

August 30, 2018

Economic Acumen

Commentary by CEBI Research Team

In Brief

- The continuation of urbanization and rising hygienic standard of general population spur the demand for more investment in waste treatment facilities. Amid rising awareness of environmental pollution, China's current reliance on fossil fuels will be reduced by increasing use of more clean and renewable energy.
- In general, China is stepping up efforts to protect the environment during the 13th Five-Year Plan (FYP) period (2016-2020) with which trillion of dollars are projected to invest in the environmental sector to enhance environmental quality.
- Environmental sustainability is rapidly moving up the agenda for China and China's environmental service sector will benefit from rising government expenditures to tackle environmental issues.

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China's environmental protection initiatives remain intact

China is faced with the daunting tasks of maintaining a sustainable growth with which environmental quality has been inseparable from economic growth. The continuation of urbanization and rising hygienic standard of general population spur the demand for more investment in waste treatment facilities. Amid rising awareness of environmental pollution, China's current reliance on fossil fuels will be reduced by increasing use of more clean and renewable energy. In general, China is stepping up efforts to protect the environment during the 13th Five-Year Plan (FYP) period (2016-2020) with which trillion of dollars are projected to invest in the environmental sector to enhance environmental quality. Environmental sustainability is rapidly moving up the agenda for China and China's environmental service sector will benefit from rising government expenditures to tackle environmental issues.

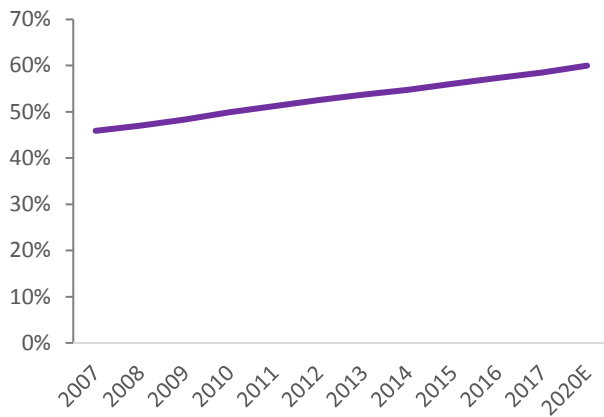
Strengthening environmental protection to be the core goal of the 13th FYP. Along with rapid growth of the Chinese economy over the past decades, sustainable development is of paramount importance for China. Heavy haze in northern China, rising need for water sewage treatment, and growing demand for waste treatment have led to more emphasis on environmental protection. Environmental protection industry has been supported by the Chinese government as one of its development priorities. Building an eco-friendly society and strengthening environmental protection have been elevated as the national development goals and feature prominently as one of the core goals of the 13th FYP. We are positive about the environmental sector as a whole, given the favorable policies and strong earnings growth of related companies.

Rising urbanization with improvement in living standard to increase demand for solid waste treatment services. Robust economic development in China has enhanced general living standard of general population followed by rising urbanization. Solid waste and wastewater created would trend up, stimulating demand for incineration and wastewater treatment services. Premier Li Keqiang stresses during the State Council meeting of leading group for Western Region Development that urbanization rate is just 58%

and it is expected to go up further in coming years. Demand for waste treatment services will edge up substantially which more investment in water conservation, environment and public facilities management are necessary to ensure proper environmental quality. In sum, investment in China's environmental protection industry is projected to maintain strong double-digit growth in coming years.

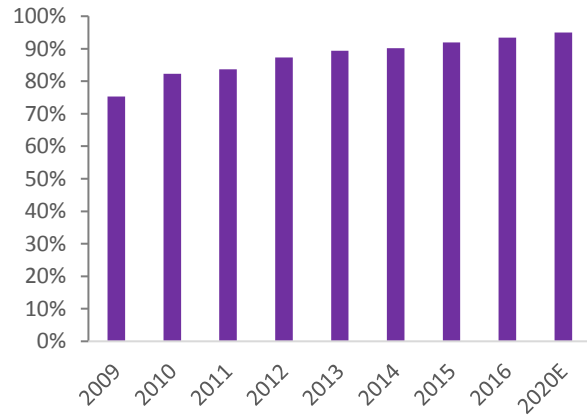
Growing preference on renewable and clean energy. Amid environmental concerns and sustainable uses of energy resources, China's energy development will follow a path featuring low resource consumption, less environmental pollution and high security. The objective of an economical, clean and secure development will be the future direction of energy. In sum, China will increase the share of non-fossil fuels in its overall energy consumption. With the implementation of more supportive policies to boost usage of non-fossil fuels, we expect strong capacity growth to be seen among clean and renewable energy providers in the nuclear, natural gas, solar and wind power sectors.

