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Economic Acumen

Commentary by CEBI Research Team

In Brief

- The renminbi has been embedded into a turbulent ride over 2022, thus posting a sizable depreciation against the U.S dollar (USD) of more than 8.6%. A series of global and domestic macroeconomic fundamentals was behind renminbi depreciation, including monetary policy divergence between China and the U.S., sporadic Covid lockdowns, property market woes and gloomy external trade outlook.
- Looking forward, China is on track to reopen the economy through relaxation of Covid rules and policy stimulus. Stability of the renminbi is a fundamental part of China's monetary and financial environment that strengthens foreign exchange liquidity management for financial institutions and keeps the economy operating in a stable and sustainable manner.
- We are of the view that China's economic recovery through proper normalization of consumption and production alongside slower pace of U.S rate hikes will strengthen the outlook of stronger renminbi. China's resilient economic fundamentals lend great support to the strength of renminbi, which will stay well-supported between 6.6 and 6.7 per USD in 2023.

Banny Lam
Head of Research
banny.lam@cebi.com.hk
(852)2916-9630

Navigating the renminbi within a reasonable range

The renminbi has been embedded into a turbulent ride over 2022, thus posting a sizable depreciation against the U.S dollar (USD) of more than 8.6%. A series of global and domestic macroeconomic fundamentals was behind renminbi depreciation, including monetary policy divergence between China and the U.S., sporadic Covid lockdowns, property market woes and gloomy external trade outlook. Although China's economy braces for economic headwinds, policy supports on monetary and fiscal front have been stepped up to stabilize the economy, thus reinforcing risk rebalancing of the renminbi. Looking forward, China is on track to reopen the economy through relaxation of Covid rules and policy stimulus. Stability of the renminbi is a fundamental part of China's monetary and financial environment that strengthens foreign exchange liquidity management for financial institutions and keeps the economy operating in a stable and sustainable manner. China's policymakers will further internationalize financial system with which the renminbi will play a larger role in international trade settlement, international capital markets and international currency reserves. We are of the view that China's economic recovery through proper normalization of consumption and production alongside slower pace of U.S rate hikes will strengthen the outlook of stronger renminbi. China's resilient economic fundamentals lend great support to the strength of renminbi, which will stay well-supported between 6.6 and 6.7 per USD in 2023.

Policy shift on Covid-19 improving economic outlook and justifying upbeat momentum of renminbi. The fundamental reason behind fluctuation of the renminbi rests on the growth outlook of China. Covid-19 lockdowns have led to stoppage of work and consumption, aggravating investors' concerns over recovery strength of China's economy and putting downward pressure on renminbi. In sum, the working report of the 20th National Congress of the Communist Party of China (CPC) highlights that the goal of revitalizing growth momentum for China's economy to achieve full

employment and sustainable growth will ensure stability of socioeconomic development of China in all aspects. Recent relaxation of Covid-19 rules will restore economic activities and improve the growth outlook. In sum, the modest growth in China alongside proper momentum of job creation will support the ongoing transformation and upgrading of China's economy. China's policymakers will conduct prudent monetary policy easing and proactive fiscal policy to expand domestic demand, assist businesses reopening, sustain employment, and help all types of businesses to support growth rebound of China's economy, thus lending solid support for a stronger renminbi in 2023.

Slower pace of U.S. rate hikes reviving renminbi's strengths. As the U.S Federal Reserve (Fed) raises interest rates 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 aggregate demand and reshape inflation expectations while China boosts domestic demand and stabilizes growth. The policy divergence may trigger irregular flows of capital that cause ups and downs of the renminbi. But we are of the view that the renminbi against the USD will face falling downside pressure as the Fed slows the pace of rate hikes that narrows the rate spread. With sound economic fundamentals, swelling foreign investment in business and financial assets on ongoing opening-up of the economy as well as increased global usage of the currency, the renminbi will point towards stable fluctuation within a reasonable range in 2023.

