

November 14, 2018

Economic Acumen

Commentary by CEBI Research Team

In Brief

- With heightened global economic and political risks weighing on economic outlook, China's economic indicators have shown mixed trend of growth in October with which fixed asset investment (FAI) and industrial production rebounded slightly while retail sales grew at a decelerating pace.
- Looking forward, tight trade tensions, mounting 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-
- In order to resist the headwinds, China policymakers have stepped up efforts to launch intensive policy measures to ensure soft-landing of the economy.
- Domestic demand acts as the key growth driver of the economy in which consumer spending and fixed asset investment will contribute more to GDP growth in coming quarters. In general, China's economic fundamentals remain sound and we believe the overall macroeconomic conditions of China remain stable in 4Q2018.

Banny Lam
Head of Research
Banny.lam@cebi.com.hk
(852)2916-9630

Mixed trend of China's October economic indicators in sight

With heightened global economic and political risks weighing on economic outlook, China's economic indicators have shown mixed trend of growth in October with which fixed asset investment (FAI) and industrial production rebounded slightly while retail sales grew at decelerating pace. Job market remained stable as October survey-based urban unemployment rate stayed at 4.9%. Looking forward, tight trade tensions, mounting 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. In order to resist the headwinds, China policymakers have stepped up efforts to launch intensive policy measures to stabilize market, improve the market system, attract long-term capital inflow, deepen reforms of state-owned enterprises and private sectors, and further open up the market, thus ensuring soft-landing of the economy. Domestic demand acts as the key growth driver of the economy in which consumer spending and fixed asset investment will contribute more to GDP growth in coming quarters. In general, China's economic fundamentals remain sound and we believe the overall macroeconomic conditions remain stable in 4Q2018.

FAI rebounded on surging infrastructure investment. YTD growth of FAI was 5.7% YoY in 10M2018, exceeding consensus estimate of 5.5% and 9M2018's 5.4%. The rebound of FAI was mainly driven by pick-up of investment in infrastructure (+3.7% YTD YoY vs 9M2018's 3.3%). In general, the government's recent effort to launch more infrastructure projects, the initiatives to accelerate project approval and acceleration of issuing more local government debt should help push up the growth in FAI. We believe that investment in railway and other urban infrastructures will continue to become one of the major growth drivers of the economy.

Industrial production expanded in October. In October, industrial production expanded by 5.9% YoY (September's 5.8% YoY). General growth of outputs in 10M2018 showed a steady trend at 6.4% 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” and “Manufacture of Medicines” went up significantly by 13.4% YoY, 10.5% YoY and 9.9% YoY in 10M2018. Despite the headwinds from trade war, we believe industrial production will maintain stable growth in 2018 amid strong domestic demand.

Retail sales slowed in October. Retail sales witnessed a decelerating trend in October as YoY growth dropped to 8.6%, lower than consensus estimate and September’s 9.2% while 10M2018 retail sales decelerated slightly at 9.2% YoY from 9M2018’s 9.3%. National online retail sales reached Rmb7,053.9bn in 10M2018, posting a YoY growth of 25.5% which was lower than 9M2018’s 27%. The slowing online retail sales in October was mainly due to November’s China’s Single day as consumers are likely to delay online consumption until November. In general, retail sales growth for October and the first ten months of 2018 was mainly driven by sizeable growth in “Petroleum and Related Products” (October:17.1%, 10M2018:14.6%), “Commodities” (October:10.2%, 10M2018:13.0%), “Traditional Chinese and Western Medicines” (October:11.5%, 10M2018:9.3%), and “Communication Appliances” (October:7.1%, 10M2018:10.4%). Going forward, retail sales is likely to pursue stable growth path as services consumption and e-commerce will emerge to be the major growth drivers.

