Asian Macro & Market Outlook

SMAM monthly comments & views

March 2016

SMAM

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. Thus, we expect the real GDP forecasts and SMAM's original real GDP forecasts for 2016 and 2017 to be lower. For the property sector, we stay with our view that it would rebound in the second half of 2016 but would slow down again in 2017 due to demographic situation.

Asian economies are stabilizing thanks to measures such as monetary easing and public spending in spite of China's slowdown. We raised the ASEAN4 countries' GDP forecast to +4.7% YoY in 2016 and +4.8% YoY in 2017 whereas 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 to economy resides in effects by global economic downturn such as led by China.

◆ Asian Stock Markets

We expect high volatility continues in the near term given the strong risk aversive sentiments in the market, however we consider the market starts to recover as overall macro economy stabilizes. Attractive valuation is also supportive.

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

Note: Economy and Stock markets comments are as of February 15th and 26th 2016 respectively.

Outlook for Asian Economy

SMAM Economic Outlook Summary

- We maintain China's real GDP estimate for 2016 at +6.5% and expect the economy to slow down in the next year.
- We revised up Indonesia's real GDP estimate in 2016 to +5.1% from +4.8%.
- In the year 2016, we slightly cut real GDP growth projections of Australia, Hong Kong, India and Taiwan.

Real GDP Growth Forecasts (%YoY)

Country	2014 (A)*	2015 (A)**	2016 (F)*			2017 (F)		
			SMAM	Previous Jan 18th	Consensus	SMAM	Previous Jan 18th	Consensus
Australia	2.6	2.3	2.3	2.4	2.6	2.8	-	3.0
China	7.3	6.9	6.5	6.5	6.5	6.3	-	6.3
Hong Kong	2.5	2.4	1.9	2.0	1.9	1.8	-	2.1
India	7.3	7.6	7.9	8.0	7.7	8.0	-	7.7
Indonesia	5.0	4.8	5.1	4.8	4.9	5.3	-	5.3
Malaysia	6.0	5.0	4.5	4.5	4.3	4.6	-	4.6
Philippines	6.1	5.8	5.9	5.9	5.9	6.0	-	5.9
Singapore	2.9	2.0	1.8	1.8	2.0	1.8	-	2.4
S. Korea	3.3	2.6	2.5	2.5	2.7	2.5	-	2.8
Taiwan	3.9	0.8	0.8	0.9	1.9	1.1	-	2.6
Thailand	0.9	2.8	2.9	2.9	3.0	3.2	-	3.3

(Source) SMAM
Consensus Forecasts (Consensus Economics Inc.) as of 18 January 2016 & SMAM Forecasts as of 15 February 2016
*(F): Forecast, (A): Actual
**Real GDP growth forecast in 2015 is Actual except for India as the fiscal year in India starts from April.

Outlook for Economy in China

SMAM Economic Outlook for China

China's Quarterly GDP Growth and Components

	2014	2015	2016E	2017E	2015				2016			
					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**	6.5	6.5	6.6	6.6
previous	**7.3**	**6.9**	6.5	-	**7.0**	**7.0**	**6.9**	6.9	6.6	6.5	6.6	6.6
SMAM's Original Real GDP Forecast, %YoY*	6.9	6.0	5.6	5.4	6.3	6.3	5.9	5.7	5.5	5.5	5.8	5.8
previous	6.9	6.0	5.6	-	6.3	6.3	5.9	5.7	5.5	5.5	5.8	5.8
Consumption Expenditure, %YoY	**7.3**	**9.1**	8.2	7.9	-	-	-	-	-	-	-	-
previous	7.5	7.7	7.4	-	-	-	-	-	-	-	-	-
Gross Fixed Capital Investment, %YoY	**7.2**	**5.3**	4.8	4.4	-	-	-	-	-	-	-	-
previous	7.1	6.5	6.5	-	-	-	-	-	-	-	-	-
Net Exports, contrib.	**0.2**	**-0.2**	0.0	0.1	-	-	-	-	-	-	-	-
previous	-	-0.1	-0.1	-	-	-	-	-	-	-	-	-
Nominal GDP, %YoY	**8.1**	**6.4**	6.3	6.1	**6.6**	**7.0**	**6.2**	**6.0**	6.3	6.2	6.4	6.3
previous	**8.2**	6.6	6.3	-	**6.6**	**7.1**	**6.2**	6.6	6.4	6.3	6.5	6.4
GDP Deflator, %YoY	**0.9**	**-0.4**	-0.2	-0.2	**-0.3**	**0.1**	**-0.7**	**-0.9**	-0.1	-0.3	-0.1	-0.3
previous	**0.9**	-0.3	-0.2	-	**-0.3**	**0.1**	**-0.7**	-0.3	-0.1	-0.3	-0.1	-0.3
Ind. Production, %YoY	**8.3**	**6.1**	5.7	5.3	**6.1**	**6.3**	**5.9**	**5.9**	5.6	5.6	5.7	5.7
previous	**8.3**	**6.1**	5.7	-	**6.1**	**6.3**	**5.9**	**5.9**	5.6	5.6	5.7	5.7
CPI, %	**2.0**	**1.4**	1.3	1.2	**1.2**	**1.4**	**1.7**	**1.5**	1.5	1.3	1.2	1.3
previous	**2.0**	**1.4**	1.3	-	**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	-	**5.35**	**4.85**	**4.60**	**4.35**	4.10	4.10	4.10	4.10

Notes: SMAM estimates as of 15 February 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 maintain our economic outlook, the real GDP forecasts, at +6.5% YoY in 2016 and at +6.3% YoY in 2017, same as the consensus. GDP deflator is expected to stay in negative territory for 3 consecutive years from 2015 to 2017. The deflationary pressure would cause the economic downturn.

- As the People's Bank of China seems to postpone rate cuts to 2Q2016, aiming to ease the capital outflow pressure, we changed our view for rate cut.

- We forecast the potential growth rate between 2016 and 2020 at +6.2% YoY. The government should continue to reduce production facilities especially in raw material industries such as steel, although there should remain excess production capacity for next 5 years.

