



Economics Weekly June 1, 2015

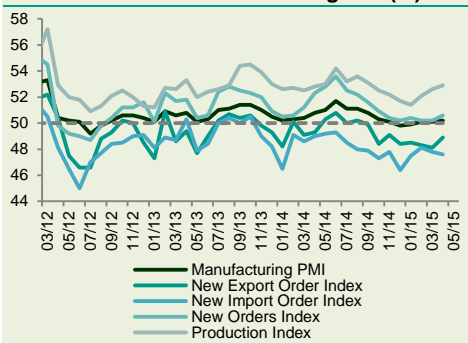
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Exhibit 1: May economic indicators

YoY% or otherwise specified	May'15F	Apr'15
Manufacturing PMI(%)	50.2*	50.1
Non-Manufacturing PMI (%)	53.2*	53.4
CPI	1.7	1.5
PPI	(4.2)	(4.6)
Exports	2.5	(6.4)
Imports	(8.5)	(16.2)
Trade Balance (US\$/bn)	54.4	34.1
FAI (YTD%)	12.2	12.0
Industrial production	6.0	5.9
Retail Sales	10.4	10.0
M2	11.5	10.1
New loans (RMB/bn)	850.0	707.9
Aggregate financing (RMB/bn)	1261.2	1,050

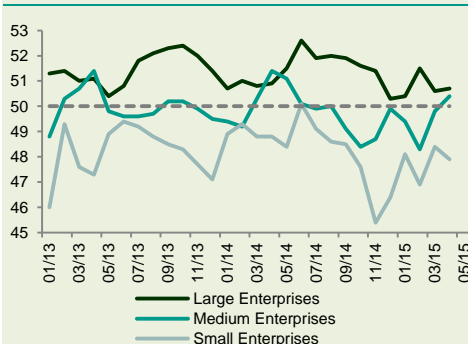
* Manufacturing PMI and Non-Manufacturing PMI are actual figures
Source(s): NBS, PBOC, Bloomberg, ABCI Securities forecast

Exhibit 2: China's manufacturing PMI (%)



Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 3: PMI for medium enterprises rebounded



Source(s): NBS, Bloomberg, ABCI Securities

China's manufacturing expanded mildly in May

China's manufacturing PMI for May edged up from April's 50.1 to 50.2, which was in line with the market expectation. The slow recovery in PMI indicates that China's manufacturing sector remains stagnant. Non-manufacturing PMI for May fell slightly to 53.2 from 53.4 in April, indicating expansion in the services sector has moderated for the third consecutive month. Although there are signs of increased activities in the manufacturing sector, China's factories are still facing weak demand, raising concern of a prolonged economic downturn. In general, we believe a rise in overall new orders pointed to a steadying market demand. We expect China's economic indicators to improve, with the uptrend to be continuing in a steady manner over the next few months.

PMI of medium-sized enterprises returned above 50 while PMI of small-sized enterprises weakened. PMI of medium-sized enterprises (50.4 in May vs. 49.8 in April) returned above the 50 threshold, signaling continued expansion of manufacturing activities. However, PMI of small-sized enterprises (47.9 in May vs. 48.4 in April) demonstrated a weakening trend and remained below 50, reflecting ongoing contraction of manufacturing activities. We believe more government supports for small-sized enterprises are needed to lift growth in coming months.

Pricing pressure to increase, but only mildly so. With the gradual acceleration in economic activities and stable growth in food prices, we believe CPI inflation for May would edge up to 1.7% YoY. The start of a restocking cycle by domestic and overseas retailers should enhance manufacturers' pricing power. Hence, decline in May's PPI is expected to narrow to 4.2% YoY.

Exports growth shows improvement. Sub-indices of the manufacturing PMI, the New Export Order Index and the New Import Order Index, reached 48.9 and 47.6 in May, as opposed to 48.1 and 47.8 in April, reflecting stronger growth impetus in exports than imports amid continued contraction in the external trade sector. For May, we forecast exports to expand by 2.5% YoY and imports to fall by 8.5% YoY. Trade balance is estimated to be US\$ 54.4bn.

