



Asian Macro & Market Outlook

SMAM monthly comments & views

July 2016



Sumitomo Mitsui Asset Management

Executive summary

◆ Asian Economy

China's Fixed Asset Investment (FAI) in May was well below market consensus on slowing investment by private companies despite state sector spending, which remained strong so far. The government has promoted structural adjustment, however also maintains its focus on economic stabilization in order to prevent a recession. As for the property sector, its investment growth in May, which slowed down due to the government pressure, may cause a build-up of unsold inventories while the boom was expanding to secondary cities.

In Asian countries, monetary easing and/or public spending have been implemented. We expect economies in NIES4 countries, more vulnerable to Chinese economy, to remain low. As for ASEAN4, we revised up the GDP forecasts in 2016 on our view that these economies would bottom out thanks to economic measures. In most of those countries, key risks are (a) sluggish Chinese economy, (b) the RMB depreciation, as well as (c) heightened US rate hike expectation leading to unrest in financial markets.

◆ Asian Stock Markets

We expects the market will recover gradually in tandem with the growth of corporate earnings given the slow global economic recovery and normalized valuation level, however BREXIT has become a key drug for the market in the near term.

- ✓ Macro economy in most of Asian countries will show some recovery in 2016, but the momentum is not so strong.
- ✓ Although Chinese economy will continue to slow down gradually, policy support is expected to avoid hard landing.
- ✓ The recovery of corporate earnings will be moderate towards 2016 as overall global economy stabilizes.
- ✓ Concerns for tighter liquidity conditions across Asia due to US rate hike continue, but it seems to be mostly priced in.
- ✓ Still many uncertainties in the markets including US rate hike, China economy, crude oil price and geopolitical issues, which can create high volatility in the near term. BREXIT has become another key concern.
- ✓ Yet we consider the market will go up slightly in line with corporate earnings as these risk factors diminish or priced in.

Outlook for Economy in China

SMAM Economic Outlook for China

China Forecast Table

China		YoY[%]			YoY[%]									
		2015	2016	2017	2015				2016				2017	
					Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun
Real GDP		6.9	6.6	6.3	7.0	7.0	6.9	6.8	6.7	6.6	6.5	6.4	6.3	6.3
	<i>Previous</i>	<u>6.2</u>	<u>6.6</u>	<u>6.3</u>	<u>7.0</u>	<u>7.0</u>	<u>6.9</u>	<u>6.8</u>	<u>6.7</u>	<u>6.6</u>	<u>6.5</u>	<u>6.4</u>	<u>6.3</u>	<u>6.3</u>
Real GDP	qcar on seasonally adjusted basis	6.9	6.6	6.3	5.8	7.6	7.4	6.3	4.6	7.3	6.8	5.8	5.1	7.2
	<i>Previous</i>	<u>6.9</u>	<u>6.6</u>	<u>6.3</u>	<u>5.8</u>	<u>7.6</u>	<u>7.4</u>	<u>6.3</u>	<u>4.6</u>	<u>7.3</u>	<u>6.8</u>	<u>5.8</u>	<u>5.1</u>	<u>7.2</u>
Compiled Growth Tracker		6.0	5.5	5.1	6.3	6.3	5.8	5.7	5.6	5.5	5.4	5.3	5.1	5.1
	<i>Previous</i>	<u>6.0</u>	<u>5.5</u>	<u>5.1</u>	<u>6.3</u>	<u>6.3</u>	<u>5.8</u>	<u>5.7</u>	<u>5.6</u>	<u>5.6</u> ↓	<u>5.4</u>	<u>5.3</u>	<u>5.1</u>	<u>5.1</u>
Real GDP	Consumption	9.1	8.3	8.2	-	-	-	-	-	-	-	-	-	-
	<i>Previous</i>	<u>9.1</u>	<u>8.3</u>	<u>8.2</u>	-	-	-	-	-	-	-	-	-	-
Real GDP	Investment	5.3	4.9	4.4	-	-	-	-	-	-	-	-	-	-
	<i>Previous</i>	<u>5.3</u>	<u>4.9</u>	<u>4.4</u>	-	-	-	-	-	-	-	-	-	-
Real GDP	Net export (contribution)	▲0.2	▲0.0	▲0.1	-	-	-	-	-	-	-	-	-	-
	<i>Previous</i>	<u>▲0.2</u>	<u>▲0.0</u>	<u>▲0.1</u>	-	-	-	-	-	-	-	-	-	-
Nominal GDP		6.4	6.8	5.9	6.6	7.0	6.2	6.0	7.2	7.0	6.8	6.4	6.2	5.8
	<i>Previous</i>	<u>6.4</u>	<u>6.8</u>	<u>5.9</u>	<u>6.6</u>	<u>7.0</u>	<u>6.2</u>	<u>6.0</u>	<u>7.2</u>	<u>7.0</u>	<u>6.8</u>	<u>6.4</u>	<u>6.2</u>	<u>5.8</u>
GDP deflator		▲0.4	0.3	▲0.4	▲0.4	▲0.0	▲0.7	▲0.7	0.5	0.4	0.3	0.0	▲0.1	▲0.5
	<i>Previous</i>	<u>▲0.4</u>	<u>0.3</u>	<u>▲0.4</u>	<u>▲0.4</u>	<u>▲0.0</u>	<u>▲0.7</u>	<u>▲0.7</u>	<u>0.5</u>	<u>0.4</u>	<u>0.3</u>	<u>0.0</u>	<u>▲0.1</u>	<u>▲0.5</u>
Industrial production		6.1	5.6	5.1	6.4	6.3	5.9	5.9	5.8	5.8	5.5	5.4	5.4	5.2
	<i>Previous</i>	<u>6.1</u>	<u>5.5</u> ↑	<u>5.2</u> ↓	<u>6.4</u>	<u>6.3</u>	<u>5.9</u>	<u>5.9</u>	<u>5.8</u>	<u>5.8</u>	<u>5.5</u>	<u>5.4</u>	<u>5.3</u> ↑	<u>5.3</u> ↓
CPI inflation		1.4	2.1	1.2	1.2	1.4	1.7	1.5	2.1	2.1	2.0	2.0	1.7	1.3
	<i>Previous</i>	<u>1.4</u>	<u>2.2</u> ↓	<u>1.1</u> ↑	<u>1.2</u>	<u>1.4</u>	<u>1.7</u>	<u>1.5</u>	<u>2.1</u>	<u>2.4</u> ↓	<u>2.3</u> ↓	<u>1.9</u> ↑	<u>1.6</u> ↑	<u>0.9</u> ↑
Base lending interest rate		4.35	4.35	4.10	5.35	4.85	4.60	4.35	4.35	4.35	4.35	4.35	4.35	4.10
	<i>Previous</i>	<u>4.35</u>	<u>4.35</u>	<u>4.10</u>	<u>5.35</u>	<u>4.85</u>	<u>4.60</u>	<u>4.35</u>	<u>4.35</u>	<u>4.35</u>	<u>4.35</u>	<u>4.35</u>	<u>4.35</u>	<u>4.10</u>

Historical Record of amendment (GDP)

Date of amendment		YoY[%]			YoY[%]									
		2015	2016	2017	2015				2016				2017	
					Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun	Jul-Sep	Oct-Dec	Jan-Mar	Apr-Jun
16.05.18	last month meeting	6.9	6.6	6.3 ↑	7.0	7.0	6.9	6.8	6.7	6.6 ↓	6.5 ↓	6.4 ↑	6.3 ↑	6.3 ↑
16.04.18		6.9	6.6	6.2 ↓	7.0	7.0	6.9	6.8	6.7	6.8 ↑	6.6 ↑	6.3 ↓	6.2 ↓	6.1 ↓
16.04.14		6.9	6.6	6.3	7.0	7.0	6.9	6.8	6.7	6.6	6.5	6.4	6.3	6.3

Source: CEIC, compiled by SMAM Economic Research Department, Previous= Last month meeting's projection
 Note: Arrows illustrate the direction of the change from last time prediction
 As of 22 June 2016

SMAM Economic Outlook for China

China Production Volume

(% YoY)

	Oct	Nov	Dec	Jan-Feb	Mar	Apr	May
cement	-3.5	-6.6	-3.7	-8.2	24.0	2.8	2.9
crude steel	-3.1	-1.6	-5.2	-5.7	2.9	0.5	1.8
steel products	-0.2	2.0	-3.4	-2.1	3.3	0.5	2.1
non-steel	2.6	1.4	-4.6	-4.3	4.4	1.7	1.0
automobile	4.9	16.0	16.3	5.3	8.9	4.3	4.1
handy phone	10.0	13.1	12.4	15.5	18.7	14.9	20.8
power generated	-3.2	0.1	-3.7	0.3	4.0	-1.7	0.0

Note: Raw materials industry production growth accelerated in May.

