



Economic Insight

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China's growth momentum remained stable in May

ABCI Research

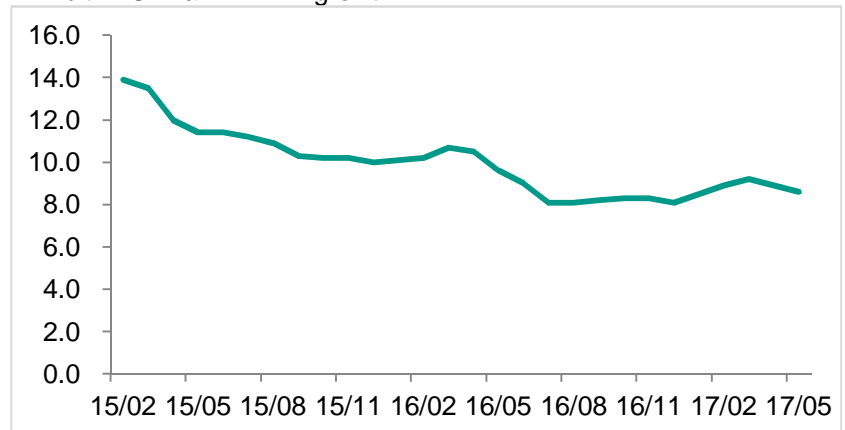
June 14, 2017

- China's economy maintained a steady growth pace in May on still-solid trade, retail sales and industrial production, though investment growth slowed slightly on rising financing cost and tightening property policy.
- Combining the Apr and May data, we expect China's GDP to grow by 6.7% in 2Q17.
- With the ongoing economic deleveraging, easing PPI inflation and property tightening measures, we maintain our China's economic growth forecast of 6.7% for 2017E.
- The PBOC is expected to try to keep a good balance between deleveraging and maintaining a relatively steady liquidity condition. Although liquidity is likely to tight in coming months, we believe a liquidity crunch similar to the one in June 2013 is unlikely to occur as PBOC will uphold a stable and neutral monetary policy throughout 2017.

China's economy maintained a steady growth pace in May on still-solid trade, retail sales, and industrial production despite a slightly slowing investment growth.

Fixed asset investment (FAI) growth in urban areas decelerated to 7.9%¹ in May from 8.3% in Apr on rising financing cost and tightening property policy (Exhibit 1). Growth in property investment slowed to 7.4% in May from 9.8% in Apr due to strengthening home-purchase restrictions in some cities, while growth in manufacturing investment rebounded to 5.6%, as compared with 3.3% in Apr. Infrastructure FAI growth dropped sharply to 15.5% from 22.9% in Apr as the government fiscal revenue growth eased to 3.7% from 7.8% for the same period. Meanwhile, with return on investment improving, private investment growth rose to 6.6% from 5.4% in the previous month.

Exhibit 1: China FAI YTD growth



Source(s): NBS, ABCI Securities

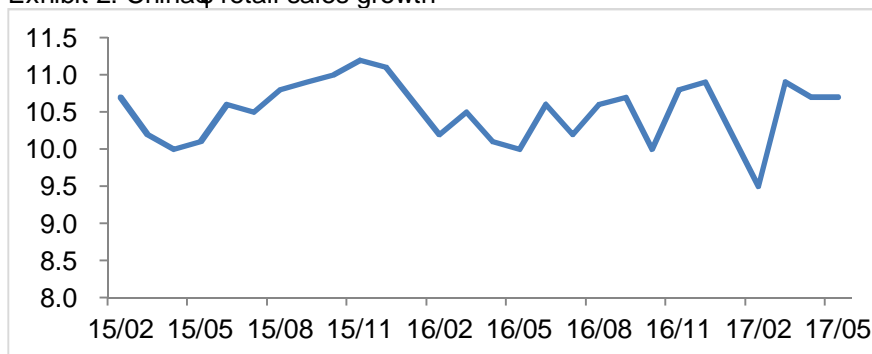
Property sales remained relatively strong in May, especially in the 3rd/4th-tier cities. Growth in new home sales, as measured in floor space area and value, were 10.2% and 14.1%, as compared with 7.7% and 10.0% in Apr.

