Concerning news out of China. Hong Kong unrest, no end in sight – disruption yielding wider frustration. Beijing will be cautious, not aggressive. China July Finance data, slower growth than in recent months, reflects ongoing economic weakness. RMB weaker vs USD – no sign yet of bottoming. US tariffs now scheduled to rise (10% on $300 bln imports) Sep 1 – up to POTUS. Trade war damage is mounting. Economic risks in China remain asymmetric down. Beijing saving additional fiscal stimulus for a ‘more-rainy’ day.

We see no near-term end to Hong Kong unrest – an ongoing negative. Airport is closed. Transport, business, finance, shopping all are being disrupted. One of 3 global finance centers (NYC, LDN, HKG), an unambiguous minus. We remain negative on HK’s future – growth, jobs, investment, real estate, business. Many are waiting for PLA intervention, to make a negative case on China. We expect (armed) police, not PLA to be used to maintain/restore order. Wins – Shanghai for finance, Shenzhen for business.

July finance data weak (Loans, Shadow Finance, M2) – growth minus, bad sign. M2 growth 8.1% y/y vs. 8.5% last 3 months, below consensus (and our estimate). 2017 and 2018 were 8.1%. Is no official M2 target 2018 or 2019. Total Social Finance (TSF) 10.7% y/y, also slower, reversed last two months gains. Components -- Bank Loans and Shadow Banking also slipped. Liquidity remains ample but economic conditions weak.

Trade to watch – USTR on details of Sep 1 action (or delay); Huawei business with US corporations; Ag sales by China, rare earth elements; FDI into China. July Vehicle Sales – tiny uptick; -7% for 2019.
News Tracker – Aug 12, 2019

Yuan per USD (On vs. Off in basis point)

<table>
<thead>
<tr>
<th>Rate</th>
<th>CP Fixing</th>
<th>On-shore</th>
<th>Off-shore</th>
<th>On vs. Off</th>
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<tr>
<td>8/12/2019</td>
<td>7.0211</td>
<td>7.0592</td>
<td>7.1033</td>
<td>-41</td>
</tr>
<tr>
<td>vs. Trump</td>
<td>-3.4%</td>
<td>-3.9%</td>
<td>-4.3%</td>
<td></td>
</tr>
<tr>
<td>vs. Brexit</td>
<td>-6.3%</td>
<td>-5.8%</td>
<td>-7.3%</td>
<td></td>
</tr>
<tr>
<td>vs. 8/10/15</td>
<td>-12.9%</td>
<td>-12.0%</td>
<td>-12.5%</td>
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<td>1D Ago</td>
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<td>7.0623</td>
<td>7.0984</td>
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<tr>
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<td>7.0987</td>
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<td>-18</td>
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<tr>
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<td>6.9121</td>
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<tr>
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<td>6.8990</td>
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<td>6.5068</td>
<td>6.5143</td>
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<tr>
<td>2Y Ago</td>
<td>6.6642</td>
<td>6.6666</td>
<td>6.6766</td>
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<tr>
<td>3Y Ago</td>
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<td>6.6302</td>
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<td>-168</td>
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<tr>
<td>4Y Ago</td>
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<td>6.4341</td>
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<tr>
<td>5Y Ago</td>
<td>6.1517</td>
<td>6.1581</td>
<td>6.1595</td>
<td>-14</td>
</tr>
</tbody>
</table>

Source: Bloomberg

CURRENCY & EXCHANGE RATE

PBoC Deputy: Yuan will return to fundamentals after volatility. Yuan won’t see disorderly weakening despite external shocks, including trade friction. China will press forward with the opening of its financial markets. China will keep its exchange rate stable in spite of the currency manipulation allegations against the U.S. That label will be viewed as preposterous in the history of international finance. Continuous pressure on Fed from the US government has seriously hurt the independent and professional nature of US monetary policy. --- BBG, Aug 12

