

China Macro Outlook

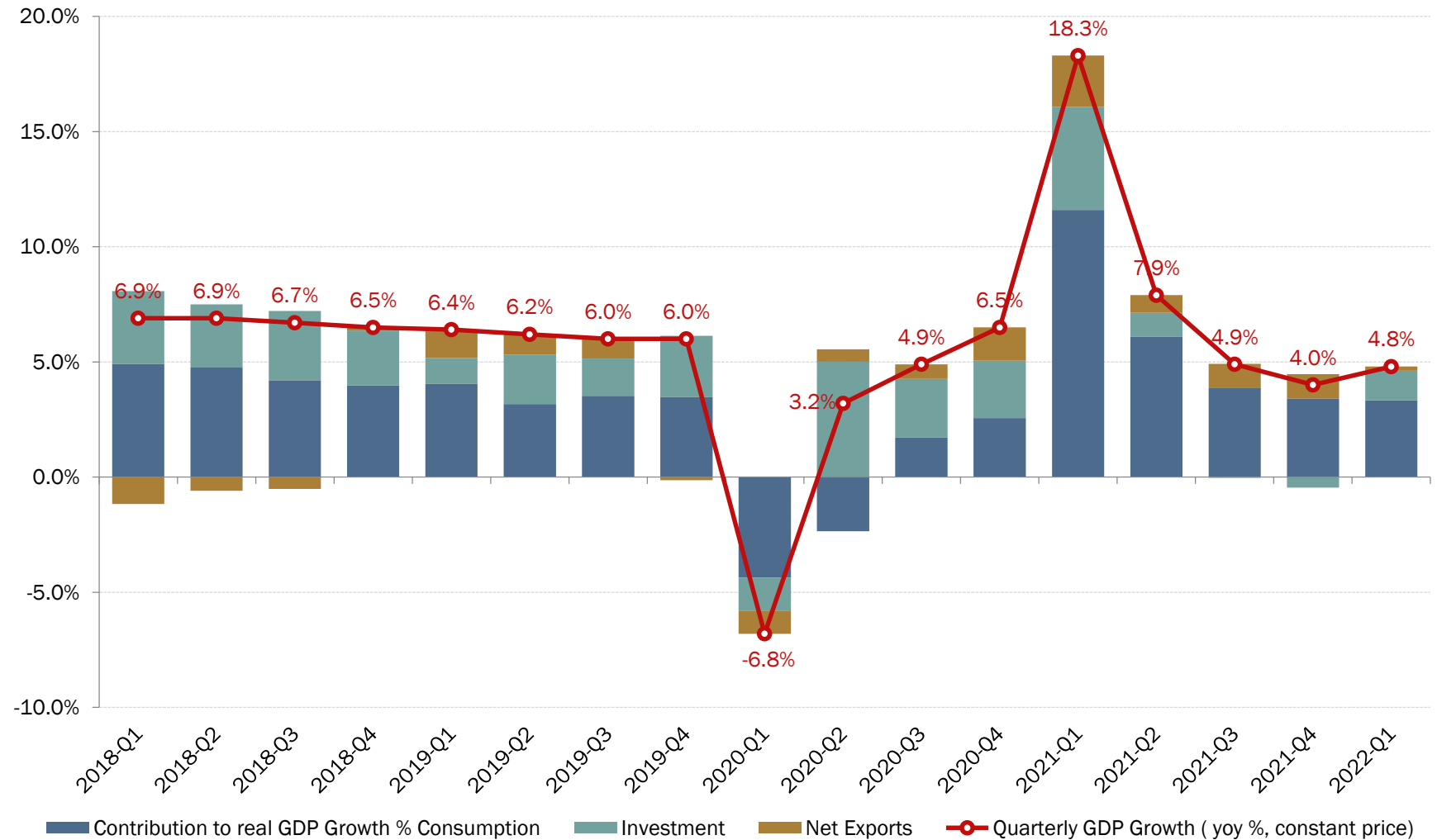
Seeking Stability Amidst Lingering Covid Disruptions

June 2022



4.8% GDP pickup in Q1-22 supported by investment turning positive

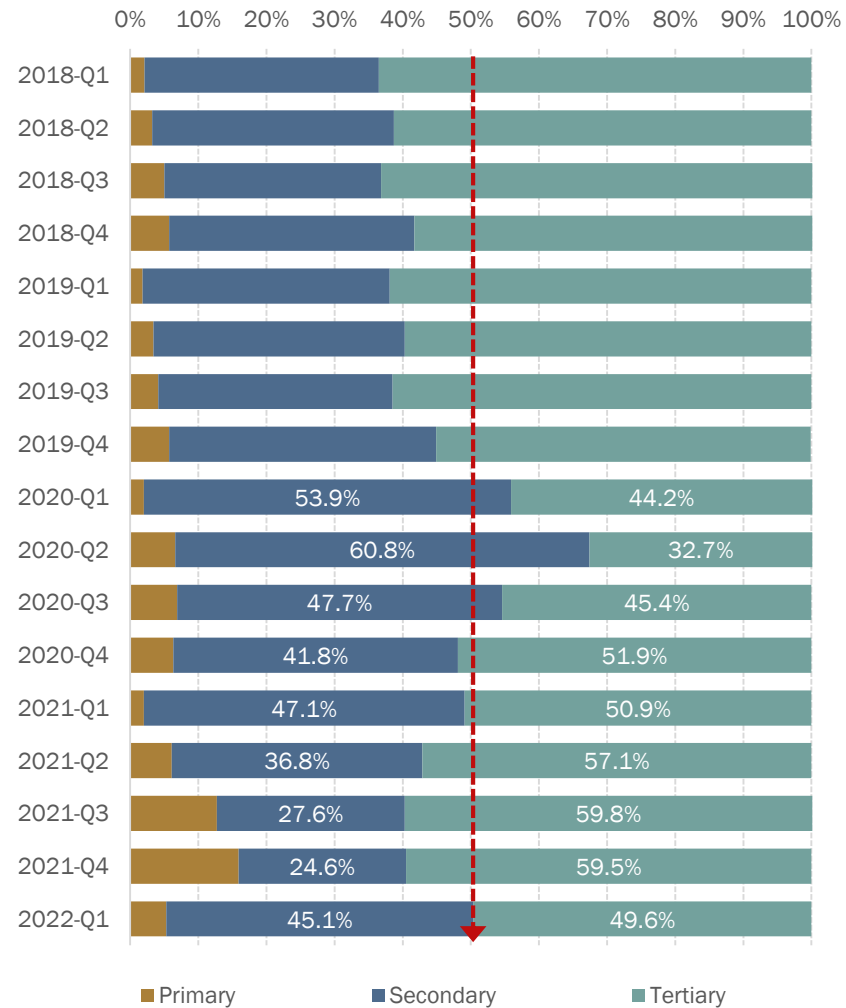
Q1 investment's GDP growth contribution resumed positive on public-side policy push, but net-export's role diminished due to weak demand.



Source: WIND, ICBC Standard

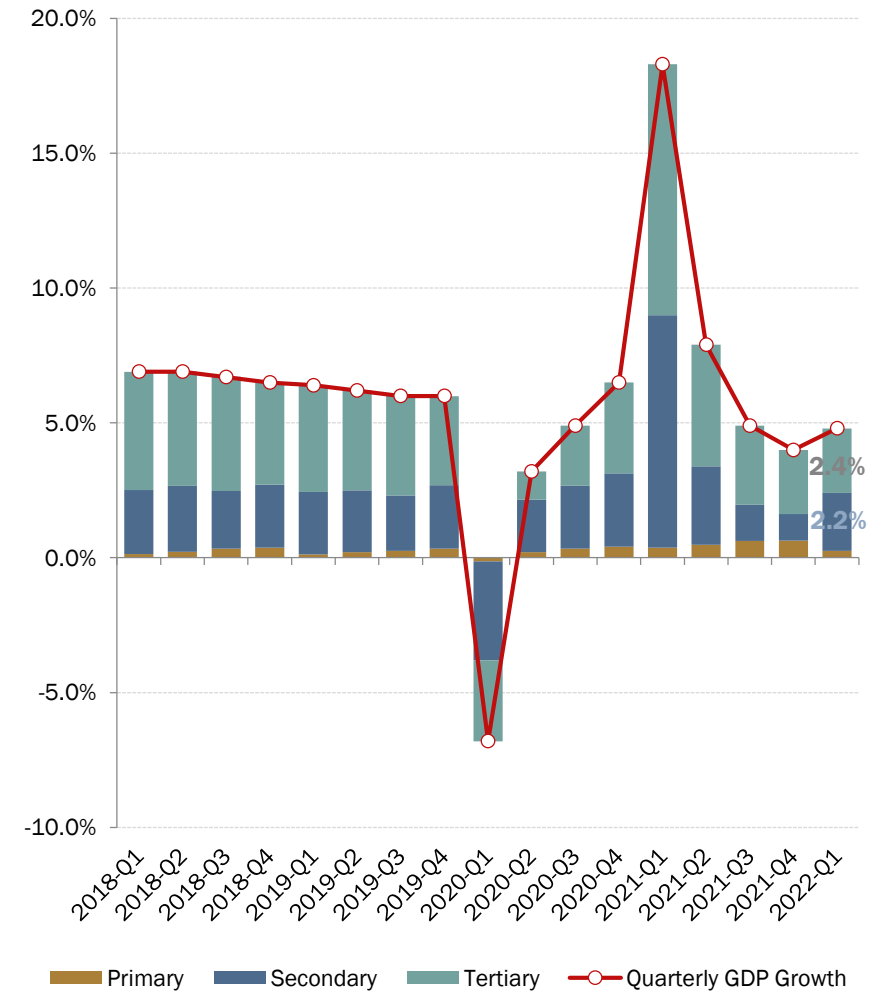
Services sector has been under substantial pressure as lockdowns persist

Tertiary sector's contribution to GDP has notably dropped in Q1-22.



Source: WIND, ICBC Standard

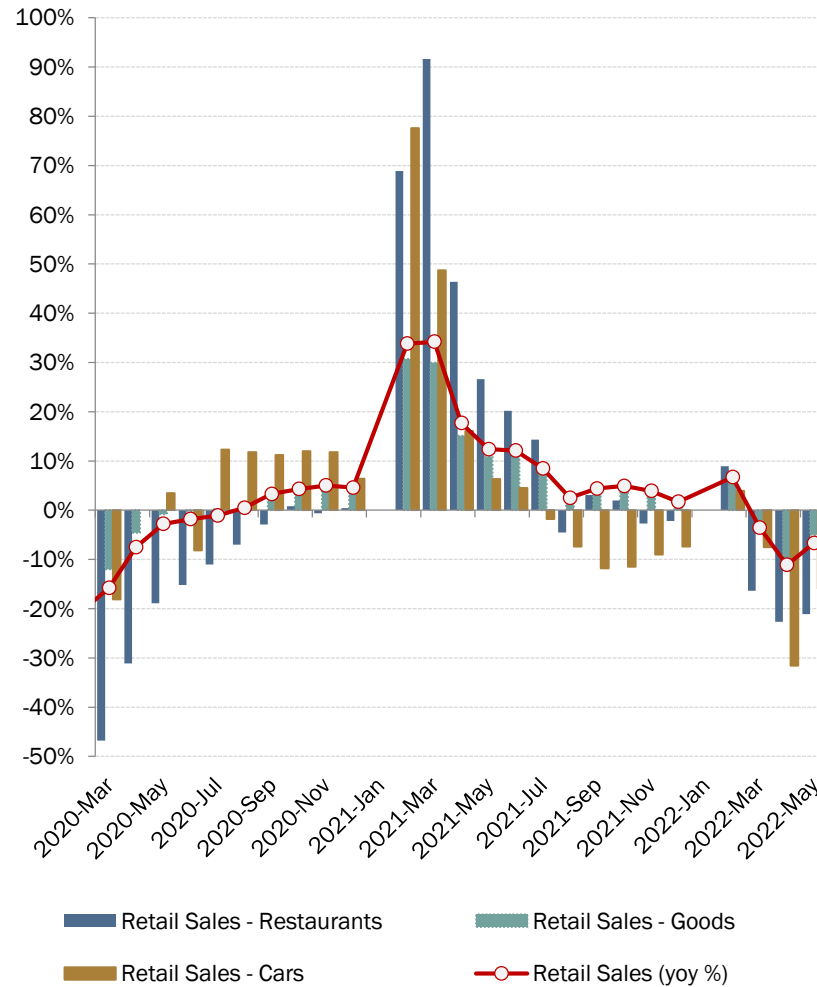
Secondary sector has played a much more prominent role as a key growth driver with similar contribution by tertiary sector in Q1-22.



