



# Economics Weekly December 17, 2015

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**Exhibit 1: Fed funds rates forecasts by the Fed (%)**



Source(s): Federal Reserve, ABCI Securities

**Exhibit 2: Economic indicators forecasts by the Fed**

YoY %, or otherwise stated	2015	2016	2017	Long run
Real GDP	2.1	2.3 - 2.5	2.0 - 2.3	1.8 - 2.2
Unemployment rate	5.0	4.6 - 4.8	4.6 - 4.8	4.8 - 5.0
PCE inflation	0.4	1.2 - 1.7	1.8 - 2.0	2.0
Core PCE inflation	1.3	1.5 - 1.7	1.7 - 2.0	N/A

Source(s): Federal Reserve, ABCI Securities

**Exhibit 3: FOMC meeting schedule in 2016**

January	26-27
March	15-16*
April	26-27
June	14-15*
July	26-27
September	20-21*
November	1-2
December	13-14*

\* Meeting associated with a Summary of Economic Projection and a press conference by the Chair  
Source(s): Federal Reserve, ABCI Securities

## Fed kicked off the rate hike cycle

As expected, the Federal Reserve (Fed) raised the benchmark short-term interest rate by 25 bps for the first time in nearly a decade. Aside from raising the Fed funds rate from its previous range of 0.0% - 0.25% to 0.25% - 0.50%, the Fed also announced four changes on policy tools: 1) raising the IOER it pays banks on excess reserves to 0.5%; 2) removing the daily cap of US\$ 300bn on reverse repo facility; 3) lifting reverse repo facility rate from 0.05% to 0.25%; 4) increasing the discount rate by 0.25% to 1.0%. The December rate hike is likely to kick off a series of rate hikes in 2016. However, the Fed stated that its monetary stance would remain accommodative and emphasize a gradual route for rate hikes; rate hikes in the future would be based on improvement in the economy. In our view, the U.S. economy has been reviving in a solid pace and the momentum would support further rate hikes in 2016.

**A gradual and flexible rate hike path based on economic fundamentals.** The U.S. economy has been recovering steadily in 2015. The U.S. GDP grew at an annualized rate of 2.1% QoQ and 3.9% QoQ in 3Q15 and 2Q15. Job market has regained strength as unemployment rate reached 5% in November, indicating a near full-employment situation. However, inflation outlook remains gloomy, as reflected by the Fed's latest economic forecasts stating the higher downside risk in the nominal and core PCE inflation rates in 2016 and 2017, respectively (Exhibit 6 & 7). We believe the Fed has taken the opportunity to initiate the rate hike cycle to avoid jeopardizing the U.S. economy, but the mixed economic signals would force the Fed to maintain a gradual and flexible rate hike path.

**Uneven post-rate hike development in emerging markets (EM).** For the emerging markets, the Fed's monetary normalization would lead to: 1) investment inflow to the EM will be disrupted as the Fed puts the brake on pumping cheap dollars into the market; 2) a stronger USD would hurt export growth of the EM; 3) structural weakness of the EM may render them more vulnerable to the shocks resulted from the Fed's moves. The EM has been suffering from the first two repercussions mentioned since the "Taper Tantrum", but deteriorating economic fundamentals and faltering external trade triggered by the lower commodity demands also contributed to the predicament as well. We believe the structural issues in the EM would surface in the future, but some would fare better than the others. Instead of maintaining overly easy monetary policies or engaging in competitive currency devaluation, the EM would need to identify new growth drivers for economic growth in 2016.

**Aggressive macro-loosening policies in China to counteract negative impacts of rate hike in 2016.** China's economy is experiencing slower growth due to economic rebalancing. The Fed's rate hike would put more pressure on the country's economy, partly by disrupting capital flow. In addition, the Fed's monetary tightening has already driven up the USD and put more depreciative pressure on RMB, but the RMB shows strength by remaining stable against the official currency basket. While the government is facilitating structural reforms, we expect PBOC to ease liquidity further and formulate more aggressive stimulus. China would maintain a reasonable growth in 4Q15 with the continuous economic improvement.



