



Economic Insight

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China\$ CPI and PPI unchanged in June

ABCI Research

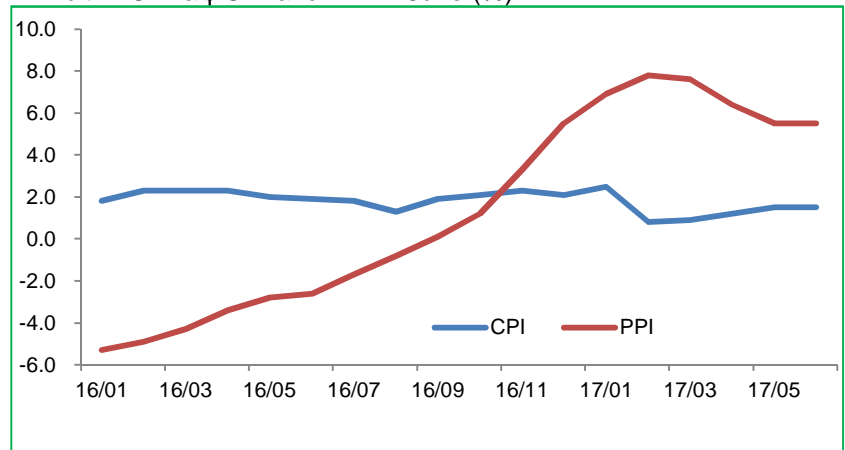
July 10, 2017

- China\$ CPI and PPI were unchanged in June at 1.5% and 5.5%.
- For the next few months, CPI is likely to move higher on rising food prices induced by severe floods in South China. We expect the full-year CPI to increase by 1.7% for 2017E, down from 2.0% in 2016.
- PPI is likely to moderate in coming months with the low base effect fading away and commodity prices easing. We forecast PPI for 2017E to be 4.0% due to the weak aggregate demand.
- June inflation data suggest inflationary pressure remained mild and growth momentum was stable despite cooling signs in the property market. We expect China\$ GDP to grow by 6.7% for 2Q17E.
- PBOC is likely to maintain a neutral monetary policy with a tightening bias in coming months, which will be favorable to the lowering of overall leverage ratio in the economy. Given the mild inflation pressure, we reassert that PBOC would keep the benchmark interest rates steady in 2017.

Similar to the figure in May (Exhibit 1), China\$ June CPI came in at 1.5%¹ on the warm weather and ample pork supply. Overall food prices declined 1.2% for the month after falling by 1.6% in May, while non-food prices edged down to 2.2% from 2.3%. On a MoM basis, CPI fell 0.2% in June, compared with the 0.1% decrease in May. Consumer prices rose 1.4% in 1H17.

PPI was flat at 5.5% in June, consistent with the market expectation. PPI dropped 0.2% MoM in June, compared with 0.3% decline in May. Meanwhile, inflation in consumer goods industries remained muted at 0.5% YoY and -0.1% MoM in June, compared with 0.6% and -0.1% in May, suggesting inflation pressure transferred from PPI to CPI was limited.

Exhibit 1: China\$ CPI and PPI in June (%)



Source(s): NBS, ABCI Securities

¹ All growth rates are YoY except specified otherwise



Looking ahead, CPI is likely to move higher on rising food prices caused by the severe floods in South China. We expect CPI to rise by 1.7% for 2017E, down from 2.0% in 2016 (Exhibit 2).

Although PPI remained high in 1H17 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 and commodity prices easing. The high-frequency data of producer goods prices released by NBS also confirmed the trend. We forecast PPI for 2017E to be 4.0% due to the weak aggregate demand.

June inflation data suggest inflationary pressure remained mild and growth momentum was stable despite cooling signs in the property market. We expect China's GDP to grow by 6.7% in 2Q17.

PBOC is likely to maintain a neutral monetary policy with a tightening bias in coming months, which will be favorable to the lowering of overall leverage ratio in the economy. With the mild inflation pressure, we reassert that PBOC would keep the benchmark interest rates steady in 2017.

