

# Asian Stock Market Outlook

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SMAM monthly comments & views

~ June 2015~



Sumitomo Mitsui Asset Management

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## Executive summary

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### ➤ Asian Economy

The economy of many Asian countries and regions is expected to be soft for 2015 amid subdued China's growth and each country's situation. Going forward, in those slower growth countries, ongoing monetary easing will support the economy.

- We revised downward China's real GDP forecast to +6.8% for April-June and maintained the growth forecast at +7.0% and +6.8% for full year 2015 and 2016.
- The economy in India and Philippines is expected to accelerate in 2015.
- Most of other countries are expected to grow at a slower pace on specific reasons as well as China's slowdown. Korea has stagnated on rising real effective exchange rates. Singapore is dragged by weak Malaysian economy suffered from low commodity prices. Indonesia also subsided due to weak consumption under inflation pressure. Political turmoil still weighs on the Thailand's economy.

### ➤ Asian Stock 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.

- Revision of Corporate earning seems to be stabilized. Valuation has already come back to historical average level. It can be rising further given the ample liquidity all over the world.
- Change of US monetary policy will not significantly impact to Asian equity market as long as long bond yields remain stable.
- Market volatility will continue in the near term due to concern for external factors, Greece/Ukraine/Crude Oil/geopolitical turmoil. China continues to be a big wild card after the huge run since Nov last year.

Note: Economy and Stock markets comments are as of May 15<sup>th</sup> and 27<sup>th</sup> 2015 respectively.

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# Outlook for Asian Economy

## SMAM Economic Outlook Summary

- We raised India's real GDP growth forecasts to +7.8% for 2015 and to +8.1% for 2016.
- We raised Philippines' real GDP growth forecasts to +6.5% for 2015 and maintained at +6.2% for 2016.
- In contrast, we cut Korea's real GDP growth forecasts to +2.8% for 2015 and to +3.3% for 2016, and downgraded Thailand's to +3.5% for 2015 and +3.6%.
- We revised downward Singapore's real GDP growth forecasts to +2.7% for 2015 and +3.3% for 2016, and lowered Indonesia's to +4.9% for 2015 and +5.5% for 2016.

Real GDP Growth Forecasts (%YoY)

Country	2013 (A)	2014 (A)	2015 (F)			2016 (F)		
			SMAM	Previous April 17th	Consensus	SMAM	Previous April 17th	Consensus
Australia	2.1	2.7	2.3	2.3	2.4	2.7	2.7	3.0
China	7.7	7.4	7.0	7.0	6.9	6.8	6.8	6.8
Hong Kong	2.9	2.3	2.3	2.5	2.4	2.7	2.7	2.7
India (*)	5.1	7.5	7.8	7.7	7.8	8.1	8.0	8.1
Indonesia	5.8	5.0***	4.9	5.4	5.1	5.5	5.7	5.7
Malaysia	4.7	6.0***	4.8	4.8	4.8	5.0	5.0	5.1
Philippines	7.2	6.1***	6.5	6.4	6.4	6.2	6.2	6.2
Singapore	3.9	2.9	2.7	2.9	2.9	3.3	3.4	3.4
S. Korea	3.0	3.3***	2.8	3.1	3.1	3.3	3.6	3.5
Taiwan	2.2	3.7	3.5	3.5	3.6	3.6	3.6	3.6
Thailand	2.9	0.7***	3.5	3.7	3.5	3.6	3.9	3.8

(Source) SMAM

\*\*\*Consensus Forecasts (Consensus Economics Inc.) as of May 2015 & SMAM Forecasts as of 15 May 2015

\* India is for fiscal year starting April. F: Forecast, A/P: Actual/Preliminary

\*\* Vietnam for 2014(A) is official data

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# Outlook for Economy in China

## SMAM Economic Outlook for China

China's Yearly GDP Growth & Relevant Indicators

	2013	2014 (previous)		2015E (previous)		2016E (previous)	
Real GDP, %YoY	7.7	7.4	7.4	7.0	7.0	6.8	6.8
Consumption Expenditure, %YoY	7.9	7.6	7.6	7.2	7.2	7.3	7.2
Gross Fixed Capital Investment, %YoY	8.6	7.3	7.3	6.3	6.4	6.4	6.3
Net Exports, contrib.	-0.3	0.0	0.0	0.3	0.3	0.2	0.2
Nominal GDP, %YoY	9.5	8.2	8.2	7.3	7.3	9.0	9.0
GDP Deflator, %YoY	1.7	0.8	0.8	0.3	0.3	2.2	2.2
Ind. Production, %YoY	9.7	8.3	8.3	6.7	7.8	7.0	7.0
CPI, %YoY	2.6	2.0	2.0	1.7	1.7	2.7	2.7
Base Loan Rate, %	6.00	5.60	5.60	4.85	4.85	4.85	4.85

Notes: SMAM estimates as of May 15th, 2015. For Net Exports, % point contribution to GDP growth

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

China's Quarterly GDP Growth and Components

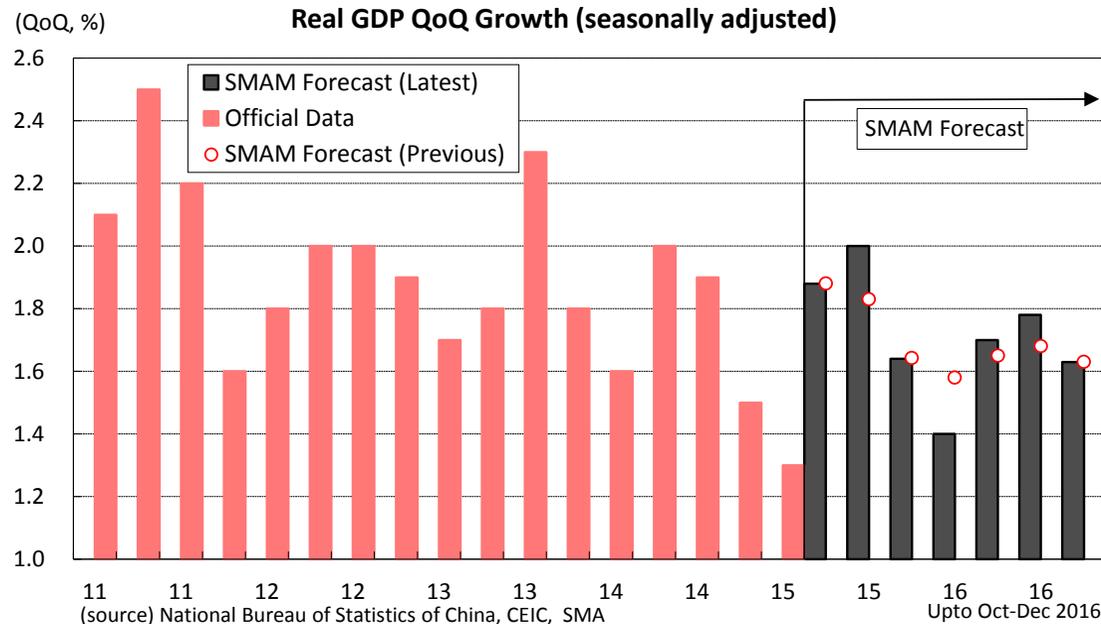
	2014		2015E				2016E			
	3Q	4Q	1QE	2QE	3QE	4QE	1QE	2QE	3QE	4QE
Real GDP, %YoY	7.3	7.3	7.0	6.8	7.0	7.1	7.1	7.0	6.7	6.6
previous	-	-	7.0	6.9	7.0	7.1	7.1	6.9	6.7	6.7
Consumption Expenditure, %YoY	6.3	8.6	6.8	7.2	7.0	7.7	7.3	7.2	7.0	7.5
previous	-	-	6.8	7.2	7.0	7.7	7.2	7.2	7.0	7.5
cont. to GDP, %	2.8	4.1	4.5	3.1	3.1	3.7	4.7	3.1	3.1	3.7
previous	-	-	4.4	3.0	3.1	3.7	4.6	3.0	3.1	3.7
Gross Fixed Capital Investment, %YoY	3.7	9.7	3.4	6.1	7.0	7.2	7.9	6.5	5.9	5.9
previous	-	-	4.5	6.2	7.2	7.0	7.9	6.3	5.9	5.9
cont. to GDP, %	2.0	4.8	1.2	3.5	3.6	3.6	2.7	3.6	3.0	3.0
previous	-	-	1.6	3.5	3.7	3.6	2.7	3.5	3.0	3.0
Net Exports										
cont. to GDP, %	2.7	-1.8	1.3	0.4	0.1	-0.3	-0.3	0.3	0.6	0.0
previous	-	-	1.0	0.4	0.2	-0.3	-0.3	0.3	0.6	0.0
CPI, %	2.0	1.5	1.2	1.6	1.6	2.3	2.7	2.6	2.7	2.8
previous	-	-	1.2	1.6	1.6	2.3	2.7	2.6	2.7	2.8

