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Economic Acumen

Commentary by CEBI Research Team

In Brief

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- In the face of trade disputes and complicated economic environment, China's economy experiences cooling strengths as the government report sets slower growth target between 6.0% and 6.5% for 2019 along with different types of stimulus measures.
- Against the backdrop of surging downward pressure on the economy, China policymakers strengthen the size of stimulus measures to prop up growth in an attempt to prevent the economy from losing growth momentum.
- Although China faces increased headwinds, macroeconomic policy support will stimulate the pick-up in aggregate demand, thus ensuring a more sustainable path of economic expansion.

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China's 2019 NPC: growth stabilization becoming the top agenda

The goal of stabilizing growth momentum for China's economy amid mounting financial risks becomes the major emphasis of the second annual session of China's 13th National People's Congress (NPC) in 2019. In the face of trade disputes and complicated global economic environment, China's economic activities experiences cooling strengths as the government report sets slower growth target between 6.0% and 6.5% for 2019 along with different types of stimulus measures. Looking forward, downside risks are surging in the sense that US protectionism and global economic slowdown threaten economic stability of China. Against the backdrop of surging downward pressure on the economy, China policymakers strengthen the size of stimulus measures to prop up growth in an attempt to prevent the economy from losing growth momentum and cope with profound changes in the external environment. In sum, China's efforts to promote stable social and economic development, deepen economic reforms, accelerate financial de-risking, invest in new technology, alleviate poverty, effectively strengthen environmental clean-up and enhance opening-up policy remain as the major agendas in 2019 with which China's economy is rebalancing to attain more sustainable economic expansion through high-quality growth and structural reforms. We are of the view that although China faces increased headwinds, macroeconomic policy support will stimulate the pick-up in aggregate demand, thus ensuring a more sustainable path of economic expansion.

China setting a slower and reasonable growth target for 2019. Premier Li Keqiang unveils the GDP growth target for 2019 between 6.0% and 6.5%, below 2018's target of 6.5% and 2018's GDP growth of 6.6%. Surrounded by trade disputes, global economic slowdown and heightened financial volatilities, China's economy faces downward pressures with which major economic indicators have weakened since the second half of 2018. The government has launched accommodative stimulus measures to

revitalize growth so as to ensure economic and financial stability as well as target the achievement of sustainable growth. Overall, China will continue to liberalize the economy and pursue quality growth through financial liberalization and investment in technology, industry deregulation, continued supply-side structural reform, land reforms, greater access to different industries for foreign investors, deepening state-owned-enterprises (SOE) reform, widening tax reduction, promoting foreign trade growth, and creating new growth drivers to drive domestic demand. Entering into 2019, China's economic growth shows signs of stabilization and the forward-looking economic indicators point to a solid growth in domestic demand. We reassert our view that China's GDP growth will reach 6.3% YoY for 2019.

Favorable monetary and fiscal stance supporting growth stabilization. China's economy is facing a potential drag from external headwinds with which policymakers conduct accommodative macroeconomic policies to resist growth deceleration. For monetary side, the focus is on cutting banks' reserve requirement ratios (RRR) for small and medium size banks which guide liquidity into small and medium enterprises (SMEs) with the aim to boost the stable development of the real economy, optimize the liquidity structure of commercial banks and financial markets, lower financing costs, and support small businesses, private enterprises and innovation. For fiscal side, the government continues to deploy proactive policy by increasing expenses to RMB 23 trillion and fiscal deficit as a percentage of GDP to 2.8%. The move will support tax relief, social housing, SMEs, livelihood-related issues, environmental protection and investment in innovation. The latest policy mix releases trillions of liquidity in the economy, thus strengthening growth momentum of China's economy.

Further reduction of tax burden. The continuous implementation of the replacement of the business tax with a value-added tax (VAT) has alleviated tax burden of businesses and individuals with which a total of RMB 1.3 trillion saved in 2018, benefiting most sectors in the economy. In 2019, China will step up efforts to further reduce the corporate taxes and fee burdens by nearly RMB 2 trillion through inclusive and structural tax cuts measures. With a focus on small- and micro-businesses, the government aims to lower tax burden of manufacturing sector from current VAT 16% to 13%, and the transportation, construction and other sectors from VAT 10% to 9% in 2019. In addition, the government will streamline the tax system by adopting measures, such as increasing deductible tax for production and life services, thus ensuring reduction of tax burdens in all sectors. In terms of reducing cost, the government plans to lower enterprises' tax burden by revising down the social security rate to 16%. In sum, lightening the tax burden will

effectively stimulate business incentives to increase investment in services and consumer goods industries and boost domestic consumption.

