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Economic Acumen

Commentary by CEBI Research Team

In Brief

- The NPC opened its fifth annual session in Beijing on 5th March 2022. Amid the complex and volatile economic environment as well multiple challenges from the ongoing COVID-19 pandemic, the NPC focused on addressing the issues including fading domestic growth expectations, continued supply-chain bottlenecks, unresolved Russia-Ukraine conflict and rising US-China economic and political tensions.
- In tandem with economic headwinds, China lowered economic growth target for 2022 to 5.5%. The economic uncertainties prompt China's policymakers to exercise stronger stimulus measures to maintain stability of economic momentum while limiting mounted health risks towards the pandemic.
- China strives to achieve the goal of building a moderately prosperous society. China's economy will grow within a reasonable range in 2022 under which slower growth remains intact in 1H2022 while the pick-up pace of domestic demand and technological innovation alongside macroeconomic policy stimulus will accelerate growth momentum in 2H2022, thus ensuring a more sustainable recovery of economic strengths.

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China's 2022 NPC: embracing more policy support to maintain economic stability

The 13th National People's Congress (NPC), China's top legislature, opened its fifth annual session in Beijing on 5th March 2022. Amid the complex and volatile economic environment as well multiple challenges from the ongoing COVID-19 pandemic, the NPC focused on addressing the issues including fading domestic growth expectations, continued supply-chain bottlenecks, unresolved Russia-Ukraine conflict and rising US-China economic and political tensions. In tandem with economic headwinds, China lowered economic growth target for 2022 to 5.5%, staying below last year's 6.0% and 2021's growth of 8.1%. In sum, the NPC aims to cope with economic pressures by stabilizing growth and employment as the unprecedented domestic and international challenges have caused China's economy to experience cooling strengths since the second half of 2021. The threefold pressure, namely contraction of aggregate demand, supply shocks and weakening growth expectation prompts China's policymakers to exercise stronger stimulus measures to maintain stability of economic momentum while limiting mounted health risks towards the pandemic. Looking forward, China strives to achieve the goal of building a moderately prosperous society in all aspects by rebalancing the economy and income distribution with the push for "dual circulation" and "common prosperity". Entering into the second year of the 14th Five-Year Plan (FYP), China would further adhere to high-quality economic growth through proper macroeconomic policy supports to foster a balanced and sustainable development. China's economy will grow within a reasonable range in 2022 under which slower growth remains intact in 1H2022 while the pick-up pace of domestic demand and technological innovation alongside macroeconomic policy stimulus will help alleviate the downside risks and accelerate growth momentum in 2H2022, thus ensuring a more sustainable recovery of economic strengths.

China setting a growth target of 5.5% for 2022. Premier Li Keqiang unveils the GDP growth target of over 5.5% for 2022, staying below above 2021's GDP growth of 6.0%. The world economic recovery points to lose momentum amid Russia-Ukraine crisis disrupting energy supply chain and heavy fluctuation of commodity prices and external environment is increasingly volatile and uncertain. Internally, China's commitment to zero-tolerance approach on the containment of the pandemic enabled the economy to revive economic momentum. However, China's economy has faced slowing momentum in 2H2021, mainly driven by the ongoing pandemic, supply chain constraints and power shortage, property developers' debt crisis and regulatory crackdown on business. In order to defuse uncertainties of economic environment and prop up consumer confidence, China's policymakers have stepped up efforts on policy stimulus to revitalize market and ensure the sustainable development of China's economy. The NPC highlights that China has made coordinated efforts through proper policy support to revive growth strengths of the economy. We forecast that the trajectory of China's economy is towards sound and stable growth with which GDP growth will reach 5.5% in 2022.

Targeting more job creation to gain economic momentum. Creation of more than 11 million new urban jobs is one of the main targets of the Government Work Report. Despite external uncertainties and concerns of a softening economy in 2021, China has kept delivering impressive job gains of 12.69 million, exceeding target of 11 million. In sum, China continues to pursue employment-first policy with which China's policymakers 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 boost economic growth and maintain social order. China will launch a variety of pro-growth policies through monetary, fiscal and investment channel to support different sectors of the economy, thus ensuring the continuation of job gains in the market.

