



# Economics Weekly

## Expect solid 4Q12 GDP

### China economic indicators

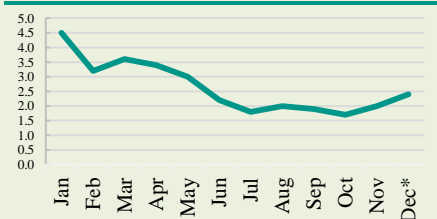
	Dec 2012F	Consensus	Nov 2012
GDP (YoY%)	8.0	7.8	7.4*
Imports (YoY%)**	6.0	3.0	0.0
Exports (YoY%)**	14.1	5.0	2.9
Trade Balance (US/bn)**	31.6	19.9	19.6
CPI (YoY%)	2.4	2.3	2.0
PPI (YoY%)	-1.4	-1.8	-2.2
Retail Sales (YoY%)	15.2	15	14.9
Industrial Production (YoY%)	10.4	10.2	10.1
FAI (YTD)	21.2	20.7	20.7
M2 (YoY%)**	13.8	14.0	13.9
New Loans (RMBbn)**	454.3	550.0	522.9

\* 4Q12 data

\*\* December figure

Source: Bloomberg

### Surging CPI inflation



\*ABCIS's forecast

Source: Bloomberg, ABCIS forecast

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We expect China's macro environment to continue to exhibit healthy growth in 4Q12. Given that the PMI was above 50 in 4Q12, we look for steady FAI, retail sales and industrial production all under the close scrutiny of the government intent on monitoring growth. We believe CPI to rise to 2.4% YoY in December, as the month-on-month hike in food prices remains intact amid surging vegetable and pork prices. The CPI inflation will remain on an upward trend over the coming months.

- **External demand stabilizes.** Foreign demand for the Chinese products surged in December with exports growing 14.1% YoY (consensus 3.5%) and imports rising 6.0% YoY (consensus 5.0%). Exports and import growth for 2012 reached 7.9% YoY and 4.3% YoY respectively, with the trade surplus at US 231.1 bn, higher than 2011 US158 bn. Although the rebound in trade demonstrated seasonal restocking, we expect a slow recovery of external trade in 2013 amid subpar recovery of developed economies.
- **New loans and M2 growth unexpectedly fell.** New loans and M2 growth decelerated in December, with new loans growing RMB454.3b (consensus RMB550b) and M2 growing 13.8% YoY (consensus 14%). The slowdown of new loans was mainly due to the delay of loans approvals into 2013. In general, the total social financing for 2012 reached RMB15.76 trillion, posting 22.9% YoY growth. We expect the impact of increased liquidity will further reflect in the new loans figure of 1Q13 and spur manufacturer sentiment, deposits, and production activity within various sectors.
- **Expect December CPI to hit a six-month high at 2.4%.** Based on December agricultural and meat price movements, we estimate China's CPI inflation will rise to 2.4% YoY in December from 2% YoY in November, resulting in a 2012 CPI figure of 2.6% YoY.
- **FAI to recuperate to 21.2% YTD in December, up from 20.7% in November, triggered by healthy infrastructure project starts.** Industrial goods FAI will remain high, suggesting additional major infrastructure projects in 1H13.
- **Industrial production and retail sales to accelerate slightly.** Production PMI stayed at 52.0 in December, reflecting an acceleration in restocking. We estimate that industrial production will rise slightly to 10.4% YoY in December (versus 10.1% YoY in November). The stock market rebound generated positive wealth effect which will stimulate December retail sales growth to 15.2% YoY (versus 14.9% YoY in November).
- **Expect 8% 4Q12 GDP growth from 7.4% in 3Q12.** We reiterate our forecast of China GDP growth of 8% YoY in 4Q11, based on solid fundamentals. GDP growth will continue to be driven by strong domestic demand including FAI and retail sales.



China Economic Indicators

	2012											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec*
Real GDP (YoY%)	---	---	8.1	---	---	7.6	---	---	7.4	---	---	<b>8.0</b>
Export Growth (YoY%)	-0.50	18.40	8.90	4.90	15.30	11.10	1.00	2.70	9.90	11.60	2.90	<b>14.1</b>
Import Growth (YoY%)	-15.30	39.60	5.30	0.30	12.70	6.30	4.70	-2.60	2.40	2.40	0.00	<b>6.0</b>
Trade Balance (USD/Bn)	27.08	-31.98	5.18	18.53	18.13	31.91	25.28	26.43	27.45	32.11	19.63	<b>31.6</b>
Retail Sales Growth (YoY%)	---	14.7	15.20	14.10	13.80	13.70	13.10	13.20	14.20	14.50	14.90	<b>15.2</b>
Industrial Production (YoY%)		11.4	11.9	9.3	9.6	9.5	9.2	8.9	9.2	9.6	10.1	<b>10.4</b>
PMI	50.5	51	53.1	53.3	50.4	50.2	50.1	49.2	49.8	50.2	50.6	<b>50.6</b>
FAI(YTD) (YoY%)	---	21.5	20.9	20.2	20.1	20.4	20.4	20.2	20.5	20.7	20.7	<b>21.2</b>
CPI (YoY%)	4.5	3.2	3.6	3.4	3	2.2	1.8	2	1.9	1.7	2	<b>2.4</b>
M2 (YoY%)	12.4	13	13.4	12.8	13.2	13.6	13.9	13.5	14.8	14.1	13.9	<b>13.8</b>
New Lending (CNY/Bn)	738.1	710.7	1011.44	681.8	793.23	919.83	540.1	703.9	623.2	505.2	522.9	<b>454.3</b>