The renminbi well-supporting between 6.6 and 6.7. Gearing up market-led pricing mechanism with greater transparency by the PBOC allows the value of renminbi to be reflected more by economic strengths and less by speculative trades. Strengthening economic indicators driven by recent Covid-19 policy relaxation and stimulus measures adds credence to the notion that China's economy is in a recovery stage with pick-up in economic activities. Looking ahead, China will take a proactive approach to enhance renminbi's presence in global market and become more financially integrated with the global economy. Renminbi internationalization promotes further opening of forex market and improves the fundamental value of the renminbi through more organic market growth and cross-border channels for trade and investment. 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 coupled with large foreign portfolio inflows into equity and bond markets will provide strong support to rebalance the market demand for the renminbi. We expect the renminbi will fluctuate within a reasonable range, staying between 6.6 and 6.7 per the USD for 2023.

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 |

| | Nov 21 | Dec 21 | Jan 22 | Feb 22 | Mar 22 | Apr 22 | May 22 | Jun 22 | July 22 | Aug 22 | Sept 22 | Oct 22 | Nov 22 |
|--|--------|--------|--------|--------|--------|--------|--------|--------|---------|--------|---------|--------|--------|
| Real GDP (YoY%) | - | 4.0 | - | - | 4.8 | - | - | 0.4 | - | - | 3.9 | - | - |
| PMI - Manufacturing % | 50.1 | 50.3 | 50.1 | 50.2 | 49.5 | 47.4 | 49.6 | 50.2 | 49.0 | 49.4 | 50.1 | 49.2 | 48.0 |
| PMI - Non-manufacturing% | 52.3 | 52.7 | 51.1 | 51.6 | 48.4 | 41.9 | 47.8 | 54.7 | 53.8 | 52.6 | 50.6 | 58.7 | 46.7 |
| Exports (RMB YoY %) | 16.3 | 17.3 | 20.8 | 3.9 | 12.6 | 1.6 | 14.7 | 21.5 | 23.8 | 11.8 | 10.7 | 7.0 | 0.9 |
| Imports (RMB YoY %) | 25.6 | 16.0 | 17.9 | 9.6 | (0.9) | (1.8) | 2.6 | 4.5 | 7.2 | 4.6 | 5.2 | 6.8 | (1.1) |
| Trade Balance (RMB/bn) | 460.6 | 599.8 | 526.0 | 176.8 | 283.7 | 315.5 | 495.2 | 646.2 | 683.9 | 535.6 | 573.6 | 586.8 | 494.3 |
| Export (USD YoY %) | 21.7 | 20.9 | 23.9 | 6.0 | 14.4 | 3.5 | 16.3 | 17.4 | 17.8 | 7.1 | 5.7 | (0.3) | (8.7) |
| Import (USD YoY %) | 31.4 | 19.5 | 20.9 | 11.7 | 0.7 | 0.2 | 3.9 | 0.7 | 2.1 | 0.3 | 0.3 | (0.7) | (10.6) |
| Trade Balance (USD/bn) | 71.7 | 93.7 | 82.5 | 27.8 | 44.7 | 49.6 | 77.6 | 97.4 | 101.3 | 79.4 | 84.7 | 85.2 | 69.8 |
| CPI (YoY %) | 2.3 | 1.5 | 0.9 | 0.9 | 1.5 | 2.1 | 2.1 | 2.5 | 2.7 | 2.5 | 2.8 | 2.1 | 1.6 |
| PPI (YoY %) | 12.9 | 10.3 | 9.1 | 8.8 | 8.3 | 8.0 | 6.4 | 6.1 | 4.2 | 2.3 | 0.9 | (1.3) | (1.3) |
| FAI (YTD/ YOY %) | 5.2 | 4.9 | - | 12.2 | 9.3 | 6.8 | 6.2 | 6.1 | 5.7 | 5.8 | 5.9 | 5.8 | 5.3 |
| Real Estate Investment (YTD/ YoY %) | 6.0 | 4.4 | - | 3.7 | 0.7 | (2.7) | (4.0) | (5.4) | (6.4) | (7.4) | (8.0) | (8.8) | (9.8) |
| Industrial Production (YoY %) | 3.8 | 4.3 | - | 7.5 | 5.0 | (2.9) | 0.7 | 3.9 | 3.8 | 4.2 | 6.3 | 5.0 | 2.2 |
| Retail Sales (YoY%) | 3.9 | 1.7 | - | 6.7 | (3.5) | (11.1) | (6.7) | 3.1 | 2.7 | 5.4 | 2.5 | (0.5) | (5.9) |
| New Lending (RMB/bn) | 1273.2 | 1131.8 | 3980.0 | 1233.6 | 3125.4 | 645.4 | 1888.4 | 2806.3 | 679.0 | 1254.2 | 2473.8 | 615.2 | 1210.0 |
| M2 (YoY %) | 8.5 | 9.0 | 9.8 | 9.2 | 9.7 | 10.5 | 11.1 | 11.4 | 12.0 | 12.2 | 12.1 | 11.8 | 12.4 |
| Aggregate Financing (RMB bn) | 2598.3 | 2368.3 | 6177.0 | 1218.4 | 4653.8 | 936.8 | 2840.6 | 5194.1 | 762.8 | 2462.3 | 3541.3 | 907.9 | 1990.0 |
| Urban Unemployment Rate (%) | 5.0 | 5.1 | 5.3 | 5.5 | 5.8 | 6.1 | 5.9 | 5.5 | 5.4 | 5.3 | 5.5 | 5.5 | 5.7 |
| Urban Unemployment Rate in 31 major cities (%) | 5.1 | 5.1 | 5.1 | - | 6.0 | 6.7 | 6.9 | 5.8 | 5.6 | 5.4 | 5.8 | 6.0 | 6.7 |

