



# Hong Kong/China Market

## Technical Strategy

**HSI may rally towards the top of the 2010 trading range at 21,600 this week, but falling moving averages still a problem...**

### Market Wrap

- The HSI and HSCEI rose 102 points (0.49%) and 78 points (0.67%) respectively to close at 20,971 and 11,767 on Friday, up 1.82% and 3.27% for the week. Turnover was HK\$72.6 billion, noticeably higher than the average turnover of HK\$56.8 billion in the last three months.
- China Property stocks rallied. Shimao (813) rose 3.8% after contract sales increased 35% from July to Rmb 2.7 billion in August. KWG (1813) added 3.0% on broker upgrades. New HSI constituents Belle (1800) and China Coal (1898) gained 1.2% and 1.9% respectively.
- China Auto stocks shone; GZ Auto (2238), Dongfeng (175) and Geely (175) all gained about 5% apiece. Construction machinery continued to advance after strong first half earnings. Esprit (330) declined another 5.4% on disappointing European sales and a broker downgrade.
- On Friday night, US stocks continued to rise on the better than expected employment and manufacturing data. The S&P 500 added 1.32% to 1,104.51. Commodities also firmed towards the top of their recent range.

### Macro View

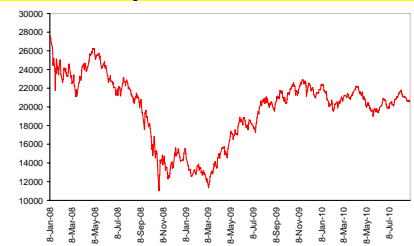
- Last week's rally on Wall Street of some 3.8% is encouraging, but most indices including the HSI have so far just moved back to the middle of this year's trading ranges.
- Given the position of the RSI and other technical indicators it seems quite likely that the HSI will test the upper resistance line at 21,600 in a week or two, but we will watch the moving averages carefully.

### Trading Idea

- Dongfeng (489) is a leading carmaker in China with c.15% share of the passenger car market. It reported 155% YoY growth in first half net profit. The stock is trading on a reasonable 11.0x 2010 PE but is now overbought. Take partial profit and look to buy after a correction.

Indices	Latest	Chg. Pts
HSI	20,972	103
DJIA	10,448	128
S&P 500	1,105	14
NASDAQ	2,234	34
H-share	11,767	79
Red-chip	4,085	20
Shanghai Comp	2,655	0
Shenzhen Comp	1,178	6

### HSI - Index performance



### DJIA - Index performance





## Industry News

- **China banking sector:** The China Securities Journal reported that the top five state-owned banks on the mainland reported an increased in special-mention loans (which are debts that could potentially turn sour) by Rmb54bn (which accounted for 3.91% of their total loan assets) in 2Q10, raising concerns over asset quality despite declining bad-loan ratios. (SCMP)
- **China automobile sector:** The director of industry planning at the NDRC, Chen Bin, said China must take measures to avoid carmakers' overcapacity, and according to preliminary expansion plans drafted by local governments, China's car-making capacity may far exceed demand by the end-2015. (Bloomberg)
- **China insurance sector:** China has approved insurers to hold commercial and office real estates to reduce investment risks. However, insurers are not allowed to invest in residential properties, or be directly involved in real estate development, and invest in unlisted equities of property developers. Insurers' exposure to property sector or related financial assets cannot be higher than 10% of insurers' total assets. Regarding investments in unlisted equities, insurers can only buy equities of companies in growth phase and maturity phase and cannot buy stakes in venture capital firms or companies that the government classifies as polluting and energy-intensive. (Bloomberg, China Securities Journal)

## Corporate News

- **Zhaojin (1818 HK):** The company said it will invest Rmb500m to build a gold processing plant in Xinjiang province. Construction of the plant in the Kupusu and Yemaquan regions of Qinghe county will be completed in Dec12, and the plant is estimated to have a capacity of 2,000 tonnes a day. (SCMP)
- **China BlueChemical (3983 HK):** The company expects better sales prospect in 2H10 in spite of facing difficulties in securing resources both at home and abroad. It said rising exports on the back of seasonal cuts in export tariffs, and closure of small and energy-inefficient facilities due to higher gas feedstock supply pressure, should relieve domestic oversupply pressure. In addition, surging food prices due to lower output and a correction for under-utilization of fertilizer in the previous two years would also bode well for demand in 2H10. (SCMP)
- **Guangzhou Automobile (2238 HK):** The company has started producing its first home-grown model, the Trumpchi, and will sell for about 15% less than the Rmb180,000 Toyota Camry. The company expects sales of Trumpchi to reach 30,000 units by next year. (SCMP)



- **Coolpoint Energy (8032 HK):** Li Ning hopes a restructured Coolpoint Energy, which will be renamed as Viva China, will become the leader in the mainland sports business. Li Ning plans to take the firm from GEM board to the main board within three years. Viva China will develop a high-end residential project on a 607-hectare plot in Shenyang, with the building area totaling 800m sq. meters. Viva China will help the Changchun municipal government construct and run a sports center. It will also provide building materials to the Shenyang government for the National Games in 2013. Viva China plans to run sport events usually organized by the government. (The Standard)

