



## Economic Insight

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### Momentum stayed strong for China in Jan-Feb

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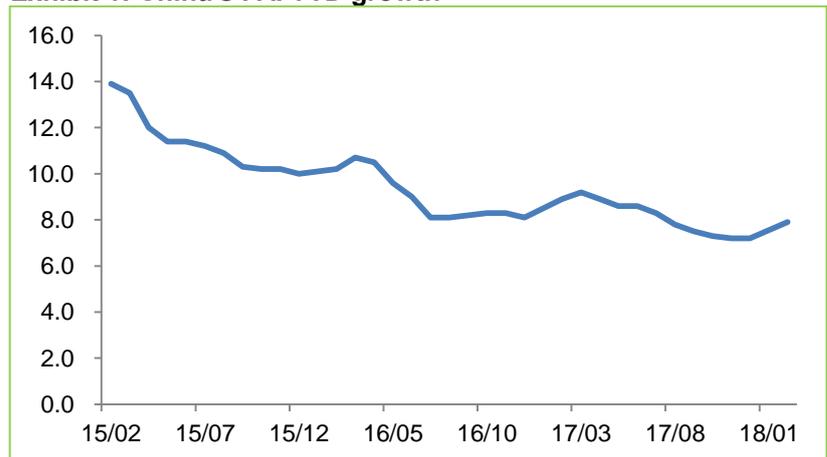
March 14, 2018

- China's economy expanded faster than expected in 2M18 amid robust external and internal demand. Growth in investment, retail sales, and industrial production all rebounded at the start of the year
- Macro data at the start of 2018 indicate the economy has maintained a relatively strong momentum on the back of broad-based improvement in investment, consumption, export and production
- Nonetheless, we believe economic conditions will remain challenging. Investment growth is expected to ease as the tightening policies in the property market and rising financial cost would weigh on growth in property investment; growth in infrastructure investment would ease on slashed fiscal deficit target. Meanwhile, potential trade disputes with the U.S. would pose risks to export
- In general, with the acceleration in economic deleveraging, tightening of environmental regulations, and potential trade conflicts with the U.S, we expect China's economy to expand by 6.6% for 2018E, slightly lower than the 6.9% growth in 2017

China's economy expanded faster than expected in 2M18 amid robust external and internal demand. Growth in investment, retail sales, and industrial production all rebounded at the start of the year.

FAI growth in urban areas accelerated to 7.9% in 2M18 from 6.0% in December 2017 on the back of improving business expectation (Exhibit 1). Growth in property investment quickened to 9.9% in 2M18 from 1.9% in December 2017 despite tightening measures, while expansion in manufacturing investment eased to 4.3% from 12.5%. Meanwhile, infrastructure FAI growth surged to 16.1% in 2M18 from 9.4% in December 2017.

Exhibit 1: China's FAI YTD growth



Source(s): NBS, ABCI Securities

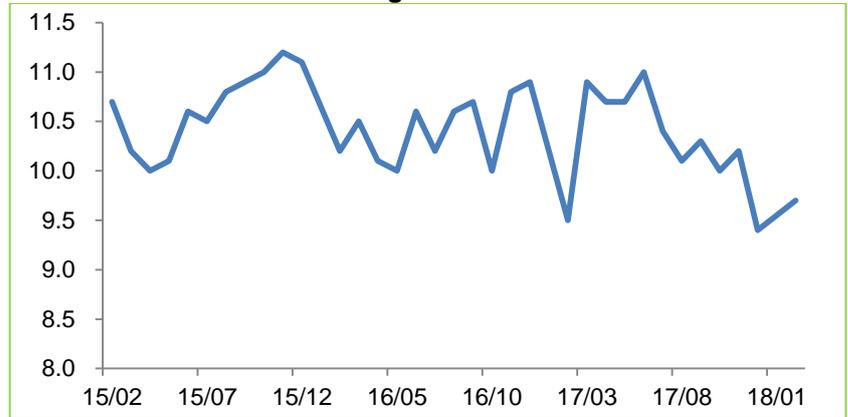
Property sales slowed in 2M18 on rising financial cost. Increase in new home sales, as measured in floor space area and value, were 4.1% and 15.3%, compared with 6.4% and 20.5% in December 2017.

Retail sales growth advanced to 9.7% in the first two months of the year from 9.4% in December 2017, attributable to quickening retail



sales of catering, cosmetics, medicines, communication appliances and articles for daily use (Exhibit 2).

**Exhibit 2: China's retail sales growth**



Source(s): NBS, ABCI Securities

Production side showed a significant rebound on improving external demand, with industrial production increasing by 7.2% in 2M18 from 6.2% in December 2017. Electricity generation rose by 11.0% in 2M18, as compared with the 6.0% increase seen in December last year.

Overall, macro data at the start of 2018 indicate China's economy has maintained a relatively strong momentum on the back of broad-based improvement in investment, consumption, export and production. Nonetheless, we believe economic conditions will remain challenging. Investment growth is expected to ease as tightening policies in the property market and rising financial cost may hold back growth in property investment. Infrastructure investment would slow on slashed fiscal deficit target. Meanwhile, potential trade dispute with the U.S. is posing increasing threat to export. In general, with the acceleration in economic deleveraging, tightening of environmental regulations, and potential trade conflicts with the U.S., we expect China's economy to expand by 6.6% for 2018E, slightly lower than the 6.9% growth in 2017.



