

April 17, 2018

Economic Acumen

Commentary by CEBI Research Team

In Brief

- China's economy demonstrated stabilized trend and sound development in 1Q2018 as real GDP growth remained steady at 6.8% YoY, in line with the market consensus and unchanged from the previous quarter's growth.
- 1Q2018 macro indicators embraced uptrend as investment, consumption and external trade edged up at a stable pace. The latest data for March support our view that China economic growth will stay on the path of recovery.
- Overall, as China achieves great progress to widen economic openness and conduct supply-side structural reforms such as reducing industrial production overcapacity and financial deleveraging as well as prioritizing growth quality and efficiency in new development era, 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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A good start of 1Q2018 China's economy

China's economy demonstrated stabilized trend and sound development in 1Q2018 as real GDP growth remained steady at 6.8% YoY, in line with the market consensus and unchanged from the previous quarter's growth. 1Q2018 macro indicators embraced uptrend as investment, consumption and external trade edged up at a stable pace. The latest data for March support our view that China economic growth will stay on the path of recovery. Overall, as China achieves great progress to widen economic openness and conduct supply-side structural reforms such as reducing industrial production overcapacity and financial deleveraging as well as prioritizing growth quality and efficiency in new development era, 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) grew steadily in 1Q2018. The growth of FAI in 1Q2018 was 7.5% YoY, below the market consensus's 7.7% and Jan-Feb's 7.9%. Moderation of FAI was mainly driven by slowing growth of investment in manufacturing sector and infrastructure at 3.8% and 13.0% from Jan-Feb's 4.3% and 16.1%. Property investment maintained a stable growth momentum at 10.4% in 1Q2018, above Jan-Feb's 9.9%. In general, infrastructure investment still maintained double-digit growth, driven by investment in public facility management and road transport. We believe that investment in infrastructure investment will continue to become the major growth driver of FAI in 2018.

Industrial value-added output posted stable growth in 1Q2018. In March, industrial production expanded by 6.0% YoY, below the market consensus's 6.3% and Jan-Feb's 7.2% YoY. On a month-on-month basis, industrial output edged up 0.33% in March, below Feb's 0.57%. For 1Q2018, industrial production demonstrated stable growth momentum at 6.8% YoY (4Q2017's 6.2% and 2017's 6.6%). The value-added of the main industrial sectors such as "Manufacture of Computer, Communication Equipment and Other Electronic Equipment" (March:+12.8% YoY and 1Q2018: +12.5% YoY), "Medicines" (March:+9.8% YoY and 1Q2018: +11.4% YoY),

“Special-Purpose Machinery” (March: + 11.4% YoY and 1Q2018: +10.7% YoY), “Production and Supply of Electric Power and Heat Power” (March: + 5.1% YoY and 1Q2018: +10.5% YoY), and “Electric Machinery and Equipment” (March: +8.4% YoY and 1Q2018: +9.0% YoY), were the major drivers of industrial production in 1Q2018. We believe that industrial production would maintain stable growth in 2018.

Retail sales demonstrated healthy growth in 1Q2018. Retail sales in March accelerated to 10.1% YoY, higher than the market consensus and Jan-Feb’s 9.7%. On a month-on-month basis, retail sales rose 0.73% in March, higher than February’s 0.71%. For 1Q2018, retail sales posted stable growth of 9.8% YoY (4Q2017’s 9.9% and 2017’s 10.2%). National online retail sales reached Rmb1931.8bn in 1Q2018, a year-on-year growth of 35.4%, reflecting significant growth momentum in online consumption. In general, retail sales growth was mainly driven by sizeable growth in “Cosmetics” (March: +22.7% YoY and 1Q2018: +16.1% YoY), “Commodities” (March: +16.9% YoY and 1Q2018: +12.3% YoY), “Traditional Chinese and Western Medicines” (March: +10.9% YoY and 1Q2018: +10.4% YoY), “Grain, Oil, Foodstuff” (March: +11.2% YoY and 1Q2018: +10.1% YoY), and “Furniture” (March: +10.9% YoY and 1Q2018: +9.3% 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.

