



AMG Weekly Market Update

21st June, 2010

RMB to “de-peg” with USD for a second time

PBOC took the market by surprise to announce further reform of RMB exchange rate mechanism when G20 summit confirmed that RMB will not be discussed in the upcoming meeting in this weekend. Later in the week, PBOC affirmed that RMB will return to a managed float system referencing a basket of currencies. Following the resumption of exchange rate floatation, investment capital flocked to RMB related assets. The Chinese and Hong Kong stock markets jumped when market re-opened on Monday.

However, investors should not over-estimate the benefits from RMB exchange rate change. Judging from the announcement by PBOC, the intension of the Chinese government seems to be merely restoring the flexibility in exchange rate than to allow significant appreciation of the currency. Unlike the de-pegging in 2005, it did not come with a small once-off appreciation. And the band width of permitted daily fluctuation against USD remains unchanged at 0.5%. In other words, the allowed speed of appreciation is kept unchanged. We would expect RMB to resume clawing up against the currencies basket, and 3-5% rise against USD per annum would likely be the speed limit in coming 1-2 years.

Undoubtedly, rising currency value is going to sweeten up investments in RMB related assets. It will probably attract more capital to Chinese and Hong Kong stock markets and bring more activities to the market. But, the major issues for the market in 2010 are sustainability of the global economic recovery and corporate profits growth. As we are facing the risk of slowdown in European economy, it will be months before a clear picture will emerge. So, we still expect more volatile movements in financial markets.

Weekly economic indicator update

Country / Region	Economic Indicator		Time period	Latest	Last
Hong Kong	Unemployment rate	%	May 2010	4.6%	4.4%
US	CPI	Mom change	May 2010	-0.2%	-0.1%
US	CPI (excl. food and energy)	Mom change	May 2010	0.1%	0.0%
US	Leading indicators	Mom change	May 2010	0.4%	-0.1%
US	Industrial production	Mom change	May 2010	1.2%	0.8%
US	Capacity utilization	%	May 2010	74.7%	73.7%
US	New home starts	Annualized rate	May 2010	593K	672K
Eurozone	Industrial production	Yoy change	May 2010	9.5%	7.7%



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Germany	ZEW economic sentiment indicator		Jun 2010	28.7	45.8
Japan	Industrial production	Yoy change	Apr 2010	25.9%	31.8%
Singapore	Non-oil domestic exports	Yoy change	Apr 2010	24%	30%
Singapore	Retail sales	Yoy change	Apr 2010	2.6%	-2.4%
India	Wholesale price index	Yoy change	May 2010	10.2%	9.6%
Malaysia	CPI	Yoy change	May 2010	1.4%	1.5%
Philippines	Unemployment rate	%	Apr 2010	8.0%	7.3%

* All figures and information are collected from Census and Statistics Department of Hong Kong, www.bloomberg.com, Eurostat, Center for European Economic Research (ZEW), Ministry of Economy, Trade and Industry of Japan, Statistics Singapore, Office of Economic Advisor of India, Department of Statistics Malaysia, National Statistics Office of Philippines.

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