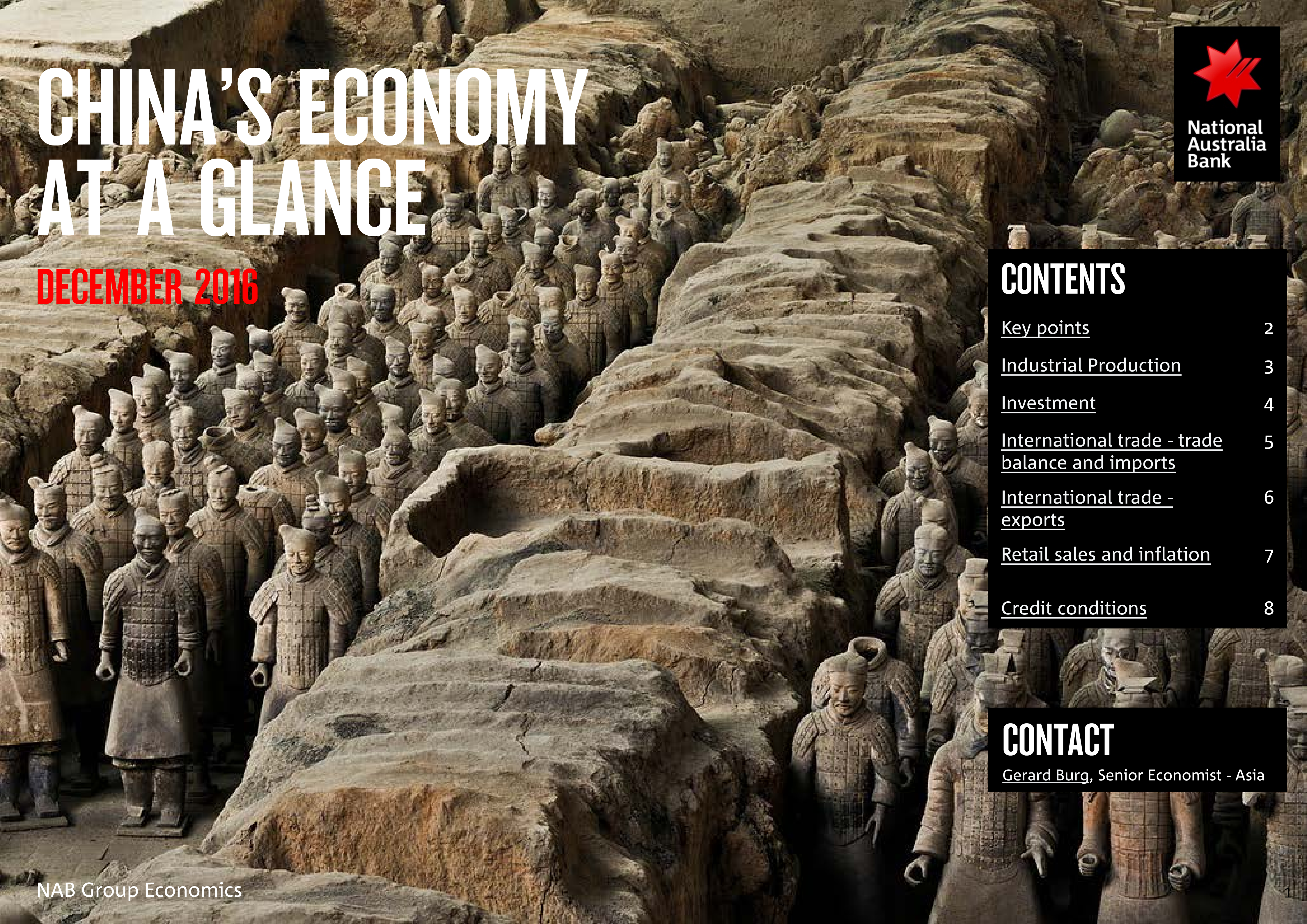


CHINA'S ECONOMY AT A GLANCE

DECEMBER 2016

National Australia Bank

CONTENTS

CONTACT

Gerard Burg, Senior Economist - Asia

NAB Group Economics

KEY POINTS

Latest data point to China's stabilisation, however fresh capital controls highlight the challenges of much-needed reform

- Chinese authorities tightened capital controls in late November and early December – seeking to stem the tide of outflows that have pressured financial market liquidity and the exchange rate. Foreign exchange reserves fell to US$3.05 trillion in November – the lowest level since March 2011. The tighter control measures include greater scrutiny over outward foreign investment, a lower monetary threshold for approval of cross-border money transfers and restrictions on gold imports. These new controls highlight the mixed progress on reform since the 2013 Third Plenum.

