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# Economic Acumen

Commentary by CEBI Research Team

## In Brief

- China's manufacturing PMI for July edged down to 51.2 from 51.5 last month. The downtrend also extended to the services sector, as non-manufacturing PMI for July moderated to 54.0 against 55.0 in June.
- Economic activities in manufacturing sector expanded at a decelerating pace in July on the effects of adverse weather and escalating global trade tensions with which most manufacturing sub-indices worsened, reflecting that manufacturing activities are slowing with demand continuing to wane.
- Given the ongoing trade disputes with the U.S, the tightening measures of property market and push for financial deleveraging, China's economy will face varying degrees of economic fluctuations in 2H2018.
- Proactive fiscal programs to support domestic demand along with moderately tightened monetary policy help create a favorable environment to revive growth. We believe the China's economic fundamentals remain resilient and the economy will expand by 6.5% YoY in 2H2018 with which 2018 GDP growth will reach 6.6% YoY

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## China's manufacturing sector expanded slowly at the start of 2H2018

China's newly released manufacturing PMI for July edged down to 51.2 from 51.5 last month. The downtrend also extended to the services sector, as non-manufacturing PMI for July moderated to 54.0 against 55.0 in June. Economic activities in manufacturing sector expanded at a decelerating pace in July on the effects of adverse weather and escalating global trade tensions with which most manufacturing sub-indices worsened, reflecting that manufacturing activities are slowing with demand continuing to wane. Given the ongoing trade disputes with the U.S, the tightening measures of property market and continuation of financial deleveraging, China's economy will face varying degrees of economic fluctuations in 2H2018. China's policymakers remain cautious to handle economic turbulence by fine-tuning economic policies to encourage domestic demand. China is likely to broaden policy actions on the fiscal front to stabilize growth. Proactive fiscal programs to support domestic demand along with moderately tightened monetary policy help create a favorable environment to revive growth. We believe the China's economic fundamentals remain resilient and the economy will expand by 6.5% YoY in 2H2018 with which 2018 GDP growth will reach 6.6% YoY.

**Large enterprises maintained stable expansion, while small and medium-sized ones faced weakening growth.** Steady growth of manufacturing activities in large enterprises was in sight as their July reached 52.4. However, the PMI of small and medium-sized enterprises was 49.9 and 49.3 respectively, indicating the contraction of manufacturing activities. Weaker growth momentum of small and medium-sized enterprises was mainly driven by less new orders and surging financing costs. Since the State Council mapped out proposal to further cut tax and financing costs to support the development of small and micro enterprises on July 23, a series of favorable measures are expected to take effect in 2H2018 to improve the business environment of small and medium-sized enterprises, and usher their enthusiasm and vitality.

**Production and new orders indexes signaled steady expansion.** The production index and new orders index were 53.0 and 52.3,

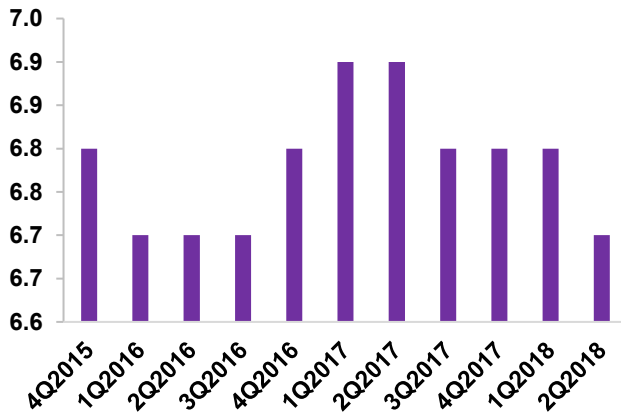
demonstrating steady expansion of manufacturing activities, though the figures were short of those in June. Due to extreme weather conditions and traditional off-seasons in July, domestic demand in some coastal areas of China have been affected, but the overall growth remains stable. We expect demand to continue to rise in coming months as the government will take a series of measures to stimulate private consumption and increase investment projects.

