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Economic Acumen

Commentary by CEBI Research Team

In Brief

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- The 14th FYP hinges on “dual circulation,” amid the economic shocks of coronavirus and the increasingly hostile economic competition with the U.S. The plan calls for forming a powerful domestic market and establishing a new growth model.
- The long-range objectives of China rest on strengthening economic power through more domestic consumption and self-reliance in science and technology, pulling GDP per capita level up to that of the middle level of developed economies by 2035.
- China's policy makers set sweeping social and economic development goals for the next five to fifteen years to build the nation into a modern socialist power. China will nurture a strong domestic market and establish a new development model, thus ensuring the reinforcement of domestic and international circulations, striving for leadership in technological advances and spurring overall demand.

Banny Lam
Head of Research
Banny.lam@cebi.com.hk
(852)2916-9630

China unveiling the blueprint for 14th Five-Year plan and economic targets through 2035

The fifth plenum of the Chinese Communist Party (CCP)'s 19th Central Committee concluded in Beijing on 29th October after a four-day meeting. The primary agenda of the meeting is to set the blueprint for the 14th Five-Year Plan (FYP) from 2021 to 2025 while establishing nations' goals through 2035. The economic vision for China's economic future puts a heavy emphasis on sustainable and quality growth, which are driven by technology innovation and enhancement of economic efficiency. The 14th FYP hinges on “dual circulation,” amid the economic shocks of coronavirus and the increasingly hostile economic competition with the U.S. The plan calls for forming a powerful domestic market and establishing a new growth model, where the internal circulation including domestic production and consumption, would play a key role in driving growth, complemented by the external circulation, namely external trade and foreign direct investment. In addition, the long-range objectives of China rest on strengthening economic power through more domestic consumption and self-reliance in science and technology, pulling GDP per capita level up to that of the middle level of developed economies by 2035. In sum, China's policy makers set sweeping social and economic development goals for the next five to fifteen years that aim to build the nation into a modern socialist power. China will nurture a strong domestic market and establish a new development model, thus ensuring the reinforcement of domestic and international circulations, striving for leadership in technological advances and spurring overall demand. Precise and practical development goals will drive sustainable and healthy economic development of China, thus ensuring growing economic strengths in coming decades.

14th FYP triggering transformation of China's economy. The 14th FYP has drawn domestic and international attention since it will lay the foundation for China to step into an era of a modern nation amid mounted external uncertainties. The plan will be the first FYP after China accomplishes building a moderately prosperous society in 2020

with which it would further upgrade China's economy to high-quality economic growth as well as expand investments into independent research and development on key technologies. In sum, China is facing fiercer global competition as it follows the path of expansion by climbing up the global industrial chain. Against the backdrop of increasingly strained US-China ties and an external environment characterized by rising protectionism and a global economic stagnation, China aims to liberalize the economy and pursue quality growth through proper macroeconomic policy support. With new steps to be taken in reform and opening-up, China will further improve its socialist market economy to foster a balanced and sustainable development.

“Dual circulation” strategy boosting economic momentum. A development pattern centered on "internal circulation" and supplemented by the "external circulation" is set by the 14th FYP for the future development of China. The adoption of a new “dual circulation” strategy assigns domestic consumption a higher profile role in economic growth, alongside the export manufacturing sector, amid the retreat of globalization and the risk of decoupling from the U.S. economy. Given the advantages of a huge domestic market, China’s new development pattern will gradually be created, whereby domestic and foreign markets can boost each other, with the domestic market as the anchor. We are of the view that the new development paradigm of dual circulation aims to remove the barriers existing in domestic circulation, and further unleash the potential of domestic markets. The new architecture is a roadmap for China's long-term overall economic development and it will become a robust growth engine with strong vitality and bright economic prospects.

Self-sufficiency in cutting-edge technologies underpinning sustainable economic growth. With the global turbulence caused by the coronavirus pandemic and rising US-China tensions, China’s economy is facing a far more challenging external environment and threats of decoupling in high-technology industries. The uncertainty of whether Chinese technological enterprises can continue to collaborate with the U.S. companies is accelerating China’s efforts to ensure future technological prowess. The blueprint of 14th FYP highlights supports for self-sufficiency in science and technology. China will strive for making major breakthroughs in key core technologies, thus becoming a global leader in innovation and achieving resilient industrialization, digitalization, urbanization, and agricultural modernization. The core technologies are likely covering semiconductors, telecommunications, big data, and artificial intelligence.

