

March 14, 2018

Economic Acumen

Commentary by CEBI Research Team

In Brief

- China's economic data for first two months of 2018 demonstrated an upward trend, with growth in fixed asset investment (FAI), retail sales, industrial production and external trade showing stable growth in varying degrees.
- The latest economic indicators support our view that China economic growth continues to retain the path of stable recovery.
- We expect 1Q2018 GDP growth to maintain a medium-high growth rate as China will further make great progress in structural reforms and the economy grows with more emphasis on quality and efficiency. In general, the overall macroeconomic conditions maintain a stable momentum and we believe the economy will expand by 6.6% YoY in 2018.

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China's economic momentum remained stable in 2M2018

China's economic data for first two months of 2018 demonstrated an upward trend, with growth in fixed asset investment (FAI), retail sales, industrial production and external trade showing stable growth in varying degrees. The latest economic indicators support our view that China economic growth continues to retain the path of stable recovery. In sum, we expect 1Q2018 GDP growth to maintain a medium-high growth rate as China will further make great progress in structural reforms and the economy grows with more emphasis on quality and efficiency. In general, the overall macroeconomic conditions maintain a stable momentum and we believe the economy will expand by 6.6% YoY in 2018.

FAI uptrend in sight. YTD growth of FAI was 7.9% YoY, beating consensus' estimate of 7.0% and 2017's 7.2%. Acceleration of FAI was mainly driven by surging real estate investment (+9.9% YTD YoY vs 2017's 7.0%) and stable growth of Infrastructure investment (+16.1% YTD YoY vs 2017's 19.0%). In general, the government's recent efforts to maintain investment in public facility management and road transport as well as promote the healthy development of property market should continue to keep the stable growth of FAI in 2018.

Industrial value-added output surged in 2M2018. Industrial production expanded by 7.2% YoY during the two months of 2018, up from consensus's 6.2% and 2017's 6.6% YoY. On a month-on-month basis, industrial output edged up 0.57%. The value-added of the main industrial sectors such as "Production and Supply of Electric Power and Heat Power" (Jan-Feb: +13.1% YoY and 2017: +7.8% YoY), "Medicines" (Jan-Feb: +12.3% YoY and 2017: +12.4% YoY), "Computer, Communication Equipment and Other Electronic Equipment" (Jan-Feb: +12.1% YoY and 2017: +13.8% YoY), "Special-Purpose Machinery" (Jan-Feb: +10.3% YoY and 2017: +11.8% YoY) and "Electric Machinery and Equipment" (Jan-Feb: +9.4% YoY and 2017: +10.6% YoY), were the major drivers of industrial production in 2M2018. We believe that industrial production would maintain stable growth for the rest of 2018.

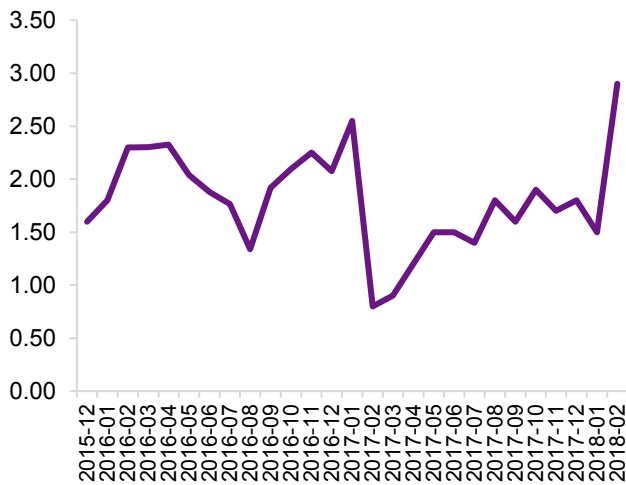
Retail sales showed a slowing path in 2M2018. Retail sales in Jan-Feb edged up to 9.7% YoY, below consensus' 9.8% and 2017's 10.2%. On a month-on-month basis, retail sales rose 0.76%. National online retail sales reached Rmb1,227.1bn in 2M2018, a year-on-year growth of 37.3%, reflecting significant growth momentum in online consumption. In general, retail sales growth was mainly driven by sizeable growth in "Cosmetics" (Jan-Feb: +12.5% YoY and 2017:+13.5% YoY), "Communication Appliances" (Jan-Feb: +10.7% YoY and 2017:+11.7% YoY), "Traditional Chinese and Western Medicines" (Jan-Feb +10.1% YoY and 2017:+12.4% YoY), "Commodities" (Jan-Feb +10.1% YoY and 2017:+8.0% YoY), "Automobile" (Jan-Feb +9.7% YoY and 2017:+5.6% YoY) and "Grain, Oil, Foodstuff" (Jan-Feb +9.7% YoY and 2017:+10.2% YoY). Going forward, retail sales are 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 prioritize consumption growth in 2018; among which, services consumption and e-commerce will gain the most traction.

