

## Global Economic Commentary

# China Economy Hits Bottom via Structural And Supply Side Reform

## Maintain Optimistic Outlook On HK Market



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## China Economy Sees Recovery

### China Economy Data Saw Growth Across Broad-base

China economic data maintained its upward trend as economic growth was seen across broad-based, with new yuan loan and aggregate financing MoM increasing RMB 430 billion and RMB 714.1 billion to RMB 1540 billion and RMB 1780 billion in June. They were mostly driven by the rises in housing mortgage and corporate loans. The big four state-owned commercial banks were the major beneficiaries as the rises in money rates, such as SHIBOR, have great contribution to interest margin expansion. Manufacturing picked up in July as most China firms issued positive alert, especially upstream manufacturers, such as copper, cobalt, coal and steel miners. Caixin manufacturing PMI in June was 50.4, compared with 49.6 in May. Industrial production YoY growth in June was 7.6%, compared with 6.5% in May, where raw material producers recorded sharp rises for its earnings in 2H17.

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### The European Central Bank insists on low interest rate monetary policy

The European Central Bank (ECB) held a monetary policy meeting on July 20, promising to keep interest rates and quantitative easing plans unchanged for at least a few months. The ECB's bond buying programme will remain capped at €60 billion per month and its interest rates a deposit rate of -0.4% for banks, and a base interest rate of 0.0% will be maintained. However, as of June, the region's inflation rate fell to 1.3%, lower than the 1.4% in May and well below the target of just under 2 per cent. Mario Draghi, President of the European Central Bank could stick to the script of his earlier, which were aimed at reassuring markets that the ECB would only begin to remove its stimulus once inflation began to increase. Therefore, the market expects the ECB to announce on 7 September that it will start tapering QE as of January 2018, across all four asset classes (sovereigns, corporates, covered bonds, and ABS) and with a first reduction in the monthly asset purchases from €60bn to €40bn.

### US Dollar traded lower, capitals continued pouring into emerging market assets

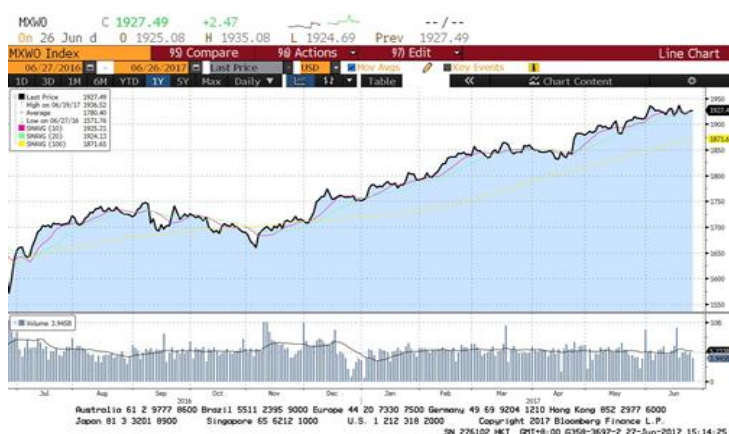
According to IMF's July economic forecast report, global economic growth remains 3.5% unchanged, better than that of 3.2% in 2016, while the 2017 and 2018 growth rate of emerging markets are expected to be 4.6% and 4.8% respectively, showing three consecutive years of growth. Emerging market continued the strong performance in 1H2017, with MSCI emerging market index soared 23.0% YTD, outperforming developed countries over the same period significantly. For EM bond market, even if the Fed hinted the schedule of unwinding its massive balance sheet and held the stance to lift borrowing cost at an appropriate time, EM bond market still showed attraction to investors. The 10-year inflation-adjusted EM bond yield has 2.56% premium over the same due date of that of G-10.

In addition to continuing benefiting from strong fundamentals and corporate earnings performance, the bearishness of the dollar this year also provided a support to the upward bias of EM market performance. The dollar lost 9.35% YTD due to a series of US political factors, some weaker-than-expected economic data and the appreciation of other major currencies against the dollar, supporting the bright performance of emerging markets. Global emerging markets fund experienced capital inflow of 4.558 billion and 427.18 billion US dollar in July and for the first seven months this year respectively.

### Economic key points:

- China economy continues to recover.
- US Dollar traded lower, capitals continued pouring into emerging market assets
- The European Central Bank insists on low interest rate monetary policy

## Chart of the Month: MSCI World Index



<b>10-day MA</b>	1962.5
<b>20-day MA</b>	1947.73
<b>100-day MA</b>	1899.97
<b>250-day MA</b>	1811.11

