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Economic Acumen

Commentary by CEBI Research Team

In Brief

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- Although growth target for 2020 has not been set in the Government Work Report, China will ensure achieving the development goals against poverty and completing the building of a moderately prosperous society in all respects.
- We are of the view that China's economic growth has shown signs of stabilization in 2Q2020 and the forward-looking economic indicators point to a solid growth in domestic demand.
- Economic activities are expected rebound strongly in 2H2020 and we forecast that GDP growth will reach 2.0% in 2020.

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China's 2020 NPC: stabilizing employment and ensuring people's livelihood

After a 78-day delay due to the outbreak of coronavirus, the third annual session of China's 13th National People's Congress (NPC) was finally held in Beijing. The main emphasis of the NPC is to prioritize job creation and ensure living standards while maintaining effective epidemic control. In the wake of containing the spread of coronavirus, China has imposed travel and quarantine restrictions, which resulted in the first economic contraction in decades during the first-quarter. Starting from March, China has stepped up efforts to restore resumption of economic activities but the health and economic risks surrounding the economy still embrace growth uncertainties. In order to cushion the economic shocks, China's policy makers continue to launch countermeasures to provide relief to citizens and enterprises. The Central Government will increase spending, tax relief and subsidies for virus-hit sectors, which are especially vulnerable to job losses while the People's Bank of China (PBOC) will maintain ample liquidity in the financial system to spur bank lending and relieve financial burden of enterprises. In general, although growth target for 2020 has not been set in the Government Work Report, China will ensure achieving the development goals against poverty and completing the building of a moderately prosperous society in all respects. We are of the view that China's economic growth has shown signs of stabilization in 2Q2020 and the forward-looking economic indicators point to a solid growth in domestic demand. Economic activities are expected to rebound strongly in 2H2020 and we forecast that GDP growth will reach 2.0% in 2020.

China dropping the target of economic growth for 2020. As China faces growth headwinds including coronavirus shocks, trade disputes, global economic recession and heightened financial volatilities, the high degree of both domestic and external uncertainties remains intact which prompts China's policy makers to abandon specific growth target for 2020. Instead, the move enable them to concentrate on ensuring stability in the six fronts, namely employment, finance,

foreign trade, foreign investment, investment and expectations as well as security in the six areas, namely safeguarding employment, people's livelihoods, the development of market entities, food and energy security, the stable operation of industrial and supply chains, and the smooth functioning of society. In sum, China remains wary of a second wave of pandemic on a lack of immunity among China's population as well as unavailability of effective medicine and vaccines. We are of the view that China aims to strive for healthy recovery in all areas of economic and social development while implementing regular and effective epidemic prevention and control measures for the rest of 2020. Despite all the challenges facing China, China's policy makers will strengthen the size of stimulus plans to revitalize growth in an attempt to prevent the economy from losing growth momentum and cope with profound changes in the external environment, thus ensuring a more sustainable path of economic recovery.

Targeting job creation to alleviate economic pressures. Creation of more than 9 million new urban jobs along with maintaining the surveyed urban unemployment rate at around 6.0% are the main targets of the Government Work Report. Amid a deep slump in economic activities, unemployment rate surges, posing a big challenge to China's economic stability. Growing number of job-seekers intensifies pressure on China's policy makers to treat job security as critical in maintaining economic and social order. In sum, China aims to launch several accommodative stimulus measures through monetary, fiscal and investment channel to support sectors of the economy, ensuring the continuation of job creation in the market.

