



Economics Weekly Oct 24, 2016

Co-head of Research

Philip Chan

Tel: 852-2147 8805

Email: philipchan@abci.com.hk

Analyst

Paul Pan

Tel: 852-2147 8829

Email: paulpan@abci.com.hk

Previous reports

China's residential property market: a new down-cycle ensues

Oct 13, 2016

<http://sec.abci.com.hk/medias/ENG%20ABCI%20Economics%20Weekly%20-%20China%E2%80%99s%20residential%20property%20market%E2%80%99s%20new%20down-cycle%20ensues.pdf>

U.S. interest rate outlook in 2017

Sep 29, 2016

<http://sec.abci.com.hk/medias/ABCI%20Economics%20Weekly%20-%20U.S.%20interest%20rate%20outlook%20in%202017.pdf>

Growing healthcare expenditure to become a new normal

Sep 26, 2016

<http://sec.abci.com.hk/medias/ABCI%20Economics%20Weekly%20-Growing%20healthcare%20expenditure%20to%20become%20a%20new%20normal.pdf>

Up and rising in China's pharma industry

Sep 14, 2016

<http://sec.abci.com.hk/medias/ABCI%20Economics%20Weekly%20-%20Up%20and%20rising%20in%20China%E2%80%99s%20pharma%20industry.pdf>

China PMI shows reliance on domestic demand

Sep 5, 2016

<http://sec.abci.com.hk/medias/ABCI%20Economics%20Weekly%20-%20China%20PMI%20shows%20reliance%20on%20domestic%20demand.pdf>

China's economy still faces uncertainty in 4Q16

- China's GDP growth stayed at 6.7% YoY for 3Q16. We expect corrections in the stock market to persist as corporate fundamentals remain weak and trading ranges of benchmark indices in Hong Kong are relatively high
- Retail sales and FAI improved but detailed analysis of the data reflects a mixed picture. Industrial production remained weak
- FAI figures and monetary indicators suggested a strong real estate market, but we expect a cool down in the sector due to the tightening measures enforced recently
- PMI remained stable, largely supported by the sizeable enterprises
- Trade data deteriorated in Sep, but the new export order index in PMI suggested a turnaround may soon occur
- CPI improved and PPI showed its first positive growth since Mar 2012, reducing the need for further monetary easing in the near term

China's GDP stabilized at 6.7% YoY. China's 3Q16 GDP growth of stayed at 6.7% YoY, but reactions in the capital market were largely negative. On the date of announcement, Shanghai Composite Index edged up 0.03%, while Shenzhen Component Index, Hang Seng Index, and Hang Sheng China Enterprise Index fell 0.36%, 0.38%, and 0.81%. In addition, China's USD senior 5-yr CDS has increased by 12.33% since Sep 8, meaning that China's market risk premium is increasing. The risen market risk premium was reflected by downward corrections in Hang Seng Index and Hang Seng China Enterprise Index, since the market is not expecting a turnaround in corporate fundamentals (Bloomberg consensus FY16E EPS for HSI and HSCEI: -10.9% and -14.2% YoY). Recent declines in major indices have also been caused by their expensive valuations at present. At the level of 23,340, HSI's 2016E P/E would be 12.84x. The HSI's P/Es in 2011-2014 were mostly below 12x and the highest P/E for 2015 was 14.0x. Therefore, we believe that the market correction would persist in the near term.

Inflation improves in Sep; PPI swung back to positive territory.

In Sep 2016, CPI growth increased from 1.3% YoY in Aug to 1.9% YoY. Food price inflation is a major driver because the CPI of food increased 3.2% YoY from 1.3% YoY in Aug, while the CPI of non-food products also rose by 1.6% YoY from 1.4% YoY in Aug. The rise in food inflation was mainly caused by the higher price of vegetable (+7.5% YoY in Sep vs. -3.9% YoY in Aug) and aquatic products (+6.1% YoY in Sep vs. +5.39% YoY in Aug). Meanwhile, rising prices of oil and metal commodities lifted the prices of related products. Hence, PPI recorded a growth of 0.1% YoY, its first turnaround since Mar 2012.

Further improvement in retail sales. Retail sales grew 10.7% YoY, up 0.1 ppt in Sep 2016. Supported by the strong sales of physical goods, monthly online retail sales jumped 114.51% YoY although YTD growth retreated by 0.6 ppt to 26.1% YoY. The figure signals that



online retail space is taking more market share away from the offline retailers. For the retail sectors, “automobiles”, “petroleum & related products” and “daily used articles” have been recovering in the last few months and recorded sales growth of 13.1% YoY, 2.9% YoY, and 12.5% in Sep 2016. The improved retail sales growth, however, may have been boosted by the higher inflation, meaning that retail sales volume may have actually declined in Sep. Entering 4Q16, we believe online retail sales would continue to be a robust driver as several major sales events will be taking place in Nov and Dec.

