



# Economics Weekly December 1, 2014

### Co-head of Research

Banny Lam

Tel: 852-21478863

Email: bannylam@abci.com.hk

### Analyst

Paul Pan

Tel: 852-21478829

Email: paulpan@abci.com.hk

### Exhibit 1: Overview of the past years' conferences

Conference Year	Planning for	Tone for next year
2010	2011	Combat inflation and maintain a stable and relatively fast economic growth
2011	2012	Maintain a stable economic growth
2012	2013	Pursue healthy development and restructure the economy in sustainable ways
2013	2014	Call for deeper reforms and a steady growth
2014F	2015	<b>Maintain the continuity of structural reforms and improve the quality and efficiency of economic growth</b>

Source(s) : ABCI Securities compilation and forecast

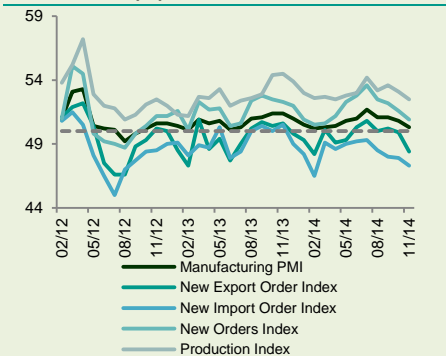
### Exhibit 2: Dec economic indicators preview

YoY% or otherwise specified	Nov'14F*	Oct'14
PMI - Manufacturing	50.3	50.8
PMI - Non-manufacturing	53.3	53.8
CPI	1.4	1.6
PPI	(2.3)	(2.2)
Exports	10.5	11.6
Imports	5.5	4.6
Trade Balance (US\$/bn)	45.8	45.4
FAI (YTD%)	16.0	15.9
Industrial production	5.0	7.7
Retail Sales	12.1	11.5
M2	12.8	12.6
New loans (RMB/bn)	700.0	548.3
Aggregate financing (RMB/bn)	883.4	662.7

\* Forecast, excluding PMI - Manufacturing

Source(s): Bloomberg, ABCI Securities

### Exhibit 3: China's manufacturing PMI and sub-indices (%)



Source(s): NBS, ABCI Securities

## 2014 Central Economic Work Conference: A Preview

Mitigating the impacts of economic rebalancing and fostering economic recovery are expected to be the dual themes in the Central Economic Working Conference to be held in early December. Last year, the conference was preoccupied with conducting deeper economic reforms. This year, greater emphasis will be placed on boosting economic momentum through moderately loose credit policies, as well as maintaining stable and healthy economic growth by means of domestic demand expansion and economic restructuring. Another focus will be on the development of Silk Road Economic Belt to boost economic cooperation between China and central Asia, which in turn will trigger substantial investment in the next few years. With China facing a "new norm" of slower economic growth amid economic rebalancing, we expect the GDP target will be lowered from 7.5% for 2014 to 7%-7.2% for 2015.

**Moderately loose monetary and expansionary fiscal policies.** Only a structural shift from investment to consumption will ensure stable development in China going forward. In the face of slowing FAI, industrial production and retail sales, the onus will be on the conference delegates to devise ways to provide adequate liquidity, reduce financing costs and offer fiscal support for specific industries catering to consumption and local infrastructure.

**Macro easing paves way for more stimulus measures.** The surprised 40bp cut in interest rate, effective November 22, 2014, laid the foundation for more stimulus designed to avert an economic slowdown. The government is concerned that domestic economic growth is deteriorating faster than expected and therefore demands an early intervention. The reduction of real interest rates would help push down the cost of capital, thus lowering financing costs of enterprises and boosting economic activities.

**Latest PMI shows manufacturing activities are losing steam.** China's PMI for November fell to an 8-month low at 50.3%, against 50.8% in October and the consensus of 50.5%. Both new orders and new export orders fell as Chinese factories find themselves contending with a global economic slowdown as well as sluggish domestic demand. Weakening PMI in November urges further relaxation of monetary policy. We believe the latest interest rate cut is a good start.

**November's production data expected to dip on halted manufacturing activities during the APEC meeting and slowing demand.** In order to improve air quality during the 2014 APEC and related meetings, China ordered 6 provinces, regions and municipalities to cease production temporarily. Manufacturers' production was affected and this will be reflected in November's production data. We expect industrial production to dwindle further from 7.7% YoY in October to 5.0% YoY in November.