Notes: SMAM estimates as of May 15th, 2015. Consumption Expenditure and GFCI(Gross Fixed Capital Investment) are SMAM estimates

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

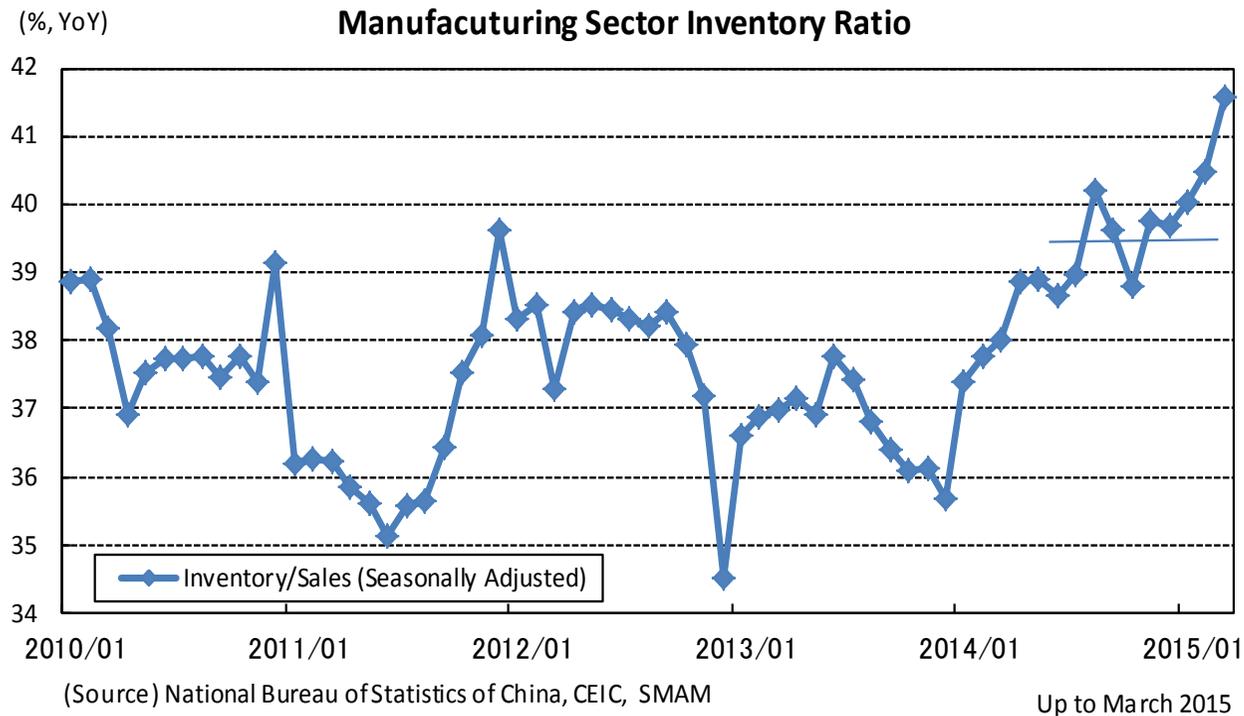
# Chinese Economy Outlook

- Recently released China's January-March GDP slowed to +7.0% from +7.3% in the previous quarter, which was weaker than market consensus of +7.1%.
- We revised downward the real GDP forecast to +6.8% for April-June and maintained the growth forecast at +7.0% and +6.8% for full year 2015 and 2016. The subdued domestic demand is expected to continue at the end of this year and pick up at a moderate pace.
- PBoC cut the rate on May 10<sup>th</sup>. We expect additional rate cut by 25bp in policy rate and 50bp in RRR this year. Although the bank denied to employ QE, we believe that further liquidity supply would be necessary to enhance public investment, while weak domestic demand continues in property investment.



## China: Slow IP growth continuing under inventory adjustment

- April Industrial Production inched up to +5.9% YoY from +5.6% YoY in March as inventory reduction pressure weighs on the production. The effect on economic stimulus packages has not seen yet. The IP is likely to hit the bottom in 2H 2015.
- May flash PMI slightly improved to 49.1 from 48.9 in April, but below market expectation of 49.3 and neutral point of 50.



# China: Fixed Asset Investment

- April Fixed Asset Investment (FAI) surprisingly slowed to +9.4% from +13.5% in January-March, lower than consensus of +13.5%. FAI grew at a slower pace but was underpinned by robust Public Investment, but April Public Investment slid to +16.1% from +24.5% in March. We expect FAI to further slowdown for the time being. In order to achieve +7.0% annual GDP growth, FAI should grow +13% YoY for this year.

To achieve +7.0% GDP growth in 2015, +13.5% growth in Nominal Fixed Asset Investment is required.

	FAI Previous Year=100	FAI Growth		Gross Fixed Capital Formation		Cont. by Inventory (Vs. GFCF, ppt)	Real Gross Fixed Capital Formation	
		Nominal, %	*1. Real, %	*2. Full Year	*3. Quarter Base		Full Year	Quarter Base
2010	103.6	24.5	20.9	13.1	10.4	1.06	14.2	11.4
2011	106.6	23.8	16.1	10.2	8.0	1.3	11.6	9.3
2012	101.1	20.6	19.3	10.8	6.4	1.0	11.9	7.4
2013	100.3	19.6	19.2	11.0	7.6	1.0	12.0	8.6
2014	100.2	15.7	15.1	9.3	6.3	1.0	10.3	7.3
2015E	98.4	13.1	14.7	8.9	5.9	0.5	9.4	6.4

To achieve mid +13% growth in FAI, +20% growth in Public Investment is required.

	Infrastructure	Const.&Property	Manufacturing	Mining	Services	Other	All Industries
(Proportion Ratio)	22.2%	25.9%	33.2%	2.9%	13.0%	2.9%	100%
2010							
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	20.2	12.1	13.6	1.0	22.9	33.8	15.7
2015E	19.5	8.0	10.0	-3.0	20.0	30.0	13.1

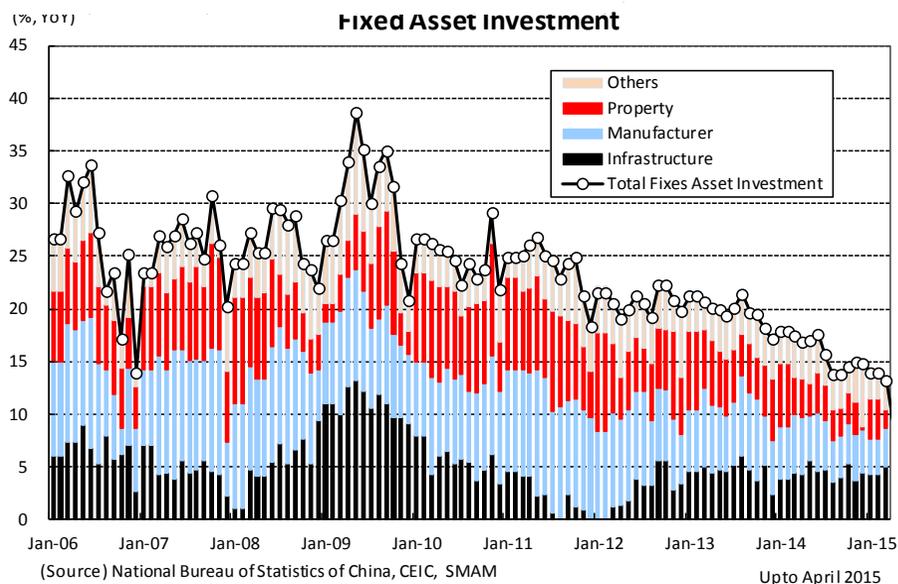
\*1: +5.8% YoY GFCF growth in 2015 assumes +7.2% growth in Consumption Expenditure and 0.3ppt FDP contribution in Exports.

\*2: Relationship of growth rate between Real GFCF and FAI assumes that of 2014.

