

August 14, 2018

# Economic Acumen

Commentary by CEBI Research Team

## In Brief

- Amid the pessimistic market sentiment driven by the trade disputes with the U.S., China demonstrated a slow start of second half in the economic activities. China's economic indicators for July showed weakening trend, with growth in fixed asset investment (FAI), industrial production and retail sales decelerating in varying degrees while inflation remained mild.
- Job market has been steadily growing as new urban jobs increased by 8.8 million in the first seven months of 2018, year-to-year rise of 0.25 million. July survey-based urban unemployment rate reached 5.1%. Although domestic demand showed decelerating trend, China's economy continues to retain the path of steady recovery.
- In sum, domestic demand remains as the major driver of 2H2018 GDP growth and the policymakers will fine-tune economic policies to strengthen momentum of growth in economic activities.

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## China's economic indicators slowed in July

Amid the pessimistic market sentiment driven by the trade disputes with the U.S., China demonstrated a slow start of second half in the economic activities. China's economic indicators for July showed weakening trend, with growth in fixed asset investment (FAI), industrial production and retail sales decelerating in varying degrees while inflation remained mild. Job market has been steadily growing as new urban jobs increased by 8.8 million in the first seven months of 2018, year-to-year rise of 0.25 million. July survey-based urban unemployment rate reached 5.1%. Although domestic demand showed decelerating trend, China's economy continues to retain the path of steady recovery. In sum, domestic demand remains as the major driver of 2H2018 GDP growth and the policymakers will fine-tune economic policies to strengthen momentum of growth in economic activities.

**FAI to slow further in July.** YTD growth of FAI was 5.5% YoY, below consensus estimate of 6.0% and 1H2018's 6.0%. Deceleration of FAI was mainly driven by decelerating growth of infrastructure investment (+5.7% YTD YoY vs 1H2018's 7.3%). Investment in urban infrastructures and railways remains as the major growth driver of FAI. In general, the government's recent efforts to maintain investment in public facility management and road transport should stimulate growth of FAI in coming months.

**Industrial value-added output to show slower growth in July.** Industrial production expanded by 6.0% YoY in July, the same as June's figure but down from 6.3% of consensus estimate. On a month-on-month basis, industrial output edged up 0.48%, higher than June's 0.36%. The value-added of the main industrial sectors such as "Manufacture of Computer, Communication Equipment and Other Electronic Equipment" (July:+13.5% YoY and Jan-July:+12.6% YoY), "Manufacture of Special-Purpose Machinery" (July:+11.2% YoY and Jan-July:+11.1% YoY), "Production and Supply of Electric Power and Heat Power" (July:+8.8% YoY and Jan-July:+10.1% YoY), and "Manufacture of Medicines" (July:+8.1% YoY and Jan-July: +10.5% 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 July.** Retail sales in July edged down below 9.0% YoY to 8.8% YoY, below consensus' 9.1% and June's 9.0%. On a month-on-month basis, retail sales rose 0.74%, down from June's 0.67%. National online retail sales reached Rmb 4,786.3bn in 7M2018, a year-on-year growth of 29.3%, indicating resilient growth strength of online consumption. In general, retail sales growth was mainly driven by sizeable growth in "Petroleum and Related Products" (July: +18.4% YoY and Jan-July:+12.8% YoY), "Commodities" (July: +11.3% YoY and Jan-July:+12.4% YoY), "Furniture" (July: +11.1% YoY and Jan-July:+10.3% YoY), and "Cosmetics" (July: +7.8% YoY and Jan-July:+13.3% YoY). Going forward, retail sales are likely to maintain a stable growth on the government's efforts to boost economic activities through more consumer spending in innovation and services. We believe the government will prioritize consumption growth with which services consumption and e-commerce will be the major growth drivers in 2018.

