pm *call note*

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Highlights

- **We hear muffled tones of US-China trade war drums**
- **Can the US ask China to get more global while it itself is pulling back?**
- **Powell: All in for jobs but not so fast on dismantling Dodd-Frank**
- **Listed nonfinancial corporate debt in China grew at its fastest since 2013 – what de-leveraging??**
- **Tencent/Alibaba boom, but privacy issues loom in the future**
- **October Chinese industrial profits grow at a near-record pace, if you can believe the data**
- **CFLP PMIs up, Caixin down; we look for moderation in 4Q and 2018**
- **Korea: November trade faster, CPI slower and BOK has time to wait for new Fed Chair Powell**
- **Too much Southbound is still not okay for Chinese authorities**

INDICATIVE RATES 01 Dec 2017 Data snapped ~11:36 HK TIME

Foreign Exchange						Equity Indices			Interest Rates		
	Asia	% Chng	New York	London			Close	% Chg	3M FIXING		% bp Chng
USD/JPY	112.53	0.01	112.53	108.79		DJIA	24272.35	1.39	USD LIBOR	1.48738	0.68
EUR/JPY	134.00	0.05	134.00	127.82		N225	22724.11	0.00	JPY TIBOR	0.06125	0.00
EUR/USD	1.1906	0.03	1.1904	1.1749		DAX	13023.98	-0.29	EURIBOR	-0.32900	0.00
GBP/USD	1.3530	0.04	1.3526	1.2857		FTSE	7326.67	-0.90	GBP LIBOR	0.52138	0.00
USD/SGD	1.3480	-0.03				STI	3433.54	-0.16	SGD SIBOR	1.19875	1.60
USD/THB	32.680	0.12				SET	1702.20	0.28	THB BIBOR	1.57057	-0.13
USD/MYR	4.0875	0.00	Commodities			KLCI	1717.86	-0.15	MYR KLIBOR	3.43000	0.00
USD/IDR	13524	0.00	CRB		189.17	JCI	5952.14	-1.80	IDR JIBOR	5.23769	0.67
USD/PHP	50.305	-0.01	Brent Crude*		62.92	PSEi	8214.64	-0.48	PHP REF	3.55200	-1.60
USD/INR	64.480	0.00	Gold (USD/oz)		1274.36	SENSEX	33149.35	-1.35	INR MIBOR	6.38000	0.00
USD/KRW	1087.30	0.02				KOSPI	2478.65	0.09			
USD/TWD	29.994	0.03	Market Gauges			TAIEX	10580.73	0.19			
AUD/USD	0.7560	-0.08	VIX		11.28	ASX	5983.70	0.23			
USD/HKD	7.8103	0.01	Dollar Index		92.981	HANG SENG	29182.12	0.02	*If prior trading day is a holiday,*		
USD/CNY	6.6146	0.08	UST 2Y		1.790	SHCOMP	3310.42	-0.20	*comparison with preceding day.*		
USD/VND	22715	0.04	UST 10Y		2.415	VNI	955.94	0.63	** ICE Brent Crude (USD/bbl)*		

Source: BTMU & Reuters. FX daily % changes from 2100 GMT prior Reuters closes; London and New York show BTMU closes.

[Again a roll-up of several days of posting, what's still relevant.]

Up Front/USD/CNY/Trump. Too early to claim trade war drums are beating loudly but not too early to say we hear a few muffled tones in the distance.

https://www.ft.com/content/469d99c0-d5ee-11e7-8c9a-d9c0a5c8d5c9

The arc of US-China tradespeak over the 10½ months of the Trump Administration appears to us to have consistently slid towards conflict, though not at a very rapid pace. Newsflow overnight from David Malpass, Under Secretary for International Affairs at the US Treasury (and one-time chief economist at Bear Stearns) officially reversed Trump Team rhetoric from July, with the US-China Comprehensive Economic Dialogue (which used to be the Strategic and Economic Dialogue before it was downgraded to only Economic) now *kaput.* **In *Ctrl-Alt-Right: The Limitations of Donald Trump in Asia - Part 1 (8 December 2016)*, we decided Trump's potential to disrupt global and Asian trade flows would be the most devastating way he could affect economies and markets out here; we still believe this.**

