

CHINA

- The economy is expected to receive a boost from over USD 350 billion in infrastructure spending by the government on railway construction, highways, and waterways over the course of the year.
- While the inflationary environment remains benign, the room for the People's Bank of China to lower the policy rate (currently at 4.35 percent) remains limited.
- The Regional Comprehensive Economic Partnership (RCEP), which many see China as spearheading, is expected to be finalized by the end of 2017 and together with a weaker RMB is expected to provide a boost to China's exports over the medium term.

Economic growth in China is expected to come in around 6.5% in 2017 compared to 6.7% in 2016. Some of the high frequency indicators in the first two months of the year such as industrial production, fixed asset investment, railway freight and exports have shown some signs of improvement compared to the respective growth rates for 2016, although it is too early to suggest that there is a bottoming out of the slowdown being seen in the economy. The total outstanding loans in the economy (total social financing) as a percent of GDP remains close to 200 percent, and remains a concern for the authorities. While the inflationary environment remains benign, the room for the People's Bank of China to lower the policy rate (currently at 4.35%) remains limited. The real estate sector as well as the high level of corporate debt in the economy continue to pose risks to overall financial stability.

The authorities have set a target for GDP growth to come in at 6.5% in 2017. The economy is expected to receive a boost from over USD 350 billion in infrastructure spending by the government on railway construction, highways, and waterways. In addition, the government intends to add 11 million urban jobs to the workforce while simultaneously reducing excess capacity in some sectors like steel and coal. Improving air quality and reducing the release of pollutants into the environment remains a major thrust area for the government. Reform of state owned enterprises (SOE) will continue over the course of the coming year.

With respect to high frequency data, industrial production was up 7.6% y-o-y in March 2017 compared to 7.0% y-o-y in February 2017 on a trend basis. Retail sales data saw an improvement in March and has grown 10.0% y-o-y on a year-to-date basis as of March 2017 compared to an increase of 10.4 % in 2016. Fixed asset investment (FAI) has seen a steady improvement in early 2017, rising 9.2% y-o-y in March on a trend basis, higher than the 8.1% y-o-y increase seen in 2016. Railway freight, an indicator of domestic demand, has been growing at a strong pace in recent months, having steadily improved through 2016 – it has grown 15.5% y-o-y on a year-to-date basis as of March 2017 compared to a decline of 0.8% y-o-y in 2016. Bank credit growth – to the non-financial sector – has continued to grow at a strong pace of around 12.4% y-o-y in March 2017 compared to 13.0% y-o-y as of February 2017 and should remain supportive for overall domestic demand. The impact of cooling measures that were introduced in the property market in the latter half of 2016 appear to be having their intended impact and is expected to weigh on residential investment in the months ahead. Private investment by companies could see an uptick as the authorities continue to work towards reducing the tax burden of companies and business related fees.

On the external front, China's exports have seen a gradual improvement on a trend basis and increased 8.2% y-o-y in March 2017 after having come in flat in the previous month. Imports have seen a surge in early 2017, partly driven by a low base effect, but also higher commodity prices. Although FX reserves in China declined around USD 320 billion through 2016, total FX reserves continue to hover around the USD 3 trillion mark. Concerns about outflows and the impact on liquidity in the system and consequently on the currency have diminished in the near term. The RMB is expected to edge lower against the USD over the coming year. The focus on the trade front this year will likely be negotiations around the Regional Comprehensive Economic Partnership (RCEP) deal especially after the withdrawal of the US from the Trans-Pacific Partnership deal. The RCEP, which many see

China spearheading, is expected to be finalized by the end of 2017 and together with a weaker RMB is expected to provide a boost to China's exports over the medium term.

