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ABC INTERNATIONAL

ABCI SECURITIES COMPANY LIMITED

## Economic Insight

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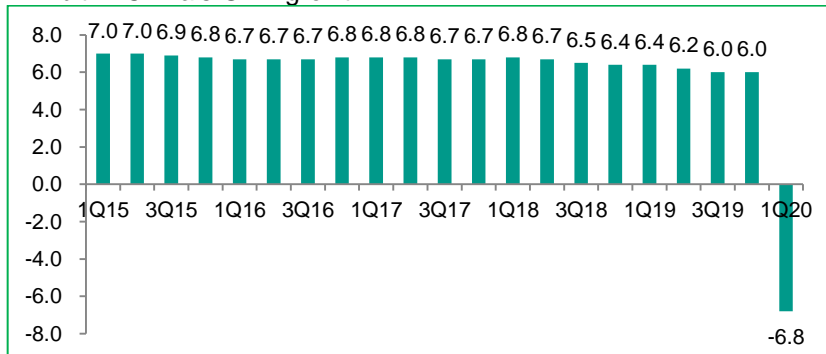
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### China's GDP declined by 6.8% in 1Q20

- China's economic growth struck a new low in decades contracting by 6.8% in 1Q20 upon the COVID-19 pandemic. Economic activity in Mar grew faster than the first two months on the back of the production resumption, with investment, retail sales, export and industrial production rebounding significantly
- As the epidemic ebbs in China, production resumes, and pent-up consumption demand is released; together with the supportive financial and monetary policies, we expect China's economic growth in 2Q20 to turn positive
- Governments around the world have devoted considerable efforts in containing the pandemic; we expect the spread will dwindle sharply in 2H20. As China's external demand improves, growth will continue to rebound in 2H. On the whole, we expect China's economy to expand by 2.0% for 2020E
- On the monetary front, PBOC is expected to continue to introduce counter-cyclical policy measures to stabilize economic growth. The rates for one-year LPR and five-year LPR are expected to be 3.45% and 4.45% for end-2020E. RRR would continue to trend down, given the economic downturn. We expect RRR for large financial institutions to be 12.0% and RRR for medium and small financial institutions to be 9.0% for end-2020E. The central government would adopt a more proactive fiscal policy to support economic growth for the rest of 2020. Such policy measures include lifting the fiscal deficit rate, increasing the issuance of local government bonds, issuing special government bonds, raising public expenditure in epidemic prevention and livelihood security, and further reduction in taxes and fees

China's economy contracted by 6.8%<sup>1</sup> in 1Q20 amid the COVID-19 pandemic, below the market expectation of -6.0% and well below 6.0% in 4Q19 (Exhibit 1), hitting a new low in decades. Nonetheless, economic activity in Mar grew faster than that in the first two months on the back of production resumption, with investment, retail sales, export, and industrial production all rebounding significantly.

Exhibit 1: China's GDP growth



Source(s): NBS, ABCI Securities

ABCI Research

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<sup>1</sup> All growth rates are year-on-year except specified otherwise



On the supply side, industrial output growth in Mar rose sharply to -1.1% from -13.5% in Jan-Feb, up 12.4 ppt. Growth in electricity generation in Mar rebounded from -8.2% in the first two months to -4.6%; National Bureau of Statistics also confirmed that the decline in electricity consumption in Mar was much less than February – the improvement was particularly apparent by the end of Mar. Integrated circuit production rose by 20.0% in Mar, well above 8.5% in Jan-Feb.

On the demand side, FAI in urban areas fell by 16.1% in 1Q20, compared with a 24.5% decline in the first two months. According to our calculation, the single-month FAI growth in urban areas rebounded to -9.5% in Mar from -24.5% in Jan-Feb. By sector, property FAI growth in Mar advanced sharply to 1.2% from -16.3% in the first two months, driven by recovering property sales. The single-month increase in new home sales, as measured in floor space area and value, were -14.1% and -14.6% in Mar, compared with -39.9% and -35.9% in Jan-Feb.

Manufacturing FAI growth rebounded to -20.6% in Mar from -31.5% in the first two months due to rebounding export growth and lower financing cost, while private investment growth also improved to -12.9% from -26.4% during the same period. Infrastructure investment accelerated significantly to -11.1% in Mar from -30.3% in Jan-Feb on the back of fiscal expenditure.

Meanwhile, retail sales growth rebounded to -15.8% in Mar from -20.5% in the first two months. Compared with the improvement in overall FAI and industrial output, the recovery in retail sales in Mar was weaker, partly due to the substantial fall in the national residents' income. The per capita disposable income of the national residents in 1Q20 only increased by 0.8% in nominal terms and decreased by 3.9% after deducting price factors. It is worth noting that online retail sales of physical goods maintained positive momentum in 1Q20, growing by 5.9% in Mar, 2.9 ppt higher than that in Jan-Feb; these sales accounted for 23.6% of total retail sales, up 2.1ppt from the first two months.

