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# Economic Acumen

Commentary by CEBI Research Team

## In Brief

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- China's economic activities experienced cooling strengths in 2020 but the economy has largely recovered from the pandemic-driven slowdown, thus becoming the only major nation in the world to achieve positive economic growth.
- Looking forward, the 14<sup>th</sup> Five-Year Plan (FYP) will lay the foundation for China to step into an era of a modern nation amid mounted external uncertainties. China aims to liberalize the economy and pursue quality growth through proper macroeconomic policy supports to foster a balanced and sustainable development.
- We are of the view that China's economy demonstrates signs of strong rebound and the forward-looking economic indicators point to a solid growth in domestic demand. We forecast GDP growth for 2021 will reach 8.2% in 2021.

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## China's 2021 NPC: bracing for high-quality growth

The goal of revitalizing growth momentum for China's economy to achieve full employment and sustainable growth becomes the major emphasis of China's 13th National People's Congress (NPC) in 2021. In the face of coronavirus pandemic and complicated global economic environment, China's economic activities experienced cooling strengths in 2020 but the economy has largely recovered from the pandemic-driven slowdown, thus becoming the only major nation in the world to achieve positive economic growth. Looking forward, year of 2021 marks the beginning of the 14<sup>th</sup> Five-Year Plan (FYP). The new FYP 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 adhere 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 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 supports to foster a balanced and sustainable development. We are of the view that China's economy demonstrates signs of strong rebound and the forward-looking economic indicators point to a solid growth in domestic demand. We forecast GDP growth for 2021 will reach 8.2% in 2021.

**China setting a growth target of 6% or above for 2021.** Premier Li Keqiang unveils the GDP growth target of over 6% for 2021, staying well above 2020's GDP growth of 2.3%. The early exit from the pandemic offers China with competitive advantage to resume production and consumption, thus becoming the first major economy to recover from deep slump in economic activities and experiencing the V-shaped recovery path. Looking forward, the economic vision under 14<sup>th</sup> FYP eyes on sustainable growth strategy. China will

continue to liberalize the economy and pursue high-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, promoting foreign trade growth, and creating new growth drivers to drive domestic demand. We are of the view that pickup in consumption and investment, coupled with stronger business and consumer confidence, lend great support to revive growth momentum. China's economy will grow at a medium-high growth rate in 2021 with more focus on boosting domestic demand and cultivating technological innovation. China's macroeconomic conditions remain sound and we forecast China's GDP growth will reach 8.2% YoY in 2021.

**Targeting job creation to support economic growth.** Creation of more than 11 million new urban jobs along with keeping the surveyed urban unemployment rate at around 5.5% are the main targets of the Government Work Report. Despite external uncertainties and concerns of a softening economy in 2020, China has kept delivering impressive job gains of 11.86 million, exceeding target of 9 million. In sum, China has elevated the status of employment-first policy to a macro policy with which China's policy makers not only attach great importance to employment, but also tailor the policies to boost employment. Looking forward, there is still have room for more job creation to maintain economic and social order. China will aim to pursue economic policies through monetary, fiscal and investment channel to support different sectors of the economy, thus ensuring the continuation of job gains in the market.

**14<sup>th</sup> FYP focusing on promoting sustainable economic growth.** The overall blueprint of 14<sup>th</sup> FYP focuses on promoting sustainable and quality growth, improving people's livelihoods and preventing and defusing risks, which are driven by technology innovation and enhancement of economic efficiency. The major economic indicators will be maintained within a reasonable range while pursuing high-quality development. China's urban unemployment rate will keep under 5.5% while the new FYP hinges on "dual circulation," thus 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.

