農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

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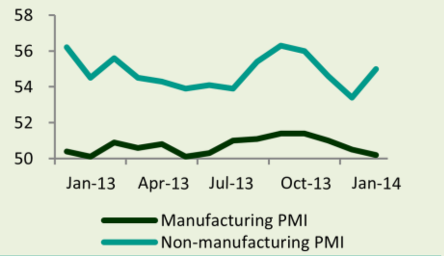
Exhibit 1: Preview of economic indicators for Feb 2014

YoY% or otherwise specified	Feb 2014E	Jan 2014	Bloomberg Consensus
CPI	2.2	2.5	2.1
PPI	(1.6)	(1.6)	(1.8)
Exports	9.0	10.6	7.8
Imports	8.5	10.0	8.0
Trade Balance (US$/bn)	17.2	31.9	14.5
FAI (YTD YoY %)	19.3	-	19.4
Industrial production (YTD YoY %)	9.5	-	9.5
Retail Sales (YTD YoY %)	13.4	-	13.5
M2	13.3	13.2	13.2
New loans (RMB/bn)	720	1320	715

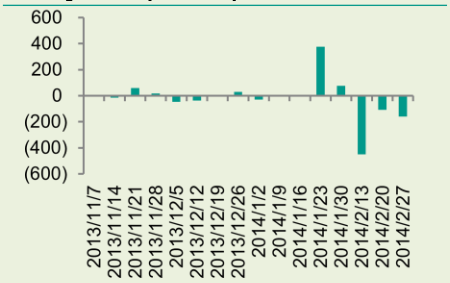
Source(s): Bloomberg, ABCI Securities estimates

Exhibit 2: Diverging trend of PMI in February (%)



Source(s): Bloomberg, ABCI Securities

Exhibit 3: PBOC weekly liquidity management (RMB bn)



Source(s): Bloomberg, ABCI Securities

February data preview: mild slowdown in sight

In February, China's manufacturing PMI registered continuous decline while non-manufacturing PMI posted an unexpected rebound. The mixed PMI data reflects the slowdown of growth in manufacturing sector caused by the Spring Festival and the government's push for service sector development. As for other economic indicators, we expect changes will be mild and tilt towards the downside.

Mixed PMI data in February. The manufacturing PMI and non-manufacturing PMI were 50.2% and 55.0%, representing a decline of 0.3% MoM and an increase of 1.6% MoM. The decline was mainly caused by the holiday effect of Spring Festival and other seasonal impacts. Small and medium enterprises witnessed a below -50 reading for two months in a row, offsetting the growth in large enterprises. While most sub-indices of the manufacturing PMI still recorded contraction, non-manufacturing PMI recorded a surge, driven up by the risen New Order Index. Increase in non-manufacturing PMI confirms that the service sector is making strides under the government's policy to develop the tertiary sector. Nonetheless, we believe the PMI data in the following months will offer a more accurate gauge of the economic outlook of China.

Inflation to remain manageable. We expect that CPI and PPI would be 2.2% YoY and -1.6% YoY in February. We believe February CPI has been driven down by the sustained decline in prices of pork and other meat products, as well as the reversal of price hike of vegetables seen in January. PPI would be similar to January due to persisting pressure from the government's efforts to rebalance the economy and the slowing growth in the manufacturing industry.

External trade to normalize. After the unexpected surge in January, growth in export and import is expected to normalize as impact of the Spring Festival fades. But growth in external trade will remain strong, a sign that global and domestic demand is consistently improving. Meanwhile, supported by a faster export growth, trade balance will widen. We expect export growth, import growth, and trade balance will be 9.0% YoY, 8.5% YoY, and USD 17.2bn, respectively, in February.

FAI and industrial production to slow. Several factors have directly impacted growth in FAI and industrial production in January and February. First, projects or industrial activities slowed or halted temporarily during the holiday. Moreover, to cope with the extensive and prolonged smog in the northern part of China, officials called for emergency measures, such as holding up industrial activities and construction work during the month. In our view, FAI growth in February will continue its gradual downtrend to reach 19.3% YTD YoY while industrial production will grow by 9.5% YTD YoY.

Retail sales to grow steadily. We expect retail sales will gain 13.4% YoY for the first two months 2014 on holiday shopping during the Spring Festival. However, the government's effort to rein in lavish spending may have led to reduced consumption of big-ticket items, rendering growth in retail sales to remain within 13%-14%. This policy will continue to affect the retail sector throughout 2014.

Money supply and new loans to be tapered. As more liquidity is flowing back to the system after the Spring Festival, and the repo rates and interbank rates are relatively low, PBOC conducted market operations to withdraw RMB 108bn and RMB 160bn in the last two weeks of February. We believe under prudent liquidity management, growth in M2 and new loans will be 13.3% YoY and RMB 720bn for February.

