China and Asia Investment Monthly

SMAM monthly comments & views

~ February 2015~

SMAM

Sumitomo Mitsui Asset Management

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Asia Pacific Economic Forecast Summary

- We expect Asian countries and regions to add steam modestly from 2014 to 2015 amid expanding US economy. Along with improvements in external demand, special impacts such from ferry disaster in South Korea and prolonged political turmoil in Thailand are likely to fade away.
- We forecast China's GDP growth +7.3% for 2014 and +7.1% for 2015.
- NIES4 is projected to grow +3.2% YoY in 2014 and +3.3% YoY in 2015, while ASEAN4 is projected to grow +4.4% YoY in 2014 and +5.0% YoY in 2015.
- Regarding inflation, we would be likely to see low and stable inflation in NIES4. However, we would be likely to see elevating inflation in most ASEAN4 countries, especially in Malaysia and Indonesia due to fuel price adjustments, planned implementation of GST, and elevating domestic costs. We now expect no rate hike calls in Asia, but rate cuts would be possible in China, South Korea and India.

Real GDP Growth Forecasts (%YoY)

Country	2013 (A)	2014 (F)			2015 (F)		
		SMAM	as of 17 Dec	Consensus	SMAM	as of 17 Dec	Consensus
Australia	2.1	2.7	2.7	2.8	2.5	2.5	2.6
China	7.7	7.3	7.3	7.3	7.1	7.1	7.0
Hong Kong	2.9	2.3	2.3	2.2	2.5	2.5	2.7
India (*)	4.7	5.6	5.4	5.6	6.3	6.2	6.3
Indonesia	5.8	5.1	5.1	5.0	5.4	5.4	5.4
Malaysia	4.7	5.8	5.8	5.8	4.9	5.0	4.9
New Zealand	2.5	3.5	3.5	3.5	2.7	2.7	2.9
Philippines	7.2	5.9	5.9	5.8	6.1	6.1	6.1
Singapore	3.9	2.8	3.0	2.9	3.2	3.2	3.1
S. Korea	3.0	3.3	3.5	3.4	3.5	3.5	3.6
Taiwan	2.1	3.5	3.5	3.5	3.5	3.4	3.6
Thailand	2.9	0.7	0.7	0.6	3.9	3.9	3.8
Vietnam	5.4	6.0	5.6	5.9	6.1	5.9	6.1

* India is for fiscal year starting April. F: Forecast, A/P: Actual/Preliminary
**Consensus Forecasts as of Dec 2014 & SMAM Forecasts as of 20 Jan 2015

Outlook for Chinese Economy

SMAM Economic Forecasts for China

China's Yearly GDP Growth & Relevant Indicators

	2011	2012	2013	2014E	2014E (previous)	2015E	2015E (previous)
Real GDP, % YoY	9.3	7.7	7.7	7.3	7.3	7.1	7.1
Consumption Expenditure, % YoY	11.1	8.7	8.0	7.8	7.4	7.6	7.0
Gross Fixed Capital Investment, % YoY	9.1	7.3	8.5	6.1	6.3	6.1	6.1
Net Exports, contrib.	-0.4	-0.1	-0.3	0.6	0.8	0.4	0.7
Nominal GDP, % YoY	17.8	9.8	13.2	8.1	8.8	7.6	8.7
GDP Deflator, % YoY	7.8	2.0	5.1	0.8	1.5	0.5	1.6
Ind. Production, % YoY	13.9	10.0	9.7	8.3	8.4	7.8	7.8
CPI, % YoY	5.4	2.6	2.6	2.0	2.0	1.9	2.3
Base Loan Rate, %	6.56	6.00	6.00	5.60	5.60	5.10	5.10

Notes: SMAM estimates as of 20 Jan 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

	2013		2014E				2015E			
	3Q	4Q	1Q	2Q	3Q	4QE	1QE	2QE	3QE	4QE
Real GDP, % YoY	7.8	7.7	7.4	7.3	7.4	7.3	7.2	7.0	7.0	7.1
previous	-	-	-	-	-	7.3	7.2	7.0	7.0	7.1
Consumption Expenditure, % YoY	8.5	10.1	8.9	5.9	6.5	9.0	7.6	7.5	8.0	7.4
previous	-	-	-	-	-	7.6	7.0	6.5	6.9	7.4
cont. to GDP, %	3.7	4.7	5.7	2.6	2.8	4.2	4.9	3.1	3.5	3.5
previous	-	-	-	-		3.6	4.5	2.7	3.0	3.5
Gross Fixed Capital Investment, % YoY	8.9	7.7	8.8	7.3	3.5	6.0	4.8	6.0	6.3	6.6
previous	-	-	-	-	-	6.0	4.8	6.0	6.3	6.6
cont. to GDP, %	4.7	3.8	3.1	4.1	1.9	3.0	1.7	3.4	3.2	3.2
previous	-	-	-	-	-	3.0	1.7	3.3	3.2	3.3
Net Exports										
cont. to GDP, %	-0.5	-0.9	-1.4	0.9	2.7	0.2	0.6	0.5	0.3	0.3
previous	-	-	-	-	-	0.8	0.9	0.9	0.8	0.3
CPI, %	2.8	2.9	2.3	2.2	2.0	1.5	1.6	1.8	1.5	2.5
previous	-	-	-	-	-	1.6	2.2	2.3	2.0	2.8

Notes: SMAM estimates as of 20 Jan 2015. Consumption Expenditure and GFCI(Gross Fixed Capital Investment) are SMAM estimates

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

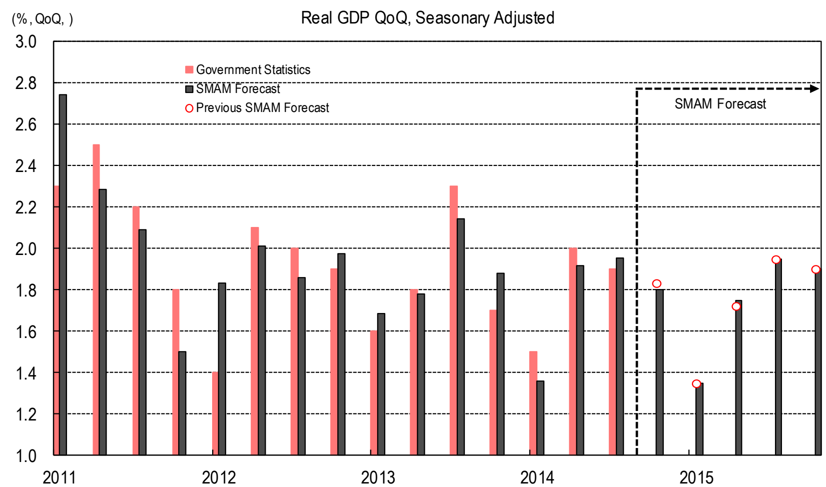
Chinese Economy Outlook

- We maintained China's GDP growth forecasts of +7.3% for 2014 and +7.1% for 2015.
- December IP slightly improved as production lines resumed their operation after APEC closure. However, Industry Production is expected to be slower growth due to deteriorating inventory cycle.
- Property Investment is expected +10% YoY growth in 2015 full year and accelerating recovery in 2H. Inventory adjustment is likely over at the middle of the year as property transaction has been recovering month by month.
- We upgraded Consumption Expenditure forecast to +7.6% YoY from +7.0% YoY for 2015 due to higher real income buoyed by lower oil price as well as raise in salary of government employees.
- Due to high appreciation of REER (Real Effective Exchange Rate) in China in 2H 2014, we cut our forecast of contribution to GDP by Net Exports to +0.4ppt from +0.7ppt for 2015.
- Downside risk includes uncertain Government Investment as regional government, former growth driver of the economy is unlikely to increase its infrastructure investment as before. To accomplish GDP target of +7.0% in 2015, central government should implement appropriate measures in both monetary and fiscal policy.

Note: These comments are as of 20 January 2015.

