



## Economics Weekly

### China economic indicators

	Dec 2012	2012	2013F
GDP (YoY%)	8.0	7.8	8.1
Imports (YoY%)	6.0	4.3	7.0
Exports (YoY%)	14.1	7.9	8.2
Trade Balance (US/bn)	31.6	231.1	271.9
CPI (YoY%)	2.4	2.6	3.2
PPI (YoY%)	-1.4	-1.7	2.0
Retail Sales (YoY%)	15.2	14.3	15.5
Industrial Production (YoY%)	10.3	10.0	11.5
FAI (YTD)	21.2	20.6	22.5
M2 (YoY%)	13.8	13.8	14.5
New Loans (RMBbn)	454.3	8203.5	9000.0

\* 4Q12 data

Source: Bloomberg

### Strong GDP growth shadowed by a pick-up in inflation

China posted solid GDP growth at 7.9% YoY for 4Q12, higher than 3Q12 GDP growth at 7.4% and market expectations. GDP growth reached 7.8% YoY in 2012 (versus 9.3% in 2011). As major economic indicators such as FAI and retail sales demonstrated an accelerating trend on MoM basis, China's economy is showing signs of recovery. In sum, China is engaged in a balancing act through policy initiatives: on the one hand trying to encourage steady growth and on the other maintaining inflation within a healthy level in 2013.

- **FAI sustained healthy growth above 20% while industrial output growth accelerated.** FAI grew 20.6% YoY in 2012 (versus 24% in 2011), mainly driven by infrastructure investment. Real estate investment growth decelerated to 16.2% YoY, (versus 28.1% in 2011). Meanwhile, industrial output accelerated to 10.3% YoY in December (versus 10.1% in November), mainly due to the strength in heavy industry production. This is in line with the inventory analysis in 4Q12 PMI which indicated that overall manufacturing inventory level is still low.
- **Retail sales accelerated to 15.2% YoY in December.** Retail sales growth was driven by accelerated sales in consumer staples (food, beverage and clothing) and consumer discretionary segments (home appliance and decoration materials). China's retail sales grew 14.3% YoY in 2012 (versus 17.1% in 2011).
- **"Selective loosening" remains intact.** With prices showing upward trend, China will maintain a prudent monetary policy in the hopes of maintaining the balance between stabilizing growth and surging prices. Therefore, we believe the PBOC will use reverse-repos rather than RRR cut to inject liquidity into banking system which is more flexible to accommodate the demand for capital in 2013.
- **Acceleration in domestic demand in 2013.** China's economic growth has stabilized and forward-looking economic indicators point to a modest acceleration in domestic demand. In light of improving 4Q12 economic indicators, we stick to our forecast that China's GDP growth will rise to 8.1% YoY in 2013 and investments will continue to override consumption as China's main growth driver in 2013, especially in 1H13.

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**China Economic Indicators**

	2012											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Real GDP (YoY%)	---	---	8.1	---	---	7.6	---	---	7.4	---	---	<b>7.9</b>
Export Growth (YoY%)	-0.50	18.40	8.90	4.90	15.30	11.10	1.00	2.70	9.90	11.60	2.90	<b>14.1</b>
Import Growth (YoY%)	-15.30	39.60	5.30	0.30	12.70	6.30	4.70	-2.60	2.40	2.40	0.00	<b>6.0</b>
Trade Balance (USD/Bn)	27.08	-31.98	5.18	18.53	18.13	31.91	25.28	26.43	27.45	32.11	19.63	<b>31.6</b>
Retail Sales Growth (YoY%)	---	14.7	15.20	14.10	13.80	13.70	13.10	13.20	14.20	14.50	14.90	<b>15.2</b>
Industrial Production (YoY%)		11.4	11.9	9.3	9.6	9.5	9.2	8.9	9.2	9.6	10.1	<b>10.3</b>
PMI	50.5	51	53.1	53.3	50.4	50.2	50.1	49.2	49.8	50.2	50.6	<b>50.6</b>
FAI(YTD) (YoY%)	---	21.5	20.9	20.2	20.1	20.4	20.4	20.2	20.5	20.7	20.7	<b>20.6</b>
CPI (YoY%)	4.5	3.2	3.6	3.4	3	2.2	1.8	2	1.9	1.7	2	<b>2.4</b>
M2 (YoY%)	12.4	13	13.4	12.8	13.2	13.6	13.9	13.5	14.8	14.1	13.9	<b>13.8</b>
New Lending (CNY/Bn)	738.1	710.7	1011.44	681.8	793.23	919.83	540.1	703.9	623.2	505.2	522.9	<b>454.3</b>

