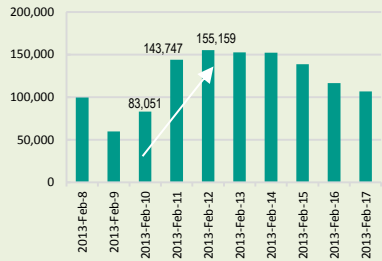




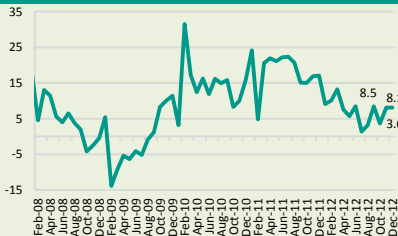
Economics Weekly

HK mainland visitors in CNY holiday surged



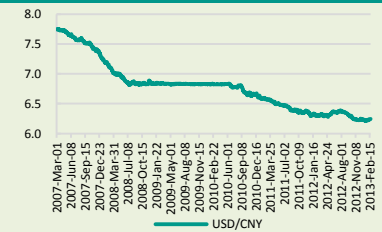
Source: Hong Kong Immigration Department

Hong Kong retail sales growth stabilized



Source: Bloomberg Finance LP

RMB appreciation lures shoppers overseas



Source: Bloomberg Finance LP

Buoyant retail sales boost Hong Kong consumer sector

Hong Kong tourism recovered with solid growth during the Chinese New Year (CNY) holiday, backed by rapidly increasing numbers of mainland visitors. Hong Kong witnessed a strong surge of mainland visitor arrival for the first three days of the CNY holidays to 381,957, representing a 33% YoY growth according to the Hong Kong Immigration Department. Private consumption in Hong Kong, largely underpinned by the flood of tourists especially from mainland China, has seen a decline in its contribution to GDP growth for the four consecutive quarters since 2Q11. Since mainland visitors have long been the major supporting force of the Hong Kong consumer market, an increase of mainland visitors and their spending became a sign of recovery in the consumer sector. Despite all the positive signs, the consumer sector is undergoing some structural shifts due to changing consumption pattern. We expect consumer staples, or brands names that cater to the mass market will outperform. Amid the recovery of China's economic momentum in 2013 and appreciation of the renminbi, the outlook for Hong Kong retail market turns robust and certain segments will show more resilience than others.

- **Changing consumption pattern.** Hong Kong has been benefitting from the insatiable appetite for luxury goods of the emerging wealthy Chinese. However, the Europe debt crisis and the economic sluggishness in developed nations result in the appreciation of renminbi against major currencies. The Chinese consumers find it a bargain to do their shopping overseas. Those new visitors who are increasingly substituting these wealthy visitors entering into Hong Kong are from second-tier and third-tier cities with lower income. It is reasonable to expect that these consumers are more likely to spend more money on mid-priced products rather than on high-end luxurious products. However, we should not underestimate the purchasing power of them as they may make larger purchases within their own capacity. In addition, ever since the new leader Xi Jinping showed his determination to promote a frugal lifestyle and fight against corruption, we expect to see a decline in sales of luxury goods, high-end restaurant bookings, and overseas travel.
- **Strategic beneficiaries amid the changing consumer trend:** The new wave of mainland tourist arrival will certainly boost retail sales growth. We believe that the general jewelry retailers, such as **Chow Sang Sang (116 HK)** and **Luk Fook (590 HK)**, will benefit from the increasing spending by mainland tourists. Personal care and cosmetic product retailing should remain strong, benefitting **Sa Sa (178 HK)** and **Bonjour Holding (653 HK)**. Apparel retailers, such as **Giordano (709 HK)** and **Bossini (592 HK)**, will continue to be the popular shopping destinations among mainland visitors for their extensive retail network, wide range of products, and affordable prices. We also think that department stores and hotel operators will benefit from the pick-up of tourist arrival as they are able to offer the convenience of shopping. Among the listed department store operators, **AEON (984 HK)** and **Wing On (289 HK)** should outperform. Hotel operators, such as **Regal (78 HK)** and **Asia Standard Hotel Group (292 HK)**, will outperform amid their strong brand name and affordable price tag.

