

REGIONAL MARKETS UPDATE

NORTH ASIA

Japan: 3.5 Stars — Attractive

- Eco Watcher's Outlook Index fell back to 48.1 in Mar 17, down from 50.6 in Feb 17
- Machine Orders increased by 5.6% y-o-y in Feb 17, up from the 3.2% contraction in Jan 17
- Consumer Confidence Index rose slightly to 43.9 in Mar 17, up from 43.1 in Feb 17
- Manufacturing PMI's preliminary figure rose to 52.8 in Apr 17, up from 52.4 in Mar 17
- Exports again rose sharply by 12.0% in Mar 17, up from 11.3% in Feb 17
- Imports rose by 15.8% y-o-y in Mar 17, up from the 1.2% increase in Feb 17

South Korea: 4.5 Stars — Very Attractive

- KRW depreciated by 1.35% against USD month-to-date (as of 26 Apr 17), as compared to the 1.68% appreciation seen in Mar 17
- Manufacturing PMI fell to 48.4 in Mar 17, lower than 49.2 in Feb 17
- Exports rose by 13.7% y-o-y in Mar 17, compared to 20.2% in Feb 17
- Imports rose by 26.9% y-o-y in Mar 17, slightly higher than 23.3% as in Feb 17

MARKET OUTLOOK

As at 26 April 2017, both the estimated earnings of Japanese equities for FY 2018 (ended March 2018) and FY 2019 (ended March 2019) have been revised by 0.21% and -0.04% year-to-date (in terms of fiscal year, ranging from 1 April 2017 to 26 April 2017) respectively. The earnings of Japanese equities are expected to increase by 13.6% in FY 2018 and 9.4% in FY 2019. On the other hand, the earnings of the South Korean equity market are expected to increase by 26.7% in 2017 and 6.8% in 2018.

Excluding currency fluctuations, the economic environment remains favourable for the Japanese market. Global economic recovery, combined with rising demand from China amid its economic stabilisation, continue to provide support to Japanese exports, which in turn boosts its manufacturing data and producer sentiment. At this juncture, we see no signs indicating that the current recovery will come to an end soon.

As for the currency side, although the Yen faces the risk of appreciation given the market's disappointment regarding the Trump administration, room for further appreciation is limited under the widening yield spread, especially so should the belief that the Federal Reserve would follow through its rate hike schedule become increasingly entrenched. As such, we believe there are limited downside risks stemming from the currency front for Japanese equities.

For South Korea, as expected, the semiconductor industry remains strong in April. The semiconductor's good showing was largely due to the nation's fast growing exports to China, as Chinese mobile phone manufacturers rapidly expanded in both the domestic and other Asian markets.

Samsung announced its new flagship phone model, the Galaxy S8, at the end of March and a pre-sale for the product in the Korea to start in early April. Much to our surprise, the new model encompasses a new design with almost full monitor coverage, boosting consumer demand and creating a new record for pre-order volume. The success with the new phone model has convinced analysts to further upgrade their earnings forecast for the company and even the region.

As at 26 April 2017, the estimated PE ratios of Nikkei 225 Index are at 16.9X for FY 2018 and 15.4X for FY 2019; the estimated PE ratios for the KOSPI index was at 9.8X for 2017 and 9.2X for 2018. Valuations remain rather attractive compared to many markets under our coverage. Thus, **we maintain our star ratings of the Japanese and the South Korean markets 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 2017 ends in March 2017)