



Economic Insight

Analyst: Andy Yao, PhD

Tel: 852-2147 8863

Email: yaoshaohua@abci.com.hk

China's economic growth to moderate slightly in 2017

ABCI Research

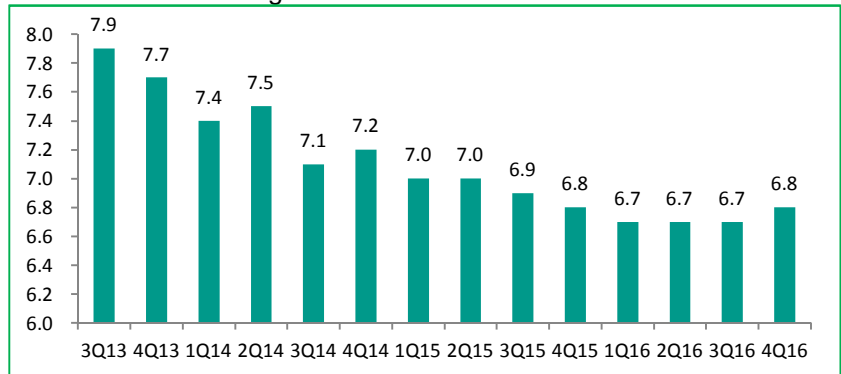
25 January 2017

- China's economic growth rebounded slightly to 6.8% in 4Q16, due largely to the accelerating service industry growth and easing credit condition. For 2016, China's economy rose by 6.7%.
- Although economic conditions remain challenging, we believe that the Chinese economy will remain on a steady growth path in 2017 as supply-side reforms will continue to promote expansion. We expect China's economy to grow by 6.5% for 2017.
- Consumer price inflation is expected to remain at 2.0% in 2017 due to moderating economic growth and possibly easing housing prices in more cities.
- On the monetary front, we expect the PBOC to keep interest rates steady this year, though RRR, which is still at a relatively high level, will likely be slashed by 50 basis points twice with the mild inflation pressure.
- The central government will maintain a proactive fiscal policy this year to support economic growth. We expect faster growth in fiscal expenditure than in fiscal revenue to result in another small fiscal deficit in 2017, with the headline ratio approaching to about 3.5% of GDP.
- With the air quality deteriorating and the government's emphasis on sustainable development, we believe the environmental protection, clean energy and healthcare industries would experience higher growth and better profitability than most sectors in 2017.

China's economic growth eased to 6.7%¹ in 2016

China economic growth rebounded slightly in 4Q16 on accelerating service industry growth and easing credit condition. Official figures show the world's second-largest economy expanded by 6.8% in 4Q16 (Exhibit 1), up from 6.7% in 3Q16. On a quarterly basis, China's economy grew 1.7% in 4Q16, compared with 1.8% in 3Q16. For the full year, China's GDP rose 6.7%, down from the 6.9% growth recorded in 2015. Notably, China's economic rebalancing continues, with consumption contributing to 64.6% of economic growth and service sector accounting for 51.6% of GDP in 2016.

Exhibit 1: China GDP growth



Source(s): NBS, ABCI Securities

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



Compared with 2015, domestic demand showed weakness, with both investment and retail sales growth declining in 2016. Fixed asset investment (FAI) in urban areas advanced 8.1% in 2016 after rising 10.0% in 2015, and retail sales of consumer goods grew 10.4% after increasing 10.7% during the same period. After adjusting for inflation, real growth of FAI and retail sales slowed to 8.8% and 9.6% in 2016 from 12.0% and 10.6% in 2015. On the production side, the real growth of industrial output eased slightly to 6.0% in 2016, compared with 6.1% in 2015.

External demand remained sluggish, with exports dropping by 7.7% in USD terms, compared with a 2.8% decrease in 2015. With imports declining by 5.5%, trade surplus narrowed to US\$ 510bn in 2016 from US\$ 595bn in 2015.

Economic outlook for 2017

Although economic conditions remain challenging, we believe the Chinese will remain on a steady path in 2017 as supply-side reforms continue to boost growth. Strong infrastructure investment, a modest improvement in industrial sector, and steady consumer spending will be the main drivers of this growth. On the contrary, rising trade friction with the U.S. and housing market restriction would be a drag.

