



# Economics Weekly Sep 14, 2015

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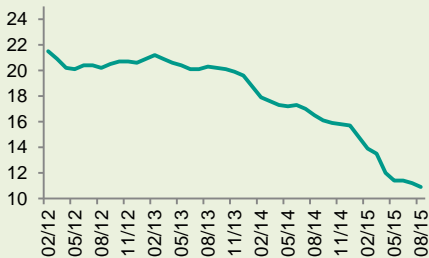
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### Exhibit 1: Aug economic indicators

| YoY% or otherwise specified  | Aug'15  | July'15 |
|------------------------------|---------|---------|
| Manufacturing PMI(%)         | 49.7    | 50.0    |
| Non-Manufacturing PMI (%)    | 53.4    | 53.9    |
| CPI                          | 2.0     | 1.6     |
| PPI                          | (5.9)   | (5.4)   |
| Exports                      | (5.5)   | (8.3)   |
| Imports                      | (13.8)  | (8.1)   |
| Trade Balance (US\$/bn)      | 60.2    | 43.0    |
| FAI (YTD%)                   | 10.9    | 11.2    |
| Industrial production        | 6.1     | 6.0     |
| Retail Sales                 | 10.8    | 10.5    |
| M2                           | 13.3    | 13.3    |
| New loans (RMB/bn)           | 809.6   | 1,480   |
| Aggregate financing (RMB/bn) | 1,080.0 | 718.8   |

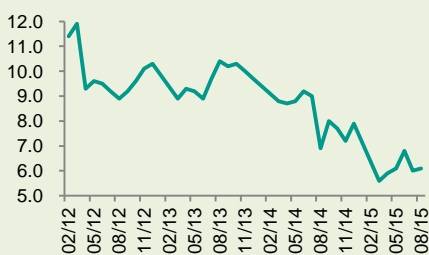
Source(s): NBS, PBOC, Bloomberg, ABCI Securities

### Exhibit 2: FAI (YTD YoY %)



Source(s): NBS, Bloomberg, ABCI Securities

### Exhibit 3: Industrial production (YoY %)



Source(s): NBS, Bloomberg, ABCI Securities

## Lackluster August data to prompt stronger policy boost

China's major economic indicators in August failed to demonstrate significant improvement. FAI still moderated in varying degrees while industrial production and retail sales showed limited progress. In general, continued sluggishness in the economy was still observed, and this will prompt policymakers to launch more stimulus measures to boost momentum. In the coming months, we expect further monetary easing, such as RRR cut, rate cut, and expansionary fiscal measures will be deployed to alleviate the downward pressure in the economy.

**FAI growth continued to shrink.** 8M15 FAI slowed to 10.9% YoY from 11.2% in 7M15, mainly due to extended weakness in real estate investment and manufacturing sector. Sluggishness in the real estate sector, whose YTD growth in FAI only reached 3.5% YoY for 8M15 (vs. 4.3 % YoY in 7M15), suggests an ongoing rebalancing process. 8M15 FAI in manufacturing sector further moderated to 8.9% (vs. 9.2 % YoY in 7M15). Declining FAI growth indicates investors have remained cautious over capital spending. Nonetheless, the government's recent effort to launch more infrastructure projects should help boost FAI. Infrastructure investment, which grew rapidly by 18.4% YoY in 8M15 (18.2% YoY in 7M15), will become the major growth driver of the economy this year.

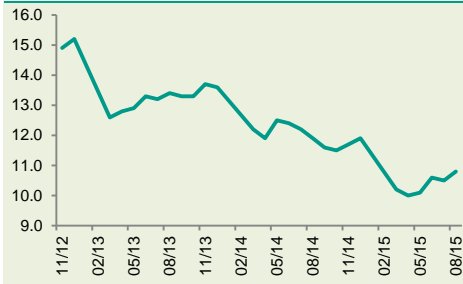
**Industrial production rebounded mildly.** In August, industrial production expanded by 6.1% YoY, up from the 6.0% YoY in July. Overall manufacturing activities were recovering only slowly, but certain product categories managed to record a double-digit growth on a YoY basis. In particular, value-added growth of "Computer, Communication Equipment and Other Electronic Equipment" rose 11.1% YoY while "Medicines" increased 10.3% YoY. We believe industrial production would recover further as the economic conditions improve.

