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Economic Acumen

Commentary by CEBI Research Team

In Brief

- China's July CPI inflation edged up 2.1 % YoY (+0.3% MoM). The rise of inflation in July was attributable to surging month-to-month increase in non-food prices due to climbing price of petroleum and diesel, resulting 11.2% rise in transportation fuel YTD. 7M2018 CPI reached 2.0% YoY, reflecting stable uptrend of general price level.
- Producers' prices posted a positive growth of 4.6% YoY (+0.1% MoM) in July. The extended rebounding of producer prices was mainly attributed to surging energy prices. The rise of factory prices during 7M2018 reached 4.0%, demonstrating an upward trend and reflecting the continuation of stable economic recovery.
- In sum, although rising trade tensions between China and the U.S remain a concern for global economic outlook, the steady trend of consumer prices and factory-gate prices indicates that China's economic momentum remains resilient, supported by strong domestic demand and healthy global demand.

Banny Lam
Head of Research
Banny.lam@cebi.com.hk
(852)2916-9630

China's inflation edged up in July

China's July CPI inflation edged up 2.1 % YoY (+0.3% MoM), above the consensus estimate of +2.0% and June's +1.9% YoY. The rise of inflation in July was attributable to surging month-to-month increase in non-food prices due to climbing price of petroleum and diesel, resulting 11.2% rise in transportation fuel YTD. 7M2018 CPI reached 2.0% YoY, reflecting stable uptrend of general price level. Producers' prices posted a positive growth of 4.6% YoY (+0.1% MoM) in July, beating the market expectation of 4.5% but lowering than June's 4.7%. 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 July and 7M2018 posted 42.1% YoY (June: 32.7%) and 20.3% (Jan-June: 17.0%). The rise of factory prices during 7M2018 reached 4.0%, demonstrating an upward trend and reflecting the continuation of stable economic recovery. In sum, although rising trade tensions between China and the U.S remain a concern for global economic outlook, the steady trend of consumer prices and factory-gate prices indicates that China's economic momentum remains resilient, supported by strong domestic demand and healthy global demand.

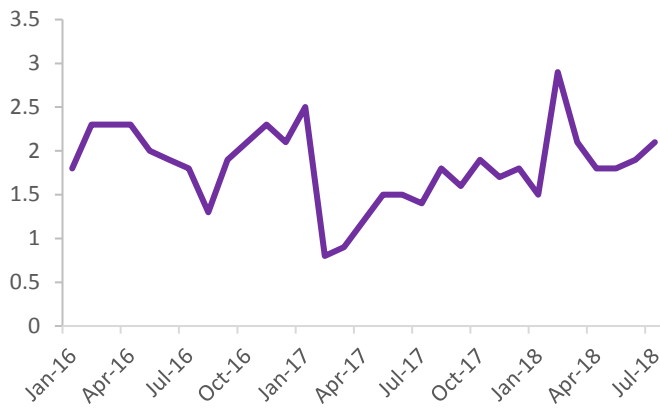
July CPI rebounded on rising non-food prices. Contributing to the rise of CPI in July was the slightly climb of food CPI (+0.5% YoY, June's +0.3% YoY) and the rebound of non-food CPI (+ 2.4% YoY, June's +2.2% YoY). Due to hot weather in July, month-to-month increase in food price surged to +0.1%, exceeding -0.8% in June. Within food categories, pork and vegetable prices rose 2.9% MoM and 1.7% MoM (June's +1.1% and -1.8%). Non-food CPI posted a rise of 0.3% MoM in July, rebounding from June's +0.1% MoM. Non-food categories such as 'Education, Culture and Recreation' and 'Transportation and Communication' remained as the major driver of non-food CPI. In general, China's overall macroeconomic recovery is on track and we believe CPI inflation would remain stable for the rest of 2018.

China's factory prices surged YoY in July. China's PPI, a gauge of factory-gate prices, increased by 4.6% YoY (+0.1% MoM) in July. Industries such as 'Extraction of Petroleum and Natural Gas' (+42.1% YoY), 'Processing of Petroleum, Coking and other fuels' (+24.6% YoY), 'Manufacture and Processing of Ferrous Metals'

(+12.3% YoY), 'Paper and paper products industry' (+10.1% YoY) posted double-digit increase in producer prices. In general, PPI demonstrated upward trend, signaling the rebound in commodity prices and improvement of manufacturing environment. Meanwhile, the country's FAI and industrial production growths are expected to remain stable, sustaining the growth of industrial goods prices. We believe factory-gate prices will remain uptrend in coming months.

