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Economic Acumen

Commentary by CEBI Research Team

In Brief

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- China's economy has largely recovered from the pandemic-driven slowdown through the implementation of countercyclical monetary and fiscal policy to prop up economic growth. However, the recent spread of 'Delta' coronavirus variant worldwide and surge in commodity prices have exacerbated economic uncertainties regarding the recovery momentum in 2H2021.
- The latest RRR cut will help support the real economy and stabilize financial markets, thus strengthening efforts to maintain sustainable growth momentum.
- We forecast one more RRR cut before the end of 3Q2021 is needed to enhance financial support for China's economy.

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The PBOC's 2021 first RRR cut to underpin recovery momentum

The People's Bank of China (PBOC) announced a 50bp cut in the required reserve ratio (RRR) for financial institutions, effective July 15, 2021. The move will unleash around RMB 1 trillion worth of liquidity into the banking system to guide lenders to expand loan books and lower financing costs. The cut would be the first since April 2020 when the economy was hampered by the coronavirus pandemic. In sum, the early exit from the pandemic offered China with competitive advantage to resume production and consumption with which China became the first major economy to recover from coronavirus pandemic. China's economy has largely recovered from the pandemic-driven slowdown through the implementation of countercyclical monetary and fiscal policy to prop up economic growth. However, the recent spread of 'Delta' coronavirus variant worldwide and surge in commodity prices have exacerbated economic uncertainties regarding the recovery momentum in 2H2021. The latest RRR cut will help support the real economy and stabilize financial markets, thus strengthening efforts to maintain sustainable growth momentum. The PBOC will still maintain neutral and prudent monetary policy to cultivate an appropriate monetary and financial environment for China's economic growth and supply-side structural reforms. We forecast one more RRR cut before the end of 3Q2021 is needed to enhance financial support for China's economy.

Comprehensive monetary tools creating a sound environment for China's high-quality growth and supply-side structural reform. The latest RRR cut reflects the PBOC's intention to fine-tune monetary tools to achieve a reasonable and stable liquidity level as China's economy is facing concerns over tight liquidity conditions in the market and a potential drag from ongoing pandemic and surging commodity prices. In sum, China's ongoing deleveraging process has reduced aggregate financial risks but caused liquidity shortage in the economy, thus destabilizing the momentum of economic recovery. The latest release of RMB 1 trillion liquidity provides long-term capital to stimulate lending to small and micro enterprises, thus strengthening

financial stability and consolidating the momentum of stable and sound economic growth.

One more RRR cut taking place before the end of 3Q2021. The PBOC reiterated its stance of ensuring adequate liquidity in the banking system to support economic growth. The latest RRR cut will increase lending momentum and lower the market risk premium. Given the moderating trend in inflation and the mounting pressure to expand liquidity, the PBOC will take a neutral and prudent approach to pursue injection of liquidity in the economy through different monetary tools. We forecast the PBOC would lower RRR again in 3Q2021 and RRR cuts are deployed as the principal tool to strengthen the growth momentum of real economy in 2H2021.

The PBOC demonstrating strong capabilities to handle economic fluctuations. Global easing of lockdowns and social distancing rules re-amplifies health risks, thus leading to rising number of coronavirus infections and affecting the pace of activities normalization. A new round of outbreak on the Coronarvirus variant and rally of commodity prices could lead to a more severe worsening of economic conditions with which slower recovery is compounding global economic woes and triggering a severe blow to different sectors of global economy. Although China experienced strong GDP growth of 18.3% in 1Q2021, recent economic and health headwinds exert pressure on China's growth momentum in 2H2021. In sum, the PBOC is tactful in monetary policy to handle economic fluctuations with which a stable and neutral monetary policy to be fine-tuned in line with economic conditions, along with China's structural reforms, helps offset the impacts of growth uncertainties, thus smoothing the turbulences in financial markets and maintaining a steady economic recovery in 2021.