Domestically, investment growth is expected to ease modestly as the tightening policies in the property market would continue while investments in manufacturing and infrastructure would keep steady growth. Steady income growth and employment rate would help underpin solid consumer spending. Externally, with potential trade disputes and sluggish global demand, export growth is expected to remain in the negative territory. For these reasons, we expect China's economy to grow by 6.5% for 2017, slightly slower than the 6.7% in 2016 (Exhibit 2).

Exhibit 2: Economic forecasts

Economic indicators	2015	2016	2017F
Real GDP growth, %	6.9	6.7	6.5
FAI growth, %	10.0	8.1	7.0
Retail Sales growth, %	10.7	10.4	10.5
Export growth in USD terms, %	-2.8	-7.7	-2.0
Import growth in USD terms, %	-14.1	-5.5	2.0
Industrial Production growth, %	6.1	6.0	6.0
CPI, %	1.4	2.0	2.0
M2 growth, %	13.3	11.3	10.5
Aggregate Financing, RMB bn	15,400	17,800	19,000
New Yuan Loans, RMB bn	11,700	12,600	13,500
Spot CNY per US dollar, End-year	6.4937	6.9450	7.200

Source(s): NBS, PBOC, ABCI Securities

Consumer price inflation is expected to remain at 2.0% in 2017 due to moderating economic growth and easing housing prices in more cities.

On the monetary front, we expect the PBOC to keep interest rates steady in 2017, while RRR would be slashed by 50 basis points twice



before the end of the year given its relatively high level and the mild inflation pressure. The central bank will likely continue to employ measures such as standing lending facility, medium-term lending facility, and pledged supplementary lending to maintain low financial costs in order to support the real economy. Broad money supply (M2) is set to grow by about 10.5%, and new RMB-denominated loans to reach about RMB 13.5tr in 2017. Regarding the exchange rate, we expect spot USD/CNY rate to approach 7.20 by end-2017 with the rising U.S. interest rates, as compared to 6.9450 at end-2016.

According to the Central Economic Work Conference held in December 2016, the central government will maintain a proactive fiscal policy this year to support economic growth through the acceleration of infrastructure investment projects, tax reductions, local debt swap schemes, and private capital investment. We expect faster growth in fiscal expenditure than in fiscal revenue to result in another small fiscal deficit in 2017, with the headline ratio approaching to about 3.5% of GDP.

With concerns of air pollution escalating and China's emphasis on sustainable development, we believe the environmental protection, clean energy and healthcare sectors would enjoy higher growth and better profitability than most sectors in 2017. Also, we expect conditions to improve in the materials and industrials sectors as supply-side reforms would further support producer inflation.



China Economic Indicators

	2015		2016											
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Real GDP (YoY %)	---	6.8	---	---	6.7	---	---	6.7	---	---	6.7	---	---	6.8
Export Growth (USD, YoY %)	(6.8)	(1.4)	(11.2)	(25.4)	11.5	(1.8)	(4.1)	(4.8)	(4.4)	(2.8)	(10.0)	(7.3)	0.1	(6.1)
Import Growth (USD, YoY %)	(8.7)	(7.6)	(18.8)	(13.8)	(7.6)	(10.9)	(0.4)	(8.4)	(12.5)	1.5	(1.9)	(1.4)	6.7	3.1
Trade Balance (USD bn)	54.1	60.9	63.3	32.6	29.9	45.6	50.0	48.1	52.3	52.1	42.0	49.1	44.6	40.8
Retail Sales Growth (YoY %)	11.2	11.1	10.2		10.5	10.1	10.0	10.6	10.2	10.6	10.7	10.0	10.8	10.9
Industrial Production (YoY %)	6.2	5.9	5.4		6.8	6.0	6.0	6.2	6.0	6.3	6.1	6.1	6.2	6.0
PMI - Manufacturing (%)	49.6	49.7	49.4	50.2	50.1	50.1	50.0	49.9	50.4	50.4	50.4	51.2	51.7	51.4
PMI - Non-manufacturing (%)	53.6	54.4	53.5	53.8	53.5	53.1	53.7	53.9	53.5	53.7	53.7	51.2	50.9	51.9
FAI (YTD) (YoY %)	10.2	10.0	10.2		10.7	10.5	9.6	9.0	8.1	8.1	8.2	8.3	8.3	8.1
CPI (YoY %)	1.5	1.6	1.8	2.3	2.3	2.0	1.9	1.8	1.3	1.9	1.9	2.1	2.3	2.1
PPI (YoY %)	(5.9)	(5.9)	(5.3)	(4.3)	(3.4)	(2.8)	(2.6)	(1.7)	(0.8)	0.1	0.1	1.2	3.3	5.5
M2 (YoY %)	13.7	13.3	14.0	13.4	12.8	11.8	11.8	10.2	11.4	11.5	11.5	11.6	11.4	11.3
New Lending (RMB bn)	709	598	2510	727	1370	556	986	1380	464	949	1220	651	795	1040
Aggregate Financing (RMB bn)	1020	1815	3425	825	2404	751	660	1629	488	1470	1720	896	1740	1630