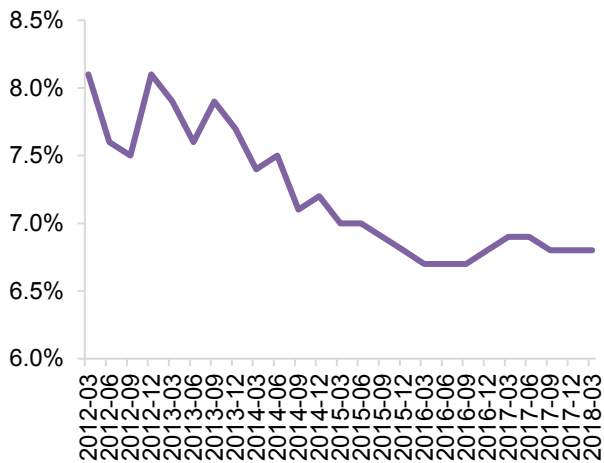
China’s inflation remained stable in 1Q2018. China’s March CPI inflation rose 2.1 % YoY (-1.1% MoM and February: +2.9% YoY), beneath the consensus estimate of +2.6%. The easing of inflation in March was attributable to the slowdown of booming consumer demand amid the end of the Lunar New Year holiday. Producers’ prices posted positive growth of 3.1% YoY (-0.2% MoM) in March, lower than the market expectation of 3.3% and February’s 3.7% due to the high-base effect. For 1Q2018, the CPI inflation fluctuated between 1.5% and 2.9%, thus reaching 2.2% YoY, safely lower than the official target of 3.0% but higher than 2017’s 1.6%. The PPI rose 3.7% YoY in 1Q2018, below 2017’s 6.3%. 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 stable growth in 1Q2018. In March, exports, in Yuan terms, dropped 9.8% YoY (-0.2% MoM), lower than the consensus estimate of 8.0% and February’s 35.8% while imports, in Yuan terms, grew 5.9% YoY (+28.3% MoM), lower than the consensus estimate of 7.5% but higher than February’s -0.2%. The fall of March exports was mainly due to the disruption of Lunar New Year holiday with which most of the products have been shipped before the middle of February. In 1Q2018, China’s trade maintains stable growth in exports and imports, in Yuan terms, surging by 7.4% and 11.7%, respectively. The rebound in external

trade was caused by strengthened overseas demand driven by a continued global economic recovery. Although the trade tensions between the U.S. and China may pose risks on external trade growth in coming quarters, 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.

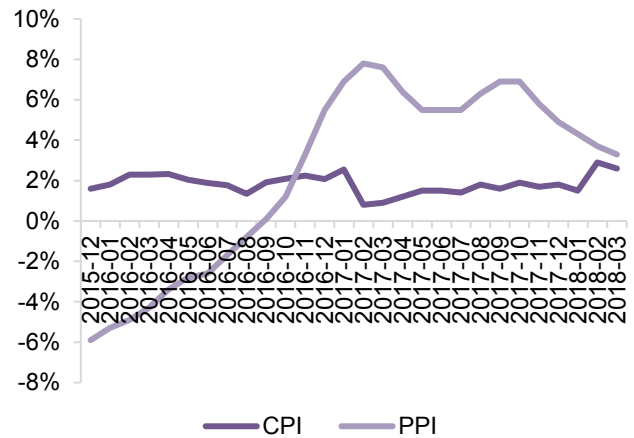
M2 growth decelerated in March amid tightened financial regulation and deleveraging process. Monetary indicators showed softening momentum in March as M2 growth slowed to 8.2% YoY (Consensus: 8.9% and February: 8.8%). March's new loans and aggregate financing were Rmb1.120tr and RMB1.33tr, lower than consensus estimates of RMB1.175tr and RMB1.8tr. Continued decline in the M2 growth, reflecting the deceleration in credit growth overall in China, was mainly driven by seasonal effects and continued implementation of deleveraging process. In general, the slowdown in the pace of credit growth signals that the central government aims at containing the risks from a continued build-up in debt in the economy. Nevertheless, the PBOC will continue to maintain ample liquidity into the banking system to accommodate the capital demand in 2018.