Exhibit 4: Fed's projections of real GDP growth in the U.S. show resilience in the recovery (YoY %)

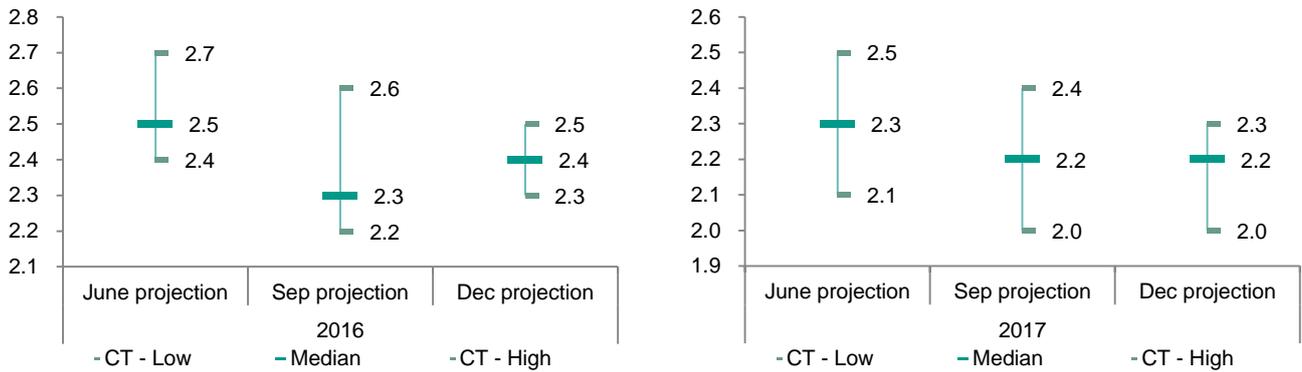


Exhibit 5: Fed's projections of unemployment rate continue to trend down (%)

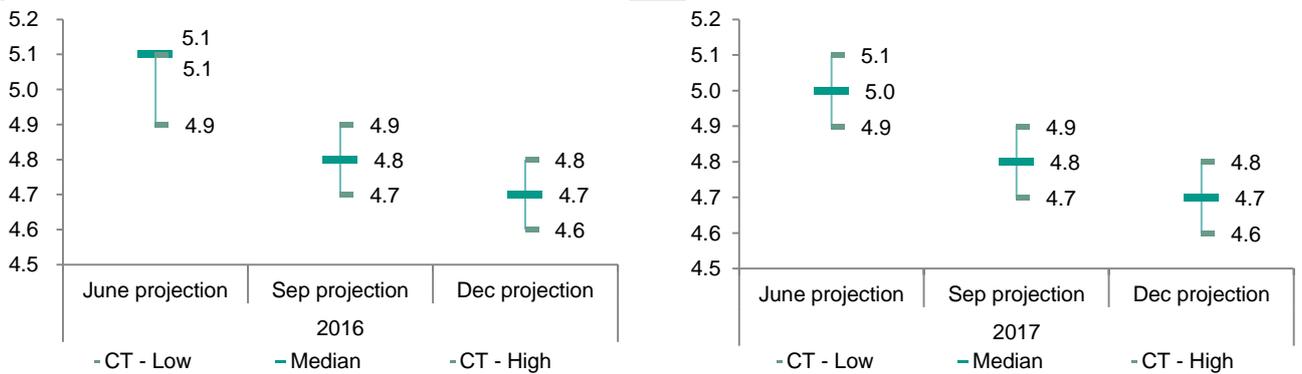


Exhibit 6: Fed's projections of PCE inflation indicate downward pressure of commodity would persist (YoY %)

