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Economic Acumen

Commentary by CEBI Research Team

In Brief

- The PBOC announced a 25bp cut in the RRR for financial institutions, effective Dec 5, 2022. The move will unleash around RMB 0.5 trillion worth of liquidity into the banking system to guide lenders to expand loan books and lower financing costs. The latest PBOC's move marked the second RRR cut for banks this year since April in an attempt to enhance their ability of credit expansion for the purpose of supporting economic recovery and stabilizing market confidence.
- The economic downward pressures of China's economy have been exacerbated in varying degree due to sporadic outbreaks of COVID-19 disrupting work and consumption, property market slump worsening market sentiment and global liquidity tightening trimming global trading activities. The RRR cut can boost market sentiment and buffer the economic downside risks, thus helping boost economic growth and employment.
- Prudent monetary easing remains intact to cultivate an appropriate monetary and financial environment for sustainable economic growth. We forecast two more RRR cut of 25 bps alongside further cuts in loan prime rate (LPR) in the first half of 2023 to enhance economic and financial support for China's economy.

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The PBOC pursuing RRR cut to ensure economic and financial stability

The People's Bank of China (PBOC) announced a 25bp cut in the required reserve ratio (RRR) for financial institutions, effective Dec 5, 2022. The move will unleash around RMB 0.5 trillion worth of liquidity into the banking system to guide lenders to expand loan books and lower financing costs. The weighted average RRR for financial institutions will be lowered to 7.8% after the cut. The latest PBOC's move marked the second RRR cut for banks this year since April in an attempt to enhance their ability of credit expansion for the purpose of supporting economic recovery and stabilizing market confidence. In sum, the economic downward pressures of China's economy have been exacerbated in varying degree due to sporadic outbreaks of COVID-19 disrupting work and consumption, property market slump worsening market sentiment and global liquidity tightening trimming global trading activities. The cut can boost market sentiment and buffer the economic downside risks, thus helping boost economic growth and employment. Looking forward, surging domestic and external downside risks add urgency for more policy support to maintain economic stability of China's economy. The financial supports for enterprises affected by COVID-19 restrictions, accelerated implementation of infrastructure investment projects and the loosening of a series of real estate policies signify that China's policymakers will continue to retain flexibility in adjusting monetary policy to maintain reasonable and ample liquidity, thus fulfilling the growing capital demand and ensuring continued economic recovery with broadening growth momentum. Prudent monetary easing remains intact to cultivate an appropriate monetary and financial environment for sustainable economic growth. We forecast two more RRR cut of 25 bps alongside further cuts in loan prime rate (LPR) in the first half of 2023 to enhance economic and financial support for China's economy.

Alleviating economic downside risks through proper policy stimulus. Conducting a flurry of policy measures to spur domestic demand in China is a balancing act between supporting the economy

and addressing structural imbalances while coping with changes in external environment. A recurrence of COVID-19 pandemic and property market downturn alongside growing global recession risks weigh on economic activities and prompt a policy recalibration, thus restoring the accommodative stance of macroeconomic policies to hedge against growth shocks and consolidate the economy's stable foundation. Looking forward, China will put great emphasis on strengthening counter-cyclical macro-policy adjustment to cope with economic challenges. Stable trend 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 policymakers aim to pursue countercyclical monetary easing to reduce bank funding costs and unleash a substantial quantity of liquidity support in an attempt to expand domestic demand, sustain employment, and help all types of businesses, thus propelling growth momentum of China's economy.

Comprehensive monetary tools with proactive stance enhancing market sentiment to underpin growth momentum. 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 ample liquidity level as China's economy is bracing for headwinds over tight liquidity conditions of enterprises, 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 further release liquidity in the economy through different monetary tools. We forecast the PBOC would lower RRR again in 1H2023 along with further cuts in LPR under which RRR and interest cuts are deployed as the principal tools to release medium and long-term growth capital in strengthening the growth momentum of real economy.

