Pulling Back on Monetary Stimulus; Inflation Gone

After a period real monetary accommodation thru October, and better economic data monthly, we believe Beijing has turned the corner with less stimulus in 2021 than 2020.

Watch loan growth (albeit not to the exclusion of all else). Loan growth was +20% y/y in early 2019 (12mms), slowed to 3% y/y in early 2020 and is back up to 19% now. Their judgment; that’s enough. We expect loan growth in 2H21 will be down to 12%. No credit crunch, but 20% is not equilibrium. China equity investors saw the slower y/y gains in Nov and backed away.

We still expect corp and gov’t bond financing growth to be robust into 2021, but with the edge off. Shadow banking, still contracting. M2 growth was 10.7% in Nov, up about 2 pct points from this time last year. We look for M2 growth to also slow.

PLEASE do not forward
We believe this will leave adequate financing for China in 2021. We remain strongly bullish on China. Real GDP up 6% y/y in 4Q20 and 8.5% y/y in 2021. Housing finance will be fine; same for consumer and industrial credit presuming the basics are OK. Trade will drive China higher in 2021. Watch the ‘rest-of-world’ and how they perform.

China’s inflation numbers looked like those elsewhere. CPI -0.6% m/m, and down to -0.5% y/y in Nov, first minus since 2009. Food prices, a problem (pork and other meats) earlier in 2020, now negative. The PPI ticked up in Nov, +0.5% m/m, reflecting some stronger metals prices. But the pricing data sends an unambiguous message again – inflation is not an issue in China, leaving monetary and fiscal policy choices to be driven by growth, debt and leverage considerations.

To us, China remains the standout growth story for 2021 – ahead of all others on coronavirus control and on business returning to something that looks relatively normal.

The US-China linkages are likely to be tested further over the next six weeks or so. More steps to ‘hold China accountable’ get put into place almost daily. The reset after Jan 20, 2021 we believe will take months (really years). Think full review, not piecemeal steps here and patches there.
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>
</tr>
</thead>
<tbody>
<tr>
<td>vs. Trump</td>
<td>3.8%</td>
<td>3.8%</td>
<td>4.3%</td>
<td></td>
</tr>
<tr>
<td>vs. Brexit</td>
<td>0.7%</td>
<td>0.7%</td>
<td>1.1%</td>
<td></td>
</tr>
<tr>
<td>vs. 8/10/15</td>
<td>-6.4%</td>
<td>-5.0%</td>
<td>-4.6%</td>
<td></td>
</tr>
<tr>
<td>1D Ago</td>
<td>6.5320</td>
<td>6.5332</td>
<td>6.5202</td>
<td>130</td>
</tr>
<tr>
<td>2D Ago</td>
<td>6.5362</td>
<td>6.5298</td>
<td>6.5196</td>
<td>102</td>
</tr>
<tr>
<td>3D Ago</td>
<td>6.5507</td>
<td>6.5315</td>
<td>6.5173</td>
<td>142</td>
</tr>
<tr>
<td>4D Ago</td>
<td>6.5507</td>
<td>6.5429</td>
<td>6.5356</td>
<td>73</td>
</tr>
<tr>
<td>5D Ago</td>
<td>6.5507</td>
<td>6.5630</td>
<td>6.5436</td>
<td>194</td>
</tr>
<tr>
<td>1M Ago</td>
<td>6.6123</td>
<td>6.6295</td>
<td>6.6163</td>
<td>132</td>
</tr>
<tr>
<td>3M Ago</td>
<td>6.8423</td>
<td>6.8333</td>
<td>6.8317</td>
<td>16</td>
</tr>
<tr>
<td>6M Ago</td>
<td>7.0711</td>
<td>7.0773</td>
<td>7.0766</td>
<td>7</td>
</tr>
<tr>
<td>1Y Ago</td>
<td>7.0405</td>
<td>7.0392</td>
<td>7.0369</td>
<td>23</td>
</tr>
<tr>
<td>End-2018</td>
<td>6.8632</td>
<td>6.8795</td>
<td>6.8706</td>
<td>79</td>
</tr>
<tr>
<td>2Y Ago</td>
<td>6.8664</td>
<td>6.8743</td>
<td>6.8850</td>
<td>-107</td>
</tr>
<tr>
<td>3Y Ago</td>
<td>6.6218</td>
<td>6.6209</td>
<td>6.6238</td>
<td>-29</td>
</tr>
<tr>
<td>4Y Ago</td>
<td>6.8972</td>
<td>6.9080</td>
<td>6.9282</td>
<td>-202</td>
</tr>
<tr>
<td>5Y Ago</td>
<td>6.4140</td>
<td>6.4277</td>
<td>6.5068</td>
<td>-791</td>
</tr>
</tbody>
</table>

