



# Economics Weekly November 5, 2013

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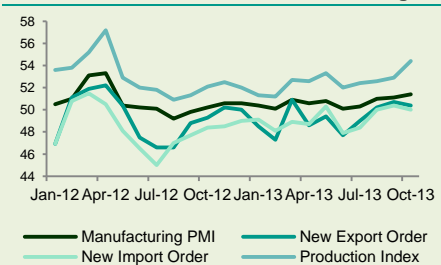
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**Exhibit 1: ABCIS's estimates of economic indicators for October 2013**

YoY% or otherwise specified	Oct 2013E	Sep 2013	Bloomberg Consensus
CPI	3.1	3.1	3.2
PPI	(1.0)	(1.3)	(1.4)
Exports	2.3	(0.3)	1.5
Imports	7.2	7.4	7.4
Trade Balance (US\$/bn)	25.7	15.2	24.3
FAI (YTD%)	20.3	20.2	20.2
Industrial production	10.1	10.2	10.0
Retail Sales	13.6	13.3	13.4
M2	14.2	14.2	14.2
New loans (RMB/bn)	600	787	600

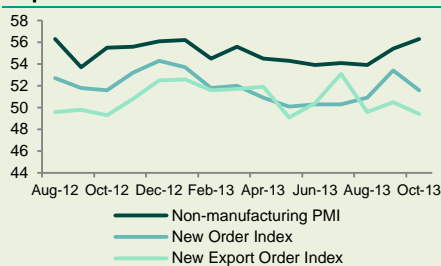
Source(s): Bloomberg, ABCI Securities estimates

**Exhibit 2: China's Manufacturing PMI in October 2013 recorded an 18-month high**



Source(s): National Bureau of Statistics, China Federation of Logistics & Purchasing, Fung Business Intelligence Center

**Exhibit 3: China's Non-manufacturing PMI improved in October 2013**



Source(s): National Bureau of Statistics, China Federation of Logistics & Purchasing

## October Data Preview – Clean bill of health expected

China's manufacturing PMI and non-manufacturing PMI in October were 51.4 and 56.3 - the best readings so far this year. The improving PMI data convinced us that China's economy has reached the escape velocity to avoid a hard landing. We believe China's economic data in October will continue to be boosted further by the government's effort to enhance growth as well as the improving global economy.

**International trade is navigating steadily through a challenging environment.** In October, the New Export Order Index and the New Import Order Index (sub-indices of the manufacturing PMI) reverted slightly towards 50, the dividing line between expansion and contraction. However, demand from the developed markets, especially the U.S., have been picking up as a result of the economic recovery and seasonal effect. Domestic demand in China has been consistently strong. Therefore, we expect export growth, import growth, and trade balance in October to be 2.3% YoY, 7.2% YoY, and US\$ 25.7 bn.

**FAI growth is likely to maintain its current pace.** Entering the 4Q, the pace of FAI investment will accelerate since more projects will be delivered. We believe that FAI demand has remained strong in October, as indicated by the New Order Index and New Order Index of the Construction Industry (sub-indices of non-manufacturing PMI) that remained above the 50 level. Our projection for YTD FAI growth in October is 20.3% YoY.

**Industrial production will grow steadily.** As the manufacturing sector is picking up, industrial production should also exhibit a healthy growth, despite that the Golden Week Holiday may reduce some of its gain. We expect industrial production to grow at 10.1% YoY in October.

**Inflationary pressure will persist.** The CPI in September was higher than expected. For October, we expect average food price prices, especially vegetable prices, will continue to trend up due to recent weather conditions and rising logistics costs. On the other hand, energy prices is unlikely to drive up inflation in the near term as international energy prices are trading in lower range while supplies are piling up. Moreover, the improving external conditions will help support the PPI. We expect the CPI and PPI to be 3.1% YoY and -1% YoY.

**Retail sales will surge in October.** The Golden Week Holiday is usually the catalyst for October's retail sales since consumers tend to spend more on shopping, traveling, and other leisure activities during the holiday. With the improving economic landscape fueling the momentum, we expect retail sales in October to grow by 13.6% YoY.

**M2 growth will be stable while new loans will drop.** In October, SHIBOR has been increasing, confirming our view that prudent monetary policies are likely to continue in China. The tightening liquidity has already led to more stringent control over loan issuance. Therefore, we believe the new loan and M2 growth to be RMB 600 billion and 14.2% YoY.



