



Asian Macro & Market Outlook

SMAM monthly comments & views

January 2016



Sumitomo Mitsui Asset Management

Executive summary

◆ Asian Economy

In China, domestic demands for investments are stabilizing underpinned by infrastructure investments although the property investments keep decelerating. In the mid-term, the current public investment growth, around 20%, seems to be unsustainable considering limitation of fiscal revenue. If property correction makes a soft-landing, the government is highly likely to shift its focus from public investment to state-owned company reform. Thus, we expect the economic growth to slow down gradually towards 5% dragged by decreased investments.

Asian economies are stabilizing thanks to measures such as monetary easing in spite of China's slowdown. After US rate hike, the stance for monetary policy varies by country. For 2016, we slightly raised real GDP growth forecasts and revised down inflation forecasts in several Asian countries due to downward revision of oil price projection.

◆ Asian Stock Markets

We expect mild upside for the market given gradual recovery of the global macro economy, accommodative monetary policy and relatively low valuation.

- ✓ Macro economies in most of Asian countries remain weak and likely to show gradual recovery towards next year. 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 2015, we slightly downgraded to +6.9%.
- We raised Singapore's real GDP growth forecasts for 2015 and 2016 to +2.0% and +1.8%.
- We cut India's real GDP growth projection for 2015 to +7.5% but raised that for 2016 to +8.0%.
- For Hong Kong and Malaysia, we maintained the real GDP growth estimates both for 2015 and 2016.

Real GDP Growth Forecasts (%YoY)

Country	2013 (A)**	2014 (A)	2015 (F)**			2016 (F)		
			SMAM	Previous Nov 16th	Consensus	SMAM	Previous Nov 16th	Consensus
Australia	2.1	2.7	2.3	2.2	2.3	2.4	2.4	2.6
China	7.7	7.3	6.9	7.0	6.9	6.6	6.6	6.5
Hong Kong	2.9	2.3	2.4	2.4	2.4	2.0	2.0	2.0
India*	5.1	7.3	7.5	7.6	7.4	8.0	7.9	7.8
Indonesia	5.8	5.0	4.7	4.7	4.7	4.8	4.7	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	5.6	5.6	5.9	5.9	5.8
Singapore	3.9	2.9	2.0	1.8	1.9	1.8	1.5	2.1
S. Korea	3.0	3.3	2.5	2.5	2.6	2.5	2.4	2.8
Taiwan	2.2	3.7	0.8	0.7	1.0	1.0	1.0	2.1
Thailand	2.9	0.9	2.8	2.7	2.7	2.9	2.7	3.1

(Source) SMAM

Consensus Forecasts (Consensus Economics Inc.) as of 16 November 2015 & SMAM Forecasts as of 17 December 2015

* India is for fiscal year starting April.

**F: Forecast, A: Actual

Outlook for Economy in China

SMAM Economic Outlook for China

China's Yearly GDP Growth & Relevant Indicators

	2013	2014	2015E		2016E	
			(previous)	(previous)	(previous)	(previous)
Real GDP, %YoY	7.7	7.3	6.9	7.0	6.6	6.6
Consumption Expenditure, %YoY	7.4	7.5	8.0	7.9	7.3	7.3
Gross Fixed Capital Investment, %YoY	8.9	7.1	6.6	6.6	6.5	6.5
Net Exports, contrib.	-0.2	0.1	-0.2	-0.2	-0.2	-0.2
Nominal GDP, %YoY	9.5	8.2	6.9	7.0	7.6	7.6
GDP Deflator, %YoY	1.7	0.8	0.0	0.0	1.0	1.0
Ind. Production, %YoY	9.7	8.3	5.9	5.9	6.1	6.1
CPI, %YoY	2.6	2.0	1.4	1.5	2.1	2.5
Base Loan Rate, %	6.00	5.60	4.35	4.35	4.10	4.10

Notes: SMAM estimates as of 17 December 2015. For Net Exports, % point contribution to GDP growth
Source: National Bureau of Statistics of China, CEIC, SMAM

China's Quarterly GDP Growth and Components

	2014		2015E				2016E			
	3Q	4Q	1Q	2Q	3Q	4QE	1QE	2QE	3QE	4QE
Real GDP, %YoY	7.2	7.2	7.0	7.0	6.9	6.9	6.5	6.5	6.7	6.6
previous	-	-	-	-	6.9	7.0	6.6	6.5	6.7	6.6
SMAM's Original Real GDP Forecast, %YoY*	6.6	6.8	6.1	6.5	5.9	5.9	5.7	5.5	5.9	5.9
previous	6.6	6.9	6.3	6.3	5.9	5.9	5.8	5.5	5.9	5.9
Consumption Expenditure, %YoY	6.0	8.8	6.9	9.1	8.4	8.0	7.5	6.8	6.5	8.3
previous	-	-	-	9.1	8.4	7.8	7.3	6.8	6.5	8.3
cont. to GDP, %	2.7	4.3	4.5	3.9	3.7	4.0	4.9	3.0	2.9	4.2
previous	-	-	-	3.9	3.7	3.8	4.8	3.0	2.9	4.1
Gross Fixed Capital Investment, %YoY	3.7	9.5	3.5	6.6	8.0	7.1	6.2	6.6	7.1	6.0
previous	-	-	-	6.6	8.0	7.1	6.2	6.6	7.1	6.0
cont. to GDP, %	1.9	4.5	1.2	3.6	4.0	3.5	2.1	3.6	3.6	2.9
previous	-	-	-	3.6	4.0	3.5	2.1	3.6	3.6	2.9
Net Exports	12.3	7.9	5.7	-1.1	-4.9	-5.5	-4.0	0.0	3.0	3.0
cont. to GDP, %	2.6	-1.6	1.3	-0.6	-0.9	-0.5	-0.5	-0.1	0.2	-0.5
previous	-	-	-	-0.6	-0.9	-0.3	-0.2	-0.1	0.2	-0.5
CPI, %	2.0	1.5	1.2	1.4	1.7	1.5	1.9	2.2	2.1	2.1
previous	-	-	-	-	-	1.6	2.3	2.6	2.5	2.5
Base Loan Rate										
1yr, period end	6.00	5.60	5.35	4.85	4.60	4.35	4.10	4.10	4.10	4.10
previous	-	-	-	4.85	4.60	4.35	4.10	4.10	4.10	4.10

