

July 25, 2018

Economic Acumen

Commentary by CEBI Research Team

In Brief

- China's June property prices demonstrated a fast pace of growth in 20 months, posting month-to-month acceleration of new home prices in 63 cities out of 70 cities tracked by the National Bureau of Statistics.
- In 1H2018, property prices in 1st- and 2nd-tier cities became stabilized while the housing prices in 3rd- and 4th-tier cities was restrained because of destocking and strict control policy. For 2H2018, China will continue to discourage speculative property investment while long-term mechanism and policies will be implemented to prevent property bubble and major market turbulence.
- With the expectations of slower residential property sales, higher inventory levels, and tighter onshore liquidity, the downside risks of the property sector are rising and we believe further property price stabilization will remain intact. Considering the effect of tightening measures in property market, we set our forecast for China's 2H2018E GDP at 6.5%.

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China to continue fending off property market speculation in 2H2018

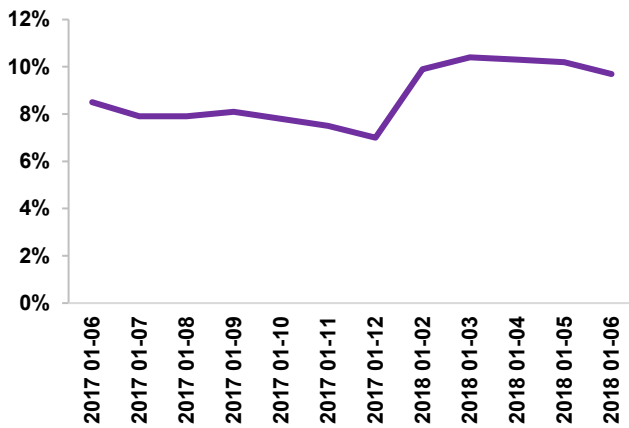
China's June property prices demonstrated a fast pace of growth in 20 months, posting month-to-month acceleration of new home prices in 63 cities out of 70 cities tracked by the National Bureau of Statistics. In 1H2018, property prices in 1st- and 2nd-tier cities became stabilized while the housing prices in 3rd- and 4th-tier cities was restrained because of destocking and strict control policy. China's property market still sustained a resilient growth in national investment, sales volume and sales area, which increased by 9.7% YoY, 13.2% YoY and 3.3% YoY respectively. For 2H2018, China will continue to discourage speculative property investment while long-term mechanism and policies will be implemented to prevent property bubble and major market turbulence. With continued promotion of "four limiting policies", the cooling measures will be tailored specifically to cut overcapacity and encourage leasing, with possibilities of implementing real estate tax and property rental sale rights policy. With the expectations of slower residential property sales, higher inventory levels, and tighter onshore liquidity, the downside risks of the property sector are rising and we believe further property price stabilization will remain intact. Considering the effect of tightening measures in property market, we set our forecast for China's 2H2018E GDP at 6.5%.

Real estate investment growth rebounded along with accelerating sales in 1H2018. Real estate investment grew 9.7% YoY in 1H2018, exceeding 2017's 7.0%. Residential buildings investment which occupies 70% of total real estate investment rose 13.6% YoY, higher than 2017's 9.4%. National sales volume and area of commercial housing surged for two consecutive months, posting 13.2% YoY and 3.3% YoY respectively, in which residential sales and area increased by 14.8% YoY and 3.2% YoY respectively. Meanwhile, floor space of commercial housing for sale fell 14.7% YoY, reaching a record low. Given that continuing weakened pressure of destocking in 3rd- and 4th-tier cities, the real estate industry will usher in the cycle of restocking.

Housing prices maintained stable in 1st-tier cities, rebounded in 2nd-tier cities, and suppressed in 3rd-tier cities. Among 70 large and medium-sized cities in 1H2018, China's housing prices in 1st-tier cities remained stable. New and second-hand residential sales prices ended 4-months and 3-months of decline in a row respectively. New housing prices in Shenzhen, Beijing and Shanghai continued to decelerate for 10, 9 and 6 months in a row respectively. In 2nd-tier cities, housing purchases expanded because of the policy of talents introduction and license-plate lottery. The sales prices of new and second-hand houses in 31 2nd-tier cities rose 6.35% and 4.6% respectively, higher than those of 5M2018. In 35 3rd-tier cities, selling rate fell to a 10-year low, while the new and second-hand residential prices rose by 6% and 4.3% respectively in June, which was in line with those of May, indicating that housing price momentum has been suppressed.