Targeting budget deficit at 3.6% of GDP to counteract coronavirus fallout. China is targeting a higher 2020 budget deficit of at least 3.6% of GDP, which increases government spending, provides tax and fee relief, boosts confidence and strengthens the social safety net for vulnerable sectors. For bond issuance, the quota on local-government special bond issuance is fixed at RMB 3.75 trillion, up from 2019's RMB 2.15 trillion while the Central Government will issue RMB 1 trillion in special treasury bonds for anti-coronavirus purposes. Local governments can use the proceeds of the bond issuance to provide financial relief to households and small and medium-sized enterprises in some regions hit hardest by the pandemic as well as invest in building infrastructure, including public health and transportation facilities. In addition, China will extend the tax and fee reduction plan with which companies will obtain savings of RMB 2.5 trillion. The plan will stimulate business incentives to increase investment in services and consumer goods industries as well as boost domestic consumption. In sum, deployment of proactive fiscal stimulus helps shore up China's economy and strengthens recovery momentum.

Pursuing a prudent monetary policy in a more flexible and appropriate manner to support growth stabilization. China's economy is facing a potential drag from health crisis with which accommodative monetary policy plays a key role to help stabilize the financial system and resist growth deceleration. Although global central banks have aggressively conducted monetary easing to battle a broad-based downturn, the People's Bank of China (PBOC) aims to keep market liquidity at a reasonable and ample level to boost economic growth. In sum, China will adopt a prudent approach with flexibility for liquidity management in 2020 in order to maintain economic and financial stability. Under this monetary stance, we expect the PBOC will roll out a mix of targeted lending facilities including RRR cuts, repo, standing lending facility (SLF), short-term liquidity operation (SLO), mid-term lending facility (MLF), and pledged supplementary lending (PSL), central bank bills swap (CBS), thus lowering loan prime rate (LPR) and entailing more flexibility to accommodate capital demand in 2020.

Investment in 'New Economy' infrastructure to boost growth momentum. In the wake of the complicated and volatile external environment, China's economy faces surging downside risks. Stimulus plans can only provide short-term relief to the economy but investment in technology and innovation will foster a rapid development of new industries, thus upgrading and transiting China's economy to more sustainable growth. The Government Work Report approves to increase the quota of special bonds issuance, thus strengthening investment in traditional and new infrastructure to advance the upgrading of traditional industries, and boosting investment in emerging strategic industries. Promoting the application of big data, AI, the 5G mobile network, info-tech, high-end equipment, bio-medicine, new energy, new materials and other emerging industrial clusters will further make China become a leader in 'new economy' infrastructure. As new infrastructure is conducive to advancing the industrial upgrading, nurturing new growth drivers and promoting employment and entrepreneurship, we are of the view that China will further strengthen innovation-driven development strategy, thus making the economy more innovative and competitive.

Shaping consumption market to generate growth resilience. The Government Work Report highlights that China's domestic demand has enormous potential to support China's economy. Strengthening the recovery of consumption, enlarging the size of consumption market and improving the consumption environment will help revive the growth momentum of economic activities. Stabilization of employment and enhancement of income growth, which are supported by Government's countermeasures, provide stimulus on consumer spending. The plans will support the recovery of food and beverage, brick and mortar shopping, culture, tourism, domestic services, and other consumer services, promote the integration of online and offline consumption, develop elderly and child care services, and enhance the roll-out of e-commerce and express

delivery services in rural areas to expand rural consumption. We are of the view that China's consumption market will generate a strong wave of growth to support the real economy.

14th Five-Year plan focusing on promoting sustainable economic growth, improving people's livelihoods and preventing and defusing risks. The Government Work Report indicates that tasks laid down in the 13th five year plan will be completed this year and 14th Five-Year plan (2021-2025) will begin to draw up. In sum, the external environment could be even more complicated, uncertain and challenging during the 14th Five-Year Plan, which will be a crucial period for transforming the path of development, refining economic structure and fostering new growth drivers. We are of the view that China will aim to boost infrastructure development, enhance the level of innovation, improve competitiveness in different sectors and better protect the environment in devising the country's development blueprint for the 2021-25 period.