Navarro on yuan: I don’t want them to devalue their currency but they’re going to and we’re going to take strong action against them. This is how the Chinese are dealing with it and they’re hurting themselves. The US plans to have Chinese negotiators come to the U.S. --- BBG, Aug 9

Former and current US and G7 officials said that China is unlikely to face serious consequences from the Trump admin’s decision to label it a currency manipulator given the apparent lack of G7 and IMF support for the move. --- Reuters, Aug 9

DEBT & FIXED-INCOME MARKET

PBoC Deputy: China will encourage domestic bond facilities to cooperate with more overseas counterparts to help facilitate overseas investors. China will also expand market maker list for overseas institutions, fully open bond repurchasing trading and improve bond default disposal system. China’s current overall bond default rate is not high and in a normal range. --- BBG, Aug 11

ENVIRONMENT -- AIR POLLUTION

Environmental protection agency of Hebei province has summoned the leaders of three cities after they failed to control air pollution in H119. --- Reuters, Aug 11

FINANCIAL MARKET

Senior official: PBoC is close to issuing its own cryptocurrency. --- BBG, Aug 12

FOREIGN RELATIONS

Nearly 20 US organizations issued a statement against racial profiling, in response to the US government urging colleges to monitor Chinese students and scholars over fears they may be stealing information for Beijing. --- SCMP, Aug 12

HONG KONG

HKMAs spokesman: Violence in HK should be cracked down. Radical demonstrators have been attacking police in recent protests, who have conducted serious crimes and the behavior showed signs of terrorism. Behavior undermines HK’s rule of law, endangers citizens’ security and challenges HK’s stability. China supports police to strictly enforce laws. HK has come to a critical juncture; all the people who care about HK’s future should say no to violence. --- BBG, Aug 12

HK canceled remaining flights on Mon after protesters swarmed the main terminal building for a fourth day. --- BBG, Aug 12

HK Financial Secretary: Industries like retail, catering and transportation have taken a hit because of the recent violent unrest, with significant revenue drops. The depressed feeling in society is affecting consumer industries to different degrees. --- BBG, Aug 11

China Huarong International Holdings, a Chinese SOE, is said to have told workers on Fri to choose airlines other than Cathay or its Dragon Air unit. --- BBG, Aug 12

MFG -- UP THE VALUE CURVE

MoCom: China will push to attract more high-tech manufacturers to set up in China. --- Reuters, Aug 9

STATE OWNED ENTERPRISES (SOE)

The national oil & gas pipeline company is said to start operation no later than Sep. --- CSI, BBG, Aug 12
Jul Vehicle Sales 1.81 mln units, vs. 2.06 in Jun, 1.91 in May, and 1.98 in Apr. Data very seasonal.

- Jul -4.2% y/y, vs. May -9.6%, May -16.4%, Apr -14.6%.
- 2Q19, -13.5% y/y, vs. 1Q19 -11.3%, 4Q18 -13.0%, 3Q18 -7.0%.
- 2018 -3.1% to 28.0 mln, vs. 2017 +3.6%, 2016 +13.7%, 2015 +4.6%.

Passenger Vehicles
- Jul -3.9% y/y, 13th consecutive negative growth, after Jun -7.8%, May -17.4%, Apr -17.7%.
- 2Q19, -14.3% y/y, vs. 1Q19 -13.8%, 4Q18 -15.0%, 3Q18 -7.7%. 2018, -4.3% y/y.
- SA’d m/m, Jul +1.0% m/m, vs. Jun +8.0%. (Jan=Feb before SA)

Commercial Vehicles
- Jul -6.2% y/y, vs. Jun -17.8%, May -11.8%, Apr +0.4%.
- 2Q19 -9.7% y/y, vs. 1Q19 +2.4%, 4Q18 +0.9%, 3Q18 -2.4%. 2018, +4.1% y/y.
- SA’d m/m, Jul +0.5% m/m, vs. Jun -1.8%. (Jan=Feb before SA)

Note. CAAM Vehicle ‘sales’ are actually deliveries from producers to dealers, not sales to end consumers.
‘TSF’ is Beijing label -- ‘Total Social Financing’

Designed to capture all ‘non-gov’t’ financing (so not just bank lending) for individuals and non-financial enterprises (the ‘real economy’).

