



# Economics Weekly November 3, 2014

**Co-head of Research**

**Banny Lam**

Tel: 852-21478863

Email: bannylam@abci.com.hk

**Analyst**

**Paul Pan**

Tel: 852-21478829

Email: paulpan@abci.com.hk

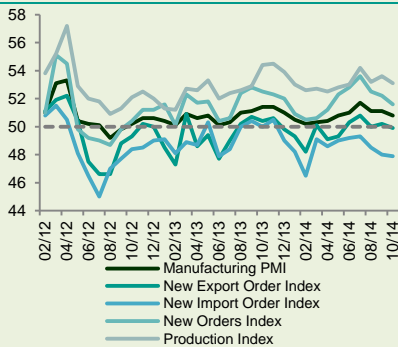
### Exhibit 1: Oct economic indicators preview

YoY% or otherwise specified	Oct'14F*	Sept'14
PMI - Manufacturing	50.8	51.1
PMI - Non-manufacturing	53.8	54.0
CPI	1.5	1.6
PPI	(2.0)	(1.8)
Exports	12.5	15.3
Imports	11.5	7.0
Trade Balance (US\$/bn)	36.5	30.9
FAI (YTD%)	16.2	16.1
Industrial production	8.0	8.0
Retail Sales	12.1	11.6
M2	13.0	12.9
New loans (RMB/bn)	750.0	857.2
Aggregate financing (RMB/bn)	1080.0	1052.2

\* Forecast, excluding PMI - Manufacturing and Non-manufacturing

Source(s): Bloomberg, ABCI Securities

### Exhibit 2: China's manufacturing PMI and sub-indices (%)



Source(s): Bloomberg, ABCI Securities

## October PMI cools further

China's newly released manufacturing PMI for October edged down to 50.8% from 51.1% in September. Slowing demand continues to hit the manufacturing sector, reinforcing the belief that China's economy is losing momentum. We expect key economic indicators for October will remain stagnant. With the recent deployment of targeted stimulus measures by the government, however, we believe PMI will improve in the remainder of 2014.

**Expansion in manufacturing sector moderates.** China's manufacturing PMI was 50.8% in October, down 0.3ppt from September. Although the index has been above 50% (a level that indicates expansion) for the past 25 months, October's figure shows diminishing momentum. In our view, the government will step up efforts to deploy more stimulus policies. China's manufacturing sector will continue to expand in the rest of 2014.

**Pricing pressure to remain mild.** As economic activities moderate and food prices growth decelerates, we believe CPI inflation in October would fall further to 1.5% YoY. In addition, the Purchasing Price Index, a sub-index of the manufacturing PMI, declined from 47.4% in September to 45.1% in October. This indicator suggests the flagging demand for manufacturing products and weakening raw material purchasing prices. Therefore, we expect a widening PPI decline of 2.0% YoY for October.

**Recovery in external trade sector moderates.** New Export Order Index and New Import Order Index, sub-indices of the manufacturing PMI, reached 49.9% and 47.9% in October, as opposed to 50.2% and 48.0% in September, indicating a moderating growth in external trade. For October, we anticipate that exports and imports to grow by 12.5% and 11.5% YoY, while trade balance will reach US\$ 36.5bn.

**FAI growth to accelerate slightly.** Slower expansion in manufacturing activities, as well as the moderating real estate development, is expected to drag down growth in FAI. However, surging investment in infrastructure and railways will help reverse the downtrend in FAI. We expect FAI for October is likely to rebound slightly, with its YTD growth hitting 16.2% YoY.

**Industrial production growth to remain weak.** Sapped by the slowing manufacturing production on decreased domestic and export orders, industrial production in October is likely to grow by 8.0% YoY. We believe the drop in PMI and widening decline in producer prices indicate that industrial output will remain stagnant in the future.

**Retail sales to improve steadily.** Improvement in retail sales is expected to broaden as the government launches more pro-consumption policies. Consumption will trend up slightly, and demand for consumer discretionary and staples will continue to climb. We expect retail sales in October to increase by 12.1% YoY.