The PBOC demonstrating sound capabilities to cope with economic fluctuations. The ongoing pandemic, inflation fears, supply chain disruptions alongside unresolved Russia-Ukraine conflict have dominated global economic developments. Western nations are embedded into "living with Coronavirus" strategy that further restores normalization of economic activities while China's strict zero-Covid controls curtail the spread of the virus but the lockdowns cripple production and consumption activities. The health risks and supply chain meltdown alongside weak domestic and external demand have impinged on growth momentum with which slower recovery momentum is triggering a severe blow to different sectors of China's economy. Although China experienced modest economic growth of 3.0% during the first three quarters of 2022, recent economic and health headwinds exert pressure on China's growth outlook. But we are of the view that the PBOC is tactful in

monetary policy to handle economic fluctuations with which the monetary stance 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.

China economic indicators

	1Q2021	2Q2021	3Q2021	4Q2021	2021	1Q2022	2Q2022	3Q2022
Real GDP (YoY%)	18.3	7.9	4.9	4.0	8.1	4.8	0.4	3.9
PMI Manufacturing (%)	51.3	51.0	50.0	49.9	50.3	49.9	49.1	49.5
PMI Non-Manufacturing (%)	53.4	54.5	51.3	52.5	52.7	50.4	48.1	52.3
Exports (RMB YoY %)	38.7	19.7	14.1	17.6	21.0	13.2	12.6	15.3
Imports (RMB YoY %)	19.3	32.4	15.7	18.6	21.5	8.4	1.6	5.5
Trade Balance (RMB/bn)	704.9	858.6	1166.5	1599.8	4329.8	982.9	1447.3	1789.0
Exports (USD YoY %)	48.6	30.4	23.9	22.7	29.6	15.6	12.4	10.2
Imports (USD YoY %)	29.4	44.1	25.4	23.8	30.0	10.6	1.4	0.8
Trade Balance (USD/bn)	108.0	132.8	180.8	248.9	670.4	154.4	223.2	264.9
CPI (YoY %)	0.0	1.1	0.8	1.8	0.9	1.1	2.2	2.7
PPI (YoY %)	2.1	8.2	9.7	12.2	8.1	8.7	6.8	2.5
FAI (YTD/ YOY %)	25.6	12.6	7.3	4.9	4.9	9.2	4.2	5.7
Real Estate Investment (YTD YoY %)	25.6	15.0	8.8	4.4	4.4	0.7	(9.0)	(20.7)
Industrial Production (YoY %)	24.6	9.0	4.9	3.9	9.6	6.5	0.6	4.8
Retail Sales (YoY%)	33.9	13.9	5.0	3.5	12.5	3.3	(4.6)	3.5
New Lending (RMB/bn)	7667.9	5084.5	3961.4	3231.2	19945.1	8338.9	5340.1	4407.0
M2 (YoY %)	9.4	8.6	8.3	9.0	9.0	9.7	11.4	12.1
Aggregate Financing (RMB bn)	10288.9	7510.9	6967.1	6584.1	31351.0	12049.2	8971.5	6766.4

