



Economic Insight

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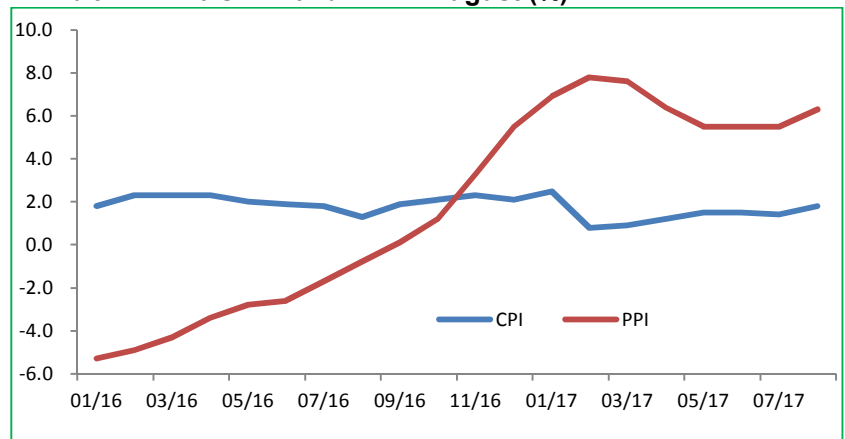
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China's inflation rebounded in August

- China's CPI rebounded to 1.8% in August from 1.4% in July, driven by acceleration in food and energy prices as well as the low base effect.
- PPI rebounded considerably to 6.3% in August from 5.5% in July because of rising prices in producer goods industries supported by the supply-side structural reform and environmental protection inspection.
- Inflation data in August surprised on the upside, but we believe inflation pressure will be benign in the coming months with the low base effect fading away and aggregate demand moderating. We expect CPI and PPI to rise by 1.5% and 5.5% for 2017E.
- PBOC is expected to maintain a neutral monetary policy to lower leverage ratio and prevent financial risks. We expect benchmark interest rates and RRR to stay unchanged in 2017E given the stable growth momentum and the easing pace of reduction in foreign exchange prompted by RMB appreciation.

China's CPI rebounded to 1.8%¹ in August from 1.4% in July, driven by the acceleration in food and energy prices as well as the low base effect (Exhibit 1). Overall food prices declined slightly by 0.2% for the month after falling by 1.1% in July, while non-food prices edged up to 2.3% from 2.0%. In the food basket, the prices of fresh vegetables and egg rose by 9.7% and 4.3% in August, while the prices of pork and cooking oil dropped by 13.4% and 1.1%. On a MoM basis, CPI rose 0.4% in August, compared with the 0.1% increase in July. In 8M17, consumer prices went up by 1.5%.

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



Source(s): NBS, ABCI Securities

PPI rebounded significantly to 6.3% in August from 5.5% in July because of the rising prices in producer goods industries supported by supply-side structural reform and environmental protection inspection. Inflation in producer industries rebounded to 8.3% in August from 7.3% in previous month. By sector, prices in mining, raw materials and manufacturing rose by 18.2%, 11.0% and 6.4%,

ABCI Research

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¹ All growth rates are YoY except specified otherwise



respectively, in August, compared with 15.8%, 9.3%, and 5.8% in July. Notably, inflation in consumer goods industries remained muted at 0.6% in August, compared with 0.5% in July, suggesting that inflation pressure transferred from PPI to CPI was limited. Meanwhile, PPI increased by 0.9% MoM in August, compared with the 0.2% gain in July. In 8M17, producer prices rose by 6.4%.

