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Economic Acumen

Commentary by CEBI Research Team

In Brief

- China's third-quarter economic activities for 2018 witnessed a slowing growth momentum with GDP surging at 6.5% YoY, below consensus estimate of 6.6%, 2Q2018's 6.7% and 1H2018's 6.8%, with growth of fixed asset investment (FAI), industrial production and retail sales decelerating in vary degrees from previous quarters while job market pointed to stable trend.
- In sum, China's economy still maintained a stable growth of 6.7% YoY in the first nine months of 2018. Looking forward, the escalation of trade tensions, the U.S. monetary tightening and weakness of renminbi remain as the major downside risks of China's economy in coming quarters.
- We believe China's macroeconomic conditions remain stable and the economy will expand by 6.5% YoY in 4Q2018 with which GDP growth will reach 6.6% YoY in 2018.

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

China's economic strength weakened in 3Q2018

China's third-quarter economic activities for 2018 witnessed a slowing growth momentum with GDP surging at 6.5% YoY, below consensus estimate of 6.6%, 2Q2018's 6.7% and 1H2018's 6.8%. China's economic indicators showed a slowing trend in 3Q2018, with growth of fixed asset investment (FAI), industrial production and retail sales decelerating in vary degrees from previous quarters. Job market pointed to stable trend as September survey-based urban unemployment rate dropped to 4.9%. In sum, China's economy still maintained a stable growth of 6.7% YoY in the first nine months of 2018. Looking forward, the escalation of trade tensions, the U.S. monetary tightening and weakness of renminbi remain as the major downside risks of China's economy in coming quarters. Despite the trade war headwinds facing external trade sector, China's macroeconomic fundamentals remain resilient on achieving the great progress in structural reforms. China's policymakers have stepped up efforts for launching more appropriate economic policies to withstand the negative impact of trade disputes on China's economy. Domestic demand turns out to be the key growth driver of the economy in which consumer spending and fixed asset investment will play a bigger economic role. We believe the overall macroeconomic conditions remain stable and the economy will expand by 6.5% YoY in 4Q2018 with which GDP growth will reach 6.6% YoY in 2018.

FAI decelerated in 9M2018. YTD growth of FAI was 5.4% YoY in 9M2018, exceeding consensus estimate and 8M2018's 5.3% but down from 6.0% in 1H2018. The slowing growth of FAI was mainly driven by slowing growth momentum of investment in infrastructure (+3.3% YTD YoY vs 1H2018's 7.3%). In general, the government's recent effort to launch more infrastructure projects, the initiatives to accelerate project approval and acceleration of issuing more local government debt should help prop up growth in FAI. We reassert that investment in railway and other urban infrastructures will continue to become one of the major growth drivers of the economy.

Industrial production dropped in 3Q2018. In September and 3Q2018, industrial production expanded by 5.8% YoY (August's 6.1% YoY) and 6.0% YoY (2Q2018's 6.6%). Although industrial production demonstrated slowing momentum in 3Q2018, general growth of outputs in 9M2018 showed steady trend at 6.4% YoY. Expansion of overall manufacturing activities in most product categories were the major drivers. In particular, the value-added growth of "Computer, Communication Equipment and Other Electronic Equipment", "Manufacture of Special-Purpose Machinery" and "Manufacture of Medicines" went up significantly by 13.2% YoY, 10.8% YoY and 10.3% YoY in 9M2018. We believe that industrial production will maintain stable growth in 4Q2018.

Retail sales slowed in 3Q2018. Retail sales in September surged by 9.2% YoY, higher than consensus' 9.0% and August's 9.0% while 9M2018 retail sales decelerated slightly at 9.3% YoY from 1H2018's 9.4%. National online retail sales reached Rmb6,278.5bn in 9M2018, a year-on-year growth of 27.0%. In general, retail sales growth for September and the first nine months of 2018 was mainly driven by sizeable growth in "Petroleum and Related Products" (September-19.2%, 9M2018-14.4%), "Commodities"(September-17.4%, 9M2018-13.4%), "Communication Appliances" (September-16.9%, 9M2018-10.7%), and "Grain, Oil and foodstuff" (September-13.6%, 9M2018-10.3%). Going forward, retail sales is likely to maintain stable growth on the government's efforts to sustain robust growth of consumption. We believe the government will prioritize growth in domestic demand with which services consumption and e-commerce will emerge to be the major growth drivers.

