



# Economics Weekly October 30, 2015

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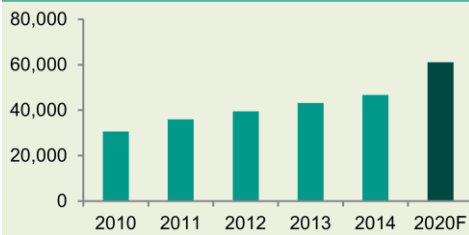
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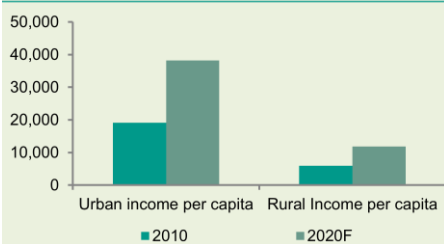
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Exhibit 1: China's GDP per capita (RMB)



Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 2: Income of urban and rural per capita (RMB)



Source(s): NBS, Bloomberg, ABCI Securities

## China to become a “moderately prosperous society”

The four-day plenum of the CPC Central Committee approved the proposal for economic and social development in the 13th Five-year Plan (2016-2020). China will target a "medium-to-high economic growth" in the next five years and ensure proper economic transformation and sustainable development. The country will proceed with economic rebalancing, promote greater sophistication in its industrial sector, and significantly raise the contribution of consumption to economic growth. With China entering into a "new normal" of slower and sustainable growth, its priority will be on implementing structural adjustments in the economy to develop a "moderately prosperous society" by 2020.

**A “moderately prosperous society” by 2020.** The goals of maintaining a medium-to high-level economic growth in the next five years and significantly increasing consumption's contribution to the economy are crucial to ensure that China will become a "moderately prosperous society" in 2020 by doubling GDP and per capita income of urban and rural residents by 2020 from the 2010 level. Services sectors for consumers such as e-commerce, medical and health, insurance, tourism, and entertainment will gain from various policy changes and outperform China's overall growth. We believe companies including **Tencent (700 HK)**, **Ping An Insurance (2318 HK)**, **Fosun Pharma (2196 HK)**, **Shanghai Jin Jiang (2006 HK)** and **Haichang Ocean Park (2255 HK)** will benefit.

**New initiatives to tackle China's aging issue.** China's potential working population between the age of 16 and 59 peaked in 2011 and has been declining since then. At the same time, the number of actual working population has been falling. The introduction of two-child policy to replace the one-child one which has been implemented for 36 years, targets to reverse the shrinking size of workforce and maintain sustainability of China's economic growth. We believe that further relaxation of the population policy will increase demand for milk products and baby products. Companies including **China Mengniu Dairy (2319 HK)**, **Yashili (1230 HK)**, **Hengan (1044 HK)**, **Goodbaby International (1086 HK)**, and **MIKO (1247 HK)**, will benefit from such policy change.

**“Internet-Plus” initiative to enhance innovation.** China is deepening an "Internet Plus" action plan that seeks to drive economic growth by integrating Internet technologies with manufacturing and businesses. 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 that helps sustains long-term economic growth of China. Our stock picks include **Tencent (700 HK)**, **Alibaba Health Information Technology (241 HK)**, **China Smartpay (8325 HK)**, **Kingsoft (3888 HK)**, **Kingdee International (268 HK)** and **Haier (1169 HK)**.

**China's Belt and Road Initiative.** The Belt and Road Initiative aims to revive ancient trade routes between China and the West with the creation of the land-based Silk Road Economic Belt and oceanic 21st Century Maritime Silk Road. These 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 initiative envisions an economic cooperation area stretching from the East to the West and the formation of closer economic ties with countries along the Road. Large-scale investments in the infrastructure and railway sectors can be expected, favoring companies such as **China Communications Construction Co Ltd (1800 HK)**, **China Machinery Engineering Corp (1829 HK)**, **China Railway Construction Corporation (1186 HK)** and **China Railway Group (390 HK)**.

**Environmental protection to favor renewable energy and water and solid waste treatment sectors.** China will implement a more efficient environmental protection system in the next five years. As pollution in China worsens, the nation is accelerating the development of renewable energy, water treatment, and solid waste treatment. For renewable energy sector, we favor **CGN power (1816 HK)**, **Longyuan Power (916 HK)**, **Huaneng Renewables (958 HK)** and **China Singyes Solar (750 HK)**. For water treatment and solid waste sectors, we favor **Beijing Enterprises Water (371 HK)** and **China Everbright International (257 HK)**.



