



Asian Macro & Market Outlook

SMAM monthly comments & views

April 2016



Sumitomo Mitsui Asset Management

Executive summary

◆ Asian Economy

In China, economic downside risks still remain. Inventory adjustment would continue gradually as the government expresses its clear intention to keep eliminating industrial overcapacity. We expect the real GDP to accelerate slightly on a YoY basis in 3Q16 but to slow down after the next quarter. Thus, we revised down our original real GDP forecasts in 2016 and 2017 to +5.5% YoY and +5.1% YoY respectively. The housing prices in a part of large cities have soared due to speculative investment but a cautious mood may occur in 2016 before house prices turn to a downturn in 2017.

Asian economies are stabilizing thanks to measures such as monetary easing and public spending in spite of China's slowdown. We cut the ASEAN4 countries' GDP forecast to +4.6% YoY in 2016 from +4.7% YoY on negative effects by weaker-than-expected car production in Thailand. The NIES4 countries' GDP forecasts for 2016 and 2017 are expected to remain flat at +2.0% YoY. In most of Asian countries, potential risk of economic downturn resides in effects from global economy such as China.

◆ Asian Stock Markets

We expects the stock market will recover gradually in tandem with the growth of corporate earnings given the slow recovery of global economy and normalized valuation level.

- ✓ Macro economies in most of Asian countries remain weak and are likely to show gradual recovery in 2016. Especially the outlook for the Chinese economy remains quite unclear. Risk for cash outflow and weaker currency still exists.
- ✓ The pace of recovery in corporate earnings is slow.
- ✓ One of big challenges is tighter liquidity conditions across Asia due to US rate hike.
- ✓ These are key concerns for Asian markets and will create volatility in the near term.
- ✓ However, accommodative monetary policies and relatively low valuation will support the markets. The markets will go up in line with slow recovery of corporate earnings.

Outlook for Asian Economy

SMAM Economic Outlook Summary

- We revised up Philippines's real GDP growth projection for 2016 to +6.1% from +5.9%.
- For Australia, we raised real GDP forecast on better-than-expected Oct-Dec GDP but slightly cut that for 2017.
- We revised down both 2016 and 2017 real GDP forecasts for Hong Kong and India.
- We lowered Thailand's GDP projection for 2016 to +2.7% from +2.9%, as auto production and sales are expected to decline due to a tax increase.

Real GDP Growth Forecasts (%YoY)

Country	2014 (A)**	2015	2016 (F)**			2017 (F)		
			SMAM	Previous Feb 15th	Consensus	SMAM	Previous Feb 15th	Consensus
Australia	2.6	2.5	2.4	2.3	2.6	2.7	2.8	3.0
China	7.3	6.9	6.5	6.5	6.4	6.3	6.3	6.2
Hong Kong	2.5	2.4	1.7	1.9	1.8	1.7	1.8	2.0
India*	7.3	7.5	7.5	7.9	7.6	7.7	8.0	7.7
Indonesia	5.0	4.8	5.1	5.1	5.0	5.3	5.3	5.3
Malaysia	6.0	5.0	4.5	4.5	4.2	4.6	4.6	4.5
Philippines	6.1	5.8	6.1	5.9	6.0	6.0	6.0	5.8
Singapore	2.9	2.0	1.8	1.8	1.8	1.8	1.8	2.3
S. Korea	3.3	2.6	2.5	2.5	2.7	2.5	2.5	2.8
Taiwan	3.9	0.8	0.8	0.8	1.6	1.1	1.1	2.5
Thailand	0.9	2.8	2.7	2.9	3.0	3.2	3.2	3.3

(Source) SMAM

Consensus Forecasts (Consensus Economics Inc.) as of 15 February 2016 & SMAM Forecasts as of 18 March 2016

* India is for fiscal year starting April.

** (F): Forecast, (A): Actual

Outlook for Economy in China

SMAM Economic Outlook for China

China's Quarterly GDP Growth and Components

	2014	2015	2016E	2017E	2015				2016E			
					1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE
Real GDP, %YoY	7.3	6.9	6.5	6.3	7.0	7.0	6.9	6.8	6.4	6.4	6.5	6.4
previous	7.3	6.9	6.5	6.3	7.0	7.0	6.9	6.8	6.5	6.5	6.6	6.6
SMAM's Original Real GDP Forecast, %YoY*	6.9	6.0	5.5	5.1	6.3	6.3	5.8	5.7	5.4	5.4	5.6	5.4
previous	6.9	6.0	5.6	5.4	6.3	6.3	5.8	5.7	5.5	5.5	5.8	5.8
Consumption Expenditure, %YoY	7.3	9.1	8.2	7.9	-	-	-	-	-	-	-	-
previous	7.5	9.1	8.2	7.9	-	-	-	-	-	-	-	-
Gross Fixed Capital Investment, %YoY	7.2	5.3	4.8	4.4	-	-	-	-	-	-	-	-
previous	7.1	5.3	4.8	4.4	-	-	-	-	-	-	-	-
Net Exports, contrib.	0.2	-0.2	0.0	0.1	-	-	-	-	-	-	-	-
previous	0.2	-0.2	0.0	0.1	-	-	-	-	-	-	-	-
Nominal GDP, %YoY	8.1	6.4	6.1	5.9	6.6	7.0	6.2	6.0	6.0	6.0	6.1	6.0
previous	8.1	6.4	6.3	6.1	6.6	7.1	6.2	6.0	6.3	6.2	6.4	6.3
GDP Deflator, %YoY	0.9	-0.4	-0.4	-0.4	-0.4	0.0	-0.7	-0.7	-0.4	-0.4	-0.4	-0.4
previous	0.9	-0.4	-0.2	-0.2	-0.3	0.1	-0.7	-0.9	-0.1	-0.3	-0.1	-0.3
Ind. Production, %YoY	8.3	6.1	5.6	5.2	6.1	6.3	5.9	5.9	5.5	5.5	5.6	5.6
previous	8.3	6.1	5.7	5.3	6.1	6.3	5.9	5.9	5.6	5.6	5.7	5.7
CPI, %	2.0	1.4	1.5	1.2	1.2	1.4	1.7	1.5	2.0	1.6	1.3	1.2
previous	2.0	1.4	1.3	1.2	1.2	1.4	1.7	1.5	1.5	1.4	1.2	1.3
Base Loan Rate, 1yr, period end, %	5.60	4.35	4.10	3.85	5.35	4.85	4.60	4.35	4.35	4.10	4.10	4.10
previous	5.60	4.35	4.10	3.85	5.35	4.85	4.60	4.35	4.10	4.10	4.10	4.10

Notes: SMAM estimates as of 18 March 2016. *SMAM's Original Real GDP Forecast, %YoY is originally calculated by SMAM to find out "real" Chinese economic growth using data of Industrial Production and Retail Sales. Numbers indicated in boldface are Actual.