**New export orders and imports indexes fell on the ongoing trade disputes.** The new export orders and imports indexes were 49.8 and 49.6, respectively in July, both below the growth threshold, reflecting the impact of escalating trade frictions on new orders on Chinese products. Trade disputes between China and the U.S. led to some enterprises adjusting export orders as well as raw material imports. The findings show that the proportion of enterprises in which production and operation have been impacted by fluctuations of renminbi increased 3.1% in July.

**Consumer good manufacturing expanded robustly.** Consumer good manufacturing was 52.4, demonstrating resilient expansion momentum. In subsectors, the PMI of food, alcoholic beverages, refined tea manufacturing, and textile, clothing and apparel industry continue to maintain 53 level and above, reflecting uprising trend of consumer consumption with which domestic consumption expansion serves as an important driving force for economic growth. The meeting of the Central Political Bureau, which has just been held, proposed to moderate the strength and rhythm of deleveraging and resolutely curb the rise in house prices, which will impose a stimulating effect on the consumption of residents in 2H2018.

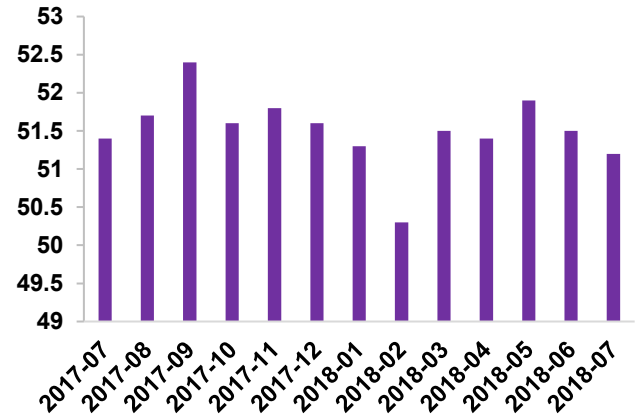
**Positive prospect of China's economy in sight.** Overall, China's PMI in July suggests a steady growth momentum and a better prospect of China's economy. China's economy points to a modest acceleration in economic activities. The stance of monetary policy remains prudent while the fiscal policy stays accommodative to drive growth in domestic demand. With continuous efforts in economic rebalancing, China would attain more sustainable growth in 2018.