Investment reflected differing views on the Chinese economy.

FAI in Sep improved slightly with a 9M16 growth of 8.2% YoY. However, FAI and FDI data showed differing views on the Chinese economy. Foreign investors were bullish on “software & information technology”, “manufacturer of medicine”, and “transport, storage, & post”, whose 8M16 FDIs were up 187.50% YoY, 57.12% YoY, and 96.32% YoY. Growth in public investment offset the low or negative growth in most industries, except for “production and supply of electricity, gas, and water”. For 4Q16, we believe, the situation would persist as low liquidity and weak sentiment would still dominate.

Weakness in industrial production sheds lights on the shaky state of the Chinese economy.

In Sep 2016, industrial production grew 6.1% YoY, down 0.2 ppt from 6.3% YoY in Aug 2016. The average daily output of electricity in Sep also saw a lower growth of 6.8% YoY vs. 7.8% YoY in Aug. Production volume of automobile, buoyed by the strong retail demand, was up 31.5% YoY; meanwhile, robotics equipment also recorded an impressive growth of 31.5% YoY. For 4Q16, we believe industrial production would continue to fluctuate as weak fundamentals around the world and effects of the end-of-year holiday season continues to suppress economic activities.

Real estate continued to be a major growth contributor.

FAI investment in real estate grew 5.8% YoY for 9M16. Raw land purchase saw a smaller decline of 6.1% YoY in volume and an accelerated growth of 13.3% in value. Inventory of property was high. In 9M16, inventory of residential property fell slightly by 2.6% YoY but that of the office and commercial property increased by 11.1% YoY and 17.4% YoY. Momentum of the real estate market was also reflected on the monetary indicators. In Sep, new yuan loan reached RMB 1,220bn, and the new mortgage loan was RMB 475.9bn, representing 39% of total new yuan loan. However, we believe that new purchase restriction policies launched at the start of Oct would help regulate demand in the real estate sector and calm the pace of increase in real estate price.

PMI showed a mixed picture.

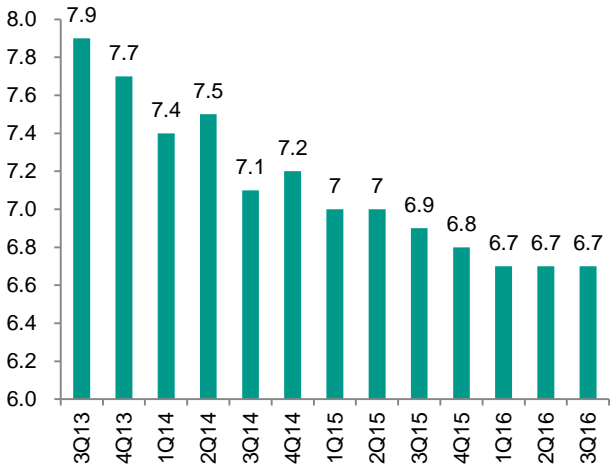
In Sep, PMI stayed at 50.4. Large enterprises continued to outperform with a PMI of 52.6, whereas PMIs of medium and small enterprise declined to 48.2 and 46.1 from 48.9 and 47.4 in Aug. New export order index of the large and small enterprises continued to climb in Sep, suggesting that a turnaround for the small enterprise may occur in 4Q16. Prospect of the export sector has turned more positive, with the new export order index increasing from 49.7 in Aug to 50.1 in Sep.



The international trade environment is turning less favorable. In Sep, China's trade figures deteriorated across the board. Export growth, import growth, and trade surplus dropped to -10% YoY, -1.9% YoY, and US\$ 41.99bn from -2.8% YoY, 1.5% YoY, and US\$ 52.05bn in Aug. Exports to major trading partners (the U.S., Eurozone, Japan, and ASEAN) declined. Toy export, however, bucked the trend with a 9M16 growth of 9.9% YoY, signaling consumption upgrade around the world. 9M16 coal export also grew 20.4% YoY, pointing to the possibility that a low oil cost may not be the only factor that drive down global energy price. YTD rice export grew 15.8% YoY. We expect trade data to improve slightly as subdued consumer sentiment would continue to pressure performance in the trade sector.