World Economic/Financial Indicators

| Global Indices | | | |
|-------------------|---------------|-------|-----------------|
| Index | Closing Price | P/E | One Week chg(%) |
| U.S. | | | |
| DJIA | 32,757.54 | 18.85 | (3.67) |
| S&P 500 | 3,817.66 | 18.46 | (4.33) |
| NASDAQ | 10,546.03 | 41.12 | (5.36) |
| EUR | | | |
| FTSE 100 | 7,361.31 | 13.66 | (1.14) |
| DAX | 13,942.87 | 12.89 | (2.54) |
| CAC40S | 6,473.29 | 13.38 | (2.67) |
| STOXX EUR 600 | 425.87 | 14.60 | (2.54) |
| Asia | | | |
| HSI | 19,352.81 | 7.00 | (0.57) |
| HSCEI | 6,604.62 | 6.08 | (0.36) |
| CSI300 | 3,893.22 | 14.31 | (1.52) |
| SSE Composite | 3,107.12 | 13.96 | (2.26) |
| SZSE Composite | 2,003.20 | 36.79 | (2.85) |
| NIKKEI 225 | 27,237.64 | 18.43 | (2.17) |
| KOSPI | 2,352.17 | 11.19 | (0.88) |
| TWSE | 14,433.32 | 10.50 | (1.23) |
| S&P/ASX 200 | 7,133.87 | 14.42 | (0.65) |
| MSCI Index | | | |
| MSCI WORLD | 2,585.89 | 16.56 | (3.64) |
| MSCI DEVELOPED | 602.00 | 15.59 | (3.31) |
| MSCI EMERGING | 957.64 | 10.69 | (0.62) |
| MSCI US | 3,619.87 | 18.86 | (4.40) |
| MSCI UK | 2,117.08 | 13.65 | (1.13) |
| MSCI France | 184.26 | 15.50 | (2.64) |
| MSCI Germany | 137.77 | 11.95 | (2.68) |
| MSCI China | 63.58 | 10.95 | (0.86) |
| MSCI Hong Kong | 13,204.04 | 18.79 | (0.61) |
| MSCI Japan | 1,182.10 | 13.88 | (1.32) |