China Steel PMI

(Neutral=50)

	Steel PMI	New orders	Production	Raw materials inventory	New exports orders	Finished goods inventory	Input prices
May/15	42.4	37.6	40.7	42.5	43.7	50.3	43.2
Jun/15	37.4	27.9	34.2	42.5	50.7	55.1	40.1
Jul/15	41.0	36.6	41.0	41.3	56.1	51.1	32.2
Aug/15	44.7	39.9	47.5	42.1	54.5	49.8	48.2
Sep/15	43.7	40.7	44.6	44.0	40.7	49.3	39.2
Oct/15	42.2	37.9	43.1	41.6	39.3	45.7	29.4
Nov/15	37.0	29.7	35.4	33.4	41.2	49.2	24.6
Dec/15	40.6	40.9	38.5	35.7	47.8	39.5	26.0
Jan/16	46.7	49.9	45.6	44.5	50.7	34.4	38.8
Feb/16	49.0	50.9	49.5	51.1	46.2	44.8	49.9
Mar/16	49.7	53.3	49.8	52.6	36.9	37.7	63.2
Apr/16	57.3	65.6	60.4	54.6	52.5	34.9	75.3
May/16	50.9	52.7	53.7	48.4	58.1	50.2	60.9

Note: As Steel PMI components, items above from New orders to Raw materials inventory are released.

SMAM Economic Outlook for China

Current Economic Situation in China

- While housing boom has spread over the land, China showed signs of the economic recovery as the industrial sector suddenly boosted in March on the back of Manufacturing PMI and steel production.
- “Authoritarian” gave criticism to conventional economic measures according to People’s Daily on 9th May.
- The Communist Party of China (CPC) leaders insisted importance of supply-side reforms supported by decrease in (1) leveraged debt, (2) overcapacity and (3) inventory.
- Monetary policy stance seems to be shift to neutral from super-accommodative.

Problems Keep Piling Up

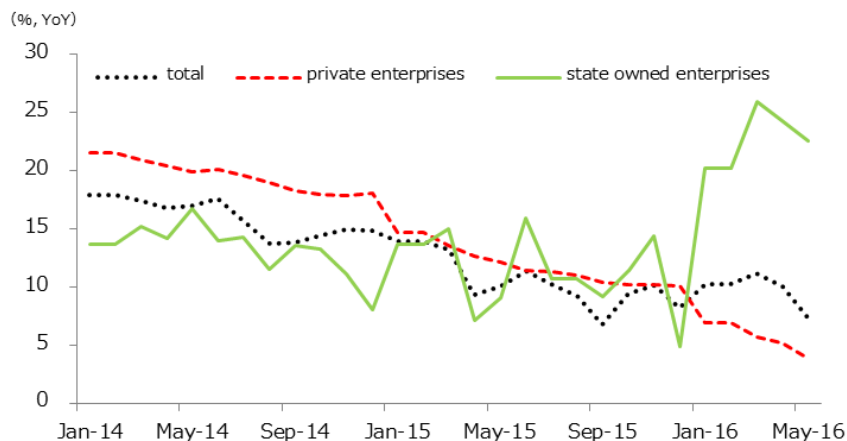
- The government prefers economic stability, but we see downside risk to the economy.
- ✓ Overconcentration of power in the paramount leader would be a risk as the central and local governments may focus excessively on the leader’s comment and reflect policy responses.
- ✓ There is a trade-off relationship between supply-side structural reform and economic stability.
- ✓ Another key concern is State-Owned Enterprises (SOEs), which have sustained fixed investment since this year. If they cut investment drastically, the economic growth should set to decelerate at a faster pace.

Note: Economy outlook is as of 16 June 2016

China: Highlights of Chinese economy

- We believe China can avoid economic slowdown in the second half of this year, if the government steers in the direction of economic support. However, supply-side reform would slow down and solving issues such as overcapacity and a spike in bad loans would be postponed.
- China's economic indicators started to shift downward after the government emphasized the significance of supply reform in May. In fact, FAI and M2 growth were softer than expected. June Caxin manufacturing PMI, targeting for small and mid-sized enterprises, declined to +43.2 from +45.8 in May. Notably, the new order posted a sharp fall to +39.9 as reflected decreasing demand.
- On 20th June, the Premier Li Keqiang made a remark that credit growth should be maintained moderately to support the real economy. The market foresees that this comment would cause deleverage to retreat. In fact, May total social financing (TSF) was materially below the market consensus due to the large declines in off-balance sheet lending and corporate bonds from those in April. Yet, the difference of opinions among CPC members seems to be pointed out according to an interview with "authoritative insider" in People's Daily on 9th May.

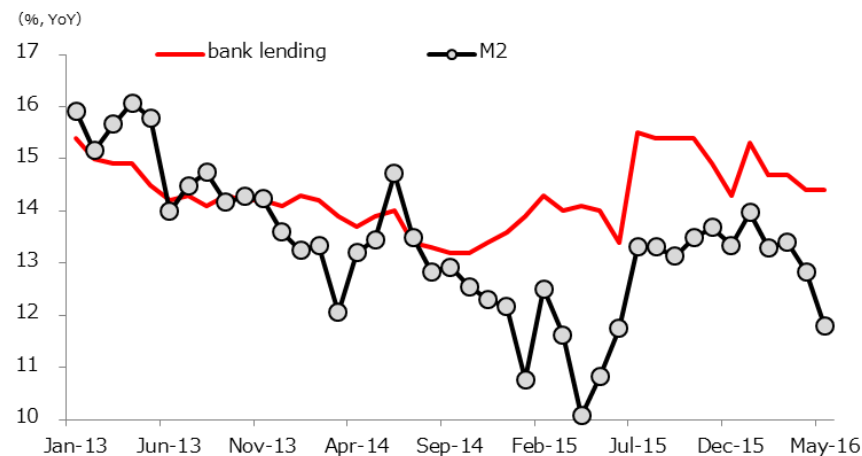
China Fixed Asset Investment (single month)



Source: CEIC, compiled by SMAM

Up to May 2016

China Money Statistics

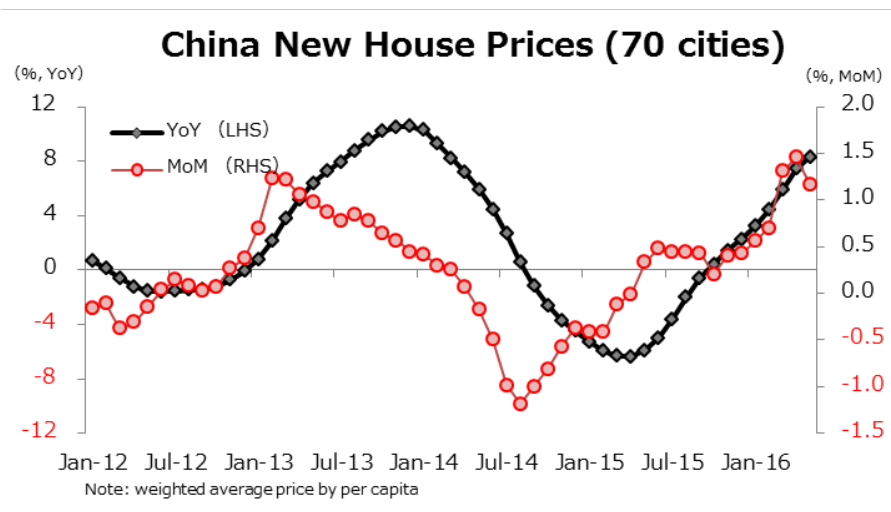


Note: Data of housing prices for low income group is not included
Source: CEIC, compiled by SMAM