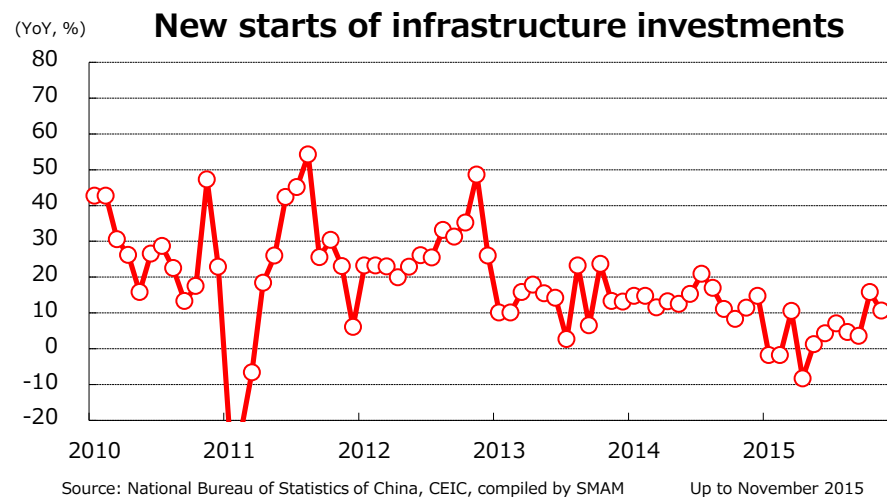
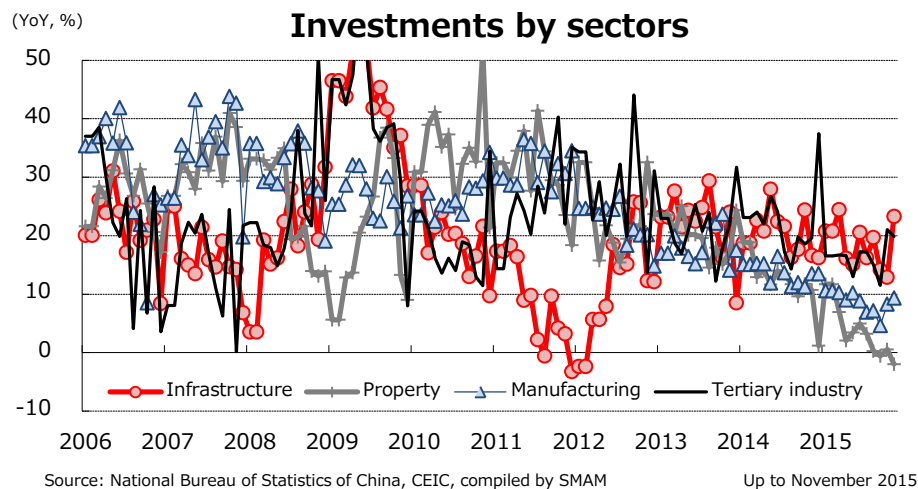
Notes: SMAM estimates as of 17 December 2015. Consumption Expenditure and Gross Fixed Capital Investment are SMAM estimates

* 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

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

China: Improved infrastructure investment but weak property

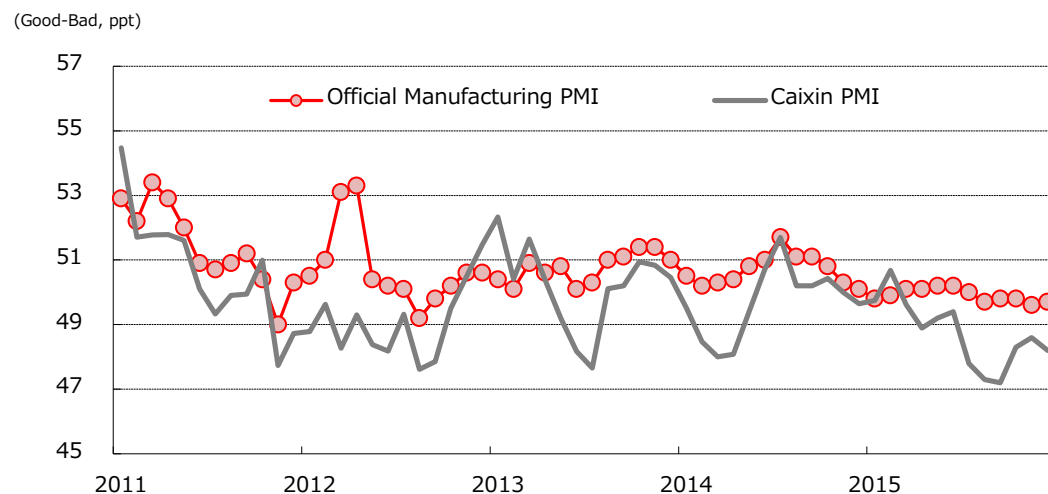
- November Fixed Asset Investment (FAI) rose to +10.2% YoY from +9.5% YoY in October on strong growth in infrastructure investment (November: +23.3% YoY, October: +12.9% YoY). Yet, we do not see a possibility for further acceleration of infrastructure investment for a short period for the following reasons. Firstly, new starts of infrastructure investments decreased (November: +10.6% YoY, October: +15.8% YoY). Secondly, China's monetary data show limited credit expansion by China's public banks.
- Property investment faced a further slowdown. New floor space remained in negative growth in October (-24.5% YoY) and November (-20.9% YoY) as we expected, because developers had little stocks of Tier1-2 lands. In early 2016, we expect demands for investments would decrease slightly on limited room for infrastructure investment and more slowing property investment.



China: PMI

- December official manufacturing PMI came in at 49.7, below the market estimate of 49.8 but a slight rise from 49.6 in November. The recovery was led by improvements in new orders (Dec: 50.2, Nov: 49.8) and production (Dec: 52.2, Nov: 51.9).
- Disappointing December Caixin manufacturing was released at 48.2, remaining under 50 for the 10th consecutive month. Looking at the breakdown, new orders, production, employment and raw material inventory declined. New export orders deteriorated to 47.8 from 51.6 in November on a decline in export production as a result of sluggish domestic demands in addition to weak export market.

China Manufacturing PMI



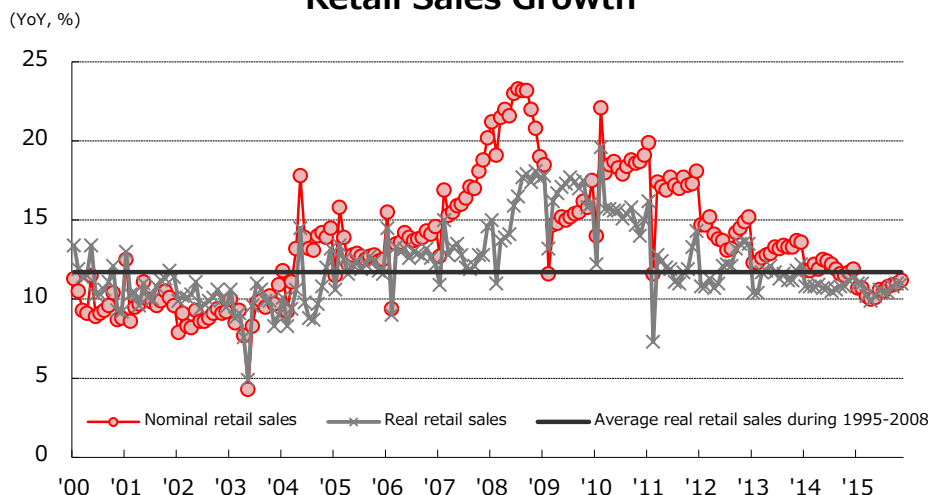
Source: National Bureau of Statistics of China, China Federation of Logistics & Purchasing, CEIC, compiled by SMAM

Up to December 2015

China: Pickup in Consumption

- November nominal retail sales growth marginally rose to +11.2% YoY from +11.0% in October, and November real retail sales growth stayed flat at +11.0% YoY. The pickup was led by auto sales, rising sharply to +23.7% YoY in November thanks to tax reduction.
- As shown by robust Singles' Day sales, private consumption remained stable. Food and clothing make up a substantial proportion of consumption in China in the mid-term. We maintain a view the quantity and quality of consumption would increase with rising income.
- November Auto sales rebounded to +23.7% YoY on tax reduction for passenger-vehicle purchases.

