光銀國際 CEB International

October 21, 2019

Economic Acumen

Commentary by CEBI Research Team

In Brief

- Surrounded by unresolved trade disputes and global economic slowdown, China's economic growth decelerated to three-decade low at 6.0% YoY in 3Q2019, falling behind the consensus estimate of 6.1% and 2Q2019's 6.2%.
- The first three-quarters of 2019 posted GDP growth of 6.2% YoY, which was in line with the consensus estimate and within the growth target between 6.0% and 6.5%.
- China's major economic indicators showed a softening trend in 3Q2019 against 2Q2019, with growth of fixed asset investment (FAI), industrial production, retail sales and external trade decelerating in vary degrees.
- Against the backdrop of surging downward pressure on the economy, China's policymakers have launched sizable stimulus measures to prop up growth.
- We are of the view that macroeconomic policy support will further ensure a sustainable path of economic expansion. Overall macroeconomic conditions remain stable with which we expect GDP growth will reach 6.2% YoY in 2019

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China's economic strength softened in 3Q2019

Surrounded by unresolved trade disputes and global economic slowdown, China's economic growth decelerated to three-decade low at 6.0% YoY in 3Q2019, falling behind the consensus estimate of 6.1% and 2Q2019's 6.2%. The first three-quarters of 2019 posted GDP growth of 6.2% YoY, which was in line with the consensus estimate and within the growth target between 6.0% and 6.5%. China's major economic indicators showed a softening trend in 3Q2019 against 2Q2019, with growth of fixed asset investment (FAI), industrial production, retail sales and external trade decelerating in vary degrees. Job market pointed to stable trend as September survey-based urban unemployment rate stayed at 5.2%. Looking forward, the trade war headwinds continue to cloud the growth outlook of global economy. The International Monetary Fund (IMF) has lowered the global growth forecast for 2019 to 3.0%, down 0.2% from July's projection. The world economy is set to slow to its weakest rate of growth on rising trade barriers and increasing geopolitical tensions since the 2008-2009 global financial crisis. Against the backdrop of surging downward pressure on the economy, China's policymakers have launched sizable stimulus measures to prop up growth. We are of the view that macroeconomic policy support will further ensure a sustainable path of economic expansion. Overall macroeconomic conditions remain stable with which we expect GDP growth will reach 6.2% YoY in 2019.

FAI slowed in 9M2019. Growth of FAI was 5.4% YoY in 9M2019, below the consensus estimate and 8M2019's 5.5%. It was mainly due to the slowing growth momentum of investment in manufacturing (2.5% YTD YoY vs 8M2019's 2.6% and 2018's 9.5%). Surging growth of investment in infrastructure (4.5% YTD YoY vs 8M2019's 4.2% and 2018's 3.8%) and real estate (+10.5% YTD YoY vs 2018's 9.5%) remained intact, partly offsetting the overall drop in FAI. In general, the government has launched more infrastructure projects to further stimulate growth in FAI. We reassert that investment in railway and other urban infrastructures will continue to become the major growth driver of the economy in 4Q2019.

Industrial production remained weak in 3Q2019. September's industrial production expanded by 5.8% YoY, exceeding the consensus estimate of 4.9% and August's 4.4%. General growth of outputs during 3Q2019 slowed to 5.0% from 2Q2019's 5.6%, reflecting that US-China trade disputes and global economic slowdown weighted on the growth of industrial output. In general, expansion of overall manufacturing activities in major product categories remained as the major growth drivers during the first three-quarters of 2019. In particular, the manufacturing value-added growth of "Railways, Shipbuilding, Aerospace and Other Transportation Equipment", "Ferrous Metal Smelting and Pressing", "Electric Machinery and Equipment", "Nonmetal Mineral Products", and "Computer, Communication Equipment and Other Electronic Equipment" went up significantly by 10.5% YoY, 10.1% YoY, 10.0% YoY, 9.6% YoY, and 8.9% YoY respectively. We believe that industrial production will maintain low single-digit growth in 4Q2019.