Inflation edged up in February largely due to higher food prices during Lunar New Year holidays and cold weather. China's February CPI inflation accelerated to 2.9% YoY (+1.2% MoM) from 1.5% YoY in January 2018 (+0.6% MoM) which stands higher than the consensus estimate of +2.5%. The rise of inflation was attributable to a year-to-year increase in food price at 4.4% this month driven by week-long Lunar New Year holidays and cold weather. 2M2018 inflation remained at a stable level of 2.2%. Producers' prices posted a positive growth of 3.7% YoY (-0.1% MoM) in February, which was below the consensus estimate of 3.8% and January's 4.3% YoY (+0.3% MoM). The easing of producer prices was mainly due to high-based effect and softening of commodities prices. The rise of factory prices during 2M2018 reached 4.0%, demonstrating an upward trend and reflecting the continuation of stable economic recovery. In sum, the stable uptrend of CPI and PPI indicates that, supported by strong domestic and global demand, China's economic momentum remains resilient.

Exports showed resilient growth in February. In February, exports, in Yuan terms, rose 36.2% YoY (-16.1% MoM), significantly higher than the consensus estimate of 7.4% and January's 6.0% while imports, in Yuan terms, dropped slightly by 0.2% YoY (-25.3% MoM), lower than the consensus estimate of 1.2% and January's 30.2%. In 2M2018, China's trade maintains robust growth in exports and imports, in Yuan terms, surging by 18.0% and 15.2%, 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.

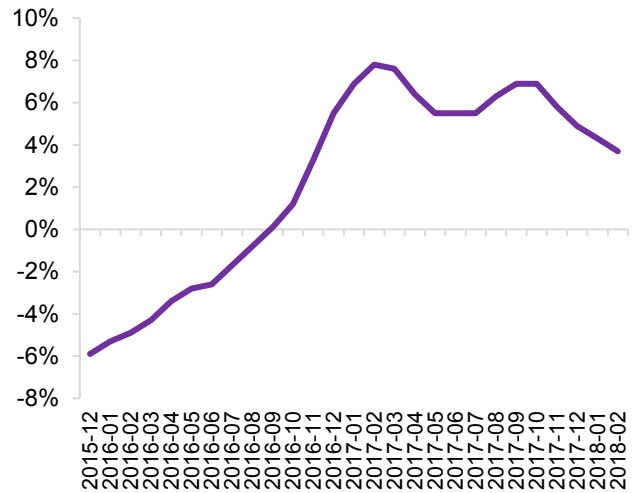
Credit demand remained stable in 2M2018. Monetary indicators showed stable momentum in first two months of 2018. New loans in 2M2018 was Rmb3,729.3bn (January: 2900 bn, February: 839.9bn, average Rmb1,869.7bn per month) while M2 growth was 8.8% YoY (Consensus: 8.7% and January: 8.6%). The aggregate financing in 2M2018 reached RMB4.230tr (January: 3.06tr, February: 1.17tn, average 2.115tr per month). In general, the monetary indicators pointed to the stable path, reflecting that the process of deleveraging is on track to reduce financial risks of China's economy. Nevertheless, PBOC will continue to maintain the prudent monetary policy to accommodate the capital demand in 2018.

