



Economic Insight

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China's GDP growth rebounded in 1Q17

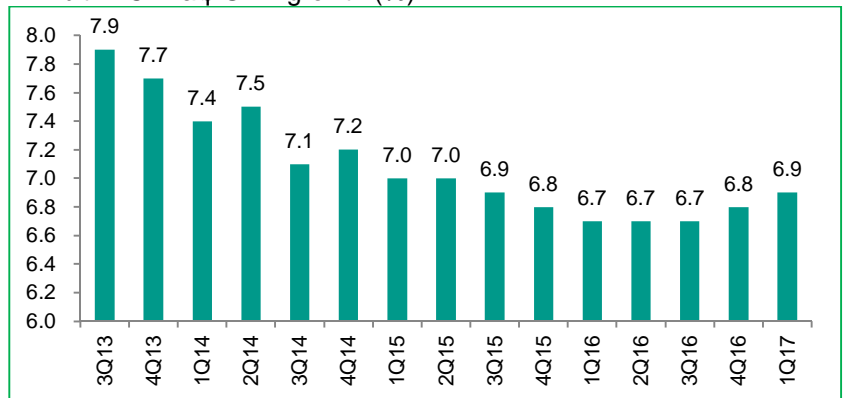
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- China's economic growth rebounded slightly to 6.9% in 1Q17 from 6.8% in 4Q16 on accelerating growth in industrial productions, investment, as well as improving trade performance.
- Despite a strong GDP figure in 1Q17, we believe China's economic growth will slow slightly in the coming quarters as the ongoing deleveraging is likely to temper economic activity. Potential trade disputes with the U.S. would weigh on export growth as the U.S. President Trump initiated a 90-day review plan to identify causes of its trade deficit.
- However, with stronger-than-expected activity data in 1Q17, we revise up our 2017 GDP forecast to 6.7% from previous estimate of 6.5%.
- The PBOC is expected to maintain a neutral monetary policy with a tightening bias in coming months to the lower the overall leverage ratio in the economy. Meanwhile, given the robust growth performance in 1Q17, macro prudential measures by the PBOC and CBRC will turn more aggressive to lower financial risks.

China's economic growth rebounded slightly to 6.9%¹ in 1Q17 from 6.8% in 4Q16, the fastest pace in six quarters, on accelerating growth in industrial production, investment, as well as improving trade performance (Exhibit 1). Encouragingly, the economic activity in March grew faster than expected, with investment, retail sales, export and industrial production all beating forecasts. On a quarterly basis, China's economy grew 1.3% QoQ in 1Q17, compared with 1.7% in 4Q16.

Exhibit 1: China's GDP growth (%)



Source(s): NBS, ABCI Securities

The adjustment of economic structure has continued to gain strides. A breakdown of the GDP components shows consumption continued to be the key growth driver, contributing to 5.3ppt to the economic growth in 1Q17 (Exhibit 2). Investment only added 1.3ppt to overall growth, while net exports of goods and services contributed by 0.3ppt, compared with the 0.4ppt reduction for 2016. Meanwhile, the tertiary sector accounted for 56.5% of the economy in 1Q17, up from 51.6% in 2016 and above the secondary sector's share of 38.7%.

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



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

Economic items	2015	2016	1Q 2017
Consumption (household + government)	4.1	4.3	5.3
Investment (private + public)	2.9	2.8	1.3
Net exports of goods & services	-0.1	-0.4	0.3
Real GDP growth %	6.9	6.7	6.9

Source(s): NBS, ABCI Securities

Despite the slight easing in retail sales, domestic demand remained resilient in 1Q17, with investment growth accelerating sharply. Fixed asset investment (FAI) in urban areas advanced 9.2% in 1Q17 after rising 7.9% in 4Q16, while retail sales of consumer goods grew 10.0% after increasing 10.6% during the same period. Moderation in retail sales can be attributed to slower car sales due to the partial withdrawal of previous tax incentives. On the production side, the real growth of industrial output rebounded to 6.8% in 1Q17 on the rising producer inflation and improving external demand, compared with 6.1% in 4Q16.