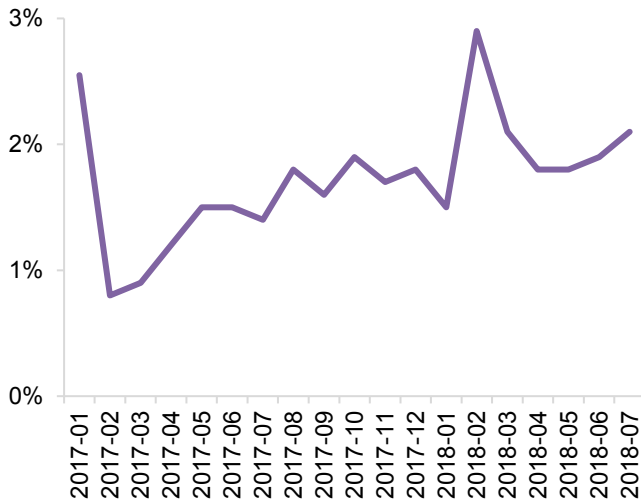
**Consumer inflation edged up but remained mild generally in July.** China's July CPI inflation edged up 2.1 % YoY (+0.3% MoM), above the consensus estimate of +2.0% and June's +1.9% YoY. The rise of inflation in July was attributable to surging month-to-month increase in non-food prices due to climbing 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.

**External trade to show solid growth in July despite escalating trade tensions between the U.S. and China.** In July, exports, in Yuan terms, rose 6.0% YoY (+1.0% MoM), higher than the consensus estimate of 5.6% and June's growth of 3.0% while imports, in Yuan terms, edged up 20.9% YoY (+8.7% MoM), higher than the consensus estimate of 12.5% and June's 6.0%. In 7M2018, China's trade maintains stable growth at 8.6% YoY with exports and imports surging by 5.0% and 12.9%, respectively. The stable uptrend of external trade was caused by solid demand for imported consumer goods and commodities as well as stable overseas demand for Chinese products driven by a continued economic recovery in major trading partners. However, the latest release of

China's July official New Export Orders and Import Indexes, the sub-index of manufacturing PMI, fell to 49.8 and 49.6, signaling that external trade sector starts to experience the impact of trade war in the near-term. We believe surging demand for China's exports from major trading partners other than the U.S., together with the supportive stance of the Chinese government, will continue to sustain the soft-landing of external trade growth in 2H2018.

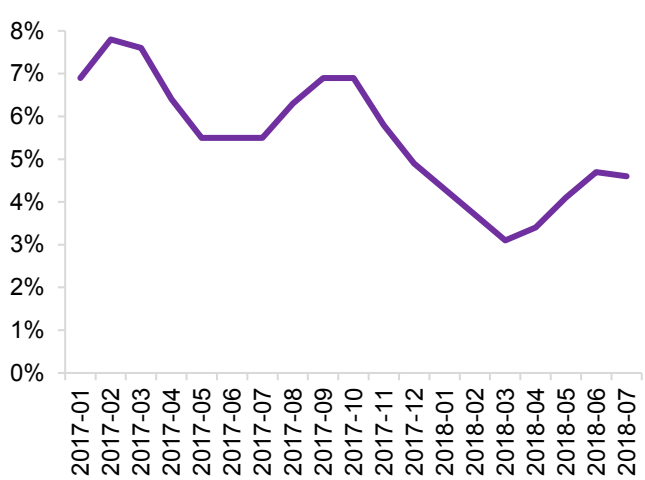
**Credit demand remained stable in July.** Monetary indicators showed steady growth momentum in July. New loans in July was Rmb 1,450bn (Consensus: 1,275.0bn and June: 1840.0 bn) while M2 growth was 8.5% YoY (Consensus: 8.2% and June: 8.0%). The aggregate financing in July reached RMB1.04tr (Consensus: 1.1tr and June: 1.18tr). Faced with the trade war with the U.S., China policymakers boost policy support and soften their stance on deleveraging in an attempt to maintain stable growth momentum of China's economy. The PBOC will accommodate market demand for capital by maintaining prudent and neutral monetary stance while the process of deleveraging is still on track to reduce financial risks of China's economy.

