

China's Economic & Market Perspective

Fundamentals

According to the data released at the end of October, **China's economic momentum remains sluggish and industrial growth is plummeting.**

Industrial added value in September has risen by 5.7%, yet still comes out lower than the August readings of 6.1%. The PMI in September has slightly improved to 49.8, a little below mid-point, suggesting that the downward pressure of manufacturing industry remains significant. The industry is now facing combined downward forces driven by sluggish demand, falling production, high inventory and depressed price. The numbers in the real estate industry have sent mixed signals. On one hand, real estate investment since beginning of this year has reached 7 trillion, representing an annual increase of mere 2.6%. Land purchase has fallen by 33.8% YoY. On the other hand, sales have risen by 7.5%. Overall, despite of the fact that the sales number has been improving for over a year, yet with high land price in first-tier cities and low turnover in third and fourth tier cities, the investment sentiment has not been significantly improved.

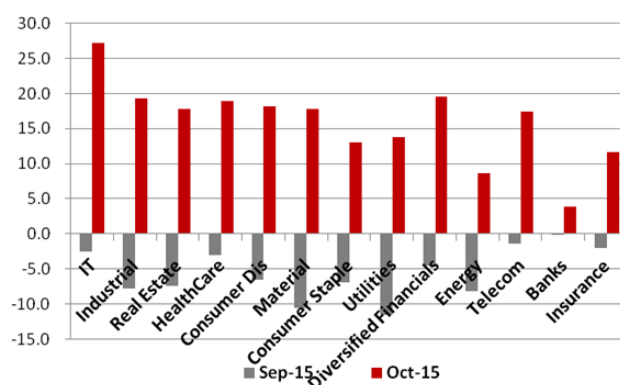
Export has fallen by 11.4% and CPI increased by 1.6%, significantly lower than expectation, and mainly dragged by tapering of pork price. PPI was down by -5.9% YoY, which is the same with that of last month. The pressure on the industrial sector mainly caused by overcapacity remains large. The monetary policy remains loose with the final step of marketization of interest rate -- On Oct 24th, the PBoC made the announcement that another round of interest rate cut and RRR cut will be made. On Oct 27th, the central government published a series of documents to illustrate the 'Thirteen Five Planning'. This grand government scheme aiming to improve the quality of the economic growth and promote sustainable economic development has a wide range of agendas, including shaking off poverty; strengthening universal high school and professional education; Internet strategy; RMB internationalization as well as the financial sector reform. On the other hand, the social reform has made substantial improvement. China is ending the one-child policy, a regulation which has been controversial both domestic and abroad for the past three decades. This policy reverse is aiming to slow down the worsening of a state of an aging population and will no doubt release immense demographical dividends.

Market

In terms of monthly market performance, **all boards and sectors have reversed the falling trend of previous month. Shanghai Composite and CSI 300 have both improved with monthly gains of 10%.** As small cap stocks regain momentum this month, GEB performed the best among all boards with an 18.9% gain.

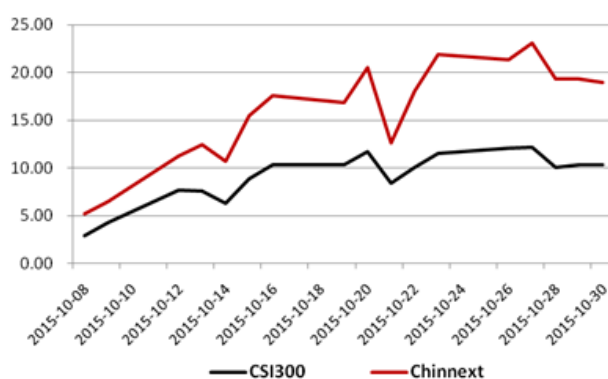
As for the sector performances, IT performed the best with a monthly increase of 27%. Industrial, Healthcare and Diversified Financial sectors also reported sound performances of 19%. Energy and Banks were the two worst-performing sectors that had only 8.6% and 3.9% monthly gains, respectively.

Graph 1: China A share sector performance (%) in October

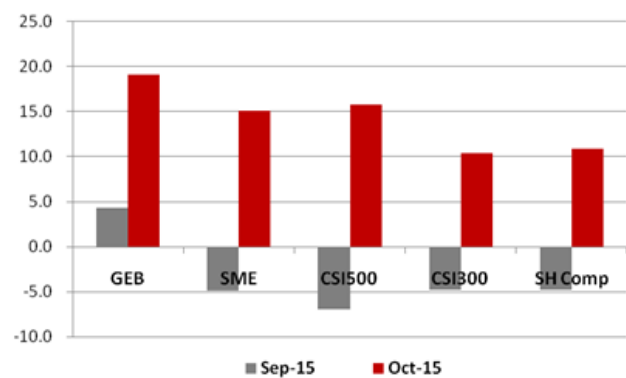


Source: Wind Info, ChinaAMC

Graph 2: Performance of Shanghai Index and Chinxet in October



Source: Wind Info, ChinaAMC

Graph 3: Performance of different indexes in October

Source: Wind Info, ChinaAMC

China's economic development is going to sustain with massive consumption upgrade and a growing middle class. However the economy still need improvement and liquidity in some areas. At present, the capital remains fluid, and with yield on bond remains low, the equity market remains appealing to many investors. The debt market is now confronting itself with a problem of accumulated credit risk as the leverage rate is now at a relatively high level, thus making equity asset a favorable choice in strategic asset allocation. The market has rebounded nearly 10% since the middle of September, and ChiNext index had a more than 20% increase. As for now, with the price of many growth stocks returning to the previous level prior to the market volatility in June, we are vigilant about the possible correction.

Outlook

As the 3rd quarter economic data continues to slide and the demand for traditional industries shrinks, the possibility of economy going upward is slim. In general,

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