

REGIONAL MARKETS UPDATE

GREATER CHINA

China: Offshore (H) 5.0 Stars — Very Attractive, Onshore (A) 3.5 Stars — Attractive

- Caixin China Manufacturing PMI was 50.3 in Apr, decreasing from 51.2 in Mar 17
- Official Manufacturing PMI decreased slightly to 51.2 in Apr 17
- CPI increased slightly to 1.2% y-o-y in Apr 17, higher than expected reading 1.1%
- PPI decreased to 6.4% y-o-y in Apr, following a 7.6% increase in the previous month
- Exports increased by 8.0% y-o-y in Apr, comparing to 16.4% y-o-y in Mar 17
- Imports increased by 11.9% y-o-y in Apr, slower than that in the previous month

Taiwan: 4.0 Stars — Very Attractive

- Nikkei Taiwan Manufacturing PMI decreased to 54.4 in Apr from 56.2 in Mar 17
- Taiwan's CPI increased by 0.12% y-o-y in Apr, a bit lower than that in Mar 17
- Exports increased significantly 9.4% y-o-y in Apr, slightly slower than the growth rate of 13.2% y-o-y in Mar 17
- Imports rose sharply to 23.5% y-o-y in Apr, higher than 19.8% y-o-y in Mar 17
- Industrial production declined rapidly to -0.59% y-o-y in Apr, in comparison to 3.22% increase in Mar 17

Hong Kong: 4.0 Stars—Very Attractive

- Nikkei Hong Kong Manufacturing PMI increased to 51.1 in Apr from 49.9 in Mar 17
- The seasonal adjusted unemployment rate remained steady at 3.2% in two months to Apr 17
- Foreign exchange reserves increased slightly to USD 400.0 b in Apr 17

MARKET OUTLOOK

China's Caixin Manufacturing PMI came in at 50.3 in April, decreasing from 51.2 in March 17. Also, the official Manufacturing PMI has shown downturn trend to 51.2 in April 17. CPI increased slightly to 1.2% year-on-year in April 17, higher than expected reading 1.1%, which shows a sign of recent surge in producer inflation beginning to trickle down to the consumer level. Moreover, PPI decreased to 6.4% year-on-year in April following a 7.6% increase in the previous month. Taking into consideration the overall economic data, we believe that the current neutral monetary policy is appropriate to ensure the stability of economic growth.

Nikkei Hong Kong Manufacturing PMI increased to 51.1 in April from 49.9 in March 17, showing the expansion mode. The index was boosted by gains from new orders of Hong Kong's goods and services. The seasonal adjusted unemployment rate remained steady at 3.2% in two months to April 2017. We believe that the employment outlook may well face downside pressure in short terms, considering uncertain external environment alongside with sluggish tourism-related sectors. Foreign exchange reserves increased slightly to USD 400.0 billion in April 17. Even though the data has shown marginal improvement for the time being, we believe that the domestic demand may well be supported by the stable income and favourable employment environment, and thus maintain our rating for the Hong Kong market.

Nikkei Taiwan Manufacturing PMI remains in the expansion zone, decreasing to 54.4 in April from 56.2 in March 17, which results from the soft growth in output and new orders. Industrial production declined rapidly to -0.59% year-on-year in April, in comparison to 3.22% increase in March 17, which was the biggest decrease since June 16. We believe that the decline mainly results from drop in mining, electricity and building construction. Taiwan's CPI decreased slightly to 0.12% year-on-year in April from 0.18% in March 17. In addition, exports increased significantly to 9.4% year-on-year in April 17, which mainly results from sales of information and audio/video products. Imports rose sharply to 23.5% year-on-year in April in comparison to 19.8% year-on-year in March, boosted by purchases of machinery and electronic products. We maintain a positive outlook for Taiwan considering the above economic data, but the external market's uncertainties require further monitoring.

As at 25 May 2017, the CSI 300 Index is currently trading at estimated PE ratios of 13.4X and 12.0X based on estimated earnings in 2017 and 2018 respectively, a discount to its fair value of 15.0X, while the HSML100 Index is trading at 10.5X and 9.5X (based on estimated earnings in 2017 and 2018 respectively) as compared to our fair PE of 13.0X. We continue to favour H-shares relative to the onshore market. We maintain our **5.0 Stars "Very Attractive" rating for the offshore Chinese equity market**. Moreover, the Hong Kong equity market is currently trading at 14.1X, slightly higher than 12.7X and 11.6X based on 2017 and 2018 estimated earnings, but the overall market is still attractive compared to other major stock markets. Therefore, we maintain our **4.0 Stars "Very Attractive" rating for Hong Kong**. Lastly, Taiwan is trading at estimated PE ratios of 14.2X and 13.3X based on 2017 and 2018 earnings estimates respectively, below our fair PE ratio of 15.0X. We maintain a **4.0 Stars "Very Attractive" rating for Taiwan**.