

January 29, 2020

Economic Acumen

Commentary by CEBI Research Team

In Brief

- Renminbi has strengthened on continuing basis since June 2020 alongside China's rapid economic recovery from economic shocks caused by the coronavirus pandemic, thus gathering strengths against the U.S. dollar (USD) with appreciation of above 6% in 2020 and YTD 0.7% in 2021.

- Supportive growth momentum of China's economy, resilient exports and interest rate premium over major economies are the major driving forces for a strong renminbi. Amid the return to positive GDP growth and launch of more targeted foreign direct investment facilitation program, China overtook the U.S. as the largest recipient of foreign direct investment in 2020, thus supporting the upward trend of renminbi.

- Looking ahead, solid fundamentals for renminbi are likely to be extended into 2021. Although uncertainty over the evolution of the pandemic and US-China economic relationships under Biden's administration remain as the major risks to defuse the uptrend of renminbi, China's economic recovery out of the epidemic outbreak has been relatively swift and resilient economic fundamentals lend great support to continued strength of renminbi, which will stay well-supported between 6.3 and 6.4 per USD in 2020.

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Renminbi soaring on China's growth resilience

Renminbi has strengthened on continuing basis since June 2020 alongside China's rapid economic recovery from economic shocks caused by the coronavirus pandemic, thus gathering strengths against the U.S. dollar (USD) with appreciation of above 6% in 2020 and YTD 0.7% in 2021. Supportive growth momentum of China's economy, resilient exports and interest rate premium over major economies are the major driving forces for a strong renminbi. Amid the return to positive GDP growth and launch of more targeted foreign direct investment facilitation program, China overtook the U.S. as the largest recipient of foreign direct investment in 2020, thus stabilizing investment in China after the coronavirus lockdowns and supporting the upward trend of renminbi. Looking ahead, solid fundamentals for renminbi are likely to be extended into 2021. Although uncertainty over the evolution of the pandemic and US-China economic relationships under Biden's administration remain as the major risks to defuse the uptrend of renminbi, China's economic recovery out of the epidemic outbreak has been relatively swift and resilient economic fundamentals including strong domestic demand, advancing technological innovation, surging current account surplus, abundant foreign exchange reserves, sound fiscal conditions, and stable financial systems, lend great support to continued strength of renminbi, which will stay well-supported between 6.3 and 6.4 per USD in 2021.

Resilience of economic fundamentals justifying upbeat momentum of renminbi. The fundamental reason behind renminbi rally rests on the robust recovery of China's economy. China manufacturing and services purchasing managers' index (PMI) for December 2020 posted 51.9 and 55.7 respectively, staying above 50 for ten consecutive months, which indicated that economic activities continue to expand and China's economy maintains recovering momentum with good prospects. In sum, the economic vision under 14th Five-Year Plan (FYP) puts an emphasis on leveraging the fundamental role of domestic demand and technology in enhancing quality of economic growth. The steady growth in China along with

stable momentum of job creation will support the ongoing transformation and upgrading of China's economy. China's policy makers will conduct prudent monetary policy and proactive fiscal policy to expand domestic demand, assist businesses reopening, sustain employment, and help all types of businesses to support growth rebound of China's economy, thus lending solid support for a stronger renminbi in 2021.

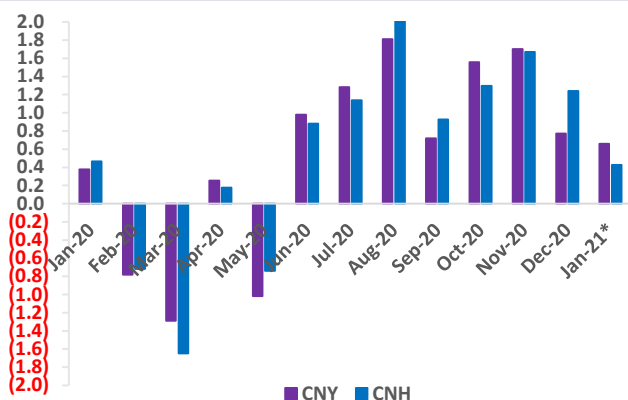
China's exports outperformance supporting rally of renminbi.