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

SMAM Economic Outlook for China

- We revised down nominal GDP and SMAM's original real GDP forecasts for 2016 and 2017 for three reasons. Firstly, we lowered our outlook for industrial production. Secondly, we are still concerned about incoming bust of housing bubble. Furthermore, we foresee the effect of fiscal policy in 2016 to be weaker than that in 2015.
- However, we maintain our economic outlook, the real GDP forecasts, at +6.5% YoY in 2016 and at +6.3% YoY in 2017, which are slightly higher than market consensus. The government would require attaining its growth target of +6.5% YoY to +7.0% YoY. Behind this background, we expect the real GDP growth would be adjusted by the government through lowering GDP deflator.

Note: Economy outlook is as of 18 March 2016

Market Consensus of Chinese Market

	2014	2015	2016E	2017E
Real GDP, %YoY	7.3	6.9	6.4	6.2
Industrial Production, %YoY	8.3	6.1	5.7	5.4
Gross Fixed Capital Investment, %YoY	15.7	10.0	9.4	9.0
Retail Sales, %YoY	12.0	10.7	10.6	10.5
CPI, %	2.0	1.4	1.5	1.7
PPI, %	-1.9	-5.2	-4.0	-1.8
M2	12.2	13.3	12.1	11.4
Base Loan Rate, 1yr, period end, %	5.60	4.35	4.10	3.85

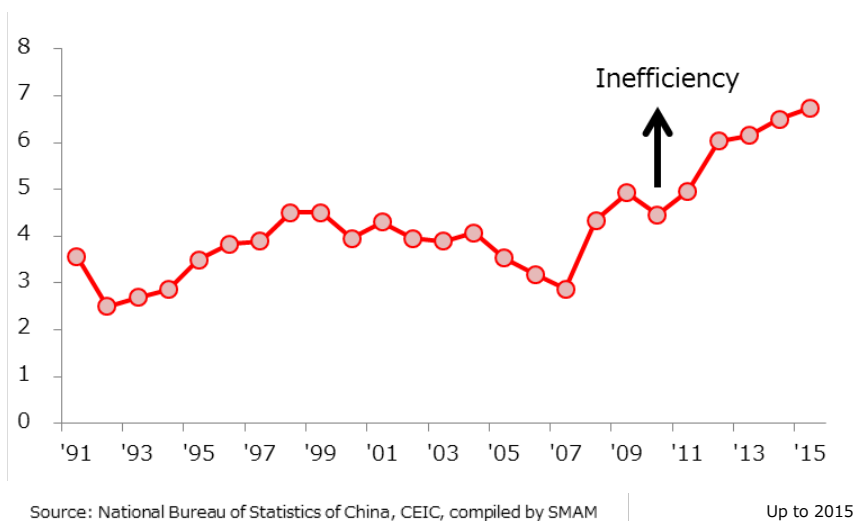
Notes: As of 18 March 2016. Numbers indicated in boldface are Actual.

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

China: Highlights of Chinese economy

- Jan-Feb Industrial production (IP) was up 5.4% YoY, which was lower than market consensus of +5.6% due to negative growths in cement (-8.2% YoY) and steel (-5.7% YoY) productions amid cut back in industrial overcapacity. We expect raw material productions to further slowdown affected by blue sky campaign. The government seems to require steel makers to decrease their operation in order to improve air quality for the international conference held in Hebei province during April-October 2015. Under this situation, IP is not likely to improve and would weigh on the economy.

Incremental Capital Output Ratio (ICOR)



Real activity data for January-February in 2016

	Jan-Feb-16 (Consensus)	Jan-Feb-16 (Actual)	Dec-15	Nov-15	Oct-15
IP	5.6	5.4	5.9	6.2	5.6
Fixed Asset Investment (ytd)	9.3	10.2	10.0	10.2	10.2
Retail Sales	11.0	10.2	11.1	11.2	11.0

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

Up to February 2016

Output of Major Industrial Productions

	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-Feb-16
Cement	-4.7	-4.2	-2.5	-3.5	-6.6	-3.7	-8.2
Crude Steel	-4.6	-3.5	-3.0	-3.1	-1.6	-5.2	-5.7
Rolled Steel	-1.9	0.4	-0.6	-0.2	2.0	-3.4	-2.1
Nonferrous Metals	9.3	9.4	6.3	2.6	1.4	-4.6	-4.3
Motor Vehicles	-11.2	-6.5	-4.7	4.9	16.0	16.3	5.3
Mobile Telephones	6.6	5.5	-0.9	10.0	13.1	12.4	15.5
Power Generation	-2.0	1.0	-3.1	-3.2	0.1	-3.7	0.3

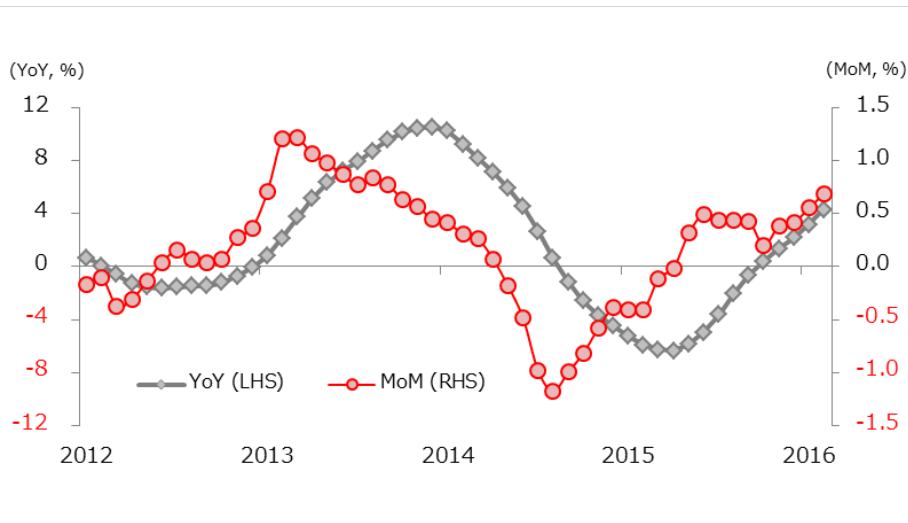
Source: National Bureau of Statistics of China, CEIC, compiled by SMAM

Up to February 2016

China: Highlights of Chinese economy

- In February, the average new home prices in 70 Chinese cities continued to rise on sharp gains in top-tier cities such as Shenzhen and Shanghai. Lower down-payment requirement on a housing loan implemented by the government supports the rising trend. February New housing price in Shenzhen soared 57.8% YoY according to official statistics.
- However, we believe that the current rise will not be sustainable. Looking closely, some of middle income consumers purchase luxury properties under illegal financing scheme where banks lend money to homebuyers for down-payment use. As the governor of the People's Bank of China underlined these illegal housing loan are likely to be regulated. After peaking out the housing prices, the economic momentum should face a downside pressure due to paralysis of a banking system in China.

