建银国际
CCB International

CCBI SECURITIES | RESEARCH

中国经济评论：宏观数据预计继续好转

China Economics Update: March data rebounds; continued improvement expected

Li Cui
(852) 3911 8274
cuili@ccbintl.com

三月宏观数据从一二月的低迷水平反弹。工业生产和贸易数据均有所回升。地产回暖，基建投资和部分零售走强。数据好转反映年初部分经济活动的延迟，并受益政策支持加码。

我们预计 IP，FAI 和零售数据将在未来几个月进一步改善。但短期餐饮等消费尚难全面恢复，另外贸易也可能受海外封城的影响而保持疲软。政策预计保持宽松：财政增加发债，进一步降准降息均有可能。预计信贷周期进一步上行，支持工业需求的复苏。

亚洲贸易相对全球坚挺，科技贸易进口也指向技术周期保持上行，全球疫情过后贸易复苏仍是大概率事件。

Strong macro data in Mar was driven by delayed economic activities after the lockdown, as well as policy support. IP made a broad-based improvement and trade rebounded. The property sector, infrastructure investment, and retail sales also showed some recovery. Catering and manufacturing investment, however, remained soft.

We expect further improvement in IP, FAI, and retail sales in coming months, supported by a pickup in the credit cycle and normalization of economic activities. Catering and entertainment consumption are likely to remain a drag. Trade is likely to face headwinds in the near-term due to supply disruptions abroad, but the underlying trend suggests the tech cycle is positive.

Until the global economy starts to recover and domestic consumption improves more broadly, we expect the government to leave policies accommodative, including more government bond issuance and RRR cuts, supporting a recovery in industrial demand.

Real GDP growth in China in 1Q20 declined notably to -6.8% YoY, from 6.0% YoY in 4Q19, largely in line with market consensus of -6.0% YoY. Agriculture, IT services and finance registered YoY expansion, while industries contracted. Most of the decline stemmed from the lockdown and factory closures in late Jan-Feb. Mar data showed a significant rebound in most sectors.

Data improved in Mar, with production recovering faster than demand

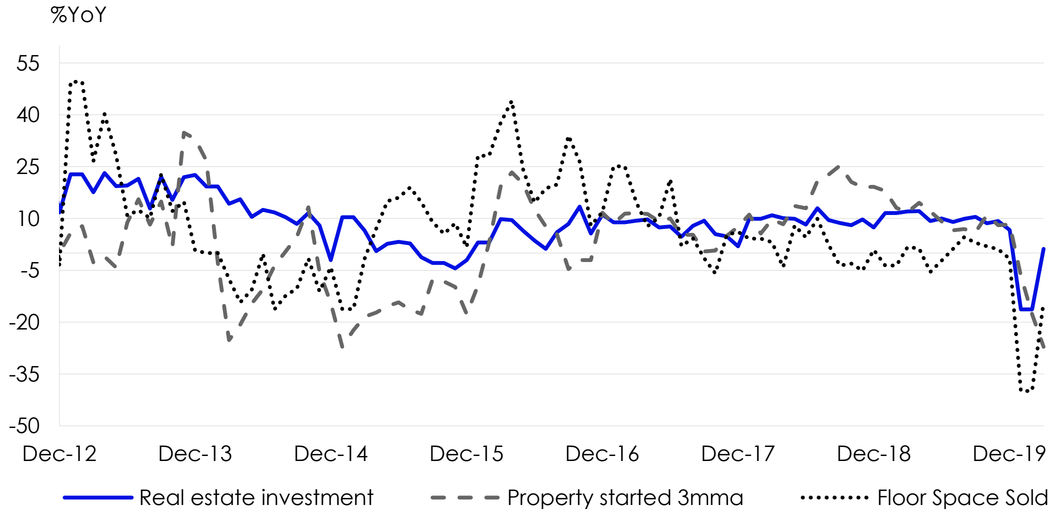
Mar 2020 industrial production growth (IP) rebounded notably to -1.1% YoY from -13.5% YoY in Jan-Feb, beating the consensus estimate of -5.8% YoY. Sequentially, IP jumped 32% MoM following a -25% MoM plunge in Feb. Available sectoral data points to a broad-based rebound, with notable improvement in pharma products, metals, and high tech products, which all returned to positive YoY growth, suggesting delayed production was behind the strong rebound in Mar. Auto production remained lower than a year ago, but the YoY decline narrowed from that in Feb.

