農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Economics Weekly
November 2, 2015

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October PMI stayed flat

China's manufacturing PMI for October stayed flat at 49.8%, which was below the market expectation. The slow recovery in PMI indicates that China's manufacturing sector remains stagnant. Non-manufacturing PMI for October fell slightly to 53.1% from 53.4% in September, indicating expansion in the services sector moderated. Although there are signs of increased activities in the manufacturing sector, China's factories are still facing weak demand, raising concern of a prolonged economic slowdown. In general, we believe a rise in overall new orders pointed to a steadying market demand. We expect China's economic indicators to improve over the next few months.

PMI of medium-sized enterprises improved. PMI of medium-sized enterprises (48.7% in October vs. 48.5% in September) edged up, signaling continued improvement in manufacturing activities. However, PMI of small-sized enterprises (46.6% in October vs. 46.8% in September) weakened further, reflecting continuous contraction of manufacturing activities. We believe more government support for small-sized enterprises are needed to lift growth in coming months.

Pricing pressure weakens further. With the stagnation in economic activities and stable growth in food prices, we believe CPI inflation for October will edge down to 1.5% YoY. The start of a restocking cycle by domestic and overseas retailers should enhance manufacturers' pricing power. Hence, decline in October's PPI is expected to narrow to 5.4% YoY.

External trade remains weak. The New Export Order Index and the New Import Order Index, the sub-indices of the manufacturing PMI, reached 47.4% and 47.5% in October, as opposed to 47.9% and 48.1% in September, reflecting persisting contraction in the external trade sector. For October, we forecast exports and imports to contract by 1.2% YoY and 8.5% YoY respectively. Trade balance is estimated to be US$ 56.6bn.

FAI growth to climb slowly. Improvement in the manufacturing sector is expected to lift growth in FAI. Surging investment in infrastructure and railways will help reverse the downtrend in FAI dragged down by the low single-digit growth in real estate investment. Hence, we expect FAI in October to accelerate, with its YTD growth reaching 10.5% YoY.

Industrial production is likely to stay flat. Production Index, the sub-index of the manufacturing PMI, edged down slightly to 52.2% in October from 52.3% in September. We believe the stabilizing PMI and narrowing decline in producer prices signal that industrial output will likely stabilize. We expect industrial production for October to grow by 5.7% YoY and will continue to improve later this year.

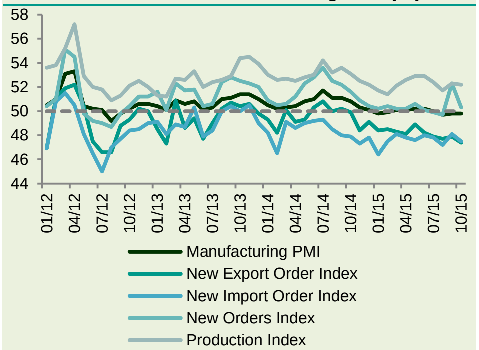
Retail sales will improve steadily. Improvement in retail sales is expected to broaden as the economy recovers. October retail sales will grow by 11.2% YoY, driven by the Golden Week holiday. Consumption is trending up, and demand for consumer discretionary and staples will continue to climb.

Exhibit 1: October economic indicators

YoY% or otherwise specified	Oct'15*	Sept'15
Manufacturing PMI(%)	49.8	49.8
Non-Manufacturing PMI (%)	53.1	53.4
CPI	1.5	1.6
PPI	(5.4)	(5.9)
Exports	(1.2)	(3.7)
Imports	(8.5)	(20.4)
Trade Balance (US$/bn)	56.6	60.3
FAI (YTD%)	10.5	10.3
Industrial production	5.7	5.7
Retail Sales	11.2	10.9
M2	13.1	13.1
New loans (RMB/bn)	900.0	1,050
Aggregate financing (RMB/bn)	816.8	1,300

