

Global Economic Commentary

China Economy Hits Bottom via Structural And Supply Side Reform

2017 Investment Opportunity And Stock Pick For Shenzhen-HK Stock Connect



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Global Macro-Economy Under Shenzhen Hong Kong Stock Connect

We expect that capital continues to flow into Hong Kong equity market in 2017. Following the expectation of RMB depreciation and HKD pegged with strong USD, capital is likely to flow into HKD and HKD equity market for hedging purposes. Amid buoyant liquidity under global quantitative easing, the improved fundamental for China and U.S economy, the housing tightening policy for China tier-1 and some tier-2 cities, we expect the capital to flow into Hong Kong equity market. Besides, valuation for Hong Kong equity market is undervalued compared with that of global market. We thus believe that Hong Kong equity in 2017 has positive outlook.

Domestic Investors Invest In HKD And HK Equity Market To Hedge RMB Depreciation

Along with the decreases in China exports, trade balance and foreign exchange reserves, RMB continuous depreciation, the recovery of U.S economy, the improvement of employment and housing market and HKD pegged with strong USU, we believe that China capital from northbound continues to flow into Hong Kong equity market for hedging purposes.

Buoyant Liquidity Under Global Quantitative Easing

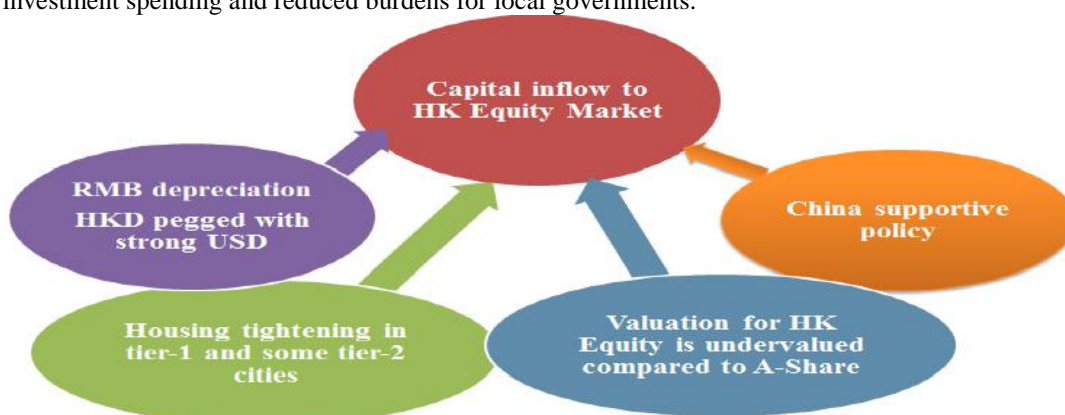
As global central bank has implemented quantitative easing, banking system has buoyant liquidity. The Fed implemented quantitative easing from 2008 to 2014, buying bonds and assets from the market to increase the balance sheet five times to USD 4 trillion. It inevitably made banking system to have abundant liquidity. European central bank planned to extend the asset purchase programs to December 2017. Besides, the Fed has rolled over the matured treasury bonds to depress the treasury yield and made banking system to have buoyant liquidity. The Banks' unwillingness to lend money as a result of flat treasury yield is the main reason for U.S mild inflation under quantitative easing programs. However, coupled with the U.S interest rate hike cycle and the steepening treasury yield, the banks will be more willing to lend money. Money multiplier may lead to inflation. Amid the buoyant liquidity, capital is likely to flow into equity market to beat the inflation.

Donald Trump's Fiscal Easing and Infrastructure Investment Policy

U.S president Donald Trump planned to implement fiscal easing, such as corporate and person tax cut, to increase infrastructure investment spending. It may stimulate corporate earnings, economic growth and higher inflation. Following the beginning of the U.S interest rate hike cycle, we recommend the investors to invest in Hong Kong equity instead of low yield government fixed income.

China Structural Reform

China economy has bottomed out and underwent structural reforms, including state-owned-enterprise reforms, production cut to reduce overcapacity. Chinese government has cooperated with private firms to increase infrastructure investment spending and reduced burdens for local governments.



