

June 15, 2018

Economic Acumen

Commentary by CEBI Research Team

In Brief

- China's economic indicators for May demonstrated weakening trend, with growth in fixed asset investment (FAI), industrial production 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 May survey-based urban unemployment rate dropped to 4.8% from April's 4.9%, supporting our view that China's economy continues to retain the path of steady recovery.
- In sum, China will continue to accelerate reforms for more balanced and sustainable growth and we expect China's economy will maintain steady growth momentum for the rest of 2018. In general, China's economy is expected to maintain a healthy growth of 6.6% in 2018.

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Weaker-than-expected China's May data in sight

China's economic indicators for May demonstrated weakening trend, with growth in fixed asset investment (FAI), industrial production 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 May survey-based urban unemployment rate dropped to 4.8% from April's 4.9%, supporting our view that China's economy continues to retain the path of steady recovery. In sum, China will continue to accelerate reforms for more balanced and sustainable growth and we expect China's economy will maintain steady growth momentum for the rest of 2018. In general, China's economy is expected to maintain a healthy growth of 6.6% in 2018.

FAI to slow further in May. YTD growth of FAI was 6.1% YoY, below consensus estimate of 7.0% and 1Q2018's 7.5%. Deceleration of FAI was mainly driven by decelerating growth of infrastructure investment (+9.4% YTD YoY vs Jan-Apr's 12.4%) and real estate investment (+10.2% YTD YoY vs Jan-Apr's 10.3%). Investment in railway and other urban infrastructures as well as real estate development remain as the major growth driver of FAI. 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 to show slower growth in May. Industrial production expanded by 6.8% YoY in May, down slightly from 7% of consensus estimate and April's figure. On a month-on-month basis, industrial output edged up 0.58%, slightly lower than April's 0.61%. The value-added of the main industrial sectors such as "Manufacture of Computer, Communication Equipment and Other Electronic Equipment" (May:+13.5% YoY and Jan-May:+12.8% YoY), "Manufacture of Motor Vehicles" (May:+13.2% YoY and Jan-May:+9.2% YoY), "Production and Supply of Electric Power and Heat Power" (May:+12.4% YoY and Jan-May:+10.5% YoY), "Manufacture of Medicines" (May: +10.9% YoY and Jan-May: +10.9% YoY) and "Special-Purpose Machinery" (May:+9.6% YoY

and Jan-May:+11.0% YoY), were the major drivers of industrial production in May. We believe that industrial production would maintain stable growth for the rest of 2018.

Retail sales to falter in May. Retail sales in May edged down to 8.5% YoY, below consensus' 9.6% and April's 9.4%. On a month-on-month basis, retail sales rose 0.29%, down from April's 0.6%. National online retail sales reached Rmb3,269.1bn in 5M2018, a year-on-year growth of 30.7%, reflecting significant growth momentum in online consumption. In general, retail sales growth was mainly driven by sizeable growth in "Petroleum and Related Products" (May: +14.0% YoY and Jan-May:+11.0% YoY), "Communication Appliances" (May: +12.2% YoY and Jan-May:+9.1% YoY), "Cosmetics" (May: +10.3% YoY and Jan-May:+14.8% YoY), and "Commodities" (May: +10.3% YoY and Jan-May:+11.8% YoY). Going forward, retail sales are likely to maintain a healthy growth on the government's persistent efforts to shift China's economy towards a growth model driven more by consumer spending, innovation and services. We believe the government will prioritize consumption growth with which services consumption and e-commerce will act as the major growth driver in 2018.

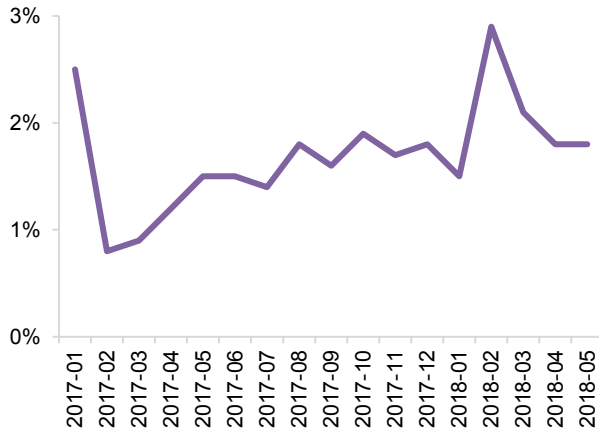
Mild inflation to continue on falling food prices. China's May CPI inflation grew 1.8% YoY (-0.2% MoM), standing in line with the consensus estimate and April's inflation. The continuation of mild inflation was due to a year-to-year cooling in food price at 0.1% YoY (-1.3% MoM). 5M2018 inflation remained at a stable level of 2.0%. China's producer prices posted a positive growth of 4.1% YoY (+0.4% MoM) in May, which was higher than the consensus estimate of 3.9% and April's 3.4% YoY (-0.2% MoM). The extended rebounding of producer prices was mainly attributed to surging energy prices as producer price index of 'Extraction of Petroleum and Natural Gas' for May and Jan-May posted 24.2% YoY (April: 15.2%) and 14.0% (Jan-April: 11.5%). The rise of factory prices during 5M2018 reached 3.7%, demonstrating an upward trend and reflecting the continuation of stable economic recovery. In sum, the stable trend of CPI and PPI indicates that China's economic momentum remains resilient.

