Local China Bears Pour Money In Hong Kong As H-Shares Surge Forward

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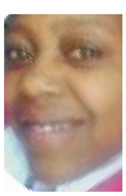

China bears have been pouring money into Hong Kong stocks in the recent times even as international appetite for the Chinese market remains suspect. The news comes as H shares for Chinese companies surge forward.

It has been a tough year so far for Chinese mainland stocks listed in Hong Kong. For seven months since the start of the year H-shares have spent most of the time in the red but it seems they are now turning a corner. Since July H shares have rose 10% to the green and this sudden rise has been largely occasioned by increased local appetite by Chinese bears on local stocks. For the last few months there has been an enormous flow of cash from mainland investors who are looking at H Shares as a cheaper high yielding option compared to A shares listed in Mainland China.

Despite the recent rally, most companies in Hong Kong's Hang Seng China Enterprises Index, which is used to track H-shares, are at the moment trading at just 8.4 times what many analysts expect them to earn in the 12 months ahead. This is relatively less compared to A shares which are trading at 13 times and even way behind compared to the tech dominated Shenzhen Stock Exchange stocks that are currently trading at 34 times what many analysts expect them to earn in the coming 12 months. It seems the increased appetite for H shares is only a question of following the money and more flows are expected in the coming months ahead even if global investor sentiment in China remains relatively subdued.

Increased Investment In H Shares From Mainland Investors

In September alone mainland investors have bought stocks worth 49.4 Billion Yuan in Hong Kong or an equivalent of $7.4 Billion. The figure is three times more than the average monthly stock value purchased by mainland investors in Hong Kong this year. And that is not all, with recent changes in the investment quota system by the Chinese government, insurance companies now have the leeway to buy stocks in Hong Kong paving the way for more capital inflows from mainland investors.

According to analysts the shift towards Hong Kong as a preferred investment option for Chinese local investors has been inspired by unfavorable market conditions locally. There is however a genuine fear that the rally in H-shares may dry up if capital flow from mainland investors stops. Global investors have cast some doubts on the rather opaque Chinese companies and the slowing economy. However, despite these challenges the potential for long term returns on Chinese shares is still solid.

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There is also the argument that Hong Kong shares are becoming very cheap and with the Federal Reserve expected to raise interest rates this year, there could be a sudden dent in the banking and property stocks that have so far offered high yields and attracted mainland investors. For the past few months global investor sentiment on China has not been stellar but it seems Hong Kong may just get a small boost locally.

How To Invest In Hong Kong H Shares

Investing on H shares in Hong Kong is perhaps a bullish idea at the moment but there is no doubt potential for returns has always been there for both H shares and mainland Chinese stocks in Shanghai and Shenzhen. The best way to invest in Hong Kong H shares is through a managed portfolio and the **Asia Pacific Fund** offers you that opportunity. The Asia Pacific Fund is a closed End Fund that invests in equity securities of companies in the Asia pacific regions but not Japan. The Fund is your best vehicle to unlock value in H shares and you can buy its stock in the NYSE under the ticker symbol APB.