



# Economics Weekly February 2, 2015

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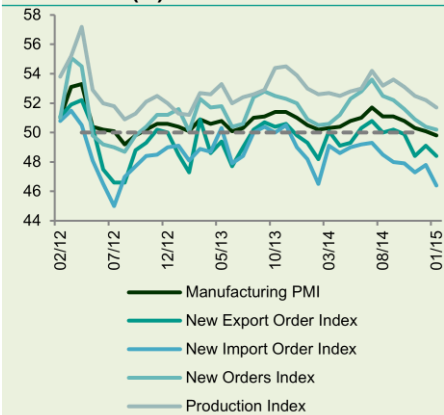
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### Exhibit 1: Jan economic indicators preview

YoY% or otherwise specified	Jan'15F*	Dec'14
PMI - Manufacturing	49.8	50.1
PMI - Non-manufacturing	53.7	54.1
CPI	1.0	1.5
PPI	(3.5)	(3.3)
Exports	4.5	9.7
Imports	(3.5)	(2.4)
Trade Balance (US\$/bn)	47.0	49.6
M2	12.6	12.2
New loans (RMB/bn)	1400.0	697.3
Aggregate financing (RMB/bn)	2860.4	1694.5

\* Forecast, excluding PMI - Manufacturing and Non-manufacturing  
Source(s): Bloomberg, ABCI Securities

### Exhibit 2: China's manufacturing PMI and sub-indices (%)



Source(s): Bloomberg, ABCI Securities

## January PMI fell to 28-month low

China's newly released manufacturing PMI for January edged down to 49.8% from 50.1% last month, the first contraction since October 2012. Most manufacturing sub-indices also worsened, reflecting that manufacturing activities is slowing with demand continuing to wane. The downtrend has extended to the services sector, as non-manufacturing PMI for January moderated to 53.7% against 54.1% in December. Most economic indicators for January are expected to fall. In contrast, monetary indicators would show strong growth amid extensive credit loosening by PBOC. In coming months, we believe China will launch more economic stimulus measures to drive domestic demand.

**Latest PMI shows faltering momentum in manufacturing.** China's PMI for January fell to a 28-month low at 49.8% from 50.1% in December. Falling commodity prices and sluggish market demand are main contributors of the slowdown. Weakening PMI in January indicates downward pressure on China's economy has been increasing and more stimulus measures will be needed to restore economic momentum in the short term.

**Demand remains weak.** The "New Order Index" fell from 50.4% in December to 50.2% in January, reflecting weak domestic demand. In addition, the drop in "Purchases of Input Index" and "Main Raw Materials Inventory Index" prompt us to believe market demand is likely to trend down in coming months, as manufacturers have no intention to ramp up inventories for higher levels of production activities. Uncertain of the economic outlook, manufacturers are cautious on expansion plan.

**Downward pressure of prices continues.** We believe CPI inflation in January would slow further to 1.0% YoY on moderating food prices and high-base effect. In addition, the "Purchasing Price Index" edged down from 43.2% in December to 41.9% in January, reflecting continuing weakness in global commodity prices. Demand for manufacturing products was muted and raw material purchasing prices stayed weak. Therefore, we expect PPI decline to widen to 3.5% YoY for January.

**External trade sector shows worsening signs.** "New Export Order Index" and "New Import Order Index" reached 48.4% and 46.4% in January as compared to 49.1% and 47.8% in December, denoting further deterioration in external trade growth. For January, we expect exports and imports to increase by 4.5% and -3.5% YoY, while trade balance would reach US\$ 47.0bn.

**Monetary indicators to rise in January.** PBOC's liquidity loosening has injected ample liquidity into the banking system to help stimulate economic activities. We believe growth in monetary indicators for January would trend up. New bank loans would rise to RMB 1.4tr; aggregate financing would reach RMB 2.86tr while M2 would expand by 12.6% YoY.



