

Jan 19, 2018

# Economic Acumen

Commentary by CEBI Research Team

## In Brief

- In 2017, China's economy maintained the momentum of stable and sound development. China's economic expansion remained steady at 6.8% YoY in 4Q2017, beating the market estimates of 6.7% and unchanged from the previous quarter's growth.
- As China continues to make progress in supply-side structural reforms including reducing industrial production overcapacity and financial deleveraging, prioritizing growth quality and efficiency in new development era, the country's GDP growth rate in 2017 maintained a medium-high growth rate at 6.9% YoY, marking its first rebound since 2010.
- Steady growth of macroeconomic indicators was driven by China's supply-side structural reform and macro-control innovation which led to the country's low urban unemployment, pick-up in imports and exports, improvement in the performance of enterprises, increase in fiscal revenue and residents' income. Overall, China's economy is rebalancing to attain more sustainable economic expansion.
- We are of the view that the overall macroeconomic conditions remain stable and China's GDP growth will reach 6.6% YoY for 2018.

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## China's economy rebounded with 6.9% growth in 2017

In 2017, China's economy maintained the momentum of stable and sound development. China's economic expansion remained steady at 6.8% YoY in 4Q2017, beating the market estimates of 6.7% and unchanged from the previous quarter's growth. As China continues to make progress in supply-side structural reforms including reducing industrial production overcapacity and financial deleveraging, prioritizing growth quality and efficiency in new development era, the country's GDP growth rate in 2017 maintained a medium-high growth rate at 6.9% YoY, marking its first rebound since 2010. Steady growth of macroeconomic indicators was driven by China's supply-side structural reform and macro-control innovation which led to the country's low urban unemployment, pick-up in imports and exports, improvement in the performance of enterprises, increase in fiscal revenue and residents' income. Overall, China's economy is rebalancing to attain more sustainable economic expansion. We are of the view that the overall macroeconomic conditions remain stable and China's GDP growth will reach 6.6% YoY for 2018.

**Fixed asset investment (FAI) downtrend continued in 2017.** The growth of FAI in 2017 was 7.2% YoY, above expectation (7.1%) but lower than 2016's 8.1%. Moderation of FAI was mainly driven by slowing growth of real estate investment at 7.0% from 11M2017's 7.5%. In general, the government's recent efforts to tighten property market should continue to moderate FAI growth. Infrastructure investment still maintained a strong growth pace at 19% YoY (2016's 17.4%), driven by investment in public facility management and road transport. We reassert that investment in infrastructure investment which grew around 20% YoY, will continue to become the major growth driver of FAI in 2018.

**China's industrial value-added output accelerated in December.** In December, industrial production expanded by 6.2% YoY, slightly above the market consensus and November's 6.1% YoY. On a month-on-month basis, industrial output edged up 0.52% in December, above November's 0.47%. For 2017, industrial production demonstrated stable growth momentum at 6.6% YoY (2016's 6.0%). The value-added of the main industrial sectors such

as “Medicines” (Dec:+13.1% YoY and 2017: +12.4% YoY), “Computer, Communication Equipment and Other Electronic Equipment” (Dec:+ 12.4% YoY and 2017: +13.8% YoY), “Special-Purpose Machinery” (Dec:+ 10.7% YoY and 2017: +11.8% YoY), “Electric Machinery and Equipment” (Dec: +9.9% YoY and 2017:+10.6% YoY), “Motor Vehicles” (Dec: +9.6% YoY and 2017:+12.2% YoY), and “Foods” (Dec: +9.5% YoY and 2017: +9.1% YoY) were the major drivers of industrial production in December. We believe that industrial production would maintain stable growth in 2018.

