Economics Weekly
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U.S. rate hike on hold

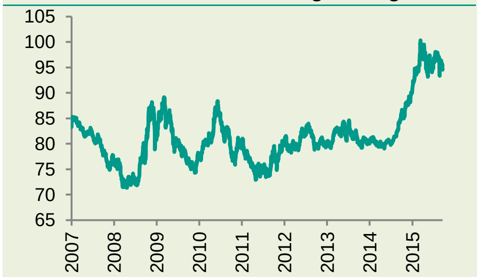
The U.S. Federal Reserve (the Fed) has kept the target range of the Fed fund rates between 0% and 0.25% in the latest meeting. Concerns over financial market volatility, uneven economic recovery worldwide, sluggish inflation and weak commodities prices have prompted US policymakers to delay the normalization of monetary policy. The Fed still maintains the stance that economic activity has been expanding moderately, with improvement in the labor market and the rising price level to be the definitive signals supportive of the rate hike. In our view, the U.S. economy has been reviving in a solid pace. Sustainability of the upbeat momentum, if accompanied by a stable pace of global economic recovery, will substantiate a rate increase in December- the first hike in nine years.

Sluggish pricing pressure and global economic turbulence delay rate hike. The steady growth in the U.S. job market indicates that economic momentum in the country has been strengthening amid collapse in energy prices and growing uncertainties in emerging economies. However, a recent fall in U.S. stock market and surging value of USD have exerted stress on the financial markets worldwide, slowing the economic momentum. The strength of USD triggered a drastic fall in commodities prices and depreciation in the emerging market currencies, draining the liquidity out of emerging economies and increasing volatility in forex market and equity market. The USD debts in emerging market economies have also made them vulnerable to higher U.S. interest rates. In general, global economic turbulence arising from an uneven recovery has deterred the Fed from commencing the rate hike cycle.

Implications of delayed normalization of U.S.'s monetary policy. The global business environment is facing an increasingly complicated monetary policy with marked differences in economic and political conditions among countries. Hence, the U.S. may adopt low interest rates for a longer period. This is in line with European and Asian countries' strengthening of credit loosening programs. In our view, a low interest rate environment will continue to direct global liquidity and capital flow to the Asian economies, sustaining the robust performance of capital markets in such regions.

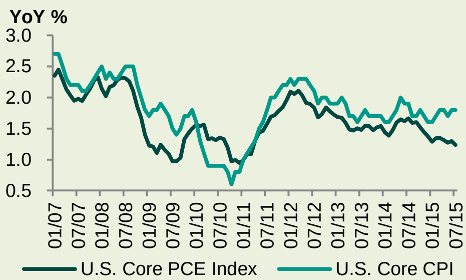
China's economy to improve with the extended low interest rates. China, as the world's second largest economy, is bracing for the new norm of slower expansion, as reflected by 1H15 GDP growth of 7.0% YoY. Further delay of the U.S.'s rate increase will help enhance effectiveness of China's macro credit loosening by neutralizing capital outflow. With China's accommodative economic policies and impacts of credit loosening measures on consumption and investment to be realized in 2H15, we expect economic growth to improve going forward.

