



Economics Weekly Aug 19, 2015

Co-head of Research

Banny Lam

Tel: 852-21478863

Email: bannylam@abci.com.hk

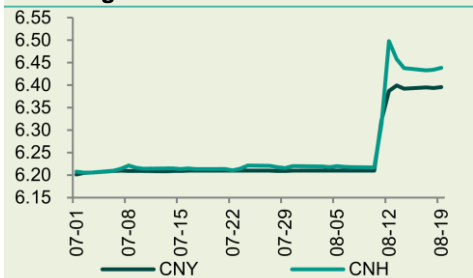
Analyst

Paul Pan

Tel: 852-21478829

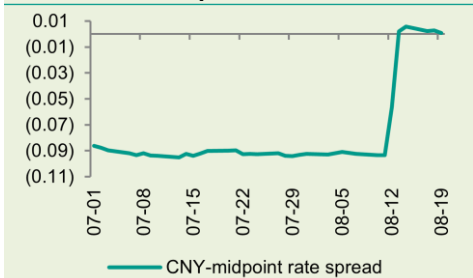
Email: paulpan@abci.com.hk

Exhibit 1: RMB stabilizes after adjusting the fixing rate



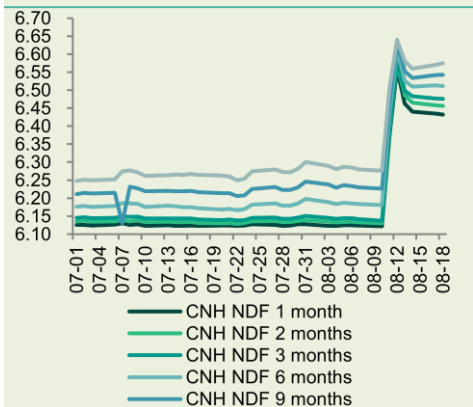
Source(s): Wind, ABCI Securities

Exhibit 2: RMB spread narrowed



Source(s): Wind, ABCI Securities

Exhibit 3: CNH NDF



Source(s): Wind, ABCI Securities

The “New Normal” of RMB

China’s transitioning to the “new normal” is the country’s key economic theme in 2015, with the process being marked by structural adjustments in the economy and reforms in exchange rate mechanism. Recent modification of currency fixing mechanism aims to move the official midpoint exchange rate closer to the market rate, thus allowing market forces to play a greater role in determining the fair value of RMB and internationalizing RMB as a global currency. More than a week after the adjustment, the spread between on-shore rate (CNY) and offshore rate (CNH) is narrowing, with the daily fixing rate settling closer to both rates. Greater exchange rate flexibility is important for China as the country strives to integrate into the global financial markets. We believe China will push forward more exchange rate reforms to enhance efficiency of the financial system.

Market-based fixing mechanism reflects the fair value of RMB. Since PBOC adjusted fixing mechanism on Aug 11, 2015, CNY and CNH against USD have depreciated by 3% and 3.5%, respectively. PBOC has stated clearly a market-based pricing mechanism for RMB is an important step of forex liberalization through the opening of capital account; the authority reassures that there exists no intention for China to pursue RMB depreciation and trigger competitive depreciation. The current move is regarded as a “one-off adjustment” of the midpoint range. Increasing flexibility in exchange rate can help China smoothen the shocks facing the financial system and the economy.

Abundant forex reserves as a strong buffer against drastic depreciation. China’s recent move to modify RMB fixing mechanism towards a market-oriented exchange rate system spurs market speculation of continuous depreciation of RMB. In fact, PBOC’s goal is to improve its central parity system, which is the starting point for daily forex trading, to better reflect market development in the exchange rate between RMB and the USD because widening gaps among different exchange rates can disrupt the setting of an appropriate exchange rate for business transactions and asset valuation. As China holds the largest foreign reserves in the world, we believe the value of RMB has a strong forex buffer. In developing a more flexible exchange rate system, RMB will experience short-term fluctuations instead of drastic depreciation.

More currency reforms to qualify for inclusion into the SDR basket. Modification of daily currency fixing mechanism is just one of the steps to enhance the flexibility of RMB exchange rate. As IMF stresses the importance of technical factors to be addressed before RMB’s inclusion into the SDR basket, more reforms are needed to increase RMB’s two-way floating flexibility. In our view, greater volatility of RMB can be expected due to uncertainties surrounding the rate increase in the U.S. and continued credit loosening in major economies. We forecast the currency to fluctuate by 2% from its current level (RMB 6.3955 per USD) to RMB 6.2676~6.5234 per USD by end-2015.



