

September 17, 2018

Economic Acumen

Commentary by CEBI Research Team

In Brief

- China's economic indicators showed a mixed trend in August, with growth of fixed asset investment (FAI) decelerating further while industrial production and retail sales accelerating in varying degrees. External trade showed modest growth. Inflation stayed uptrend on higher pork prices due to the outbreak of swine fever. Job market remained healthy as August survey-based urban unemployment rate dropped to 5.0% from July's 5.1%. In general, China's economic indicators for August maintained steady growth trend.
- In the face of trade war and unstable economic conditions of some EM economies, the global economy is bracing for surging market volatilities that threaten global growth outlook with which China's economy may be at risk of slowdown in coming quarters.
- We believe China policymakers will fine-tune both monetary and fiscal policies to strengthen momentum of growth in economic activities and China's economy is rebalancing to attain more stable economic expansion.

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China's economic indicators showed stable growth in August

Amid the pessimistic market sentiment driven by the US-China trade disputes, U.S rate hikes and currency depreciation across emerging market (EM) economies, China's economic indicators showed a mixed trend in August, with growth of fixed asset investment (FAI) decelerating further while industrial production and retail sales accelerating in varying degrees. External trade showed modest growth even though the U.S. will be likely to impose tariffs on extra worth of USD 200bn Chinese goods. Inflation stayed uptrend on higher pork prices due to the outbreak of swine fever. Job market remained healthy as August survey-based urban unemployment rate dropped to 5.0% from July's 5.1%. In general, China's economic indicators for August maintained steady growth trend. In the face of trade war and unstable economic conditions of some EM economies, the global economy is bracing for surging market volatilities that threaten global growth outlook with which China's economy may be at risk of slowdown in coming quarters. We believe China policymakers will fine-tune both monetary and fiscal policies to strengthen momentum of growth in economic activities and China's economy is rebalancing to attain more stable economic expansion.

FAI slowed further in August. FAI demonstrated continuation of downtrend as YTD growth reached 5.3% YoY, below consensus estimate of 5.6% and 7M2018's 5.5%. Moderation of FAI was mainly driven by decelerating growth of infrastructure investment (+4.2% YTD YoY vs 7M2018's 5.7%) and real estate investment (+10.1% YTD YoY vs 7M2018's 10.2%). With the escalating trade tensions with the U.S. to put downward pressure on China's growth momentum, China policymakers are likely to shift their focus to conduct more growth-boosting measures, including more investment in infrastructures. In general, investment in urban infrastructures and railways remains as one of the major growth drivers of China's economy which will stimulate growth of FAI in coming months.

Industrial value-added output showed modest acceleration in August. Industrial production expanded by 6.1% YoY in August, in line with consensus while slightly exceeding July's 6.0%. On a month-on-month basis, industrial output edged up 0.52%, higher than July's 0.47%. The value-added of the main industrial sectors such as "Manufacture of Computer, Communication Equipment and Other Electronic Equipment" (August:+17.1% YoY and Jan-August:+13.3% YoY), "Manufacture of Special-Purpose Machinery" (August:+9.8% YoY and Jan-August:+10.9% YoY), "Manufacture of Medicines" (August: +8.3% YoY and Jan-August: +10.3% YoY), and "Manufacture and Processing of Non-Ferrous Metals" (August: +9.5% YoY and Jan-August: +5.7% YoY) were the major drivers of industrial production in August. We believe that industrial production would maintain stable growth for the rest of 2018.

Retail sales rebounded in August. Retail sales in August edged up to 9.0% YoY, beating consensus and July's 8.8%. On a month-on-month basis, retail sales edged up 0.65%, slightly lower than July's 0.69%. National online retail sales reached Rmb 5,591.5bn in 8M2018, a year-on-year growth of 28.2%, indicating robust growth momentum of online consumption. In general, retail sales growth was mainly driven by growth in "Petroleum and Related Products" (August: +19.6% YoY and Jan-August:+13.7% YoY), "Commodities" (August: +15.8% YoY and Jan-August:+12.8% YoY), "Gold, Silver and Jewelry" (August: +14.1% YoY and Jan-August:+8.3% YoY), and "Furniture" (August: +9.5% YoY and Jan-August:+10.2% YoY). Going forward, retail sales will maintain steady growth through surging consumer spending in innovation and services. We believe the government will promote consumption growth with which services consumption and e-commerce remain to be the major growth drivers in 2018.