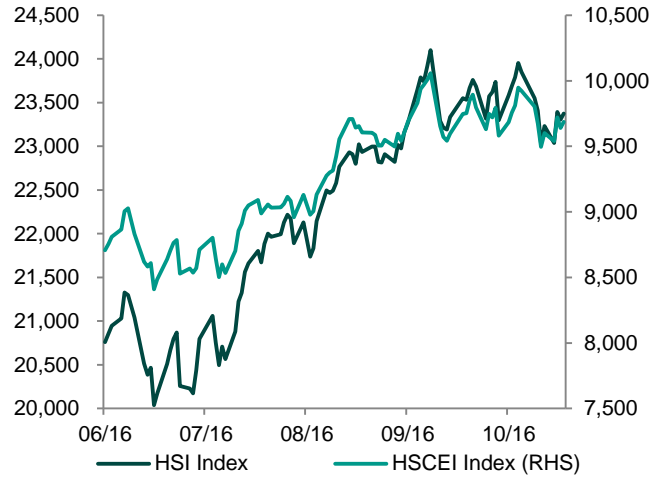


Exhibit 1: China's GDP growth (YoY %)



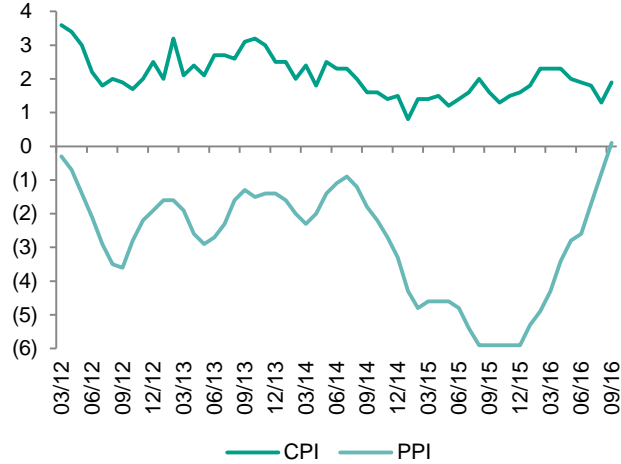
Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 2: HSI and HSCEI performance



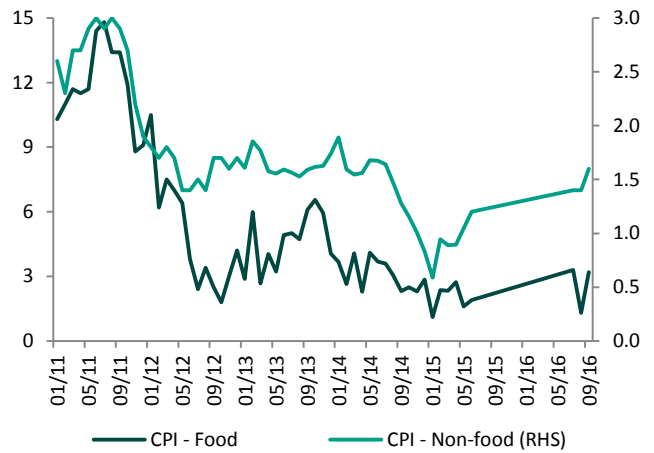
Source(s): Bloomberg, ABCI Securities

Exhibit 3: CPI and PPI (YoY %)



Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 4: CPI of food and non-food products (YoY %)



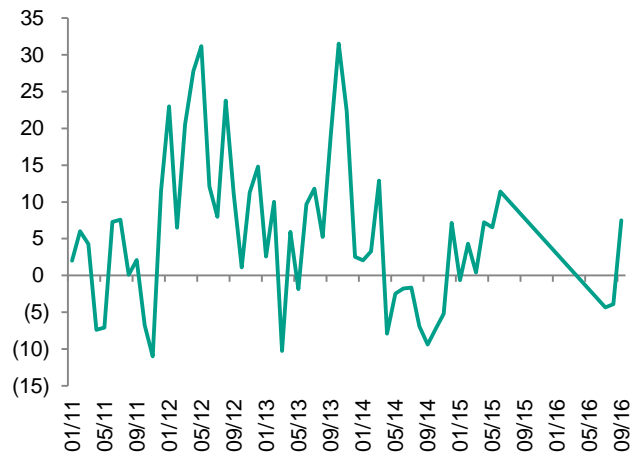
Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 5: CPI - aquatic products (YoY %)



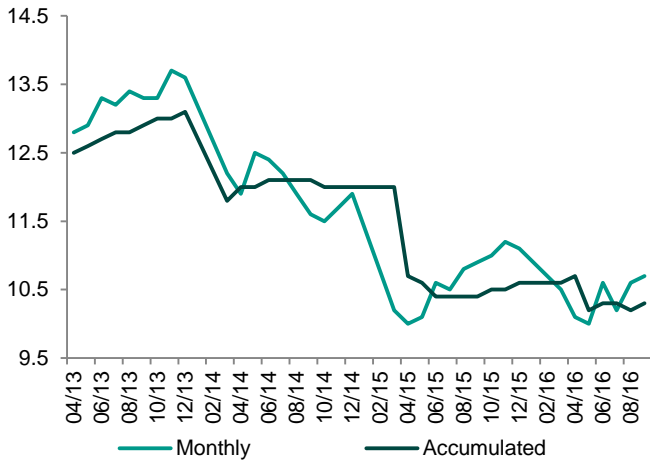
Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 6: CPI - vegetables (YoY %)



