



# Economics Weekly Aug 3, 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

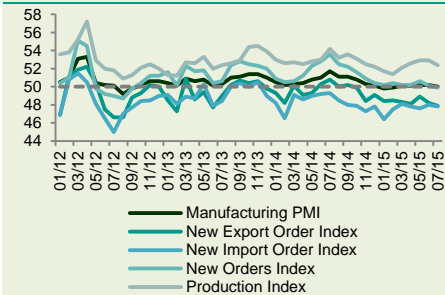
### Exhibit 1: July economic indicators

YoY% or otherwise specified	July'15F	June'15	1H15
Manufacturing PMI(%)	50.0	50.2	50.2
Non-Manufacturing PMI (%)	53.9	53.8	53.8
CPI	1.6	1.4	1.3
PPI	(5.0)	(4.8)	(4.6)
Exports	2.5	2.8	1.0
Imports	(8.5)	(6.1)	(15.5)
Trade Balance (US\$/bn)	66.7	46.6	263.1
FAI (YTD%)	11.6	11.4	11.4
Industrial production	6.6	6.8	6.3
Retail Sales	10.8	10.6	10.4
M2	12.0	11.8	11.8
New loans (RMB/bn)	900.0	1,280.6	6560
Aggregate financing (RMB/bn)	1,097.8	1,858.1	8,793.9

\* Manufacturing PMI and Non-Manufacturing PMI are actual figures

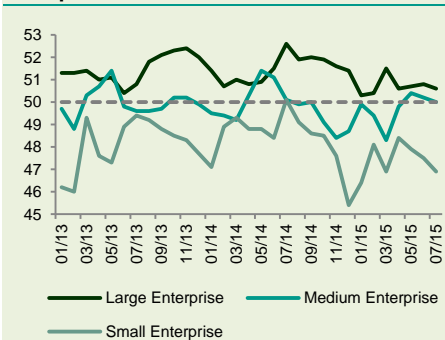
Source(s): NBS, PBOC, Bloomberg, ABCI Securities forecast

### Exhibit 2: China's manufacturing PMI (%)



Source(s): NBS, Bloomberg, ABCI Securities

### Exhibit 3: PMI for large, medium, and small enterprises



Source(s): NBS, Bloomberg, ABCI Securities

## Sluggish PMI demands more stimulus in short term

China's manufacturing PMI for July edged down from June's 50.2% to 50.0%. Most manufacturing sub-indices also worsened, reflecting that manufacturing activities and demand have been waning. For non-manufacturing PMI, July's figure rose slightly to 53.9% from June's 53.8%, indicating that services sector has remained to be the major growth driver of China's economy. In general, China's factories are still facing tepid demand, raising concern of a prolonged economic downturn. More accommodative measures are likely to be launched in the short term. We expect China's economic indicators to improve and downtrend of PMI to be reversed steadily over the next few months.

### Latest PMI shows faltering momentum in manufacturing.

China's PMI for July fell to a five-month low at 50.0% from 50.2% in June. Falling commodity prices and sluggish market demand were main contributors of the slowdown. The "New Order Index" fell from 50.1% in June to 49.9% in July, reflecting contraction in domestic demand. In addition, the drop in "Purchases of Input Index" and "Main Raw Materials Inventory Index" showed manufacturers were cautious on expansion plan due to uncertain economic outlook. Weakening PMI in July indicates downward pressure on China's economy has been increasing and more stimulus measures will be needed to restore economic momentum in the short term.

### PMI of small-sized enterprises weakened further.

PMI of small-sized enterprises (46.9% in July vs. 47.5% in June) remained below 50%, reflecting ongoing contraction of manufacturing activities. We believe more government supports for small-sized enterprises are needed to lift growth in coming months.

### Pricing pressure to increase, but only mildly so.

With pork price accelerating, we believe CPI inflation for July will edge up to 1.6% YoY. The continued drop in global commodities and sluggish economic momentum undermine manufacturers' pricing power. Hence, decline in July's PPI is expected to expand to 5.0% YoY.

### Export growth is expected to expand slightly for July.

Sub-indices of the manufacturing PMI, the New Export Order Index and the New Import Order Index, reached 47.9% and 47.8% in July, as opposed to 48.2% and 48.0% in June, reflecting anemic growth in exports and imports and continued contraction in the external trade sector. For July, we forecast exports to expand by 2.5% YoY and imports to decline by 8.5% YoY. Trade balance is estimated to be US\$ 66.7bn.

**FAI growth to climb slowly.** Surging investment in infrastructure and railways will help support FAI. Also, deceleration in real estate investment will stabilize. Hence, we expect FAI for July to accelerate mildly with its YTD growth reaching 11.6% YoY.

**Slowing industrial production in sight.** The Production Index, a sub-index of the manufacturing PMI, dipped to 52.4% in July from 52.9% in June. We believe the weakening PMI and expanding decline in producer prices signal that industrial output is likely to moderate. We expect industrial production for July to grow by 6.6%



YoY.