China's Government Major Development Targets for 2020

- No specific target of economic growth for 2020 amid growth uncertainties
- Create over 9 million new jobs and cap the surveyed urban unemployment rate around 6.0% and registered unemployment rate within 5.5%
- Elimination of poverty among all rural residents living below poverty line and in poor countries
- Growth in personal income in line with economic growth
- Keep the consumer price inflation at 3.5%
- Reiterate prudent monetary policy in a flexible manner
- Target M2 and aggregate financing to real economy higher than 2019
- Reiterate proactive fiscal policy
- Target a budget deficit of 3.6% of GDP, around RMB 3.76 trillion
- Plan to issue RMB 1 trillion anti-virus special treasury bonds
- Plan to issue RMB 3.75 trillion anti-virus special local government bonds
- Further cut taxes and fees by nearly 500bn and save companies more than RMB 2.5 trillion
- Stabilize external trade with high-quality exports and imports
- Target basic equilibrium in the balance of payment
- Pledge to implement Phase-one US-China trade agreement
- Maintain Renminbi stable at reasonable level
- Effective control and prevention of major financial risks
- Target a further drop in energy consumption per unit of GDP and the discharge of pollutants
- Keep the defense spending growth at 6.6% to RMB 1.268 trillion, the lowest rise since 1991
- Expand 5G applications
- Accomplishment of 13th Five-Year plan

Source: Report on the Work of the Government in 2020

China economic indicators

	2017	2018	1Q2019	2Q2019	3Q2019	4Q2019	2019	1Q2020
Real GDP (YoY%)	6.8	6.6	6.4	6.2	6.0	6.0	6.1	(6.8)
PMI								
Manufacturing (%)	51.6	49.4	49.7	49.6	49.7	49.9	50.2	45.9
Non-Manufacturing (%)	55.5	53.2	54.6	54.3	53.7	53.6	53.5	45.3
Exports (RMB YoY %)	10.8	7.1	6.7	5.6	3.9	4.0	5.0	(11.4)
Imports (RMB YoY %)	18.9	12.9	0.3	2.8	(2.5)	5.4	1.6	(0.7)
Trade Balance (RMB/bn)	2852.0	2324.7	506.8	700.7	812.4	895.1	2917.7	98.6
Exports (USD YoY %)	7.9	9.9	1.4	(1.0)	(0.3)	1.8	0.5	(13.3)
Imports (USD YoY %)	16.1	15.8	(4.1)	(3.7)	(6.2)	3.2	(2.7)	(2.9)
Trade Balance (USD/bn)	419.6	350.9	72.9	103.9	117.7	127.4	421.9	13.1
CPI (YoY %)	1.6	2.1	1.8	2.6	2.9	4.3	2.9	4.9
PPI (YoY %)	6.3	3.5	0.2	0.5	(0.8)	(1.2)	(0.3)	(0.6)
FAI (YTD/ YOY %)	7.2	5.9	6.3	5.8	5.4	5.4	5.4	(16.1)
Real Estate Investment (YTD YoY %)	7.0	9.5	11.8	10.9	10.5	9.9	9.9	(7.7)
Industrial Production (YoY %)	6.6	6.2	6.5	5.6	5.0	5.9	5.7	(8.4)
Retail Sales (YoY%)	10.2	9.0	8.3	8.6	7.6	7.8	8.0	(19.0)
New Lending (RMB/bn)	12174.9	16173.6	5809.1	3863.4	3955.6	3187.6	16817.5	7096.6
M2 (YoY %)	8.1	8.1	8.6	8.5	8.4	8.7	8.7	10.1
Aggregate Financing (RMB bn)	26153.6	22492.0	8605.9	6007.7	5997.0	4964.7	25575.2	11076.7