**Downward pressure of prices continues.** We believe CPI inflation in November would slow further to 1.4% YoY on moderating food prices and high-base effect. In addition, the Purchasing Price Index, a sub-index of the manufacturing PMI, edged down from 45.1% in October to 44.7% in November. This indicator suggests demand for manufacturing products was muted and raw material purchasing



prices stayed weak. Therefore, we expect PPI decline will widen to 2.3% YoY for November.

**Recovery in external trade sector moderates.** New Export Order Index and New Import Order Index, sub-indices of the manufacturing PMI, reached 48.4% and 47.3% in November, as opposed to 49.9% and 47.9% in October, indicating a tempering growth in external trade. For November, we expect exports and imports to expand by 10.5% and 5.5% YoY, while trade balance will reach US\$ 45.8bn.

**Investment indicators to remain stagnant; retail sales to trend up.** The moderating real estate development continues to drag down FAI. However, surging investment in infrastructure and railways will help reverse the downtrend in FAI. We expect FAI for November to rebound slightly, with its YTD growth hitting 16.0%. Improvement in retail sales is expected as wealth effect generated by stock boom should boost consumption. Consumption will trend up slightly, and demand for consumer discretionary and staples will continue to climb. We expect retail sales in November to increase by 12.1% YoY.

**Monetary indicators to pick up.** PBOC' interest rate cut in November will help lower costs of financing, which in turn will stimulate economic growth. We believe monetary indicators for November will improve. New bank loans will rise to RMB 700bn; aggregate financing will reach RMB 883.4bn; M2 growth will accelerate to 12.8% YoY.



China Economic Indicators

	2013				2014										
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov*
Real GDP (YoY%)	7.8	---	---	7.7	---	---	7.4	---	--	7.5	--	---	7.3	---	---
Export Growth (YoY%)	(0.3)	5.6	12.7	5.8	10.6	(18.1)	(6.6)	0.9	7.0	7.2	14.5	9.4	15.3	11.6	10.5
Import Growth (YoY%)	7.4	7.6	5.3	6.5	10.0	10.1	(11.3)	0.8	(1.6)	5.5	(1.6)	(2.4)	7.0	4.6	5.5
Trade Balance (USD/bn)	15.2	31.1	33.8	32.3	31.9	(23.0)	7.7	18.5	35.9	31.6	47.3	49.8	30.9	45.4	45.8
Retail Sales Growth (YoY%)	13.3	13.3	13.7	13.6		11.8	12.2	11.9	12.5	12.4	12.2	11.9	11.6	11.5	12.1
Industrial Production (YoY%)	10.2	10.3	10.0	9.7		8.6	8.8	8.7	8.8	9.2	9.0	6.9	8.0	7.7	5.0
PMI - Manufacturing (%)	51.1	51.4	51.4	51.0	50.5	50.2	50.3	50.4	50.8	51.0	51.7	51.1	51.1	50.8	50.3
PMI - Non-manufacturing (%)	55.4	56.3	56.0	54.6	53.4	55.0	54.5	54.8	55.5	55.0	54.2	54.4	54.0	53.8	53.3
FAI(YTD) (YoY%)	20.2	20.1	19.9	19.6		17.9	17.6	17.3	17.2	17.3	17.0	16.5	16.1	15.9	16.0
CPI (YoY%)	3.1	3.2	3.0	2.5	2.5	2.0	2.4	1.8	2.5	2.3	2.3	2.0	1.6	1.6	1.4
PPI (YoY%)	(1.3)	(1.5)	(1.4)	(1.4)	(1.6)	(2.0)	(2.3)	(2.0)	(1.4)	(1.1)	(0.9)	(1.2)	(1.8)	(2.2)	(2.3)
M2(YoY%)	14.2	14.3	14.2	13.6	13.2	13.3	12.1	13.2	13.4	14.7	13.5	12.8	12.9	12.6	12.8
New Lending (RMB/bn)	787.0	506.1	624.6	482.5	1,320	644.5	1,050	774.7	870.8	1080	385.2	702.5	857.2	548.3	700.0
Aggregate Financing (RMB bn)	1,411.3	864	1,226.9	1,232.2	2,580	938.7	2,081.3	1,550	1,400	1,970	273.7	957.7	1052.2	662.7	883.4

\* Forecast (Excluding PMI - Manufacturing)

