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Economic Acumen

Commentary by CEBI Research Team

In Brief

- The renminbi has been embedded into a volatile ride during the past 15 months as it experienced upside of more than 2.5% against the U.S. dollar (USD) in 2021 on stronger recovery of economic growth and external trading activities while facing ups and downs in 1Q2022 on concerns of economic headwinds as well as surging health and geopolitical risks.
- An expected decline in current account surplus due to shrinking external demand, a narrowing yield spread on China-US monetary policy divergence and slowdown of economic activities on combating the pandemic may pose risks on making turbulent wave against the renminbi.
- Keeping the renminbi stable is of paramount importance in propelling China's growth momentum. We are of the view that China's economic recovery out of the pandemic has been relatively swift and sturdy economic fundamentals for the renminbi remain intact in 2022. The renminbi will stay well-supported between 6.35 and 6.45 per USD for the rest of 2022.

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Navigating the renminbi outlook

The renminbi has been embedded into a volatile ride during the past 15 months as it experienced upside of more than 2.5% against the U.S. dollar (USD) in 2021 on stronger recovery of economic growth and external trading activities while facing ups and downs in 1Q2022 on concerns of economic headwinds as well as surging health and geopolitical risks. An expected decline in current account surplus due to shrinking external demand, a narrowing yield spread on China-US monetary policy divergence and slowdown of economic activities on combating the pandemic may pose risks on making turbulent wave against the renminbi. However, even though China's economy is facing a bumpy start in 2022 given the stringent zero-COVID-19 strategy applied to renewed pandemic outbreaks and ongoing supply side chaos driven by swelling energy prices and Russia-Ukraine crisis, policy easing on monetary and fiscal front has been stepped up and efficient to stabilize the economy, thus reinforcing risk rebalancing of the renminbi. Looking forward, China will become a country with a more marketized and internationalized financial system with which the renminbi will play a larger role in international trade settlement, international capital market and international currency reserves. Keeping the renminbi stable is of paramount importance in propelling China's growth momentum under which currency stability is a fundamental part of monetary and financial environment that strengthens foreign exchange liquidity management for financial institutions and keeps the economy operating in a reasonable range. We are of the view that China's economic recovery out of the pandemic has been relatively swift and sturdy economic fundamentals for the renminbi remain intact in 2022. Strong current account surplus, abundant foreign exchange reserves, sound fiscal conditions, stable financial systems and proper progress of the renminbi internationalization brace for continued strength of renminbi, which will stay well-supported between 6.35 and 6.45 per USD for the rest of 2022.

Dollar strengths destabilizing value of major currencies. The first quarter of 2022 has been a wild ride for foreign exchange (FX)

markets due to the U.S. rate hike, supply chain disruptions on Russia's economic sanctions by the Western nations as well as turbulence of capital markets. Tracking the U.S. Federal Reserve (Fed) hawkish outlook at the latest Federal Open Market Committee (FOMC) meeting alongside widening U.S. yield spread as well as the safe-haven flows in response to Russia's military actions against Ukraine, the USD ended gaining about 2.8% against a basket of currencies in 1Q2022. Looking forward, the USD continues to retain its major role in global financial system and the Fed will conduct more rate hikes to alleviate inflationary pressures while pushing forward the economic recovery of the U.S. economy. Surging capital flows into the U.S. economy and COVID-driven safe-haven demand drive growing strengths of the USD that triggers more volatile fluctuations of major currencies such as Euro and British Pound. We are of the view that the renminbi turns out to be less volatile than other major currencies as relative stable and attractive yield of renminbi assets along with surging foreign direct investment in post-pandemic era offset some of the depreciative pressures, thus stabilizing the value within a reasonable range.