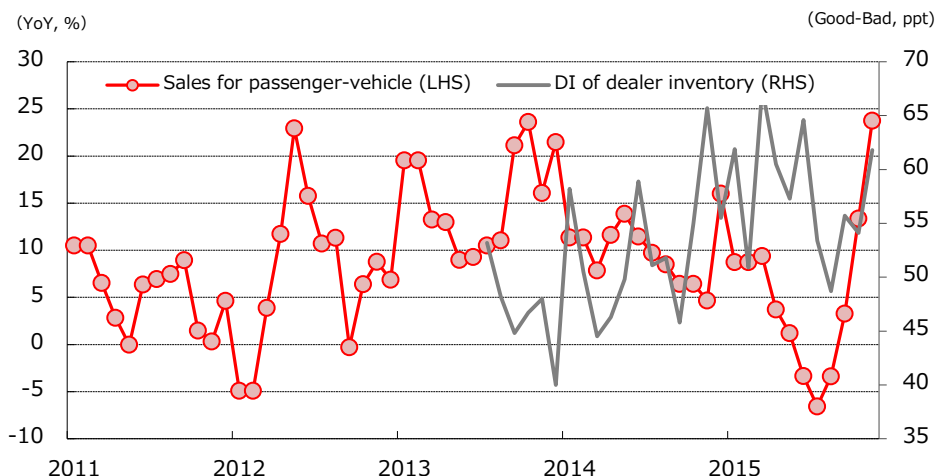
Retail Sales Growth



Note: Real retail sales growth was calculated by nominal retail sales growth - retail price index growth until 2011. Since 2012, National Bureau of Statistics of China has release the data.
 Source: National Bureau of Statistics of China, CEIC, compiled by SMAM

Up to November 2015

Auto Sales Growth



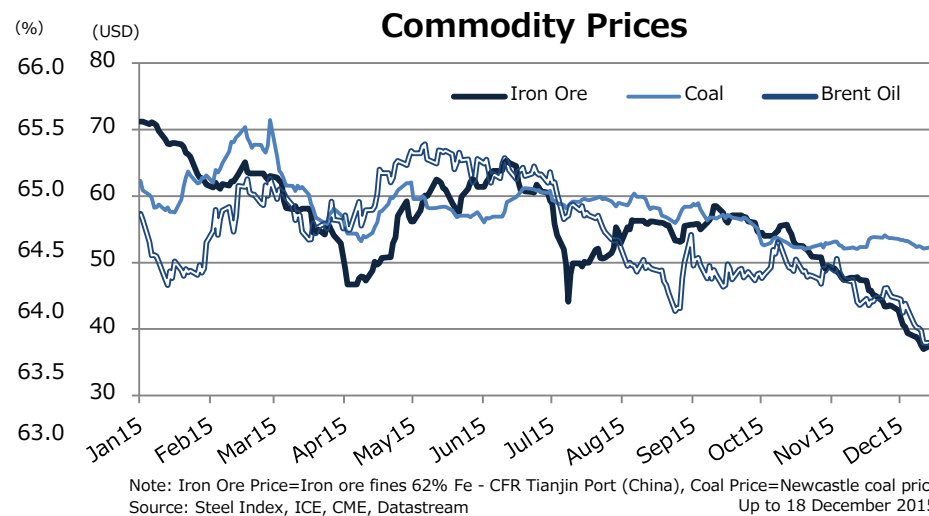
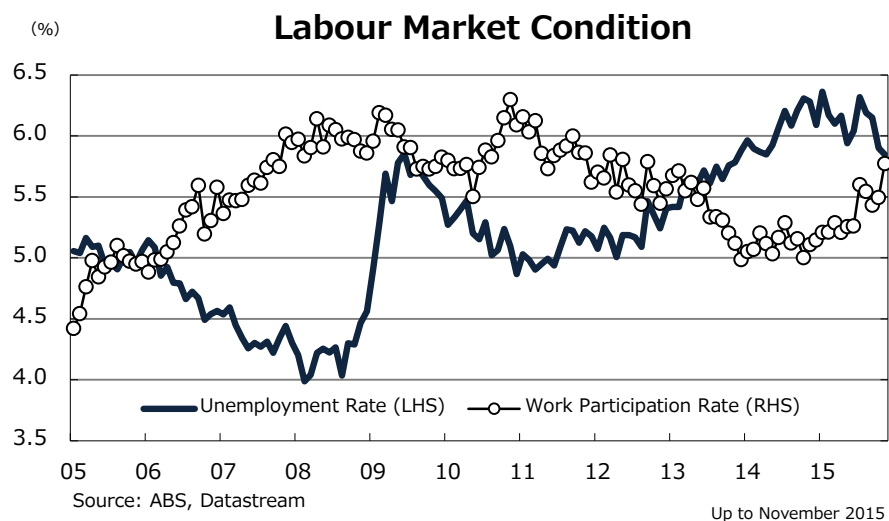
Source: China Association of Automobile Manufacturers, China Passenger Car Association, CEIC, compiled by SMAM

Up to November 2015

Outlook for Economies in Asia

Australia

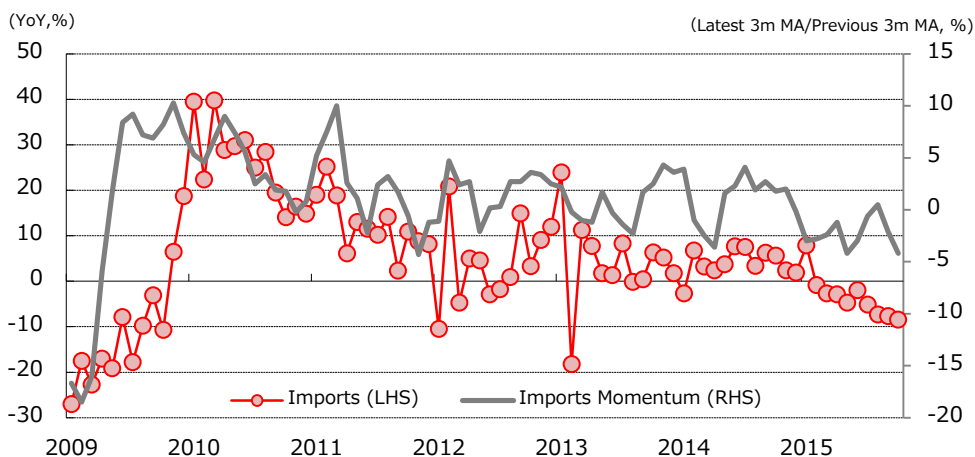
- We marginally revised up the GDP growth forecast for 2015 to +2.3% YoY on improved Jul-Sep GDP growth, and maintain that for 2016 at +2.4% YoY.
- We maintain our view the GDP growth is on a path of a gradual recovery at just under cruising speed until mid-2016. Later in 2016, the economic growth would accelerate moderately on the back of bottoming out of China's property market, commodity prices and capex in non-mining sectors.
- The job market condition shows a steady improvement. November work participation rate gained 0.3% to 65.3% and unemployment rate also improved to 5.8% from 5.9%.
- We stay with our expectation that RBA holds cash rate until end-2016. The current business condition and labour market are improving. Yet, rate cut risk remains due to lowering inflation rate by ongoing oil price fall.



Hong Kong

- The market consensus of the GDP forecast for 2016 was revised down to +2.0% YoY while we maintain the GDP forecasts at +2.4% YoY for 2015 and at +2.0% YoY for 2016. Regarding 2016, we maintain our view that service sector in Hong Kong hardly recover for the time being due to shrinking global trading volume, declining amount of external lending by the financial sector and a drop in number of tourists from mainland.
- Current momentum turned to decline with less improvement in monthly indicators. Imports and exports in the preceding three months on a seasonally adjusted basis showed falls.
- The growth of tourist numbers from mainland, remaining negative, has caused a sense of stagnation in domestic consumption expansion.

