



# Economics Weekly September 4, 2013

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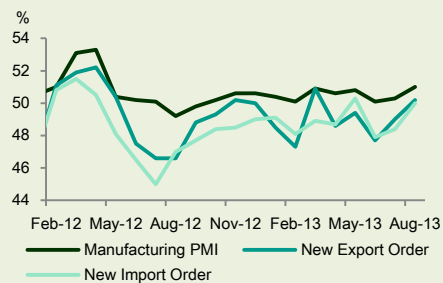
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**Exhibit 1: Estimates of Economic indicators for August 2013**

YoY% or otherwise specified	August 2013 (Estimates)	July 2013	Consensus
CPI	2.8	2.7	2.6
PPI	(1.8)	(2.3)	(1.7)
Exports	10.5	5.1	5.3
Imports	13.5	10.9	10.5
Trade Balance (US\$/bn)	24.9	17.8	20.0
FAI (YTD%)	20.3	20.1	20.2
Industrial production	10.0	9.7	9.9
Retail Sales	13.6	13.2	13.3
M2	14.6	14.5	14.5
New loans (RMB/bn)	750	699.9	710

Source(s): Bloomberg, ABCI Securities estimates

**Exhibit 2: China's Manufacturing PMI improved in August 2013**



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

## PMI forebodes well for August data

Signals of China's economic recovery remain affirmative. The official manufacturing PMI in August was 51, the highest since August 2012 and exceeded consensus estimate of 50.6. We believe that the series of economic data to be released for August will also point to a more optimistic outlook. As the economy continues to improve, we believe that Chinese leaders will roll out more reform measures to restore growth.

**PMI continues to indicate expansion in China's manufacturing sector.** Increases in the Manufacturing PMI is reflected by the across-the-board improvements in all sub-indices. New Orders Index, Production Index, Purchase Quantity Index, Main Raw Material Purchase Price Index, and Supplier Delivery Time Index rose above 50. The expansion in manufacturing sector was supported by the improving external environment and domestic demand. The HSBC Manufacturing PMI also rose to 50.1 in August after declining for four consecutive months. PMI for enterprises of different sizes, however, showed that performance of the small companies had been lagging behind their medium and large counterparts. We expect the government will continue to promote policies to support small and medium enterprises.

**Inflation will remain at manageable levels.** Although the economy and demand are picking up, a significant surge in inflation is unlikely in the short term as economic slowdown in 1H13 is still exerting some cooling impact. Average prices of different varieties of food suggest no imminent upward pressure in most of the food categories, according to the National Bureau of Statistics of China. In addition, as the central and local governments continue to curb spending and promote efficiency, government consumption will remain modest and hence keeping inflation under control. For August, we expect CPI will rise to 2.8% YoY, and PPI will improve to -1.8% YoY.

**Exports and imports will edge up.** Exports and imports are expected to improve in August. Exports will be driven by the turnaround in the U.S. and European economies, while imports will increase on China's rising domestic demand. The government's commitment to new initiatives such as "Broadband China", in addition to the recovering manufacturing activities, will stimulate demand for industrial inputs. Within the PMI, the New Export Order Index and New Import Order Index both rose to above 50, suggesting improvement in the trade sector. We estimate growth of exports and imports for August will reach 10.5% YoY and 13.5% YoY, respectively. Our forecasted trade balance will be US\$ 24.9 billion.

**Improved economic data will reignite optimism on China's economy.** Given that PMI has been trending up, FAI, retail sales and industrial production would improve in a steady pace with the government's intent to rebalance growth. Overall, the August PMI suggests that China's economy has stabilized and recovery is likely to accelerate for the rest of the year.



China Economic Indicators

	2012					2013							
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug*
Real GDP (YoY%)	---	7.4	---	---	7.9	---	---	7.7	---	---	7.5	---	---
Export Growth (YoY%)	2.7	9.9	11.6	2.9	14.1	25.0	21.8	10.0	14.7	1.0	(3.1)	5.1	10.5
Import Growth (YoY%)	(2.6)	2.4	2.4	0	6	28.8	(15.2)	14.1	16.8	(0.3)	(0.7)	10.9	13.5
Trade Balance (USD/bn)	26.43	27.45	32.11	19.63	31.6	29.2	15.3	(0.9)	18.2	20.4	27.1	17.8	24.9
Retail Sales Growth (YoY%)	13.2	14.2	14.5	14.9	15.2		12.3	12.6	12.8	12.9	13.3	13.2	13.6
Industrial Production (YoY%)	8.9	9.2	9.6	10.1	10.3		9.9	8.9	9.3	9.2	8.9	9.7	10.0
PMI - Manufacturing (%)	49.2	49.8	50.2	50.6	50.6	50.4	50.1	50.9	50.6	50.8	50.1	50.3	51.0
PMI - Non-manufacturing (%)	56.3	53.7	55.5	55.6	56.1	56.2	54.5	55.6	54.5	54.3	53.9	54.1	53.9
FAI(YTD) (YoY%)	20.2	20.5	20.7	20.7	20.6		21.2	20.9	20.6	20.4	20.1	20.1	20.3
CPI (YoY%)	2	1.9	1.7	2	2.4	2.0	3.2	2.1	2.4	2.1	2.7	2.7	2.8
PPI (YoY%)	(3.5)	(3.6)	(2.8)	(2.2)	(1.9)	(1.6)	(1.6)	(1.9)	(2.6)	(2.9)	(2.7)	(2.3)	(1.8)
M2 (YoY%)	13.5	14.8	14.1	13.9	13.8	15.9	15.2	15.7	16.1	15.8	14.0	14.5	14.6
New Lending (RMB/bn)	703.9	623.2	505.2	522.9	454.3	1070.0	620.0	1060.0	792.9	667.4	860.5	699.9	750