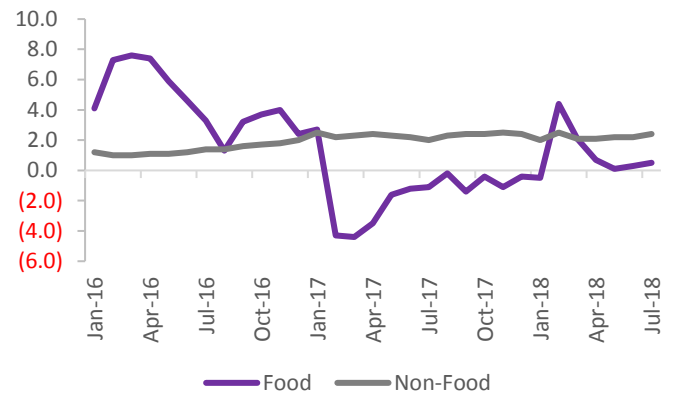
Prudent monetary policy to maintain price level stability. Since the beginning of the year, PBOC has maintained policy stability, thus accommodating capital demand to support economic growth and supply-side structural reform. China's State Council meeting held recently called for continued implementation of active fiscal policy while maintaining stable and prudent monetary policy. Stable trend in CPI and PPI have rendered aggressive easing less necessary and the direction of prudent monetary policy will stay unchanged. Amid healthy expansion of credits and stable food prices, China's inflation will remain stable for the rest of 2018.