Fig. 1: China GDP growth (YoY)



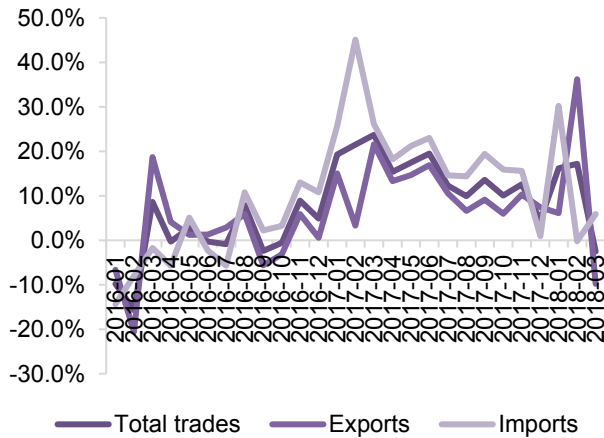
Source: Wind, Bloomberg and CEBI

Fig. 2: CPI and PPI (YoY)



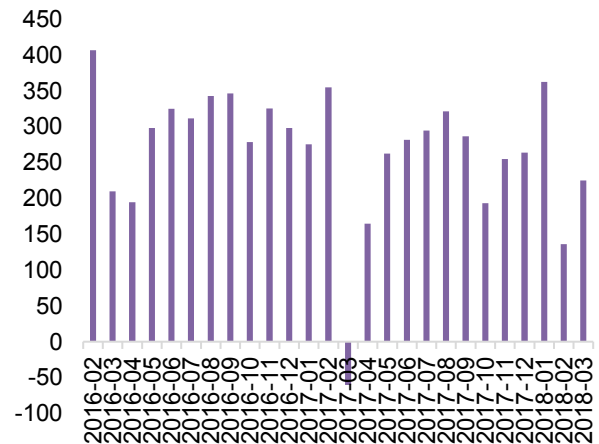
Source: Wind, Bloomberg and CEBI

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



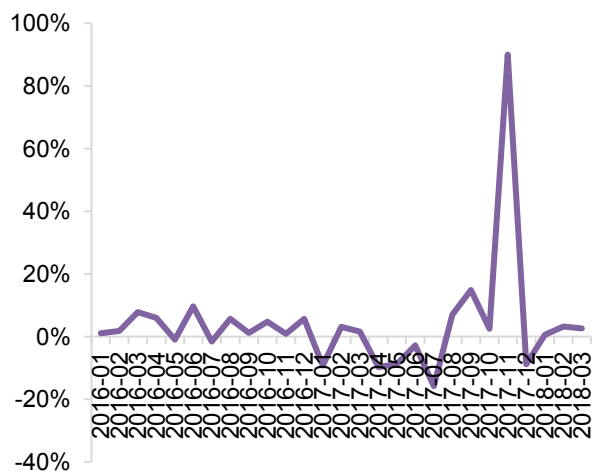
Source: Wind, Bloomberg and CEBI

Fig. 4: Trade Surplus (RMB bn)



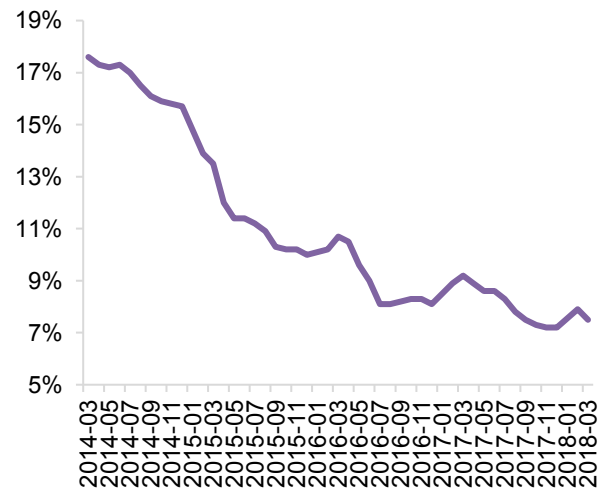
Source: Wind, Bloomberg and CEBI

Fig. 5: FDI (YoY %)



