農銀國際
ABC INTERNATIONAL
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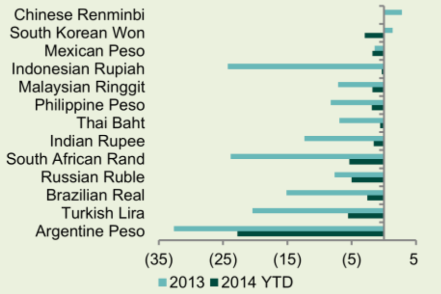
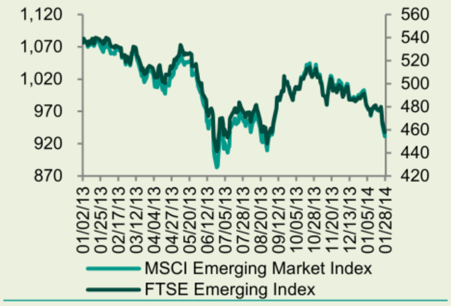
Exhibit 1: EM currency value changes (%)



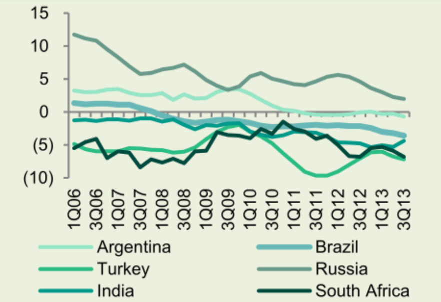
* All currency values are against US dollar
Source(s): Bloomberg, ABCI Securities

Exhibit 2: EM equity markets decline



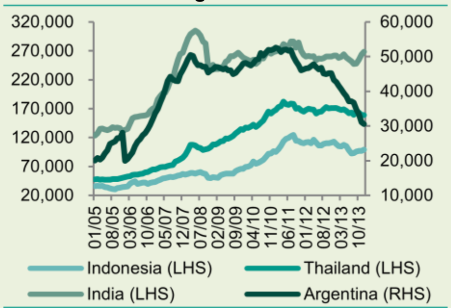
Source(s): Bloomberg, ABCI Securities

Exhibit 3: EM current accounts



Source(s): Bloomberg, ABCI Securities

Exhibit 4: EM foreign reserves



Source(s): Bloomberg, ABCI Securities

Emerging markets to suffer a painful dose of reality

Since May 2013, the emerging markets have been suffering from the changing sentiment resulted from Fed's QE tapering. Optimism over recovery in the U.S. and Europe and the anticipation of a more tightened monetary environment drive investors to reallocate funds to the developed markets. Adverse interactions among the declines in the equity and currency markets, forced manifestation of economic issues, and recent political instability exacerbated the sell-off mentality in the emerging economies. We believe external pressure for these regions will persist and it will take some time before these developing regions to resume their previous growth momentum. China, in our view, will outperform other emerging economic entities in 2014.

Causes of recent turmoil in equity and currency markets. Investors have been withdrawing funds from the emerging markets on expectation of Fed's tapering. Latest market volatility has been triggered by the lower-than-expected manufacturing PMI in China, which is perceived to be the growth driver of the emerging markets. As the FOMC meeting will soon be taking place, uncertainty over the U.S. monetary policies also increases investors' aversion to the emerging regions. Moreover, unstable political environment has increased apprehension among investors that a higher premium for investment in emerging market is demanded. We believe the lower-than-expected flash HSBC manufacturing January PMI in China was more of a result of a slowdown in production activities for the early arrival of Spring Festival this year than an indication of a weakening economy. Back in the U.S., it remains unknown whether the Fed would announce further reduction in monthly bond purchases at the FOMC meeting later this week. We believe decline and high volatility in the equity and currency markets among the emerging markets would persist.

When the tide turns low, reality emerges. The bull market supported by the inflated liquidity created by the Fed's QE program has been masking the underlying problems in the emerging economies. Fiscal imbalance, government mismanagement, and structural issues are reflected in their current account deficits, declining foreign reserves and high inflation. However, only some of the countries were able to take preemptive measures to resolve these problems. As the U.S. is tightening monetary policies and the developed markets are recovering, investors are more inclined to invest in developed market assets, especially with the ongoing problems in the developing markets remaining in place. Nonetheless, we believe resolving these economic issues will be the only viable solution to avoid future turmoil.