**Comment:**  
The MSCI World Index maintains its upward trends amid China and the global economic recovery.

## Global Market Performance

Index (USD)	Closed at 31/07/2017	MTD Change (%)	YTD Change (%)	Current PE ratio	Estimated PE ratio	Dividend Yield
<b>DJIA</b>	21,891.12	2.54	10.77	18.82	18.09	2.26
<b>S&amp;P 500</b>	2,470.30	1.93	10.34	21.30	18.98	1.97
<b>Nasdaq</b>	6,348.12	3.38	17.93	33.65	23.99	1.11
<b>FTSE 100</b>	9,723.67	2.22	10.27	27.94	15.38	4.10
<b>DAX</b>	14,312.87	1.75	18.20	18.96	13.44	2.76
<b>CAC</b>	6,016.25	2.94	17.32	18.13	15.18	3.24
<b>Nikkei 225</b>	180.47	1.21	10.12	18.32	17.19	1.72
<b>HSI</b>	3,498.32	6.00	23.30	14.47	13.12	3.23
<b>SHCOMP</b>	486.74	3.15	8.83	17.66	14.52	1.91
<b>ASX</b>	4,607.58	4.11	11.63	20.11	16.13	4.10
<b>TWI</b>	344.85	0.77	20.72	16.06	14.88	3.82
<b>KOSPI</b>	2.14	2.34	27.45	17.31	10.13	1.48
<b>SET</b>	30.16	2.90	12.06	14.98	15.21	3.13
<b>SENSEX</b>	506.66	5.88	29.35	24.02	20.24	1.15
<b>Russia RTS</b>	1,007.14	0.62	(12.60)	6.85	5.99	5.28
<b>Mexico IPC</b>	2,859.88	3.71	29.35	20.67	18.76	2.31
<b>Bovespa</b>	21,071.59	10.77	13.71	18.37	12.89	2.93
<b>Median</b>		<b>2.9</b>	<b>13.71</b>	<b>18.37</b>	<b>15.21</b>	<b>2.76</b>

## Market Data

Commodities (USD)

Price as at 31/07/2017

<b>Crude Oil</b>	<b>50.17</b>
<b>Gold 100oz</b>	<b>1,266.60</b>

Source: Bloomberg

Date Time	Country	Event	Event Time	Survey	Prior
8/1/2017	China	Caixin China PMI Mfg	Jul	50.4	50.4
8/1/2017	UK	Nationwide House PX MoM	Jul	-0.20%	1.10%
8/1/2017	UK	Nationwide House Px NSA YoY	Jul	2.60%	3.10%
8/1/2017	Europe	GDP SA QoQ	2Q A	--	0.60%
8/1/2017	US	PCE Deflator YoY	Jun	--	1.40%
8/1/2017	US	ISM Manufacturing	Jul	55.8	57.8
8/1/2017	US	ISM Prices Paid	Jul	--	55
8/2/2017	Europe	PPI MoM	Jun	--	-0.40%
8/2/2017	Europe	PPI YoY	Jun	--	3.30%
8/4/2017	Japan	Labor Cash Earnings YoY	Jun	0.60%	0.70%
8/7/2017	Australia	Foreign Reserves	Jul	--	A\$84.1b
8/8/2017	Canada	Housing Starts	Jul	--	212.7k
08/08/2017	China	Exports YoY CNY	Jul	--	17.30%
08/08/2017	China	Imports YoY CNY	Jul	--	23.10%
08/08/2017	China	Trade Balance CNY	Jul	--	294.30b
08/08/2017	China	Exports YoY	Jul	--	11.30%
8/10/2017	UK	Industrial Production MoM	Jun	--	-0.10%
8/10/2017	UK	Industrial Production YoY	Jun	--	-0.20%
8/10/2017	US	Initial Jobless Claims	Aug-05	--	--
8/10/2017	US	Continuing Claims	Jul-29	--	--
8/11/2017	US	Real Avg Weekly Earnings YoY	Jul	--	1.10%
8/11/2017	US	Real Avg Hourly Earning YoY	Jul	--	0.80%
08/14/2017	Australia	Credit Card Balances	Jun	--	A\$52.3b
08/15/2017	Australia	ANZ Roy Morgan Weekly Consumer Confidence Index	Aug-13	--	--
08/16/2017	UK	Claimant Count Rate	Jul	--	2.30%
08/16/2017	UK	Employment Change 3M/3M	Jun	--	175k
08/17/2017	Australia	Employment Change	Jul	--	14.0k
08/17/2017	Australia	Unemployment Rate	Jul	--	5.60%
08/17/2017	Europe	Trade Balance SA	Jun	--	19.7b
08/17/2017	Europe	Trade Balance NSA	Jun	--	21.4b
08/18/2017	Europe	Current Account NSA	Jun	--	18.3b

## News Stories Highlights

### Headlines

#### [Britain and Australia urge China to do more on North Korea threat](#)

Earlier this month North Korea, which has warned Australia could be the target of a strike, said it had conducted its first test of an intercontinental ballistic missile, which experts say could reach Alaska.

#### [Why record U.S. oil exports are poised for even more growth](#)

U.S. refineries are producing more fuel than ever as they seek to meet rising demand - from overseas, rather than the drivers on nearby roadways.