**Retail sales edged up on robust growth in online sales.** August retail sales rose 10.8% YoY, higher than the 10.5% YoY increase in July. The rise was mainly driven by sizeable growth in "Communication Appliances" (29.0% YoY), "Building and Decoration Materials" (20.7%YoY), "Beverages" (18.1% YoY), "Gold, Silver and Jewelry" (17.4% YoY) and "Traditional Chinese and Western Medicines" (17.3% YoY). However, "Petroleum and Related Products" still fell 8.8% YoY due to weakening global oil prices. For 8M15, the national online retail sales of goods and services was RMB 2,240.1bn, up 36.5% YoY. Of which, the online retail sales of physical goods was RMB 1,865.3bn, up 35.6% YoY, accounting for 9.8% of the total retail sales of consumer goods. The online retail sales of non-physical goods was RMB 374.8bn, up 41.1% YoY while the online retail sales of physical goods, food, clothing and other commodities surged by 41.3%, 27.3% and 38.8% YoY, respectively. Going forward, retail sales are likely to trend up on the government's persistent effort to encourage private consumption.

**Decline in export growth widened.** Exports and imports fell 5.5% YoY (6.1% YoY in RMB) and 13.8% YoY (14.3% in RMB) in August while trade balance reached US\$ 60.2bn (368.0bn in RMB). For

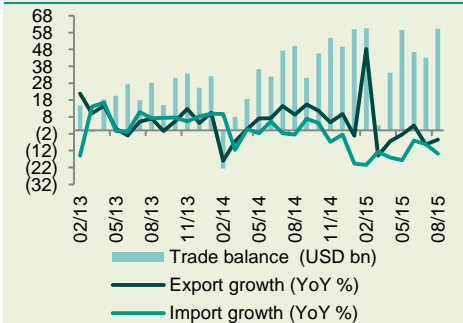


Exhibit 4: Retail sales (YoY %)



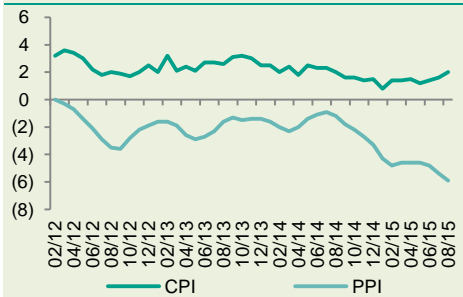
Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 5: External trade



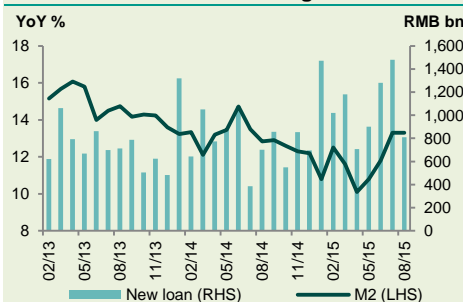
Source(s): Bloomberg, ABCI Securities

Exhibit 6: CPI and PPI (YoY %)



Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 7: New loans and M2 growth



Source(s): PBOC, Bloomberg, ABCI Securities

8M15, exports dropped by 1.4% (1.6% in RMB) while imports fell by 14.5% YoY (14.6% in RMB). The decline in August's external trade was caused by the high base in 2014, weak external demand from the Eurozone and Japan, and tepid domestic demand. Yet, we believe growth in exports and imports would improve in coming months on better economic outlook and rising demand for China's exports from the U.S, Eurozone, and emerging economies.

