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Economic Acumen

Commentary by CEBI Research Team

In Brief

- China's January CPI inflation decelerated to 1.5% YoY (+0.6% MoM) from 1.8% YoY in December 2017 (+0.3% MoM) but in line with the consensus estimate. The drop of inflation was attributable to year-to-year decrease in food price at 0.5% as well as the easing of non-food price from December's 2.4% to 2.0%.
- Producers' prices posted positive growth of 4.3% YoY (+0.3% MoM) in January, which was in line with the consensus estimate but lower from 4.9% YoY (+0.8% MoM) in the previous month. The easing of producer prices was mainly due to high-based effect. The factory prices still demonstrated an upward trend, which was driven by stable economic recovery and surging commodity prices.
- The stable uptrend of CPI and PPI indicates that, supported by strong domestic and global demand, China's economic momentum remains resilient.

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China's inflation edged down in January

China's January CPI inflation decelerated to 1.5% YoY (+0.6% MoM) from 1.8% YoY in December 2017 (+0.3% MoM) but in line with the consensus estimate. The drop of inflation was attributable to a year-to-year decrease in food price at 0.5% this month as well as the easing of non-food price from December's 2.4% to 2.0%. Producers' prices posted a positive growth of 4.3% YoY (+0.3% MoM) in January, which was in line with the consensus estimate but lower from 4.9% YoY (+0.8% MoM) in the previous month. The easing of producer prices was mainly due to high-based effect. The factory prices still demonstrated an upward trend, which was driven by stable economic recovery and surging commodity prices. In sum, the stable uptrend of CPI and PPI indicates that, supported by strong domestic and global demand, China's economic momentum remains resilient.

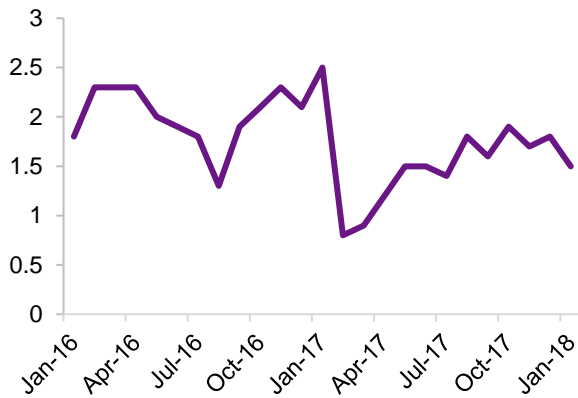
January CPI adjusted downward on both falling food prices and non-food prices. Contributing to the easing of CPI in January was the drop of food CPI (-0.5% YoY) and the easing of non-food CPI (+2.0% YoY only). In January, pork and vegetables dropped 10.6% YoY and 5.8% YoY, respectively. Non-food CPI, which remained stable between 2.4% and 2.5% during last few months, posted a rise of only 2.0% YoY this month. Categories such as 'Health Care' and 'Residence' which are as the major driver of non-food CPI, posted an easing growth rate of 6.2% and 2.7% respectively in January from December's 6.6% and 2.8%. In general, China's overall macroeconomic recovery is on track and we believe CPI inflation would remain stable for the rest of 2018.

China's factory prices softened in January. China's PPI, a gauge of factory-gate prices, increased by 4.3% in January. Producer prices of industries such as 'Manufacture and Processing of Ferrous Metals' (+14.3% YoY), 'Manufacture of Non-metallic Mineral Products' (+13.4% YoY), 'Extraction of Petroleum and Natural Gas' (+12.4% YoY), 'Processing of Petroleum, Coking, Processing of Nucleus Fuel' (+10.9% YoY), 'Mining of Non-Ferrous Metal Ores' (+10.9% YoY), and 'Manufacture and Processing of Non-Ferrous Metals' (+10.4% YoY) posted double-digit rises. In general, PPI has

been expanding for 17 months in a row, signaling the rebound in commodity prices and improvement of manufacturing environment. Meanwhile, the country's FAI and industrial production growths are expected to remain stable, sustaining the growth of industrial goods prices. We believe factory-gate prices will remain uptrend in coming months.

