



## Economics Weekly

### 2Q13 economic indicators

YoY% or otherwise specified	2Q 2013*	1Q 2013
GDP	7.4	7.7
CPI	2.2	2.4
PPI	-2.6	-1.7
Exports	5.3	18.4
Imports	4.9	8.4
Trade Balance (USD/Bn)	74.1	43.1
FAI (YTD%)	20.2	20.9
Industrial production	9.2	9.5
Retail Sales	12.8	12.4
M2	15.6	15.7
New loans (RMB/Bn)	2310.3	2750

\*ABCIS Estimates

Source: Bloomberg, ABCIS

### June's economic indicators

YoY% or otherwise specified	June 2013*	May 2013
CPI	2.2	2.1
PPI	-2.2	-2.9
Exports	1.3	1.0
Imports	-1.0	-0.3
Trade Balance (USD/Bn)	35.5	20.4
FAI (YTD%)	20.2	20.4
Industrial production	9.1	9.2
Retail Sales	12.7	12.9
M2	15.6	15.8
New loans (RMB/Bn)	850	667.4

\*ABCIS Estimates

Source: Bloomberg, ABCIS

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## Liquidity squeeze puts a damper on June's numbers

China's macro trends are likely to remain stagnant in June. China's June PMI plunged to a four-month low of 50.1, demonstrating signs of economic cooldown. We expect FAI, domestic consumption and external trade to continue to head down in June, while new loans may see improvement on month-to-month basis. In our view, China economic growth in 2Q13 is likely to edge down to 7.4% YoY from 7.7% in 1Q13.

- **Growth headwinds continue to weaken June's PMI.** Official PMI edged down from 50.8 in May to 50.1 in June. The index fell closer to 50, reflecting that China growth momentum is weakening due to the concerns about longer-than-expected economic rebalancing and the liquidity squeeze in June. As domestic demand becomes stagnant, uncertainty has rolled over to new orders PMI which dropped to 50.4 in June from 51.8 in May.
- **CPI to rise slightly to 2.2% YoY in June.** We believe the CPI will show slight increase from 2.1% in May to 2.2% in June, reflecting stable increase in food and input prices. We expect 2Q13 inflation will continue to edge down to 2.2% from 2.4% in 1Q13. PPI will continue to experience negative growth at 2.2% as weak aggregate demand put a drag on producers' prices.
- **External trade to be hit hard in June and 2Q13.** We expect exports and imports to grow 1.3% YoY and -1.0% in June respectively in response to decelerating new orders and continued crackdown on misreporting of trade invoices. 2Q13 exports growth will see substantial deceleration to 5.3% YoY compared to 18.4% in 1Q13.
- **FAI growth to slow to 20.2% YTD in June.** Weak June's PMI indicated slower growth of manufacturing FAI, thus moderating the growth momentum of investment. Nonetheless, FAI remains as the major growth driver in 1H13 as we look for it to outperform other economic indicators, maintaining over 20% YTD growth.
- **Industrial output to fall to 9.1% YoY in June.** The slowdown in industrial orders is likely to persist into June in the absence of any improvement in the new order index under PMI in previous months. Continued weakness in domestic demand will continue to be a drag on industrial output.
- **Retail sales growth to slip to 12.7% YoY in June.** We expect retail sales growth to shrink, from 12.9% YoY in May to 12.7% YoY in June on lower domestic consumption caused by government's efforts to curb high-end spending.
- **Stronger new loan and decelerating M2 growth.** We forecast new loans will hit RMB850b in June driven by lower-than-expected new loans in April and May. M2 growth will slow from 15.8% YoY in May to 15.6% YoY in June, partly due to high-base effect.



China Economic Indicators

	2012							2013					
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Real GDP (YoY%)	7.6	---	---	7.4	---	---	7.9	---	---	7.7	---	---	7.4*
Export Growth (YoY%)	11.1	1	2.7	9.9	11.6	2.9	14.1	25.0	21.8	10.0	14.7	1.0	1.3*
Import Growth (YoY%)	6.3	4.7	-2.6	2.4	2.4	0	6	28.8	-15.2	14.1	16.8	-0.3	-1*
Trade Balance (USD/Bn)	31.91	25.28	26.43	27.45	32.11	19.63	31.6	29.2	15.3	-0.9	18.2	20.4	35.5*
Retail Sales Growth (YoY%)	13.7	13.1	13.2	14.2	14.5	14.9	15.2	12.3	12.6	12.8	12.9	12.9	12.7*
Industrial Production (YoY%)	9.5	9.2	8.9	9.2	9.6	10.1	10.3	9.9	8.9	9.3	9.2	9.2	9.1*
PMI - Manufacturing (%)	50.2	50.1	49.2	49.8	50.2	50.6	50.6	50.4	50.1	50.9	50.6	50.8	50.1
PMI - Non-manufacturing (%)	56.7	55.6	56.3	53.7	55.5	55.6	56.1	56.2	54.5	55.6	54.5	54.3	53.9
FAI(YTD) (YoY%)	20.4	20.4	20.2	20.5	20.7	20.7	20.6	21.2	20.9	20.6	20.4	20.4	20.2*
CPI (YoY%)	2.2	1.8	2	1.9	1.7	2	2.4	2.0	3.2	2.1	2.4	2.1	2.2*
PPI (YoY%)	-2.1	-2.9	-3.5	-3.6	-2.8	-2.2	-1.9	-1.6	-1.6	-1.9	-2.6	-2.9	-2.2*
M2 (YoY%)	13.6	13.9	13.5	14.8	14.1	13.9	13.8	15.9	15.2	15.7	16.1	15.8	15.6*
New Lending (RMB/Bn)	919.83	540.1	703.9	623.2	505.2	522.9	454.3	1070.0	620.0	1060.0	792.9	667.4	850*