Fig. 1: China CPI Inflation (YoY %)



Source: Wind, Bloomberg and CEBI

Fig. 2: China PPI Inflation (YoY %)



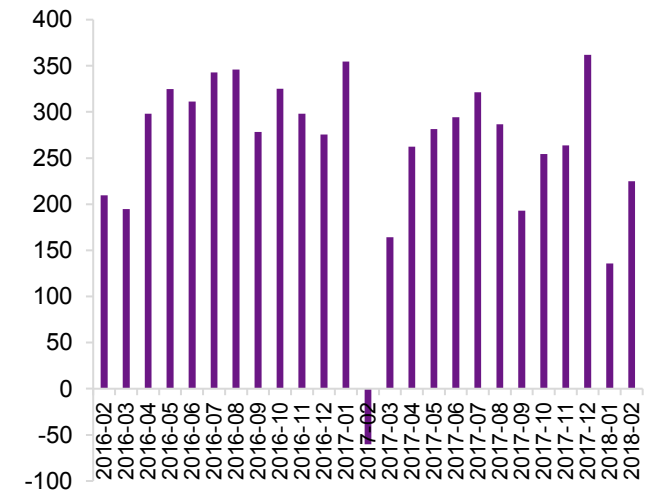
Source: Wind, Bloomberg and CEBI

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



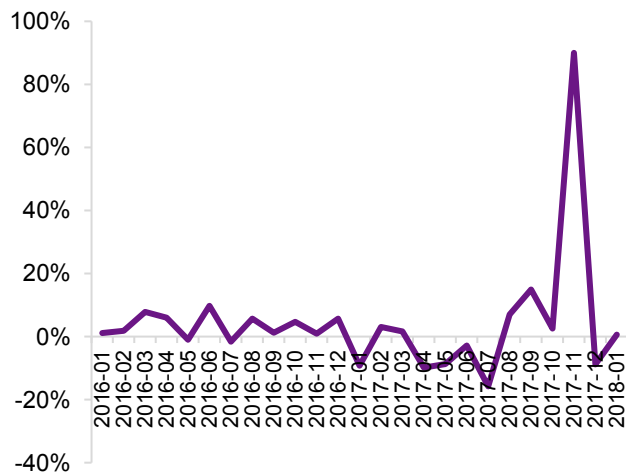
Source: Wind, Bloomberg and CEBI

Fig. 4: Trade Surplus (Rmb bn)



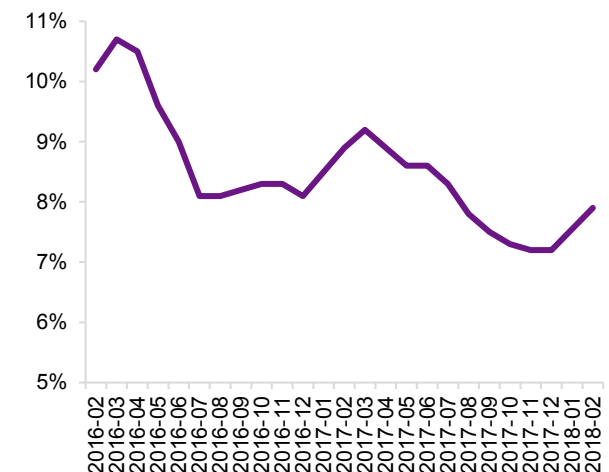
Source: Wind, Bloomberg and CEBI

Fig. 5: FDI (YoY %)



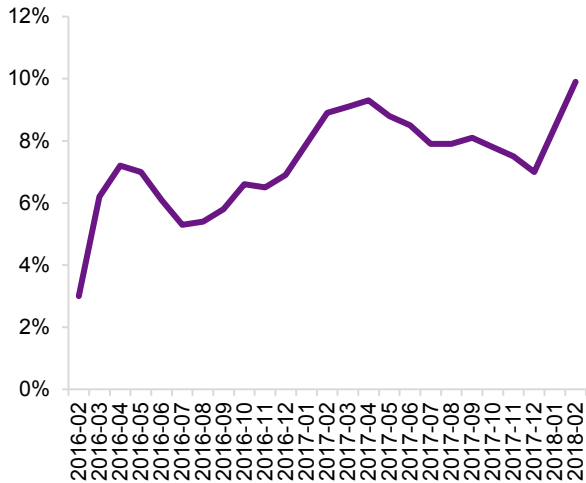
Source: Wind, Bloomberg and CEBI

Fig. 6: FAI (YTD YoY %)



