



## Economic Insight

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### China's 2Q17 GDP growth exceeds expectation

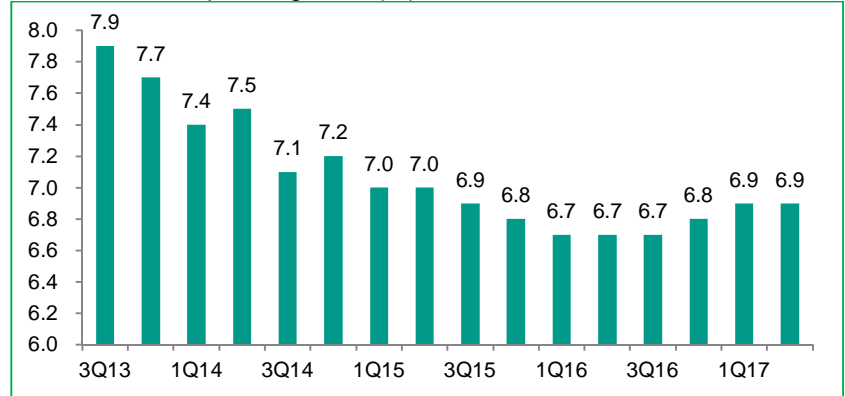
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- Supported by resilient domestic and external demand, China's economic growth came in at 6.9% in 2Q17, which is above the market forecast of 6.8%.
- Despite a strong GDP in 1H17, we believe China's economic growth will moderate in the coming quarters with the ongoing deleveraging, easing PPI inflation, slowing fiscal expenditure and property tightening measures.
- We maintain our China's economic growth forecast of 6.7% for 2017E and 6.4% for 2018E.
- However, improving external demand and accelerating income per capita growth will pose a modest upside risk to our economic growth forecasts.
- According to the fifth National Financial Working Conference held on 14-15 July, PBOC is expected to maintain a neutral monetary policy to lower the overall leverage ratio in the economy and slow broad credit growth. The financial sector is likely to strengthen services for the real economy. Given the robust growth in 1H17, financial regulations by PBOC and CBRC will turn more aggressive to temper financial risks.

Supported by resilient domestic and external demand, China's economic growth stayed at 6.9%<sup>1</sup> in 2Q17, above the market forecast of 6.8% (Exhibit 1). Economic activity in June expanded faster than expected, with growth in investment, retail sales, trade and industrial production surpassing forecasts. On a quarterly basis, China's economy grew 1.7% QoQ in 2Q17, compared with 1.3% in 1Q17. For 1H17, China's GDP grew by 6.9%.

Exhibit 1: China's GDP growth (%)



Source(s): NBS, ABCI Securities

A breakdown of the GDP components shows consumption continued to be the key growth driver, contributing 4.4ppt to the economic growth in 1H17 (Exhibit 2). Investment only added 2.2ppt to overall growth, while net exports of goods and services contributed 0.3ppt, compared with the 0.4ppt reduction in 2016.

<sup>1</sup> All growth rates are year-on-year except specified otherwise



Exhibit 2: Contribution to China's real GDP growth (ppt)

| Economic items                       | 2015       | 2016       | 1H17       |
|--------------------------------------|------------|------------|------------|
| Consumption (household + government) | 4.1        | 4.3        | 4.4        |
| Investment (private + public)        | 2.9        | 2.8        | 2.2        |
| Net exports of goods & services      | -0.1       | -0.4       | 0.3        |
| <b>Real GDP growth %</b>             | <b>6.9</b> | <b>6.7</b> | <b>6.9</b> |

Source(s): NBS, ABCI Securities

Despite the slight easing in investment, domestic demand remained resilient in 2Q17, with retail sales growth accelerating. Fixed asset investment (FAI) in urban areas advanced 8.8% in 2Q17 after rising 9.2% in 1Q17, while retail sales of consumer goods grew 10.8% after increasing 10.0% during the same period. After adjusting for inflation, real growth of FAI and retail sales came in at 3.4% and 9.7% respectively in 2Q17, compared with 4.5% and 8.8% in 1Q17. On the production side, the real growth of industrial output rebounded to 7.0% in 2Q17 from 6.8% in 1Q17 on the accelerating manufacturing activity and improving external demand.

External demand improved in 2Q17 on the back of global economic recovery, with exports rising by 9.3% in USD terms, compared with an 8.2% increase in 1Q17. With import growth slowing to 14.6% from 24.0%, trade surplus widened to US\$ 121.6bn in 2Q17 from US\$ 65.6bn in 1Q17.