**Inflation rebounded in August on surging pork price.** CPI inflation edged up to 2.0% YoY in August against July's 1.6%. Increasing price pressure was primarily driven by food prices that rose by 3.7% YoY, compared to July's 2.7% YoY. Pork and vegetable price rose 19.6% YoY and 15.9% YoY in August, respectively, accounting for most of the increase in food prices. The YTD CPI inflation, low at 1.4%, would still leave room for PBOC to deploy further monetary easing. Decline in PPI widened to 5.9% YoY in August, against July's 5.4%. Stagnant growth of manufacturing activities and faltering commodities prices have resulted in the 42-month decline in producer prices to the lowest since 2009. With global commodity prices still hovering at low levels, we believe a major turnaround in PPI is unlikely in the short term.

**Monetary growth remained stable in August.** M2 growth stayed flat at 13.3% YoY while new loans edged down to RMB 809.6bn (vs. 1.48tr in July) in August, indicating that PBOC's credit loosening measures targeting to boost economic growth and stabilize stock market fluctuation have fueled monetary growth. Aggregate financing for August was RMB 1080bn, up RMB 127.6bn YoY. In our view, previous credit loosening measures have not been fully utilized and their lagged impacts on liquidity should be continued to be seen in coming months.



China Economic Indicators

|                              | 2014  |       |       |       |         |       |         |       | 2015   |        |        |        |        |         |       |        |
|------------------------------|-------|-------|-------|-------|---------|-------|---------|-------|--------|--------|--------|--------|--------|---------|-------|--------|
|                              | May   | Jun   | Jul   | Aug   | Sep     | Oct   | Nov     | Dec   | Jan    | Feb    | Mar    | Apr    | May    | Jun     | Jul   | Aug    |
| Real GDP (YoY%)              | --    | 7.5   | --    | --    | 7.3     | --    | --      | 7.3   | --     | --     | 7.0    | --     | --     | 7.0     | --    | --     |
| Export Growth (YoY%)         | 7.0   | 7.2   | 14.5  | 9.4   | 15.3    | 11.6  | 4.7     | 9.7   | (3.2)  | 48.3   | (15.0) | (6.4)  | (2.5)  | 2.8     | (8.3) | (5.5)  |
| Import Growth (YoY%)         | (1.6) | 5.5   | (1.6) | (2.4) | 7.0     | 4.6   | (6.7)   | (2.4) | (19.7) | (20.5) | (12.7) | (16.2) | (17.6) | (6.1)   | (8.1) | (13.8) |
| Trade Balance (USD/bn)       | 35.9  | 31.6  | 47.3  | 49.8  | 30.9    | 45.4  | 54.5    | 49.6  | 60.0   | 60.6   | 3.1    | 34.1   | 59.49  | 46.6    | 43.0  | 60.2   |
| Retail Sales Growth (YoY%)   | 12.5  | 12.4  | 12.2  | 11.9  | 11.6    | 11.5  | 11.7    | 11.9  | 10.7   |        | 10.2   | 10.0   | 10.1   | 10.6    | 10.5  | 10.8   |
| Industrial Production (YoY%) | 8.8   | 9.2   | 9.0   | 6.9   | 8.0     | 7.7   | 7.2     | 7.9   | 6.8    |        | 5.6    | 5.9    | 6.1    | 6.8     | 6.0   | 6.1    |
| PMI - Manufacturing (%)      | 50.8  | 51.0  | 51.7  | 51.1  | 51.1    | 50.8  | 50.3    | 50.1  | 49.8   | 49.9   | 50.1   | 50.1   | 50.2   | 50.2    | 50.0  | 49.7   |
| PMI - Non-manufacturing (%)  | 55.5  | 55.0  | 54.2  | 54.4  | 54.0    | 53.8  | 53.9    | 54.1  | 53.7   | 53.9   | 53.7   | 53.4   | 53.2   | 53.8    | 53.9  | 53.4   |
| FAI(YTD) (YoY%)              | 17.2  | 17.3  | 17.0  | 16.5  | 16.1    | 15.9  | 15.8    | 15.7  | 13.9   |        | 13.5   | 12.0   | 11.4   | 11.4    | 11.2  | 10.9   |
| CPI (YoY%)                   | 2.5   | 2.3   | 2.3   | 2.0   | 1.6     | 1.6   | 1.4     | 1.5   | 0.8    | 1.4    | 1.4    | 1.5    | 1.2    | 1.4     | 1.6   | 2.0    |
| PPI (YoY%)                   | (1.4) | (1.1) | (0.9) | (1.2) | (1.8)   | (2.2) | (2.7)   | (3.3) | (4.3)  | (4.8)  | (4.6)  | (4.6)  | (4.6)  | (4.8)   | (5.4) | (5.9)  |
| M2(YoY%)                     | 13.4  | 14.7  | 13.5  | 12.8  | 12.9    | 12.6  | 12.3    | 12.2  | 10.8   | 12.5   | 11.6   | 10.1   | 10.8   | 11.8    | 13.3  | 13.3   |
| New Lending (RMB/bn)         | 870.8 | 1,080 | 385.2 | 702.5 | 857.2   | 548.3 | 852.7   | 697.3 | 1,470  | 1,020  | 1,180  | 707.9  | 900.8  | 1,280.6 | 1,480 | 809.6  |
| Aggregate Financing (RMB bn) | 1,400 | 1,970 | 273.7 | 957.7 | 1,135.5 | 662.7 | 1,146.3 | 1,690 | 2,050  | 1,350  | 1,181  | 1,050  | 1,220  | 1,860   | 718.8 | 1,080  |

