



Economic Insight

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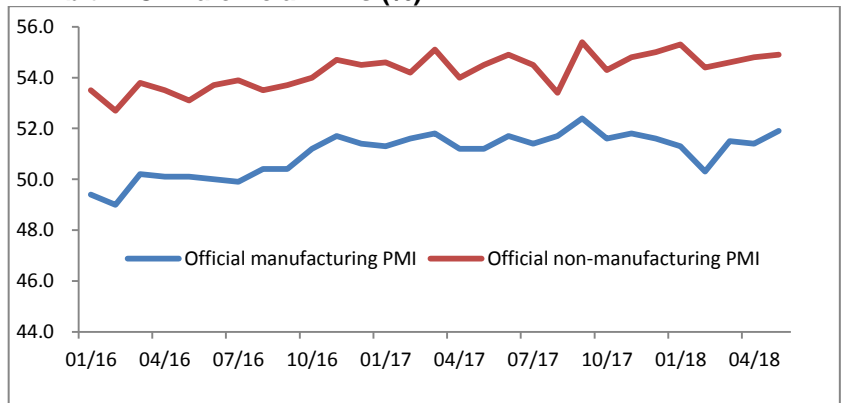
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China's manufacturing PMI rose significantly in May

- China's official manufacturing PMI advanced significantly in May, rising to 51.9 from 51.4 in April, above market expectations of 51.4 and reaching an eight-month high. The sharp rebound in manufacturing PMI in May was mainly attributable to a pick-up in PPI that led to growth in manufacturing sector profits and outputs
- The index of non-manufacturing business activity rose slightly to 54.9 in May from 54.8 in April for the third consecutive month
- Overall, official manufacturing and non-manufacturing PMI data for May show that China's economic growth has remained steady, particularly on the production side. High-frequency data reveal daily coal consumption of the six major power plants and the rate of steel plant operation increased considerably in May, reflecting acceleration in industrial production
- In our view, however, China's economic outlook remains challenging. With the Sino-US trade frictions heating up once again, export growth could be hindered. Moreover, investment growth is expected to ease because tightening policies in the property market and rising mortgage rate may reduce property investment. Infrastructure investment would decelerate on slashed fiscal deficit target. Finally, the recent bond credit default would increase the financing costs of the real economy

China's official manufacturing PMI advanced significantly in May, rising to 51.9 from 51.4 in April, above market expectations of 51.4 and reaching an eight-month high (Exhibit 1). The sharp rebound in manufacturing PMI in May was mainly attributable to the rise in PPI that led to growth in manufacturing sector profits and outputs. Recent figures released by NBS show that industrial profits rose markedly in April by 21.9%, 18.8ppt faster than in March.

Exhibit 1: China official PMIs (%)



Source(s): NBS, ABCI Securities

For the five sub-indices under the manufacturing PMI, the supplier distribution time index fell 0.1ppt from previous month, while the production index, the new order index, the raw material inventory index, and the employee index all advanced from the previous month. The production index rebounded to 54.1 in May from 53.1 in April as rising prices led to solid earnings growth for manufacturing companies. The new orders index and the import index rose to 53.8 and 50.9 in May, respectively, from 52.9 and 50.2 in April, supported

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by the "sustained expansion of domestic demand" policy advocated at the Politburo meeting on April 23. China-US trade frictions have not dragged down external demand, with data showing that the new export order index rebounded to 51.2 in May from 50.7 in April. The finished goods inventory index fell to 46.1 in May from 47.2 in April, driven by continued capacity removal and strong demand. It is worth noting that the input price index and output price index rebounded sharply to 56.7 and 53.2 in May from 53.0 and 50.2 in April, indicating that PPI inflation would continue to rise in May and support profit growth in industrial enterprises.

