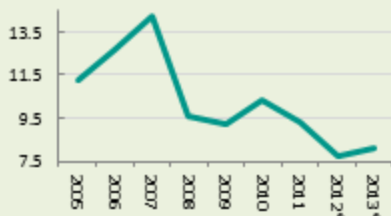




Economics Weekly

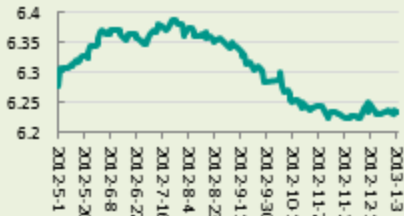
Continuous capital inflows to Asia

China GDP Growth (YoY%)



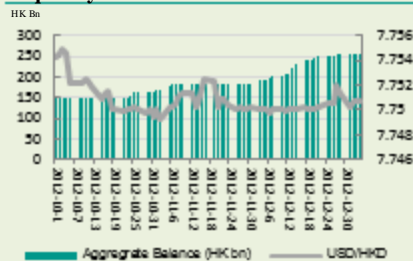
Source: Bloomberg
* indicates forecasted numbers

Stronger Reminbi in 2H12



Source: Bloomberg

Liquidity inflows into HK since October 2012



Source: Bloomberg

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Unprecedented QE stimulus sent global stocks to the biggest annual rally in three years, beating bonds and commodities by the most since 2009. The massive global stimulus has strong impact on reducing the fears of recession, this enhancing the optimism on global economic recovery. Stepping into 2013, the world's economy will come out from the trough and is gaining momentum as higher liquidity and lower risk premium are likely to bolster global economic growth. As US, EU and Japan continue on a subpar recovery, fund flows are likely to move towards emerging markets. China remains as the strongest player on the back of resilient pace of economic recovery and new leadership's policy initiatives. We expect China's economy will grow 8.1% in 2013 from 7.8% in 2012 underpinned by accelerating investment and consumption as well as stable export growth.

- **Capital inflows to Asia attracted by higher yields.** Asian stock markets rallied following the news of resolving fiscal cliff and continued inflows of liquidity. Spurred by demand for higher-yielding assets, funds flowed into emerging markets, including Asia, as these economies have a better economic outlook. Emerging Asia continues to see strength and Asian currencies outperform. Reminbi has appreciated 2% since the end of July 2012 while HK dollar sticks at the strong end of the trading range under the US dollar peg.
- **Short-lived cheer from the US as debt ceiling negotiation poses risks.** A last-minute deal in US Congress to avoid the economy-shaking fiscal cliff sent world stocks market higher but does not solve the problem of the massive deficit with which the US may face another standoff in a couple of months when the government needs to get congressional approval to raise its borrowing ceiling. Uncertainties over a reduction of budget deficit and debt will continue to loom and global liquidity is likely to move towards Asian emerging markets.
- **Expect a solid Q412 GDP growth.** A gauge of China's manufacturing showed a third month of expansion (December PMI at 50.6), adding evidence that the recovery of China's economy will extend into 2013. The economic activities have rebounded after a seven-quarter slowdown as the government increased spending on infrastructure and accelerated investment-project approvals. Improving economic indicators has supported a turnaround in the oversold Hong Kong/China equity markets in 4Q12 and investors would likely increase their optimism on the pace of the China's economic recovery in 2013. We expect 4Q12 GDP growth at 8.0% recovering from 3Q12 trough at 7.4% and 2012 GDP growth will reach 7.8%.



