



Hong Kong/China Market

Technical Strategy

HK market rallies on improved turnover, increasing the probability of a successful challenge of the 21,700 resistance level...

Market Wrap

- The HK market continued to rally yesterday as investors focused on better-than-expected US job data and reacted positively to IMF comments on a steady global recovery. The HSI surged 384 points, or 1.83%, to 21,355 while the HSCEI rose 193 points, or 1.64%, to 11,960. Turnover was HK\$70.2 billion.
- The advance was broad based, led by Materials, IT and Property. HK Exchanges (388) gained 5.1%. HK Property stocks mostly rose; SHKP (16) and Henderson Land (12) were up more than 3.3% apiece. China Property names played catch-up despite expectations that anti-speculation measures will remain in force.
- China steelmakers jumped on expectation that steel production will be cut as the central government is committed to achieving its energy efficiency and emission targets. Magang (323) jumped 10.1% and Angang (347) was up 6.6%. Other Material counters also gained.
- Overnight European and other markets edged up modestly during the US Labour day holiday. The German DAX closed 0.33% higher at 6,155.04. Commodities and currencies were also stable.

Macro View

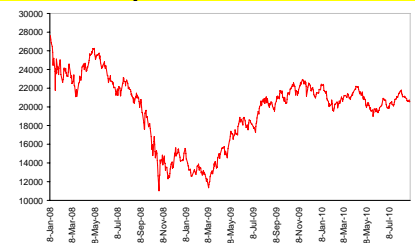
- The last two days' trading in HK looks quite convincing in view of the strong thrust back above the 200-day m.a and increased turnover.
- Seasonally, this a good time for the stock market other than in bear years like 2002 and 2008. Assuming the rally continues, the key thing development will be for the 200-day m.a. to turn up again.

Trading Idea

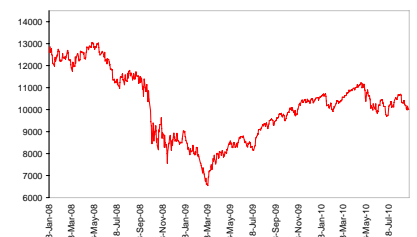
- Tencent (700) is a unique internet company in China and has consistently been able to monetize the online community. It is trading on 30x 2010 PE, and the chart shows potential to regain the uptrend.

Indices	Latest	Chg. Pts
HSI	21,356	384
DJIA	10,448	128
S&P 500	1,105	14
NASDAQ	2,234	34
H-share	11,961	193
Red-chip	4,158	73
Shanghai Comp	2,696	41
Shenzhen Comp	1,178	0

HSI - Index performance



DJIA - Index performance





Economic News

- **China economy:** Huang Hai, an economics official with the Chinese People's Political Consultative Conference, forecasts that China's retail sales might reach Rmb34tr in 2016, outstripping those of the US, based on annual growth in sales so far this century of 14.5% in China and 4.6% in the US. (SCMP)

Industry News

- **China property sector:** The Beijing Times reported that around 80% of Beijing banks have scrapped the 30% discount on interest for first-home mortgages and offer only 15% as home sales rebounded last month. At the same time, the loan that a first-homebuyer can get has been lowered to 60% from 80% previously. (The Standard)
- **China industrial sector:** China has renewed its effort to consolidate key industries, such as cement, steel, rare earth, vehicles, by issuing measures that would allow more private capital to invest in key sectors and permit company mergers across provincial borders. The goal of the government is to form several giants in each sector that can compete globally. (SCMP, Apple Daily)

Corporate News

- **HSBC (5 HK):** The bank's bid for 70% of South Africa's Nedbank may be derailed after central bank chief Gill Marcus said the move does create a situation of complexity that needs careful consideration. (The Standard)
- **Far East Holdings International (36 HK):** The counter suspended yesterday and the company said that one director and two of its staffs have been charged by the Commercial Crimes Bureau. Far East said the charges will not have a material adverse impact on the operations and financial position of the company and the counter will resume trading today. (The Standard)
- **China Haidian (256 HK):** Haidian said it may sell its enameled copper wire unit to concentrate on its core business of making and selling watches. It is now negotiating to sell the subsidiary and hopes that the deal could be completed in 2H10. Haidian further said it will open 300 more counters for its EBOHR and Rossini watch brands this year in the mainland, and expects watch sales in 2H10 to be higher than in 1H10 on the back of growing demand and a bigger distribution network. (The Standard)



- **BYD (1211 HK):** BYD said sales in Aug10 dropped 5.9% mom or 19% yoy to 31,069 vehicles, a new low of this year, due to the government reducing incentives for auto purchases. For the first eight months, BYD sold 353,129 vehicles, around 59% of its full-year target. Although sales have fallen for five straight months, BYD said sales is rising over the next tow months. (The Standard)
- **China Strategic Holdings (235 HK):** The company said AIG is set to pull out of the failed deal involving Nan Shan Life Insurance, and it has received formal notification from Taiwan authorities of their rejection of its bid to buy the insurance company. The counter plunged 40.38% before closing at HK31 cents after resumed trading yesterday. (The Standard, SCMP)
- **China Metallurgical (1618 HK):** China Metallurgical unveiled plans to develop an iron ore mine in western Australia. The construction of its Cape Lambert project will start in mid-2012 and start operation by 2015. China Metallurgical plans to mine 55m tons of low-grade magnetite iron ore at the project and then process it into a magnetite concentrate at a rate of 15m tons a year. (China Daily)