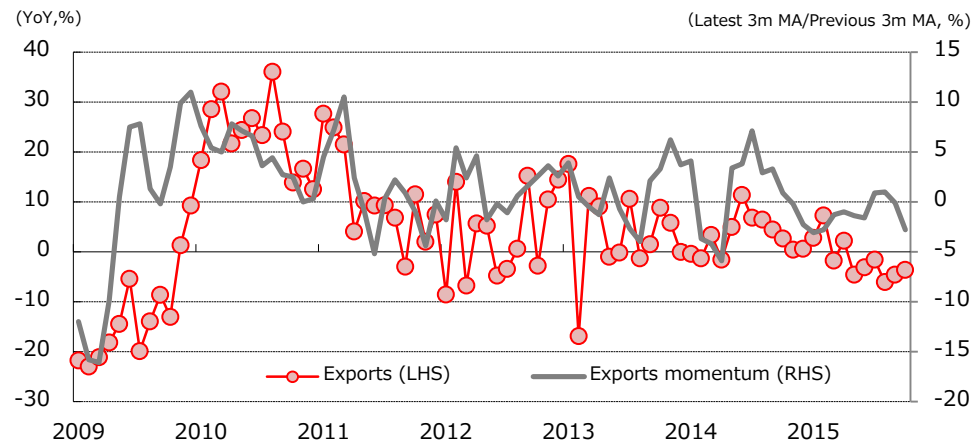
Imports and Imports Momentum



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

Up to October 2015

Exports and Exports Momentum



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

Up to October 2015

India

- Jul-Sep account deficit came in at USD 8.2bn (1.6% of GDP), deteriorating from the previous quarter of USD 6.1bn (+1.2% of GDP). The Jul-Sep services trade surplus slightly improved to +3.6% of GDP from +3.4% of GDP in Apr-Jun supported by IT sector, whereas Jul-Sep trade deficit expanded to +7.4% of GDP from +6.7% of GDP in Apr-Jun.
- November CPI rose to +5.4% YoY from +5.0% YoY in October, slightly higher than market outlook of +5.3% YoY. Looking at a decline in onion prices, food inflation risk seems to be limited. However, we have revised up CPI inflation outlook for 2016 on expectation for increasing personnel cost of civil servants followed by advice of the 7th Pay Commission.
- We also marginally raised the GDP growth forecast for 2016 to +8.0%. India is less vulnerable to global economic cycle and seems to have started a positive trend toward economic recovery led by domestic demands in a low inflation environment. Toward 2016-2017, we expect the GDP growth to accelerate.

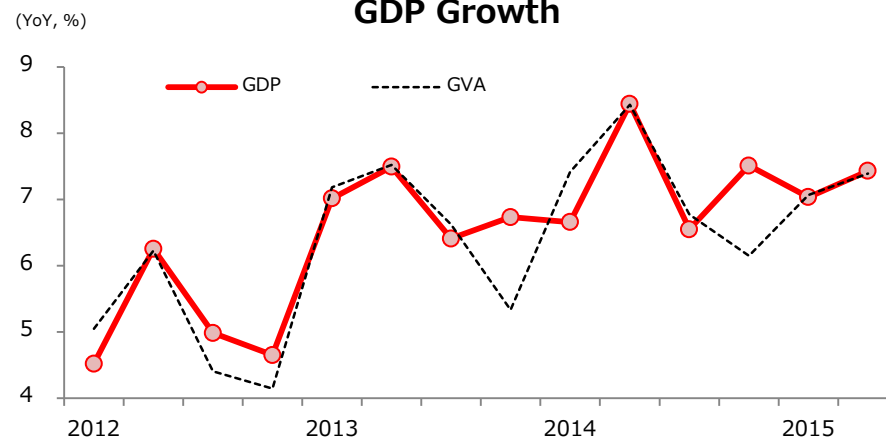
CPI Inflation

	CPI Inflation	Food & Beverages	Vegetables	Pulses	CPI Inflation	Food & Beverages	Vegetables	Pulses
	YoY	Weight	Weight	Weight	MoM	Weight	Weight	Weight
Jul-14	7.4	4.1	1.0	0.1	2.14	1.69	1.32	0.02
Aug-14	7.0	4.1	0.9	0.2	0.92	0.73	0.53	0.03
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
Jul-15	3.7	1.3	-0.6	0.5	0.49	0.34	0.29	0.03
Aug-15	3.7	1.4	-0.5	0.6	0.97	0.78	0.61	0.09
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	-0.09	0.11

Source: CEIC, SMAM

Up to November 2015

GDP Growth



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

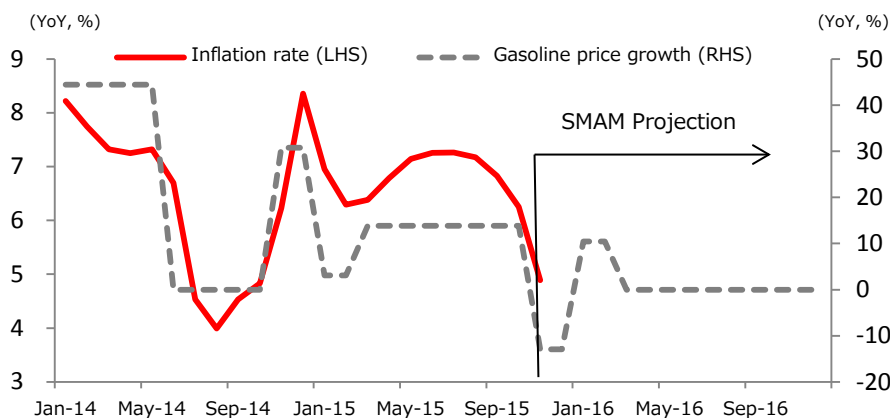
Source: CEIC, SMAM

Up to September 2015

Indonesia

- As expected, Bank Indonesia (BI) decided to keep its policy rate unchanged at 7.50% at the December meeting and to watch market effects by US rate hike. BI also commented that rooms for easing remained open. We maintain our view that BI would move to a rate cut as early as 1Q2016, if the financial market, especially the currency IDR, is under a stable condition.
- We revised up the real GDP growth forecast for 2016 to +4.8% YoY on expectation for lower inflation. As the government has shown its intent to lower gasoline price (octane 88) in January 2016, we highlight downside risk to inflation in 2016.
- November trade balance (USD -0.3bn) was below market consensus (USD 0.9bn) and BI's estimate due to weak recovery in exports. November imports also improved to -18.0% YoY from -27.5% YoY in October whereas exports rose to -17.6% YoY.

Inflation and Gasoline Price

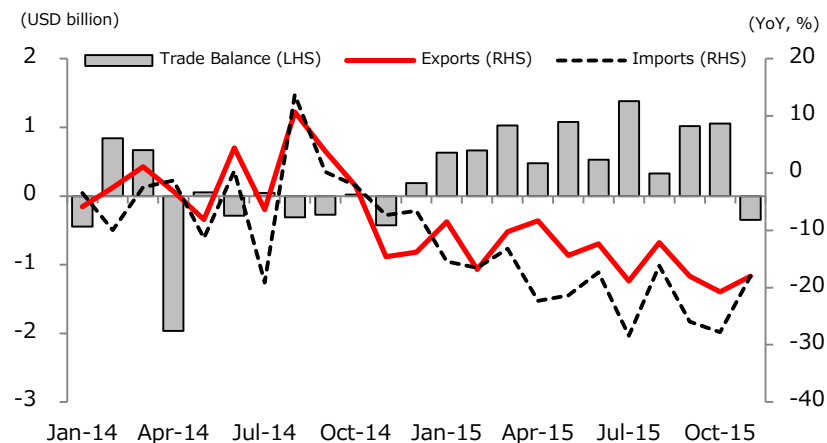


Note: 88 RON gasoline is "Premium" gasoline in Indonesia. Subsidy for gasoline was removed on 1 Jan 2015. In Nov 2014, the subsidized fuel price was raised by 31%.

