

May 15, 2018

# Economic Acumen

Commentary by CEBI Research Team

## In Brief

- Entering into 2Q2018, China's economic indicators for April faltered, with growth in fixed asset investment (FAI) and retail sales slowing in varying degrees. Despite a mild deceleration in domestic demand, China's economic momentum remains stable.
- China's job market has been steadily growing as April survey-based urban unemployment rate dropped to 4.9% from March's 5.1%, supporting our view that China's economy continues to retain the path of steady recovery.
- In sum, we expect GDP growth to maintain a medium-high growth rate as China's 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.

## China's economic momentum remains stable despite mild deceleration in April data

Entering into 2Q2018, China's economic indicators for April faltered, with growth in fixed asset investment (FAI) and retail sales slowing in varying degrees. Despite a mild deceleration in domestic demand, China's economic momentum remains stable as job market has been steadily growing with which April survey-based urban unemployment rate dropped to 4.9% from March's 5.1%, supporting our view that China's economy continues to retain the path of steady recovery. In sum, we expect GDP growth to maintain a medium-high growth rate as China's 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 downtrend in sight.** YTD growth of FAI was 7.0% YoY, below consensus' estimate of 7.4% and 1Q2018's 7.5%. Deceleration of FAI was mainly driven by decelerating growth of Infrastructure investment (+12.4% YTD YoY vs 1Q2018 13.0%) and real estate investment (+10.3% YTD YoY vs 1Q2018's 10.4%). 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 April.** Industrial production expanded by 7.0% YoY in April, up from consensus's 6.4% and March's 6.0% YoY. On a month-on-month basis, industrial output edged up 0.61%. The value-added of the main industrial sectors such as "Special-Purpose Machinery" (April:+13.2% YoY and Jan-Apr:+11.4% YoY), "Computer, Communication Equipment and Other Electronic Equipment" (April:+12.4% YoY and Jan-Apr:+12.6% YoY), "Manufacture of Motor Vehicles" (April:+11.9% YoY and Jan-Apr:+8.1% YoY), "Manufacture of General Machinery" (April:+9.7% YoY and Jan-Apr:+8.6% YoY) and "Medicines" (April: +9.7% YoY and Jan-Apr: +10.9% YoY) were the major drivers of industrial production in April. We believe that industrial production would maintain stable growth for the rest of 2018.

**Retail sales demonstrated a slowing path in April.** Retail sales in April edged down to 9.4% YoY, below consensus' 10.0% and March's 10.1%. On a month-on-month basis, retail sales rose 0.66%. National online retail sales reached Rmb2,579.2bn in 4M2018, a year-on-year growth of 32.4%, reflecting significant growth momentum in online consumption. In general, retail sales growth was mainly driven by sizeable growth in "Cultural and Office Appliances" (April: +18.3% YoY and Jan-Apr:+7.3% YoY), "Cosmetics" (April: +15.1% YoY and Jan-Apr:+15.9% YoY), "Petroleum and Related Products" (April: +13.1% YoY and Jan-Apr:+10.2% YoY), "Building and Decoration Materials" (April: +11.4% YoY and Jan-Apr:+8.9% YoY) and "Communication Appliances" (April: +10.8% YoY and Jan-Apr:+8.4% 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.

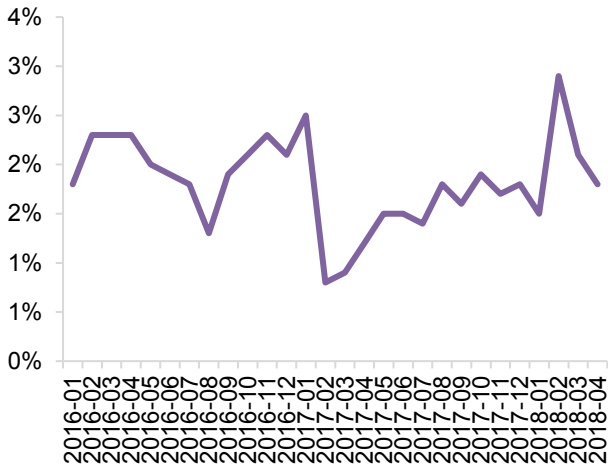
**Inflation edged down in April due to dipping food prices while factory prices picked up first time in seven months.** China's April CPI inflation decelerated to 1.8% YoY (-0.2% MoM) from 2.1% YoY in March 2018 (-1.1% MoM) which stands lower than the consensus estimate of +1.9%. The slowdown of inflation was due to a year-to-year cooling in food price at 0.7%. 4M2018 inflation remained at a stable level of 2.1%. China's producer prices posted a positive growth of 3.4% YoY (-0.2% MoM) in April, which was in line with the consensus estimate but higher than March's 3.1% YoY (-0.2% MoM). Producer price inflation picked up for the first time in seven months. The rebounding producer prices was mainly attributable to surging energy prices as producer price Index of 'Extraction of Petroleum and Natural Gas' for April and Jan-April posted 15.2% YoY (March: 6.9%) and 11.5% (Jan-Mar: 10.3%). The rise of factory prices during 4M2018 reached 3.6%, demonstrating an upward trend and reflecting the continuation of stable economic recovery. In sum, the stable uptrend of CPI and PPI indicates that China's economic momentum remains resilient.