China: Moderate GDP growth in 2015

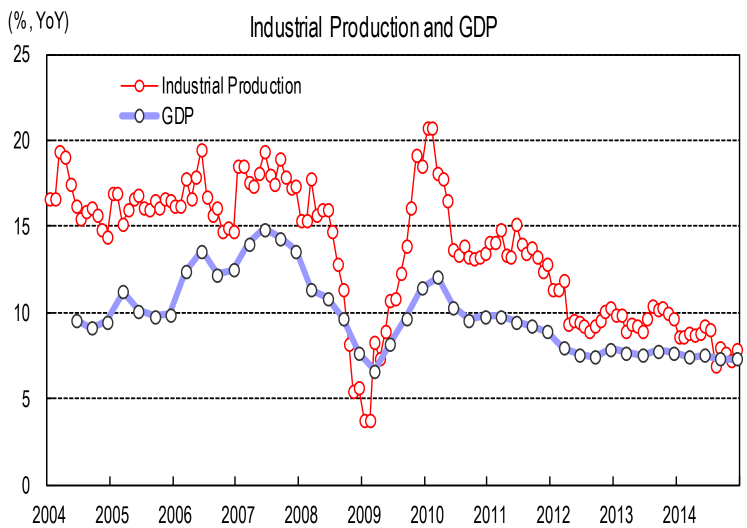
- China's GDP growth is expected to be +7.3% for 2014 and +7.1% for 2015.
- We expect moderate recovery in 2H 2015 underpinned by solid recovery in property investment, while the whole economy is expected to be slower growth in 1H due to continuing inventory adjustment in manufacturing and property sectors.
- Lower oil price could not fully return the benefit to China's economy. Some of the benefit that the decrease in crude oil price by USD10 a barrel is expected to improve China's terms of trade by 0.22ppt to the GDP and the decrease in USD50 would likely raise its growth by 1.1ppt, has been absorbed by the tax hike on petroleum products in November. The tax hike hinders to decrease retail oil price that has declined only 22%, while WTI plunged more than USD50 a barrel or 50%. On the other hand, the tax revenue increase is anticipated to spend for the central government investment.
- We expect 50bp rate cut in 1H 2015 under low CPI pressure and stable food prices.



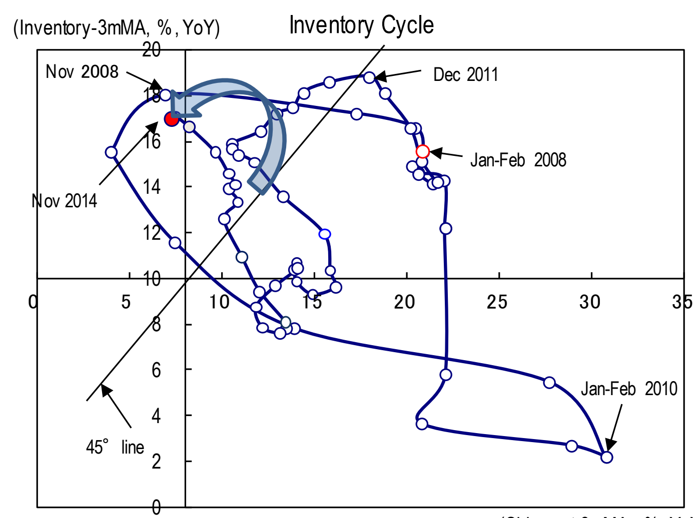
Source: National Bureau of Statistics of China, SMAM

China: Slower IP growth dragged by deteriorating inventory cycle

- Industrial Production slid to +7.6% YoY in October-December from +8.0% YoY in July-September. IP growth is expected to remain subdued due to weak demand and deteriorating inventory cycle.
- Steels and Auto production rose +6.4% YoY and +3.7% YoY in December. December strong IP data looks temporary rebound as some production lines resumed their operation after APEC closure.
- Inventory cycle is deteriorating notably in consumer products sector. November Inventory increased nearly +30% YoY in communication equipment and transportation machines, while their shipment grew only +10% YoY. Inventory adjustment is expected to continue for the time being and IP will be improving in 2H.



Note: Seasonary adjusted for New year averaging January and February for the both months
National Bureau of Statistics of China, CEIC, SMAM
Up to December 2014



National Bureau of Statistics of China, CEIC, SMAM

China: Requirement for achieving +7.0% GDP growth in 2015

- We project regional government investment to continue slower growth. The regional governments are likely to reduce over-reliance on land sell revenue of its major revenue source that declined by 20% YoY in 2014. The fiscal revenue has been also slowing for 2014 and declined to +6% YoY growth in November.
- Furthermore, the tightened budget regulation that is effective in 2015 would affect approx. 30% of its debt financing if the new rule is strictly applied.
- To achieve +7.0% GDP growth in 2015, Fixed Asset Investment is required to grow +14.5% YoY. To achieve +14.5% YoY growth in Fixed Asset Investment, +18.0% YoY growth in Public Investment or Infrastructure Investment is required. Central government investment could be supplemented in stead of the regional governments.

To achieve +7.0% GDP growth in 2015, +14.5% growth in Nominal Fixed Asset Investment is required.

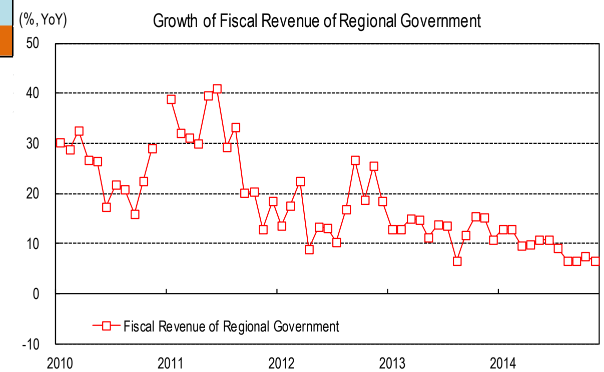
	FAI	FAI Growth		Gross Fixed Capital Formation		Cont. by Inventory	Real Gross Fixed Capital Formation	
	Previous Year=100	Nominal, %	*1. Real, %	*2. Full Year	*3. Quarter Base	(Vs. GFCF, ppt)	Full Year	Quarter Base
2011	106.6	23.8	16.1	10.2	7.7	1.3	11.6	9.1
2012	101.1	20.6	19.3	10.8	6.3	1.0	11.9	7.3
2013	100.3	19.6	19.2	11.0	7.6	1.0	12.0	8.5
2014	100.2	15.6	15.4	8.1	5.1	1.2	9.3	6.3
2015E	99.4	14.5	15.1	7.9	4.9	1.0	8.9	5.9

*1: +5.8% YoY GFCF growth in 2015 assumes+7.2% growth in Consumption Expenditure and 0.7ppt FDP contribution in Exports.
*2: Relationship of growth rate between Real GFCF and FAI assumes that of 2014.
Source: National Bureau of Statistics of China, CRIC, SMAM□

To achieve mid +14.5% growth in FAI, +18% growth in Public Investment is required.

	Infrastructure	Const.&Property	Manufacturing	Mining	Services	Other	All Industries
(Proportion Ratio)	22.2%	26.1%	33.0%	2.9%	12.9%	2.8%	100%
2011	7.1	30.3	31.7	21.2	26.5	22.4	23.8
2012	12.8	22.8	22.1	12.1	27.4	30.4	20.6
2013	21.3	19.8	18.4	11.0	20.7	30.1	19.6
2014E	20.4	12.9	13.5	0.8	21.2	27.6	15.6
2015E	18.0	10.0	13.5	-2.5	21.0	25.0	14.4

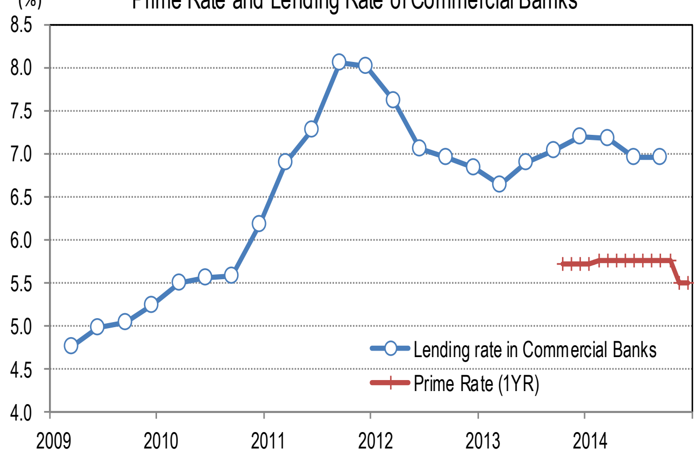
*: Proportion ratios are based on 2014e.
Source: National Bureau of Statistics of China, CRIC, SMAM



