



Economic Insight

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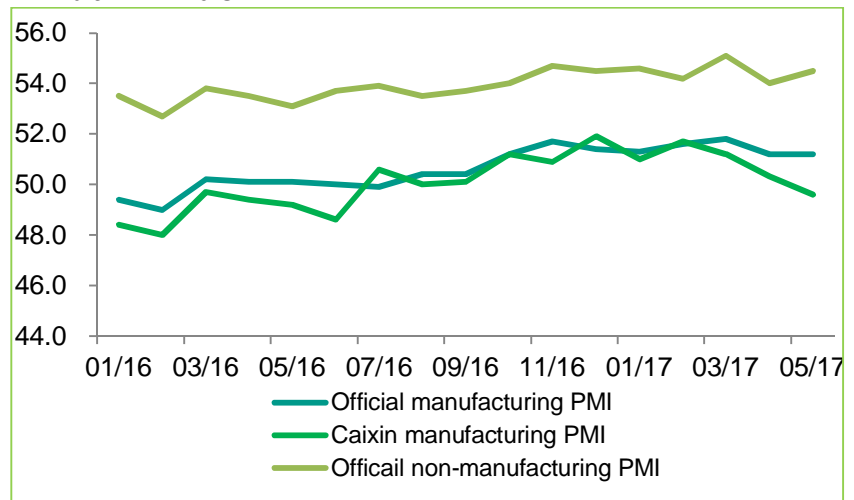
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China's manufacturing PMIs diverged in May

- China's official manufacturing PMI remained at 51.2 in May, unchanged from April. However, the Caixin manufacturing PMI declined to 49.6 in May from 50.3 in April. The divergence between official and Caixin manufacturing PMI can be mainly attributed to the different enterprise samples.
- The official non-manufacturing PMI rose to 54.5 in May from 54.0 last month, suggesting services activity has expanded at a faster pace. By breakdown, PMIs for retail sales, railway, air transportation, and post exceeded 59.0, while PMIs for real estate and capital market services fell below the 50-point mark.
- In general, the May manufacturing and non-manufacturing PMI readings show China's economy has been maintaining a steady growth on the back of improvement in external demand and services activity. Combining the April and May data, we forecast that China's GDP would grow by 6.7% in 2Q17F.

China's official manufacturing PMI remained at 51.2 in May, unchanged from April (Exhibit 1). However, the Caixin manufacturing PMI declined to 49.6 in May from 50.3 in April, the lowest in 11 months and below the 50-point mark. The divergence between the official and Caixin manufacturing PMIs can be mainly attributed to the different enterprise samples. The Caixin manufacturing PMI is mainly represented by enterprises in eastern China and tends to focus on light industry and services industry; meanwhile, official manufacturing PMI is represented by enterprises nationwide and tends to focus on heavy industry.

Exhibit 1: China's PMI



Source(s): NBS, Caixin Media, ABCI Securities

Judging from the official manufacturing PMI data, overall demand remained resilient, with new orders index and new export orders index staying at 52.3 and 50.7 in May on global economic recovery. Production index eased slightly to 53.4 in May from 53.8 in April on destocking activity. The input price index and the output price index declined to 49.5 and 47.6 in May from 51.8 and 48.7 last month, suggesting the headline PPI in May is likely to continue to soften. By

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enterprise type, the medium and small enterprises PMIs rebounded to 51.3 and 51.0 in May, while the large enterprises PMI slowed to 51.2 from 52.0 in April. Rebound in PMI of medium and small enterprises, which usually operate in the downstream segment of industries, can be attributed to the smaller decline in output price compared to that of the large enterprises.

The official non-manufacturing PMI rose to 54.5 in May from 54.0 last month, suggesting that services activity has expanded at a faster pace. By breakdown, the PMIs for retail sales, railway, air transportation, and post exceeded 50, while the PMIs for real estate and capital market services fell below the 50-point mark.

