



Economic Insight

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China's GDP growth exceeded expectations in 1Q19

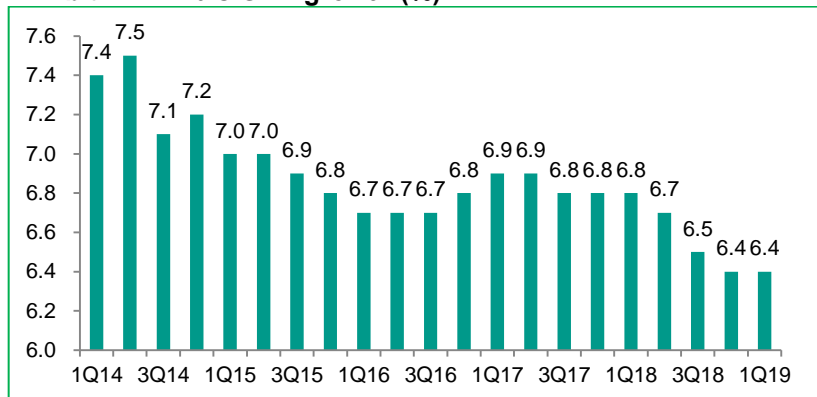
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- Supported by proactive fiscal policy and neutral monetary policy with a loosening bias, China's economic growth stayed at 6.4% in 1Q19, above the market forecast of 6.3%
- Looking ahead, China's economic growth will maintain a steady pace in the coming quarters on the continuous policy support from the fiscal and monetary sides. Ongoing Sino-US trade frictions and the cooling of the property market are likely to be the main challenges to economic growth
- We maintain our China's economic growth forecasts of 6.3% for 2019E. Improving investment growth and accelerating income per capita growth will pose a modest upside risk to our forecasts
- On the monetary front, PBOC is expected to maintain a similar neutral monetary policy to support real economy. Targeted RRR would be slashed twice in the rest of 2019E, each for 0.5ppt. We expect RRR for large financial institutions to be 12.5% and RRR for medium and small financial institutions to be 10.5% for end-2019E. However, given the better-than-expected economic growth in 1Q19, PBOC is likely to control money supply and prevent excessive leverage by economic entities to reduce risk in the financial sector

Supported by proactive fiscal policy and neutral monetary policy with a loosening bias, China's economic growth stayed at 6.4%¹ in 1Q19, above the market forecast of 6.3% (Exhibit 1). On a quarterly basis, China's economy grew 1.4% QoQ in 1Q19, compared with 1.5% in 4Q18. Encouragingly, economic activity in March grew faster than expected, with investment, retail sales, export and industrial production all beating forecasts. FAI in urban areas advanced 6.5% in March after rising 6.1% in the first two months, while retail sales of consumer goods grew 8.7% after increasing 8.2% during the same period. On the production side, the real growth of industrial output rebounded sharply to 8.5% in March from 5.3% in Jan-Feb, hitting a new high since July 2014.

Exhibit 1: China's GDP growth (%)



Source(s): NBS, ABCI Securities

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



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 4.2ppt to the economic growth in 1Q19 (Exhibit 2). Investment only added 0.8ppt to overall growth in 1Q19, while net exports of goods and services contributed 1.4ppt on the back of a 75.2% increase in the goods trade surplus, compared to the 0.6ppt reduction in 2018. Meanwhile, the tertiary sector accounted for 57.3% of the economy in 1Q19, up from 56.7% in the same period last year and above the secondary sector's share of 38.6%.

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

Economic items	2017	2019	1Q19
Consumption (household + government)	4.0	5.0	4.2
Investment (private + public)	2.2	2.2	0.8
Net exports of goods & services	0.6	-0.6	1.4
Real GDP growth %	6.8	6.6	6.4

Source(s): NBS, ABCI Securities

Production and investment in high-tech industries have continued to accelerate in 1Q19. The output of mobile communication base station equipment, urban rail locomotives, new energy vehicles and solar cells in the second industry surged by 153.7%, 54.1%, 48.2% and 18.2% respectively in 1Q19, while information transmission, software and information technology services in tertiary industry increased by 21.2%. High-tech industry investment growth also quickened in 1Q19. High-tech manufacturing investment increased 11.4%, 5.1ppt faster than the total investment growth, while high-tech services investment advanced 19.3%, 13.0ppt higher than the total investment.

