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Domestic Trade

Retail sales of consumer goods grow by 10.4% yoy in 1-3Q17.

Ex-factory prices of industrial products trend upward.

Both rural and urban households see high single-digit growth in income in 1-3Q17.

Growth in nominal fixed asset investment decelerates to 7.5% yoy in 1-3Q17.

State Council publishes the *'Guiding Opinions on Actively Promoting Supply Chain Innovation and Application'*.

Entrepreneur Confidence Index stays high in 3Q17.

October PMI indicates growth moderation of the manufacturing sector.

Non-manufacturing sector expands at a relatively fast pace.

Foreign Trade

Both exports and imports maintain positive growth in October.

Exports to the US register a relatively strong growth of 11.5% yoy in 1-3Q17.

Exports from Shaanxi, Sichuan and Guizhou soar by 48.6% yoy, 33.4% yoy and 31.2% yoy respectively in 1-3Q17.

FDI rises slightly by 1.6% yoy in 1-3Q17.

Foreign exchange reserves rise for the second consecutive quarter.

Chinese yuan depreciates against the US dollar.

Chinese and US firms sign US$253.5 billion worth of deals during Trump's visit to China.

FUNG BUSINESS INTELLIGENCE

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Executive Summary

Domestic Trade

Retail sales of consumer goods reached 26,317.8 billion yuan in 1-3Q17, up by 10.4% yoy. Online retail sales of goods, which accounted for 14.0% of total retail sales, increased markedly by 29.1% yoy over the period.

Ex-factory prices of industrial products have trended upward after a few months of correction and consolidation. The producer price index of industrial products gained 0.7% in October, rising for four consecutive months.

Both rural and urban households saw high single-digit growth in income in 1-3Q17: The per capita disposable income of rural households grew nominally by 8.7% yoy to reach 9,778 yuan; while that of urban households rose by 8.3% yoy in nominal terms to reach 27,430 yuan in 1-3Q17.

Growth in nominal fixed asset investment decelerated to 7.5% yoy in 1-3Q17 from 8.1% yoy in 2016, attributable to the slowing growth of FAI in the secondary industry.

State Council published the *'Guiding Opinions on Actively Promoting Supply Chain Innovation and Application'* on 13 October. The document states the goals of establishing smart supply chain systems covering major sectors in China; nurturing around one hundred leading enterprises in global supply chains; and developing China into a major centre of global supply chain innovation and application by the end of 2020.

Entrepreneur Confidence Index stayed high at 127.3 in 3Q17, indicating the strong confidence among Chinese entrepreneurs in the secondary industry.

October PMI indicates growth moderation of the manufacturing sector. PMI dropped to 51.6 in October from its recent peak of 52.4 in September.

Non-manufacturing sector has expanded at a relatively fast pace recently. NMI stayed high at between 53.4 and 55.4 throughout August to October.

Foreign Trade

Both exports and imports maintained positive growth in October. Exports gained 6.9% yoy, while imports increased by 17.2% yoy in the month.

Exports to the US registered a relatively strong growth of 11.5% yoy in 1-3Q17. Exports to the EU, Japan and the ASEAN expanded by 8.8% yoy, 4.7% yoy and 8.3% yoy respectively over the same period.

Among provinces/ municipalities, Shaanxi witnessed the fastest year-on-year growth in exports in 1-3Q17, followed by Sichuan and Guizhou. Exports from Shaanxi, Sichuan and Guizhou soared by 48.6% yoy, 33.4% yoy and 31.2% yoy respectively over the period.

FDI rose slightly by 1.6% yoy to 618.6 billion yuan in 1-3Q17. FDI in the service sector accounted for 69.2% of the total FDI in 1-3Q17. Among the industries, FDI in the 'construction industry' and the 'information transmission and computer services and software industry' posted rapid growth of 41.2% yoy and 23.1% yoy respectively over the same period.

Foreign exchange reserves increased by US$ 51.7 billion in 3Q17, rising for two consecutive quarters. As at the end of September, the foreign exchange reserves amounted to US$ 3,108.5 billion.

The Chinese yuan has depreciated against the US dollar in recent months. The daily fixing rate of the Chinese yuan against the US dollar came in at 6.6399 on 14 November, depreciating from 6.4997 on 11 September.

Chinese and US firms signed US$253.5 billion worth of deals during Trump's visit to China. Speaking after the signings of the deals, Trump said that he did not blame China for having large trade surplus against the US; instead, he blamed the past US administrations for that. Meanwhile, the Chinese President Xi Jinping described the China-US relationship as standing at a 'new historic starting point' and said that 'cooperation is the only right option'.

A Recent developments

1. China's real GDP growth stays high in 3Q17

China's real GDP growth stayed high at 6.8% year-on-year (yoy) in 3Q17, down slightly from its recent peak of 6.9% yoy in 2Q17 *(see exhibit 1)*. The 3Q17 figure indicates a rapid expansion of the Chinese economy. Overall, in 1-3Q17, China's nominal GDP amounted to 59.3 trillion yuan, up by 6.9% yoy in real terms.

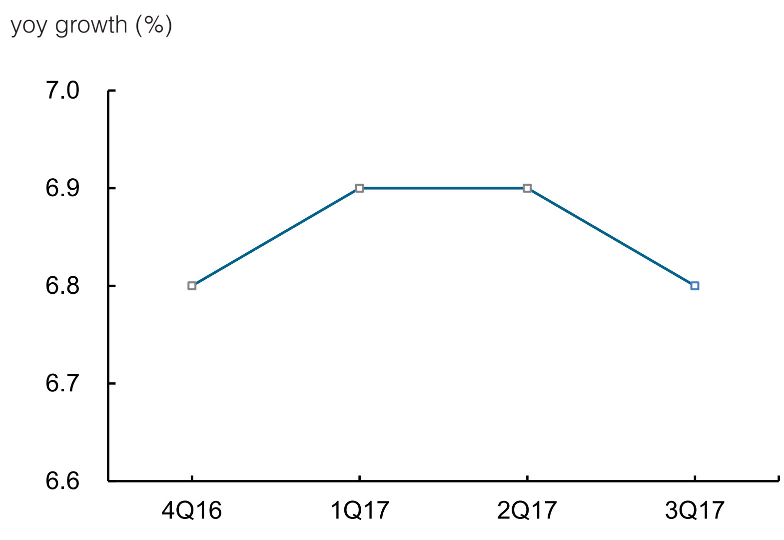
Among the industries, the secondary industry saw an acceleration in value-added in 1-3Q17, compared to 2016. The real growth rate for the value-added of the secondary industry quickened to 6.3% yoy in 1-3Q17 from 6.1% yoy in 2016. In comparison, the real growth rate for the value-added of the tertiary industry was 7.8% yoy in 1-3Q17, the same as in 2016.

In 1-3Q17, final consumption expenditure contributed 4.4 ppts to the real GDP growth, while gross capital formation contributed 2.2 ppts and net exports contributed 0.2 ppts in 1-3Q17. The figures show that China has been shifting towards a consumption-led economy.

Looking ahead, the Chinese government will continue its efforts to ensure the stability of the economy and the financial system. We predict that China's monetary policy will remain relatively tight, and the central bank will maintain stable liquidity conditions. Meanwhile, the central government will continue its active fiscal policy. Particularly noteworthy is that, on 27 September, the central government announced a series of measures to encourage financial institutions to increase their support to micro- and small enterprises, which have continued to face difficulty in getting finance and high financing costs. For example, the current value added tax (VAT) exemptions for financial institutions' interest income derived from loans to rural households will be expanded to cover loans to micro- and small enterprises, and individual industrial and commercial households between 1 December 2017 and 31 December 2019. In addition, commercial banks will receive a reduction in their reserve requirement ratios if their loans to micro- and small enterprises with a credit line below 5 million yuan, individual industrial and commercial households, rural households and startups reach a certain proportion; these banks will also receive support from the central bank via relending.

Looking ahead, China's economy is set to maintain stable growth in near future. We forecast that the real GDP growth will be 6.8% in 4Q17. Downside risks to the economic growth, in our view, come mainly from the negative impact of the ongoing property tightening measures, the relatively tight monetary policy, the strengthened regulation of the financial sector and a marked increase in prices of materials.

Exhibit 1 China's real GDP growth, 4Q16 to 3Q17



FY16	6.7%
4Q16	6.8%
1Q17	6.9%
2Q17	6.9%
3Q17	6.8%

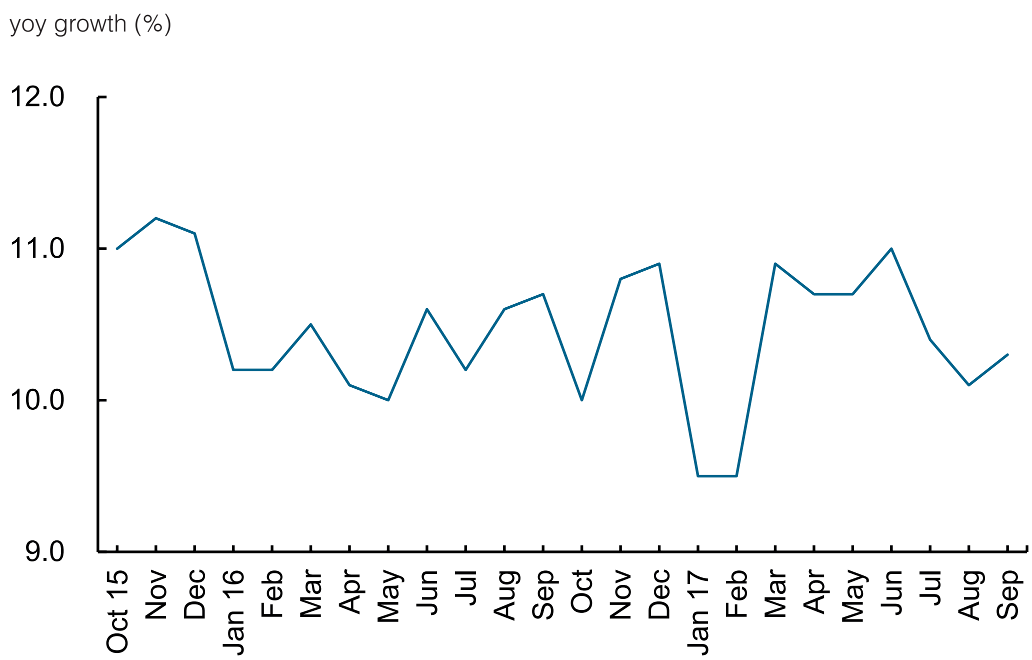
Source: National Bureau of Statistics, PRC

2. Growth in retail sales rebounds in September

According to the National Bureau of Statistics, the growth in China's total retail sales of consumer goods decelerated from 11.0% yoy in June to 10.4% yoy in July and 10.1% yoy in August, before rebounding to 10.3% yoy in September. The month-on-month (mom) growth in seasonally-adjusted retail sales also moderated from 0.89% in June to 0.73% in August, and then rose to 0.90% in September. These figures indicate a recent improvement in consumption demand. Overall, in 1-3Q17, the total retail sales of consumer goods reached 26,317.8 billion yuan. The growth rate was 10.4% yoy in 1-3Q17, the same as in 2016 *(see exhibits 2 and 3).*

China's online retail sales of goods increased by 29.1% yoy to reach 3,682.6 billion yuan in 1-3Q17. Consequently, the share of online retail sales in the total retail sales of consumer goods went up to 14.0% in 1-3Q17 from 12.6% in 2016, indicating that popularity of online shopping has been growing rapidly.

