

## Latest Market Analysis and Investment Strategy -May, 2016 Report

### May Headline

China's fiscal revenue rose 14.4 percent year on year to 1.55 trillion yuan (238.8 billion U.S. dollars) in April, data from the Ministry of Finance showed on May 13rd. In the first four months, fiscal revenue went up 8.6 percent to 5.44 trillion yuan.

China's economy expanded 6.7 percent year on year in the first quarter, slowing further from the previous quarter. In the face of continued economic headwinds, China has made supply-side reform an economic priority, and tax cuts to lower the cost of business are a major policy

option, putting further pressure on revenue growth.

Final consumption contributed 84.7 percent of China's economic growth in the first quarter, official data showed on May 16th, suggesting government efforts to ease reliance on investments and trade are working.

China's Ministry of Finance said it has earmarked a special fund of 100 billion yuan (15.33 billion U.S. dollars) to subsidize local governments and state-owned enterprises (SOEs) in reducing steel and coal overcapacity.

China Molybdenum Co. has announced a bid to buy two metal mines to increase its share in global metal mineral reserves. The company plans to raise up to 18 billion yuan (2.77 billion U.S. dollars) through non-public offering to purchase a niobium-phosphate mine in Brazil and a copper-cobalt mine in the Democratic Republic of Congo, according to a document filed with the Shanghai Stock Exchange on May 21st. The plan is still subject to approval from shareholders and China's securities watchdog.

### Economic Indicator Analysis

#### Inflation Rate

Consumer prices in China rose 2.3 percent year-on-year in April of 2016, the same pace as in the previous two months and below market consensus of a 2.4 percent increase. The politically sensitive food prices increased by 7.4 percent while non-food cost rose at a slower 1.1 percent. Cost of consumer goods gained 2.5 percent and those of services advanced 2.0 percent. On a monthly basis, consumer prices dropped by 0.2 percent, as compared to a 0.4 percent decline in the preceding month and in line with estimates.



## Trade Surplus

China trade surplus increased to USD45.56 billion in April of 2016 from USD34.13 billion reported a year earlier and beating market estimates. It is the largest trade surplus since February as exports fell by 1.8 percent from a year earlier while imports dropped by 10.9 percent.



## China Money Supply M2

Money Supply M2 in China decreased to 144520 CNY Billion in April from 144620 CNY Billion in March of 2016.



## June Stock Market Outlook

### China's A Share Market

#### Bullish on June

An old saying to “Investors will feel desperate in June”, Indeed, standing in May to see the Chinese stock market in June, there are a lot of bad factors. Firstly, the market is expected to have a high probability of interest rate rise in June, which will lead to devaluation of the renminbi, which led to the decline in the stock market in China; Secondly, Non-tradable Share Conversions will lead to a decline in the market; Finally, the market believes that China's economy is still an important factor in the market to suppress the upward.

Is this really the case? We don't think so. Firstly, we observed that the RMB has been in a trend of devaluation in May, which shows that the market has been expected to increase interest rates in response to the future. If the Fed does not raise interest rates in June, then the market over reaction will be revised. Secondly, we believe that the peak of the Non-tradable Share Conversions is not the next month and currently involved in a number of private placement investors purchase price was higher than the current market price, they do not have a strong motivation to sell. Thirdly, although China's economy is still not see signs of recovery, but we observe some of the marginal improvement of macroeconomic indicators. Finally, the Chinese market still has a higher probability of being incorporated into the MSCI index in June.

To sum up, we believe that the market is over consistent pessimism may be a wrong choice, we will be at the end of May and early June to increase our stock positions.

## HK Stock Market

### Beware of growing volatility in June

The Hang Seng Index has already posted a fairly sound rally and further upside will be limited given a potential rate hike in U.S. and slowdown in money supply growth in China. The first resistance is 21,114 points (200 Day SMA), and the next resistance is 21,600 points. In addition, the first support falls on the 20,581 points (50 Day SMA).

Speculation of A share inclusion into MSCI on upcoming annual review released in mid-Jun, as well as announcement of Shenzhen-HK connect in the near term, will continue to provide support to HK market. Any confirmation would become a trigger for investors to drive up the stock market even higher. However, since June is a traditionally dull season for the investment world, as fund managers are off on summer holidays. As a result, lack of trading volume will make the market very volatile in June.

Other factors clouding market performance include the US interest rates movement, and Britain's vote on staying in or exiting the European Union. Thus it is too early to be optimistic from the recent rally because the stock market will continue to be plagued by uncertainty with the magnified volatility in June.

