

Asian Macro & Market Outlook

SMAM monthly comments & views

December 2016



Sumitomo Mitsui Asset Management

Executive summary

◆ Chinese and Asian Economies

Private investment is entering a recovery phase according to October Fixed Asset Investment (FAI) statistics. This is a positive sign for the economy. Accordingly, we see that a degree of dependence on the fiscal policy would decrease gradually. Moreover, China could be away from deflationary pressure as shown by the October Producer Price Index (PPI) that remains strong due to demand-supply management of steel and other materials. As for money supply, the indicator showed improvements. Although the M1 growth slowed down, the M2 growth is on an increasing trend. In our view, China would not change its currency policy on stable CNY against a basket of other currencies.

Amid growing expectation for US rate hikes after surprising the presidential election result, we foresee rate cuts in Asian countries would halt. However, after the markets calm down, additional rate cuts would be resumed. We stay with our view of an economic acceleration in India, a gradual recovery in ASEAN, and a moderate slowdown in NIEs. India, Indonesia and Philippines would be less affected by the US's change in international trade policy, as their contribution ratio of US exports to GDP is notably low.

◆ Asia-Pacific Stock Markets

We have changed our outlook for Asian equity markets to move sideways in the near term with high volatility due to increasing uncertainty after US presidential election.

- ✓ Risk factor including rising US bond yields and weak emerging currencies are materialized due to the surprising result of US election.
- ✓ Although detailed policy of Mr. Trump is still not clear, his accommodative stance of fiscal stimulus can be a trigger of changing the direction of US bond yield upwards, which is negative for currencies in the emerging countries.
- ✓ Market volatility is likely to increase based on news flow and a risk appetite for emerging markets should be diminished in the near term.

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	10-12月		
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	6.4	6.7	6.4
<i>Previous</i>	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	6.4	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	6.1	-	-
<i>Previous</i>	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	6.1	-	-
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	5.2	-	-
<i>Previous</i>	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	5.2	-	-
Real GDP Consumption	9.1	8.9	8.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Previous</i>	9.1	8.9	8.8	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP Investment	5.3	5.0	4.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Previous</i>	5.3	5.0	4.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-
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	7.3	-	-
<i>Previous</i>	6.4	7.4	7.4	6.7	7.2	6.0	6.1	7.1	7.3	7.5	7.8	7.5	7.4	7.5	7.3	-	-
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	0.9	-	-
<i>Previous</i>	▲0.4	0.8	1.0	▲0.3	0.1	▲0.9	▲0.6	0.4	0.6	0.8	1.1	1.0	0.9	1.0	0.9	-	-
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	5.5	5.9	5.6
<i>Previous</i>	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	5.5	5.8	5.5
CPI inflation	1.4	2.0	1.4	1.2	1.4	1.7	1.5	2.1	2.1	1.7	2.0	1.6	1.4	1.4	1.2	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	1.7	1.8	1.6	1.4	1.4	1.0	1.9	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	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	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	Oct-Dec		
16.11.16 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	6.4		
16.10.19	6.9	6.7	6.5	7.0	7.0	6.9	6.8	6.7	6.7	6.7	6.7	6.5	6.5	6.5	6.4		
16.10.17 ast month meeting	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	6.4		

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 22 November 2016

SMAM Economic Outlook for China

China October economic performance

(%, YoY)

	consensus	actual	Sep	Aug	Jul	Jun	May	Apr	May	Feb	Jan
mfg PMI	50.3	51.2	50.4	50.4	49.9	50.0	50.1	50.1	50.2	49.0	49.4
Caixin mfg PMI	50.1	51.2	50.1	50	50.6	48.6	49.2	49.4	49.7	48.0	48.4
steel PMI	NA	50.7	49.5	50.1	50.2	45.1	50.9	57.3	49.7	49.0	46.7
industrial production	6.2	6.1	6.1	6.3	6.0	6.2	6.0	6.0	6.8	5.4	5.4
fixed asset investment (ytd)	8.2	8.3	8.2	8.1	8.1	9.0	9.6	10.5	10.7	10.2	10.2
fixed asset investment	NA	8.8	9.0	8.2	3.9	7.3	7.4	10.1	11.2	10.2	10.2
SOE fixed asset investment	NA	16.1	19.2	19.2	14.4	24.0	22.5	24.3	25.9	20.2	20.2
private fixed asset investment	NA	5.9	4.5	2.3	-1.2	-0.0	1.0	4.2	4.7	6.9	6.9
property investment	NA	13.5	7.8	6.2	1.4	3.3	6.6	9.7	9.7	3.0	3.0
floor space sold	NA	26.0	35.3	19.1	16.7	14.2	22.0	45.9	40.3	30.4	30.4
100 cities housing price (mmar)	NA	21.7	39.8	29.4	21.5	17.0	22.4	18.9	25.4	7.4	5.1
retail sales	10.7	10.0	10.7	10.6	10.2	10.6	10.0	10.1	10.5	10.2	10.2
retail sales (real basis)	NA	8.8	9.6	10.2	9.8	10.3	9.7	9.3	9.7	9.6	9.6
auto sales units (th)	NA	2,649.9	2,564	2,071	1,852	2,071	2,092	2,122	2,440	1,581	2,501
auto sales units (%)	NA	19.3	26.6	24.4	23.2	14.6	9.9	6.4	8.9	-0.8	7.8
exports (RMB)	2.5	-3.2	-5.6	5.9	2.9	1.3	1.2	4.1	18.7	-20.6	-6.6
imports (RMB)	5.5	3.2	2.2	10.8	-5.7	-2.3	5.1	-5.7	-1.7	-8.0	-14.4
international reserves (USDbn)	3,132.5	3,120.7	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	2.1	2.1	1.9	1.3	1.8	1.9	2.0	2.3	2.3	2.3	1.8
PPI	0.9	1.2	0.1	-0.8	-1.7	-2.6	-2.8	-3.4	-4.3	-4.9	-5.3
M2	11.4	11.6	11.5	11.4	10.2	11.8	11.8	12.8	13.4	13.3	14.0
new loans (RMB bn)	672.0	651.3	1,220.0	948.7	463.6	1,380.0	985.5	555.6	1,370.0	726.6	2,510.0
total social financing (RMB bn)	1,000.0	896.3	1,720.0	1,469.7	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

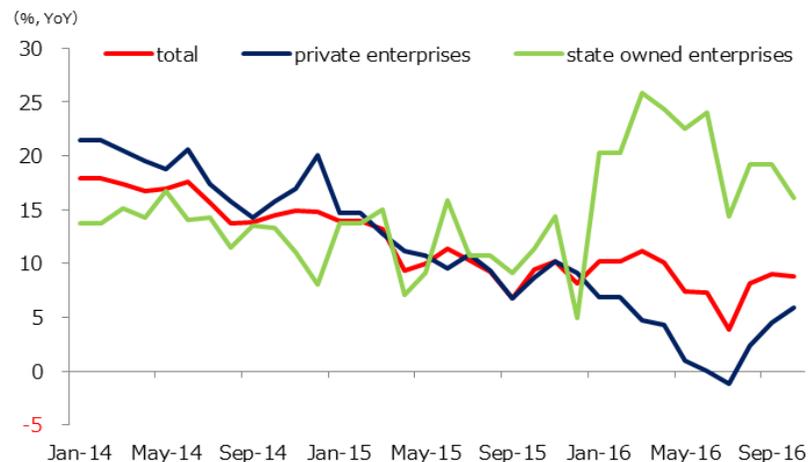
As of 22 November 2016

SMAM Economic Outlook for China

Current Economic Situation in China

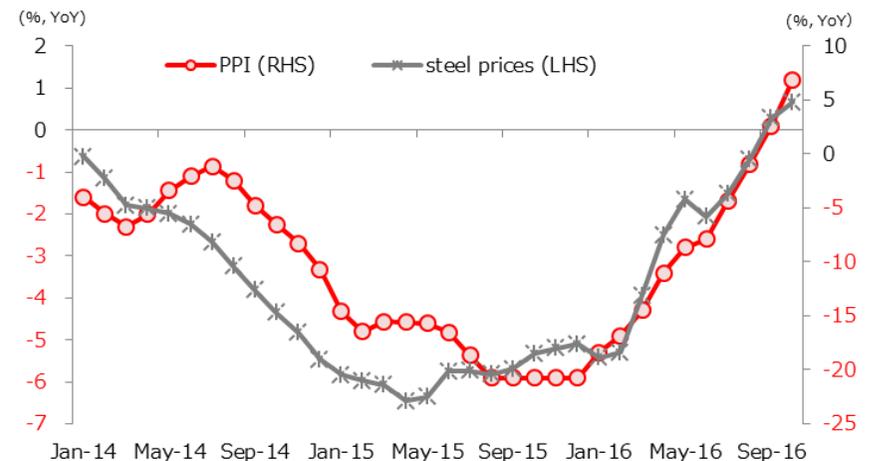
- China faces both a private investment recovery and breakout of deflation
 - The private investment entered a recovery phase. In October, the FAI growth by private enterprises posted a further increase on growing recognition of the government's stance to support the economy.
 - As PPI accelerated in October, we see China get out of the deflationary pressure.
 - Demand for raw materials is growing through demand management by infrastructure investment. Management on supply and demand for materials was successful.
 - We think that further infrastructure investments along with the New-type Urbanization policy would bring economic stability and curb deflation.