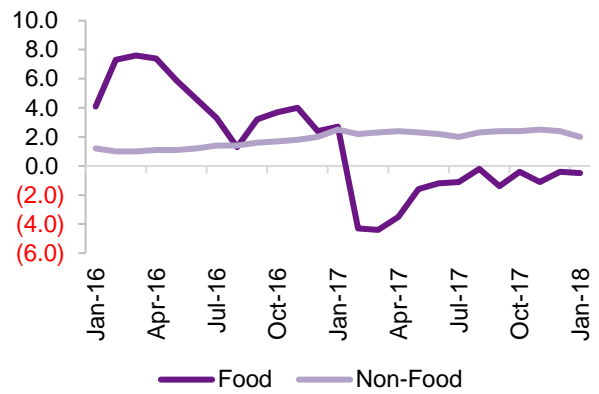
Prudent monetary measures to maintain stable price level. Prudent liquidity management will continue to be a priority of monetary policy in 2018. The stabilization of China's economy, reflected by the stable uptrend in CPI and PPI, have rendered aggressive easing less necessary and the direction of prudent monetary policy will stay unchanged. Amid healthy expansion of credits and stable food prices, China's inflation will remain stable in 2018.

Fig.1: China CPI Inflation YoY%



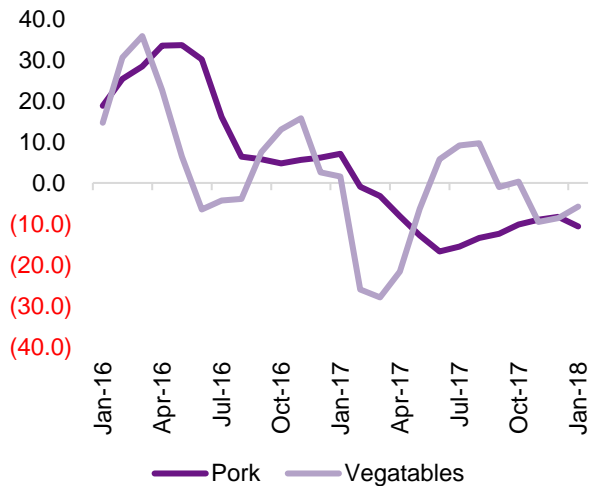
Source: Wind, Bloomberg and CEBI

Fig.2: Food and Non-Food Inflation YoY%



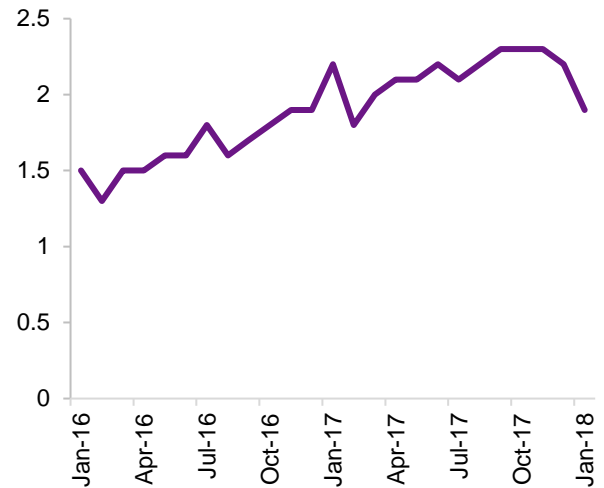
Source: Wind, Bloomberg and CEBI

Fig.3: Price of Pork and Vegetables YoY%



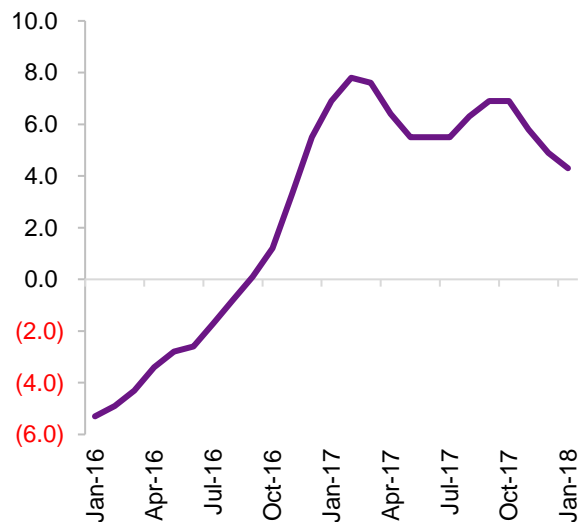
Source: Wind, Bloomberg and CEBI

Fig.4: Core Inflation YoY%



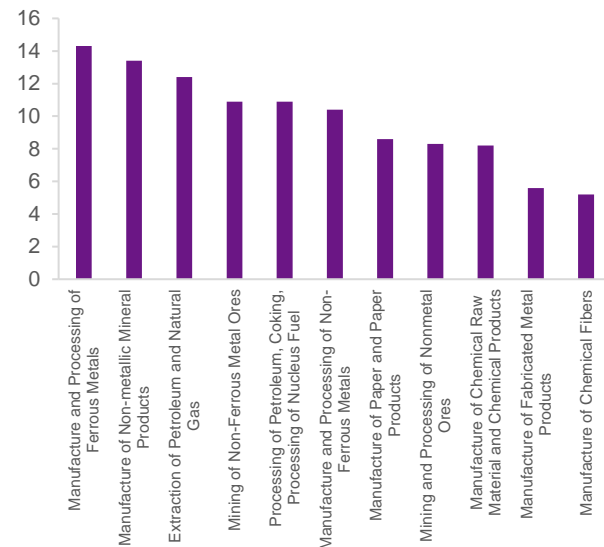
Source: Wind, Bloomberg and CEBI

Fig.5: China PPI YoY%



Source: Wind, Bloomberg and CEBI

Fig.6: Producer Price Indices of Major Industries (December 2017) YoY%



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

	Jan 17	Feb 17	Mar 17	Apr 17	May 17	Jun 17	Jul 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17	Jan 18
Real GDP	-	-	6.9	-	-	6.9	-	-	6.8	-	-	6.8	-
PMI – Manufacturing %	51.3	51.6	51.8	51.2	51.2	51.7	51.4	51.7	52.4	51.6	51.8	51.6	51.3
PMI- Non-manufacturing%	54.6	54.2	55.1	54.0	54.5	54.9	54.5	53.4	55.4	54.3	54.8	55.5	55.3
Exports (RMB YoY %)	15.0	3.3	21.6	13.3	14.7	16.9	10.6	6.6	9.1	6.0	10.3	7.4	6.0
Imports (RMB YoY %)	25.7	45.1	26.1	18.2	21.2	23.0	14.6	14.4	19.4	15.9	15.6	0.9	30.2
Trade Balance (RMB/bn)	354.5	(60.4)	164.3	262.3	281.6	294.3	321.2	286.5	193.0	254.5	263.6	362.0	135.8