China economic indicators

	2019	1Q2020	2Q2020	3Q2020	4Q2020	2020	1Q2021	2Q2021
Real GDP (YoY%)	6.0	(6.8)	3.2	4.9	6.5	2.3	18.3	-
PMI								
Manufacturing (%)	50.2	45.9	50.8	51.2	51.8	51.9	51.3	51.0
Non-Manufacturing (%)	53.5	45.3	53.7	55.1	56.1	55.7	53.4	54.5
Exports (RMB YoY %)	5.0	(11.7)	4.2	9.8	10.9	4.0	38.7	-
Imports (RMB YoY %)	1.7	(1.0)	(5.6)	4.7	0.04	(0.4)	19.3	-
Trade Balance (RMB/bn)	2912.0	95.9	1068.5	1082.1	1407.7	3654.1	750.8	-
Exports (USD YoY %)	0.5	(13.6)	(0.2)	8.4	16.6	3.6	48.9	-
Imports (USD YoY %)	(2.7)	(3.1)	(9.5)	3.6	5.4	(0.7)	28.2	-
Trade Balance (USD/bn)	421.1	12.7	151.7	153.7	209.3	526.9	115.1	-
CPI (YoY %)	2.9	4.9	2.7	2.3	0.1	2.5	0.0	1.1
PPI (YoY %)	(0.3)	(0.6)	(3.3)	(2.2)	(1.3)	(1.8)	2.1	8.2
FAI (YTD/ YOY %)	5.4	(16.1)	(3.1)	0.8	2.9	2.9	25.6	-
Real Estate Investment (YTD YoY %)	9.9	(7.7)	1.9	5.6	7.0	7.0	25.6	-
Industrial Production (YoY %)	5.7	(8.4)	4.4	5.8	7.1	2.8	24.5	-
Retail Sales (YoY%)	8.0	(19.0)	(3.9)	(0.4)	3.2	(3.9)	33.9	-
New Lending (RMB/bn)	16817.5	7096.6	4990.9	4166.7	3378.7	19632.9	7667.9	5090.0
M2 (YoY %)	8.7	10.1	11.1	10.9	10.1	10.1	9.4	8.6
Aggregate Financing (RMB bn)	25673.5	11111.0	9757.4	8747.4	5176.0	34791.8	10266.2	7440.7

	Jun 20	July 20	Aug 20	Sept 20	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21
Real GDP (YoY%)	3.2	-	-	4.9	-	-	6.5	-	-	18.3	-	-	-
PMI													
- Manufacturing %	50.9	51.1	51.0	51.5	51.4	52.1	51.9	51.3	50.6	51.9	51.1	51.0	50.9
- Non-manufacturing%	54.4	54.2	55.2	55.9	56.2	56.4	55.7	52.4	51.4	56.3	54.9	55.2	53.5
Exports (RMB YoY %)	4.0	10.0	11.2	8.2	7.2	14.5	10.9	16.5	139.4	20.7	22.2	18.1	-
Imports (RMB YoY %)	5.9	1.4	(0.8)	11.2	0.6	(1.4)	(0.2)	18.9	10.6	27.8	32.2	39.5	-
Trade Balance (RMB/bn)	317.4	429.1	405.0	248.0	395.7	502.8	509.2	420.7	243.7	86.4	276.5	296.0	-
Export (USD YoY %)	0.2	6.8	9.1	9.4	10.9	20.6	18.1	24.7	154.8	30.6	32.3	27.9	-
Import (USD YoY %)	2.3	(1.6)	(2.3)	12.7	4.4	3.9	6.5	27.3	17.6	38.2	43.1	51.1	-
Trade Balance (USD/bn)	44.8	60.5	57.3	35.6	57.5	74.8	77.0	64.2	37.3	13.6	42.9	45.5	-
CPI (YoY %)	2.5	2.7	2.4	1.7	0.5	(0.5)	0.2	(0.3)	(0.2)	0.4	0.9	1.3	1.1
PPI (YoY %)	(3.0)	(2.4)	(2.0)	(2.1)	(2.1)	(1.5)	(0.4)	0.3	1.7	4.4	6.8	9.0	8.8
FAI (YTD/ YOY %)	(3.1)	(1.6)	(0.3)	0.8	1.8	2.6	2.9	-	35.0	25.6	19.9	15.4	-
Real Estate Investment (YTD/ YoY %)	1.9	3.4	4.6	5.6	6.3	6.8	7.0	-	38.3	25.6	21.6	18.3	-
Industrial Production (YoY %)	4.8	4.8	5.6	6.9	6.9	7.0	7.3	-	35.1	14.1	9.8	8.8	-
Retail Sales (YoY%)	(1.8)	(1.1)	0.5	3.3	4.3	5.0	4.6	-	33.8	34.2	17.7	12.4	-
New Lending (RMB/bn)	1811.0	992.7	1278.3	1895.7	689.8	1433.7	1255.2	3578.3	1359.4	2730.3	1470.0	1500.0	2120.0
M2 (YoY %)	11.1	10.7	10.4	10.9	10.5	10.7	10.1	9.4	10.1	9.4	8.1	8.3	8.6
Aggregate Financing (RMB bn)	3468.1	1692.8	3585.3	3469.3	1392.9	2135.5	1647.6	5175.8	1723.9	3366.5	1850.7	1920.5	3670.0
Urban Unemployment Rate (%)	5.7	5.7	5.6	5.4	5.3	5.2	5.2	5.4	5.5	5.3	5.1	5.0	-
Urban Unemployment Rate in 31 major cities (%)	5.8	5.8	5.7	5.5	5.3	5.2	5.1	-	5.5	5.3	5.2	5.2	-