* As of 2022/12/19 closing for all markets

| Money market | | |
|----------------------------------|-----------|-----------------|
| | Yield (%) | One Week chg(%) |
| US Fed Fund Rate | 4.50 | 0.50 |
| US Prime Rate | 7.50 | 0.50 |
| US Discount Window | 4.50 | 0.50 |
| ECB Rate (Refinancing) | 2.50 | 0.50 |
| BOJ Policy Rate | (0.10) | 0.00 |
| US Treasury (1 Mth) | 3.8056 | 0.0918 |
| US Treasury (1 Yr) | 4.5751 | (0.1303) |
| US Treasury (5 Yr) | 3.7142 | (0.0752) |
| US Treasury (10 Yr) | 3.5846 | (0.0267) |
| US Treasury (30 Yr) | 3.6347 | 0.0628 |
| 1-Month LIBOR | 4.3529 | 0.0081 |
| 3 Month LIBOR | 4.7459 | (0.0048) |
| Japan 1-Yr Gov. Bond | (0.086) | 0.005 |
| Japan 10-Yr Gov. Bond | 0.255 | 0.002 |
| German 1-Yr Gov. Bond | 2.454 | 0.105 |
| German 10-Yr Gov. Bond | 2.203 | 0.264 |
| China LPR (1-year) | 3.65 | 0.00 |
| China 1-Yr Gov. Bond | 2.280 | 0.012 |
| China 5-Yr Gov. Bond | 2.654 | (0.081) |
| China 10-Yr Gov. Bond | 2.887 | (0.035) |
| O/N SHIBOR | 1.217 | 0.165 |
| 1-mth SHIBOR | 2.210 | 0.204 |
| HK Base rate | 4.75 | 0.00 |
| O/N HIBOR | 1.7701 | (0.3882) |
| 1-mth HIBOR | 4.7514 | (0.1361) |
| O/N CNH HIBOR | 1.2346 | 0.3503 |
| 1-mth CNH HIBOR | 1.8900 | 0.1903 |
| Corporate Bonds (Moody's) | | |
| Aaa | 4.32 | 0.06 |
| Baa | 5.46 | 0.04 |

| Global Commodities | | | |
|------------------------|-----------|----------|-----------------|
| | Unit | Price | One Week chg(%) |
| Energy | | | |
| NYMEX WTI | USD/bbl | 75.19 | 2.76 |
| ICE Brent Oil | USD/bbl | 79.80 | 2.32 |
| NYMEX Natural | USD/MMBtu | 5.85 | (11.17) |
| Basic Metals | | | |
| LME Aluminum | USD/MT | 2,323.50 | (2.21) |
| CMX Copper | USD/lb. | 378.30 | (0.46) |
| LME Steel Rebar | USD/MT | 665.00 | (0.89) |
| LME Lead Cash | USD/MT | 2,173.00 | (0.21) |
| Precious Metals | | | |
| CMX Gold | USD/T. oz | 1,795.84 | 0.19 |
| Gold Futures | USD/T. oz | 1,797.70 | 0.30 |
| CMX Silver | USD/T. oz | 22.99 | (1.38) |
| NYMEX Platinum | USD/T. oz | 984.36 | (1.97) |
| Agricultural | | | |
| CBOT Corn | USD/bu | 647.25 | (1.03) |
| CBOT Wheat | USD/bu | 748.50 | (0.83) |
| NYB-ICE Sugar | USD/lb. | 20.14 | 3.92 |
| CBOT Soybeans | USD/bu. | 1,463.50 | (0.14) |

| Currency market | | |
|--------------------|-----------|-----------------|
| | Spot Rate | One Week chg(%) |
| US Dollar Index | 104.72 | (0.39) |
| Euro/USD | 1.0607 | 0.66 |
| GBP/USD | 1.2149 | (0.98) |
| AUD/USD | 0.6700 | (0.67) |
| USD/CAD | 1.3648 | 0.09 |
| USD/JPY | 136.91 | (0.55) |
| USD/CHF | 0.9286 | (0.82) |
| USD/CNY Midpoint | 6.9746 | 0.26 |
| USD/CNY | 6.9797 | 0.03 |
| USD/CNY NDF-12-mth | 6.8165 | 0.01 |
| USD/CNH | 6.9861 | (0.05) |
| USD/HKD | 7.7814 | 0.07 |
| CNY/HKD | 1.1149 | 0.03 |
| CNH/HKD | 1.1136 | 0.09 |
| USD/KRW | 1302.90 | (0.33) |
| USD/TWD | 30.74 | 0.09 |
| USD/SGD | 1.3549 | 0.00 |
| USD/INR | 82.70 | 0.20 |

All data sources: Bloomberg

Disclosures

Analyst Certification

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**Office address: CEB International Capital Corporation Limited, 22/F AIA Central, 1 Connaught Road Central, Hong Kong.
Tel: (852) 2916 9600**