



Economics Weekly March 14, 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: Economic indicators for Jan-Feb 2014

YoY% or otherwise specified	Jan-Feb 2014	Jan-Feb 2013
CPI	2.3	2.6
PPI	(1.8)	(1.6)
Exports	(1.6)	23.6
Imports	10.0	5.0
Trade Balance (US\$/bn)	8.9	44.2
FAI (YTD YoY %)	17.9	21.2
Industrial production (YTD YoY %)	8.6	9.9
Retail Sales (YTD YoY %)	11.8	12.3
M2	13.3	15.2
New loans (RMB/bn)	1964.5	1690
Total social financing (RMB/bn)	3518.7	3615.1

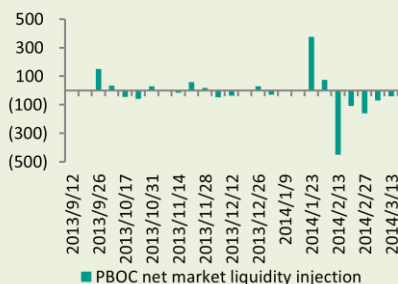
Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 2: Government target for 2014

YoY% or otherwise specified	2014 target	2013 target	2013 (Actual)
GDP	7.5	7.5	7.7
CPI	3.5	3.5	2.6
FAI	17.5	18.0	19.6
Retail Sales	14.5	14.5	13.1
Total Trade	7.5	8.0	7.6
M2	13.0	13.0	13.6
Fiscal deficit (RMB/bn)	1350	1200	1060.1
Fiscal deficit/GDP (%)	2.1	2.0	1.9

Source(s): 2014 Government Work Report, NBS, Bloomberg, ABCI Securities

Exhibit 3: PBOC maintain tight liquidity management since 2014 (RMB bn)



Source(s): Bloomberg, ABCI Securities

NPC: Major reforms and beneficiaries

The 12th National People's Congress (NPC) successfully concluded on March 13. This year's NPC commenced with Premier Li Keqiang's first government work report, shedding insights on policies to stabilize and restructure China's economy. Economic and social targets for 2014 were laid out during the session, with discussion focusing heavily on reengineering new drivers to achieve sustainable growth. Challenges in 2014 will include slowing economic activities, as revealed by the lower FAI, industrial production, and retail sales in 2M14. Nevertheless, the Chinese government's determination to reform may suggest a new vision for China: economy will be driven by market forces, while sustainable growth and environmental concerns would be prioritized over breakneck economic growth. We believe this year the government would achieve greater success in implementing its aims than its predecessors.

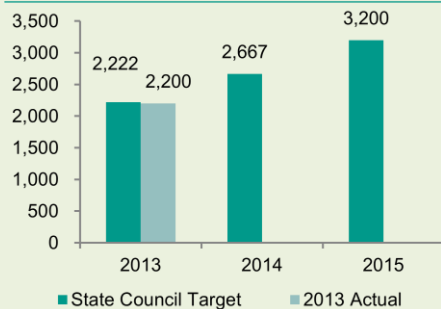
Promised reforms for sustainable growth. China maintains a 7.5% growth target for 2014 and promises extensive reforms in economic structure. The relatively modest growth projection after decades of rapid growth suggests the Chinese leaders are starting to prioritize economic sustainability, environmental protection and social stability. Its days of chasing rapid economic growth are over, and the government vows to wage wars against pollution and reduces the pace of investment to a decade-low. Although economic indicators in 2M14 showed signs of a slowdown, the promised reforms will encourage private investment, reduce government's red tape and accelerate paces in environmental protection, resulting in a more stable rebound in economic activities over the next few months.

Deepening financial reform. In 2014, financial reform will be mainly focused on interest rate liberalization, exchange rate trading band expansion, development of deposit insurance system, internet banking regulation, and establishment of regional banks funded by private capital. The government will manage market expectation by encouraging more innovations in financial products and services, as the reform aims to create a more sophisticated financial market sustainable for long-term development. For monetary policy, PBOC will maintain a prudent stance and apply policy tools when needed. Nonetheless, we believe an RRR cut is unlikely, since the current policy tools enable flexible and adept liquidity management. **China Cinda (1359 HK), PICC Group (1339 HK), and China Galaxy Securities (6881 HK)** will be the main beneficiaries of China's financial reform in 2014, in our view.