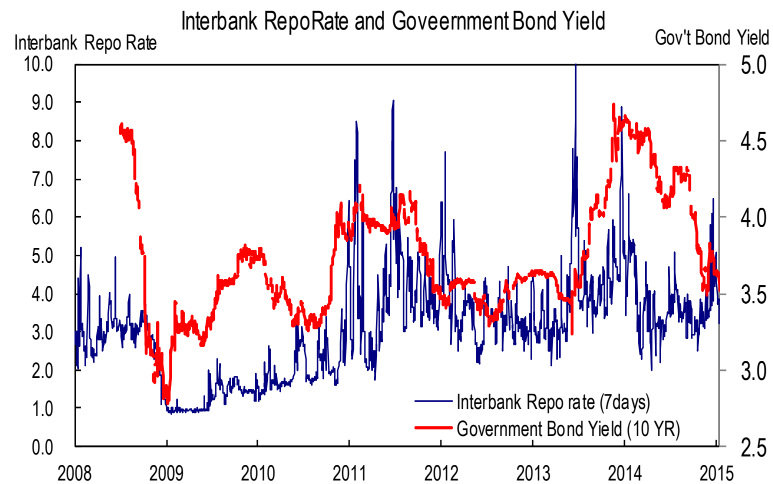
Source: National Bureau of Statistics of China, CEIC, SMAM

China: Additional rate cut in 1H 2015

- The market rates for bank loan do not fully reflect the recent rate cut by 40bp in November. Prime rate for 1YR has been decreased only 25bp and lending rate by commercial banks has not declined remarkably as well. This resulted from China's central bank's policy that has not largely changed its tightened liquidity policy yet. However, the loan rates are likely to decline eventually going forward as interbank repo rate is falling again in January.
- Additional rate cut is highly possible in 1H 2015 due to soft economy and low inflation pressure. The 10% lower in crude oil price is expected to decrease CPI and PPI by 0.2% and 0.5% respectively.



Source: People's Banl of China, CEIC, SMAM Up to January 2015



Source: People's Banl of China, CEIC, SMAM Up to January 15th 2015

Outlook for Economies in Asia

Australia

- We maintained GDP growth forecast at +2.7% for 2014 and +2.5% for 2015. The economy is expected to moderate growth in 2H 2015 led by recovery in consumption and exports. Lower crude oil price seems to benefit the overall economy for the net oil import country, but the benefit is likely to be offset by lower export prices.
- Housing price rose by +1.5% QoQ or +9.1% YoY in July-September, but is expected to weaken as new mortgage application number has been slowing for 2014.
- We cut CPI forecast to +2.5% from +2.6% for 2014 and to +1.7% from +2.2% for 2015 due to lower oil price.
- Any change of monetary policy is not anticipated during 2014-2015.

	2013	2014			2015		
		Previous	**Forecast**	Concensus	Previous	**Forecast**	Concensus
Real GDP Growth	2.1	2.7	**2.7**	2.8	2.5	**2.5**	2.6
Private Consumption	1.7		**2.4**			**2.3**	
Private Investment	▲ 0.5		**▲ 2.3**			**▲ 5.1**	
Housing	0.2		**8.0**			**4.2**	
Capex	▲ 1.7		**▲ 5.7**			**▲ 8.3**	
Government Consumption	0.8		**2.1**			**2.2**	
Government Investment	▲ 9.3		**▲ 0.6**			**▲ 5.8**	
Export	6.2		**6.3**			**5.6**	
Import	▲ 1.9		**▲ 1.4**			**▲ 3.9**	
Unenployment rate	5.8	6.1	**6.1**	6.1	6.3	**6.3**	6.2
CPI	2.4	2.6	**2.5**	2.6	2.2	**1.7**	2.4
Policy Rate: Cash Rate Target	2.50	2.50	**2.50**	2.50	2.50	**2.50**	2.60

*: Unemployment rate is annual average, Official Rate is rate at the year end.

(Source) SMAM as of January 16th 2015

Impact by 10% decline of oil price	GDP	CPI
Crude Oil Price	0.2	▲ 0.2
Non-Oil Commodity Prices	▲ 1.0	▲ 0.1
Forrex	0.3	0.4-0.5

Oil and Forrex in recent 1month	
*1. Crude Oil Price	▲20%
2*. Non-Oil Commodity Prices	▲5%
3*. Forrex	unchange

Impact by oil and Forrex in recent 1month	GDP	CPI
Crude Oil Price	0.4	▲ 0.4
Non-Oil Commodity Prices	▲ 0.5	▲ 0.1
Forrex	0.0	0.0
Total (%)	▲ 0.1	▲ 0.5

1*: TAPIS Crude

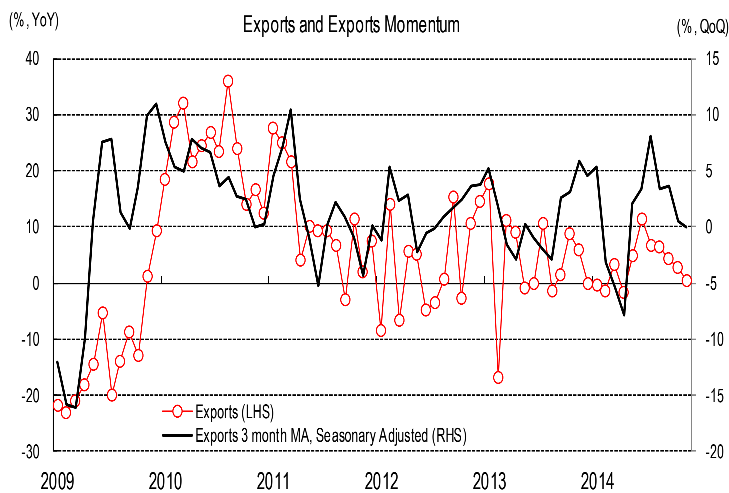
2*: trade-weighted average

3*: nominal effective rates

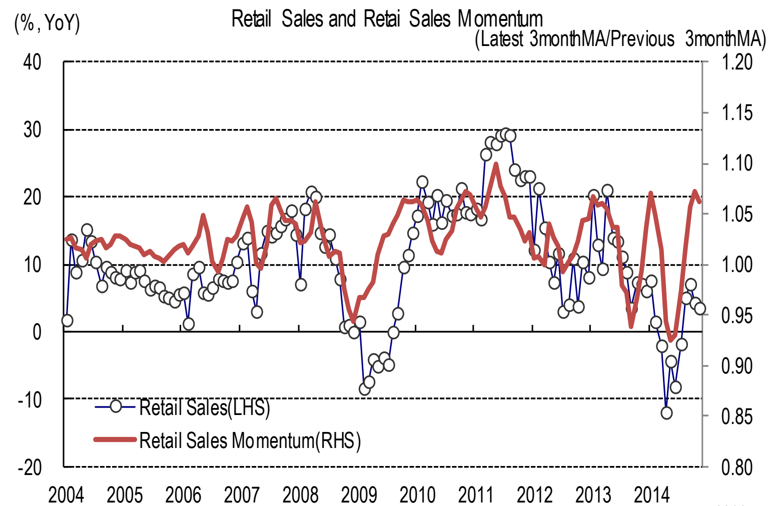
(Source) SMAM

Hong Kong

- We maintain GDP forecast of +2.3% and +2.5% in 2014 and 2015 respectively.
- Exports momentum has been slowing. October Exports declined to +2.7% YoY from +5.9% YoY of 1 month average in July-September. Received orders of exports to South Korea and Taiwan have been decreasing, too.
- Consumption is still stagnating although October Retail Sales surged to +4.4% YoY from its bottom of period in March-July. Sluggish growth in income and wage drags weak consumer expenditure, while unemployment rate stays favourably low at 3% level.
- The number of visitors from mainland is steadily increasing and jumped +18.3% YoY in October. Retail momentum is likely recovering.



