

# Asian Macro & Market Outlook

---

SMAM monthly comments & views

March 2017



Sumitomo Mitsui Asset Management

---

# Executive summary

---

## ◆ Outlook for Chinese and Asian Economies

We maintain our view for the Chinese economy. In the Central Economic Work Conference, China's top leaders expressed their stance to focus on the economic stabilization and to maintain supply reform through the slightly tightened monetary policy and the proactive fiscal policy, while they also expressed concern over housing bubble. We can see the data does not indicate a higher concentration of investment in coastal area according to November Fixed Asset Investment (FAI) with higher growths in eastern and central regions. December Producer Price Index (PPI) continued to accelerate, which means that demand-supply is well-managed. Prior to events that put China's national prestige such as Communist Party's 100th anniversary in 2021 and Beijing Winter Games Olympics in 2022, we think the Chinese Communist Party would give full consideration to the social stabilization.

As for other Asian countries, we also maintain our view that economic momentum is moving up in general. A rally in commodity markets can be positive for the Indonesian and Malaysian economies. Thailand seems to be able to avoid a serious economic slowdown, which caused by a lower consumer sentiment. Korea is expected to ease downward pressure on the economy with a rate cut. We foresee the GDP in ASEAN5 to grow from +4.9% in 2016 to +5.1% in 2017 and +5.2% in 2018 on a YoY basis. The GDP in NIES4 would rise to +2.2% YoY in 2018 after a short drop to +1.9% YoY in 2017 from +2.1% YoY in 2016.

## ◆ Outlook for Asia-Pacific Stock Markets

We expect Asian equity markets to go up mildly in line with corporate earnings growth in coming six month; however the valuation and technical indicators show some headwinds in the near term.

- ✓ Overall market conditions including currency and bond yield seem to be stabilized, which should be supportive for Asian equity markets.
- ✓ **We expect the markets will go up mildly in the medium term thanks to recovery of corporate earnings and overall macro economy.**
- ✓ On the other hand, forward P/E has already gone up above historical average level and some technical indicators show overheating signs at current market level. Given these factors we expect limited upside 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	2018	2015				2016				2017				2016	2017	2018
					Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec			
Real GDP	6.9	6.7	6.5	6.5	7.0	7.0	6.9	6.8	6.7	6.7	6.7	6.8	6.7	6.5	6.4	6.4	6.7	6.5	6.1
<i>Previous</i>	6.9	6.7	6.5	6.5	7.0	7.0	6.9	6.8	6.7	6.7	6.7	6.8	6.7	6.5	6.4	6.4	6.7	6.4	6.1
Real GDP qqar on seasonally adjusted basis	6.9	6.7	6.5	6.5	8.2	7.0	7.4	6.1	5.3	7.6	7.2	6.8	5.1	7.1	6.8	6.6	-	-	-
<i>Previous</i>	6.9	6.7	6.5	6.5	8.2	7.0	7.4	6.1	5.3	7.6	7.2	6.8	5.1	7.1	6.8	6.6	-	-	-
Compiled Growth Tracker	6.0	5.5	5.2	5.2	6.3	6.3	5.8	5.7	5.6	5.5	5.4	5.4	5.4	5.2	5.2	5.2	-	-	-
<i>Previous</i>	6.0	5.5	5.2	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	8.1	8.4	7.8	7.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Previous</i>	8.1	8.4	7.8	7.7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP Investment	6.5	6.3	5.8	5.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Previous</i>	6.5	6.3	5.8	5.6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Real GDP Net export (contribution)	▲0.1	▲0.5	▲0.2	▲0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<i>Previous</i>	▲0.1	▲0.5	▲0.2	▲0.1	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Nominal GDP	6.4	8.1	8.8	8.4	6.7	7.2	6.0	6.1	7.1	7.3	7.8	9.9	9.8	8.7	8.3	8.3	-	-	-
<i>Previous</i>	6.4	8.1	8.9	8.5	6.7	7.2	6.0	6.1	7.1	7.3	7.8	9.9	9.9	8.8	8.4	8.4	-	-	-
GDP deflator	0.1	1.1	2.3	1.9	0.3	0.7	▲0.2	▲0.3	0.3	0.5	1.0	2.6	3.1	2.2	1.8	1.9	-	-	-
<i>Previous</i>	0.0	1.2	2.4	2.0	▲0.3	0.1	▲0.2	1.2	0.4	0.6	1.0	2.4	3.2	2.3	1.9	2.0	-	-	-
Industrial production	6.1	6.0	5.9	5.7	6.4	6.3	5.9	5.9	5.8	6.1	6.1	6.1	6.0	5.9	5.9	5.8	5.9	5.8	5.4
<i>Previous</i>	6.1	6.0	5.9	5.7	6.4	6.3	5.9	5.9	5.8	6.1	6.1	6.1	6.0	5.9	5.9	5.8	5.9	5.5	5.4
CPI inflation	1.4	2.0	2.0	2.1	1.2	1.4	1.7	1.5	2.1	2.1	1.7	2.2	2.1	1.9	2.0	2.1	2.0	2.3	2.2
<i>Previous</i>	1.4	2.0	2.0	2.1	1.2	1.4	1.7	1.5	2.1	2.1	1.7	2.0	2.1	1.9	2.0	2.1	2.0	2.2	2.2
Base lending interest rate	4.35	4.35	4.35	4.35	5.35	4.85	4.60	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
<i>Previous</i>	4.35	4.35	4.35	4.4	5.35	4.85	4.60	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.4

### Historical Record of amendment (GDP)

Date of amendment	YoY[%]				YoY[%]														
	2015	2016	2017	2018	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			
17.02.15 Latest	6.9	6.7	6.5	6.5	7.0	7.0	6.9	6.8	6.7	6.7	6.7	6.8	6.7	6.5	6.4	6.4			
17.01.23 last month meeting	6.9	6.7	6.5	6.5	7.0	7.0	6.9	6.8	6.7	6.7	6.7	6.8	6.7	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 21 February 2017

# SMAM Economic Outlook for China

## China January economic performance

	consensus	actual	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr	May	Feb	Jan
real GDP(quarterly)			6.8 <sup>i</sup>			6.7 <sup>i</sup>			6.7			6.7 <sup>i</sup>		
mfg PMI	51.2	51.3	51.4 <sup>i</sup>	51.7 <sup>i</sup>	51.2	50.4 <sup>i</sup>	50.4 <sup>i</sup>	49.9	50.0	50.1 <sup>i</sup>	50.1	50.2 <sup>i</sup>	49.0 <sup>i</sup>	49.4
Caixin mfg PMI	51.8	51.0 <sup>i</sup>	51.9 <sup>i</sup>	50.9 <sup>i</sup>	51.2 <sup>i</sup>	50.1 <sup>i</sup>	50	50.6 <sup>i</sup>	48.6	49.2 <sup>i</sup>	49.4	49.7 <sup>i</sup>	48.0 <sup>i</sup>	48.4
steel PMI	NA	47.6 <sup>i</sup>	51 <sup>i</sup>	51 <sup>i</sup>	50.7 <sup>i</sup>	49.5 <sup>i</sup>	50.1 <sup>i</sup>	50.2 <sup>i</sup>	45.1	50.9 <sup>i</sup>	57.3 <sup>i</sup>	49.7 <sup>i</sup>	49.0 <sup>i</sup>	46.7
industrial production	NA	NA <sup>i</sup>	6.0 <sup>i</sup>	6.2 <sup>i</sup>	6.1 <sup>i</sup>	6.1 <sup>i</sup>	6.3 <sup>i</sup>	6.0 <sup>i</sup>	6.2	6.0 <sup>i</sup>	6.0	6.8 <sup>i</sup>	5.4 <sup>i</sup>	5.4
fixed asset investment (ytd)	NA	NA <sup>i</sup>	8.1 <sup>i</sup>	8.3 <sup>i</sup>	8.3 <sup>i</sup>	8.2 <sup>i</sup>	8.1 <sup>i</sup>	8.1 <sup>i</sup>	9.0	9.6 <sup>i</sup>	10.5 <sup>i</sup>	10.7 <sup>i</sup>	10.2 <sup>i</sup>	10.2
fixed asset investment(quarterly)	NA	NA <sup>i</sup>	8.0 <sup>i</sup>			7.1 <sup>i</sup>			8.1			10.6 <sup>i</sup>		
SOE fixed asset investment(quarterly)	NA	NA <sup>i</sup>	14.4 <sup>i</sup>			17.6 <sup>i</sup>			23.6			22.4 <sup>i</sup>		
private fixed asset investment(quarterly)	NA	NA <sup>i</sup>	5.0 <sup>i</sup>			1.9 <sup>i</sup>			1.5			6.0 <sup>i</sup>		
property investment	NA	NA <sup>i</sup>	11.1 <sup>i</sup>	5.7 <sup>i</sup>	13.5 <sup>i</sup>	7.8 <sup>i</sup>	6.2 <sup>i</sup>	1.4 <sup>i</sup>	3.3	6.6 <sup>i</sup>	9.7 <sup>i</sup>	9.7 <sup>i</sup>	3.0 <sup>i</sup>	3.0
floor space sold	NA	NA <sup>i</sup>	9.7 <sup>i</sup>	7.7 <sup>i</sup>	26.0 <sup>i</sup>	35.3 <sup>i</sup>	19.1 <sup>i</sup>	16.7 <sup>i</sup>	14.2	22.0 <sup>i</sup>	45.9 <sup>i</sup>	40.3 <sup>i</sup>	30.4 <sup>i</sup>	30.4
70 cities housing price (mmar)	NA	1.8 <sup>i</sup>	6.3 <sup>i</sup>	6.3 <sup>i</sup>	15.4 <sup>i</sup>	31.9 <sup>i</sup>	23.4 <sup>i</sup>	13.6 <sup>i</sup>	14.3	14.9 <sup>i</sup>	18.9 <sup>i</sup>	16.9 <sup>i</sup>	8.7 <sup>i</sup>	7.0
retail sales	NA	NA <sup>i</sup>	10.9 <sup>i</sup>	10.8 <sup>i</sup>	10.0 <sup>i</sup>	10.7 <sup>i</sup>	10.6 <sup>i</sup>	10.2 <sup>i</sup>	10.6	10.0 <sup>i</sup>	10.1	10.5 <sup>i</sup>	10.2 <sup>i</sup>	10.2
retail sales (real basis)	NA	NA <sup>i</sup>	9.2 <sup>i</sup>	9.2 <sup>i</sup>	8.8 <sup>i</sup>	9.6 <sup>i</sup>	10.2 <sup>i</sup>	9.8 <sup>i</sup>	10.3	9.7 <sup>i</sup>	9.3	9.7 <sup>i</sup>	9.6 <sup>i</sup>	9.6
auto sales units (th)	NA	2,520 <sup>i</sup>	3,057 <sup>i</sup>	2,939 <sup>i</sup>	2,650 <sup>i</sup>	2,564 <sup>i</sup>	2,071 <sup>i</sup>	1,852 <sup>i</sup>	2,071	2,092 <sup>i</sup>	2,122 <sup>i</sup>	2,440 <sup>i</sup>	1,581 <sup>i</sup>	2,501
auto sales units (%)	NA	0.8 <sup>i</sup>	9.8 <sup>i</sup>	17.1 <sup>i</sup>	19.3 <sup>i</sup>	26.6 <sup>i</sup>	24.4 <sup>i</sup>	23.2 <sup>i</sup>	14.6	9.9 <sup>i</sup>	6.4 <sup>i</sup>	8.9 <sup>i</sup>	-0.8 <sup>i</sup>	7.8
exports (RMB)	5.2	15.9 <sup>i</sup>	0.6 <sup>i</sup>	5.9 <sup>i</sup>	-3.2 <sup>i</sup>	-5.6 <sup>i</sup>	5.9 <sup>i</sup>	2.9 <sup>i</sup>	1.3	1.2 <sup>i</sup>	4.1 <sup>i</sup>	18.7 <sup>i</sup>	-20.6 <sup>i</sup>	-6.6
imports (RMB)	15.2	25.2 <sup>i</sup>	10.8 <sup>i</sup>	13.0 <sup>i</sup>	3.2 <sup>i</sup>	2.2 <sup>i</sup>	10.8 <sup>i</sup>	-5.7 <sup>i</sup>	-2.3 <sup>i</sup>	5.1 <sup>i</sup>	-5.7 <sup>i</sup>	-1.7 <sup>i</sup>	-8.0 <sup>i</sup>	-14.4
international reserves (USDbn)	3,003.5	2,998.2 <sup>i</sup>	3,010.5 <sup>i</sup>	3,051.6 <sup>i</sup>	3,120.7 <sup>i</sup>	3,166.4 <sup>i</sup>	3,185.2 <sup>i</sup>	3,201.1 <sup>i</sup>	3,205.2	3,191.7 <sup>i</sup>	3,219.7 <sup>i</sup>	3,212.6 <sup>i</sup>	3,202.3 <sup>i</sup>	3,230.9
CPI	2.4	2.5 <sup>i</sup>	2.1 <sup>i</sup>	2.3 <sup>i</sup>	2.1 <sup>i</sup>	1.9 <sup>i</sup>	1.3 <sup>i</sup>	1.8 <sup>i</sup>	1.9	2.0 <sup>i</sup>	2.3 <sup>i</sup>	2.3 <sup>i</sup>	2.3 <sup>i</sup>	1.8
PPI	6.6	6.9 <sup>i</sup>	5.5 <sup>i</sup>	3.3 <sup>i</sup>	1.2 <sup>i</sup>	0.1 <sup>i</sup>	-0.8 <sup>i</sup>	-1.7 <sup>i</sup>	-2.6 <sup>i</sup>	-2.8 <sup>i</sup>	-3.4 <sup>i</sup>	-4.3 <sup>i</sup>	-4.9 <sup>i</sup>	-5.3
M2	11.3	11.3 <sup>i</sup>	11.3 <sup>i</sup>	11.4 <sup>i</sup>	11.6 <sup>i</sup>	11.5 <sup>i</sup>	11.4 <sup>i</sup>	10.2 <sup>i</sup>	11.8	11.8 <sup>i</sup>	12.8 <sup>i</sup>	13.4 <sup>i</sup>	13.3 <sup>i</sup>	14.0
new loans (RMB bn)	2,440.0	2,030.0 <sup>i</sup>	1,040.0 <sup>i</sup>	794.6 <sup>i</sup>	651.3 <sup>i</sup>	1,220.0 <sup>i</sup>	948.7 <sup>i</sup>	463.6 <sup>i</sup>	1,380.0	985.5 <sup>i</sup>	555.6 <sup>i</sup>	1,370.0 <sup>i</sup>	726.6 <sup>i</sup>	2,510.0
social aggregate financing (RMB bn)	3,000.0	3,740.0 <sup>i</sup>	1,630.0 <sup>i</sup>	1,740.0 <sup>i</sup>	896.3 <sup>i</sup>	1,720.0 <sup>i</sup>	1,469.7 <sup>i</sup>	487.9 <sup>i</sup>	1,629.3	659.9 <sup>i</sup>	751.0 <sup>i</sup>	2,336.0 <sup>i</sup>	824.5 <sup>i</sup>	3,425.3

