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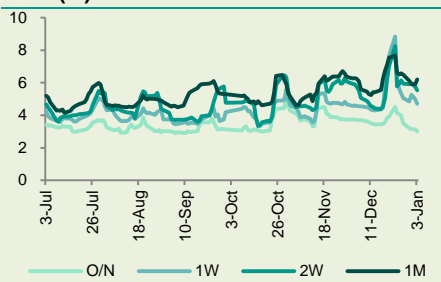
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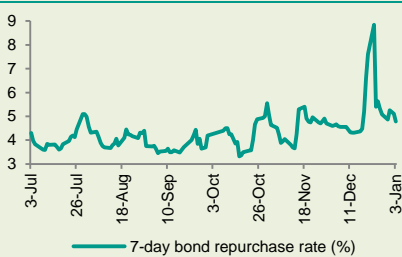
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Exhibit 1: SHIBOR showed interbank market liquidity tightened by the end of 2013 (%)



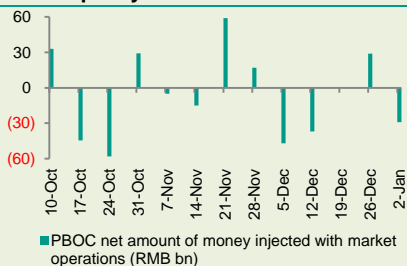
Source(s): Bloomberg, ABCI Securities

Exhibit 2: Short-term liquidity remained tight towards the end of 2013



Source(s): Bloomberg, ABCI Securities

Exhibit 3: PBOC has maintained its prudent policy stance



Source(s): Bloomberg, ABCI Securities

New liquidity dynamics in China

Recent volatility of the SHIBOR and spike in the 7-day bond repurchase rate reflected a tightening liquidity in China. The PBOC conducted emergency measures, which included selling RMB 29 billion worth of 7-day reverse repo agreements and introducing short-term liquidity operations (SLO) of RMB 300 billion. The liquidity tension was soon alleviated. Nonetheless, we believe that liquidity will continue to be tight in the following weeks as the Spring Festival approaches. In the long term, the Fed's QE tapering, financial market reform, and PBOC's prudent police stance will exert various impacts on China's financial system, creating new liquidity dynamics in the country.

Recent pressure has lessened, but liquidity may be tightened again in near term. Several factors contributed to the liquidity squeeze in December 2013: rising demand for funds to enhance the banks' financial positions by the end of the year, maturities of wealth management products offered by banks, and reduction of liquidity injection from the fiscal front. Although the tension has been eased temporarily, we expect demand for cash will surge as the Spring Festival approaches, reducing bank deposits and driving up the short-term interbank borrowing rates. Yet, we believe the impact will be limited to increased volatility in the short-term borrowing rates. Systemic risk, on the other hand, is unlikely to rise.

External markets add pressure to China's financial system. As the Fed winds down its QE program and hence, scales back its asset purchase, the yield curve is likely to be pushed up and the impact will eventually be felt in the Chinese market. Moreover, the Fed's tapering is causing reversals in fund flows in emerging Asia, and part of the funds withdrawn is being redirected to other parts of Asia, such as Hong Kong, Japan and China. Thus, we believe the Chinese government will maintain a prudent monetary policy and adopt a flexible management approach to reduce the impact of subsequent hot money inflow.

Financial market reforms and the PBOC's prudent approach will change the liquidity dynamics. The pledge to reform opens a new chapter in China's economic development. As part of the reform, liberalizing the financial market will bring about new players and products, such as investment platforms developed by nonfinancial institutions. This will dilute market shares of commercial banks in consumer deposits. Other financial reforms, including the removal of deposit rate ceiling and establishment of market-driven interest rate mechanism, will also introduce more competition into the consumer deposit business. On the other hand, the PBOC's policy stance at present tilts towards tightening, augmenting the government's effort to reduce leverage in the financial system as well as curbing excessive shadow banking activities. Since deleveraging and prudent policies are the major themes of the latest economic restructuring, we expect a tightened liquidity situation to sustain in the medium term.



China Economic Indicators

	2012	2013											
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec*
Real GDP (YoY%)	7.9	---	---	7.7	---	---	7.5	---	---	7.8	---	---	7.6
Export Growth (YoY%)	14.1	25.0	21.8	10.0	14.7	1.0	(3.1)	5.1	7.2	(0.3)	5.6	12.7	5.8
Import Growth (YoY%)	6	28.8	(15.2)	14.1	16.8	(0.3)	(0.7)	10.9	7.0	7.4	7.6	5.3	6.5
Trade Balance (USD/bn)	31.6	29.2	15.3	(0.9)	18.2	20.4	27.1	17.8	28.5	15.2	31.1	33.8	32.3
Retail Sales Growth (YoY%)	15.2		12.3	12.6	12.8	12.9	13.3	13.2	13.4	13.3	13.3	13.7	13.7
Industrial Production (YoY%)	10.3		9.9	8.9	9.3	9.2	8.9	9.7	10.4	10.2	10.3	10.0	9.9
PMI - Manufacturing (%)	50.6	50.4	50.1	50.9	50.6	50.8	50.1	50.3	51.0	51.1	51.4	51.4	51.0
PMI - Non-manufacturing (%)	56.1	56.2	54.5	55.6	54.5	54.3	53.9	54.1	53.9	55.4	56.3	56.0	54.6
FAI(YTD) (YoY%)	20.6		21.2	20.9	20.6	20.4	20.1	20.1	20.3	20.2	20.1	19.9	20.0
CPI (YoY%)	2.4	2.0	3.2	2.1	2.4	2.1	2.7	2.7	2.6	3.1	3.2	3.0	3.0
PPI (YoY%)	(1.9)	(1.6)	(1.6)	(1.9)	(2.6)	(2.9)	(2.7)	(2.3)	(1.6)	(1.3)	(1.5)	(1.4)	(1.3)
M2(YoY%)	13.8	15.9	15.2	15.7	16.1	15.8	14.0	14.5	14.7	14.2	14.3	14.2	14.0
New Lending (RMB/bn)	454.3	1070.0	620.0	1060.0	792.9	667.4	860.5	699.9	711.3	787.0	506.1	624.6	550

