農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Economics Weekly
October 30, 2013

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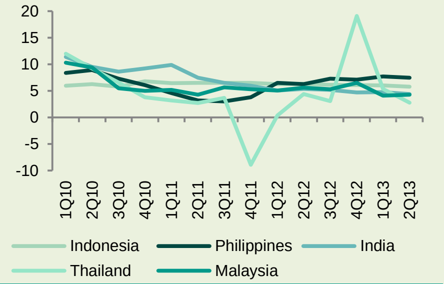
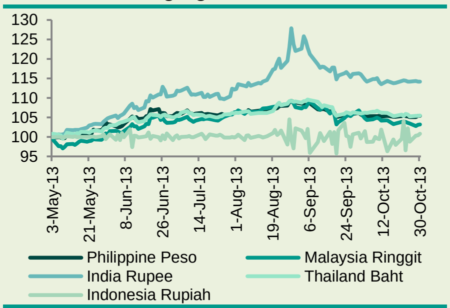
Exhibit 1: GDP growth in most of Emerging Asian economies slows (YoY %)



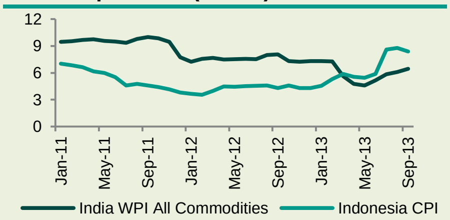
Source: Bloomberg

Exhibit 2: Emerging currencies stabilize



*May 2 as the baseline; exchange rates are against the U.S. dollar, which is the base currency, and all Asian currencies are quote currency
Source: Bloomberg

Exhibit 3: India and Indonesia are facing inflation pressure (YoY %)



Source: Bloomberg

Emerging Asia to face growing pains

Volatile capital flow is a common challenge among the emerging markets in the APAC region. In 2013, currencies of some Asian emerging markets, such as the Indonesian rupiah and Indian rupee, have depreciated sharply as capital fled on expectation of Fed's tapering. Slower economic growth and hiking inflation drove investors to redirect their capital to G3 economies (the Eurozone, Japan, and the U.S.) where recovery has been better than expected. Delay in QE exit has moderated the liquidity outflow from the emerging Asian markets, but structural issues are still posing threats. Thus, we expect overall growth in the emerging Asian economies will moderate.

Uncertainties over monetary and fiscal policies in advanced economies affect the recovery of emerging Asia. Although the U.S. managed to avoid a major fiscal crisis by temporarily extending the country's debt ceiling, the country's fundamental fiscal issues persist and market uncertainty will escalate again when the extended debt ceiling expires in Feb 2014. This will increase the vulnerability to shocks especially among the emerging economies. In addition to the uncertainty over the eventual fiscal tightening in the U.S., economic performances of the emerging Asian economies, especially those that rely heavily on exports and foreign investment, will be deeply threatened.

Export-driven emerging Asian economies remain fragile. Asia's export-driven economies have benefited immensely from the burgeoning demand in the U.S. and Eurozone for the past two decades. The slower-than-expected rebound in export demand was a strong blow to these Asian countries. The delay in QE exit only provides a short-term relief to promote strength and stability of certain Asian currencies. For long-term sustainable growth, these emerging nations will need to address the structural issues by adjusting their economic policies. We believe the policymakers would shift to rely more on domestic consumption and investment instead of exports to drive economic growth. They would also need to keep inflation at bay, controlling prices and credit growth in a more proactive and pre-emptive manner to avoid the burst of asset price bubbles.

India and Indonesia growth will slow on tightening monetary measures to curb inflation and capital outflows. India's new central bank governor, Raghuram Rajan, has rasied the benchmark interest rate in Sep and Oct to curb inflation and capital outflows, reinforcing the view that India will tolerate slower growth in 2013 to strengthen the foundation of growth for 2014. In Indonesia, the central bank also raised interest rate to avoid further bouts of currency volatility. However, the slower-than-expected recovery in exports, a weakening outlook for foreign investment and the softening commodity prices all point to a lukewarm development in the Indonesian economy. We believe the resumption of inflationary pressures in Southeast Asia's largest economy will further prompt the central bank to raise interest rate again. The monetary policy is likely to be adjusted to tailor to the less buoyant economic conditions and perhaps more difficult external financing conditions as well.

