

China has good growth fundamentals in 2018

We expect good growth numbers in industrial production, retail sales, and fixed asset investments. That is, economic growth should continue be strong in 2018, which provides room for financial deleveraging reforms.



69%

Industrial robot production in China

YoY YTD October 2017

Expect November activities data to show good growth, building a strong backdrop for reform in 2018.

We expect industrial production to grow 6.3% YoY in November, slightly better than consensus and the previous month's 6.2% YoY. Chinese manufacturers are producing more technological products nowadays, including robots (up 68.9% YoY YTD in October) and semi-conductors (up 20.7% YoY YTD in October), and fewer low-edge materials (cement production had negative 0.5% growth for

the same period). Production data tells us that the economy has skewed towards high-growth sectors, which is promising for future growth.

We expect retail sales to grow 10.5% YoY in November, higher than consensus at 10.3% and the previous month's 10.0%. Consumers are spending more on catering services (10.0% YoY YTD in October) than daily necessities (8.3% YoY YTD). The middle class is growing and their spending pattern is different from the older generation as they spend more on services. This is the key force behind the consumption driven growth model.

The government is building infrastructure relevant for future growth, especially aiming at improving rural living standards. For example, investment in water management facilities grew 24.5% YoY YTD in October.

Moreover, the economy is using more clean energy as it tries to replace heavy polluters. This means China is putting effort into having a more sustainable environment. Nuclear, wind and solar power generation increased YTD in October, by 18.4% YoY, 19.7% and 34.1%, respectively. Coal based generation only grew by 5.4%.

All in all, economic growth should continue to be strong in China. We expect economic growth at 6.7% in 2018, just slightly slower than the 6.8% in 2017. This provides room for the central government to deal with the riskier part of economy, reforming the banking and financial sector.