Fixed Asset Investment Growth



Source: CEIC, compiled by SMAM
Up to October 2016

PPI and Steel Prices



Source: CEIC, compiled by SMAM
Up to October 2016

SMAM Economic Outlook for China

China's economy is stabilizing as a result of a recovery of private investment and the slowing deflationary pressure

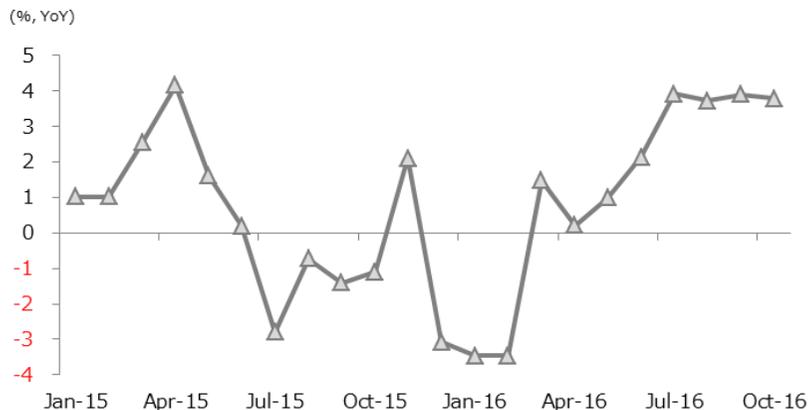
- ❑ Looking at October PPI, inflation accelerated led by infrastructure investment.
- ❑ Regarding FAI, the private sector shows a pickup and this would affect the economy positively. Then, a degree of dependence on the fiscal policy can be gradually decreasing.
- ❑ The government is currently considering continuing a tax cut on small cars until 2017. A downturn in October retail sales would be a supportive factor for the extension of the tax cut.
- ❑ China's currency renminbi (RMB) depreciated against US dollar, while RMB moves stably within the currency basket.
- ❑ Money Supply is recovering as M1 growth has experienced a downturn and M2 growth has accelerated since July.
- ❑ The Ministry of Finance indicated its intention to review a budget deficit after G20 meeting.

Outlook for 2016 & 2017: The economy is expected to be stable until 2017, but policies by a Donald Trump presidency would be a risk factor

- ❑ We maintain the real GDP growth forecasts as +6.7% YoY in 2016 and +6.5% YoY in 2017 respectively.
- ❑ For GDP deflator, we also stay with our projections (2016: +0.8% YoY, 2017: +1.0% YoY).
- ❑ President-elect Donald Trump is expected to impose higher tariffs on Chinese exports to US and/or point a finger at undervalued RMB.
- ❑ 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.

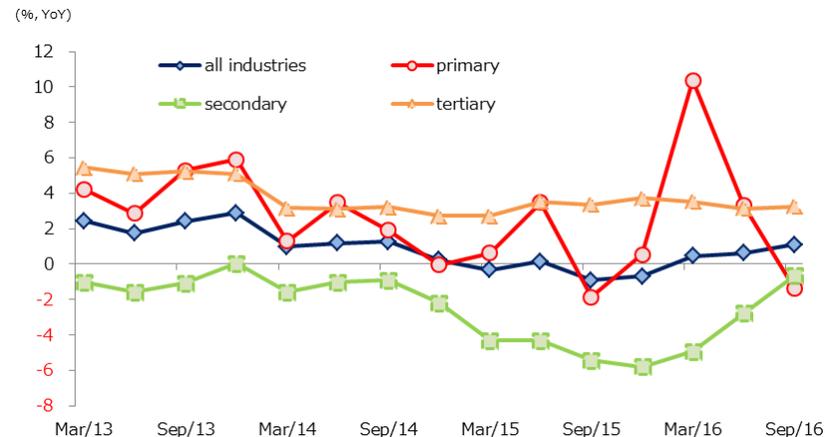
SMAM Economic Outlook for China

Domestic Demand for Steel



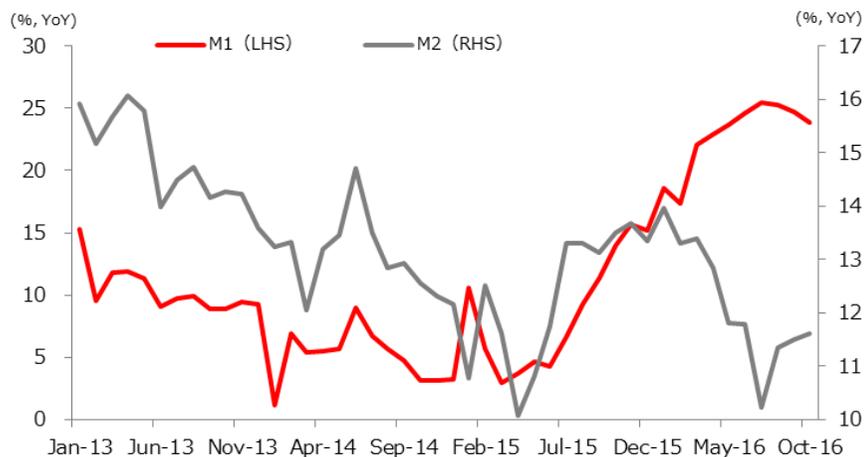
Note: The data series=steel production - steel export
 Source: CEIC, compiled by SMAM
 Up to October 2016

GDP Deflator by Industries



Source: CEIC, compiled by SMAM
 Up to September 2016

Money Supply



Source: CEIC, compiled by SMAM
 Up to October 2016

Total Social Finance

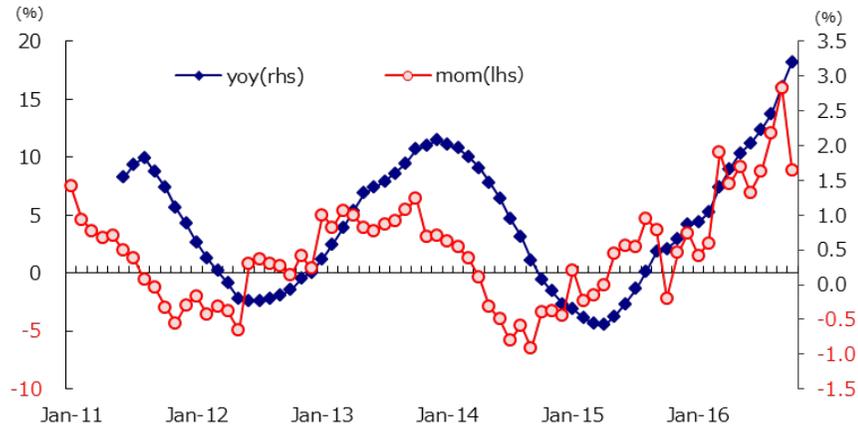
(RMB bn)

	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
Oct	896	601	73	53	-180	244	106