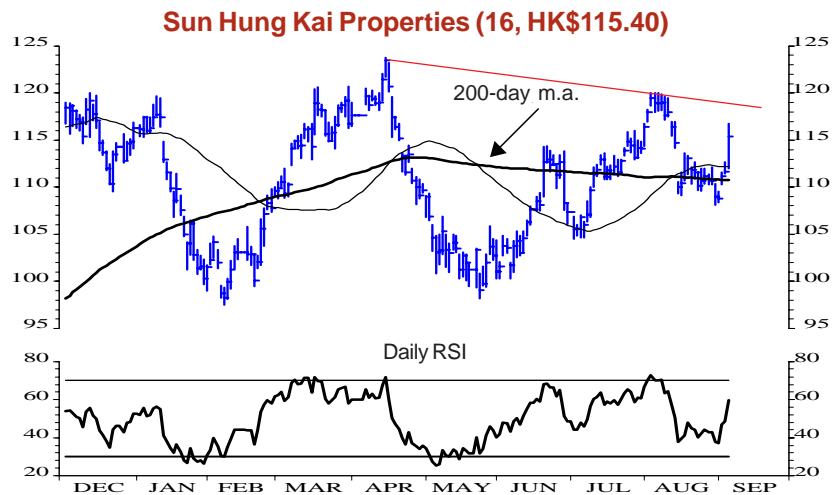
Result Announcement

- **Shanghai Forte Land (2337 HK):** Contracted sales in Aug10 surged 192% yoy to Rmb1.43bn. (The Standard)

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SHK Properties jumped up yesterday but may hit resistance at HK\$118.00 soon. **Trading buy with a stop loss at HK\$112.00.**



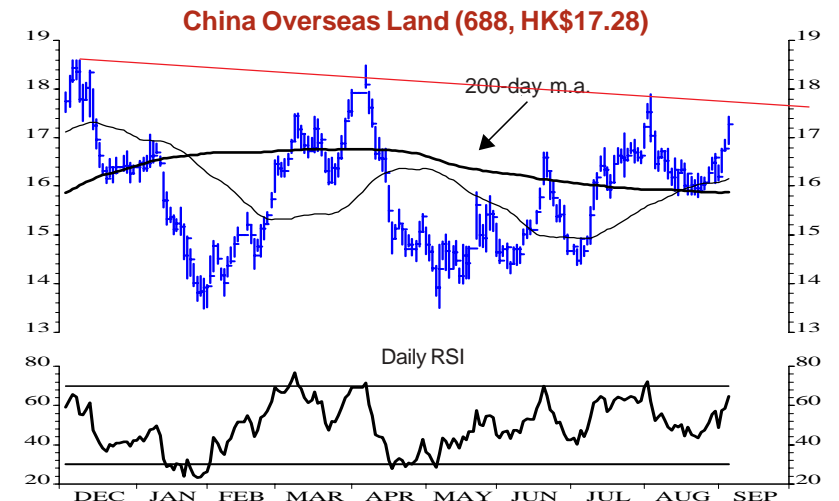
Source: Thomson Financial Datastream

Cheung Kong has resistance at HK\$103.00, but the 50-day m.a. is moving above the 200-day m.a. in a “golden cross”. **Buy on a move above HK\$103.00 or hold with a stop loss at HK\$98.00.**



Source: Thomson Financial Datastream

China Overseas Land has a similar pattern to HK property stocks, with key resistance at HK\$17.70. **Trading buy with a stop loss at HK\$16.40.**



Source: Thomson Financial Datastream

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CNOOC looks set to test resistance at HK\$13.80. Trading buy with a stop loss at HK\$13.00.



Source: Thomson Financial Datastream

Tencent rallied strongly yesterday and is now crossing above its 200-day m.a. Watch also for the resistance at HK\$152.00 or so to be broken. Buy on a move above HK\$152.50 or hold with a stop loss at HK\$145.00.



Source: Thomson Financial Datastream

Hang Seng Composite Sectors

Sector	Index	Day (%)	Week (%)	MTD (%)	YTD (%)
Hang Seng Index (HSI)	21355.77	1.83	2.98	3.99	-2.36
Hang Seng Composite	3022.00	1.76	3.66	4.35	-0.98
HSCI Materials	10055.97	3.27	6.42	7.04	-7.08
HSCI Info Technology	2260.06	2.55	4.66	5.16	-15.33
HSCI Property & Construction	2869.14	2.53	5.28	5.53	-1.62
HSCI Financials	3376.99	1.84	3.18	4.52	-6.17
HSCI Conglomerates	2241.74	1.66	4.34	4.88	3.24
HSCI Consumer Goods	5607.28	1.63	4.14	3.88	8.34
HSCI Industrial Goods	1615.07	1.50	8.03	6.99	15.26
HSCI Utilities	5286.34	1.44	1.89	1.94	6.72
HSCI Services	3757.79	1.39	3.73	3.47	12.33
HSCI Energy	12199.01	1.24	2.32	3.02	-4.78
HSCI Telecommunication	1719.45	0.53	2.15	3.72	12.43
HS Mainland 100	6821.15	1.67	3.49	4.26	NA
HS China Enterprises	11960.57	1.64	3.72	4.89	-6.52
HS China H-Financial	16811.36	1.54	3.20	4.27	-4.90
HS China Affiliated Corps	4158.46	1.79	4.08	4.21	2.43
HS HK 35	2264.94	2.17	3.52	4.09	NA
HS HK Comp Large Cap	1741.43	1.73	3.03	3.92	NA
HS HK Comp MidCap	4570.88	2.07	5.59	5.78	NA
HS HK Comp Small Cap	2428.17	1.36	6.11	5.71	NA

Source: Thomson Financial Datastream

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