農銀國際
ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

Economics Weekly
October 27, 2014

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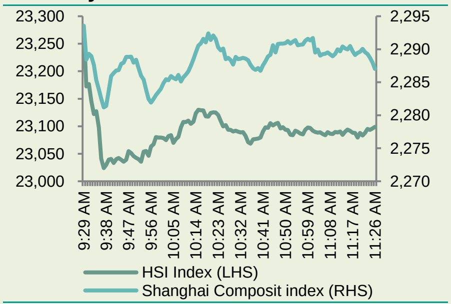
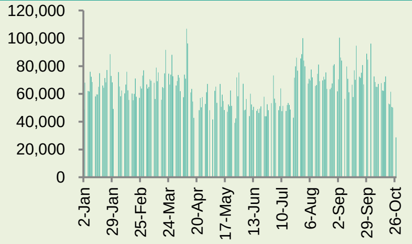
Exhibit 1: Markets' negative reactions to the delay on Oct 27



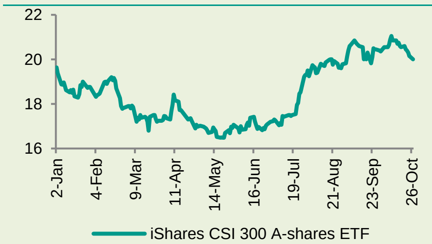
Source(s): Bloomberg, ABCI Securities

Exhibit 2: H-share trading volume in 2014



Source(s): Bloomberg, ABCI Securities

Exhibit 3: A-share ETF in 2014



Source(s): Bloomberg, ABCI Securities

Exhibit 4: Stock categories that may benefit from the Program

Theme	Ticker	Company
A-H share valuation discrepancies	998 HK	CITICB
	1988 HK	MSB
	2333 HK	Great Wall Motor
	338 HK	Sinopec Shanghai
	3993 HK	CMOC
Stocks unavailable in the past	700 HK	Tencent
	27 HK	Galaxy entertainment
	13 HK	Hutchison
	1299 HK	AIA
Brokerage firms eligible for the Program	6881 HK	Galaxy
	1788 HK	Guotai Junan International
	665 HK	Haitong International
	218 HK	Shenyin Wanguo

Source(s): Bloomberg, ABCI Securities

SH-HK stock connect program delayed – a short-term pain

On October 26, 2014, the Hong Kong Stock Exchange announced the Shanghai-Hong Kong Stock Connect Program (Program) would be postponed until relevant approval is received. We believe the delay would have negative repercussions in the Hong Kong and mainland stock markets, but the Program in general would benefit both equity markets in the long run. Moreover, the delay would allow more preparation time for both the participants and exchanges. In terms of investment opportunities, we maintain our view that three major categories will benefit: (1) Stocks with large A-H share valuation discrepancies; (2) Shares in technology, gambling, business conglomerates sectors; (3) Brokerage firms with operations in Hong Kong and Shanghai.

Delay of the Program is no pleasant news for both markets. In general, the Program's delay may signal to the market that China is still hesitant to open up its capital market on market volatility concerns. In addition, delay of the Program would increase the financial burden of the participating financial institutions, which have been ramping up their infrastructure and resources prior to the expected launch date. The Shanghai Stock Composite and the Hang Seng Index both fell in the morning trading session on Oct 27 on uncertainties surrounding the program launch.

The wait, however, should be worthwhile. For investors in Hong Kong and overseas markets, a better access to the mainland stock market would allow investors to tap into its huge growth potential. The mainland stock market would also need to increase the inflow of foreign funds and exposure to international investors in order to achieve a more balanced development. Therefore, we believe the impact of the Program is largely positive despite the short-term repercussions caused by the delay.

A blessing in disguise? Even though the delay of the Program disappoints the investment community, the extra time available would allow participating organizations to better prepare for the Program; the regulators and exchanges in Shanghai and Hong Kong could also improve the current mechanism to address investors' concerns over the major differences of the two markets. Furthermore, the delay may enable the Program to commence in a more stable environment amid China's economic restructuring and help reduce volatility.

Certain stock categories will benefit. We maintain that the Program will have positive impacts on the Hong Kong stock market. In particular, several stock categories will be boosted by the mutual market access: 1) Stocks with large A-H share valuation discrepancies that enable profitable arbitrage trading; 2) Stocks in technology, gambling, and conglomerates sector with international business exposure, as these counters are unavailable for trading in the mainland stock market previously; 3) Brokerage firms with operations in Hong Kong and Shanghai, as their business volume will be boosted.