Source: Bloomberg

**ENERGY -- COAL**

NDRC official: Coal’s role as China’s dominant energy source won’t change in the short term, although the industry is expected to hasten its supply-side reforms, including more consolidation and integration with clean energy. China will build more coal reserves to stabilize the market, even as it expects demand for the fuel to fall over the next five years. --- Reuters, Dec 8

**ENERGY & ENVIRONMENT**

Governor Yi: PBoC will focus on new priorities to better support green recovery and green transition. Improving green finance standards to support the carbon-neutrality objective. Consider introducing mandatory requirements for financial institutions to disclose environment-related information. Enhance capacity for analyzing and managing environmental and climate risk. Provide easier access for international investors to China’s green-finance market. --- BBG, Dec 9

**FOREIGN RELATIONS**

Top US military commander: China is seeking to invest its economic growth into equaling American military capabilities by 2035 and aims to be able to defeat the U.S. in an armed conflict by midcentury. --- WSI, Dec 9

US Treasury Dept sanctioned six companies, including four Chinese firms and four ships they own, that officials said show China’s gov’t is failing to adequately enforce United Nations sanctions against North Korea. --- WSI, Dec 9

Foreign Ministry: China will take measures to uphold the rights of Chinese companies. China has been fulfilling United Nations Security Council resolutions and opposes unilateral sanctions by any country. --- Reuters, Dec 9

Rabio and Jim McGovera sent letters to Intel Corp and Nvidia Corp seeking information on the sale of advanced computer chips allegedly used by China to conduct mass surveillance on Uighurs in Xinjiang. --- Reuters, Dec 9

Sullivan, who will become national security adviser in Biden admin., said he was deeply concerned about the imprisonment of pro-democracy activists in Hong Kong. --- FT, Dec 9

Former Democratic presidential candidate Pete Buttigieg is said to head for China as the incoming Biden admin’s ambassador to Beijing. --- Axios, SCMP, Dec 9

Australia has accused China of going against the letter and spirit of their bilateral free-trade agreement. Chinese trade officials are already seen as unlikely to reassert their bilateral free trade agreement with Australia this month as outlined in the deal. --- SCMP, Dec 9

---

**HEALTHCARE & ELDERLY CARE**

China’s state-backed coronavirus vaccine protected 86% of people against Covid 19 in trials conducted in the United Arab Emirates. --- BBG, Dec 9

Uganda approved a request by Chinese residents to import 4,000 doses of a Covid 19 vaccine from China for their own use. --- BBG, Dec 9

**HONG KONG**

HK Lam is said to start annual duty visit to Beijing early next week, and is expected to meet Xi and PM Li as usual during her visit, which will last three to four days. --- HK01, BBG, Dec 9

HK Lam: We now have a better and more stable environment for business to flourish. After a full year of chaotic situations, law and order has been restored. --- BBG, Dec 9

**OUTBOUND INVESTMENT**

Tianqi Lithium is selling a 25% stake in Australia’s largest lithium mine, in a $1.4 bln transaction. --- FT, Dec 9
Nov PPI was -1.5% y/y, vs. -2.1% in Oct, -2.1% in Sep.

Prices in Nov was +0.5% m/m, vs. flat in Oct, +0.1% in Sep, +0.3% in Aug.

We expect the drop to narrow slightly to around -1.1% y/y by the year end.
Nov CPI at -0.5% Y/Y, vs. +0.5% in Oct, with prices -0.6% m/m, vs. -0.3% in Oct.

- Nov Food CPI was -2.0% y/y, vs. +2.2% in Oct. -2.4% m/m, vs. -1.8% in Oct.
- Nov Non-food CPI was -0.1% y/y, vs. flat in Oct. -0.1% m/m, vs. +0.1% in Oct.