**Retail sales moderated in December and posted stable growth in 2017.** Retail sales in December moderated to 9.4% YoY, lowering than market expectation and November’s 10.2%. On a month-on-month basis, retail sales rose 0.70% in December, lower than November’s 0.81%. For 2017, retail sales posted stable growth of 10.2% YoY. National online retail sales reached Rmb5,480.6bn in 2017, a year-on-year growth of 28.0%, reflecting significant growth momentum in online consumption. In general, retail sales growth was mainly driven by sizeable growth in “Cosmetics” (Dec: +13.8% YoY and 2017:+13.5% YoY), “Traditional Chinese and Western Medicines” (Dec: +13.5% YoY and 2017: +12.4% YoY), “Communication Appliances” (Dec: +13.4% YoY and 2017:+11.7% YoY), “Cultural and Office Appliances” (Dec: +12.7% YoY and 2017:+9.8% YoY), and “Furniture” (Dec: +12.5% YoY and 2017:+12.8% YoY). Going forward, retail sales is likely to sustain healthy growth on the government’s persistent efforts to shift China’s economy toward a growth model driven more by consumer spending, innovation and services. We believe the government will continue to prioritize consumption growth in 2018, among which, services consumption and e-commerce will gain the most traction.

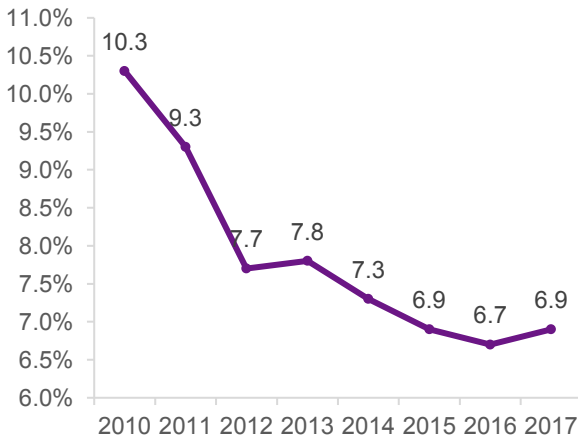
**China’s inflation remained stable in 2017.** China’s December CPI inflation edged up 1.8 % YoY (+0.3% MoM and November: +1.7% YoY), beneath the consensus estimate of +1.9%. The rise of inflation in December was attributable to surging month-to-month increase in food prices due to cold weather. Producers’ prices posted positive growth of 4.9% YoY (+0.8% MoM) in December, beating the market expectation of 4.8% but lowering than November’s 5.8% due to the high-base effect. The upward trend of factory-gate prices was driven by stable economic recovery, a tight labor market and cuts on overcapacity. For 2017, the CPI inflation fluctuated between 0.8% and 2.5%, with year-end inflation reaching 1.6%, safely lower than the official target of 3.0% and 2016’s 2.0%. The PPI rose 6.3% YoY in 2017, reversing the deflation of producer prices between 2012 and 2016. In sum, the stable trend of consumer prices and factory-gate prices indicates that China’s economic momentum remains resilient, supported by strong domestic demand and healthy global demand.

**China’s trade showed double-digit growth in 2017.** In December, exports, in Yuan terms, rose 7.4% YoY (+7.7% MoM), higher than the consensus estimate of 6.7% but lower than November’s 10.3% while imports, in Yuan terms, grew 0.9% YoY (+0.3% MoM), lower than the consensus estimate of 11.8% and November’s 15.6%. In 2017, China’s trade maintains robust growth in exports and imports,

in Yuan terms, surging by 10.8% and 18.7%, respectively. The rebound in external trade was caused by strengthened overseas demand driven by a continued economic recovery in the U.S. and Eurozone. We believe surging demand for China's exports from major trading partners, together with the supportive stance of the Chinese government, will continue to drive growth in China's external trade. In our view, the external trade would keep stable growth in 2018.

