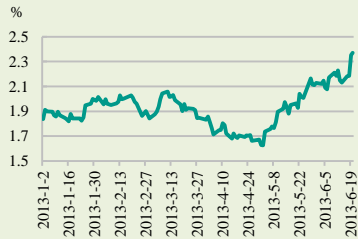




Economics Weekly

Rise of US 10-year treasury yield



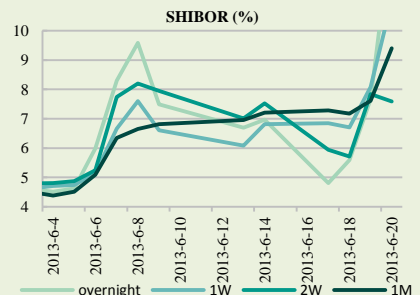
Source: Bloomberg, ABCIS

Asian markets slump

		30-Apr	20-Jun	Chg (%)
HK	HIS Index	22737.01	20382.87	-10.35
Taiwan	TWSE Index	8093.66	7898.91	-2.41
Thailand	SET Index	1597.86	1402.44	-12.23
South Korea	KOSPI Index	1963.95	1850.49	-5.78
Singapore	FSSTI Index	3368.18	3134.64	-6.93
Indonesia	JCI Index	5034.071	4629.994	-8.03

Source: Bloomberg, ABCIS

Tight liquidity conditions in China



Source: shibor.org, ABCIS

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The Fed's QE exit strategy

Event risk looms large as the US Fed plans to moderate the pace of bond purchases later this year and end all purchases next year. Unwinding a policy of record-low interest rates and \$85 billion in monthly bond-buying will be challenging as the gradual pullback from extreme liquidity provision could cause capital flows to head back to the US economy, pushing the dollar higher and further damaging the prospects of countries in Asia. Capital flows will likely be volatile in the near term and the higher risk premium assigned to the Fed's tapering QE will cause correction in Asian capital markets. The Fed's initial steps to normalize its monetary policy are likely to dampen growth outlook of emerging Asian economies in 2H13 and 2014.

- **Emerging Asian countries under pressure to loosen credits.** The combination of weak domestic demand and US's QE exit seriously affects the economic recovery of emerging Asian economies. The growth moderation has been seen since 1Q13 and several Asian countries have aggressively conducted expansionary monetary policy to offset the impact of capital outflows caused by the move of the Fed. More rate cuts within Asian economies are expected in 2H13.
- **Market uncertainty in HK caused by liquidity tightening.** In anticipation of the tapering of the QE program, the stock market in HK has been suffering from fund withdrawal recently which triggers surging lending rates. It becomes a key headwind affecting HK economic recovery. In sum, HK equity market may enter into a more volatile period as the impact of the Japan's new QE pledge may subside and China's economic outlook remains uncertain.
- **Less concerns on "hot money" situation in China.** In the past several months, China has been facing a strong inflow of "hot money", which led to distorted macroeconomic indicators. The tapering of bond purchases by the Fed will slow the 'hot money' inflows into China, thus reducing the size of the position for Forex. Given the recent spike of the inter-bank lending rates and cash squeeze, we expect China will encourage more liquidity inflows through QFII/RQFII program and FDI.
- **China will fine-tune macroeconomic policies.** China's economic growth is slower-than-expected due to structural adjustments in economic structure. Flagging domestic demand, tight credit conditions and shrinking of manufacturing activities have further hampered China's macro performance, causing project approvals to be delayed and raising the need for fiscal stimulus. Amid the change of global liquidity conditions, we expect China will fine-tune the current accommodative macroeconomic policies to boost growth in 2H13.



China Economic Indicators

	2012								2013				
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Real GDP (YoY%)	---	7.6	---	---	7.4	---	---	7.9	---	---	7.7	---	---
Export Growth (YoY%)	15.3	11.1	1	2.7	9.9	11.6	2.9	14.1	25.0	21.8	10.0	14.7	1
Import Growth (YoY%)	12.7	6.3	4.7	-2.6	2.4	2.4	0	6	28.8	-15.2	14.1	16.8	-0.3
Trade Balance (USD/Bn)	18.13	31.91	25.28	26.43	27.45	32.11	19.63	31.6	29.2	15.3	-0.9	18.2	20.4
Retail Sales Growth (YoY%)	13.8	13.7	13.1	13.2	14.2	14.5	14.9	15.2	12.3		12.6	12.8	12.9
Industrial Production (YoY%)	9.6	9.5	9.2	8.9	9.2	9.6	10.1	10.3	9.9		8.9	9.3	9.2
PMI - Manufacturing (%)	50.4	50.2	50.1	49.2	49.8	50.2	50.6	50.6	50.4	50.1	50.9	50.6	50.8
PMI - Non-manufacturing (%)	55.2	56.7	55.6	56.3	53.7	55.5	55.6	56.1	56.2	54.5	55.6	54.5	54.3
FAI(YTD) (YoY%)	20.1	20.4	20.4	20.2	20.5	20.7	20.7	20.6	21.2		20.9	20.6	20.4
CPI (YoY%)	3	2.2	1.8	2	1.9	1.7	2	2.4	2.0	3.2	2.1	2.4	2.1
PPI (YoY%)	-1.4	-2.1	-2.9	-3.5	-3.6	-2.8	-2.2	-1.9	-1.6	-1.6	-1.9	-2.6	-2.9
M2 (YoY%)	13.2	13.6	13.9	13.5	14.8	14.1	13.9	13.8	15.9	15.2	15.7	16.1	15.8
New Lending (RMB/Bn)	793.23	919.83	540.1	703.9	623.2	505.2	522.9	454.3	1070.0	620.0	1060.0	793	667.4

