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Economic Acumen

Commentary by CEBI Research Team

In Brief

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- Deepening structural reforms to achieve sustainable economic development is the central theme of this year China's NPC as the year of 2018 marks the 40th anniversary of the adoption of the reform and opening-up policy. As China's reform drive deepens, it has begun to upgrade the program to make its development fairer and more sustainable, shifting its focus from quantity to quality.
- This year NPC emphasizes to strongly promote high-quality growth and address development's imbalances and inadequacies.
- In sum, China's efforts to promote stable social and economic development, enhance economic stability at home, create new jobs, deepen economic structural reforms, accelerate financial de-risking, alleviate poverty, effectively strengthen environmental clean-up and enhance opening-up policy would become the major agendas in 2018.

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

China's 2018 NPC: stepping up reforms and opening-up

China's goal of maintaining a stable economic growth to achieve full employment and building a moderately prosperous society become the major emphasis of 13th National People's Congress (NPC) in 2018. Deepening structural reforms to achieve sustainable economic development is the central theme of this year China's NPC as the year of 2018 marks the 40th anniversary of the adoption of the reform and opening-up policy. As China's reform drive deepens, it has begun to upgrade the program to make its development fairer and more sustainable, shifting its focus from quantity to quality. This year NPC emphasizes to strongly promote high-quality growth and address development's imbalances and inadequacies. In sum, China's efforts to promote stable social and economic development, enhance economic stability at home, create new jobs, deepen economic structural reforms, accelerate financial de-risking, alleviate poverty, effectively strengthen environmental clean-up and enhance opening-up policy would become the major agendas in 2018.

China sets the stable growth target for 2018 to ensure financial stability. Premier Li Keqiang sets GDP growth target for 2018 at around 6.5%, unchanged from 2017's target but lower than outperformed 2017 actual growth of 6.9%. China does not raise growth target amid stronger growth in 2017 as it aims to revitalize growth through quality, ensure financial stability and target the achievement of sustainable growth. Creating big, strong industrial clusters in emerging industries, implementing the big data development action plan, stepping up next-generation artificial intelligence R&D and application, and advocating the Internet Plus model in many fields like medical services, elderly care, education, culture and sports, China's push for comprehensive changes in the social and economic realms will create ample of opportunities, replacing the old growth engines with new industries. Overall, China aims to liberalize the economy and pursue quality growth through financial liberalization, industry deregulation, continued supply-side structural reform to curb overcapacity problem, land reforms, greater access to different industries for foreign investors, enhancing SOE

reform, deepening tax reform, promoting foreign trade growth, and creating new growth drivers to drive investment and consumption.

To keep prudent monetary policy neutral and pursue a proactive fiscal policy. China is committed to pursuing reforms essential to a more sustainable economic development. China reasserts its stance of sustaining medium to high economic growth and financial stability through the deployment of “prudent and neutral” monetary policy and a proactive fiscal policy. As China maintains its focus on deleveraging to reduce financial risk, deeper financial deleveraging reform remains intact in 2018 along with “prudent and neutral” monetary stance. Pro-consumption fiscal stimulus continues to be the major push for domestic demand. The nation’s fiscal deficit in 2018, as a percentage of GDP, is set at 2.6%, with which more support will be provided for tax relief, social housing, SMEs, livelihood-related issues, and environmental protection.

To further lighten the tax burden. The previous implementation of the replacement of the business tax with a value-added tax (VAT) has alleviated tax burden of enterprises with which a total of Rmb918.6bn yuan was saved in 2017 via China's ongoing reform to replace business tax with value-added tax (VAT), benefiting most sectors in the economy. China will continue to provide tax alleviation around Rmb800bn in 2018 for business and individuals. China will lower rates in manufacturing and transportation, and raise the threshold for annual sales revenue for small-scale taxpayers. In addition, a policy of uniform corporate income tax exemption on the overseas earnings of Chinese businesses will be put into implementation. In sum, easing of the tax burden will increase purchasing power, support domestic consumption as well as boost growth in China’s services and consumer industries.

China to enhance environmental clean-up for long-term development. Pollution control and environmental protection are crucial to health and sustainable development in China. Hence, one of 2018 NPC’s initiatives is to strengthen effort in this domain. China will cut sulfur dioxide and nitrogen oxide emissions by 3% and achieve a continuous decline in PM2.5 density in key areas. China will also encourage upgrading in the steel and other industries to achieve ultra-low emissions, and step up efforts to prevent and control water and soil pollution. The government will redouble efforts to protect and restore ecosystems, and finish setting redlines for ecological conservation across the country. More policies supportive of new energy and water conservation will be implemented to enhance environmental protection. To ensure sustainable economic and social development in the coming decades, greater investments would be seen in new energy and improving water conservation, waste treatment, as well as the irrigation and management systems.

