新鴻基金融集團
SUN HUNG KAI FINANCIAL

[For Immediate Release]

SHKF Expects a Non-directional Market with High Volatility in 2H 2012
Weak Global Fundamentals and Central Banks Liquidity to Govern Markets
Position for Investment Income or Yields

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Favour Range-trading and Chinese Policy Beneficiaries Sectors, USD and Gold
Expects HSI to Trade between 18,000 and 22,000

Highlights:

- We expect the global investment landscape will be non-directional with high volatility as fundamentals are weak.
- Investors should consider positioning for investment income or yield, rather than capital gains.
- Hong Kong equity market remains directionless, with the HSI expected to trade between 18,000 and 22,000, and the HSCEI between 9,500 and 12,000.
- Markets will focus on range-trading. Maintain sector overweights on policy beneficiaries of China's economic recovery and central banks' monetary easing.
- Prefer USD; Sell EUR, AUD and NZD.
- Prefer gold amid persistently high risk aversion and growing distrust of fiat money.

Hong Kong, 10 July 2012 – Sun Hung Kai Financial ("SHKF") expects a non-directional market with high volatility in the second half of 2012. Investors should consider positioning for investment income or yield, rather than capital gains, as the chief source of returns. Further deterioration in developed economies and major liquidity injections by the US Federal Reserve ("Fed") or the European Central Bank ("ECB") will set the boundaries for this non-directional market. Meanwhile, we believe political inaction in Europe and the US will periodically lead to huge market swings.

The Hong Kong equity market is expected to remain directionless, with the HSI trading between 18,000 and 22,000, and the HSCEI between 9,500 and 12,000, in the second half of 2012. SHKF recommends investors to profit tactically by range-trading and staying overweight on sectors that benefit from China's policy-driven economic recovery and central banks' monetary easing.

Global commodities should mostly trade sideways as geopolitical tensions and adverse weather this year offset lower fundamental demand. Among currencies, SHKF prefers the USD despite the possibility of a sovereign-credit rating downgrade towards year-end. Gold is also preferred amid persistently high risk aversion and a growing distrust of fiat money. Global investment-grade debt and higher-quality, high-yield debt is seen as the 'sweet spot' for risk allocation. Non-cyclical, low-beta equity sectors with stable cash flows and high dividend yields are also preferred.

Mr. Stephen Sheung, Investment Strategist of SHK Private, said, “The investment environment in the second half of 2012 will continue to be challenging as global economic fundamentals remain weak. China may be the only major nation that can record a growth pick-up amid more proactive policy support. The US’s economic recovery may continue to lose momentum, while the Eurozone’s sovereign-debt malaise is gradually turning into a widespread economic crisis. In light of economic concerns and political gridlock, investors may continue to apply valuation discounts to risky assets. This situation could persist until the major central banks, the Fed or ECB, introduce a further round of massive monetary stimulus, which may trigger another liquidity-driven rally.”

Prefer Hong Kong and Mainland China equity markets

SHKF continues to favour China over other major equity markets given its proactive and decisive government policy support. Earnings growth is expected to accelerate as economic activity picks up from the bottom in Q2. However, industrial and export activity may hover at low levels amid faltering external demand and overcapacity. We expect A-shares to outperform H-shares again in the second half, as mainland-listed shares are much less vulnerable to the adverse impact of international capital flows.

For Hong Kong equities, Mr. Daniel So, Securities Strategist, Sun Hung Kai Financial, says, “Equity markets have been directionless since mid-2009, and will likely remain so for the rest of 2012. But that doesn’t mean there’s nothing investors can do. First, they can continue to profit through tactical, contrarian range-trading. Second, certain sectors could outperform. As the saying goes, there is always a bull market somewhere. Stock-picking is the name of the game.” Mr. So recommends high-yielding stocks with stable cash flows as core holdings. He also advises accumulating commodity, property and consumer discretionary stocks, which could ride China’s economic recovery and central banks’ monetary easing.

US and Europe: debt, refinancing and monetary-easing measures amid political gridlock

Global risk sentiment and asset prices will be dominated by several key market drivers, including: (1) the scale and timeliness of stimulus and rescue actions by the Fed and the ECB, (2) political consensus or inaction among European leaders, (3) the US presidential and congressional elections in November, (4) another downgrade of the US government’s sovereign-credit rating, (5) how China’s economy responds to the latest fiscal and monetary stimulus, and (6) China’s upcoming leadership change.

SHKF believes that US equities and the domestic economy will benefit from the November elections and expectations of further quantitative easing (QE). Historically, short-term economic activity and temporary job opportunities tend to increase ahead of elections. And another round of QE is expected in September or December, which will likely bring a further liquidity-driven rally in risky-asset prices. On the downside, the US government may face another sovereign-credit rating downgrade towards the end of the year if it cannot resolve its deficit problems.

For Europe, the investment climate will remain stale as the Italian and Spanish governments face huge debt redemptions over the next six months. In addition, German politicians may stay tough on their austerity stance to please voters ahead of federal elections in 2013. European governments and investors will have to look to the ECB for supportive measures, which makes another round of long term refinancing operations highly probable. The Eurozone countries face significant difficulties in simply “buying time” to restructure their regional and local economies and fiscal situations. Truly actionable structural reforms should not be expected in 2012, or even 2013.

Currencies and commodities: prefer USD and Gold

Regarding currencies, Mr. Bruce Yam, Forex Strategist of Sun Hung Kai Forex Limited, said, "Investors should consider selling the EUR, AUD and NZD in view of the relatively weak performances of their respective economies. We prefer the USD in the second half as the US presidential election may help boost the currency. Gold is expected to continue its consolidation in the second half."

Demand for gold was hit hard by India imposing an excise duty on gold in the first quarter, which was subsequently withdrawn. Jewelry demand for gold dropped 46%, while total gold demand fell 11% from the Q3 2011 high. The main fundamental driver for gold will be inflation expectations, which may not emerge if the economy continues to flirt with recession. But if the economy can make a meaningful recovery, inflation expectations could surge, and push gold past US$1,900/oz.

Gold is currently consolidating after peaking at US$1,912/oz. in August 2011. SHKF expects the consolidation to continue in the second half, and gold to trade in a range of US$1,485-US$1,679/oz.

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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, which are 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, China and Macau, and offers a diversified financial trading platform to its customers. SHKFL, through its subsidiaries, currently has over HK$56 billion* in assets under management, custody and/or advice. For more information, please visit www.shkf.com.

**Figures as of 31 December 2011*

For enquiries:

Sun Hung Kai Financial Limited

Juliana Chan	(852) 3920 2511	juliana.chan@shkco.com
Maggie Chan	(852) 3920 2513	maggie.chan@shkco.com
Sannie Pang	(852) 3920 2509	sannie.pang@shkco.com

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