In general, the May manufacturing and non-manufacturing PMI readings show China's economy has been maintaining a steady growth on the back of improvement in external demand and services activity. Combining the April and May data, we forecast that China's GDP would grow by 6.7% in 2Q17F.



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	---
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	---
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	---
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	---
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	---
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	---
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	---
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	---
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	1.00	0.00	
DJIA	21,008.65	(0.34)	18.48	NYMEX WTI	USD/bbl.	48.72	(2.17)	818,056	US Prime Rate	4.00	0.00
S&P 500	2,411.80	(0.17)	21.42	ICE Brent Oil	USD/bbl	51.15	(1.92)	189,162	US Discount Window	1.50	0.00
NASDAQ	6,198.52	(0.19)	33.10	NYMEX Natural Gas	USD/MMBtu	3.09	(4.54)	106,636	US Treasury (1 Yr)	0.8471	12.69
MSCI US	2,297.76	(0.15)	21.84	China Qinhuangdao Port Thermal Coal ²	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (5Yr)	1.7582	(3.12)
Europe				Basic Metals				US Treasury (10 Yr)	2.2114	(3.51)	
FTSE 100	7,519.95	(0.37)	34.78	LME Aluminum Cash	USD/MT	1,925.75	(1.18)	10,352	Japan 10-Yr Gov. Bond	0.0450	0.30
DAX	12,615.06	0.10	19.76	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,928.00	(1.18)	30,608	China 10-Yr Gov. Bond	3.6370	(2.90)
CAC40	5,283.63	(0.99)	19.54	CMX Copper Active	USD/lb.	5,665.75	0.35	10,031	ECB Rate (Refinancing)	0.00	0.00
IBEX 35	10,880.00	(0.22)	19.33	LME Copper 3- mth Rolling Fwd.	USD/MT	5,682.00	0.43	30,838	1-Month LIBOR	1.0505	0.58
FTSE MIB	20,731.68	(2.26)	N/A	Precious Metals				3 Month LIBOR	1.2018	0.00	
Stoxx 600	389.99	(0.35)	25.64	CMX Gold	USD/T. oz	1,269.20	(0.17)	152,282	O/N SHIBOR	2.6525	4.35
MSCI UK	2,187.11	(0.36)	35.43	CMX Silver	USD/T. oz	17.26	(0.36)	71,398	1-mth SHIBOR	4.1013	3.58
MSCI France	151.17	(0.85)	19.30	NYMEX Platinum	USD/T. oz	946.30	(1.72)	16,028	3-mth HIBOR	0.7684	(0.23)
MSCI Germany	156.16	0.06	20.24	Agricultural Products				Corporate Bonds (Moody's)			
MSCI Italy	57.62	(2.19)	N/A	CBOT Corn	USD/bu	371.75	(0.67)	164,363	Aaa	3.78	(4.00)
Asia				CBOT Wheat	USD/bu	430.75	(1.71)	56,711	Baa	4.46	(3.00)
NIKKEI 225	19,842.52	0.79	19.02	NYB-ICE Sugar	USD/lb.	14.87	(1.20)	69,658			
S&P/ASX 200	5,738.10	(0.24)	19.54	CBOT Soybeans	USD/bu.	917.00	(1.03)	111,528			
HSI	25,820.28	0.71	14.27								
HSCEI	10,632.36	0.50	8.79								
CSI300	3,497.41	0.49	15.39								
SSE Composite	3,110.01	(0.00)	16.68								
SZSE Composite	1,791.99	(1.00)	26.32								
MSCI China	71.80	(0.71)	15.42								
MSCI Hong Kong	14,295.22	1.16	14.67								
MSCI Japan	934.61	(0.13)	16.39								

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	1.1237	1.2859	0.7403	110.96	0.9691	6.7975	7.7907	6.9672
Chg. WTD (%)	0.48	0.43	(0.60)	0.33	0.52	0.85	0.03	0.94



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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