農銀國際
ABC INTERNATIONAL
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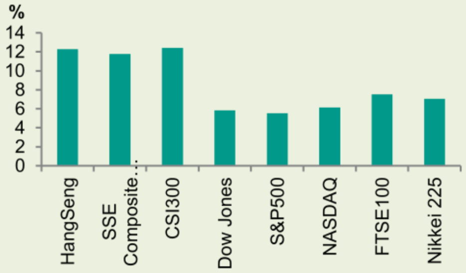
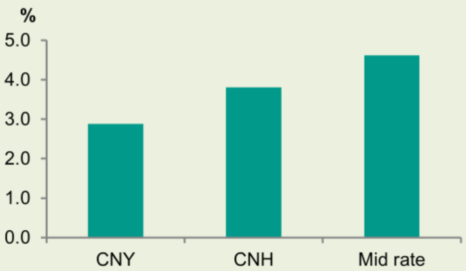
Exhibit 1: Correction of global market in Aug



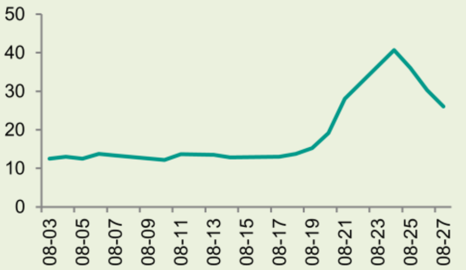
Source(s): Bloomberg, ABCI Securities

Exhibit 2: RMB's depreciation since Aug 11, 2015



Source(s): Bloomberg, ABCI Securities

Exhibit 3: VIX shows signs of calming



Source(s): Bloomberg, ABCI Securities

Market correction presents potential entry points

A tumultuous financial market over the past few weeks, as characterized by outsized moves in financial asset prices and spiking volatility, raises concerns over the strength of global growth momentum. Rising apprehension of economic weakness in China and doubts over the central banks' ability to repress market volatility are clouding over the global outlook. The annual economic policy symposium in Jackson Hole, Wyoming, U.S., provides a policy platform for global policymakers to formulate a coordinated national policy responding to these concerns and restore calmness in the markets.

Global event risk dominates investor sentiment and delays the U.S. rate hike in September. The major risk remains the ripple effects of currency depreciation and economic downturn in emerging markets, which would dampen the global economic recovery. Intense market volatility would fuel greater anxiety about adverse consequences around the world, accentuating the danger of a vicious cycle of economic contraction and financial instability. Markets are seeking more clarity at the Jackson Hole meeting on the potential rate hike in September. Our view is that with the weak commodities prices, major slide in the U.S. equity market, and the low inflation risks, the rate hike will be delayed. This will alleviate some of the market uncertainties regarding the continued capital outflow from emerging economies.

All attention on China's policy. With the recent stock market crash and currency depreciation in China, the country's macro performance deteriorates, sending ripples across the commodity markets and deterring global growth momentum. Although adjustments in economic structure and the "new norm" of slower economic growth have caused short-term economic turmoil, China is committed to pursuing financial and capital market reform, fiscal reform and SOE reform to direct the economy toward a more sustainable path. Supported by accommodative liquidity management and expansionary fiscal measures, we believe the country's economic growth is stabilizing and investor confidence will resurge in due course.

Investment strategy: stocks with strong fundamentals. Downward correction in Hong Kong market (24.4% since the recent peak in May 2015) provides a good entry point for stocks with strong fundamentals and a low valuation. Our investment themes are as follows:

1. **Credit loosening to favor big China banks.** Year-to-date interest rate cut of 100 bps and RRR cut of 250 bps have encouraged commercial banks and financial institutions to allocate more funds to the real economy in areas needing support. The release of credits will benefit big banks such as **ICBC (1398 HK), CCB (939 HK), ABC (1288 HK) and BOC (3988 HK)** through increased lending. Also, the lowered P/B level and the higher dividend yield also enhance the investment value of these sizeable banks.

