



Economic Insight

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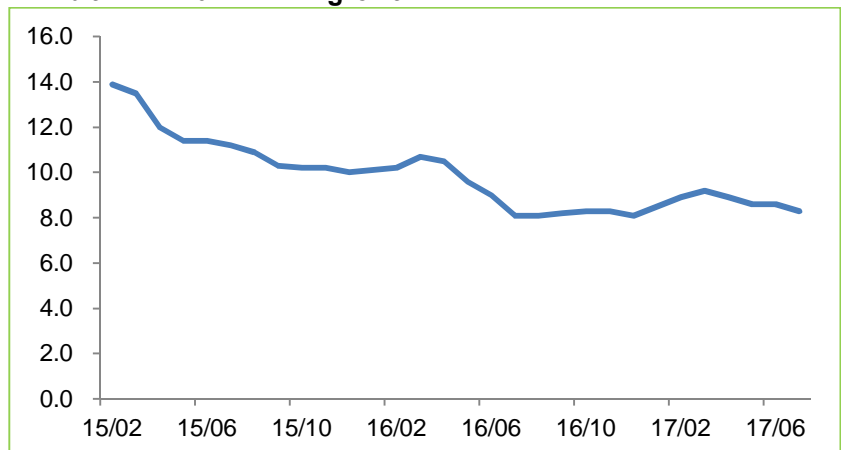
China's economic growth slowed more than expected in July

- China's economic growth slowed more than expected in July as the ongoing deleveraging, rising financing costs, and property tightening measures start to affect economic activities. High temperature in many areas and heavy floods in some cities have also weighed on industrial production.
- Despite challenges ahead, including potential Sino-U.S. trade dispute, Sino-Indian border conflict, and the North Korea nuclear crisis, we maintain our China's economic growth forecast of 6.7% for both 3Q17 and 2017E with the continuation of global economic recovery and a steady internal demand.
- We believe PBOC would maintain a neutral monetary policy to support economic growth, especially ahead of the 19th Party Congress in autumn. Meanwhile, we expect benchmark interest rates and RRR to stay unchanged in 2017 given the headwinds from a cooling property market and easing pace of reduction in foreign exchange.

China's economic growth slowed more than expected in July as the ongoing deleveraging, rising financing costs, and property tightening measures start to affect economic activities. High temperature in many areas and heavy floods in some cities have also weighed on industrial production. Fixed asset investment (FAI), retail sales, industrial production, and trade data were below market expectations, easing from the strong level in June.

FAI growth in urban areas decelerated to 6.8%¹ in July from 8.6% in June on rising financing cost and tightening property policy (Exhibit 1). Growth in property investment slowed to 4.7% in July from 7.6% in June due to tightened home-purchase restrictions in 1st/ 2nd-tier cities. Growth in manufacturing investment eased sharply to 1.5%, compared with 6.7% in June; infrastructure FAI growth edged down to 20.0% in July from 21.6% in June; private investment growth slowed to 5.4% from 8.3% during the same period.

Exhibit 1: China FAI YTD growth



Source(s): NBS, ABCI Securities

ABCI Research

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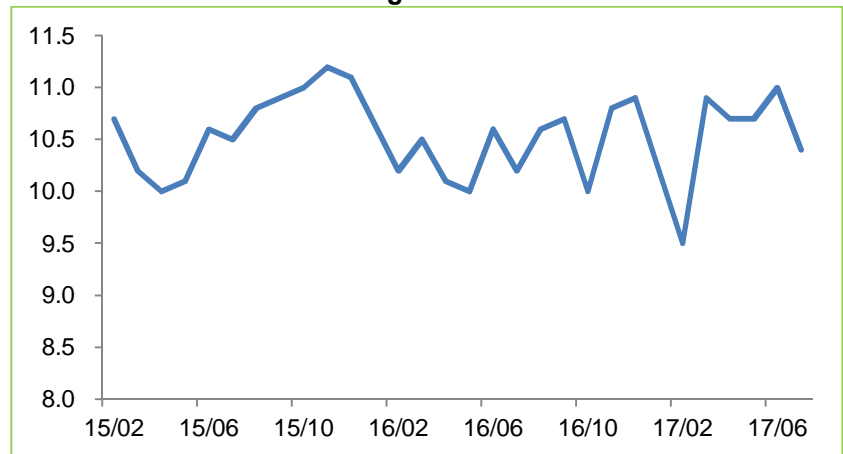
¹ All growth rates are year-on-year except specified otherwise



