

Latest Market Analysis and Investment Strategy - May, 2015 Report

May Headline

PPP list open to foreign bidders with more than 1,000 projects on offer. China's top economic planner has revealed detailed information on more than 1,000 proposed infrastructure projects, open to both private and foreign investors. The proposed public-private partnerships list is expected to spark cooperation between government and private interests across a range of sectors including water conservation, transport, public services, natural resources and the environment. The projects are expected to be worth a total of 1.97 trillion yuan (\$317.75 billion). The publication of the proposed list of PPP projects, in 29 areas of the country, should help accelerate the shift of economic model and guide social capital into the provinces, autonomous regions and municipalities

China approves 7 more RQFII, QFII investors. China approved seven more foreign companies to move money into the country's capital account in April, under its program to liberalize how this account is managed. Six companies were granted approval for the Renminbi-denominated Qualified Foreign Institutional Investors (RQFII) program last month, taking the number of enterprises under the RQFII program to 152. In the Qualified Foreign Institutional Investors (QFII) program, one company was added to the list in April, bringing the total number to 281. As of April 29, overseas institutions have received QFII quotas amounting to \$73.62 billion, and the volume under the RQFII program totalled 363.7 billion yuan.

China slashes import tax on skincare to shoes to spark domestic demand. China will slash import tariffs on consumer goods including skincare products, Western-style clothes and diapers from June, potentially giving a fillip to global brands and bolstering domestic consumption amid faltering economic growth. The Ministry of Finance said it would lower import taxes for some products starting from June 1 by an average of over 50 percent as an "important measure to create stable growth and push forward structural reform". "The prices on these imported products are significantly higher in China not just because of import tax but because of VAT and multiple layers of distribution with everyone in the value chain earning their margin."

Economic Indicator Analysis

Inflation Rate

China's annual inflation rate was recorded at 1.5 percent in April of 2015, edging up from 1.4 percent increase in the previous month and slightly below market consensus. The politically sensitive food prices increased by 2.7 percent while non-food cost rose at a slower 0.9 percent. 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.



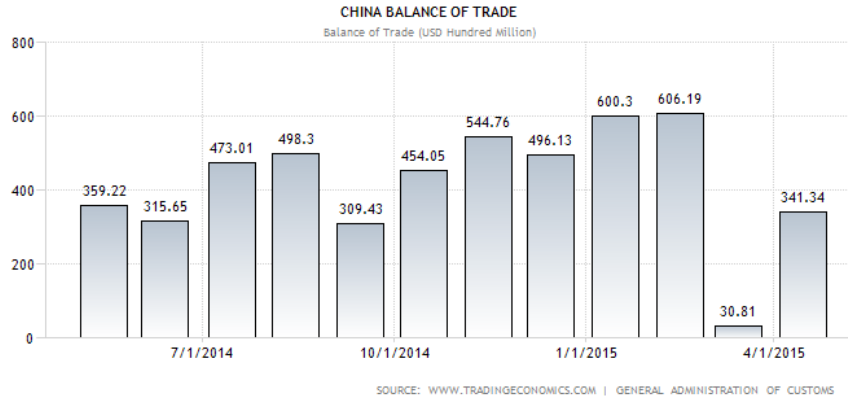
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Trade Surplus

China recorded a trade surplus of 341.34 USD Hundred Million in April of 2015. Balance of Trade in China averaged 68.72 USD Hundred Million from 1983 until 2015, reaching an all time high of 606.19 USD Hundred Million in February of 2015 and a record low of -319.71 USD Hundred Million in February of 2012. Balance of Trade in China is reported by the General Administration of Customs. In April, exports dropped 6.4 percent year-on-year to USD 176.33 billion, compared to a 15.0 percent decrease in the previous month. Imports fell by 16.2 percent year-on-year to USD 142.2 billion as a result of declining commodity prices and following a 12.7 percent drop in March. In March, the country registered a USD 3.08 billion trade surplus.



China Money Supply M2

Money Supply M2 in China increased to 128080 CNY Billion in April of 2015 from 127530 CNY Billion in March of 2015. Money Supply M2 in China averaged 42694.34 CNY Billion from 1996 until 2015, reaching an all time high of 128080 CNY Billion in April of 2015 and a record low of 5840.10 CNY Billion in January of 1996.



May Stock Market Performance Analysis

Two sectors to watch:

Real Estate sector recently has been outperforming the market: It is mainly because of the high expectation that China is preparing measures to counter a housing market slump and will roll them out if the economy needs support. One possible method is that the government could reduce down-payment requirements for second-home purchases, while another possible step would be to let homeowners sell properties without paying sales tax after two years, down from five years. Although these expectations have not been disclosed by the officials at this moment, it certainly gives investors confidence in the real estate sector.

Infrastructure-related stocks surged:

Infrastructure-related stocks surged as investors believe train makers, power generators and port operators would benefit from China's so-called "One Belt, One Road" initiative. The project, a network of railways, highways and other infrastructure, would create a new Silk Road that President Xi Jinping said would in a decade generate \$2.5 trillion in annual trade with the countries involved. Recently the outline and blueprint of the "One Belt, One Road" was published during the Boao Asia Forum. Analysts expect investment in the project this year alone could reach 300 billion yuan to 400 billion yuan (\$48-64 billion). On the other hand, China launched the \$100bn proposal to set up Asian Infrastructure Investment Bank last year and more than 20 countries have announced their intention to be founding members, consolidating the relationships among all members in the region and creating more investment opportunities.



Our Investment Strategies:

We still believe the bull market will dominate in the long run. OTC funds are crowding into the equity market. In such a volatile market, it is important to hold on to your positions. Government policies, monetary easing expectations, reform initiatives and risk-free rate decreasing provide a solid support for the current market condition. The short-term uncertainty is that if the government would enhance its supervision and regulatory over the stock market while the long-term worry is how well the economy would improve. In terms of the portfolio allocation, we recommend the following topics:

1. Reform of government-owned enterprises: the securitization of government-owned assets and companies
2. New Silk Roads + Yangtze River Economic Belt + Shanghai Free-trade Zone + Maritime Silk Road (Yangtze River is the only long-distance waterway that connects land and maritime Silk Road. The Transportation and Construction sector will benefit the most from the establishment of related policies in these regions in the future.
3. "China Manufacturing 2025" (Military-related, Internet+, High-end equipment)
China Manufacturing 2025 is similar to the concept of industry 4.0 that Germany brought out earlier. The core is interconnection, integration, innovation and transformation.
4. Environment Protection: As a key economy driver in China this year, PPP projects related to environment protection would boost the related industry by consolidating the relationship between the Finance and the Environment Protection Department.
5. Non-bank finance institutions will benefit from asset securitization and increasing leverages in the equity market.

