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Economic Acumen

Commentary by CEBI Research Team

In Brief

- China's general economic indicators have shown downward trend of growth in November with which industrial production and retail sales grew at decelerating pace.
- On 13 December 2018, Xi Jinping, general secretary of the Communist Party of China (CPC) Central Committee, presided over a meeting of the committee's Political Bureau to discuss and study economic outlook of 2019.
- China will continue to pursue supply-side structural reform, deepen market-oriented reform, expand opening up at a high level, and speed up the building of a modernized economy.
- China will maintain economic growth at a reasonable and sustainable level to further stabilize employment, the financial market, foreign trade, foreign investment and domestic investment. In sum, China economic fundamentals remain sound and economic activities will maintain a stable growth in 4Q2018 and 2019.

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China's November economic indicators encountering softening trend

With mounted economic risks weighing on global economic outlook, China's general economic indicators have shown downward trend of growth in November with which industrial production and retail sales grew at decelerating pace. Only fixed asset investment (FAI) demonstrated a mild rebound in November. Job market remained resilient as November survey-based urban unemployment rate dropped to 4.8%. Looking forward, unresolved trade disputes, surging geo-political risks, tightening stance of the U.S. monetary policy and dollar strength are the major threats to China's economy in coming months. On 13 December 2018, Xi Jinping, general secretary of the Communist Party of China (CPC) Central Committee, presided over a meeting of the committee's Political Bureau to discuss and study economic outlook of 2019. Amid a complicated international environment and the tasks involved with domestic reforms, China will continue to pursue supply-side structural reform, deepen market-oriented reform, expand opening up at a high level, and speed up the building of a modernized economy. China policymakers will step up efforts to fight the "three tough battles" of controlling risks, reducing poverty and tackling pollution, stimulate the growth of micro entities as well as innovate and improve macroeconomic regulation. China will maintain economic growth at a reasonable and sustainable level to further stabilize employment, the financial market, foreign trade, foreign investment and domestic investment. In sum, China economic fundamentals remain sound and economic activities will maintain a stable growth in 4Q2018 and 2019.

FAI demonstrated uptrend in November. FAI grew at 5.9% YoY in 11M2018, exceeding consensus estimate of 5.8% and 10M2018's 5.7%. The rebound of FAI was mainly driven by pick-up of investment in manufacturing activities (+9.5% YTD YoY vs 10M2018's 9.1%) while investment in infrastructure and real estate stayed unchanged. In general, the government's recent efforts to implement more infrastructure projects and release more liquidity to support manufacturing industries should help push up the growth of

FAI. We believe that acceleration of FAI in different sectors will continue to become major growth driver of China's economy.

Industrial production softened in November. In November, industrial production expanded by 5.4% YoY, below consensus estimate and October's 5.9%. General growth of outputs in 11M2018 slowed to 6.3% YoY. Expansion of overall manufacturing activities in most product categories were the major drivers. In particular, the value-added growth of "Computer, Communication Equipment and Other Electronic Equipment", "Manufacture of Special-Purpose Machinery", "Production and Supply of Electric Power and Heat Power" and "Manufacture of Medicines" went up significantly by 13.4% YoY, 10.7% YoY, 9.7% YoY and 9.7% YoY in 11M2018. In sum, the growth headwinds from trade war have softened the domestic and external demand, thus decelerating the growth of industrial production.

Retail sales slowed further in November. Retail sales continued to witness a decelerating trend in November as YoY growth dropped to 8.1%, lower than consensus estimate of 8.8% and October's 8.6% while 11M2018 retail sales decelerated slightly by 9.1% YoY from 10M2018's 9.2%. National online retail sales reached Rmb8,068.9bn in 11M2018, posting a YoY growth of 24.1% which was below 10M2018's 25.5%. Cooling retail sales in November was mainly due to negative market sentiment of trade war and weakening wealth effects from correction of financial markets. In general, retail sales growth for the first eleven months of 2018 was mainly driven by sizeable growth in "Petroleum and Related Products" (November: 8.5%, 11M2018:14.0%), "Commodities" (November: 16.0%, 11M2018:13.4%), "Cosmetics" (November: 4.4%, 11M2018:10.5%), and "Furniture" (November: 8.0%, 11M2018:9.8%). Going forward, retail sales is likely to pursue stable growth path as services consumption will emerge to be the major growth driver.