Early control of coronavirus pandemic allowed China's factories to capitalize on global demand for medical supplies and electronic products with which China posted a record trade surplus of RMB 3.7 trillion in 2020. China's export outperformance has helped the economic recovery, and supported rebound of renminbi. Looking forward, Chinese manufacturers have flexibly adjusted their production lines to produce goods to meet the demand in upcoming post-pandemic era. The latest release of China's December official New Export Orders and Import Indexes, the sub-index of manufacturing PMI, stayed above 50 at 51.3 and 50.4, signaling that surging overseas new orders and strengthening domestic demand for imported items will further stimulate recovery momentum of external trading activities. We are of the view that the shipments of healthcare and electronic products remain strong, thus lending solid support to boost growth momentum of China's external trade and strengthen upbeat momentum of renminbi in 2021.

Sizable interest rate spread becoming a crucial catalyst to sustain renminbi rally.

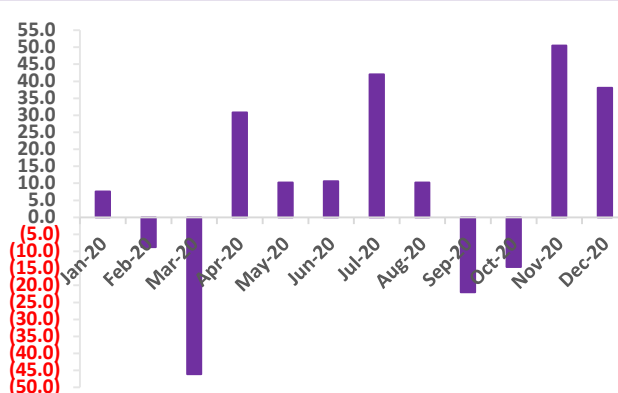
The People Bank of China (PBOC) has stepped up efforts to strike a balance between rising credit risks and guiding funds into the real economy to support economic recovery during 2020. In wake of resilient rebound of China's economy, the PBOC aims to resume "normal" stance of monetary policy by holding interest rate at reasonable level and maintaining only modest loosening of overall credit growth. The PBOC's policy exit is way ahead of other economics and large interest rate spread of more than 200 bps between China and the U.S. will remain amid prolonged low interest rate environment in developed economies. In sum, China's strengthening economic momentum is pushing forward the slowdown of monetary easing with which market interest rates will remain unchanged for some time, thus supporting the stability of China's bond yields and attracting more global investment into China fixed income market. Surging demand for China's bonds stimulates buying interests of renminbi, thus sustaining the near-term strengths.

Fig. 1: CNY and CNH (MoM%)



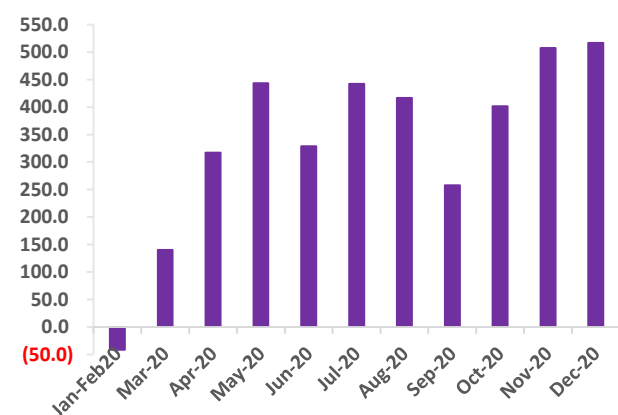
Source: Bloomberg *28th January 2021

Fig. 2: China Forex Reserves MoM (USD bn)



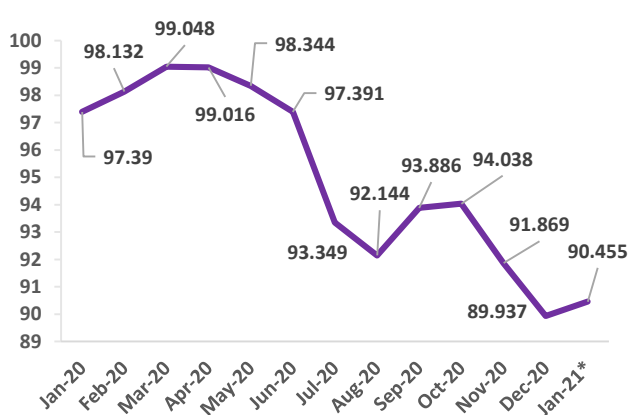
Source: Bloomberg

Fig. 3: China's Trade surplus (RMB bn)