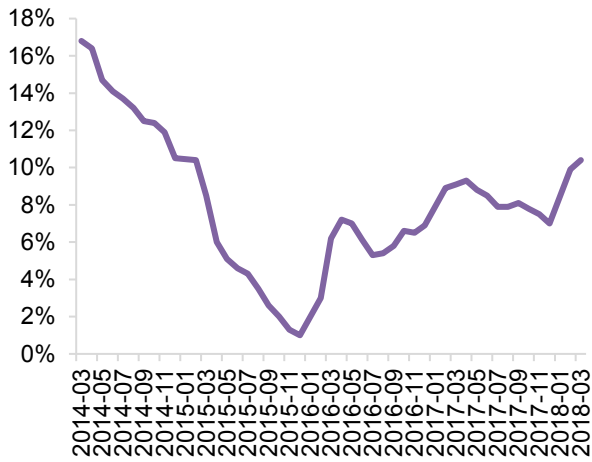
Source: Wind, Bloomberg and CEBI

Fig. 6: FAI (YTD YoY)



Source: Wind, Bloomberg and CEBI

Fig. 7: Real Estate Investment (YTD YoY)



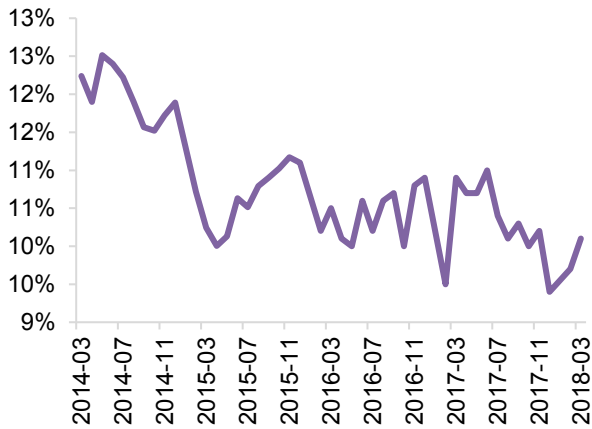
Source: Wind, Bloomberg and CEBI

Fig. 8: Industrial Production (YoY)



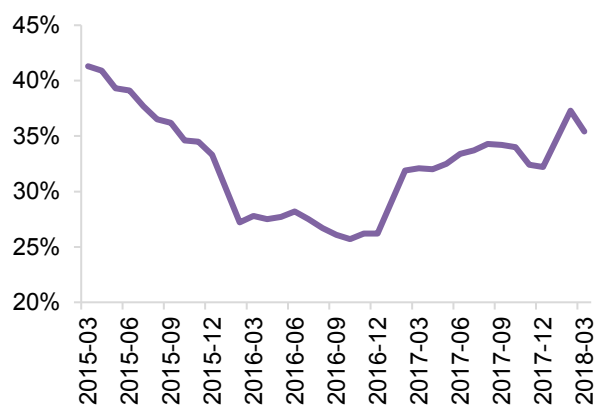
Source: Wind, Bloomberg and CEBI

Fig. 9: Retail sales (YoY)