**Exports showed steady growth in 4M2018.** In April, exports, in Yuan terms, rose 3.7% YoY (14.7% MoM), higher than March's negative growth of 9.8% but lower than the consensus estimate of 4.0% while imports, in Yuan terms, edged up 11.6% YoY (-4.4% MoM), higher than the consensus estimate of 10.4% and March's 5.9%. In 4M2018, China's trade maintains stable growth in exports and imports, in Yuan terms, surging by 6.4% and 11.7%, respectively. The uptrend in external trade was caused by strengthened overseas demand driven by a continued economic recovery in major trading partners. Although the trade tensions between the U.S. and China may pose risks on external trade growth in coming quarters, the kickoff of high-level trade talks helps defuse months of trade tensions between the world's two largest economies. We believe surging demand for China's exports from major trading partners, together with the supportive stance of the

Chinese government, will continue to sustain growth in China's external trade. In our view, the external trade would keep stable growth in

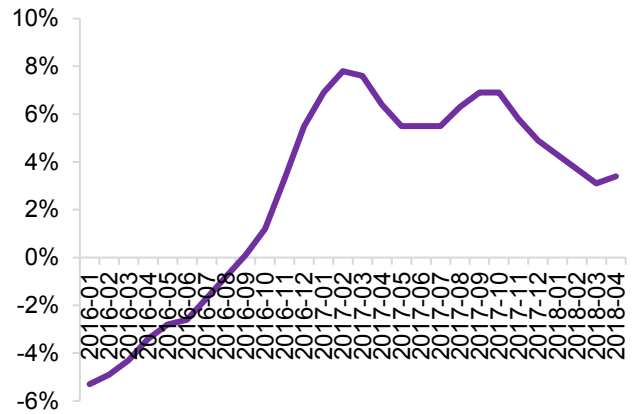
**Credit demand remained stable in April.** Monetary indicators showed stable momentum in April. New loans in April was Rmb1,180.0bn (Consensus: 1,100.0bn and March: 1120 bn) while M2 growth was 8.3% YoY (Consensus: 8.5% and March: 8.2%). The aggregate financing in April reached RMB1.56tr (Consensus: 1.35tr and March: 1.33tr). 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. Despite the RRR cut, the PBOC would maintain a prudent and neutral monetary policy to accommodate the capital demand in 2018.