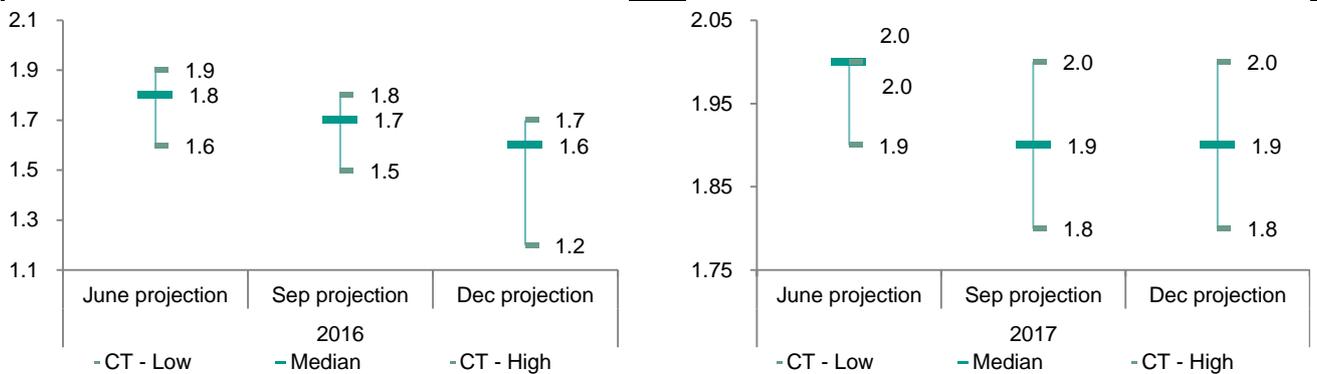
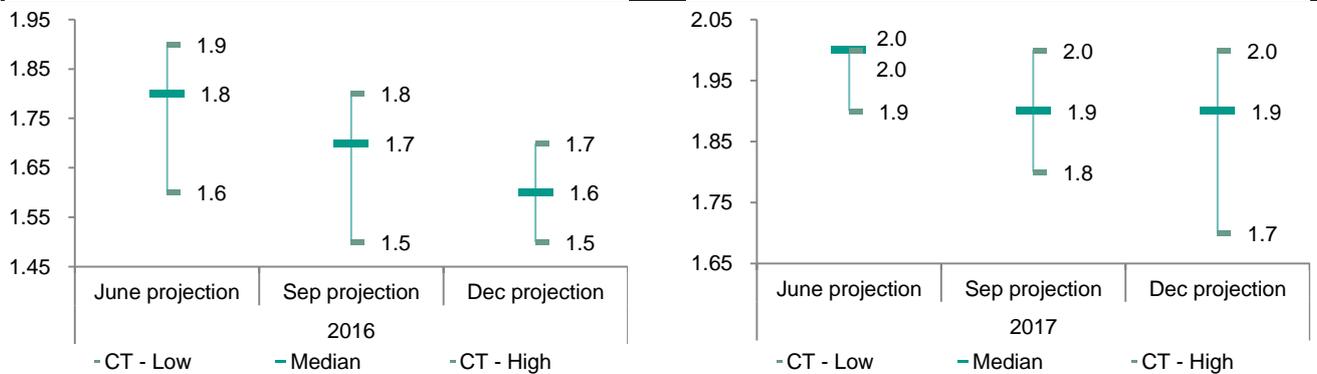


Exhibit 7: Fed's projections of core PCE inflation suggest higher downside risk in core inflation (YoY %)



Note: CT = central tendency  
Source(s): Federal Reserve, ABCI Securities



China Economic Indicators

	2014					2015										
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Real GDP (YoY%)	---	7.3	---	---	7.3	---	---	7.0	---	---	7.0	---	---	6.9	---	---
Export Growth (YoY%)	9.4	15.3	11.6	4.7	9.7	(3.2)	48.3	(15.0)	(6.4)	(2.5)	2.8	(8.3)	(5.5)	(3.7)	(6.9)	(6.8)
Import Growth (YoY%)	(2.4)	7.0	4.6	(6.7)	(2.4)	(19.7)	(20.5)	(12.7)	(16.2)	(17.6)	(6.1)	(8.1)	(13.8)	(20.4)	(18.8)	(8.7)
Trade Balance (USD/bn)	49.8	30.9	45.4	54.5	49.6	60.0	60.6	3.1	34.1	59.49	46.6	43.0	60.2	60.3	61.6	54.1
Retail Sales Growth (YoY%)	11.9	11.6	11.5	11.7	11.9	10.7	10.2	10.0	10.1	10.6	10.5	10.8	10.9	11.0	11.0	11.2
Industrial Production (YoY%)	6.9	8.0	7.7	7.2	7.9	6.8	5.6	5.9	6.1	6.8	6.0	6.1	5.7	5.6	6.2	6.2
PMI - Manufacturing (%)	51.1	51.1	50.8	50.3	50.1	49.8	49.9	50.1	50.1	50.2	50.2	50.0	49.7	49.8	49.8	49.6
PMI - Non-manufacturing (%)	54.4	54.0	53.8	53.9	54.1	53.7	53.9	53.7	53.4	53.2	53.8	53.9	53.4	53.4	53.1	53.6
FAI(YTD) (YoY%)	16.5	16.1	15.9	15.8	15.7	13.9	13.5	12.0	11.4	11.4	11.2	10.9	10.3	10.2	10.2	10.2
CPI (YoY%)	2.0	1.6	1.6	1.4	1.5	0.8	1.4	1.4	1.5	1.2	1.4	1.6	2.0	1.6	1.3	1.5
PPI (YoY%)	(1.2)	(1.8)	(2.2)	(2.7)	(3.3)	(4.3)	(4.8)	(4.6)	(4.6)	(4.6)	(4.8)	(5.4)	(5.9)	(5.9)	(5.9)	(5.9)
M2(YoY%)	12.8	12.9	12.6	12.3	12.2	10.8	12.5	11.6	10.1	10.8	11.8	13.3	13.3	13.1	13.5	13.7
New Lending (RMB/bn)	702.5	857.2	548.3	852.7	697.3	1,470	1,020	1,180	707.9	900.8	1,280.6	1,480	809.6	1,050	513.6	708.9
Aggregate Financing (RMB bn)	957.7	1,135.5	662.7	1,146.3	1,690	2,047	1,356	1,241	1,056	1,236	1,833	742	1,082	1,300	476.7	1,020

