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Economic Acumen

Commentary by CEBI Research Team

In Brief

- China's President Xi Jinping has announced the establishment of the Beijing Stock Exchange (BSE) as the primary platform serving innovation-oriented small and medium-sized enterprises (SMEs). It aims to deepen reforms of the "new third board," officially known as the National Equities Exchange and Quotations (NEEQ).
- The new BSE will be built on the basis of the existing NEEQ "selected-layer" with various system innovations attracting a group of high-quality SMEs to list for trading.
- The BSE would help strengthen financial supply-side structural reforms and improve capital market systems. China aims to make BSE a nationwide model of high-quality development in supporting and nurturing SMEs.
- The establishment of a new exchange in Beijing will be a significant push for improving capital market functions, promoting the integration of technology and capital, and supporting the innovative development of SMEs.

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Nurturing more high-quality SMEs through Beijing Stock Exchange

China's President Xi Jinping has announced the establishment of the Beijing Stock Exchange (BSE) as the primary platform serving innovation-oriented small and medium-sized enterprises (SMEs). It aims to deepen reforms of the "new third board," officially known as the National Equities Exchange and Quotations (NEEQ), which was launched in Beijing in 2013, offering SMEs a financing channel with low costs and simple listing procedures. The new BSE will be built on the basis of the existing NEEQ "selected-layer" with various system innovations attracting a group of high-quality SMEs to list for trading. The BSE will adhere to system linkage and coordination with the existing "innovation layer" and "basic layer" of the NEEQ to maintain a balanced market structure. In sum, setting up BSE would help strengthen financial supply-side structural reforms and improve capital market systems. This is a new major strategic deployment for the capital market to better serve the new development paradigm and promote high-quality development. Looking forward, China's latest move by enhancing the functions and efficiency of financial markets further drives financial reforms and advances the opening-up in the new era. China aims to make BSE a nationwide model of high-quality development in supporting and nurturing SMEs. It will be a significant push for improving capital market functions, promoting the integration of technology and capital, and supporting the innovative development of SMEs.

The BSE echoing 14th Five-Year Plan (FYP) to promote sustainable growth for enterprises. The overall blueprint of 14th FYP focuses on promoting sustainable and quality growth, which are driven by enterprises' technology innovation. The 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. The establishment of the BSE is an important measure to implement national innovative-

driven development strategy, thus nurturing more high-quality SMEs that are specialized and innovative, and fostering a benign market ecosystem. China will nurture a stronger domestic market, thus striving for leadership in technological advances and ensuring growing economic strengths in coming decades.

The Beijing-based stock exchange widening financing channel for SMEs. China's policy makers have vowed to improve access to financing for entrepreneurs who generate new jobs and wealth. The launch of the new exchange in Beijing is considered as part of efforts to channel more household savings into the stock market to fund innovation and economic recovery, while reducing the economy's reliance on bank lending. The BSE plays a role in linking multi-level capital markets and forms the path of direct financing for SMEs, thus raising the share of equity financing in its bank-dominated financial system. This is a step forward in capital market reforms, as it enhances the multi-layered capital market system.

Mainland stock exchanges playing different roles for capital market development. The planned BSE is based on the Beijing's existing 'new third board' and complements the Shanghai and Shenzhen stock exchanges. It will play a different role in China's capital markets compared with those in Shanghai and Shenzhen as the Shanghai Stock Exchange hosts mostly large-cap companies, including state-owned enterprises, banks and energy firms while the Shenzhen Stock Exchange has a bigger proportion of technology companies. In sum, China aims to set up the new mainland stock exchange by providing financing for innovative companies and expanding official support for entrepreneurs. The BSE will be built as a major base for SMEs, which has a broadened market access to equity financing.

The BSE not acting as the competitor of Hong Kong exchange (HKEx). The HKEx has been competing with other exchanges and alternative trading platforms all along. However, the new Beijing stock exchange will mainly serve SMEs and domestic investors, including start-ups with which the relevant market segment is different from that of the HKEx, where much bigger enterprises are targeted. Currently, market capitalization of Hong Kong equity market to HK GDP is above 25 times, reflecting a widely diversified base of local and international retail and institutional investors. HKEX is well-positioned to strengthen its status as an international financial center, thus further facilitating China's internationalization and investment diversification.

