



# Economics Weekly November 11, 2015

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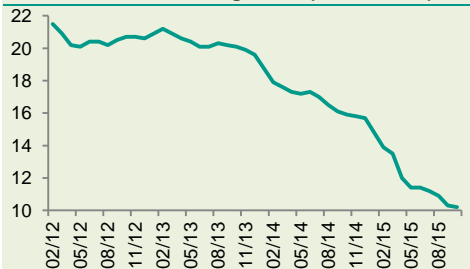
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### Exhibit 1: October economic indicators

YoY% or otherwise specified	Oct'15*	Sept'15
Manufacturing PMI(%)	49.8	49.8
Non-Manufacturing PMI (%)	53.1	53.4
CPI	1.3	1.6
PPI	(5.9)	(5.9)
Exports	(6.9)	(3.7)
Imports	(18.8)	(20.4)
Trade Balance (US\$/bn)	61.6	60.3
FAI (YTD%)	10.2	10.3
Industrial production	5.6	5.7
Retail Sales	11.0	10.9
M2	13.1	13.1
New loans (RMB/bn)	900	1,050
Aggregate financing (RMB/bn)	816.8	1,300

\* Actual data (excluding M2, New loans, and Aggregate financing)  
Source(s): NBS, PBOC, Bloomberg, ABCI Securities estimates

### Exhibit 2: China's FAI growth (YTD YoY %)



Source(s): NBS, Bloomberg, ABCI Securities

### Exhibit 3: China's industrial production growth (YoY %)



Source(s): NBS, Bloomberg, ABCI Securities

## Unsurprisingly, growth remained languid in October

China's major economic indicators in October failed to demonstrate significant improvement. FAI and industrial production still moderated in varying degrees while retail sales showed limited progress. Continued sluggishness in the economy will prompt more stimulus measures. In the coming months, we expect further monetary easing, including the rate and RRR cuts, and expansionary fiscal measures will be deployed to alleviate the downward pressure in the economy.

**FAI growth continued to shrink.** 10M15 FAI slowed to 10.2% YoY from 10.3% in 9M15, mainly due to extended weakness in real estate investment and manufacturing. Sluggishness in the real estate sector, whose YTD growth in FAI only reached 2.0% YoY for 10M15 (vs. 2.6 % YoY in 9M15), suggests an ongoing rebalancing process. 10M15 FAI in the manufacturing sector stayed flat at 8.3%, indicating cautiousness in capital spending. Nonetheless, the government's recent effort to launch more infrastructure projects should help boost FAI. Infrastructure investment, which grew rapidly by 17.4% YoY in 10M15, will become the major growth driver of the economy this year.

**Industrial production edged down mildly.** In October, industrial production slowed to 5.6% YoY, down from the 5.7% YoY in September. Overall, manufacturing activities were recovering only slowly, but certain product categories managed to record a double-digit growth on a YoY basis. In particular, value-added growth of "Computer, Communication Equipment and Other Electronic Equipment" rose 11.7% YoY while "Medicines" increased 10.0% YoY. We believe industrial production would recover further as the economic conditions improve.

**Retail sales edged up on robust online sales.** October retail sales rose 11.0% YoY, higher than the 10.9% YoY increase in September. The rise was mainly driven by sizeable growth in "Communication Appliances" (36.6% YoY), "Building and Decoration Materials" (19.7% YoY), "Beverages" (14.5% YoY), and "Traditional Chinese and Western Medicines" (11.0% YoY). However, "Petroleum and Related Products" still fell 7.1% YoY due to the weakening global oil prices. For 10M15, the national online retail sales of goods and services was RMB 2,948.4bn, up 34.6% YoY. Of which, the online retail sales of physical goods was RMB 2,445.4bn, up 33.0% YoY, accounting for 10.0% of the total retail sales of consumer goods. The online retail sales of non-physical goods was RMB 503.0bn, up 43.1% YoY while the online retail sales of physical goods, food, clothing and other commodities surged 41.2%, 24.2% and 36.2% YoY, respectively. Going forward, retail sales are likely to trend up on the government's persistent effort to encourage private consumption.

