



# Economics Weekly October 9, 2014

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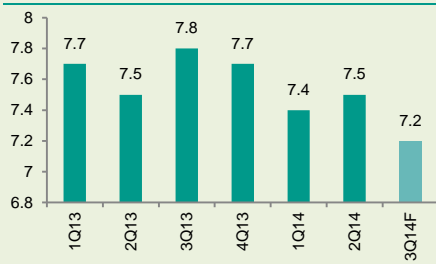
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**Exhibit 1: China's quarterly GDP growth (YoY %)**



Source(s): Bloomberg, ABCI Securities forecast

## Fourth Plenary Session in focus

In China, signs of a slowdown have been evident by the series of economic indicators for 3Q14. Market consensus is that GDP for 3Q14 will fall below 7.5%, and more guidance on policies to steer economic development will be unveiled in the Fourth Plenary Session of the CPC 18th central committee to be held between October 20 and 23. Earlier in September, policymakers deployed a series of measures, including the injection of RMB 500bn SLF and relaxation of property loan restriction, to support the moderating economy. These initiatives foretell more stimulus designed to avert the stagnating trend will be adopted in the future. Entering 4Q14, we expect more prudent monetary policies, including the targeted easing, and proactive fiscal policies fostering aggregate demand will be rolled out.

**Fourth Plenary Session to provide more policy guidance.** The Communist Party of China (CPC) will hold the Fourth Plenary Session of the 18th Central Committee in October to discuss key issues concerning the rule of law and its role in strengthening sustainable development of China. We believe the country will seek to strike a balance between reform and development, with high priorities given to economic restructuring and innovation. In our view, the Session will convey a message to the market that China will maintain a healthy economic growth amid economic rebalancing, which is expected to be partially achieved by short-term easing measures to alleviate the downward pressure in the economy.

**More support for property market to reverse slowdown.** Year-to-date property investment growth slowed to 19.3% YoY in Feb to 13.2% YoY in August, triggering concerns of a negative spillover to related sectors along the supply chain. Continued weakness in property sector will further moderate overall economic growth. We believe relaxing loan restriction is just the first step to revive momentum; more loosening measures will follow to reverse the sector's sliding growth.

**Infrastructure to power China's growth.** Acceleration in infrastructure investment helps counteract economic slowdown. To further its aim, China has introduced the Public-Private Partnership to encourage private capital investments in infrastructure, and a railway development fund that welcomes private investment will rise to about RMB 200 billion to RMB 300 billion each year. Meanwhile, private and overseas investors will have a wider access to projects such as railway, harbor construction and energy sectors. In sum, we believe the rising infrastructure investment will serve as a major growth driver of the economy.

**Prudent monetary policy with targeted easing remains intact.** The economic slowdown in China that resulted in declines in domestic demand triggered ripple effects in global commodities prices, thus endangering the global economic recovery. China will continue to adhere to a proactive fiscal policy and a prudent monetary policy to stabilize economic growth. We expect PBOC will step up its efforts to deploy different monetary policy tools to boost liquidity. On the fiscal front, more tax incentives and industries subsidies can be expected to relieve burden of enterprises.



China Economic Indicators

	2013					2014								
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep*
Real GDP (YoY%)	---	7.8	---	---	7.7	---	---	7.4	---	--	7.5	--	---	7.2
Export Growth (YoY%)	7.2	(0.3)	5.6	12.7	5.8	10.6	(18.1)	(6.6)	0.9	7.0	7.2	14.5	9.4	10.5
Import Growth (YoY%)	7.0	7.4	7.6	5.3	6.5	10.0	10.1	(11.3)	0.8	(1.6)	5.5	(1.6)	(2.4)	2.0
Trade Balance (USD/bn)	28.5	15.2	31.1	33.8	32.3	31.9	(23.0)	7.7	18.5	35.9	31.6	47.3	49.8	31.3
Retail Sales Growth (YoY%)	13.4	13.3	13.3	13.7	13.6	11.8		12.2	11.9	12.5	12.4	12.2	11.9	12.1
Industrial Production (YoY%)	10.4	10.2	10.3	10.0	9.7	8.6		8.8	8.7	8.8	9.2	9.0	6.9	8.0
PMI - Manufacturing (%)	51.0	51.1	51.4	51.4	51.0	50.5	50.2	50.3	50.4	50.8	51.0	51.7	51.1	51.1
PMI - Non-manufacturing (%)	53.9	55.4	56.3	56.0	54.6	53.4	55.0	54.5	54.8	55.5	55.0	54.2	54.4	54.0
FAI(YTD) (YoY%)	20.3	20.2	20.1	19.9	19.6	17.9		17.6	17.3	17.2	17.3	17.0	16.5	16.8
CPI (YoY%)	2.6	3.1	3.2	3.0	2.5	2.5	2.0	2.4	1.8	2.5	2.3	2.3	2.0	2.0
PPI (YoY%)	(1.6)	(1.3)	(1.5)	(1.4)	(1.4)	(1.6)	(2.0)	(2.3)	(2.0)	(1.4)	(1.1)	(0.9)	(1.2)	(1.2)
M2(YoY%)	14.7	14.2	14.3	14.2	13.6	13.2	13.3	12.1	13.2	13.4	14.7	13.5	12.8	13.3
New Lending (RMB/bn)	711.3	787.0	506.1	624.6	482.5	1,320	644.5	1,050	774.7	870.8	1080	385.2	702.5	850
Aggregate Financing (RMB bn)	1,584	1,411.3	864	1,226.9	1,232.2	2,580	938.7	2,081.3	1,550	1,400	1,970	273.7	957.4	1155.2

