REGIONAL MARKETS UPDATE

NORTH ASIA

Japan: 3.5 Stars－Attractive

- Eco Watcher's Outlook Index fell slightly to 51.0 in Sep, down from 51.1 in Aug
- Aug Machine Orders rose 4.4% y-o-y, up from Jul's 7.5% decrease.
- Consumer Confidence Index increased to 43.9 in Sep, up from 43.3 in Aug
- Oct Manufacturing PMI's preliminary figure dropped to 52.5, down from 52.9 in Sep
- Exports rose 14.1% in Sep, down from 18.1% in Aug
- Imports rose by 12.0% y-o-y in Sep, down from 15.2% in Aug

South Korea: 4.5 Stars－Very Attractive

- KRW appreciated by 1.8% against USD month-to-date (Data as of 30 Oct), as compared to 1.8% depreciation seen in Sep
- Sep Manufacturing PMI rose to 50.6, up from 49.9 in Aug
- Exports rose by 25.0% y-o-y in Sep, compared to 17.4% in Aug
- Imports rose by 21.7% y-o-y in Sep, lower than 14.2% as in Aug

MARKET OUTLOOK

As of 30 October 2017, both the estimated earnings of Japanese equities for FY 2017 (end March 2018) and FY 2018 (end March 2019) have been revised by 1.8% and 3.5% year-to-date (in terms of fiscal year, ranging from 1 April 2017 to 30 October 2017) respectively. Earnings of Japanese equities are expected to increase by 10.7% and 11.3% in FY 2017 and FY 2018 respectively. On the other hand, earnings of the South Korean equity market are expected to increase by 30.8% in 2017 and 13.1% in 2018.

Japanese equities continue to surge in October, supported by strong economic data and favorable developments in the political scene. The latest release on Japanese labour statistics point to faster growth in non-scheduled cash earnings, which matches stronger consumer confidence and retail sales in September. Exports rose 14.1% in September, 0.9 percentage point lower than forecast, but data points to consistently strong demand from China and ASEAN region for machinery products, it is only automobile exports that dragged down exports growth. Markets are confident on the industrial sector's earnings outlook, while maintaining their caution on automobile manufacturers.

As expected, Shinzo Abe managed to win a two-third majority in lower parliament after the snap election, as the current ruling coalition secured 313 seats among the total of 465 seats. With the land-slide victory, it is almost guaranteed that expansionary fiscal and monetary policies are here to stay, and the proposed JPY 2 trillion fiscal stimulus will be introduced in fiscal year 2018. The certainty in continuation of supportive economic policies buoyed investors' confidence in Japanese equities amid the positive earnings environment, potentially helping Japanese equities to expand their valuation to our target level.

As for Korean equities, the market finally seems to have shaken off geopolitical concerns as the KOSPI index rose continuously throughout October, driven by a rebound in cyclical sectors outside of information technology, recovering from the previous sell-off.

SK Hynix has already announced its 3Q 17 result on 26 October, while Samsung Electronics released its 3Q earnings guidance on 13 October. SK Hynix's earnings per share rose 412% year-on-year, 2.2% higher than what market has expected. Samsung Electronics' earnings guidance, on the other hand, pointed to a roughly 180% year-on-year growth in operating profit. The results are positive as expected, indicating a consistently strong semiconductor business. With affirmative iPhone X sales, the recent introduction of new Chinese smartphones, and the consistent upgrade in mobile memory chip's content and persistent server demand, we now expect the sector's accommodative earnings environment to at least persist till 1H 18, albeit with a slower rate because of a high 2017 base. Further earnings growth in the semiconductor sector, combined with a stronger banking sector, shall continue to support the performance of Korean equities.

As at 30 October 2017, the estimated PE ratios of Nikkei 225 Index are at 18.9X for FY 2017 and 16.9X for FY 2018; the estimated PE ratios for the KOSPI index was at 10.7X for 2017 and 9.5X for 2018. Valuations remain rather attractive compared with other markets. Thus, we maintain our star ratings of the Japanese and the South Korean markets at an "Attractive" rating of 3.5 stars and a "Very Attractive" rating of 4.5 stars respectively.

**Japan's fiscal year ended in March (e.g. FY 2017 ends in March 2018)