World Economic/Financial Indicators

| Equity Indices |               |              |       | Global Commodities                                   |                  |              |                     | Bond Yields & Key Rates |                           |                |        |  |  |
|----------------|---------------|--------------|-------|--|------------------|--------------|---------------------|-------------------------|---------------------------|----------------|--------|--|--|
|                | Closing price | Chg. WTD (%) | P/E   | Unit   | Price            | Chg. WTD (%) | Volume (5-day avg.) |                         | Yield (%)                 | Chg. WTD (Bps) |        |  |  |
| <b>U.S.</b>    |               |              |       | <b>Energy</b>  |                  |              |                     | US Fed Fund Rate        |                           |                |        |  |  |
| DJIA           | 16,433.09     | 0.00         | 14.35 | NYMEX WTI  | USD/bbl          | 44.51        | (0.27)              | 433,887                 |                           | 0.25           | 0.00   |  |  |
| S&P 500        | 1,961.05      | 0.00         | 17.31 | ICE Brent Oil  | USD/bbl          | 47.77        | (0.77)              | 171,425                 | US Prime Rate             | 3.25           | 0.00   |  |  |
| NASDAQ         | 4,822.34      | 0.00         | 27.17 | NYMEX Natural Gas                                    | USD/MMBtu        | 2.72         | 0.82                | 131,773                 | US Discount Window        | 0.75           | 0.00   |  |  |
| MSCI US        | 1,878.67      | 0.00         | 18.01 | Australia Newcastle Steam Coal Spot fob <sup>2</sup> | USD/Metric Tonne | 61.80        | N/A                 | N/A                     | US Treasury (1 Yr)        | 0.3669         | 0.51   |  |  |
| <b>Europe</b>  |               |              |       | <b>Basic Metals</b>                                  |                  |              |                     | US Treasury (5Yr)       |                           |                |        |  |  |
| FTSE 100       | 6,117.76      | 0.00         | 22.27 | LME Aluminum Cash                                    | USD/MT           | 1,620.75     | 0.00                | 12,858                  | US Treasury (10 Yr)       | 1.5111         | (0.17) |  |  |
| DAX            | 10,123.56     | 0.00         | 15.95 | LME Aluminum 3 -mth. Rolling Fwd.                    | USD/MT           | 1,640.00     | 0.00                | 25,511                  | US Treasury (30 Yr)       | 2.1866         | (0.17) |  |  |
| CAC40          | 4,548.72      | 0.00         | 19.97 | CMX Copper Active                                    | USD/lb.          | 5,390.50     | 0.00                | 9,945                   | Japan 10-Yr Gov. Bond     | 0.3580         | 1.30   |  |  |
| IBEX 35        | 9,737.90      | 0.00         | 17.87 | LME Copper 3- mth Rolling Fwd.                       | USD/MT           | 5,370.00     | 0.00                | 50,689                  | China 10-Yr Gov. Bond     | 3.3500         | (5.00) |  |  |
| FTSE MIB       | 21,762.63     | 0.00         | N/A   | <b>Precious Metals</b>                               |                  |              |                     | ECB Rate (Refinancing)  |                           |                |        |  |  |
| Stoxx 600      | 355.72        | 0.00         | 20.75 | CMX Gold   | USD/T. oz        | 1,107.30     | 0.36                | 135,054                 | 1-Month LIBOR             | 3.3500         | (5.00) |  |  |
| MSCI UK        | 1,785.89      | 0.00         | 22.72 | CMX Silver   | USD/T. oz        | 14.52        | 0.10                | 35,625                  | 3 Month LIBOR             | 0.3372         | 0.52   |  |  |