As production resumed, the job market improved in Mar. The unemployment rate in the national urban survey was 5.9% for the month, down 0.3ppt from Feb. A total of 2.29mn new jobs were created in cities and towns across the country. According to the NBS press conference last Friday, the production resumption rate of enterprises above the designated size is close to 100%, and large enterprises have basically resumed work. At the same time, the production resumption rate of SMEs exceeded 80%.

As the epidemic ebbs, production resumes, and pent-up consumption is released; together with the supportive financial and monetary policies, we expect China's economic growth in 2Q20 to turn positive. Governments around the world have devoted significant efforts in containing the pandemic; we expect the pandemic will dwindle in 2H20. As China's external demand improves, growth will continue to rebound in 2H. On the whole, we expect China's economy to expand by 2.0% for 2020E, down from 6.1% in 2019 (Exhibit 2). It should be noted that the above forecasts for 2020 were based on our base case scenario that the COVID-19 pandemic will peak in 2Q20 and subside in 2H20. If the virus outbreak prolongs, our forecasts will be subject to downward adjustment.



On the monetary front, PBOC is expected to continue to introduce counter-cyclical policy measures to stabilize economic growth. The rates for one-year LPR and five-year LPR are expected to be 3.45% and 4.45% for end-2020E. RRR would continue to trend down, given the economic downturn. We expect RRR for large financial institutions to be 12.0% and RRR for medium and small financial institutions to be 9.0% for end-2020E. The central government is expected to adopt a more proactive fiscal policy to support economic growth for the rest of 2020. Such policy measures include lifting the fiscal deficit rate, increasing the issuance of local government bonds, issuing special government bonds, raising public expenditure in epidemic prevention and livelihood security, and further reduction in taxes and fees.

**Exhibit 2: Economic forecasts**

Economic indicators	2018	2019	2020F (New)	2020F (Old)
Real GDP growth, %	6.6	6.1	2.0	5.9
FAI growth, %	5.9	5.4	1.5	5.2
Retail Sales growth, %	9.0	8.0	3.5	7.8
Export growth in USD terms, %	9.9	0.5	2.0	3.0
Import growth in USD terms, %	15.8	-2.8	1.0	1.0
Industrial Production growth, %	6.2	5.7	2.2	5.2
CPI, %	2.1	2.9	3.0	3.5
M2 growth, %	3.5	-0.3	-0.5	0.5
Aggregate Financing, RMB bn	8.1	8.7	10.5	8.5
New Yuan Loans, RMB bn	22,492	25,580	29,000	27,000
Spot CNY per US dollar, End-year	16,170	16,810	19,000	18,000

Source(s): NBS, PBOC, ABCI Securities estimates



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### China Economic Indicators

	China Economic Indicators													
	2019										2020			
	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Real GDP (YoY %)	---	6.4	---	---	6.2	---	---	6.0	---	---	6.0	---	---	-6.8
Export Growth (USD,YoY %)	-20.7	14.2	-2.7	1.1	-1.3	3.3	-1.0	-3.2	-0.9	-1.2	7.6	-17.2	-17.2	-6.6
Import Growth (USD, YoY %)	-5.2	-7.6	4.0	-8.5	-7.3	-5.3	-5.6	-8.5	-6.4	0.3	16.3	-4.0	-4.0	-0.9
Trade Balance (USD bn)	4.1	32.7	13.8	41.7	51.0	45.1	34.8	39.7	42.8	38.7	46.8	-7.1	-7.1	19.9
Retail Sales Growth (YoY %)	8.2	8.7	7.2	8.6	9.8	7.6	7.5	7.8	7.2	8.0	8.0	-20.5	-20.5	-15.8
Industrial Production (YoY %)	5.3	8.5	5.4	5.0	6.3	4.8	4.4	5.8	4.7	6.2	6.9	-13.5	-13.5	-1.1
PMI - Manufacturing (%)	49.2	50.5	50.1	49.4	49.4	49.7	49.5	49.8	49.3	50.2	50.2	50.0	35.7	52.0
PMI – Non-manufacturing (%)	54.3	54.8	54.3	54.3	54.2	53.7	53.8	53.7	52.8	54.4	53.5	54.1	29.6	52.3
FAI (YTD) (YoY %)	6.1	6.3	6.1	5.6	5.8	5.7	5.5	5.4	5.2	5.2	5.2	-24.5	-24.5	-16.1
CPI (YoY %)	1.5	2.3	2.5	2.7	2.7	2.8	2.8	3.0	3.8	4.5	4.5	5.4	5.2	4.3
PPI (YoY %)	0.1	0.4	0.9	0.6	0.0	-0.3	-0.8	-1.2	-1.6	-1.4	-0.5	0.0	-0.5	-1.5
M2 (YoY %)	8.0	8.6	8.5	8.5	8.5	8.1	8.2	8.4	8.4	8.2	8.7	8.4	8.8	10.1
New Lending (RMB bn)	886	1690	1020	1180	1660	1060	1210	1690	661	1390	1140	3340	906	2850
Aggregate Financing (RMB bn)	703	2860	1360	1400	2267	1010	1980	2270	619	1750	2103	5062	855	5163

