



## Economics Weekly June 13, 2014

### Co-head of Research

Banny Lam

Tel: 852-21478863

Email: bannylam@abci.com.hk

### Analyst

Paul Pan

Tel: 852-21478829

Email: paulpan@abci.com.hk

### Exhibit 1: May economic indicators

YoY% or otherwise specified	May'14	Apr'14	Consensus
PMI (Manufacturing)	50.8	50.4	50.7
PMI (Non-Manufacturing)	55.5	54.8	--
CPI	2.5	1.8	2.4
PPI	(1.4)	(2.0)	(1.5)
Exports	7.0	0.9	6.7
Imports	(1.6)	0.8	6.0
Trade Balance (US\$/bn)	35.9	18.5	22.6
FAI (YTD%)	17.2	17.3	17.2
Industrial production	8.8	8.7	8.8
Retail Sales	12.5	11.9	12.1
M2	13.4	13.2	13.1
New loans (RMB/bn)	870.8	774.7	750
Aggregate financing (RMB/bn)	1,400	1,550	1,400

Source(s): Bloomberg, ABCI Securities

## May data rebound on macro easing

China's newly released economic indicators are broadly in line with our forecasts, demonstrating a modest improvement in the economy. The PBOC has announced two targeted RRR cuts since April 2014 to support the agriculture sector and micro- and small-sized enterprises (MSEs) and to revive economic growth momentum. Looking forward, China would further strengthen mini-stimulus measures to spur up economic activities, and we believe economic growth for 2Q14 and 2H14 would be bolstered by positive impacts of the targeted easing.

**FAI growth decelerated slightly to 17.2% YTD.** The mild slowdown was mainly driven by weaker-than-expected manufacturing sector, which grew by 14.2% YoY. Primary and tertiary sectors still advanced strongly by 20.8% and 19.5% YoY. Real estate investment remained weak, with YTD growth decelerating to 14.7% YoY in May (vs 16.4% YoY in April). Infrastructure investment remains resilient as the government intends to increase infrastructure spending to boost economic growth. We believe FAI has hit bottom and surging investment in infrastructure and railways would reverse the downtrend of FAI in coming months.

**Industrial production slightly edged up.** Industrial output slightly accelerated by growing 8.8% YoY in May (vs 8.7% YoY in April), which is in line with our expectation that manufacturing production would trend up on increased exports orders and domestic consumption. The rebounding signals, as shown by surging PMI and narrowing producer prices decline, indicate industrial outputs would strengthen in coming months.

**Retail sales recovered steadily.** May's retail sales accelerated to gain 12.5% YoY (vs. 11.9% YoY in April). Consumption is on an uptrend with rising demand for consumer discretionary (except for "Gold, Silver and Jewelry"). Among which, "Communication Appliances" went up by 25.3% YoY and "Building and Decoration Materials" rose by 16.8% YoY. The rebound of retail sales is expected to continue amid the economic pickup.

**Surging liquidity reflected in May's monetary data.** New loans and M2 growth reached RMB 870.8 billion and 13.4% YoY, surpassing market expectation; aggregate financing for May posted a fast growth of 17.9% YoY to RMB 1.4 trillion. The impressive loan data indicated that the government's liquidity easing policy is coming through to boost growth. Also noteworthy is that trust loan in aggregate financing for 5M14 declined 70% YoY with its share falling to 3.9% versus 10.7% in 2013. The changes observed were driven by the government's efforts to manage shadow banking risks. Overall, we believe the latest targeted RRR cut would further sustain the new loans and M2 growth in coming months.

**Macro loosening remains intact.** Although May's economic indicators point to a resurgence in economic activities, the sustainability of recovery would rely heavily on the continued implementation of the slew of mini-stimulus programs. Enacting a set of pro-growth measures and reforms is crucial in reversing the economic downtrend. We believe an accommodative policy stance would persist to facilitate economic rebalancing for the rest of the year.



China Economic Indicators

	2013									2014				
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Real GDP (YoY%)	---	---	7.5	---	---	7.8	---	---	7.7	---	---	7.4	---	--
Export Growth (YoY%)	14.7	1.0	(3.1)	5.1	7.2	(0.3)	5.6	12.7	5.8	10.6	(18.1)	(6.6)	0.9	7.0
Import Growth (YoY%)	16.8	(0.3)	(0.7)	10.9	7.0	7.4	7.6	5.3	6.5	10.0	10.1	(11.3)	0.8	(1.6)
Trade Balance (USD/bn)	18.2	20.4	27.1	17.8	28.5	15.2	31.1	33.8	32.3	31.9	(23.0)	7.7	18.5	35.9
Retail Sales Growth (YoY%)	12.8	12.9	13.3	13.2	13.4	13.3	13.3	13.7	13.6	11.8		12.2	11.9	12.5
Industrial Production (YoY%)	9.3	9.2	8.9	9.7	10.4	10.2	10.3	10.0	9.7	8.6		8.8	8.7	8.8
PMI - Manufacturing (%)	50.6	50.8	50.1	50.3	51.0	51.1	51.4	51.4	51.0	50.5	50.2	50.3	50.4	50.8
PMI - Non-manufacturing (%)	54.5	54.3	53.9	54.1	53.9	55.4	56.3	56.0	54.6	53.4	55.0	54.5	54.8	55.5
FAI(YTD) (YoY%)	20.6	20.4	20.1	20.1	20.3	20.2	20.1	19.9	19.6	17.9		17.6	17.3	17.2
CPI (YoY%)	2.4	2.1	2.7	2.7	2.6	3.1	3.2	3.0	2.5	2.5	2.0	2.4	1.8	2.5
PPI (YoY%)	(2.6)	(2.9)	(2.7)	(2.3)	(1.6)	(1.3)	(1.5)	(1.4)	(1.4)	(1.6)	(2.0)	(2.3)	(2.0)	(1.4)
M2(YoY%)	16.1	15.8	14.0	14.5	14.7	14.2	14.3	14.2	13.6	13.2	13.3	12.1	13.2	13.4
New Lending (RMB/bn)	792.9	667.4	860.5	699.9	711.3	787.0	506.1	624.6	482.5	1,320	644.5	1,050	774.7	870.8
Aggregate Financing (RMB bn)	1,762.9	1,187.1	1,037.5	819.1	1,584	1,411.3	864	1,226.9	1,232.2	2,580	938.7	2,081.3	1,550	1,400