Ask us for details.
China CPI – Pork and Other Animal Protein

China Food CPI and Meat Prices

% Y/Y
200
150
100
50
0
-50

Food CPI Headline
Oct: 2.2

Beef
Oct: 8.6
Lamb
Oct: 4.0
Pork
Oct: -4.2
Chicken
Oct: 0.3

China Consumption of Animal Protein per Capita

<table>
<thead>
<tr>
<th>kg/year</th>
<th>Meat (non-exhaustive)</th>
<th>Poultry</th>
<th>Aquatic Product</th>
<th>Eggs and Product</th>
<th>Milk and Product</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pork</td>
<td>Beef</td>
<td>Mutton</td>
<td>Poultry</td>
<td>Aquatic Product</td>
<td>Eggs and Product</td>
</tr>
<tr>
<td>2013</td>
<td>25.6</td>
<td>19.8</td>
<td>1.5</td>
<td>0.9</td>
<td>7.2</td>
<td>10.4</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>
</tr>
<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>
</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>
</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>
</tr>
<tr>
<td>2018</td>
<td>29.5</td>
<td>22.8</td>
<td>2.0</td>
<td>1.3</td>
<td>9.0</td>
<td>11.4</td>
</tr>
<tr>
<td>2019</td>
<td>26.9</td>
<td>20.3</td>
<td>2.2</td>
<td>1.2</td>
<td>10.8</td>
<td>13.6</td>
</tr>
</tbody>
</table>

Urban China

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>28.5</td>
<td>20.4</td>
<td>2.2</td>
<td>1.1</td>
<td>8.1</td>
<td>14.0</td>
<td>9.4</td>
<td>17.1</td>
<td>77.1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>28.7</td>
<td>20.3</td>
<td>2.9</td>
<td>1.4</td>
<td>11.4</td>
<td>16.7</td>
<td>11.5</td>
<td>16.7</td>
<td>85.0</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Rural China

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<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>
<td>7.0</td>
<td>5.7</td>
<td>47.8</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>24.7</td>
<td>20.2</td>
<td>1.2</td>
<td>1.0</td>
<td>10.0</td>
<td>9.6</td>
<td>9.6</td>
<td>7.3</td>
<td>61.1</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

donald.straszheim@evercoreisi.com

PLEASE do not forward
Survey shows: Seasonally adjusted, Chinese hiring confidence is 5.0% for 1Q21. Decade low of 2.0% in 3Q16.

Manpower said, “Overall, a mild national hiring climate is projected in the coming quarter, most employers are still conscious of the huge impact of COVID-19 and the increasingly complicated domestic and international environment. The optimistic Outlook is that China is taking more steps to further facilitate investment and spur growth”

Note. Manpower does hiring intentions surveys for many countries around the world – including China. The surveys measure employers plans to hire in the coming quarter vs. those who plan to cut (“increase” MINUS “decrease”)
Total Social Financing (TSF) and Breakdown

End 2019 Share in TSF Outstanding

Yuan Loan 60%
Shadow Banking 9%
Corp Bonds 9%
Gov’t Bonds 15%
All Other 6% (not shown)


By Dec 2020, our estimate.

TSF = 14.0%. Higher by policy.
Shadow Banking; less restraint.
Corp Bonds; stronger.
Gov’t Bonds; maintain strength
Yuan Loans; maintain strength

‘TSF’ is Beijing label -- ‘Total Social Financing’ To capture all ‘non-gov’t’ financing – individuals & non-financial enterprises; real econ.

Useful metric? Best available. Proxy for Shadow Banking, an underestimate.

- Entrusted Loans
- Trust Loans
- Undiscounted Bankers Bills
Nov (Headline) Net New Yuan Bank Loans

Nov New Loans: Rmb 1430 bln
Our Call: Rmb 1460 bln
Consensus: Rmb 1450 bln

**Note: This includes lending to financial institutions.**

Net New RMB Bank Loans in **Nov** were 1430 bln yuan, vs. Oct 690 bln, Sep 1900 bln, Aug 1280 bln, Jul 993 bln, Jun 1810 bln, May 1480 bln, Apr 1700 bln, Mar 2850 bln, Feb 906 bln, Jan 3340 bln.

China bank lending is highly seasonal.
Jan typically strongest month.
Feb typically weakest month.
Mar typically rebounds.
Nov, +2.9% y/y, vs. Oct +4.3%, Sep +12.4%, Aug +5.8%, Jul -6.3%, Jun +9.0%, May +25.4%, Apr +66.7%, Mar +68.6%, Jan+Feb +3.2%.
Nov YTD, +17.2% y/y.

China has not announced an official aggregate loan target since 2011; unlike previous practices.

