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Post-NPC policy outlook

In this year's NPC, much attention has been centered on economic themes relating to China's 'new normal' of a slower growth. After the conclusion of China's annual parliamentary session, Premier Li Keqiang said it will not be easy for China to achieve a 7% GDP growth in 2015, and the Chinese economy will operate within an appropriate range when the economic development enters a "new normal". In general, the abating momentum has called for an accommodative approach to bolster the country's economic growth. China's economic policies will be more accommodative in 2015 than in 2014 given the heightening disinflation risks and the economic rebalancing in process. In the face of intensifying downside risks, China has gone forward with a policy of selective loosening with liquidity injection, tax relief, greater support to enterprises, increasing infrastructure investment and establishing free-trade zones. To boost aggregate demand, we expect more macro loosening measures to commence in 2Q15.

Cycle of macro loosening commences. Premier Li Keqiang has reaffirmed that the government would "fine-tune" its economic policy to maintain economic growth at the targeted level and counteract against disinflationary risks. We expect another RRR cut and interest rate reduction to be announced in 2Q15, and estimate CPI inflation to stay between 1% and 1.5% in 1H15 and 2%~2.3% in 2H15. In addition, greater lending momentum is likely to occur in coming months, with more loans being provided to corporate enterprises, especially the SMEs, amid the slowing global demand and still-tight credit conditions in China. We expect new bank loans to grow 8%, from RMB 9.8tr by end-2014 to RMB 10.5tr in 2015E.

Fiscal stimulus to mitigate fall in aggregate demand. In China, the impact of weaker growth will be revealed by the lower domestic demand as companies and families tighten their purse strings. Pro-consumption fiscal stimulus has been China's response to shrinking domestic demand. The nation's fiscal deficit in 2014, as a percentage of GDP, was less than 2% as compared to the 10% in the U.S. and 6% in the Eurozone. Room to expand fiscal spending is still ample as the government targets for a larger fiscal deficit at 2.3% of GDP (or RMB 162 bn) in 2015. We believe areas receiving support will include tax relief, social housing, SMEs, livelihood-related and environmental protection.

Investment in the future. To stimulate economic growth, the government has launched two major projects, namely, the "New Silk Road" initiative and the "Free-trade Zone (FTZ)" project. We believe the "New Silk Road" will encourage more services export and help absorb part of the domestic production capacity in the industrial sector by boosting overseas demand, while the FTZ project would introduce new investment opportunities for domestic and foreign investors. We also believe the government will focus on development in the technology sector to increase employment, accelerate capital flow, and cultivate higher creativity in the society.



China Economic Indicators

	2013	2014												2015	
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Real GDP (YoY%)	7.7	---	---	7.4	---	---	7.5	---	---	7.3	---	---	7.3	---	---
Export Growth (YoY%)	5.8	10.6	(18.1)	(6.6)	0.9	7.0	7.2	14.5	9.4	15.3	11.6	4.7	9.7	(3.2)	48.3
Import Growth (YoY%)	6.5	10.0	10.1	(11.3)	0.8	(1.6)	5.5	(1.6)	(2.4)	7.0	4.6	(6.7)	(2.4)	(19.7)	(20.5)
Trade Balance (USD/bn)	32.3	31.9	(23.0)	7.7	18.5	35.9	31.6	47.3	49.8	30.9	45.4	54.5	49.6	60.0	60.6
Retail Sales Growth (YoY%)	13.6	11.8		12.2	11.9	12.5	12.4	12.2	11.9	11.6	11.5	11.7	11.9	10.7	
Industrial Production (YoY%)	9.7	8.6		8.8	8.7	8.8	9.2	9.0	6.9	8.0	7.7	7.2	7.9	6.8	
PMI - Manufacturing (%)	51.0	50.5	50.2	50.3	50.4	50.8	51.0	51.7	51.1	51.1	50.8	50.3	50.1	49.8	49.9
PMI - Non-manufacturing (%)	54.6	53.4	55.0	54.5	54.8	55.5	55.0	54.2	54.4	54.0	53.8	53.9	54.1	53.7	53.9
FAI(YTD) (YoY%)	19.6	17.9		17.6	17.3	17.2	17.3	17.0	16.5	16.1	15.9	15.8	15.7	13.9	
CPI (YoY%)	2.5	2.5	2.0	2.4	1.8	2.5	2.3	2.3	2.0	1.6	1.6	1.4	1.5	0.8	1.4
PPI (YoY%)	(1.4)	(1.6)	(2.0)	(2.3)	(2.0)	(1.4)	(1.1)	(0.9)	(1.2)	(1.8)	(2.2)	(2.7)	(3.3)	(4.3)	(4.8)
M2(YoY%)	13.6	13.2	13.3	12.1	13.2	13.4	14.7	13.5	12.8	12.9	12.6	12.3	12.2	10.8	12.5
New Lending (RMB/bn)	482.5	1,320	644.5	1,050	774.7	870.8	1,080	385.2	702.5	857.2	548.3	852.7	697.3	1,470.0	1,020
Aggregate Financing (RMB bn)	1,232.2	2,580	938.7	2,081.3	1,550	1,400	1,970	273.7	957.7	1,135.5	662.7	1,146.3	1,690.0	2,050.0	1,350