- Growth in China's industrial production was marginally stronger in November – increasing by 6.2% yoy (compared with 6.1% in both October and September). This growth rate was just ahead of market expectations.

- China's fixed asset investment recorded slightly weaker growth in November – which may mark the end of the modest recovery in investment from the weak levels mid-year. Investment in real estate was marginally weaker, house sales recorded the lowest rate of growth this year and monthly growth in house prices slowed. That said, it is too early to know if the policy restrictions on the housing market are having an effect.

- China's trade surplus narrowed in November, the result of a strong month-on-month rebound in imports. A spike in commodity prices contributed to the increase in import values. The RBA Index of Commodity Prices rose by almost 31% yoy in November, with metallurgical coal being a standout, as Chinese domestic coal restrictions impacted global markets.

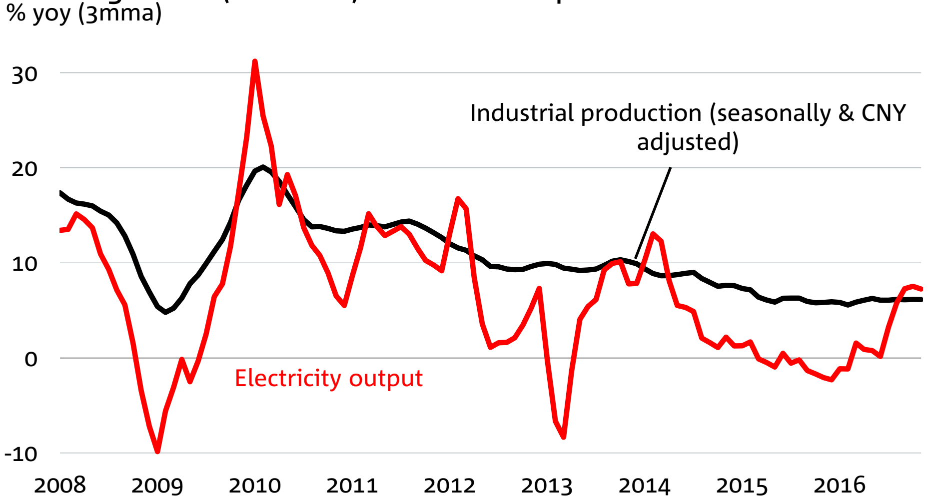
- Real retail sales growth was stronger in November – at 9.3% yoy (compared with a twelve year low of 8.8% in October) – although this rate was below the trend across most of 2016.

- Headline inflation was somewhat stronger in November – with the Consumer Price Index increasing by 2.3% yoy (up from 2.1% previously). Non-food prices have continued to edge higher – with prices up by 1.8% yoy – the strongest rate of increase since January 2014. Fuel prices and utility costs have been trending higher over the past few months.

INDUSTRIAL PRODUCTION

INDUSTRIAL PRODUCTION

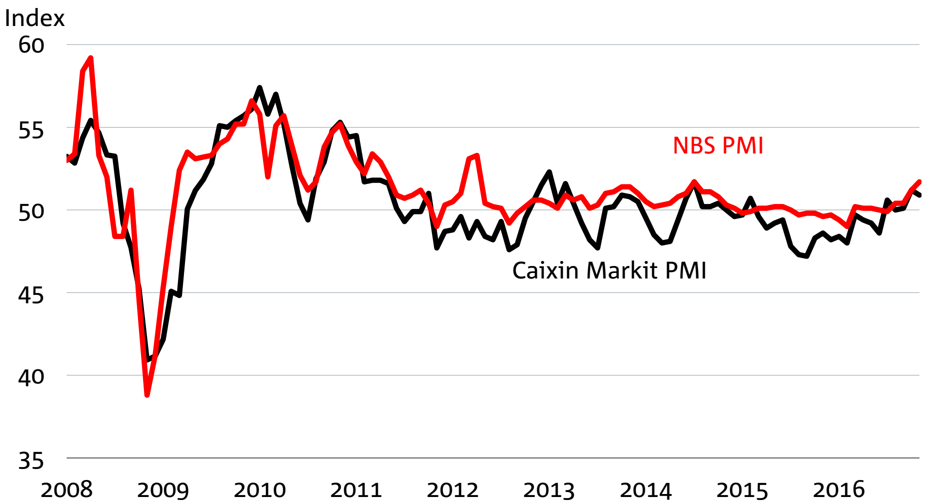
Trend growth (near 6%) in industrial production continues



