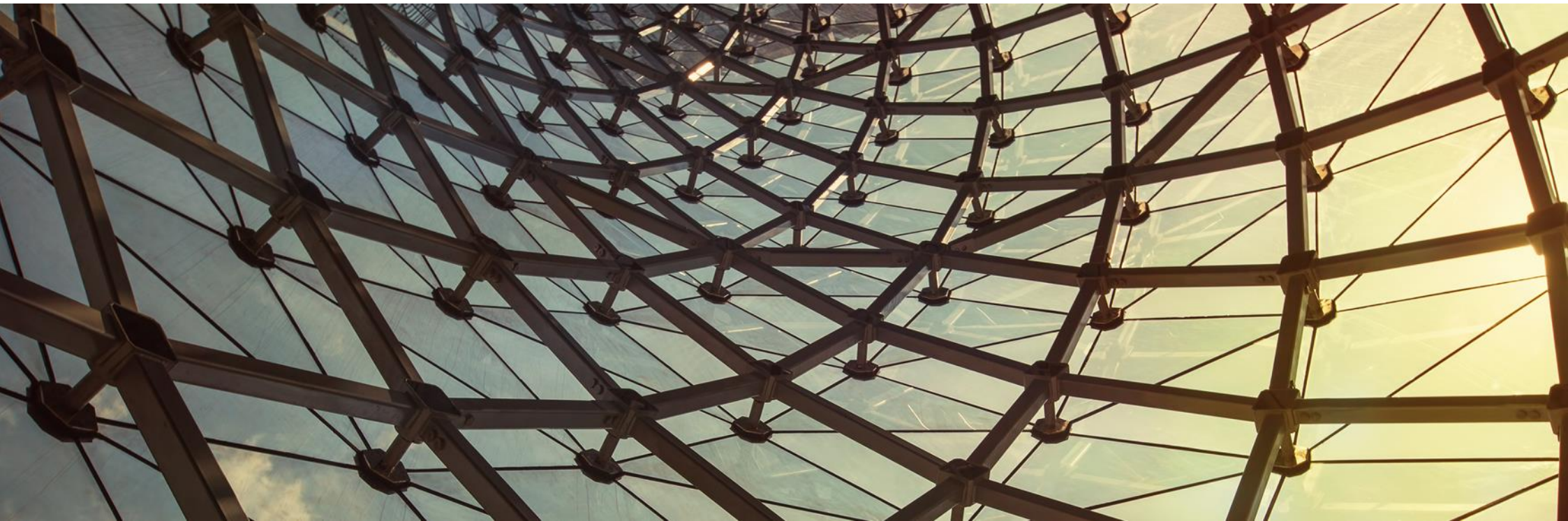


# China Macro Outlook

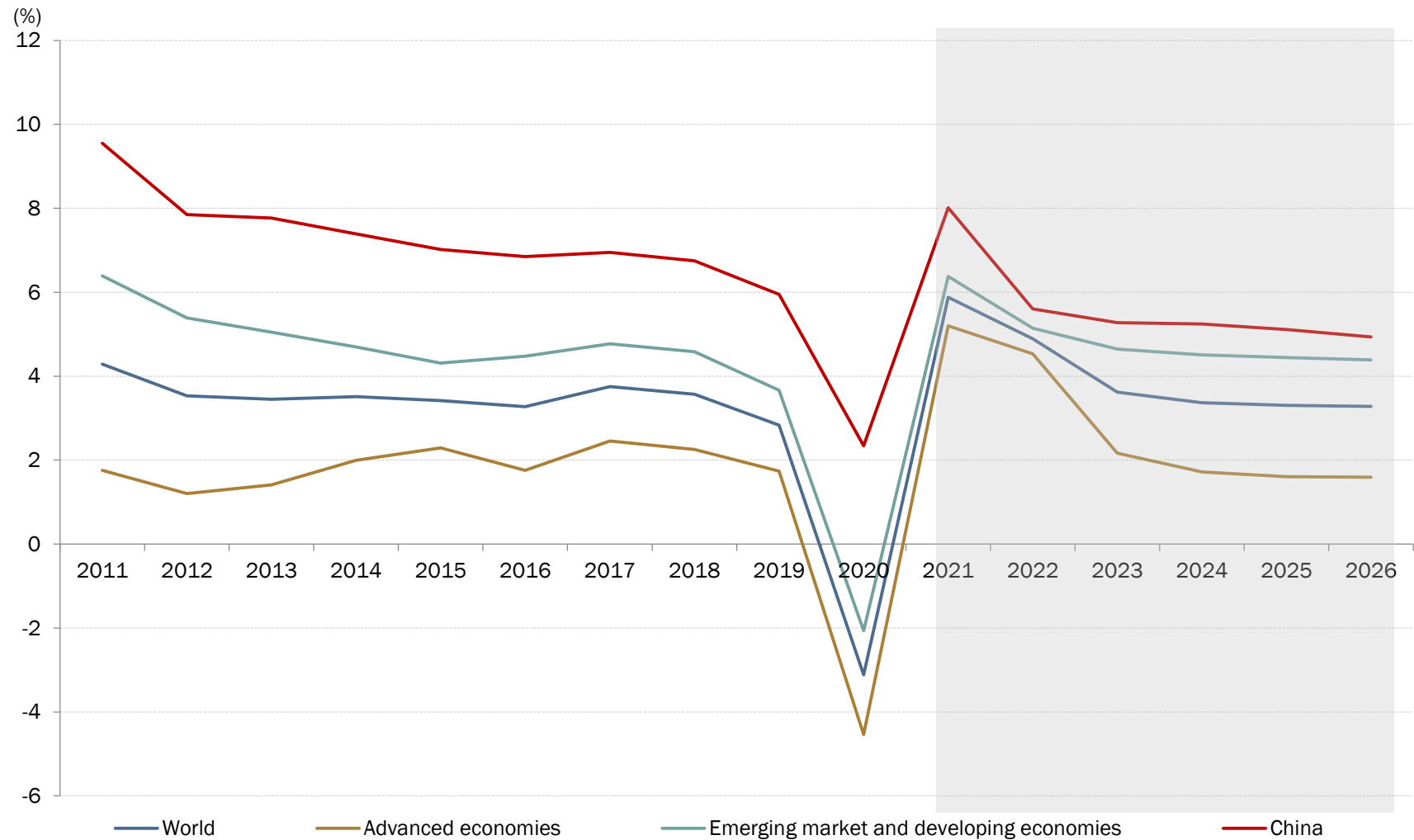
Navigating a Pathway Towards Net-Zero

November 2021



# China and Emerging Markets lead the post-pandemic global recovery

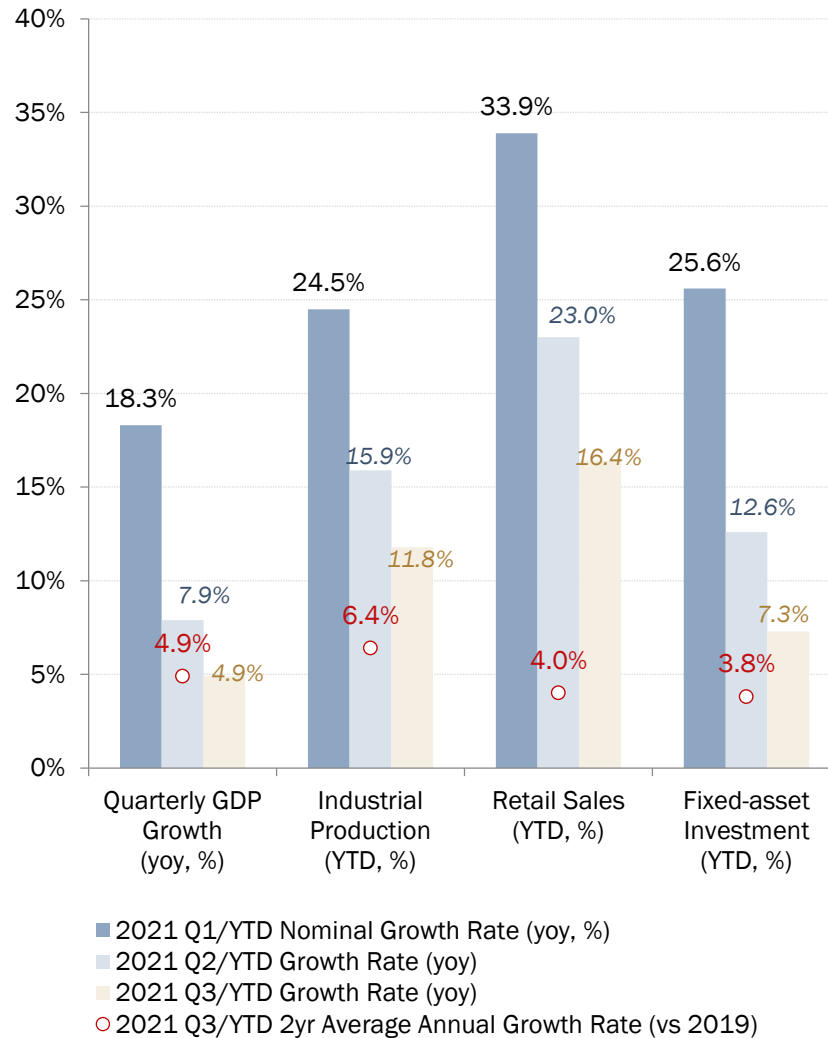
Oct 2021 IMF global GDP growth projections



Source: IMF World Economic Outlook (WEO), October 2021

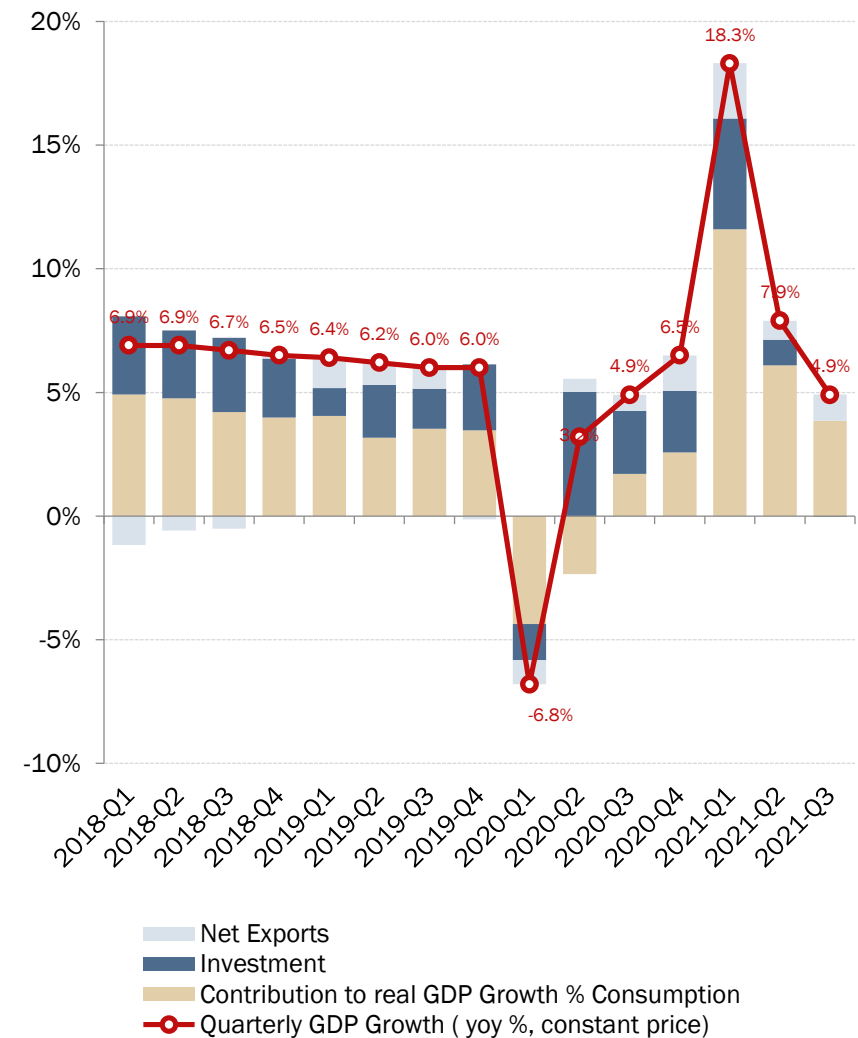
## A crucial phase of China's structural transition was stress-tested in Q3