Source: WIND, ICBC Standard

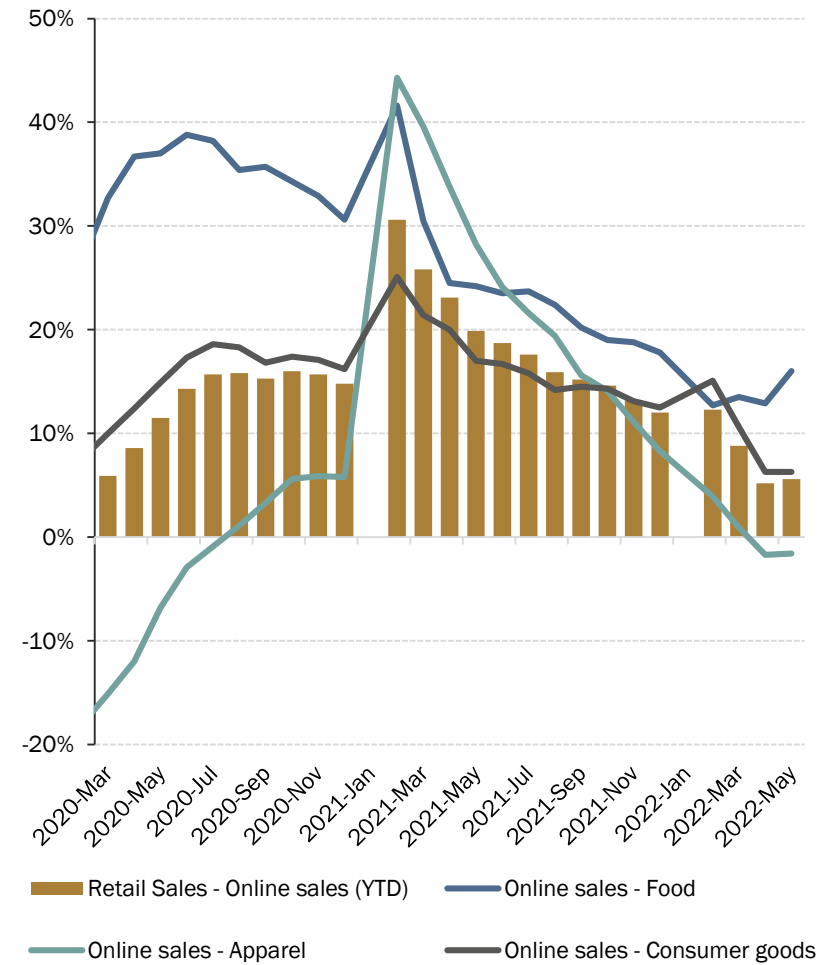
Consumption remains under pressure on continued Covid restrictions

Monthly retail sales stayed in contraction territory since March due to persistent lockdown restrictions in major cities.



Source: WIND, ICBC Standard

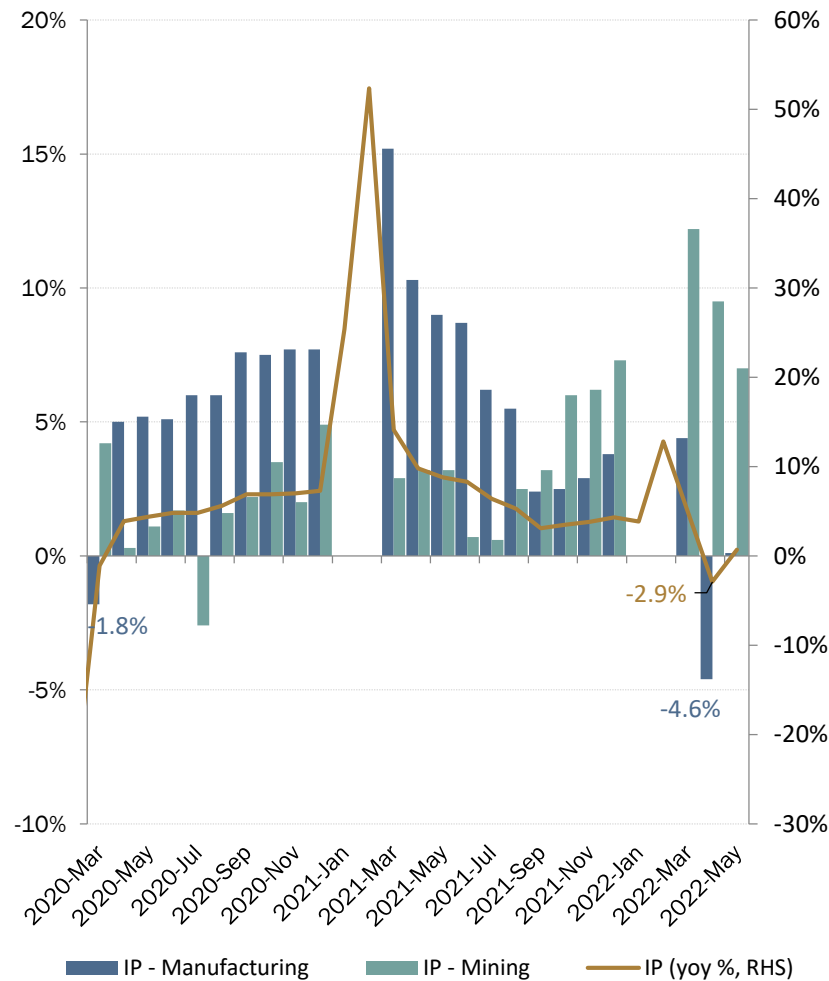
YTD online sales also evidently dropped as lockdown measures disrupted local delivery services for residents since March.



Source: WIND, ICBC Standard

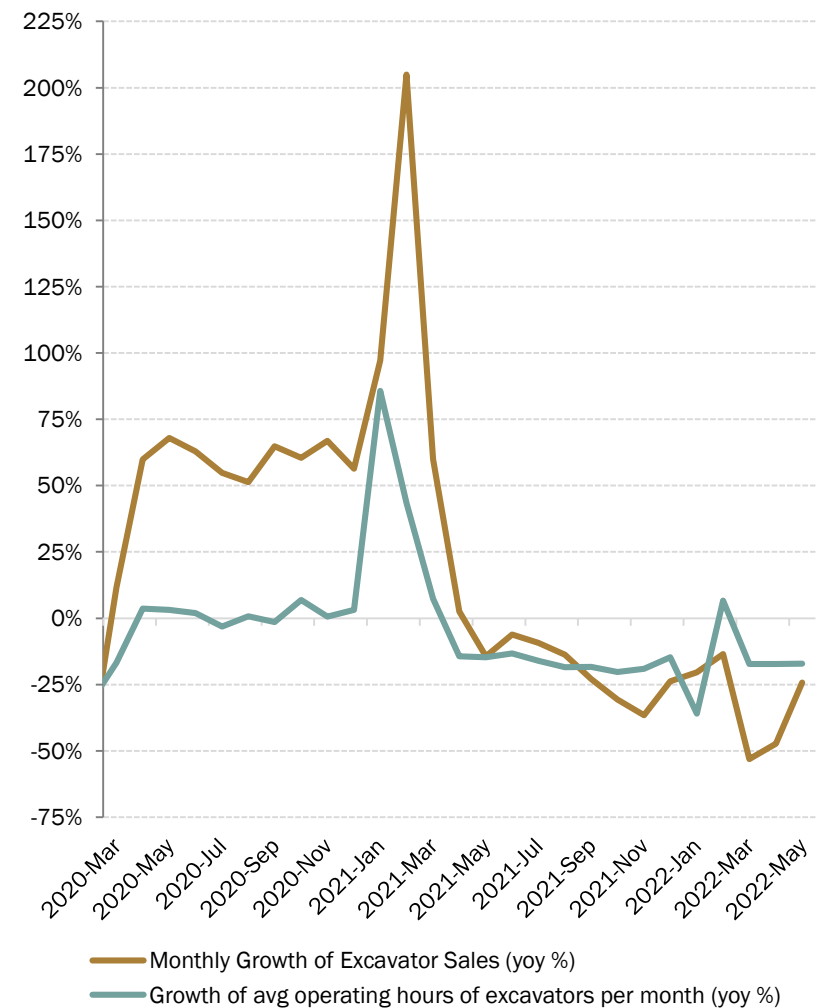
IP growth turns positive but infrastructure face logistics disruption

Heavily disrupted in April, recovery of IP was timid with manufacturing production growing by merely 0.1% yoy in May.



Source: WIND, ICBC Standard

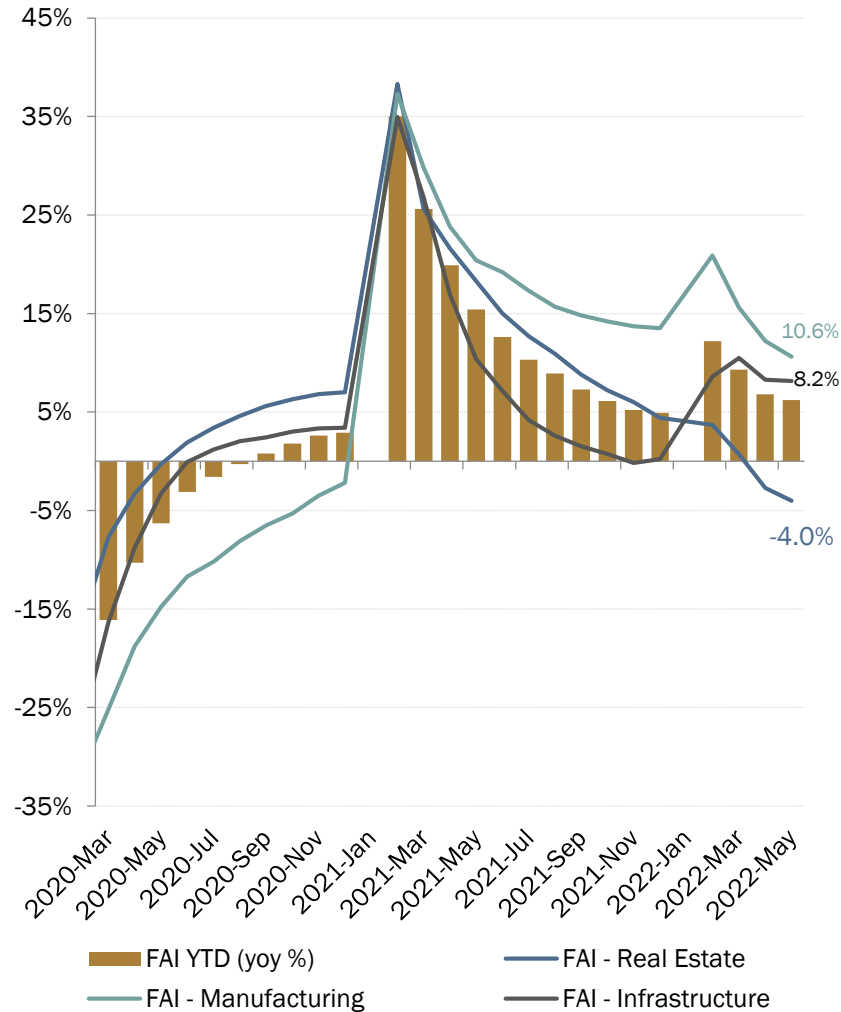
Sales and occupancy rate of excavators still point to limited pass-through effect of infrastructure spending since Q2-2021.