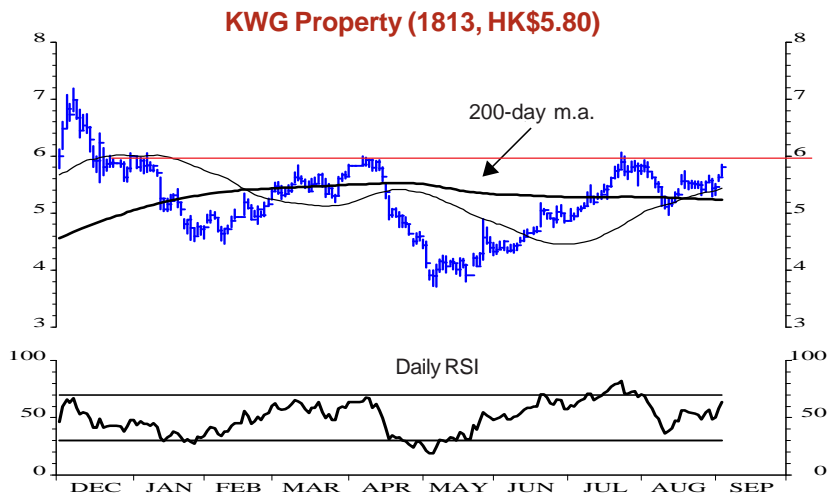
## Result Announcement

- **Country Garden (2007 HK):** Contracted sales in Aug10 surged 197% yoy to Rmb3.1bn, while that in Jan-Aug10 rose 66% yoy to Rmb18.4bn. (Apple Daily)

TECHNICAL STRATEGY

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*KWG has moved out of the recent trading range above its 200-day m.a. and could rally strongly from here, although there is potential resistance at HK\$6.00. **Trading buy with a stop loss at HK\$5.40.***



Source: Thomson Financial Datastream

*Shimao has rallied to its 200-day m.a. and may move up further according to its RSI, although there is resistance up to HK\$14.00 at least. **Consider a trading buy on a higher chart low on or above the 200-day m.a.***



Source: Thomson Financial Datastream

*Esprit was already in a downtrend before last week's disappointing results. **Avoid for the time being.***

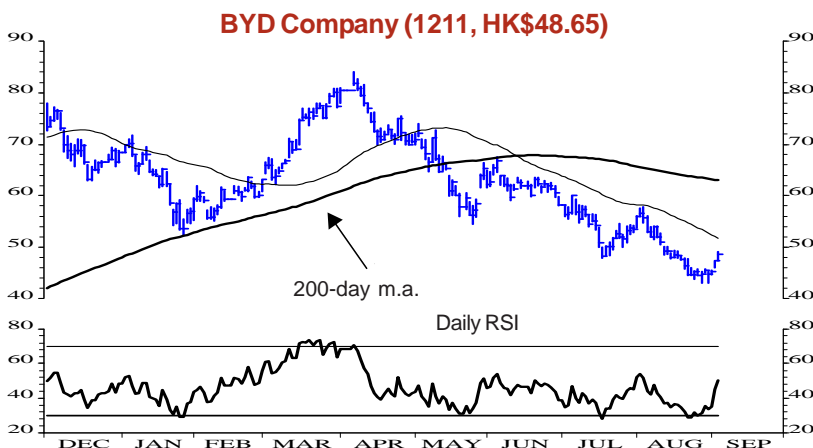


Source: Thomson Financial Datastream

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BYD has been in a severe downtrend but is now rallying towards its 50-day m.a. at HK\$50.00. Consider a trading buy on a higher chart low as the 50-day m.a. is crossed.



Source: Thomson Financial Datastream

Dongfeng rallied strongly last week but is now at a likely resistance level near HK\$14.00 and is according to the RSI. Take profit into any further strength or look for an entry point after some consolidation.



Source: Thomson Financial Datastream

Hang Seng Composite Sectors

Sector	Index	Day (%)	Week (%)	MTD (%)	YTD (%)
Hang Seng Index (HSI)	20971.50	0.49	1.82	2.12	-4.12
Hang Seng Composite	2969.60	0.54	2.70	2.54	-2.70
HSCI Info Technology	2203.80	1.78	3.11	2.54	-17.44
HSCI Telecommunication	1710.40	1.51	0.92	3.18	11.84
HSCI Industrial Goods	1591.17	1.43	8.41	5.41	13.55
HSCI Property & Construction	2798.29	0.85	3.60	2.93	-4.05
HSCI Services	3706.23	0.54	2.59	2.05	10.79
HSCI Financials	3316.04	0.41	2.23	2.63	-7.87
HSCI Energy	12050.02	0.40	2.53	1.77	-5.94
HSCI Materials	9737.95	0.32	4.46	3.65	-10.02
HSCI Conglomerates	2205.12	0.29	2.89	3.17	1.56
HSCI Consumer Goods	5517.59	0.12	3.78	2.22	6.61
HSCI Utilities	5211.53	-0.55	1.39	0.49	5.21
HS Mainland 100	6709.33	0.72	2.81	2.55	NA
HS China Enterprises	11767.41	0.67	3.27	3.20	-8.02
HS China H-Financial	16556.68	0.81	2.38	2.69	-6.34
HS China Affiliated Corps	4085.41	0.49	3.36	2.38	0.63
HS HK 35	2216.86	0.16	1.62	1.88	NA
HS HK Comp Large Cap	1711.84	0.49	2.02	2.15	NA
HS HK Comp MidCap	4478.16	0.66	4.69	3.63	NA
HS HK Comp Small Cap	2395.60	0.89	5.57	4.29	NA

Source: Thomson Financial Datastream

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