



# Economics Weekly May 21, 2015

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**Exhibit 1: Ten industrial sectors in “China Manufacturing 2025” strategy**

1	Agricultural equipment
2	Rail equipment
3	High-end numerical control machinery and automation
4	New materials
5	Maritime engineering equipment and high-tech vessel manufacturing
6	Aerospace and aviation equipment
7	Electrical equipment
8	Energy-saving vehicles
9	Information technology
10	Biomedicine and high-performance medical apparatus

Source(s): China State Council, ABCI Securities

**Exhibit 2: Nine tasks identified as priorities**

1	Improving manufacturing innovation
2	Integrating information technology and industry
3	Strengthening the industrial base
4	Fostering Chinese brands
5	Enforcing green manufacturing
6	Promoting breakthroughs in 10 key sectors
7	Advancing restructuring of the manufacturing sector
8	Promoting service-oriented manufacturing and manufacturing-related service industries
9	Internationalizing manufacturing

Source(s): China State Council, ABCI Securities

## China’s transformation into a world manufacturing power

China issues a comprehensive plan “China Manufacturing 2025” to boost automation in manufacturing, innovation and environmental sustainability, and upgrade railway equipment, engineering machinery, and internet-connected factories. The upgrade of manufacturing sector is crucial in transforming China into a modern manufacturing industry superpower. The initiative would allow China to move up the global supply chain while maintaining the country’s economic growth at a sustainable level. Ten industrial sectors have been prioritized for the upgrade. In the next decade, China will aim to boost the efficiency of these sectors, thus pushing forward the economic transformation of the manufacturing industry.

**Structural weakness in manufacturing sector triggers the new initiative.** For the past three decades, China has been known as the “world’s factory” with countless Chinese-made products being exported around the world. However, the more than 50% increase in minimum wage over the past five years in major cities, RMB appreciation, intensifying competition from other developing economies, and growing environmental issues have undermined the cost competitiveness of the Chinese products. China’s manufacturing sector has seen stagnant growth over the past few years, as reflected by the weakening trend of China’s manufacturing PMI and moderating FAI growth in the manufacturing sector since 2010. To boost growth of the sector would require a move to the value-added industry through technological transformation of existing manufacturing process. Climbing up the value chain would enable enterprises to sustain their industrial competitiveness in a global context.

**Revolutionizing the manufacturing process.** The plan calls for moving away from simple, labor-intensive production to create by 2025 a sophisticated manufacturing sector comparable to those in the industrialized countries. It promotes research and development, includes generous measures favoring high-tech fields, and encourages technological advancement and the rise of new industries. In general, the upgrade of manufacturing capabilities focuses on improving innovation abilities, integrating informatization and industrialization, and promoting green manufacturing and manufacturing internationalization.

**Accelerating transformation to improve manufacturing prowess and sustain economic growth.** Amid the “new normal” of economic development that features a slower but quality growth, China is steering the economy toward a more sustainable development route driven by domestic consumption, the services sector, and innovation in the manufacturing sector. China recognizes the need to accelerate transformation to maintain and improve its global manufacturing competitiveness and sustain the country’s economic growth. As China adopts new initiatives to modernize manufacturing through extensive structural reforms, we expect the plan would allow the nation to cultivate a level of sophistication on par with other industrialized countries, such as the U.S. and Germany, in the next decade.



China Economic Indicators

	2014												2015			
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Real GDP (YoY%)	---	---	7.4	---	--	7.5	--	---	7.3	---	---	7.3	---	---	7.0	---
Export Growth (YoY%)	10.6	(18.1)	(6.6)	0.9	7.0	7.2	14.5	9.4	15.3	11.6	4.7	9.7	(3.2)	48.3	(15.0)	(6.4)
Import Growth (YoY%)	10.0	10.1	(11.3)	0.8	(1.6)	5.5	(1.6)	(2.4)	7.0	4.6	(6.7)	(2.4)	(19.7)	(20.5)	(12.7)	(16.2)
Trade Balance (USD/bn)	31.9	(23.0)	7.7	18.5	35.9	31.6	47.3	49.8	30.9	45.4	54.5	49.6	60.0	60.6	3.1	34.1
Retail Sales Growth (YoY%)	11.8		12.2	11.9	12.5	12.4	12.2	11.9	11.6	11.5	11.7	11.9	10.7		10.2	10.0
Industrial Production (YoY%)	8.6		8.8	8.7	8.8	9.2	9.0	6.9	8.0	7.7	7.2	7.9	6.8		5.6	5.9
PMI - Manufacturing (%)	50.5	50.2	50.3	50.4	50.8	51.0	51.7	51.1	51.1	50.8	50.3	50.1	49.8	49.9	50.1	50.1
PMI - Non-manufacturing (%)	53.4	55.0	54.5	54.8	55.5	55.0	54.2	54.4	54.0	53.8	53.9	54.1	53.7	53.9	53.7	53.4
FAI(YTD) (YoY%)	17.9		17.6	17.3	17.2	17.3	17.0	16.5	16.1	15.9	15.8	15.7	13.9		13.5	12.0
CPI (YoY%)	2.5	2.0	2.4	1.8	2.5	2.3	2.3	2.0	1.6	1.6	1.4	1.5	0.8	1.4	1.4	1.5
PPI (YoY%)	(1.6)	(2.0)	(2.3)	(2.0)	(1.4)	(1.1)	(0.9)	(1.2)	(1.8)	(2.2)	(2.7)	(3.3)	(4.3)	(4.8)	(4.6)	(4.6)
M2(YoY%)	13.2	13.3	12.1	13.2	13.4	14.7	13.5	12.8	12.9	12.6	12.3	12.2	10.8	12.5	11.6	10.1
New Lending (RMB/bn)	1,320	644.5	1,050	774.7	870.8	1,080	385.2	702.5	857.2	548.3	852.7	697.3	1,470	1,020	1,180	707.9
Aggregate Financing (RMB bn)	2,580	938.7	2,081.3	1,550	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