Note: Economy outlook is as of 15 February 2016

Market Consensus of Chinese Market

	2014	2015	2016E	2017E
Real GDP, %YoY	**7.3**	**6.9**	6.5	6.3
Ind. Production, %YoY	**8.3**	**6.1**	5.8	5.5
Gross Fixed Capital Investment, %YoY	**15.7**	**10.0**	9.5	9.2
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**	-3.8	-1.5
M2	**12.2**	**13.3**	11.9	11.3
Base Loan Rate, 1yr, period end, %	**5.60**	**4.35**	3.85	3.98

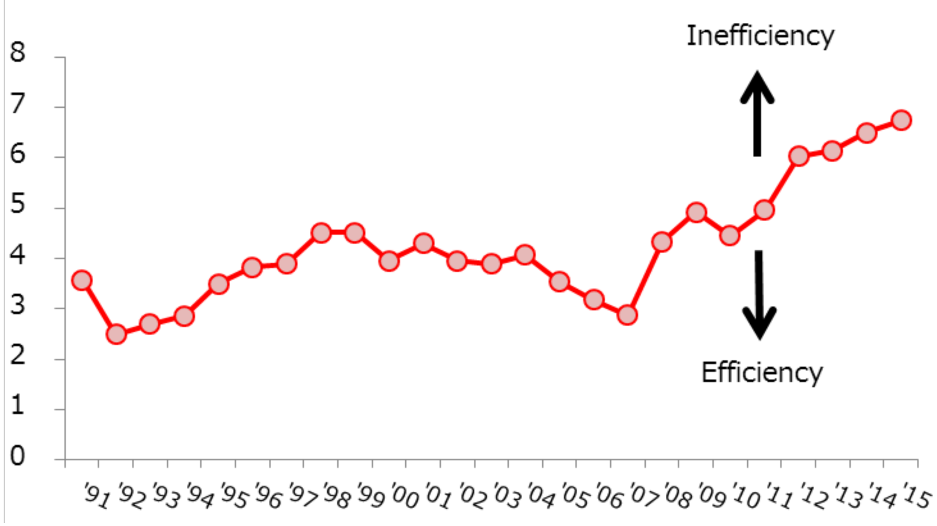
Notes: As of 15 February 2016. Numbers indicated by boldface are Actual.
Source: National Bureau of Statistics of China, CEIC, compiled by SMAM

China: Highlights of Chinese economy

- Incremental Capital Output Ratio (ICOR, ⊿K/⊿Y) has continued to increase especially since 2008, when the government took the huge amount of economic measures worth for RMB 4 trillions. Obviously, the graph shows that China's capital productivity has been worsening.

- Oct-Dec government's fiscal expenditure growth dropped to +14.7% YoY on a sharp fall in December to +0.8% YoY to avoid further increase in fiscal deficit for 2015. The drop should negatively influence the economy for 1Q2016. Fiscal deficit without special funds came in at RMB 2,355bn for FY2015, exceeding the budget amount of RMB 1,720bn. The deficit including such funds might reach 3% of GDP.

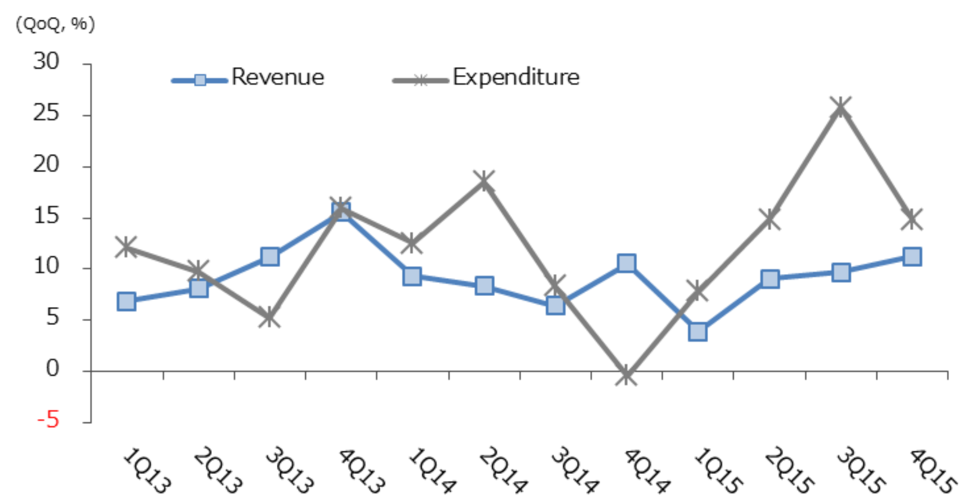
ICOR



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

Up to 2015

Fiscal Expenditure (Quarterly)



Note: The number in 4Q2015 is the average of that during Oct-Nov
Source: Ministry of Finance of China, CEIC, compiled by SMAM

Up to 4Q2015

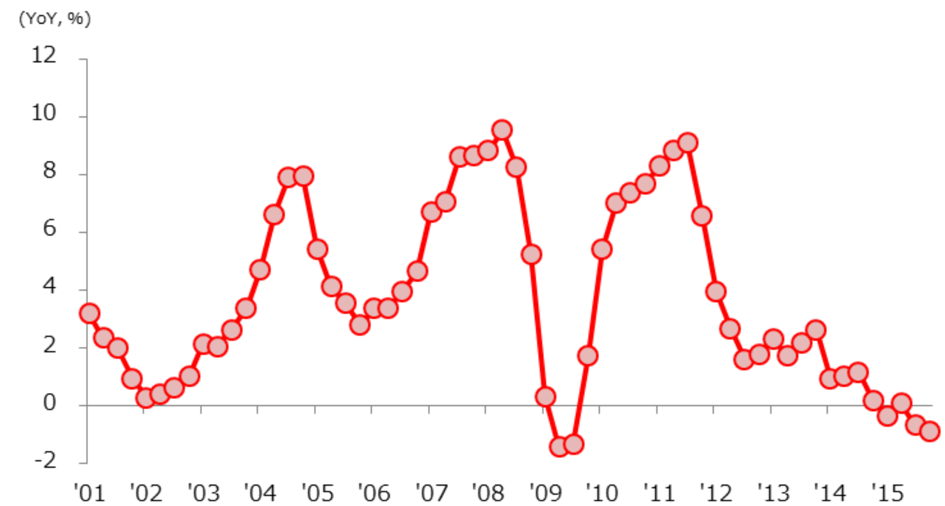
China: Highlights of Chinese economy

- GDP deflator has continued to fall in the negative area. Oct-Dec GDP deflator came in at -0.9% YoY, decelerating from -0.7% YoY in the previous quarter, despite lower commodity prices, which can cause GDP deflator to push up through lower import prices.

- The labour market is stabilized, despite slowing economy. The job opening-to-application ratio in China's city area continued to exceed 1.0., which means little sign of large-sized fiscal stimulus programme.

- M2 growth, which came in at +14% YoY for January, is foreseen to maintain at over +11% for 2016 and 2017. The real GDP growth has been supported by growing M2 growth since the financial crisis. Given the relationship, we expect a gradual economic recovery in the 2nd half of 2016.