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	7.9
PMI Manufacturing (%)	50.2	45.9	50.8	51.2	51.8	51.9	51.3	51.0
PMI 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	38.6	20.1
Imports (RMB YoY %)	1.7	(1.0)	(5.6)	4.7	0.04	(0.4)	20.0	31.6
Trade Balance (RMB/bn)	2912.0	95.9	1068.5	1082.1	1407.7	3654.1	733.4	900.3
Exports (USD YoY %)	0.5	(13.6)	(0.2)	8.4	16.6	3.6	48.9	30.7
Imports (USD YoY %)	(2.7)	(3.1)	(9.5)	3.6	5.4	(0.7)	28.7	43.3
Trade Balance (USD/bn)	421.1	12.7	151.7	153.7	209.3	526.9	112.4	139.2
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	12.6
Real Estate Investment (YTD YoY %)	9.9	(7.7)	1.9	5.6	7.0	7.0	25.6	15.0
Industrial Production (YoY %)	5.7	(8.4)	4.4	5.8	7.1	2.8	24.5	9.0
Retail Sales (YoY%)	8.0	(19.0)	(3.9)	(0.4)	3.2	(3.9)	33.9	13.9
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

	July 20	Aug 20	Sept 20	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21	July 21
Real GDP (YoY%)	-	-	4.9	-	-	6.5	-	-	18.3	-	-	7.9	-
PMI - Manufacturing %	51.1	51.0	51.5	51.4	52.1	51.9	51.3	50.6	51.9	51.1	51.0	50.9	50.4
PMI - Non-manufacturing%	54.2	55.2	55.9	56.2	56.4	55.7	52.4	51.4	56.3	54.9	55.2	53.5	53.3
Exports (RMB YoY %)	10.0	11.2	8.2	7.2	14.5	10.9	16.5	139.3	20.6	22.1	18.0	20.2	8.1
Imports (RMB YoY %)	1.4	(0.8)	11.2	0.6	(1.4)	(0.2)	19.6	11.2	28.1	32.4	39.3	24.2	16.1
Trade Balance (RMB/bn)	429.1	405.0	248.0	395.7	502.8	509.2	412.4	238.3	82.7	272.3	295.2	332.7	362.7
Export (USD YoY %)	6.8	9.1	9.4	10.9	20.6	18.1	24.7	154.7	30.5	32.2	27.8	32.2	19.3
Import (USD YoY %)	(1.6)	(2.3)	12.7	4.4	3.9	6.5	28.0	18.2	38.5	43.3	50.8	36.7	28.1
Trade Balance (USD/bn)	60.5	57.3	35.6	57.5	74.8	77.0	62.9	36.5	13.0	42.2	45.4	51.5	56.6
CPI (YoY %)	2.7	2.4	1.7	0.5	(0.5)	0.2	(0.3)	(0.2)	0.4	0.9	1.3	1.1	1.0
PPI (YoY %)	(2.4)	(2.0)	(2.1)	(2.1)	(1.5)	(0.4)	0.3	1.7	4.4	6.8	9.0	8.8	9.0
FAI (YTD/ YOY %)	(1.6)	(0.3)	0.8	1.8	2.6	2.9	-	35.0	25.6	19.9	15.4	12.6	10.3
Real Estate Investment (YTD/ YoY %)	3.4	4.6	5.6	6.3	6.8	7.0	-	38.3	25.6	21.6	18.3	15.0	12.7
Industrial Production (YoY %)	4.8	5.6	6.9	6.9	7.0	7.3	-	35.1	14.1	9.8	8.8	8.3	6.4
Retail Sales (YoY%)	(1.1)	0.5	3.3	4.3	5.0	4.6	-	33.8	34.2	17.7	12.4	12.1	8.5
New Lending (RMB/bn)	992.7	1278.3	1895.7	689.8	1433.7	1255.2	3578.3	1359.4	2730.3	1470.0	1500.0	2120.0	1080.0
M2 (YoY %)	10.7	10.4	10.9	10.5	10.7	10.1	9.4	10.1	9.4	8.1	8.3	8.6	8.3
Aggregate Financing (RMB bn)	1692.8	3585.3	3469.3	1392.9	2135.5	1647.6	5193.6	1724.5	3372.1	1850.3	1926.3	3668.9	1060.0
Urban Unemployment Rate (%)	5.7	5.6	5.4	5.3	5.2	5.2	5.4	5.5	5.3	5.1	5.0	5.0	5.1
Urban Unemployment Rate in 31 major cities (%)	5.8	5.7	5.5	5.3	5.2	5.1	-	5.5	5.3	5.2	5.2	5.2	5.2

