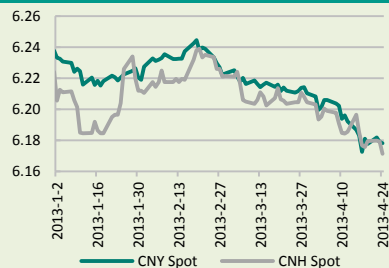


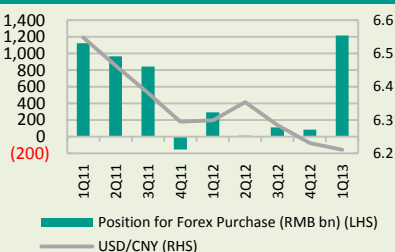
Economics Weekly

Renminbi appreciation on track



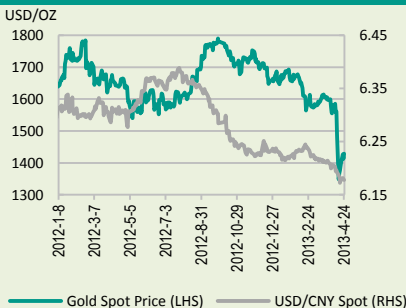
Source: Bloomberg, ABCIS

Surging position for forex purchase



Source: Bloomberg, ABCIS

Weak gold price vs. strong renminbi



Source: Bloomberg, ABCIS

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Strength of renminbi in spotlight

China's currency renminbi appreciated around 0.8% year-to-date, triggered by stronger-than-expected 1Q13 net exports and FDI as well as high net liquidity inflows with which the position for forex purchase reached 1.2 trillion in 1Q13. As China is committed to liberalizing its capital account and internationalize renminbi, high demand for renminbi financial products will sustain renminbi demand in both onshore and offshore market. In anticipation of widened renminbi's trading band at 1.5%, continued liquidity inflows from developed economies and more fiscal stimulus packages by China to spur recovery momentum, we believe the surging pressure of renminbi will remain intact with expected appreciation of 2% by end-2013.

- **Greater renminbi flexibility welcomes weakening Yen.** Japanese yen, after the announcement of the quantitative easing program, once dropped to 4-year low at 99.78 per US dollar. Spurred by demand for higher-yielding assets, the liquidity created by BOJ will flow into emerging markets, including China, as these economies have better economic outlook. Currently the onshore renminbi rate (CNY) is trading very close to the upper end of the designated trading range, reflecting the bullish sentiment for investing in renminbi products. As such, we expect China to facilitate the currency appreciation by accelerating its exchange rate reform through further widened trading band from 1% to 1.5%. The expected move will reinforce China's further opening of its forex market and improve the fundamental value of the renminbi through encouraging more organic market growth and diversifying cross-border channels for trade and investment.
- **The increased flexibility of the renminbi trading band boosts healthy development of dim sum bond market.** A greater two-way fluctuation of renminbi exchange rate marks an important step to accelerate the development of dim sum bond market. The implications for the bond market are positive as there will be bigger room to do arbitrage with a wider trading band and two-way flows and the gap between CNY and CNH is expected to become tighter, which will reduce some of the investors' concerns regarding the volatility between the two rates. Bonds buyers will focus more on credit quality which is beneficial to the development of a healthy dim sum bond market.
- **Volatility of gold price favors renminbi internationalization.** Gold price plunged to two-year low on market worries that debt-troubled Cyprus would sell a big chunk of its gold reserves to foot the bill for portions of a bailout and other European countries struggling with high debts might also follow suit. We believe the decline in the status of gold as a safe haven during economic turmoil makes room for China to enhance the role of the renminbi in the global economy. With the conviction that China's economic recovery will be on track, we believe that investors are still eager to invest in China and demand for renminbi is set to increase.



- **Policy outlook in view of strong renminbi and surging liquidity.** China will continue to implement prudent monetary and proactive fiscal policies to boost economic growth. We expect 2Q13 position for forex purchase will be around 1 trillion given the continued recovery of China's economy and net liquidity inflows. The PBOC will continue to drain excess liquidity through repo in an attempt to avoid surging inflation.
- **Beneficiaries of strong renminbi.** Companies that will benefit from renminbi appreciation include domestic airlines such as **Air China (753 HK)** and **China eastern airline (670 HK)** as they purchase many aircrafts from overseas in US dollars and also have debt financing in US dollars. We also favor **BOC Hong Kong (2388 HK)** and **Hang Seng Bank (11 HK)** as they have a large pool of offshore renminbi deposits for cross-border renminbi loans and renminbi business.



