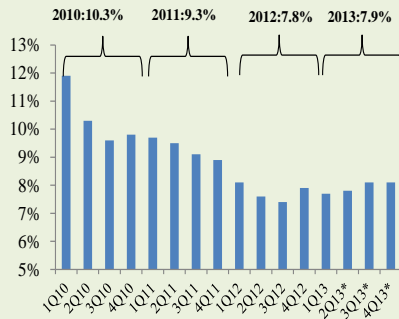




Economics Weekly

China economic growth since 2010



Source: Bloomberg, ABCIS
*forecast

China economic indicators

YoY% or otherwise specified	May 2013F	April 2013
PMI	50.0	50.6
CPI	2.2	2.4
PPI	-2.7	-2.6
Exports	2.5	14.7
Imports	1.5	16.8
Trade Balance (USD/Bn)	20.8	18.2
FAI (YTD%)	20.7	20.6
Industrial production	9.2	9.3
Retail Sales	12.9	12.8
M2	15.8	16.1
New loans (RMB/Bn)	950	792.9

Source: Bloomberg, ABCIS

Lower GDP forecast for 2013

China's HSBC April flash PMI plunged to a seven-month low of 49.6. The last time it dipped below 50 was October 2012. Worse still, we see nothing on the horizon offering a near-term rebound in manufacturing activities and we expect weaker-than-expected May data to be released in early June. This, coupled with China's policy stance designed to further restructure the Chinese economy, will serve to keep PMI at low levels. In 1Q13 when the Chinese government changes hands, China's top priority is to stabilize economic growth momentum through economic structural reforms to encourage domestic investment and consumption. With emphasis on economic rebalancing rather than substantial stimulus, 2Q13 GDP growth will only enjoy cyclical recovery at 7.8% from 7.7% in 1Q13 and then edge up to 8.1% in 2H13 according to our forecasts. Thus, we lower our 2013 GDP growth forecast from 8.1% to 7.9%.

- **Growth headwinds may weaken May's PMI.** HSBC's PMI edged down from 50.4 in April to 49.6 in May. The index fell to below 50, first time since Oct 2012 reflecting China growth momentum is weakening. As domestic demand becomes stagnant, uncertainty will roll over to new orders, which we forecast will push down China's PMI to 50.0 in May from 50.6 in April.
- **Slowing growth puts a damper on May's numbers.** May economic indicators will remain stagnant while inflation will moderate. Hopes of a robust recovery in 2Q13 are dwindling as China's weaker-than-expected economic indicators look set to continue in May, with FAI, industrial production, retail sales posting mild improvement while external trade demonstrating weakness against April's figures. The deceleration of China economic growth in 1H13 starts to moderate inflation. Coupled with general economic weakness, we believe the CPI will continue to trend down to 2.2% in May from 2.4% in April. We also expect PPI to post larger negative growth due to sluggishness in domestic manufacturing activities. FAI remains as the major growth driver in May as we look for it to outperform other economic indicators, maintaining over 20% YTD growth. New loans are expected to reach RMB950b in May, with M2 growth maintaining over 15% YoY, driven by increased borrowing by the corporates and higher lending by the big four banks.
- **More aggressive policies on economic rebalancing in 2H13 to address weak PMI.** Stabilizing deceleration trend is of paramount importance in 2H13. We expect China to launch an array of rebalancing measures through reforms and combined monetary and fiscal initiatives to cushion the economy against headwinds in 2H13. The moves include acceleration of financial reforms, quick approvals for infrastructure investment projects, a tax relief, and encouraging more private capital flows to designated sector. We expect these measures to spur a mild economic rebound in 2H13.

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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	2.5
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	1.5
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	20.8
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	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	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	50.0
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	54.0
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	20.7	20.7
CPI (YoY%)	3	2.2	1.8	2	1.9	1.7	2	2.4	2.0	3.2	2.1	2.4	2.2
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	-2.7
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	950

*forecast

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	93.48	-0.71	268155.20	US Fed Fund Rate	0.25	0.00
DJIA	15324.53	0.14	14.81		ICE Brent	USD/bbl	102.10	-0.53	159085.20	US Prime Rate	3.25	0.00
S&P 500	1654.41	0.29	16.15		NYMEX Natural Gas	USD/MM Btu	4.02	-5.10	86475.60	US Discount Window	0.75	0.00
NASDAQ	3491.30	0.93	24.11		Australia Newcastle Steam Coal Spot fob	USD/Metric Tonne	87.35	-	-	US Treasury (1 Month)	0.0152	0.00
MSCI US	1578.00	0.25	16.40		LME Aluminum Cash	USD/MT	1876.00	3.90	21159.00	US Treasury (10 Yr)	2.1119	5.17
Europe				Basic Metals	LME Primary Aluminum 3 Month Rolling Forward	USD/MT	1907.00	3.64	30840.00	US Treasury (30 Yr)	3.2721	3.15
FTSE 100	6656.99	0.04	17.04		CMX Copper Active Contract	USD/lb.	331.65	0.64	59247.40	Japan 10-Yr Government Bond	0.886	6.24
DAX	8400.20	1.14	15.69		LME Copper 3 Month Rolling Forward	USD/MT	7317.00	0.25	55238.40	China 10-Yr Government Bond	3.43	-0.29
CAC40	3996.31	1.00	16.69		TSI CFR China Iron Ore Fines Index	USD	111.60	-9.42	-	ECB Interest Rate (Refinancing)	0.5	-33.33
IBEX 35	8433.50	2.04	85.26		CMX Gold	USD/T. oz	1415.00	2.05	173145.00	1-Month LIBOR	0.19378	0.26
FTSE MIB	17350.96	2.69	272.54	CMX Silver	USD/T. oz	22.77	1.20	38592.40	3 Month LIBOR	0.27465	0.70	
Stoxx 600	303.55	0.07	20.08	NYMEX Platinum	USD/T. oz	1479.00	1.87	10368.00	3-Month SHIBOR	3.8818	-0.05	
MSCI UK	1967.98	0.01	17.06	CBOT Corn	USD/bu	652.50	-0.72	104834.40	3-Month HIBOR	0.37714	-0.57	
MSCI France	111.56	0.89	22.65	CBOT Wheat	USD/bu	694.25	-0.47	55181.40	Corporate Bonds (Moody's Seasoned)			
MSCI Germany	114.70	0.90	14.69	NYB-ICE Sugar	USD/lb.	16.65	-1.13	50199.00	Aaa	4.04	2.54	
MSCI Italy	50.25	2.49	82.56	CBOT Soybeans	USD/bu.	1499.25	1.56	109451.20	Baa	4.88	2.52	
Asia				Precious Metals								
NIKKEI 225	13863.17	-5.13	25.52									
S&P/ASX 200	4944.60	-0.78	20.09									
HSI	22484.31	-0.59	10.36									
HSCEI	10689.99	-0.30	8.74									
CSI300	2634.32	1.43	13.07									
SSE Composite	2317.75	1.28	12.47									
SZSE Composite	1043.47	1.38	30.44									
MSCI China	60.37	0.28	10.20									
MSCI Hong Kong	11685.24	-2.41	10.73									
MSCI Japan	704.86	-4.99	22.84									
Currency												
									USD/ CNY			
									NDF 12 Month			
Spot Exchange Rate	1.3000	1.5304	0.9960	101.4100	0.9540	1.0110	6.1429	7.7615	6.2212			
Chng. WTD (%)	0.08	-0.35	-0.65	0.21	0.29	-0.10	-0.02	-0.01	0.12			

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
- Date of reported data: 30th May 2013

**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 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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