External trade to show solid growth in 5M2018. In May, exports, in Yuan terms, rose 3.2% YoY (+5.8% MoM), significantly higher than the consensus estimate of 1.6% but slightly lower than April's growth of 3.5% (+14.7%) while imports, in Yuan terms, edged up 15.6% YoY (+8.9% MoM), higher than the consensus estimate of 8.6% and April's 11.6% (-4.4% MoM). In 5M2018, China's trade maintains stable growth at 8.8% YoY (+7.3% MoM) with exports and imports, in Yuan terms, surging by 5.5% and 12.6%, respectively. The stable uptrend of 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 high-level trade talks help defuse months of trade disputes 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 2018.

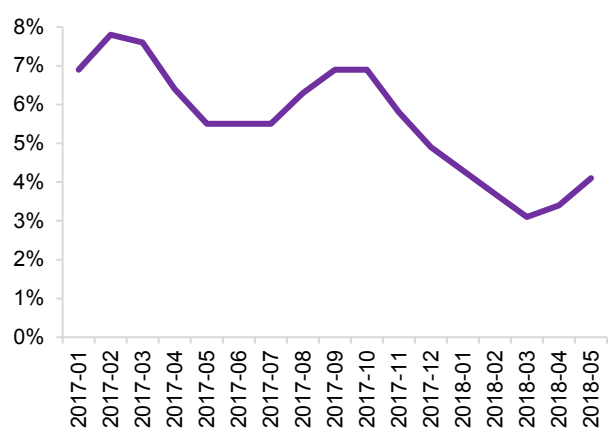
Credit demand remained stable in May. Monetary indicators showed stable momentum in May. New loans in May was Rmb1,150bn (Consensus: 1,200.0bn and April: 1180 bn) while M2 growth was 8.3% YoY (Consensus: 8.5% and April: 8.3%). The aggregate financing in May reached RMB760.8bn (Consensus: 1.3tr and April: 1.56tr). On April 25, People Bank of China (PBOC) launched a cut in reserve requirement ratio (RRR) by one percentage point. The move is to free about 1.3 trillion yuan in total, and 900 billion yuan of that will be used to pay back the funds borrowed by commercial banks via the Medium-term Lending Facility (MLF). The increased 400 billion yuan will enrich low-cost fund resources for small and micro-sized enterprises at the same time. Despite the RRR cut, the process of deleveraging is on track to reduce financial risks of China's economy and the PBOC would maintain a prudent and neutral monetary policy to accommodate the capital demand in 2018.

Fig. 1: China CPI Inflation (YoY)



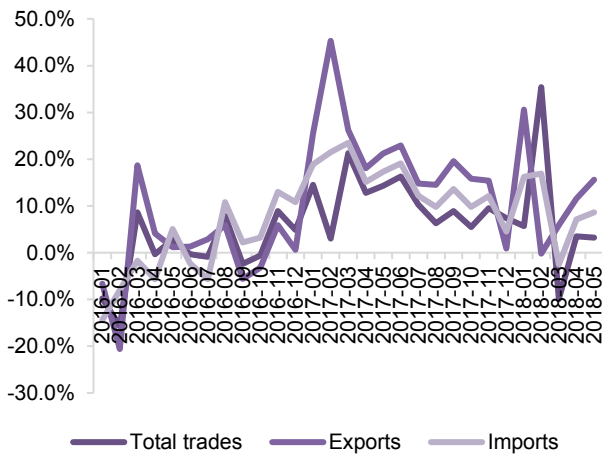
Source: Wind, Bloomberg and CEBI

Fig. 2: China PPI Inflation (YoY)



