



Asia Macro & Market Outlook

4Q 2019 Edition

18 Oct 2019



Sumitomo Mitsui DS Asset Management

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Summary – Policy easing amid economic slowdown

- Sino-US trade war reached a temporary truce as a partial deal is expected to be signed in mid-Nov. However, uncertainty has not gone away.
- We see that Chinese economy is facing downward pressure in the rest of 2019 and 2020. That said, we expect China to be able to maintain around 6% growth momentum thanks to counter-cyclical measures.
- NIES 4 and ASEAN 5 are also encountering headwinds, with a handful of economies being relatively bright spots (Taiwan, Vietnam, and the Philippines).
- Indian economy is not expected to enter recovery phase in FY 19/20 despite monetary easing and tax cut.
- We expect Thailand, Indonesia, Malaysia and India to cut policy rates in 4Q19.

(Note) Outlook as of 18 Oct 2019; subject to update thereafter without notice.

Trade War – Near-term optimism to be short-lived

Ex. 1

- Consensus reached on agriculture, currency, financial opening-up, etc.
- Both sides agreed to solve the disputes in a step-by-step manner.
- Phase 1 deal is expected to be signed at APEC summit in mid-Nov.
- Phase 2 negotiation should start after signing-off of the Phase 1 deal. Phase 3 is possible if needed.
- No change in existing tariffs. Tariff hike scheduled on 15 Oct will not be implemented while that scheduled on 15 Dec is subject to Trump's final decision, which may be delayed for a few months.
- We expect Phase 2/3 negotiations to be very tough due to large differences on the remaining issues. As a result, it is possible that tensions may re-escalate in 1H20.

Progress in the Sino-US Trade Talk on 10-11 Oct 2019

Issue	Progress	Implication/Possible impacts
Tariffs	Tariff hike scheduled on 15 Oct not to be implemented	No change in existing tariffs
	Tariff hike scheduled on 15 Dec subject to Trump's decision	Tariff scheduled on 15 Dec may be postponed again after Phase 1 deal is signed in mid-Nov and phase two negotiation kicks off,
Agriculture	Agreement reached. China agrees to increase its agricultural imports to 40-50bn USD annually within two years (by 2020)	More than doubling the previous peak (around 20 bn USD in 2017)
	Consensus reached on sanitary and biotech issues	China may allow more imports of US genetically-modified products by simplifying its authorization procedure
Currency & FX	Agreement almost reached on more transparency into the FX markets	Both sides should refrain from competitive devaluation while any FX intervention should be disclosed. Since RMB depreciation is not favored by PBOC either, the impacts on its monetary & FX policy should be neutral.
	US will re-evaluate its designation of China as currency manipulator	RMB should basically follow DXY and has some room to appreciate amid US rate cuts
Opening-up of financial sectors	Agreement almost reached on China's opening-up of financial services	China has already announced to lift foreign ownership cap in major financial services starting from 2020
Tech transfer & IP	Some agreement reached. Remaining issues to be negotiated in Phase 2 or 3.	Phase 2&3 negotiations should be tough
Huawei	Not part of the agreement. A separate process.	This may refer to Ms. Meng Wanzhou's case
Export control on Chinese companies	US will review the blacklist and decide who will be on the list	Some companies including Huawei may be removed from the list or granted some waiver.
Enforcement mechanism	Consensus reached on consultation process and structure of dispute settlement. But final details on what will happen in case of no resolution remains to be worked out	US may want punitive measures such as resumption of tariffs while China should strongly oppose to any tariff threat.

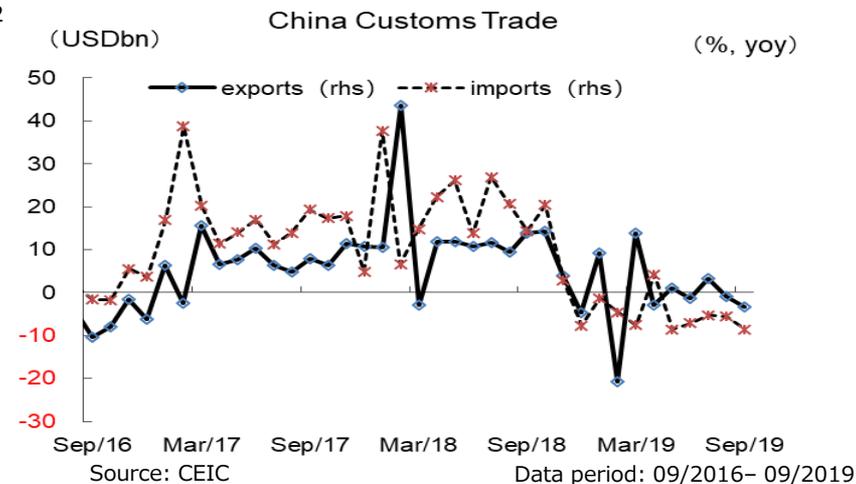
(Note) This analysis is as of 18 Oct 2019; subject to update thereafter without notice.

Source: Media reports, SMDAM

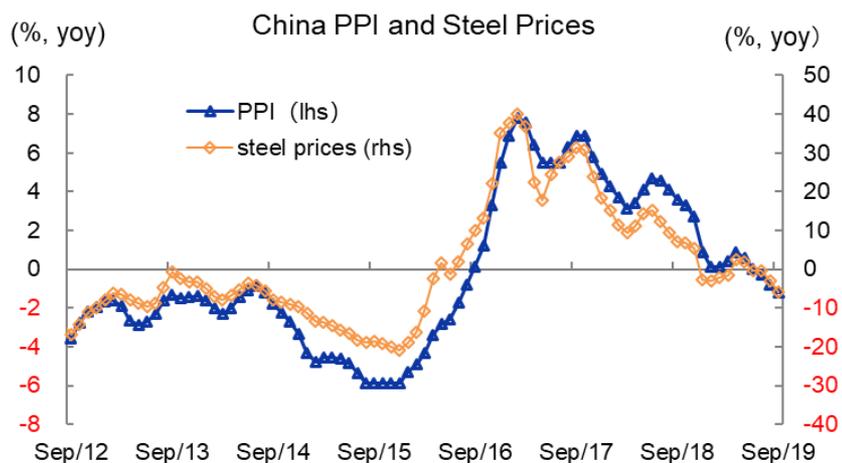
China – Counter-cyclical efforts amid downward pressure

- Growth should slow down in 4Q19 and 2020 due to subdued demand (SMDAM: 6.1% for 2019 and 5.9% for 2020).
- Counter-cyclical measures are being taken to mitigate downward pressure and could support around 6% growth.
- Fiscal policy should continue to be proactive in 2020.
- Monetary policy should maintain easing bias, with RRR and LPR cuts at disposal.