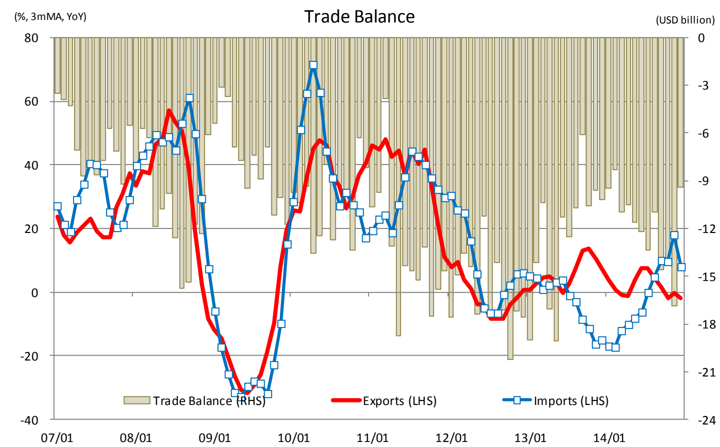
(Source) Census and Statistics Department, CEIC, SMAM



(Source) Census and Statistics Department, CEIC, SMAM

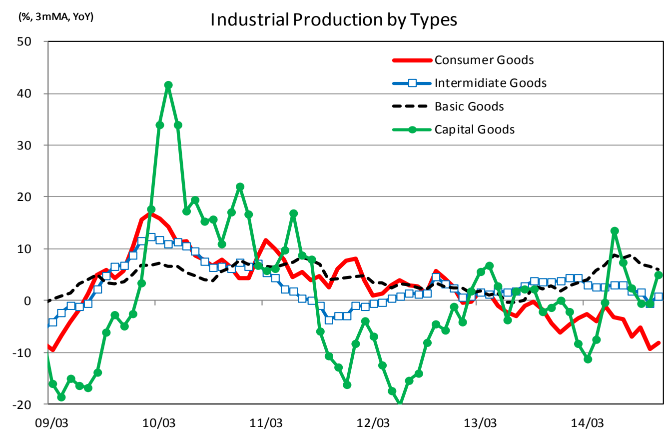
India

- Trade deficit is expected to improve going forward thanks to low oil price. Upbeat Non-Oil & Non-Gold Imports hinted on a robust domestic demand.
- IP is expected to pick up underpinned by the recent rate cut and government reforms in different sectors. Above market expectations, November IP rebounded from October on YoY basis. November IP, by sector, Mining, and Manufacturing showed improving signs on a 3mMA YoY basis, while Electricity softened.
- Consumption is expected to remain upbeat due to growing demographics and economic recovery. October Retail Sales softened from September on YoY basis but remain upbeat on a 3-month moving average basis.
- Albeit the absence of favorable base effect, CPI is expected to undershoot RBI's 8.0% target in January 2015 amid lower oil price and stable food price. RBI cut policy rate earlier than expected, but we now expect additional rate cut in July-September after RBI has clearer access to inflation and government consolidation.



(Source) CEIC, SMAM

Up to December 2014

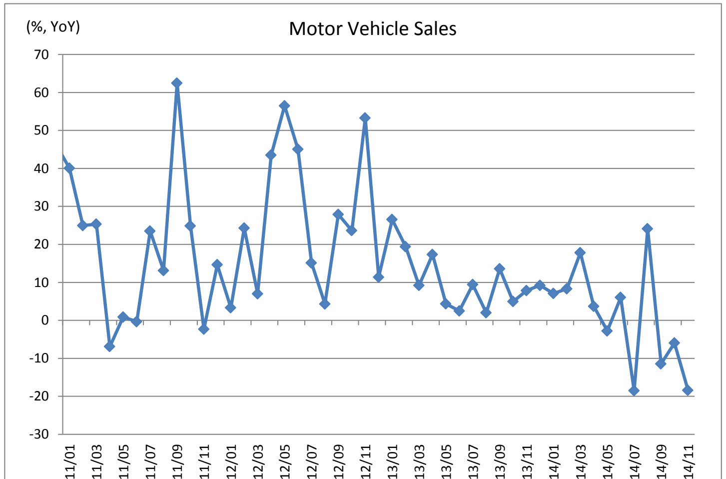


(Source) CEIC, SMAM

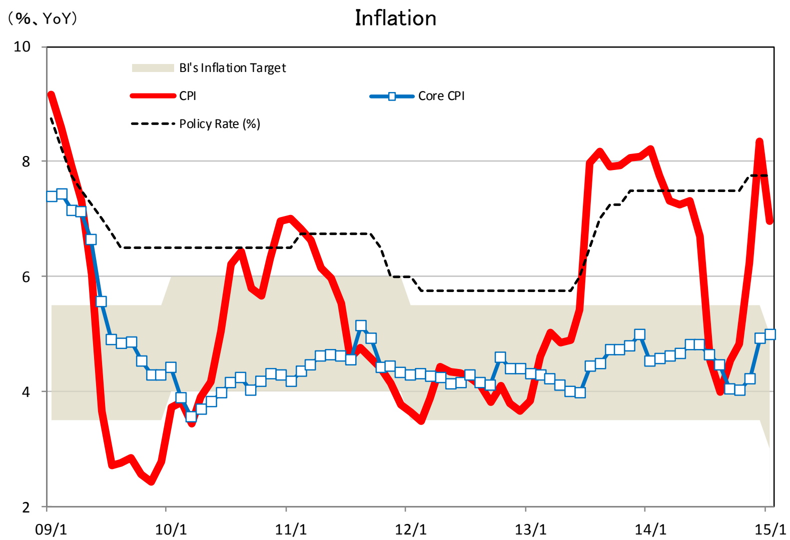
Up to December 2014

Indonesia

- Exports growth is expected to remain soft going forward due to low global commodity prices and revised mining regulations. Below market expectations, November Exports fell sharply from Oct on YoY basis mainly led by lower commodity prices.
- Albeit nominal wages remain positive, Household purchasing power under pressure due to higher domestic costs. Amid lower consumer confidence, Retail Sales fell sharply in December on YoY basis. November motor vehicle sales fell from Oct on YoY basis, while monthly nominal wage growth remains positive.
- CPI inflation rose higher than BI's 8.0% expectation in December. However, inflation is expected to slightly ease down gradually due to low crude oil price and expected-to-moderate food price. Above market expectations, December CPI inflation rose from November on YoY basis led by higher food and transportation costs.