**Targeting budget deficit at 3.2% of GDP to support economic recovery.** Compared to 2020's fiscal deficit at 3.6% of GDP, China is targeting a lower budget deficit at 3.2% of GDP for 2021, which implies that pickup in economic activities improve fiscal position of the Government which helps avoid a build-up in debt. The Government pledges to support economic recovery by increasing government spending, providing tax and fee relief, and strengthening the social safety net for vulnerable sectors. The fiscal measures will stimulate households and business incentives to increase consumption and investment in services and consumer goods. For bond issuance, the quota on local-government special bond issuance is reduced to RMB 3.65 trillion, down from 2020's RMB 3.75 trillion while the Central Government will not issue special treasury bonds for anti-coronavirus purposes. Local governments can use the proceeds of the bond issuance to invest in building infrastructure, including public health and transportation facilities. 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 revival of growth momentum.** China's accommodative monetary policy played a key role in 2020 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 recovery. In sum, the PBOC has stepped up efforts to strike a balance between rising credit risks and guiding funds into the real economy to support economic growth. We are of the view that the PBOC will continue to resume "normal" stance of monetary policy as China's recovery momentum is on track. The momentum of monetary easing will become stable to ensure long-term financial stability while maintaining low financing cost to fulfil the credit demand of enterprises and strengthen growth momentum of China. We expect the PBOC will continue to roll out a mix of targeted lending facilities to accommodate capital demand in 2021.

**Targeting a 18% cut of carbon emission per unit of GDP by 2025 to enhance environmental clean-up for long-term development.** Pollution control and environmental protection are crucial to health and sustainable development in China. China will devise an action plan for carbon emissions to peak through a 3% cut in energy consumption per unit of GDP in 2021 and a 13.5% reduction by 2025. Also, China will encourage to take active and well-ordered steps to develop nuclear energy while promoting the clean and efficient use of coal. In addition, China will introduce special policies on providing financial support for green and low-carbon development, and develop

instruments for supporting the reduction of carbon emissions while accelerating the development of national markets for trading energy-use rights and carbon-emissions rights. In sum, more policies supportive of new energy and water conservation will be implemented to enhance environmental protection, thus ensuring sustainable economic and social development in the coming decades.

## China's Government Major Development Targets for 2021

- Target of over 6% economic growth for 2021
- Create over 11 million new jobs and cap the surveyed urban unemployment rate around 5.5%
- Keep the consumer price inflation at 3.0%
- Reiterate prudent monetary policy in a flexible manner
- Target a budget deficit of 3.2% of GDP, around RMB 3.76 trillion
- No longer issue anti-virus special treasury bonds
- Lower special local government bonds quota to 3.65 trillion
- 3% cut in energy consumption per unit of GDP
- Keep food production over 1.3 trillion catties
- Ensure the continuity, consistency, and sustainability of macro policies to keep major economic indicators within an appropriate range
- Raise the VAT threshold for small-scale taxpayers from 100,000 to 150,000 yuan in monthly sales
- Set 5-year transition period for counties lifted out of poverty
- Plan to renovate and rebuild 53,000 old urban residential communities
- Take solid steps toward the goals of achieving peak carbon emissions and carbon neutrality
- Lower average rates for broadband and dedicated internet access services for small and medium enterprises by another 10 percent
- Abolish the port development fee
- Airlines' contributions to the civil aviation development fund will be cut by 20 percent
- Grant an extra tax deduction of 75 percent on enterprises' research and development costs. Raise this to 100 percent for manufacturing enterprises
- Clean heating accounts for 70 percent of all heating in northern China
- Encourage steady increases in spending on home appliances, automobiles, and other big-ticket items
- Address prominent housing issues in large cities

Source: Report on the Work of the Government in 2021

## 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	(11.7)	4.2	9.6	10.9	4.0
Imports (RMB YoY %)	18.9	12.9	1.7	(0.9)	(6.0)	4.0	(0.34)	(0.7)
Trade Balance (RMB/bn)	2851.9	2324.8	2912.0	94.0	1083.7	1108.6	1423.5	3709.6
Exports (USD YoY %)	7.9	9.9	0.5	(13.6)	(0.2)	8.4	16.7	3.6
Imports (USD YoY %)	16.1	15.8	(2.7)	(3.1)	(9.9)	3.0	5.0	(1.1)
Trade Balance (USD/bn)	419.6	350.9	421.1	12.4	153.8	157.1	211.7	535.0
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

