December 31, 2019

China Research

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China -- Some PMI Bright Spots But Challenging 2020

Mfg PMI, Dec unchanged at 50.2 ending a challenging year, but with room for optimism with US-China trade-war progress underway. Dec PMI upticks in Production, New Export Orders and Inventories (lower). But, no upside surprise for markets today.

Service PMI, Dec downtick to 53.0. Still Services stronger than Mfg but not driving growth as fast as in prior years. The Construction PMI, Dec downtick and weakest in 4 years. Leaves room for more infrastructure stimulus – which is underway, ongoing.

China's economy is not accelerating significantly. We expect Real GDP growth at 5.8% = 2020, from 6.1% = 2019. The Copper price run-up over the last three months is not a strong-economy signal in our view. There have been 11 similar-sized moves in copper prices in the last 4 years.

• We are expecting RRR cut, 100 bps, around Jan 10. Pre Lunar New Year Jan 25 (China holiday Jan 24-30). No MLF rate cut in near future; no maturities (rollovers) until Apr 17, 2020.
• More infrastructure announcements month-by-month, economic support. But no economic emergency.
• China equities (Shanghai, Shenzhen) in 2019, big plusses essentially erased 2018 big losses. SH closed year 3050, highest since Apr 2019, but still lacking enthusiasm.
• China corporate sector was hurt the most in 2019, and focus of Beijing’s attention in 2020. Multiple announcements from Beijing officialdom geared to supporting confidence
• Trade deal coming, Phase 1, with minister-level signing by mid-January expected. In the market. Progress not perfection.
• Phase 1, mostly low-hanging fruit, with some specific and some fuzzy language. We expect Phase 2 to yield minimal further progress in US-China trade relations.
• US Ag export targets (to China; $40 bln) in 2021 are doable. Targets for Services and Other Goods (to China; another $80 bln) in 2021, less certain.

This report is prepared solely for the use of Elizabeth Germack
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>12/31/2019</td>
<td>6.9762</td>
<td>6.9599</td>
<td>6.9620</td>
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<tr>
<td>vs. Trump</td>
<td>-2.8%</td>
<td>-2.5%</td>
<td>-2.4%</td>
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<tr>
<td>vs. Brexit</td>
<td>-5.7%</td>
<td>-5.4%</td>
<td>-5.4%</td>
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<tr>
<td>vs. 8/10/15</td>
<td>+12.3%</td>
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<td>End-2017</td>
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<td>6.5068</td>
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<td>-75</td>
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<tr>
<td>2Y Ago</td>
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<td>5Y Ago</td>
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<td>6.2055</td>
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</table>

Source: Bloomberg

**INFRASTRUCTURE -- RAILROADS**

NDRC approved a 33.9 bln yuan high-speed railway linking Inner Mongolia and Shanxi seeking to boost local economy. --- BBG, Dec 31

**MONETARY POLICY & INTEREST RATES**

PBoC skipped reverse repo for a 6th day, saying liquidity in the banking system is at a relatively high level as fiscal spending increases at year-end. --- BBG, Dec 31

**TAIWAN**

Taiwan’s parliament passed an anti-infiltration law to combat perceived threats from China. --- Reuters, Dec 31

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**BANKS, BANKING & LOANS, DEBT**

CBIRC approved three asset management companies (AMCs) in Beijing, Changsha and Chengdu to participate in non-performing asset transfer, increasing total number of local AMCs to 56. --- SSN, BBG, Dec 31

**CURRENCY & EXCHANGE RATE**

China will adjust currency weighting in CFEETS RMB Index, with USD weighting to be at 0.2159 vs. the current 0.2240. The adjustment will be effective from Jan 1 2020. --- BBG, Dec 31

**ENERGY -- OIL**

MoCom has raised the volumes of its first batch of 2020 fuel export quotas by 53% from a year earlier to 27.99 mln tonnes. --- Reuters, Dec 31

**FOREIGN BUSINESSES IN CHINA**

JP Morgan is said to be seeking 100% ownership of its futures joint venture in China. --- Reuters, Dec 31

**FOREIGN RELATIONS**

Navarro said the US-China Phase One trade deal would likely be signed in the next week, but said confirmation would come from Trump or Lighthizer. --- Reuters, Dec 31

Foreign Minister Wang met Iranian counterpart in Beijing, and said that two countries must maintain regular communication and stand together against unilateralism and bullying. --- BBG, Dec 31
Dec 2019 NBS PMIs

NBS Mfg PMI: **Dec 50.2**, vs. Nov 50.2, a 8-month high then, Oct 49.3, Sep 49.8, Aug 49.5, Jul 49.7, and Feb 49.2, a 3-year low then, (Sep 2017 was 52.4, the highest since Apr 2012, May 2018 was 51.9, second highest.)