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

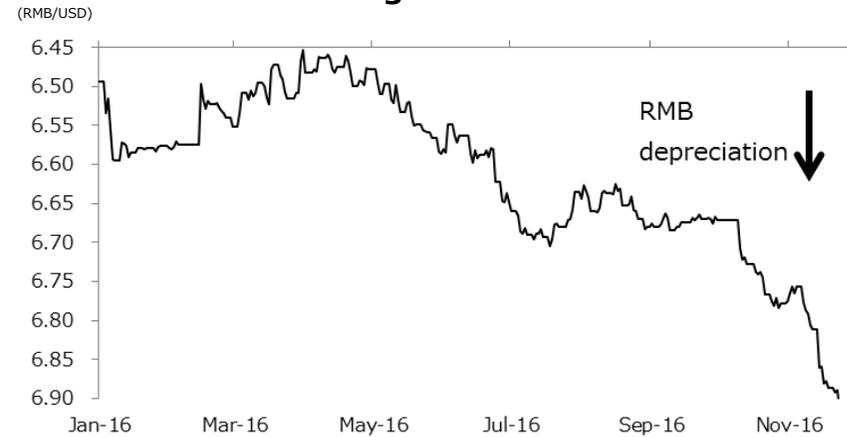
SMAM Economic Outlook for China

New Housing Prices in Soufun 100 cities



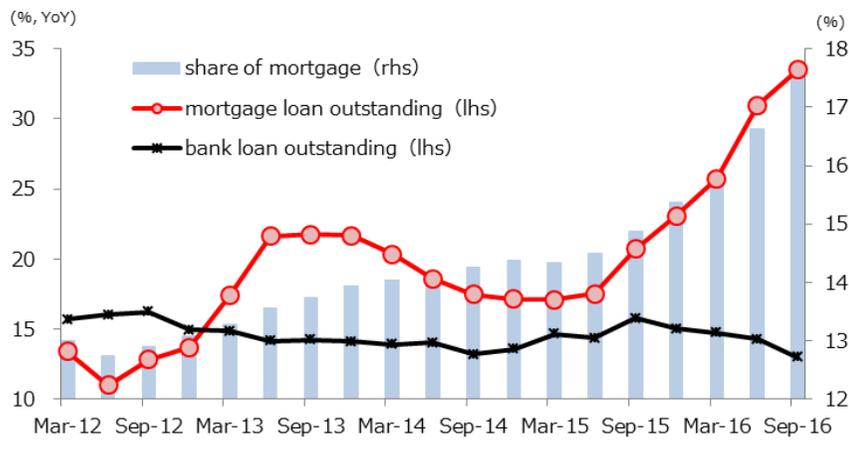
Source: CEIC, compiled by SMAM
Up to October 2016

RMB against USD



Source: CEIC, compiled by SMAM
Up to 28 November 2016

Bank Lending & Mortgage Loan



Source: CEIC, compiled by SMAM
Up to September 2016

Outlook for Asia-Pacific Economy

SMAM Economic Outlook for Asia and Oceania

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	Oct-Dec		
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	8.1	7.6	7.6
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	8.1	7.6	7.7
NIEs4	2.1	2.0	1.6	2.8	1.9	1.9	2.0	1.7	2.4	2.1	1.7	1.6	1.5	1.5	1.7	2.0	2.2
Previous	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	1.7	2.0	2.2
Korea	2.6	2.6	2.0	2.4	2.2	2.8	3.1	2.8	3.3	2.5	2.0	1.7	1.8	2.0	2.5	2.7	2.6
Previous	2.6	2.8	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	2.7	2.6
Taiwan	0.6	1.1	1.0	4.0	0.6	▲0.8	▲0.9	▲0.7	0.7	2.1	2.1	1.4	1.5	0.5	0.7	1.1	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	0.5	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	1.4	1.3	1.5
Previous	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	1.4	1.3	1.5
Hongkong	2.4	1.1	0.6	2.4	2.9	2.2	1.9	0.8	1.7	1.9	0.1	0.8	0.2	0.2	1.3	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	0.3	1.3	1.7
ASEAN4	4.6	4.8	4.9	4.6	4.5	4.5	4.7	4.7	4.9	4.7	4.7	4.7	4.8	5.1	5.1	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	5.1	4.7	4.8
Indonesia	4.8	5.1	5.4	4.7	4.7	4.7	5.0	4.9	5.2	5.0	5.2	5.2	5.3	5.5	5.5	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	5.5	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	3.8	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	3.8	3.2	3.3
Malaysia	5.0	4.1	4.4	5.7	4.9	4.7	4.5	4.2	4.0	4.3	4.1	4.2	4.3	4.5	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	4.4	4.1	4.3
Philippines	5.9	7.0	7.0	5.0	5.9	6.2	6.5	6.8	7.0	7.1	6.9	6.8	6.8	7.1	7.1	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	6.5	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	2.8	2.9	2.8
Previous	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	2.8	3.0	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 22 November 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	Oct-Dec		
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	5.6	5.0	5.1
Previous		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	5.6	5.1	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	1.6	0.9	1.6
	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	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	1.2	1.1	1.2
	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	1.2	1.1	1.1
ASEAN4	Singapore	▲0.5	▲0.7	0.4	▲0.3	▲0.4	▲0.6	▲0.7	▲0.8	▲0.9	▲0.7	▲0.4	▲0.2	0.3	0.6	0.6	▲0.4	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	▲0.4	0.8
	Hongkong	3.0	2.8	1.8	4.3	2.9	2.5	2.3	2.8	2.8	3.1	2.6	2.1	2.0	1.7	1.5	2.5	2.0
	Previous	3.0	2.5	1.7	4.3	2.9	2.5	2.3	2.8	2.8	3.1	2.6	2.1	2.0	1.7	1.5	2.5	2.1
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	4.3	3.6	4.2
	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	4.3	3.6	4.2
	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	0.9	0.2	1.7
	Previous	▲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	0.9	0.2	1.7
ASEAN4	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	2.6	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	2.6	2.1	2.6
	Philippines	1.4	1.8	2.9	2.4	1.7	0.6	1.0	1.1	1.5	2.0	2.4	2.6	2.8	3.0	3.1	1.7	2.9
	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	2.6	2.6	1.7	3.0
Australia		1.5	1.2	1.7	1.3	1.5	1.5	1.7	1.3	1.0	1.3	1.3	1.7	1.6	1.7	1.7	1.3	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	1.7	1.2	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	Oct-Dec		
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	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	5.75	5.75	6.25	6.00
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	1.00
	Previous	1.50	1.00	1.00	1.75	1.50	1.50	1.50	1.50	1.25	1.25	1.00	1.00	1.00	1.00	1.00	1.25	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	1.125	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	1.125	1.250	1.250
ASEAN4	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
	Previous	###	###	###	###	###	###	###	###	###	###	###	###	###	###	###	###	###
	Hongkong	0.75	#N/A	#N/A	0.50	0.50	0.50	0.75	0.75	#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							
ASEAN4	Indonesia	7.50	4.75	4.50	7.50	7.50	7.50	7.50	6.75	6.75	5.00	4.75	4.75	4.75	5.00	5.00	#N/A	#N/A
	Previous	7.50	5.00	5.00	7.50	7.50	7.50	7.50	6.75	6.75	5.00	4.75	4.75	4.75	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	1.25	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	1.25	1.25	1.50	1.50
ASEAN4	Malaysia	3.25	3.00	2.50	3.25	3.25	3.25	3.25	3.25	3.25	3.00	3.00	2.75	2.50	2.50	2.50	3.00	2.75
	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	2.75	3.00	3.00
	Philippines	4.00	3.00	3.25	4.00	4.00	4.00	4.00	4.00	3.00	3.00	3.00	3.00	3.00	3.00	3.25	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	3.00	3.25
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	1.25	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	1.25	1.50	1.25

Source: CEIC, compiled by SMAM

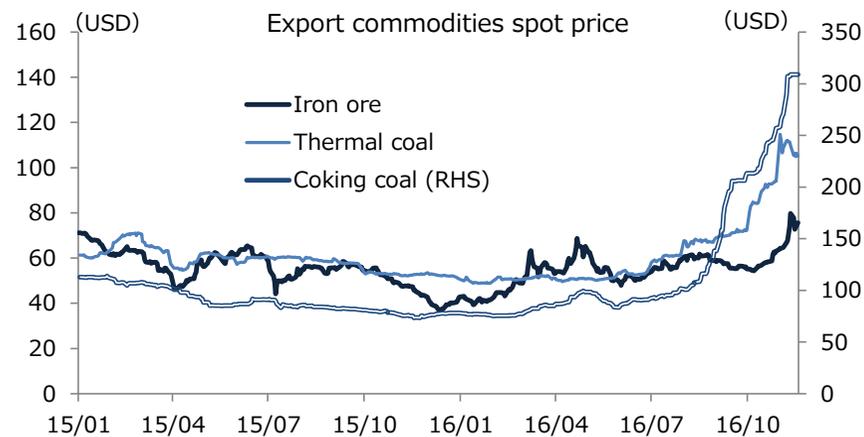
Note: Economic Research Department, Previous= Last month meeting's projection. Indonesia has changed policy rate from BI rate (6.50%) to 7days reserve repo (5.25%) on 19 Aug.

