



Economics Weekly July 15, 2015

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Exhibit 1: 2Q15 and 1H15 economic indicators

YoY% or otherwise specified	1H15	2Q'15	1Q'15	2014
GDP	7.0	7.0	7.0	7.4
CPI	1.3	1.4	1.2	2.0
PPI	(4.6)	(4.7)	(4.6)	(1.9)
Exports	1.0	(2.0)	4.7	6.1
Imports	(15.5)	(13.6)	(17.6)	0.4
Trade Balance (US\$/bn)	263.1	139.4	123.7	382.5
FAI (YTD%)	11.4	11.4	13.6	15.7
Industrial production	6.3	6.3	6.4	8.3
Retail Sales	10.4	10.2	10.6	12.0
M2	11.8	11.8	10.5	12.2
New loans (RMB/bn)	6560	2889.3	3,670.7	9,781.4
Aggregate financing (RMB/bn)	8810	4,166	4,644	16,413.3

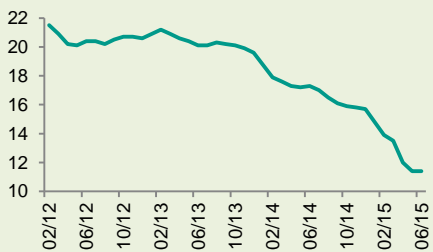
Source(s): NBS, PBOC, Bloomberg, ABCI Securities

Exhibit 2: June economic indicators

YoY% or otherwise specified	June'15	May'15
Manufacturing PMI(%)	50.2	50.2
Non-Manufacturing PMI (%)	53.8	53.2
CPI	1.4	1.2
PPI	(4.8)	(4.6)
Exports	2.8	(2.5)
Imports	(6.1)	(17.6)
Trade Balance (US\$/bn)	46.6	59.5
FAI (YTD%)	11.4	11.4
Industrial production	6.8	6.1
Retail Sales	10.6	10.1
M2	11.8	10.8
New loans (RMB/bn)	1,280.6	900.8
Aggregate financing (RMB/bn)	1,860.0	1,219.6

Source(s): NBS, PBOC, Bloomberg, ABCI Securities

Exhibit 3: FAI (YTD YoY %)



Source(s): NBS, Bloomberg, ABCI Securities

1H GDP met target; better 2H in sight

China posted a GDP growth of 7.0% YoY in 2Q15 (up 1.7% QoQ) and stayed unchanged from 1Q15, in line with our forecast and exceeding market consensus of 6.8%. After slashing interest rate by 75 bps and RRR by 200 bps in 1H15, major macro indicators improved across the board on stronger-than-expected recovery in investment and consumption. We believe more aggressive stimulus will be formulated to support economic growth, foster job creation, and enhance efficiency. Going forward, economic policies would remain accommodative throughout 2H15 while lagged impacts of credit loosening measures on consumption and investment would be seen. We expect China's economic growth to improve in 2H15.

FAI stabilized in June. YTD growth of FAI was 11.4% YoY in June, the same as 5M15's figure. Real estate is still decelerating, with YoY growth reaching 4.6% in 1H15; infrastructure FAI rebounded to 19.1% in 1H15 from 5M15's 18.1%, offsetting the slowdown in property investment. We expect the government's new investment programs and initiatives to accelerate project approval would help boost FAI in 2H15.

Industrial production is gaining momentum. In June, industrial production expanded by 6.8% YoY, up from 6.1% YoY in May. Overall manufacturing activities are recovering and certain product categories recorded a high single-digit growth on a YoY basis. In particular, value-added growth of "Computer, Communication Equipment and Other Electronic Equipment" rose 9.2% YoY while "Medicines" increased 8.5% YoY. We believe industrial production would advance further as business environment turns more favorable in the coming months.

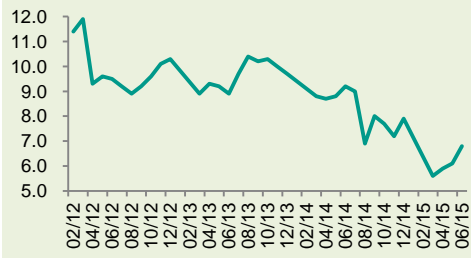
Retail sales growth revved up. June retail sales rose 10.6% YoY, higher than 10.1% YoY increase in May. The rise was mainly driven by sizeable growth in "Communication Appliances" (+34.4% YoY), "Furniture" (+18.5% YoY), and "Cultural and Office Appliances" (+21.4% YoY). However, "Petroleum and Related Products" still fell 4.6% YoY on weakening global oil prices. Going forward, retail sales are likely to be supported by improving economic outlook and the government's persistent efforts to encourage private consumption.

