

## REGIONAL MARKETS UPDATE

## GREATER CHINA

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

- China y-o-y GDP growth came in at 6.6% for 2018
- Caixin China General Manufacturing PMI fell to 49.7 in Dec 18, down from the previous month's 50.2
- Exports fell 4.4% y-o-y in Dec 18, down from a 5.4% y-o-y growth in Nov 18
- Imports dropped 7.6% y-o-y in Dec 18, down from a 3.0% y-o-y growth in Nov 18
- Consumer price inflation rose to 1.9% y-o-y in Dec 18, down from 2.2% y-o-y in Nov 18
- Producer price rose 0.9% y-o-y in Dec 18, down from 2.7% in Nov 18
- Retail sales rose 8.2% y-o-y in Dec 18, down from 8.1% y-o-y in Nov 18

**Hong Kong: 4.5 Stars—Very Attractive**

- Nikkei Hong Kong PMI came in at 48.0 in Dec 18, up from 47.1 in Nov 18
- Unemployment rate held steady at 2.8% in Dec 18, unchanged from the previous month
- Foreign Exchange Reserves in Hong Kong increased marginally to 424,600 USD Million in Dec 18

**Taiwan: 4.0 Stars — Very Attractive**

- Headline PMI came in at 47.7 in Dec 18, down from 48.4 in Nov 18
- Exports fell -3.0% y-o-y in Dec 18, up from a 3.4% y-o-y decrease in Nov 18
- Imports grew 2.2% y-o-y in Dec 18, up from a 1.1% y-o-y growth in Nov 18

## MARKET OUTLOOK

China listed corporations on aggregate (as gauged by the A shares) saw downwards revision in earnings estimates for the month of January 2019 to 0.74 CNY and 0.85 CNY in 2018 and 2019 respectively. Over the month of December, the Utilities sector recorded the largest increase in earnings (7.1%) amongst the ten CSI sectors, due to investors' expectation of high dividend growth. On the other hand, Health care sector saw the largest downwards revision of earnings (-14.6%), driven by Shanghai RAAS Blood Products, which recorded a decrease of 59.0% in earnings for the month of December 2018. Hong Kong listed corporations (as gauged by all HK stocks) on aggregate also saw downwards revision in earnings estimates for the month of January to 0.73 CNY and 0.84 CNY in 2018 and 2019 respectively.

China GDP came in 6.6% in 2018, the slowest pace since 1990, matching our expectations. While the economy is decelerating, China is still supported by the front-loading of export activities done over the past few quarters. The Caixin China General Manufacturing PMI fell unexpectedly to 49.7 in December 2018 from prior month's 50.2, missing market consensus of 50.1. This shows the first contraction in the manufacturing sector since May 2017. In addition, the exports from China fell -4.4% year-on-year to USD 221.2 billion in December 2018, the most in two years, with demand in most major markets weakening. Imports to China dropped 7.6% from a year earlier to USD 164.2 billion in December 2018, missing market expectations of a 5.0% year-on-year growth. China's consumer price inflation recorded an increase of 1.9% year-on-year in December 2018, down from the previous month 2.2% year-on-year increase. Furthermore, the producer price index (PPI) rose 0.9% year-on-year in December, easing from 2.7% in November. We believe the PPI will continue to fall throughout 2019 considering the supply side reforms. Last but not least, China's retail sales increased by 8.2% year-on-year in December 2018, following a 8.1% rise in the previous month and beating market expectations of 8.1%.

The seasonally adjusted Nikkei Hong Kong PMI increased to 48.0 in December 2018, up from 47.1 in the previous month. It was the ninth straight month of contraction in private sector activity, which was affected by the ongoing US-China trade tension. Additionally, the seasonally adjusted unemployment rate in Hong Kong was unchanged at a 20-year low of 2.8% in the eight months to December 2018. Besides, Foreign Exchange Reserves in Hong Kong increased to 424,600 USD Million in December of 2018 from 423,200 USD Million in November. As for Taiwan, the seasonally adjusted headline PMI fell, for the third month in a row, from 48.4 in November to 47.7 in December, which signalled a deterioration in the health of the manufacturing sector. In addition, exports from Taiwan fell -3% year-on-year in December 2018, resulting from sales decline from metal and electrical equipment, but it managed to beat market estimates of a -5.1% decline. Also, Taiwan's imports growth increased by 2.2% in December over the previous year, up from 1.1% growth in November.

As at 24 January 2019, the CSI 300 Index is currently trading at estimated PE ratios of 9.9X and 8.6X based on estimated earnings in 2019 and 2020 respectively, a discount to its fair value of 15.0X, while the HSM100 Index is trading at 8.3X and 7.4X (based on estimated earnings in 2019 and 2020 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**. The Hong Kong equity market is currently trading at estimated PE ratios of 10.4X and 9.5X based on estimated earnings in 2019 and 2020 respectively, below its fair value of 15.0X. Therefore, we also **maintain our 4.5 Stars "Very Attractive" rating for Hong Kong**. Lastly, Taiwan is trading at estimated PE ratios of 13.3X and 12.5X based on 2019 and 2020 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**