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



Retail sales growth stayed unchanged at 10.7% in May, in line with the market expectation (Exhibit 2). Car sales rebounded slightly to 7.0%, as compared with the 6.8% increase in Apr. Adjusting for retail prices, real growth of retail sales softened to 9.5%, down from 9.7% in Apr, partly attributable to rising mortgage loan rate dampening consumer sentiment.

Exhibit 2: China's retail sales growth



Source(s): NBS, ABCI Securities

Production side showed a stable growth pace, with industrial production increasing by 6.5% in May, same as that in Apr. Electricity generation increased by 5.0%, as compared with the 5.4% growth in Apr. Pharmacy, equipment manufacturing, and electrical machinery maintained a low double-digit growth in May.

Overall, the macro data in May indicate a stable growth momentum despite early signs of a cool-down in property market. Combining the Apr and May data, we expect China's GDP to grow by 6.7% in 2Q17. With the ongoing economic deleveraging, easing PPI inflation, and property tightening measures, we maintain our China's economic growth forecast of 6.7% for 2017E (Exhibit 3).

In our view, PBOC will keep a good balance between deleveraging and maintaining a relatively steady liquidity condition. Although the liquidity is likely to remain tight in coming months, a liquidity crunch similar to the one in June 2013 is unlikely to occur as PBOC will uphold a stable and neutral monetary policy throughout 2017.

Exhibit 3: Economic forecasts

Economic indicators	2016	2017E	2018E
Real GDP growth, %	6.7	6.7	6.4
FAI growth, %	8.1	8.5	8.0
Retail Sales growth, %	10.4	10.5	10.0
Export growth in USD terms, %	-7.7	8.0	3.0
Import growth in USD terms, %	-5.5	14.0	5.0
Industrial Production growth, %	6.0	6.5	6.0
CPI, %	2.0	1.7	2.0
M2 growth, %	11.3	10.5	10.0
Aggregate Financing, RMB bn	17,800	19,000	20,000
New Yuan Loans, RMB bn	12,600	13,500	14,500
Spot CNY per US dollar, End-year	6.9450	6.9000	7.1000

Source(s): NBS, PBOC, ABCI Securities



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China Economic Indicators

	2016										2017			
	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May
Real GDP (YoY %)	---	---	6.7	---	---	6.7	---	---	6.8	---	---	6.9	---	---
Export Growth (USD, YoY %)	(1.8)	(4.1)	(4.8)	(4.4)	(2.8)	(10.0)	(7.3)	0.1	(6.1)	7.9	(1.3)	16.4	8.0	8.7
Import Growth (USD, YoY %)	(10.9)	(0.4)	(8.4)	(12.5)	1.5	(1.9)	(1.4)	6.7	3.1	16.7	38.1	20.3	11.9	14.8
Trade Balance (USD bn)	45.6	50.0	48.1	52.3	52.1	42.0	49.1	44.6	40.8	51.3	(9.1)	23.9	38.0	40.8
Retail Sales Growth (YoY %)	10.1	10.0	10.6	10.2	10.6	10.7	10.0	10.8	10.9	9.5	9.5	10.9	10.7	10.7
Industrial Production (YoY %)	6.0	6.0	6.2	6.0	6.3	6.1	6.1	6.2	6.0	6.3	6.3	7.6	6.5	6.5
PMI - Manufacturing (%)	50.1	50.0	49.9	50.4	50.4	50.4	51.2	51.7	51.4	51.3	51.6	51.8	51.2	51.2
PMI - Non-manufacturing (%)	53.1	53.7	53.9	53.5	53.7	53.7	51.2	50.9	51.9	54.6	54.2	55.1	54.0	54.5
FAI (YTD) (YoY %)	10.5	9.6	9.0	8.1	8.1	8.2	8.3	8.3	8.1	8.9	8.9	9.2	8.9	8.6
CPI (YoY %)	2.0	1.9	1.8	1.3	1.9	1.9	2.1	2.3	2.1	2.5	0.8	0.9	1.2	1.5
PPI (YoY %)	(2.8)	(2.6)	(1.7)	(0.8)	0.1	0.1	1.2	3.3	5.5	6.9	7.8	7.6	6.4	5.5
M2 (YoY %)	11.8	11.8	10.2	11.4	11.5	11.5	11.6	11.4	11.3	11.3	11.1	10.6	10.5	---
New Lending (RMB bn)	556	986	1380	464	949	1220	651	795	1040	2030	1170	1020	1100	---
Aggregate Financing (RMB bn)	751	660	1629	488	1470	1720	896	1740	1630	3740	1150	2120	1390	---