A useful metric?

Revisions and expansions happened without revising history far back. Slight internal inconsistency. Originally 7 components, 3 added in 2018.

L/T trend would be instructive if had historically consistent data.

3 of 7 components make up the proxy of Shadow Banking lending in China, but not exhaustive – so an underestimate.

- Entrusted Loans
- Trust Loans
- Undiscounted Bankers Bills
Note: This includes lending to financial institutions.

Net New RMB Bank Loans in Jul were 1060 bln yuan, vs. Jun 1660 bln, May 1180 bln, Apr 1020 bln. Jul, -26.9% y/y. Seasonal.

History – 2Q19, -7.4% y/y, 1Q19, +19.5% y/y
4Q18, +27.9% y/y
3Q18, +29.0% y/y
2Q18, +11.2% y/y
1Q18, +15.1% y/y
4Q17, -4.8% y/y
3Q17, +21.0% y/y
2Q17, +28.4% y/y
1Q17, -8.4% y/y
4Q16, +36.6% y/y
3Q16, -21.2% y/y
2Q16, +1.4% y/y
1Q16 +25.5% y/y
4Q15 -13.2% y/y
3Q15 +71.7% y/y
2Q15 +5.7% y/y
1Q15 +21.8% y/y
2018, +19.5% y/y, vs. 2017 +7.0% y/y, 2016 +7.9%, 2015 +19.8%, 2014 +10.0%.

Note. China has not announced an official aggregate loan target since 2011; unlike previous practices. Ask us for complete history.
We prefer the Net New RMB Bank Loans component of TSF on the right. Because starting in 2015, TSF has ONLY included financing to non-financial firms and households, a proxy for the real economy, and so has its RMB Bank Loans component. However, no revision was made to data before 2015, thus y/y comparison only good.
China’s M2 rose +8.1% y/y in Jul, vs. +8.5% in Jun.

2018 M2 +8.1%, vs. no explicit Target.
2017 M2 +8.1%, vs. +12.0% Target.
2016 M2 +11.3%, vs. +13.0% Target.
2015 M2 +13.3%, vs. +12.0% Target.
2014 M2 +12.2%, vs. +13.0% Target.
2013 M2 +13.6%, vs. +13.0% Target.
2012 M2 +13.8%, vs. +14.0% Target.

Jul M2 | +8.1% y/y
Our Call | +8.5% y/y
Consensus | +8.4% y/y

Data Note: Starting in October 2011 PBoC expanded its definition of M2, but failed to revise historical numbers -- or to describe the nature of the revisions. As a result, calculated and reported % Y/Y growth were discontinuous for much of 2012, but synced up after a year.

See breakdown of China Money Supply next page; ask us for data.
Jul CPI at +2.8% Y/Y

Jul CPI at +2.8% y/y, vs. +2.7% in Jun, with prices +0.4% m/m, vs. -0.1% in Jun.

• Food CPI at +9.1% y/y, vs. +8.3% in Jun. +0.9% m/m, vs. +0.1% a year ago.

• Non-food CPI at +1.3% y/y, vs. +1.4% in Jun. +0.3% m/m, vs. -0.1% in Jun.

Ask us for details.
Jul PPI -0.3% Y/Y

Jul PPI was -0.3% y/y, vs. flat in Jun, +0.6% in May.