Stock Picks For Southbound From Shenzhen-Hong Kong Stock Connect

Domestic Scarcity Shares

We recommend to buy Macau gaming and railway transportation equipment stocks. As Zhuzhou CRRC Times Electric (ZZCRRRC) (3898.HK) is the major beneficiary after the merger of CNR and CSR, ZZCRRRC is expected to receive more core component orders. Amid the railway reforms, railway fixed asset investment above RMB 800 billion and the rapid growth for urban rail investment, orders for locomotive and freight wagons are expected to pick up in 2017, which help ZZCRRRC to have the sales rebounds. As the Revenue drops for Macau gaming continued to narrow down, monthly gross revenue had a 3% YoY growth in Jan 2017. Adjusted EBITDA for Galaxy Entertainment (27.HK) showed improvement, gaining by 28%yoy and 18%qoq to HKD 2.7 billion, driven by mass revenue. "Galaxy Macau" is the main contributor to earnings. Galaxy Entertainment had healthy balance sheet, with net cash of HKD 12.9 billion in the third quarter.

Large and Medium Quality Shares

We recommend to buy international banking. Following the recovery of U.S economy and the rises in U.S treasury yield, net interest margin and net income may expand amid the Fed rate hike. As U.S president Donald Trump announced executive orders to relax banking regulation, it may stimulate banking lending. Ping An (2318.HK) achieved a net profit growth in 2015, the only China insurers which did not issue profit alerts in 2016. Ping An had quality domestic insurance brands with integrated financial services, including life insurance, property and casualty insurance, Ping An Bank, Ping An Trust, and Lufax. Ping An had higher earnings growth, less reliance on bancassurance and the highest agent productivity. China Mobile (941.HK) had over 500 million 4G customers in YTD November 2016, much higher than the annual target. As 4G usually had higher ARPU and 4G business investment period has been completed, market expects China Mobile to rise the dividend payout ratio.

High Dividend Shares

We recommend to buy China banking shares. Following the stabilization of China economy, non-performing ratio for China banking generally has improved. Amid the U.S rate hike cycle, we expect net interest margin to rise. The rise in infrastructure investment spending and mid long-term mortgage loans in 2016 had great contributions to China banking's earnings. China government supports for debt-for-equity swaps to reduce the banks' non-performing loans and relieve capital and reserves. It may increase the rooms for banking lending.

China Insurance Shares

We recommend to buy China insurance sector. Following U.S inflation and interest rate hike cycle, embedded value may enhance as a result of the rise of investment yield and China treasury yield. Amid the strong rebound of new business value, premium income in 2016 generally recorded double digit growth. Insurers generally enhanced its structural reforms, expanding high margin renewal premiums but reducing low margin single premiums and expanding high margin agent channels but reducing bancassurance channels.

AH Premium.

We recommend to buy A-H premium shares. Steel demand has risen driven by infrastructure investment, China structural reforms and coal production cut. Net profit for Yuanzhou Coal (1171.HK) recorded a YoY growth from 120% to 140% in 2016. Commercial coal price for Yuanzhou coal in 3Q16 also had sharp rebound along with the sharp rise in coking coal price, which is the main raw material for steel. Thus, earnings for Yuanzhou Coal showed improvement. Bloomberg forecast price to book ratio is only 0.64x.

Chart of the Month: MSCI World Index



10-day MA	1836.19
20-day MA	1818.02
100-day MA	1750.62
250-day MA	1708.81

Comment:
The MSCI World Index continues to trade higher following the improvement sentiment of U.S and Hong Equity China equity market.

Global Market Performance

Index (USD)	Closed at 24/02/2017	MTD Change (%)	YTD Change (%)	Current PE ratio	Estimated PE ratio	Dividend Yield
DJIA	20,821.76	4.82	5.36	19.23	17.36	2.32
S&P 500	2,367.34	3.88	5.74	21.79	18.27	1.99
Nasdaq	5,845.31	4.11	8.59	42.59	22.30	1.16
FTSE 100	9,030.00	1.19	2.41	39.72	14.75	3.89
DAX	12,475.68	0.29	3.03	17.34	13.65	2.62
CAC	5,120.93	(0.01)	(0.14)	20.88	14.29	3.36
Nikkei 225	171.85	1.98	4.87	22.40	18.25	1.71
HSI	3,087.85	2.55	8.83	13.27	12.04	3.48
SHCOMP	473.83	3.18	5.95	18.64	13.73	1.69
ASX	4,444.91	3.47	7.69	21.68	16.20	3.97
TWI	318.05	5.41	11.34	16.26	13.75	3.76
KOSPI	1.85	3.33	10.31	18.58	9.86	1.36
SET	28.16	0.50	4.62	15.33	14.62	3.07
SENSEX	433.66	5.87	10.71	21.43	20.14	1.51
Russia RTS	1,129.09	(3.01)	(2.02)	9.67	6.37	4.21
Mexico IPC	2,374.80	5.39	7.41	24.12	17.27	1.85
Bovespa	21,480.34	4.65	15.92	37.50	12.97	2.70
Median		3.33	5.95	20.88	14.62	2.62