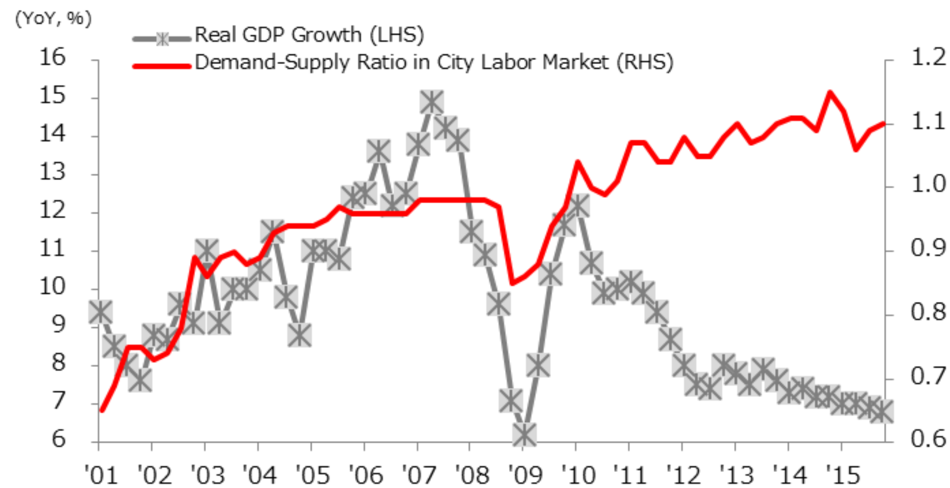
GDP Deflator



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

Up to December 2015

Job Opening-to-application Ratio



Source: Ministry of Human Resources and Social Security of China, CEIC, compiled by SMAM

Up to 4Q2015

China: Manufacturing PMI

- February official manufacturing PMI released by the National Bureau of Statistics softened to 49.0, below market consensus of 49.4. The decline was led by new orders (48.6, Jan: 49.5) and production (50.2, Jan: 51.4) on slowing domestic consumption. On the other hand, new export orders showed a rise to 47.4.

- Caixin final PMI in February also detracted to 48.0 from 48.4 in January. The changes in new orders, production and new export orders represented similar patterns of those in February official manufacturing PMI.

- We think the manufacturing sector experienced further deterioration in February, as both manufacturing PMIs declined from those in the previous month.

- However, China’s manufacturing PMIs tend to rise toward March and April after manufacturing activity slumped in January or February due to the Chinese New Year. We expect factory capacity to increase after the holidays and public investment to lift up manufacturing PMIs. New investment would be started on the approval in the government's budget by the National People's Congress in April. We pay close attention to March manufacturing PMIs.

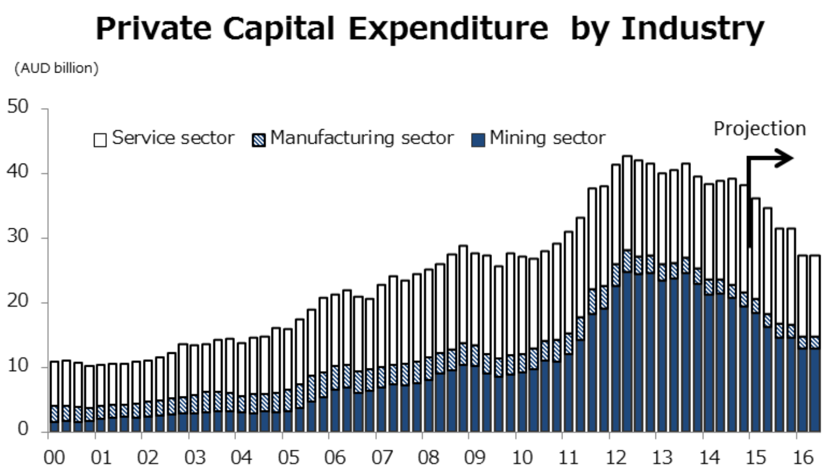
Outlook for Economies in Asia

Australia

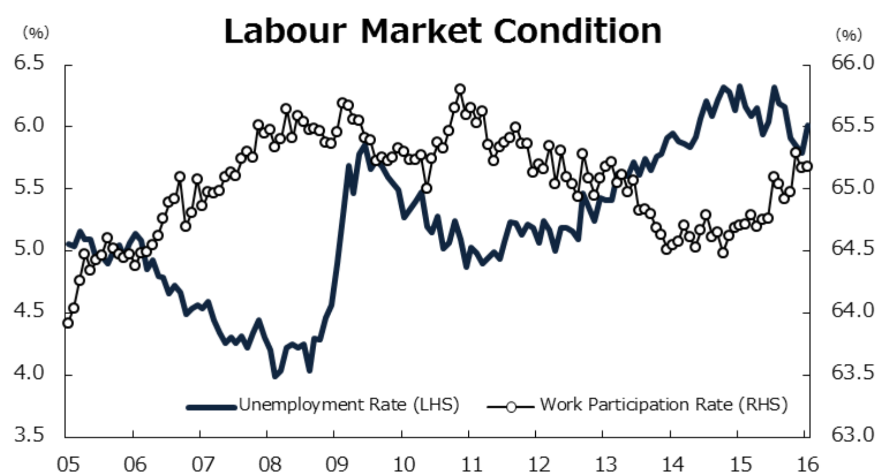
- We marginally revised down the GDP growth forecast for 2016 to +2.3% YoY on recent sluggish exports. However, we maintain our view of the GDP growth to be on a path of a gradual recovery at just under cruising speed until mid-2016. Later in 2016, the economic growth would accelerate moderately on the back of bottoming out of China's property market after correction in capex.

- We foresee the unemployment rate to keep a gradual declining trend. Employment is increasing led by the service sector as a result of monetary easing.

- The Reserve Bank of Australia (RBA) left the cash rate on hold at 2.00% for straight 9 months with few surprising comments in the statement. We stay with our expectation that RBA holds cash rate until end-2017. Yet, RBA is highly likely to maintain the easing bias.



