Economics Weekly
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Exhibit 1: Economic indicators in 2Q14 & 1H14

YoY% or otherwise specified	1H'14	2Q'14	1Q'14
GDP	7.4	7.5	7.4
CPI	2.3	2.2	2.3
PPI	(1.7)	(1.5)	(2.0)
Exports	0.9	4.9	(3.4)
Imports	1.5	1.5	1.6
Trade Balance (US$/bn)	102.5	85.9	16.6
FAI (YTD%)	17.3	17.2	17.6
Industrial production	8.8	8.9	8.7
Retail Sales	12.1	12.4	12.0
M2	14.7	14.7	12.1
New loans (RMB/bn)	5,740.0	2,725.5	3,014.5
Aggregate financing (RMB/bn)	10,570.0	4,941.9	5,628.1

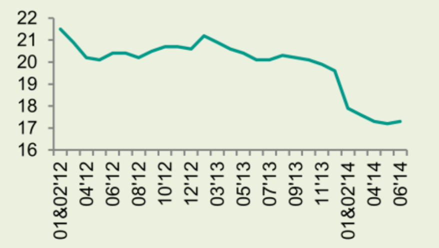
Source(s): Bloomberg, ABCI Securities

Exhibit 2: June economic indicators

YoY% or otherwise specified	June'14	May'14
CPI	2.3	2.5
PPI	(1.1)	(1.4)
Exports	7.2	7.0
Imports	5.5	(1.6)
Trade Balance (US$/bn)	31.6	35.9
FAI (YTD%)	17.3	17.2
Industrial production	9.2	8.8
Retail Sales	12.4	12.5
M2	14.7	13.4
New loans (RMB/bn)	1080.0	870.8
Aggregate financing (RMB/bn)	1970.0	1404.5

Source(s): Bloomberg, ABCI Securities

Exhibit 3: China's FAI growth (YTD YoY %)



Source(s): Bloomberg, ABCI Securities

China in 1H14: More reasons for optimism

China's GDP grew 7.5% YoY in 2Q14, in line wth the government's target of 7.5% YoY and exceeded market expectation (consensus: 7.4% YoY). Most economic data point to an even development in the economic segments, with trade, FAI and retail sales stabilizing while industrial production continues to improve. As long as the government is committed to implementing reforms and supportive policies, domestic growth would advance steadily and meet the government's target by the end of the year.

FAI stabilized in June. YTD FAI growth reached 17.3% YoY, signaling stabilization. YTD FAI in real estate only expanded by 14.1% YoY, 0.6% lower than May's figure. Propped up by the government's supportive measures, growth of infrastructure FAI continue to climb in June. By and large, FAI growth in 1H14confirms the effectiveness of the government's mini-stimulus and targeted easing measures in boosting the economy. We expect FAI will continue to trend up in 2H14.

As expected, industrial production improved . In June, industrial production grew 9.2% YoY - the best reading year to date. We believe the improvement in economic condition, especially in manufacturing activities, has incited momentum in industrial production. Notably, the average daily production of electricity, steel, and crude oil sustained a relatively high YoY growth, signaling the resiliency of industrial activities.

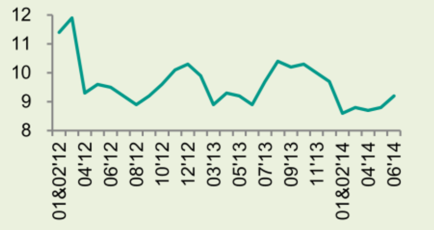
Retail sales grew at a steady pace. In June, retail sales grew by 12.4% YoY, compared to May's 12.5% YoY. Quarter-wise, retail sales growth accelerated from 12.0% YoY in 1Q14 to 12.4% in 2Q14, suggesting a gradual pickup in the sector. In terms of product categories, "Gold, Silver, and Jewelry" fell only by 0.2% YoY in June, meaning the demand for these products are undergoing a speedy recovery. "Communication Appliance" is the fastest-growing category among all (+33.9% YoY) and is one of the main contributors of retail sales growth.

External trade continues to march forward. Export and import growths improved to 7.2% YoY and 5.5% YoY, indicating further advancement in the external trade sector. Exports made significant strides in 2Q14 and grew 4.9% YoY (1Q14 growth: -3.4% YoY). We believe favorable environment in the global economy, together with the supportive stance of the Chinese government, has and will continue to drive growth in China's external trade. We maintain our growth forecasts for exports and imports at 9.6% YoY and 6.7% YoY for 2H14.

CPI moderated while PPI improved. CPI increased by 2.3% YoY in June, just slightly lower than the market expectation of 2.4% YoY. A broad range of product categories experienced slower price increase in June, suggesting a mild inflationary pressure and plentiful room for stimulus measures. In addition, the decline of PPI narrowed to 1.1% YoY - the best reading in 2 years. We expect PPI will regain strength gradually as industrial activities and growth in the infrastructure and manufacturing sectors accelerate on the government's supportive policies.