Innovation to be the key to future growth. China will strengthen innovation-driven development strategy, thus making China’s economy more innovative and competitive. China will establish a state financing guaranty fund, support leading innovative enterprises in going public, and extend nationwide the pilot preferential tax

policies for venture capital investment and angel investment. Enterprises are encouraged to head up major science and technology programs. Collaborative innovation by research institutes, universities, and enterprises are also supported while basic research and application-oriented basic research will be strengthened. A number of major science and technology innovation programs will be launched, and top-quality national laboratories will be set up. In sum, technology and innovation play a key role in helping foster a rapid development of new industries, thus upgrading and transiting China's economy to more sustainable growth.

Targets for 2018

- Set 2018 GDP growth target at around 6.5 percent
- Maintain inflation level at around 3 percent
- Create over 11 million new urban jobs, the surveyed urban unemployment rate within 5.5 percent, and the registered urban jobless rate within 4.5 percent
- Basic parity in personal income growth and economic growth
- A steady rise in import and export volumes, and a basic equilibrium in the balance of payments
- A drop of at least 3 percent in energy consumption per unit of GDP, and continued reductions in the release of major pollutants
- Substantive progress in supply-side structural reform, basically stable macro leverage, and systematic and effective prevention and control of risk
- Lift over 10mn people out of poverty in 2018, including 2.8mn people who are to be relocated from inhospitable areas
- This year's deficit as a percentage of GDP is projected to be 2.6 percent, 0.4 percentage point lower than last year
- China to cut steel capacity by 30mn tonnes, coal by 150mn tonnes in 2018. Meanwhile, coal-fired power generating units with a capacity of less than 300,000 kilowatts that fail to meet standards will be closed this year
- Reduce taxes on businesses and individuals by more than Rmb800bn
- This year, we will see that sulfur dioxide and nitrogen oxide emissions are both cut by 3 percent and that fine particulate matter (PM2.5) density in key areas falls markedly. This year, chemical oxygen demand and ammonia nitrogen emissions should both drop by 2 percent.
- Extend preferential policies on purchase tax on new-energy vehicles by another three years, and rescind all local policies that restrict sales of non-local second-hand vehicles
- This year will see Rmb732bn invested in railway construction and around Rmb1.8tn invested in highway and waterway projects; the scale of investment in ongoing water conservancy projects will reach Rmb1tn.
- The general manufacturing sector will be completely opened up, and access to sectors like telecommunications, medical services, education, elderly care, and new-energy vehicles will be expanded.
- Actively expand imports, host the first China International Import Expo, and lower import tariffs on automobiles, some everyday consumer goods, and so on.
- Promote the peaceful growth of cross-Strait relations on the basis of the 1992 Consensus, and advance China's peaceful reunification.
- Promote coordination and cooperation among major countries, deepen friendships and achieve common development with our neighbors, and enhance unity and cooperation with other developing countries.
- Ensure the success of the annual conference of the Boao Forum for Asia, the Shanghai Cooperation Organization Summit, the Summit of the Forum on China-Africa Cooperation.

Source: Report on the Work of the Government

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 | 2900.0 |
| 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 | 8.6 |
| 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 | 3060.0 |

World Economic/Financial Indicators

| Global Indices | | | |
|-------------------|---------------|-------|-----------------|
| Index | Closing Price | P/E | One Week chg(%) |
| U.S. | | | |
| DJIA | 24,874.76 | 20.09 | -3.25 |
| S&P 500 | 2,720.94 | 21.98 | -2.11 |
| NASDAQ | 7,330.71 | 33.58 | -1.22 |
| EUR | | | |
| FTSE 100 | 7,115.98 | 13.57 | -2.38 |
| DAX | 12,090.87 | 16.14 | -3.48 |
| CAC40S | 5,167.23 | 16.38 | -3.31 |
| STOXX EUR 600 | 370.87 | 16.16 | -3.18 |
| Asia | | | |
| HSI | 30,510.73 | 13.21 | -2.42 |
| HSCEI | 12,311.54 | 9.82 | -2.65 |
| CSI300 | 4,066.56 | 16.56 | 0.19 |
| SSE Composite | 3,289.64 | 16.71 | -0.07 |
| SZSE Composite | 1,852.22 | 29.92 | 2.39 |
| NIKKEI 225 | 21,417.76 | 15.45 | -4.34 |
| KOSPI | 2,411.41 | 15.23 | -1.88 |
| TWSE | 10,784.34 | 15.40 | -0.48 |
| S&P/ASX 200 | 5,962.44 | 17.27 | -1.56 |
| MSCI Index | | | |
| MSCI WORLD | 2,106.58 | 19.65 | -2.46 |
| MSCI DEVELOPED | 514.62 | 19.10 | -2.61 |
| MSCI EMERGING | 1,176.12 | 15.85 | -3.68 |
| MSCI US | 2,592.85 | 22.50 | -2.01 |
| MSCI UK | 2,060.57 | 13.66 | -2.49 |
| MSCI France | 148.89 | 16.15 | -3.16 |
| MSCI Germany | 150.19 | 16.18 | -3.43 |
| MSCI China | 91.69 | 17.82 | -5.72 |
| MSCI Hong Kong | 15,694.62 | 12.02 | -2.85 |
| MSCI Japan | 1,004.30 | 13.17 | -4.62 |