**Retail sales will improve steadily.** Driven by services sector, improvement in retail sales is expected to broaden. July retail sales are expected to grow by 10.8% YoY, supported by the government's continuous efforts in encouraging private consumption.

**Monetary indicators point to a stable growth.** PBOC's recent efforts to inject liquidity will have a direct impact on loan growth, which in turn will boost economic activities. Hence, we believe monetary indicators for July will go up steadily. New bank loans will reach RMB 900bn and M2 growth will accelerate to 12.0% YoY.



China Economic Indicators

	2014									2015						
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul*
Real GDP (YoY%)	---	--	7.5	--	---	7.3	---	---	7.3	---	---	7.0	---	---	7.0	---
Export Growth (YoY%)	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	2.5
Import Growth (YoY%)	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)	(8.5)
Trade Balance (USD/bn)	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	66.7
Retail Sales Growth (YoY%)	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	10.6	10.8
Industrial Production (YoY%)	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	6.6	
PMI - Manufacturing (%)	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	50.0
PMI - Non-manufacturing (%)	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	53.9
FAI(YTD) (YoY%)	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	11.4	11.6
CPI (YoY%)	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	1.6
PPI (YoY%)	(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)	(5.0)
M2(YoY%)	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	12.0
New Lending (RMB/bn)	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	900.0
Aggregate Financing (RMB bn)	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	1,097.8

\* 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	17,689.86	0.00	15.42	NYMEX WTI	USD/bbl	46.42	(1.49)	312,150	US Prime Rate	3.25	0.00
S&P 500	2,103.84	0.00	18.58	ICE Brent Oil	USD/bbl	51.17	(1.99)	247,501	US Discount Window	0.75	0.00
NASDAQ	5,128.28	0.00	30.34	NYMEX Natural Gas	USD/MMBtu	2.75	1.40	74,181	US Treasury (1 Yr)	0.3108	0.00
MSCI US	2,015.31	0.00	19.26	Australia Newcastle Steam Coal Spot fob <sup>2</sup>	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (5Yr)	1.5580	2.93
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (10 Yr)	2.2016	2.15	
FTSE 100	6,683.71	(0.19)	22.90	LME Aluminum Cash	USD/MT	1,582.00	0.00	20,916	Japan 10-Yr Gov. Bond	0.4180	0.30
DAX	11,344.10	0.31	18.09	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,618.00	0.00	22,434	China 10-Yr Gov. Bond	3.6000	5.00
CAC40	5,089.05	0.13	22.95	CMX Copper Active	USD/lb.	5,221.00	0.00	6,026	ECB Rate (Refinancing)	0.05	0.00
IBEX 35	11,220.60	0.36	21.68	LME Copper 3- mth Rolling Fwd.	USD/MT	5,230.00	0.00	43,644	1-Month LIBOR	0.1918	0.28
FTSE MIB	23,577.74	0.17	N/A	<b>Precious Metals</b>				3 Month LIBOR	0.3086	1.50	
Stoxx 600	398.15	0.45	23.56	CMX Gold	USD/T. oz	1,093.10	(0.18)	117,695	O/N SHIBOR	1.4880	1.80
MSCI UK	1,959.88	0.00	23.35	CMX Silver	USD/T. oz	14.68	(0.47)	34,877	1-mth SHIBOR	2.9710	(1.70)
MSCI France	142.71	0.00	24.09	NYMEX Platinum	USD/T. oz	978.40	(0.67)	9,686	3-mth HIBOR	0.3892	0.21
MSCI Germany	147.98	0.00	18.34	<b>Agricultural Products</b>				Corporate Bonds (Moody's)			
MSCI Italy	67.41	0.00	N/A	CBOT Corn	USD/bu	376.25	(1.31)	186,341	Aaa	4.05	(2.00)
<b>Asia</b>				CBOT Wheat	USD/bu	494.75	(0.90)	68,506	Baa	5.16	2.00
NIKKEI 225	20,548.11	(0.18)	22.33	NYB-ICE Sugar	USD/lb.	11.06	(0.72)	51,329			
S&P/ASX 200	5,679.34	(0.35)	20.75	CBOT Soybeans	USD/bu.	931.75	(0.90)	114,809			
HSI	24,411.42	(0.91)	10.49								
HSCEI	11,009.96	(1.09)	7.96								
CSI300	3,829.24	0.33	17.17								
SSE Composite	3,622.91	(1.11)	18.46								
SZSE Composite	2,053.12	(2.72)	50.36								
MSCI China	66.34	0.00	10.25								
MSCI Hong Kong	13,525.95	0.00	10.86								
MSCI Japan	1,015.25	0.00	17.52								

\* As of 12:00 AM closing

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.0970	1.5621	0.7291	124.19	0.9675	6.2097	7.7525	6.2895
Chg. WTD (%)	(0.13)	(0.01)	(0.23)	(0.24)	(0.12)	0.00	0.01	0.06

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



## 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**