



# Economics Weekly September 8, 2014

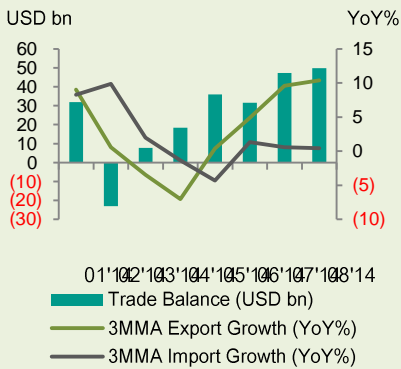
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**Exhibit 1: Export and import growth and trade balance in China**



Source(s): Bloomberg, ABCI Securities

## China's exports: recovery on track

In August, China's trade balance reached a record high of US\$ 49.84bn, with exports growing 9.4% YoY and imports declining 2.4% YoY. While the export growth and trade balance beat consensus, imports lagged behind market expectation and has been hovering in the negative territory. Overall, the recovering exports and trade surplus point to the continuous rebound in China's external trade sector and a revival of economic momentum in the country. We expect overseas demand to strengthen, supporting China's exports in the next several months on robust recovery in the U.S. and ECB's rate cut and QE stimulus. Provided that developed markets could maintain their current growth and China would continue to deploy policy tools effectively, China's external trade will be bolstered by the reinvigorating domestic and global economies.

**Exports retain vigor in August- and will remain so till end-2014.**

Exports continued to rebound with year-to-year growth reaching a high single-digit level of 9.4%. Although the increase was lower than that of July, we believe the growth momentum remains intact as reflected by the surging 3-month moving average (3MMA) of export growth. Supported by overseas shipments for holiday seasons, we expect the uptrend to persist till the end of the year.

**Lowering prices weigh on imports.** Imports in August showed further weakness as the YoY decline widened from 1.6% in July to 2.4% in August. The slower growth was mainly caused by the weakening commodity prices and cooling domestic investment that dampen the demand for commodities. Nonetheless, we expect global commodity prices will stabilize amid the launch of QE and rate cut in Europe; targeted easing measures in China will also drive up investment and consumption, raising demand for commodities and consumer goods imports in the coming months.

**Record-high trade surplus bodes well for Renminbi rebound.** Surging trade surplus to US\$ 49.84 bn in August from US \$47.3 bn in July demonstrated strengths in external trade sector. Widening trade surplus helps counteract renminbi's depreciation (currently between 1.4% and 1.5% YTD). Given the reviving demand for China's exports, we expect trade surpluses in China to linger at high levels, placing further upward pressure on renminbi. We expect YTD depreciation of the currency to narrow to 0.8% by the end of 2014.

**Global economic environment remains favorable.** For 8M14, China's exports to its major trading partners, namely, the U.S., E.U. and ASEAN increased 5.3%, 9.1% and 7.0% YoY, respectively, suggesting strong demand for China's products. We expect the U.S. and E.U. will be the two major markets contributing the most to China's export growth, while exports to ASEAN will rise swiftly to account for an increasing share of China's total exports.



China Economic Indicators

	2013						2014							
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug*
Real GDP (YoY%)	---	---	7.8	---	---	7.7	---	---	7.4	---	--	7.5	--	---
Export Growth (YoY%)	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	9.4
Import Growth (YoY%)	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)	(2.4)
Trade Balance (USD/bn)	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	49.8
Retail Sales Growth (YoY%)	13.2	13.4	13.3	13.3	13.7	13.6	11.8		12.2	11.9	12.5	12.4	12.2	12.2
Industrial Production (YoY%)	9.7	10.4	10.2	10.3	10.0	9.7	8.6		8.8	8.7	8.8	9.2	9.0	8.8
PMI - Manufacturing (%)	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	51.1
PMI - Non-manufacturing (%)	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	54.4
FAI(YTD) (YoY%)	20.1	20.3	20.2	20.1	19.9	19.6	17.9		17.6	17.3	17.2	17.3	17.0	17.1
CPI (YoY%)	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	2.3
PPI (YoY%)	(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)	(0.8)
M2(YoY%)	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	13.5
New Lending (RMB/bn)	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	750
Aggregate Financing (RMB bn)	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	1,710