Up to May 2016

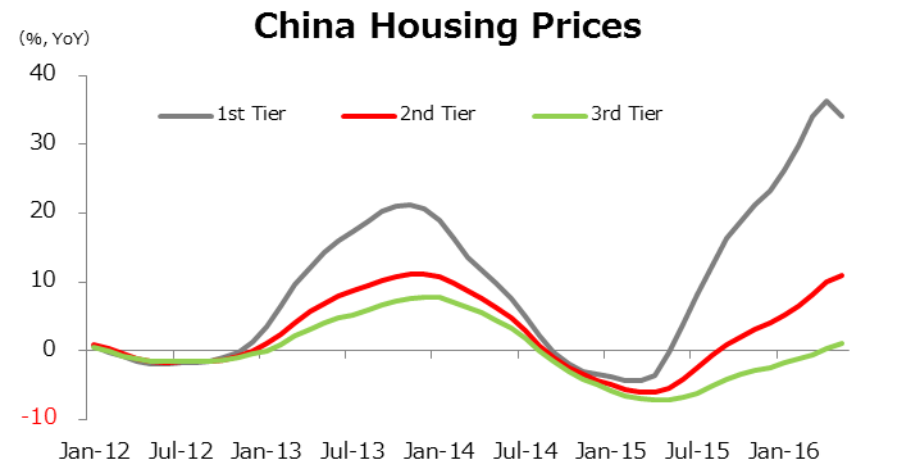
China: Highlights of Chinese economy

- The average prices of new homes rose in 60 out of 70 cities, down from 65 cities in April (except for low-income housing). On a MoM basis, a weighted average price index of new houses in 70 cities sagged to +1.17% in May from +1.45% in April.
- The housing boom has already cooled down notably in rural cities. According to the National Bureau of Statistics, all four cities which faced price decline were Tier3 cities. Amid this environment, an inventory reduction would be difficult. Thus the government will need to find other drivers.
- Property investment growth turned to decline in May. We expect strong demand for housing in Beijing and Shanghai still remains, yet Shenzhen experienced average new housing price fell to +0.5% from +2.3% in April. And house prices in other rural cities also seem to peak out.



Source: CEIC, compiled by SMAM

Up to May 2016



Source: CEIC, compiled by SMAM

Up to May 2016

China: Highlights of Chinese economy

- Following the UK vote to leave the EU, economic growth forecasts for European countries will be cut. However, we believe its effects on Chinese economy would be limited, especially in terms of trade as China's exporting share to EU is relatively smaller.
- The crucial point for China is how much the government and CPC share their views of supply-side reform including its pace. As the Premier suggested a need for policy to support the economy after the middle of June, China would be discreetly on a path toward easing again through window guidance. If the supply-side reform is provided thorough implemented in, the risk of economic downturn will be higher and the GDP growth for 2016 will fall below the government's target (6.5-7.0%).

Export

	① Exports of goods (% of GDP)	② Weight (%)	③ Exports of goods × Weight (%)
UK	19.9	2.6	0.5
EU		13.0	2.6
US		18.0	3.6
Japan		6.0	1.2
Other Asia		35.2	7.0

Note: EU does not include UK. Other Asia includes NIES4, ASEAN5, and India. Weight is as of 2015.
Source: CEIC, compiled by SMAM

As of 2015

Outlook for Asian Economy

SMAM Economic Outlook for Asia

Forecast Table

Real GDP	YoY[%]		
	2015	2016	2017
India	7.6	7.7	7.8
<i>Previous</i>	<u>7.5</u> ↑	<u>7.7</u>	<u>7.8</u>
NIEs4	2.1	1.8	1.7
<i>Previous</i>	<u>2.1</u>	<u>1.9</u> ↓	<u>1.8</u> ↓
Korea	2.6	2.5	2.4
<i>Previous</i>	<u>2.6</u>	<u>2.5</u>	<u>2.4</u>
Taiwan	0.6	0.7	0.7
<i>Previous</i>	<u>0.7</u> ↓	<u>0.8</u> ↓	<u>0.9</u> ↓
Singapore	2.0	1.7	1.6
<i>Previous</i>	<u>2.0</u>	<u>1.7</u>	<u>1.6</u>
Hongkong	2.4	0.8	0.7
<i>Previous</i>	<u>2.4</u>	<u>0.8</u>	<u>0.7</u>
ASEAN4	4.6	4.7	4.7
<i>Previous</i>	<u>4.6</u>	<u>4.6</u> ↑	<u>4.8</u> ↓
Indonesia	4.8	5.1	5.3
<i>Previous</i>	<u>4.8</u>	<u>5.1</u>	<u>5.3</u>
Thailand	2.8	2.9	3.0
<i>Previous</i>	<u>2.8</u>	<u>2.9</u>	<u>3.0</u>
Malaysia	5.0	4.3	4.5
<i>Previous</i>	<u>5.0</u>	<u>4.3</u>	<u>4.5</u>
Philippines	5.9	6.5	5.9
<i>Previous</i>	<u>5.8</u> ↑	<u>6.1</u> ↑	<u>6.0</u> ↓
Australia	2.5	2.9	2.5
<i>Previous</i>	<u>2.5</u>	<u>2.5</u> ↑	<u>2.6</u> ↓

Source: CEIC, compiled by SMAM Economic Research Department, Previous= Last month meeting's projection
 Note: Arrows illustrate the direction of the change from last time prediction
 As of 28 June 2016

SMAM Economic Outlook for Asia

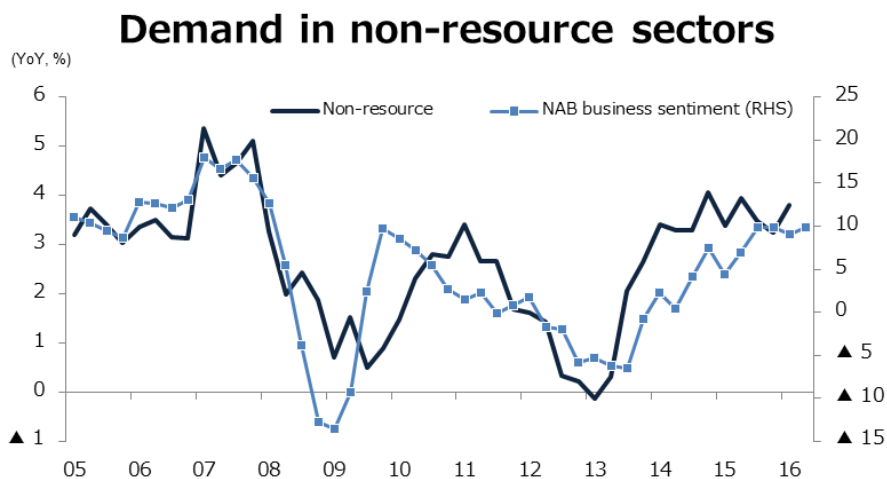
Summary

- We revised down our real YoY GDP growth forecasts of NIES4 to +1.8% from +1.9% for 2016 and to +1.7% from +1.8% for 2017.
- We raised GDP forecasts in ASEAN4's economies for 2016 slightly, but cut that for 2017.
- Many Asian countries form economic bloc through export and import trade, centering around China. Thus, we see the impacts by European economic slowdown would be quite limited if the Chinese economy stabilizes. Combination of monetary easing and proactive financial measures would be effective at absorbing the downward pressure suffered by trade.
- Asian currencies against USD are relatively stable even after the Brexit shock. The key point is firm Indonesian Rupiah, as this country tends to face capital flight. So far, Asia does not seem to suffer from a dollar shortage. As growing expectation for Fed to delay rate hike thanks to the Brexit, Asian currencies are likely to maintain the stability and central banks would have room for the monetary easing.