Property sales slowed significantly in July, especially in the 1st/2nd-tier cities. Growth in new home sales, as measured in floor space area and value, were 2.2% and 4.7%, compared with 21.4% and 30.5% in June. Meanwhile, growth in property new starts tumbled to -4.9% in July from 14.0% in the previous month.

Retail sales growth fell to 10.4% in July from 11.0% in June on slowing retail sales of communication appliance, automobile and property-related consumption (Exhibit 2). Adjusting for retail prices, real growth of retail sales softened to 9.6% in July, down from 10.0% in June.

Exhibit 2: China's retail sales growth



Source(s): NBS, ABCI Securities

Due to the bad weather conditions, growth in industrial production slowed to 6.4% in July from 7.6% in June. Growth in automobile production slackened to 4.3% in July from 6.2% in June. Nonetheless, pharmacy, equipment manufacturing, electrical machinery, computer and communication maintained a low double-digit growth in July.

Overall, the macro data in July revealed a diminishing momentum. Despite the potential challenges ahead, which include the Sino-U.S. trade dispute, Sino-Indian border conflict, and the North Korea nuclear crisis, we maintain our China's economic growth forecast of 6.7% for both 3Q17 and 2017E with the continuation of global economic recovery and a steady internal demand (Exhibit 3).

We believe PBOC would maintain a neutral monetary policy to support economic growth, especially ahead of the 19th Party's Congress in the fall. Meanwhile, we expect benchmark interest rates and RRR to stay unchanged in 2017 given the headwinds from a cooling property market and easing pace of reduction in foreign exchange.



Exhibit 3: Economic forecasts

Economic indicators	2016	2017E	2018E
Real GDP growth, %	6.7	6.7	6.4
FAI growth, %	8.1	8.5	8.0
Retail Sales growth, %	10.4	10.5	10.0
Export growth in USD terms, %	-7.7	8.0	3.0
Import growth in USD terms, %	-5.5	14.0	5.0
Industrial Production growth, %	6.0	6.5	6.0
CPI, %	2.0	1.5	2.0
PPI, %	-1.4	5.5	2.0
M2 growth, %	11.3	10.5	10.0
Aggregate Financing, RMB bn	17,800	19,000	20,000
New Yuan Loans, RMB bn	12,600	13,500	14,500
Spot CNY per US dollar, End-year	6.9450	6.8500	7.0500

Source(s): NBS, PBOC, ABCI Securities



China Economic Indicators

	2016							2017						
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Real GDP (YoY %)	6.7	---	---	6.7	---	---	6.8	---	---	6.9	---	---	6.9	---
Export Growth (USD, YoY %)	(4.8)	(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
Import Growth (USD, YoY %)	(8.4)	(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
Trade Balance (USD bn)	48.1	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
Retail Sales Growth (YoY %)	10.6	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 %)	6.2	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 (%)	49.9	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
PMI - Non-manufacturing (%)	53.9	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
FAI (YTD) (YoY %)	9.0	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 %)	1.8	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
PPI (YoY %)	(1.7)	(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
M2 (YoY %)	10.2	11.4	11.5	11.5	11.6	11.4	11.3	11.3	11.1	10.6	10.5	9.6	9.4	---
New Lending (RMB bn)	1380	464	949	1220	651	795	1040	2030	1170	1020	1100	1110	1540	---
Aggregate Financing (RMB bn)	1629	488	1470	1720	896	1740	1630	3740	1150	2120	1390	1060	1780	---