**Fig. 1: China CPI Inflation (YoY)**



Source: Wind, Bloomberg and CEBI

**Fig. 2: China PPI Inflation (YoY)**



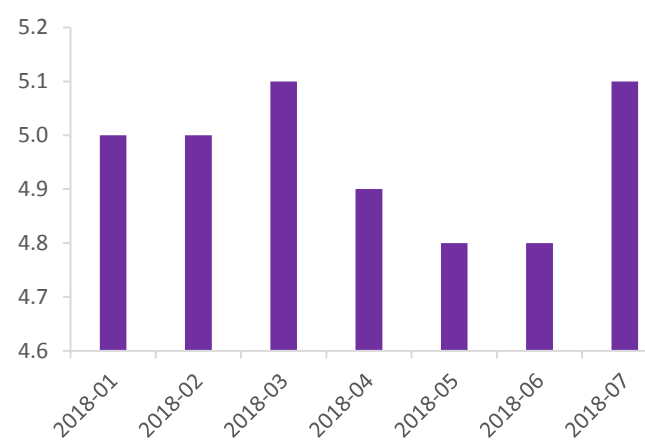
Source: Wind, Bloomberg and CEBI

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



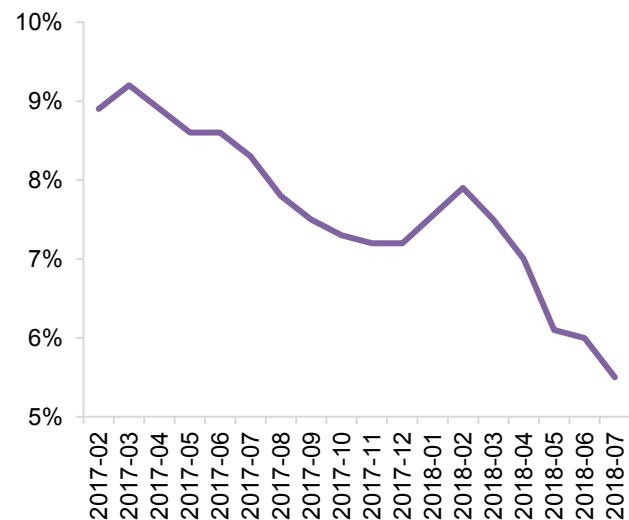
Source: Wind, Bloomberg and CEBI

**Fig. 4: China's urban unemployment rate (%)**



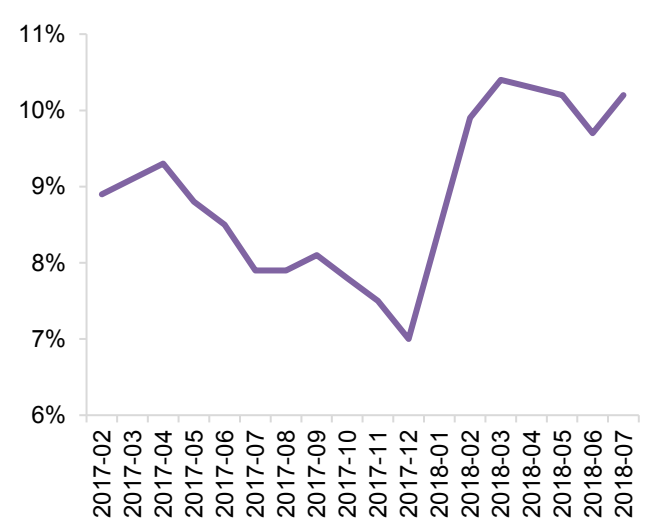
Source: Wind, Bloomberg and CEBI

**Fig. 5: FAI (YTD YoY)**



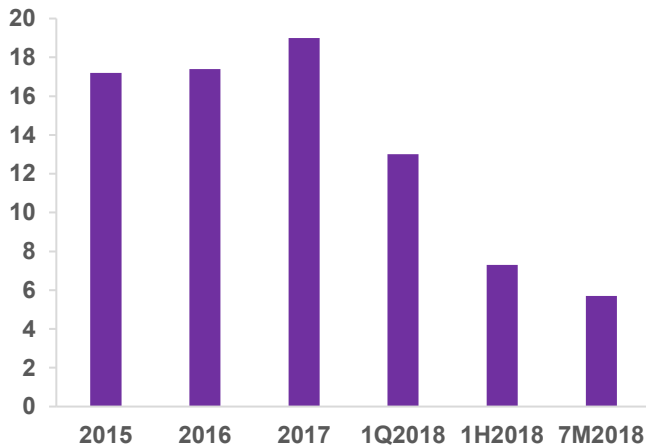
Source: Wind, Bloomberg and CEBI

**Fig. 6: Real Estate Investment (YTD YoY)**



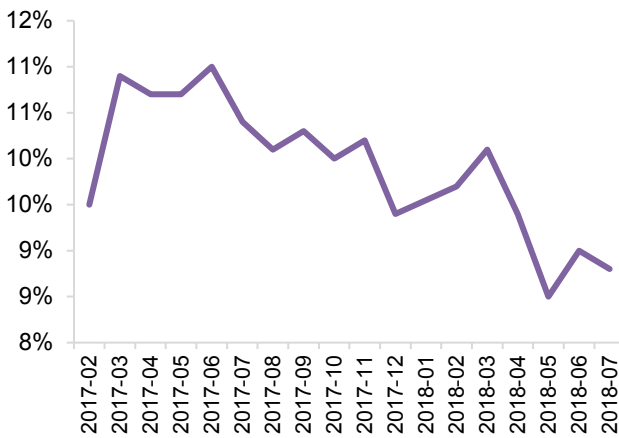
Source: Wind, Bloomberg and CEBI

**Fig. 7: Infrastructure Investment (YTD YoY)**



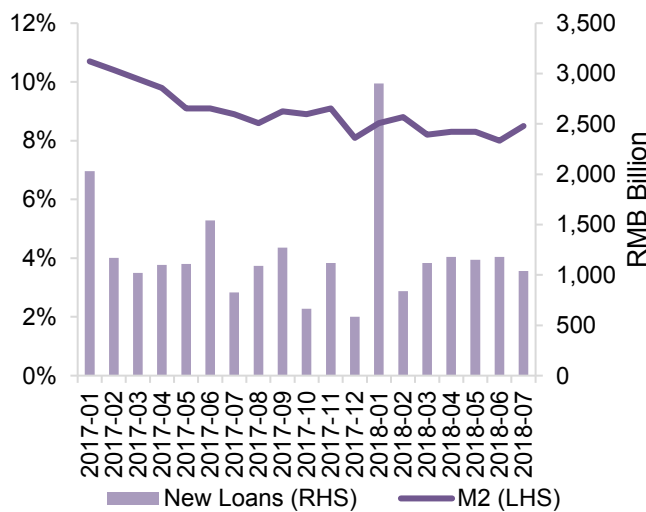
Source: Wind, Bloomberg and CEBI

**Fig. 9: Retail sales (YoY)**



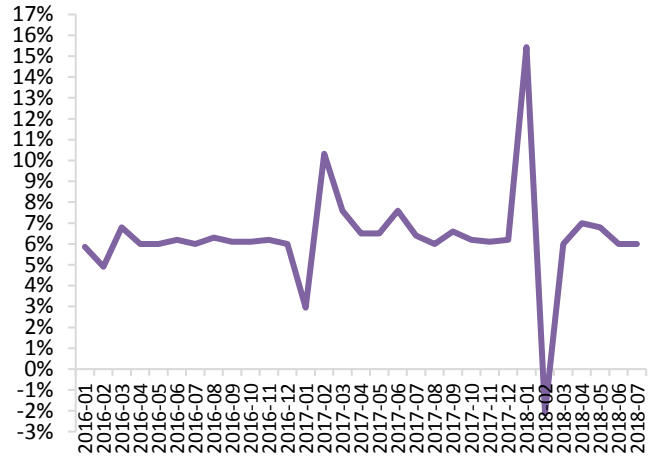
Source: Wind, Bloomberg and CEBI

**Fig. 11: New loans (RMB bn) and M2 (YoY)**



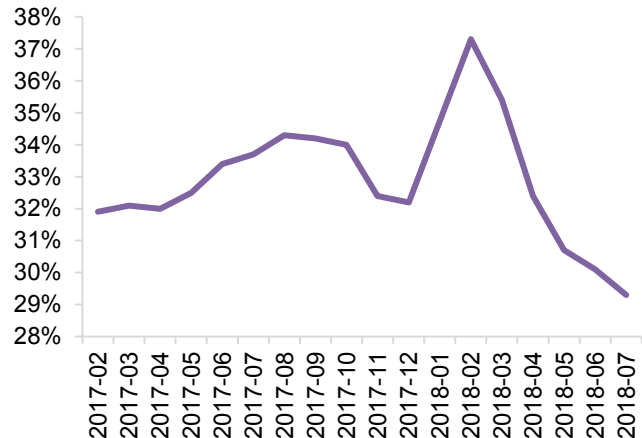