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

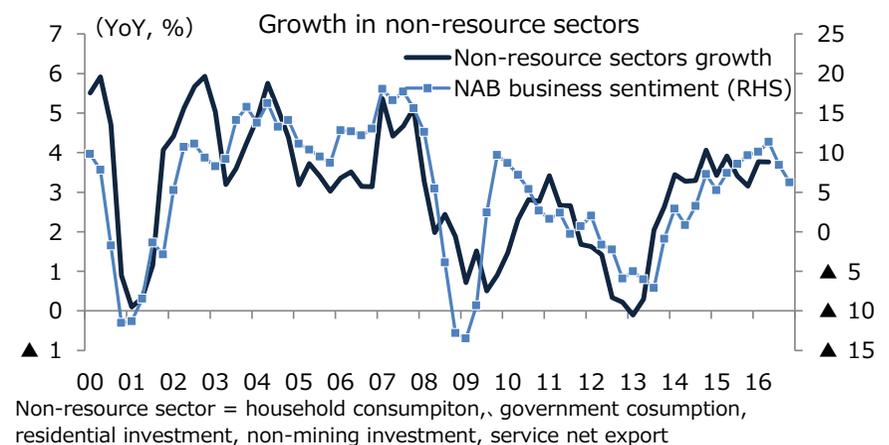
As of 22 November 2016

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. Yet, CPI may exceed the target if commodity prices rise. In this case, the policy rate would be left unchanged.



Source: Bloomberg, compiled by SMAM
Up to November 2016

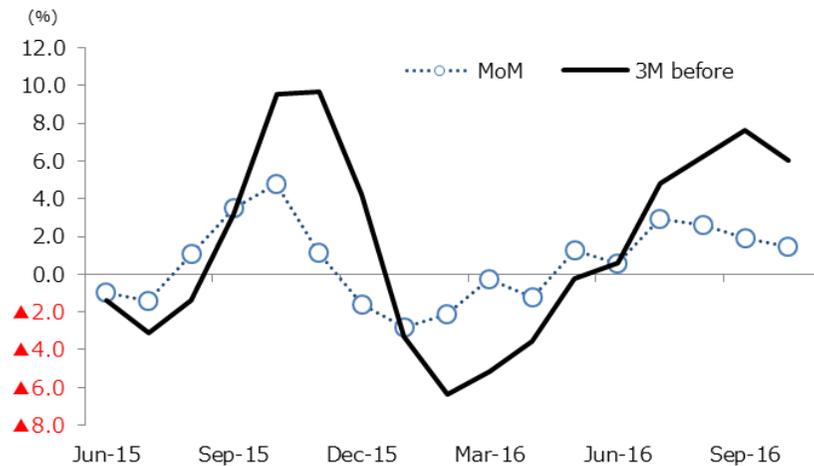


Source: ABS, Datastream, compiled by SMAM
Up to 20 October 2016

Taiwan

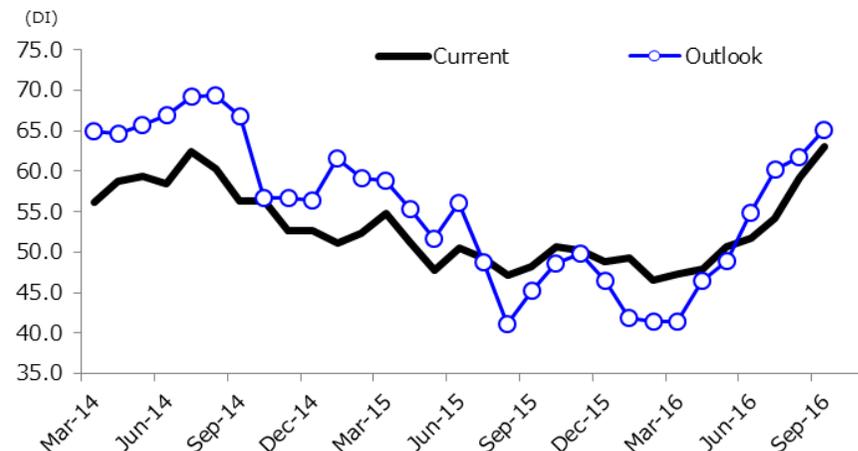
- We revised up real GDP forecasts for 2016 to +1.1% YoY and for 2017 to +1.0% YoY.
- Taiwan, with the contribution ratio of exports to its GDP is approx. 64%, is likely to be affected by the global economic conditions. After export growth a decline in September due to typhoon, the growth accelerated toward October due to base effect. However, the export is expected to downturn after hitting a peak in Jul-Sep. So far, slow domestic demand growth is expected as the Democratic Progressive Party seems to keep a cautious stance on short-term economic stimulus measures.

Taiwan Export Orders



Source: CEIC, compiled by SMAM
Up to October 2016

PMI (EI parts & Optical SA)

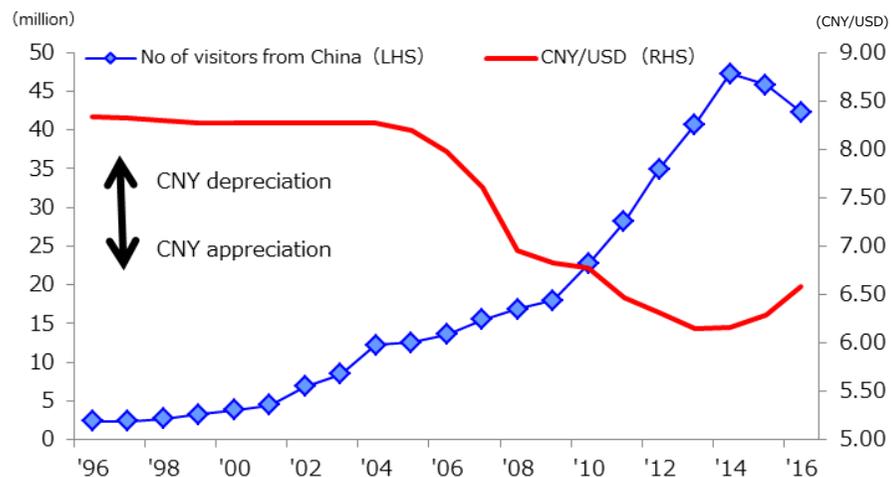


Source: CEIC, compiled by SMAM
Up to September 2016

Hong Kong

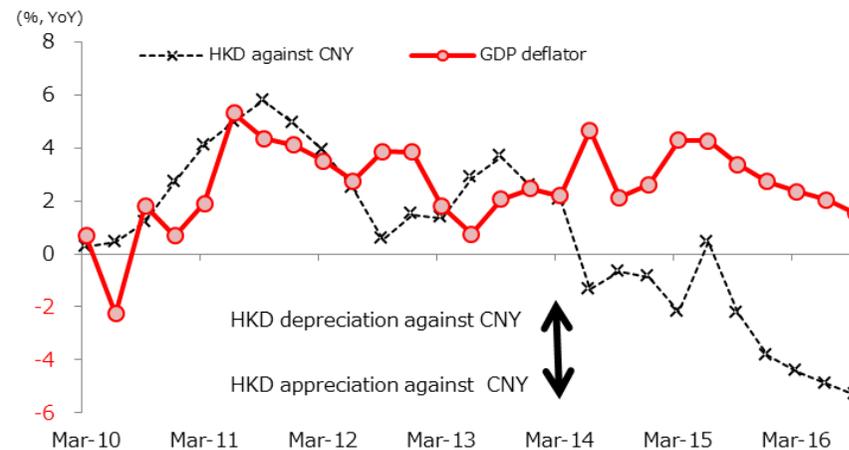
- Hong Kong's economic growth tends to be affected by China's economy due to strong economic relationship. Amid a strong US dollar, RMB will continue to decline against US dollar and this leads to deflationary pressure in Hong Kong, which is negative on asset prices.
- Regarding an upside risk, we believe that a stronger Chinese economy would result in a pickup in Hong Kong's economy. If US implement rate hikes several times, deflationary pressure would mount and real interest rates would also rise sharply. In this situation, the economy is deemed to face a downward pressure.

