

REGIONAL MARKETS UPDATE

GREATER CHINA

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

- China 1Q 2017 GDP growth reached 6.9% y-o-y, faster than market's expectation
- Caixin China Manufacturing PMI came in at 51.2 in Mar. 17 decreasing from 51.7 in Feb. 17
- Official Manufacturing PMI was 51.8 in Mar. 17, increasing from 51.6 in Feb. 17
- CPI increased slightly to 0.9% y-o-y in Mar. 17 from 0.8% y-o-y in Feb. 17
- PPI decreased to 7.6% y-o-y in Mar. 17 from 7.8% in Feb. 17
- Exports increased sharply by 16.4% y-o-y in Mar. 17 from -1.3% y-o-y in Feb 17
- Imports increased a smaller 20.3% y-o-y in Mar. 17 as compared to the 38.1% increase in Feb 17

Taiwan: 4.0 Stars — Very Attractive

- Nikkei Taiwan Manufacturing PMI jumped to 56.2 in Mar. 17 from 54.5 in Feb. 17
- Taiwan's CPI came in at 0.18% y-o-y in Mar. 17, following an upward-revised -0.07% in Feb. 17
- Exports rose a smaller 13.2% y-o-y in Mar. 17 compared to 27.7% y-o-y in Feb. 17
- Imports rose a smaller 19.8% y-o-y in Mar. 17 compared to 42.1% y-o-y in Feb. 17
- Industrial production grew a smaller 3.22% y-o-y in Mar. 17, compared to a 10.71% increase in Feb. 17

Hong Kong: 4.0 Stars—Very Attractive

- Nikkei Hong Kong Manufacturing PMI increased slightly to 49.9 in Mar. 17 from 49.6 in Feb. 17
- The seasonally adjusted unemployment rate declined to 3.2% in Mar. 17, from 3.3% in the previous period
- Foreign exchange reserves increased to USD 395.6 billion in Mar. 17 from USD 390.5 billion in Feb. 17

MARKET OUTLOOK

China's 1Q 2017 GDP growth reached 6.9% year-on-year, faster than expected. The first quarter's growth mainly resulted from higher government infrastructure spending and a booming wholesale market. China's Caixin Manufacturing PMI came in at 51.2 in March 2017 decreasing from 51.7 in February 2017. However, the official Manufacturing PMI was 51.8 in March 2017, increasing from 51.6 in the previous month. The main reason for the discrepancy is that the Caixin PMI focuses on smaller and medium-sized firms, while the official figures tend to focus on larger companies. CPI increased slightly to 0.9% year-on-year in March from 0.8% year-on-year in February 2017. The stats bureau attributed the lower band consumer inflation to the warm weather and adequate food supply. Moreover, PPI decreased to 7.6% year-on-year from 7.8% in the previous month. We believe that a neutral monetary policy may well continue into the future, in the government's attempt to maintain the stability of China's economic growth.

The Nikkei Hong Kong Manufacturing PMI increased slightly to 49.9 in March 2017 from 49.6 in February 2017, signalling continued contraction. The lower domestic demand alongside the weaker competitiveness of exports have led to the decline in new orders of Hong Kong goods and services. The seasonally-adjusted unemployment rate declined to 3.2% in March 2017, from 3.3% in the previous month. We believe that the local economy may well continue to face downside pressure in the short term, aggravated by a subdued external market support. Foreign exchange reserves increased to USD 395.6 billion in March 2017 from USD 390.5 billion in February 2017. Even though the external market's uncertainty may well persist in the short term, we maintain our rating for the Hong Kong market in view of the recovering global economy.

Taiwan's CPI rose 0.18% year-on-year in March 2017, following an upward-revised -0.07% in February 2017, thanks to the rise in clothing and housing prices. Industrial production rose 3.22% year-on-year in March 2017, compared to an upward-revised 10.71% in February 2017, indicating a slower pace for manufacturing. The Nikkei Taiwan Manufacturing PMI jumped to 56.2 in March 2017 from 54.5 in February 2017, remaining in the expansion mode since the beginning of the year 2017. Exports decreased to 13.2% year-on-year in March 2017 from 27.7% year-on-year in February 2017, the main reason of which is the slowing sale of information and video products. Imports grew a smaller 19.8% year-on-year in March 2017 compared to the 42.1% year-on-year increase in February 2017. Taking the above observations into consideration, we maintain a positive outlook for Taiwan, but continue to be cognizant of the risks brought about by external uncertainties.

As at 25 April 2017, the CSI 300 Index trades at estimated PE ratios of 13.3X and 11.7X based on the 2017 and 2018 estimated earnings respectively, a discount to its fair value of 15.0X; while the HSML100 Index trades at 10.2X and 9.1X based on estimated earnings in 2017 and 2018 respectively as compared to its 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**. Taiwan is trading at estimated PE ratios of 13.8X and 12.9X based on 2017 and 2018 earnings estimates respectively, below its fair PE ratio of 15.0X. We maintain a **4.0 Stars "Very Attractive" rating for Taiwan**. Lastly, the Hong Kong equity market is currently trading at 13.5X, higher than 12.2X and 11.1X based on 2017 and 2018 estimated earnings. Therefore, we maintain our **4.0 Stars "Very Attractive" rating for Hong Kong**.

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