



Economics Weekly August 22, 2014

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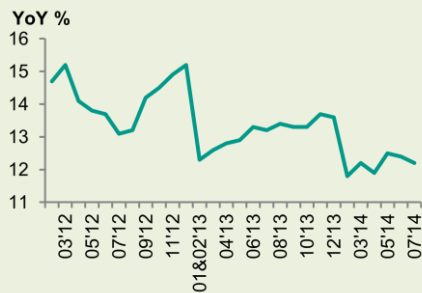
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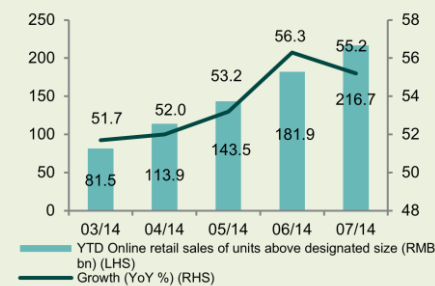
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Exhibit 1: China's retail sales growth



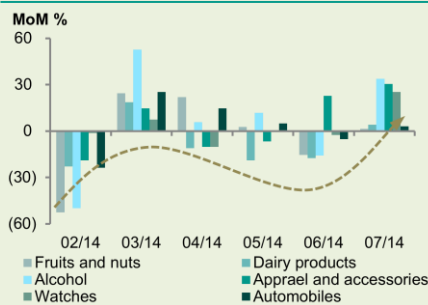
Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 2: China's online retail sales



Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 3: Major consumer goods import growth in China



Source(s): China Customs, ABCI Securities calculation

China's consumption: Step-up needed

China's July economic numbers were disappointing. The HSBC China Manufacturing PMI released on Aug 21 also indicated that growth in China's manufacturing sector slowed to a 3-month low in August, reigniting concerns about the trajectory of China's economy in 2H14. Domestic demand, especially domestic consumption, remains sluggish as China's July retail sales growth slowed. With economic conditions becoming increasingly unsteady, more stimulus may be employed in coming months to invigorate growth; the government may beef up its policy to spur domestic consumption. Nevertheless, we are still bullish on China's consumption growth in the long term, as we believe that the market potential is largely untapped and the central government's initiative to shift the Chinese economic model from an investment-led to a consumption-driven one will compel growth in this area. Judging from the recent fluctuations in retail sales growth and the overall economic condition, we expect that retail sales will expand by 12.6% YoY for 2014.

Growth momentum was further dampened in July on specific items. July's retail sales data show a broad-based deterioration in China's private consumption, as growth in many major consumer goods decreased. But declining growth in July retail sales was mainly driven by the lackluster performance of the "Gold, Silver, and Jewelry" consumer goods category, which shrank by 11.7% YoY vs. 0.2% YoY in June. In a broader sense, we believe sales of luxury goods may continue to weigh on the performance of overall retail sales with the continuation of the government's anti-corruption campaign.

E-commerce as the new growth driver. Emergence of e-commerce is a paradigm shift in China's retail space. According to the China E-commerce Research Center, China's online retail sales market size will grow from RMB 1,885.1 billion in 2013 to RMB 2,786.1 billion, representing a 47.8% YoY growth. In our view, rapid expansion of e-commerce retail market will cannibalize the traditional retail market. Nonetheless, the long-term impact of e-commerce will be positive, boosting personal consumption and resulting in positive spillover effects on other industries such as logistics and manufacturing. We expect that the government will propound new policies to support e-commerce growth.

Import statistics - telltale signs of improving retail sales environment. Even though the headline import growth turned negative in July, most imported consumer goods registered MoM gains - a significant improvement from the uneven growth in the past few months. We believe that the import statistics show an improving prospect of retail sales and July could be an inflection point where retail sales will pick up in the next few months.