External trade retracted in 2Q15. In June, exports rose 2.8% YoY (2.1% by RMB) and imports declined by 6.1% YoY (6.7% YoY by RMB). Trade balance was US\$ 46.6bn (RMB 284.2bn). Exports and imports contracted by 2.0% YoY and 13.6% YoY in 2Q15 on high bases in 2014 as well as softening demand. Yet, we believe the absolute values of exports and imports would continue to grow MoM on reviving domestic and overseas demand.

Inflation stayed mild in 2Q15. CPI climbed 1.4% YoY and PPI fell by 4.8% YoY in June. For 2Q15, CPI inflation accelerated slightly to 1.4% YoY (vs. 1.2% in 1Q15), demonstrating signs of stabilization. The mild increase in inflation was primarily driven by food and non-food prices that rose 2.1% and 1.0% in 2Q15 (vs. 1.9% and 0.8% in 1Q15). In our view, a low CPI level would allow the government to launch more credit loosening measure when needed. For PPI, the decline extended to 4.7% in 2Q15 (vs. 4.6% in 1Q15) on weakening manufacturing activities and low input prices. We expect the index to remain at similar levels, as a major turnaround is unlikely



Exhibit 4: Industrial production (YoY %)



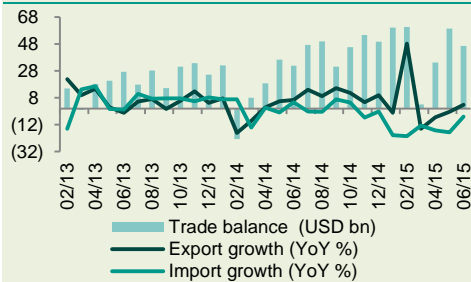
Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 5: Retail sales (YoY %)



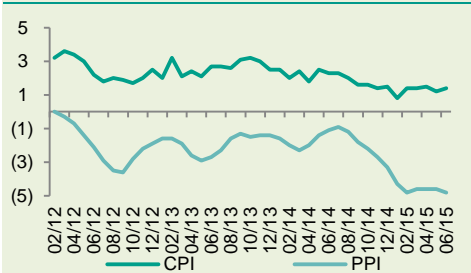
Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 6: External trade



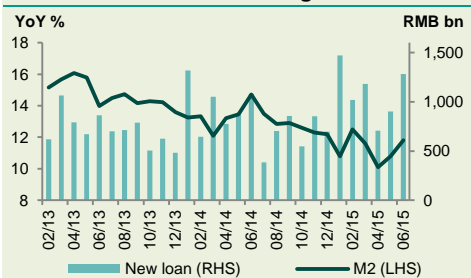
Source(s): Bloomberg, ABCI Securities

Exhibit 7: CPI growth narrows, and decline of PPI widens (YoY %)



Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 8: New loans and M2 growth



Source(s): PBOC, Bloomberg, ABCI Securities

in the short term.

Monetary data reflected continued credit loosening. New loans and M2 growth were RMB 1280.6bn and 11.8% YoY in June. New loans grew at 14.3% YoY in 1H15, reflecting credit growth amid the 75 bps rate cut and 200 bps RRR cut. M2 rose from 11.0% in May to 11.8% in June, signifying that circulation velocity of lending is accelerating. Overall, we expect monetary conditions in China to remain loose in 2H15.



China Economic Indicators

	2014										2015					
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Real GDP (YoY%)	7.4	---	--	7.5	--	---	7.3	---	---	7.3	---	---	7.0	---	---	7.0
Export Growth (YoY%)	(6.6)	0.9	7.0	7.2	14.5	9.4	15.3	11.6	4.7	9.7	(3.2)	48.3	(15.0)	(6.4)	(2.5)	2.8
Import Growth (YoY%)	(11.3)	0.8	(1.6)	5.5	(1.6)	(2.4)	7.0	4.6	(6.7)	(2.4)	(19.7)	(20.5)	(12.7)	(16.2)	(17.6)	(6.1)
Trade Balance (USD/bn)	7.7	18.5	35.9	31.6	47.3	49.8	30.9	45.4	54.5	49.6	60.0	60.6	3.1	34.1	59.49	46.6
Retail Sales Growth (YoY%)	12.2	11.9	12.5	12.4	12.2	11.9	11.6	11.5	11.7	11.9	10.7	10.2	10.0	10.1	10.6	10.6
Industrial Production (YoY%)	8.8	8.7	8.8	9.2	9.0	6.9	8.0	7.7	7.2	7.9	6.8	5.6	5.9	6.1	6.8	6.8
PMI - Manufacturing (%)	50.3	50.4	50.8	51.0	51.7	51.1	51.1	50.8	50.3	50.1	49.8	49.9	50.1	50.1	50.2	50.2
PMI - Non-manufacturing (%)	54.5	54.8	55.5	55.0	54.2	54.4	54.0	53.8	53.9	54.1	53.7	53.9	53.7	53.4	53.2	53.8
FAI(YTD) (YoY%)	17.6	17.3	17.2	17.3	17.0	16.5	16.1	15.9	15.8	15.7	13.9	13.5	12.0	11.4	11.4	11.4
CPI (YoY%)	2.4	1.8	2.5	2.3	2.3	2.0	1.6	1.6	1.4	1.5	0.8	1.4	1.4	1.5	1.2	1.4
PPI (YoY%)	(2.3)	(2.0)	(1.4)	(1.1)	(0.9)	(1.2)	(1.8)	(2.2)	(2.7)	(3.3)	(4.3)	(4.8)	(4.6)	(4.6)	(4.6)	(4.8)
M2(YoY%)	12.1	13.2	13.4	14.7	13.5	12.8	12.9	12.6	12.3	12.2	10.8	12.5	11.6	10.1	10.8	11.8
New Lending (RMB/bn)	1,050	774.7	870.8	1,080	385.2	702.5	857.2	548.3	852.7	697.3	1,470	1,020	1,180	707.9	900.8	1,280.6
Aggregate Financing (RMB bn)	2,081.3	1,550	1,400	1,970	273.7	957.7	1,135.5	662.7	1,146.3	1,690	2,050	1,350	1,181	1,050	1,220	1,860.0