Looking ahead, despite a strong GDP figure in 1H17, we believe China's economic growth will moderate in the coming quarters with the ongoing deleveraging, easing PPI inflation, slowing fiscal expenditure, and property tightening measures. We maintain our China's economic growth forecasts of 6.7% for 2017E and 6.4% for 2018E (Exhibit 3). Nonetheless, improving external demand and accelerating income per capita growth will pose a modest upside risk to our forecasts. Compared to 7.0%/6.3% increase in 1Q17/2016, real disposable income per capita grew further by 7.3% in 2Q17, which exceeded the 2Q17 GDP growth of 6.9%. Such strong growth would lend support to consumer spending.

On the monetary front, according to the fifth National Financial Working Conference held on 14-15 July, PBOC is expected to maintain a neutral monetary policy to lower the overall leverage ratio in the economy and slow broad credit growth. The financial sector is likely to strengthen services for the real economy. Given the robust economic growth in 1H17, financial regulations by PBOC and CBRC will turn more aggressive to temper financial risks.



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    |
| PPI, %                           | -1.4   | 4.0    | 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 estimates



China Economic Indicators

|                               | 2016  |       |        |       |        |       |      |       | 2017 |       |      |      |      |      |
|-------------------------------|-------|-------|--------|-------|--------|-------|------|-------|------|-------|------|------|------|------|
|                               | May   | Jun   | Jul    | Aug   | Sep    | Oct   | Nov  | Dec   | Jan  | Feb   | Mar  | Apr  | May  | Jun  |
| Real GDP (YoY %)              | ---   | 6.7   | ---    | ---   | 6.7    | ---   | ---  | 6.8   | ---  | ---   | 6.9  | ---  | ---  | 6.9  |
| Export Growth (USD, YoY %)    | (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  | 11.3 |
| Import Growth (USD, YoY %)    | (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 | 17.2 |
| Trade Balance (USD bn)        | 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 | 42.8 |
| Retail Sales Growth (YoY %)   | 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 | 11.0 |
| Industrial Production (YoY %) | 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  | 7.6  |
| PMI - Manufacturing (%)       | 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 | 51.7 |
| PMI - Non-manufacturing (%)   | 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 | 54.9 |
| FAI (YTD) (YoY %)             | 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  | 8.6  |
| CPI (YoY %)                   | 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  | 1.5  |
| PPI (YoY %)                   | (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  | 5.5  |
| M2 (YoY %)                    | 11.8  | 10.2  | 11.4   | 11.5  | 11.5   | 11.6  | 11.4 | 11.3  | 11.3 | 11.1  | 10.6 | 10.5 | 9.6  | 9.4  |
| New Lending (RMB bn)          | 986   | 1380  | 464    | 949   | 1220   | 651   | 795  | 1040  | 2030 | 1170  | 1020 | 1100 | 1110 | 1540 |
| Aggregate Financing (RMB bn)  | 660   | 1629  | 488    | 1470  | 1720   | 896   | 1740 | 1630  | 3740 | 1150  | 2120 | 1390 | 1060 | 1780 |