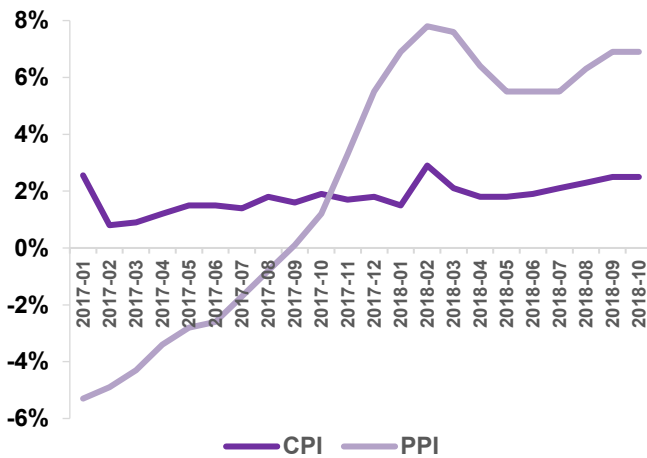
Consumer inflation remained stable in October. China’s October CPI inflation edged up 2.5% YoY (+0.2% MoM), standing in line with the consensus estimate and September’s inflation. The first ten months of CPI inflation reached 2.1% YoY. The latest pick-up in general price level was mainly due to a year-to-year increase in food price at 3.3% YoY (-0.3% MoM), with which price of pork dropped 1.3% YoY (+1.0% MoM) while price fresh vegetables and fresh fruits posted stronger YoY growth of 10.1% (-3.5% MoM) and 11.5% (+1.9% MoM) respectively. The price of fresh vegetables and fresh fruits rose on seasonal basis due to uncertain weather conditions, while price of pork softened on dipping demand after the National Day Holiday. 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 3.3% YoY (0.4% MoM) in October, standing in line with the consensus estimate and September’s PPI. The rise of producer prices was mainly attributed to surging 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’ posted 6.3% MoM (September: 3.8%) and ‘Petroleum, Coking, and Nucleus Fuel Processing’ posted 3.1% MoM (September: 4.0%) for October. The rise of factory prices during the ten months of 2018 reached 3.9%, demonstrating a stable trend. Despite rising trade tensions between China and the U.S, consumer prices and factory-gate prices

remained elevated, indicating that China's stable economic momentum is still on track.

External trade remained resilient in October despite the trade disputes. Despite the escalating trade friction with the U.S., China's external trade has maintained resilience in October with exports and imports growing at 20.1% YoY and 26.3% YoY, beating consensus estimate of 9.2% and 15.2% and September's 16.9% and 17.5%. Trade surplus reached RMB 233.63bn, missing the consensus estimate of RMB 237.0bn. For the first ten months of 2018, China's exports and imports grew by 7.9% and 15.5%, exceeding 9M2018's 6.5% and 14.1%. In sum, the better-than-expected trading activities was mainly supported by depreciation of RMB and surging shipments of goods before the U.S tariff rates increase from 10% to 25% in January 2019. Looking ahead, rising protectionism and uncertainty in global economic recovery remain as the major threat to total trade growth. The latest release of China's October official New Export Orders and Import Indexes, the sub-index of manufacturing PMI, fell to 46.9 and 47.6, (September's 48.0 and 48.5) signaling that external trade sector will experience slowdown on escalating trade tensions in coming months. Although China faces cooling of trade growth, stable pick-up in growth of trade to other major trading partners such as EU, Japan and ASEAN will be likely to offset the slowdown of trading activities with the U.S. In our view, China's external trade growth is expected to remain on a positive track for the rest of 2018.

