

Pegasusfund Investment Management

Latest Market Analysis and Investment Strategy - November, 2016 Report

October Headline

China's securities regulator said that it has removed asset allocation restrictions on qualified foreign investors to allow them greater freedom to invest.

China's currency, the RMB, is breaking the financial world's ultimate glass ceiling and embarking on a new journey towards global reserve status when it formally joins the elite currency club of the International Monetary Fund.

The central bank said Thursday that it had pumped 301 billion yuan (about \$44.7 billion) into the financial system in open market operations via MLF. The inclusion of the Renminbi thus recognizes a significant increase in the internationalization of the Chinese RMB in recent years, underpinned by policy reforms to achieve China's transition to an increasingly open and market-based economy. Experts see no long-term depreciation of the yuan, following the central bank's fixing of the currency's central parity rate at the weakest level in six years on the first trading day after a weeklong holiday.

China's central bank said that it intended to continue its prudent monetary policy and maintain a proper level of liquidity. Global venture capital (VC) investment declined in the third quarter of this year, but Chinese VC investors continued to actively look for overseas acquisitions, according to a recent report.

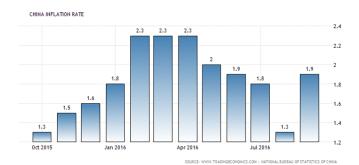
China cemented its status as a world leader in financial technology services this year, claiming five of the top 10 spots in the annual list of the globe's leading fintech companies, compiled by UK-based advisory firm KPMG and Australian investment company H2 Ventures.

China had the leading share of global green bonds issued in the third quarter of the year, according to international rating firm Moody's latest report.

Economic Indicator Analysis

Inflation Rate

Consumer prices in China rose 1.9 percent year-on-year in September of 2016, compared to a 1.3 percent rise in August while market expected a 1.6 percent increase. It was the highest inflation rate since June as the politically sensitive food prices increased by 3.2 percent while non-food cost rose at a slower 1.6 percent. Cost of consumer goods gained 1.7 percent and those of services advanced 2.4 percent. On a monthly basis, consumer prices rose 0.7 percent, after gaining 0.1 percent in a month earlier and above market consensus of a 0.3 percent growth. It was the highest figure since February. Inflation Rate in China averaged 5.44 percent from 1986 until 2016, reaching an all time



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high of 28.40 percent in February of 1989 and a record low of -2.20 percent in April of 1999. Inflation Rate in China is reported by the National Bureau of Statistics of China.

Trade Surplus

China reported a USD 41.99 billion trade surplus in September of 2016, compared to a USD 59.60 billion surplus a year earlier and missing market estimates of a USD 53.0 billion surplus. It was the smallest trade surplus since March as exports fell much more than imports. Exports declined 10 percent from a year earlier to USD 184.51 billion, following a 2.8 percent drop in the preceding month and market estimates of a 3 percent fall. Imports unexpectedly decreased by 1.9 percent to USD 142.52 billion, compared to a 1.5 percent rise in August while market consensus of a 1 percent growth. In yuan-denominated terms, sales fell 5.6 percent from a year ago, the first contraction since February, and inbound shipments went up 2.2 percent. Balance of Trade in China averaged 87.08 USD HML from 1983 until 2016, reaching an all-time high of 627.45 USD HML in January of 2016 and a record low of -319.71 USD HML in February of 2012. Balance of Trade in China is reported by the General Administration of Customs.



China Money Supply M2

Money supply M2 in China increased by 11.5 percent from a year earlier to 151.6 trillion yuan in September 2016, following a 11.4 percent rise in August while below market expectations of a 11.6 percent growth. A year earlier, money supply M2 was recorded at 135.98 trillion yuan. Money Supply M2 in China averaged 49434.67 CNY Billion from 1996 until 2016, reaching an all-time high of 151640 CNY Billion in September of 2016 and a record low of 5840.10 CNY Billion in January of 1996. Money Supply M2 in China is reported by the People's Bank of China.

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November Stock Market Outlook

HK Stock Market

Strong U.S. dollar and Renminbi depreciation pulled down HK equities price in October. Hang Seng Index and HSCEI shrank 1.6% and 0.2% respectively while the average daily market turnover decreased by 18% to approximately \$60 billion. Net purchase in Hong Kong stocks by Mainland investors via Shanghai-HK Stock Connect reduced sharply from \$59.0 billion in September to \$4.1 billion in October.

The outlook for Hong Kong's economy is unclear over the next few months due to U.S. rate hike, U.S. President Election, Renminbi depreciation and political instability. China Politico meeting suggested to curb asset bubble. In addition, China has strengthened capital outflow control, including mainland institutions need to get approval to transfer money from China for being strategic investor of HK IPO. Together with Mainland investors starting to scale down the purchase of Hong Kong equities in October, the HK market sentiment will be impacted and the upside potential for Hang Seng Index will be limited even though Shenzhen-HK Stock Connect is likely to be launched this month as it is already reflected in the stock price.

HSI is moving downward and the index is currently located around the bottom of Bollinger Band (22,687 points). The first support of HSI is Fibonacci 0.5x retracement 22,542 points, and the next support is 22,000 points. The first resistance is 23,000 points, and the next resistance will be the middle of the Band 23,304 points.

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