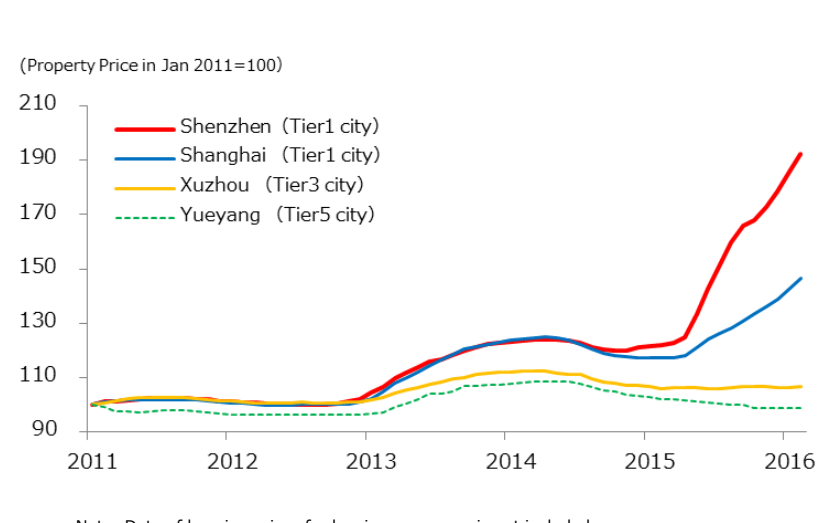
Growth in Housing Price in 70 Cities



Note: Data of housing prices for low income group is not included. Housing price is calculated by dividing weighted average price of housing price in 70 cities by income per capita.
 Source: CEIC, compiled by SMAM

Up to February 2016

Indices of Average New House Prices



Note: Data of housing prices for low income group is not included
 Source: CEIC, compiled by SMAM

Up to February 2016

China: Highlights of Chinese economy

- ❑ The average new home price in Shanghai continues to grow especially after 2015. That price in February, gaining 2.9% from the previous month, achieved +25.1% YoY.

- ❑ On March 25, the Shanghai municipal government announced new regulation on home purchases to cool down the overheating property market.

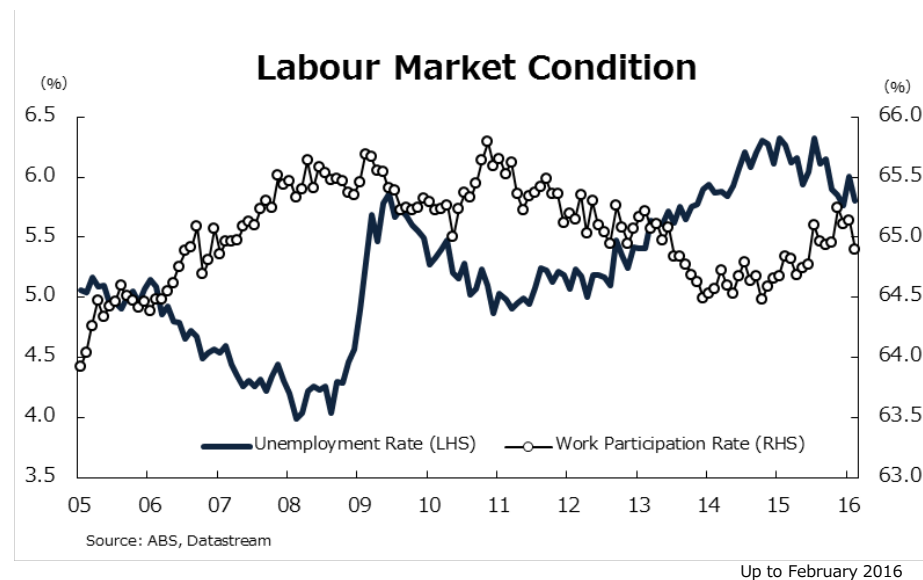
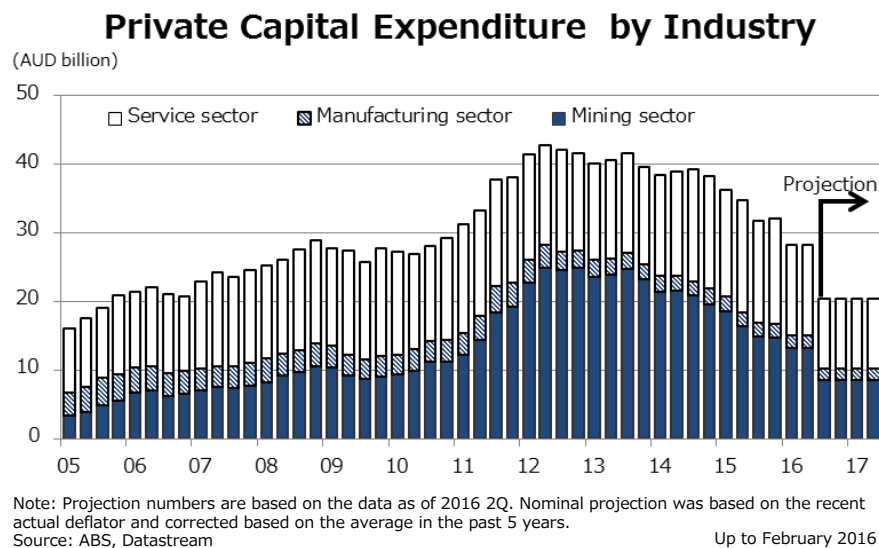
- ❑ Main points are as follows:
 - Banks should strengthen supervision of credit control over mortgage by checking if the down payments are financed from homebuyers' money.
 - Home purchasers need to put down at maximum 70% of the price of a second house as a down payment. The ratio of down payment was 40% before the new regulation but significantly increases.
 - Tighter requirements for non-Shanghai resident home buyers have been put in place.

- ❑ We expect other local cities to follow the Shanghai's regulation to tighten overheated housing market. The housing bubble, occurring in some large cities, would peak out or burst. In that case, the property market, which was showing a sign of rebound, would slow down again.

Outlook for Economies in Asia

Australia

- We revised up the GDP growth forecast for 2016 to +2.4% YoY on an upturn in Oct-Dec GDP, but slightly cut that for 2017 to +2.7% YoY on a weak private investment plan from the second half of 2016 onward. However, we maintain our view of the GDP growth to be on a path of a gradual recovery at just under cruising speed in the first half of 2016. Later, the economic growth would accelerate moderately on the back of correction in capex and bottom out of China's economy.
- We foresee the unemployment rate to remain flat in the first half of 2016, but to turn to a gradual declining trend again later. February job data showed improvements as unemployment rate grew 0.2% from that in the precious month and the seasonally adjusted number of employments increased by 300. Employment is increasing led by the service sector as a result of monetary easing.
- We stay with our expectation that the Reserve Bank of Australia (RBA) holds cash rate at 2.00% until end-2017 on improving labour market and the financial market, which seems to calm down. Yet, a possibility of rate cut remains as the general level of wage continues to be low.



