農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Economics Weekly
February 24, 2014

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G20 meeting in spotlight

The G20 Finance Ministers and Central Bank Governors Meeting concluded on February 23 in Sydney laid out the target of stimulating an additional output of more than US$ 2 trillion, representing an additional growth of 2% above the level expected in the next five years. The meeting signaled optimism over the global economy, but measures to achieve these targets are still unclear. The global outlook is further complicated by political instability in many developing nations, normalization of monetary policies by the Fed, and slowing growth in emerging economies. Nethertheless, we believe growth prospect for China is still favorable in 2014 as the economy is transforming into a consumption-led one. The highly anticipated National People's Congress (NPC) will also shed more light on economic policies that enhance the quality of growth in the country.

An ambitious goal without an established plan. The G20 meeting concluded with an ambitious target of adding US$ 2 trillion of output, or an additional 2% growth in the global economy over the next five years. However, strategies to achieve such growth were not determined in the meeting. We believe the G20 summit in November will offer more details on ways to achieve the target.

Economic outlook of advanced economies remains murky. The recovery of the U.S. and Eurozone economies is still vulnerable to potential headwinds. For the U.S., impacts of QE tapering remain unknown, and the long-term outlook of domestic economy is uncertain. For the Eurozone, fundamental issues such as deflation threat and high unemployment are still posing risks to the member countries. In our view, the advanced economies will maintain a steady and gradual pace of recovery in the next few years.

Emerging markets to suffer from Fed's tapering. Although the communique pledges to maintain accommodative monetary policies in advanced economies and emphasizes the importance of global coordination among central banks, we expect that Fed will maintain its tapering pace and this will exert pressure on economies in emerging markets in the near term. We believe emerging markets will carry out structural reforms and develop new growth drivers to sustain growth momentum.

China should sustain a 7% - 8% growth. PBOC Governor Zhou Xiaochuan expressed during the G20 meeting that China's economy would be able to sustain a 7%-8% growth in 2014 and help boost global growth. We believe issues of future economic development, such as urbanization, population policy, SOE sector reform, and environmental protection will be further discussed in March's NPC. The annual government report will also provide policy guidance and economic goals for 2014. Overall, we expect that the session will reinforce the government's vision of building a sustainable economy.

China Economic Indicators

	2013												2014
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan
Real GDP (YoY%)	---	---	7.7	---	---	7.5	---	---	7.8	---	---	7.7	---
Export Growth (YoY%)	25.0	21.8	10.0	14.7	1.0	(3.1)	5.1	7.2	(0.3)	5.6	12.7	5.8	10.6
Import Growth (YoY%)	28.8	(15.2)	14.1	16.8	(0.3)	(0.7)	10.9	7.0	7.4	7.6	5.3	6.5	10.0
Trade Balance (USD/bn)	29.2	15.3	(0.9)	18.2	20.4	27.1	17.8	28.5	15.2	31.1	33.8	32.3	31.9
Retail Sales Growth (YoY%)		12.3	12.6	12.8	12.9	13.3	13.2	13.4	13.3	13.3	13.7	13.6	---
Industrial Production (YoY%)		9.9	8.9	9.3	9.2	8.9	9.7	10.4	10.2	10.3	10.0	9.7	---
PMI - Manufacturing (%)	50.4	50.1	50.9	50.6	50.8	50.1	50.3	51.0	51.1	51.4	51.4	51.0	50.5
PMI - Non-manufacturing (%)	56.2	54.5	55.6	54.5	54.3	53.9	54.1	53.9	55.4	56.3	56.0	54.6	53.4
FAI(YTD) (YoY%)		21.2	20.9	20.6	20.4	20.1	20.1	20.3	20.2	20.1	19.9	19.6	---
CPI (YoY%)	2.0	3.2	2.1	2.4	2.1	2.7	2.7	2.6	3.1	3.2	3.0	2.5	2.5
PPI (YoY%)	(1.6)	(1.6)	(1.9)	(2.6)	(2.9)	(2.7)	(2.3)	(1.6)	(1.3)	(1.5)	(1.4)	(1.4)	(1.6)
M2(YoY%)	15.9	15.2	15.7	16.1	15.8	14.0	14.5	14.7	14.2	14.3	14.2	13.6	13.2
New Lending (RMB/bn)	1070.0	620.0	1060.0	792.9	667.4	860.5	699.9	711.3	787.0	506.1	624.6	482.5	1320