Fig. 1: Urbanization rate in China



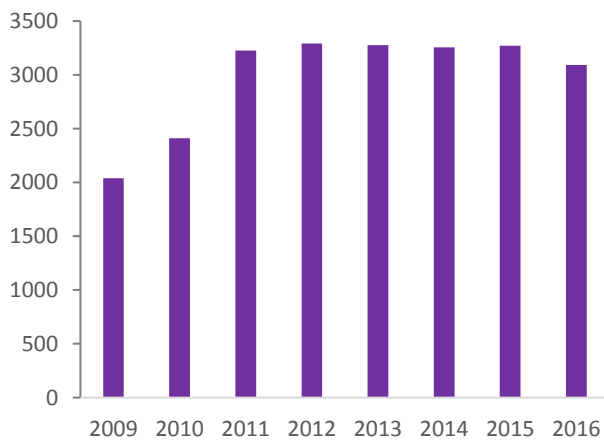
Source: NDRC, Wind, Bloomberg and CEBI

Fig. 2: China's urban wastewater treatment rate



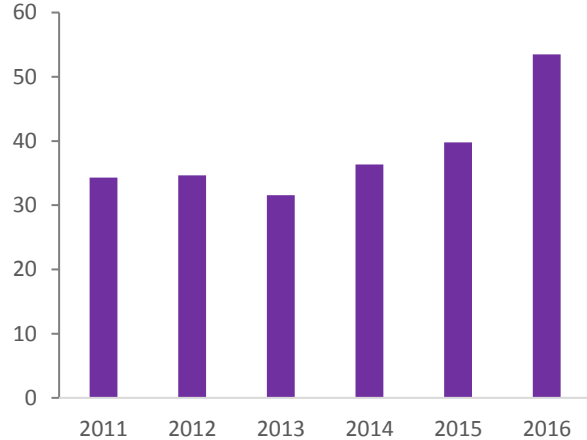
Source: NDRC, Wind, Bloomberg and CEBI

Fig. 3: Total general industrial solid waste produced in China (mn ton)



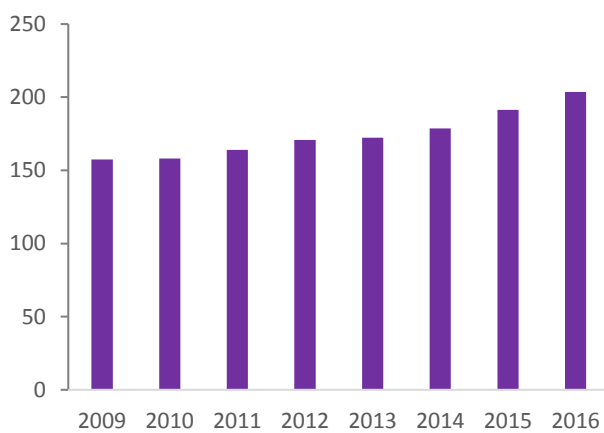
Source: Wind, Bloomberg and CEBI

Fig. 4: Total hazardous waste produced in China (mn ton)



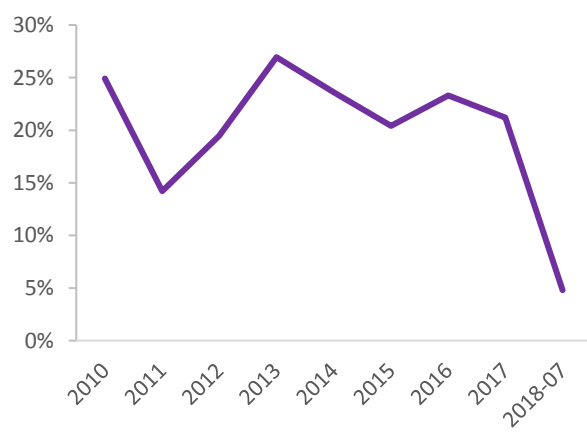
Source: Wind, Bloomberg and CEBI

Fig. 5: Total domestic waste treatment volume in urban areas (mn ton)