Note: Economy outlook is as of 18 May 2016

Australia

- We revised up the YoY real GDP forecast for 2016 to +2.9% with higher than projected Jan-Mar GDP growth but cut the GDP for 2017 to +2.5% from +2.6% reflecting lower economic outlook for major countries.
- For 2016, we maintain our scenario of the GDP to be on a path of a moderate recovery below the potential growth rate until the second half. Later, we expect the economy to be underpinned by improvements in exports of the non-resource sector and employment and to accelerate slightly from the first half of 2017 on correction in capex, which would be coming to an end.
- Considering effects by Brexit, it seems to be limited for Australia not having strong trade relation with UK. Australia's export amount to UK and Europe was only approx. 0.2% and 0.5% of its GDP respectively whereas its amount to China exceeded 5% of the GDP. Therefore, Australian economy is likely to be affected by Asian economies rather than Europeans. In view of the current situation, we do not expect abrupt economic slowdown in Asia and the impacts by the UK poll would be mild.



Note: Non-resource sector = household consumption, government consumption, residential investment, non-mining investment, service net export
Source: ABS, Datastream

Up to 1Q 2016

Export

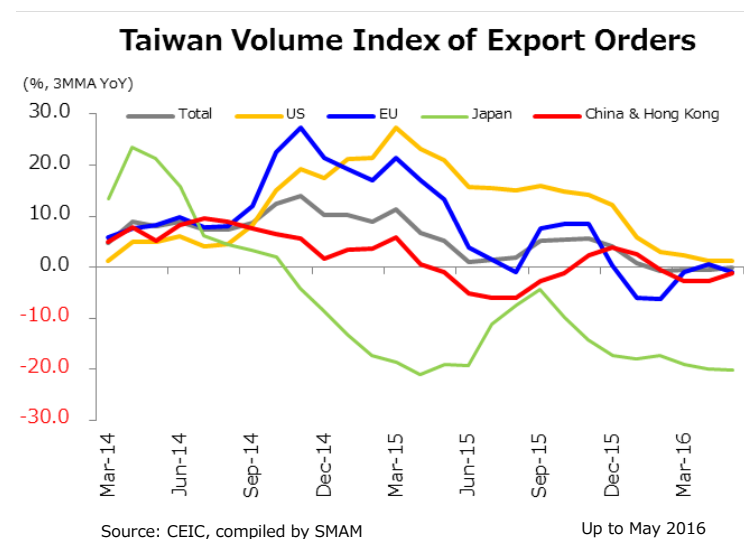
	AUD million	% of GDP
Total	249,622	15.3
China&HK	84,217	5.2
Japan	39,545	2.4
ASEAN	25,858	1.6
Europe	7,987	0.5
UK	3,690	0.2

Note: Date is calculated as export amount of FY2015 divided by nominal GDP of FY2015
Source: ABS, IMF, BIS, Datastream

As of June 2016

Hong Kong and Taiwan

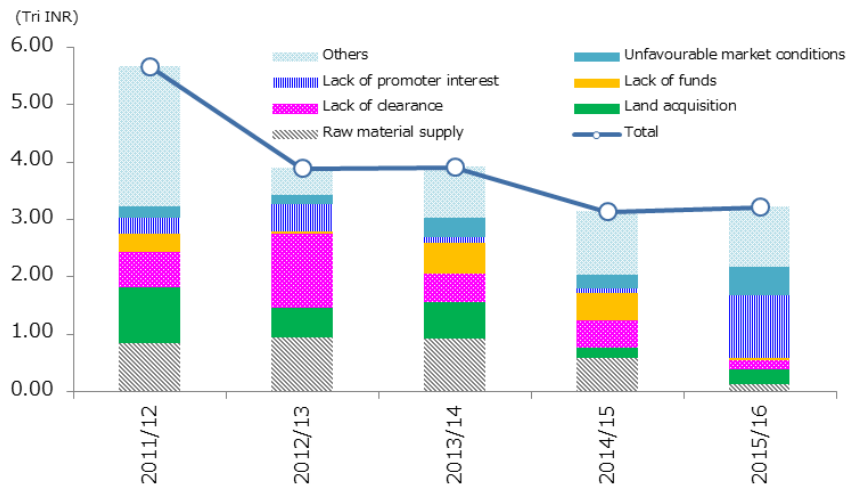
- We revised down Taiwan's real GDP forecast for 2016 and 2017 to both +0.7% YoY as we foresee that anemic economic growth should continue on cooling cross-strait interactions. Additionally, the dependence on export is higher than that in other Asian countries.
- May export orders tuned to positive (+1.6% YoY from -4.3% YoY in April) for the first time in two months led by rebounds of electronics (+1.6% YoY from -5.2% YoY) and communication equipment (+1.2% from -5.5%). By regions, its orders to US, EU and Asia improved whereas those to Japan continued to expand the negative growth (-21.0% from -19.6%).
- On 30th June, the Central Bank of the Republic of China (Taiwan) (CBC) decided to cut policy rate to 1.375% from 1.500% in line with our expectation. In our view, CBC would implement its additional policy support cutting to 1.125% for both 2016 and 2017 due to its weakened economy and receding concerns over US rate hike.



India

- We hold our expectation for the GDP growth forecasts, +7.7% YoY for 2016 and +7.8% YoY for 2017. India, which is less vulnerable to global economic cycle, is expected to have less negative impacts by the Brexit shock. We believe the macro economy is firm on its strong fundamentals: a) low dependence on export to China, b) relief for banks by enacting the legislation of Insolvency and Bankruptcy code, facilitating clearances for stalled projects, and c) improving capital account balance thanks to massive direct investment.
- A Governor of the Reserve Bank of India (RBI), Raghuram Rajan, is set to leave the RBI when his three-year term comes to an end in September. Governor Rajan's resignation will likely provoke uncertainty and near-term volatility. So far we have to take notice of who is a successor. If selected from inside RBI, the central bank would maintain the current accommodative policy stance. If not, Dr. Rajan's reform and the monetary policy may not be followed or delayed.