* Forecast (excluding PMI - Manufacturing and PMI - Non-manufacturing); Real GDP is for 2013

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	
U.S.				Energy				US Fed Fund Rate	0.25	0.00	
DJIA	16,441.35	(0.22)	15.90	NYMEX WTI	USD/bbl	95.53	(4.77)	135,275	US Prime Rate	3.25	0.00
S&P 500	1,831.98	(0.51)	17.29	ICE Brent Oil	USD/bbl	108.30	(3.46)	113,446	US Discount Window	0.75	0.00
NASDAQ	4,143.07	(0.33)	26.24	NYMEX Natural Gas	USD/MMBtu	4.32	(2.04)	68,145	US Treasury (1 Mth)	0.0051	0.51
MSCI US	1,752.57	(0.50)	17.46	Australia Newcastle Steam Coal Spot fob ²	USD/Metric Tonne	84.60	N/A	N/A	US Treasury (5 Yr)	1.7036	(3.06)
Europe				Basic Metals				US Treasury (10 Yr)	2.9743	(2.57)	
FTSE 100	6,710.83	(0.59)	16.54	LME Aluminum Cash	USD/MT	1,758.00	(0.34)	19,544	Japan 10-Yr Gov. Bond	0.7410	3.50
DAX	9,398.48	(1.99)	15.98	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,803.00	(0.39)	20,374	China 10-Yr Gov. Bond	4.6200	3.00
CAC40	4,236.79	(0.96)	18.15	CMX Copper Active	USD/lb.	335.20	(0.97)	30,259	ECB Rate (Refinancing)	0.25	0.00
IBEX 35	9,748.10	(1.54)	66.28	LME Copper 3- mth Rolling Fwd.	USD/MT	7,393.00	0.15	32,468	1-Month LIBOR	0.1683	(0.07)
FTSE MIB	19,018.10	0.32	219.6	TSI CFR China Iron Ore Fines Index ³	USD	135.00	0.75	N/A	3 Month LIBOR	0.2429	(0.38)
Stoxx 600	325.87	(0.55)	21.52	Precious Metals				O/N SHIBOR	3.0060	(50.7)	
MSCI UK	1,982.87	(0.51)	16.50	CMX Gold	USD/T. oz	1,232.70	1.54	95,682	1-mth SHIBOR	6.2010	(29.1)
MSCI France	118.15	(1.01)	23.17	CMX Silver	USD/T. oz	20.18	0.65	32,041	3-mth HIBOR	0.3800	0.29
MSCI Germany	129.19	(1.87)	15.63	NYMEX Platinum	USD/T. oz	1,407.50	2.07	8,936	Corporate Bonds (Moody's)		
MSCI Italy	54.25	(0.18)	99.74	Agricultural Products				Aaa	4.57	0.00	
Asia				CBOT Corn	USD/bu	421.75	(1.35)	79,834	Baa	5.37	(2.00)
NIKKEI 225	16,291.31	0.69	23.54	CBOT Wheat	USD/bu	600.00	(1.48)	26,349	Note:		
S&P/ASX 200	5,350.10	0.49	21.94	NYB-ICE Sugar	USD/lb.	16.24	(1.16)	23,343	1. Data sources: Bloomberg Finance LP, National Bureau of Statistics of China, ABCIS (updated on date of report)		
HSI	22,817.28	(1.83)	10.35	CBOT Soybeans	USD/bu.	1,293.00	(2.89)	33,038	2. Australia Newcastle Steam Coal Spot fob is the Australia Newcastle 6700 kc GAD fob Steam Coal Spot price published by McCloskey		
HSCEI	10,436.76	(3.63)	7.74								
CSI300	2,290.78	(0.55)	10.94								
SSE Composite	2,083.14	(0.86)	10.46								
SZSE Composite	1,065.69	1.41	29.03								
MSCI China	63.09	0.02	9.96								
MSCI Hong Kong	12,296.60	1.06	11.14								
MSCI Japan	806.64	0.91	17.34								

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-Mth
Spot Rate	1.3635	1.6454	0.8989	104.25	0.9013	6.0517	7.7542	6.1165
Chg. WTD (%)	(0.83)	(0.18)	1.34	0.88	(1.09)	0.29	0.01	0.26

- Data sources: Bloomberg Finance LP, 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
- TSI CFR China Iron Ore Fines Index is calculated with the 62% Fe specification, spot price



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 2007-2011

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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