2. **Mainland property sector to restore momentum.** Preliminary signs of a turnaround are evidenced by surging property demand in tier-one cities and lower interest rate for bonds issued by property developers. Large developers such as **COLI (688 HK)** will benefit from mortgage easing and surging demand for property. Developers focusing on top-tier cities and the ones with commercial or luxury property exposure will stand to benefit from the impending rebound. As such, we favor **Wanda (3699), Franshion (817 HK), CIFI (884 HK) and Logan (3380 HK)**.

3. **China's 13th Five-Year plan to favor clean energy and environmental sectors.** As pollution in China worsens, the nation is accelerating development in renewable energy, environmental protection, and pollution reduction. For the clean energy sector, our top picks are **CGN (1816 HK)** and **China Longyuan (916 HK),** respectively. We also prefer the sewage treatment operator, **Beijing Enterprises Water (371 HK),** and waste incineration operator, **China Everbright International (257 HK).**

4. **"New Silk Road" vision to boost infrastructure demand.** The "New Silk Road" vision will unleash the potential of large-scale investments in the infrastructure and railway sectors, favoring companies such as **CRRC Corp (1766 HK), China Communications Construction Co Ltd (1800 HK), China Machinery Engineering Corp (1829 HK), China Railway Construction Corporation (1186 HK), and China Railway Group (390 HK) .**

China Economic Indicators

	2014									2015						
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Real GDP (YoY%)	---	--	7.5	--	---	7.3	---	---	7.3	---	---	7.0	---	---	7.0	---
Export Growth (YoY%)	0.9	7.0	7.2	14.5	9.4	15.3	11.6	4.7	9.7	(3.2)	48.3	(15.0)	(6.4)	(2.5)	2.8	(8.3)
Import Growth (YoY%)	0.8	(1.6)	5.5	(1.6)	(2.4)	7.0	4.6	(6.7)	(2.4)	(19.7)	(20.5)	(12.7)	(16.2)	(17.6)	(6.1)	(8.1)
Trade Balance (USD/bn)	18.5	35.9	31.6	47.3	49.8	30.9	45.4	54.5	49.6	60.0	60.6	3.1	34.1	59.49	46.6	43.0
Retail Sales Growth (YoY%)	11.9	12.5	12.4	12.2	11.9	11.6	11.5	11.7	11.9	10.7		10.2	10.0	10.1	10.6	10.5
Industrial Production (YoY%)	8.7	8.8	9.2	9.0	6.9	8.0	7.7	7.2	7.9	6.8		5.6	5.9	6.1	6.8	6.0
PMI - Manufacturing (%)	50.4	50.8	51.0	51.7	51.1	51.1	50.8	50.3	50.1	49.8	49.9	50.1	50.1	50.2	50.2	50.0
PMI - Non-manufacturing (%)	54.8	55.5	55.0	54.2	54.4	54.0	53.8	53.9	54.1	53.7	53.9	53.7	53.4	53.2	53.8	53.9
FAI(YTD) (YoY%)	17.3	17.2	17.3	17.0	16.5	16.1	15.9	15.8	15.7	13.9		13.5	12.0	11.4	11.4	11.2
CPI (YoY%)	1.8	2.5	2.3	2.3	2.0	1.6	1.6	1.4	1.5	0.8	1.4	1.4	1.5	1.2	1.4	1.6
PPI (YoY%)	(2.0)	(1.4)	(1.1)	(0.9)	(1.2)	(1.8)	(2.2)	(2.7)	(3.3)	(4.3)	(4.8)	(4.6)	(4.6)	(4.6)	(4.8)	(5.4)
M2(YoY%)	13.2	13.4	14.7	13.5	12.8	12.9	12.6	12.3	12.2	10.8	12.5	11.6	10.1	10.8	11.8	13.3
New Lending (RMB/bn)	774.7	870.8	1,080	385.2	702.5	857.2	548.3	852.7	697.3	1,470	1,020	1,180	707.9	900.8	1,280.6	1,480.0
Aggregate Financing (RMB bn)	1,550	1,400	1,970	273.7	957.7	1,135.5	662.7	1,146.3	1,690	2,050	1,350	1,181	1,050	1,220	1,860.0	718.8