Table 1: Select Economic Indicators

	Mar-17	Feb-17	Mar-17	Mar-17	2016	2015
	Actual	Actual	3mma	YTD	Average	Average
Real	% change y-o-y					
Industrial Production	7.6	6.3	6.8	6.7	6.1	6.1
Retail Sales	10.9	9.5	10.0	10.0	10.4	14.7
Fixed Assets Investment (FAI)	9.5	8.9	9.2	9.2	8.1	9.9
FAI: New Construction	12.1	9.9	11.2	11.2	11.8	11.1
FAI: Manufacturing	6.9	4.3	5.8	5.8	4.1	8.1
Freight Carried: Railway	17.3	19.4	15.5	15.5	-0.8	-11.9
Electricity Production	8.2	8.5	8.4	8.4	6.2	2.4
Consumer Price Index (CPI) Inflation, sa	0.9	0.8	1.4	1.4	2.1	1.5
Core CPI	2.1	2.0	2.2	2.2	1.6	1.6
Producer Price Inflation	7.6	7.8	7.4	7.4	-1.31	-5.2
External	% change y-o-y					
Exports	16.4	-1.3	8.2	8.2	-7.7	-2.9
Non-Oil Exports	11.6	-5.5	3.7	3.7	-6.4	-2.4
Imports	20.3	38.1	23.8	23.8	-5.0	-14.0
Non-Oil Imports	14.1	35.4	18.8	18.8	-4.5	-10.6
Electrical Machinery & Related Imports	0.4	26.8	7.8	7.8	-2.5	1.1
External	Actual Values					
Trade Balance (USD bn)	23.9	-9.1	21.9	59.4	509.7	593.9
Foreign Reserves (USD bn)	3009.1	3005.1	3004.1	3009.1	3010.5	3330.4
FX Rate: USDRMB	6.9	6.9	6.9	6.9	6.7	6.2
Real Effective Exch Rate Index	120.4	122.1	121.9	121.9	124.4	129.7
Nominal Effective Exch Rate Index	116.7	117.4	117.5	117.5	119.9	125.6
Foreign Direct Investments (USD bn)	13.1	8.7	11.3	33.8	126.0	135.6
Monetary	% change y-o-y					
Money Supply M2	10.6	11.1	11.0	11.0	12.0	11.9
Bank Deposits	10.3	11.4	10.7	10.7	11.5	18.0
Bank Credit	12.4	13.0	12.7	12.7	13.8	15.0
Monetary	Actual Values					
One Year Lending Rate	4.35	4.35	4.35	4.35	4.35	4.91
Interbank Offered Rate:7 Days	3.16	2.93	2.93	2.93	2.53	3.08
Short Term Int Rate: 3 Months	4.39	4.28	4.18	4.18	2.93	3.61
Treasury Bond 10-year Yield	3.30	3.34	3.35	3.35	2.87	3.36
Fiscal	% change y-o-y					
Government Revenue: Taxes	9.62	10.89	14.69	14.06	4.37	4.81

A y-o-y change in 3mma March 2017 is the percentage change in the average of January, February and March 2017 data over the average of January, February and March 2016 data. A y-o-y change in actual number for a month, say March 2017, is the percent change in the March 2017 value over the March 2016 value.

*refers to 3-month moving average (3mma) and year-to-date (ytd) data ending February 2017

Source: CEIC, Marketnomix

Figure 1. China: FAI, Freight, Power & Loan (3mma, y-o-y, %)