Note: Nominal projection was based on the recent actual deflator and corrected based on the average in the past 5 years.
Source: ABS, Datastream
Up to February 2016



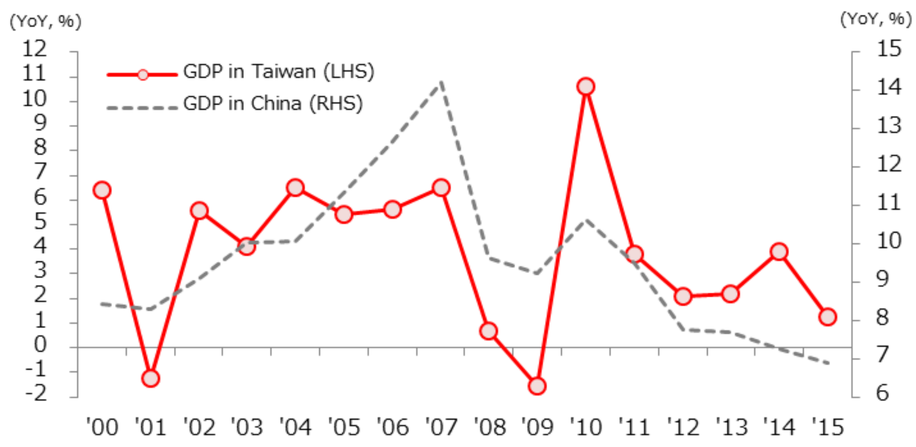
Source: ABS, Datastream
Up to January 2016

Hong Kong and Taiwan

- For 2016, we slightly cut the real GDP forecasts in Taiwan and Hong Kong by 0.1% YoY each. As shown by the correlated GDP growths, Taiwanese economy has a close relationship with Chinese economy. In that sense, our GDP outlook is more pessimistic than the market consensus.

- We believe that Hong Kong Monetary Authority can keep the current currency board system, pegging Hong Kong dollar (HKD) to USD. Under the current peg system and weaker Renminbi (RMB) against USD, the HKD would gain against RMB. This rise can cause deflation pressure in Hong Kong.

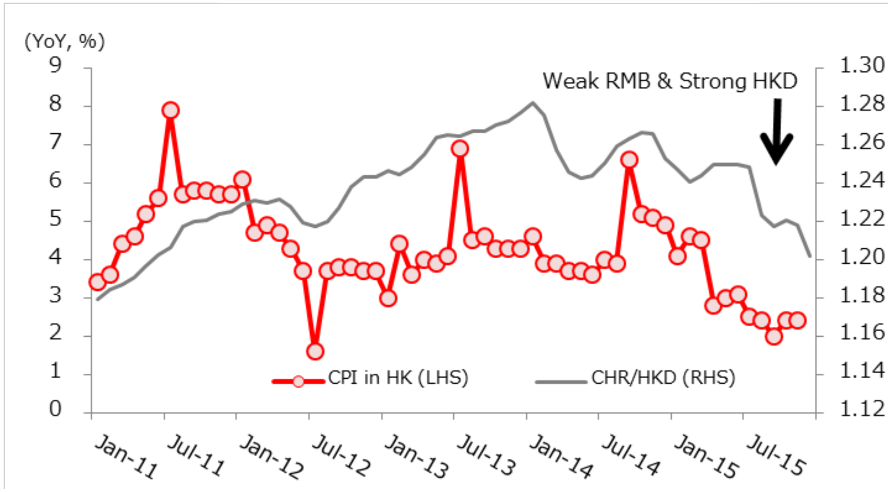
GDP growth in Taiwan and China



Note: Data of the real GDP in 2015 is the actual number between Jan and Sep 2015
Source: Directorate-general of budget accounting and statistics, compiled by SMAM

Up to September 2015

Low Inflation in Hong Kong



Source: Bloomberg, The People's Bank of China, CEIC, compiled by SMAM

Up to December 2015

India

- We revised down the real GDP forecast for FY2016/2017 to +7.9% YoY from +8.0% YoY.

- Consumer Price Index (CPI) slightly accelerated to +5.7% YoY in January from +5.6% YoY in the previous month on food price and base effects. This result was above the market consensus (+5.4% YoY), but below the target (+6% YoY). Considering declining onion and pulse prices, acceleration in the expected inflation rate seems to be a limited risk.

- January trade deficit shrunk to USD 7.6bn from USD 11.7 bn in the previous month. Exports improved to -13.6% YoY from -14.7% YoY but imports extended a loss to -11% YoY from -3.9% YoY.

CPI (%)

	CPI Inflation	Food & Beverages	Vegetables	Pulses	CPI Inflation	Food & Beverages	Vegetables	Pulses
	YoY	Weight	Weight	Weight	MoM	Weight	Weight	Weight
Sep-14	5.6	3.0	0.1	0.2	-0.17	-0.30	-0.31	0.02
Oct-14	4.6	2.1	-0.8	0.2	0.00	-0.15	-0.27	0.01
Nov-14	3.3	1.0	-1.6	0.2	0.00	-0.11	-0.22	0.02
Dec-14	4.3	2.1	-0.3	0.2	-0.58	-0.57	-0.60	0.01
Sep-15	4.4	2.1	0.0	0.7	0.48	0.33	0.22	0.11
Oct-15	5.0	2.6	0.2	1.0	0.56	0.33	-0.09	0.29
Nov-15	5.4	2.9	0.3	1.1	0.40	0.22	-0.10	0.11
Dec-15	5.6	3.0	0.3	1.1	-0.39	-0.47	0.54	0.01
Jan-16	5.7	3.1	0.4	1.0	0.16	-0.04	-0.25	-0.02

Source: CEIC, SMAM

Up to January 2016

Real GDP Growth (%)

	Real GDP	PFCE*	GFCE*	GFCF*	CIS*	Valuables	Exports	Imports
Weights		56%	10%	32%	2%	2%	21%	22%
2Q14	7.5	8.2	9.0	8.3	0.4	0.3	11.6	-0.6
3Q14	8.3	9.2	15.4	2.2	0.3	0.0	1.1	4.6
4Q14	6.6	1.5	33.2	3.7	0.2	0.1	2.0	5.7
1Q15	6.7	6.6	-3.3	5.4	0.4	0.5	-6.3	-6.1
2Q15	7.6	6.4	1.0	5.2	0.1	0.2	-5.8	-5.0
3Q15	7.7	5.6	4.3	7.6	0.1	0.4	-4.3	-3.4
4Q15	7.3	6.4	4.7	2.8	0.1	0.4	-9.4	-10.8

Note: Private Final Consumption Expenditure(PFCE),Government Final Consumption Expenditure (GFCE), Gross Fixed Capital Formation (GFCF), Change in Stocks(CIS)

