>2.0</u>	<u>2.0</u>
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>	<u>4.35</u>	<u>4.35</u>	<u>4.10</u>	<u>5.35</u>	<u>4.85</u>	<u>4.60</u>	<u>4.35</u>	<u>4.35</u>	<u>4.35</u>	<u>4.35</u>	<u>4.35</u>	<u>4.35</u>	<u>4.10</u>	<u>4.10</u>	<u>4.10</u>	<u>3.85</u> ↑

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
16.08.18 Latest	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
16.07.15 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

Source: CEIC, compiled by SMAM Economic Research Department. Previous= Last month meeting's projection
 Note: Arrows illustrate the direction of the change from last time prediction
 As of 24 August 2016

SMAM Economic Outlook for China

China July economic performance

	Consensus	Actual	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct
											(%, YoY)
real GDP			6.7			6.7			6.8		
mfg PMI	50.0	49.9	50.0	50.1	50.1	50.2	49.0	49.4	49.7	49.6	49.8
Caixin mfg PMI	48.8	50.6	48.6	49.2	49.4	49.7	48.0	48.4	48.2	48.6	48.3
steel PMI	NA	50.2	45.1	50.9	57.3	49.7	49.0	46.7	40.6	37.0	42.2
industrial production	6.2	6.0	6.2	6.0	6.0	6.8	5.4	5.4	5.9	6.2	5.6
fixed asset investment (ytd)	8.9	8.1	9.0	9.6	10.5	10.7	10.2	10.2	10.0	10.2	10.2
property investment	NA	1.4	3.3	6.6	9.7	9.7	3.0	3.0	-1.9	-5.1	-2.4
floor space sold	NA	16.7	14.2	22.0	45.9	40.3	30.4	30.4	1.4	7.8	5.9
100 cities housing price (mmar)	NA	21.5	17.0	22.4	18.9	25.4	7.4	5.1	9.3	5.7	-2.4
retail sales	10.5	10.2	10.6	10.0	10.1	10.5	10.2	10.2	11.1	11.2	11.0
retail sales (real basis)	NA	9.8	10.3	9.7	9.3	9.7	9.6	9.6	10.7	11.0	11.0
auto sales units (th)	NA	NA	2,071	2,092	2,122	2,440	1,581	2,501	2,786	2,509	2,222
auto sales units (%)	NA	NA	14.6	9.9	6.4	8.9	-0.8	7.8	15.6	20.0	11.8
exports (RMB)	3.3	2.9	1.3	1.2	4.1	18.7	-20.6	-6.6	2.3	-3.7	-3.6
imports (RMB)	0.1	-5.7	-2.3	5.1	-5.7	-1.7	-8.0	-14.4	-4.0	-5.6	-16.0
international reserves (USDbn)	3,200.0	3,201.1	3,205.2	3,191.7	3,219.7	3,212.6	3,202.3	3,230.9	3,330.4	3,438.3	3,525.5
CPI	1.8	1.8	1.9	2.0	2.3	2.3	2.3	1.8	1.6	1.5	1.3
PPI	-2.0	-1.7	-2.6	-2.8	-3.4	-4.3	-4.9	-5.3	-5.9	-5.9	-5.9
M2	11.0	10.2	11.8	11.8	12.8	13.4	13.3	14.0	13.34	13.7	13.5
new loans (RMB bn)	850.0	463.6	1,380.0	985.5	555.6	1,370.0	726.6	2,510.0	597.8	708.9	513.6
social aggregate financing (RMB bn)	1,000.0	487.9	1,629.3	659.9	751.0	2,336.0	824.5	3,425.3	1,815.1	1,022.4	530.3

Note: Italic letters present numbers for January and February.
Source: CEIC, compiled by SMAM

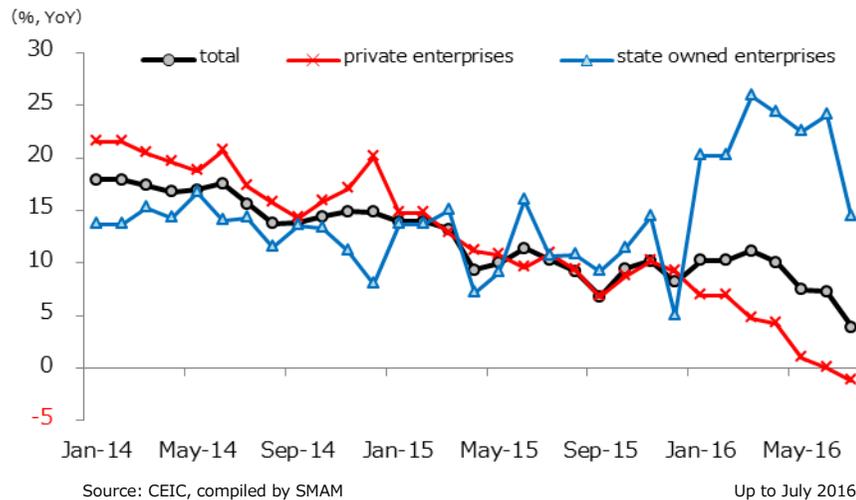
As of 24 August 2016

SMAM Economic Outlook for China

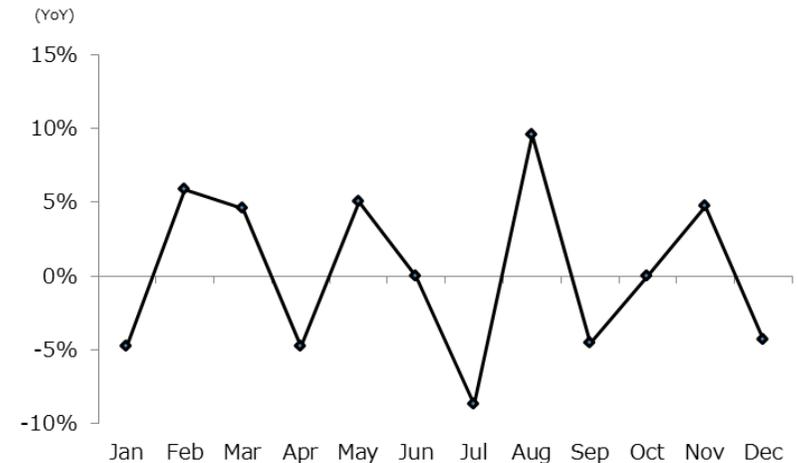
Current Economic Situation in China

- Due to the flood damage and fewer working days, July economic data tended in general toward downturn.
 - In July, economic indicators declined caused by massive floods in Yangtze River and fewer working days.
 - We stay with our view that the Chinese economy would accelerate in Oct-Dec since the Communist Party of China (CPC) and the government place emphasis on economic stimulus measures by fiscal policy.