There are more details in Bloomberg's companion write-up, including a TV segment of a Malpass interview in which he said explicitly that resumption of the CED (which he called "*stalled*") depends on China making some kind of more extensive market liberalization moves acceptable to the US side.

https://www.bloomberg.com/news/articles/2017-11-30/u-s-says-china-s-embrace-of-free-market-is-going-into-reverse

He also said – as has been known about views of Trump's trade advisers (Lighthizer and Navarro) – that the WTO does not have the tools to push back against China. **He highlighted particular dissatisfaction with China's export promotion/rebates regime.**

We found one Malpass quote of note: **"*I want to make a clear distinction between isolation, which we oppose, and our view that multilateralism has gone substantially too far, to the point where it is hurting U.S. and global growth.*"**

We'd rephrase it as a question: **Can the US withdraw from multilateralism without making itself and the world more isolationist?**

Which then leads to an immediate thought: The US seems to be pushing China to more fully embrace the global market - ie, globalization - even as it wants to withdraw?!

An earlier *Economist* article put it better than we can: **"*... hypocrisy is the tribute vice pays to virtue.*"** **[Back to Highlights]**

https://www.economist.com/news/finance-and-economics/21719498-america-retreats-china-advances-chinas-growing-clout-international-economic

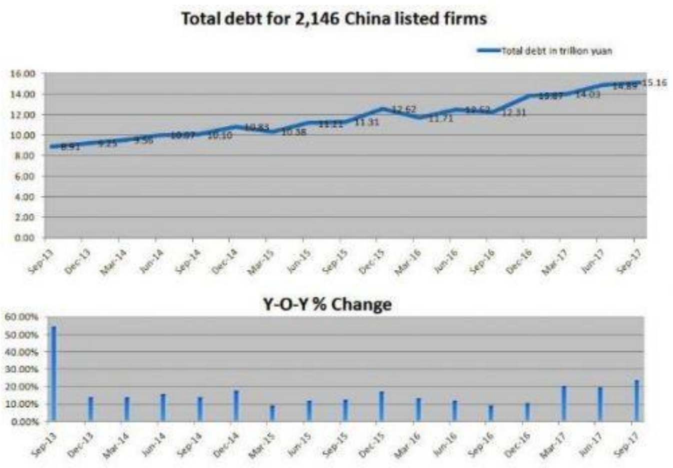
USD/Fed. From early in the week, the incoming Fed Chair.

- ***"Our aim is to sustain a strong jobs market with inflation moving gradually up toward our target,"*** *Powell said in the text of remarks he'll deliver Tuesday in a confirmation hearing before the Senate Banking Committee***. = Get the word "jobs" in there for the boss.**
- *"Even as we draw on the lessons of the past, we must be prepared to respond decisively and with appropriate force to new and unexpected threats to our nation's financial stability and economic prosperity," he said.* **= But don't expect me to dismantle too much of the Dodd-Frank framework.** (Brisbane Times) **[Back to Highlights]**

CNY/Debt. Debt at China's listed non-financial firms grew at their fastest since 2013.

https://www.reuters.com/article/china-markets-debt/graphic-chinas-debt-pile-growing-fast-despite-years-of-efforts-to-contain-it-idUSL3N1NU37E

TRY TO SPOT THE DE-LEVERAGING



Source: Reuters

*Reuters analysis of 2,146 China listed firms showed their total debt at the end of September jumped **23 percent** from a year ago, the highest pace of growth since 2013. The analysis covered three-fifths of the country's listed firms, but **excluded financials, which have seen the brunt of government de-risking and deleveraging efforts so far [if financials are de-leveraging, where are the firms getting their funds?!]** ... **The share of industrials in the total debt for the companies covered went up by 3 percentage points since the end of 2012, while that for the real estate sector went up by 7 percentage points.** As of September, **state-owned enterprises (SOEs) reported a comparatively faster pace of growth** in their debt. Total debt at 75 of the CSI Central SOE 100 index companies, which excludes financials, increased by more than 27 percent from a year ago, the biggest increase in many years ...* **[Back to Highlights]**