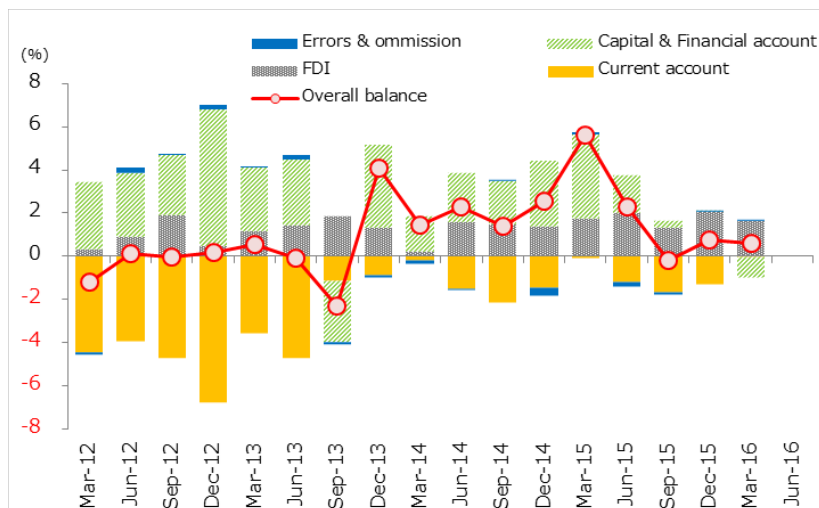
India Stalled Projects



Source: CMIE, SMAM

Up to 2015

Overall Balance of Payments (%of GDP)



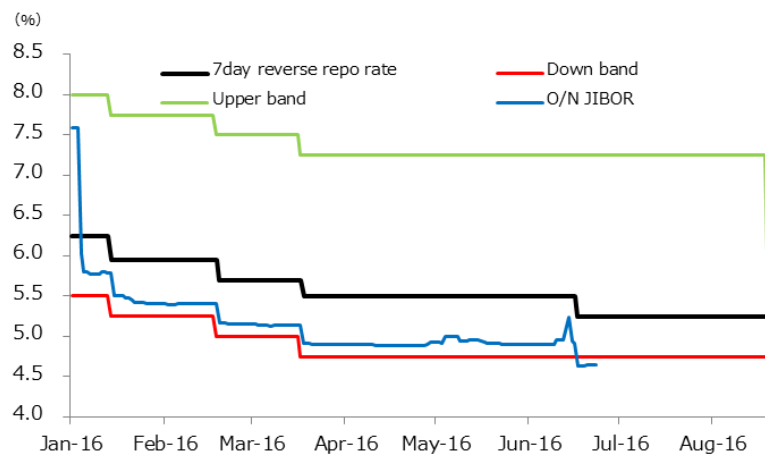
Note: Financial account = excluding reserves & FDI
Source: CEIC, SMAM

Up to March 2016

Indonesia

- Against market expectations, the Bank Indonesia (BI) lowered policy rate from 6.75% to 6.50% and 7-day reverse repo rate from 5.50% to 5.25% respectively at the Monetary Policy Committee in June. At the same time, BI cut the GDP outlook for 2016 to 5.0-5.4% YoY from 5.2-5.6% YoY on slowing exports while consumption is strong shown by auto sales in May (+6.7% YoY).
- The central bank commented that additional easing might hold off after rate cuts in June. On the other hand, the bank promoted Indonesia Rupiah (IDR) to stabilise as the highest priority. IDR has been stable against USD following receded expectation of US rate hike, and BI maintains its scenario that the economic growth would accelerate moderately. However it may be swayed if Chinese economy unexpectedly slows down. In this case, speculation of additional easing is likely to emerge.

New Policy Rate

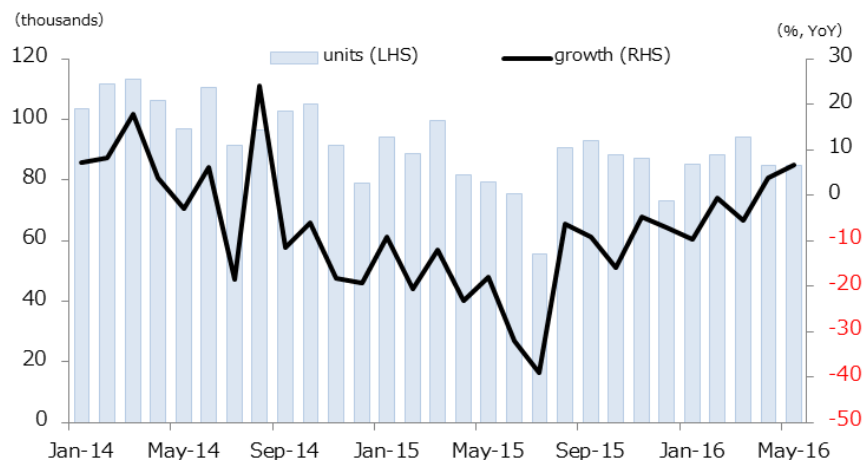


Note: New policy rate will be applied from August 19.

Source: CEIC, SMAM

Up to 23 June 2016

Auto Sales Units



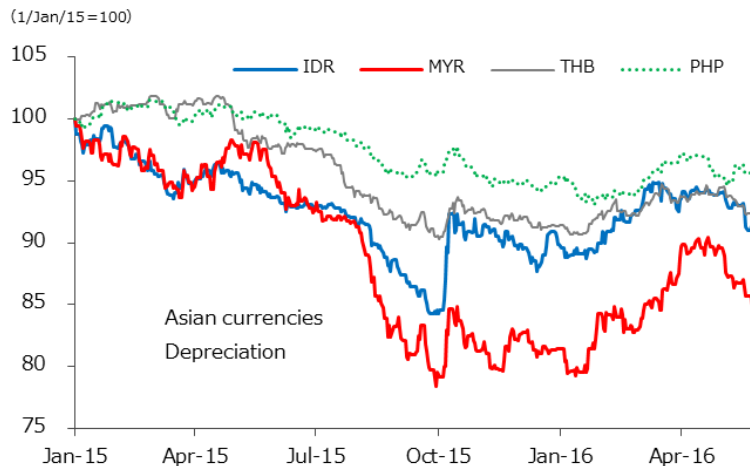
Source: CEIC, SMAM

Up to May 2016

Malaysia

- Compared with other ASEAN countries, Malaysia's export is relatively related with the EU. Accordingly, we slightly revised down the Malaysian GDP growth forecasts for 2016 and 2017 to +4.2% YoY and 4.3% YoY respectively on rising anxiety that economic downturns in Europe may hit Malaysian export caused by the UK's Brexit referendum.
- As for the monetary policy, we believe Bank Negara Malaysia (BNM), which is very sensitive to Malaysia Ringgit (MYR) depreciation, to maintain its policy interest rate unchanged at 3.25% until end of 2017. CPI inflation also remain stable. Note that BNM shall enter rate cuts cycle to underpin the economy.

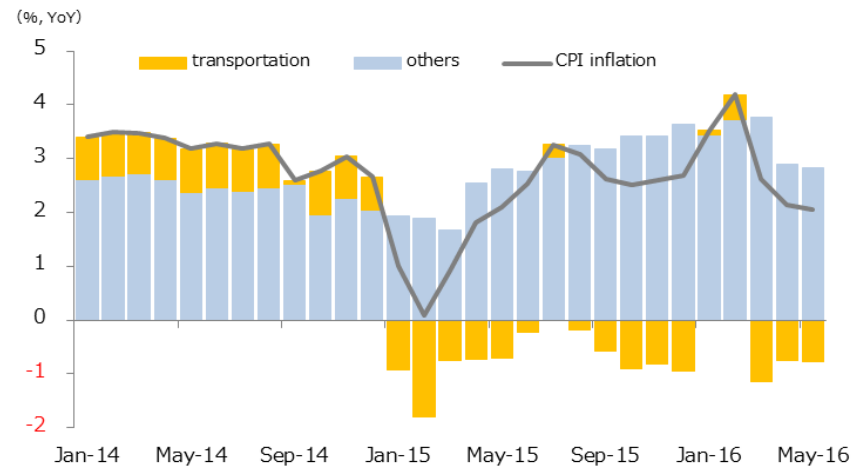
Asian Currencies (against USD)



Source: CEIC, SMAM

Up to 24 May 2016

CPI Inflation



Note: The Malaysian government applied new float system for petrol prices on Dec 2014. Annual inflation rates have been pushed up 1.1points by GST from April 2015 calculated by the government.