Hong Kong and Taiwan

- We revised down Hong Kong's real GDP forecasts for 2016 to +1.7% YoY from +1.9% YoY and that in 2017 to +1.7% YoY from +1.8% YoY. Slowing Chinese economy and potential rate hike with US rate hike would weigh on the Hong Kong economy.
- For Taiwan, we maintain our view for GDP growth at +0.8% YoY in 2016 and +1.1% YoY in 2017. However, this export-oriented economy faces challenging situation in terms of export due to slowdown in external demand.
- As market expected, the central bank of China (Taiwan) decided to cut its policy rate from 1.625% to 1.500%, effective on March 25. We stay with our expectation that a current disinflation trend would continue as the current inflation is caused by a short-lived price increase in crops as a result of cold weather. We envisage an additional rate cut in the next meeting in June.

India

- India, which is less vulnerable to global economic cycle, is on a positive trend toward economic recovery led by domestic demands on the back of low inflation environment.
- Yet, we cut the GDP growth forecast for 2016 by 0.4% to +7.5% YoY as well as that for 2017 by 0.3% to +7.7% YoY due to weak investment, domestic consumption fares well though.
- The Reserve Bank of India (RBI) announced a modest narrowing of the current account deficit to USD7.1bn (1.3% of GDP) in Oct-Dec from USD8.7bn (1.7% of GDP) in Jul-Sep. As Jan-Mar current balance of payments tends to improve on exports for seasonally reason, thereby, we expect that the current account deficit in FY2015-2016 to end in sub-1% of GDP.
- In addition, RBI decided to cut policy rate to 6.50 from 6.75 in April as market expected and offered an accommodative policy stance.

CPI (%)

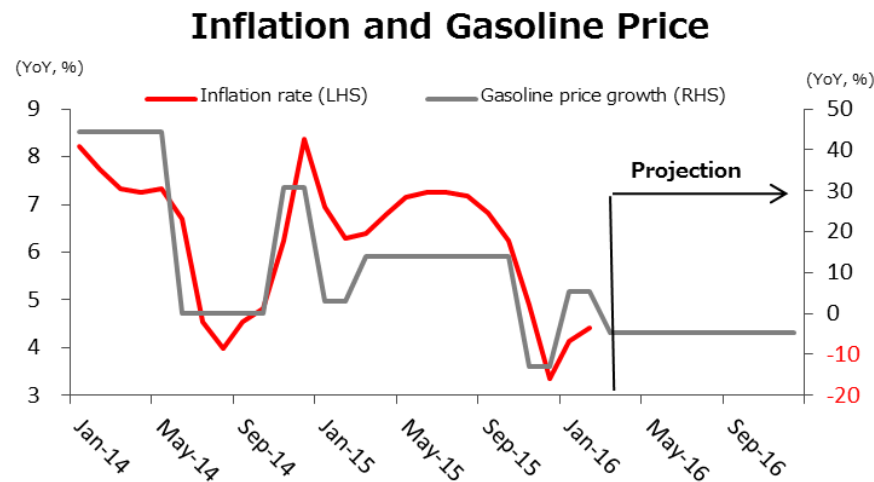
	CPI Inflation	Food & Beverages	Vegetables	Pulses	CPI Inflation	Food & Beverages	Vegetables	Pulses
	YoY	Weight	Weight	Weight	MoM	Weight	Weight	Weight
Oct-14	4.6	2.1	-0.8	0.2	0.00	-0.15	-0.27	0.01
Nov-14	3.3	1.0	-1.6	0.2	0.00	-0.11	-0.22	0.02
Dec-14	4.3	2.1	-0.3	0.2	-0.58	-0.57	-0.60	0.01
Jan-15	5.2	2.9	0.6	0.2	0.08	-0.19	-0.38	0.03
Feb-15	5.4	3.1	0.8	0.2	0.17	0.00	-0.18	0.04
Oct-15	5.0	2.6	0.2	1.0	0.56	0.33	-0.09	0.29
Nov-15	5.4	2.9	0.3	1.1	0.40	0.22	-0.10	0.11
Dec-15	5.6	3.0	0.3	1.1	-0.39	-0.47	-0.56	0.01
Jan-16	5.7	3.1	0.4	1.0	0.16	-0.04	-0.25	-0.02
Feb-16	5.2	2.6	0.0	0.9	-0.32	-0.51	-0.54	-0.07

Source: CEIC, SMAM

Up to February 2016

Indonesia

- At the March Monetary Policy Committee, Bank Indonesia (BI) lowered its policy rate again by 25bp to 6.75% from 7.00%. BI indicated this implementation is to ensure the economic recovery under low inflation with rising Indonesia Rupiah
- BI foresees the economy to experience a gradual recovery on expectation for positive growths in real GDP (Jan-Mar 2016: +5.1% YoY, 2016: +5.2-5.6% YoY). However, BI applied a brake to additional monetary easing and commented that the central bank would adopt a cautious stance toward further easing.
- The government decided to cut gasoline price by almost 7.2% from IDR 6,950/ℓ to IDR 6,450/ℓ. Lower oil prices would generate a downward pressure on transportation costs, which would cause lower inflation rate and improve consumer sentiments.



