



# Economics Weekly August 6, 2014

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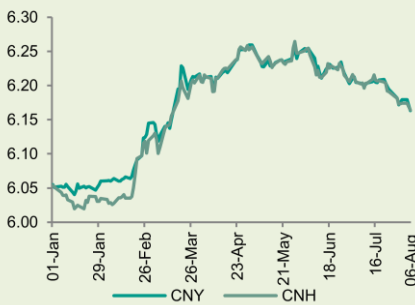
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Exhibit 1: CNY vs CNH in 2014



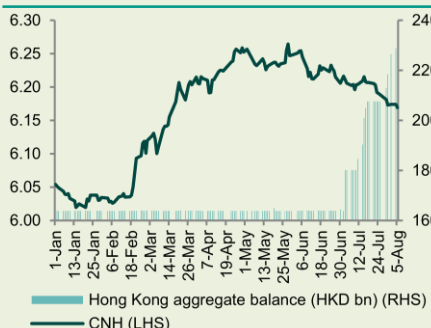
Source(s): Bloomberg, ABCI Securities

Exhibit 2: CNY-midpoint spread in 2014



Source(s): Bloomberg, ABCI Securities

Exhibit 3: HK Aggregate Balance vs CNH in 2014



Source(s): Bloomberg, ABCI Securities

## Renminbi depreciation abating

Year to date, renminbi's depreciation has narrowed to below 2% against the US dollar in August. Compared to the more than 3% decline in May, renminbi has regained strength in June and July amid improvement of economic outlook and stronger liquidity inflow. We expect the liberalization of exchange rate will allow market forces to play an increasingly bigger role in both the currency and capital markets. With more fiscal and monetary mini-stimulus packages expected to be launched, renminbi will be supported. We expect the currency to depreciate by only 0-1% by end-2014.

**Slower renminbi depreciation on pickup in growth.** Weak economic data in 1H14 have prompted more efforts to revive momentum in a bid to fulfill the targeted GDP growth of 7.5% YoY for 2014. Mini-stimulus measures spurred economic activities in late 2Q14, driving renminbi to rebound since June. Renminbi's depreciation has narrowed from more than 3% in May to less than 2% in August, indicating that the currency is resuming strength.

**Narrowing CNY-midpoint spread driven by further renminbi internationalization.** The consistently wide divergence between the midpoint and CNY is interpreted by some as continued distortions in the midpoint fixing process. The unprecedented narrowing of CNY-midpoint spread of late indicates that the official midpoint guidance rate has been set to be in line with the market; the renminbi exchange rates will continue to converge, facilitating trade and investment as well as renminbi internationalization. We view the narrowing spread as a sign that the government is lessening its intervention in the currency market, and a more freely convertible currency will respond to market changes in a more flexible manner. This will pave the way for the opening of the capital account and full convertibility of renminbi in the next few years.

**Policy support for a burgeoning offshore renminbi market.** The growth spurt in the renminbi market, driven by China's intensified efforts to gradually relax the capital account and expand the use of the currency in other major financial centres, establishes the foundation needed for further development. Since the CNH market is a proxy for offshore demand for renminbi, the eventual integration of CNY and CNH will be a step to further renminbi internationalization. As China allows more offshore financial centers to participate in the renminbi business, we expect the CNH market will be initiated into a new phase marked by significant market expansion accompanied by higher global liquidity, deeper incorporation of financial engineering and devising of innovative products, as well as the development of more offshore renminbi products.

**Internationalization to drive up renminbi in the long run.** A more flexible foreign exchange regime is called for before the renminbi can serve as a global reserve currency. The integration of CNY and CNH markets with the process of midpoint fixing will lay the groundwork for further renminbi liberalization. We believe the moves to liberalize renminbi market will reinforce China's further opening of its forex market and improve the fundamental value of the currency by encouraging more organic market growth and diversifying cross-border channels for trade and investment.



China Economic Indicators

	2013							2014						
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul*
Real GDP (YoY%)	7.5	---	---	7.8	---	---	7.7	---	---	7.4	---	--	7.5	--
Export Growth (YoY%)	(3.1)	5.1	7.2	(0.3)	5.6	12.7	5.8	10.6	(18.1)	(6.6)	0.9	7.0	7.2	9.5
Import Growth (YoY%)	(0.7)	10.9	7.0	7.4	7.6	5.3	6.5	10.0	10.1	(11.3)	0.8	(1.6)	5.5	6.5
Trade Balance (USD/bn)	27.1	17.8	28.5	15.2	31.1	33.8	32.3	31.9	(23.0)	7.7	18.5	35.9	31.6	24.6
Retail Sales Growth (YoY%)	13.3	13.2	13.4	13.3	13.3	13.7	13.6	11.8		12.2	11.9	12.5	12.4	12.6
Industrial Production (YoY%)	8.9	9.7	10.4	10.2	10.3	10.0	9.7	8.6		8.8	8.7	8.8	9.2	9.3
PMI - Manufacturing (%)	50.1	50.3	51.0	51.1	51.4	51.4	51.0	50.5	50.2	50.3	50.4	50.8	51.0	51.7
PMI - Non-manufacturing (%)	53.9	54.1	53.9	55.4	56.3	56.0	54.6	53.4	55.0	54.5	54.8	55.5	55.0	54.2
FAI(YTD) (YoY%)	20.1	20.1	20.3	20.2	20.1	19.9	19.6	17.9		17.6	17.3	17.2	17.3	17.5
CPI (YoY%)	2.7	2.7	2.6	3.1	3.2	3.0	2.5	2.5	2.0	2.4	1.8	2.5	2.3	2.3
PPI (YoY%)	(2.7)	(2.3)	(1.6)	(1.3)	(1.5)	(1.4)	(1.4)	(1.6)	(2.0)	(2.3)	(2.0)	(1.4)	(1.1)	(0.8)
M2(YoY%)	14.0	14.5	14.7	14.2	14.3	14.2	13.6	13.2	13.3	12.1	13.2	13.4	14.7	14.2
New Lending (RMB/bn)	860.5	699.9	711.3	787.0	506.1	624.6	482.5	1,320	644.5	1,050	774.7	870.8	1080	800
Aggregate Financing (RMB bn)	1,037.5	819.1	1,584	1,411.3	864	1,226.9	1,232.2	2,580	938.7	2,081.3	1,550	1,400.0	1,970	1756