Source: CEIC, SMAM

Up to 4Q2015

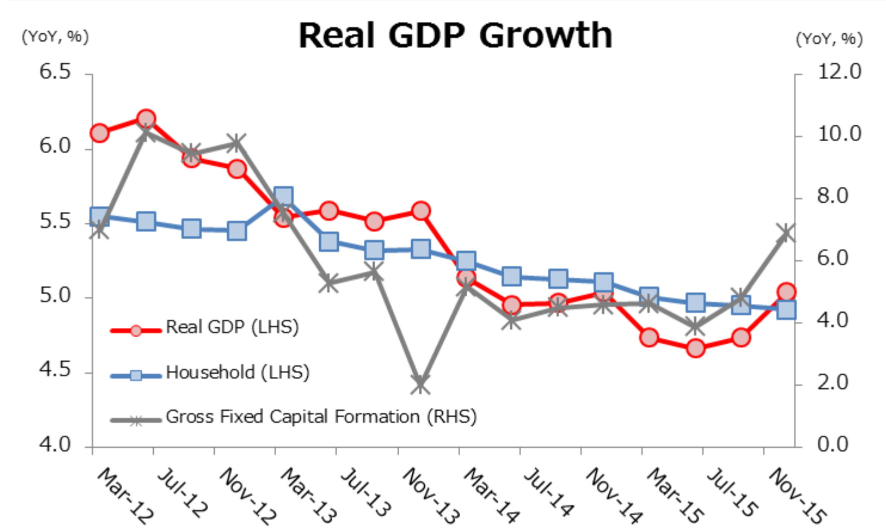
Indonesia

- At the February Monetary Policy Committee, Bank Indonesia (BI) cut its policy rate by 25bp to 7.00% as expected. Furthermore, surprisingly, BI announced the Reserve Requirement Ratio, lowering to 6.50% from 7.50% since the November meeting. We see further 50bp to be cut by BI in Apr-Jun 2016 on the basis that IDR is under the stable environment.

- January trade data, both exports and imports, were below the market expectation. In the end, trade balance moved back into the black on declining imports.

- We revised up real GDP forecast for 2016 to +5.1% YoY from +4.8% YoY and expect an uptick of the economy in 2017.

Source: Bloomberg, CEIC, compiled by SMAM Up to 24 February 2016



Source: CEIC, SMAM Up to December 2015

Malaysia

- Oct-Dec real GDP came in at +4.5% YoY, above market consensus of +4.1% YoY. However, the GDP for the next quarter is expected to be sluggish on the base effect.

- We hold the GDP growth forecast for 2016 at +4.5% YoY. The weakening Malaysia Ringgit (MYR) has contributed to export competitiveness except for primary products whereas slowing Chinese economy still weighs on Malaysia's export. In addition, in our view, the government would take advantage of state owned enterprises' (SOEs') public investment, which is out of strict fiscal discipline, to sustain the economy.

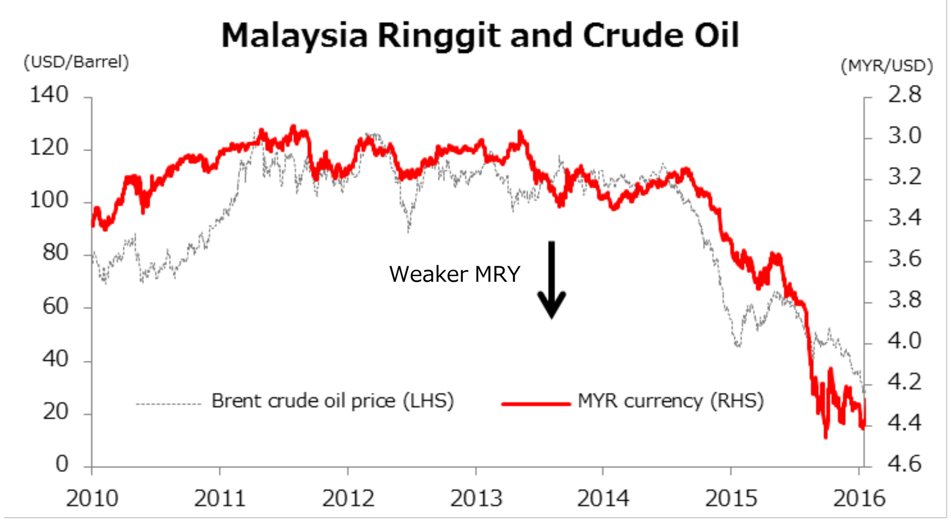
- Lower oil prices have negative impacts to the economy in Malaysia, a net exporter of crude oil. However, a decline in oil prices led to lower gasoline prices, which improve consumer sentiment for domestic consumption.

Resources of Public Investment in 2016

	Amounts (MYR 1 bn)	Weights %	to GDP %
Total	169.4	100.0	13.7
Government	60.0	35.4	4.8
Others (including SOEs as off-budget)	109.4	64.6	8.8

Source: CEIC, SMAM

As of February 2016



Source: Bloomberg, CEIC, compiled by SMAM

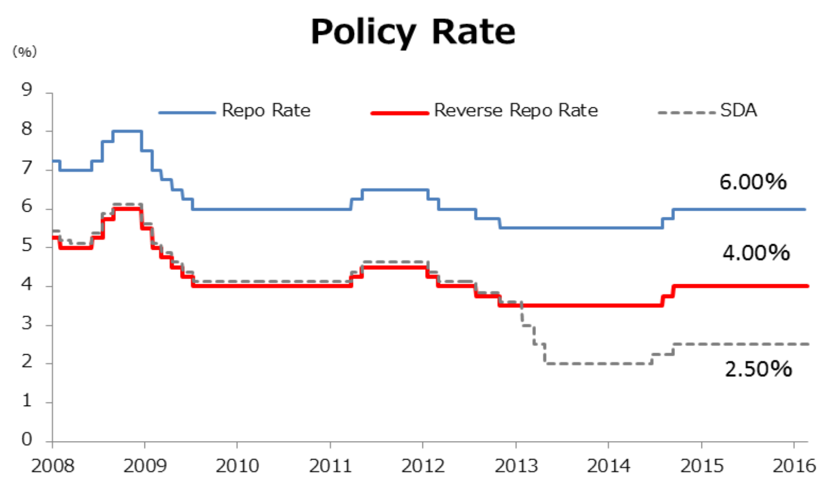
Up to 24 February 2016

Philippines

- We maintain the GDP growth forecast for 2016 at +5.9% YoY and our view of Philippines' economy to recover led by domestic consumption.

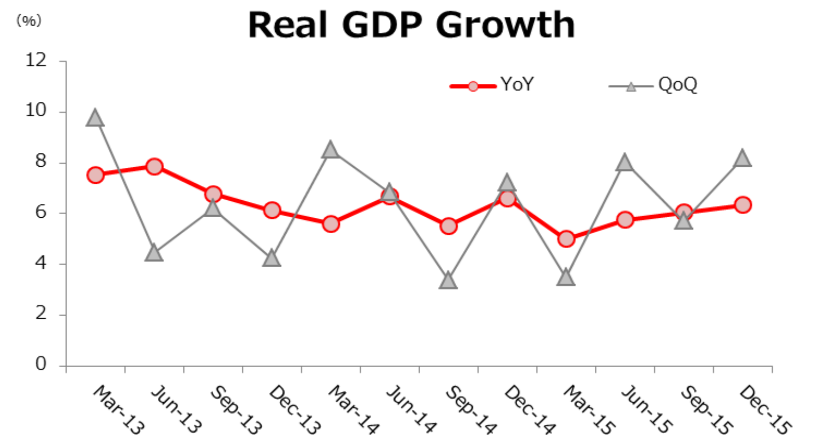
- Bangko Sentral ng Pilipinas (BSP) kept its policy rate, including the reverse repurchase ratio, which was unchanged at 4.00%, in line with market expectation. Special deposit account rates (SDA), which are tool for adjusting liquidity, were also left on hold at 2.50%. The central bank showed confidence that inflation will return within the target range between +2 and +4%.

