



## Economics Weekly November 24, 2014

**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: China's benchmark interest rates**

	Revised benchmark rates (%)
<b>Lending rate</b>	
- 1 year	5.60
- 1 year to 5 years	6.00
- over 5 years	6.15
<b>Savings rate</b>	
- demand	0.35
- 3 months	2.35
- 6 months	2.55
- 1 year	2.75
- 2 years	3.35
- 3 years	4.00

Source: PBOC, ABCI Securities

## China's first rate cut since July 2012

On Nov 24, 2014, PBOC announced its first rate cut since July 2012 by slashing 1-year lending rate by 40bp to 5.6%; 1-year deposit rate will be lowered by 25bp to 2.75%, effective Nov 25, 2014. Also announced were the guidelines for financial institutions to offer deposit rates at a maximum of 1.2 times, versus the 1.1 times currently in place. The rate cut indicate that PBOC is stepping up efforts to stimulate the decelerating economic activities by injecting liquidity back into the market.

**Economic momentum remains weak despite injection of short-term liquidity and targeted easing.** More recently, PBOC has injected cash into system in the form of short-term loans through SLF and lending. However, the new loans and aggregate financing to the real economy in October were far below expectation, raising concerns that the downside risks of economy are elevating and credit loosening through short-term loans may not be helpful in boosting economic growth. To avoid further moderation in 4Q14, PBOC has to strengthen its monetary tool by launching overall rate cut to revive economic momentum.

**Stimulating growth by lowering cost of capital.** The rate cut came after the release of disappointing October economic indicators. Recent liquidity injection suggests the government fears domestic economic growth is deteriorating faster than expected and demands an early intervention. The reduction of real interest rates would push down the cost of capital, thus lowering financing costs of enterprises and propel economic activities.

**Asymmetric cuts in benchmark lending and deposit rates; further deposit rate liberalization to stimulate loan growth.** The maximum 1-year benchmark deposit rate remains unchanged at 3.3% due to further deposit rate liberalization (1.2 times vs previous 1.1 times). Given that the cut in lending rate is higher than that in deposit rate, banks may face a reduction in net interest margin. We believe that deeper rate cut implies banks would need to boost loan growth to maintain overall profit growth in the future, signaling that PBOC is encouraging loan growth to boost investment and consumption.

**Further interest rate liberalization in 2015.** PBOC's move to further liberalize deposit rate setting conveys a message that the government is pushing hard for interest rate liberalization to align deposit rates with market conditions and spur greater activities within China's capital and financial market. Although full liberalization in deposit rate has not been achieved at present, we believe PBOC will launch deposit insurance in 2015 and complete the full liberalization of interest rate in China.

**Surprise rate cut may lead to market rally.** The rate cut that came in surprise points to a greater immediate impact on the market. The cut reveals China's determination to revive economic growth. PBOC's action is likely to revive lending momentum in 4Q14 and improve market sentiment, triggering a market rally over the medium term.



China Economic Indicators

	2013					2014									
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Real GDP (YoY%)	---	7.8	---	---	7.7	---	---	7.4	---	--	7.5	--	---	7.3	---
Export Growth (YoY%)	7.2	(0.3)	5.6	12.7	5.8	10.6	(18.1)	(6.6)	0.9	7.0	7.2	14.5	9.4	15.3	11.6
Import Growth (YoY%)	7.0	7.4	7.6	5.3	6.5	10.0	10.1	(11.3)	0.8	(1.6)	5.5	(1.6)	(2.4)	7.0	4.6
Trade Balance (USD/bn)	28.5	15.2	31.1	33.8	32.3	31.9	(23.0)	7.7	18.5	35.9	31.6	47.3	49.8	30.9	45.4
Retail Sales Growth (YoY%)	13.4	13.3	13.3	13.7	13.6		11.8	12.2	11.9	12.5	12.4	12.2	11.9	11.6	11.5
Industrial Production (YoY%)	10.4	10.2	10.3	10.0	9.7		8.6	8.8	8.7	8.8	9.2	9.0	6.9	8.0	7.7
PMI - Manufacturing (%)	51.0	51.1	51.4	51.4	51.0	50.5	50.2	50.3	50.4	50.8	51.0	51.7	51.1	51.1	50.8
PMI - Non-manufacturing (%)	53.9	55.4	56.3	56.0	54.6	53.4	55.0	54.5	54.8	55.5	55.0	54.2	54.4	54.0	53.8
FAI(YTD) (YoY%)	20.3	20.2	20.1	19.9	19.6		17.9	17.6	17.3	17.2	17.3	17.0	16.5	16.1	15.9
CPI (YoY%)	2.6	3.1	3.2	3.0	2.5	2.5	2.0	2.4	1.8	2.5	2.3	2.3	2.0	1.6	1.6
PPI (YoY%)	(1.6)	(1.3)	(1.5)	(1.4)	(1.4)	(1.6)	(2.0)	(2.3)	(2.0)	(1.4)	(1.1)	(0.9)	(1.2)	(1.8)	(2.2)
M2(YoY%)	14.7	14.2	14.3	14.2	13.6	13.2	13.3	12.1	13.2	13.4	14.7	13.5	12.8	12.9	12.6
New Lending (RMB/bn)	711.3	787.0	506.1	624.6	482.5	1,320	644.5	1,050	774.7	870.8	1080	385.2	702.5	857.2	548.3
Aggregate Financing (RMB bn)	1,584	1,411.3	864	1,226.9	1,232.2	2,580	938.7	2,081.3	1,550	1,400	1,970	273.7	957.7	1052.2	662.7

