新鴻基金融集團
SUN HUNG KAI FINANCIAL

[For Immediate Release]

SHKF holds a cautiously optimistic outlook for 2013
Expects a more predictable, yet constructive investment environment

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Major global economic risks eliminated
Favours Equities and High Yield Fixed Income

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Favours Prime Chinese Policy Beneficiaries Sectors
Expects HSI to Reach 25,800
Sells JPY, RMB to appreciate 2-3%

Highlights:

- SHKF holds a cautiously optimistic outlook for 2013 on the back of a more predictable, yet constructive, economic and investment environment as modest growth in the global economy expected.
- Continues to see significant challenges in growth and employment in the developed markets.
- Overweighting on equities and high yield fixed income while underweighting long-term fixed income in both higher investment grade credit and developed market sovereigns.
- Expects the HSI to reach 25,800, the HSCEI to reach 13,500 in 2013, and the SHCOMP to reach 2,530.
- Overweight cyclical sectors in 1H 2013: prime beneficiaries of China's economic recovery, such as materials and construction.
- Plays the urbanisation theme over the longer-term: natural gas, electrical appliances and automobiles.
- Ultra-low interest rate environment continues to benefit stable high-yielding plays: REITs, utilities and toll roads. But need to be selective as some are already pricey.
- Forex: Japan crisis to detonate, sell JPY.
- RMB sees 2-3% appreciation.

Hong Kong, 18 December 2012 – Sun Hung Kai Financial ("SHKF") holds a cautiously optimistic outlook for the year of 2013 on the back of a more predictable, yet constructive, economic and investment environment. As worries of major global tail-risk economic events in the US and Europe were eliminated, and new policies developed in these major economies over the past year are believed to be able to adequately contain systemic risks in the next twelve months, 2013 is seen to be a more friendly investment environment. Coupled with an expected modest growth in the global economy, led by China and the emerging markets, investors should consider overweighting on equities and high yield fixed income while underweighting long-term fixed income in both higher investment grade credit and developed market sovereigns.

Mr. Stephen Sheung, Investment Strategist of SHK Private, said, “We are cautious as despite a more positive cyclical outlook, our concerns about the global economy have remained unchanged. Economic growth in China and emerging markets are still highly dependent on policy decisions and fiscal expansion that may not be sustainable over the long-term. New policy measures over the past year are for crisis-fighting instead of a long-term sustainable growth plan. We continue to see significant challenges in growth and employment in the developed markets amid below-average financial health at both individual and sovereign levels. The key risk is that the medium- to long-term interest rates may rebound. The growth theme will be clearer as events and economic figures solidify the signs of growth as the year goes on.”

For equities, SHKF expects the HSI to reach 25,800, the HSCEI to reach 13,500 in 2013, and the SHCOMP to reach 2,530. China remains our most preferred market amid improving economic sentiment. US equities may break its 2012-high.

In terms of asset allocation, more transparency in the near-term economic outlook will lead to better valuation levels on risk assets. Therefore, we advise overweighting on equities and high yield fixed income while underweighting long-term fixed income in both higher investment grade credit and developed market sovereigns. Within high yield, emerging Asian sovereigns and global high yield corporates are preferred over other high yield segments.

HSI to reach 25,800, as China undergoes modest cyclical recovery and new politburo clears

For Hong Kong equities, Mr. Daniel So, Securities Strategist, Sun Hung Kai Financial, says, “After staying below-trend for years since the financial tsunami, Hong Kong stock markets’ valuation could gradually approach its long-term average, as China’s economy undergoes a cyclical recovery, and policies of the new politburo are getting clearer. But we are not getting euphoric. There are still headwinds across the globe. China’s structural change will take time and could be painful too. It would be difficult for valuations to rise to above-average levels.”

In 1H 2013, Mr. So recommends overweighting cyclical sectors, stocks that would be the prime beneficiaries of China’s economic recovery, such as materials and construction. Urbanisation is the theme over the longer-term, for example natural gas, electrical appliances and automobiles. Ultra-low interest rate environment continues to benefit stable high-yielding stocks including REITs, utilities and toll roads, and investors should be selective as some are already overpriced. Mr. So is in the view to sell China thermal power producers and consumer staples due to rich valuations and margin pressure. They were among the safest in 2012 when the economy slowed, but now they may be the most dangerous.