Stronger monetary and fiscal initiatives to reverse slowing momentum. The downtrend in retail sales for the past 2 months and the unstable economic recovery serve as reminders that consumption growth is still shaky. A series of stimulus measures, combined with more aggressive monetary and fiscal initiatives such as credit loosening, subsidies for consumption goods purchases and tax relief, would help mitigate the economic headwinds and lend more support to private consumption.



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)	
U.S.				Energy				US Fed Fund Rate			
DJIA	17,039.49	2.26	15.60	NYMEX WTI	USD/bbl	93.62	(3.83)	157,112		0.25	0.00
S&P 500	1,992.37	1.91	17.84	ICE Brent Oil	USD/bbl	102.45	(1.04)	180,725	US Prime Rate	3.25	0.00
NASDAQ	4,532.10	1.50	43.02	NYMEX Natural Gas	USD/MMBtu	3.86	2.12	101,084	US Discount Window	0.75	0.00
MSCI US	1,905.93	1.89	18.26	Australia Newcastle Steam Coal Spot fob ²	USD/Metric Tonne	69.20	N/A	N/A	US Treasury (1 Mth)	0.0203	0.51
Europe				Basic Metals				US Treasury (5 Yr)			
FTSE 100	6,777.10	1.32	16.95	LME Aluminum Cash	USD/MT	2,050.25	2.83	35,035	US Treasury (10 Yr)	2.3962	5.65
DAX	9,398.13	3.36	17.39	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	2,059.00	2.95	43,350	Japan 10-Yr Gov. Bond	0.5100	0.70
CAC40	4,280.38	2.54	26.05	CMX Copper Active	USD/lb.	7,027.00	2.18	12,788	China 10-Yr Gov. Bond	4.2700	(1.00)
IBEX 35	10,561.20	3.32	20.87	LME Copper 3- mth Rolling Fwd.	USD/MT	7,015.00	2.11	42,226	ECB Rate (Refinancing)	0.15	0.00
FTSE MIB	19,973.49	2.53	216.2	TSI CFR China Iron Ore Fines Index ³	USD	91.90	(1.61)	N/A	1-Month LIBOR	0.1550	(0.05)
Stoxx 600	337.37	2.32	20.34	Precious Metals				3 Month LIBOR			
MSCI UK	2,001.18	1.32	16.97	CMX Gold	USD/T. oz	1,280.30	(1.98)	115,022	O/N SHIBOR	2.8430	(4.60)
MSCI France	120.08	2.74	27.10	CMX Silver	USD/T. oz	19.57	(0.13)	11,556	1-mth SHIBOR	4.2039	2.99
MSCI Germany	125.43	3.25	17.50	NYMEX Platinum	USD/T. oz	1,424.20	(2.26)	10,462	3-mth HIBOR	0.3621	(0.43)
MSCI Italy	58.08	2.60	214.9	Agricultural Products				Corporate Bonds (Moody's)			
Asia				CBOT Corn	USD/bu	370.00	(1.86)	139,805	Aaa	4.11	11.00
NIKKEI 225	15,539.19	1.44	20.30	CBOT Wheat	USD/bu	557.25	(1.11)	53,715	Baa	4.72	1.00
S&P/ASX 200	5,645.62	1.42	18.55	NYB-ICE Sugar	USD/lb.	16.02	0.63	44,266			
HSI	25,112.23	0.63	11.02	CBOT Soybeans	USD/bu.	1,042.50	(0.90)	90,912			
HSCEI	11,058.69	(0.41)	8.11								
CSI300	2,365.36	0.20	10.71								
SSE Composite	2,240.81	0.63	10.88								
SZSE Composite	1,232.51	2.61	29.88								
MSCI China	66.67	(0.40)	10.18								
MSCI Hong Kong	13,465.94	1.58	11.50								
MSCI Japan	790.98	1.59	15.42								

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-Mth
Spot Rate	1.3291	1.6586	0.9329	103.74	0.9107	6.1528	7.7501	6.2345
Chg. WTD (%)	(0.82)	(0.64)	0.08	(1.33)	(0.89)	(0.09)	0.00	(0.15)

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

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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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