World Economic/Financial Indicators

Equity Indices

	Closing price	Chg. WTD (%)	P/E
U.S.			
DJIA	16,654.77	1.18	14.51
S&P 500	1,987.66	0.85	17.57
NASDAQ	4,812.71	2.27	27.39
MSCI US	1,903.04	0.83	18.20
Europe			
FTSE 100	6,180.50	(0.12)	22.51
DAX	10,231.66	1.06	16.12
CAC40	4,637.34	0.14	20.59
IBEX 35	10,265.50	(0.06)	19.69
FTSE MIB	21,920.63	0.80	N/A
Stoxx 600	359.81	(0.41)	21.11
MSCI UK	1,809.06	(0.02)	23.03
MSCI France	131.02	0.48	21.49
MSCI Germany	135.58	1.86	16.39
MSCI Italy	63.61	2.05	N/A
Asia			
NIKKEI 225	19,136.32	(1.54)	19.99
S&P/ASX 200	5,263.56	0.94	19.09
HSI	21,612.39	(3.56)	9.36
HSCEI	9,750.73	(4.36)	7.03
CSI300	3,342.29	(6.89)	13.85
SSE Composite	3,232.35	(7.85)	16.22
SZSE Composite	1,846.83	(9.44)	42.27
MSCI China	59.40	(2.30)	9.18
MSCI Hong Kong	11,822.14	(2.01)	9.61
MSCI Japan	914.56	(4.63)	15.39

* As of 12:00 AM closing

Global Commodities

	Unit	Price	Chg. WTD (%)	Volume (5-day avg.)
Energy				
NYMEX WTI	USD/bbl	42.29	4.55	424,720
ICE Brent Oil	USD/bbl	47.18	3.78	286,178
NYMEX Natural Gas	USD/MMBtu	2.69	0.34	62,037
Australia Newcastle Steam Coal Spot fob[2]	USD/Metric Tonne	61.80	N/A	N/A
BasicMetals				
LME Aluminum Cash	USD/MT	1,542.00	1.21	28,411
LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,560.00	0.78	38,910
CMX Copper Active	USD/lb.	5,168.00	2.07	13,733
LME Copper 3- mth Rolling Fwd.	USD/MT	5,140.00	1.68	63,900
Precious Metals				
CMX Gold	USD/T. oz	1,125.90	(2.91)	202,011
CMX Silver	USD/T. oz	14.39	(6.27)	37,500
NYMEX Platinum	USD/T. oz	1,000.30	(2.61)	16,135
Agricultural Products				
CBOT Corn	USD/bu	375.50	(0.46)	200,142
CBOT Wheat	USD/bu	491.00	(2.58)	82,936
NYB-ICE Sugar	USD/lb.	11.03	5.65	73,153
CBOT Soybeans	USD/bu.	881.25	(0.93)	146,378

Bond Yields & Key Rates

	Yield (%)	Chg. WTD (Bps)
US Fed Fund Rate	0.25	0.00
US Prime Rate	3.25	0.00
US Discount Window	0.75	0.00
US Treasury (1 Yr)	0.3465	(0.52)
US Treasury (5Yr)	1.4759	4.84
US Treasury (10 Yr)	2.1488	11.23
Japan 10-Yr Gov. Bond	0.3790	1.30
China 10-Yr Gov. Bond	3.4700	(8.00)
ECB Rate (Refinancing)	0.05	0.00
1-Month LIBOR	0.1980	(0.14)
3 Month LIBOR	0.3252	(0.39)
O/N SHIBOR	1.7740	(7.30)
1-mth SHIBOR	2.9990	21.00
3-mth HIBOR	0.4114	2.22
Corporate Bonds (Moody's)		
Aaa	4.17	22.00
Baa	5.38	23.00

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.1277	1.5401	0.7159	120.87	0.9624	6.3896	7.7500	6.6450
Chg. WTD (%)	(0.96)	(1.87)	(2.15)	0.97	(1.64)	(0.01)	0.03	(0.32)

Note:
1. Data sources: Bloomberg, National Bureau of Statistics of China, ABCIS (updated on date of report)
2. Australia Newcastle Steam Coal Spot fob is the Australia Newcastle 6700 kc GAD fob Steam Coal Spot price published by McCloskey

Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ Stock return < Market return rate
Sell	Stock return < Market return – 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate from 2009-2013

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	2.6 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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