

# **Pegasusfund Investment Management**

Monthly Report – December 2016

Latest Market Analysis and Investment Strategy - December, 2016 Report

## November Headline

China's exports in yuan-denominated terms ended previous drops to rise 5.9 percent year on year in November, while imports continued to pick up steam by increasing 13 percent, customs data showed on Thursday. Foreign trade volume reached 2.35 trillion yuan (about 342 billion U.S. dollars) in November.

China's consumer price index (CPI), a main gauge of inflation, grew 2.3 percent year on year in November, up from October's 2.1 percent, the National Bureau of Statistics (NBS) announced on 9th.

China's retail sales of consumer goods grew 10.8 percent year on year in November, accelerating from the 10-percent rise posted for October, data showed on 13th.

China will put more emphasis on preventing and controlling financial risk in 2017, said a statement issued on 19th after the Central Economic Work Conference. The government will step up efforts to prevent and control asset bubbles and improve regulation to ensure there will be no systemic financial risk.

Two major cities in central China, Zhengzhou and Wuhan, have further tightened housing purchase restrictions in the latest bid to rein in rising house prices. Over the past several months, more than a dozen cities in China have rolled out measures to cool a red-hot property market. At the Central Economic Work Conference, Chinese policymakers highlighted the curbing of asset bubbles in next year's economic work.

China rolled out rules on 22th to evaluate the green efforts of local governments. Local governments will be evaluated on environment protection, resource utilization and public satisfaction with their work, by the National Bureau of Statistics, the National Development and Reform Commission and the Ministry of Environmental Protection. Meanwhile, central authorities will conduct a final review of local government performance on green growth and ecological development in the year after the current five-year plan period.

China aims to increase its forest coverage to 23.04 percent by 2020 from the current 21.66 percent, agricultural minister Han Changfu said on 23th.An increase of 1.38 percentage points in the forest coverage rate would mean a rise of over 1.3 billion cubic meters in the volume of growing stock.

# **Economic Indicator Analysis**

#### Inflation Rate

Consumer prices in China increased 2.3 percent year-on-year in November of 2016, compared to a 2.1 percent rise in October while market expected a 2.2 percent gain. It was the highest inflation rate since April, as the politically sensitive food prices increased by 4.0 percent while non-food cost rose at a slower 1.8 percent. Cost of consumer goods gained 2.1 percent and those of services advanced 2.4 percent. For 2016, the government sets inflation target at around 3 percent. On a monthly basis, consumer prices rose 0.1 percent, after declining 0.1 percent a month earlier, in line with consensus. Inflation Rate in China averaged 5.42 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.

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SOURCE: WWW.TRADINGECONOMICS.COM | NATIONAL BUREAU OF STATISTICS OF CHINA

## Trade Surplus

China's trade surplus fell to USD 44.61 billion in November 2016 from USD 53.97 billion a year earlier and below market consensus of USD 46.3 billion, as exports rose much less than imports. In November, exports unexpectedly edged up 0.1 percent from a year earlier to USD 196.81 billion, following a 7.3 percent drop in the preceding month and beating markets estimates of a 5 percent fall. It was the first gain since March this year. Imports went up 6.7 percent to USD 152.20 billion, the fastest pace since September 2014, compared to a 1.4 percent fall in October while market expected a 1.3 percent decline. In yuan-denominated terms, exports rose 5.9 percent from a year ago, the first increase in three months, following a 3.2 percent drop in a month earlier. Inbound shipments jumped 13.0 percent, following a 3.2 percent rise in October. In October 2016, trade surplus came in at USD 49.06 billion. Balance of Trade in China averaged 88.98 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.



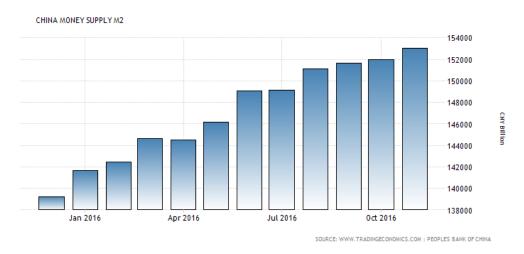
### China Money Supply M2

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Money supply M2 in China increased by 11.4 percent from a year earlier to 153 trillion yuan in November 2016, following an 11.6 percent rise in October and below market expectations of a 11.5 percent gain. A year earlier, money supply M2 was recorded at 137.4 trillion yuan. Money Supply M2 in China averaged 50255.87 CNY Billion from 1996 until 2016, reaching an all time high of 153040 CNY Billion in November of 2016 and a record low of 5840.10 CNY Billion in January of 1996.



# January Stock Market Outlook

#### **HK Stock Market**

On the final trading day of 2016, Hong Kong equities jumped and surpassed 22,000-level and the stock market rally continued into the first trading day of 2017 benefitting from the robust mainland economic data and new year's spirit.

Although Hong Kong stock market performed well at the beginning of the year, but total market turnover still remained low, indicating market momentum is not strong. There are more uncertainties ahead in the new year than in 2016. Uncertainties are likely to unfold as Trump takes the presidency on January 20th. In view of the lack of fresh incentives, Hong Kong stock market is expected to range trading in the near term. The Hang Seng Index is expected to trade above 50 days moving average (22,461ponts) and below the ceiling of Bollinger band (22,880 points).

Looking ahead, investors will eye on Trump speech on January 11th as his first press conference after election to see if he will reveal more details on future policies. Also, corporate will start to announce its fourth quarter result soon, which will also impact market's sentiment.

As for the technical side, the MACD maintains a bullish gap as the MACD lines are rising. But since the index fails to surpass the ceiling of Bollinger Band (22,881 points) in recent months, it's suggested to be the first resistance. The second resistance is 23,160 points. In addition, the first support is 22,149 points, and the next support maintains at 21,700 points.

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