



## Economic Insight

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## China's manufacturing PMI rebounded in August

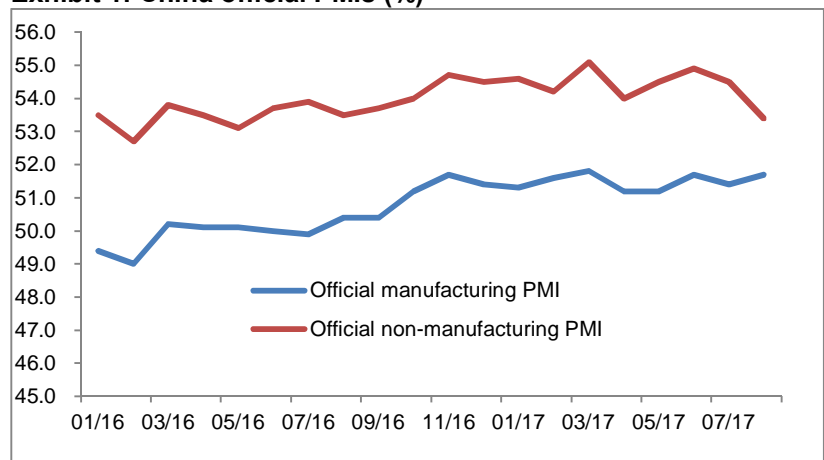
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- China's official manufacturing PMI advanced to 51.7 in August from 51.4 in July, beating the market forecast of 51.3. The rebound can be attributed to the elevated PPI on the supply-side structural reform and capacity reduction, which supported the profit and output in the manufacturing sector.
- The official non-manufacturing PMI eased to 53.4 in August from 54.5 last month, dragged by contraction in property sector and residential services sector due to unfavorable weather.
- In general, the data revealed that China's economic growth has regained momentum after a slight setback in July.
- Looking ahead, the economic policy stance is likely to remain stable to support growth ahead of the 19th Party's Congress in autumn. We expect the official manufacturing and non-manufacturing PMIs to be 51.0 and 54.0 by end-2017E.

China's official manufacturing PMI advanced to 51.7 in August from 51.4 in July, beating the market forecast of 51.3 (Exhibit 1). The rebound can be attributed to the elevated PPI resulted from the supply-side structural reform and capacity reduction, which supported the profit and output in the manufacturing sector.

Exhibit 1: China official PMIs (%)



Source(s): NBS, ABCI Securities

Evaluating the sub-indices of the official manufacturing PMI, we believe overall domestic demand has remained solid, with new order index and new import order index rebounding to 53.1 and 51.4 in August from 52.8 and 51.1 in July. External demand eased, however, as indicated by the new export order index that declined to 50.4 from 50.8. The production index advanced to 54.1 in August from 53.5 in July on sizable profits in manufacturing corporates due to strong prices. Raw material inventory index and finished goods inventory index fell to 48.3 and 45.5 in August from 48.5 and 46.1 in July, suggesting continuous capacity reduction and strong demand. Notably, the input price index and the output price index climbed back to 65.3 and 57.4 in August from 57.9 and 52.7 last month, suggesting the headline PPI in August will likely advance and support growth in industrial profit.



By enterprise type, the medium and small enterprises PMIs advanced to 51.0 and 49.1 in August from 49.6 and 48.9 in July while the large enterprises PMI edged down to 52.8 from 52.9. Hence, one can deduce that the rebound in headline manufacturing PMI was primarily a result of quickening economic activities among the medium enterprises.

The official non-manufacturing PMI eased to 53.4 in August from 54.5 last month, dragged by contraction in property sector and residential services sector due to unfavorable weather. By breakdown, the PMIs for air transport, post, telecom broadcasting, and internet exceeded 60, while the PMIs for wholesale, capital market services, real estate, residential services and repair industry fell below the 50-point mark.