World Economic/Financial Indicators

Equity Indices

	Closing price	Chg. WTD (%)	P/E
U.S.			
DJIA	16,103.30	0.00	15.11
S&P 500	1,836.25	0.00	16.95
NASDAQ	4,263.41	0.00	N/A
MSCI US	1,760.32	0.00	17.20
Europe			
FTSE 100	6,825.59	(0.18)	16.64
DAX	9,647.21	(0.10)	15.38
CAC40	4,383.38	0.05	21.93
IBEX 35	10,106.20	0.35	19.46
FTSE MIB	20,405.40	0.07	95.01
Stoxx 600	335.89	(0.06)	22.72
MSCI UK	2,016.37	0.00	16.55
MSCI France	122.48	0.00	21.90
MSCI Germany	132.11	0.00	15.07
MSCI Italy	58.57	0.00	93.58
Asia			
NIKKEI 225	14,837.68	(0.19)	20.24
S&P/ASX 200	5,440.22	0.03	19.86
HSI	22,388.56	(0.80)	10.21
HSCEI	9,797.86	(1.39)	7.28
CSI300	2,214.51	(2.20)	10.52
SSE Composite	2,076.69	(1.75)	10.41
SZSE Composite	1,134.19	(0.07)	30.98
MSCI China	60.00	0.00	9.46
MSCI Hong Kong	11,878.11	0.00	11.22
MSCI Japan	755.04	0.00	15.07

Global Commodities

	Unit	Price	Chg. WTD (%)	Volume (5-day avg.)
Energy				
NYMEX WTI	USD/bbl	102.43	0.23	146,568
ICE Brent Oil	USD/bbl	109.99	0.13	135,333
NYMEX Natural Gas	USD/MMBtu	6.41	4.55	189,923
Australia Newcastle Steam Coal Spot fob[2]	USD/Metric Tonne	75.80	N/A	N/A
Basic Metals				
LME Aluminum Cash	USD/MT	1,727.50	0.00	52,561
LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,771.00	0.00	37,451
CMX Copper Active	USD/lb.	325.85	(0.99)	44,641
LME Copper 3- mth Rolling Fwd.	USD/MT	7,155.00	0.00	33,535
TSI CFR China Iron Ore Fines Index[3]	USD	122.40	(0.65)	N/A
Precious Metals				
CMX Gold	USD/T. oz	1,331.00	0.56	137,307
CMX Silver	USD/T. oz	21.89	0.34	16,776
NYMEX Platinum	USD/T. oz	1,428.60	0.05	9,678
Agricultural Products				
CBOT Corn	USD/bu	451.75	(0.28)	179,793
CBOT Wheat	USD/bu	605.75	(0.66)	57,591
NYB-ICE Sugar	USD/lb.	16.82	0.60	57,334
CBOT Soybeans	USD/bu.	1,384.25	0.98	96,983

Bond Yields & Key Rates

	Yield (%)	Chg. WTD
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)	0.0152	0.00
US Treasury (5 Yr)	1.5247	(0.82)
US Treasury (10 Yr)	2.7247	(0.63)
Japan 10-Yr Gov. Bond	0.5960	(0.80)
China 10-Yr Gov. Bond	4.5500	6.00
ECB Rate (Refinancing)	0.25	0.00
1-Month LIBOR	0.1555	0.10
3 Month LIBOR	0.2349	(0.10)
O/N SHIBOR	1.7000	(6.40)
1-mth SHIBOR	4.9680	(20.8)
3-mth HIBOR	0.3736	(0.20)
Corporate Bonds (Moody's)		
Aaa	4.52	2.00
Baa	5.15	2.00

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-Mth
Spot Rate	1.3750	1.6652	0.8988	102.37	0.8869	6.0976	7.7574	6.1375
Chg. WTD (%)	0.03	0.22	0.12	0.14	0.09	(0.11)	(0.03)	(0.02)

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

Analyst Certification

We, Lam Chiu Kei, Banny, and PAN Hongxing, Paul, being the persons primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect our personal view about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. We and/or our associates have no financial interests in relation to any listed company (ies) covered in this report, and we and/or our associates do not serve as officer(s) of any listed company (ies) covered in this report.

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 2009-2013
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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