Exhibit 2 China's total retail sales, year-on-year nominal growth, October 2015 to September 2017



FY16	10.4%
Oct 16	10.0%
Nov	10.8%
Dec	10.9%
Jan-Feb 17	9.5%
Mar	10.9%
Apr	10.7%
May	10.7%
Jun	11.0%
Jul	10.4%
Aug	10.1%
Sep	10.3%

Source: National Bureau of Statistics, PRC

Exhibit 3 China's total retail sales, month-on-month nominal growth, April to September 2017

mom growth (%), seasonally adjusted

	Apr 17	May	Jun	Jul	Aug	Sep
Total retail sales	0.77	0.83	0.89	0.75	0.73	0.90

Source: National Bureau of Statistics, PRC

Rural retail sales have increased at a faster pace: the growth in rural retail sales accelerated to 12.1% yoy in 1-3Q17 from 10.9% yoy in 2016. In contrast, the growth in urban retail sales moderated to 10.1% yoy in 1-3Q17 from 10.4% yoy in 2016.

The growth in catering services sales came in at 11.0% yoy in 1-3Q17, up from 10.8% yoy in 2016. Meanwhile, the growth in sales of goods decelerated slightly from 10.4% yoy in 2016 to 10.3% yoy in 1-3Q17.

The growth rate for the retail sales of goods by enterprises above a designated size[1], which amounted to 11,071.7 billion yuan in 1-3Q17, accelerated modestly to 8.5% yoy in 1-3Q17 from 8.3% yoy in 2016. Among products, 'sports and entertainment products' saw the strongest growth in sales (17.4% yoy) in 1-3Q17, followed by 'furniture' (13.3% yoy). Meanwhile, 'automobiles' witnessed the weakest growth in sales (6.2% yoy), partly due to the upward adjustment in the purchase tax rate on passenger-vehicles with engines smaller than 1.6 litre on 1 January this year. Exhibit 5 demonstrates the growth in China's retail sales by product among enterprises above a designated size.

Exhibit 4 China's total retail sales, 2016 to 1-3Q17

Nominal growth, yoy (%)	FY16	1Q17	1H17	1-3Q17
Total retail sales	10.4	10.0	10.4	10.4
- Goods	10.4	9.9	10.3	10.3
Sales by enterprises above a designated size	8.3	7.9	8.8	8.5
Online sales	25.6	25.8	28.6	29.1
- Catering services	10.8	10.8	11.2	11.0

Source: National Bureau of Statistics, PRC

3. Confidence among Chinese consumers continues to increase

The consumer confidence index[2] has continued to rise in recent months, reaching 118.6 in September. The recent trend indicates that confidence among Chinese consumers has continued to increase *(see exhibit 6)*.

In our view, the improving consumer confidence was highly associated with the stable growth in household income amid the strong growth of the Chinese economy.

4. Both rural and urban households see high single-digit growth in income in 1-3Q17

Both rural and urban households continued to see high single-digit nominal growth in income in 1-3Q17. The per capita disposable income of rural households grew nominally by 8.7% yoy (or 7.5% yoy real) to reach 9,778 yuan; while the per capita disposable income of urban households rose by 8.3% yoy in nominal terms (or 6.6% yoy real) to reach 27,430 yuan in 1-3Q17.

With higher income, both rural and urban households had more room to increase their consumption expenditures in 1-3Q17. The per capita consumption expenditure of rural households reached 7,623 yuan, up nominally by 8.6% yoy (or 7.4% yoy real); while the per capita consumption expenditure of urban households grew by 6.2% yoy in nominal terms (or 4.5% yoy real) to reach 17,846 yuan in 1-3Q17.

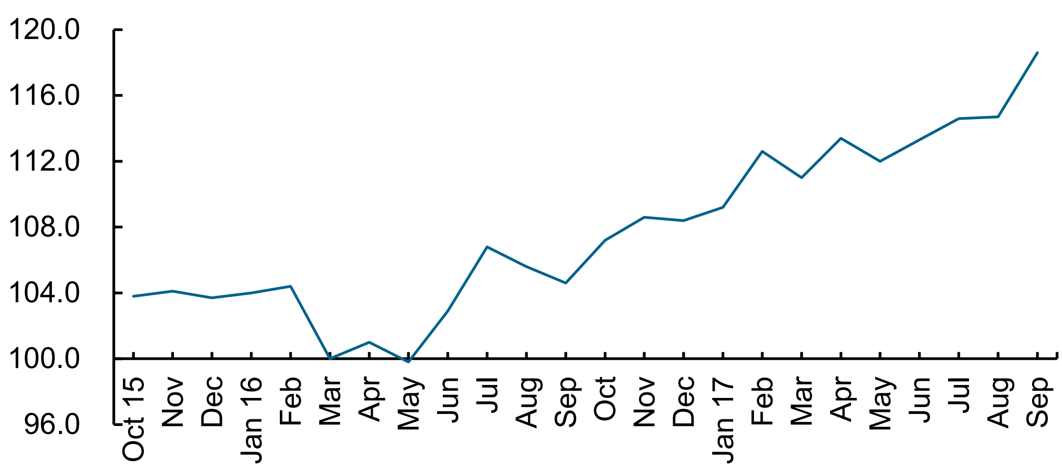
1 'Enterprises above a designated size' refers to enterprises with annual sales of 5 million yuan or more and with an employee strength of 60 or more.
2 A reading above 100 indicates that consumers tend to be optimistic; a reading below 100 indicates that consumers tend to be pessimistic.

Exhibit 5 China's retail sales by enterprises above a designated size, by product, 2016 to 1-3Q17

Nominal growth, yoy (%)	FY16	1Q17	1H17	1-3Q17
Grain, oil and food	10.9	10.4	11.5	10.6
Beverages	10.5	12.7	12.7	11.2
Tobacco and liquor	9.3	9.8	9.8	8.7
Clothing, shoes, hats and textiles	7.0	6.2	7.3	7.2
Cosmetics	8.3	9.9	11.3	12.1
Gold, silver and jewellery	0.0	7.9	7.9	6.9
Products for daily use	11.4	8.5	9.0	8.4
Sports and entertainment products	13.9	17.3	17.1	17.4
Home appliances and video equipment	8.7	8.0	10.4	10.1
Chinese and Western medicines	12.0	10.7	12.1	12.4
Stationery and office accessories	11.2	14.8	11.8	9.9
Furniture	12.7	12.6	13.4	13.3
Telecommunications equipment	11.9	11.0	10.1	9.3
Petroleum and related products	1.2	13.0	10.6	9.0
Automobiles	10.1	2.3	5.2	6.2
Building and decoration materials	14.0	14.8	13.9	12.6

Source: National Bureau of Statistics, PRC

Exhibit 6 China's consumer confidence index, October 2015 to September 2017



Oct 16	107.2
Nov	108.6
Dec	108.4
Jan 17	109.2
Feb	112.6
Mar	111.0
Apr	113.4
May	112.0
Jun	113.3
Jul	114.6
Aug	114.7
Sep	118.6

Source: National Bureau of Statistics, PRC

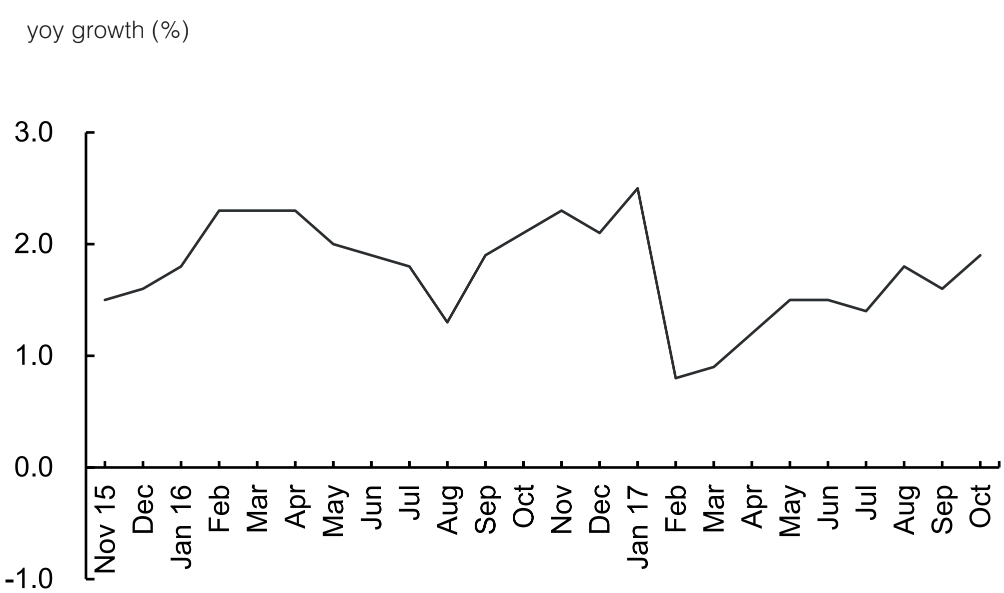
5. CPI growth trends upward

The year-on-year growth rate of China's consumer price index (CPI) has been trending up in recent months, going up to 1.9% yoy in October, the highest level since February this year.[3]

The rise in the CPI growth in October was mainly attributable to a slower decline in food prices. The year-on-year growth in the food component in the CPI improved from minus 1.4% in September to minus 0.4% in October. Meanwhile, the year-on-year growth in the non-food component stayed high at 2.4% yoy in October, the same as in September *(see exhibits 7 and 8)*.

Looking ahead, we expect the CPI growth to stay around current level in coming months, supported by strong domestic demand.

Exhibit 7 China's CPI growth, November 2015 to October 2017



Nov 16	2.3%
Dec	2.1%
Jan 17	2.5%
Feb	0.8%
Mar	0.9%
Apr	1.2%
May	1.5%
Jun	1.5%
Jul	1.4%
Aug	1.8%
Sep	1.6%
Oct	1.9%

Source: National Bureau of Statistics, PRC

3 The CPI, compiled by the National Bureau of Statistics (NBS) of China, measures the price of a basket of goods and services purchased by a typical household. It is noteworthy that the NBS has changed the weights assigned to the various components in the CPI basket, effective from January 2016. The weight of the food component, for example, has been reduced by 3.2 ppt; the weight of the housing component has been increased by 2.2 ppt; and the weights of other components have been adjusted by around or less than 1 ppt. The impact of the re-weighting on the CPI growth was limited, according to the NBS.

