

## Economic Insight

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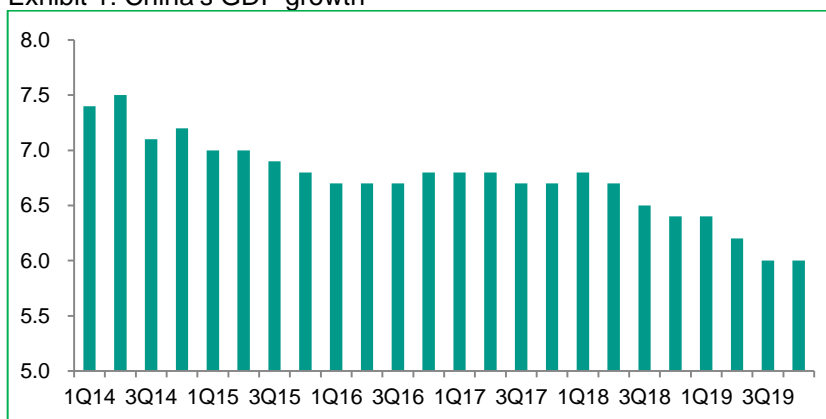
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### China's economic growth remained at 6.0% in 4Q19

- China's economy expanded by 6.0% in 4Q19 on the back of strong economic data in Dec, same as that in 3Q19. For the full year, China's GDP rose 6.1%, down from the 6.6% growth recorded in 2018; nonetheless, the growth target of 6-6.5% set at the start of 2019 has been achieved
- A breakdown of the GDP components shows consumption continued to be the key growth driver, contributing to 3.5ppt to the economic growth in 2019. Investment only added 1.9ppt to overall growth in 2019, while net exports of goods and services contributed 0.7ppt
- Looking ahead, we expect China's economic growth to slow in 2020 due to the high tariff on the US side, weak growth in industrial profit, moderating consumption growth, and tightening measures on property market. Overall, we expect China's economy to expand by 5.9% for 2020E, slower than 6.1% for 2019
- On the monetary front, PBOC is expected to maintain a neutral monetary policy with a loosening bias to support economic growth. The rates for one-year LPR and five-year LPR are expected to be 3.80% and 4.70% for end-2020E. RRR would continue to trend down given the slowing economy. We expect RRR for large financial institutions to be 12.0%; RRR for medium and small financial institutions would be 10.0% for end-2020E. The central government is expected to adopt a more proactive fiscal policy in 2020 to support economic growth through tax and fee reductions, specific-consumption measures, and plans to boost infrastructure investment

China's economy expanded by 6.0%<sup>1</sup> in 4Q19 on the back of strong economic data in Dec, same as that in 3Q19 (Exhibit 1). On a quarterly basis, China's economy grew 1.5% in 4Q19, slightly up from 1.4% in 3Q19. For the full year, China's GDP rose 6.1%, down from the 6.6% growth recorded in 2018; nonetheless, the growth target of 6-6.5% set at the start of 2019 has been achieved. Notably, China's per GDP reached RMB 70,892 and USD 10,276 in 2019, breaking the USD 10,000 mark.

Exhibit 1: China's GDP growth



Source(s): NBS, ABCI Securities

ABCI Research

January 20, 2020

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



A breakdown of the GDP components shows consumption continued to be the key growth driver, contributing to 3.5ppt to the economic growth in 2019 (Exhibit 2). Investment only added 1.9ppt to overall growth, while net exports of goods and services contributed 0.7ppt on the back of increase in the goods trade surplus and decrease in the services trade deficit, compared to the 0.6ppt reduction in 2018. Meanwhile, the adjustment of economic structure has continued to gain strides. The tertiary sector accounted for 53.9% of the economy in 2019, up from 53.3% in the same period last year and above the secondary sector's share of 39.0%, contributing to 59.4% to the economic growth.

Macro activity data for industrial production and FAI in Dec accelerated significantly from Nov, which shows strengthening growth momentum on China's economy. Industrial output growth advanced significantly to 6.9% in Dec from 6.2% in Nov, supported by companies' demand for active inventory replenishment and early CNY festival in 2020. Automobile and integrated circuit production rose 8.1% and 30.0% in Dec respectively, well above 3.7% and 18.2% in Nov. According to our calculation, the single-month FAI growth in urban areas accelerated to 11.8% in Dec from 5.2% in Nov due to stronger manufacturing and private investment growth. Manufacturing FAI growth climbed to 9.2% in Dec from 1.6% in Nov due to rebounding export growth and lower financing cost, while private investment growth also advanced sharply to 13.7% from 3.9% during the same period. Infrastructure investment decelerated slightly to 1.9% in Dec from 2.3% in Nov, while property FAI growth eased to 6.7% from 9.3% on weak property sales growth. New home sales growth continued to slow in Dec due to sales restriction on property market. The single-month growth in new home sales, as measured by floor space area and value, were -2.0% and 1.4% in Dec, compared with 1.1% and 7.3% in Nov. Meanwhile, retail sales growth remained at 8.0% in Dec. Excluding automobile sales, retail sales growth eased to 8.9% in Dec from 9.1% in November.