**Growth in monetary indicators remains stable.** PBOC's targeted liquidity easing in September and October has injected ample liquidity into the banking system and helped stimulate economic activities. We believe growth in monetary indicators for October will remain stable. New bank loans will rise to RMB 750bn; aggregate financing will reach RMB 1.08tr; and M2 growth will maintain stable at 13.0% YoY.



China Economic Indicators

	2013					2014									
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct*
Real GDP (YoY%)	---	7.8	---	---	7.7	---	---	7.4	---	--	7.5	--	---	7.3	---
Export Growth (YoY%)	7.2	(0.3)	5.6	12.7	5.8	10.6	(18.1)	(6.6)	0.9	7.0	7.2	14.5	9.4	15.3	12.5
Import Growth (YoY%)	7.0	7.4	7.6	5.3	6.5	10.0	10.1	(11.3)	0.8	(1.6)	5.5	(1.6)	(2.4)	7.0	11.5
Trade Balance (USD/bn)	28.5	15.2	31.1	33.8	32.3	31.9	(23.0)	7.7	18.5	35.9	31.6	47.3	49.8	30.9	36.5
Retail Sales Growth (YoY%)	13.4	13.3	13.3	13.7	13.6		11.8	12.2	11.9	12.5	12.4	12.2	11.9	11.6	12.1
Industrial Production (YoY%)	10.4	10.2	10.3	10.0	9.7		8.6	8.8	8.7	8.8	9.2	9.0	6.9	8.0	8.0
PMI - Manufacturing (%)	51.0	51.1	51.4	51.4	51.0	50.5	50.2	50.3	50.4	50.8	51.0	51.7	51.1	51.1	50.8
PMI - Non-manufacturing (%)	53.9	55.4	56.3	56.0	54.6	53.4	55.0	54.5	54.8	55.5	55.0	54.2	54.4	54.0	53.8
FAI(YTD) (YoY%)	20.3	20.2	20.1	19.9	19.6		17.9	17.6	17.3	17.2	17.3	17.0	16.5	16.1	16.2
CPI (YoY%)	2.6	3.1	3.2	3.0	2.5	2.5	2.0	2.4	1.8	2.5	2.3	2.3	2.0	1.6	1.5
PPI (YoY%)	(1.6)	(1.3)	(1.5)	(1.4)	(1.4)	(1.6)	(2.0)	(2.3)	(2.0)	(1.4)	(1.1)	(0.9)	(1.2)	(1.8)	(2.0)
M2(YoY%)	14.7	14.2	14.3	14.2	13.6	13.2	13.3	12.1	13.2	13.4	14.7	13.5	12.8	12.9	13.0
New Lending (RMB/bn)	711.3	787.0	506.1	624.6	482.5	1,320	644.5	1,050	774.7	870.8	1080	385.2	702.5	857.2	750.0
Aggregate Financing (RMB bn)	1,584	1,411.3	864	1,226.9	1,232.2	2,580	938.7	2,081.3	1,550	1,400	1,970	273.7	957.7	1052.2	1080.0

\* Forecast (Excluding PMI - Manufacturing & PMI - Non-manufacturing)