First negative growth in 35 months, following 54 negative ones. Also the 3rd month of weakening since 0.9% in Apr. Prices in Jul was -0.2% m/m, vs. -0.3% in Jun, and +0.1% a year ago.
Endemic African Swine Fever (no danger to human) in China is forcing pig farms, mostly small and family-owned, to cull pigs in massive scale. At least 1/3 of total stock as of mid 2018 has been and will be erased, size of EU’s. Given pork’s dominance in Chinese consumption of livestock and the slow change in eating habit, prices of pork and its close substitutes (beef, mutton, chicken) are set to rise further, driving Food CPI to 13.4% y/y by Dec 2019, and take headline CPI to 3.9%. Ag ministry in Apr said citing experts saying that pork price could rise 70% y/y in 2H2019. Potential extra foreign supply of pork and its substitutes can far from making up this pork shortage. But nonetheless it implies a rare business opportunity for suppliers of alternatives.
China CPI – Pork and Other Animal Protein

China Consumption of Animal Protein per Capita

<table>
<thead>
<tr>
<th>kg/year</th>
<th>Meat</th>
<th>(non-exhaustive)</th>
<th>Poultry</th>
<th>Aquatic Product</th>
<th>Eggs and Product</th>
<th>Milk and Product</th>
<th>Total</th>
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<td>25.6</td>
<td>19.8</td>
<td>1.5</td>
<td>0.9</td>
<td>7.2</td>
<td>10.4</td>
<td>8.2</td>
</tr>
<tr>
<td>2014</td>
<td>25.6</td>
<td>20.0</td>
<td>1.5</td>
<td>1.0</td>
<td>8.0</td>
<td>10.8</td>
<td>8.6</td>
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<tr>
<td>2015</td>
<td>26.2</td>
<td>20.1</td>
<td>1.6</td>
<td>1.2</td>
<td>8.4</td>
<td>11.2</td>
<td>9.5</td>
</tr>
<tr>
<td>2016</td>
<td>26.1</td>
<td>19.6</td>
<td>1.8</td>
<td>1.5</td>
<td>9.1</td>
<td>11.4</td>
<td>9.7</td>
</tr>
<tr>
<td>2017</td>
<td>26.7</td>
<td>20.1</td>
<td>1.9</td>
<td>1.3</td>
<td>8.9</td>
<td>11.5</td>
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Urban China

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<td>28.5</td>
<td>20.4</td>
<td>2.2</td>
<td>1.1</td>
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<td>14.0</td>
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<td>2017</td>
<td>29.2</td>
<td>20.6</td>
<td>2.6</td>
<td>1.6</td>
<td>9.7</td>
<td>14.8</td>
<td>10.9</td>
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Rural China

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<tr>
<td>2013</td>
<td>22.4</td>
<td>19.1</td>
<td>0.8</td>
<td>0.7</td>
<td>6.2</td>
<td>6.6</td>
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<tr>
<td>2017</td>
<td>23.6</td>
<td>19.5</td>
<td>0.9</td>
<td>1.0</td>
<td>7.9</td>
<td>7.4</td>
<td>8.9</td>
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</tbody>
</table>

Donald Straszheim
donald.straszheim@evercoreisi.com

310.473.4051
8/12/2019
China NBS releases headline CPI, Food CPI, non-Food CPI, Core CPI (excl. food and energy); NO non-Core, no Energy. We use the first three to estimate Food’s weight, and then use headline, Food, Core, and a separate official Vehicle Fuel CPI to estimate Energy. Result is Food 20%, Core 77% and Energy 3%. China’s fuel price is heavily controlled by gov’t with formula, subsidies, etc.
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BANKS, BANKING & LOANS, DEBT
Gov't of Shandong province will become the biggest shareholder of Hengfeng Bank after injecting 30 bln yuan, and Central Huijin Investment will become a strategic investor which holds a stake of lower than 20%. — Caixin, BBG, Aug 9

CHINESE BUSINESS OVERSEAS
Trump: We are not going to do business with Huawei... And I really made the decision. It's much simpler not doing any business with Huawei... That doesn't mean we won't agree to something if and when we make a trade deal. — CNBC, Aug 9

