



## Issue of November

# Emerging Financial Market Watch

## Overview

In October, the reduction of global risk aversion as a result of the better-than-expected performance of US economy, as well as the continuing promising prospects and better public debt notation of emerging economies have led capital to flow to the emerging world from the developed world, contributing to the increase of equity markets in the emerging world. However, this has also created overheating and inflationary pressure in emerging countries, prompting central banks in Emerging Asia to tighten their monetary policies. This has resulted in a vicious cycle as tightening of monetary policies would further increase global thirst for higher returns and cause more capital to flow to emerging countries. As a result, countries like Brazil have carried out capital control, raising the country's financial operations tax on foreign investment in fixed income and equities funds to 6%.

### Focus: China's strategy in the rare earth war

Despite having the largest reserve of rare earth as well as the largest producer and exporter in the world, China has no voice and pricing power in the global market. With increasing awareness of importance of rare earth, China have gradually reduced rare earth exports since 2006, and cut exports substantially this year, which arouses a rare earth war especially from China's rare earth importers including the US and Japan in particular.

Japan seems opts to open public conflict with China on the rare earth issue, while looking for the strategic partners to secure the rare earth supply and seeking substitutes for the rare earth elements. China has gradually built up its national rare earth strategy since 2007. The major measures include control production, restrict exports, consolidate the industry and build up reserves. The competition for rare earth has always existed. Despite the pressure from other countries, China is likely to continue to step toward the goal of a sustainable rare earth policy in order to gain more power of voice in the global market.

## CITIC Securities Research

**Yifan Hu**  
(o) 852-22379116  
[yifanhu@citics.com.hk](mailto:yifanhu@citics.com.hk)

**Alexis Garatti**  
(o) 852-22379117  
[alexisgaratti@citics.com.hk](mailto:alexisgaratti@citics.com.hk)



## Disclaimer

This research report is for information purposes only and should not be construed as an offer to sell or the solicitation of an offer to buy or sell any securities in any jurisdiction. The securities referred to in this report may not be eligible for sale in some jurisdictions. The information contained in this report has been compiled by CITIC Securities Brokerage (HK) Limited (formerly known as CITIC Capital Securities Limited) ("CSBHK") from sources that it believes to be reliable and (subject to the next paragraph) the opinions, analysis, forecasts, projections and expectations contained in this report are based on such information and are expressions of belief only and no representation, warranty or guarantee is made or given by CSBHK or any other person as to its accuracy or completeness. All opinions and estimates expressed in this report are (unless otherwise indicated) entirely those of CSBHK as of the date of this report only and are subject to change without notice. Neither CSBHK nor its parent and affiliates accept any liability whatsoever for any direct or consequential loss arising from any use of material contained in this report or otherwise arising in connection therewith.

The research analyst(s) primarily responsible for the preparation of this research report confirms that (i) all of the views expressed in this research report accurately reflect his or her personal views about any and all of the subject securities or issuers; and (ii) that no part of his or her recommendation was, is or will be, directly or indirectly, related to the specific recommendations or views he or she expressed in this report.

Any investment referred to herein may involve significant risk, may be illiquid and may not be suitable for all investor. The value of or income from any investment referred to herein may fluctuate and be affected by changes in exchange rate. Past performance is not indicative of futures results. This report does not take into account the investment objectives, financial situation or particular needs of any particular person. Investors are expected to make their own investment decision without relying on this publication. Before acting on any advice or recommendation in this report, clients are recommended to consider seeking professional advice.

CSBHK, its parent and/or affiliates and their respective officers, directors and employees, including persons involved in the preparation or issuance of this report, may from time to time (1) have a consulting, investment banking or broking relationship with any company referred to in this report; and (2) have provided significant advice or investment services to the companies referred to in this report. One or more directors, officers and/or employees of CSBHK, its parent and/or its affiliates may be a director of the issuers of the securities mentioned in this report.

This research report is strictly confidential to the recipient and is not intended for persons in places where the distribution or publication of this report is not permitted under the applicable laws or regulations of such places.

This research report may not be reproduced, distributed or published by any person for any purpose without the prior consent of CSBHK. All rights are reserved.

## Regulatory disclosures

- Further information on the securities discussed in this report is available upon request.

## Investment rating system

Performance of stock or sector relative to MSCI-China over next 6 months after research publications

	Rating	Remark
Stock rating	Buy	Relative performance over MSCI-China Index >20%
	Overweight	Relative performance over MSCI-China Index 5% ~ 20%
	Hold	Relative performance over MSCI-China Index -10% ~ 5%
	Sell	Relative performance over MSCI-China Index > -10%
	NR	Not rated
Sector rating	Outperform	Relative performance over MSCI-China Index >10%
	Neutral	Relative performance over MSCI-China Index -10% ~10%
	Underperform	Relative performance over MSCI-China Index > -10%

地址:	香港中环 添美道 1 号 中信大厦 26 楼	ADDRESS:	26/F CITIC Tower 1 Tim Mei Avenue Central, Hong Kong
电话:	(852) 2237 6409	TEL:	(852) 2237 6409
传真:	(852) 2104 6580	FAX:	(852) 2104 6580
Email:	hkresearch@citics.com.hk	Email	hkresearch@citics.com.hk
网址:	http://www.citics.com.hk	Web:	http://www.citics.com.hk