



Economics Weekly May 13, 2014

Co-head of Research

Banny Lam

Tel: 852-21478863

Email: bannylam@abci.com.hk

Analyst

Paul Pan

Tel: 852-21478829

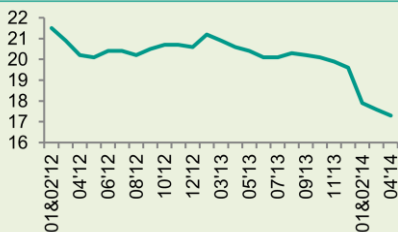
Email: paulpan@abci.com.hk

Exhibit 1: April economic indicators

YoY% or otherwise specified	Apr'14	Mar'14
CPI	1.8	2.4
PPI	(2.0)	(2.3)
Exports	0.9	(6.6)
Imports	0.8	(11.3)
Trade Balance (US\$/bn)	18.5	7.7
FAI (YTD%)	17.3	17.6
Industrial production	8.7	8.8
Retail Sales	11.9	12.2
M2	13.2	12.1
New loans (RMB/bn)	774.7	1,050
Aggregate financing (RMB/bn)	1,550	2,070.9

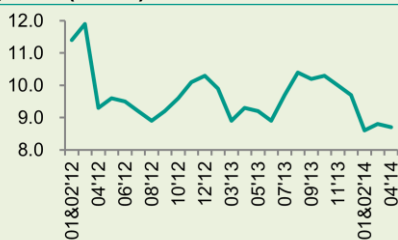
Source(s): Bloomberg, ABCI Securities

Exhibit 2: China FAI YTD growth (YoY %)



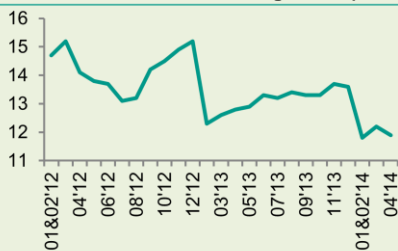
Source(s): Bloomberg, ABCI Securities

Exhibit 3: China Industrial production growth (YoY %)



Source(s): Bloomberg, ABCI Securities

Exhibit 4: China retail sales growth (YoY %)



Source(s): Bloomberg, ABCI Securities

China: Trekking toward growth

China's economic data for April faltered, with growth in FAI, industrial production, and retail sales declining in varying degrees. The country's growth momentum has been temporarily deterred by its long-term economic reform. Nonetheless, external trade sector improved mildly in April. Looking forward, dismal domestic demand would prompt policymakers to deploy more mini-stimulus measures to reverse the weakening economic trend.

FAI's downtrend continues. Year-to-date growth in FAI for April slid to 17.3% YoY. The continuous downtrend in FAI growth was partly caused by the government's initiatives to further normalize over-investment. The sluggish real estate sector, whose YTD growth in FAI only reached 16.4% YoY for April, also contributed to the slowdown. In general, April's FAI indicates that investors were cautious on capital spending. The government's recent efforts to launch certain infrastructure projects, however, should help alleviate concerns over a possible severe downturn in FAI.

Industrial production growth retracted slightly. Industrial production grew by 8.7% YoY in April, lower than March's figure by 0.1%. Growth in most major industries and major product categories contracted in April. "Production and Distribution of Electricity, Gas and Water" was up only by 3.4% YoY, compared to March's 5.4% YoY, reflecting a genuine decline in industrial demand. However, industrial growth in "State Owned & State-holding Enterprises" increased from 4.6% YoY in March to 5.7% YoY, raising hope that the economic landscape may improve in the near term.

Retail sales on a stumbling path. In April, retail sales grew by 11.9% YoY, lower than the 12.2% YoY in March and market expectation of 12.2% YoY. April's retail sales growth was heavily dragged down by the "Gold, Silver and Jewelry" category that tumbled by 30% YoY and 6.73% MoM. However, growth in several product categories, such as "Communication Appliances" and "Building and Decoration Materials", accelerated. As the government's policies to promote frugality has been suppressing the retail sector, retail sales growth would continue to fluctuate before private consumption reaches a level strong enough to become a major driver of the economy.

Deleveraging remains intact. YTD total social financing dropped by 9.8% YoY on weakening growth in trust loans and bill issuances, reflecting China's sustaining effort to rein in overall rapid credit growth. Lower-than-expected new loans at RMB 774.7 bn was mainly caused by falling deposits and interbank activities – a result of prudent stance taken by banks in releasing credits. M2 growth returned to above 13%, suggesting that credit growth has normalized. We expect credit growth would turn healthier in coming months.

China is on the right track despite near-term slowdown. China's major economic data in recent months have unequivocally pointed to a trend of softening growth. Reforming the economy and shifting the emphasis toward quality and efficiency will be accompanied by a structural slowdown in areas including investment, consumption and pricing mechanisms when policy experimentation takes place. As the government continues to implement aggressive reforms and targeted easing to stabilize the economy, we are of the view that China is moving toward a brighter and more sustainable future.