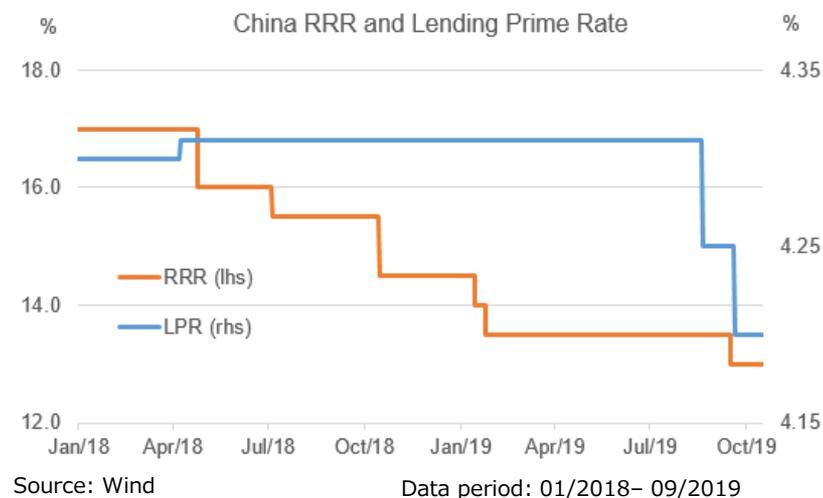
Ex.2



Ex. 3

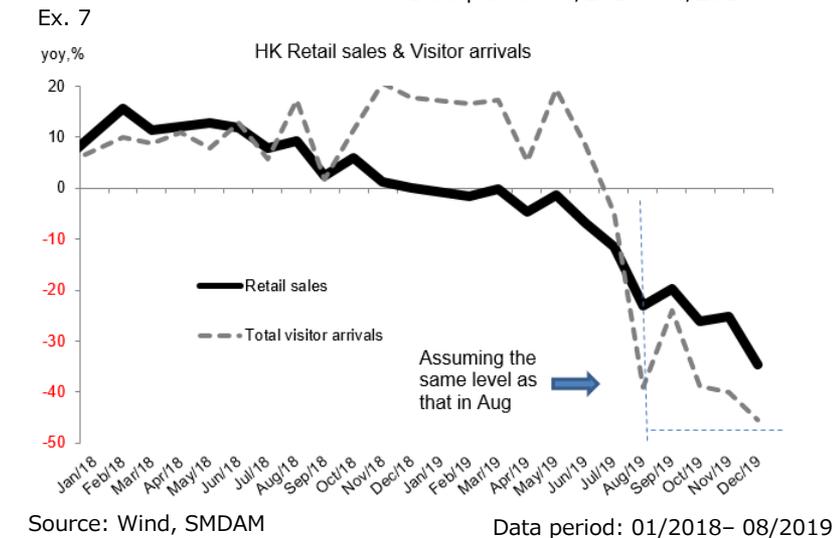
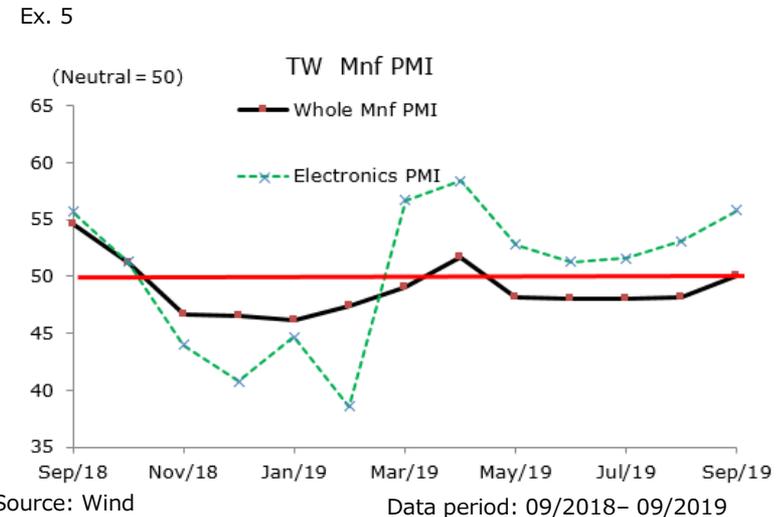
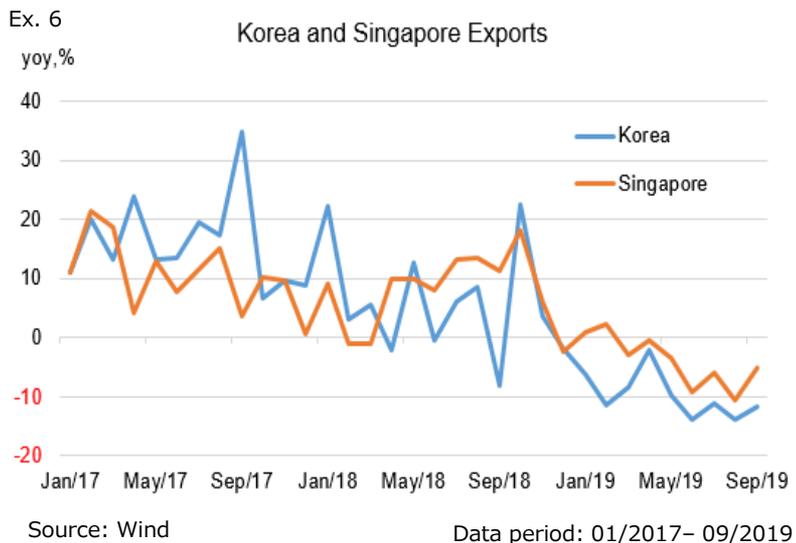


Ex. 4



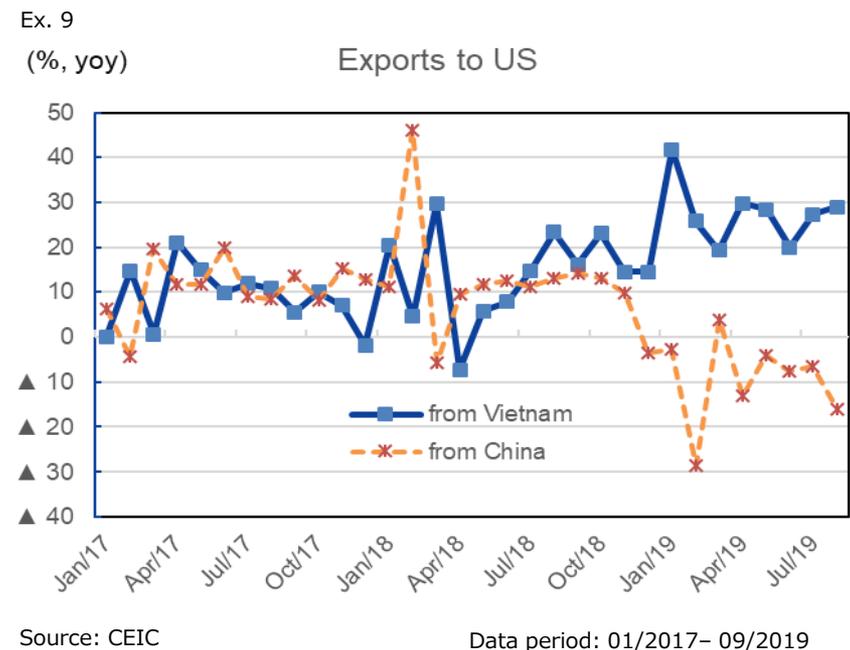
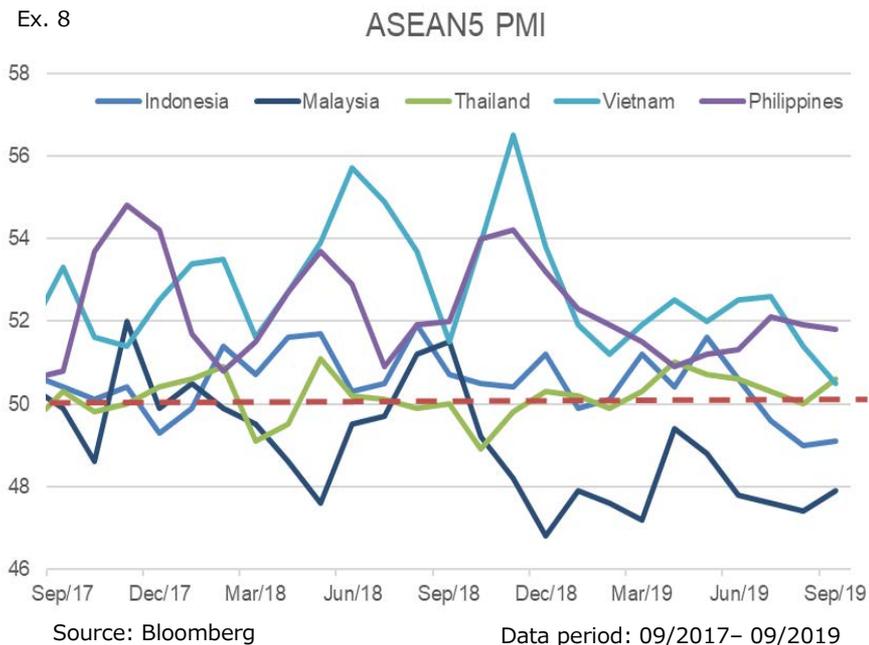
NIES 4 – Taiwan a relatively bright spot

- NIES 4 should face downward pressure due to China slowdown and trade tensions.
- Taiwan shows more resilience due to competitive IC sectors and production relocation from China.
- Korea and Singapore should opt for more policy easing due to downward pressure. Korea has additional stress from politics as government's popularity falls.
- Hong Kong should fall into recession amid ongoing political turmoil.



