



China outlook

COVID-19: Uneven recovery, changed policy playbook

Jian Chang
Chief China Economist
+852 2903 2654
jian.chang@barclays.com
Barclays Bank, Hong Kong

Eric Zhu
China Economist
+852 2903 2655
eric.zhu@barclays.com
Barclays Bank, Hong Kong

Yingke Zhou
China Economist
+852 2903 2653
yingke.zhou@barclays.com
Barclays Bank, Hong Kong

May 2020

PLEASE SEE ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 51.

Uneven recovery, changed policy playbook

- The Q1 GDP report showed a smaller decline in services (-5.2%y/y), contrasting to the double-digit contraction in manufacturing activity. The upside surprise in services reflects: 1) solid online commercial activities (7% share), including internet commerce, education, entertainment, and healthcare (+13%y/y); 2) resilient financial services (~17% of services). (See slide 18 and [China: COVID-19 tracking: Services outperform manufacturing](#), 23 April.)
- Our weekly activity trackers suggest the pace of recovery in manufacturing and services continued to diverge in April (slide 17), with the former stalled since late March on slowing external demand as the ROW entered lockdown, while the latter is on track for a gradual, albeit steady, normalisation (slide 19-22).
- Downward pressure on exports noticeable in April high frequency and regional trade data (slide 12). This points to significant challenges to employment in export sectors (~100mn workers), with employees in the private sector likely to bear the brunt, given that domestic private firms account for ~55% of total exports.
- China announced that the NPC will convene on 22 May. While the unprecedented global recession has spurred expectations of massive stimulus similar to the 2008 GFC response, we still consider this to be unlikely. We note that China's policy playbook had already changed pre-COVID-19. The COVID-19 outbreak will likely make authorities more cautious in showing all their cards, given an increasingly hostile external environment (see [China: COVID-19 stimulus: A changed playbook](#), 27 Apr 2020), and more focused on domestic matters, as evidenced in the priority shift to “six guarantees” in the April politburo meeting, from the “six stabilities” introduced in July 2018 (slide 27).
- We think the upcoming fiscal package from the NPC will focus more on “relief” than “stimulus”, as well as on demand stimulus, hence, we expect more measures to be aimed at spurring investment rather than consumption.
- The economic implications are a stimulus package that will likely provide more support for domestic demand this time vs global spillovers, likely contained upside for infrastructure investment and China's imports from the rest of the world, and a likely lack of strong impetus for a sustained rebound in consumption. The property sector, however, is likely to remain the bright spot (slide 38-39) despite the “housing is for living not for speculation” reiteration.

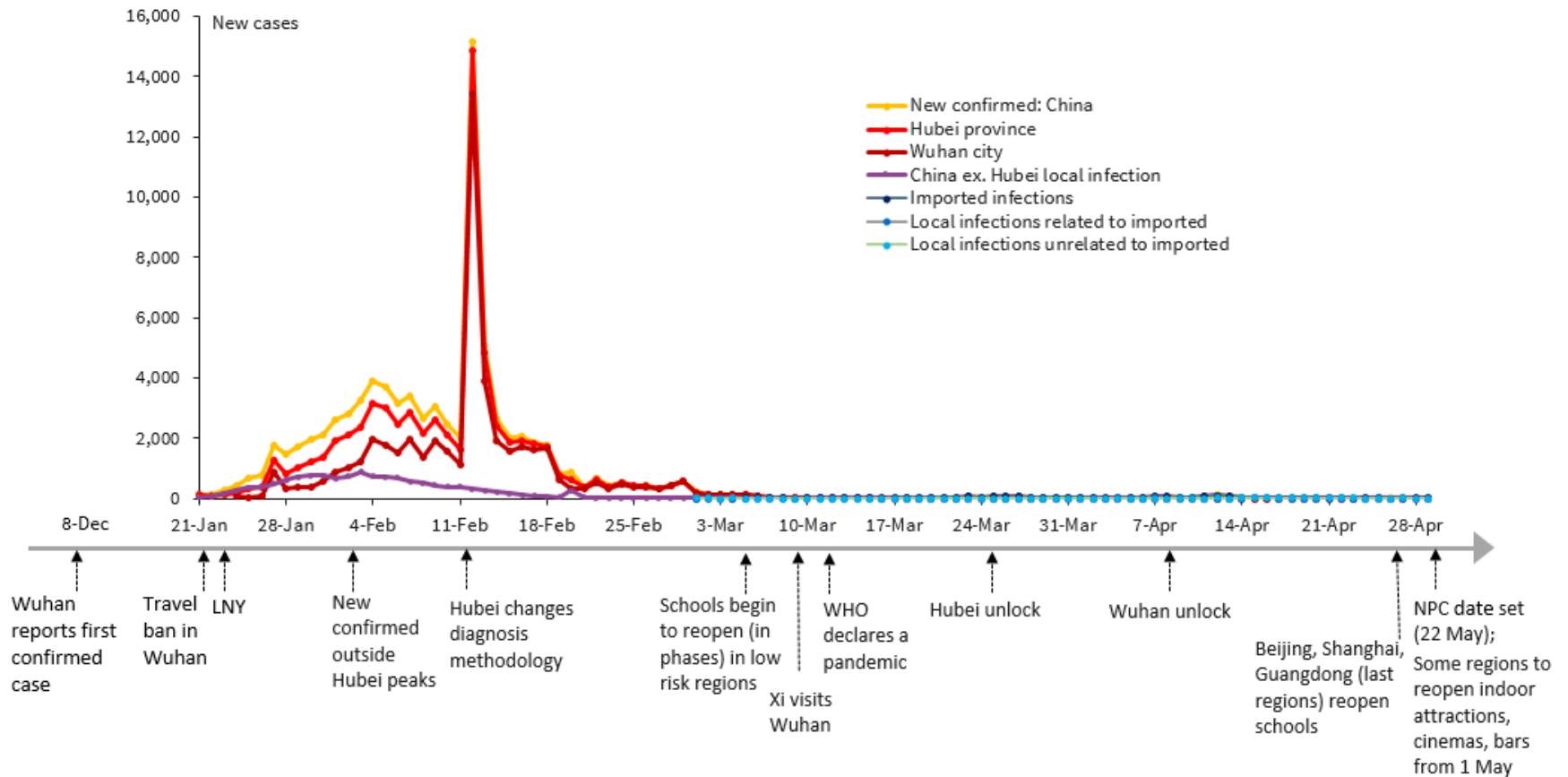
Roadmap

COVID-19: risk of second-wave outbreak remains under control.....	4
Unfolding impact: from supply disruptions to demand shock.....	9
Uneven recovery: outperforming services vs stalled manufacturing.....	16
Policy responses: A changed playbook and priorities.....	23
Policy responses: Economic implications.....	35
Inflation: Covid-19 adds uncertainties.....	42
CNY and capital flows: expectation anchored.....	46
Economic calendar.....	50

COVID-19 outbreak: striking a balance between reopening and preventing second-wave outbreak

See [China: COVID-19 tracking: Services outperform manufacturing](#), 23 Apr 2020, [China: COVID-19 tracking: Labor Day: spend more but keep safe](#), 29 Apr 2020

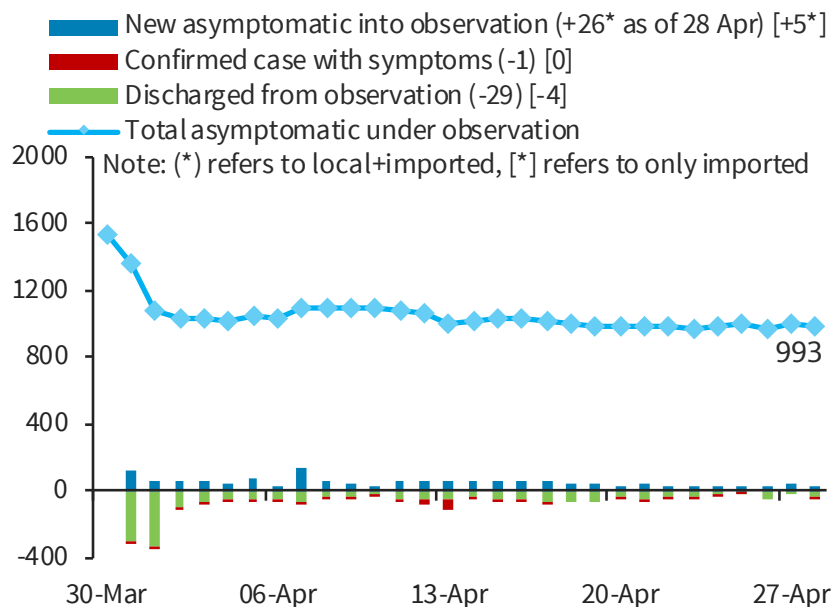
Timeline: tracking new cases and recovery path



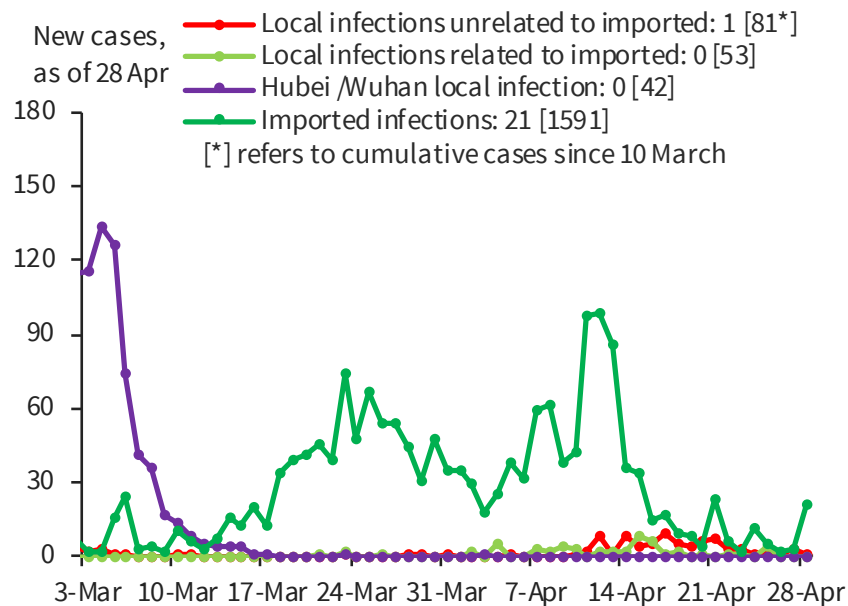
Source: RPC and Hubei NHC, Xinhua, Barclays Research

Risks from asymptomatic and imported cases remain low

Asymptomatic cases remain around ~1000



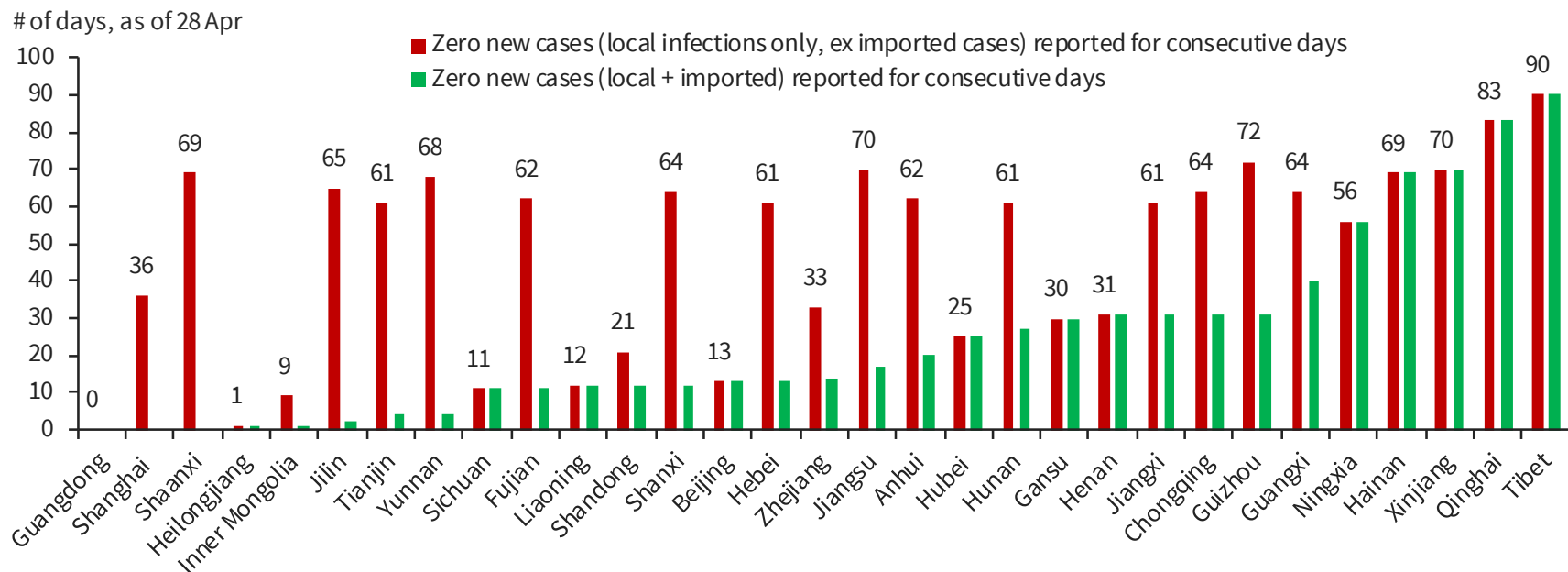
New imported cases declined to an average of ~10/day recently



