

Latest Market Analysis and Investment Strategy - July, 2015 Report

July Headline

Regulators to investigate 'massive sell-off' of stocks. The China Securities Regulatory Commission said it is probing "a massive sell-off" after Monday's sharp dive in the market. Regulators have previously said that "malicious short sellers" will be severely punished, and investigations against short selling and market manipulation have been conducted nationwide. Market insiders said A-shares market was adjusting on Tuesday after the huge plunge, and they remained bullish for the mid to long term, but it may take some time for investors to adjust their strategies and recover confidence.

Stocks make sharpest daily decline since 2007. Stocks dived on Monday, with the benchmark Shanghai index tumbling the most in eight years, amid concerns that a government-supported market rebound is unsustainable. The Shanghai Composite Index closed at 3,725.56, down 8.5 percent, while the Shenzhen Component Index sank 7.6 percent to 12,493.05. More than 1,000 stocks slid by the daily limit of 10 percent to a halt, led by finance and resources sectors. The daily turnover reached 1.3 trillion yuan.

Central bank to maintain policy despite inflation fears. China's central bank said Tuesday it will maintain prudent monetary policy in the second half of this year despite inflation concerns triggered by recent rise in the price of pork, the nation's staple meat. The PBOC said that it will keep the policy orientation and flexibility of multiple monetary tools to ensure that liquidity stays at an appropriate level. The statement came after rising concerns that policymakers may tighten the monetary policy as inflation has shown signs of warming due to an unexpectedly sharp increase in pork prices.

Economic Indicator Analysis

Inflation Rate

China's annual inflation rate was recorded at 1.4 percent in June of 2015, up from 1.2 percent increase in the previous month and beating market consensus. The politically sensitive food prices increased by 1.9 percent while non-food cost rose at a slower 1.2 percent. Among food, upward prices pressure came from: fresh vegetables (+11.4 percent in June from +6.5 percent in May) and meat and poultry (+3.6 percent from +3.1 percent). Prices of pork also rose by 7.0 percent, following a 5.3 percent increase in the previous month. In contrast, downward pressure came from cost of: egg (-11.3 percent from -13.2 percent), fresh fruits (-8.8 percent from -3.2 percent) and liquid milk and dairy products (-1.1 percent from -1.3 percent)



Trade Surplus

China trade surplus increased to USD 46.54 billion in June of 2015 from USD 31.8 billion reported a year earlier but below market forecasts, as exports unexpectedly grew while imports declined at a slower pace. In June, exports picked up 2.8 percent year-on-year to USD 192.01 billion, compared to a 2.5 percent drop in the previous month. Imports fell by 6.1 percent year-on-year to USD 145.48 billion as a result of declining commodity prices and following a 17.6 percent decline in May. In the previous month, the country registered a downwardly revised USD 58.86 billion trade surplus.



China Money Supply M2

Money Supply M2 in China increased to 133337.54 CNY Billion in June from 130740 CNY Billion in May of 2015. Money Supply M2 in China averaged 43457.96 CNY Billion from 1996 until 2015, reaching an all time high of 133337.54 CNY Billion in June 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.



July Stock Market Performance Analysis

The equity market recovers slowly from the recent decline with the support of the government buying, but the sentiment of the investors remains unstable from the recent drop. Any further decline could incur another sell-off in the market, especially after such a big rebound for some stocks with good fundamentals. We believe short term vibration is inevitable. The uncertainty is that when and how the government will withdraw its market-rescuing effort after the benchmark index rebounded by 15 percent. We believe even though the support from the government may not last long, its resolution to stabilize the market is obvious. The China Securities Regulatory Commission said on Monday night that the State-owned margin lender China Securities Finance Corp will continue to boost its holdings to support the market.

The market is now trying to find its own pace of development, after such a dramatic drop and big rebound. And the movement of stocks will diverge by their financials and valuations. There could be a good buy opportunity recently for these companies if the market goes down again, marking them more attractive to the investors.

PEGASUSFUND INVESTMENT MANAGEMENT | www.pegasusfund.com.cn | Contact Us | +8621-20282278

Disclaimer: This report is provided by Pegasus Investment Management (Shanghai) Co., Ltd. All information in this report belong to Pegasus Investment Management. No one should copy, reproduce or publish any content from this report unless authorized in writing. No one should either use or refer any content from this report for legal, counseling, media or any other unauthorized purposes.

