



Economics Weekly

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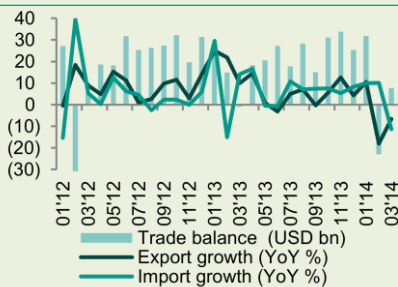
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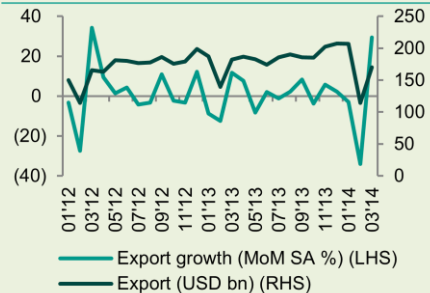
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Exhibit 1: China Exports, imports and trade balance



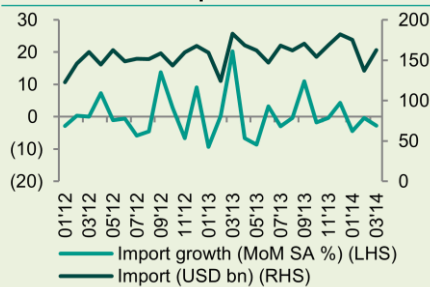
Source(s): Bloomberg, Wind, ABCI Securities

Exhibit 2: China Exports



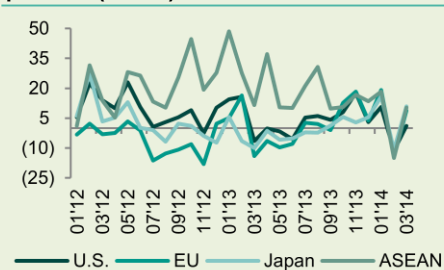
Source(s): Bloomberg, Wind, ABCI Securities

Exhibit 3: China Imports



Source(s): Bloomberg, Wind, ABCI Securities

Exhibit 4: China exports to major trading partners (YoY %)



Source(s): Bloomberg, ABCI Securities

China's external trade – all is not doom and gloom

Recent economic data signal a weakening economy in China. External trade, a significant driver of China's economy, faltered in March with exports and imports declining on year. The latest release of the HSBC flash manufacturing PMI further indicates exports have been facing challenges. We believe that the latest trade data have been impacted by the high base in 2013 as well as the economic transition that China is undergoing at present. In our view, external trade would perform better in the remainder of 2014.

Year-on-year export decline may not indicate a lackluster external environment. Although the headline exports fell by 6.6% YoY, we believe that the decline was partly a result of the high base in the previous year. In fact, exports in March grew strongly by 29.5% MoM SA. In our view, the MoM rebound shows that impacts of the holidays in February faded. In addition, China's exports to its major trading partners, which include the U.S., European Union, Japan, ASEAN, surged during the month, signaling a healthy recovery in these foreign markets. As the holiday impacts subside and external markets pick up, we believe the risk of a severe downturn in China's export sector is low.

Domestic demand remains strong. Imports in March fell by 11.3% YoY, but it only retracted slightly by 2.8% MoM SA. Growth in most major import products rebounded during the same period. Among which, imports of "planes", "mobile vehicles and chassis", "log", "cereal and cereal flour", and "alumina" registered 1Q growth of 72.7% YoY, 53.0% YoY, 59.2% YoY, 54.9% YoY, and 42.0% YoY, respectively. We believe that the impressive gains across the diverse product categories strongly suggest a positive development in the industrial sector and we expect private consumption to gain more solidity going forward.

A more favorable environment expected for the external trade sector. New Export Business PMI (a subindex of HSBC China manufacturing PMI) for April changed course to fall below 50, alerting that businesses are suffering from an unstable external environment. We believe the demand shocks are temporary, and despite their short-term afflictions on the external trade sector, trade would be later on aided by policies launched by the central government, which include mini stimulus programs and relaxation of liquidity by cutting RRR for rural banks. Continuous stabilization of economic growth in foreign markets would also lend support to China's external trade. Overall, we believe China's external trade would remain resilient with improvements to be demonstrated in the rest of the year.