Exhibit 8 China's CPI growth by commodity, May to October 2017[4]

yoy growth (%)	May 17	Jun	Jul	Aug	Sep	Oct
Food, tobacco and liquor	-0.5	-0.2	-0.1	0.4	-0.4	0.3
Clothing	1.3	1.4	1.4	1.3	1.3	1.2
Housing	2.5	2.5	2.5	2.7	2.8	2.8
Household goods and services	1.0	1.1	1.1	1.3	1.4	1.5
Transportation and communication	1.1	0.1	-0.2	0.7	0.5	0.8
Education, culture and recreational activities	2.6	2.5	2.5	2.5	2.3	2.3
Medical and healthcare	5.9	5.7	5.5	5.9	7.6	7.2
Other goods and services	2.9	2.8	1.3	1.4	1.4	1.8

Source: National Bureau of Statistics, PRC

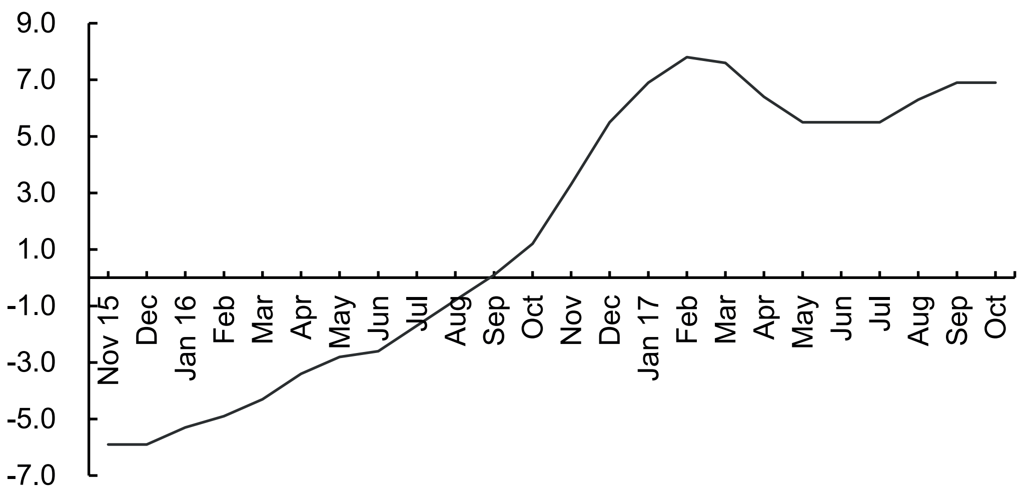
The year-on-year growth in China's producer price index of industrial products (PPI)[5] rose from 5.5% in June to 6.3% in August, and further reached 6.9% yoy in September and October *(see exhibits 9 & 10)*. On a month-on-month basis, the PPI gained 0.7% in October, rising for four consecutive months. The readings of the PPI in the past four months indicate that the ex-factory prices of industrial products trended upward again after a few months of correction and consolidation.

Looking ahead, the PPI growth is likely to stay high in the near future, due to strong domestic and export demand as well as the Chinese government's increased efforts to shut down polluting factories in recent months.

4 The NBS has re-categorized the categories in the CPI basket, effective from January 2016. For example, the old category of 'household goods and maintenance services' has been re-categorized into a new category called 'household goods and services' and the category of 'other goods and services'. The old category of 'recreational, educational products and services' has been re-categorized into a new category called 'education, culture and recreational activities' and the category of 'other goods and services'.

5 The PPI, compiled by the National Bureau of Statistics of China, measures the prices of industrial products when they are sold for the first time after production.

Exhibit 9 China's PPI growth, November 2015 to October 2017



Nov 16	3.3%
Dec	5.5%
Jan 17	6.9%
Feb	7.8%
Mar	7.6%
Apr	6.4%
May	5.5%
Jun	5.5%
Jul	5.5%
Aug	6.3%
Sep	6.9%
Oct	6.9%

Source: National Bureau of Statistics, PRC

Exhibit 10 China's PPI growth by selected industry, May to October 2017

yoy growth (%)	May 17	Jun	Jul	Aug	Sep	Oct
Textile	3.8	3.8	3.2	2.9	3.0	2.7
Textile wearing apparel and ornament	1.0	0.9	0.8	1.0	0.8	0.7
Processing of timbers, manufacture of wood, bamboo, rattan, palm, and straw products	0.5	0.4	-0.3	0.3	0.6	0.8

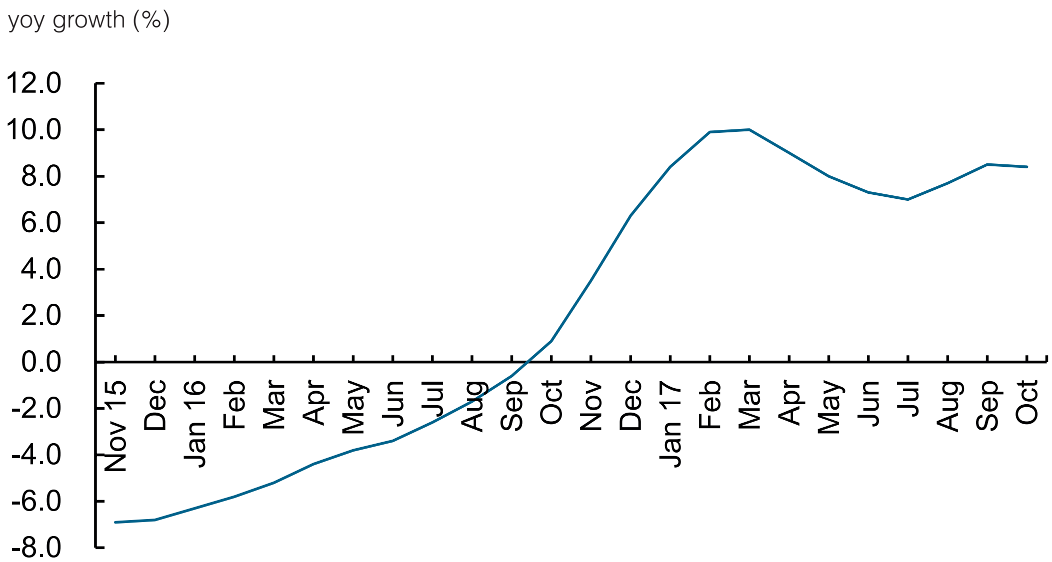
Source: National Bureau of Statistics, PRC

The year-on-year growth rate for the purchaser price index of industrial products, a major indicator of upstream prices, rebounded all the way from 7.0% yoy in July to 8.5% in September, and then stayed high at 8.4% yoy in October *(see exhibits 11 & 12)*.

On a month-on-month basis, the purchaser price index of industrial products gained 0.8%, 1.2% and 0.9% in August, September and October respectively, indicating a continuous rise in upstream prices.

The input prices sub-index of China's manufacturing PMI, a leading indicator of upstream prices, registered 63.4 in October. The index reading was well above the neutral level of 50, suggesting that domestic prices of production inputs are likely to rise at a fast pace in near term.

Exhibit 11 Growth in China's purchaser price index of industrial products, November 2015 to October 2017



Nov 16	3.5%
Dec	6.3%
Jan 17	8.4%
Feb	9.9%
Mar	10.0%
Apr	9.0%
May	8.0%
Jun	7.3%
Jul	7.0%
Aug	7.7%
Sep	8.5%
Oct	8.4%

Source: National Bureau of Statistics, PRC

Exhibit 12 China's purchaser price index of industrial products by selected commodity, May to October 2017

yoy growth (%)	May 17	Jun	Jul	Aug	Sep	Oct
Fuel and power	15.8	12.5	10.7	11.8	11.9	10.6
Non-ferrous metal materials and wires	13.9	14.1	13.2	15.3	18.6	19.5
Chemical raw materials	7.1	7.0	7.1	7.7	9.0	9.4
Wood and pulp	4.9	5.3	5.8	6.5	8.5	9.8
Textile raw materials	4.9	4.8	4.2	4.0	4.1	3.8

Source: National Bureau of Statistics, PRC

6. Growth in industrial production moderates in 3Q17

The growth rate for China's industrial production (IP), measured by value-added of industrial output (VAIO), decelerated from 7.6% yoy in June to 6.4% yoy in July and 6.0% yoy in August, but then rebounded to 6.6% yoy in September *(see exhibit 13)*.[6] Overall, in 1-3Q17, China's IP expanded by 6.7% yoy, lower than the 6.9% yoy growth recorded in 1H17, indicating a moderation in IP growth in 3Q17.

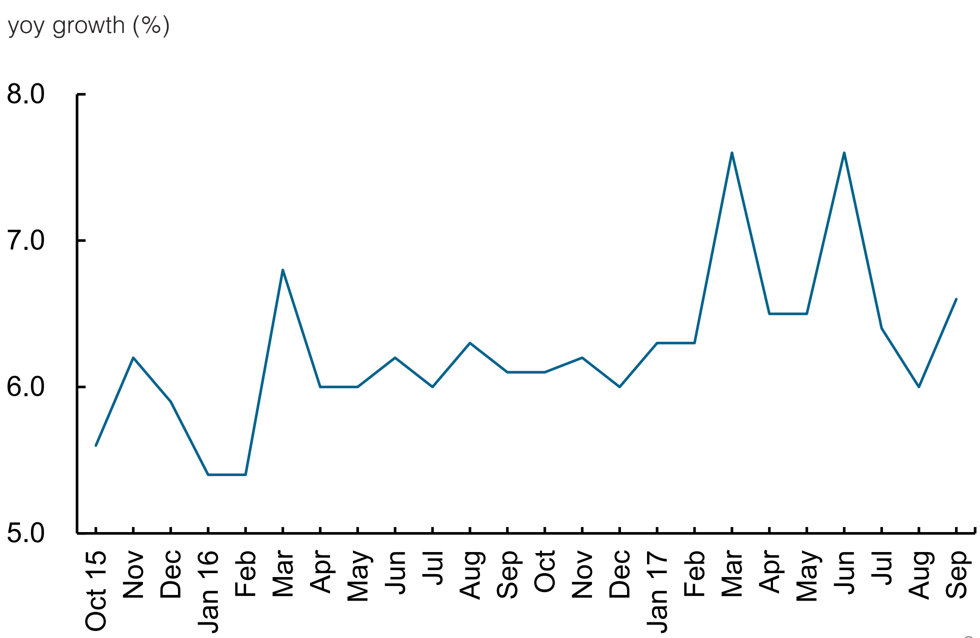
In our view, a major reason behind the deceleration in the IP growth in 3Q17 was that the government has intensified its efforts to enforce environmental regulations in recent months. According to the local media, many polluting factories in China have been ordered to shut down their operations recently.[7] That being said, we expect that China's industrial production will show relatively high growth of around 6.5-7.0% yoy in 4Q17, as domestic demand and export demand have remained strong lately.

7. Growth in industrial profits accelerates

The growth rate for the total profits earned by large and medium industrial enterprises above a designated size[8] accelerated from 16.5% yoy in July to 24.0% yoy in August, and further to 27.7% yoy in September, due largely to an increase in ex-factory prices of industrial products and a faster growth in revenue. In 1-3Q17, China's industrial profits totalled 5,584.6 billion yuan, up by 22.8% yoy *(see exhibit 14)*.

Among sectors, profits of the manufacturing sector increased by 19.6% yoy to 4,898.4 billion yuan in 1-3Q17; profits of the mining sector soared by 473.8% yoy to 3,692 billion yuan. In contrast, profits of the 'electricity, heat, gas and water' sector fell by 18.3% yoy to 317.0 billion yuan over the same period.