China economic indicators

	1Q2019	2Q2019	3Q2019	4Q2019	2019	1Q2020	2Q2020	3Q2020
Real GDP (YoY%)	6.4	6.2	6.0	6.0	6.1	(6.8)	3.2	4.9
PMI								
Manufacturing (%)	49.7	49.6	49.7	49.9	50.2	45.9	50.8	51.2
Non-Manufacturing (%)	54.6	54.3	53.7	53.6	53.5	45.3	53.7	55.1
Exports (RMB YoY %)	6.7	5.6	3.9	4.0	5.0	(11.4)	4.5	10.2
Imports (RMB YoY %)	0.3	2.8	(2.5)	5.4	1.7	(0.7)	(5.7)	4.3
Trade Balance (RMB/bn)	506.8	700.7	812.4	895.1	2912.0	99.3	1089.6	1116.5
Exports (USD YoY %)	1.4	(1.0)	(0.3)	1.8	0.5	(13.4)	0.2	8.8
Imports (USD YoY %)	(4.1)	(3.7)	(6.2)	3.2	(2.7)	(3.0)	(9.7)	3.2
Trade Balance (USD/bn)	72.9	103.9	117.7	127.4	421.1	13.1	154.7	158.3
CPI (YoY %)	1.8	2.6	2.9	4.3	2.9	4.9	2.7	2.3
PPI (YoY %)	0.2	0.5	(0.8)	(1.2)	(0.3)	(0.6)	(3.3)	(2.2)
FAI (YTD/ YOY %)	6.3	5.8	5.4	5.4	5.4	(16.1)	(3.1)	0.8
Real Estate Investment (YTD YoY %)	11.8	10.9	10.5	9.9	9.9	(7.7)	1.9	5.6
Industrial Production (YoY %)	6.5	5.6	5.0	5.9	5.7	(8.4)	4.4	5.8
Retail Sales (YoY%)	8.3	8.6	7.6	7.8	8.0	(19.0)	(3.9)	(0.4)
New Lending (RMB/bn)	5809.1	3863.4	3955.6	3187.6	16817.5	7096.6	4990.9	4170.2
M2 (YoY %)	8.6	8.5	8.4	8.7	8.7	10.1	11.1	10.9
Aggregate Financing (RMB bn)	8605.9	6007.7	5997.0	4964.7	25575.2	11109.4	9758.7	8751.9

	Sept 19	Oct 19	Nov 19	Dec 19	Jan 20	Feb 20	Mar 20	Apr 20	May 20	Jun 20	July 20	Aug 20	Sept 20
Real GDP (YoY%)	6.0	-	-	6.0	-	-	(6.8)	-	-	3.2	-	-	4.9
PMI													
- Manufacturing %	49.8	49.3	50.2	50.2	50.0	35.7	52.0	50.8	50.6	50.9	51.1	51.0	51.5
- Non-manufacturing%	53.7	52.8	54.4	53.5	54.1	29.6	52.3	53.2	53.6	54.4	54.2	55.2	55.9
Exports (RMB YoY %)	(0.7)	2.1	1.1	9.0	-	(15.8)	(3.5)	8.0	1.5	4.3	10.4	11.6	8.7
Imports (RMB YoY %)	(5.9)	(3.3)	3.0	17.7	-	(2.4)	2.3	(10.2)	(12.5)	6.2	1.6	(0.5)	11.6
Trade Balance (RMB/bn)	270.8	298.2	264.4	332.1	-	(41.2)	140.5	317.2	443.5	328.9	442.2	416.6	257.7
Export (USD YoY %)	(3.2)	(0.8)	(1.3)	7.9	-	(17.1)	(6.6)	3.4	(3.2)	0.5	7.2	9.5	9.9
Import (USD YoY %)	(8.2)	(6.2)	0.8	16.5	-	(4.0)	(1.1)	(14.2)	(16.6)	2.7	(1.4)	(2.1)	13.2
Trade Balance (USD/bn)	39.0	42.4	37.3	47.2	-	(6.9)	20.1	45.2	63.0	46.4	62.3	58.9	37.0
CPI (YoY %)	3.0	3.8	4.5	4.5	5.4	5.2	4.3	3.3	2.4	2.5	2.7	2.4	1.7
PPI (YoY %)	(1.2)	(1.6)	(1.4)	(0.5)	0.1	(0.4)	(1.5)	(3.1)	(3.7)	(3.0)	(2.4)	(2.0)	(2.1)
FAI (YTD/ YOY %)	5.4	5.2	5.2	5.4	-	(24.5)	(16.1)	(10.3)	(6.3)	(3.1)	(1.6)	(0.3)	0.8
Real Estate Investment (YTD/ YoY %)	10.5	10.3	10.2	9.9	-	(16.3)	(7.7)	(3.3)	(0.3)	1.9	3.4	4.6	5.6
Industrial Production (YoY %)	5.8	4.7	6.2	6.9	-	(13.5)	(1.1)	3.9	4.4	4.8	4.8	5.6	6.9
Retail Sales (YoY%)	7.8	7.2	8.0	8.0	-	(20.5)	(15.8)	(7.5)	(2.8)	(1.8)	(1.1)	0.5	3.3
New Lending (RMB/bn)	1691.0	661.3	1388.1	1138.2	3337.5	905.7	2853.4	1697.8	1482.1	1811.0	992.7	1277.5	1900.0
M2 (YoY %)	8.4	8.4	8.2	8.7	8.4	8.8	10.1	11.1	11.1	11.1	10.7	10.4	10.9
Aggregate Financing (RMB bn)	2514.2	868.0	1993.7	2103.0	5051.3	873.7	5184.5	3104.2	3186.6	3467.9	1694.0	3582.3	3480.0
Urban Unemployment Rate (%)	5.2	5.1	5.1	5.2	-	6.2	5.9	6.0	5.9	5.7	5.7	5.6	5.4
Urban Unemployment Rate in 31 major cities (%)	5.2	5.1	5.1	5.2	-	5.7	5.7	5.8	5.9	5.8	5.8	5.7	5.5