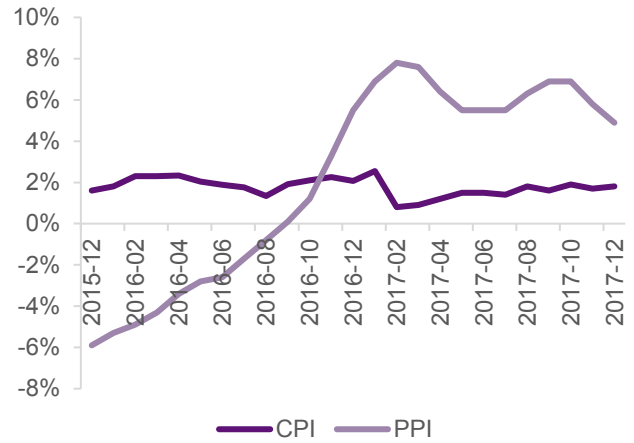
**Credit demand decelerated in December amid tightened financial regulation and deleveraging process.** Monetary indicators showed softening momentum in December as new loans and M2 growths were Rmb5,844bn (Consensus: RMB1.0tr and November: RMB1.12tr) and 8.2% YoY (Consensus: 9.2% and November: 9.1%), respectively. The aggregate financing reached RMB1.14tr (Consensus: RMB1.5tr and November: RMB1.6tr). The deceleration of monetary indicators in December reflected that commercial banks continued to curb the expansion of off-balance-sheet products due to tightened financial regulations and continued implementation of deleveraging process. For 2017, new loans and aggregate financing posted 6.9% YoY and 9.2% YoY, slower than 2016's 7.9% and 15.5%. Nevertheless, the People Bank of China (PBOC) has been trying to strike a balance between defusing risks arising from shadow banking activities and guiding funds into the real economy to boost economic growth. In a bid to improve credit support for small and micro-sized enterprises, startups and agricultural production, the PBOC in September 2017 announced a targeted reserve requirement ratio (RRR) cut. The new policy is expected to go into effect on 25 Jan 2018 by offering commercial banks, whose annual outstanding or new loans in inclusive financing accounts for more than 1.5 percent of the total, a RRR cut of 0.5 percentage point from the central bank's benchmark level. The RRR will be cut further by a 1.0 percentage point if the ratio exceeds 10 percent. In general, in accordance with China's economic growth and structural adjustment objectives, we believe the central government will maintain a policy characterized by "prudent and neutral" liquidity management in 2018.