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	1.7	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



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	---	---	---
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	---
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	---
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	---
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	---
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	---
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	---
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	---
New Lending (RMB bn)	986	1380	464	949	1220	651	795	1040	2030	1170	1020	1100	1110	---
Aggregate Financing (RMB bn)	660	1629	488	1470	1720	896	1740	1630	3740	1150	2120	1390	1060	---

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	1.25	0.00	
DJIA	21,414.34	0.00	18.82	NYMEX WTI	USD/bbl.	44.30	0.16	862,840	US Prime Rate	4.25	0.00
S&P 500	2,425.18	0.00	21.44	ICE Brent Oil	USD/bbl	46.78	0.15	271,529	US Discount Window	1.75	0.00
NASDAQ	6,153.08	0.00	33.43	NYMEX Natural Gas	USD/MMBtu	2.87	0.31	167,647	US Treasury (1 Yr)	0.9283	0.51
MSCI US	2,309.27	0.00	21.85	China Qinhuangdao Port Thermal Coal ²	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (5Yr)	1.9471	0.01
Europe				Basic Metals				US Treasury (10 Yr)	2.3874	0.18	
FTSE 100	7,377.23	0.36	32.06	LME Aluminum Cash	USD/MT	1,918.25	0.00	7,561	Japan 10-Yr Gov. Bond	0.0960	0.90
DAX	12,446.30	0.47	20.00	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,930.00	0.00	23,776	China 10-Yr Gov. Bond	3.6010	3.30
CAC40	5,155.55	0.20	19.08	CMX Copper Active	USD/lb.	5,806.50	0.00	8,061	ECB Rate (Refinancing)	0.00	0.00
IBEX 35	10,513.10	0.23	16.53	LME Copper 3- mth Rolling Fwd.	USD/MT	5,828.00	0.00	31,190	1-Month LIBOR	1.2263	0.24
FTSE MIB	21,120.71	0.50	N/A	Precious Metals				3 Month LIBOR	1.3052	0.61	
Stoxx 600	381.46	0.34	24.43	CMX Gold	USD/T. oz	1,205.20	(0.37)	277,673	O/N SHIBOR	2.5490	1.60
MSCI UK	2,134.91	0.00	32.74	CMX Silver	USD/T. oz	15.21	(1.43)	105,831	1-mth SHIBOR	4.1610	(5.40)
MSCI France	147.15	0.00	18.79	NYMEX Platinum	USD/T. oz	902.00	(0.23)	15,738	3-mth HIBOR	0.7764	(0.11)
MSCI Germany	152.77	0.00	19.92	Agricultural Products				Corporate Bonds (Moody's)			
MSCI Italy	58.41	0.00	N/A	CBOT Corn	USD/bu	398.75	1.59	198,250	Aaa	3.75	9.00
Asia				CBOT Wheat	USD/bu	546.50	2.15	158,329	Baa	4.61	(1.00)
NIKKEI 225	20,080.98	0.76	19.18	NYB-ICE Sugar	USD/lb.	14.15	0.00	62,432			
S&P/ASX 200	5,724.44	0.37	19.49	CBOT Soybeans	USD/bu.	1,034.50	1.87	180,063			
HSI	25,516.28	0.69	13.74								
HSCEI	10,229.68	(0.22)	8.44								
CSI300	3,653.69	(0.06)	16.07								
SSE Composite	3,212.63	(0.17)	17.21								
SZSE Composite	1,905.37	(0.67)	35.49								
MSCI China	72.30	0.00	15.54								
MSCI Hong Kong	14,179.24	0.00	14.35								
MSCI Japan	956.21	0.00	16.61								

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	1.1407	1.2893	0.7601	114.29	0.9638	6.8019	7.8126	6.9675
Chg. WTD (%)	0.05	0.02	0.00	(0.32)	0.02	0.06	(0.01)	0.01



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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