On the monetary front, PBOC has adopted a neutral monetary policy with a loosening bias to support economic growth. It slashed targeted RRR twice in January to lower financing costs. The yields of the government bonds and seven-day repurchase rate, which measures market interest rates, trended downwards. M2 growth accelerated to 8.6% in March 2019 from 8.1% in December 2018, while new aggregate financing and new RMB loans amounted to RMB 2.86tr and RMB 1.69tr in March 2019, both better than market expectations. On the fiscal policy front, tax and fee cuts in 1Q19 exceeded market expectations, and local debt issuance and fiscal spending were significantly faster on year. Fiscal spending increased 15.0% in 1Q19, a new high since 2H17, which supported economic growth.

China's economic growth will maintain a steady pace in the coming quarters on the continuous policy support from the fiscal and monetary sides. Ongoing Sino-US trade frictions and the cooling of the property market are likely to be the main challenges to economic growth. We maintain our China's economic growth forecasts of 6.3% for 2019E (Exhibit 3). Nonetheless, improving investment growth and accelerating income per capita growth will pose a modest upside risk to our forecasts. Compared to 6.5% increase in 2018, real disposable income per capita grew 6.8% in 1Q19, which exceeded the 1Q19 GDP growth of 6.4%, and we believe such robust growth would be conducive to higher consumer spending. Meanwhile, the manufacturing value-added tax rate has fallen from 16.0% to 13.0%



since April, which is expected to bring support to industrial output.

On the monetary front, PBOC is expected to maintain a neutral monetary policy to support real economy. Targeted RRR would be slashed twice in the rest of 2019E, each for 0.5ppt. We expect RRR for large financial institutions to be 12.5% and RRR for medium and small financial institutions to be 10.5% for end-2019E. However, given the better-than-expected economic growth in 1Q19, PBOC is likely to control money supply and prevent excessive leverage by economic entities to reduce risk in the financial sector.

Exhibit 3: Economic forecasts

Economic indicators	2017	2018	2019E
Real GDP growth, %	6.9	6.6	6.3
FAI growth, %	7.2	5.9	5.5
Retail Sales growth, %	10.2	9.0	9.0
Export growth in USD terms, %	7.9	9.9	7.0
Import growth in USD terms, %	15.9	15.8	12.0
Industrial Production growth, %	6.6	6.2	6.2
CPI, %	1.6	2.1	2.0
PPI, %	6.3	3.5	1.5
M2 growth, %	8.2	8.1	8.5
New Aggregate Financing, RMB bn	22,400	19,260	20,000
New Yuan Loans, RMB bn	13,523	16,170	17,000
Spot CNY per USD, End-year	6.5068	6.8785	7.0000

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



China Economic Indicators

	2018											2019		
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Real GDP (YoY %)	---	6.8	---	---	6.7	---	---	6.5	---	---	6.4	---	---	6.4
Export Growth (USD, YoY %)	44.5	-2.7	12.9	12.6	11.3	12.2	9.8	14.5	15.6	5.4	-4.4	9.1	-20.7	14.2
Import Growth (USD, YoY %)	6.3	14.4	21.5	26.0	14.1	27.3	27.0	14.3	21.4	3.0	-7.6	-1.5	-5.2	-7.6
Trade Balance (USD bn)	33.7	-5.0	28.8	24.9	41.6	28.1	27.9	31.7	34.0	44.8	57.1	39.2	4.1	32.7
Retail Sales Growth (YoY %)	9.7	10.1	9.4	8.5	9.0	8.8	9.0	9.2	8.6	8.1	8.2	8.2	8.2	8.7
Industrial Production (YoY %)	7.2	6.0	7.0	6.8	6.0	6.0	6.1	5.8	5.9	5.4	5.7	5.3	5.3	8.5
PMI - Manufacturing (%)	50.3	51.5	51.4	51.9	51.5	51.2	51.3	50.8	50.2	50.0	49.4	49.5	49.2	49.2
PMI - Non-manufacturing (%)	54.4	54.6	54.8	54.9	55.0	54.0	54.2	54.9	53.9	53.4	53.8	54.7	54.3	54.3
FAI (YTD) (YoY %)	7.9	7.5	7.0	6.1	6.0	5.5	5.3	5.4	5.7	5.9	5.9	6.1	6.1	6.3
CPI (YoY %)	2.9	2.1	1.8	1.8	1.9	2.1	2.3	2.5	2.5	2.2	1.9	1.7	1.5	2.3
PPI (YoY %)	3.7	3.1	3.4	4.1	4.7	4.6	4.1	3.6	3.3	2.7	0.9	0.1	0.1	0.4
M2 (YoY %)	8.8	8.2	8.3	8.3	8.0	8.5	8.2	8.3	8.0	8.0	8.1	8.4	8.0	8.6
New Lending (RMB bn)	839	1120	1180	1150	1840	1450	1280	1380	697	1250	1080	3230	886	1690
Aggregate Financing (RMB bn)	1189	1586	1776	953	1488	1224	1941	2170	743	1519	1590	4640	703	2860