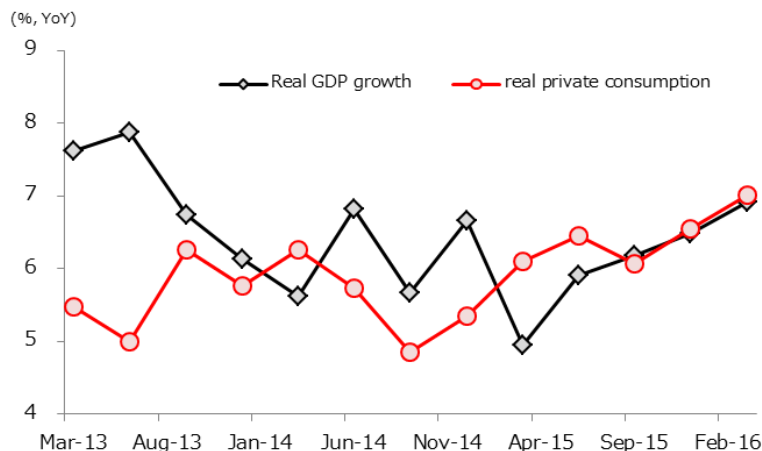
Source: CEIC, SMAM

Up to May 2016

Philippines

- We have revised up our YoY GDP growth outlook for 2016 to +6.5 from +6.1% following the high GDP growth at +6.9% for 1Q16. We believe that not only private consumption but also investment has accelerated in the first half of 2016 mainly due to the Presidential election. Thus, we are still sure that the economic momentum should lose steam in the second half of 2016 after the election.
- June CPI inflation came in at +1.9% YoY in line with market consensus. This was stronger than that in May (+1.6% YoY) contributed by food price due to base effects. We see inflation to climb moderately from the second half of 2016 as electric utilities are expected to raise its charge.
- Bangko Sentral ng Pilipinas (BSP) held the policy rate unchanged at 3.00%. We maintain our view that the central bank might keep the current policy rate until the end of 2017.

GDP & Consumption



Source: CEIC, SMAM

Up to March 2016

CPI Inflation

		Jan	Feb	Mar	Apr	May
CPI	1yoy, %	1.3	0.9	1.1	1.1	1.6
Food	1yoy contribution, ppt	0.7	0.6	0.7	0.7	1.0
rice	1yoy contribution, ppt	-0.3	-0.2	-0.2	-0.1	-0.1
Transport fuel	1yoy contribution, ppt	-0.0	-0.0	-0.1	-0.0	-0.0
Electricity	1yoy contribution, ppt	-0.3	-0.3	-0.4	-0.4	-0.4
Education	1yoy contribution, ppt	0.1	0.1	0.1	0.1	0.1
Core CPI	1yoy, %	1.8	1.5	1.5	1.5	1.6

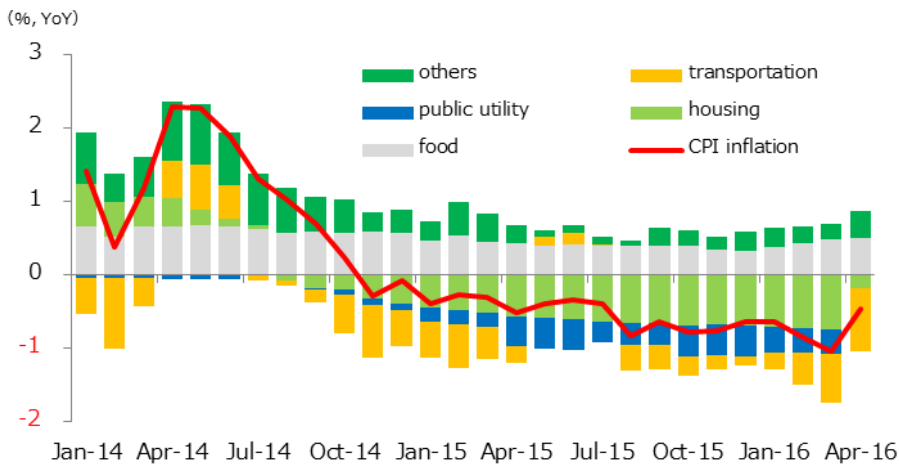
Source: CEIC, SMAM

Up to June 2016

Singapore

- We cut real GDP growth for 2016 to +1.6% YoY and for 2017 to +1.4% YoY respectively as exports may be suffered from the negative impacts by the Brexit.
- May CPI was released at -1.6% YoY, weaker than both consensus and that in the previous month (-0.5% YoY). The contribution by housing expenditure in May declining to -1.4ppt from -0.2ppt caused further deflation. In June, we will pay attention to the result of housing expense in June. If its rebound is sluggish, we shall turn doubtful eyes on the outlook of the property market recovery.