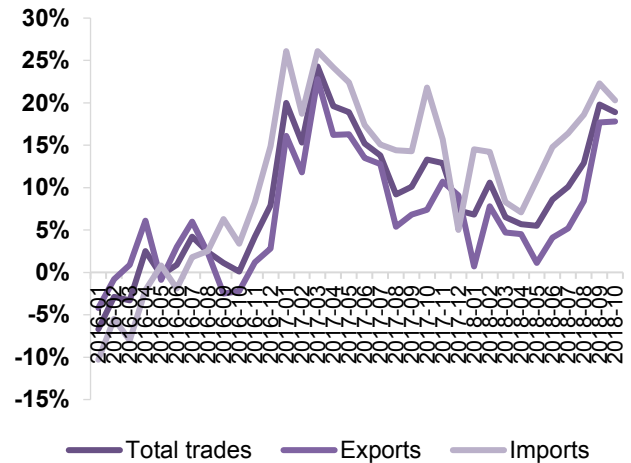
Monetary indicators demonstrated slowing growth momentum in October. October's monetary indicators showed decelerating trend and missed the consensus estimates. The new loans and M2 growth were Rmb 697bn (Consensus: Rmb 900bn and September: Rmb1.38tr) and 8.0% YoY (Consensus: 8.4% and September: 8.3%), respectively, while the aggregate financing reached Rmb 728.8bn (Consensus: Rmb 1.3tr and September: Rmb 2.21tr). In sum, the fourth RRR cut in October has not unleashed all RMB 750 billion potential credits into the economy. It shows that a prudent and neutral monetary stance of the People Bank of China (PBOC) remains unchanged, thus cultivating an appropriate monetary and financial environment for China's economy. It is expected that the extra liquidity will be injected into the banking system on a gradual basis, thus strengthening growth momentum of China's economy.

Fig. 1: China CPI and PPI (YoY)