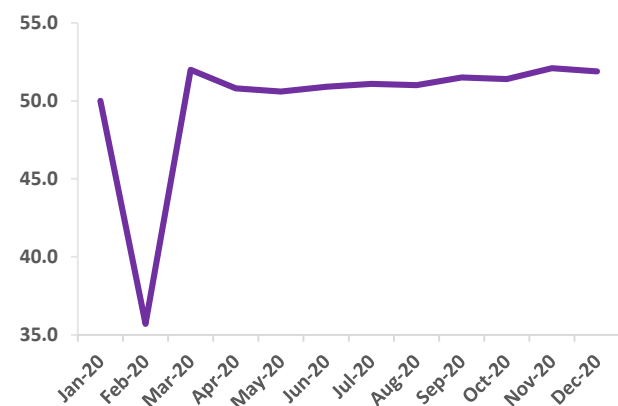
Source: Bloomberg

Fig. 4: U.S. Dollar Index



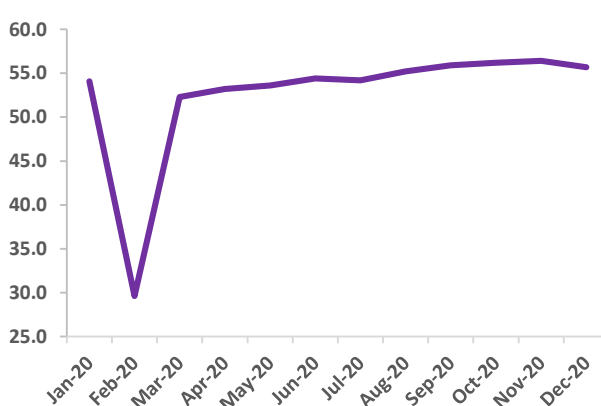
Source: Bloomberg *28th January 2021

Fig.5. China Manufacturing PMI



Source: Bloomberg

Fig. 6: China Non-Manufacturing PMI



Source: Bloomberg

China economic indicators

| | 2017 | 2018 | 2019 | 1Q2020 | 2Q2020 | 3Q2020 | 4Q2020 | 2020 |
|------------------------------------|---------|---------|---------|---------|--------|--------|--------|---------|
| Real GDP (YoY%) | 6.9 | 6.6 | 6.0 | (6.8) | 3.2 | 4.9 | 6.5 | 2.3 |
| PMI | | | | | | | | |
| Manufacturing (%) | 51.6 | 49.4 | 50.2 | 45.9 | 50.8 | 51.2 | 51.8 | 51.9 |
| Non-Manufacturing (%) | 55.5 | 53.2 | 53.5 | 45.3 | 53.7 | 55.1 | 56.1 | 55.7 |
| Exports (RMB YoY %) | 10.8 | 7.1 | 5.0 | (11.4) | 4.5 | 10.2 | 11.2 | 4.0 |
| Imports (RMB YoY %) | 18.9 | 12.9 | 1.7 | (0.8) | (5.7) | 4.3 | (0.04) | (0.7) |
| Trade Balance (RMB/bn) | 2852.0 | 2324.7 | 2912.0 | 99.3 | 1089.6 | 1116.5 | 1425.6 | 3709.6 |
| Exports (USD YoY %) | 7.9 | 9.9 | 0.5 | (13.4) | 0.1 | 8.8 | 17.0 | 3.6 |
| Imports (USD YoY %) | 16.1 | 15.8 | (2.7) | (3.0) | (9.7) | 3.2 | 5.3 | (1.1) |
| Trade Balance (USD/bn) | 419.6 | 350.9 | 421.1 | 13.1 | 154.7 | 158.3 | 535.1 | 781.7 |
| CPI (YoY %) | 1.6 | 2.1 | 2.9 | 4.9 | 2.7 | 2.3 | 0.1 | 2.5 |
| PPI (YoY %) | 6.3 | 3.5 | (0.3) | (0.6) | (3.3) | (2.2) | (1.3) | (1.8) |
| FAI (YTD/ YOY %) | 7.2 | 5.9 | 5.4 | (16.1) | (3.1) | 0.8 | 2.9 | 2.9 |
| Real Estate Investment (YTD YoY %) | 7.0 | 9.5 | 9.9 | (7.7) | 1.9 | 5.6 | 7.0 | 7.0 |
| Industrial Production (YoY %) | 6.6 | 6.2 | 5.7 | (8.4) | 4.4 | 5.8 | 7.1 | 2.8 |
| Retail Sales (YoY%) | 10.2 | 9.0 | 8.0 | (19.0) | (3.9) | (0.4) | 3.2 | (3.9) |
| New Lending (RMB/bn) | 13523.1 | 16166.3 | 16817.5 | 7096.6 | 4990.9 | 4166.7 | 3383.4 | 19637.7 |
| M2 (YoY %) | 8.2 | 8.1 | 8.7 | 10.1 | 11.1 | 10.9 | 10.1 | 10.1 |
| Aggregate Financing (RMB bn) | 19444.5 | 19258.4 | 25673.5 | 11111.0 | 9757.4 | 8751.6 | 5247.8 | 34863.6 |

