# China: A busy week ahead

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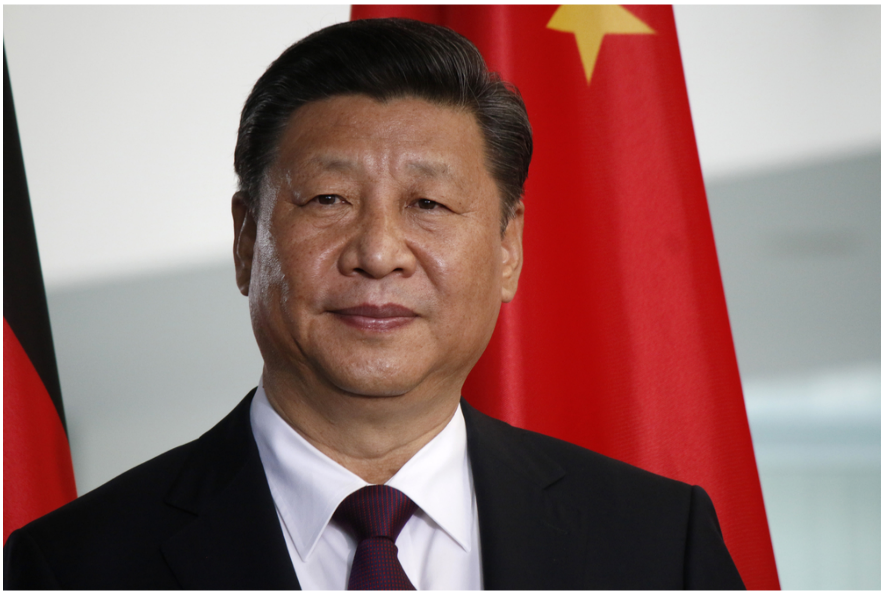


Source: Shutterstock

## The start of China's week-long 19th Congress.

China's 19th Communist Party Congress begins this week, and it's likely to consolidate the power of President Xi Jinping (pictured) within the Party. This means reforms and anti-corruption campaigns should continue. This is positive for the sustainability of future economic growth. If Xi fails to line up party members in his camp to the top of the Party then anti-corruption exercises would likely stop.

On economic targets, China achieved 90% of the GDP target set for 2020 in 2016. So we expect a more aggressive target for growth to "around 6.5%" per annum to 2025. If there is no GDP target then the tone would change to highlighting reforms, which is good for longer-term growth.

6.9%

China Producer Price Inex

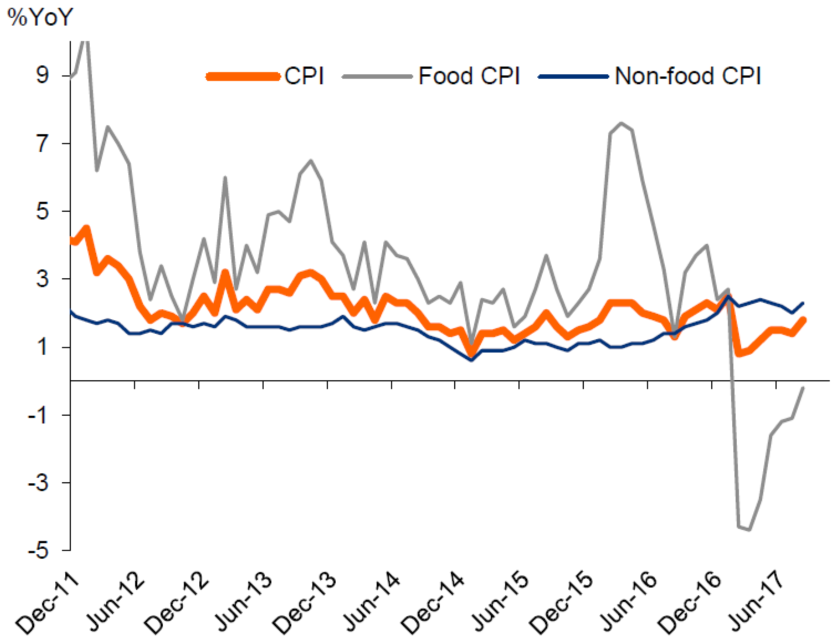
Higher than expected

## A busy week for Chinese data

With GDP, Industrial production, fixed asset investment data and retail sales all released, we expect some weakening momentum from previous data as the negative impact from cutting overcapacity in cement and other sectors is balanced against the positive impact from results on coal and steel from overcapacity reform and the emergence of new sectors.

Released today, CPI and PPI were 1.6% and 6.9%YoY in September against our forecast of 1.5% YoY and 6.5% YoY respectively. As there are a lack of direct channels for PPI to shape CPI, the two are expected to continue to diverge. PPI has been dominated by a surge in Liquefied Natural Gas prices and coal prices. But metal prices have shown some loss of momentum. CPI inflation should be fairly stable if there is no adverse weather in October.

## Chinese inflation (CPI)




Source: ING, Bloomberg

## Further ahead

On Thursday, China will release 3Q17 GDP. We expect the economy to grow 6.8% YoY (prior: 6.9% YoY), which is consistent with consensus. So far, we are optimistic on China growth, especially the result from the still ongoing overcapacity cutting exercise.

We also believe that new growth areas, for example, innovative technology platforms, new energy cars, and the manufacturing of robots will support September industrial production growth at 6.2% YoY (consensus: 6.4%; prior: 6.0%).

## The main growth drivers

Infrastructure investment has continued to be the main demand driver for commodities while residential property construction is under tightening measures. This should bring fixed asset investment to 7.8% YoY YTD growth (consensus: 7.7%: prior: 7.8%).

The middle class will continue to support retail sales, which we expect to grow 10.3% YoY in September (consensus: 10.2%; prior 10.1%). This figure does not count summer holiday spending abroad. Overall, this means the spending power of the growing middle class is large.

Overall, Chinese GDP should hold up well at 6.8% YoY in Q3 but the divergence of investment and retail sales still means China is continuing to evolve into a consumption economy. More importantly, we anticipate activity data to hold up pretty well through the rest of the year. The higher M2 growth at 9.2%YoY in September (prior: 8.9%), means loan growth is still high, and this higher liquidity will be supportive to the coming months' economic activity. We forecast 2017 GDP to be 6.8%.