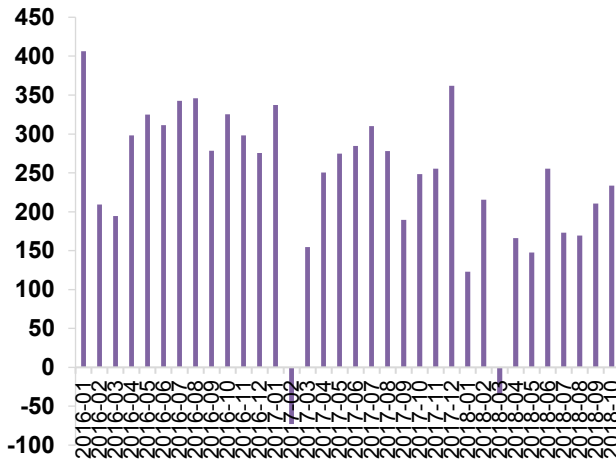
Source: Wind, Bloomberg and CEBI

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



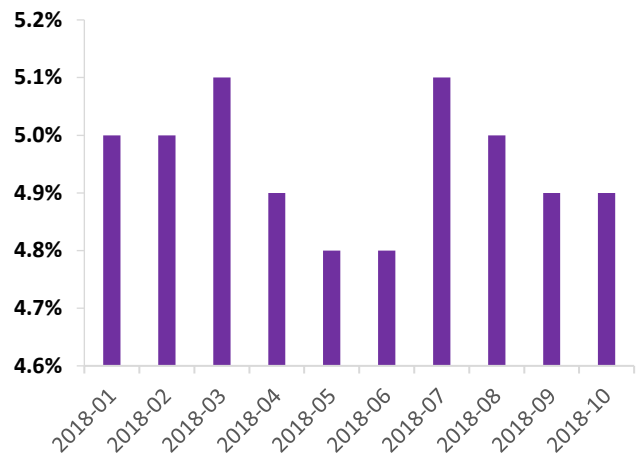
Source: Wind, Bloomberg and CEBI

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



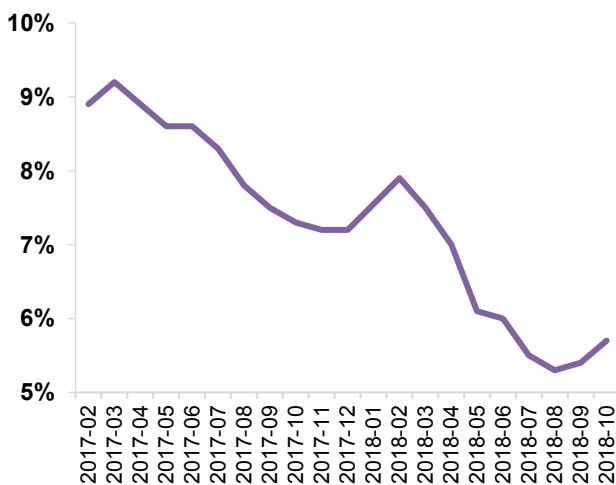
Source: Wind, Bloomberg and CEBI

Fig. 4: China's urban unemployment rate



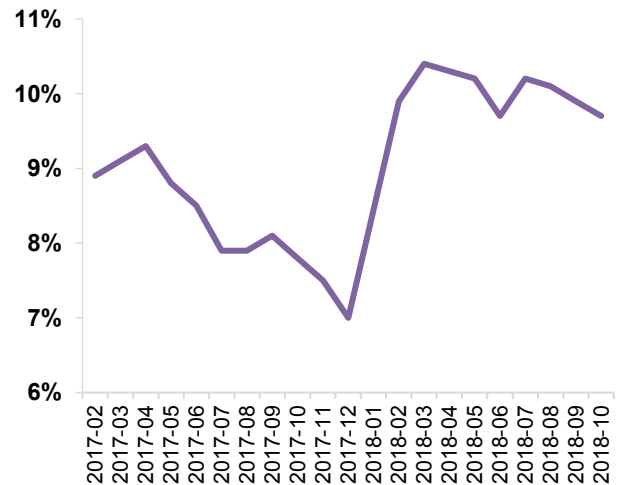
Source: Wind, Bloomberg and CEBI

Fig. 5: FAI (YTD YoY)



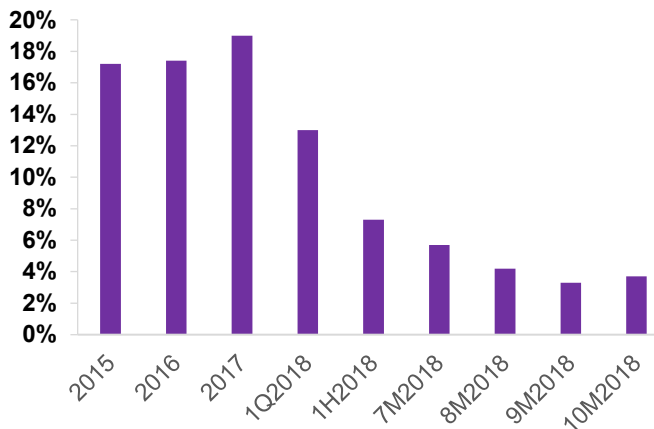
Source: Wind, Bloomberg and CEBI

Fig. 6: Real Estate Investment (YTD YoY)



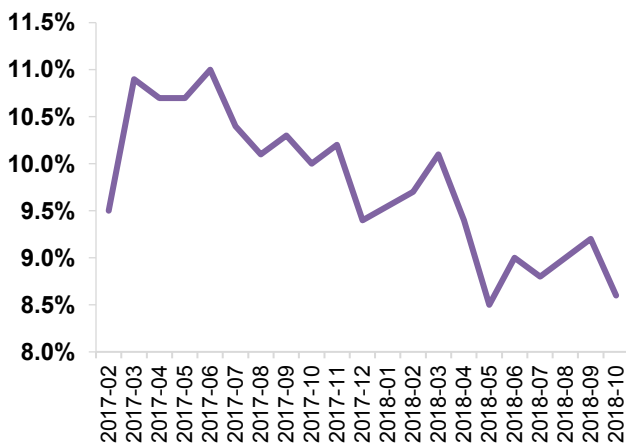
Source: Wind, Bloomberg and CEBI

Fig. 7: Infrastructure Investment (YTD YoY)