Retail sales growth in Mar recovered to -15.8% YoY from -20.5% YoY in Jan-Feb. Goods sales improved, led by food, medicine, cultural goods, and communication products. Auto sales improved to -18.1% YoY from -37% YoY in Jan-Feb. Catering services are down 45% from a year ago and discretionary consumer goods such as home appliances and furniture remain weak. Online sales improved further, with YTD growth increasing to 6% YoY, up from 3% in Jan-Feb.

Mar FAI growth rebounded to -9.5% YoY from -24.5% YoY in Jan-Feb. Infrastructure and real estate FAI saw the most notable pickup, to -8% and 1.2% YoY in Mar, from -26.9% and -16.3 YoY in Jan-Feb. Manufacturing sector FAI is down 21% from a year ago.

The domestic property sector is catching up on lost time, with property sales and new starts both accelerating (Fig 1). Sales and new starts are down 14% and 10% from a year ago, though both have improved relative to Jan-Feb, a two-month period that saw growth plunge 30-40% YoY. Property completions also accelerated in Mar.

Fig 1: In Mar, China's property sector recovered from its plunge in Jan-Feb



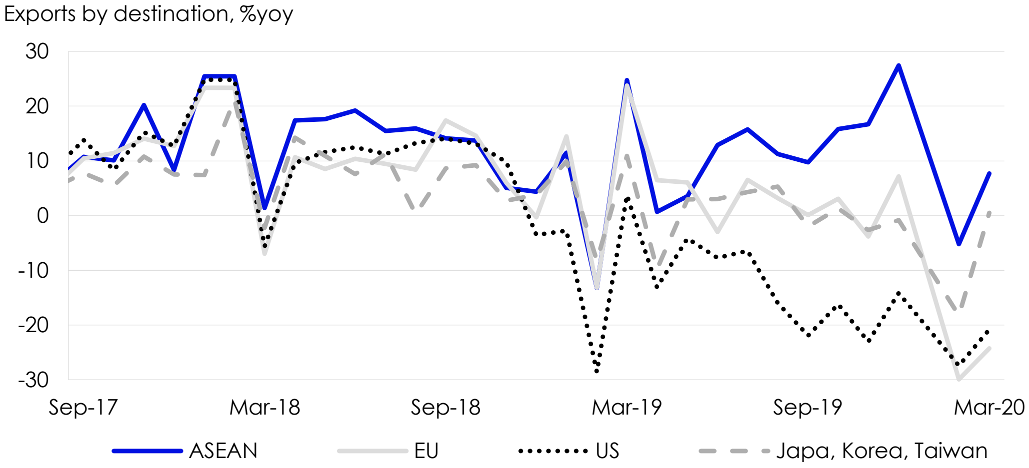
Source: CEIC and CCBIS

Cyclical improvement was supported by easing policies. Since Feb, the PBoC has cut rates and RRR while banks have lowered their LPR. Total social financing (TSF) significantly outpaced market expectations, rebounding to 11.5% YoY (10.9% at the end of 2019). Meanwhile, corporate bond issuance has accelerated as has bank credit. Issuance of government bonds and local bonds has also risen, albeit not as robustly.

Trade also improved in Mar, led by stronger regional trade and strong domestic demand

Trade recovered from its sharp decline in Jan-Feb. Export growth fell 6.6% YoY in US dollar terms in Mar, up from -17.7% YoY growth in Jan-Feb. Imports held up better, declining only slightly from a year ago, up from a -4% YoY decline in the first two months of the year. General imports held up better than processing imports pointing to a recovery in domestic demand. Exports to ASEAN and North Asia recovered strongly while sales to the US and Europe remained subdued (Fig 2). The divergence reflects the lockdowns taking place in the western economies while Asia's main exporters outside of Japan resume normal economic activity.