External demand improved in 1Q17 on the back of global economic recovery, with exports rising by 8.2% in USD terms, compared with a 4.8% decrease in 4Q16. With imports jumping by 24.0%, trade surplus narrowed to US\$ 65.6bn in 1Q17 from US\$ 134.5bn in 4Q16.

On the monetary front, the PBOC has maintained a monetary tightening bias in 1Q17 through raising interest rates several times in reverse repos and lending facilities. The growth in broad money supply (M2) decelerated to 10.6% in March 2017 from 11.3% in December 2016, while new RMB loans amounted to RMB4.2tr, compared with RMB4.6tr in the same quarter last year.

Looking ahead, despite a strong GDP figure in 1Q17, we believe China's economic growth will slow slightly in the coming quarters as the ongoing deleveraging is likely to temper economic activity. Potential trade disputes with the U.S. would weigh on export growth as U.S. President Trump initiated a 90 day review plan to identify causes of its trade deficit. However, with stronger-than-expected activity data in 1Q17, we revise up our 2017 GDP forecast to 6.7% from previous estimate of 6.5% (Exhibit 3).

The PBOC is expected to maintain a neutral monetary policy with a tightening bias in coming months to lower the overall leverage ratio in the economy. Meanwhile, given the robust growth performance in 1Q17, the macro prudential measures by the PBOC and CBRC will turn more aggressive to lower financial risks.



Exhibit 3: Economic forecasts

Economic indicators	2015	2016	2017F
Real GDP growth, %	6.9	6.7	6.7
FAI growth, %	10.0	8.1	9.0
Retail Sales growth, %	10.7	10.4	10.0
Export growth in USD terms, %	-2.8	-7.7	4.0
Import growth in USD terms, %	-14.1	-5.5	10.0
Industrial Production growth, %	6.1	6.0	6.5
CPI, %	1.4	2.0	2.0
M2 growth, %	13.3	11.3	10.5
Aggregate Financing, RMB bn	15,400	17,800	19,000
New Yuan Loans, RMB bn	11,700	12,600	13,500
Spot CNY per US dollar, End-year	6.4937	6.9450	7.100

Source(s): NBS, PBOC, ABCI Securities



China Economic Indicators

	2016											2017		
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Real GDP (YoY %)	---	6.7	---	---	6.7	---	---	6.7	---	---	6.8	---	---	6.9
Export Growth (USD, YoY %)	(25.4)	11.5	(1.8)	(4.1)	(4.8)	(4.4)	(2.8)	(10.0)	(7.3)	0.1	(6.1)	7.9	(1.3)	16.4
Import Growth (USD, YoY %)	(13.8)	(7.6)	(10.9)	(0.4)	(8.4)	(12.5)	1.5	(1.9)	(1.4)	6.7	3.1	16.7	38.1	20.3
Trade Balance (USD bn)	32.6	29.9	45.6	50.0	48.1	52.3	52.1	42.0	49.1	44.6	40.8	51.3	(9.1)	23.9
Retail Sales Growth (YoY %)	10.2	10.5	10.1	10.0	10.6	10.2	10.6	10.7	10.0	10.8	10.9	9.5	9.5	10.9
Industrial Production (YoY %)	5.4	6.8	6.0	6.0	6.2	6.0	6.3	6.1	6.1	6.2	6.0	6.3	6.3	7.6
PMI - Manufacturing (%)	50.2	50.1	50.1	50.0	49.9	50.4	50.4	50.4	51.2	51.7	51.4	51.3	51.6	51.8
PMI - Non-manufacturing (%)	53.8	53.5	53.1	53.7	53.9	53.5	53.7	53.7	51.2	50.9	51.9	54.6	54.2	55.1
FAI (YTD) (YoY %)	10.2	10.7	10.5	9.6	9.0	8.1	8.1	8.2	8.3	8.3	8.1	8.9	8.9	9.2
CPI (YoY %)	2.3	2.3	2.0	1.9	1.8	1.3	1.9	1.9	2.1	2.3	2.1	2.5	0.8	0.9
PPI (YoY %)	(4.3)	(3.4)	(2.8)	(2.6)	(1.7)	(0.8)	0.1	0.1	1.2	3.3	5.5	6.9	7.8	7.6
M2 (YoY %)	13.4	12.8	11.8	11.8	10.2	11.4	11.5	11.5	11.6	11.4	11.3	11.3	11.1	10.6
New Lending (RMB bn)	727	1370	556	986	1380	464	949	1220	651	795	1040	2030	1170	1020
Aggregate Financing (RMB bn)	825	2404	751	660	1629	488	1470	1720	896	1740	1630	3740	1150	2120

