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Economic Acumen

Commentary by CEBI Research Team

In Brief

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- Overall, the PBOC's move will release around RMB 700 billion in potential credit, which is more than the net injection of RMB 400 billion in the previous RRR cut in April.
- In sum, the escalating trade tensions between the U.S. and China and the U.S. monetary tightening are expected to exert pressure on China's economic growth in 2H2018.
- The latest RRR cut will help support the real economy and stabilize financial markets, thus strengthening efforts to maintain sustainable growth momentum.
- The PBOC will still maintain neutral and prudent monetary policy to cultivate an appropriate monetary and financial environment for China's economic growth and supply-side structural reforms.

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The PBOC's RRR cut to resist growth headwinds

The People's Bank of China (PBOC) announced a 50bp cut in the required reserve ratio (RRR), effective July 5, 2018. Targeted RRR cut for five largest state-owned banks and twelve joint-stock commercial banks will release around RMB 500 billion in the market which aims at supporting debt-to-equity swap projects and private investment. Another RMB 200 billion is to be freed from Postal Saving Bank, city and non-county rural commercial banks and foreign banks which will spur lending to small and micro enterprises for reduction of their financing costs. Overall, the PBOC's move will release around RMB 700 billion in potential credit, which is more than the net injection of RMB 400 billion in the previous RRR cut in April. In sum, the escalating trade tensions between the U.S. and China and the U.S. monetary tightening are expected to exert pressure on China's economic growth in 2H2018. The latest RRR cut will help support the real economy and stabilize financial markets, thus strengthening efforts to maintain sustainable growth momentum. The PBOC will still maintain neutral and prudent monetary policy to cultivate an appropriate monetary and financial environment for China's economic growth and supply-side structural reforms.

Comprehensive monetary tools to create a sound environment for China's high-quality growth and supply-side structural reform. The latest RRR cut reflects the PBOC's intention to fine-tune monetary tools to achieve a reasonable and stable liquidity level as China's economy is facing concerns over tight liquidity conditions in the market and a potential drag from trade disputes with the U.S. In sum, China's ongoing deleveraging process has reduced aggregate financial risks but caused liquidity shortage in the economy, thus destabilizing the momentum of economic recovery. The latest release of RMB 700 billion liquidity is targeted to provide long-term capital for debt-to-equity swap projects and stimulate lending to small and micro enterprises, thus strengthening financial stability and consolidating the momentum of stable and sound economic growth.

More RRR cuts to take place in 2H2018. The PBOC reiterated its stance of ensuring adequate liquidity in the banking system to support economic growth. The latest RRR cut will increase lending momentum and lower the market risk premium. Given the moderating trend in inflation and the mounting pressure to expand liquidity, the PBOC will take a neutral and prudent approach to pursue injection of liquidity in the economy through different monetary tools. We forecast the PBOC would lower RRR again and RRR cuts will be deployed as the principal tool to strengthen the growth momentum of real economy in 2H2018.

The PBOC to demonstrate strong capabilities to handle economic fluctuations. With strong GDP growth of 6.8% in 1Q2018 and stable economic outlook, China economic growth continues to retain the path of stable recovery in 1H2018. However, the U.S. monetary tightening and escalating trade tensions are expected to exert pressure on China's growth momentum in 2H2018. The PBOC is tactful in monetary policy to handle economic fluctuations with which a stable and neutral monetary policy to be fine-tuned in line with economic conditions, along with China's structural reforms, helps offset the impacts of the U.S. rate hikes and trade disputes, thus maintaining a steady economic recovery in 2018.

