



Aberdeen

# China/Hong Kong Update

## Market Overview

- The MSCI Zhong Hua Index rose in December in view of the brighter economic outlook, though gains were capped by worries over a glut of new issues and their impact on liquidity. Chinese property stocks also lagged after Beijing stepped up measures to stem real estate speculation. For the full year, the MSCI Zhong Hua Index jumped more than 50% in US dollar terms.
- In economic news, the pace of China's recovery quickened in November on the back of brisk bank lending, though the underlying momentum may be less dramatic than headline figures suggest because they compare with November 2008 when trade stalled. Inflation worries also resurfaced as consumer prices rose year-on-year for the first time since January 2009. In Hong Kong, retail sales posted solid gains, helped by the improving labour market and a pick-up in tourism. Exports were also positive, thanks to firm demand from other Asian countries.
- On the policy front, Beijing said it would keep monetary conditions loose and maintain a proactive fiscal stance for 2010, reflecting its concerns about the fragility of the global upturn. Against this, policymakers will try to use credit and other measures to address excess liquidity, which has led to overcapacity in certain key sectors as well as rising asset prices. Meanwhile, China imposed anti-dumping duties on some US and Russian steel products amid rising friction with its trading partners.
- Looking ahead, continued high economic growth offers support to equities, though speculation about the inevitable tightening is expected to increase market volatility. China's economic structure, while heavily skewed towards exports and investment, is unlikely to change in the short term, despite efforts to spur private consumption. More spending is being directed at inland provinces. Hong Kong will benefit from China's growth story, but an economic relapse in the West could still weigh down its recovery.

## Model Portfolio News

During the month, we subscribed to the initial public offering of department store operator PCD Stores, which we subsequently sold because of the small allocation and strong gains upon debut.

*Note:*

*The changes refer to our model portfolio, which is the basis for actual portfolios we manage that have similar investment objectives. However, there might be minor variations, so the changes may not apply to all portfolios.*

## Corporate News

**Texwinca**, **Hung Hing Printing** and **Kingmaker's** interim results were aided by improved margins amid tight cost controls, while **CLP Holdings'** coal-fired power plant in Australia will likely benefit from the Senate's rejection of proposed cuts in carbon emissions. Separately, **Standard Chartered** expects any Dubai losses to be immaterial and said it remains well positioned to gain from the opportunities in emerging markets as they continue to recover.

We hold all the companies highlighted.

## Key Economic Numbers

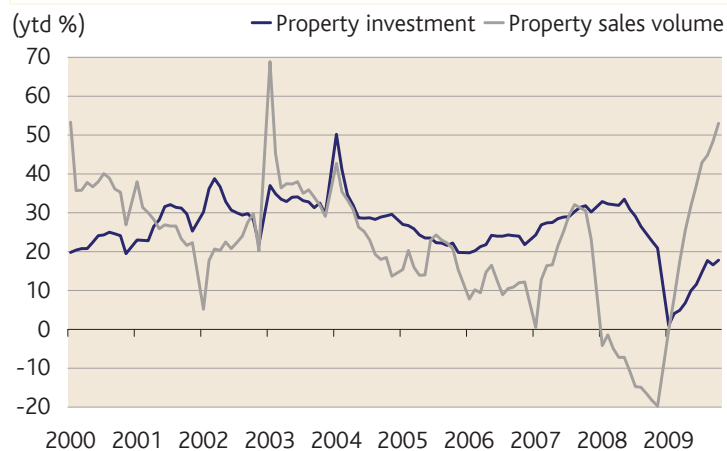
**15.8%** China's retail sales maintained their positive momentum in November and are likely to continue as the increasingly pro-consumption government extends subsidies for home appliances and cars. As it is, the auto industry has been seeing double-digit growth rates for most of the year.

**0.6%** The Chinese economy returned to consumer price inflation in November and is expected to register further price increases, in part reflecting the low comparison base. However, as growth concerns ease, market sentiment could become more sensitive to any sign of inflationary pressure.

**5.7%** Beijing reintroduced a sales tax on homes sold within five years of their purchase after property prices in major cities climbed 5.7% year-on-year in November. The move was the government's first concrete response to mounting concerns over a property bubble.

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### Focus – China's property market: Seeking a balance



Supportive lending policies have triggered strong growth in China's housing market. Encouraged by this, developers have boosted construction and land acquisition. Although the robust recovery in the property sector has buoyed domestic demand, speculation is in danger of creating a price bubble. In response, Beijing has started to tighten credit. Rising urbanisation should, however, underpin real demand growth over the long term.

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