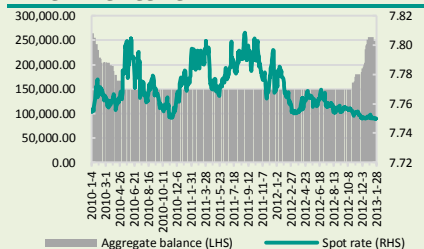




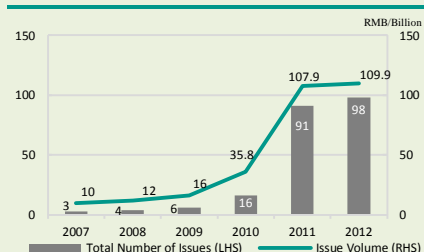
Economics Weekly

Hong Kong Aggregate Balance & USD/ HKD



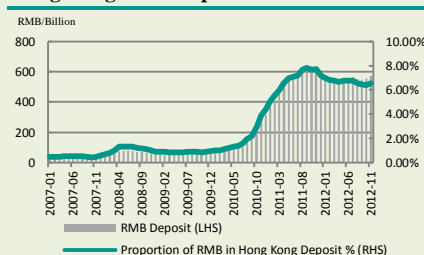
Source: Bloomberg, HKMA

Hong Kong Dim-Sum Bond Issue Volume & Number



Source: Bloomberg, HKMA

Hong Kong RMB Deposit



Source: Bloomberg, HKMA

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Renminbi internationalization on track

Strong economic indicators in 4Q12 added credence to the notion that China's economy is in a cyclical upswing which prompts policy makers to shift their focus to maintain healthy growth momentum and conduct structural economic reforms. Looking into 2013, China will take a proactive approach to enhance renminbi's presence in global market and become more financially integrated with the global economy. We believe China will further open up its forex market and improve the fundamental value of the renminbi through encouraging more organic market growth and diversifying cross-border channels for trade and investment. Should China growth continue to recover, we believe it will enhance the strength of the renminbi. We look for the currency to rise 2% by end-2013.

- **A flood of liquidity accelerates renminbi uptrend.** The United States has already rolled out several rounds of QE. In addition, Japan's newly elected Prime Minister, Shinzo Abe, pushed the BOJ to set a 2% inflation target and adopt an open-ended asset purchase program in order to stimulate the economy. While developed countries are dealing with their economic challenges, developing countries have emerged as the global economic drivers. With signs of solid economic recovery shown by PMI (consensus figure at 51 in January), China will accelerate the pace of renminbi internationalization by offering more investment opportunities for investors. The combination of excess liquidity and attractive returns will result in a continuous influx of liquidity into China in 2013.
- **Renminbi internationalization is an inevitable and gradual process.** China has taken steps to gradually enhance RMB's international presence. We believe renminbi internationalization will be accelerated by a multifaceted development in 2013.
 - **RQFII program gains traction.** The Chinese regulators recently suggest that HK's RQFII quota will increase by 10 times while Taiwan will obtain a 100 billion yuan quota. The move will accelerate the capital account convertibility of renminbi and benefit the financial markets in Hong Kong and China.
 - **Dim Sum bond market continues to expand.** The progress of renminbi internationalization has accelerated based on the rapid development of investment products in Hong Kong, mostly in safer products like renminbi-denominated fixed-income vehicles. The gradual liberalization of the offshore renminbi bond market is pushing the renminbi closer to becoming a globally accepted currency. We expect the Dim Sum bond market to expand at a faster rate in 2013.
 - **Cross-border loan program marks new opportunities.** Under this program, selected Hong Kong banks will be able to provide renminbi loans to projects in Qianhai, an experimental move to test cross-border renminbi flow. The program will benefit the Hong Kong banks, such as **Bank of China Hong Kong (2388 HK)** and **HangSeng banks (11 HK)** as they have a large pool of offshore renminbi deposits. In sum, surging cross-border capital flow will encourage domestic use of different sources of funding, thus strengthening financial reforms of China.