FAI growth to climb slowly. Improvement in the manufacturing sector is expected to lift growth in FAI. Surging investment in infrastructure and railways will help reverse the downtrend in FAI dragged by the low single-digit growth in real estate investment. Hence, we expect FAI for May to accelerate with its YTD growth reaching 12.2% YoY.

Industrial production is likely to pick up. Sub-index of the manufacturing PMI, the Production Index, edged up to 52.9 in May from 52.6 in April. We believe the stabilizing PMI and narrowing decline in producer prices signal that industrial output will likely increase. We expect industrial production for May to grow by 6.0% YoY and will continue to improve later this year.

Retail sales will improve steadily. Improvement in retail sales is expected to broaden as the economy recovers. May retail sales will grow by 10.4% YoY, driven by Labor day holidays' spending and positive wealth impacts induced by the rallying stock market.



Consumption is trending up, and demand for consumer discretionary and staples will continue to climb.

New loans, M2 growth and aggregate financing will rise on credit loosening measures. PBOC's interest rate cut of 25 bps in May has stimulated loan demand, which in turn boost economic activities. Hence, we believe monetary indicators for May will pick up steadily. New bank loans will rise to RMB 850bn; aggregate financing will reach RMB 1.26tr; and M2 growth will rebound to 11.5% YoY.



China Economic Indicators

	2014												2015				
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May*
Real GDP (YoY%)	---	---	7.4	---	---	7.5	---	---	7.3	---	---	7.3	---	---	7.0	---	---
Export Growth (YoY%)	10.6	(18.1)	(6.6)	0.9	7.0	7.2	14.5	9.4	15.3	11.6	4.7	9.7	(3.2)	48.3	(15.0)	(6.4)	2.5
Import Growth (YoY%)	10.0	10.1	(11.3)	0.8	(1.6)	5.5	(1.6)	(2.4)	7.0	4.6	(6.7)	(2.4)	(19.7)	(20.5)	(12.7)	(16.2)	(8.5)
Trade Balance (USD/bn)	31.9	(23.0)	7.7	18.5	35.9	31.6	47.3	49.8	30.9	45.4	54.5	49.6	60.0	60.6	3.1	34.1	54.4
Retail Sales Growth (YoY%)	11.8	12.2	11.9	12.5	12.4	12.2	11.9	11.6	11.5	11.7	11.9	11.9	10.7	10.2	10.0	10.4	10.4
Industrial Production (YoY%)	8.6	8.8	8.7	8.8	9.2	9.0	6.9	8.0	7.7	7.2	7.9	7.9	6.8	5.6	5.9	6.0	6.0
PMI - Manufacturing (%)	50.5	50.2	50.3	50.4	50.8	51.0	51.7	51.1	51.1	50.8	50.3	50.1	49.8	49.9	50.1	50.1	50.2
PMI - Non-manufacturing (%)	53.4	55.0	54.5	54.8	55.5	55.0	54.2	54.4	54.0	53.8	53.9	54.1	53.7	53.9	53.7	53.4	53.2
FAI(YTD) (YoY%)	17.9	17.6	17.3	17.2	17.3	17.0	16.5	16.1	15.9	15.8	15.7	15.7	13.9	13.5	12.0	12.2	12.2
CPI (YoY%)	2.5	2.0	2.4	1.8	2.5	2.3	2.3	2.0	1.6	1.6	1.4	1.5	0.8	1.4	1.4	1.5	1.7
PPI (YoY%)	(1.6)	(2.0)	(2.3)	(2.0)	(1.4)	(1.1)	(0.9)	(1.2)	(1.8)	(2.2)	(2.7)	(3.3)	(4.3)	(4.8)	(4.6)	(4.6)	(4.2)
M2(YoY%)	13.2	13.3	12.1	13.2	13.4	14.7	13.5	12.8	12.9	12.6	12.3	12.2	10.8	12.5	11.6	10.1	11.5
New Lending (RMB/bn)	1,320	644.5	1,050	774.7	870.8	1,080	385.2	702.5	857.2	548.3	852.7	697.3	1,470	1,020	1,180	707.9	850.0
Aggregate Financing (RMB bn)	2,580	938.7	2,081.3	1,550	1,400	1,970	273.7	957.7	1,135.5	662.7	1,146.3	1,690	2,050	1,350	1,181	1,050	1,261

