

TECHNICAL STRATEGY

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

The HSI crossed above its 200-day m.a. on Friday and may continue to move up towards the top of the range at 21,600 in the next week or two. Since the 200-day (and 20-day) m.a.s are trending down however we are cautious beyond that and would take profits in any stocks that become overbought.



Source: Thomson Financial Datastream

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.

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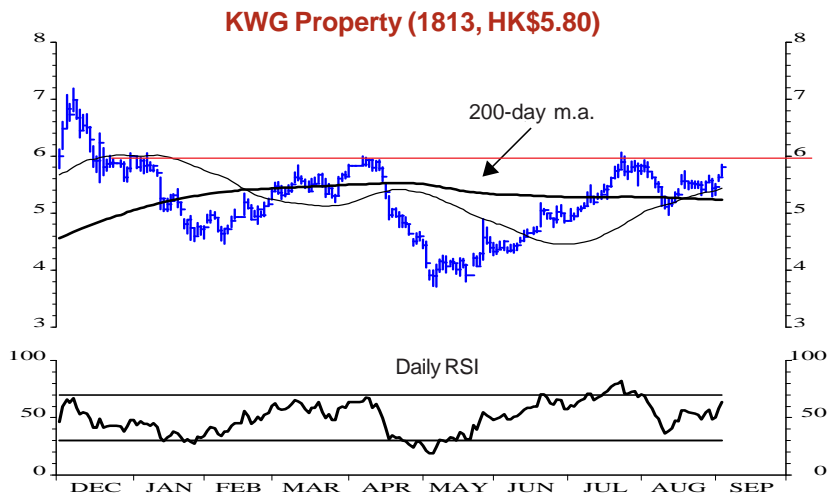


Additional information on the securities discussed within this report is available upon request.

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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.***

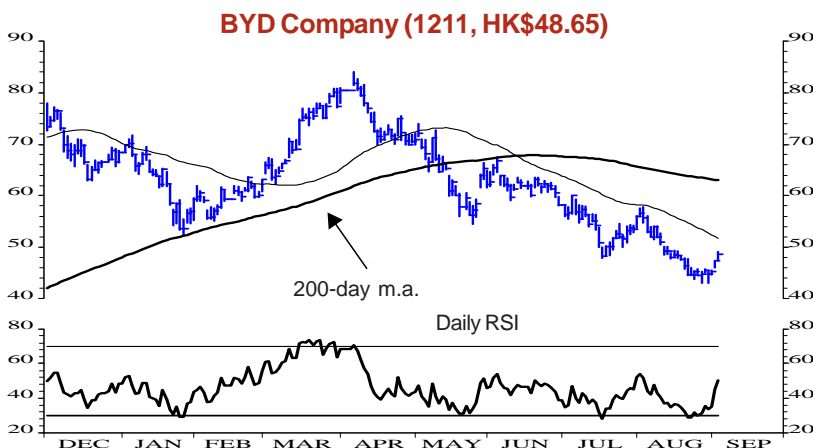


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BYD has been in a severe downtrend but is now rallying towards its 50-day m.a. at HK\$50.00. Consider a trading buy on a higher chart low as the 50-day m.a. is crossed.



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