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Renminbi to trend up in 2014

Acceleration of renminbi internationalization is considered as one of the most important financial reforms in 2014. CPC's Third Plenum states that China will strive to achieve an international currency status for renminbi by making renminbi fully convertible in the next few years. With better access for foreign investors to the renminbi market, government's promotion of more renminbi trade settlement, FDI, portfolio investment (QFII, RQFII, QDII), and the surge of global usage of renminbi, we are confident that RMB will achieve international currency status in the coming decade. For 2014F, we expect renminbi will appreciate by 3%.

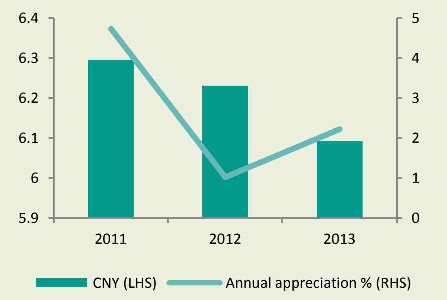
Stable economic outlook to support renminbi appreciation. Although HSBC's manufacturing PMI moderated to 50.4 in November, indicating that manufacturing activities were expanding at a slower pace, sentiment in China remains positive amid the massive reform packages announced after CPC's Third Plenum. We expect the official PMI for November will reach 51.2, thus providing more evidence that China's economy is stabilizing. We remain optimistic on the near-term outlook, as economic policies will remain relatively accommodative, elevating investment flows and boosting the value of renminbi.

Daily renminbi settlement in HK is booming. According to the Hong Kong Monetary Authority (HKMA), HK's daily renminbi settlement has exceeded that of the HK dollar, underlining renminbi's increasing internationalization. Currently, daily renminbi settlement reached nearly 400bn, much higher than the 5bn, 120bn and 210bn in 2010, 2011 and 2012, respectively. The explosive growth reflects more Chinese companies are conducting renminbi settlement in Hong Kong that results in a surging renminbi pool. By the end of September, HK's renminbi deposits reached 730 billion (excluding CD and interbank deposits), about ten times of that in 2009.

More integration of the CNY and CNH markets through liberalization of capital account. Relaxing capital controls will accelerate the process of renminbi internationalization, and the CNY and CNH will eventually converge to form a single renminbi market. The relatively weak U.S. dollar, expedited opening of the capital account, greater access to mainland investment for foreign investors, improving offshore and onshore renminbi product mixes, and China's strong economic fundamentals will drive renminbi to appreciate 3% in 2014, in our view.

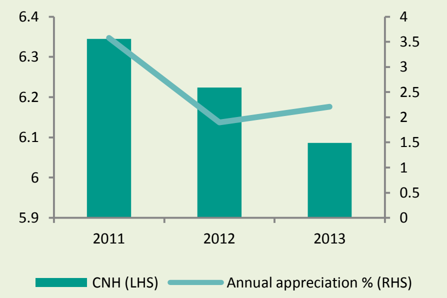
Beneficiaries of strong renminbi. Increasing arrays of renminbi financial products driven by reforms in renminbi market will be positive to Hong Kong's capital markets, particularly financial institutions, such as **BOCHK (2388 HK)** and **Hang Seng Bank (11 HK)**. China domestic airlines, such as **Air China (753 HK)** and **China Eastern Airlines (670 HK)**, will benefit from strong renminbi since their overseas aircraft purchases and debts are USD-denominated

Exhibit 1: CNY and annual appreciation



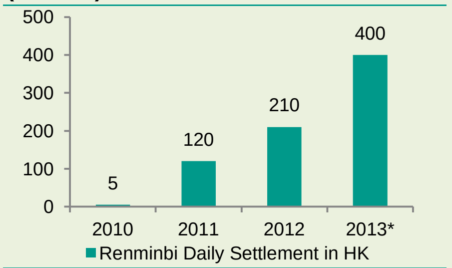
Note: 2013 data is up to the date of report
Source: Bloomberg, ABCI Securities calculation

Exhibit 2: CNH and annual appreciation



Note: 2013 data is up to the date of report
Source: Bloomberg, ABCI Securities calculation

Exhibit 3: Renminbi daily settlement in HK (RMB bn)



