



## Economics Weekly February 1, 2016

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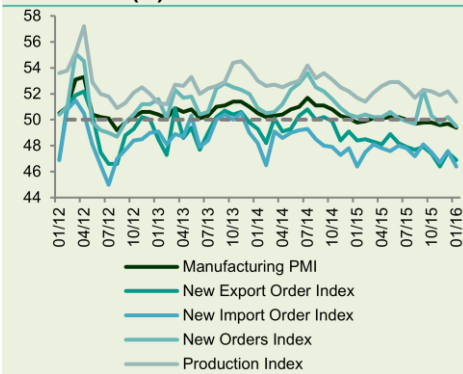
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### Exhibit 1: January economic indicators

YoY% or otherwise specified	Jan'16*	Dec'15	2015
Manufacturing PMI(%)	49.4	49.7	49.7
Non-Manufacturing PMI (%)	53.5	54.4	54.4
CPI	2.2	1.6	1.4
PPI	(4.1)	(5.9)	(5.2)
Exports	(3.5)	(1.4)	(2.8)
Imports	(5.5)	(7.6)	(14.1)
Trade Balance (US\$/bn)	60.7	60.1	594.5
FAI (YTD%)	---	10.0	10.0
Industrial production	---	5.9	6.1
Retail Sales	---	11.1	10.7
M2	13.5	13.3	13.3
New loans (RMB/bn)	1,250.0	597.8	11,719.9
Aggregate financing (RMB/bn)	2,098.1	1,815.1	15,410.0

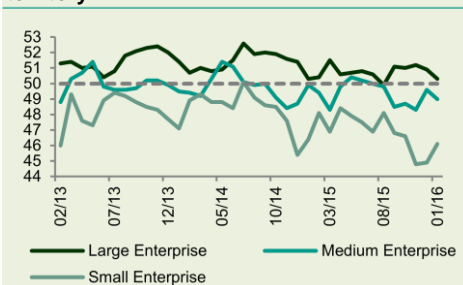
\* Forecasts (Excluding manufacturing PMI and non-manufacturing PMI)  
Source(s): NBS, PBOC, Bloomberg, ABCI Securities estimates

### Exhibit 2: China's manufacturing PMI and sub-indices (%)



Source(s): NBS, ABCI Securities

### Exhibit 3: Manufacturing PMI for small and medium enterprises still in contraction territory



Source(s): NBS, ABCI Securities

## January PMI fell to three-year low

China's newly released manufacturing PMI for January edged down to 49.4% from 49.7% last month, the lowest since August 2012. Most manufacturing sub-indices also worsened, reflecting that manufacturing activities are moderating on waning demand. The downtrend has extended to the services sector, as non-manufacturing PMI for January slowed to 53.5% against 54.4% in December. Most economic indicators for January are expected to fall. In contrast, monetary indicators would show strong growth amid extensive credit loosening by PBOC. In coming months, we believe China will launch more economic stimulus measures to drive domestic demand.

### Latest PMI shows faltering momentum in manufacturing.

China's PMI for January fell to a 28-month low at 49.4% from 49.7% in December. Falling commodity prices and sluggish market demand are main culprits behind the slowdown. Weakening PMI in January indicates downward pressure on China's economy has been increasing and more stimulus measures will be needed to restore momentum in the short term.

### Demand remains weak.

The "New Order Index" fell from 50.2% in December to 49.5% in January, reflecting a weakening domestic demand. In addition, the drop in "Purchases of Input Index" and "Main Raw Materials Inventory Index" hints strongly that market demand is likely to trend down in coming months, as manufacturers have no intention to ramp up inventories for higher production levels. Uncertain of the economic outlook, manufacturers are cautious on expansion.