Source: PRC NHC, Barclays Research

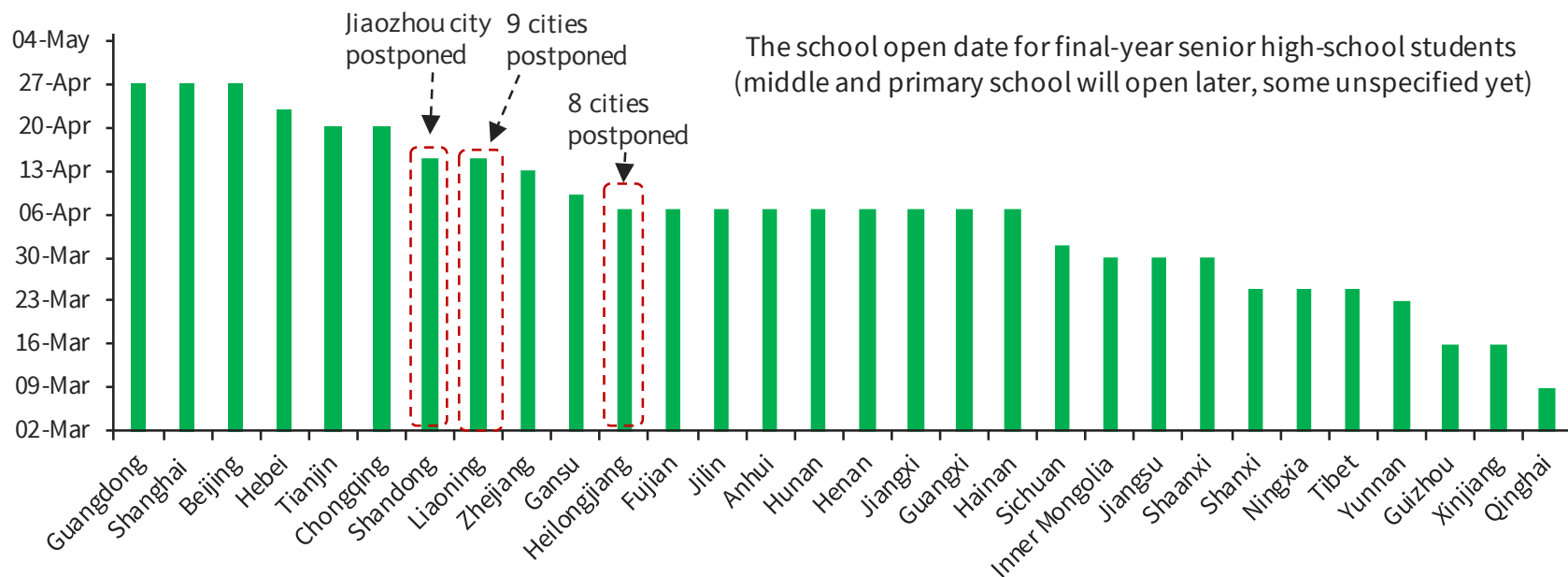
Source: PRC NHC, Barclays Research

Most provinces on zero-cases trend with imported cases being reduced and concentrated in a few cities



Note: As of 28 Apr, 16 provinces (15 as of 22 April) reported zero cases and 25 provinces (25 as of 22 April) reported zero local cases for ≥ 14 days
Source: PRC and provincial NHC, Barclays Research

Schools are reopening (by phases) across the country



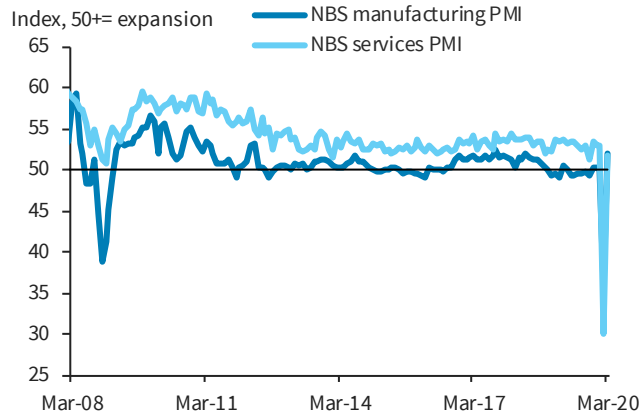
Source: Local Bureau of Education, Barclays Research

Unfolding COVID-19 impact: from supply disruption in Q1 to demand shock in Q2

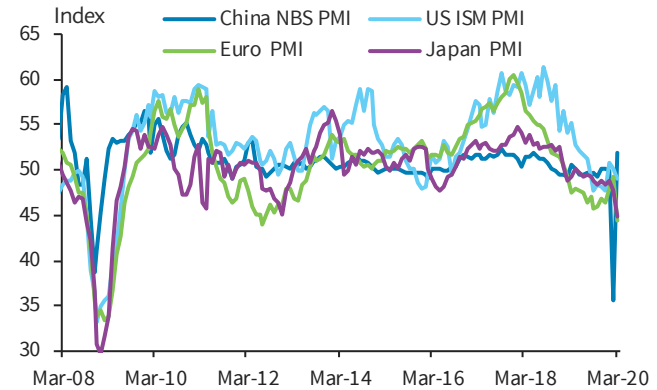
See [China: COVID-19 - Activity tracking: Downgrade 2020 GDP to 1.3%](#), 19 Mar 2020, [China: March data suggest worst is past, but clouds hover over Q2 recovery](#), 17 Apr 2020, [China: COVID-19 tracking: Services outperform manufacturing](#), 23 Apr 2020

PMIs: Recovering from deep slump during lockdown

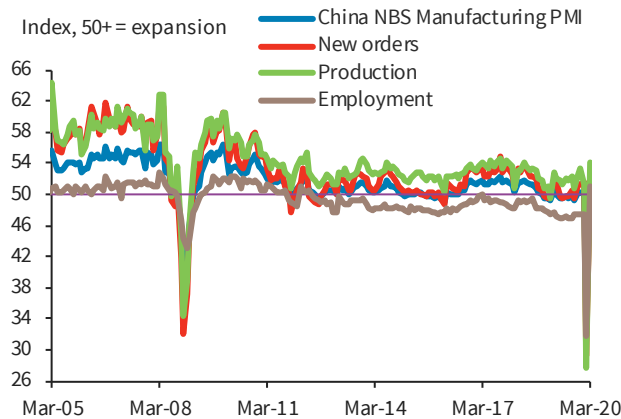
NBS manufacturing and services PMI



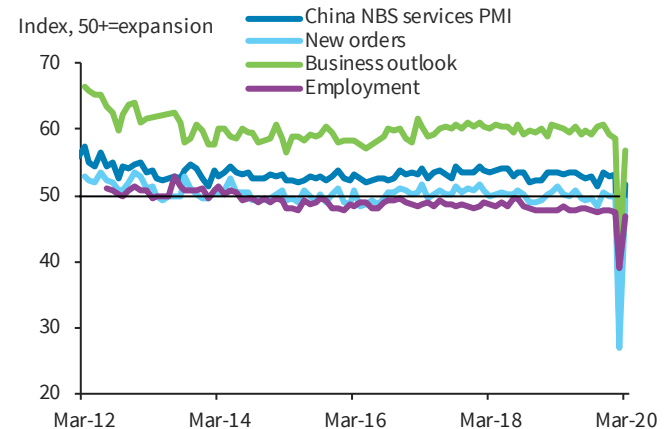
Global PMIs likely to follow China's path



Manufacturing PMI breakdowns

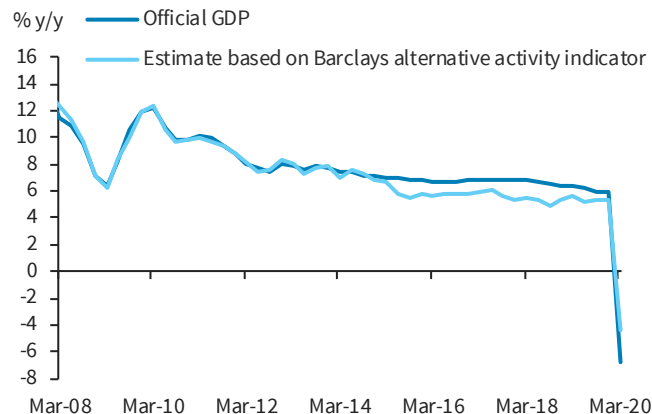


Services PMI breakdowns



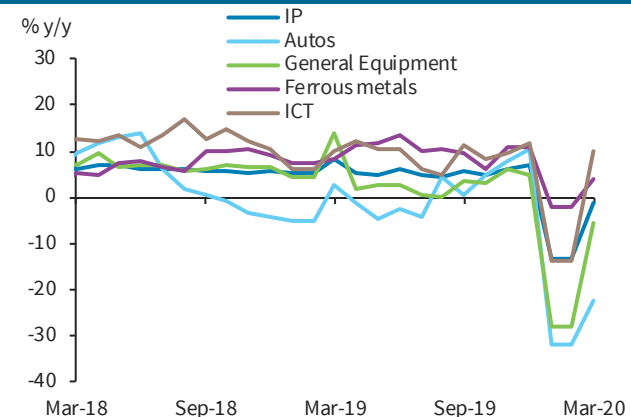
Activity: recovering in March from double-digit falls

1Q GDP contracted 6.8% y/y



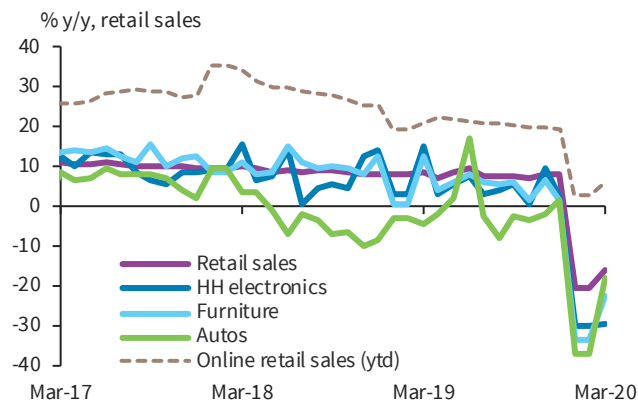
Source: Wind, Barclays Research

March industrial production slipped 1.1% y/y



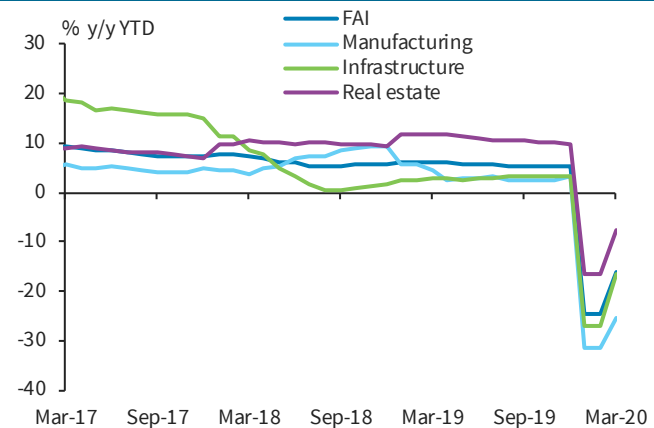
Source: CEIC, Barclays Research

March retail sales down 15.8%



Source: Wind, Barclays Research

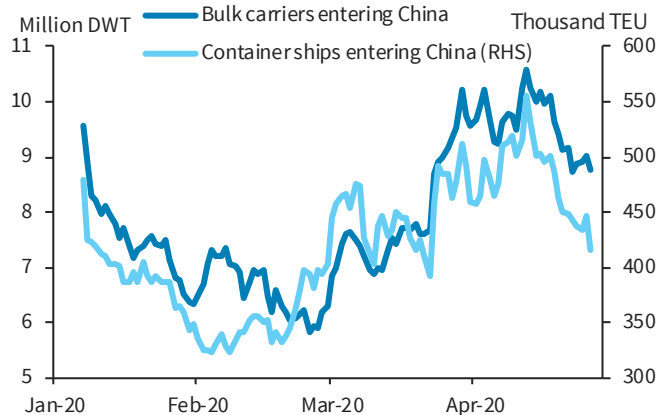
FAI down 16.1%



Source: Wind, Barclays Research

Exports: significant external headwinds

Vessels entering China fell notably in April



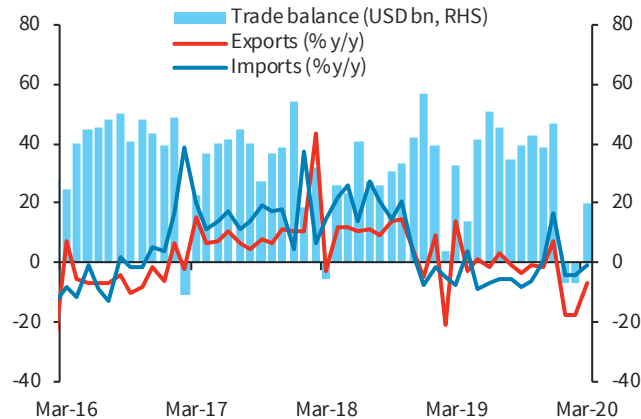
Source: Bloomberg, Barclays Research

China's exports to Korea weakened in April



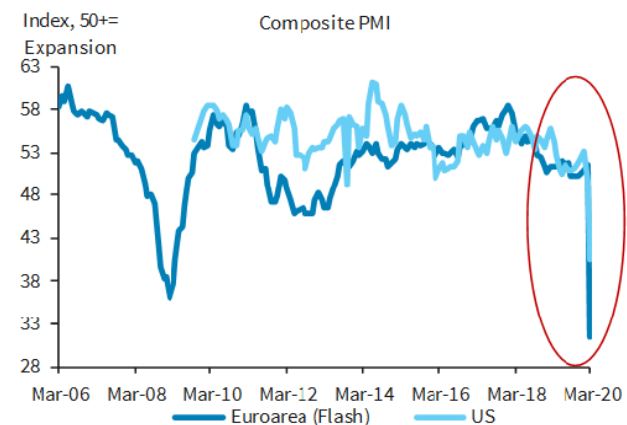
Source: Haver, Barclays Research

March exports down 6.6%, imports down 0.9%



Source: Wind, Barclays Research

Composite PMI in Europe and the US slumped



Source: Wind, Barclays Research

Global forecasts: sharp H1 fall, gradual H2 recovery

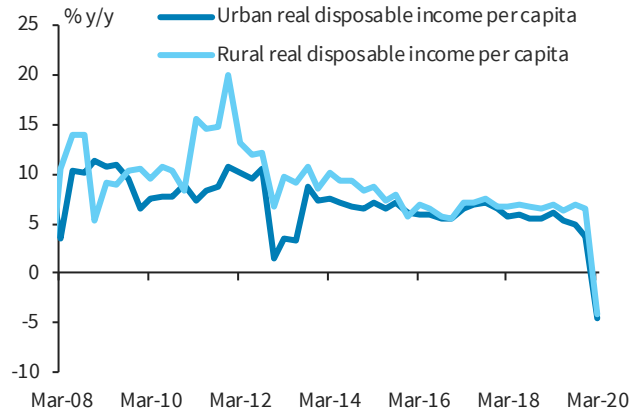
	Weight#	Real GDP					Real GDP			
		% over previous period, saar					% annual change			
		4Q19	1Q20	2Q20	3Q20	4Q20	2018	2019	2020	2021
Global*	100.0	2.7	-13.9 ↓	-16.6 ↓	36.5 ↑	11.7 ↑	3.9	3.2	-3.3 ↓	5.1
Advanced	40.9	0.3	-8.5 ↓	-41.8 ↓	41.5 ↑	12.9 ↑	2.2	1.7	-7.3 ↓	4.7 ↑
Emerging*	59.1	4.4	-17.5	0.4 ↓	33.2	10.8	5.1	4.2	-0.7 ↓	5.4
BRIC	40.4	4.9	-23.1	10.0	40.9	11.6	5.9	5.1	0.1	6.3
Americas*	25.8	1.7	-4.9 ↓	-37.6 ↑	27.2 ↓	8.2 ↓	2.5	1.9	-5.8	3.6 ↓
United States	18.6	2.1	-4.8 ↓	-40.0 ↑	25.0 ↓	8.0 ↓	2.9	2.3	-6.4	3.6 ↓
Europe and Africa	24.1	1.3	-10.9 ↓	-42.7 ↓	49.3 ↑	16.0 ↑	2.2	1.4	-7.6 ↓	5.4 ↑
Euro area	13.4	0.4	-15.5 ↓	-56.3 ↓	75.6 ↑	25.4 ↑	1.9	1.2	-10.1 ↓	7.5 ↑
France	2.7	-0.3	-21.2 ↓	-57.9 ↓	112.5 ↑	19.0 ↑	1.7	1.3	-10.5 ↓	9.3 ↑
Germany	3.9	0.1	-12.7 ↓	-52.7 ↓	54.5 ↑	22.5 ↑	1.5	0.6	-9.9 ↓	5.7 ↑
Italy	2.1	-1.2	-17.4 ↓	-60.6 ↓	80.6 ↑	35.8 ↑	0.7	0.3	-11.9 ↓	8.7 ↑
Spain	1.7	1.7	-19.2 ↓	-61.9 ↓	89.5 ↑	38.9 ↑	2.4	2.0	-11.6 ↓	9.3 ↑
United Kingdom	2.7	0.1	-9.8	-51.5	70.2	11.1	1.3	1.4	-8.0	6.3
Asia/Pacific	50.1	4.0	-19.8	6.2 ↓	35.3	11.4	5.4	4.8	-0.1 ↓	5.8
Japan	5.0	-7.1	-4.3	-10.4	2.9	0.2	0.3	0.7	-3.9	0.7
Australia	1.2	2.1	-2.3	-15.9	12.4	4.4	2.7	1.8	-1.3	2.8
Emerging Asia	44.0	5.3	-22.0	8.6 ↓	39.4	12.7	6.1	5.3	0.3 ↓	6.3
China	23.7	5.8	-36.5	41.7	26.2	10.0	6.7	6.1	1.3	6.9