Visitors to HK from China & CNY/USD



Note: Visitors number is annualized for 2016. CNY for 2016 is average from 1Q16 to 3Q16.
 Source: CEIC, compiled by SMAM
 Up to September 2016

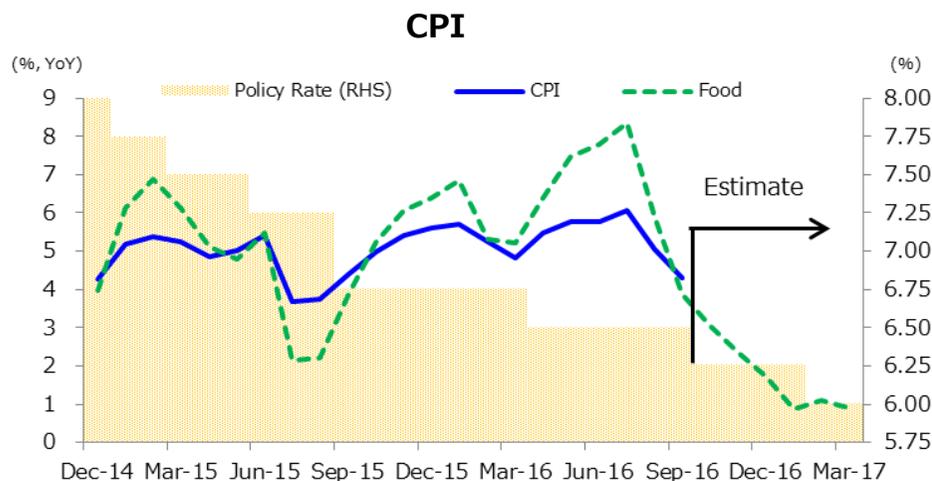
GDP Deflator & HKD/CNY



Source: CEIC, compiled by SMAM
 Up to September 2016

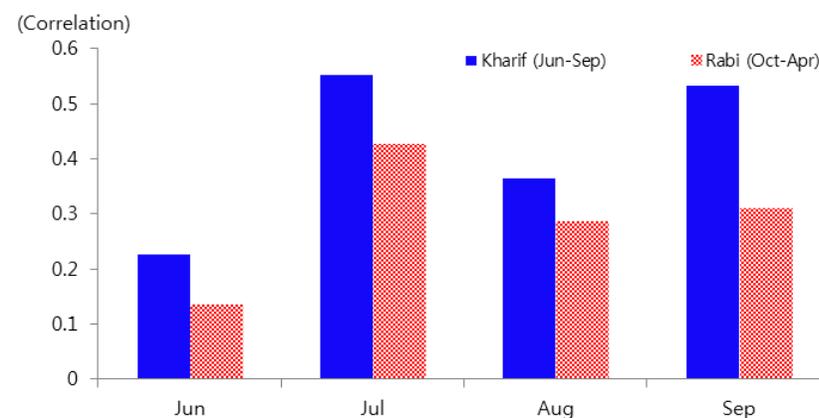
India

- 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, the economic growth is seen to accelerate in 2H2016 driven by the agricultural industry. Infrastructure investment is currently weak but we think it would see a gradual recovery as the government is planning to expand the sector's investment toward 2020.
- India's inflation 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. On October 8, the government suddenly announced to scrap the country's largest currency bills and introduce new series of currency notes instead. Considering India's income level, the impacts on the economy would be limited.



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

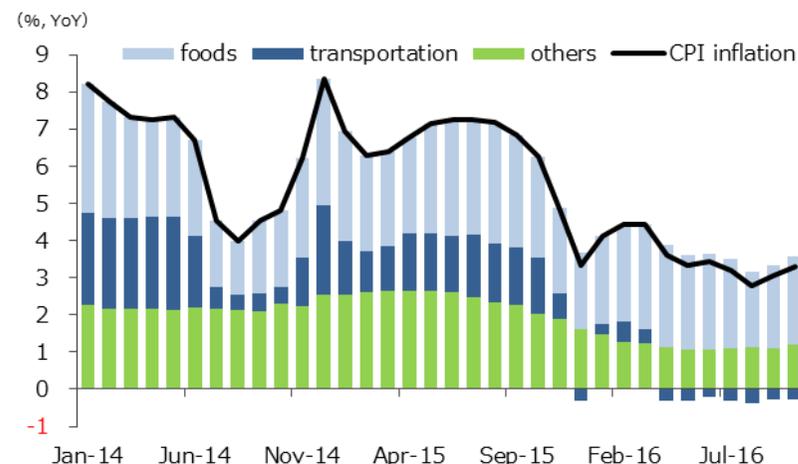
- Lower than expected Jul-Sep GDP came in at +5.5% YoY. We slightly revised down the real GDP forecast for 2016 to +5.1% YoY from +5.2% YoY.
- The inflation rate remains within the target range since November last year. The government's additional gasoline price cut on April 1 can be a supportive factor 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. On weak Indonesia Rupiah (IDR) and strong US dollar spurred by Trump's victory, the central bank would hold interest rates unchanged.

GDP Growth and Contributions

	(YoY, ppt)				
	3Q15	4Q15	1Q16	2Q16	3Q16
real GDP	4.7	5.0	4.9	5.2	5.0
domestic demands	5.6	3.8	4.6	4.8	3.9
external demands	1.1	0.4	0.0	0.1	-0.6
private consumption	2.7	2.7	2.7	2.7	2.7
government consumption	0.6	0.9	0.2	0.5	-0.2
gross fixed capital formation	1.5	2.3	1.8	1.6	1.3
inventory	0.8	-2.1	-0.1	-0.0	0.1
exports	-0.1	-1.6	-0.9	-0.5	-1.3
imports	-1.3	-1.9	-0.9	-0.6	-0.8

Source: CEIC, compiled by SMAM
Up to 3Q 2016

CPI

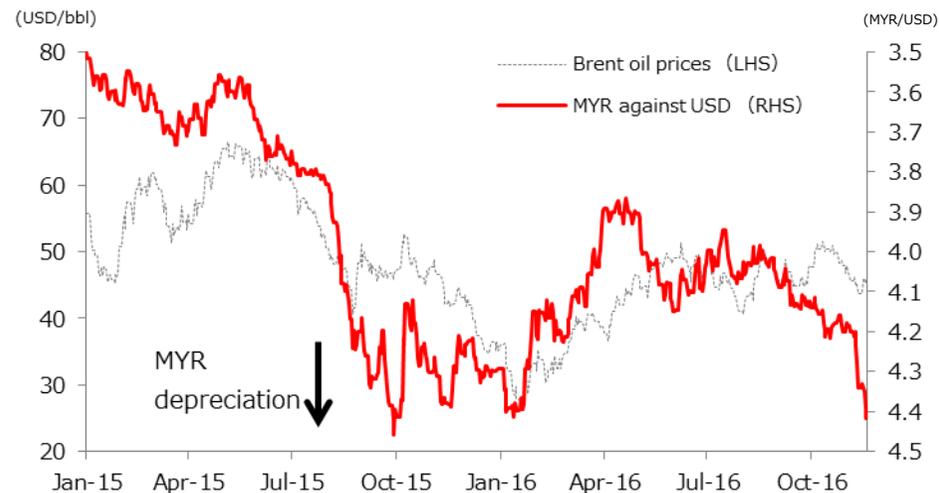


Source: CEIC, compiled by SMAM
Up to October 2016

Malaysia

- Due to US dollar appreciation and Malaysia Ringgit (MYR) depreciation, an additional rate cut in this short term has a low possibility. Looking at the government side, cheaper oil prices 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. Malaysian Prime Minister Najib Razak announced the 2017 budget with a suggestion of the possible early dissolution of the parliament and general election.
- In 2017, all available economic measures such as rate cut or financial expansion would be exploited. If the Malaysia Ringgit moves stably, we think that Bank Negara Malaysia (BNM) would implement an addition rate cut in Jan-Mar or Apr-Jun 2017.