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			
DJIA	16,734.19	(1.12)	15.65	NYMEX WTI	USD/bbl	107.11	4.33	241,861		0.25	0.00
S&P 500	1,930.11	(0.99)	17.68	ICE Brent Oil	USD/bbl	113.61	4.60	164,754	US Prime Rate	3.25	0.00
NASDAQ	4,297.63	(0.55)	34.09	NYMEX Natural Gas	USD/MMBtu	4.74	0.57	146,949	US Discount Window	0.75	0.00
MSCI US	1,846.03	(0.98)	18.17	Australia Newcastle Steam Coal Spot fob <sup>2</sup>	USD/Metric Tonne	72.25	N/A	N/A	US Treasury (1 Mth)	0.0152	(0.51)
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (5 Yr)			
FTSE 100	6,810.87	(0.69)	19.71	LME Aluminum Cash	USD/MT	1,803.75	(2.85)	19,042	US Treasury (10 Yr)	2.5915	0.46
DAX	9,891.73	(0.96)	18.34	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,844.00	(1.86)	48,170	Japan 10-Yr Gov. Bond	0.6030	0.30
CAC40	4,539.64	(0.91)	26.15	CMX Copper Active	USD/lb.	6,634.50	(0.84)	12,917	China 10-Yr Gov. Bond	4.0900	2.00
IBEX 35	11,053.40	(0.10)	23.48	LME Copper 3- mth Rolling Fwd.	USD/MT	6,620.00	(1.02)	51,183	ECB Rate (Refinancing)	0.15	(10.0)
FTSE MIB	22,086.14	(0.91)	285.2	TSI CFR China Iron Ore Fines Index <sup>3</sup>	USD	91.50	(3.18)	N/A	1-Month LIBOR	0.1518	(0.18)
Stoxx 600	346.98	(0.09)	22.01	<b>Precious Metals</b>				3 Month LIBOR			
MSCI UK	2,018.08	(0.18)	19.83	CMX Gold	USD/T. oz	1,274.50	1.76	93,648	O/N SHIBOR	2.6000	1.92
MSCI France	127.60	(0.63)	27.11	CMX Silver	USD/T. oz	19.58	3.10	44,942	1-mth SHIBOR	4.8140	83.00
MSCI Germany	132.61	(0.35)	18.68	NYMEX Platinum	USD/T. oz	1,448.80	(0.29)	16,174	3-mth HIBOR	0.3743	0.17
MSCI Italy	64.27	(0.50)	N/A	<b>Agricultural Products</b>				Corporate Bonds (Moody's)			
<b>Asia</b>				CBOT Corn	USD/bu	446.50	(2.46)	82,983	Aaa	4.31	3.00
NIKKEI 225	15,097.84	0.14	19.73	CBOT Wheat	USD/bu	587.75	(4.93)	68,180	Baa	4.85	2.00
S&P/ASX 200	5,405.05	(1.08)	19.21	NYB-ICE Sugar	USD/lb.	17.47	(1.41)	70,528			
HSI	23,319.17	1.60	10.89	CBOT Soybeans	USD/bu.	1,217.00	(0.14)	77,498			
HSCEI	10,516.98	1.70	7.66								
CSI300	2,176.24	1.95	9.79								
SSE Composite	2,070.72	2.01	10.11								
SZSE Composite	1,079.36	2.26	27.05								
MSCI China	61.53	1.50	9.41								
MSCI Hong Kong	12,430.63	(0.03)	12.58								
MSCI Japan	762.13	0.21	14.53								

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-Mth
Spot Rate	1.3571	1.6980	0.9410	101.88	0.8965	6.2108	7.7515	6.2133
Chg. WTD (%)	(0.53)	1.06	0.83	0.59	(0.32)	0.64	0.01	0.50

Note:

- Data sources: Bloomberg Finance LP, 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
- 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	$2.6 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility}$
High	$1.5 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 2.6$
Medium	$1.0 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.5$
Low	$180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.0$

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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**Office address: ABCI Securities Company Limited, 13/F Fairmont House,  
8 Cotton Tree Drive, Central, Hong Kong.**

**Tel: (852) 2868 2183**