Pursuing a prudent monetary policy in a more flexible and appropriate manner to revive growth momentum. Amid growing economic headwinds, China will keep its monetary policy flexible in 2022 to stabilize growth and lower financing costs for businesses. In sum, the evolution of the pandemic and economic slowdown prompt China's policymakers to enlarge the size of stimulus measures, thus ensuring stable recovery of China's economy. As China is exposing to complicated global economic environment, 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 growth. Looking forward, the PBOC will avoid premature policy tightening and continue to pursue a prudent monetary policy that is more flexible, appropriate and targeted while striking a balance between stabilizing growth and ensuring price stability. Market liquidity will remain reasonably ample, which entail more flexibility to

accommodate capital demand, maintain price stability and underpin economic recovery in 2022.

Targeting budget deficit at 2.8% of GDP to support economic recovery. Compared to 2021's fiscal deficit at 3.8% of GDP, China is targeting a lower budget deficit at 2.8% of GDP for 2022, which implies that pickup in economic activities will 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 targeted tax refunds and cuts is expected to reach around RMB 2.5 trillion. The fiscal measures will stimulate households and business incentives to increase consumption and investment in services and consumer goods. In sum, deployment of proactive fiscal stimulus helps shore up China's economy and strengthens recovery momentum.

Ensuring stable support for scientific and technological innovation. The adoption of the 'dual circulation' strategy, which leans more towards the domestic market and technological self-reliance, has emerged to be a sustainable growth driver for China's economy. The NPC highlights that the 10-year action plan on scientific and technological research aims to sharpen China's strategic technology force as it tries to tackle bottleneck technologies and master advanced technologies with its large market. In sum, Government backing and incentives for research have enhanced China's innovation potential and the future of China's economy lies in technological innovation. China's rapidly rising rate of human capital production, particularly its huge and growing production of scientists and engineers, alongside rising investments in its universities and academic infrastructure and its growing ability to conduct research and development attract investment of both domestic and foreign high-tech multinational enterprises. With continuous government support on developing strengths in technological innovation, China will strive for leadership in technological advances and occupy a key position in the global innovation as well as industrial chain division of labor, thus underpinning sustainable economic development and fostering high-quality growth.

Highlights of Government Work Report

- Target GDP growth of 5.5% for 2022
- Create over 11 million new jobs
- Implement employment-first policy to stabilize the job market
- Keep the consumer price inflation at 3.0%
- Step up implementation of prudent monetary policy in a flexible and appropriate manner
- Pursue proactive fiscal policy in more sustainable manner
- Lower the budget deficit to 2.8% of GDP
- Target around RMB 2.5 trillion of tax refunds and cuts
- Maintain RMB exchange rate generally stable
- Take stronger action against monopolies and unfair competition
- Encourage financial institutions to lower real loan interest rates and cut fees
- Continue the effective routine COVID-19 control to prevent inbound cases and domestic resurgences
- Step up efforts to study and protect against virus variants, accelerate R&D of vaccines and effective medicines, and continue implementing vaccination programs
- Ensure the area of farmland remains above the redline of 1.8 billion mu
- Keep grain output of over 650 million metric tons
- Consolidate and build on achievements in poverty elimination
- Take well-ordered steps to achieve peak carbon emissions and carbon neutrality
- Implement a 10-year action plan on basic research to ensure stable support for scientific and technological innovation over the long term
- Improve the fairness and quality of education
- Promote high-quality cooperation under the Belt and Road Initiative
- Raise defense budget to RMB 1.45 trillion
- Improve measures for the three-child policy

Source: 2022 Government Work Report

China economic indicators

	2018	2019	2020	1Q2021	2Q2021	3Q2021	4Q2021	2021
Real GDP (YoY%)	6.7	6.0	2.2	18.3	7.9	4.9	4.0	8.1
PMI								
Manufacturing (%)	49.4	50.2	51.9	51.3	51.0	50.0	49.9	50.3
Non-Manufacturing (%)	53.2	53.5	55.7	53.4	54.5	51.3	52.5	52.7
Exports (RMB YoY %)	7.1	5.0	4.0	38.7	20.0	14.4	17.8	21.2
Imports (RMB YoY %)	12.9	1.7	(0.2)	19.3	32.2	15.9	18.7	21.5
Trade Balance (RMB/bn)	2324.7	2912.0	3634.2	710.9	873.8	1173.4	1610.8	4368.7
Exports (USD YoY %)	9.9	0.5	3.6	48.8	30.6	24.2	23.0	29.9
Imports (USD YoY %)	15.8	(2.7)	(0.6)	29.4	44.0	25.6	23.7	30.1
Trade Balance (USD/bn)	351.0	421.1	524.0	108.9	135.1	181.9	250.6	676.4
CPI (YoY %)	2.1	2.9	2.5	0.0	1.1	0.8	1.8	0.9
PPI (YoY %)	3.5	(0.3)	(1.8)	2.1	8.2	9.7	12.2	8.1
FAI (YTD/ YOY %)	5.9	5.4	2.9	25.6	12.6	7.3	4.9	4.9
Real Estate Investment (YTD YoY %)	9.5	9.9	7.0	25.6	15.0	8.8	4.4	4.4
Industrial Production (YoY %)	6.2	5.7	2.8	24.6	9.0	4.9	3.9	9.6
Retail Sales (YoY%)	9.0	8.0	(3.9)	33.9	13.9	5.0	3.5	12.5
New Lending (RMB/bn)	12579.4	16815.7	19632.9	7667.9	5084.5	3961.4	3231.2	19945.1
M2 (YoY %)	8.1	8.7	10.1	9.4	8.6	8.3	9.0	9.0
Aggregate Financing (RMB bn)	22492.0	25673.5	34791.8	10288.9	7510.9	6967.1	6584.1	31351.0