\* Forecast (excluding PMI - Manufacturing and Non-Manufacturing, Export and Import growth and Trade Balance)

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	17,137.36	0.00	15.64	NYMEX WTI	USD/bbl	92.80	273,050	(0.53)			
S&P 500	2,007.71	0.00	18.10	ICE Brent Oil	USD/bbl	100.07	194,282	(0.74)			
NASDAQ	4,582.90	0.00	88.07	NYMEX Natural Gas	USD/MMBtu	3.80	104,885	0.24			
MSCI US	1,921.01	0.00	18.58	Australia Newcastle Steam Coal Spot fob <sup>2</sup>	USD/Metric Tonne	69.05	N/A	N/A			
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (1 Mth)	0.0051	(1.01)	
FTSE 100	6,830.85	(0.35)	17.08	LME Aluminum Cash	USD/MT	2,066.00	11,911	0.00			
DAX	9,768.47	0.22	18.08	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	2,093.00	33,989	0.00			
CAC40	4,486.66	0.00	27.09	CMX Copper Active	USD/lb.	6,993.00	10,390	0.00			
IBEX 35	11,154.30	0.05	22.04	LME Copper 3- mth Rolling Fwd.	USD/MT	6,975.00	33,049	0.00			
FTSE MIB	21,465.29	0.33	794.64	TSI CFR China Iron Ore Fines Index <sup>3</sup>	USD	83.60	N/A	(4.89)			
Stoxx 600	346.36	(0.35)	20.72	<b>Precious Metals</b>				US Treasury (5 Yr)	1.6710	(2.13)	
MSCI UK	2,022.93	0.00	17.16	CMX Gold	USD/T. oz	1,268.30	126,524	0.08			
MSCI France	125.36	0.00	28.54	CMX Silver	USD/T. oz	19.28	36,119	0.65			
MSCI Germany	129.80	0.00	18.13	NYMEX Platinum	USD/T. oz	1,410.60	10,120	(0.03)			
MSCI Italy	61.95	0.00	1,033.36	<b>Agricultural Products</b>				US Treasury (10 Yr)	2.4354	(2.33)	
<b>Asia</b>				CBOT Corn	USD/bu	355.75	136,730	(0.07)			
NIKKEI 225	15,705.11	0.23	20.52	CBOT Wheat	USD/bu	537.00	54,870	0.33			
S&P/ASX 200	5,576.97	(0.39)	19.25	NYB-ICE Sugar	USD/lb.	15.09	61,213	0.60			
HSI	25,190.45	(0.20)	10.96	CBOT Soybeans	USD/bu.	1,027.00	99,820	0.54			
HSCEI	11,408.67	0.35	8.11	<b>Corporate Bonds (Moody's)</b>				Aaa	4.03	8.00	
CSI300	2,449.26	0.00	10.89						Baa	4.70	12.00
SSE Composite	2,326.43	0.00	11.10	Note:							
SZSE Composite	1,273.68	(0.00)	30.57	1. Data sources: Bloomberg Finance LP, National Bureau of Statistics of China, ABCIS (updated on date of report)							
MSCI China	68.15	0.00	10.21	2. Australia Newcastle Steam Coal Spot fob is the Australia Newcastle 6700 kc GAD fob Steam Coal Spot price published by McCloskey							
MSCI Hong Kong	13,329.44	0.00	11.36	3. TSI CFR China Iron Ore Fines Index is calculated with the 62% Fe specification, spot price							
MSCI Japan	792.34	0.00	15.46								

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.2943	1.6173	0.9355	105.12	0.9318	6.1415	7.7502	6.2215
Chg. WTD (%)	(0.06)	(0.94)	(0.25)	(0.03)	(0.08)	(0.01)	0.00	0.08



## 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	$2.6 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility}$
High	$1.5 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 2.6$
Medium	$1.0 \leq 180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.5$
Low	$180 \text{ day volatility} / 180 \text{ day benchmark index volatility} < 1.0$

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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