**Fig. 1: China's GDP (YoY%)**



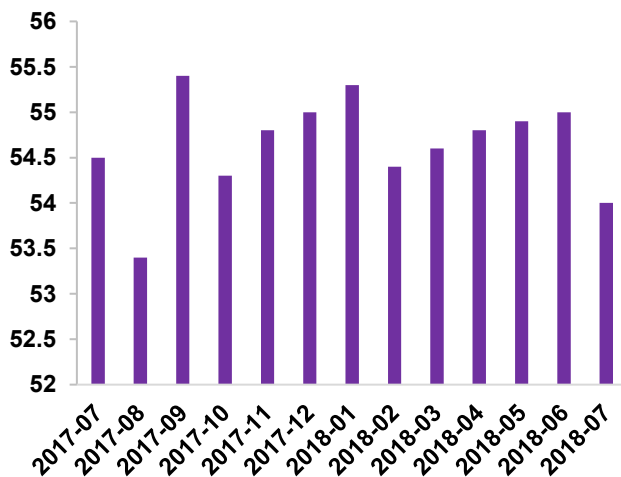
Source: NSB, CEBI

**Fig. 2: China's manufacturing PMI**



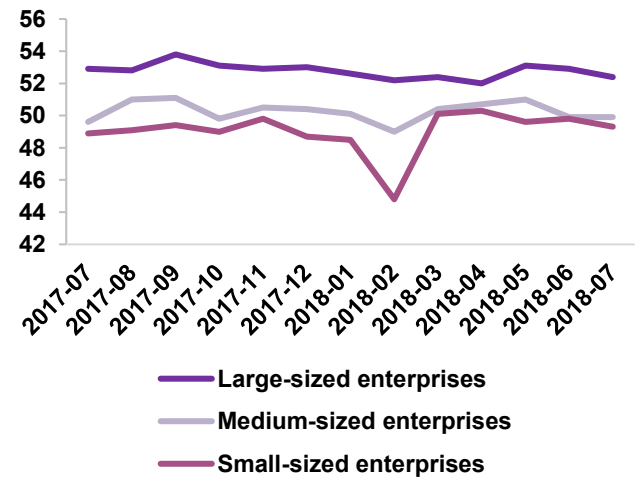
Source: NSB, CEBI

**Fig. 3: China's Non-manufacturing PMI**



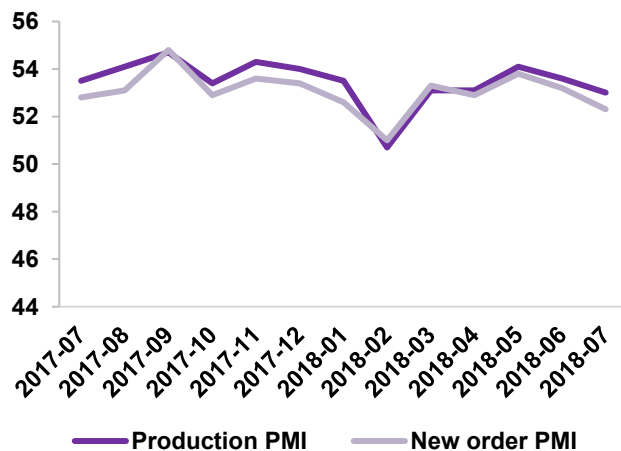
Source: NSB, CEBI

**Fig. 4: China's manufacturing PMI – Small, Medium and Large sized enterprises**



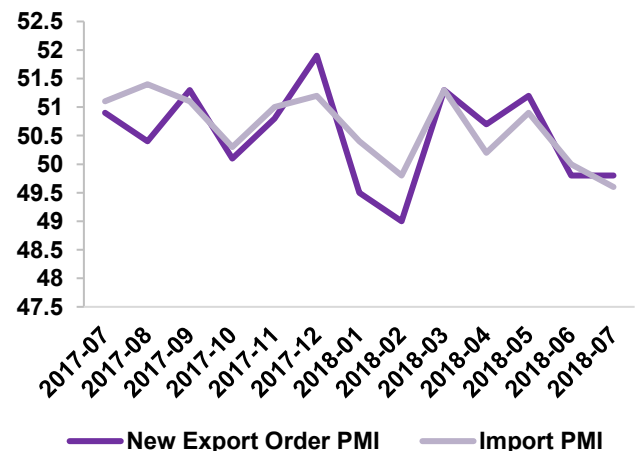
Source: NSB, CEBI

**Fig. 5: China's manufacturing PMI - Production and New Order**



Source: NSB, CEBI

**Fig. 6: China's manufacturing PMI - New Export order and Import**



Source: NSB, 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
PMI 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

	July 17	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17	Jan 17	Feb 18	Mar 18	Apr 18	May 18	Jun 18	July18
Real GDP (YoY%)	-	-	6.8	-	-	6.8	-	-	6.8	-	-	6.7	-
PMI – Manufacturing %	51.4	51.7	52.4	51.6	51.8	51.6	51.3	50.3	51.5	51.4	51.9	51.5	51.2
PMI- Non-manufacturing%	54.5	53.4	55.4	54.3	54.8	55.5	55.3	54.4	54.6	54.8	54.9	55.0	54.0
Exports (RMB YoY %)	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 %)	14.5	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)	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 %)	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 %)	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)	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 %)	1.4	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	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 %)	8.3	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 %)	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 %)	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%)	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)	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 %)	9.2	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)	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(%)
<b>U.S.</b>			
DJIA	25,415.19	18.13	0.69
S&P 500	2,816.29	20.64	-0.15
NASDAQ	7,671.79	57.45	-2.16
<b>EUR</b>			
FTSE 100	7,748.76	13.30	0.52
DAX	12,805.50	14.14	0.92
CAC40S	5,511.30	17.12	1.42
STOXX EUR 600	391.61	16.11	0.88
<b>Asia</b>			
HSI	28,340.74	11.43	-2.01
HSCEI	10,973.04	8.46	-0.91
CSI300	3,447.39	13.41	-3.64
SSE Composite	2,824.53	13.98	-2.73
SZSE Composite	1,549.28	25.81	-4.64
NIKKEI 225	22,746.70	16.82	0.59
KOSPI	2,307.07	10.98	1.50
TWSE	11,098.13	14.63	1.21
S&P/ASX 200	6,275.72	18.56	0.45
<b>MSCI Index</b>			
MSCI WORLD	2,153.10	18.44	0.09
MSCI DEVELOPED	519.82	17.72	0.16
MSCI EMERGING	1,087.46	13.60	0.66
MSCI US	2,683.96	21.01	-0.18
MSCI UK	2,238.99	13.35	0.55
MSCI France	159.26	17.43	1.25
MSCI Germany	155.11	15.00	0.79
MSCI China	84.64	14.32	-1.59
MSCI Hong Kong	15,576.06	10.98	0.58
MSCI Japan	1,040.19	14.00	0.20

