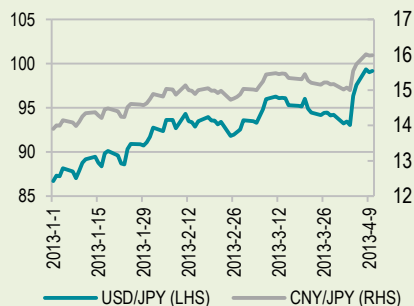




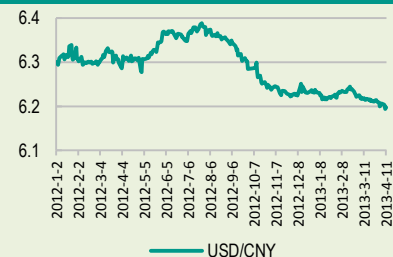
# Economics Weekly

Yen depreciation accelerates after BOJ announcement



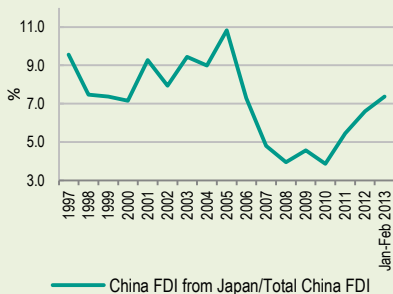
Source: Bloomberg, ABCIS

Renminbi's strength remains intact



Source: Bloomberg, ABCIS

FDI from Japan into China is ready to surge



Source: Bloomberg, ABCIS

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## China, a beneficiary of Japan's new QE pledge

Japan instituted a more aggressive quantitative easing (QE) to stimulate its economy by increasing monthly purchase of Japanese government bonds (JGB) to 7.5 trillion yen and doubling the outstanding amount by the end of 2014. The planned doubling of monetary within 2 years aims at lifting the inflation rate to 2% by ending 15-year deflation. The pledge represents a concerted effort of Japan to bolster the struggling economy. Since the announcement, Yen has depreciated more than 5% and the weakening trend of Yen has costs and benefits on its neighbors. China, a major trading partner and foreign investment destination of Japan, will be one of the beneficiaries of ambitious Japan's QE policy.

- **Yen depreciation changes the dynamics in foreign trade.** The most prominent short-term effect of the new QE program is the dramatic depreciation of yen, which once fell to the lowest level against the US dollar since June 2009. As the yen becomes cheaper, exports of Japan are more attractive. As China's imports from Japan mainly constitute equipment and semi-finished products and China mostly exports industrial finished goods to Japan, a sharp decline in yen will negatively affect Chinese exports to Japan, but will be beneficial for Japanese exports to China. We expect that the increase in imports from Japan will surpass the drop in exports to Japan and the total trade of China from Japan will restore positive growth in 2013.
- **Capital flight benefits Asia's capital markets.** The depression of Japanese bond yield by massive purchases of JGB pushes investors to look for investment with higher yields. Spurred by demand for higher-yielding assets, funds flow into emerging markets, including China, as these economies have better economic outlook. This will result in surging net capital outflows of Japan with which some new outflows may be in the form of carry trades to lock in short term return in Asian markets. The continuing increase of liquidity created by the BOJ will boost the performance of Asia's capital markets.
- **Japan's FDI into China is ready to surge.** Japanese FDI into China is an important aspect of one of the largest bilateral economic relationships in the world. We expect Japanese enterprises will take advantage of QE to boost their investment in China so as to enhance their return on investment. Japanese capital currently accounts for 7% of FDI in China and the share will go up to 10% in the next two years.
- **Renminbi stays strong.** The expectation of economic recovery in China boosts the outlook of renminbi. Japan's QE further affects the flows of liquidity into China's market. With interest rate spread between Japan and China maintained at several hundred basis points, investments in renminbi assets are still quite attractive. We expect renminbi will appreciate 2% by the end of 2013.