### Inflation would edge up.

We believe CPI inflation in January would rise further to 2.2% YoY on the low-base effect, in addition to the surging food prices as the Chinese Lunar New year nears. The "Purchasing Price Index" edged up from 42.4% in December to 45.1% in January, reflecting stabilization in commodity prices. Therefore, we expect decline in PPI to narrow to 3.5% YoY for January.

### External trade sector shows worsening signs.

"New Export Order Index" and "New Import Order Index" reached 48.4% and 46.4% in January, as compared to 49.1% and 47.8% in December, denoting further deterioration in external trade growth. For January, we expect exports and imports to fall by 3.5% and 5.5% YoY, while trade balance would reach US\$ 60.7bn.

### Monetary indicators to rise in January.

PBOC's liquidity loosening has injected ample liquidity into the banking system to help stimulate economic activities. We believe growth in monetary indicators for January would accelerate. New bank loans would rise to RMB 1.25tr; aggregate financing would reach RMB 2.1tr while M2 would expand by 13.5% YoY.



China Economic Indicators

	2014			2015												2016
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan*
Real GDP (YoY%)	---	---	7.3	---	---	7.0	---	---	7.0	---	---	6.9	---	---	6.8	---
Export Growth (YoY%)	11.6	4.7	9.7	(3.2)	48.3	(15.0)	(6.4)	(2.5)	2.8	(8.3)	(5.5)	(3.7)	(6.9)	(6.8)	(1.4)	(3.5)
Import Growth (YoY%)	4.6	(6.7)	(2.4)	(19.7)	(20.5)	(12.7)	(16.2)	(17.6)	(6.1)	(8.1)	(13.8)	(20.4)	(18.8)	(8.7)	(7.6)	(5.5)
Trade Balance (USD/bn)	45.4	54.5	49.6	60.0	60.6	3.1	34.1	59.49	46.6	43.0	60.2	60.3	61.6	54.1	60.9	60.7
Retail Sales Growth (YoY%)	11.5	11.7	11.9	10.7	10.2	10.0	10.1	10.6	10.5	10.8	10.9	11.0	11.2	11.1	---	---
Industrial Production (YoY%)	7.7	7.2	7.9	6.8	5.6	5.9	6.1	6.8	6.0	6.1	5.7	5.6	6.2	5.9	---	---
PMI - Manufacturing (%)	50.8	50.3	50.1	49.8	49.9	50.1	50.1	50.2	50.2	50.0	49.7	49.8	49.8	49.6	49.7	49.4
PMI - Non-manufacturing (%)	53.8	53.9	54.1	53.7	53.9	53.7	53.4	53.2	53.8	53.9	53.4	53.4	53.1	53.6	54.4	53.5
FAI(YTD) (YoY%)	15.9	15.8	15.7	13.9	13.5	12.0	11.4	11.4	11.2	10.9	10.3	10.2	10.2	10.0	---	---
CPI (YoY%)	1.6	1.4	1.5	0.8	1.4	1.4	1.5	1.2	1.4	1.6	2.0	1.6	1.3	1.5	1.6	2.2
PPI (YoY%)	(2.2)	(2.7)	(3.3)	(4.3)	(4.8)	(4.6)	(4.6)	(4.6)	(4.8)	(5.4)	(5.9)	(5.9)	(5.9)	(5.9)	(5.9)	(4.1)
M2(YoY%)	12.6	12.3	12.2	10.8	12.5	11.6	10.1	10.8	11.8	13.3	13.3	13.1	13.5	13.7	13.3	13.5
New Lending (RMB/bn)	548.3	852.7	697.3	1,470	1,020	1,180	707.9	900.8	1,280.6	1,480	809.6	1,050	513.6	708.9	597.8	1,250
Aggregate Financing (RMB bn)	662.7	1,146.3	1,690	2,047	1,356	1,241	1,056	1,236	1,833	742	1,082	1,300	476.7	1,020	1,815.1	2,098.1

\* Forecast (Excluding PMI - Manufacturing & PMI - Non-manufacturing)