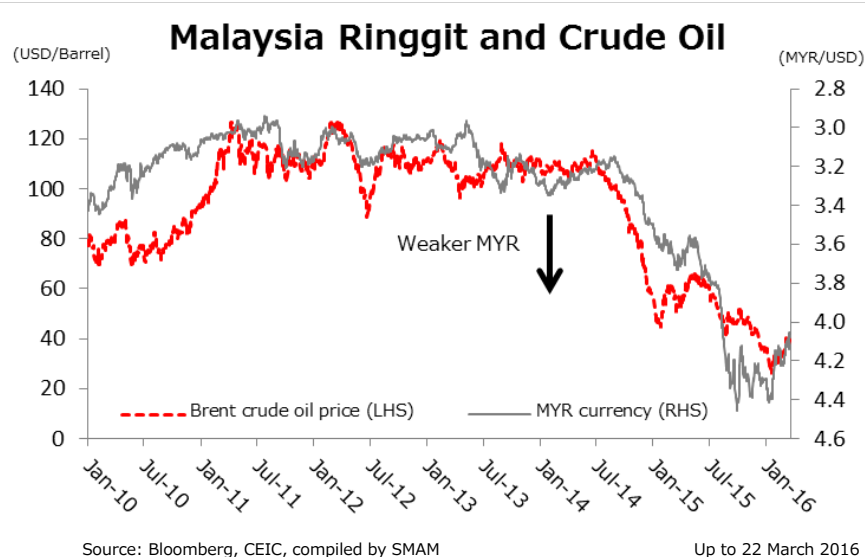
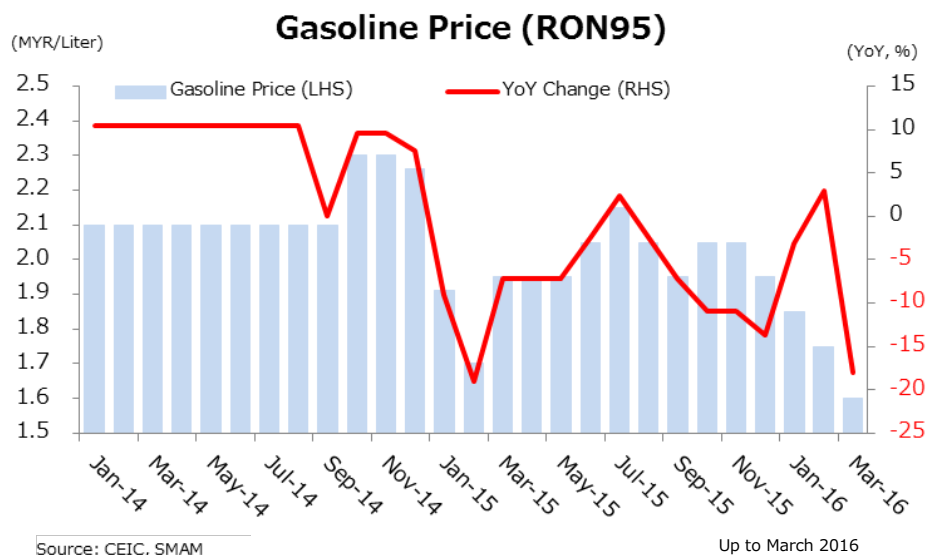
Note: Referring 88 RON gasoline, cutting the price to IDR7,050/ℓ on 5 Jan 2016.

Source: CEIC, SMAM

Up to February 2016

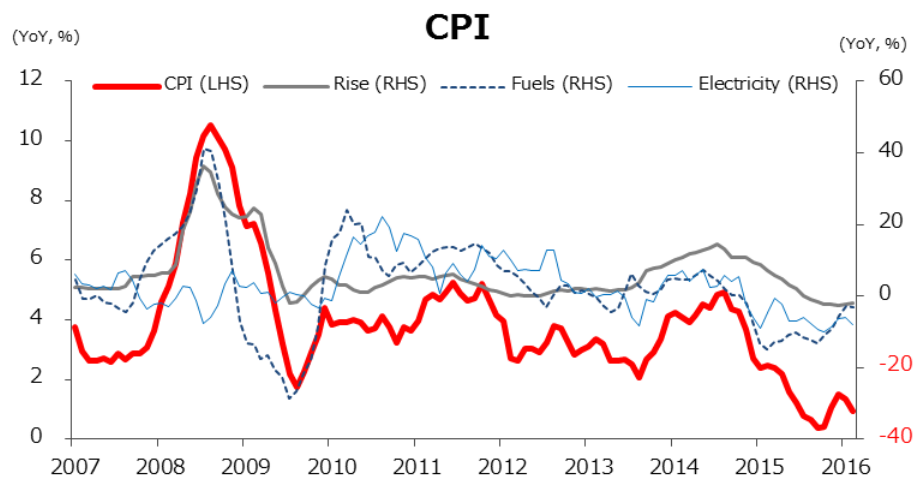
Malaysia

- As market expected, Bank Negara Malaysia (BNM) left the overnight policy rate unchanged at 3.25% and the statutory reserve requirement (SRR) ratio at 3.50%. The statement “The outbound capital outflows have led to a liquidity squeeze in the domestic market” was deleted this time round.
- For Malaysia, a net exporter of crude oil, higher oil prices have positive impacts to its economy. Brent crude oil price seems to recover after bottoming out in January. This upward trend would lift up the GDP growth for 2017. Malaysia Ringgit (MYR) also rose moderately against USD after the end of January.



Philippines

- We revised up the GDP growth forecast for 2016 to +6.1% YoY on firm domestic consumption while that for 2017 was unchanged.
- The economy is less vulnerable to global economic cycle as the contribution ratio of exports to GDP is only 22%, lower than in other Asian countries. We believe the economic recovery would continue in early 2016 on firm consumption supported by election-related spending. The economy would accelerate in 2016 and 2017 thanks to expanding middle-income groups and the low-inflation environment, which is a catalyst for stimulating consumer demands.
- Bangko Sentral ng Pilipinas kept its policy rates, including reverse repurchase (4.00%) and special deposit account (2.50%) in line with market expectation. The central bank lowered its CPI forecast for both 2016 and 2017 by 0.1% each. We expect its inflation rate to remain within the target at +3.0% \pm 1%.



Source: CEIC, SMAM

Up to February 2016

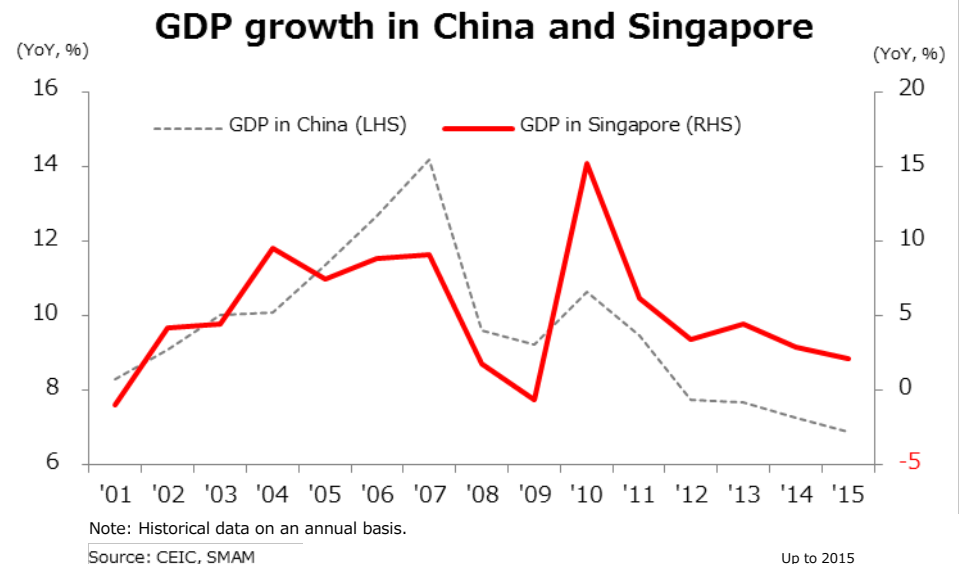
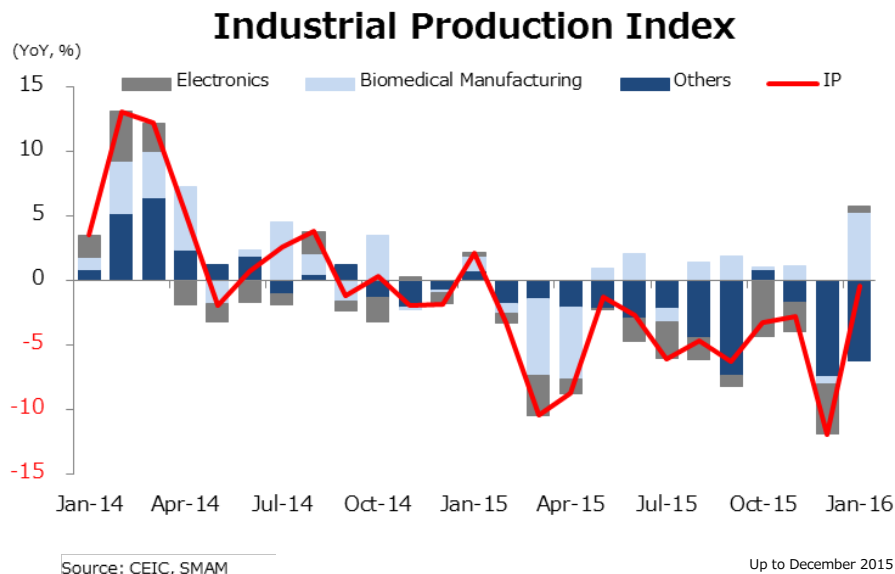


