

Global Economic Commentary

China Economy Hits Bottom via Structural And Supply Side Reform

CPPCC and NPC



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CPPCC and NPC

We reiterate positive outlook on Chinese and Hong Kong equity market in the long term. Although economic target growth in 2017 set for annual government report during CPPCC and NPC is slightly lower than the actual rate of 2016, key tone for 2017 is structural reform. Coupled with the announcement of China-Hong Kong bond connect link this year and China-Hong Kong stock connect, we expect China capital market and RMB to undergo the process of internationalism and market orientation. The HSI nevertheless is expected to undergo technical consolidation in the near term and provide good bargain hunting activities for investors.

Government Report Sets For Slower 2017 Target Economic Growth While Focusing On Deepening Reform

Chinese People's Political Consultative Conference (CPPCC) and National People's Congress (NPC) held on March. Premier Li Keqiang delivered its government work report to set 2017 target growth, with GDP / CPI growth of 6.5%, 3% and deficit percentage of GDP of 3%, compared with actual growth of 6.7%, 2% and 3% in 2016. Although 2017 GDP target growth slowed down, Chinese government focused on structural reform, SOE reform, supply side reform, agriculture reforms and improving underdeveloped areas. Capacity cuts continue to be a key theme, with the target of steel and coal production cut of 65 million tons and 290 million tons, compared with the 50 million and 150 million tons in 2016. We expect it to provide share price upside catalyst due to gross margin expansion and stronger demand. SOE reforms will accelerate via mixed ownership reforms, with the focus of power, oil, natural gas, railway, telecom and defense sectors. In order to increase farmers' incomes, China will enhance to deepen rural land system reforms, such as collective construction land transfer.

Prudent And Neutral Monetary Policy To Prevent From Asset Bubbles

China will pursue prudent and neutral monetary policy to prevent asset bubbles in 2017 as Premier delivered its annual target for government work report. Following the several times of U.S interest rate hike, China interest rate cut is less likely due to RMB depreciation pressure. M_2 in 2017 is set for 12%, lower than the actual rate of 11.3% in 2016. Social financing in 2017 is set for a YoY growth of 12%, lower than the actual YoY growth of 12.8% in 2016. During the meeting, market-oriented exchange reform will be key theme for RMB internationalism. With China treasury rate hike as a result of policy tightening, we expect banking and insurance sector to be a major beneficiary. Fiscal deficit percentage of GDP is targeted to remain at 3% in 2017, indicating conservative attitude towards fiscal expansion. Those resources will be allocated to environmental protection, infrastructure spending or some PPP projects.

China Allows China-Hong Kong Bond Connect Link This Year, As an Important Stone For RMB Internationalism and HK Financial Platform

During the meeting of NPC and CPPCC, premier Li Keqiang announced to introduce a bond trading link between Hong Kong and China, which allowed international and mainland investors to access to each other's market. This bond connect link is an important stone for RMB internationalism and Hong Kong financial platform. China-Hong Kong bond connect will be a breakthrough for the role of Hong Kong as a gateway between international and mainland China market. Besides, it also enhanced Hong Kong bond market. China is the world's third largest bond market with HK\$ 70 trillion bond outstanding, compared with HK\$ 3 trillion bond outstanding in Hong Kong bond market. Daily average turnover for China bond market is RMB 500 billion, compared with that of HK\$ 20 billion in Hong Kong. Despite RMB depreciation pressure for US-China gap widening from several times of U.S interest rate hike, RMB is expected to depreciate mildly this year because of the China-Hong Kong Bond Connect link for RMB internationalism.

China Stick To Differentiated Property Policies

The government work report unveiled NPC and CPPCC and it suggested that differentiated property curbs will continue in 2017. Housing property price in tier-1 and hot tier-2 cities has been skyrocketing since 2016 due to limited land supply. China government is likely to further tighten the housing purchase restriction measures to cool off the housing price. As housing in tier-3 and tier-4 cities had ample land supply and limited number of migrant workers, China will build infrastructure construction to de-stockings. We expect capital to inflow into property developers with the focus on tier-3 and tier-4 cities.

