農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

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Economics Weekly

July'13 economic indicators

YoY% or otherwise specified	July 2013	June 2013	Consensus
CPI	2.7	2.7	2.8
PPI	(2.3)	(2.7)	(2.1)
Exports	5.1	(3.1)	2.0
Imports	10.9	(0.7)	1.0
Trade Balance (US$/bn)	17.8	27.1	26.9
FAI (YTD%)	20.1	20.1	20.0
Industrial production	9.7	8.9	8.9
Retail Sales	13.2	13.3	13.5
M2	14.5	14.0	13.9
New loans (RMB/bn)	699.9	860.5	640.0

Sources: National Bureau of Statistics of China, Bloomberg,

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July data shows improvement on track

A series of economic data for July was released last week. Although certain indicators were below expectations, the overall data suggests that the general economic landscape has been improving. Compared to June, CPI and FAI remained flat, while industrial production, export growth, and import growth were higher than expected. On the other hand, the tepid consumption growth still presents a constraint to economic development. In the coming months, we shall witness the roll-out of more expansionary policies targeting to boost aggregate demand and stimulate economic growth.

- **CPI remained flat while PPI improved slightly.** The July CPI remained unchanged at 2.7% YoY. Compared with the target threshold CPI of 3.5% YoY, the July CPI implies that inflationary pressure is under control, allowing the authority more flexibility to implement stimulus measures going forward. However, the flat CPI data shows a weak demand in the consumer sector, with only several components of the CPI denoted minor improvement. On the other hand, although the PPI shows continuous deceleration in the industrial sector, it is at a slower rate of -2.3% YoY compared to -2.7% YoY in June. Moreover, the MoM decline of -0.3% was the lowest in four months. We believe that PPI will continue to improve in the rest of the year.

- **Trade data was stronger than expected.** The export and import growth in July was higher than June and consensus, while the trade balance was below market expectation. We believe that the increased export growth was mainly driven by improvement in the European economy, strong momentum in the U.S. economy, and the approaching holiday season. Other economic indicators, such as the New Export Order Index and New Import Order Index within the Manufacturing PMI, also suggest a brighter outlook for the trade sector. We expect the trade data will continue to improve as impacts of the crackdown on trade invoice manipulation have begun to subside while the macroeconomic environment continues to improve

- **YTD FAI growth stabilized.** In July, the YTD FAI growth came in slightly better than expected at 20.1% YoY. We believe the government's rebalancing effort is entering a pivotal point of acceleration. In 2H13, the government will commit to investments in new industries to compensate for the weakness in the manufacturing sector.

- **Retail sales were stagnant.** In July, retail sales growth slipped 0.1ppt to 13.2% YoY. Both the urban area and rural area retail sales grew at slower paces. Growth in 6 out of the 14 product categories decelerated. In contrast, retail sales of the "Gold, Silver and Jewelry" category continued its strong momentum and grew 41.7% YoY. Since the government has determined boosting consumption as one of its top priorities, it is likely that policies promoting such efforts will be rolled out in the next few months.

- **Industrial production growth surprised on upside.** Industrial production growth accelerated to 9.7% YoY, far better than consensus (+8.9% YoY) and the previous figure in June (+8.9% YoY). All types of enterprises saw increased growth rates, and industries experienced higher growth compared to June. Yet, daily output of most major products surveyed decreased, possibly due to seasonal effects and the government's efforts to shave off excess capacity.

- **M2 growth and new loans exceeded expectations.** M2 growth (+14.5% YoY vs. consensus of +13.9% YoY) and new loan in July (RMB 699.9bn vs. consensus of RMB 642.4bn) were higher than expected. Although the total social financing came in lower than expected, issuance of medium and long-term loans increased. The financing structure also reveals a higher degree of industry diversification. We believe that improvement in the financial and economic data unilaterally signals a stabilizing Chinese economy, and more positive economic progresses will be made in 2H13.

China Economic Indicators

	2012						2013						
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Real GDP (YoY%)	---	---	7.4	---	---	7.9	---	---	7.7	---	---	7.5	---
Export Growth (YoY%)	1	2.7	9.9	11.6	2.9	14.1	25.0	21.8	10.0	14.7	1.0	(3.1)	5.1
Import Growth (YoY%)	4.7	(2.6)	2.4	2.4	0	6	28.8	(15.2)	14.1	16.8	(0.3)	(0.7)	10.9
Trade Balance (USD/bn)	25.28	26.43	27.45	32.11	19.63	31.6	29.2	15.3	(0.9)	18.2	20.4	27.1	17.8
Retail Sales Growth (YoY%)	13.1	13.2	14.2	14.5	14.9	15.2	12.3		12.6	12.8	12.9	13.3	13.2
Industrial Production (YoY%)	9.2	8.9	9.2	9.6	10.1	10.3	9.9		8.9	9.3	9.2	8.9	9.7
PMI - Manufacturing (%)	50.1	49.2	49.8	50.2	50.6	50.6	50.4	50.1	50.9	50.6	50.8	50.1	50.3
PMI - Non-manufacturing (%)	55.6	56.3	53.7	55.5	55.6	56.1	56.2	54.5	55.6	54.5	54.3	53.9	54.1
FAI(YTD) (YoY%)	20.4	20.2	20.5	20.7	20.7	20.6	21.2		20.9	20.6	20.4	20.1	20.1
CPI (YoY%)	1.8	2	1.9	1.7	2	2.4	2.0	3.2	2.1	2.4	2.1	2.7	2.7
PPI (YoY%)	(2.9)	(3.5)	(3.6)	(2.8)	(2.2)	(1.9)	(1.6)	(1.6)	(1.9)	(2.6)	(2.9)	(2.7)	(2.3)
M2 (YoY%)	13.9	13.5	14.8	14.1	13.9	13.8	15.9	15.2	15.7	16.1	15.8	14.0	14.5
New Lending (RMB/bn)	540.1	703.9	623.2	505.2	522.9	454.3	1070.0	620.0	1060.0	792.9	667.4	860.5	699.9