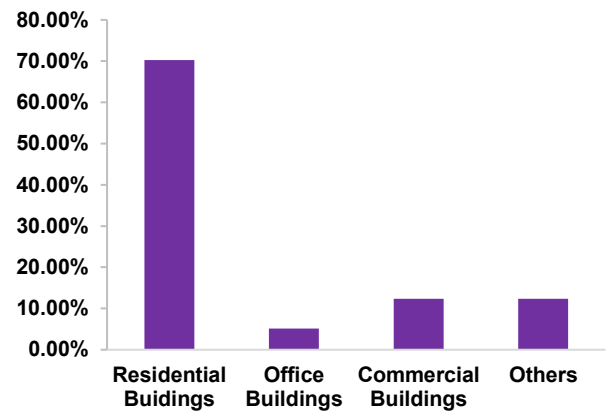
Central and local governments launched a new round of housing market regulation measures. Housing price in 63 out of 70 large and medium-sized cities rose in June. Since the Ministry of Housing and Construction and other 6 ministries announced a tour of real estate inspection in 30 cities including Beijing and Shanghai from July 1st to year end, the real estate regulations are expected to apply not only on 1st- and 2nd-tier cities, but also on 3rd- and 4th-tier cities. In sum, housing prices in 1st-tier cities tend to stabilize after strict housing control while the prospect of housing price in 3rd- and 4th-tier cities is undermined for short of industrial and talent attraction. As industries and population increasingly transfer to 2nd-tier cities, housing prices driven by organic demand for real estate is likely to face more upward pressures. In 2H2018, as the central government persists in "housing without speculation" orientation, local governments will further step up efforts to cool down housing prices by complying with property regulation and control policies.

Fig. 1: Real Estate Investment Growth Rate(YoY)



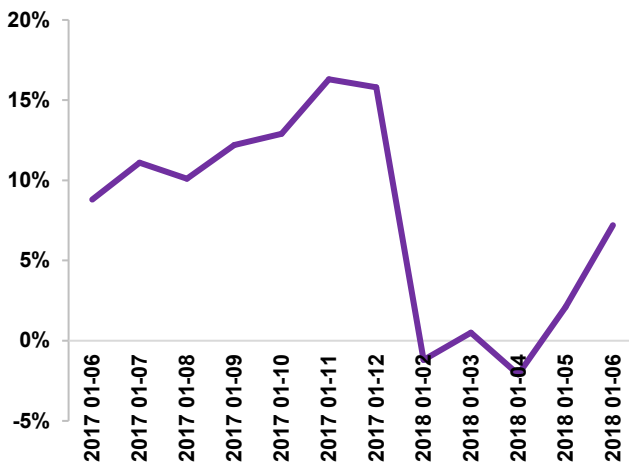
Source: NBS, CEBI

Fig. 2: Real Estate Investment in 1H2018 (share)



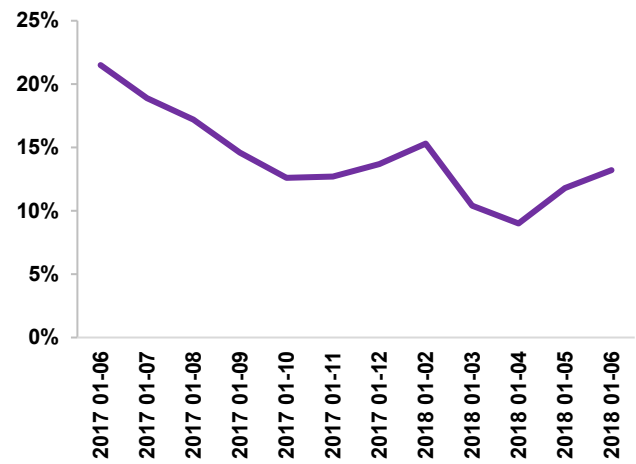
Source: NBS, CEBI

Fig. 3: Land Area Purchased by Enterprise (YoY)



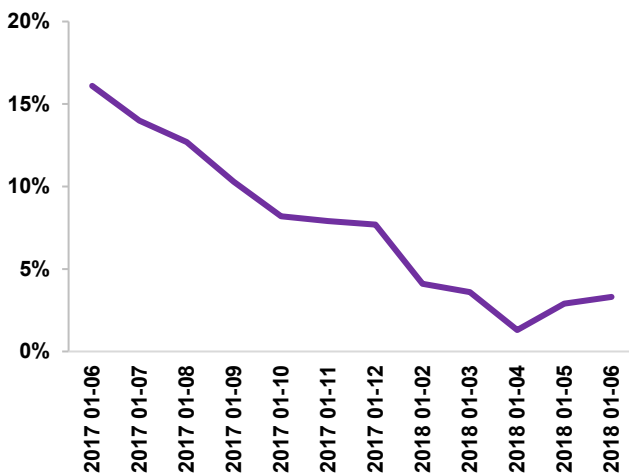
Source: NBS, CEBI

Fig. 4: Commercial Buildings Sales (YoY)