Source: CEIC, NAB Economics

PMI SURVEYS

Manufacturing trends have improved in recent months



Source: CEIC, NAB Economics

- Growth in China's industrial production was marginally stronger in November – increasing by 6.2% yoy (compared with 6.1% in both October and September). This growth rate was just ahead of market expectations (at 6.1% in the Bloomberg survey).
- Construction related industrial products recorded stronger growth in November – with crude steel production rising by 5.0% yoy and cement by 3.7% yoy. That said, it is worth noting that steel output fell month-on-month – to 66.3 million tonnes, compared with levels in excess of 68 million tonnes a month between August and October.
- Other major industrial sectors recorded slightly softer growth – with motor vehicle output rising by 17.8% yoy (easing down from 18% yoy in October), while electricity output rose by 7.0% yoy (compared with 8.0% previously) – albeit this remains among the strongest rates of growth recorded this year.
- There was a divergence in China's main industrial surveys in November. The official NBS PMI survey was considerably stronger – pushing up to 51.7 points (from 51.2 points previously) – the equal strongest reading (along with July 2014) since April 2012. In contrast, the Caixin Markit PMI was marginally weaker, at 50.9 points (down from 51.2 points in October). That said, this level remains well above recent trends.

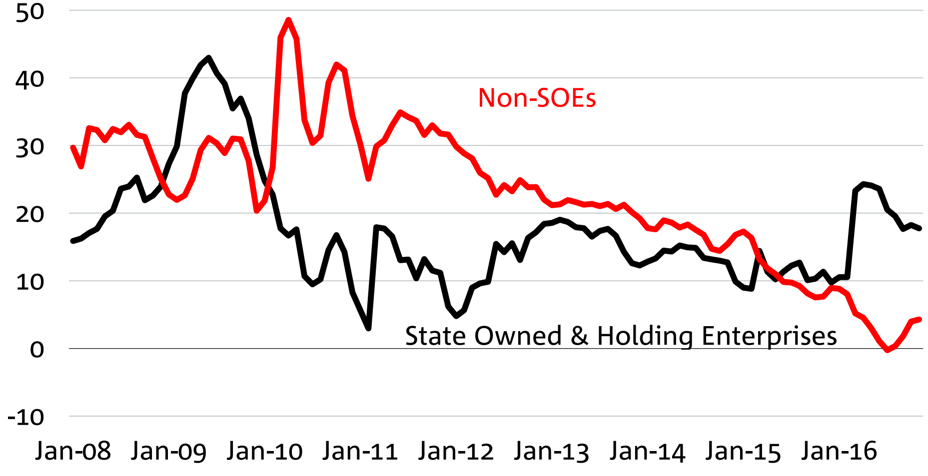
National Australia Bank

INVESTMENT

INVESTMENT TRENDS BY SECTOR

Private investment gradually recovering from mid-year lows

Growth in fixed asset investment (% yoy, 3mma)

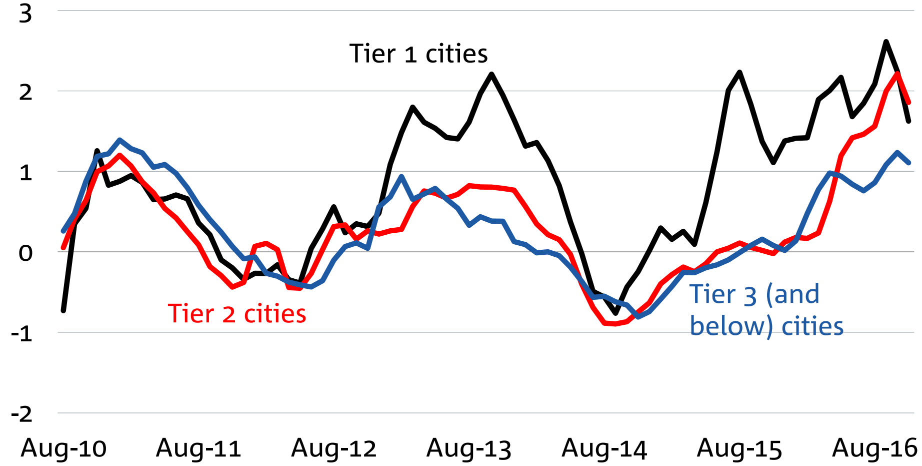


Source: CEIC, Datastream, NAB Economics

HOUSE PRICES

Monthly price growth easing from September's peak

% mom (3mma)



Source: China Index Academy, Datastream, NAB Economics

- China's fixed asset investment recorded slightly weaker growth in November – increasing by 8.3% yoy (down from 9.0% in October) – which may mark the end of the modest recovery in investment from the weak levels mid-year.