Note: Arrows appear next to numbers if current forecasts differ from that of the previous week by 0.5pp or more for quarterly annualized GDP, by 0.2pp or more for annual GDP and by 0.2pp or more for Inflation. Weights used for real GDP are based on IMF PPP-based GDP (5y centered moving averages). Weights used for consumer prices are based on IMF nominal GDP (5y centered moving averages)". # IMF PPP-based GDP weights for 2019.

Source: Barclays Research

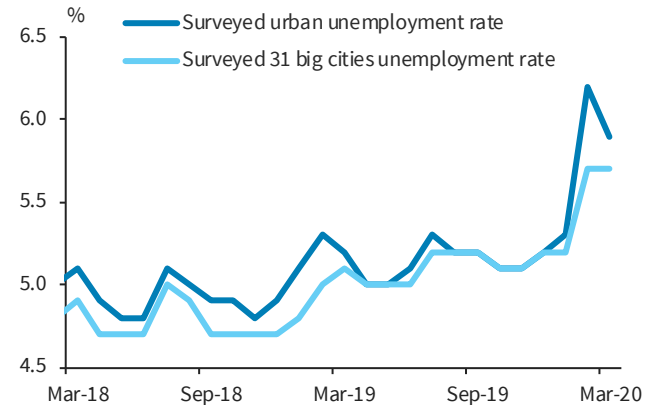
Consumption: Falling income and rising unemployment pose risks to sustained rebound

Real income contracted y/y in Q1



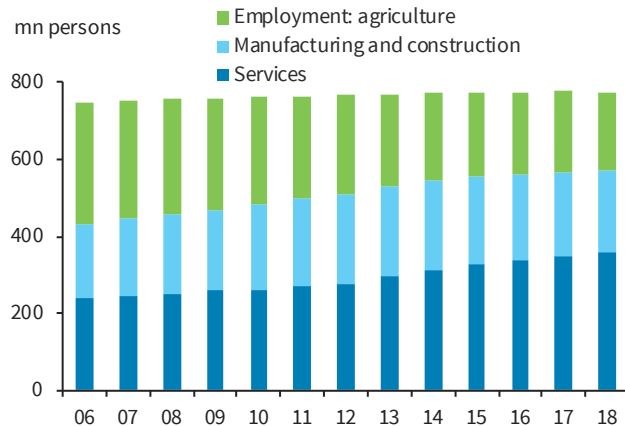
Source: CEIC, Barclays Research

Unemployment rate remains elevated



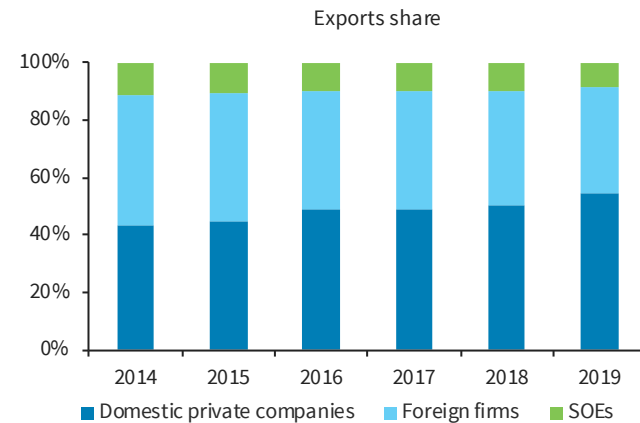
Source: Wind, Barclays Research

~600mn people employed in services and manufacturing sectors



Source: Wind, Barclays Research

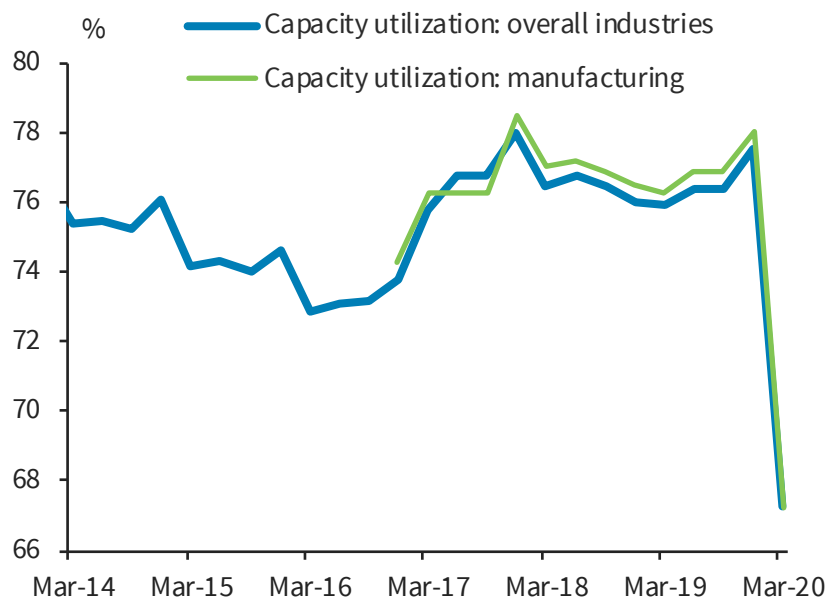
Domestic private firms account for ~55% of total exports



Source: Wind, Barclays Research

Capacity less of a constraint than demand

Capacity utilisation fell markedly in Q1



More working days in Q2 and Q3 than in Q1



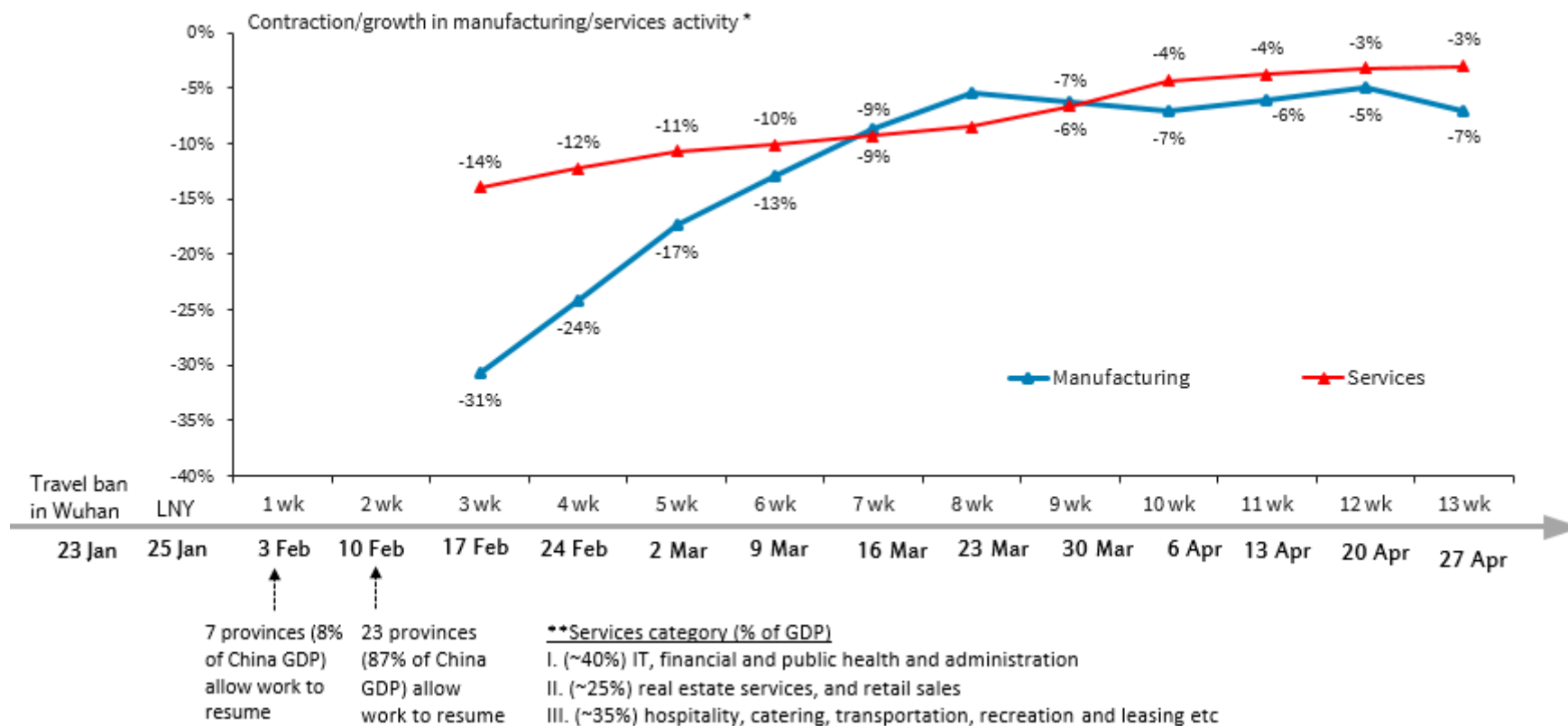
Source: Wind, Barclays Research

Source: The State Council, Barclays Research

High frequency tracking: Uneven recovery: outperforming services vs stalled manufacturing

See [China: COVID-19 tracking: Services outperform manufacturing](#), 23 Apr 2020, [China: COVID-19 tracking: Labor Day: spend more but keep safe](#), 29 Apr 2020

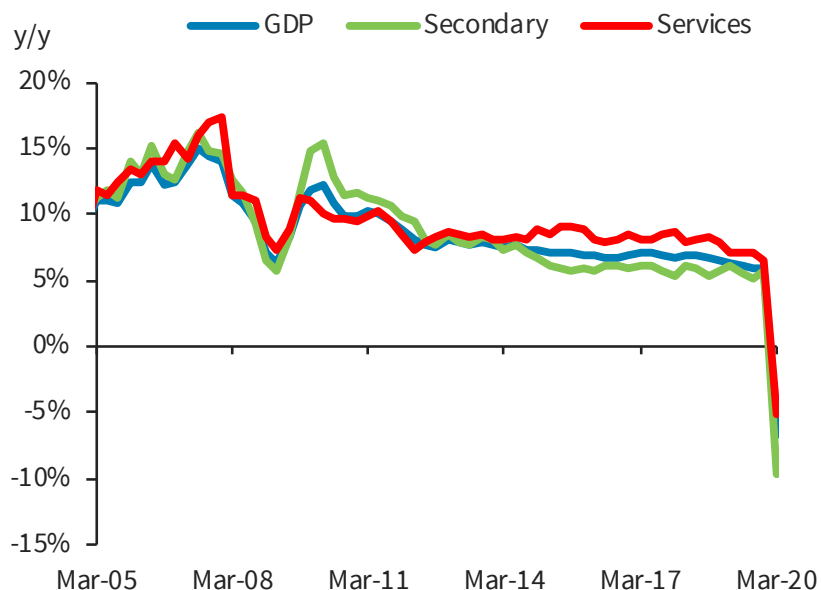
Services recovered quicker than manufacturing in April



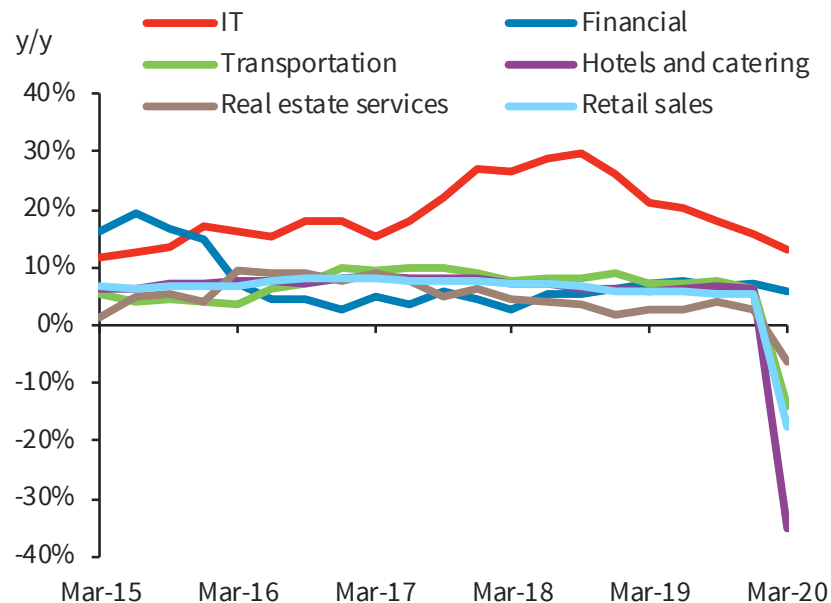
Note: We adjusted the methodology and historical series for the weekly y/y manufacturing and services activity trackers based on official Q1 GDP output release [China: COVID-19 tracking: Services outperform manufacturing](#), 23 Apr 2020. Source: Barclays Research

Services: outperformed in Q1, on IT/financial sectors

A smaller contraction in Q1 services...