Power shortage and Covid travel bans heavily weighed on Q3 growth



Source: WIND, ICBC Standard

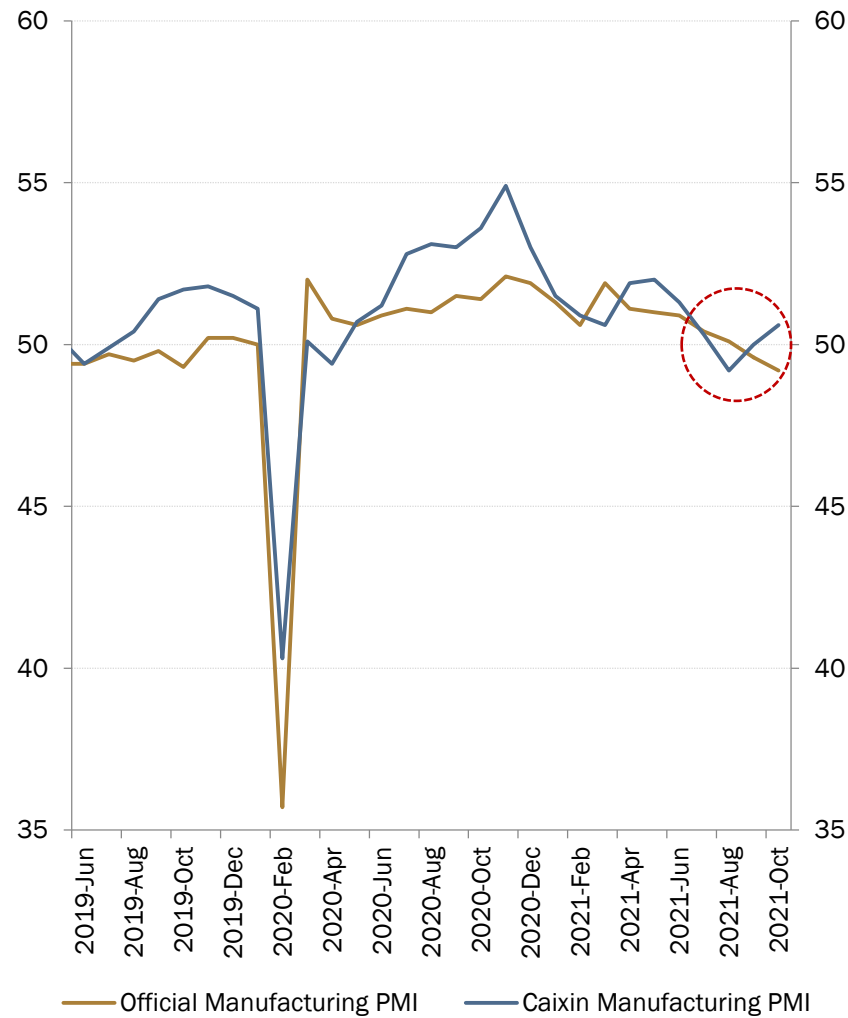
Unprecedented regulatory overhaul turned Q3 investment negative



Source: WIND, ICBC Standard

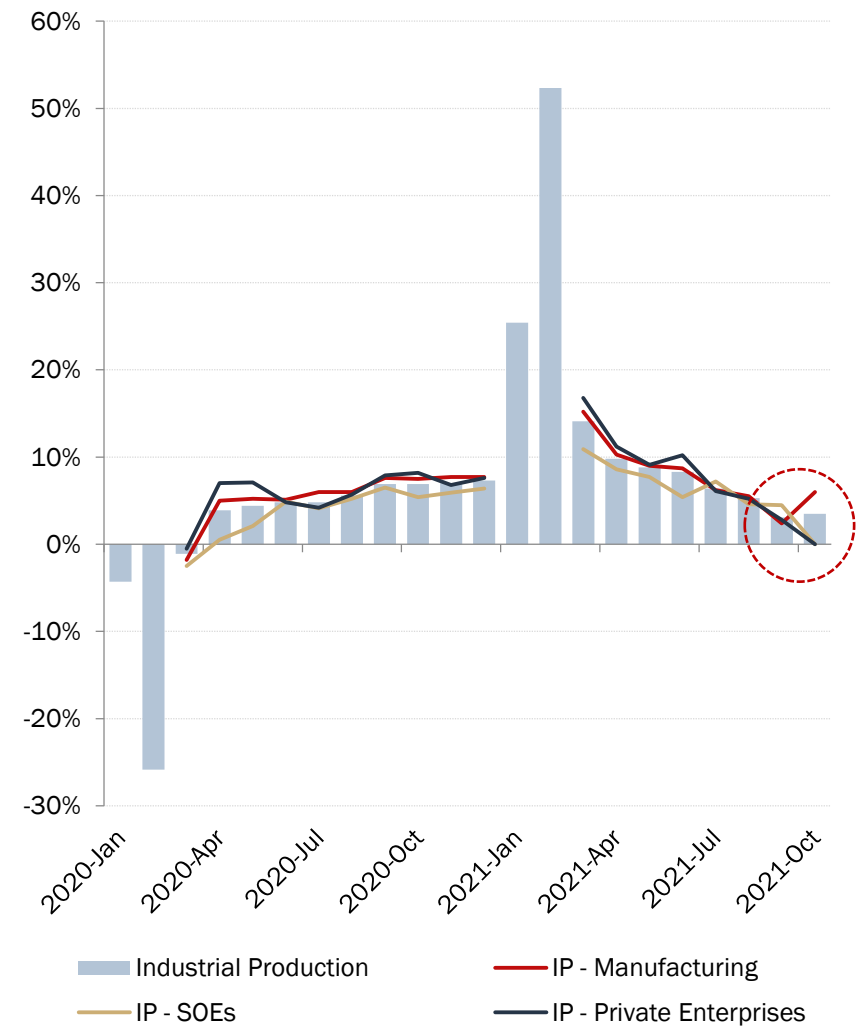
## Industrial activity was particularly vulnerable to power outages

Official manufacturing PMIs stayed contractionary since September



Source: WIND, ICBC Standard

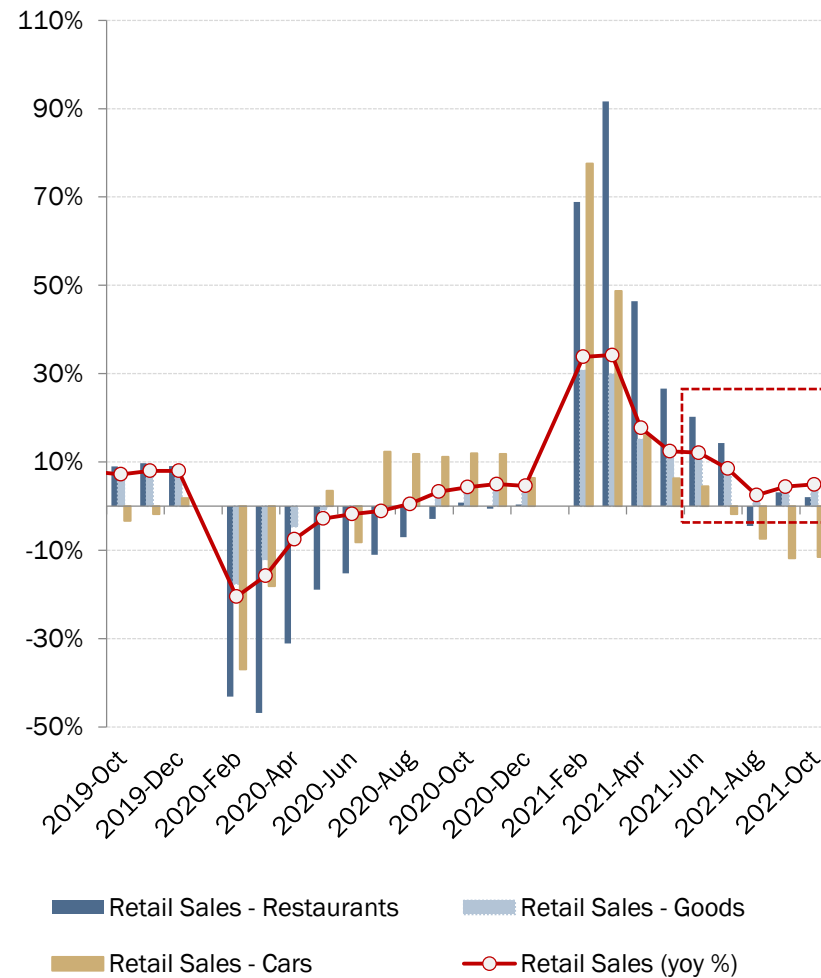
SOEs & private production remain weak despite manufacturing uptick



Source: WIND, ICBC Standard

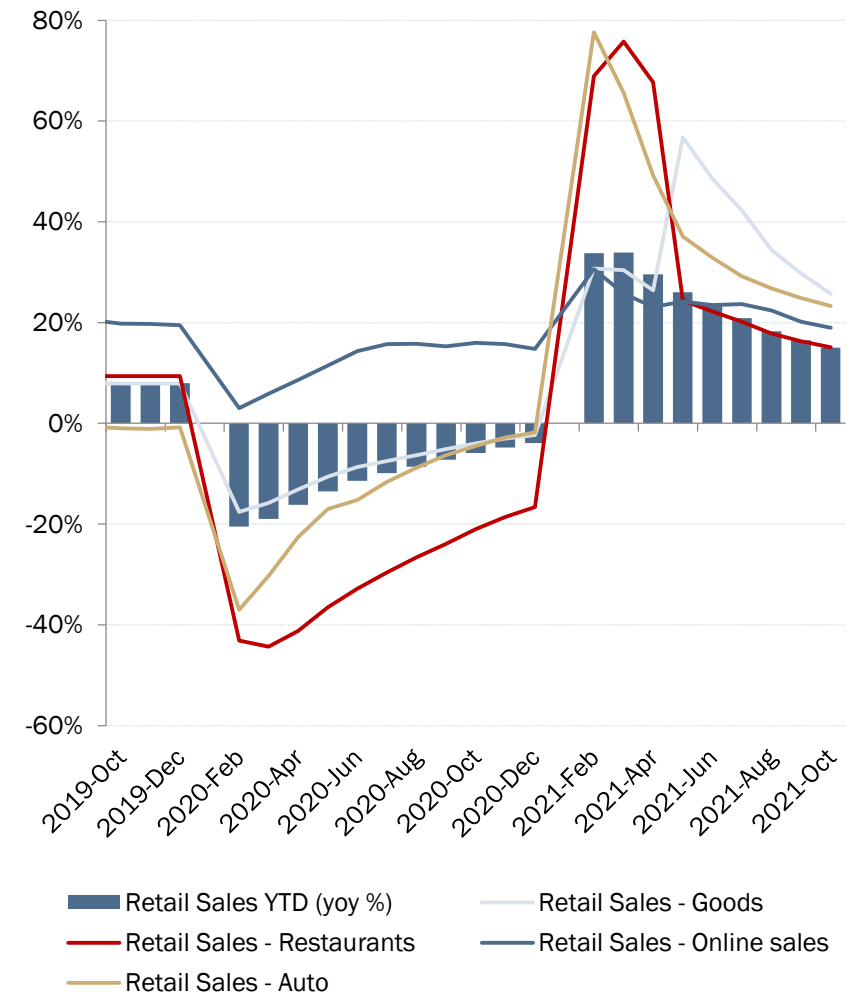
## Consumption remains highly sensitive to Covid uncertainty

Consumption growth momentum remains extremely sensitive to regional Covid outbreaks and travel restrictions since late July-2021



