REGIONAL MARKETS UPDATE

GREATER CHINA

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

- Caixin China General Manufacturing PMI fell to 50.0 in Sep 18, down from 50.6 in Aug 18
- Exports rose 17.0% y-o-y in Sep 18, up from a 7.9% y-o-y growth in Aug 18
- Imports rose 17.4% y-o-y in Sep 18, down from a 18.8% y-o-y growth in Aug 18
- Consumer price inflation rose to 2.5% y-o-y in Sep 18, up from 2.3% y-o-y in Aug 18
- Producer price rose 3.6% y-o-y in Sep 18, down from 4.1% in Aug 18
- Retail sales rose 9.2% y-o-y in Sep 18, up from 9.0% y-o-y in Aug 18

Hong Kong: 4.5 Stars—Very Attractive

- Nikkei Hong Kong PMI came in at 47.9 in Sep 18, down from 48.5 in Aug 18
- Unemployment rate held steady at 2.8% in Sep 18, similar to Aug 18
- Foreign Exchange Reserves increased to USD 426,400 million in Sep 18, from USD 424,800 million in Aug 18

Taiwan: 4.0 Stars — Very Attractive

- Headline PMI came in at 50.8 in Sep 18, down from 53.0 in Aug 18
- Exports grew 2.6% y-o-y in Sep 18, up from a 1.9% y-o-y growth in Aug 18
- Imports grew 13.9% y-o-y in Sep 18, up from a 7.9% y-o-y growth in Aug 18

MARKET OUTLOOK

The Caixin China General Manufacturing PMI fell to a 16-month low of 50 in September 2018 from 50.6 in the previous month and missing market consensus of 50.5. It sits at the line separating expansion from contraction, China's September exports rose unexpectedly 17.0% from a year earlier while imports grew 17.4% year-on-year in CNY terms, beating forecasts. The vast export reading possibly results from companies' rushing out shipments before the stiffer US duties going into force, and the record trade surplus with the United States could exacerbate the dispute between China and US. China's consumer price inflation rose to a seven-month high of 2.5% year-on-year in September 2018 from 2.3% in the previous month and matching market consensus. In addition, China's producer price index (PPI), which measures costs for goods at the factory gate, rose 3.6% year-on-year in September. Of all industrial sectors, producer prices in the sectors of non-metal mineral products saw lower growth rates than in August. Last but not least, China's retail sales increased by 9.2% from a year earlier in September 2018, following a 9.0% rise in the previous month. Looking at the details of retail sales categories, the accelerated growth resulted from several components' picking up; for example, sales of telecoms increased from 6.4% to 16.9%.

The Nikkei Hong Kong PMI dropped to 47.9 in September 2018 from 48.5 in the previous month. It was the sixth straight month of contraction in private sector activity, which mainly resulted from trade policy uncertainty and the weak demand for Hong Kong's products and services from mainland China, leading to the decrease of both output and new orders. Additionally, the seasonally adjusted unemployment rate in Hong Kong was unchanged at a 20-year low of 2.8% in the four months to September 2018.

Taiwan's headline PMI posted 50.8 in September, down from 53.0 in August, indicating the lowest recorded since June 2016. In addition, Taiwan's exports grew 2.6% year-on-year in September 2018 from the 1.9% year-on-year expansion in August, beating market expectations of a -1.3% decrease. However, Taiwan's imports year-on-year growth increased significantly by 13.9% in September, accelerating from a 7.9% year-on-year growth in August.

As at 26 October 2018, the CSI 300 Index is currently trading at estimated PE ratios of 10.9X and 9.5X 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 8.4X and 7.4X (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 10.3X and 9.3X 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 12.4X and 12.0X 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