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	26,925.05	22.09	(2.75)
S&P 500	3,310.24	25.57	(2.67)
NASDAQ	10,957.61	68.49	(3.53)
EUR			
FTSE 100	5,654.97	442.99	(2.37)
DAX	11,788.28	39.45	(3.19)
CAC40S	4,691.14	48.40	(2.60)
STOXX EUR 600	347.86	37.97	(2.27)
Asia			
HSI	24,460.01	13.08	(1.84)
HSCEI	9,936.56	9.35	(1.87)
CSI300	4,720.83	17.99	0.63
SSE Composite	3,225.12	16.74	(0.80)
SZSE Composite	2,223.39	45.57	0.51
NIKKEI 225	23,295.48	38.80	(0.85)
KOSPI	2,300.16	26.54	(1.87)
TWSE	12,591.31	19.87	(2.46)
S&P/ASX 200	5,951.30	38.54	(3.32)
MSCI Index			
MSCI WORLD	2,322.14	28.26	(2.84)
MSCI DEVELOPED	557.84	26.97	(2.66)
MSCI EMERGING	1,114.76	20.64	(1.41)
MSCI US	3,205.02	26.19	(2.80)
MSCI UK	1,583.26	283.68	(2.52)
MSCI France	136.80	49.20	(2.61)
MSCI Germany	131.97	39.22	(3.59)
MSCI China	104.41	20.59	1.23
MSCI Hong Kong	13,429.25	24.42	(2.81)
MSCI Japan	974.61	27.37	(0.53)

*As of 02/11/2020 closing for all markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	36.81	(4.54)
ICE Brent Oil	USD/bbl	38.97	(3.68)
NYMEX Natural	USD/MMBtu	3.24	7.28
Basic Metals			
LME Aluminum	USD/MT	1,868.25	3.02
CMX Copper	USD/lb.	307.70	(0.40)
LME Steel Rebar	USD/MT	461.00	0.66
LME Lead Cash	USD/MT	1,785.25	1.26
Precious Metals			
CMX Gold	USD/T. oz	1,888.47	(0.86)
Gold Futures	USD/T. oz	1,892.50	(0.69)
CMX Silver	USD/T. oz	23.98	(1.49)
NYMEX Platinum	USD/T. oz	856.44	(4.58)
Agricultural			
CBOT Corn	USD/bu	397.50	(4.85)
CBOT Wheat	USD/bu	607.50	(2.02)
NYB-ICE Sugar	USD/lb.	14.97	1.35
CBOT Soybeans	USD/bu.	1,052.25	(2.88)

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	0.01
US Treasury (1 Yr)	0.12	(0.003)
US Treasury (5 Yr)	0.37	0.024
US Treasury (10 Yr)	0.84	0.042
US Treasury (30 Yr)	1.62	0.025
1-Month LIBOR	0.14	(0.016)
3 Month LIBOR	0.22	(0.001)
Japan 1-Yr Gov. Bond	(0.12)	(0.009)
Japan 10-Yr Gov. Bond	0.05	0.010
German 1-Yr Gov. Bond	(0.71)	(0.008)
German 10-Yr Gov. Bond	(0.64)	(0.060)
China LPR (1-year)	3.85	0.000
China 1-Yr Gov. Bond	2.75	0.112
China 5-Yr Gov. Bond	3.02	(0.025)
China 10-Yr Gov. Bond	3.19	(0.003)
O/N SHIBOR	2.32	0.142
1-mth SHIBOR	2.69	0.029
HK Base rate	0.50	0.000
O/N HIBOR	0.19	0.133
1-mth HIBOR	0.32	(0.115)
O/N CNH HIBOR	1.72	0.203
1-mth CNH HIBOR	2.88	0.060
Corporate Bonds (Moody's)		
Aaa	2.39	(0.02)
Baa	3.49	0.04

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	94.13	1.17
Euro/USD	1.16	(1.48)
GBP/USD	1.29	(1.09)
AUD/USD	0.70	(1.50)
USD/CAD	1.33	0.99
USD/JPY	104.71	(0.15)
USD/CHF	0.92	1.22
USD/CNY Midpoint	6.71	0.49
USD/CNY	6.69	(0.32)
12-mth Spot pr.	6.86	(0.10)
USD/CNH	6.69	(0.08)
USD/HKD	7.75	0.04
CNY/HKD	1.16	0.33
CNH/HKD	1.16	0.12
USD/KRW	1,133.70	0.52
USD/TWD	28.90	0.49
USD/SGD	1.37	0.43
USD/INR	74.44	1.13

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**Office address: CEB International Capital Corporation Limited, 22/F AIA Central, 1 Connaught Road Central, Hong Kong.
Tel: (852) 2916 9600**