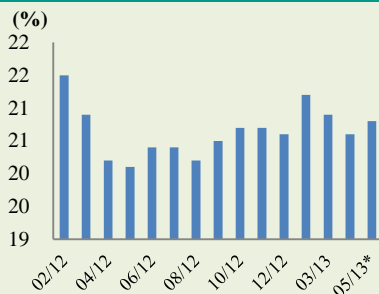


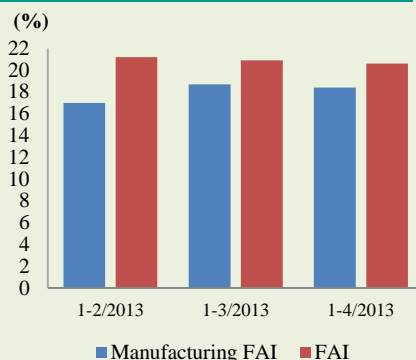
Economics Weekly

Stagnant FAI on moderation in growth momentum



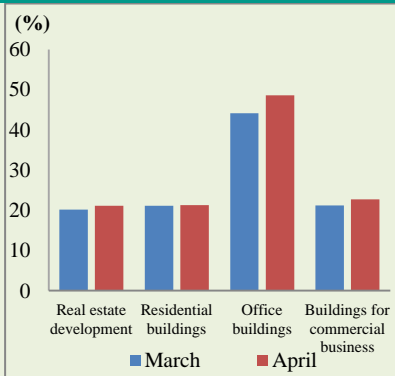
Source: Bloomberg, ABCIS
*forecast

Weak Manufacturing FAI



Source: Bloomberg, ABCIS

Uptrend in real estate investment



Source: Bloomberg, ABCIS

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Expect stable FAI growth in 2013 after a brief pause

China's lower-than-expected FAI growth in YTD in April has dragged down the pace of its economy, raising market concerns that the slowdown in FAI will persist till the end of 2013. We believe this is only a brief pause driven primarily by the lag between the time liquidity is added to the economy and the actual start of infrastructure projects and weak performance in manufacturing sector. China still maintains a generous FAI budget as the funding for FAI continues to accelerate at a faster pace. Infrastructure, real estate and manufacturing investment together accounted for 80% of FAI and we expect they maintain a stable growth in the remaining months of 2013 with which FAI will grow at a healthy 21% YoY, above the government's official target of 18% YoY in 2013.

- **FAI contributes more to GDP in 2Q13.** Both consumption and investment, two of the three GDP growth drivers, demonstrated structural weakness, although this was offset by strong foreign trade. However, 12.1% YoY growth in industrial profits in 1Q13 is an encouraging sign that the economic recovery remains intact. Gross capital formation (GCF) will contribute more to 2Q13 GDP growth, in our view, which we estimate at 7.8% YoY.
- **Real estate investment stabilizes on stronger growth of office buildings and buildings for commercial business.** China's commitment to property tightening, means a substantial change in real estate investment is unlikely in the near term, in our view. Although residential property development sees signs of slowing growth, new development of office buildings and buildings for commercial business demonstrates strong growth momentum to offset slowing residential market. Real estate investment is unlikely to suddenly take a dive and we expect it will continue to support China's investment growth.
- **Expanded budget funding supports FAI growth.** State budget funds allocated for FAI grew by 20.7% YTD in April which was in line with FAI growth of 20.6% YoY. Sufficient funding and a surge in total social financing suggest capital will be available in 2Q13 leading to a stable growth in FAI.
- **Infrastructure, real estate and manufacturing sector boost total investment.** The three industries contributed 80% to FAI growth YTD in April. We expect these sectors will maintain the growth of FAI above 20% on: (1) continued government support for infrastructure development of China's rural and western regions; (2) room for infrastructure investment as the actual railway investment is still far behind the target in the 12th Five-Year plan (FYP); (3) FAI in manufacturing sectors strengthened, underpinned by local infrastructure and rural area projects. (4) strong growth of new development in buildings for commercial business and economic housing. On this basis, we expect FAI to restore healthy growth momentum in the remaining months of 2013.



China Economic Indicators

	2012									2013			
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Real GDP (YoY%)	---	---	7.6	---	---	7.4	---	---	7.9	---	---	7.7	---
Export Growth (YoY%)	4.9	15.3	11.1	1	2.7	9.9	11.6	2.9	14.1	25.0	21.8	10.0	14.7
Import Growth (YoY%)	0.3	12.7	6.3	4.7	-2.6	2.4	2.4	0	6	28.8	-15.2	14.1	16.8
Trade Balance (USD/Bn)	18.53	18.13	31.91	25.28	26.43	27.45	32.11	19.63	31.6	29.2	15.3	-0.9	18.2
Retail Sales Growth (YoY%)	14.1	13.8	13.7	13.1	13.2	14.2	14.5	14.9	15.2	12.3	12.6	12.8	
Industrial Production (YoY%)	9.3	9.6	9.5	9.2	8.9	9.2	9.6	10.1	10.3	9.9	8.9	9.3	
PMI - Manufacturing (%)	53.3	50.4	50.2	50.1	49.2	49.8	50.2	50.6	50.6	50.4	50.1	50.9	50.6
PMI - Non-manufacturing (%)	56.1	55.2	56.7	55.6	56.3	53.7	55.5	55.6	56.1	56.2	54.5	55.6	54.5
FAI(YTD) (YoY%)	20.2	20.1	20.4	20.4	20.2	20.5	20.7	20.7	20.6	21.2	20.9	20.6	
CPI (YoY%)	3.4	3	2.2	1.8	2	1.9	1.7	2	2.4	2.0	3.2	2.1	2.4
PPI (YoY%)	-0.7	-1.4	-2.1	-2.9	-3.5	-3.6	-2.8	-2.2	-1.9	-1.6	-1.6	-1.9	-2.6
M2 (YoY%)	12.8	13.2	13.6	13.9	13.5	14.8	14.1	13.9	13.8	15.9	15.2	15.7	16.1
New Lending (RMB/Bn)	681.8	793.23	919.83	540.1	703.9	623.2	505.2	522.9	454.3	1070.0	620.0	1060.0	793