Consumption is the key growth driver. In 2014, the government will pursue for more information consumption with the implementation of "Broadband China" project, which will upgrade the current mobile network to 4G, accelerate development of the IT industries, and stimulate investment in network infrastructure. Increase in information consumption will be favorable to **Tencent (700 HK), Kingsoft (3888 HK), and ZTE (763 HK)**. In addition, logistics was emphasized in this year's government work report. We believe that improvement in logistics infrastructure will encourage private

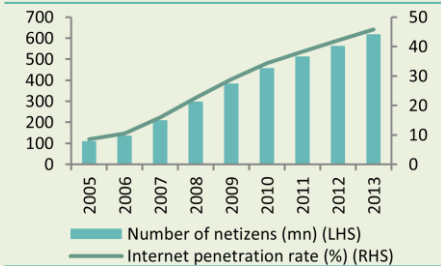


Exhibit 4: Information consumption in China (RMB bn)



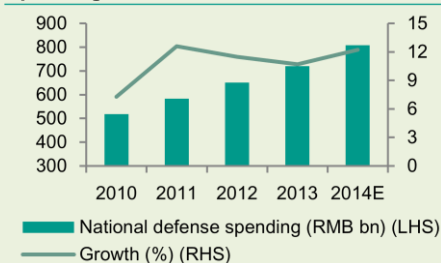
*State Council Target is calculated based on an assumed 20% YoY growth
Source(s): MIIT, PRC State Council, ABCI Securities

Exhibit 5: China's netizens



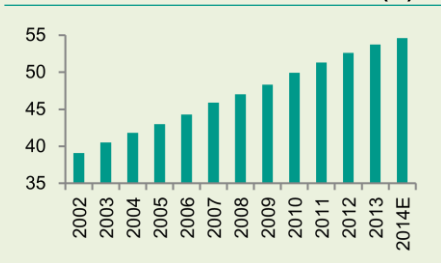
Source(s): CNNIC, ABCI Securities

Exhibit 6: Central budget for military spending



Source(s): Ministry of Finance, ABCI Securities

Exhibit 7: Urbanization rate in China (%)



Source(s): NBS, 2014 Report On the Work of the Government, ABCI Securities

consumption and reduce additional costs transferred to consumers. To support the domestic economy, the government also plans to increase the total national expenditure to RMB 15.3037tn in 2014 (excluding payments for local government bonds). Among the major expenditures, spending on environmental protection and guaranteed housing will rise; national defense is budgeted to be RMB 808.23bn, up 12.2% YoY, benefiting **AviChina (2357 HK)** and **China all access (633 HK)**.

Policies to facilitate agricultural reform. The government will continue to support the agricultural industry by deploying comprehensive measures to ensure stable price and supply. Moreover, strong support will be offered to rural improvement, which includes promoting national and local water conservancy projects, increasing procurement of new machineries, optimizing crop varieties, and enhancing rural infrastructure. Rural land system reform will be on track to grant farmers more property rights and guide the flow of land use rights. We expect **First Tractor (38 HK)**, **Sound Global (967 HK)**, and **Sinofert (297 HK)** to capitalize on relevant reforms in the sector.

Accelerating urbanization. With the targeted urbanization rate of 54.6%, the government is set to speed up the process. Gradually, rural residents will be able to obtain permanent residency in small- and medium-sized cities; children of new urban residents will have better access to education in the cities; basic public services will be available to all urban residents. In the future, about 100 mn rural residents will move to urban regions. The government will re-develop urban slum towns inhabited by about 100 mn citizens, and guide 100 mn citizens to migrate to central and western regions to facilitate urbanization. We expect urbanization to spur additional investments, stimulate private demand and enhance social mobility essential to modernize China. We believe that **China State Construction (3311 HK)** and **Fosun International (656 HK)** will gain on the arising opportunities.

Environmental protection initiatives. As China realizes that the enormous cost of pollution will eventually hinder economic growth, environmental protection became the key focus in this year's NPC. The government not only established specific targets to reduce pollution, but also will transform the ways that energy is generated and consumed. Clean energy will be used more widely in electricity generation; smart grid will be integrated in energy distribution; application of green technology will increase; new pricing mechanism for gas and water consumption will be in place. We believe these strengthened environmental efforts will have positive impacts on **China Everbright International Ltd (257 HK)**, **Beijing Enterprises Water (371 HK)**, **Guodian Tech (1296 HK)**, **BYD company (1211 HK)**, **GCL-Poly Energy (3800 HK)**, **Singyes Solar (750 HK)**, **China Gas Holdings Ltd (384 HK)**, **ENN Energy (2688 HK)**, **Huaneng Renewables (958 HK)**, and **Xinjiang Goldwind (2208 HK)**.