- Growth in state-owned enterprise (SOE) investment has started to slow – down to around 17.7% yoy in November (from 18.2% in October) on a three month moving average basis. While this growth is below the peaks of mid-2016, it remains well above the trend since early 2010. In contrast, private sector investment is gradually improving – at 4.3% yoy (3mma) (compared with 4.0% in October).

- Major sectors for fixed asset investment recorded differing trends. Manufacturing and utilities recorded stronger growth, at 5.5% yoy (3mma) and 5.3% yoy (3mma) respectively (from 3.2% and 3.9% in October). Investment in real estate was marginally weaker, at 9.0% yoy (3mma) from 9.2% previously.

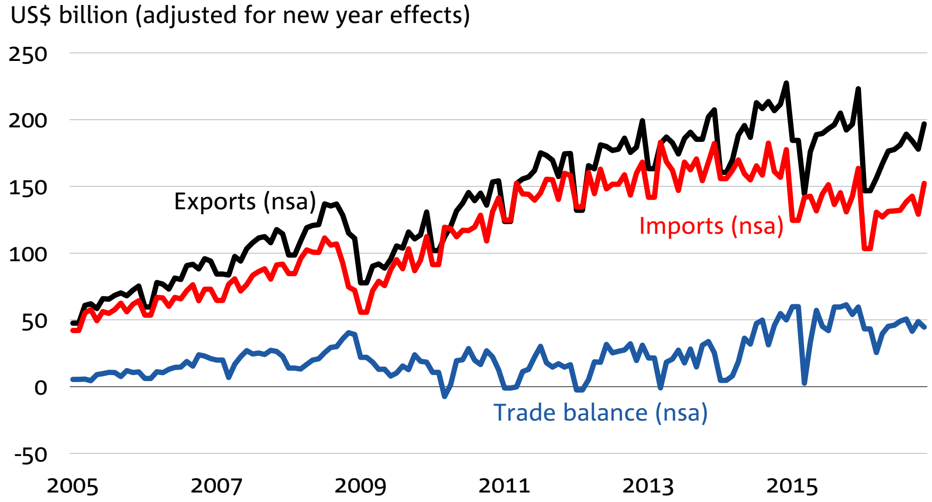
- House prices have continued to trend higher, however the rate of growth has started to slow on a monthly basis – coinciding with tighter regulation on house purchases across a range of Chinese cities and efforts to rein in mortgage credit. China Index Academy data showed the 100 city average price rose by 1.8% mom (down from 2.2% in October) – with growth in tier 1 cities slowing to 1.6% mom (also down from 2.2% previously).

- Housing sales grew comparatively modestly in November – at 7.7% yoy – the slowest rate of growth this year. That said, while the area sold has declined from September's peak, it remains historically high, meaning that it is too early to know if the policy restrictions are having an effect. We continue to expect residential construction and investment in real estate to slow over the next few months – providing less support overall for the economic growth.

INTERNATIONAL TRADE – TRADE BALANCE AND IMPORTS

TRADE SURPLUS NARROWS IN NOVEMBER

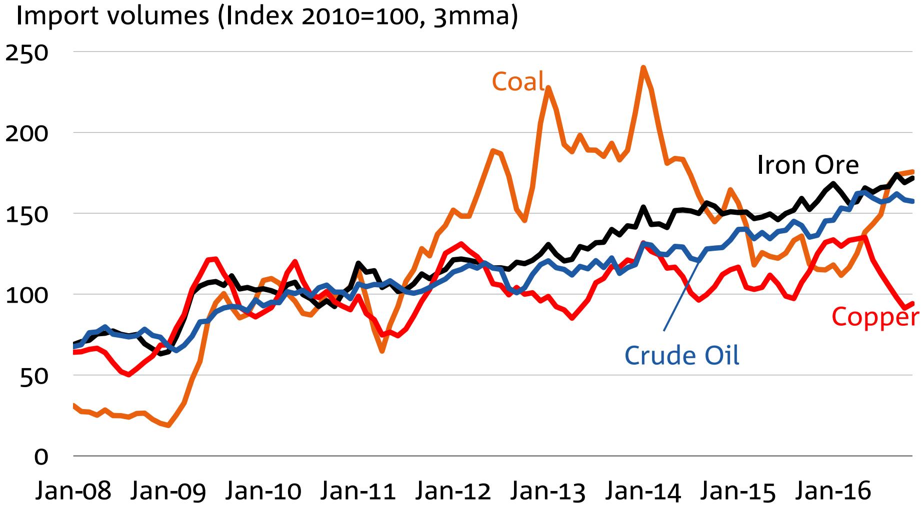
Unexpected surge in imports narrows the trade gap