Retail sales witnessed weakening growth momentum in 3Q2019. Retail sales in September surged by 7.8% YoY, in line with the consensus estimate of 8.5% but higher than August's 7.5%. For 3Q2019 and 9M2019, retail sales grew by 7.6% YoY and 8.2% YoY respectively, staying below 2Q2019's 8.6% and 2018's 9.0%. National online retail sales reached Rmb7,323.7bn in 9M2019, posting a year-on-year growth of 16.8%, which was below 2018's 23.9%. In general, retail sales growth for the first three-quarters of 2019 was mainly driven by sizeable growth in "Commodities" (13.6% YoY), "Cosmetics" (12.8% YoY), "Grain, Oil, Foodstuff" (10.6% YoY), and "Traditional Chinese and Western Medicines" (10.1% YoY). Going forward, retail sales is likely to maintain a stable growth momentum on the government's stimulus measures to boost growth of consumption. We believe the government will prioritize growth in domestic demand with which services consumption will emerge to be the major growth driver.

Consumer inflation surged on rising pork price in 3Q2019. China's September CPI inflation jumped at 3.0% YoY (0.9% MoM), exceeding the consensus estimate of 2.9% and August's 2.8%. For 3Q2019, CPI inflation reached 2.9% YoY, higher than 2Q2019's 2.6%. The latest uptrend in general price level was mainly due to a year-on-year increase in food price by 11.2%, with which price of pork surged by 69.3% on the shortage of meat due to the outbreak of deadly swine virus in pigs. In general, China's CPI inflation remained stable at 2.5% YoY during the first three-quarters of 2019, which is within the range between 2% and 3%. For the factory prices of China, the producer prices index reading posted negative growth of 1.2% in September, standing in line with the consensus estimate of 0.2% but lower than August's 0.8%. The rise of factory prices during 3Q2019 dropped 0.3% YoY, reversing the positive growth of 0.5% in 2Q2019. For the first nine months of 2019, factory prices posted zero growth. In sum, the extended softening of producer prices was attributed to dipping oil prices and

weak global demand as producer price index of 'Extraction of Petroleum and Natural Gas' and "Processing of Petroleum, Coking, Processing of Nucleus Fuel" for September dropped 13.4% YoY and 9.6% YoY respectively. In sum, the cooling in factory prices fuels more concerns that a slowdown in manufacturing activities will further drag on economic growth.

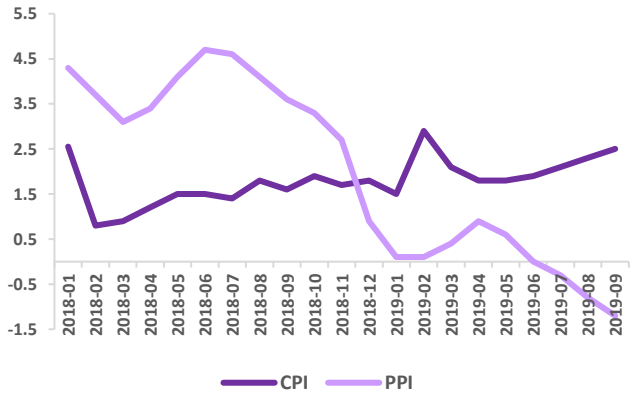
External trade posted slower growth in 3Q2019 amid the ongoing trade frictions. Amid ongoing trade disputes with the U.S., China's external trade witnessed a decelerating growth in 3Q2019, with which exports grew mildly at 3.8% from 2Q2019's 5.6% while imports dropped 2.8% YoY from 2Q2019's +2.4% YoY. Trade surplus reached RMB 820.6bn. For September, growth of total trade embraced growth contraction as exports and imports dropped by 0.7% and 6.2%, falling behind the consensus estimate of +1.5% and -2.3% as well as August's 2.6% and -2.6%. The tariff hikes have lowered the bilateral trading activities between the U.S. and China with which China's exports and imports to the U.S. dropped by 6.0% YoY and 22.5% YoY respectively during the first three-quarters of 2019. In sum, the latest release of China's September official New Export Orders and Import Indexes, the sub-index of manufacturing PMI, stayed below 50 at 48.2 and 47.1, signaling a pessimistic outlook for international trade and contraction of external trading activities. Although US-China reached a partial trade accord on 11 October 2019 and signaled a breakthrough for revolving trade disputes, the existing tariff hikes have damaged global growth in external trade and China's trading activities will continue to face decelerating growth momentum for the rest of 2019. In response to the trade headwinds, China's policymakers have stepped up efforts to boost aggregate demand through stimulus measures, thus ensuring soft-landing of China's external trade sector in 2019.

