農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Economics Weekly
Aug 1, 2014

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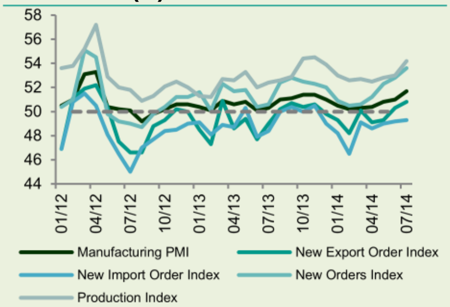
Exhibit 1: July economic indicators preview

YoY% or otherwise specified	July'14F*	Jun'14
PMI - Manufacturing	51.7	51.0
CPI	2.3	2.3
PPI	(0.8)	(1.1)
Exports	9.5	7.2
Imports	6.5	5.5
Trade Balance (US$/bn)	24.6	31.6
FAI (YTD%)	17.5	17.3
Industrial production	9.3	9.2
Retail Sales	12.6	12.4
M2	14.2	14.7
New loans (RMB/bn)	800	1079.3
Aggregate financing (RMB/bn)	1756.0	1974.5

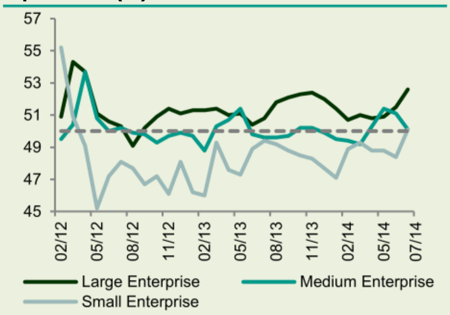
* Forecast (excluding PMI – Manufacturing)
Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 2: China's manufacturing PMI and sub-indices (%)



Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 3: PMI of small enterprises returned to above 50 for the first time since April 2012 (%)



Source(s): NBS, Bloomberg, ABCI Securities

Strong PMI signals salient recovery

China's manufacturing PMI for July was up 0.7% to 51.7% (June: 51.0%), exceeding the market consensus of 51.4%. Improving credit conditions driven by stimulus measures propped up manufacturing activity, as reflected by the rising domestic and external demand sub-indices; in particular, manufacturing activity of small enterprises expanded for the first time since April 2012. We expect the government to step up its targeted easing to lower financing costs for small and micro enterprises, support foreign trade, and increase infrastructure investment. Thus, FAI, retail sales, and industrial production for July will see support. Exports will sustain growth on increasing orders from major trading partners. Hence, a stable CPI and a narrowing PPI in July can be anticipated.

Increasing activity in the manufacturing sector. The continued rebound in PMI was mainly driven by increasing domestic new orders, which reflects robust domestic and external demands, as well as a restocking in the manufacturing sector. Rising demand for manufacturing goods was evident by the rises in New Order Index (July reading: 53.6%, up 0.8%) and Input Price Index (July reading: 50.5%, up 0.4%). The advancing Purchases of Input Index and Main Raw Materials Inventory Index also suggest that manufacturers have been ramping up inventories in anticipation of increasing production activities. In our view, the government's recent measures to stimulate private consumption and new investment projects would serve to support domestic demand.

External trade environment improves. The New Export Order Index and New Import Order Index, sub-indices of the manufacturing PMI, rose in July. The New Export Order Index edged up from 50.3% in June to 50.8% in July, while the New Import Order index increased from 49.2% to 49.3% for the same period. The pickup in total trade is in line with our expectation and reflects an increasing inflow of new exports orders from trading partners. We expect exports and imports will grow by 9.5% YoY and 6.5% YoY in July.

CPI will remain flat on mild increases in food prices, while expanding factory purchases will further slash PPI decline. Food and non-food prices are expected to remain stable in July, thus CPI will stay at 2.3% YoY. In July, the increases in Purchases of Input Index and Input Price Index, which are both sub-indices of the Manufacturing PMI, indicate production and input prices will trend up in the future. Therefore, we expect the decline in PPI to further narrow to 0.8% YoY in July.