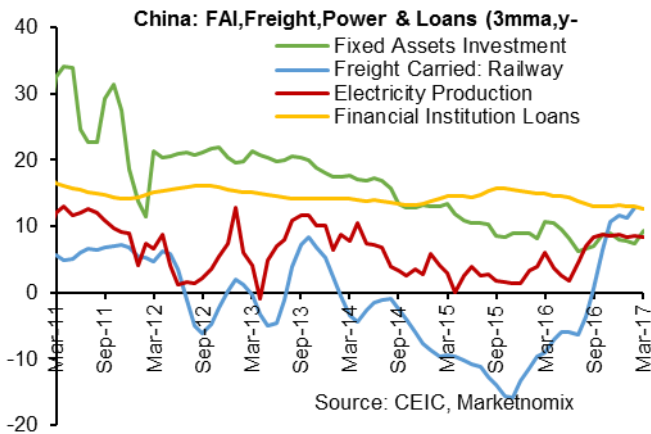


Figure 2. Trade Balance & Foreign Reserves

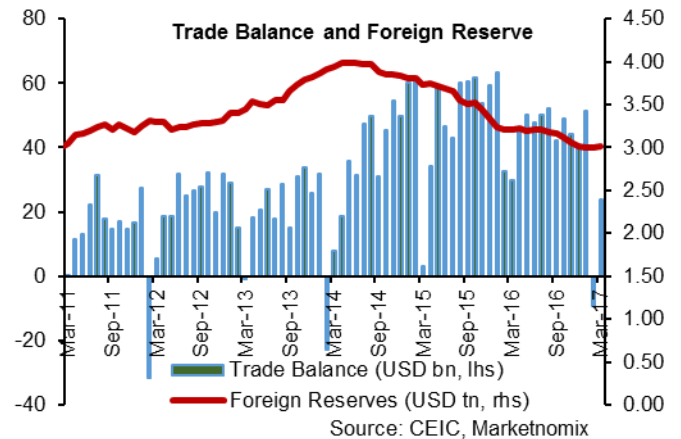


Figure 3. China Foreign Exchange Rate

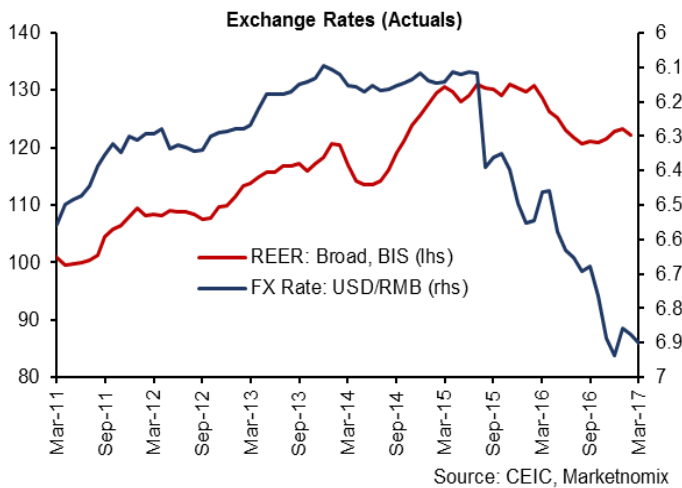
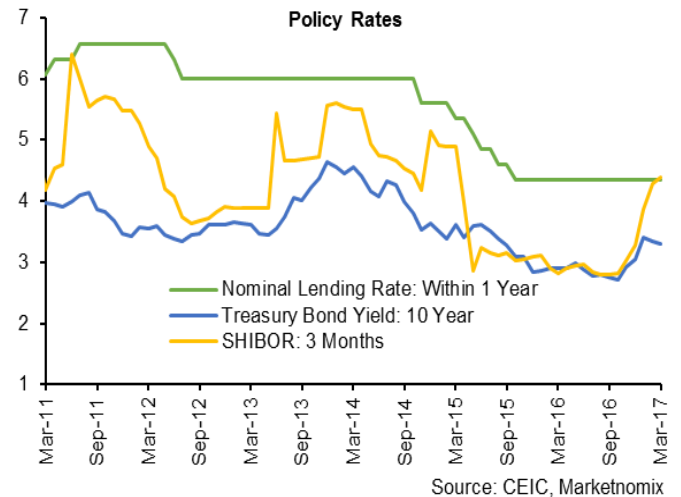


Figure 4. Interest Rates



Index of Industrial Production

Industrial production in China increased 6.3% in January and February 2017 compared to a 6.4% y-o-y growth in the same period the previous year and an increase of 6.1% for the whole of 2016. Factory output was supported by a healthy domestic demand as well as gradual improvements in external demand. Going forward, factory output is expected to be supported by increased infrastructure spending by the government on railway construction, highways, and waterways.

Based on available data as of December 2016, some of the main drivers of industrial production on a 3-month moving average (3mma) basis have been production of television sets, washing machines, processed crude oil, gasoline, steel, rubber tyre, plated glass, power generating equipment, industrial boilers, semiconductor integrated circuits, and dairy products. Production of television sets and washing machines grew 6.3% y-o-y and 10.5% y-o-y on a 3mma basis in December respectively, compared to an increase of 2.5% y-o-y and 3.8% y-o-y in November respectively. Production of power generating equipment saw a further rise of 24.6% y-o-y in December compared to 23.6% y-o-y in November on a trend basis. Further, rubber tyre production rose 7.6% y-o-y in December

compared to a growth of 4.9% y-o-y in November while steel continued its uptick from 3.8% y-o-y in November to 4.2% y-o-y in December on a 3mma basis.