Source: CEIC, SMAM

Up to December 2015

Trade Balance

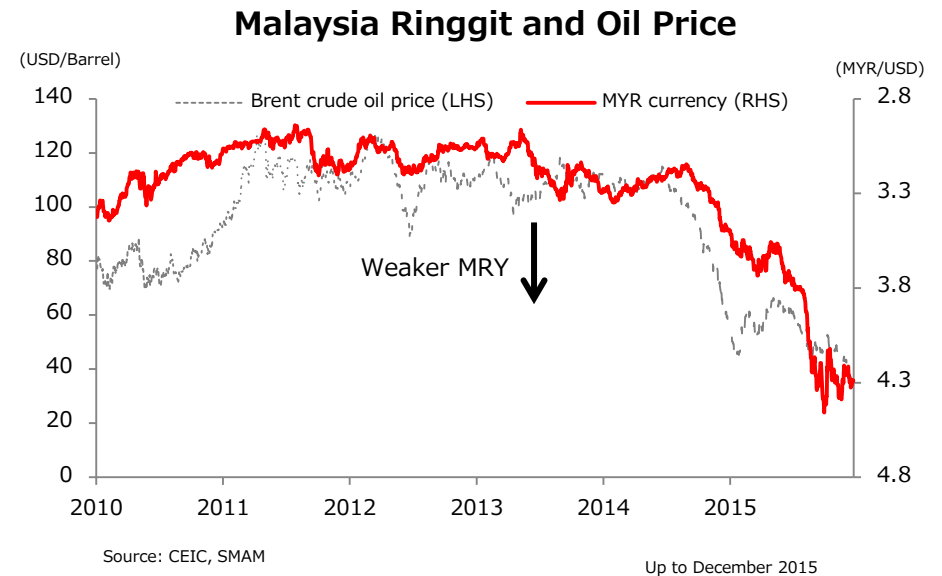
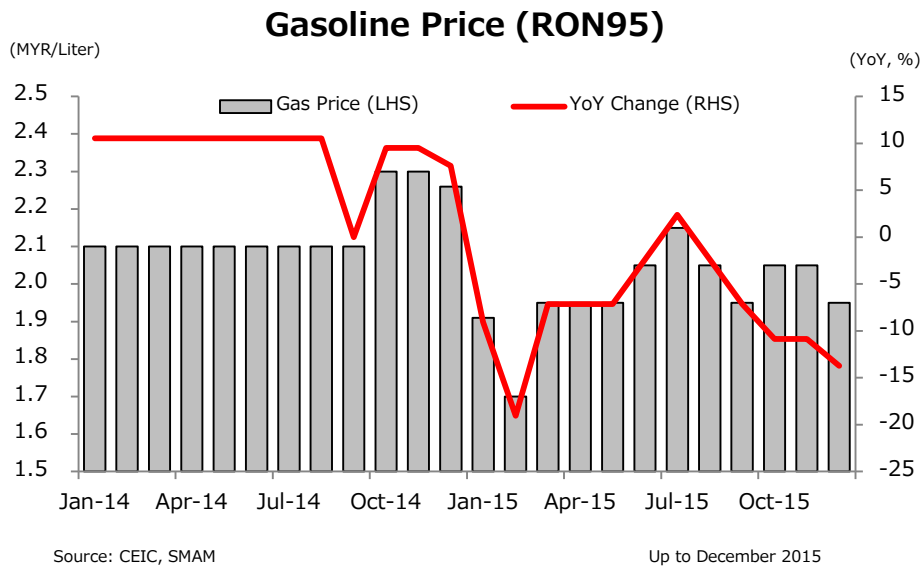


Source: CEIC, SMAM

Up to November 2015

Malaysia

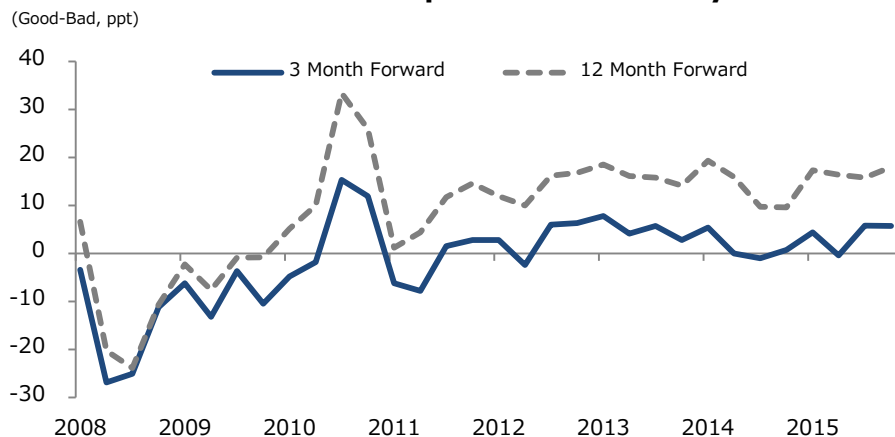
- We hold the GDP growth forecast for 2016 at +4.5% YoY, whereas the market consensus is down to +4.4% YoY from +4.6% YoY. The weakening Malaysia Ringgit (MYR) has contributed to export competitiveness except for primary products but slowing Chinese economy still weighs on Malaysia's export.
- Lower oil prices have negative impacts to the economy in Malaysia, a net exporter of crude oil. However, a decline in oil prices contributed to lower gasoline prices, which improve consumer sentiment for domestic consumption. We cut CPI forecast for 2016 to +2.8 % YoY whereas November CPI accelerated to +2.6% YoY on rising tobacco prices.



Philippines

- We maintain the GDP growth forecast for 2016 at 5.9% YoY and our view that Philippines's economy would recover led by domestic consumption.
- Bangko Sentral ng Pilipinas (BSP) kept its policy rate unchanged at 4.00%, in line with market expectation. CPI forecasts by BSP were set at +1.4% YoY, +2.4% YoY and +3.2% YoY for 2015, 2016 and 2017 respectively, below the bank's target range. November CPI accelerated caused by higher agricultural prices as BSP pointed out that rising food prices due to bad weather and electricity price hike could be inflation risks. However, prior to the presidential and general elections of 2016, we expect an increase in electricity prices to be postponed.