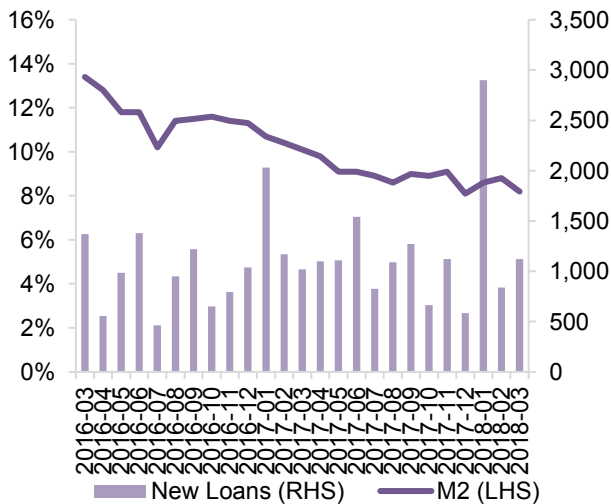
Source: Wind, Bloomberg and CEBI

Fig. 10: Online Retail Sales (YoY)



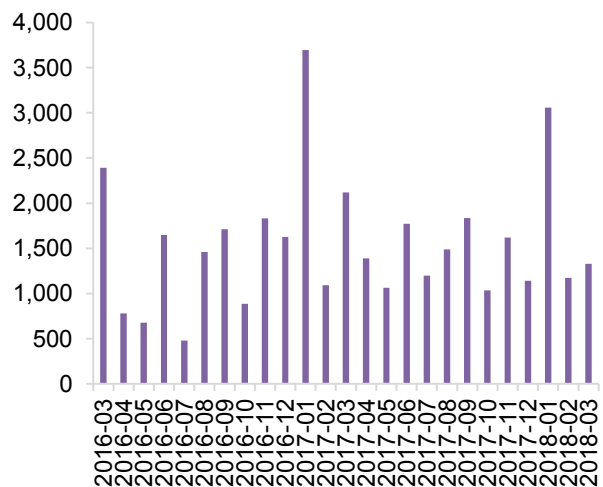
Source: Wind, Bloomberg and CEBI

Fig. 11: New loans (RMB bn) and M2 (YoY)



Source: Wind, Bloomberg and CEBI

Fig. 12: Aggregate Social Financing (RMB bn)



Source: Wind, Bloomberg and CEBI

China Economic Indicators

	2016	1Q2017	2Q2017	3Q2017	4Q2017	2017	1Q2018
Real GDP	6.7	6.9	6.9	6.8	6.8	6.9	6.8
PMI Manufacturing (%)	51.4	51.8	51.7	52.4	51.6	51.6	51.5
PMI Non-Manufacturing (%)	54.5	55.1	54.9	55.4	55.5	55.5	54.6
Exports (RMB YoY %)	(2.1)	10.5	12.5	7.7	7.1	10.8	7.4
Imports (RMB YoY %)	0.4	30.3	20.8	16.4	9.7	18.7	11.7
Trade Balance (RMB/bn)	3347.3	419.13	809.6	771.0	861.3	2860.6	332.5
Exports (USD YoY %)	(7.7)	7.6	8.7	6.6	10.1	7.9	14.1
Imports (USD YoY %)	(5.5)	24.2	14.2	14.4	12.6	15.9	18.9
Trade Balance (USD/bn)	509.7	62.3	119.7	115.8	133.0	422.5	48.4
CPI (YoY %)	2.0	1.4	1.4	1.6	1.8	1.6	2.2
PPI (YoY %)	(1.4)	7.4	5.8	6.2	5.9	6.3	3.1
FAI (YTD/ YOY %)	8.1	9.2	8.6	7.5	7.2	7.2	7.5
Real Estate Investment (YTD YoY %)	6.9	9.1	8.5	8.1	7.0	7.0	10.4
Industrial Production (YoY %)	6.0	6.8	6.9	6.3	6.2	6.6	6.8
Retail Sales (YoY%)	10.4	10.0	10.8	10.3	9.9	10.2	9.8
New Lending (RMB/bn)	12645.9	4220.0	3750.0	3785.5	2367.6	13523.1	4859.3
M2 (YoY %)	11.3	10.6	9.4	9.2	8.2	8.2	8.2
Aggregate Financing (RMB bn)	17802.2	6906.4	4222.9	4518.6	3795.1	19443.0	5580.0