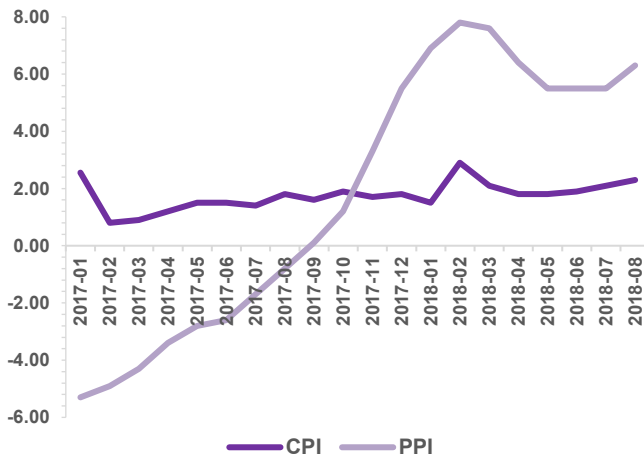
China's external trade demonstrated steady growth in August. Exports, in Yuan terms, rose 7.9% YoY, higher than consensus' 5.7% and July's 6.0% while imports, in Yuan terms, grew 18.8% YoY, beating consensus' 12.1% but lower than July's 20.9%. The acceleration of trading activities was mainly supported by steady global demand for Chinese products, and surging imports driven by resilient domestic demand. Looking ahead, rising protectionism and uncertainty in global economic recovery could affect total trade growth in coming months. In sum, despite the U.S imposing tariffs on Chinese goods, China still experiences stable pick-up in growth of trade to other major trading partners such as EU, Japan and ASEAN. In our view, China's external trade growth is expected to remain on a positive track for the rest of 2018.

Consumer inflation edged up but remained mild generally in August. China's August CPI inflation edged up 2.3 % YoY (+0.7% MoM), above the consensus estimate and July's 2.1% YoY. The rise of inflation in August was attributable to surging month-to-month increase in food prices with which egg, fresh vegetables and pork

posted strong MoM growth of 12%, 9% and 6.5% respectively. The price of fresh vegetables and egg rose on high temperature and abnormal heavy rainfall, while price of pork surged due to supply shortage amid epidemic situation of swine fever in several regions. 8M2018 CPI reached 2.0% YoY, reflecting stable uptrend of general price level. Producers' prices posted a positive growth of 4.1% YoY (+0.4% MoM) in August, beating the market expectation of 4.0% but lowering than July's 4.6%. 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 August and 8M2018 posted 39.6% YoY (July: 42.1%) and 22.6% (Jan-July: 20.3%). The rise of factory prices during 8M2018 reached 4.0%, demonstrating an upward trend and reflecting the continuation of stable economic recovery. In sum, amid rising trade tensions between China and the U.S, the steady trend of consumer prices and factory-gate prices indicate that China's economic momentum remains resilient.

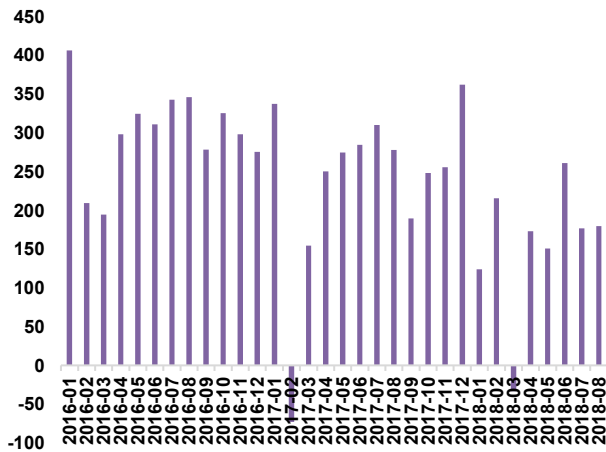
Credit growth pointed to stable path in August. Monetary indicators showed steady growth momentum in August. New loans in August was Rmb 1,280bn, lower than consensus' 1,400bn and July's 1450.0 bn while M2 posted growth rate of 8.2% YoY, below both consensus' 8.6% and July's 8.5%. The broad measure of credit, the aggregate financing, in August reached RMB1.52tr, exceeding consensus' 1.3tr and July' 1.04tr. In general, overall credit growth was in line with economic momentum of the real economy. The PBOC will continue to focus on accommodative liquidity management by maintaining prudent and neutral monetary stance to revitalize growth momentum while the process of deleveraging is still on track to reduce financial risks of China's economy.