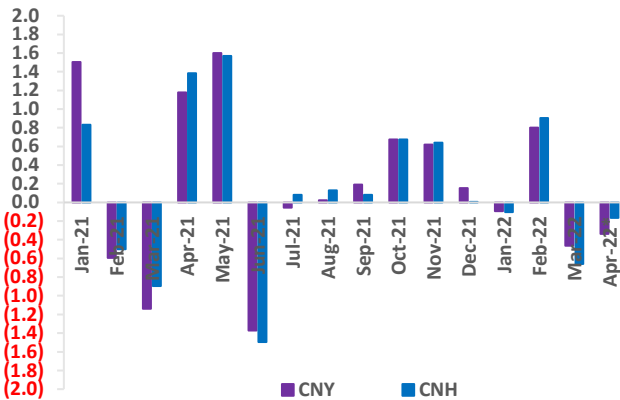
US-China monetary policy divergence only enhancing near-term two-way fluctuations of the renminbi. As the Fed lines up to raise interest rates from near zero to curb the strongest inflation in four decades, the People's Bank of China (PBOC) steps up monetary support to cushion ebbing growth momentum. The U.S-China policy divergence hints that both economies are in different stages of the business cycle with which the U.S cools the overheating economy and reshape inflation expectations while China boosts domestic demand and stabilize growth. The policy divergence may trigger irregular flows of capital that cause fluctuations of the renminbi. However, we are of the view that China's currency against the USD will only face short-term fluctuations but is still well-supported by China's exports translated into trade surpluses as well as swelling foreign investment in business and financial assets on ongoing opening-up of the economy. With sound economic fundamentals, improved regulation and increased global use of the currency, the renminbi's stability has been justified.

Russia-Ukraine crisis setting to crowd out the dollar and enhance the role of the renminbi as safe-haven currency. In recent years, global economy has seen an increasing use of the renminbi for international payments and investments in China's capital markets by foreign investors. The renminbi's use as global FX reserves reached five-year high in the fourth quarter of 2021, climbing to \$336.1 billion and accounting for 2.79% from 3Q2021's 2.66%. The recent Russia-Ukraine crisis appears to reinforce the trend as the value of renminbi was pushed up by unprecedented demand from European asset managers for China's treasury bonds. In addition, Russia's forex reserves on the renminbi jumped to 13.1% in 2021 from a mere 0.1% in 2017, while its USD holdings fell to 16.4% from 46.3%

correspondingly. Russia might further increase the renminbi holdings amid the sanctions imposed by the Western nations. In sum, although it is still too early to say that the renminbi has become a safe-haven asset like the USD, we are of the view that the renminbi has become a crucial part of global asset managers' investment and risk mitigation portfolios. The status of the renminbi as a safe-haven currency is gaining traction, fueling new impetus for China's currency to move up the reserve currency ladder.

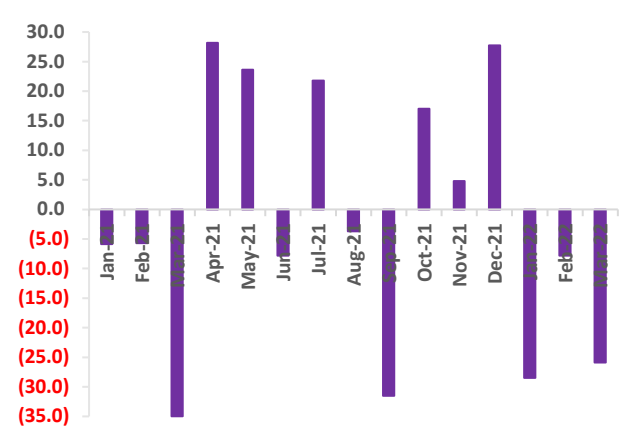
The renminbi well-supporting between 6.35 and 6.45. After a strong rally in 2021, the renminbi has been traded in the range between 6.3 and 6.4 during 1Q2022. Looking forward, the attractiveness of the renminbi's carry trade on sizable interest rate spread came under pressure as the Fed raises interest rate. Although uncertainties regarding the pandemic over China's recovery momentum and global external trade environment remain as the major risks to defuse the uptrend of renminbi, China's resilient economic fundamentals along with large foreign portfolio inflows into equity and bond markets to match benchmark allocation of Chinese securities will provide strong support to rebalance the market demand for the renminbi. We expect the renminbi will fluctuate within a reasonable range, continuing to stay well-supported between 6.35 and 6.45 per the USD for the rest of 2022.