Fixed Asset Investment Growth



Working Days comparing 2015 and 2016



Note: Data was calculated as dividing the number of working day each month in 2016 by that in 2015.
Source: CEIC, compiled by SMAM

As of 24 August 2016

SMAM Economic Outlook for China

More details for the current economic situation

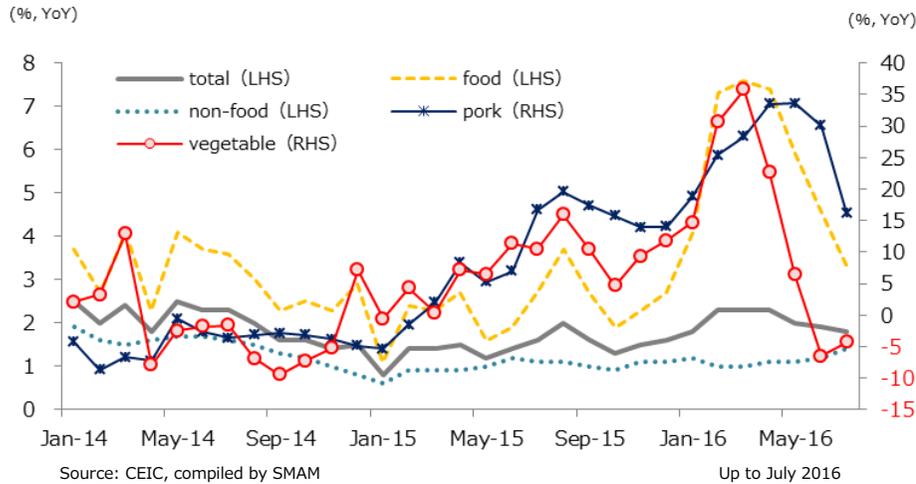
- ❑ We left unchanged the real GDP forecast at +6.6% YoY for 2016 and +6.3% YoY for 2017.
- ❑ Flood damage as well as fewer working days caused weak July economic statistics.
- ❑ While vegetable prices showed a flood-induced jump in some areas, the inflation rate has already peaked out along with the pork prices which entered a downward trend.
- ❑ A growth in M1 money supply accelerated. By contrast, the broad M2 money supply growth softened. These facts indicate that a) households increase home purchases rather than savings, b) companies hoard excess cash, and c) municipal bond issuance increases.
- ❑ Xi Jinping, the leader of CPC, and Li Keqiang, the prime minister, suggested at July economic meeting to prioritise an expansion in aggregate demand.
- ❑ Sheng Songcheng, Director of the Survey and Statistics Department at PBOC, doubted positive effect of additional rate cuts and insisted more aggressive fiscal policy as did he late February ahead of G20 meeting in Shanghai.
- ❑ On July 26th, Communist Party Politburo determined a direction to avoid housing bubble while pointing out the significance of the demand management.

Outlook for 2016

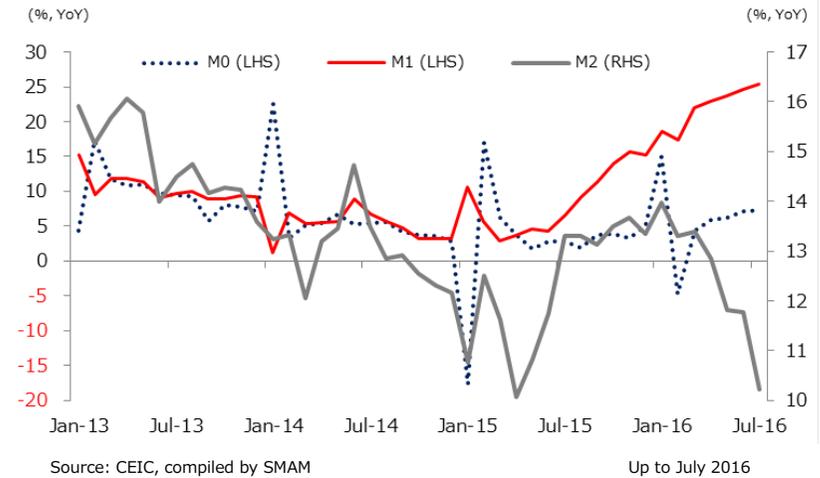
- ❑ G20 meeting was held at Hangzhou city in early September. Accordingly, factories around the city would stop or lower operation and August production figures are expected to remain weak.
- ❑ Yet, we maintain our view that the economic slowdown would be avoidable in late 2016 supported by demands for post-flood reconstruction including infrastructure.

