



## CAPITULATION: MARKET TURNING ?

Shrinking turnover and sharp falls are classic signs of a market bottom approaching. A doubling of volume yesterday, driving the market up 7.6%, suggests this process might be completing. We still believe the market will rebound 25-30%. CPI growth is falling, even faster than we expected, while government action on the economy is happening faster than the consensus believed. The economy is mixed but the market looks as if it is turning for a post-Olympics rally.

21 August 2008

### What Happened in July? Mixed, With Conflicting Signs

- Industrial Output Sags to 14.7%: Not All Olympic Effect
- Electricity Production Still Below Trend at 9.6%
- Car Sales Growth Major Worry: Only 1.6%
- Steel Output Growth Falls to 8.8%: Olympic Effect Only?
- Cement Growth Slows to Just 1.7% But....
- Bank Loans Growth Inches Up After 30-Month Low
- Trade Surplus Widened Again to \$25bn
- Exports Stronger, Up 26.9%, Imports Up 33.7%
- Garments Exports 2% Growth After 15% Decline
- Textiles Still Up 19%
- Fixed Asset Investment Growth Highest In Two Years

### Consumption: Still Strongest Part of Economy

- Retail Sales Growth Hits a Record 23.3%

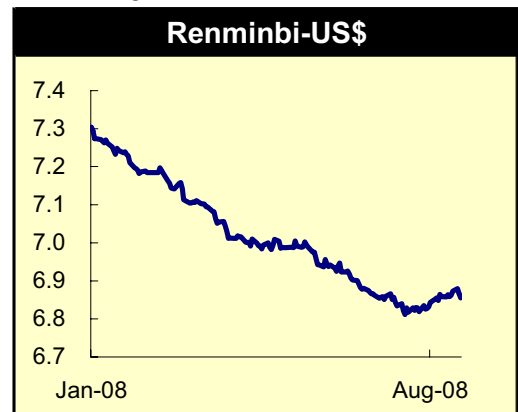
### Inflation: Major Reversal Continues Firmly

- CPI Back to 6.3% From 8.7% Peak: Food CPI Falls to 14.4%
- PPI Upturn Picks Up to 10% But Should Peak by September
- Expect Faster CPI Decline in H2 As Base Effect Starts

### Data To Watch: Inflation and Policy Responses

- Monetary Easing
- Energy Price Deregulation
- Food CPI
- Yuan: Slower Appreciation

### Clear Signal From Politburo: Slow Rise



Source: Bloomberg

### Beijing's Actions Turn 62% Decline



Source: Bloomberg

### Recommendations

- *Commodities*
- *Asian Equities*
- *H-Shares*

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