



Economics Weekly May 26, 2015

Co-head of Research

Banny Lam

Tel: 852-21478863

Email: bannylam@abci.com.hk

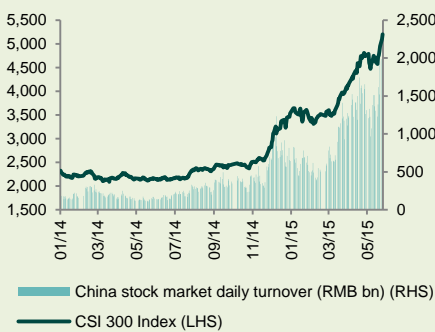
Analyst

Paul Pan

Tel: 852-21478829

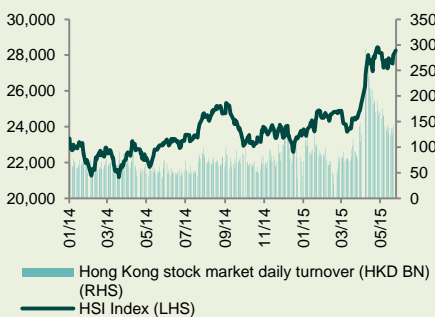
Email: paulpan@abci.com.hk

Exhibit 1: China's stock market daily turnover and CSI300 Index



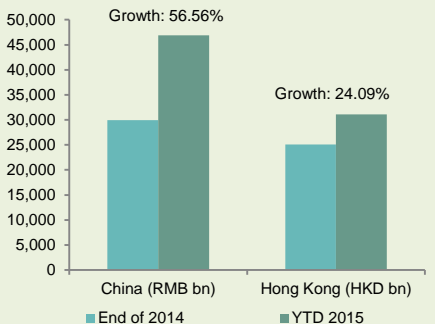
Source(s): Wind, Bloomberg, ABCI Securities

Exhibit 2: Hong Kong's stock market daily turnover and HSI Index



Source(s): Bloomberg, ABCI Securities

Exhibit 3: Stock market cap in China and Hong Kong



* China data as of May 25, 2015

* Hong Kong data as of May 22, 2015

Source(s): Bloomberg, ABCI Securities

China-Hong Kong mutual fund recognition initiative

A milestone initiative to open up the Chinese fund market will be launched on July 1, 2015, allowing the mainland firms to sell their products to global investors while giving foreign firms direct access to the mainland market. The initial quota is set at RMB 600 billion, which will be split equally between the mainland and Hong Kong markets. Mutual recognition of cross-border fund sales will provide a new channel for China's asset companies to attract foreign capital and allow foreign asset companies to tap into the sizable household savings in China. The plan comes six months after the commencement of Shanghai-Hong Kong stock connect, a cross-border stock link program allowing mainland investors to buy Hong Kong stocks while offering foreign investors unprecedented access to Shanghai's shares. Overall, the initiative will lay the foundation for the CSRC and SFC to jointly develop a fund regulatory standard and promote the integration and development of China's asset management industry. We believe Hong Kong's role as the leading regional fund management center will be strengthened.

Internationalization of asset management industry in China.

Mutual recognition of funds will prompt the convergence of capital markets in China and Hong Kong in terms of sales channel and investment style. The initiative will expand investment choices, benefiting investors and fund managers globally. Mainland fund managers will promote their onshore products to the international markets via Hong Kong, and leverage synergies with their Hong Kong subsidiaries to provide a platform for distribution of onshore products; Hong Kong subsidiaries could also expand their current offshore distribution networks, broadening the exposure of mainland onshore products to international audiences. In general, the broadening of cross-border investment channel will expand the size of market and enhance the competitiveness of the fund markets in China and Hong Kong

Strengthening Hong Kong as a regional asset management center.

Global asset management firms are seeking to sell funds directly in China without setting up operations or JVs in China. The mutual fund recognition initiative will provide a platform for Hong Kong and global fund managers to access China's market directly. Hong Kong will offer mainland investors more diversity and investment choices, while China will offer Hong Kong a sizeable investor market. The main attraction for global fund managers to grow or set up in Hong Kong is to tap into China's retail fund market. As such, we believe Hong Kong will further consolidate its position as an international financial center.

The next initiative: Shenzhen-Hong Kong stock connect.

China steps up efforts on financial liberalization by integrating its capital markets further with the international capital. Ongoing capital account liberalization and RMB internationalization become the key drivers for further opening of capital markets in China. After the launch of Shanghai-Hong Kong Stock Connect and mutual fund recognition, we believe details regarding the Shenzhen-Hong Kong Stock Connect will be announced soon and trading links between Shenzhen and Hong Kong would commence operation in 4Q15.