	Mar 17	Apr 17	May 17	Jun 17	Jul 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17	Jan 18	Feb 18	Mar 18
Real GDP	6.9	-	-	6.9	-	-	6.8	-	-	6.8	-	-	6.8
PMI – Manufacturing %	51.8	51.2	51.2	51.7	51.4	51.7	52.4	51.6	51.8	51.6	51.3	50.3	51.5
PMI- Non-manufacturing%	55.1	54.0	54.5	54.9	54.5	53.4	55.4	54.3	54.8	55.5	55.3	54.4	54.6
Exports (RMB YoY %)	21.6	13.3	14.7	16.9	10.6	6.6	9.1	6.0	10.3	7.4	6.0	36.2	(9.8)
Imports (RMB YoY %)	26.1	18.2	21.2	23.0	14.6	14.4	19.4	15.9	15.6	0.9	30.2	(0.2)	5.9
Trade Balance (RMB/bn)	164.3	262.3	281.6	294.3	321.2	286.5	193.0	254.5	263.6	362.0	135.8	224.9	(29.8)
Export (USD YoY %)	15.7	7.0	8.0	10.9	6.6	5.2	8.1	6.8	12.3	10.9	11.1	44.5	(2.7)
Import (USD YoY %)	20.1	11.5	14.0	17.0	11.0	13.3	18.7	17.2	17.7	4.5	36.9	6.3	14.4
Trade Balance (USD/bn)	23.1	36.9	40.5	42.2	45.7	41.4	28.7	38.1	40.2	54.7	20.3	33.7	(5.0)
CPI (YoY %)	0.9	1.2	1.5	1.5	1.4	1.8	1.6	1.9	1.7	1.8	1.5	2.9	2.1
PPI (YoY %)	7.6	6.4	5.5	5.5	5.5	6.3	6.9	6.9	5.8	4.9	4.3	3.7	3.1
FAI (YTD/ YOY %)	9.2	8.9	8.6	8.6	8.3	7.8	7.5	7.3	7.2	7.2	-	7.9	7.5
Real Estate Investment (YTD/ YoY %)	9.1	9.3	8.8	8.5	7.9	7.9	8.1	7.8	7.5	7.0	-	9.9	10.4
Industrial Production (YoY %)	7.6	6.5	6.5	7.6	6.4	6.0	6.6	6.2	6.1	6.2	-	7.2	6.0
Retail Sales (YoY%)	10.9	10.7	10.7	11.0	10.4	10.1	10.3	10.0	10.2	9.4	-	9.7	10.1
New Lending (RMB/bn)	1020.0	1100.0	1110.0	1540.0	825.5	1090.0	1270.0	663.2	1120.0	584.4	2900.0	839.3	1120.0
M2 (YoY %)	10.6	10.5	9.6	9.4	9.2	8.9	9.2	8.8	9.1	8.2	8.6	8.8	8.2
Aggregate Financing (RMB bn)	2118.6	1388.0	1063.1	1771.8	1195.6	1489.5	1833.5	1035.7	1619.6	1139.8	3059.7	1173.6	1330.0

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	24,573.04	19.77	2.48
S&P 500	2,677.84	21.47	2.48
NASDAQ	7,156.29	27.15	2.96
EUR			
FTSE 100	7,198.20	13.27	0.05
DAX	12,391.41	14.07	1.06
CAC40S	5,312.96	16.50	0.94
STOXX EUR 600	377.74	15.85	0.65
Asia			
HSI	30,062.75	12.73	-2.17
HSCEI	11,900.48	9.57	-3.44
CSI300	3,748.64	15.00	-4.55
SSE Composite	3,066.80	15.59	-3.87
SZSE Composite	1,784.56	29.81	-3.08
NIKKEI 225	21,847.59	16.08	0.24
KOSPI	2,453.77	11.05	0.12
TWSE	10,810.45	15.49	-1.07
S&P/ASX 200	5,841.55	17.15	-0.26
MSCI Index			
MSCI WORLD	2,099.82	19.26	1.87
MSCI DEVELOPED	512.49	18.66	1.65
MSCI EMERGING	1,163.25	15.18	0.02
MSCI US	2,552.00	21.93	2.48
MSCI UK	2,083.73	13.37	0.09
MSCI France	153.35	16.46	0.88
MSCI Germany	152.96	14.60	0.89
MSCI China	90.76	16.21	-0.16
MSCI Hong Kong	15,819.18	11.49	0.02
MSCI Japan	1,026.73	13.48	0.75