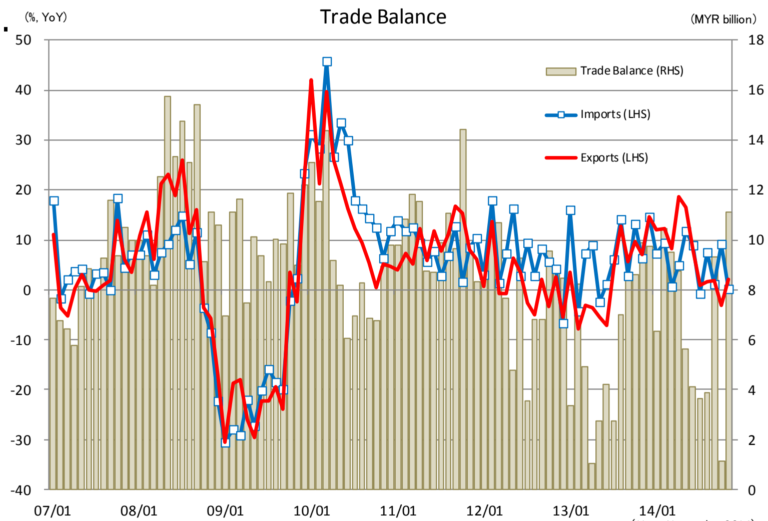
(Source) CEIC, SMAM



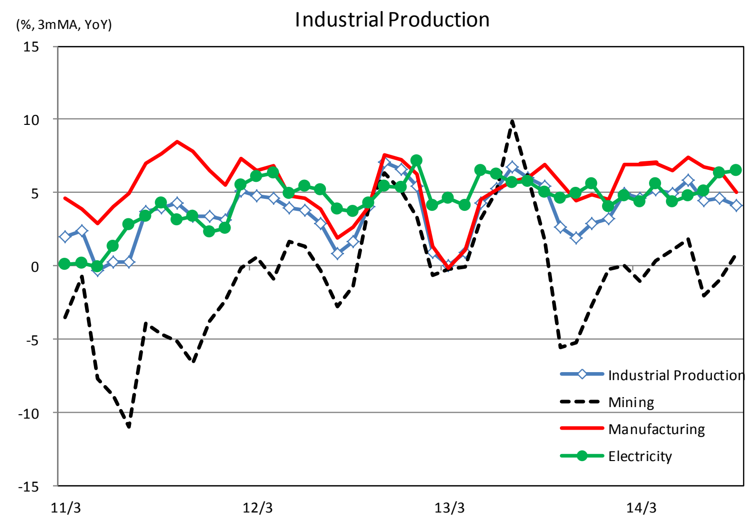
(Source) CEIC、SMAM

Malaysia

- Amid low crude oil price, trade surplus is expected to narrow down going forward. Exports growth is expected to remain soft due to low global commodity prices. Above market expectations, November trade surplus widened due to lower-than-expected Imports. Commodity exports contracted at a slower speed, while November exports rebounded as Non-Commodity exports picked up on YoY basis.
- IP is expected to remain positive underpinned by E&E Manufacturing amid better external demand and positive domestic demand. In line with market expectations, November IP eased down from October on YoY basis. Albeit Manufacturing continued picking up, the slowdown was led by lower Mining and Electricity growth.
- Consumption is expected to ease down at a slow speed. Albeit the minimum wage implementation, elevating inflation and GST implementation in April would weigh on private consumption going.
- Higher domestic costs would lift up inflation going forward albeit lower oil price would slightly mitigate inflationary pressures.



(Source) CEIC, SMAM



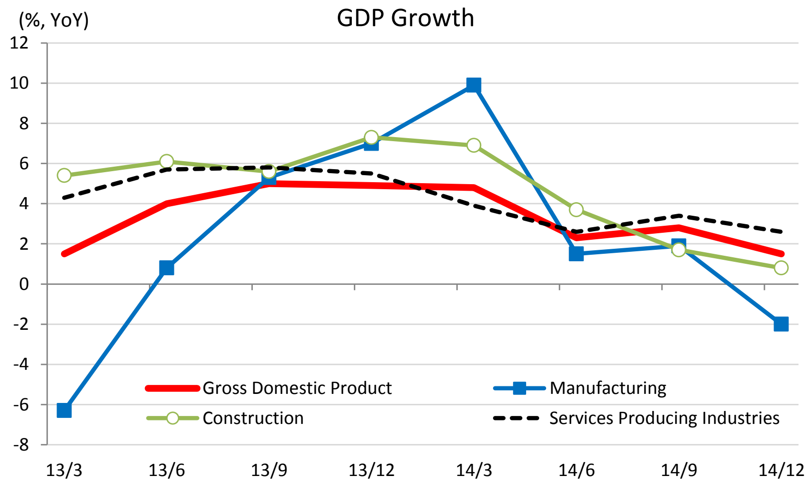
(Source) CEIC, SMAM

Singapore

- Singapore October-December AE GDP came out way lower than market expectations, which brought the full-year GDP now downgraded to 2.8% YoY. NIES4 2014 GDP was also trimmed to 3.2% YoY from 3.3% YoY.
- Advanced Estimates of October-December GDP growth rate slowed down from July-September on YoY basis, led by contracting Manufacturing.
- The weakness also showed in Construction due to a slowdown in private sector construction activities and in Services Producing Industries due to slower expansion in the Wholesale & Retail trade and Transportation & Storage sectors.

	2013			2014			
(%, YoY)	2Q	3Q	4Q	1Q	2Q	3Q	4Q*
GDP	4.0	5.0	4.9	4.7	2.3	2.8	1.5
Goods Producing Industries							
Manufacturing	0.8	5.3	7.0	9.9	1.5	1.9	−2.0
Construction	6.1	5.6	7.3	6.9	3.7	1.7	0.8
Services Producing Industries	5.7	5.8	5.5	3.9	2.6	3.4	2.6

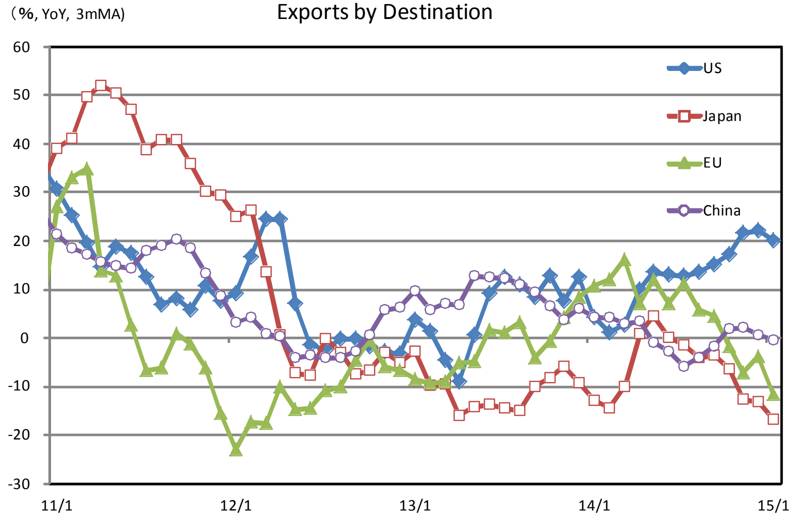
(Source) Ministry of Trade and Industry Singapore
(Note) Advanced Estimates for 4Q 2014 GDP growth



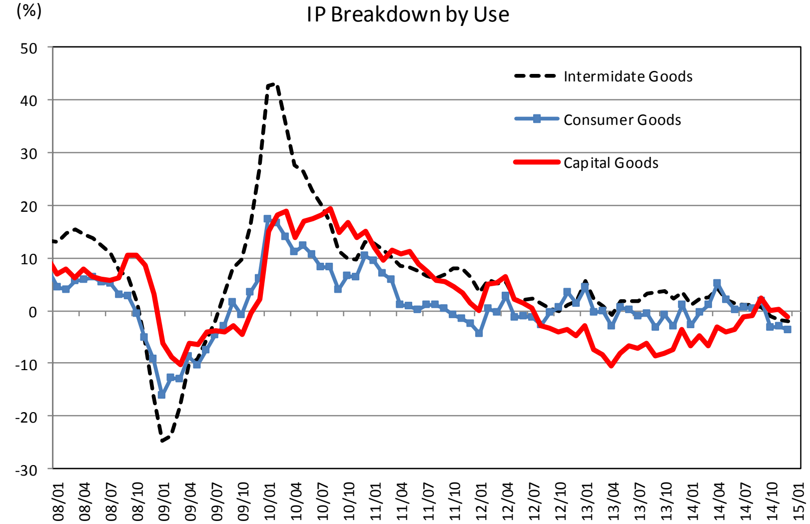
(Source) CEIC, SMAM

South Korea

- We downgraded GDP growth forecast to 3.3% from 3.5% for 2014.
- Trade surplus is expected to widen as Exports recover modestly going forward amid stronger external demand. December Exports surged by 3.7% YoY from November, higher than market expectations.
- November IP turned back into contraction from October on YoY basis, lower than market expectations. Weakening Intermediate, Consumer, and Capital Goods Imports hinting on a softening domestic demand.
- Consumption is expected to remain in a modest growth due to slow wage growth, expected-to-rise Jeonse price, and weak consumer sentiment going forward.
- Amid low oil price, inflation is expected to pick up at a slow speed due to tobacco price hike and possible higher tariffs in 2015. The low inflation and weaker-than-expected environment would possibly lead to a 25bp rate cut at January MPC meeting.



