

## 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.

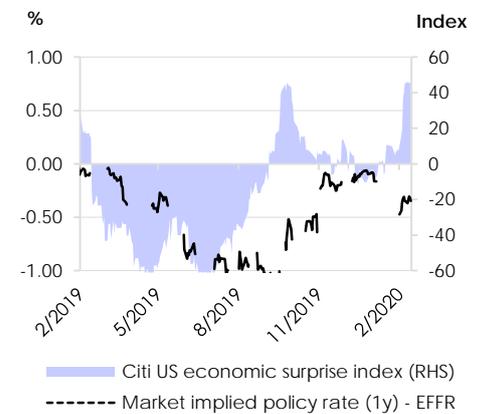
- **Fed indicates it will hold steady for a while amid downside risks from coronavirus**

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.<sup>1</sup>

- **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



<sup>†</sup> rebased to 100 for prices 21 days before the Chinese New Year. Source: CEIC, CCBIS

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<sup>1</sup> 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

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