Note: Italic letters present numbers for January and February compared with the corresponding period of the previous year.

Source: CEIC, compiled by SMAM

As of 21 February 2017

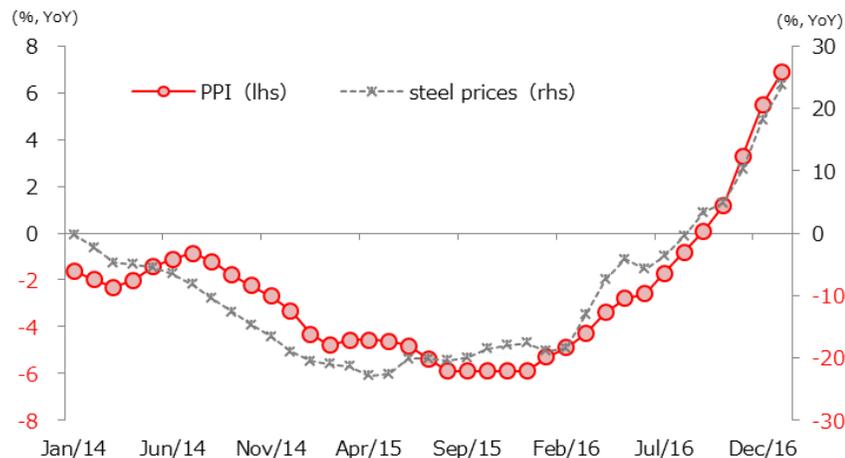
# SMAM Economic Outlook for China

## Current Economic Situation in China

### China is taking step toward ending deflation and monetary tightening

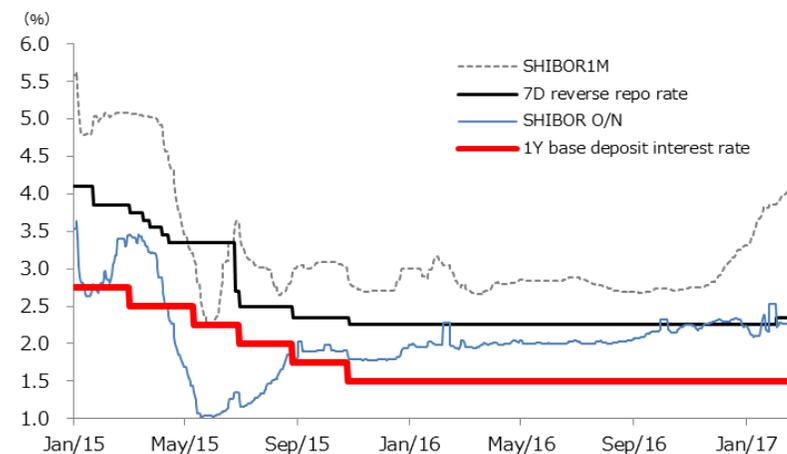
- ✓ As Producer Price Index (PPI) kept a further acceleration in January, we confirm the deflation has come to an end.
- ✓ We think that further infrastructure investments through the New-type Urbanization policy would bring economic stability and breakout of deflation.
- ✓ On February 3, the People's Bank of China (PBoC) raised reverse repo rate. This is the first increase since October 29, 2013.
- ✓ Long-term interbank rates are on an upward trend, which would put a brake on China's yuan depreciation.

### PPI and Steel Prices



Source: CEIC, compiled by SMAM  
Up to January 2017

### Interbank Interest Rates



Source: CEIC, compiled by SMAM  
Up to 23 January 2017

# SMAM Economic Outlook for China

---

## China's economy is stabilizing as a result of slowing deflationary pressure

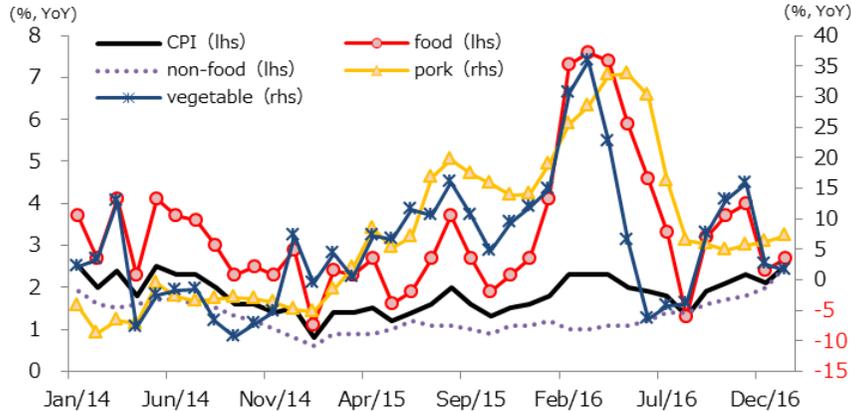
- Looking at January PPI, inflation saw further acceleration led by infrastructure investment, which means that demand and supply of materials has been well managed.
- Regarding FAI, the private sector is on a pickup trend and this would affect the economy positively. By areas, FAIs in internal regions are higher than that in coastal regions.
- As the People's Bank of China raised its reverse repo rates, which was the first increase since October 2013, the central bank has been shifting toward tighter monetary policy.
- According to Oct-Dec job opening-to-application ratio (1.13), the job market is stable and this would ensure social stability.
- China's currency renminbi (RMB) would be swayed by US dollar as US dollar is rising recently.

## Outlook: The economy is expected to be stable until 2018, but capital outflow caused by US dollar appreciation and trade policies with new US administration would be risk factors

- Our main scenario is the economy to be stabilized (2016: +6.7% YoY, 2017: +6.5% YoY, 2018: +6.5% YoY).
- We expect that PBoC would leave its base lending interest rates unchanged to avoid returning to deflation even if expectation for rate hike grows.
- A risk factor is US President Donald Trump who may cause conflicts with China through proposing a trade tariff increase.
- In the plenum of the Communist Party of China in fall 2017, Wang Qishan is seen to become a new Premier and may change the policy guidance suddenly after 2018. Yet, we see he would take priority to the economic stabilization in order to dispel social instability.
- Prior to events that put China's national prestige such as Communist Party's 100th anniversary in 2021 and Beijing Winter Games Olympics in 2022, we think the Chinese government would give full consideration to the social stabilization.