Healthcare and population policy. The government is set to increase healthcare spending for urban and rural residents in 2014. It is expected that spending on public health services per capita, individual contribution and government subsidies for residents will be



Exhibit 8: Reduction in major environmental metrics (%)

Metric	2014 target	2013	2012
Energy consumption per unit of GDP	3.90	3.70	3.60
carbon dioxide emissions per unit of GDP	4.00	4.36	5.02
Emissions of sulfur dioxide	2.00	3.48	4.52
Chemical oxygen demand	2.00	2.93	3.05
Ammoniacal nitrogen	2.00	3.14	2.62
Nitrogen oxides emissions	5.00	4.72	2.77
Water consumption per 10,000 yuan of value-added of industry	5.20	5.7	8.00

Source(s): NDRC, ABCI Securities

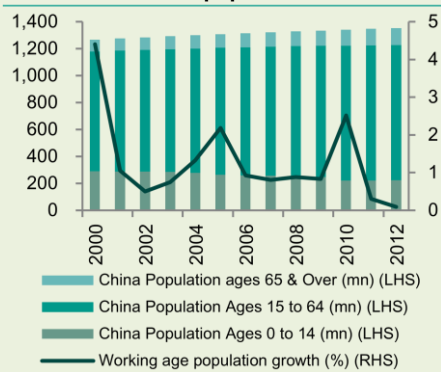
Exhibit 9: Central budget for healthcare spending (RMB)

Year	Avg. medical subsidies*	Spending on public health services per capita
2009	80	--
2010	120	15
2011	200	25
2012	240	25
2013	280	30
2014E	320	35

* Subsidies to new rural cooperative medical care system and basic medical insurance for non-working urban residents

Source(s): Ministry of Finance, ABCI Securities

Exhibit 10: China's population



Source(s): Bloomberg, NBS, ABCI Securities

raised in 2014. Insurance for serious illness will also increase. For the healthcare sector, we recommend **Fosun Pharma (2196 HK)** and **Sihuan Pharma (460 HK)**. Regarding China's population policy, the government will relax its grip by allowing married couples to have two children if one of the parents is an only child. We believe the demographic change will be positive to **Hengan International (1044 HK)**, **Mengniu Dairy (2319 HK)**, and **Goodbaby (1086 HK)** in the long term.

Industrial restructuring towards new strategic industries.

Industrial restructuring is also crucial to upgrading the Chinese economy. There is a genuine need for China to restructure many industries so as to move up the value chain, reduce overcapacity, and fight pollution. In addition, the country's leading position in traditional low-end manufacturing industries is threatened by neighboring countries, which are competitive in production and labor costs. China will gradually steer away from many traditional industries to develop new industries identified as strategically important to economic growth.



China Economic Indicators

	2013												2014	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Real GDP (YoY%)	---	---	7.7	---	---	7.5	---	---	7.8	---	---	7.7	---	---
Export Growth (YoY%)	25.0	21.8	10.0	14.7	1.0	(3.1)	5.1	7.2	(0.3)	5.6	12.7	5.8	10.6	(18.1)
Import Growth (YoY%)	28.8	(15.2)	14.1	16.8	(0.3)	(0.7)	10.9	7.0	7.4	7.6	5.3	6.5	10.0	10.1
Trade Balance (USD/bn)	29.2	15.3	(0.9)	18.2	20.4	27.1	17.8	28.5	15.2	31.1	33.8	32.3	31.9	(22.99)
Retail Sales Growth (YoY%)	12.3		12.6	12.8	12.9	13.3	13.2	13.4	13.3	13.3	13.7	13.6		11.8
Industrial Production (YoY%)	9.9		8.9	9.3	9.2	8.9	9.7	10.4	10.2	10.3	10.0	9.7		8.6
PMI - Manufacturing (%)	50.4	50.1	50.9	50.6	50.8	50.1	50.3	51.0	51.1	51.4	51.4	51.0	50.5	50.2
PMI - Non-manufacturing (%)	56.2	54.5	55.6	54.5	54.3	53.9	54.1	53.9	55.4	56.3	56.0	54.6	53.4	55.0
FAI(YTD) (YoY%)	21.2		20.9	20.6	20.4	20.1	20.1	20.3	20.2	20.1	19.9	19.6		17.9
CPI (YoY%)	2.0	3.2	2.1	2.4	2.1	2.7	2.7	2.6	3.1	3.2	3.0	2.5	2.5	2.0
PPI (YoY%)	(1.6)	(1.6)	(1.9)	(2.6)	(2.9)	(2.7)	(2.3)	(1.6)	(1.3)	(1.5)	(1.4)	(1.4)	(1.6)	(2.0)
M2(YoY%)	15.9	15.2	15.7	16.1	15.8	14.0	14.5	14.7	14.2	14.3	14.2	13.6	13.2	13.3
New Lending (RMB/bn)	1070.0	620.0	1060.0	792.9	667.4	860.5	699.9	711.3	787.0	506.1	624.6	482.5	1320	644.5