* As of 16/4/2018 closing for US and EUR market, 17/4/2018 closing for others.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	66.23	1.10
ICE Brent Oil	USD/bbl	71.36	0.45
NYMEX NatGas	USD/MMBtu	2.72	2.30
Basic Metals			
LME Alum.Cash	USD/MT	2,411.00	11.88
CMX Cop.Active	USD/lb.	306.90	-2.17
LME Steel Rebar	USD/MT	555.00	0.82
LME Lead Cash	USD/MT	2,375.50	-0.38
Precious Metals			
CMX Gold	USD/KRW	1,342.45	0.50
Gold Futures	USD/KRW	1,345.00	-0.07
CMX Silverbn	USD/KRW	16.62	0.76
NYMEX Platinum	USD/T. oz	927.24	-0.34
Agri, Products			
CBOT Corn	USD/bu	391.50	-1.57
CBOT Wheat	USD/bu	481.00	-5.41
NYB-ICE Sugar	USD/lb.	12.05	-1.15
CBOT Soybeans	USD/bu.	1,053.75	-0.61

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	1.75	0.00
US Prime Rate	4.75	0.00
US Discount Window	2.25	0.00
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	-0.10	0.00
US Treasury (1 Mth)	1.62	0.01
US Treasury (1 Yr)	2.10	0.04
US Treasury (5 Yr)	2.69	0.07
US Treasury (10 Yr)	2.84	0.04
US Treasury (30 Yr)	3.04	0.02
1-Month LIBOR	1.89	-0.09
3 Month LIBOR	2.33	0.66
Japan 1-Yr Gov. Bond	-0.15	0.01
Japan 10-Yr Gov. Bond	0.05	0.01
German 1-Yr Gov. Bond	-0.65	-0.02
German 10-Yr Gov. Bond	0.53	0.01
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	3.19	-0.07
China 5-Yr Gov. Bond	3.42	-0.18
China 10-Yr Gov. Bond	3.68	-0.03
O/N SHIBOR	2.67	0.11
1-mth SHIBOR	3.83	-0.08
HK Base rate	0.20	0.11
O/N HIBOR	0.20	0.11
1-mth HIBOR	0.89	0.04
O/N CNH HIBOR	2.90	0.74
1-mth CNH HIBOR	3.69	0.15
Corporate Bonds (Moody's)		
Aaa	3.79	0.26
Baa	4.69	0.00

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	89.32	-0.29
Euro/USD	1.2399	0.60
GBP/USD	1.4351	1.36
AUD/USD	0.7782	0.66
USD/CAD	1.2569	-0.88
USD/JPY	106.96	-0.08
USD/CHF	0.9602	0.42
USD/CNY Midpoint	6.2771	-0.48
USD/CNY	6.2766	-0.11
USD/CNY NDF		
12-mth Spot pr.	6.3715	-0.21
USD/CNH	6.2715	-0.35
USD/HKD	7.8499	0.01
CNY/HKD	1.2507	0.11
CNH/HKD	1.2517	0.36
USD/KRW	1,067.10	0.06
USD/TWD	29.358	0.58
USD/SGD	1.3092	-0.12
USD/INR	65.661	1.03

All data sources: Bloomberg, CEBI, NBS

Disclosures

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