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	26,449.54	0.14	16.82	NYMEX WTI	USD/bbl.	63.65	(0.27)	542,571	2.50	0.00	
S&P 500	2,900.45	(0.24)	19.03	ICE Brent Oil	USD/bbl	71.46	(0.13)	256,995	5.50	0.00	
NASDAQ	7,996.08	0.15	34.04	NYMEX Natural Gas	USD/MMBtu	2.51	(5.79)	125,831	3.00	0.00	
MSCI US	2,763.93	(0.28)	19.34	China Qinhuangdao Port Thermal Coal ²	USD/Metric Tonne	61.80	N/A	N/A	2.4136	1.48	
Europe				Basic Metals				US Treasury (1 Yr)			
FTSE 100	7,471.32	0.46	17.56	LME Aluminum Cash	USD/MT	1,834.25	(0.53)	39,210	2.3874	0.72	
DAX	12,153.07	1.28	15.34	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,850.00	(0.70)	35,601	2.5868	1.26	
CAC40	5,563.09	1.10	18.66	CMX Copper Active	USD/lb.	6,545.75	1.09	20,137	Japan 10-Yr Gov. Bond	-0.0210	3.50
IBEX 35	9,549.80	0.86	13.71	LME Copper 3- mth Rolling Fwd.	USD/MT	6,556.00	1.11	35,172	China 10-Yr Gov. Bond	3.3900	2.30
FTSE MIB	22,000.88	0.65	11.99	Precious Metals				ECB Rate (Refinancing)			
Stoxx 600	389.59	0.53	17.91	CMX Gold	USD/T. oz	1,274.40	(1.61)	257,426	0.00	0.00	
MSCI UK	2,151.34	0.38	17.63	CMX Silver	USD/T. oz	14.91	(0.35)	80,003	1-Month LIBOR	2.4798	0.24
MSCI France	160.18	1.01	18.83	NYMEX Platinum	USD/T. oz	889.30	(1.02)	18,544	3 Month LIBOR	2.6009	(0.01)
Asia				Agricultural Products				O/N SHIBOR			
NIKKEI 225	22,172.73	1.38	16.31	CBOT Corn	USD/bu	366.75	(0.74)	162,321	2.8120	16.00	
S&P/ASX 200	6,258.10	0.11	16.71	CBOT Wheat	USD/bu	450.75	(3.79)	71,284	1-mth SHIBOR	2.7950	10.90
HSI	30,124.68	0.41	11.75	NYB-ICE Sugar	USD/lb.	12.53	(3.02)	88,476	3-mth HIBOR	2.0114	10.84
HSCEI	11,848.98	1.10	9.75	CBOT Soybeans	USD/bu.	893.25	(1.71)	67,007	Corporate Bonds (Moody's)		
CSI300	4,087.24	2.47	15.51					Aaa		3.73	2.00
SSE Composite	3,263.12	2.39	15.56					Baa		4.72	1.00
SZSE Composite	1,773.06	1.99	29.28								
MSCI China	87.57	0.52	14.62								
MSCI Hong Kong	16,713.77	(0.16)	13.75								
MSCI Japan	978.84	1.56	13.75								

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	1.1293	1.3039	0.7182	111.97	1.0102	6.6929	7.8459	6.7335
Chg. WTD (%)	(0.05)	(0.27)	0.13	0.04	(0.77)	0.16	(0.04)	0.18



Disclosures

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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 2005 (HSI total return index 2005-17 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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