



# Economics Weekly Sept 1, 2015

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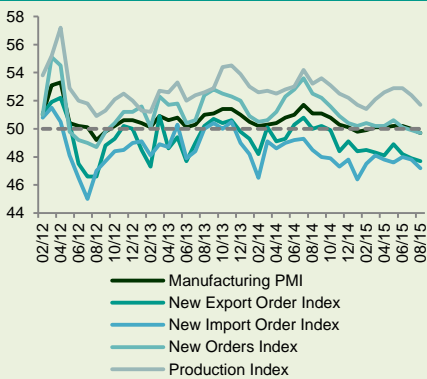
### Exhibit 1: Aug economic indicators

YoY% or otherwise specified	Aug'15F	July'15
Manufacturing PMI(%)	49.7	50.0
Non-Manufacturing PMI (%)	53.4	53.9
CPI	1.8	1.6
PPI	(5.6)	(5.4)
Exports	(4.5)	(8.3)
Imports	(7.5)	(8.1)
Trade Balance (US\$/bn)	52.3	43.0
FAI (YTD%)	11.3	11.2
Industrial production	5.8	6.0
Retail Sales	10.7	10.5
M2	13.5	13.3
New loans (RMB/bn)	1,000	1,480
Aggregate financing (RMB/bn)	1,053.5	718.8

\* Manufacturing PMI and Non-Manufacturing PMI are actual figures

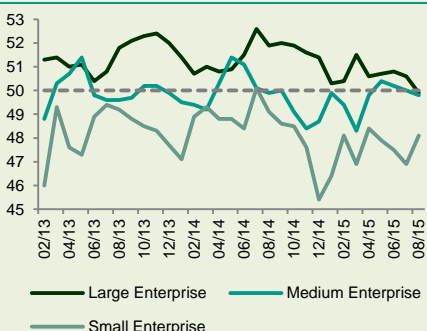
Source(s): NBS, PBOC, Bloomberg, ABCI Securities estimates

### Exhibit 2: China's manufacturing PMI (%)



Source(s): NBS, Bloomberg, ABCI Securities

### Exhibit 3: PMI for large, medium, and small enterprises



Source(s): NBS, Bloomberg, ABCI Securities

## 3-year low PMI pushes for more stimulus

China's manufacturing PMI for August edged down from July's 50.0% to 49.7%, the lowest in 3 years. Most key manufacturing sub-indices demonstrated a worsening trend, reflecting that manufacturing activities and demand have been weakening. For non-manufacturing PMI, August's figure fell to 53.4% from July's 53.9%, indicating the services sector has remained expansive albeit at a slower pace. In general, China's factories are still facing tepid demand. We believe more stimulus measures are likely to be launched to revive economic momentum, and expect China's economic indicators to gradually improve, with the downtrend of PMI to be stabilized over the next few months.

**Latest PMI shows faltering momentum in manufacturing.** China's PMI for August reached a 3-year low at 49.7%. Falling commodity prices and sluggish market demand were the main reasons behind the slowdown. The "New Order Index" fell from 49.9% in July to 49.7% in August, reflecting stagnant growth in domestic demand. In addition, the drop in "Purchases of Input Index" and "Main Raw Materials Inventory Index" showed manufacturers' restraint against expansion due to an unclear economic outlook. Weakening PMI in August indicates downward pressure on China's economy has been growing and more stimulus measures will be needed to reinstate economic impetus.

**PMI of large-sized enterprises and medium-sized enterprises declined further.** PMI of large-sized enterprises (49.9% in August vs. 50.6% in July) and medium-sized enterprises (49.8% in August vs. 50% in July) fell below 50%, reflecting contraction in manufacturing activities. We believe more government supports are needed to lift growth in coming months.

**Pricing pressure to edge up.** With pork price accelerating, we believe CPI inflation for August will edge up to 1.8% YoY. The continued drop in global commodities and sluggish economic momentum undermine manufacturers' pricing power. Hence, decline in August's PPI is expected to expand to 5.6% YoY.

**External trade to contract in August.** The New Export Order Index and New Import Order Index, sub-indices of the manufacturing PMI, reached 47.7% and 47.2% in August, as opposed to 47.9% and 47.8% in July, reflecting anemic growth in exports and imports and continued contraction in the external trade sector. For August, we forecast exports to decline by 4.5% YoY and imports to fall by 7.5% YoY. Trade balance is estimated to be US\$ 52.3bn.

**FAI growth to climb gradually.** Surging investment in infrastructure and railways will help support FAI. Also, deceleration in real estate investment will stabilize. Hence, we expect FAI for August to accelerate mildly with its YTD growth reaching 11.3% YoY.

**Slowing industrial production in sight.** The Production Index, a sub-index of the manufacturing PMI, dipped to 51.7% in August from 52.4% in July. We believe the weakening production PMI and widening decline in producer prices signal that industrial output is likely to moderate. We expect industrial production for August to grow



by 5.8% YoY.

**Retail sales will improve steadily.** Driven by the services sector, improvement in retail sales is expected to broaden. August retail sales are expected to grow by 10.7% YoY, supported by the government's consistent efforts in encouraging private consumption.