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

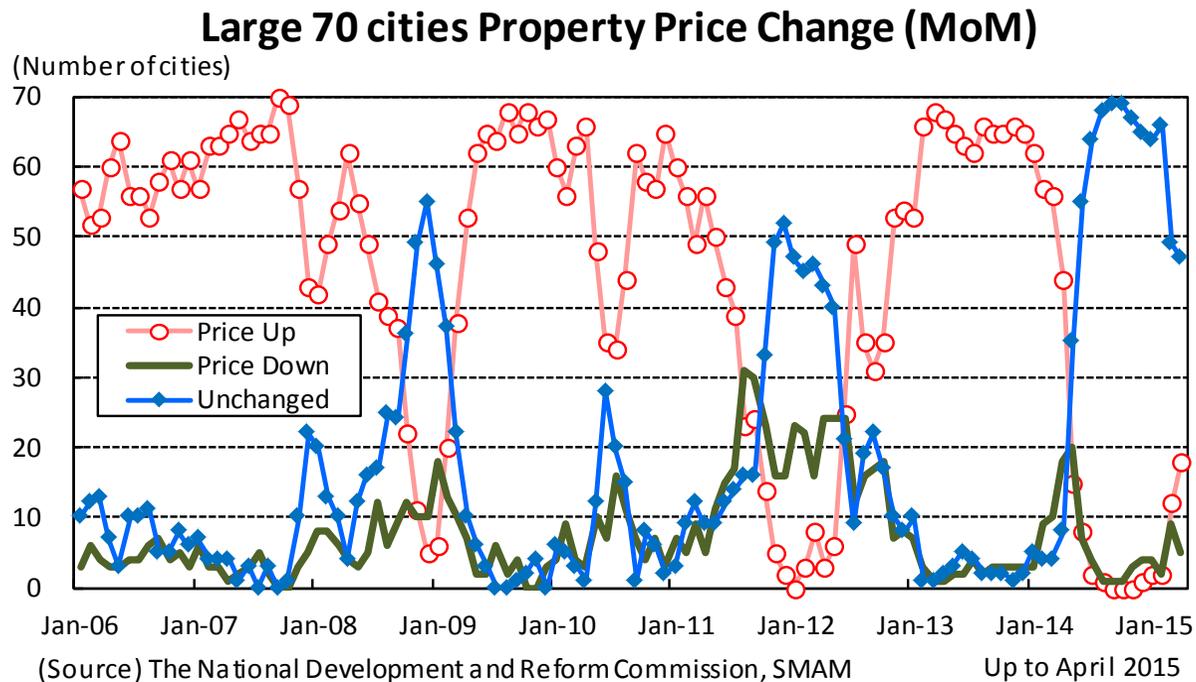
\*: Proportion ratios are that in 2014. FAI prices assumes to decline by -1.6% from 2014.

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



## China: Property Investment slump continuing

- April Property Investment remained extremely low at +0.5% YoY. In 3 month MA basis, the investment slowed to +6.0% from January-March of +9.2% YoY. The slump is expected to continue for the time being as it takes more time to reduce inventory pressure. The recover is expected in October-December quarter due to monetary easing policy by the central bank.
- Central government announced stimulus measures to support Property sector. The measures should support the demand in housing sector in addition to lower mortgage rate supported by monetary policy. New Mortgage loan has already picked up in favor of low interest rates, however Housing Sales are still slow to recover.

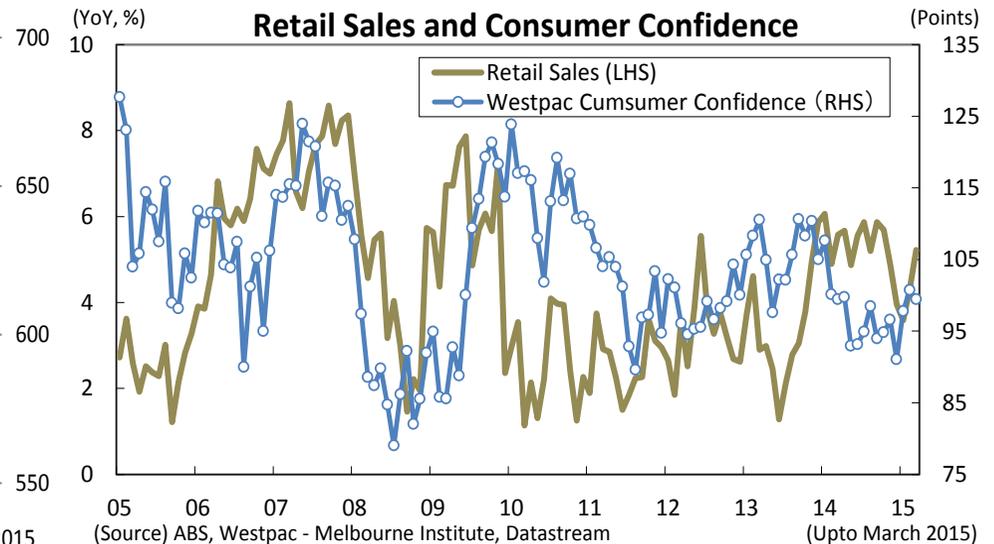
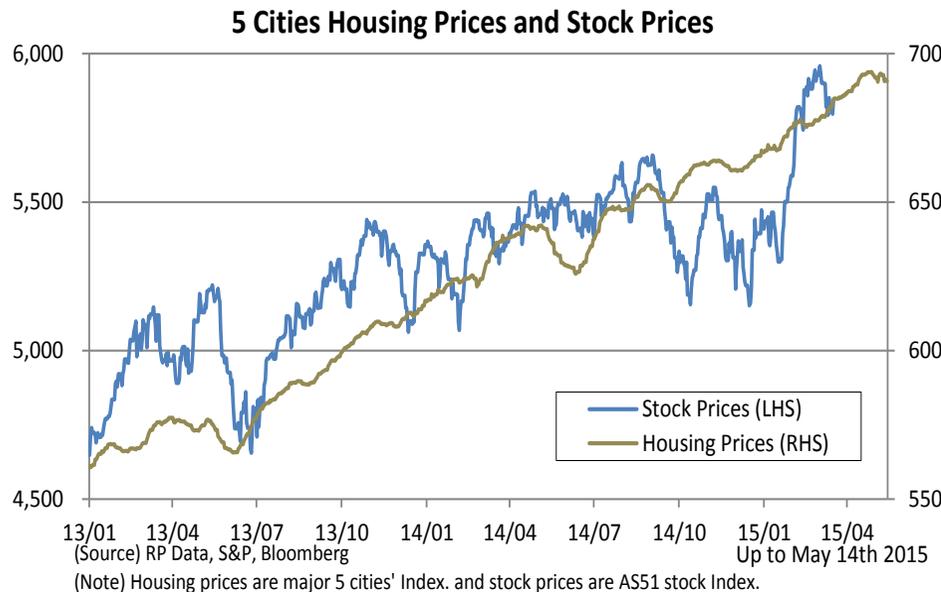


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## Outlook for Economies in Asia

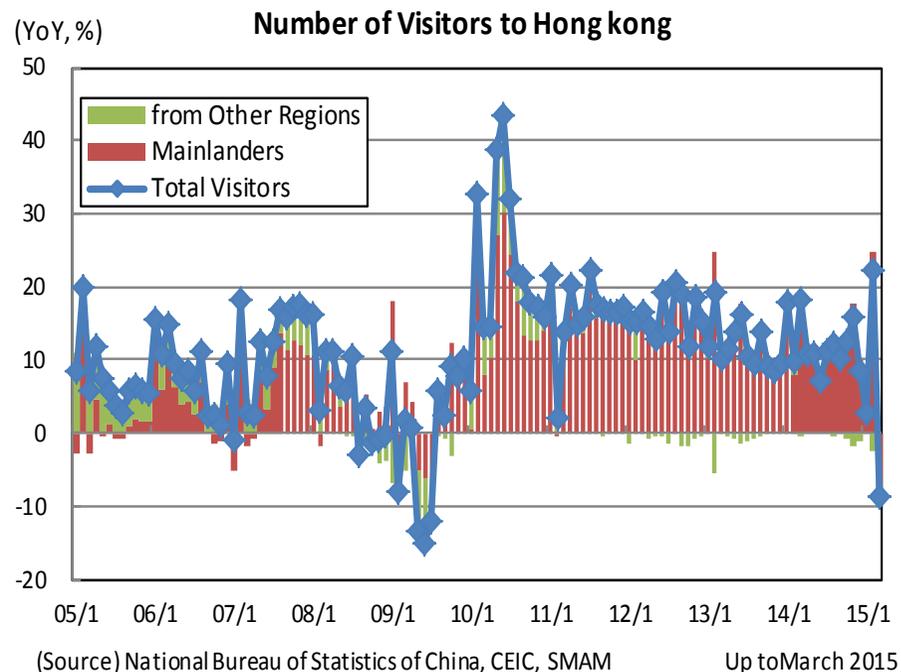
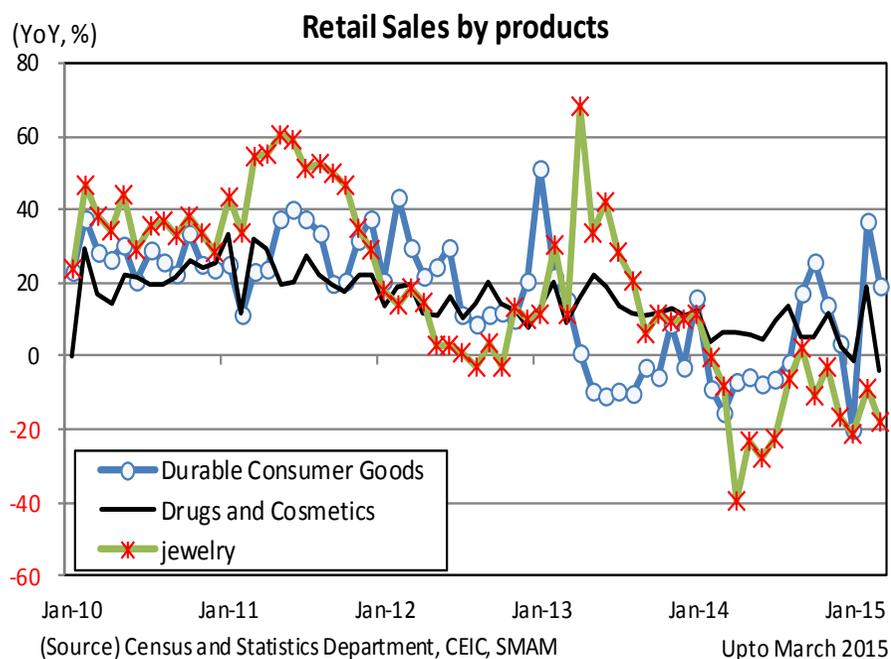
# Australia

- We maintained real GDP growth forecasts at +2.3% for 2015 and +2.7% for 2016. CPI forecast is revised downward to +1.7% for 2015 and +2.7% for 2016 due to higher real effective exchange rates.
- Consumption is likely to grow at slower pace in April-June quarter after the expansion in January-April led by wealth effect and real wages gain due to subdued inflation. March Retail Sales accelerated to +1.0% MoM from +0.7% in February as the wealth effect supported the consumption spurred by the rate cut.
- RBA cut the policy rate by 25bp in May. We expect RBA keeps the current rate on hold until the end of 2016 as the bank removed its forward guidance which had suggested lower rate.