Fig. 1: China CPI and PPI (YoY%)



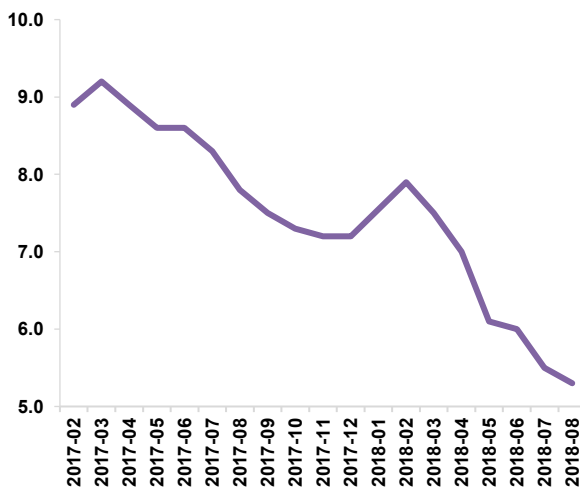
Source: Wind, Bloomberg and CEBI

Fig. 3: China's trade surplus (RMB bn)



Source: Wind, Bloomberg and CEBI

Fig. 5: FAI (YTD YoY%)



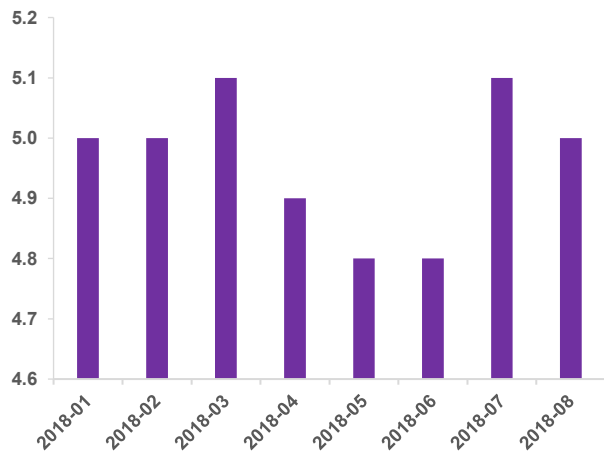
Source: Wind, Bloomberg and CEBI

Fig. 2: China Exports and Imports (RMB) (YoY%)