#### [Dollar steadies after Fed skid, shares hit new highs](#)

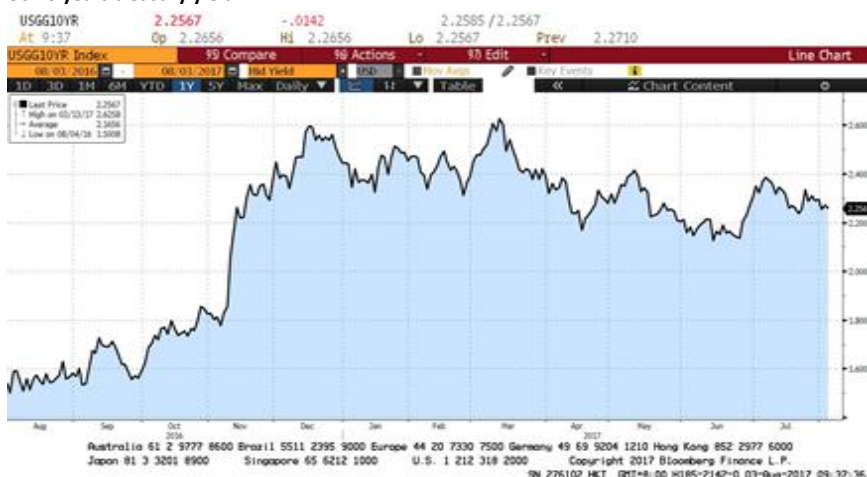
LONDON Stocks, bonds and commodities were all on a roll on Thursday, as market bulls scented a softening in the Federal Reserve's confidence on inflation that promised to keep U.S. interest rates low for longer.

#### [Oil prices hover near eight-week highs on lower U.S. inventories](#)

Oil prices held just below eight-week highs on Thursday, supported by a steeper-than-expected decline in U.S. crude inventories that boosted expectations of a shift to a more balanced market.

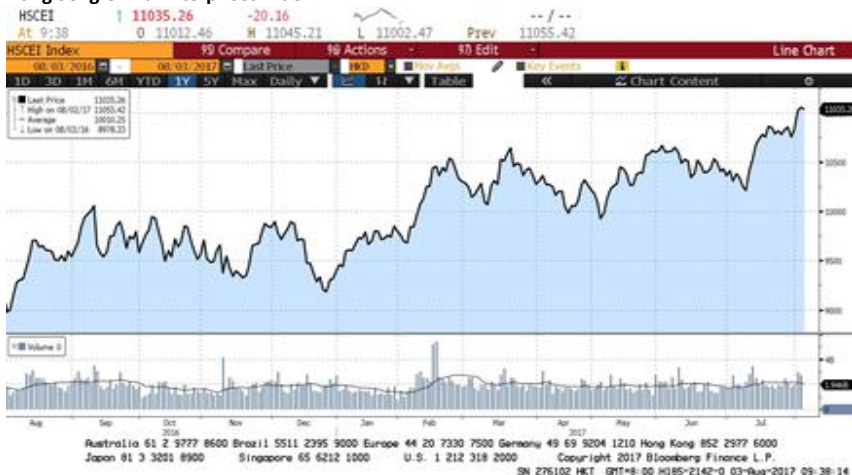
*US 10 years treasury yield pulled back amid weak U.S inflation.*

**FIGURE 1**  
**US 10 years treasury yield**



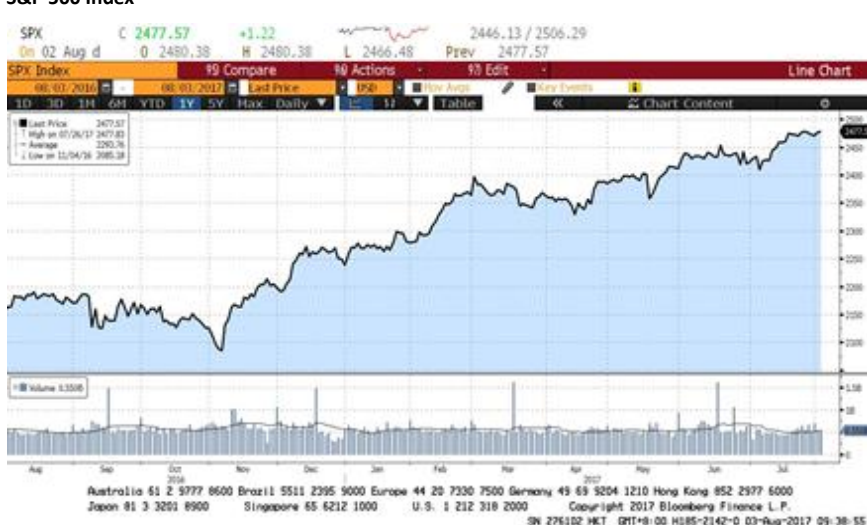
*Despite the consolidation of HSCEI, we remain positive on its undemanding valuation..*

**FIGURE 2**  
**Hang Seng China Enterprises Index**



*S&P 500 continued to trade higher on the economy recovery and expectation of the upcoming fiscal easing.*

**FIGURE 3**  
**S&P 500 Index**



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