



## Economic Insight

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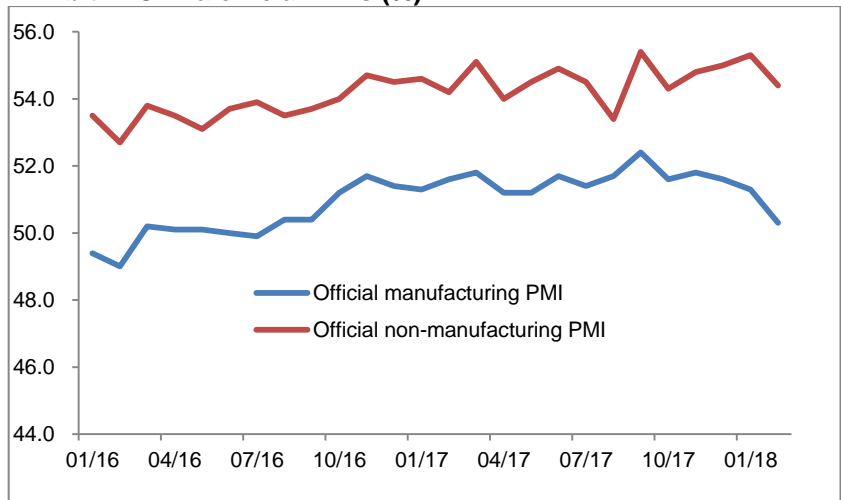
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### China's official PMIs eased in February

- China's official manufacturing PMI eased to 50.3 in February from 51.3 in January, the lowest since July 2016 and well below the market forecast of 51.1
- Non-manufacturing PMI dropped to 54.4 in February from 55.3 last month; composite PMI also retreated to 52.9 from 54.6 for the same period
- The February manufacturing and non-manufacturing PMIs suggest a slight moderation in economic growth on tightening environmental regulations as well as disruption resulted from the Chinese New Year holiday
- We expect China's economic policy stance to remain stable in the upcoming National People's Congress meeting to be held in early March. We maintain our forecasts for the official manufacturing and non-manufacturing PMIs at 51.0 and 54.0 by end-2018E

China's official manufacturing PMI eased to 50.3 in February from 51.3 in January, the lowest since July 2016 and well below the market forecast of 51.1 (Exhibit 1). Non-manufacturing PMI dropped to 54.4 in February from 55.3 last month, while the composite PMI also retreated to 52.9 from 54.6 for the same period. These data suggest a slight moderation in economic growth in February on tightening environmental regulations as well as disruptions resulted from the Chinese New Year holiday.

Exhibit 1: China official PMIs (%)



Source(s): NBS, ABCI Securities

Judging by the official manufacturing PMI data, overall domestic demand has eased, with new orders index and new import orders index declining to 51.0 and 49.8 in February from 52.6 and 50.4 in January. External demand also softened on adverse seasonal effect and strong RMB exchange rate, as indicated by the new export order index that declined to 49.0 from 49.5. Production index dropped to 50.7 in February from 53.5 in January on Chinese New Year holiday in mid-February this year. Notably, input price index and output price index declined to 53.4 and 49.2 in February from 59.7 and 51.8 last month, suggesting headline PPI in February is likely to continue to soften. Conversely, business expectation index rebounded to 58.2 in February from 56.8 in January, thus an uptick in manufacturing

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activity can be expected for March.

By enterprise type, the medium and small enterprises PMIs slowed to 49.0 and 44.8 in February from 50.1 and 48.5 in January, while the large enterprises PMI edged down to 52.2 from 52.6. This suggests the slowdown in headline manufacturing PMI was primarily a result of the moderating economic activities in the former group.

Services activity also cooled in February due to contraction in property sector and residential services sector. By breakdown, PMIs for construction, retail sales, catering, railway transport, air transport, telecom broadcasting, internet, and environmental protection exceeded 56.0; PMIs for capital market services, insurance, real estate, residential services, and repair industry fell below the 50-point mark.

