

## Economics Weekly

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#### Exhibit 1: Six key tasks outlined in CEWC

Task	Details
Security in food supplies	Self-reliance is emphasized, and strategic development should be pursued to ensure sufficient domestic supplies of grains, especially subsistence grains
Industrial restructuring	New strategic industries and service industries will be the focus of development, while excess capacity will be tackled
Controlling debt risks	Controlling and alleviating local government debt are the key; fiscal management of debt and stricter issuance mechanism should be in place for new local government debt
Balancing regional growth	Regional development and growth will be coordinated according to the government's new initiatives
Improving citizens' livelihoods	Employment for new graduates as well as housing affordability and availability to the general public will receive special attention
Opening up the economy	Comparative and competitive advantages for the export industry will be developed; free trade negotiations will be accelerated

Source(s): Government release, Xinhua News, China Daily, ABCI Securities

## China confirms continuing efforts to rebalance growth

The key theme of Central Economic Work Conference (CEWC) rested on maintaining the stability of economic growth while deepening reforms to restructure its economy. Leaders vowed to pursue a steady pace of growth and conduct effective economic rebalancing. The CEWC laid out six new key tasks in 2014 including "Security in Food Supplies", "Industrial Restructuring", "Controlling Debt Risks", "Balancing Regional Growth", "Improving Citizens' Livelihoods", and "Opening up the Economy". New initiatives on industrial restructuring and debt risk management will be prioritized to ensure the quality and long-term sustainability of growth. Moreover, CEWC further recognizes stabilization and gradual improvement of economic growth in 2014, which also reflects that China's macro policy stance remains prudent on the monetary front and proactive on the fiscal front.

**Industrial restructuring is the key to economic rebalancing.** The CEWC proposed that the government will aim at trimming excess capacity, enhancing market's role in resource allocation, strengthening regulatory oversight on environmental protection, and developing new strategic and service industries. We believe that the government's efforts in this aspect will help promote the tertiary sector, which will increase domestic consumption, and new generation of technologies, which will enhance product quality, reduce resource consumption and improve long-term social well-being. We expect that internet service providers and alternative energy producers will experience growth acceleration under this initiative.

**Deleveraging will be pursued prudently.** To soundly manage risks arising from surging local government debt and possible expansion of shadow banking, China will adopt short-term measures and build a long-term mechanism in defusing risks of local government debt. We believe China will normalize the new loans growth, optimize the funding and credit structure, and increase the proportion of direct financing. In our view, specialized asset management sector will benefit from the local government deleveraging process.

**Resolving employment and housing issues build a harmonious society.** The deceleration of job creation has put pressures on rising unemployment rate as growth rate of new college graduates rose at a fast pace in recent years. Surging housing prices has also been a long-standing issue which affects people's welfare. We believe that the government will reduce youth unemployment by encouraging more job creation in private sector, and increasing the supply of affordable and low-rent housing to address the housing problem will benefit the construction and raw material sector.

**Further opening up China is inevitable.** The CEWC also emphasized the further opening up of China's economy. We believe that the government will roll out more policies to carry forward the momentum brought by recent development in the China (Shanghai) Pilot Free Trade Zone. The proposed upgrade of the export sector will also help China move up the value chain and gain competitive advantage.



China Economic Indicators													
	2012		2013										
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov
Real GDP (YoY%)	---	7.9	---	---	7.7	---	---	7.5	---	---	7.8	---	---
Export Growth (YoY%)	2.9	14.1	25.0	21.8	10.0	14.7	1.0	(3.1)	5.1	7.2	(0.3)	5.6	12.7
Import Growth (YoY%)	0	6	28.8	(15.2)	14.1	16.8	(0.3)	(0.7)	10.9	7.0	7.4	7.6	5.3
Trade Balance (USD/bn)	19.63	31.6	29.2	15.3	(0.9)	18.2	20.4	27.1	17.8	28.5	15.2	31.1	33.8
Retail Sales Growth (YoY%)	14.9	15.2		12.3	12.6	12.8	12.9	13.3	13.2	13.4	13.3	13.3	13.7
Industrial Production (YoY%)	10.1	10.3		9.9	8.9	9.3	9.2	8.9	9.7	10.4	10.2	10.3	10
PMI - Manufacturing (%)	50.6	50.6	50.4	50.1	50.9	50.6	50.8	50.1	50.3	51.0	51.1	51.4	51.4
PMI - Non-manufacturing (%)	55.6	56.1	56.2	54.5	55.6	54.5	54.3	53.9	54.1	53.9	55.4	56.3	56
FAI(YTD) (YoY%)	20.7	20.6		21.2	20.9	20.6	20.4	20.1	20.1	20.3	20.2	20.1	19.9
CPI (YoY%)	2	2.4	2.0	3.2	2.1	2.4	2.1	2.7	2.7	2.6	3.1	3.2	3
PPI (YoY%)	(2.2)	(1.9)	(1.6)	(1.6)	(1.9)	(2.6)	(2.9)	(2.7)	(2.3)	(1.6)	(1.3)	(1.5)	(1.4)
(YoY%)	13.9	13.8	15.9	15.2	15.7	16.1	15.8	14.0	14.5	14.7	14.2	14.3	14.2
New Lending (RMB/bn)	522.9	454.3	1070.0	620.0	1060.0	792.9	667.4	860.5	699.9	711.3	787.0	506.1	624.6