Export (USD YoY %)	7.0	(2.1)	15.7	7.0	8.0	10.9	6.6	5.2	8.1	6.8	12.3	10.9	11.1
Import (USD YoY %)	17.1	38.4	20.1	11.5	14.0	17.0	11.0	13.3	18.7	17.2	17.7	4.5	36.9
Trade Balance (USD/bn)	49.5	(10.4)	23.1	36.9	40.5	42.2	45.7	41.4	28.7	38.1	40.2	54.7	20.3
CPI (YoY %)	2.5	0.8	0.9	1.2	1.5	1.5	1.4	1.8	1.6	1.9	1.7	1.8	1.5
PPI (YoY %)	6.9	7.8	7.6	6.4	5.5	5.5	5.5	6.3	6.9	6.9	5.8	4.9	4.3
FAI (YTD/ YOY %)	-	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 %)	-	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 %)	-	6.3	7.6	6.5	6.5	7.6	6.4	6.0	6.6	6.2	6.1	6.2	-
Retail Sales (YoY%)	-	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)	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	11.1	10.6	10.5	9.6	9.4	9.2	8.9	9.2	8.8	9.1	8.2	-
Aggregate Financing (RMB bn)	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(%)
U.S.			
DJIA	24,190.90	19.24	-5.21
S&P 500	2,619.55	20.82	-5.16
NASDAQ	6,874.49	35.70	-5.06
EUR			
FTSE 100	7,092.43	20.68	-4.72
DAX	12,107.48	17.16	-5.30
CAC40S	5,079.21	16.96	-5.33
STOXX EUR 600	368.61	18.48	-5.01
Asia			
HSI	29,507.42	13.74	-9.49
HSCEI	11,901.67	9.30	-12.09
CSI300	3,840.65	15.76	-10.08
SSE Composite	3,129.85	15.93	-9.60
SZSE Composite	1,679.26	25.55	-7.81
NIKKEI 225	21,382.62	15.95	-8.13
KOSPI	2,363.77	12.57	-6.40
TWSE	10,371.75	15.20	-6.78
S&P/ASX 200	5,837.97	16.92	-4.63
MSCI Index			
MSCI WORLD	2,050.90	19.93	-5.56
MSCI DEVELOPED	500.91	19.33	-5.75
MSCI EMERGING	1,142.85	15.87	-7.15
MSCI US	2,494.84	21.18	-5.15
MSCI UK	2,057.01	21.42	-4.60
MSCI France	146.39	17.47	-5.16
MSCI Germany	150.05	17.45	-5.09
MSCI China	88.60	17.69	-10.01
MSCI Hong Kong	15,224.24	13.18	-7.54
MSCI Japan	1,030.18	14.41	-6.74