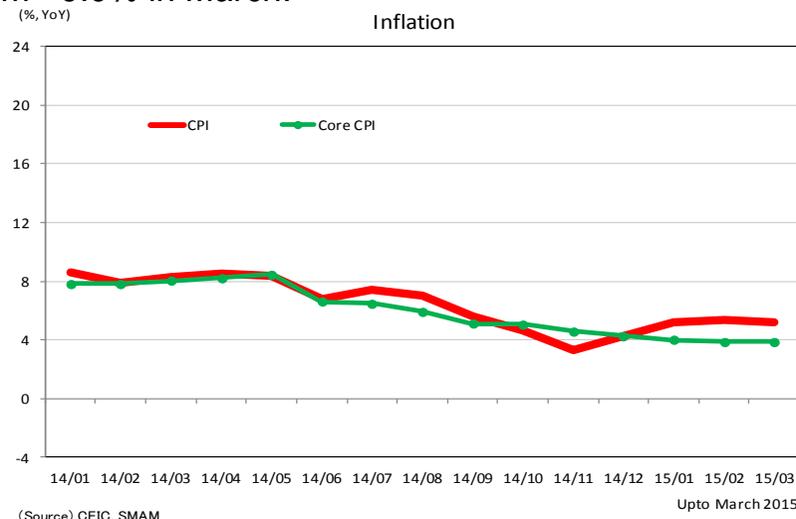
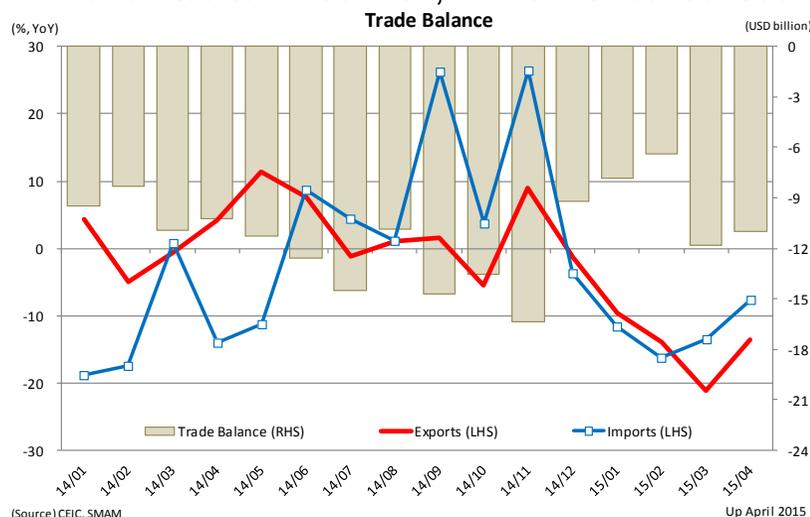
# Hong Kong

- Subdued January-March real GDP came in with +2.1% YoY, in line with consensus. We cut GDP forecast to +2.3% from +2.5% for 2015.
- March Retail Sales continued to decline. Consumption per visitor contracted to -2.6% in 2014 and is likely to continue slump as the number of visitors from mainland dropped -10% YoY in March.
- March Exports and Imports declined 1.8% YoY and 2.7% YoY respectively, both weaker than consensus.



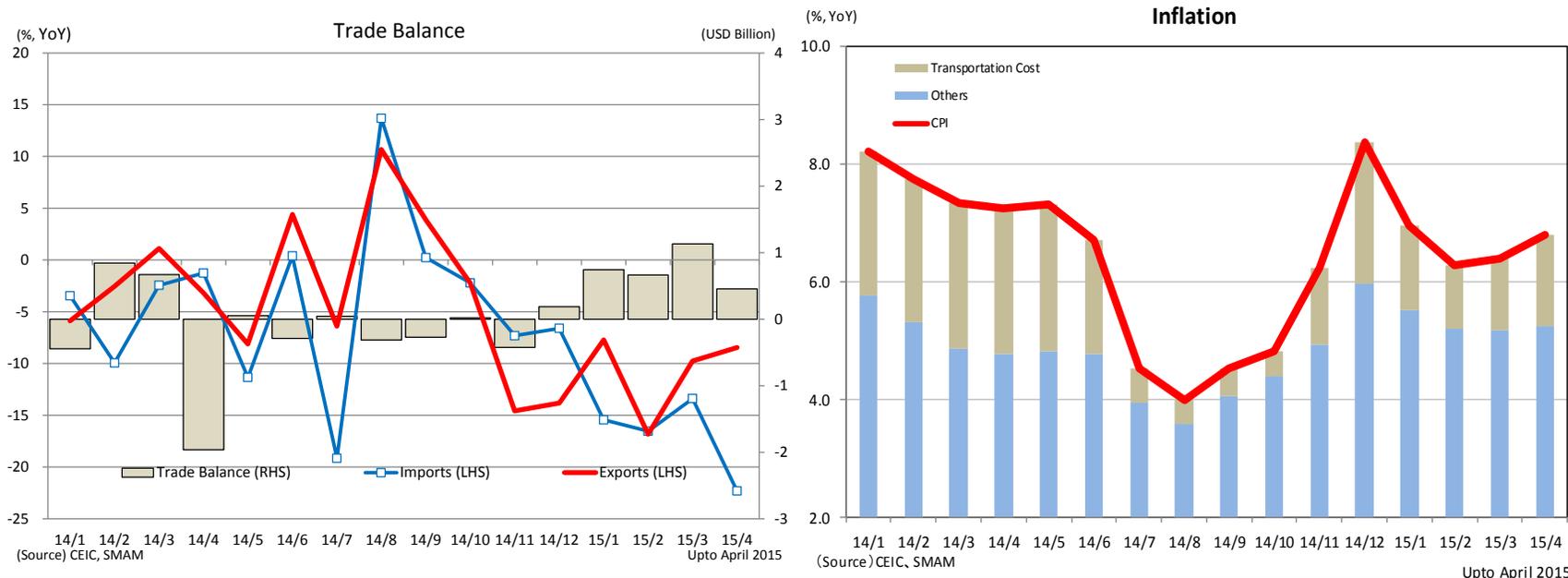
# India

- We raised real GDP forecast to +7.8% for 2015 and +8.1% for 2016.
- The economy is less vulnerable to global economic cycle as the Exports to GDP is 15%, lower than in other Asian countries. The economy is likely to grow 8% in FY2015 and FY2016 on the solid domestic demand amid low inflation pressure.
- April Trade Balance slightly improved to -USD11.0 billion from -USD11.8 billion in March on lower gold imports. Seasonally adjusted basis, the trade deficit much narrowed to -USD10.7 billion from -13.7 billion in March.
- March Industrial Production contracted to +2.1% YoY, lower than consensus of +3.0%, from +4.9% in February. The IP statistical items are based on FY2004 standard and can not catch the data of new industries, whereas GDP has been revised on a new FY2011 standard. This might result in the weak IP number.
- RBI is likely to cut policy rates in FY2015 as the central bank adopted inflation target in February 2015. April CPI moderated to +4.9% YoY, in line with consensus from +5.3% in March.