CNY/HIGH TECH. Tencent's share of e-payments in China continues to narrow the gap with Alibaba.

https://asia.nikkei.com/Business/Companies/Tencent-closing-gap-with-Alibaba-in-1.1-trillion-mobile-payment-market

What's more interesting for us, however, is PBOC taking a cut of the action beginning from July next year:

Also known as Wang'lian, Nets Union is set to take a bite out of all existing third-party online payment companies, as they are mandated to shift all their transactions to the state-monitored platform by July 2018. That means they can no longer bypass regulators to perform clearing services and own proprietary data collected from users. Seven units of the People's Bank of China, the central bank, together own 37% of Nets Union, while Tenpay and Alipay each have 9.6%. The government-led disruption will likely hurt the bargaining power of e-payment companies against banks, but also act as a leveler for Tencent, which will then have access to information generated by the entire payment market despite being the lesser player. Such information is deemed relevant to big data analysis.

What PBOC is doing is not without precedent; eg, the US Fed charges fees to banks for using its check-clearing system.

But it's also of interest that from 2H18 on, all e-payments data will be in the hands of the Chinese government. We once asked a Tencent employee (last Summer) whether any privacy issues had come up in its frenetic user growth (980mn last we checked); all we got was a blank stare.

China Tech fanboys usually have the perspective the Chinese don't care that much about privacy (since they figure the government already knows all it needs to know about them anyway) but we find this topic intriguing. **No privacy guardrails may be okay in China, but once these promising Chinese platforms try to expand out of the country and inter-connect with other platforms, we suspect the privacy issue will come back in a big way.** Remember Jack Ma already declared Big Data will help China achieve socialism (by which we think he primarily means control). **[Back to Highlights]**

CNY. October Industrial profits 25.1%YoY < last 27.7%.

The two key sectors NBS monitors to track upgrading in manufacturing – high-end equipment manufacturing and new materials – both continued to grow profits faster than the overall pace. Profit growth for new materials in January-October moderated slightly (29.0%YTD < last 29.9%) but high-end equipment manufacturing rose faster (29.3%YTD > last 28.1%).

Over January-October, SOEs continued to lead profit growth (48.7%YTD > last 47.6%) with a steady debt ratio (60.9 < last 61.0 – but **see above**). POE profit growth remained steady (14.2%YoY YTD < last 14.5%), with a steady debt ratio (51.4 = last, but see above).

Other sub-indicators showed some softening, with slightly longer finished product turnover: 13.9 days > last 13.7 days while receivables payback increased to 38.0 days (> Jan-Sep 37.3 days and Jan-Aug 37.0 days); but on a positive note, both sub-indicators were better than a year ago (14.5 days and 39 days, respectively).

The data covers large companies with annual revenue of more than CNY20mn from main operations and give little indication as to business conditions at smaller enterprises (who have been struggling, as the NBS manufacturing PMI's small enterprise sub-index fell below 50 for a fourth straight month in October).

Now, having said all of the above, we harbor some questions about the data. Bloomberg-reported industrial profits tables do NOT match up with the officially reported growth rates.

Eg, YTD levels of all industrial profits according to Bloomberg through October was CNY6.245.1bn and in September it was CNY5,584.6bn, implying an October-only level of CNY660.5bn in profits. In October 2016 the same # was CNY618.7bn, which should imply a %YoY growth rate of 6.8%, not the 25.1% rate reported. **We hope to return soon with an explanation.** **[Back to Highlights]**

CNY. November Caixin manufacturing PMI 50.8, a 5-month low < consensus 50.9 < last 51.0.

https://www.caixinglobal.com/2017-12-01/china-factory-activity-weakens-in-november-caixin-survey-shows-101178669.html