Consumer inflation softened in November and 11M2018. China's November CPI inflation edged down to 2.2% YoY (-0.3% MoM), lower than consensus estimate of 2.4% and October's 2.5%. The first eleven months of CPI inflation reached 2.1% YoY. The latest slowdown in general price level was mainly due to a month-on-month decrease in food price by 0.3%, with which price of fresh vegetables dropped 12.3% due to ample supply while price of pork posted negative growth of 0.6% on the outbreak of swine virus in pigs. In general, China's CPI inflation remained stable at the range between 2% and 2.5%. In addition, China's producer prices posted a positive growth of 2.7% YoY (-0.2% MoM) in November, standing in line with the consensus estimate but lower than October's 3.3%. The deceleration of producer prices was mainly attributed to falling prices of oil and related industries under the influence of international oil price change, particularly the producer price index of 'Extraction of Petroleum and Natural Gas' dropped by 7.5% MoM

(October: +6.3%) and 'Petroleum, Coking, and Nucleus Fuel Processing' decreased by 3.3% MoM (October: +3.1%) for November. The rise of factory prices during the eleven months of 2018 reached 3.8%, demonstrating a stable and upward trend. In general, consumer prices and factory-gate prices remained steady, indicating that China's stable economic momentum is still on track.

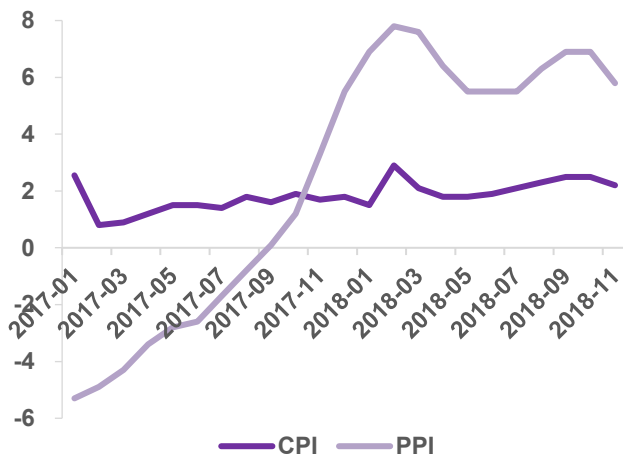
11M2018 exports continued to surge on 'front-loading' impact of shipments before implementation of new tariffs hikes.

China's external trade has shown year-on-year moderation in November with exports and imports growing at 10.2% YoY and 7.8% YoY, below consensus estimate of 13.8% and 18.3% and October's 20.0% and 25.7%. Trade surplus reached RMB 306.04bn, larger than the consensus estimate of RMB 226.5bn and October's 238.76 bn. For the first eleven months of 2018, China's exports retained the strength to grow 8.2%, exceeding 10M2018's 7.9% while imports increased by 14.6%, below 10M2018's 15.4%. China's November exports to the U.S. rose 9.8% YoY while imports dropped 25% YoY, reflecting significant reduction of China's purchases from the U.S. The trade surplus with the U.S. expanded to USD 293.5 billion for 11M2018, up from USD 251.3 billion during the same period in 2017. In sum, despite the ceasefire of trade war for 90 days, the market still fears of new tariffs hikes. International purchasers rushed out shipments and pushed up total exports of China. The 'front-loading' impact is likely to fade in coming months as international demand cools. Waning restocking demand due to slowdown of China's economy is expected to be offset by China's pledges to purchase more U.S products, thus stabilizing import demand in coming months. In our view, China's external trade growth is expected to remain on a stable track in 2018.