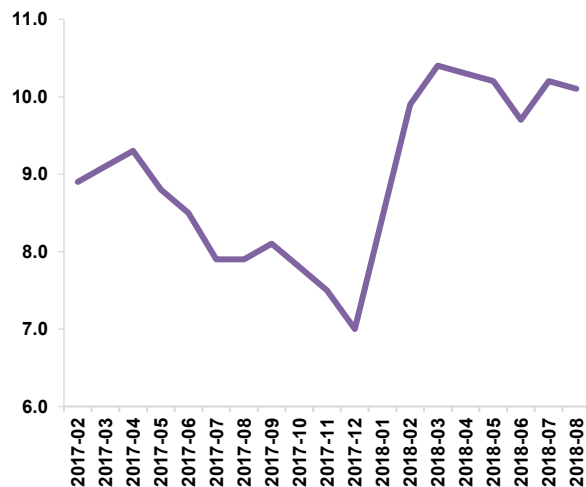
Source: Wind, Bloomberg and CEBI

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



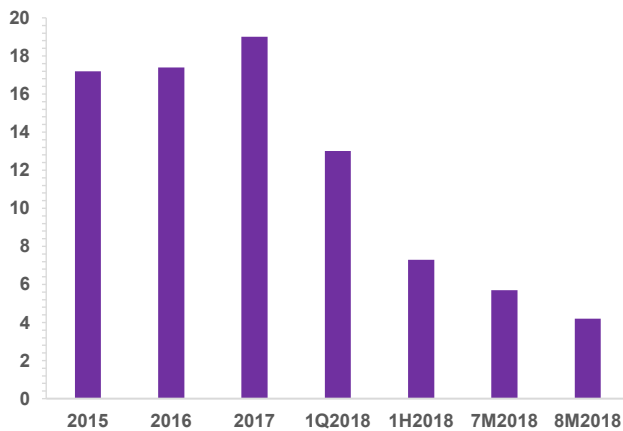
Source: Wind, Bloomberg and CEBI

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



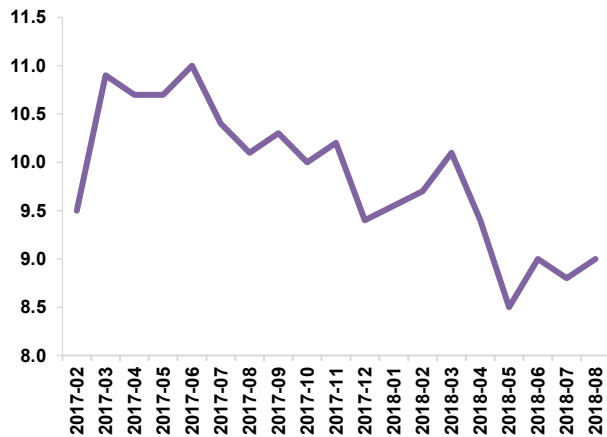
Source: Wind, Bloomberg and CEBI

Fig. 7: Infrastructure Investment (YTD YoY%)



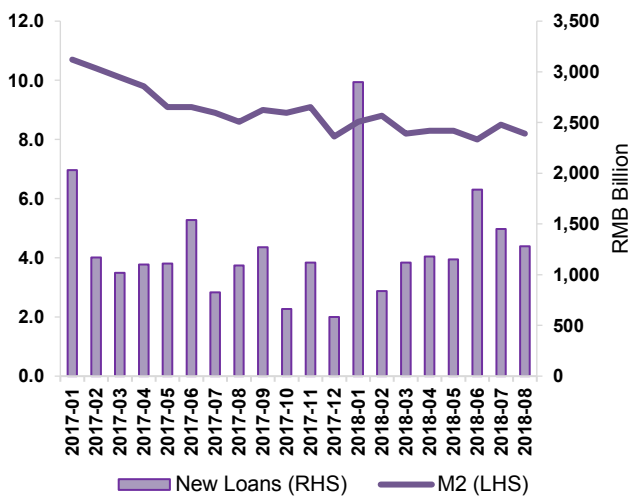
Source: Wind, Bloomberg and CEBI

Fig. 9: Retail sales (YoY%)



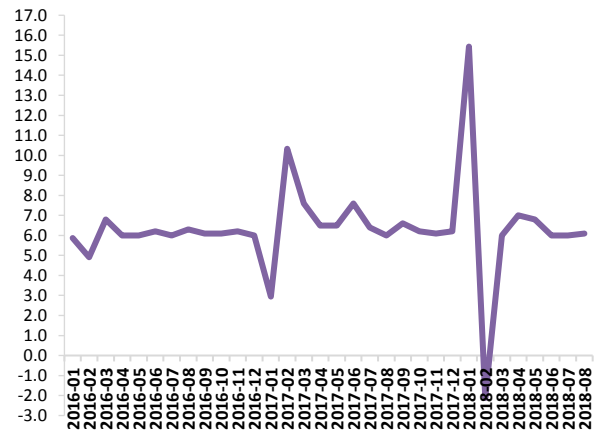
Source: Wind, Bloomberg and CEBI

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



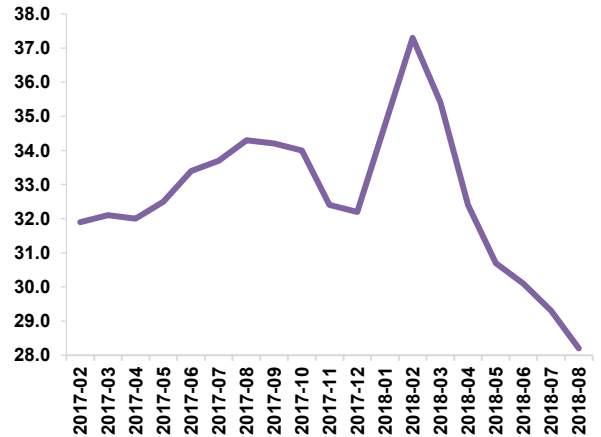
Source: Wind, Bloomberg and CEBI

Fig. 8: Industrial Production (YoY%)