**Exhibit 2: Contribution to China's real GDP growth (percentage points)**

Economic items	2017	2018	2019
Consumption (household + government) (A)	4.0	5.0	3.5
Investment (private + public) (B)	2.2	2.2	1.9
Consumption + Investment (A+B)	6.2	7.2	5.4
Net exports of goods & services (C)	0.6	-0.6	0.7
<b>Real GDP growth % (A+B+C)</b>	<b>6.8</b>	<b>6.6</b>	<b>6.1</b>

Source(s): NBS, ABCI Securities

Looking ahead, we expect China's economic growth to slow in 2020 due to the still high tariff between China and the US, weak growth in industrial profit, weakening consumption growth and tightening measures on property market. On the whole, we expect China's economy to expand by 5.9% for 2020E, slower than 6.1% for 2019 (Exhibit 3). It should be noted that the above forecasts for 2020 are based on our base case scenario that the US will leave the existing tariffs unchanged on Chinese goods according to the Phase 1 trade agreement between the US and China.

On the monetary front, PBOC is expected to maintain a neutral monetary policy with a loosening bias to support economic growth. The rates for one-year LPR and five-year LPR are expected to be



3.80% and 4.70% for end-2020E. RRR would continue to trend down given the economic downturn. We expect RRR for large financial institutions to be 12.0% and RRR for medium and small financial institutions to be 10.0% for end-2020E. The central government is expected to adopt a more proactive fiscal policy in 2020 to support economic growth through tax and fee reductions, specific-consumption measures, and plans to boost infrastructure investment.

**Exhibit 3: Economic forecasts**

Economic indicators	2018	2019	2020E
Real GDP growth, %	6.6	6.1	5.9
FAI growth, %	5.9	5.4	5.2
Retail Sales growth, %	9.0	8.0	7.8
Export growth in USD terms, %	9.9	0.5	3.0
Import growth in USD terms, %	15.8	-2.8	1.0
Industrial Production growth, %	6.2	5.7	5.2
CPI, %	2.1	2.9	3.5
PPI, %	3.5	-0.3	0.5
M2 growth, %	8.1	8.7	8.5
Aggregate Financing, RMB bn	22,492	25,580	27,000
New Yuan Loans, RMB bn	16,170	16,810	18,000
Spot CNY per USD, End-year	6.8785	6.9632	6.9000

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



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### China Economic Indicators

	2018					2019								
	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Real GDP (YoY %)	---	6.4	---	---	6.4	---	---	6.2	---	---	6.0	---	---	6.0
Export Growth (USD, YoY %)	5.4	-4.4	9.1	-20.7	14.2	-2.7	1.1	-1.3	3.3	-1.0	-3.2	-0.9	-1.2	7.6
Import Growth (USD, YoY %)	3.0	-7.6	-1.5	-5.2	-7.6	4.0	-8.5	-7.3	-5.3	-5.6	-8.5	-6.4	0.3	16.3
Trade Balance (USD bn)	44.8	57.1	39.2	4.1	32.7	13.8	41.7	51.0	45.1	34.8	39.7	42.8	38.7	46.8
Retail Sales Growth (YoY %)	8.1	8.2	8.2	8.2	8.7	7.2	8.6	9.8	7.6	7.5	7.8	7.2	8.0	8.0
Industrial Production (YoY %)	5.4	5.7	5.3	5.3	8.5	5.4	5.0	6.3	4.8	4.4	5.8	4.7	6.2	6.9
PMI - Manufacturing (%)	50.0	49.4	49.5	49.2	50.5	50.1	49.4	49.4	49.7	49.5	49.8	49.3	50.2	50.2
PMI - Non-manufacturing (%)	53.4	53.8	54.7	54.3	54.8	54.3	54.3	54.2	53.7	53.8	53.7	52.8	54.4	53.5
FAI (YTD) (YoY %)	5.9	5.9	6.1	6.1	6.3	6.1	5.6	5.8	5.7	5.5	5.4	5.2	5.2	5.2
CPI (YoY %)	2.2	1.9	1.7	1.5	2.3	2.5	2.7	2.7	2.8	2.8	3.0	3.8	4.5	4.5
PPI (YoY %)	2.7	0.9	0.1	0.1	0.4	0.9	0.6	0.0	-0.3	-0.8	-1.2	-1.6	-1.4	-0.5
M2 (YoY %)	8.0	8.1	8.4	8.0	8.6	8.5	8.5	8.5	8.1	8.2	8.4	8.4	8.2	8.7
New Lending (RMB bn)	1250	1080	3230	886	1690	1020	1180	1660	1060	1210	1690	661	1390	1140
Aggregate Financing (RMB bn)	1613	1931	4679	967	2960	1671	1712	2624	1287	2196	2514	868	1994	2103

