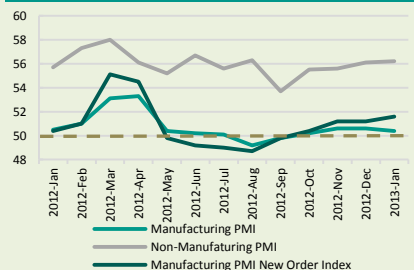


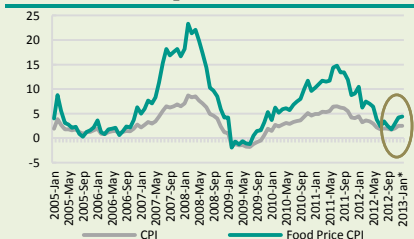
## Economics Weekly

### China PMI signaled healthy recovery



Source: National Bureau of Statistics of China, Bloomberg

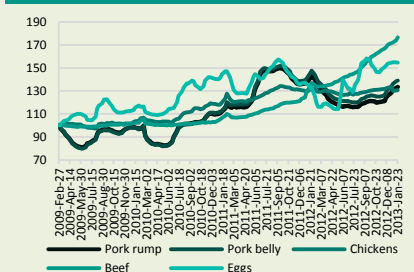
### CPI inflation on upward trend



\* indicates forecast value

Source: National Bureau of Statistics of China, Bloomberg

### Average prices of food in 50 cities keep increasing



Note: Original data is mid-price; data is normalized based on the respective price level on February 27, 2009

Source: National Bureau of Statistics of China, Bloomberg

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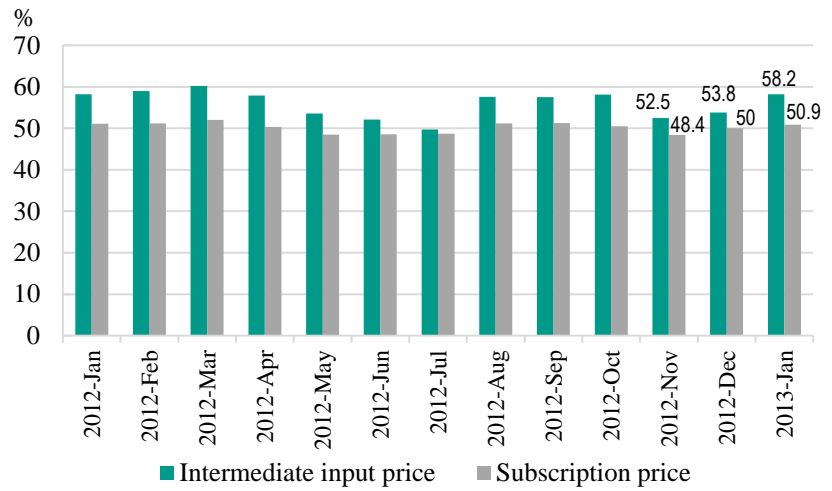
### Inflation: a concern but manageable

China's upwardly creeping CPI inflation will continue to be a major market concern in 1H13. The recent release of January PMI indicated that economic momentum is picking up which poses an upside risk to CPI. Opting for reverse-repos rather than RRR cuts to ensure ample liquidity during the Chinese New Year reflects that the PBOC is keen to avoid wild swings in inflation and will maintain a prudent monetary policy in the hopes of maintaining a balance between stabilizing growth and curbing prices. We expect prices will surge in 1H13 and turn stable in 2H13 with China's inflation staying in the range between 3% and 4% in 2013.

