

Macro Weekly: Policy signals to support economic recovery

This week's highlights

- **Politburo signals support for economic recovery**

China's Politburo held a meeting on 12 Feb on the subject of epidemic control and prevention at which it signaled support for the economy during the outbreak. The leadership emphasized that it would take measures to minimize the impact of the coronavirus and reiterated the steps it would take to achieve previously set economic targets. Outside Hubei, governments are to implement precise prevention and control measures while avoiding a wide-scale shutdown. The corporate sector will be encouraged to resume work and production in an orderly manner. On the fiscal policy side, local governments were called upon to optimize the investments of special local government bonds and accelerate the construction of a number of major projects. Shanghai, Shenzhen, Zhejiang and other regions have issued real estate support policies allowing for delayed land payments or payment through instalments, the postponement of construction projects, exemptions from industrial land rent, and the implementation of online approval services. We believe these measures will ease the funding pressure on developers.

- **Production resumes gradually amid slowing coronavirus spread**

Growth in the infected population in China has slowed over the past week. The daily new number of people being screened after being in close contact with an infected person has begun to decline as the number of cases under medical observation fell by 20k from a peak of nearly 190k on 7 Feb. Nevertheless, the pace of work resumption after the Lantern Festival remains slow. Last week, national passenger flow averaged 12m per day, an 80% decline versus the same period last year. We expect returning passenger flow to continue to rise over the course of the next few weeks. Box office for domestic movies remained at zero last week, suggesting it will take time for outdoor entertainment activities to resume.

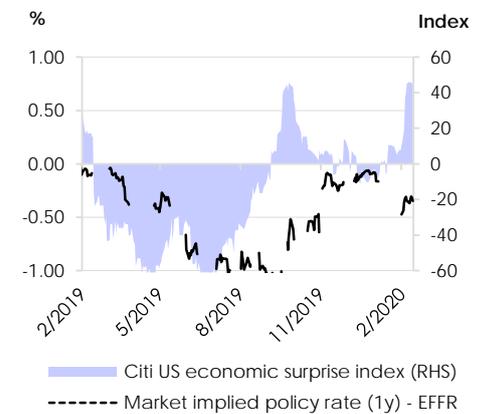
- **Fed indicates it will hold steady for a while amid downside risks from coronavirus**

Over the past week, a number of Federal Reserve officials, including Chairman Powell, stated that the US economic outlook remains intact although the coronavirus outbreak in China is a downside risk. Most also expressed that current monetary policy is appropriate and that the Fed will continue to monitor the situation while maintaining policy rates for a while. Following these comments, the market's policy rate expectation showed little change while US retail data and core CPI slightly exceeded expectations. The 10-year Treasury bond yield held steady at 1.58%. We expect the futures market to maintain a rate cut bias (Fig 1) and the 10-year yield in 1Q20F to hover around 1.5-1.8% due in part to concerns about the virus. Once the outbreak is contained, we expect the rate market to focus on fundamentals that support a modest recovery in the manufacturing sector and a slight pickup in inflation. We lower our average 10-year UST yield forecast for 1Q20F to 1.8%, from 2.0%, and continue to expect a gradual rise in rates throughout the remainder of the year.¹

- **China CPI breaks 5% on firmer food inflation**

China CPI rose to 5.4% YoY in Jan due to the earlier Chinese New Year and firmer food prices (Fig 2). As production in the agricultural sector and food processing companies started to recover earlier in the week, the rise in high-frequency food prices slowed. However, CPI inflation may remain high in Feb. Although short-term food price pressure is high, in view of the steady resumption in production, we maintain our view that inflation will peak in 1Q20F.

Fig 1. Amid continuing upside surprise in US data, the market maintained a rate cut bias



Source: CEIC, CCBIS

Fig 2. China CPI firmed up on stronger food prices



[†] rebased to 100 for prices 21 days before the Chinese New Year. Source: CEIC, CCBIS

Li Cui

(852) 3911 8274

cui@ccbintl.com

Claire Huang

(852) 3911 8012

clairehuang@ccbintl.com

Ying Xue

(852) 3911 8013

xueying@ccbintl.com

¹ CCBIS-Economic Update: [How will the Coronavirus affect the US bond yield?](#) (16 Feb 2020)

What's next?

• Markit Feb PMIs to reflect the coronavirus impact

The Markit euro area and US manufacturing PMIs due next week will reflect the preliminary impact of the coronavirus outbreak on the global manufacturing sector. The market predicts that PMIs will weaken in both economies in Feb, but will fare better than the average in 4Q19. On the policy front, the Fed will release its minutes for end-Jan, which could include analysis on the economic impact of the coronavirus.