Fig. 1: CNY and CNH (MoM%)



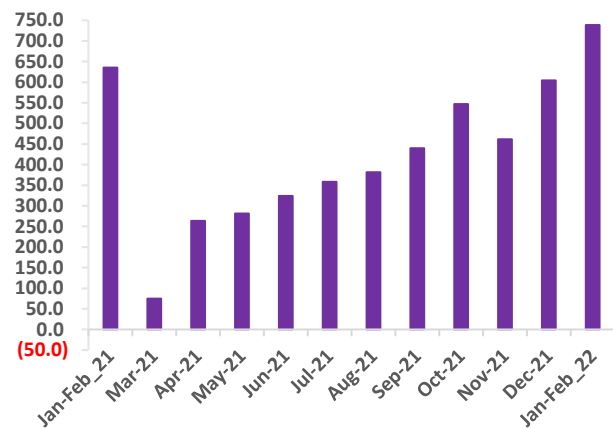
Source: Bloomberg *7th April

Fig. 2: China Forex Reserves MoM (USD bn)



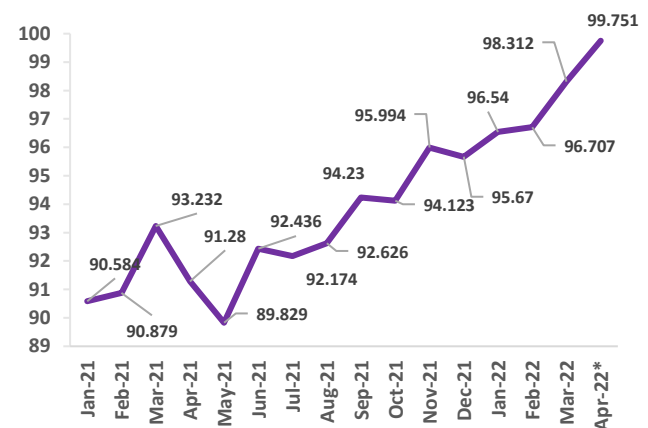
Source: Bloomberg

Fig. 3: China's Trade surplus (RMB bn)



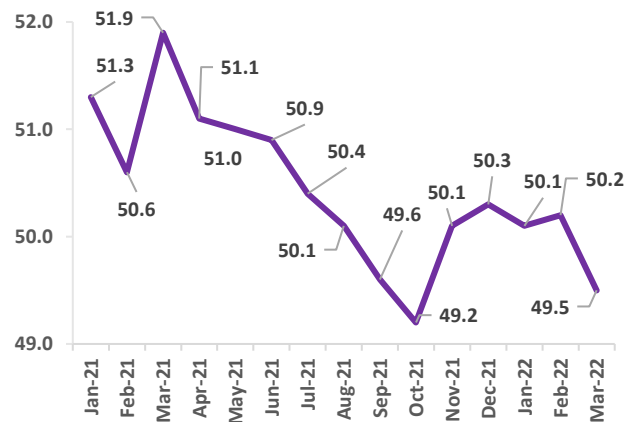
Source: Bloomberg

Fig. 4: U.S. Dollar Index



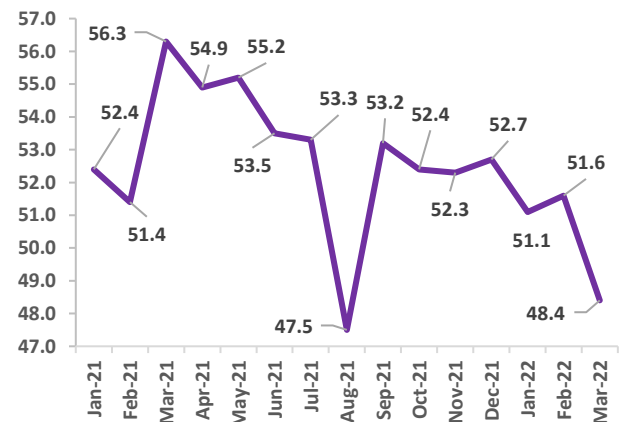
Source: Bloomberg *7th April

Fig.5. China Manufacturing PMI



Source: Bloomberg

Fig. 6: China Non-Manufacturing PMI



Source: Bloomberg

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
PMI 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	19.9	14.4	17.8	21.2
Imports (RMB YoY %)	12.9	1.7	(0.2)	19.3	32.3	15.8	18.6	21.5
Trade Balance (RMB/bn)	2324.7	2912.0	3634.2	710.9	868.9	1179.4	1612.2	4370.5
Exports (USD YoY %)	9.9	0.5	3.6	48.8	30.6	24.2	22.9	29.9
Imports (USD YoY %)	15.8	(2.7)	(0.6)	29.4	44.1	25.4	23.7	30.1
Trade Balance (USD/bn)	351.0	421.1	524.0	107.8	134.3	182.8	250.8	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

