

Latest Market Analysis and Investment Strategy - August, 2015 Report

### August Headline

**Journalist, securities regulatory official held for stock market violation.** Chinese authorities have held several people, including a journalist, an official of China's securities watchdog and four senior executives of China's major securities dealer for stock market violations. Xu Gang, Liu Wei, Fang Qingli and Chen Rongjie, senior executives of the Citic Securities, China's leading securities dealer, have been put under "criminal compulsory measures" for suspected insider trading. They have also confessed to their violations.

**Margin requirements for stock-index futures hiked.** The country's top securities regulator is stepping up its efforts at cracking down on illegal activities involved in the recent stock market turmoil, particularly on stock-index futures trading. The China Financial Futures Exchange also announced on Friday that to clamp down on suspected market manipulation it had raised the nation's margin requirements on stock-index futures for the second time this week to 30 percent of the contract value on the CSI 500, SSE 50, and Shanghai-Shenzhen 300 indexes.

**Pension funds 'not obliged' to prop up stock market.** China's pension funds do not have the obligation to prop up or rescue the country's turbulent stock market, a top official said on Friday amid popular expectations for the funds to do so. Up to 600 billion yuan (\$97 billion) could be channeled into China's equity market after the State Council gave final approval on Sunday to allow pension funds access to the stock market. These funds will be able to invest up to 30 percent of their net assets in the country's stocks, stock index futures and government bond futures.

### Economic Indicator Analysis

#### Inflation Rate

In China, the most important components of the CPI basket are Food (31.8 percent of total weight) and Residence (17.2 percent). Recreation, Education and Culture Articles account for 13.8 percent; Transportation and Communication for 10 percent, Healthcare and Personal Articles for 9.6 percent, Clothing for 8.5 percent; Households Facilities, Articles and Services for 5.6 percent; Tobacco, Liquor and Articles for the remaining 3.5 percent. The CPI basket is reviewed every five years on the basis of household surveys. Revisions reflect new spending patterns and economic development, according to the National Bureau of Statistics.



## Trade Surplus

China trade surplus decreased to USD 43.03 billion in July of 2015 from USD 47.30 billion reported a year earlier and below market consensus, as both exports and imports fell. In July, exports slumped 8.3 percent year-on-year to USD 195.10 billion, compared to a 2.8 percent increase in the previous month. Imports fell by 8.1 percent year-on-year to USD 152.08 billion as a result of declining commodity prices and following a 6.1 percent drop in June. In the previous month, the country registered a USD 46.54 billion trade surplus.



## China Money Supply M2

Money Supply M2 in China increased to 135321.09 CNY Billion in July from 133337.54 CNY Billion in June of 2015. Money Supply M2 in China averaged 43848.87 CNY Billion from 1996 until 2015, reaching an all time high of 135321.09 CNY Billion in July of 2015 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.



## August Stock Market Performance Analysis

The market is now undergoing several uncertainties at this stage. From the macro perspective, the worse than expected recent released economic indicators and country's currency depreciation against US dollars make global investors worry about the growth of global economy as well as the impending currency war. In addition, global commodity markets are facing tremendous downward pressure while emerging markets are even worse. From the capital market perspective, the pause of government rescuing efforts may cause further sell-off. We believe even though the support from the government may be end by now, its resolution to stabilize the market is obvious. In the short term, the market will find its own bottom, during this period we shall not be too pessimistic because the companies with good financials and valuations would be attractive and worth investing again, especially for those companies with initiatives in reform and transformation.

