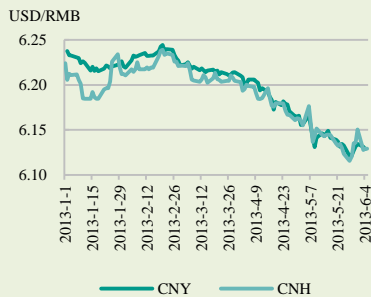




## Economics Weekly

### Strong renminbi



Source: Bloomberg, ABCIS

### Renminbi will continue to thrive in 2H13

Rampant buying within renminbi market since the beginning of April has resulted in an over 1.3% rise in the CNY spot rate against the US dollar compared to 0.33% in 1Q13. A gloomy global economic outlook with possible unwinding of the US's QE and slower-than-expected China's economic growth start to add to the volatility of renminbi, raising concerns as to whether the renminbi can sustain its strength in 2H13. China has proposed to make a plan for currency convertibility under the capital account this year, indicating that a blueprint for the long-discussed reform is in place which stresses the importance of stabilizing the renminbi through market-oriented reform of China's interest rate and exchange rate. The key to healthy appreciation of the renminbi in 2H13 focuses on improving its onshore and offshore circulation, managing appreciation expectations and enhancing the transparency of the regulatory framework. We expect acceleration of financial reforms will further encourage more frequent capital flows and renminbi will be more market-based in the future, thus enhancing its global usage for trade and investment. This paves the way for the full opening of the capital account and a fully convertible renminbi.

- **Market turbulence.** Possible Fed's unwinding of QE in 2H13 has not only given rise to expectations of higher interest rates, but also it has served to unwind US dollar carry trade and put selling pressure on all types of investments, including renminbi. At the same time, Japan's new QE pledge continues to provide new liquidity for investment in renminbi assets. These factors may add to the volatility of renminbi in 2H13.
- **More integration of the CNY and CNH markets through the opening of the capital account.** The new leadership steps up efforts to strengthen financial reforms which lay the groundwork for the renminbi to be fully convertible and a global reserve currency in the next few years. As the CNH market is a proxy for offshore demand for renminbi, relaxing capital controls will accelerate the process of renminbi internationalization and the CNY and CNH will eventually converge into a single renminbi market. Thus, we are of the view that strengths of renminbi remain intact in 2H13 and regulatory reforms, improving the offshore and onshore renminbi product mix and China's strong economic fundamentals will drive renminbi appreciation of 3% in 2013.
- **Beneficiaries of strong renminbi.** The widening range of financial products denominated in renminbi driven by reforms in renminbi market will be positive to Hong Kong's capital markets, particularly financial institutions such as Hong Kong banks including **BOCHK (2388 HK)** and **HangSeng (11 HK)**. China domestic airlines such as **Air China (753 HK)** and **China eastern airline (670 HK)** will benefit from strong renminbi as they purchase many aircrafts from overseas in US dollars and also have debt financing in US dollars

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**農銀國際**

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**China Economic Indicators**

	2012								2013				
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Real GDP (YoY%)	---	7.6	---	---	7.4	---	---	7.9	---	---	7.7	---	---
Export Growth (YoY%)	15.3	11.1	1	2.7	9.9	11.6	2.9	14.1	25.0	21.8	10.0	14.7	2.5*
Import Growth (YoY%)	12.7	6.3	4.7	-2.6	2.4	2.4	0	6	28.8	-15.2	14.1	16.8	1.5*
Trade Balance (USD/Bn)	18.13	31.91	25.28	26.43	27.45	32.11	19.63	31.6	29.2	15.3	-0.9	18.2	20.8*
Retail Sales Growth (YoY%)	13.8	13.7	13.1	13.2	14.2	14.5	14.9	15.2	12.3	12.6	12.8	12.9*	12.9*
Industrial Production (YoY%)	9.6	9.5	9.2	8.9	9.2	9.6	10.1	10.3	9.9	8.9	9.3	9.2*	9.2*
PMI - Manufacturing (%)	50.4	50.2	50.1	49.2	49.8	50.2	50.6	50.6	50.4	50.1	50.9	50.6	50.8
PMI - Non-manufacturing (%)	55.2	56.7	55.6	56.3	53.7	55.5	55.6	56.1	56.2	54.5	55.6	54.5	54.3
FAI(YTD) (YoY%)	20.1	20.4	20.4	20.2	20.5	20.7	20.7	20.6	21.2	20.9	20.6	20.6	20.7*
CPI (YoY%)	3	2.2	1.8	2	1.9	1.7	2	2.4	2.0	3.2	2.1	2.4	2.2*
PPI (YoY%)	-1.4	-2.1	-2.9	-3.5	-3.6	-2.8	-2.2	-1.9	-1.6	-1.6	-1.9	-2.6	-2.7*
M2 (YoY%)	13.2	13.6	13.9	13.5	14.8	14.1	13.9	13.8	15.9	15.2	15.7	16.1	15.8*
New Lending (RMB/Bn)	793.23	919.83	540.1	703.9	623.2	505.2	522.9	454.3	1070.0	620.0	1060.0	793	950*