	Feb 20	Mar 20	Apr 20	May 20	Jun 20	July 20	Aug 20	Sept 20	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21
Real GDP (YoY%)	-	(6.8)	-	-	3.2	-	-	4.9	-	-	6.5	-	-
PMI													
- Manufacturing %	35.7	52.0	50.8	50.6	50.9	51.1	51.0	51.5	51.4	52.1	51.9	51.3	50.6
- Non-manufacturing%	29.6	52.3	53.2	53.6	54.4	54.2	55.2	55.9	56.2	56.4	55.7	52.4	51.4
Exports (RMB YoY %)	(39.8)	(3.8)	7.7	1.2	4.0	10.0	11.2	8.2	7.2	14.5	10.9	-	50.1
Imports (RMB YoY %)	9.7	2.1	(10.4)	(12.7)	5.9	1.4	(0.8)	11.2	0.6	(1.4)	(0.2)	-	14.5
Trade Balance (RMB/bn)	(427.8)	138.7	315.2	440.6	327.9	439.1	413.5	256.0	399.2	507.5	516.8	-	675.9
Export (USD YoY %)	(40.6)	(6.9)	3.1	(3.5)	0.2	6.8	9.1	9.4	10.9	20.6	18.1	-	60.6
Import (USD YoY %)	7.7	(1.3)	(14.4)	(16.7)	2.3	(1.6)	(2.3)	12.7	4.4	3.9	6.5	-	22.2
Trade Balance (USD/bn)	(62.1)	19.8	44.9	62.6	46.3	61.9	58.5	36.8	58.1	75.5	78.2	-	103.3
CPI (YoY %)	5.2	4.3	3.3	2.4	2.5	2.7	2.4	1.7	0.5	(0.5)	0.2	(0.3)	-
PPI (YoY %)	(0.4)	(1.5)	(3.1)	(3.7)	(3.0)	(2.4)	(2.0)	(2.1)	(2.1)	(1.5)	(0.4)	0.3	-
FAI (YTD/ YOY %)	(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 %)	(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 %)	(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%)	(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)	905.7	2853.4	1697.8	1482.1	1811.0	992.7	1278.3	1895.7	689.8	1433.7	1255.2	3580.0	-
M2 (YoY %)	8.8	10.1	11.1	11.1	11.1	10.7	10.4	10.9	10.5	10.7	10.1	9.4	-
Aggregate Financing (RMB bn)	873.7	5183.8	3102.7	3186.6	3468.1	1692.8	3585.3	3469.3	1392.9	2135.5	1719.2	5170.0	-
Urban Unemployment Rate (%)	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 (%)	5.7	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(%)
<b>U.S.</b>			
DJIA	31,496.30	28.06	1.82
S&P 500	3,841.94	31.22	0.81
NASDAQ	12,920.15	69.80	(2.06)
<b>EUR</b>			
FTSE 100	6,630.52	126.71	2.27
DAX	13,920.69	47.35	0.97
CAC40S	5,782.65	54.76	1.39
STOXX EUR 600	408.68	49.41	0.91
<b>Asia</b>			
HSI	29,098.29	15.28	0.41
HSCEI	11,292.22	11.50	0.40
CSI300	5,262.80	19.92	(1.39)
SSE Composite	3,501.99	18.39	(0.20)
SZSE Composite	2,298.60	48.87	0.21
NIKKEI 225	28,864.32	32.93	(0.35)
KOSPI	3,026.26	28.06	(2.37)
TWSE	15,855.23	22.76	(3.63)
S&P/ASX 200	6,710.85	57.21	0.56
<b>MSCI Index</b>			
MSCI WORLD	2,728.56	33.37	0.06
MSCI DEVELOPED	657.49	31.82	0.05
MSCI EMERGING	1,339.31	24.50	0.00
MSCI US	3,730.84	31.44	0.29
MSCI UK	1,863.19	103.37	2.32
MSCI France	167.37	64.04	1.33
MSCI Germany	155.84	57.06	0.73
MSCI China	113.71	23.92	(1.47)
MSCI Hong Kong	16,643.24	33.79	0.30
MSCI Japan	1,161.12	28.06	1.31

