

REGIONAL MARKETS UPDATE GREATER CHINA

China: Offshore (H) 4.5 Stars — Very Attractive, Onshore (A) 3.5 Stars — Attractive

- Caixin China Manufacturing PMI stood at 51.1 in Apr 18, little-changed from the previous month's figure of 51.0
- China's April exports rose 12.9% from a year earlier, beating analysts' forecasts for a 6.3% y-o-y increase
- Imports to China also beat expectations, growing 21.5% y-o-y, beating forecasts of 16.0% growth
- China's consumer price inflation fell to 1.8% y-o-y in Apr 18, from 2.1% in the previous month and missing market consensus of 1.9%
- China's producer price index (PPI), which measures costs for goods at the factory gate, rose 3.4% y-o-y in Apr 18
- China's retail sales increased by 9.4% from a year earlier in Apr 18, missing market consensus of 10.0% and following a 10.1% rise in the previous month

Hong Kong: 4.5 Stars—Very Attractive

- The seasonally adjusted Nikkei Hong Kong PMI dropped to 49.1 in Apr 18 from 50.6 in the previous month
- The seasonally adjusted unemployment rate in Hong Kong fell to 2.8% in the three months to Apr 18, easing from 2.9% in the previous period
- Foreign Exchange Reserves in Hong Kong decreased to USD 434,400 million in Apr 18 from USD 440,300 million in Mar 18

Taiwan: 4.0 Stars — Very Attractive

- The seasonally adjusted headline PMI posted 54.8 in Apr, down from 55.3 in Mar, signalling an improvement in the health of Taiwan's manufacturing economy for the twenty-third month in a row
- Taiwan's exports grew 10.0% from a year earlier in Apr; exports of electronics components rose 12.2% from a year earlier to USD 8.56 billion, accounting for about 32.0% of Taiwan's total outbound sales
- Taiwan's imports also grew 4.9% y-o-y in Apr to USD 22.58 billion, yielding a trade surplus of USD 4.15 billion, up USD 1.38 billion from a year earlier

MARKET OUTLOOK

The Caixin China General Manufacturing PMI stood at 51.1 in April 2018, little-changed from the previous month's figure of 51.0 and above market consensus of 50.9, which still remained above the boom-or-bust line of 50 that separates expansion from contraction. China's April exports rose 12.9% from a year earlier, beating analysts' forecasts for a 6.3% increase. We believe that strong April exports showing was mostly seasonal and that a multi-year global trade recovery may have topped out. Besides, imports to China also beat expectations, growing 21.5% year-on-year, beating forecasts of 16.0% growth, and accelerating from a 14.4% rise in March. The strong readings suggest China's domestic demand remains resilient despite rising corporate borrowing costs and cooling property sales. China's consumer price inflation fell to -1.8% year-on-year in April 2018, from 2.1% in the previous month and missing market consensus of 1.9%. China's producer price index (PPI), which measures costs for goods at the factory gate, rose 3.4% year on year in April. Last but not least, China's retail sales increased by 9.4% from a year earlier in April, missing market consensus of 10.0% and following a 10.1% rise in the previous month.

The seasonally adjusted Nikkei Hong Kong PMI dropped to 49.1 in April of 2018 from 50.6 in the previous month. It is the first contraction in private sector activity since August 2017, as output declined for the first time in eight months. Also, new orders contracted for the first time in five months, employment shrank for the fourth straight month and confidence remained negative. The seasonally adjusted unemployment rate in Hong Kong fell to 2.8% in the three months to April 2018, easing from 2.9% in the previous period. Besides, foreign exchange reserves in Hong Kong decreased to USD 434,400 million in April from USD 440,300 million in March of 2018.

The seasonally adjusted headline PMI posted 54.8 in April, down from 55.3 in March, to signal an improvement in the health of Taiwan's manufacturing economy for the twenty-third month in a row. Besides, Taiwan's exports grew 10.0% from a year earlier in April; exports of electronics components rose 12.2% from a year earlier to USD 8.56 billion, accounting for about 32.0% of Taiwan's total outbound sales. Taiwan's imports also grew 4.9% year-on-year in April to USD 22.58 billion, yielding a trade surplus of USD 4.15 billion, up US\$1.38 billion from a year earlier.

As at 23 April 2018, the CSI 300 Index is currently trading at estimated PE ratios of 12.5X and 10.8X based on estimated earnings in 2018 and 2019 respectively, a discount to its fair value of 15.0X, while the HSML100 Index is trading at 9.5X and 8.4X (based on estimated earnings in 2018 and 2019 respectively) as compared to our fair PE of 13.0X. We continue to prefer H-shares to the onshore market. We maintain our **4.5 Stars "Very Attractive" rating for the offshore Chinese equity market**. Moreover, the Hong Kong equity market is currently trading at estimated PE ratios of 11.6X and 10.5X based on estimated earnings in 2018 and 2019 respectively, below its fair value of 15.0X. Therefore, we maintain our **4.5 Stars "Very Attractive" rating for Hong Kong**. Lastly, Taiwan is trading at estimated PE ratios of 13.8X and 13.0X based on 2018 and 2019 earnings estimated respectively, slightly lower than our fair PE ratio of 14.0X. We thus maintain a **4.0 Stars "Very Attractive" rating for Taiwan**.

**RECOMMENDED FUND:
CIMB-PRINCIPAL GREATER CHINA EQUITY FUND**