Manufacturing PMIs of large and medium-sized enterprises were 53.1 and 51.0 in May, up 1.1 and 0.3 percentage points from the previous month and remaining above the critical point. On the contrary, manufacturing PMI of small enterprises was 49.6, down 0.7 percentage points from the previous month and below the critical point. The decline in the PMI for small businesses may be related to higher capital constraints and cost pressures. The share of businesses reporting capital constraints rose for the third consecutive month to 40.1% in May. Therefore, supporting the real economy through financial services needs to be further strengthened. At the same time, more than 40% of enterprises reported high costs for raw materials and labor, while cost pressure is still one of the main problems in the production and operation of enterprises.

The index of non-manufacturing business activity rose slightly to 54.9 in May from 54.8 in April for the third consecutive month. By sector, the index of business activity in the services sector was 54.0, up 0.2 percentage points from the previous month. In terms of industry categories, the index of business activities in the railway transport industry, air transport industry, postal express delivery industry, telecommunications, radio and television broadcasting and satellite transmission services, internet software and information technology services continued to be located in the upper boom range above 60.0. However, the business activity index of capital market services, residential service and repair industry was lower than the critical point, and the total volume of business decreased. The index of business activity in the construction industry was 60.1, down 0.5 percentage points from the previous month despite the relatively rapid growth in the construction industry. Business activity expectations index of 65.1 stayed in the high boom range, indicating business confidence in the future market remains strong.

Overall, official manufacturing and non-manufacturing PMI data for May indicate a steady growth in China's economy, particularly on the production side. High-frequency data show that the daily coal consumption of the six major power plants and the rate of steel plant operation increased considerably in May, reflecting acceleration in industrial production. Nonetheless, economic outlook remains challenging in our view. Sino-US trade frictions are once again heating up, which may hinder export growth. Moreover, Investment growth is expected to ease as tightening policies in the property market and rising mortgage rate may reduce property investment. Infrastructure investment would slow on slashed fiscal deficit target. Finally, recent bond credit default would increase the financing costs of the real economy.



China Economic Indicators

	2017									2018				
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Real GDP (YoY %)	---	---	6.9	---	---	6.8	---	---	6.8	---	---	6.8	---	---
Export Growth (USD, YoY %)	8.0	8.7	11.3	7.2	5.5	8.1	6.9	12.3	10.9	11.1	44.5	-2.7	12.9	---
Import Growth (USD, YoY %)	11.9	14.8	17.2	11.0	13.3	18.7	17.2	17.7	4.5	36.9	6.3	14.4	21.5	---
Trade Balance (USD bn)	38.0	40.8	42.8	46.7	42.0	28.5	38.2	40.2	54.7	20.3	33.7	-5.0	28.8	---
Retail Sales Growth (YoY %)	10.7	10.7	11.0	10.4	10.1	10.3	10.0	10.2	9.4	9.7	9.7	10.1	9.4	---
Industrial Production (YoY %)	6.5	6.5	7.6	6.4	6.0	6.6	6.2	6.1	6.2	7.2	7.2	6.0	7.0	---
PMI - Manufacturing (%)	51.2	51.2	51.7	51.4	51.7	52.4	51.6	51.8	51.6	51.3	50.3	51.5	51.4	51.9
PMI - Non-manufacturing (%)	54.0	54.5	54.9	54.5	53.4	55.4	54.3	54.8	55.0	55.3	54.4	54.6	54.8	54.9
FAI (YTD) (YoY %)	8.9	8.6	8.6	8.3	7.8	7.5	7.3	7.2	7.2	7.9	7.9	7.5	7.0	---
CPI (YoY %)	1.2	1.5	1.5	1.4	1.8	1.6	1.9	1.7	1.8	1.5	2.9	2.1	1.8	---
PPI (YoY %)	6.4	5.5	5.5	5.5	6.3	6.9	6.9	5.8	4.9	4.3	3.7	3.1	3.4	---
M2 (YoY %)	10.5	9.6	9.4	9.2	8.9	9.2	8.8	9.1	8.2	8.6	8.8	8.2	8.3	---
New Lending (RMB bn)	1100	1110	1540	826	1090	1270	663	1120	584	2900	839	1120	1180	---
Aggregate Financing (RMB bn)	1390	1060	1780	1220	1480	1820	1040	1600	1140	3060	1170	1330	1560	---