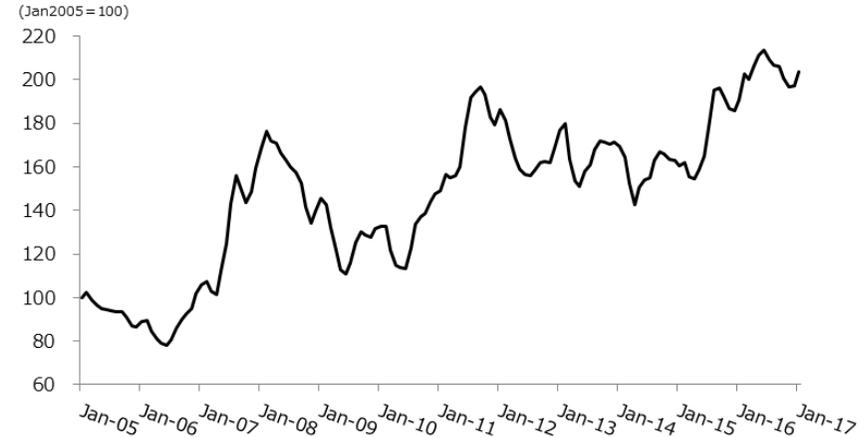
# SMAM Economic Outlook for China

## CPI



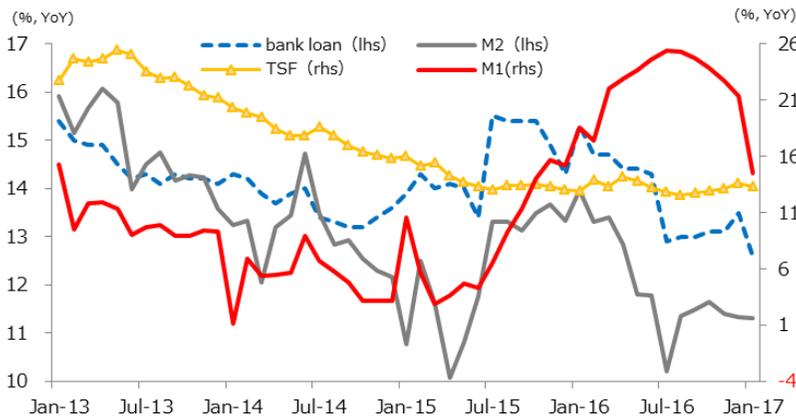
Note: The data series=steel production - steel export  
 Source: CEIC, compiled by SMAM  
 Up to January 2017

## Pork Price Index



Source: CEIC, compiled by SMAM  
 Up to January 2017

## Money Data (Stock Basis)



Source: CEIC, compiled by SMAM  
 Up to January 2017

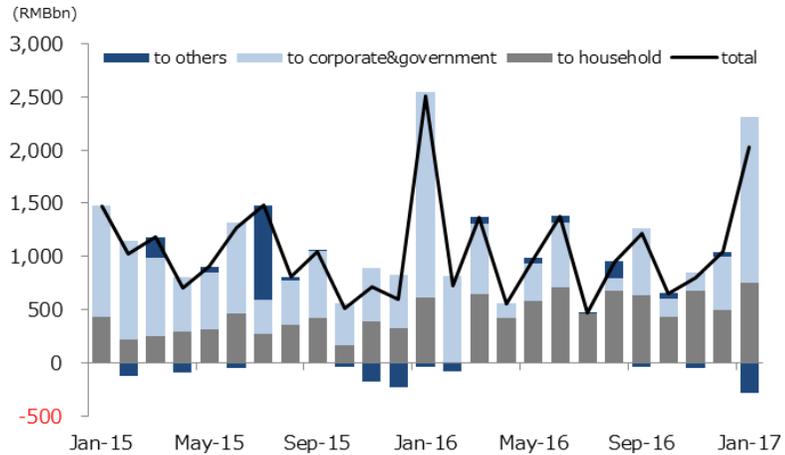
## Total Social Finance

	Total	New lending	Entrusted loan	Trust loan	Bankers' acceptance	Corporate bonds	Others
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
2016	17,802	12,437	2,185	859	-1,953	2,999	1,243
Jul	479	455	177	21	-512	221	152
Aug	1,460	797	143	74	-38	324	117
Sep	1,712	1,263	145	106	-223	287	161
Oct	886	601	73	53	-180	219	134
Nov	1,833	846	199	163	117	386	121
Dec	1,626	994	401	164	159	-205	122
Jan	3,740	2,310	314	318	613	-54	112

Note: new lending excludes interbank transactions.  
 Source: CEIC, compiled by SMAM  
 Up to January 2017

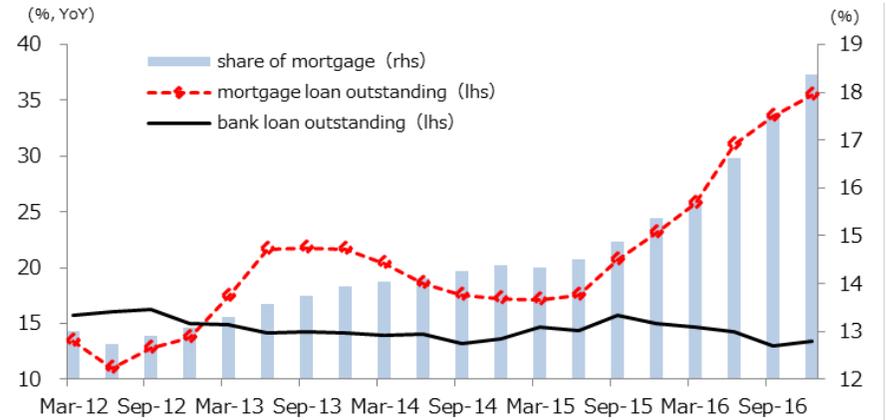
# SMAM Economic Outlook for China

## New Loans



Source: CEIC, compiled by SMAM  
Up to December 2016

## Bank Lending & Mortgage Loan



Source: CEIC, compiled by SMAM  
Up to December 2016

---

# Outlook for Asia-Pacific Economy

# SMAM Economic Outlook for Asia and Oceania

Real GDP	YoY[%]				YoY[%]												Market Consensus		
	2015	2016	2017	2018	2015				2016				2017				2016	2017	2018
					Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec			
China	6.9	6.7	6.5	6.5	7.0	7.0	6.9	6.8	6.7	6.7	6.7	6.8	6.7	6.5	6.4	6.4	6.7	6.5	6.1
<i>Previous</i>	6.9	6.7	6.5	6.5	7.0	7.0	6.9	6.8	6.7	6.7	6.7	6.8	6.7	6.5	6.4	6.4	6.7	6.4	6.1
India	7.9	7.2	8.0	8.1	6.7	7.5	7.6	7.2	7.9	7.1	7.3	7.0	7.5	8.0	7.6	8.2	6.8	7.4	7.7
<i>Previous</i>	7.6	7.2	8.0	8.1	6.7	7.5	7.6	7.2	7.9	7.1	7.3	7.0	7.5	8.0	7.6	8.2	6.8	7.5	7.7
NIEs4	2.1	2.2	2.0	2.2	2.7	2.0	1.9	1.9	1.8	2.5	2.2	2.3	2.0	1.9	1.9	2.1	2.1	2.1	2.2
<i>Previous</i>	2.1	2.1	1.9	2.2	2.8	1.9	1.9	2.0	1.8	2.5	2.2	1.9	1.8	1.8	1.8	2.3	2.1	2.1	2.2
Korea	2.6	2.7	2.3	2.5	2.4	2.2	2.8	3.1	2.8	3.3	2.6	2.3	2.4	2.0	2.2	2.4	2.7	2.5	2.5
<i>Previous</i>	2.6	2.6	2.3	2.5	2.4	2.2	2.8	3.1	2.8	3.3	2.6	2.0	2.1	2.0	2.2	2.8	2.7	2.5	2.5
Taiwan	0.7	1.5	1.8	2.0	4.0	0.7	▲0.7	▲0.8	▲0.2	1.1	2.1	2.9	1.8	2.0	1.4	1.9	1.5	1.7	1.9
<i>Previous</i>	0.6	1.3	1.7	2.0	4.0	0.7	▲0.8	▲0.9	▲0.2	1.1	2.0	2.3	1.5	1.9	1.4	1.9	1.2	1.7	1.9
Singapore	1.9	2.0	2.1	2.2	2.4	2.0	2.1	1.3	1.9	1.9	1.2	2.9	2.0	2.0	2.2	2.1	2.0	1.6	2.0
<i>Previous</i>	2.0	1.8	1.8	2.0	2.7	1.7	1.8	1.8	2.1	2.1	1.2	1.8	2.0	1.8	1.5	2.0	1.8	1.5	2.0
Hong Kong	2.4	1.2	0.9	1.2	2.4	3.1	2.3	1.9	0.8	1.7	1.9	0.4	0.8	0.8	0.7	1.2	1.5	1.6	1.9
<i>Previous</i>	2.4	1.2	0.9	1.2	2.4	3.1	2.3	1.9	0.8	1.7	1.9	0.4	0.8	0.8	0.7	1.2	1.5	1.6	1.9
ASEAN5	4.8	4.9	5.1	5.3	4.8	4.7	4.8	5.0	4.8	5.0	5.0	4.9	4.9	5.1	5.2	5.4	4.9	5.0	5.0
<i>Previous</i>	4.8	4.9	5.1	5.2	4.7	4.7	4.8	5.0	4.8	5.0	5.0	4.9	4.8	5.0	5.1	5.4	4.9	4.9	5.0
ASEAN4	4.6	4.8	5.0	5.2	4.6	4.6	4.6	4.7	4.7	4.9	4.8	4.7	4.8	5.0	5.1	5.2	4.8	4.8	4.9
<i>Previous</i>	4.6	4.8	5.0	5.1	4.6	4.5	4.6	4.8	4.7	4.9	4.8	4.7	4.8	4.9	5.0	5.2	4.8	4.8	4.9
Indonesia	4.9	5.0	5.3	5.5	4.8	4.7	4.8	5.2	4.9	5.2	5.0	4.9	5.0	5.3	5.4	5.6	5.0	5.2	5.3
<i>Previous</i>	4.8	5.1	5.4	5.5	4.8	4.7	4.8	5.2	4.9	5.2	5.0	5.1	5.2	5.3	5.4	5.6	5.0	5.2	5.4
Thailand	2.9	3.2	3.3	3.4	3.1	2.9	3.0	2.7	3.1	3.6	3.2	3.0	3.1	3.2	3.3	3.4	3.2	3.2	3.2
<i>Previous</i>	2.9	3.1	2.9	3.1	3.0	2.7	2.9	2.8	3.2	3.5	3.2	2.5	2.6	2.8	3.0	3.4	3.2	3.1	3.2
Malaysia	5.0	4.2	4.6	4.7	5.7	4.9	4.7	4.5	4.2	4.0	4.3	4.5	4.5	4.5	4.6	4.6	4.2	4.2	4.4
<i>Previous</i>	5.0	4.1	4.4	4.6	5.7	4.9	4.7	4.5	4.2	4.0	4.3	4.1	4.2	4.5	4.5	4.5	4.1	4.2	4.4
Philippines	5.9	6.8	6.9	7.0	5.0	5.9	6.2	6.5	6.8	7.0	7.0	6.6	6.7	6.9	7.0	7.0	6.8	6.4	6.3
<i>Previous</i>	5.9	7.0	7.0	7.0	5.0	5.9	6.2	6.5	6.8	7.0	7.1	6.9	6.9	7.0	6.9	7.1	6.8	6.3	6.2
Vietnam	6.7	6.2	6.5	6.6	6.1	6.5	6.9	7.0	5.5	5.8	6.6	6.7	5.7	6.1	6.8	7.0	6.2	6.5	6.4
<i>Previous</i>	6.7	6.2	6.5	6.6	6.1	6.5	6.9	7.0	5.5	5.8	6.6	6.7	5.7	6.1	6.8	7.0	6.2	6.5	6.4
Australia	2.4	2.4	2.3	2.8	2.5	2.1	2.5	2.5	2.5	3.1	1.7	2.1	1.7	1.7	2.9	2.7	2.4	2.5	2.8
<i>Previous</i>	2.4	2.4	2.3	2.8	2.5	2.1	2.5	2.5	2.5	3.1	1.7	2.1	1.7	1.7	2.9	2.7	2.4	2.5	2.8