Source: CEIC, SMAM

Up to December 2015

Singapore

- We keep real GDP forecasts for both 2016 and 2017 unchanged at +1.8% YoY, deteriorating from that for 2015 (+2.0% YoY). Since its exports exceed total GDP, Singapore economy is sensitive to other Asian economies, particularly to China.
- Furthermore, the weak economy in Malaysia, an important trading partner for Singapore, would drag down the exports. Looking at Industrial Production (IP), biomedical output remains volatile. Thus, we take a careful attention to the IP numbers as upside and downside risks.



South Korea

- We maintain real GDP forecasts for 2016 and 2017 at +2.5% YoY. Low inflation supports domestic demands whereas the regulation of mortgage loan puts downward pressure on the economy.
- In March, better-than-expected exports was came in at -8.2% YoY, improving from -15.7% YoY (Jan-Feb). The uptick was due to an increase in exports to China (Mar: -12.2% YoY, Feb: -12.9 YoY). However, exports to other countries such as US, ASEAN and Middle East extended the losses.
- Bank of Korea (BoK) left the policy rate unchanged at 1.50%. In March monetary policy committee, one of its seven board members favoured a rate cut, same as the previous meeting in February, although all decided to keep the rates on hold at 1.50% in January. The governor Lee Ju-yeol said that the central bank maintains its view for the economy despite weak results of February exports and January IP growth.

Korea's Exports by Destination

(YoY, %)

	% of share	1Q15	2Q15	3Q15	4Q15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16
Exports		-3.0	-7.2	-9.5	-11.7	-16.0	-5.0	-14.3	-18.8	-12.2	-8.2
China	26.0%	-1.6	-2.7	-6.9	-10.5	-8.0	-6.8	-16.5	-21.6	-12.9	-12.2
Japan	4.9%	-22.2	-13.1	-26.6	-20.0	-25.9	-19.1	-13.9	-18.7	-15.0	-3.6
Vietnam	5.3%	18.2	36.8	35.0	9.8	12.5	12.1	4.9	-8.2	17.9	13.5
Asean (excl. Vietnam)	8.9%	-29.6	-25.0	-22.2	-19.6	-24.3	-13.7	-20.3	-26.8	5.7	-29.4
US	13.3%	13.3	-1.0	-2.2	-10.0	-11.6	-12.5	-5.7	-9.3	4.1	-3.8
EU	9.1%	-21.2	-8.5	-3.6	7.9	-12.6	52.2	-7.7	7.2	5.0	12.7
Middle East	5.8%	-3.7	-6.8	-17.2	-21.9	-25.7	-24.1	-15.1	-31.0	-5.9	-22.4

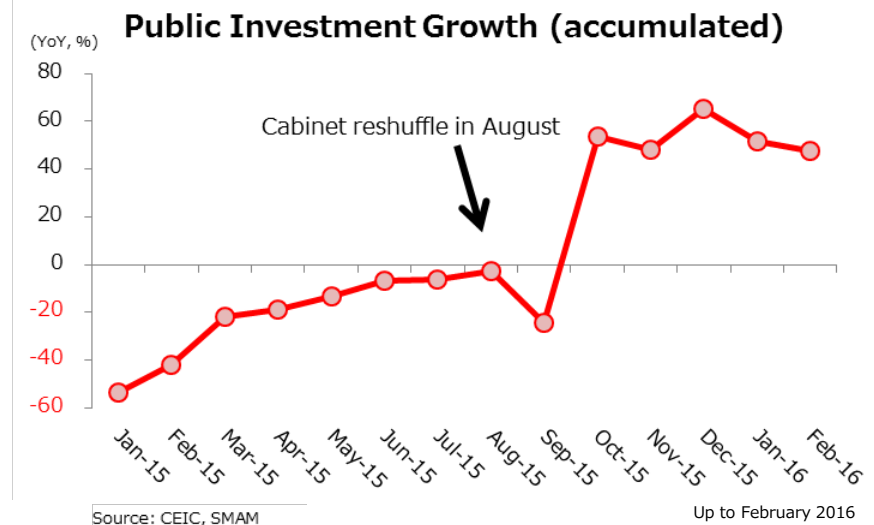
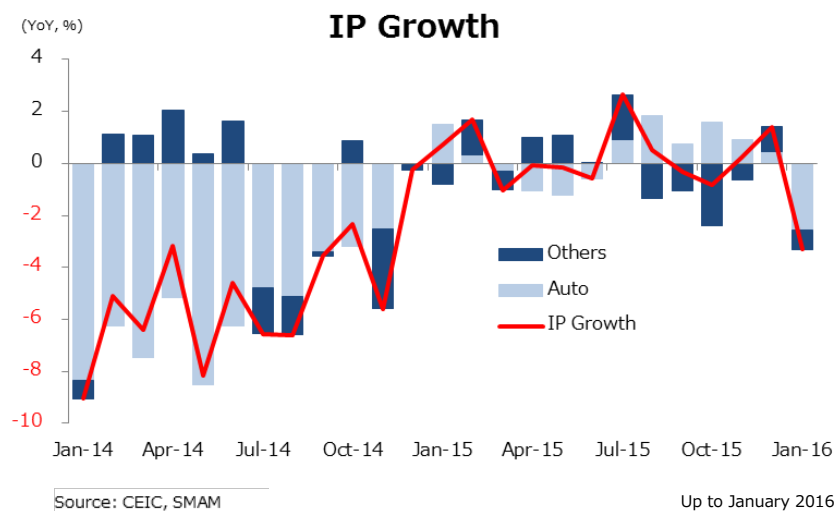
% of share was calculated according to the share between Jan and Dec 2015

