



# Economics Weekly January 16, 2014

Co-head of Research

Banny Lam

Tel: 852-21478863

Email: bannylam@abci.com.hk

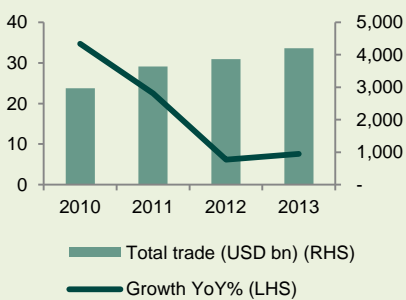
Analyst

Paul Pan

Tel: 852-21478829

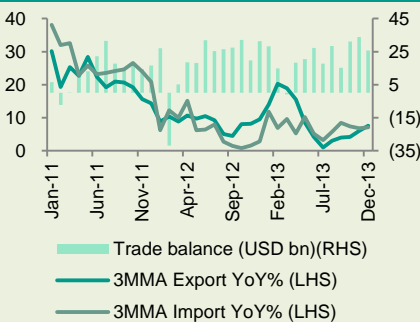
Email: paulpan@abci.com.hk

Exhibit 1: China annual total trade and growth



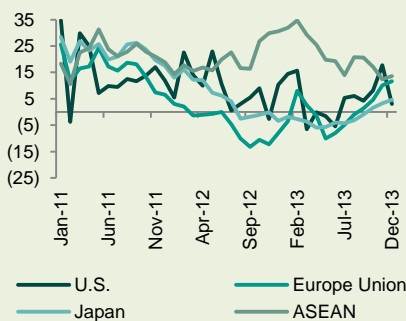
Source(s): Bloomberg, ABCI Securities

Exhibit 2: China monthly exports, imports, and trade balance



Source(s): Bloomberg, ABCI Securities

Exhibit 3: China exports to major trading partners (3MMA YoY%)



Source(s): Bloomberg, ABCI Securities

## China's external trade to improve in 2014

In 2013, China's export growth, import growth, and trade balance were 7.9% YoY, 7.3% YoY, and US\$ 259.75 bn. While China's total trade growth was moderate, data suggests its major trading partners have been showing signs of improvement. As long as the global economy would maintain its current growth trajectory, external trade environment should bode well for China in 2014.

**China trade data reflects a strengthening global demand.** Total trade growth fell short of government forecast in 2013 but improved from 6.2% YoY in 2012 to 7.6% YoY 2013. European Union and the U.S. are still the biggest trading partners of China, with total trade of US\$ 559.06bn (2.1% YoY) and US\$ 521.00bn (7.5 % YoY) respectively. It is also worth noting that the ASEAN, whose total trade with China in 2013 was US\$ 443.61bn (10.9% YoY), has become China's third largest trading partner. The monthly export growth to these regions has been showing varying degrees of improvement. These indicators imply a pickup in local demand.

**Recovery in the U.S. and European Union to support China's exports.** With consistent improvement in economic fundamentals and uncertainty of fiscal impasse receding, the U.S. economy has been gathering strength. For the European Union, impacts of the debt crisis are fading and the member countries are gradually coming out of recession. The two regions have remained as China's top trading partners despite the volatile market in 2013. Thus, we expect improvement in their economic situations in 2014 would translate into positive propellers of China's exports.

**ASEAN as new growth engine for China's external trade.** ASEAN was the third biggest trading partner with China in 2013. Even when other areas recorded decline, China's exports to this region still registered relatively high growth. Although Federal Reserve's tapering action has resulted in temporary pain, ASEAN still has a strong economic potential and we believe demand will continue to increase. In our view, the ASEAN will become a new driver for China's external trade in 2014.

**The changing dynamics in external trade environment.** As the U.S. monetary policy is reverting to normalcy, less pressure will be exerted on the U.S. dollar. The improving global economy will also spur demand for China's exports. However, China's exporters are facing stiffer competition from neighboring countries capable of providing lower costs of production. The pressure to upgrade their product quality and shift to higher value-added activities is enormous. Yet, we believe the positive factors would still outweigh the negative ones to support a steady export growth in China this year.