Boosting innovation for high-quality growth. China will strengthen innovation-driven development strategy, thus making China's economy more innovative and competitive. China will establish a state financing guaranteed fund to support leading innovative enterprises in going public, and extend nationwide the pilot preferential tax policies for venture capital investment and angel investment. Enterprises are encouraged to head up major science and technology programs. Collaborative innovation conducted by research institutes, universities, and enterprises along with basic research and application-oriented basic research will be strengthened through more financial support from the government. In the meanwhile, the government will strategically promote the application of big data, AI, info-tech, high-end equipment, bio-medicine, new energy, new materials and other emerging industrial clusters, thus facilitating the development of digital economy. Within months, a number of major science and technology innovation programs will be launched, and top-quality national laboratories will be set up. In sum, technology and innovation play a key role to foster a rapid development of new industries, thus upgrading and transiting China's economy to more sustainable growth.

China's government development targets for 2019

- Target economic growth between 6.0% and 6.5% in 2019
- Keep the consumer price inflation at around 3%
- Create 11 million new jobs, cap the surveyed urban unemployment rate around 5.5% and registered unemployment rate within 4.5%
- Keep the M2 growth at largely the same pace as Nominal GDP growth rate
- Target a budget deficit of 2.8% of GDP, around RMB 2.76 trillion
- Stabilize imports and export with targeted balance in international payments
- Keep the increase in residential income in line with economic growth
- Reduce the ratio of energy consumption to GDP to 3% or more along with fall in major pollutant emissions
- Make progress in supply-side structural reform, stabilize the macro-leverage ratio, and keep various risks effectively and orderly under control
- Set a goal of reducing rural poverty by an additional 10 million people and relocate 2.8 million people for anti-poverty purposes
- Cut taxes and fees for all companies by nearly RMB 2 trillion
- Invest RMB 577.6 billion in intercity transportation, logistics, municipal administration, disaster prevention and control, civil and general aviation, and new generation of information infrastructure
- Continue to exempt purchasing taxes for new energy vehicles
- Reduce the value-added tax (VAT) rate for manufacturers from 16% to 13%
- Reduce the VAT rate for transportation and construction sectors from 10% to 9%
- Issue RMB 2.15 trillion local government special purpose bonds to spur infrastructure investment, a sharp increase from last year's quota of CNY1.35 trillion
- Invest RMB 800 billion in the rail sector and 1.8 trillion RMB in road and water transportation
- Cut general government spending by more than 5%, and "three public consumptions" by another 3%
- Lower the proportion of basic life insurance units paid to 16% in most cities
- Actively expand imports, prepare for the 2nd China International Import Expo and lower import tariffs on automobiles and consumer goods
- Narrow down the negative list of foreign investment access, expand pilot area of Shanghai FTA and make important progress in trade talks with U.S.

Source: Report on the Work of the Government in 2019

China Economic Indicators

	2016	2017	1Q2018	2Q2018	3Q2018	4Q2018	2018
Real GDP (YoY%)	6.7	6.8	6.8	6.7	6.5	6.4	6.6
PMI							
Manufacturing (%)	51.4	51.6	51.0	51.6	51.1	49.9	49.4
Non-Manufacturing (%)	54.5	55.5	54.8	54.9	54.4	53.5	53.2
Exports (RMB YoY %)	(1.9)	10.8	7.4	2.6	9.8	8.6	7.1
Imports (RMB YoY %)	0.6	18.7	11.7	11.2	19.1	9.1	12.9
Trade Balance (RMB/bn)	3352.3	2871.6	304.0	571.5	546.2	909.6	2330.3
Exports (USD YoY %)	(7.7)	7.9	13.7	11.5	11.7	4.0	9.9
Imports (USD YoY %)	(5.5)	15.9	19.3	20.6	20.4	4.4	15.8
Trade Balance (USD/bn)	510.7	422.5	45.0	90.6	84.1	132.1	351.8
CPI (YoY %)	2.0	1.6	2.2	1.8	2.3	2.2	2.1
PPI (YoY %)	(1.4)	6.3	3.7	4.1	4.1	2.3	3.5
FAI (YTD/ YOY %)	8.1	7.2	7.5	6.0	5.4	5.9	5.9
Real Estate Investment (YTD YoY %)	6.9	7.0	10.4	9.7	9.9	9.5	9.5
Industrial Production (YoY %)	6.0	6.6	6.8	6.8	6.0	5.7	6.2
Retail Sales (YoY%)	10.4	10.2	9.8	9.0	9.0	8.3	9.0
New Lending (RMB/bn)	12645.9	13523.1	4859.3	4170.0	4110.0	3027.0	16166.3
M2 (YoY %)	11.3	8.2	8.2	8.0	8.3	8.1	8.1
Aggregate Financing (RMB bn)	17802.2	22396.9	5855.1	4217.1	5335.7	3852.1	19260.0