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		
U.S.				Energy				US Fed Fund Rate			
DJIA	16,108.89	(2.09)	15.10	NYMEX WTI	USD/bbl	98.22	(4.25)	280,624	0.25	0.00	
S&P 500	1,846.34	(1.69)	17.02	ICE Brent Oil	USD/bbl	107.57	(1.31)	142,745	3.25	0.00	
NASDAQ	4,260.42	(1.75)	30.62	NYMEX Natural Gas	USD/MMBtu	4.38	(5.11)	105,705	0.75	0.00	
MSCI US	1,768.09	(1.71)	17.27	Australia Newcastle Steam Coal Spot fob ²	USD/Metric Tonne	74.30	N/A	N/A	0.0507	0.00	
Europe				Basic Metals				US Treasury (1 Mth)			
FTSE 100	6,553.78	(2.37)	17.00	LME Aluminum Cash	USD/MT	1,698.75	(1.44)	11,162	1.5196	(11.7)	
DAX	9,017.79	(3.56)	16.94	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,741.00	(1.36)	38,022	2.6463	(14.2)	
CAC40	4,250.51	(2.65)	25.39	CMX Copper Active	USD/lb.	298.35	(5.48)	670	0.6350	0.70	
IBEX 35	9,950.30	(2.10)	17.76	LME Copper 3- mth Rolling Fwd.	USD/MT	6,415.00	(5.41)	87,842	4.4800	0.00	
FTSE MIB	20,591.82	(0.21)	N/A	TSI CFR China Iron Ore Fines Index ³	USD	111.50	(2.36)	N/A	0.25	0.00	
Stoxx 600	324.51	(2.57)	18.98	Precious Metals				ECB Rate (Refinancing)			
MSCI UK	1,930.62	(2.42)	16.78	CMX Gold	USD/T. oz	1,372.20	2.54	169,775	0.1550	(0.15)	
MSCI France	119.28	(2.49)	25.03	CMX Silver	USD/T. oz	21.24	1.49	48,982	0.2334	(0.23)	
MSCI Germany	123.48	(3.54)	16.10	NYMEX Platinum	USD/T. oz	1,480.60	(0.20)	11,835	1.8765	(11.8)	
MSCI Italy	58.93	(0.07)	N/A	Agricultural Products				O/N SHIBOR			
Asia				CBOT Corn	USD/bu	481.50	0.10	2,444	1-mth SHIBOR	3.8680	(71.8)
NIKKEI 225	14,391.16	(5.78)	19.62	CBOT Wheat	USD/bu	679.00	5.07	87	3-mth HIBOR	0.3750	0.07
S&P/ASX 200	5,343.20	(2.18)	19.67	NYB-ICE Sugar	USD/lb.	17.82	(1.05)	63,860	Corporate Bonds (Moody's)		
HSI	21,541.04	(4.94)	10.03	CBOT Soybeans	USD/bu.	1,388.75	(4.72)	1,212	Aaa	4.42	(4.00)
HSCEI	9,251.08	(4.72)	6.92					Baa	5.11	(3.00)	
CSI300	2,129.91	(1.77)	9.93								
SSE Composite	2,008.36	(2.41)	10.10								
SZSE Composite	1,078.45	(2.16)	28.27								
MSCI China	57.42	(4.19)	9.04								
MSCI Hong Kong	11,745.07	(2.61)	11.30								
MSCI Japan	742.16	(2.87)	14.78								

Note:

- Data sources: Bloomberg Finance LP, 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
- TSI CFR China Iron Ore Fines Index is calculated with the 62% Fe specification, spot price

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-Mth
Spot Rate	1.3861	1.6622	0.9013	101.66	0.8754	6.1446	7.7649	6.2105
Chg. WTD (%)	(0.10)	(0.54)	(0.61)	1.59	0.29	(0.28)	(0.05)	(1.02)



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.

Disclosures of Interests

ABCI Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with one or more of the companies mentioned in the 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	$2.6 \leq 180$ 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.

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



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

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 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