Board credit demand accelerated in 3Q2019. September's monetary indicators demonstrated an upward trend as the People Bank of China (PBOC) aims to keep ample liquidity in the banking system to cushion the growth momentum of the economy. The Chinese banks released new loans of Rmb 1.69tr in September, exceeding the consensus estimate of Rmb 1.36tr and August's Rmb 1.21tr. M2 growth grew at 8.4% YoY, standing above August's figure and the consensus estimate of 8.2%. The aggregate financing reached Rmb 2.27tr, higher than the consensus estimate of Rmb 1.9tr and August's Rmb 1.97tr. In sum, gradually rising credit level in 3Q2019 reflected that the PBOC aims at accommodating market demand for capital through diversified monetary tools. China's latest credit growth was in line with economic momentum of the real economy and we believe the PBOC will continue to pursue prudent loosening of credits to revitalize growth momentum in coming quarters.

Fig. 1: China GDP growth (YoY%)

Source: Bloomberg

Fig. 2: CPI and PPI (YoY%)

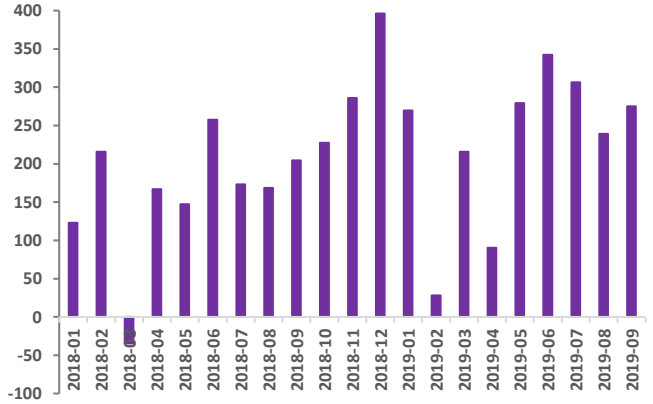


Source: Bloomberg

Fig. 3: China Exports and Imports (RMB) (YoY%)

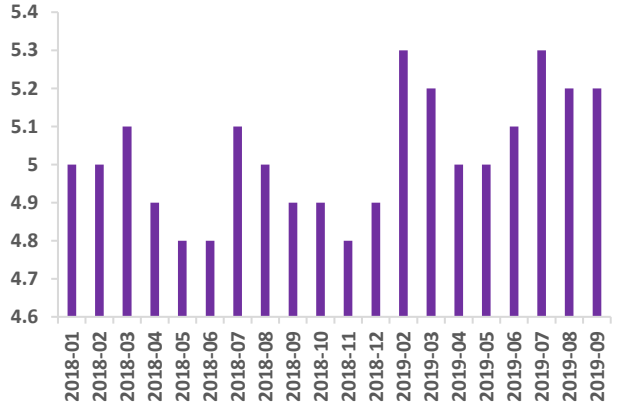
Source: Bloomberg

Fig. 4: Trade Surplus (RMB bn)



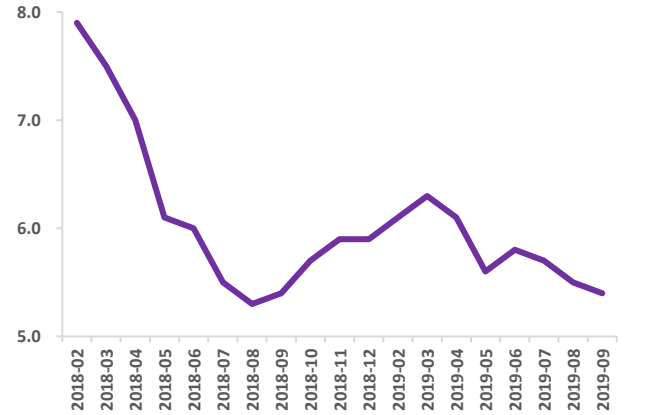
Source: Bloomberg

Fig. 5: China's urban unemployment rate (%)



