新鴻基金融集團
SUN HUNG KAI FINANCIAL

[For immediate release]

SHKF expects Asia to benefit from stronger global growth momentum in H2 2017
US and Europe may see persistent political impact

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Buy Asian equities at various levels amid capital inflows
Allocation to energy investment

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HSI target: 26,800
HK equities may swing up and down in a horizontal range
Three major themes: the Belt and Road Initiative; improved global exports; southbound capital inflows

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Overview:

- Global GDP growth may hit 3.5% in 2017 on the ongoing expansion in the second half
- European and US equities and currencies may face political impact while the Japanese market may remain volatile
- Asia may benefit from stronger global growth momentum and capital inflows to the region
- Two key strategies: "buy Asian equities at various levels" and "allocation to energy investment" to enhance the portfolio's growth potential in the medium-term; "diversified allocation" should be adopted for buying equities at various levels, together with allocation of bonds and commodities to construct a well-balanced portfolio
- The HSI target is lifted to 26,800 and the index is expected to swing up and down in a horizontal pattern; the HSCEI target is 11,000 and that for the Shanghai Composite is 3,300
- Hong Kong equities' investment themes: (1) the Belt and Road Initiative; (2) improved global exports; and (3) southbound capital inflows
- "Focusing on individual stocks rather than the market"—the infrastructure and exports sectors and stocks with positive prospects may present opportunities
- RMB may consolidate in a horizontal pattern

Hong Kong, 6 June 2017 – Sun Hung Kai Financial Limited ("SHKF" or "Sun Hung Kai Financial") expects the global economy to maintain growth in H2 2017 and global GDP growth may climb to 3.5% in 2017. Among developed markets, the US may deliver a 2017 growth of 2.3%. The US Federal Reserve (Fed) is likely to announce rate hikes in the coming June and December, and start reducing its balance sheet in 2018. The European Central Bank (ECB) may start to taper its monthly asset purchase from Q4 2017 while Japan may continue its ultra-loose monetary policy. It is probable that emerging markets will see notable improvement on the back of stronger global growth momentum that boost Asian exports, coupled with signs of Brazil and Russia coming out of recession soon. India may enjoy medium/long-term economic development given the implementation of its Goods and Services Tax in July. China's positive first-quarter GDP growth hints that its economic growth may reach 6.7% to end 2017, above the official target of 6.5%.

SHKF Wealth Management Strategist Kenny Wen says, "'Diversified allocation' remains the preferred strategy given the sharp rally of global equities since the beginning of the year. Investors may therefore consider buying equities at various levels with allocation of bonds and commodities to construct a well-balanced portfolio. Investors are also advised to pay attention to the US rate hike roadmap in H2 2017 and President Trump's ability to pass his proposed tax cuts and infrastructure spending plans. Geopolitical factors such as the German election and Brexit concerns should also be considered."

Kenny prefers two major strategies: (1) "buy Asian equities at various levels" to seize the opportunity of capital inflows to Asia; and (2) "allocation to energy investment" as an oil price spike is projected and oil prices may test US$60/bbl in H2 2017 and energy-related investments could enhance the portfolio's medium-term growth potential.

Strategy One: Buy Asian equities at intervals

Asian equities: Expected to be supported by optimism on economic growth and corporate profits, and capital inflows

Asia's export-driven economies are poised to benefit from global economic and trade improvement as the International Monetary Fund (IMF) lifted the Asia-Pacific Region's 2017 GDP growth forecast to 5.5% in May. The region is backed by two catalyst factors. First, while Asian (ex Japanese) corporates may deliver double-digit profit growth in 2017, they show lower valuations than their peers in developed markets, for instance, Europe and the US; simultaneously, Asia may register more capital inflows. If all this turns out to be the reality, investors may view market corrections in H2 2017 as opportunities to buy Asian equities at intervals so as to enhance their portfolios' growth potential, and the H2 2017 target of MSCI Asia (ex Japan) Index is set at 535.