- BSP lowered its inflation forecast for 2016 to +2.2% from +2.4%, but left that for 2017 unchanged at +3.2%. Although the bank pointed out that electricity price hike may cause inflation, the price has been on a down trend since April 2015. An increase in electricity prices would be postponed until the second half of 2016 due to the presidential election on May 9.



Source: CEIC, SMAM

Up to 24 February 2016



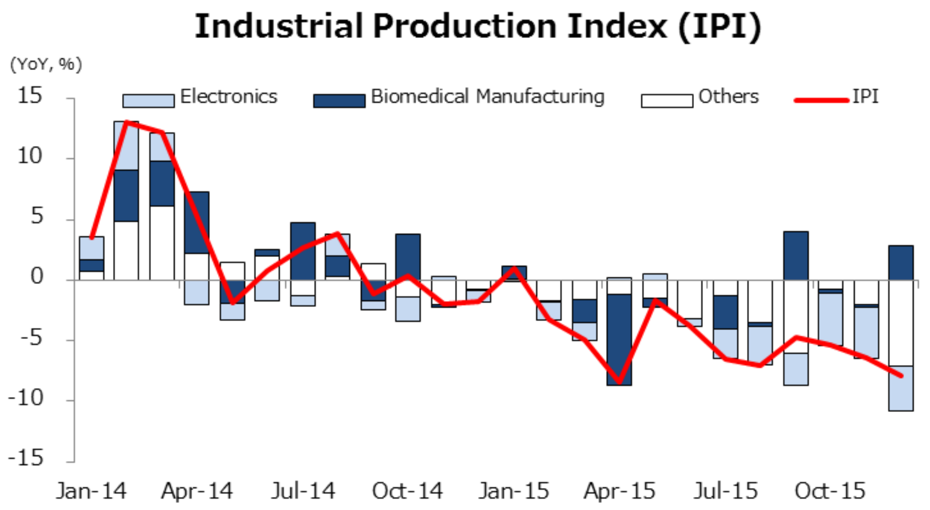
Source: CEIC, SMAM

Up to December 2015

Singapore

- Seasonally adjusted Oct-Dec GDP was revised up to +6.2% QoQ from +5.7% QoQ (advance estimate). However, that on a YoY basis was revised down to +1.8% from +2.0% (advance estimate) reflecting weaker manufacturing sector.

- We expect the real GDP forecasts for 2016 and 2017 to stay at +1.8% YoY. Singapore economy, which is sensitive to economies in other Asian countries, would be affected by economic downturn through China. A rebound in Malaysian economy would sustain the economy.



Source: CEIC, SMAM

Up to December 2015

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

Source: CEIC, SMAM

Up to 2015

South Korea

- As market expected, Bank of Korea (BoK) left the policy rate unchanged at 1.50%. One of seven board members called for a 25bp cut in the Monetary Policy Committee in February. BoK announced that easing policy would be implemented if needed as the central bank identifies potential risks to economic downturn. The property sector easily faces downward pressure as the new mortgage rule, effective from Feb 2016, may cause a downturn in private consumption.

- BoK seems to be preparing the additional rate cut. The general election on April 13th will put strong pressure for rate cut. We foresee that rate cut in March would be implemented if industrial production in January and exports in February show a downturn.

Korea's Exports by Destination

(YoY, %)

	% of share	1Q15	2Q15	3Q15	4Q15	Oct-15	Nov-15	Dec-15	Jan-16
Exports		-3.0	-7.2	-9.5	-11.7	-16.0	-4.9	-14.1	-18.6
China	26.0%	-1.6	-2.7	-6.9	-10.5	-8.0	-6.8	-16.5	-21.5
Japan	4.9%	-22.2	-13.1	-26.5	-19.9	-25.9	-19.0	-13.5	-18.2
Vietnam	5.3%	18.2	36.8	35.0	9.8	12.4	12.2	4.9	-8.0
Asean (excl. Vietnam)	8.9%	-29.6	-25.0	-22.2	-19.4	-24.1	-13.6	-19.9	-25.7
US	13.3%	13.3	-1.0	-2.2	-9.9	-11.6	-12.4	-5.5	-9.2
EU	9.1%	-21.2	-8.5	-3.7	7.8	-12.6	52.2	-7.7	7.3
Middle East	5.8%	-3.7	-6.7	-17.1	-21.6	-25.7	-24.1	-15.1	-31.1

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

Up to January 2016

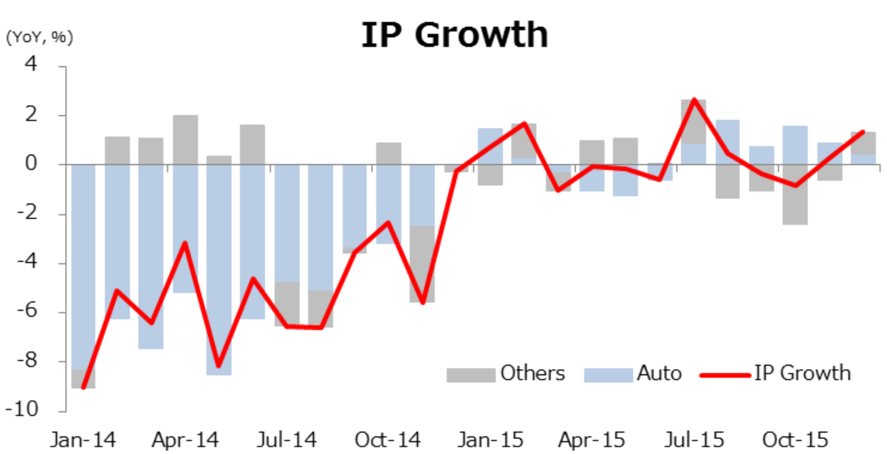
Source: CEIC, SMAM

Thailand

- Stronger-than-expected Oct-Dec real GDP came in at +2.8% YoY, but deteriorating from +2.9% YoY in the previous quarter. On a seasonally adjusted QoQ basis, Oct-Dec GDP growth slightly declined to +0.8% QoQ from +1.0% QoQ in Jul-Sep, but remained at a relatively high level. Real GDP for 2015 ended in at +2.8% YoY, jumping from +0.8% YoY in 2014.