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	34,870.16	25.88	0.68
S&P 500	4,369.55	30.82	1.15
NASDAQ	14,701.92	115.88	1.24
EUR			
FTSE 100	7,121.88	50.88	(0.02)
DAX	15,687.93	33.36	0.24
CAC40S	6,529.42	45.23	(0.36)
STOXX EUR 600	457.67	46.45	0.19
Asia			
HSI	27,344.54	12.59	(3.41)
HSCEI	9,885.42	13.25	(5.09)
CSI300	5,069.44	18.10	(0.23)
SSE Composite	3,524.09	15.98	0.15
SZSE Composite	2,436.84	36.75	1.67
NIKKEI 225	27,940.42	19.51	(2.93)
KOSPI	3,217.95	20.63	(1.94)
TWSE	17,661.48	18.08	(0.27)
S&P/ASX 200	7,273.29	53.06	(0.48)
MSCI Index			
MSCI WORLD	3,053.12	30.31	0.23
MSCI DEVELOPED	723.60	27.45	(0.15)
MSCI EMERGING	1,318.18	16.45	(2.74)
MSCI US	4,251.66	31.02	1.16
MSCI UK	2,004.03	48.97	0.14
MSCI France	187.57	54.14	(0.27)
MSCI Germany	171.90	34.10	0.40
MSCI China	102.09	13.03	(4.57)
MSCI Hong Kong	16,603.55	34.30	(0.56)
MSCI Japan	1,174.22	19.78	(2.17)

** As of 2021/07/09 closing for all markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	74.56	(0.89)
ICE Brent Oil	USD/bbl	75.55	(0.81)
NYMEX Natural	USD/MMBtu	3.67	0.36
Basic Metals			
LME Aluminum	USD/MT	2,480.70	(2.57)
CMX Copper	USD/lb.	434.55	2.58
LME Steel Rebar	USD/MT	736.50	0.07
LME Lead Cash	USD/MT	2,331.00	0.52
Precious Metals			
CMX Gold	USD/T. oz	1,808.32	1.18
Gold Futures	USD/T. oz	1,810.60	1.90
CMX Silver	USD/T. oz	26.10	(1.39)
NYMEX Platinum	USD/T. oz	1,104.67	1.00
Agricultural			
CBOT Corn	USD/bu	517.00	(12.22)
CBOT Wheat	USD/bu	615.00	(7.59)
NYB-ICE Sugar	USD/lb.	17.28	(3.68)
CBOT Soybeans	USD/bu.	1,329.25	(4.75)

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)	0.04	(0.00)
US Treasury (1 Yr)	0.06	0.003
US Treasury (5 Yr)	0.79	(0.07)
US Treasury (10 Yr)	1.36	(0.06)
US Treasury (30 Yr)	1.99	(0.05)
1-Month LIBOR	0.1001	0.003
3 Month LIBOR	0.1286	(0.009)
Japan 1-Yr Gov. Bond	(0.10)	(0.003)
Japan 10-Yr Gov. Bond	0.03	(0.01)
German 1-Yr Gov. Bond	(0.66)	(0.04)
German 10-Yr Gov. Bond	(0.29)	(0.06)
China LPR (1-year)	3.85	0.00
China 1-Yr Gov. Bond	2.14	(0.18)
China 5-Yr Gov. Bond	2.87	(0.06)
China 10-Yr Gov. Bond	3.00	(0.085)
O/N SHIBOR	2.21	0.59
1-mth SHIBOR	2.35	(0.03)
HK Base rate	0.50	0.00
O/N HIBOR	0.04	0.0008
1-mth HIBOR	0.09	(0.006)
O/N CNH HIBOR	3.50	0.27
1-mth CNH HIBOR	2.99	0.045
Corporate Bonds (Moody's)		
Aaa	2.54	(0.10)
Baa	3.21	(0.13)

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	92.13	(0.10)
Euro/USD	1.1876	0.09
GBP/USD	1.3901	0.56
AUD/USD	0.7488	(0.50)
USD/CAD	1.2447	1.01
USD/JPY	110.14	(0.82)
USD/CHF	0.9147	(0.67)
USD/CNY Midpoint	6.4755	0.07
USD/CNY	6.4790	0.09
USD/CNY NDF-12-mth	6.6500	0.13
USD/CNH	6.4813	0.15
USD/HKD	7.7674	0.02
CNY/HKD	1.1990	(0.08)
CNH/HKD	1.1988	(0.10)
USD/KRW	1,148.90	1.24
USD/TWD	28.05	0.23
USD/SGD	1.3511	0.33
USD/INR	74.64	(0.15)

All data sources: Bloomberg

Disclosures

Analyst Certification

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