

Latest Market Analysis and Investment Strategy - Mar, 2016 Report

March Headline

More lock-up shares to become tradable.

Lock-up shares worth about 25.6 billion yuan (\$3.93 billion) will become eligible for trade on China's stock market in the coming week. The value is much smaller than shares worth over 100 billion yuan that entered the market last week. More than 2.2 billion shares from 32 companies will become tradable on the Shanghai and Shenzhen stock exchanges from Monday to Friday, according to brokerage Southwest Securities. Delian Group, the Guangdong-based auto service provider, will see the unlocking of 411 million non-tradable shares worth 4.1 billion yuan on Monday, the largest batch of shares to hit the market during the week.

The central bank on Friday announced it will set up an anti-poverty relending program to pump funds into local financial organizations.

The program will target local rural banks in poor counties, providing low-cost loans that can be used for up to five years, said a statement on the website of the People's Bank of China. The move followed a guideline issued on Wednesday by the central bank and six other government agencies. The guideline said banking financial institutions are encouraged to increase credit support for poverty relief programs through relending, in which the central bank extends loans to commercial banks on the condition that they in turn lend to businesses in required sectors.

Central bank reportedly drafting tax for FX transactions.

China's central bank has drafted rules for a tax on foreign-exchange transactions in a step to stem speculators, according to Bloomberg News. Known as the "Tobin tax", it is designed to raise the cost for spot currency conversions, and is described by its originator, Nobel-winning economist James Tobin, as "throwing sand in the wheels of speculators". The People's Bank of China didn't immediately respond to request for comments. Vice-governor Yi Gang has raised the possibility on several previous occasions but did not hint whether it would materialize any time soon.

Economic Indicator Analysis

Inflation Rate

Consumer prices in China rose 2.3 percent year-on-year in February of 2016, following a 1.8 percent rise in January and above market consensus of a 1.9 percent increase. It is the highest inflation rate since July 2014, as politically sensitive food prices surged 7.3 percent over the Lunar New Year holiday and cold weather while non-food cost rose at a slower 1.0 percent. On a monthly basis, consumer prices rose 1.6 percent, as compared to a 0.5 percent increase in the preceding month.



Trade Surplus

China trade surplus stood at USD32.59 billion in February of 2016, narrowing sharply from USD 60.61 billion reported a year earlier and missing market consensus. It is the smallest trade surplus since March 2015, as exports and imports fell worse than expected. In February, exports plunged by 25.4 percent, following a 11.2 percent decline in the preceding month. Imports tumbled by 13.8 percent, as compared to a 18.8 percent drop in January.



China Money Supply M2

Money Supply M2 in China increased to 142460 CNY Billion in February from 141630 CNY Billion in January of 2016. Money Supply M2 in China averaged 46582.54 CNY Billion from 1996 until 2016, reaching an all time high of 142460 CNY Billion in February of 2016 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.