	Oct 21	Nov 21	Dec 21	Jan 22	Feb 22	Mar 22	Apr 22	May 22	Jun 22	July 22	Aug 22	Sept 22	Oct 22
Real GDP (YoY%)	-	-	4.0	-	-	4.8	-	-	0.4	-	-	3.9	-
PMI - Manufacturing %	49.2	50.1	50.3	50.1	50.2	49.5	47.4	49.6	50.2	49.0	49.4	50.1	49.2
PMI - Non-manufacturing%	52.4	52.3	52.7	51.1	51.6	48.4	41.9	47.8	54.7	53.8	52.6	50.6	58.7
Exports (RMB YoY %)	20.1	16.3	17.3	20.8	3.9	12.6	1.6	14.7	21.5	23.8	11.8	10.7	7.0
Imports (RMB YoY %)	14.3	25.6	16.0	17.9	9.6	(0.9)	(1.8)	2.6	4.5	7.2	4.6	5.2	6.8
Trade Balance (RMB/bn)	547.8	460.6	599.8	526.0	176.8	283.7	315.5	495.2	646.2	683.9	535.6	573.6	586.8
Export (USD YoY %)	26.9	21.7	20.9	23.9	6.0	14.4	3.5	16.3	17.4	17.8	7.1	5.7	(0.3)
Import (USD YoY %)	20.4	31.4	19.5	20.9	11.7	0.7	0.2	3.9	0.7	2.1	0.3	0.3	(0.7)
Trade Balance (USD/bn)	84.8	71.7	93.7	82.5	27.8	44.7	49.6	77.6	97.4	101.3	79.4	84.7	85.2
CPI (YoY %)	1.5	2.3	1.5	0.9	0.9	1.5	2.1	2.1	2.5	2.7	2.5	2.8	2.1
PPI (YoY %)	13.5	12.9	10.3	9.1	8.8	8.3	8.0	6.4	6.1	4.2	2.3	0.9	(1.3)
FAI (YTD/ YOY %)	6.1	5.2	4.9	-	12.2	9.3	6.8	6.2	6.1	5.7	5.8	5.9	5.8
Real Estate Investment (YTD/ YoY %)	7.2	6.0	4.4	-	3.7	0.7	(2.7)	(4.0)	(5.4)	(6.4)	(7.4)	(8.0)	(8.8)
Industrial Production (YoY %)	3.5	3.8	4.3	-	7.5	5.0	(2.9)	0.7	3.9	3.8	4.2	6.3	5.0
Retail Sales (YoY%)	4.9	3.9	1.7	-	6.7	(3.5)	(11.1)	(6.7)	3.1	2.7	5.4	2.5	(0.5)
New Lending (RMB/bn)	826.2	1273.2	1131.8	3980.0	1233.6	3125.4	645.4	1888.4	2806.3	679.0	1254.2	2473.8	615.2
M2 (YoY %)	8.7	8.5	9.0	9.8	9.2	9.7	10.5	11.1	11.4	12.0	12.2	12.1	11.8
Aggregate Financing (RMB bn)	1617.6	2598.3	2368.3	6177.0	1218.4	4653.8	936.8	2840.6	5194.1	762.8	2462.3	3541.3	907.9
Urban Unemployment Rate (%)	4.9	5.0	5.1	5.3	5.5	5.8	6.1	5.9	5.5	5.4	5.3	5.5	5.5
Urban Unemployment Rate in 31 major cities (%)	5.0	5.1	5.1	5.1	-	6.0	6.7	6.9	5.8	5.6	5.4	5.8	6.0

World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
U.S.			
DJIA	34,347.03	19.77	2.39
S&P 500	4,026.12	19.47	2.02
NASDAQ	11,226.36	41.99	0.73
EUR			
FTSE 100	7,486.67	13.86	1.37
DAX	14,541.38	13.26	0.76
CAC40S	6,712.48	13.90	1.02
STOXX EUR 600	440.73	15.06	1.71
Asia			
HSI	17,573.58	6.49	(2.33)
HSCEI	5,971.10	5.58	(2.52)
CSI300	3,775.78	13.77	(0.68)
SSE Composite	3,101.69	13.89	0.14
SZSE Composite	1,984.18	36.43	(2.22)
NIKKEI 225	28,283.03	19.14	1.26
KOSPI	2,437.86	11.53	(0.27)
TWSE	14,778.51	10.79	1.89
S&P/ASX 200	7,259.48	14.63	1.51
MSCI Index			
MSCI WORLD	2,703.67	17.38	1.68
MSCI DEVELOPED	625.15	16.27	1.48
MSCI EMERGING	941.01	10.57	(0.21)
MSCI US	3,820.79	19.94	1.96
MSCI UK	2,152.84	13.86	1.39
MSCI France	191.19	16.06	1.06
MSCI Germany	143.68	13.54	0.60
MSCI China	57.04	9.83	(3.24)
MSCI Hong Kong	11,990.26	17.12	(2.00)
MSCI Japan	1,233.87	14.53	2.41