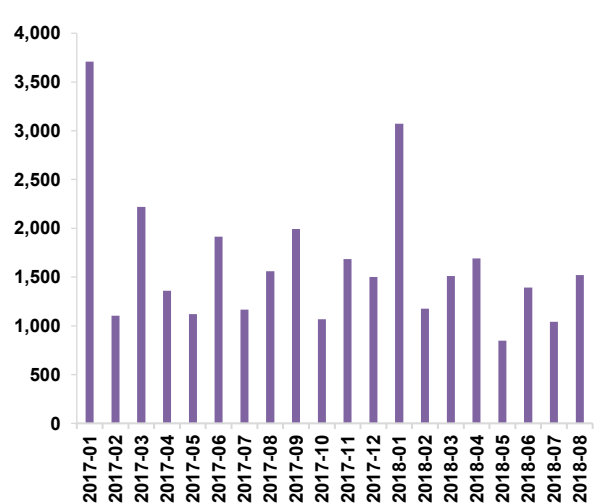
Source: Wind, Bloomberg and CEBI

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	5760.5	3931.2	9691.7

	Aug 17	Sep 17	Oct 17	Nov 17	Dec 17	Jan 17	Feb 18	Mar 18	Apr 18	May 18	Jun 18	July18	Aug 18
Real GDP (YoY%)	-	6.8	-	-	6.8	-	-	6.8	-	-	6.7	-	-
PMI – Manufacturing %	51.7	52.4	51.6	51.8	51.6	51.3	50.3	51.5	51.4	51.9	51.5	51.2	51.3
PMI- Non-manufacturing%	53.4	55.4	54.3	54.8	55.5	55.3	54.4	54.6	54.8	54.9	55.0	54.0	54.2
Exports (RMB YoY %)	8.9	5.5	9.5	7.4	16.3	5.5	35.2	(10.1)	3.0	2.7	3.0	6.0	7.9
Imports (RMB YoY %)	19.6	15.8	15.4	0.9	22.9	30.8	(0.1)	6.1	11.9	15.6	6.0	20.9	18.8
Trade Balance (RMB/bn)	277.9	189.6	248.2	255.4	362.0	124.1	215.7	(33.5)	173.0	150.8	260.9	176.9	179.8
Export (USD YoY %)	4.9	7.9	6.3	11.5	10.9	10.6	43.5	(3.0)	12.1	12.1	11.2	12.2	9.8
Import (USD YoY %)	13.4	18.9	17.1	17.6	4.5	37.4	6.5	14.6	21.8	26.0	14.1	27.3	20.0
Trade Balance (USD/bn)	40.7	28.0	37.2	39.0	54.7	18.6	32.3	(5.6)	27.2	24.0	41.5	28.1	27.9
CPI (YoY %)	1.8	1.6	1.9	1.7	1.8	1.5	2.9	2.1	1.8	1.8	1.9	2.1	2.3
PPI (YoY %)	6.3	6.9	6.9	5.8	4.9	4.3	3.7	3.1	3.4	4.1	4.7	4.6	4.1
FAI (YTD/ YOY %)	7.8	7.5	7.3	7.2	7.2	-	7.9	7.5	7.0	6.1	6.0	5.5	5.3
Real Estate Investment (YTD/ YoY %)	7.9	8.1	7.8	7.5	7.0	-	9.9	10.4	10.3	10.2	9.7	10.2	10.1
Industrial Production (YoY %)	6.0	6.6	6.2	6.1	6.2	-	7.2	6.0	7.0	6.8	6.0	6.0	6.1
Retail Sales (YoY%)	10.1	10.3	10.0	10.2	9.4	-	9.7	10.1	9.4	8.5	9.0	8.8	9.0
New Lending (RMB/bn)	1090.0	1270.0	663.2	1120.0	584.4	2900.0	839.3	1120.0	1180.0	1150.0	1840.0	1450.0	1280.0
M2 (YoY %)	8.9	9.2	8.8	9.1	8.2	8.6	8.8	8.2	8.3	8.3	8.0	8.5	8.2
Aggregate Financing (RMB bn)	1489.5	1833.5	1035.7	1619.6	1139.8	3073.3	1176.6	1510.6	1691.4	847.7	1392.2	1041.5	1520.0
Urban Unemployment Rate (%)	-	-	-	-	-	5.0	5.0	5.1	4.9	4.8	4.8	5.1	5.0
Urban Unemployment Rate in 31 major cities (%)	-	-	-	-	-	4.8	4.9	4.9	4.7	4.7	4.7	5.0	4.9

