



## Economics Weekly February 18, 2016

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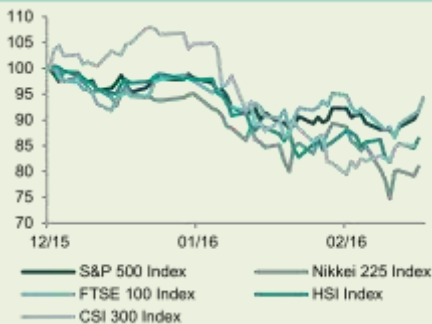
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Exhibit 1: Stock Market fluctuation in 2016



Source(s): Bloomberg, ABCI Securities

## U.S. rate hike: Taking it slow

The U.S. Federal Reserve (the Fed) minutes for the Federal Open Market Committee (FOMC) meeting in January indicated global slowdown and surging volatility in financial markets may alter the path of interest rate hike in 2016. Emerging economies, including China, are experiencing larger-than-expected economic slowdown that would drag down growth in the U.S. Since the beginning of 2016, a tumultuous financial market, as characterized by outsized moves in financial asset prices and spiking volatility, has raised concerns over the strength of global economy. In our view, the U.S. economy has been reviving after a winter swoon but economic activities are only slowly gaining traction. As inflation remains mild, there is no immediate urgency to increase rate in the near term.

**Volatile financial market dominates investor sentiment and delays the U.S. rate hike.** The major risk remains the ripple effects of currency depreciation and economic downturn in emerging markets, which would dampen the global economic recovery. Intense market volatility would fuel greater anxiety about adverse consequences around the world, accentuating the danger of a vicious cycle of economic contraction and financial instability. With the weak commodity prices, major slide in the U.S. equity market, and the low inflation risks, the rate hike will be delayed. This will alleviate some of the market uncertainties regarding the continued capital outflow from emerging economies.

**Implications of a delayed rate hike in the U.S.** The global business environment is facing an increasingly complicated monetary scenario. The U.S. may adopt low interest rates for a longer period to support the job market. This is in line with the credit loosening programs in Asia and Europe targeting to stimulate growth and revive investment sentiment. Capital markets in Asia will remain robust as global liquidity continues to be directed to the region amid the low interest rate environment.

**China to pursue more aggressive macro loosening policies.** China's economy is undergoing readjustments while bracing for the new norm of slower expansion. Despite the short-term economic turmoil, China is committed to pursuing reforms that will direct the economy toward a more sustainable route. Possible delay of the U.S. rate increase, however, may neutralize capital outflow and render China's macro credit loosening more effective. Amid the commencement of the 13th Five-Year Plan (FYP), we expect the Chinese government to deploy more aggressive monetary easing and pro-growth reforms to support the economic growth.



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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)	(11.2)
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)	(18.8)
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	63.3
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	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	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	11.4	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	14.0
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	2,510
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	3,420

\* 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	16,453.83	3.00	14.94	NYMEX WTI	USD/bbl	31.23	696,599	US Prime Rate	3.50	0.00		
S&P 500	1,926.82	3.33	17.37	ICE Brent Oil	USD/bbl	34.72	331,397	US Discount Window	1.00	0.00		
NASDAQ	4,534.06	4.53	38.95	NYMEX Natural Gas	USD/MMBtu	1.94	(1.42)	131,479	US Treasury (1 Yr)	0.2695	2.04	
MSCI US	1,828.96	3.42	17.93	Australia Newcastle Steam Coal Spot fob <sup>2</sup>	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (5Yr)	1.2346	2.42	
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (10 Yr)	1.7896	4.15		
FTSE 100	6,006.45	5.24	26.40	LME Aluminum Cash	USD/MT	1,523.25	1.38	30,498	Japan 10-Yr Gov. Bond	0.0200	(7.00)	
DAX	9,393.96	4.76	20.52	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,519.00	1.27	31,655	China 10-Yr Gov. Bond	2.8700	(2.00)	
CAC40	4,238.61	6.10	19.62	CMX Copper Active	USD/lb.	4,593.50	1.95	17,159	ECB Rate (Refinancing)	0.05	0.00	
IBEX 35	8,391.10	5.94	17.35	LME Copper 3- mth Rolling Fwd.	USD/MT	4,589.00	1.98	35,651	1-Month LIBOR	0.4295	(0.10)	
FTSE MIB	17,402.87	5.38	65.11	<b>Precious Metals</b>				3 Month LIBOR	0.6182	0.00		
Stoxx 600	328.38	5.11	23.24	CMX Gold	USD/T. oz	1,207.40	(2.58)	245,734	O/N SHIBOR	1.9510	(33.0)	
MSCI UK	1,759.83	5.62	27.22	CMX Silver	USD/T. oz	15.27	(3.32)	70,333	1-mth SHIBOR	2.8840	(16.0)	
MSCI France	120.55	5.94	20.14	NYMEX Platinum	USD/T. oz	942.00	(1.68)	13,840	3-mth HIBOR	0.6486	(2.00)	
MSCI Germany	123.04	4.70	19.97	<b>Agricultural Products</b>				Corporate Bonds (Moody's)				
MSCI Italy	49.46	4.74	N/A	CBOT Corn	USD/bu	371.00	2.06	107,242	Aaa	4.01	3.00	
<b>Asia</b>				CBOT Wheat	USD/bu	473.00	2.27	63,693	Baa	5.37	3.00	
NIKKEI 225	16,196.80	8.32	17.83	NYB-ICE Sugar	USD/lb.	13.15	0.23	67,493	Note:			
S&P/ASX 200	4,992.00	4.76	18.25	CBOT Soybeans	USD/bu.	884.00	0.86	85,987	1. Data sources: Bloomberg, National Bureau of Statistics of China, ABCIS (updated on date of report)			
HSI	19,363.08	5.70	8.44									2. Australia Newcastle Steam Coal Spot fob is the Australia Newcastle 6700 kc GAD fob Steam Coal Spot price published by McCloskey
HSCEI	8,166.47	8.81	6.05									
CSI300	3,053.70	3.03	12.88									
SSE Composite	2,862.89	3.60	15.10									
SZSE Composite	1,841.42	5.18	42.49									
MSCI China	50.55	4.96	8.87									
MSCI Hong Kong	10,712.22	2.28	9.11									
MSCI Japan	777.48	7.40	13.79									

\* 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	1.1137	1.4281	0.7139	113.70	0.9914	6.5175	7.7796	6.7900
Chg. WTD (%)	(1.06)	(1.53)	0.38	(0.40)	(1.44)	0.87	0.12	(0.48)

## 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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