# REGIONAL MARKETS UPDATE

## NORTH ASIA

**Japan: 3.5 Stars－Attractive**

- Eco Watcher's Outlook Index came in at 48.5 in Dec 18, down from 52.2 in Nov 18
- Core Machine Orders rose 0.8% y-o-y in Nov 18, down from 4.5% y-o-y growth in Oct 18
- Export dropped -3.8% y-o-y in Dec 18, down from 0.1% y-o-y growth in Nov 18
- Import rose 1.9% y-o-y in Dec 18, down from 12.5% y-o-y growth in Nov 18
- Consumer confidence came in at 42.7 in Dec 18, down from 42.9 in Nov 18
- Yen (JPY) appreciated against USD by 0.07% month-to-date (as of 25 Jan 19), as compared to a 3.53% appreciation in Dec 18

**South Korea: 4.5 Stars－Very Attractive**

- Manufacturing PMI came in at 49.8 in Dec 18, up from 48.6 in Nov 18
- Unemployment rate SA came in at 3.8% in Dec 18, same from 3.8% in Nov 18
- CPI came in at 1.3% y-o-y in Dec 18, down from 2.0% y-o-y in Nov 18
- Exports dropped 1.2% y-o-y in Dec 18, down from 4.5% y-o-y growth in Nov 18
- Imports rose 0.9% y-o-y in Dec 18, down from 11.4% y-o-y growth in Nov 18
- Won (KRW) depreciated against USD by 0.40% month-to-date (as of 25 Jan 19), as compared to a 0.56% appreciation in Dec 18

# MARKET OUTLOOK

Japan's seasonal adjusted unemployment rate in November rose slightly by 0.1 percentage points to 2.5% as compared with the previous month, sitting near the lowest level in three decades, while job-to-applicant ratio in November was almost unchanged as compared with the previous month's figure. Labour cash earnings in the same month also rose by 0.5 percentage points to 2% as compared with the previous month. Usually, when unemployment remains low, pushes up wages and inflation tends to accelerate, however, inflation is still likely to moderate. Looking forward, with the high possibility of the sales tax hike becoming effective in this coming October, as well as Japan's plan on drawing in more foreign workers to tackle the ageing working population and labour shortages, we believe consumer spending will soften and Japan will remain at the current slow growth for a while.

Japan's exports dropped -3.8% year-on-year in December, far worse than both the market consensus of -1.8% decline and the previous value of 0.1% growth. During the period, exports to China dropped by -7% whereas exports to the US rose by 1.6%. The increase in imports outpaced the rise in exports, leaving a trade deficit for the first time in three years. On the other hand Japan's core machinery orders rose by 0.8% year-on-year in November, the increase was less than the previous value of 4.5% but still exceeded the market expectation of 0.2%. As machinery orders are often treated as an indicator for corporate capital spending, rise in machinery orders as is the case this month can boost the economy as it means Japanese companies are producing more machinery to meet the growing demand. The December export data in general highlighted the rising external risks for Japan's export led economy. Overall speaking, the aforementioned data did show a mix results. Looking forward, we think the pressure on Japan's exports will continue and Japan's core machinery orders will also face certain challenges due to the slowdown in the global economic growth as well as the increased pressure on consumer spending.

Korea's exports dropped by -1.2% year-on-year in December, which was both less than market consensus of 2.5% growth and previous month of 4.5% growth. The decrease in December exports was mostly due to weakening global trade growth and falling oil prices. Although manufacturing PMI came in at 49.8 in December and showed a slight rebound from 48.6 in November, it remained below the crucial 50.0 mark for two consecutive months. Significant global trade tensions, economic slowdown in China and elevated domestic household debt still threaten the economic outlook in South Korea. Looking forward, the Korean parliament had put forward a record-breaking budget proposal for 2019, the approval of the budget would likely bolster public's confidence in the country's economy through a higher government spending.

For South Korean equities, one of the two major semiconductor players, SK Hynix, just released their fourth quarter earnings. SK Hynix's 4Q18 earnings increased by 2% year-on-year. Although there was still a positive earnings growth in the fourth quarter, analysts are expecting that its 1Q19 and 2Q19 earnings will drop by -42% and -61% year-on-year respectively, similar to the situation Samsung Electronics is facing (-31% and -28% in 1Q19 and 2Q19). We have seen that the earnings estimates of Samsung Electronics have been revised downward after the officials announced a disappointing preliminary result in 4Q18. However, we believe there will be a rebound in semiconductor industry in the 2H19 based on the fact that the oversupplied DRAM market will likely ease due to improving demand. We are still bullish in this market in the long run.

As at 25 January 2019, the estimated PE ratios of Nikkei 225 Index were at 13.58X for FY 2019 and 13.04X for FY 2020, the estimated PE ratios for the KOSPI Index were at 8.84X for 2020 and 8.01X for 2021. Valuations remain rather attractive compared with other markets. Thus, we maintain our star ratings of the Japanese and the South Korean market at an **"Attractive" rating of 3.5 stars** and at a **"Very Attractive" rating of 4.5 stars** respectively.

**Japan's fiscal year ended in March (e.g. FY 2018 ends in March 2019)