農銀國際

ABC INTERNATIONAL

ABC SECURITIES COMPANY LIMITED

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	---	---	7.9
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	14.1
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	6.0
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	31.6
Retail Sales Growth (YoY%)	---	14.7	15.20	14.10	13.80	13.70	13.10	13.20	14.20	14.50	14.90	15.2
Industrial Production (YoY%)		11.4	11.9	9.3	9.6	9.5	9.2	8.9	9.2	9.6	10.1	10.3
PMI	50.5	51	53.1	53.3	50.4	50.2	50.1	49.2	49.8	50.2	50.6	50.6
FAI(YTD) (YoY%)	---	21.5	20.9	20.2	20.1	20.4	20.4	20.2	20.5	20.7	20.7	20.6
CPI (YoY%)	4.5	3.2	3.6	3.4	3	2.2	1.8	2	1.9	1.7	2	2.4
PPI (YoY%)	0.7	0.0	-0.3	-0.7	-1.4	-2.1	-2.9	-3.5	-3.6	-2.8	-2.2	-1.9
M2 (YoY%)	12.4	13	13.4	12.8	13.2	13.6	13.9	13.5	14.8	14.1	13.9	13.8
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	454.3

World Economic/Financial Indicators

Equity Index				Global Commodities					Bond Yields & Key Interest Rates			
	Closing price	Chng. WTD (%)	P/E		Unit/Currency	Price	Chng. WTD (%)	Volume(5-day average)		Yield (%)	Chng. WTD (%)	
US												
DJIA	13954.42	0.42	13.69						US Fed Fund Rate	0.25	0.00	
S&P 500	1507.84	0.32	14.96	Energy	NYMEX WTI	USD/bbl	97.48	1.67	231006.60	US Prime Rate	3.25	0.00
NASDAQ	3153.66	0.13	23.69		ICE	USD/bbl	114.13	0.75	207343.20	US Discount Window	0.75	0.00
MSCI US	1441.04	0.29	15.19		Brent				US Treasury (1 Month)	0.0304	-45.52	
Europe					NYMEX	USD/MM	3.29	-4.53	84586.20	US Treasury (10 Yr)	2.0298	4.16
FTSE 100	6337.97	0.85	16.06		Natural Gas	Btu			US Treasury (30 Yr)	3.2151	2.61	
DAX	7854.53	-0.04	15.16	Basic Metals	LME Aluminum	USD/MT	2022.25	0.56	16094.00	Japan 10-Yr Government Bond	0.7740	7.50
CAC40	3789.56	0.30	12.94			Cash				China 10-Yr Government Bond	3.5900	0.28
IBEX 35	8668.30	-0.65	N/A		LME Primary Aluminum	USD/MT	2060.00	0.68	31400.00	ECB Interest Rate (Refinancing)	0.7500	0.00
MSCI UK	1877.56	0.88	16.08		3 Month Rolling Forward				1-Month LIBOR	0.2017	-0.98	
MSCI France	105.58	0.14	16.16		CMX Copper Active Contract	USD/lb.	371.55	1.74	43259.60	3-Month LIBOR	0.3005	0.00
MSCI Germany	110.15	-0.11	14.84		LME Copper 3 Month Rolling Forward	USD/MT	8103.00	0.91	34837.40	3-Month SHIBOR	3.8876	0.12
MSCI Italy	53.01	0.88	N/A		TSI Iron Ore Fines 62% Fe Spot CFR China Index	USD	148.40	-0.14	N/A	3-Month HIBOR	0.3850	-0.18
Asia										Corporate Bonds (Moody's Seasoned)		
NIKKEI 225	11113.95	1.71	28.29		CMX Gold	USD/T. oz	1665.50	0.54	162748.80	Aaa	3.85	2.67
HSI	23822.06	1.02	12.22		CMX Silver	USD/T. oz	31.41	0.65	39309.60	Baa	4.80	2.35
HSCEI	12172.24	1.42	10.11	Precious Metals	NYMEX Platinum	USD/T. oz	755.00	1.89	6040.20			
CSI300	2688.71	4.55	13.48			CBOT Corn	USD/bu	727.50	0.94	113696.40		
SSE Composite	2382.48	3.98	13.14		CBOT Wheat	USD/bu	773.25	-0.42	44330.60			
SZSE Composite	942.60	3.64	27.40	Agricultural product	NYB-ICE Sugar	USD/lb.	18.56	0.98	54822.00			
MSCI China	65.43	0.82	11.41			CBOT Soybeans	USD/bu.	1458.25	1.20	88384.80		
MSCI Hong Kong	11982.61	0.00	12.72									
MSCI Japan	569.32	0.46	29.00									

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 25th, 2013.
3. Data related to U.S. is as of January 29th, 2013. Other data is as of January 30th, 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	1.3513	1.5733	1.0439	91.18	0.9209	1.0024	6.2204	7.758	6.3077
Chng. WTD (%)	0.36	-0.42	0.14	-0.30	0.61	0.34	0.03	-0.05	-0.08

**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 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.

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