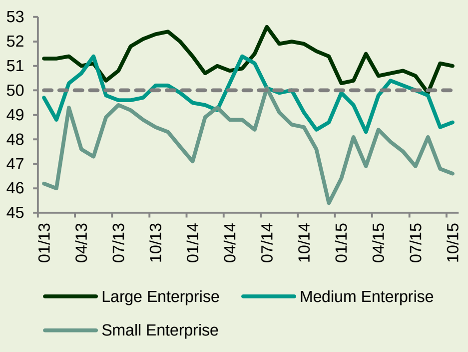
* Forecast (excluding Manufacturing PMI and Non-Manufacturing PMI)
Source(s): NBS, PBOC, Bloomberg, ABCI Securities estimates

Exhibit 2: China's manufacturing PMI (%)



Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 3: PMI for medium enterprises rebounded (%)



Source(s): NBS, Bloomberg, ABCI Securities

New loans, M2 growth and aggregate financing will rise steadily on credit loosening measures. PBOC's interest rate cut of 25 bps and RRR cut of 50 bps in October has stimulated loan demand, which in turn would boost economic activities. Hence, we believe monetary indicators for October will pick up. New bank loans will rise to RMB 900bn; aggregate financing will reach RMB 816.8bn and M2 growth will reach 13.1% YoY.

China Economic Indicators

	2014						2015									
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct*
Real GDP (YoY%)	--	---	7.3	---	---	7.3	---	---	7.0	---	---	7.0	---	---	6.9	--
Export Growth (YoY%)	14.5	9.4	15.3	11.6	4.7	9.7	(3.2)	48.3	(15.0)	(6.4)	(2.5)	2.8	(8.3)	(5.5)	(3.7)	(1.2)
Import Growth (YoY%)	(1.6)	(2.4)	7.0	4.6	(6.7)	(2.4)	(19.7)	(20.5)	(12.7)	(16.2)	(17.6)	(6.1)	(8.1)	(13.8)	(20.4)	(8.5)
Trade Balance (USD/bn)	47.3	49.8	30.9	45.4	54.5	49.6	60.0	60.6	3.1	34.1	59.49	46.6	43.0	60.2	60.3	56.6
Retail Sales Growth (YoY%)	12.2	11.9	11.6	11.5	11.7	11.9	10.7		10.2	10.0	10.1	10.6	10.5	10.8	10.9	11.2
Industrial Production (YoY%)	9.0	6.9	8.0	7.7	7.2	7.9	6.8		5.6	5.9	6.1	6.8	6.0	6.1	5.7	5.7*
PMI - Manufacturing (%)	51.7	51.1	51.1	50.8	50.3	50.1	49.8	49.9	50.1	50.1	50.2	50.2	50.0	49.7	49.8	49.8*
PMI - Non-manufacturing (%)	54.2	54.4	54.0	53.8	53.9	54.1	53.7	53.9	53.7	53.4	53.2	53.8	53.9	53.4	53.4	53.1
FAI(YTD) (YoY%)	17.0	16.5	16.1	15.9	15.8	15.7	13.9		13.5	12.0	11.4	11.4	11.2	10.9	10.3	10.5
CPI (YoY%)	2.3	2.0	1.6	1.6	1.4	1.5	0.8	1.4	1.4	1.5	1.2	1.4	1.6	2.0	1.6	1.5
PPI (YoY%)	(0.9)	(1.2)	(1.8)	(2.2)	(2.7)	(3.3)	(4.3)	(4.8)	(4.6)	(4.6)	(4.6)	(4.8)	(5.4)	(5.9)	(5.9)	(5.4)
M2(YoY%)	13.5	12.8	12.9	12.6	12.3	12.2	10.8	12.5	11.6	10.1	10.8	11.8	13.3	13.3	13.1	13.1
New Lending (RMB/bn)	385.2	702.5	857.2	548.3	852.7	697.3	1,470	1,020	1,180	707.9	900.8	1,280.6	1,480	809.6	1,050	900
Aggregate Financing (RMB bn)	273.7	957.7	1,135.5	662.7	1,146.3	1,690	2,047	1,356	1,241	1,056	1,236	1,833	742	1,082	1,300	816.8