China Economic Indicators

	2013											2014		
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Real GDP (YoY%)	---	7.7	---	---	7.5	---	---	7.8	---	---	7.7	---	---	7.4
Export Growth (YoY%)	21.8	10.0	14.7	1.0	(3.1)	5.1	7.2	(0.3)	5.6	12.7	5.8	10.6	(18.1)	(6.6)
Import Growth (YoY%)	(15.2)	14.1	16.8	(0.3)	(0.7)	10.9	7.0	7.4	7.6	5.3	6.5	10.0	10.1	(11.3)
Trade Balance (USD/bn)	15.3	(0.9)	18.2	20.4	27.1	17.8	28.5	15.2	31.1	33.8	32.3	31.9	(22.99)	7.7
Retail Sales Growth (YoY%)	12.3*	12.6	12.8	12.9	13.3	13.2	13.4	13.3	13.3	13.7	13.6	11.8		12.2
Industrial Production (YoY%)	9.9*	8.9	9.3	9.2	8.9	9.7	10.4	10.2	10.3	10.0	9.7	8.6		8.8
PMI - Manufacturing (%)	50.1	50.9	50.6	50.8	50.1	50.3	51.0	51.1	51.4	51.4	51.0	50.5	50.2	50.3
PMI - Non-manufacturing (%)	54.5	55.6	54.5	54.3	53.9	54.1	53.9	55.4	56.3	56.0	54.6	53.4	55.0	54.5
FAI(YTD) (YoY%)	21.2*	20.9	20.6	20.4	20.1	20.1	20.3	20.2	20.1	19.9	19.6	17.9		17.6
CPI (YoY%)	3.2	2.1	2.4	2.1	2.7	2.7	2.6	3.1	3.2	3.0	2.5	2.5	2.0	2.4
PPI (YoY%)	(1.6)	(1.9)	(2.6)	(2.9)	(2.7)	(2.3)	(1.6)	(1.3)	(1.5)	(1.4)	(1.4)	(1.6)	(2.0)	(2.3)
M2(YoY%)	15.2	15.7	16.1	15.8	14.0	14.5	14.7	14.2	14.3	14.2	13.6	13.2	13.3	12.1
New Lending (RMB/bn)	620.0	1060.0	792.9	667.4	860.5	699.9	711.3	787.0	506.1	624.6	482.5	1320	644.5	1050

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	
U.S.				Energy				US Fed Fund Rate			
DJIA	16,501.65	0.57	15.43	NYMEX WTI	USD/bbl	101.64	(2.55)	176,593		0.25	0.00
S&P 500	1,875.39	0.57	17.16	ICE Brent Oil	USD/bbl	109.29	(0.22)	169,612	US Prime Rate	3.25	0.00
NASDAQ	4,126.97	0.77	33.23	NYMEX Natural Gas	USD/MMBtu	4.76	0.42	92,823	US Discount Window	0.75	0.00
MSCI US	1,793.61	0.58	17.59	Australia Newcastle Steam Coal Spot fob ²	USD/Metric Tonne	72.95	N/A	N/A	US Treasury (1 Mth)	0.0101	(0.51)
Europe				Basic Metals				US Treasury (5 Yr)			
FTSE 100	6,710.71	1.29	17.45	LME Aluminum Cash	USD/MT	1,837.25	0.42	14,353	US Treasury (10 Yr)	2.7023	(1.92)
DAX	9,616.17	2.19	18.43	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,874.50	0.51	30,559	Japan 10-Yr Gov. Bond	0.6170	1.60
CAC40	4,485.86	1.22	26.65	CMX Copper Active	USD/lb.	6,686.50	0.38	7,433	China 10-Yr Gov. Bond	4.3900	(2.00)
IBEX 35	10,507.80	2.09	19.14	LME Copper 3- mth Rolling Fwd.	USD/MT	6,670.00	0.32	40,830	ECB Rate (Refinancing)	0.25	0.00
FTSE MIB	21,931.78	1.47	N/A	TSI CFR China Iron Ore Fines Index ³	USD	112.20	(3.69)	N/A	1-Month LIBOR	0.1523	0.01
Stoxx 600	337.03	1.38	20.83	Precious Metals				3 Month LIBOR			
MSCI UK	1,968.36	0.77	17.16	CMX Gold	USD/T. oz	1,283.40	(0.81)	106,447	O/N SHIBOR	2.3030	30.30
MSCI France	124.67	0.53	25.87	CMX Silver	USD/T. oz	19.33	(1.52)	12,837	1-mth SHIBOR	4.3200	39.00
MSCI Germany	129.79	1.37	18.22	NYMEX Platinum	USD/T. oz	1,401.10	(1.93)	9,514	3-mth HIBOR	0.3700	(0.14)
MSCI Italy	62.51	0.18	N/A	Agricultural Products				Corporate Bonds (Moody's)			
Asia				CBOT Corn	USD/bu	509.25	1.75	132,871	Aaa	4.24	(1.00)
NIKKEI 225	14,404.99	(0.77)	19.56	CBOT Wheat	USD/bu	680.00	(2.72)	58,888	Baa	4.88	(1.00)
S&P/ASX 200	5,531.00	1.41	17.75	NYB-ICE Sugar	USD/lb.	17.94	3.52	57,292			
HSI	22,562.80	(0.87)	10.58	CBOT Soybeans	USD/bu.	1,462.75	(2.63)	93,365			
HSCEI	9,940.63	(1.38)	7.32								
CSI300	2,190.47	(1.53)	10.05								
SSE Composite	2,057.03	(1.94)	10.12								
SZSE Composite	1,057.31	(2.94)	27.43								
MSCI China	59.20	(1.30)	9.15								
MSCI Hong Kong	12,343.19	(0.78)	12.37								
MSCI Japan	723.30	0.11	14.31								

Note:

- Data sources: Bloomberg Finance LP, National Bureau of Statistics of China, ABCIS (updated on date of report)
- Australia Newcastle Steam Coal Spot fob is the Australia Newcastle 6700 kc GAD fob Steam Coal Spot price published by McCloskey
- 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	1.6793	0.9278	102.39	0.8821	6.2504	7.7532	6.2657	1.6793
Chg. WTD (%)	(0.01)	(0.59)	0.04	0.16	(0.42)	0.02	(0.21)	(0.01)



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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