


It's time to see loosening policy


Contradicting the general expectation, Beijing Olympics could not light up Chinese stock market. Chinese stock market experienced its lowest level since China adopted reform policies to the stock market. Although investors have been disappointed and rushing out of the stockmarket, we see promising fundamentals ahead with regard to robust earnings growth and fair valuation now. With regard to the domestic production costs, China's producer-price inflation in July accelerated to the fastest pace, rising by 10% yoy since 1996 on increased energy and commodity costs. That was more than the 9 percent median estimate of 15 economists surveyed by Bloomberg News. Producer-price gains this quarter will be driven by commodity costs, energy-price increases and accelerating industrial production. In the meantime, China raised state-controlled fuel and electricity prices in June and July. Of the items, the

producer price of crude oil jumped 41% in July from a year earlier after rising 36% in June, the statistics bureau said. Ferrous metals climbed 31% after gaining 29%. Bigger producer-price increases, in no doubt, underscore the risk of a rebound in consumer-price inflation, which eased from February's 12-year high on smaller food-price gains. However, the consumer price index rose 6.3% in July from a year earlier, the statistics bureau announced today, after increasing 7.1% in June. That was below the 6.5% median estimate of 17 economists surveyed by Bloomberg News. The expansion of the economy has slowed for four quarters, prompting officials to emphasize the importance of rapid growth and drop references to maintaining a tight monetary policy. In fact, China has already loosened bank lending quotas, raised tax rebates for some exports

and halted the yuan's appreciation against the dollar to help manufacturers and small businesses and stimulate the economy as demand for exports cools. For example, the People's Bank of China increased national commercial banks' lending quotas for 2008 by 5% last month, according to a central bank official and a bond trader briefed by the central bank. Tax rebates were raised on exports of textiles and garments to 13% from 11% from August 1 too. In addition, tumbling commodity prices in recent weeks increased the likelihood of producer-price inflation slowing in coming months. The deceleration in inflation supports the shift in policy as inflation is now under control so now China can focus on sustaining growth. 



Microscope

The Chinese Securities Regulatory Commission (CSRC) claimed last month that it would spare no effort in keeping the capital market stable. The National Development and Reform Commission admitted that it was important to stabilize the stock market. However, China's A-share market has continued to go downhill. Fund managers' recent comments on the falling of stock indexes have become increasingly harsh. Recently, the CSRC warned fund managers not to publish any more negative comments that could potentially hurt market stability. In the past month, state run media has widely reported on the government's attempt to stabilize the stock market. The CSRC called an emergency meeting some time ago with four major securities journals to focus on topics including, "staying stable" and "the systematic construction of a healthy stock market." On July 24, the Shanghai Securities News published a commentary that stated, "Multiple efforts were underway to recover our faith and welcome a favorable return of the A-Share Market." All these did not happen yet. But, on the positive aspect, Chinese officials probably understood the importance of market-driven stockmarket in the long run. 

MARKET BRIEFING


YTD % (local curr)

US DJ
11,734 (-11.5%)
Nasdaq
2,414 (-9%)
Euro Stoxx 50
3,408 (-22.5%)
HSI
21,885 (-21.3%)
Japan NK225
13,168 (-14%)
China Shanghai Composite
2,605 (-50.5%)
Singapore
2,807 (-19%)
India BSE30
15,167 (-25.2%)
Brazil BOVESPA
56,584 (-11.4%)
Aus All Ord
5,037 (-21.5%)
US-10yr Bond
Yield 3.95%


As at 08/08/08

Insight: "Structured Product"

A structured product is generally a pre-packaged investment strategy which is based on derivatives, such as a single security, a basket of securities, options, indices, commodities, debt issuances and/or foreign currencies, and to a lesser extent, swaps. The variety of products just described is demonstrative of the fact that there is no single, uniform definition of a structured product. A feature of some structured products is a "principal guarantee" function which offers protection of principal if held to maturity. For example, an investor invests 100 dollars, the issuer simply invests in a risk free bond which

has sufficient interest to grow to 100 after the 5 year period. This bond might cost 80 dollars today and after 5 years it will grow to 100 dollars. With the leftover funds the issuer purchases the options and swap needed to perform whatever the investment strategy is. Theoretically an investor can just do this themselves. As such, structured products were created to meet specific needs that cannot be met from the standardized financial instruments available in the markets. Structured products can be used as an alternative to a direct investment, as part of the asset allocation process to reduce risk exposure of a portfolio, or to utilize the current market trend. The risks associated with many structured products, especially those products that present risks of loss of principal due to market movements, are similar to those risks involved with options. 

A-Z Financial Tools

Yield Curve, also called term structure of interest rates, is a graphic depiction of the relationship between the yield on bonds of the same credit quality but different maturities. The yield curve can accurately forecast the turning points of the business cycle. Many researches indicate that the inversions of the yield curve (short-term rates greater than long term rates) have preceded the economic recessions. 



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