



Economic Insight

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China\$ economic growth continued to slow in August

ABCI Research

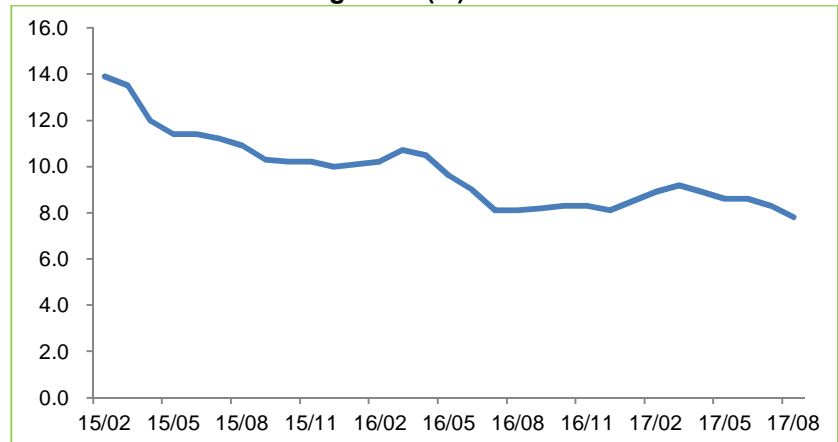
September 14, 2017

- China\$ economic growth continued to slow in August on ongoing capacity reduction, environmental protection inspection, and strong RMB appreciation. High temperature and rainy weather in many areas have also weighed on industrial production.
- Overall, the macro data in August revealed a diminishing momentum. Nonetheless, we maintain our China\$ economic growth forecast of 6.7% for both 3Q17 and 2017E with the continuation of global economic recovery and policy support, including those designed to curb a stronger RMB.
- 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 2017. The central bank will likely continue to employ measures such as standing lending facility, medium-term lending facility, and pledged supplementary lending to lower financial costs. Regarding the exchange rate, with the recent RMB appreciation versus USD, we revise our spot USD/CNY rate forecast to be 6.55 by end-2017E from the previous estimate of 6.85.

China\$ growth continued to slow in August as economic activities were beset by ongoing capacity reduction, environmental protection inspection, and strong RMB appreciation. High temperature and rainy weather in many areas have also weighed on industrial production. Fixed asset investment (FAI), retail sales, industrial production, and export data in August were below market expectations following the moderation in July.

FAI growth in urban areas decelerated to 4.9%¹ in August from 6.8% in July on rising financing cost and tightening environmental policy (Exhibit 1). By sector, growth in property investment rebounded to 7.9% in August from 4.7% in July due to robust property sales. Growth in manufacturing investment accelerated to 2.7% in August, compared with 1.5% in July, while infrastructure FAI growth fell to 13.9% from 20.0% during the same period. Meanwhile, private investment growth slowed to 3.5% in August from 5.4% in the previous month.

Exhibit 1: China FAI YTD growth (%)



Source(s): NBS, ABCI Securities

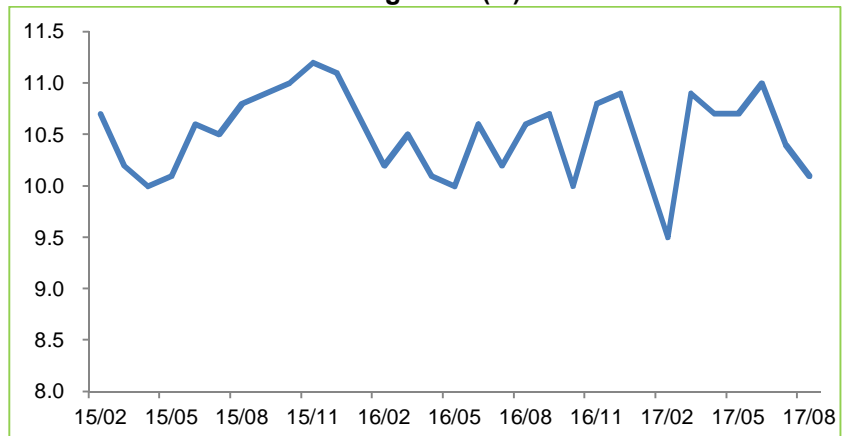
¹ All growth rates are year-on-year except specified otherwise



Property sales rebounded slightly in August despite tightening policy. Growth in new home sales, as measured in floor space area and value, were 4.3% and 6.4%, compared with 2.2% and 4.7% in July. Also, growth in property new starts rebounded to 4.9% in August after a 5.1% decline in the previous month.

Retail sales growth edged down to 10.1% in August from 10.4% in July on slowing retail sales of catering, beverage and property-related consumption (Exhibit 2). Adjusting for retail prices, real growth of retail sales softened to 8.9% in August, down from 9.6% in July.