Note. Ask us for complete history.
China’s M2 rose **+10.7% y/y** in Nov, vs. **+10.5% in Oct.**

<table>
<thead>
<tr>
<th>Nov M2</th>
<th>+10.7% y/y</th>
</tr>
</thead>
<tbody>
<tr>
<td>Our Call</td>
<td>+10.2% y/y</td>
</tr>
<tr>
<td>Consensus</td>
<td>+10.5% y/y</td>
</tr>
</tbody>
</table>

2019 M2 +8.7%, vs. no explicit Target.
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.

**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.
General Disclosures

This report is approved and/or distributed by Evercore Group L.L.C. (“Evercore Group”), a U.S. licensed broker-dealer regulated by the Financial Industry Regulatory Authority (“FINRA”) and by Evercore ISI International Limited (“ISI UK”), which is authorised and regulated in the United Kingdom by the Financial Conduct Authority. The institutional sales, trading and research businesses of Evercore Group and ISI UK collectively operate under the global marketing brand name Evercore ISI (“Evercore”). Both Evercore Group and ISI UK are subsidiaries of Evercore Inc. (“Evercore”). The trademarks, logos and service marks shown on this report are registered trademarks of Evercore Inc.

This report is provided for informational purposes only. It is not to be construed as an offer to buy or sell or a solicitation of an offer to buy or sell any financial instruments or to participate in any particular trading strategy in any jurisdiction. The information and opinions in this report were prepared by registered employees of Evercore ISI. The information herein is believed by Evercore ISI to be reliable and has been obtained from public sources believed to be reliable, but Evercore ISI makes no representation as to the accuracy or completeness of such information. Opinions, estimates and projections in this report constitute the current judgment of the author as of the date of this report. They do not necessarily reflect the opinions of Evercore and are subject to change without notice. In addition, opinions, estimates and projections in this report may differ from or be contrary to those expressed by other business areas or groups of Evercore and its affiliates. Evercore ISI has no obligation to update, modify or amend this report or to otherwise notify a reader thereof in the event that any matter stated herein, or any opinion, projection, forecast or estimate set forth herein, changes or subsequently becomes inaccurate. Facts and views in Evercore ISI research reports and notes have not been reviewed by, and may not reflect information known to, professionals in other Evercore affiliates or business areas, including investment banking personnel.

Evercore ISI does not provide individually tailored investment advice in research reports. This report has been prepared without regard to the particular investments and circumstances of the recipient. The financial instruments discussed in this report may not be suitable for all investors and investors must make their own investment decisions using their own independent advisors as they believe necessary and based upon their specific financial situations and investment objectives. Securities and other financial instruments discussed in this report, or recommended or offered by Evercore ISI, are not insured by the Federal Deposit Insurance Corporation and are not deposits of or other obligations of any insured depository institution. If a financial instrument is denominated in a currency other than an investor’s currency, a change in exchange rates may adversely affect the price or value of, or the income derived from the financial instrument, and such investor effectively assumes such currency risk. In addition, income from an investment may fluctuate and the price or value of financial instruments described in this report, either directly or indirectly, may rise or fall. Estimates of future performance are based on assumptions that may not be realized. Furthermore, past performance is not necessarily indicative of future performance.

Evercore ISI salespeople, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed in this research. Our asset management affiliates and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this research.

Electronic research is simultaneously available to all clients. This report is provided to Evercore ISI clients and may not be redistributed, retransmitted or disclosed, in whole or in part, or in any form or manner, without the express written consent of Evercore ISI. Receipt and review of this research report constitutes your agreement not to redistribute, retransmit, or disclose to others the contents, opinions, conclusion or information contained in this report (including any investment recommendations, estimates or target prices) without first obtaining express permission from Evercore ISI.

This report is not intended for distribution to, or use by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

For investors in the UK: In making this report available, Evercore makes no recommendation to buy, sell or otherwise deal in any securities or investments whatsoever and you should neither rely or act upon, directly or indirectly, any of the information contained in this report in respect of any such investment activity. This report is being directed at or distributed to, (a) persons who fall within the definition of Investment Professionals (set out in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”)); (b) persons falling within the definition of high net worth companies, unincorporated associations, etc. (set out in Article 49(2) of the Order); (c) other persons to whom it may otherwise lawfully be communicated (all such persons together being referred to as “relevant persons”). This report must not be acted on or relied on by persons who are not relevant persons.

Applicable current disclosures regarding the subject companies covered in this report are available at the offices of Evercore ISI, and can be obtained by writing to Evercore Group L.L.C., Attn. Compliance, 666 Fifth Avenue, 11th Floor, New York, NY 10103.

In compliance with the European Securities and Markets Authority’s Market Abuse Regulation, a list of all Evercore ISI recommendations disseminated in the preceding 12 months for the subject companies herein, may be found at the following site: https://evercoreisi.mediasterling.com/disclosure.

© 2020, Evercore Group L.L.C. All rights reserved.