



Economic Insight

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China's official PMIs eased slightly in February

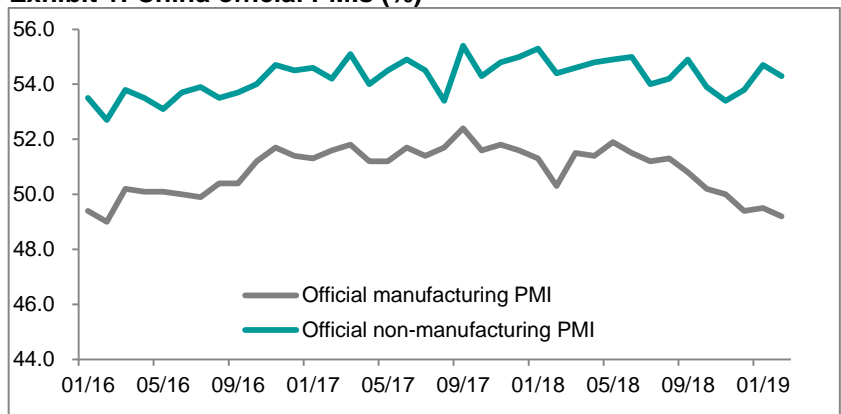
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- China's official manufacturing PMI eased slightly to 49.2 in February from 49.5 in January, attributable to the holiday effect of Chinese New Year (CNY) that reduced five working days compared to January
- Due to the holiday effect, the index of non-manufacturing business activity ebbed down to 54.3 in February from 54.7 in January
- Overall, official manufacturing and non-manufacturing PMI data for February showed steady economic growth characterized by improving domestic demand and rising business confidence
- Looking ahead, China's economic outlook remains challenging. With the new export order index of manufacturing PMI falling below 50 for nine months in a row and Sino-US trade friction persisting, export growth could be hindered. Moreover, investment growth is expected to ease because tightening policies in the real estate market may reduce property investment. Retail sales would remain weak on sluggish income growth. Nonetheless, we believe a looser fiscal stance and a more accommodative monetary policy would prevent a sharp economic downturn

China's official manufacturing PMI eased slightly from 49.5 in January to 49.2 in February, its third month in the contraction territory (Exhibit 1). The slight decline PMI in February can be attributed to the holiday effect of the CNY. To note, PMIs reflect changes of indicators on a MoM basis instead of a YoY basis commonly used for macroeconomic analysis. Historically, PMIs in the month of CNY usually eased even after seasonal adjustment. The CNY holiday reduced five working days for February compared to January; in addition, uncertainty over the Sino-US trade friction and the global economic slowdown have dragged down the manufacturing PMI in February.

Exhibit 1: China official PMIs (%)



Source(s): NBS, ABCI Securities



For the five sub-indices under the manufacturing PMI, the new order index rose 1.0ppt from previous month and was above the 50 mark; the production index, raw material inventory index, employee index and supplier distribution time index all fell from previous month and were below the 50 mark. The production index eased sharply to 49.5 in February from 50.9 in January due to the shutdown of some manufacturing enterprises during the CNY holiday. The new orders index rose to 50.6 in February from 49.6 in January as domestic demand improved on supportive macro policies. However, global economic slowdown and Sino-US trade friction have pressured external demand, as revealed by the new export order index that fell to 45.2 in February from 46.9 in January. It is worth noting that the input price index and output price index rebounded sharply to 51.9 and 48.5 in February from 46.3 and 44.5 in January, supported by the price recovery of international commodities and in particular, the oil prices. We believe that PPI inflation may have rebounded MoM in February, supporting profit growth in the upstream industrial enterprises. Meanwhile, the business expectation index rebounded sharply to 56.2 in February from 52.5 in January, supported by macro policies and positive news on Sino-US trade negotiations.

Manufacturing PMI of large enterprises was 51.5 in February, up 0.2ppt from the previous month and was above the critical point. On the contrary, manufacturing PMIs of medium-sized and small enterprises were below the critical point at 46.9 and 45.3, down 0.3ppt and 2.0ppt from the previous month, hinting that further support for SMEs and private companies will be needed.

The index of non-manufacturing business activity slowed slightly to 54.3 in February from 54.7 in January due to the holiday effect. By sector, the index of business activity in the services sector was 53.5, down 0.1ppt from the previous month. By industry category, the index of business activities in the railway transport industry, air transport industry, telecommunications, radio and television broadcasting and satellite transmission services, money financial services, leasing and business services continued to stay at above 55.0. However, the index of business activity in property industry, residential service, and repair industry was lower than the critical point, indicating decline in total volume of business. The index of business activity in the construction industry was 59.2, down 1.7ppt from the previous month, but still remaining in a high boom range. Business activity expectations index was 61.5, up 1.9ppt from previous month, indicating business confidence for the future market remains strong.

Overall, official manufacturing and non-manufacturing PMI data for February showed a steady economic growth characterized by domestic demand and growing business confidence. Looking ahead, China's economic outlook remains challenging. With the new export order index of manufacturing PMI falling below 50 for the ninth month and uncertainty hovering over the Sino-US trade negotiations, export growth could be stalled. Moreover, investment growth is expected to ease on tightening policies in the real estate market may reduce property investment. Retail sales are expected to remain weak on sluggish income growth. Nonetheless, we believe a looser fiscal stance and a more accommodative monetary policy would prevent a sharp economic downturn.



