



Economics Weekly November 18, 2013

Co-head of Research

Banny Lam

Tel: 852-21478863

Email: bannylam@abci.com.hk

Analyst

Paul Pan

Tel: 852-21478829

Email: paulpan@abci.com.hk

Reform details meet expectations

Public opinions on the communique released after the latest Third Plenary Session were mixed, as many believed the policies outlined were vague and inconsistent with market expectations. As a supplement to the communique, a more detailed plan was announced later on November 15 and market's confidence in China's reform is rekindled. The new document will serve as a blueprint for the holistic reform about to take place in the country, covering details of SOE reform, financial reform, urbanization and house-hold registration reform, fiscal and taxation reform, the role of market force in the economy, and environmental protection. We believe such reforms will be ground-breaking and that the new leadership will use all maneuver at disposal to ensure their success.

SOE sector- more liberalization expected. The government is determined to transform the SOE sector by introducing more competition in industries dominated by SOEs. Private capital will be allowed to invest in these industries and a mixed ownership economy will be encouraged. We believe that deemphasizing the SOEs' position will enable the market to utilize a wider range of capital resources to attain better growth, create more job opportunities, and diversify risks currently over-concentrated in certain industries.

Deepening financial reform. The document confirms that the government will continue to pursue reforms in interest rate liberalization, renminbi internationalization, and capital account convertibility. As part of the SOE sector reform, private capital is allowed to invest in banks and other financial institutions. We believe this will encourage more innovations in financial products and services, reducing the reliance on commercial bank lending as a financing channel. The financial reform is aiming to create a more sophisticated financial market sustainable for long-term development.

Urbanization to be supported by multiple measures. The document also includes details on the urbanization process, including reform on the Hukou system (i.e. household registration system). The new plan lifts the restriction of the Hukou system in small and medium cities while maintaining a strict control over the population flow in mega cities. Farmers who stay in the rural areas will be granted more property rights and more flexible uses of their land. Also, more resources will also be allocated to balance the development in urban and rural areas. We believe these measures will facilitate urbanization by removing some of the obstacles and allow the process to proceed in a more orderly manner.

Improved fiscal management and taxation system. Spending responsibilities and revenue distribution will be divided among the central and local governments with a more transparent fiscal system and enhanced taxation system. The new measures will help the central government share the increasing fiscal burdens of local authorities, establish a better system to monitor the local government debt level, and create a more business-friendly taxation system to encourage investment.

Market forces to play bigger role in price determination. The government also specifies the role of market forces in price determination. The government will play a less dominant role in the pricing of major public goods or natural resources, such as water,



electricity, oil, natural gas, and telecommunication. We believe that the pricing reform will be a stepping-stone for the gradual liberalization of these industries in which private capital will be introduced.

Environmental issues vs. economic growth. The new plan is also prioritizing environment protection. Economic growth will no longer be the benchmark of assessment for the ecologically fragile regions. Management and monitoring systems will be established to protect natural resources, especially in areas where resources are overloaded. In addition, compensation for environmental damages will be channeled through the price and tax mechanism. In our view, these new measures will help tackle the worsening environmental degradation in China and ensure the safety of various aspects of people's livelihood.



China Economic Indicators

	2012			2013									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Real GDP (YoY%)	---	---	7.9	---	---	7.7	---	---	7.5	---	---	7.8	---
Export Growth (YoY%)	11.6	2.9	14.1	25.0	21.8	10.0	14.7	1.0	(3.1)	5.1	7.2	(0.3)	5.6
Import Growth (YoY%)	2.4	0	6	28.8	(15.2)	14.1	16.8	(0.3)	(0.7)	10.9	7.0	7.4	7.6
Trade Balance (USD/bn)	32.11	19.63	31.6	29.2	15.3	(0.9)	18.2	20.4	27.1	17.8	28.5	15.2	31.1
Retail Sales Growth (YoY%)	14.5	14.9	15.2		12.3	12.6	12.8	12.9	13.3	13.2	13.4	13.3	13.3
Industrial Production (YoY%)	9.6	10.1	10.3		9.9	8.9	9.3	9.2	8.9	9.7	10.4	10.2	10.3
PMI - Manufacturing (%)	50.2	50.6	50.6	50.4	50.1	50.9	50.6	50.8	50.1	50.3	51.0	51.1	51.4
PMI - Non-manufacturing (%)	55.5	55.6	56.1	56.2	54.5	55.6	54.5	54.3	53.9	54.1	53.9	55.4	56.3
FAI(YTD) (YoY%)	20.7	20.7	20.6		21.2	20.9	20.6	20.4	20.1	20.1	20.3	20.2	20.1
CPI (YoY%)	1.7	2	2.4	2.0	3.2	2.1	2.4	2.1	2.7	2.7	2.6	3.1	3.2
PPI (YoY%)	(2.8)	(2.2)	(1.9)	(1.6)	(1.6)	(1.9)	(2.6)	(2.9)	(2.7)	(2.3)	(1.6)	(1.3)	(1.5)
M2 (YoY%)	14.1	13.9	13.8	15.9	15.2	15.7	16.1	15.8	14.0	14.5	14.7	14.2	14.3
New Lending (RMB/bn)	505.2	522.9	454.3	1070.0	620.0	1060.0	792.9	667.4	860.5	699.9	711.3	787.0	506.1