| | Dec 19 | Jan 20 | Feb 20 | Mar 20 | Apr 20 | May 20 | Jun 20 | July 20 | Aug 20 | Sept 20 | Oct 20 | Nov 20 | Dec 20 |
|--|--------|--------|--------|--------|--------|--------|--------|---------|--------|---------|--------|--------|--------|
| Real GDP (YoY%) | 6.0 | - | - | (6.8) | - | - | 3.2 | - | - | 4.9 | - | - | 6.5 |
| PMI | | | | | | | | | | | | | |
| - Manufacturing % | 50.2 | 50.0 | 35.7 | 52.0 | 50.8 | 50.6 | 50.9 | 51.1 | 51.0 | 51.5 | 51.4 | 52.1 | 51.9 |
| - Non-manufacturing% | 53.5 | 54.1 | 29.6 | 52.3 | 53.2 | 53.6 | 54.4 | 54.2 | 55.2 | 55.9 | 56.2 | 56.4 | 55.7 |
| Exports (RMB YoY %) | 9.0 | - | (15.8) | (3.5) | 8.0 | 1.5 | 4.3 | 10.4 | 11.6 | 8.7 | 7.6 | 14.9 | 10.9 |
| Imports (RMB YoY %) | 17.7 | - | (2.4) | 2.3 | (10.2) | (12.5) | 6.2 | 1.6 | (0.5) | 11.6 | 0.9 | (0.8) | (0.2) |
| Trade Balance (RMB/bn) | 332.1 | - | (41.2) | 140.5 | 317.2 | 443.5 | 328.9 | 442.2 | 416.6 | 257.7 | 401.8 | 507.1 | 516.8 |
| Export (USD YoY %) | 7.9 | - | (17.1) | (6.6) | 3.4 | (3.2) | 0.5 | 7.2 | 9.5 | 9.9 | 11.4 | 21.1 | 18.1 |
| Import (USD YoY %) | 16.5 | - | (4.0) | (1.1) | (14.2) | (16.6) | 2.7 | (1.4) | (2.1) | 13.2 | 4.7 | 4.5 | 6.5 |
| Trade Balance (USD/bn) | 47.2 | - | (6.9) | 20.1 | 45.2 | 63.0 | 46.4 | 62.3 | 58.9 | 37.0 | 58.4 | 75.4 | 78.2 |
| CPI (YoY %) | 4.5 | 5.4 | 5.2 | 4.3 | 3.3 | 2.4 | 2.5 | 2.7 | 2.4 | 1.7 | 0.5 | (0.5) | 0.2 |
| PPI (YoY %) | (0.5) | 0.1 | (0.4) | (1.5) | (3.1) | (3.7) | (3.0) | (2.4) | (2.0) | (2.1) | (2.1) | (1.5) | (0.4) |
| FAI (YTD/ YOY %) | 5.4 | - | (24.5) | (16.1) | (10.3) | (6.3) | (3.1) | (1.6) | (0.3) | 0.8 | 1.8 | 2.6 | 2.9 |
| Real Estate Investment (YTD/ YoY %) | 9.9 | - | (16.3) | (7.7) | (3.3) | (0.3) | 1.9 | 3.4 | 4.6 | 5.6 | 6.3 | 6.8 | 7.0 |
| Industrial Production (YoY %) | 6.9 | - | (13.5) | (1.1) | 3.9 | 4.4 | 4.8 | 4.8 | 5.6 | 6.9 | 6.9 | 7.0 | 7.3 |
| Retail Sales (YoY%) | 8.0 | - | (20.5) | (15.8) | (7.5) | (2.8) | (1.8) | (1.1) | 0.5 | 3.3 | 4.3 | 5.0 | 4.6 |
| New Lending (RMB/bn) | 1138.2 | 3337.5 | 905.7 | 2853.4 | 1697.8 | 1482.1 | 1811.0 | 992.7 | 1278.3 | 1895.7 | 689.8 | 1433.7 | 1260.0 |
| M2 (YoY %) | 8.7 | 8.4 | 8.8 | 10.1 | 11.1 | 11.1 | 11.1 | 10.7 | 10.4 | 10.9 | 10.5 | 10.7 | 10.1 |
| Aggregate Financing (RMB bn) | 2201.3 | 5053.5 | 873.7 | 5183.8 | 3102.7 | 3186.6 | 3468.1 | 1692.8 | 3585.3 | 3469.3 | 1393.5 | 2134.3 | 1720.0 |
| Urban Unemployment Rate (%) | 5.2 | - | 6.2 | 5.9 | 6.0 | 5.9 | 5.7 | 5.7 | 5.6 | 5.4 | 5.3 | 5.2 | 5.2 |
| Urban Unemployment Rate in 31 major cities (%) | 5.2 | - | 5.7 | 5.7 | 5.8 | 5.9 | 5.8 | 5.8 | 5.7 | 5.5 | 5.3 | 5.2 | 5.1 |

