

Latest Market Analysis and Investment Strategy - Feb, 2016 Report

February Headline

Liu Shiyu replaces Xiao Gang as head of China's securities watchdog. Liu Shiyu was appointed as Party leader and chairman of the China Securities Regulatory Commission (CSRC), according to decisions made by the Communist Party of China Central Committee and the State Council on Saturday. Xiao Gang, former head of the CSRC, was removed from his post as the chairman as well as the Party leader of the commission. Liu said building a multilayered capital market was key to solving various market problems and that China needed to expand capital market financing instead of relying solely on refinancing.

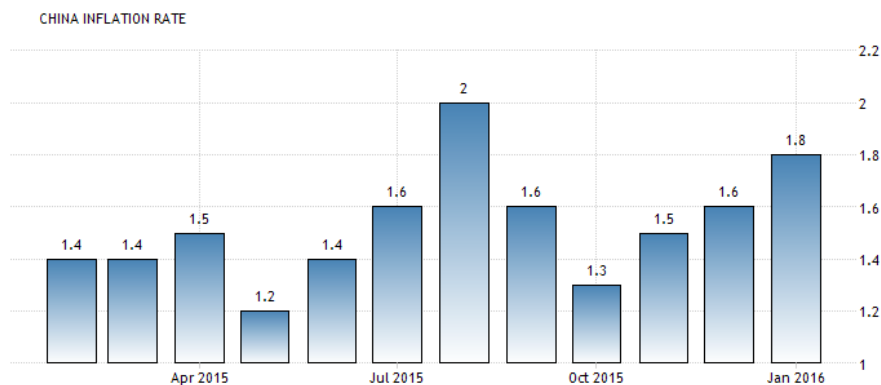
Mainland buyers flock to HK for insurance products. Latest figures suggest a growing number of Chinese mainland residents are travelling to Hong Kong to buy insurance products and services. The same data also shows that mainlanders paid more than one fifth of new office premiums in Hong Kong in the first three quarters of 2015. According to figures from Hong Kong's office of the Commissioner of Insurance, mainland visitors bought insurance premiums worth 2.7 billion U.S. dollars in the city in the first three quarters of last year, accounting for 22 percent of new office premiums in Hong Kong in that period.

Stocks tumble toward year's lowest level. Chinese stocks tumbled on Monday with the benchmark index heading toward its lowest level this year as investors rushed to dump shares on concerns of further volatility. The benchmark Shanghai Composite Index sank 2.86 percent to close at 2687.98 points. The index plunged as much as 4.6 percent during intraday trading. It managed to recoup some of the earlier losses in late afternoon trading led by the recovery of big-cap banking and energy stocks. ChiNext, the start-up index that tracks high-tech and innovative companies listed in Shenzhen, sank by 6.69 percent to its lowest level since September.

Economic Indicator Analysis

Inflation Rate

China's annual inflation rate came in at 1.8 percent in January of 2016, up from 1.6 percent in the previous month and reaching the highest since August last year but below market expectations. The politically sensitive food prices increased 4.1 percent while non-food cost rose at a slower 1.2 percent. Cost of consumer goods gained 1.5 percent and those of services advanced 2.2 percent. On a monthly basis, consumer prices rose 0.5 percent, the same pace as in the previous month and in line with expectations.



SOURCE: WWW.TRADINGECONOMICS.COM | NATIONAL BUREAU OF STATISTICS OF CHINA



Trade Surplus

China trade surplus stood at USD 63.29 billion in January of 2016, widening from USD 60.03 billion reported a year earlier and beating market consensus. It is the largest trade surplus on record, as exports and imports fell far worse than expected.



China Money Supply M2

Money supply M2 in China increased by 14.0 percent year-on-year to 141,630 CNY billion in January of 2016, following a 13.2 percent growth in a month earlier and above market expectations of a 13.4 percent rise. In January 2015, money supply M2 in the country was at 124,270 CNY billion.



February Stock Market Performance Analysis

China's stock exchanges announced early in January that they would suspend use of the circuit-breakers. The securities regulator said they were not the main cause of the market's fall but had not achieved their aim yet. The recent released economy data is still below expectation. Given the fact that the market liquidity remains abundant, low risk free rate pushes the asset price higher. As we mentioned previously, China is undergoing economic restructure, from traditional economy to 'new state' economy, which provides companies with opportunities in merges and acquisitions, restructure and capital management. We are looking for companies with high growth potential over the course of transaction and restructure. We keep close watch on military and defense, real estate and public utility sector. We also use database to choose several topics including: venture capital, new listing stocks and virtual reality. We believe these would also be a good choice in the short run if the market rebounds.