Market Data

Commodities (USD)

Price as at 24/02/2017

Crude Oil	53.99
Gold 100oz	1,256.60

Source: Bloomberg

Date Time	Country	Event	Event Time	Survey	Prior
3/1/2017	Japan	Capital Spending YoY	4Q	0.60%	-1.30%
3/1/2017	Australia	GDP YoY	4Q	1.90%	1.80%
3/1/2017	China	Non-manufacturing PMI	Feb	--	54.6
3/1/2017	China	Manufacturing PMI	Feb	51.2	51.3
3/1/2017	China	Caixin China PMI Mfg	Feb	50.8	51
3/1/2017	UK	Net Consumer Credit	Jan	1.5b	1.0b
3/1/2017	US	Personal Income	Jan	0.30%	0.30%
3/1/2017	US	Personal Spending	Jan	0.30%	0.50%
3/1/2017	US	PCE Core MoM	Jan	0.30%	0.10%
3/1/2017	US	PCE Core YoY	Jan	1.80%	1.70%
3/1/2017	US	ISM Manufacturing	Feb	56	56
3/1/2017	US	ISM Prices Paid	Feb	68	69
3/1/2017	US	ISM New Orders	Feb	--	60.4
03/07/2017	China	Foreign Reserves	Feb	--	\$2998.2b
3/8/2017	Japan	BoP Current Account Balance	Jan	--	¥1112.2b
3/8/2017	Japan	Coincident Index	Jan P	--	114.8
3/8/2017	Canada	Housing Starts	Feb	--	207.4k
3/9/2017	Japan	Japan Buying Foreign Bonds	Mar-03	--	--
3/10/2017	UK	Industrial Production MoM	Jan	--	1.10%
3/10/2017	UK	Industrial Production YoY	Jan	--	4.30%
3/10/2017	Canada	Participation Rate	Feb	--	65.9
3/10/2017	US	Unemployment Rate	Feb	4.70%	4.80%
3/15/2017	US	CPI YoY	Feb	--	2.50%
3/16/2017	Australia	Participation Rate	Feb	--	64.60%
3/17/2017	Europe	Construction Output MoM	Jan	--	-0.20%
3/20/2017	US	Chicago Fed Nat Activity Index	Feb	--	-0.05
3/21/2017	UK	PPI Input NSA YoY	Feb	--	20.50%
3/22/2017	Japan	Exports YoY	Feb	--	1.30%
3/22/2017	Japan	Imports YoY	Feb	--	8.50%
3/23/2017	US	Initial Jobless Claims	Mar-18	--	--
3/24/2017	US	Durable Goods Orders	Feb P	--	--
3/28/2017	US	S&P CoreLogic CS 20-City YoY NSA	Jan	--	--
3/31/2017	US	U. of Mich. Sentiment	Mar F	--	--

News Stories Highlights

Headlines

[China says no intention of using currency devaluation to its advantage](#)

China said on Friday it has no intention of using currency devaluation to its advantage in trade, responding to an assertion from U.S. President Donald Trump that China is the "grand champions" of currency manipulation

[Asian shares slip off 1-1/2-year high, Trump's yuan remarks in focus](#)

Asian shares took a breather on Friday, slipping from 1-1/2-year highs as material shares were hit by sudden falls in copper and other commodity prices while investors assessed Washington's stance on tax and currency policies.

[Confident Mexico says will not rush to negotiate NAFTA with Trump](#)

MEXICO CITY Mexico is increasingly confident that U.S. President Donald Trump will not be able to impose harsh barriers on imports anytime soon, and officials signaled they may hit their northern neighbor's most trade-sensitive districts in case he does.