Monetary indicators demonstrated uptrend in November.

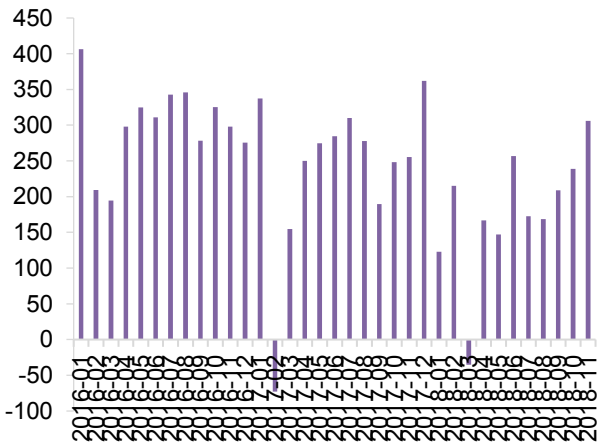
November's monetary indicators showed accelerating trend as the People Bank of China (PBOC) aims to keep ample liquidity in the financial system to cushion the slowing economy. The new loans rebounded to Rmb 1.25tr in November, exceeding consensus estimate of Rmb 1.15tr and October's Rmb 697bn while M2 growth remained stable at 8% in November, standing in line with consensus estimate and October's figure. The aggregate financing reached Rmb 1.52tr, exceeding consensus estimate of Rmb 1.35tr and October's Rmb 743bn. In sum, the fourth RRR cut in October began to unleash the potential credits into the economy while the PBOC's move to increase the amount of re-loans and rediscount to support the financing of small and micro enterprises as well as private companies has revived growth momentum of credits. Prudent and neutral monetary stance of the PBOC remains unchanged, thus cultivating a stable monetary and financial environment for China's economy. The PBOC will maintain prudent loosening of liquidity to strengthen growth momentum of China's economy.

Fig. 1: China CPI and PPI (YoY %)



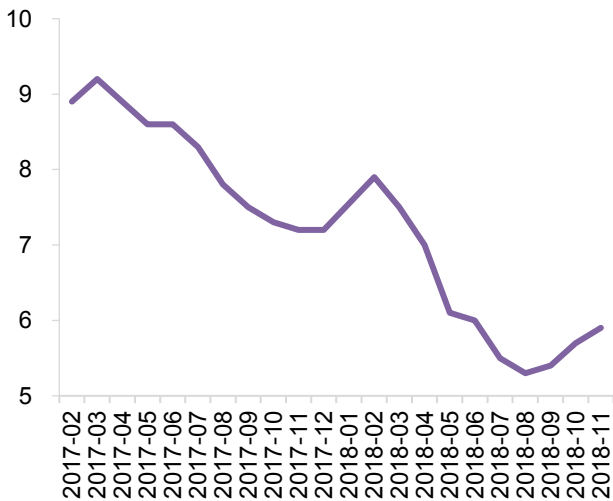
Source: Wind, Bloomberg and CEBI

Fig. 3: China's trade surplus (RMB bn)



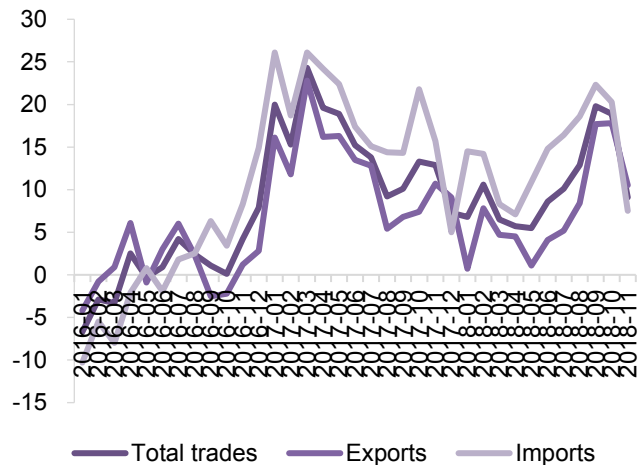
Source: Wind, Bloomberg and CEBI

Fig. 5: FAI (YTD YoY %)



