



# Economics Weekly August 27, 2014

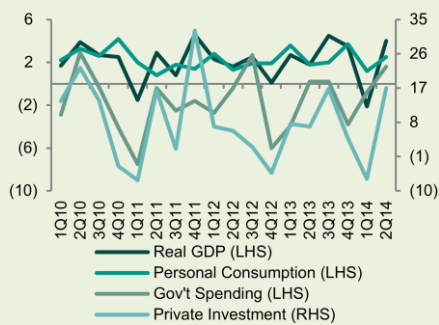
## Co-head of Research

Banny Lam  
Tel: 852-21478863  
Email: bannylam@abci.com.hk

## Analyst

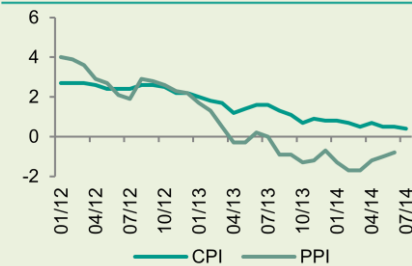
Paul Pan  
Tel: 852-21478829  
Email: paulpan@abci.com.hk

**Exhibit 1: U.S. economic growth (QoQ %, saar)**



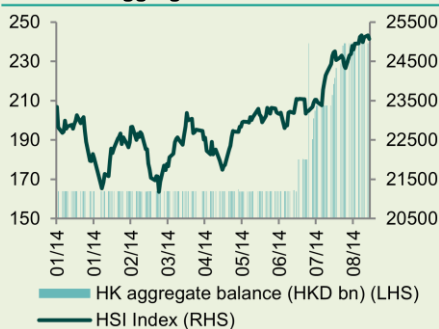
Source(s): Bloomberg, ABCI Securities

**Exhibit 2: Eurozone inflation (YoY %)**



Source(s): Bloomberg, ABCI Securities

**Exhibit 3: Aggregate balance and HSI**



Source(s): Bloomberg, ABCI Securities

## Global economy: Diverging policy outlook

The global economy is strengthening, though the recovery remains uneven. Ongoing divergence of recovery momentum is contributing to marked variations in economic conditions and international monetary policies outlook across different economies. The U.S. Fed Chair Janet Yellen hinted in her recent Jackson Hole address that the timeline for interest-rate hike could be brought forward. In contrast, recent economic developments in Eurozone raise concerns of further economic slowdown, increasing the chance of outright QE being delivered. Although U.S.'s QE program is approaching an end, global liquidity remains abundant amid strong economic growth in the U.S. and further credit loosening in Eurozone. China's economic data for July lacked luster, and more stimulus measures may be deployed to sustain economic recovery. With rising confidence driven by better growth prospects amid the launch of Shanghai-Hong Kong mutual stock market access and reforms of SOEs, investors will likely increase asset allocations within the China and Hong Kong markets.

### Interest-rate hike in the U.S. hinges on labor market conditions.

Recovery in the U.S. has been accelerating. Based on the Fed's "forward guidance", rates will stay near zero for a considerable period of time, offering risk-taking almost free leverage. The corresponding threat of ascending financial instability commands increased central bank cooperation to normalize monetary policy as economic growth returns to a more regular path. It is expected that the Fed will exit QE program in October and start raising interest rates as the next step of normalizing credit policy. Fed chair Janet Yellen hinted that interest-rate hike has been in the Fed's agenda but stronger hiring and wages are still needed to drive sustainable recovery in the U.S. Hence, we expect the interest-rate hike cycle will commence in 1Q15.

### Deflationary risk overclouds Europe.

Deflationary pressure and weak economic recovery become the major risks in Eurozone, partly because of ECB's limited policy responses that include the zero lower bound on nominal interest rates. Adoption of mildly negative deposit rates is unlikely to be transmitted into a meaningful stimulus to the real economy. More pronounced deflationary pressure induced by continued deterioration in the Eurozone would force ECB to launch QE. Indeed, we believe the ECB will initiate QE in the near term to stimulate economic growth and avoid deflation.

### China's economic recovery still on track.

Policymakers have been enacting a set of mini-stimulus measures to restore growth impetus. Also, the rollout of stimulus for the agriculture sector and micro and small sized enterprises (MSEs) help improve sentiment in the manufacturing sector. The economy, however, still faces downward pressure resulting from flagging domestic demand, as indicated by July's economic indicators. In our view, more monetary and fiscal stimuli will be launched in 2H14. Moreover, China's recovery story and the launch of Shanghai-Hong Kong mutual stock market access will be positive catalysts attracting global liquidity into the China and Hong Kong markets.