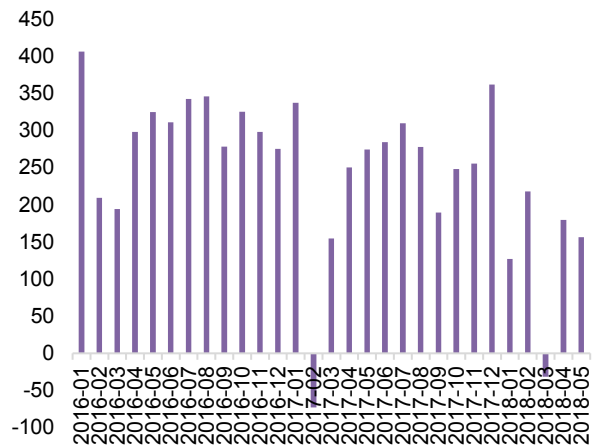
Source: Wind, Bloomberg and CEBI

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



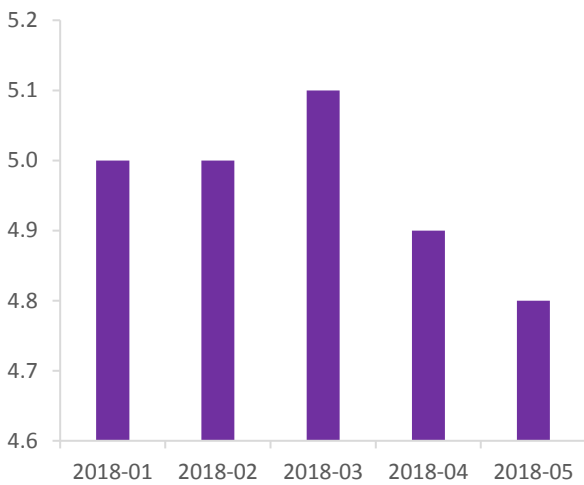
Source: Wind, Bloomberg and CEBI

Fig. 4: Trade Surplus (Rmb bn)



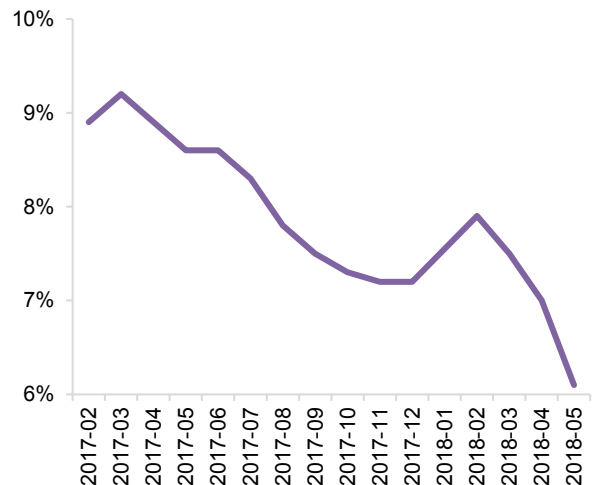
Source: Wind, Bloomberg and CEBI

Fig. 5: China's urban unemployment rate (%)



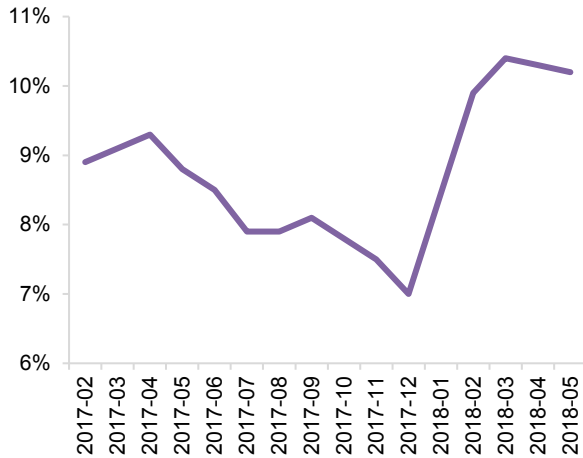
Source: Wind, Bloomberg and CEBI

Fig. 6: FAI (YTD YoY)