	Mar 21	Apr 21	May 21	Jun 21	July 21	Aug 21	Sept 21	Oct 21	Nov 21	Dec 21	Jan 22	Feb 22	Mar 22
Real GDP (YoY%)	18.3	-	-	7.9	-	-	4.9	-	-	4.0	-	-	-
PMI - Manufacturing %	51.9	51.1	51.0	50.9	50.4	50.1	49.6	49.2	50.1	50.3	50.1	50.2	49.5
PMI - Non-manufacturing%	56.3	54.9	55.2	53.5	53.3	47.5	53.2	52.4	52.3	52.7	51.1	51.6	48.4
Exports (RMB YoY %)	20.5	22.0	17.9	20.0	7.9	15.6	19.7	20.1	16.3	17.3	21.0	4.1	-
Imports (RMB YoY %)	28.6	33.1	40.3	24.5	16.2	22.7	9.7	14.3	25.6	16.0	16.8	8.3	-
Trade Balance (RMB/bn)	75.0	263.6	281.4	323.9	258.2	381.4	439.8	546.9	461.0	604.2	544.4	194.4	-
Export (USD YoY %)	30.4	32.1	27.7	32.1	19.2	25.4	28.0	26.9	21.7	20.9	24.1	6.2	-
Import (USD YoY %)	39.1	44.0	52.0	37.1	28.2	32.7	17.2	20.4	31.4	19.5	19.8	10.4	-
Trade Balance (USD/bn)	10.8	41.0	43.3	50.1	55.9	59.1	67.8	84.7	71.8	94.4	85.4	30.6	-
CPI (YoY %)	0.4	0.9	1.3	1.1	1.0	0.8	0.7	1.5	2.3	1.5	0.9	0.9	-
PPI (YoY %)	4.4	6.8	9.0	8.8	9.0	9.5	10.7	13.5	12.9	10.3	9.1	8.8	-
FAI (YTD/ YOY %)	25.6	19.9	15.4	12.6	10.3	8.9	7.3	6.1	5.2	4.9	-	12.2	-
Real Estate Investment (YTD/ YoY %)	25.6	21.6	18.3	15.0	12.7	10.9	8.8	7.2	6.0	4.4	-	3.7	-
Industrial Production (YoY %)	14.1	9.8	8.8	8.3	6.4	5.3	3.1	3.5	3.8	4.3	-	7.5	-
Retail Sales (YoY%)	34.2	17.7	12.4	12.1	8.5	2.5	4.4	4.9	3.9	1.7	-	6.7	-
New Lending (RMB/bn)	2730.3	1468.5	1496.4	2119.6	1083.2	1215.2	1663.0	826.2	1273.2	1131.8	3980.0	1233.6	-
M2 (YoY %)	9.4	8.1	8.3	8.6	8.3	8.2	8.3	8.7	8.5	9.0	9.8	9.2	-
Aggregate Financing (RMB bn)	3376.2	1857.0	1952.2	3701.7	1075.2	2989.3	2902.6	1617.6	2598.3	2398.3	6172.6	1192.8	-
Urban Unemployment Rate (%)	5.3	5.1	5.0	5.0	5.1	5.1	4.9	4.9	5.0	5.1	5.3	5.5	-
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	-	5.4	-