Source: CEIC, compiled by SMAM  
 Note: Economic Research Department, Previous= Last month meeting's projection.  
 Arrows illustrate the direction of the change from last time prediction.  
 As of 21 February 2017

# SMAM Economic Outlook for Asia and Oceania

CPI inflation	YoY[%]				YoY[%]												Market Consensus			
	2015	2016	2017	2018	2015				2016				2017				2016	2017	2018	
					Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec				
China	1.4	2.0	2.0	2.1	1.2	1.4	1.7	1.5	2.1	2.1	1.7	2.2	2.1	1.9	2.0	2.1	2.0	2.3	2.2	
Previous	1.4	2.0	2.0	2.1	1.2	1.4	1.7	1.5	2.1	2.1	1.7	2.2	2.1	1.9	2.0	2.1	2.0	2.2	2.2	
India	4.9	4.9	5.0	5.5	5.3	5.1	3.9	5.3	5.3	5.7	5.2	3.7	4.3	4.4	4.9	5.4	4.7	4.9	5.1	
Previous	4.9	4.9	5.0	5.5	5.3	5.1	3.9	5.3	5.3	5.7	5.2	3.7	4.3	4.4	4.9	5.4	4.7	5.0	5.1	
NIEs4	Korea	0.7	1.0	1.7	1.7	0.7	0.6	0.6	0.9	0.9	0.8	0.7	1.5	1.8	1.7	1.6	1.6	1.0	1.7	1.7
	Previous	0.7	1.0	1.7	1.7	0.7	0.6	0.6	0.9	0.9	0.8	0.7	1.5	1.8	1.7	1.6	1.6	1.0	1.6	1.7
	Taiwan	▲0.3	1.4	1.2	1.2	▲0.6	▲0.7	▲0.3	0.3	1.7	1.3	0.7	1.8	0.9	1.3	1.0	1.0	1.4	1.4	1.3
	Previous	▲0.3	1.4	1.2	1.2	▲0.6	▲0.7	▲0.3	0.3	1.7	1.3	0.7	1.8	0.9	1.3	1.0	1.0	1.1	1.2	1.3
Singapore	▲0.5	▲0.5	0.5	0.8	▲0.3	▲0.4	▲0.6	▲0.7	▲0.8	▲0.9	▲0.4	0.0	0.2	0.3	0.6	0.8	▲0.5	0.8	1.2	
Previous	▲0.5	▲0.5	0.5	0.8	▲0.3	▲0.4	▲0.6	▲0.7	▲0.8	▲0.9	▲0.4	0.0	0.2	0.3	0.6	0.8	▲0.6	0.8	1.2	
Hong Kong	3.0	2.4	1.5	1.6	4.3	2.9	2.5	2.3	2.8	2.6	3.1	1.2	1.8	1.7	1.4	1.2	2.4	2.0	2.1	
Previous	3.0	2.4	1.5	1.6	4.3	2.9	2.5	2.3	2.8	2.6	3.1	1.2	1.8	1.7	1.4	1.2	2.5	2.1	2.1	
ASEAN5	Indonesia	6.4	3.5	4.1	4.2	6.5	7.1	7.1	4.8	4.3	3.5	3.0	3.3	3.6	4.3	4.3	4.2	3.5	4.2	4.4
	Previous	6.4	3.5	4.1	4.2	6.5	7.1	7.1	4.8	4.3	3.5	3.0	3.3	3.6	4.3	4.3	4.2	3.5	4.2	4.4
	Thailand	▲0.9	0.2	1.1	1.2	▲0.5	▲1.1	▲1.1	▲0.9	▲0.5	0.3	0.3	0.7	1.1	1.2	1.1	1.1	0.2	1.6	1.9
	Previous	▲0.9	0.2	1.1	1.2	▲0.5	▲1.1	▲1.1	▲0.9	▲0.5	0.3	0.3	0.7	1.1	1.2	1.1	1.1	0.2	1.6	1.9
	Malaysia	2.1	2.1	2.6	2.6	0.7	2.2	3.0	2.6	3.4	1.9	1.3	1.7	2.8	2.7	2.5	2.4	2.1	2.7	2.6
Previous	2.1	2.1	2.6	2.6	0.7	2.2	3.0	2.6	3.4	1.9	1.3	1.7	2.8	2.7	2.5	2.4	2.1	2.6	2.6	
Philippines	1.4	1.8	2.9	3.1	2.4	1.7	0.6	1.0	1.1	1.5	2.0	2.5	2.7	2.8	3.1	3.1	1.8	3.1	3.3	
Previous	1.4	1.8	2.9	3.1	2.4	1.7	0.6	1.0	1.1	1.5	2.0	2.5	2.7	2.8	3.1	3.1	1.8	3.1	3.2	
Vietnam	0.9	2.7	4.3	2.8	0.7	1.0	0.5	0.3	1.3	2.2	2.8	4.5	5.9	4.5	4.1	2.6	2.7	4.2	4.3	
Previous	0.9	2.7	4.3	2.8	0.7	1.0	0.5	0.3	1.3	2.2	2.8	4.5	5.9	4.5	4.1	2.6	2.7	4.1	4.4	
Australia	1.5	1.3	2.0	2.0	1.3	1.5	1.4	1.6	1.3	1.0	1.4	1.5	2.0	2.0	2.1	2.1	1.3	2.2	2.2	
Previous	1.5	1.3	2.0	2.0	1.3	1.5	1.4	1.6	1.3	1.0	1.4	1.5	2.0	2.0	2.1	2.1	1.3	2.1	2.3	

Source: CEIC, compiled by SMAM

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

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

As of 21 February 2017

# SMAM Economic Outlook for Asia and Oceania

Policy Rate	Annual rate[%]				Annual rate[%]												Market Consensus									
	2015	2016	2017	2018	2015				2016				2017				2016	2017	2018							
					Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec										
China	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35			
	<i>Previous</i>	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35		
India	6.75	6.25	6.25	6.25	7.50	7.25	6.75	6.75	6.75	6.50	6.50	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25		
	<i>Previous</i>	6.75	6.25	6.25	6.25	7.50	7.25	6.75	6.75	6.75	6.50	6.50	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	6.25	
NIEs4	Korea	1.50	1.25	1.25	1.25	1.75	1.50	1.50	1.50	1.50	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	
		<i>Previous</i>	1.50	1.25	1.25	1.25	1.75	1.50	1.50	1.50	1.50	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
	Taiwan	1.625	1.375	1.375	1.375	1.875	1.875	1.750	1.625	1.500	1.375	1.375	1.375	1.375	1.375	1.375	1.375	1.375	1.375	1.375	1.375	1.375	1.375	1.375	1.375	1.375
		<i>Previous</i>	1.625	1.375	1.375	1.375	1.875	1.875	1.750	1.625	1.500	1.375	1.375	1.375	1.375	1.375	1.375	1.375	1.375	1.375	1.375	1.375	1.375	1.375	1.375	1.375
ASEAN5	Indonesia	7.50	4.75	4.75	4.75	7.50	7.50	7.50	7.50	6.75	6.75	5.00	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	
		<i>Previous</i>	7.50	4.75	4.75	4.75	7.50	7.50	7.50	7.50	6.75	6.75	5.00	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75	4.75
	Thailand	1.50	1.50	1.50	1.50	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
		<i>Previous</i>	1.50	1.50	1.50	1.50	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50
	Malaysia	3.25	3.00	3.00	3.00	3.25	3.25	3.25	3.25	3.25	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.25
		<i>Previous</i>	3.25	3.00	3.00	3.00	3.25	3.25	3.25	3.25	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.00	3.25
	Philippines	4.00	3.00	3.25	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	3.25	3.00	3.00	3.25	3.25	3.00	3.25	3.50	3.50
		<i>Previous</i>	4.00	3.00	3.25	3.25	4.00	4.00	4.00	4.00	4.00	3.00	3.00	3.00	3.00	3.00	3.25	3.25	3.00	3.00	3.25	3.25	3.00	3.50	3.50	3.50
Vietnam	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	
	<i>Previous</i>	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50	
Australia	2.00	1.50	1.50	1.50	2.25	2.00	2.00	2.00	2.00	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	
	<i>Previous</i>	2.00	1.50	1.50	1.50	2.25	2.00	2.00	2.00	2.00	1.75	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	1.50	

Source: CEIC, compiled by SMAM

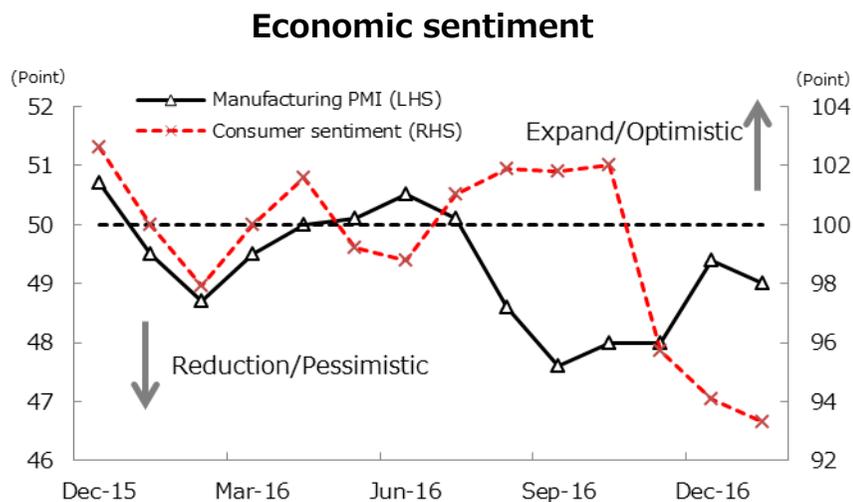
Note: Economic Research Department, Previous= Last month meeting's projection. Indonesia has changed policy rate from BI rate (6.50%) to 7days reserve repo (5.25%) on 19 Aug.