**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	10.0
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	14.1
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	-0.9
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	50.9
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	2.1
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	-1.9
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	15.7
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	1060.0

\* forecasts

**World Economic/Financial Indicators**

Equity Index				Global Commodities				Bond Yields & Key Interest Rates				
	Closing price	Chng. WTD (%)	P/E		Unit	Price	Chng. WTD (%)	Volume (5-day average)		Yield (%)	Chng. WTD (%)	
<b>US</b>				<b>Energy</b>	NYMEX WTI	USD/bbl	93.35	0.70	232783.60	US Fed Fund Rate	0.25	0.00
DJIA	14865.14	2.06	14.47		ICE Brent	USD/bbl	104.30	0.17	189176.20	US Prime Rate	3.25	0.00
S&P 500	1593.37	2.58	15.70		NYMEX Natural Gas	USD/MM Btu	4.18	1.26	235568.00	US Discount Window	0.75	0.00
NASDAQ	3300.16	3.01	25.11		Australia Newcastle Steam Coal Spot fob	USD/Metric Tonne	86.75	N/A	N/A	US Treasury (1 Month)	0.0558	22.37
MSCI US	1522.02	2.59	15.99		LME Aluminum Cash	USD/MT	1864.50	0.76	15408.00	US Treasury (10 Yr)	1.7862	4.29
<b>Europe</b>				<b>Basic Metals</b>	LME Primary Aluminum 3 Month Rolling Forward	USD/MT	1898.00	0.61	27955.60	US Treasury (30 Yr)	2.9905	4.02
FTSE 100	6416.14	2.66	18.25		CMX Copper Active Contract	USD/lb.	342.75	2.50	57721.40	Japan 10-Yr Government Bond	0.553	3.56
DAX	7871.63	2.78	14.62		LME Copper 3 Month Rolling Forward	USD/MT	7610.00	2.74	39307.00	China 10-Yr Government Bond	3.5	-1.69
CAC40	3775.66	3.06	14.67		TSI CFR China Iron Ore Fines Index	USD	140.90	3.68	N/A	ECB Interest Rate (Refinancing)	0.75	0.00
IBEX 35	8159.50	4.63	28.27		CMX Gold	USD/T. oz	1560.80	-0.93	585.80	1-Month LIBOR	0.1987	-0.80
FTSE MIB	16020.91	5.05	36.87	CMX Silver	USD/T. oz	27.62	1.47	43840.00	3 Month LIBOR	0.2771	-0.82	
Stoxx 600	294.96	2.73	19.07	NYMEX Platinum	USD/T. oz	1532.20	-0.21	9617.60	3-Month SHIBOR	3.8803	0.00	
MSCI UK	1898.34	2.64	18.42	CBOT Corn	USD/bu	652.75	3.78	154850.20	3-Month HIBOR	0.3779	-0.75	
MSCI France	105.91	2.98	18.60	CBOT Wheat	USD/bu	702.00	0.43	61641.80	Corporate Bonds (Moody's Seasoned)			
MSCI Germany	110.47	2.52	13.70	NYB-ICE Sugar	USD/lb.	17.84	1.08	58786.60	Aaa	3.79	2.99	
MSCI Italy	47.08	4.88	25.02	CBOT Soybeans	USD/bu.	1402.00	2.96	113636.60	Baa	4.67	2.86	
<b>Asia</b>				<b>Precious Metals</b>								
NIKKEI 225	13549.16	5.58	27.39									
S&P/ASX 200	5007.07	2.36	20.86									
HSI	22101.27	1.72	10.51									
HSCEI	10708.25	2.67	8.79									
CSI300	2477.88	-0.23	12.48									
SSE Composite	2219.55	-0.26	12.14									
SZSE Composite	919.12	0.63	26.38									
MSCI China	59.42	2.54	10.06									
MSCI Hong Kong	11579.86	1.05	10.63									
MSCI Japan	695.09	5.25	24.69									
<b>Currency</b>												
									USD/ CNY			
	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CAD	USD/CNY	USD/HKD	NDF 12 Month			
Spot Exchange Rate	1.3109	1.5393	1.0541	99.6800	0.9303	1.0103	6.1962	7.7614	6.2600			
Chng. WTD (%)	0.91	0.37	1.52	-2.12	0.44	0.72	0.16	0.05	0.50			

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**

<b>Rating</b>	<b>Definition</b>
Buy	Stock return $\geq$ Market return rate
Hold	Market return - 6% $\leq$ 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**

<b>Rating</b>	<b>Definition</b>
Very high	$2.6 \leq$ 180 day volatility/180 day benchmark index volatility
High	$1.5 \leq$ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	$1.0 \leq$ 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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