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China Economic Indicators

	2013												2014	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb*
Real GDP (YoY%)	---	---	7.7	---	---	7.5	---	---	7.8	---	---	7.7	---	---
Export Growth (YoY%)	25.0	21.8	10.0	14.7	1.0	(3.1)	5.1	7.2	(0.3)	5.6	12.7	5.8	10.6	9.0
Import Growth (YoY%)	28.8	(15.2)	14.1	16.8	(0.3)	(0.7)	10.9	7.0	7.4	7.6	5.3	6.5	10.0	8.5
Trade Balance (USD/bn)	29.2	15.3	(0.9)	18.2	20.4	27.1	17.8	28.5	15.2	31.1	33.8	32.3	31.9	17.2
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	13.4	
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	9.5	
PMI - Manufacturing (%)	50.4	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
PMI - Non-manufacturing (%)	56.2	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
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	19.3	
CPI (YoY%)	2.0	3.2	2.1	2.4	2.1	2.7	2.7	2.6	3.1	3.2	3.0	2.5	2.5	2.2
PPI (YoY%)	(1.6)	(1.6)	(1.9)	(2.6)	(2.9)	(2.7)	(2.3)	(1.6)	(1.3)	(1.5)	(1.4)	(1.4)	(1.6)	(1.6)
M2(YoY%)	15.9	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
New Lending (RMB/bn)	1070.0	620.0	1060.0	792.9	667.4	860.5	699.9	711.3	787.0	506.1	624.6	482.5	1320	720

** February data forecast (excluding PMI – Manufacturing and PMI – Non-manufacturing)*

World Economic/Financial Indicators

Equity Indices

	Closing price	Chg. WTD (%)	P/E
U.S.			
DJIA	16,321.71	0.00	15.31
S&P 500	1,859.45	0.00	17.17
NASDAQ	4,308.12	0.00	31.48
MSCI US	1,782.46	0.00	17.44
Europe			
FTSE 100	6,743.17	(0.98)	17.64
DAX	9,489.64	(2.09)	16.61
CAC40	4,342.77	(1.48)	27.41
IBEX 35	9,962.60	(1.50)	17.88
FTSE MIB	20,178.06	(1.29)	91.20
Stoxx 600	333.47	(1.35)	22.54
MSCI UK	2,007.31	0.00	17.65
MSCI France	123.30	0.00	27.21
MSCI Germany	132.45	0.00	16.41
MSCI Italy	58.43	0.00	93.93
Asia			
NIKKEI 225	14,652.23	(1.27)	20.00
S&P/ASX 200	5,384.33	(0.38)	19.74
HSI	22,500.67	(1.47)	10.41
HSCEI	9,751.65	(1.41)	7.24
CSI300	2,190.37	0.52	10.41
SSE Composite	2,075.24	0.92	10.43
SZSE Composite	1,109.41	1.70	30.23
MSCI China	60.57	0.00	9.54
MSCI Hong Kong	12,102.47	0.00	11.61
MSCI Japan	748.81	0.00	14.95

Global Commodities

	Unit	Price	Chg. WTD (%)	Volume (5-day avg.)
Energy				
NYMEX WTI	USD/bbl	103.82	1.20	187,273
ICE Brent Oil	USD/bbl	110.74	1.53	193,971
NYMEX Natural Gas	USD/MMBtu	4.71	2.08	92,107
Australia Newcastle Steam Coal Spot fob[2]	USD/Metric Tonne	76.35	N/A	N/A
Basic Metals				
LME Aluminum Cash	USD/MT	1,711.15	(0.00)	19,554
LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,754.00	0.00	34,308
CMX Copper Active	USD/lb.	322.05	(0.56)	23,568
LME Copper 3- mth Rolling Fwd.	USD/MT	7,010.00	0.00	50,375
TSI CFR China Iron Ore Fines Index[3]	USD	118.10	(3.51)	N/A
Precious Metals				
CMX Gold	USD/T. oz	1,345.20	1.79	131,678
CMX Silver	USD/T. oz	21.54	1.38	46,235
NYMEX Platinum	USD/T. oz	1,456.00	0.64	12,199
Agricultural Products				
CBOT Corn	USD/bu	472.00	3.17	111,257
CBOT Wheat	USD/bu	630.25	5.22	18,897
NYB-ICE Sugar	USD/lb.	16.47	0.00	31,524
CBOT Soybeans	USD/bu.	1,427.50	0.94	61,247

Bond Yields & Key Rates

	Yield (%)	Chg. WTD
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)	0.0355	(0.51)
US Treasury (5 Yr)	1.4641	(3.75)
US Treasury (10 Yr)	2.6065	(4.11)
Japan 10-Yr Gov. Bond	0.5800	(0.60)
China 10-Yr Gov. Bond	4.4000	(15.0)
ECB Rate (Refinancing)	0.25	0.00
1-Month LIBOR	0.1555	0.00
3 Month LIBOR	0.2357	0.08
O/N SHIBOR	2.0850	23.92
1-mth SHIBOR	4.2620	(5.40)
3-mth HIBOR	0.3773	(0.30)
Corporate Bonds (Moody's)		
Aaa	4.33	(11.0)
Baa	5.01	(10.0)

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-Mth
Spot Rate	1.3774	1.6740	0.8928	101.25	0.8809	6.1457	7.7596	6.1595
Chg. WTD (%)	(0.20)	(0.03)	0.04	0.54	(0.07)	(0.01)	0.01	0.03

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

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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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