Chief Economist

Banny Lam
 Tel: 852-21478863
 Email: bannylam@abci.com.hk

Analyst

Paul Pan
 Tel: 852-21478829
 Email: paulpan@abci.com.hk



農銀國際

ABC INTERNATIONAL

ABC SECURITIES COMPANY LIMITED

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	21.8*
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

* indicates forecast number

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	96.84	1.02	200546.20	US Fed Fund Rate	0.25	0.00
DJIA	14035.67	0.39	13.73		ICE Brent	USD/bbl	117.43	-0.20	125286.40	US Prime Rate	3.25	0.00
S&P 500	1530.94	0.73	15.11		NYMEX Natural Gas	USD/MM Btu	3.29	4.28	169401.60	US Discount Window	0.75	0.00
NASDAQ	3213.60	0.68	23.09		Australia Newcastle Steam Coal Spot fob	USD/Metric Tonne	92.85	N/A	N/A	US Treasury (1 Month)	0.0862	6.29
MSCI US	1462.49	0.71	15.36		LME Aluminum Cash	USD/MT	2069.00	-2.74	44087.40	US Treasury (10 Yr)	2.0373	1.78
Europe				Basic Metals	LME Primary Aluminum 3 Month Rolling Forward	USD/MT	2111.00	-2.63	37504.80	US Treasury (30 Yr)	3.2255	1.58
FTSE 100	6397.37	1.09	17.77		CMX Copper Active Contract	USD/lb.	365.35	-2.23	53650.20	Japan 10-Yr Government Bond	0.7450	-1.06
DAX	7774.08	2.38	15.97		LME Copper 3 Month Rolling Forward	USD/MT	8050.00	-1.90	30111.00	China 10-Yr Government Bond	3.6000	0.00
CAC40	3734.74	2.03	12.95		TSI CFR China Iron Ore Fines Index	USD	158.00	1.87	N/A	ECB Interest Rate (Refinancing)	0.75	0.00
IBEX 35	8213.80	0.78	18.22		CMX Gold	USD/T. oz	1604.30	-0.28	254.40	1-Month LIBOR	0.2017	-0.25
FTSE MIB	16635.83	0.89	N/A	CMX Silver	USD/T. oz	29.50	-1.19	54082.80	3 Month LIBOR	0.2891	-0.34	
Stoxx 600	289.81	0.86	21.85	NYMEX Platinum	USD/T. oz	762.40	1.23	6047.60	3-Month SHIBOR	3.8800	-0.30	
MSCI UK	1891.01	0.81	17.81	CBOT Corn	USD/bu	696.00	-0.39	155181.40	3-Month HIBOR	0.3843	-0.18	
MSCI France	104.83	2.02	18.11	CBOT Wheat	USD/bu	733.50	-1.18	68934.60	Corporate Bonds (Moody's Seasoned)			
MSCI Germany	109.10	1.96	15.48	NYB-ICE Sugar	USD/lb.	18.16	0.89	68826.60	Aaa	3.91	0.51	
MSCI Italy	48.87	0.95	N/A	CBOT Soybeans	USD/bu.	1482.25	4.05	109872.40	Baa	4.86	0.21	
Asia												
NIKKEI 225	11468.28	2.64	23.75									
S&P/ASX 200	5098.71	1.29	20.33									
HSI	23307.41	-0.58	11.98									
HSCEI	11683.04	-1.37	9.80									
CSI300	2702.64	-2.49	13.57									
SSE Composite	2397.18	-1.45	13.27									
SZSE Composite	969.38	-0.01	28.24									
MSCI China	63.54	-2.16	11.13									
MSCI Hong Kong	11880.42	-0.70	12.52									
MSCI Japan	596.58	2.03	22.38									
Currency												
									USD/ CNY			
									NDF			
									12 Month			
Spot Exchange Rate	1.3403	1.5324	1.0344	93.3400	0.9202	1.0131	6.2379	7.7545	6.3185			
Chng. WTD (%)	0.32	-1.25	0.38	0.17	0.17	-0.66	-0.01	0.00	-0.07			

Note:

1. Data source: Bloomberg Finance LP, National Bureau of Statistics of China, ABCIS
2. Australia Newcastle Steam Coal Spot fob is the Australia Newcastle 6700 kc GAD fob Steam Coal Spot price published by McCloskey
3. TSI CFR China Iron Ore Fines Index is calculated with the 62% Fe specification, spot price
4. Certain data is not reported as of the date of this report

**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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**Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.
Tel: (852) 2868 2183**