* As of 9/2/2018 closing for all markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	59.20	-9.55
ICE Brent Oil	USD/bbl	62.79	-8.44
NYMEX NatGas	USD/MMBtu	2.58	-9.21
Basic Metals			
LME Alum.Cash	USD/MT	2,120.75	-4.02
CMX Cop.Active	USD/lb.	303.35	-4.83
LME Steel Rebar	USD/MT	571.00	5.74
LME Lead Cash	USD/MT	2,536.00	-6.20
Precious Metals			
CMX Gold	USD/KRW	1,316.65	-1.26
Gold Futures	USD/KRW	1,315.70	-1.62
CMX Silverbn	USD/KRW	16.37	-1.36
NYMEX Platinum	USD/T. oz	965.42	-2.60
Agri. Products			
CBOT Corn	USD/bu	362.00	0.14
CBOT Wheat	USD/bu	449.00	0.50
NYB-ICE Sugar	USD/lb.	13.55	-0.95
CBOT Soybeans	USD/bu.	983.00	0.43

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)	1.30	-0.08
US Treasury (1 Yr)	1.88	0.01
US Treasury (5 Yr)	2.54	-0.05
US Treasury (10 Yr)	2.85	0.01
US Treasury (30 Yr)	3.16	0.07
1-Month LIBOR	1.58	0.00
3 Month LIBOR	1.81	0.02
Japan 1-Yr Gov. Bond	-0.15	-0.02
Japan 10-Yr Gov. Bond	0.07	-0.02
German 1-Yr Gov. Bond	-0.57	-0.02
German 10-Yr Gov. Bond	0.75	-0.02
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	3.42	-0.08
China 5-Yr Gov. Bond	3.83	-0.01
China 10-Yr Gov. Bond	3.90	-0.02
O/N SHIBOR	2.59	0.07
1-mth SHIBOR	4.07	-0.06
HK Base rate	1.75	0.00
O/N HIBOR	0.15	-0.19
1-mth HIBOR	0.78	-0.13
O/N CNH HIBOR	2.92	0.50
1-mth CNH HIBOR	4.71	0.43
Corporate Bonds (Moody's)		
Aaa	3.79	0.17
Baa	4.48	0.14

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	90.44	1.40
Euro/USD	1.2252	-1.69
GBP/USD	1.3827	-2.06
AUD/USD	0.7813	-1.49
USD/CAD	1.2581	1.22
USD/JPY	108.80	-1.24
USD/CHF	0.9386	0.77
USD/CNY Midpoint	6.3194	0.49
USD/CNY	6.3032	0.03
USD/CNY NDF		
12-mth Spot pr.	6.4530	0.19
USD/CNH	6.3115	-0.03
USD/HKD	7.8183	-0.03
CNY/HKD	1.2406	-0.06
CNH/HKD	1.2386	-0.06
USD/KRW	1,092.05	1.11
USD/TWD	29.401	0.59
USD/SGD	1.3277	0.60
USD/INR	64.398	0.52

All data sources: Bloomberg, CEBI, NBS

Disclosures

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