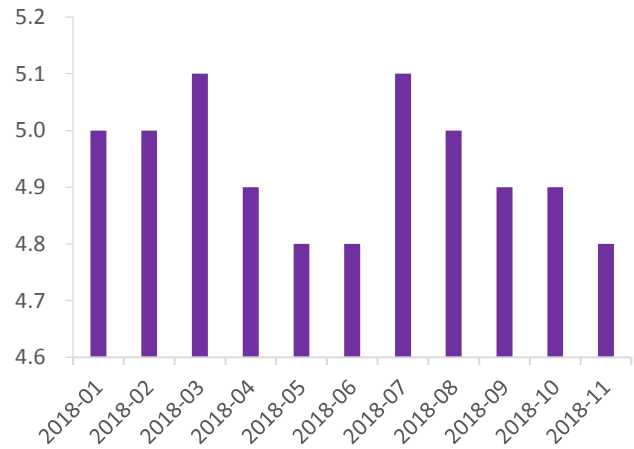
Source: Wind, Bloomberg and CEBI

Fig. 2: China Exports and Imports (RMB) (YoY %)



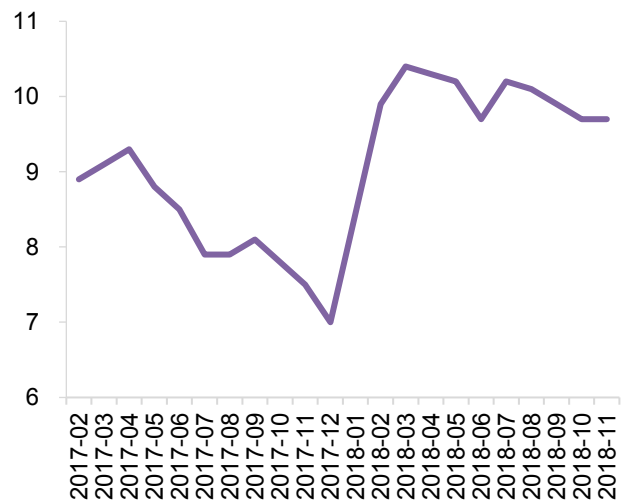
Source: Wind, Bloomberg and CEBI

Fig. 4: China's urban unemployment rate (%)



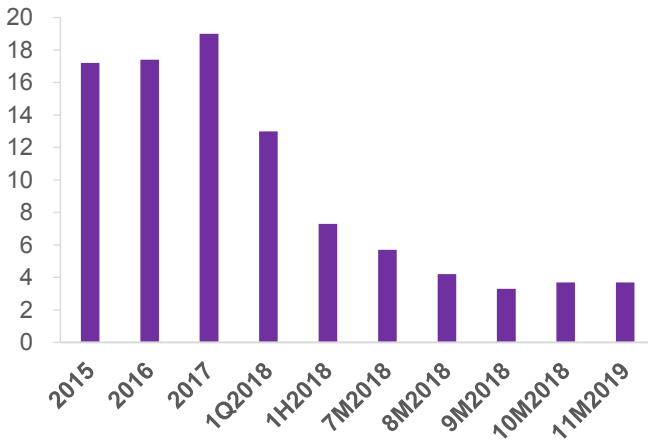
Source: Wind, Bloomberg and CEBI

Fig. 6: Real Estate Investment (YoY %)