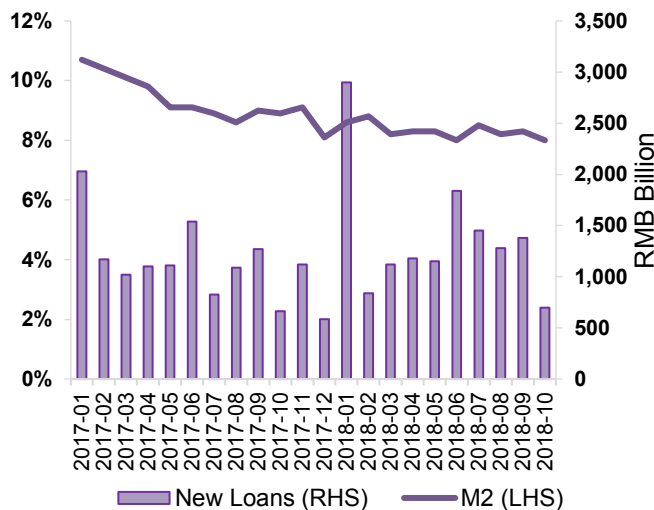
Source: Wind, Bloomberg and CEBI

Fig. 9: Retail sales (YoY)



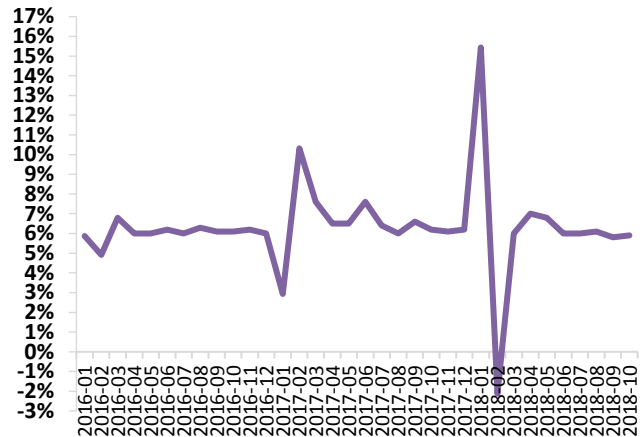
Source: Wind, Bloomberg and CEBI

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



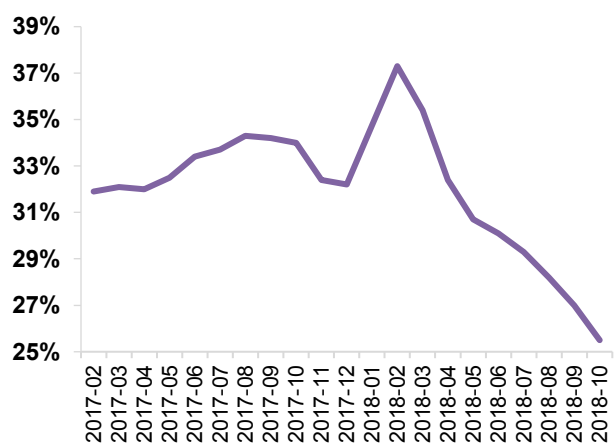
Source: Wind, Bloomberg and CEBI

Fig. 8: Industrial Production (YoY)



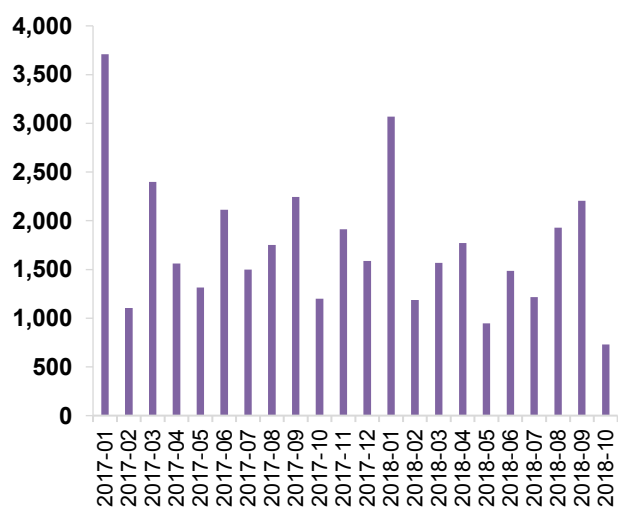
Source: Wind, Bloomberg and CEBI

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	7.4	2.6	9.8
Imports (RMB YoY %)	(0.6)	(13.2)	0.6	18.7	11.7	11.1	18.8
Trade Balance (RMB/bn)	2352.6	3686.5	3352.3	2871.6	303.21	573.51	555.3
Exports (USD YoY %)	6.0	(2.9)	(7.7)	7.9	13.7	11.5	11.6
Imports (USD YoY %)	0.4	(14.1)	(5.5)	15.9	19.3	20.5	20.1
Trade Balance (USD/bn)	383.1	593.9	510.7	422.5	45.1	90.93	85.4
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