Sources: CEIC, NAB Economics

KEY COMMODITY IMPORT VOLUMES

Policy easing should see coal imports fall in coming months



Sources: CEIC, NAB Economics

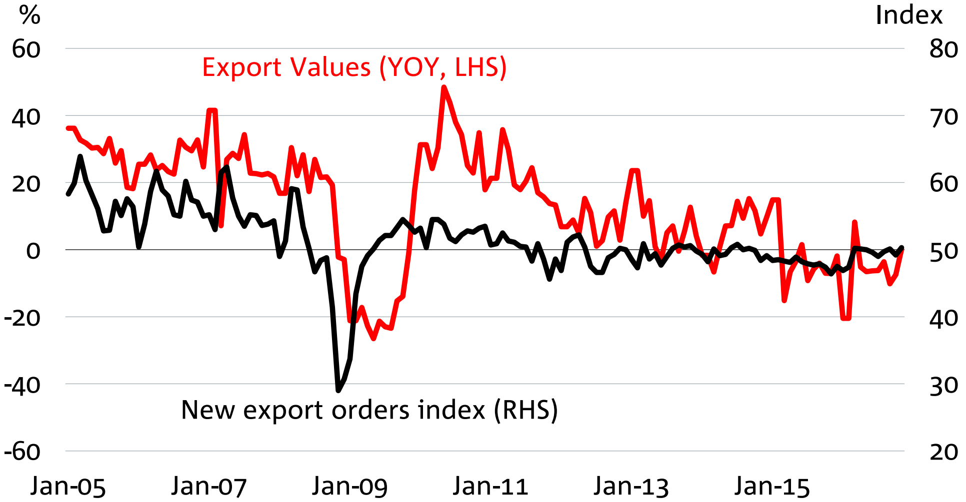
- China's trade surplus narrowed in November, as a strong month-on-month rebound in imports narrowed the gap. Overall, the surplus was US$44.6 billion (down from US$49.1 billion previously).
- The value of China's imports rose considerably in November – up by 6.7% yoy to US$152.2 billion (compared with US$129.1 billion in October), the strongest level recorded this year. This result was counter to expectations – with respondents to the Bloomberg survey anticipating a 1.9% yoy fall in imports.
- A spike in commodity prices contributed to the increase in import values. The RBA Index of Commodity Prices rose by almost 31% yoy in November, with metallurgical coal being a standout – up around 299% yoy – as Chinese domestic coal restrictions impacted global markets.
- Import volumes of coal have continued to climb – rising by 67% yoy in November – with domestic supply constrained by policy changes that limited the number of days mines were permitted to operate. Reports suggest that these restrictions were removed in mid-November, with spot prices for coal starting to fall in early December. Greater availability of domestic material may reduce China's coal import demand in coming months.
- Other key commodities saw mixed trends. Volumes for crude oil and iron ore continued to record robust growth – rising by 18% yoy and 12% yoy respectively, while copper imports have continued to fall – down by 18% yoy in November.

National Australia Bank

INTERNATIONAL TRADE – EXPORTS

CHINA'S EXPORTS STABILISED IN NOVEMBER

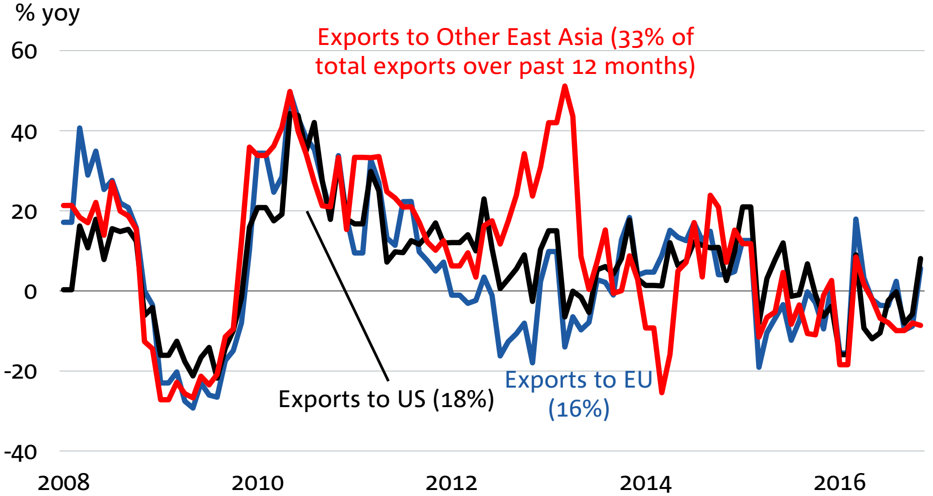
New orders edge back into positive territory



