



## Economic Insight

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### China's economy held momentum in Jan-Feb

ABCI Research

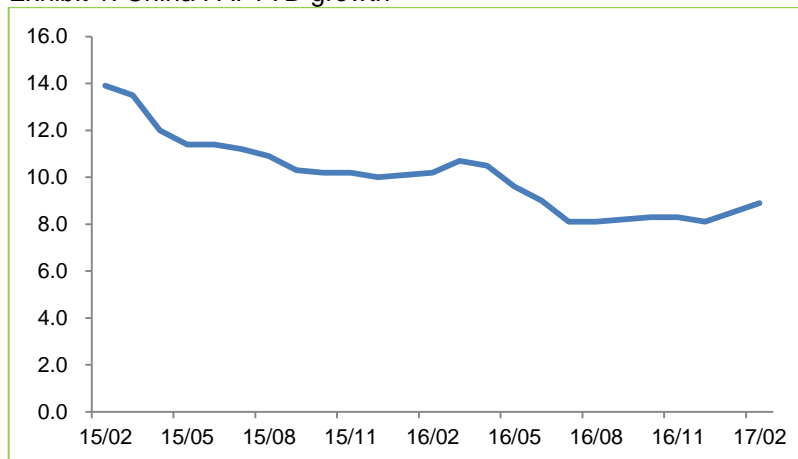
16 March 2017

- China's growth in investment, trade and industrial production rebounded in 2M17, while retail sales eased on slower car sales.
- Macro data at the start of 2017 indicate China's economy has maintained a relatively strong growth on the back of broad-based improvement in investment and production. We expect China's GDP to grow by 6.7% in 1Q17.
- However, economic conditions will remain challenging. Retail sales are likely to slow this year in the absence of strong car sales. Investment growth is likely to ease in coming months as growth in FAI funding sources fell 8.0% in Jan-Feb from 5.8% in 2016. Potential trade dispute with the U.S. may also weigh on export growth.
- With the ongoing economic deleveraging and destocking, we maintain our China's economic growth forecast of 6.5% for 2017.

China's economy has continued to expand in 2M17 on robust growth in investment, trade, and industrial production; in contrast, retail sales growth eased on slower car sales.

FAI growth in urban areas accelerated to 8.9% in Jan/Feb from 8.1% in 2016 on the back of improving business expectation and surging producer inflation (Exhibit 1). Growth in property investment quickened to 8.9% in 2M17 from 6.9% in 2016 despite tightening measures; growth in manufacturing investment rebounded slightly to 4.3%, as compared with 4.2% in 2016. Meanwhile, infrastructure FAI growth surged to 27.3% in Jan-Feb from 17.4% in 2016 as the government steps up to expedite infrastructure and PPP projects. Encouragingly, with return on investment improving, the private investment growth picked up to 6.7% in 2M17 from 3.2% in 2016.

Exhibit 1: China FAI YTD growth



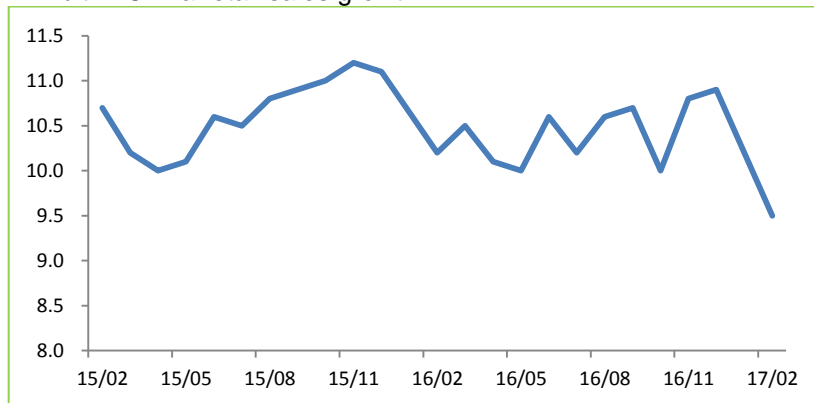
Source(s): NBS, ABCI Securities



Property sales remained strong in Jan-Feb, especially in the 3<sup>rd</sup> and 4<sup>th</sup> tier cities. Growths in new home sales, as measured in floor space area and value, were high at 25.1% and 26.0% in 2M17, as compared with 22.5% and 34.8% in 2016.