Source: WIND, ICBC Standard

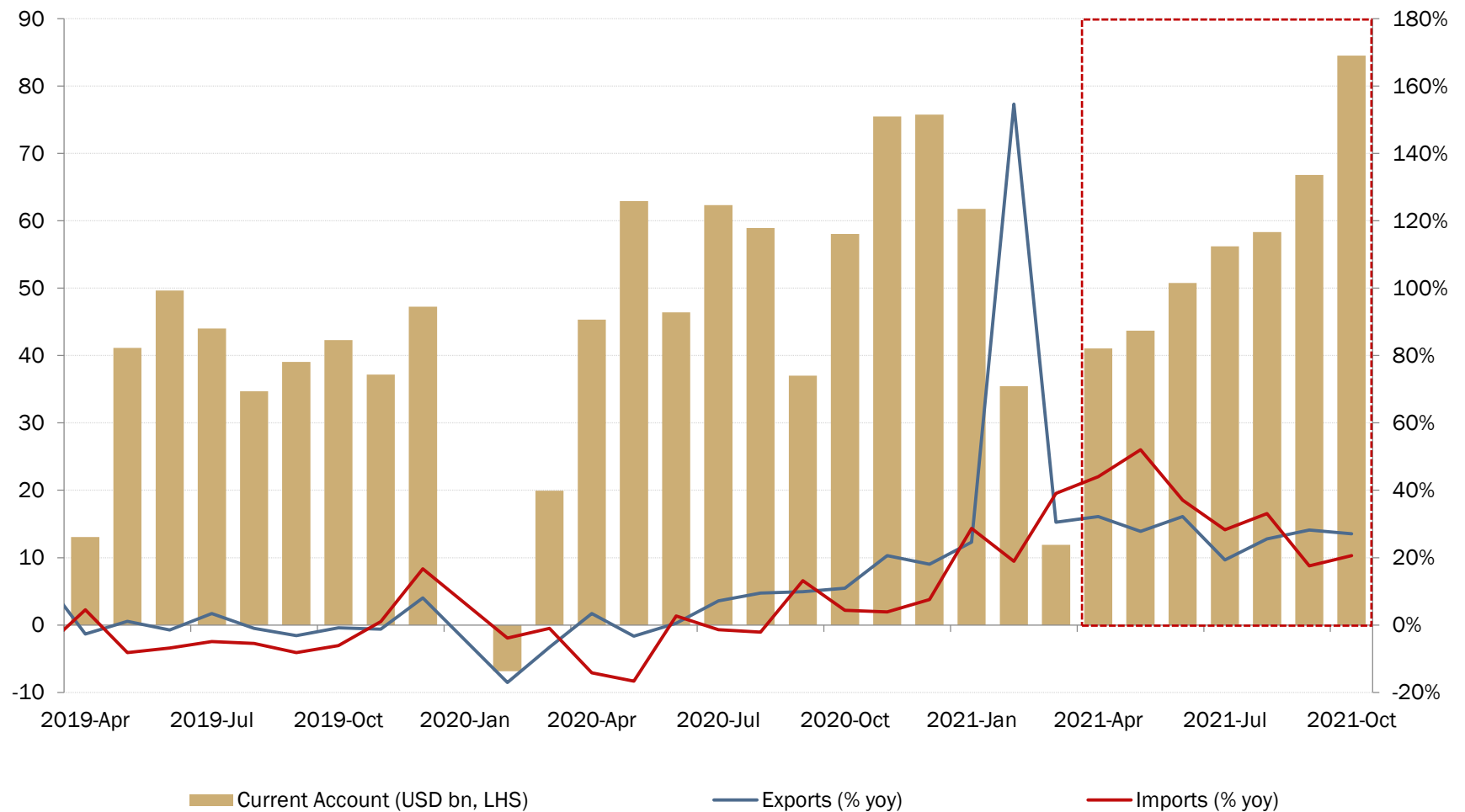
YTD data reflects a broad yet timid recovery across restaurant and auto sales while e-commerce proves its resilience



Source: WIND, ICBC Standard

## Unexpected export resilience led to record trade surplus in October

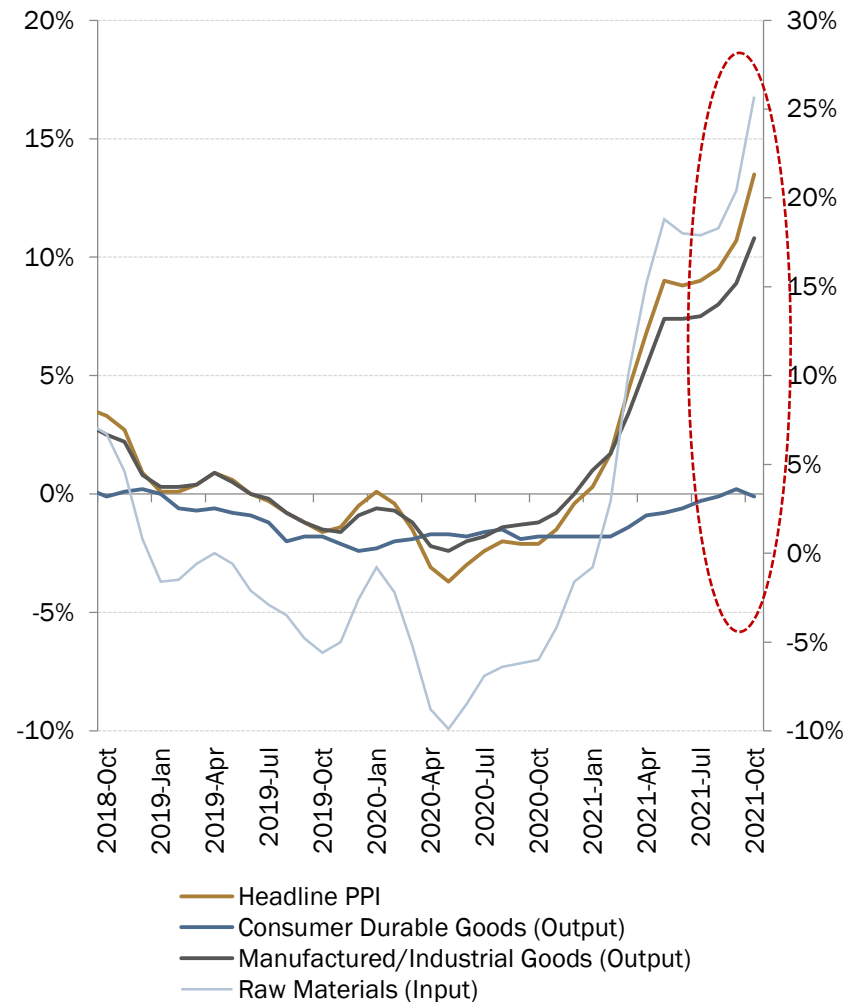
Exports surprised on the upside and showed unexpected resilience since August, yet non-energy related imports were under pressure due to weak domestic demand amid renewed threat of Covid-related restrictions



Source: WIND, ICBC Standard

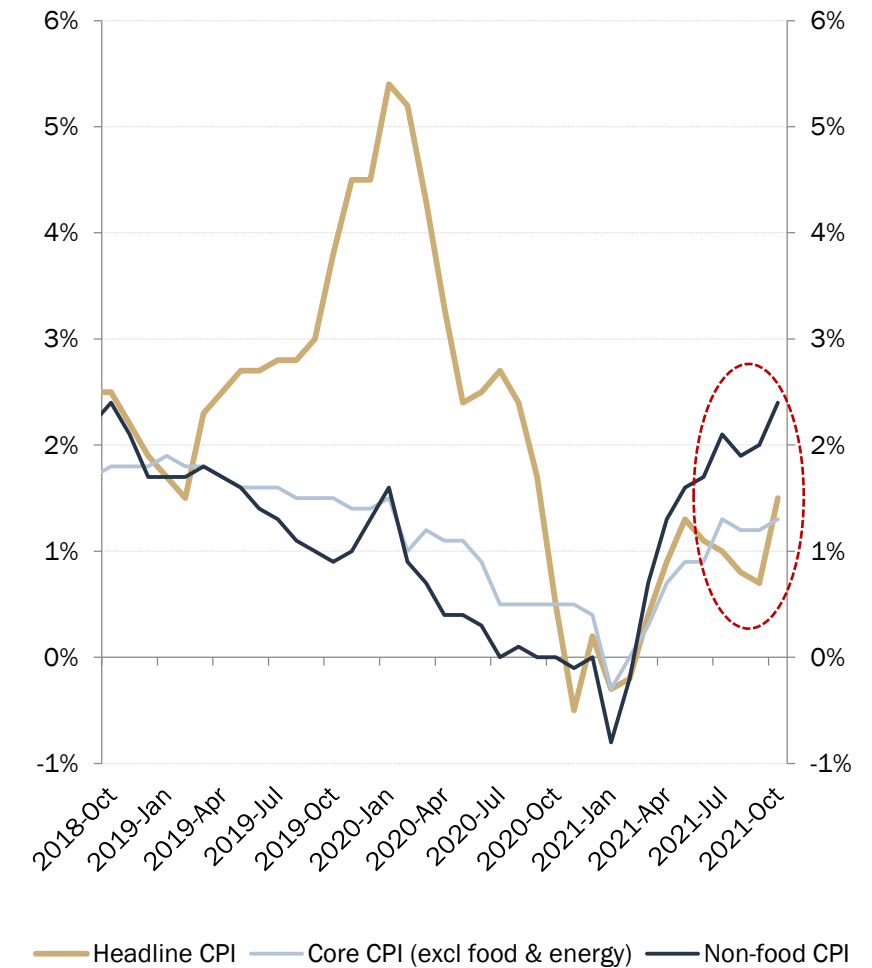
# Inflation kept under control with extensive NDRC-led price intervention

**Factory inflation hits 26-year high with persistently higher commodity prices and impact from the power crunch**



Source: WIND, ICBC Standard

**High commodity prices have modest effect on headline CPI, but core CPI shows a mild rise in inflation levels with +1.0% prints in Q3**

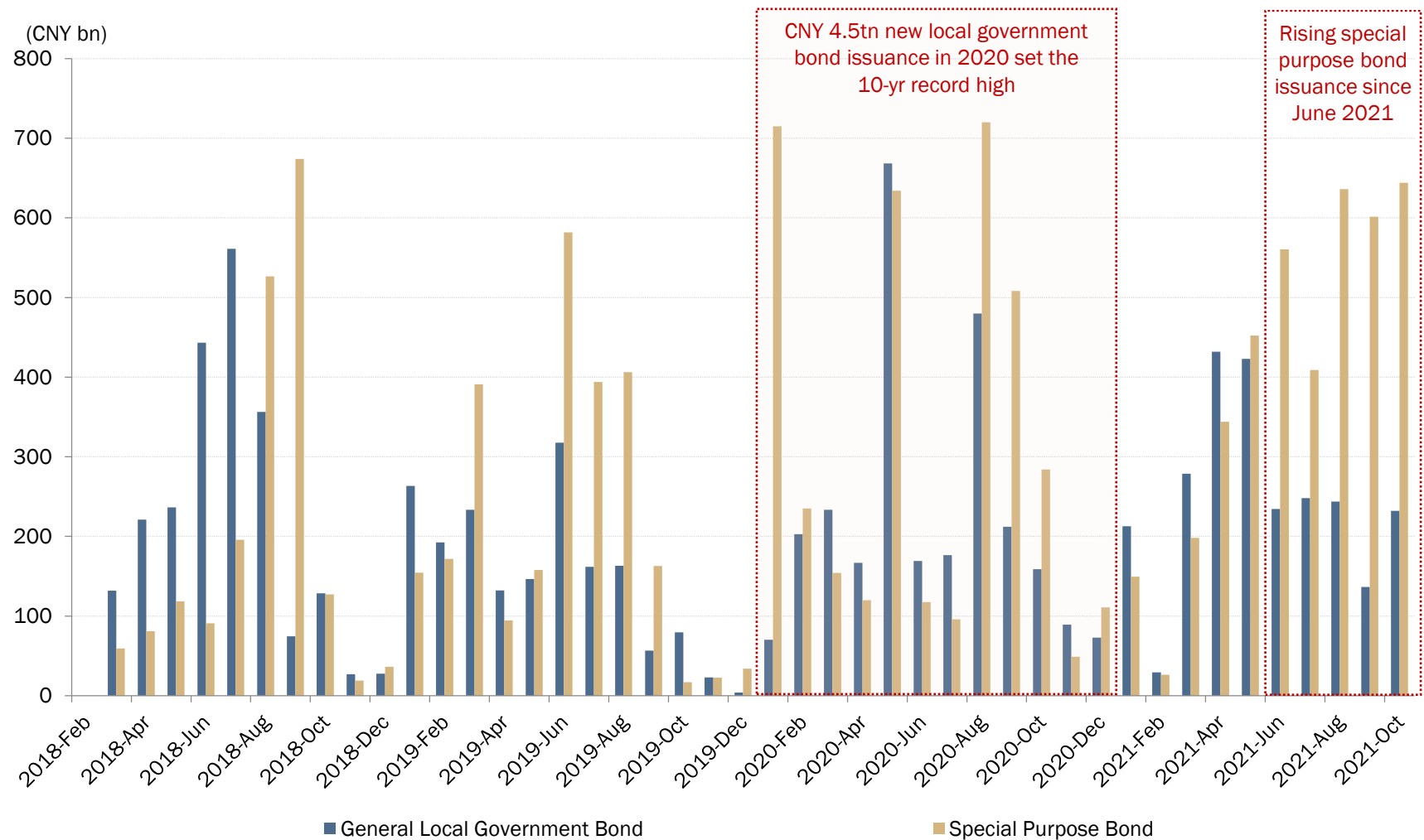


Source: WIND, ICBC Standard



# Surging local gov. bond issuance reflects shift towards loose fiscal policy

Special purpose bond issuance surged since June with YTD new issuance of local gov. bonds already reaching CNY 3.66tn by end-Oct 2021