Unlike the official CFLP manufacturing PMI released yesterday, Caixin's manufacturing PMI showed weaker manufacturing activity (October+November average 50.9 < 3Q17 average 51.23). What's more: ***Optimism about business prospects over the next 12 months declined for the third consecutive month, with the future-output subindex falling to the lowest level since the indicator was included in the PMI report in April 2012*. This seems consistent with our ongoing expectations for moderating manufacturing growth in 4Q and next year.**

"*Output expanded at a faster rate in November than in the previous month*", while new orders sub-index "*declined*", indicating that "*client demand was relatively subdued across both the domestic and external markets*". A possible reason behind an increase in output amid subdued demand could be improving profit margins (given that "*the increase in input prices moderated, while the rise in output prices accelerated*"), so that manufacturers can consider restocking (especially *stocks of finished goods "continued to diminish*").

https://www.markiteconomics.com/Survey/PressRelease.mvc/a8ab86a38682409d9ee7db70653916ba

Dr. Zhengsheng Zhong, Director of Macroeconomic Analysis at CEBM Group: "*Economic growth in 2017 is expected to be* *higher than last year, but it may come under downward pressure in 2018.*" **[Back to Highlights]**

CNY/CNH. **Improvement in November NBS PMIs hasn't (yet) wiped away all signs of moderation in China, but on a positive note the non-manufacturing PMI broke a downtrend.**

November NBS manufacturing PMI 51.8 > consensus 51.4 > last 51.6.

Both headline manufacturing PMI and the business activity expectations subindex increased to 51.8 and 57.9 in November (> last 51.6 and 57.0, respectively), but **average October and November readings remained below 3Q** (October-November 51.7 and 57.5 < 3Q17 51.83 and 59.3, respectively).

Other manufacturing sub-indices showed similar trends; ie, slight uptick in November but average October and November readings below 3Q. Finished goods inventory remained steady at 46.1 (= last, > 3Q 45.27). **A slowdown in inventory destocking comes naturally with moderating price gains.**

By scale of enterprises, large enterprises remained steady at 52.9 in November (< last 53.1; Oct-Nov 53.00 < 3Q 53.17), while both medium and small enterprises improved to 50.5 and 49.8, respectively (> last 49.8 and 49.0; Oct-Nov 50.15 and 49.40 ~ 3Q 50.57 and 49.13, respectively). This seems a bit odd since the Caixin measure (above) is also supposed to capture smaller enterprises.

China's steel industry PMI rose to 53.1 in November (> 53.1; Oct-Nov 52.7 < 3Q 55.27), mainly due to new orders (65.4 >> last 55.9) while output continued to decline (46.5 << last 58.3) amid implementation of winter curbs. Inventories of finished goods declined to 40.4, a 5-month low (< last 47.5) and have remained < 50 for seven months, indicating ongoing inventory destocking. The EU's anti-dumping duties and US tariffs continued to weigh on new export orders which stayed below 50 for an 11^{th} month (41.7 < last 47.2; Oct-Nov 44.45< 3Q 45.1).

November NBS Non-manufacturing PMI 54.8 > last 54.3, breaking the downtrend for now, mainly due to construction.

Non-manufacturing PMI rose to 54.8 in November (> last 54.3; Oct-Nov 54.55 > 3Q 54.43), while business expectations also increased to 61.6 (> last 60.6; Oct-Nov 61.1 < 3Q 61.27). Expansion in services (54.1% of nominal GDP) was supported by new orders (51.8 > last 51.1; Oct-Nov 51.45 ~ 3Q 51.43) and new export orders (50.9 > last 50.7; Oct-Nov 50.80 > 3Q 50.27). Both input and selling prices increased to 56.2 and 52.8, respectively (> last 54.3 and 51.6).