Exhibit 1: USD has been strengthening



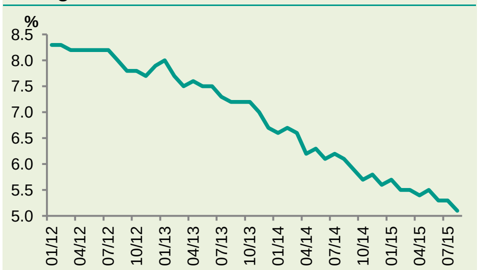
Source(s): Bloomberg, ABCI Securities

Exhibit 2: U.S. core CPI and PCE deflator



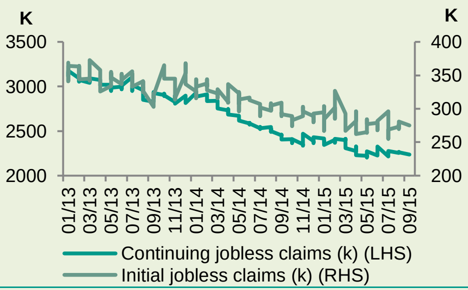
Source(s): Bloomberg, ABCI Securities

Exhibit 3: US unemployment rate has been falling



Source(s): Bloomberg, ABCI Securities

Exhibit 4: U.S. jobless claims further decrease



Source(s): Bloomberg, ABCI Securities

China Economic Indicators

	2014								2015							
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Real GDP (YoY%)	--	7.5	--	---	7.3	---	---	7.3	---	---	7.0	---	---	7.0	---	---
Export Growth (YoY%)	7.0	7.2	14.5	9.4	15.3	11.6	4.7	9.7	(3.2)	48.3	(15.0)	(6.4)	(2.5)	2.8	(8.3)	(5.5)
Import Growth (YoY%)	(1.6)	5.5	(1.6)	(2.4)	7.0	4.6	(6.7)	(2.4)	(19.7)	(20.5)	(12.7)	(16.2)	(17.6)	(6.1)	(8.1)	(13.8)
Trade Balance (USD/bn)	35.9	31.6	47.3	49.8	30.9	45.4	54.5	49.6	60.0	60.6	3.1	34.1	59.49	46.6	43.0	60.2
Retail Sales Growth (YoY%)	12.5	12.4	12.2	11.9	11.6	11.5	11.7	11.9	10.7		10.2	10.0	10.1	10.6	10.5	10.8
Industrial Production (YoY%)	8.8	9.2	9.0	6.9	8.0	7.7	7.2	7.9	6.8		5.6	5.9	6.1	6.8	6.0	6.1
PMI - Manufacturing (%)	50.8	51.0	51.7	51.1	51.1	50.8	50.3	50.1	49.8	49.9	50.1	50.1	50.2	50.2	50.0	49.7
PMI - Non-manufacturing (%)	55.5	55.0	54.2	54.4	54.0	53.8	53.9	54.1	53.7	53.9	53.7	53.4	53.2	53.8	53.9	53.4
FAI(YTD) (YoY%)	17.2	17.3	17.0	16.5	16.1	15.9	15.8	15.7	13.9		13.5	12.0	11.4	11.4	11.2	10.9
CPI (YoY%)	2.5	2.3	2.3	2.0	1.6	1.6	1.4	1.5	0.8	1.4	1.4	1.5	1.2	1.4	1.6	2.0
PPI (YoY%)	(1.4)	(1.1)	(0.9)	(1.2)	(1.8)	(2.2)	(2.7)	(3.3)	(4.3)	(4.8)	(4.6)	(4.6)	(4.6)	(4.8)	(5.4)	(5.9)
M2(YoY%)	13.4	14.7	13.5	12.8	12.9	12.6	12.3	12.2	10.8	12.5	11.6	10.1	10.8	11.8	13.3	13.3
New Lending (RMB/bn)	870.8	1,080	385.2	702.5	857.2	548.3	852.7	697.3	1,470	1,020	1,180	707.9	900.8	1,280.6	1,480	809.6
Aggregate Financing (RMB bn)	1,400	1,970	273.7	957.7	1,135.5	662.7	1,146.3	1,690	2,050	1,350	1,181	1,050	1,220	1,860	718.8	1,080

World Economic/Financial Indicators

Equity Indices

	Closing price	Chg. WTD (%)	P/E
U.S.			
DJIA	16,674.74	1.47	14.56
S&P 500	1,990.20	1.49	17.57
NASDAQ	4,893.95	1.48	27.65
MSCI US	1,906.66	1.49	18.29
Europe			
FTSE 100	6,165.78	0.78	22.44
DAX	10,107.42	(0.16)	15.93
CAC40	4,606.94	1.28	20.22
IBEX 35	10,006.30	2.76	18.30
FTSE MIB	21,795.64	0.15	N/A
Stoxx 600	358.04	0.65	20.88
MSCI UK	1,806.54	1.16	22.97
MSCI France	130.66	2.13	20.69
MSCI Germany	134.68	1.05	16.30
MSCI Italy	63.32	1.56	N/A
Asia			
NIKKEI 225	18,070.21	(1.06)	18.88
S&P/ASX 200	5,170.50	1.96	18.75
HSI	21,920.83	1.94	9.43
HSCEI	10,028.38	3.19	7.15
CSI300	3,251.27	(2.87)	13.24
SSE Composite	3,097.92	(3.20)	15.44
SZSE Composite	1,679.10	(5.74)	38.12
MSCI China	59.56	2.13	9.09
MSCI Hong Kong	11,899.68	0.53	9.60
MSCI Japan	908.97	0.88	15.40

* As of 12:00 AM closing

Global Commodities

	Unit	Price	Chg. WTD (%)	Volume (5-day avg.)
Energy				
NYMEX WTI	USD/bbl	46.64	4.50	369,286
ICE Brent Oil	USD/bbl	49.30	2.41	156,623
NYMEX Natural Gas	USD/MMBtu	2.65	(1.75)	117,826
Australia Newcastle Steam Coal Spot fob[2]	USD/Metric Tonne	61.80	N/A	N/A
BasicMetals				
LME Aluminum Cash	USD/MT	1,622.25	0.09	34,316
LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,632.00	(0.49)	31,898
CMX Copper Active	USD/lb.	5,405.00	0.44	17,690
LME Copper 3- mth Rolling Fwd.	USD/MT	5,390.00	0.37	41,490
Precious Metals				
CMX Gold	USD/T. oz	1,130.50	2.47	109,469
CMX Silver	USD/T. oz	15.15	4.45	36,316
NYMEX Platinum	USD/T. oz	978.30	1.39	12,225
Agricultural Products				
CBOT Corn	USD/bu	381.75	(1.36)	174,448
CBOT Wheat	USD/bu	485.50	0.10	62,670
NYB-ICE Sugar	USD/lb.	12.30	(1.20)	89,999
CBOT Soybeans	USD/bu.	884.00	1.12	117,617

Bond Yields & Key Rates

	Yield (%)	Chg. WTD (Bps)
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 Yr)	0.3619	0.01
US Treasury (5Yr)	1.4670	(4.58)
US Treasury (10 Yr)	2.1833	(0.50)
Japan 10-Yr Gov. Bond	0.3140	(3.10)
China 10-Yr Gov. Bond	3.3400	(1.00)
ECB Rate (Refinancing)	0.05	0.00
1-Month LIBOR	0.2128	0.63
3 Month LIBOR	0.3396	0.24
O/N SHIBOR	1.9000	(0.01)
1-mth SHIBOR	3.0530	4.80
3-mth HIBOR	0.3988	0.07
Corporate Bonds (Moody's)		
Aaa	4.18	14.00
Baa	5.45	14.00

Note:
1. Data sources: Bloomberg, 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

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.1434	1.5606	0.7251	119.53	0.9588	6.3637	7.7501	6.5734
Chg. WTD (%)	0.85	1.15	2.24	0.89	1.08	0.18	(0.00)	0.29

Disclosures

Analyst Certification

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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 2009-2013

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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