China Economic Indicators

	2014												2015			
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr
Real GDP (YoY%)	---	---	7.4	---	--	7.5	--	---	7.3	---	---	7.3	---	---	7.0	---
Export Growth (YoY%)	10.6	(18.1)	(6.6)	0.9	7.0	7.2	14.5	9.4	15.3	11.6	4.7	9.7	(3.2)	48.3	(15.0)	(6.4)
Import Growth (YoY%)	10.0	10.1	(11.3)	0.8	(1.6)	5.5	(1.6)	(2.4)	7.0	4.6	(6.7)	(2.4)	(19.7)	(20.5)	(12.7)	(16.2)
Trade Balance (USD/bn)	31.9	(23.0)	7.7	18.5	35.9	31.6	47.3	49.8	30.9	45.4	54.5	49.6	60.0	60.6	3.1	34.1
Retail Sales Growth (YoY%)	11.8		12.2	11.9	12.5	12.4	12.2	11.9	11.6	11.5	11.7	11.9	10.7		10.2	10.0
Industrial Production (YoY%)	8.6		8.8	8.7	8.8	9.2	9.0	6.9	8.0	7.7	7.2	7.9	6.8		5.6	5.9
PMI - Manufacturing (%)	50.5	50.2	50.3	50.4	50.8	51.0	51.7	51.1	51.1	50.8	50.3	50.1	49.8	49.9	50.1	50.1
PMI - Non-manufacturing (%)	53.4	55.0	54.5	54.8	55.5	55.0	54.2	54.4	54.0	53.8	53.9	54.1	53.7	53.9	53.7	53.4
FAI(YTD) (YoY%)	17.9		17.6	17.3	17.2	17.3	17.0	16.5	16.1	15.9	15.8	15.7	13.9		13.5	12.0
CPI (YoY%)	2.5	2.0	2.4	1.8	2.5	2.3	2.3	2.0	1.6	1.6	1.4	1.5	0.8	1.4	1.4	1.5
PPI (YoY%)	(1.6)	(2.0)	(2.3)	(2.0)	(1.4)	(1.1)	(0.9)	(1.2)	(1.8)	(2.2)	(2.7)	(3.3)	(4.3)	(4.8)	(4.6)	(4.6)
M2(YoY%)	13.2	13.3	12.1	13.2	13.4	14.7	13.5	12.8	12.9	12.6	12.3	12.2	10.8	12.5	11.6	10.1
New Lending (RMB/bn)	1,320	644.5	1,050	774.7	870.8	1,080	385.2	702.5	857.2	548.3	852.7	697.3	1,470	1,020	1,180	707.9
Aggregate Financing (RMB bn)	2,580	938.7	2,081.3	1,550	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

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	18,232.02	0.00	15.76	NYMEX WTI	USD/bbl	59.29	(0.72)	204,378		0.25	0.00
S&P 500	2,126.06	0.00	18.79	ICE Brent Oil	USD/bbl	65.00	(0.57)	188,070	US Prime Rate	3.25	0.00
NASDAQ	5,089.36	0.00	30.46	NYMEX Natural Gas	USD/MMBtu	2.85	(1.25)	123,133	US Discount Window	0.75	0.00
MSCI US	2,037.49	0.00	19.33	Australia Newcastle Steam Coal Spot fob ²	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (1 Yr)	0.2036	0.00
Europe				Basic Metals				US Treasury (5Yr)			
FTSE 100	6,989.50	(0.60)	22.08	LME Aluminum Cash	USD/MT	1,729.75	0.00	31,597	US Treasury (10 Yr)	2.1863	(2.29)
DAX	11,712.97	(0.86)	18.87	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,768.00	0.00	40,110	Japan 10-Yr Gov. Bond	0.4230	0.40
CAC40	5,085.88	(1.11)	26.18	CMX Copper Active	USD/lb.	6,161.50	0.00	11,264	China 10-Yr Gov. Bond	3.4500	0.00
IBEX 35	11,216.40	(2.92)	20.60	LME Copper 3- mth Rolling Fwd.	USD/MT	6,161.50	0.00	40,497	ECB Rate (Refinancing)	0.05	0.00
FTSE MIB	23,261.87	(2.19)	79.48	Precious Metals				1-Month LIBOR			
Stoxx 600	405.17	(0.63)	23.51	CMX Gold	USD/T. oz	1,196.10	(0.73)	28,551	3 Month LIBOR	0.2845	0.80
MSCI UK	2,064.17	0.00	22.63	CMX Silver	USD/T. oz	16.80	(1.50)	37,261	O/N SHIBOR	1.0400	0.30
MSCI France	144.18	(0.48)	27.50	NYMEX Platinum	USD/T. oz	1,136.70	(1.04)	9,378	1-mth SHIBOR	2.2680	(12.1)
Asia				Agricultural Products				3-mth HIBOR			
NIKKEI 225	20,437.48	0.85	23.11	CBOT Corn	USD/bu	360.50	0.14	161,714	Corporate Bonds (Moody's)		
S&P/ASX 200	5,773.38	1.92	21.06	CBOT Wheat	USD/bu	514.00	(0.24)	84,819	Aaa	4.06	11.00
HSI	28,249.86	0.92	11.98	NYB-ICE Sugar	USD/lb.	12.28	(0.24)	51,396	Baa	4.94	8.00
HSCEI	14,801.94	2.55	10.69	CBOT Soybeans	USD/bu.	927.75	0.38	101,887			
CSI300	5,199.00	5.00	21.85								
SSE Composite	4,910.90	5.44	24.25								
SZSE Composite	2,884.66	5.24	70.64								
MSCI China	81.96	(0.01)	12.70								
MSCI Hong Kong	14,486.73	0.00	10.89								
MSCI Japan	1,021.33	0.76	18.73								

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.0897	1.5407	0.7778	122.74	0.9505	6.2037	7.7523	6.2525
Chg. WTD (%)	(1.05)	(0.54)	(0.58)	(0.98)	(0.74)	(0.10)	(0.01)	(0.18)

Note:

- Data sources: Bloomberg, National Bureau of Statistics of China, ABCIS (updated on date of report)
- Australia Newcastle Steam Coal Spot fob is the Australia Newcastle 6700 kc GAD fob Steam Coal Spot price published by McCloskey



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 2015 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