Source: CEIC, NAB Economics

EXPORTS TO MAJOR TRADE PARTNERS

Capital outflows in late 2015 distorting Asian data



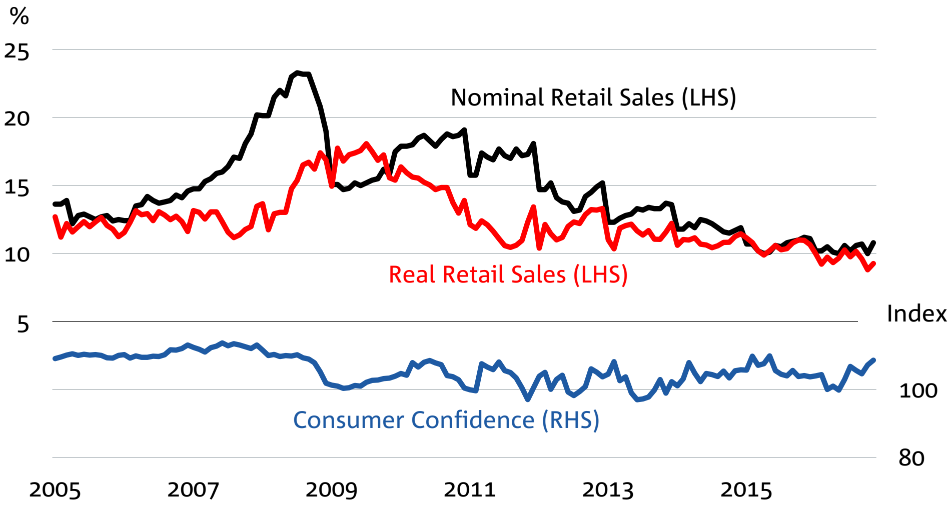
Sources: CEIC, NAB Economics

- Compared with the same period last year, the value of China's exports was virtually unchanged in November – rising by 0.1% yoy to US$196.8 billion (up from US$178.1 billion in October). This result was also stronger than market expectations (-5.0% yoy in the Bloomberg survey).
- The confidence of exporters improved slightly in November – with the new export order measure of the NBS PMI survey pushing back into positive territory at 50.3 points (from 49.2 points in October).
- The trends in exports to China's major trading partners were mixed in November. Exports to Asia continued to fall – down by 8.6% yoy – with Hong Kong being the main contributor (down 16% yoy). That said, considerable capital outflows in Q4 2015 (especially those outside authorised channels) – particularly November and December – are likely to be distorting annual growth rates.
- Exports to non-Hong Kong Asia fell by 1.3% yoy, while exports to the United States and European Union rose considerably – up by 8.1% yoy and 5.6% yoy respectively.

RETAIL SALES AND INFLATION

NOMINAL RETAIL SALES STRONGER IN NOVEMBER

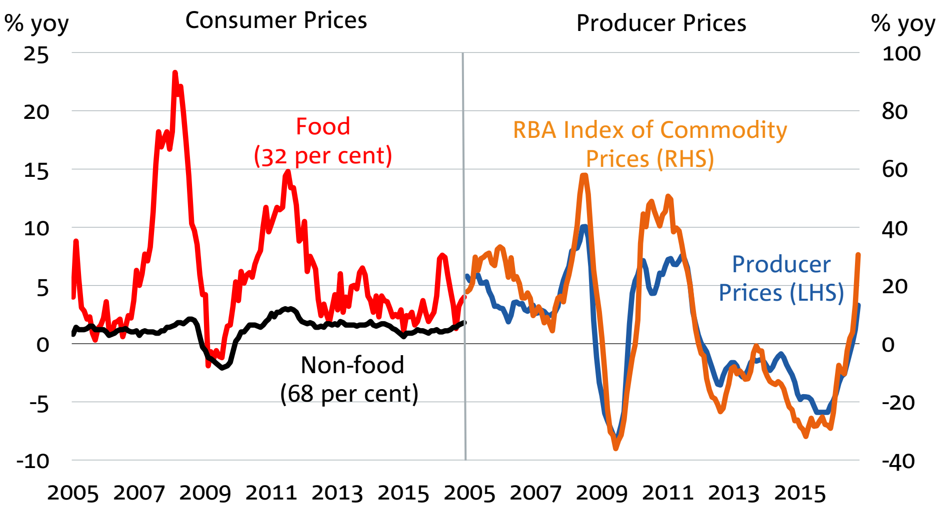
Higher inflation keeps real sales sub-10%



Source: CEIC, NAB Economics

CONSUMER AND PRODUCER PRICES

Fuel and utilities push non-food prices higher



Sources: CEIC, RBA, NAB Economics

- Retail sales growth was stronger in November – increasing by 10.8% yoy (up from 10.0% in October). This increase was stronger than market expectations (at 10.2% in the Bloomberg survey). Although inflation has been trending higher in the past few months, real retail sales growth was stronger in November – at 9.3% yoy (compared with a twelve year low of 8.8% in October) – although this rate was below the trend across most of 2016.