World Economic/Financial Indicators

Equity Index				Global Commodities					Bond Yields & Key Interest Rates			
	Closing price	Chng. WTD (%)	P/E		Unit	Price	Chng. WTD (%)	Volume (5-day average)		Yield (%)	Chng. WTD (%)	
US				Energy	NYMEX WTI	USD/bbl	93.97	-2.13	191053.00	US Fed Fund Rate	0.25	0.00
DJIA	15307.17	-0.31	14.75		ICE Brent	USD/bbl	102.60	-1.95	154304.00	US Prime Rate	3.25	0.00
S&P 500	1655.35	-0.73	16.17		NYMEX Natural Gas	USD/MM Btu	4.20	3.48	122788.20	US Discount Window	0.75	0.00
NASDAQ	3463.30	-1.02	24.57		Australia Newcastle Steam Coal Spot fob	USD/Metric Tonne	86.65	N/A	N/A	US Treasury (1 Month)	0.0253	0.00
MSCI US	1579.82	-0.77	16.43		LME Aluminum Cash	USD/MT	1850.00	1.65	13471.20	US Treasury (10 Yr)	2.0395	4.56
Europe				Basic Metals	LME Primary Aluminum 3 Month Rolling Forward	USD/MT	1883.00	1.84	22289.60	US Treasury (30 Yr)	3.2195	1.66
FTSE 100	6840.27	1.74	16.97		CMX Copper Active Contract	USD/lb.	336.00	1.11	62162.00	Japan 10-Yr Government Bond	0.891	11.79
DAX	8530.89	1.58	15.96		LME Copper 3 Month Rolling Forward	USD/MT	7475.00	2.33	45006.20	China 10-Yr Government Bond	3.44	0.29
CAC40	4051.11	1.25	16.86		TSI CFR China Iron Ore Fines Index	USD	123.20	0.08	N/A	ECB Interest Rate (Refinancing)	0.5	-33.33
IBEX 35	8462.40	-1.40	89.96		CMX Gold	USD/T. oz	1362.80	-0.14	248406.00	1-Month LIBOR	0.19528	-0.76
FTSE MIB	17545.46	-0.34	147.02	CMX Silver	USD/T. oz	22.18	-0.77	60017.20	3 Month LIBOR	0.27375	0.05	
Stoxx 600	310.59	0.61	20.52	NYMEX Platinum	USD/T. oz	1465.30	-0.18	12857.20	3-Month SHIBOR	3.8852	0.07	
MSCI UK	2023.17	1.74	17.49	CBOT Corn	USD/bu	658.50	0.88	96159.20	3-Month HIBOR	0.37786	0.10	
MSCI France	113.22	1.31	23.02	CBOT Wheat	USD/bu	688.50	0.77	46263.60	Corporate Bonds (Moody's Seasoned)			
MSCI Germany	116.81	1.56	14.96	NYB-ICE Sugar	USD/lb.	16.65	-1.42	43167.80	Aaa	3.92	-0.51	
MSCI Italy	50.93	-0.62	83.70	CBOT Soybeans	USD/bu.	1494.25	3.16	109417.60	Baa	4.75	-0.21	
Asia				Precious Metals								
NIKKEI 225	15627.26	3.23	28.77									
S&P/ASX 200	5165.37	-0.30	21.02									
HSI	23261.08	0.77	10.57									
HSCEI	11053.04	0.30	8.80									
CSI300	2618.03	1.00	12.99									
SSE Composite	2302.40	0.86	12.36									
SZSE Composite	1021.40	1.88	29.83									
MSCI China	61.77	0.34	10.44									
MSCI Hong Kong	12283.10	0.94	11.28									
MSCI Japan	793.82	2.02	25.71									
Currency												
										USD/ CNY		
										NDF 12 Month		
Spot Exchange Rate	1.2837	1.5032	0.9657	103.1700	0.9806	1.0379	6.1312	7.7612	6.2210			
Chng. WTD (%)	-0.02	-0.90	-0.75	0.04	-0.81	-0.94	0.16	0.02	0.34			

- Note:
- Data source: Bloomberg Finance LP, National Bureau of Statistics of China, ABCIS
 - 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
 - Date of reported data: 22th May 2013



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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