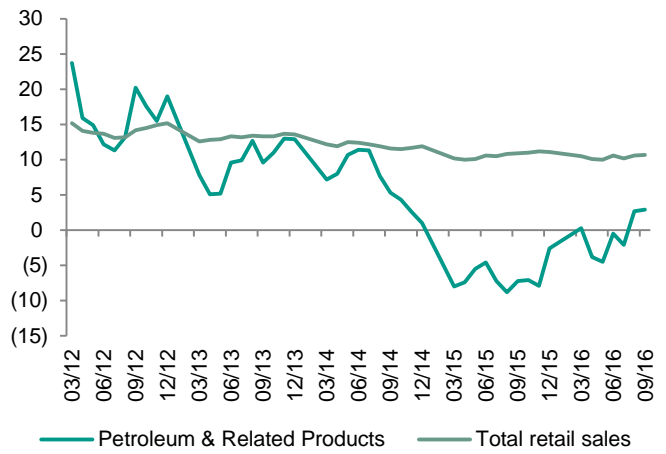
Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 7: Retail sales growth (YoY %)



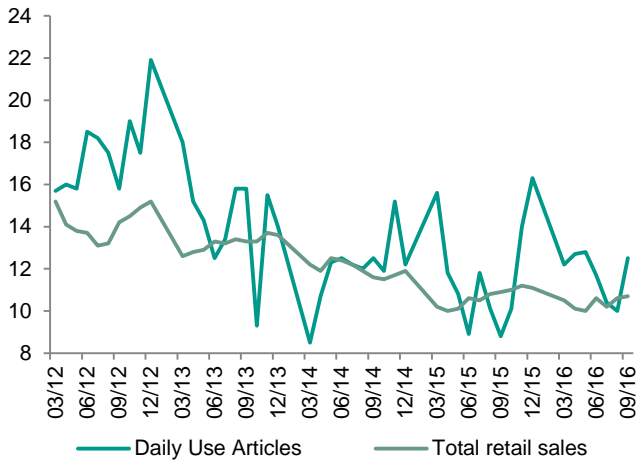
Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 8: Retail sales growth - petroleum and related products (YoY %)



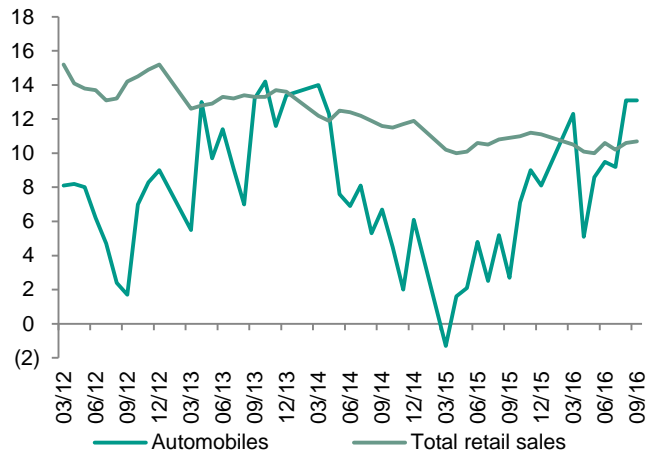
Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 9: Retail sales growth of - daily used articles (YoY %)



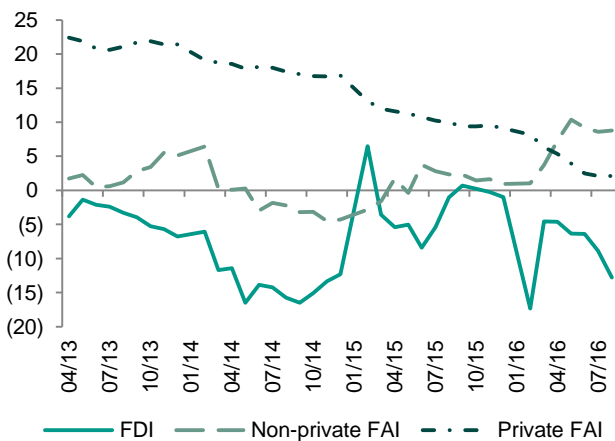
Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 10: Retail sales growth - automobiles (YoY %)



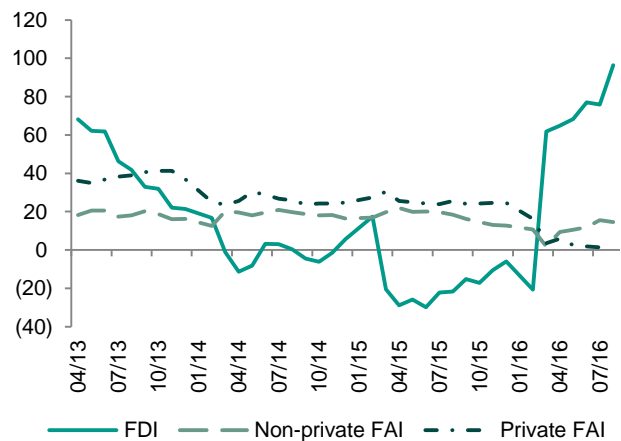
Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 11: FAI and FDI (YTD YoY%)