Source: WIND, ICBC Standard

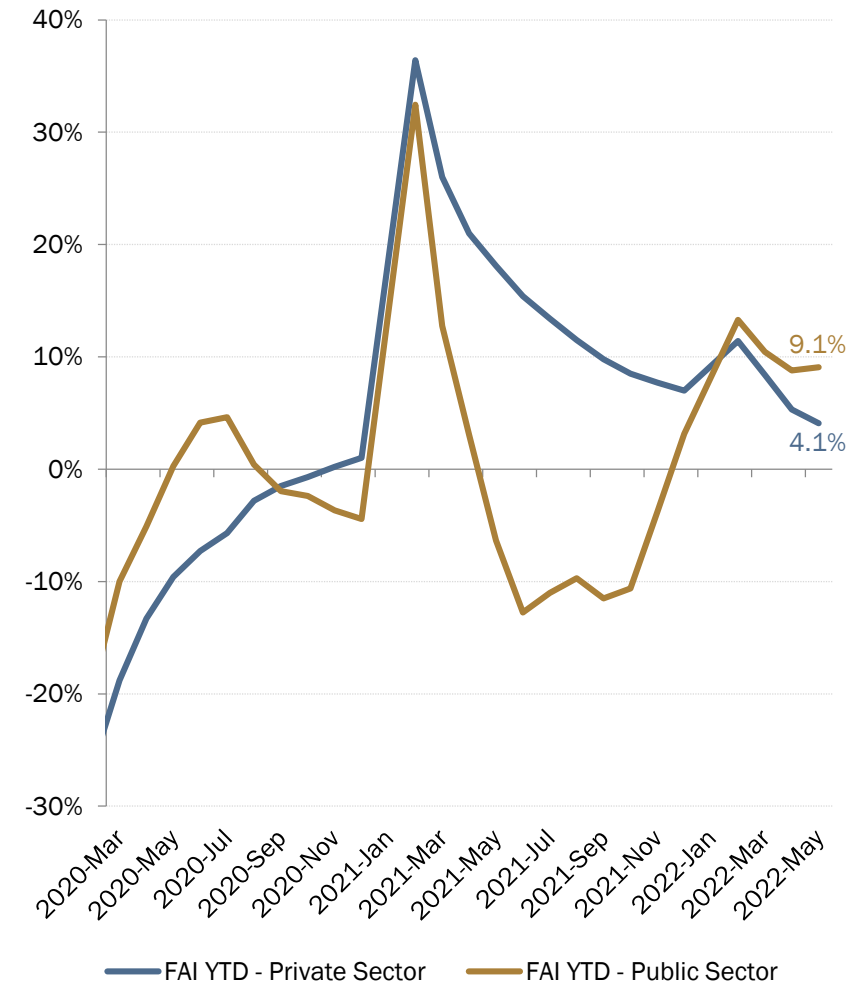
Investment is holding up with significant government support

Investment in property sector continued to deteriorate in May, while manufacturing and infrastructure also point to sluggish recovery.



Source: WIND, ICBC Standard

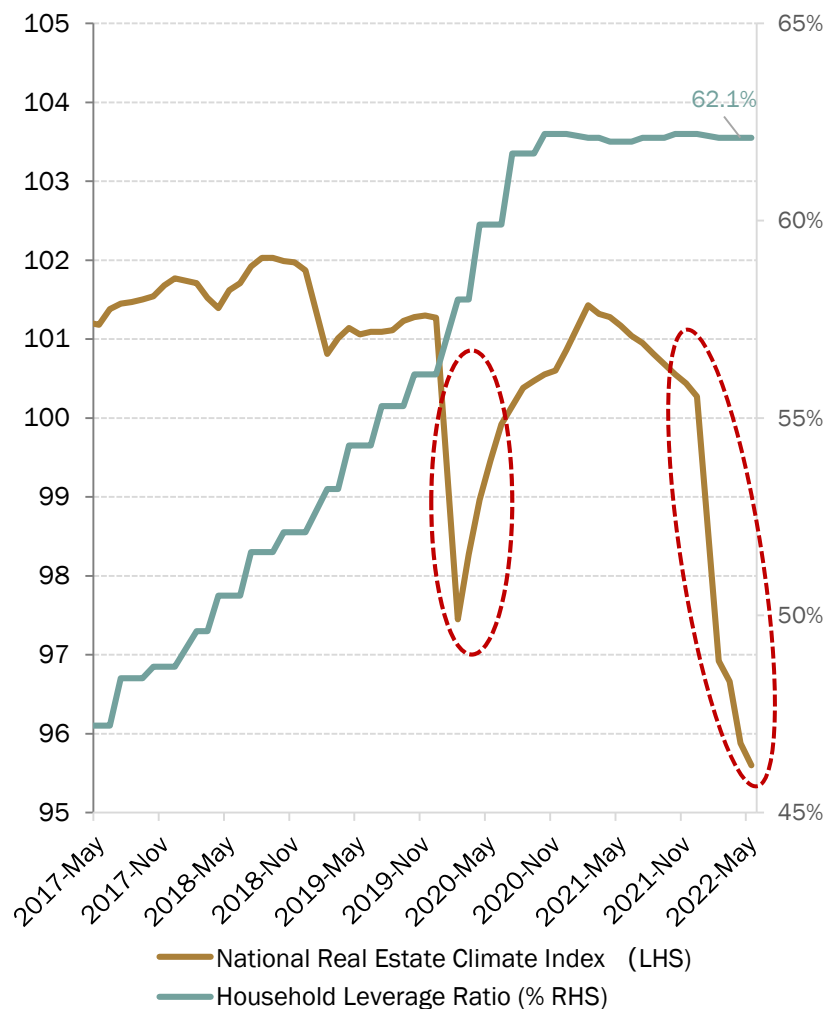
Government continues to lead national investment in May, but the bearish sentiment across private sector persists.



Source: WIND, ICBC Standard

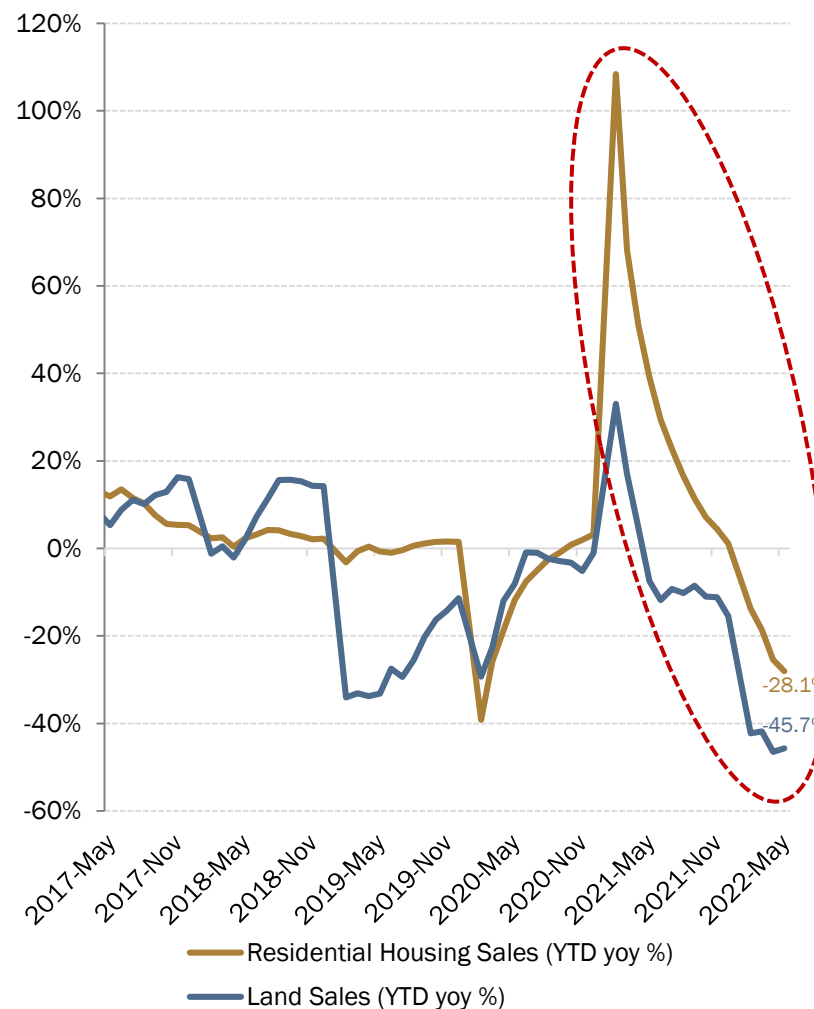
Property investment and sales fragile with limited appetite for leverage

Lockdown measures significantly weakened household confidence and borrowing appetite despite easing mortgage policies.



Source: WIND, ICBC Standard

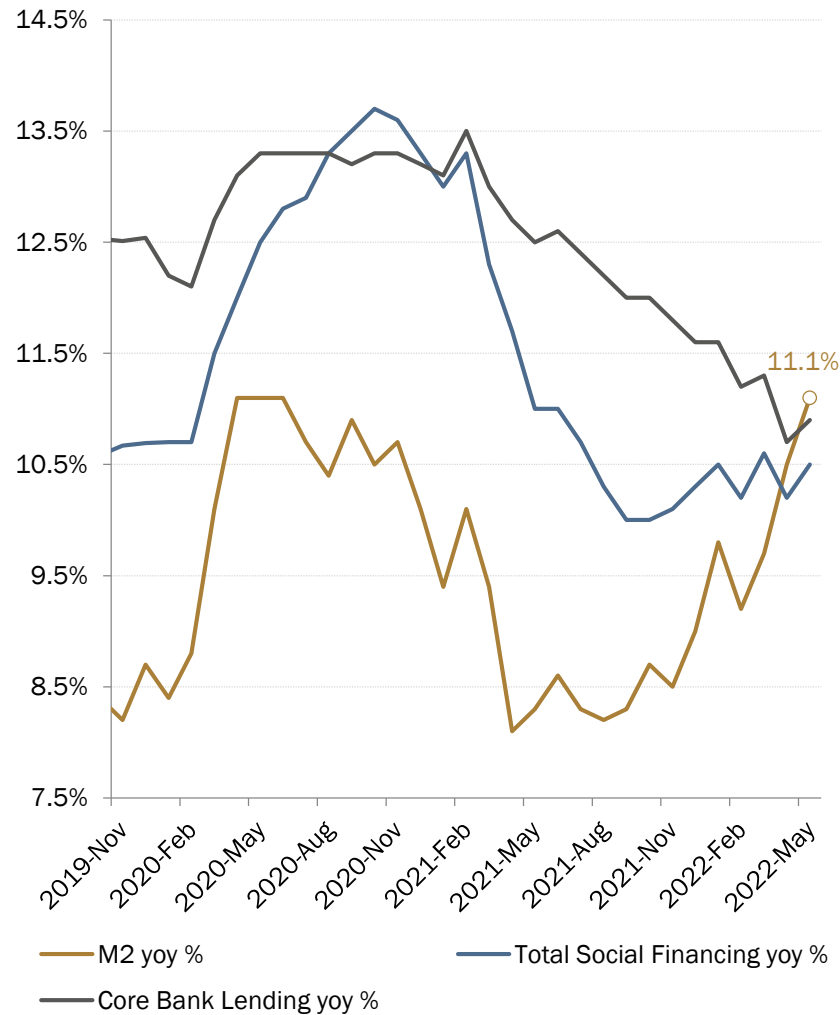
Home sales slump worsens as lockdown restriction intensified, dismissing hopes for a near-term rebound before H1-2022.



Source: WIND, ICBC Standard

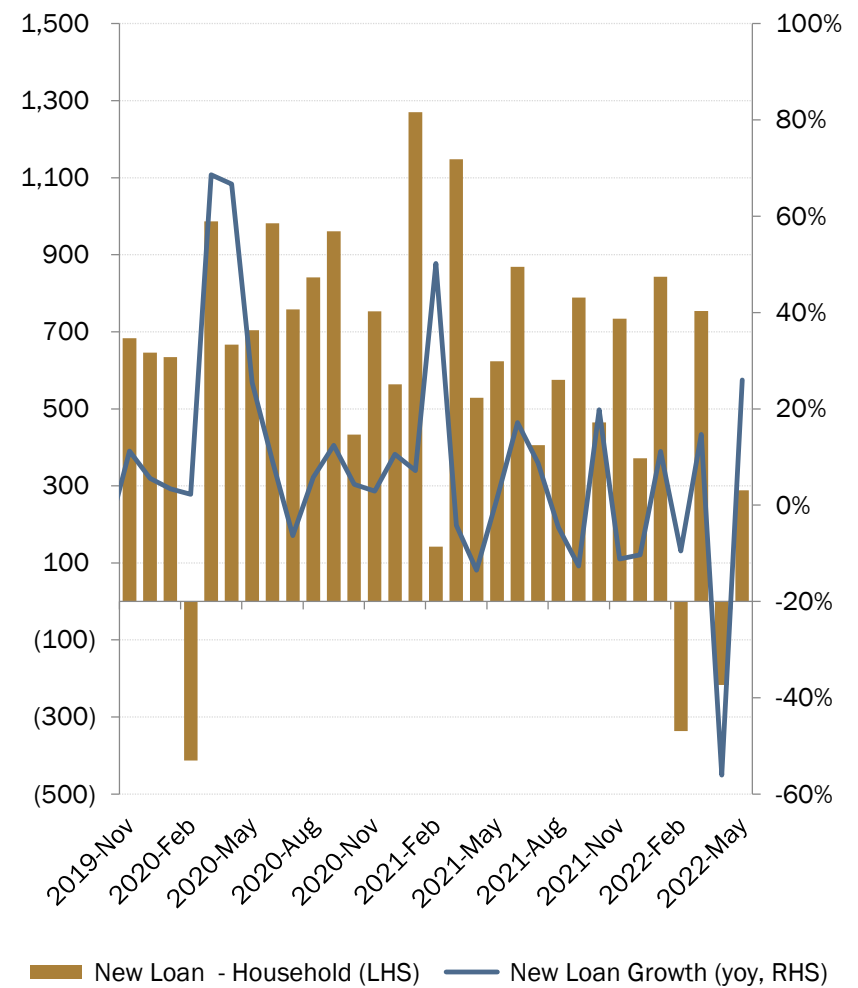
Stronger credit impulse since April will likely contribute to growth in H2

M2 growth expanded at double-digit pace in April and May, on par with the monetary support seen in Q2 2020.