- Economic indicators showed signs of surging inflation.** The new order index of manufacturing PMI experienced a 0.4% increase to 51.6% in January, indicating strong recovery of manufacturing sector. Under the non-manufacturing PMI, the increase of intermediate input price index (from 53.8% to 58.2%) and subscription price index (from 50% to 50.9%) subtly suggested that inflationary pressure is on upside push. Also, recent CPI inflation has been mainly a function of rising food prices which surged in November and December on month-to-month basis. A close examination of average price of food in 50 cities shows that the food prices of a wide range of products are trending upward. Taking into account the severe winter weather, the seasonal effects, and continuous fund inflow, we expect higher short-term inflation will remain intact and January CPI inflation will reach 2.5%.
- Ways to resist inflation.** Other than controlling overall liquidity of the economy, China can smooth the precipitous rise in the CPI by adopting administrative measures to control inflation in major agricultural products and allowing more appreciation in renminbi. Although China's inflation is on the upward trend, it is still under control and we believe chances of conducting administrative measures are slim.
- Selective monetary loosening.** We expect the PBOC will keep its key policy objective of maintaining stable inflation in the short term while conducting reverse-repos to manage liquidity in the economy. This, coupled with the PBOC's "prudent" policy stance designed to keep inflation in check and curb rising property prices, will serve to manage overall inflation between 3% and 4% in 2013.
- Beneficiaries of inflation.** As inflation remains a key concern for the market, together with the coming holiday season, we believe the consumer sector will continue to outperform other sectors. Among the stocks we like is **China Yurun Food (1068 HK)**. We also believe department stores such as **Golden Eagle (3308 HK)** will see a near-term boost in margins. In addition, we expect short-term inflationary pressure and seasonal effects will boost returns on the agricultural sector. **Sinofert (297 HK)** and **China Agrotech (1073 HK)** will benefit from the upside. Real estate is another traditional hedging tool against inflation. **COLI (688 HK)** and **CR Land (1109 HK)** are our picks.

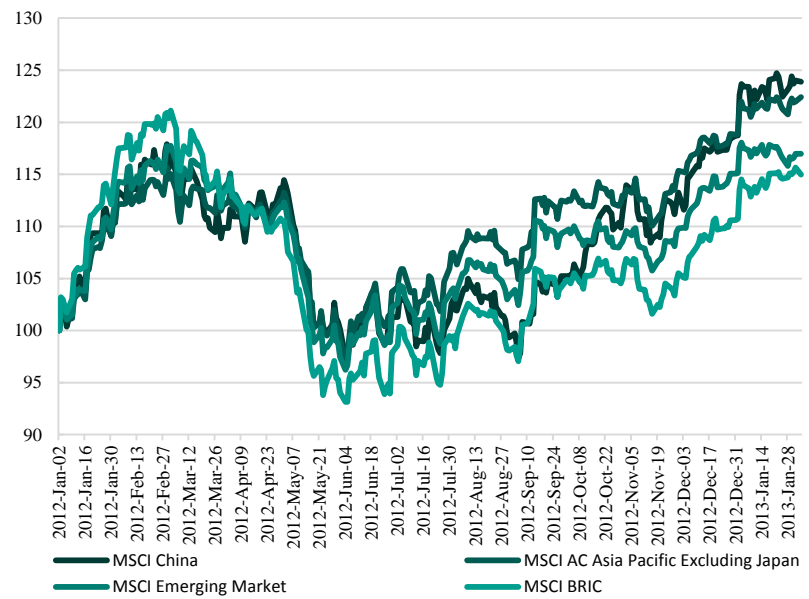


### Sub-indexes of non-manufacturing PMI suggested hiking prices



Source: National Bureau of Statistics of China

### China stock market in line with economic outlook



Note: Data is normalized based on respective price level on January 02, 2012

Source: Bloomberg



**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	16*
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	24*
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	2.5*
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	-1.3*
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	14*
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	1000*