Other indicators linked to domestic demand such as automobiles slowed to 13.7% y-o-y in December compared to a 19.3% y-o-y rise in November 2016 on a trend basis, partially supported by growth in loading vehicles. The production of tractors continues to remain weak on a trend basis, having declined 8.5% y-o-y in December on a trend basis compared to a fall of 9.5% y-o-y in November 2016. In the case of export related industries, production of computers, which accounts for a significant share of China's exports, declined 4.0% y-o-y in December 2016 compared to a fall of 3.0% y-o-y in November 2016 on a trend basis.

Table 2: Index of Industrial Production

	Dec-16	Nov-16	Dec-16	Dec-16	2016	2015
	Actual	Actual	3mma	YTD	Average	Average
IPI	% change y-o-y					
Industrial Production	6.0	6.2	6.1	6.2	6.2	6.1
Television Sets	5.1	5.0	6.3	8.1	8.1	1.2
Washing Machines	8.3	19.5	10.5	5.8	5.8	-1.6
Refrigerator	8.9	16.5	14.4	4.0	4.0	-9.8
Plastic Products	-1.2	2.7	0.2	3.7	3.7	0.8
Processed Crude Oil	4.3	4.2	5.0	2.7	2.7	5.0
Gasoline	5.9	4.6	6.6	5.4	5.4	11.2
Diesel Oil	2.2	1.8	2.7	-2.4	-2.4	2.8
Power Generated	8.5	8.0	8.7	6.2	6.2	2.4
Power Generated: Thermal Power	9.9	7.5	10.4	5.8	5.8	-0.3
Iron Ore	-0.2	-0.7	-2.0	-5.6	-5.6	-11.7
Steel	4.4	4.7	4.2	2.2	2.2	-2.6
Aluminium Products	3.8	7.8	6.8	10.3	10.3	5.1
Copper Processing Products	4.0	5.1	3.8	8.4	8.4	6.8
Chemical Fertilizer (100% purity)	-10.7	-10.4	-8.9	-3.8	-3.8	5.6
Pharmaceutical and Medicine	-4.1	5.7	0.2	3.8	3.8	3.9
Rubber Tyre	13.1	5.8	7.6	2.3	2.3	-16.2
Cement	0.9	4.2	2.1	6.3	6.3	-11.7
Plated Glass	11.6	4.6	8.6	2.0	2.0	-6.4
Power Generating Equipment	36.9	27.7	24.6	11.5	11.5	-20.8
Automobiles	13.3	17.6	13.7	12.4	12.4	-2.7
Tractor	3.0	-15.1	-8.5	-9.3	-9.3	11.3
Industrial Boilers	9.4	6.3	6.6	1.9	1.9	-11.4
Computer	-5.7	-1.2	-4.0	-3.2	-3.2	-13.5
Semiconductor Integrated Circuit	24.5	22.9	24.8	21.4	21.4	5.0
Electric Instruments & Meters	3.0	24.8	14.0	21.9	21.9	7.5
Dairy Products	11.4	11.7	10.3	10.5	10.5	4.3

A y-o-y change in 3mma February 2017 is the percentage change in the average of December, January, and February 2016/17 data over the average of December, January, and February 2015/16 data.

Source: CEIC and Marketnomix

Table 3: Annual Forecasts**Real GDP (% change)**

Country	2016	2017	2018
China	6.7	6.6	6.2
India*	6.8	6.6	6.4
Indonesia	5.0	5.1	5.3
Japan	1.0	1.2	0.6
Malaysia	4.2	4.3	4.5
Myanmar	6.3	7.5	7.6
Philippines	6.8	6.8	6.9
Singapore	2.0	2.2	2.6
Thailand	3.2	3.0	3.3
United States	1.6	2.0	2.2
Euro Zone	1.7	1.7	1.6
Vietnam	6.2	6.5	6.3

Consumer Prices (% change)

Country	2016	2017	2018
China	2.0	2.4	2.3
India*	4.9	4.8	5.1
Indonesia	3.5	4.5	4.5
Japan	-0.1	1.0	0.6
Malaysia	2.1	2.7	2.9
Myanmar	7.0	6.9	6.7
Philippines	1.8	3.6	3.3
Singapore	-0.5	1.1	1.8
Thailand	0.2	1.4	1.5
United States	1.3	2.7	2.4
Euro Zone	0.2	1.7	1.5
Vietnam	2.7	4.9	5.0

Current Account (% of GDP)