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	1.25	0.00		
DJIA	21,858.32	0.00	18.72	NYMEX WTI	USD/bbl.	48.85	0.06	910,708	US Prime Rate	4.25	0.00	
S&P 500	2,441.32	0.00	20.95	ICE Brent Oil	USD/bbl	52.08	(0.04)	291,459	US Discount Window	1.75	0.00	
NASDAQ	6,256.56	0.00	32.49	NYMEX Natural Gas	USD/MMBtu	3.00	0.60	172,627	US Treasury (1 Yr)	0.9777	0.12	
MSCI US	2,324.21	0.00	21.36	China Qinhuangdao Port Thermal Coal ²	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (5Yr)	1.7626	1.97	
Europe				Basic Metals				US Treasury (10 Yr)	2.2115	2.27		
FTSE 100	7,339.25	0.40	25.40	LME Aluminum Cash	USD/MT	2,037.75	0.00	6,045	Japan 10-Yr Gov. Bond	0.0560	(0.70)	
DAX	12,143.94	1.08	17.44	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	2,042.50	0.00	54,294	China 10-Yr Gov. Bond	3.6360	(0.20)	
CAC40	5,104.38	0.86	18.22	CMX Copper Active	USD/lb.	6,383.50	0.00	7,524	ECB Rate (Refinancing)	0.00	0.00	
IBEX 35	10,400.20	1.14	15.96	LME Copper 3- mth Rolling Fwd.	USD/MT	6,411.00	0.00	43,067	1-Month LIBOR	1.2267	(0.22)	
FTSE MIB	21,581.79	1.07	N/A	Precious Metals				3 Month LIBOR	1.3150	0.31		
Stoxx 600	374.89	0.74	21.07	CMX Gold	USD/T. oz	1,289.60	(0.34)	239,376	O/N SHIBOR	2.7743	(1.57)	
MSCI UK	2,125.43	0.00	25.85	CMX Silver	USD/T. oz	17.09	0.09	88,777	1-mth SHIBOR	3.8512	(1.15)	
MSCI France	145.06	0.00	17.84	NYMEX Platinum	USD/T. oz	981.10	(0.87)	17,455	3-mth HIBOR	0.7600	(0.09)	
MSCI Germany	148.52	0.00	17.30	Agricultural Products				Corporate Bonds (Moody's)				
MSCI Italy	59.30	0.00	N/A	CBOT Corn	USD/bu	370.25	(1.20)	256,628	Aaa	3.62	(3.00)	
Asia				CBOT Wheat	USD/bu	461.25	(1.23)	69,779	Baa	4.31	(1.00)	
NIKKEI 225	19,537.10	(0.98)	17.69	NYB-ICE Sugar	USD/lb.	13.27	0.53	57,077	Note:			
S&P/ASX 200	5,730.41	0.65	19.09	CBOT Soybeans	USD/bu.	938.25	(0.71)	124,748	1. Data sources: Bloomberg, National Bureau of Statistics of China, ABCIS (updated on date of report)			
HSI	27,247.77	1.35	14.18	2. The price is Coal 5500 kcal/kg FOB Spot Price								
HSCEI	10,716.13	1.35	8.86									
CSI300	3,694.68	1.30	16.18									
SSE Composite	3,237.36	0.90	17.39									
SZSE Composite	1,879.77	2.02	34.66									
MSCI China	77.85	0.00	16.70									
MSCI Hong Kong	14,756.18	0.00	13.30									
MSCI Japan	958.84	0.00	14.89									

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.1802	1.2994	0.7877	109.72	0.9653	6.6639	7.8211	6.8230
Chg. WTD (%)	(0.16)	(0.15)	(0.22)	(0.48)	(0.36)	(0.00)	(0.03)	(0.12)



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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