



## Economics Weekly January 20, 2015

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#### Exhibit 1: 2014 economic indicators

YoY% or otherwise specified	2014	2013
GDP	7.4	7.7
CPI	2.0	2.6
PPI	(1.9)	(1.9)
Exports	6.1	7.9
Imports	0.4	7.3
Trade Balance (US\$/bn)	382.5	259.8
FAI (YTD%)	15.7	19.6
Industrial production	8.3	9.7
Retail Sales	12.0	13.1
M2	12.2	13.6
New loans (RMB/bn)	9781.3	8891.7
Aggregate financing (RMB/bn)	16413.7	17290.4

Source(s): Bloomberg, ABCI Securities

#### Exhibit 2: 4Q14 economic indicators

YoY% or otherwise specified	4Q'14	3Q'14
GDP	7.3	7.3
CPI	1.5	2.0
PPI	(2.7)	(1.3)
Exports	8.5	12.9
Imports	(1.6)	1.3
Trade Balance (US\$/bn)	149.5	128.1
FAI (YTD%)	15.7	16.1
Industrial production	7.6	8.0
Retail Sales	11.7	11.9
M2	12.2	12.9
New loans (RMB/bn)	2098.3	1944.9
Aggregate financing (RMB/bn)	3521.5	2366.9

Source(s): Bloomberg, ABCI Securities

#### Exhibit 3: December economic indicators

YoY% or otherwise specified	Dec'14	Nov'14
CPI	1.5	1.4
PPI	(3.3)	(2.7)
Exports	9.7	4.7
Imports	(2.4)	(6.7)
Trade Balance (US\$/bn)	49.6	54.5
FAI (YTD%)	15.7	15.8
Industrial production	7.9	7.2
Retail Sales	11.9	11.7
M2	12.2	12.3
New loans (RMB/bn)	697.3	852.7
Aggregate financing (RMB/bn)	1694.5	1146.3

Source(s): Bloomberg, ABCI Securities

## A “new normal” for China's economy

In 2014, China adapted to a “new normal” in economic growth. China's economic expansion remained steady at 7.3% YoY in 4Q14; moderating FAI and retail sales growth during the quarter slowed the annual real GDP growth to 7.4% YoY from 7.7% YoY in 2013. Although adjustments in economic structure and the new norm of lower economic growth have resulted in short-term economic turmoil, China is committed to launching stimulus measures to regenerate momentum and pursuing fiscal reform, SOE reform, financial and capital market reforms to direct the economy toward a more sustainable path. China's push for more comprehensive social and economic reforms will create ample of new opportunities for growth, which in turn will retire many old growth engines and help relieve China's overcapacity problems. Overall, China's economic growth has stabilized and the forward-looking economic indicators point to a modest acceleration in domestic demand. We are of the view that China's GDP growth will reach 7.2% YoY for 2015F.

**FAI decelerated on slower property investment.** FAI grew 15.7% YoY in 2014 (vs. 19.6% YoY in 2013), mainly due to continued moderation in real estate investment during the year. Real estate investment growth decelerated to 10.5% YoY (vs. 19.8 % YoY in 2013), suggesting the sector is still rebalancing. Infrastructure investment grew rapidly by 21.5% YoY and will continue to become the major growth driver of FAI.

**Industrial output rebounded to 7.9% in December.** Industrial output accelerated to 7.9% YoY in December (vs. 7.2% in November), mainly due to the strength in heavy industry production. For 2014, industrial output slowed to 8.3% YoY from 9.7% YoY in 2014, indicating that growth in manufacturing sector remained subdued.

**Retail sales growth rebounded to 11.9% YoY in December.** China's retail sales growth was 11.9% YoY in December (vs. 11.7% YoY in November) and 12.0% YoY in 2014 (vs. 13.1% YoY in 2013). The national online retail sales reached RMB 2.7898tr, up 49.7% YoY. Reduced growth in annual retail sales was mainly caused by the anti-corruption measures and fiscal consolidation implemented by the government. While China's transformation to a consumption-led economy is still in progress, the government will dedicate to boosting consumer demand in 2015.