... as growth in IT and financial sectors held up

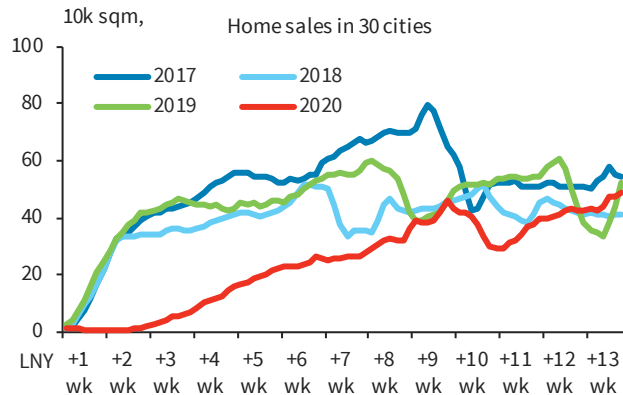


Source: Wind, Barclays Research

Source: Wind, Barclays Research

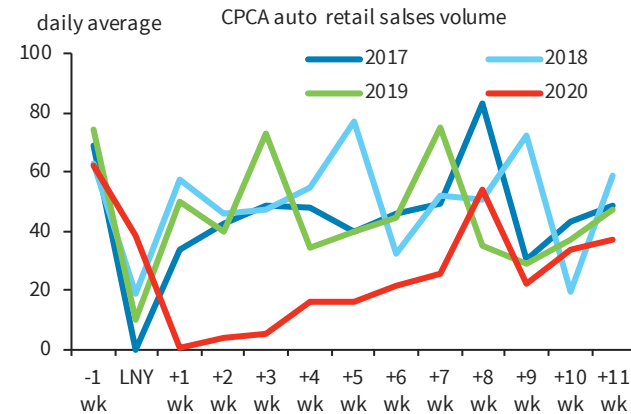
Services: sales and activities picked up steadily in April

Home sales decline eased to ~15% y/y



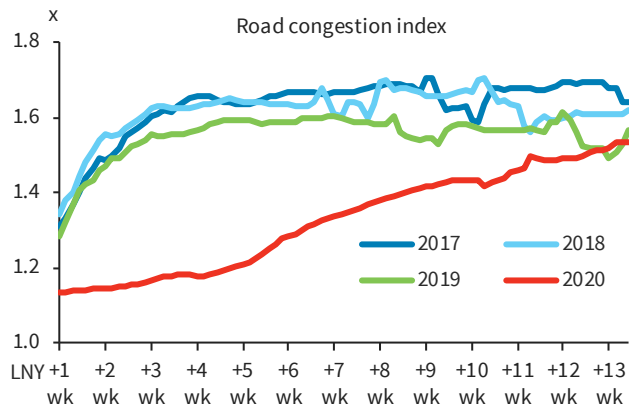
Source: Wind, Barclays Research

Auto sales declined 7% y/y in first three weeks of April



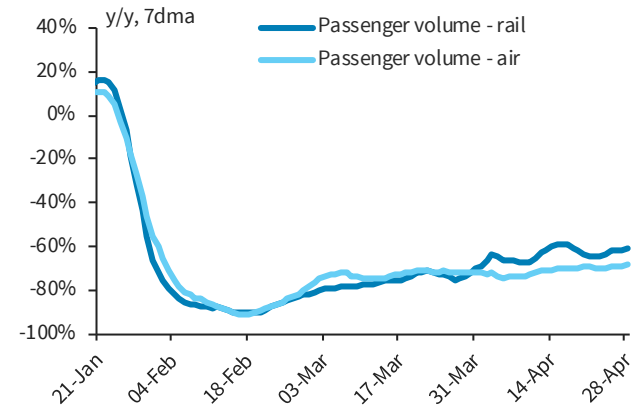
Source: Wind, Barclays Research

Road congestion index closed to last year's level



Source: AMAP, Wind, Barclays Research

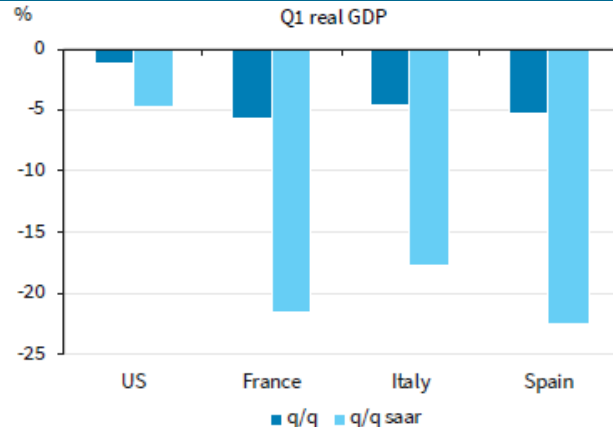
Passenger transportation still down -60-70% y/y



Source: MOT, Barclays Research

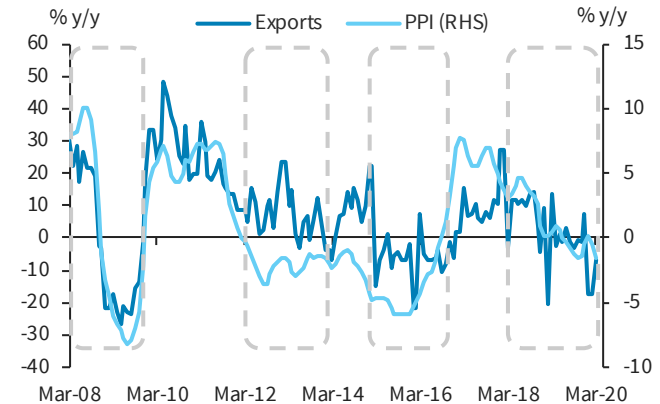
Manufacturing activity stalls on global standstill

Euro area and US activity plummeted in Q1



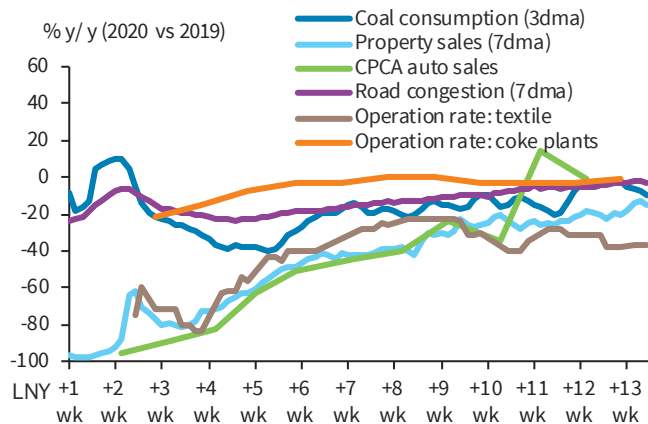
Source: BEA, Haver, Barclays Research

Exports and PPI deflation to worsen



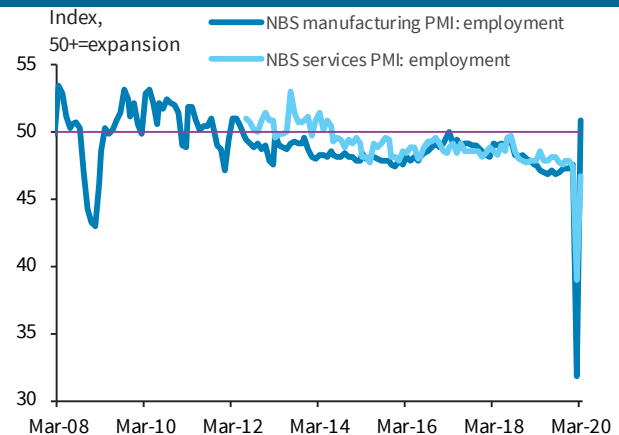
Source: Wind, Barclays Research

Activity recovery: 2020 relative to 2019



Source: Wind, Barclays Research

Manufacturing and services PMI: employment

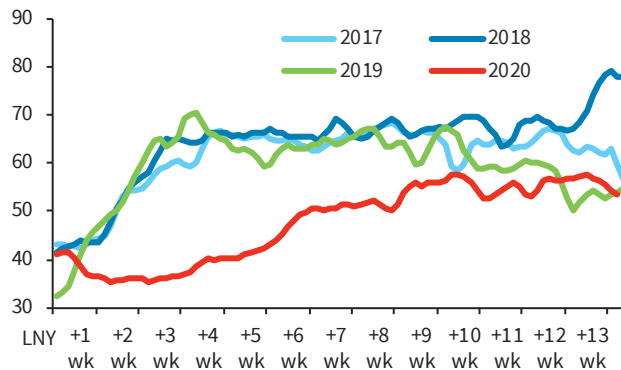


Source: Wind, Barclays Research

Manufacturing: high frequency tracking at -5~10% y/y

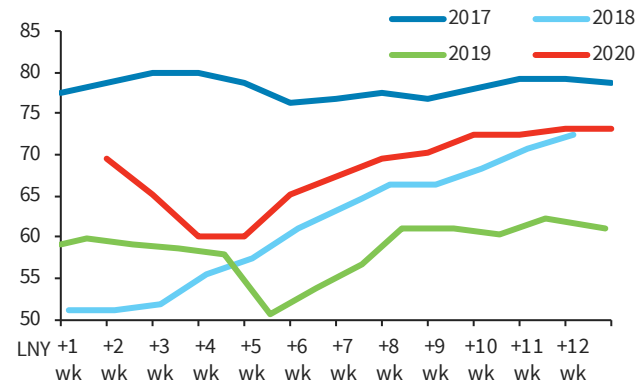
Coal consumption down ~-10% y/y

10k ton/d, Coal consumption by six major power plants

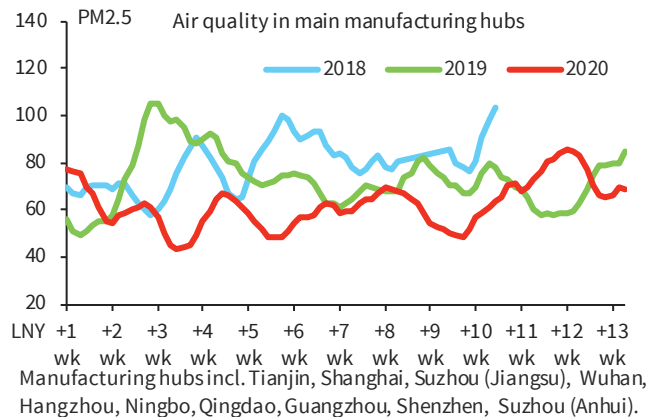


Blast furnace operation rate stalled at 70-75%

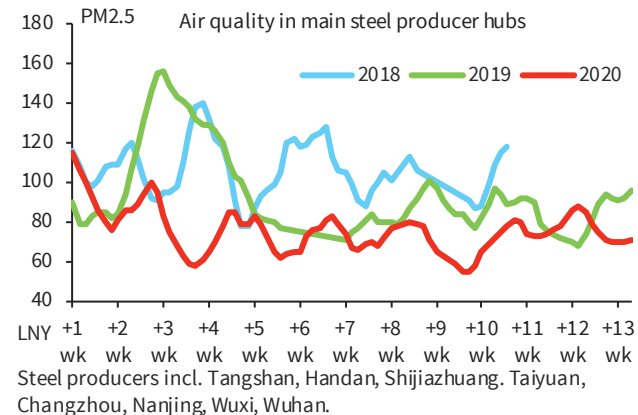
% Operation rate: blast furnace



Air quality in main manufacturing hubs

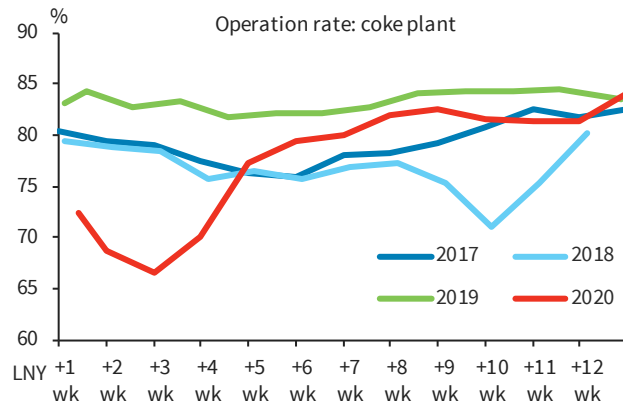


Air quality in main steel producer hubs



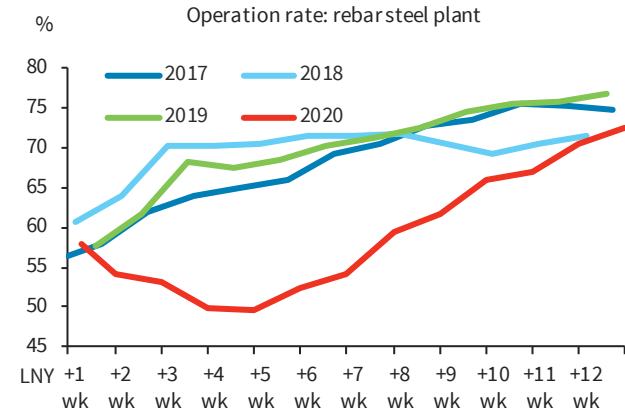
Mining and smelting vs manufacturing operation rates

Mining and smelting: Coke plants



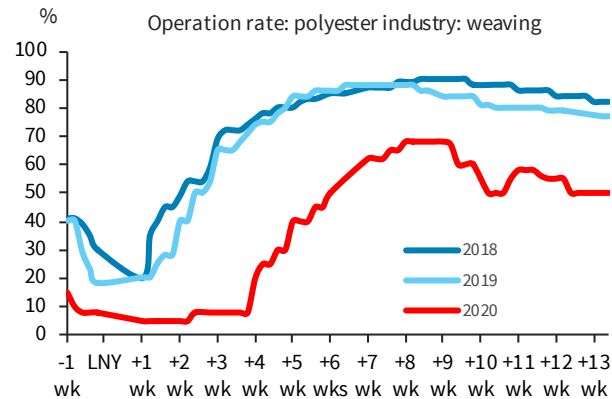
Source: Wind, Barclays Research

Mining and smelting: Steel plants



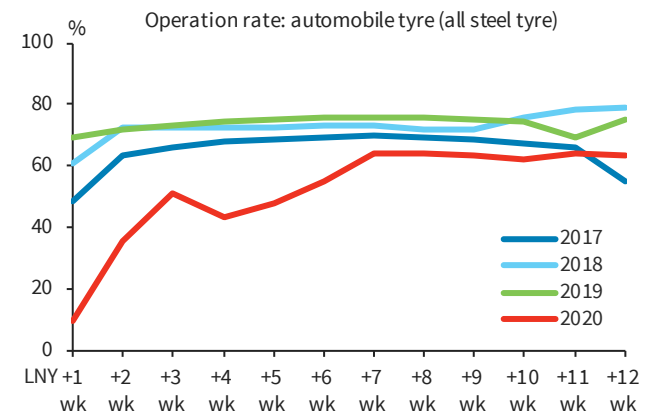
Source: Wind, Barclays Research

Textiles: Weaving factories



Source: Wind, Barclays Research

Auto parts: Tire factories



Source: Wind, Barclays Research

Policy response: A changed playbook & priorities

See [China: March data suggest worst is past, but clouds hover over Q2 recovery](#), 17 Apr 2020, [China: COVID-19 stimulus: A changed playbook](#), 27 Apr 2020