* Forecast (Excluding PMI-Manufacturing & PMI-Non-manufacturing)

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)	
U.S.				Energy				US Fed Fund Rate			
DJIA	18,010.68	0.00	15.55	NYMEX WTI	USD/bbl	59.75	(0.91)	333,651	US Prime Rate	3.25	0.00
S&P 500	2,107.39	0.00	18.61	ICE Brent Oil	USD/bbl	65.10	(0.70)	207,877	US Discount Window	0.75	0.00
NASDAQ	5,070.03	0.00	N/A	NYMEX Natural Gas	USD/MMBtu	2.64	(0.26)	86,138	US Treasury (1 Yr)	0.0000	0.00
MSCI US	2,019.69	0.00	19.13	Australia Newcastle Steam Coal Spot fob ²	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (5Yr)	1.5000	1.47
Europe				Basic Metals				US Treasury (10 Yr)			
FTSE 100	6,992.22	0.11	22.04	LME Aluminum Cash	USD/MT	1,700.50	0.00	21,921	Japan 10-Yr Gov. Bond	0.4090	1.50
DAX	11,426.61	0.11	18.37	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,740.00	0.00	45,058	China 10-Yr Gov. Bond	3.6000	15.00
CAC40	5,032.73	0.50	25.90	CMX Copper Active	USD/lb.	6,010.25	0.00	7,953	ECB Rate (Refinancing)	0.05	0.00
IBEX 35	11,286.00	0.61	19.80	LME Copper 3- mth Rolling Fwd.	USD/MT	6,015.00	0.00	41,397	1-Month LIBOR	0.1840	(0.09)
FTSE MIB	23,653.09	0.67	80.82	Precious Metals				3 Month LIBOR	0.2838	(0.08)	
Stoxx 600	402.02	0.54	23.32	CMX Gold	USD/T. oz	1,187.70	(0.18)	107,197	O/N SHIBOR	1.0270	(1.20)
MSCI UK	2,049.80	0.00	22.46	CMX Silver	USD/T. oz	16.67	(0.22)	35,505	1-mth SHIBOR	2.2900	1.40
MSCI France	141.39	0.00	26.97	NYMEX Platinum	USD/T. oz	1,106.70	(0.43)	11,197	3-mth HIBOR	0.3896	0.00
Asia				Agricultural Products				Corporate Bonds (Moody's)			
NIKKEI 225	20,569.87	0.03	23.26	CBOT Corn	USD/bu	350.50	(0.28)	162,741	Aaa	3.95	(12.0)
S&P/ASX 200	5,735.40	(0.72)	21.02	CBOT Wheat	USD/bu	477.75	0.16	88,969	Baa	4.88	(7.00)
HSI	27,597.16	0.63	10.70	NYB-ICE Sugar	USD/lb.	12.06	0.67	63,307			
HSCEI	14,299.45	1.39	10.35	CBOT Soybeans	USD/bu.	925.25	(0.94)	110,043			
CSI300	5,076.37	4.87	21.44								
SSE Composite	4,828.74	4.71	23.99								
SZSE Composite	2,926.96	4.79	71.63								
MSCI China	80.16	0.00	12.42								
MSCI Hong Kong	14,196.93	0.00	8.58								
MSCI Japan	1,030.68	0.00	18.90								

Note:

1. Data sources: Bloomberg, 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

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.0925	1.5270	0.7653	124.10	0.9459	6.1993	7.7544	6.2543
Chg. WTD (%)	(0.56)	(0.14)	0.10	0.04	(0.59)	(0.03)	(0.02)	0.04



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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 2010-2014

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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