\* August data are ABCI Securities estimates (except for PMI data)

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	14,833.96	0.16	14.21	NYMEX WTI	USD/bbl	108.17	0.48	277,789	US Fed Fund Rate	0.25	0.00
S&P 500	1,639.77	0.42	15.74	ICE Brent Oil	USD/bbl	115.79	1.56	221,069	US Prime Rate	3.25	0.00
NASDAQ	3,612.61	0.63	21.66	NYMEX Natural Gas	USD/MMBtu	3.67	2.74	88,597	US Discount Window	0.75	0.00
MSCI US	1,568.98	0.41	15.96	Australia Newcastle Steam Coal Spot fob <sup>2</sup>	USD/Metric Tonne	77.10	N/A	N/A	US Treasury (1 Mth)	0.0203	0.00
<b>Europe</b>				<b>Basic Metals</b>							
FTSE 100	6,447.17	0.53	19.02	LME Aluminum Cash	USD/MT	1,774.50	0.48	18,976	US Treasury (5 Yr)	1.6919	3.12
DAX	8,167.35	0.79	14.00	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,822.00	0.47	34,734	US Treasury (10 Yr)	2.8670	2.99
CAC40	3,954.06	0.52	16.90	CMX Copper Active	USD/lb.	325.75	1.01	23,519	Japan 10-Yr Gov. Bond	0.7750	7.64
IBEX 35	8,413.00	1.48	53.23	LME Copper 3- mth Rolling Fwd.	USD/MT	7,245.00	2.04	50,263	China 10-Yr Gov. Bond	4.0700	0.74
FTSE MIB	16,711.80	0.18	224.5	TSI CFR China Iron Ore Fines Index <sup>3</sup>	USD	138.70	0.73	N/A	ECB Rate (Refinancing)	0.50	0.00
Stoxx 600	300.95	1.22	20.21	<b>Precious Metals</b>							
MSCI UK	1,913.51	0.88	19.21	CMX Gold	USD/T. oz	1,404.80	0.62	159,611	1-Month LIBOR	0.1821	0.00
MSCI France	110.74	0.99	20.32	CMX Silver	USD/T. oz	23.89	1.80	38,062	3 Month LIBOR	0.2595	0.00
MSCI Germany	112.40	0.94	13.23	NYMEX Platinum	USD/T. oz	1,530.60	0.23	10,533	3-Month HIBOR	3.0050	(0.96)
MSCI Italy	48.82	1.45	80.10	<b>Agricultural Products</b>							
<b>Asia</b>				CBOT Corn	USD/bu	469.50	(2.59)	143,339	O/N SHIBOR	0.3829	(0.19)
NIKKEI 225	14,053.87	4.97	23.32	CBOT Wheat	USD/bu	635.75	(1.17)	12,909	Corporate Bonds (Moody's)		
S&P/ASX 200	5,161.64	0.52	20.90	NYB-ICE Sugar	USD/lb.	16.43	0.55	52,636	Aaa	4.49	(2.39)
HSI	22,326.22	2.74	10.23	CBOT Soybeans	USD/bu.	1,367.00	0.70	136,245	Baa	5.34	(2.73)
HSCEI	10,233.03	4.15	8.01								
CSI300	2,350.70	1.59	11.41								
SSE Composite	2,127.62	1.39	11.07								
SZSE Composite	1,023.81	2.72	28.92								
MSCI China	59.99	3.13	9.74								
MSCI Hong Kong	11,543.29	2.35	10.35								
MSCI Japan	711.68	3.96	18.53								

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	1.32	1.56	0.91	99.61	0.94	6.12	7.76	6.23
Chg. WTD (%)	(0.43)	0.53	2.70	(1.45)	(0.79)	0.02	(0.01)	0.05



## 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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