World Economic/Financial Indicators

Equity Indices				Global Commodities				Bond Yields & Key Rates				
	Closing price	Chg. WTD (%)	P/E	Unit	Price	Chg. WTD (%)	Volume (5-day avg.)		Yield (%)	Chg. WTD (Bps)		
<b>U.S.</b>				<b>Energy</b>				US Fed Fund Rate	0.25	0.00		
DJIA	17,390.52	0.00	15.58	NYMEX WTI	USD/bbl	80.03	(0.63)	271,882	US Prime Rate	3.25	0.00	
S&P 500	2,018.05	0.00	17.88	ICE Brent Oil	USD/bbl	85.23	(0.73)	217,678	US Discount Window	0.75	0.00	
NASDAQ	4,630.74	0.00	69.30	NYMEX Natural Gas	USD/MMBtu	4.03	4.08	75,586	US Treasury (1 Mth)	-0.0051	0.00	
MSCI US	1,927.44	0.00	18.28	Australia Newcastle Steam Coal Spot fob <sup>2</sup>	USD/Metric Tonne	63.05	N/A	N/A	US Treasury (5Yr)	1.5965	(1.30)	
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (10 Yr)	2.3102	(2.51)		
FTSE 100	6,545.37	(0.02)	16.68	LME Aluminum Cash	USD/MT	2,057.00	0.00	15,311	Japan 10-Yr Gov. Bond	0.4580	0.00	
DAX	9,327.43	0.01	16.93	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	2,039.00	0.00	31,592	China 10-Yr Gov. Bond	3.8300	(1.00)	
CAC40	4,230.88	(0.05)	25.79	CMX Copper Active	USD/lb.	6,752.00	0.00	11,526	ECB Rate (Refinancing)	0.05	0.00	
IBEX 35	10,479.30	0.01	21.19	LME Copper 3- mth Rolling Fwd.	USD/MT	6,695.00	0.00	41,825	1-Month LIBOR	0.1559	0.39	
FTSE MIB	19,703.42	(0.41)	1,128	<b>Precious Metals</b>				3-Month LIBOR	0.2321	(0.10)		
Stoxx 600	337.05	0.07	20.45	CMX Gold	USD/T. oz	1,168.70	(0.25)	170,513	O/N SHIBOR	2.5480	(1.10)	
MSCI UK	1,928.92	0.00	16.63	CMX Silver	USD/T. oz	15.96	(0.91)	50,021	1-mth SHIBOR	3.9150	(7.60)	
MSCI France	118.44	0.00	26.79	NYMEX Platinum	USD/T. oz	1,232.70	(0.20)	9,517	3-mth HIBOR	0.3743	(0.29)	
MSCI Germany	124.61	0.00	17.04	<b>Agricultural Products</b>				Corporate Bonds (Moody's)				
MSCI Italy	57.68	0.00	N/A	CBOT Corn	USD/bu	373.25	(0.93)	201,257	Aaa	3.88	(9.00)	
<b>Asia</b>				CBOT Wheat	USD/bu	531.00	(0.28)	50,972	Baa	4.71	(1.00)	
NIKKEI 225	16,413.76	0.00	21.10	NYB-ICE Sugar	USD/lb.	15.95	(0.56)	40,902	Note:			
S&P/ASX 200	5,506.89	(0.36)	19.00	CBOT Soybeans	USD/bu.	1,045.25	(0.38)	173,097	1. Data sources: Bloomberg Finance LP, National Bureau of Statistics of China, ABCIS (updated on date of report)			
HSI	23,915.97	(0.34)	10.36									2. Australia Newcastle Steam Coal Spot fob is the Australia Newcastle 6700 kc GAD fob Steam Coal Spot price published by McCloskey
HSCEI	10,660.24	(0.89)	7.37									3. TSI CFR China Iron Ore Fines Index is calculated with the 62% Fe specification, spot price
CSI300	2,512.55	0.17	10.92									
SSE Composite	2,430.03	0.41	11.52									
SZSE Composite	1,361.38	0.81	32.77									
MSCI China	64.43	0.00	9.58									
MSCI Hong Kong	12,988.49	0.00	11.12									
MSCI Japan	821.83	0.00	15.64									

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth	Spot pr.
Spot Rate	1.2490	1.5981	0.8748	112.83	0.9653	6.1192	7.7551		6.2458
Chg. WTD (%)	(0.28)	(0.09)	(0.57)	(0.45)	(0.28)	(0.10)	(0.00)		0.06



## 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 2009-2013

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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**Office address: ABCI Securities Company Limited, 13/F Fairmont House,  
8 Cotton Tree Drive, Central, Hong Kong.**

**Tel: (852) 2868 2183**