• Total social financing to record massive gain in Jan

Apart from the seasonal surge in bank lending in Jan, we note that bond market activities were buoyant this year. Net issuance of local government bonds exceeded RMB700b, a record high, while corporate bond issuance picked up to RMB470b. If bank lending growth remains steady, new yuan loans are expected to reach RMB2.9t in Jan. Total social financing (TSF) is expected to increase by RMB4.2t. However, TSF growth is likely to moderate to 10.4% YoY, from 10.7% YoY in Dec 2019, due to the high base last year.

Table 1: Upcoming data releases and events

Date	Time	Country*	Data release	Period	Bloomberg	CCBIS	Prior
10-15 Feb	--	CH	Total social financing CNY	Jan	4,200b	4,190b	2,103b
10-15 Feb	--	CH	M2 YoY	Jan	8.6%	8.5%	8.7%
10-15 Feb	--	CH	New Yuan Loans CNY	Jan	3,081b	2,880b	1,140b
17 Feb	9:30	CH	New Home Prices MoM	Jan	--	--	0.35%
19 Feb	21:30	US	Housing Starts MoM	Jan	-11.7%	--	16.9%
19 Feb	21:30	US	Building Permits MoM	Jan	2.1%	--	-3.9%
19 Feb	21:30	US	PPI Ex Food and Energy YoY	Jan	1.3%	--	1.1%
20 Feb	3:00	US	FOMC Jan Meeting Minutes	--	--	--	--
20 Feb	9:30	CH	5-Year Loan Prime Rate	Feb	4.75%	--	4.80%
20 Feb	9:30	CH	1-Year Loan Prime Rate	Feb	4.05%	--	4.15%
20 Feb	20:30	EC	ECB Jan Monetary Policy Meeting Account	--	--	--	--
21 Feb	17:00	EC	Markit Eurozone Manufacturing PMI	Feb P	47.4	--	47.9
21 Feb	22:45	US	Markit US Manufacturing PMI	Feb P	51.5	--	51.9
21 Feb	23:00	US	Existing Home Sales MoM	Jan	-1.7%	--	3.6%

Date	HK time	Country	Central bank speaker/event
2/17/2020	22:00	EC	• ECB Board Member Lane Speaks in Lisbon
2/19/2020	21:10	US	• Fed's Bostic Speaks on U.S. Economic Outlook in Atlanta
2/19/2020	21:30	US	• Fed's Mester Speaks at Forum of Executive Women
2/20/2020	0:45	US	• Fed's Kashkari Speaks in Mankato, Minnesota
2/20/2020	2:30	US	• Fed's Kaplan Speaks in Dallas
2/20/2020	5:30	US	• Fed's Barkin Discusses Monetary Policy Framework
2/20/2020	18:30	EC	• ECB Vice President Guindos Speaks in Frankfurt
2/21/2020	2:20	US	• Fed's Barkin Speaks at Harvard
2/21/2020	22:35	US	• Fed's Kaplan Speaks in Dallas
2/21/2020	23:15	US	• Fed's Brainard and Bostic Take Part on Panel Policy Forum
2/22/2020	1:00	EC	• ECB's Lane Gives Speech at Booth Policy Forum in New York
2/22/2020	1:00	EC	• ECB Board Member Lane Speaks in New York
2/22/2020	2:30	US	• Fed's Clarida Takes Part in Panel at Booth Forum in New York
2/22/2020	2:30	US	• Fed's Mester Discusses Monetary Policy on Panel with Clarida

* CH = China, EC=Euro area. Source: Bloomberg, CCBIS estimates

Rating definitions:**Outperform (O) – expected return > 10% over the next twelve months****Neutral (N) – expected return between -10% and 10% over the next twelve months****Underperform (U) – expected return < -10% over the next twelve months****Analyst certification:**

The author(s) of this document, hereby declare that: (i) all of the views expressed in this document accurately reflect his/her personal views about any and all of the subject securities or issuers and were prepared in an independent manner; (ii) no part of any of his/her compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this document; and (iii) he/she receives no insider information/non-public price-sensitive information in relation to the subject securities or issuers which may influence the recommendations made by him. The author(s) of this document further confirm that (i) neither he/she nor his/her respective associate(s) (as defined in the Code of Conduct for Persons Licensed by or Registered with the Securities and Futures Commission issued by the Hong Kong Securities and Futures Commission) has dealt in/traded or will deal in /trade the securities covered in this document in a manner contrary to his/her outstanding recommendation, or neither he/she nor his/her respective associate(s) has dealt in or traded in the securities covered in this document within 30 calendar days prior to the date of issue of this document or will so deal in or trade such securities within 3 business days after the date of issue of this document; (ii) neither he/she nor his/her respective associate(s) serves as an officer of any of the companies covered in this document; and (iii) neither he/she nor his/her respective associate(s) has any financial interests in the securities covered in this document.