World Economic/Financial Indicators

| Global Indices | | | |
|-------------------|---------------|--------|-----------------|
| Index | Closing Price | P/E | One Week chg(%) |
| U.S. | | | |
| DJIA | 30,603.36 | 26.70 | (1.84) |
| S&P 500 | 3,787.38 | 30.25 | (1.70) |
| NASDAQ | 13,337.16 | 66.81 | (1.43) |
| EUR | | | |
| FTSE 100 | 6,526.15 | 181.34 | (2.82) |
| DAX | 13,665.93 | 65.81 | (1.73) |
| CAC40S | 5,510.52 | 58.93 | (1.44) |
| STOXX EUR 600 | 403.39 | 52.03 | (1.83) |
| Asia | | | |
| HSI | 28,550.77 | 16.24 | (4.60) |
| HSCEI | 11,334.03 | 11.39 | (4.67) |
| CSI300 | 5,377.14 | 20.65 | (3.38) |
| SSE Composite | 3,505.18 | 18.42 | (3.21) |
| SZSE Composite | 2,352.75 | 50.71 | (3.95) |
| NIKKEI 225 | 28,197.42 | 39.05 | (1.95) |
| KOSPI | 3,069.05 | 32.28 | (2.90) |
| TWSE | 15,415.88 | 22.72 | (4.57) |
| S&P/ASX 200 | 6,649.69 | 43.67 | (1.78) |
| MSCI Index | | | |
| MSCI WORLD | 2,710.60 | 33.38 | (1.99) |
| MSCI DEVELOPED | 654.50 | 33.14 | (2.26) |
| MSCI EMERGING | 1,350.59 | 26.00 | (3.95) |
| MSCI US | 3,700.03 | 30.56 | (1.80) |
| MSCI UK | 1,831.38 | 157.15 | (2.73) |
| MSCI France | 160.24 | 62.51 | (1.46) |
| MSCI Germany | 154.05 | 71.74 | (1.60) |
| MSCI China | 117.76 | 24.99 | (3.12) |
| MSCI Hong Kong | 15,962.43 | 29.04 | (4.28) |
| MSCI Japan | 1,128.05 | 31.13 | (1.36) |

