

TECHNICAL STRATEGY

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HSI makes first test of 200-day m.a. and may cross above it after a few days' minor consolidation...

The HSI tested its 200-day m.a. yesterday and closed slightly above it. This is not yet a decisive crossing however. We may see a few days' consolidation around the end of the month before that can take place.



Source: Thomson Financial Datastream

Market Wrap

- The Hong Kong market advanced as the Shanghai Composite Index closed above 2,600, for the first time since May 28. The HSI and HSCEI gained 0.56% and 0.35% respectively to 21,091 and 11,972. Turnover was HK\$62.5 billion.
- HSBC (5) rallied 2.6% leading the HSI. Stanchart (2888) rose 3.3% to a 12-month high. HK Property names dropped on profit taking although the Mount Nicholson site was sold for HK\$10.4 billion. Hang Lung (101) fell 3.1% after reporting full year results.
- Exporters advanced on HK June trade data. China consumption themes were back in play. China auto stocks gained, TV maker Skyworth (751) rose 3.1% and mid-cap Sportswear names rallied after the recent sell-off in Dongxiang due to its muted sales growth in Q2.
- Overnight, US stocks slipped back on the FRB's "Beige Book" report that indicated the recovery was slowing in some parts of the country. The S&P 500 Index closed down 0.69% at 1,106.13.

Macro View

- The Hong Kong attempted to cross its 200-day m.a. yesterday and given the recent upturn in its 50-day m.a. we believe the rally will continue though there is quite a bit of resistance to overcome .
- It should be a gradual process as seasonally we do not expect strong moves in mid-summer. Also, it will take time to turn the long-term trend (200-day m.a.), back up.

Trading Idea

- Swire A (19) has 10.3m sf of office space in HK and is set to benefit from the recovery in Grade A office rentals. The stock is on 0.93x PB and a DY of 3.0%. We expect it slowly but quite steadily.

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*BOC HK is one of the first major stocks to break out of its trading range of the last eight months. While the stock is overbought it is likely to continue to trend higher from here. **Buy or hold with a stop loss at HK\$19.00.***



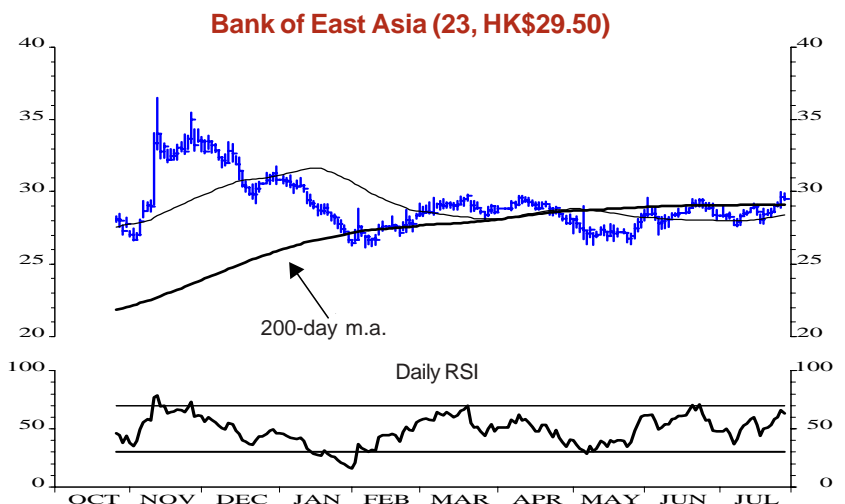
Source: Thomson Financial Datastream

*Hang Seng Bank moved out of a recent narrow trading range recently and has upside potential to its 200-day m.a. at HK\$110.00. **Buy or hold with a stop loss at HK\$105.00.***



Source: Thomson Financial Datastream

*BEA has crossed above its 200-day m.a. but is still in a narrow trading range. **Trading buy on a move above resistance at HK\$30.00.***



Source: Thomson Financial Datastream

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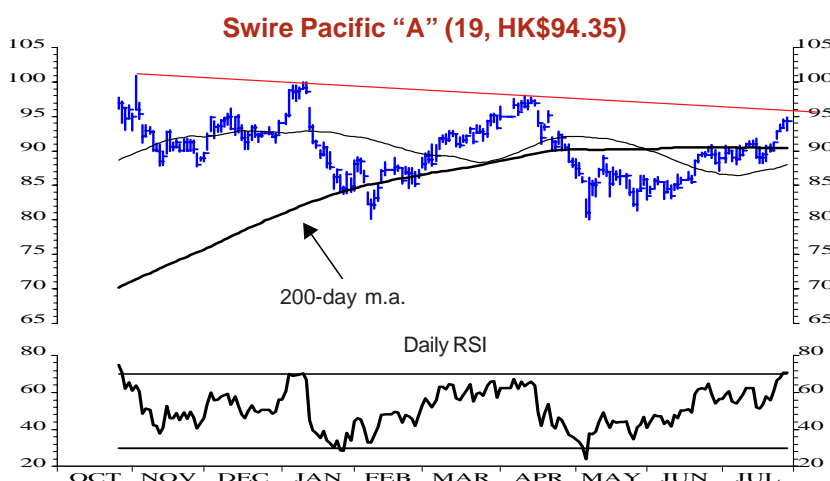
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CRE has broken long-term resistance at HK\$30.00 and should continue to trend higher from here. Buy or hold with a stop loss at HK\$29.50.



Source: Thomson Financial Datastream

Swire Pacific "A" is rallying towards resistance at HK\$96.00. Consider taking partial profit at that level.



Source: Thomson Financial Datastream

Hang Seng Composite Sectors

Sector	Index	Day (%)	Week (%)	MTD (%)	YTD (%)
Hang Seng Index (HSI)	21091.18	0.56	2.95	4.78	-3.57
Hang Seng Composite	2955.72	0.54	2.71	5.17	-3.15
HSCI Info Technology	2250.72	1.70	3.69	5.68	-15.68
HSCI Financials	3403.02	1.12	3.53	5.93	-5.45
HSCI Consumer Goods	5257.28	0.79	1.31	2.86	1.58
HSCI Industrial Goods	1456.62	0.67	4.18	10.76	3.95
HSCI Utilities	5134.19	0.62	0.91	1.24	3.65
HSCI Services	3637.82	0.30	2.47	6.35	8.74
HSCI Telecommunication	1653.37	0.18	1.12	1.16	8.11
HSCI Materials	9520.20	0.06	2.64	6.42	-12.03
HSCI Energy	12171.32	-0.04	2.81	2.20	-5.00
HSCI Conglomerates	2065.43	-0.34	4.28	6.90	-4.88
HSCI Property & Construction	2782.58	-0.35	2.14	8.91	-4.58
HS Mainland 100	6739.43	0.37	1.90	4.13	NA
HS China Enterprises	11972.75	0.35	2.42	4.42	-6.42
HS China H-Financial	16967.66	0.34	1.81	3.48	-4.01
HS China Affiliated Corps	4021.64	0.38	1.60	5.32	-0.94
HS HK 35	2169.82	0.16	3.25	5.58	NA
HS HK Comp Large Cap	1716.22	0.44	2.72	4.87	NA
HS HK Comp MidCap	4385.22	0.73	2.59	6.54	NA
HS HK Comp Small Cap	2281.36	1.37	2.93	5.00	NA

Source: Thomson Financial Datastream