Consumer inflation surged in 3Q2018. China's September CPI inflation edged up 2.5% YoY (+0.7% MoM), standing in line with the consensus estimate but slightly higher than August's inflation of 2.3%. The first nine months of CPI inflation reached 2.1% YoY with which 3Q2018 inflation grew 2.3% YoY, exceeding 2Q2018's 1.8%. The latest prick-up in general price level was mainly due to a year-to-year increase in food price at 3.6% YoY (2.4% MoM), with which fresh vegetables, fresh fruits and pork posted strong MoM growth of 9.8%, 6.4% and 3.7% respectively. The price of fresh vegetables and fresh fruits rose on trans-season stubble and extreme weather conditions such as typhoons, heavy precipitation and wind and hail in some areas, while price of pork surged due to supply shortage amid Mid-Autumn Festival and the National Day Holiday. In general, China's CPI inflation remained stable at the range between 2% and 2.5%. China's producer prices posted a positive growth of 3.6% YoY (0.6% MoM) in September, higher than the consensus estimate of 3.5% but lower than August's 4.1% YoY (+0.4% MoM). The rise of producer prices was mainly attributed to surging prices of oil and related industries under the influence of international oil price change, particularly the producer price index of 'Petroleum, Coking, and Nucleus Fuel Processing' posted 4.0% MoM (August: 1.7%) and 'Extraction of Petroleum and Natural Gas' posted 3.8%

MoM (August: 0.8%) for September. The rise of factory prices during 3Q2018 and 9M2018 reached 4.1% and 4.0% respectively, 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.

3Q2018 external trade remained stable despite the trade disputes. Despite the escalating trade friction with the U.S., China's external trade has maintained resilience in September with exports and imports growing at 17.0% YoY and 17.4% YoY, beating consensus estimate of 9.2% and 15.2%. Trade surplus reached RMB 213.23bn, largely exceeding consensus estimate of RMB 136.2bn. On monthly basis, September's exports posted stronger momentum at 7.9% rebounding from August's 4.0%. On quarterly basis, external trade in 3Q2018 outperformed those of 2Q2018, with exports and imports surging at 9.8% and 18%, rebounding from 2Q2018's 2.6% and 11.1%. For the first nine months of 2018, China's exports and imports grew at a stable pace of 6.5% and 14.1%. In sum, the better-than-expected trading activities was mainly supported by steady global demand for Chinese products, renminbi depreciation to offset the impact of tariffs on external trade and surging imports driven by resilient domestic demand. Looking ahead, rising protectionism and uncertainty in global economic recovery could affect total trade growth. The latest release of China's September official New Export Orders and Import Indexes, the sub-index of manufacturing PMI, fell to 48.0 and 48.5, signaling that external trade sector will experience slowdown on escalating trade tensions in coming months. Despite the U.S 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.

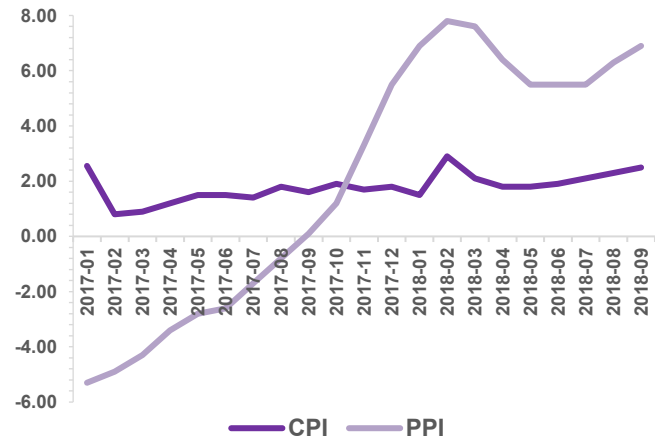
Board credit demand maintained stable growth momentum to support economic growth in 3Q2018. Monetary indicators demonstrated stable trend in 3Q2018. September's new loans and M2 growth were Rmb1.38tr (Consensus: Rmb 1.35tr and August: Rmb1.28tr) and 8.3% YoY (Consensus: 8.3% and August: 8.2%), respectively, while the aggregate financing reached Rmb2.21tr (August: Rmb 1.93tr) under new statistical caliber of financing scale with the inclusion of local government bonds. Gradually rising M2 and social credit level in 3Q2018 reflected that the PBOC will accommodate market demand for capital through diversified monetary tools, such as RRR cuts, reverse repo and medium-term lending facility (MLF). China's latest credit growth was in line with economic momentum of the real economy. We believe the PBOC will continue to focus on accommodative liquidity management by maintaining prudent and neutral monetary stance to revitalize growth momentum in coming quarters.