China Economic Indicators

	2014							2015								
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Real GDP (YoY%)	7.5	--	---	7.3	---	---	7.3	---	---	7.0	---	---	7.0	---	---	6.9
Export Growth (YoY%)	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	(8.3)	(5.5)	(3.7)
Import Growth (YoY%)	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)	(8.1)	(13.8)	(20.4)
Trade Balance (USD/bn)	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	43.0	60.2	60.3
Retail Sales Growth (YoY%)	12.4	12.2	11.9	11.6	11.5	11.7	11.9	10.7		10.2	10.0	10.1	10.6	10.5	10.8	10.9
Industrial Production (YoY%)	9.2	9.0	6.9	8.0	7.7	7.2	7.9	6.8		5.6	5.9	6.1	6.8	6.0	6.1	5.7
PMI - Manufacturing (%)	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	49.7	49.8
PMI - Non-manufacturing (%)	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	53.4	53.4
FAI(YTD) (YoY%)	17.3	17.0	16.5	16.1	15.9	15.8	15.7	13.9		13.5	12.0	11.4	11.4	11.2	10.9	10.3
CPI (YoY%)	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	2.0	1.6
PPI (YoY%)	(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)	(5.4)	(5.9)	(5.9)
M2(YoY%)	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	13.3	13.3	13.1
New Lending (RMB/bn)	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	1,480	809.6	1,050
Aggregate Financing (RMB bn)	1,970	273.7	957.7	1,135.5	662.7	1,146.3	1,690	2,047	1,356	1,241	1,056	1,236	1,833	742	1,082	1,300

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	17,755.80	0.62	15.66	NYMEX WTI	USD/bbl	45.64	2.33	407,503	US Prime Rate	3.25	0.00
S&P 500	2,089.41	0.69	18.52	ICE Brent Oil	USD/bbl	48.57	1.21	239,934	US Discount Window	0.75	0.00
NASDAQ	5,074.27	0.84	28.37	NYMEX Natural Gas	USD/MMBtu	2.24	(2.14)	96,872	US Treasury (1 Yr)	0.0153	0.51
MSCI US	1,993.30	0.72	19.21	Australia Newcastle Steam Coal Spot fob <sup>2</sup>	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (5Yr)	1.5135	9.74
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (10 Yr)	2.1439	5.73	
FTSE 100	6,386.76	(0.89)	25.93	LME Aluminum Cash	USD/MT	1,439.75	(1.37)	17,974	Japan 10-Yr Gov. Bond	0.3090	0.60
DAX	10,817.81	0.22	19.77	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,470.00	(1.74)	41,949	China 10-Yr Gov. Bond	3.0800	0.00
CAC40	4,895.20	(0.58)	22.14	CMX Copper Active	USD/lb.	5,147.00	(0.80)	6,998	ECB Rate (Refinancing)	0.05	0.00
IBEX 35	10,302.50	(1.66)	18.83	LME Copper 3- mth Rolling Fwd.	USD/MT	5,130.00	(0.89)	40,480	1-Month LIBOR	0.1883	(0.52)
FTSE MIB	22,473.87	(1.16)	N/A	<b>Precious Metals</b>				3 Month LIBOR	0.3219	(0.10)	
Stoxx 600	375.74	(0.43)	23.34	CMX Gold	USD/T. oz	1,148.40	(1.24)	134,048	O/N SHIBOR	1.7980	(11.1)
MSCI UK	1,867.25	(0.79)	26.68	CMX Silver	USD/T. oz	15.58	(1.56)	47,115	1-mth SHIBOR	2.7645	(25.9)
MSCI France	137.45	(0.77)	22.38	NYMEX Platinum	USD/T. oz	998.80	(0.29)	10,985	3-mth HIBOR	0.3803	(1.10)
<b>Asia</b>				<b>Agricultural Products</b>				Corporate Bonds (Moody's)			
NIKKEI 225	19,083.10	1.37	19.76	CBOT Corn	USD/bu	379.75	0.00	175,359	Aaa	3.91	(2.00)
S&P/ASX 200	5,239.44	(2.10)	19.18	CBOT Wheat	USD/bu	519.00	5.81	85,642	Baa	5.30	(2.00)
HSI	22,640.04	(2.21)	9.79	NYB-ICE Sugar	USD/lb.	14.64	2.52	59,690			
HSCEI	10,396.58	(3.22)	7.52	CBOT Soybeans	USD/bu.	883.75	(1.37)	129,384			
CSI300	3,534.08	(1.04)	14.51								
SSE Composite	3,382.56	(0.88)	17.15								
SZSE Composite	2,014.86	(0.09)	43.86								
MSCI China	62.60	(2.10)	9.80								
MSCI Hong Kong	12,531.26	(0.94)	10.03								
MSCI Japan	942.28	0.01	16.13								

\* 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	1.1005	1.5331	0.7101	120.56	0.9867	6.3174	7.7500	6.4913
Chg. WTD (%)	(0.12)	0.11	(1.59)	0.75	(0.82)	0.53	0.00	0.73

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



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## 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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