



# Economics Weekly July 30, 2015

## Co-head of Research

Banny Lam

Tel: 852-21478863

Email: bannylam@abci.com.hk

## Analyst

Paul Pan

Tel: 852-21478829

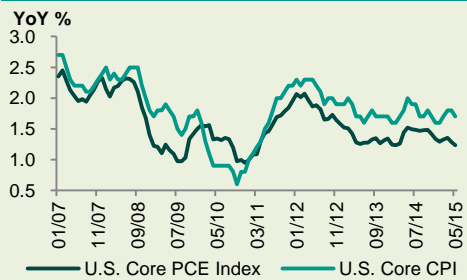
Email: paulpan@abci.com.hk

### Exhibit 1: USD has been strengthening



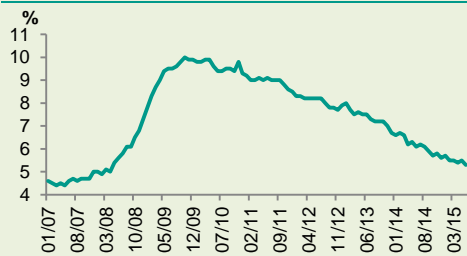
Source(s): Bloomberg, ABCI Securities

### Exhibit 2: U.S. core CPI and PCE deflator



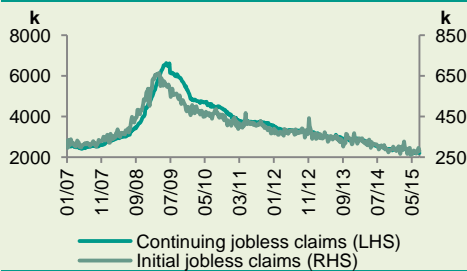
Source(s): Bloomberg, ABCI Securities

### Exhibit 3: US unemployment rate has been falling



Source(s): Bloomberg, ABCI Securities

### Exhibit 4: U.S. jobless claims further decrease



Source(s): Bloomberg, ABCI Securities

## U.S rate hike likely in September

As expected, the U.S. Federal Reserve (the Fed) keeps the target range of the Fed fund rates between 0% and 0.25% in the latest meeting. Although policy statement in July by the Federal Open Market Committee (FOMC) have entailed only minor changes, strong U.S. economic indicators point to a greater possibility of interest rate increase in the next FOMC meeting on September 16-17. The Fed takes the stance that economic activity has been expanding moderately, with improvement in the labor market and the rising price level to be the key determinants of the rate hike. In our view, the U.S. economy has been reviving in a solid pace, and the upbeat momentum will substantiate a rate increase in September, which will be the first in nine years.

**Economic momentum accelerated, suggesting a possible rate hike in September.** The steady growth in the U.S. job market, together with policymakers' expectation that inflation will eventually rise to the central bank's medium-term objective of 2%, indicates that economic momentum has been strengthening amid collapse in energy prices and growing uncertainties in emerging economies. Gradual alleviation of turbulence in Europe triggered by the debt crisis in Greece also strengthens the Fed's stance to commence the rate hike in September. In general, the U.S. economy has demonstrated affirming signs of a self-sustaining momentum, with the stronger USD attracting capital into economy to support the country's recovery. As the economy and the labor market are recovering, it becomes unnecessary for the Fed to keep interest rates at their emergency low levels.

**A strong USD has triggered drastic fall in commodities prices and depreciation in emerging market currencies.** The USD reached its three-month high in July against a basket of other major currencies amid expectations of the impending rate hike. Commodity prices and emerging market currencies have been battered as most commodities are priced in USD. In response to the possible rate hike in September, most developed and emerging economies have conducted credit loosening programs to stimulate growth and revive investment sentiment. In our view, since the market has moved forward its rate hike expectations for some time, these economies are well prepared to tackle the potential risks with various policies.

**China is likely to pursue more aggressive macro-loosening policies to counteract the negative impacts of possible rate hike in September.** China's economy is undergoing a 'new normal' of slower growth. Supported by the credit-loosening programs, the country's economic growth maintained at the targeted 7% in 1H15; major economic indicators also improved moderately. Going forward, possible rate hike in the U.S. may disrupt capital flow in China as well as its economy. Hence, PBOC is likely to ease liquidity further in 2H15. More aggressive stimulus will be formulated to support economic growth, facilitate structural reforms and foster job creation. We believe China would be able to maintain a reasonable growth in 2H15.