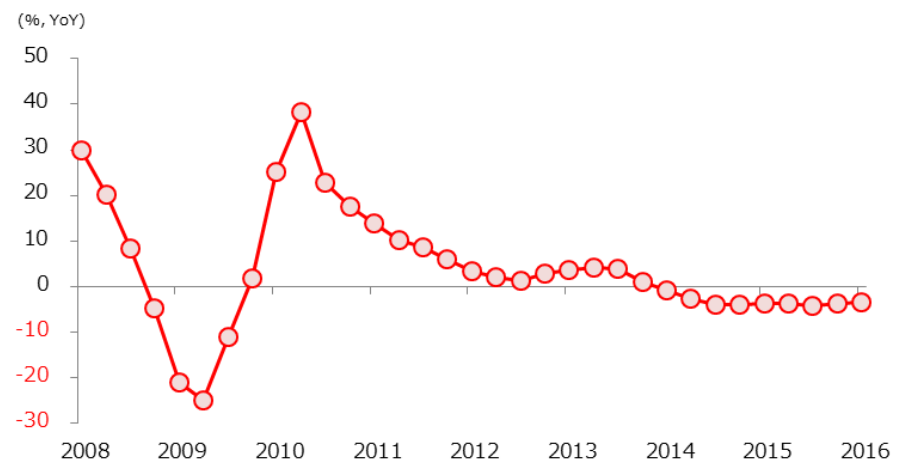
CPI Inflation



Source: CEIC, SMAM

Up to April 2016

Property Price Index

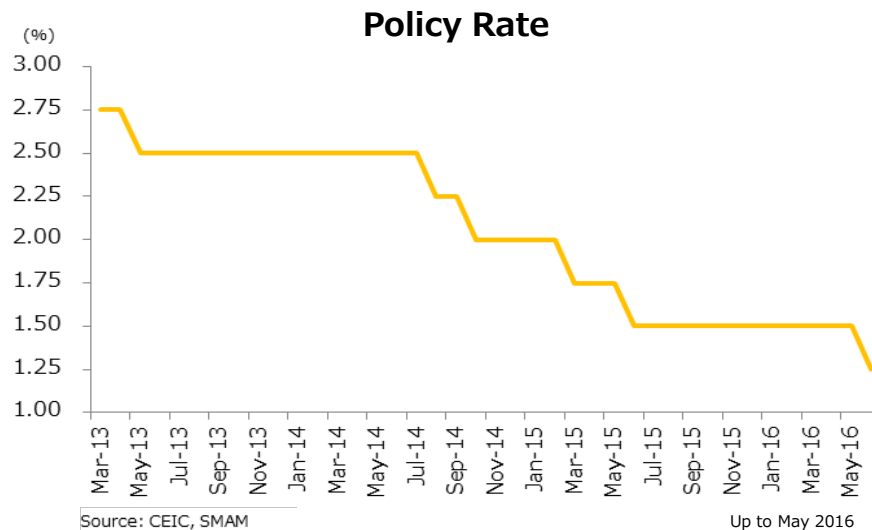


Source: CEIC, SMAM

Up to March 2016

South Korea

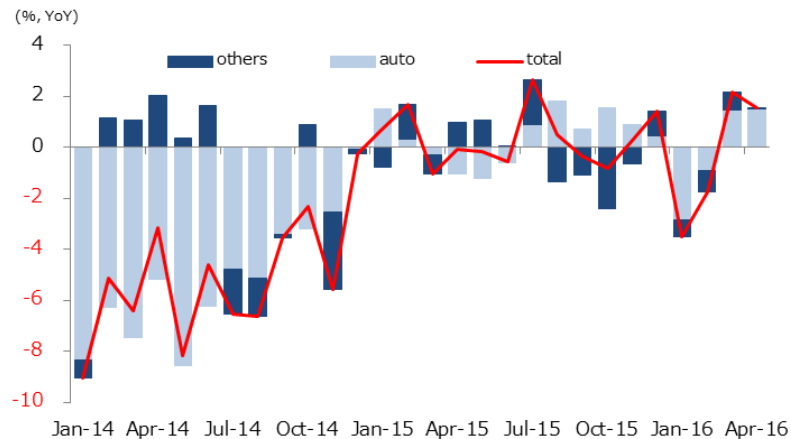
- We held the real GDP forecast unchanged even after UK's vote. In fact, Korea depends on exporting business but the major destinations are neither EU nor UK. Accordingly, we believe the negative impacts would be limited. Exports and imports in June remained in negative growth, however, both showed rebounds. June exports enjoyed a sharp recovery to -2.7% YoY from -6.0% YoY led by the growth in shipbuilding and the imports also improved slightly to -8.0% YoY from -9.0% YoY.
- As for CPI, June inflation was flat from the last month of +0.8% YoY as market expected while core inflation rose to +1.7% YoY from +1.6% YoY despite market expectation. We foresee core CPI growth to maintain a low level under moderate economic growth due to slowing exports.
- Unexpectedly, the Bank of Korea (BOK) cut policy rate to historical low level, to 1.25% from 1.50% in early June. We maintain our view that the BOK would cut the rate again in Oct-Dec 2016 on expectation for sluggish global economy and employment conditions in Korea.



Thailand

- As CPI growth came in at +0.5% YoY, which is the bottom range of inflation target (0.5-3.0%), the inflation continues to be low. The Bank of Thailand (BOT) again demonstrated the recognition that fiscal policy and tourism can prop up the economy and maintained the GDP outlook for 2016 at +3.1% YoY. Yet, BOT also highlighted a downside risk mainly due to the global economy.
- The central bank left the policy rate unchanged at June monetary policy meeting. The decision was unanimous with six members' approval. BOT decided to maintain the easing stance and stressed some merits to have ample room for further easing in the case of economic downturn caused by declining auto sales and effects on farmers by drought. We stay with our view that the additional rate cut would be implemented in Oct-Dec.

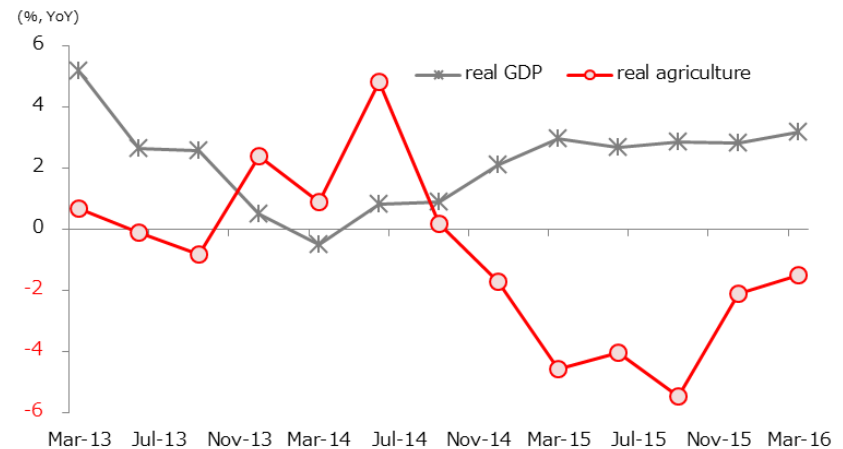
Industrial Production Growth



Source: CEIC, SMAM

Up to April 2016

Real GDP & Agriculture Product



Source: CEIC, SMAM

Up to March 2016

Outlook for Asian Stock Markets

Stock Market Performance - Global

Indices as of 30 Jun 2016	Px Last	Mtd	Qtd	Ytd	3m	1yr	2yr	3yr
S&P 500 INDEX	2,098.86	0.1%	1.9%	2.7%	1.9%	1.7%	7.1%	30.7%
DOW JONES INDUS. AVG	17,929.99	0.8%	1.4%	2.9%	1.4%	1.8%	6.6%	20.3%
NASDAQ COMPOSITE INDEX	4,842.67	-2.1%	-0.6%	-3.3%	-0.6%	-2.9%	9.9%	42.3%
STOXX Europe 50 € Pr	2,813.33	-3.2%	0.8%	-9.3%	0.8%	-14.4%	-6.7%	8.0%
NIKKEI 225	15,575.92	-9.6%	-7.1%	-18.2%	-7.1%	-23.0%	2.7%	13.9%
TOPIX	1,245.82	-9.7%	-7.5%	-19.5%	-7.5%	-23.6%	-1.3%	9.9%
BRAZIL BOVESPA INDEX	51,526.93	6.3%	2.9%	18.9%	2.9%	-2.9%	-3.1%	8.6%
RUSSIAN RTS INDEX \$	930.77	2.9%	6.2%	22.9%	6.2%	-1.0%	-31.9%	-27.0%
BSE SENSEX 30 INDEX	26,999.72	1.2%	6.5%	3.4%	6.5%	-2.8%	6.2%	39.2%
HANG SENG INDEX	20,794.37	-0.1%	0.1%	-5.1%	0.1%	-20.8%	-10.3%	0.0%
HANG SENG CHINA AFF.CRP	3,624.86	0.4%	-3.9%	-10.5%	-3.9%	-25.7%	-17.0%	-10.0%
HANG SENG CHINA ENT INDX	8,712.89	0.1%	-3.2%	-9.8%	-3.2%	-32.9%	-15.7%	-6.4%
CSI 300 INDEX	3,153.92	-0.5%	-2.0%	-15.5%	-2.0%	-29.5%	45.7%	43.3%
TAIWAN TAIEX INDEX	8,666.58	1.5%	-0.9%	3.9%	-0.9%	-7.0%	-7.7%	7.5%
KOSPI INDEX	1,970.35	-0.7%	-1.3%	0.5%	-1.3%	-5.0%	-1.6%	5.7%
STRAITS TIMES INDEX	2,840.93	1.8%	0.0%	-1.5%	0.0%	-14.4%	-12.7%	-9.8%
FTSE Bursa Malaysia KLCI	1,654.08	1.7%	-3.7%	-2.3%	-3.7%	-3.1%	-12.1%	-6.7%
STOCK EXCH OF THAI INDEX	1,444.99	1.5%	2.6%	12.2%	2.6%	-4.0%	-2.7%	-0.5%
JAKARTA COMPOSITE INDEX	5,016.65	4.6%	3.5%	9.2%	3.5%	2.2%	2.8%	4.1%
PSEi - PHILIPPINE SE IDX	7,796.25	5.3%	7.4%	12.1%	7.4%	3.1%	13.9%	20.6%
HO CHI MINH STOCK INDEX	632.26	2.2%	12.7%	9.2%	12.7%	6.6%	9.4%	31.4%
S&P/ASX 200 INDEX	5,233.38	-2.7%	3.0%	-1.2%	3.0%	-4.1%	-3.0%	9.0%
NZX 50 INDEX	6,897.53	-2.0%	2.1%	9.1%	2.1%	20.4%	34.2%	55.3%
MSCI World Free Local	407.93	-1.5%	0.6%	-1.9%	0.6%	-4.6%	1.5%	21.1%
MSCI All Country Asia Ex Japan	621.81	0.8%	-0.2%	-0.3%	-0.2%	-12.3%	-7.1%	3.9%
MSCI EM Latin America Local	66,901.95	4.2%	1.5%	12.9%	1.5%	-2.7%	-4.8%	0.9%
MSCI Emerging Markets Europe M	466.87	-1.0%	-2.5%	4.1%	-2.5%	-6.5%	-4.7%	8.7%

Note: All data are as of 30 June 2016

Compiled by SMAM based on Bloomberg

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

Outlook for Global Markets

- We expect the market will recover gradually in tandem with the growth of corporate earnings given the slow global economic recovery and normalized valuation level, however BREXIT has become a key driver for the market in the near term.

