



# Economics Weekly September 1, 2014

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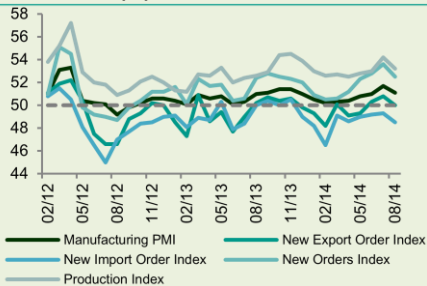
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### Exhibit 1: Aug economic indicators preview

YoY% or otherwise specified	Aug'14E	July'14
PMI - Manufacturing	51.1	51.7
CPI	2.3	2.3
PPI	(0.8)	(0.9)
Exports	9.5	14.5
Imports	3.5	(1.6)
Trade Balance (US\$/bn)	42.6	47.3
FAI (YTD%)	17.1	17.0
Industrial production	8.8	9.0
Retail Sales	12.2	12.2
M2	13.5	13.5
New loans (RMB/bn)	750	385.2
Aggregate financing (RMB/bn)	1,710	273.1

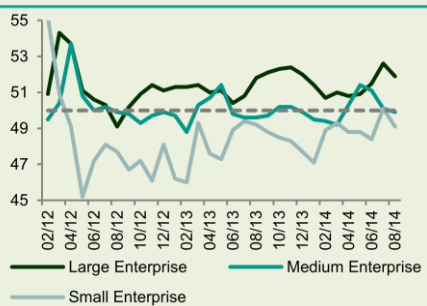
\* Forecast (excluding PMI - Manufacturing)  
Source(s): NBS, Bloomberg, ABCI Securities

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



Source(s): NBS, Bloomberg, ABCI Securities

### Exhibit 3: PMI of small-sized and medium-sized enterprises dropped below 50



Source(s): NBS, Bloomberg, ABCI Securities

## August PMI shows waning momentum

China's manufacturing PMI for August edged down 0.6% to 51.1% (July: 51.7%), missing the market consensus of 51.2%. Weaker-than-expected credit conditions undermine market confidence in the recovery of manufacturing activities. The momentum of growth is stalling, as reflected by the weakening domestic and external demand sub-indices; in particular, manufacturing activities of small and medium sized enterprises contracted again in August. We expect the government to launch more targeted easing to lower financing costs for small and micro enterprises, support foreign trade, and increase infrastructure investment to resuscitate growth in the near future. FAI, retail sales, and industrial production for August may see softening growth in August. Exports will sustain high single-digit growth on new orders from major trading partners. Hence, a stable CPI and a narrowing PPI decline in August can be anticipated.

**Activities expanded at a slower pace in manufacturing.** The drop in PMI was mainly driven by weakening domestic new orders, which reflects diminishing domestic and external demands. Slowing demand for manufacturing goods was evident by the drop in New Order Index (August reading: 52.5%, down 1.1%). In our view, the plunge in July's credits had deterred demand momentum and drove down manufacturing activities.

**New orders from External Trade dropped.** The New Export Order Index and Import Index, sub-indices of the manufacturing PMI, turned weak in August. The New Export Order Index edged down from 50.8% in July to 50.0% in August, while Import Index decreased from 49.3% to 48.5% for the same period. Softening total trade reflects a slowing inflow of new exports orders from trading partners. We expect August exports will grow at a slower pace at 9.5% YoY and imports will return to a positive growth of 3.5% YoY in August.

**CPI will remain flat on mild increases in food prices.** Food and non-food prices are expected to remain stable in August, with which CPI inflation will stay flat at 2.3% YoY. In August, the drop in Purchases of Input Index and Input Price Index, which are sub-indices of the Manufacturing PMI, indicates production volume expanded only slowly and input prices are unlikely to trend up. Therefore, we expect the decline in PPI to narrow only slightly to 0.8% YoY in August.

**Other major economic indicators are likely to be dismal in August.** We expect FAI to rebound slightly to 17.1% YTD in August (7M14: 17.0%) on surging infrastructure investment while growth in industrial production will decelerate to 8.8% in August. For retail sales growth, the August figure will remain unchanged at 12.1% YoY.

**Monetary indicators to turn stable in August.** New loans and the aggregate financing to the real economy are expected to reach RMB 750 bn and RMB 1710 bn, while M2 growth will stay flat at 13.5% YoY in August. We expect credit growth will remain stable in 3Q14 as the government prioritizes to invigorate domestic and external demands, thus rebalancing the economy to achieve sustainable growth.