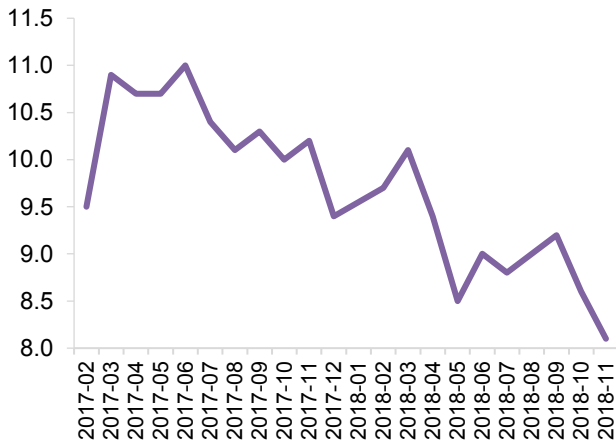
Source: Wind, Bloomberg and CEBI

Fig. 7: Infrastructure Investment (YTD YoY %)



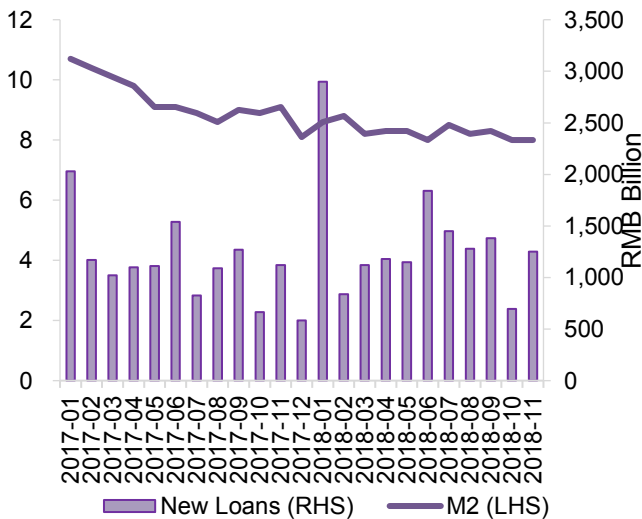
Source: Wind, Bloomberg and CEBI

Fig. 9: Retail sales (YoY %)



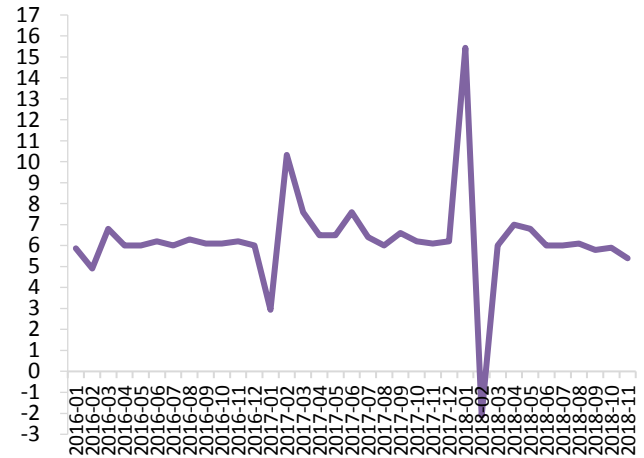
Source: Wind, Bloomberg and CEBI

Fig. 11: New loans (RMB bn) and M2 (YoY %)



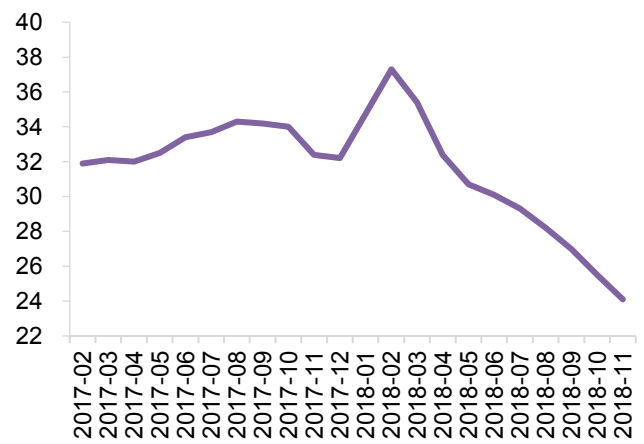
Source: Wind, Bloomberg and CEBI

Fig. 8: Industrial Production (YoY %)