MYR and Oil Price



Source: CEIC, compiled by SMAM
As of 18 November 2016

Philippines

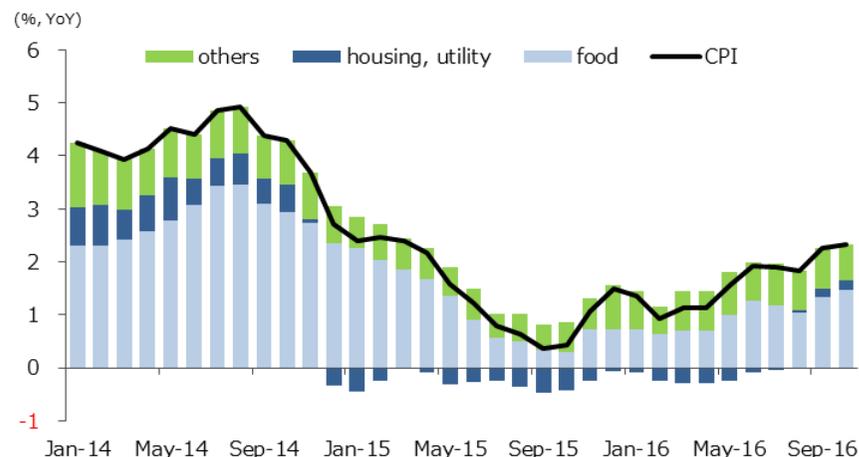
- The economy is less vulnerable to global economic cycle as the contribution ratio of exports to GDP is only around 20%, lower than in other countries.
- The economic rebound is expected led by domestic demands. Consumer spending would expand in the second half of 2016 on the back of low inflation as well as the growing size of the middle class even after general election. We see the economic growth for 2017 to be revised up. Infrastructure development and a reduction in corporate tax would contribute to an upturn.
- Bangko Sentral ng Pilipinas (BSP) shifted in its monetary operations to an interest rate corridor. Its range is quite narrow, as the upper and lower band is at 3.5% and 2.5% respectively. If the GDP growth for 2017 is higher than the government's forecast (+7-8%), a rate hike may occur.

Real GDP by Expenditures

	real GDP	private consumption	government consumption	gross fixed capital formation	inventory (contribution)	exports	imports	
	(% , YoY, ppt)							
1Q15	5.0	6.1	0.2	8.8	0.8	10.6	12.2	
2Q15	5.9	6.4	2.4	12.7	1.4	5.1	12.6	
3Q15	6.2	6.1	15.7	13.9	0.2	9.8	16.2	
4Q15	6.5	6.5	15.8	24.2	-1.9	10.9	14.9	
1Q16	6.8	7.0	11.8	28.2	-0.2	7.3	19.0	
2Q16	7.0	7.4	13.5	24.6	0.1	10.0	23.2	
3Q16	7.1	7.3	3.1	23.5	-0.7	8.8	14.2	

Source: CEIC, compiled by SMAM
Up to 3Q 2016

CPI

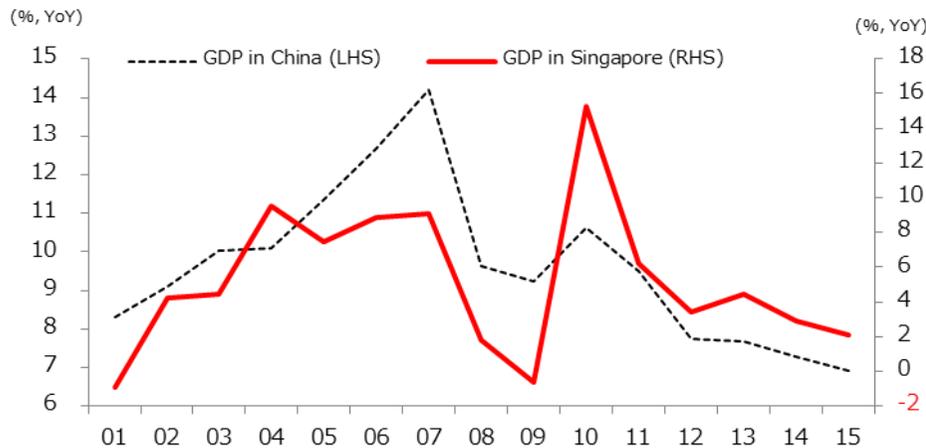


Source: CEIC, compiled by SMAM
Up to October 2016

Singapore

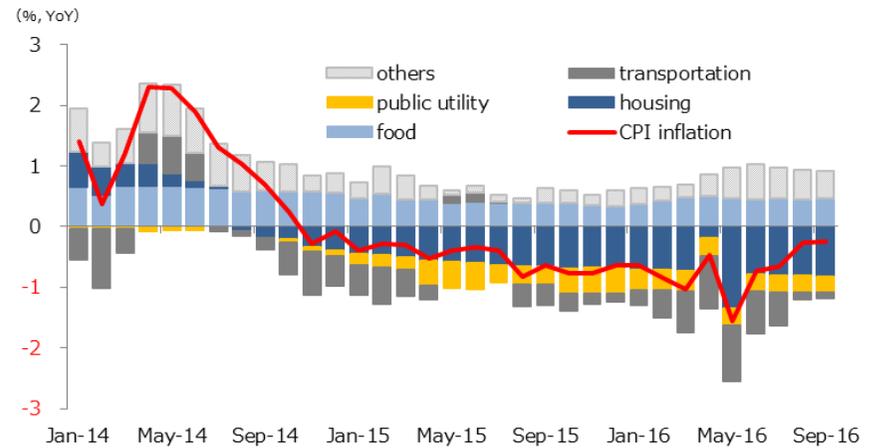
- The Singapore's economy is sensitive to other Asian economies, particularly to China, due to heavy export dependence (approx. 130%). In accordance with China's continuing economic stagnation, Singapore is likely to face a further downward pressure on its economy.
- Also, the weak economy in Malaysia, an important trading partner for Singapore, may drag down the country's 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

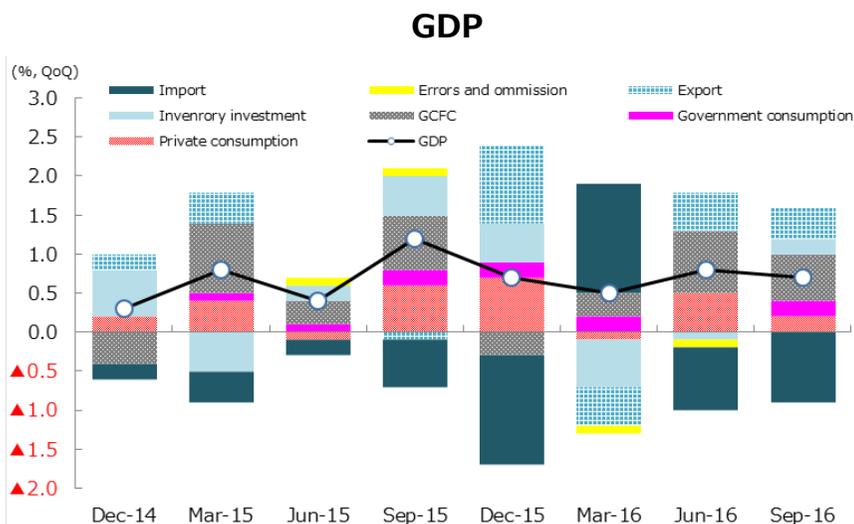
CPI



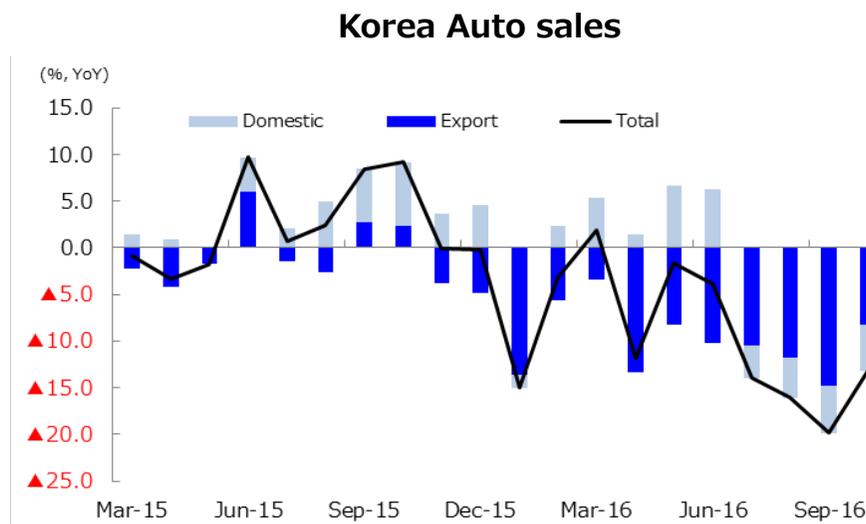
Source: CEIC, compiled by SMAM
Up to September 2016

South Korea

- We cut real GDP growth for 2016 to +2.6% (previous: +2.8%) and for 2017 to +2.0% (previous: +2.4%) on a YoY basis.
- Still inventory rate remains high. The propensity to consume is declining under mounting household debt. Furthermore, several factors would be downward pressure on the economy. They include a) political stalemate caused by scandal by the President Park Geun-hye, b) end of car tax reduction, c) total halt of Samsung's Galaxy Note 7 production, d) the anti-corruption law and e) stricter mortgage loan screening.
- We expect a downturn in economic momentum toward Oct-Dec. As for rethinking the free trade agreement (FTA) with US, we deem the impact on the domestic economy to be limited. An upside risk is better than projected improvements in US and Chinese economies, which would be a trigger for Korea's export growth. On the other hand, a downside risk can be that the political stalemate would linger.