A changed playbook, which is unlikely to reverse

	Pre COVID-19				Post COVID-19	
	2008-09	2012-13	2015-16	2018 - Jan 20	Delivered	Further expected
Monetary/credit policy						
Credit (BACA**) growth	+18pp (Dec 08-Nov 09)	+6.1pp (May 12-May 13)	+4.2pp (Apr 15-Apr 16)	+0.6pp (Nov 18-Jan 20)	+1.1pp (Feb-Mar 20)	+2~3pp
Benchmark interest rate cuts (MLF/OMO rate cuts after 2018)	216bp (Sep-Dec 08)	56bp (Jun-Jul 12)	125bp (Mar-Oct 15)	5bp (Apr 18-Nov 19)	30bp (Feb-Apr 20)	30~50bp
RRR cuts (for major banks)	200bp (Oct-Dec 08)	150bp (Dec 11-May 12)	300bp (Feb 15-Mar 16)	400bp (~230bp netting out MLF, Apr 18-Jan	100bp (targeted cut, Apr 20)	100~200bp
Fiscal policy						
	2009 vs 08	2013 vs 02	2016 vs 15	2019 vs 18	Feb-Apr 20	2020 vs 19 (exp.)
Budget fiscal deficit as % of GDP*	+2.1pp	+0.4pp	+0.7pp	+0.2pp		+0.7-1.2pp
Augmented fiscal deficit as % of GDP*	+8pp	+1.3pp	+3.5pp	+1pp	1.1% of GDP	+5~8pp
Tax & fee cuts as % of GDP*	+0.5pp	-	0	+1pp		+1pp

Pre COVID-19: policy easing already began to shift

We think some new guiding principles were agreed among policymakers during 2018-19:

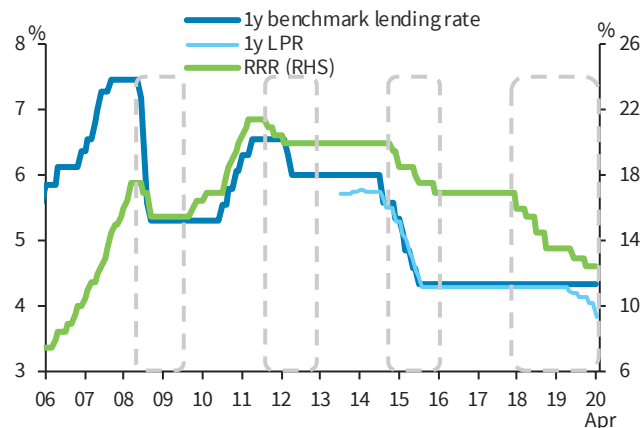
- A consensus for “no repeat of 2008” among government officials and the public.
- A focus on domestic matters (health of China’s economy and financial system first).
- Balancing short-term cyclical gains against medium-term sustainability consequences.
- Unleashing growth potential with a focus on urbanisation and supporting private SMEs.

Post COVID-19: The shift unlikely to reverse as China prepares for worse cases and a long battle

Note: **BACA is short for [Barclays Alternative Credit Aggregate](#). *All pp changes denote the magnitude of increase. Source: Wind, Barclays Research
[China: COVID-19 stimulus: A changed playbook](#), 27 Apr 2020

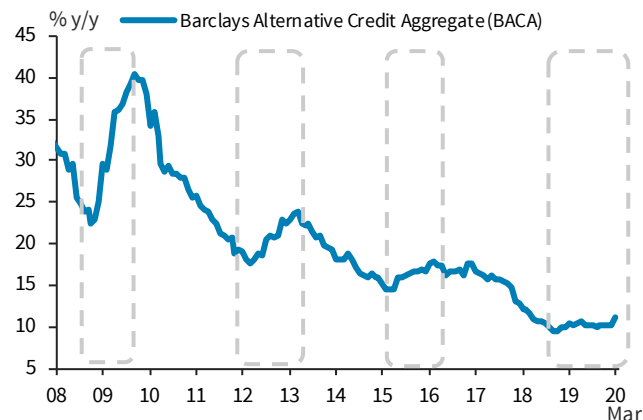
Pre-COVID-19: restrained, measured and targeted easing

Monetary policy: RRR and benchmark interest rates



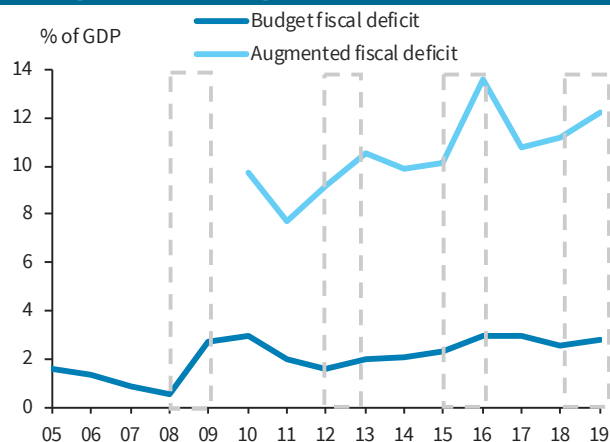
Source: Wind, Barclays Research

Credit growth: Barclays alternative credit aggregate



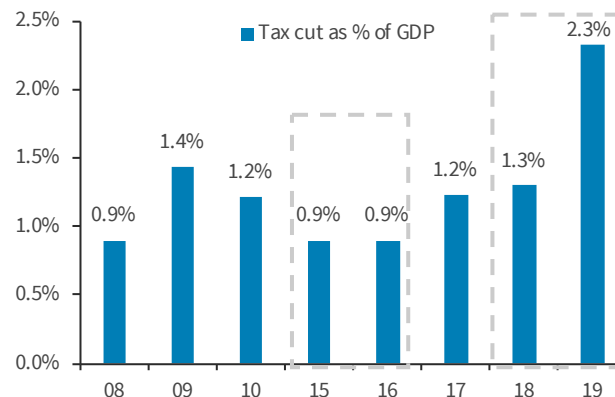
Source: Wind, Barclays Research

Fiscal policy: Budget and augmented fiscal deficit



Source: Wind, Barclays Research

Fiscal policy: Tax and fee cuts

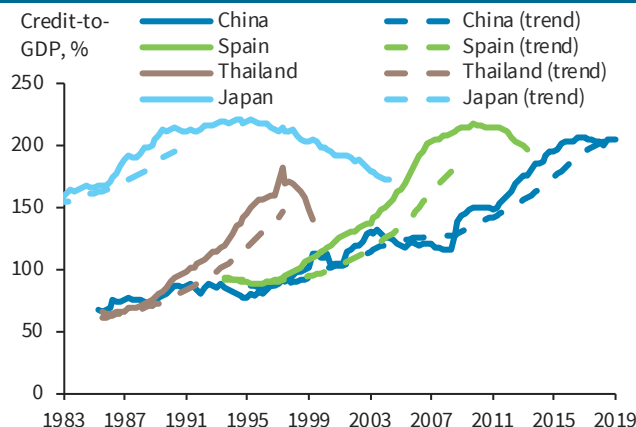


Note: there is no official data for 2011-2014

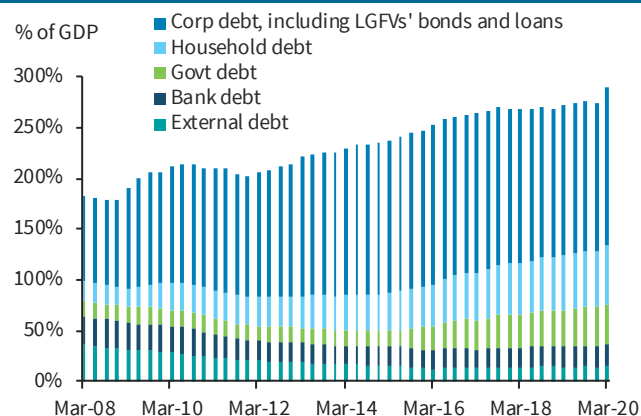
Source: Wind, Barclays Research

With eye to longer-term sustainability vs short term gains

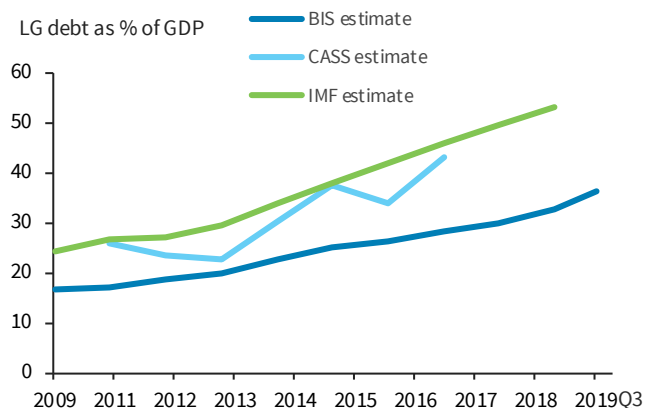
China's credit/GDP gap



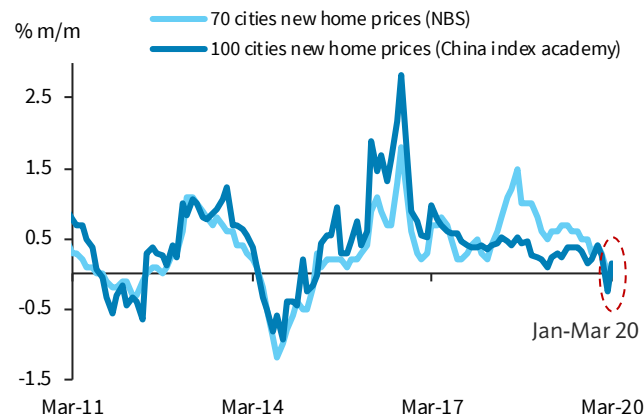
Debt/GDP rose 15pp in 1Q 20 vs 2019



Unsustainable local-government debt

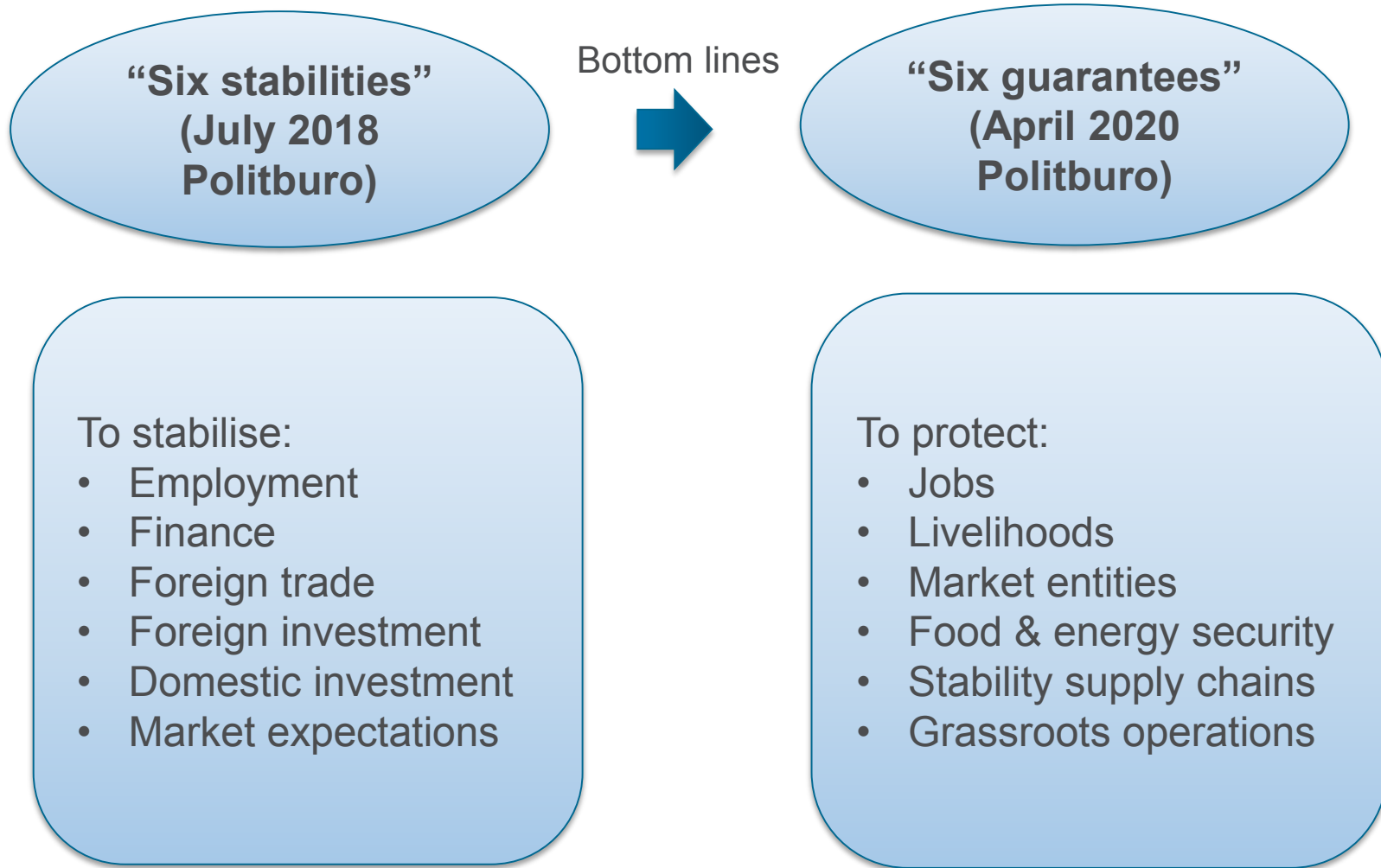


Bubble concerns on sustained price increases



See [China: The unfolding effects of deleveraging](#), 9 August 2018, and [PBoC watching: A Q&A on interest rate outlook](#), 6 August 2019

