



## Economics Weekly

### China Economic Indicators

YoY% or otherwise specified	May	April
FAI (YTD)	20.4	20.6
Industrial production	9.2	9.3
Retail Sales	12.9	12.8
CPI	2.1	2.4
PPI	-2.9	-2.6
Exports	1.0	14.7
Imports	-0.3	16.8
Trade Balance (USDbn)	20.4	18.2
M2	15.8	16.1
New loans (RMBbn)	667.4	792.9
Total social financing (RMBbn)	1190	1766.3

Source: Bloomberg, ABCIS

### Acceleration of macro rebalancing in sight

China's May key economic indicators demonstrated continued stagnation, signaling weak aggregate demand of China's economy. We believe the government is engaged in a delicate balancing act: on the one hand trying to encourage economic rebalancing with steady growth, and on the other maintaining accommodative level of liquidity for stable prices. Provided that the prices have stabilized in the first five months of 2013, China will put more emphasis on boosting economic growth momentum through structural reforms to encourage domestic investment and consumption. Looking further into 2H13, China will pick up the pace of economic reforms and the policy tone will be more positive on stimulating aggregate demand.

- **May CPI inflation moderated to 2.1% YoY (down 0.6% MoM) while PPI demonstrated further weakness.** Food prices rose 3.2% YoY (down 1.6% MoM). In the aftermath of the seasonal rally in April, food prices decelerated, with pork and vegetables falling 4.9% YoY and 1.9% YoY respectively. Non-food CPI rose 1.6% YoY (down 0.1% MoM) and remained stable in the first five months of 2013. PPI fell further to 2.9% YoY (down 0.6% MoM), indicating weak producers' prices amid sluggish aggregate demand. We expect CPI inflation remains mild in coming months, within the government's comfort zone of below 3.5% YoY.
- **Sharp slowdown in external trade growth.** China's export growth moderated to 1% YoY in May (14.7% in April) while import growth posted a negative growth of 0.3% YoY against the positive growth of 16.8% in April, indicating slowing China's growth and sluggish overseas demand for China's products. The crackdown on misreporting of trade invoices and renminbi appreciation will continue to dampen the external trade growth in coming months.
- **FAI moderated again on slowdown of manufacturing activities.** The slowdown of FAI from 20.6% in April to 20.4% in May was mainly driven by stagnant growth of manufacturing industry at 17.8% (18.4% in April). Although manufacturing sector continues to show weakness, strong growth momentum of FAI in primary and tertiary industry underpinned by agricultural modernization and urbanization fuels the investment growth. On this basis, we expect FAI to recover in coming months.
- **Mild slowdown of real estate development.** Investment in real estate development saw YTD YoY growth of 20.6% YTD in May (versus 21.1% in April), mainly driven by new development of office buildings and buildings for commercial business. We expect stable real estate investment in 2H13.
- **Industrial production decelerated slightly on weaker growth in light industries.** Industrial production growth slowed slightly in May hitting 9.2% YoY against 9.3% YoY in April. Weaker growth in China's light industries at 8.0% YoY in May (8.5% YoY in April)

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led to mild deceleration of industrial output. Continued weakness in PPI reflects lower input prices, favoring manufacturers of industrial goods. We expect growth of industrial output to pick up in coming months.

- **Retail sales growth improved slightly by growing 12.9% YoY in May aided by holidays' sales growth in jewelry and restaurants.** The growth of gold, silver and jewelry at 38.4% YoY in May became one of the major drivers of retail sales. Revenues from restaurants rebounded as evidenced by YoY growth of 9.2%, up 1.3% compared to April's growth. In sum, we expect retail sales to show mild growth recovery in 2H13.
- **New loans see negative surprise.** The PBOC announced that new bank loans in May fell to RMB667.4b, dropping RMB125.5b from April's figure. M2 growth retreated slightly to 15.8% from 16.1% in April. The slowing momentum of banks in granting new loans reflected general economic weakness in real economy. We expect new loans will start to rise again in June as banks approach 2Q13 closing.



China Economic Indicators

	2012								2013				
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Real GDP (YoY%)	---	7.6	---	---	7.4	---	---	7.9	---	---	7.7	---	---
Export Growth (YoY%)	15.3	11.1	1	2.7	9.9	11.6	2.9	14.1	25.0	21.8	10.0	14.7	1
Import Growth (YoY%)	12.7	6.3	4.7	-2.6	2.4	2.4	0	6	28.8	-15.2	14.1	16.8	-0.3
Trade Balance (USD/Bn)	18.13	31.91	25.28	26.43	27.45	32.11	19.63	31.6	29.2	15.3	-0.9	18.2	20.4
Retail Sales Growth (YoY%)	13.8	13.7	13.1	13.2	14.2	14.5	14.9	15.2	12.3		12.6	12.8	12.9
Industrial Production (YoY%)	9.6	9.5	9.2	8.9	9.2	9.6	10.1	10.3	9.9		8.9	9.3	9.2
PMI - Manufacturing (%)	50.4	50.2	50.1	49.2	49.8	50.2	50.6	50.6	50.4	50.1	50.9	50.6	50.8
PMI - Non-manufacturing (%)	55.2	56.7	55.6	56.3	53.7	55.5	55.6	56.1	56.2	54.5	55.6	54.5	54.3
FAI(YTD) (YoY%)	20.1	20.4	20.4	20.2	20.5	20.7	20.7	20.6	21.2		20.9	20.6	20.4
CPI (YoY%)	3	2.2	1.8	2	1.9	1.7	2	2.4	2.0	3.2	2.1	2.4	2.1
PPI (YoY%)	-1.4	-2.1	-2.9	-3.5	-3.6	-2.8	-2.2	-1.9	-1.6	-1.6	-1.9	-2.6	-2.9
M2 (YoY%)	13.2	13.6	13.9	13.5	14.8	14.1	13.9	13.8	15.9	15.2	15.7	16.1	15.8
New Lending (RMB/Bn)	793.23	919.83	540.1	703.9	623.2	505.2	522.9	454.3	1070.0	620.0	1060.0	793	667.4