China Economic Indicators

	2012	2013											
	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec*
Real GDP (YoY%)	7.9	---	---	7.7	---	---	7.5	---	---	7.8	---	---	7.5
Export Growth (YoY%)	14.1	25.0	21.8	10.0	14.7	1.0	(3.1)	5.1	7.2	(0.3)	5.6	12.7	4.3
Import Growth (YoY%)	6	28.8	(15.2)	14.1	16.8	(0.3)	(0.7)	10.9	7.0	7.4	7.6	5.3	8.3
Trade Balance (USD/bn)	31.6	29.2	15.3	(0.9)	18.2	20.4	27.1	17.8	28.5	15.2	31.1	33.8	25.6
Retail Sales Growth (YoY%)	15.2		12.3	12.6	12.8	12.9	13.3	13.2	13.4	13.3	13.3	13.7	13.7
Industrial Production (YoY%)	10.3		9.9	8.9	9.3	9.2	8.9	9.7	10.4	10.2	10.3	10.0	9.9
PMI - Manufacturing (%)	50.6	50.4	50.1	50.9	50.6	50.8	50.1	50.3	51.0	51.1	51.4	51.4	51.0
PMI - Non-manufacturing (%)	56.1	56.2	54.5	55.6	54.5	54.3	53.9	54.1	53.9	55.4	56.3	56.0	54.6
FAI(YTD) (YoY%)	20.6		21.2	20.9	20.6	20.4	20.1	20.1	20.3	20.2	20.1	19.9	20.0
CPI (YoY%)	2.4	2.0	3.2	2.1	2.4	2.1	2.7	2.7	2.6	3.1	3.2	3.0	3.0
PPI (YoY%)	(1.9)	(1.6)	(1.6)	(1.9)	(2.6)	(2.9)	(2.7)	(2.3)	(1.6)	(1.3)	(1.5)	(1.4)	(1.3)
M2(YoY%)	13.8	15.9	15.2	15.7	16.1	15.8	14.0	14.5	14.7	14.2	14.3	14.2	13.6
New Lending (RMB/bn)	454.3	1070.0	620.0	1060.0	792.9	667.4	860.5	699.9	711.3	787.0	506.1	624.6	482.5

\* Forecast (excluding export growth, import growth, trade balance, PMI - Manufacturing, PMI - Non-manufacturing, M2, new lending); Real GDP is for 4Q13

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
<b>U.S.</b>				<b>Energy</b>				US Fed Fund Rate	0.25	0.00
DJIA	16,481.94	0.27	15.89	NYMEX WTI	USD/bbl	93.90	246,150	1.27		
S&P 500	1,848.38	0.33	17.37	ICE Brent Oil	USD/bbl	106.54	141,559	(0.66)		3.25 0.00
NASDAQ	4,214.88	0.96	31.66	NYMEX Natural Gas	USD/MMBtu	4.39	167,218	8.39		0.75 0.00
MSCI US	1,768.32	0.31	17.56	Australia Newcastle Steam Coal Spot fob <sup>2</sup>	USD/Metric Tonne	82.80	N/A	N/A		0.0000 (0.51)
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (1 Mth)		
FTSE 100	6,820.58	1.20	16.81	LME Aluminum Cash	USD/MT	1,740.25	59,174	1.07		1.6732 5.32
DAX	9,737.02	2.78	16.54	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,784.00	27,125	1.08		2.8839 2.60
CAC40	4,322.39	1.69	24.24	CMX Copper Active	USD/lb.	334.30	45,022	0.04		0.6780 (2.40)
IBEX 35	10,506.80	2.10	N/A	LME Copper 3- mth Rolling Fwd.	USD/MT	7,352.50	48,375	0.68		4.6000 (1.00)
FTSE MIB	19,997.96	2.19	452.7	TSI CFR China Iron Ore Fines Index <sup>3</sup>	USD	129.60	N/A	(0.84)		0.25 0.00
Stoxx 600	334.15	1.27	22.07	<b>Precious Metals</b>				ECB Rate (Refinancing)		
MSCI UK	2,011.32	1.17	16.74	CMX Gold	USD/T. oz	1,237.30	128,897	(0.77)		0.1587 (0.17)
MSCI France	120.99	1.87	23.75	CMX Silver	USD/T. oz	20.04	40,132	(0.90)		0.2379 (0.38)
MSCI Germany	133.40	2.54	16.13	NYMEX Platinum	USD/T. oz	1,424.80	8,661	(0.84)		2.7723 0.63
MSCI Italy	57.34	2.17	589.4	<b>Agricultural Products</b>				1-mth SHIBOR		
<b>Asia</b>				CBOT Corn	USD/bu	425.50	217,687	(1.68)		6.6930 101.8
NIKKEI 225	15,747.20	(1.04)	22.72	CBOT Wheat	USD/bu	567.75	62,512	(0.22)		0.3779 (0.21)
S&P/ASX 200	5,309.07	(0.06)	21.77	NYB-ICE Sugar	USD/lb.	15.15	55,310	(2.70)		Corporate Bonds (Moody's)
HSI	22,986.41	0.61	10.43	CBOT Soybeans	USD/bu.	1,321.50	107,002	3.36		Aaa 4.50 0.00
HSCEI	10,187.52	0.22	7.56							Baa 5.22 2.00
CSI300	2,211.84	0.32	10.56							
SSE Composite	2,023.70	0.52	10.18							
SZSE Composite	1,046.17	2.41	28.51							
MSCI China	61.04	0.44	9.64							
MSCI Hong Kong	12,116.30	(0.29)	10.97							
MSCI Japan	799.62	(0.33)	17.19							

Note:

1. Data sources: Bloomberg Finance LP, 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
3. TSI CFR China Iron Ore Fines Index is calculated with the 62% Fe specification, spot price

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-Mth
Spot Rate	1.3616	1.6337	0.8784	104.76	0.9076	6.0560	7.7547	6.1017
Chg. WTD (%)	(0.40)	(0.89)	(2.35)	(0.55)	(0.57)	(0.06)	(0.01)	0.14



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

**Tel: (852) 2868 2183**