NBS' sample biased toward state-owned and bigger companies.

Markit Mfg PMI: **Dec reading scheduled for evening of Jan 1, Wednesday.**

NBS Non-mfg PMI, two components; Construction Index and Service Index.

Approx. weights, Services 85%. Construction 15%.

NBS Non-mfg PMI: **Dec 53.5**, vs. Nov 54.4, a 8-month high then, Oct 52.8, the lowest since Feb 2016, Sep 53.7, Aug 53.8, Jul 53.7.

- **NBS Services PMI: Dec 53.0**, vs. Nov 53.5, Oct 51.4, a record low, Sep 53.0, Aug 52.5, Jul 52.9.
- **NBS Construction PMI: Dec 56.7**, a 46-month low, vs. Nov 59.6, Oct 60.4, Sep 57.6, Aug 61.2, Jul 58.2.

Markit Services PMI: **Dec reading scheduled for evening of Jan 5, Sunday.**

Service sector -- growing in importance. Beijing wants more jobs here with lingering trade war woe, capacity cuts, and economy restructuring.
Nov INDUSTRIAL Revenue & Profit

Includes both SOEs and private owned cos.

Industrial Revenue
Nov YTD (reported), +4.4% y/y, vs. Oct YTD +4.2%, +9.1% in 2018, +11.4% in 2017, +4.4% in 2016, +1.0% in 2015, +7.2% in 2014, and +11.2% in 2013.
(Note, calculated ≠ reported. Ask us for data.)

Industrial Profits
Nov (reported), +5.4% y/y, vs. Oct -9.9%, Sep -5.3%, Aug -2.05, and Jul +2.6%.
Nov YTD (reported), -2.1% y/y, vs. Oct YTD -2.9%, +11.8% in 2018, +21.9% in 2017, +9.4% in 2016, -1.9% in 2015, +5.3% in 2014, and +13.2% in 2013.

Profit margin
Profit margin Nov YTD 5.9%, vs. 6.5% in 2018, 6.4% in 2017, 5.9% in 2016, 5.6% in 2015, 5.7% in 2014, 5.8% in 2013, 5.7% in 2012, and 6.1% in 2011.

Data Note:
(1) Data from NBS. Various changes in reporting sample. Ask us.
(2) Caution. Little detail on these data are available – coverage, sample size, survey methodology. And, basic questions (doubts) about the source data themselves.
Nov SOE Revenue & Profit

Including SOEs in all industries, not only industrial.

*Note: Data is suspect for substandard quality. For reference only.*

### SOE Revenue

Nov was +1.4% y/y, vs. Oct +8.2%.

Nov YTD, +6.2% y/y, vs. +12.3% in 2018, +14.6% in 2017, +0.3% in 2016, -6.3% in 2015, +3.5% in 2014, +10.5% in 2013.

### SOE Profit

Nov was +9.5% y/y, vs. Oct -1.2%.

Nov YTD, +5.2% y/y, vs. +16.9% in 2018, +23.3% in 2017, +3.3% in 2016, -8.8% in 2015, +4.2% in 2014, +10.5% in 2013.
Nov Macau Visitor Arrivals (Multi-day Stay)

2 best Macau data
• Gaming Revenue
• Visitors (here)

Seasonally adjusted
Nov, -4.7% m/m, vs. -0.2% in Oct, -2.0% in Sep, -3.8% in Aug, and -2.9% in Jul.
Nov, -11.4% y/y, vs. Oct, -4.8%. YTD, +2.4% y/y.