**External trade showed strength in December.** China's December trade balance reached US\$ 49.6bn, with exports growing stronger than expected by 9.7% YoY and decline in imports narrowing to 2.4% YoY. Although the December trade data exceeded consensus, total trade for 2014 only increased 3.4% YoY, missing the government's growth target of 7.5%. We expect overseas demand to strengthen on recovery in the U.S. as well as ECB's stimulus measures, which in turn will support China's exports in the short term.

**CPI inflation and PPI stabilized in December.** CPI was 1.5% YoY in December (vs. 1.4% YoY in November). Cold weather conditions drove up CPI slightly for the month. Inflation, however, has remained below 2% for four consecutive months. CPI for 2014 reached 2.0%



YoY, far below the government's target at 3.5% YoY, raising further concerns on disinflation risks. PPI in December and 2014 stayed at -3.3% YoY and -1.9% YoY, indicating enormous pricing pressure confronted by manufacturers amid weak commodities prices and moderating domestic demand. Nonetheless, we believe credit loosening measures will help drive up CPI and PPI in 2015.

**Monetary growth moderated further in December; new loans to boost liquidity in near term.** M2 growth and new loans further moderated to 12.2% and RMB 697.3bn in December despite PBOC's credit loosening measures, denoting further slowdown in monetary growth. Total new loans for 2014 reached RMB 9.78tr, up 10.0% YoY (vs. 8.4% YoY in 2013). Aggregate financing for 2014 reached RMB 16.4tr, down 5.1% YoY (vs. 9.7% YoY increase in 2013). In our view, previous credit loosening measures have not been fully utilized and their lagged impacts on liquidity should be seen starting from January. Increased liquidity will help accommodate capital demand in 2015.



China Economic Indicators

	2013			2014											
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Real GDP (YoY%)	---	---	7.7	---	---	7.4	---	--	7.5	--	---	7.3	---	---	7.3
Export Growth (YoY%)	5.6	12.7	5.8	10.6	(18.1)	(6.6)	0.9	7.0	7.2	14.5	9.4	15.3	11.6	4.7	9.7
Import Growth (YoY%)	7.6	5.3	6.5	10.0	10.1	(11.3)	0.8	(1.6)	5.5	(1.6)	(2.4)	7.0	4.6	(6.7)	(2.4)
Trade Balance (USD/bn)	31.1	33.8	32.3	31.9	(23.0)	7.7	18.5	35.9	31.6	47.3	49.8	30.9	45.4	54.5	49.6
Retail Sales Growth (YoY%)	13.3	13.7	13.6		11.8	12.2	11.9	12.5	12.4	12.2	11.9	11.6	11.5	11.7	11.9
Industrial Production (YoY%)	10.3	10.0	9.7		8.6	8.8	8.7	8.8	9.2	9.0	6.9	8.0	7.7	7.2	7.9
PMI - Manufacturing (%)	51.4	51.4	51.0	50.5	50.2	50.3	50.4	50.8	51.0	51.7	51.1	51.1	50.8	50.3	50.1
PMI - Non-manufacturing (%)	56.3	56.0	54.6	53.4	55.0	54.5	54.8	55.5	55.0	54.2	54.4	54.0	53.8	53.9	54.1
FAI(YTD) (YoY%)	20.1	19.9	19.6		17.9	17.6	17.3	17.2	17.3	17.0	16.5	16.1	15.9	15.8	15.7
CPI (YoY%)	3.2	3.0	2.5	2.5	2.0	2.4	1.8	2.5	2.3	2.3	2.0	1.6	1.6	1.4	1.5
PPI (YoY%)	(1.5)	(1.4)	(1.4)	(1.6)	(2.0)	(2.3)	(2.0)	(1.4)	(1.1)	(0.9)	(1.2)	(1.8)	(2.2)	(2.7)	(3.3)
M2(YoY%)	14.3	14.2	13.6	13.2	13.3	12.1	13.2	13.4	14.7	13.5	12.8	12.9	12.6	12.3	12.2
New Lending (RMB/bn)	506.1	624.6	482.5	1,320	644.5	1,050	774.7	870.8	1080	385.2	702.5	857.2	548.3	852.7	697.3
Aggregate Financing (RMB bn)	864	1,226.9	1,232.2	2,580	938.7	2,081.3	1,550	1,400	1,970	273.7	957.7	1135.5	662.7	1,146.3	1690.0