Up to March 2016

Source: CEIC, SMAM

Thailand

- We revised down real GDP forecast for 2016 by 0.2% to +2.7% YoY on negative contribution by slowing auto production, but, maintain our view of the economic upturn toward 2017.
- February IP growth came in at -1.6% YoY, above the market consensus of -3.1% YoY. Auto production, in particular, weighed on the growth for 2nd consecutive months. We expect the auto production to be a downside risk for IP growth in 2016 with less fiscal support from the government. In addition, weather conditions are another headwind for the agricultural sector, remaining 7% share of total real GDP.
- The Bank of Thailand (BoT) left its policy rate unchanged at 1.50% at March monetary policy meeting. BoT reduced its growth forecast for 2016 to +3.1% YoY from +3.5% YoY on downturn in auto production and sales, concern over global economy and Thailand Baht appreciation. However, the central bank maintains its view that the fiscal policy will continue to support the economy.



Outlook for Asian Stock Markets

Stock Market Performance - Global

Indices as of 31 Mar 2016	Px Last	Mtd	Qtd	Ytd	3m	1yr	2yr	3yr
S&P 500 INDEX	2,059.74	6.6%	0.8%	0.8%	0.8%	-0.4%	10.0%	31.3%
DOW JONES INDUS. AVG	17,685.09	7.1%	1.5%	1.5%	1.5%	-0.5%	7.5%	21.3%
NASDAQ COMPOSITE INDEX	4,869.85	6.8%	-2.7%	-2.7%	-2.7%	-0.6%	16.0%	49.0%
STOXX Europe 50 € Pr	2,790.17	-0.3%	-10.0%	-10.0%	-10.0%	-18.8%	-4.3%	3.4%
NIKKEI 225	16,758.67	4.6%	-12.0%	-12.0%	-12.0%	-12.7%	13.0%	35.2%
TOPIX	1,347.20	3.8%	-12.9%	-12.9%	-12.9%	-12.7%	12.0%	30.2%
BRAZIL BOVESPA INDEX	50,055.27	17.0%	15.5%	15.5%	15.5%	-2.1%	-0.7%	-11.2%
RUSSIAN RTS INDEX \$	876.20	14.0%	15.7%	15.7%	15.7%	-0.5%	-28.5%	-40.0%
BSE SENSEX 30 INDEX	25,341.86	10.2%	-3.0%	-3.0%	-3.0%	-9.4%	13.2%	34.5%
HANG SENG INDEX	20,776.70	8.7%	-5.2%	-5.2%	-5.2%	-16.6%	-6.2%	-6.8%
HANG SENG CHINA AFF.CRP	3,772.08	10.5%	-6.9%	-6.9%	-6.9%	-18.9%	-9.4%	-13.5%
HANG SENG CHINA ENT INDX	9,003.25	13.7%	-6.8%	-6.8%	-6.8%	-27.1%	-10.6%	-17.4%
CSI 300 INDEX	3,218.09	11.8%	-13.7%	-13.7%	-13.7%	-20.6%	49.9%	29.0%
TAIWAN TAIEX INDEX	8,744.83	4.0%	4.9%	4.9%	4.9%	-8.8%	-1.2%	10.4%
KOSPI INDEX	1,995.85	4.1%	1.8%	1.8%	1.8%	-2.2%	0.5%	-0.5%
STRAITS TIMES INDEX	2,840.90	6.5%	-1.5%	-1.5%	-1.5%	-17.6%	-10.9%	-14.1%
FTSE Bursa Malaysia KLCI	1,717.58	3.8%	1.5%	1.5%	1.5%	-6.2%	-7.1%	2.7%
STOCK EXCH OF THAI INDEX	1,407.70	5.7%	9.3%	9.3%	9.3%	-6.5%	2.3%	-9.8%
JAKARTA COMPOSITE INDEX	4,845.37	1.6%	5.5%	5.5%	5.5%	-12.2%	1.6%	-1.9%
PSEI - PHILIPPINE SE IDX	7,262.30	8.9%	4.5%	4.5%	4.5%	-8.5%	13.0%	6.1%
HO CHI MINH STOCK INDEX	561.22	0.3%	-3.1%	-3.1%	-3.1%	1.8%	-5.1%	14.3%
S&P/ASX 200 INDEX	5,082.79	4.1%	-4.0%	-4.0%	-4.0%	-13.7%	-5.8%	2.3%
NZX 50 INDEX	6,752.42	8.4%	6.8%	6.8%	6.8%	15.7%	31.4%	52.7%
MSCI World Free Local	405.56	5.0%	-2.5%	-2.5%	-2.5%	-6.4%	4.6%	21.6%
MSCI All Country Asia Ex Japan	623.01	7.9%	-0.1%	-0.1%	-0.1%	-12.4%	-2.4%	-0.6%
MSCI EM Latin America Local	65,932.57	10.6%	11.2%	11.2%	11.2%	-1.8%	-2.8%	-10.4%
MSCI Emerging Markets Europe M	478.76	8.0%	6.7%	6.7%	6.7%	-3.8%	1.0%	6.4%

Note: All data are as of 31 March 2016

Compiled by SMAM based on Bloomberg

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

Outlook for Global Markets

- ▣ We expects the stock market will recover gradually in tandem with the growth of corporate earnings given the slow recovery of global economy and normalized valuation level.

Outlook for Asia Pacific Region

- ▣ Macro economies in most of Asian countries remain weak and are likely to show gradual recovery in 2016. Especially the outlook for the Chinese economy remains quite unclear. Risk for cash outflow and weaker currency still exists.
- ▣ The pace of recovery in corporate earnings is slow.
- ▣ One of big challenges is tighter liquidity conditions across Asia due to US rate hike.
- ▣ These are key concerns for Asian markets and will create volatility in the near term.
- ▣ However, accommodative monetary policies and relatively low valuation will support the markets. The markets will go up in line with slow recovery of corporate earnings.