Source: Wind, Bloomberg and CEBI

Fig. 6: FAI in Management of Water Conservancy, Environment and Public Facilities (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	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(%)
U.S.			
DJIA	26,124.57	18.55	1.52
S&P 500	2,914.04	21.11	1.82
NASDAQ	8,109.69	59.41	2.80
EUR			
FTSE 100	7,563.21	16.74	-0.03
DAX	12,561.68	14.64	1.42
CAC40S	5,501.33	16.98	1.49
STOXX EUR 600	386.58	17.43	0.67
Asia			
HSI	28,164.05	10.81	1.34
HSCEI	10,967.61	8.08	1.41
CSI300	3,351.09	12.54	0.94
SSE Composite	2,737.74	13.08	0.48
SZSE Composite	1,467.18	23.83	0.24
NIKKEI 225	22,869.50	16.47	2.05
KOSPI	2,307.35	11.11	1.08
TWSE	11,093.75	14.37	2.12
S&P/ASX 200	6,351.76	17.32	1.72
MSCI Index			
MSCI WORLD	2,190.75	18.84	1.61
MSCI DEVELOPED	526.94	17.94	1.64
MSCI EMERGING	1,070.53	13.00	1.90
MSCI US	2,778.43	21.47	1.82
MSCI UK	2,184.32	16.99	-0.05
MSCI France	159.60	17.40	1.43
MSCI Germany	153.48	15.62	1.60
MSCI China	83.34	13.32	1.78
MSCI Hong Kong	15,331.53	10.54	1.12
MSCI Japan	1,036.09	13.64	2.26

* As of 30/8/2018 closing for Asian markets, previous date for other markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	69.69	2.74
ICE Brent Oil	USD/bbl	77.40	3.57
NYMEX NatGas	USD/MMBtu	2.87	-3.04
Basic Metals			
LME Alum.Cash	USD/MT	2,146.75	5.78
CMX Cop.Active	USD/lb.	270.70	1.08
LME Steel Rebar	USD/MT	517.00	0.00
LME Lead Cash	USD/MT	2,071.50	4.36
Precious Metals			
CMX Gold	USD/KRW	1,201.78	0.93
Gold Futures	USD/KRW	1,207.80	1.16
CMX Silverbn	USD/KRW	14.61	0.04
NYMEX Platinum	USD/T. oz	792.06	1.26
Agri, Products			
CBOT Wheat	USD/bu	358.75	-0.62
CBOT Corn	USD/bu	549.00	1.34
NYB-ICE Sugar	USD/lb.	10.42	2.96
CBOT Soybeans	USD/bu.	841.50	-1.46

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)	1.94	0.01
US Treasury (1 Yr)	2.45	0.03
US Treasury (5 Yr)	2.77	0.05
US Treasury (10 Yr)	2.87	0.05
US Treasury (30 Yr)	3.01	0.03
1-Month LIBOR	2.07	0.01
3 Month LIBOR	2.31	0.01
Japan 1-Yr Gov. Bond	-0.11	0.01
Japan 10-Yr Gov. Bond	0.11	0.01
German 1-Yr Gov. Bond	-0.62	0.00
German 10-Yr Gov. Bond	0.39	0.05
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	2.87	-0.06
China 5-Yr Gov. Bond	3.40	-0.05
China 10-Yr Gov. Bond	3.63	-0.01
O/N SHIBOR	2.28	-0.18
1-mth SHIBOR	2.73	0.00
HK Base rate	0.90	0.22
O/N HIBOR	0.90	0.22
1-mth HIBOR	1.51	0.06
O/N CNH HIBOR	1.35	-0.27
1-mth CNH HIBOR	2.68	-0.36
Corporate Bonds (Moody's)		
Aaa	3.90	0.05
Baa	4.78	0.05

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	94.62	-1.10
Euro/USD	1.17	0.78
GBP/USD	1.30	0.70
AUD/USD	0.73	-0.22
USD/CAD	1.29	-0.73
USD/JPY	111.61	0.74
USD/CHF	0.97	-1.27
USD/CNY Midpoint	6.81	-0.37
USD/CNY	6.84	-0.62
USD/CNY NDF		
12-mth Spot pr.	6.90	-0.50
USD/CNH	6.85	-0.43
USD/HKD	7.85	-0.01
CNY/HKD	1.15	0.61
CNH/HKD	1.15	0.42
USD/KRW	1,108.65	-1.14
USD/TWD	30.69	-0.30
USD/SGD	1.37	-0.21
USD/INR	70.78	0.95

All data sources: Bloomberg, CEBI, NBS

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