**Fig. 1: China CPI Inflation (YoY)**



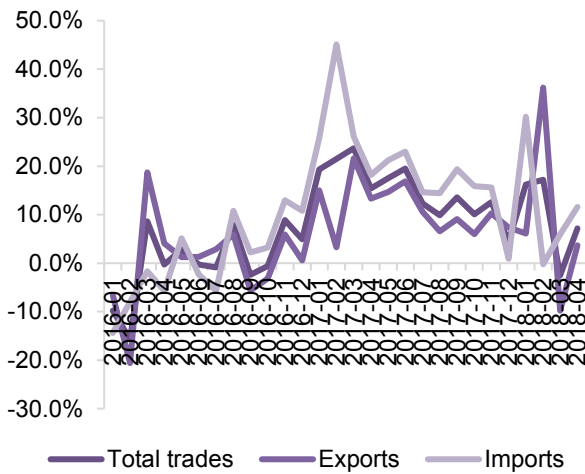
Source: Wind, Bloomberg and CEBI

**Fig. 2: China PPI Inflation (YoY)**



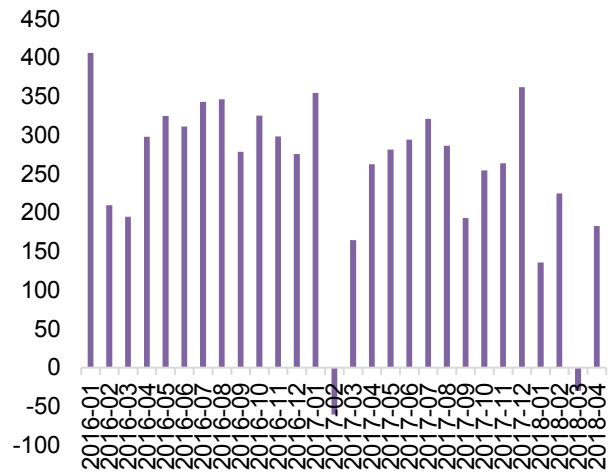
Source: Wind, Bloomberg and CEBI

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



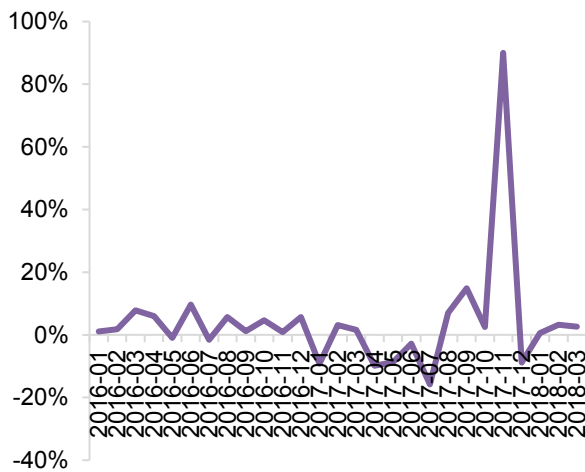
Source: Wind, Bloomberg and CEBI

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



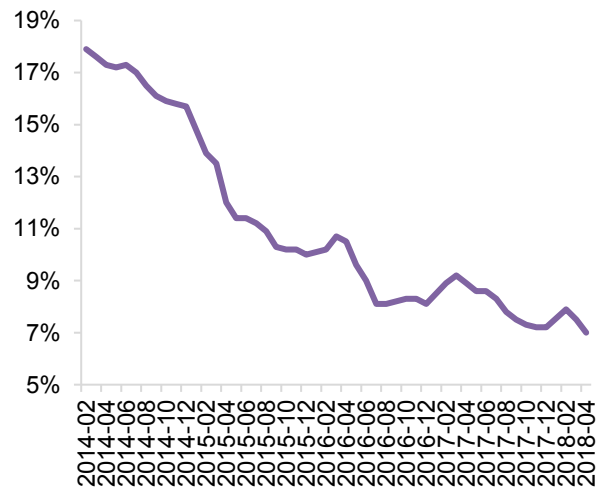
Source: Wind, Bloomberg and CEBI

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



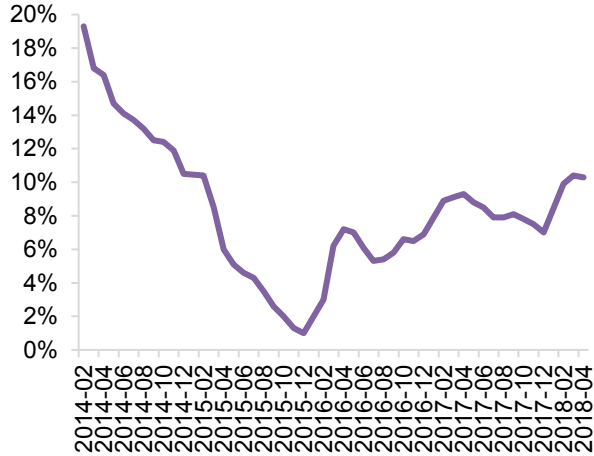
Source: Wind, Bloomberg and CEBI

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



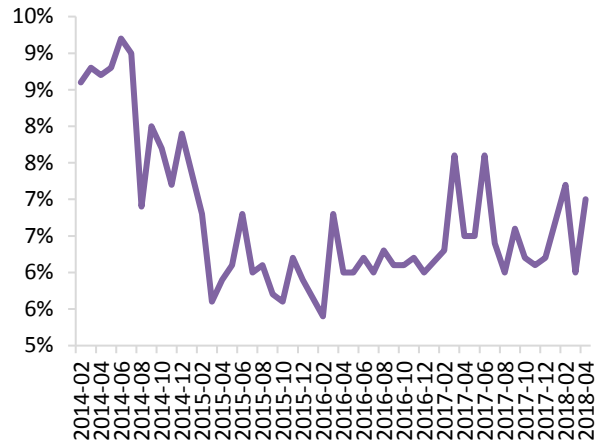
Source: Wind, Bloomberg and CEBI

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



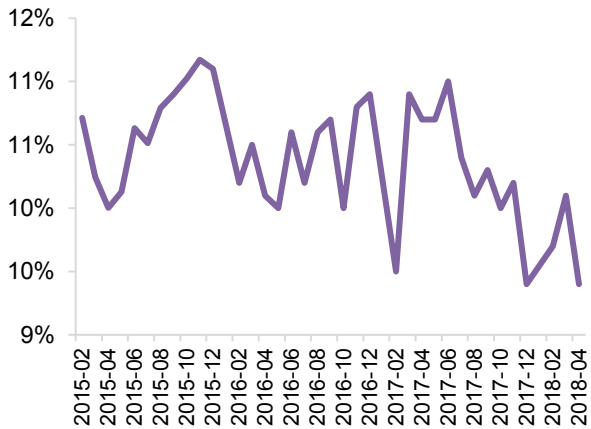
Source: Wind, Bloomberg and CEBI

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



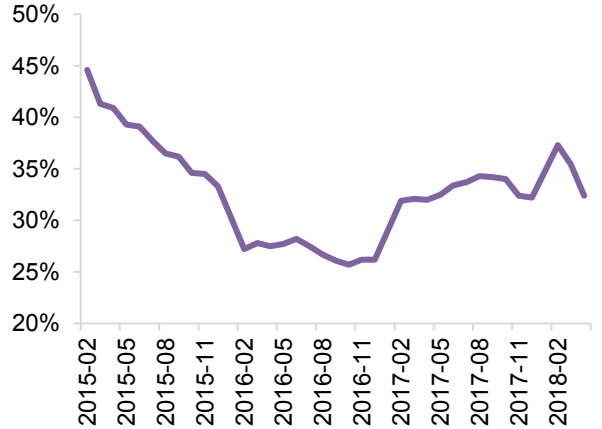
