

Latest Market Analysis and Investment Strategy - Sept, 2015 Report

September Headline

Securities watchdog backs Shanghai-London stock. China's securities watchdog said it will support exchanges in Shanghai and London to explore a stock-connect cooperation and undertake a feasibility study. Given difference in time zone, supervision, trading mechanism and market basis between the two markets, the Shanghai-London connect cannot simply copy the link between Shanghai and Hong Kong, the statement said. China and Britain agreed to expand financial cooperation by carrying out a feasibility study on a stock connect between London and Shanghai during the 7th China-Britain Economic and Financial Dialogue.

China allows int'l banks to issue RMB bonds. China has approved international commercial banks to issue RMB bonds for the first time. HSBC will issue bonds worth one billion yuan (\$160 million) and Bank of China (Hong Kong) is allowed to issue 10 billion yuan of bonds. In 2005 and 2013, China allowed overseas non-financial institutions such as the International Finance Corporation and the Asian Development Bank to issue RMB bonds. Allowing international commercial banks to do so has diversified the RMB bond issuers and expanded their RMB financing channels, and the move could also encourage cross-border use of RMB.

Regulator fines companies for illegal trading. The securities regulator fined a slew of companies and individuals for illegal stock trading and market manipulation, underscoring Beijing's desire to clean up the country's stock market after the recent volatilities. The China Securities Regulatory Commission fined Hengxin Asset Management Co Ltd in Shandong province 552 million yuan (\$86.7 million) for manipulating trading in an exchange-traded fund that tracks the SSE 180 Index. Meanwhile, the CSRC has completed the second round of investigation into 19 cases of illegal share sales by large shareholders of listed companies.

Economic Indicator Analysis

Inflation Rate

China's annual inflation rate was recorded at 2.0 percent in August of 2015, up from 1.6 percent in the previous month and above market forecasts. The politically sensitive food prices increased by 3.7 percent while non-food cost rose at a slower 1.1 percent.



Trade Surplus

China trade surplus increased to USD60.24 billion in August of 2015 from USD49.83 billion reported a year earlier and beating market consensus. It is the largest surplus since February this year, as imports fell more than exports. In August, exports dropped less than expected 5.5 percent year-on-year to USD196.89 billion, compared to a 8.3 percent fall in the previous month. Imports slumped 13.8 percent year-on-year to USD136.65 billion, as a result of declining commodity prices and following a 8.1 percent drop in July. In the previous month, the country registered a USD43.03 billion trade surplus.



China Money Supply M2

Money Supply M2 in China increased to 135690.80 CNY Billion in August from 135321.09 CNY Billion in July of 2015. Money Supply M2 in China averaged 44238.03 CNY Billion from 1996 until 2015, reaching an all time high of 135690.80 CNY Billion in August 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.



September Stock Market Performance Analysis

In September, the market is starting to stabilize. Two recent hot topics are new energy car sector and information security sector. Such short term investment opportunities imply that the market is still somehow active. We should take a close look at these sectors because it is a good sign of stabilization and recovery. In the short term, there are still uncertainties, especially depending on how well the deleveraging process goes. The worry over interest rate increase in the U.S. and RMB currency itself would be the main obstacle for recovery. In the long run, we believe the market is close to the bottom because: 1. Deleveraging is almost done. 2. Government keeps increasing the liquidity of the market. 3. Many stocks are reasonably priced. 4. Government enterprise reform is still going on. We recommend stocks with fair value (reasonable PEs) especially in military defense, new energy car and nuclear sector.