	Feb 21	Mar 21	Apr 21	May 21	Jun 21	July 21	Aug 21	Sept 21	Oct 21	Nov 21	Dec 21	Jan 22	Feb 22
Real GDP (YoY%)	-	18.3	-	-	7.9	-	-	4.9	-	-	4.0	-	-
PMI													
- Manufacturing %	50.6	51.9	51.1	51.0	50.9	50.4	50.1	49.6	49.2	50.1	50.3	50.1	50.2
- Non-manufacturing%	51.4	56.3	54.9	55.2	53.5	53.3	47.5	53.2	52.4	52.3	52.7	51.1	51.6
Exports (RMB YoY %)	139.2	20.5	22.0	17.9	20.0	7.9	15.6	19.7	20.1	16.3	17.3	-	13.6
Imports (RMB YoY %)	11.8	28.6	33.1	40.3	24.5	16.2	22.7	9.7	14.3	25.6	16.0	-	12.9
Trade Balance (RMB/bn)	231.0	75.3	264.2	283.2	326.4	358.7	378.9	435.8	545.2	460.9	604.7	-	738.8
Export (USD YoY %)	154.6	30.4	32.1	27.7	32.1	19.2	25.4	28.0	26.9	21.7	20.9	-	16.3
Import (USD YoY %)	18.9	39.1	44.0	52.0	37.1	28.2	32.7	17.2	20.4	31.4	19.5	-	15.5
Trade Balance (USD/bn)	35.4	11.8	41.0	43.6	50.5	56.0	58.9	67.2	84.4	71.8	94.5	-	116.0
CPI (YoY %)	(0.2)	0.4	0.9	1.3	1.1	1.0	0.8	0.7	1.5	2.3	1.5	0.9	-
PPI (YoY %)	1.7	4.4	6.8	9.0	8.8	9.0	9.5	10.7	13.5	12.9	10.3	9.1	-
FAI (YTD/ YOY %)	35.0	25.6	19.9	15.4	12.6	10.3	8.9	7.3	6.1	5.2	4.9	-	-
Real Estate Investment (YTD/ YoY %)	38.3	25.6	21.6	18.3	15.0	12.7	10.9	8.8	7.2	6.0	4.4	-	-
Industrial Production (YoY %)	35.1	14.1	9.8	8.8	8.3	6.4	5.3	3.1	3.5	3.8	4.3	-	-
Retail Sales (YoY%)	33.8	34.2	17.7	12.4	12.1	8.5	2.5	4.4	4.9	3.9	1.7	-	-
New Lending (RMB/bn)	1359.4	2730.3	1468.5	1496.4	2119.6	1083.2	1215.2	1663.0	826.2	1273.2	1131.8	3980.0	-
M2 (YoY %)	10.1	9.4	8.1	8.3	8.6	8.3	8.2	8.3	8.7	8.5	9.0	9.8	-
Aggregate Financing (RMB bn)	1724.3	3376.2	1857.0	1952.2	3701.7	1075.2	2989.3	2902.6	1617.6	2598.3	2398.3	6170.0	-
Urban Unemployment Rate (%)	5.5	5.3	5.1	5.0	5.0	5.1	5.1	4.9	4.9	5.0	5.1	-	-
Urban Unemployment Rate in 31 major cities (%)	-	5.5	5.3	5.2	5.2	5.2	5.3	5.0	5.1	5.1	5.1	-	-