Fig. 1: China GDP growth (YoY)



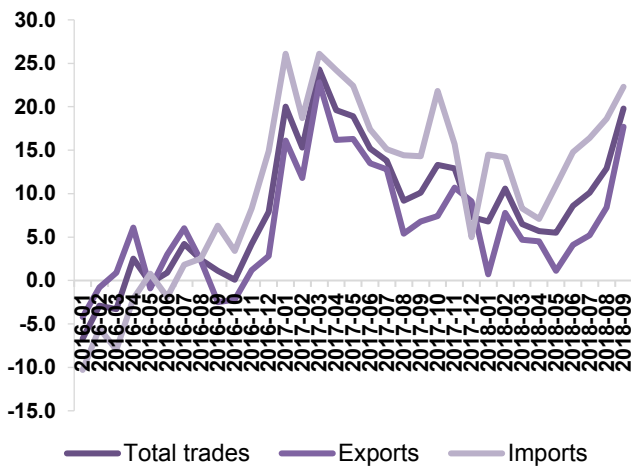
Source: Wind, Bloomberg and CEBI

Fig. 2: CPI and PPI (YoY%)



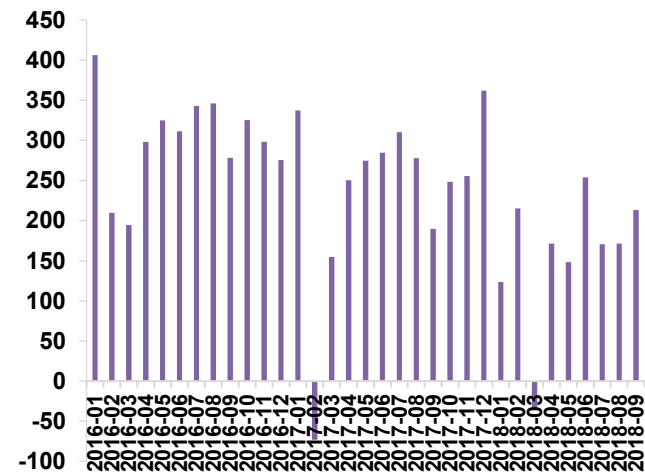
Source: Wind, Bloomberg and CEBI

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



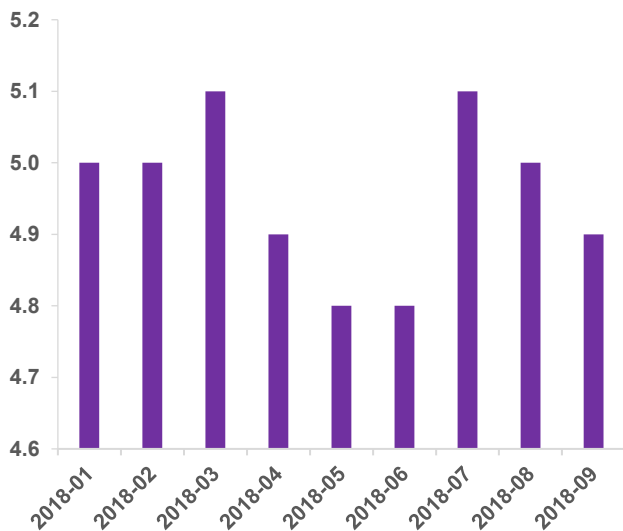
Source: Wind, Bloomberg and CEBI

Fig. 4: Trade Surplus (RMB bn)