SMAM Economic Outlook for China

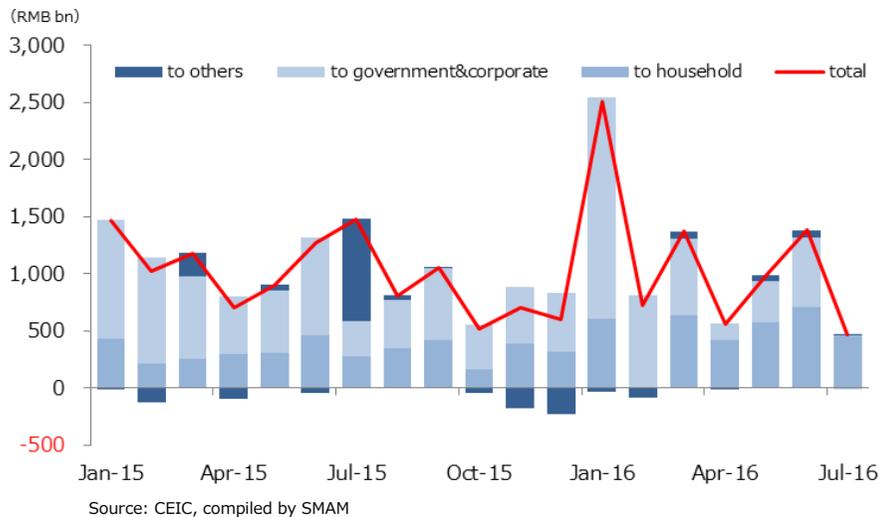
CPI Inflation



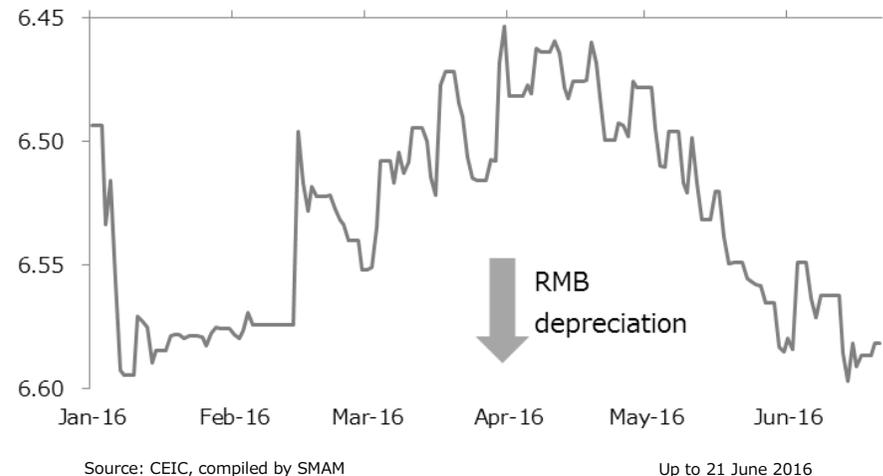
Money Supply



New Lending



RMB against USD



Outlook for Asian Economy

SMAM Economic Outlook for Asia

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	7.7	7.8	7.8	7.7	7.8	7.8	7.5	7.6	
<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>7.8</u>	<u>7.7</u>	<u>7.8</u>	<u>7.8</u>	<u>7.6</u> ↓	<u>7.6</u>	
NIEs4	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	2.2	
<i>Previous</i>	<u>2.1</u>	<u>1.8</u> ↑	<u>1.7</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>1.5</u> ↑	<u>2.0</u> ↓	<u>1.7</u>	<u>1.6</u> ↑	<u>1.7</u> ↑	<u>1.9</u> ↑	<u>2.3</u> ↓	
Korea	2.6	2.5	2.4	2.4	2.2	2.8	3.1	2.8	3.2	2.0	2.3	2.2	2.2	2.5	2.6	2.6	
<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>2.9</u> ↑	<u>2.0</u>	<u>2.4</u> ↓	<u>2.3</u> ↓	<u>2.2</u>	<u>2.5</u>	<u>2.5</u> ↑	<u>2.6</u>	
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	1.8	
<i>Previous</i>	<u>0.6</u>	<u>0.7</u> ↑	<u>0.7</u> ↑	<u>4.0</u>	<u>0.6</u>	<u>▲0.8</u>	<u>▲0.9</u>	<u>▲0.7</u>	<u>0.8</u> ↓	<u>1.2</u> ↑	<u>1.5</u> ↑	<u>0.9</u> ↑	<u>0.8</u> ↑	<u>0.6</u> ↑	<u>1.1</u> ↓	<u>1.9</u> ↓	
Singapore	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	1.9	
<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>2.2</u> ↓	<u>1.2</u>	<u>1.8</u>	<u>1.5</u> ↓	<u>1.4</u> ↑	<u>1.4</u>	<u>1.6</u> ↑	<u>1.9</u>	
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	1.0	1.5	
<i>Previous</i>	<u>2.4</u>	<u>0.7</u> ↑	<u>0.5</u> ↑	<u>2.4</u>	<u>2.9</u>	<u>2.2</u>	<u>1.9</u>	<u>0.8</u>	<u>0.6</u> ↑	<u>0.3</u> ↑	<u>1.1</u> ↓	<u>0.6</u> ↑	<u>0.6</u> ↑	<u>0.5</u>	<u>1.1</u> ↓	<u>1.6</u> ↓	
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	4.6	4.7	
<i>Previous</i>	<u>4.6</u>	<u>4.7</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>4.7</u> ↑	<u>4.6</u> ↑	<u>4.8</u>	<u>4.8</u> ↓	<u>4.8</u>	<u>4.9</u> ↑	<u>4.6</u>	<u>4.7</u>	
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	
<i>Previous</i>	<u>4.8</u>	<u>5.1</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>5.0</u> ↑	<u>5.3</u> ↓	<u>5.3</u>	<u>5.4</u> ↓	<u>5.4</u> ↓	<u>5.3</u> ↑	<u>5.0</u>	<u>5.2</u> ↑	
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	2.9	3.1	
<i>Previous</i>	<u>2.8</u>	<u>2.9</u> ↑	<u>3.0</u> ↑	<u>3.0</u>	<u>2.7</u>	<u>2.9</u>	<u>2.8</u>	<u>3.2</u>	<u>2.7</u> ↑	<u>2.7</u> ↑	<u>2.8</u> ↑	<u>2.9</u>	<u>2.9</u> ↑	<u>3.1</u> ↑	<u>2.9</u>	<u>3.1</u>	
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	
<i>Previous</i>	<u>5.0</u>	<u>4.2</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>4.2</u> ↓	<u>3.9</u> ↑	<u>4.5</u> ↓	<u>4.4</u> ↓	<u>4.3</u>	<u>4.6</u> ↓	<u>4.1</u>	<u>4.2</u> ↑	
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	6.1	5.9	
<i>Previous</i>	<u>5.9</u>	<u>6.5</u> ↑	<u>6.3</u>	<u>5.0</u>	<u>5.9</u>	<u>6.2</u>	<u>6.5</u>	<u>6.9</u> ↓	<u>6.9</u> ↑	<u>6.0</u> ↑	<u>6.3</u> ↑	<u>5.9</u> ↑	<u>6.1</u>	<u>6.5</u>	<u>6.1</u>	<u>5.8</u> ↑	
Australia	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	
<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 Economic Research Department, Previous= Last month meeting's projection
 Note: Arrows illustrate the direction of the change from last time prediction
 As of 24 August 2016

SMAM Economic Outlook for Asia

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	5.6	5.6	5.3	5.1	3.9	5.3	5.3	5.7	5.8	5.5	5.2	5.2	5.5	5.2	5.1	5.2	5.1	
	Previous	4.2	5.6	5.6	5.3	5.1	3.9	5.3	5.7	5.8	5.4	5.5	5.2	5.4	5.5	5.2	5.1	5.2	5.1	
NIEs4	Korea	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	1.6	1.6	1.6	1.6	1.6	
		Previous	0.7	1.2	1.6	0.6	0.5	0.7	1.1	1.0	0.9	1.3	1.6	1.6	1.6	1.6	1.6	1.6	1.6	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	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	1.1	1.1
Singapore		▲0.5	▲0.1	0.7	▲0.3	▲0.4	▲0.6	▲0.7	▲0.8	▲0.3	0.1	0.5	0.7	0.7	0.6	0.6	0.9	0.9	0.9	
	Previous	▲0.5	▲0.1	0.7	▲0.3	▲0.4	▲0.6	▲0.7	▲0.8	▲0.3	0.1	0.5	0.7	0.7	0.6	0.6	0.9	0.9	0.9	
Hongkong		3.0	2.5	1.7	4.3	2.9	2.5	2.3	2.8	2.6	2.5	2.1	1.7	1.7	1.7	1.7	1.7	1.9	1.9	
	Previous	3.0	2.5	1.7	4.3	2.9	2.5	2.3	2.8	2.6	2.5	2.1	1.7	1.7	1.7	1.7	1.7	1.9	1.9	
ASEAN4	Indonesia	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	4.1	4.6	4.6	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	4.1	4.6	4.6	4.6
	Thailand	▲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	1.9	1.9	
		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	1.9	1.9
Malaysia		2.1	2.7	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	2.6	2.6	
	Previous	2.1	2.7	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	2.6	2.6	
Philippines		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	2.8	2.8	2.8	
	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	2.8	2.8	2.8	
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	1.7	1.3	2.1	2.1	2.1	
	Previous	1.5	1.4	2.1	1.3	1.5	1.5	1.7	1.3	1.0	1.2	1.3	2.0	2.1	2.2	1.3	2.1	2.1	2.1	

