



Economics Weekly December 17, 2014

Co-head of Research

Banny Lam

Tel: 852-21478863

Email: bannylam@abci.com.hk

Analyst

Paul Pan

Tel: 852-21478829

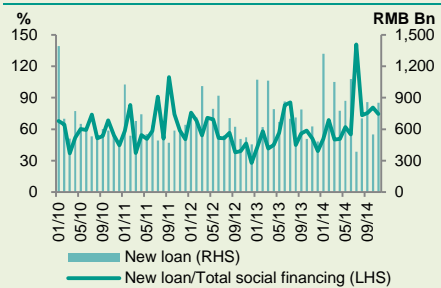
Email: paulpan@abci.com.hk

Exhibit 1: Rate and RRR cut

| Time | Rate cut | RRR cut |
|-------|----------|---------|
| 1H15F | 25 bps | 50 bps |
| 2H15F | 25 bps | 50 bps |

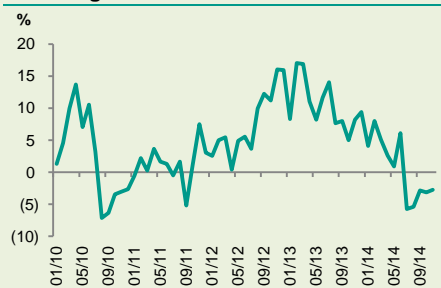
Source(s): Bloomberg, ABCI Securities estimate

Exhibit 2: New loans lead surge in liquidity



Source(s): Bloomberg, ABCI Securities

Exhibit 3: Trust loan in total social financing decline



Source(s): Bloomberg, ABCI Securities

Roadmap of China's Monetary Policy

In 2014, PBOC has applied a mix of monetary tools to manage market liquidity amid the fluctuating economic conditions—targeted easing, repos, standing ending facility (SLF), mid-term lending facility (MLF), short-term liquidity operation (SLO), and pledged supplementary lending (PSL) have been widely deployed. To maintain an appropriate level of liquidity in the market, direction of the monetary policy has been prudent throughout the year until the surprised interest rate cut launched on November 21, 2014. Repos operations were halted for weeks after the cut. China's sudden turn to loosening monetary conditions was sparked by the need to counteract cyclical economic headwinds. Continued economic rebalancing through structural reforms has resulted in sluggish domestic demand. As inflation rate continues to hover below 2%, the surging real interest rate is weighing on enterprises. The deteriorating economy calls for a lower interest rate to lessen financing burden and regenerate incentives to support economic reforms. For 2015, we envision that more traditional credit loosening tools, including several rate and RRR cuts, will be wielded by PBOC with cautiousness to avoid excessive credit growth.

Lowering financing costs conducive to real economic growth will be a priority of monetary policy in 2015. The PBOC embeds the tasks of reviving economic momentum while pursuing reforms in its daily macroeconomic management, enhancing efficiency of the financial market, maintaining growth in total social financing (TSF) at a reasonable pace, and optimizing financing and credit structures. Although the U.S. has started to unwind its QE program since November and is poised to kick start the interest rate hike cycle, broader monetary loosening measures by Japan and Eurozone add to the uncertainties in global liquidity flow. Confronting with an increasingly complex economic environment, China is likely to follow a 'moderately loose' monetary policy to accommodate market demand for liquidity and strengthen the financial sector to facilitate an economic rebound. Prudent liquidity management will remain intact to avoid credit bubble, and PBOC is likely to inject sufficient liquidity into the economy through a mix of targeting easing facilities and traditional monetary tools such as interest rate and RRR cuts.

Easing price pressure and moderating risks of shadow banking give room for more credit loosening. Prudent liquidity management pursued by PBOC has effectively reduced risks to financial stability. Trust loan in total social financing continued to decline; its share in aggregate financing dropped from 10.7% in 2013 to 2.1% in 11M14, reflecting the government's success in managing risks of shadow banking. With China's inflation hovering at low levels, we expect the country has more room to expand easing to spur economic activities.

China will continue to adopt a wait-and-see approach to conduct further credit loosening in 2015. We believe PBOC will slash interest rate (two rate cuts with 25 bps each) and overall RRR (two RRR cuts with 50 bps each) to stimulate economic activities. Reductions in interest rate and RRR are likely to occur to meet the surging capital demand prior to the Chinese New Year. A mix of targeted lending facilities for monetary accommodation will also be conducted through repo, SLF, SLO, MLF and PSL to inject liquidity into the banking system. We may also see relaxation of



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

loan-to-deposit ratio for commercial banks and additional widening of the deposit rate floating range through further interest rate liberalization and the launch of deposit insurance. In sum, both monetary easing measures and interest rate reforms will entail more flexibility to accommodate capital demand. China will continue to fine-tune the current accommodative macroeconomic policies to sustain growth in 2015.