Exhibit 13 China's industrial production growth, October 2015 to September 2017



Oct 16	6.1%
Nov	6.2%
Dec	6.0%
Jan-Feb 17	6.3%
Mar	7.6%
Apr	6.5%
May	6.5%
Jun	7.6%
Jul	6.4%
Aug	6.0%
Sep	6.6%

Source: National Bureau of Statistics, PRC

6 The National Bureau of Statistics has changed the method of compiling the value added for industry (industrial production, IP), effective January 2011. The statistical threshold for industrial enterprises has been raised to cover those with annual revenues of 20 million yuan or above, up from the previous threshold of 5 million yuan or above.

7 https://hk.news.yahoo.com/十九大環保維穩-高污染企業紛關停-231132191.html

8 'Industrial enterprises above a designated size' refers to industrial enterprises with annual sales of 20 million yuan or more.

Exhibit 14 China's industrial profits growth, April to September 2017

yoy growth (%)	Apr 17	May	Jun	Jul	Aug	Sep
Total profits made by industrial enterprises above a designated size	14.0	16.7	19.1	16.5	24.0	27.7

Source: National Bureau of Statistics, PRC

8. Fixed asset investment growth decelerates in 1-3Q17

The growth in China's nominal fixed asset investment (FAI) (excluding rural households) decelerated to 7.5% yoy in 1-3Q17 from 8.1% yoy in 2016.[9] Overall, in 1-3Q17, China's nominal FAI (excluding rural households) amounted to 45.8 trillion yuan *(see exhibit 15)*.

The moderation in the overall FAI growth was attributable to the slowing growth of FAI in the secondary industry: the growth in FAI (excluding rural households) in the secondary industry dropped to 2.6% yoy in 1-3Q17 from 3.5% yoy in 2016. In contrast, the growth in FAI in infrastructure (excluding power, heat, gas and water infrastructure) accelerated to 19.8% yoy in 1-3Q17 from 17.4% yoy in 2016. Besides, the growth in FAI (excluding rural households) for real estate development rose to 8.1% yoy in 1-3Q17 from 6.9% yoy in 2016.

Going forward, we expect that China's overall FAI growth will further decelerate in the near term, as the ongoing property tightening measures is likely to drag down the growth in real estate investment and the Chinese government's efforts to reduce the financial leverage of enterprises and tackle the overcapacity problem are set to discourage investment in the secondary industry.

Exhibit 15 China's FAI (excluding rural households) growth, April to September 2017

	Apr 17	May	Jun	Jul	Aug	Sep
FAI (excluding rural households) *(year-to-date, yoy growth %)*	8.9	8.6	8.6	8.3	7.8	7.5
FAI (excluding rural households) *(mom growth %, seasonally adjusted)*	0.59	0.58	0.61	0.57	0.54	0.56

Source: National Bureau of Statistics, PRC

9 The National Bureau of Statistics has expanded coverage of the monthly statistics for FAI from the urban areas to rural enterprises and institutions, effective from 2011. Thus: 'FAI (excluding rural households)', the new indicator, has been released by the bureau as from March 2011 to replace 'urban FAI', the previous indicator. Also, a new statistical criterion has been adopted. The statistical threshold for the size of investment projects has been adjusted upwards from 500,000 yuan to 5 million yuan.

B Highlights

1. State Council publishes *'Guiding Opinions on Actively Promoting Supply Chain Innovation and Application'*

On 13 October, China's State Council published the '*Guiding Opinions on Actively Promoting Supply Chain Innovation and Application*'.[10] This important document outlines the development goals and the policy directions for the supply chains in major sectors in China.

Regarding the development goals, the State Council targets to establish smart supply chain systems covering major sectors in China; to nurture around one hundred leading enterprises in global supply chains; and to develop China into a major centre of global supply chain innovation and application by the end of 2020.

To achieve these goals, the government has formulated several policy directions such as promoting integrated development among primary, secondary and tertiary industries in rural areas; fostering the development of collaborative production and producer services and the application of technology in manufacturing sector; modernizing the distribution practices; actively developing supply chain finance in a prudent manner; advocating green supply chains and integrating with global supply chain networks.

2. China continues to provide strong loan support to the economy

The broad money supply has shown slow growth in recent months. As at the end of October, the growth of the broad money supply (M2) was 8.8% yoy, lower than the 9.4% yoy growth as at the end of June *(see exhibit 16)*. Meanwhile, the growth in total outstanding RMB loans improved slightly to 13.0% yoy as at the end of October, compared to the growth of 12.9% yoy as at the end of June. Overall, in July to October, the rise in the total outstanding RMB loans amounted to 3.85 trillion yuan, larger than the increase seen in the same period of the previous year (i.e. 3.28 trillion yuan). These figures indicate that banks in China continued to provide strong loan support to the economy in the past four months.

On 27 September, the central government announced a series of measures to encourage financial institutions to increase their support to micro- and small enterprises. One major measure is that commercial banks will receive a reduction in their reserve requirement ratios (RRRs) if their loans to micro- and small enterprises with a credit line below 5 million yuan, individual industrial and commercial households, rural households and startups reach a certain proportion. According to the People's Bank of China (PBoC), the RRRs adjustments, which will take place in 2018, do not represent a change in the stance of the monetary policy; instead, the purpose of the move is to improve loan structure; and going forward, China's central bank will continue its prudent and neutral monetary policy, in a bid to provide a sound monetary and financial environment that favours the stable growth of the economy and the implementation of the supply side structural reforms.[11]

10 http://big5.gov.cn/gate/big5/www.gov.cn/zhengce/content/2017-10/13/content_5231524.htm

11 http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/3393337/index.html

Exhibit 16 Broad money supply (M2) and RMB loans, November 2016 to October 2017

As of	Broad money supply (M2) Amount (trillion yuan)	Broad money supply (M2) yoy growth	Total outstanding RMB loans Amount (trillion yuan)	Total outstanding RMB loans yoy growth
End-Nov 16	153.0	11.4%	105.6	13.1%
End-Dec	155.0	11.3%	106.6	13.5%
End-Jan 17	157.6	11.3%	108.6	12.6%
End-Feb	158.3	11.1%	109.8	13.0%
End-Mar	160.0	10.6%	110.8	12.4%
End-Apr	159.6	10.5%	111.9	12.9%
End-May	160.1	9.6%	113.0	12.9%
End-Jun	163.1	9.4%	114.6	12.9%
End-Jul	162.9	9.2%	115.4	13.2%
End-Aug	164.5	8.9%	116.5	13.2%
End-Sep	165.6	9.2%	117.8	13.1%
End-Oct	165.3	8.8%	118.4	13.0%

	Increase in RMB loans (trillion yuan)
FY16	12.65
Jan-Oct 17	11.82
Nov 16	0.79
Dec	1.04
Jan 17	2.03
Feb	1.17
Mar	1.02
Apr	1.10
May	1.11
Jun	1.54
Jul	0.83
Aug	1.09
Sep	1.27
Oct	0.66

Source: People's Bank of China

3. 'Total social financing' increases strongly by 16.7 trillion yuan in January to October

The increase in 'total social financing' (covering sources of financing such as RMB loans to the real sector, foreign currency loans to the real sector, trust loans, entrusted loans, bank acceptance bills, corporate bonds, equity issuance and other instruments) amounted to 16.7 trillion yuan in January to October 2017, larger than the increase seen in the same period of the previous year (i.e. 14.4 trillion yuan) *(see exhibit 17)*.

Shadow banking activities have shown signs of cooling since 2Q17. Bank acceptance bills contributed 2.8% of the increase in 'total social financing' in January to October 2017, compared to a 9.8% share in 1Q17. Meanwhile, entrusted loans contributed 4.1% of the increase in 'total social financing' in January to October 2017, compared to the share of 9.2% in 1Q17.

Exhibit 17 Increase in total social financing, 2016 to January-October 2017

	2016 Amount (billion yuan)	2016 Share (%)	Jan-Oct 17 Amount (billion yuan)	Jan-Oct 17 Share (%)
Total social financing	17,800	100.0	16,710.0	100.0
RMB loans to the real sector	12,440	69.9	12,123.5	72.6
Foreign currency loans to the real sector	-564	-3.2	-34.9	-0.2
Trust loans	859	4.8	1,891.9	11.3
Entrusted loans	2,190	12.3	688.8	4.1
Bank acceptance bills	-1,950	-11.0	467.1	2.8
Corporate bonds	3,000	16.9	309.1	1.8
Equity issuance	1,240	7.0	701.1	4.2

Source: People's Bank of China

C Outlook

1. China's Entrepreneur Confidence Index stays high in 3Q17

China's Entrepreneur Confidence Index (ECI) for the secondary industry came in at 127.3 in 3Q17, the same as in 2Q17. The high index reading in 3Q17 indicates the strong confidence among Chinese entrepreneurs in the secondary industry *(see exhibit 18)*.[12]

By sector, the ECI for the 'mining' sector recorded a quarter-on-quarter rise, up by 4.1 pts in 3Q17. In contrast, the ECIs for the 'electricity, gas and water' and the 'manufacturing' sectors dropped by 1.6 pts and 0.1 pts respectively in the same quarter *(see exhibit 19)*.

2. October PMI indicates growth moderation of the manufacturing sector

After rising from 51.7 in August to its recent peak of 52.4 in September, China's manufacturing PMI dropped to 51.6 in October. The latest reading indicates a growth moderation of the manufacturing sector in China *(see exhibit 20)*.

The new orders index rose from 53.1 in August to 54.8 in September, before going down to 52.9 in October.[13] Meanwhile, the new export orders index showed a similar trend: it advanced from 50.4 in August to 51.3 in September, but then dropped to 50.1 in October. These figures show that the growth of both domestic and export orders has slowed down recently.

Amid the decelerating growth in new orders, the output index, a leading indicator of output of manufacturers in China, dropped from 54.7 in September to 53.4 in October, the lowest level since June this year. The fall in the index suggests that China's industrial production (VAIO) growth will moderate in near future.

The purchases of inputs index went down from 53.8 in September to 53.2 in October, showing that manufacturers have slowed their purchasing activities lately.

The stocks of major inputs index fluctuated within the narrow range of 48.3 to 48.9 throughout August to October. The index stayed below the critical 50-mark in the past three months, indicating a continuous fall in the stocks of major inputs. In the meantime, the stocks of finished goods index rebounded to 46.1 in October, after having fallen for five consecutive months. The October reading shows that the stocks of finished goods held by manufacturers have dropped at a slower pace recently.

The input prices index stayed high at 65.3, 68.4 and 63.4 in August, September and October respectively, showing that the prices of production inputs have risen at a fast pace recently. This has in turn put upward pressure on the ex-factory prices of finished products: the ex-factory prices index was 57.4, 59.4 and 55.2 in August, September and October respectively, well above 50.

The business expectations index remained high at 57.0 in October, indicating that purchasing managers have remained optimistic about the near term outlook for their respective industries recently.

12 China's Entrepreneur Confidence Index (ECI) ranges from 0 to 200. A reading above 100 indicates that entrepreneurs tend to be optimistic; a reading below 100 indicates that they tend to be pessimistic.

13 The 'new orders index' covers both domestic and export orders. That is to say, the manufacturers are not asked to differentiate between domestic and export orders when filling in questionnaires.