Country	2016	2017	2018
China	1.8	1.3	1.2
India*	-0.9	-1.5	-1.5
Indonesia	-1.8	-1.9	-2.0
Japan	4.6	4.6	4.5
Malaysia	2.0	1.8	1.8
Myanmar	-6.5	-6.6	-6.7
Philippines	0.2	-0.1	-0.3
Singapore	19.0	20.1	19.2
Thailand	11.4	9.7	7.8
United States	-2.6	-2.7	-3.2
Euro Zone	3.4	3.0	3.0
Vietnam	4.7	4.1	3.4

Fiscal balance (% of GDP)

Country	2016	2017	2018
China	-3.7	-3.7	-3.4
India*	-6.6	-6.4	-6.3
Indonesia	-2.5	-2.4	-2.5
Japan	-4.2	-4.0	-3.3
Malaysia	-3.0	-3.0	-2.7
Myanmar	-4.6	-4.5	-4.5
Philippines	-0.4	-1.0	-1.2
Singapore	3.3	1.7	1.5
Thailand	-0.5	-1.6	-1.8
United States	-4.6	-4.4	-4.5
Euro Zone	-1.7	-1.5	-1.2
Vietnam	-5.6	-5.7	-5.7

Official Policy Rate***

Country	2016	2017	2018
China**	4.35	4.60	4.85
India*	6.25	6.00	6.00
Indonesia	6.5	4.75	5.00
Japan	-0.1	-0.1	-0.1
Malaysia	3.00	3.25	3.50
Myanmar	--	--	--
Philippines	3.00	3.25	3.50
Singapore	--	--	--
Thailand	1.50	1.50	1.75
United States	0.75	1.5	2.0
Euro Zone	0.00	0.00	0.00
Vietnam	--	--	--

Currency per US Dollar***

Country	2016	2017	2018
China	6.95	7.05	7.13
India*	67.92	67.00	69.00
Indonesia	13473	13800	14400
Japan	116.96	120.00	125.00
Malaysia	4.49	4.70	4.90
Myanmar	--	--	--
Philippines	49.60	51.00	53.00
Singapore	1.45	1.45	1.48
Thailand	35.83	36.50	37.50
United States	--	--	--
Euro Zone	1.05	1.05	1.00
Vietnam	22761	23000	24000

* Data for India are for fiscal years - 2016 corresponds to the period April 2016 to March 2017

**One Year Best Lending Rate (%)

*** Policy Rates and Exchange rates are as of 31 December

Source: CEIC, IMF, Marketnomix estimates.

About Us

Marketnomix comprises a team of professional economists providing sound macroeconomic inputs that capture developments in the global economy. Marketnomix aims to positively impact the strategic decisions of individuals and firms.

Rajan Govil and Janak Nabar are co-founders of Marketnomix. Between them, they have close to 40 years of experience covering a number of economies. Their research experience spans the sell-side as well as the buy-side, including as global asset allocators. They have provided guidance to institutional clients, corporate treasuries, family offices and high net worth individuals with businesses and investments across the world.

Rajan has worked as an economist with the International Monetary Fund (IMF) and as economist/investment strategist with the private financial sector. He presently consults for the IMF and other multilateral institutions. Rajan has worked as Chief Economist-India and later Regional Economist for Asia-Pacific at HSBC Bank, and as the Head of Investment Strategy, Asia at BSI Bank. Rajan has taught at Delhi University, Indian Institute of Management Bangalore and Vanderbilt University. He has a PhD in Economics from Vanderbilt University.

Janak was until the end of 2014, a Senior Investment Strategist at BSI Bank Ltd, Singapore, having assumed responsibility for the Bank's macroeconomic and asset price outlook for Asia in December 2013. He has worked as an Economist focusing on the Asia-Pacific region with IDEAglobal Ltd. His work experience includes two years with the United Nations High Commissioner for Refugees in Belgrade, Serbia. Janak holds an MSc (Econometrics and Mathematical Economics) from the London School of Economics and Political Science, MA (Mathematics) from Balliol College, University of Oxford (as a Radhakrishnan Scholar), and BA (Mathematics) from the University of Pune, India (ranked first in the University). He currently also heads the Centre for Technology, Innovation and Economic Research (CTIER), an independent think tank based in Pune focusing on innovation and technology policy in India.

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