**農銀國際**

ABC INTERNATIONAL

ABC SECURITIES COMPANY LIMITED

China Economic Indicators

| | 2013 | | | | 2014 | | | | | | | | | | |
|------------------------------|---------|-------|---------|---------|-------|--------|---------|-------|-------|-------|-------|-------|---------|-------|-------|
| | Sep | Oct | Nov | Dec | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov |
| Real GDP (YoY%) | 7.8 | --- | --- | 7.7 | --- | --- | 7.4 | --- | -- | 7.5 | -- | --- | 7.3 | --- | --- |
| Export Growth (YoY%) | (0.3) | 5.6 | 12.7 | 5.8 | 10.6 | (18.1) | (6.6) | 0.9 | 7.0 | 7.2 | 14.5 | 9.4 | 15.3 | 11.6 | 4.7 |
| Import Growth (YoY%) | 7.4 | 7.6 | 5.3 | 6.5 | 10.0 | 10.1 | (11.3) | 0.8 | (1.6) | 5.5 | (1.6) | (2.4) | 7.0 | 4.6 | (6.7) |
| Trade Balance (USD/bn) | 15.2 | 31.1 | 33.8 | 32.3 | 31.9 | (23.0) | 7.7 | 18.5 | 35.9 | 31.6 | 47.3 | 49.8 | 30.9 | 45.4 | 54.5 |
| Retail Sales Growth (YoY%) | 13.3 | 13.3 | 13.7 | 13.6 | | 11.8 | 12.2 | 11.9 | 12.5 | 12.4 | 12.2 | 11.9 | 11.6 | 11.5 | 11.7 |
| Industrial Production (YoY%) | 10.2 | 10.3 | 10.0 | 9.7 | | 8.6 | 8.8 | 8.7 | 8.8 | 9.2 | 9.0 | 6.9 | 8.0 | 7.7 | 7.2 |
| PMI - Manufacturing (%) | 51.1 | 51.4 | 51.4 | 51.0 | 50.5 | 50.2 | 50.3 | 50.4 | 50.8 | 51.0 | 51.7 | 51.1 | 51.1 | 50.8 | 50.3 |
| PMI - Non-manufacturing (%) | 55.4 | 56.3 | 56.0 | 54.6 | 53.4 | 55.0 | 54.5 | 54.8 | 55.5 | 55.0 | 54.2 | 54.4 | 54.0 | 53.8 | 53.9 |
| FAI(YTD) (YoY%) | 20.2 | 20.1 | 19.9 | 19.6 | | 17.9 | 17.6 | 17.3 | 17.2 | 17.3 | 17.0 | 16.5 | 16.1 | 15.9 | 15.8 |
| CPI (YoY%) | 3.1 | 3.2 | 3.0 | 2.5 | 2.5 | 2.0 | 2.4 | 1.8 | 2.5 | 2.3 | 2.3 | 2.0 | 1.6 | 1.6 | 1.4 |
| PPI (YoY%) | (1.3) | (1.5) | (1.4) | (1.4) | (1.6) | (2.0) | (2.3) | (2.0) | (1.4) | (1.1) | (0.9) | (1.2) | (1.8) | (2.2) | (2.7) |
| M2(YoY%) | 14.2 | 14.3 | 14.2 | 13.6 | 13.2 | 13.3 | 12.1 | 13.2 | 13.4 | 14.7 | 13.5 | 12.8 | 12.9 | 12.6 | 12.3 |
| New Lending (RMB/bn) | 787.0 | 506.1 | 624.6 | 482.5 | 1,320 | 644.5 | 1,050 | 774.7 | 870.8 | 1080 | 385.2 | 702.5 | 857.2 | 548.3 | 852.7 |
| Aggregate Financing (RMB bn) | 1,411.3 | 864 | 1,226.9 | 1,232.2 | 2,580 | 938.7 | 2,081.3 | 1,550 | 1,400 | 1,970 | 273.7 | 957.7 | 1,135.5 | 662.7 | 1,150 |

