AMG Weekly Market Update

27th July, 2009

"Red hot" capital flow create bubbles in Hong Kong stock market

Hang Seng Index started the current rally from 13,000 in March and kept going up for months. After struggling in the range of 17,000-19,000 in the last 2 months, it finally broke the 20,000 points mark last Friday on the back of strong capital inflow. It was the first time that Hang Seng Index moved above 20,000 since Sep 2008.

While Hong Kong stocks kept on rallying, we saw signs of bubble formation. Here we mean investors are pushing up stock prices without proper regard of the fundamentals. The signs include
1. Some stocks, which issued profit warnings, moved up against poor corporate profits. An example is CHALCO.
2. Investors were flocking to new listings, demand for margin loans for IPO subscriptions rose tremendously.

Chasing into bubbling market is not recommended. Still, Hong Kong stock market may manage to stay at relatively costly level while capital inflow remains strong. It is particular true now. The reasons behind is that hot money increases as the Fed is holding down interest rates. And, the stability and freedom of Hong Kong financial market and stability of HKD makes Hong Kong an attractive destination for foreign capital. Thus, while the capital inflow lasts, stocks prices in Hong Kong may well stay at high level.

However, we must reiterate that Hong Kong stock market is not cheap and the potential for another big run is diminished. So, it is not attractive investment now.

For U.S., American Express and Microsoft announced their earnings reports for 2Q2009 last week. What investors should pay attention to is that their sales were lower than estimates, it showed that both personal and corporate spending were still weak in U.S.. And the Fed is going to release the Beige book this Wednesday. It shall update the public about economic conditions in U.S.. For the Beige book, it is not expected to surprise or shock the market.

For the investment market, there are 2 major sources of risk.

1. Inflation expectations to revive on crude oil prices. Recently, crude oil prices went back to around USD 70/barrel. Imagine, if the oil supply is disrupted by hurricanes, it could escalate and drive inflation expectations.

2. The negative impact of A/H1N1 flu on economy and the market may become more obvious. More and more people become inflected. Take U.K. as an example, the number estimated inflections nearly doubled from 55,000 to 100,000 in the last week. As the disease spread, the harms to economic activities and investment markets may get more obvious.

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As for the investment opportunities, A-share market is the choice for now. Stock markets in mainland China has just re-opened for new share listings, soon as it is, there are already more than 100 companies queuing up for IPO on Shenzhen GEM board. The return of IPOs shall attract more capital to stock market and become a stimulus to A-share market.

Weekly economic indicator update

Country / Region	Economic Indicator		Time period	Latest	Last
HK	Unemployment	%	Apr-Jun 2009	5.4%	5.3%
HK	CPI	Yoy change	Jun 2009	-0.9%	0.0%
US	Leading indicator	Mom change	Jun 2009	0.7%	1.2%
US	Existing home sales	Annualized rate	Jun 2009	4.89M	4.77M
US	University of Michigan Consumer sentiment Index		Jun 2009	66	64.6
Japan	Trade Balance	Bn. Yen	Jun 2009	508	298
Japan	Exports	Yoy change	Jun 2009	-35.7%	-40.9%
Euro zone	Factory orders	Mom change	May 2009	-0.2%	-0.7%
UK	GDP	Qoq change	2Q 2009	-0.8%	-2.4%
South Korea	GDP	Qoq change	2Q 2009	2.3%	0.1%

* All figures and information are collected from Census and Statistics Department of Hong Kong, European Commsion - Eurostat, Ministry of Finance of Japan, Office for National Statistics of UK, www.bloomberg.com.

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