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	17,511.57	0.00	15.74	NYMEX WTI	USD/bbl	47.13	(3.20)	407,141		0.25	0.00
S&P 500	2,019.42	0.00	17.90	ICE Brent Oil	USD/bbl	48.30	(3.73)	149,718	US Prime Rate	3.25	0.00
NASDAQ	4,634.38	0.00	35.52	NYMEX Natural Gas	USD/MMBtu	3.00	(3.93)	174,603	US Discount Window	0.75	0.00
MSCI US	1,928.05	0.00	18.30	Australia Newcastle Steam Coal Spot fob <sup>2</sup>	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (1 Yr)	0.1573	0.00
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (5Yr)			
FTSE 100	6,613.76	0.97	18.91	LME Aluminum Cash	USD/MT	1,815.75	(1.33)	13,140	US Treasury (10 Yr)	1.7914	(4.54)
DAX	10,270.48	1.01	18.04	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,818.00	(1.46)	50,105	Japan 10-Yr Gov. Bond	0.2230	(2.00)
CAC40	4,414.33	0.79	26.39	CMX Copper Active	USD/lb.	5,699.00	(0.85)	25,300	China 10-Yr Gov. Bond	3.5200	(5.00)
IBEX 35	10,215.50	1.76	21.28	LME Copper 3- mth Rolling Fwd.	USD/MT	5,672.00	(0.75)	86,595	ECB Rate (Refinancing)	0.05	0.00
FTSE MIB	19,510.61	1.33	N/A	<b>Precious Metals</b>				1-Month LIBOR			
Stoxx 600	355.14	0.78	22.06	CMX Gold	USD/T. oz	1,291.70	1.16	203,897	3 Month LIBOR	0.2566	0.25
MSCI UK	1,937.97	0.51	18.71	CMX Silver	USD/T. oz	17.86	0.59	52,656	O/N SHIBOR	2.7070	7.40
MSCI France	124.01	0.39	27.53	NYMEX Platinum	USD/T. oz	1,271.80	0.19	14,183	1-mth SHIBOR	4.8465	5.35
MSCI Germany	137.15	0.73	18.18	<b>Agricultural Products</b>				3-mth HIBOR			
MSCI Italy	56.05	0.95	N/A	CBOT Corn	USD/bu	383.50	(0.90)	217,674	Corporate Bonds (Moody's)		
<b>Asia</b>				CBOT Wheat	USD/bu	532.25	(0.09)	63,260	Aaa	3.44	(9.00)
NIKKEI 225	17,366.30	2.98	20.99	NYB-ICE Sugar	USD/lb.	15.48	0.98	57,665	Baa	4.42	(11.0)
S&P/ASX 200	5,307.67	0.16	18.34	CBOT Soybeans	USD/bu.	985.25	(0.66)	133,438			
HSI	23,951.16	(0.63)	10.14								
HSCEI	11,741.78	(2.77)	8.26								
CSI300	3,396.22	(6.57)	15.06								
SSE Composite	3,173.05	(6.03)	15.19								
SZSE Composite	1,476.84	(0.11)	36.10								
MSCI China	65.79	(3.02)	9.91								
MSCI Hong Kong	12,733.40	(0.43)	10.54								
MSCI Japan	846.63	0.64	15.54								

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.1579	1.5129	0.8208	118.16	0.8790	6.2137	7.7532	6.3185
Chg. WTD (%)	0.10	(0.14)	(0.18)	(0.55)	(2.31)	(0.10)	(0.03)	0.21

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



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## 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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