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	26,154.67	18.57	0.92
S&P 500	2,904.98	21.02	1.16
NASDAQ	8,010.04	45.67	1.36
EUR			
FTSE 100	7,304.04	16.22	0.36
DAX	12,124.33	13.98	1.38
CAC40S	5,352.57	16.95	1.91
STOXX EUR 600	377.85	17.08	1.09
Asia			
HSI	26,932.85	10.39	1.20
HSCEI	10,462.09	7.94	0.27
CSI300	3,204.92	12.02	-0.78
SSE Composite	2,651.79	12.62	-0.66
SZSE Composite	1,380.98	22.38	-1.84
NIKKEI 225	23,094.67	16.47	3.53
KOSPI	2,303.01	11.17	0.63
TWSE	10,828.61	14.08	0.96
S&P/ASX 200	6,184.97	16.92	0.71
MSCI Index			
MSCI WORLD	2,166.59	18.63	1.36
MSCI DEVELOPED	519.46	17.67	1.27
MSCI EMERGING	1,028.53	12.46	0.54
MSCI US	2,769.10	21.38	1.19
MSCI UK	2,111.64	16.50	0.44
MSCI France	155.60	17.36	1.79
MSCI Germany	148.22	14.93	1.20
MSCI China	78.17	12.46	0.46
MSCI Hong Kong	14,832.95	10.27	1.72
MSCI Japan	1,031.04	13.56	2.83

* As of 17/9/2018 closing for Asian markets, previous date for other markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	69.41	2.78
ICE Brent Oil	USD/bbl	78.55	1.51
NYMEX NatGas	USD/MMBtu	2.78	-0.78
Basic Metals			
LME Alum.Cash	USD/MT	2,006.50	-1.21
CMX Cop.Active	USD/lb.	263.25	0.17
LME Steel Rebar	USD/MT	519.00	0.00
LME Lead Cash	USD/MT	2,029.50	-1.36
Precious Metals			
CMX Gold	USD/KRW	1,196.61	0.19
Gold Futures	USD/KRW	1,201.20	0.11
CMX Silverbn	USD/KRW	14.14	-0.57
NYMEX Platinum	USD/T. oz	797.41	1.57
Agri, Products			
CBOT Corn	USD/bu	350.25	-4.63
CBOT Wheat	USD/bu	515.50	-2.41
NYB-ICE Sugar	USD/lb.	11.79	-2.00
CBOT Soybeans	USD/bu.	826.00	-2.28

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)	2.00	0.05
US Treasury (1 Yr)	2.55	0.04
US Treasury (5 Yr)	2.90	0.07
US Treasury (10 Yr)	2.99	0.06
US Treasury (30 Yr)	3.13	0.05
1-Month LIBOR	2.16	0.03
3 Month LIBOR	2.33	0.01
Japan 1-Yr Gov. Bond	-0.11	0.00
Japan 10-Yr Gov. Bond	0.12	0.00
German 1-Yr Gov. Bond	-0.58	0.00
German 10-Yr Gov. Bond	0.45	0.05
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	2.91	0.06
China 5-Yr Gov. Bond	3.49	0.04
China 10-Yr Gov. Bond	3.68	0.03
O/N SHIBOR	2.47	-0.11
1-mth SHIBOR	2.75	0.03
HK Base rate	1.81	1.12
O/N HIBOR	1.81	1.12
1-mth HIBOR	1.70	0.08
O/N CNH HIBOR	3.51	-0.31
1-mth CNH HIBOR	4.34	-0.61
Corporate Bonds (Moody's)		
Aaa	3.92	-0.02
Baa	4.84	0.03

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	94.78	-0.39
Euro/USD	1.17	0.67
GBP/USD	1.31	1.24
AUD/USD	0.72	0.66
USD/CAD	1.30	-1.21
USD/JPY	111.96	0.77
USD/CHF	0.97	-0.79
USD/CNY Midpoint	6.85	0.18
USD/CNY	6.87	0.21
USD/CNY NDF		
12-mth Spot pr.	6.96	0.03
USD/CNH	6.87	0.04
USD/HKD	7.85	-0.03
CNY/HKD	1.14	-0.24
CNH/HKD	1.14	-0.07
USD/KRW	1,126.70	-0.16
USD/TWD	30.80	-0.06
USD/SGD	1.37	-0.39
USD/INR	72.49	1.05

All data sources: Bloomberg, CEBI, NBS

Disclosures

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