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)	
<b>U.S.</b>				<b>Energy</b>				US Fed Fund Rate			
DJIA	17,749.09	2.80	15.86	NYMEX WTI	USD/bbl	35.32	(0.84)	489,390		0.50	25.00
S&P 500	2,073.07	3.02	18.52	ICE Brent Oil	USD/bbl	37.12	(2.14)	112,671	US Prime Rate	3.50	25.00
NASDAQ	5,071.13	2.79	31.48	NYMEX Natural Gas	USD/MMBtu	1.81	(8.89)	164,998	US Discount Window	0.75	0.00
MSCI US	1,976.45	2.97	19.21	Australia Newcastle Steam Coal Spot fob <sup>2</sup>	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (1 Yr)	0.1830	5.63
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (5Yr)			
FTSE 100	6,139.54	3.14	27.91	LME Aluminum Cash	USD/MT	1,486.00	(0.03)	55,788	US Treasury (10 Yr)	2.2375	11.05
DAX	10,669.10	3.18	22.99	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,486.00	0.27	31,206	Japan 10-Yr Gov. Bond	0.3000	(2.20)
CAC40	4,717.07	3.68	21.31	CMX Copper Active	USD/lb.	4,612.00	(2.00)	18,559	China 10-Yr Gov. Bond	3.0400	(1.00)
IBEX 35	9,879.00	2.58	19.04	LME Copper 3- mth Rolling Fwd.	USD/MT	4,609.00	(2.00)	45,833	ECB Rate (Refinancing)	0.05	0.00
FTSE MIB	21,535.76	2.48	3,379	<b>Precious Metals</b>				1-Month LIBOR			
Stoxx 600	366.58	3.03	23.82	CMX Gold	USD/T. oz	1,066.10	(0.89)	126,536	3 Month LIBOR	0.5258	1.38
MSCI UK	1,766.39	1.80	27.90	CMX Silver	USD/T. oz	14.03	1.05	42,299	O/N SHIBOR	1.7930	0.50
MSCI France	130.76	1.63	21.42	NYMEX Platinum	USD/T. oz	866.50	2.70	13,406	1-mth SHIBOR	2.7620	6.10
<b>Asia</b>				<b>Agricultural Products</b>				3-mth HIBOR			
NIKKEI 225	19,353.56	0.64	20.17	CBOT Corn	USD/bu	370.50	(1.27)	135,889	Corporate Bonds (Moody's)		
S&P/ASX 200	5,102.01	1.44	19.01	CBOT Wheat	USD/bu	482.50	(1.63)	49,156	Aaa	4.00	9.00
HSI	21,872.06	1.90	9.61	NYB-ICE Sugar	USD/lb.	14.59	0.07	63,583	Baa	5.49	12.00
HSCEI	9,666.52	3.85	7.16	CBOT Soybeans	USD/bu.	858.25	(1.77)	79,640			
CSI300	3,755.89	4.10	15.87								
SSE Composite	3,580.00	4.23	18.81								
SZSE Composite	2,342.18	6.66	54.46								
MSCI China	59.23	2.05	10.42								
MSCI Hong Kong	11,896.10	0.09	9.91								
MSCI Japan	936.25	(0.55)	16.04								

\* 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	1.0864	1.4934	0.7200	122.33	0.9952	6.4835	7.7525	6.7605
Chg. WTD (%)	(1.11)	(1.83)	0.15	(1.08)	(1.27)	(0.44)	(0.03)	0.13

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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