China Economic Indicators

| | 2012 | | | | | | | | | | 2013 | | |
|------------------------------|---------|-------|--------|--------|-------|-------|-------|-------|-------|-------|--------|-------|--------|
| | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Jan | Feb | Mar |
| Real GDP (YoY%) | 8.1 | --- | --- | 7.6 | --- | --- | 7.4 | --- | --- | 7.9 | --- | --- | 7.7 |
| Export Growth (YoY%) | 8.9 | 4.9 | 15.3 | 11.1 | 1 | 2.7 | 9.9 | 11.6 | 2.9 | 14.1 | 25.0 | 21.8 | 10.0 |
| Import Growth (YoY%) | 5.3 | 0.3 | 12.7 | 6.3 | 4.7 | -2.6 | 2.4 | 2.4 | 0 | 6 | 28.8 | -15.2 | 14.1 |
| Trade Balance (USD/Bn) | 5.18 | 18.53 | 18.13 | 31.91 | 25.28 | 26.43 | 27.45 | 32.11 | 19.63 | 31.6 | 29.2 | 15.3 | -0.9 |
| Retail Sales Growth (YoY%) | 15.2 | 14.1 | 13.8 | 13.7 | 13.1 | 13.2 | 14.2 | 14.5 | 14.9 | 15.2 | 12.3 | | 12.6 |
| Industrial Production (YoY%) | 11.9 | 9.3 | 9.6 | 9.5 | 9.2 | 8.9 | 9.2 | 9.6 | 10.1 | 10.3 | 9.9 | | 8.9 |
| PMI - Manufacturing (%) | 53.1 | 53.3 | 50.4 | 50.2 | 50.1 | 49.2 | 49.8 | 50.2 | 50.6 | 50.6 | 50.4 | 50.1 | 50.9 |
| PMI - Non-manufacturing (%) | 58 | 56.1 | 55.2 | 56.7 | 55.6 | 56.3 | 53.7 | 55.5 | 55.6 | 56.1 | 56.2 | 54.5 | 55.6 |
| FAI(YTD) (YoY%) | 20.9 | 20.2 | 20.1 | 20.4 | 20.4 | 20.2 | 20.5 | 20.7 | 20.7 | 20.6 | 21.2 | | 20.9 |
| CPI (YoY%) | 3.6 | 3.4 | 3 | 2.2 | 1.8 | 2 | 1.9 | 1.7 | 2 | 2.4 | 2.0 | 3.2 | 2.1 |
| PPI (YoY%) | -0.3 | -0.7 | -1.4 | -2.1 | -2.9 | -3.5 | -3.6 | -2.8 | -2.2 | -1.9 | -1.6 | -1.6 | -1.9 |
| M2 (YoY%) | 13.4 | 12.8 | 13.2 | 13.6 | 13.9 | 13.5 | 14.8 | 14.1 | 13.9 | 13.8 | 15.9 | 15.2 | 15.7 |
| New Lending (RMB/Bn) | 1011.44 | 681.8 | 793.23 | 919.83 | 540.1 | 703.9 | 623.2 | 505.2 | 522.9 | 454.3 | 1070.0 | 620.0 | 1060.0 |