In general, manufacturing and non-manufacturing PMIs in February illustrate a slowing growth momentum. Looking ahead, we expect China's economic policy stance to remain stable in the National People's Congress meeting to be held in early March. We maintain our forecasts that the official manufacturing and non-manufacturing PMIs would be at 51.0 and 54.0 by end-2018E.



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	10.9	---
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	4.5	---
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	54.7	---
Retail Sales Growth (YoY %)	9.5	9.5	10.9	10.7	11.0	10.4	10.1	10.3	10.0	10.2	9.4	---	---	---
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	---	---
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	---	---
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	---
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	---
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	---
New Lending (RMB bn)	2030	1170	1020	1100	1110	1540	826	1090	1270	663	1120	584	2900	---
Aggregate Financing (RMB bn)	3740	1150	2120	1390	1060	1780	1220	1480	1820	1040	1600	1140	3060	---

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	25,410.03	0.40	20.46	NYMEX WTI	USD/bbl.	62.63	(1.45)	508,222		1.50	0.00
S&P 500	2,744.28	(0.11)	22.12	ICE Brent Oil	USD/bbl	66.23	(1.60)	199,045		4.50	0.00
NASDAQ	7,330.35	(0.10)	34.41	NYMEX Natural Gas	USD/MMBtu	2.67	1.87	77,336		2.00	0.00
MSCI US	2,612.46	(0.16)	22.58	China Qinhuangdao Port Thermal Coal <sup>2</sup>	USD/Metric Tonne	61.80	N/A	N/A		1.4566	9.93
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (1 Yr)			
FTSE 100	7,282.45	0.53	14.00	LME Aluminum Cash	USD/MT	2,171.50	0.12	20,171		2.6754	5.71
DAX	12,490.73	0.06	16.31	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	2,147.00	0.33	37,261		2.8989	3.29
CAC40	5,343.93	0.50	16.18	CMX Copper Active	USD/lb.	6,993.25	(1.08)	9,629		0.0490	(0.40)
IBEX 35	9,900.20	0.79	15.00	LME Copper 3- mth Rolling Fwd.	USD/MT	7,021.00	(1.04)	33,818		3.8550	(4.20)
FTSE MIB	22,724.46	0.23	12.60	<b>Precious Metals</b>				China 10-Yr Gov. Bond			
Stoxx 600	382.36	0.31	16.68	CMX Gold	USD/T. oz	1,318.80	(0.86)	239,448		0.00	0.00
MSCI UK	2,110.77	0.49	14.17	CMX Silver	USD/T. oz	16.39	(0.96)	51,770		1.6480	1.68
MSCI France	153.63	0.41	16.51	NYMEX Platinum	USD/T. oz	982.20	(1.66)	14,795		1.9842	2.79
<b>Asia</b>				<b>Agricultural Products</b>				O/N SHIBOR			
NIKKEI 225	22,068.24	0.80	16.20	CBOT Corn	USD/bu	379.75	1.40	245,595		4.0428	(1.29)
S&P/ASX 200	6,016.00	0.27	17.58	CBOT Wheat	USD/bu	483.00	4.04	75,308		1.0825	(6.47)
HSI	30,872.04	(1.26)	13.53	NYB-ICE Sugar	USD/lb.	12.87	(4.38)	70,593		Corporate Bonds (Moody's)	
HSCEI	12,373.17	(2.84)	9.67	CBOT Soybeans	USD/bu.	1,055.50	0.76	162,468		Aaa	3.88 (1.00)
CSI300	4,044.52	(0.65)	16.60							Baa	4.56 0.00
SSE Composite	3,272.27	(0.51)	16.64								
SZSE Composite	1,815.93	2.30	27.56								
MSCI China	95.58	(1.31)	18.60								
MSCI Hong Kong	16,205.22	1.37	12.71								
MSCI Japan	1,063.29	1.89	13.94								

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	1.2223	1.3889	0.7793	107.13	0.9399	6.3307	7.8288	6.4625
Chg. WTD (%)	(0.59)	(0.59)	(0.64)	(0.22)	(0.40)	0.10	(0.07)	0.00



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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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