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Economic Acumen

Commentary by CEBI Research Team

In Brief

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- China's policy makers will retain flexibility in adjusting monetary policy to lower the downside risks and stimulate growth, thus ensuring continued economic recovery. China's economy is embedded into modest recovery path with broadening growth momentum, supported by policy stimulus, vaccine rollouts, and structural reform plans.
- Prudent monetary policy remains intact to cultivate an appropriate monetary and financial environment for sustainable recovery of economic strengths. We forecast two more RRR cuts in the first half of 2022 to enhance economic and financial support for China's economy.

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The PBOC's second RRR cut to shore up economic momentum and ensure financial stability

The People's Bank of China (PBOC) announced a 50bp cut in the required reserve ratio (RRR) for financial institutions, effective Dec 15, 2021. The move will unleash around RMB 1.2 trillion worth of liquidity into the banking system to guide lenders to expand loan books and lower financing costs. The latest monetary easing marked the PBOC's second RRR cut this year since July 2021, aiming at supporting the China's economy in the wake of economic headwinds. In sum, China's economy continues to face slowing growth momentum from a weak property market, supply constraints, power outages, consumer's alertness in response to a zero-tolerance policy for coronavirus infections and the continued economic transition to achieve the goal of "common prosperity." The threat of Delta Variant (DV) and Omicron Variant (OV) worldwide and fluctuation of commodity prices have also exacerbated economic uncertainties regarding the recovery momentum. The latest RRR cut will help support the real economy and stabilize financial markets, thus strengthening efforts to maintain sustainable growth momentum. Looking forward, China's policy makers will retain flexibility in adjusting monetary policy to lower the downside risks and stimulate growth, thus ensuring continued economic recovery. China's economy is embedded into modest recovery path with broadening growth momentum, supported by policy stimulus, vaccine rollouts, and structural reform plans. Prudent monetary policy remains intact to cultivate an appropriate monetary and financial environment for sustainable recovery of economic strengths. We forecast two more RRR cuts in the first half of 2022 to enhance economic and financial support for China's economy.

Flexible policy support to alleviate downside risks. Conducting economic policy support in China is a balancing act between supporting the economy and addressing structural imbalances while coping with changes in external environment. During 1H2021, China's

economy showed signs of robust recovery from pandemic's slump in economic growth and China's policy makers aimed at restoring normal stance of accommodative policies in an attempt to avoid uptick in inflation and financial risks. However, a recurrence of coronavirus pandemic, supply-chain disruptions and power strains weigh on economic activities in 2H2021 and prompt a policy recalibration, thus restoring the accommodative stance of macroeconomic policies to hedge against growth shocks. Looking forward into 2022, China will put great emphasis on strengthening counter-cyclical macro-policy adjustment to cope with economic challenges. Persistent uptrend of job creation and modest growth momentum alongside investment in carbon neutrality and technologies as well as regulatory reforms in business sectors will support the ongoing transformation and upgrading of China's economy. In sum, China's policy makers will pursue a policy shift towards countercyclical easing by conducting prudent monetary policy in an attempt to expand domestic demand, sustain employment, and help all types of businesses, thus propelling growth momentum of China's economy in 2022.

Comprehensive monetary tools strengthening market sentiment to underpin growth momentum in 2022. The PBOC reiterated its stance of ensuring adequate liquidity in the banking system to support economic growth. 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 of small and medium-sized enterprises and a potential drag from the abrupt changes in the economic environment and looming market uncertainties. In sum, the RRR cut will increase lending momentum and lower the market risk premium. Given the stable trend of inflation and the mounting pressure to expand liquidity, the PBOC will take a prudent approach to pursue injection of liquidity in the economy through different monetary tools. We forecast the PBOC would lower RRR again in 1Q2022 and 2Q2022 with which RRR cuts are deployed as the principal tool to release long-term capital in strengthening the growth momentum of real economy.

The PBOC demonstrating strong capabilities to cope with economic fluctuations. The ongoing pandemic, related policy responses, vaccination rollout, supply chain disruptions and inflation fears have dominated global economic developments. Western nations are embedded into "living with Coronavirus" strategy that further restores normalization of economic activities. However, the health risks over the spread of DV and OV as well as supply constraints alongside high inflation remain as the headwinds to impinge on growth momentum 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 9.8% during the first three quarters of 2021, recent economic and health headwinds exert pressure on China's growth momentum in 4Q2021 and 2022. In sum, the PBOC is tactful

in monetary policy to handle economic fluctuations with which a prudent monetary policy will be fine-tuned in line with economic conditions, thus offsetting the impacts of growth uncertainties, smoothing the turbulences in financial markets and maintaining a steady economic recovery in 2022.