Retail sales growth eased to 9.5% in Jan-Feb from 10.4% in 2016, attributable to car sales slowed by the partial withdrawal of previous tax incentives (Exhibit 2). Car sales declined by 1.0% in 2M17, as compared with the 10.1% increase in 2016. Adjusting the retail prices, the real growth of retail sales softened to 8.1% in Jan-Feb 2017, down from 9.6% last year.

Exhibit 2: China retail sales growth



Source(s): NBS, ABCI Securities

Production side showed a modest rebound on the rising producer inflation and improving external demand, with industrial production increasing by 6.3% in Jan-Feb 2017 from 6.0% in 2016. Electricity generation increased by 6.3% in 2M17, as compared with the 4.5% growth last year.

China's trade performance significantly improved in January and February on the back of global economic recovery, with exports rising by an average of 4.0% and imports jumping by 26.4% in USD terms, up from -7.7% and -5.5% in 2016 (Exhibit 3). Meanwhile, with a significant increase in imports, trade surplus narrowed to US\$ 42.1 billion in 2M17, as compared with the surplus size of US\$ 95.9 billion in 2M16.

Exhibit 3: China exports and imports growth



Source(s): NBS, ABCI Securities



Inflation remained moderate in 2M17. For January and February as a whole, the monthly average CPI was at 1.7%, down from 2.0% in 2016. The CPI moderation can be attributed to the falling food prices on warm weather. Meanwhile, PPI accelerated to 7.3% in Jan-Feb from -1.3% in 2016 on the low base effect and rebound in commodity and material prices triggered by supply-side reform. Although PPI would stay high in 1Q17 due to low inventory levels and increased re-stocking, the full-year PPI for 2017 would be contained by the weak aggregate demand.

Overall, the macro data at the start of 2017 indicate China's economy has been well supported by the broad-based improvement in investment and production. We expect China's GDP to grow by 6.7% in 1Q17. However, economic conditions will remain challenging. Retail sales are likely to slow in 2017 in the absence of strong car sales. Consumption has been China's the key economic growth driver, contributing 64.1% to the economic growth in 2016. Investment growth is likely to ease in coming months as growth in FAI funding sources fell by -8.0% in Jan-Feb from 5.8% in 2016. Meanwhile, potential trade disputes with the U.S. would weigh on export growth. In general, with the ongoing economic deleveraging and destocking, we maintain our China's economic growth forecast of 6.5% for 2017.



China Economic Indicators

	2016												2017	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Real GDP (YoY %)	---	---	6.7	---	---	6.7	---	---	6.7	---	---	6.8	---	---
Export Growth (USD, YoY %)	(11.2)	(25.4)	11.5	(1.8)	(4.1)	(4.8)	(4.4)	(2.8)	(10.0)	(7.3)	0.1	(6.1)	7.9	(1.3)
Import Growth (USD, YoY %)	(18.8)	(13.8)	(7.6)	(10.9)	(0.4)	(8.4)	(12.5)	1.5	(1.9)	(1.4)	6.7	3.1	16.7	38.1
Trade Balance (USD bn)	63.3	32.6	29.9	45.6	50.0	48.1	52.3	52.1	42.0	49.1	44.6	40.8	51.3	(9.1)
Retail Sales Growth (YoY %)	10.2	10.2	10.5	10.1	10.0	10.6	10.2	10.6	10.7	10.0	10.8	10.9	9.5	9.5
Industrial Production (YoY %)	5.4	5.4	6.8	6.0	6.0	6.2	6.0	6.3	6.1	6.1	6.2	6.0	6.3	6.3
PMI - Manufacturing (%)	49.4	50.2	50.1	50.1	50.0	49.9	50.4	50.4	50.4	51.2	51.7	51.4	51.3	51.6
PMI - Non-manufacturing (%)	53.5	53.8	53.5	53.1	53.7	53.9	53.5	53.7	53.7	51.2	50.9	51.9	54.6	54.2
FAI (YTD) (YoY %)	10.2	10.2	10.7	10.5	9.6	9.0	8.1	8.1	8.2	8.3	8.3	8.1	8.9	8.9
CPI (YoY %)	1.8	2.3	2.3	2.0	1.9	1.8	1.3	1.9	1.9	2.1	2.3	2.1	2.5	0.8
PPI (YoY %)	(5.3)	(4.3)	(3.4)	(2.8)	(2.6)	(1.7)	(0.8)	0.1	0.1	1.2	3.3	5.5	6.9	7.8
M2 (YoY %)	14.0	13.4	12.8	11.8	11.8	10.2	11.4	11.5	11.5	11.6	11.4	11.3	11.3	11.1
New Lending (RMB bn)	2510	727	1370	556	986	1380	464	949	1220	651	795	1040	2030	1170
Aggregate Financing (RMB bn)	3425	825	2404	751	660	1629	488	1470	1720	896	1740	1630	3740	1150