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China Economic Indicators

	2016						2017							
	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug
Real GDP (YoY %)	---	---	6.7	---	---	6.8	---	---	6.9	---	---	6.9	---	---
Export Growth (USD, YoY %)	(4.4)	(2.8)	(10.0)	(7.3)	0.1	(6.1)	7.9	(1.3)	16.4	8.0	8.7	11.3	7.2	5.5
Import Growth (USD, YoY %)	(12.5)	1.5	(1.9)	(1.4)	6.7	3.1	16.7	38.1	20.3	11.9	14.8	17.2	11.0	13.3
Trade Balance (USD bn)	52.3	52.1	42.0	49.1	44.6	40.8	51.3	(9.1)	23.9	38.0	40.8	42.8	46.7	42.0
Retail Sales Growth (YoY %)	10.2	10.6	10.7	10.0	10.8	10.9	9.5	9.5	10.9	10.7	10.7	11.0	10.4	---
Industrial Production (YoY %)	6.0	6.3	6.1	6.1	6.2	6.0	6.3	6.3	7.6	6.5	6.5	7.6	6.4	---
PMI - Manufacturing (%)	50.4	50.4	50.4	51.2	51.7	51.4	51.3	51.6	51.8	51.2	51.2	51.7	51.4	51.7
PMI - Non-manufacturing (%)	53.5	53.7	53.7	51.2	50.9	51.9	54.6	54.2	55.1	54.0	54.5	54.9	54.5	53.4
FAI (YTD) (YoY %)	8.1	8.1	8.2	8.3	8.3	8.1	8.9	8.9	9.2	8.9	8.6	8.6	8.3	---
CPI (YoY %)	1.3	1.9	1.9	2.1	2.3	2.1	2.5	0.8	0.9	1.2	1.5	1.5	1.4	1.8
PPI (YoY %)	(0.8)	0.1	0.1	1.2	3.3	5.5	6.9	7.8	7.6	6.4	5.5	5.5	5.5	6.3
M2 (YoY %)	11.4	11.5	11.5	11.6	11.4	11.3	11.3	11.1	10.6	10.5	9.6	9.4	9.2	---
New Lending (RMB bn)	464	949	1220	651	795	1040	2030	1170	1020	1100	1110	1540	826	---
Aggregate Financing (RMB bn)	488	1470	1720	896	1740	1630	3740	1150	2120	1390	1060	1780	1220	---

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	21,797.79	0.00	18.56	NYMEX WTI	USD/bbl.	47.86	0.80	798,751	1.25	0.00	
S&P 500	2,461.43	0.00	21.06	ICE Brent Oil	USD/bbl	54.02	0.45	271,815	4.25	0.00	
NASDAQ	6,360.19	0.00	39.19	NYMEX Natural Gas	USD/MMBtu	2.92	1.14	181,455	1.75	0.00	
MSCI US	2,344.96	0.00	21.50	China Qinhuangdao Port Thermal Coal ²	USD/Metric Tonne	61.80	N/A	N/A	0.9650	4.18	
Europe				Basic Metals				US Treasury (1 Yr)			
FTSE 100	7,410.08	0.44	25.09	LME Aluminum Cash	USD/MT	2,071.50	0.00	7,821	1.6661	3.29	
DAX	12,303.98	0.00	17.14	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	2,099.00	0.00	31,228	2.0870	3.63	
CAC40	5,145.99	0.64	18.34	CMX Copper Active	USD/lb.	6,660.25	0.00	12,765	0.0100	0.60	
IBEX 35	10,205.00	0.74	15.66	LME Copper 3- mth Rolling Fwd.	USD/MT	6,693.00	0.00	37,811	3.6360	(3.30)	
FTSE MIB	21,776.66	0.00	N/A	Precious Metals				ECB Rate (Refinancing)			
Stoxx 600	377.30	0.48	20.96	CMX Gold	USD/T. oz	1,339.30	(0.88)	360,851	0.00	0.00	
MSCI UK	2,143.64	0.00	25.55	CMX Silver	USD/T. oz	17.90	(1.26)	86,230	1.2361	0.56	
MSCI France	147.13	0.00	17.97	NYMEX Platinum	USD/T. oz	1,005.30	(0.69)	16,655	1.3103	(0.58)	
Asia				Agricultural Products				O/N SHIBOR			
NIKKEI 225	19,545.77	1.41	17.66	CBOT Corn	USD/bu	356.75	0.00	140,701	2.6440	0.80	
S&P/ASX 200	5,713.10	0.71	17.27	CBOT Wheat	USD/bu	437.00	(0.17)	59,085	3.9339	(0.31)	
HSI	27,953.75	1.03	13.93	NYB-ICE Sugar	USD/lb.	14.09	0.00	75,880	0.7557	(0.13)	
HSCEI	11,226.37	0.69	9.23	CBOT Soybeans	USD/bu.	965.75	0.39	113,610	Corporate Bonds (Moody's)		
CSI300	3,826.39	0.01	16.42					Aaa		3.61	(3.00)
SSE Composite	3,377.67	0.37	17.73					Baa		4.27	(4.00)
SZSE Composite	1,991.73	0.80	35.15								
MSCI China	81.86	0.00	16.52								
MSCI Hong Kong	15,116.92	0.00	13.13								
MSCI Japan	944.26	0.00	14.66								

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	1.1996	1.3184	0.8036	108.56	0.9506	6.5189	7.8143	6.6520
Chg. WTD (%)	(0.33)	(0.12)	(0.30)	(0.66)	(0.67)	(0.38)	(0.01)	(0.29)



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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