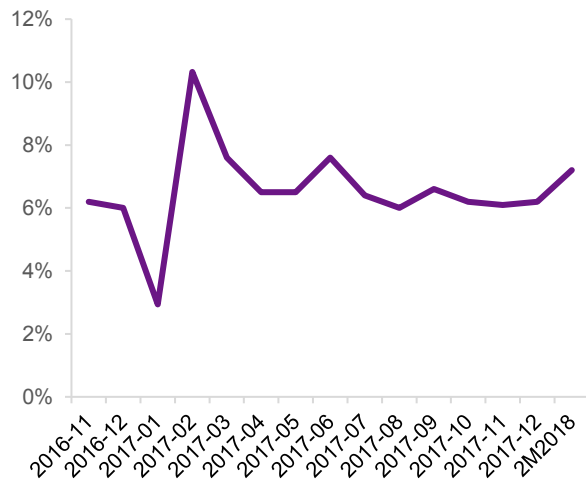
Source: Wind, Bloomberg and CEBI

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



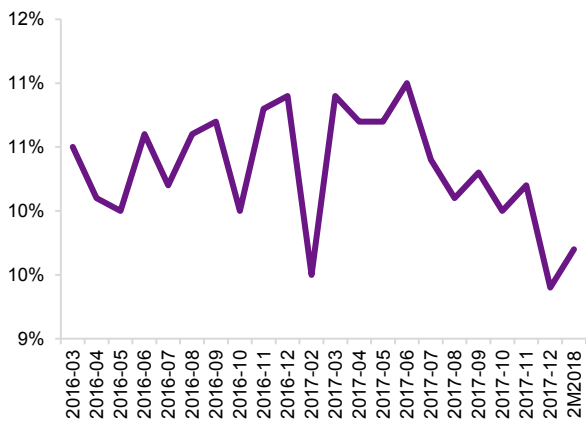
Source: Wind, Bloomberg and CEBI

Fig. 8: Industrial Production (YoY %)



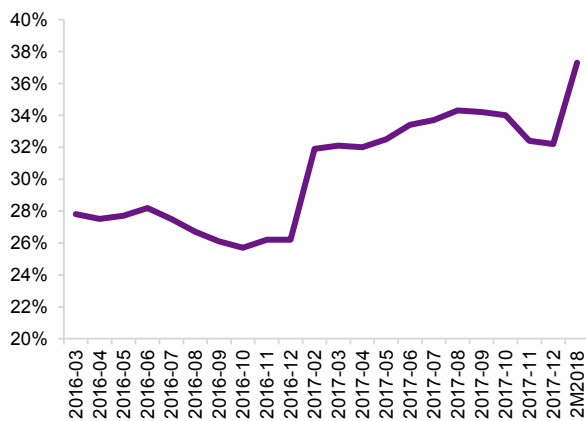
Source: Wind, Bloomberg and CEBI

Fig. 9: Retail sales (YoY %)



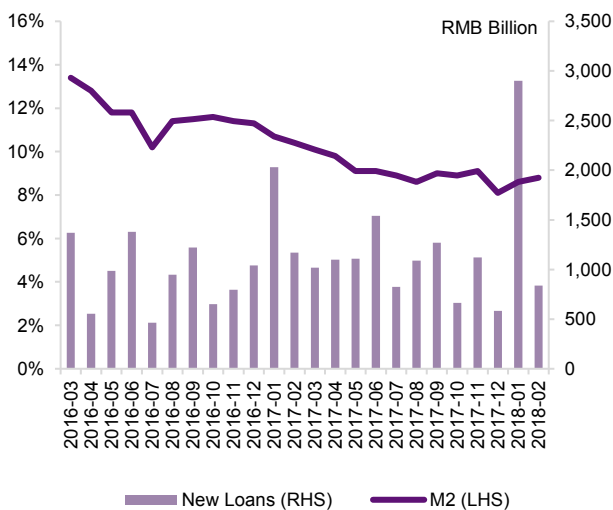
Source: Wind, Bloomberg and CEBI

Fig. 10: Online Retail Sales (YoY %)