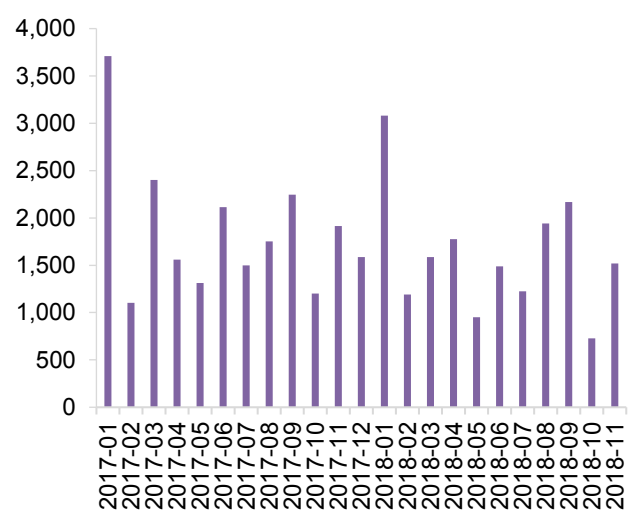
Source: Wind, Bloomberg and CEBI

Fig. 10: Online Retail Sales (YoY %)



Source: Wind, Bloomberg and CEBI

Fig. 12: Aggregate Social Financing (RMB bn)



Source: Wind, Bloomberg and CEBI

China Economic Indicators

	2014	2015	2016	2017	1Q2018	2Q2018	3Q2018
Real GDP (YoY%)	7.3	6.9	6.7	6.9	6.8	6.7	6.5
PMI							
Manufacturing (%)	50.1	49.7	51.4	51.6	51.5	51.5	50.8
Non-Manufacturing (%)	54.1	54.4	54.5	55.5	54.6	54.9	54.9
Exports (RMB YoY %)	4.9	(1.8)	(1.9)	10.8	7.1	2.6	10.0
Imports (RMB YoY %)	(0.6)	(13.2)	0.6	18.7	12.1	11.2	19.2
Trade Balance (RMB/bn)	2352.6	3686.5	3352.3	2871.6	303.1	570.9	550.4
Exports (USD YoY %)	6.0	(2.9)	(7.7)	7.9	13.7	11.5	11.8
Imports (USD YoY %)	0.4	(14.1)	(5.5)	15.9	19.4	20.6	20.4
Trade Balance (USD/bn)	383.1	593.9	510.7	422.5	44.8	90.5	84.7
CPI (YoY %)	2.0	1.4	2.0	1.6	2.2	1.8	2.3
PPI (YoY %)	(1.9)	(5.2)	(1.4)	6.3	3.7	4.1	4.1
FAI (YTD/ YOY %)	15.7	10.0	8.1	7.2	7.5	6.0	5.4
Real Estate Investment (YTD YoY %)	10.5	1.0	6.9	7.0	10.4	9.7	9.9
Industrial Production (YoY %)	8.3	6.1	6.0	6.6	6.8	6.8	6.0
Retail Sales (YoY%)	12.0	10.7	10.4	10.2	9.8	9.0	9.0
New Lending (RMB/bn)	9781.3	11719.9	12645.9	13523.1	4859.3	4170.0	4110.0
M2 (YoY %)	12.2	13.3	11.3	8.2	8.2	8.0	8.3
Aggregate Financing (RMB bn)	16457.1	15408.6	17802.2	22396.9	5821.2	4203.6	5350.1

