Latest Market Analysis and Investment Strategy - July, 2016 Report

June Headline

China sees overall FDI fall, but US volume jumps 140%. Foreign direct investment (FDI) into the Chinese mainland fell 1 percent year on year to $8.9 billion in May.

China has $5.6 trillion productivity opportunity by 2030China's GDP (gross domestic product) could add $5.6 trillion more by 2030, and its household income could rise by $5.1 trillion if the country successfully becomes a productivity-led economy instead of the current model of using investment to spur growth, according to a McKinsey & Co study.

The new productivity-led model would enable China to create more sustainable jobs, reinforcing the rise of the consuming middle class and accelerating progress toward being a full-fledged advanced economy.

China plans to invest more than 2.8 trillion yuan ($421.68 billion) into railway construction, building no less than 23,000 kilometers of new rail lines during the 13th five-year plan period (2016-2020).

The "medium and long term railway network plan" is aimed at further expanding the country's rail network. It was approved during a State Council meeting on June 29, presided over by Premier Li Keqiang.

The new plan targets more balanced national rail construction, bringing greater accessibility to more parts of the country. It also aims to build a comprehensive network covering rail, road, water and air transportation.

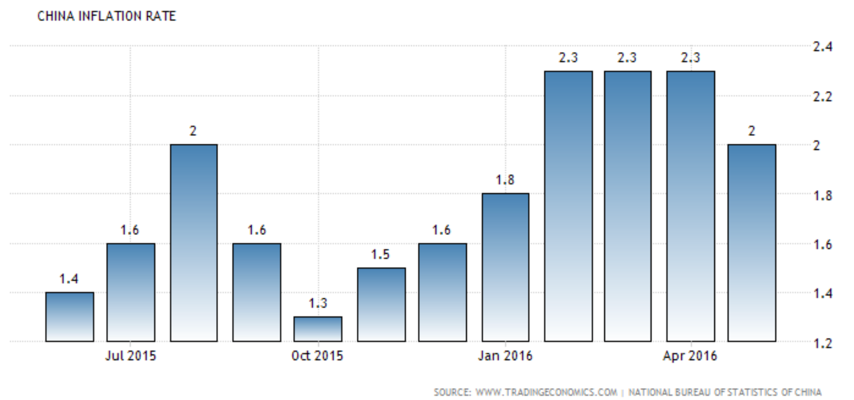
The country experienced a railway boom during the 12th five-year plan period, with total fixed-asset investment reaching 3.58 trillion yuan and putting 30,500 km of new lines into operation.

According to the new plan, the country will build more than 23,000 km of new railway over the next five years, with a total investment of at least 2.8 trillion yuan.

Economic Indicator Analysis

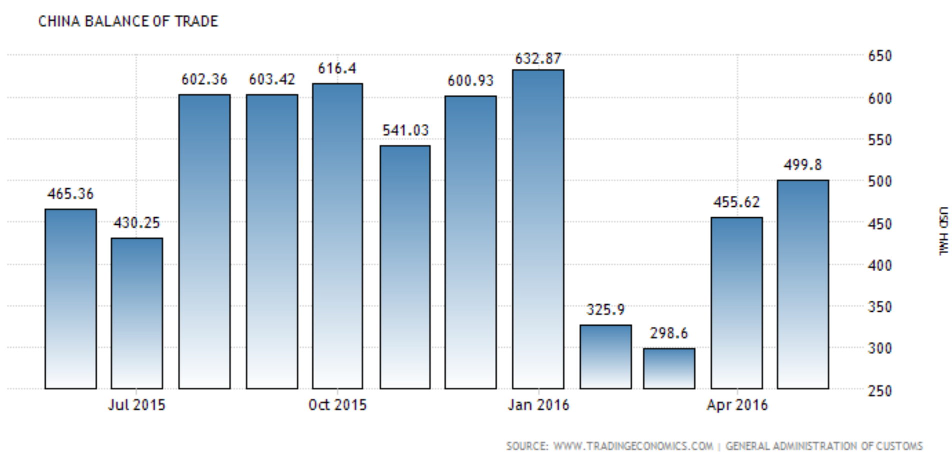
Inflation Rate

Consumer prices in China rose 2.0 percent year-on-year in May of 2016, slowing from a 2.3 percent rise in the previous three months and below market consensus. The politically sensitive food prices increased by 5.9 percent while non-food cost rose at a slower 1.1 percent. Cost of consumer goods gained 2.0 percent and those of services advanced 2.1 percent. On a monthly basis, consumer prices dropped by 0.5 percent, as compared to a 0.2 percent decline in the preceding month and market estimates of a 0.2 percent fall.