World Economic/Financial Indicators

Equity Index

	Closing price	Chg. WTD (%)	P/E
US			
DJIA	15425.51	0.00	14.97
S&P 500	1691.42	0.00	16.30
NASDAQ	3660.11	0.00	21.89
MSCI US	1616.86	0.00	16.47
Europe			
FTSE 100	6,567.07	(0.25)	17.76
DAX	8,284.73	(0.64)	13.95
CAC40	4,064.54	(0.29)	17.50
IBEX 35	8,706.10	(0.34)	75.88
FTSE MIB	17,095.58	(0.53)	N/A
Stoxx 600	305.15	(0.25)	19.92
MSCI UK	1,947.04	0.00	17.63
MSCI France	113.61	0.00	21.70
MSCI Germany	114.54	0.00	13.32
MSCI Italy	49.34	0.00	247.93
Asia			
NIKKEI 225	13,519.43	(0.70)	22.38
S&P/ASX 200	5,108.65	1.06	21.07
HSI	22,271.28	2.13	10.34
HSCEI	9,928.04	3.42	8.10
CSI300	2,352.79	2.92	11.69
SSE Composite	2,101.28	2.39	11.30
SZSE Composite	1,009.13	1.28	28.99
MSCI China	57.11	0.00	9.58
MSCI Hong Kong	11,522.22	0.00	10.13
MSCI Japan	706.72	0.00	18.40

Global Commodities

		Unit	Price	Chg. WTD (%)	Volume (5-day average)
Energy	NYMEX WTI	USD/bbl	105.77	(0.19)	274,086.60
	ICE Brent	USD/bbl	107.64	(0.54)	186,115.00
	NYMEX Natural Gas	USD/MMBtu	3.25	0.62	138,239.00
	Australia Newcastle Steam Coal Spot fob	USD/Metric Tonne	76.70	N/A	N/A
Basic Metals	LME Aluminum Cash	USD/MT	1,825.60	0.00	17,866.40
	LME Primary Aluminum 3 Month Rolling Forward	USD/MT	1,871.00	0.00	30,052.60
	CMX Copper Active Contract	USD/lb.	330.60	(0.02)	64,129.20
	LME Copper 3 Month Rolling Forward	USD/MT	7,275.00	0.00	50,212.80
	TSI CFR China Iron Ore Fines Index	USD	133.10	2.31	N/A
Precious Metals	CMX Gold	USD/T. oz	1,327.20	1.14	121,019.40
	CMX Silver	USD/T. oz	20.90	2.42	42,617.20
	NYMEX Platinum	USD/T. oz	1,497.50	(0.21)	10,788.40
Agricultural Products	CBOT Corn	USD/bu	452.75	(0.11)	135,679.80
	CBOT Wheat	USD/bu	632.25	(0.20)	62,372.40
	NYB-ICE Sugar	USD/lb.	17.06	0.47	40,735.20
	CBOT Soybeans	USD/bu.	1,189.75	0.63	88,756.60

Bond Yields & Key Interest Rates

	Yield (%)	Chg. WTD (%)
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 Mth)	0.0456	0.00
US Treasury (10 Yr)	2.5883	0.38
US Treasury (30 Yr)	3.6370	0.07
Japan 10-Yr Government Bond	0.7520	(0.66)
China 10-Yr Government Bond	3.8500	3.22
ECB Interest Rate (Refinancing)	0.50	0.00
1-Month LIBOR	0.1846	(0.74)
3 Month LIBOR	0.2647	(0.71)
3-Month SHIBOR	4.6500	(0.00)
3-Month HIBOR	0.3829	0.00
Corporate Bonds (Moody's Seasoned)		
Aaa	4.41	(0.23)
Baa	5.31	0.00

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CAD	USD/CNY	USD/HKD	USD/ CNY NDF 12 Month
Spot Exchange Rate	1.33	1.55	0.92	96.71	0.93	1.03	6.12	7.76	6.26
Chg. WTD (%)	(0.28)	(0.16)	(0.61)	(0.52)	(0.38)	(0.19)	(0.00)	0.01	(0.10)

Note:

1. *Data sources: Bloomberg Finance LP, National Bureau of Statistics of China, ABCIS*
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*
4. *Data is updated on the date of the report*

Disclosures

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Definition of equity rating

ting	**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 2007-2011
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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