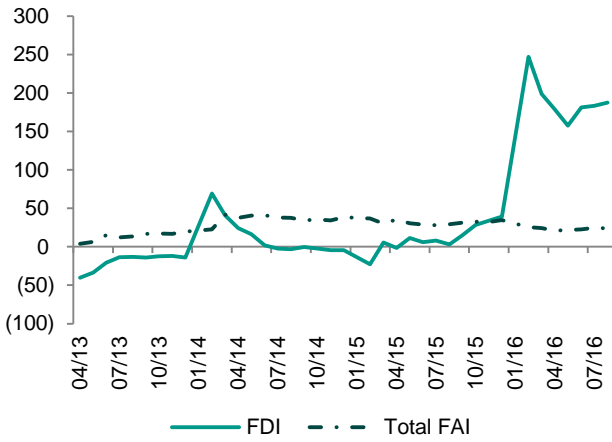
Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 12: FAI and FDI - Transport, Storage and Post (YTD YoY%)



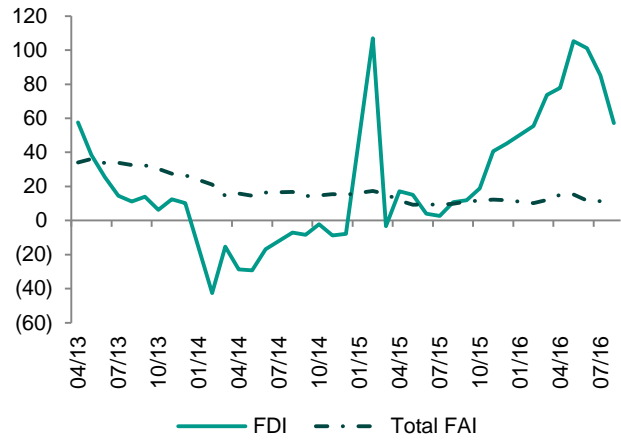
Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 13: FAI and FDI - Software & Information Technology (YTD YoY%)



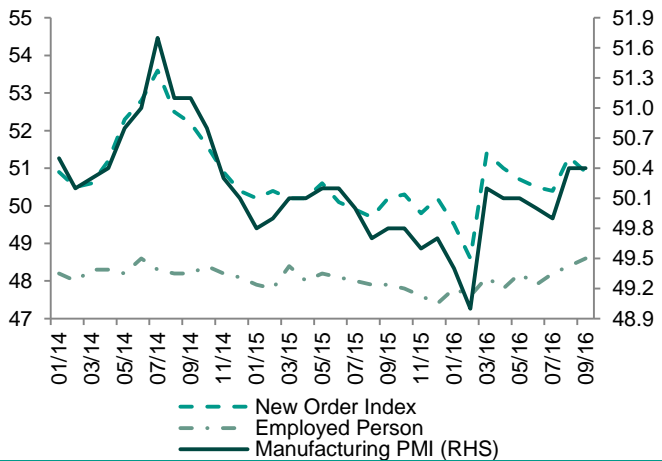
Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 14: FAI and FDI - Manufacture of medicine (YTD YoY YTD YoY %)



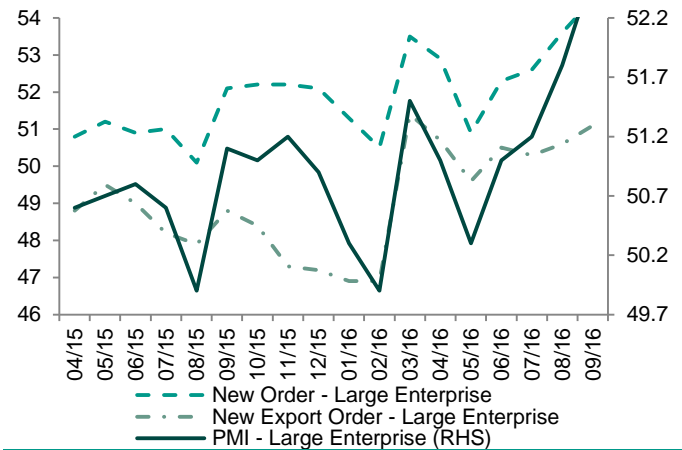
Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 15: PMI and sub-indices (%)