| MSCI France    | 127.94        | 0.00         | 20.26 | NYMEX Platinum                                       | USD/T. oz        | 970.00       | 0.53                | 13,015                  | O/N SHIBOR                | 1.8990         | (0.11) |  |  |
| <b>Asia</b>    |               |              |       | <b>Agricultural Products</b>                         |                  |              |                     | 1-mth SHIBOR            |                           |                |        |  |  |
| NIKKEI 225     | 17,987.41     | (1.52)       | 18.79 | CBOT Corn  | USD/bu           | 390.00       | 0.78                | 167,625                 | 3-mth HIBOR               | 0.3992         | 0.11   |  |  |
| S&P/ASX 200    | 5,085.50      | 0.28         | 18.49 | CBOT Wheat   | USD/bu           | 488.25       | 0.67                | 55,439                  | Corporate Bonds (Moody's) |                |        |  |  |
| HSI            | 21,482.22     | (0.10)       | 9.29  | NYB-ICE Sugar  | USD/lb.          | 12.45        | 0.00                | 85,943                  | Aaa                       | 4.13           | 10.00  |  |  |
| HSCEI          | 9,654.82      | (0.65)       | 6.88  | CBOT Soybeans  | USD/bu.          | 879.75       | 0.63                | 110,047                 | Baa                       | 5.35           | 7.00   |  |  |
| CSI300         | 3,229.76      | (3.51)       | 13.11 |  |                  |              |                     |                         |                           |                |        |  |  |
| SSE Composite  | 3,097.71      | (3.20)       | 15.42 |  |                  |              |                     |                         |                           |                |        |  |  |
| SZSE Composite | 1,700.65      | (4.53)       | 38.55 |  |                  |              |                     |                         |                           |                |        |  |  |
| MSCI China     | 58.32         | 0.00         | 8.90  |  |                  |              |                     |                         |                           |                |        |  |  |
| MSCI Hong Kong | 11,837.31     | 0.00         | 9.56  |  |                  |              |                     |                         |                           |                |        |  |  |
| MSCI Japan     | 901.05        | 0.00         | 15.25 |  |                  |              |                     |                         |                           |                |        |  |  |

\* As of 12:00 AM closing

Currency

|              | Euro/USD | GBP/USD | AUD/USD | USD/JPY | USD/CHF | USD/CNY | USD/HKD | USD/CNY NDF 12-mth Spot pr. |
|--------------|----------|---------|---------|---------|---------|---------|---------|-----------------------------|
| Spot Rate    | 1.1345   | 1.5440  | 0.7089  | 120.35  | 0.9683  | 6.3698  | 7.7501  | 6.5880                      |
| Chg. WTD (%) | 0.06     | 0.07    | (0.04)  | 0.20    | 0.09    | 0.08    | (0.00)  | 0.07                        |

Note:

- Data sources: Bloomberg, National Bureau of Statistics of China, ABCIS (updated on date of report)
- Australia Newcastle Steam Coal Spot fob is the Australia Newcastle 6700 kc GAD fob Steam Coal Spot price published by McCloskey



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## Disclosures

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### Definition of equity rating

| Rating | Definition  |
|--------|---|
| 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 2009-2013

Time horizon of share price target: 12-month

### Definition of share price risk

| Rating    | Definition   |
|-----------|--|
| 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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