- Consumer confidence pushed higher in November – up to 108.6 points (from 107.2 points previously) – having trended up from neutral levels in the early part of 2016. November's reading was the strongest level for the survey since May 2015.

- Headline inflation was somewhat stronger in November – with the Consumer Price Index increasing by 2.3% yoy (up from 2.1% previously). This was equal to the strongest increase in consumer prices in 2016 – recorded between February and April.

- Food price inflation edged higher in November – with aggregate prices rising by 4.0% yoy (compared with 3.7% in October). As was the case in October, fresh vegetables were the main contributor – with prices up by almost 16% yoy.

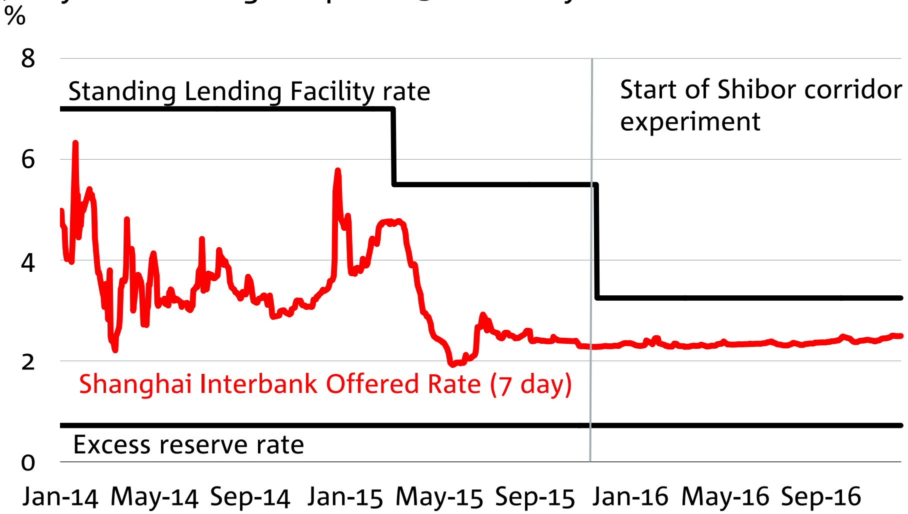
- Non-food prices have continued to edge higher – with prices up by 1.8% yoy – the strongest rate of increase since January 2014. Fuel prices and utility costs have been trending higher over the past few months.

- Producer prices increased again in November – rising by 3.3% yoy (up from 1.2% previously). This was the largest increase in producer prices since October 2011. Rising commodity prices have contributed to this trend – with the RBA Index of Commodity Prices surging by almost 31% yoy in November.

CREDIT CONDITIONS

INTERBANK INTEREST RATES

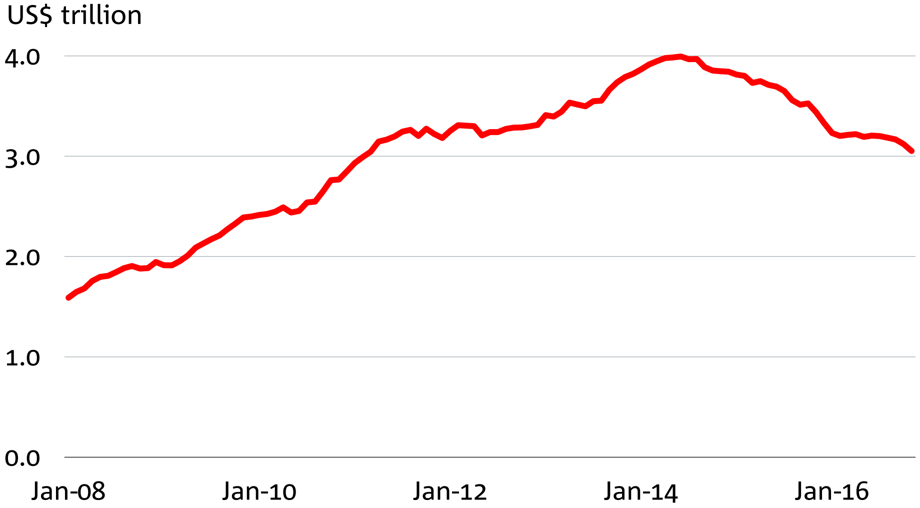
7 day SHIBOR edged up to 2.5% in early December