Exhibit 18 China's Entrepreneur Confidence Index (Secondary Industry), 4Q15 to 3Q17

	4Q15	1Q16	2Q16	3Q16	4Q16	1Q17	2Q17	3Q17
Entrepreneur Confidence Index (Secondary Industry)	108.9	108.7	109.3	113.4	115.4	129.2	127.3	127.3

Source: National Bureau of Statistics, PRC

Exhibit 19 Entrepreneur Confidence Index by sector, 2Q17 and 3Q17

	2Q17	3Q17	Compared with the previous quarter
Secondary industry	127.3	127.3	Same
Mining	109.0	113.1	Higher
Manufacturing	128.1	128.0	Lower
Electricity, gas & water	130.2	128.6	Lower

Source: National Bureau of Statistics, PRC

Exhibit 20 China's manufacturing PMI at a glance, October 2017

Index	Seasonally Adjusted Index	Index Compared with the Previous Month	Direction
PMI	51.6	Lower	Expanding
Output	53.4	Lower	Expanding
New Orders	52.9	Lower	Expanding
New Export Orders	50.1	Lower	Expanding
Backlogs of Orders	45.6	Lower	Contracting
Stocks of Finished Goods	46.1	Higher	Contracting
Purchases of Inputs	53.2	Lower	Expanding
Imports	50.3	Lower	Expanding
Input Prices	63.4	Lower	Rising
Stocks of Major Inputs	55.2	Lower	Rising
Ex-factory Prices	48.6	Lower	Contracting
Employment	49.0	Unchanged	Contracting
Suppliers' Delivery Time	48.7	Lower	Slowing
Business Expectations	57.0	Lower	Optimistic

Source: China Federation of Logistics & Purchasing; National Bureau of Statistics, PRC

3. Non-manufacturing sector expands at a relatively fast pace

China's Business Activity Index, which is quoted as the Non-manufacturing Purchasing Managers' Index (NMI), has fluctuated around high levels in recent months. The index registered 53.4, 55.4 and 54.3 in August, September and October, respectively, indicating that the non-manufacturing sector has expanded at a relatively fast pace recently *(see exhibit 21)*.

The new orders index rose from 50.9 in August to 52.3 in September, before moderating to 51.1 in October, indicating a fluctuation in demand for services.

The input prices have increased at a fast pace lately: the input prices index stayed high, registering 54.4, 56.1 and 54.3 in August, September and October respectively. Against this backdrop, enterprises managed to partly pass through the higher costs to their clients by increasing service charges: the sales prices index recorded 51.5, 51.7 and 51.6 in August, September and October respectively, staying above the critical 50-mark.

The business expectation index came in at 60.6 in October, well above 50, suggesting that purchasing managers in the non-manufacturing sector have remained optimistic about the near term outlook for their respective industries.

Exhibit 21 China's non-manufacturing purchasing managers' index (NMI) at a glance, October 2017

Index	Seasonally Adjusted Index	Index Compared with the Previous Month	Direction
Business activity	54.3	Lower	Expanding
New orders	51.1	Lower	Expanding
Input prices	54.3	Lower	Rising
Sales prices	51.6	Lower	Rising
Business expectations	60.6	Lower	Optimistic

Source: China Federation of Logistics & Purchasing; National Bureau of Statistics, PRC

Snapshot: 19th National Congress of the Communist Party of China

The 19th National Congress of the Communist Party of China (CPC) was held on 18-24 October 2017 in Beijing. During the Party Congress, the General Secretary of the CPC Xi Jinping delivered a report to the Congress on behalf of the 18th CPC Central Committee, setting the tone for the long term development of the country.[14] It is noteworthy that the *'Thoughts on Socialism with Chinese Characteristics for a New Era'*, which attach high importance to a more balanced and a more adequate development in China and a better life for the people, are elaborated in the report.

The 19th CPC National Congress endorsed a number of amendments to the Party Constitution. One of the major amendments is to incorporate the *'Xi Jinping's Thoughts on Socialism with Chinese Characteristics for a New Era'* into the CPC guiding ideology, along with Marxism-Leninism, the Mao Zedong Thought, the Deng Xiaoping Theory, Jiang Zemin's *'Three Represents'* and Hu Jintao's *'Scientific Outlook on Development'*.

The transition of the CPC's top leadership took place on 25 October, the second day after the closing of the Party Congress, when the newly elected CPC Central Committee held its First Plenary Session. The CPC leaders for the next five years were elected in the Plenary Session, including the General Secretary and seven members of the Standing Committee of the Political Bureau. Xi Jinping was reelected to the position of the General Secretary of the Party for another five years until 2022. He was also elected to the position of the members of the Standing Committee of the Political Bureau, together with Li Keqiang, Li Zhanshu, Wang Yang, Wang Huning, Zhao Leji and Han Zheng.

14 http://news.xinhuanet.com/english/special/2017-11/03/c_136725942.htm

A Recent developments

1. Both exports and imports maintain positive year-on-year growth in October

China's exports rose by 6.6% yoy in 3Q17, posting positive year-on-year growth for three consecutive quarters *(see exhibits 22, 23 and 24)*. In our view, the continuous growth in exports in recent quarters was highly associated with the ongoing recovery in the global economy. Overall, in 1-3Q17, China's exports amounted to US$ 1,632.5 billion, up by 7.5% yoy.

Among China's major trading partners, China's exports to the US registered a relatively strong growth in 1-3Q17. China's exports to the US gained 11.5% yoy in 1-3Q17. Meanwhile, China's exports to the EU, Japan and the ASEAN expanded by 8.8% yoy, 4.7% yoy and 8.3% yoy respectively over the same period. China's exports to some commodity-exporting emerging countries posted double-digit growth in 1-3Q17: exports to Brazil, Russia and India increased by 34.3% yoy, 17.0% yoy and 16.5% yoy respectively in 1-3Q17.

The growth rate for China's imports stayed high at 14.5% yoy in 3Q17, compared to 14.4% yoy in 2Q17. The strong import growth figure shows that the domestic demand for imported goods have remained robust. Overall, in 1-3Q17, China's imports totalled US$ 1,336.9 billion, up by 17.3% yoy.

In 3Q17, China's exports increased by US$ 25.8 billion from the previous quarter, while imports rose at a faster pace, by US$ 29.5 billion. Consequently, China's trade surplus dropped slightly to US$ 114.9 billion in 3Q17 from US$ 118.6 billion in 2Q17.

In October, China's exports and imports maintained the pace of growth: China's exports gained 6.9% yoy, while China's imports increased by 17.2% yoy in the month.

Exhibit 22 China's quarterly foreign trade data, 4Q16 to 3Q17

USD billion (yoy growth)

	Exports		Imports		Trade Balance
FY16	2,097.4	(-7.7%)	1,587.5	(-5.5%)	510.0
4Q16	579.5	(-5.3%)	448.6	(2.7%)	130.9
1Q17	480.0	(7.6%)	417.8	(24.2%)	62.2
2Q17	563.4	(8.6%)	444.8	(14.4%)	118.6
3Q17	589.2	(6.6%)	474.3	(14.5%)	114.9

Source: China Customs

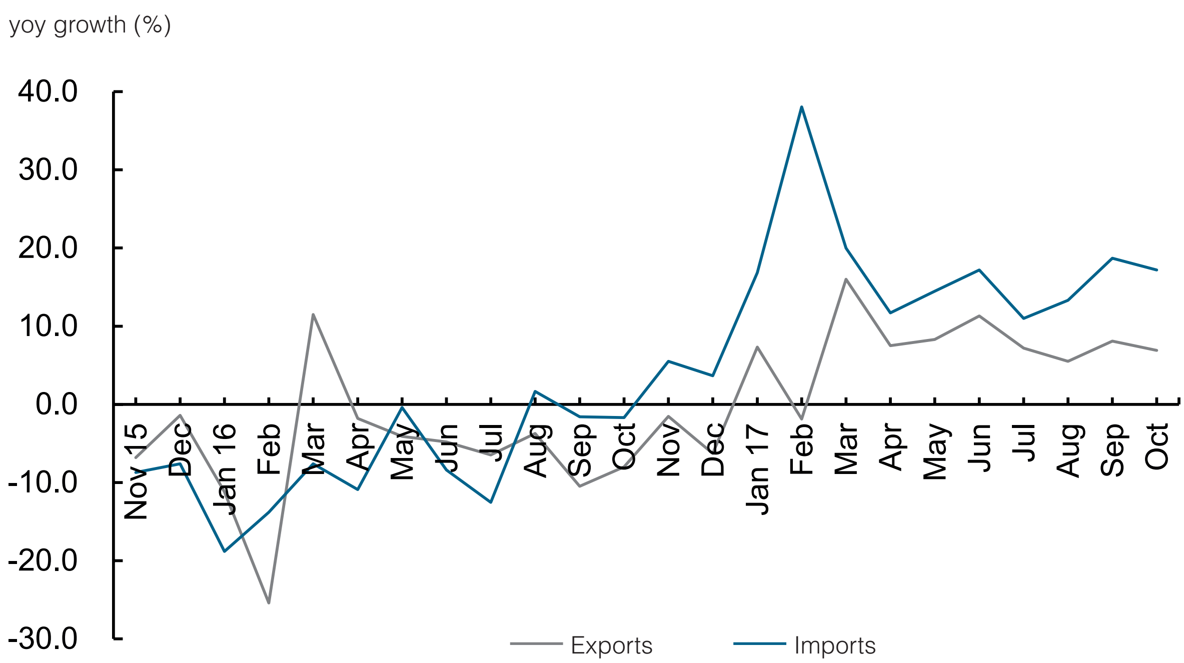
Exhibit 23 China's monthly foreign trade data, November 2016 to October 2017

USD billion (yoy growth)

	Exports		Imports		Trade Balance
November 2016	193.6	(-1.5%)	150.5	(5.5%)	43.1
December	209.1	(-6.3%)	169.5	(3.6%)	39.6
January 2017	181.6	(7.2%)	131.9	(17.2%)	49.7
February	119.1	(-2.1%)	129.5	(38.4%)	-10.4
March	179.3	(15.6%)	156.4	(20.1%)	22.9
April	178.2	(6.9%)	141.5	(11.6%)	36.7
May	189.6	(7.9%)	149.5	(14.2%)	40.1
June	195.6	(10.8%)	153.8	(17.2%)	41.8
July	192.4	(6.5%)	147.0	(11.1%)	45.4
August	198.6	(5.1%)	157.5	(13.5%)	41.0
September	198.3	(8.1%)	169.8	(18.7%)	28.5
October	189.0	(6.9%)	150.8	(17.2%)	38.2

Source: China Customs

Exhibit 24 Growth rates of exports and imports, November 2015 to October 2017



Source: China Customs

Exhibit 25 Exports by category, 2016 and 1-3Q17

yoy growth (%) of export value, calculated in USD	2016	1-3Q17
Textile materials and products	-4.1	2.9
Garments and clothing accessories	-9.6	-0.4
Footwear	-12.1	4.9
Toys	17.4	43.3
Coal	39.8	88.3
Crude oil	-39.0	104.6
Refined oil	1.5	32.4
Steel	-13.4	0.2
Mechanical and electrical products	-7.7	8.2

Source: China Customs

Exhibit 26 Imports by category, 2016 and 1-3Q17

yoy growth (%) of import value, calculated in USD	2016	1-3Q17
Cereal and cereal flour	-39.3	7.6
Soybean	-2.3	21.3
Iron ore	0.5	41.9
Crude oil	-13.3	42.9
Refined oil	-21.8	27.1
Steel	-8.2	14.0
Textile yarns, fabric and textile products	-12.2	3.7
Vehicles and vehicle chassis	-0.5	14.8

Source: China Customs

2. Growth rate for general trade exports accelerates, while growth for processing trade exports decelerates in 3Q17

The year-on-year growth rate for the general trade[15] exports accelerated, while that for the processing trade[16] exports moderated in 3Q17. The growth in general trade exports improved to 6.9% yoy in 3Q17 from 3.8% yoy in 2Q17. In contrast, the growth in processing trade exports fell to 3.5% yoy in 3Q17 from 7.1% yoy in 2Q17 *(see exhibit 27)*.