In general, the August manufacturing and non-manufacturing PMIs indicate China's economic growth has regained momentum after a slight setback in July. Looking ahead, the economic policy stance is likely to remain stable to support growth ahead of the 19<sup>th</sup> Party's Congress in autumn. We expect the official manufacturing and non-manufacturing PMIs to be 51.0 and 54.0 by end-2017E.



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	---
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	---
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	---
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	---
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	---
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)	
<b>U.S.</b>				<b>Energy</b>				US Fed Fund Rate	1.25	0.00	
DJIA	21,892.43	0.36	18.72	NYMEX WTI	USD/bbl.	46.00	(3.91)	835,557	US Prime Rate	4.25	0.00
S&P 500	2,457.59	0.60	21.05	ICE Brent Oil	USD/bbl	50.75	(3.17)	181,599	US Discount Window	1.75	0.00
NASDAQ	6,368.31	1.64	39.17	NYMEX Natural Gas	USD/MMBtu	2.94	1.63	62,340	US Treasury (1 Yr)	0.9398	(3.54)
MSCI US	2,341.07	0.59	21.47	China Qinhuangdao Port Thermal Coal <sup>2</sup>	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (5Yr)	1.7299	(2.69)
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (10 Yr)	2.1483	(1.76)	
FTSE 100	7,382.43	(0.26)	24.98	LME Aluminum Cash	USD/MT	2,069.00	0.13	9,913	Japan 10-Yr Gov. Bond	0.0100	(0.90)
DAX	12,087.92	(0.66)	16.84	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	2,087.50	0.85	34,297	China 10-Yr Gov. Bond	3.6710	(1.00)
CAC40	5,081.54	(0.45)	18.15	CMX Copper Active	USD/lb.	6,746.00	1.48	11,770	ECB Rate (Refinancing)	0.00	0.00
IBEX 35	10,283.70	(0.60)	15.78	LME Copper 3- mth Rolling Fwd.	USD/MT	6,769.00	1.55	37,920	1-Month LIBOR	1.2389	0.33
FTSE MIB	21,614.54	(0.61)	N/A	<b>Precious Metals</b>				3 Month LIBOR	1.3169	(0.08)	
Stoxx 600	372.56	(0.40)	20.71	CMX Gold	USD/T. oz	1,310.70	0.99	339,920	O/N SHIBOR	2.8310	(2.40)
MSCI UK	2,140.86	(0.46)	25.45	CMX Silver	USD/T. oz	17.45	1.83	63,559	1-mth SHIBOR	3.8920	0.48
MSCI France	145.22	(0.83)	17.87	NYMEX Platinum	USD/T. oz	991.40	1.26	17,413	3-mth HIBOR	0.7627	(0.02)
MSCI Germany	148.29	(1.30)	16.80	<b>Agricultural Products</b>				Corporate Bonds (Moody's)			
MSCI Italy	59.73	(1.08)	N/A	CBOT Corn	USD/bu	345.50	(2.26)	191,219	Aaa	3.62	0.00
<b>Asia</b>				CBOT Wheat	USD/bu	432.00	(0.75)	68,564	Baa	4.28	(1.00)
NIKKEI 225	19,646.24	1.00	17.75	NYB-ICE Sugar	USD/lb.	13.91	(0.86)	62,346			
S&P/ASX 200	5,714.52	(0.51)	17.33	CBOT Soybeans	USD/bu.	935.25	(0.98)	91,291			
HSI	27,946.82	0.35	14.05								
HSCEI	11,273.74	(0.13)	9.24								
CSI300	3,822.09	0.69	16.51								
SSE Composite	3,360.81	0.88	17.80								
SZSE Composite	1,944.94	1.82	34.61								
MSCI China	82.57	0.58	16.64								
MSCI Hong Kong	15,032.17	0.54	13.11								
MSCI Japan	951.18	0.55	14.76								

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	1.1898	1.2906	0.7903	110.48	0.9639	6.5948	7.8254	6.7490
Chg. WTD (%)	(0.22)	0.19	(0.37)	(1.01)	(0.72)	0.78	(0.09)	0.74



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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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