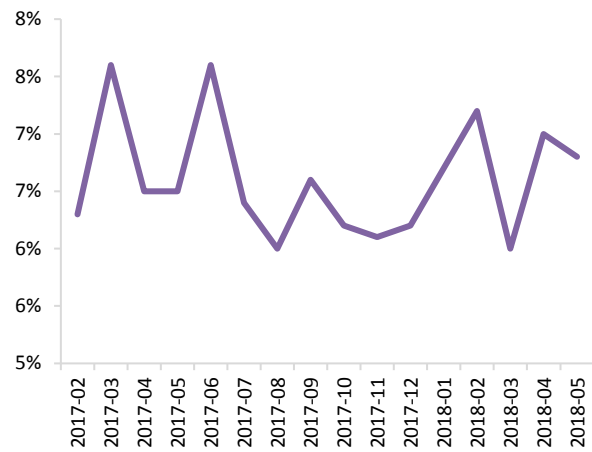
Source: Wind, Bloomberg and CEBI

Fig. 7: Real Estate Investment (YTD YoY)



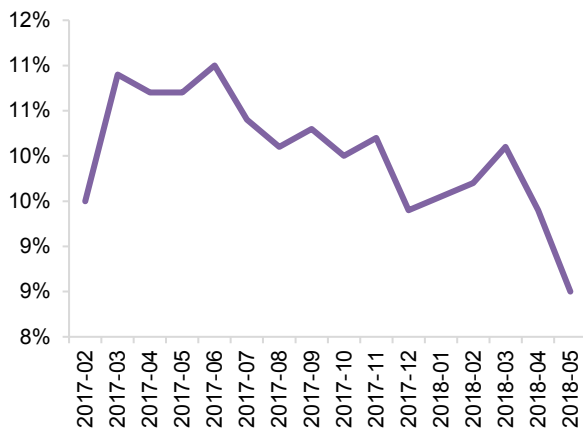
Source: Wind, Bloomberg and CEBI

Fig. 8: Industrial Production (YoY)



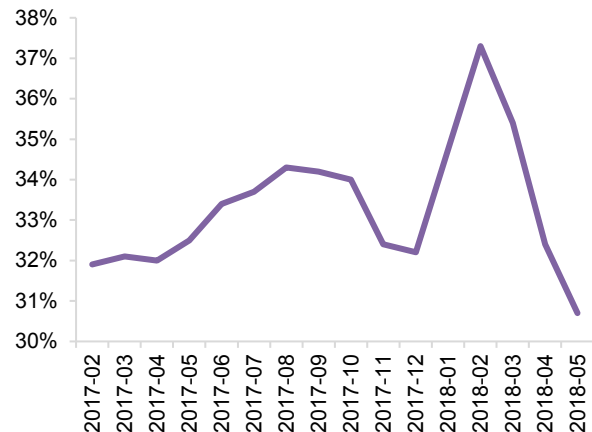
Source: Wind, Bloomberg and CEBI

Fig. 9: Retail sales (YoY)



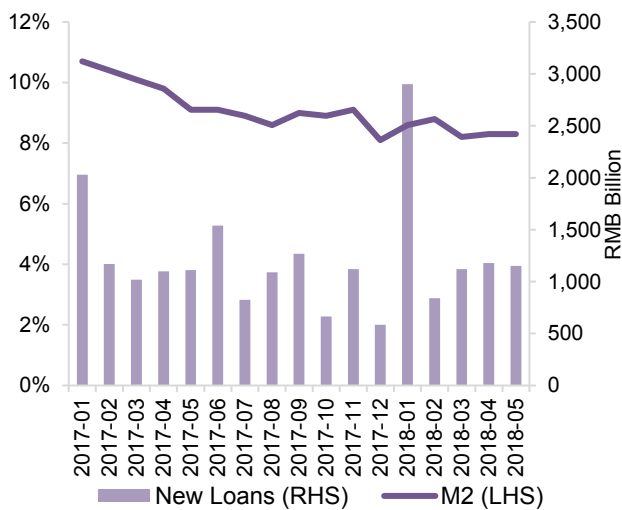
Source: Wind, Bloomberg and CEBI

Fig. 10: Online Retail Sales (YoY)