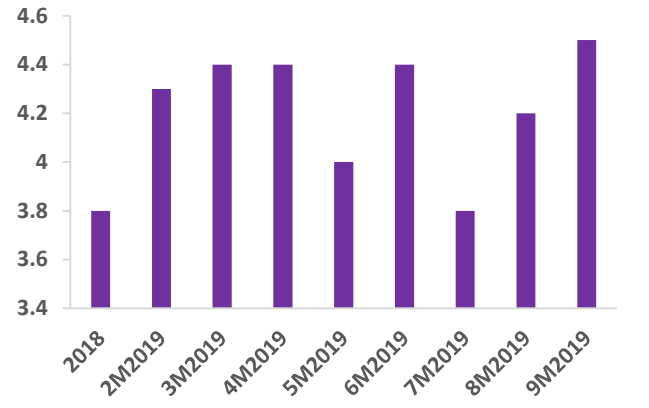
Source: Bloomberg

Fig. 6: FAI (YTD YoY%)



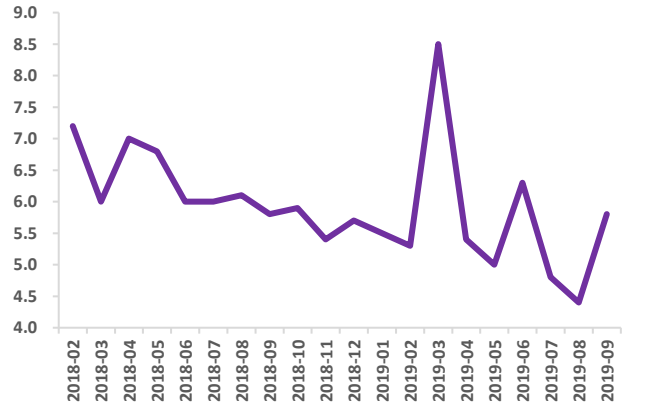
Source: Bloomberg

Fig. 7: Infrastructure Investment (YoY%)



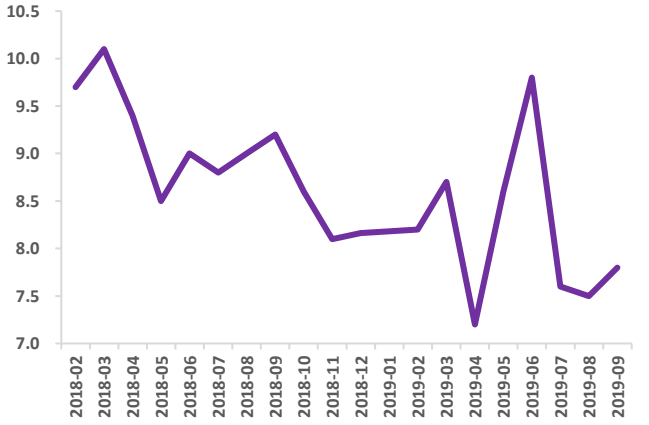
Source: Bloomberg

Fig. 8: Industrial Production (YoY%)



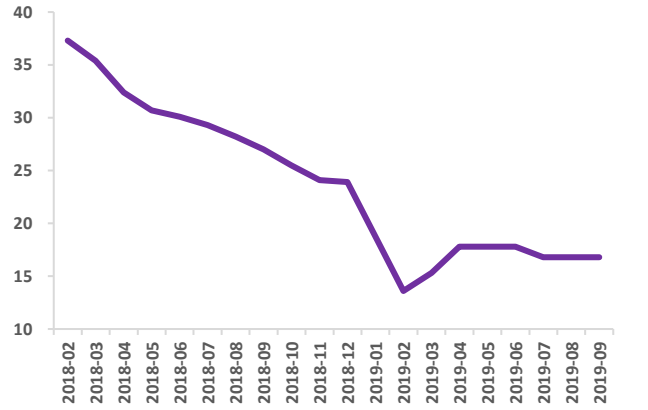
Source: Bloomberg

Fig. 9: Retail Sales (YTD YoY%)