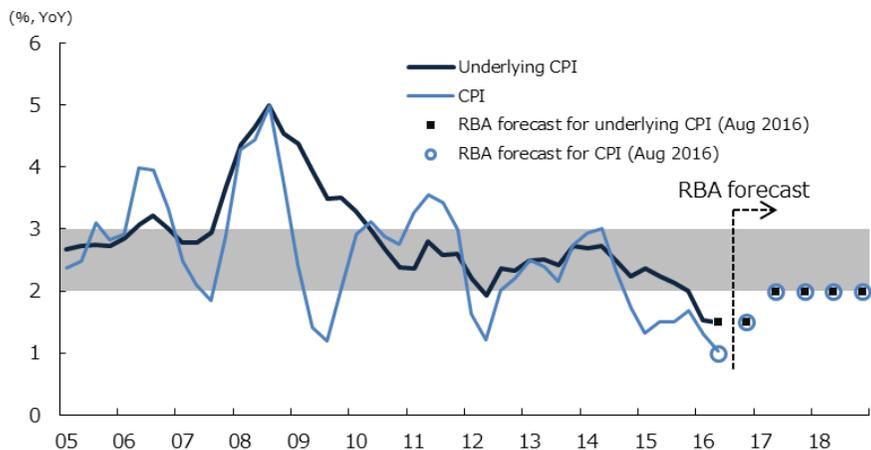
Policy Rate		Annual rate[%]			Annual rate[%]												Market Consensus			
		2015	2016	2017	2015				2016				2017				2016	2017		
					Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep					
India		6.75	6.25	5.75	7.50	7.25	6.75	6.75	6.75	6.50	6.50	6.25	6.50	6.00	5.75	6.25	6.25	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	6.50	6.00	5.8	6.25	6.25	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	1.25	1.25	1.25	
		Previous	1.50	1.00	1.00	1.75	1.50	1.50	1.50	1.25	1.25	1.00	1.00	1.00	1.00	1.00	1.25	1.25	1.25	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	1.250	1.250	
		Previous	1.625	1.125	1.125	1.875	1.875	1.750	1.625	1.500	1.375	1.375	1.250	1.125	1.125	1.125	1.375	1.250	1.250	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	#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	#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	#N/A	#N/A	
ASEAN4	Indonesia	7.50	5.00	5.00	7.50	7.50	7.50	7.50	6.75	6.75	5.25	5.00	5.00	5.00	5.00	#N/A	#N/A	#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	#N/A	#N/A	#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	1.25	1.25	1.25	1.25	1.50	1.50	1.50	1.50	
		Previous	1.50	1.25	1.25	1.75	1.50	1.50	1.50	1.50	1.50	1.25	1.25	1.25	1.25	1.3	1.50	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	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	3.25	3.25	3.25	
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	#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	3.00	#N/A	#N/A	#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	1.375	1.375	1.375	
	Previous	2.00	1.75	1.75	2.25	2.00	2.00	2.00	2.00	1.75	1.75	1.75	1.75	1.75	1.75	1.50	1.50	1.50	1.50	

Source: CEIC, compiled by SMAM Economic Research Department, Previous= Last month meeting's projection
 Note: Arrows illustrate the direction of the change from last time prediction
 As of 24 August 2016

Australia

- We cut CPI projections for 2016 and 2017 to +1.2% YoY and +1.7% YoY on released Apr-Jun CPI, strong AUD and a decline in gasoline prices. Considering downwardly revised CPI forecast and RBA's change for interest rate stance, we expect that RBA would lower the policy rate to +1.25% in Jan-Mar 2017.
- 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 slowing correction in capex.
- The unemployment rate would maintain a moderate declining trend led by the service sector. July unemployment rate improved to +5.7% by 0.1 down in line with market projection. However, July labor market gaining 26,200 jobs compared to the number in June was lifted up by part-time workers. We see the demand for labour is firm, but a recovery in consumer confidence is delayed as job openings are filled up by part time staff on political and economic uncertainties.

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

Up to Q2 2016

Labour Market Condition



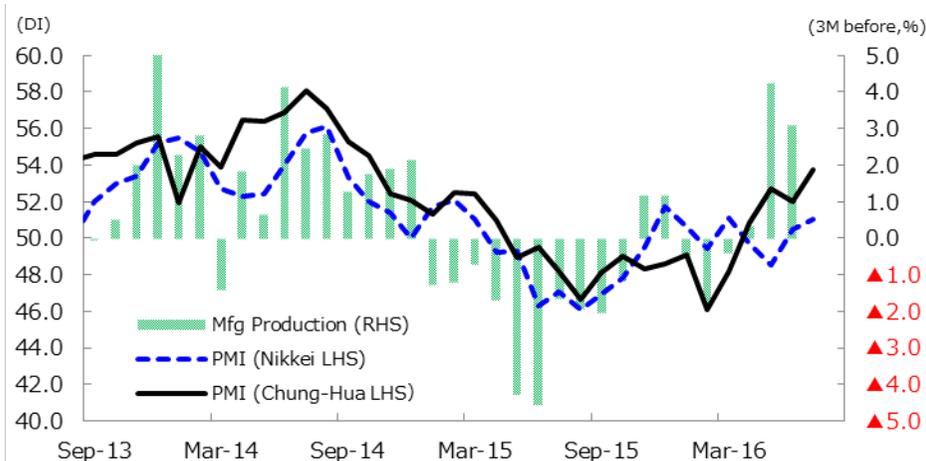
Source: ABS, Datastream

Up to July 2016

Taiwan

- We raised real GDP forecasts for 2016 and 2017 to +0.9% YoY each. The government also revised up its economic outlook from +1.0% YoY to +1.2% YoY in 2016 due to a recovery of export momentum.
- 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 July reflecting sales growth in smartphones. Results of export orders and manufacturing PMI would 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, a slowing of domestic demands is expected as the Democratic Progressive Party seems to keep a cautious stance on short-term economic stimulus measures.

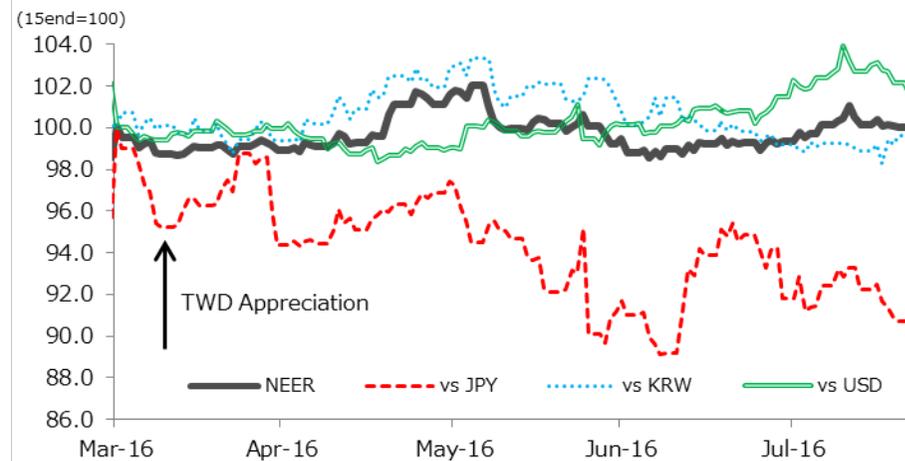
PMI & Manufacturing Production (SA)