China Economic Indicators

	2013										2014			
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr*
Real GDP (YoY%)	7.7	---	---	7.5	---	---	7.8	---	---	7.7	---	---	7.4	---
Export Growth (YoY%)	10.0	14.7	1.0	(3.1)	5.1	7.2	(0.3)	5.6	12.7	5.8	10.6	(18.1)	(6.6)	0.9
Import Growth (YoY%)	14.1	16.8	(0.3)	(0.7)	10.9	7.0	7.4	7.6	5.3	6.5	10.0	10.1	(11.3)	0.8
Trade Balance (USD/bn)	(0.9)	18.2	20.4	27.1	17.8	28.5	15.2	31.1	33.8	32.3	31.9	(23.0)	7.7	18.5
Retail Sales Growth (YoY%)	12.6	12.8	12.9	13.3	13.2	13.4	13.3	13.3	13.7	13.6	11.8		12.2	11.9
Industrial Production (YoY%)	8.9	9.3	9.2	8.9	9.7	10.4	10.2	10.3	10.0	9.7	8.6		8.8	8.7
PMI - Manufacturing (%)	50.9	50.6	50.8	50.1	50.3	51.0	51.1	51.4	51.4	51.0	50.5	50.2	50.3	50.4
PMI - Non-manufacturing (%)	55.6	54.5	54.3	53.9	54.1	53.9	55.4	56.3	56.0	54.6	53.4	55.0	54.5	54.8
FAI(YTD) (YoY%)	20.9	20.6	20.4	20.1	20.1	20.3	20.2	20.1	19.9	19.6	17.9		17.6	17.3
CPI (YoY%)	2.1	2.4	2.1	2.7	2.7	2.6	3.1	3.2	3.0	2.5	2.5	2.0	2.4	1.8
PPI (YoY%)	(1.9)	(2.6)	(2.9)	(2.7)	(2.3)	(1.6)	(1.3)	(1.5)	(1.4)	(1.4)	(1.6)	(2.0)	(2.3)	(2.0)
M2(YoY%)	15.7	16.1	15.8	14.0	14.5	14.7	14.2	14.3	14.2	13.6	13.2	13.3	12.1	13.2
New Lending (RMB/bn)	1060.0	792.9	667.4	860.5	699.9	711.3	787.0	506.1	624.6	482.5	1320	644.5	1050	774.7

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	16,695.47	0.68	15.63	NYMEX WTI	USD/bbl	101.37	1.38	255,615		0.25	0.00	
S&P 500	1,896.65	0.97	17.40	ICE Brent Oil	USD/bbl	108.85	0.89	180,088	US Prime Rate		3.25	0.00
NASDAQ	4,143.86	1.77	34.38	NYMEX Natural Gas	USD/MMBtu	4.42	(2.38)	112,746	US Discount Window		0.75	0.00
MSCI US	1,813.34	0.97	17.78	Australia Newcastle Steam Coal Spot fob ²	USD/Metric Tonne	72.85	N/A	N/A	US Treasury (1 Mth)		0.0101	(0.51)
Europe				Basic Metals				US Treasury (5 Yr)				
FTSE 100	6,848.49	0.50	20.42	LME Aluminum Cash	USD/MT	1,742.25	1.41	17,012	US Treasury (10 Yr)		2.6413	1.80
DAX	9,742.21	1.68	17.61	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,787.00	1.45	39,844	Japan 10-Yr Gov. Bond		0.6120	0.40
CAC40	4,493.23	0.36	25.68	CMX Copper Active	USD/lb.	6,924.00	1.87	9,035	China 10-Yr Gov. Bond		4.1900	(5.00)
IBEX 35	10,536.40	0.47	22.33	LME Copper 3- mth Rolling Fwd.	USD/MT	6,879.00	1.99	56,255	ECB Rate (Refinancing)		0.25	0.00
FTSE MIB	21,300.08	(0.42)	222.1	TSI CFR China Iron Ore Fines Index ³	USD	103.00	0.29	N/A	1-Month LIBOR		0.1511	(0.05)
Stoxx 600	340.85	0.68	21.02	Precious Metals				3 Month LIBOR			0.2251	0.10
MSCI UK	2,020.20	0.52	20.27	CMX Gold	USD/T. oz	1,293.70	0.47	127,320	O/N SHIBOR		2.3500	12.95
MSCI France	125.72	0.37	26.87	CMX Silver	USD/T. oz	19.57	2.35	36,105	1-mth SHIBOR		3.6170	(15.6)
MSCI Germany	130.42	1.23	17.63	NYMEX Platinum	USD/T. oz	1,445.70	1.10	9,528	3-mth HIBOR		0.3721	0.14
MSCI Italy	62.12	0.44	182.3	Agricultural Products				Corporate Bonds (Moody's)				
Asia				CBOT Corn	USD/bu	502.50	(0.99)	131,882	Aaa		4.21	9.00
NIKKEI 225	14,425.44	1.59	18.84	CBOT Wheat	USD/bu	714.25	(1.14)	54,157	Baa		4.83	9.00
S&P/ASX 200	5,498.19	0.68	19.54	NYB-ICE Sugar	USD/lb.	17.50	1.74	38,275				
HSI	22,352.38	2.24	10.50	CBOT Soybeans	USD/bu.	1,477.25	(0.66)	88,165				
HSCEI	9,855.80	1.77	7.13									
CSI300	2,174.85	1.92	9.74									
SSE Composite	2,050.73	1.97	10.00									
SZSE Composite	1,039.39	2.13	26.72									
MSCI China	58.27	1.69	8.92									
MSCI Hong Kong	12,127.49	1.68	12.01									
MSCI Japan	713.33	(0.60)	13.22									

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	1.3724	1.6844	0.9347	102.25	0.8893	6.2288	7.7516	6.2392
Chg. WTD (%)	(0.25)	(0.04)	(0.16)	(0.38)	(0.33)	(0.02)	0.00	(0.26)



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	$2.6 \leq 180$ 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 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



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

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