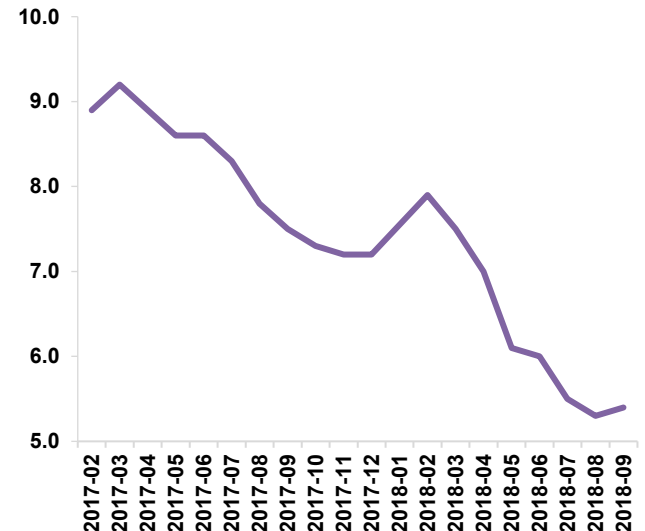
Source: Wind, Bloomberg and CEBI

Fig. 5: China's urban unemployment rate (%)



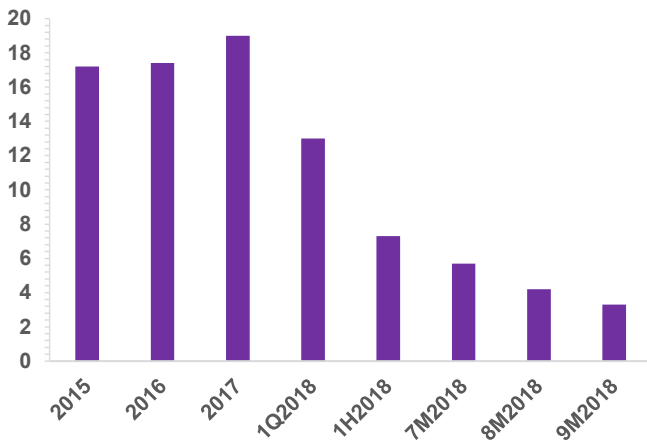
Source: Wind, Bloomberg and CEBI

Fig. 6: FAI (YTD YoY%)



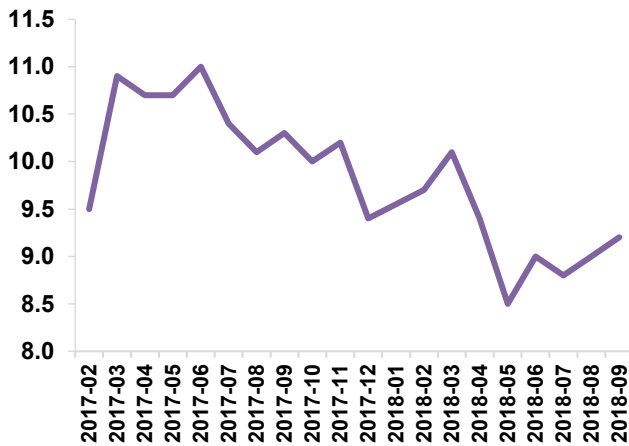
Source: Wind, Bloomberg and CEBI

Fig. 7: Infrastructure Investment (YTD YoY%)



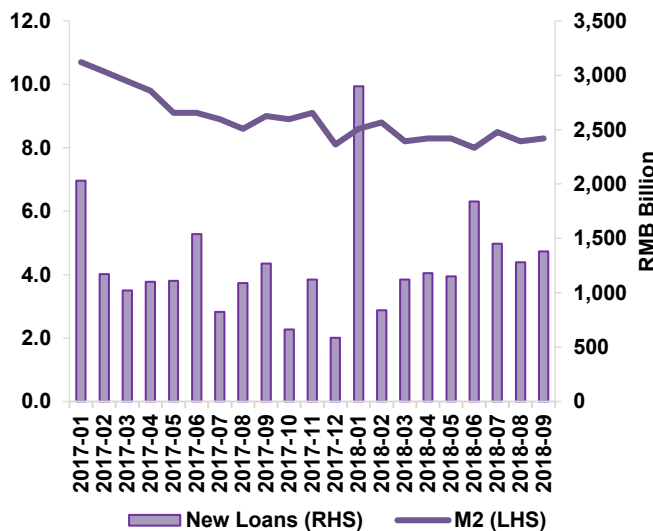
Source: Wind, Bloomberg and CEBI

Fig. 9: Retail sales (YoY%)