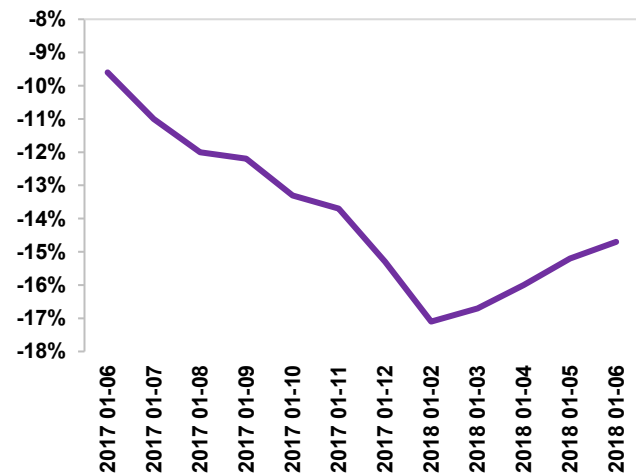
Source: NBS, CEBI

Fig. 5: Floor space sale of commercial buildings (YoY)



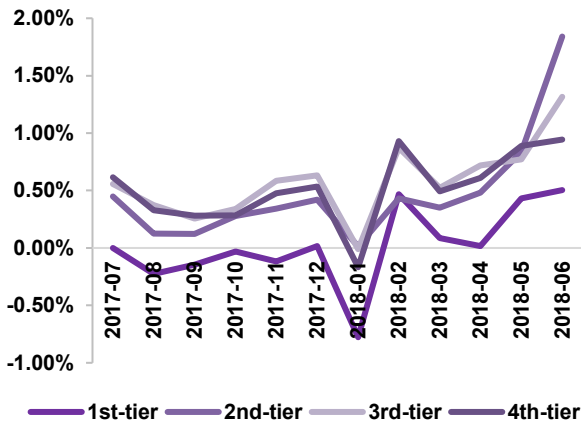
Source: NBS, CEBI

Fig. 6: Floor space of commercial housing for sale (YoY)



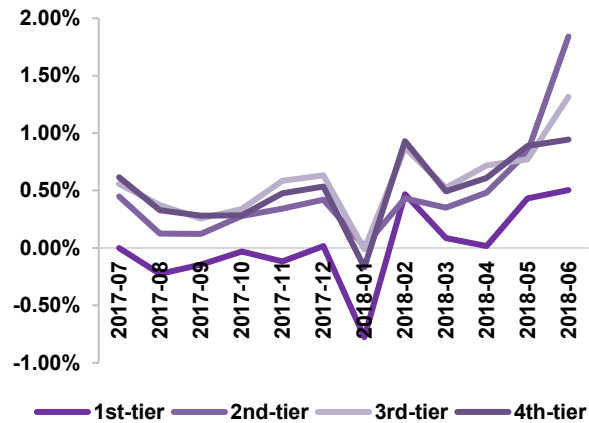
Source: NBS, CEBI

Fig. 7: New commercial housing sales price in 1st, 2nd, 3rd, 4th-tier cities (MoM)



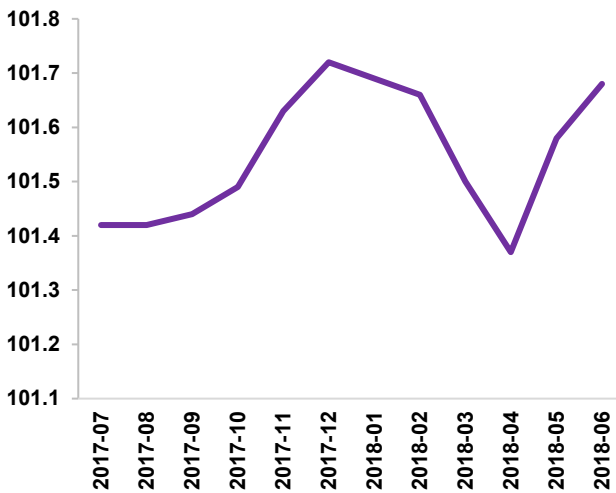
Source: NBS, CEBI

Fig. 8: Second-hand housing sales price in 1st, 2nd, 3rd, 4th-tier cities (MoM)