China Economic Indicators

	2012			2013									
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct*
Real GDP (YoY%)	---	---	7.9	---	---	7.7	---	---	7.5	---	---	7.8	---
Export Growth (YoY%)	11.6	2.9	14.1	25.0	21.8	10.0	14.7	1.0	(3.1)	5.1	7.2	(0.3)	2.3
Import Growth (YoY%)	2.4	0	6	28.8	(15.2)	14.1	16.8	(0.3)	(0.7)	10.9	7.0	7.4	7.2
Trade Balance (USD/bn)	32.11	19.63	31.6	29.2	15.3	(0.9)	18.2	20.4	27.1	17.8	28.5	15.2	25.7
Retail Sales Growth (YoY%)	14.5	14.9	15.2		12.3	12.6	12.8	12.9	13.3	13.2	13.4	13.3	13.6
Industrial Production (YoY%)	9.6	10.1	10.3		9.9	8.9	9.3	9.2	8.9	9.7	10.4	10.2	10.1
PMI - Manufacturing (%)	50.2	50.6	50.6	50.4	50.1	50.9	50.6	50.8	50.1	50.3	51.0	51.1	51.4
PMI - Non-manufacturing (%)	55.5	55.6	56.1	56.2	54.5	55.6	54.5	54.3	53.9	54.1	53.9	55.4	56.3
FAI(YTD) (YoY%)	20.7	20.7	20.6		21.2	20.9	20.6	20.4	20.1	20.1	20.3	20.2	20.3
CPI (YoY%)	1.7	2	2.4	2.0	3.2	2.1	2.4	2.1	2.7	2.7	2.6	3.1	3.1
PPI (YoY%)	(2.8)	(2.2)	(1.9)	(1.6)	(1.6)	(1.9)	(2.6)	(2.9)	(2.7)	(2.3)	(1.6)	(1.3)	(1.0)
M2 (YoY%)	14.1	13.9	13.8	15.9	15.2	15.7	16.1	15.8	14.0	14.5	14.7	14.2	14.2
New Lending (RMB/bn)	505.2	522.9	454.3	1070.0	620.0	1060.0	792.9	667.4	860.5	699.9	711.3	787.0	600

\*ABCIS estimates (excluding PMI - Manufacturing and PMI - Non - Manufacturing)

World Economic/Financial Indicators

Equity Indices				Global Commodities				Bond Yields & Key Interest Rates			
	Closing price	Chg. WTD (%)	P/E	Unit	Price	Chg. WTD (%)	Volume (5-day avg.)		Yield (%)	Chg. WTD (%)	
<b>U.S.</b>				<b>Energy</b>							
DJIA	15,639.12	0.15	15.17	NYMEX WTI	USD/bbl	94.51	(0.11)	241,606	US Fed Fund Rate	0.25	0.00
S&P 500	1,767.93	0.36	16.77	ICE Brent Oil	USD/bbl	106.14	0.22	237,519	US Prime Rate	3.25	0.00
NASDAQ	3,936.59	0.37	23.55	NYMEX Natural Gas	USD/MMBtu	3.42	(2.68)	86,290	US Discount Window	0.75	0.00
MSCI US	1,691.63	0.35	16.96	Australia Newcastle Steam Coal Spot fob <sup>2</sup>	USD/Metric Tonne	80.60	N/A	N/A	US Treasury (1 Mth)	0.0456	124.6
<b>Europe</b>				<b>Basic Metals</b>							
FTSE 100	6,758.54	0.35	20.66	LME Aluminum Cash	USD/MT	1,776.25	(1.28)	29,077	US Treasury (5 Yr)	1.3622	(0.71)
DAX	9,029.01	0.24	16.37	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,822.00	(1.14)	32,016	US Treasury (10 Yr)	2.6109	(0.42)
CAC40	4,283.10	0.23	18.61	CMX Copper Active	USD/lb.	325.95	(1.18)	53,989	Japan 10-Yr Gov. Bond	0.6010	0.33
IBEX 35	9,843.00	0.05	55.21	LME Copper 3- mth Rolling Fwd.	USD/MT	7,149.00	(1.33)	48,161	China 10-Yr Gov. Bond	4.0700	0.74
FTSE MIB	19,284.21	0.63	181.6	TSI CFR China Iron Ore Fines Index <sup>3</sup>	USD	135.80	0.37	N/A	ECB Rate (Refinancing)	0.50	0.00
Stoxx 600	322.52	0.32	20.99	<b>Precious Metals</b>							
MSCI UK	1,998.92	0.42	20.51	CMX Gold	USD/T. oz	1,311.40	(0.14)	130,248	1-Month LIBOR	0.1821	0.00
MSCI France	119.43	0.35	22.13	CMX Silver	USD/T. oz	21.67	(0.79)	39,194	3 Month LIBOR	0.2381	0.15
MSCI Germany	124.22	0.34	15.44	NYMEX Platinum	USD/T. oz	1,452.50	0.04	9,426	O/N SHIBOR	3.9147	(8.71)
MSCI Italy	55.72	0.81	78.63	<b>Agricultural Products</b>							
<b>Asia</b>				CBOT Corn	USD/bu	426.00	(0.29)	172,599	3-Month HIBOR	0.3829	(0.56)
NIKKEI 225	14,225.37	0.17	21.33	CBOT Wheat	USD/bu	663.00	(0.71)	56,283	Corporate Bonds (Moody's)		
S&P/ASX 200	5,431.96	0.39	22.71	NYB-ICE Sugar	USD/lb.	18.34	0.49	48,621	Aaa	4.54	2.25
HSI	23,038.95	(0.91)	10.44	CBOT Soybeans	USD/bu.	1,262.00	0.84	100,301	Baa	5.29	1.93
HSCEI	10,637.15	(0.39)	7.94								
CSI300	2,383.77	(0.05)	11.13								
SSE Composite	2,157.24	0.36	10.80								
SZSE Composite	1,034.61	1.73	28.05								
MSCI China	62.30	(0.27)	9.77								
MSCI Hong Kong	12,163.56	(0.27)	11.01								
MSCI Japan	730.62	0.00	16.46								

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

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-Mth
Spot Rate	1.3488	1.5979	0.9475	98.24	0.9120	6.1005	7.7515	6.1565
Chg. WTD (%)	0.01	0.33	0.39	0.44	0.03	(0.02)	0.01	0.08



## 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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