Source: WIND, ICBC Standard

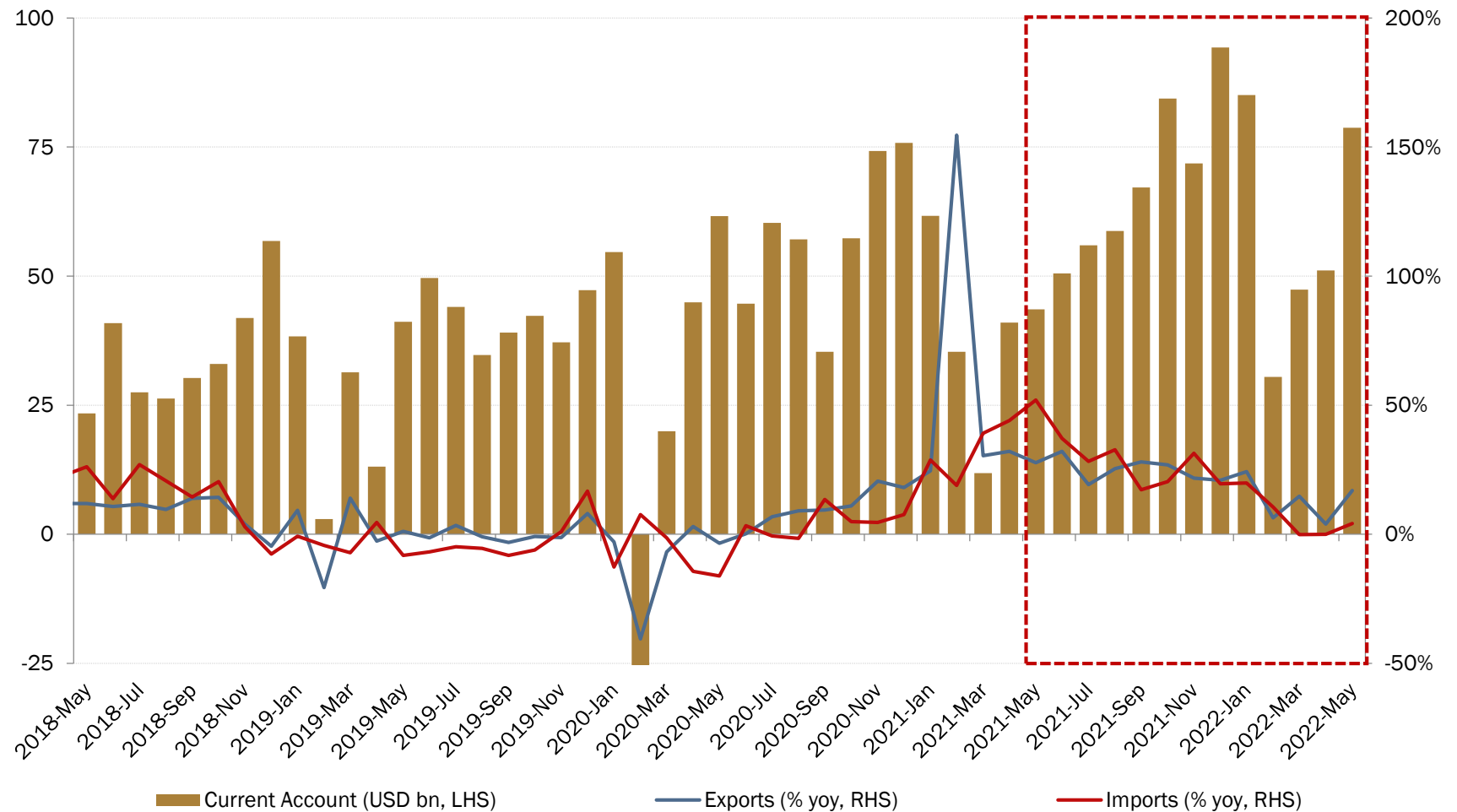
Slump in new loan growth and negative household loans in April demonstrated depressed credit demand and extreme pessimism.



Source: WIND, ICBC Standard

Current account surplus widened on improved trade momentum in May

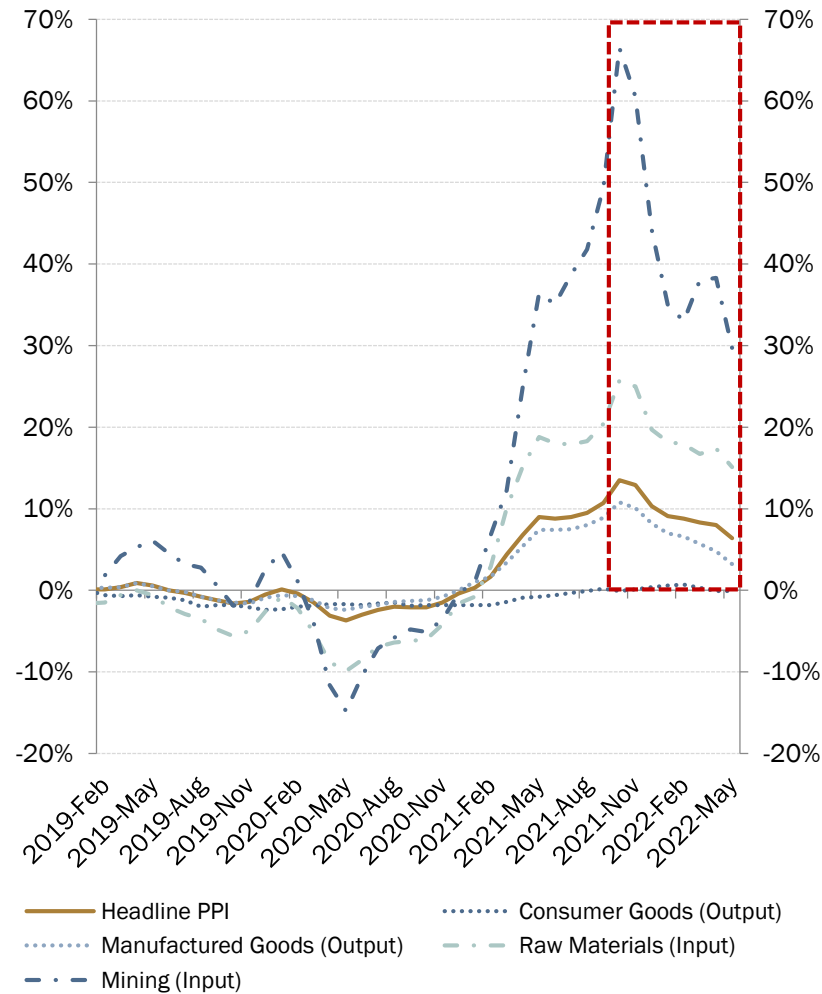
While current account surplus remained resilient during April and May, exports saw some improvements after sharp decline at the lowest pace in 2 years in April. That said, imports remain flat following supply chain disruptions due to sluggish domestic demand.



Source: WIND, ICBC Standard

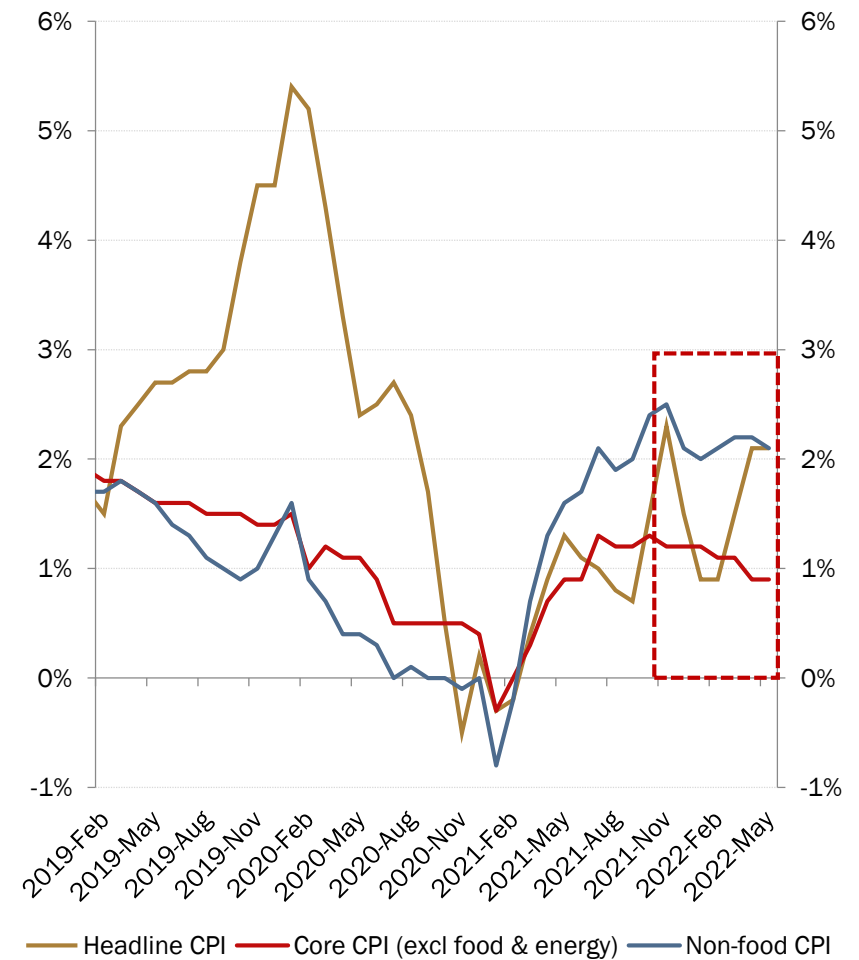
NDRC manages input costs to insulate households from global inflation

NDRC's administrative measures continued to cool down headline PPI to 6.4% in May from 8.0% in April.



Source: WIND, ICBC Standard

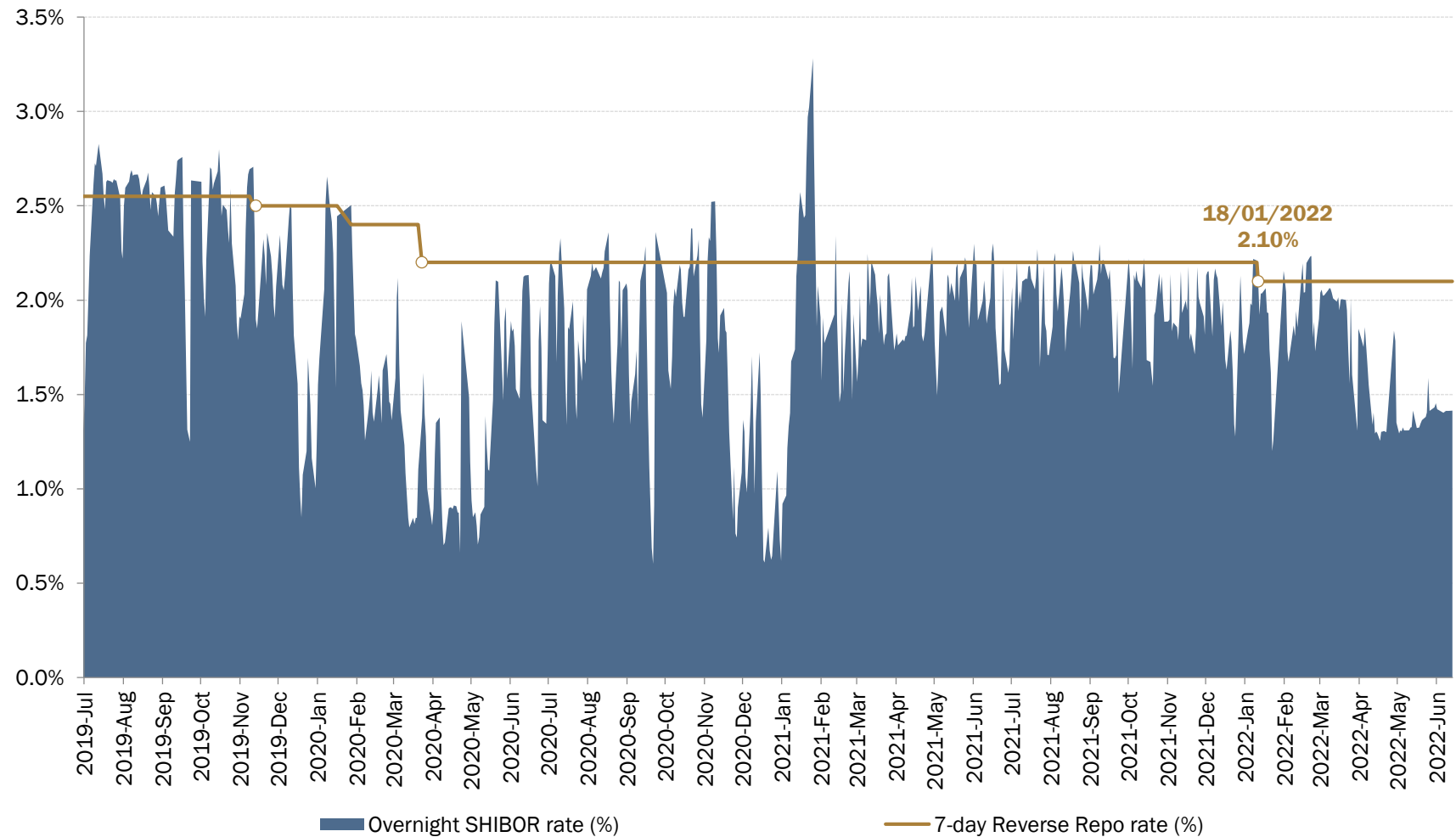
Stable headline CPI continued to benefit from downward pork price cycle, but core CPI still points to sluggish demand onshore.