China Economic Indicators

	2013					2014								
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
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
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
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
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
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
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
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
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
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
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)
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
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
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

World Economic/Financial Indicators

Equity Indices

	Closing price	Chg. WTD (%)	P/E
U.S.			
DJIA	16,805.41	0.00	15.13
S&P 500	1,964.58	0.00	17.57
NASDAQ	4,483.72	0.00	69.39
MSCI US	1,876.88	0.00	17.98
Europe			
FTSE 100	6,427.94	0.61	16.29
DAX	9,057.09	0.77	16.56
CAC40	4,160.99	0.78	25.52
IBEX 35	10,426.50	0.84	21.38
FTSE MIB	19,616.80	0.62	174.2
Stoxx 600	329.39	0.68	19.93
MSCI UK	1,883.59	0.00	16.18
MSCI France	115.56	0.00	26.37
MSCI Germany	120.08	0.00	16.52
MSCI Italy	56.61	0.00	167.8
Asia			
NIKKEI 225	15,388.72	0.63	19.96
S&P/ASX 200	5,458.95	0.86	18.91
HSI	23,143.23	(0.68)	10.08
HSCEI	10,311.58	(0.77)	7.18
CSI300	2,368.83	(0.91)	10.54
SSE Composite	2,290.44	(0.51)	11.06
SZSE Composite	1,302.39	0.44	31.43
MSCI China	62.26	0.00	9.32
MSCI Hong Kong	12,704.71	0.00	10.89
MSCI Japan	763.93	0.00	14.88

Global Commodities

	Unit	Price	Chg. WTD (%)	Volume (5-day avg.)
Energy				
NYMEX WTI	USD/bbl	81.04	0.04	217,342
ICE Brent Oil	USD/bbl	85.83	(0.35)	257,200
NYMEX Natural Gas	USD/MMBtu	3.64	0.44	95,596
Australia Newcastle Steam Coal Spot fob[2]	USD/Metric Tonne	63.30	N/A	N/A
BasicMetals				
LME Aluminum Cash	USD/MT	1,959.50	0.00	17,400
LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,968.00	0.00	42,507
CMX Copper Active	USD/lb.	6,744.00	0.00	6,897
LME Copper 3- mth Rolling Fwd.	USD/MT	6,690.00	0.00	35,128
Precious Metals				
CMX Gold	USD/T. oz	1,229.80	(0.16)	118,838
CMX Silver	USD/T. oz	17.19	0.05	30,888
NYMEX Platinum	USD/T. oz	1,254.10	0.26	7,076
Agricultural Products				
CBOT Corn	USD/bu	349.50	(0.99)	156,406
CBOT Wheat	USD/bu	513.25	(0.87)	49,433
NYB-ICE Sugar	USD/lb.	16.15	(1.40)	44,883
CBOT Soybeans	USD/bu.	980.50	(0.28)	99,846

Bond Yields & Key Rates

	Yield (%)	Chg. WTD (Bps)
US Fed Fund Rate	0.25	0.00
US Prime Rate	3.25	0.00
US Discount Window	0.75	0.00
US Treasury (1 Mth)	0.0152	0.51
US Treasury (5Yr)	1.5103	1.47
US Treasury (10 Yr)	2.2818	1.33
Japan 10-Yr Gov. Bond	0.4740	0.40
China 10-Yr Gov. Bond	3.8400	(1.00)
ECB Rate (Refinancing)	0.05	0.00
1-Month LIBOR	0.1520	(0.52)
3 Month LIBOR	0.2331	0.18
O/N SHIBOR	2.4822	3.70
1-mth SHIBOR	3.8322	(1.38)
3-mth HIBOR	0.3757	0.00
Corporate Bonds (Moody's)		
Aaa	3.96	9.00
Baa	4.71	5.00

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.2696	1.6100	0.8797	107.91	0.9503	6.1162	7.7569	6.2400
Chg. WTD (%)	0.20	0.06	0.05	0.23	0.17	0.00	0.01	0.10

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

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Definition of equity rating

Rating	Definition
Buy	Stock return ≥ Market return rate
Hold	Market return – 6% ≤ 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 ≤180 day volatility/180 day benchmark index volatility
High	1.5 ≤ 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 ≤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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