REGIONAL MARKETS UPDATE

GREATER CHINA

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

- China reports 6.9% second-quarter GDP growth y-o-y, surpassing expectations
- CPI in June remained the same as that in May at 1.5% y-o-y, as a smaller drop in food prices was offset by slower growth in non-food prices
- Caixin China Manufacturing PMI was 51.6 in June, decreasing from 52.8 in May
- PPI rose 5.5% y-o-y in June, on par with the pace in the previous month
- Exports increased by 11.3% y-o-y in June, faster than that in the previous month
- Imports increased by 17.2% y-o-y in June, comparing to 14.8% y-o-y in May

Hong Kong: 4.5 Stars — Very Attractive

- Nikkei Hong Kong Manufacturing PMI increased to 51.1 in June from 50.5 in May
- The seasonal adjusted unemployment rate decreased to 3.1% in June from 3.2% in May
- Foreign exchange reserves in Hong Kong increased to USD 408,000 million in June, reaching an all-time high since 1993

Taiwan: 4.0 Stars—Very Attractive

- Nikkei Taiwan Manufacturing PMI increased slightly to 53.3 in June from 53.1 in May
- Taiwan's CPI increased insignificantly by 1.0% y-o-y in June, higher than that in May
- Exports increased significantly to 13.0% y-o-y in June, faster than the growth rate of 8.4% y-o-y in May
- Imports decreased greatly to 3.7% y-o-y in June, much lower than 10.2% y-o-y in May
- Industrial production increased to 3.14% y-o-y in June, in comparison to 0.78% increase in May

MARKET OUTLOOK

China reports 6.9% second-quarter GDP growth year-on-year, surpassing expectations. With GDP expansion at 6.9% for two consecutive quarters, the government will have more leeway for slower growth in the second half of year. The Caixin China Manufacturing PMI was 51.6 in June, decreasing from 52.8 in May. Even though the growth has slowed down slightly as new order volumes weakened, it continued to indicate rising demand. CPI in June remained the same as that in May at 1.5% year-on-year, as a smaller drop in food prices was offset by slower growth in non-food prices. Moreover, PPI rose 5.5% Year-on-year in June, on par with the pace in the previous month, which is consistent with the market consensus. Additionally, exports increased by 11.3% year-on-year in June, faster than that in the previous month; similarly imports increased by 17.2% year-on-year in May, comparing to 14.8% year-on-year in April. Taking into the above into consideration, we believe that the current monetary policy will remain stable and easy fiscal policy will be maintained.

Nikkei Hong Kong Manufacturing PMI increased to 51.1 in June from 50.5 in May, signalling that manufacturing output is still in expansion mode. The improvement was driven by an increase in firms' purchasing activity, suggesting an anticipation of higher demand over the coming months. The seasonally adjusted unemployment rate decreased to 3.1% in June from 3.2% in May, showing that the employment situation may be correcting for the better in the near term amid an improving external environment. Furthermore, foreign exchange reserves in Hong Kong increased to USD 408,000 million in June, reaching an all-time high since 1993. We maintain our rating for the Hong Kong market, when considering the above data.

Nikkei Taiwan Manufacturing PMI increased slightly to 53.3 in June from 53.1 in May, contributed by a rise in production, total new work and new export sales. A reading above 50 indicates economic expansion. Moreover, Taiwan's CPI increased insignificantly by 1.0% year-on-year in June, the highest reading since January. The largest contribution to the pickup comes from higher prices for food and steady increase in healthcare fees. Exports increased significantly to 13.0% year-on-year in May, faster than the growth rate of 8.4% year-on-year in May; while imports decreased greatly to 3.7% year-on-year in June, much lower than 10.2% year-on-year in May. Last but not least, industrial production increased to 3.14% year-on-year in June, in comparison to 0.78% increase in May. The above data signals that the economy is picking up, and thus we maintain a positive outlook for Taiwan market.

As at 25 July 2017, the CSI 300 Index is currently trading at estimated PE ratios of 14.4X and 12.7X based on estimated earnings for 2017 and 2018 respectively, representing a discount to its fair value of 15.0X, while the HSML100 Index is trading at 10.6X and 9.6X (based on estimated earnings in 2017 and 2018 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 14.8X, slightly higher than 12.9X and 11.8X based on 2017 and 2018 estimated earnings, but the overall market is still attractive in comparison with major stock markets. Therefore, we maintain our **4.5 Stars "Very Attractive" rating for Hong Kong**. Lastly, Taiwan is trading at estimated PE ratios of 14.4X and 12.7X based on 2017 and 2018 earnings estimates respectively, below our fair PE ratio of 15.0X. We thus maintain a **4.0 Stars "Very Attractive" rating for Taiwan**.

RECOMMENDED FUND:
CIMB-PRINCIPAL GREATER CHINA EQUITY FUND