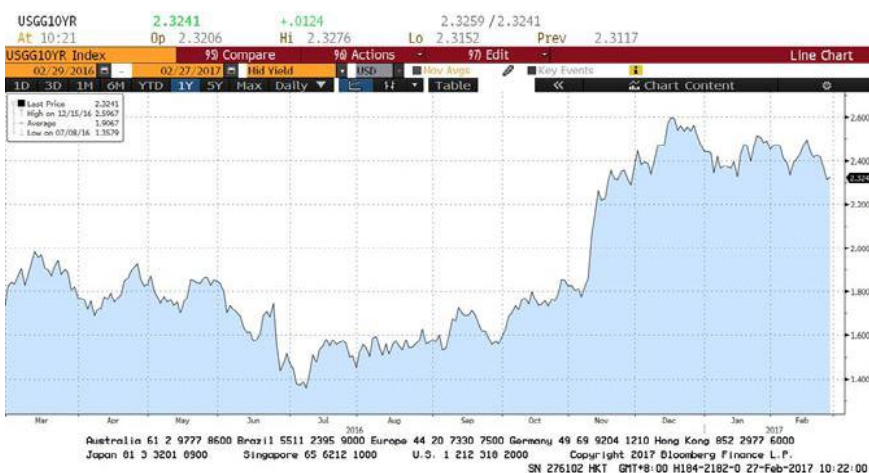
[Exclusive: China considers faster IPO approval to lure large tech deals - Sources](#)

HONG KONG China's securities regulator is considering offering a shortcut for some of the country's largest technology companies to list their shares, allowing them to jump a long line of applicants and boost domestic bourses, according to six people with knowledge of the proposals.

US 10 years treasury yield is expected maintain the upward trend supported by the cycle of U.S interest rate hike.

FIGURE 1

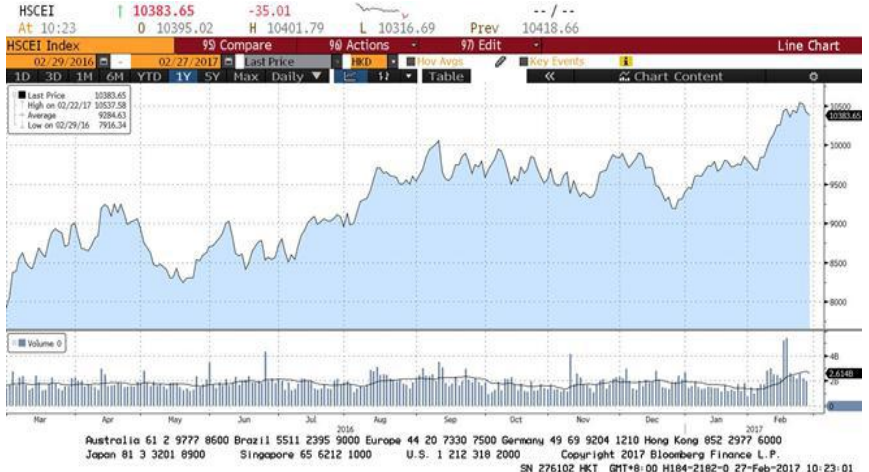
US 10 years treasury yield



HSCEI traded higher amid RMB appreciation and China economic stabilization and the kick-off of NPC and CPPCC.

FIGURE 2

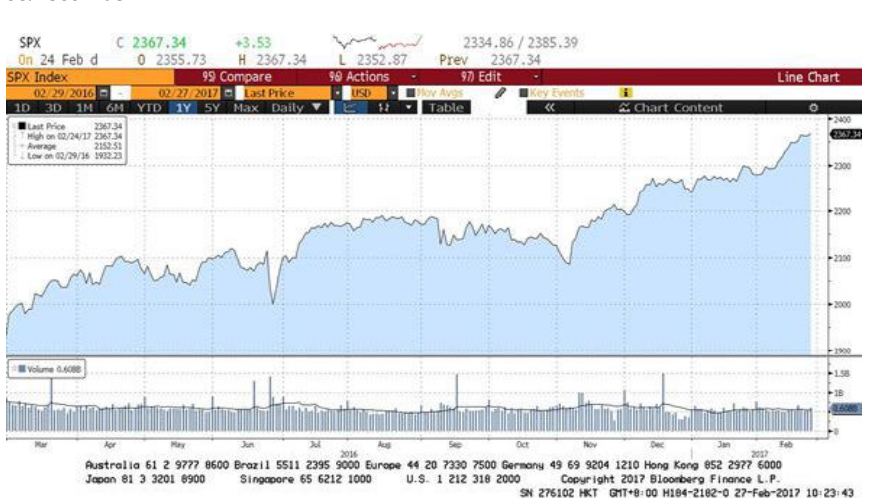
Hang Seng China Enterprises Index



S&P 500 continued to break the record high on the economy recovery and expectation of the upcoming fiscal easing.

FIGURE 3

S&P 500 Index



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