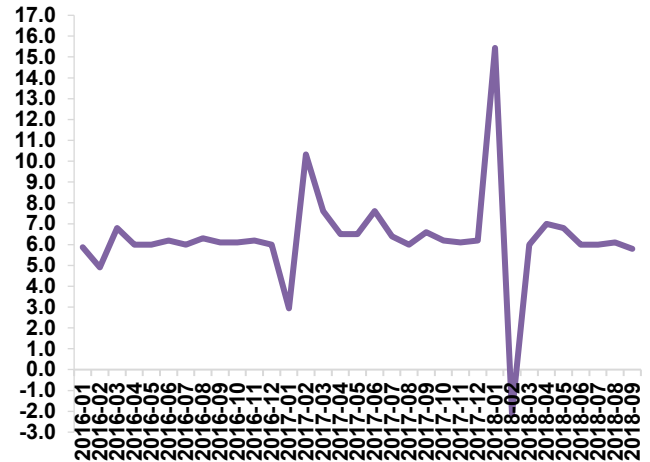
Source: Wind, Bloomberg and CEBI

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



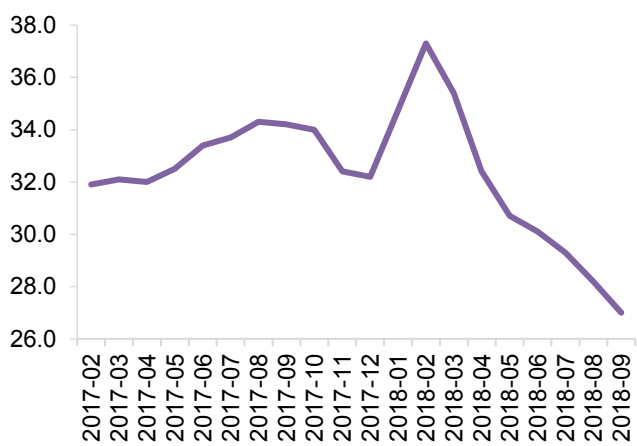
Source: Wind, Bloomberg and CEBI

Fig. 8: Industrial Production (YoY%)



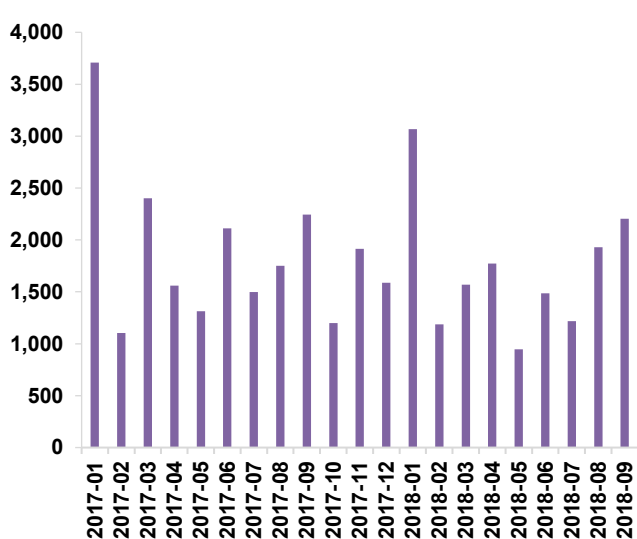
Source: Wind, Bloomberg and CEBI

Fig. 10: Online Retail Sales (YTD 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	3Q2018
Real GDP (YoY%)	7.3	6.9	6.7	6.9	6.8	6.7	6.5
PMI							
Manufacturing (%)	50.1	49.7	51.4	51.6	51.5	51.5	50.8
Non-Manufacturing (%)	54.1	54.4	54.5	55.5	54.6	54.9	54.9
Exports (RMB YoY %)	4.9	(1.8)	(1.9)	10.8	7.4	2.6	9.8
Imports (RMB YoY %)	(0.6)	(13.2)	0.6	18.7	11.7	11.1	18.8
Trade Balance (RMB/bn)	2352.6	3686.5	3352.3	2871.6	303.21	573.51	555.3
Exports (USD YoY %)	6.0	(2.9)	(7.7)	7.9	13.7	11.5	11.6
Imports (USD YoY %)	0.4	(14.1)	(5.5)	15.9	19.3	20.5	20.1
Trade Balance (USD/bn)	383.1	593.9	510.7	422.5	45.1	90.93	85.4
CPI (YoY %)	2.0	1.4	2.0	1.6	2.2	1.8	2.3
PPI (YoY %)	(1.9)	(5.2)	(1.4)	6.3	3.7	4.1	4.1
FAI (YTD/ YOY %)	15.7	10.0	8.1	7.2	7.5	6.0	5.4
Real Estate Investment (YTD YoY %)	10.5	1.0	6.9	7.0	10.4	9.7	9.9
Industrial Production (YoY %)	8.3	6.1	6.0	6.6	6.8	6.8	6.0
Retail Sales (YoY%)	12.0	10.7	10.4	10.2	9.8	9.0	9.0
New Lending (RMB/bn)	9781.3	11719.9	12645.9	13523.1	4859.3	4170.0	4110.0
M2 (YoY %)	12.2	13.3	11.3	8.2	8.2	8.0	8.3
Aggregate Financing (RMB bn)	16457.1	15408.6	17802.2	22396.9	5821.2	4203.6	5350.1