China Economic Indicators

	2013						2014							
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug*
Real GDP (YoY%)	---	---	7.8	---	---	7.7	---	---	7.4	---	--	7.5	--	---
Export Growth (YoY%)	5.1	7.2	(0.3)	5.6	12.7	5.8	10.6	(18.1)	(6.6)	0.9	7.0	7.2	14.5	9.5
Import Growth (YoY%)	10.9	7.0	7.4	7.6	5.3	6.5	10.0	10.1	(11.3)	0.8	(1.6)	5.5	(1.6)	3.5
Trade Balance (USD/bn)	17.8	28.5	15.2	31.1	33.8	32.3	31.9	(23.0)	7.7	18.5	35.9	31.6	47.3	42.6
Retail Sales Growth (YoY%)	13.2	13.4	13.3	13.3	13.7	13.6	11.8		12.2	11.9	12.5	12.4	12.2	12.2
Industrial Production (YoY%)	9.7	10.4	10.2	10.3	10.0	9.7	8.6		8.8	8.7	8.8	9.2	9.0	8.8
PMI - Manufacturing (%)	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	51.1
PMI - Non-manufacturing (%)	54.1	53.9	55.4	56.3	56.0	54.6	53.4	55.0	54.5	54.8	55.5	55.0	54.2	53.8
FAI(YTD) (YoY%)	20.1	20.3	20.2	20.1	19.9	19.6	17.9		17.6	17.3	17.2	17.3	17.0	17.1
CPI (YoY%)	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	2.3
PPI (YoY%)	(2.3)	(1.6)	(1.3)	(1.5)	(1.4)	(1.4)	(1.6)	(2.0)	(2.3)	(2.0)	(1.4)	(1.1)	(0.9)	(0.8)
M2(YoY%)	14.5	14.7	14.2	14.3	14.2	13.6	13.2	13.3	12.1	13.2	13.4	14.7	13.5	13.5
New Lending (RMB/bn)	699.9	711.3	787.0	506.1	624.6	482.5	1,320	644.5	1,050	774.7	870.8	1080	385.2	750
Aggregate Financing (RMB bn)	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	273.1	1,710

\* Forecast (excluding PMI - 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)	
<b>U.S.</b>				<b>Energy</b>				US Fed Fund Rate	0.25	0.00	
DJIA	17,098.45	0.00	15.65	NYMEX WTI	USD/bbl	95.58	(0.40)	193,341	US Prime Rate	3.25	0.00
S&P 500	2,003.37	0.00	18.04	ICE Brent Oil	USD/bbl	103.08	(0.11)	146,621	US Discount Window	0.75	0.00
NASDAQ	4,580.27	(0.00)	69.81	NYMEX Natural Gas	USD/MMBtu	4.04	(0.54)	60,476	US Treasury (1 Mth)	0.0101	0.00
MSCI US	1,917.08	0.00	18.49	Australia Newcastle Steam Coal Spot fob <sup>2</sup>	USD/Metric Tonne	69.05	N/A	N/A	US Treasury (5 Yr)	1.6250	0.00
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (10 Yr)	2.3431	0.00	
FTSE 100	6,810.07	(0.14)	17.03	LME Aluminum Cash	USD/MT	2,086.50	0.00	18,055	Japan 10-Yr Gov. Bond	0.4960	0.00
DAX	9,450.75	(0.21)	17.49	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	2,096.50	0.00	36,213	China 10-Yr Gov. Bond	4.2500	(1.00)
CAC40	4,364.17	(0.39)	25.39	CMX Copper Active	USD/lb.	6,996.50	0.00	18,770	ECB Rate (Refinancing)	0.15	0.00
IBEX 35	10,707.90	(0.19)	21.16	LME Copper 3- mth Rolling Fwd.	USD/MT	6,982.00	0.00	39,943	1-Month LIBOR	0.1570	0.20
FTSE MIB	20,322.06	(0.63)	853.8	TSI CFR China Iron Ore Fines Index <sup>3</sup>	USD	87.90	(2.44)	N/A	3-Month LIBOR	0.2336	(0.48)
Stoxx 600	341.96	(0.01)	20.61	<b>Precious Metals</b>				O/N SHIBOR	2.9060	(0.20)	
MSCI UK	2,013.38	0.00	17.08	CMX Gold	USD/T. oz	1,289.70	0.18	81,199	1-mth SHIBOR	4.0570	(5.70)
MSCI France	122.40	0.00	26.79	CMX Silver	USD/T. oz	19.54	0.25	35,205	3-mth HIBOR	0.3721	0.14
MSCI Germany	126.28	0.00	17.62	NYMEX Platinum	USD/T. oz	1,424.40	(0.02)	7,223	Corporate Bonds (Moody's)		
MSCI Italy	59.28	0.00	1,007	<b>Agricultural Products</b>				Aaa	3.94	(9.00)	
<b>Asia</b>				CBOT Corn	USD/bu	364.75	0.00	125,120	Baa	4.57	(9.00)
NIKKEI 225	15,476.60	0.34	20.22	CBOT Wheat	USD/bu	563.50	0.00	56,185			
S&P/ASX 200	5,629.83	0.07	19.40	NYB-ICE Sugar	USD/lb.	15.49	0.00	43,162			
HSI	24,752.09	0.04	10.80	CBOT Soybeans	USD/bu.	1,024.25	0.00	80,868			
HSCEI	10,958.81	(0.04)	7.85								
CSI300	2,355.32	0.73	10.51								
SSE Composite	2,235.51	0.83	10.69								
SZSE Composite	1,232.56	1.67	29.63								
MSCI China	66.21	0.00	9.92								
MSCI Hong Kong	13,160.42	0.00	11.21								
MSCI Japan	782.04	0.00	15.24								

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

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-Mth
Spot Rate	1.3141	1.6623	0.9346	104.23	0.9182	6.1433	7.7501	6.2250
Chg. WTD (%)	0.07	0.15	0.08	(0.13)	0.00	0.00	0.00	0.07



## 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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