China: Fiscal stimulus comes to fruition, economy growth sees 7.5%-8.5%

Chinese economy is expected to grow at 7.5% to 8.5% in 2013, with stronger momentum in 1H. Recent acceleration in fixed asset investments is expected to follow through and will again be the largest GDP contributor. Retail sales should continue to benefit from a rising wealth level and spending power. Exports and manufacturing may also improve as the US and Europe consumer sentiment pick up. Overall, SHKF expects the Chinese equity market to outperform as valuations expand from the currently distressed levels. People’s Bank of China (PBOC) monetary policy is expected to remain loose in 1H with mild inflation levels. However, the PBOC may not pursue further easing moves as growth stabilises. Inflation may pick up in 2013 2H which may prompt the PBOC to start raising the benchmark rates or the reserve requirement ratios.

US: The business sector needs to step up

US real GDP growth is expected to fall between 1.5% and 2.0% in 2013. Job creation and business investments, which have slowed in Q3 and Q4 as fiscal cliff fears clouded hiring and investment decisions, would need to be boosted to extend the growth momentum strengthened in the past few quarters by the real estate market improvements. The two parties are believed to have at least a temporary fiscal cliff resolution to avert a US recession as a first step to rebuilding business confidence in 2013. The US corporate sector is expected to remain cautious on cost commitments and other long-term expansion plans and the unemployment situation to only improve gradually. The US Federal Reserve ("Fed") is expected to continue with its extraordinarily loose monetary stance with a reasonable chance of expanding its asset purchase program throughout 2013 to uplift consumer spending and revitalise the labour market. As the Fed has anchored their interest rate policy to the future trends of inflation and unemployment, movements on the US yield curve will be more correlated with future economic releases. Upward pressure on US interest rates is imminent amid a slowly recovering economy.

Europe: 'More Europe' as Berlin eases its austerity stance

In Europe, the key risks are connected to Berlin's willingness to cooperate with other anti-austerity EU nations, instead of the troubled countries failing to install quick fixes. Overall, the region will continue to feature weak confidence levels and high unemployment rates. The euro area is expected to have another year of negative, but near zero, growth in 2013. The base case scenario sees a decreasing yet still elevated political stalemate in the EU. Consensus on medium- to long-term budget measures and a joint-banking supervisory framework will remain in the working process in 2013. Individual countries may also request to extend their timelines to meet fiscal targets. EU leaders may continue to fall short on addressing structural economic problems and delivering sustainable pro-growth solutions.

Forex: Japan crisis to detonate; RMB sees 2-3% appreciation

Mr. Bruce Yam, Forex Strategist of Sun Hung Kai Forex Limited, said, "In 2013, focus will turn to JPY. Japan has issued more bonds than her tax revenue for four consecutive years and the bond maturity in 2013 is USD 1.98 billion, 45% more than that of 2012. Japan debt crisis is likely to clone the situation in Euro in 2012. As the trade deficit continues and Japan's debt to GDP ratio is 230%, Japanese bonds become one of the time bombs that will be denoted. For RMB, as overseas demand increases, we see a 2-3% appreciation in 2013. EUR, AUD and GBP will be volatile."

From August 1998 USD/JPY moved south from 147 towards the target 75. This year USD/JPY hit the low at 75.57 and rebounded back to 84.14 in March 2012, this is a sign of trend reverse. The main resistance for USD/JPY is 84-86. If USD/JPY rally and surpass this resistance zone, the next target will be 92-94.

For RMB, as the overseas demand in RMB is picking up, London banks are screaming for Bank of England to support more RMB trading. We expect RMB will be still appreciating 2-3% next year. As for EUR, growth in eurozone must wait as the unemployment rate is too high to ignite any growth potential. Since September 2012, 1.312 plays a heavy resistance for EUR/USD. EUR/USD face resistance from 1.312 to 1.35, we expect EUR will still face heavy resistance at this level and re-visit 1.247 -1.25 support in 2013.

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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 & 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, Mainland China and Macau, and offers a diversified financial trading platform to its customers. SHKFL, through its subsidiaries, currently has over HK$56 billion* in assets under management, custody and/or advice. For more information, please visit www.shkf.com.

**Figures as of 30 June 2012*

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