China Economic Indicators

	2018												2019	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb
Real GDP (YoY %)	---	---	6.8	---	---	6.7	---	---	6.5	---	---	6.4	---	---
Export Growth (USD, YoY %)	11.1	44.5	-2.7	12.9	12.6	11.3	12.2	9.8	14.5	15.6	5.4	-4.4	9.1	---
Import Growth (USD, YoY %)	36.9	6.3	14.4	21.5	26.0	14.1	27.3	27.0	14.3	21.4	3.0	-7.6	-1.5	---
Trade Balance (USD bn)	20.3	33.7	-5.0	28.8	24.9	41.6	28.1	27.9	31.7	34.0	44.8	57.1	39.2	---
Retail Sales Growth (YoY %)	9.7	9.7	10.1	9.4	8.5	9.0	8.8	9.0	9.2	8.6	8.1	8.2	---	---
Industrial Production (YoY %)	7.2	7.2	6.0	7.0	6.8	6.0	6.0	6.1	5.8	5.9	5.4	5.7	---	---
PMI - Manufacturing (%)	51.3	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
PMI - Non-manufacturing (%)	55.3	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
FAI (YTD) (YoY %)	7.9	7.9	7.5	7.0	6.1	6.0	5.5	5.3	5.4	5.7	5.9	5.9	---	---
CPI (YoY %)	1.5	2.9	2.1	1.8	1.8	1.9	2.1	2.3	2.5	2.5	2.2	1.9	1.7	---
PPI (YoY %)	4.3	3.7	3.1	3.4	4.1	4.7	4.6	4.1	3.6	3.3	2.7	0.9	0.1	---
M2 (YoY %)	8.6	8.8	8.2	8.3	8.3	8.0	8.5	8.2	8.3	8.0	8.0	8.1	8.4	---
New Lending (RMB bn)	2900	839	1120	1180	1150	1840	1450	1280	1380	697	1250	1080	3230	---
Aggregate Financing (RMB bn)	3079	1189	1586	1776	953	1488	1224	1941	2170	743	1519	1590	4640	---

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	25,916.00	(0.44)	16.51	NYMEX WTI	USD/bbl.	57.38	0.73	568,057		2.50	0.00	
S&P 500	2,784.49	(0.29)	18.35	ICE Brent Oil	USD/bbl	66.99	(0.19)	129,592		5.50	0.00	
NASDAQ	7,532.53	0.07	34.49	NYMEX Natural Gas	USD/MMBtu	2.80	3.17	66,796		3.00	0.00	
MSCI US	2,656.46	(0.22)	18.69	China Qinhuangdao Port Thermal Coal ²	USD/Metric Tonne	61.80	N/A	N/A		2.3973	(0.51)	
Europe				Basic Metals				US Treasury (1 Yr)				
FTSE 100	7,074.73	(1.45)	16.68	LME Aluminum Cash	USD/MT	1,889.50	(0.03)	22,950		2.5191	4.81	
DAX	11,515.64	0.51	14.30	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,911.00	(0.10)	35,523		2.7113	6.68	
CAC40	5,240.53	0.47	17.52	CMX Copper Active	USD/lb.	6,530.50	0.41	15,589		Japan 10-Yr Gov. Bond	-0.0150	2.20
IBEX 35	9,277.70	0.79	13.50	LME Copper 3- mth Rolling Fwd.	USD/MT	6,509.00	0.48	50,294		China 10-Yr Gov. Bond	3.1780	4.80
FTSE MIB	20,659.46	1.96	11.93	Precious Metals				ECB Rate (Refinancing)				
Stoxx 600	372.80	0.42	17.42	CMX Gold	USD/T. oz	1,311.70	(1.58)	209,256		0.00	0.00	
MSCI UK	2,044.43	(1.51)	16.58	CMX Silver	USD/T. oz	15.60	(2.60)	47,413		1-Month LIBOR	2.4893	0.49
MSCI France	151.49	0.62	17.75	NYMEX Platinum	USD/T. oz	873.00	3.20	24,799		3 Month LIBOR	2.6261	(2.01)
Asia				Agricultural Products				O/N SHIBOR				
NIKKEI 225	21,602.69	0.83	15.94	CBOT Corn	USD/bu	371.25	(3.45)	301,694		1-mth SHIBOR	2.7000	4.40
S&P/ASX 200	6,192.73	0.41	16.56	CBOT Wheat	USD/bu	459.75	(6.51)	82,005		3-mth HIBOR	1.5759	0.52
HSI	28,633.18	(0.20)	10.97	NYB-ICE Sugar	USD/lb.	12.78	(3.91)	63,633		Corporate Bonds (Moody's)		
HSCEI	11,367.45	0.52	8.94	CBOT Soybeans	USD/bu.	912.75	(1.19)	112,421		Aaa	3.85	4.00
CSI300	3,669.37	6.26	14.18					Baa			4.75	(3.00)
SSE Composite	2,986.47	6.50	14.10									
SZSE Composite	1,562.11	5.74	25.86									
MSCI China	82.01	(0.28)	12.98									
MSCI Hong Kong	16,332.05	(0.30)	12.79									
MSCI Japan	962.42	(0.26)	13.52									

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	1.1366	1.3252	0.7091	111.80	0.9990	6.7035	7.8486	6.7309
Chg. WTD (%)	0.27	1.52	(0.53)	(0.99)	0.14	0.15	(0.00)	0.12



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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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