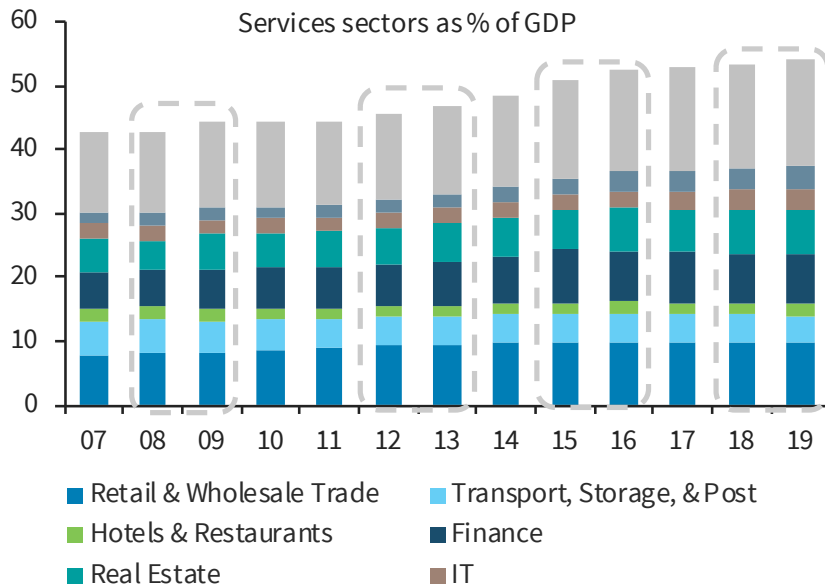
Post COVID-19: priority shifted to domestic matters



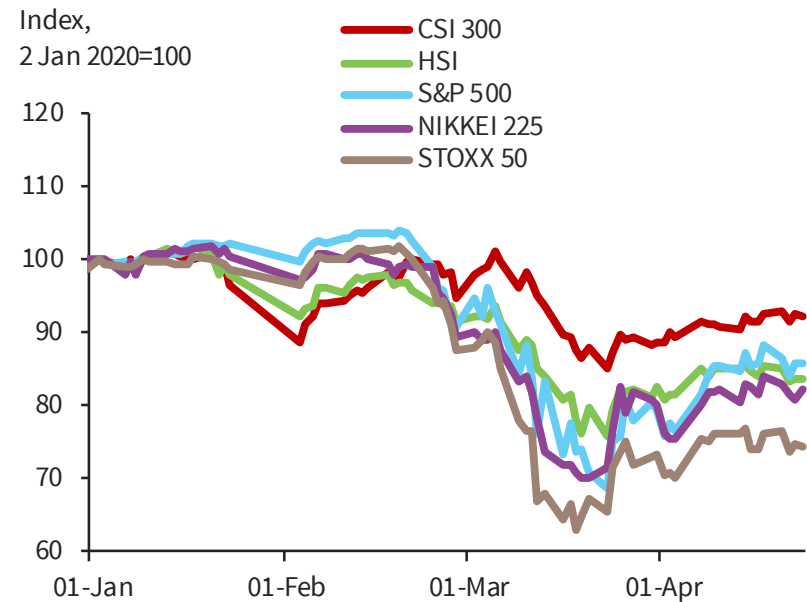
Source: Xinhua, Barclays Research

Changing economic structure and stable domestic sentiment have bought policymakers some time

Rising services share



Domestic sentiment holding up

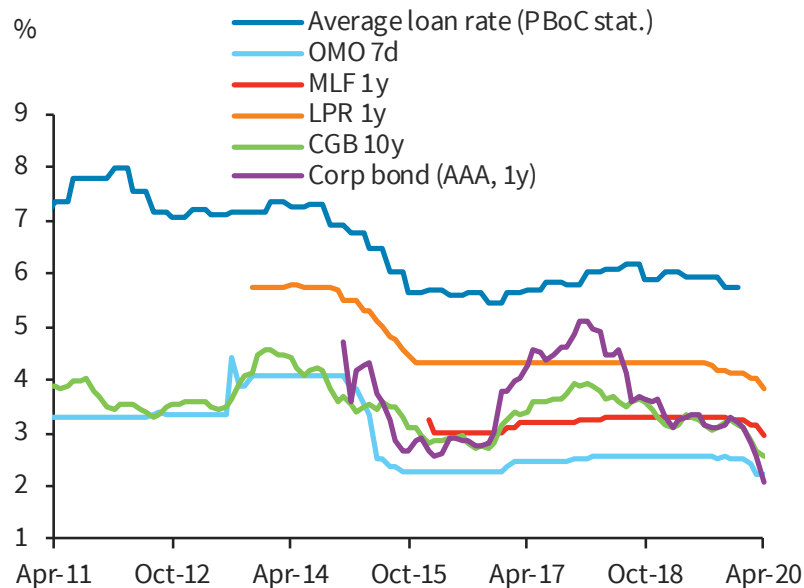


Source: Wind, Barclays Research

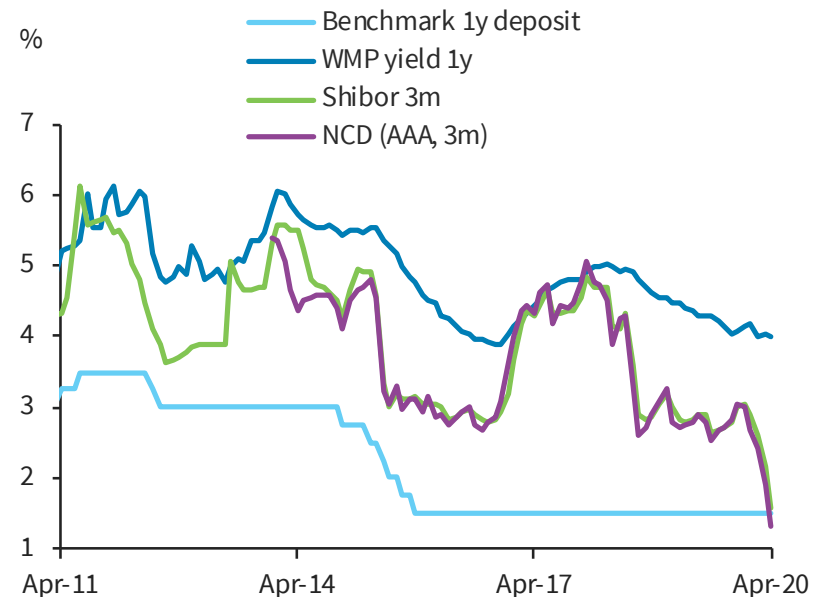
Source: Bloomberg, Barclays Research

Monetary easing: more to come but likely to be delivered at a measured pace

Expect further 30-50bp falls in policy rates...



... and likely 10-20bp cut in benchmark deposit rate

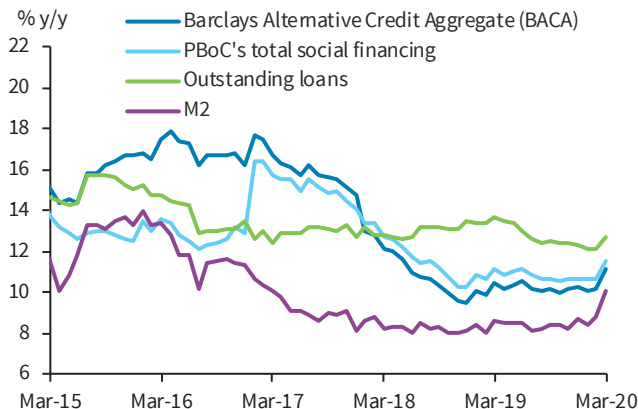


Source: Wind, Barclays Research
See [PBoC Watching: Constraints, substitutes, triggers to rate cuts](#), 29 August 2019

Source: Wind, Barclays Research

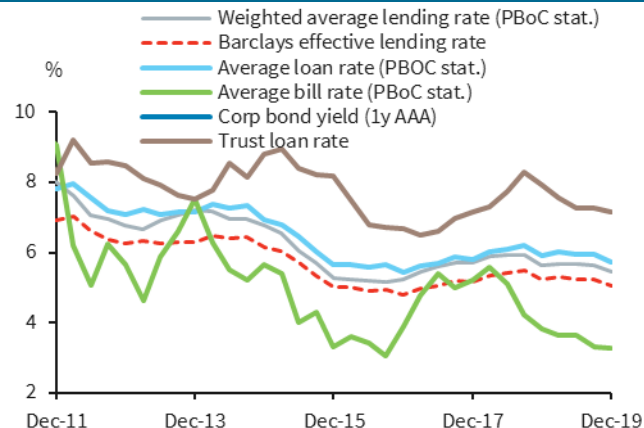
The PBoC is focusing more on financial/economic stability than growth/inflation

TSF growth increased by 0.8pp in March



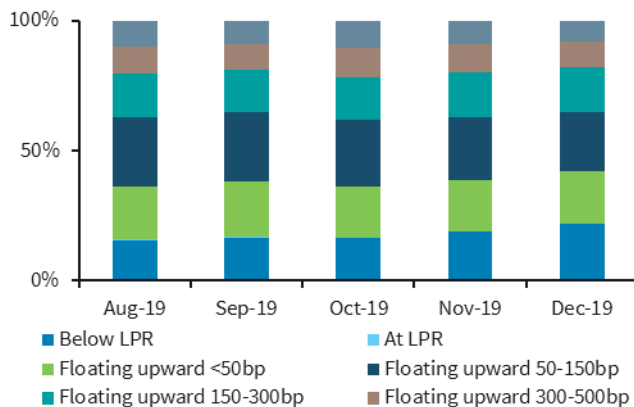
Source: Wind, Barclays Research

Average loan rate fell 22bp in Q4



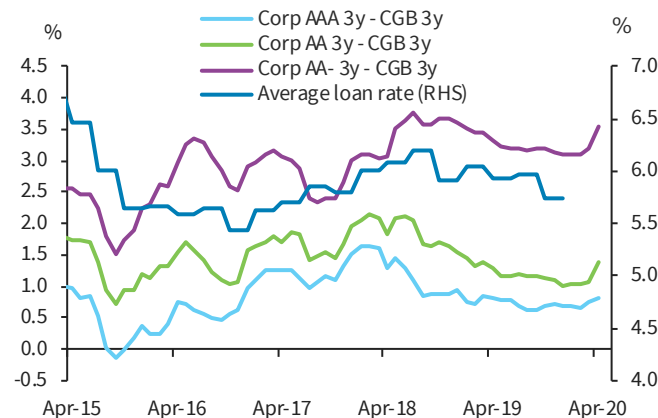
Source: Wind, Barclays Research

More loans being priced below 1y LPR



Source: Wind, Barclays Research

Credit spreads have widened since April



Source: Wind, Barclays Research

See [PBoC Watching: Constraints, substitutes, triggers to rate cuts](#), 29 August 2019

Fiscal: initial stimulus was much smaller than others

Country	Fiscal stimulus (USD billion)	% of GDP	Corporate				Household		
			Loan/ guarantee	Tax cut/ deferral	Fee cut/ deferral	**Cash subsidy	Unemploy support	Tax cut/ deferral	**Cash subsidy
China*	160	1.1%		43	94		√		0.6
US	2,984	14.0%	1180	√	√	60	250	250	216
Germany	1,013	28.0%	840	√	√	56	√		√
France	472	19.0%	350	√	√	√	√		√
Italy	855	51.4%	832	7	√	11	√		√
Spain	20	1.6%		18	√	√	√	√	0.4
UK	480	17.0%	410	24.8		33	√		8.7
Canada	140	8.4%		√	√	√	√	√	√
Australia	127	10.5%		√	√	81	√		√
Japan	1000	21.1%	√	√	√	√	√	√	√
S.Korea	28	1.8%	√	√	√	√	√	√	√

The announced fiscal measures by Chinese government (1.1% of GDP) mainly include:

- Direct disease-control expenses: c.CNY160bn (0.16% of GDP).
- Targeted tax cut: c.CNY300bn (0.3% of GDP) for suppliers of disease-control resources and COVID-19-hit entities (especially SMEs).
- Social insurance contribution deferral: c.CNY660bn (0.67% of GDP) for COVID-19-hit entities.

Note: *China is based on our own estimates and marginally lower than the IMF estimate (1.2%, if excluding pre-allocation of local government special bond quota). Other countries are based on IMF estimates (<https://www.imf.org/en/Topics/imf-and-covid19/Policy-Responses-to-COVID-19>).

**Cash subsidies to business include subsidies to firms to maintain employment; grants for small firms in the most-affected sectors etc. Cash subsidies to households include payments to workers without sick leave or insurance; child care benefits; direct aid to vulnerable people etc.

Source: IMF, Barclays Research

See [China: COVID-19 stimulus: A changed playbook](#), 27 Apr 2020

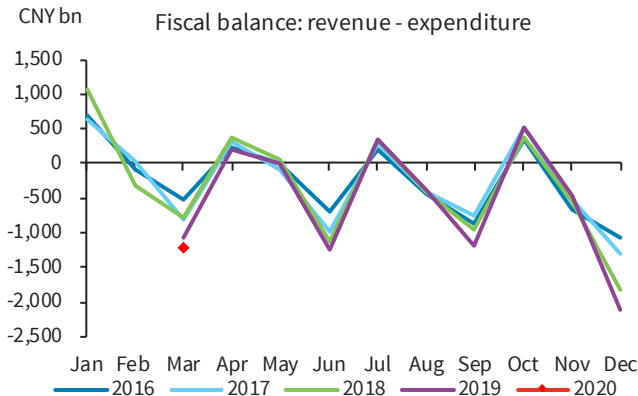
Fiscal: expect bigger package from NPC (22 May)

Fiscal tools (exp. for 2020)	CNY or as % of GDP (chg vs 2019)	Likely use
Official budget deficit	3.5-4.0% (+0.7-1.2pp)	Reduced revenue on targeted tax cuts for SMEs, exporters and households; Increased relief spending on eg unemployment benefits, aid for jobless migrant workers, and cash support for low-income households
LG special bonds	CNY3.5-4.2trn (+1.35-2trn)	Mainly for local infrastructure projects, including 1) “old” infrastructure with more focus on ‘weak-link’ – eg, improvements to water network, public health systems, emergence centers; 2) “new” infrastructure like 5G networks and data centres etc
Special treasury bonds (COVID-19 related)	CNY1-3trn (new)	1) spending on disease-control/prevention and related R&D; 2) credit guarantees for corporates or to banks to replenish capital to facilitate loans to SMEs; 3) expanded relief measures (eg, cash benefits and subsidies) for hard-hit sectors/firms/workers.