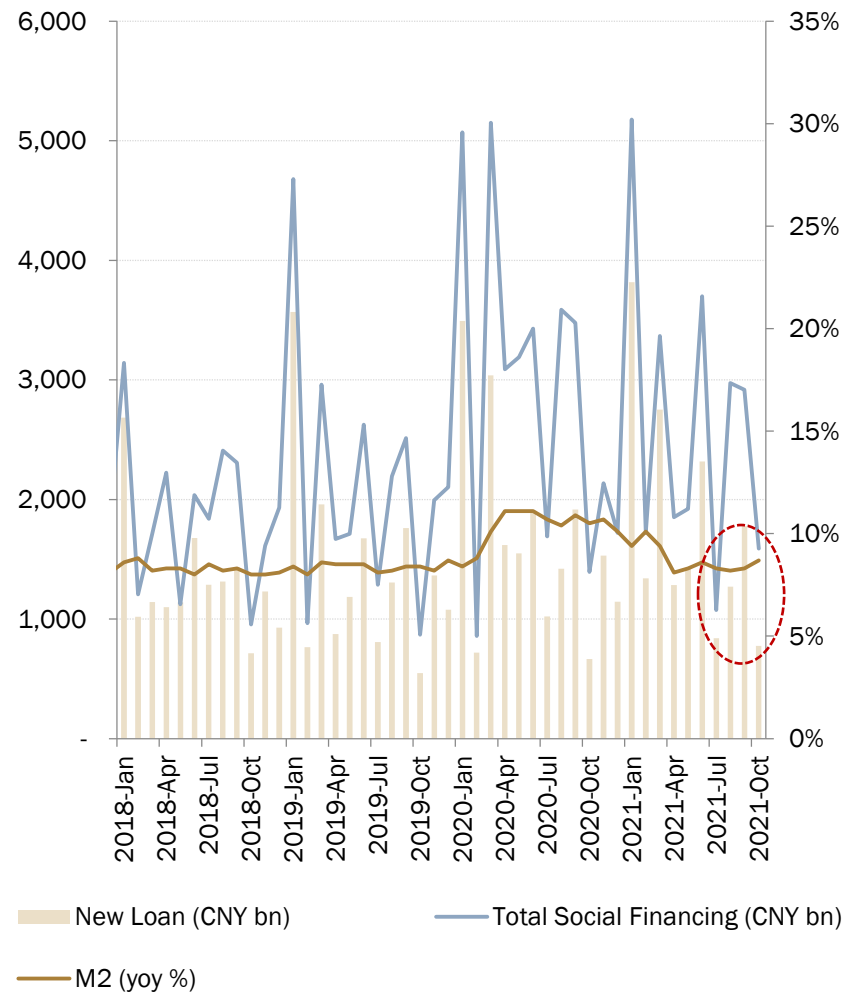
Source: WIND, ICBC Standard

Note: \* NPC meeting in May has approved CNY 3.75tn worth of special purpose bond quota for 2020. By the end of H1 2020, more than CNY 2.37tn worth of special purpose bond have already been issued, accounting for nearly 65% of the annual quota.



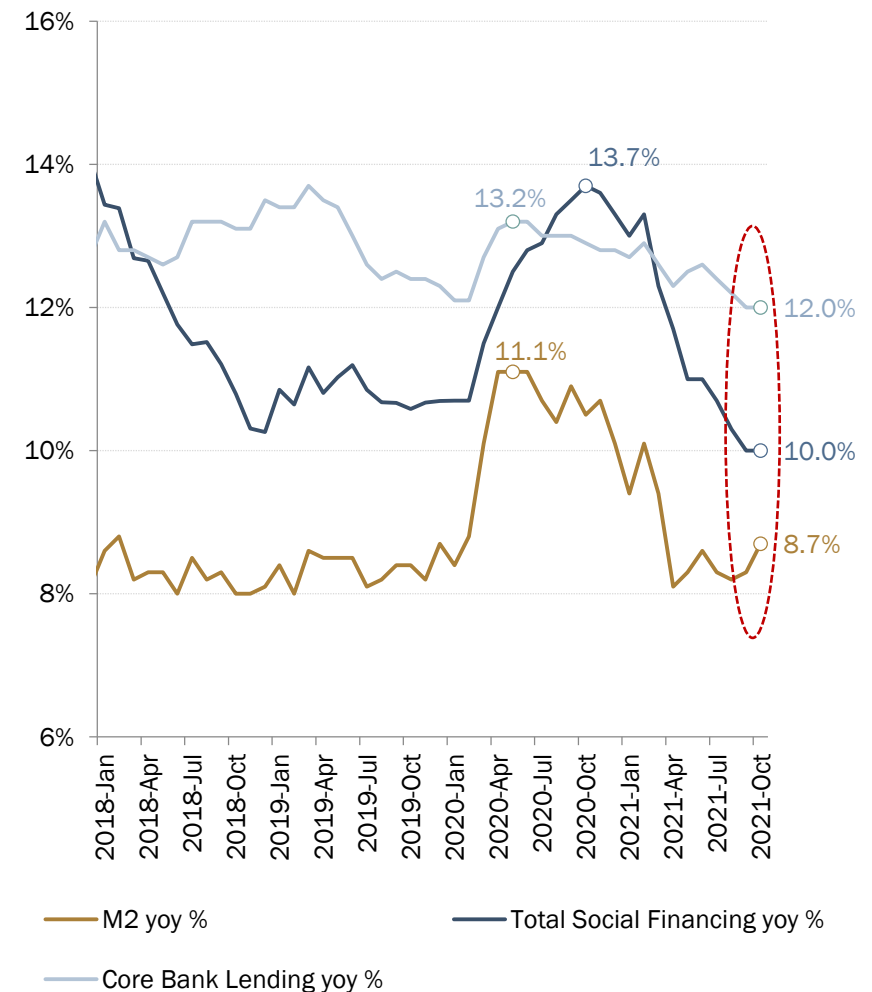
## Credit policy is tilting towards counter-cyclical easing bias since Oct.

**Slowdown of bank lending and TSF show signs of bottoming out in October amid PBoC's dovish comments on credit provision**



Source: WIND, ICBC Standard

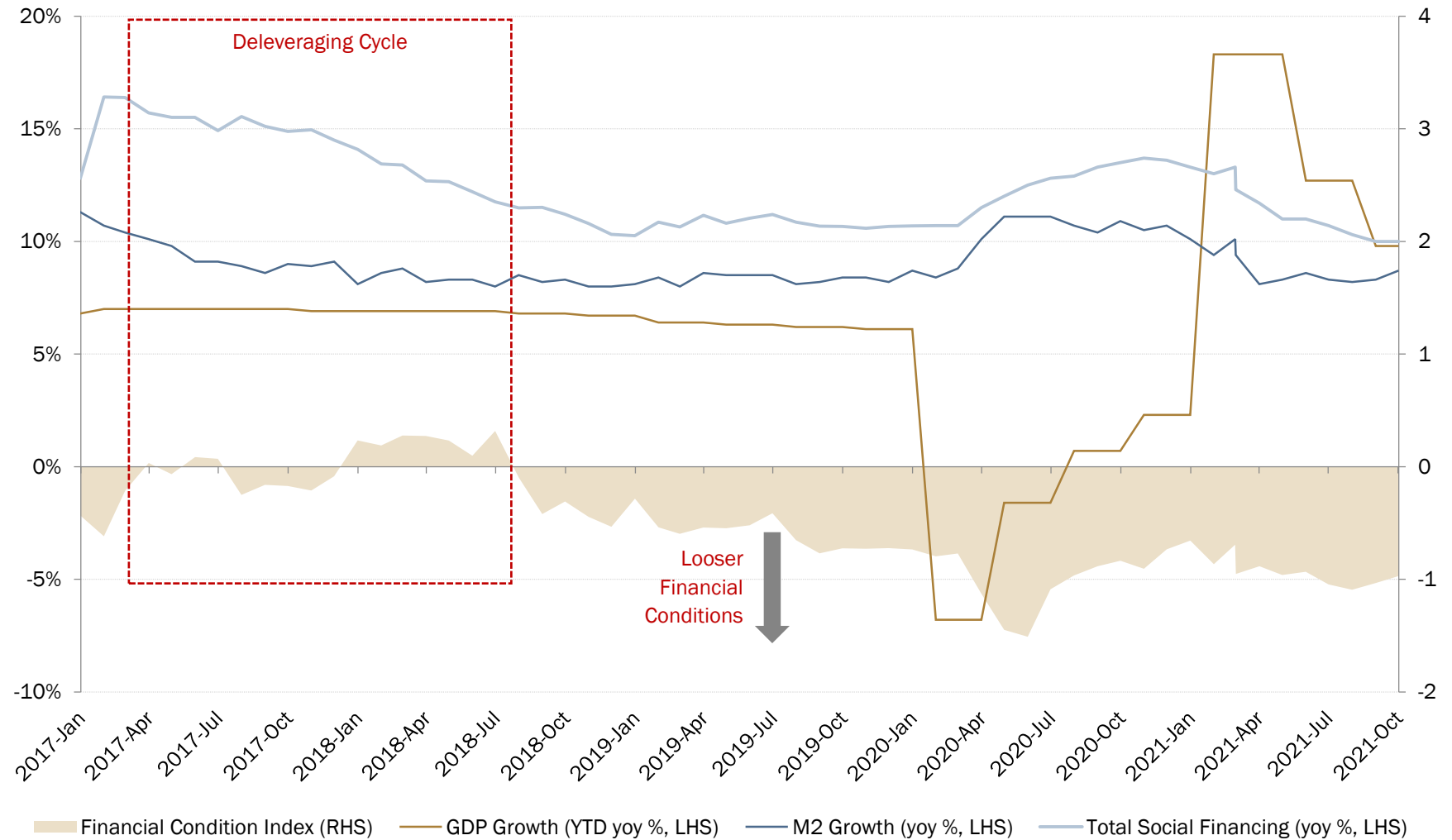
**Oct. M2 growth confirms Beijing's counter-cyclical easing bias after sweeping crackdown of excessive liquidity and bank lending in H1**



Source: WIND, ICBC Standard

## Overall financial and liquidity conditions remain accommodative

Interbank liquidity condition remains ample, but credit market is still exposed to default risks amid the ongoing property crackdown

