

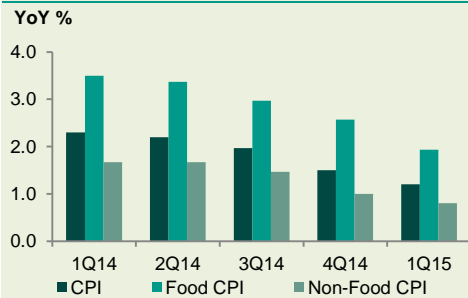


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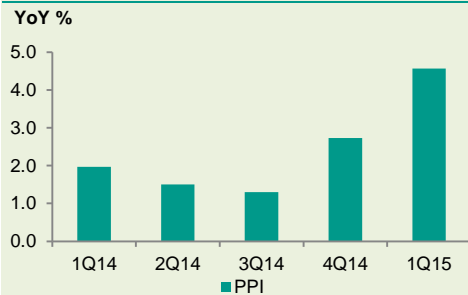
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**Exhibit 1: CPI inflation (food and non-food)**



Source(s): NBS, Bloomberg, ABCI Securities

**Exhibit 2: The decline of PPI widens**



Source(s): NBS, Bloomberg, ABCI Securities

## Disinflation accelerated in 1Q15

China's March CPI inflation stayed flat compared to February's figure at 1.4% YoY, exceeding the market consensus of 1.3% and in line with our forecast. CPI inflation in 1Q15 fell to 1.2% YoY (4Q14:1.5%), the lowest since 2009. The deceleration in inflation was primarily driven by dipping food and non-food prices, which inflated by 1.9% and 0.8% in 1Q15. Decline in PPI narrowed slightly to 4.6% YoY in March from 4.8% YoY in February, but 1Q15 PPI deepened to 4.6% YoY (4Q14: 2.7%), reflecting the global economic slowdown and price deflation in major international commodities and energy products. Although producer prices fell more slowly in March, continuous deflation in wholesale prices highlighted sluggish consumer demand and industry overcapacity, reinforcing fears of further slowdown in China. Nonetheless, we expect monetary loosening measures will bring notable impacts on the real economy starting from 2Q15, providing support to general prices. In addition, recent stock market rally is expected to create a wealth effect conducive to consumption of goods and services. We believe the disinflation trend will be reversed in 2Q15.

**Falling food prices bring major downside risk to inflation.** CPI inflation fell from 1.5 YoY in 4Q14 to 1.2% YoY in 1Q15, while food prices moderated to 1.9% YoY from 2.6% YoY in 4Q14 and became the major drag to overall inflation. Pork price dropped 1.7% YoY, reflecting a high inventory level, while vegetables prices rose only 1.4% as supply was sufficient on stable weather conditions in 1Q15. Non-food CPI moderated to 0.8% YoY in 1Q15 from 1.0% YoY in 4Q14 mainly due to substantial drop in fuel prices. We expect inflation to rebound in 2Q15 on improved economic outlook and the wealth effect triggered by recent stock market rally.

**Worsening PPI deflation calls for policy easing for industries.** China's PPI dipped further by 4.6% YoY in 1Q15 as compared to 2.7% YoY in 4Q14. The extended price decline was driven by softening prices of oil and other commodities, widespread factory overcapacity, property downturn in the country as well as uncertain global outlook. The latest PPI data show the deflationary risk of the industrial sector has deepened. Outlook turns gloomy, as slowing economic activities further suppress domestic demand, perpetuating the price deflation and slashing profits of industrial enterprises. Deflation in wholesale prices calls for further policy easing to revive growth in the industrial sector.

**Equity market rally to lift asset prices and reverse disinflation trend.** Shanghai Stock Exchange Composite Index and Shenzhen Component Index rose more than 20% since the beginning of 2015. Growing appeal of equities expands room for upside movement in asset prices, creating a wealth effect conducive to consumption. We are of the view that surging domestic consumption triggered by the positive wealth creation will increase inflationary pressure on goods and services, which in turn should help support the general price level in 2Q15.