On the import side, the growth in general trade imports softened to 16.7% yoy in 3Q17 from 17.5% yoy in 2Q17. Meanwhile, the growth rate for processing trade imports dropped to 8.7% yoy in 3Q17 from 11.4% yoy in 2Q17.

The share of processing trade in China's total trade stayed low at 29.0% in 3Q17. That being said, with a large surplus of US$ 79.7 billion in 3Q17, processing trade still plays an important role in China's foreign trade.

15 'General trade' refers to China's import or export of goods by enterprises holding import-export rights. According to China's National Bureau of Statistics, the scope of general trade covers: Imports and exports using loans or aids; the import of materials by foreign invested enterprises (FIEs) for processing of goods for sale in the domestic market; the export of goods purchased by FIEs or manufactured by processing domestically-produced materials; the import of food and beverages by restaurants and hotels; the supply of domestically-produced fuels, materials, parts and components to foreign vessels or aircraft; the import of goods as payment in kind, in lieu of wages in labour service cooperation projects with foreign countries; and the export of equipment and materials by enterprises in China for their investment abroad.

16 'Processing trade' refers to the business of importing all or part of the raw and auxiliary materials, parts and components, accessories and packaging materials from abroad, and re-exporting the finished products after processing or assembly by enterprises within the Chinese Mainland.

Exhibit 27 China foreign trade (general and processing trades), 2016 to 3Q17

Item	yoy growth (%)			Share (%)		
	FY16	2Q17	3Q17	FY16	2Q17	3Q17
Exports Of which:	-7.7	8.6	6.6	100.0	100.0	100.0
General Trade	-7.0	3.8	6.9	53.8	55.4	55.3
Processing Trade	-10.3	7.1	3.5	34.1	31.8	32.9
Imports Of which:	-5.5	14.4	14.5	100.0	100.0	100.0
General Trade	-2.5	17.5	16.7	56.6	59.6	57.9
Processing Trade	-11.3	11.4	8.7	25.0	22.9	24.1
Total of Imports and Exports Of which:	-6.8	11.0	10.0	100.0	100.0	100.0
General Trade	-5.1	9.7	11.2	55.0	57.3	56.5
Processing Trade	-10.6	8.6	5.4	30.2	27.9	29.0

Source: China Customs

3. China's exports to the US show double-digit growth in 1-3Q17

The EU was still China's largest trading partner, accounting for 15.2% of China's total foreign trade in 1-3Q17. Sino-EU trade amounted to US$ 450.5 billion, up by 11.8% yoy in 1-3Q17. Specifically, China's exports to the EU gained 8.8% yoy in 1-3Q17, compared to the negative growth of 4.7% yoy in 2016; and China's imports from the EU grew by 16.6% yoy in 1-3Q17, compared to the 0.4% yoy drop in 2016 *(see exhibits 28 and 29)*.

Accounting for 14.2% of China's total foreign trade, the US continued to be China's second largest trading partner in 1-3Q17. Sino-US trade expanded by 13.7% yoy to US$ 422.6 billion in 1-3Q17. China's export growth to the US turned positive in 1-3Q17: after dropping by 5.9% yoy in 2016, China's exports to the US grew by 11.5% yoy in 1-3Q17. Meanwhile, China's imports from the US recorded strong growth of 19.8% yoy in 1-3Q17, compared to the 9.1% yoy decline in 2016.

The Association of South East Asian Nations (ASEAN) accounted for 12.3% of China's total foreign trade in 1-3Q17. Sino-ASEAN trade grew by 14.2% yoy to US$ 366.0 billion in 1-3Q17. Of which, China's exports to ASEAN rose by 8.3% yoy, while China's imports from ASEAN soared by 22.1% yoy, in 1-3Q17.

Sino-Japanese trade increased by 10.1% yoy to US$ 220.1 billion in 1-3Q17. China's exports to Japan gained 4.7% yoy, while China's imports from Japan expanded by 15.0% yoy in 1-3Q17.

4. China's imports from Russia, India and Brazil increase remarkably in 1-3Q17

China's export growth to Russia accelerated to 17.0% yoy in 1-3Q17 from 7.3% yoy in 2016, driven by the recovery in Russia's economy. Meanwhile, China's import growth from Russia improved to 28.5% yoy in 1-3Q17 from minus 3.1% yoy in 2016 *(see exhibits 28 and 29)*. Consequently, the growth in China's trade with Russia picked up to 22.4% yoy in 1-3Q17 from 2.2% yoy in 2016.

China's export growth to India rose to 16.5% yoy in 1-3Q17 from 0.2% yoy in 2016. In the meantime, China's import growth from India accelerated rapidly to 41.0% yoy in 1-3Q17 from minus 12.0% yoy in 2016. Overall, the growth of Sino-Indian trade improved to 20.5% yoy in 1-3Q17 from minus 2.1% yoy in 2016.

With Brazil's economy showing strong improvement, the growth in China's exports to Brazil rose to 34.3% yoy in 1-3Q17, compared to the 19.9% yoy drop in 2016. Meanwhile, the growth in China's imports from Brazil quickened to 25.9% yoy in 1-3Q17 from 3.7% yoy in 2016. Consequently, the growth in Sino-Brazilian trade accelerated to 28.4% yoy in 1-3Q17.

Together, these three BRIC members accounted for 6.3% of China's total exports and 6.5% of China's total imports in 1-3Q17, up from 5.6% and 5.7%, respectively, in 2016.

Exhibit 28 China's trading partners, 1-3Q17

Country/ Region	Trade value (USD billion)	Share of total trade (%)	Export value (USD billion)	Import value (USD billion)	yoy growth (%)		
					Total trade	Exports	Imports
EU	450.5	15.2	270.7	179.9	11.8	8.8	16.6
US	422.6	14.2	309.1	113.5	13.7	11.5	19.8
ASEAN	366.0	12.3	199.1	166.9	14.2	8.3	22.1
Japan	220.1	7.4	99.3	120.7	10.1	4.7	15.0
Brazil	66.5	2.2	21.0	45.5	28.4	34.3	25.9
Russia	61.4	2.1	31.4	30.0	22.4	17.0	28.5
India	62.5	2.1	50.6	11.9	20.5	16.5	41.0

Source: China Customs

Exhibit 29 China's trading partners, comparing growth rates for 2016 and 1-3Q17

yoy growth (%)

Country/Region	Total Trade		Exports		Imports	
	2016	1-3Q17	2016	1-3Q17	2016	1-3Q17
EU	-3.1	11.8	-4.7	8.8	-0.4	16.6
US	-6.7	13.7	-5.9	11.5	-9.1	19.8
ASEAN	-4.2	14.2	-7.8	8.3	0.9	22.1
Japan	-1.3	10.1	-4.7	4.7	1.9	15.0
Brazil	-5.3	28.4	-19.9	34.3	3.7	25.9
Russia	2.2	22.4	7.3	17.0	-3.1	28.5
India	-2.1	20.5	0.2	16.5	-12.0	41.0

Source: China Customs

5. Shaanxi witnesses the fastest growth in exports in 1-3Q17

China's top six provinces and municipalities in terms of value of exports – Guangdong, Jiangsu, Shanghai, Zhejiang, Shandong and Fujian – jointly accounted for 78.4% of China's total exports in 1-3Q17, down from 79.0% in 2016 *(see exhibit 30)*. Guangdong, which accounted for the largest share of China's exports in 1-3Q17, registered year-on-year growth of 5.1% in 1-3Q17, lower than the country's total export growth (7.5% yoy).

Among 31 provinces/ municipalities in China, Shaanxi witnessed the fastest year-on-year growth in exports in 1-3Q17, followed by Sichuan and Guizhou. Exports from Shaanxi, Sichuan and Guizhou soared by 48.6% yoy, 33.4% yoy and 31.2% yoy respectively over the period.

Exhibit 30 Top six provinces and municipalities in terms of value of exports, 1-3Q17

Provinces/ Municipalities	Value of exports (USD billion)	yoy growth (%)	Share of total exports (%)
Guangdong	486.9	5.1	29.8
Jiangsu	270.6	11.0	16.6
Zhejiang	213.6	5.3	13.1
Shanghai	126.8	5.0	7.8
Shandong	114.4	7.3	7.0
Fujian	67.6	4.8	4.1

Source: China Customs

6. China's FDI gains 1.6% yoy in 1-3Q17

China's foreign direct investment (FDI) in Renminbi terms gained 17.3% yoy in September, recording positive year-on-year growth in three of the past four months. Overall, in 1-3Q17, China's FDI amounted to 618.6 billion yuan, up slightly by 1.6% yoy *(see exhibit 31).*

FDI in the service sector came in at 428.2 billion yuan, accounting for 69.2% of the total FDI in 1-3Q17. Among the industries in the service sector, FDI in the 'construction industry' and the 'information transmission and computer services and software industry' posted rapid growth of 41.2% yoy and 23.1% yoy respectively in 1-3Q17, indicating the optimism about these industries among foreign enterprises.

FDI in the manufacturing sector recorded positive year-on-year growth of 7.5% yoy, accounting for 29.4% of the total FDI in 1-3Q17. Among industries in the manufacturing sector, FDI in the 'chemical raw material and chemical product industry' and the 'pharmaceutical industry' grew at a relatively fast pace, by 48.6% yoy and 40.6%% respectively, over the same period.

Exhibit 31 China's FDI, October 2016 to September 2017

	Amount (billion yuan)	yoy growth
FY16	813.2	4.1%
1-3Q17	618.6	1.6%
October 16	57.3	4.7%
November	65.5	0.9%
December	81.4	5.7%
January 17	80.1	-9.2%
February	58.6	9.2%
March	87.8	6.7%
April	59.9	-4.3%
May	54.7	-3.7%
June	100.5	2.3%
July	43.9	-11.8%
August	62.5	9.1%
September	70.6	17.3%

Source: Ministry of Commerce, PRC

7. China's foreign exchange reserves increase further in 3Q17

China's foreign exchange reserves increased by US$ 51.7 billion in 3Q17, rising for two consecutive quarters. As at the end of September, the foreign exchange reserves amounted to US$ 3,108.5 billion *(see exhibit 32)*.