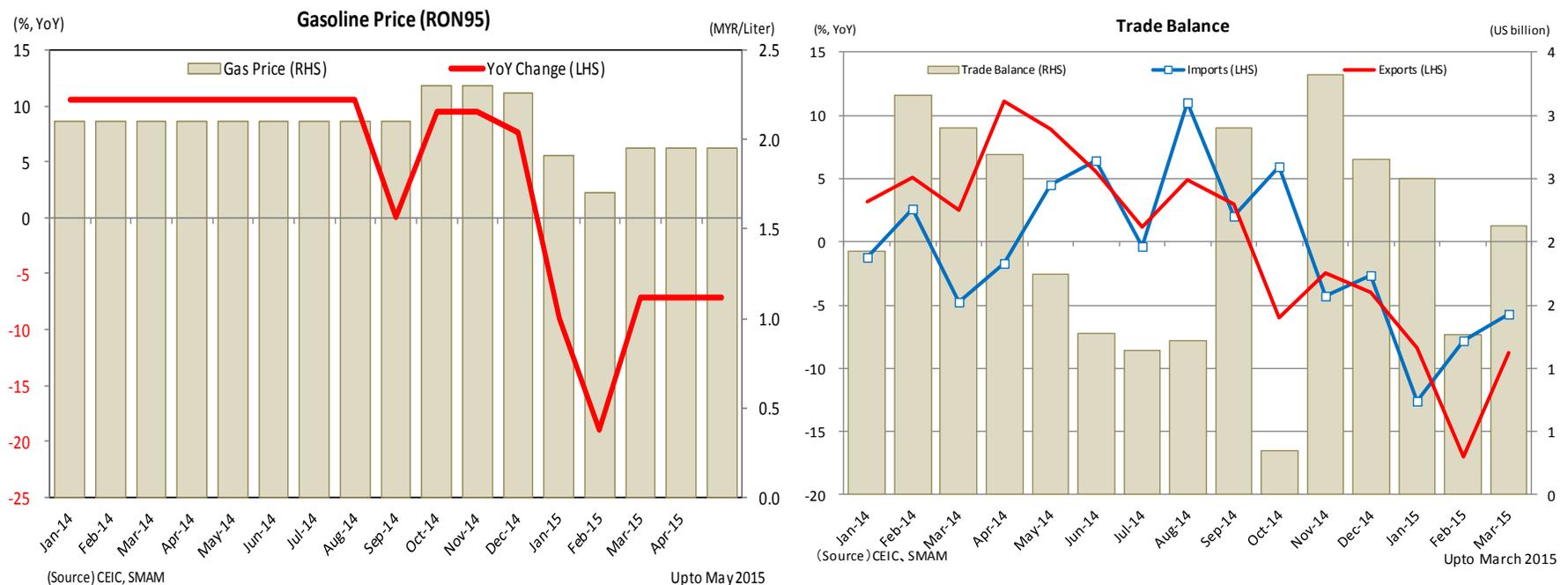
# Indonesia

- January-March real GDP slowed to +4.7% annualized, a lower than consensus of +4.9%, from +5.0% in the previous quarter. We cut real GDP forecast to +4.9% for 2015 and +5.5% for 2016.
- Although low crude oil price is generally a tailwind on the macro economy for a net oil importer, Indonesia, the low commodity prices put downward pressure on its export goods prices. April Trade Surplus improved as Imports drop more than Exports. Exports improved to -8.5% YoY, lower than consensus of -7.8% YoY from -10.3% YoY in March, while Imports declined to -22.3% YoY from -13.2% YoY.
- Inflation pressure weighs on the Consumption as CPI remains at above the upper limit of BI's inflation target. April CPI rose to +6.8% YoY, inline with consensus of +6.8%, from +6.4% YoY in March. Core CPI remained unchanged at +5.0%, in line with consensus from March. The bank kept the rate on hold at the MPC in May.



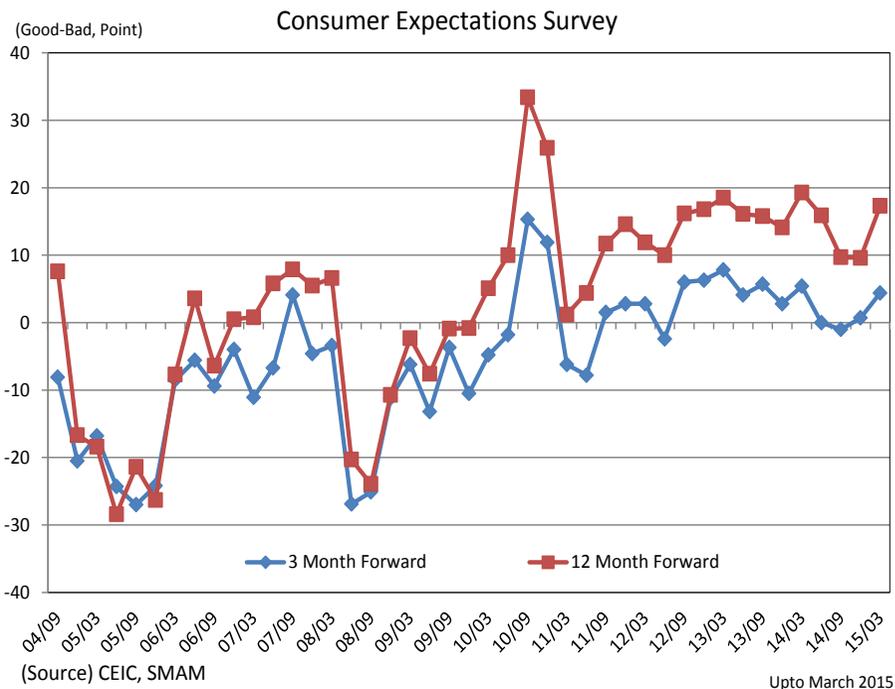
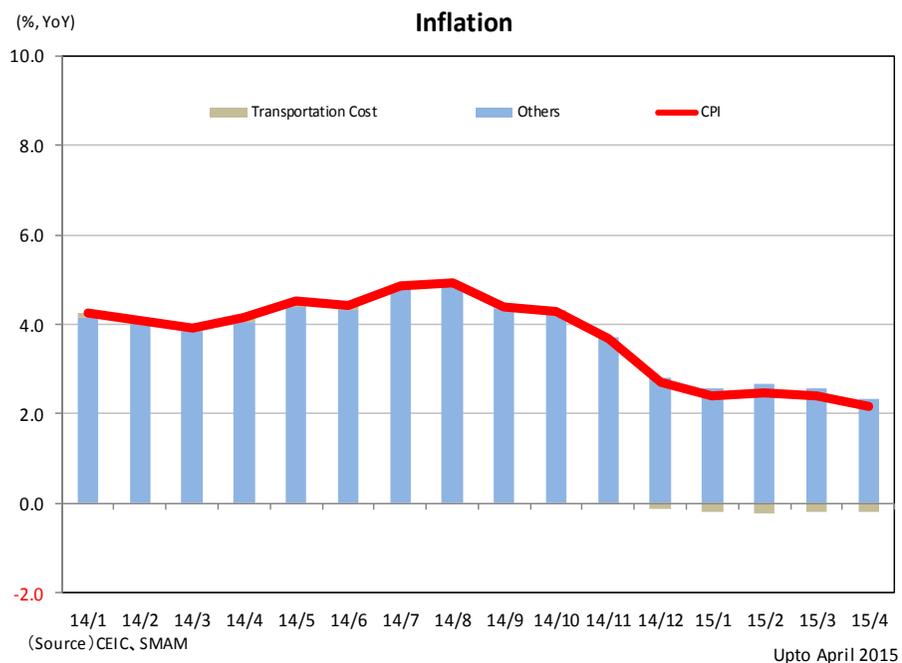
# Malaysia

- We maintained real GDP forecast at +4.8% for 2015 and +5.0% for 2016.
- Although slowdown in China's economy and low commodity prices are headwinds on the economy, Exports (ex. Commodity goods) have been improving due to lower real effective exchange rates. March Exports rose to +2.3% YoY, beating market consensus of -5.0% from -9.8% YoY in February.
- Inflation pressure has been eased down since fuel price subsidies ended, however domestic demand is under pressure as 6% GST was introduced in April 2015. We expect the economy to be soft in 2015. March CPI rose to +0.9% YoY, in line with consensus, from +0.1% YoY in February on higher transportation costs. BNM kept rate unchanged at its policy meeting on May 7th.