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	34,583.57	18.23	(0.27)
S&P 500	4,500.21	23.15	(0.67)
NASDAQ	13,897.30	54.16	(2.27)
EUR			
FTSE 100	7,551.81	15.67	0.48
DAX	14,078.15	14.42	(2.34)
CAC40S	6,461.68	15.18	(2.98)
STOXX EUR 600	455.02	15.95	(0.18)
Asia			
HSI	21,808.98	8.09	(1.90)
HSCEI	7,495.54	7.12	(1.50)
CSI300	4,209.10	15.14	1.81
SSE Composite	3,236.70	13.77	1.02
SZSE Composite	2,087.53	30.21	0.15
NIKKEI 225	26,888.57	15.25	(3.35)
KOSPI	2,695.86	11.99	(2.24)
TWSE	17,178.63	12.95	(2.11)
S&P/ASX 200	7,442.83	18.06	(0.76)
MSCI Index			
MSCI WORLD	3,014.08	19.87	(1.28)
MSCI DEVELOPED	702.39	18.79	(1.29)
MSCI EMERGING	1,126.06	13.04	(1.38)
MSCI US	4,304.62	23.91	(0.79)
MSCI UK	2,170.41	15.47	0.76
MSCI France	185.03	15.94	(2.77)
MSCI Germany	148.34	13.72	(2.34)
MSCI China	72.25	12.03	(0.54)
MSCI Hong Kong	14,177.97	17.17	(1.13)
MSCI Japan	1,167.56	13.41	(2.80)

* As of 2022/04/07 closing for all markets

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	0.50	0.00
US Prime Rate	3.50	0.00
US Discount Window	0.50	0.00
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	(0.10)	0.00
US Treasury (1 Mth)	0.1420	0.0330
US Treasury (1 Yr)	1.6933	0.0983
US Treasury (5 Yr)	2.7076	0.2477
US Treasury (10 Yr)	2.6578	0.3199
US Treasury (30 Yr)	2.6790	0.2314
1-Month LIBOR	0.4514	(0.004)
3 Month LIBOR	0.9864	0.0196
Japan 1-Yr Gov. Bond	(0.071)	(0.013)
Japan 10-Yr Gov. Bond	0.233	0.013
German 1-Yr Gov. Bond	(0.437)	0.010
German 10-Yr Gov. Bond	0.681	0.134
China LPR (1-year)	3.70	0.00
China 1-Yr Gov. Bond		
China 5-Yr Gov. Bond	2.492	(0.090)
China 10-Yr Gov. Bond	2.743	(0.046)
O/N SHIBOR	1.825	0.268
1-mth SHIBOR	2.290	(0.023)
HK Base rate	0.75	0.00
O/N HIBOR	0.0465	(0.0089)
1-mth HIBOR	0.1885	(0.1244)
O/N CNH HIBOR	6.8091	5.2546
1-mth CNH HIBOR	3.2988	0.2076
Corporate Bonds (Moody's)		
Aaa	3.51	0.11
Baa	4.38	0.10

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	96.03	(4.24)
ICE Brent Oil	USD/bbl	100.58	(6.79)
NYMEX Natural	USD/MMBtu	6.36	12.71
Basic Metals			
LME Aluminum	USD/MT	3,361.26	(3.43)
CMX Copper	USD/lb.	469.95	(1.08)
LME Steel Rebar	USD/MT	942.50	(2.28)
LME Lead Cash	USD/MT	2,375.75	(1.85)
Precious Metals			
CMX Gold	USD/T. oz	1,926.69	(0.18)
Gold Futures	USD/T. oz	1,937.80	(0.83)
CMX Silver	USD/T. oz	24.39	(1.70)
NYMEX Platinum	USD/T. oz	952.24	(3.89)
Agricultural			
CBOT Corn	USD/bu	750.25	2.35
CBOT Wheat	USD/bu	1,025.25	2.32
NYB-ICE Sugar	USD/lb.	19.84	1.80
CBOT Soybeans	USD/bu.	1,645.50	1.68

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	99.75	1.46
Euro/USD	1.0894	(1.79)
GBP/USD	1.3072	(0.37)
AUD/USD	0.7479	(0.13)
USD/CAD	1.2559	0.28
USD/JPY	123.82	1.77
USD/CHF	0.9332	0.88
USD/CNY Midpoint	6.3659	0.03
USD/CNY	6.3604	(0.06)
USD/CNY NDF-12-mth	6.4447	0.16
USD/CNH	6.3654	0.23
USD/HKD	7.8372	0.10
CNY/HKD	1.2322	(0.26)
CNH/HKD	1.2312	(0.13)
USD/KRW	1,219.3	0.61
USD/TWD	28.84	0.22
USD/SGD	1.3611	0.51
USD/INR	75.96	0.07

All data sources: Bloomberg

Disclosures

Analyst Certification

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