Source: WIND, ICBC Standard

Short-term interbank liquidity remains ample with unchanged policy rates

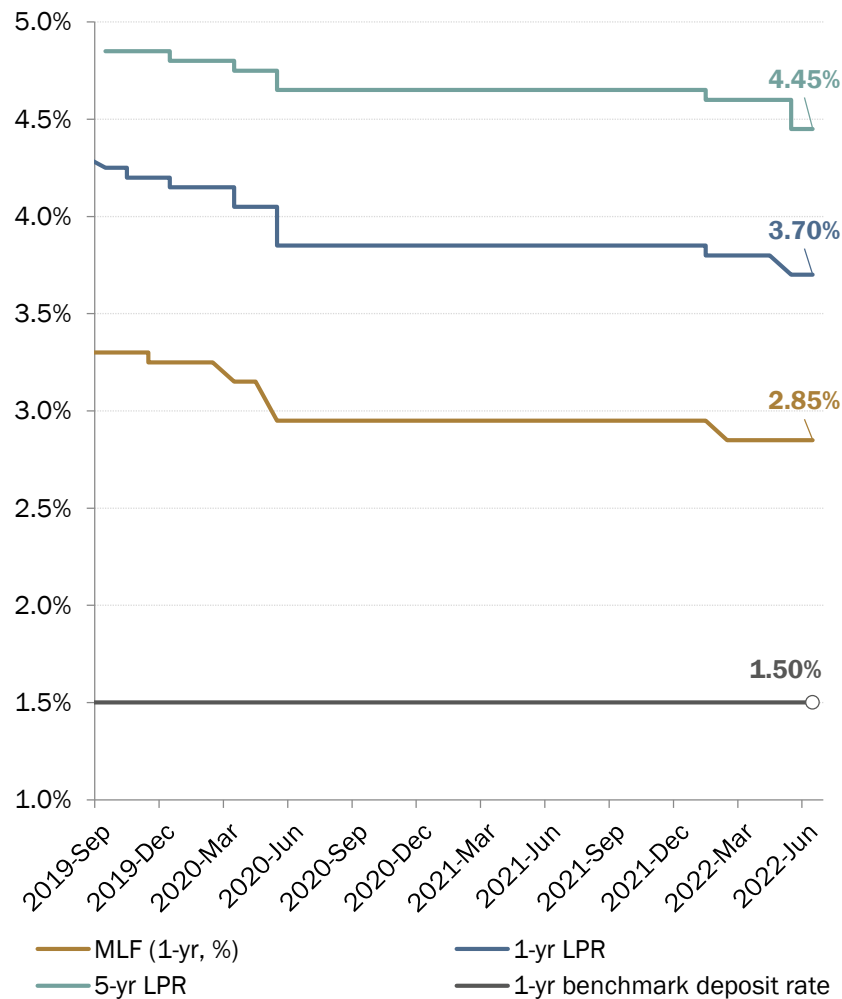
Front-end interbank rates continue to stay well below 1.50% since early April, more than 50bps lower than the 2.10% 7d-OMO rates.



Source: WIND, ICBC Standard

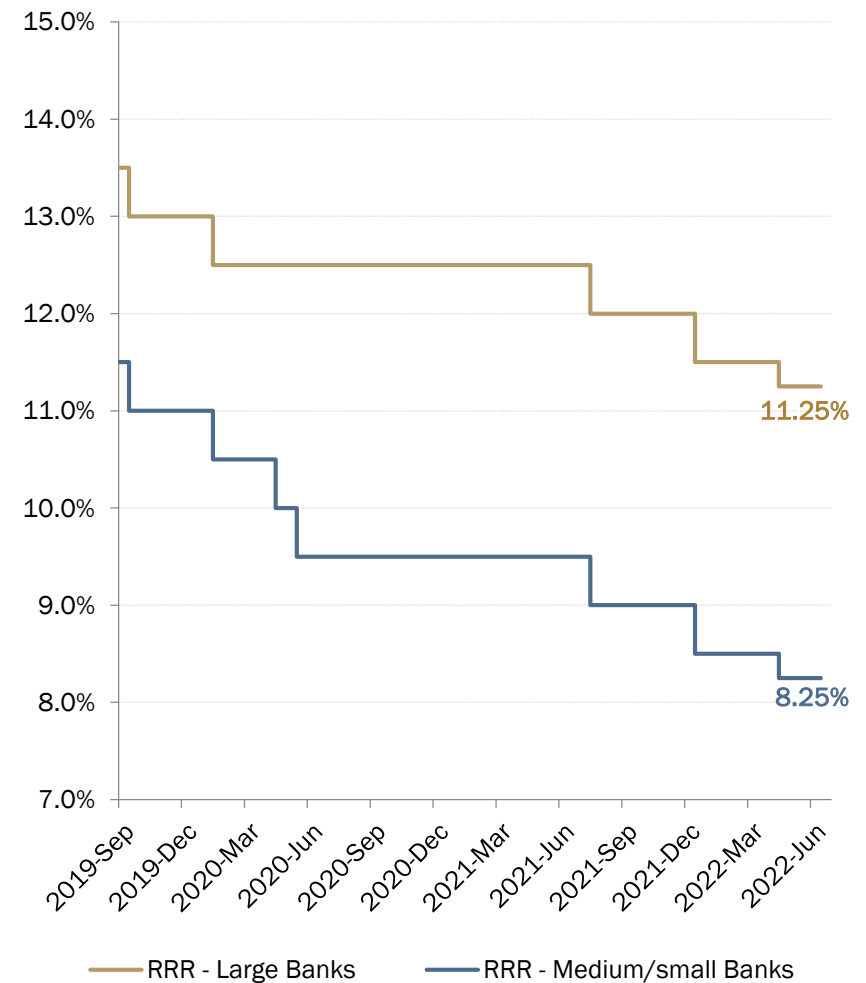
PBoC is reluctant to lower rates as the Fed's rate hiking cycle continues

May's 15bps cuts in 5yr LPR aimed to restore confidence and boost housing demand but further easing of front-end rates is still unlikely.



Source: WIND, ICBC Standard

The universal 25bps RRR cuts in April came in short of market expectation, released c. CNY 530bn long-term liquidity only.



Source: WIND, ICBC Standard

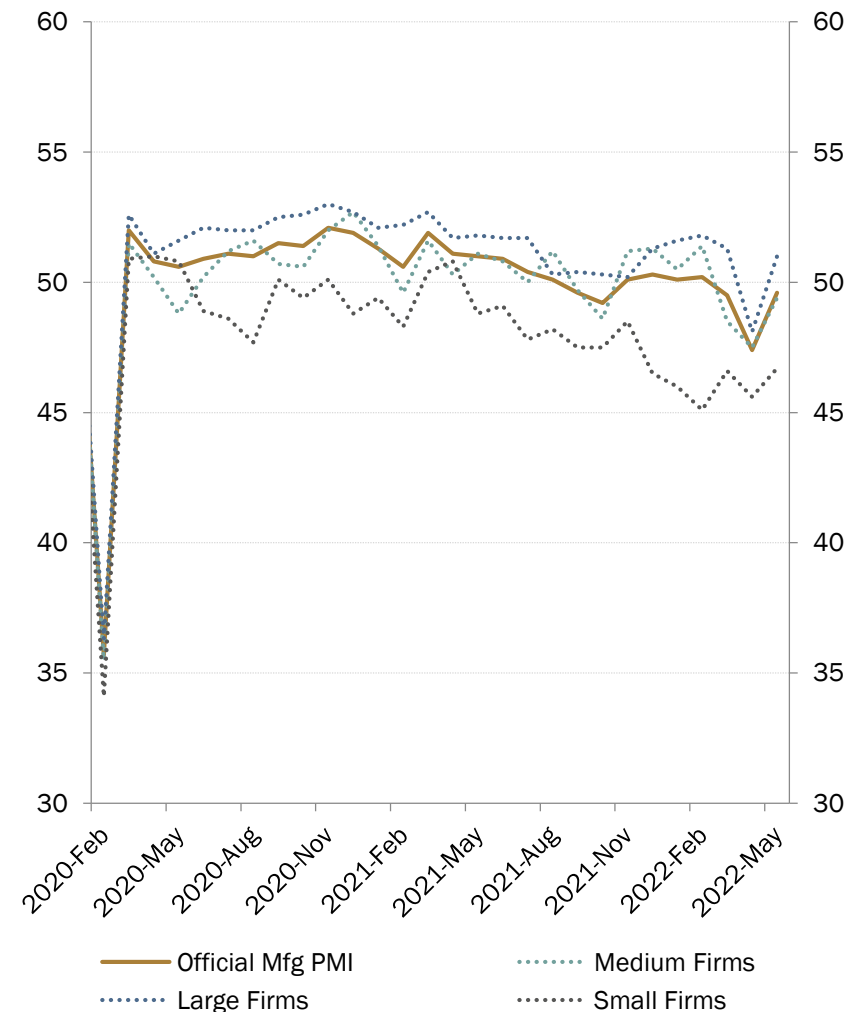
PMIs point to timid recovery in May as sentiment remains weak

April PMIs reflected the sharpest contraction in both manufacturing and non-manufacturing activity since March 2020.



Source: WIND, ICBC Standard

Small manufacturers continue to face headwinds since Q1-2020.



Source: WIND, ICBC Standard

Fiscal measures are on course to provide more growth support in H2

40% of annual quota for local government special purpose bond (CNY 1.46bn) is scheduled to be front-loaded before end-April 2022.