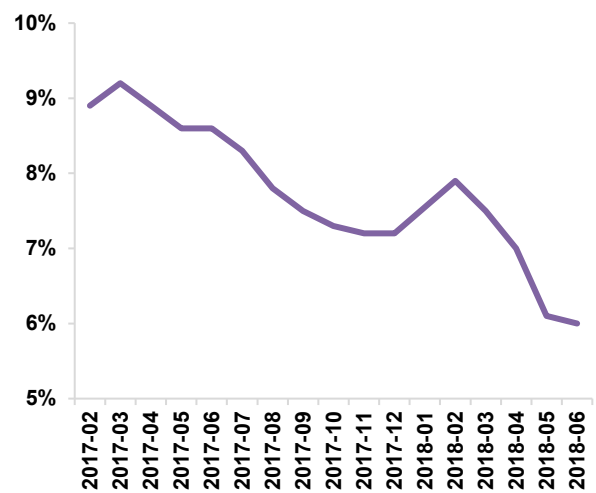
Source: NBS, CEBI

Fig. 9: Real Estate Climate Index



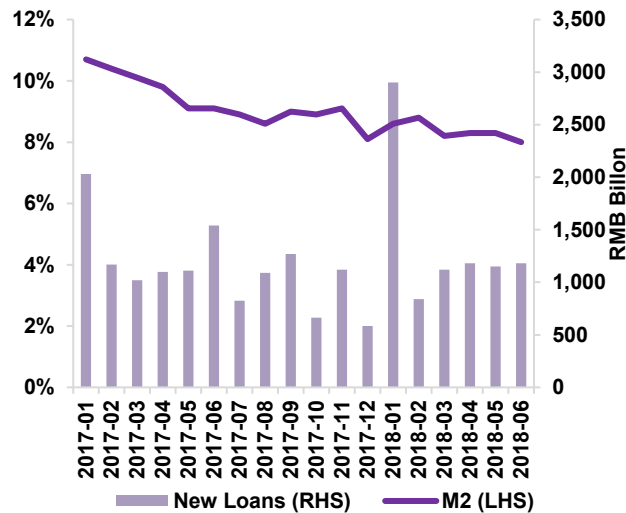
Source: Wind, CEBI

Fig. 10: FAI (YTD YoY)