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	35,369.09	21.39	(0.24)
S&P 500	4,535.43	27.09	0.58
NASDAQ	15,363.52	121.00	1.55
EUR			
FTSE 100	7,138.35	18.90	0.19
DAX	15,781.20	18.06	(0.45)
CAC40S	6,689.99	23.03	0.12
STOXX EUR 600	471.93	24.79	(0.09)
Asia			
HSI	25,901.99	10.05	1.94
HSCEI	9,291.71	9.20	3.73
CSI300	4,843.06	16.60	0.33
SSE Composite	3,581.73	15.28	1.69
SZSE Composite	2,414.30	34.65	(1.04)
NIKKEI 225	29,128.11	16.81	5.38
KOSPI	3,201.06	16.72	2.14
TWSE	17,516.92	15.98	1.78
S&P/ASX 200	7,522.91	24.86	0.46
MSCI Index			
MSCI WORLD	3,163.99	24.58	0.97
MSCI DEVELOPED	746.46	23.22	1.25
MSCI EMERGING	1,315.91	16.47	3.40
MSCI US	4,415.24	27.85	0.63
MSCI UK	1,999.95	17.92	0.17
MSCI France	192.13	23.88	0.13
MSCI Germany	172.73	18.86	(0.41)
MSCI China	95.30	17.10	4.08
MSCI Hong Kong	16,177.28	25.30	(0.52)
MSCI Japan	1,236.60	16.74	4.62

* As of 2021/09/03 closing for all markets.

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	69.29	0.80
ICE Brent Oil	USD/bbl	72.61	(0.12)
NYMEX Natural	USD/MMBtu	4.71	7.83
Basic Metals			
LME Aluminum	USD/MT	2,716.75	2.99
CMX Copper	USD/lb.	433.40	0.05
LME Steel Rebar	USD/MT	671.50	(1.97)
LME Lead Cash	USD/MT	2,399.50	(1.80)
Precious Metals			
CMX Gold	USD/T. oz	1,827.73	0.56
Gold Futures	USD/T. oz	1,833.70	0.78
CMX Silver	USD/T. oz	24.72	2.87
NYMEX Platinum	USD/T. oz	1,026.76	1.41
Agricultural			
CBOT Corn	USD/bu	524.00	(5.37)
CBOT Wheat	USD/bu	726.25	(0.85)
NYB-ICE Sugar	USD/lb.	19.62	(2.10)
CBOT Soybeans	USD/bu.	1,292.00	(2.36)

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)	0.03	0.01
US Treasury (1 Yr)	0.06	0.00
US Treasury (5 Yr)	0.78	(0.02)
US Treasury (10 Yr)	1.32	0.02
US Treasury (30 Yr)	1.94	0.03
1-Month LIBOR	0.0829	(0.003)
3 Month LIBOR	0.1155	(0.005)
Japan 1-Yr Gov. Bond	(0.10)	0.015
Japan 10-Yr Gov. Bond	0.04	0.02
German 1-Yr Gov. Bond	(0.67)	(0.01)
German 10-Yr Gov. Bond	(0.36)	0.06
China LPR (1-year)	3.85	0.00
China 1-Yr Gov. Bond	2.25	(0.02)
China 5-Yr Gov. Bond	2.64	(0.05)
China 10-Yr Gov. Bond	2.83	(0.041)
O/N SHIBOR	1.94	(0.15)
1-mth SHIBOR	2.31	(0.01)
HK Base rate	0.50	(0.00)
O/N HIBOR	0.04	(0.002)
1-mth HIBOR	0.07	0.003
O/N CNH HIBOR	1.86	(0.34)
1-mth CNH HIBOR	3.62	0.64
Corporate Bonds (Moody's)		
Aaa	2.51	(0.06)
Baa	3.21	(0.05)

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	92.04	(0.70)
Euro/USD	1.1880	0.72
GBP/USD	1.3871	0.78
AUD/USD	0.7460	2.02
USD/CAD	1.2524	(0.76)
USD/JPY	109.71	(0.12)
USD/CHF	0.9134	0.23
USD/CNY Midpoint	6.4577	(0.44)
USD/CNY	6.4552	(0.26)
USD/CNY NDF-12-mth	6.6172	(0.35)
USD/CNH	6.4386	(0.37)
USD/HKD	7.7719	(0.20)
CNY/HKD	1.2038	0.03
CNH/HKD	1.2072	0.18
USD/KRW	1,157.05	(1.03)
USD/TWD	27.69	(0.84)
USD/SGD	1.3412	(0.36)
USD/INR	73.02	(0.91)

Disclosures

Analyst Certification

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