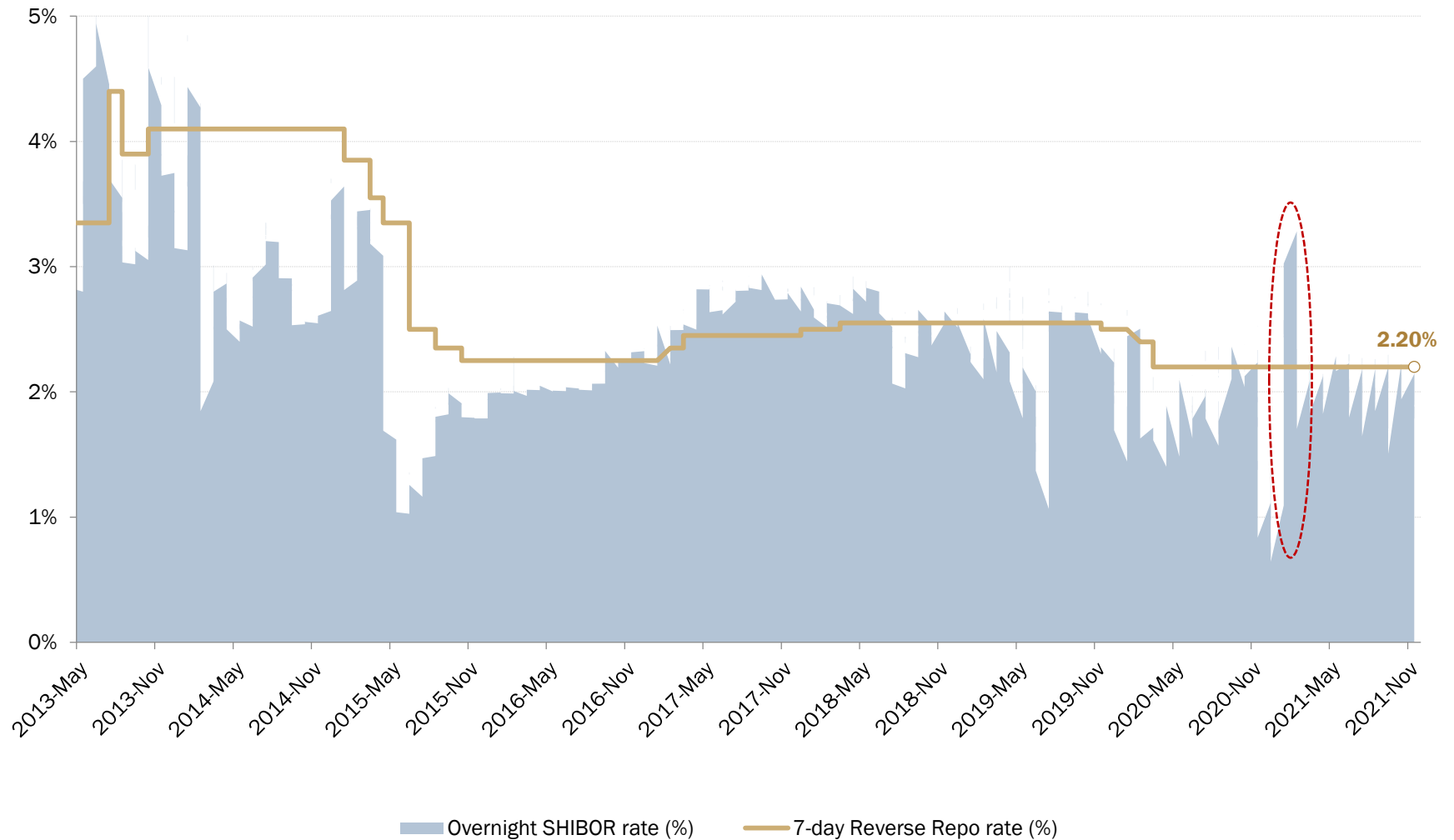


Source: WIND, ICBC Standard

Note: Negative reading of Caixin Financial Condition Index reflects loose financial condition, and positive reading means tighter financial condition in the onshore China market.

## Front-end interbank rates continue to stay below the 2.20% 7d OMO rates

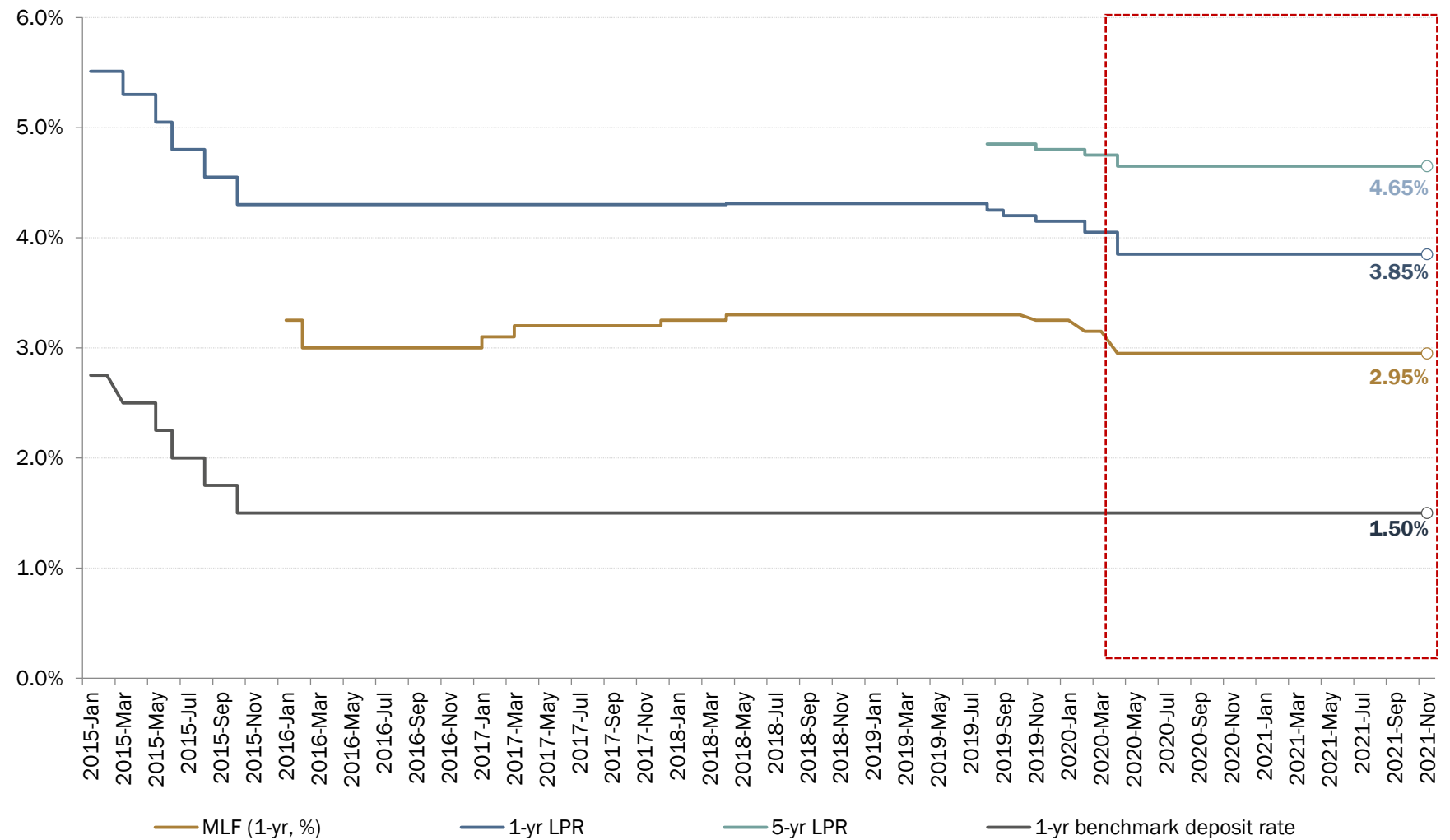
Overnight and 7-day rates went through volatile movements in Jan, but the PBoC remained determined to hold 7-day OMO rates unchanged



Source: WIND, ICBC Standard

## PBoC remains committed to hold benchmark policy rates before year-end

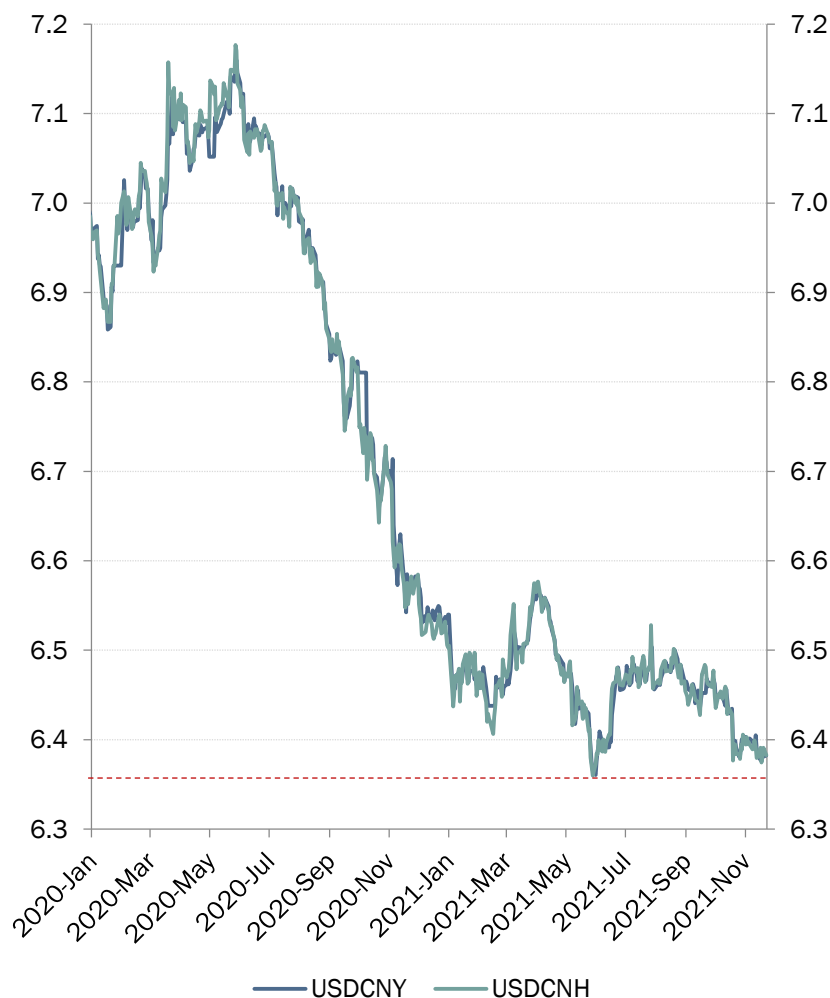
Longer-term benchmark rates remain unchanged since last May and are likely to remain at the same level before year-end



Source: WIND, ICBC Standard

## “Two-way fluctuation” remains PBoC’s key FX policy focus

### Recent yuan rally may have limited strength to break record lows



Source: WIND, ICBC Standard

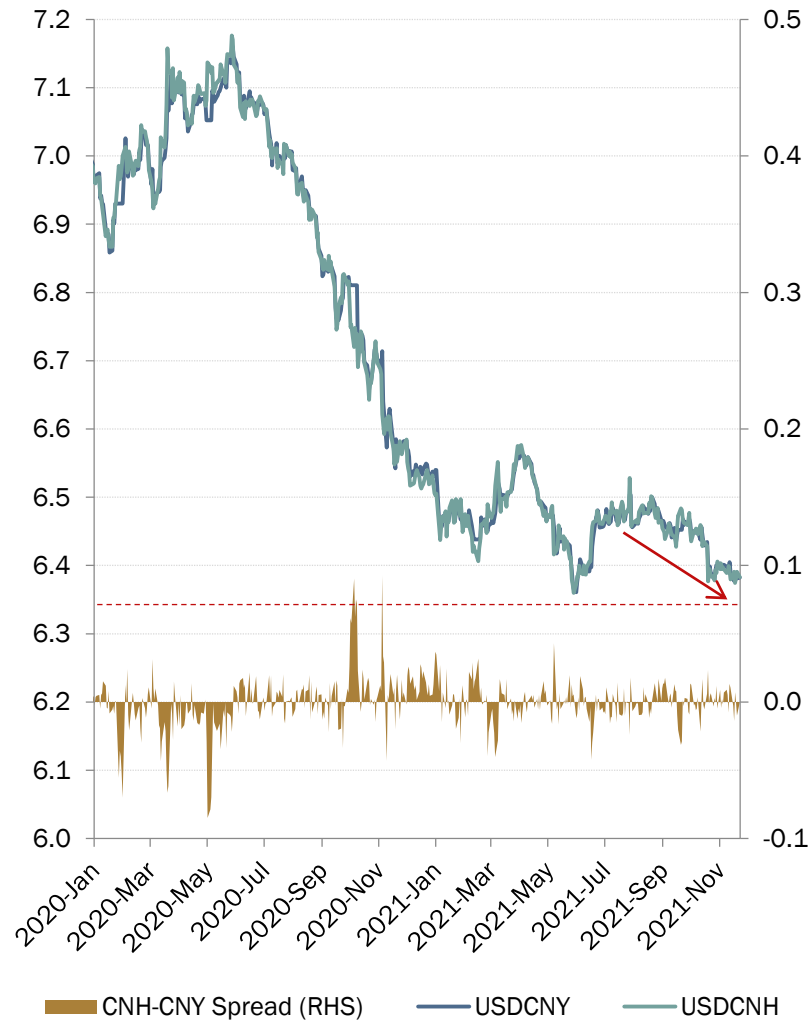
### PBoC has frequently adopted macro-prudential tools to steer market expectation and ease rapid yuan rally

