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Yuan Move Is Short-Term ‘Jab,’ More Needed, Hedge Fund APS Says

Klaus Wille

The devaluation of the yuan will provide a short-term boost to China’s exporters while more lasting reforms are required to overhaul the nation’s economy, according to hedge-fund manager APS Asset Management Pte, which manages $3.3 billion in assets.

China’s central bank on Tuesday cut its daily reference rate by 1.9 percent, triggering the yuan’s biggest one-day drop in two decades. The People’s Bank of China called the change a one-time adjustment and said it will strengthen the market’s ability to determine the daily fixing.

“Exports will get a jab in the arm in the near-term but over the long-term China will have to move up the technology curve and produce high value-added products,” Wong Kok Hoi, founder and chief investment officer of APS, said in an interview from Singapore. “I don’t think we should read too much into it.”

Wong said the country’s economy and its stock market will eventually benefit from President Xi Jinping’s initiatives to fight corruption and restructure the corporate sector and reiterated that shares will double over the next three to five years. Wong, whose APS China A Share Fund has returned an estimated net 38 percent this year through Aug. 10, predicted that stock markets will decline a further 10 percent at most before starting to rebound. The fund and related strategies had $2.6 billion in assets as of July.

‘Gutsy Man’

“Xi Jinping is a tough, no-nonsense, determined, persistent and gutsy man,” Wong wrote in a letter to investors obtained by Bloomberg News. “China’s reforms are very much on track because there is no evidence of backpedaling,” he wrote.

APS joins managers such as Marco Polo Pure Asset Management’s Aaron Boesky in betting on China stocks after a plunge has wiped out as much as $4 trillion in market value since mid-June. Boesky has said that he expects a fourth-quarter rally in Chinese stocks, as stimulus measures take hold, although added that he is waiting for evidence that the government will be able to control margin debt.

The Shanghai Composite Index gained 152 percent in the 12 months through June 12, before plummeting almost 30 percent in the following weeks amid attempts by the government to stem the rout through securities purchases and restrictions on short selling.

‘Panic’ Over

“The major panic is behind us and most of the intervention is over,” Wong said in the interview. “But confidence is still a bit fragile. People are not sure where the economy is heading, whether the government will continue to support the market and whether the pace of reforms will slow down."

The long-only fund mostly has avoided cyclical stocks in construction, retail and banking, while investing more in technology and Internet firms, Wong said.

APS also invests in China through the APS Greater China Long/Short Fund with $80 million in assets which has returned an estimated gross 53 percent this year until Aug. 10. The fund bets on both rising and falling stocks and had reduced the proportion of short positions in its portfolio before the market collapsed, Wong said.

"With the benefit of hindsight, we should have sold everything," he said.