\* Forecast (Excluding PMI - Manufacturing and 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	16,994.22	(0.09)	15.57	NYMEX WTI	USD/bbl	87.93	(2.02)	348,566	US Prime Rate	3.25	0.00
S&P 500	1,968.89	0.05	17.86	ICE Brent Oil	USD/bbl	91.81	(0.54)	231,873	US Discount Window	0.75	0.00
NASDAQ	4,468.59	(0.16)	59.29	NYMEX Natural Gas	USD/MMBtu	3.86	(4.46)	124,897	US Treasury (1 Mth)	0.0051	0.00
MSCI US	1,880.50	0.04	18.29	Australia Newcastle Steam Coal Spot fob <sup>2</sup>	USD/Metric Tonne	64.65	N/A	N/A	US Treasury (5Yr)	1.5403	(18.2)
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (10 Yr)	2.3106	(12.3)	
FTSE 100	6,531.57	0.06	16.35	LME Aluminum Cash	1,907.25	1.17	19,254	1,907.25	Japan 10-Yr Gov. Bond	0.4920	(2.60)
DAX	9,121.05	(0.81)	17.01	LME Aluminum 3 -mth. Rolling Fwd.	1,940.00	1.36	34,604	1,940.00	China 10-Yr Gov. Bond	4.0100	(6.00)
CAC40	4,202.54	(1.85)	25.78	CMX Copper Active	6,685.00	0.09	5,711	6,685.00	ECB Rate (Refinancing)	0.05	0.00
IBEX 35	10,418.90	(1.41)	20.59	LME Copper 3- mth Rolling Fwd.	6,637.50	(0.07)	33,509	6,637.50	1-Month LIBOR	0.1525	(0.05)
FTSE MIB	19,789.11	(2.04)	481.6	<b>Precious Metals</b>				3 Month LIBOR	0.2311	(0.05)	
Stoxx 600	331.23	(1.18)	20.08	CMX Gold	USD/T. oz	1,227.10	2.87	163,437	O/N SHIBOR	2.5623	2.98
MSCI UK	1,912.52	(0.64)	16.24	CMX Silver	USD/T. oz	17.59	4.54	43,921	1-mth SHIBOR	3.9840	(1.40)
MSCI France	116.35	(2.63)	26.53	NYMEX Platinum	USD/T. oz	1,284.50	4.69	17,559	3-mth HIBOR	0.3723	(0.91)
MSCI Germany	120.03	(2.05)	16.78	<b>Agricultural Products</b>				Corporate Bonds (Moody's)			
MSCI Italy	57.01	(2.88)	515.7	CBOT Corn	USD/bu	342.25	5.88	139,149	Aaa	3.91	(7.00)
<b>Asia</b>				CBOT Wheat	USD/bu	503.00	3.55	50,365	Baa	4.66	(8.00)
NIKKEI 225	15,478.93	(1.46)	20.20	NYB-ICE Sugar	USD/lb.	17.06	3.77	44,397	Note:		
S&P/ASX 200	5,296.68	(0.40)	18.34	CBOT Soybeans	USD/bu.	941.75	3.23	134,104	1. Data sources: Bloomberg Finance LP, National Bureau of Statistics of China, ABCIS (updated on date of report)		
HSI	23,534.53	2.04	10.26								
HSCEI	10,483.50	1.30	7.31								
CSI300	2,481.96	1.26	11.04								
SSE Composite	2,389.37	1.08	11.52								
SZSE Composite	1,355.71	1.67	32.09								
MSCI China	62.74	0.77	9.40								
MSCI Hong Kong	12,444.95	1.32	10.67								
MSCI Japan	783.16	(0.56)	15.29								

Currency								
	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.2764	1.6195	0.8871	107.88	0.9495	6.1305	7.7549	6.2285
Chg. WTD (%)	1.98	1.39	2.26	1.74	1.90	0.15	0.09	0.50

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



## 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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