Source: Barclays Research
See [China: COVID-19 stimulus: A changed playbook](#), 27 Apr 2020

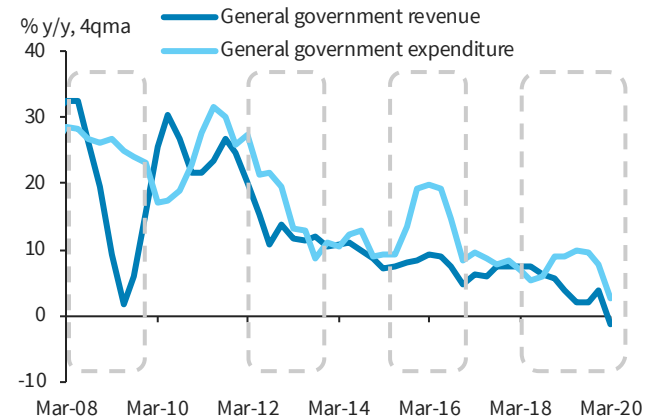
Blanket cash handouts unlikely due to fiscal constraints

A wider fiscal deficit



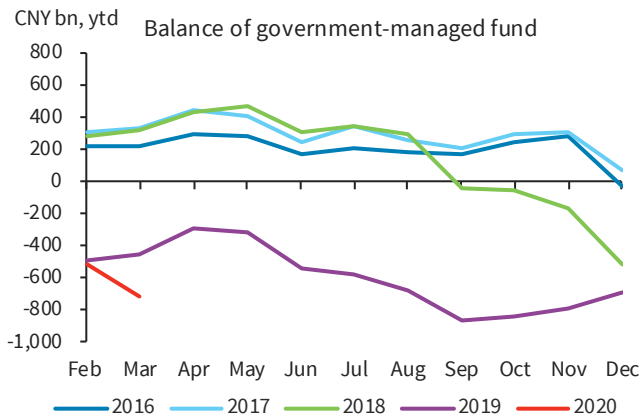
Source: Wind, Barclays Research

Worsening fiscal position



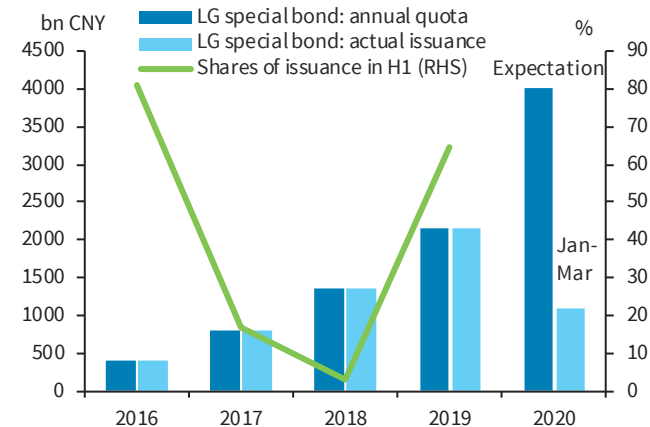
Source: Wind, Barclays Research

Larger deficit in government-managed fund



Source: Wind, Barclays Research

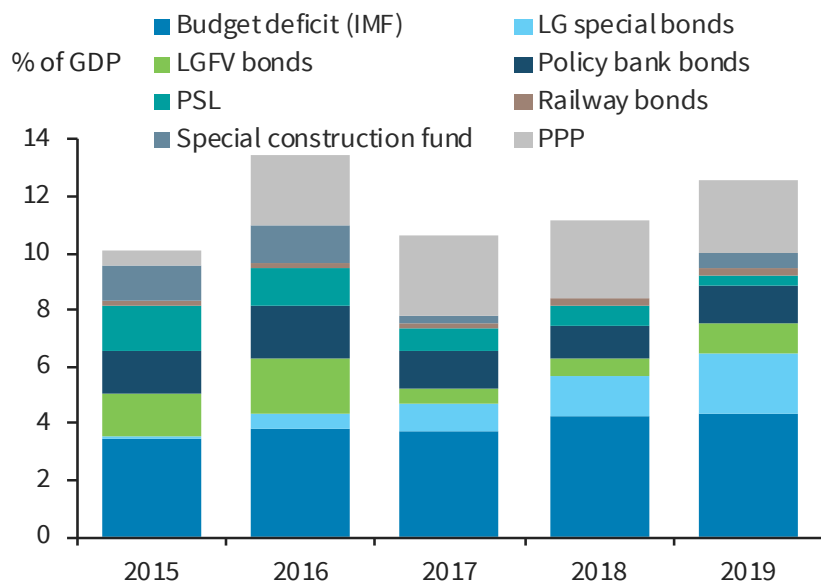
Large LG special bonds issuance in 1Q



Source: Wind, Barclays Research

Fiscal: Overall package likely to rise by 5-8pp of GDP

Augmented fiscal deficit increases



Consolidated general government budget

2) and 3) contribute to 1) budget stabilisation fund



Consolidated general government budget

Major revenue sources

- | | |
|---------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------|
| 1) General budget balance (2019 revenue = general budget revenue: CNY19.3trn + budget stabilisation fund & carryover fund: CNY1.5trn) | Tax revenue (~80%) |
| 2) Government-managed fund (revenue: CNY10trn) | Land sales revenue (~85%) |
| 3) SOE fund (revenue: CNY0.3trn) | Central and local SOE revenue (100%) |
| 4) Social security fund (revenue: CNY8trn) | Social security contribution (~70%) |

Source: Wind, Barclays Research
See [China: Fiscal policy: High expectations, constrained reality](#), 4 January 2019

Source: Wind, Barclays Research

Policy response: Economic implications

See [China: March data suggest worst is past, but clouds hover over Q2 recovery](#), 17 Apr 2020, [China: COVID-19 stimulus: A changed playbook](#), 27 Apr 2020

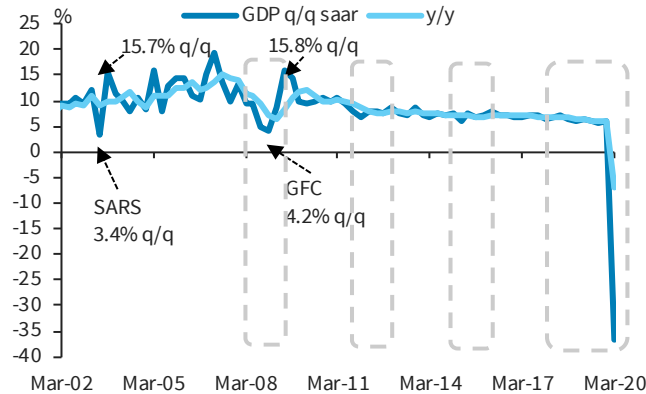
China's 2020 base case economic forecasts

	2020F	2019	2018	2010-17 average
GDP (%y/y)	1.3	6.1	6.6	7.9
--Consumption (pp)	1.4	3.5	5.0	4.3
--Investment (pp)	1.3	1.9	2.2	3.8
--Net exports (pp)	-1.4	0.7	-0.6	-0.2
FAI (%y/y)	c.2	5.4	5.9	16.2
Property inv't (%y/y)	c.5	9.9	9.5	16.7
Infrastructure inv't (%y/y)	c.6	3.3	1.8	16.0
Manufacturing inv't (%y/y)	c.-5.0	3.1	9.5	16.2
Exports(%y/y)	-12.0	0.5	9.9	8.8
Retail sales(%y/y)	c.1	8.0	9.0	9.0
IP (%y/y)	1.1	5.7	6.2	9.5

See [China: COVID-19 stimulus: A changed playbook](#), 27 Apr 2020

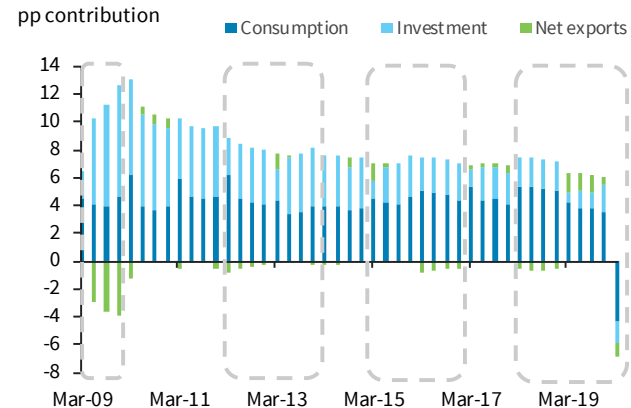
An unprecedented shock

GDP growth path



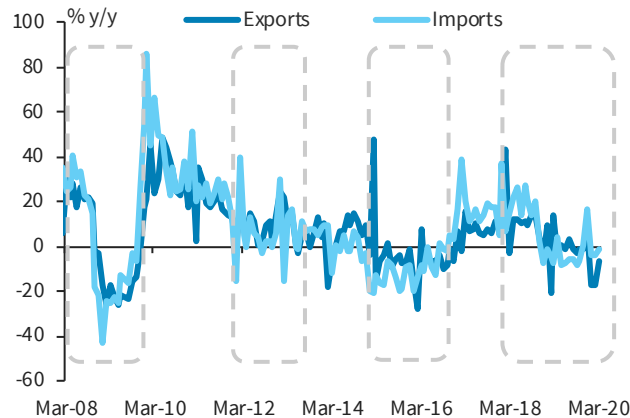
The cycles refers to four most-recent economic down cycles (2008-09, 2012-13, 2015-16, 2018-19), see [China: This easing cycle is different](#), 5 Sep 2019. Source: Haver, Barclays Research

C/ I/ NX contribution



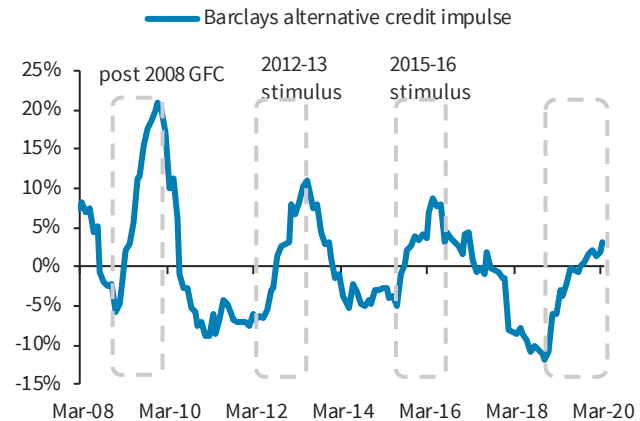
Source: Wind, Barclays Research

Exports and imports contraction



Source: Wind, Barclays Research

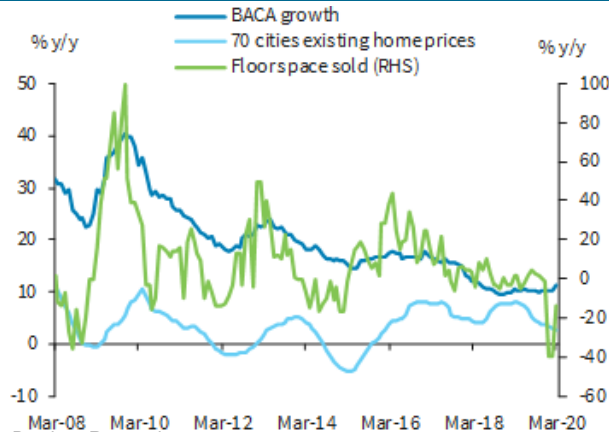
Credit stimulus boost



Source: Wind, Barclays Research

Property market to remain the bright spot (1)

Housing market has recovered on monetary easing...



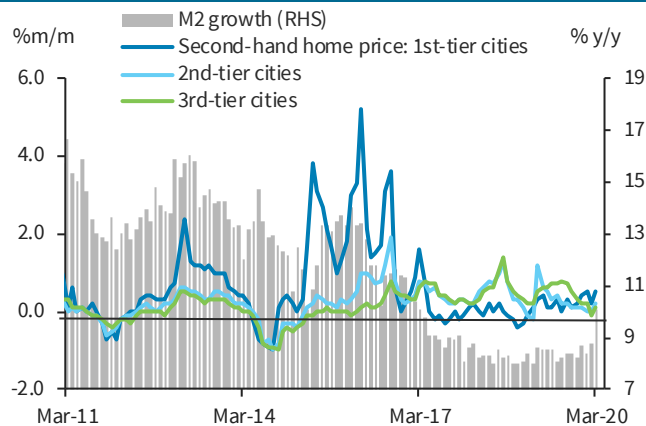
Source: CEIC, Barclays Research

... and rising home prices



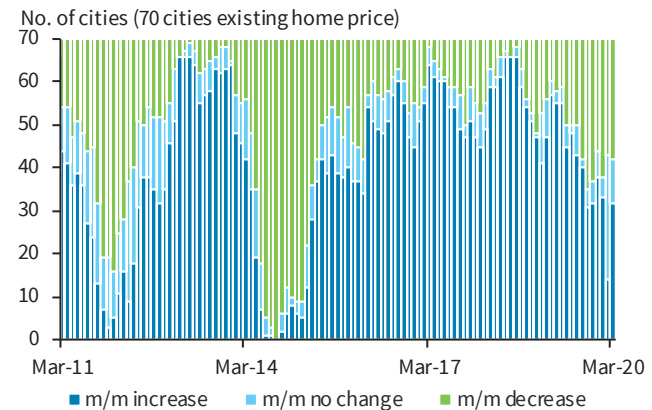
Source: Wind, Barclays Research

Home price by city tiers



Source: Wind, Barclays Research

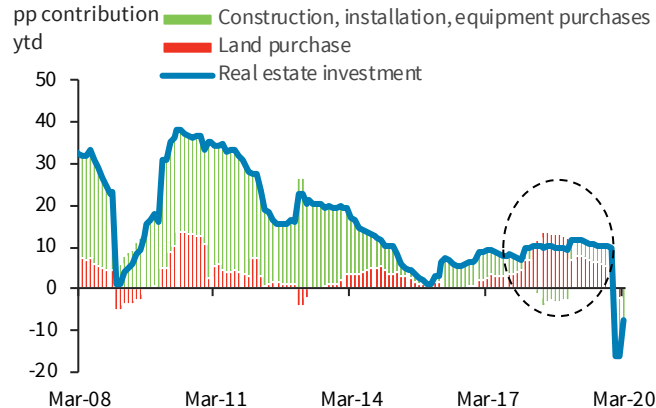
Home prices (2nd hand) in 70 cities



Source: Wind, Barclays Research

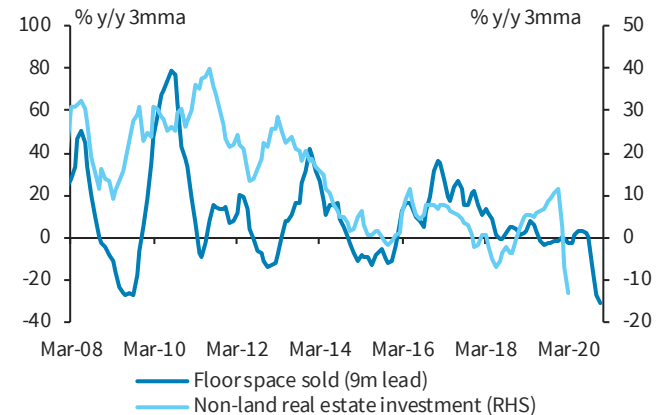
Property market to remain the bright spot (2)