China Economic Indicators

	2014												2015		
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar*
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	12.5
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)	(10.5)
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	46.0
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		11.5
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		7.2
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
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
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		15.0
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
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)
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	12.6
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	1,470.0	1,020	850
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	1,690.0	2,050.0	1,350	2,200

\* Forecast (Excluding PMI - Manufacturing and PMI - Non-manufacturing, CPI, and PPI)

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	17,958.73	1.10	15.75	NYMEX WTI	USD/bbl	50.40	2.56	460,060	US Prime Rate	3.25	0.00	
S&P 500	2,091.18	1.17	18.45	ICE Brent Oil	USD/bbl	56.65	3.09	215,572	US Discount Window	0.75	0.00	
NASDAQ	4,974.57	1.79	29.26	NYMEX Natural Gas	USD/MMBtu	2.54	(6.30)	121,783	US Treasury (1 Yr)	0.2189	2.04	
MSCI US	2,005.20	1.20	19.01	Australia Newcastle Steam Coal Spot fob <sup>2</sup>	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (5Yr)	1.3929	13.96	
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (10 Yr)				
FTSE 100	7,036.25	2.97	24.15	LME Aluminum Cash	USD/MT	1,765.00	(0.91)	20,865	US Treasury (10 Yr)	1.9526	11.37	
DAX	12,240.29	2.28	20.38	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,762.50	(1.09)	32,658	Japan 10-Yr Gov. Bond	0.3450	(2.30)	
CAC40	5,218.78	2.85	26.98	CMX Copper Active	USD/lb.	6,013.50	0.18	11,473	China 10-Yr Gov. Bond	3.7000	12.00	
IBEX 35	11,745.60	0.96	22.19	LME Copper 3- mth Rolling Fwd.	USD/MT	5,995.00	0.25	39,893	ECB Rate (Refinancing)	0.05	0.00	
FTSE MIB	23,836.46	2.26	90.77	<b>Precious Metals</b>				1-Month LIBOR				
Stoxx 600	410.90	3.29	25.24	CMX Gold	USD/T. oz	1,203.60	0.22	105,447	3 Month LIBOR	0.2712	(0.26)	
MSCI UK	2,059.98	2.65	24.48	CMX Silver	USD/T. oz	16.45	(1.53)	39,022	O/N SHIBOR	2.4890	(39.8)	
MSCI France	146.68	2.67	27.91	NYMEX Platinum	USD/T. oz	1,169.70	1.32	7,693	1-mth SHIBOR	4.5582	(36.5)	
<b>Asia</b>				<b>Agricultural Products</b>				3-mth HIBOR				
NIKKEI 225	19,907.63	2.43	22.47	CBOT Corn	USD/bu	378.50	(2.07)	154,862	Corporate Bonds (Moody's)			
S&P/ASX 200	5,968.37	1.18	21.49	CBOT Wheat	USD/bu	517.00	(3.50)	51,501	Aaa	3.45	2.00	
HSI	27,272.39	7.90	11.48	NYB-ICE Sugar	USD/lb.	12.84	0.78	91,588	Baa	4.43	0.00	
HSCEI	13,987.53	10.46	9.96	CBOT Soybeans	USD/bu.	952.75	(3.37)	110,799	Note:			
CSI300	4,344.42	4.17	18.74	1. Data sources: Bloomberg, National Bureau of Statistics of China, ABCIS (updated on date of report)								
SSE Composite	4,034.31	4.41	19.86	2. Australia Newcastle Steam Coal Spot fob is the Australia Newcastle 6700 kc GAD fob Steam Coal Spot price published by McCloskey								
SZSE Composite	2,149.11	3.30	50.55									
MSCI China	79.86	8.70	12.34									
MSCI Hong Kong	14,086.74	5.99	10.57									
MSCI Japan	981.86	1.97	18.03									

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.0619	1.4658	0.7683	120.26	0.9782	6.2087	7.7500	6.3300
Chg. WTD (%)	(3.19)	(1.76)	0.66	(1.07)	(2.71)	(0.23)	0.03	(0.34)



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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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