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 (Bps)	
U.S.				Energy				US Fed Fund Rate			
DJIA	18,053.58	1.65	15.56	NYMEX WTI	USD/bbl	52.70	(0.08)	389,679		0.25	0.00
S&P 500	2,108.95	1.56	18.59	ICE Brent Oil	USD/bbl	58.11	(1.06)	210,613	US Prime Rate	3.25	0.00
NASDAQ	5,104.89	2.14	30.81	NYMEX Natural Gas	USD/MMBtu	2.85	2.92	143,554	US Discount Window	0.75	0.00
MSCI US	2,021.24	1.58	19.25	Australia Newcastle Steam Coal Spot fob ²	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (1 Yr)	0.2444	0.00
Europe				Basic Metals				US Treasury (5Yr)			
FTSE 100	6,752.69	1.19	21.24	LME Aluminum Cash	USD/MT	1,663.25	0.35	37,736	US Treasury (10 Yr)	2.4083	1.11
DAX	11,523.18	1.83	18.60	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,707.00	0.47	30,241	Japan 10-Yr Gov. Bond	0.4560	0.90
CAC40	5,034.23	2.68	25.62	CMX Copper Active	USD/lb.	5,556.00	(0.54)	18,891	China 10-Yr Gov. Bond	3.5700	9.00
IBEX 35	11,287.20	2.28	20.79	LME Copper 3- mth Rolling Fwd.	USD/MT	5,565.00	(0.45)	68,900	ECB Rate (Refinancing)	0.05	0.00
FTSE MIB	23,212.20	1.20	N/A	Precious Metals				1-Month LIBOR			
Stoxx 600	398.65	2.53	23.81	CMX Gold	USD/T. oz	1,154.10	(0.33)	129,292	3 Month LIBOR	0.2888	0.30
MSCI UK	1,978.23	1.18	21.56	CMX Silver	USD/T. oz	15.28	(1.30)	41,544	O/N SHIBOR	1.2450	3.50
MSCI France	141.31	2.48	26.87	NYMEX Platinum	USD/T. oz	1,028.20	(0.40)	12,047	1-mth SHIBOR	3.0785	(4.65)
Asia				Agricultural Products				3-mth HIBOR			
NIKKEI 225	20,463.33	3.46	23.11	CBOT Corn	USD/bu	439.25	(1.29)	211,360	Corporate Bonds (Moody's)		
S&P/ASX 200	5,636.23	2.63	20.59	CBOT Wheat	USD/bu	566.25	(1.69)	66,058	Aaa	4.27	(2.00)
HSI	25,055.76	0.62	10.36	NYB-ICE Sugar	USD/lb.	12.53	0.97	63,242	Baa	5.32	0.00
HSCEI	11,681.20	(1.50)	8.42	CBOT Soybeans	USD/bu.	1,022.25	0.00	125,816			
CSI300	3,966.76	(3.40)	17.10								
SSE Composite	3,805.70	(1.86)	19.38								
SZSE Composite	2,058.84	1.16	50.73								
MSCI China	69.12	0.47	10.68								
MSCI Hong Kong	13,567.88	1.60	9.68								
MSCI Japan	1,003.86	3.49	18.45								

* As of 12:00 AM closing

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.1024	1.5620	0.7457	123.60	0.9470	6.2092	7.7509	6.2648
Chg. WTD (%)	(1.24)	0.66	0.15	(0.66)	(0.88)	0.00	0.01	0.00

Note:

- Data sources: Bloomberg, 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



Disclosures

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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 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.

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