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

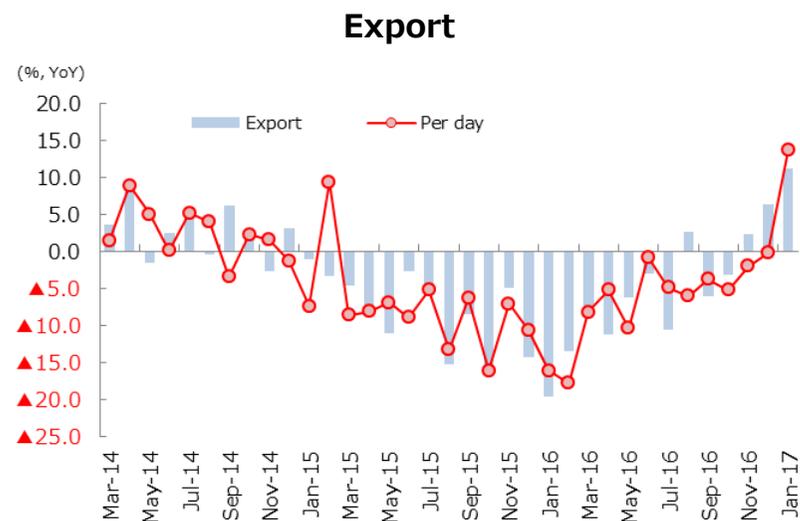
As of 21 February 2017

# South Korea

- A declining disposable income with mounting household debt is negative for private consumption. Auto inventory level still remains at high, thus automakers would need to adjust the output. The Bank of Korea (BoK) downgraded the GDP growth for 2017 due to a drop in consumer sentiment caused by serious political turmoil, which might put downward pressure on business activity.
- The economy, however, would see a gradual rebound as the government announced a new budget plan with accelerating budget execution during the first half of this year to underpin the economy. Furthermore, US economic upturn is positive for the Korean economy, which is becoming more reliant on its exports. Although the growth of household debt shows a downward trend, the level remains high. We foresee the BoK would maintain its policy rate until the end of 2018.



Source: Bloomberg and CEIC, compiled by SMAM  
Up to January 2017

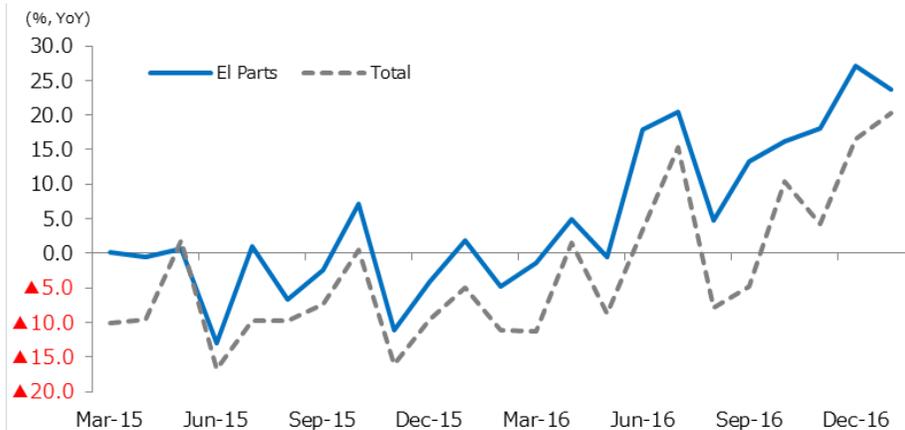


Source: CEIC, compiled by SMAM  
Up to October 2016

# Taiwan

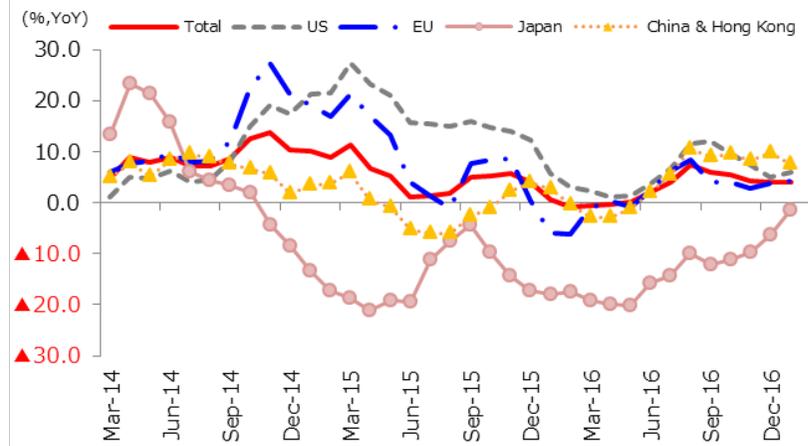
- Taiwan, with the contribution ratio of exports to GDP is approx. 64%, is likely to be affected by the global economic conditions. Although demands for iPhone 7 seem to peak out in 3Q 2016, semiconductor production and exports are firm on demands for Android smartphone parts and servers from China. Exports seem to be accelerated thanks to benefits from US economic recovery.
- So far, slow domestic demand growth would continue as the Democratic Progressive Party seems to keep a cautious stance on short-term economic stimulus measures.

### Export (per day)



Source: CEIC, compiled by SMAM  
Up to January 2017

### Volume Index of Export Orders (3MMA)

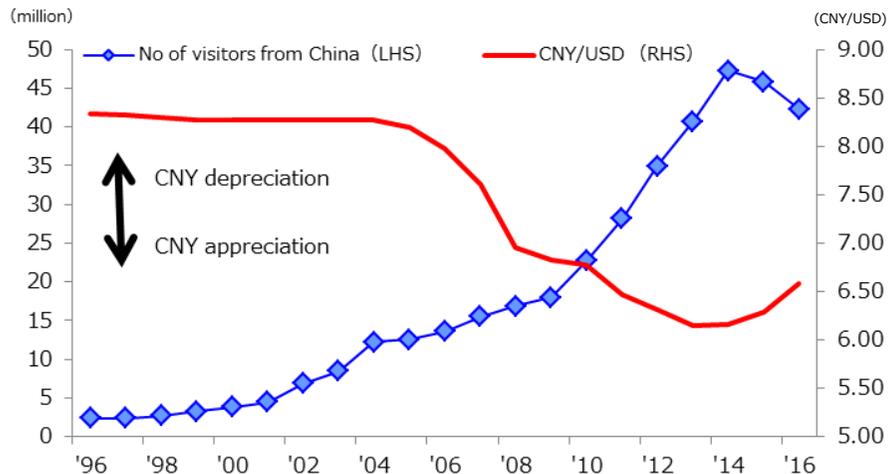


Source: CEIC, compiled by SMAM  
Up to January 2017

# Hong Kong

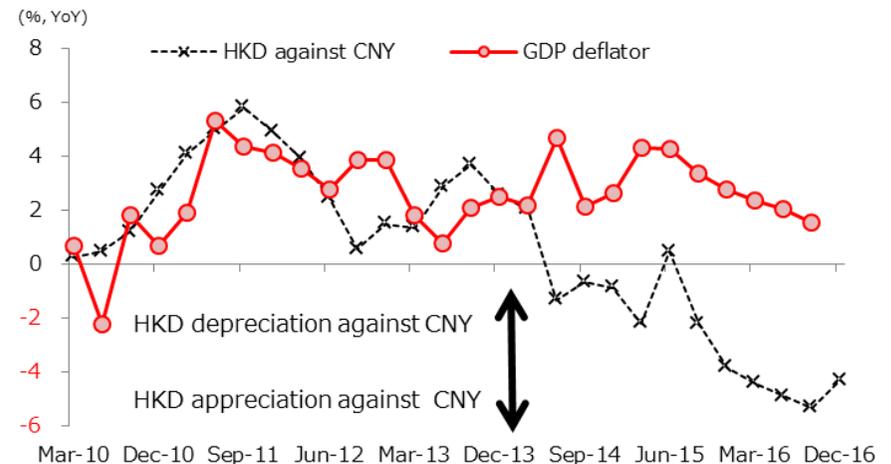
- Capital inflow from mainland China lifted up the property market in Hong Kong. The government takes measures such as introduction of property stamp duty to cool down the hot market, however, it achieved a further rise in December. Through expectation that the US economy would face an upturn amid the Chinese economy has stabilized, the Hong Kong's economy in 2018 is also deemed to improve moderately.
- The Chinese Yuan Renminbi (CNY), which continues downward trend against the US dollar behind US currency appreciation. This currency movement would affect negatively on asset prices in Hong Kong as the depreciating CNY and appreciating HK dollar tend to cause deflationary pressure through import prices.

### 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 December 2016

# Philippines

- The economy is less vulnerable to global economic cycle as the contribution ratio of exports to its GDP is only around 20%, lower than in other countries.
- The economic rebound is expected led by domestic demands as consumer spending has been expanding on the back of low inflation as well as the growing middle class.
- Bangko Sentral ng Pilipinas (BSP) has shifted in its monetary operations to an interest rate corridor since 7 June. 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 (+6.5-7.5%), a rate hike may occur.