* YTD average
Source: HKMA

China Economic Indicators

	2012			2013									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct
Real GDP (YoY%)	---	---	7.9	---	---	7.7	---	---	7.5	---	---	7.8	---
Export Growth (YoY%)	11.6	2.9	14.1	25.0	21.8	10.0	14.7	1.0	(3.1)	5.1	7.2	(0.3)	5.6
Import Growth (YoY%)	2.4	0	6	28.8	(15.2)	14.1	16.8	(0.3)	(0.7)	10.9	7.0	7.4	7.6
Trade Balance (USD/bn)	32.11	19.63	31.6	29.2	15.3	(0.9)	18.2	20.4	27.1	17.8	28.5	15.2	31.1
Retail Sales Growth (YoY%)	14.5	14.9	15.2	12.3		12.6	12.8	12.9	13.3	13.2	13.4	13.3	13.3
Industrial Production (YoY%)	9.6	10.1	10.3	9.9		8.9	9.3	9.2	8.9	9.7	10.4	10.2	10.3
PMI - Manufacturing (%)	50.2	50.6	50.6	50.4	50.1	50.9	50.6	50.8	50.1	50.3	51.0	51.1	51.4
PMI - Non-manufacturing (%)	55.5	55.6	56.1	56.2	54.5	55.6	54.5	54.3	53.9	54.1	53.9	55.4	56.3
FAI(YTD) (YoY%)	20.7	20.7	20.6	21.2		20.9	20.6	20.4	20.1	20.1	20.3	20.2	20.1
CPI (YoY%)	1.7	2	2.4	2.0	3.2	2.1	2.4	2.1	2.7	2.7	2.6	3.1	3.2
PPI (YoY%)	(2.8)	(2.2)	(1.9)	(1.6)	(1.6)	(1.9)	(2.6)	(2.9)	(2.7)	(2.3)	(1.6)	(1.3)	(1.5)
M2 (YoY%)	14.1	13.9	13.8	15.9	15.2	15.7	16.1	15.8	14.0	14.5	14.7	14.2	14.3
New Lending (RMB/bn)	505.2	522.9	454.3	1070.0	620.0	1060.0	792.9	667.4	860.5	699.9	711.3	787.0	506.1

World Economic/Financial Indicators

Equity Indices

	Closing price	Chg. WTD (%)	P/E
U.S.			
DJIA	16,097.33	0.20	15.57
S&P 500	1,807.23	0.14	17.05
NASDAQ	4,044.75	1.33	24.75
MSCI US	1,726.49	0.15	17.25
Europe			
FTSE 100	6,658.26	(0.24)	16.40
DAX	9,377.46	1.72	15.64
CAC40	4,301.58	0.54	18.46
IBEX 35	9,876.50	2.06	56.79
FTSE MIB	19,052.70	1.25	335.6
Stoxx 600	324.81	0.63	21.23
MSCI UK	1,962.85	(0.39)	16.32
MSCI France	119.46	0.30	23.41
MSCI Germany	128.41	1.34	15.16
MSCI Italy	54.35	0.33	101.7
Asia			
NIKKEI 225	15,727.12	2.25	22.73
S&P/ASX 200	5,334.34	(0.03)	22.32
HSI	23,789.09	0.39	10.78
HSCEI	11,385.29	(0.55)	8.52
CSI300	2,439.53	1.73	11.44
SSE Composite	2,219.37	1.05	11.12
SZSE Composite	1,079.88	2.58	29.43
MSCI China	64.85	0.36	10.24
MSCI Hong Kong	12,244.07	0.57	11.10
MSCI Japan	771.97	(0.07)	16.57

Global Commodities

	Unit	Price	Chg. WTD (%)	Volume (5-day avg.)
Energy				
NYMEX WTI	USD/bbl	92.26	(2.72)	225,015
ICE Brent Oil	USD/bbl	111.34	0.26	240,544
NYMEX Natural Gas	USD/MMBtu	3.88	2.92	72,928
Australia Newcastle Steam Coal Spot fob[2]	USD/Metric Tonne	82.80	N/A	N/A
Basic Metals				
LME Aluminum Cash	USD/MT	1,709.75	(1.61)	23,520
LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,757.00	(1.40)	29,079
CMX Copper Active	USD/lb.	321.00	(0.12)	43,229
LME Copper 3- mth Rolling Fwd.	USD/MT	7,020.00	(1.06)	38,827
TSI CFR China Iron Ore Fines Index[3]	USD	136.00	(0.37)	N/A
Precious Metals				
CMX Gold	USD/T. oz	1,240.80	(0.27)	157,615
CMX Silver	USD/T. oz	19.66	(1.02)	48,674
NYMEX Platinum	USD/T. oz	1,360.70	(1.59)	8,892
Agricultural Products				
CBOT Corn	USD/bu	417.25	(1.18)	152,848
CBOT Wheat	USD/bu	651.25	0.27	36,863
NYB-ICE Sugar	USD/lb.	17.22	(1.03)	46,340
CBOT Soybeans	USD/bu.	1,320.00	0.04	108,929

Bond Yields & Key Interest 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 Mth)	0.0558	3.05
US Treasury (5 Yr)	1.3636	1.67
US Treasury (10 Yr)	2.7373	(0.54)
Japan 10-Yr Gov. Bond	0.6060	(2.20)
China 10-Yr Gov. Bond	4.6200	0.00
ECB Rate (Refinancing)	0.25	0.00
1 Month LIBOR	0.1650	(0.05)
3 Month LIBOR	0.2376	0.10
O/N SHIBOR	3.7460	(15.30)
3-Month HIBOR	0.3786	(0.36)
Corporate Bonds (Moody's)		
Aaa	4.59	(6.00)
Baa	5.34	(6.00)

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

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-Mth
Spot Rate	1.3598	1.6300	0.9129	102.18	0.9055	6.0925	7.7528	6.1504
Chg. WTD (%)	0.30	0.46	(0.59)	(0.89)	0.13	0.02	0.00	0.04

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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 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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