Source: Wind, Bloomberg and CEBI

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



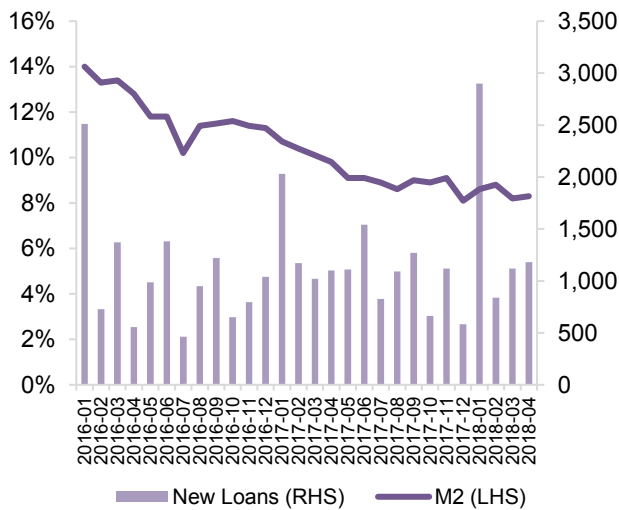
Source: Wind, Bloomberg and CEBI

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



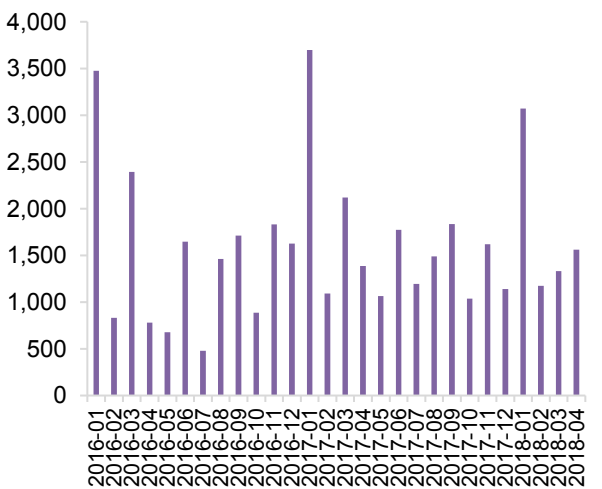
Source: Wind, Bloomberg and CEBI

**Fig. 11: New loans (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
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

	Apr 17	May 17	Jun 17	July 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17	Jan 17	Feb 18	Mar 18	Apr 18
Real GDP	-	-	6.9	-	-	6.8	-	-	6.8	-	-	6.8	-
PMI – Manufacturing %	51.2	51.2	51.7	51.4	51.7	52.4	51.6	51.8	51.6	51.3	50.3	51.5	51.4
PMI- Non-manufacturing%	54.0	54.5	54.9	54.5	53.4	55.4	54.3	54.8	55.5	55.3	54.4	54.6	54.8
Exports (RMB YoY %)	13.3	14.7	16.9	10.6	6.6	9.1	6.0	10.3	7.4	6.0	36.2	(9.8)	3.7
Imports (RMB YoY %)	18.2	21.2	23.0	14.6	14.4	19.4	15.9	15.6	0.9	30.2	(0.2)	5.9	11.6
Trade Balance (RMB/bn)	262.3	281.6	294.3	321.2	286.5	193.0	254.5	263.6	362.0	135.8	224.9	(29.8)	182.8