China Economic Indicators

	2012				2013								
	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Real GDP (YoY%)	7.4	---	---	7.9	---	---	7.7	---	---	7.5	---	---	7.8
Export Growth (YoY%)	9.9	11.6	2.9	14.1	25.0	21.8	10.0	14.7	1.0	(3.1)	5.1	7.2	(0.3)
Import Growth (YoY%)	2.4	2.4	0	6	28.8	(15.2)	14.1	16.8	(0.3)	(0.7)	10.9	7.0	7.4
Trade Balance (USD/bn)	27.45	32.11	19.63	31.6	29.2	15.3	(0.9)	18.2	20.4	27.1	17.8	28.5	15.2
Retail Sales Growth (YoY%)	14.2	14.5	14.9	15.2	12.3		12.6	12.8	12.9	13.3	13.2	13.4	13.3
Industrial Production (YoY%)	9.2	9.6	10.1	10.3	9.9		8.9	9.3	9.2	8.9	9.7	10.4	10.2
PMI - Manufacturing (%)	49.8	50.2	50.6	50.6	50.4	50.1	50.9	50.6	50.8	50.1	50.3	51.0	51.1
PMI - Non-manufacturing (%)	53.7	55.5	55.6	56.1	56.2	54.5	55.6	54.5	54.3	53.9	54.1	53.9	55.4
FAI(YTD) (YoY%)	20.5	20.7	20.7	20.6	21.2		20.9	20.6	20.4	20.1	20.1	20.3	20.2
CPI (YoY%)	1.9	1.7	2	2.4	2.0	3.2	2.1	2.4	2.1	2.7	2.7	2.6	3.1
PPI (YoY%)	(3.6)	(2.8)	(2.2)	(1.9)	(1.6)	(1.6)	(1.9)	(2.6)	(2.9)	(2.7)	(2.3)	(1.6)	(1.3)
M2 (YoY%)	14.8	14.1	13.9	13.8	15.9	15.2	15.7	16.1	15.8	14.0	14.5	14.7	14.2
New Lending (RMB/bn)	623.2	505.2	522.9	454.3	1070.0	620.0	1060.0	792.9	667.4	860.5	699.9	711.3	787.0

World Economic/Financial Indicators

Equity Indices

	Closing price	Chg. WTD (%)	P/E
U.S.			
DJIA	15,680.35	0.71	15.13
S&P 500	1,771.95	0.69	16.78
NASDAQ	3,952.34	0.23	23.60
MSCI US	1,695.93	0.62	16.99
Europe			
FTSE 100	6,810.11	1.32	20.77
DAX	9,055.21	0.77	15.45
CAC40	4,302.42	0.70	18.44
IBEX 35	9,940.90	1.28	55.01
FTSE MIB	19,389.31	2.73	582.2
Stoxx 600	322.33	0.70	20.96
MSCI UK	2,002.38	0.80	20.49
MSCI France	119.04	0.16	21.74
MSCI Germany	123.67	0.33	14.46
MSCI Italy	55.38	2.03	136.7
Asia			
NIKKEI 225	14,502.35	2.94	23.68
S&P/ASX 200	5,430.85	0.83	23.32
HSI	23,304.02	2.67	10.68
HSCEI	10,640.89	4.55	8.17
CSI300	2,407.47	1.64	11.43
SSE Composite	2,160.46	1.29	N/A
SZSE Composite	1,035.20	(0.46)	28.22
MSCI China	61.17	1.21	9.70
MSCI Hong Kong	11,970.93	(0.67)	10.85
MSCI Japan	736.13	1.36	18.96

Global Commodities

	Unit	Price	Chg. WTD (%)	Volume (5-day avg.)
Energy				
NYMEX WTI	USD/bbl	97.48	(0.38)	242,193
ICE Brent Oil	USD/bbl	108.79	1.74	246,077
NYMEX Natural Gas	USD/MMBtu	3.64	(1.94)	71,573
Australia Newcastle Steam Coal Spot fob[2]	USD/Metric Tonne	80.55	N/A	N/A
Basic Metals				
LME Aluminum Cash	USD/MT	1,837.50	0.05	19,864
LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,883.00	0.11	29,065
CMX Copper Active	USD/lb.	331.55	1.42	48,672
LME Copper 3- mth Rolling Fwd.	USD/MT	7,200.00	0.21	45,945
TSI CFR China Iron Ore Fines Index[3]	USD	131.30	(1.50)	N/A
Precious Metals				
CMX Gold	USD/T. oz	1,347.50	(0.37)	120,718
CMX Silver	USD/T. oz	22.70	0.25	31,491
NYMEX Platinum	USD/T. oz	1,468.00	0.86	7,856
Agricultural Products				
CBOT Corn	USD/bu	433.00	(1.59)	154,620
CBOT Wheat	USD/bu	685.25	(0.80)	44,450
NYB-ICE Sugar	USD/lb.	18.54	(2.57)	45,622
CBOT Soybeans	USD/bu.	1,285.00	(1.15)	114,916

Bond Yields & Key Interest 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)	0.0456	200
US Treasury (5 Yr)	1.2710	(0.80)
US Treasury (10 Yr)	2.4916	(0.69)
Japan 10-Yr Gov. Bond	0.5880	(4.70)
China 10-Yr Gov. Bond	4.0700	0.74
ECB Rate (Refinancing)	0.50	0.00
1-Month LIBOR	0.1821	0.00
3 Month LIBOR	0.2375	0.25
O/N SHIBOR	5.2300	19.76
3-Month HIBOR	0.3836	0.19
Corporate Bonds (Moody's)		
Aaa	4.45	0.23
Baa	5.20	0.19

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-Mth
Spot Rate	1.3761	1.6058	0.9511	98.23	0.8980	6.0946	7.7528	6.1560
Chg. WTD (%)	(0.30)	(0.66)	(0.76)	(0.82)	(0.60)	(0.18)	0.01	(0.15)

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

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 ≥ 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 2007-2011

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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