\* Forecast (excluding PMI - Manufacturing and PMI - Non-Manufacturing)

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	0.25	0.00	
DJIA	16,429.47	(0.39)	15.06	NYMEX WTI	USD/bbl	97.56	(0.33)	264,250	US Prime Rate	3.25	0.00
S&P 500	1,920.21	(0.26)	17.37	ICE Brent Oil	USD/bbl	104.80	(0.04)	217,252	US Discount Window	0.75	0.00
NASDAQ	4,352.84	0.00	41.04	NYMEX Natural Gas	USD/MMBtu	3.93	3.40	87,066	US Treasury (1 Mth)	0.0152	0.51
MSCI US	1,837.49	(0.25)	17.78	Australia Newcastle Steam Coal Spot fob <sup>2</sup>	USD/Metric Tonne	68.10	N/A	N/A	US Treasury (5 Yr)	1.6463	(1.64)
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (10 Yr)	2.4618	(3.07)	
FTSE 100	6,638.78	(0.60)	18.17	LME Aluminum Cash	USD/MT	1,998.75	1.85	20,379	Japan 10-Yr Gov. Bond	0.5210	(1.80)
DAX	9,108.08	(1.11)	16.92	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	2,013.00	1.92	41,090	China 10-Yr Gov. Bond	4.2800	(1.00)
CAC40	4,204.91	0.05	25.63	CMX Copper Active	USD/lb.	7,059.50	(0.27)	12,021	ECB Rate (Refinancing)	0.15	0.00
IBEX 35	10,236.10	(2.64)	21.28	LME Copper 3- mth Rolling Fwd.	USD/MT	7,055.00	(0.28)	36,046	1-Month LIBOR	0.1569	0.09
FTSE MIB	19,765.52	(2.93)	N/A	TSI CFR China Iron Ore Fines Index <sup>3</sup>	USD	95.50	0.32	N/A	3-Month LIBOR	0.2371	(0.10)
Stoxx 600	329.25	(0.80)	20.83	<b>Precious Metals</b>				O/N SHIBOR	3.0510	(14.5)	
MSCI UK	1,973.75	0.08	18.41	CMX Gold	USD/T. oz	1,291.70	(0.24)	118,555	1-mth SHIBOR	4.1040	(10.6)
MSCI France	118.49	0.63	26.71	CMX Silver	USD/T. oz	19.87	(2.46)	41,748	3-mth HIBOR	0.3714	(0.14)
MSCI Germany	122.64	(0.24)	17.22	NYMEX Platinum	USD/T. oz	1,457.70	(0.38)	9,680	Corporate Bonds (Moody's)		
MSCI Italy	58.24	(1.49)	N/A	<b>Agricultural Products</b>				Aaa	4.18	0.00	
<b>Asia</b>				CBOT Corn	USD/bu	371.50	2.55	97,059	Baa	4.75	0.00
NIKKEI 225	15,159.79	(2.34)	19.34	CBOT Wheat	USD/bu	562.25	5.24	55,708			
S&P/ASX 200	5,511.99	(0.80)	19.56	NYB-ICE Sugar	USD/lb.	16.09	(1.59)	53,728			
HSI	24,584.13	0.21	10.82	CBOT Soybeans	USD/bu.	1,068.00	0.90	94,918			
HSCEI	10,979.93	(0.02)	8.06								
CSI300	2,363.22	1.45	10.81								
SSE Composite	2,217.47	1.47	10.83								
SZSE Composite	1,177.33	2.53	29.26								
MSCI China	66.03	0.92	10.13								
MSCI Hong Kong	13,137.60	(0.35)	11.16								
MSCI Japan	775.76	(1.42)	15.08								

Note:

1. Data sources: Bloomberg Finance LP, National Bureau of Statistics of China, ABCIS (updated on date of report)
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

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-Mth
Spot Rate	1.3366	1.6836	0.9316	102.45	0.9095	6.1634	7.7503	6.2270
Chg. WTD (%)	(0.45)	0.09	0.04	0.16	(0.40)	0.26	(0.00)	0.39



## 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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