\* As of 1/8/2018 closing for Asian markets, previous date for other markets.

Global Commodities			
	Unit	Price	One Week chg(%)
<b>Energy</b>			
NYMEX WTI	USD/bbl	67.95	-1.95
ICE Brent Oil	USD/bbl	73.21	-0.97
NYMEX NatGas	USD/MMBtu	2.77	-0.04
<b>Basic Metals</b>			
LME Alum.Cash	USD/MT	2,060.75	-0.16
CMX Cop.Active	USD/lb.	276.20	-1.97
LME Steel Rebar	USD/MT	545.00	1.68
LME Lead Cash	USD/MT	2,140.50	0.18
<b>Precious Metals</b>			
CMX Gold	USD/KRW	1,222.96	-0.62
Gold Futures	USD/KRW	1,231.90	-0.73
CMX Silverbn	USD/KRW	15.46	-0.69
NYMEX Platinum	USD/T. oz	830.90	-1.25
<b>Agri, Products</b>			
CBOT Corn	USD/bu	385.25	3.22
CBOT Wheat	USD/bu	555.25	2.30
NYB-ICE Sugar	USD/lb.	10.54	-5.81
CBOT Soybeans	USD/bu.	904.75	3.31

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)	1.92	0.04
US Treasury (1 Yr)	2.41	0.01
US Treasury (5 Yr)	2.86	0.01
US Treasury (10 Yr)	2.98	0.00
US Treasury (30 Yr)	3.10	0.00
1-Month LIBOR	2.08	0.02
3 Month LIBOR	2.34	0.01
Japan 1-Yr Gov. Bond	-0.11	0.02
Japan 10-Yr Gov. Bond	0.13	0.06
German 1-Yr Gov. Bond	-0.62	0.03
German 10-Yr Gov. Bond	0.47	0.08
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	2.86	-0.21
China 5-Yr Gov. Bond	3.19	-0.14
China 10-Yr Gov. Bond	3.49	-0.08
O/N SHIBOR	2.03	-0.32
1-mth SHIBOR	2.94	-0.17
HK Base rate	0.51	0.08
O/N HIBOR	0.51	0.08
1-mth HIBOR	1.60	-0.30
O/N CNH HIBOR	2.24	0.04
1-mth CNH HIBOR	2.90	-0.17
<b>Corporate Bonds (Moody's)</b>		
Aaa	3.91	-0.05
Baa	4.82	-0.05

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	94.61	0.40
Euro/USD	1.17	-0.08
GBP/USD	1.31	-0.39
AUD/USD	0.74	-0.08
USD/CAD	1.30	-0.80
USD/JPY	111.98	0.79
USD/CHF	0.99	0.01
USD/CNY Midpoint	6.83	0.37
USD/CNY	6.80	0.48
<b>USD/CNY NDF</b>		
12-mth Spot pr.	6.85	0.34
USD/CNH	6.82	0.67
USD/HKD	7.85	0.05
CNY/HKD	1.15	-0.42
CNH/HKD	1.15	-0.62
USD/KRW	1,120.65	-0.51
USD/TWD	30.61	-0.04
USD/SGD	1.36	-0.07
USD/INR	68.56	-0.32

All data sources: Bloomberg, CEBI, NBS

## Disclosures

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