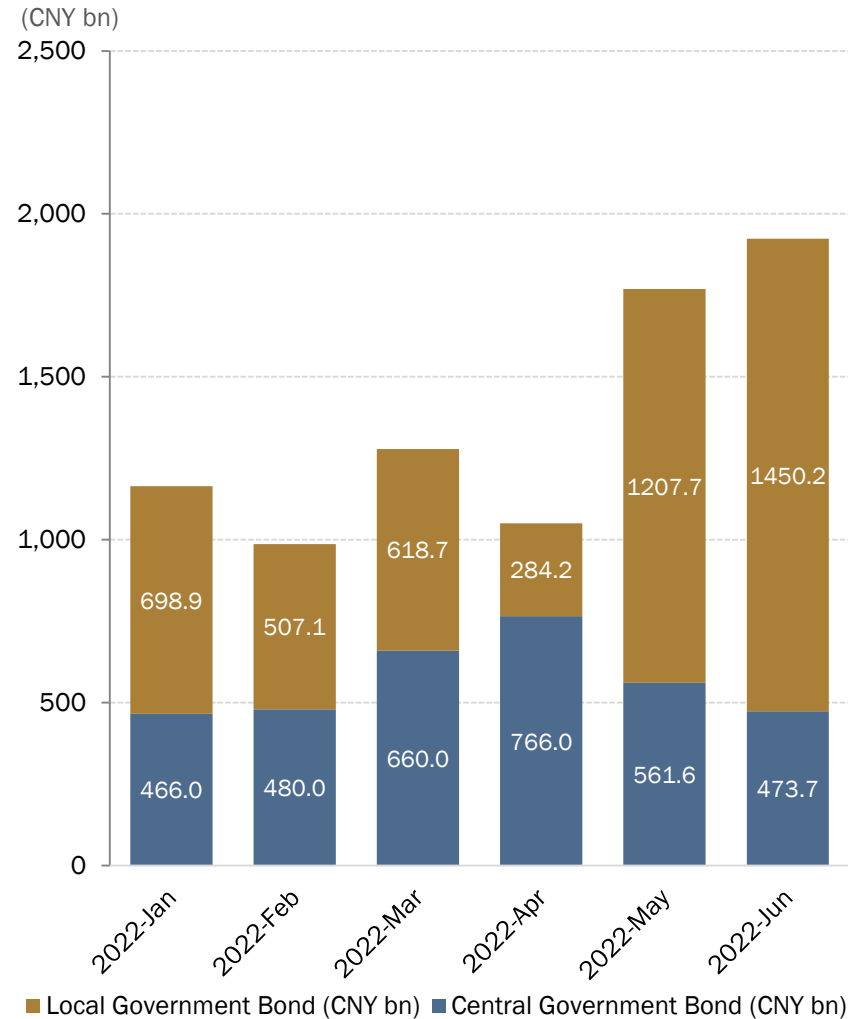
		2022 GWR Targets	2021 GWR Targets	2022 vs 2021
GDP	GDP Target (%)	c. 5.5%	>6.0%	↓
	Official Fiscal Deficit (CNY bn)	3,378 (est.)	3,446	↓
	Official Fiscal Deficit Ratio (% GDP)	2.8%	3.2%	↓
	Special Bond Quota (CNY bn) *	3,650 *	3,650	→
	Special Bond Quota (% GDP)	3.0%	c.3.4%	↓
Fiscal	Special Fiscal Arrangement (CNY bn)	1) Extra 1,500 Special fiscal transfer payments to local gov. from central gov. 2) A New Financial Stability Fund (tbc)		NA
	Broad Fiscal Deficit Ratio (% GDP)	c. 7.0%	c. 6.5% - 7.0%	↑
	Tax Cuts (CNY)	Est. CNY 2.5tn tax cut/rebate before year-end		↑
		CNY 50,000 VAT free allowance per annum for SMEs		↑
	Household Disposable Income Growth (yoy %)	"Same as nominal GDP growth rate" (c. 5.5%)	"Same as nominal GDP growth rate"	→
	Urban New Job Creation (mn)	11.00	11.00	→
	Unemployment Rate (%)	max. 5.50%	5.50%	→
	Social			
	Poverty Reduction (mn)	NA	Social Welfare System (14 th FYP by 2025)	NA
	Climate Change Action	1) Flexible annual target with the goal to achieve 14 th FYP target by 2025 2) Energy consumption quota to exclude usage of raw material & renewable energy		3% reduction in energy intensity
				↓
	CPI (%)	c. 3.0%	3.0%	→
	New Loan Growth for SMEs (%)	NA	> 30%	NA
	Monetary			
	M2 (yoy %)	"Same as nominal GDP growth rate"	"Same as nominal GDP growth rate"	→
	Total Social Financing (yoy %)	"Increase new loan base and lower borrowing cost for real economy"		→

Source: WIND, ICBC Standard

* Note: C. CNY 450bn worth of the pre-approved local government special purpose bond issuance quota (nearly 1/3 of CNY 1.46bn) have already been materialised by end-January. Market expects another issuance peak in late March/early April 2022 as local governments rush to meet the front-loading requirement.

Over CNY 1tn Special Purpose bond is yet to be materialised by end-June

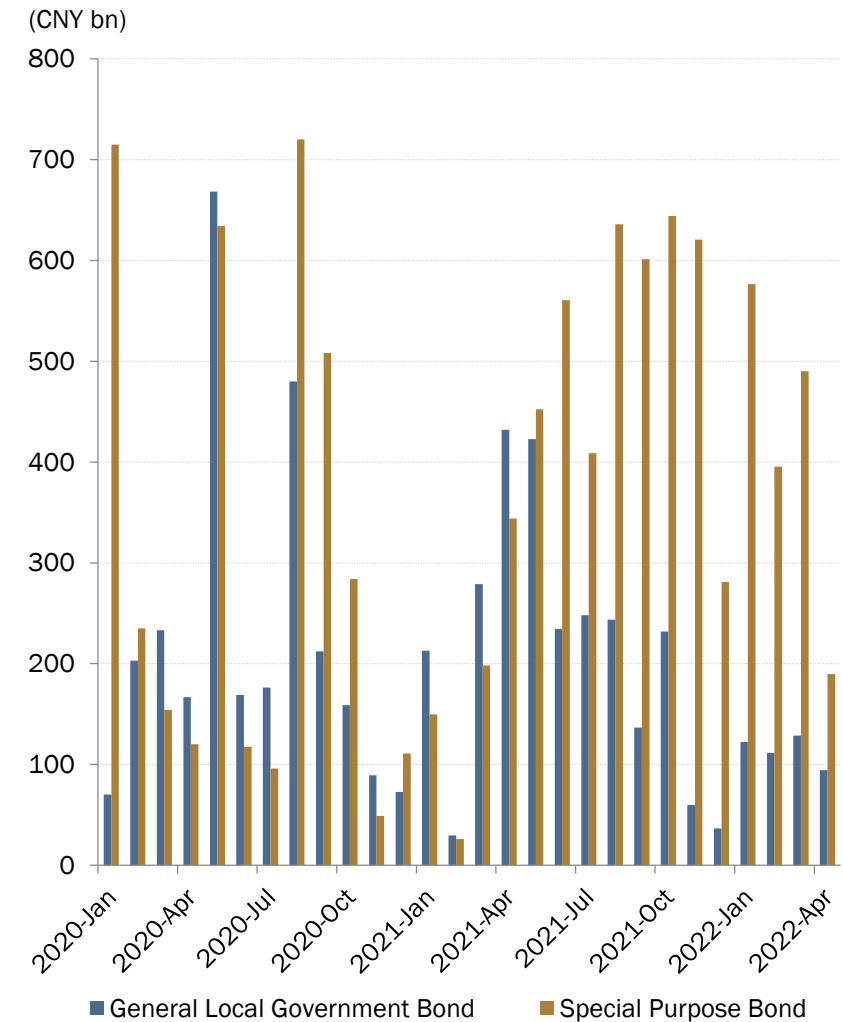
Issuance of local government bonds picked up in May and June as MoF instructed local officials to front-load annual quota by end of Q2.



Source: WIND, ICBC Standard

* Note: NPC meeting in March has approved CNY 3.65tn worth of special purpose bond quota for 2022, same as in 2021. As of 16th June 2022, more than CNY 2.55tn worth of special purpose bond have already been issued (vs CNY 0.87tn in 2021), accounting for nearly 70% of the annual quota.

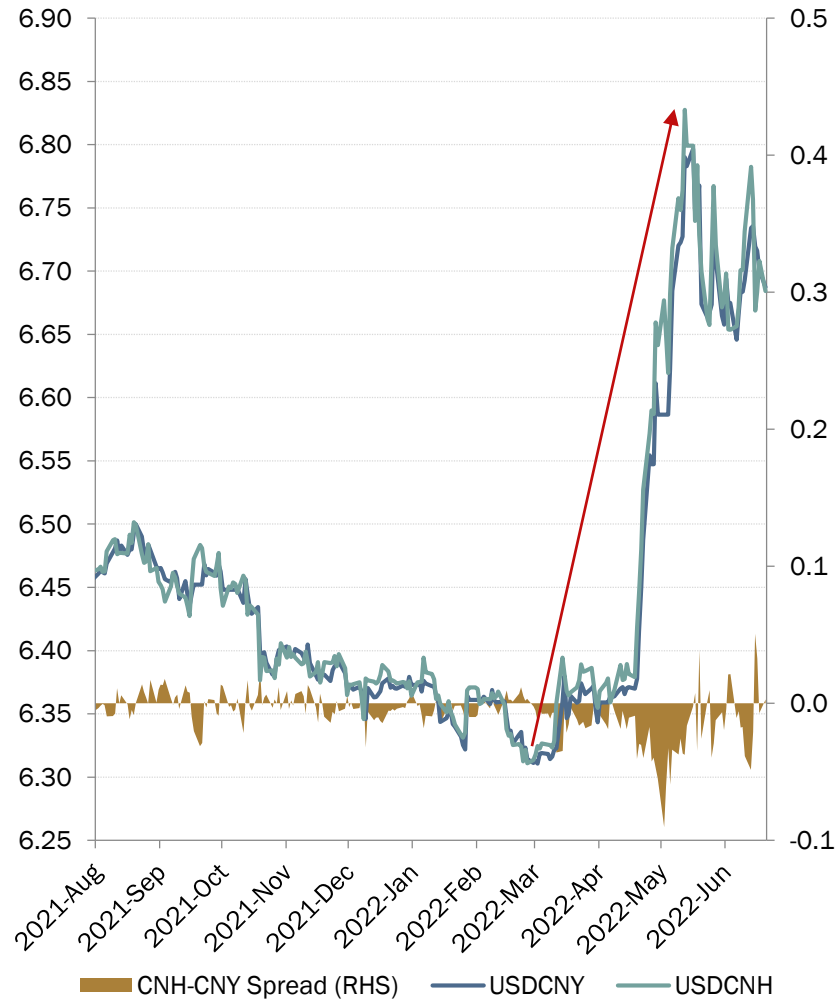
New local government bond issuance reached 10-yr record high of CNY 4.5tn in 2020, followed by CNY 4.37tn in 2021.



Source: WIND, ICBC Standard

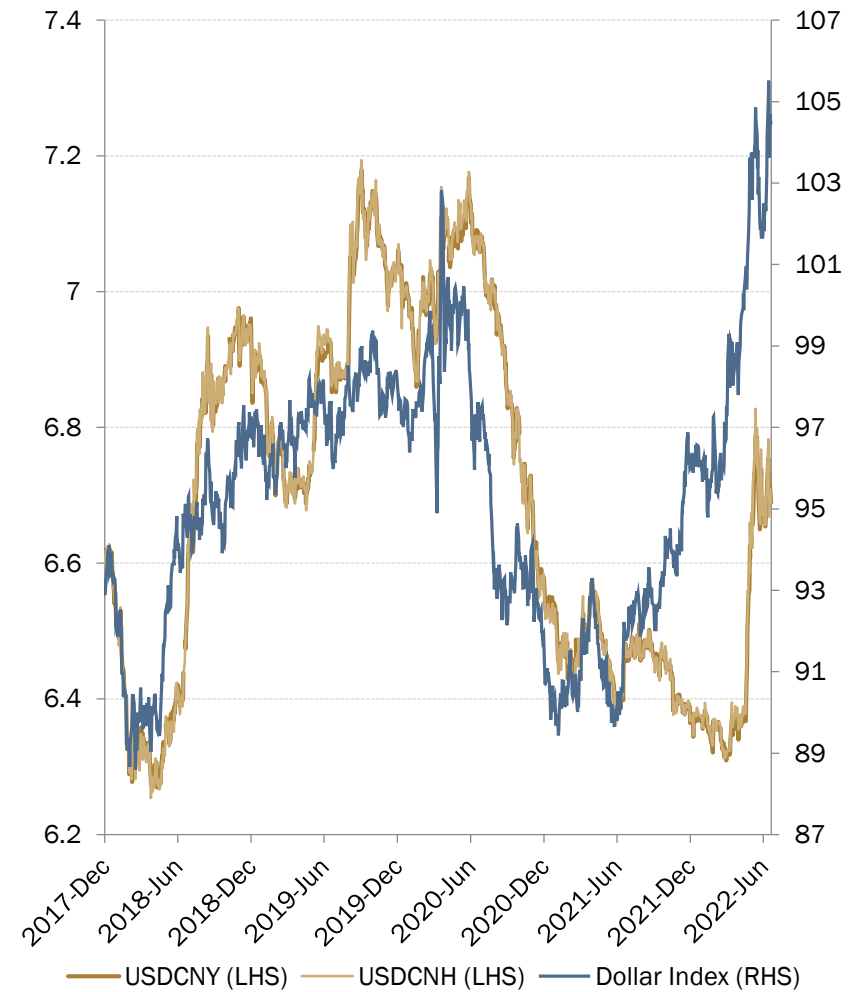
Shanghai lockdown heavily weighed on market sentiment and the yuan

USDCNH reached multi-year highs above 6.80 in mid-May amidst lockdown concerns, over 7% depreciation vs pre-lockdown levels.