**Monetary indicators point to a stable growth.** PBOC's recent efforts to inject liquidity will have a direct impact on loan growth, which in turn will boost economic activities. Hence, we believe monetary indicators for August will go up steadily. New bank loans will reach RMB 1000bn and M2 growth will accelerate to 13.5% YoY.



China Economic Indicators

	2014								2015							
	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug*
Real GDP (YoY%)	--	7.5	--	---	7.3	---	---	7.3	---	---	7.0	---	---	7.0	---	---
Export Growth (YoY%)	7.0	7.2	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)	(4.5)
Import Growth (YoY%)	(1.6)	5.5	(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)	(7.5)
Trade Balance (USD/bn)	35.9	31.6	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	52.3
Retail Sales Growth (YoY%)	12.5	12.4	12.2	11.9	11.6	11.5	11.7	11.9	10.7		10.2	10.0	10.1	10.6	10.5	10.7
Industrial Production (YoY%)	8.8	9.2	9.0	6.9	8.0	7.7	7.2	7.9	6.8		5.6	5.9	6.1	6.8	6.0	5.8
PMI - Manufacturing (%)	50.8	51.0	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
PMI - Non-manufacturing (%)	55.5	55.0	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
FAI(YTD) (YoY%)	17.2	17.3	17.0	16.5	16.1	15.9	15.8	15.7	13.9		13.5	12.0	11.4	11.4	11.2	11.3
CPI (YoY%)	2.5	2.3	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	1.8
PPI (YoY%)	(1.4)	(1.1)	(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)	(5.6)
M2(YoY%)	13.4	14.7	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	13.5
New Lending (RMB/bn)	870.8	1,080	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	1,000
Aggregate Financing (RMB bn)	1,400	1,970	273.7	957.7	1,135.5	662.7	1,146.3	1,690	2,050	1,350	1,181	1,050	1,220	1,860	718.8	1,053.5

\* Forecast (Excluding PMI - Manufacturing & PMI - Non-manufacturing)

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			
DJIA	16,528.03	(0.69)	14.43	NYMEX WTI	USD/bbl	47.31	4.62	540,377	0.25	0.00	
S&P 500	1,972.18	(0.84)	17.44	ICE Brent Oil	USD/bbl	52.13	4.16	326,691	3.25	0.00	
NASDAQ	4,776.51	(1.07)	27.15	NYMEX Natural Gas	USD/MMBtu	2.68	(1.33)	51,708	0.75	0.00	
MSCI US	1,888.74	(0.85)	18.07	Australia Newcastle Steam Coal Spot fob <sup>2</sup>	USD/Metric Tonne	61.80	N/A	N/A	0.3721	0.51	
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (1 Yr)			
FTSE 100	6,083.15	(2.64)	22.16	LME Aluminum Cash	USD/MT	1,587.75	0.00	26,306	1.4988	(1.30)	
DAX	9,960.49	(3.28)	15.69	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,603.00	0.00	35,916	2.1613	(1.94)	
CAC40	4,520.96	(3.30)	20.07	CMX Copper Active	USD/lb.	5,147.00	0.00	11,155	0.3610	(1.80)	
IBEX 35	9,975.90	(3.64)	18.29	LME Copper 3- mth Rolling Fwd.	USD/MT	5,135.00	0.00	57,931	3.4000	(7.00)	
FTSE MIB	21,426.34	(2.58)	N/A	<b>Precious Metals</b>				China 10-Yr Gov. Bond			
Stoxx 600	352.39	(3.00)	20.52	CMX Gold	USD/T. oz	1,141.20	0.63	160,182	0.05	0.00	
MSCI UK	1,826.21	0.00	23.25	CMX Silver	USD/T. oz	14.58	0.21	41,607	0.1986	(0.09)	
MSCI France	130.83	(0.49)	21.45	NYMEX Platinum	USD/T. oz	1,010.30	(1.12)	13,688	0.3290	(0.01)	
<b>Asia</b>				<b>Agricultural Products</b>				O/N SHIBOR			
NIKKEI 225	18,165.69	(5.07)	18.98	CBOT Corn	USD/bu	373.25	(0.47)	178,142	1.8210	4.70	
S&P/ASX 200	5,096.41	(3.18)	18.57	CBOT Wheat	USD/bu	486.75	0.62	83,919	3.0520	5.30	
HSI	21,185.43	(1.98)	9.17	NYB-ICE Sugar	USD/lb.	10.63	(3.10)	79,795	0.4139	0.25	
HSCEI	9,454.11	(3.04)	6.76	CBOT Soybeans	USD/bu.	883.00	(0.28)	117,071	Corporate Bonds (Moody's)		
CSI300	3,362.08	0.59	13.67					Aaa		4.12	17.00
SSE Composite	3,166.62	(2.03)	15.78					Baa		5.32	17.00
SZSE Composite	1,707.78	(7.53)	38.54								
MSCI China	58.57	(0.73)	8.96								
MSCI Hong Kong	11,742.13	(0.46)	9.52								
MSCI Japan	935.13	(1.04)	15.73								

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	1.1278	1.5331	0.7072	119.74	0.9613	6.3642	7.7501	6.5870
Chg. WTD (%)	0.83	(0.39)	(1.41)	1.65	0.25	0.40	0.00	0.58



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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 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.

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