Disclaimers:

This document is prepared by CCB International Securities Limited. CCB International Securities Limited is a wholly-owned subsidiary of CCB International (Holdings) Limited (“CCBIH”) and China Construction Bank Corporation (“CCB”). Information herein has been obtained from sources believed to be reliable but CCB International Securities Limited, its affiliates and/or subsidiaries (collectively “CCBIS”) do not guarantee, represent and warrant (either express or implied) its completeness or accuracy or appropriateness for any purpose or any person whatsoever. Opinions and estimates constitute our judgment as of the date of this document and are subject to change without notice. CCBIS seeks to update its research as appropriate, but various regulations may prevent it from doing so. Besides certain industry reports published on a periodic basis, the large majority of reports are published at irregular intervals as appropriate according to the analyst's judgment. Forecasts, projections and valuations are inherently speculative in nature and may be based on a number of contingencies. Readers should not regard the inclusion of any forecasts, projections and valuations in this document as a representation or warranty by or on behalf of CCBIS that these forecasts, projections or valuations or their underlying assumptions will be achieved. Investment involves risk and past performance is not indicative of future results. Information in this document is not intended to constitute or be construed as legal, financial, accounting, business, investment, tax or any professional advice for any prospective investors and should not be relied upon in that regard.

This document is for informational purposes only and should not be treated as an offer or solicitation for the purchase or sale of any products, investments, securities, trading strategies or financial instruments of any kind in any jurisdiction. CCBIS makes no representations on the availability of the securities covered in this document (or related investment) to the recipients. The securities described herein may not be eligible for sale in all jurisdictions or to certain categories of investors. Neither CCBIS nor any other persons accept any liability whatsoever for any loss or damages (whether direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential) arising from any use of this document or its contents or otherwise arising in connection therewith. Securities, financial instruments or strategies mentioned herein may not be suitable for all investors. The opinions and recommendations herein do not take into account prospective investors' financial circumstances, investment objectives, or particular needs and are not intended as recommendations of particular securities, financial instruments or strategies to any prospective investors. The recipients of this document should consider this document as only a single factor in making their investment decision and shall be solely responsible for making their own independent investigation of the business, financial condition and prospects of *companies* referred to in this document. Readers are cautioned that (i) the price and value of securities referred to in this document and the income derived from them may fluctuate; (ii) past performance is not a guide to future performance; (iii) any analysis, ratings and recommendations made in this document are intended for long-term (at least for 12 months) and is not linked to a near-term assessment of the likely performance of the securities or companies in question. In any event, future actual results may differ materially from those set forth in any forward-looking statements herein; (iv) future returns are not guaranteed, and a loss of original capital may occur; and (v) fluctuations in exchange rates may adversely affect the value, price or income of any security or related instrument referred to in this document. It should be noted that this document covers only those securities or companies as specified herein and does not extend to any derivative instruments thereof, the value of which may be affected by many factors and may not correspond with the value of the underlying securities. Trading in these instruments is considered risky and are not suitable for all investors. While all reasonable care has been taken to ensure that the facts stated herein are accurate and that the forward-looking statements, opinions and expectations contained herein are based on fair and reasonable assumptions, CCBIS has not been able to verify independently such facts or assumptions and CCBIS shall not be liable for the accuracy, completeness or correctness thereof and no representation or warranty is made, express or implied, in this regard. All pricing referred to in this document is as of the close of local market for the securities discussed, unless otherwise stated and for information purposes only. There is no representation that any transaction can or could have been effected at those prices, and any prices do not necessarily reflect CCBIS' internal books and records or theoretical model-based valuations and may be based on certain assumptions. Different assumptions could result in substantially different results. Any statements which may be contained herein attributed to a third-party represent CCBIS' interpretation of the data, information and/or opinions provided by that third party either publicly or through a subscription service, and such use and interpretation have not been reviewed or endorsed by the third party. Reproduction and distribution of these third party contents in any form is prohibited except with the prior written consent of such third party. The recipients must make their own assessments of the relevance, accuracy and adequacy of the information contained in this document and make such independent investigation as they may consider necessary or appropriate for such purpose. Recipients should seek independent legal, financial, accounting, business, investment and/or tax advice if they have any doubt about the contents of this document and satisfy themselves prior to making any investment decision that such investment is in line with their own investment objectives and horizons. Use of hyperlinks to other internet sites or resources (if any) as referred to in this

