



Economics Weekly November 10, 2014

Co-head of Research

Banny Lam

Tel: 852-21478863

Email: bannylam@abci.com.hk

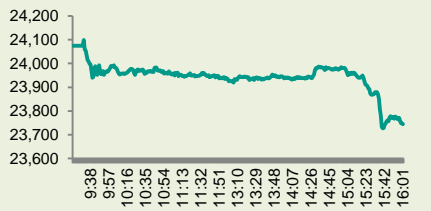
Analyst

Paul Pan

Tel: 852-21478829

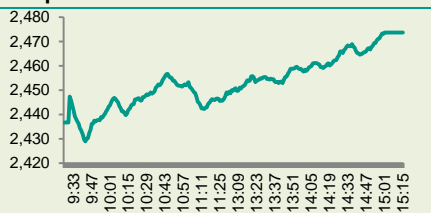
Email: paulpan@abci.com.hk

Exhibit 1: HSI on Nov. 10



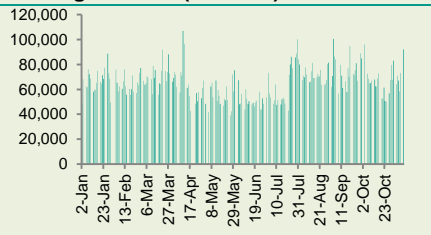
Source(s): Bloomberg, ABCI Securities

Exhibit 2: Shanghai Stock Exchange Composite Index on Nov. 10



Source(s): Bloomberg, ABCI Securities

Exhibit 3: Turnover of Hong Kong Exchange in 2014 (HKD mn)



Source(s): Bloomberg, ABCI Securities

Exhibit 4: Stock categories likely to benefit from the Program

Theme	Ticker	Company
A-H share valuation discrepancy	998 HK	CITICB
	1336 HK	New China Life
	525 HK	Guangshen Rail
	874 HK	Baiyunshan Pharmaceutical
	1055 HK	China Southern Airlines
	338 HK	Shanghai Pechem
	2866 HK	CSC
	2727 HK	Shanghai Electric
Stocks with international exposure	38 HK	First Tractor
	2333 HK	Great Wall Motor
	700 HK	Tencent
	27 HK	Galaxy entertainment
Brokerage firms eligible for the Program	13 HK	Hutchison
	1299 HK	AIA
	6881 HK	Galaxy
	6030 HK	CITICS
	1788 HK	Guotai Junan International
	665 HK	Haitong International
	218 HK	Shenyin Wanguo

Source(s): Bloomberg, ABCI Securities

China's stock market to become more integrated

The China Securities Regulatory Commission (CSRC) and the Securities and Futures Commission (SFC) announced that Shanghai-Hong Kong Stock Connect will be launched on November 17, 2014. The mutual stock market access aims to create bilateral access to the stock markets in PRC and Hong Kong, allowing foreign investors to participate in PRC's A-share market and PRC investors to trade in the Hong Kong market. Such a direct access to China's RMB \$26 trillion (USD \$4.2 trillion) equity market is a milestone of China's further liberalization of its capital account and is an important step in the country's financial market reform.

Long-awaited cross-border stock trading will connect China with the world. The equity trading link between Shanghai and Hong Kong allows foreign investors to trade in and out of Chinese stocks in real time. It is anticipated that the expanded investment options will strengthen both the PRC and Hong Kong stock markets as gateways to China's equity market. Although the Chinese government has capped the trading volume with quotas to avoid major market disruptions, we believe the control will be relaxed gradually over time. The program will mark the beginning of a more integrated financial marketplace in PRC, allowing it to connect better with the rest of the world.

Stock indices and transactions surged on the announcement. The stock connect is expected to have a positive impact on both the PRC and Hong Kong stock markets through increased money inflow and stock transactions. Market responses have been affirmative upon the launch announcement, with HSI rising by 0.83% and trading volume surging to HK\$ 91.98bn, higher than the average volume of HK\$ 72.31bn in the past 5 trading days. Shanghai A-share and composite indices both went up 2.3%, while trading volume reached RMB 245.2bn, higher than the average volume of RMB 221.43bn in the past 5 trading days.