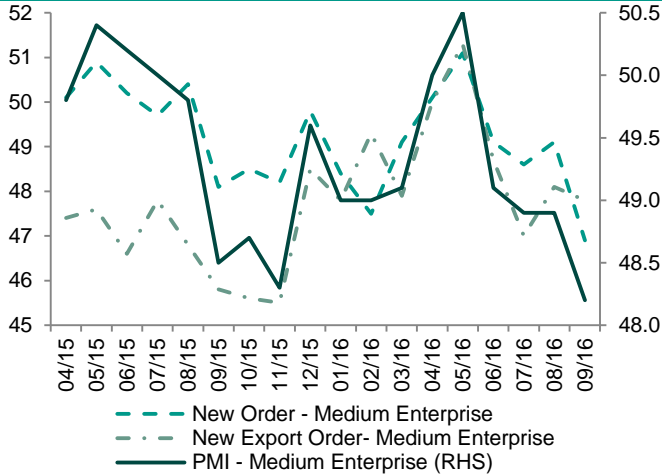
Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 16: PMI of large enterprise and sub-indices (%)



Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 17: PMI of medium enterprise and sub-indices (%)



Source(s): NBS, Bloomberg, ABCI Securities

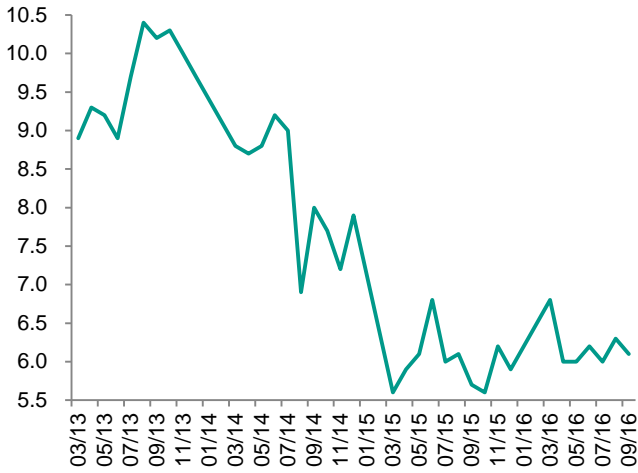
Exhibit 18: PMI of small enterprise and sub-indices (%)



Source(s): NBS, Bloomberg, ABCI Securities

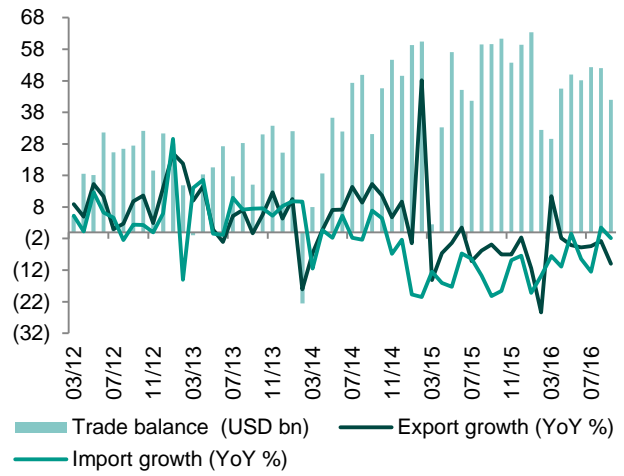


Exhibit 19: Industrial production (YoY%)



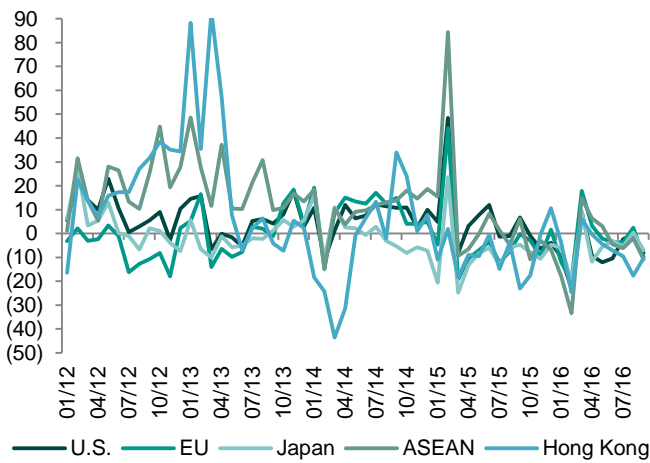
Source(s): NBS, Bloomberg, ABCI Securities