Date	PBoC Policy Measures/Events
Jan. 2021	Increase macro-prudential adjustment coefficient from 0.3 to 0.5 for firms lending to overseas borrowers.
Jan. 2021	Reduce macro-prudential adjustment coefficient from 1.25 to 1.00 for firms borrowing from overseas.
May 2021	Host PBoC FX Standing Committee meeting calling Chinese banks to stay neutral on FX trading.
May 2021	Raise the reserve requirement ratio for FX deposits from 5% to 7% with effective from 15 <sup>th</sup> June.
Jun. 2021	Grant fresh QDII quotas of c. USD 10bn to allow domestic institutional investors to undertake more outbound investment activities.
Jun. 2021	China Development Bank sells USD 2 billion of 1-year notes on the interbank market, the first onshore dollar bond issuance since 2015. Market sees the move as a signal for state FIs to help absorb onshore USD liquidity.
Sep. 2021	PBoC relaxes restrictions on domestic banks' ability to provide yuan-denominated loans overseas, a further step to increase global use of the RMB.
Nov. 2021	PBoC warns against one-way yuan bets
Nov. 2021	China Foreign Exchange Committee (CFEC) urges banks to cap the size of commercial banks' proprietary trading accounts after the rapid ascent in the yuan recently.

Source: CFETS, ICBC Standard

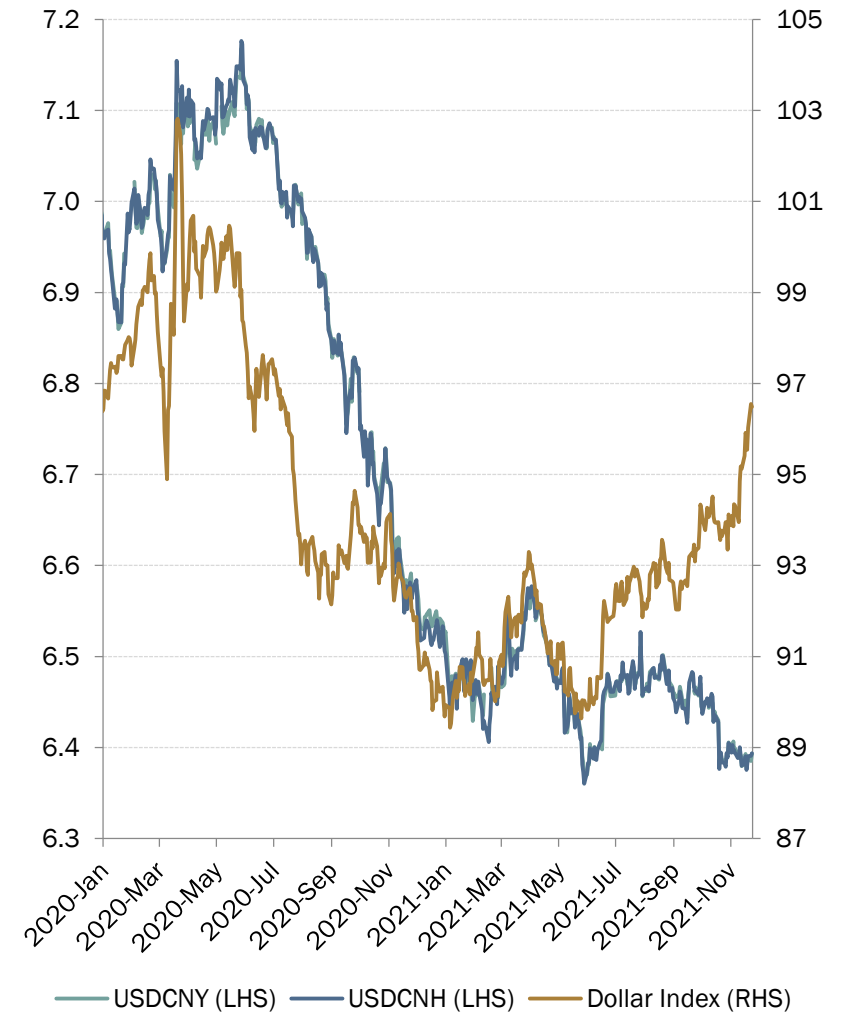
## Recent yuan rally is showing signs of bottoming out in coming months

Yuan has appreciated by more than 3% since its peak in April 2021



Source: WIND, ICBC Standard

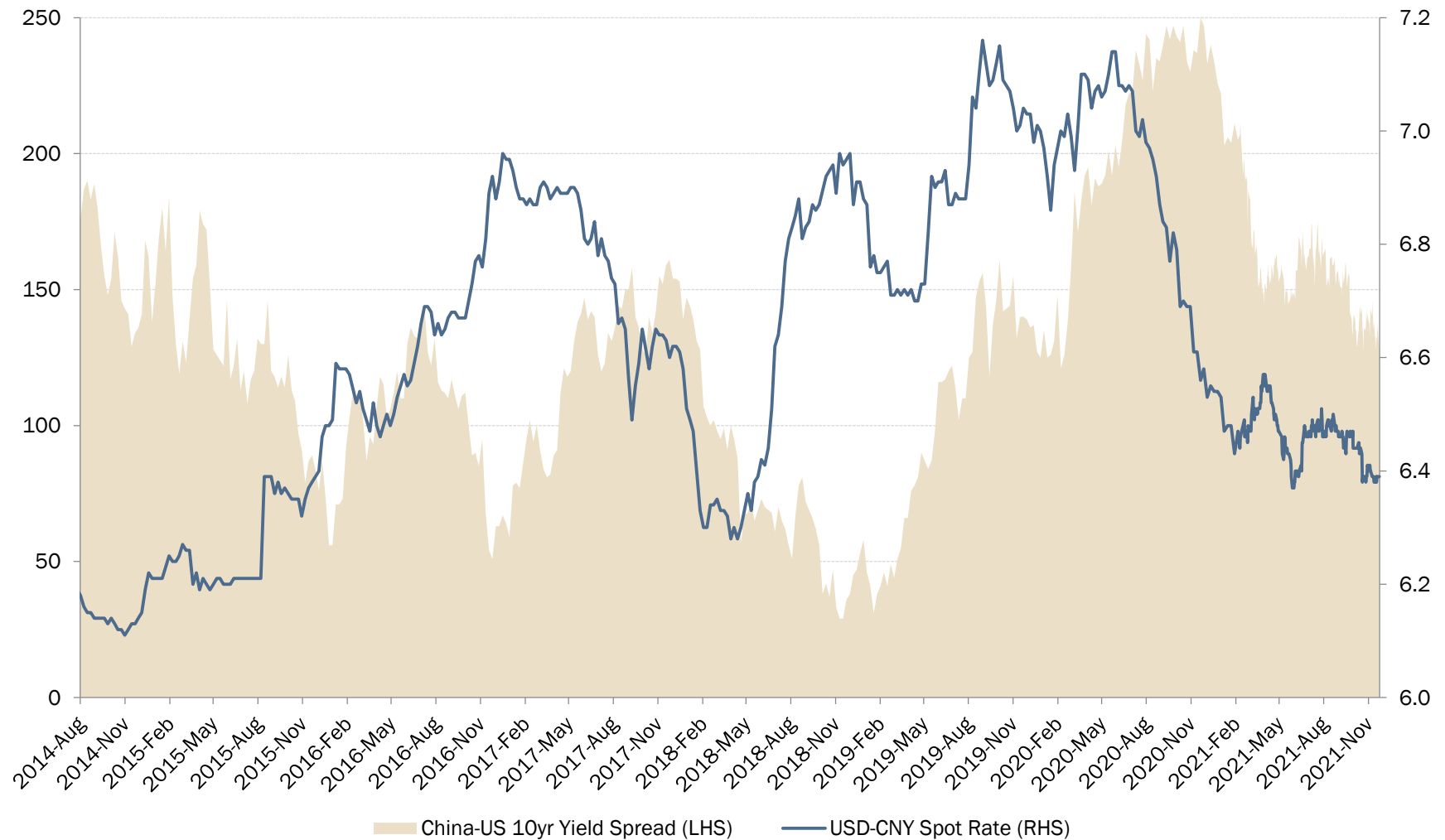
Recent dollar strength suggests near-term room for catching up



Source: Bloomberg, ICBC Standard

## Rate differentials between China and US continued to narrow in Q3 2021

Yield spread between China-US 10yr government bond has narrowed to 150bps in June 2021 from c. 250bps in November 2020

