

Monday – December 8th

This week in Finance: A new record for Shanghai stocks

Chinese brokerages' valuations have surged to their highest level in more than 4 years as Shanghai's surging stock market improves prospects for trading revenue. The Bloomberg Intelligence China A-share institutional brokerage index tracks Citic Securities and 21 of its peers. It climbed 55% in the last two weeks, pushing its valuation to 4.3 times its book value, the highest since May 2010.

Are the brokerage firms the winners in the rally?

Alex Wong of Ample Capital thinks perhaps so. "I also think that Hong Kong will come back this week," said Alex. Listen to his views on this morning's Money For Nothing.

(http://programme.rthk.hk/channel/radio/programme.php?name=radio3/money_for_nothing&d=2014-12-08&p=5126&e=&m=episode)

So what does a new record for Shanghai in terms of volume and probably volatility?

"The Shanghai Composite has set a new record daily trading volume of US\$103.8bn, the average trading volume for this year has been around US\$20bn," said Peter Lewis of Peter Lewis Consulting. "At one point on Friday, the China market was up 3% today, promptly collapsed 6% to be down 3%, then rallied to up 1% before another 2% fall and finally closing up 0.7% on the day. That's what volatility does for you in a momentum driven market!"

Nevertheless the China market even after an almost 20% rally over the past 3 weeks is still one of the cheapest markets in the world on valuations that have been historically correlated to future growth such as cyclically adjusted P/E ratio or market cap to GDP. Contrast that to the U.S. equity market which is at one of the most extreme valuations in history. Maybe a good trade is long CSI300 and short the S&P500.

Alternatively you can invest in Hong Kong stocks per Alex Wong's suggestion.

Events likely to move markets this week

- China trade data due out Monday
- China CPI inflation due for release on Wednesday
- Japan's revised third-quarter GDP due out Monday
- Australian employment figures for November