Consumer Expectations Survey



Source: CEIC, SMAM

Up to December 2015

CPI Inflation

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

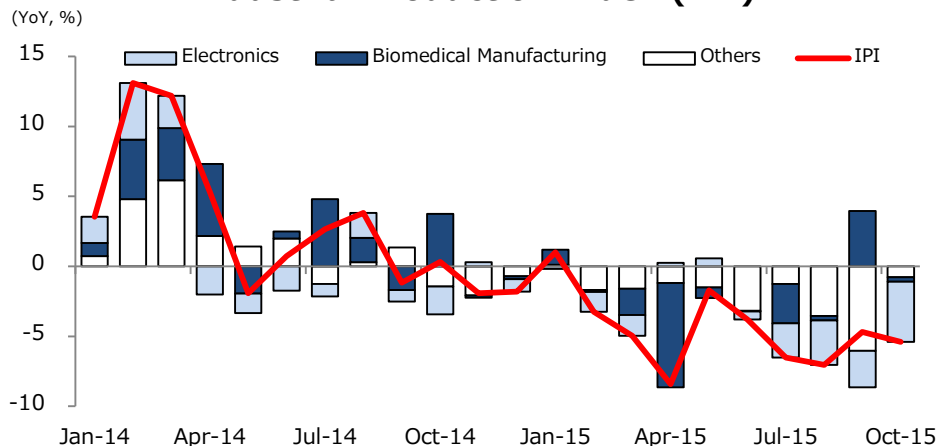
Source: CEIC, SMAM

Up to November 2015

Singapore

- The advance estimate of Oct-Dec GDP came in at +5.7% QoQ on a seasonally-adjusted basis. As a result, the real GDP growth for the whole of 2015 ended in at +2.1% YoY led by services producing industries. Yet, the manufacturing sector remained negative at -3.1% QoQ.
- Singapore economy is sensitive to economies in other Asian countries. We revised up the real GDP growth forecast for 2016 to +1.8% YoY along with upward revisions of surrounding countries' GDP forecasts. Additionally, as shown by the strong GDP growth, the current economy is firm.
- However, we maintain our view that Singapore's economic growth should decelerate in 2016 due to slowing Chinese economy. In addition, weakening Malaysian economy, an important trading partner, would be a downward pressure for exports.

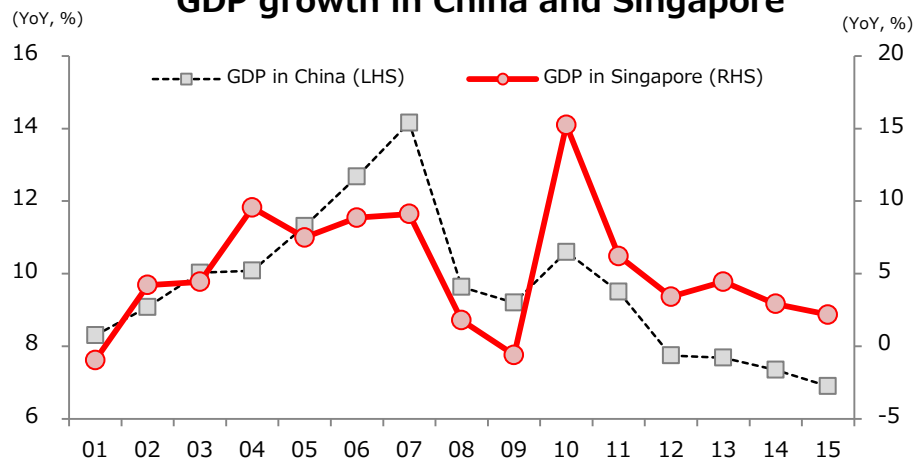
Industrial Production Index (IPI)



Source: CEIC, SMAM

Up to October 2015

GDP growth in China and Singapore



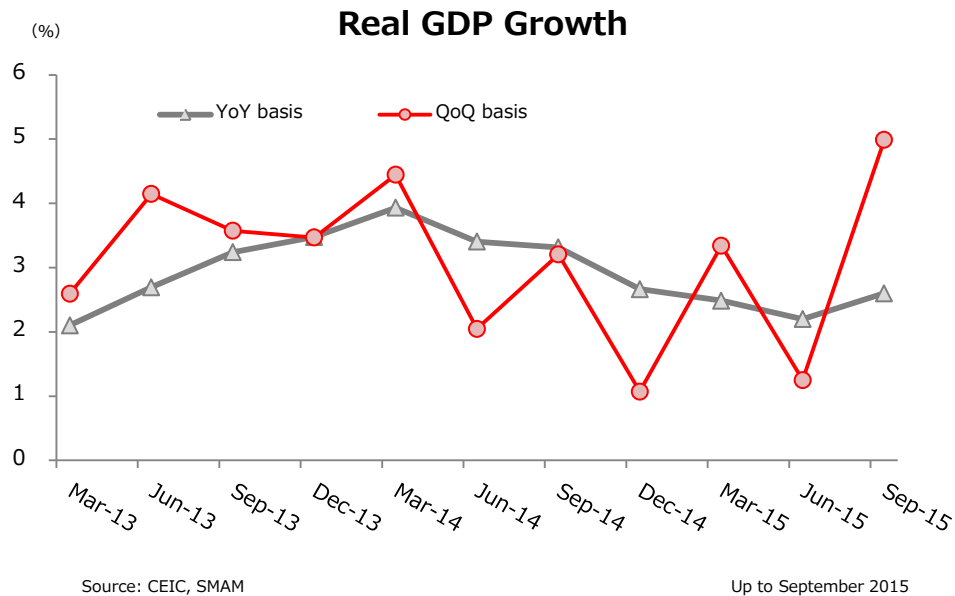
Note: Historical data on an annual basis. The latest real GDP is as of 3Q2015.

Source: CEIC, SMAM

Up to 2015

South Korea

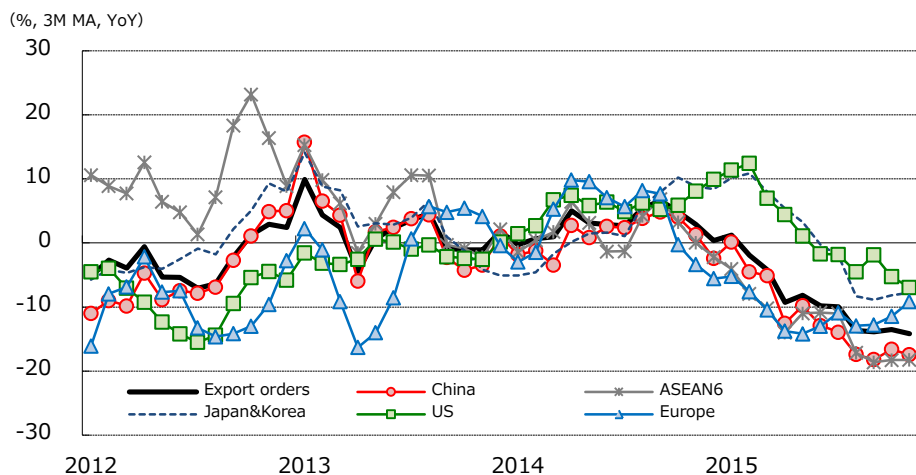
- We slightly revised up GDP growth forecast for 2016 to 2.5% YoY on a rebound of domestic demand due to lower inflation. However, the improved consumption would be offset by the negative factor, the government's regulation on mortgage which will be imposed in 1Q2016.
- The government announced nominal GDP growth forecast for 2015 and 2016 at +5.0% YoY and +4.5% YoY although nominal GDP growth target was set at +5%. A release of the lower nominal GDP growth outlook should give pressure for monetary easing to Bank of Korea.
- In addition, expectation for additional rate cut would mount in the Monetary Policy Committee in March prior to the general election on 13th April.