ASEAN 5 – Divergence among the economies

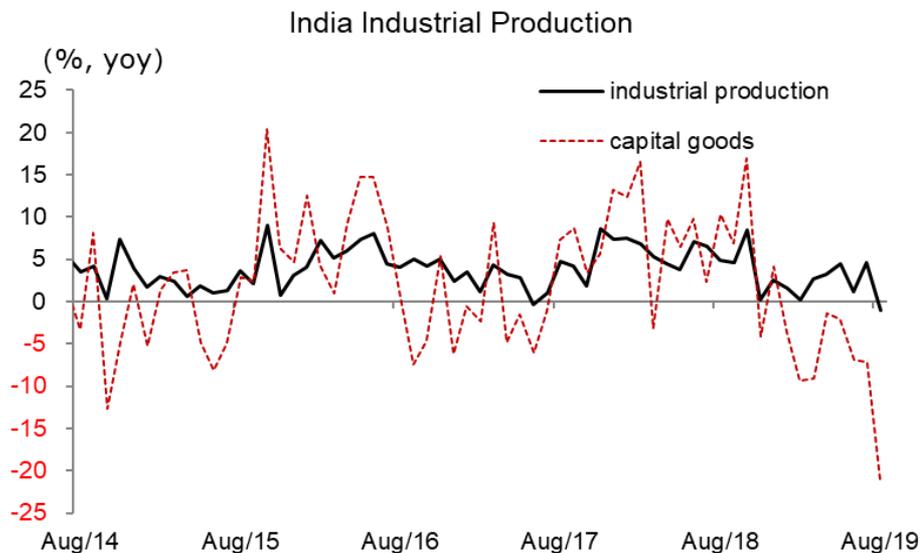
- Vietnam: Benefiting from Sino-US trade war as exports to US surged.
- Philippines: Growth is trending up due to solid domestic demand.
- Thailand: Currency continues to appreciate, rate cut is expected in 4Q19.
- Indonesia: Rate cut expected in 4Q19 as currency stabilized.
- Malaysia: Growth should decelerate due to weak domestic demand.



India – Economic recovery postponed

- Economy should continue to slow down in the rest of FY 19/20 due to weak domestic demand caused by non-banking credit crunch.
- Growth should recover in FY20/21 on the back of low base but still fall short of potential.
- RBI should cut rates in Dec 19, but upside inflation risk should narrow the room for further monetary easing.
- Radical tax cuts should pose risks to sovereign rating.

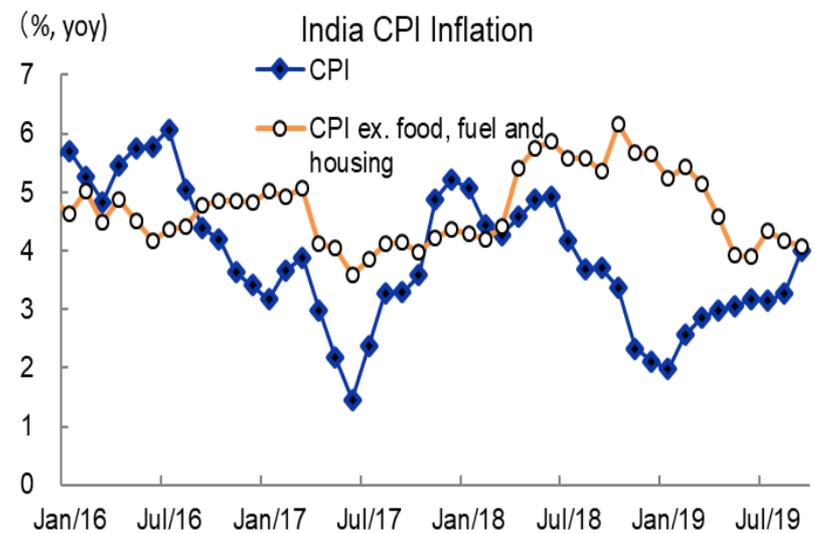
Ex. 10



Source: CEIC

Data period: 08/2014– 08/2019

Ex. 11



Source: CEIC

Data period: 01/2016– 09/2019

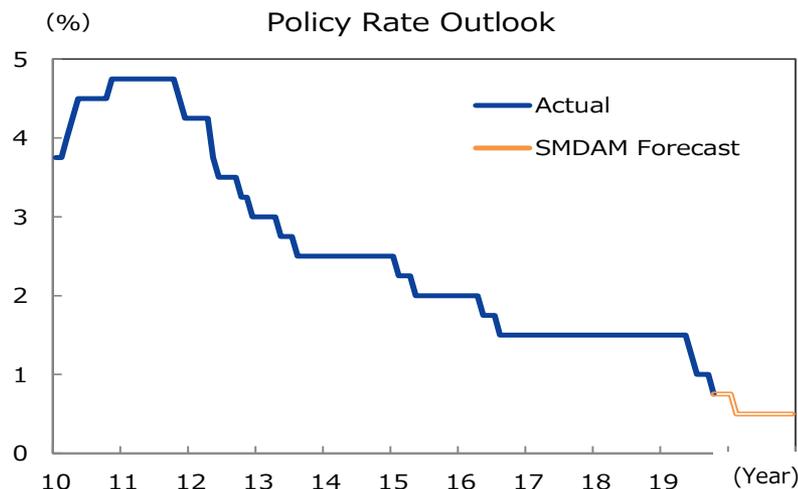
Oceania – Rate cut expected in 1Q20

- RBA cut policy rate from 1.00% to 0.75% as expected on 1st Oct. No change in “further easing if needed” policy stance.
- Mortgage rates dropped following the rate cut, while the follow-up rate fell from more than 80% in June and July to 50-60% this time (For floating interest rate home loans in 4 major banks).
- Traditional monetary policy is approaching its limits, and discussions on non-traditional measures will become clearer in the near future.

Cash rate

Actual & our forecast

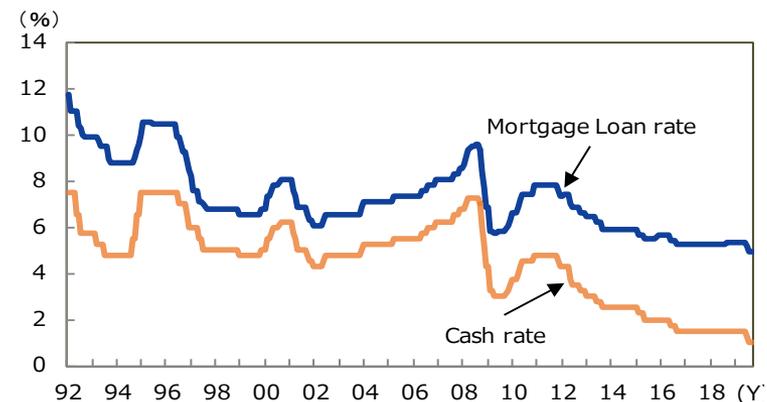
Ex. 12



Source: Bloomberg

Mortgage rate

Ex. 13



Cash rate cut by -0.25%p in Jun, July, Oct, respectively
Mortgage rate cut by -22bp (in Jun), -21bp (in July),
and then only -13~-15bp (in Oct)

Source: RBA, ANZ, NAB, ABC, etc. (in Oct case : Major banks)