\*Forecasts (Export, import, trade balance, PMI, M2 and New lending are December figures)

World Economic/Financial Indicators

Equity Index				Global Commodities				Bond Yields & Key Interest Rates				
	Closing price	Weekly Chng. (%)	P/E		Unit/Currency	Price	Weekly Chng. (%)	Volume(5-day average)		Yield (%)	Weekly Chng. (%)	
<b>US</b>					NYMEX WTI	USD/bbl	93.66	0.50	192820.60	US Fed Fund Rate	0.25	0.00
DJIA	13391	0.05	13.13	<b>Energy</b>	ICE Brent	USD/bbl	112.32	0.83	190215.40	US Prime Rate	3.25	0.00
S&P 500	1461	-0.06	14.69		NYMEX Natural Gas	USD/MM Btu	3.14	-4.01	103653.80	US Discount Window	0.75	0.00
NASDAQ	3106	0.23	23.26							US Treasury (1 Month)	0.04	0.28
MSCI US	1396	0.00	14.95		LME Aluminum Cash	USD/MT	2040.50	0.55	10916.00	US Treasury (10 Yr)	1.86	-2.14
<b>Europe</b>					LME Primary Aluminum 3 Month Rolling Forward	USD/MT	2075.00	0.48	44859.80	US Treasury (30 Yr)	3.06	-1.30
FTSE 100	6099	0.56	15.64	<b>Basic Metals</b>	CMX Copper Active Contract	USD/lb.	158.50	2.99	N/A	Japan 10-Yr Government Bond	0.83	-0.36
DAX	7720	-0.16	14.92		LME Copper 3 Month Rolling Forward	USD/MT	8080.00	0.11	36709.00	China 10-Yr Government Bond	3.61	0.00
CAC40	3717	0.35	12.65		TSI Iron Ore Fines 62% Fe Spot CFR China Index	USD	2298.50	0.37	4534.60	ECB Interest Rate (Refinancing)	0.75	0.00
IBEX 35	8606	2.23	N/A		CMX Gold	USD/T. oz	1660.30	0.85	163175.60	1-Month LIBOR	0.21	-0.48
MSCI UK	1808	0.57	15.68	<b>Precious Metals</b>	CMX Silver	USD/T. oz	30.41	1.07	43404.80	3-Month LIBOR	0.31	0.00
MSCI France	104	0.26	15.86		NYMEX Platinum	USD/T. oz	696.05	3.89	4982.80	3-Month SHIBOR	3.90	-0.01
MSCI Germany	108	-0.13	14.58	<b>Agricultural products</b>	CBOT Corn	USD/bu	696.25	1.57	117879.80	3-Month HIBOR	0.40	0.00
MSCI Italy	52	2.58	N/A		CBOT Wheat	USD/bu	750.50	-0.10	56075.40	Corporate Bonds (Moody's Seasoned)		
<b>Asia</b>					NYB-ICE Sugar	USD/lb.	18.84	-0.11	52423.00	Aaa	3.81	3.81
NIKKEI 225	10653	0.51	27.65		CBOT Soybeans	USD/bu.	148.90	-1.00	16979.20	Baa	4.74	2.37
HSI	23354	0.11	11.99									
HSCEI	11931	-0.35	9.92									
CSI300	2531	-0.21	12.71									
SSE Composite	2284	-0.07	12.62									
SZSE Composite	902	1.89	26.17									
MSCI China	65	-0.90	11.34									
MSCI Hong Kong	11763	0.73	12.49									
MSCI Japan	543	-0.34	27.95									

Note:

1. Data source: Bloomberg, Federal Reserve Bank, National Bureau of Statistics of China, ABCIS
2. US Discount Window, Corporate Bond Aaa and Corporate Bond Baa are as of January 4<sup>th</sup>, 2013.
3. Index data related to Asia is as of January 10<sup>th</sup>, 2013; data related to U.S. and Europe, basic metal commodity, and MSCI China/Hong Kong/Japan is as of January 9<sup>th</sup>, 2013. Other data is as of January 10<sup>th</sup>, 2013

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CAD	USD/CNY	USD/HKD	USD/CNY NDF 12 Month
Spot Exchange Rate	1.3069	1.6069	1.048	88.15	0.9246	0.9872	6.2306	7.7513	6.3175
Weekly Chng. (%)	-0.94	-1.14	0.83	1.61	1.01	-0.49	0.00	0.01	-0.21



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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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