* As of 6/3/2018 closing for Asian markets, previous closing for others

| Global Commodities | | | |
|------------------------|-----------|----------|-----------------|
| | Unit | Price | One Week chg(%) |
| Energy | | | |
| NYMEX WTI | USD/bbl | 62.54 | -0.76 |
| ICE Brent Oil | USD/bbl | 65.44 | -1.82 |
| NYMEX NatGas | USD/MMBtu | 2.71 | 0.93 |
| Basic Metals | | | |
| LME Alum.Cash | USD/MT | 2,130.50 | -1.63 |
| CMX Cop.Active | USD/lb. | 314.20 | -1.43 |
| LME Steel Rebar | USD/MT | 600.00 | 1.01 |
| LME Lead Cash | USD/MT | 2,418.75 | -6.43 |
| Precious Metals | | | |
| CMX Gold | USD/KRW | 1,322.42 | -0.77 |
| Gold Futures | USD/KRW | 1,322.70 | 0.33 |
| CMX Silverbn | USD/KRW | 16.45 | -1.01 |
| NYMEX Platinum | USD/T. oz | 960.68 | -3.67 |
| Agri, Products | | | |
| CBOT Corn | USD/bu | 386.50 | 1.98 |
| CBOT Wheat | USD/bu | 504.00 | 5.77 |
| NYB-ICE Sugar | USD/lb. | 13.56 | 0.97 |
| CBOT Soybeans | USD/bu. | 1,076.00 | 2.45 |

| 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) | 1.48 | 0.13 |
| US Treasury (1 Yr) | 2.05 | 0.04 |
| US Treasury (5 Yr) | 2.63 | -0.03 |
| US Treasury (10 Yr) | 2.87 | -0.02 |
| US Treasury (30 Yr) | 3.14 | -0.02 |
| 1-Month LIBOR | 1.69 | 0.06 |
| 3 Month LIBOR | 2.03 | 0.07 |
| Japan 1-Yr Gov. Bond | -0.17 | 0.00 |
| Japan 10-Yr Gov. Bond | 0.06 | 0.01 |
| German 1-Yr Gov. Bond | -0.65 | -0.01 |
| German 10-Yr Gov. Bond | 0.64 | -0.04 |
| China Benchmark Interest | 4.35 | 0.00 |
| China 1-Yr Gov. Bond | 3.29 | -0.13 |
| China 5-Yr Gov. Bond | 3.73 | -0.06 |
| China 10-Yr Gov. Bond | 3.86 | -0.01 |
| O/N SHIBOR | 2.62 | 0.06 |
| 1-mth SHIBOR | 4.15 | 0.11 |
| HK Base rate | 0.05 | -0.10 |
| O/N HIBOR | 0.05 | -0.10 |
| 1-mth HIBOR | 0.68 | -0.04 |
| O/N CNH HIBOR | 3.01 | 0.10 |
| 1-mth CNH HIBOR | 4.19 | -0.02 |
| Corporate Bonds (Moody's) | | |
| Aaa | 3.90 | 0.01 |
| Baa | 4.58 | 0.02 |

| Currency market | | |
|--------------------|-----------|-----------------|
| | Spot Rate | One Week chg(%) |
| US Dollar Index | 89.99 | -0.41 |
| Euro/USD | 1.2342 | 0.11 |
| GBP/USD | 1.3837 | -0.92 |
| AUD/USD | 0.7770 | -0.93 |
| USD/CAD | 1.2989 | 2.35 |
| USD/JPY | 106.05 | -0.91 |
| USD/CHF | 0.9410 | 0.49 |
| USD/CNY Midpoint | 6.3386 | 0.38 |
| USD/CNY | 6.3411 | 0.38 |
| USD/CNY NDF | | |
| 12-mth Spot pr. | 6.4725 | 0.54 |
| USD/CNH | 6.3393 | 0.54 |
| USD/HKD | 7.8326 | 0.08 |
| CNY/HKD | 1.2353 | -0.31 |
| CNH/HKD | 1.2356 | -0.46 |
| USD/KRW | 1,076.00 | 0.25 |
| USD/TWD | 29.283 | 0.18 |
| USD/SGD | 1.3193 | 0.03 |
| USD/INR | 65.021 | 0.35 |

All data sources: Bloomberg, CEBI, NBS

Disclosures

Analyst Certification

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**Office address: CEB International Capital Corporation Limited, 22/F AIA Central, 1 Connaught Road Central, Hong Kong.
Tel: (852) 2916 9600**