Macro Outlook

Ex. 14

		GDP			CPI			Policy Rate						
		2018	2019	2020	2018	2019	2020	2018	2019	2020	2019			
											1Q	2Q	3Q	4Q
China		6.6	6.1	5.9	2.1	2.6	2.1	4.35	4.35	4.35	4.35	4.35	4.35	4.35
India		6.8	5.5	6.8	3.4	3.8	4.0	6.50	5.00	5.00	6.25	5.75	5.40	5.00
N I E S 4	Korea	2.7	1.9	2.0	1.5	0.4	1.0	1.75	1.25	1.25	1.75	1.75	1.50	1.25
	Taiwan	2.6	2.2	1.8	1.3	0.6	1.0	1.375	1.375	1.375	1.375	1.375	1.375	1.375
	Singapore	3.2	0.4	0.7	0.4	0.5	0.7							
	Hong Kong	3.0	-0.8	0.7	2.4	2.9	2.5							
A S E A N 5	Indonesia	5.2	5.1	5.4	3.2	3.2	3.4	6.00	5.00	5.00	6.00	6.00	5.25	5.00
	Thailand	4.1	2.9	3.2	1.1	0.7	1.0	1.75	1.25	1.25	1.75	1.75	1.50	1.25
	Malaysia	4.7	4.6	4.1	1.0	0.8	1.7	3.25	2.75	2.75	3.25	3.00	3.00	2.75
	Philippines	6.2	6.0	6.5	5.2	2.6	3.1	4.75	4.00	4.00	4.75	4.50	4.00	4.00
	Vietnam	7.1	7.0	6.8	3.5	2.4	2.7	6.25	6.00	6.00	6.25	6.25	6.00	6.00
Australia		2.8	1.8	2.3	1.9	1.6	2.1	1.50	0.75	0.50	1.50	1.25	1.00	0.75

(Note) Forecasts as of 18 Oct 2019; subject to update thereafter without notice. Figures in yellow are actual y-o-y growth figures; others are forecast.

Source: SMDAM

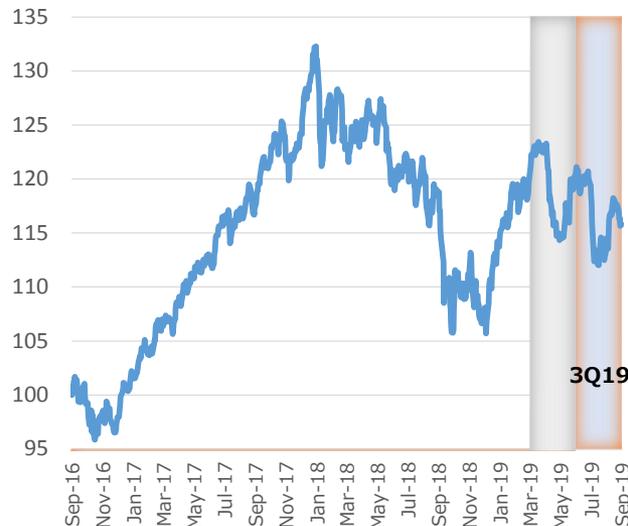
Summary – Sideway movements close off 2019

- The year so far has been a volatile one for Asia Pacific markets. The past two quarters experienced big dips followed by rebound. We see limited upside potential until early 2020, when we expect downward earnings revision to bottom out.
- Valuation expansion will be difficult in the short term as MSCI APxJ trades close to historical average relative to DM, while Sino-US trade conflict, though in a relatively calm period, continues to weigh on markets.