**Fig. 1: China GDP growth (YoY %)**



Source: Wind, Bloomberg and CEBI

**Fig. 2: CPI and PPI (YoY%)**



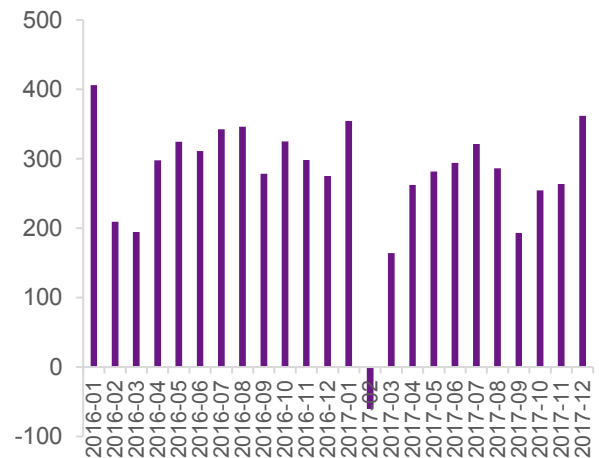
Source: Wind, Bloomberg and CEBI

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



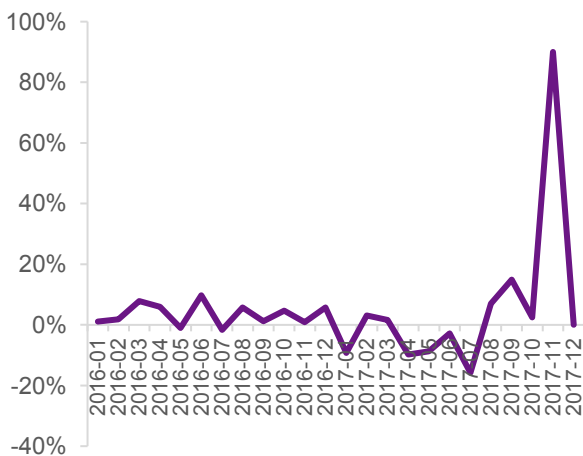
Source: Wind, Bloomberg and CEBI

**Fig. 4: Trade Surplus (RMB bn)**



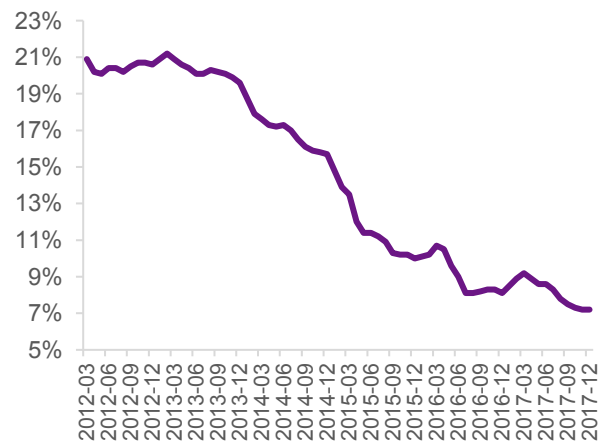
Source: Wind, Bloomberg and CEBI

**Fig. 5: FDI (YoY %)**



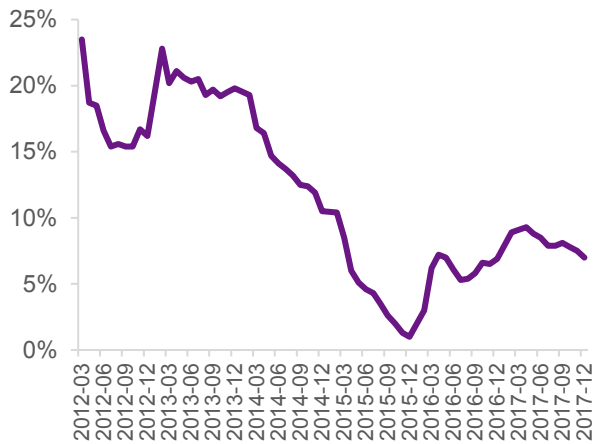
Source: Wind, Bloomberg and CEBI

**Fig. 6: FAI (YTD YoY %)**



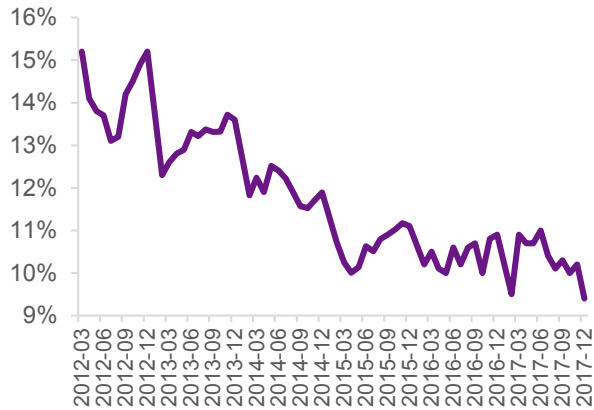
Source: Wind, Bloomberg and CEBI

**Fig. 7: Real Estate Investment (YTD YoY %)**



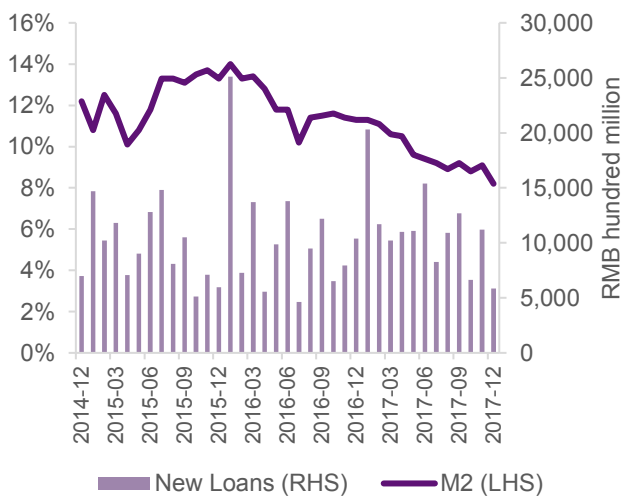
Source: Wind, Bloomberg and CEBI

**Fig. 9: Retail sales (YoY %)**



Source: Wind, Bloomberg and CEBI

**Fig. 11: New loans and M2 growth**



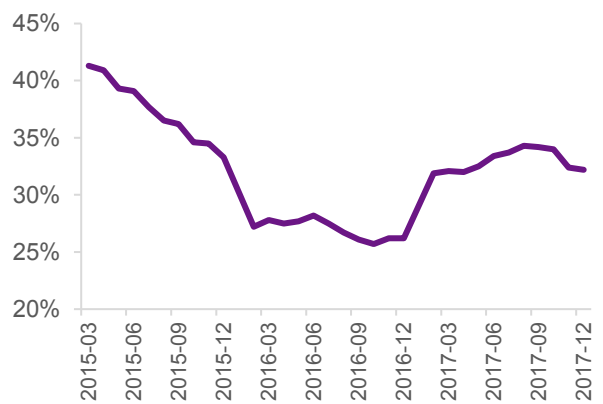
Source: Wind, Bloomberg and CEBI

**Fig. 8: Industrial Production (YoY %)**



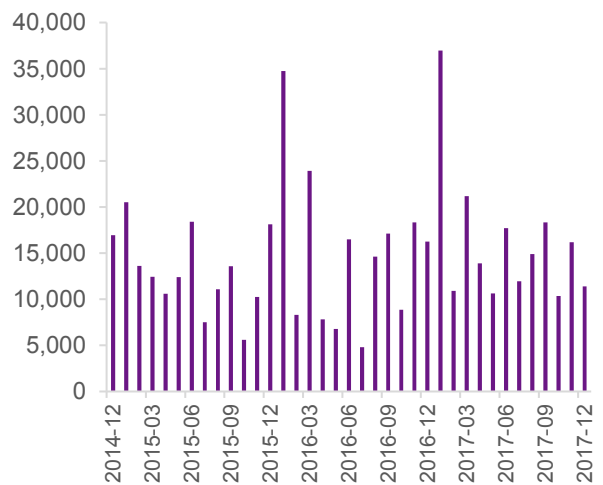
Source: Wind, Bloomberg and CEBI

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



Source: Wind, Bloomberg and CEBI

