



## Economics Weekly

### Key Events in Qianhai Development

Time	Event
August 20 <sup>th</sup> , 2010	Premier Wen Jiabao visited the Qianhai zone
August 26 <sup>th</sup> , 2010	The State Council approved the development plan for Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone
December 20 <sup>th</sup> , 2010	Qianhai authority, together with the Shenzhen Government, hosted introductory conference in Hong Kong
February 22 <sup>nd</sup> , 2011	Qianhai authority signed cooperation framework agreement with China Development Bank
March, 2011	Qianhai zone was included in the 12 <sup>th</sup> Five Year Plan
May 15 <sup>th</sup> , 2012	Qianhai Shenzhen Option Trading Center hosted opening ceremony
December 7 <sup>th</sup> , 2012	Upcoming State President Xi Jinping visited the Qianhai Zone
January 9 <sup>th</sup> , 2013	Qianhai Shenzhen Petrochemical Exchange started trading

Source: <http://www.szqh.gov.cn/>, ABCIS notes from field trip

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### Qianhai development in the spotlight

We paid a visit to the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone last week to see some of the new developments. After discussing with local officials and bankers, we gained a better understanding on the current development and policy differentiation of the Zone, as well as investors' reactions. We are excited about the business opportunities and development potentials of Qianhai and we believe Qianhai will become a new growth engine in south China.

- **The Chinese new leader Xi Jinping chose Qianhai as the first stop in his national inspection trip indicated more policy privileges will be granted to this innovative service hub.** In order to remain competitive and be more influential in the international market, China still needs to push harder on opening up the financial market and enabling more cross-border economic activities. The financial crisis and relatively weak global economy provide an unprecedented opportunity for China to do so. Qianhai, an area in which companies can operate high value-added business, issue dim sum bonds, run renminbi cross-border business, and receive renminbi loans from Hong Kong banks, will serve as a testing ground for the Chinese government regarding the freer renminbi convertibility and liberalization of capital account.
- **Qianhai is not just another special economic zone.** Our in-depth discussion with the local officials and bankers revealed a number of features that distinguish Qianhai from other special economic zones.
  - Qianhai only focuses on developing modern service industries. Due to its relatively moderate size, the Qianhai zone will concentrate on service industries, such as financial services, logistics, information technology, and other servicing sectors. As a result, the Qianhai authority aims at developing more refined policies for the companies.
  - The business environment in Qianhai will be designed to minimize the interference of upper level authorities and maximize policy continuity. The central government has already set up a “ministerial-level joint meeting” and provincial and municipal government has given Qianhai authority more autonomy. To attract more investors, the Qianhai authority is also planning to set up a new mechanism that eliminates the influence of government leader transition which ensures long-term policy stability in Qianhai.



- Qianhai will see more incorporation of international business and legal practices to better serve investors. To attract more industry talents, Qianhai will also explore a new system, allowing practitioners with overseas licenses to operate under the regulatory environment in China.
- **The optimistic outlook and abundant opportunities for investors are further affirmed by the local authority's active commitment.** Our observation of the officials' tone confirmed that the Qianhai zone development will be an ongoing process since the policy measures have not been tested elsewhere in China. More experimental policies are to follow, with the results closely monitored by government observers looking to see if reform translates into greater investment and a more efficient financial system. For the moment, the local authority is currently laying the ground work for future development, including sealing the deal with more than 20 banking institutions in Hong Kong for renminbi loans. Also, the Shenzhen Petrochemical Exchange just started trading in January. We expect more policy measures launched by the authority in the first half of 2013.
- **Hong Kong the major beneficiary.** Hong Kong is the major renminbi offshore center in the world and Qianhai is also looking forward to allowing new business experimentation in the financial service industry which will prove to be a positive development for Hong Kong. Aside from the new business opportunities, the large financial industrial complex in the zone will benefit investors with low cost of operation, the ease of talent acquisition, and the infrastructure for business innovation. The favorable policies being applied in Qianhai will accelerate cross-border renminbi and business flow, thereby strengthening Hong Kong's position as an offshore renminbi center.



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**China Economic Indicators**

	2012												2013
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	
Real GDP (YoY%)	---	---	8.1	---	---	7.6	---	---	7.4	---	---	7.9	---
Export Growth (YoY%)	-0.5	18.4	8.9	4.9	15.3	11.1	1	2.7	9.9	11.6	2.9	14.1	25.0
Import Growth (YoY%)	-15.3	39.6	5.3	0.3	12.7	6.3	4.7	-2.6	2.4	2.4	0	6	28.8
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	31.6	29.2
Retail Sales Growth (YoY%)	---	14.7	15.2	14.1	13.8	13.7	13.1	13.2	14.2	14.5	14.9	15.2	---
Industrial Production (YoY%)		11.4	11.9	9.3	9.6	9.5	9.2	8.9	9.2	9.6	10.1	10.3	---
PMI - Manufacturing (%)	50.5	51	53.1	53.3	50.4	50.2	50.1	49.2	49.8	50.2	50.6	50.6	50.4
PMI - Non-manufacturing (%)	55.7	57.3	58	56.1	55.2	56.7	55.6	56.3	53.7	55.5	55.6	56.1	56.2
FAI(YTD) (YoY%)	---	21.5	20.9	20.2	20.1	20.4	20.4	20.2	20.5	20.7	20.7	20.6	---
CPI (YoY%)	4.5	3.2	3.6	3.4	3	2.2	1.8	2	1.9	1.7	2	2.4	2.0
PPI (YoY%)	0.7	0	-0.3	-0.7	-1.4	-2.1	-2.9	-3.5	-3.6	-2.8	-2.2	-1.9	-1.6
M2 (YoY%)	12.4	13	13.4	12.8	13.2	13.6	13.9	13.5	14.8	14.1	13.9	13.8	15.9
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	454.3	1070.0