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	20,636.92	0.90	18.98	NYMEX WTI	USD/bbl.	52.63	(1.03)	520,084		1.00	0.00
S&P 500	2,349.01	0.86	21.63	ICE Brent Oil	USD/bbl	55.35	(0.97)	299,425	US Prime Rate	4.00	0.00
NASDAQ	5,856.79	0.89	114.0	NYMEX Natural Gas	USD/MMBtu	3.15	(2.54)	169,410	US Discount Window	1.50	0.00
MSCI US	2,238.04	0.86	22.08	China Qinhuangdao Port Thermal Coal ²	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (1 Yr)	0.7506	0.00
Europe				Basic Metals				US Treasury (5Yr)			
FTSE 100	7,327.59	0.00	38.81	LME Aluminum Cash	USD/MT	10,692	0.00	10,692	US Treasury (10 Yr)	2.2409	0.71
DAX	12,109.00	0.00	19.57	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	33,911	0.00	33,911	Japan 10-Yr Gov. Bond	0.0120	0.20
CAC40	5,071.10	0.00	19.60	CMX Copper Active	USD/lb.	18,316	0.00	18,316	China 10-Yr Gov. Bond	3.4170	4.60
IBEX 35	10,326.10	0.00	19.14	LME Copper 3- mth Rolling Fwd.	USD/MT	46,244	0.00	46,244	ECB Rate (Refinancing)	0.00	0.00
FTSE MIB	19,773.68	0.00	N/A	Precious Metals				1-Month LIBOR			
Stoxx 600	380.58	0.00	26.42	CMX Gold	USD/T. oz	1,284.90	(0.28)	230,513	3 Month LIBOR	1.1584	0.08
MSCI UK	2,135.05	0.00	39.62	CMX Silver	USD/T. oz	18.39	(0.65)	74,652	O/N SHIBOR	2.4860	5.70
MSCI France	144.59	0.00	19.31	NYMEX Platinum	USD/T. oz	985.90	0.87	15,917	1-mth SHIBOR	3.9978	0.06
MSCI Germany	152.64	0.00	19.74	Agricultural Products				3-mth HIBOR			
MSCI Italy	55.12	0.00	N/A	CBOT Corn	USD/bu	373.25	(1.26)	166,341	Corporate Bonds (Moody's)		
Asia				CBOT Wheat	USD/bu	436.00	(1.52)	84,169	Aaa	3.83	(10.0)
NIKKEI 225	18,418.59	0.45	21.31	NYB-ICE Sugar	USD/lb.	16.52	(0.30)	66,987	Baa	4.52	(10.0)
S&P/ASX 200	5,836.70	(0.90)	20.08	CBOT Soybeans	USD/bu.	959.25	(0.72)	84,108			
HSI	24,020.54	(0.99)	13.38								
HSCEI	10,077.88	(1.24)	8.48								
CSI300	3,466.61	(0.55)	15.93								
SSE Composite	3,201.45	(1.37)	18.53								
SZSE Composite	1,945.95	(2.05)	39.82								
MSCI China	67.16	0.21	14.81								
MSCI Hong Kong	13,735.73	(0.08)	14.13								
MSCI Japan	877.95	0.40	17.95								

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	1.0647	1.2582	0.7554	109.05	1.0038	6.8889	7.7739	7.0765
Chg. WTD (%)	0.27	0.47	(0.33)	(0.38)	0.17	(0.05)	(0.01)	(0.10)



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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