	Sep 17	Oct 17	Nov 17	Dec 17	Jan 17	Feb 18	Mar 18	Apr 18	May 18	Jun 18	July18	Aug 18	Sept 18
Real GDP (YoY%)	6.8	-	-	6.8	-	-	6.8	-	-	6.7	-	-	6.5
PMI – Manufacturing %	52.4	51.6	51.8	51.6	51.3	50.3	51.5	51.4	51.9	51.5	51.2	51.3	50.8
PMI- Non-manufacturing%	55.4	54.3	54.8	55.5	55.3	54.4	54.6	54.8	54.9	55.0	54.0	54.2	54.9
Exports (RMB YoY %)	5.5	9.5	7.4	16.3	5.5	35.2	-10	2.9	2.6	2.3	5.2	7.3	17.0
Imports (RMB YoY %)	15.8	15.4	0.9	22.9	30.9	0.0	6.2	12	15.7	5.8	20.5	18.7	17.4
Trade Balance (RMB/bn)	189.6	248.2	255.4	362.0	123.3	215.2	(35.3)	171.3	148.3	254.0	170.7	171.4	213.2
Export (USD YoY %)	7.9	6.3	11.5	10.9	10.6	43.5	(3.0)	12.0	12.0	10.5	11.4	9.1	14.5
Import (USD YoY %)	18.9	17.1	17.6	4.5	37.5	6.5	14.7	21.9	26.1	13.8	26.9	19.9	14.3
Trade Balance (USD/bn)	28.0	37.2	39.0	54.7	18.5	32.2	(5.7)	27.0	23.6	40.4	27.1	26.7	31.7
CPI (YoY %)	1.6	1.9	1.7	1.8	1.5	2.9	2.1	1.8	1.8	1.9	2.1	2.3	2.5
PPI (YoY %)	6.9	6.9	5.8	4.9	4.3	3.7	3.1	3.4	4.1	4.7	4.6	4.1	2.5
FAI (YTD/ YOY %)	7.5	7.3	7.2	7.2	-	7.9	7.5	7.0	6.1	6.0	5.5	5.3	3.6
Real Estate Investment (YTD/ YoY %)	8.1	7.8	7.5	7.0	-	9.9	10.4	10.3	10.2	9.7	10.2	10.1	9.9
Industrial Production (YoY %)	6.6	6.2	6.1	6.2	-	7.2	6.0	7.0	6.8	6.0	6.0	6.1	5.8
Retail Sales (YoY%)	10.3	10.0	10.2	9.4	-	9.7	10.1	9.4	8.5	9.0	8.8	9.0	9.2
New Lending (RMB/bn)	1270.0	663.2	1120.0	584.4	2900.0	839.3	1120.0	1180.0	1150.0	1840.0	1450.0	1280.0	1380.0
M2 (YoY %)	9.2	8.8	9.1	8.2	8.6	8.8	8.2	8.3	8.3	8.0	8.5	8.2	8.3
Aggregate Financing (RMB bn)	2245.1	1200.4	1913.9	1586.5	3067.3	1185.4	1568.5	1772.6	945.8	1485.2	1216.1	1928.6	2205.4
Urban Unemployment Rate (%)	-	-	-	-	5.0	5.0	5.1	4.9	4.8	4.8	5.1	5.0	4.9
Urban Unemployment Rate in 31 major cities (%)	-	-	-	-	4.8	4.9	4.9	4.7	4.7	4.7	5.0	4.9	4.7