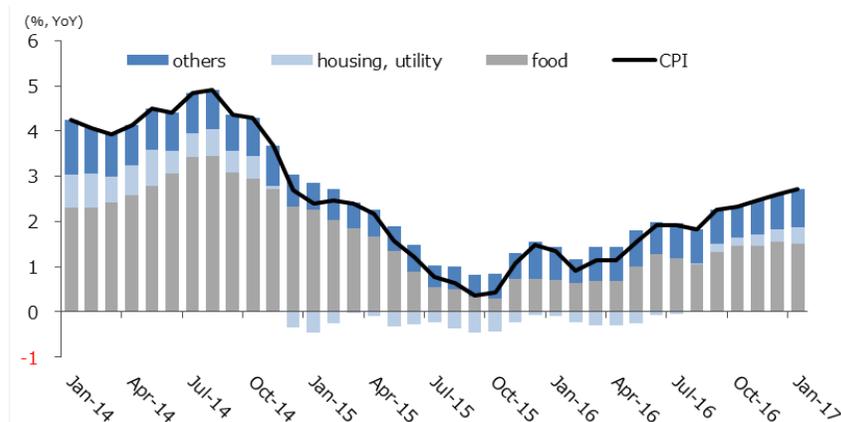
### Real GDP by Expenditures

(% YoY, ppt)

	real GDP	private consumption	government consumption	gross fixed capital formation	inventory (contribution)	exports	imports
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	7.0	7.1	3.1	23.8	-1.1	8.8	13.6
4Q16	6.6	6.3	4.0	18.7	-0.7	10.4	15.0

Source: CEIC, compiled by SMAM  
Up to 4Q 2016

### CPI

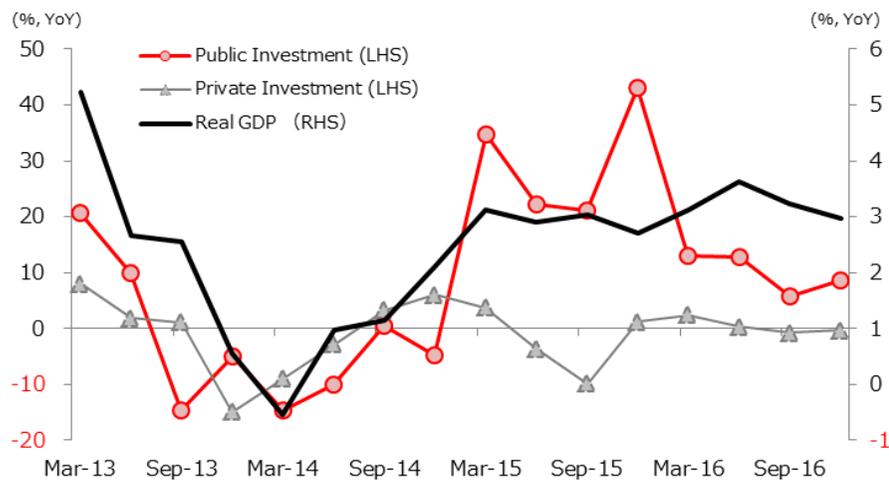


Source: CEIC, compiled by SMAM  
Up to January 2017

# Thailand

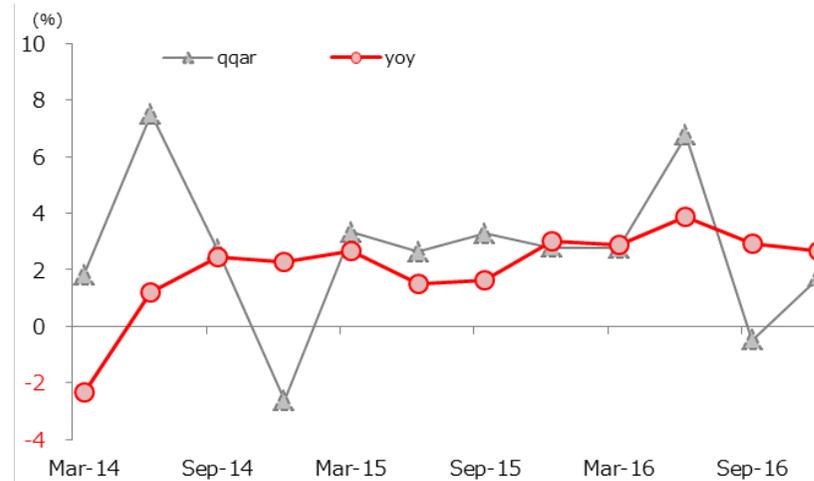
- Thanks to Deputy Premier Somkid Jatusripitak exercising strong leadership, public investment maintains high growth from September and is expected to keep accelerating in the second half of 2016.
- Thai Crown Prince Maha Vajiralongkorn has become the country's new king, succeeding his father King Bhumibol Adulyadej. We expect that a drop in consumer sentiment would stop around after January 21 on the 100 day after the former King has passed away. From these perspectives, we stay with our view that a downward pressure on the Thai economy in 2017 would be limited.
- Due to a request by the new King to amend the country's constitution, a general election would have to be delayed until 2018. However, the delay of restoration of democracy is not likely to affect the economy.

### Real GDP and Investments



Source: CEIC, compiled by SMAM  
Up to December 2016

### Private Consumption

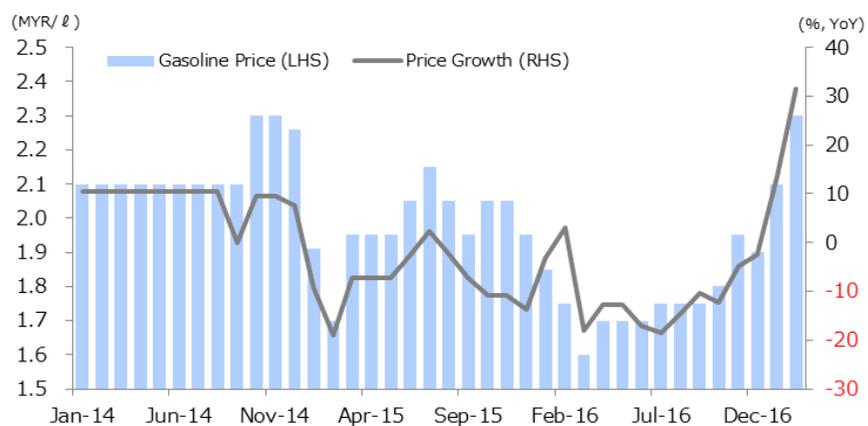


Source: CEIC, compiled by SMAM  
Up to December 2016

# Malaysia

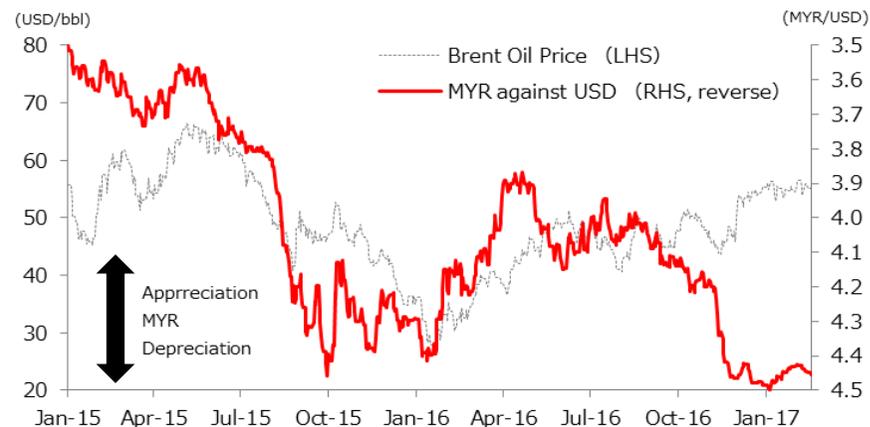
- The Malaysian government has been under restriction of on-budget expenditure as cheaper oil prices cause dwindling tax revenues. Accordingly, the government side would try to achieve public investment growth by the use of off-budget facility such as state owned enterprises.
- Malaysian Prime Minister Najib Razak announced the 2017 budget with a suggestion of the possible early dissolution of the parliament and general election. In 2017, measures such as fiscal expansion would be exploited. A commodities rebound is positive for the macro economy.

### Gasoline Price (RON95)



Source: CEIC, compiled by SMAM  
Up to February 2017

### MYR and Oil Price

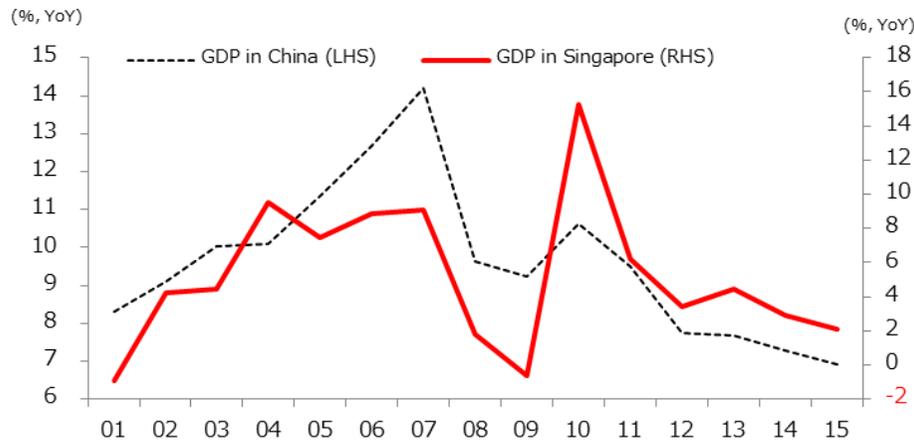


Source: CEIC, compiled by SMAM  
As of 16 February 2017

# Singapore

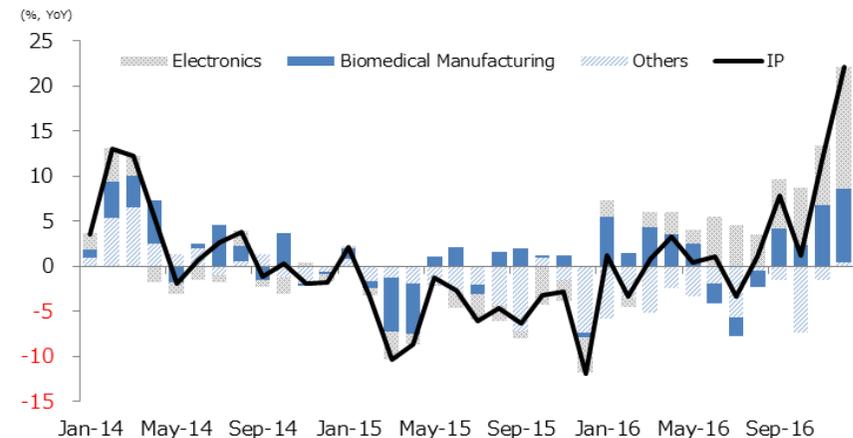
- The Singapore's businesses are sensitive to the global economy. However, we take a careful attention to biomedical manufacturing production, which is quite volatile, as upside and downside risk factors.
- Main upside risk is stronger-than-expected rebounds in US and Chinese economies, which lead to favorable environment for Singapore's exports. An increase in biomedical production is also the positive factor.
- On the other hand, further economic downturns in China and Malaysia would have negative impacts on exports in Singapore. Movement towards protectionism initiated by US President Donald Trump would result in stagnation of exports.