\*forecast

World Economic/Financial Indicators

Equity Index				Global Commodities						Bond Yields & Key Interest Rates		
	Closing price	Chng. WTD (%)	P/E		Unit	Price	Chng. WTD (%)	Volume (5-day average)		Yield (%)	Chng. WTD (%)	
<b>US</b>				<b>Energy</b>	NYMEX WTI	USD/bbl	102.85	-0.36	274371.60	US Fed Fund Rate	0.25	0.00
DJIA	15135.84	0.00	14.71		ICE Brent	USD/bbl	106.95	-0.71	198106.80	US Prime Rate	3.25	0.00
S&P 500	1631.89	0.00	15.91		NYMEX Natural Gas	USD/MM Btu	3.63	0.33	93075.80	US Discount Window	0.75	0.00
NASDAQ	3479.38	0.00	21.89		Australia Newcastle Steam Coal Spot fob	USD/Metric Tonne	76.25	N/A	N/A	US Treasury (1 Month)	0.0203	-33.22
MSCI US	1556.46	0.00	16.22		LME Aluminum Cash	USD/MT	1723.75	0.00	14441.00	US Treasury (10 Yr)	2.6945	-1.63
<b>Europe</b>				<b>Basic Metals</b>	LME Primary Aluminum 3 Month Rolling Forward	USD/MT	1768.00	0.00	31483.60	US Treasury (30 Yr)	3.6696	-1.17
FTSE 100	6443.91	1.07	16.58		CMX Copper Active Contract	USD/lb.	308.90	0.29	1318.60	Japan 10-Yr Government Bond	0.882	2.68
DAX	7910.16	1.33	15.04		LME Copper 3 Month Rolling Forward	USD/MT	6789.00	0.00	50924.40	China 10-Yr Government Bond	3.52	-2.49
CAC40	3798.39	1.19	15.86		TSI CFR China Iron Ore Fines Index	USD	122.60	5.24	N/A	ECB Interest Rate (Refinancing)	0.5	0.00
IBEX 35	7947.10	1.00	89.99		CMX Gold	USD/T. oz	1225.80	1.08	212605.00	1-Month LIBOR	0.1948	0.07
FTSE MIB	15633.34	0.64	194.83	CMX Silver	USD/T. oz	18.92	1.04	1066.60	3 Month LIBOR	0.2699	-1.17	
Stoxx 600	291.13	0.98	N/A	NYMEX Platinum	USD/T. oz	1337.00	0.91	131.00	3-Month SHIBOR	4.794	-2.94	
MSCI UK	1884.95	0.00	16.25	CBOT Corn	USD/bu	687.25	0.37	14171.20	3-Month HIBOR	0.3814	0.19	
MSCI France	104.94	0.00	19.26	CBOT Wheat	USD/bu	660.75	0.11	52587.60	Corporate Bonds (Moody's Seasoned)			
MSCI Germany	106.96	0.00	13.74	NYB-ICE Sugar	USD/lb.	16.26	0.00	52104.60	Aaa	4.28	-0.93	
MSCI Italy	44.51	0.00	53.64	CBOT Soybeans	USD/bu.	1234.00	0.47	75125.40	Baa	5.29	-1.12	
<b>Asia</b>												
NIKKEI 225	14109.34	-1.40	26.21									
S&P/ASX 200	4809.53	-0.67	19.60									
HSI	20582.19	-1.31	9.52									
HSCEI	9063.30	-1.59	7.41									
CSI300	2163.62	-2.84	10.76									
SSE Composite	1958.27	-2.44	10.55									
SZSE Composite	889.53	-3.57	25.84									
MSCI China	54.01	0.00	9.11									
MSCI Hong Kong	11069.57	0.00	9.93									
MSCI Japan	737.74	0.00	24.38									
<b>Currency</b>												
									USD/ CNY			
									NDF 12 Month			
Spot Exchange Rate	1.2830	1.4875	0.9061	101.3200	0.9654	1.0575	6.1338	7.7550	6.2975			
Chng. WTD (%)	0.01	-0.10	-0.07	-0.12	-0.15	0.07	-0.02	-0.01	-0.02			

Note:

- Data source: Bloomberg Finance LP, National Bureau of Statistics of China, ABCIS
- 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
- Data is updated on the date of the report

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**Definition of equity rating**

<b>Rating</b>	<b>Definition</b>
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 2007-2011

Time horizon of share price target: 12-month

**Definition of share price risk**

<b>Rating</b>	<b>Definition</b>
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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