China Economic Indicators

	2014										2015					
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Real GDP (YoY%)	7.4	---	--	7.5	--	---	7.3	---	---	7.3	---	---	7.0	---	---	7.0
Export Growth (YoY%)	(6.6)	0.9	7.0	7.2	14.5	9.4	15.3	11.6	4.7	9.7	(3.2)	48.3	(15.0)	(6.4)	(2.5)	2.8
Import Growth (YoY%)	(11.3)	0.8	(1.6)	5.5	(1.6)	(2.4)	7.0	4.6	(6.7)	(2.4)	(19.7)	(20.5)	(12.7)	(16.2)	(17.6)	(6.1)
Trade Balance (USD/bn)	7.7	18.5	35.9	31.6	47.3	49.8	30.9	45.4	54.5	49.6	60.0	60.6	3.1	34.1	59.49	46.6
Retail Sales Growth (YoY%)	12.2	11.9	12.5	12.4	12.2	11.9	11.6	11.5	11.7	11.9	10.7	10.2	10.0	10.1	10.6	10.6
Industrial Production (YoY%)	8.8	8.7	8.8	9.2	9.0	6.9	8.0	7.7	7.2	7.9	6.8	5.6	5.9	6.1	6.8	6.8
PMI - Manufacturing (%)	50.3	50.4	50.8	51.0	51.7	51.1	51.1	50.8	50.3	50.1	49.8	49.9	50.1	50.1	50.2	50.2
PMI - Non-manufacturing (%)	54.5	54.8	55.5	55.0	54.2	54.4	54.0	53.8	53.9	54.1	53.7	53.9	53.7	53.4	53.2	53.8
FAI(YTD) (YoY%)	17.6	17.3	17.2	17.3	17.0	16.5	16.1	15.9	15.8	15.7	13.9	13.5	12.0	11.4	11.4	11.4
CPI (YoY%)	2.4	1.8	2.5	2.3	2.3	2.0	1.6	1.6	1.4	1.5	0.8	1.4	1.4	1.5	1.2	1.4
PPI (YoY%)	(2.3)	(2.0)	(1.4)	(1.1)	(0.9)	(1.2)	(1.8)	(2.2)	(2.7)	(3.3)	(4.3)	(4.8)	(4.6)	(4.6)	(4.6)	(4.8)
M2(YoY%)	12.1	13.2	13.4	14.7	13.5	12.8	12.9	12.6	12.3	12.2	10.8	12.5	11.6	10.1	10.8	11.8
New Lending (RMB/bn)	1,050	774.7	870.8	1,080	385.2	702.5	857.2	548.3	852.7	697.3	1,470	1,020	1,180	707.9	900.8	1,280.6
Aggregate Financing (RMB bn)	2,081.3	1,550	1,400	1,970	273.7	957.7	1,135.5	662.7	1,146.3	1,690	2,050	1,350	1,181	1,050	1,220	1,860.0

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	17,751.39	1.04	15.18	NYMEX WTI	USD/bbl	48.83	1.43	314,581	0.25	0.00		
S&P 500	2,108.57	1.39	18.42	ICE Brent Oil	USD/bbl	53.68	(1.72)	241,912	3.25	0.00		
NASDAQ	5,111.73	0.45	30.32	NYMEX Natural Gas	USD/MMBtu	2.85	2.74	70,271	0.75	0.00		
MSCI US	2,018.87	1.34	19.09	Australia Newcastle Steam Coal Spot fob <sup>2</sup>	USD/Metric Tonne	61.80	N/A	N/A	0.3159	0.00		
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (1 Yr)				
FTSE 100	6,648.59	1.05	23.00	LME Aluminum Cash	USD/MT	1,624.75	1.39	20,627	1.6397	2.14		
DAX	11,228.48	(1.05)	18.11	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,662.50	1.22	28,639	2.2986	3.62		
CAC40	5,030.05	(0.54)	25.73	CMX Copper Active	USD/lb.	5,319.00	1.26	6,749	0.4110	0.00		
IBEX 35	11,220.50	(0.79)	19.45	LME Copper 3- mth Rolling Fwd.	USD/MT	5,328.00	1.24	61,737	3.4900	(6.00)		
FTSE MIB	23,302.35	(0.87)	N/A	<b>Precious Metals</b>				China 10-Yr Gov. Bond				
Stoxx 600	394.92	0.07	23.95	CMX Gold	USD/T. oz	1,085.30	(0.06)	72,486	0.05	0.00		
MSCI UK	1,940.40	0.79	23.31	CMX Silver	USD/T. oz	14.63	0.98	35,574	0.1908	0.18		
MSCI France	140.95	(0.86)	26.36	NYMEX Platinum	USD/T. oz	987.10	0.65	9,885	0.2968	0.32		
MSCI Germany	146.78	(1.07)	18.32	<b>Agricultural Products</b>				O/N SHIBOR				
MSCI Italy	66.54	(1.13)	N/A	CBOT Corn	USD/bu	379.50	(5.77)	171,560	1.4480	11.10		
<b>Asia</b>				CBOT Wheat	USD/bu	499.25	(2.44)	63,463	3.0080	(0.40)		
NIKKEI 225	20,522.83	(0.11)	22.99	NYB-ICE Sugar	USD/lb.	11.59	3.11	52,123	0.3892	0.14		
S&P/ASX 200	5,669.52	1.86	20.73	CBOT Soybeans	USD/bu.	949.50	(1.61)	121,882	Corporate Bonds (Moody's)			
HSI	24,497.98	(2.51)	10.52							Aaa	4.06	(1.00)
HSCEI	11,137.33	(4.64)	8.05							Baa	5.17	3.00
CSI300	3,815.41	(8.64)	17.10									
SSE Composite	3,705.77	(8.97)	18.89									
SZSE Composite	2,128.16	(8.38)	52.35									
MSCI China	66.45	(3.67)	10.27									
MSCI Hong Kong	13,446.86	(1.44)	10.78									
MSCI Japan	998.48	(1.41)	17.84									
* As of 12:00 AM closing												
<b>Currency</b>												
	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth	Spot pr.			
Spot Rate	1.0977	1.5621	0.7305	124.16	0.9713	6.2097	7.7511	6.2769				
Chg. WTD (%)	(0.06)	0.73	0.32	(0.28)	(0.86)	(0.00)	0.00	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

### 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



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

---

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 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 2015 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**