** Forecast (excluding Manufacturing PMI and Non-Manufacturing PMI)*

World Economic/Financial Indicators

Equity Indices

	Closing price	Chg. WTD (%)	P/E
U.S.			
DJIA	17,663.54	0.00	15.84
S&P 500	2,079.36	0.00	18.58
NASDAQ	5,053.75	0.00	28.45
MSCI US	1,984.46	0.00	19.28
Europe			
FTSE 100	6,332.52	(0.45)	26.19
DAX	10,830.74	(0.18)	19.79
CAC40	4,879.91	(0.36)	22.27
IBEX 35	10,301.70	(0.57)	18.58
FTSE MIB	22,384.54	(0.26)	N/A
Stoxx 600	374.37	(0.29)	23.51
MSCI UK	1,857.26	0.00	27.09
MSCI France	137.70	0.00	22.64
MSCI Germany	142.06	0.00	19.61
MSCI Italy	64.54	0.00	N/A
Asia			
NIKKEI 225	18,683.24	(2.10)	18.97
S&P/ASX 200	5,165.75	(1.41)	18.83
HSI	22,370.04	(1.19)	9.77
HSCEI	10,240.33	(1.50)	7.54
CSI300	3,475.96	(1.64)	14.40
SSE Composite	3,325.08	(1.70)	17.39
SZSE Composite	1,987.97	(1.33)	40.23
MSCI China	62.38	0.00	9.79
MSCI Hong Kong	12,412.04	0.00	9.95
MSCI Japan	949.12	0.00	16.06

* As of 12:00 AM closing

Global Commodities

	Unit	Price	Chg. WTD (%)	Volume (5-day avg.)
Energy				
NYMEX WTI	USD/bbl	46.03	(1.20)	398,849
ICE Brent Oil	USD/bbl	49.09	(0.95)	239,241
NYMEX Natural Gas	USD/MMBtu	2.26	(2.67)	112,637
Australia Newcastle Steam Coal Spot fob[2]	USD/Metric Tonne	61.80	N/A	N/A
BasicMetals				
LME Aluminum Cash	USD/MT	1,447.25	0.00	25,691
LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,478.50	0.00	34,478
CMX Copper Active	USD/lb.	5,131.00	0.00	7,328
LME Copper 3- mth Rolling Fwd.	USD/MT	5,112.00	0.00	36,890
Precious Metals				
CMX Gold	USD/T. oz	1,139.00	(0.21)	128,522
CMX Silver	USD/T. oz	15.42	(0.94)	45,406
NYMEX Platinum	USD/T. oz	977.20	(1.20)	10,241
Agricultural Products				
CBOT Corn	USD/bu	381.25	(0.26)	171,599
CBOT Wheat	USD/bu	522.00	0.00	88,531
NYB-ICE Sugar	USD/lb.	14.64	0.83	56,441
CBOT Soybeans	USD/bu.	887.50	0.20	126,204

Bond Yields & Key Rates

	Yield (%)	Chg. WTD (Bps)
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 Yr)	0.0000	0.00
US Treasury (5Yr)	1.5431	2.46
US Treasury (10 Yr)	2.1655	2.34
Japan 10-Yr Gov. Bond	0.3160	0.70
China 10-Yr Gov. Bond	3.0800	0.00
ECB Rate (Refinancing)	0.05	0.00
1-Month LIBOR	0.1920	(0.15)
3 Month LIBOR	0.3341	1.12
O/N SHIBOR	1.7930	(0.50)
1-mth SHIBOR	2.7550	(0.95)
3-mth HIBOR	0.3781	(0.22)
Corporate Bonds (Moody's)		
Aaa	4.04	11.00
Baa	5.40	8.00

Note:
1. Data sources: Bloomberg, 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

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.1023	1.5432	0.7142	120.65	0.9875	6.3374	7.7501	6.5060
Chg. WTD (%)	0.15	0.03	0.06	(0.02)	0.04	(0.32)	0.01	(0.17)

Disclosures

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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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