### GDP growth in China and Singapore



Source: CEIC, compiled by SMAM  
Up to 2015

### Industrial Production (IP)

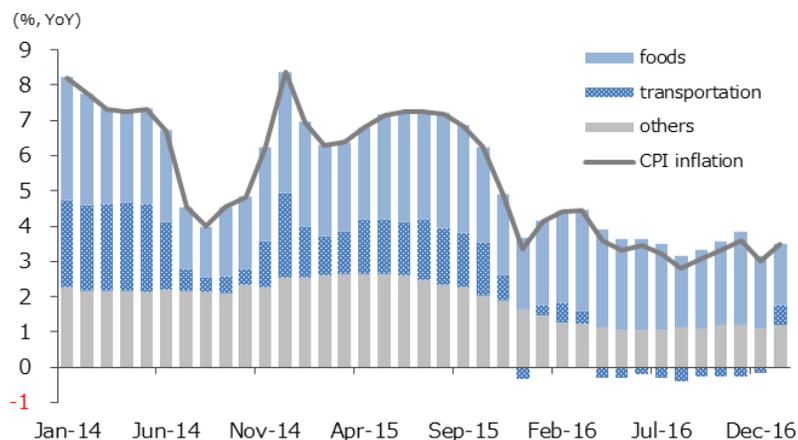


Source: CEIC, compiled by SMAM  
Up to December 2016

# Indonesia

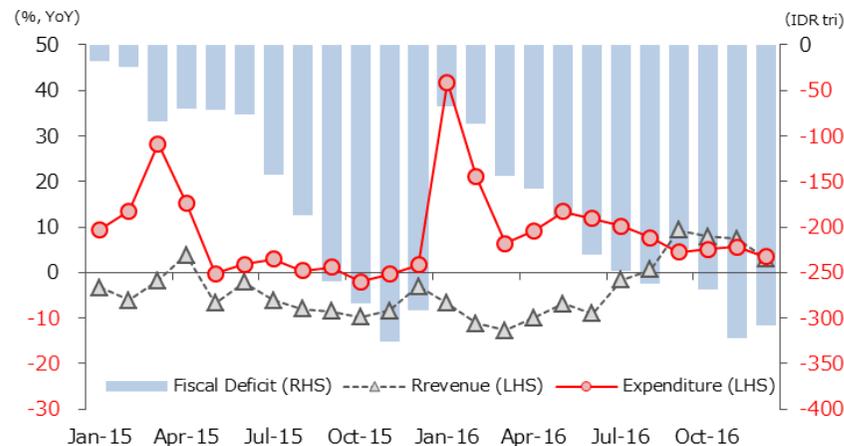
- Lower than expected Oct-Dec GDP came in at +4.9% YoY. As for 2017, we revised down our view of the real GDP forecasts at +5.3% YoY from +5.4% YoY.
- The economy is expected to pick up in 2017 as a commodities rebound is positive for the Indonesian macro economy. The inflation rate remains within the target range since November last year. The government's additional gasoline price cut on last April has been 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.

### CPI



Source: CEIC, compiled by SMAM  
Up to January 2017

### Monthly Fiscal Balance (ytd basis)

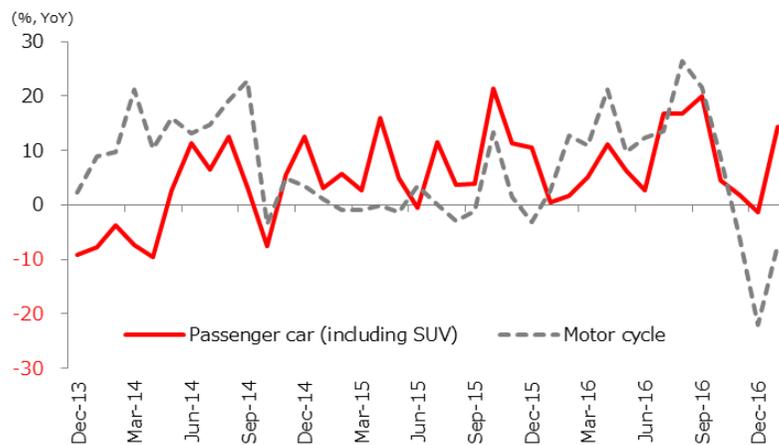


Source: CEIC, compiled by SMAM  
Up to December 2016

# India

- Confusion by India's banknotes ban and introduction of new series of currency notes instead seems to settle down in a few months. January manufacturing PMI figure and auto sales showed significant rebounds and the private consumption is also seen to accelerate after sluggish months.
- In addition, companies are seen to have a proactive stance on financing activities as exploiting this low cost opportunity benefitting from declining long-term yields. Accordingly, we assume that the private investment, which is currently weak, would show a recovery after the second half of FY2017/18. Considering confidence toward the economic recovery and risk of inflation accelerating, the Reserve Bank of India (RBI) shifted its stance to neutral from accommodative. We foresee the RBI would maintain the current policy rate. The government unveiled a budget plan focusing both on preserving fiscal stability and expanding infrastructure investment.

## Motor Vehicle Sales Growth

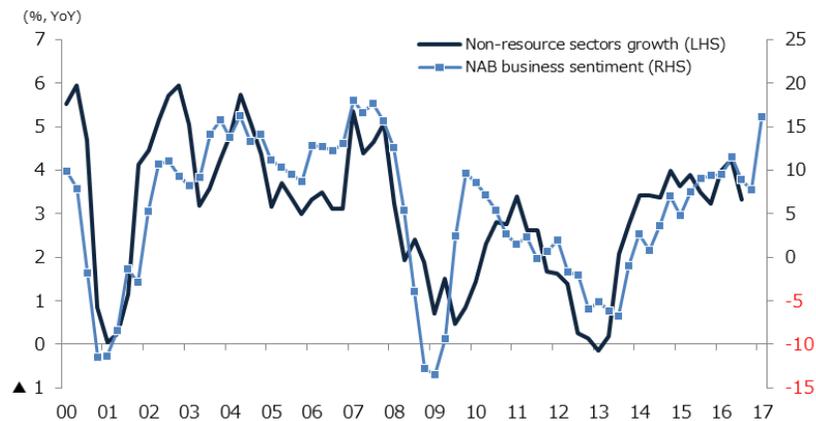


Source: CEIC, compiled by SMAM  
As of January 2017

# 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 first half of 2017. On another front, improvements in non-resource sectors, such as household consumption, dwelling investment and government spending, are expected to underpin the economy. From the second half of 2017, we think the economy would accelerate slightly after pressure on correction in capex can ease moderately.
- The unemployment rate would maintain a moderate declining trend led by job creation in the service sector.
- We expect the CPI growth to rise toward late 2017 and then to remain flat since effects by lower oil prices calm down and wage growth seems to stop declining.
- As for the fiscal policy, we foresee the policy rate to be left unchanged as inflation is likely to rise toward late 2017 under the central bank's CPI forecast. Yet, CPI may move around the bottom of the target range.

### Growth in Non-resource sectors



Note: Non-resource sector = household consumption, government consumption, residential investment, non-mining investment, service net export  
 Source: ABS, Datastream, compiled by SMAM  
 Up to January 2017

### Inflation



Note: RBA's inflation target is to keep CPI within 2-3% on average over the cycle. We assume that oil price would remain around \$50 (WTI) throughout the period  
 Source: RBA, ABS, Datastream, compiled by SMAM  
 As of 15 February 2017

---

# Outlook for Asia-Pacific Stock Markets

# Stock Market Performance - Global

Indices as of 28 Feb 2016	Px Last	Mtd	Qtd	Ytd	3m	1yr	2yr	3yr
S&P 500 INDEX	1,932.23	-0.4%	-5.5%	-5.5%	-7.1%	-8.2%	3.9%	27.6%
DOW JONES INDUS. AVG	16,516.50	0.3%	-5.2%	-5.2%	-6.8%	-8.9%	1.2%	17.5%
NASDAQ COMPOSITE INDEX	4,557.95	-1.2%	-9.0%	-9.0%	-10.8%	-8.2%	5.8%	44.2%
STOXX Europe 50 € Pr	2,798.19	-3.6%	-9.7%	-9.7%	-14.9%	-17.7%	-5.7%	5.7%
NIKKEI 225	16,026.76	-8.5%	-15.8%	-15.8%	-18.8%	-14.7%	8.0%	38.6%
TOPIX	1,297.85	-9.4%	-16.1%	-16.1%	-17.9%	-14.8%	7.1%	33.0%
BRAZIL BOVESPA INDEX	42,793.86	5.9%	-1.3%	-1.3%	-5.2%	-17.0%	-9.1%	-25.5%
RUSSIAN RTS INDEX \$	768.80	3.2%	1.6%	1.6%	-9.2%	-14.3%	-39.3%	-49.9%
BSE SENSEX 30 INDEX	23,002.00	-7.5%	-11.9%	-11.9%	-12.0%	-21.7%	8.9%	22.0%
HANG SENG INDEX	19,111.93	-2.9%	-12.8%	-12.8%	-13.1%	-23.0%	-16.3%	-17.0%
HANG SENG CHINA AFF.CRP	3,412.80	-1.7%	-15.8%	-15.8%	-15.7%	-26.7%	-19.9%	-25.7%
HANG SENG CHINA ENT INDX	7,916.34	-3.9%	-18.1%	-18.1%	-19.1%	-35.0%	-20.0%	-30.8%
CSI 300 INDEX	2,877.47	-2.3%	-22.9%	-22.9%	-19.3%	-19.5%	32.1%	7.6%
TAIWAN TAIEX INDEX	8,411.16	3.3%	0.9%	0.9%	1.1%	-12.6%	-2.6%	6.5%
KOSPI INDEX	1,916.66	0.2%	-2.3%	-2.3%	-3.8%	-3.5%	-3.2%	-5.4%
STRAITS TIMES INDEX	2,666.51	1.4%	-7.5%	-7.5%	-6.6%	-21.6%	-14.3%	-18.5%
FTSE Bursa Malaysia KLCI	1,654.75	-0.8%	-2.2%	-2.2%	-1.0%	-9.1%	-9.9%	1.0%
STOCK EXCH OF THAI INDEX	1,332.37	2.4%	3.4%	3.4%	-2.0%	-16.0%	0.5%	-13.6%
JAKARTA COMPOSITE INDEX	4,770.96	3.4%	3.9%	3.9%	7.3%	-12.5%	3.3%	-0.5%
PSEi - PHILIPPINE SE IDX	6,671.04	-0.2%	-4.0%	-4.0%	-3.7%	-13.7%	3.8%	-0.7%
HO CHI MINH STOCK INDEX	559.37	2.6%	-3.4%	-3.4%	-2.4%	-5.6%	-4.6%	17.9%
S&P/ASX 200 INDEX	4,880.93	-2.5%	-7.8%	-7.8%	-5.5%	-17.7%	-9.7%	-4.4%
NZX 50 INDEX	6,230.87	1.0%	-1.5%	-1.5%	2.1%	6.0%	24.9%	44.2%
MSCI World Free Local	386.22	-1.7%	-7.1%	-7.1%	-9.2%	-11.5%	-0.4%	18.6%
MSCI All Country Asia Ex Japan	577.60	-0.6%	-7.4%	-7.4%	-7.8%	-18.2%	-9.1%	-9.1%
MSCI EM Latin America Local	59,591.15	2.6%	0.5%	0.5%	-2.3%	-12.5%	-7.1%	-18.9%
MSCI Emerging Markets Europe M	443.20	1.2%	-1.2%	-1.2%	-4.1%	-12.9%	-5.5%	-1.9%

Note: All data are as of 28<sup>th</sup> February 2017  
Source: Bloomberg, compiled by SMAM

# Investment Outlook: Asia-Pacific Stock Markets

---

## Summery

- ▣ We expect Asian equity markets to go up mildly in line with corporate earnings growth in coming six month; however the valuation and technical indicators show some headwinds in the near term.