Source: CEIC, compiled by SMAM

Up to July 2016

Foreign Exchange



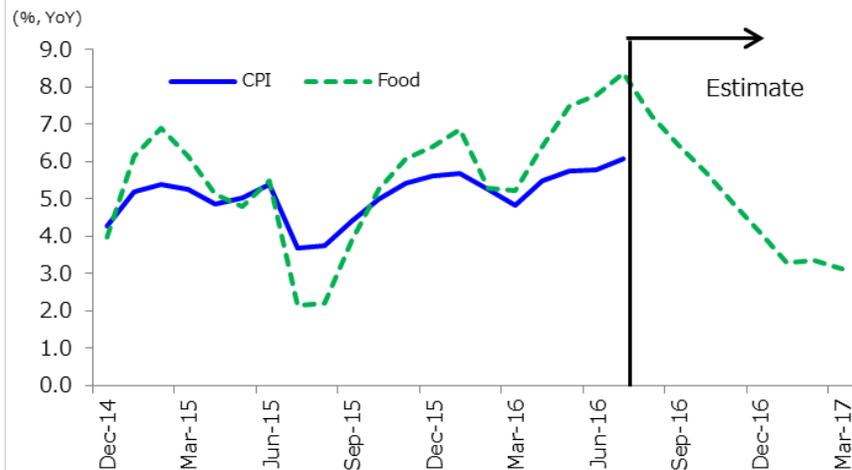
Note: NEER is calculated by SMAM based on BIS weight
Source: Bloomberg, BIS

Up to 21 August 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 prospect on the back of wage increase and income growth in rural areas on abundant rainfall in rainy season. Infrastructure is also seen to pick up gradually with a continuing inflow of direct investment on expectation for the economic growth and relaxation of regulations despite the current weak trend.
- The inflation in July was higher than the RBI target (+2-6%); however, 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.

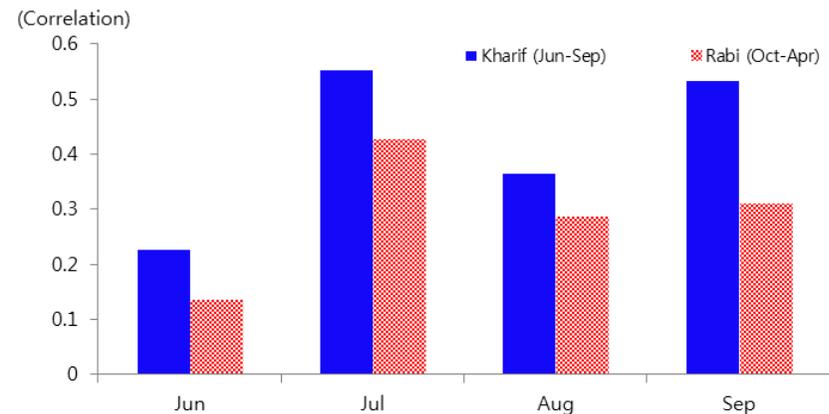
CPI



Source: CEIC,
Estimate: Assuming the index of food price remains at a same level

Up to July 2016

Relationship between Rainfall & Agri Production

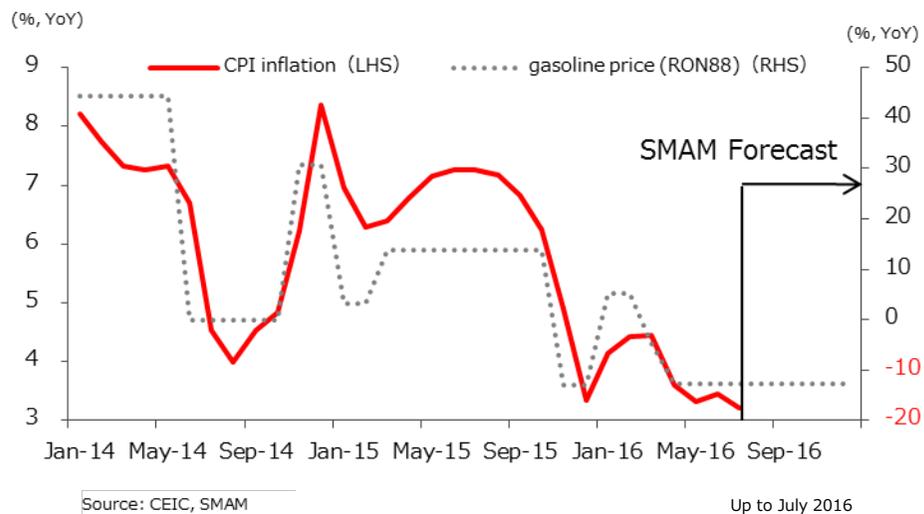


Note: Data period is from FY1967 to FY2013. We calculated correlation by using regression analysis (Dependent variable= Agri production on a YoY basis). Explanatory variable: Rainfall (Departure from normal).
Source: CEIC, IMD

Indonesia

- We slightly revised up real GDP for 2016 to +5.2% YoY from +5.1% YoY on stronger-than-expected Apr-Jun GDP rate exceeding +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.

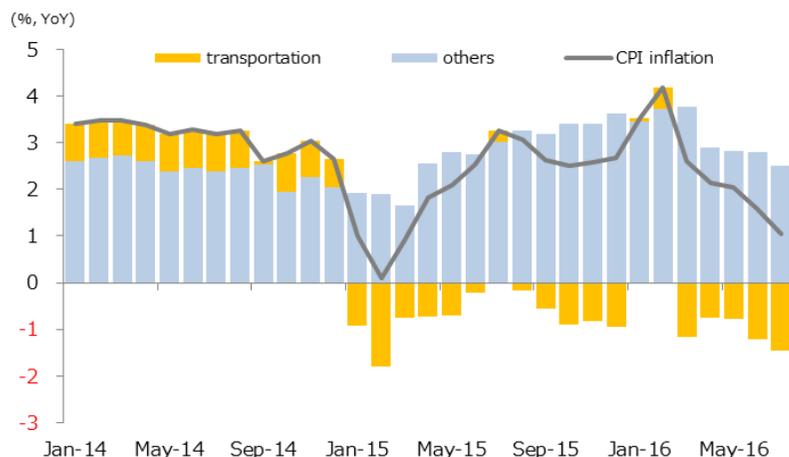
Gasoline Price & CPI Inflation



Malaysia

- We marginally cut our economic outlook for 2016 to +4.1% YoY from +4.2% 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 prices can cause dwindling tax revenue, which leads to limited growth of expenditures. Accordingly, the government would try to prompt public investment growth by the use of off-budget which consists of 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



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, SMAM
 Up to July 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