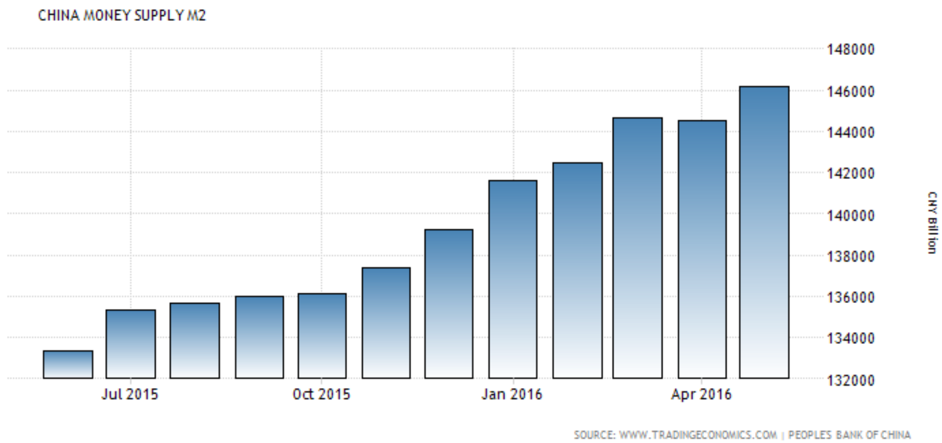
Trade Surplus

China trade surplus stood at USD49.98 billion in May of 2016, down from USD58.87 billion reported a year earlier and below market estimates, as exports fell more than imports. In May, exports declined by 4.1 percent year-on-year to USD181.06 billion, following a 1.8 percent drop in the preceding month and market consensus of a 3.6 percent drop. Imports dropped by 0.4 percent to USD131.08 billion while markets expected a 6.0 percent fall. It is the 19th straight month of contraction, as a result of declining commodity prices and weak demand. In April 2016, the country registered a USD45.56 billion trade surplus.



China Money Supply M2

Money Supply M2 in China increased to 146170 CNY Billion in May from 144520 CNY Billion in April of 2016.



July Stock Market Outlook

China's A Share Market

In June, the overall performance of the market is not as good as we expected at the beginning of last month. Mainly we are not expected to British exit in the earlier this month. Though we do not believe that the British exit could lead to a sharp decline in the domestic market, however, as a result, The British exit and A shares was failed to be included in MSCI, those produced some negative effects on the market trend. From the overall market in June, the Shanghai Composite Index in a narrow range of fluctuations, the market as a whole is reflected in the structural market. We believe that in July, the market is still worth looking forward to, first, in July, we in the market couldn't see significant negative; secondly, in July, the central bank may reduce the deposit reserve; Finally, last quarter economic growth rate to fall, Government may increase economic stimulus policies in the third quarter.

HK Stock Market

Hang Seng Index kept rallying on the first trading day in the third quarter, and the technical indicators is stabilizing as well. Stocks rose due to the reduced possibility of an interest rate hike in the United States after Britain's vote to leave the EU, and rising chances for monetary stimulus from Japan and Europe to shore up economic growth. However, although current valuation of Hong Kong stocks in terms of P/E or P/B is still cheap by historical standard, the stock market has already accumulated substantial gain and thus there is little momentum for the stocks to soar higher in the short term. In addition, the profound negative impact of Brexit, the delayed Shenzhen-Hong Kong Stock Connect, a sliding yuan and economic growth in the mainland might impact market sentiment. Moreover, Yen and gold price continued to perform well recently, reflected that investors are still risk averse; it might limit the upside of the stock market. A lack of major catalysts with the upcoming US employment data to look for further hint on US interest rate movement will likely keep Hang Seng Index wobbly and range bound between 19,500 and 21,500 in the weeks ahead.