Fig.1: China CPI Inflation YoY%



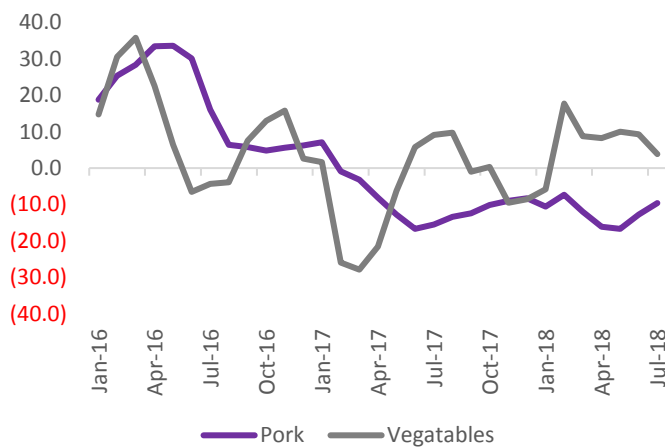
Source: Wind, Bloomberg and CEBI

Fig.2: Food and Non-Food Inflation YoY%



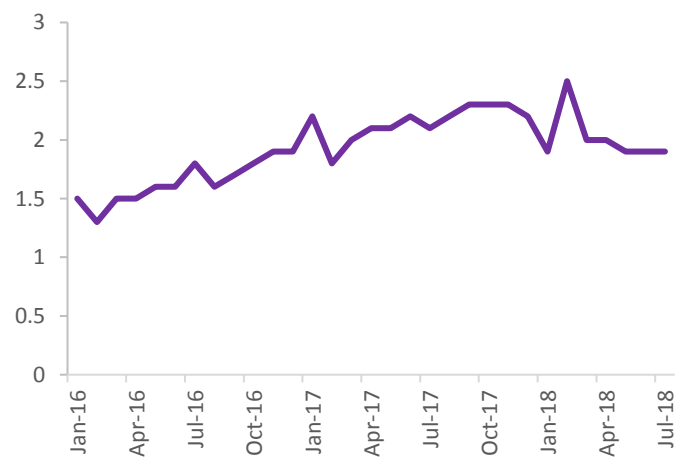
Source: Wind, Bloomberg and CEBI

Fig.3: Price of Pork and Vegetables YoY%



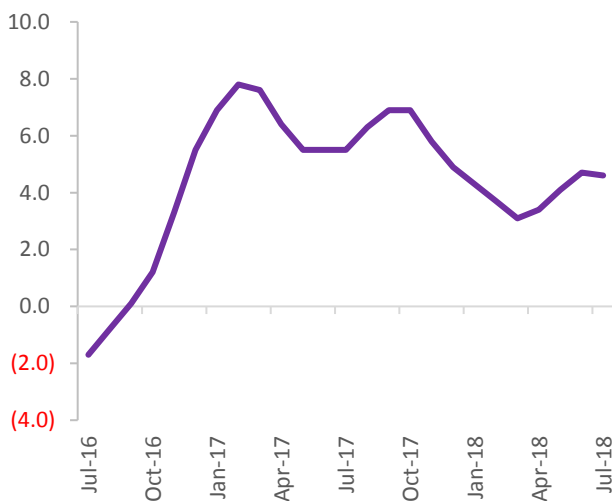
Source: Wind, Bloomberg and CEBI

Fig.4: China Core Inflation YoY%



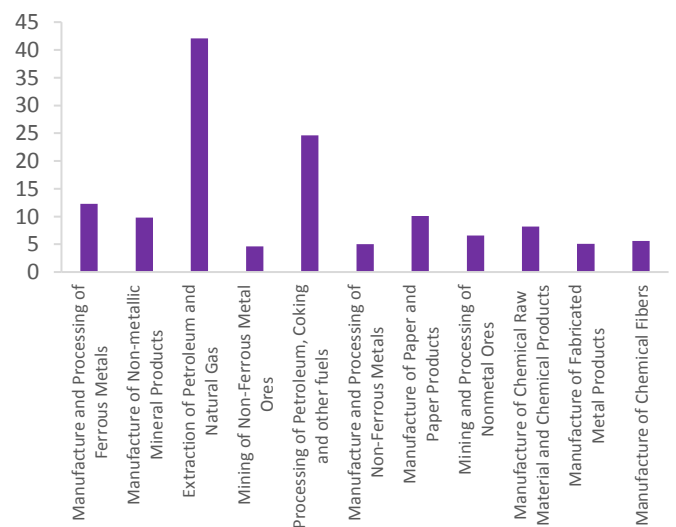
Source: Wind, Bloomberg and CEBI

Fig.5: China PPI YoY%



Source: Wind, Bloomberg and CEBI

Fig.6: PPI of Major Industries YoY%



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	7.1	2.9	4.8
Imports (RMB YoY %)	(0.6)	(13.2)	0.6	18.7	12.0	11.1	11.5
Trade Balance (RMB/bn)	2352.6	3686.5	3352.3	2871.6	306.4	584.7	891.1
Exports (USD YoY %)	6.0	(2.9)	(7.7)	7.9	13.7	11.8	12.7
Imports (USD YoY %)	0.4	(14.1)	(5.5)	15.9	19.3	20.5	19.9
Trade Balance (USD/bn)	383.1	593.9	510.7	422.5	45.4	92.7	138.1
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 18	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	5.5	35.2	(10.1)	3.0	2.7	3.0	6.0
Imports (RMB YoY %)	14.5	19.6	15.8	15.4	0.9	22.9	30.8	(0.1)	6.1	11.9	15.6	6.0	20.9
Trade Balance (RMB/bn)	310.0	277.9	189.6	248.2	255.4	362.0	124.1	215.7	(33.5)	173.0	150.8	260.9	176.9
Export (USD YoY %)	6.4	4.9	7.9	6.3	11.5	10.9	10.6	43.5	(3.0)	12.1	12.1	11.2	12.2
Import (USD YoY %)	11.1	13.4	18.9	17.1	17.6	4.5	37.4	6.5	14.6	21.8	26.0	14.1	27.3
Trade Balance (USD/bn)	45.1	40.7	28.0	37.2	39.0	54.7	18.6	32.3	(5.6)	27.2	24.0	41.5	28.1
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	2.0
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	4.6
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(%)
U.S.			
DJIA	25,583.75	18.27	0.99
S&P 500	2,857.70	20.79	1.58
NASDAQ	7,888.33	57.08	2.35
EUR			
FTSE 100	7,776.65	17.30	1.62
DAX	12,633.54	14.19	-0.81
CAC40S	5,501.90	16.97	0.06
STOXX EUR 600	389.69	17.50	-0.04
Asia			
HSI	28,607.30	11.12	3.22
HSCEI	11,019.93	8.36	2.67
CSI300	3,397.53	12.62	0.79
SSE Composite	2,794.38	13.32	0.95
SZSE Composite	1,505.64	23.98	-0.42
NIKKEI 225	22,598.39	16.34	0.38
KOSPI	2,303.71	11.01	1.48
TWSE	11,028.07	14.52	0.90
S&P/ASX 200	6,297.65	18.61	0.91
MSCI Index			
MSCI WORLD	2,166.15	18.72	0.78
MSCI DEVELOPED	522.18	17.92	0.62
MSCI EMERGING	1,079.73	13.42	-0.66
MSCI US	2,724.26	21.17	1.60
MSCI UK	2,247.79	17.52	1.63
MSCI France	159.24	17.35	0.23
MSCI Germany	153.48	15.13	-0.63
MSCI China	82.87	14.02	-1.25
MSCI Hong Kong	15,460.76	10.48	0.34
MSCI Japan	1,037.21	13.68	-1.29