Source: CEIC, compiled by SMAM
Up to September 2016

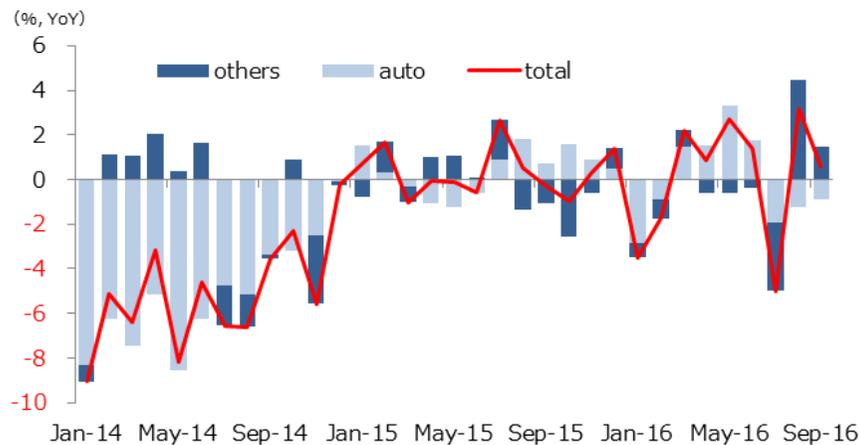


Source: CEIC, compiled by SMAM
Up to October 2016

Thailand

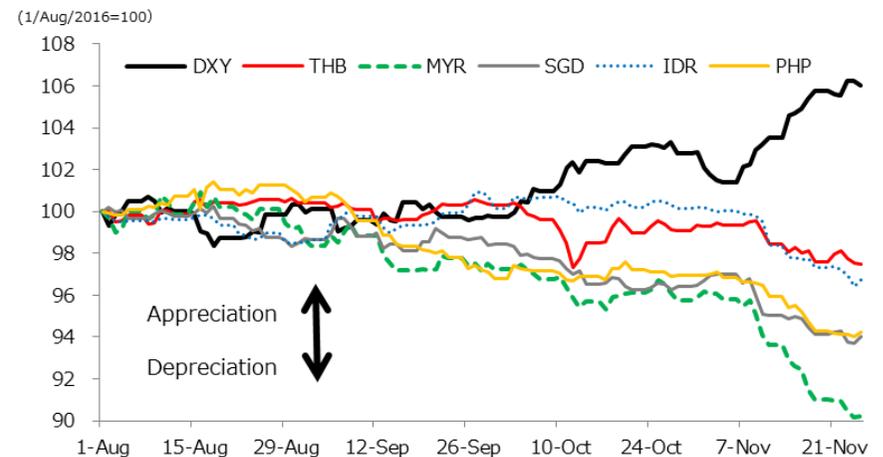
- Thanks to Deputy Premier Somkid Jatusripitak exercising strong leadership, public investment maintains high growth from September and is expected to keep accelerating in the second half of 2016.
- Thai King Bhumibol Adulyadej has passed away and Thai people have been asked to avoid "joyful events"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

Industrial Production



Source: CEIC, compiled by SMAM
Up to September 2016

ASEAN currencies vs US Dollar Index (DXY)



Source: CEIC, compiled by SMAM
Up to 25 November 2016

Outlook for Asia-Pacific Stock Markets

Stock Market Performance - Global

Indices as of 30 Nov 2016	Px Last	Mtd	Qtd	Ytd	3m	1yr	2yr	3yr
S&P 500 INDEX	2,198.81	3.4%	1.4%	7.6%	1.3%	5.7%	6.3%	21.8%
DOW JONES INDUS. AVG	19,123.58	5.4%	4.5%	9.7%	3.9%	7.9%	7.3%	18.9%
NASDAQ COMPOSITE INDEX	5,323.68	2.6%	0.2%	6.3%	2.1%	4.2%	11.1%	31.1%
STOXX Europe 50 € Pr	2,830.11	0.6%	-0.5%	-8.7%	-1.1%	-13.9%	-8.0%	-2.5%
NIKKEI 225	18,308.48	5.1%	11.3%	-3.8%	8.4%	-7.3%	4.9%	16.9%
TOPIX	1,469.43	5.5%	11.1%	-5.0%	10.5%	-7.0%	4.2%	16.7%
BRAZIL BOVESPA INDEX	61,906.36	-4.6%	6.1%	42.8%	6.9%	37.2%	13.1%	18.0%
RUSSIAN RTS INDEX \$	1,029.05	4.1%	3.9%	35.9%	8.3%	21.5%	5.6%	-26.6%
BSE SENSEX 30 INDEX	26,652.81	-4.6%	-4.4%	2.0%	-6.3%	1.9%	-7.1%	28.2%
HANG SENG INDEX	22,789.77	-0.6%	-2.2%	4.0%	-0.8%	3.6%	-5.0%	-4.6%
HANG SENG CHINA AFF.CRP	3,756.78	-0.1%	-2.7%	-7.3%	-4.0%	-7.2%	-17.2%	-19.8%
HANG SENG CHINA ENT INDX	9,838.06	2.9%	2.7%	1.8%	3.1%	0.5%	-11.7%	-14.0%
CSI 300 INDEX	3,538.00	6.0%	8.8%	-5.2%	6.3%	-0.8%	26.0%	45.1%
TAIWAN TAIEX INDEX	9,240.71	-0.5%	0.8%	10.8%	1.9%	11.1%	0.6%	9.9%
KOSPI INDEX	1,983.48	-1.2%	-2.9%	1.1%	-2.5%	-0.4%	0.1%	-3.0%
STRAITS TIMES INDEX	2,905.17	3.2%	1.2%	0.8%	3.0%	1.7%	-13.3%	-8.5%
FTSE Bursa Malaysia KLCI	1,619.12	-3.2%	-2.0%	-4.3%	-3.5%	-3.2%	-11.1%	-10.7%
STOCK EXCH OF THAI INDEX	1,510.24	1.0%	1.8%	17.3%	-2.5%	11.1%	-5.2%	10.1%
JAKARTA COMPOSITE INDEX	5,148.91	-5.0%	-4.0%	12.1%	-4.4%	15.8%	0.0%	21.0%
PSEi - PHILIPPINE SE IDX	6,781.20	-8.4%	-11.1%	-2.5%	-12.9%	-2.1%	-7.0%	9.2%
HO CHI MINH STOCK INDEX	665.07	-1.6%	-3.0%	14.9%	-1.4%	16.0%	17.4%	31.0%
S&P/ASX 200 INDEX	5,440.47	2.3%	0.1%	2.7%	0.1%	5.3%	2.4%	2.3%
NZX 50 INDEX	6,896.95	-0.9%	-6.3%	9.1%	-6.8%	13.1%	27.1%	43.8%
MSCI World Free Local	432.53	2.4%	1.7%	4.0%	1.7%	1.6%	3.2%	14.4%
MSCI All Country Asia Ex Japan	656.25	-1.7%	-2.3%	5.3%	-1.3%	4.8%	-4.6%	0.7%
MSCI EM Latin America Local	73,102.57	-4.9%	2.1%	23.3%	1.8%	19.8%	3.1%	3.0%
MSCI Emerging Markets Europe M	466.87	-0.9%	-1.4%	4.1%	-2.7%	1.1%	-5.5%	-1.4%

Note: All data are as of 30th November 2016

Source: Bloomberg, compiled by SMAM

Investment Outlook: Asia-Pacific Stock Markets

Outlook for Asian Stock Markets

- ▣ We have changed our outlook for Asian equity markets to move sideways in the near term with high volatility due to increasing uncertainty after US presidential election.