Export (USD YoY %)	7.0	8.0	10.9	6.6	5.2	8.1	6.8	12.3	10.9	11.1	44.5	(2.7)	12.9
Import (USD YoY %)	11.5	14.0	17.0	11.0	13.3	18.7	17.2	17.7	4.5	36.9	6.3	14.4	21.5
Trade Balance (USD/bn)	36.9	40.5	42.2	45.7	41.4	28.7	38.1	40.2	54.7	20.3	33.7	(5.0)	28.8
CPI (YoY %)	1.2	1.5	1.5	1.4	1.8	1.6	1.9	1.7	1.8	1.5	2.9	2.1	1.8
PPI (YoY %)	6.4	5.5	5.5	5.5	6.3	6.9	6.9	5.8	4.9	4.3	3.7	3.1	3.4
FAI (YTD/ YOY %)	8.9	8.6	8.6	8.3	7.8	7.5	7.3	7.2	7.2	-	7.9	7.5	7.0
Real Estate Investment (YTD/ YoY %)	9.3	8.8	8.5	7.9	7.9	8.1	7.8	7.5	7.0	-	9.9	10.4	10.3
Industrial Production (YoY %)	6.5	6.5	7.6	6.4	6.0	6.6	6.2	6.1	6.2	-	7.2	6.0	7.0
Retail Sales (YoY%)	10.7	10.7	11.0	10.4	10.1	10.3	10.0	10.2	9.4	-	9.7	10.1	9.4
New Lending (RMB/bn)	1100.0	1110.0	1540.0	825.5	1090.0	1270.0	663.2	1120.0	584.4	2900.0	839.3	1120.0	1180.0
M2 (YoY %)	10.5	9.6	9.4	9.2	8.9	9.2	8.8	9.1	8.2	8.6	8.8	8.2	8.3
Aggregate Financing (RMB bn)	1388.0	1063.1	1771.8	1195.6	1489.5	1833.5	1035.7	1619.6	1139.8	3059.7	1173.6	1330.0	1560.0

