新鴻基金融集團
SUN HUNG KAI FINANCIAL

[For Immediate Release]

SHKF expects moderate global economic growth in 2H 2013
Stable commodity prices and no inflationary pressure
Stocks are favoured over bonds

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HSI to trade between 19,000 and 23,500

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Return of a strong USD expecting a RMB correction

Highlights:

- SHKF expects moderate global economic growth in 2H 2013, stable commodity prices and no inflationary pressure.
- US current economic situation does not warrant substantial bond purchase tapering by the Fed; expectations of rate increases promote house purchase and corporate M&A activities in near term.
- Europe might have near term market fluctuations, especially bond and debt markets in “PIIGS” countries; Japan stock market may rise after near term correction.
- Expects HSI to trade between 19,000 and 23,500; the HSCEI to trade between 8,500 and 11,000. Stocks are favoured over bonds.
- Forex: Strong USD returns, USD/JPY will test higher at 112 between 2H and early next year.
- Expects RMB may have correction in 2H.
- Overall outlook for bonds is not optimistic, underweight on mature market sovereign bonds and rate-sensitive long-term debts. Investors should manage currency risk in bond investments.
- Commodity prices lack upward momentum.

Hong Kong, 25 June 2013 – Sun Hung Kai Financial ("SHKF") expects moderate global economic growth in the second half of 2013; with commodity prices tending to be stable and no inflationary pressure, monetary policy is expected to remain accommodative in the second half. Despite investors’ concerns over a US Federal Reserve ("Fed") stimulus exit which bring market fluctuations, the mid-year interest rate cuts in Europe and many countries, coupled with Japan's aggressive quantitative easing (QE) measures, will help to maintain sufficient liquidity in the market and support a bumpy uptrend in the stock market. A potential QE3 exit timeline announced last week by the Fed which disclosed its plan to phase out monthly bond buying later this year and halt purchases in mid-2014, is a conditional plan highly dependent on the economic data in the coming months and 2014.

Mr. Daniel So, Wealth Management Strategist of Sun Hung Kai Financial, said, “The Fed does not have sufficient grounds for substantial bond purchase tapering; the mid-year interest rate cuts in Europe and many other countries, and Japan's aggressive economic stimulation, will help to maintain sufficient liquidity in the market which bodes well for equities, despite the global investment markets fearing the Fed's stimulus exit. For bonds, the overall outlook is not optimistic and particularly bearish towards sovereign bonds in mature markets and long-term debts that are sensitive to interest rate changes. Investors should manage currency risk in bond investments. There is a lack of upward momentum for commodity prices."

US: Current economic situation not sufficient for Fed's substantial bond purchase tapering

US housing and employment markets are gradually improving and will continue to benefit from a property market recovery and increasing corporate capital expenditure in 2H. Although recent rises in market rates trigger worries that it may hinder a property market recovery, mortgage rates have actually just returned to levels of early last year and are well below the historical average. When expectations of an increase in interest rates rise, it on the contrary drives house purchases and corporate mergers and acquisitions activities in the near term to catch the last train of low interest rates.

Investors start worrying about the Fed's stimulus exit upon economic improvement. SHKF believes that current economic conditions are not sufficient for the Fed to make substantial bond purchase tapering as the impact of government spending cuts in Q1 this year has yet to fully emerge; the Fed's two targets, maximum employment and price stability, were also not satisfactory. The unemployment rate stood high at 7.6% and growth in job numbers is not as good as during the previous economic recovery periods, while inflation fell below its 2% target to nearly 1%. Even a stimulus exit begins in year end, it is expected that the Fed will reduce the amount of bond purchase slightly and rate hikes will only be dealt with after year 2015.

Europe: Turmoil appears occasionally; Japan: Stock market may rise after correction

The eurozone debt crisis has calmed temporarily, but there will be occasional turmoil. The German Constitutional Court is examining the constitutionality of the European Central Bank launching a debt-buying plan and might decide after the German election in September. We believe judgment will not be unconstitutional but this might trigger short-term market fluctuations, especially stock and debt markets in "PIIGS countries". For Japan, the monetary easing and fiscal stimulus measures implemented by Prime Minister Shinzo Abe showed its initial positive results in 1H after he took office at the end of last year, but the market is disappointed with economic growth plans announced in June. We expect Abe will launch more aggressive reform measures to revive market confidence in "Abenomics" after the upper house election in July, and the Japan stock market may rise further after the recent correction.

HK Equities: Correction pressure near term remains; the HSI is expected to trade in 19,000 - 23,500

Hong Kong stocks fell in 1H and underperformed when compared to external markets as economic growth in mainland China slowed down. We believe correction pressure remains in HK equities due to fears of the Fed's stimulus exit. As HK equities' valuation is not high, it helps to limit the size of further correction. SHKF expects an HSI trading range between 19,000 and 23,500 in 2013 2H and the HSCEI between 8,500 and 11,000.