Strategy Two: Allocation to energy-related areas

Energy investment: OPEC likely to extend production cut deal

There are chances that the demand for crude oil will bounce back as the IMF has forecast a global GDP growth of 3.5% for 2017, well above 2016's 3.1%. Excessive supply in the crude market may be eased after OPEC (Organisation of the Petroleum Exporting Countries) members and Russia extended the output cut agreement until March 2018. Oil price may spike beyond the resistance of US$55/bbl and then test higher at the US$60/bbl level in H2 2017. However, the conditions appear to be insufficient for a sharp rally at this moment as the crude inventory remains at a high level. Oil prices are expected to hover around US$45 to 60/bbl in volatile trades unless the geopolitical situation significantly worsens. SHKF suggests aggressive investors to consider buying on dips ie starting to invest in energy-related sectors when crude prices fall to near US$45/bbl.

Hong Kong equities: Up and down swings in volatility; HSI target: 26,800; focus on three major themes; go after individual stocks amid possible slower Chinese growth

Based on SHKF's internal valuation model (which factors in the impact of global monetary policy and China's capital flow), the HSI target is lifted to 26,800 (previous: 25,000) for H2 2017, and the index may display dramatic swings in a horizontal range. Concurrently, the HSCEI target is raised to 11,000 (previous: 10,500) and that for the Shanghai Composite is revised to 3,300 (previous: 3,600). The key investment themes for Hong Kong stocks in H2 2017 are: (1) the Belt and Road Initiative; (2) improved global exports; and (3) southbound capital inflows. Accordingly, sectors including infrastructure and exports, as well as specific stocks with positive prospects, may present more promising opportunities.

China's official manufacturing purchasing managers' index (PMI) stayed in the expansion territory for the tenth straight month with its May reading at 51.2. Yet, the 12 leading indicators such as new orders, output and inventory, tracked by SHKF may hint at a slight slowdown in the Chinese economic growth. Investors are thus advised to focus on "individual stocks rather than the market" in H2 2017 with emphasis on themes and stocks backed by specific fundamentals. Investors should note that the market may be under pressure in the short term with China's latest tightening of financial supervision; the weakening monetary policy support may also curb risk appetite and stocks' momentum. Chinese and Hong Kong equities are expected to have limited upside in H2 2017 and may experience roller coaster rides in a horizontal channel.

US: Rate hikes are widely expected but market upside may be limited on stretched valuation

As markets generally expect the Fed to raise interest rates two more times in 2017 such rate-hike news may have limited impact on asset prices unless the economic momentum could be far stronger than the forecasts. The market focus may be on Trump's fiscal policy such as the tax reform, but the timing on the policy implementation may remain uncertain. The S&P500 is trading at a P/E of 21x, a rather high level. This could mean limited upward potential for US stocks at the current levels. The S&P500 target for H2 2017 is 2,490.

Europe: Capital inflows are positive for market performance but investors should keep an eye on political developments

The risk of France's exit from the EU receded and the economy of the Euro zone is showing a gradual recovery. According to financial data provider EPFR, European stocks attracted net capital inflows for the tenth consecutive week (as at 31 May), reflecting investors' optimism following more clarity of economic and political developments in Europe. Investors should keep an eye on Brexit concerns and the German election in the second half. Moreover, the risk/reward ratio may not be compelling at the current levels while the target of the MSCI Europe is set at 140.

Japan: Backed by US economic policies but lacking structural reform

Since the US is the top trading partner of Japan (accounting for 20% of Japan's total exports), Trump's expansionary fiscal policies, for example, tax cuts and spending boost, may bode well for the Japanese economy. Meanwhile, the Fed's rate hike may stabilise the Dollar; the Yen's weakness is expected to support Japanese exports and corporate profitability. It is probable that the Nikkei 225 will surge to 21,000. On the other hand, Japan lacks long-term structural reform, and that may result in market volatility, by which a further uptrend in Japanese stocks may be limited in the medium/long term.