\* indicates forecast number

**World Economic/Financial Indicators**

Equity Index				Global Commodities				Bond Yields & Key Interest Rates				
	Closing price	Chng. WTD (%)	P/E		Unit/Currency	Price	Chng. WTD (%)	Volume (5-day average)		Yield (%)	Chng. WTD (%)	
<b>US</b>				<b>Energy</b>	NYMEX WTI	USD/bbl	96.26	-1.54	219599.60	US Fed Fund Rate	0.25	0.00
DJIA	13979.30	-0.22	13.68		ICE Brent	USD/bbl	116.59	-0.15	216799.20	US Prime Rate	3.25	0.00
S&P 500	1511.29	-0.12	14.93		NYMEX Natural Gas	USD/M MBtu	3.43	3.88	130290.20	US Discount Window	0.75	0.00
NASDAQ	3171.58	-0.24	25.65		LME Aluminum Cash	USD/M T	2073.00	-0.71	16241.40	US Treasury (1 Month)	0.0608	199.51
MSCI US	1444.48	-0.12	15.24	LME Primary Aluminum 3 Month Rolling Forward	USD/M T	2112.50	-0.59	40122.00	US Treasury (10 Yr)	1.9999	-0.74	
<b>Europe</b>				<b>Basic Metals</b>	CMX Copper Active Contract	USD/lb.	375.75	-0.71	55789.40	US Treasury (30 Yr)	3.2127	-0.16
FTSE 100	6316.77	-0.48	16.49		LME Copper 3 Month Rolling Forward	USD/M T	8270.00	-0.24	53882.20	Japan 10-Yr Government Bond	0.7780	0.91
DAX	7681.24	-1.94	16.02		TSI Iron Ore Fines 62% Fe Spot CFR China Index	USD	154.20	0.65	N/A	China 10-Yr Government Bond	3.6100	0.00
CAC40	3704.32	-1.83	12.60		CMX Gold	USD/T. oz	1670.40	0.06	10998.00	ECB Interest Rate (Refinancing)	0.7500	0.00
IBEX 35	8138.80	-1.10	N/A	CMX Silver	USD/T. oz	31.69	-0.85	48530.40	1-Month LIBOR	0.1992	0.00	
MSCI UK	1861.65	-0.99	16.43	NYMEX Platinum	USD/T. oz	766.10	1.28	7078.20	3 Month LIBOR	0.2955	0.00	
MSCI France	103.32	-1.94	15.78	CBOT Corn	USD/bu	725.00	-1.49	143211.00	3-Month SHIBOR	3.8929	0.12	
MSCI Germany	107.79	-2.05	15.53	CBOT Wheat	USD/bu	754.25	-1.41	60856.60	3-Month HIBOR	0.3850	-0.18	
MSCI Italy	49.35	-3.20	N/A	NYB-ICE Sugar	USD/lb.	18.52	-1.96	58822.40	Corporate Bonds (Moody's Seasoned)			
<b>Asia</b>				<b>Precious Metals</b>	CBOT Soybeans	USD/bu.	1488.25	0.95	111729.20	Aaa	3.93	2.08
NIKKEI 225	11463.75	2.43	26.27							Baa	4.88	1.67
HSI	23256.93	-1.96	11.92									
HSCEI	11849.25	-2.99	9.84									
CSI300	2775.84	1.19	13.93									
SSE Composite	2434.48	0.64	13.41									
SZSE Composite	951.52	0.77	27.59									
MSCI China	64.36	-2.08	11.20									
MSCI Hong Kong	11762.66	-1.95	12.42									
MSCI Japan	580.77	-0.32	23.29									
<b>Currency</b>												
									USD/ CNY			
	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CAD	USD/CNY	USD/HKD	NDF			
									12 Month			
Spot Exchange Rate	1.3528	1.5648	1.0305	93.8100	0.9128	0.9965	6.2320	7.7536	6.3225			
Chng. WTD (%)	-0.82	-0.29	-0.98	-1.11	-0.53	0.00	-0.08	0.05	-0.08			

Note:  
 1. Data source: Bloomberg, Federal Reserve Bank, National Bureau of Statistics of China, ABCIS  
 2. US Discount Window, Corporate Bond Aaa and Corporate Bond Baa are as of February 1<sup>st</sup>, 2013.  
 3. Data related to U.S. is as of February 5<sup>th</sup>, 2013. Other data is as of February 6<sup>th</sup>, 2013

**Disclosures**

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**Definition of equity rating**

<b>Rating</b>	<b>Definition</b>
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**

<b>Rating</b>	<b>Definition</b>
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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