



AMG Weekly Market Update

11th Jan, 2010

Policy risk weighs on stock market

Financial reporters were busy following the news from China last week. Latest news included the rise in interest rate of central bank notes, stricter rules on mortgage for second home purchase and no less importantly the approval of leveraged trades and stock market futures.

On the monetary policy side, the PBOC lifted the interest rate paid on 3 month notes by 0.04%. It was taken as an action to drain excess liquidity in the market and some related it to the preparation for interest rate hike. What made it important was that it came much earlier than expected. And on this Tuesday, the PBOC raised the required reserve ratio to 16% to curb explosive loan growth. Again, it was very much unexpected by investors. So, stock market fell on the news.

Other than that, the CBRC lowered the cap on mortgage ratio for second home purchase to 60%. Obviously, the aim of it was to fight against the escalation in asset prices and it was no surprise for the market.

And for the development of new products, the central government had approved margin trading, short selling and stock market futures in mainland stock markets. It did not help the market much in the last few days, but it is no less important in the long ter. The new products, particularly the stock market futures will make hedging much more easy and convenient. For sophisticated investors, especially the institutional investors, it will be a lot easy for them to hold on to their long term investments through the short-term ups and downs.

The changes in policies were unexpected and it came once and again. Although they were relatively mild changes, they still raised the concerns about policy risk in China. Thereby, selling pressure is seen in Hong Kong and China market.

Weekly economic indicator update

Country / Region	Economic Indicator		Time period	Latest	Last
China	Exports	Yoy change	Dec 2009	17.7%	-1.2%
China	Imports	Yoy change	Dec 2009	32.7%	26.7%
US	Non-farm payroll	Mom change	Dec 2009	-85K	-11K
US	Unemployment	Mom change	Dec 2009	10.0%	10.0%
US	Consumer credit	Mom change	Nov 2009	-US 17.5B	-US 3.5B
US	ISM non-manufacturing index		Dec 2009	50.1	48.7



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US	ISM manufacturing index		Dec 2009	55.9	53.6
UK	Factory orders	Mom change	Nov 2009	1.1%	0.6%
Germany	Exports	Yoy change	Nov 2009	-3.1%	-16.4%
Germany	Imports	Yoy change	Nov 2009	-14.8%	-15.8%
Germany	Retails sales	Yoy change	Nov 2009	-2.8%	-1.5%
Australia	Retail sales	Yoy change	Nov 2009	1.4%	0.4%
Taiwan	Exports	Yoy change	Dec 2009	56.2%	19.4%
Taiwan	Imports	Yoy change	Dec 2009	46.9%	17.9%
Malaysia	Exports	Yoy change	Nov 2009	-3.3%	1.6
Malaysia	Imports	Yoy change	Nov 2009	2.3%	-2.3%

* All figures and information are collected from General Administration of Customs of the People's Republic of China, www.bloomberg.com, Federal Statistics Office of Germany, Australia Bureau of Statistics, National Statistics, R.O.C. (Taiwan), Department of Statistics Malaysia.

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