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	25,379.45	17.62	1.30
S&P 500	2,768.78	19.83	1.48
NASDAQ	7,485.14	45.20	2.13
EUR			
FTSE 100	7,026.99	15.65	0.29
DAX	11,589.21	13.64	0.43
CAC40S	5,116.79	16.33	0.20
STOXX EUR 600	361.67	16.26	0.56
Asia			
HSI	25,561.40	9.71	1.17
HSCEI	10,222.18	7.60	1.28
CSI300	3,134.95	11.29	-1.13
SSE Composite	2,550.47	11.69	-2.17
SZSE Composite	1,263.81	19.62	-2.51
NIKKEI 225	22,532.08	16.34	-0.72
KOSPI	2,156.26	10.33	-0.26
TWSE	9,919.26	13.32	-1.26
S&P/ASX 200	5,939.49	16.36	0.74
MSCI Index			
MSCI WORLD	2,064.47	17.60	0.95
MSCI DEVELOPED	494.47	16.69	1.04
MSCI EMERGING	970.90	11.70	1.70
MSCI US	2,633.89	20.09	1.48
MSCI UK	2,035.34	15.89	0.19
MSCI France	148.56	16.59	0.47
MSCI Germany	140.99	14.21	0.76
MSCI China	71.08	11.31	0.77
MSCI Hong Kong	13,835.25	9.45	0.74
MSCI Japan	1,017.23	13.38	0.22

* As of 19/10/2018 closing for Asian markets, previous date for other markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	68.70	-3.70
ICE Brent Oil	USD/bbl	79.35	-1.31
NYMEX NatGas	USD/MMBtu	3.19	0.82
Basic Metals			
LME Alum.Cash	USD/MT	2,007.50	-0.27
CMX Cop.Active	USD/lb.	274.55	-1.96
LME Steel Rebar	USD/MT	500.00	0.40
LME Lead Cash	USD/MT	1,981.00	-1.69
Precious Metals			
CMX Gold	USD/KRW	1,226.68	0.80
Gold Futures	USD/KRW	1,229.00	0.57
CMX Silverbn	USD/KRW	14.61	0.21
NYMEX Platinum	USD/T. oz	831.13	-0.85
Agri, Products			
CBOT Corn	USD/bu	370.00	-1.00
CBOT Wheat	USD/bu	511.25	-1.16
NYB-ICE Sugar	USD/lb.	13.75	5.20
CBOT Soybeans	USD/bu.	864.75	-0.32

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	2.25	0.00
US Prime Rate	5.25	0.00
US Discount Window	2.75	0.00
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	-0.10	0.00
US Treasury (1 Mth)	2.18	0.06
US Treasury (1 Yr)	2.65	0.00
US Treasury (5 Yr)	3.02	0.01
US Treasury (10 Yr)	3.17	0.01
US Treasury (30 Yr)	3.36	0.02
1-Month LIBOR	2.28	0.00
3 Month LIBOR	2.45	0.02
Japan 1-Yr Gov. Bond	-0.15	-0.01
Japan 10-Yr Gov. Bond	0.15	0.00
German 1-Yr Gov. Bond	-0.69	-0.07
German 10-Yr Gov. Bond	0.41	-0.09
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	2.88	-0.03
China 5-Yr Gov. Bond	3.38	-0.03
China 10-Yr Gov. Bond	3.56	-0.03
O/N SHIBOR	2.45	0.01
1-mth SHIBOR	2.66	-0.03
HK Base rate	2.50	0.00
O/N HIBOR	0.69	-0.02
1-mth HIBOR	1.55	-0.09
O/N CNH HIBOR	1.29	-1.43
1-mth CNH HIBOR	4.12	-0.98
Corporate Bonds (Moody's)		
Aaa	4.13	-0.03
Baa	5.07	-0.01

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	96.03	0.85
Euro/USD	1.15	-0.95
GBP/USD	1.30	-0.81
AUD/USD	0.71	-0.03
USD/CAD	1.31	0.23
USD/JPY	112.41	0.18
USD/CHF	1.00	0.37
USD/CNY Midpoint	6.94	0.39
USD/CNY	6.93	0.13
USD/CNY NDF		
12-mth Spot pr.	7.02	0.07
USD/CNH	6.94	0.26
USD/HKD	7.84	0.06
CNY/HKD	1.13	-0.08
CNH/HKD	1.13	-0.17
USD/KRW	1,132.10	0.06
USD/TWD	30.97	0.28
USD/SGD	1.38	0.05
USD/INR	73.49	-0.86

All data sources: Bloomberg, CEBI, NBS

Disclosures

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