	Oct 17	Nov 17	Dec 17	Jan 17	Feb 18	Mar 18	Apr 18	May 18	Jun 18	July18	Aug 18	Sept 18	Oct 18
Real GDP (YoY%)	-	-	6.8	-	-	6.8	-	-	6.7	-	-	6.5	-
PMI – Manufacturing %	51.6	51.8	51.6	51.3	50.3	51.5	51.4	51.9	51.5	51.2	51.3	50.8	50.2
PMI- Non-manufacturing%	54.3	54.8	55.5	55.3	54.4	54.6	54.8	54.9	55.0	54.0	54.2	54.9	53.9
Exports (RMB YoY %)	9.5	7.4	16.3	5.5	35.3	(10.1)	2.8	2.5	2.4	5.4	7.7	16.9	20.1
Imports (RMB YoY %)	15.4	0.9	22.9	30.9	0.1	6.2	12.3	15.7	5.8	20.6	19.4	17.5	26.3
Trade Balance (RMB/bn)	248.2	255.4	362.0	122.8	215.4	(35.1)	166.2	147.5	255.5	173.1	169.5	210.4	233.6
Export (USD YoY %)	6.3	11.5	10.9	10.6	43.5	(3.0)	11.9	11.9	10.6	11.6	9.6	14.4	15.6
Import (USD YoY %)	17.1	17.6	4.5	37.6	6.6	14.8	22.2	26.1	13.8	27	20.6	14.5	21.4
Trade Balance (USD/bn)	37.2	39.0	54.7	18.4	32.3	(5.8)	26.2	23.5	40.6	27.4	26.4	31.3	34.0
CPI (YoY %)	1.9	1.7	1.8	1.5	2.9	2.1	1.8	1.8	1.9	2.1	2.3	2.5	2.5
PPI (YoY %)	6.9	5.8	4.9	4.3	3.7	3.1	3.4	4.1	4.7	4.6	4.1	3.6	3.3
FAI (YTD/ YOY %)	7.3	7.2	7.2	-	7.9	7.5	7.0	6.1	6.0	5.5	5.3	5.4	5.7
Real Estate Investment (YTD/ YoY %)	7.8	7.5	7.0	-	9.9	10.4	10.3	10.2	9.7	10.2	10.1	9.9	9.7
Industrial Production (YoY %)	6.2	6.1	6.2	-	7.2	6.0	7.0	6.8	6.0	6.0	6.1	5.8	5.9
Retail Sales (YoY%)	10.0	10.2	9.4	-	9.7	10.1	9.4	8.5	9.0	8.8	9.0	9.2	8.6
New Lending (RMB/bn)	663.2	1120.0	584.4	2900.0	839.3	1120.0	1180.0	1150.0	1840.0	1450.0	1280.0	1380.0	697.0
M2 (YoY %)	8.8	9.1	8.2	8.6	8.8	8.2	8.3	8.3	8.0	8.5	8.2	8.3	8.0
Aggregate Financing (RMB bn)	1200.4	1913.9	1586.5	3067.3	1185.4	1568.5	1772.6	945.8	1485.2	1216.1	1928.6	2205.4	728.8
Urban Unemployment Rate (%)	-	-	-	5.0	5.0	5.1	4.9	4.8	4.8	5.1	5.0	4.9	4.9
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