Market volatility continued into 3Q

MSCI APxJ price change indexed to 100

Ex. 15



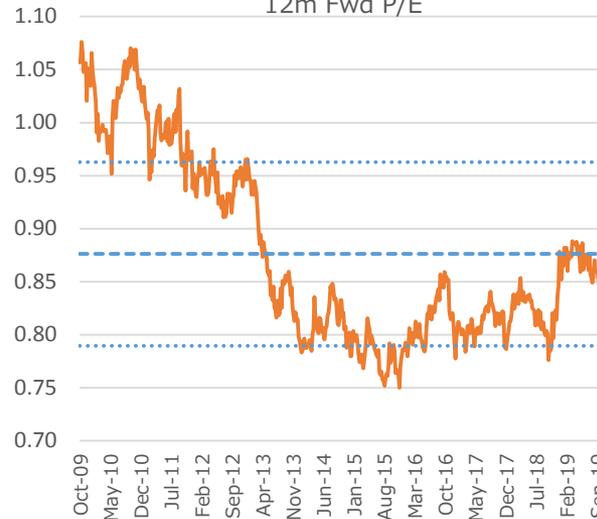
Source: FactSet

Data period: 30/09/2016 – 01/10/2019

Asian market fwd P/E to DM trade near historical average

MSCI APxJ vs. MSCI World
12m Fwd P/E

Ex. 16



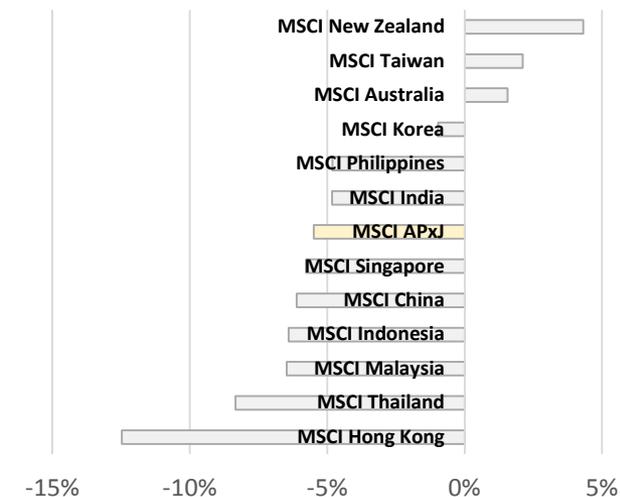
Source: Bloomberg

Data period: 09/10/2009 – 09/10/2019

Australia and NZ outperform Asia EMs

APxJ 3Q2019 price change

Ex. 17



Source: Bloomberg

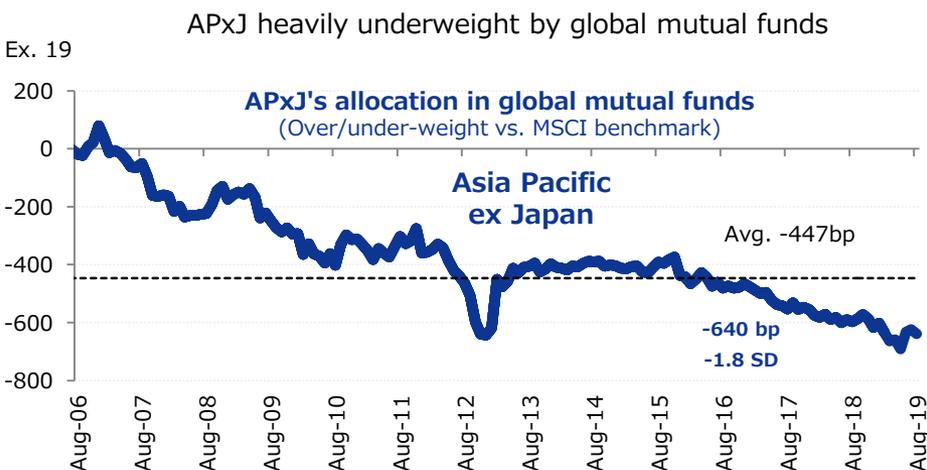
Data period: 01/07/2019 – 01/10/2019

EPS revision – Trend stabilizing

	EPS Revision (1W)		EPS Revision (4W)		EPS Revision (12W)		EPS Revision(YTD)		EPS Revision (52W)	
	2020	2021	2020	2021	2020	2021	2019	2020	2019	2020
China	-0.3%	-0.3%	-0.7%	-0.7%	-4.9%	-5.2%	-11.0%	-12.0%	-15.2%	-16.5%
Hong Kong	-0.2%	-0.4%	-0.2%	-0.9%	-3.0%	-3.6%	-4.3%	-5.6%	-8.1%	-9.5%
Korea	-0.4%	0.7%	-0.4%	1.3%	-3.0%	-0.3%	-35.5%	-27.7%	-43.6%	-35.3%
Taiwan	0.0%	0.0%	0.2%	-0.2%	-1.9%	-0.7%	-13.7%	-12.7%	-19.3%	-17.7%
Singapore	-0.1%	0.1%	-0.2%	-0.1%	-2.8%	-2.9%	-4.9%	-7.1%	-6.7%	-9.2%
Malaysia	-0.1%	-0.1%	-0.6%	-0.5%	-3.7%	-3.2%	-9.4%	-10.9%	-14.7%	-16.4%
Thailand	-0.4%	-0.5%	-1.0%	-0.7%	-5.1%	-4.6%	-17.5%	-15.5%	-19.6%	-16.9%
Indonesia	-0.4%	-0.5%	-1.0%	-1.0%	-5.2%	-5.1%	-13.0%	-12.2%	-12.9%	-11.3%
Philippines	0.0%	0.0%	-0.3%	-0.2%	-0.9%	-0.9%	-0.7%	-2.4%	-1.4%	-3.4%
India	0.2%	0.0%	0.8%	1.0%	-4.6%	-2.9%	-13.0%	-9.7%	-16.1%	-12.0%
Australia	-0.2%	-0.3%	-0.5%	-1.7%	-2.3%	#N/A	-2.3%	-4.1%	-4.4%	-6.0%
New Zealand	-0.2%	-0.2%	-0.3%	-0.4%	-3.7%	#N/A	-5.5%	-4.6%	-8.4%	-7.8%
MSCI APxJ	0.0%	0.2%	-0.5%	-0.3%	-4.8%	-4.1%	-15.4%	-13.9%	-19.6%	-17.8%

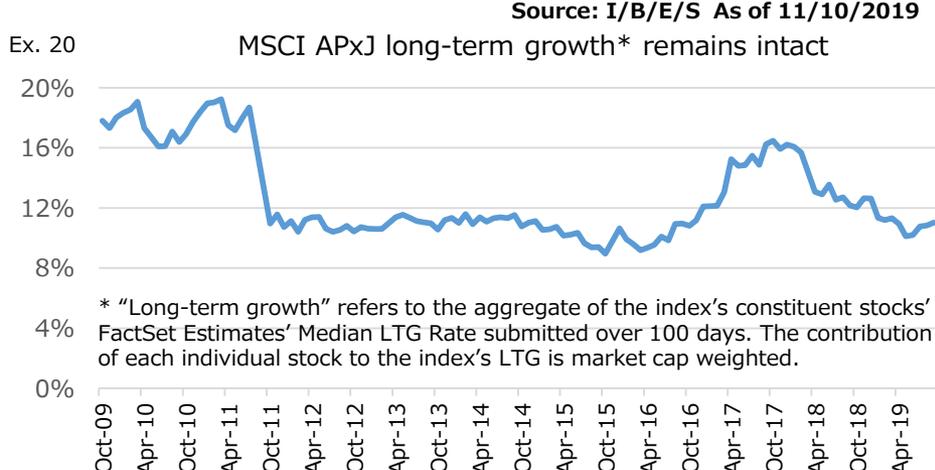
Ex. 18

Ex. 19



Source: EFPR, FactSet, MSCI, Goldman Sachs
Data period: 31/08/2006 -31/08/2019

Ex. 20



Source: FactSet
Data period: 30/10/2009 – 30/09/2019

Valuation band – APxJ valuation near historical average



Ex. 21-22

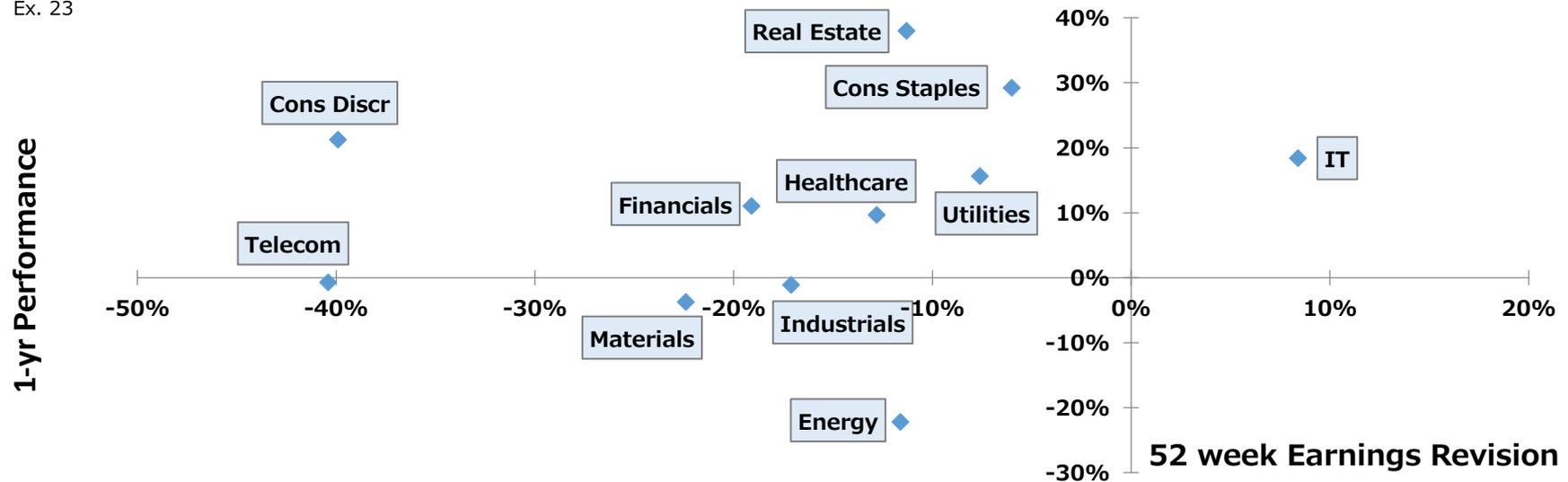
Source: MSCI, Factset
Data period: 09/10/2009 – 11/10/2019

China – Subdued environment calls for cautious strategy

- MSCI China underperformed the region slightly during the 3Q. Negotiations on trade and other issues with the US remains ongoing and continue to sway the market.
- We expect limited downside or flattish movement for the remaining of the year, with more upside starting 2020. The government has taken counter cyclical measures to cushion the market but large stimulus like in the past appear unlikely.
- We prefer a conservative strategy, favoring sectors with structural growth including insurance (low penetration) and education (resilient even in weak environment).

MSCI China saw strong downward revision this year; 1-yr performance good due to low base
We expect earnings revision to bottom out in early 2020

Ex. 23



Note: 1-yr performance: 16/10/2018 – 16/10/2019

Earnings revision as of 11/10/2019

Source: FactSet, I/B/E/S

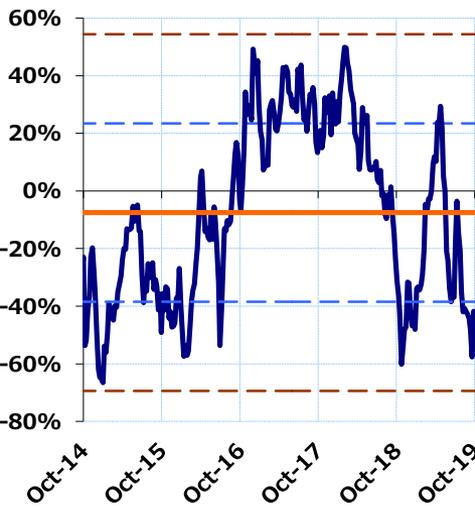
NIES 4 – Tech sector recovery

- **Hong Kong** – Hong Kong is in the middle of its worst social upheaval in many decades. News flow on social and political development will be the market driver.
- **Singapore** – Relatively attractive given stable currency and decent yield in a low yield environment.
- **Taiwan** – Recovery of the tech sector lends confidence as earnings revisions turned positive in 3Q. Taiwan is expected to be one of the main beneficiaries of 5G ramp up.
- **Korea** – Similar to Taiwan, recovery in the tech sector to benefit Korea. However, Korea's exports is much more diverse, including many industrial products. Resolution of trade spat with Japan a possible catalyst.