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	17,810.06	0.00	15.91	NYMEX WTI	USD/bbl	76.47	(0.05)	174,397		0.25	0.00			
S&P 500	2,063.50	0.00	18.25	ICE Brent Oil	USD/bbl	80.42	0.07	223,352	US Prime Rate	3.25	0.00			
NASDAQ	4,712.97	0.00	74.87	NYMEX Natural Gas	USD/MMBtu	4.04	(5.23)	175,809	US Discount Window	0.75	0.00			
MSCI US	1,970.48	0.00	18.66	Australia Newcastle Steam Coal Spot fob <sup>2</sup>	USD/Metric Tonne	62.10	N/A	N/A	US Treasury (1 Mth)	0.0355	0.00			
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (5Yr)						
FTSE 100	6,750.76	0.00	19.21	LME Aluminum Cash	USD/MT	2,064.75	0.00	45,314	US Treasury (10 Yr)	2.3099	(1.05)			
DAX	9,732.55	0.00	17.10	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	2,054.50	0.00	29,316	Japan 10-Yr Gov. Bond	0.4630	0.10			
CAC40	4,347.23	0.00	26.04	CMX Copper Active	USD/lb.	6,772.00	0.00	21,236	China 10-Yr Gov. Bond	3.7100	7.00			
IBEX 35	10,520.80	0.00	21.51	LME Copper 3- mth Rolling Fwd.	USD/MT	6,725.00	0.00	43,547	ECB Rate (Refinancing)	0.05	0.00			
FTSE MIB	19,954.51	0.00	498.4	<b>Precious Metals</b>				1-Month LIBOR						
Stoxx 600	345.24	0.00	21.38	CMX Gold	USD/T. oz	1,201.30	0.24	31,605	3 Month LIBOR	0.2329	0.08			
MSCI UK	1,987.64	0.00	19.12	CMX Silver	USD/T. oz	16.46	(0.02)	16,769	O/N SHIBOR	2.5540	(3.20)			
MSCI France	121.72	0.00	27.28	NYMEX Platinum	USD/T. oz	1,224.20	(0.25)	11,617	1-mth SHIBOR	4.0190	(4.50)			
<b>Asia</b>				<b>Agricultural Products</b>				3-mth HIBOR						
NIKKEI 225	17,357.51	0.00	21.19	CBOT Corn	USD/bu	384.75	(0.13)	143,998	Corporate Bonds (Moody's)					
S&P/ASX 200	5,360.30	1.06	18.47	CBOT Wheat	USD/bu	555.50	0.36	51,191	Aaa	3.97	3.00			
HSI	23,871.34	1.85	10.32	NYB-ICE Sugar	USD/lb.	16.09	0.00	41,140	Baa	4.86	6.00			
HSCEI	10,748.25	2.88	7.43	CBOT Soybeans	USD/bu.	1,034.50	(0.43)	99,786	Note:					
CSI300	2,629.61	1.79	11.39	1. Data sources: Bloomberg Finance LP, National Bureau of Statistics of China, ABCIS (updated on date of report)										
SSE Composite	2,517.80	1.25	11.98	2. Australia Newcastle Steam Coal Spot fob is the Australia Newcastle 6700 kc GAD fob Steam Coal Spot price published by McCloskey										
SZSE Composite	1,371.41	0.85	33.14	<b>Currency</b>										
MSCI China	62.87	0.00	9.34	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth	Spot pr.		
MSCI Hong Kong	12,890.28	0.00	10.66	1.2385	1.5654	0.8694	117.79	0.9711	6.1343	7.7572	6.2519			
MSCI Japan	866.70	0.00	15.90	Chg. WTD (%)	(0.05)	(0.01)	0.28	0.00	(0.14)	(0.15)	0.02	0.00		



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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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**Office address: ABCI Securities Company Limited, 13/F Fairmont House,  
8 Cotton Tree Drive, Central, Hong Kong.**

**Tel: (852) 2868 2183**