China Economic Indicators

	2013							2014						
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Real GDP (YoY%)	7.5	---	---	7.8	---	---	7.7	---	---	7.4	---	--	7.5	--
Export Growth (YoY%)	(3.1)	5.1	7.2	(0.3)	5.6	12.7	5.8	10.6	(18.1)	(6.6)	0.9	7.0	7.2	14.5
Import Growth (YoY%)	(0.7)	10.9	7.0	7.4	7.6	5.3	6.5	10.0	10.1	(11.3)	0.8	(1.6)	5.5	(1.6)
Trade Balance (USD/bn)	27.1	17.8	28.5	15.2	31.1	33.8	32.3	31.9	(23.0)	7.7	18.5	35.9	31.6	47.3
Retail Sales Growth (YoY%)	13.3	13.2	13.4	13.3	13.3	13.7	13.6	11.8		12.2	11.9	12.5	12.4	12.2
Industrial Production (YoY%)	8.9	9.7	10.4	10.2	10.3	10.0	9.7	8.6		8.8	8.7	8.8	9.2	9.0
PMI - Manufacturing (%)	50.1	50.3	51.0	51.1	51.4	51.4	51.0	50.5	50.2	50.3	50.4	50.8	51.0	51.7
PMI - Non-manufacturing (%)	53.9	54.1	53.9	55.4	56.3	56.0	54.6	53.4	55.0	54.5	54.8	55.5	55.0	54.2
FAI(YTD) (YoY%)	20.1	20.1	20.3	20.2	20.1	19.9	19.6	17.9		17.6	17.3	17.2	17.3	17.0
CPI (YoY%)	2.7	2.7	2.6	3.1	3.2	3.0	2.5	2.5	2.0	2.4	1.8	2.5	2.3	2.3
PPI (YoY%)	(2.7)	(2.3)	(1.6)	(1.3)	(1.5)	(1.4)	(1.4)	(1.6)	(2.0)	(2.3)	(2.0)	(1.4)	(1.1)	(0.9)
M2(YoY%)	14.0	14.5	14.7	14.2	14.3	14.2	13.6	13.2	13.3	12.1	13.2	13.4	14.7	13.5
New Lending (RMB/bn)	860.5	699.9	711.3	787.0	506.1	624.6	482.5	1,320	644.5	1,050	774.7	870.8	1080	385.2
Aggregate Financing (RMB bn)	1,037.5	819.1	1,584	1,411.3	864	1,226.9	1,232.2	2,580	938.7	2,081.3	1,550	1,400.0	1,970	273.1

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	17,106.70	0.62	15.65	NYMEX WTI	USD/bbl	94.11	0.49	150,878	US Prime Rate	3.25	0.00
S&P 500	2,000.02	0.58	17.97	ICE Brent Oil	USD/bbl	102.68	0.38	142,215	US Discount Window	0.75	0.00
NASDAQ	4,570.64	0.71	44.23	NYMEX Natural Gas	USD/MMBtu	3.96	2.99	72,661	US Treasury (1 Mth)	0.0152	(0.51)
MSCI US	1,913.46	0.58	18.40	Australia Newcastle Steam Coal Spot fob <sup>2</sup>	USD/Metric Tonne	69.50	N/A	N/A	US Treasury (5 Yr)	1.6431	(1.66)
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (10 Yr)	2.3785	(2.39)	
FTSE 100	6,824.72	0.73	17.07	LME Aluminum Cash	USD/MT	2,071.75	0.67	13,709	Japan 10-Yr Gov. Bond	0.4980	(1.20)
DAX	9,581.15	2.59	17.73	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	2,083.00	0.97	42,174	China 10-Yr Gov. Bond	4.2700	1.00
CAC40	4,389.86	3.22	26.69	CMX Copper Active	USD/lb.	7,062.50	(0.33)	13,379	ECB Rate (Refinancing)	0.15	0.00
IBEX 35	10,861.00	3.44	21.47	LME Copper 3- mth Rolling Fwd.	USD/MT	7,054.00	(0.31)	45,771	1-Month LIBOR	0.1550	(0.05)
FTSE MIB	20,687.78	3.86	222.3	TSI CFR China Iron Ore Fines Index <sup>3</sup>	USD	88.90	(1.33)	N/A	3 Month LIBOR	0.2384	0.63
Stoxx 600	343.17	1.91	20.70	<b>Precious Metals</b>				O/N SHIBOR	2.8610	1.80	
MSCI UK	2,014.07	0.67	17.08	CMX Gold	USD/T. oz	1,285.60	0.42	95,589	1-mth SHIBOR	4.1780	(2.59)
MSCI France	122.79	3.12	27.71	CMX Silver	USD/T. oz	19.49	0.16	21,373	3-mth HIBOR	0.3643	0.22
MSCI Germany	127.81	2.51	17.83	NYMEX Platinum	USD/T. oz	1,422.90	0.31	9,149	Corporate Bonds (Moody's)		
MSCI Italy	59.85	3.58	221.5	<b>Agricultural Products</b>				Aaa	4.01	(2.00)	
<b>Asia</b>				CBOT Corn	USD/bu	364.50	(1.88)	137,393	Baa	4.64	(2.00)
NIKKEI 225	15,534.82	(0.03)	20.30	CBOT Wheat	USD/bu	557.00	(0.93)	58,768			
S&P/ASX 200	5,651.18	0.10	18.66	NYB-ICE Sugar	USD/lb.	15.88	1.53	44,992			
HSI	24,918.75	(0.77)	10.90	CBOT Soybeans	USD/bu.	1,032.00	(0.96)	95,763			
HSCEI	11,074.31	0.14	8.05								
CSI300	2,327.60	(1.60)	10.45								
SSE Composite	2,209.47	(1.40)	10.68								
SZSE Composite	1,209.20	(1.89)	28.97								
MSCI China	66.87	(0.27)	10.15								
MSCI Hong Kong	13,429.93	(0.37)	11.48								
MSCI Japan	786.83	(0.16)	15.34								

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-Mth
Spot Rate	1.3179	1.6573	0.9334	103.95	0.9164	6.1434	7.7501	6.2220
Chg. WTD (%)	(0.48)	0.01	0.18	0.00	(0.28)	0.15	0.00	0.23

Note:

1. Data sources: Bloomberg Finance LP, 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
3. TSI CFR China Iron Ore Fines Index is calculated with the 62% Fe specification, spot price



## Disclosures

### Analyst Certification

We, Lam Chiu Kei, Banny, and PAN Hongxing, Paul, being the persons primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect our personal view about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. We and/or our associates have no financial interests in relation to any listed company (ies) covered in this report, and we and/or our associates do not serve as officer(s) of any listed company (ies) covered in this report.

### 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.

### Disclaimer

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

---

investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

---

Copyright 2014 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House,  
8 Cotton Tree Drive, Central, Hong Kong.**

**Tel: (852) 2868 2183**