	Apr 19	May 19	Jun 19	July 19	Aug 19	Sept 19	Oct 19	Nov 19	Dec 19	Jan 20	Feb 20	Mar 20	Apr 20
Real GDP (YoY%)	-	-	6.2	-	-	6.0	-	-	6.0	-	-	(6.8)	-
PMI													
- Manufacturing %	50.1	49.4	49.4	49.7	49.5	49.8	49.3	50.2	50.2	50.0	35.7	52.0	50.8
- Non-manufacturing%	54.3	54.3	54.2	53.7	53.8	53.7	52.8	54.4	53.5	54.1	29.6	52.3	53.2
Exports (RMB YoY %)	3.2	7.7	5.9	10.4	2.6	(0.7)	2.1	1.1	9.0	-	(15.9)	(3.5)	8.2
Imports (RMB YoY %)	10.8	(2.2)	0.2	1.1	(2.5)	(5.9)	(3.3)	3.0	17.7	-	(2.4)	2.4	(10.2)
Trade Balance (RMB/bn)	88.1	276.1	335.7	303.4	238.9	270.8	298.2	264.4	332.1	-	(41.1)	139.6	318.2
Export (USD YoY %)	(2.7)	1.1	(1.5)	3.4	(1.0)	(3.2)	(0.8)	(1.3)	7.9	-	(17.2)	(6.6)	3.5
Import (USD YoY %)	4.5	(8.2)	(6.8)	(4.9)	(5.5)	(8.2)	(6.2)	0.8	16.5	-	(4.0)	(1.0)	(14.2)
Trade Balance (USD/bn)	13.0	41.2	49.6	44.0	34.7	39.0	42.4	37.3	47.2	-	(6.9)	19.9	45.3
CPI (YoY %)	2.5	2.7	2.7	2.8	2.8	3.0	3.8	4.5	4.5	5.4	5.2	4.3	3.3
PPI (YoY %)	0.9	0.6	0.0	(0.3)	(0.8)	(1.2)	(1.6)	(1.4)	(0.5)	0.1	(0.4)	(1.5)	(3.1)
FAI (YTD/ YOY %)	6.1	5.6	5.8	5.7	5.5	5.4	5.2	5.2	5.4	-	(24.5)	(16.1)	(10.3)
Real Estate Investment (YTD/ YoY %)	11.9	11.2	10.9	10.6	10.5	10.5	10.3	10.2	9.9	-	(16.3)	(7.7)	(3.3)
Industrial Production (YoY %)	5.4	5.0	6.3	4.8	4.4	5.8	4.7	6.2	6.9	-	(13.5)	(1.1)	3.9
Retail Sales (YoY%)	7.2	8.6	9.8	7.6	7.5	7.8	7.2	8.0	8.0	-	(20.5)	(15.8)	(7.5)
New Lending (RMB/bn)	1016.0	1183.7	1663.6	1055.8	1208.9	1691.0	661.3	1388.1	1138.2	337.5	905.7	2853.4	1700.0
M2 (YoY %)	8.5	8.5	8.5	8.1	8.2	8.4	8.4	8.2	8.7	8.4	8.8	10.1	11.1
Aggregate Financing (RMB bn)	1671.0	1712.4	2624.3	1287.2	2195.6	2514.2	868.0	1993.7	2103.0	5069.7	857.8	5149.2	3090.0
Urban Unemployment Rate (%)	5.0	5.0	5.1	5.3	5.2	5.2	5.1	5.1	5.2	-	6.2	5.9	6.0
Urban Unemployment Rate in 31 major cities (%)	5.0	5.0	5.0	5.2	5.2	5.2	5.1	5.1	5.2	-	5.7	5.7	5.8

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	24,465.16	18.14	3.29
S&P 500	2,955.45	20.54	3.20
NASDAQ	9,324.59	36.83	3.44
EUR			
FTSE 100	5,993.28	20.90	3.34
DAX	11,073.87	20.85	5.82
CAC40S	4,444.56	17.66	3.90
STOXX EUR 600	340.17	17.31	3.63
Asia			
HSI	22,952.24	9.54	(4.11)
HSCEI	9,465.94	7.75	(2.68)
CSI300	3,829.32	14.65	(2.39)
SSE Composite	2,817.97	14.63	(2.00)
SZSE Composite	1,750.82	50.09	(2.78)
NIKKEI 225	20,741.65	23.16	3.02
KOSPI	1,994.60	22.72	2.97
TWSE	10,871.18	18.38	1.22
S&P/ASX 200	5,615.59	17.86	2.84
MSCI Index			
MSCI WORLD	2,071.90	20.00	3.16
MSCI DEVELOPED	491.94	19.08	2.84
MSCI EMERGING	905.25	14.11	0.45
MSCI US	2,832.78	21.30	3.32
MSCI UK	1,699.26	21.28	3.21
MSCI France	129.20	17.36	3.63
MSCI Germany	127.26	20.26	5.54
MSCI China	78.99	13.55	(2.57)
MSCI Hong Kong	12,225.82	11.23	(5.43)
MSCI Japan	891.29	17.34	1.53