### World Economic/Financial Indicators

Equity Indices				Global Commodities				Bond Yields & Key Rates		
	Closing price	Chg. WTD (%)	P/E		Unit	Price	Chg. WTD (%)	Volume (5-Day avg.)	Yield (%)	Chg. WTD (Bps)
<b>U.S.</b>				<b>Energy</b>						
DJIA	24,242.49	0.00	17.11	NYMEX WTI	USD/bbl.	17.07	-15.82	539,393	US Fed Fund Rate	0.25 0.00
S&P 500	2,874.56	0.00	18.92	ICE Brent Oil	USD/bbl	27.80	-1.00	272,866	US Prime Rate	3.25 0.00
NASDAQ	8,650.14	0.00	56.50	NYMEX Natural Gas	USD/MMBtu	1.75	-0.34	195,988	US Discount Window	0.25 0.00
MSCI US	2,740.34	0.00	19.51	China Qinhuangdao Port Thermal Coal <sup>2</sup>	USD/Metric Tonne	61.80	N/A	N/A	US Treasury (1 Yr)	0.0380 -3.80
<b>Europe</b>				<b>Basic Metals</b>						
FTSE 100	5,786.96	0.00	16.61	LME Aluminum Cash	USD/MT	1,469.50	0.00	38,180	US Treasury (5Yr)	0.3533 -0.63
DAX	10,625.78	0.00	18.41	LME Aluminum 3 -mth. Rolling Fwd.	USD/MT	1,507.00	0.00	39,523	US Treasury (10 Yr)	0.6433 -0.78
CAC40	4,499.01	0.00	16.38	CMX Copper Active	USD/lb.	5,200.50	0.00	16,937	Japan 10-Yr Gov. Bond	0.0210 -0.60
IBEX 35	6,875.80	0.00	15.17	LME Copper 3- mth Rolling Fwd.	USD/MT	5,211.00	0.00	26,344	China 10-Yr Gov. Bond	2.5510 1.50
FTSE MIB	17,055.47	0.00	11.72	<b>Precious Metals</b>						
Stoxx 600	333.47	0.00	15.06	CMX Gold	USD/T. oz	1,695.70	-0.18	205,215	ECB Rate (Refinancing)	0.00 0.00
MSCI UK	1,646.49	0.00	16.99	CMX Silver	USD/T. oz	15.53	0.52	12,443	1-Month LIBOR	0.6728 -14.1
MSCI France	130.09	0.00	16.23	NYMEX Platinum	USD/T. oz	795.80	1.34	12,166	3 Month LIBOR	1.1090 -11.0
MSCI Germany	122.43	0.00	17.28	<b>Agricultural Products</b>						
MSCI Italy	45.22	0.00	12.30	CBOT Corn	USD/bu	327.75	-0.46	134,536	O/N SHIBOR	0.8960 18.00
<b>Asia</b>				CBOT Wheat	USD/bu	538.25	0.84	57,793	1-mth SHIBOR	1.3010 -0.70
NIKKEI 225	19,697.26	-1.01	17.42	NYB-ICE Sugar	USD/lb.	10.53	0.00	70,627	3-mth HIBOR	1.8778 -2.09
S&P/ASX 200	5,422.10	-1.19	16.70	CBOT Soybeans	USD/bu.	842.00	-0.03	87,077	Corporate Bonds (Moody's)	
HSI	24,380.00	0.15	9.92							
HSCEI	9,815.20	0.49	7.81							
CSI300	3,839.49	-2.32	13.48							
SSE Composite	2,847.13	0.30	13.43							
SZSE Composite	1,761.73	0.65	36.89							
MSCI China	80.40	0.00	13.29							
MSCI Hong Kong	13,442.78	0.00	13.23							
MSCI Japan	876.31	0.00	13.91							

Note:

1. Data sources: Bloomberg, National Bureau of Statistics of China, ABCIS (updated on date of report)
2. The price is Coal 5500 kcal/kg FOB Spot Price

### Currency

	Euro/USD	GBP/USD	AUD/USD	USD/JPY	USD/CHF	USD/CNY	USD/HKD	USD/CNY NDF 12-mth Spot pr.
Spot Rate	1.0860	1.2471	0.6340	107.85	0.9685	7.0774	7.7507	7.1459
Chg. WTD (%)	-0.14	-0.22	-0.41	-0.29	-0.20	-0.05	-0.00	-0.15



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### Definition of equity rating

Rating	Definition
Buy	Stock return rate $\geq$ Market return rate (10%)
Hold	- Market return rate (-10%) $\leq$ Stock return rate < Market return rate (+10%)
Sell	Stock return < - Market return (-10%)

Notes: Stock return rate: expected percentage change of share price plus gross dividend yield over the next 12 months

Market return rate: average market return rate since 2008 (HSI total return index 2008-19 CAGR at 10%)

Time horizon of share price target: 12-month

Stock rating, however, may vary from the stated framework due to factors including but not limited to: corporate governance, market capitalization, historical price volatility relative to corresponding benchmark index, average daily turnover of the stock relative to market capitalization of the stock, competitive advantages in corresponding industry, etc.

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