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)
U.S.				Energy				US Fed Fund Rate	0.25	0.00
DJIA	17,849.08	0.56	16.30	NYMEX WTI	USD/bbl	42.59	374,521	Rate	0.25	0.00
S&P 500	2,074.28	1.02	18.51	ICE Brent Oil	USD/bbl	53.14	129,160	US Prime Rate	3.25	0.00
NASDAQ	4,937.44	1.35	29.47	NYMEX Natural Gas	USD/MMBtu	2.85	128,473	US Discount Window	0.75	0.00
MSCI US	1,987.18	1.03	19.02	Australia Newcastle Steam Coal Spot fob ²	USD/Metric Tonne	61.80	N/A	US Treasury (1 Yr)	0.2597	2.55
Europe				Basic Metals				US Treasury (5Yr)	1.5412	(4.27)
FTSE 100	6,851.60	1.65	23.77	LME Aluminum Cash	USD/MT	1,788.50	51,059	US Treasury (10 Yr)	2.0384	(7.56)
DAX	12,012.66	0.93	20.09	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,786.00	28,690	Japan 10-Yr Gov. Bond	0.3660	(4.40)
CAC40	5,032.83	0.45	25.53	CMX Copper Active	USD/lb.	5,798.50	15,450	China 10-Yr Gov. Bond	3.5500	10.00
IBEX 35	11,063.90	0.27	20.97	LME Copper 3- mth Rolling Fwd.	USD/MT	5,785.00	39,284	ECB Rate (Refinancing)	0.05	0.00
FTSE MIB	22,806.57	0.41	64.93	Precious Metals				1-Month LIBOR	0.1770	0.05
Stoxx 600	398.10	0.38	24.60	CMX Gold	USD/T. oz	1,147.00	145,330	3 Month LIBOR	0.2702	(0.05)
MSCI UK	2,009.73	1.52	23.78	CMX Silver	USD/T. oz	15.52	30,964	O/N SHIBOR	3.3690	(6.70)
MSCI France	141.70	0.28	26.87	NYMEX Platinum	USD/T. oz	1,090.80	12,984	1-mth SHIBOR	5.0350	(1.70)
Asia				Agricultural Products				3-mth HIBOR	0.3850	0.00
NIKKEI 225	19,544.48	1.51	22.17	CBOT Corn	USD/bu	373.50	150,963	Corporate Bonds (Moody's)		
S&P/ASX 200	5,842.35	0.48	21.40	CBOT Wheat	USD/bu	504.25	58,464	Aaa	3.70	0.00
HSI	24,120.08	1.25	10.02	NYB-ICE Sugar	USD/lb.	12.82	56,525	Baa	4.58	(2.00)
HSCEI	11,981.97	2.30	8.41	CBOT Soybeans	USD/bu.	958.00	105,759			
CSI300	3,846.06	6.31	16.64							
SSE Composite	3,577.30	6.06	17.23							
SZSE Composite	1,818.38	6.46	43.44							
MSCI China	68.27	0.98	10.36							
MSCI Hong Kong	12,627.50	(0.61)	9.37							
MSCI Japan	967.96	0.71	17.75							

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.0597	1.4727	0.7595	121.29	1.0054	6.2333	7.7581	6.3780
Chg. WTD (%)	0.96	(0.12)	(0.55)	0.09	0.02	0.41	0.10	0.50

Note:

- Data sources: Bloomberg, National Bureau of Statistics of China, ABCIS (updated on date of report)
- Australia Newcastle Steam Coal Spot fob is the Australia Newcastle 6700 kc GAD fob Steam Coal Spot price published by McCloskey



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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