document is at users' own risk. They are provided solely for the purpose of convenience and information and the content of these internet sites or resources does not in any way form part of this document. The contents, accuracy, opinion expressed, and other links provided at these sites are not investigated, verified, monitored, or endorsed by CCBIS. CCBIS expressly disclaims any responsibility for and does not guarantee, represent and warrant (either express or implied) the completeness, accuracy, appropriateness, availability or security of information found on these websites. Users of these websites are solely responsible for making all enquiries, investigation and risk assessment before proceeding with any online or offline access or transaction with any of these third parties. All activities conducted by users via or at these websites are at their own risk. CCBIS does not guarantee the security of any information users may forward or be requested to provide to any third parties via these websites. Users are deemed to have irrevocably waived any claims against CCBIS for any loss or damage suffered as a result of any access to or interaction with any of these websites. Upon request CCBIS may provide specialized research products or services to certain customers focusing on the prospects for specific securities as compared with other covered securities over varying time horizons or under differing market conditions. While the views expressed in these situations may not always be directionally consistent with the long-term views expressed in the analyst's published research, CCBIS has procedures in place to prevent selective disclosure and will update the relevant readers when our views has changed. CCBIS also has procedures in place to identify and manage potential conflicts of interest that may arise in connection with its research business and services. Chinese Wall procedures are also in place to ensure that any confidential and/or price sensitive information is properly handled. CCBIS will use its best endeavors to comply with the relevant laws and regulations in this respect. Nevertheless, the recipients should be aware that CCB, CCBIS, their affiliates and/or their officers, directors and employees may do business with the issuer(s) of the securities covered in this document, including investment banking business or direct investment business or may hold interest in (and/or later add or dispose) such securities (or in any related investment) for themselves and/or on behalf of their clients from time to time. As a result, investors should be aware that CCBIS may have a conflict of interest that could affect the objectivity of this document and CCBIS will not assume any responsibility in respect thereof. Further, the information contained herein may differ or be contrary to opinions expressed by other associates of CCBIS or other members of the CCB or CCBIH group of companies. Where this document refers to any products, investments, securities, financial instruments or industry sectors, this is for the information of the institutional and professional customers of CCBIS only and this document should not be distributed to retail customers. This document is not directed at you if CCBIS is prohibited or restricted by any legislation or regulation in any jurisdiction from making it available to you. You should satisfy yourself before reading it that CCBIS is permitted to provide research material concerning investments to you and that you are permitted and entitled to receive and read the document under relevant legislation and regulations.

In particular, this document is only distributed to certain US Persons to whom CCBIS is permitted to distribute according to US securities laws, but cannot otherwise be distributed or transmitted, whether directly or indirectly, into the US or to any other US person. Any US person (as defined under the Exchange Act or the U.S. Internal Revenue Code of 1986, as amended) who is a recipient of this material wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided herein should direct such transaction exclusively to and such transaction shall be effected only through CCB International Overseas (USA), Inc.

This document also cannot be distributed or transmitted, whether directly or indirectly, into Japan and Canada and not to the general public in the People's Republic of China (for the purpose of this document, excluding Hong Kong, Macau and Taiwan) unless under applicable laws.

Any unauthorized reproduction or redistribution by any means to any persons, in whole or in part of this document is strictly prohibited and CCBIS accepts no liability whatsoever for the actions of third parties in distributing this research report. If this document has been distributed by electronic transmission, such as e-mail, then such transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. CCBIS therefore does not accept liability for any errors or omissions in the contents of this document, which may arise as a result of electronic transmission. The disclosures contained in this document prepared by CCBIS shall be governed by and construed in accordance with the laws of Hong Kong.

Distribution in Singapore: The information/research herein is prepared by CCB International Securities Limited ("CCBIS"), a foreign affiliate of CCB International (Singapore) Pte Ltd ("CCBISG") (Co. Reg. No. 201531408W). CCBISG holds a capital markets services license from the Monetary Authority of Singapore for fund management, dealing in capital market products (specifically securities and collective investment schemes) and providing custodial services, and is an Exempt Financial Adviser under the Financial Advisers Act in respect of advising others by issuing or promulgating research analysis or research reports. CCBIS may distribute information/research pursuant to an arrangement with CCBISG under Regulation 32C of the Financial Advisers Regulations. CCBIS is licensed in Hong Kong to provide such information/research reports. Singapore recipients should contact CCBISG at +65-68071880 for matters arising from, or in connection with the information distributed.

Copyright 2020 CCBIS. The signs, logos and insignia used in this research report and the company name "CCB International Securities Limited" are the registered and unregistered trademarks of CCB, CCBIH and/or CCBIS. All rights are hereby reserved. All material presented in this document, unless indicated otherwise, is under copyright to CCBIS. This document or any portion hereof may not be reproduced, sold or redistributed without the written consent of CCBIS.

CCB International Securities Limited
12/F, CCB Tower, 3 Connaught Road, Central, Hong Kong
Tel: (852) 3911 8000 / Fax: (852) 2537 0097