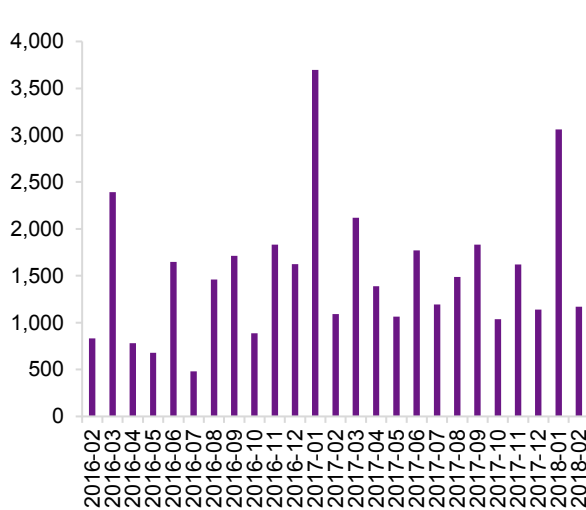
Source: Wind, Bloomberg and CEBI

Fig. 11: New loans and M2 growth



Source: Wind, Bloomberg and CEBI

Fig. 12: Aggregate Social Financing (RMB bn)



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

	Feb 17	Mar 17	Apr 17	May 17	Jun 17	Jul 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17	Jan 18	Feb 18
Real GDP	-	6.9	-	-	6.9	-	-	6.8	-	-	6.8	-	-
PMI – Manufacturing %	51.6	51.8	51.2	51.2	51.7	51.4	51.7	52.4	51.6	51.8	51.6	51.3	50.3
PMI- Non-manufacturing%	54.2	55.1	54.0	54.5	54.9	54.5	53.4	55.4	54.3	54.8	55.5	55.3	54.4
Exports (RMB YoY %)	3.3	21.6	13.3	14.7	16.9	10.6	6.6	9.1	6.0	10.3	7.4	6.0	36.2
Imports (RMB YoY %)	45.1	26.1	18.2	21.2	23.0	14.6	14.4	19.4	15.9	15.6	0.9	30.2	(0.2)
Trade Balance (RMB/bn)	(60.4)	164.3	262.3	281.6	294.3	321.2	286.5	193.0	254.5	263.6	362.0	135.8	224.9
Export (USD YoY %)	(2.1)	15.7	7.0	8.0	10.9	6.6	5.2	8.1	6.8	12.3	10.9	11.1	44.5
Import (USD YoY %)	38.4	20.1	11.5	14.0	17.0	11.0	13.3	18.7	17.2	17.7	4.5	36.9	6.3
Trade Balance (USD/bn)	(10.4)	23.1	36.9	40.5	42.2	45.7	41.4	28.7	38.1	40.2	54.7	20.3	33.7
CPI (YoY %)	0.8	0.9	1.2	1.5	1.5	1.4	1.8	1.6	1.9	1.7	1.8	1.5	2.9
PPI (YoY %)	7.8	7.6	6.4	5.5	5.5	5.5	6.3	6.9	6.9	5.8	4.9	4.3	3.7
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	-	7.9
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	-	9.9
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	-	7.2
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	-	9.7
New Lending (RMB/bn)	1170.0	1020.0	1100.0	1110.0	1540.0	825.5	1090.0	1270.0	663.2	1120.0	584.4	2900.0	839.3
M2 (YoY %)	11.1	10.6	10.5	9.6	9.4	9.2	8.9	9.2	8.8	9.1	8.2	8.6	8.8
Aggregate Financing (RMB bn)	1090.8	2118.6	1388.0	1063.1	1771.8	1195.6	1489.5	1833.5	1035.7	1619.6	1139.8	3060.0	1170.0