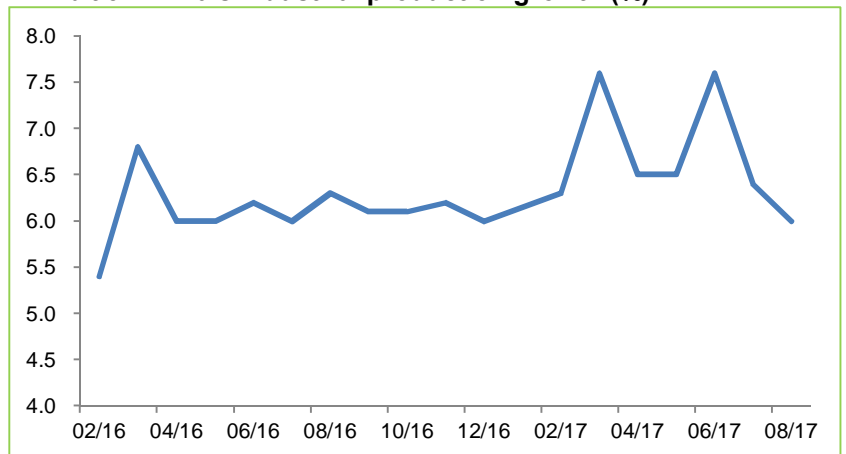
Exhibit 2: China's retail sales growth (%)



Source(s): NBS, ABCI Securities

On the production front, industrial production increased by 6.0% in August, down from 6.4% in July (Exhibit 3). Electricity generation increased by 4.8% in August, as compared with the 8.6% growth in July. Nonetheless, pharmacy, equipment manufacturing, electrical machinery, computer and communication maintained a low double-digit growth in August.

Exhibit 3: China's industrial production growth (%)



Source(s): NBS, ABCI Securities

Overall, the macro data in August revealed a diminishing momentum. With the continuation of global economic recovery and policy support, such as cutting the FX risk reserve ratio to 0% from 20% to curb a stronger RMB, we maintain our China's economic growth forecast of



6.7% for both 3Q17 and 2017E despite challenges ahead (Exhibit 4).

Exhibit 4: 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 USD, End-year	6.9450	6.5500	6.8500

Source(s): NBS, PBOC, ABCI Securities

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 2017. The central bank will likely continue to employ measures such as standing lending facility, medium-term lending facility, and pledged supplementary lending to lower financial costs. Regarding the exchange rate, with the recent RMB appreciation versus USD, we revise our spot USD/CNY rate forecast to be 6.55 by end-2017 from the previous estimate of 6.85.



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	10.1
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	6.0
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	7.8
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	22,158.18	1.65	18.87	NYMEX WTI	USD/bbl.	49.31	3.85	740,741		1.25	0.00	
S&P 500	2,498.37	1.50	21.38	ICE Brent Oil	USD/bbl	55.03	2.32	292,282	US Prime Rate	4.25	0.00	
NASDAQ	6,460.19	1.57	40.83	NYMEX Natural Gas	USD/MMBtu	3.06	5.92	189,199	US Discount Window	1.75	0.00	
MSCI US	2,380.23	1.50	21.83	China Qinhuangdao Port Thermal Coal ²	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (1 Yr)	0.9702	4.70	
Europe				Basic Metals				US Treasury (5Yr)				
FTSE 100	7,371.29	(0.09)	24.95	LME Aluminum Cash	USD/MT	2,078.25	0.33	9,363	US Treasury (10 Yr)	2.1900	13.93	
DAX	12,533.40	1.86	17.46	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	2,110.00	0.52	35,835	Japan 10-Yr Gov. Bond	0.0500	4.60	
CAC40	5,208.21	1.85	18.56	CMX Copper Active	USD/lb.	6,513.75	(2.20)	13,569	China 10-Yr Gov. Bond	3.6350	(0.10)	
IBEX 35	10,336.30	2.04	15.86	LME Copper 3- mth Rolling Fwd.	USD/MT	6,555.00	(2.06)	43,205	ECB Rate (Refinancing)	0.00	0.00	
FTSE MIB	22,214.56	2.01	N/A	Precious Metals				1-Month LIBOR				
Stoxx 600	381.07	1.48	21.16	CMX Gold	USD/T. oz	1,326.20	(1.85)	329,532	3 Month LIBOR	1.3192	0.88	
MSCI UK	2,143.36	(0.01)	25.54	CMX Silver	USD/T. oz	17.76	(2.00)	79,998	O/N SHIBOR	2.6810	4.50	
MSCI France	149.94	1.91	18.34	NYMEX Platinum	USD/T. oz	981.10	(3.08)	16,859	1-mth SHIBOR	3.9361	(0.09)	
Asia				Agricultural Products				3-mth HIBOR				
NIKKEI 225	19,807.44	2.76	17.90	CBOT Corn	USD/bu	353.50	(0.91)	160,231	Corporate Bonds (Moody's)			
S&P/ASX 200	5,738.68	1.16	17.34	CBOT Wheat	USD/bu	445.25	1.71	63,597	Aaa	3.66	6.00	
HSI	27,792.44	0.45	13.84	NYB-ICE Sugar	USD/lb.	14.80	1.09	65,768	Baa	4.33	10.00	
HSCEI	11,109.88	(0.36)	9.12	CBOT Soybeans	USD/bu.	963.75	0.18	119,748	Note:			
CSI300	3,829.96	0.10	16.40	1. Data sources: Bloomberg, National Bureau of Statistics of China, ABCIS (updated on date of report)								
SSE Composite	3,371.43	0.18	17.68	2. The price is Coal 5500 kcal/kg FOB Spot Price								
SZSE Composite	1,993.53	0.89	35.21									
MSCI China	83.88	2.47	16.92									
MSCI Hong Kong	15,210.20	0.62	13.22									
MSCI Japan	970.75	2.81	15.07									

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.1893	1.3219	0.8005	110.42	0.9636	6.5465	7.8120	6.6845
Chg. WTD (%)	(1.19)	0.14	(0.68)	(2.34)	(2.01)	(0.80)	0.02	(0.78)



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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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