**Fig. 12: Aggregate Social Financing (RMB hundred million)**



Source: Wind, Bloomberg and CEBI

## China Economic Indicators

	2015	2016	1Q2017	2Q2017	3Q2017	4Q2017	2017
Real GDP	6.9	6.7	6.9	6.9	6.8	6.8	6.9
PMI							
Manufacturing (%)	49.7	51.4	51.8	51.7	52.4	51.6	51.6
Non-Manufacturing (%)	54.4	54.5	55.1	54.9	55.4	55.5	55.5
Exports (RMB YoY %)	(1.8)	(2.1)	10.5	12.5	7.7	7.1	10.8
Imports (RMB YoY %)	(13.2)	0.4	30.3	20.8	16.4	9.7	18.7
Trade Balance (RMB/bn)	3686.5	3347.3	458.5	838.2	800.7	881.4	2871.6
Exports (USD YoY %)	(2.9)	(7.7)	7.6	8.7	6.6	10.1	7.9
Imports (USD YoY %)	(14.1)	(5.5)	24.2	14.2	14.4	12.6	15.9
Trade Balance (USD/bn)	593.9	509.7	62.3	119.7	115.8	133.0	422.5
CPI (YoY %)	1.4	2.0	1.4	1.4	1.6	1.8	1.6
PPI (YoY %)	(5.2)	(1.4)	7.4	5.8	6.2	5.9	6.3
FAI (YTD/ YOY %)	10.0	8.1	9.2	8.6	7.5	7.2	7.2
Real Estate Investment (YTD YoY %)	1.0	6.9	9.1	8.5	8.1	7.0	7.0
Industrial Production (YoY %)	6.1	6.0	6.8	6.9	6.3	6.2	6.6
Retail Sales (YoY%)	10.7	10.4	10.0	10.8	10.3	9.9	10.2
New Lending (RMB/bn)	11719.9	12645.9	4220.0	3750.0	3785.5	2367.6	13523.1
M2 (YoY %)	13.3	11.3	10.6	9.4	9.2	8.2	8.2
Aggregate Financing (RMB bn)	15408.6	17802.2	6906.4	4222.9	4518.6	3795.1	19443.0