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 | 17,068.87 | (1.23) | 15.26 | NYMEX WTI | USD/bbl | 55.00 | 441,324 | | 0.25 | 0.00 |
| S&P 500 | 1,972.74 | (1.48) | 17.46 | ICE Brent Oil | USD/bbl | 59.43 | 143,350 | US Prime Rate | 3.25 | 0.00 |
| NASDAQ | 4,547.83 | (2.27) | 43.35 | NYMEX Natural Gas | USD/MMBtu | 3.66 | 135,360 | US Discount Window | 0.75 | 0.00 |
| MSCI US | 1,881.92 | (1.48) | 17.85 | Australia Newcastle Steam Coal Spot fob ² | USD/Metric Tonne | 61.80 | N/A | US Treasury (1 Mth) | 0.0152 | 1.01 |
| Europe | | | | Basic Metals | | | | US Treasury (5Yr) | | |
| FTSE 100 | 6,284.83 | (0.25) | 17.91 | LME Aluminum Cash | USD/MT | 1,876.50 | 47,863 | US Treasury (10 Yr) | 2.0894 | 0.77 |
| DAX | 9,470.34 | (1.30) | 16.64 | LME Aluminum 3 -mth. Rolling Fwd. | USD/MT | 1,906.50 | 32,160 | Japan 10-Yr Gov. Bond | 0.3630 | (3.30) |
| CAC40 | 4,060.71 | (1.17) | 24.33 | CMX Copper Active | USD/lb. | 6,387.50 | 28,946 | China 10-Yr Gov. Bond | 3.8000 | 3.00 |
| IBEX 35 | 9,951.90 | (1.90) | 20.81 | LME Copper 3- mth Rolling Fwd. | USD/MT | 6,365.00 | 36,782 | ECB Rate (Refinancing) | 0.05 | 0.00 |
| FTSE MIB | 18,406.51 | (1.04) | N/A | Precious Metals | | | | 1-Month LIBOR | | |
| Stoxx 600 | 326.50 | (1.22) | 20.25 | CMX Gold | USD/T. oz | 1,197.80 | 158,412 | 3 Month LIBOR | 0.2426 | (0.03) |
| MSCI UK | 1,863.02 | 0.49 | 17.94 | CMX Silver | USD/T. oz | 15.87 | 45,698 | O/N SHIBOR | 2.7660 | 11.50 |
| MSCI France | 115.26 | (0.39) | 25.77 | NYMEX Platinum | USD/T. oz | 1,205.20 | 12,409 | 1-mth SHIBOR | 5.2770 | 70.40 |
| Asia | | | | Agricultural Products | | | | 3-mth HIBOR | | |
| NIKKEI 225 | 16,819.73 | (3.18) | 20.62 | CBOT Corn | USD/bu | 404.50 | 163,869 | Corporate Bonds (Moody's) | | |
| S&P/ASX 200 | 5,161.86 | (1.11) | 17.77 | CBOT Wheat | USD/bu | 621.25 | 72,466 | Aaa | 3.70 | 3.00 |
| HSI | 22,585.84 | (2.85) | 9.55 | NYB-ICE Sugar | USD/lb. | 14.67 | 48,377 | Baa | 4.68 | 0.00 |
| HSCEI | 11,269.43 | 0.29 | 7.88 | CBOT Soybeans | USD/bu. | 1,027.00 | 80,428 | | | |
| CSI300 | 3,360.60 | 5.24 | 14.88 | | | | | | | |
| SSE Composite | 3,061.02 | 4.18 | 14.57 | | | | | | | |
| SZSE Composite | 1,492.94 | 0.89 | 36.13 | | | | | | | |
| MSCI China | 62.81 | (1.84) | 9.43 | | | | | | | |
| MSCI Hong Kong | 12,270.00 | (2.42) | 10.16 | | | | | | | |
| MSCI Japan | 835.40 | (3.43) | 15.36 | | | | | | | |

Currency

| | Euro/USD | GBP/USD | AUD/USD | USD/JPY | USD/CHF | USD/CNY | USD/HKD | USD/CNY NDF 12-mth Spot pr. |
|--------------|----------|---------|---------|---------|---------|---------|---------|-----------------------------|
| Spot Rate | 1.2456 | 1.5720 | 0.8171 | 117.17 | 0.9641 | 6.1972 | 7.7534 | 6.3145 |
| Chg. WTD (%) | (0.05) | 0.03 | (0.92) | 1.35 | (0.03) | (0.14) | (0.03) | (0.05) |

Note:

- Data sources: Bloomberg Finance LP, 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

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 \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.

Disclaimer

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2014 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.**

Tel: (852) 2868 2183