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			
DJIA	20,950.10	0.23	19.33	NYMEX WTI	USD/bbl.	49.13	1.32	794,114		1.00	25.00
S&P 500	2,385.26	0.53	21.80	ICE Brent Oil	USD/bbl	52.14	1.50	374,352	US Prime Rate	3.75	0.00
NASDAQ	5,900.05	0.65	42.81	NYMEX Natural Gas	USD/MMBtu	2.97	(1.40)	150,527	US Discount Window	1.25	0.00
MSCI US	2,271.66	0.58	22.29	China Qinhuangdao Port Thermal Coal <sup>2</sup>	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (1 Yr)	0.7050	9.64
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (5Yr)			
FTSE 100	7,368.64	0.35	38.79	LME Aluminum Cash	USD/MT	1,873.50	0.31	26,092	US Treasury (10 Yr)	2.4858	(8.87)
DAX	12,009.87	0.39	19.77	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,887.00	0.37	38,125	Japan 10-Yr Gov. Bond	0.0800	(0.90)
CAC40	4,985.48	(0.16)	19.13	CMX Copper Active	USD/lb.	5,856.00	2.31	17,488	China 10-Yr Gov. Bond	3.3410	(8.00)
IBEX 35	9,983.20	(0.23)	18.64	LME Copper 3- mth Rolling Fwd.	USD/MT	5,864.00	2.30	36,453	ECB Rate (Refinancing)	0.00	0.00
FTSE MIB	19,774.02	0.59	N/A	<b>Precious Metals</b>				1-Month LIBOR			
Stoxx 600	375.10	0.50	26.11	CMX Gold	USD/T. oz	1,223.40	1.83	221,211	3 Month LIBOR	1.1373	1.61
MSCI UK	2,144.47	0.37	39.84	CMX Silver	USD/T. oz	17.42	2.94	62,376	O/N SHIBOR	2.3869	(1.50)
MSCI France	141.57	(0.19)	19.06	NYMEX Platinum	USD/T. oz	963.70	2.72	16,998	1-mth SHIBOR	4.1537	3.84
MSCI Germany	151.55	0.39	19.32	<b>Agricultural Products</b>				3-mth HIBOR			
MSCI Italy	55.07	0.64	N/A	CBOT Corn	USD/bu	364.75	0.14	162,697	Corporate Bonds (Moody's)		
<b>Asia</b>				CBOT Wheat	USD/bu	436.75	(0.85)	57,513	Aaa	4.13	2.00
NIKKEI 225	19,512.55	(0.47)	22.90	NYB-ICE Sugar	USD/lb.	18.23	0.05	48,998	Baa	4.78	2.00
S&P/ASX 200	5,798.70	0.40	19.98	CBOT Soybeans	USD/bu.	1,002.25	(0.42)	98,962			
HSI	23,792.85	0.95	13.16								
HSCEI	10,272.83	2.02	8.46								
CSI300	3,463.64	1.04	15.51								
SSE Composite	3,241.76	0.90	18.50								
SZSE Composite	2,026.76	0.65	44.20								
MSCI China	65.65	1.52	14.45								
MSCI Hong Kong	13,272.83	0.13	13.70								
MSCI Japan	940.96	(0.10)	19.10								

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	1.0745	1.2288	0.7698	113.21	0.9985	6.9149	7.7663	7.1058
Chg. WTD (%)	0.67	0.99	2.07	1.40	1.24	(0.08)	(0.02)	0.46



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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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