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 (%)	
US				Energy	NYMEX WTI	USD/bbl	96.08	-1.81	193013.40	US Fed Fund Rate	0.25	0.00
DJIA	15112.19	0.28	14.69		ICE Brent	USD/bbl	104.16	-1.67	138873.20	US Prime Rate	3.25	0.00
S&P 500	1628.93	0.14	15.93		NYMEX Natural Gas	USD/MM Btu	3.94	5.44	139413.60	US Discount Window	0.75	0.00
NASDAQ	3443.20	0.57	24.06		Australia Newcastle Steam Coal Spot fob	USD/Metric Tonne	82.95	N/A	N/A	US Treasury (1 Month)	0.0304	0.00
MSCI US	1553.34	0.13	16.26		LME Aluminum Cash	USD/MT	1783.75	-1.45	91883.20	US Treasury (10 Yr)	2.3886	12.17
Europe				Basic Metals	LME Primary Aluminum 3 Month Rolling Forward	USD/MT	1830.00	-1.13	55310.00	US Treasury (30 Yr)	3.458	4.64
FTSE 100	6210.83	-1.54	15.96		CMX Copper Active Contract	USD/lb.	307.30	-4.01	59080.60	Japan 10-Yr Government Bond	0.856	3.88
DAX	8015.28	-1.39	14.96		LME Copper 3 Month Rolling Forward	USD/MT	6960.00	-1.83	66070.20	China 10-Yr Government Bond	3.46	0.00
CAC40	3757.93	-1.24	15.71		TSI CFR China Iron Ore Fines Index	USD	120.00	5.63	N/A	ECB Interest Rate (Refinancing)	0.5	0.00
IBEX 35	7963.40	-1.33	78.82		CMX Gold	USD/T. oz	1308.40	-5.71	114458.80	1-Month LIBOR	0.1916	-0.47
FTSE MIB	15836.34	-1.96	252.76	CMX Silver	USD/T. oz	20.28	-7.65	40805.40	3 Month LIBOR	0.2718	-0.37	
Stoxx 600	286.74	-1.51	18.99	NYMEX Platinum	USD/T. oz	1399.10	-3.34	12933.20	3-Month SHIBOR	5.803	9.70	
MSCI UK	1877.56	0.66	0.13	CBOT Corn	USD/bu	676.50	3.28	130133.40	3-Month HIBOR	0.3779	0.19	
MSCI France	107.26	0.88	19.70	CBOT Wheat	USD/bu	696.25	2.28	60458.80	Corporate Bonds (Moody's Seasoned)			
MSCI Germany	112.12	0.91	14.40	NYB-ICE Sugar	USD/lb.	16.58	-1.19	84834.60	Aaa	4.23	0.95	
MSCI Italy	46.02	-1.43	56.01	CBOT Soybeans	USD/bu.	1514.75	-0.12	65444.00	Baa	5.12	0.99	
Asia												
NIKKEI 225	13014.58	2.59	23.92									
S&P/ASX 200	4758.39	-0.70	19.32									
HSI	20382.87	-2.80	9.43									
HSCEI	9265.30	-4.16	7.58									
CSI300	2321.47	-3.94	11.54									
SSE Composite	2084.02	-3.61	11.32									
SZSE Composite	942.06	-3.44	27.51									
MSCI China	55.08	-0.60	9.29									
MSCI Hong Kong	11254.73	1.26	10.10									
MSCI Japan	687.11	4.66	22.24									
Currency												
									USD/ CNY			
	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CAD	USD/CNY	USD/HKD	NDF 12 Month			
Spot Exchange Rate	1.3208	1.5467	0.9192	98.0600	0.9341	1.0345	6.1286	7.7555	6.3030			
Chng. WTD (%)	-1.04	-1.53	-3.95	-3.82	-1.39	-1.69	0.04	0.07	-0.54			

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 this report

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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 2007-2011

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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