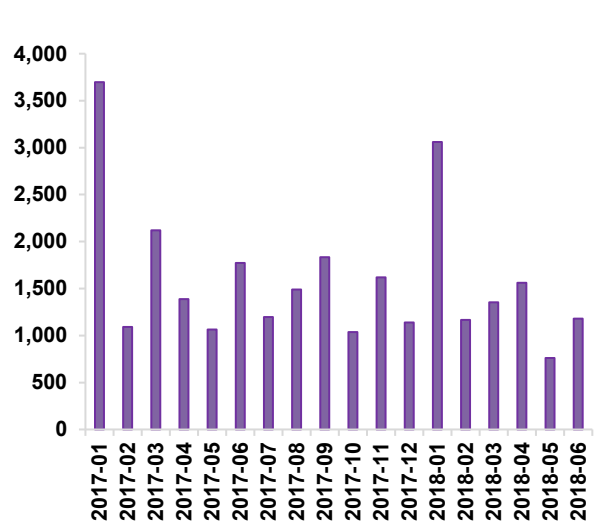
Source: Wind, Bloomberg and CEBI

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

	2014	2015	2016	2017	1Q2018	2Q2018	1H2018
Real GDP (YoY%)	7.3	6.9	6.7	6.9	6.8	6.7	6.8
PMI							
Manufacturing (%)	50.1	49.7	51.4	51.6	51.5	51.5	51.5
Non-Manufacturing (%)	54.1	54.4	54.5	55.5	54.6	54.9	55.0
Exports (RMB YoY %)	4.9	(1.8)	(1.9)	10.8	7.4	3.2	4.9
Imports (RMB YoY %)	(0.6)	(13.2)	0.6	18.7	11.7	11.0	11.5
Trade Balance (RMB/bn)	2352.6	3686.5	3352.3	2871.6	313.6	598.08	901.32
Exports (USD YoY %)	6.0	(2.9)	(7.7)	7.9	13.9	12.1	12.8
Imports (USD YoY %)	0.4	(14.1)	(5.5)	15.9	19.1	20.4	19.9
Trade Balance (USD/bn)	383.1	593.9	510.7	422.5	46.5	94.8	139.7
CPI (YoY %)	2.0	1.4	2.0	1.6	2.2	1.8	2.0
PPI (YoY %)	(1.9)	(5.2)	(1.4)	6.3	3.1	4.1	3.9
FAI (YTD/ YOY %)	15.7	10.0	8.1	7.2	7.5	6.0	6.0
Real Estate Investment (YTD YoY %)	10.5	1.0	6.9	7.0	10.4	9.7	9.7
Industrial Production (YoY %)	8.3	6.1	6.0	6.6	6.8	6.8	6.7
Retail Sales (YoY%)	12.0	10.7	10.4	10.2	9.8	9.0	9.4
New Lending (RMB/bn)	9781.3	11719.9	12645.9	13523.1	4859.3	3510.0	8369.3
M2 (YoY %)	12.2	13.3	11.3	8.2	8.2	8.0	8.0
Aggregate Financing (RMB bn)	16457.1	15408.6	17802.2	19443.0	5580.0	3501.3	9084.0

	Jun 17	July 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17	Jan 17	Feb 18	Mar 18	Apr 18	May 18	Jun 18
Real GDP (YoY%)	6.9	-	-	6.8	-	-	6.8	-	-	6.8	-	-	6.7
PMI – Manufacturing %	51.7	51.4	51.7	52.4	51.6	51.8	51.6	51.3	50.3	51.5	51.4	51.9	51.5
PMI- Non-manufacturing%	54.9	54.5	53.4	55.4	54.3	54.8	55.5	55.3	54.4	54.6	54.8	54.9	55.0
Exports (RMB YoY %)	10.3	6.3	8.9	5.5	9.5	7.4	16.3	5.7	35.4	(9.9)	3.5	3.2	3.1
Imports (RMB YoY %)	14.8	14.5	19.6	15.8	15.4	0.9	22.9	30.6	(0.2)	5.9	11.6	15.6	6.0
Trade Balance (RMB/bn)	284.6	310.0	277.9	189.6	248.2	255.4	362.0	127.2	218.0	(31.6)	179.71	156.51	261.9
Export (USD YoY %)	10.3	6.4	4.9	7.9	6.3	11.5	10.9	10.8	43.7	(2.9)	12.6	12.6	11.3
Import (USD YoY %)	16.9	11.1	13.4	18.9	17.1	17.6	4.5	37.3	6.3	14.4	21.5	26.0	14.1
Trade Balance (USD/bn)	41.4	45.1	40.7	28.0	37.2	39.0	54.7	19.1	32.7	(5.3)	28.3	24.9	41.6
CPI (YoY %)	1.5	1.4	1.8	1.6	1.9	1.7	1.8	1.5	2.9	2.1	1.8	1.8	1.9
PPI (YoY %)	5.5	5.5	6.3	6.9	6.9	5.8	4.9	4.3	3.7	3.1	3.4	4.1	4.7
FAI (YTD/ YOY %)	8.6	8.3	7.8	7.5	7.3	7.2	7.2	-	7.9	7.5	7.0	6.1	6.0
Real Estate Investment (YTD/ YoY %)	8.5	7.9	7.9	8.1	7.8	7.5	7.0	-	9.9	10.4	10.3	10.2	9.7
Industrial Production (YoY %)	7.6	6.4	6.0	6.6	6.2	6.1	6.2	-	7.2	6.0	7.0	6.8	6.0
Retail Sales (YoY%)	11.0	10.4	10.1	10.3	10.0	10.2	9.4	-	9.7	10.1	9.4	8.5	9.0
New Lending (RMB/bn)	1540.0	825.5	1090.0	1270.0	663.2	1120.0	584.4	2900.0	839.3	1120.0	1180.0	1150.0	1840.0
M2 (YoY %)	9.4	9.2	8.9	9.2	8.8	9.1	8.2	8.6	8.8	8.2	8.3	8.3	8.0
Aggregate Financing (RMB bn)	1771.8	1195.6	1489.5	1833.5	1035.7	1619.6	1139.8	3061.0	1167.2	1354.6	1560.5	760.8	1180.0
Urban Unemployment Rate (%)	-	-	-	-	-	-	-	5.0	5.0	5.1	4.9	4.8	4.8
Urban Unemployment Rate in 31 major cities (%)	-	-	-	-	-	-	-	4.8	4.9	4.9	4.7	4.7	4.7