### World Economic/Financial Indicators

Equity Indices				Global Commodities				Bond Yields & Key Interest Rates			
	Closing price	Chg. WTD (%)	P/E	Unit	Price	Chg. WTD (%)	Volume (5-day avg.)		Yield (%)	Chg. WTD	
<b>U.S.</b>				<b>Energy</b>							
DJIA	15,755.36	0.00	15.24	NYMEX WTI	USD/bbl	96.83	0.24	237,606			
S&P 500	1,775.32	0.00	16.67	ICE Brent Oil	USD/bbl	109.82	0.91	163,739	US Fed Fund Rate	0.25	0.00
NASDAQ	4,000.98	0.00	24.77	NYMEX Natural Gas	USD/MMBtu	4.30	(1.20)	208,329	US Prime Rate	3.25	0.00
MSCI US	1,698.23	0.00	16.93	Australia Newcastle Steam Coal Spot fob <sup>2</sup>	USD/Metric Tonne	83.95	N/A	N/A	US Discount Window	0.75	0.000
<b>Europe</b>				<b>Basic Metals</b>							
FTSE 100	6,462.77	0.35	15.93	LME Aluminum Cash	USD/MT	1,755.25	0.00	19,057	US Treasury (1 Mth)	0.0152	1.01
DAX	9,061.48	0.61	15.44	LME Aluminum 3-mth. Rolling Fwd.	USD/MT	1,799.00	0.00	35,338	US Treasury (5 Yr)	1.5178	(1.14)
CAC40	4,085.53	0.64	17.49	CMX Copper Active	USD/lb.	331.90	0.21	46,001	US Treasury (10 Yr)	2.8509	(1.37)
IBEX 35	9,374.50	1.10	53.84	LME Copper 3- mth Rolling Fwd.	USD/MT	7,255.00	0.00	50,289	Japan 10-Yr Gov. Bond	0.6900	(0.60)
FTSE MIB	17,963.58	0.89	270.3	TSI CFR China Iron Ore Fines Index <sup>3</sup>	USD	136.00	(2.30)	N/A	China 10-Yr Gov. Bond	4.6100	9.00
Stoxx 600	311.24	0.48	20.56	<b>Precious Metals</b>							
MSCI UK	1,901.96	0.00	15.83	CMX Gold	USD/T. oz	1,227.70	(0.56)	122,781	ECB Rate (Refinancing)	0.25	0.00
MSCI France	113.61	0.00	22.26	CMX Silver	USD/T. oz	19.46	(0.76)	38,386	1-Month LIBOR	0.1640	(0.55)
MSCI Germany	123.86	0.00	14.91	NYMEX Platinum	USD/T. oz	1,355.80	(0.52)	10,143	3 Month LIBOR	0.2439	0.30
MSCI Italy	51.02	0.00	93.90	<b>Agricultural Products</b>							
<b>Asia</b>				CBOT Corn	USD/bu	422.75	(0.65)	109,801	O/N SHIBOR	3.4470	1.49
NIKKEI 225	15,152.91	(1.62)	21.89	CBOT Wheat	USD/bu	625.00	(0.60)	46,042	3-Month HIBOR	0.3793	0.00
S&P/ASX 200	5,089.63	(0.17)	21.26	NYB-ICE Sugar	USD/lb.	16.27	0.00	53,919	Corporate Bonds (Moody's)		
HSI	23,114.66	(0.56)	10.48	CBOT Soybeans	USD/bu.	1,321.50	(0.45)	116,556	Aaa	4.66	(6.00)
HSCEI	10,932.27	(0.85)	8.11								
CSI300	2,367.92	(1.61)	11.05								
SSE Composite	2,160.86	(1.60)	10.82								
SZSE Composite	1,054.69	(1.26)	28.68								
MSCI China	63.64	0.00	10.04								
MSCI Hong Kong	12,060.22	0.00	10.77								
MSCI Japan	766.89	0.00	16.48								

Currency								
	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-Mth
Spot Rate	1.3772	1.6318	0.8941	103.02	0.8872	6.0722	7.7534	6.1320
Chg. WTD (%)	0.22	0.11	(0.26)	0.18	0.26	(0.01)	0.01	0.02

Note:

- Data sources: Bloomberg Finance LP, 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
- 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 2007-2011

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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