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	25,007.03	20.20	0.49
S&P 500	2,765.31	22.33	1.36
NASDAQ	7,511.01	32.75	1.89
EUR			
FTSE 100	7,138.78	13.09	-0.11
DAX	12,221.03	14.12	0.88
CAC40S	5,242.79	16.32	1.40
STOXX EUR 600	375.49	15.85	1.11
Asia			
HSI	31,435.01	13.94	4.10
HSCEI	12,684.52	10.44	4.14
CSI300	4,073.34	16.84	0.91
SSE Composite	3,291.38	16.98	0.60
SZSE Composite	1,878.52	31.01	2.21
NIKKEI 225	21,777.29	16.12	2.47
KOSPI	2,486.08	16.34	3.51
TWSE	11,038.80	16.10	2.73
S&P/ASX 200	5,935.31	17.50	0.57
MSCI Index			
MSCI WORLD	2,144.60	19.82	1.27
MSCI DEVELOPED	525.31	19.34	1.42
MSCI EMERGING	1,223.83	16.49	2.50
MSCI US	2,636.00	22.86	1.37
MSCI UK	2,066.73	13.16	-0.14
MSCI France	151.47	16.28	1.51
MSCI Germany	152.08	14.64	0.98
MSCI China	97.01	18.83	3.30
MSCI Hong Kong	16,417.88	12.38	3.04
MSCI Japan	1,037.24	13.60	2.03

* As of 14/3/2018 closing for Asian markets, previous closing for others

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	61.13	-0.03
ICE Brent Oil	USD/bbl	65.03	1.09
NYMEX NatGas	USD/MMBtu	2.75	-0.83
Basic Metals			
LME Alum.Cash	USD/MT	2,081.75	-2.22
CMX Cop.Active	USD/lb.	317.20	1.15
LME Steel Rebar	USD/MT	592.00	-1.50
LME Lead Cash	USD/MT	2,392.25	-1.63
Precious Metals			
CMX Gold	USD/KRW	1,324.98	-0.61
Gold Futures	USD/KRW	1,324.90	-0.21
CMX Silverbn	USD/KRW	16.60	-0.66
NYMEX Platinum	USD/T. oz	970.45	0.91
Agri, Products			
CBOT Corn	USD/bu	391.00	0.97
CBOT Wheat	USD/bu	483.75	-2.71
NYB-ICE Sugar	USD/lb.	12.62	-6.17
CBOT Soybeans	USD/bu.	1,051.75	-1.27

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)	1.67	0.10
US Treasury (1 Yr)	2.00	-0.04
US Treasury (5 Yr)	2.62	-0.03
US Treasury (10 Yr)	2.84	-0.04
US Treasury (30 Yr)	3.09	-0.06
1-Month LIBOR	1.76	0.06
3 Month LIBOR	2.11	0.07
Japan 1-Yr Gov. Bond	-0.14	0.02
Japan 10-Yr Gov. Bond	0.05	0.00
German 1-Yr Gov. Bond	-0.66	-0.01
German 10-Yr Gov. Bond	0.62	-0.04
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	3.30	-0.01
China 5-Yr Gov. Bond	3.70	-0.04
China 10-Yr Gov. Bond	3.86	0.00
O/N SHIBOR	2.63	0.04
1-mth SHIBOR	4.46	0.26
HK Base rate	0.06	0.01
O/N HIBOR	0.06	0.01
1-mth HIBOR	0.74	0.06
O/N CNH HIBOR	3.42	-0.60
1-mth CNH HIBOR	4.51	0.08
Corporate Bonds (Moody's)		
Aaa	3.87	-0.04
Baa	4.66	0.06

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	89.79	0.17
Euro/USD	1.2376	-0.47
GBP/USD	1.3955	0.57
AUD/USD	0.7889	0.92
USD/CAD	1.2940	0.11
USD/JPY	106.60	0.99
USD/CHF	0.9458	0.80
USD/CNY Midpoint	6.3205	-0.14
USD/CNY	6.3165	-0.14
USD/CNY NDF		
12-mth Spot pr.	6.3823	-1.01
USD/CNH	6.3132	-0.03
USD/HKD	7.8417	0.08
CNY/HKD	1.2415	0.22
CNH/HKD	1.2421	0.11
USD/KRW	1,064.55	-0.43
USD/TWD	29.253	0.01
USD/SGD	1.3104	-0.28
USD/INR	64.930	0.06

All data sources: Bloomberg, CEBI, NBS

Disclosures

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