



Economic Insight

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China\$ September CPI and PPI diverged again

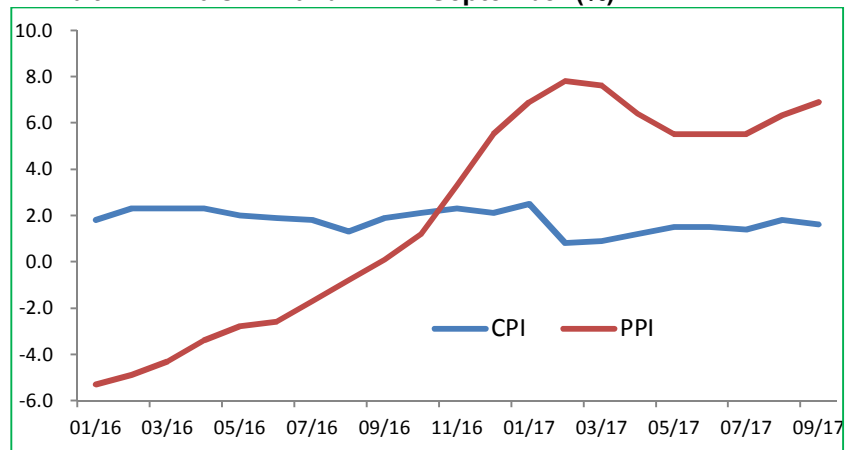
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- China\$ CPI inched down to 1.6% in September from 1.8% in August, driven by the deceleration in food prices and the high base effect.
- PPI rebounded significantly to 6.9% in September from 6.3% in August due to ongoing capacity reduction and tightening environmental regulations.
- CPI is likely to remain benign in coming months and we expect the index to rise by 1.5% for 2017E. Although PPI stayed high in September due to the rebounding commodity and material prices, PPI inflation is likely to moderate in coming months with the low base effect fading away. We forecast PPI for 2017E to be 6.0%.
- September inflation data suggest a mild inflationary pressure and a stable growth momentum, although cooling signs were observed in the property market. We expect China\$ GDP to grow by 6.7% in 3Q17.
- PBOC is likely to maintain a neutral monetary policy in coming months. The targeted RRR cut, effective in 2018, is likely to release RMB 700-800bn of liquidity into the financial system early next year. With the mild inflation pressure, we reassert that PBOC would keep the benchmark interest rates steady in 2017E.

China\$ CPI inched down to 1.6%¹ in September from 1.8% in August, driven by the deceleration in food prices and the high base effect (Exhibit 1). Overall food prices declined 1.4% for the month after falling by 0.2% in August, while non-food prices edged up to 2.4% from 2.3%. In the food basket, prices of pork and fresh fruits dropped 12.4% and 3.0% in September while those of mutton and eggs rose 6.2% and 3.7%. On a MoM basis, CPI rose 0.5%, compared with the 0.4% increase in August. In 9M17, consumer prices rose 1.5%.

Exhibit 1: China's CPI and PPI in September (%)



Source(s): NBS, ABCI Securities

PPI rebounded significantly to 6.9% in September from 6.3% in August due to ongoing capacity reduction and tightening environmental regulations. Inflation in producer industries rebounded to 9.1% from 8.3% in previous month. By sector, prices in mining, raw

¹ All growth rates are YoY except specified otherwise



materials and manufacturing rose 17.2%, 11.9% and 7.3%, respectively, in September, compared with 18.2%, 11.0% and 6.4% in August. Inflation in consumer goods industries was muted at 0.7%, compared with 0.6% in August. Meanwhile, PPI increased by 1.0% MoM in September, slightly higher than the 0.9% gain in the previous month. In 9M17, producer prices rose 6.5%.

CPI is likely to remain benign in coming months. We expect the index to go up by 1.5% for 2017E, lower than the 2.0% in 2016 (Exhibit 2). Although PPI stayed high in September due to the rebound in commodity and material prices, PPI inflation is likely to moderate in coming months with the low base effect fading away. We forecast PPI for 2017E to be 6.0%.

September inflation data suggest a mild inflationary pressure mild and a stable growth momentum amid cooling signs observed in the property market. We expect China's GDP to grow by 6.7% in 3Q17.

PBOC is likely to maintain a neutral monetary policy in coming months. The targeted RRR cut recently announced, which will be effective in 2018, is likely to release RMB 700-800bn of liquidity into financial system early next year. With the mild inflation pressure, we reassert that PBOC would keep the benchmark interest rates steady in 2017E.