Source: CEIC, NAB Economics

FOREIGN EXCHANGE RESERVES

Reserves have fallen to five year low in November



Sources: CEIC, NAB Economics

- China's credit data for November was not available at the time of writing.
- As we noted in last month's China Economic Update, the People's Bank of China (PBoC) is increasingly focused on the short term interbank market in its implementation of monetary policy. The 7 day Shanghai Interbank Offered Rate (SHIBOR) trended marginally higher across November – rising from around 2.4% at the start of the month, to around 2.5% in early December.
- That said, since the start of the SHIBOR corridor 'experiment' in November 2015 (which marked a switch to a more modern, price based approach to monetary policy), the volatility in the SHIBOR has been considerably lower.
- Chinese authorities tightened capital controls in late November and early December – seeking to stem the tide of outflows that have pressured financial market liquidity and the exchange rate. Foreign exchange reserves fell to US$3.05 trillion in November – the lowest level since March 2011.
- The tighter control measures include greater scrutiny over outward foreign investment (particularly for deals in excess of US$1 billion where the purchase is outside the Chinese firm's core business), a lower threshold for approval by the State Administration of Foreign Exchange for cross-border money transfers (now US$5 million, down from US$50 million) and restrictions on gold imports (the commodity most used in false invoicing schemes that bypass capital controls).
- These new controls highlight the mixed progress on reform since the 2013 Third Plenum.

National Australia Bank

Group Economics
Alan Oster
Group Chief Economist
+61 3 8634 2927

Jacqui Brand
Personal Assistant
+61 3 8634 2181

Australian Economics and Commodities
Riki Polygenis
Head of Australian Economics
+(61 3) 8697 9534

James Glenn
Senior Economist – Australia
+(61 4)55 052 519

Vyanne Lai
Economist – Australia
+(61 3) 8634 0198

Amy Li
Economist – Australia
+(61 3) 8634 1563

Phin Ziebell
Economist – Agribusiness
+(61 4) 75 940 662

Behavioural & Industry Economics
Dean Pearson
Head of Behavioural & Industry Economics
+(61 3) 8634 2331

Robert De Iure
Senior Economist – Behavioural & Industry Economics
+(61 3) 8634 4611

Brien McDonald
Senior Economist – Behavioural & Industry Economics
+(61 3) 8634 3837

Steven Wu
Economist – Behavioural & Industry Economics
+(613) 9208 2929

International Economics
Tom Taylor
Head of Economics, International
+61 3 8634 1883

Tony Kelly
Senior Economist – International
+(61 3) 9208 5049

Gerard Burg
Senior Economist – Asia
+(61 3) 8634 2788

John Sharma
Economist – Sovereign Risk
+(61 3) 8634 4514

Global Markets Research
Peter Jolly
Global Head of Research
+61 2 9237 1406

Australia
Economics
Ivan Colhoun
Chief Economist, Markets
+61 2 9237 1836

David de Garis
Senior Economist
+61 3 8641 3045

Tapas Strickland
Economist
+61 2 9237 1980

FX Strategy
Ray Attrill
Global Co-Head of FX Strategy
+61 2 9237 1848

Rodrigo Catril
Currency Strategist
+61 2 9293 7109

Interest Rate Strategy
Skye Masters
Head of Interest Rate Strategy
+61 2 9295 1196

Alex Stanley
Senior Interest Rate Strategist
+61 2 9237 8154

Credit Research
Michael Bush
Head of Credit Research
+61 3 8641 0575

Simon Fletcher
Senior Credit Analyst – FI
+61 29237 1076

Andrew Jones
Credit Analyst
+61 3 8641 0978

Distribution
Barbara Leong
Research Production Manager
+61 2 9237 8151

New Zealand
Stephen Toplis
Head of Research, NZ
+64 4 474 6905

Craig Ebert
Senior Economist
+64 4 474 6799

Doug Steel
Markets Economist
+64 4 474 6923

Kymberly Martin
Senior Market Strategist
+64 4 924 7654

Jason Wong
Currency Strategist
+64 4 924 7652

Yvonne Liew
Publications & Web Administrator
+64 4 474 9771

Asia
Christy Tan
Head of Markets Strategy/Research, Asia,
+ 852 2822 5350

Julian Wee
Senior Markets Strategist, Asia
+65 6632 8055

UK/Europe
Nick Parsons
Head of Research, UK/Europe,
and Global Co-Head of FX Strategy
+ 44207710 2993

Gavin Friend
Senior Markets Strategist
+44 207 710 2155

Derek Allassani
Research Production Manager
+44 207 710 1532