\*forecast

**World Economic/Financial Indicators**

Equity Index				Global Commodities						Bond Yields & Key Interest Rates		
	Closing price	Chng. WTD (%)	P/E		Unit	Price	Chng. WTD (%)	Volume (5-day average)		Yield (%)	Chng. WTD (%)	
<b>US</b>				<b>Energy</b>	NYMEX WTI	USD/bbl	93.79	1.98	288980.80	US Fed Fund Rate	0.25	0.00
DJIA	15177.54	0.41	14.69		ICE Brent	USD/bbl	103.64	3.24	242885.40	US Prime Rate	3.25	0.00
S&P 500	1631.38	0.04	15.93		NYMEX Natural Gas	USD/MM Btu	4.01	0.63	88245.40	US Discount Window	0.75	0.00
NASDAQ	3445.26	-0.31	23.63		Australia Newcastle Steam Coal Spot fob	USD/Metric Tonne	86.80	N/A	N/A	US Treasury (1 Month)	0.076	400.00
MSCI US	1555.35	-0.01	16.21		LME Aluminum Cash	USD/MT	1920.00	2.25	28064.20	US Treasury (10 Yr)	2.1392	0.52
<b>Europe</b>				<b>Basic Metals</b>	LME Primary Aluminum 3 Month Rolling Forward	USD/MT	1946.00	2.10	43499.40	US Treasury (30 Yr)	3.3009	0.66
FTSE 100	6512.99	-1.06	16.67		CMX Copper Active Contract	USD/lb.	337.60	2.54	54781.80	Japan 10-Yr Government Bond	0.847	-1.17
DAX	8268.55	-0.96	15.44		LME Copper 3 Month Rolling Forward	USD/MT	7455.00	2.00	58077.00	China 10-Yr Government Bond	3.45	0.88
CAC40	3906.03	-1.08	16.32		TSI CFR China Iron Ore Fines Index	USD	116.60	5.62	N/A	ECB Interest Rate (Refinancing)	0.5	-33.33
IBEX 35	8414.70	1.13	81.65		CMX Gold	USD/T. oz	1399.30	0.48	44429.00	1-Month LIBOR	0.1933	-0.51
FTSE MIB	17229.68	0.09	270.69	CMX Silver	USD/T. oz	22.48	1.04	39115.40	3 Month LIBOR	0.2740	-0.47	
Stoxx 600	298.86	-0.67	19.91	NYMEX Platinum	USD/T. oz	1496.90	2.40	11059.80	3-Month SHIBOR	3.8838	0.04	
MSCI UK	1938.46	-0.39	16.65	CBOT Corn	USD/bu	661.75	-0.04	109417.60	3-Month HIBOR	0.3771	0.00	
MSCI France	109.60	-0.63	20.12	CBOT Wheat	USD/bu	708.25	0.39	59800.40	Corporate Bonds (Moody's Seasoned)			
MSCI Germany	113.30	-0.64	14.55	NYB-ICE Sugar	USD/lb.	16.45	-0.60	57088.60	Aaa	4.06	-0.73	
MSCI Italy	49.55	-0.42	60.14	CBOT Soybeans	USD/bu.	1531.25	1.41	71040.40	Baa	4.95	0.00	
<b>Asia</b>												
NIKKEI 225	13014.87	-5.52	23.94									
S&P/ASX 200	4835.21	-1.85	19.60									
HSI	22069.24	-1.44	10.17									
HSCEI	10473.18	-1.19	8.56									
CSI300	2560.54	-1.76	12.70									
SSE Composite	2270.93	-1.29	12.19									
SZSE Composite	1012.60	-2.24	29.54									
MSCI China	59.46	-0.97	10.02									
MSCI Hong Kong	11660.68	-0.12	10.77									
MSCI Japan	699.13	-0.72	22.60									
<b>Currency</b>												
									USD/ CNY			
									NDF 12 Month			
Spot Exchange Rate	1.3068	1.5364	0.9577	99.7700	0.9479	1.0343	6.1275	7.7607	6.2492			
Chng. WTD (%)	0.53	1.09	0.06	0.68	0.76	0.31	0.11	0.02	0.19			

Note:

1. Data source: 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. Date of reported data: 5<sup>th</sup> June 2013

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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 2007-2011

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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