Exhibit 2: 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	1.5	2.0
PPI, %	-1.4	6.0	2.5
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 USD, End-year	6.9450	6.5500	6.8500

Source(s): NBS, PBOC, ABCI Securities estimates



China Economic Indicators

	2016					2017								
	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
Real GDP (YoY %)	---	6.7	---	---	6.8	---	---	6.9	---	---	6.9	---	---	---
Export Growth (USD, YoY %)	(2.8)	(10.0)	(7.3)	0.1	(6.1)	7.9	(1.3)	16.4	8.0	8.7	11.3	7.2	5.5	8.1
Import Growth (USD, YoY %)	1.5	(1.9)	(1.4)	6.7	3.1	16.7	38.1	20.3	11.9	14.8	17.2	11.0	13.3	18.7
Trade Balance (USD bn)	52.1	42.0	49.1	44.6	40.8	51.3	(9.1)	23.9	38.0	40.8	42.8	46.7	42.0	28.5
Retail Sales Growth (YoY %)	10.6	10.7	10.0	10.8	10.9	9.5	9.5	10.9	10.7	10.7	11.0	10.4	10.1	---
Industrial Production (YoY %)	6.3	6.1	6.1	6.2	6.0	6.3	6.3	7.6	6.5	6.5	7.6	6.4	6.0	---
PMI - Manufacturing (%)	50.4	50.4	51.2	51.7	51.4	51.3	51.6	51.8	51.2	51.2	51.7	51.4	51.7	52.4
PMI - Non-manufacturing (%)	53.7	53.7	51.2	50.9	51.9	54.6	54.2	55.1	54.0	54.5	54.9	54.5	53.4	55.4
FAI (YTD) (YoY %)	8.1	8.2	8.3	8.3	8.1	8.9	8.9	9.2	8.9	8.6	8.6	8.3	7.8	---
CPI (YoY %)	1.9	1.9	2.1	2.3	2.1	2.5	0.8	0.9	1.2	1.5	1.5	1.4	1.8	1.6
PPI (YoY %)	0.1	0.1	1.2	3.3	5.5	6.9	7.8	7.6	6.4	5.5	5.5	5.5	6.3	6.9
M2 (YoY %)	11.5	11.5	11.6	11.4	11.3	11.3	11.1	10.6	10.5	9.6	9.4	9.2	8.9	9.2
New Lending (RMB bn)	949	1220	651	795	1040	2030	1170	1020	1100	1110	1540	826	1090	1270
Aggregate Financing (RMB bn)	1470	1720	896	1740	1630	3740	1150	2120	1390	1060	1780	1220	1480	1820

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	22,871.72	0.00	19.50	NYMEX WTI	USD/bbl.	52.08	1.22	643,727		1.25	0.00	
S&P 500	2,553.17	0.00	21.80	ICE Brent Oil	USD/bbl	58.02	1.49	314,752	US Prime Rate			
NASDAQ	6,605.80	0.00	42.94	NYMEX Natural Gas	USD/MMBtu	2.97	(1.07)	217,770	US Discount Window			
MSCI US	2,430.63	0.00	22.19	China Qinhuangdao Port Thermal Coal ²	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (1 Yr)			
Europe				Basic Metals				US Treasury (5Yr)				
FTSE 100	7,550.27	0.20	25.20	LME Aluminum Cash	USD/MT	2,109.75	0.00	7,503	US Treasury (10 Yr)			
DAX	13,004.33	0.10	18.17	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	2,133.50	0.00	26,632	Japan 10-Yr Gov. Bond			
CAC40	5,361.38	0.18	18.62	CMX Copper Active	USD/lb.	6,859.50	0.00	10,777	China 10-Yr Gov. Bond			
IBEX 35	10,193.00	(0.63)	15.64	LME Copper 3- mth Rolling Fwd.	USD/MT	6,882.00	0.00	39,055	ECB Rate (Refinancing)			
FTSE MIB	22,367.53	(0.21)	N/A	Precious Metals				1-Month LIBOR				
Stoxx 600	391.92	0.13	21.67	CMX Gold	USD/T. oz	1,306.50	0.15	264,516	3 Month LIBOR			
MSCI UK	2,188.58	0.00	25.86	CMX Silver	USD/T. oz	17.44	0.14	69,759	O/N SHIBOR			
MSCI France	153.73	0.00	18.80	NYMEX Platinum	USD/T. oz	948.60	0.07	14,719	1-mth SHIBOR			
MSCI Germany	160.08	0.00	18.20	Agricultural Products				3-mth HIBOR				
MSCI Italy	61.94	0.00	N/A	CBOT Corn	USD/bu	351.50	(0.35)	175,698	Corporate Bonds (Moody's)			
Asia				CBOT Wheat	USD/bu	439.75	0.06	62,347	Aaa 3.58 (5.00)			
NIKKEI 225	21,255.56	0.47	19.21	NYB-ICE Sugar	USD/lb.	14.41	0.00	35,706	Baa 4.30 (5.00)			
S&P/ASX 200	5,846.76	0.56	17.68	CBOT Soybeans	USD/bu.	997.50	(0.27)	188,929				
HSI	28,660.42	0.65	14.27								Note:	
HSCEI	11,574.70	0.48	9.50								1. Data sources: Bloomberg, National Bureau of Statistics of China, ABCIS (updated on date of report)	
CSI300	3,913.45	(0.19)	16.70								2. The price is Coal 5500 kcal/kg FOB Spot Price	
SSE Composite	3,378.47	(0.36)	17.71									
SZSE Composite	2,005.95	(1.52)	35.49									
MSCI China	86.62	0.00	17.45									
MSCI Hong Kong	15,313.34	0.00	13.28									
MSCI Japan	1,012.28	0.00	15.76									

Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.1789	1.3310	0.7883	111.74	0.9759	6.5811	7.8093	6.7295
Chg. WTD (%)	(0.26)	0.19	(0.05)	0.07	(0.14)	(0.02)	(0.03)	(0.12)



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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