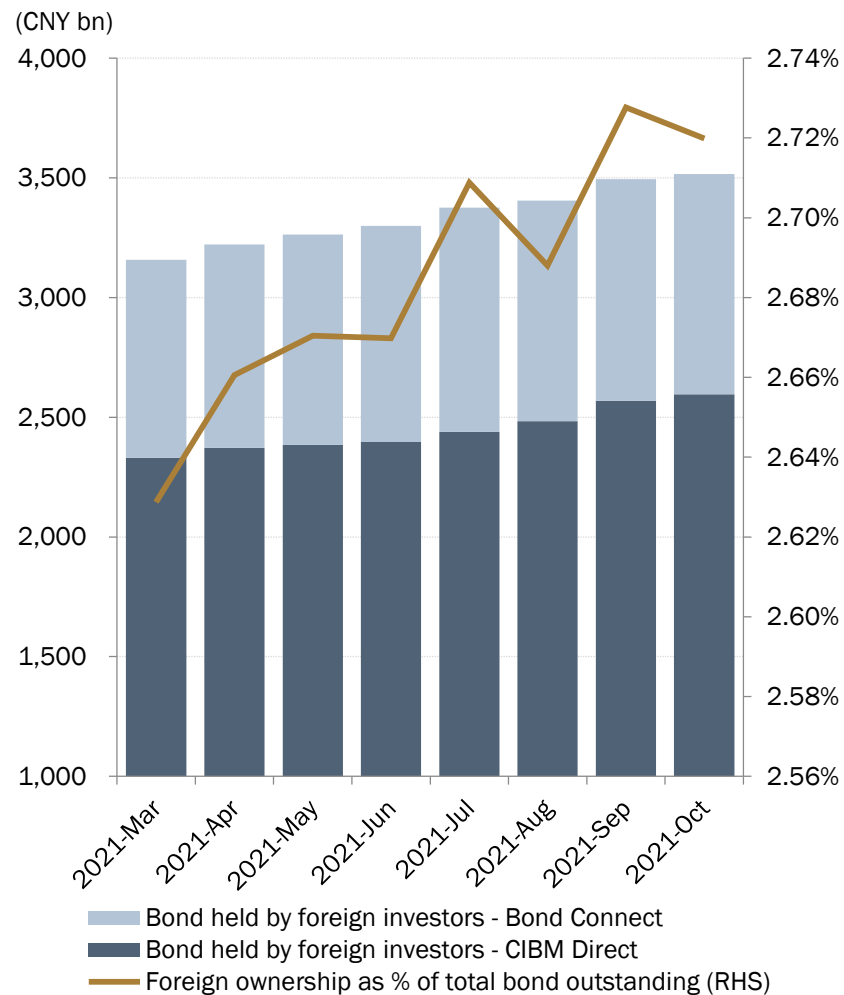


Source: WIND, ICBC Standard



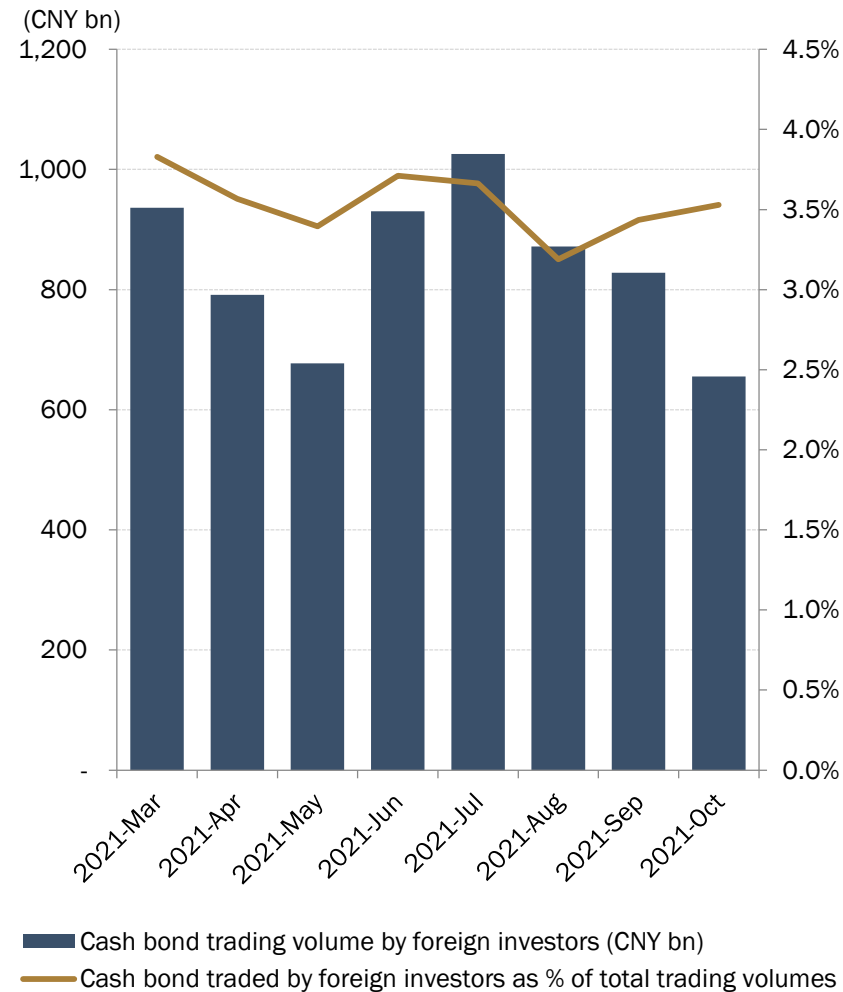
## Foreign appetite for CGBs held steady especially with WGBI inclusion

**CIBM Direct remains the primary access channel for foreign institutional investors though more are active via both channels**



Source: WIND, ICBC Standard

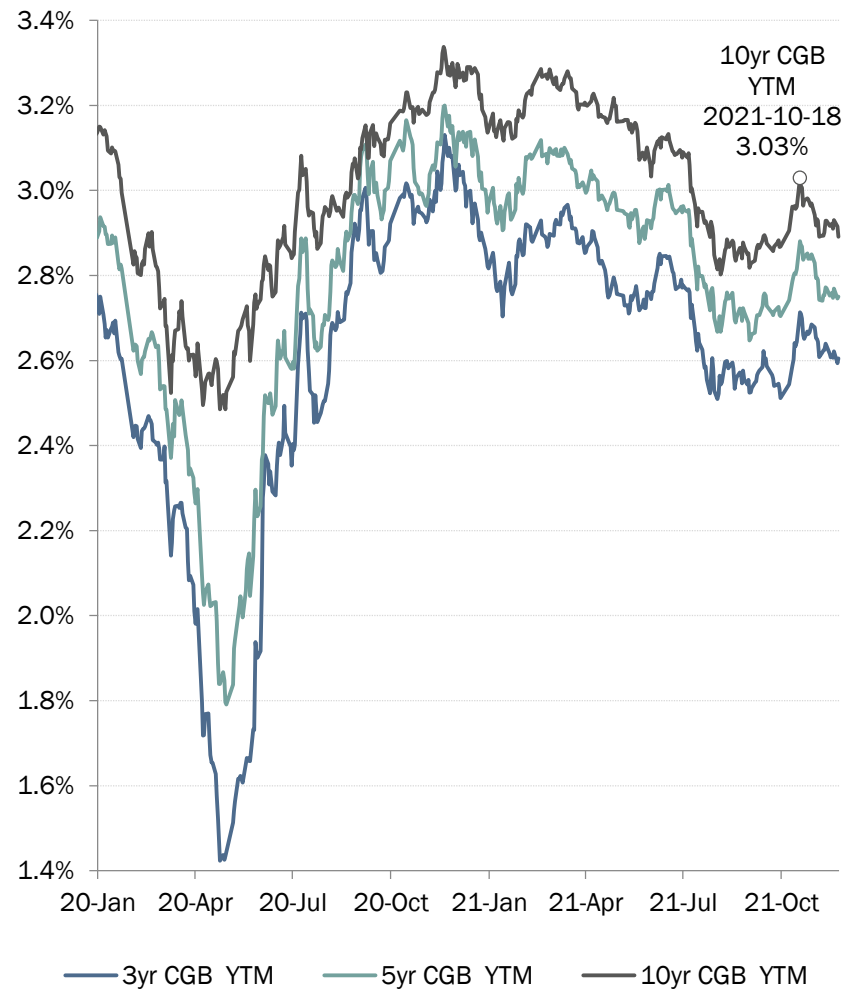
**Foreign investment participation in CGBs held steady despite market volatility and regulatory uncertainty in Q3**



Source: Bloomberg, ICBC Standard

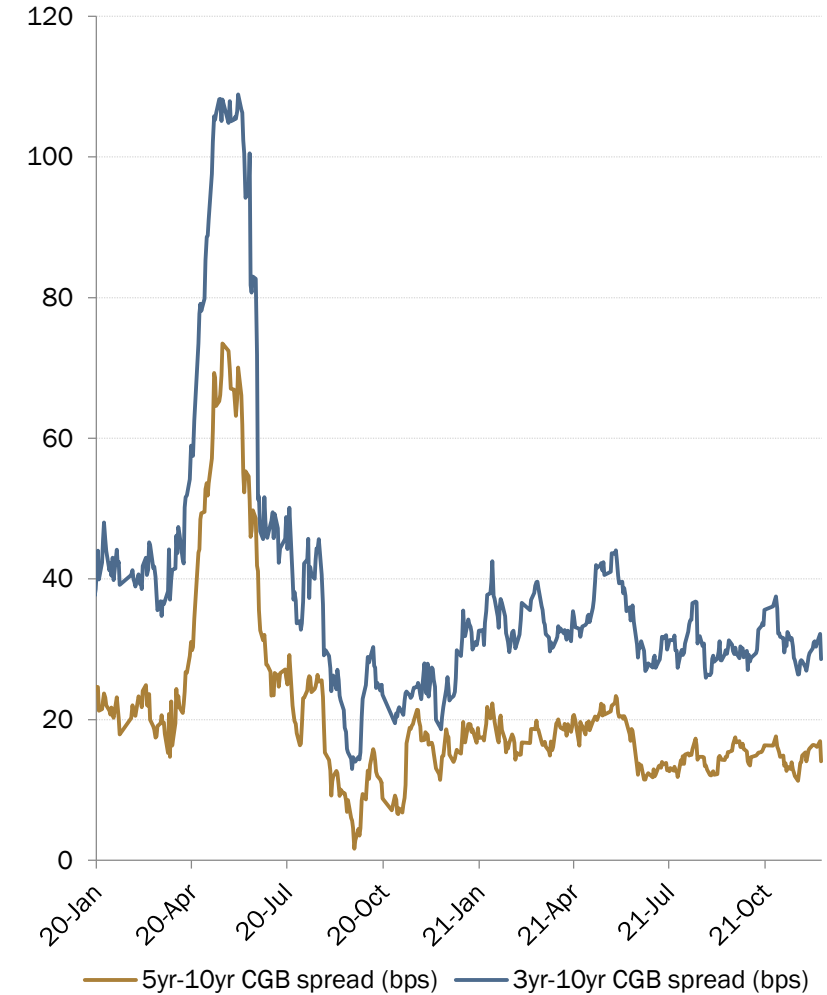
## CGB yields are likely to stay range-bound for the remainder of the year

**CGB yields heightened during Sep/Oct due to deteriorating sentiment across credit markets amidst rigid property crackdown**



Source: WIND, ICBC Standard

**Yet 10yr CGB yield is likely to stay range-bound between 2.80% - 3.00% as PBoC dismisses any benchmark rate cut before year-end**



Source: Bloomberg, ICBC Standard

## The global coalition for net-zero emissions is growing

Most emissions come from just a few countries

● 3%

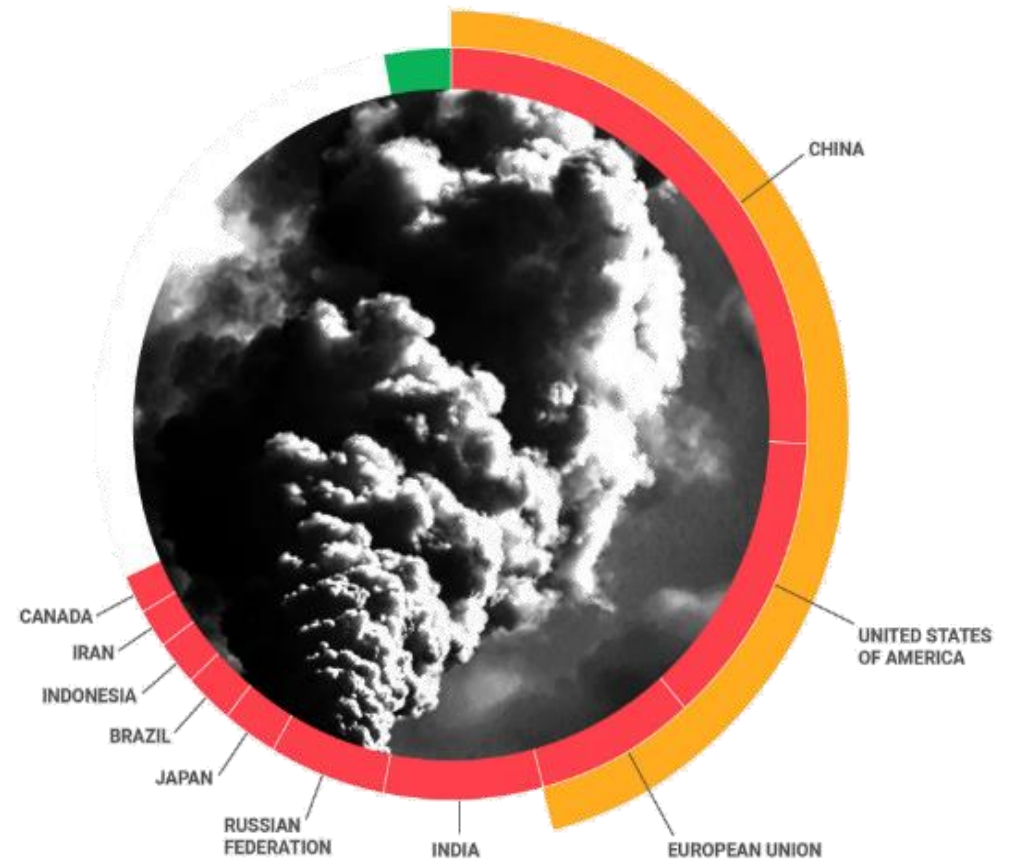
Contribution of the 100 least-emitting countries

● 68%

The 10 largest greenhouse gas emitters contribute over two-thirds of global emissions

● 46%

The top 3 greenhouse gas emitters contribute 16 times the emissions of the bottom 100 countries



Source: UN, 2021

## China's roadmap towards achieving the “30/60 Pledge”

### Key aspects of the “1+N” policy framework

1. Optimise energy consumption matrix; proactively control and reduce fossil fuel related energy use;
2. Encourage industrial upgrading and optimisation;
3. Promote green architecture and low-emission infrastructure;
4. Establish green/low-emission logistic network and system;
5. Develop circular economy to improve resource efficiency;
6. Promote innovation in green/low carbon emission technology;
7. Develop green finance;
8. Roll-out economic policies to implement necessary reform;
9. Domestic carbon pricing mechanism and a nation-wide carbon market;
10. Nurture nature-based climate change solutions.