Economic key points:

- Government report sets for slower 2017 target economic growth while focusing on deepening reform.
- Prudent and neutral monetary policy to prevent from asset bubbles.
- China-Hong Kong Bond Connect Link is an important stone for RMB internationalism and HK financial platform.
- China stick to differentiated property policies.

Chart of the Month: MSCI World Index



10-day MA 1851.47
20-day MA 1847.34
100-day MA 1779.61
250-day MA 1725.60

Comment:
After the record high of U.S equity market, we expect MSCI world index to undergo consolidation on concerns over U.S healthcare bill withdrawn impacts on tax cuts and infrastructure packages.

Global Market Performance

Index (USD)	Closed at 23/03/2017	MTD Change (%)	YTD Change (%)	Current PE ratio	Estimated PE ratio	Dividend Yield
DJIA	20,656.58	(0.75)	4.52	19.04	17.23	2.36
S&P 500	2,345.96	(0.75)	4.79	21.48	18.19	1.98
Nasdaq	5,817.69	(0.13)	8.07	42.59	22.27	1.14
FTSE 100	9,186.90	1.86	4.19	38.47	14.89	3.86
DAX	12,979.98	3.39	7.19	19.87	13.92	2.57
CAC	5,425.82	5.27	5.80	19.41	14.88	3.20
Nikkei 225	171.88	0.63	4.88	22.60	18.14	1.69
HSI	3,132.19	2.41	10.39	13.36	12.18	3.38
SHCOMP	471.74	(0.17)	5.48	18.56	13.78	1.67
ASX	4,393.19	(0.68)	6.44	20.98	16.18	4.08
TWI	325.94	2.48	14.10	16.42	13.91	3.70
KOSPI	1.94	4.63	15.38	19.44	10.10	1.65
SET	28.71	2.44	6.70	15.82	14.87	3.06
SENSEX	448.28	4.01	14.44	21.84	20.55	1.36
Russia RTS	1,124.35	2.26	(2.43)	8.77	6.33	4.28
Mexico IPC	2,570.00	10.04	16.24	24.29	18.27	1.89
Bovespa	20,279.88	(5.59)	9.44	19.98	11.92	2.81
Median		2.26	6.70	19.87	14.88	2.57

Market Data

Commodities (USD)

Price as at 23/03/2017

Crude Oil	47.70
Gold 100oz	1,247.20

Source: Bloomberg

Date Time	Country	Event	Event Time	Survey	Prior
4/3/2017	Australia	Retail Sales MoM	Feb	--	0.40%
4/3/2017	Australia	Building Approvals MoM	Feb	--	1.80%
4/3/2017	China	Caixin China PMI Mfg	Mar	51.3	51.7
4/4/2017	US	Factory Orders	Feb	0.90%	1.20%
4/5/2017	Europe	Markit Eurozone Services PMI	Mar F	--	56.5
4/6/2017	China	Caixin China PMI Services	Mar	--	52.6
4/7/2017	UK	Industrial Production MoM	Feb	--	-0.40%
4/7/2017	US	Change in Nonfarm Payrolls	Mar	163k	235k
4/7/2017	US	Unemployment Rate	Mar	4.70%	4.70%
4/7/2017	China	Foreign Reserves	Mar	--	\$3005.1b
4/10/2017	China	Money Supply M2 YoY	Mar	--	11.10%
4/11/2017	UK	CPI YoY	Mar	--	2.30%
4/11/2017	UK	PPI Input NSA YoY	Mar	--	19.10%
4/13/2017	US	Initial Jobless Claims	Apr-08	--	--
4/13/2017	US	Continuing Claims	Apr-01	--	--
4/14/2017	Japan	Industrial Production YoY	Feb F	--	--
4/14/2017	US	CPI YoY	Mar	--	2.70%
4/17/2017	China	Retail Sales YoY	Mar	--	10.90%
4/18/2017	US	Housing Starts MoM	Mar	--	3.00%
4/18/2017	US	Building Permits MoM	Mar	--	-6.20%
4/19/2017	Europe	CPI YoY	Mar F	--	2.00%
4/20/2017	Europe	Construction Output YoY	Feb	--	-6.20%
4/21/2017	Europe	Markit Eurozone Manufacturing PMI	Apr P	--	--
4/21/2017	Europe	Markit Eurozone Services PMI	Apr P	--	--
4/24/2017	UK	CBI Retailing Reported Sales	Apr	--	9
4/25/2017	Japan	PPI Services YoY	Mar	--	--
4/27/2017	China	Industrial Profits YoY	Mar	--	--
4/27/2017	Europe	ECB Marginal Lending Facility	Apr-27	--	0.25%
4/27/2017	US	Durable Goods Orders	Mar P	--	--
4/28/2017	Japan	Industrial Production MoM	Mar P	--	--
4/28/2017	Japan	Retail Sales MoM	Mar	--	--
4/30/2017	China	Manufacturing PMI	Apr	--	--