Ms. Hannah Li, Senior Securities Analyst of Sun Hung Kai Financial, said, "As the mainland Chinese economy is undergoing structural reform, the central government will tolerate a slower annual economic growth of between 7.5% and 7.8%." The Third Plenary Session in the autumn will propose a roadmap for structural reform plans in the coming few years and is expected to be a major investment theme in 2H. We believe reform focus will include (1) new urbanisation, (2) boost in consumption, (3) energy-saving and new energy etc. Industries benefited from this include mainland property, pharmaceuticals, automotive, public housing (new urbanisation), home appliances, smart phones (boost in consumption), environmental and water conservation and wind power (environmental concept).

As the market's increasing expectation of the Fed's stimulus exit triggers market rates to go upward, utilities and REITs which were consistently strong over the past few years will be less attractive and are expected to underperform. Investors should be selective as certain high-yield stocks with growth prospects are still preferred. In addition, local real estate stocks, which are highly sensitive to interest rates, are expected to underperform as expectations of a rate rise increase and the risk of falling local property prices lifts.

Forex: Strong USD returns; RMB expect correction in 2H

The USD's strength is emerging whilst market discussion on the Federal Reserve's schedule to reduce debt purchase has started. Mr. Bruce Yam, Forex Strategist of Sun Hung Kai Forex Limited, said, "Although there are analyses that the QE will lead to dollar collapse, the low points of the US Dollar Index rises incessantly despite rounds of QE and worries of bad news including the fiscal cliff. This reflects that chances for a further substantial decline in the USD are lessened. It is expected that the USD will start a cyclical upturn running through 2018."

Since Shinzo Abe became the Japanese prime minister and Haruhiko Kuroda became Governor of the Bank of Japan, the implementation of quantitative easing has prompted a sharp yen devaluation, with USD/JPY rising to 103.73 in 1H. Abe's risky measures to stimulate the economy were contradictory, as he wanted an increase in inflation and Japanese government bond yields to remain at low levels at the same time. Economic growth and the debt interest increase are wrestling against each other, with the former slightly ahead at the beginning of the QE launch, but the increase in bond yield is expected to catch up soon. This may result in a potential rating downgrade; USD/JPY will test higher at 112 between 2H and early next year.

For AUD, a strong USD and adjustment in China's economic structure will lead to the shrinkage of manufacturing industries in China which depend heavily on raw materials. The resultant weakened demand for resources and elapsed peak investment period for Australian mines will gradually reflect their impact on the Australian economy. AUD has been attracting investors with high interest rates in the past, yet its downtrend is expected to continue in 2H as there are still chances for interest rate cuts this year. AUD/USD will test lower at 0.9072 in 2H.

RMB appreciated under the influx of hot money in 1H. In 2H, China's increasing manufacturing costs, coupled with global economic growth slower than forecasts made at the beginning of the year, lead to decelerated growth in China's manufacturing industry. The investment-driven economic model results in excess capacity in many fields. The new leadership does not seem to be using the previous model to drive China's economic growth, and has repeatedly stressed "reform bonus". With the presence of uncertainties in mainland China's financial system, RMB bears the risk of local government finance platforms and shadow banks, and is expected to have correction opportunities in 2H.

Overall outlook for bonds is not optimistic; Commodity prices lack upward momentum

The overall outlook for bonds is not optimistic and we are underweight in low-yield sovereign bonds in mature markets and long-term debts which are more sensitive to rate changes as market rates are expected to rise. US high-yield corporate bonds are slightly more favourable, with yields at about 6% providing a larger buffer for rate increases despite valuations no longer being cheap. Bond outlook in emerging markets is better than mature markets due to higher yield and improving credit rating. Investors should manage currency risk and consider bonds issued in USD instead of local currencies as the USD is entering a cyclical uptrend.

For commodities, energy supply in the US is adequate this year thanks to shale gas development, and with mainland China's economy undergoing restructuring, the reduced reliance on fixed asset investment and slowdown in growth of natural resources demand will lead to lack of upward momentum in commodity prices. This will keep global inflation at moderate levels; it bodes well for industrial profit margins but not markets that rely on resources exports, such as Brazil, Russia, Australia and South Africa.

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About Sun Hung Kai Financial Limited

Sun Hung Kai Financial Limited ("SHKFL"), founded in 1969, is a wholly-owned subsidiary of Sun Hung Kai & Co. Limited (Stock Code: 86).

Operating under the Sun Hung Kai Financial brand as well as the SHK Private and SHK Direct sub-brands, SHKFL has two core business segments, Wealth Management & Brokerage, and Capital Markets. They offer customised financial solutions for retail, corporate and institutional clients.

SHKFL has an extensive branch and office network in Hong Kong, Mainland China and Macau, and offers a diversified financial trading platform to its customers. SHKFL, through its subsidiaries, currently has over HK$63 billion* in assets under management, custody and/or advice. For more information, please visit www.shkf.com.

**Figures as of 31 December 2012*

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 # This press release is based on the views and opinions presented by Sun Hung Kai Investment Services Limited's retail research team.