### Targets to achieve carbon neutrality by 2060

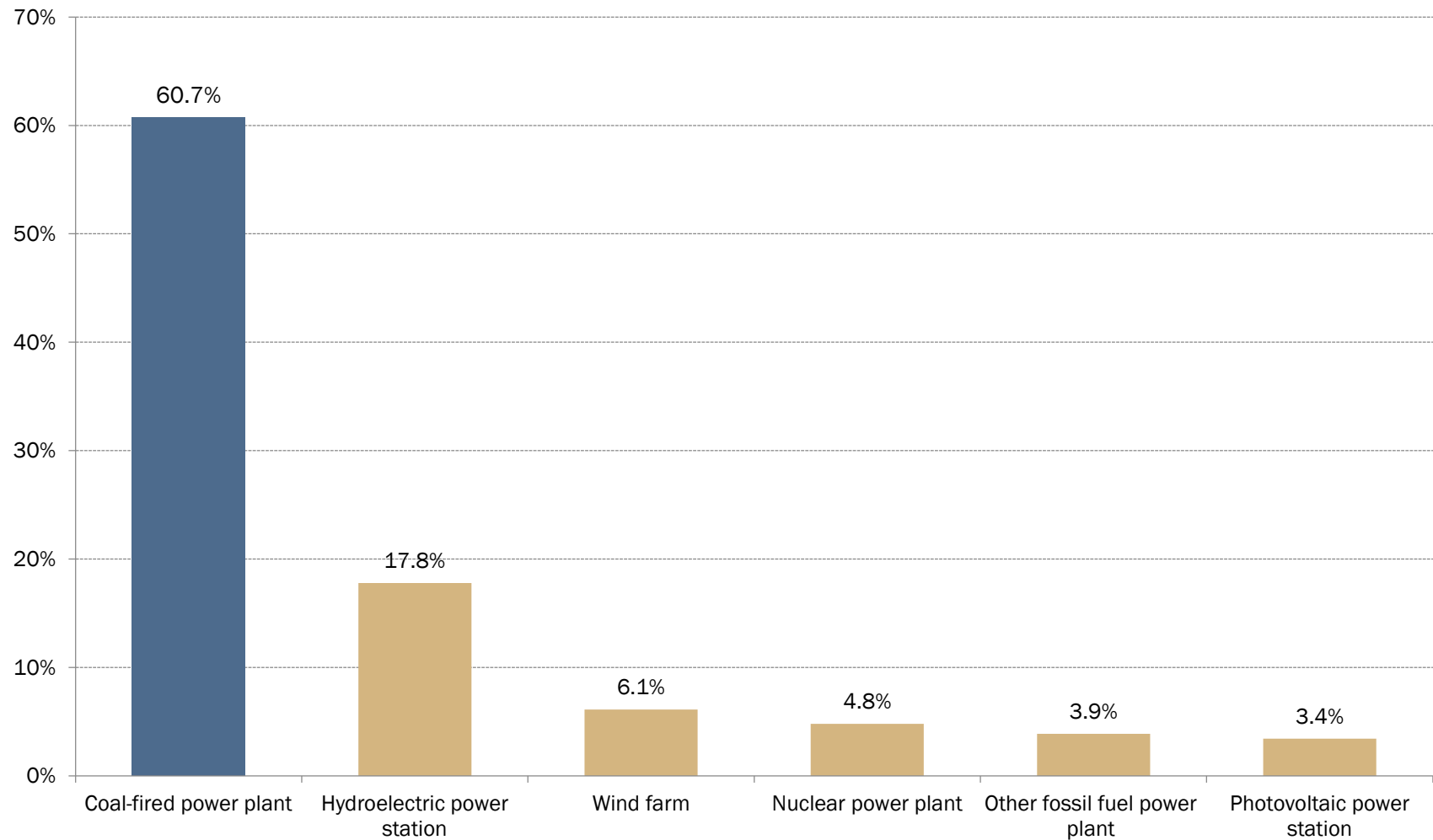
Carbon Intensity Indicators	2025	2030	2060
Units of energy per unit of GDP	13.5% reduction in comparison with 2020	Significant reduction	-
Units of CO2 per unit of GDP	18% reduction in comparison with 2020	A min. 65% reduction in comparison with 2005	-
Percentage of non-fossil fuel energy	20%	25%	80%
Electricity generated by Wind farm and PV	--	1.2bn kw	-
Forest coverage (% of land area)	24.10%	25%	-
Forest Reserves	18 bn cubic meters	19bn cubic meters	-

Source: WIND, ICBC Standard

WIND, 2021

## Yet disorderly carbon transition risks de-railing post-pandemic recovery

Coal-fired power plants remain the vital source of China's national power supply in 2020



Source: China Electricity Council (CEC), ICBC Standard

## EMs are increasingly committed to the “net-zero” transition

Country	Net-zero Target Date	Status	Economic Development
Argentina	2050	Submission to the UN	Developing
Australia	2050	Paris Agreement	Developed
Austria	2040	Policy consultation	Developed
Belgium	2050	Policy agenda	Developed
<b>Brazil</b>	<b>2060</b>	<b>Submission to the UN</b>	<b>Developing</b>
Canada	2050	In law	Developed
<b>China</b>	<b>2060</b>	<b>Policy agenda</b>	<b>Developing</b>
Chile	2050	Policy consultations	Developing
Colombia	2050	Submission to the UN	Developing
Costa Rica	2050	Submission to the UN	Developing
Denmark	2050	In law	Developed
Ethiopia	2030	Policy agenda	Developing
EU	2050	Submission to the UN	-
Fiji	2050	Submission to the UN	Developing
Finland	2035	Coalition agreement	Developed
France	2050	In law	Developed
Hungary	2050	In law	Developing
Iceland	2040	Policy agenda	Developed
Grenada	2050	Submission to the UN	Developing
Germany	2050	In law	Developed
Ireland	2050	In law	Developed
<b>India</b>	<b>2070</b>	<b>Policy agenda</b>	<b>Developing</b>
Japan	2050	In law	Developed
Maldives	2030	Submission to the UN	Developing
Laos	2050	Submission to the UN	Developing

Country	Net-zero Target Date	Status	Economic Development
Kazakhstan	2060	Submission to the UN	Developing
Luxembourg	2050	In law	Developed
Marshall Islands	2050	Paris Agreement	Developing
Mexico	2050	Policy consultations	Developing
Nepal	2050	Submission to the UN	Developing
Netherlands	2050	Policy consultations	Developed
New Zealand	2050	In law	Developed
Norway	2050	Policy agenda	Developed
Panama	2050	Submission to the UN	Developing
Portugal	2050	Policy consultations	Developed
<b>Russia</b>	<b>2060</b>	<b>Policy consultations</b>	<b>Developing</b>
Singapore	2050	Submission to the UN	Developed
Slovakia	2050	Policy agenda	Developing
<b>South Africa</b>	<b>2050</b>	<b>Policy agenda</b>	<b>Developing</b>
South Korea	2050	Submission to the UN	Developed
Spain	2050	Draft law	Developed
Sweden	2045	In law	Developed
Switzerland	2050	Submission to the UN	Developed
Turkey	2053	Policy consultations	Developing
Ukraine	2060	Policy consultations	Developing
East Timor	2050	Policy consultations	Developing
UK	2050	In law	Developed
US	2050	Submission to the UN	Developed
Uruguay	2030	Paris Agreement	Developing
Vatican	2050	Submission to the UN	Developed

Source: WIND, ICBC Standard, 2021

# Appendix I: Employment and environment as key policy focus in 2021

## Key economic targets in the Government Work Report: 2021 vs 2020

		2021	2020 "Endeavour to achieve the 13 <sup>th</sup> FYP target"		
		GWR Targets	Actual Data	GWR Targets	Actual vs Targets
GDP	GDP Target (%)	> 6.0%		2.00% - 4.00% implied growth rate	
	Actual GDP (CNY bn)	107,694.52	101,598.60	--	--
	GDP growth rate (yoy %)	6.0%	2.30%	2.0% - 4.0%	On target
	Official Fiscal Deficit (CNY bn)	3,446	3,760	3,760	On target
Fiscal	Official Fiscal Deficit Ratio (% GDP)	3.2%	3.6%	> 3.6%	On target
	Special Bond Quota (CNY bn)	3,650	3,750	3,750	Broadly on target
	Special Bond Quota (% GDP)	c.3.4%	3.75%	3.75%	
	Special Sovereign Bond (CNY bn)	0	1,000	1,000	On target
	Broad Fiscal Deficit Ratio (% GDP)	c. 6.5% - 7.0%	8.3%	> 8.5%	On target
	Railway Infra-Investment (CNY bn)	--	1000	900	
	Road and Water Transport Infra-Investment (CNY bn)	--		NA	
	Tax Cuts (CNY bn)	Increase VAT free allowance by CNY 50,000 per annum for SMEs	2,600	2,500	On target
Social	Household Disposable Income Growth (yoy %)	"Same as nominal GDP growth rate" (> 6.0%)	2.10%	"Same as nominal GDP growth rate"	Below target
	Urban New Job Creation (mn)	11.00	11.86	9.00	On target
	Unemployment Rate (%)	c. 5.50%	5.20%	6.00%	On target
	Poverty Reduction (mn)	Set up local social welfare enhancement system for low income countries and regions before 2025	5.51 Eliminated extreme poverty	10 estimated ("Eliminate extreme poverty")	On target
	Climate Change Action	3% reduction in energy intensity (Cut energy & carbon intensity by 13.5% and 18.0% respectively before 2025)			New target
	CPI (%)	3.0%	2.5%	3.50%	On target
	New Loan Growth for SMEs (%)	> 30%	54.8%	> 40%	On target
Monetary	Banking Sector CSR Profit Return (CNY tn)	--	1.5	NA	Exceeded the target
	M2 (yoy %)		10.1%	"Markedly higher than 2019"	On target
	Total Social Financing (yoy %)	"Same as nominal GDP growth rate"	13.3%		

Source: WIND, ICBC Standard



## Appendix II: Key economic targets in the past Government Work Reports (2018 – 2020)

		2020		2019	2018
GDP	GDP Target (%)	“Endeavour to achieve the 13 <sup>th</sup> FYP target”		6.0% - 6.5%	6.50%
	Actual GDP (CNY bn)	--		99,086.50	91,928.11
	Previous GDP growth rate (yoy %)	6.10%		6.70%	6.90%
Fiscal	Official Fiscal Deficit (CNY bn)	3,760	↑	2,760	2,380
	Official Fiscal Deficit Ratio (% GDP)	> 3.6%	↑	2.8%	2.6%
	Special Bond Quota (CNY bn)	3,750	↑	2,150	1,350
	Special Bond Quota (% GDP)	3.75%	↑	2.18%	1.47%
	Special Sovereign Bond (CNY bn)	1,000	↑	NA	NA
	Broad Fiscal Deficit Ratio (% GDP)	> 8.5%	↑	5.0%	4.1%
	Railway Infra-Investment (CNY bn)	900	↑	800	732
	Road and Water Transport Infra-Investment (CNY bn)	NA	-	1,800	1,800
	Tax Cuts (CNY bn)	2,500	↑	2,000	1,100
	Household Disposable Income Growth (yoy %)	"Same as nominal GDP growth rate"	=	"Same as nominal GDP growth rate"	6.5%
Social	Urban New Job Creation (mn)	9.0	↓	11.0	11.0
	Unemployment Rate (%)	6.0%	↑	5.5%	5.5%
	Poverty Reduction (mn)	10 estimated ("Eliminate extreme poverty")	=	10	10
Monetary	CPI (%)	3.5%	↑	3.0%	3.0%
	New Loan Growth for SMEs (%)	> 40%	↑	30%	--
	M2 (yoy %)	“Markedly higher than 2019”	↑	"Same as nominal GDP growth rate"	"Reasonable growth"
	Total Social Financing (yoy %)				

Source: WIND, ICBC Standard

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