**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	90.56	-0.13	226008.20	US Fed Fund Rate	0.25	0.00
DJIA	14127.82	0.27	13.76		ICE Brent	USD/bbl	110.66	0.24	236073.60	US Prime Rate	3.25	0.00
S&P 500	1525.20	0.46	15.06		NYMEX Natural Gas	USD/MM Btu	3.57	3.36	116357.60	US Discount Window	0.75	0.00
NASDAQ	3182.03	0.39	22.34		Australia Newcastle Steam Coal Spot fob	USD/Metric Tonne	92.35	N/A	N/A	US Treasury (1 Month)	0.0507	-16.61
MSCI US	1456.89	0.46	15.37		LME Aluminum Cash	USD/MT	1928.75	-0.17	24620.40	US Treasury (10 Yr)	1.8858	2.42
					LME Primary Aluminum 3 Month Rolling Forward	USD/MT	1973.00	-0.10	59843.40	US Treasury (30 Yr)	3.0968	1.51
<b>Europe</b>				<b>Basic Metals</b>	CMX Copper Active Contract	USD/lb.	352.10	1.13	15414.00	Japan 10-Yr Government Bond	0.632	-4.24
FTSE 100	6384.93	0.10	17.74		LME Copper 3 Month Rolling Forward	USD/MT	7725.00	0.29	56114.20	China 10-Yr Government Bond	3.6	0.00
DAX	7784.45	0.99	15.07		TSI CFR China Iron Ore Fines Index	USD	148.80	-1.20	N/A	ECB Interest Rate (Refinancing)	0.75	0.00
CAC40	3749.36	1.34	14.15		CMX Gold	USD/T. oz	1581.00	0.55	186755.40	1-Month LIBOR	0.2052	0.74
IBEX 35	8368.90	2.22	21.48		CMX Silver	USD/T. oz	28.75	1.05	19724.80	3 Month LIBOR	0.2831	-0.35
FTSE MIB	15723.16	0.30	N/A		NYMEX Platinum	USD/T. oz	712.50	-0.86	2647.20	3-Month SHIBOR	3.8918	-0.07
Stoxx 600	291.51	0.86	21.87	CBOT Corn	USD/bu	724.25	0.00	61674.00	3-Month HIBOR	0.3829	0.00	
MSCI UK	1879.99	-0.54	17.56	CBOT Wheat	USD/bu	697.75	-2.17	18916.20	Corporate Bonds (Moody's Seasoned)			
MSCI France	104.18	0.22	18.98	NYB-ICE Sugar	USD/lb.	18.15	1.34	52606.60	Aaa	3.83	-1.79	
MSCI Germany	108.09	-0.27	14.62	CBOT Soybeans	USD/bu.	1494.25	2.03	31632.60	Baa	4.76	-1.65	
MSCI Italy	45.56	-0.85	N/A						<i>Note:</i>			
<b>Asia</b>				<b>Precious Metals</b>						1. Data source: Bloomberg Finance LP, National Bureau of Statistics of China, ABCIS		
NIKKEI 225	11683.45	0.66	23.55							2. Australia Newcastle Steam Coal Spot fob is the Australia Newcastle 6700 kc GAD fob Steam Coal Spot price published by McCloskey		
S&P/ASX 200	5075.36	-0.21	20.96							3. TSI CFR China Iron Ore Fines Index is calculated with the 62% Fe specification, spot price		
HSI	22537.81	-1.40	11.33							4. Certain data is not reported as of the date of this report		
HSCEI	11104.65	-1.54	9.36	<b>Agricultural Products</b>								
CSI300	2622.81	-1.72	13.12									
SSE Composite	2326.31	-1.41	12.89									
SZSE Composite	964.68	-1.30	27.98									
MSCI China	61.46	-1.90	10.79									
MSCI Hong Kong	11740.77	-1.34	11.37									
MSCI Japan	612.89	0.73	21.79									
<b>Currency</b>												
									USD/CNY			
	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CAD	USD/CNY	USD/HKD	NDF 12 Month			
Spot Exchange Rate	1.3051	1.5149	1.0242	92.9800	0.9399	1.0259	6.2214	7.7562	6.3257			
Chng. WTD (%)	0.22	0.74	0.38	0.66	0.32	0.09	0.03	-0.02	-0.07			



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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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