5 April 2013

Economics Weekly

China Economic Indicators

YoY% or otherwise specified	March 2013F	Consensus	Jan-Feb 2013
1Q13 GDP	7.9	8.0	7.8*
CPI	2.7	2.5	2.6
PPI	-1.4	-2.0	-1.6
Exports	16.0	10.1	23.6
Imports	6.5	4.4	5.0
Trade Balance (USD/Bn)	21.4	15.4	44.2
FAI (YTD%)	21.5	21.3	21.2
Industrial production	10.1	10.0	9.9
Retail Sales	12.5	12.6	12.3
M2	14.8	14.2	15.2
New loans (RMB/Bn)	950	845	1690

** 2012 GDP growth*
Source: Bloomberg, ABCIS

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Data preview: Mild acceleration of 1Q13 GDP growth

China's macro trends are likely to stabilize in 1Q13 and the underlying strength of economic recovery remains intact. Although the rally of CPI is posing inflation risk, the size of inflation is still within government limit of 3.5%, which will not threaten the recovery of domestic demand. We expect prices, industrial production, FAI and domestic consumption to continue to head up slightly in March, while M2 growth may see minor slowdown. In our view, China's economic growth for 1Q13 is likely to edge up slightly to 7.9% YoY compared to 2012 GDP growth of 7.8%. Economic policies in the mainland will remain accommodative through the first half of the year and the lagged impact of fiscal and monetary stimulus will begin to affect infrastructure, household consumption and new strategic industries in 2Q13.

- **CPI expected to surge slightly to 2.7% YoY.** We believe the CPI will rise slightly, from 2.6% in Jan-Feb to 2.7% in March due to decelerating pork and vegetable prices after Lunar new year holidays. The PBOC will continue to avoid wild swings in inflation and will maintain a prudent monetary policy in the hopes of maintaining a balance between stabilizing growth and curbing prices. We expect prices will remain stable in 2Q13.
- **Better-than-expected external trade.** We expect exports and imports to grow 16.0% YoY and 6.5% YoY in March respectively in response to accelerating foreign demand from the US, Japan and emerging markets. External trade is likely to rebound further in 2Q13.
- **FAI growth to remain healthy at 21.5% YTD.** Despite the recent pickup in sales volume, we expect real estate investment growth to remain below 20%. A meaningful rebound is unlikely to occur until 2H13. The major positives for FAI lie in robust growth in infrastructure and social housing projects which keeps FAI growth above 21% in 2Q13.
- **Industrial output to grow 10.1% YoY.** The pickup in industrial orders is likely to persist into March due to improvement in the new order index under PMI in previous months. Strong domestic demand and stable external trade will boost the growth of industrial output in 2Q13.
- **Retail sales growth on track.** We expect retail sales growth to grow, from 12.3% YoY in Jan-Feb to 12.5% YoY in March on higher domestic consumption. Retail sales will pick up in 2Q13 supported by wage increases and heightened inflation expectations.
- **Continued deceleration of M2 growth.** We forecast new loans will reach RMB950bn in March and M2 growth to slow from 15.2% YoY in Jan-Feb to 14.8% YoY in March, driven by the more diversified sources of financing. We expect positive trends in monetary data to stay intact in 2Q13.

China Economic Indicators

	2012										2013		
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar*
Real GDP (YoY%)	8.1	---	---	7.6	---	---	7.4	---	---	7.9			7.9
Export Growth (YoY%)	8.9	4.9	15.3	11.1	1	2.7	9.9	11.6	2.9	14.1	25.0	21.8	16
Import Growth (YoY%)	5.3	0.3	12.7	6.3	4.7	-2.6	2.4	2.4	0	6	28.8	-15.2	6.5
Trade Balance (USD/Bn)	5.18	18.53	18.13	31.91	25.28	26.43	27.45	32.11	19.63	31.6	29.2	15.3	21.4
Retail Sales Growth (YoY%)	15.2	14.1	13.8	13.7	13.1	13.2	14.2	14.5	14.9	15.2	12.3		12.5
Industrial Production (YoY%)	11.9	9.3	9.6	9.5	9.2	8.9	9.2	9.6	10.1	10.3	9.9		10.1
PMI - Manufacturing (%)	53.1	53.3	50.4	50.2	50.1	49.2	49.8	50.2	50.6	50.6	50.4	50.1	50.1
PMI - Non-manufacturing (%)	58	56.1	55.2	56.7	55.6	56.3	53.7	55.5	55.6	56.1	56.2	54.5	55.6
FAI(YTD) (YoY%)	20.9	20.2	20.1	20.4	20.4	20.2	20.5	20.7	20.7	20.6	21.2		21.5
CPI (YoY%)	3.6	3.4	3	2.2	1.8	2	1.9	1.7	2	2.4	2.0	3.2	2.7
PPI (YoY%)	-0.3	-0.7	-1.4	-2.1	-2.9	-3.5	-3.6	-2.8	-2.2	-1.9	-1.6	-1.6	-1.4
M2 (YoY%)	13.4	12.8	13.2	13.6	13.9	13.5	14.8	14.1	13.9	13.8	15.9	15.2	14.8
New Lending (RMB/Bn)	1011.44	681.8	793.23	919.83	540.1	703.9	623.2	505.2	522.9	454.3	1070.0	620.0	950