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	21,328.47	0.27	18.76	NYMEX WTI	USD/bbl.	45.99	0.35	859,208		1.00	0.00
S&P 500	2,440.35	0.35	21.68	ICE Brent Oil	USD/bbl	48.30	0.31	366,274		4.00	0.00
NASDAQ	6,220.37	0.20	32.96	NYMEX Natural Gas	USD/MMBtu	2.97	(2.24)	179,043		1.50	0.00
MSCI US	2,324.94	0.38	22.13	China Qinhuangdao Port Thermal Coal ²	USD/Metric Tonne	61.80	N/A	N/A		0.8573	6.61
Europe				Basic Metals				US Treasury (1 Yr)			
FTSE 100	7,500.44	(0.36)	32.57	LME Aluminum Cash	USD/MT	1,878.50	(1.20)	7,792		1.7764	1.00
DAX	12,764.98	(0.40)	19.99	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,889.00	(0.94)	31,735		2.2056	0.51
CAC40	5,261.74	(0.72)	19.46	CMX Copper Active	USD/lb.	5,690.00	(1.63)	8,859		0.0700	1.40
IBEX 35	10,882.10	(0.88)	17.18	LME Copper 3- mth Rolling Fwd.	USD/MT	5,717.00	(1.50)	42,961		3.5850	(2.20)
FTSE MIB	21,088.78	(0.16)	N/A	Precious Metals				US Treasury (5Yr)			
Stoxx 600	388.75	(0.42)	24.97	CMX Gold	USD/T. oz	1,270.80	(0.05)	208,821		0.00	0.00
MSCI UK	2,180.00	(0.32)	33.56	CMX Silver	USD/T. oz	16.89	(1.96)	82,519		1.1393	1.22
MSCI France	150.51	(0.79)	19.22	NYMEX Platinum	USD/T. oz	930.40	(1.05)	18,238		1.2417	0.52
Asia				Agricultural Products				O/N SHIBOR			
NIKKEI 225	19,906.97	(0.53)	19.04	CBOT Corn	USD/bu	382.25	(1.42)	361,981		2.8250	(0.25)
S&P/ASX 200	5,833.90	2.75	19.87	CBOT Wheat	USD/bu	446.75	0.22	119,730		4.6826	9.72
HSI	25,792.71	(0.91)	13.89	NYB-ICE Sugar	USD/lb.	14.02	(3.11)	61,948		0.7635	1.42
HSCEI	10,479.52	(1.06)	8.64	CBOT Soybeans	USD/bu.	942.75	(0.58)	72,175		Corporate Bonds (Moody's)	
CSI300	3,534.79	(1.16)	15.53					Aaa		3.76	2.00
SSE Composite	3,129.80	(0.91)	16.80					Baa		4.43	1.00
SZSE Composite	1,854.71	(0.13)	27.07								
MSCI China	72.80	(1.02)	15.67								
MSCI Hong Kong	14,518.43	(0.35)	14.69								
MSCI Japan	948.13	0.04	16.57								

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	1.1213	1.2748	0.7550	110.06	0.9688	6.7971	7.7984	6.9765
Chg. WTD (%)	0.16	0.02	0.31	0.24	0.06	0.01	(0.02)	(0.14)



Disclosures

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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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