China Economic Indicators

	2017												2018	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Real GDP (YoY %)	---	---	6.9	---	---	6.9	---	---	6.8	---	---	6.8	---	---
Export Growth (USD, YoY %)	7.9	(1.3)	16.4	8.0	8.7	11.3	7.2	5.5	8.1	6.9	12.3	10.9	11.1	44.5
Import Growth (USD, YoY %)	16.7	38.1	20.3	11.9	14.8	17.2	11.0	13.3	18.7	17.2	17.7	4.5	36.9	6.3
Trade Balance (USD bn)	51.3	(9.1)	23.9	38.0	40.8	42.8	46.7	42.0	28.5	38.2	40.2	54.7	20.3	33.7
Retail Sales Growth (YoY %)	9.5	9.5	10.9	10.7	10.7	11.0	10.4	10.1	10.3	10.0	10.2	9.4	9.7	9.7
Industrial Production (YoY %)	6.3	6.3	7.6	6.5	6.5	7.6	6.4	6.0	6.6	6.2	6.1	6.2	7.2	7.2
PMI - Manufacturing (%)	51.3	51.6	51.8	51.2	51.2	51.7	51.4	51.7	52.4	51.6	51.8	51.6	51.3	50.3
PMI - Non-manufacturing (%)	54.6	54.2	55.1	54.0	54.5	54.9	54.5	53.4	55.4	54.3	54.8	55.0	55.3	54.4
FAI (YTD) (YoY %)	8.9	8.9	9.2	8.9	8.6	8.6	8.3	7.8	7.5	7.3	7.2	7.2	7.9	7.9
CPI (YoY %)	2.5	0.8	0.9	1.2	1.5	1.5	1.4	1.8	1.6	1.9	1.7	1.8	1.5	2.9
PPI (YoY %)	6.9	7.8	7.6	6.4	5.5	5.5	5.5	6.3	6.9	6.9	5.8	4.9	4.3	3.7
M2 (YoY %)	11.3	11.1	10.6	10.5	9.6	9.4	9.2	8.9	9.2	8.8	9.1	8.2	8.6	8.8
New Lending (RMB bn)	2030	1170	1020	1100	1110	1540	826	1090	1270	663	1120	584	2900	839
Aggregate Financing (RMB bn)	3740	1150	2120	1390	1060	1780	1220	1480	1820	1040	1600	1140	3060	1170

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	25,007.03	(1.30)	20.20	NYMEX WTI	USD/bbl.	60.71	(2.14)	709,016	1.50	0.00
S&P 500	2,765.31	(0.76)	22.33	ICE Brent Oil	USD/bbl	64.52	(1.48)	294,958	4.50	0.00
NASDAQ	7,511.01	(0.66)	32.75	NYMEX Natural Gas	USD/MMBtu	2.77	1.54	146,985	2.00	0.00
MSCI US	2,636.00	(0.74)	22.86	China Qinhuangdao Port Thermal Coal <sup>2</sup>	USD/Metric Tonne	61.80	N/A	N/A	1.6573	10.95
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (1 Yr)		
FTSE 100	7,138.78	(1.19)	13.09	LME Aluminum Cash	USD/MT	2,081.75	(0.86)	15,494	2.6113	(3.89)
DAX	12,221.03	(1.02)	14.12	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	2,103.00	(0.80)	46,511	2.8280	(6.58)
CAC40	5,242.79	(0.60)	16.32	CMX Copper Active	USD/lb.	6,913.25	(0.30)	8,596	0.0530	0.00
IBEX 35	9,691.70	0.06	14.21	LME Copper 3- mth Rolling Fwd.	USD/MT	6,945.00	(0.24)	36,451	3.8620	1.10
FTSE MIB	22,690.98	(0.24)	12.85	<b>Precious Metals</b>				China 10-Yr Gov. Bond		
Stoxx 600	375.49	(0.73)	15.85	CMX Gold	USD/T. oz	1,327.30	0.25	290,768	0.00	0.00
MSCI UK	2,066.73	(1.23)	13.16	CMX Silver	USD/T. oz	16.62	0.07	74,913	1.7650	1.46
MSCI France	151.47	(0.53)	16.28	NYMEX Platinum	USD/T. oz	969.10	0.51	18,724	2.1069	1.81
<b>Asia</b>				<b>Agricultural Products</b>				O/N SHIBOR		
NIKKEI 225	21,777.29	1.44	15.98	CBOT Corn	USD/bu	390.50	0.00	216,837	2.6330	6.00
S&P/ASX 200	5,935.31	(0.47)	17.38	CBOT Wheat	USD/bu	484.50	(0.97)	79,742	4.4578	13.13
HSI	31,178.72	0.59	13.75	NYB-ICE Sugar	USD/lb.	12.62	(1.71)	77,581	1.0644	1.08
HSCEI	12,583.90	1.23	10.31	CBOT Soybeans	USD/bu.	1,049.25	0.96	134,301	Corporate Bonds (Moody's)	
CSI300	4,087.61	(0.52)	16.82					Aaa 3.87 (3.00)		
SSE Composite	3,304.11	(0.09)	16.95					Baa 4.66 (1.00)		
SZSE Composite	1,890.59	0.28	30.93							
MSCI China	97.01	1.28	18.83							
MSCI Hong Kong	16,417.88	1.40	12.38							
MSCI Japan	1,037.24	2.09	13.60							

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	1.2396	1.3971	0.7874	106.53	0.9434	6.3210	7.8408	6.4465
Chg. WTD (%)	0.72	0.87	0.38	0.27	0.84	0.21	(0.06)	0.19



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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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