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	25,241.94	18.42	0.49
S&P 500	2,820.40	21.10	0.39
NASDAQ	7,840.77	26.68	-0.18
EUR			
FTSE 100	7,709.05	13.75	1.08
DAX	12,689.39	14.12	0.22
CAC40S	5,434.19	16.97	0.21
STOXX EUR 600	388.18	16.17	0.83
Asia			
HSI	28,920.90	11.47	2.86
HSCEI	11,074.16	8.42	4.69
CSI300	3,577.75	13.60	4.27
SSE Composite	2,903.65	14.14	4.18
SZSE Composite	1,624.72	26.38	2.31
NIKKEI 225	22,614.25	17.11	-0.79
KOSPI	2,273.03	10.91	-0.75
TWSE	10,965.79	14.56	1.14
S&P/ASX 200	6,247.65	18.52	0.04
MSCI Index			
MSCI WORLD	2,151.08	18.78	0.60
MSCI DEVELOPED	519.00	17.98	0.64
MSCI EMERGING	1,080.38	13.50	0.88
MSCI US	2,688.87	21.50	0.29
MSCI UK	2,226.65	13.84	1.12
MSCI France	157.30	17.37	0.11
MSCI Germany	153.89	14.99	0.33
MSCI China	86.01	14.53	0.60
MSCI Hong Kong	15,486.70	10.49	1.25
MSCI Japan	1,038.09	14.08	0.03

* As of 25/7/2018 closing for Asian markets, previous date for other markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	68.54	-0.32
ICE Brent Oil	USD/bbl	73.95	1.44
NYMEX NatGas	USD/MMBtu	2.74	0.74
Basic Metals			
LME Alum.Cash	USD/MT	2,064.00	-0.07
CMX Cop.Active	USD/lb.	280.70	1.70
LME Steel Rebar	USD/MT	540.00	0.00
LME Lead Cash	USD/MT	2,136.75	-0.48
Precious Metals			
CMX Gold	USD/KRW	1,227.93	0.40
Gold Futures	USD/KRW	1,236.00	-0.19
CMX Silverbn	USD/KRW	15.54	0.66
NYMEX Platinum	USD/T. oz	840.49	4.20
Agri, Products			
CBOT Corn	USD/bu	367.75	1.87
CBOT Wheat	USD/bu	517.25	4.60
NYB-ICE Sugar	USD/lb.	11.28	1.81
CBOT Soybeans	USD/bu.	868.75	1.28

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)	1.89	0.01
US Treasury (1 Yr)	2.39	-0.01
US Treasury (5 Yr)	2.81	0.05
US Treasury (10 Yr)	2.94	0.07
US Treasury (30 Yr)	3.06	0.08
1-Month LIBOR	2.06	-0.01
3 Month LIBOR	2.34	0.00
Japan 1-Yr Gov. Bond	-0.12	0.00
Japan 10-Yr Gov. Bond	0.07	0.03
German 1-Yr Gov. Bond	-0.67	-0.01
German 10-Yr Gov. Bond	0.39	0.04
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	3.07	0.03
China 5-Yr Gov. Bond	3.33	0.05
China 10-Yr Gov. Bond	3.57	0.08
O/N SHIBOR	2.35	-0.18
1-mth SHIBOR	3.10	-0.11
HK Base rate	0.42	0.20
O/N HIBOR	0.42	0.20
1-mth HIBOR	1.90	0.02
O/N CNH HIBOR	2.20	-0.05
1-mth CNH HIBOR	3.06	-0.08
Corporate Bonds (Moody's)		
Aaa	3.96	0.14
Baa	4.87	0.11

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	94.56	-0.55
Euro/USD	1.17	0.62
GBP/USD	1.32	0.98
AUD/USD	0.74	0.79
USD/CAD	1.31	-0.76
USD/JPY	111.23	-1.57
USD/CHF	0.99	-0.76
USD/CNY Midpoint	6.80	1.68
USD/CNY	6.78	0.89
USD/CNY NDF		
12-mth Spot pr.	6.84	0.32
USD/CNH	6.78	0.45
USD/HKD	7.85	-0.05
CNY/HKD	1.16	-0.92
CNH/HKD	1.16	-0.49
USD/KRW	1,126.35	-0.53
USD/TWD	30.62	0.15
USD/SGD	1.36	-0.42
USD/INR	68.76	0.19

All data sources: Bloomberg, CEBI, NBS

Disclosures

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