Exhibit 20: External trade



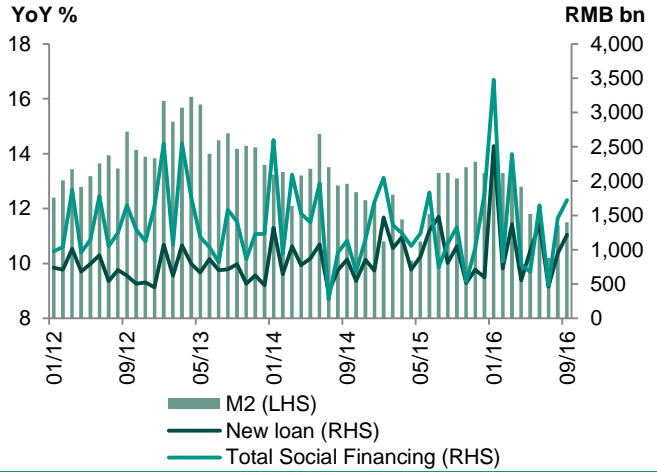
Source(s): China Custom, Bloomberg, ABCI Securities

Exhibit 21: Export to major trade partners (YoY %)



Source(s): China Custom, Bloomberg, ABCI Securities

Exhibit 22: Monetary data



Source(s): PBOC, Bloomberg, ABCI Securities



China Economic Indicators

	2015					2016								
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Real GDP (YoY %)	---	6.9	---	---	6.8	---	---	6.7	---	---	6.7	---	---	6.7
Export Growth (YoY %)	(5.5)	(3.7)	(6.9)	(6.8)	(1.4)	(11.2)	(25.4)	11.5	(1.8)	(4.1)	(4.8)	(4.4)	(2.8)	(10.0)
Import Growth (YoY %)	(13.8)	(20.4)	(18.8)	(8.7)	(7.6)	(18.8)	(13.8)	(7.6)	(10.9)	(0.4)	(8.4)	(12.5)	1.5	(1.9)
Trade Balance (USD/bn)	60.2	60.3	61.6	54.1	60.9	63.3	32.6	29.9	45.56	49.98	48.11	52.31	52.05	41.99
Retail Sales Growth (YoY %)	10.8	10.9	11.0	11.2	11.1	10.2		10.5	10.1	10.0	10.6	10.2	10.6	10.7
Industrial Production (YoY %)	6.1	5.7	5.6	6.2	5.9	5.4		6.8	6.0	6.0	6.2	6.0	6.3	6.1
PMI - Manufacturing (%)	49.7	49.8	49.8	49.6	49.7	49.4	49.0	50.2	50.1	50.1	50.0	49.9	50.4	50.4
PMI - Non-manufacturing (%)	53.4	53.4	53.1	53.6	54.4	53.5	52.7	53.8	53.5	53.1	53.7	53.9	53.5	53.7
FAI (YTD) (YoY %)	10.9	10.3	10.2	10.2	10.0	10.2		10.7	10.5	9.6	9.0	8.1	8.1	8.2
CPI (YoY %)	2.0	1.6	1.3	1.5	1.6	1.8	2.3	2.3	2.3	2.0	1.9	1.8	1.3	1.9
PPI (YoY %)	(5.9)	(5.9)	(5.9)	(5.9)	(5.9)	(5.3)	(4.9)	(4.3)	(3.4)	(2.8)	(2.6)	(1.7)	(0.8)	0.1
M2 (YoY %)	13.3	13.1	13.5	13.7	13.3	14.0	13.3	13.4	12.8	11.8	11.8	10.2	11.4	11.5
New Lending (RMB/bn)	809.6	1,050	513.6	708.9	597.8	2,510	726.6	1,370	555.6	985.5	1,380	463.6	948.7	1,220
Aggregate Financing (RMB bn)	1,082	1,300	476.7	1,020	1,815.1	3,425.3	824.5	2,404.0	751.0	659.9	1,629.3	487.9	1,470.0	1,720