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 %)	(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	24,580.89	18.54	-2.03
S&P 500	2,754.88	21.03	-0.89
NASDAQ	7,692.82	23.75	-0.69
EUR			
FTSE 100	7,682.27	13.79	0.63
DAX	12,579.72	14.01	-3.31
CAC40S	5,387.38	16.97	-2.08
STOXX EUR 600	385.01	16.23	-1.06
Asia			
HSI	28,961.39	11.58	-4.45
HSCEI	11,208.90	8.60	-5.57
CSI300	3,560.48	13.52	-5.14
SSE Composite	2,859.34	13.85	-5.38
SZSE Composite	1,587.31	25.76	-6.17
NIKKEI 225	22,338.15	17.09	-1.51
KOSPI	2,357.88	11.28	-0.77
TWSE	10,786.46	14.61	-2.71
S&P/ASX 200	6,210.41	18.30	1.74
MSCI Index			
MSCI WORLD	2,114.90	18.77	-0.90
MSCI DEVELOPED	511.68	17.99	-1.07
MSCI EMERGING	1,088.00	13.66	-2.31
MSCI US	2,629.85	21.48	-0.89
MSCI UK	2,217.71	13.88	0.69
MSCI France	155.62	17.16	-2.13
MSCI Germany	152.52	14.87	-3.14
MSCI China	90.65	15.34	-3.74
MSCI Hong Kong	15,559.93	10.54	-2.17
MSCI Japan	1,033.20	14.01	-2.41

* As of 25/6/2018 closing for Asian markets, previous closing for others

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	68.78	4.46
ICE Brent Oil	USD/bbl	74.94	-0.53
NYMEX NatGas	USD/MMBtu	2.91	-1.49
Basic Metals			
LME Alum.Cash	USD/MT	2,179.50	-1.17
CMX Cop.Active	USD/lb.	305.30	-2.43
LME Steel Rebar	USD/MT	550.50	1.19
LME Lead Cash	USD/MT	2,406.00	0.63
Precious Metals			
CMX Gold	USD/KRW	1,269.60	-0.89
Gold Futures	USD/KRW	1,271.70	-0.66
CMX Silverbn	USD/KRW	16.42	-0.99
NYMEX Platinum	USD/T. oz	875.82	-1.09
Agri, Products			
CBOT Corn	USD/bu	374.75	-0.66
CBOT Wheat	USD/bu	493.25	-1.65
NYB-ICE Sugar	USD/lb.	12.42	1.14
CBOT Soybeans	USD/bu.	906.00	-2.74

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	2.00	0.00
US Prime Rate	5.00	0.00
US Discount Window	2.50	0.00
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	-0.10	0.00
US Treasury (1 Mth)	1.82	0.02
US Treasury (1 Yr)	2.32	0.00
US Treasury (5 Yr)	2.75	-0.04
US Treasury (10 Yr)	2.88	-0.04
US Treasury (30 Yr)	3.03	-0.02
1-Month LIBOR	2.09	0.01
3 Month LIBOR	2.34	0.00
Japan 1-Yr Gov. Bond	-0.13	0.00
Japan 10-Yr Gov. Bond	0.04	-0.01
German 1-Yr Gov. Bond	-0.66	-0.01
German 10-Yr Gov. Bond	0.32	-0.08
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	3.28	0.04
China 5-Yr Gov. Bond	3.45	-0.04
China 10-Yr Gov. Bond	3.59	-0.06
O/N SHIBOR	2.56	-0.03
1-mth SHIBOR	4.13	0.01
HK Base rate	1.80	1.50
O/N HIBOR	1.80	1.50
1-mth HIBOR	2.13	0.46
O/N CNH HIBOR	2.16	-1.42
1-mth CNH HIBOR	4.25	-0.04
Corporate Bonds (Moody's)		
Aaa	3.98	0.06
Baa	4.85	0.03

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	94.50	-0.27
Euro/USD	1.17	0.33
GBP/USD	1.32	-0.12
AUD/USD	0.74	-0.34
USD/CAD	1.33	0.96
USD/JPY	109.48	-0.91
USD/CHF	0.99	-0.76
USD/CNY Midpoint	6.49	0.91
USD/CNY	6.54	1.55
USD/CNY NDF		
12-mth Spot pr.	6.65	1.46
USD/CNH	6.55	1.55
USD/HKD	7.85	-0.03
CNY/HKD	1.20	-1.57
CNH/HKD	1.20	-1.56
USD/KRW	1,117.15	1.11
USD/TWD	30.39	1.35
USD/SGD	1.36	0.89
USD/INR	68.13	0.21

All data sources: Bloomberg, CEBI, NBS

Disclosures

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