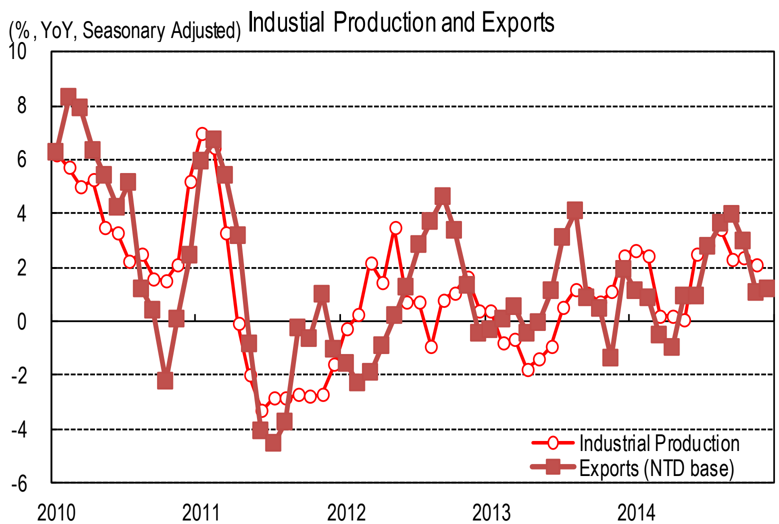
(Source) CEIC、SMAM
(Note) January Export is calculated as the 1st 20 days Exports in January



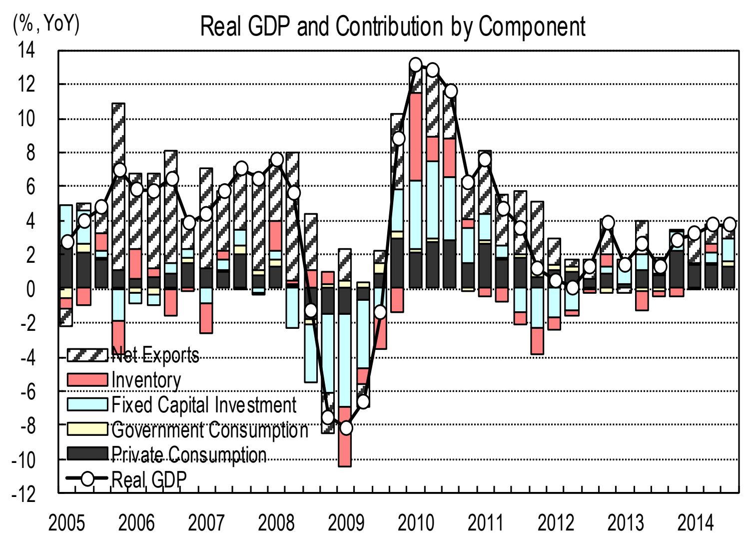
(Source) CEIC, SMAM

Taiwan

- We maintained 2014 GDP growth forecast of +3.5% YoY but upgraded 2015 forecast to +3.5% from +3.4%.
- November Exports softened to +3.7% YoY from +5.4% YoY of 1 month average in July-September. Exports momentum has softened but Services Balance remained at higher level in July-September. Industrial Production is expected to recover in 2H 2015 after slower growth due to deteriorating inventory cycle in 1H.
- Consumption momentum keeps stable under solid employment data. Housing price might be retreating again as the growth in mortgage loan has been slowing since August, although it rebound in November .
- Rate hike expectation is receding due to weaker inflation pressure.



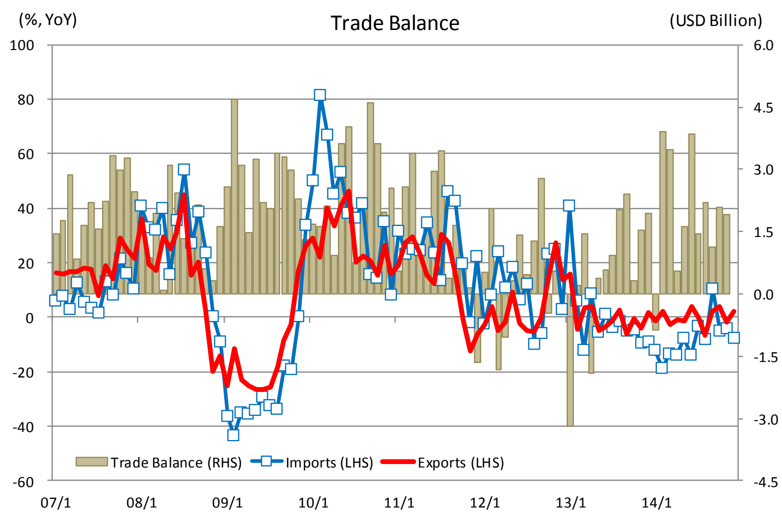
(Source) Ministry of Economic Affairs, CEIC, SMAM
Up to December 2014



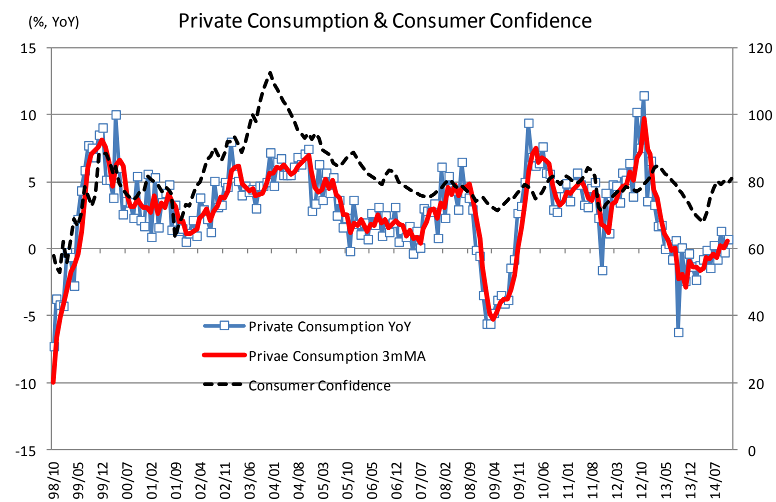
(Source) Ministry of Economic Affairs, CEIC, SMAM
Up to September 2014

Thailand

- Trade surplus is expected to widen due to lower imports going forward. Exports are expected to remain soft due to low global prices.
- Consumption is expected to recover modestly amid improving sentiment as prolonged political uncertainties gradually fade away. November Private Consumption Index slightly rebounded on YoY basis from October, while October Retail Sales softened from September on YoY basis but remain upbeat on a 3-month moving average basis.
- Bank of Thailand shifted to a higher inflation target framework of 2.5% ±1.5% in 2015. Amid low crude oil price, inflation is expected to pick up modestly along with economic recovery. December CPI Inflation eased down from November on YoY basis.



