

## China: Era of "Bullet"!



Government spending and a credit boom helped China's economy recover from its steepest slump in more than a decade, the Shanghai stock benchmark has rallied 73% this year. However, China's stocks dropped on Friday, paring a weekly gain, on concern new share sales will divert money from existing equities. With regard to initial public offerings, mainland companies have raised 194 billion yuan this year, 87% more than the whole of 2008, according to data compiled by Bloomberg, as an improving economy lures investors. Eight companies debuted in Shenzhen's ChiNext market for start-up companies on Friday. There are the second batch of companies being listed on the market, adding to the first 28 companies that went public at the end of October. ChiNext has less stringent rules for listing compared with the nation's two main exchanges. Although the market has been dampened by share sales, upcoming revision

for earnings forecast will act as cushion. According to Bloomberg, China raised its 2008 growth estimate to 9.6% from 9% and said this year's quarterly figures will increase, narrowing the gap with Japan, the world's second-biggest economy. GDP was 31.405 trillion yuan last year, according to the statistics bureau. That compares with a previous 30.067 trillion yuan and the World Bank's estimate of US\$4.9 trillion for Japan. China's expansion will be more than 8% in 2009, according to government officials, and the nation is poised to overtake Japan next year, according to IMF projections. With the continued migration of people from the agricultural sector to the more modern economy - industry and services, it is sufficient to propel and sustain China's growth. Official figures also showed a 13.1 trillion yuan contribution

from services in 2008, compared with 12 trillion yuan previously. The census, intended to give a better picture of the economy's make-up, focused on industry and services rather than agriculture. As such, more fund inflows and direct investment are expected amid the robust growth in domestic market as well as the imminent recovery around the globe. In fact, foreign direct investment climbed 32% in November to \$7 billion from a year earlier. Luxury carmaker Bayerische Motoren Werke AG said last month that it would build a new factory worth 5 billion yuan in China to tap an auto market set to overtake the US as the world's largest. Furthermore, the government has pledged to maintain a moderately loose monetary policy in 2010 to sustain a rebound driven by a stimulus package and record lending. **E**

## Microscope

Last weekend, Fan Gang, an adviser to the People's Bank of China, the country's central bank, expressed that people should be prepared for change in China's macroeconomic policies as the nation's economic situation shifts. Fan said Nov. 18 that double-digit growth would not be good in 2010 amid the rising risk of bubbles in stock, real estate and commodity prices. Meanwhile, he was cited as saying that certain flexibility of macroeconomic policy is an important factor in maintaining economic stability. On the other hand, China's yuan was little changed against the dollar on concern the central bank will prefer stability in the currency to help an economic rebound. Domestic bonds also held stable. According to a statement on the ministry's web site, Commerce Minister Chen Deming said foreign demand might stay at a low level for a long period of time. China has prevented the yuan from strengthening since July 2008 to help exporters weather sliding demand caused by the global financial crisis. It's highly possible the yuan will stay stable in the first half of next year and may rise to around 6.75 in the second half in the wake of global recovery. It bodes well for solid growth in 2010. **E**

### MARKET BRIEFING

YTD % (local curr)

<b>US DJ</b>	10,520 (19.9%)
<b>Nasdaq</b>	2,285 (44.9%)
<b>Euro Stoxx 50</b>	2,957 (20.6%)
<b>HSI</b>	21,517 (49.6%)
<b>Japan NK225</b>	10,494 (18.5%)
<b>China Shanghai Composite</b>	3,141 (72.5%)
<b>Singapore</b>	2,837 (61.1%)
<b>India BSE30</b>	17,360 (80.0%)
<b>Brazil BOVESPA</b>	67,588 (80.0%)
<b>Aus All Ord</b>	4,803 (31.3%)
<b>US-10yr Bond</b>	Yield 3.80%

As at 25/12/09

## Insight:

### "Natural Resources Investing"

Natural resources, are all around us, including oil, coal, gold, silver, timber, copper, and a host of other commodities. They go through long cycles of price rises and falls, depending on supply, demand, the economy, and the strength of the US dollar compared to other currencies. There are a lot of ways to invest in natural resources or commodities. You can buy commodity directly. In fact, most of us do not have storage facilities for storing oil or coal or pork bellies, but precious metals, like gold and silver, are easy to buy and store, and (most importantly) are easy to sell when it's time to cash. Historically this has been a very

safe investment, but not a very rewarding investment. Alternatively, you can buy stocks in companies that own gold, or companies that mine gold, or companies that prospect for gold. There are similar opportunities for other commodities. The other option is through investing in futures and options. In this case, the investor buys or sells a contract to deliver or receive a certain amount of resource on a certain date, hoping the price will go up before the contract expires. The contracts are very short term. It is recommended that, due to the extreme leverage involved, you seek out competent financial advice before venturing into the futures market. However, you can invest in these areas in a relatively safe fashion. There are index funds and mutual funds and ETFs that specialize in natural resources and energy. **E**

## A-Z Financial Tools

**Zombies**, in financial term, mean a publicly-traded company that continues operations despite a merger or bankruptcy. Stocks in zombies are usually low in price because the companies are likely to cease operations (and the stocks will consequently become worthless). However, a few bottom feeders may be interested in a zombie if they believe that it can restructure and become profitable. **E**



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"Asset Inflation Risk"