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 (%) | |
| US | | | | Energy | NYMEX WTI | USD/bbl | 91.48 | 3.94 | 179128.20 | US Fed Fund Rate | 0.25 | 0.00 |
| DJIA | 14676.30 | 0.89 | 14.28 | | ICE Brent | USD/bbl | 101.83 | 2.19 | 227817.60 | US Prime Rate | 3.25 | 0.00 |
| S&P 500 | 1578.79 | 1.51 | 15.54 | | NYMEX Natural Gas | USD/MM Btu | 4.18 | -5.22 | 135400.00 | US Discount Window | 0.75 | 0.00 |
| NASDAQ | 3269.65 | 1.98 | 25.35 | | Australia Newcastle Steam Coal Spot fob | USD/Metric Tonne | 85.85 | N/A | N/A | US Treasury (1 Month) | 0.0406 | 33.55 |
| MSCI US | 1508.64 | 1.54 | 15.84 | | LME Aluminum Cash | USD/MT | 1880.75 | 1.13 | 20724.60 | US Treasury (10 Yr) | 1.7013 | -0.21 |
| Europe | | | | Basic Metals | LME Primary Aluminum 3 Month Rolling Forward | USD/MT | 1911.00 | 1.27 | 33437.60 | US Treasury (30 Yr) | 2.8938 | 0.32 |
| FTSE 100 | 6431.76 | 2.31 | 18.12 | | CMX Copper Active Contract | USD/lb. | 316.10 | 0.40 | 95354.00 | Japan 10-Yr Government Bond | 0.577 | -0.69 |
| DAX | 7759.03 | 4.01 | 14.73 | | LME Copper 3 Month Rolling Forward | USD/MT | 7030.00 | 0.57 | 83617.20 | China 10-Yr Government Bond | 3.49 | 1.75 |
| CAC40 | 3842.94 | 5.23 | 14.93 | | TSI CFR China Iron Ore Fines Index | USD | 135.10 | -2.10 | N/A | ECB Interest Rate (Refinancing) | 0.75 | 0.00 |
| IBEX 35 | 8389.30 | 5.99 | N/A | | CMX Gold | USD/T. oz | 1423.40 | 2.01 | 168.00 | 1-Month LIBOR | 0.1982 | -0.50 |
| FTSE MIB | 16563.43 | 5.09 | 72.44 | CMX Silver | USD/T. oz | 23.07 | 0.48 | 62015.40 | 3 Month LIBOR | 0.2756 | -0.18 | |
| Stoxx 600 | 294.63 | 3.30 | 19.88 | NYMEX Platinum | USD/T. oz | 1429.40 | 0.39 | 8929.20 | 3-Month SHIBOR | 3.8837 | 0.06 | |
| MSCI UK | 1902.14 | 2.24 | 18.54 | CBOT Corn | USD/bu | 640.00 | -1.84 | 86829.00 | 3-Month HIBOR | 0.3771 | 0.00 | |
| MSCI France | 107.35 | 4.96 | 18.90 | CBOT Wheat | USD/bu | 690.75 | -2.57 | 27516.80 | Corporate Bonds (Moody's Seasoned) | | | |
| MSCI Germany | 108.81 | 3.99 | 13.57 | NYB-ICE Sugar | USD/lb. | 17.40 | -3.17 | 40258.00 | Aaa | 3.7 | 0.00 | |
| MSCI Italy | 48.43 | 4.76 | 38.92 | CBOT Soybeans | USD/bu. | 1404.50 | -1.66 | 64339.80 | Baa | 4.54 | 0.00 | |
| Asia | | | | Agricultural Products | | | | | | | | |
| NIKKEI 225 | 13868.10 | 4.14 | 28.11 | | | | | | | | | |
| S&P/ASX 200 | 5102.43 | 3.46 | 21.08 | | | | | | | | | |
| HSI | 22183.05 | 0.77 | 10.54 | | | | | | | | | |
| HSCEI | 10634.37 | 0.44 | 8.69 | | | | | | | | | |
| CSI300 | 2495.58 | -1.51 | 12.47 | | | | | | | | | |
| SSE Composite | 2218.32 | -1.17 | 12.10 | | | | | | | | | |
| SZSE Composite | 943.78 | 0.04 | 27.64 | | | | | | | | | |
| MSCI China | 59.47 | 0.63 | 10.04 | | | | | | | | | |
| MSCI Hong Kong | 11823.25 | 1.43 | 10.85 | | | | | | | | | |
| MSCI Japan | 720.07 | 3.07 | 25.67 | | | | | | | | | |
| Currency | | | | | | | | | | | | |
| | | | | | | | | | USD/ CNY | | | |
| | | | | | | | | | NDF | | | |
| | | | | | | | | | 12 Month | | | |
| Spot Exchange Rate | 1.3024 | 1.5289 | 1.0285 | 99.5300 | 0.9474 | 1.0253 | 6.1781 | 7.7642 | 6.2505 | | | |
| Chng. WTD (%) | -0.21 | 0.38 | 0.08 | -0.01 | -1.48 | 0.13 | -0.01 | 0.00 | -0.07 | | | |

- Note:
- Data source: Bloomberg Finance LP, National Bureau of Statistics of China, ABCIS
 - 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
 - Certain data is not reported as of the date of this report



農銀國際

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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 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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