



Economic Insight

Analyst: Andy Yao, PhD

Tel: 852-2147 8863

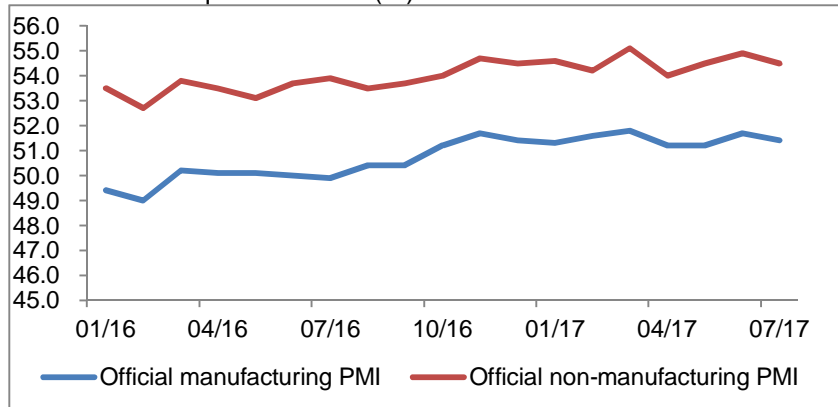
Email: yaoshaohua@abci.com.hk

China's official PMIs eased slightly in July

- China's official manufacturing PMI eased to 51.4 in July from 51.7 in June, slightly below the market forecast of 51.5. Non-manufacturing PMI also dropped to 54.5 in July from 54.9 last month.
- The moderation in manufacturing PMI was mainly caused by the bad weather. High temperature in many areas and heavy floods in some cities weighed on manufacturing activities.
- In general, the July manufacturing and non-manufacturing PMIs indicate a steady growth in China's economy albeit a slight moderation in pace.
- Looking ahead, the economic policy stance will remain stable to support growth ahead of the 19th Party's Congress in autumn. We maintain our forecasts that the official manufacturing and non-manufacturing PMIs would stay at 51.0 and 54.0 by end-2017.

China's official manufacturing PMI eased to 51.4 in July from 51.7 in June, slightly below the market forecast of 51.5 (Exhibit 1). Non-manufacturing PMI also dropped to 54.5 in July from 54.9 last month. Both data suggest a slight moderation in economic growth in July after the strong expansion in June.

Exhibit 1: China's official PMIs (%)



Source(s): NBS, ABCI Securities

Judging by the official manufacturing PMI data, overall demand has eased slightly, with new orders index and new export orders index declining to 52.8 and 50.9 in July from 53.1 and 52.0 in June, indicating the overall demand was mainly dragged by softening external demand. The production index also dropped to 53.5 from 54.4 on high temperature in many areas and heavy floods in some cities. Conversely, the input price index and the output price index rebounded to 57.9 and 52.7 in July from 50.4 and 49.1 last month, suggesting the headline PPI in July will likely advance and support growth in industrial profit.

By enterprise type, the medium and small enterprises PMIs slowed to 49.6 and 48.9 in July from 50.5 and 50.1 in June, while the large enterprises PMI edged up to 52.9 from 52.7. Hence, one can deduce that the slowdown in headline manufacturing PMI was primarily a result of the moderating economic activities among the medium and

ABCI Research

July 31, 2017



small enterprises.

The services activity also cooled in July due to contraction in property sector as well as the residential services sector. By breakdown, the PMIs for construction, air transport, post, telecom broadcasting, and internet exceeded 60, while the PMIs for road transport, real estate, residential services, and repair industry fell below the 50-point mark.

In general, the July manufacturing and non-manufacturing PMIs indicate a steady growth in China's economy albeit a slight moderation in pace. Looking ahead, the economic policy stance is likely to remain stable to support growth ahead of the 19th Party's Congress in autumn. We maintain our forecasts that the official manufacturing and non-manufacturing PMIs would stay at 51.0 and 54.0 by end-2017.