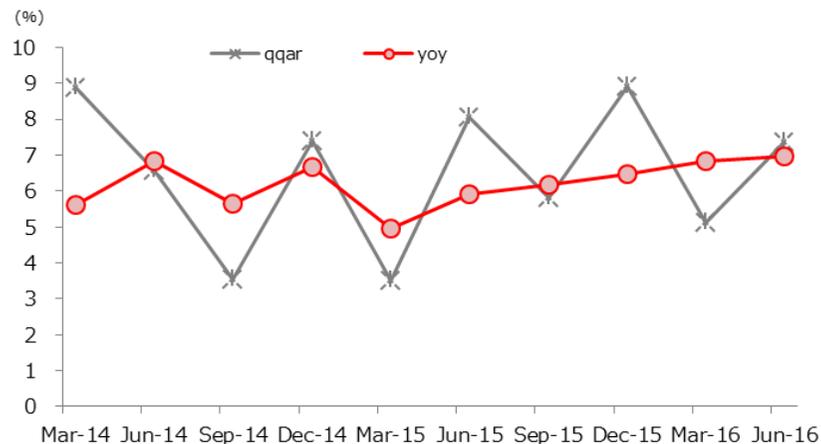
Source: CEIC, SMAM

As of 24 August 2016

Philippines

- We revised up our GDP growth outlook for 2016 to +6.7% YoY from +6.5% YoY on robust consumer spending.
- 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 for 2016 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 growth would result from further infrastructure development and reduction in corporate tax. We see bad weather such as typhoons or droughts accelerating inflation as the downside risk.

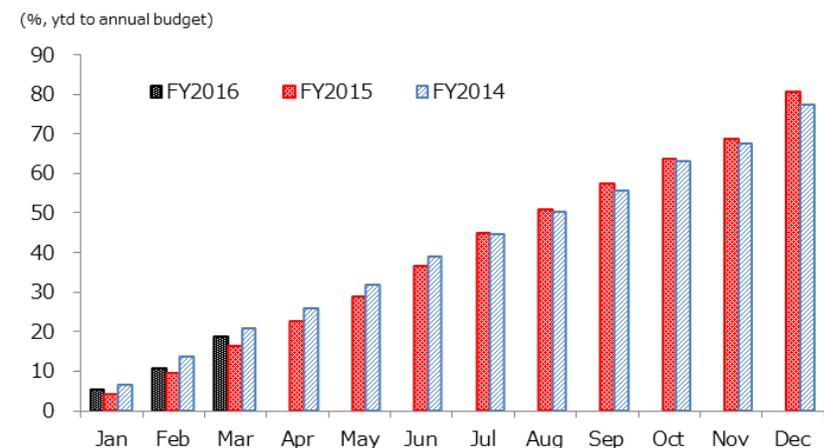
Real GDP Growth



Source: CEIC, SMAM

Up to June 2016

Public Investment Disbursement Rate



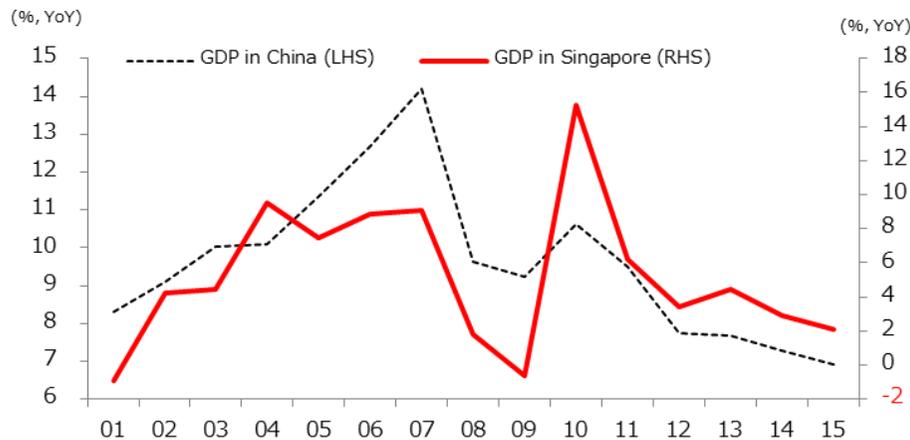
Source: CEIC, SMAM

Up to March 2016

Singapore

- The government revised the economic growth outlook for 2016 downwardly from +1-3% YoY to +1-2% YoY.
- Singapore economy is sensitive to other Asian economies, particularly to China, considering heavy export dependence (approx. 130%). With uncertainty over China's economy, 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 to the economy.

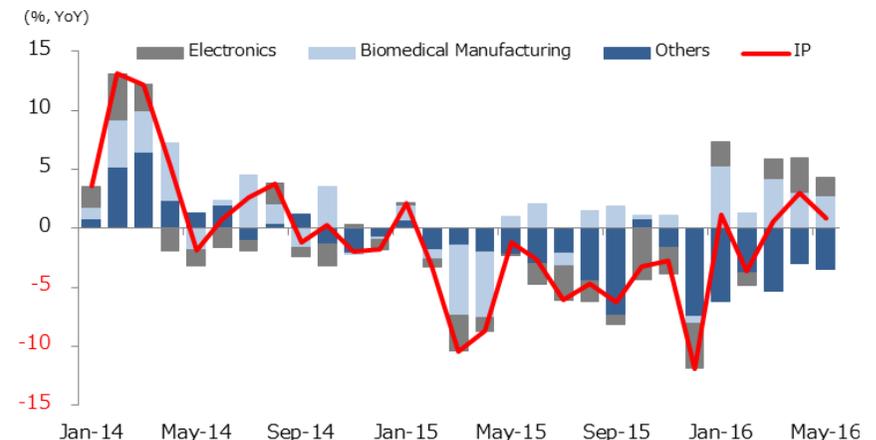
GDP growth in China and Singapore



Source: CEIC, SMAM

Up to March 2016

Industrial Production Index



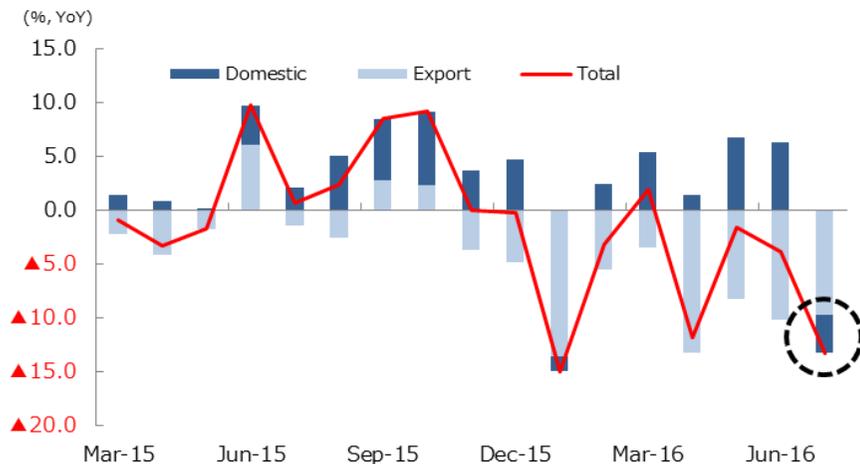
Source: CEIC, SMAM

Up to May 2016

South Korea

- Still inventory rate remains high. The propensity to consume is declining under mounting household debt. A supplementary budget amounting 11.0 trillion won would be effect to bolster the economy, but the economic momentum is foreseen to slow down toward the second half of 2016 due to a) end of car tax reduction, b) the anti-corruption law and c) stricter mortgage screening.
- We consider the Bank of Korea (BOK) would additional rate cut in Oct-Dec to lift up the sluggish economy on lowered expectation for US rate hike.