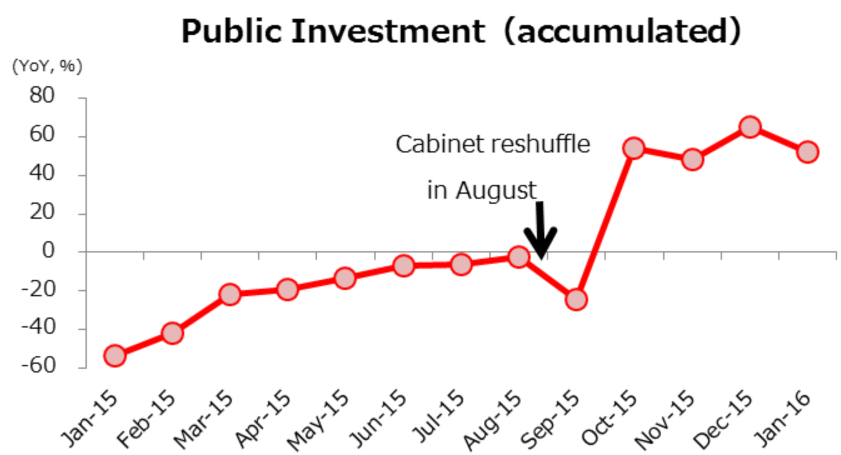
- The Bank of Thailand reported the economy was supported by the government. The government spending in Oct-Dec grew to +4.8% YoY from +2.3% YoY in Jul-Sep. Also Oct-Dec government fixed capital formation increased to +41.4% YoY from +21.9% YoY in Jul-Sep. The contribution of these two factors to Oct-Dec GDP growth picked up to +2.7ppt.

- We expect infrastructure investment to underpin the economy in 2016 on growing disbursement for public investment by strong leadership of Deputy PM Somkid. The growth in public investment for 2016 was set at +20.8% YoY.



Source: CEIC, SMAM

Up to December 2015



Note: FY2016 in Thailand is between October 2015 and September 2016.

Source: CEIC, SMAM

Up to January 2016

Outlook for Asian Stock Markets

Stock Market Performance - Global

Indices as of 29 Feb 2016	Px Last	Mtd	Qtd	Ytd	3m	1yr	2yr	3yr
S&P 500 INDEX	1,932.23	-0.4%	-5.5%	-5.5%	-7.1%	-8.2%	3.9%	27.6%
DOW JONES INDUS. AVG	16,516.50	0.3%	-5.2%	-5.2%	-6.8%	-8.9%	1.2%	17.5%
NASDAQ COMPOSITE INDEX	4,557.95	-1.2%	-9.0%	-9.0%	-10.8%	-8.2%	5.8%	44.2%
STOXX Europe 50 € Pr	2,798.19	-3.6%	-9.7%	-9.7%	-14.9%	-17.7%	-5.7%	5.7%
NIKKEI 225	16,026.76	-8.5%	-15.8%	-15.8%	-18.8%	-14.7%	8.0%	38.6%
TOPIX	1,297.85	-9.4%	-16.1%	-16.1%	-17.9%	-14.8%	7.1%	33.0%
BRAZIL BOVESPA INDEX	42,793.86	5.9%	-1.3%	-1.3%	-5.2%	-17.0%	-9.1%	-25.5%
RUSSIAN RTS INDEX $	768.80	3.2%	1.6%	1.6%	-9.2%	-14.3%	-39.3%	-49.9%
BSE SENSEX 30 INDEX	23,002.00	-7.5%	-11.9%	-11.9%	-12.0%	-21.7%	8.9%	22.0%
HANG SENG INDEX	19,111.93	-2.9%	-12.8%	-12.8%	-13.1%	-23.0%	-16.3%	-17.0%
HANG SENG CHINA AFF.CRP	3,412.80	-1.7%	-15.8%	-15.8%	-15.7%	-26.7%	-19.9%	-25.7%
HANG SENG CHINA ENT INDX	7,916.34	-3.9%	-18.1%	-18.1%	-19.1%	-35.0%	-20.0%	-30.8%
CSI 300 INDEX	2,877.47	-2.3%	-22.9%	-22.9%	-19.3%	-19.5%	32.1%	7.6%
TAIWAN TAIEX INDEX	8,411.16	3.3%	0.9%	0.9%	1.1%	-12.6%	-2.6%	6.5%
KOSPI INDEX	1,916.66	0.2%	-2.3%	-2.3%	-3.8%	-3.5%	-3.2%	-5.4%
STRAITS TIMES INDEX	2,666.51	1.4%	-7.5%	-7.5%	-6.6%	-21.6%	-14.3%	-18.5%
FTSE Bursa Malaysia KLCI	1,654.75	-0.8%	-2.2%	-2.2%	-1.0%	-9.1%	-9.9%	1.0%
STOCK EXCH OF THAI INDEX	1,332.37	2.4%	3.4%	3.4%	-2.0%	-16.0%	0.5%	-13.6%
JAKARTA COMPOSITE INDEX	4,770.96	3.4%	3.9%	3.9%	7.3%	-12.5%	3.3%	-0.5%
PSEi - PHILIPPINE SE IDX	6,671.04	-0.2%	-4.0%	-4.0%	-3.7%	-13.7%	3.8%	-0.7%
HO CHI MINH STOCK INDEX	559.37	2.6%	-3.4%	-3.4%	-2.4%	-5.6%	-4.6%	17.9%
S&P/ASX 200 INDEX	4,880.93	-2.5%	-7.8%	-7.8%	-5.5%	-17.7%	-9.7%	-4.4%
NZX 50 INDEX	6,230.87	1.0%	-1.5%	-1.5%	2.1%	6.0%	24.9%	44.2%
MSCI World Free Local	386.22	-1.7%	-7.1%	-7.1%	-9.2%	-11.5%	-0.4%	18.6%
MSCI All Country Asia Ex Japan	577.60	-0.6%	-7.4%	-7.4%	-7.8%	-18.2%	-9.1%	-9.1%
MSCI EM Latin America Local	59,591.16	2.6%	0.5%	0.5%	-2.3%	-12.5%	-7.1%	-18.9%
MSCI Emerging Markets Europe M	443.20	1.2%	-1.2%	-1.2%	-4.1%	-12.9%	-5.5%	-1.9%

Note: All data are as of 29 February 2016

Compiled by SMAM based on Bloomberg

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

Outlook for Global Markets

- We expect high volatility continues in the near term given the strong risk aversive sentiments in the market, however we consider the market starts to recover as overall macro economy stabilizes. Attractive valuation is also supportive.