Source: WIND, ICBC Standard

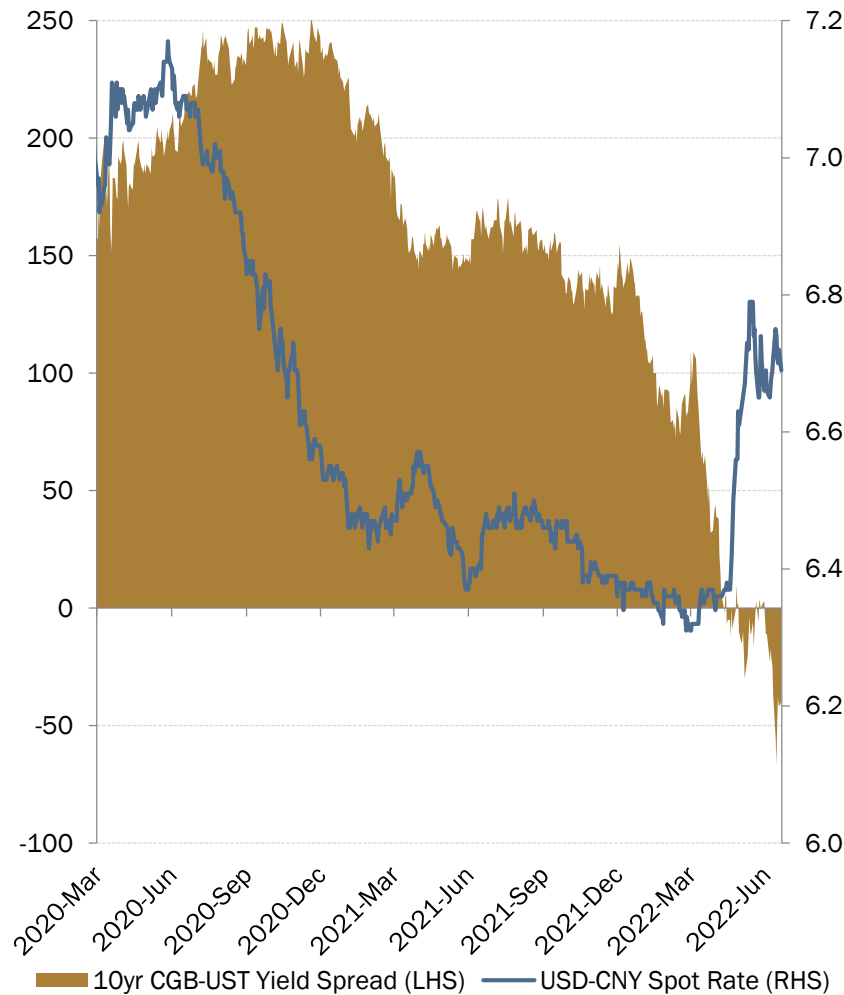
Recent yuan depreciation is nonetheless largely a market catch-up play due to poor sentiment and the CGB-UST yield spread inversion.



Source: Bloomberg, ICBC Standard

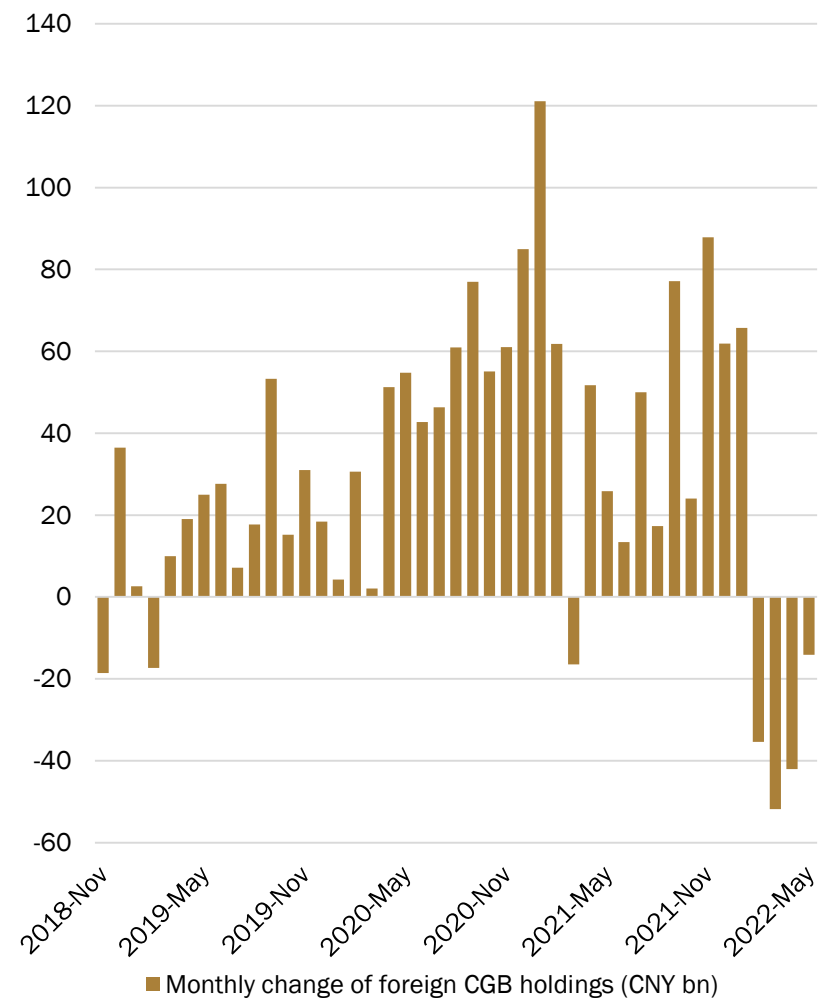
CGB-UST yield spread inversion continues with further Fed tightening

Yield spread between 10yr CGB-UST further widened to c.-40 bps in June 2022 as 10yr UST yield challenges the 3.50% level in mid-June.



Source: Bloomberg, ICBC Standard

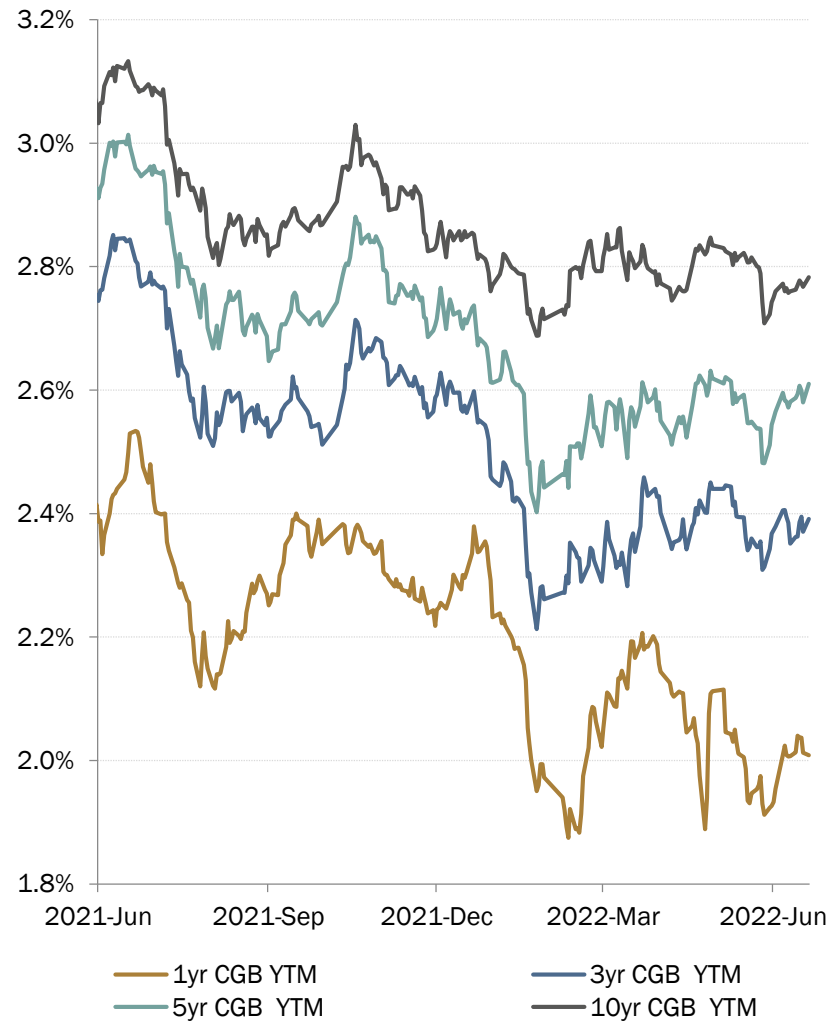
Foreign investors continued to adjust holdings of RMB assets at record pace since Feb, leaving room for re-engagement in the future.



Source: Bloomberg, ICBC Standard

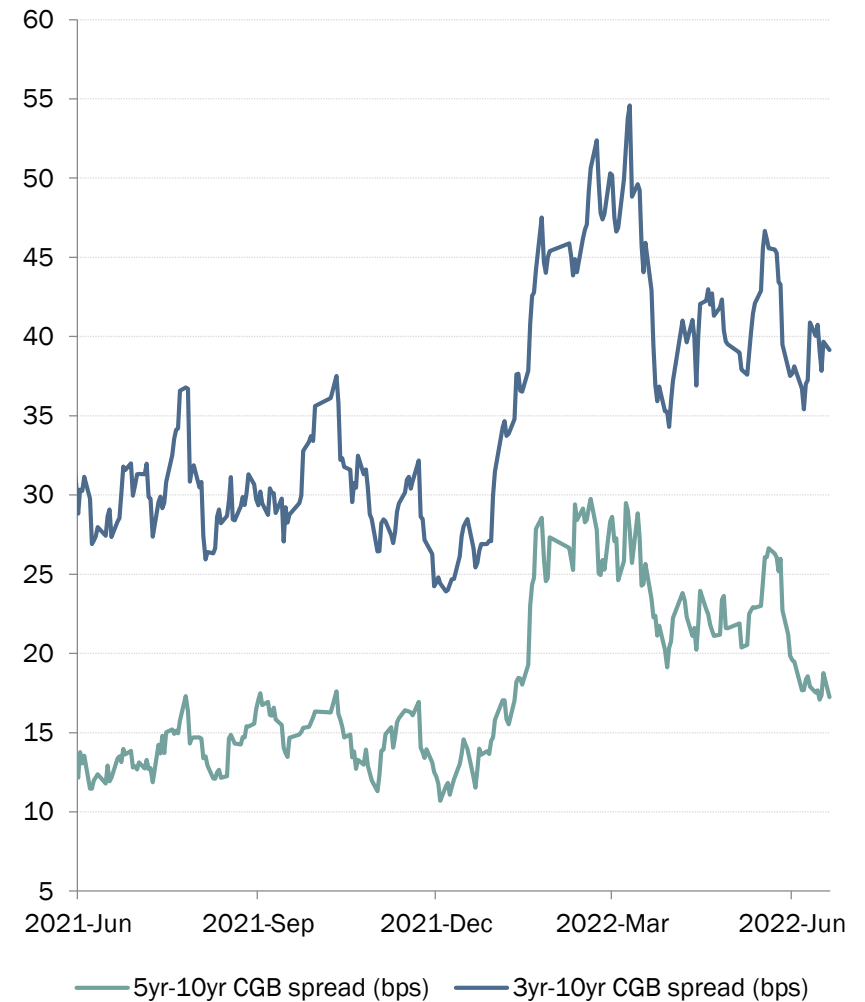
CGB yields remain stable anchored by PBoC's monetary policy fine-tuning

CGB yields continue to be range bound after the PBoC's 15bps cut of the 5yr LPR in May due to limited room for further easing in sight.



Source: WIND, ICBC Standard

3yr-10yr CGB spread stayed elevated vs 12-month lows in December-21, while 5yr-10yr CGB spread began to narrow since late May.