**Decline in export growth widened further.** Exports and imports fell 6.9% YoY (3.6% YoY in RMB) and 18.8% YoY (16.0% YoY in RMB) in October while trade balance reached US\$ 61.6bn (393.2bn in RMB). For 10M15, exports dropped by 2.5% (2.0% in RMB) while imports fell by 15.7% YoY (15.2% in RMB). The decline in October's external trade was caused by the high base in 2014, weak external demand from the Eurozone and Japan, and tepid domestic demand. Yet, we believe growth in exports and imports would remain stagnant in coming months on gloomy global economic outlook and weakening

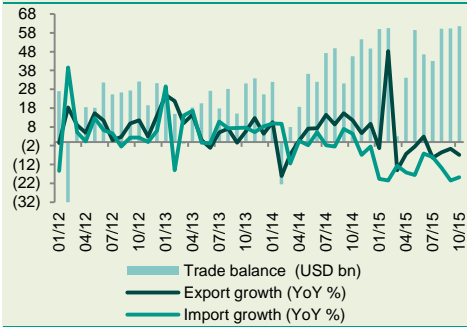


Exhibit 4: China's retail sales growth (YoY %)



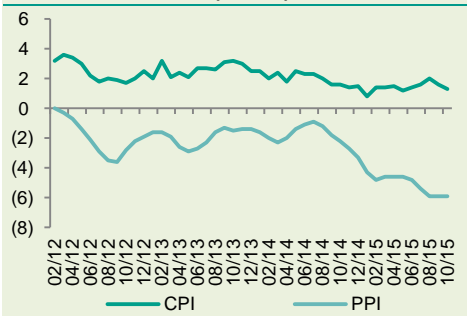
Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 5: China's external trade



Source(s): China Customs, Bloomberg, ABCI Securities

Exhibit 6: CPI & PPI (YoY %)



Source(s): NBS, Bloomberg, ABCI Securities

external demand.

**Inflation softened in October on weakening food price.** CPI inflation edged down to 1.3% YoY in October against September's 1.6%. Falling price pressure was primarily driven by food prices that rose only 1.9% YoY, compared to September's 2.7% YoY. Pork and vegetable prices slowed to 15.8% YoY and 4.7% YoY in October, respectively, compared to September's 17.4% and 10.4% YoY. The YTD CPI inflation, low at 1.4%, will leave room for more credit easing by PBOC. Decline in PPI stayed flat at 5.9% YoY in October. Stagnant growth of manufacturing activities and faltering commodities prices have resulted in the 44-month decline in producer prices to the lowest since 2009. With global commodity prices still hovering at low levels, a major turnaround in PPI is unlikely in the short term.



China Economic Indicators

	2014						2015									
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct*
Real GDP (YoY%)	--	--	7.3	--	--	7.3	--	--	7.0	--	--	7.0	--	--	6.9	--
Export Growth (YoY%)	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)	(5.5)	(3.7)	(6.9)
Import Growth (YoY%)	(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)	(13.8)	(20.4)	(18.8)
Trade Balance (USD/bn)	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	60.2	60.3	61.6
Retail Sales Growth (YoY%)	12.2	11.9	11.6	11.5	11.7	11.9	10.7	10.2	10.0	10.1	10.6	10.5	10.8	10.9	11.0	
Industrial Production (YoY%)	9.0	6.9	8.0	7.7	7.2	7.9	6.8	5.6	5.9	6.1	6.8	6.0	6.1	5.7	5.6	
PMI - Manufacturing (%)	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	49.7	49.8	49.8
PMI - Non-manufacturing (%)	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	53.4	53.4	53.1
FAI(YTD) (YoY%)	17.0	16.5	16.1	15.9	15.8	15.7	13.9	13.5	12.0	11.4	11.4	11.2	10.9	10.3	10.2	
CPI (YoY%)	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	2.0	1.6	1.3
PPI (YoY%)	(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)	(5.9)	(5.9)	(5.9)
M2(YoY%)	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	13.3	13.1	13.1
New Lending (RMB/bn)	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	809.6	1,050	900
Aggregate Financing (RMB bn)	273.7	957.7	1,135.5	662.7	1,146.3	1,690	2,047	1,356	1,241	1,056	1,236	1,833	742	1,082	1,300	816.8