	Nov 17	Dec 17	Jan 17	Feb 18	Mar 18	Apr 18	May 18	Jun 18	July18	Aug 18	Sept 18	Oct 18	Nov 18
Real GDP (YoY%)	-	6.8	-	-	6.8	-	-	6.7	-	-	6.5	-	-
PMI – Manufacturing %	51.8	51.6	51.3	50.3	51.5	51.4	51.9	51.5	51.2	51.3	50.8	50.2	50.0
PMI- Non-manufacturing%	54.8	55.5	55.3	54.4	54.6	54.8	54.9	55.0	54.0	54.2	54.9	53.9	53.4
Exports (RMB YoY %)	7.4	16.3	5.5	35.3	(10.1)	2.9	2.5	2.5	5.4	7.7	16.9	20	10.2
Imports (RMB YoY %)	0.9	22.9	30.9	0.1	6.2	12.3	15.7	5.7	20.6	19.5	17.6	25.7	7.8
Trade Balance (RMB/bn)	255.4	362.0	122.8	215.4	(35.1)	167.0	147.3	256.7	172.8	168.5	209.0	238.8	306.1
Export (USD YoY %)	11.5	10.9	10.6	43.5	(3.0)	11.9	11.9	10.7	11.6	9.5	14.4	15.5	5.4
Import (USD YoY %)	17.6	4.5	37.6	6.6	14.8	22.2	26.1	13.800	27	20.7	14.5	20.8	3
Trade Balance (USD/bn)	39.0	54.7	18.37	32.28	-5.81	26.28	23.45	40.79	27.4	26.23	31.08	34.76	44.75
CPI (YoY %)	1.7	1.8	1.5	2.9	2.1	1.8	1.8	1.9	2.1	2.3	2.5	2.5	2.2
PPI (YoY %)	5.8	4.9	4.3	3.7	3.1	3.4	4.1	4.7	4.6	4.1	3.6	3.3	2.7
FAI (YTD/ YOY %)	7.2	7.2	-	7.9	7.5	7.0	6.1	6.0	5.5	5.3	5.4	5.7	5.9
Real Estate Investment (YTD/ YoY %)	7.5	7.0	-	9.9	10.4	10.3	10.2	9.7	10.2	10.1	9.9	9.7	9.7
Industrial Production (YoY %)	6.1	6.2	-	7.2	6.0	7.0	6.8	6.0	6.0	6.1	5.8	5.9	5.4
Retail Sales (YoY%)	10.2	9.4	-	9.7	10.1	9.4	8.5	9.0	8.8	9.0	9.2	8.6	8.1
New Lending (RMB/bn)	1120.0	584.4	2900.0	839.3	1120.0	1180.0	1150.0	1840.0	1450.0	1280.0	1380.0	697.0	1250.0
M2 (YoY %)	9.1	8.2	8.6	8.8	8.2	8.3	8.3	8.0	8.5	8.2	8.3	8.0	8.0
Aggregate Financing (RMB bn)	1913.9	1586.5	3079.3	1189.4	1585.4	1777.1	951.8	1487.7	1224.4	1940.1	2168.2	728.8	1520.0
Urban Unemployment Rate (%)	-	-	5.0	5.0	5.1	4.9	4.8	4.8	5.1	5.0	4.9	4.9	4.8
Urban Unemployment Rate in 31 major cities (%)	-	-	4.8	4.9	4.9	4.7	4.7	4.7	5.0	4.9	4.7	4.7	4.7