China economic indicators

	1Q2020	2Q2020	3Q2020	4Q2020	2020	1Q2021	2Q2021	3Q2021
Real GDP (YoY%)	(6.8)	3.2	4.9	6.5	2.3	18.3	7.9	4.9
PMI Manufacturing (%)	45.9	50.8	51.2	51.8	51.9	51.3	51.0	50.0
PMI Non-Manufacturing (%)	45.3	53.7	55.1	56.1	55.7	53.4	54.5	51.3
Exports (RMB YoY %)	(11.7)	4.2	9.8	10.8	4.0	38.7	20.1	14.5
Imports (RMB YoY %)	(1.0)	(5.5)	4.8	0.3	(0.2)	19.3	32.2	16.2
Trade Balance (RMB/bn)	95.8	1065.4	1078.0	1395.0	3634.3	712.6	877.0	1170.3
Exports (USD YoY %)	(13.6)	(0.2)	8.4	16.6	3.6	48.8	30.7	24.4
Imports (USD YoY %)	(3.1)	(9.4)	3.7	5.7	(0.6)	29.4	44.0	25.9
Trade Balance (USD/bn)	12.6	151.2	152.8	207.4	524.0	109.1	135.6	181.4
CPI (YoY %)	4.9	2.7	2.3	0.1	2.5	0.0	1.1	0.8
PPI (YoY %)	(0.6)	(3.3)	(2.2)	(1.3)	(1.8)	2.1	8.2	9.6
FAI (YTD/ YOY %)	(16.1)	(3.1)	0.8	2.9	2.9	25.6	12.6	7.3
Real Estate Investment (YTD YoY %)	(7.7)	1.9	5.6	7.0	7.0	25.6	15.0	8.8
Industrial Production (YoY %)	(8.4)	4.4	5.8	7.1	2.8	24.5	9.0	4.9
Retail Sales (YoY%)	(19.0)	(3.9)	(0.4)	3.2	(3.9)	33.9	13.9	5.0
New Lending (RMB/bn)	7096.6	4990.9	4166.7	3378.7	19632.9	7667.9	5084.5	3961.4
M2 (YoY %)	10.1	11.1	10.9	10.1	10.1	9.4	8.6	8.3
Aggregate Financing (RMB bn)	11111.0	9757.4	8747.4	5176.0	34791.8	10288.5	7509.0	6966.1

	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21	July 21	Aug 21	Sept 21	Oct 21	Nov 21
Real GDP (YoY%)	-	6.5	-	-	18.3	-	-	7.9	-	-	4.9	-	-
PMI - Manufacturing %	52.1	51.9	51.3	50.6	51.9	51.1	51.0	50.9	50.4	50.1	49.6	49.2	50.1
PMI - Non-manufacturing%	56.4	55.7	52.4	51.4	56.3	54.9	55.2	53.5	53.3	47.5	53.2	52.4	52.3
Exports (RMB YoY %)	14.5	10.9	16.5	139.3	20.6	22.0	18.0	20.2	8.1	15.7	19.9	20.3	16.6
Imports (RMB YoY %)	(1.4)	(0.2)	20.2	11.8	28.7	33.1	40.3	24.6	16.2	23.1	10.1	14.5	26.0
Trade Balance (RMB/bn)	502.8	509.2	405.0	231.7	75.7	264.7	284.1	328.1	360.4	376.3	433.6	545.9	460.7
Export (USD YoY %)	20.6	18.1	24.6	154.7	30.5	32.2	27.8	32.2	19.3	25.6	28.2	27.1	22.0
Import (USD YoY %)	3.9	6.5	28.7	18.9	39.1	44.0	52.0	37.1	28.3	33.1	17.6	20.6	31.7
Trade Balance (USD/bn)	74.3	75.8	61.8	35.5	11.9	41.1	44.7	50.8	56.2	58.3	66.8	84.5	71.7
CPI (YoY %)	(0.5)	0.2	(0.3)	(0.2)	0.4	0.9	1.3	1.1	1.0	0.8	0.7	1.5	-
PPI (YoY %)	(1.5)	(0.4)	0.3	1.7	4.4	6.8	9.0	8.8	9.0	9.5	10.7	13.5	-
FAI (YTD/ YOY %)	2.6	2.9	-	35.0	25.6	19.9	15.4	12.6	10.3	8.9	7.3	6.1	-
Real Estate Investment (YTD/ YoY %)	6.8	7.0	-	38.3	25.6	21.6	18.3	15.0	12.7	10.9	8.8	7.2	-
Industrial Production (YoY %)	7.0	7.3	-	35.1	14.1	9.8	8.8	8.3	6.4	5.3	3.1	3.5	-
Retail Sales (YoY%)	5.0	4.6	-	33.8	34.2	17.7	12.4	12.1	8.5	2.5	4.4	4.9	-
New Lending (RMB/bn)	1433.7	1255.2	3578.3	1359.4	2730.3	1468.5	1496.4	2119.6	1083.2	1215.2	1663.0	826.2	-
M2 (YoY %)	10.7	10.1	9.4	10.1	9.4	8.1	8.3	8.6	8.3	8.2	8.3	8.7	-
Aggregate Financing (RMB bn)	2135.5	1647.6	5187.2	1724.3	3377.0	1856.7	1952.2	3700.1	1075.2	2974.4	2916.5	1589.9	-
Urban Unemployment Rate (%)	5.2	5.2	5.4	5.5	5.3	5.1	5.0	5.0	5.1	5.1	4.9	4.9	-
Urban Unemployment Rate in 31 major cities (%)	5.3	5.2	5.1	-	5.5	5.3	5.2	5.2	5.2	5.3	5.0	5.1	-