Note: As of 31 March 2016

Source: SMAM

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

	Outlook, Reason for OW/UW	1. Macro Trend				2. Stock Market		
		Politics	Macro	Interest rate / Inflation / Liquidity	External Account	Currency	Earnings Momentum	Valuation
Hong Kong	- Uncertainty from China continues. - Pressure for Asset price is eased but underlying economy is weak. - Attractive valuation with good corporate fundamentals.	Stable More focus on Economy side.	× The pace of recovery is slower than expected. ○ Tightening policy for property is behind us.	Pressure for HIBOR is eased. ↑ / Inflation will be moderate.	Trade deficit narrows, CA surplus stays at this level.	Stable, pressure for weaker HKD is eased.	× Revision is weak.	○ attractive
China	- Tough challenge towards New Normal. - Pressure for capital outflow and weaker RMB. - Potential for A shares inclusion in MSCI and HK/SZ stock connect can be near term catalysts. - Cyclical recovery of the economy but property market is a big risk.	Stable, but becomes less clear.	Gradual slowdown is expected, however hard landing should be avoided. Structural rebalancing is a key challenge.	○ More accommodative monetary policy is expected. / Int. rate will come down / Deflationary pressure continues.	Surplus- but it is declining × The degree of capital outflow is eased but it remains a big concern.	× Downward bias. The degree of RMB devaluation is a big issue across Asia.	× Revision is weak.	○ very attractive in the long term, but it has come back to average since 2011.
Taiwan	- Slower economic growth due to weak export. - Inventory correction on IT is progressed. - Attractive valuation with high dividend yield.	Stable, Watch out for cross strait talks after DPP government.	× The pace of economic recovery is slower than expected.	First rate cut for last 6 years. Int. rate will be stable. / Inflation will be stable. / Liquidity is improving.	Surplus will expand	Stable	× Revision is weak.	○ attractive
Korea	- Still in the transition. Structural re-rating will not happen soon. - High level of inventories and slow adjustments - Weaker KRW supports exporters.	Stable, but implementation of structural reform is delayed.	× Growth outlook is weakening due to subdued export environment in China.	○ Easing bias continues / Inflation will be stable / Liquidity is improving.	Surplus will expand	Downward bias in the near term.	× Revision is weak.	Attractive. However there is a reason for the discount.
Singapore	- Stable Mkt and policy headwind is easing. - Weak economy will continue due to Chinese economy slowdown. - Attractive valuation.	The landslide victory of PAP should create political stability.	× Slower economic growth is expected due to Chinese economy slowdown.	× SIBOR rate is stabilized ; Inflation is stable. / M2 growth rate is weakening.	High level of Trade & CA Surplus will continue.	Stabilizing under little concern for US rate hike.	× Revision is weak, but improving.	Rich on PER, fair on PBR
Malaysia	- Mounting uncertainty in both Politics and economy. - Investor's sentiment is improving.	× 1MDB investigation was closed. But political turmoil continues.	× GDP growth is expected to slow in 2016. However the government can brake downward pressure by off-budget disbursement.	Policy Rate will be flat. / Inflation will mildly pick up. / × M3 growth rate is weakening.	Surplus will be narrowed due to lower crude oil price. However recent hike of palm oil should	Stabilizing under little concern for US rate hike. Expected bottom out of oil price shall help MYR	× Revision is weak.	Fair (Rich on PER, but fair on PBR)
Thailand	- Economy is expected to bottom out. - Investor's sentiment is improving.	Military gov should continue at least until 2017. Strong leadership of deputy prime minister Somkid.	Economy is expected to bottom out supported by fiscal stimulus. However sluggish auto industry should cause the economic momentum to slow in 2016.	○ Rate cut is expected in 2Q16 for further depreciation of THB. However the timing may delay if THB turns to depreciation. / Inflation will be stable. M2 growth rate should remain low.	Surplus will continue.	Stabilizing under little concern for US rate hike.	× Revision is still weak, but its breadth is improving.	Attractive on PBR, but fair on PER
Indonesia	- Economy is expected to recover. - IDR is stabilizing given little concern for US rate hike. - Investor's sentiment is improving.	Honeymoon period of President Jokowi is behind us.	○ Economy is expected to recover supported by lower gasoline price and public investment. ↑	Rate cut is expected to suspend following economic recovery. ↓ / Lower inflation due to lower gasoline price.	× CA deficit will continue at current level.	Downward pressure is easing, but downward bias will continue.	× Revision is still weak, but its breadth is improving sharply. ↑	Fair (Rich on PER, but fair on PBR)
Philippines	- Still the bright spot. - Sustainability is key.	Stable. Presidential election in 2016.	○ Steady growth	Wait and See stance on monetary policy / Int. rate will be stable. / Inflation is stabilized by low oil price	Trade deficit will shrink. Current a/c surplus will expand.	Stabilizing under little concern for US rate hike.	○ Revision turns to be positive. ↑	Rich on PER, fair on PBR
India	- Overall macro fundamentals will improve given its strong policy supports. Low inflation is likely maintained. - Relatively immune to the situation of global macro but it is a consensus OW Mkt.	Potential of economic reform continues	○ High Growth rate will continue driven by domestic consumption.	○ Rate cut started and further room for rate cut / Inflationary pressure peaked out.	× Trade / CA deficit will remain at same level.	Stabilizing under little concern for US rate hike. Currency risk continues.	× Revision is very weak ↓	Fair on historical level. Most expensive among AxJ.
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	
Vietnam	Steady upside can be expected supported by solid economic growth.	Step Down of PM Dung is negative for reform	solid recovery	Lower interest rate environment / Benign Inflation	Trade / CA surplus will be narrowed.	Gradual depreciation	Improving	Within FV range.

Market Focus (i): Singapore – Underweight continued

【Summary】

We expect a sharp rebound in the stock market on US rate hike delay and stimulus measures by ASEAN countries. Improving fundamentals would underpin share prices, but the upside would be limited.

- ▣ We have positive outlook for consumer staples & healthcare, while negative outlook for consumer discretionary, industrials, financials and telecommunication services.
- ▣ Although Singapore banks are in better fundamentals than other ASEAN peers, growth in lending activities are sluggish.
- ▣ For the real estate sector, commercial property remains concerns due to oversupply. Residential property may face a downward pressure on prices after the interest rate hike. Furthermore, we heed the sector's exposure to China.

Note: Compiled by SMAM as of 25 March 2016

Market Focus (ii): Korea – Underweight continued

【Summary】

As the global economy is restoring stability, a downside of a slowdown in corporate earnings would be limited. However, structural issue is expected to weigh on the market in the medium and long-term.

- ▣ We have positive outlook for consumer discretionary, consumer staples & healthcare and materials and negative outlook for IT, industrials, energy and financials.
- ▣ For stocks relating hotel and duty-free business, negative effects by MERS outbreak seem to calm down. However, we pay careful attention to Chinese tourists to Korea. We will carefully pick up stocks that have a potential for overseas business expansion in the mid and long term.
- ▣ Although cosmetics industry is on a firm tone on domestic demands from China, the valuation is quite high. We take a bullish stance on cigarette-related stocks with little overvaluation, as the demand for tobacco is still solid after price increase.
- ▣ We maintain a cautious stance on sectors related to the heavy industry and/or sensitive to the economy, because their earnings recovery is expected to be slow.

Note: Compiled by SMAM as of 25 March 2016

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