China Economic Indicators

	2013		2014												2015
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan*
Real GDP (YoY%)	---	7.7	---	---	7.4	---	---	7.5	---	---	7.3	---	---	7.3	---
Export Growth (YoY%)	12.7	5.8	10.6	(18.1)	(6.6)	0.9	7.0	7.2	14.5	9.4	15.3	11.6	4.7	9.7	4.5
Import Growth (YoY%)	5.3	6.5	10.0	10.1	(11.3)	0.8	(1.6)	5.5	(1.6)	(2.4)	7.0	4.6	(6.7)	(2.4)	(3.5)
Trade Balance (USD/bn)	33.8	32.3	31.9	(23.0)	7.7	18.5	35.9	31.6	47.3	49.8	30.9	45.4	54.5	49.6	47.0
Retail Sales Growth (YoY%)	13.7	13.6		11.8	12.2	11.9	12.5	12.4	12.2	11.9	11.6	11.5	11.7	11.9	N/A
Industrial Production (YoY%)	10.0	9.7		8.6	8.8	8.7	8.8	9.2	9.0	6.9	8.0	7.7	7.2	7.9	N/A
PMI - Manufacturing (%)	51.4	51.0	50.5	50.2	50.3	50.4	50.8	51.0	51.7	51.1	51.1	50.8	50.3	50.1	49.8
PMI - Non-manufacturing (%)	56.0	54.6	53.4	55.0	54.5	54.8	55.5	55.0	54.2	54.4	54.0	53.8	53.9	54.1	53.7
FAI(YTD) (YoY%)	19.9	19.6		17.9	17.6	17.3	17.2	17.3	17.0	16.5	16.1	15.9	15.8	15.7	N/A
CPI (YoY%)	3.0	2.5	2.5	2.0	2.4	1.8	2.5	2.3	2.3	2.0	1.6	1.6	1.4	1.5	1.0
PPI (YoY%)	(1.4)	(1.4)	(1.6)	(2.0)	(2.3)	(2.0)	(1.4)	(1.1)	(0.9)	(1.2)	(1.8)	(2.2)	(2.7)	(3.3)	(3.5)
M2(YoY%)	14.2	13.6	13.2	13.3	12.1	13.2	13.4	14.7	13.5	12.8	12.9	12.6	12.3	12.2	12.6
New Lending (RMB/bn)	624.6	482.5	1,320	644.5	1,050	774.7	870.8	1080	385.2	702.5	857.2	548.3	852.7	697.3	1400.0
Aggregate Financing (RMB bn)	1,226.9	1,232.2	2,580	938.7	2,081.3	1,550	1,400	1,970	273.7	957.7	1135.5	662.7	1,146.3	1690.0	2860.4

\* Forecast (Excluding PMI - Manufacturing and PMI - Non-manufacturing)

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	0.25	0.00	
DJIA	17,164.95	0.00	15.45	NYMEX WTI	USD/bbl	47.03	(2.51)	343,366	US Prime Rate	3.25	0.00
S&P 500	1,994.99	0.00	17.57	ICE Brent Oil	USD/bbl	51.61	(2.60)	267,550	US Discount Window	0.75	0.00
NASDAQ	4,635.24	0.00	33.32	NYMEX Natural Gas	USD/MMBtu	2.68	(0.52)	80,917	US Treasury (1 Yr)	0.1421	0.51
MSCI US	1,907.32	0.00	17.98	Australia Newcastle Steam Coal Spot fob <sup>2</sup>	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (5Yr)	1.1741	1.93
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (10 Yr)	1.6626	2.19	
FTSE 100	6,749.40	0.00	19.54	LME Aluminum Cash	USD/MT	1,853.75	0.00	22,913	Japan 10-Yr Gov. Bond	0.2830	0.50
DAX	10,694.32	0.00	17.63	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,864.00	0.00	36,498	China 10-Yr Gov. Bond	3.5100	3.00
CAC40	4,604.25	0.00	27.08	CMX Copper Active	USD/lb.	5,542.00	0.00	11,212	ECB Rate (Refinancing)	0.05	0.00
IBEX 35	10,403.30	0.00	21.57	LME Copper 3- mth Rolling Fwd.	USD/MT	5,495.00	0.00	61,548	1-Month LIBOR	0.1713	0.35
FTSE MIB	20,503.38	0.00	N/A	<b>Precious Metals</b>				3 Month LIBOR	0.2531	(0.30)	
Stoxx 600	367.05	0.00	22.66	CMX Gold	USD/T. oz	1,280.70	0.12	139,946	O/N SHIBOR	2.8890	7.60
MSCI UK	1,983.41	0.00	19.39	CMX Silver	USD/T. oz	17.17	(0.25)	43,321	1-mth SHIBOR	5.0480	3.80
MSCI France	129.95	0.00	28.37	NYMEX Platinum	USD/T. oz	1,236.90	(0.10)	11,323	3-mth HIBOR	0.3850	(0.14)
<b>Asia</b>				<b>Agricultural Products</b>				Corporate Bonds (Moody's)			
NIKKEI 225	17,600.18	(0.42)	20.30	CBOT Corn	USD/bu	368.00	(0.54)	153,213	Aaa	3.35	(4.00)
S&P/ASX 200	5,632.20	0.79	19.47	CBOT Wheat	USD/bu	501.00	(0.35)	63,171	Baa	4.35	(6.00)
HSI	24,438.50	(0.28)	10.33	NYB-ICE Sugar	USD/lb.	14.79	0.00	71,388	Note:		
HSCEI	11,556.19	(1.40)	8.15	CBOT Soybeans	USD/bu.	957.75	(0.34)	99,842	1. Data sources: Bloomberg, National Bureau of Statistics of China, ABCIS (updated on date of report)		
CSI300	3,404.77	(0.86)	15.00					2. Australia Newcastle Steam Coal Spot fob is the Australia Newcastle 6700 kc GAD fob Steam Coal Spot price published by McCloskey			
SSE Composite	3,173.08	(1.16)	15.19								
SZSE Composite	1,513.35	0.06	36.65								
MSCI China	67.64	0.00	10.19								
MSCI Hong Kong	13,190.99	0.00	10.84								
MSCI Japan	870.19	0.00	15.75								

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.1313	1.5082	0.7774	117.70	0.9257	6.2488	7.7540	6.3955
Chg. WTD (%)	0.19	0.15	0.15	(0.18)	(0.59)	0.03	(0.03)	(0.01)



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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 2009-2013

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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