Taiwan

- We raised the GDP growth forecast for 2015 to +0.8% YoY as adjusted Jul-Sep GDP growth was revised upwardly to -0.6% YoY from -1.0% YoY. In the first half of 2016, we forecast a marginally positive growth, just over 0%, and the growth in the second half would improve to nearly 2.0% YoY. This scenario is based on the expected acceleration in Chinese economy after the mid-2016.
- Exports remain stable on YoY basis, but at the bottom level. The pace of recovery in production, which is at the inventory adjustment phase, was slower than that in exports. November consumer sentiment confidence index was still weak at 84.2 point due to sluggish prospect for stock market and consumption on Durable Goods.

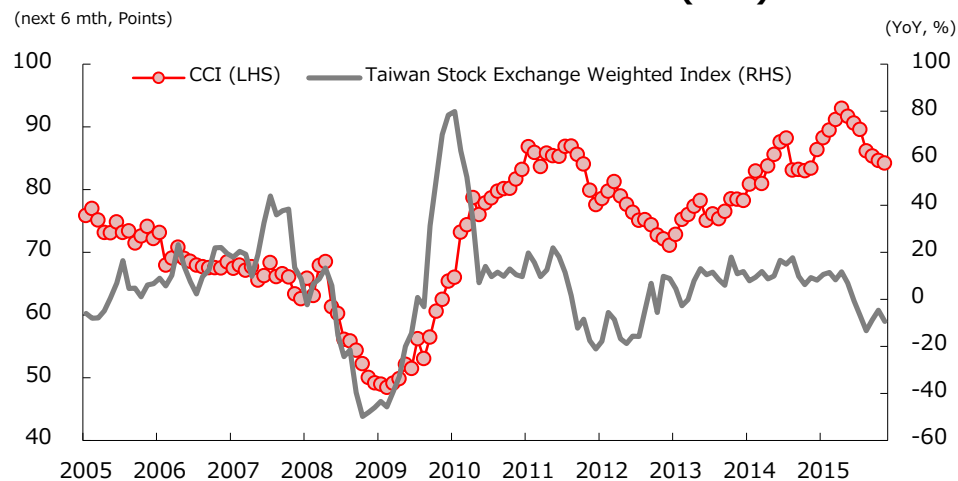
Export Orders by Regions



Source: Ministry of Economic Affairs, CEIC, SMAM

Up to November 2015

Consumer Confidence Index (CCI)



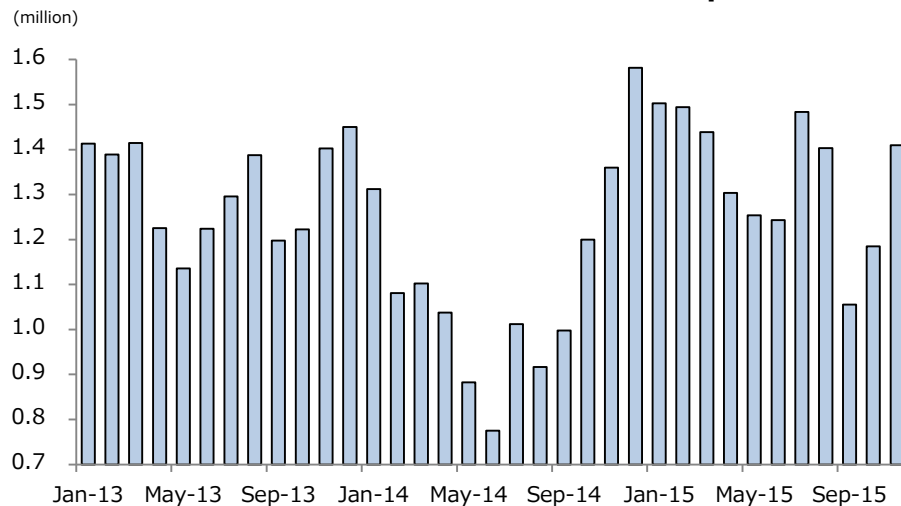
Source: Taiwan Research Institute, Taiwan Stock Exchange, CEIC, SMAM

Up to November 2015

Thailand

- We revised up the GDP growth forecast for 2016 on expectation for low inflation. Oil prices remaining at a low level would support domestic demands. Moreover, we foresee Deputy PM Somkid is a positive factor. His strong leadership led to speed up disbursements of public investment, which would contribute to local economies.
- Indicators showed two positive signs: increases in number of tourists from abroad and in auto sales. The number of inbound tourists recovered to 1.49mn in November after a sharp decline to 1.06mn in September caused by the bomb attack in Bangkok on 17th August. Looking at breakdown of car sales, commercial cars finally achieved a positive growth in November. The pick-up of commercial cars would suggest that local economy bottomed out.

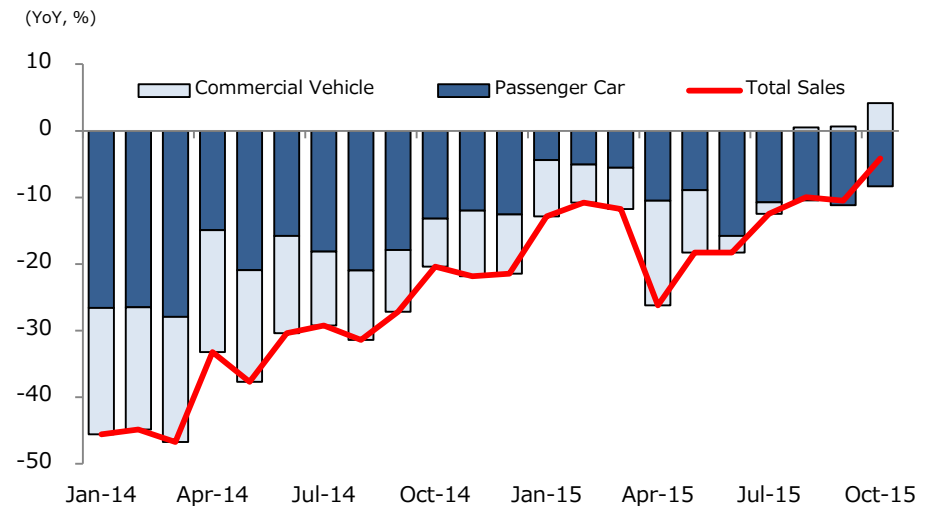
Number of Overseas Passengers to Suvarnabhumi International Airport