## Key Points

- ▣ Overall market conditions including currency and bond yield seem to be stabilized, which should be supportive for Asian equity markets.
- ▣ **We expect the markets will go up mildly in the medium term thanks to recovery of corporate earnings and overall macro economy.**
- ▣ On the other hand, forward P/E has already gone up above historical average level and some technical indicators show overheating signs at current market level. Given these factors we expect limited upside in the near term.

Note: As of 24 February 2017

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	<ul style="list-style-type: none"> <li>- China economy seems to be stabilized</li> <li>- Tightening policy for property continues.</li> <li>- Attractive Dividend Yield, but <b>less support from valuation side.</b></li> <li>- <b>Strong flow from Mainland.</b></li> <li>- <b>Technical indicators indicate "overheat" in the near term.</b></li> </ul>	Stable. <b>CE election in March should not be a big surprise.</b>	<ul style="list-style-type: none"> <li>×The pace of recovery is slower than expected.</li> <li>×Tightening policy for property continues.</li> </ul>	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 / Relatively strong against other Asian currencies	○Both ER and momentum are strong but seem to be peaked out.	<b>Less support from valuation side.</b> Fair on PER, attractive on PBR
China	<ul style="list-style-type: none"> <li>- <b>Macro economy is stabilized underpinned by PPI and private sector investments.</b></li> <li>- Stability is a top priority for government prior to change of leadership at CCP(China Communist Party).</li> <li>- Property Mkt, NPL and capital outflows are potential concerns in medium to long term.</li> </ul>	Stable, but becomes less clear towards 19th Party Congress.	Stabilized by strong policy support. Gradual slowdown is expected. Structural rebalancing is a key challenge.	×PBOC raised 7 day reserve repo rate, hike for the first time since Oct 2013/ PPI inflation accelerated to further in Jan.	Surplus- but it is declining The degree of capital outflow remains a big concern.	Gradual depreciation will continue, but it is well managed. Since beginning of 2017, CNY is stabilized against US\$.	○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	<ul style="list-style-type: none"> <li>- <b>Export recovery is underway.</b></li> <li>- Inventory correction on IT is progressed.</li> <li>- <b>Mkt is driven by big inflow, however valuations and technicals are less supportive.</b></li> </ul>	Cross strait risk is increasing under DPP president.	○We upgrade the economic outlook by gaining export momentum. ↑	Central Bank will hold policy rate./ 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 has come to positive again and momentum is solid.	Relatively attractive among in Asia / Fair on PER, attractive on PBR
Korea	<ul style="list-style-type: none"> <li>- Structural re-rating will not happen soon.</li> <li>- <b>Export recovery is underway.</b></li> <li>- Geopolitical concern continues.</li> <li>- CG score remains low.</li> </ul>	Less stable by President Park's scandal. Thaad issue continues.	○We upgrade the economic outlook by gaining export momentum. ↑	BOK will hold policy rate./ 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	<ul style="list-style-type: none"> <li>- Stable Mkt. Relatively safe when Mkt become volatile.</li> <li>- We expect economic growth will pick up gradually supported by US economy.</li> <li>- <b>SGD is relatively resilient against USD.</b></li> </ul>	The landslide victory of PAP should create political stability.	GDP growth is expected to recover gradually thanks to US economy.	Int. rate will be stable./ Inflation will remain low. / MAS to maintain the current bias at MPC in April.	High level of Trade & CA Surplus will continue.	MAS will maintain neutral bias.	×ER and momentum remain weak.	Fair on PER, attractive on PBR
Malaysia	<ul style="list-style-type: none"> <li>- Mounting uncertainty in both Politics and economy.</li> <li>- Investor's sentiment is improving due to recovery of crude oil price.</li> <li>- MYR depreciation is key concern.</li> </ul>	×1MDB continues to be a risk factor. Political turmoil is still there.	GDP growth is expected to bottom out in 2017 by off-budget disbursement.	BNM will hold policy rate/ Inflation will mildly pick up./ M2 growth rate is bottomed out.	CA Surplus will continue.	Depreciation bias by US treasury yield hike. But depreciation pressure is	×ER and momentum remain weak.	Fair (expensive on PER, but fair on PBR)
Thailand	<ul style="list-style-type: none"> <li>- Economy sentiment has already started to stabilize.</li> <li>- THB is relatively resilient against USD.</li> </ul>	Military gov should continue at least until 2017.	○Economy is expected to bottom out supported by fiscal stimulus.	BOT will hold policy rate./ Inflation will be stable. M2 growth rate should remain low.	Surplus will continue.	<b>BOT welcomes if THB depreciates against US\$.</b>	<b>ER is still weak but it is improving. ↑</b>	Fair on PER, attractive on PBR,
Indonesia	<ul style="list-style-type: none"> <li>- <b>Economy is expected to recover.</b></li> <li>- <b>IDR is stabilizing given little concern for US rate hike.</b></li> <li>- <b>Investor's sentiment is improving.</b></li> <li>- Jakarta governor election to a run-off in Apr.</li> </ul>	Stable under ruling parties with majority. New FM, Sri Mulyani will support macro recovery.	○Economic growth should accelerate gradually in 17/18.	BI will hold policy rate./ Lower inflation due to lower gasoline price.	CA deficit will continue to increase but Tax amnesty law could help finance of C/A deficit.	Depreciation bias by US treasury yield hike. But depreciation pressure is eased.	<b>ER is still weak but it is improving. ↑</b>	Fair on PER, attractive on PBR
Philippines	<ul style="list-style-type: none"> <li>- Still the bright spot. / Sustainability is the key.</li> <li>- Foreign investors are concerned about Duterte's political stance.</li> </ul>	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.	Depreciation bias by US treasury yield hike. But depreciation pressure is	ER is still weak but it is improving.	Rich on PER, fair on PBR
India	<ul style="list-style-type: none"> <li>- Solid macro economy. Inflation is stabilized.</li> <li>- Consensus OW Mkt. Negative impact can be expected when EM money outflow continues.</li> <li>- Relatively immune from the situation of global economy.</li> </ul>	Potential of economic reform continues BJP is gaining momentum.	○High Growth rate will continue driven by domestic consumption.	RBI will hold policy rate./ Inflationary pressure peaked out.	<b>Trade / CA deficit will gradually increase.</b>	Depreciation bias by US treasury yield hike. But depreciation pressure is eased.	×Both ER and momentum are weak.	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	Current interest rate will be maintained / Benign Inflation	Deficit, but it is improving	sideways	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	Current interest rate will be maintained / mild pick up of Inflation	Trade / CA surplus will be maintained.	side way	Improving	Within FV range.

# Market Focus (i): Hong Kong – Neutral to Underweight

---

## 【Summary】

Pessimistic outlook for the Chinese economy has receded, which is now reaching consensus. However, the equity market seems to show a top-heavy movement, as the supportive factors such as positive earnings revision or valuation upside are seen to be limited.

- As US long-term yields remain in a high level, the attractiveness of Hong Kong shares against US bonds almost diminished. The current P/E ratio of Hang Seng Index (forward 1y) was 11.8, as almost same as the average of 11.6 since 2010. As for 2017 and 2018, we have already priced in business forecast consensus of major mainland Chinese shares to achieve 15% up. In 2016, the earnings growth was 0%, thus we expect base effects to show up in 2017 growth. Yet, the benefit from the economic expansion has been already reflected.
- We stay with our view that the Hong Kong market is on an upward trend considering a low possibility of China's economic depression. The value is also relatively cheap comparing to the US market. Accordingly, we maintain that the Hong Kong market would keep a moderate rising trend along with other Asian markets.

# Market Focus ( ii ): Indonesia – Neutral to Overweight

---

## 【Summary】

The Indonesian equity market valuation stays the historical level after shares dropped on concerns over Indonesia Rupiah depreciation and US dollar appreciation. The mid and long term fundamentals are in favorable condition, but the market would not go up smoothly due to worries about the currency and uncertainties over political situation.

- ❑ Golkar Party, the Indonesia's second-largest political party, has officially declared to support to President Joko Widodo's government. This leads to a better policy management. However, prior to Jakarta governor election, political situation is still unpredictable.
- ❑ Domestic demands remain strong. In the short term, we believe private investment to expand as well as public investment. Infrastructure weakness is still concern, but we judge that growing direct investment in Indonesia in order to shift production bases still continue in the mid and long term.
- ❑ Compared to Asian financial crisis, the economic fundamentals are still healthy. Along with further cuts in government subsidies, the budget deficit in relation to GDP is expected to reduce.
- ❑ Devaluation of Chinese Yuan Renminbi and US rate hike including its pace and range are risk factors. If the economic recovery is deemed as solid, expectation for a rate cut would be eased.
- ❑ Same as other ASEAN markets, earnings revision is still weak, but it is improving. In terms of valuation, the P/E ratio is the same level as the historical average.
- ❑ Tax amnesty law could be positive for the equity market. Rising commodity prices are also positive.

# Disclaimer

---

## **Please read this disclaimer carefully.**

- This material is for non-Japanese institutional investors only.
- The research and analysis included in this report, and those opinions or judgments as outcomes thereof, are intended to introduce or demonstrate capabilities and expertise of Sumitomo Mitsui Asset Management Company, Ltd. (hereinafter “SMAM”), or to provide information on investment strategies and opportunities. Therefore this material is not intended to offer or solicit investments, provide investment advice or service, or to be considered as disclosure documents under the Financial Instruments and Exchange Law of Japan.
- The expected returns or risks in this report are calculated based upon historical data and/or estimated upon the economic outlook at present, and should be construed no warrant of future returns and risks.
- Past performance is not necessarily indicative of future results.
- The simulated data or returns in this report besides the fund historical returns do not include/reflect any investment management fees, transaction costs, or re-balancing costs, etc.
- The investment products or strategies do not guarantee future results nor guarantee the principal of investments. The investments may suffer losses and the results of investments, including such losses, belong to the client.
- The recipient of this report must make its own independent decisions regarding investments.
- The opinions, outlooks and estimates in this report do not guarantee future trends or results. They constitute SMAM's judgment as of the date of this material and are subject to change without notice.
- The awards included in this report are based on past achievements and do not guarantee future results.
- The intellectual property and all rights of the benchmarks/indices belong to the publisher and the authorized entities/individuals.
- This material has been prepared by obtaining data from sources which are believed to be reliable but SMAM can not and does not guarantee its completeness or accuracy.
- All rights, titles and interests in this material and any content contained herein are the exclusive properties of SMAM, except as otherwise stated. It is strictly prohibited from using this material for investments, reproducing/copying this material without SMAM's authorization, or from disclosing this material to a third party.

Registered Number: Kanto Local Finance Bureau (KINSHO) No.399

Member of Japan Investment Advisers Association, The Investment Trusts Association, Japan and Type II Financial Instruments Firms Association

© Sumitomo Mitsui Asset Management Company, Limited