World Economic/Financial Indicators

Equity Indices				Global Commodities				Bond Yields & Key Interest Rates			
	Closing price	Chg. WTD (%)	P/E	Unit	Price	Chg. WTD (%)	Volume (5-day avg.)		Yield (%)	Chg. WTD (BPs)	
U.S.				Energy							
DJIA	15,961.70	0.00	15.47	NYMEX WTI	USD/bbl	93.40	(0.47)	276,970	US Fed Fund Rate	0.25	0.00
S&P 500	1,798.18	0.00	17.01	ICE Brent Oil	USD/bbl	107.78	(0.66)	132,568	US Prime Rate	3.25	0.00
NASDAQ	3,985.97	0.00	23.48	NYMEX Natural Gas	USD/MMBtu	3.69	0.79	110,004	US Discount Window	0.75	0.00
MSCI US	1,719.28	0.00	17.20	Australia Newcastle Steam Coal Spot fob ²	USD/Metric Tonne	81.90	N/A	N/A	US Treasury (1 Mth)	0.0406	0.51
Europe				Basic Metals							
FTSE 100	6,693.78	0.01	16.62	LME Aluminum Cash	USD/MT	1,745.25	0.00	23,067	US Treasury (5 Yr)	1.3384	(0.48)
DAX	9,156.54	(0.13)	15.27	LME Aluminum 3-mth. Rolling Fwd.	USD/MT	1,791.00	0.00	30,089	US Treasury (10 Yr)	2.6908	(1.25)
CAC40	4,288.48	(0.09)	18.42	CMX Copper Active	USD/lb.	316.50	(0.19)	56,478	Japan 10-Yr Gov. Bond	0.6330	(0.10)
IBEX 35	9,688.10	(0.08)	55.90	LME Copper 3- mth Rolling Fwd.	USD/MT	7,010.00	0.00	55,173	China 10-Yr Gov. Bond	4.4800	23.00
FTSE MIB	18,679.30	(0.04)	N/A	TSI CFR China Iron Ore Fines Index ³	USD	136.80	0.66	N/A	ECB Rate (Refinancing)	0.25	0.00
Stoxx 600	323.03	0.01	21.10	Precious Metals							
MSCI UK	1,976.13	0.00	16.53	CMX Gold	USD/T. oz	1,284.70	(0.21)	126,290	1 Month LIBOR	0.1675	0.10
MSCI France	119.55	0.00	21.27	CMX Silver	USD/T. oz	20.63	(0.47)	47,295	3 Month LIBOR	0.2393	(0.02)
MSCI Germany	125.98	0.00	14.77	NYMEX Platinum	USD/T. oz	1,438.80	(0.01)	7,933	O/N SHIBOR	4.5130	5.90
MSCI Italy	53.92	0.00	254.1	Agricultural Products							
Asia				CBOT Corn	USD/bu	417.25	(1.13)	208,307	3-Month HIBOR	0.3793	0.29
NIKKEI 225	15,164.30	(0.01)	21.96	CBOT Wheat	USD/bu	646.75	0.35	72,053	Corporate Bonds (Moody's)		
S&P/ASX 200	5,384.66	(0.31)	22.54	NYB-ICE Sugar	USD/lb.	17.62	0.40	45,219	Aaa	4.65	(4.00)
HSI	23,660.06	2.73	10.70	CBOT Soybeans	USD/bu.	1,279.75	(0.06)	95,765	Baa	5.41	(5.00)
HSCEI	11,307.33	5.65	8.44								
CSI300	2,428.90	3.33	11.38								
SSE Composite	2,197.22	2.87	11.00								
SZSE Composite	1,052.13	2.18	38.98								
MSCI China	62.08	0.00	9.72								
MSCI Hong Kong	12,004.48	0.00	10.92								
MSCI Japan	765.87	0.00	16.51								

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-Mth
Spot Rate	1.3497	1.6135	0.9413	99.97	0.9136	6.0920	7.7530	6.1547
Chg. WTD (%)	0.01	0.11	0.48	0.22	0.13	0.01	0.01	0.14

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



Disclosures

Analyst Certification

We, Lam Chiu Kei, Banny, and PAN Hongxing, Paul, being the persons primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect our personal view about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. We and/or our associates have no financial interests in relation to any listed company (ies) covered in this report, and we and/or our associates do not serve as officer(s) of any listed company (ies) covered in this report.

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 2007-2011

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.

Disclaimer

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2013 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.**

Tel: (852) 2868 2183