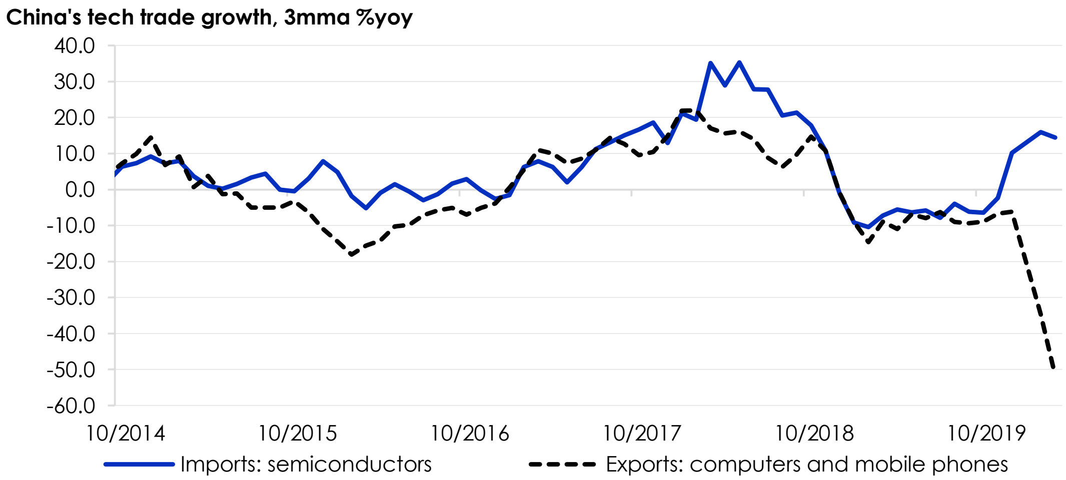
Fig 2: Exports – regional sales held up better than global sales



Source： CEIC and CCBIS

While global supply chain trade slowed, we see positive signs that a recovery later in the year is still likely. Chinese imports of semi-conductors have picked up in the last few months, in contrast to the decline by high tech products (Fig 3). We take this as a promising sign that the recovery in the tech cycle is moving in the right direction despite overseas supply disruptions that have temporarily slowed sales.

Fig 3: Impact of supply disruptions on high tech cycle likely temporary



Source： CEIC and CCBIS

Cyclical outlook and policies

High frequency indicators paint a mixed picture for Apr: electricity production continues to recover, approaching the level a year ago. Steel production is strong, suggesting continued strength in the cyclical sectors driven by domestic demand and restocking. Property sold in major cities has also continued to recover in Apr.

Meanwhile, indicators of travel and transportation are still weak; moreover, entertainment and catering consumption are likely to stay soft for longer. Trade faces headwinds given the broadening of city lockdowns in western countries, though regional trade is likely to hold up.

We anticipate further improvement in FAI, retail sales and IP growth in the coming months, but with soft trade growth. The recovery in demand will be constrained by reluctance on the part of consumers to use catering and entertainment services. The government is likely to maintain accommodative macro policies in 2Q20F, with the near-term focus on job protection. Government bond issuance is likely to pick up, and further cuts to the RRR and MLF rates are both possible. The credit cycle is likely to rise further, supporting infrastructure investment and commodity prices.

Global development remains key: recent newsflow points to stabilization in confirmed coronavirus cases in advanced economies, prompting government officials to begin planning for the reopening of their respective economies. Under a scenario of normalization of economic activities in 2H20, we would expect global and Chinese trade to rebound to positive growth in the second half, led by a positive tech cycle. Domestic policies could also become incrementally less accommodative once growth picks up.

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 marking 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

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