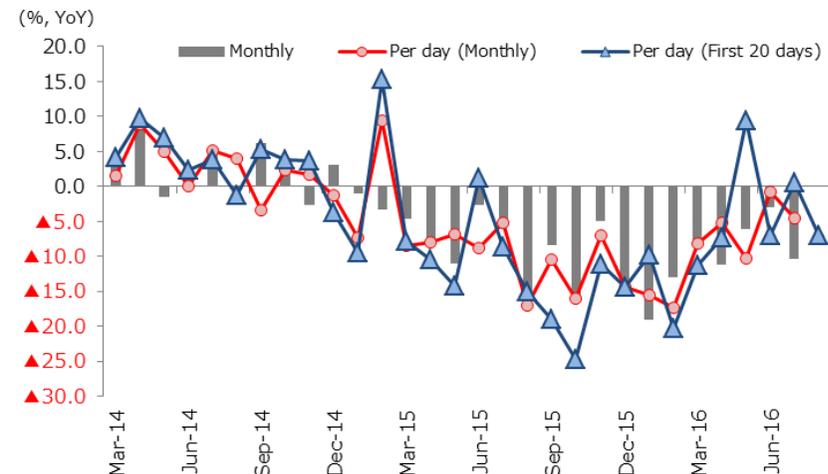
Auto Sales



Source: CEIC, SMAM

Up to July 2016

Export Growth



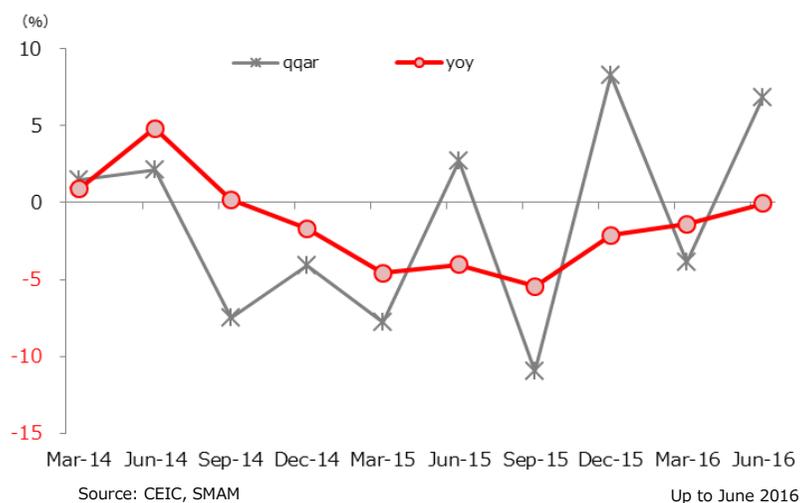
Source: CEIC, SMAM

Up to August 2016

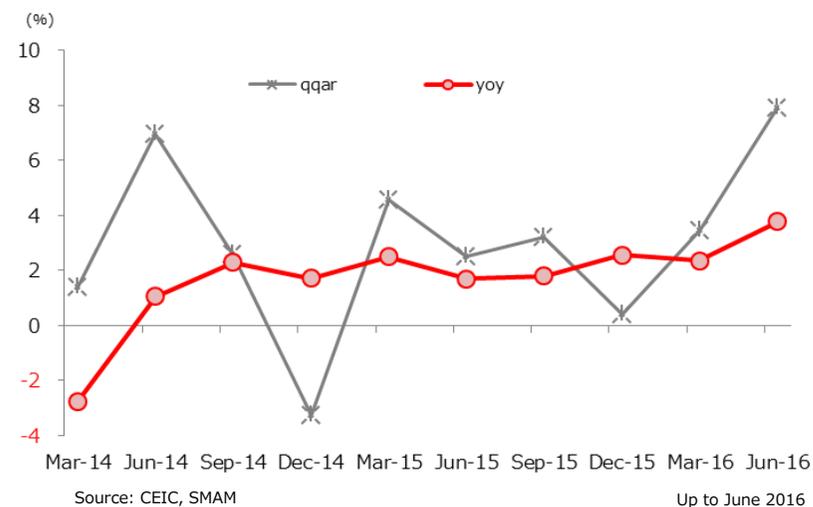
Thailand

- We revised upwardly real GDP forecasts for 2016 and 2017 to +3.2% YoY from +2.9% YoY and +3.3% YoY from +3.0% YoY. 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 excise 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



Private Consumption



Outlook for Asian Stock Markets

Stock Market Performance - Global

Indices as of 31 Aug 2016	Px Last	Mtd	Qtd	Ytd	3m	1yr	2yr	3yr
S&P 500 INDEX	2,170.95	-0.1%	3.4%	6.2%	3.5%	10.1%	8.4%	32.9%
DOW JONES INDUS. AVG	18,400.88	-0.2%	2.6%	5.6%	3.5%	11.3%	7.6%	24.2%
NASDAQ COMPOSITE INDEX	5,213.22	1.0%	7.7%	4.1%	5.4%	9.1%	13.8%	45.2%
STOXX Europe 50 € Pr	2,862.91	-0.5%	1.8%	-7.7%	-1.5%	-8.0%	-6.0%	7.2%
NIKKEI 225	16,887.40	1.9%	8.4%	-11.3%	-2.0%	-10.6%	9.5%	26.1%
TOPIX	1,329.54	0.5%	6.7%	-14.1%	-3.6%	-13.5%	4.0%	20.2%
BRAZIL BOVESPA INDEX	57,901.11	1.0%	12.4%	33.6%	19.5%	24.2%	-5.5%	15.8%
RUSSIAN RTS INDEX \$	950.25	2.4%	2.1%	25.5%	5.1%	14.0%	-20.2%	-26.4%
BSE SENSEX 30 INDEX	28,452.17	1.4%	5.4%	8.9%	6.7%	8.3%	6.8%	52.8%
HANG SENG INDEX	22,976.88	5.0%	10.5%	4.8%	10.4%	6.0%	-7.1%	5.7%
HANG SENG CHINA AFF.CRP	3,914.68	5.4%	8.0%	-3.4%	8.5%	-3.2%	-18.7%	-7.8%
HANG SENG CHINA ENT INDX	9,541.80	6.5%	9.5%	-1.2%	9.6%	-2.0%	-13.0%	-2.9%
CSI 300 INDEX	3,327.79	3.9%	5.5%	-10.8%	5.0%	-1.2%	42.3%	43.8%
TAIWAN TAIEX INDEX	9,068.85	0.9%	4.6%	8.8%	6.2%	10.9%	-3.9%	13.1%
KOSPI INDEX	2,034.65	0.9%	3.3%	3.7%	2.6%	4.8%	-1.6%	5.6%
STRAITS TIMES INDEX	2,820.59	-1.7%	-0.7%	-2.2%	1.1%	-3.5%	-15.2%	-6.9%
FTSE Bursa Malaysia KLCI	1,678.06	1.5%	1.4%	-0.9%	3.2%	4.1%	-10.1%	-2.9%
STOCK EXCH OF THAI INDEX	1,548.44	1.6%	7.2%	20.2%	8.7%	12.0%	-0.8%	19.6%
JAKARTA COMPOSITE INDEX	5,386.08	3.3%	7.4%	17.3%	12.3%	19.4%	4.9%	28.4%
PSEi - PHILIPPINE SE IDX	7,787.37	-2.2%	-0.1%	12.0%	5.2%	9.7%	10.4%	28.2%
HO CHI MINH STOCK INDEX	674.63	3.4%	6.7%	16.5%	9.1%	19.5%	6.0%	42.7%
S&P/ASX 200 INDEX	5,433.03	-2.3%	3.8%	2.6%	1.0%	4.3%	-3.4%	5.8%
NZX 50 INDEX	7,398.83	0.7%	7.3%	17.0%	5.1%	30.8%	41.7%	62.9%
MSCI World Free Local	425.29	0.2%	4.3%	2.3%	2.7%	4.2%	4.2%	23.4%
MSCI All Country Asia Ex Japan	664.92	3.0%	6.9%	6.6%	7.8%	8.1%	-4.1%	10.4%
MSCI EM Latin America Local	71,808.60	0.8%	7.3%	21.2%	11.8%	13.6%	-7.6%	8.0%
MSCI Emerging Markets Europe M	479.71	-0.3%	2.8%	6.9%	1.7%	1.2%	-2.4%	9.4%