Construction PMI rose to 61.4 in November (> last 59.0), with higher new orders and business activity expectations (55.1 and 65.6 > last 54.1 and 63.2, respectively), probably indicating a continued infrastructure push.

http://www.stats.gov.cn/tjsj/sjjd/201711/t20171130_1558650.html (simplified Chinese) **[Back to Highlights]**

AUD/CNY/Cmdty/#Overcapacity. *BHP Billiton believes unit costs at its Australian mines can be reduced by a further 10 per cent, as the company grows more confident about the near term outlook for copper prices. Continuing the productivity agenda installed by chief executive Andrew Mackenzie in 2013, BHP said its Australian mines would deliver 80 per cent of the $US2 billion in productivity gains the company hopes to deliver over the next two years. As part of those efforts, the company predicted its flagship iron ore division would reduce unit costs to less than **$US13 per tonne** in the medium term compared with the $US14.60 per tonne achieved in the year ended June 30. BHP's Queensland and New South Wales coal divisions are expected to cut unit costs 10 per cent and 2.5 per cent below fiscal 2017 levels respectively.* (Brisbane Times)

A reminder no matter how much (or how little) China cuts #overcapacity, it's always a moving target. **[Back to Highlights]**

KRW Data/BOK Wrap. November rex/rim/tb 9.6%YoY/12.3%/USD7840mn < consensus 10.3%/13.3%/USD8500mn but > last 7.1%/7.4%/USD7136mn.

November CPI/Core 1.3%YoY, a year low /1.2% < consensus 1.8%/1.7% < last 1.8%/1.3%.

BOK said yesterday "*consumer price inflation will be in the mid-1% range (vs. "the upper-1% range" in the previous 19 October 2017 press release) for some time and then gradually approach the target level*".

With benign inflation, we think it makes sense for BOK to await the new Fed Chair and any policy shifts before deciding on hike #2. BOK Governor Lee said hike #1 was to "*prevent financial imbalances*".

Final 3Q17 GDP clocked in at 1.5%SAQQ, which is a 7-year high/3.8%YoY > consensus and advance estimate 1.4%/3.6%.

The upward revision was mainly due to faster private consumption (0.8%SAQQ > advance 0.7%); facilities investment and import growth were also revised up to 0.7% and 4.7%, respectively (> advance 0.5% and 4.5%). Other GDP components, including construction investment (1.5%) and exports (6.1%), remained unchanged.

A few more tidbits from BOK hike #1:

- This was the second straight non-unanimous decision, though in different direction: This time, Cho Dong-Chul calling for hold; and last time, Lee Il-houng calling for a hike.

- Regarding recent won strength, Governor Lee claimed, "*The negative impact of Won strength on exports decreased", but also "**prolonged won strength may hurt some exports sectors.**"* [Back to Highlights]

HKD/CNH/Connect. CSRC stops approving some mutual funds that invest in Hong Kong (SCMP).

http://www.scmp.com/business/money/wealth/article/2121789/worried-exposure-hong-kong-stocks-chinas-regulator-impose

Chinese mutual funds which plan to allocate more than 80 per cent of their portfolio to Hong Kong-listed equities will no longer be approved for sale on the mainland, according to two state-owned funds familiar with the matter, citing an order by the China Securities Regulatory Commission. Only funds that allocate less than half of their portfolio to Hong Kong will be approved, the funds said, echoing a Monday report on the China Fund website, an industry news site...Investments of Hong Kong stocks by mainland Chinese funds ballooned to HK$808.8 billion (US$103.6 billion) as at October 31, a 60-fold increase compared with 2014 before the first of the two Connect schemes was introduced, according to the Hong Kong Stock Exchange's data ...

Also suggesting to us Southbound for Bond Connect won't be approved anytime soon. [Back to Highlights]

TWO DAYS HENCE

A sparse economic calendar Monday. **US October Factory orders**: Consensus -0.4%SAMM < last 1.4%. The US Commerce Department had (surprisingly) said they were "not able to isolate the potential effects of Hurricanes Harvey and Irma on September's data," which hit a four-month high partly due to a 30.8% jump in demand for commercial aircraft. Thus, a sustainable increase in October is seen as less likely.

Indonesia November CPI: Consensus headline 3.41%YoY < last 3.58% and core 3.10% ~ last 3.07%. **Bonds: Korea** to sell KRW800tn of 5-years. [Back to Highlights]