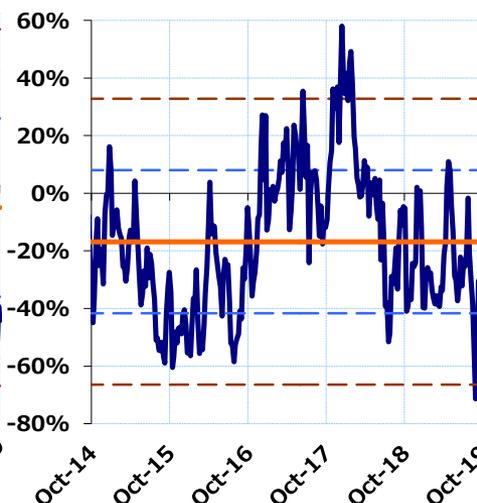
Ex. 24-27

Earnings revision; Taiwan a bright spot while Hong Kong falters

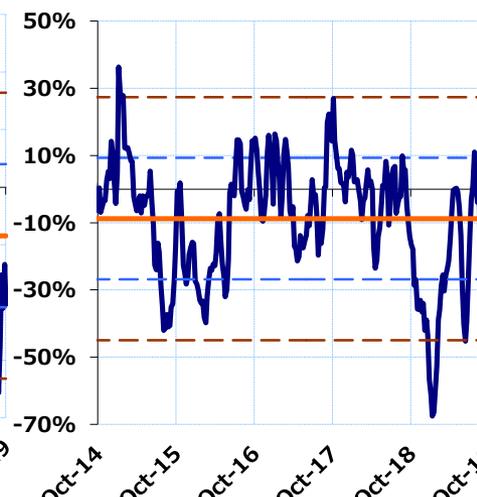
MSCI Hong Kong



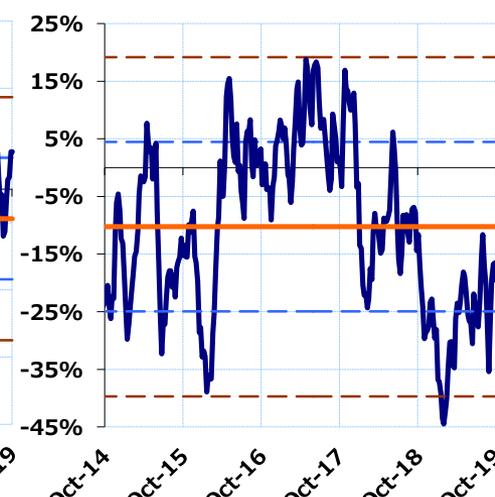
MSCI Singapore



MSCI Taiwan



MSCI Korea



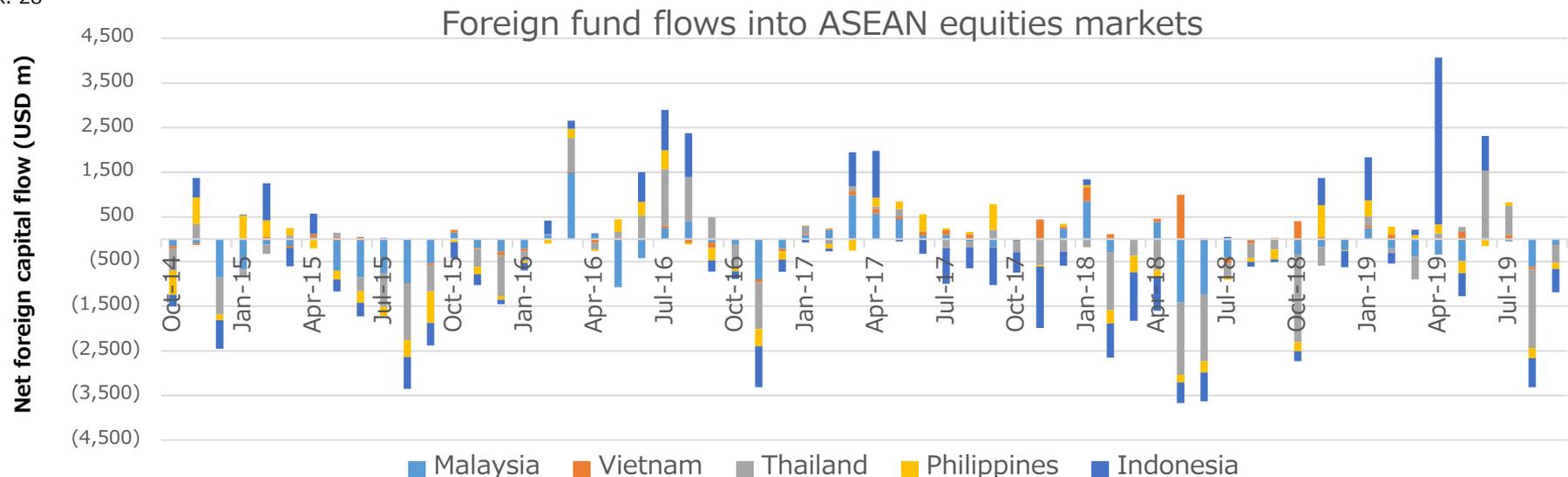
Earnings revision = $\text{EPS FY2 (0)} / (\text{EPS FY2 (-1)} + \text{EPS FY2 (-2)} + \text{EPS FY2 (-3)}) / 3 - 1$

Source: FactSet, MSCI Data period: 10/10/2014 – 11/10/2019

ASEAN 5 – Selective buy

- **Indonesia** – Weak earnings outlook with valuation at fair levels. However, government has ample policy tools to respond to any slowdown.
- **Philippines** – Outlook positive; valuation is attractive especially P/E. Infrastructure investment and consumption continue to drive growth.
- **Malaysia** – Attractive valuation but no clear market catalyst. There is little foreign trading in the Malaysian market.
- **Thailand** – Strong currency a negative for the earnings / market. Valuation is rich with little growth prospects. Relatively strong foreign selling in Sep and Aug after net inflows in the 2 months prior.
- **Vietnam** – Macro outlook is solid while government reforms continue; solid long-term growth prospects.