Note: All data are as of 31 August 2016

Compiled by SMAM based on Bloomberg

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

Outlook for Global 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.

Outlook for Asia Pacific Region

- ▣ Macro economy in most of Asian countries will show some recovery in 2016/17, but the momentum is not so strong.
- ▣ Although China economy will continue to slow down gradually, policy support is expected to avoid hard landing.
- ▣ 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 PER has already reached to the upper end after Lehman crisis.

Note: As of 30 August 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	- China economy seems to be slowing down gradually. - Pressure for Asset price is eased but underlying economy is weak. Relatively big impact by Brexit. - Attractive DY. Room to pick up high quality names.	Stable More focus on Economy side.	X The pace of recovery is slower than expected. O 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.	X Revision is weak, but momentum is improving.	Fair on PER, attractive on PBR
China	- Tough challenge towards New Normal. - We expect gradual slowdown of macro economy. More Policy support to avoid hard landing, but the policy tool is limited to fiscal side. - Relatively limited impact by Brexit. - Boom & bust of property Mkt is a potential concern.	Stable, but becomes less clear.	Gradual slowdown is expected, however hard landing should be avoided. Structural rebalancing is a key challenge.	X 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.	X Revision is weak, but momentum is improving.	O 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. O Further rate cut is expected. / Inflation will be stable. / Liquidity is improving.	Surplus will expand	O Revision is relatively better.	O 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 - Some negative impact by Brexit but Strong JPY is supportive.	Less stable as President Park's party loses majority	X Growth outlook is weakening due to subdued export environment in China.	O Unexpected rate cut and easing bias continues / Inflation will be stable / Liquidity is improving.	Surplus will remain high	O Revision is positive. / Strongest in Asia.	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.	X Slower economic growth is expected due to slowdown of Chinese economy.	O 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.	X Revision is further weakening. ↓	Fair on PER, attractive on PBR	
Malaysia	- Mounting uncertainty in both Politics and economy. - Investor's sentiment is improving, however Brexit has become a big concern.	X 1MDB continues to be a risk factor. Political turmoil is still there.	X GDP growth is expected to slow in 2016. However the government can brake downward pressure by off-budget disbursement.	Unexpected rate cut in July. O Additional rate cut is expected in 4Q16 given MYR stabilization. ↑ / Inflation will mildly pick up. / M2 growth rate is bottomed out.	Surplus will be narrowed due to lower crude oil price. CPO stock to export ratio is increasing.	X Revision is weak.	Fair (expensive on PER, but fair on PBR)	
Thailand	- Economy outlook is improving. - 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.	O Economy is expected to bottom out supported by fiscal stimulus. Consumption is expected to enter into a recovery phase. ↑	O Rate cut is expected in 1Q17. / Inflation will be stable. M2 growth rate should remain low.	Surplus will continue.	O Revision is positive. / One of 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. - Limited impact by Brexit. Investor's sentiment is improving supported by tax amnesty law.	Stable under ruling parties with majority. New FM , Sri Mulyani will support macro recovery.	O Economy is expected to recover supported by lower gasoline price and public investment.	O 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.	X Revision is weak, but momentum is improving.	Fair (Expensive on PER, but fair on PBR)	
Philippines	- Still the bright spot. Limited impact by Brexit. - Sustainability is key.	Stable. Realistic economic policy by Duterte.	O Steady growth. Less impact by global economy.	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.	Revision is improving.	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.	O High Growth rate will continue driven by domestic consumption.	O Wait and see stance for further rate cut / Inflationary pressure peaked out.	X Trade / CA deficit will gradually increase.	X Revision is weak, 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	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.	Improving	Within FV range.	

Market Focus (i): Thailand – Neutral to Overweight

【Summary】

We foresee a stable economic growth on the back of accelerated infrastructure investments enforced by economic policy, expectation for a recovery of the macro economy and gradual improvements in corporate earnings.

- Due to eased pressure on slowing domestic demands, we think earnings forecast of private consumption-related shares to bottom out. Yet, the share prices have been priced in most of positive factors.
- For the banking sector, we should heed a potential impact from slowing macro economy or tighter regulation of lending to tackle expanding individual loans in the short term. However, from a mid- to long-term standpoint, the balance of bank loans outstanding is expected to grow stably supported by a brisk recovery of the domestic economy.
- Selectively pick up attractive stocks based on a mid and long-term perspective. As for the Telecommunication Services sector, the fundamentals seem to be firm despite concerns for deteriorated earnings on rising costs.
- Under strong leadership by Deputy PM Somkid, public investment is foreseen to recover. We are positive for the related stocks.

Market Focus (ii): Korea – Underweight continued

【Summary】

As the global economy is restoring stability, earnings momentum of Korean firms keeps improving. However, we maintain cautious stance as structural issue is expected to weigh on the market in the medium- and long-term.

- ▣ Keep focusing on selective stock picking. For the IT sector, we prefer corporations with international competitiveness. Some of the related companies are expected to face a margin pressure.
- ▣ We take a forward-looking stance to stocks with stable earnings and high capitalization rate such as tobacco and convenience store companies.
- ▣ As for autos, we shifted our attention to auto parts makers, having wide range of customers, from auto makers whose business is in a headwind.
- ▣ We maintain a cautious stance on equities, which relate to the heavy industry and/or are sensitive to the economy due to serious structural issues, even though some company earnings forecasts show signs of upturn.

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