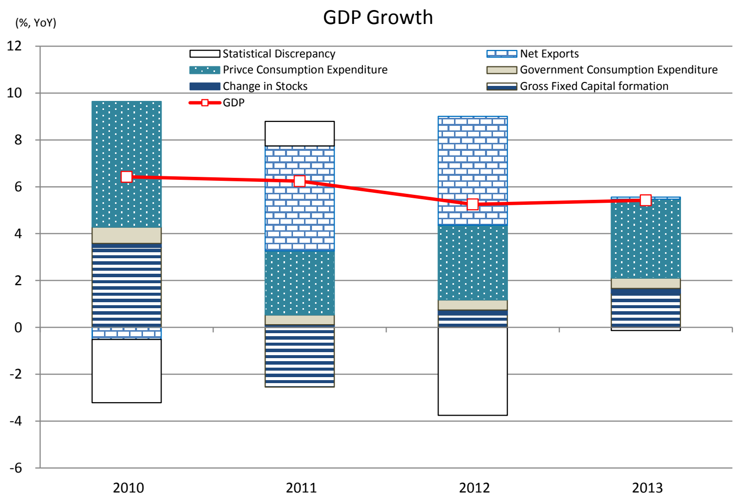
(Source) CEIC, SMAM



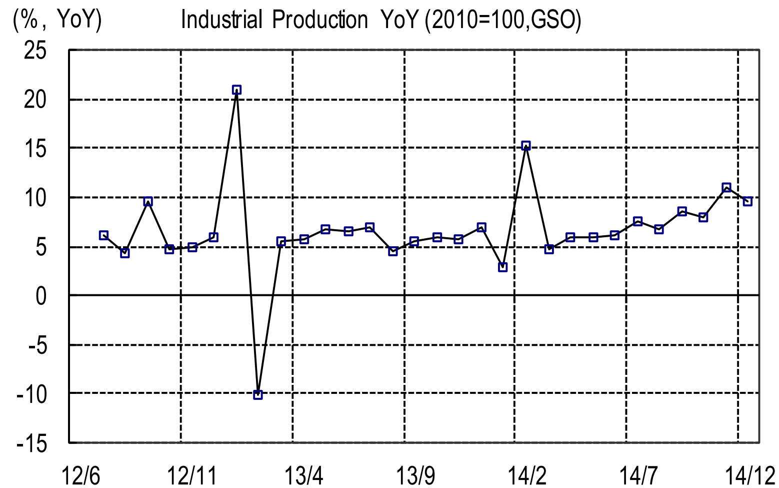
(Source) CEIC, SMAM

Vietnam

- We upgraded GDP growth forecast to +6.0% from +5.6% for the year 2014.
- The economy keeps growing underpinned by upbeat exports and expansion of bank loan under low interest rates spurred by recent rate cut of discount rate and refinancing rate in October-December quarter.
- Consumption such as Auto Sales remains favorably to continue growing.
- We raised GDP forecast for 2015 to +6.1% from +5.9% due to strong Exports and domestic demand.



(Souce) CEIC, SMAM



(Source) CEIC, SMAM

Outlook for Asian Stock Markets

Stock Market Performance - Global

Index as of 29 Jan 2015	Px Last	Mtd	Qtd	Ytd	3m	1yr	2yr	3yr
S&P 500 INDEX	2,002.16	-2.8%	-2.8%	-2.8%	1.0%	12.8%	32.8%	52.1%
DOW JONES INDUS. AVG	17,191.37	-3.5%	-3.5%	-3.5%	1.3%	9.2%	23.2%	35.8%
NASDAQ COMPOSITE INDEX	4,637.99	-2.1%	-2.1%	-2.1%	2.0%	14.5%	47.1%	64.7%
STOXX Europe 50 € Pr	3,212.26	6.9%	6.9%	6.9%	9.8%	12.8%	20.2%	32.3%
NIKKEI 225	17,606.22	0.9%	0.9%	0.9%	13.2%	14.4%	62.0%	99.1%
TOPIX	1,413.58	0.4%	0.4%	0.4%	11.2%	12.5%	53.5%	85.7%
BRAZIL BOVESPA INDEX	47,694.54	-4.6%	-4.6%	-4.6%	-6.6%	0.3%	-21.0%	-24.2%
RUSSIAN RTS INDEX $	751.25	-5.0%	-5.0%	-5.0%	-29.1%	-42.6%	-53.7%	-52.0%
BSE SENSEX 30 INDEX	29,514.50	7.3%	7.3%	7.3%	8.9%	42.9%	47.6%	71.3%
HANG SENG INDEX	24,595.85	4.2%	4.2%	4.2%	3.3%	11.1%	4.0%	20.0%
HANG SENG CHINA AFF.CRP	4,504.91	3.6%	3.6%	3.6%	0.3%	5.4%	-4.3%	13.8%
HANG SENG CHINA ENT INDX	11,736.09	-2.1%	-2.1%	-2.1%	9.4%	18.6%	-2.8%	2.5%
CSI 300 INDEX	3,481.80	-1.5%	-1.5%	-1.5%	42.0%	56.3%	30.1%	39.0%
TAIWAN TAIEX INDEX	9,426.90	1.3%	1.3%	1.3%	5.9%	11.4%	20.8%	30.3%
KOSPI INDEX	1,951.02	1.8%	1.8%	1.8%	-0.5%	0.5%	-0.3%	-0.7%
STRAITS TIMES INDEX	3,422.07	1.7%	1.7%	1.7%	6.1%	12.3%	5.0%	17.3%
FTSE Bursa Malaysia KLCI	1,781.89	1.2%	1.2%	1.2%	-3.1%	-0.4%	8.8%	17.2%
STOCK EXCH OF THAI INDEX	1,598.62	6.7%	6.7%	6.7%	2.3%	25.7%	8.1%	48.5%
JAKARTA COMPOSITE INDEX	5,257.14	0.6%	0.6%	0.6%	3.6%	19.0%	18.4%	31.9%
PSEi - PHILIPPINE SE IDX	7,617.30	5.3%	5.3%	5.3%	7.4%	25.5%	22.2%	62.8%
HO CHI MINH STOCK INDEX	583.28	6.9%	6.9%	6.9%	-1.3%	4.8%	20.5%	56.4%
S&P/ASX 200 INDEX	5,569.49	2.9%	2.9%	2.9%	2.2%	6.5%	13.9%	29.9%
NZX 50 INDEX	5,759.81	3.4%	3.4%	3.4%	7.5%	18.0%	37.1%	74.8%
MSCI World Free Local	414.24	-0.2%	-0.2%	-0.2%	3.7%	10.5%	28.7%	46.4%
MSCI All Country Asia Ex Japan	702.12	3.8%	3.8%	3.8%	6.4%	14.1%	11.1%	21.0%
MSCI EM Latin America Local	64,596.12	-3.3%	-3.3%	-3.3%	-6.6%	0.1%	-14.9%	-10.5%
MSCI Emerging Markets Europe M	497.13	4.8%	4.8%	4.8%	3.8%	8.3%	6.4%	19.0%

Note: All data are as of 29th January 2015

Compiled by SMAM based on Bloomberg

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

Outlook for Global Markets

- We maintain our "Positive" view for next 6 months, however the room for the upside will be more moderate due to mild recovery of the corporate earnings and subdued valuation.
- Market volatility will continue in the near term due to concern for Russia/Crude Oil/geopolitical turmoil.

Outlook for Asia Pacific Region

- Underlying economic conditions in Asia will improve gradually. Solid recovery of US and stabilizing China economy should be supportive.
- Revision of Corporate earning will remain weak but it will stabilize soon.
- Attractive valuations help the market in the medium term, but it will remain subdued due to fragile investor sentiment.
- Change of US monetary policy will not significantly impact to Asia equity market as long as long bond yields remain stable.
- Russia together with crude oil price has become a key issue and it will continue to create volatility in the near term.

Note: As of 27th January 2015

Source: SMAM

Investment Outlook: Macro & Stock Market – Asia Pacific by Market (i)