Source: Bloomberg, ICBC Standard

RMB is likely to remain volatile as long as growth uncertainties persist

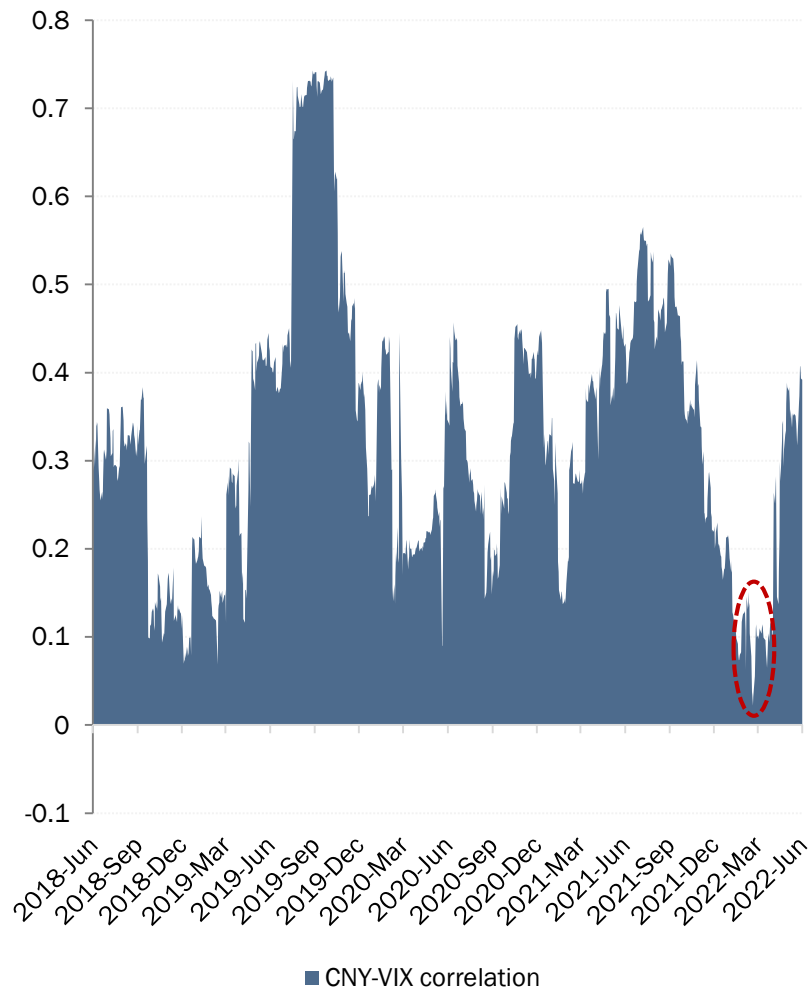
Recent bout of yuan depreciation may still have further room to go before year-end if growth outlook and sentiments continue to deteriorate.



Source: WIND, ICBC Standard

But PBoC is fully equipped to shift any sharp one-way bet when necessary

Offshore yuan's correlation with VIX returned to elevated level after dipping to 3-yr low in March.



Source: Bloomberg, ICBC Standard

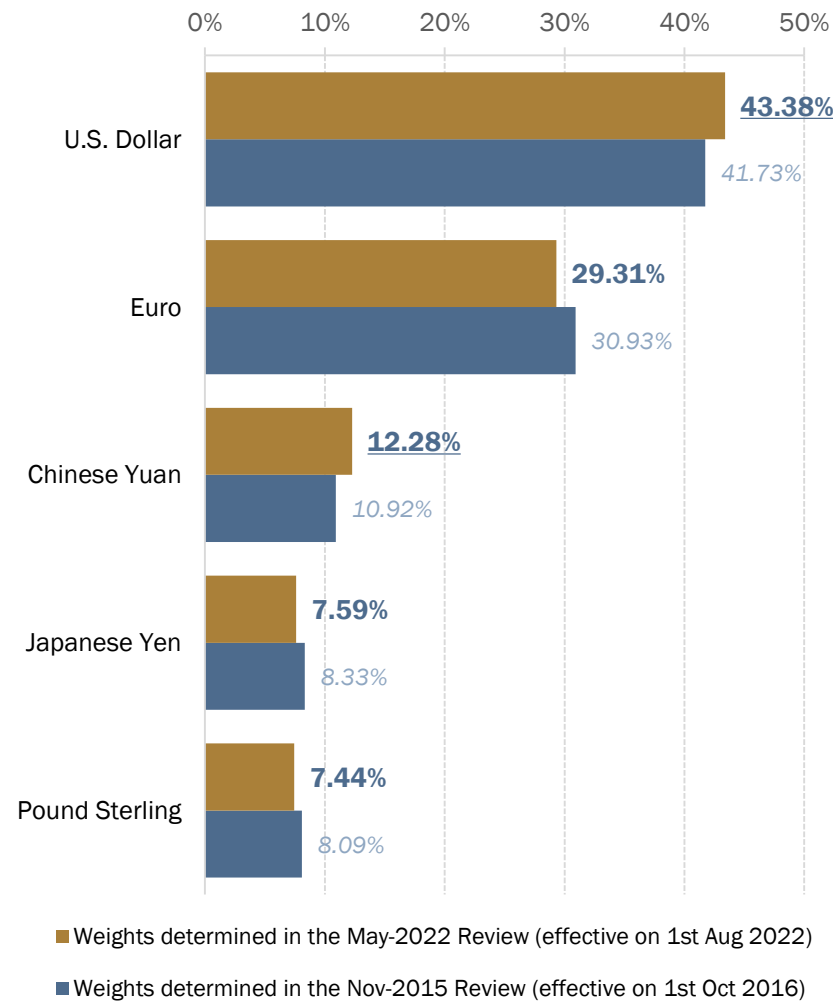
PBoC has frequently adopted macro-prudential tools to steer market expectation and ease rapid yuan rally.

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 th June.
Jun. 2021	Grant fresh QDII quotas of c. USD 10bn to allow domestic institutional investors to undertake more outbound investment activities.
Jun. 2021	CDB sells USD 2bn 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.
Jan. 2022	CFETS adjusts the currency basket and marginally increased the weight for USD, EUR and GBP
Apr. 2022	PBoC drops FX RRR for FIs to 8% from 9%, sending the first signal to ease sharp depreciation pressure prior to the early-May holiday.

Source: CFETS, ICBC Standard

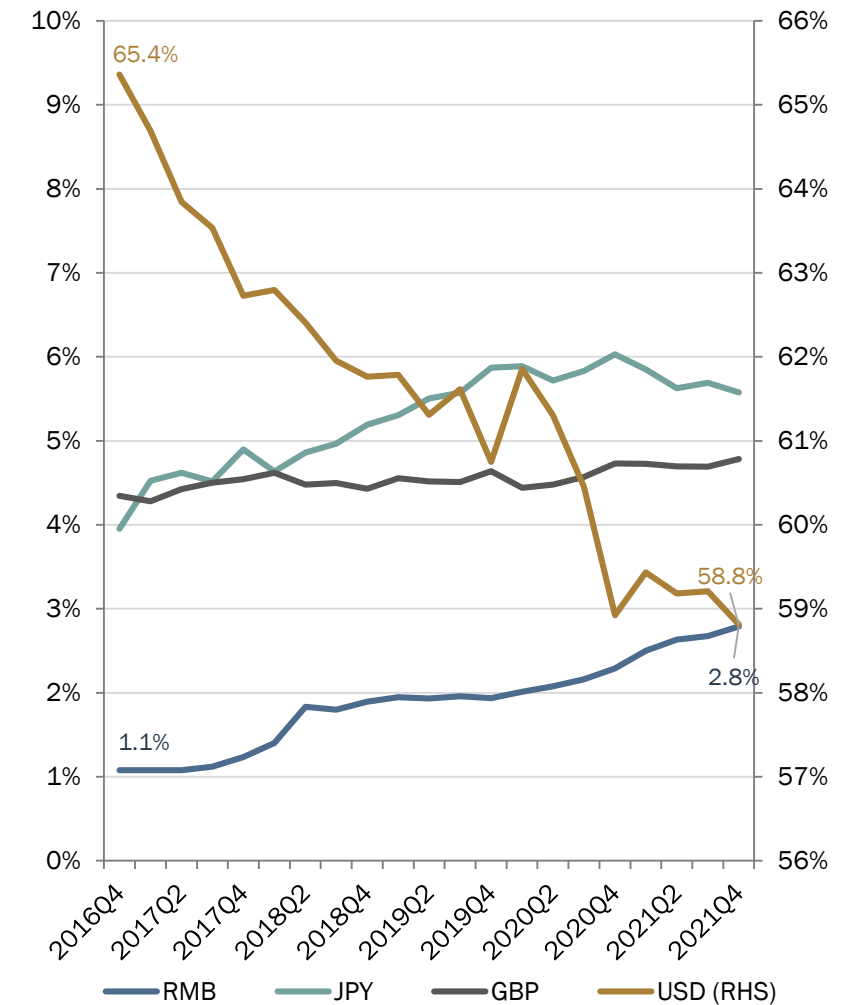
IMF SDR basket revision places a long-term vote of confidence in RMB

The IMF has raised SDR basket weightings of the USD and RMB by 1.65% and 1.36% respectively in the recent SDR Valuation review.



Source: IMF, ICBC Standard

Sovereign investors continue to demonstrate steady interest in RMB denominated assets as their long-term diversification strategy.



Source: IMF, ICBC Standard

Appendix I: Growth and Stability return as key policy focus in 2022

Key economic targets in the Government Work Report: 2022 vs 2021

		2022		2021	
		GWR Targets	Actual Data	GWR Targets	Actual vs Targets
GDP	GDP Target (%)	c. 5.5%	--	>6.0%	Exceeded the target
	Actual GDP (CNY bn)	120,657.15 (est.)	114,366.97	--	--
	GDP growth rate (yoy %)	--	8.1%	>=6.0%	On target
	Official Fiscal Deficit (CNY bn)	3,378 (est.)	3,446	3,446	On target
	Official Fiscal Deficit Ratio (% GDP)	2.8%	3.01%	3.2%	On target
	Special Bond Quota (CNY bn)	3,650	3,650	3,650	Broadly on target
	Special Bond Quota (% GDP)	3.0%	3.2%	c.3.4%	
Fiscal	Extra 1,500				
	Special Fiscal Arrangement (CNY bn)	(Special fiscal transfer payments to local gov. from central gov.)	NA	NA	NA
	Broad Fiscal Deficit Ratio (% GDP)	c. 7.0%	c. 6.2% - 6.5%	c. 6.5% - 7.0%	Slightly below target
	Tax Cuts (CNY)	Est. CNY 2.5tn tax cut/rebate before year-end	Extra CNY 1.1tn corporate tax cut CNY 20bn agriculture subsidies	Min. CNY 50,000 VAT free allowance per annum for SMEs	Exceeded the target
	Household Disposable Income Growth (yoy %)	"Same as nominal GDP growth rate" (c. 5.5%)	8.1%	"Same as nominal GDP growth rate"	On target
	Urban New Job Creation (mn)	11.00	12.69	11.00	Exceeded the target
	Unemployment Rate (%)	max. 5.50%	5.10%	5.50%	Exceeded the target
Social	Poverty Reduction (mn)	NA	In progress	Social Welfare System (14 th FYP by 2025)	On target
	Climate Change Action	1) Flexible annual target with the goal to achieve 14 th FYP target by 2025 2) Energy consumption quota to exclude usage of raw material & renewable energy	1) More than 1bn kw electricity generation with renewable energy 2) Publish peak carbon action plan 3) Launch carbon trading market	3% reduction in energy intensity	NA
	CPI (%)	c. 3.0%	0.9%	3.0%	Exceeded the target
Monetary	New Loan Growth for SMEs (%)	NA	> 40%	> 30%	Exceeded the target
	M2 (yoy %)	"Same as nominal GDP growth rate"	9.0%	"Same as nominal GDP growth rate"	Exceeded the target
	Total Social Financing (yoy %)	"Increase new loan base and lower borrowing cost for real economy"	10.3%		

Source: WIND, ICBC Standard

Appendix II: 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 th 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
	Official Fiscal Deficit Ratio (% GDP)	3.2%	3.6%	> 3.6%	On target
Fiscal	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
	Household Disposable Income Growth (yoy %)	"Same as nominal GDP growth rate" (> 6.0%)	2.10%	"Same as nominal GDP growth rate"	Below target
Social	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
Monetary	New Loan Growth for SMEs (%)	> 30%	54.8%	> 40%	On target
	Banking Sector CSR Profit Return (CNY tn)	--	1.5	NA	Exceeded the target
	M2 (yoy %)	"Same as nominal GDP growth rate"	10.1%	"Markedly higher than 2019"	On target
	Total Social Financing (yoy %)		13.3%		

Source: WIND, ICBC Standard

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

		2020	2019	2018
GDP	GDP Target (%)	“Endeavour to achieve the 13th FYP target”	6.0% - 6.5%	6.50%
	Actual GDP (CNY bn)	--	99,086.50	91,928.11
	<i>Previous GDP growth rate (yoy %)</i>	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
Social	Household Disposable Income Growth (yoy %)	"Same as nominal GDP growth rate"	"Same as nominal GDP growth rate"	6.5%
	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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