2018 = +7% y/y
2010 = +15% y/y

All-time High. But not biggest spenders
Singapore, Malaysia, Vietnam, Philippines
gambling – serving mostly SE Asia. Korea, Japan – drawing some visitors.
Tokyo -- great future
Vegas – US and overseas

Visitors, revenues -- driven by hotel capacity.

Gaming Revenues lagging -- constraints on Party, gov’t officials

Note. Multi-day travelers (not day-trippers) drive gaming and lodging
Who are they? Most are Chinese, middle-class and above
Visitor origin, in 2018. 72% from mainland. 18% from Hong Kong, Taiwan. 10% from ‘rest of world.’
Yuan’s share as an int’l payment currency rose to 1.93% in Nov, vs. 1.65 in Oct, 1.95% in Sep, and 2.09% a year ago.
Now ranked #5, vs. #20 in Jan 2012.
Peaked at 2.79% and was ranked #4 in Aug 2015.

The SWIFT RMB Tracker provides key statistics on Chinese Renminbi (RMB)’s progress towards becoming an international currency.

These statistics -- calculated using the value of customer initiated and institutional payments (inbound and outbound traffic) made via SWIFT only.

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12/31/2019
News Tracker – Dec 30, 2019

**AGRICULTURE**
MoCo: China will release more frozen pork from its reserves ahead of the upcoming New Year and Lunar New Year holidays. — CCTV, Reuters, Dec 29

**AUTOS & ALL VEHICLES**
MoCo: Exports of NEVs are expected to keep growing rapidly in the next few years. Second-hand car exports are expected to rise rapidly to hundreds of thousands of units annually within 3-5 years. — BBG, Dec 30
Spotlight Automotive, a NEV venture of Great Wall Motor and BMW, got business license in China. — BBG, Dec 30

**CHINESE BUSINESS OVERSEAS**
Huawei: The Indian govt has allowed Huawei to participate in trials for 5G networks. — Reuters, Dec 30

**FINANCIAL MARKET**
A draft revision to China’s Securities Law was adopted by NPC Standing Committee, and will be effective on Mar 1. The revised law has 14 chapters, outlining regulation details in securities issuance and trading, the takeover of listed companies, information disclosure as well as investor protection, and highlights rules on the Star board, which will pilot a registration-based IPO system. — Xinhua, Dec 30

PBoC said it will roll out supervisory rules on blockchain and personal financial information protection in 2020. — BBG, Dec 30

**HONG KONG**
HK Financial Secretary: Based on the situation of these few months, it is inevitable that negative growth will continue. This means the govt will be less flexible in using financial resources under an economic recession. — BBG, Dec 30

Deputy chief of HKMA: Financial market in HK remains stable even if the city’s unrest in the past six months has inevitably affected its economy. Even if there were fund outflows, they were still a normal event for an international financial center, and HK can cope with the situation with ample liquidity in its banking system. — BBG, Dec 30

Wheelock Properties will donate 500,000 square feet of land in the New Territories and Lantau Island to non-govt organizations for social housing. — BBG, Dec 30

**MONETARY POLICY & INTEREST RATES**
PBoC: China will adjust interest rate benchmark for outstanding floating rate loans based on loan prime rate (LPR) in 2020. — Xinhua, BBG, Dec 30

PBoC skipped reverse repo for a 5th day, saying liquidity in the banking system is at a relatively high level as fiscal spending increases at year-end. — BBG, Dec 30

**TAIWAN**
NPC is said to have approved a revised law to simplify procedures for investments by companies and residents of Taiwan. The changes are needed to match a new foreign investment law, passed earlier this year. — China News, BBG, Dec 30

**FOREIGN RELATIONS**
Liu He is said to lead a delegation to Washington this Sat, where he is expected to sign a Phase One trade deal. The Chinese delegation is expected to stay in the U.S. until the middle of next week. — SCMP, BBG, Dec 30

Navarro on US-China trade deal: We’ll probably have a signing on that within the next week or so – we’re just waiting for the translation. — Fox, Reuters, Dec 30

**FOREIGN TRADE**
China approved new strains of genetically modified (GM) soybeans and papaya for imports and renewed permits for 10 crop varieties, including corn and canola. — BBG, Dec 30

USDA: Another 177 poultry facilities including processing plants and cold storage units were approved to ship chicken to China. — BBG, Dec 28
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