The White House is said to be holding off on a decision about licenses for US companies to restart business with Huawei after Beijing said it was halting purchases of US farming goods. — BBG, Aug 9

Governor said that Huawei plans to build an S800 mln plant in Sao Paulo state over the next three years, and Huawei was gearing up to build the plant to attend to Brazil's first 5G spectrum auction, which is scheduled for March 2020. — Reuters, Aug 9

CURRENCY & EXCHANGE RATE
Trump said he won't devalue USD, and if the Federal Reserve were to cut interest rates it would automatically bring down the dollar a little bit, relieving pressure on exporters. — BBG, Aug 9

IMF China report on yuan: The exchange rate should remain flexible and market determined to help absorb the tariff shock. Greater depreciation pressures and potential capital outflows will call for clear public communication and possible FX intervention to counter disorderly market conditions. — BBG, Aug 9

PBoC said it will enhance macro-prudential management of the foreign exchange market as needed to stabilize investors’ expectations, and to maintain yuan exchange rate basically stable at equilibrium level. — BBG, Aug 9

Deputy of SAFE: Better yields and lower risks for China's bond assets has lowered the chance of cross-border capital fluctuation in the short term. Supply and demand in the Chinese forex market is balanced, with a net inflow of foreign capital. Labeling China as a currency manipulator is part of the U.S.'s strategy in the trade dispute. The label is an irresponsible unilateral definition. — CCTV, BBG, Aug 9

PBoC advisor: China is currently more capable of keeping yuan stable at a reasonable and equilibrium level, compared to Aug 2015 when the currency experienced a round of deprecation against the USD. Many enterprises and financial institutions have become used to two-way fluctuation in yuan in the past few years. — Financial News, BBG, Aug 9

EQUITIES – CHINA
CSRC scraps regulatory margin requirement for stock trading, allowing clients and securities brokers to negotiate the threshold among themselves and margin traders to use more types of collateral to obtain funding, and raises number of domestic A shares eligible for margin funding and securities lending to 1,600 from 950. — BBG, Aug 9

FOREIGN RELATIONS
Trump on US-China trade talk: We'll see whether or not we keep our meeting in September. If we do, that's fine. If we don't, that's fine. We're doing very well with China. We're talking to China. We're not ready to make a deal but we'll see what happens. China wants to do something, but I'm not doing anything yet. Twenty-five years of abuse. I'm not ready so fast. — CNBC, BBG, Aug 9

USDA confirmed that China bought a small amount of wheat, sorghum, pork, and soybeans in the week ended Aug 1. — Reuters, Aug 9

President Maduro said a Venezuelan oil joint venture with CNPC has started an expansion project to boost output to 165,000 bpd from a current capacity of 110,000 bpd. — Reuters, Aug 8

HONG KONG
HK's chief executive Lam: HK’s economic downward pressure is worse than SARS and the global financial crisis. — BBG, Aug 9

HK's chief executive Lam said the govt is considering bold measures to shore up the faltering economy, and the measures would cover a variety of livelihood issues including housing. — BBG, Aug 9

US State Dept spokeswoman called China a “thuggish regime” for disclosing the photographs and personal details of a US diplomat who met with student leaders of HK’s pro-democracy movement. — Reuters, Aug 9

CAA: Cathay employees who supported and took part in illegal protests are to be suspended from duty on flights to the mainland from Aug 10. Cathay is required to submit information of crew members of flights to mainland for verification from Aug 11. — BBG, Aug 9
MONETARY POLICY & INTEREST RATES
PBoC skipped reverse repo for a 14th day, and said liquidity is reasonably ample. --- BBG, Aug 9

PROPERTY & LAND MARKETS, HOUSING
CBIRC has launched an inspection at some commercial banks in 32 cities to determine if loans have been used illegally to fund property investment. --- Reuters, Aug 9
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