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	24,415.84	(1.36)	18.42	NYMEX WTI	USD/bbl.	67.06	(1.21)	860,056		1.75	0.00
S&P 500	2,705.27	(0.59)	20.67	ICE Brent Oil	USD/bbl	77.66	1.60	120,411		4.75	0.00
NASDAQ	7,442.12	0.11	23.45	NYMEX Natural Gas	USD/MMBtu	2.95	0.34	90,085		2.25	0.00
MSCI US	2,579.76	(0.56)	21.08	China Qinhuangdao Port Thermal Coal ²	USD/Metric Tonne	61.80	N/A	N/A		1.7332	5.85
Europe				Basic Metals				US Treasury (1 Yr)			
FTSE 100	7,726.38	(0.05)	13.81	LME Aluminum Cash	USD/MT	2,289.25	1.59	17,765		2.7129	(5.23)
DAX	12,670.81	(2.07)	14.13	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	2,292.00	1.28	25,533		2.8785	(5.28)
CAC40	5,443.66	(1.78)	17.22	CMX Copper Active	USD/lb.	6,847.50	(0.36)	13,822		0.0480	0.70
IBEX 35	9,555.40	(2.76)	13.67	LME Copper 3- mth Rolling Fwd.	USD/MT	6,852.00	(0.48)	42,012		3.6380	0.20
FTSE MIB	22,256.11	(0.63)	12.29	Precious Metals				China 10-Yr Gov. Bond			
Stoxx 600	385.13	(1.52)	16.21	CMX Gold	USD/T. oz	1,303.00	(0.46)	242,924		0.00	0.00
MSCI UK	2,217.31	(0.67)	13.83	CMX Silver	USD/T. oz	16.45	(0.61)	81,480		1.9825	0.68
MSCI France	156.09	(2.38)	16.81	NYMEX Platinum	USD/T. oz	910.90	1.07	16,656		2.3003	(1.78)
Asia				Agricultural Products				O/N SHIBOR			
NIKKEI 225	22,171.35	(1.24)	16.95	CBOT Corn	USD/bu	395.75	(2.52)	219,553		2.8010	27.30
S&P/ASX 200	5,990.39	(0.70)	17.47	CBOT Wheat	USD/bu	521.50	(3.96)	111,382		3.9660	11.90
HSI	30,485.81	(0.33)	12.46	NYB-ICE Sugar	USD/lb.	12.79	2.65	88,336		1.7736	2.14
HSCEI	12,007.26	(0.34)	9.02	CBOT Soybeans	USD/bu.	1,023.75	(1.70)	113,758		Corporate Bonds (Moody's)	
CSI300	3,770.59	(1.20)	14.41					Aaa		3.89	(4.00)
SSE Composite	3,075.14	(2.11)	14.88					Baa		4.75	(3.00)
SZSE Composite	1,746.33	(3.52)	28.29								
MSCI China	92.56	(0.37)	15.74								
MSCI Hong Kong	16,164.99	(0.11)	11.68								
MSCI Japan	1,032.76	(1.30)	13.88								

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	1.1693	1.3282	0.7556	109.15	0.9871	6.4129	7.8458	6.5210
Chg. WTD (%)	0.36	(0.20)	0.11	0.24	0.40	(0.33)	0.00	(0.38)



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Definition of equity rating

Rating	Definition
Buy	Stock return rate \geq Market return rate (10%)
Hold	- Market return rate (-10%) \leq Stock return rate $<$ Market return rate (+10%)
Sell	Stock return $<$ - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2005 (HSI total return index 2005-17 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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