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	32,817.38	17.39	(3.17)
S&P 500	4,201.09	21.58	(3.94)
NASDAQ	12,830.96	69.10	(6.69)
EUR			
FTSE 100	6,959.48	14.25	(6.69)
DAX	12,834.65	11.57	(11.25)
CAC40S	5,982.27	15.41	(10.16)
STOXX EUR 600	417.13	14.52	(7.94)
Asia			
HSI	21,057.63	7.97	(7.29)
HSCEI	7,412.59	7.61	(7.62)
CSI300	4,352.78	15.77	(5.00)
SSE Composite	3,372.86	14.45	(2.58)
SZSE Composite	2,203.41	33.43	(4.95)
NIKKEI 225	25,038.43	14.33	(5.61)
KOSPI	2,651.31	11.51	(1.77)
TWSE	17,178.69	13.57	(2.68)
S&P/ASX 200	7,038.59	17.00	(0.15)
MSCI Index			
MSCI WORLD	2,819.54	18.64	(5.32)
MSCI DEVELOPED	660.77	17.54	(5.34)
MSCI EMERGING	1,107.30	12.07	(5.46)
MSCI US	4,015.14	22.33	(4.33)
MSCI UK	1,994.03	14.21	(6.21)
MSCI France	170.82	16.94	(10.04)
MSCI Germany	136.47	10.94	(11.88)
MSCI China	72.31	12.11	(8.22)
MSCI Hong Kong	13,601.45	17.29	(5.43)
MSCI Japan	1,098.59	12.92	(4.97)

* As of 2022/03/07 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)	0.1521	0.104
US Treasury (1 Yr)	1.0214	0.046
US Treasury (5 Yr)	1.7040	(0.014)
US Treasury (10 Yr)	1.7734	(0.052)
US Treasury (30 Yr)	2.1857	0.025
1-Month LIBOR	0.3101	0.080
3 Month LIBOR	0.6101	0.087
Japan 1-Yr Gov. Bond	(0.071)	(0.012)
Japan 10-Yr Gov. Bond	0.147	(0.045)
German 1-Yr Gov. Bond	(0.694)	(0.031)
German 10-Yr Gov. Bond	(0.150)	(0.285)
China LPR (1-year)	3.7	0.0
China 1-Yr Gov. Bond	2.063	0.006
China 5-Yr Gov. Bond	2.550	0.049
China 10-Yr Gov. Bond	2.837	0.047
O/N SHIBOR	2.039	(0.195)
1-mth SHIBOR	2.300	(0.005)
HK Base rate	0.5	0.0
O/N HIBOR	0.0071	(0.0070)
1-mth HIBOR	0.2361	0.0354
O/N CNH HIBOR	2.5180	(0.7085)
1-mth CNH HIBOR	2.9972	(0.1285)
Corporate Bonds (Moody's)		
Aaa	3.24	0.03
Baa	4.05	0.03

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	119.4	24.74
ICE Brent Oil	USD/bbl	123.21	22.00
NYMEX Natural	USD/MMBtu	4.833	9.79
Basic Metals			
LME Aluminum	USD/MT	3,732.00	10.15
CMX Copper	USD/lb.	472.2	6.24
LME Steel Rebar	USD/MT	850.00	15.21
LME Lead Cash	USD/MT	2,446.25	2.42
Precious Metals			
CMX Gold	USD/T. oz	2,002.36	5.02
Gold Futures	USD/T. oz	1,995.90	5.01
CMX Silver	USD/T. oz	26.0109	6.54
NYMEX Platinum	USD/T. oz	1,116.60	7.50
Agricultural			
CBOT Corn	USD/bu	749.25	7.42
CBOT Wheat	USD/bu	1425.25	53.58
NYB-ICE Sugar	USD/lb.	19.27	7.06
CBOT Soybeans	USD/bu.	1,674.3	1.82

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	99.293	2.67
Euro/USD	1.0833	(3.53)
GBP/USD	1.3155	(1.91)
AUD/USD	0.7402	2.52
USD/CAD	1.2723	(0.11)
USD/JPY	115.08	(0.42)
USD/CHF	0.9252	0.46
USD/CNY Midpoint	6.3478	0.40
USD/CNY	6.3208	0.18
USD/CNY NDF-12-mth	6.4546	0.43
USD/CNH	6.3265	0.28
USD/HKD	7.8159	0.03
CNY/HKD	1.2366	(0.15)
CNH/HKD	1.2354	(0.25)
USD/KRW	1,227.00	2.04
USD/TWD	28.257	0.84
USD/SGD	1.3635	0.46
USD/INR	76.9662	2.16

All data sources: Bloomberg

Disclosures

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