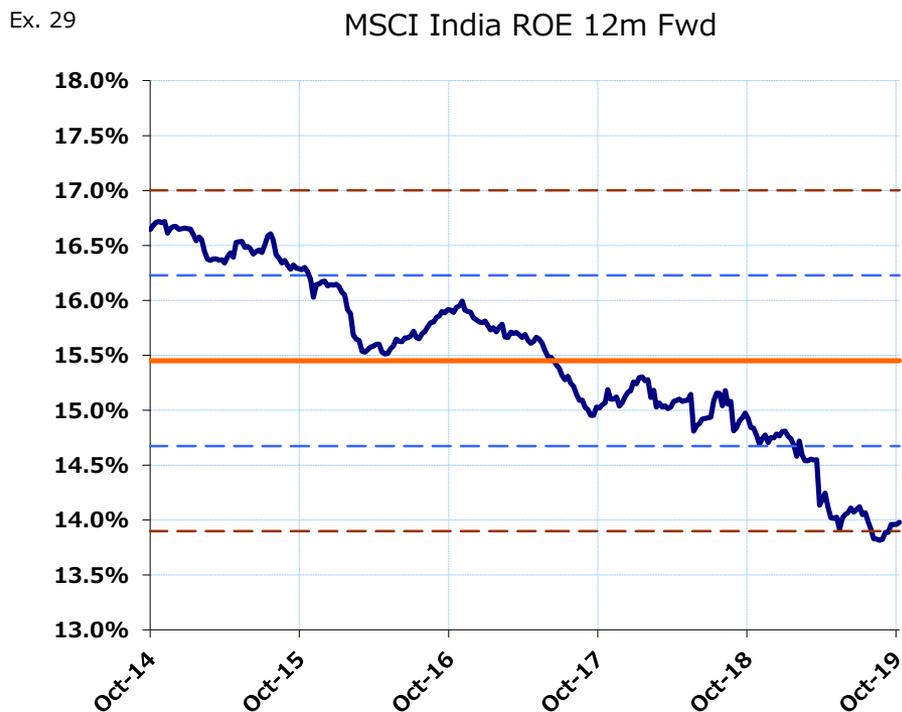
Ex. 28



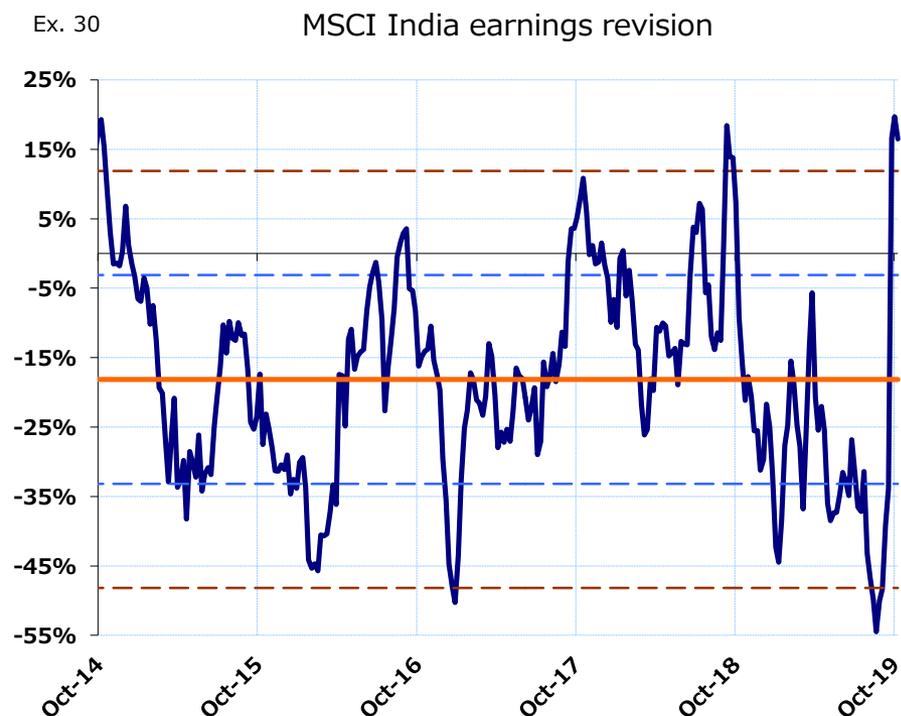
Source: Bloomberg
Data period: Oct 2014 –Sep 2019

India – Dug in for the long-term

- ROE / macro outlook remains weak. The September tax cut provided a one-time boost to earnings but is no structural driver.
- We continue to be optimistic on India's long-term prospects. Demographic dividend, a growing middle class, and the shift from informal to organized economy - which is expected to yield significant productivity gains - are established trends and create significant long-term growth potential.



Source: MSCI FactSet, Data period: 10/09/2009 – 11/10/2019



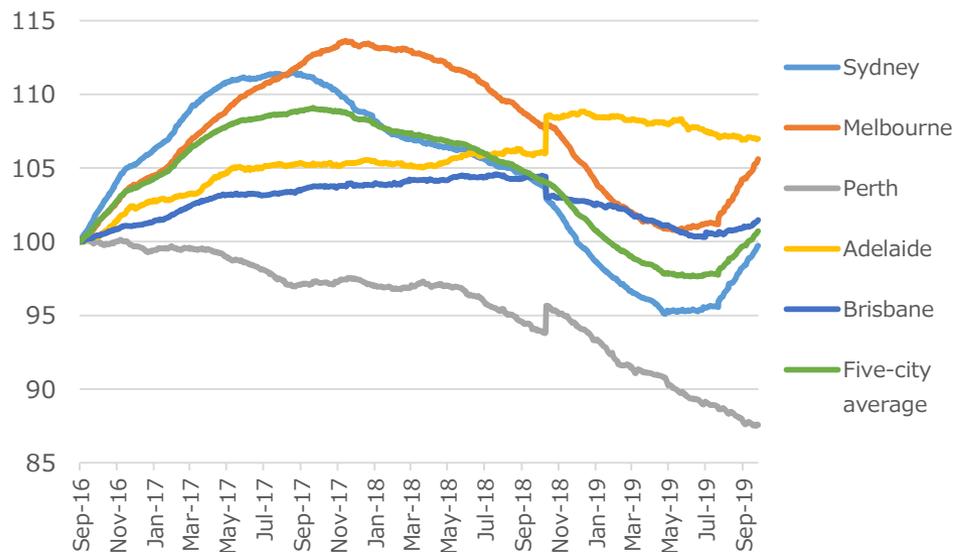
Earning revision = $\text{EPS FY2 (0)} / (\text{EPS FY2 (-1)} + \text{EPS FY2 (-2)} + \text{EPS FY2 (-3)}) / 3 - 1$

Oceania – Valuation demanding in weak earnings revision

- Australia housing prices reversed after a long decline, with the exception of Perth in Western Australia, whose economy is dependent on resources. Weak macro outlook and commodity prices weigh on Australia market.
- The valuation is demanding in terms of forward P/E as earnings revision remains weak, while the record differential between deposit rates and dividend yields, however, makes the equity valuation attractive.

Home price increases after near 2-year slide: Dwelling prices of 5 capital cities, indexed to 100

Ex. 31

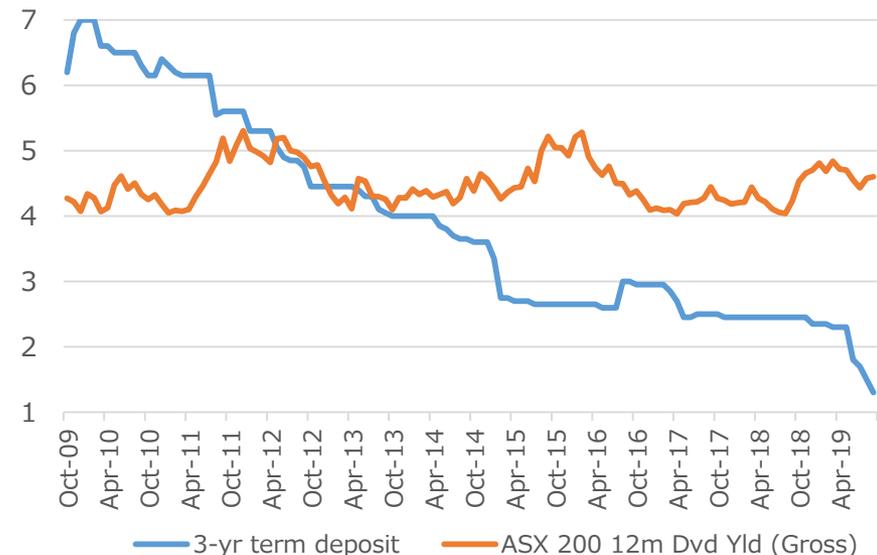


Source: Bloomberg

Data period: 22/09/2016– 17/10/2019

Equities markets dividend attractive as RBA cuts rates: ASX 200 dividend yield vs. 3-yr bank deposit