Source: Wind, Bloomberg and CEBI

**Fig. 8: Industrial Production (YoY)**



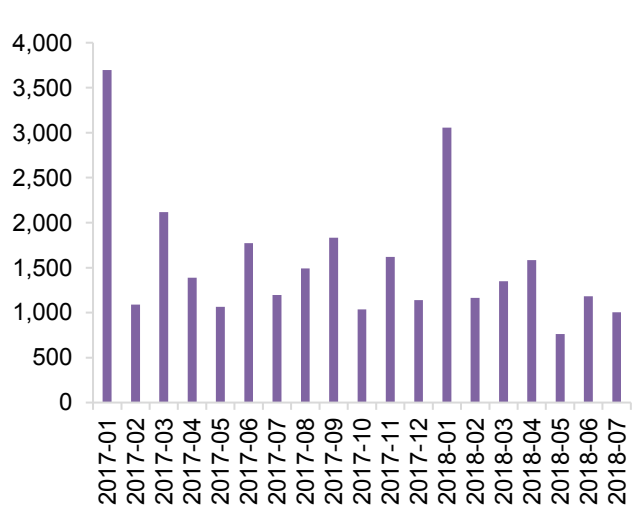
Source: Wind, Bloomberg and CEBI

**Fig. 10: Online Retail Sales (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	7.1	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	5569.6	3527.6	9097.2

	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	5.5	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	2.1
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	5.5
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	10.2
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	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	8.8
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	1450.0
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	8.5
Aggregate Financing (RMB bn)	1195.6	1489.5	1833.5	1035.7	1619.6	1139.8	3055.0	1165.1	1349.5	1582.4	763.6	1181.6	1040.0
Urban Unemployment Rate (%)	-	-	-	-	-	-	5.0	5.0	5.1	4.9	4.8	4.8	5.1