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	0.50	0.00	
DJIA	18,145.71	0.00	17.23	NYMEX WTI	USD/bbl.	50.94	0.18	264,022	US Prime Rate	3.50	0.00
S&P 500	2,141.16	0.00	20.11	ICE Brent Oil	USD/bbl	51.96	0.35	268,524	US Discount Window	1.00	0.00
NASDAQ	5,257.40	0.00	31.30	NYMEX Natural Gas	USD/MMBtu	3.01	0.67	146,936	US Treasury (1 Yr)	0.2282	(0.50)
MSCI US	2,040.11	0.00	20.70	China Qinhuangdao Port Thermal Coal ²	USD/Metric Tonne	609.00	3.92	N/A	US Treasury (5Yr)	1.2429	0.01
Europe				Basic Metals				US Treasury (10 Yr)	1.7295	(0.52)	
FTSE 100	7,037.59	0.24	59.58	LME Aluminum Cash	USD/MT	1,619.50	0.00	23,686	Japan 10-Yr Gov. Bond	(0.05)	0.10
DAX	10,797.50	0.81	24.38	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,625.00	0.00	48,235	China 10-Yr Gov. Bond	2.6570	(5.10)
CAC40	4,567.00	0.68	23.34	CMX Copper Active	USD/lb.	4,623.50	0.00	9,872	ECB Rate (Refinancing)	0.00	0.00
IBEX 35	9,210.80	1.21	22.76	LME Copper 3- mth Rolling Fwd.	USD/MT	4,635.00	0.00	39,142	1-Month LIBOR	0.5340	(0.17)
FTSE MIB	17,277.77	0.65	37.35	Precious Metals				3 Month LIBOR	0.8818	0.01	
Stoxx 600	345.98	0.49	27.32	CMX Gold	USD/T. oz	1,265.70	(0.16)	128,420	O/N SHIBOR	2.2310	0.90
MSCI UK	2,043.00	0.00	62.63	CMX Silver	USD/T. oz	17.63	0.75	43,933	1-mth SHIBOR	2.7245	0.03
MSCI France	128.66	0.00	21.42	NYMEX Platinum	USD/T. oz	938.60	0.68	10,914	3-mth HIBOR	0.6086	0.75
MSCI Germany	136.53	0.00	24.39	Agricultural Products				Corporate Bonds (Moody's)			
MSCI Italy	48.66	0.00	40.32	CBOT Corn	USD/bu	353.75	0.35	149,753	Aaa	3.46	(10.0)
Asia				CBOT Wheat	USD/bu	415.50	0.24	55,877	Baa	4.35	(8.00)
NIKKEI 225	17,234.42	0.29	21.65	NYB-ICE Sugar	USD/lb.	22.93	0.97	41,795	Note:		
S&P/ASX 200	5,408.49	(0.40)	24.27	CBOT Soybeans	USD/bu.	1,003.00	1.08	67,377	1. Data sources: Bloomberg, National Bureau of Statistics of China, ABCIS (updated on date of report)		
HSI	23,604.08	0.98	12.77	2. The price is Coal 5500 kcal/kg FOB Spot Price							
HSCEI	9,852.90	1.72	8.45								
CSI300	3,367.58	1.20	15.50								
SSE Composite	3,128.25	1.21	18.29								
SZSE Composite	10,842.64	0.87	32.26								
MSCI China	63.46	0.00	14.18								
MSCI Hong Kong	13,172.67	0.00	15.18								
MSCI Japan	820.14	0.00	17.47								

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.0889	1.2228	0.7636	103.92	0.9942	6.7710	7.7574	6.9400
Chg. WTD (%)	0.05	(0.05)	0.37	(0.12)	(0.05)	(0.06)	0.01	0.06



Disclosures

Analyst Certification

We, Chan Sung Yan, Philip, and PAN Hongxing, Paul, being the persons primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect our personal view about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. We and/or our associates have no financial interests in relation to any listed company (ies) covered in this report, and we and/or our associates do not serve as officer(s) of any listed company (ies) covered in this report.

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.

Disclaimer

This report is for our clients only and is for distribution only under such circumstances as may be permitted by applicable law. It has no regard to the specific investment objectives, financial situation or particular needs of any specific recipient. It is published solely for informational purposes and is not to be construed as a solicitation or an offer to buy or sell any securities or related financial instruments. No representation or warranty, either expresses or implied, is provided in relation to the accuracy, completeness or reliability of the information contained herein. This report should not be regarded by recipients as a substitute for the exercise of their own judgment. Any opinions expressed in this report are subject to change without notice and may differ or be contrary to opinions expressed by other business areas as a result of using different assumptions and criteria. The analysis contained herein is based on numerous assumptions. Different assumptions could result in materially different results. The analyst(s) responsible for the preparation of this report may interact with trading desk personnel, sales personnel and other constituencies for the purpose of gathering, synthesizing and interpreting market information. ABCI Securities Company Limited is under no obligation to update or keep current the information contained herein. ABCI Securities Company Limited relies on information barriers to control the flow of information contained in one or more areas within ABCI Securities Company Limited, into other areas, units, groups or affiliates of ABCI Securities Company Limited. The compensation of the analyst who prepared this report is determined exclusively by research management and senior management (not



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

including investment banking). Analyst compensation is not based on investment banking revenues, however, compensation may relate to the revenues of ABCI Securities Company Limited as a whole, of which investment banking, sales and trading are a part. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. The price and value of the investments referred to in this research and the income from them may fluctuate. Past performance is not necessarily indicative of future results. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related instrument mentioned in this report. For investment advice, trade execution or other enquiries, clients should contact their local sales representative. Neither ABCI Securities Company Limited nor any of its affiliates, directors, employees or agents accepts any liability for any loss or damage arising out of the use of all or any part of this report. Additional information will be made available upon request.

Copyright 2016 ABCI Securities Company Limited

No part of this material may be (i) copied, photocopied or duplicated in any form by any means or (ii) redistributed without the prior written consent of ABCI Securities Company Limited.

**Office address: ABCI Securities Company Limited, 13/F Fairmont House,
8 Cotton Tree Drive, Central, Hong Kong.**

Tel: (852) 2868 2183