* As of 28/01/2021 closing for all markets.

| Global Commodities | | | |
|------------------------|-----------|----------|-----------------|
| | Unit | Price | One Week chg(%) |
| Energy | | | |
| NYMEX WTI | USD/bbl | 52.34 | (1.49) |
| ICE Brent Oil | USD/bbl | 55.53 | (1.02) |
| NYMEX Natural | USD/MMBtu | 2.66 | 6.95 |
| Basic Metals | | | |
| LME Aluminum | USD/MT | 1,983.35 | (0.61) |
| CMX Copper | USD/lb. | 357.80 | (1.91) |
| LME Steel Rebar | USD/MT | 631.00 | (0.47) |
| LME Lead Cash | USD/MT | 2,013.75 | (0.34) |
| Precious Metals | | | |
| CMX Gold | USD/T. oz | 1,841.73 | (1.53) |
| Gold Futures | USD/T. oz | 1,841.20 | (1.50) |
| CMX Silver | USD/T. oz | 25.29 | (2.38) |
| NYMEX Platinum | USD/T. oz | 1,063.85 | (5.42) |
| Agricultural | | | |
| CBOT Corn | USD/bu | 534.50 | 1.96 |
| CBOT Wheat | USD/bu | 647.00 | (2.08) |
| NYB-ICE Sugar | USD/lb. | 15.59 | (2.87) |
| CBOT Soybeans | USD/bu. | 1,353.25 | (1.24) |

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) | 0.02 | (0.03) |
| US Treasury (1 Yr) | 0.08 | (0.01) |
| US Treasury (5 Yr) | 0.43 | (0.02) |
| US Treasury (10 Yr) | 1.04 | (0.06) |
| US Treasury (30 Yr) | 1.80 | (0.06) |
| 1-Month LIBOR | 0.12 | (0.01) |
| 3 Month LIBOR | 0.21 | (0.01) |
| Japan 1-Yr Gov. Bond | (0.12) | 0.01 |
| Japan 10-Yr Gov. Bond | 0.04 | (0.003) |
| German 1-Yr Gov. Bond | (0.66) | (0.04) |
| German 10-Yr Gov. Bond | (0.54) | (0.04) |
| China LPR (1-year) | 3.85 | 0.00 |
| China 1-Yr Gov. Bond | 2.66 | 0.19 |
| China 5-Yr Gov. Bond | 3.03 | 0.11 |
| China 10-Yr Gov. Bond | 3.20 | 0.05 |
| O/N SHIBOR | 3.02 | 0.45 |
| 1-mth SHIBOR | 2.71 | 0.22 |
| HK Base rate | 0.50 | 0.00 |
| O/N HIBOR | 0.05 | 0.01 |
| 1-mth HIBOR | 0.15 | 0.03 |
| O/N CNH HIBOR | 3.77 | 1.30 |
| 1-mth CNH HIBOR | 3.14 | 0.52 |
| Corporate Bonds (Moody's) | | |
| Aaa | 2.42 | 0.38 |
| Baa | 3.20 | (0.01) |

| Currency market | | |
|------------------|-----------|-----------------|
| | Spot Rate | One Week chg(%) |
| US Dollar Index | 90.46 | 0.36 |
| Euro/USD | 1.21 | (0.25) |
| GBP/USD | 1.37 | (0.47) |
| AUD/USD | 0.76 | (2.05) |
| USD/CAD | 1.29 | 1.88 |
| USD/JPY | 104.24 | 0.80 |
| USD/CHF | 0.89 | 0.23 |
| USD/CNY Midpoint | 6.48 | 0.23 |
| USD/CNY | 6.45 | (0.19) |
| 12-mth Spot pr. | 6.65 | 0.67 |
| USD/CNH | 6.49 | 0.41 |
| USD/HKD | 7.75 | 0.02 |
| CNY/HKD | 1.20 | 0.21 |
| CNH/HKD | 1.20 | (0.39) |
| USD/KRW | 1,119.65 | 1.95 |
| USD/TWD | 28.22 | 0.18 |
| USD/SGD | 1.33 | 0.68 |
| USD/INR | 73.04 | 0.02 |

Disclosures

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