China Economic Indicators

	2012											
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Quarterly Real GDP Growth (YoY%)	---	---	8.1	---	---	7.6	---	---	7.4	---	---	---
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	---
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	---
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	---
Retail Sales Growth (YoY%)	---	14.7	15.20	14.10	13.80	13.70	13.10	13.20	14.20	14.50	14.90	---
Industrial Production (YoY%)		11.4	11.9	9.3	9.6	9.5	9.2	8.9	9.2	9.6	10.1	---
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	---
CPI (YoY%)	4.5	3.2	3.6	3.4	3	2.2	1.8	2	1.9	1.7	2	---
M2 (YoY%)	12.4	13	13.4	12.8	13.2	13.6	13.9	13.5	14.8	14.1	13.9	---
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	---

World Economic/Financial Indicators

Equity Index				Global Commodities				Bond Yields & Key Interest Rates							
	Closing price	Weekly Chng. (%)	P/E		Spot Price	Weekly Chng. (%)	Volume(5-day average)		Rate	Weekly Chng. (%)					
US				Energy	NYMEX WTI	USD/bbl	93.09	1.38	167660	US Fed Fund Rate	0.25	0.00			
DJIA	13435	2.53	13.49		ICE					US Prime Rate	3.25	0.00			
S&P 500	1466	2.82	14.85		Brent	USD/bbl	111.31	0.18	156266	US Discount Window	0.75	0.00			
NASDAQ	3102	2.72	20.90		NYMEX Natural Gas	USD/MM Btu	3.29	-1.91	89970	US Treasury (1 Month)	0.0507	233.55			
MSCI US	1401	2.85	15.10					US Treasury (10 Yr)	1.8991	8.06					
Europe				Basic Metals	LME Aluminum	USD/MT	2027.25	-0.67	11241	US Treasury (30 Yr)	3.0972	4.99			
FTSE 100	6090	3.26	15.64		LME Primary Aluminum 3 Month Rolling Forward	USD/MT	2060.00	-0.63	35974	Japan 10-Yr Government Bond	0.826	4.42			
DAX	7776	-0.03	15.04		CMX Copper Active Contract	USD/MT	369.35	1.12	37808	China 10-Yr Government Bond	3.6	0.28			
CAC40	3730	2.44	12.76		LME Copper 3 Month Rolling Forward	USD/lb.	8085.00	1.94	34319	ECB Interest Rate (Refinancing)	0.75	0.00			
IBEX 35	8436	3.28	25.16					LME Lead	USD/MT	2324.75	0.36	5868	1-Month LIBOR	0.2077	-0.48
MSCI UK	1805	3.29	15.70	Precious Metals	CMX Gold	USD/T. oz	1648.90	-1.61	133714	3-Month LIBOR	0.305	-0.33			
MSCI France	104	2.42	15.90		CMX Silver	USD/T. oz	29.95	-0.93	35127	3-Month SHIBOR	3.9	0.01			
MSCI Germany	109	-0.04	14.68		CBOT Corn	USD/bu	680.25	-2.58	94349	3-Month HIBOR	0.39786	-0.09			
MSCI Italy	51	0.34	N/A		CBOT Wheat	USD/bu	747.25	-3.95	46550	Corporate Bond Aaa	3.62	-1.63			
Asia				Agricultural products	NYB-ICE Sugar	USD/lb.	18.85	-3.38	34611	Corporate Bond Baa	4.58	-1.51			
NIKKEI 225	10688	0.79	27.64		CBOT Soybean	USD/bu.	1367.25	-3.00	80337						
HSI	23331	2.98	11.99												
HSCEI	11937	4.38	9.96												
CSI300	2524	0.06	12.74												
SSE Composite	2277	0.35	12.62												
SZSE Composite	878	-0.39	25.49												
MSCI China	65	3.96	11.45												
MSCI Hong Kong	11621	2.57	12.34												
MSCI Japan	550	3.07	28.31												

Note:
 1. Closing price, spot price, rate, and spot exchange rate are as of January 4th, 2013.
 2. Data source: Bloomberg, Federal Reserve Bank, National Bureau of Statistics of China, ABCIS.
 3. US Discount Window, Corporate Bond Aaa and Corporate Bond Baa are as of December 27th, 2012.

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CAD	USD/CNY	USD/HKD	USD/CNY NDF 12 Month
Spot Exchange Rate	1.3069	1.6069	1.048	88.15	0.9246	0.9872	6.2306	7.7513	6.3175
Weekly Chng. (%)	-0.94	-1.14	0.83	1.61	1.01	-0.49	0.00	0.01	-0.21



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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