	Jan 17	Feb 18	Mar 18	Apr 18	May 18	Jun 18	July18	Aug 18	Sept 18	Oct 18	Nov 18	Dec 18	Jan 19
Real GDP (YoY%)	-	-	6.8	-	-	6.7	-	-	6.5	-	-	6.4	-
PMI – Manufacturing %	51.3	50.3	51.5	51.4	51.9	51.5	51.2	51.3	50.8	50.2	50.0	49.4	49.5
PMI- Non-manufacturing%	55.3	54.4	54.6	54.8	54.9	55.0	54.0	54.2	54.9	53.9	53.4	53.2	54.7
Exports (RMB YoY %)	5.5	35.3	(10.1)	2.9	2.5	2.5	5.4	7.7	16.9	20	10.2	0.2	13.9
Imports (RMB YoY %)	30.9	0.1	6.2	12.3	15.7	5.7	20.6	19.5	17.6	25.7	7.8	(3.1)	2.9
Trade Balance (RMB/bn)	122.8	215.4	(35.1)	167.0	147.3	256.7	172.8	168.5	209.0	238.8	306.1	395.0	271.2
Export (USD YoY %)	10.6	43.5	(3.0)	11.9	11.9	10.7	11.6	9.5	14.4	15.5	5.4	(4.4)	9.1
Import (USD YoY %)	37.6	6.6	14.8	22.2	26.1	13.800	27	20.7	14.5	20.8	3	(7.6)	(1.5)
Trade Balance (USD/bn)	18.37	32.28	-5.81	26.28	23.45	40.79	27.4	26.23	31.08	34.76	44.75	57.1	39.2
CPI (YoY %)	1.5	2.9	2.1	1.8	1.8	1.9	2.1	2.3	2.5	2.5	2.2	1.9	1.7
PPI (YoY %)	4.3	3.7	3.1	3.4	4.1	4.7	4.6	4.1	3.6	3.3	2.7	0.9	0.1
FAI (YTD/ YOY %)	-	7.9	7.5	7.0	6.1	6.0	5.5	5.3	5.4	5.7	5.9	5.9	-
Real Estate Investment (YTD/ YoY %)	-	9.9	10.4	10.3	10.2	9.7	10.2	10.1	9.9	9.7	9.7	9.5	-
Industrial Production (YoY %)	-	7.2	6.0	7.0	6.8	6.0	6.0	6.1	5.8	5.9	5.4	5.7	-
Retail Sales (YoY%)	-	9.7	10.1	9.4	8.5	9.0	8.8	9.0	9.2	8.6	8.1	8.2	-
New Lending (RMB/bn)	2900.0	839.3	1120.0	1180.0	1150.0	1840.0	1450.0	1280.0	1380.0	697.0	1250.0	1080.0	3230.0
M2 (YoY %)	8.6	8.8	8.2	8.3	8.3	8.0	8.5	8.2	8.3	8.0	8.0	8.1	8.4
Aggregate Financing (RMB bn)	3079.3	1189.4	1585.4	1777.1	951.8	1487.7	1224.4	1940.1	2168.2	728.8	1520.0	1590.0	4640.0
Urban Unemployment Rate (%)	5.0	5.0	5.1	4.9	4.8	4.8	5.1	5.0	4.9	4.9	4.8	4.9	-
Urban Unemployment Rate in 31 major cities (%)	4.8	4.9	4.9	4.7	4.7	4.7	5.0	4.9	4.7	4.7	4.7	4.7	-