China Economic Indicators

	2014									2015						
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Real GDP (YoY%)	---	--	7.5	--	---	7.3	---	---	7.3	---	---	7.0	---	---	7.0	---
Export Growth (YoY%)	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	(8.3)
Import Growth (YoY%)	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)	(8.1)
Trade Balance (USD/bn)	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	43.0
Retail Sales Growth (YoY%)	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	10.5
Industrial Production (YoY%)	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	6.0	6.0
PMI - Manufacturing (%)	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	50.0
PMI - Non-manufacturing (%)	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	53.9
FAI(YTD) (YoY%)	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	11.2
CPI (YoY%)	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	1.6
PPI (YoY%)	(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)	(5.4)
M2(YoY%)	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	13.3
New Lending (RMB/bn)	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	1,480.0
Aggregate Financing (RMB bn)	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	718.8

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	17,511.34	0.19	15.25	NYMEX WTI	USD/bbl	42.61	0.26	348,818	0.25	0.00			
S&P 500	2,096.92	0.26	18.55	ICE Brent Oil	USD/bbl	48.93	(0.20)	135,646	3.25	0.00			
NASDAQ	5,059.35	0.22	28.79	NYMEX Natural Gas	USD/MMBtu	2.71	(3.28)	153,552	0.75	0.00			
MSCI US	2,008.24	0.28	19.22	Australia Newcastle Steam Coal Spot fob ²	USD/Metric Tonne	61.80	N/A	N/A	0.4130	3.58			
Europe				Basic Metals				US Treasury (1 Yr)					
FTSE 100	6,454.12	(1.47)	22.70	LME Aluminum Cash	USD/MT	1,527.00	(1.52)	37,196	1.5640	(3.30)			
DAX	10,751.48	(2.13)	16.94	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,554.00	(1.68)	25,438	2.1767	(2.10)			
CAC40	4,909.37	(0.95)	21.77	CMX Copper Active	USD/lb.	5,037.00	(2.42)	18,324	0.3760	(0.80)			
IBEX 35	10,808.10	(0.65)	20.74	LME Copper 3- mth Rolling Fwd.	USD/MT	5,035.00	(2.52)	44,189	3.5500	7.00			
FTSE MIB	23,135.27	(0.49)	N/A	Precious Metals				China 10-Yr Gov. Bond					
Stoxx 600	383.76	(0.64)	22.32	CMX Gold	USD/T. oz	1,121.50	0.79	127,533	0.05	0.00			
MSCI UK	1,907.56	(0.40)	23.37	CMX Silver	USD/T. oz	14.99	(1.82)	10,243	0.2046	0.50			
MSCI France	139.80	0.30	22.92	NYMEX Platinum	USD/T. oz	996.00	0.20	9,579	0.3329	0.84			
Asia				Agricultural Products				O/N SHIBOR					
NIKKEI 225	20,222.63	(1.45)	21.13	CBOT Corn	USD/bu	378.75	0.87	231,293	1.7880	12.10			
S&P/ASX 200	5,380.19	0.44	18.93	CBOT Wheat	USD/bu	499.75	(2.34)	63,319	2.7070	3.60			
HSI	23,167.85	(3.43)	9.99	NYB-ICE Sugar	USD/lb.	10.72	0.37	50,650	0.3871	(0.25)			
HSCEI	10,642.24	(3.78)	7.76	CBOT Soybeans	USD/bu.	904.25	(1.34)	141,746	Corporate Bonds (Moody's)				
CSI300	3,886.14	(4.60)	17.27								Aaa	3.99	(4.00)
SSE Composite	3,794.11	(4.32)	19.32								Baa	5.13	(4.00)
SZSE Composite	2,222.05	(3.82)	52.96										
MSCI China	64.06	(2.26)	9.94										
MSCI Hong Kong	12,710.68	(2.34)	10.22										
MSCI Japan	1,018.75	0.42	17.14										

* 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	1.1055	1.5684	0.7355	124.22	0.9746	6.3956	7.7530	6.5790
Chg. WTD (%)	(0.49)	0.27	(0.33)	0.07	0.11	(0.07)	0.04	(0.27)

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