An important step in reforming China's financial market. The stock connect paves the way for China's stocks to be included in international benchmark equity indices, facilitating the integration of financial systems between China with the rest of the world. With a managed and orderly opening of China's capital market, the country is a step closer to developing a multi-tier capital market with proper structure, functions and regulations and efficiency. The gradual removal of barriers to participate in the financial sector will propel China to embark on the road to financial liberalization, which will help establish a healthier and more robust financial system in the long run.

Stocks to benefit from the stock connect. We believe the stock connect will help drive down the valuation discrepancies between stocks listed in Shanghai and Hong Kong due to the arbitrage trading, which we expect will be particularly active at the beginning of the program. In addition, PRC investors will be attracted to stocks in technology, gambling, and conglomerates with international business exposure to diversify their investment. Moreover, brokerage firms with operations in Hong Kong and Shanghai will see higher revenue on increased trading volume boosted by the program.



China Economic Indicators

	2013					2014									
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct*
Real GDP (YoY%)	---	7.8	---	---	7.7	---	---	7.4	---	--	7.5	--	---	7.3	---
Export Growth (YoY%)	7.2	(0.3)	5.6	12.7	5.8	10.6	(18.1)	(6.6)	0.9	7.0	7.2	14.5	9.4	15.3	11.6
Import Growth (YoY%)	7.0	7.4	7.6	5.3	6.5	10.0	10.1	(11.3)	0.8	(1.6)	5.5	(1.6)	(2.4)	7.0	4.6
Trade Balance (USD/bn)	28.5	15.2	31.1	33.8	32.3	31.9	(23.0)	7.7	18.5	35.9	31.6	47.3	49.8	30.9	45.4
Retail Sales Growth (YoY%)	13.4	13.3	13.3	13.7	13.6	11.8	12.2	11.9	12.5	12.4	12.2	11.9	11.6	12.1	
Industrial Production (YoY%)	10.4	10.2	10.3	10.0	9.7	8.6	8.8	8.7	8.8	9.2	9.0	6.9	8.0	8.0	
PMI - Manufacturing (%)	51.0	51.1	51.4	51.4	51.0	50.5	50.2	50.3	50.4	50.8	51.0	51.7	51.1	51.1	50.8
PMI - Non-manufacturing (%)	53.9	55.4	56.3	56.0	54.6	53.4	55.0	54.5	54.8	55.5	55.0	54.2	54.4	54.0	53.8
FAI(YTD) (YoY%)	20.3	20.2	20.1	19.9	19.6	17.9	17.6	17.3	17.2	17.3	17.0	16.5	16.1	16.2	
CPI (YoY%)	2.6	3.1	3.2	3.0	2.5	2.5	2.0	2.4	1.8	2.5	2.3	2.3	2.0	1.6	1.6
PPI (YoY%)	(1.6)	(1.3)	(1.5)	(1.4)	(1.4)	(1.6)	(2.0)	(2.3)	(2.0)	(1.4)	(1.1)	(0.9)	(1.2)	(1.8)	(2.2)
M2(YoY%)	14.7	14.2	14.3	14.2	13.6	13.2	13.3	12.1	13.2	13.4	14.7	13.5	12.8	12.9	13.0
New Lending (RMB/bn)	711.3	787.0	506.1	624.6	482.5	1,320	644.5	1,050	774.7	870.8	1080	385.2	702.5	857.2	750.0
Aggregate Financing (RMB bn)	1,584	1,411.3	864	1,226.9	1,232.2	2,580	938.7	2,081.3	1,550	1,400	1,970	273.7	957.7	1052.2	1080.0

* Forecast (Excluding PMI - Manufacturing & PMI - Non-manufacturing, Export, Import, Trade balance, CPI and PPI)