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	35,719.43	19.92	3.58
S&P 500	4,686.75	25.70	2.62
NASDAQ	15,686.92	122.96	0.96
EUR			
FTSE 100	7,339.90	17.59	3.97
DAX	15,813.94	15.64	4.73
CAC40S	7,065.39	20.20	5.12
STOXX EUR 600	480.18	18.75	3.72
Asia			
HSI	23,983.66	9.58	2.17
HSCEI	8,527.12	7.56	1.90
CSI300	4,922.10	16.81	1.86
SSE Composite	3,595.09	15.31	0.88
SZSE Composite	2,477.49	36.46	(1.66)
NIKKEI 225	28,455.60	16.22	2.28
KOSPI	2,991.72	13.86	5.38
TWSE	17,796.92	14.51	2.12
S&P/ASX 200	7,313.90	22.74	0.80
MSCI Index			
MSCI WORLD	3,184.17	18.54	2.66
MSCI DEVELOPED	745.21	17.76	2.57
MSCI EMERGING	1,235.56	13.45	1.91
MSCI US	4,527.76	20.05	2.34
MSCI UK	2,068.38	17.06	4.01
MSCI France	201.70	22.01	4.62
MSCI Germany	170.85	15.14	4.44
MSCI China	86.91	14.68	(0.15)
MSCI Hong Kong	14,879.02	21.34	2.28
MSCI Japan	1,226.38	14.97	2.76

**As of 2021/12/07 closing for all markets.

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)	0.0406	(0.056)
US Treasury (1 Yr)	0.2921	0.074
US Treasury (5 Yr)	1.2549	0.095
US Treasury (10 Yr)	1.4733	0.029
US Treasury (30 Yr)	1.8025	0.011
1-Month LIBOR	0.1031	0.004
3 Month LIBOR	0.1900	0.019
Japan 1-Yr Gov. Bond	(0.111)	0.012
Japan 10-Yr Gov. Bond	0.056	(0.001)
German 1-Yr Gov. Bond	(0.750)	0.035
German 10-Yr Gov. Bond	(0.375)	(0.026)
China LPR (1-year)	3.850	0.00
China 1-Yr Gov. Bond	2.240	(0.028)
China 5-Yr Gov. Bond	2.726	0.056
China 10-Yr Gov. Bond	2.880	0.018
O/N SHIBOR	2.130	(0.043)
1-mth SHIBOR	2.357	0.001
HK Base rate	0.5	0.00
O/N HIBOR	0.0502	(0.012)
1-mth HIBOR	0.2114	0.109
O/N CNH HIBOR	2.4343	(0.473)
1-mth CNH HIBOR	3.1887	0.242
Corporate Bonds (Moody's)		
Aaa	2.54	(0.13)
Baa	3.22	(0.11)

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	72.05	8.87
ICE Brent Oil	USD/bbl	75.44	6.90
NYMEX Natural	USD/MMBtu	3.71	(18.81)
Basic Metals			
LME Aluminum	USD/MT	2,601.50	(1.44)
CMX Copper	USD/lb.	433.95	1.39
LME Steel Rebar	USD/MT	703.50	0.57
LME Lead Cash	USD/MT	2,208.50	(4.33)
Precious Metals			
CMX Gold	USD/T. oz	1,780.60	(0.87)
Gold Futures	USD/T. oz	1,784.70	0.46
CMX Silver	USD/T. oz	22.41	(2.11)
NYMEX Platinum	USD/T. oz	962.07	0.99
Agricultural			
CBOT Corn	USD/bu	586.00	3.26
CBOT Wheat	USD/bu	808.50	2.70
NYB-ICE Sugar	USD/lb.	19.48	4.73
CBOT Soybeans	USD/bu.	1,250.25	2.71

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	96.37	0.39
Euro/USD	1.1261	(0.89)
GBP/USD	1.3256	(0.73)
AUD/USD	0.7087	(0.62)
USD/CAD	1.2699	(0.65)
USD/JPY	113.59	0.66
USD/CHF	0.9240	0.65
USD/CNY Midpoint	6.3738	(0.09)
USD/CNY	6.3663	0.03
USD/CNY NDF-12-mth	6.5443	(0.04)
USD/CNH	6.3689	(0.10)
USD/HKD	7.7966	(0.01)
CNY/HKD	1.2246	(0.02)
CNH/HKD	1.2242	0.09
USD/KRW	1,179.7	(0.70)
USD/TWD	27.77	(0.09)
USD/SGD	1.3666	0.01
USD/INR	75.43	0.35

All data sources: Bloomberg

Disclosures

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