

[For immediate release]

SHKF expects steadier and broad-based global growth in 2014

* * *

Mild QE tapering, accommodative global monetary policy, and Strong Chinese reform consensus could drive HSI to 26,000

* * *

Strong USD continues

Highlights:

- All four key economic regions are expected to record growth for the second time in seven years
- Global monetary policy is expected to remain accommodative despite expected QE3 exit in March 2014
- Global credit spreads to stay steady at low levels amid stable default expectations
- China progresses into a new political paradigm with stronger reform consensus
- Raises equity allocation to overweight, especially for the Chinese and Japanese equity markets; recommends offshore renminbi bonds and high-quality high-yield corporate bonds
- Expects HSI to reach 26,000 in 2014
- Favors structural economic reforms beneficiaries and sectors with high earnings growth, including stocks in the green new energy, financial, pharmaceutical and healthcare, internet and technology and Macau gaming sectors
- Strong USD continues; investors may consider increasing exposure in RMB in the first half

Hong Kong, 11 December 2013 – Sun Hung Kai Financial ("SHKF") expects steadier and broad-based global growth in 2014, as economic expansion in all four key economic regions, namely China, the US, the Eurozone and Japan, is expected to occur. The narrowing growth differentials between developed and emerging markets will extend the global rebalancing trends in favour of developed markets. Global monetary policy is expected to remain accommodative despite the view that the US Federal Reserve (Fed) may begin to taper its QE3 asset purchases as early as in March 2014. Global inflation is expected to remain modest at subdued levels amid elevated unemployment rates in developed countries and a moderate outlook on commodity prices.

Mr Stephen Sheung, Head of Investment Strategy of SHK Private, said, "Investors are expected to consolidate emerging market exposure amid emerging market-to-developed market rebalancing. We have raised our equity allocation to overweight from neutral, especially for the Chinese and Japanese equity markets, which are expected to deliver better risk-adjusted returns. Offshore renminbi bonds and high-quality high-yield corporate bonds are also recommended."

The Chinese economy is expected to expand by 7.4% to 7.7% in 2014, following an estimated annual growth rate of 7.6% this year. The recent guidance of China's Premier Li Keqiang points to

7.2% as the country's ultimate base line for annual growth rate. Concurrently, Sheung expects the US economy to grow at a slightly faster rate of 2.0% to 2.5%. The Eurozone economy will remain sluggish with an estimated annual growth rate between 0.2% and 0.7% in 2014 as recovery momentum fades. Japan's GDP growth will moderate to 1.0% to 1.5%.

HK equities: HSI expected to reach 26,000

Benefiting from the Fed's longer-than-expected QE3 exit timeline and China's Third Plenary Session that delivered a deeper reform commitment than expected, the Hang Seng Index (HSI) shows a continued increase in 2H 2013. It reached 24,111 on 2 December, meeting the firm's target level set earlier. SHKF predicts this uptrend to last into 2014. China's Third Plenary Session showed that the new leaders of the Communist Party of China are strongly committed to economic structural reforms, supporting market confidence in the sustainability of China's economic development as well as easing concerns over local government debts. In view of the undemanding valuations of the Hong Kong and Chinese stock markets and sustained revenue growth of China-affiliated stocks, it is expected that fund inflows will be attracted, which will boost the laggard.

The Fed's stimulus exit seems to be the main uncertainty for the Hong Kong stock market next year. Nevertheless, with the market's long expectation of the issue, coupled with the "dove" stance of Janet Yellen, the Fed's new Chair next year, a mild tapering pace along with continuous economy recovery are expected to offset some of the subsequent negative impacts of the exit. SHKF sets the target HSI level for 2014 to reach 26,000, with a support level at 22,500; and the HSCEI to reach 13,500, supported at 10,700.

Ms Hannah Li, Senior Securities Analyst of SHKF, said, "The Third Plenary Session outlined a blueprint of structural economic reforms in the coming 10 years, which we believe will continue to be a major investment theme in 2014, comprising (1) new urbanisation; (2) energy saving and new energy; (3) consumption upgrade; (4) health care and social security; and (5) financial reforms and others. Stocks benefiting from this include those in the green new energy, financial, pharmaceutical and healthcare, internet and technology and Macau gaming sectors, etc.; while enterprises whose businesses concentrate on the US and European markets will gain from the stabilised European economy and the strengthened US economic recovery.

The higher chance of the Fed's stimulus exit next year will create unfavourable conditions for interest rate sensitive stocks. SHKF expects local properties stocks will underperform given their high sensitivity to interest rate changes and the increased downward risks of property prices.

Forex: strong USD continues

USD is expected to remain strong backed by favourable factors. The US economy is stabilised. It is picking up with US manufacturers returning to their homeland, which contributes to a gradual decrease in unemployment rate. The Fed is expected to start QE tapering in 2014. The shale gas revolution is injecting new energy to the economy. In November 2013, the US crude oil production already exceeded crude oil imports. It is expected that the US will attain self-sufficiency in oil in two years and such higher energy independence can narrow the trade deficit. USD will be supported by all these factors.

As for EUR, the European Central Bank cut interest rates in November 2013 against a background of deflation threat. Unemployment in Europe is far too high, which is causing a severe demand shrink, worsened by limited government stimulus spending as a result of austerity programmes.

The 1.3830 level seen in October 2013 is expected to be EUR's mid-term peak with 1.2750 as its last defence. If EUR cascades down below 1.2750, it will retest 1.2 again.

On RMB, Mr Bruce Yam, Forex Strategist of Sun Hung Kai Forex Limited, said, "Despite positivity delivered by the reform commitment at the Third Plenary Session and the growing importance of RMB as a trading currency in the first half, the debts of local financing platforms, the shadow banking system and overcapacity may weigh on growth expectations, limiting the pace of RMB appreciation in the second half. Investors may consider increasing exposure in renminbi in 1H 2014."

Japan will face real challenges in 2014 as Prime Minister Abe's honeymoon period is over. The sales tax increase and US tapering will impact the country's economy. The Bank of Japan, hence, may increase its QE size in mid-2014. In the short term, USD/JPY needs correction and then to devalue again in 2014. It is expected that USD/JPY to trade at 112 at the end of 2014.

- End -

About Sun Hung Kai Financial Limited

Sun Hung Kai Financial Limited ("SHKFL"), with its foundation dating back to 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\$65 billion* in assets under management, custody and/or advice. For more information, please visit www.shkf.com.

**Figures as of 30 June 2013*

For enquiries:

Juliana Chan	(852) 3920 2511	juliana.chan@shkf.com
Maggie Chan	(852) 3920 2513	maggie.chan@shkf.com
Rona Chau	(852) 3920 2509	rona.chau@shkf.com

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