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	---
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	---
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	---
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	---
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	---
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	---
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	---
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	---
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	21,830.31	0.00	18.70	NYMEX WTI	USD/bbl.	49.85	0.28	826,691	US Prime Rate	4.25	0.00
S&P 500	2,472.10	0.00	21.32	ICE Brent Oil	USD/bbl	52.71	0.36	234,948	US Discount Window	1.75	0.00
NASDAQ	6,374.68	0.00	33.74	NYMEX Natural Gas	USD/MMBtu	2.88	(2.04)	63,723	US Treasury (1 Yr)	0.9942	1.01
MSCI US	2,354.76	0.00	21.73	China Qinhuangdao Port Thermal Coal ²	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (5Yr)	1.8306	(0.33)
Europe				Basic Metals				US Treasury (10 Yr)	2.2871	(0.18)	
FTSE 100	7,419.95	0.70	30.56	LME Aluminum Cash	USD/MT	1,884.50	0.00	13,757	Japan 10-Yr Gov. Bond	0.0810	0.50
DAX	12,189.55	0.22	19.14	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,907.00	0.00	34,350	China 10-Yr Gov. Bond	3.6070	2.10
CAC40	5,145.73	0.28	18.16	CMX Copper Active	USD/lb.	6,302.50	0.00	6,765	ECB Rate (Refinancing)	0.00	0.00
IBEX 35	10,587.90	0.49	16.32	LME Copper 3- mth Rolling Fwd.	USD/MT	6,325.00	0.00	59,428	1-Month LIBOR	1.2317	(0.06)
FTSE MIB	21,531.65	0.47	N/A	Precious Metals				3 Month LIBOR	1.3106	(0.39)	
Stoxx 600	379.91	0.41	22.84	CMX Gold	USD/T. oz	1,272.50	(0.22)	126,918	O/N SHIBOR	2.8060	(0.92)
MSCI UK	2,143.60	0.00	31.21	CMX Silver	USD/T. oz	16.69	(0.03)	65,102	1-mth SHIBOR	3.8890	(0.25)
MSCI France	146.85	0.00	17.89	NYMEX Platinum	USD/T. oz	939.30	0.29	14,992	3-mth HIBOR	0.7657	0.76
MSCI Germany	150.31	0.00	19.04	Agricultural Products				Corporate Bonds (Moody's)			
MSCI Italy	59.48	0.00	N/A	CBOT Corn	USD/bu	383.25	(1.22)	152,130	Aaa	3.71	10.00
Asia				CBOT Wheat	USD/bu	476.75	(0.88)	67,711	Baa	4.39	10.00
NIKKEI 225	19,925.18	(0.17)	18.60	NYB-ICE Sugar	USD/lb.	14.37	0.00	49,873			
S&P/ASX 200	5,720.59	0.31	19.45	CBOT Soybeans	USD/bu.	1,002.50	(1.04)	128,904			
HSI	27,290.96	1.15	14.50								
HSCEI	10,828.44	0.67	8.93								
CSI300	3,737.87	0.43	16.41								
SSE Composite	3,273.03	0.61	17.59								
SZSE Composite	1,879.10	0.57	34.81								
MSCI China	78.54	0.00	16.82								
MSCI Hong Kong	14,769.22	0.00	14.46								
MSCI Japan	962.75	0.00	16.22								

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	1.1733	1.3117	0.7982	110.63	0.9673	6.7248	7.8095	6.8625
Chg. WTD (%)	(0.15)	(0.14)	(0.06)	0.05	0.14	0.18	0.00	0.11



Disclosures

Analyst Certification

I, Yao Shaohua, Andy, being the person 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 my personal view about the subject company or companies and its or their securities. I 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. I and/or My associates have no financial interests in relation to any listed company (ies) covered in this report, and I and/or My 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 including investment banking). Analyst compensation is not based on



農銀國際

ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

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 2017 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