### 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	29,348.10	0.00	19.98	NYMEX WTI	USD/bbl.	59.11	0.97	366,063	1.75	0.00
S&P 500	3,329.62	0.00	22.18	ICE Brent Oil	USD/bbl	65.58	1.13	244,261	4.75	0.00
NASDAQ	9,388.94	0.00	35.46	NYMEX Natural Gas	USD/MMBtu	1.92	-4.14	230,685	US Discount Window	2.25 0.00
MSCI US	3,173.84	0.00	22.82	China Qinhuangdao Port Thermal Coal <sup>2</sup>	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (1 Yr)	1.5242 0.00
<b>Europe</b>				<b>Basic Metals</b>				US Treasury (5Yr)		
FTSE 100	7,674.56	0.00	18.56	LME Aluminum Cash	USD/MT	1,792.75	0.00	39,312	1.6195	0.00
DAX	13,526.13	0.00	25.09	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,805.00	0.00	31,624	US Treasury (10 Yr)	1.8215 0.00
CAC40	6,100.72	0.00	21.85	CMX Copper Active	USD/lb.	6,263.25	0.00	15,879	Japan 10-Yr Gov. Bond	0.0020 -0.10
IBEX 35	9,681.30	0.00	15.74	LME Copper 3- mth Rolling Fwd.	USD/MT	6,273.00	0.00	32,943	China 10-Yr Gov. Bond	3.0680 -2.00
FTSE MIB	24,141.07	0.00	14.54	<b>Precious Metals</b>				ECB Rate (Refinancing)		
Stoxx 600	424.56	0.00	21.07	CMX Gold	USD/T. oz	1,558.10	-0.14	297,539	1-Month LIBOR	1.6544 -2.23
MSCI UK	2,195.44	0.00	18.74	CMX Silver	USD/T. oz	18.02	-0.29	68,993	3 Month LIBOR	1.8191 -1.86
MSCI France	175.20	0.00	21.87	NYMEX Platinum	USD/T. oz	1,027.70	0.28	26,360	O/N SHIBOR	2.2480 -27.4
<b>Asia</b>				<b>Agricultural Products</b>				1-mth SHIBOR		
NIKKEI 225	24,101.29	0.25	19.28	CBOT Corn	USD/bu	389.25	0.00	184,221	3-mth HIBOR	2.2194 0.43
S&P/ASX 200	7,087.90	0.34	20.95	CBOT Wheat	USD/bu	570.50	0.00	62,400	Corporate Bonds (Moody's)	
HSI	28,974.66	-0.28	11.35	NYB-ICE Sugar	USD/lb.	14.45	0.00	101,890	Aaa	2.99 0.00
HSCEI	11,413.00	-0.06	9.05	CBOT Soybeans	USD/bu.	929.75	0.00	93,637	Baa	3.81 -1.00
CSI300	4,169.62	0.36	14.81							
SSE Composite	3,082.79	0.24	14.68							
SZSE Composite	1,813.51	0.40	38.01							
MSCI China	89.84	0.00	15.30							
MSCI Hong Kong	16,011.51	0.00	14.71							
MSCI Japan	1,050.10	0.00	15.93							

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	1.1098	1.3004	0.6882	110.19	0.9680	6.8525	7.7677	6.9345
Chg. WTD (%)	0.05	-0.09	0.04	-0.05	-0.01	0.11	-0.01	0.14



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### Definition of equity rating

Rating	Definition
Buy	Stock return rate $\geq$ Market return rate (10%)
Hold	- Market return rate (-10%) $\leq$ Stock return rate < Market return rate (+10%)
Sell	Stock return < - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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