The rise in the foreign exchange reserves in 3Q17 was due largely to a higher US-dollar value of non-US-dollar denominated assets in the foreign exchange reserves amid the appreciation of the non-dollar currencies and the rise in asset prices in the global financial markets, and the stabilization in cross-border flows of funds.[17]

Nevertheless, as the US dollar index has trended upward recently, we expect the US-dollar value of non-US-dollar denominated assets in the foreign exchange reserves to peak soon, thereby putting downward pressure on the US-dollar value of China's foreign exchange reserves.

Exhibit 32 Foreign exchange reserves by quarter, 4Q16 to 3Q17

USD billion	Accumulation	End of the quarter
FY16	-319.8	
4Q16	-155.9	3,010.5
1Q17	-1.4	3,009.1
2Q17	47.7	3,056.8
3Q17	51.7	3,108.5

Source: State Administration of Foreign Exchange, PRC

17 According to the Bloomberg, the US dollar index was 93.076 on 29 September, compared to 95.628 on 30 June.

B Highlights

1. Chinese yuan depreciates against the US dollar

The Chinese yuan has depreciated against the US dollar in recent months. The daily fixing rate (also known as the central parity rate) of the Chinese yuan against the US dollar came in at 6.6399 on 14 November, depreciating from 6.4997 on 11 September *(see exhibit 33)*.[18] In line with the trend of the daily fixing rate, the USD-CNY spot exchange rate has weakened lately.[19] However, due to the sharp appreciation of the Chinese yuan against the US dollar in late May to early September, the USD-CNY spot exchange rate has still managed to appreciate by 4.61% so far this year *(as of 14 November)*.

The recent depreciation of the Chinese yuan against the US dollar was highly associated with the appreciation of the US dollar against most of the major currencies. According to Bloomberg, the US dollar index rose from its recent low of 91.352 on 8 September to 93.827 on 14 November, indicating an appreciation of the US dollar against a basket of currencies consisting of the Euro, Japanese yen, British pound, Canadian dollar, Swedish krona and Swiss franc.

Since early August, the Chinese yuan has appreciated against the Euro. The daily fixing rate of the Chinese yuan against the Euro strengthened from 7.9773 on 4 August to 7.7447 on 14 November *(see exhibit 34)*. Nevertheless, so far this year, the daily fixing rate of the Chinese yuan against the Euro has depreciated by 5.65% *(as of 14 November)*.

According to the Bank for International Settlements, the real effective exchange rate (REER) of the yuan has trended upward in recent months.[20] The index went up all the way from 118.50 in May to 121.19 in September. Overall, in 1-3Q17, the Chinese yuan depreciated in real terms against its trading partners by 1.3% *(see exhibit 35)*.

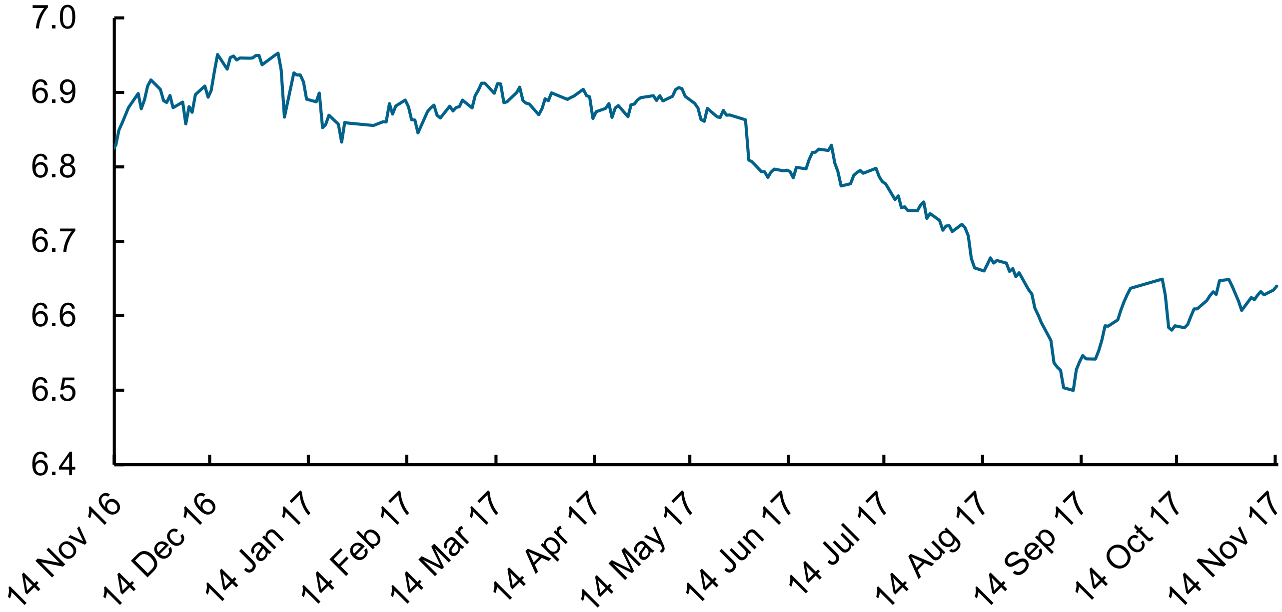
Looking ahead, we predict that the exchange rate of the Chinese yuan against the US dollar will fluctuate around the current level in the near term. The recent strengthening of the US dollar against major currencies is set to put depreciation pressure on the exchange rate of the Chinese yuan against the US dollar. On the other hand, China's big trade surplus and the strong growth of the Chinese economy are likely to provide support to the yuan exchange rate.

18 According to the PBOC, the daily fixing rate (also known as the central parity rate) of the Chinese yuan against the US dollar is directly formed by market makers based on the closing rate of the previous day, the supply-demand conditions in the market and the movements of major international currencies.

19 The daily trading band of the Chinese yuan against the US dollar is ±2.0% around the daily fixing rate.

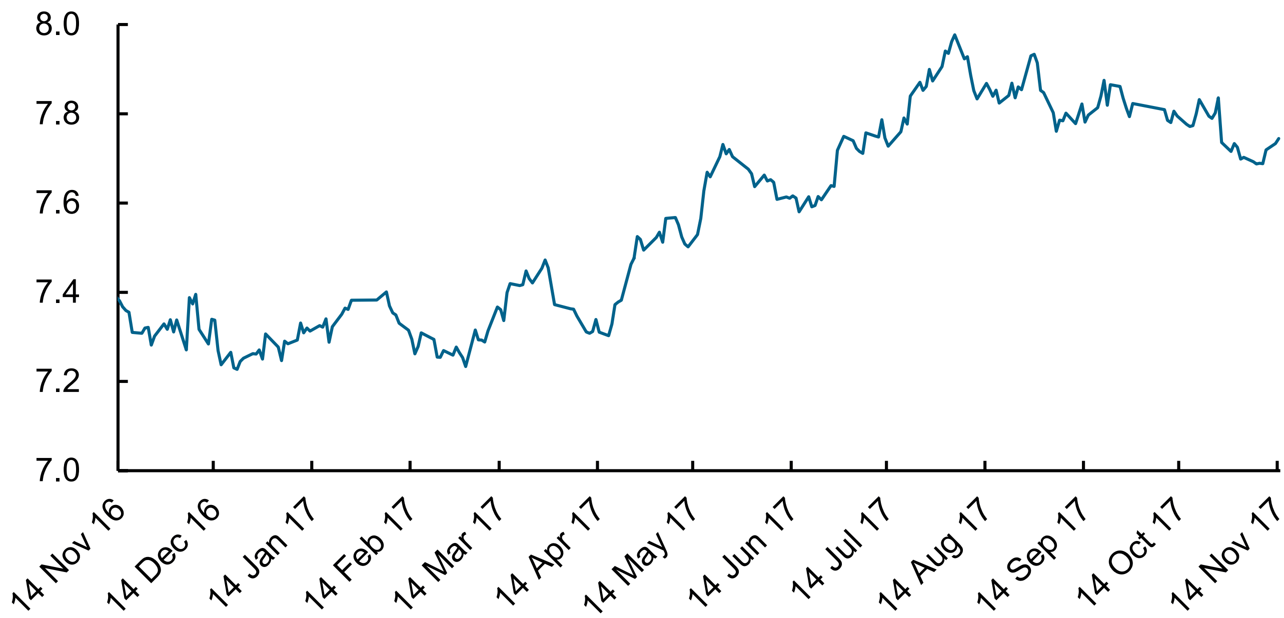
20 The Bank for International Settlements (BIS) calculates effective exchange rate (EER) indices for a total of 61 economies (including individual Eurozone countries and, separately, the Eurozone as an entity). Nominal EERs are calculated as geometric weighted averages of bilateral exchange rates. Real EERs are the same weighted averages of bilateral exchange rates adjusted by relative consumer prices. The weighting pattern is time-varying, and the most recent weights are based on trade in 2011-13.

Exhibit 33 USD-CNY daily fixing rate, November 2016 to November 2017



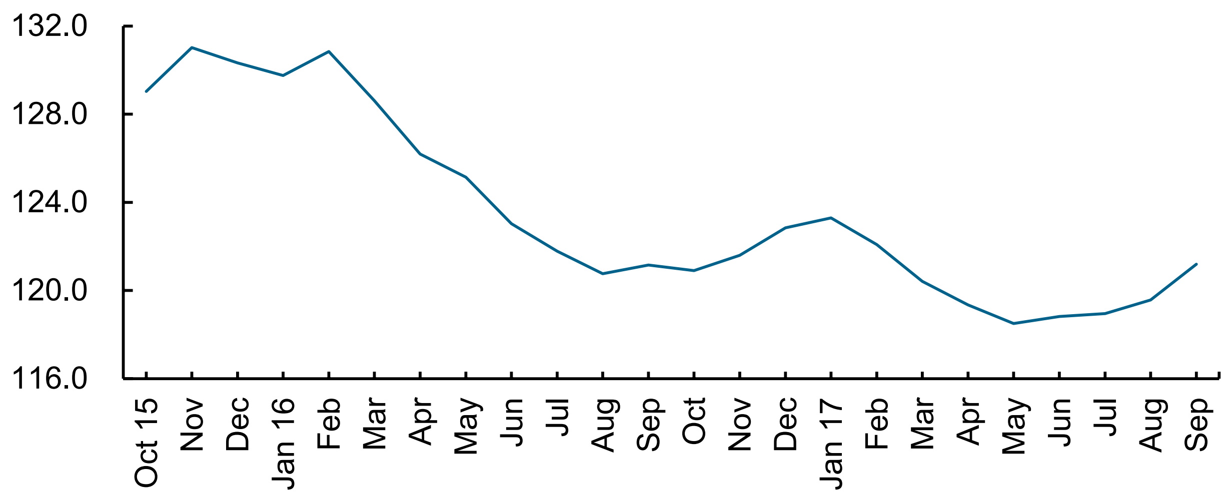
Source: State Administration of Foreign Exchange

Exhibit 34 EUR-CNY daily fixing rate, November 2016 to November 2017



Source: State Administration of Foreign Exchange

Exhibit 35 Real effective exchange rate of the Chinese yuan, October 2015 to September 2017



Source: Bank for International Settlements

2. US launches the *'Section 301'* investigation into China's intellectual property policies and practices

On 18 August, the US government launched an investigation into the policies and practices of the Chinese government related to intellectual property and technology transfer. The probe, which is under the *'Section 301'* of the Trade Act of 1974, will take up to a year. The main purpose of the move is to find out whether the Chinese government's policies and practices would harm the intellectual property rights of US enterprises. According to media report, foreign companies in China have been forced to transfer their technologies to Chinese joint venture partners.[21] If China is judged to have engaged in unfair trade practices, the consequence could be an imposition of US tariffs or other trade restrictions on Chinese products.