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)	
U.S.				Energy				US Fed Fund Rate				
DJIA	17,573.93	0.00	15.75	NYMEX WTI	USD/bbl	79.39	0.94	373,093	US Prime Rate	3.25	0.00	
S&P 500	2,031.92	0.00	17.97	ICE Brent Oil	USD/bbl	84.47	1.30	269,302	US Discount Window	0.75	0.00	
NASDAQ	4,632.53	0.00	61.52	NYMEX Natural Gas	USD/MMBtu	4.50	1.97	198,801	US Treasury (1 Mth)	0.0304	0.00	
MSCI US	1,939.71	0.00	18.37	Australia Newcastle Steam Coal Spot fob ²	USD/Metric Tonne	61.85	N/A	N/A	US Treasury (5Yr)	1.5623	(2.13)	
Europe				Basic Metals				US Treasury (10 Yr)				
FTSE 100	6,587.13	0.30	16.83	LME Aluminum Cash	USD/MT	2,059.75	0.00	13,086	Japan 10-Yr Gov. Bond	0.4550	(2.80)	
DAX	9,300.47	0.09	16.69	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	2,055.00	0.00	53,433	China 10-Yr Gov. Bond	3.6400	(19.0)	
CAC40	4,204.45	0.35	25.65	CMX Copper Active	USD/lb.	6,785.00	0.00	12,516	ECB Rate (Refinancing)	0.05	0.00	
IBEX 35	10,132.60	0.06	20.11	LME Copper 3- mth Rolling Fwd.	USD/MT	6,715.00	0.00	41,944	1-Month LIBOR	0.1573	0.14	
FTSE MIB	19,044.73	(0.26)	1,374.68	Precious Metals				3 Month LIBOR				
Stoxx 600	335.86	0.18	20.25	CMX Gold	USD/T. oz	1,171.60	0.15	198,399	O/N SHIBOR	2.5390	(3.00)	
MSCI UK	1,935.44	0.00	16.74	CMX Silver	USD/T. oz	15.68	(0.25)	56,556	1-mth SHIBOR	3.9170	2.20	
MSCI France	117.42	0.00	26.65	NYMEX Platinum	USD/T. oz	1,211.50	(0.11)	10,110	3-mth HIBOR	0.3721	(0.14)	
MSCI Germany	124.17	0.00	16.79	Agricultural Products				Corporate Bonds (Moody's)				
MSCI Italy	55.61	0.00	N/A	CBOT Corn	USD/bu	366.00	(0.41)	186,292	Aaa	3.93	3.00	
Asia				CBOT Wheat	USD/bu	511.25	(0.63)	52,261	Baa	4.79	5.00	
NIKKEI 225	16,780.53	(0.59)	20.30	NYB-ICE Sugar	USD/lb.	15.67	(0.13)	50,397				
S&P/ASX 200	5,523.96	(0.45)	19.01	CBOT Soybeans	USD/bu.	1,041.50	0.46	118,661				
HSI	23,744.70	0.83	10.28									
HSCEI	10,615.82	0.73	7.33									
CSI300	2,565.73	2.54	11.15									
SSE Composite	2,473.67	2.30	11.75									
SZSE Composite	1,365.64	0.83	32.89									
MSCI China	63.30	0.00	9.42									
MSCI Hong Kong	12,748.02	0.00	10.92									
MSCI Japan	842.51	0.00	15.64									
Currency												
	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.				
Spot Rate	1.2484	1.5901	0.8674	114.06	0.9632	6.1199	7.7541	6.2570				
Chg. WTD (%)	0.23	0.20	0.43	0.47	0.31	0.04	(0.02)	0.13				

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.

Disclosures of Interests

ABC International Securities Company Limited and/or its affiliates, within the past 12 months, have investment banking relationship with one or more of the companies mentioned in the 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. ABC International Securities Company Limited is under no obligation to update or keep current the information contained herein. ABC International Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABC International Securities Company



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

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 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