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	19,912.71	0.43	18.58	NYMEX WTI	USD/bbl.	52.95	1.01	271,321		0.75	0.00
S&P 500	2,280.07	0.39	21.22	ICE Brent Oil	USD/bbl	55.44	(0.09)	312,258	US Prime Rate	3.75	0.00
NASDAQ	5,600.96	0.82	34.65	NYMEX Natural Gas	USD/MMBtu	3.29	2.75	123,844	US Discount Window	1.25	0.00
MSCI US	2,172.01	0.43	21.81	China Qinhuangdao Port Thermal Coal ²	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (1 Yr)	0.4615	1.02
Europe				Basic Metals				US Treasury (5Yr)			
FTSE 100	7,150.34	(0.67)	62.37	LME Aluminum Cash	USD/MT	1,870.75	0.97	10,772	US Treasury (10 Yr)	2.4523	(1.45)
DAX	11,594.94	(0.30)	18.11	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,867.00	1.19	48,886	Japan 10-Yr Gov. Bond	0.0660	0.00
CAC40	4,830.03	(0.43)	23.96	CMX Copper Active	USD/lb.	5,932.00	3.40	6,273	China 10-Yr Gov. Bond	3.2740	0.40
IBEX 35	9,387.20	0.08	21.18	LME Copper 3- mth Rolling Fwd.	USD/MT	5,943.00	3.39	29,598	ECB Rate (Refinancing)	0.00	0.00
FTSE MIB	19,499.54	0.10	55.75	Precious Metals				1-Month LIBOR			
Stoxx 600	361.92	(0.18)	26.84	CMX Gold	USD/T. oz	1,211.50	0.31	31,574	3 Month LIBOR	1.0379	(0.56)
MSCI UK	2,080.16	(0.61)	64.42	CMX Silver	USD/T. oz	17.10	0.37	61,034	O/N SHIBOR	2.1640	(21.2)
MSCI France	137.69	(0.34)	22.28	NYMEX Platinum	USD/T. oz	996.90	2.14	15,731	1-mth SHIBOR	3.8142	(0.54)
MSCI Germany	147.13	(0.22)	18.79	Agricultural Products				3-mth HIBOR			
MSCI Italy	54.68	(0.16)	36.44	CBOT Corn	USD/bu	363.25	(1.76)	181,099	Corporate Bonds (Moody's)		
Asia				CBOT Wheat	USD/bu	426.75	(0.35)	58,929	Aaa	3.91	(6.00)
NIKKEI 225	19,066.92	(0.37)	24.34	NYB-ICE Sugar	USD/lb.	20.58	1.98	62,411	Baa	4.62	(7.00)
S&P/ASX 200	5,665.60	0.19	26.81	CBOT Soybeans	USD/bu.	1,058.50	(0.84)	109,163			
HSI	22,949.86	0.28	12.73								
HSCEI	9,759.26	0.45	8.06								
CSI300	3,364.45	0.29	15.10								
SSE Composite	3,142.55	0.62	18.04								
SZSE Composite	1,896.45	0.57	42.56								
MSCI China	62.13	1.24	13.71								
MSCI Hong Kong	12,679.58	0.48	14.72								
MSCI Japan	905.83	(1.85)	19.80								

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	1.0729	1.2528	0.7549	113.75	1.0012	6.8590	7.7569	7.1270
Chg. WTD (%)	0.24	1.24	(0.08)	0.76	0.04	0.26	0.00	0.10



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