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 Chinese economy remains quite unclear. Risk for cash outflow and weaker currency continues.
- The recovery of corporate earnings is delayed.
- Concerns continue for tighter liquidity conditions across Asia due to US rate hike.
- These are key concerns for Asian markets and these will create volatility in the near term.
- However accommodative monetary policies and relatively low valuation will support the market. Market will go up in line with slow recovery of corporate earnings.

Note: As of 26 February 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 increasing, but concern for systemic risk is eased in the near term. - 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 but it is likely to continue.** / Inflation will be moderate.	Trade deficit narrows, CA surplus stays at this level.	Stable, but pressure is increasing.	× Revision is weak.	○ very attractive
China	- Tough challenge towards New Normal. - Pressure for capital outflow and weaker RMB. - Outlook for corporate earnings is still weak. - Consensus UW, technically oversold & attractive valuation.	Stable, but becomes less clear.	Gradual slowdown is expected, however hard landing should be avoided. Structural rebalancing is the key challenge.	○More accommodative monetary policy is expected. / Int. rate will come down / Deflationary pressure continues.	Surplus- but it is declining **× The degree of capital outflow is a big concern.**	**× Downward bias. The degree of RMB devaluation is a big issue across Asia.**	**× Revision is still weak, but its breadth is improving.**	○ very attractive
Taiwan	- Slower economic growth due to weak export. - Inventory correction on IT is progressed. - Attractive valuation with high DY.	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 still weak, but its breadth is improving.**	○ attractive
Korea	- Still in the transition. Structural re-rating will not happen soon. - Weaker KRW supports exporters.	Stable, but implementation of structural reform is delayed.	× 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 still weak, but its breadth is improving.**	Attractive. However there is a reason for the discount.
Singapore	- Stable Mkt and policy headwind is easing. - Pressure for asset price is increasing. - Macro outlook is quite subdued and big pressure for corporate earnings continues.	The landslide victory of PAP should create political stability.	× The pace of economic recovery is slower than expected. Tight policy for Properties will be finished soon	× SIBOR rate is increasing ; Inflation will be stable. / M2 growth rate is bottomed out.	Surplus will continue.	Downward pressure continues upward bias in the longer term.	**× Revision is still weak, but its breadth is improving.**	○ attractive
Malaysia	- Mounting uncertainty in both Politics and economy. - Investor's sentiment is improving.	× Political turmoil is still there.	× GDP growth is expected to slow in 2016. The government can brake downward pressure by off-budget disbursement.	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 pressure is easing, but downward bias will continue.	**× Revision is still weak, but its breadth is improving.**	Fair(Rich on PER, but fair on PBR)
Thailand	- Subdued economy will continue. - Credit cycle is already bottomed out. - Increasing policy support by more pump-priming. - Investor's sentiment is improving.	Unclear timing of general election. Strong leadership of deputy prime minister Somkid.	**Economy is expected to bottom out supported by fiscal stimulus.**	○ Rate cut is expected in 2Q16 for further depreciation of THB. / Inflation will be stable. Liquidity is improving.	Surplus will continue.	Downward pressure is easing, but downward bias will continue. BOT is seeking further depreciation.	**× Revision is still weak, but its breadth is improving.**	Attractive on PBR, but fair on PER
Indonesia	- Investor's sentiment turned positive following stimulus packages and signs of progresses in infrastructure projects.	Honeymoon period of President Jokowi is behind us.	**Economy is expected to recover due to lower gasoline price and public investment.**	**○ Additional rate cut is expected in Mar and Apr assuming IDR stability. 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	- Overall macro environment is still resilient, although loan volume growth is slowing down.	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.	Downward pressure is eased, but downward bias will continue in long term.	**○Revision turns to be positive.↑**	**× Mildly Expensive(Rich on PER, but fair on PBR)**
India	- Overall macro fundamentals will improve given its strong policy supports. Low inflation is likely maintained. - Relatively safe but it is a consensus OW Mkt.	Potential of economic reform continues	○ Growth rate will accelerate driven by domestic consumption.	○ Rate cut started and further room for rate cut / Inflationary pressure peaked out.	× Trade / CA deficit will remain at same level.	Downward Bias.	**× Revision is still weak, but its breadth is improving.**	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	
Vietnam	Steady upside can be expected supported by solid economic growth.	Confrontation between Vietnam & CH is a key concern	solid recovery	Lower interest rate environment / Benign Inflation	Trade / CA surplus will be narrowed.	Gradual depreciation	Improving	Within FV range.

Note: Compiled by SMAM as of 26 February 2016

Positive | Negative

Market Focus (i): India – Overweight continued

【Summary】

We maintain our overweight stance on India. Recovery in its macro fundamentals including real economy and corporate earnings as well as effective monetary policy would be a trigger to lift up share prices. However, expectation for Modi government's economic reform has slightly receded.

- Positive outlook for consumer discretionary, financials and IT sectors and negative outlook for energy, materials and Utilities sectors.
- The financial sector would enjoy benefits from expectation for Modi's government, improved investors' sentiment and bottoming out of real economy. Especially, private banks can continue to gain market share against Public Sector Unit banks. Market overheat has been eased by the recent correction.
- In the mid-term, we would take notice of domestic demand stocks relating to preferential treatment to agriculture and expansion of the middle class.
- We keep an overweight for IT sector on revived global demand and attractiveness of individual stocks.
- Pharma is beneficiary of USD appreciation and its valuation is attractive. However, we need to be selective for pharma stocks as non-compliance with US Food and Drug Administration guidelines has been a key concern.

Note: Compiled by SMAM as of 26 February 2016

Market Focus (ii): Philippines – Overweight continued

【Summary】

We maintain bullish stance on stable fundamentals led by domestic demands. Concerns over inflation are easing amid slump in oil prices. Prior to the president election in 2016, progress of infrastructure projects using Public Private Partnership (PPP), which tend to be delayed, draw attention.

- Positive outlook for financials and material sectors and negative outlook for Industrials sector.
- Macro economy shows a slightly slowing trend, however it remains firm so far supported by relatively low export dependence and stably expanded Oversea Filipino Worker remittance.
- We expect direct investment to expand led by PPPs promoted by the president Aquino. However, the progress of bids tend to be delayed as expected. Political uncertainty remains ahead of presidential election in May.
- The central bank can take a wait-and-see stance under benign inflationary environment due to oil price fall. The monetary tightening has already finished.
- Valuation is rich at the same level as the average in the past years, but earnings momentum turned to be positive.
- From a historical perspective, the stronger USD is relatively positive to Philippines' economy.

Note: Compiled by SMAM as of 26 February 2016

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