Outlook for Asia Pacific Region

- Macro economy in most of Asian countries will show some recovery in 2016, but the momentum is not so strong.
- Although Chinese economy will continue to slow down gradually, policy support is expected to avoid hard landing.
- The recovery of corporate earnings will be moderate towards 2016 as overall global economy stabilizes.
- Concerns for tighter liquidity conditions across Asia due to US rate hike continue, but it seems to be mostly priced in.
- Still many uncertainties in the markets including US rate hike, China economy, crude oil price and geopolitical issues, which can create high volatility in the near term. BREXIT has become another key concern.
- Yet we consider the market will go up slightly in line with corporate earnings as these risk factors diminish or priced in.

Note: As of 28 June 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. Relatively big impact by BREXIT. - Attractive valuation with good corporate fundamentals.	Stable More focus on economy side.	x The pace of recovery is slower than expected. o Tightening policy for property is behind us.	Potential pressure for HIBOR if financial Mkt become shaky by BREXIT. / Inflation will be moderate.	CA surplus continues but it is narrowing.	Stable, pressure for weaker HKD is eased.	x Revision is weak, but momentum is improving.	Fair on PER, attractive on PBR
China	- Tough challenge towards New Normal. - We expect gradual slowdown of macro economy. Policy is less supportive. Relatively limited impact by BREXIT. - Need to do more homework for MSCI's A-share inclusion.	Stable, but becomes less clear.	Gradual slowdown is expected, however hard landing should be avoided. Structural rebalancing is a key challenge.	x Excessive accommodative monetary policy should be adjusted. / Int. rate will stay sideways / Inflationary pressure is eased.	Surplus- but it is declining The degree of capital outflow is eased but it remains a big concern.	Downward bias is eased in the near term. The degree of RMB devaluation is a big issue across Asia.	x Revision is weak.	o Very attractive in the long term, but it has come back to average since 2011.
Taiwan	- Export orders are bottomed out, but the pace of economic recovery should be slow. Some negative impact by BREXIT. - Inventory correction on IT is progressed. - Attractive valuation with high dividend yield.	Cross strait risk is increasing under DPP president.	x 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 / Likely to be appreciated if Mkt turns Risk-on mode.	x Revision is weak.	o Attractive
Korea	- Still in the transition. Structural re-rating will not happen soon. - High level of inventories and slow adjustments - Some negative impact by BREXIT but Strong JPY is supportive.	Less stable as President Park's party loses majority	x Growth outlook is weakening due to subdued export environment in China.	o Unexpected rate cut and easing bias continues / Inflation will be stable / Liquidity is improving.	Surplus will remain high	Downward bias in the near term. BOK raised concerns for too much weakening of KRW.	o Revision has turned positive. ↑	Attractive. However there is a reason for the discount.
Singapore	- Stable Mkt and policy headwind is easing. - Weak economy will continue due to slowdown of Chinese economy. Relatively big impact by BREXIT. - Attractive valuation.	The landslide victory of PAP should create political stability.	x Slower economic growth is expected due to slowdown of Chinese economy.	o The MAS surprised by easing policy. / SIBOR rate is stabilized; Inflation is stable. / M2 growth rate is weakening.	High level of Trade & CA Surplus will continue.	Downward pressure due to easing policy by MAS / Likely to be appreciated if Mkt turns Risk-on mode.	x Revision is weak, but momentum is bottomed out.	Fair on PER, attractive on PBR
Malaysia	- Mounting uncertainty in both politics and economy. - Investor's sentiment is improving, however BREXIT has become a big concern.	x 1MDB has become a risk factor again. Political turmoil is still there.	x 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. / X M3 growth rate is weakening.	Surplus will be narrowed due to lower crude oil price. However recent hike of palm oil should be positive	Stabilizing under little concern for US rate hike. Expected bottom out of oil price shall help MYR appreciation.	x Revision is weak.	Fair (Rich on PER, but fair on PBR)
Thailand	- Economy is expected to bottom out. - Investor's sentiment is improving. - Negative impact by BREXIT but weaker currency and accommodative monetary policy is supportive.	Military gov should continue at least until 2017. Strong leadership of deputy prime minister Somkid.	Fiscal stimulus supports the economy, but sluggish auto industry and drought should be drugs.	o Rate cut is possible in 4Q16. / Inflation will be stable. M2 growth rate should remain low.	Surplus will continue.	Stabilizing under little concern for US rate hike.	x Revision is still weak, but its momentum is improving.	Fair (Rich on PER, but fair on PBR)
Indonesia	- Solid economic growth supported by public investment. - IDR is stabilizing. The pace of US rate hike should be slow. - Limited impact by BREXIT in terms of trades, but it can be a big negative in terms of sentiment.	Political situation is stabilized as Golkar joins ruling coalition	o Economy is expected to recover supported by lower gasoline price and public investment.	Additional rate cut is possible in 2H16 given IDR stabilization. / Lower inflation due to lower gasoline price.	x CA deficit will gradually increase.	Downward pressure is easing, but risk of weak currency will continue.	x Revision is still weak, but its momentum is improving.	Fair (Rich on PER, but fair on PBR)
Philippines	- Still the bright spot. Limited impact by BREXIT. - Sustainability is key.	Stable. Duterte won the presidential election	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 expand.	Stabilizing under little concern for US rate hike.	Revision is weak but it is improving	Rich on PER, fair on PBR
India	- Solid macro economy. Inflation is stabilized. - Relatively immune to the situation of global macro but it is a consensus OW Mkt. Limited impact by BREXIT. - Resignation of Rajan should be a drug.	Potential of economic reform continues BJP is gaining momentum.	o High Growth rate will continue driven by domestic consumption.	o Wait and see stance for further rate cut / Inflationary pressure peaked out.	x Trade / CA deficit will gradually increase.	Stabilizing under little concern for US rate hike. Currency risk continues.	Revision has recovered from very weak level. ↑	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): Korea – Underweight continued

【Summary】

As the global economy is restoring stability, improvements in earnings momentum are showing up. However, structural issue is expected to weight on the market in the medium- and long-term.

- ▣ Korean stock market correlates well with the global economy, China in particular. While the global economy remains on a mild recovery path, the Chinese economy is still weak.
- ▣ The weakening KRW and the rising JPY supports exporting companies. Yet, competitive pressures on the Korean companies with Japanese and Chinese companies continue.
- ▣ We see foreign capital outflow, which led by shrinking quantitative easing, to be relatively limited as current-account surplus are on an upward trend and economic fundamentals are relatively high. On the other hand, the increasing amount of household debt still remains concern.
- ▣ **Earnings momentum has already stopped worsening and currently seems to bottom out.** Yet, the market is expected to be a fragile recovery.

Market Focus (ii): Singapore – Underweight continued

【Summary】

Risk of the bottom to fall out of the Chinese economy receded. The stock market is firm on the back of economic measures by each ASEAN country. But the upside would be limited due to a downturn trend in the Singapore economy.

- ▣ We maintain our view that share prices would move firmly on a gradual recovery of the global market as well as receded risk about Chinese economy.

- ▣ Indonesia’s surprising rate cut on 16th June reassured the Asian stock markets.

- ▣ As the market rebounded faster than expected from February’s low price, we see that the room for expanding the valuation is limited.

- ▣ For the real estate sector, commercial property remains concerns about oversupply. Residential property may face downward pressure on asset price after rate hike.

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