	Dec 16	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17	Jul 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17
Real GDP	6.8	-	-	6.9	-	-	6.9	-	-	6.8	-	-	6.8
PMI – Manufacturing %	51.4	51.3	51.6	51.8	51.2	51.2	51.7	51.4	51.7	52.4	51.6	51.8	51.6
PMI- Non-manufacturing%	54.5	54.6	54.2	55.1	54.0	54.5	54.9	54.5	53.4	55.4	54.3	54.8	55.5
Exports (RMB YoY %)	0.6	15.0	3.3	21.6	13.3	14.7	16.9	10.6	6.6	9.1	6.0	10.3	7.4
Imports (RMB YoY %)	10.8	25.7	45.1	26.1	18.2	21.2	23.0	14.6	14.4	19.4	15.9	15.6	0.9
Trade Balance (RMB/bn)	275.4	354.5	(60.4)	164.3	262.3	281.6	294.3	321.2	286.5	193.0	254.5	263.6	362.0
Export (USD YoY %)	(6.1)	7.0	(2.1)	15.7	7.0	8.0	10.9	6.6	5.2	8.1	6.8	12.3	10.9
Import (USD YoY %)	3.1	17.1	38.4	20.1	11.5	14.0	17.0	11.0	13.3	18.7	17.2	17.7	4.5
Trade Balance (USD/bn)	39.6	49.5	(10.4)	23.1	36.9	40.5	42.2	45.7	41.4	28.7	38.1	40.2	54.7
CPI (YoY %)	2.1	2.5	0.8	0.9	1.2	1.5	1.5	1.4	1.8	1.6	1.9	1.7	1.8
PPI (YoY %)	5.5	6.9	7.8	7.6	6.4	5.5	5.5	5.5	6.3	6.9	6.9	5.8	4.9
FAI (YTD/ YOY %)	8.1	-	8.9	9.2	8.9	8.6	8.6	8.3	7.8	7.5	7.3	7.2	7.2
Real Estate Investment (YTD/ YoY %)	6.9	-	8.9	9.1	9.3	8.8	8.5	7.9	7.9	8.1	7.8	7.5	7.0
Industrial Production (YoY %)	6.0	-	6.3	7.6	6.5	6.5	7.6	6.4	6.0	6.6	6.2	6.1	6.2
Retail Sales (YoY%)	10.9	-	9.5	10.9	10.7	10.7	11.0	10.4	10.1	10.3	10.0	10.2	9.4
New Lending (RMB/bn)	1040.0	2030.0	1170.0	1020.0	1100.0	1110.0	1540.0	825.5	1090.0	1270.0	663.2	1120.0	584.4
M2 (YoY %)	11.3	11.3	11.1	10.6	10.5	9.6	9.4	9.2	8.9	9.2	8.8	9.1	8.2
Aggregate Financing (RMB bn)	1626.0	3697.0	1090.8	2118.6	1388.0	1063.1	1771.8	1195.6	1489.5	1833.5	1035.7	1619.6	1139.8

## World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
<b>U.S.</b>			
DJIA	26,017.81	21.82	2.56
S&P 500	2,798.03	23.49	1.81
NASDAQ	7,296.05	39.41	1.99
<b>EUR</b>			
FTSE 100	7,700.96	22.96	-0.80
DAX	13,281.43	19.54	0.59
CAC40S	5,494.83	18.88	0.11
STOXX EUR 600	398.73	21.33	0.37
<b>Asia</b>			
HSI	32,121.94	14.99	3.22
HSCEI	13,094.92	10.29	6.50
CSI300	4,271.42	17.63	1.57
SSE Composite	3,474.75	17.68	1.44
SZSE Composite	1,924.20	28.99	-1.48
NIKKEI 225	23,763.37	20.23	0.22
KOSPI	2,515.81	13.09	1.12
TWSE	11,071.57	16.20	2.42
S&P/ASX 200	6,014.57	17.88	-0.87
<b>MSCI Index</b>			
MSCI WORLD	2,196.73	22.46	1.15
MSCI DEVELOPED	536.70	21.60	1.31
MSCI EMERGING	1,227.52	16.81	2.55
MSCI US	2,662.24	23.87	1.79
MSCI UK	2,232.85	23.61	-0.77
MSCI France	157.76	19.08	0.28
MSCI Germany	164.88	19.35	0.82
MSCI China	97.16	18.89	2.50
MSCI Hong Kong	16,463.71	13.96	1.44
MSCI Japan	1,116.86	16.89	-0.28