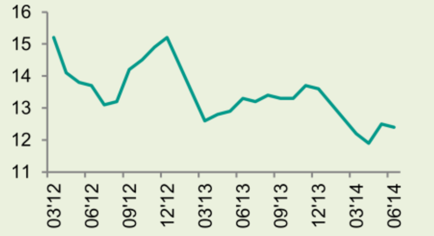
Monetary data reflected impact of targeted easing. New loans and M2 growth were RMB 1080bn and 14.7% YoY in June, exceeding the market expectation. The impressive growth signals that credit has been growing faster than expected amid the targeted loosening. Also noteworthy is that trust loan in total social financing declined more than 60% YoY in 1H14, and its share in aggregate financing dropped from 12.2% in 1H13 to 4.4% in 1H14. We believe the changes were resulted from the government's efforts to manage shadow banking risks. For 2H14, We expect monetary easing will continue to support economic recovery in 2H14.

Exhibit 4: China's industrial production growth (YoY %)



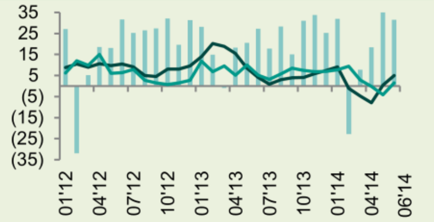
Source(s): Bloomberg, ABCI Securities

Exhibit 5: China's Retail sales (YoY %)



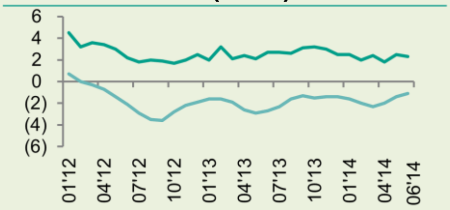
Source(s): Bloomberg, ABCI Securities

Exhibit 6: China's external trade



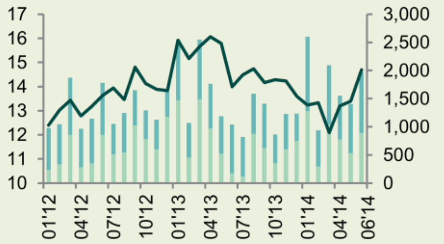
Source(s): Bloomberg, ABCI Securities

Exhibit 7: CPI & PPI (YoY %)



Source(s): Bloomberg, ABCI Securities

Exhibit 8: New loans and M2 growth



Source(s): Bloomberg, ABCI Securities

China Economic Indicators

	2013								2014					
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Real GDP (YoY%)	---	7.5	---	---	7.8	---	---	7.7	---	---	7.4	---	--	7.5
Export Growth (YoY%)	1.0	(3.1)	5.1	7.2	(0.3)	5.6	12.7	5.8	10.6	(18.1)	(6.6)	0.9	7.0	7.2
Import Growth (YoY%)	(0.3)	(0.7)	10.9	7.0	7.4	7.6	5.3	6.5	10.0	10.1	(11.3)	0.8	(1.6)	5.5
Trade Balance (USD/bn)	20.4	27.1	17.8	28.5	15.2	31.1	33.8	32.3	31.9	(23.0)	7.7	18.5	35.9	31.6
Retail Sales Growth (YoY%)	12.9	13.3	13.2	13.4	13.3	13.3	13.7	13.6	11.8		12.2	11.9	12.5	12.4
Industrial Production (YoY%)	9.2	8.9	9.7	10.4	10.2	10.3	10.0	9.7	8.6		8.8	8.7	8.8	9.2
PMI - Manufacturing (%)	50.8	50.1	50.3	51.0	51.1	51.4	51.4	51.0	50.5	50.2	50.3	50.4	50.8	51.0
PMI - Non-manufacturing (%)	54.3	53.9	54.1	53.9	55.4	56.3	56.0	54.6	53.4	55.0	54.5	54.8	55.5	55.0
FAI(YTD) (YoY%)	20.4	20.1	20.1	20.3	20.2	20.1	19.9	19.6	17.9		17.6	17.3	17.2	17.3
CPI (YoY%)	2.1	2.7	2.7	2.6	3.1	3.2	3.0	2.5	2.5	2.0	2.4	1.8	2.5	2.3
PPI (YoY%)	(2.9)	(2.7)	(2.3)	(1.6)	(1.3)	(1.5)	(1.4)	(1.4)	(1.6)	(2.0)	(2.3)	(2.0)	(1.4)	(1.1)
M2(YoY%)	15.8	14.0	14.5	14.7	14.2	14.3	14.2	13.6	13.2	13.3	12.1	13.2	13.4	14.7
New Lending (RMB/bn)	667.4	860.5	699.9	711.3	787.0	506.1	624.6	482.5	1,320	644.5	1,050	774.7	870.8	1080.0
Aggregate Financing (RMB bn)	1,187.1	1,037.5	819.1	1,584	1,411.3	864	1,226.9	1,232.2	2,580	938.7	2,081.3	1,550	1,400.0	1,970.0