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	24,597.38	16.41	-1.40
S&P 500	2,650.54	18.10	-1.68
NASDAQ	7,070.33	41.59	-1.64
EUR			
FTSE 100	6,877.50	15.61	2.59
DAX	10,924.70	11.96	1.05
CAC40S	4,896.92	15.12	2.44
STOXX EUR 600	349.42	15.34	1.78
Asia			
HSI	26,094.79	10.07	0.12
HSCEI	10,359.43	8.20	-0.10
CSI300	3,165.91	11.89	-0.49
SSE Composite	2,593.74	12.35	-0.47
SZSE Composite	1,327.42	21.97	-1.72
NIKKEI 225	21,374.83	15.09	-1.40
KOSPI	2,069.38	10.09	-0.31
TWSE	9,774.16	12.69	0.14
S&P/ASX 200	5,601.98	15.63	-1.40
MSCI Index			
MSCI WORLD	1,974.41	16.35	-0.83
MSCI DEVELOPED	476.07	15.66	-0.65
MSCI EMERGING	985.52	11.86	0.67
MSCI US	2,519.93	18.33	-1.74
MSCI UK	1,993.29	15.80	2.59
MSCI France	141.81	15.36	2.43
MSCI Germany	132.83	12.42	0.92
MSCI China	75.10	12.05	1.04
MSCI Hong Kong	14,492.38	10.34	1.32
MSCI Japan	966.73	12.35	0.58

* As of 14/12/2018 closing for Asian markets, previous date for other markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	52.28	-0.61
ICE Brent Oil	USD/bbl	60.94	-1.17
NYMEX NatGas	USD/MMBtu	3.96	-11.85
Basic Metals			
LME Alum.Cash	USD/MT	1,913.75	-1.20
CMX Cop.Active	USD/lb.	273.40	-0.92
LME Steel Rebar	USD/MT	473.50	0.32
LME Lead Cash	USD/MT	1,942.50	-1.42
Precious Metals			
CMX Gold	USD/KRW	1,239.10	-0.82
Gold Futures	USD/KRW	1,242.40	-0.81
CMX Silverbn	USD/KRW	14.64	0.07
NYMEX Platinum	USD/T. oz	792.60	-0.09
Agri, Products			
CBOT Corn	USD/bu	383.50	-0.52
CBOT Wheat	USD/bu	532.00	0.14
NYB-ICE Sugar	USD/lb.	12.75	0.87
CBOT Soybeans	USD/bu.	915.00	-1.51

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	2.25	0.00
US Prime Rate	5.25	0.00
US Discount Window	2.75	0.00
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	-0.10	0.00
US Treasury (1 Mth)	2.33	0.04
US Treasury (1 Yr)	2.68	0.00
US Treasury (5 Yr)	2.72	0.03
US Treasury (10 Yr)	2.88	0.03
US Treasury (30 Yr)	3.13	0.00
1-Month LIBOR	2.44	0.06
3 Month LIBOR	2.78	0.01
Japan 1-Yr Gov. Bond	-0.18	-0.01
Japan 10-Yr Gov. Bond	0.04	-0.02
German 1-Yr Gov. Bond	-0.63	-0.01
German 10-Yr Gov. Bond	0.26	0.01
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	2.50	-0.05
China 5-Yr Gov. Bond	3.04	-0.04
China 10-Yr Gov. Bond	3.35	0.04
O/N SHIBOR	2.66	0.24
1-mth SHIBOR	2.97	0.14
HK Base rate	2.50	0.00
O/N HIBOR	1.07	0.32
1-mth HIBOR	2.28	0.15
O/N CNH HIBOR	1.55	-0.04
1-mth CNH HIBOR	3.47	0.00
Corporate Bonds (Moody's)		
Aaa	4.01	-0.16
Baa	5.15	-0.09

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	97.29	0.81
Euro/USD	1.13	-0.47
GBP/USD	1.26	-1.11
AUD/USD	0.72	-0.54
USD/CAD	1.34	0.50
USD/JPY	113.59	0.80
USD/CHF	1.00	0.31
USD/CNY Midpoint	6.88	0.13
USD/CNY	6.90	0.37
USD/CNY NDF		
12-mth Spot pr.	6.95	0.12
USD/CNH	6.90	0.28
USD/HKD	7.81	-0.04
CNY/HKD	1.13	-0.42
CNH/HKD	1.13	-0.33
USD/KRW	1,130.75	0.99
USD/TWD	30.86	0.07
USD/SGD	1.37	0.35
USD/INR	71.84	1.45

All data sources: Bloomberg, CEBI

Disclosures

Analyst Certification

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