## World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
<b>U.S.</b>			
DJIA	24,899.41	18.84	2.23
S&P 500	2,730.13	20.99	2.15
NASDAQ	7,411.32	24.70	2.01
<b>EUR</b>			
FTSE 100	7,710.98	14.23	1.90
DAX	12,977.71	14.52	0.23
CAC40S	5,540.68	17.53	0.17
STOXX EUR 600	392.19	16.66	0.69
<b>Asia</b>			
HSI	31,152.03	12.93	2.46
HSCEI	12,440.75	9.43	2.44
CSI300	3,924.10	14.94	1.17
SSE Composite	3,192.12	15.45	0.97
SZSE Composite	1,839.88	29.64	0.20
NIKKEI 225	22,818.02	17.54	1.37
KOSPI	2,458.54	11.17	0.36
TWSE	10,874.73	14.92	1.71
S&P/ASX 200	6,097.82	17.88	0.10
<b>MSCI Index</b>			
MSCI WORLD	2,136.09	18.98	1.87
MSCI DEVELOPED	520.58	18.41	1.95
MSCI EMERGING	1,168.90	15.00	2.58
MSCI US	2,602.07	21.41	2.08
MSCI UK	2,229.07	14.36	1.92
MSCI France	160.01	17.35	0.44
MSCI Germany	158.00	15.17	-0.30
MSCI China	95.17	16.36	4.43
MSCI Hong Kong	16,590.04	12.00	4.60
MSCI Japan	1,067.14	13.87	1.81

\* As of 15/5/2018 closing for Asian markets, previous closing for others

Global Commodities			
	Unit	Price	One Week chg(%)
<b>Energy</b>			
NYMEX WTI	USD/bbl	70.97	2.74
ICE Brent Oil	USD/bbl	78.43	4.82
NYMEX NatGas	USD/MMBtu	2.84	3.84
<b>Basic Metals</b>			
LME Alum.Cash	USD/MT	2,316.00	-2.26
CMX Cop.Active	USD/lb.	308.10	0.74
LME Steel Rebar	USD/MT	565.50	1.71
LME Lead Cash	USD/MT	2,373.50	2.55
<b>Precious Metals</b>			
CMX Gold	USD/KRW	1,310.01	0.00
Gold Futures	USD/KRW	1,309.80	-0.30
CMX Silverbn	USD/KRW	16.43	-0.04
NYMEX Platinum	USD/T. oz	906.37	-0.39
<b>Agri, Products</b>			
CBOT Corn	USD/bu	399.00	-1.05
CBOT Wheat	USD/bu	494.50	-3.89
NYB-ICE Sugar	USD/lb.	11.28	-2.42
CBOT Soybeans	USD/bu.	1,019.25	-0.10

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)	1.66	0.00
US Treasury (1 Yr)	2.26	0.02
US Treasury (5 Yr)	2.87	0.06
US Treasury (10 Yr)	3.02	0.04
US Treasury (30 Yr)	3.15	0.02
1-Month LIBOR	1.92	-0.01
3 Month LIBOR	2.34	-0.03
Japan 1-Yr Gov. Bond	-0.13	0.00
Japan 10-Yr Gov. Bond	0.06	0.01
German 1-Yr Gov. Bond	-0.63	-0.01
German 10-Yr Gov. Bond	0.62	0.06
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	2.93	0.03
China 5-Yr Gov. Bond	3.42	0.37
China 10-Yr Gov. Bond	3.71	0.05
O/N SHIBOR	2.64	0.07
1-mth SHIBOR	3.81	-0.02
HK Base rate	0.09	-0.12
O/N HIBOR	0.09	-0.12
1-mth HIBOR	0.99	-0.17
O/N CNH HIBOR	3.53	1.12
1-mth CNH HIBOR	4.02	0.14
<b>Corporate Bonds (Moody's)</b>		
Aaa	3.98	-0.03
Baa	4.79	-0.02

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	92.75	-0.40
Euro/USD	1.1918	0.33
GBP/USD	1.3535	0.15
AUD/USD	0.7513	0.74
USD/CAD	1.2822	-1.12
USD/JPY	109.91	0.87
USD/CHF	1.0008	-0.13
USD/CNY Midpoint	6.3486	-0.30
USD/CNY	6.3561	-0.23
<b>USD/CNY NDF</b>		
12-mth Spot pr.	6.4620	-0.13
USD/CNH	6.3505	-0.23
USD/HKD	7.8499	0.00
CNY/HKD	1.2350	0.24
CNH/HKD	1.2361	0.23
USD/KRW	1,073.70	-0.26
USD/TWD	29.850	0.23
USD/SGD	1.3372	-0.07
USD/INR	67.783	1.05

All data sources: Bloomberg, CEBI, NBS

## Disclosures

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