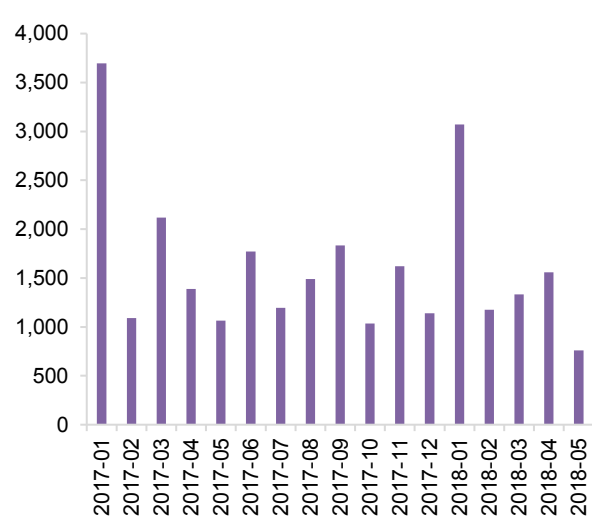
Source: Wind, Bloomberg and CEBI

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 %)	(1.9)	13.7	11.3	7.1	7.1	10.8	7.2
Imports (RMB YoY %)	0.6	31.3	20.3	16.5	9.7	18.7	11.9
Trade Balance (RMB/bn)	3352.3	419.0	809.5	777.5	865.6	2871.6	345.2
Exports (USD YoY %)	(7.7)	7.2	8.2	6.4	9.7	7.9	13.9
Imports (USD YoY %)	(5.5)	24.3	14.1	14.6	12.5	15.9	19.1
Trade Balance (USD/bn)	510.7	60.38	117.4	113.8	130.9	422.5	46.5
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

	May 17	Jun 17	July 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17	Jan 17	Feb 18	Mar 18	Apr 18	May 18
Real GDP	-	6.9	-	-	6.8	-	-	6.8	-	-	6.8	-	-
PMI – Manufacturing %	51.2	51.7	51.4	51.7	52.4	51.6	51.8	51.6	51.3	50.3	51.5	51.4	51.9
PMI- Non-manufacturing%	54.5	54.9	54.5	53.4	55.4	54.3	54.8	55.5	55.3	54.4	54.6	54.8	54.9
Exports (RMB YoY %)	16.3	10.3	6.3	8.9	5.5	9.5	7.4	16.3	5.7	35.4	(9.9)	3.5	3.2
Imports (RMB YoY %)	22.9	14.8	14.5	19.6	15.8	15.4	0.9	22.9	30.6	(0.2)	5.9	11.6	15.6
Trade Balance (RMB/bn)	274.6	284.6	310.0	277.9	189.6	248.2	255.4	362.0	127.2	218.0	(31.6)	179.71	156.51
Export (USD YoY %)	7.6	10.3	6.4	4.9	7.9	6.3	11.5	10.9	10.8	43.7	(2.9)	12.6	12.6
Import (USD YoY %)	14	16.9	11.1	13.4	18.9	17.1	17.6	4.5	37.3	6.3	14.4	21.5	26.0
Trade Balance (USD/bn)	39.8	41.4	45.1	40.7	28.0	37.2	39.0	54.7	19.1	32.7	(5.3)	28.3	24.9
CPI (YoY %)	1.5	1.5	1.4	1.8	1.6	1.9	1.7	1.8	1.5	2.9	2.1	1.8	1.8
PPI (YoY %)	5.5	5.5	5.5	6.3	6.9	6.9	5.8	4.9	4.3	3.7	3.1	3.4	4.1
FAI (YTD/ YOY %)	8.6	8.6	8.3	7.8	7.5	7.3	7.2	7.2	-	7.9	7.5	7.0	6.1
Real Estate Investment (YTD/ YoY %)	8.8	8.5	7.9	7.9	8.1	7.8	7.5	7.0	-	9.9	10.4	10.3	10.2
Industrial Production (YoY %)	6.5	7.6	6.4	6.0	6.6	6.2	6.1	6.2	-	7.2	6.0	7.0	6.8
Retail Sales (YoY%)	10.7	11.0	10.4	10.1	10.3	10.0	10.2	9.4	-	9.7	10.1	9.4	8.5
New Lending (RMB/bn)	1110.0	1540.0	825.5	1090.0	1270.0	663.2	1120.0	584.4	2900.0	839.3	1120.0	1180.0	1150.0
M2 (YoY %)	9.6	9.4	9.2	8.9	9.2	8.8	9.1	8.2	8.6	8.8	8.2	8.3	8.3
Aggregate Financing (RMB bn)	1063.1	1771.8	1195.6	1489.5	1833.5	1035.7	1619.6	1139.8	3061.0	1167.2	1354.6	1560.5	760.8
Urban Unemployment Rate (%)	-	-	-	-	-	-	-	-	5.0	5.0	5.1	4.9	4.8
Urban Unemployment Rate in 31 major cities (%)	-	-	-	-	-	-	-	-	4.8	4.9	4.9	4.7	4.7