\* As of 18/1/2018 closing all markets.

Global Commodities			
	Unit	Price	One Week chg(%)
<b>Energy</b>			
NYMEX WTI	USD/bbl	63.95	0.60
ICE Brent Oil	USD/bbl	69.31	0.07
NYMEX NatGas	USD/MMBtu	3.19	9.74
<b>Basic Metals</b>			
LME Alum.Cash	USD/MT	2,243.50	3.64
CMX Cop.Active	USD/lb.	319.90	-1.13
LME Steel Rebar	USD/MT	564.00	-1.66
LME Lead Cash	USD/MT	2,606.25	2.08
<b>Precious Metals</b>			
CMX Gold	USD/KRW	1,329.96	0.79
Gold Futures	USD/KRW	1,327.20	0.60
CMX Silverbn	USD/KRW	17.10	0.45
NYMEX Platinum	USD/T. oz	1,001.72	2.50
<b>Agri. Products</b>			
CBOT Corn	USD/bu	351.50	0.72
CBOT Wheat	USD/bu	425.25	-2.07
NYB-ICE Sugar	USD/lb.	13.08	-10.72
CBOT Soybeans	USD/bu.	973.00	1.88

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	1.50	0.00
US Prime Rate	4.50	0.00
US Discount Window	2.00	0.00
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	-0.10	0.00
US Treasury (1 Mth)	1.26	-0.04
US Treasury (1 Yr)	1.76	0.00
US Treasury (5 Yr)	2.42	0.09
US Treasury (10 Yr)	2.63	0.09
US Treasury (30 Yr)	2.90	0.04
1-Month LIBOR	1.56	0.00
3 Month LIBOR	1.74	0.03
Japan 1-Yr Gov. Bond	-0.14	-0.01
Japan 10-Yr Gov. Bond	0.08	0.01
German 1-Yr Gov. Bond	-0.60	-0.06
German 10-Yr Gov. Bond	0.57	-0.01
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	3.57	-0.06
China 5-Yr Gov. Bond	3.92	0.06
China 10-Yr Gov. Bond	3.98	0.02
O/N SHIBOR	2.77	-0.07
1-mth SHIBOR	4.09	-0.07
HK Base rate	1.75	0.00
O/N HIBOR	0.49	0.34
1-mth HIBOR	0.94	-0.01
O/N CNH HIBOR	2.83	0.41
1-mth CNH HIBOR	4.06	0.08
<b>Corporate Bonds (Moody's)</b>		
Aaa	3.50	-0.07
Baa	4.23	-0.06

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	90.50	-1.47
Euro/USD	1.2228	2.35
GBP/USD	1.3862	2.73
AUD/USD	0.7985	1.40
USD/CAD	1.2443	-0.90
USD/JPY	111.26	-0.34
USD/CHF	0.9601	-1.92
USD/CNY Midpoint	6.4401	-1.15
USD/CNY	6.4200	-1.33
USD/CNY NDF		
12-mth Spot pr.	6.5550	-1.43
USD/CNH	6.4208	-1.42
USD/HKD	7.8181	-0.06
CNY/HKD	1.2177	1.28
CNH/HKD	1.2176	1.39
USD/KRW	1,070.50	-0.15
USD/TWD	29.559	-0.19
USD/SGD	1.3221	-0.83
USD/INR	63.860	0.31

All data sources: Bloomberg, CEBI, NBS

## Disclosures

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