新鴻基金融集團
SUN HUNG KAI FINANCIAL

45 周年 years

[For immediate release]

SHKF expects global economy to grow modestly in the 2H 2014

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HSI to reach 25,000

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Favours Europe and North Asian countries stocks
Prefers USD

Highlights:

- The global economy is expected to grow modestly, led by developed markets such as the US and Europe
- Tamed inflation allows sustained accommodative monetary policy in major economies; low interest rate atmosphere offers a favourable environment
- Overweight allocation in equities, favours Europe and North Asian countries stocks
- Revised HSI target to 25,000; and HSCEI target 12,300
- Maintain sector overweights on policy beneficiaries of China's economic reform. Renewable energy, insurance, Chinese brokerages, infrastructure and railway, pharmaceuticals and healthcare, automobile, technology and internet stocks are preferred
- Prefer USD; Sell AUD

Hong Kong, 19 June 2014 – Hong Kong, 19 June 2014 – Sun Hung Kai Financial ("SHKF") expects the global economy to grow modestly in the second half of 2014, led by developed markets such as the US and Europe. Tamed inflation the world over allows sustained accommodative monetary policy in major economies while the low interest rate atmosphere offers a favourable environment, one which may bode well for market sentiment. The upside potential of major stock markets may be limited since their stock valuation has reached the fair-value level over the past few years.

Mr Kenny Wen, Wealth Management Strategist of SHKF said, "We maintain an overweight allocation in equities and believe that global stocks may trend higher moderately, in which Europe and North Asian countries look relatively better than others. We have a higher expectation of potential return for China and Korea stocks with a lower valuation as they may benefit from export increase resulting from a stronger global economic growth."

HK Equities: Revised down HSI target to 25,000; supportive policies strengthen Chinese stocks

The sluggish economic growth in China during the first half of 2014 has dampened positive effects of the structural economic reforms. The Hang Seng Index (HSI) plunged as much as 10%, then rebounded and reclaimed the end-of-2013 level. The gloomy economic sentiment has hampered business atmosphere. According to Bloomberg, the HSI's 2014 estimated earnings per share (EPS) growth was revised down to 1% from 8% in December 2013.

Against this background, SHKF remains cautiously optimistic on Hong Kong equities in 2H 2014, with limited upside prospects compared with the beginning of the year. The Chinese economy has recently shown some signs of improvement on the back of the mini stimulus measures; while the exports sector expanded due to the accelerating European and US economic growth. The structural economic reforms announced at the Third Plenary Session may boost sustainable economic development in the medium/long run. China's GDP is expected to attain the milder 7.5% growth target. The upside potential of Chinese stocks may come from a rebound in valuation in the medium/long term.

On the other hand, the Hong Kong stock market in 2H is haunted by uncertainties, especially worries about China's economic growth. A weak domestic demand coupled by growing expectations of lowering property prices may suggest that the recovery of the Chinese economy could be derailed if the downward trend of the property market is confirmed. Looking forward, we should pay heed to whether the central government would consider additional mini stimulus measures and their potential effectiveness.

The HSI is now trading at 10.7X forward P/E, lower than the five-year average of 12.2X, showing undemanding valuation. However, in view of China's weaker-than-expected economic recovery, we have revised down our HSI target from 26,000 to 25,000; and HSCEI target down from 13,500 to 12,300 for 2H 2014.

A series of reforms have been carried out this year with the Third Plenary Session, held in November 2013, outlining a blueprint for economic reforms in the coming decade. We will continue to focus on investment themes related to the structural reforms, and our five investment themes are: (1) environmental protection and new energy; (2) information technology and internet; (3) consumption upgrade; (4) healthcare and social security; (5) financial reforms, together with newly-added (6) sectors driven by supportive policies for growth stability. Renewable energy, insurance, Chinese brokerages, infrastructure and railway, pharmaceuticals and healthcare, automobile, technology and internet stocks are preferred.

US: Improving economic data offset by stock overvaluation

The US economy was curbed by the extreme weather conditions during the first quarter; when the climate turned warmer in the second quarter, the growth in economic activity started to pick up. The US economy is expected to expand by 2% this year. However, the slightly higher valuations may prompt US stocks to enter range-bound trading.

Euro: European assets to benefit on ECB's bold move

In June, the European Central Bank (ECB) unveiled a package of measures, including a negative interest rate to fight the low inflation. The Eurozone could emerge from the two-year recession with an estimated GDP growth of 1% in 2014. European assets including equities and high-yield bonds may stand out among peers aided by the economic recovery and accommodative monetary policy.

Japan: Japanese stocks volatile amid dashed hopes of further QE

Japan's GDP is expected to grow 1% to 1.5% this year. With better-than-expected first quarter GDP growth, the chance of the Bank of Japan (BOJ) implementing additional asset purchase in the near future seems to be slim. Japanese stocks may remain in range-bound trading without major catalyst in the short term.

Currencies: USD to appreciate continuously

The USD gains its upside in a basket of currencies as the Federal Reserve (Fed) will continue its QE tapering in view of diminishing marginal utility of the policy and an asset bubble that is growing excessively large. Mr Bruce Yam, Forex Strategist of Sun Hung Kai Forex Limited, said, "The USD is expected to be resilient to weakening, but risk lies on the chaos in the US foreign policies as those may weaken the USD domination in the world, which can hamper USD appreciation."

The ECB's recent announcement of the negative deposit facilities and a series of up-to-400 billion EUR targeted longer-term refinancing operations starting from September 2014 through 2018 implies that the ECB will not have rate hike until 2018. As a result, the EUR will become one of the carry trade currencies. Against this background, the EUR is expected to depreciate slowly.

With more than 80% likelihood that El Niño will hit Australia this summer, rainfall is likely to be below average, which may affect the country's agricultural productivity and exports in 2H 2014. China will continue its deleveraging effort and it will deal with the overcapacity problem, resulting in an adverse effect on Australian iron ore exports. Furthermore, the Reserve Bank of Australia has repeatedly emphasise that the AUD is close to its historical high. All these factors disfavour the AUD and weakening of the currency is expected.

As for the JPY, as BOJ will not expand its QE size this year, the Japanese currency is expected to experience range-trading with its direction influenced by the investment focus of the country's Government Pension Investment Fund and the national bond yield, which may send the USD/JPY rate north again after the consolidation of USD/JPY finishes.

For the RMB, in contrast to last year, the inflow of hot money to the Chinese market has slowed. The Chinese economy is slowing down evidently, and new hot money inflows are expected to stall until reform success is seen, which will take several years. As a result, the RMB has little room to rebound, with the support at 6.15 to 6.18 and resistance at 6.35.

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About Sun Hung Kai Financial Limited

Sun Hung Kai Financial Limited ("SHKFL"), founded in 1969, is a wholly-owned subsidiary of Sun Hung Kai & Co. Limited (Stock Code: 86).

Operating under the Sun Hung Kai Financial brand as well as the SHK Private and SHK Direct sub-brands, SHKFL has two core business segments, Wealth Management and Brokerage, and Capital Markets. They offer customised financial solutions for retail, corporate and institutional clients.

SHKFL has an extensive branch and office network in Hong Kong, Macau and Mainland China, and offers a diversified financial trading platform to its customers. SHKFL, through its subsidiaries, currently has over HK$77.8 billion* in assets under management, custody and/or advice. For more information, please visit www.shkf.com.

**Figures as of 31 December 2013*

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 # This press release is based on the views and opinions presented by Sun Hung Kai Investment Services Limited's retail research team.