World Economic/Financial Indicators

Equity Index				Global Commodities						Bond Yields & Key Interest Rates		
	Closing price	Chng. WTD (%)	P/E		Unit	Price	Chng. WTD (%)	Volume (5-day average)		Yield (%)	Chng. WTD (%)	
<b>US</b>				<b>Energy</b>	NYMEX WTI	USD/bbl	95.72	-0.32	291103.20	US Fed Fund Rate	0.25	0.00
DJIA	15248.12	0.00	14.78		ICE Brent	USD/bbl	104.25	-0.30	233426.00	US Prime Rate	3.25	0.00
S&P 500	1643.38	0.00	16.03		NYMEX Natural Gas	USD/MM Btu	3.83	-0.03	117907.80	US Discount Window	0.75	0.00
NASDAQ	3469.22	0.00	23.73		Australia Newcastle Steam Coal Spot fob	USD/Metric Tonne	86.40	N/A	N/A	US Treasury (1 Month)	0.0406	0.00
MSCI US	1567.07	0.00	16.33		LME Aluminum Cash	USD/MT	1903.25	0.00	21845.80	US Treasury (10 Yr)	2.163	-0.41
<b>Europe</b>				<b>Basic Metals</b>	LME Primary Aluminum 3 Month Rolling Forward	USD/MT	1940.00	0.00	43150.00	US Treasury (30 Yr)	3.3211	-0.40
FTSE 100	6403.36	-0.13	16.38		CMX Copper Active Contract	USD/lb.	322.85	-1.22	58195.20	Japan 10-Yr Government Bond	0.842	-1.64
DAX	8308.73	0.65	15.50		LME Copper 3 Month Rolling Forward	USD/MT	7230.00	0.00	51092.60	China 10-Yr Government Bond	3.46	1.17
CAC40	3865.81	-0.18	16.15		TSI CFR China Iron Ore Fines Index	USD	110.90	0.45	N/A	ECB Interest Rate (Refinancing)	0.5	0.00
IBEX 35	8285.30	0.23	79.27		CMX Gold	USD/T. oz	1377.00	-0.43	1196.40	1-Month LIBOR	0.1924	-0.98
FTSE MIB	16660.27	-0.18	263.39	CMX Silver	USD/T. oz	21.41	-1.53	49032.80	3 Month LIBOR	0.2752	-0.04	
Stoxx 600	295.51	0.04	19.53	NYMEX Platinum	USD/T. oz	1488.50	-0.94	12979.60	3-Month SHIBOR	5.1450	12.48	
MSCI UK	1895.71	0.00	16.27	CBOT Corn	USD/bu	661.00	-0.79	100906.60	3-Month HIBOR	0.3780	0.43	
MSCI France	108.14	0.00	19.85	CBOT Wheat	USD/bu	692.00	-0.61	57790.20	Corporate Bonds (Moody's Seasoned)			
MSCI Germany	112.66	0.00	14.47	NYB-ICE Sugar	USD/lb.	16.46	0.18	76493.00	Aaa	4.1	0.24	
MSCI Italy	48.29	0.00	58.69	CBOT Soybeans	USD/bu.	1520.50	-0.51	79881.00	Baa	4.96	0.20	
<b>Asia</b>				<b>Agricultural Products</b>								
NIKKEI 225	13514.20	4.94	24.86									
S&P/ASX 200	4737.70	0.00	19.21									
HSI	21615.09	0.18	9.95									
HSCEI	10126.97	-0.59	8.27									
CSI300	2484.16	0.00	12.33									
SSE Composite	2210.90	0.00	11.89									
SZSE Composite	983.46	0.00	28.69									
MSCI China	57.84	0.00	9.75									
MSCI Hong Kong	11183.78	0.00	10.04									
MSCI Japan	657.54	0.00	21.25									
<b>Currency</b>												
									USD/ CNY			
									NDF			
									12 Month			
Spot Exchange Rate	1.3217	1.5520	0.9427	98.6600	0.9368	1.0193	6.1332	7.7635	6.2745			
Chng. WTD (%)	-0.01	-0.24	-0.74	-1.11	-0.09	0.04	0.02	-0.01	-0.22			

- Note:
- Data source: Bloomberg Finance LP, National Bureau of Statistics of China, ABCIS
  - Australia Newcastle Steam Coal Spot fob is the Australia Newcastle 6700 kc GAD job Steam Coal Spot price published by McCloskey
  - TSI CFR China Iron Ore Fines Index is calculated with the 62% Fe specification, spot price
  - Data is updated on the date of this report

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**Definition of equity rating**

<b>Rating</b>	<b>Definition</b>
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 2007-2011

Time horizon of share price target: 12-month

**Definition of share price risk**

<b>Rating</b>	<b>Definition</b>
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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