Other major economic indicators are likely to fare well in July. We expect FAI to rebound to 17.5% YTD in July (1H14: 17.3%) on surging infrastructure investment. For retail sales, the July figure will rise moderately by 12.6% YoY on the reviving economy. For industrial production, we expect the figure to grow 9.3% YoY as industry restocking should lift production volume.

Monetary indicators to turn stable in July. New loans and the aggregate financing to the real economy are expected to reach RMB 800 bn and RMB 1756 bn, while M2 growth will slow to 14.2% YoY in July. We expect credit growth will remain stable in 2H14 to invigorate domestic and external demands, thus rebalancing the economy to achieve sustainable growth.

China Economic Indicators

	2013							2014						
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul*
Real GDP (YoY%)	7.5	---	---	7.8	---	---	7.7	---	---	7.4	---	--	7.5	--
Export Growth (YoY%)	(3.1)	5.1	7.2	(0.3)	5.6	12.7	5.8	10.6	(18.1)	(6.6)	0.9	7.0	7.2	9.5
Import Growth (YoY%)	(0.7)	10.9	7.0	7.4	7.6	5.3	6.5	10.0	10.1	(11.3)	0.8	(1.6)	5.5	6.5
Trade Balance (USD/bn)	27.1	17.8	28.5	15.2	31.1	33.8	32.3	31.9	(23.0)	7.7	18.5	35.9	31.6	24.6
Retail Sales Growth (YoY%)	13.3	13.2	13.4	13.3	13.3	13.7	13.6	11.8		12.2	11.9	12.5	12.4	12.6
Industrial Production (YoY%)	8.9	9.7	10.4	10.2	10.3	10.0	9.7	8.6		8.8	8.7	8.8	9.2	9.3
PMI - Manufacturing (%)	50.1	50.3	51.0	51.1	51.4	51.4	51.0	50.5	50.2	50.3	50.4	50.8	51.0	51.7
PMI - Non-manufacturing (%)	53.9	54.1	53.9	55.4	56.3	56.0	54.6	53.4	55.0	54.5	54.8	55.5	55.0	55.5
FAI(YTD) (YoY%)	20.1	20.1	20.3	20.2	20.1	19.9	19.6	17.9		17.6	17.3	17.2	17.3	17.5
CPI (YoY%)	2.7	2.7	2.6	3.1	3.2	3.0	2.5	2.5	2.0	2.4	1.8	2.5	2.3	2.3
PPI (YoY%)	(2.7)	(2.3)	(1.6)	(1.3)	(1.5)	(1.4)	(1.4)	(1.6)	(2.0)	(2.3)	(2.0)	(1.4)	(1.1)	(0.8)
M2(YoY%)	14.0	14.5	14.7	14.2	14.3	14.2	13.6	13.2	13.3	12.1	13.2	13.4	14.7	14.2
New Lending (RMB/bn)	860.5	699.9	711.3	787.0	506.1	624.6	482.5	1,320	644.5	1,050	774.7	870.8	1080	800
Aggregate Financing (RMB bn)	1,037.5	819.1	1,584	1,411.3	864	1,226.9	1,232.2	2,580	938.7	2,081.3	1,550	1,400.0	1,970	1756