\* Actual data (excluding M2, New Lending, and Aggregate financing)

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	17,758.21	(0.85)	15.91	NYMEX WTI	USD/bbl	43.74	(1.24)	455,810		0.25	0.00		
S&P 500	2,081.72	(0.83)	18.64	ICE Brent Oil	USD/bbl	47.23	(0.40)	242,027	US Prime Rate	3.25	0.00		
NASDAQ	5,083.24	(1.24)	31.21	NYMEX Natural Gas	USD/MMBtu	2.31	(2.45)	156,478	US Discount Window	0.75	0.00		
MSCI US	1,987.37	(0.82)	19.35	Australia Newcastle Steam Coal Spot fob <sup>2</sup>	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (1 Yr)	0.0760	4.55		
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (5Yr)					
FTSE 100	6,302.34	(0.81)	28.96	LME Aluminum Cash	USD/MT	1,496.25	(0.83)	15,531	US Treasury (10 Yr)	2.3301	0.49		
DAX	10,924.64	(0.58)	19.91	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,508.00	(0.98)	40,180	Japan 10-Yr Gov. Bond	0.3180	(0.60)		
CAC40	4,944.16	(0.80)	22.69	CMX Copper Active	USD/lb.	4,940.50	(1.13)	8,635	China 10-Yr Gov. Bond	3.2600	12.00		
IBEX 35	10,391.30	(0.59)	19.35	LME Copper 3- mth Rolling Fwd.	USD/MT	4,925.50	(1.23)	50,262	ECB Rate (Refinancing)	0.05	0.00		
FTSE MIB	22,514.67	(0.07)	0.00	<b>Precious Metals</b>				1-Month LIBOR					
Stoxx 600	378.15	(0.47)	0.00	CMX Gold	USD/T. oz	1,089.90	0.20	157,647	3 Month LIBOR	0.3556	1.42		
MSCI UK	1,830.95	(1.22)	29.75	CMX Silver	USD/T. oz	14.39	(2.05)	49,246	O/N SHIBOR	1.7820	(0.50)		
MSCI France	137.99	(1.44)	22.86	NYMEX Platinum	USD/T. oz	900.40	(4.21)	12,143	1-mth SHIBOR	2.7050	(1.40)		
<b>Asia</b>				<b>Agricultural Products</b>				3-mth HIBOR					
NIKKEI 225	19,691.39	2.21	20.40	CBOT Corn	USD/bu	361.25	(3.15)	285,797	Corporate Bonds (Moody's)				
S&P/ASX 200	5,122.62	(1.77)	18.47	CBOT Wheat	USD/bu	494.25	(5.54)	116,986	Aaa	4.12	2.00		
HSI	22,352.17	(2.25)	9.68	NYB-ICE Sugar	USD/lb.	14.78	2.21	82,156	Baa	5.51	0.00		
HSCEI	10,245.53	(2.94)	7.54	CBOT Soybeans	USD/bu.	858.25	(1.04)	107,682					
CSI300	3,833.65	1.06	15.85										
SSE Composite	3,650.25	1.68	19.12										
SZSE Composite	2,253.21	4.68	52.31										
MSCI China	62.01	(2.44)	9.43										
MSCI Hong Kong	12,215.89	(2.21)	9.83										
MSCI Japan	969.21	1.73	16.53										
* 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 Rate	1.0742	1.5149	0.7057	123.15	1.0042	6.3667	7.7512				6.5510		
Chg. WTD (%)	0.01	0.64	0.20	(0.02)	0.12	(0.21)	0.00				(0.03)		

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

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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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