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	0.25	0.00	
DJIA	17,828.24	0.00	15.92	NYMEX WTI	USD/bbl	64.76	(2.10)	315,156	US Prime Rate	3.25	0.00
S&P 500	2,067.56	0.00	18.32	ICE Brent Oil	USD/bbl	68.69	(2.08)	223,370	US Discount Window	0.75	0.00
NASDAQ	4,791.63	0.00	75.83	NYMEX Natural Gas	USD/MMBtu	4.00	(2.23)	83,418	US Treasury (1 Mth)	0.0406	0.51
MSCI US	1,974.16	0.00	18.78	Australia Newcastle Steam Coal Spot fob <sup>2</sup>	USD/Metric Tonne	62.65	N/A	N/A	US Treasury (5Yr)	1.4821	0.16
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (10 Yr)	2.1658	0.18	
FTSE 100	6,655.96	(0.99)	18.99	LME Aluminum Cash	USD/MT	2,030.50	0.00	17,562	Japan 10-Yr Gov. Bond	0.4280	0.70
DAX	9,946.05	(0.35)	17.48	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	2,004.00	0.00	28,907	China 10-Yr Gov. Bond	3.5500	(16.0)
CAC40	4,355.34	(0.79)	26.09	CMX Copper Active	USD/lb.	6,409.00	0.00	17,254	ECB Rate (Refinancing)	0.05	0.00
IBEX 35	10,716.90	(0.50)	21.91	LME Copper 3- mth Rolling Fwd.	USD/MT	6,351.00	0.00	51,229	1-Month LIBOR	0.1540	(0.13)
FTSE MIB	19,755.54	(1.30)	12.18 4.25	<b>Precious Metals</b>				3 Month LIBOR	0.2336	0.08	
Stoxx 600	345.07	(0.63)	21.41	CMX Gold	USD/T. oz	1,163.50	(1.02)	121,659	O/N SHIBOR	2.6460	3.80
MSCI UK	1,978.09	0.00	19.07	CMX Silver	USD/T. oz	15.40	(1.00)	43,099	1-mth SHIBOR	4.1780	6.40
MSCI France	123.10	0.00	27.53	NYMEX Platinum	USD/T. oz	1,199.00	(1.02)	12,763	3-mth HIBOR	0.3736	0.00
MSCI Germany	133.21	0.00	17.68	<b>Agricultural Products</b>				Corporate Bonds (Moody's)			
MSCI Italy	57.95	0.00	N/A	CBOT Corn	USD/bu	383.75	(1.29)	159,272	Aaa	3.88	(6.00)
<b>Asia</b>				CBOT Wheat	USD/bu	574.00	(0.78)	58,432	Baa	4.73	(7.00)
NIKKEI 225	17,590.10	0.75	21.56	NYB-ICE Sugar	USD/lb.	15.47	(0.77)	42,210			
S&P/ASX 200	5,207.72	(1.98)	17.94	CBOT Soybeans	USD/bu.	1,010.50	(0.54)	92,856			
HSI	23,367.45	(2.58)	10.10								
HSCEI	10,818.20	(2.94)	7.48								
CSI300	2,819.81	0.39	12.21								
SSE Composite	2,680.16	(0.10)	12.75								
SZSE Composite	1,412.56	(0.55)	34.14								
MSCI China	65.40	0.00	9.80								
MSCI Hong Kong	13,044.06	0.00	10.79								
MSCI Japan	872.56	0.00	16.04								
<b>Currency</b>											
	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY	NDF 12-mth	Spot pr.	
Spot Rate	1.2463	1.5674	0.8463	118.39	0.9654	6.1506	7.7553			6.2615	
Chg. WTD (%)	0.09	0.19	(0.51)	0.20	(0.01)	(0.09)	(0.02)			0.02	

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



## Disclosures

### Analyst Certification

We, Lam Chiu Kei, Banny, and PAN Hongxing, Paul, being the persons primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect our personal view about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. We and/or our associates have no financial interests in relation to any listed company (ies) covered in this report, and we and/or our associates do not serve as officer(s) of any listed company (ies) covered in this report.

### 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	$2.6 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility}$
High	$1.5 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 2.6$
Medium	$1.0 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.5$
Low	$180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.0$

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.

### Disclaimer

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

---

revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

---

Copyright 2014 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House,  
8 Cotton Tree Drive, Central, Hong Kong.**

**Tel: (852) 2868 2183**