



Economic Insight

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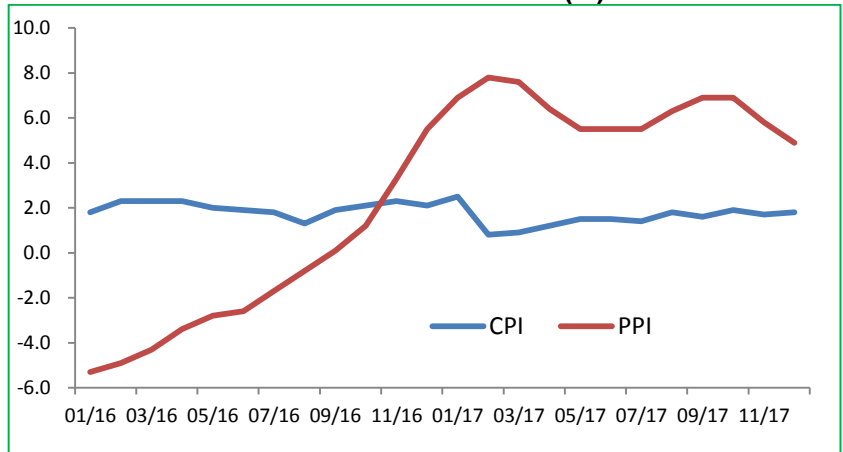
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China's PPI continued to ease in December

- China's CPI inched up to 1.8% in December from 1.7% in November, driven by the lessening decline in food prices. PPI eased to 4.9% in December from 5.8% in November due to high-base effect.
- CPI inflation is expected to rebound to 2.0% in 2018E from 1.6% in 2017 due to higher food prices and the low base last year. We forecast PPI inflation to ease to 2.5% in 2018E from 6.3% in 2017 with the low-base effect fading away and commodity prices moderating.
- December inflation data suggest a mild inflationary pressure and a stable growth momentum. PBOC is expected to maintain a neutral monetary policy with a tightening bias to balance among goals to lower leverage ratio, prevent financial risks, and maintain a steady growth. With the mild inflation pressure, we believe benchmark interest rates would be kept steady in 2018.

China's CPI inched up to 1.8%¹ in December from 1.7% in November, mainly driven by lessening decline in food prices (Exhibit 1). Overall food prices fell 0.4% for the month after sliding by 1.1% in November, while non-food prices edged down to 2.4% from 2.5%. In the food basket, prices of fresh vegetables and pork dropped 8.3% and 8.6% in December; those of mutton, eggs, and fresh fruits rose 12.6%, 11.4%, and 6.3%, respectively. On a MoM basis, CPI rose 0.3%, compared with the flat increase in November. For 2017, consumer prices rose 1.6%, down from 2.0% in 2016.

Exhibit 1: China's CPI and PPI in December (%)



Source(s): NBS, ABCI Securities

PPI eased significantly to 4.9% in December from 5.8% in November due to high-base effect. Inflation in producer industries slowed to 6.4% from 7.5% in previous month. By sector, prices in mining, raw materials and manufacturing rose 9.1%, 8.1% and 5.5%, respectively, in December, compared with 10.8%, 9.7% and 6.3% increase in November. Inflation in consumer goods industries was muted at 0.5%, compared with 0.6% in November. Meanwhile, PPI increased by 0.8% MoM in December, slightly higher than the 0.5% gain in the previous month. For 2017 as a whole, producer prices rose 6.3%, rebounding

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¹ All growth rates are YoY except specified otherwise



sharply from -1.3% in 2016.

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China Economic Indicators

	2016				2017									
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Real GDP (YoY %)	---	6.8	---	---	6.9	---	---	6.9	---	---	6.8	---	---	---
Export Growth (USD, YoY %)	0.1	(6.1)	7.9	(1.3)	16.4	8.0	8.7	11.3	7.2	5.5	8.1	6.9	12.3	---
Import Growth (USD, YoY %)	6.7	3.1	16.7	38.1	20.3	11.9	14.8	17.2	11.0	13.3	18.7	17.2	17.7	---
Trade Balance (USD bn)	44.6	40.8	51.3	(9.1)	23.9	38.0	40.8	42.8	46.7	42.0	28.5	38.2	40.2	---
Retail Sales Growth (YoY %)	10.8	10.9	9.5	9.5	10.9	10.7	10.7	11.0	10.4	10.1	10.3	10.0	10.2	---
Industrial Production (YoY %)	6.2	6.0	6.3	6.3	7.6	6.5	6.5	7.6	6.4	6.0	6.6	6.2	6.1	---
PMI - Manufacturing (%)	51.7	51.4	51.3	51.6	51.8	51.2	51.2	51.7	51.4	51.7	52.4	51.6	51.8	51.6
PMI - Non-manufacturing (%)	50.9	51.9	54.6	54.2	55.1	54.0	54.5	54.9	54.5	53.4	55.4	54.3	54.8	55.0
FAI (YTD) (YoY %)	8.3	8.1	8.9	8.9	9.2	8.9	8.6	8.6	8.3	7.8	7.5	7.3	7.2	---
CPI (YoY %)	2.3	2.1	2.5	0.8	0.9	1.2	1.5	1.5	1.4	1.8	1.6	1.9	1.7	1.8
PPI (YoY %)	3.3	5.5	6.9	7.8	7.6	6.4	5.5	5.5	5.5	6.3	6.9	6.9	5.8	4.9
M2 (YoY %)	11.4	11.3	11.3	11.1	10.6	10.5	9.6	9.4	9.2	8.9	9.2	8.8	9.1	---
New Lending (RMB bn)	795	1040	2030	1170	1020	1100	1110	1540	826	1090	1270	663	1120	---
Aggregate Financing (RMB bn)	1740	1630	3740	1150	2120	1390	1060	1780	1220	1480	1820	1040	1600	---