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	18,285.40	0.07	15.81	NYMEX WTI	USD/bbl	59.28	(0.69)	209,067		0.25	0.00
S&P 500	2,125.85	0.15	18.78	ICE Brent Oil	USD/bbl	65.43	(2.07)	178,259	US Prime Rate	3.25	0.00
NASDAQ	5,071.74	0.46	30.32	NYMEX Natural Gas	USD/MMBtu	2.94	(2.62)	136,985	US Discount Window	0.75	0.00
MSCI US	2,036.71	0.22	19.31	Australia Newcastle Steam Coal Spot fob <sup>2</sup>	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (1 Yr)	0.1934	0.00
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (5Yr)			
FTSE 100	7,011.85	0.74	22.10	LME Aluminum Cash	USD/MT	1,744.25	(4.04)	29,173	US Treasury (10 Yr)	2.2250	8.26
DAX	11,797.20	3.06	19.05	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,783.50	(3.75)	34,966	Japan 10-Yr Gov. Bond	0.4140	1.00
CAC40	5,117.25	2.47	26.34	CMX Copper Active	USD/lb.	6,220.50	(3.04)	12,656	China 10-Yr Gov. Bond	3.4500	5.00
IBEX 35	11,556.50	2.11	21.23	LME Copper 3- mth Rolling Fwd.	USD/MT	6,220.00	(3.04)	37,839	ECB Rate (Refinancing)	0.05	0.00
FTSE MIB	23,640.16	0.71	74.45	<b>Precious Metals</b>				1-Month LIBOR			
Stoxx 600	405.58	2.30	23.72	CMX Gold	USD/T. oz	1,210.40	(1.22)	147,750	3 Month LIBOR	0.2810	0.45
MSCI UK	2,055.56	0.61	22.47	CMX Silver	USD/T. oz	17.22	(1.98)	49,058	O/N SHIBOR	1.0330	(4.50)
MSCI France	144.69	2.63	27.59	NYMEX Platinum	USD/T. oz	1,157.90	(0.96)	11,483	1-mth SHIBOR	2.4570	(34.5)
<b>Asia</b>				<b>Agricultural Products</b>				3-mth HIBOR			
NIKKEI 225	20,202.87	2.38	22.84	CBOT Corn	USD/bu	363.00	(0.68)	170,777	Corporate Bonds (Moody's)		
S&P/ASX 200	5,662.27	(1.28)	20.74	CBOT Wheat	USD/bu	516.75	1.13	100,138	Aaa	4.07	12.00
HSI	27,523.72	(1.07)	11.67	NYB-ICE Sugar	USD/lb.	12.68	(1.63)	48,864	Baa	4.98	12.00
HSCEI	14,132.16	0.87	10.20	CBOT Soybeans	USD/bu.	944.75	(0.89)	99,392			
CSI300	4,840.98	4.84	20.34								
SSE Composite	4,529.42	5.12	22.52								
SZSE Composite	2,713.42	11.08	66.79								
MSCI China	81.20	(0.36)	12.57								
MSCI Hong Kong	14,268.90	(0.92)	10.72								
MSCI Japan	1,011.20	2.25	18.54								

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.1165	1.5653	0.7905	120.91	0.9319	6.1968	7.7530	6.2440
Chg. WTD (%)	(2.50)	(0.47)	(1.61)	(1.37)	(1.68)	0.16	(0.03)	0.05

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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