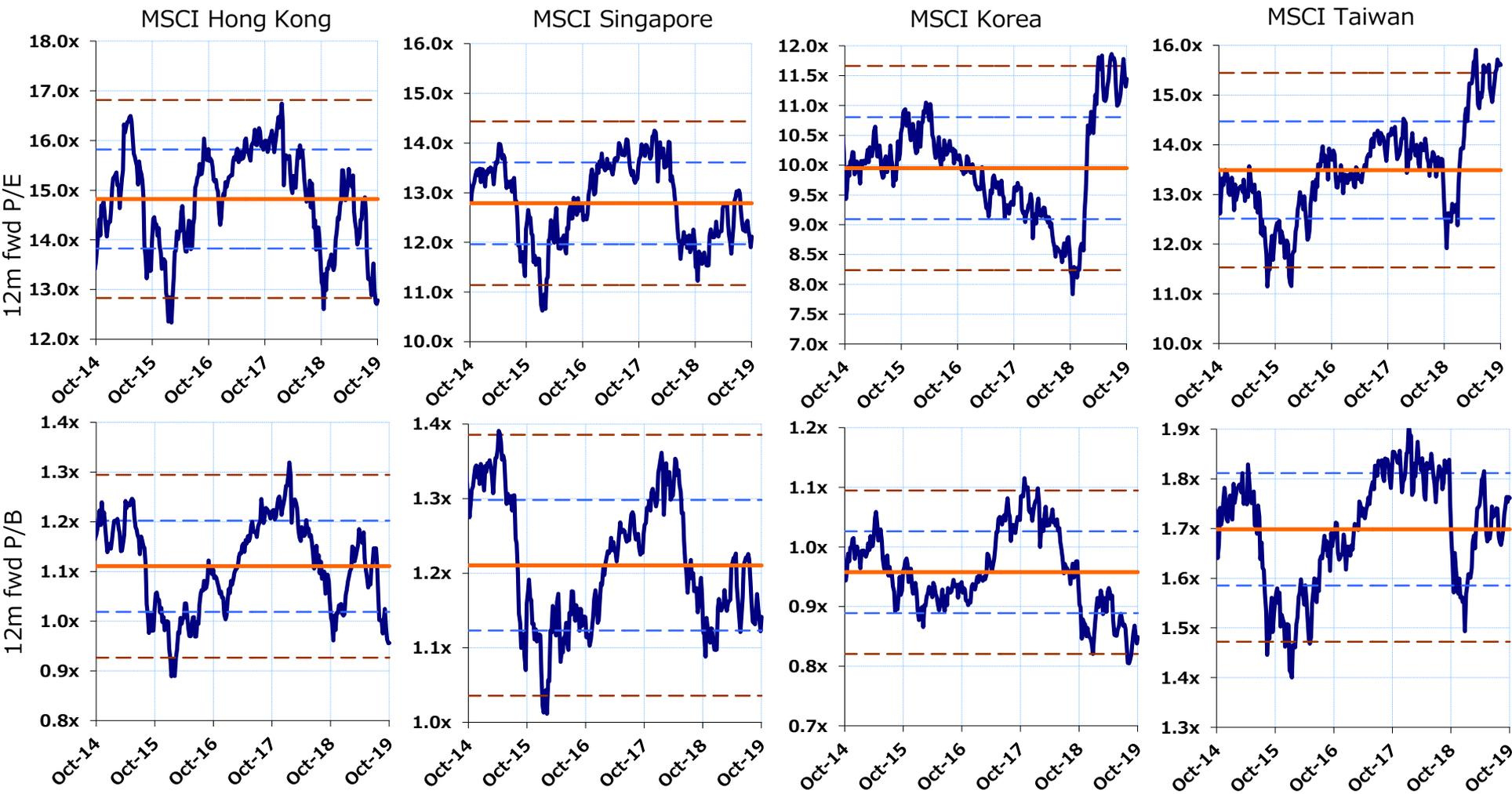
Ex. 32



Source: Bloomberg

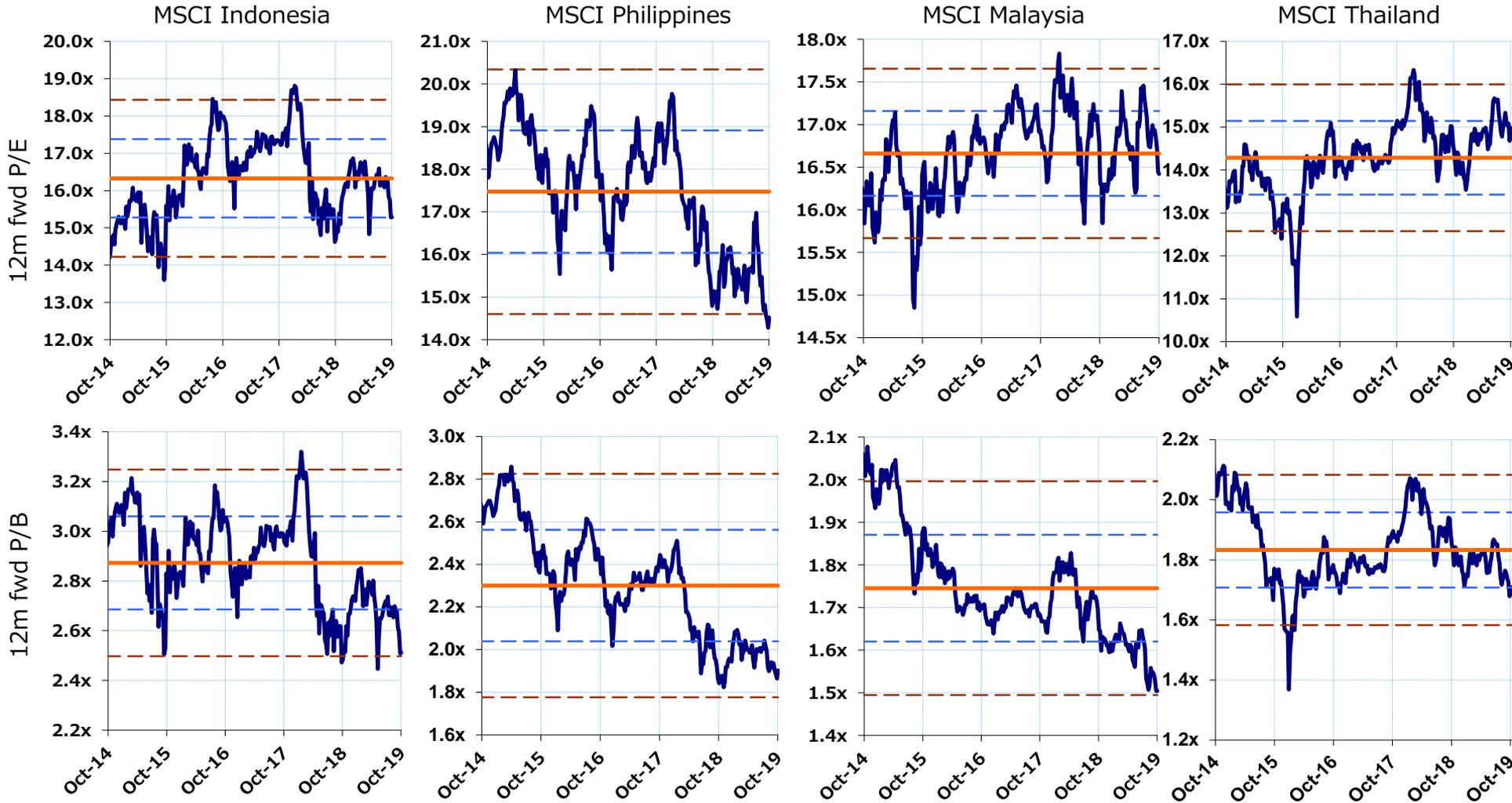
Data period: 10/2009 – 09/2019

Valuations – NIES



Source: FactSet, MSCI Data period: 10/10/2014– 11/10/2019

Valuations - ASEAN



Source: FactSet, MSCI Data period: 10/10/2014 - 11/10/2019

Valuations – China, India, and Oceania



Source: FactSet, MSCI Data period: 10/10/2014 – 11/10/2019

Introduction of Asia Research Center

The Asian Research Center, founded in Hong Kong in July 2017, conducts high-quality information gathering and analysis specialized in Asia to enhance investment performance and strengthen information dissemination abilities. It also undertakes Asian macro analysis in the SMDAM global macro research team, collaborating with Asian equity analyst team located in Hong Kong, Shanghai, Tokyo, and Singapore.

					
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