

REGIONAL MARKETS UPDATE

NORTH ASIA

Japan: 3.5 Stars — Attractive

- Eco Watcher's Outlook Index increased to 50.5 in Jun, up from 48.6 in May
- May Machine Orders rose 0.6% y-o-y, down from Apr's 2.7%
- Consumer Confidence Index dropped slightly to 43.3 in Jun, down from 43.6 in May
- Jul Manufacturing PMI's preliminary figure fell to 52.2, down from 52.4 in June
- Exports rose 9.7% in Jun, down from 14.9% in May
- Imports rose by 15.5% y-o-y in Jun, down from 17.8% in May

South Korea: 4.5 Stars — Very Attractive

- KRW appreciated by 2.3% against USD month-to-date (data as of 25 Jul), as compared to 2.3% depreciation seen in Jun
- Jun's Manufacturing PMI rose to 50.1, up from 49.2 in May
- Exports rose by 13.7% y-o-y in Jun, compared to 13.4% in May
- Imports rose by 18.0% y-o-y in Jun, lower than 18.2% as in May

MARKET OUTLOOK

As at 25 July 2017, both the estimated earnings of Japanese equities for FY 2017 (ended March 2018) and FY 2018 (ended March 2019) have been revised by 1.8% and 0.3% year-to-date (in terms of fiscal year, ranging from 1 April 2017 to 25 July 2017) respectively. Earnings of Japanese equities are expected to increase by 10.6% in FY 2017 and 7.8% in FY 2018. On the other hand, earnings of the South Korean equity market are expected to increase by 32.1% in 2017 and 8.0% in 2018.

The latest poll in July shows Abe's average approval rate is in mid-30%, with Japan Macro advisors report figures of 34.2% after grouping up poll result of 7 Medias (Including Nikkei, whose poll came up with 39% approval rate). Considering the approval rate were at 57% in year start, it is true to say that support for prime minister Abe has dropped a lot in recent months. That being said, we do not see strong political risk as of yet regarding the possibility that Abe may losses his political status and fail to push on with supportive economic policies.

At least for now, Abe still isn't facing strong competition from both the opposition party and from potential rivals within his own party. Besides, Abe can possibly drag back some approval rate by deferring the unpopular revision on pacifist constitution and focus more on economic measures, while the cabinet reshuffle which likely happens in August 3 could also help. The Japanese equity market, as represented by TOPIX index, has slowly trended upward despite the recent political developments. The strong economic momentum and positive outlook on the upcoming earnings season both seems to have strengthen investors' confidence.

As for South Korea, 2Q earnings for semiconductor business are looking optimistic. Earnings guidance issued by Samsung electronics points to a 72% increase for the company's operating profit to KRW 14 trillion. SK Hynix on the other hand, announced a 763% increase in earnings for 2Q 17, with actual earnings 8.17% higher than market consensus. Stock price for these two firms however, suffer from a pull back as investor start to lock in profit after confirming the robust result.

Unlike the semiconductor sector which suffers from what seems like a temporary correction, financial stocks continued to trend higher with stronger earnings expectation, estimated earnings and prices of the Kospi 200 index went up simultaneously within the month. Thanks to strong earnings growth, estimated valuations remain slightly lower than the average positive adjusted PE ratio, with 10.3X against 10.7X. The estimated PE ratio for 2017 is also sitting around the lower portion of its own historic series, we believe there remains room for Korean equities to go higher.

As at 25 July 2017, the estimated PE ratios of Japan's Nikkei 225 Index are at 17.1X for FY 2017 and 15.9X for FY 2018; the estimated PE ratios for South Korea's KOSPI index was at 10.4X for 2017 and 9.6X for 2018. 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 2017 ends in March 2018)

**RECOMMENDED FUND:
ABERDEEN JAPAN EQUITY
LIONGLOBAL JAPAN GROWTH FUND
LIONGLOBAL KOREA FUND**