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	0.50	0.00		
DJIA	16,466.30	0.00	15.00	NYMEX WTI	USD/bbl	33.03	(1.75)	687,873	US Prime Rate	3.50	0.00	
S&P 500	1,940.24	0.00	17.44	ICE Brent Oil	USD/bbl	35.44	2.01	225,429	US Discount Window	1.00	0.00	
NASDAQ	4,613.95	0.00	28.06	NYMEX Natural Gas	USD/MMBtu	2.20	(4.22)	96,745	US Treasury (1 Yr)	0.2237	0.51	
MSCI US	1,843.88	0.00	18.01	Australia Newcastle Steam Coal Spot fob <sup>2</sup>	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (5Yr)	1.3361	0.81	
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (10 Yr)	1.9277	0.68		
FTSE 100	6,075.23	(0.14)	27.37	LME Aluminum Cash	USD/MT	1,518.75	0.00	13,417	Japan 10-Yr Gov. Bond	0.0550	(4.50)	
DAX	9,769.89	(0.29)	21.79	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,519.00	0.00	29,663	China 10-Yr Gov. Bond	2.8900	5.00	
CAC40	4,403.39	(0.31)	19.86	CMX Copper Active	USD/lb.	4,569.00	0.00	6,393	ECB Rate (Refinancing)	0.05	0.00	
IBEX 35	8,888.20	0.82	17.85	LME Copper 3- mth Rolling Fwd.	USD/MT	4,561.00	0.00	40,908	1-Month LIBOR	0.4250	(0.05)	
FTSE MIB	18,771.61	0.61	558.8	<b>Precious Metals</b>				3 Month LIBOR	0.6126	(0.65)		
Stoxx 600	342.60	0.10	22.51	CMX Gold	USD/T. oz	1,121.80	0.48	115,021	O/N SHIBOR	1.9870	(0.20)	
MSCI UK	1,774.40	0.00	28.16	CMX Silver	USD/T. oz	14.33	0.61	41,566	1-mth SHIBOR	3.1270	(4.10)	
MSCI France	125.61	0.00	20.36	NYMEX Platinum	USD/T. oz	869.30	(0.57)	14,362	3-mth HIBOR	0.6854	0.00	
MSCI Germany	128.32	0.00	21.38	<b>Agricultural Products</b>				Corporate Bonds (Moody's)				
MSCI Italy	53.16	0.00	N/A	CBOT Corn	USD/bu	369.25	(0.74)	179,817	Aaa	4.07	5.00	
<b>Asia</b>				CBOT Wheat	USD/bu	474.50	(0.99)	66,734	Baa	5.48	(1.00)	
NIKKEI 225	17,865.23	1.98	19.35	NYB-ICE Sugar	USD/lb.	13.08	(0.46)	101,774	Note:			
S&P/ASX 200	5,043.59	0.76	18.42	CBOT Soybeans	USD/bu.	880.00	(0.26)	124,107	1. Data sources: Bloomberg, National Bureau of Statistics of China, ABCIS (updated on date of report)			
HSI	19,595.50	(0.45)	8.54									2. Australia Newcastle Steam Coal Spot fob is the Australia Newcastle 6700 kc GAD fob Steam Coal Spot price published by McCloskey
HSCEI	8,144.85	(1.17)	6.04									
CSI300	2,901.05	(1.53)	12.24									
SSE Composite	2,688.85	(1.78)	14.19									
SZSE Composite	1,671.91	(1.04)	38.74									
MSCI China	52.13	0.00	9.15									
MSCI Hong Kong	11,002.78	0.00	9.33									
MSCI Japan	866.68	0.00	14.77									

\* As of 12:00 AM closing

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.0850	1.4284	0.7077	121.21	1.0209	6.5792	7.7831	6.9008
Chg. WTD (%)	0.18	0.28	(0.10)	(0.06)	0.22	(0.05)	0.04	(0.14)



## 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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