Future looks uncertain for emerging markets. Externally, the Fed's QE tapering will be the major overhang. The pace of reduction in bond purchases, maintenance of interest rate level, and the full implications of scaling down such an unprecedented monetary easing measure remain unknown. Internally, the emerging markets will be facing challenges as they pursue economic reforms or restructuring. We believe that the flight-to-safety behavior will continue in the medium term, pushing up the price of traditional asset class such as the U.S. Treasury bond. Meanwhile, emerging markets will continue to experience high volatility and underperform.

Not all emerging markets are made equal. Compared to the U.S. and Europe, emerging markets are disadvantageous in terms of capital market indications and economic fundamentals. Yet, we believe that the across-the-board decline in emerging markets was induced by funds fleeting from ETF investments. Investors are assessing the emerging economies individually and trying to identify investment opportunities despite the recent turmoil in emerging markets, as the level of decline varies in equity indices and currencies among the countries. We expect asset reallocation within emerging markets to occur in the short term.

China to outperform in 2014 among developing peers. Renminbi appreciated by almost 3% in 2013 and has been trending up since the beginning of 2014. Although shadow banking and slowing economic growth have raised concerns, we believe sentiment will remain positive on prudent monetary management, continuous economic rebalancing efforts, and better-than-expected earnings results of various industries. In our view, with its strong economic fundamentals, China will outperform other emerging economic peers in 2014.

China Economic Indicators

	2012	2013											
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Real GDP (YoY%)	7.9	---	---	7.7	---	---	7.5	---	---	7.8	---	---	7.7
Export Growth (YoY%)	14.1	25.0	21.8	10.0	14.7	1.0	(3.1)	5.1	7.2	(0.3)	5.6	12.7	5.8
Import Growth (YoY%)	6	28.8	(15.2)	14.1	16.8	(0.3)	(0.7)	10.9	7.0	7.4	7.6	5.3	6.5
Trade Balance (USD/bn)	31.6	29.2	15.3	(0.9)	18.2	20.4	27.1	17.8	28.5	15.2	31.1	33.8	32.3
Retail Sales Growth (YoY%)	15.2	12.3		12.6	12.8	12.9	13.3	13.2	13.4	13.3	13.3	13.7	13.6
Industrial Production (YoY%)	10.3	9.9		8.9	9.3	9.2	8.9	9.7	10.4	10.2	10.3	10.0	9.7
PMI - Manufacturing (%)	50.6	50.4	50.1	50.9	50.6	50.8	50.1	50.3	51.0	51.1	51.4	51.4	51.0
PMI - Non-manufacturing (%)	56.1	56.2	54.5	55.6	54.5	54.3	53.9	54.1	53.9	55.4	56.3	56.0	54.6
FAI(YTD) (YoY%)	20.6	21.2		20.9	20.6	20.4	20.1	20.1	20.3	20.2	20.1	19.9	19.6
CPI (YoY%)	2.4	2.0	3.2	2.1	2.4	2.1	2.7	2.7	2.6	3.1	3.2	3.0	2.5
PPI (YoY%)	(1.9)	(1.6)	(1.6)	(1.9)	(2.6)	(2.9)	(2.7)	(2.3)	(1.6)	(1.3)	(1.5)	(1.4)	(1.4)
M2(YoY%)	13.8	15.9	15.2	15.7	16.1	15.8	14.0	14.5	14.7	14.2	14.3	14.2	13.6
New Lending (RMB/bn)	454.3	1070.0	620.0	1060.0	792.9	667.4	860.5	699.9	711.3	787.0	506.1	624.6	482.5