Urban Unemployment Rate in 31 major cities (%)	-	-	-	-	-	-	4.8	4.9	4.9	4.7	4.7	4.7	5.0

## World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
<b>U.S.</b>			
DJIA	25,187.70	17.99	-1.23
S&P 500	2,821.93	20.53	-1.00
NASDAQ	7,819.71	24.13	-0.51
<b>EUR</b>			
FTSE 100	7,642.45	17.00	-0.28
DAX	12,358.74	14.02	-1.90
CAC40S	5,412.32	16.69	-1.18
STOXX EUR 600	384.91	17.32	-0.96
<b>Asia</b>			
HSI	27,752.93	10.90	-1.76
HSCEI	10,744.31	8.24	-1.12
CSI300	3,372.91	12.90	0.12
SSE Composite	2,780.97	13.50	0.06
SZSE Composite	1,513.90	24.79	1.26
NIKKEI 225	22,356.08	15.76	-1.35
KOSPI	2,258.91	10.76	-1.79
TWSE	10,824.23	13.97	-1.45
S&P/ASX 200	6,299.64	18.23	0.73
<b>MSCI Index</b>			
MSCI WORLD	2,127.47	18.36	-1.38
MSCI DEVELOPED	511.92	17.53	-1.52
MSCI EMERGING	1,043.30	12.92	-2.59
MSCI US	2,691.13	20.89	-0.96
MSCI UK	2,208.12	17.25	-0.28
MSCI France	156.90	17.10	-1.03
MSCI Germany	150.58	14.96	-1.73
MSCI China	82.04	13.82	0.49
MSCI Hong Kong	15,208.81	10.32	0.22
MSCI Japan	1,001.05	13.19	-2.87