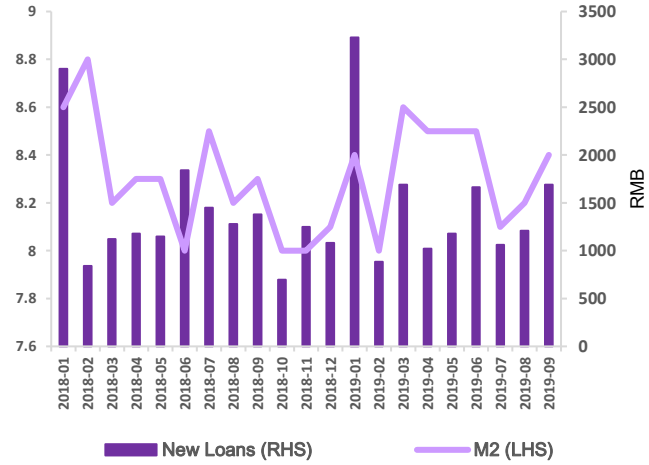
Source: Bloomberg

Fig. 10: Online Retail Sales (YTD YoY%)



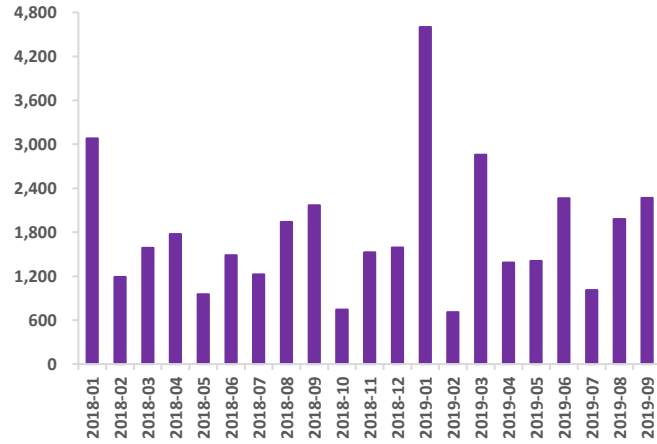
Source: Bloomberg

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



Source: Bloomberg

Fig. 12: Aggregate Social Financing (RMB bn)



Source: Bloomberg

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China Economic Indicators

	1Q2018	2Q2018	3Q2018	4Q2018	2018	1Q2019	2Q2019	3Q2019
Real GDP (YoY%)	6.8	6.7	6.5	6.4	6.6	6.4	6.2	6.0
PMI Manufacturing (%)	51.0	51.6	51.1	49.9	49.4	49.7	49.6	49.7
PMI Non-Manufacturing (%)	54.8	54.9	54.4	53.5	53.2	54.6	54.3	53.7
Exports (RMB YoY %)	7.4	2.6	9.8	8.6	7.1	6.7	5.6	3.8
Imports (RMB YoY %)	11.7	11.2	19.1	9.1	12.9	0.3	2.4	(2.8)
Trade Balance (RMB/bn)	304.0	571.5	546.2	909.6	2330.3	513.49	712.06	820.6
Exports (USD YoY %)	13.7	11.5	11.7	4.0	9.9	1.3	(1.0)	0.4
Imports (USD YoY %)	19.3	20.6	20.4	4.4	15.8	(4.5)	(4.0)	(6.5)
Trade Balance (USD/bn)	45.0	90.6	84.1	132.1	351.8	73.9	105.6	118.9
CPI (YoY %)	2.2	1.8	2.3	2.2	2.1	1.8	2.6	2.9
PPI (YoY %)	3.7	4.1	4.1	2.3	3.5	0.2	0.5	(0.8)
FAI (YTD/ YOY %)	7.5	6.0	5.4	5.9	5.9	6.3	5.8	5.4
Real Estate Investment (YTD YoY %)	10.4	9.7	9.9	9.5	9.5	11.8	10.9	10.5
Industrial Production (YoY %)	6.8	6.8	6.0	5.7	6.2	6.5	5.6	5.0
Retail Sales (YoY%)	9.8	9.0	9.0	8.3	9.0	8.3	8.6	7.6
New Lending (RMB/bn)	4859.3	4170.0	4110.0	3027.0	16166.3	5805.8	3860.0	3960.0
M2 (YoY %)	8.2	8.0	8.3	8.1	8.1	8.6	8.5	8.4
Aggregate Financing (RMB bn)	5855.1	4217.1	5335.7	3852.1	19260.0	8170.8	5068.5	5510.0