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	25,286.49	16.90	-1.36
S&P 500	2,722.18	18.74	-1.21
NASDAQ	7,200.88	40.37	-2.37
EUR			
FTSE 100	7,053.76	15.89	0.19
DAX	11,472.22	13.12	-0.11
CAC40S	5,101.85	15.74	0.53
STOXX EUR 600	364.44	16.42	0.52
Asia			
HSI	25,654.43	9.76	-1.89
HSCEI	10,405.16	7.85	-2.22
CSI300	3,204.94	11.94	-0.53
SSE Composite	2,632.24	12.33	-0.35
SZSE Composite	1,378.36	22.46	2.83
NIKKEI 225	21,846.48	15.15	-1.08
KOSPI	2,068.05	9.95	-0.51
TWSE	9,791.88	12.99	-1.18
S&P/ASX 200	5,732.77	16.21	-2.78
MSCI Index			
MSCI WORLD	2,026.52	16.81	-1.18
MSCI DEVELOPED	486.10	16.03	-1.34
MSCI EMERGING	966.02	11.63	-2.64
MSCI US	2,586.65	18.88	-1.30
MSCI UK	2,043.86	16.15	0.25
MSCI France	148.15	15.96	0.58
MSCI Germany	139.99	13.25	-0.19
MSCI China	72.65	11.54	-2.37
MSCI Hong Kong	13,936.02	9.59	0.22
MSCI Japan	978.50	12.49	-1.32

* As of 14/11/2018 closing for Asian markets, previous date for other markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	55.34	-10.26
ICE Brent Oil	USD/bbl	65.22	-9.52
NYMEX NatGas	USD/MMBtu	4.10	15.16
Basic Metals			
LME Alum.Cash	USD/MT	1,921.50	-0.70
CMX Cop.Active	USD/lb.	267.70	-2.81
LME Steel Rebar	USD/MT	506.00	-1.56
LME Lead Cash	USD/MT	1,928.50	2.23
Precious Metals			
CMX Gold	USD/KRW	1,201.22	-2.65
Gold Futures	USD/KRW	1,201.00	-2.25
CMX Silverbn	USD/KRW	13.98	-4.85
NYMEX Platinum	USD/T. oz	834.76	-4.85
Agri, Products			
CBOT Corn	USD/bu	367.25	-1.34
CBOT Wheat	USD/bu	515.75	-1.29
NYB-ICE Sugar	USD/lb.	12.61	-2.70
CBOT Soybeans	USD/bu.	880.50	0.11

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)	2.21	-0.01
US Treasury (1 Yr)	2.71	-0.03
US Treasury (5 Yr)	2.98	-0.10
US Treasury (10 Yr)	3.14	-0.10
US Treasury (30 Yr)	3.36	-0.08
1-Month LIBOR	2.31	-0.01
3 Month LIBOR	2.61	0.02
Japan 1-Yr Gov. Bond	-0.16	-0.01
Japan 10-Yr Gov. Bond	0.11	-0.01
German 1-Yr Gov. Bond	-0.65	-0.01
German 10-Yr Gov. Bond	0.39	-0.06
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	2.62	-0.18
China 5-Yr Gov. Bond	3.30	-0.07
China 10-Yr Gov. Bond	3.48	-0.04
O/N SHIBOR	2.33	0.23
1-mth SHIBOR	2.69	0.01
HK Base rate	2.50	0.00
O/N HIBOR	0.35	-0.24
1-mth HIBOR	1.06	0.02
O/N CNH HIBOR	1.81	0.23
1-mth CNH HIBOR	3.66	0.04
Corporate Bonds (Moody's)		
Aaa	4.16	-0.11
Baa	5.17	-0.07

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	97.19	1.24
Euro/USD	1.13	-1.82
GBP/USD	1.30	-1.50
AUD/USD	0.72	-1.19
USD/CAD	1.32	1.25
USD/JPY	113.87	0.71
USD/CHF	1.01	1.24
USD/CNY Midpoint	6.94	0.49
USD/CNY	6.95	0.45
USD/CNY NDF		
12-mth Spot pr.	7.01	0.52
USD/CNH	6.95	0.51
USD/HKD	7.83	0.04
CNY/HKD	1.13	-0.40
CNH/HKD	1.13	-0.48
USD/KRW	1,134.15	0.97
USD/TWD	30.93	0.55
USD/SGD	1.38	0.94
USD/INR	72.26	-1.19

All data sources: Bloomberg, CEBI, NBS

Disclosures

Analyst Certification

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