* As of 9/8/2018 closing for Asian markets, previous date for other markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	66.95	-2.91
ICE Brent Oil	USD/bbl	72.30	-1.57
NYMEX NatGas	USD/MMBtu	2.95	4.69
Basic Metals			
LME Alum.Cash	USD/MT	2,084.25	2.67
CMX Cop.Active	USD/lb.	278.20	1.63
LME Steel Rebar	USD/MT	530.00	-2.57
LME Lead Cash	USD/MT	2,120.50	0.38
Precious Metals			
CMX Gold	USD/KRW	1,212.06	-0.35
Gold Futures	USD/KRW	1,219.50	-0.05
CMX Silverbn	USD/KRW	15.41	-0.10
NYMEX Platinum	USD/T. oz	828.66	1.64
Agri, Products			
CBOT Corn	USD/bu	385.00	0.98
CBOT Wheat	USD/bu	590.50	1.33
NYB-ICE Sugar	USD/lb.	10.80	1.98
CBOT Soybeans	USD/bu.	905.75	0.92

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)	1.91	0.03
US Treasury (1 Yr)	2.42	0.00
US Treasury (5 Yr)	2.83	-0.03
US Treasury (10 Yr)	2.96	-0.03
US Treasury (30 Yr)	3.11	-0.01
1-Month LIBOR	2.07	-0.01
3 Month LIBOR	2.34	-0.01
Japan 1-Yr Gov. Bond	-0.11	-0.01
Japan 10-Yr Gov. Bond	0.12	-0.01
German 1-Yr Gov. Bond	-0.63	-0.01
German 10-Yr Gov. Bond	0.39	-0.07
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	2.63	-0.19
China 5-Yr Gov. Bond	3.18	0.01
China 10-Yr Gov. Bond	3.53	0.06
O/N SHIBOR	1.62	-0.35
1-mth SHIBOR	2.64	-0.24
HK Base rate	0.68	0.11
O/N HIBOR	0.68	0.11
1-mth HIBOR	1.33	-0.18
O/N CNH HIBOR	1.85	-0.18
1-mth CNH HIBOR	2.79	-0.08
Corporate Bonds (Moody's)		
Aaa	3.90	0.01
Baa	4.80	0.01

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	95.26	0.10
Euro/USD	1.16	-0.29
GBP/USD	1.29	-1.68
AUD/USD	0.74	0.81
USD/CAD	1.30	-0.09
USD/JPY	111.08	-0.35
USD/CHF	0.99	0.05
USD/CNY Midpoint	6.83	0.55
USD/CNY	6.82	-0.31
USD/CNY NDF		
12-mth Spot pr.	6.87	-0.34
USD/CNH	6.83	-0.43
USD/HKD	7.85	0.00
CNY/HKD	1.15	0.31
CNH/HKD	1.15	0.44
USD/KRW	1,117.10	-0.80
USD/TWD	30.62	-0.18
USD/SGD	1.36	-0.24
USD/INR	68.64	-0.11

All data sources: Bloomberg, CEBI, NBS

Disclosures

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**Office address: CEB International Capital Corporation Limited, 22/F AIA Central, 1 Connaught Road Central, Hong Kong.
Tel: (852) 2916 9600**