



AMG Weekly Market Update

3rd August, 2009

Governments face constraint, changes in policies shall be mild

U.S. released the first estimate for 2Q2009 GDP growth figure. The number was -1%, better than expected -1.5%. Stock market moved up again on better than expected economic performance.

Moreover, Financial Secretary Geithner commented on the unemployment and government finance. He said that the unemployment will continue to harm U.S. economy for some time and unemployment rate will peak in the middle of 2010. As for public finance, he pointed out that U.S. government need to expand government revenue to plus the hole of deficit. Probably, U.S. government will look to capital gain tax. But, exemption or tax concession for residential property transaction is also expect lest that higher tax burden would pressure on housing market.

For China, rumors about PBOC to lift required reserve ratio created an earthquake in stock market last Wednesday. But, political and social stability is always the number concern for central government. So, it is unlikely that any material tightening of monetary policy will be launched before the National Day in October.

HKMA continued to sell HKD in the market to defend the currency peg with USD, it showed that foreign capital kept flowing into to Hong Kong. After months of capital inflow, the amount of hot money in Hong Kong should be tremendous. Once it starts to move away from us, it shall have a significant negative impact on the stock market. But, China is expected to remain a magnet for investors. So, the Chinese enterprises are expected to out-perform domestic enterprises when the capital starts to move.

HSBC will announce the results for the first half of 2009. Market consensus is that it will have lower earnings than a year ago, some analyst even expected HSBC to report a loss in 1H2009. Still, a negative factor for HSBC is the translation losses related to the right issue in March. This is, in fact, a once off charge which shall not be repeated in future.

As for India, companies are starting to announce their results. A divergence in performance is expected. For the large corporations, they would continue to benefit from more out-sourcing from multinationals. But, the benefits to mid and small caps will be limited. So, there should be a higher pressure on their profits.

Besides, South Korea is another market worth looking at. South Korean stock market and economy both recovered very quickly. Consumer confidence index for the county has even reached highest level since 2003. Strong domestic consumption power and broad-based support for government, which allow it to take swift action to tackle the economic down turn, are the foundation to support rapid turnaround.



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All in all, the Hong Kong stock market is no longer a bargain and investors should not put too much of their money in the single market. South Korea, which is supported by strong domestic consumption and government policy, is a good choice for diversification of investment portfolio.

Weekly economic indicator update

Country / Region	Economic Indicator		Time period	Latest	Last
China	PMI		Jul 2009	53.3	53.2
US	Real GDP	Qoq change	2Q 2009	0.7%	1.2%
US	Private consumption	Qoq change	2Q 2009	-1.2%	0.6%
US	Durable goods order	Mom change	Jun 2009	-2.5%	1.8%
US	Consumer confidence index		Jul 2009	46.6	49.3
US	S&P Case Shiller Home Price Index		May 2009	139.84	139.18
US	New homes sales	Annual rate	Jun 2009	384K	342K
Germany	Unemployment rate	%	Jul 2009	8.3%	8.4%
Japan	Retail sales	Yoy change	Jun 2009	-3.0%	-2.7%

* All figures and information are collected from China Federation of Logistics and Purchasing, www.bloomberg.com, Ministry of Economy, Trade and Industry of Japan, Federal Statistics Office of Germany.

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