* As of 2022/11/25 closing for all markets

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	4.00	0.00
US Prime Rate	7.00	0.00
US Discount Window	4.00	0.00
ECB Rate (Refinancing)	2.00	0.00
BOJ Policy Rate	(0.10)	0.00
US Treasury (1 Mth)	3.8799	0.1887
US Treasury (1 Yr)	4.7158	0.0240
US Treasury (5 Yr)	3.8577	(0.1508)
US Treasury (10 Yr)	3.6776	(0.1512)
US Treasury (30 Yr)	3.7326	(0.1934)
1-Month LIBOR	4.0547	0.0980
3 Month LIBOR	4.7339	0.0690
Japan 1-Yr Gov. Bond	(0.095)	0.003
Japan 10-Yr Gov. Bond	0.254	0.005
German 1-Yr Gov. Bond	2.291	0.138
German 10-Yr Gov. Bond	1.974	(0.039)
China LPR (1-year)	3.65	0.00
China 1-Yr Gov. Bond	2.095	(0.067)
China 5-Yr Gov. Bond	2.606	(0.046)
China 10-Yr Gov. Bond	2.839	0.009
O/N SHIBOR	1.021	(0.343)
1-mth SHIBOR	1.924	(0.009)
HK Base rate	4.25	0.00
O/N HIBOR	3.5000	0.6461
1-mth HIBOR	4.1096	0.5177
O/N CNH HIBOR	0.8947	(0.1992)
1-mth CNH HIBOR	1.6042	(0.2926)
Corporate Bonds (Moody's)		
Aaa	4.56	(0.19)
Baa	5.73	(0.18)

Global Commodities			
	Unit	Price	One Week chg(%)
Energy			
NYMEX WTI	USD/bbl	76.28	(6.57)
ICE Brent Oil	USD/bbl	83.63	(4.55)
NYMEX Natural	USD/MMBtu	7.02	10.28
Basic Metals			
LME Aluminum	USD/MT	2,329.55	(3.16)
CMX Copper	USD/lb.	363.05	(1.72)
LME Steel Rebar	USD/MT	634.50	0.00
LME Lead Cash	USD/MT	2,105.50	(1.66)
Precious Metals			
CMX Gold	USD/T. oz	1,754.93	0.24
Gold Futures	USD/T. oz	1,768.80	(0.51)
CMX Silver	USD/T. oz	21.75	3.84
NYMEX Platinum	USD/T. oz	983.56	0.17
Agricultural			
CBOT Corn	USD/bu	671.25	0.34
CBOT Wheat	USD/bu	797.00	(3.39)
NYB-ICE Sugar	USD/lb.	19.33	(2.03)
CBOT Soybeans	USD/bu.	1,436.25	1.36

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	105.96	(0.91)
Euro/USD	1.0395	0.68
GBP/USD	1.2092	1.70
AUD/USD	0.6751	1.17
USD/CAD	1.3380	0.04
USD/JPY	139.19	(0.84)
USD/CHF	0.9459	(0.92)
USD/CNY Midpoint	7.1339	0.35
USD/CNY	7.1650	0.63
USD/CNY NDF-12-mth	7.0047	0.67
USD/CNH	7.1940	0.95
USD/HKD	7.8134	(0.11)
CNY/HKD	1.0910	(0.71)
CNH/HKD	1.0860	(1.27)
USD/KRW	1,324.20	(1.19)
USD/TWD	30.90	(0.82)
USD/SGD	1.3768	0.07
USD/INR	81.68	(0.02)

All data sources: Bloomberg

Disclosures

Analyst Certification

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