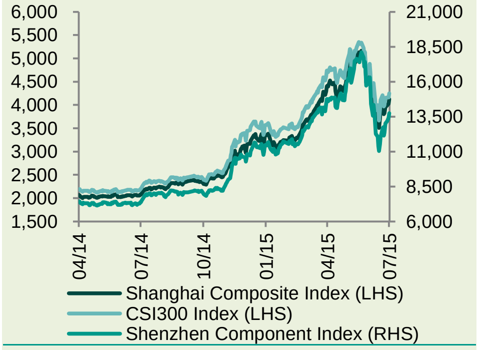
農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Economics Weekly
July 23, 2015

Co-head of Research
Banny Lam
Tel: 852-21478863
Email: bannylam@abci.com.hk

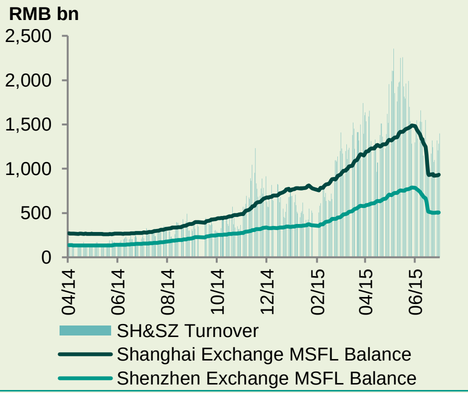
Analyst
Paul Pan
Tel: 852-21478829
Email: paulpan@abci.com.hk

Exhibit 1: Boom and bust in the Chinese stock market



Source(s): Bloomberg, ABCI Securities

Exhibit 2: Daily transactions and margin financing & securities lending (MFSL)



Source(s): Wind, ABCI Securities

Quality growth is still the priority

Marked by economic structure adjustments and reforms, China's transition toward a "new normal" of slower and sustainable growth is the country's economic theme in 2015. While the sharp correction in the Chinese stock market seen recently may hinder the continuous recovery of the economy, policymakers have provided massive financial support to the equity market to avoid escalation of systemic risks. The effectiveness of such support is evident in the stabilization of the Chinese bourse. After the order in the stock market is restored, we believe more attention will be centered on economic themes relating to the promotion of sustainable growth. In the remainder of 2015, China's economic policies will turn more accommodative and we remain optimistic on the country's outlook.

Manageable macroeconomic risks posed by stock market correction. The latest rally in the Chinese stock market peaked in mid-June 2015. Back in 2007, the market capitalization of the Chinese equities exceeded 100% of GDP before collapsing to ~50% during the Global Financial Crisis ensued in 2007-08; in mid-June 2015, market capitalization exceeded 100% of GDP, and fell to ~70% during the sharp correction at end-June. After a series of supportive measures by the government, the ratio has climbed back to 80%-90% – a range lower than that of stock-market-dependent economies such as the U.S. and the U.K. Although the financial services sector contributed to 1.6% of China's GDP growth in 1H15, it is not large enough to detract significantly from the country's growth. We believe China's macroeconomic outlook in 2H15, as a result of the targeted policies supporting the stock market, would remain stable and positive while more accommodative policies could be expected.

Various pro-growth initiatives prioritized in 2H15 to facilitate China's 13th Five-Year Plan. China's 13th Five-Year Plan has highlighted the country's priorities, providing a direction for the national policies in the following years. China has proposed and implemented a slew of initiatives to support the Plan. China's vision to promote economic rebalancing has prompted us to believe that various pro-growth measures are likely to be introduced in 2H15.

1. **China's "New Silk Road" vision.** The Silk Road Economic Belt and the 21st Century Maritime Silk Road are the major infrastructure and investment schemes to widen China's economic connections around the world. Major infrastructure projects in railways, roads, energy, information technology, and industrial parks will commence in the coming years. The "New Silk Road" envisions an economic cooperation area stretching from the East to the West and formation of closer economic ties with countries along the Road.

2. **"China Manufacturing 2025"plan to become a world manufacturing superpower**. The "China Manufacturing 2025" strategy" is issued to boost automation in manufacturing, promote innovation and environmental sustainability, and upgrade railway equipment, engineering machinery, and internet-connected factories. Aiming to transform China into a modern manufacturing industry superpower, the initiative would allow the country to move up

the global supply chain while maintaining economic growth at a sustainable level. In the next decade, China will boost efficiency in ten industrial sectors.

3. **Environmental protection favoring renewable energy.** As pollution in China worsens, the nation is accelerating the development of renewable energy and will increase the share of non-fossil fuels in its overall energy consumption. Since coal-fired power generation releases the most air pollutants (such as carbon dioxide, sulfur dioxide, etc.) among all other sources, we believe China's energy structure would continue to shift from traditional sources (e.g. fossil fuels) to renewable ones (e.g. wind, solar, hydro, etc.).

4. **"Internet-Plus" strategy facilitates development of internet-related sectors**. China is pursuing an "Internet Plus" action plan that seeks to drive economic growth by integrating Internet technologies with manufacturing and business. The initiative entails the integration of mobile Internet, cloud computing, big data, and Internet of Things with modern manufacturing to foster new industries and business development, including e-commerce, industrial Internet and Internet finance. The aim of the plan is to promote innovation-driven development and transform China into a "powerful industrial country", which resonates with the "Manufacturing 2015" initiative.