Key Points

- ▣ Risk factor including rising US bond yields and weak emerging currencies are materialized due to the surprising result of US election.
- ▣ Although detailed policy of Mr. Trump is still not clear, his accommodative stance of fiscal stimulus can be a trigger of changing the direction of US bond yield upwards, which is negative for currencies in the emerging countries.
- ▣ Market volatility is likely to increase based on news flow and a risk appetite for emerging markets should be diminished in the near term.

Note: As of 29 November 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	- China economy seems to be stabilized in the near term. - Underlying economy remains weak, but tightening policy for property continues. - Attractive dividend yield. Room to pick up high quality names. - SZ-HK Stock connect starts from 5 Dec.	Stable More focus on Economy side.	×The pace of recovery is slower than expected. × Tightening policy for property continues. ↓	Potential pressure for HIBOR if financial Mkt become shaky by some external events. / Deflationary pressure by rising USD and weakening RMB.	CA surplus will expand towards 2017.	Stable	○ER has turned positive and momentum is bottomed. ↑ Very slow earnings recovery in 2017.	Fair on PER, attractive on PBR
China	- Tough challenge towards New Normal. - China economy seems to be stabilized by strong policy support. Sign of relief on positive PPI and increasing private investments. - Property market, NPL and capital outflows are potential concerns. - Political tension can be increased by the win of Mr. Trump.	Stable, but becomes less clear towards 19th Party Congress.	Stabilized by strong policy support. ↑ Gradual slowdown is expected. Structural rebalancing is a key challenge.	×Monetary policy should be maintained but it may be less effective. / Int. rate will stay sideways / PPI has turned positive.	Surplus- but it is declining The degree of capital outflow remains a big concern.	Gradual depreciation will continue, but it is well managed. The degree of RMB devaluation is a big issue across Asia.	○ Both ER and momentum are improving. ↑ Positive PPI is supportive for corporate earnings.	○Attractive in the long term, but it has come back to above average since 2010 Valuation discount is narrowed.
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. - Stable market. Relatively safe when market become volatile.	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 due to weak domestic consumption	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	- Structural re-rating will not happen soon. - Relatively immune from rising US bond yields. Weak KRW will support export. - Political uncertainty is increasing.	Less stable as President Park has lost credibility.	×Growth outlook is weakening by increasing political uncertainties.	○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 market. Relatively safe when market become volatile. - Weak economy will continue due to slowdown of Chinese economy. - Attractive valuation.	The landslide victory of PAP should create political stability.	×Slower economic growth is expected due to slowdown of Chinese economy.	○The MAS surprised by easing policy / SIBOR rate is stabilized ; Inflation is stable. / M2 growth rate is weakening.	High level of Trade & CA Surplus will continue.	Downward pressure due to easing policy by MAS / Likely to be appreciated if Mkt turns Risk-on mode.	×ER and momentum remain very weak.	Fair on PER, attractive on PBR
Malaysia	- Mounting uncertainty in both Politics and economy. - Investor's sentiment is improving due to recovery of crude oil price.	×IMDB continues to be a risk factor. Political turmoil is still there.	×Slow GDP growth will continue in 2017	Timing of rate cut is delayed due to weak MYR. ↓ / Inflation will mildly pick up. / M2 growth rate is bottomed out.	Surplus will continue due to recovery of crude oil price.	MYR continues to have downward pressure as US bond yield increases.	×ER and momentum remain very weak.	Fair (expensive on PER, but fair on PBR)
Thailand	- Economy is expected to bottom out. - Market is stable even under uncertainty of consumption by the King's death.	Military gov should continue at least until 2017. The king passed away.	Economy is expected to bottom out supported by fiscal stimulus. Downside risk due to worsening consumer sentiment.	Rate cut is expected in 4Q16 to support economy. / Inflation will be stable. M2 growth rate should remain low.	Surplus will continue.	THB continues to have downward pressure as US bond yield increases.	○ER is positive. / The strongest in Asia.	Rich on PER, fair on PBR,
Indonesia	- Solid economic growth supported by public investment. - IDR continues to have pressure by rising US bond yield. - Investor's sentiment is improving supported by tax amnesty law.	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 / Lower inflation due to lower gasoline price.	CA deficit will continue to increase but Tax amnesty law could help finance of C/A deficit.	IDR continues to have downward pressure as US bond yield increases.	×ER and momentum remain weak.	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.	President Duterte has become a wild card.	○Steady growth. Less impact by global economy.	× Possible rate hike in 2017 / Int. rate will be stable. / some pressure for inflation.	Trade deficit will shrink. Current a/c surplus will expand.	PHP continues to have downward pressure as US bond yield increases.	ER is weakening again but momentum is still solid.	Expensive on PER, fair on PBR
India	- Solid macro economy. Inflation is stabilized. - Consensus OW market. Negative impact can be expected when emerging money outflow continues. - Relatively immune from the situation of global economy.	Potential of economic reform continues BJP is gaining momentum.	○High Growth rate will continue driven by domestic consumption.	○Wait and see stance for further rate cut / Inflationary pressure peaked out.	× Trade / CA deficit will gradually increase.	INR continues to have downward pressure as US bond yield increases.	×ER is weakening again, but momentum is improving.	Fair (Expensive on PER, but fair on PBR)
Australia	Expect mild up-trend market, backed by improving domestic consumption and corporate earnings.	Stable	Mild recovery	Rate cut is expected /Inflation stays lower than the target range.	Deficit, but it is improving	Downward bias	ER is weak but it is improving.	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): India – Overweight continued

【Summary】

India's macro economy is solid including inflation environment. We maintain an Overweight stance but cut the active weight once on concerns over lingering negative impacts by US money outflow triggered by Donald Trump's US election victory.

- Recent replacement of high value notes provided a short-lived shock. However, the measure would be a correct measure for elimination of corruption and tax evasion.
- Macro economy is almost stable and expected to accelerate toward the next year.
- Dr. Urjit R. Patel, assumed charge as a new governor of the Reserve Bank of India, would follow policy stance of the previous governor. Thus, the current monetary policy stance such as interest rate cut would be maintained and major troubles relating to this change have not occurred so far.
- India is less sensitive to the global economy than other Asian countries. Accordingly, the Indian economy would benefit less from a recovery of the global economy.
- **The Indian equity market has enjoyed consensus BUY due to its good macro fundamentals. However, we cut active weight as emerging markets are expected to face headwinds in the near term.**

Note: Compiled by SMAM as of 28 November 2016

Market Focus (ii): Philippines – Neutral continued

【Summary】

After powerful President Rodrigo Duterte was newly elected, the slow progress of PPP draw attention. However, his strong words have put the Philippine peso at risk to plunge. **We expect the relatively weak stock market on currency risk as well as inflation risk in 2017.**

▣The economy is relatively stable due to the economic structure, with low dependency on export. Oversea Filipino Worker (OFW) remittance, which is stably expanding, is also extremely significant for the economy. Domestic demands are expected to achieve stable growth toward the next year.

▣Inflation, which is deemed as negative factor, has already peaked out this year and is seen to stabilize due to lower oil prices. **Yet, there is a possibility that rate hike expectation might be reignited in 2017 by the central bank on worries over resurgence in CPI.**

▣From a historical perspective, the stronger USD is relatively positive to Philippines' equity market. **Impacts by new President-elect Donald Trump's policies would be a risk factor.**

▣The ability of the Philippines' new President is still unknown. However, his leadership would be strong, judging from the past experience as the former mayor of Davao City. A big change in economic aspect seems to be an unlikely scenario.

▣**Philippine peso sank as foreign investors reacted negatively to the new President's aggressive comments and diplomatic ability. Weaker peso would be a risk factor to reduce premium in equities.**

▣Selective stock selection focused on relatively firm company earnings will work. We maintain a bullish stance. Comparing the historical average, the current valuation level is overvalued in terms of P/E.

Note: Compiled by SMAM as of 26 November 2016

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