\* As of 05/03/2021 closing for all markets.

Global Commodities			
	Unit	Price	One Week chg(%)
<b>Energy</b>			
NYMEX WTI	USD/bbl	66.09	7.46
ICE Brent Oil	USD/bbl	69.36	4.88
NYMEX Natural	USD/MMBtu	2.70	(2.53)
<b>Basic Metals</b>			
LME Aluminum	USD/MT	2,177.75	1.33
CMX Copper	USD/lb.	407.55	(0.42)
LME Steel Rebar	USD/MT	643.50	(2.50)
LME Lead Cash	USD/MT	1,983.50	(2.71)
<b>Precious Metals</b>			
CMX Gold	USD/T. oz	1,700.64	(1.93)
Gold Futures	USD/T. oz	1,698.50	(1.75)
CMX Silver	USD/T. oz	25.25	(5.33)
NYMEX Platinum	USD/T. oz	1,132.78	(5.05)
<b>Agricultural</b>			
CBOT Corn	USD/bu	545.50	(0.37)
CBOT Wheat	USD/bu	653.00	(1.10)
NYB-ICE Sugar	USD/lb.	16.40	(0.30)
CBOT Soybeans	USD/bu.	1,430.00	1.83

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)	0.03	0.01
US Treasury (1 Yr)	0.07	0.01
US Treasury (5 Yr)	0.80	0.07
US Treasury (10 Yr)	1.57	0.16
US Treasury (30 Yr)	2.30	0.15
1-Month LIBOR	0.10	(0.01)
3 Month LIBOR	0.18	(0.02)
Japan 1-Yr Gov. Bond	(0.11)	0.00
Japan 10-Yr Gov. Bond	0.10	(0.07)
German 1-Yr Gov. Bond	(0.60)	0.003
German 10-Yr Gov. Bond	(0.30)	(0.04)
China LPR (1-year)	3.85	0.00
China 1-Yr Gov. Bond	2.56	0.003
China 5-Yr Gov. Bond	3.06	0.00
China 10-Yr Gov. Bond	3.25	(0.03)
O/N SHIBOR	1.57	(0.53)
1-mth SHIBOR	2.60	(0.12)
HK Base rate	0.50	0.00
O/N HIBOR	0.04	0.002
1-mth HIBOR	0.13	0.005
O/N CNH HIBOR	1.90	(0.79)
1-mth CNH HIBOR	2.77	(0.20)
<b>Corporate Bonds (Moody's)</b>		
Aaa	3.00	0.04
Baa	3.67	0.01

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	91.98	1.21
Euro/USD	1.19	(1.33)
GBP/USD	1.38	(0.66)
AUD/USD	0.77	(0.26)
USD/CAD	1.27	(0.62)
USD/JPY	108.31	1.63
USD/CHF	0.93	2.28
USD/CNY Midpoint	6.49	0.30
USD/CNY	6.50	0.28
12-mth Spot pr.	6.69	0.51
USD/CNH	6.52	0.55
USD/HKD	7.76	0.09
CNY/HKD	1.20	(0.26)
CNH/HKD	1.19	(0.48)
USD/KRW	1,125.90	1.62
USD/TWD	28.09	0.26
USD/SGD	1.34	0.71
USD/INR	73.03	(0.60)

All data sources: Bloomberg

## Disclosures

### Analyst Certification

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