World Economic/Financial Indicators

Equity Indices				Global Commodities				Bond Yields & Key Rates			
	Closing price	Chg. WTD (%)	P/E	Unit	Price	Chg. WTD (%)	Volume (5-Day avg.)		Yield (%)	Chg. WTD (Bps)	
U.S.				Energy				US Fed Fund Rate			
DJIA	25,385.80	0.36	21.33	NYMEX WTI	USD/bbl.	63.46	3.29	663,406	1.50	0.00	
S&P 500	2,751.29	0.30	23.09	ICE Brent Oil	USD/bbl	69.17	2.29	244,146	4.50	0.00	
NASDAQ	7,163.58	0.38	39.96	NYMEX Natural Gas	USD/MMBtu	2.98	6.58	263,336	2.00	0.00	
MSCI US	2,618.93	0.32	23.48	China Qinhuangdao Port Thermal Coal ²	USD/Metric Tonne	61.80	N/A	N/A	1.2763	2.57	
Europe				Basic Metals				US Treasury (1 Yr)			
FTSE 100	7,731.02	0.09	23.07	LME Aluminum Cash	USD/MT	2,134.50	(2.46)	13,895	2.3358	4.72	
DAX	13,385.59	0.50	19.69	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	2,152.50	(2.27)	44,593	2.5567	8.04	
CAC40	5,523.94	0.97	18.98	CMX Copper Active	USD/lb.	7,065.00	(0.31)	8,275	0.0870	2.40	
IBEX 35	10,426.50	0.15	15.70	LME Copper 3- mth Rolling Fwd.	USD/MT	7,102.00	(0.27)	33,671	3.9090	(1.90)	
FTSE MIB	23,004.98	1.07	749.1	Precious Metals				China 10-Yr Gov. Bond			
Stoxx 600	400.11	0.69	21.43	CMX Gold	USD/T. oz	1,311.60	(0.81)	324,413	0.00	0.00	
MSCI UK	2,239.90	0.08	23.66	CMX Silver	USD/T. oz	16.96	(1.88)	90,312	1.5538	0.13	
MSCI France	158.52	0.94	19.17	NYMEX Platinum	USD/T. oz	964.40	(1.11)	20,069	1.7080	0.41	
Asia				Agricultural Products				O/N SHIBOR			
NIKKEI 225	23,796.02	0.34	20.40	CBOT Corn	USD/bu	349.00	(0.64)	175,030	2.6430	15.90	
S&P/ASX 200	6,096.70	(0.42)	18.12	CBOT Wheat	USD/bu	433.00	0.52	65,138	1-mth SHIBOR	4.1821 (19.4)	
HSI	31,068.55	0.82	14.46	NYB-ICE Sugar	USD/lb.	14.73	(2.32)	67,646	3-mth HIBOR	1.2600 (0.86)	
HSCEI	12,298.01	0.71	9.61	CBOT Soybeans	USD/bu.	962.00	(0.90)	81,600	Corporate Bonds (Moody's)		
CSI300	4,184.09	1.10	17.15					Aaa		3.50	0.00
SSE Composite	3,406.96	0.45	17.28					Baa		4.23	0.00
SZSE Composite	1,935.37	(0.33)	29.14								
MSCI China	95.42	1.12	18.57								
MSCI Hong Kong	16,298.45	0.77	13.74								
MSCI Japan	1,120.43	0.50	16.86								

Note:

1. Data sources: Bloomberg, National Bureau of Statistics of China, ABCIS (updated on date of report)
2. The price is Coal 5500 kcal/kg FOB Spot Price

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.1936	1.3529	0.7821	112.30	0.9835	6.5244	7.8224	6.6735
Chg. WTD (%)	(0.77)	(0.31)	(0.55)	0.67	(0.89)	(0.55)	(0.04)	(0.80)



Disclosures

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Definition of equity rating

Rating	Definition
Buy	Stock return \geq Market return rate
Hold	Market return - 6% \leq Stock return < Market return rate
Sell	Stock return < Market return - 6%

Stock return is defined as the expected % change of share price plus gross dividend yield over the next 12 months

Market return: 5-year average market return rate

Time horizon of share price target: 12-month

Definition of share price risk

Rating	Definition
Very high	2.6 \leq 180 day volatility/180 day benchmark index volatility
High	1.5 \leq 180 day volatility/180 day benchmark index volatility < 2.6
Medium	1.0 \leq 180 day volatility/180 day benchmark index volatility < 1.5
Low	180 day volatility/180 day benchmark index volatility < 1.0

We measure share price risk by its volatility relative to volatility of benchmark index. Benchmark index: Hang Seng Index.

Volatility is calculated from the standard deviation of day to day logarithmic historic price change. The 180-day price volatility equals the annualized standard deviation of the relative price change for the 180 most recent trading days closing price.

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