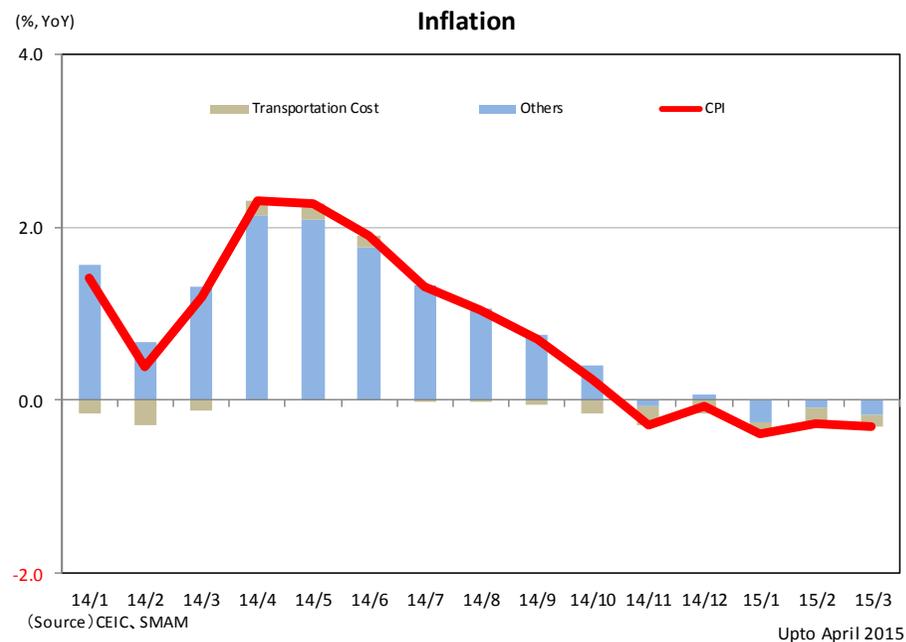
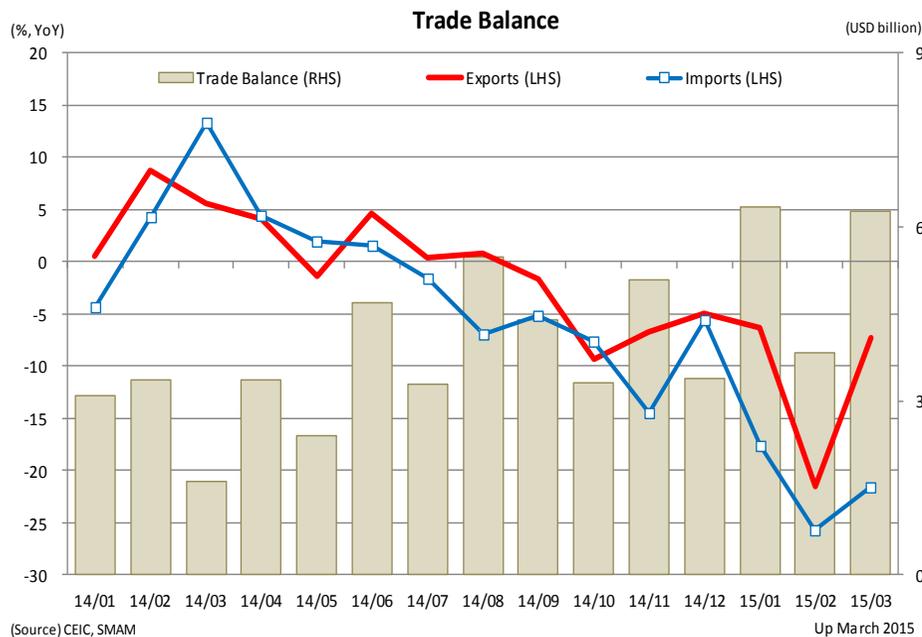
# Philippines

- We raised real GDP forecast to +6.5% for 2015 and maintained at +6.2% for 2016.
- The economy is expected to accelerate in 2015 on the back of solid domestic demand. The Philippines' economy is less vulnerable to global economic cycle as the Exports to GDP is 20%, lower than other Asian countries. As the population of middle income class increases, the Consumption-led domestic demand is expected to expand under subdued inflation environment.
- We expect BSP moves to rate hike in 2016 as the upbeat economy puts inflation pressure. April Headline CPI dropped to +2.2% YoY from +2.4% YoY in March. April Core CPI rose to +2.5% YoY from +2.7% YoY in March.



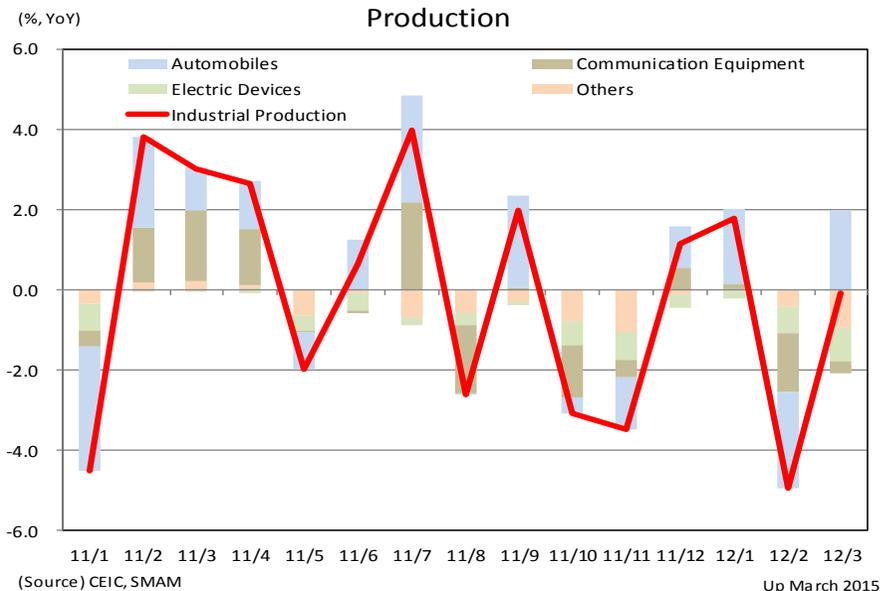
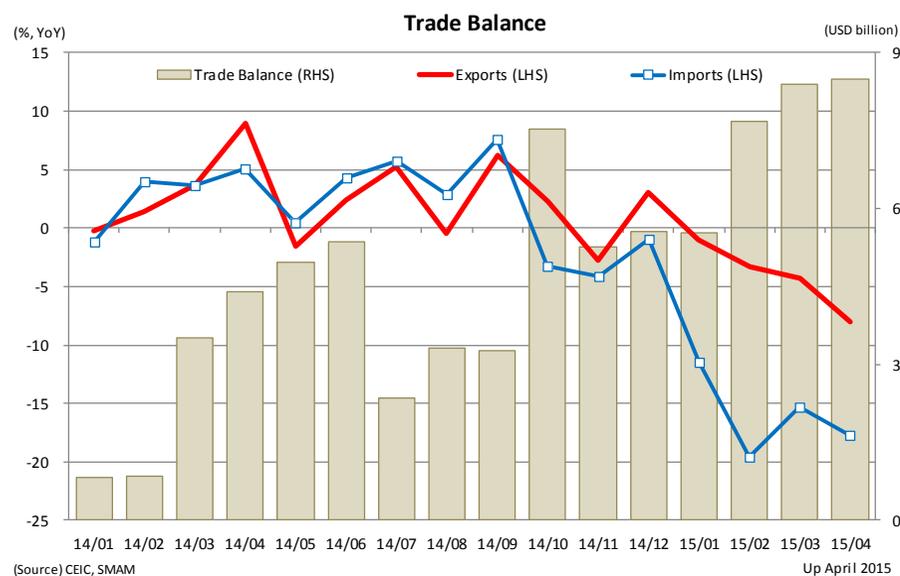
# Singapore

- January-March revised GDP came in on May 26<sup>th</sup>, which beat consensus of +2% and grew to annualized +3.2% from the previous quarter. We cut real GDP forecast to +2.7% for 2015 and to +3.3% for 2016.
- The Singapore's economy is vulnerable to global economic cycle as the Exports to GDP is extremely high at 130%. The high Export sensitive economy is dragged by weak China's economy. Additionally, slowdown of Malaysia, an important trade partner should soften the economy of Singapore in 2015.
- April NODX (non-oil domestic) Exports rose to +2.2% YoY, better than expectation of -5.0% YoY. However, it grew at a weaker pace of -8.7% MoM in April.
- April headline inflation fell to -0.5%, lower than consensus of +0% to its lowest in 5 years from -0.3% in March.