Source: CEIC, SMAM

Up to November 2015

Number of Auto Sales



Source: CEIC, SMAM

Up to October 2015

Outlook for Asian Stock Markets

Stock Market Performance - Global

Indices as of 31 Dec 2015	Px Last	Mtd	Qtd	Ytd	3m	1yr	2yr	3yr
S&P 500 INDEX	2,043.94	-1.8%	6.5%	-0.7%	6.5%	-0.7%	10.6%	43.3%
DOW JONES INDUS. AVG	17,425.03	-1.7%	7.0%	-2.2%	7.0%	-2.2%	5.1%	33.0%
NASDAQ COMPOSITE INDEX	5,007.41	-2.0%	8.4%	5.7%	8.4%	5.7%	19.9%	65.8%
STOXX Europe 50 € Pr	3,100.26	-5.7%	4.1%	3.2%	4.1%	3.2%	6.2%	20.3%
NIKKEI 225	19,033.71	-3.6%	9.5%	9.1%	9.5%	9.1%	16.8%	83.1%
TOPIX	1,547.30	-2.1%	9.6%	9.9%	9.6%	9.9%	18.8%	80.0%
BRAZIL BOVESPA INDEX	43,349.96	-3.9%	-3.8%	-13.3%	-3.8%	-13.3%	-15.8%	-28.9%
RUSSIAN RTS INDEX \$	757.04	-10.6%	-4.1%	-4.3%	-4.1%	-4.3%	-47.5%	-50.4%
BSE SENSEX 30 INDEX	26,117.54	-0.1%	-0.1%	-5.0%	-0.1%	-5.0%	23.4%	34.4%
HANG SENG INDEX	21,914.40	-0.4%	5.1%	-7.2%	5.1%	-7.2%	-6.0%	-3.3%
HANG SENG CHINA AFF.CRP	4,052.12	0.1%	3.9%	-6.8%	3.9%	-6.8%	-11.0%	-10.6%
HANG SENG CHINA ENT INDX	9,661.03	-1.3%	2.7%	-19.4%	2.7%	-19.4%	-10.7%	-15.5%
CSI 300 INDEX	3,731.01	4.6%	16.5%	5.6%	16.5%	5.6%	60.1%	47.9%
TAIWAN TAIEX INDEX	8,338.06	0.2%	1.9%	-10.4%	1.9%	-10.4%	-3.2%	8.3%
KOSPI INDEX	1,961.31	-1.5%	-0.1%	2.4%	-0.1%	2.4%	-2.5%	-1.8%
STRAITS TIMES INDEX	2,882.73	0.9%	3.3%	-14.3%	3.3%	-14.3%	-9.0%	-9.0%
FTSE Bursa Malaysia KLCI	1,692.51	1.2%	4.4%	-3.9%	4.4%	-3.9%	-9.3%	0.2%
STOCK EXCH OF THAI INDEX	1,288.02	-5.3%	-4.5%	-14.0%	-4.5%	-14.0%	-0.8%	-7.5%
JAKARTA COMPOSITE INDEX	4,593.01	3.3%	8.7%	-12.1%	8.7%	-12.1%	7.5%	6.4%
PSEi - PHILIPPINE SE IDX	6,952.08	0.4%	0.8%	-3.9%	0.8%	-3.9%	18.0%	19.6%
HO CHI MINH STOCK INDEX	579.03	1.0%	2.9%	6.1%	2.9%	6.1%	14.7%	40.0%
S&P/ASX 200 INDEX	5,295.90	2.5%	5.5%	-2.1%	5.5%	-2.1%	-1.1%	13.9%
NZX 50 INDEX	6,324.26	3.7%	13.1%	13.6%	13.1%	13.6%	33.5%	55.5%
MSCI World Free Local	415.90	-2.3%	5.8%	0.2%	5.8%	0.2%	7.9%	36.2%
MSCI All Country Asia Ex Japan	623.47	-0.4%	3.0%	-7.8%	3.0%	-7.8%	-3.4%	-0.1%
MSCI EM Latin America Local	59,271.00	-2.9%	-2.8%	-11.3%	-2.8%	-11.3%	-14.6%	-20.7%
MSCI Emerging Markets Europe M	448.64	-2.9%	-1.9%	-5.4%	-1.9%	-5.4%	-5.5%	-1.8%

Note: All data are as of 31 December 2015

Compiled by SMAM based on Bloomberg

Outlook for Global Markets

- ▣ We expect mild upside for the market given gradual recovery of the global macro economy, accommodative monetary policy and relatively low valuation.

Outlook for Asia Pacific Region

- ▣ Macro economies in most of Asian countries remain weak and likely to show gradual recovery towards next year. 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 December 2015

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 slightly eased. - Relatively stable in terms of currency and corporate fundamentals.	Stable More focus on Economy side.	X The pace of recovery is slower than expected. ○ Tightening policy for property is behind us.	Int. rate remain super low. / Inflation will be moderate.	Trade deficit narrows, CA surplus stays at this level.	Stable	xRevision is weak.	○ attractive
China	- Tough challenge towards New Normal. - Strong Policy support can be expected. - Outlook for corporate earnings is still weak.	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 The degree of capital outflow is a big concern.	Downward bias.	xRevision is still weak, but its momentum is easing.	○ attractive
Taiwan	- Slower economic growth due to weak export. - Inventory correction on IT is close to end. - Attractive valuation with high dividend yield.	Stable, Presidential election in 2016 will not a big surprise.	x The pace of economic recovery is slower than expected. Some support by new product cycle in IT.	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 still weak, but its momentum is easing.	○ 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.	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	Int. rate will be stable. / Inflation will be stable. / M2 growth rate is bottomed out.	Surplus will continue.	Downward pressure is easing, 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.	<u>Downward pressure is easing, but downward bias will continue.</u> ↑	xRevision is still weak, but its momentum is easing.	Fair (Rich on PER, but fair on PBR)
Thailand	- Subdued economy will continue. - Increased social unrest after Bangkok Bombing. - 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.	○ Rate cut is expected in 2016 for further depreciation of THB. / Inflation will be stable. Liquidity is improving.	Surplus will continue.	<u>Downward pressure is easing, but downward bias will continue. BOT is seeking further depreciation.</u> ↑	xRevision is very weak.	Fair
Indonesia	- Increasing headwinds for Macro economy and corporate earnings. - Policy initiative becomes less clear. - Investor's sentiment is improving.	Honeymoon period of President Jokowi is behind us.	X Underlying economy is weaker than expected due to delay of FAI and weaker export.	○ 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.	<u>Downward pressure is easing, but downward bias will continue.</u> ↑	xRevision is very weak.	Fair (Rich on PER, but fair on PBR)
Philippines	- Still the bright spot. - Sustainability is the key.	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.	<u>Downward pressure is eased, but downward bias will continue in long term.</u>	xRevision is very weak.	xMildly Expensive (Rich on PER, but fair on PBR)
India	- Overall macro fundamentals will improve given its strong policy supports. - Relatively safe but it is a consensus OW Mkt. - Some disappointment from Political side.	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 industry.	
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): Thailand – Underweight continued

【Summary】

We maintain a cautious stance due to downside risk for the macro economy on the back of high household debt, a decline in farmers' income and a delay of public investment. In valuation side, recovery in corporate earnings would delay.

- ❑ MSCI Thailand fell 6.6% MTD as of Dec 24 on a local currency basis as investors had a sense of distrust of the military government in the wake of alleged corruption.
- ❑ We downgraded telecommunication services sector to neutral on negative outlook for the balance sheets caused by higher costs.
- ❑ Under strong leadership by Deputy PM Somkid, public investment is expected to recover. We raised the related stocks.
- ❑ We took a cautious stance to consumer stocks as domestic demands would remain sluggish. However, negative impacts by Bangkok bombing on tourism are expected to be limited.
- ❑ Range and frequency of US rate hike would be a concern.

Note: Compiled by SMAM as of 28 December 2015

Market Focus (ii): India – Overweight continued

【Summary】

We expect that improvement in macro fundamentals such as real economy and/or corporate earnings would be a driver for rising share prices, while expectation for Modi government's economic reform has slightly receded. The monetary policy also would contribute to lift up stocks.

- We have positive outlook for IT, consumer discretionary and financials and negative outlook for energy, materials and utilities.
- In the mid-term, we would take notice of domestic demand stocks relating to following topics: preferential treatment to agriculture and/or expansion of the middle class.
- We keep an overweight stance for banks, especially private, which can gain benefits from expectation for Modi government, improvement in investor sentiment and bottoming out of real economy.
- IT and pharmaceuticals sectors are beneficiary of appreciation of USD. For IT sector, we maintain overweight on expanding global demands and attractiveness of individual stocks. On the other hand, we need to be selective on pharma stocks as non-compliance with US Food and Drug Administration guidelines has been a concern.

Note: Compiled by SMAM as of 28 December 2015

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