REGIONAL MARKETS UPDATE

GREATER CHINA

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

- Caixin China Manufacturing PMI was 51 in Oct 17, flat with that in Sep 17
- Exports growth decreased to 6.9% y-o-y in Oct 17, compared with 8.1% in Sep 17
- Imports growth decreased to 17.2% y-o-y in Oct 17, compared with 18.7% in Sep 17
- CPI came at 1.9% y-o-y in Oct 17, higher than 1.6% in Sep 17
- PPI rose 6.9% y-o-y in Oct 17, flat with that in Sep 17
- Retail sales grew 10.0% y-o-y in Oct 17, slightly lower than 10.3% in Sep 17
- Fixed asset investment (FAI) came down to 7.3% YTD y-o-y in Oct 17, compared with 7.5% in Sep 17
- Industrial production growth decelerated to 6.2% y-o-y in Oct 17, down from 6.6% in Sep 17

Hong Kong: 4.5 Stars — Very Attractive

- Hong Kong real GDP growth edged down to 3.6% in 3Q 17, compared with 3.9% in 2Q 17
- Nikkei Hong Kong Manufacturing PMI decreased to 50.3 in Oct 17 from 51.2 in Sep 17
- The seasonal adjusted unemployment rate came at 3.0% in Oct 17, slightly lower than 3.1% in Sep 17
- Foreign exchange reserves in Hong Kong remained high at 419.2 USD billion in Oct 17, slight lower than 419.3 USD billion in Sep 17

Taiwan: 4.0 Stars—Very Attractive

- Taiwan real GDP growth accelerated to 3.1% in 3Q 17, compared with 2.28% in 2Q 17
- Nikkei Taiwan Manufacturing PMI came down to 53.6 in Oct 17 from 54.2 in Sep 17
- Taiwan's CPI came in at -0.32% y-o-y in Oct 17, lower than 0.5% in Sep 17
- Exports grew 3.0% y-o-y in Oct 17, lower than the growth rate of 28.1% Oct 17 in Sep 17
- Imports increased 0.1% y-o-y in Oct 17, lower than 22.2% y-o-y in Sep 17
- Industrial production decelerated to 2.85% y-o-y in Oct 17, compared with 4.77% in Sep 17

MARKET OUTLOOK

China economic data continued to soften in October. Particularly, the industrial production growth came down to 6.2% in October from 6.6% year-on-year in September. Given that manufacturing activities have been restricted after winter came and production suspension during the 19th Party Congress, the slowdown in industrial production in October was in line with market expectations. Sector-wise, those heavy industries continued to be depressed by stricter environmental protection measures, such as mining, cement, steel and non-ferrous metal, however, production growth of machinery and new energy cars continued to be outperformed. Furthermore, mainly due to the slowdown in property investment, the fixed asset investment (FAI) growth further edged down to 7.3% year-to-date year-on-year from 7.5% previously. CPI inflation came at 1.9% in October, while PPI remained high at 6.9% as a result of supply contraction caused by capacity reduction and environmental protection initiative as well as rising oil prices. Partially due to the dampening effect of "Nov 11" ecommerce festival for retail sales ahead of the big sales day, the retail sales growth edged down to 10.0% year-on-year in October from 10.3% in September. On the other hand, the 3Q 17 PBOC's monetary policy report showed that interbank liquidity loosened while the funding cost for real economy picked up, especially for mortgage financing. Besides, the PBOC launched 2-month reverse repo operation in late October, which further enriched its OMO (Open Market Operations) choices. Overall, the implementation of the monetary policies aimed at economic restructuring and improvement of the policy transmission quality, thus we expect the monetary policy will remain prudent to neutral.

In Hong Kong, growth momentum was maintained in the third quarter. Thanks to strong consumption expenditure, the Hong Kong real GDP growth came at 3.6% in 3Q 17, which is the fourth consecutive quarter of above-trend economic expansion. Domestic demand attained further solid growth, with private consumption expenditure expanded by 6.7% in this quarter, given the historical low level of unemployment and the positive wealth effect from asset markets. External demand is also on the rise, as the total exports of goods grew visibly by 5.5%. Supported by sustained growth in demand for raw materials, semi-manufactures and capital goods amid strong manufacturing activities in the Asian region, exports to Asian markets as a whole outpaced those to the other regions. Meanwhile, exports of services also picked up and its growth rate edged up to 3.7%, benefitting from strong regional trade flows and recovery in inbound tourism. Along with an improving global outlook and robust domestic demand in the near-term, we expect Hong Kong's economy will maintain its solid growth in the rest of the year.

In Taiwan, driven by a sharp pick-up in export growth over the quarter, Taiwan's 3Q GDP accelerated to 3.1% year-on-year from 2.28% in 2Q, growing at the fastest pace in two years. In particular, real exports of goods and services rose by 11.2% year-on-year, compared with 5.0% in 2Q 17, supported by strong demand of electronics and information and communication products in the resilient tech cycle. On the other hand, Taiwan's October economic data points to a more moderate start to 4Q 17. The Nikkei Taiwan Manufacturing PMI eased to 53.6 in October from 54.2 previously, as new orders and new export orders grew at the slowest pace in a year. Furthermore, export and import growth came in below market expectations at 3.0% and 0.1% year-on-year in October respectively, comparing with 28.1% and 22.2% in September. Particularly, consistent with the slower export order growth and PMI, the exports of information and communication products contracted by 6.0% year-on-year, the first contraction since 2016. However, given the improving global economic environment as well as the rising demand for technology equipment, we expected the Taiwan's export sector should remain supported, hence Taiwan's trade-reliant economy will likely hold up well.

As at 24 November 2017, the CSI 300 Index is currently trading at estimated PE ratios of 15.7X and 13.7X based on estimated earnings in 2017 and 2018 respectively, 2017 estimated PE marginally higher than our fair PE ratio of 15.0X while 2018 estimated PE is still a discount to the fair value. The HSML100 Index is trading at 11.5X and 10.2X (based on estimated earnings in 2017 and 2018 respectively) as compared to our fair PE ratio 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 13.4X and 12.3X based on estimated earnings in 2017 and 2018 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 15.3X and 14.0X based on 2017 and 2018 earnings estimated respectively, slightly higher 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