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	25,806.63	16.44	-0.96
S&P 500	2,789.65	18.38	-0.15
NASDAQ	7,576.36	34.76	0.36
EUR			
FTSE 100	7,183.43	17.07	0.45
DAX	11,620.74	14.47	0.69
CAC40S	5,297.52	17.82	1.12
STOXX EUR 600	375.64	17.59	0.54
Asia			
HSI	28,961.60	11.07	0.66
HSCEI	11,582.61	9.16	0.33
CSI300	3,816.01	14.47	3.56
SSE Composite	3,054.25	14.41	3.83
SZSE Composite	1,635.98	27.10	5.57
NIKKEI 225	21,625.58	16.03	0.26
KOSPI	2,174.19	10.61	-2.35
TWSE	10,305.26	14.00	-0.17
S&P/ASX 200	6,232.60	16.54	1.34
MSCI Index			
MSCI WORLD	2,087.50	17.31	-0.20
MSCI DEVELOPED	504.07	16.62	-0.29
MSCI EMERGING	1,055.12	12.84	-0.92
MSCI US	2,659.96	18.77	-0.14
MSCI UK	2,074.76	17.02	0.38
MSCI France	153.00	18.03	1.25
MSCI Germany	140.63	14.68	1.11
MSCI China	84.53	13.46	1.72
MSCI Hong Kong	16,267.87	12.82	-0.01
MSCI Japan	969.74	13.69	0.06

* As of 5/3/2019 closing for all markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	56.22	1.30
ICE Brent Oil	USD/bbl	65.24	0.06
NYMEX NatGas	USD/MMBtu	2.87	0.60
Basic Metals			
LME Alum.Cash	USD/MT	1,849.25	-1.91
CMX Cop.Active	USD/lb.	293.40	-0.95
LME Steel Rebar	USD/MT	479.00	-0.93
LME Lead Cash	USD/MT	2,084.00	0.22
Precious Metals			
CMX Gold	USD/KRW	1,288.35	-2.89
Gold Futures	USD/KRW	1,289.50	-2.40
CMX Silverbn	USD/KRW	15.15	-4.47
NYMEX Platinum	USD/T. oz	837.50	-3.47
Agri. Products			
CBOT Corn	USD/bu	375.75	-0.07
CBOT Wheat	USD/bu	462.75	-1.17
NYB-ICE Sugar	USD/lb.	12.44	-3.19
CBOT Soybeans	USD/bu.	913.75	-0.35

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	2.50	0.00
US Prime Rate	5.50	0.00
US Discount Window	3.00	0.00
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	-0.10	0.00
US Treasury (1 Mth)	2.41	0.00
US Treasury (1 Yr)	2.53	-0.01
US Treasury (5 Yr)	2.53	0.04
US Treasury (10 Yr)	2.72	0.03
US Treasury (30 Yr)	3.08	0.02
1-Month LIBOR	2.48	0.00
3 Month LIBOR	2.61	-0.03
Japan 1-Yr Gov. Bond	-0.14	0.03
Japan 10-Yr Gov. Bond	0.01	0.03
German 1-Yr Gov. Bond	-0.53	0.01
German 10-Yr Gov. Bond	0.18	0.06
China Benchmark Interest	4.35	0.00
China 1-Yr Gov. Bond	2.47	0.06
China 5-Yr Gov. Bond	3.03	0.12
China 10-Yr Gov. Bond	3.23	0.04
O/N SHIBOR	2.27	-0.44
1-mth SHIBOR	2.70	0.02
HK Base rate	2.75	0.00
O/N HIBOR	0.76	0.32
1-mth HIBOR	1.33	0.42
O/N CNH HIBOR	1.96	-0.72
1-mth CNH HIBOR	2.68	-0.17
Corporate Bonds (Moody's)		
Aaa	3.87	0.07
Baa	4.94	0.04

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	96.73	0.76
Euro/USD	1.13	-0.82
GBP/USD	1.32	-1.09
AUD/USD	0.71	-1.55
USD/CAD	1.34	1.69
USD/JPY	111.84	1.28
USD/CHF	1.00	0.78
USD/CNY Midpoint	6.70	0.07
USD/CNY	6.70	0.02
USD/CNY NDF		
12-mth Spot pr.	6.73	0.34
USD/CNH	6.71	0.39
USD/HKD	7.85	0.00
CNY/HKD	1.17	-0.02
CNH/HKD	1.17	-0.39
USD/KRW	1,126.30	0.68
USD/TWD	30.85	0.08
USD/SGD	1.36	0.66
USD/INR	70.53	-0.64

All data sources: Bloomberg, CEBI

Disclosures

Analyst Certification

We, LAM Chiu Kei, Banny (CE Number: AGH217) and LIU Mengzhuo (CE Number: BNY348) being the persons primarily responsible for the content of this research report, in whole or in part, hereby certify that all of the views expressed in this report accurately reflect our personal view about the subject company or companies and its or their securities. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this report. We and/or our associates have no financial interests in relation to any listed company(ies) covered in this report, and we and/or our associates do not serve as officer(s) of any listed company(ies) covered in this report.

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