China Economic Indicators

	2014										2015					
	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun
Real GDP (YoY%)	7.4	---	--	7.5	--	---	7.3	---	---	7.3	---	---	7.0	---	---	7.0
Export Growth (YoY%)	(6.6)	0.9	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
Import Growth (YoY%)	(11.3)	0.8	(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)
Trade Balance (USD/bn)	7.7	18.5	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
Retail Sales Growth (YoY%)	12.2	11.9	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
Industrial Production (YoY%)	8.8	8.7	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
PMI - Manufacturing (%)	50.3	50.4	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
PMI - Non-manufacturing (%)	54.5	54.8	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
FAI(YTD) (YoY%)	17.6	17.3	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
CPI (YoY%)	2.4	1.8	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
PPI (YoY%)	(2.3)	(2.0)	(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)
M2(YoY%)	12.1	13.2	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
New Lending (RMB/bn)	1,050	774.7	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
Aggregate Financing (RMB bn)	2,081.3	1,550	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	1,860.0

World Economic/Financial Indicators

Equity Indices

	Closing price	Chg. WTD (%)	P/E
U.S.			
DJIA	17,851.04	(1.30)	15.25
S&P 500	2,114.15	(0.59)	18.55
NASDAQ	5,171.77	(0.74)	30.89
MSCI US	2,024.43	(0.62)	19.19
Europe			
FTSE 100	6,671.98	(1.52)	20.98
DAX	11,520.64	(1.31)	18.62
CAC40	5,082.25	(0.82)	25.67
IBEX 35	11,490.80	0.09	21.05
FTSE MIB	23,696.47	(0.29)	N/A
Stoxx 600	399.25	(1.58)	23.79
MSCI UK	1,951.70	(1.64)	21.25
MSCI France	142.87	(0.78)	26.62
MSCI Germany	150.49	(1.28)	18.79
MSCI Italy	67.90	(0.28)	N/A
Asia			
NIKKEI 225	20,683.95	0.16	23.42
S&P/ASX 200	5,590.29	(1.41)	20.44
HSI	25,398.85	(0.06)	10.50
HSCEI	11,834.47	(0.13)	8.56
CSI300	4,250.81	2.39	18.35
SSE Composite	4,123.92	4.21	21.01
SZSE Composite	2,352.65	7.41	58.01
MSCI China	69.38	(0.37)	10.72
MSCI Hong Kong	13,603.00	(1.12)	9.71
MSCI Japan	1,013.29	(0.54)	18.62

* As of 12:00 AM closing

Global Commodities

	Unit	Price	Chg. WTD (%)	Volume (5-day avg.)
Energy				
NYMEX WTI	USD/bbl	49.32	(3.09)	199,272
ICE Brent Oil	USD/bbl	56.16	(1.65)	148,562
NYMEX Natural Gas	USD/MMBtu	2.88	0.31	116,164
Australia Newcastle Steam Coal Spot fob[2]	USD/Metric Tonne	61.80	N/A	N/A
BasicMetals				
LME Aluminum Cash	USD/MT	1,614.50	(2.45)	13,600
LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,659.00	(2.24)	26,599
CMX Copper Active	USD/lb.	5,350.00	(2.19)	6,544
LME Copper 3- mth Rolling Fwd.	USD/MT	5,361.00	(2.17)	36,071
Precious Metals				
CMX Gold	USD/T. oz	1,102.90	(2.56)	180,552
CMX Silver	USD/T. oz	14.89	0.34	36,570
NYMEX Platinum	USD/T. oz	994.50	(0.68)	11,769
Agricultural Products				
CBOT Corn	USD/bu	415.00	(3.77)	164,013
CBOT Wheat	USD/bu	523.00	(5.60)	67,136
NYB-ICE Sugar	USD/lb.	11.48	(4.01)	60,520
CBOT Soybeans	USD/bu.	1,002.00	(0.47)	93,840

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)	0.3312	7.66
US Treasury (5Yr)	1.6597	(0.98)
US Treasury (10 Yr)	2.3109	(3.60)
Japan 10-Yr Gov. Bond	0.4170	(0.90)
China 10-Yr Gov. Bond	3.5500	(2.00)
ECB Rate (Refinancing)	0.05	0.00
1-Month LIBOR	0.1850	(0.55)
3 Month LIBOR	0.2941	0.24
O/N SHIBOR	1.3320	5.00
1-mth SHIBOR	3.0200	(3.10)
3-mth HIBOR	0.3871	0.11
Corporate Bonds (Moody's)		
Aaa	4.18	2.00
Baa	5.22	1.00

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	1.0994	1.5605	0.7415	123.79	0.9544	6.2096	7.7509	6.2534
Chg. WTD (%)	1.51	0.03	0.60	0.24	0.74	(0.00)	(0.01)	0.18

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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Office address: ABCI Securities Company Limited, 13/F Fairmont House, 8 Cotton Tree Drive, Central, Hong Kong.
Tel: (852) 2868 2183