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           | 21,629.72     | (0.04)       | 18.97 | NYMEX WTI                                                                                             | USD/bbl.         | 45.90        | (1.38)              | 805,339                 |                           | 1.25           | 0.00   |
| S&P 500        | 2,459.14      | (0.01)       | 21.72 | ICE Brent Oil                                                                                         | USD/bbl          | 48.33        | (1.19)              | 280,560                 | US Prime Rate             | 4.25           | 0.00   |
| NASDAQ         | 6,314.43      | 0.03         | 34.37 | NYMEX Natural Gas                                                                                     | USD/MMBtu        | 3.04         | 1.98                | 164,375                 | US Discount Window        | 1.75           | 0.00   |
| MSCI US        | 2,341.77      | (0.01)       | 22.14 | China Qinhuangdao Port Thermal Coal <sup>2</sup>                                                      | USD/Metric Tonne | 61.80        | N/A                 | N/A                     | US Treasury (1 Yr)        | 0.9333         | 1.52   |
| <b>Europe</b>  |               |              |       | <b>Basic Metals</b>                                                                                   |                  |              |                     | US Treasury (5Yr)       |                           |                |        |
| FTSE 100       | 7,360.45      | (0.24)       | 31.98 | LME Aluminum Cash                                                                                     | USD/MT           | 1,896.25     | (0.63)              | 7,856                   | US Treasury (10 Yr)       | 2.3051         | (2.68) |
| DAX            | 12,511.39     | (0.95)       | 20.10 | LME Aluminum 3 -mth. Rolling Fwd.                                                                     | USD/MT           | 1,918.00     | (0.47)              | 31,770                  | Japan 10-Yr Gov. Bond     | 0.0720         | (1.10) |
| CAC40          | 5,201.52      | (0.65)       | 19.25 | CMX Copper Active                                                                                     | USD/lb.          | 5,977.00     | 1.14                | 12,725                  | China 10-Yr Gov. Bond     | 3.5690         | 0.20   |
| IBEX 35        | 10,625.20     | (0.28)       | 16.65 | LME Copper 3- mth Rolling Fwd.                                                                        | USD/MT           | 5,996.00     | 1.18                | 34,451                  | ECB Rate (Refinancing)    | 0.00           | 0.00   |
| FTSE MIB       | 21,444.53     | (0.22)       | N/A   | <b>Precious Metals</b>                                                                                |                  |              |                     | 1-Month LIBOR           |                           |                |        |
| Stoxx 600      | 385.09        | (0.45)       | 24.58 | CMX Gold                                                                                              | USD/T. oz        | 1,235.90     | 0.68                | 230,034                 | 3 Month LIBOR             | 1.3036         | (0.16) |
| MSCI UK        | 2,152.29      | 0.38         | 33.00 | CMX Silver                                                                                            | USD/T. oz        | 16.09        | 0.95                | 87,994                  | O/N SHIBOR                | 2.7010         | 7.40   |
| MSCI France    | 149.60        | (0.13)       | 18.92 | NYMEX Platinum                                                                                        | USD/T. oz        | 926.30       | 0.30                | 16,523                  | 1-mth SHIBOR              | 3.9989         | (4.08) |
| <b>Asia</b>    |               |              |       | <b>Agricultural Products</b>                                                                          |                  |              |                     | 3-mth HIBOR             |                           |                |        |
| NIKKEI 225     | 19,999.91     | (0.59)       | 19.09 | CBOT Corn                                                                                             | USD/bu           | 381.00       | 1.26                | 176,331                 | Corporate Bonds (Moody's) |                |        |
| S&P/ASX 200    | 5,687.39      | (1.35)       | 19.36 | CBOT Wheat                                                                                            | USD/bu           | 512.75       | 0.39                | 87,192                  | Aaa                       | 3.71           | (8.00) |
| HSI            | 26,524.94     | 0.51         | 14.29 | NYB-ICE Sugar                                                                                         | USD/lb.          | 14.24        | (0.42)              | 50,342                  | Baa                       | 4.52           | (10.0) |
| HSCEI          | 10,755.28     | 0.25         | 8.87  | CBOT Soybeans                                                                                         | USD/bu.          | 1,004.00     | 0.25                | 177,851                 | Note:                     |                |        |
| CSI300         | 3,667.18      | (0.97)       | 16.14 | 1. Data sources: Bloomberg, National Bureau of Statistics of China, ABCIS (updated on date of report) |                  |              |                     |                         |                           |                |        |
| SSE Composite  | 3,187.57      | (1.08)       | 17.13 | 2. The price is Coal 5500 kcal/kg FOB Spot Price                                                      |                  |              |                     |                         |                           |                |        |
| SZSE Composite | 1,811.33      | (3.70)       | 33.73 |                                                                                                       |                  |              |                     |                         |                           |                |        |
| MSCI China     | 76.09         | 0.14         | 16.36 |                                                                                                       |                  |              |                     |                         |                           |                |        |
| MSCI Hong Kong | 14,516.11     | (0.11)       | 14.69 |                                                                                                       |                  |              |                     |                         |                           |                |        |
| MSCI Japan     | 966.05        | 0.00         | 16.78 |                                                                                                       |                  |              |                     |                         |                           |                |        |

Currency

|              | Euro/USD | GBP/USD | AUD/USD | USD/JPY | USD/CHF | USD/CNY | USD/HKD | USD/CNY NDF 12-mth Spot pr. |
|--------------|----------|---------|---------|---------|---------|---------|---------|-----------------------------|
| Spot Rate    | 1.1524   | 1.3090  | 0.7909  | 112.30  | 0.9575  | 6.7584  | 7.8038  | 6.8885                      |
| Chg. WTD (%) | 0.47     | (0.06)  | 0.98    | 0.20    | 0.63    | 0.25    | 0.00    | 0.46                        |



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| 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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