Latest Market Analysis and Investment Strategy -December, 2016 Report

December Headline

The securities regulators of the Chinese mainland and Hong Kong on Friday announced that the much-anticipated Shenzhen-Hong Kong Stock Connect program will officially launch on December 5, a step to further liberalize the mainland's capital market.

The stock trading link, similar to the existing program between Shanghai and Hong Kong, will allow overseas investors to trade stocks on the Shenzhen Stock Exchange. Mainland investors will also have greater access to the Hong Kong stock market.

The launch of the trading link, a timely move by the regulators, underscored policymakers' desire to continue to open up the Chinese capital market against the backdrop of a weakening currency and rising uncertainties in the global economy, analysts said.

A report by Sw2008.com incorrectly claimed that some banks had been required by the central bank to suspend home mortgage loans, according to the People's Bank of China.

First-time home buyers in Shanghai must pay a minimum 35 percent deposit on purchases, the down payment on second homes will be increased to 50 percent, and buyers of commercial properties must now pay a minimum 70 percent deposit.

Meanwhile banks have been ordered to raise interest rates by 10 percent for second-time borrowers from the government's Housing Provident Fund

The equity market in China fluctuated over uncertainties brought about by the US presidential election, with benchmark indexes dipping, a situation that analysts said may last for the next few days before investors refocus on economic fundamentals.

Construction, resources, banks and brokerages were among the sectors with the most losses, while gold producers and processors saw prices surging as investors sought risk-hedging tools and demand for gold also increased.

Analysts said that both mainland and Hong Kong shares were affected by the global market's volatility in response to the uncertainties, the possibilities of policy changes and changes to trade activities, and many other factors that are likely to emerge in the wake of the presidential election.

Economic Indicator Analysis

Inflation Rate

Consumer prices in China rose 2.1 percent year-on-year in October of 2016, compared to a 1.9 percent rise in September and in line with market expectations. It was the highest inflation rate since April, as the politically sensitive food prices increased by 3.7 percent while non-food cost rose at a slower 1.7 percent. Cost of consumer goods gained 1.9 percent and those of services advanced 2.5 percent. On a monthly basis, consumer prices fell 0.1 percent, after gaining 0.7 percent in a month earlier while market estimated a flat reading. It was the first decline since June. Inflation Rate in China averaged 5.43 percent from 1986 until 2016, reaching an all time high of 28.40 percent in February of 1989 and a record low of -2.20 percent in April of 1999.

Trade Surplus

China reported a USD 49.06 billion trade surplus in October of 2016, compared to a USD 61.26 billion surplus a year earlier. The figure came below market consensus of a USD 51.7 billion surplus, as exports fell much more than imports. In October, sales declined 7.3 percent from a year earlier, following a 10.0 percent drop in September and reaching the lowest in six months. Imports decreased by 1.4 percent to the lowest in eight months, compared to a 1.9 percent fall in September and expectations of a 1.0 percent decline. In yuan-denominated terms, exports fell 3.2 percent from a year ago, the second straight month of contraction, and inbound shipments went up 3.2 percent. In September 2016, trade surplus came in at USD 41.99 billion. Balance of Trade in China averaged 88.09 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.

China Money Supply M2

Money supply M2 in China increased by 11.6 percent from a year earlier to 151.95 trillion yuan in October 2016, following an 11.5 percent rise in September and above market expectations of a 11.4 percent gain. A year earlier, money supply M2 was recorded at 136.1 trillion yuan. Money Supply M2 in China averaged 49844.74 CNY Billion from 1996 until 2016, reaching an all time high of 151950.00 CNY Billion in October of 2016 and a record low of 5840.10 CNY Billion in January of 1996.

December Stock Market Outlook

HK Stock Market

In November, US stock markets hit record highs as speculation the US President-elect Trump's fiscal policies would bolster economic growth. However, despite recent rebound from the support of US market, Hang Seng Index failed to overcome resistance at 23,000. Higher oil price due to major oil production countries agreed to cut production triggered inflation concern. And US 10-year and 30-year treasury yields have increased by 52 and 45 basis points respectively which is the evidence of increasing inflationary expectations. This together with US rate hike and weakening in renminbi will continue be fundamentally negative to Hong Kong market.

After months of anticipation, the opening day of Shenzhen's exchange link with Hong Kong has finally arrived. The program will give more than 100 smaller Hong Kong equities to the potential buy lists of mainland traders. But despite the opening of Shenzhen connect, Hang Seng Index fell 0.3% to 22505, extending losses after dropping for the last two months.

In December, when more Portfolio Managers and traders take their annual leave, no clear trends may emerge even if the US Federal Reserve hikes its benchmark Federal Funds Rate on December 14. Hang Seng Index is expected to move sideways between 22,000 and 23,000 in December.