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	25,175.31	18.99	-0.26
S&P 500	2,782.49	21.15	0.44
NASDAQ	7,761.04	23.72	1.65
EUR			
FTSE 100	7,765.79	13.88	0.80
DAX	13,107.10	14.58	2.31
CAC40S	5,528.46	17.84	1.47
STOXX EUR 600	393.04	16.55	1.84
Asia			
HSI	30,309.49	12.19	-2.10
HSCEI	11,870.18	9.17	-2.43
CSI300	3,753.43	14.32	-0.69
SSE Composite	3,021.90	14.73	-1.48
SZSE Composite	1,691.65	27.86	-3.41
NIKKEI 225	22,851.75	17.33	0.69
KOSPI	2,404.04	11.58	-2.69
TWSE	11,087.47	14.92	-0.62
S&P/ASX 200	6,094.03	17.72	0.61
MSCI Index			
MSCI WORLD	2,142.02	18.98	0.21
MSCI DEVELOPED	519.54	18.25	-0.07
MSCI EMERGING	1,125.70	14.15	-2.09
MSCI US	2,655.76	21.63	0.50
MSCI UK	2,241.02	13.99	0.74
MSCI France	159.59	17.60	1.57
MSCI Germany	158.73	15.48	2.36
MSCI China	94.83	16.06	-1.73
MSCI Hong Kong	15,925.73	10.78	-2.89
MSCI Japan	1,054.08	14.27	-0.44

* As of 15/6/2018 closing for Asian markets, previous closing for others

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	66.87	1.72
ICE Brent Oil	USD/bbl	75.72	-0.97
NYMEX NatGas	USD/MMBtu	2.99	3.43
Basic Metals			
LME Alum.Cash	USD/MT	2,262.25	-1.75
CMX Cop.Active	USD/lb.	320.25	-2.95
LME Steel Rebar	USD/MT	544.00	-0.37
LME Lead Cash	USD/MT	2,438.75	-3.27
Precious Metals			
CMX Gold	USD/KRW	1,300.55	0.18
Gold Futures	USD/KRW	1,303.70	0.08
CMX Silverbn	USD/KRW	17.20	2.43
NYMEX Platinum	USD/T. oz	904.28	-0.34
Agri. Products			
CBOT Corn	USD/bu	382.00	-4.02
CBOT Wheat	USD/bu	510.50	-4.89
NYB-ICE Sugar	USD/lb.	12.42	-0.80
CBOT Soybeans	USD/bu.	937.00	-5.33

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	2.00	0.25
US Prime Rate	5.00	0.25
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)	1.79	0.03
US Treasury (1 Yr)	2.30	0.02
US Treasury (5 Yr)	2.79	0.01
US Treasury (10 Yr)	2.92	-0.03
US Treasury (30 Yr)	3.04	-0.05
1-Month LIBOR	2.07	0.04
3 Month LIBOR	2.34	0.02
Japan 1-Yr Gov. Bond	-0.13	0.00
Japan 10-Yr Gov. Bond	0.04	-0.01
German 1-Yr Gov. Bond	-0.67	0.01
German 10-Yr Gov. Bond	0.39	-0.06
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	3.24	0.01
China 5-Yr Gov. Bond	3.48	-0.03
China 10-Yr Gov. Bond	3.65	-0.04
O/N SHIBOR	2.59	0.03
1-mth SHIBOR	4.13	0.07
HK Base rate	0.30	-0.60
O/N HIBOR	0.30	-0.60
1-mth HIBOR	1.67	0.21
O/N CNH HIBOR	3.58	0.68
1-mth CNH HIBOR	4.30	0.18
Corporate Bonds (Moody's)		
Aaa	3.98	-0.02
Baa	4.85	-0.03

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	94.80	1.35
Euro/USD	1.16	-1.50
GBP/USD	1.33	-1.02
AUD/USD	0.75	-1.78
USD/CAD	1.31	1.59
USD/JPY	110.46	0.83
USD/CHF	1.00	1.10
USD/CNY Midpoint	6.43	0.47
USD/CNY	6.42	0.16
USD/CNY NDF		
12-mth Spot pr.	6.53	0.21
USD/CNH	6.42	0.33
USD/HKD	7.85	0.04
CNY/HKD	1.22	-0.11
CNH/HKD	1.22	-0.29
USD/KRW	1,097.75	2.68
USD/TWD	29.99	0.60
USD/SGD	1.35	0.78
USD/INR	68.00	0.72

All data sources: Bloomberg, CEBI, NBS

Disclosures

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