World Economic/Financial Indicators

Equity Indices

	Closing price	Chg. WTD (%)	P/E
U.S.			
DJIA	17,060.68	0.69	15.98
S&P 500	1,973.28	0.29	18.05
NASDAQ	4,416.39	0.02	35.32
MSCI US	1,886.30	0.27	18.48
Europe			
FTSE 100	6,778.00	1.31	19.52
DAX	9,843.71	1.83	18.26
CAC40	4,371.22	1.27	25.58
IBEX 35	10,626.40	0.83	22.91
FTSE MIB	20,779.91	0.80	N/A
Stoxx 600	342.41	1.63	21.81
MSCI UK	1,981.15	0.33	19.46
MSCI France	120.80	(0.21)	25.64
MSCI Germany	129.54	0.57	18.20
MSCI Italy	59.19	(0.99)	N/A
Asia			
NIKKEI 225	15,379.30	1.42	20.26
S&P/ASX 200	5,518.86	0.58	19.61
HSI	23,523.28	1.25	10.99
HSCEI	10,475.38	0.92	7.69
CSI300	2,170.87	1.06	9.98
SSE Composite	2,067.28	0.99	10.10
SZSE Composite	1,105.22	(0.23)	27.82
MSCI China	63.02	1.45	9.68
MSCI Hong Kong	12,668.20	(0.01)	12.80
MSCI Japan	782.10	1.50	14.93

Global Commodities

	Unit	Price	Chg. WTD (%)	Volume (5-day avg.)
Energy				
NYMEX WTI	USD/bbl	100.72	(0.11)	269,097
ICE Brent Oil	USD/bbl	106.45	(0.20)	131,950
NYMEX Natural Gas	USD/MMBtu	4.10	(1.09)	88,149
Australia Newcastle Steam Coal Spot fob[2]	USD/Metric Tonne	69.59	N/A	N/A
Basic Metals				
LME Aluminum Cash	USD/MT	1,940.50	1.07	82,264
LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,960.00	0.98	35,319
CMX Copper Active	USD/lb.	7,132.50	(0.52)	18,535
LME Copper 3- mth Rolling Fwd.	USD/MT	7,130.00	(0.36)	49,905
TSI CFR China Iron Ore Fines Index[3]	USD	98.00	1.14	N/A
Precious Metals				
CMX Gold	USD/T. oz	1,298.90	(2.88)	164,915
CMX Silver	USD/T. oz	20.81	(3.06)	45,500
NYMEX Platinum	USD/T. oz	1,486.10	(1.83)	9,421
Agricultural Products				
CBOT Corn	USD/bu	386.25	0.39	124,500
CBOT Wheat	USD/bu	540.25	2.71	45,800
NYB-ICE Sugar	USD/lb.	17.21	0.82	53,137
CBOT Soybeans	USD/bu.	1,096.50	2.00	111,642

Bond Yields & Key Rates

	Yield (%)	Chg. WTD (Bps)
US Fed Fund Rate	0.25	0.00
US Prime Rate	3.25	0.00
US Discount Window	0.75	0.00
US Treasury (1 Mth)	0.0152	(0.51)
US Treasury (5 Yr)	1.6877	4.79
US Treasury (10 Yr)	2.5359	1.99
Japan 10-Yr Gov. Bond	0.5470	1.00
China 10-Yr Gov. Bond	4.2300	7.00
ECB Rate (Refinancing)	0.15	0.00
1-Month LIBOR	0.1542	0.22
3 Month LIBOR	0.2331	(0.05)
O/N SHIBOR	3.2472	(3.78)
1-mth SHIBOR	4.4920	32.90
3-mth HIBOR	0.3757	(0.36)
Corporate Bonds (Moody's)		
Aaa	4.19	2.00
Baa	4.76	3.00

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-Mth
Spot Rate	1.3543	1.7122	0.9345	101.72	0.8975	6.2049	7.7511	6.2598
Chg. WTD (%)	(0.48)	0.04	(0.50)	(0.41)	(0.59)	(0.02)	(0.01)	(0.09)

Note:
1. Data sources: Bloomberg Finance LP, National Bureau of Statistics of China, ABCIS (updated on date of report)
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

Disclosures

Analyst Certification

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Definition of equity rating

Rating	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 2009-2013

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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