

Latest Market Analysis and Investment Strategy - Oct, 2015 Report

October Headline

Pension funds ready to enter stock market in 2016. Pension funds in the country will be ready to enter stock market in 2016 after the government specifies rules. The move is expected to unleash a potential inflow of about 2 trillion yuan (\$310 billion) into the nation's equity market, totaling 30 percent of the pension funds' net assets. Funds will be gathered and transferred in accordance with a unified process. The rules will be released soon as stated in our goal to roll out the plan in 2016, to make sure that the capital will be in place in time.

China's forex reserves continue to fall in September. China's foreign exchange reserves fell to 3.51 trillion US dollars at the end of September. The reserves decreased by 43.26 billion US dollars in September, marking the fourth consecutive month of declines, according to the People's Bank of China. But the decrease was not as sharp as in August. The reserves dropped by a record 93.9 billion US dollars in August. The country's gold reserves fell from 61.795 billion US dollars at the end of August to 61.189 billion US dollars at the end of September.

New cross-border interbank payment system a milestone in yuan globalization. The first phase of the Cross-border Interbank Payment System (CIPS) was recently launched in Shanghai, promoting the global use of the Chinese currency. The system, which provides capital settlement and clearing services for cross-border yuan transactions for financial institutions, will boost the global use of the yuan, by cutting costs and processing times. CIPS will put the yuan on an even footing with other global currencies in areas such as operating hours, risk reduction and liquidity optimization

Economic Indicator Analysis

Inflation Rate

China's annual inflation rate was recorded at 1.6 percent in September of 2015, down from 2.0 percent in the previous month and below market forecasts. The politically sensitive food prices increased by 2.7 percent while non-food cost rose at a slower 1.0 percent.



Trade Surplus

China trade surplus increased to USD60.34 billion in September of 2015 from USD30.96 billion reported a year earlier and beating market consensus, as imports fell much more than exports. In September, exports declined by 3.7 percent year-on-year to USD205.56 billion, less than expected, compared to a 5.5 percent fall in the previous month. Imports slumped 20.4 percent year-on-year to USD145.22 billion, following a 13.8 percent drop in August. It is the 11th straight month of decline, as a result of declining commodity prices and weak demand. In the previous month, the country registered a USD60.24 billion trade surplus.



China Money Supply M2

Money Supply M2 in China increased to 135980 CNY Billion in September from 135690.80 CNY Billion in August of 2015. Money Supply M2 in China averaged 44625.13 CNY Billion from 1996 until 2015, reaching an all time high of 135980 CNY Billion in September 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.



October Stock Market Performance Analysis

The market rebounds significantly after the national holiday, especially for small cap companies. 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. We can see that some of the investors are still more conservative for the market and taking profits after rebound while we believe the market bottom is 2850 and now it is a good timing to enter the market because: 1. Worries over interest rate increase in the U.S. and RMB currency itself would not be a problem anymore. The recent rate cuts provide sufficient funds to the market. The decrease of risk free rate and fix income products will force funds to seek other investment methods such as equities and real estate. 2. In addition, IMF makes their stance regarding SDR, relieving the worries of RMB depreciation and further money outflow. 3. Last but not least, reforms are still on the way. We recommend culture, information, military and defense, electricity reform and education industry.

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