(blue)	:Positive
(yellow)	:Negative

	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	・Rate hike in the US is a potential concern, however ample global liquidity will continue. ・Fiscal and monetary policy in China is supportive. ・Recovery of HK economy is slower than expected. ・Tight policy for properties is behind us. Property transaction is improving. ・HK/Shanghai Through Train could be a big catalyst in the longer term. ・Risk of political turmoil by occupy central is diminished.	Stable "Occupy Central" is ended peacefully.	Economy will recover at slower pace. ○ Tightening policy for property is behind us.	Int. rate remain super low. "Patient" approach for the rate hike in the US / Inflation will be moderate.	Trade deficit expands, CA surplus will continues.	Stable	**× Revision is Weakening again.**	Fair
China	・Downside risk of China macro economy is eased due to supportive monetary and fiscal policy. Soft-landing is expected. ・Concern for Property market, rising NPL and default of WMP continues, but it should not be out of control. ・Central government seems to become more serious about structural Reform. ・Valuation is very attractive but revision of corporate earnings is weakening again. ・Potential for re-rating to catch up A-share.	Stable	Hard landing risk diminished. Economic momentum will lose momentum gradually. Structural rebalancing should be the key challenge.	○More accommodative monetary policy is expected. / Int. rate will come down / Inflation will not be a key concern.	Surplus- Stable	Stable (Downward pressure in the near term)	**× Revision is Weakening again.**	○Very Attractive
Taiwan	・Highly sensitive to the global economy which is expected to pick up gradually. ・Cross Strait progress on service agreement will remain slow given the weakening position of KMT. ・Political uncertainty will increase before the presidential election in 2016. ・Macro economy seems to be resilient supported by solid export order and domestic demand. ・Outlook of IT is heavily dependent on iPhone6 sales and it is still difficult to find next driver. ・Earnings revision is improving again.	Stable, but uncertainty will increase before presidential election in 2016.	○ Mildly recover driven by export and domestic demand. Stable revision of GDP forecast.	Int. rate will be stable. / Inflation will be stable. / Liquidity is improving.	Surplus will expand	Stable (upward bias)	Earnings revision is improving again	Fair
Korea	・Highly sensitive to the global economy which is expected to pick up gradually. ・Structural issue from Political side and competitive pressure of the corporations continue. ・Relatively immune from EM market turmoil thanks to strong macro fundamentals (CA surplus and strong KRW). ・Recovery of corporate earnings is slower than expected. No sharp recovery in the near future. ・Valuation is very attractive, however it is likely to continue given its weak corporate governance and investor-unfriendly activities by big chaebols.	Stable. But current government is not strong enough to implement structural reform.	Growth momentum to gain steam gradually.	○ Easing bias continues / Int. rate will be stable. / Inflation will be stable / Liquidity is improving.	Surplus will expand	Stable (upward bias)	×Revision is very weak. And its outlook is still quite subdued especially for large corporation.	○Very attractive but it has fundamental reason.
Singapore	・Cyclical and structural forces to continue to exert impact on near-term and medium-term growth. ・Tight property policy is likely to change soon. ・NIM of SG Bank will be bottomed out by the increase of interbank rate. ・Some policy support to overall economy can be expected in celebration of Singapore's 50th anniversary this year. ・Fundamentals of SG corps are solid by paying decent dividend, however growth outlook is still subdued.	Stable Potential for earlier general election before 2016.	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 slowing.	Surplus will continues.	Modest and gradual appreciation path of S$NEER policy band is maintained.	Revision recovered quite sharply, but still unclear about its sustainability.↑	Getting more attractive
Malaysia	・Defensive Market. Less impact from global market volatility, however headwinds by low commodity price especially crude oil continues. ・Challenging year, especially with the implementation of GST in April 2015 and potential further subsidy rationalization. ・High debt level of both the government and households is a potential concern.	Stable, but UMNO is losing supports.	X Stable economic growth can be expected, but concern for smaller fiscal spending due to lower oil related income↓	Rate hike bias continues. / Inflation will mildly pick up. / M2 growth rate is bottomed out.	Surplus continues, but weak oil price is a big risk.	Stable / upward bias in the longer term.	×Revision is very weak.	Fair

Note: Compiled by SMAM as of 27th January 2015

Investment Outlook: Macro & Stock Market – Asia Pacific by Market (ii)

(blue)	:Positive
(yellow)	:Negative

	Outlook, Reason for OW/UW	1.Macro Trend					2.Stock Market	
		Politics	Macro	Interest rate / Inflation / Liquidity	External Account	Currency	Earnings Momentum	Valuation
Thailand	・ Some relief from political front by the nomination of Gen Prayuth as new PM. ・ The 2015 budget is confirmed in line with expectation. No confusion of macro policy by the Military Government. ・ The Thai economy shifted to a recovery path but the pace should be slower than expected. ・Earnings revision is still weak. ・ Stable monetary policy is expected. Inflation will be stable.	**= Some relief from political front by the nomination of Gen Prayuth as new PM.**	The Thai economy shifted to a recovery path but the pace should be slower than expected.	○ Accommodative monetary policy continues / Inflation will be stable. Liquidity is improving.	○Back to surplus and it will increase	Stable / upward bias in the longer term.	**×Revision is still weak.**	Not cheap
Indonesia	・ US rate hike is a big concern in terms of investor's sentiment, however, material impacts should be limited. Historically it outperformed during US yield appreciation episodes. ・ BI focuses more on the stability of financial and currency market by increase interest rate. ・ Macro condition has stabilized and solid growth is expected. ・ Concern for CA deficit continues but it will gradually improve. ・ Sustainability of Honeymoon period by the new presidency is a big question. The retail fuel price hike is a positive first step.	Stable / ○ Jokowi can be a game changer. Fuel subsidy cut is a positive first step.	○Solid growth is expected driven by Consumption & Investment, but the pace should be slower than expected.	Wait and See stance on monetary policy after rate hike in November. / Inflationary pressure is easing.	Trade / Current deficit will improve. Tailwind by lower crude oil price can be expected.	Pressure of depreciation will remain, however BI has already implemented proper policy.	**×Revision remains weak.**	Fair (Rich on PER, but fair on PBR)
Philippines	・ Economy is growing solidly supported by strong OFW remittance Potential for implementing PPP. ・ BSP raised policy rate to act for inflation goal, however the sharp drop in global oil prices has provided relief. ・ Rich Valuation but earnings momentum starts recovering again.	Stable. Support rate for the President is still high.	○ 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 be stable.	Stable (upward bias)	○Revision starts recovering again.	×Mildly Expensive
India	・ US rate hike is a big concern in terms of investor's sentiment, however, material impacts should be limited. Historically it outperformed during US yield appreciation episodes. ・ Macro economy seems to be stabilized. Positive impact by the sharp drop of crude oil price can be expected. RBI has changed to its stance towards easing. ・ New PM Modi could be a game changer. ・ Consensus OW, however good momentum can be sustainable given its improving macro outlook and solid earnings momentum.	**+Potential of economic reform after the land slide victory of BJP.**	○ Stabilized and steady growth is expected. Lower crude oil price is also supportive.	○Rate cut started and further room for rate cut↑ / Inflationary pressure peaked out.	Trade / CA deficit has shrunk sharply	Pressure of depreciation is eased. RBI has already implemented proper policy.	**× Revision is weakening↓**	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	Although confrontation between Vietnam and China is a big concern, steady upward trend of stock market can be expected in the medium term thanks to improving macro fundamentals and continuous inflow of foreign money. Reduction of NPL is progressing by the government.	**Confrontation between Vietnam & CH is a key concern**	Mildly recovering	Lower interest rate environment / Benign Inflation	Balanced	Gradual depreciation	Improving	Within FV range.

Note: Compiled by SMAM as of 27th January 2015

Market Focus (i): India– *Overweight continued*

- We maintained India equity market at Overweight as stabilized and steady growth is expected. Lower crude oil price is also supportive. In addition, rate cut started and further room for rate cut is increasing as inflationary pressure peaked out.

- US rate hike is a big concern in terms of investor's sentiment, however, material impacts should be limited. Historically it outperformed during US yield appreciation episodes.

- Macro economy seems to be stabilized. Positive impact by the sharp drop of crude oil price can be expected. RBI has changed to its stance towards easing.

- New PM Modi could be a game changer. The equity prices are advancing led by increasing expectation of Modi government's economic structural reform as well as corporate profit's up-revision. Banking would be a sector highly benefited by the economic expansion and Modi's economic policy.

- "Consensus Overweight" market looks somewhat overheated, however good momentum can be sustainable given its improving macro outlook and solid earnings momentum.

Market Focus (ii): Indonesia – *Overweight continued*

- We maintained Indonesian equity market at Overweight as solid growth is expected driven by Consumption and Investment, but the pace might be slowing.

- US rate hike is a big concern in terms of investor's sentiment, however, material impacts should be limited. Historically it outperformed during US yield appreciation episodes.

- Bank of Indonesia focuses more on the stability of financial and currency market by increase interest rate. Due to plunging crude oil price, inflation pressure is easing down.

- Macro condition has stabilized and solid growth is expected. Concern for Current Account deficit continues but it will gradually improve.

- Sustainability of honeymoon period by the new presidency is a big question. The retail fuel price hike is a positive first step as the new government cut the fuel subsidy which had been put off by the former administration. The fiscal balance is anticipated to improve, too.

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