	Sept 18	Oct 18	Nov 18	Dec 18	Jan 19	Feb 19	Mar 19	Apr 19	May 19	Jun 19	July 19	Aug 19	Sept 19
Real GDP (YoY%)	6.5	-	-	6.4	-	-	6.4	-	-	6.2	-	-	6.0
PMI – Manufacturing %	50.8	50.2	50.0	49.4	49.5	49.2	50.5	50.1	49.4	49.4	49.7	49.5	49.8
PMI- Non-manufacturing%	54.9	53.9	53.4	53.2	54.7	54.3	54.8	54.3	54.3	54.2	53.7	53.8	53.7
Exports (RMB YoY %)	16.9	20	10.2	0.2	14.0	(16.7)	20.8	3.1	7.7	6.0	10.3	2.6	(0.7)
Imports (RMB YoY %)	17.6	25.7	7.8	(3.1)	3.1	0.3	(1.8)	10.5	(2.5)	(0.2)	0.7	(2.6)	(6.2)
Trade Balance (RMB/bn)	209.0	238.8	306.1	395.0	269.8	28.0	215.7	90.5	279.2	342.3	306.2	239.3	275.2
Export (USD YoY %)	14.4	15.5	5.4	(4.4)	9.2	(20.8)	13.8	(2.8)	1.0	(1.3)	3.3	(1.0)	(3.2)
Import (USD YoY %)	14.5	20.8	3	(7.6)	(1.3)	(4.6)	(7.6)	4.2	(8.5)	(7.2)	(5.3)	(5.6)	(8.5)
Trade Balance (USD/bn)	31.08	34.76	44.75	57.1	39.1	3.2	31.8	13.4	41.7	50.6	44.5	34.8	39.7
CPI (YoY %)	2.5	2.5	2.2	1.9	1.7	1.5	2.3	2.5	2.7	2.7	2.8	2.8	3.0
PPI (YoY %)	3.6	3.3	2.7	0.9	0.1	0.1	0.4	0.9	0.6	0.0	(0.3)	(0.8)	(1.2)
FAI (YTD/ YOY %)	5.4	5.7	5.9	5.9	-	6.1	6.3	6.1	5.6	5.8	5.7	5.5	5.4
Real Estate Investment (YTD/ YoY %)	9.9	9.7	9.7	9.5	-	11.6	11.8	11.9	11.2	10.9	10.6	10.5	10.5
Industrial Production (YoY %)	5.8	5.9	5.4	5.7	-	5.3	8.5	5.4	5.0	6.3	4.8	4.4	5.8
Retail Sales (YoY%)	9.2	8.6	8.1	8.2	-	8.2	8.7	7.2	8.6	9.8	7.6	7.5	7.8
New Lending (RMB/bn)	1380.0	697.0	1250.0	1080.0	3230.0	885.8	1690.0	1020.0	1180.0	1663.6	1060.0	1210.0	1690.0
M2 (YoY %)	8.3	8.0	8.0	8.1	8.4	8.0	8.6	8.5	8.5	8.5	8.1	8.2	8.4
Aggregate Financing (RMB bn)	2168.2	728.8	1520.0	1590.0	4601.5	709.9	2859.4	1385.9	1407.5	2262.9	1011.2	1980.0	2270.0
Urban Unemployment Rate (%)	4.9	4.9	4.8	4.9	-	5.3	5.2	5.0	5.0	5.1	5.3	5.2	5.2
Urban Unemployment Rate in 31 major cities (%)	4.7	4.7	4.7	4.7	-	5.0	5.1	5.0	5.0	5.0	5.2	5.2	5.2

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World Economic/Financial Indicators