Forex: US political uncertainty may impact global currencies

Bruce Yam, Forex Strategist of Sun Hung Kai Forex Limited, says, "The Fed may increase interest rates again and it may also plan to shrink its balance sheet, with the latter being the determinant of USD re-strengthening. The USD may be adversely affected in the short run on expectations that legislation for proposed legislation on tax cuts and infrastructure spending could be delayed due to possibilities of Trump's impeachment by the Congress. Now that the French election is over and Angela Merkel is leading in the German election polls, Eurozone breakup risk and the Euro's movement may depend mainly on the Italian election due by May 2018 but which could be held earlier. Meanwhile, the Chinese economy and the RMB may be supported by the Chinese government's commitment to maintaining stability and the Belt and Road Initiative".

The European Central Bank (ECB) is expected to maintain its monetary policy through 2017; yet, there is the possibility that it changes its stance after September. The central bank may further slash its bond-buying scale or even announce a complete withdrawal, mainly as a result of asset purchase tapering and improvement of economic data. The Euro may move within 1.15 to 1.05 against the USD.

Brexit talks are set to begin following the British and German elections; a tough process is in sight as there is only one and a half years left of the two-year negotiation period. This may undermine the GBP. The Bank of England (BoE) may have pressure to hike interest rates facing the current inflation of 2.7%. Nevertheless, BoE Governor Mark Carney may exercise more tolerance for inflation due to economic uncertainty. Negative headlines on the Eurozone (eg the Italian election) may be supportive for driving capital flows to Britain, and that may push the GBP higher and it may move in the range of 1.36 to 1.25.

The Chinese government is likely to put economic stability as its top priority ahead of its leadership reshuffle by the end of 2017. The Chinese regulators may therefore continue to focus on deleveraging and may commence balance sheet reduction. The government's measures to stem capital outflows have delivered results that further declines of the RMB have been curbed, and we expect the Yuan may consolidate in a horizontal pattern.

Probably, the Bank of Japan (BOJ) will be the last central bank to withdraw quantitative easing (QE); consequently, the JPY may broadly remain weak, that is, hovering around 108 to 118 against the USD. Moreover, while the US may see a slump in the demand for mining products for a lack of massive infrastructure projects in 2017, the AUD may still be in range-bound trading as the Belt and Road Initiative gathers pace. For the New Zealand currency, the NZD may weaken further and see its upside potential restrained given the expected rate hike cycle to be implemented by the Reserve Bank of New Zealand would only occur in 2019. Across the Pacific, the CAD may hardly see a strong upside under the current oil prices and housing bubble; the CAD, however, still has a chance to bounce back on unstable US politics.

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About Sun Hung Kai Financial Limited

Sun Hung Kai Financial Limited ("SHKFL"), with its foundation dating back to 1969, is a 70%-owned subsidiary of Everbright Securities Company Limited ("Everbright Securities", SSE: 601788, HKEX: 6178).

Operating under the Sun Hung Kai Financial brand as well as the SHK Direct and SHK Private sub-brands, SHKFL has two core business segments, Wealth Management and Brokerage, and Capital Markets. It offers customised wealth management and investment solutions for retail, corporate and institutional clients. Backed by Everbright Securities, SHKFL provides greater access for Hong Kong and Mainland investors to a broad range of products and services.

SHKFL has an extensive branch and office network in Hong Kong, Macau and Mainland China, and offers a diversified financial trading platform to its customers. SHKFL, through its subsidiaries, currently has about HK$96.3 billion* in assets under management, custody and/or advice. For more information, please visit www.shkf.com.

*As of 31 March 2017

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This press release is based on views and opinions of the retail research teams of Sun Hung Kai Investment Services Limited and Sun Hung Kai Forex Limited.