\* As of 14/8/2018 closing for Asian markets, previous date for other markets.

Global Commodities			
	Unit	Price	One Week chg(%)
<b>Energy</b>			
NYMEX WTI	USD/bbl	67.83	-1.94
ICE Brent Oil	USD/bbl	73.23	-1.90
NYMEX NatGas	USD/MMBtu	2.93	1.24
<b>Basic Metals</b>			
LME Alum.Cash	USD/MT	2,063.50	2.36
CMX Cop.Active	USD/lb.	271.35	-1.40
LME Steel Rebar	USD/MT	520.00	-3.53
LME Lead Cash	USD/MT	2,110.50	0.33
<b>Precious Metals</b>			
CMX Gold	USD/KRW	1,194.47	-1.70
Gold Futures	USD/KRW	1,201.70	-1.36
CMX Silverbn	USD/KRW	15.03	-2.86
NYMEX Platinum	USD/T. oz	803.06	-4.01
<b>Agri, Products</b>			
CBOT Corn	USD/bu	371.00	-3.51
CBOT Wheat	USD/bu	559.25	-5.21
NYB-ICE Sugar	USD/lb.	10.42	-4.23
CBOT Soybeans	USD/bu.	868.75	-4.09

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	0.02
US Treasury (1 Yr)	2.40	-0.02
US Treasury (5 Yr)	2.77	-0.07
US Treasury (10 Yr)	2.89	-0.08
US Treasury (30 Yr)	3.06	-0.06
1-Month LIBOR	2.07	-0.01
3 Month LIBOR	2.32	-0.02
Japan 1-Yr Gov. Bond	0.11	-0.01
Japan 10-Yr Gov. Bond	0.11	0.00
German 1-Yr Gov. Bond	-0.64	0.00
German 10-Yr Gov. Bond	0.33	-0.08
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	2.82	0.14
China 5-Yr Gov. Bond	3.35	0.20
China 10-Yr Gov. Bond	3.60	0.13
O/N SHIBOR	2.33	0.72
1-mth SHIBOR	2.61	-0.12
HK Base rate	0.65	-0.01
O/N HIBOR	0.65	-0.01
1-mth HIBOR	1.27	-0.13
O/N CNH HIBOR	1.54	-0.79
1-mth CNH HIBOR	2.46	-0.62
<b>Corporate Bonds (Moody's)</b>		
Aaa	3.86	-0.03
Baa	4.74	-0.05

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	96.32	1.19
Euro/USD	1.14	-1.74
GBP/USD	1.28	-1.45
AUD/USD	0.73	-2.45
USD/CAD	1.31	1.04
USD/JPY	111.04	-0.13
USD/CHF	0.99	-0.16
USD/CNY Midpoint	6.87	0.39
USD/CNY	6.89	0.81
<b>USD/CNY NDF</b>		
12-mth Spot pr.	6.93	0.79
USD/CNH	6.89	0.80
USD/HKD	7.85	0.01
CNY/HKD	1.14	-0.80
CNH/HKD	1.14	-0.78
USD/KRW	1,128.10	0.38
USD/TWD	30.81	0.62
USD/SGD	1.37	0.73
USD/INR	69.92	1.80

All data sources: Bloomberg, CEBI, NBS



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