** As of 25/05/2020 closing for Asia markets, 22/05/2020 for other markets

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	33.47	5.19
ICE Brent Oil	USD/bbl	35.16	1.01
NYMEX Natural	USD/MMBtu	1.72	(3.76)
Basic Metals			
LME Aluminum	USD/MT	1,481.25	3.66
CMX Copper	USD/lb.	239.55	(0.35)
LME Steel Rebar	USD/MT	398.50	(1.36)
LME Lead Cash	USD/MT	1,630.25	3.19
Precious Metals			
CMX Gold	USD/T. oz	1,728.27	(1.95)
Gold Futures	USD/T. oz	1,744.80	(0.11)
CMX Silver	USD/T. oz	16.97	(2.18)
NYMEX Platinum	USD/T. oz	831.90	0.88
Agricultural			
CBOT Corn	USD/bu	3.20	0.39
CBOT Wheat	USD/bu	5.14	2.39
NYB-ICE Sugar	USD/lb.	10.93	5.30
CBOT Soybeans	USD/bu.	8.47	0.86

All data sources: Bloomberg

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	0.25	0.00
US Prime Rate	3.25	0.00
US Discount Window	0.25	0.00
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	(0.10)	0.00
US Treasury (1 Mth)	0.08	0.00
US Treasury (1 Yr)	0.15	0.00
US Treasury (5 Yr)	0.33	(0.04)
US Treasury (10 Yr)	0.66	(0.07)
US Treasury (30 Yr)	1.37	(0.07)
1-Month LIBOR	0.17	0.00
3 Month LIBOR	0.36	(0.03)
Japan 1-Yr Gov. Bond	(0.13)	0.03
Japan 10-Yr Gov. Bond	0.00	0.01
German 1-Yr Gov. Bond	(0.56)	0.00
German 10-Yr Gov. Bond	(0.50)	(0.03)
China LPR (1-year)	3.85	(0.30)
China 1-Yr Gov. Bond	1.38	1.38
China 5-Yr Gov. Bond	2.12	2.12
China 10-Yr Gov. Bond	2.66	2.66
O/N SHIBOR	1.47	0.57
1-mth SHIBOR	1.32	0.02
HK Base rate	0.30	0.16
O/N HIBOR	0.30	0.16
1-mth HIBOR	1.13	0.52
O/N CNH HIBOR	2.12	0.15
1-mth CNH HIBOR	2.34	0.37
Corporate Bonds (Moody's)		
Aaa	2.45	(0.06)
Baa	3.86	(0.18)

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	99.91	0.25
Euro/USD	1.0885	0.68
GBP/USD	1.2174	0.40
AUD/USD	0.6533	1.19
USD/CAD	1.3992	(0.49)
USD/JPY	107.74	0.41
USD/CHF	0.9726	0.05
USD/CNY Midpoint	7.1209	0.25
USD/CNY	7.1392	0.42
12-mth Spot pr.	7.2490	0.30
USD/CNH	7.1523	0.20
USD/HKD	7.7551	0.05
CNY/HKD	1.0863	(0.38)
CNH/HKD	1.0843	(0.15)
USD/KRW	1,244.13	0.95
USD/TWD	30.057	0.26
USD/SGD	1.4262	0.00
USD/INR	75.80	0.45

Disclosures

Analyst Certification

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