News Stories Highlights

Headlines

[Trump preparing orders to review trade deals, procurement: officials](#)

President Donald Trump signed an executive order formally withdrawing the United States from the 12-nation Trans-Pacific Partnership trade deal on Monday, following through on a promise from his campaign last year.

[White House might court democrats on tax reform](#)

Fresh off a defeat on healthcare, the White House warned rebellious lawmakers that they should get behind President Donald Trump's agenda or he may bypass them on fights, including tax reform, and court moderate Democrats instead.

[China Jan-Feb industrial profits surge 32% as commodity price rally](#)

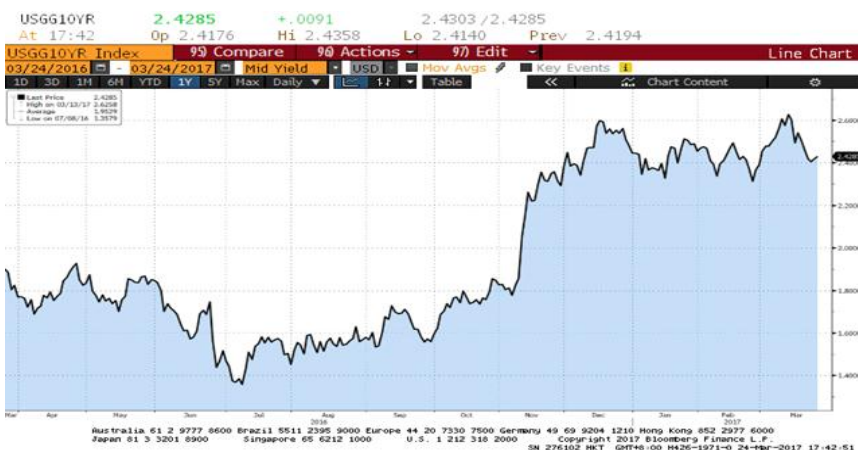
Profits of Chinese industrial firms surged 31.5 percent in the first two months of 2017 from a year earlier as prices of commodities from coal to iron ore raced higher, while strong imports also pointed to a pick-up in activity.

[OPEC, non-OPEC to look at extending oil-output cut by six months](#)

KUWAIT A joint committee of ministers from OPEC and non-OPEC oil producers has agreed to review whether a global pact to limit supplies should be extended by six months, it said in a statement on Sunday.

US 10 years treasury yield rose supported by the cycle of U.S interest rate hike.

FIGURE 1
 US 10 years treasury yield



HSCEI traded higher amid and China economic stabilization the expectation of better annual result.

FIGURE 2
 Hang Seng China Enterprises Index



S&P 500 pulled back after breaking the record high.

FIGURE 3
 S&P 500 Index



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