Global Indices

Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	26,770.20	18.01	-0.17
S&P 500	2,986.20	19.67	0.54
NASDAQ	8,089.54	31.73	0.40
EUR			
FTSE 100	7,150.57	17.36	-1.33
DAX	12,633.60	21.97	0.97
CAC40S	5,636.25	19.33	-0.52
STOXX EUR 600	391.84	19.06	0.06
Asia			
HSI	26,725.68	10.41	0.77
HSCEI	10,543.41	8.41	0.34
CSI300	3,880.84	13.95	-1.83
SSE Composite	2,939.62	14.24	-2.27
SZSE Composite	1,614.87	34.50	-2.74
NIKKEI 225	22,548.90	16.12	3.44
KOSPI	2,064.84	13.44	-0.12
TWSE	11,184.15	17.80	1.06
S&P/ASX 200	6,652.51	19.36	0.15
MSCI Index			
MSCI WORLD	2,195.28	18.77	0.73
MSCI DEVELOPED	525.25	17.99	0.79
MSCI EMERGING	1,024.02	13.66	1.23
MSCI US	2,841.61	20.15	0.49
MSCI UK	2,052.50	17.47	-1.32
MSCI France	162.08	19.49	-0.37
MSCI Germany	146.41	19.73	1.31
MSCI China	77.34	13.37	0.32
MSCI Hong Kong	14,540.52	13.11	1.75
MSCI Japan	981.01	14.18	2.74

** As of 21/10/2019 closing for Asian Markets, 18/10/2019 for other markets.

Money market

	Yield (%)	One Week chg(%)
US Fed Fund Rate	2.00	0.00
US Prime Rate	5.00	0.00
US Discount Window	2.50	0.00
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	-0.10	0.00
US Treasury (1 Mth)	1.65	-0.09
US Treasury (1 Yr)	1.57	-0.07
US Treasury (5 Yr)	1.59	0.04
US Treasury (10 Yr)	1.79	0.06
US Treasury (30 Yr)	2.29	0.09
1-Month LIBOR	1.85	-3.30
3 Month LIBOR	1.95	-0.05
Japan 1-Yr Gov. Bond	-0.24	0.04
Japan 10-Yr Gov. Bond	-0.13	0.05
German 1-Yr Gov. Bond	-0.62	0.00
German 10-Yr Gov. Bond	-0.35	0.11
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	2.56	0.04
China 5-Yr Gov. Bond	3.00	0.02
China 10-Yr Gov. Bond	3.19	0.03
O/N SHIBOR	2.68	0.13
1-mth SHIBOR	2.72	0.02
HK Base rate	1.35	0.20
O/N HIBOR	1.35	0.20
1-mth HIBOR	1.63	-0.10
O/N CNH HIBOR	3.07	0.92
1-mth CNH HIBOR	3.14	0.05
Corporate Bonds (Moody's)		
Aaa	3.06	4.79
Baa	3.98	4.46

Global Commodities

	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	53.71	0.22
ICE Brent Oil	USD/bbl	59.12	-0.39
NYMEX Natural	USD/MMBtu	2.30	1.01
BasicMetals			
LME Aluminum	USD/MT	1,734.50	0.98
CMX Copper	USD/lb.	264.15	0.28
LME Steel Rebar	USD/MT	405.00	-0.49
LME Lead Cash	USD/MT	2,197.00	0.91
Precious Metals			
CMX Gold	USD/T. oz	1,490.43	-0.29
Gold Futures	USD/T. oz	1,493.50	-0.27
CMX Silver	USD/T. oz	17.69	0.59
NYMEX Platinum	USD/T. oz	894.66	0.14
Agricultural			
CBOT Corn	USD/bu	392.50	-1.32
CBOT Wheat	USD/bu	533.00	4.31
NYB-ICE Sugar	USD/lb.	12.32	-0.73
CBOT Soybeans	USD/bu.	939.00	-0.16

Currency market

	Spot Rate	One Week chg(%)
US Dollar Index	97.23	-1.25
Euro/USD	1.1168	1.24
GBP/USD	1.2976	3.35
AUD/USD	0.6877	1.82
USD/CAD	1.3112	-0.77
USD/JPY	108.58	0.36
USD/CHF	0.9850	-1.04
USD/CNY Midpoint	7.0680	-0.07
USD/CNY	7.0717	0.06
12-mth Spot pr.	7.1270	-0.13
USD/CNH	7.0675	-0.09
USD/HKD	7.8425	-0.02
CNY/HKD	1.1090	-0.09
CNH/HKD	1.1097	0.08
USD/KRW	1,171.95	-1.10
USD/TWD	30.582	-0.07
USD/SGD	1.3610	-0.59
USD/INR	71.54	0.73

All data sources: Bloomberg

Disclosures

Analyst Certification

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