3. Chinese and US firms sign US$253.5 billion worth of deals during Trump's visit to China

The US President Donald Trump travelled to China on 8-10 November. During Trump's second day in China, Chinese and US firms signed US$253.5 billion worth of deals.

Also noteworthy is that Trump has adopted a softer stance on China: speaking after the signings of the deals, he said that he did not blame China for having large trade surplus against the US; instead, he blamed the past US administrations for that. Meanwhile, the Chinese President Xi Jinping described the China-US relationship as standing at a 'new historic starting point' and said that 'cooperation is the only right option'.

In our view, the deals and the statements indicate that the tension between China and the US has eased recently.

21 https://www.reuters.com/article/us-usa-trump-trade-china/china-calls-u-s-intellectual-property-probe-irresponsible-idUSKCN1B10MF?il=0

C Outlook

1. US economy maintains fast growth in 3Q17

The US economy maintained fast growth in 3Q17. The US real GDP expanded by an annual rate of 3.0% in 3Q17, compared to the annual growth of 3.1% in 2Q17 *(see exhibit 36).*

On the production side, industrial production grew by 0.3% mom in September *(see exhibit 37).* Besides, the manufacturing PMI stayed high, registering 58.8, 60.8 and 58.7 in August, September and October respectively. The index readings in the past three months show that the manufacturing sector has expanded at a relatively fast pace recently. Meanwhile, the new orders for manufactured durable goods gained 2.2% mom in September, recording month-on-month growth in three of the past four months.

The non-manufacturing sector has also expanded at a very rapid pace lately: the non-manufacturing index (NMI) rose markedly from 55.3 in August to 59.8 in September, and further reached 60.1 in October, well above the critical 50-mark.

After sliding 0.1% mom in August, the US retail sales rose strongly by 1.6% mom in September, indicating an improvement in the consumption demand. Moreover, the Reuters/ University of Michigan index of consumer sentiment rebounded strongly from 95.1 in September to its recent peak of 100.7 in October, indicating that US consumers have been very optimistic lately *(see exhibit 38).*

The pace of job creation has shown signs of moderation. After increasing slightly by 562,000 in 2Q17, the non-farm payroll employment rose at a slower pace, by 364,000, in 3Q17. Then, in October, it expanded by 261,000, lower than the Bloomberg consensus of 325,000. Nevertheless, the US unemployment rate dropped all the way from 4.4% in August 4.1% in October, the lowest level since December 2000, indicating the strong labour market conditions in the country *(see exhibit 39).*

Looking ahead, the US economy is expected to grow at a moderate pace in near future. According to the latest projection by the International Monetary Fund (IMF), the real GDP growth rates for the US are forecast to be 2.2% in 2017 and 2.3% in 2018.[22]

Exhibit 36 US national accounts, 2015 to 3Q17

Annual growth (%)	2015	2016	4Q16	1Q17	2Q17	3Q17
Real GDP	2.9	1.5	1.8	1.2	3.1	3.0

Source: US Department of Commerce

Exhibit 37 US industrial sector, April to September 2017

mom growth (%), seasonally adjusted	Apr 17	May	Jun	Jul	Aug	Sep
Industrial production	1.1	0.0	0.2	-0.1	-0.7	0.3
New orders for manufactured durable goods	-0.8	0.0	6.4	-6.8	2.0	2.2

Source: US Federal Reserve, US Department of Commerce

22 IMF, *World Economic Outlook*, October 2017

Exhibit 38 US consumer market, May to October 2017

	May 17	Jun	Jul	Aug	Sep	Oct
Retail and food services sales *(mom growth %, seasonally adjusted)*	0.0	-0.1	0.5	-0.1	1.6	-
Reuters/University of Michigan index of consumer sentiment	97.1	95.1	93.4	96.8	95.1	100.7
CPI *(yoy growth %)*	1.9	1.6	1.7	1.9	2.2	-

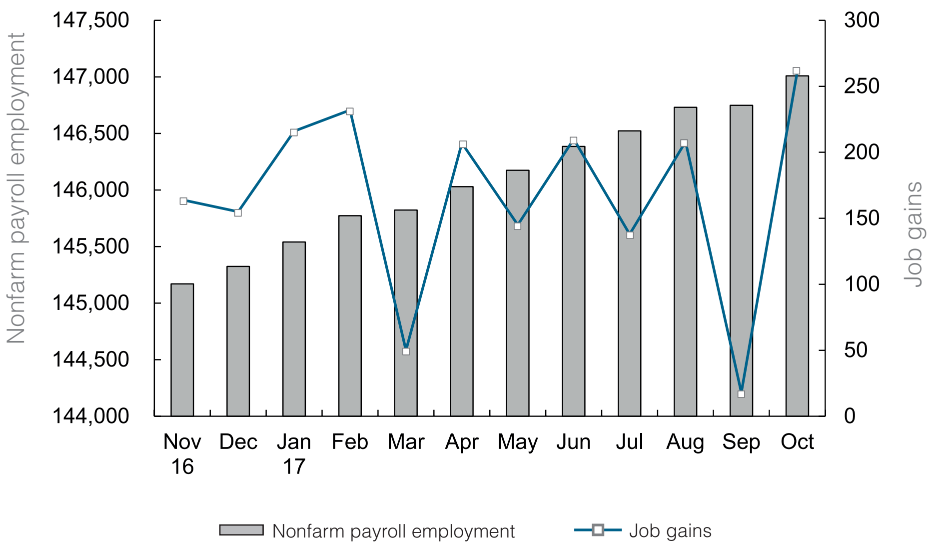
Source: US Department of Commerce, Reuters/University of Michigan Surveys of Consumers, US Department of Labor

Exhibit 39 US employment

	Unemployment rate (%)
2015	5.3
2016	4.9
Nov 16	4.6
Dec	4.7
Jan 17	4.8
Feb	4.7
Mar	4.5
Apr	4.4
May	4.3
Jun	4.4
Jul	4.3
Aug	4.4
Sep	4.2
Oct	4.1

Yearly figures: Annual average
Monthly figures: Seasonally adjusted

Nonfarm payroll employment, November 2016 to October 2017
In thousands, seasonally adjusted



Source: US Department of Labor

2. Several indicators point to strong economic situations in the Eurozone

Several indicators point to strong economic situations in the Eurozone.[23] For example, according to the global survey firm Markit Economics, the Eurozone services PMI stayed high at between 54.7 and 55.8 throughout August to October, indicating a rapid growth of the services sector in the Eurozone. Besides, the Eurozone manufacturing PMI has continued its upward trend, reaching 58.5 in October, the highest level in 80 months. The October reading indicates that the manufacturing sector in the region has expanded at a fast pace recently.

23 Lithuania has become the 19th member of the Eurozone as from 1 January 2015. Other member countries include Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Latvia, Luxembourg, Malta, the Netherlands, Portugal, Slovakia, Slovenia and Spain.

Nevertheless, the retail sector in the region has shown signs of weakness lately. The retail trade volume in the Eurozone dropped by 0.5% mom in August on a seasonally adjusted basis, posting negative month-on-month growth for two consecutive months *(see exhibit 41)*.

The labour market conditions in the region have continued to improve in past few months. The seasonally-adjusted unemployment rate fell all the way from 9.2% in May to 8.9% in September, the lowest level since January 2009 *(see exhibit 42)*. Meanwhile, consumers and managers in various sectors have been very optimistic about the economic outlook. The Eurozone's economic sentiment indicator (ESI) rose all the way from 109.3 in May to 114.0 in October, the highest level in sixteen years *(see exhibit 43)*.

In its latest *World Economic Outlook* published on 10 October, the International Monetary Fund (IMF) revises upward its forecasts on the real GDP growth rate for the Eurozone in 2017 and 2018. The IMF predicts that the growth rate for the Eurozone's real GDP will be 2.1% in 2017 and 1.9% in 2018, up from its previous projections of 1.9% and 1.7% made in July this year.[24]

Exhibit 40 Eurozone's real GDP growth, 2015 to 3Q17

	2015	2016	4Q16	1Q17	2Q17	3Q17
Real GDP *(qoq growth %)*			0.6	0.6	0.7	0.6
Real GDP *(yoy growth %)*	2.0	1.8	1.9	2.0	2.3	2.5

Source: Eurostat, World Bank

Exhibit 41 Eurozone consumer market, April to September 2017

	Apr 17	May	Jun	Jul	Aug	Sep
Volume of retail trade *(mom growth %, seasonally adjusted)*	0.0	0.5	0.5	-0.3	-0.5	-
Annual inflation (%)	1.9	1.4	1.3	1.3	1.5	1.5

Source: Eurostat

Exhibit 42 Eurozone labour market, April to September 2017

seasonally adjusted	Apr 17	May	Jun	Jul	Aug	Sep
Unemployment rate (%)	9.2	9.2	9.1	9.0	9.0	8.9

Source: Eurostat

24 IMF, *World Economic Outlook*, October 2017

Exhibit 43 Eurozone economic sentiment indicator, May to October 2017

seasonally adjusted	May 17	Jun	Jul	Aug	Sep	Oct
Economic sentiment indicator	109.3	111.1	111.3	111.9	113.1	114.0

Source: Eurostat

3. China's exports are expected to show high single-digit growth in 4Q17

According to the *World Economic Outlook* released on 10 October, the IMF forecasts that the world economic growth will accelerate from 3.2% in 2016 to 3.6% in 2017 and 3.7% in 2018. The growth in the advanced economies is projected to rise from 1.7% in 2016 to 2.2% in 2017, and moderate to 2.0% in 2018. Meanwhile, the growth in the emerging market and developing economies is projected to accelerate from 4.3% in 2016 to 4.6% in 2017 and further to 4.9% in 2018 *(see exhibit 44)*.

In the expectation of the faster world economic growth, we believe that the foreign demand for China's products will further strengthen, thereby supporting China's export growth. We forecast that China's exports will continue to show high single-digit year-on-year growth in 4Q17. Challenges facing Chinese manufacturers, however, include stronger government's efforts to enforce environmental regulations, a marked increase in prices of materials, the appreciation of the Chinese yuan against the US dollar, the greater uncertainty in the US trade policies under the Trump administration, intense competition in the international market, and the weak demand for luxury products.

Exhibit 44 Latest GDP growth forecasts by the IMF

yoy growth (%)	2016	2017 (Forecasts)	2018 (Forecasts)
World economy	3.2	3.6	3.7
Advanced economies	1.7	2.2	2.0
US	1.5	2.2	2.3
Eurozone	1.8	2.1	1.9
Japan	1.0	1.5	0.7
UK	1.8	1.7	1.5
Emerging market and developing economies	4.3	4.6	4.9
China	6.7	6.8	6.5
India *	7.1	6.7	7.4
Brazil	-3.6	0.7	1.5
Russia	-0.2	1.8	1.6

* Data and forecasts are presented on a fiscal year basis.

Source: IMF, US Department of Commerce

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