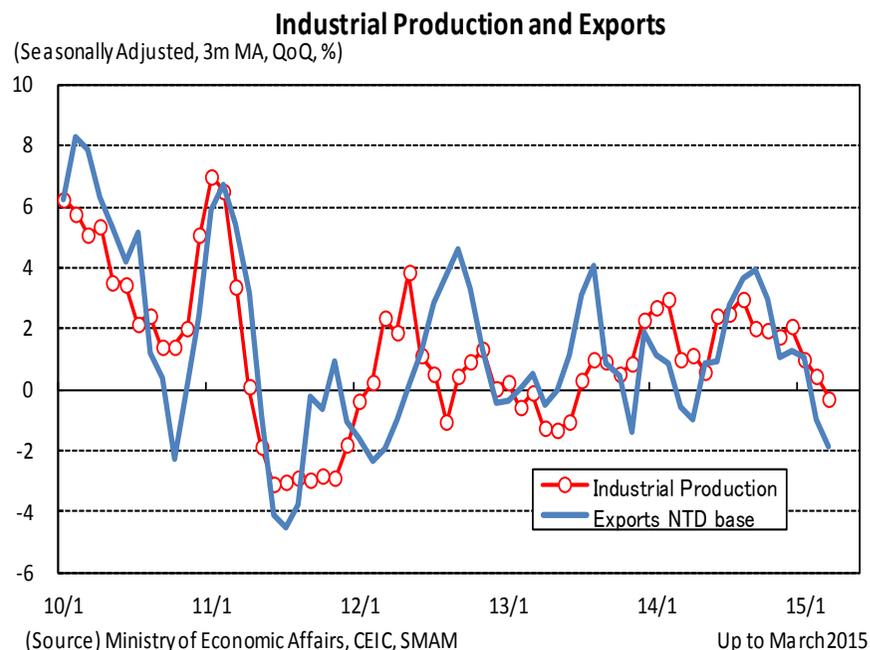
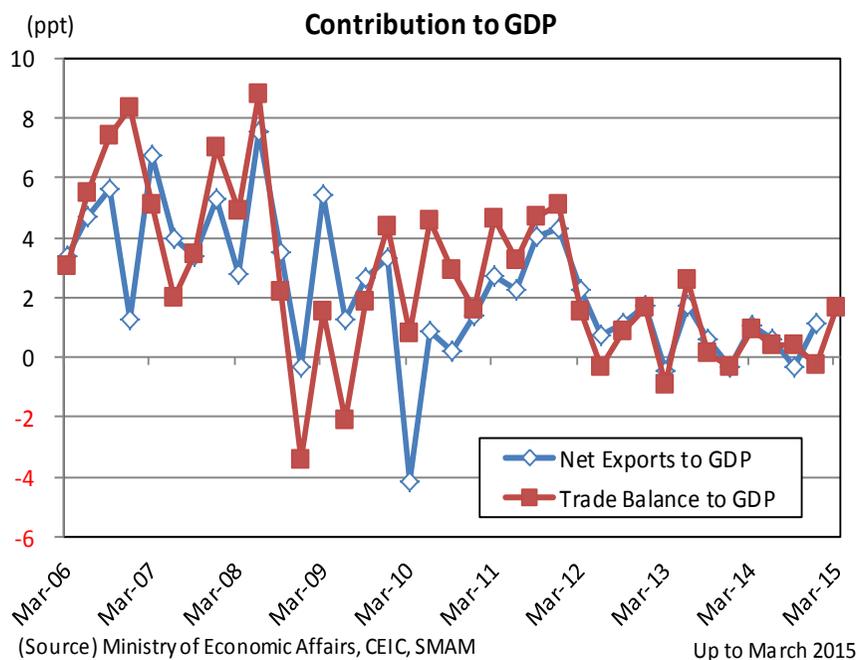
# South Korea

- We cut real GDP forecast to +2.8% for 2015 and to +3.3% for 2016.
- Due to slowdown in China's economy and rising real effective exchange rates, Exports have decelerated. April Exports plunged to -8.1% YoY, weaker than consensus of -6.1% from -4.3% YoY in March.
- The rising Jeonse price (a deposit by a lessee for residential leasing) at a higher than expected pace weighs on the Consumption. Korean government announces to accelerate the 60% of the full year fiscal spending in 1H in order to stimulate the anemic economy which is very likely in the deflation, excluding the effect on cigarette price hike.
- We expect additional rate cut in this year although the Bank of Korea left the rate unchanged at 1.75% in the MPC on May 15th. The economy should be supported by the policy and is likely to recover at slower pace in 2016 alongside moderate global growth.



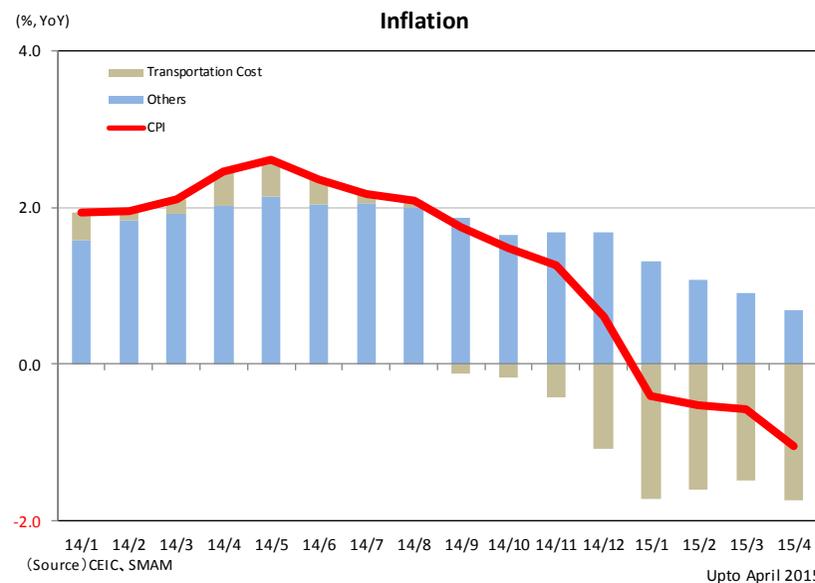
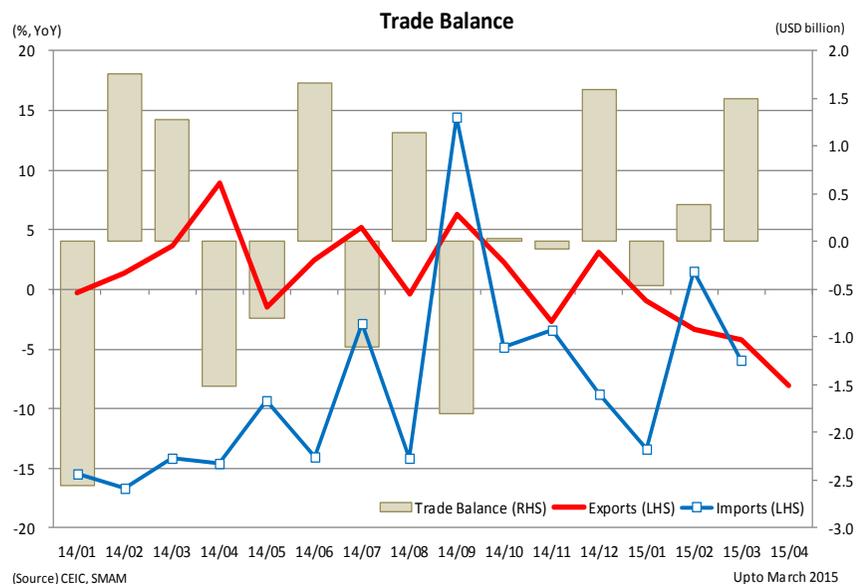
# Taiwan

- January-March real GDP rose to +3.5% from +3.3% in the previous quarter led by the robust Net Exports. We maintained GDP growth forecast at +3.5% YoY and +3.6% for 2015 and 2016.
- March Industrial Production rose +6.5% YoY, higher than consensus of +5.0% from +2.7% YoY in February. Electric parts, Chemical materials and Machinery expanded +11%, 13% and 14% YoY respectively.
- April Exports subsided to -11.7% YoY, lower than expectation of -6.0% from -8.9% on a weak exports to Korea and ASEAN despite a recovery to Japan.
- April CPI fell to -0.8% YoY, weaker than expectation of -0.7% YoY, from -0.6% in March.



# Thailand

- We cut real GDP forecast to +3.5% for 2015 and to +3.6% for 2016. January-March real GDP was released at +3.0%, slower than consensus of +3.4%.
- Although the political and social stability by coup has supported the macro economy, weak Exports were dragged by China's slowdown.
- Policy making and execution are key issues. Economic measures often take long until execution as three top officials make decision on the economic policy making. Weak Consumption is likely to continue as the increases in repayment burden on higher debts decreases disposable income for household. Regional economy has stagnated since rice-collateralized loans were abolished.
- The economy is likely to rebound in 2015 at slower than past growth rate after downturn in 2014. We expect additional rate cut during this year. April headline inflation declined to -1.0%, lower than consensus of -0.8% YoY down from -0.6% YoY in March. Core inflation slowed to +1.0% YoY from +1.3% YoY in March.