**World Economic/Financial Indicators**

Equity Index				Global Commodities					Bond Yields & Key Interest Rates			
	Closing price	Weekly Chng. (%)	P/E		Unit/Currency	Price	Weekly Chng. (%)	Volume(5-day average)		Yield (%)	Weekly Chng. (%)	
<b>US</b>												
DJIA	13596.02	0.80	13.24	<b>Energy</b>	NYMEX WTI	USD/bbl	95.45	2.02	234874.60	US Fed Fund Rate	0.25	0.00
S&P 500	1480.94	0.60	14.74		ICE Brent	USD/bbl	111.17	0.48	121108.40	US Prime Rate	3.25	0.00
NASDAQ	3136.002	0.33	23.54		NYMEX Natural Gas	USD/MM Btu	3.52	5.71	160484.00	US Discount Window	0.75	0.00
MSCI US	1415.19	0.59	15.04		LME Aluminum Cash	USD/MT	2012.75	-2.44	67164.80	US Treasury (1 Month)	0.0456	12.04
<b>Europe</b>										US Treasury (10 Yr)	1.8850	0.93
FTSE 100	6143.67	0.36	15.74		LME Primary Aluminum 3 Month Rolling Forward	USD/MT	2048.50	-2.34	36222.80	US Treasury (30 Yr)	3.0740	0.86
DAX	7752.55	0.48	14.99	<b>Basic Metals</b>	CMX Copper Active Contract	USD/lb.	367.40	0.55	49621.00	Japan 10-Yr Government Bond	0.7540	-8.05
CAC40	3754.28	1.30	12.83		LME Copper 3 Month Rolling Forward	USD/MT	8054.00	0.11	38411.40	China 10-Yr Government Bond	3.62	0.56
IBEX 35	8666.20	0.02	N/A		TSI Iron Ore Fines 62% Fe Spot CFR China Index	USD	145.40	-6.13	N/A	ECB Interest Rate (Refinancing)	0.75	0.00
MSCI UK	1817.41	0.16	15.73		CMX Gold	USD/T. oz	1691.80	1.88	158633.60	1-Month LIBOR	0.2047	-0.49
MSCI France	104.46	1.04	15.99	<b>Precious Metals</b>	CMX Silver	USD/T. oz	31.88	4.82	42288.20	3-Month LIBOR	0.3020	-0.66
MSCI Germany	108.79	0.31	14.63		NYMEX Platinum	USD/T. oz	731.60	4.30	6131.40	3-Month SHIBOR	3.8942	-0.26
MSCI Italy	52.36	0.42	N/A	<b>Agricultural product</b>	CBOT Corn	USD/bu	727.00	2.57	184760	3-Month HIBOR	0.3871	-0.19
<b>Asia</b>											Corporate Bonds (Moody's Seasoned)	
NIKKEI 225	10913.3	1.03	28.12								Aaa	3.77
HSI	23601.78	1.45	12.11							Baa	4.69	-1.05
HSCEI	12105.71	2.22	10.06									
CSI300	2595.44	4.52	13.02									
SSE Composite	2317.07	3.30	12.79									
SZSE Composite	935.70	5.59	27.15									
MSCI China	64.72	-0.05	11.30									
MSCI Hong Kong	11782.13	0.36	12.51									
MSCI Japan	550.7	-0.88	28.36									

Note:

1. Data source: Bloomberg, Federal Reserve Bank, National Bureau of Statistics of China, ABCIS
2. US Discount Window, Corporate Bond Aaa and Corporate Bond Baa are as of January 11<sup>th</sup>, 2013.
3. Data related to U.S. is as of January 17<sup>th</sup>, 2013. Other data is as of January 18<sup>th</sup>, 2013

**Currency**

	USD/CNY								
	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CAD	USD/CNY	USD/HKD	NDF 12 Month
Spot Exchange Rate	1.3377	1.5977	1.0511	90.01	0.936	0.988	6.2177	7.7526	6.2795
Weekly Chng. (%)	0.25	-0.96	-0.23	-0.92	-2.40	-0.32	-0.03	-0.01	-0.06

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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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