REGIONAL MARKETS UPDATE

NORTH ASIA

Japan: 3.5 Stars—Attractive

- Eco Watcher's Outlook Index fell slightly to 52.7 in Dec, down from 53.8 in Nov
- Nov Machine Orders rose 4.1% y-o-y, up from Oct's 2.3% decline.
- Consumer Confidence Index fell slightly to 44.7 in Dec, down from 44.9 in Nov
- Jan Manufacturing PMI's preliminary figure increased to 54.4, up from 54.0 in Dec
- Exports rose 9.3% y-o-y in Dec, lower than 16.2% in Nov
- Imports rose by 14.9% y-o-y in Dec, down from 17.2% in Nov

South Korea: 4.5 Stars—Very Attractive

- KRW depreciated by 0.4% against USD month-to-date (Data as of 30 Jan 18), as compared to the 2.0% appreciation over the course of Dec
- Dec Manufacturing PMI fell to 49.9, down from 51.2 in Nov
- Exports rose by 8.9% y-o-y in Dec, lower than 9.6% in Nov
- Imports rose by 13.0% y-o-y in Dec, higher than 12.3% as in Nov

MARKET OUTLOOK

As at 30 December 2017, both the estimated earnings of Japanese equities for FY 2017 (ended March 2018) and FY 2018 (ended March 2019) have been revised by 6.7% and 9.3% year-to-date (in terms of fiscal year, which means over the period of 1 April 2017 to 30 December 2017) respectively. Earnings of Japanese equities are expected to increase by 16.0% and 12.2% in FY 2017 and FY 2018 respectively. On the other hand, earnings of the South Korean equity market are expected to increase by 14.3% in 2018 and 6.6% in 2019.

For Japan, January's preliminary manufacturing PMI rose again to 54.4, underlying indicators show further improvement in new export orders and producers' optimism, accompanied by faster depletion on inventories. December's exports grew by 9.3% year-on-year, lower than November's 16.2%, with the drag largely coming from 2016's high base, export to China. Nonetheless, exports to ASEAN and US rose in December compared to that in November. Economic data thus remains supportive of companies' earnings.

The latest market headlines revolved around the Bank of Japan's reduction on their JGB purchase, which triggered the fear in the market. We are convinced that the minor cut in JGB is merely a technical move in-line with its yield curve control policy, and that with the spring wage negotiation closing in and its impact on inflation remaining unknown, there is no rush for the central bank to tighten its policy. We believe the BoJ will stay put for the first half of the year, with a possibility of giving out hints of gradual tightening within the second half, assuming that the wage growth and inflation data both turn out satisfactory.

As for Korea, just as we had expected, financial stocks drove the KOSPI upward despite the struggle seen in semiconductor manufactures' stocks. The profitability outlook for banks had strengthened further over the month as market yield rose and yield curve steepened. Amid the aforementioned catalysts and hope for further asset quality improvement, we remain bullish on Korean financials.

Semiconductor manufacturers lag behind the broader market for most of January, with Samsung electronics reported lower-than-expected 4Q 2017 earnings. We have stressed before that such disappointment originates from Won appreciation and one-off incentive paid to semiconductor partners and employees, instead of a weakening semiconductor business. This point was highlighted by the firm when it released its earnings report, alongside a confirmation that the company remains positive on its memory chips' demand in first quarter, as demand from datacenter would likely offset mobile phone's weak seasonality. Samsung Electronics' share price rocketed right after having released its earnings report. Overall we see our view being affirmed by the company's statement, that with support from datacenter and release of new flagship smartphone, earnings for the coming quarter likely will retain a high year-on-year growth rate, potentially driving up its share price further.

As at 30 January 2018, the estimated PE ratios of Nikkei 225 Index stood at 19.0X for FY 2017 and 17.0X for FY 2018 while the estimated PE ratios for the KOSPI index stood at 9.5X for 2018 and 8.9X for 2019. 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