** March data are forecast value (except for PMI – Manufacturing Index and PMI - Non- manufacturing Index)*

World Economic/Financial Indicators

Equity Index

	Closing price	Chng. WTD (%)	P/E
US			
DJIA	14606.11	0.19	14.23
S&P 500	1559.98	-0.59	15.37
NASDAQ	3224.98	-1.30	24.57
MSCI US	1489.70	-0.64	15.66
Europe			
FTSE 100	6344.12	-1.05	18.01
DAX	7817.39	0.28	14.61
CAC40	3726.16	-0.14	14.41
IBEX 35	7847.90	-0.91	27.34
FTSE MIB	15154.02	-1.20	34.94
Stoxx 600	291.71	-0.70	18.92
MSCI UK	1877.13	-1.07	18.09
MSCI France	104.63	-0.13	18.40
MSCI Germany	109.92	0.22	13.63
MSCI Italy	44.62	-0.95	23.68
Asia			
NIKKEI 225	13167.10	6.20	26.57
S&P/ASX 200	4885.10	-1.64	20.23
HSI	22337.49	0.17	10.66
HSCEI	10758.80	-1.26	8.83
CSI300	2483.55	-0.46	12.52
SSE Composite	2225.30	-0.51	12.24
SZSE Composite	913.32	-1.57	26.23
MSCI China	59.62	-0.90	10.12
MSCI Hong Kong	11798.24	0.81	10.83
MSCI Japan	642.11	0.40	22.79

Global Commodities

		Unit	Price	Chng. WTD (%)	Volume (5-day average)
Energy	NYMEX WTI	USD/bbl	93.48	-3.86	243603.40
	ICE Brent	USD/bbl	106.56	-3.14	212361.40
	NYMEX Natural Gas	USD/MM Btu	3.96	-1.71	165455.00
	Australia Newcastle Steam Coal Spot fob	USD/Metric Tonne	87.80	N/A	N/A
Basic Metals	LME Aluminum Cash	USD/MT	1856.00	-1.03	19341.80
	LME Primary Aluminum 3 Month Rolling Forward	USD/MT	1885.00	-1.00	35448.40
	CMX Copper Active Contract	USD/lb.	336.05	-1.22	53141.60
	LME Copper 3 Month Rolling Forward	USD/MT	7441.00	-1.31	47631.80
	TSI CFR China Iron Ore Fines Index	USD	135.90	-1.02	N/A
Precious Metals	CMX Gold	USD/T. oz	1551.20	-2.73	2138.80
	CMX Silver	USD/T. oz	26.85	-5.22	47980.20
	NYMEX Platinum	USD/T. oz	1530.10	-2.83	12267.00
Agricultural Products	CBOT Corn	USD/bu	628.50	-9.60	202735.80
	CBOT Wheat	USD/bu	692.50	0.69	86021.60
	NYB-ICE Sugar	USD/lb.	17.67	0.06	47371.40
	CBOT Soybeans	USD/bu.	1368.25	-2.60	109820.60

Bond Yields & Key Interest Rates

	Yield (%)	Chng. WTD (%)
US Fed Fund Rate	0.25	0.00
US Prime Rate	3.25	0.00
US Discount Window	0.75	0.00
US Tresury (1 Month)	0.0608	140.32
US Tresury (10 Yr)	1.7489	-5.39
US Tresury (30 Yr)	2.9757	-4.08
Japan 10-Yr Government Bond	0.352	-36.12
China 10-Yr Government Bond	3.56	-0.84
ECB Interest Rate (Refinancing)	0.75	0.00
1-Month LIBOR	0.2003	-1.67
3 Month LIBOR	0.2804	-0.78
3-Month SHIBOR	3.8804	0.00
3-Month HIBOR	0.3807	-0.37
Corporate Bonds (Moody's Seasoned)		
Aaa	3.86	-1.03
Baa	4.74	-1.86

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CAD	USD/CNY	USD/HKD	USD/ CNY NDF 12 Month
Spot Exchange Rate	1.2933	1.5223	1.0413	97.0100	0.9401	1.0132	6.2060	7.7627	6.2910
Chng. WTD (%)	0.89	0.16	-0.06	-2.88	0.97	0.41	0.07	0.01	0.17

Note:
1. *Data source: Bloomberg Finance LP, National Bureau of Statistics of China, ABCIS*
2. *Australia Newcastle Steam Coal Spot fob is the Australia Newcastle 6700 kc GAD fob Steam Coal Spot price published by McCloskey*
3. *TSI CFR China Iron Ore Fines Index is calculated with the 62% Fe specification, spot price*
4. *Certain data is not reported as of the date of this report*

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Definition of equity rating

ting	**Definition**
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ Stock return < Market return rate
Sell	Stock return < Market return – 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months
Market return: 5-year average market return rate from 2007-2011
Time horizon of share price target: 12-month

Definition of share price risk

Rating	**Definition**
Very high	2.6 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index. Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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