上投摩根资产管理(香港)
CIFM Asset Management (Hong Kong)

MARKET INSIGHTS

Voice of the Bund

2014 – August

Market Review

- **Structural rebound in July 2014:** The growth stocks heavy ChiNext fell by 4.28%, while both the SSE 50 & CSI300, tracking large-caps, rebounded by 9.41%, and 8.55% respectively. Economy continued to improve, monetary policies and policies on property market are expected to be accommodating, Shanghai-Hong Kong Connect boosted appetite for value stocks while growth stocks are under pressure.
- **Sentiment switched to large-cap blue chips:** Benefitting from macro improvement and price difference between A and H shares, cyclical sectors with cheap valuation including non-ferrous metals, non-bank financials and property rallied. Growth sectors including media, computer and electronics lagged behind as investors sell off to take profit before the earning season.
- **SOE reform and clean energy vehicle in focus:** Both indices delivered top performance of more than 18%, with the former driven by the SOE pilot reform, and the latter by the exemption of 10% purchase taxes for domestically made electric or fuel cell cars.
- **Overseas fund inflows:** New funds channeled into the A-share market from overseas via QFII/RQFII through Hong Kong, as indicated by iShares A50 ETF trading in July*. At the same time, the RMB also saw strong demand and appreciated 0.5% in July.
- **Bond market stabilized:** S&P/CITIC Composite rose slightly by 0.13% and S&P/CITIC Treasury Bond Index dropped by 0.36%.

*www.blackrock.com.hk

China saw net inflows in recent months

Source: Wind , Data as of 28 July, 2014

Key Events Digest

■ **Economy rebound, yet downside concern remains**

• Although 2Q GDP and July PMIs were higher than expected due to the government's stabilization measures, most of the macro data including investment, consumption, loans, and imports for July lacked excitements.

• Fundamentals for coals, non-ferrous metals, cements and machinery remains sluggish, echoing the weak loan data that indicated weak demands. The profits for industrial companies improved 11.6% YoY in June, as a result of cost reduction.

■ **Relaxed purchase restriction improved home sales:** home sales increased 7.6% MoM, but down 16% YoY for large and medium-sized cities. The relaxations in purchase policy in many cities may only temporarily boost sales as shown by the historical data. Shrinking loans provide little support for sustainability.

• Monetary policies are expected to remain loose as the economy still under pressure and the high base effect from last 3 quarters. In meetings for the State Council and the Politburo in late July, officials asked to lower funding costs and set the policy tone for 2H, implying additional targeted easing measures. The breakthrough of an anti-corruption campaign signifies that the policymakers' focus will potentially shift to economic development.

■ **Further signs of policy loosing include:** China Development Bank is estimated to be loaned one trillion of 3Y Pledged Supplementary Lending. Agricultural Bank of China announced 5% discount to mortgage larger than ￥2milion.

■ **Shanghai-Hong Kong Stock Connect in Perspective:** The milestone event, opening the window for foreign investors, is anticipated to launch in October, expected to see more inflows. Stocks warrants attention: 1. those unique in mainland, such as spirit, wine, electronics, pharmaceutical biotechnology. 2. those also listed in Hong Kong but priced lower in A-share market. 3. brokers with increasing revenues brought by the Connect. 4. those with high dividend yields.

Shanghai Stock Connect

Eligible Stocks	Quota		Eligibility
Constituent: SSE180, SSE380; Dual listed A+H	Aggregate: RMB 300B	Daily: RMB 13B	All HK and foreign investors

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Market Outlook

■ The current rally is driven by economic, stimulus, and improved liquidity. The expectation that more cities will announce property purchase relaxation, monetary policies to remain supportive and Shanghai-HK stock connect to be launched in October will continue to boost sentiment. However, the fundamentals still has downside. It is important keep close monitoring of the property sales in the following quarter.

■ Although we think that there may be room for further upside. Adjustment may also be on the card, since the rally has stretched over an extended period and investors are likely to cash in some profits. On the other hand, after the rally of value stocks, growth stocks could be the next darling of the market.

■ In the medium term, we are overweight on the a range of national security themes including defense, nuclear and clean energy, information securities, IT hardware and software, driven by the expectation that spending in military and informatization programs will experience solid growth. In the short run, we focus on stocks with both low valuation and thematic catalysts, such as SOE reforms.

■ As for bond market, we continue to be cautious and focus on solid audit names that carries high coupon.

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