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# Outlook for Asian Stock Markets

# Stock Market Performance - Global

Indices as of 26 May 2015	Px Last	Mtd	Qtd	Ytd	3m	1yr	2yr	3yr
S&P 500 INDEX	2,126.06	1.9%	2.8%	3.3%	0.6%	11.9%	28.9%	61.3%
DOW JONES INDUS. AVG	18,232.02	2.2%	2.6%	2.3%	0.0%	9.8%	19.1%	46.4%
NASDAQ COMPOSITE INDEX	5,089.36	3.0%	3.8%	7.5%	2.5%	21.6%	47.1%	79.4%
STOXX Europe 50 € Pr	3,510.49	2.1%	2.2%	16.9%	3.6%	15.6%	26.3%	53.7%
NIKKEI 225	20,445.26	4.7%	6.4%	17.2%	8.8%	40.0%	39.9%	138.3%
TOPIX	1,659.99	4.2%	7.6%	17.9%	9.1%	38.9%	39.0%	129.9%
BRAZIL BOVESPA INDEX	54,609.25	-2.9%	6.8%	9.2%	5.5%	3.2%	-3.2%	0.3%
RUSSIAN RTS INDEX \$	1,041.58	1.2%	18.3%	31.7%	14.2%	-22.0%	-25.0%	-18.2%
BSE SENSEX 30 INDEX	27,585.55	2.1%	-1.3%	0.3%	-4.0%	11.6%	40.0%	70.1%
HANG SENG INDEX	28,391.63	0.9%	14.0%	20.3%	14.6%	23.6%	25.5%	51.7%
HANG SENG CHINA AFF. CRP	5,374.00	-3.3%	15.6%	23.5%	15.8%	24.5%	24.2%	45.7%
HANG SENG CHINA ENT. INDX	14,867.21	3.0%	20.4%	24.1%	23.2%	46.9%	38.7%	55.9%
CSI 300 INDEX	5,175.36	9.0%	27.7%	46.5%	45.1%	140.0%	99.3%	101.1%
TAIWAN TAIEX INDEX	9,675.48	-1.5%	0.9%	4.0%	0.6%	7.1%	17.9%	36.8%
KOSPI INDEX	2,137.27	0.5%	4.7%	11.6%	7.4%	6.0%	8.3%	17.2%
STRAITS TIMES INDEX	3,460.77	-0.8%	0.4%	2.8%	1.0%	5.4%	2.0%	24.8%
FTSE Bursa Malaysia KLCI	1,773.41	-2.5%	-3.1%	0.7%	-2.6%	-4.8%	0.0%	14.3%
STOCK EXCH OF THAI INDEX	1,508.09	-1.2%	0.1%	0.7%	-5.4%	8.6%	-6.2%	33.1%
JAKARTA COMPOSITE INDEX	5,341.31	5.0%	-3.2%	2.2%	-2.0%	7.6%	3.6%	36.9%
PSEi - PHILIPPINE SE IDX	7,686.65	-0.4%	-3.2%	6.3%	-1.0%	13.2%	5.7%	56.0%
HO CHI MINH STOCK INDEX	564.33	0.3%	2.4%	3.4%	-5.4%	3.7%	12.8%	29.0%
S&P/ASX 200 INDEX	5,759.90	-0.5%	-2.2%	6.4%	-2.5%	4.5%	15.6%	43.0%
NZX 50 INDEX	5,803.73	0.2%	-0.5%	4.2%	-1.0%	12.6%	28.2%	66.5%
MSCI World Free Local	445.00	1.8%	2.7%	7.2%	2.0%	13.2%	26.9%	62.3%
MSCI All Country Asia Ex Japan	750.65	-0.3%	5.5%	11.0%	6.1%	13.7%	18.0%	37.8%
MSCI EM Latin America Local	69,941.31	-1.7%	4.2%	4.7%	2.6%	0.4%	-2.3%	3.8%
MSCI Emerging Markets Europe M	509.52	-2.2%	2.3%	7.4%	-0.3%	3.0%	12.8%	32.2%

Note: All data are as of May 26th 2015

Compiled by SMAM based on Bloomberg

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

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## Outlook for Global Markets

- ◆ We maintain our "Positive" view for next 6 months despite subdued corporate earnings recovery and valuation.
- ◆ Market volatility will continue in the near term due to concern for external factors, Greece/Ukraine/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 earnings 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 Asian equity market as long as long bond yields remain stable.
- ◆ External factors including Greece / Ukraine / crude oil price / geopolitical turmoil have become key issues and they will continue to create volatility in the near term.
- ◆ To be neutralized on Value/Growth. Should keep eye on "quality" with good value given no huge rally on equity markets.

Note: As of May 27th 2015

Source: SMAM

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

Positive  
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	- Headwind from policy side is easing but the pace of macro recovery should be moderate. - Mkt is over heated (RSI)	Stable	Slow recovery is expected. o 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 still weak but seems to be bottomed out.	Fair
China	- Safe Heaven from Global Risk rather than epicenter in the medium term. - Strong Policy support can be expected. - Mkt is over heated (RSI)	Stable	Hard landing risk diminished. Economic growth will lose momentum gradually. Structural rebalancing should be the key challenge.	o 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 still weak but seems to be bottomed out ↑	Recovered to historical average level ↓
Taiwan	- Underlying fundamentals remains solid - IT started to lose momentum in the near term. - Relatively safe to US rate hike.	Stable, but uncertainty will increase before presidential election in 2016.	o 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	o Earnings momentum is still strong.	Fair
Korea	- Still in the transition. Structural re-rating will not happen although good inflow from overseas investors will support it in the near term.	Stable. But current government is not strong enough to implement structural reform.	Growth momentum to gain steam gradually.	o Easing bias continues / Inflation will be stable / Liquidity is improving.	Surplus will expand	Stable	Earnings Revision is bottomed out ↑	Mixed ↓ PER : not cheap PBR: still cheap However there is a reason for the discount.
Singapore	- Stable Mkt and policy headwind is easing.	Stable	X The pace of economic recovery is slow Tight policy for Properties will be finished soon	Int. rate will be stable. / Inflation will be stable. / M2 growth rate is bottomed out.	Surplus will continues.	Downward bias in the near term. / upward bias in the longer term.	Earnings revision is still weak.	Relatively cheap
Malaysia	- Losing defensiveness. Underlying macro fundamentals are still weakening.	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	Policy Rate will be flat. / Inflation will mildly pick up. / M2 growth rate is bottomed out.	Surplus will be narrowed, weak oil price is a big risk.	Downward bias in the near term. / upward bias in the longer term.	xRevision is very weak.	Fair

Note: Compiled by SMAM as of May 27th 2015

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

:Positive  
 :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	- Slower recovery will continue. - Less support from Valuation side while headwinds to Corporate Earnings continue.	= Some relief from political front by the nomination of Gen Prayuth as new PM.	X Slow economic growth is likely to continue.↓	o Accommodative monetary policy continues / Inflation will be stable. Liquidity is improving.	o Back to surplus and it will increase	Downward bias in the near term. / upward bias in the longer term.	*Revision is very weak.	Not cheap
Indonesia	- Potential for Game Change although macro concern remains.	Stable / o Jokowi can be a game changer. Fuel subsidy cut is a positive first step.	o Solid growth is expected driven by Consumption & Investment, but the pace should be slower than expected.	Surprising rate cut by easing inflationary pressure. It should be positive in the near term but potential risk is increasing.	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 is very weak.	Fair (Rich on PER, but fair on PBR)
Philippines	- Still the bright spot. - Sustainability is the key.	Stable. Support rate for the President is still high.	o 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	Revision is a little weak.	*Mildly Expensive
India	- Improving fundamentals by strong policy support. - Consensus OW Mkt.	+Potential of economic reform after the land slide victory of BJP.	o Stabilized and steady growth is expected. Lower crude oil price is also supportive.	o 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 remains weak	Fair
Australia	Expect mild up-trend market, backed by improving domestic consumption and corporate earnings.	Stable	Mild recovery	Int. rate will be stable./Inflation stays lower than the target range.	Deficit, but it is improving	Downward bias	Revision is weak especially for Mining industry.	
Vietnam	Steady upside can be expected supported by solid economic growth.	Confrontation between Vietnam & CH is a key concern	solid recovery	Lower interest rate environment / Benign Inflation	Balanced	Gradual depreciation	Improving	Within FV range.

Note: Compiled by SMAM as of May 27th 2015

## Market Focus (i): Philippines – *Overweight continued*

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- Solid macro economy is expected underpinned by upbeat domestic demand such as positive private consumption expenditures. Stable CPI and increase in OFW (Overseas Filipino Worker) remittance help to expand the economy. Due to stably low crude oil price, inflation pressure is eased down. BSP can take a wait and see stance under benign inflationary environment.
- MSCI Philippines (local) rose +1.2% MTD as of May 26<sup>th</sup>, while MSCI Asia ex Japan gained +0.4% in the same period. The stocks rallied across the sectors, but a few consumption names dropped on lower than consensus profits.
- The attention is focused on PPP (Public-Private Partnership), which is one of key issues for development and reconstruction of the country but is lagging behind an expected progress. PPP would be a key issue for a coming presidential election in 2016. Over weight is recommended on positive corporate earnings underpinned by solid domestic demand. Should focus on "quality" with good value names.

## Market Focus (ii): Singapore – *Neutral continued*

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- SMAM maintained at Neutral as policy headwind is easing. Although the pace of economic recovery is slow, tight policy for property sector will finish soon. Easing policy is a tailwind for property names. Singapore's stable market is advantageous in the relatively volatile Asian markets.
- MSCI Singapore (local) retracted -1.5% MTD as of May 26<sup>th</sup>, underperforming MSCI Asia ex Japan of +0.4% in the same period. Particularly, Communication stocks continued soft on concern over the increasing competition.
- Despite moderate growth in Exports, high appreciation of currency rates and upward wage pressure weigh on the economy. Low price to book would support the prices, while P/E has expanded to the upper limit of historical range. The earnings momentum are currently showing soft and is likely to recover at a moderate pace going forward.
- FY2015 budget had no surprise to change. Early election could be possible in the Singapore's 50<sup>th</sup> anniversary this year.

Note: Compiled by SMAM as of May 27th 2015

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