** Forecast (excluding PMI – Manufacturing)*

World Economic/Financial Indicators

Equity Indices

	Closing price	Chg. WTD (%)	P/E
U.S.			
DJIA	16,563.30	(2.34)	15.23
S&P 500	1,930.67	(2.41)	17.56
NASDAQ	4,369.77	(1.79)	41.89
MSCI US	1,847.14	(2.36)	18.00
Europe			
FTSE 100	6,654.62	(2.02)	18.23
DAX	9,249.99	(4.09)	17.28
CAC40	4,191.52	(3.21)	26.28
IBEX 35	10,506.50	(3.50)	22.10
FTSE MIB	20,318.92	(3.53)	N/A
Stoxx 600	332.08	(2.89)	21.20
MSCI UK	1,987.31	(0.87)	19.05
MSCI France	119.17	(1.87)	25.07
MSCI Germany	125.44	(2.52)	17.84
MSCI Italy	59.70	(2.29)	N/A
Asia			
NIKKEI 225	15,523.11	0.42	19.95
S&P/ASX 200	5,556.37	(0.49)	19.76
HSI	24,532.43	1.31	10.78
HSCEI	10,982.65	(0.10)	8.07
CSI300	2,329.40	3.05	10.66
SSE Composite	2,185.30	2.76	10.67
SZSE Composite	1,148.29	3.31	28.57
MSCI China	66.08	1.24	10.15
MSCI Hong Kong	13,324.95	2.52	11.70
MSCI Japan	791.50	0.71	15.05

Global Commodities

	Unit	Price	Chg. WTD (%)	Volume (5-day avg.)
Energy				
NYMEX WTI	USD/bbl	97.75	(4.25)	268,111
ICE Brent Oil	USD/bbl	106.05	(2.16)	204,453
NYMEX Natural Gas	USD/MMBtu	3.81	0.69	59,631
Australia Newcastle Steam Coal Spot fob[2]	USD/Metric Tonne	67.05	N/A	N/A
Basic Metals				
LME Aluminum Cash	USD/MT	1,978.50	(0.08)	18,501
LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,988.00	(0.45)	34,540
CMX Copper Active	USD/lb.	7,123.50	(0.09)	7,855
LME Copper 3- mth Rolling Fwd.	USD/MT	7,115.00	(0.14)	35,678
TSI CFR China Iron Ore Fines Index[3]	USD	95.60	1.38	N/A
Precious Metals				
CMX Gold	USD/T. oz	1,284.90	(1.56)	104,889
CMX Silver	USD/T. oz	20.40	(1.14)	36,163
NYMEX Platinum	USD/T. oz	1,466.00	(0.85)	8,757
Agricultural Products				
CBOT Corn	USD/bu	366.75	(1.34)	97,642
CBOT Wheat	USD/bu	533.75	(0.79)	47,897
NYB-ICE Sugar	USD/lb.	16.45	(4.03)	44,163
CBOT Soybeans	USD/bu.	1,073.25	(0.95)	98,321

Bond Yields & Key Rates

	Yield (%)	Chg. WTD (Bps)
US Fed Fund Rate	0.25	0.00
US Prime Rate	3.25	0.00
US Discount Window	0.75	0.00
US Treasury (1 Mth)	0.0051	(2.02)
US Treasury (5 Yr)	1.7663	9.49
US Treasury (10 Yr)	2.5761	11.06
Japan 10-Yr Gov. Bond	0.5390	0.30
China 10-Yr Gov. Bond	4.3200	5.00
ECB Rate (Refinancing)	0.15	0.00
1-Month LIBOR	0.1558	(0.02)
3 Month LIBOR	0.2396	0.55
O/N SHIBOR	3.1960	(15.2)
1-mth SHIBOR	4.2100	(74.0)
3-mth HIBOR	0.3729	(0.71)
Corporate Bonds (Moody's)		
Aaa	4.15	3.00
Baa	4.74	7.00

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-Mth
Spot Rate	1.3387	1.6845	0.9286	102.92	0.9086	6.1795	7.7500	6.2545
Chg. WTD (%)	(0.32)	(0.77)	(1.17)	(1.05)	(0.41)	0.20	0.00	(0.14)

Note:

1. Data sources: Bloomberg Finance LP, National Bureau of Statistics of China, ABCIS (updated on date of report)
2. Australia Newcastle Steam Coal Spot fob is the Australia Newcastle 6700 kc GAD fob Steam Coal Spot price published by McCloskey
3. TSI CFR China Iron Ore Fines Index is calculated with the 62% Fe specification, spot price

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 ≥ Market return rate
Hold	Market return – 6% ≤ 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 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤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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