World Economic/Financial Indicators

Equity Indices

	Closing price	Chg. WTD (%)	P/E
U.S.			
DJIA	15,837.88	(0.26)	14.93
S&P 500	1,781.56	(0.49)	16.60
NASDAQ	4,083.61	(1.08)	30.53
MSCI US	1,704.63	(0.51)	16.79
Europe			
FTSE 100	6,564.79	(1.48)	16.18
DAX	9,384.71	(0.08)	15.89
CAC40	4,163.79	0.06	23.35
IBEX 35	9,866.20	(0.03)	67.08
FTSE MIB	19,380.78	0.11	438.7
Stoxx 600	323.71	(0.32)	21.38
MSCI UK	1,933.92	(1.68)	16.07
MSCI France	115.92	(0.43)	22.74
MSCI Germany	128.11	(0.54)	15.44
MSCI Italy	55.56	(0.09)	571.6
Asia			
NIKKEI 225	14,980.16	(2.67)	21.59
S&P/ASX 200	5,175.11	(1.26)	21.22
HSI	21,960.64	(2.18)	9.96
HSCEI	9,763.97	(2.50)	7.24
CSI300	2,219.86	(1.15)	10.57
SSE Composite	2,038.51	(0.77)	10.24
SZSE Composite	1,079.84	(0.89)	29.34
MSCI China	58.24	(2.48)	9.20
MSCI Hong Kong	11,710.53	(1.46)	10.61
MSCI Japan	758.84	(2.74)	16.32

Global Commodities

	Unit	Price	Chg. WTD (%)	Volume (5-day avg.)
Energy				
NYMEX WTI	USD/bbl	96.12	(0.54)	207,367
ICE Brent Oil	USD/bbl	107.21	(0.62)	225,596
NYMEX Natural Gas	USD/MMBtu	4.95	(4.46)	188,603
Australia Newcastle Steam Coal Spot fob[2]	USD/Metric Tonne	80.40	N/A	N/A
Basic Metals				
LME Aluminum Cash	USD/MT	1,710.25	(0.48)	20,940
LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,755.00	(0.40)	28,784
CMX Copper Active	USD/lb.	326.10	(0.32)	48,492
LME Copper 3- mth Rolling Fwd.	USD/MT	7,150.00	(0.42)	47,352
TSI CFR China Iron Ore Fines Index[3]	USD	124.30	0.00	N/A
Precious Metals				
CMX Gold	USD/T. oz	1,255.00	(0.75)	37,339
CMX Silver	USD/T. oz	19.71	(0.28)	38,596
NYMEX Platinum	USD/T. oz	1,419.00	(0.67)	13,514
Agricultural Products				
CBOT Corn	USD/bu	432.00	0.58	133,249
CBOT Wheat	USD/bu	566.25	0.18	39,960
NYB-ICE Sugar	USD/lb.	14.74	(2.45)	56,688
CBOT Soybeans	USD/bu.	1,286.50	0.14	106,375

Bond Yields & Key Rates

	Yield (%)	Chg. WTD
US Fed Fund Rate	0.25	0.00
US Prime Rate	3.25	0.00
US Discount Window	0.75	0.00
US Treasury (1 Mth)	0.0304	(2.03)
US Treasury (5 Yr)	1.6027	6.14
US Treasury (10 Yr)	2.7736	5.86
Japan 10-Yr Gov. Bond	0.6340	0.20
China 10-Yr Gov. Bond	4.4900	(1.00)
ECB Rate (Refinancing)	0.25	0.00
1-Month LIBOR	0.1585	(0.27)
3 Month LIBOR	0.2361	0.08
O/N SHIBOR	4.8477	112.8
1-mth SHIBOR	7.3330	51.60
3-mth HIBOR	0.3764	0.00
Corporate Bonds (Moody's)		
Aaa	4.45	(2.00)
Baa	5.10	(7.00)

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-Mth
Spot Rate	1.3664	1.6609	0.8795	102.93	0.8980	6.0509	7.7639	6.1155
Chg. WTD (%)	(0.10)	0.77	1.29	(0.60)	(0.39)	(0.04)	(0.02)	0.08

Note:

1. Data sources: Bloomberg Finance LP, National Bureau of Statistics of China, ABCIS (updated on date of report)
2. Australia Newcastle Steam Coal Spot fob is the Australia Newcastle 6700 kc GAD fob Steam Coal Spot price published by McCloskey
3. TSI CFR China Iron Ore Fines Index is calculated with the 62% Fe specification, spot price

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 ≥ Market return rate
Hold	Market return – 6% ≤ 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 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤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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