Investment rebounded visibly in March



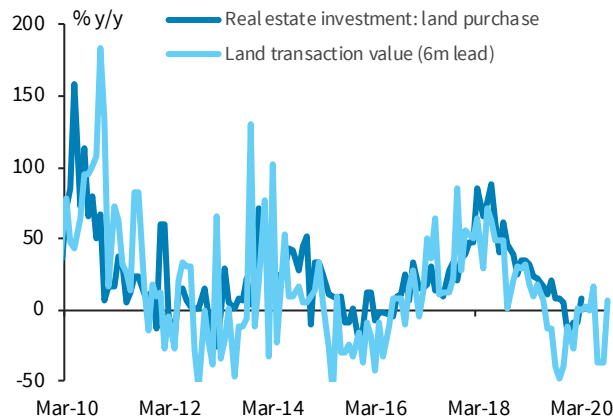
Source: Wind, Barclays Research

Pace of decline in floor space sold has eased



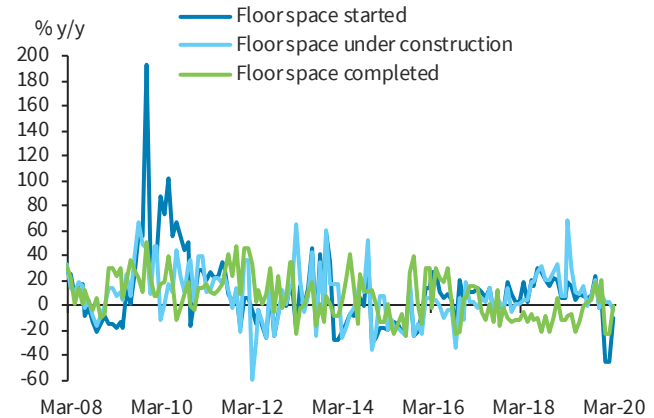
Source: Wind, Barclays Research

Land transactions by value rebounded



Source: Wind, Barclays Research

Floor space started and completed recovered

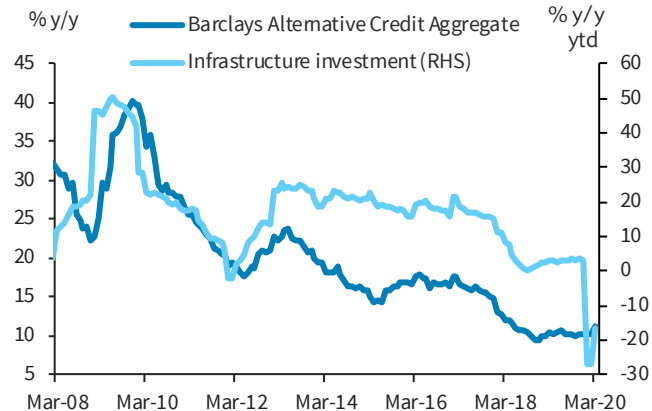


Source: Wind, Barclays Research

See [Housing downturn: Mind the falling house prices](#), 27 November 2018 and [China: A different policy-driven housing cycle](#), 6 February 2018

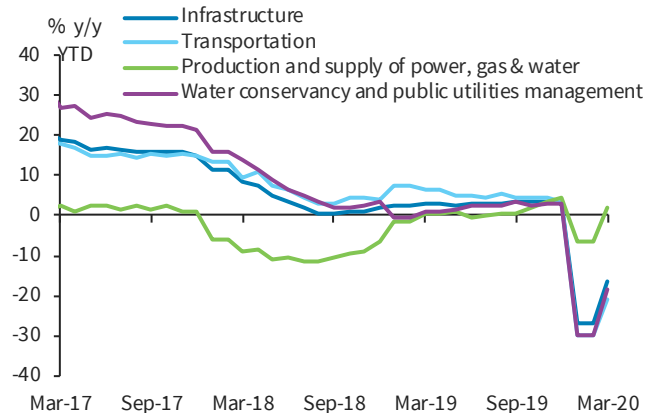
Likely more limited upside for infrastructure investment

Infrastructure investment



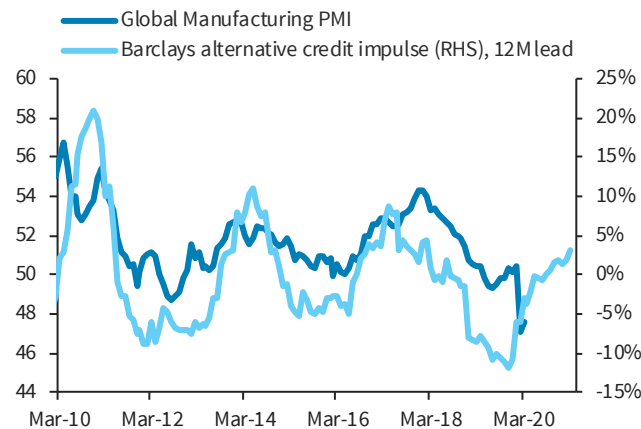
Source: Wind, Barclays Research

Infrastructure breakdown



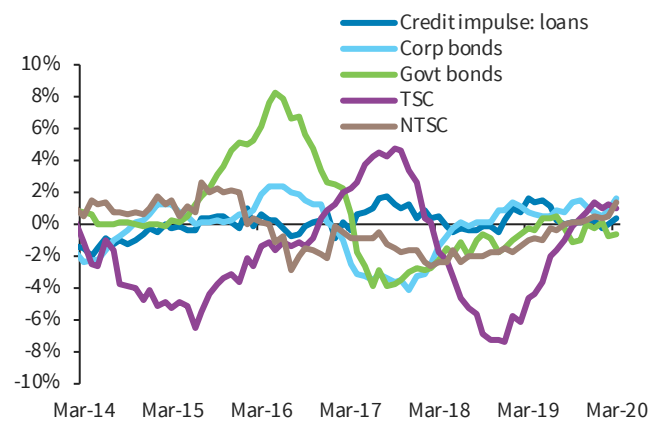
Source: Wind, Barclays Research

Credit impulse turned positive pre Covid-19



Source: Bloomberg, Barclays Research

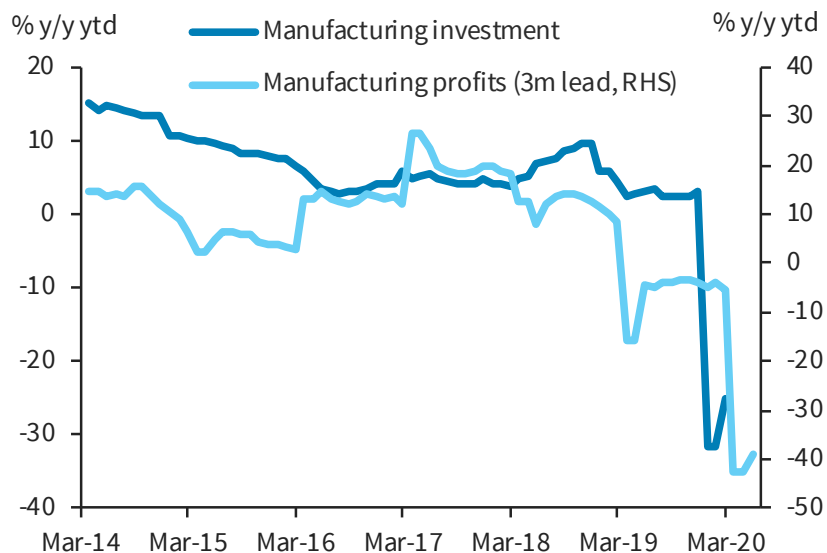
Credit impulse breakdown



Source: Wind, Barclays Research

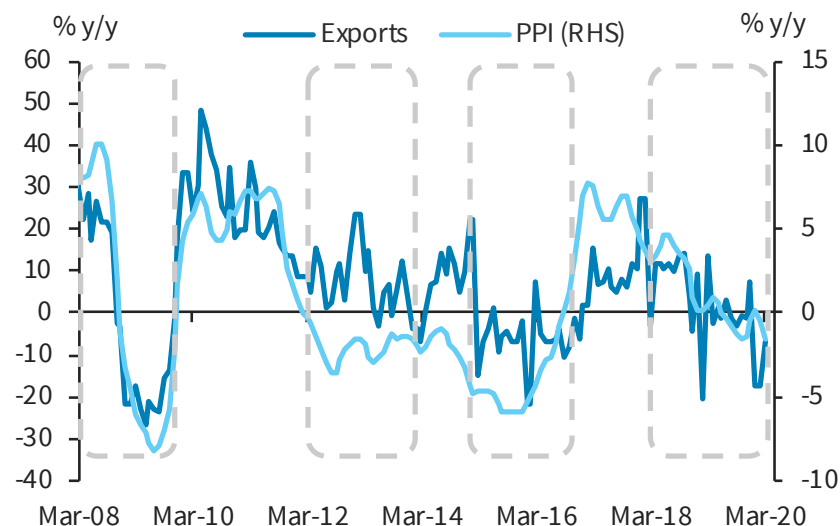
Manufacturing investment to continue to decline

Headwinds from falling industrial profits...



Source: Wind, Barclays Research

... and exports



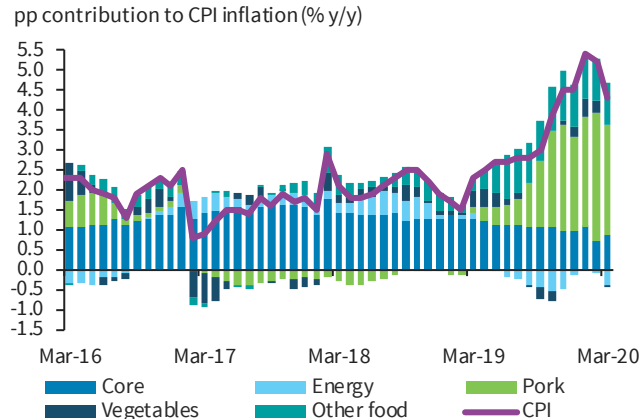
Source: Wind, Barclays Research

Inflation: COVID-19 adds uncertainties

See [China: CPI inflation surges on LNY and coronavirus](#), 1 Feb 2020, [China: CPI inflation eases on food prices; PPI deflation to worsen on contracting exports](#), 10 Apr 2020

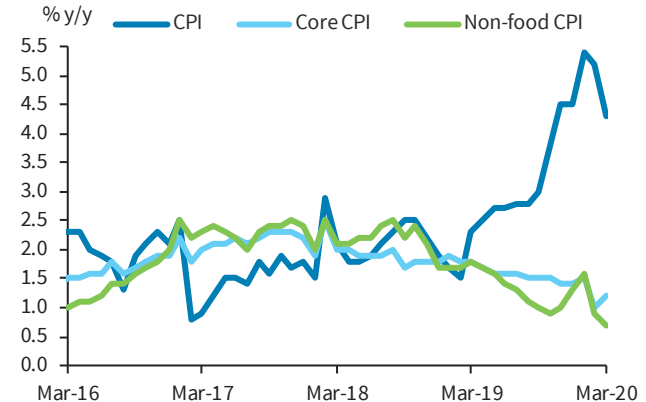
CPI inflation to moderate further from high levels

Easing in inflation driven by falling food prices



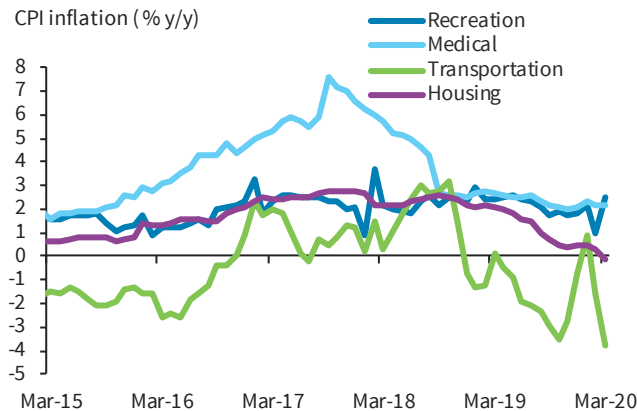
Source: CEIC, Barclays Research

Non-food inflation also declined...



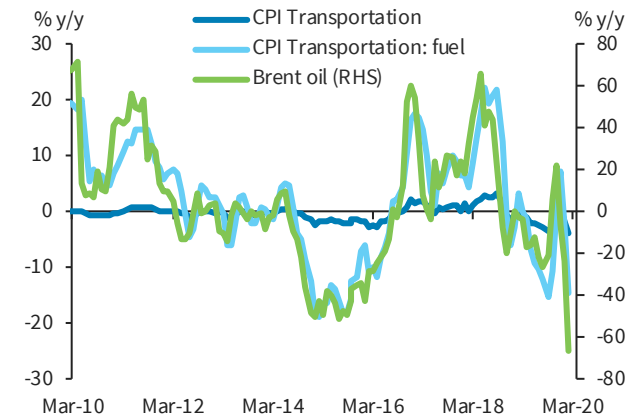
Source: CEIC, Barclays Research

... led by housing, and transportation ...



Source: Wind, Barclays Research

... amid declining oil prices

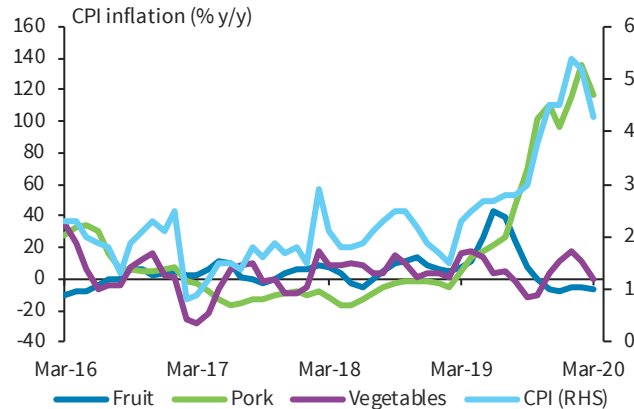


Source: Wind, Barclays Research

See [China: CPI inflation eases on food prices; PPI deflation to worsen on contracting exports](#), 10 Apr 2020

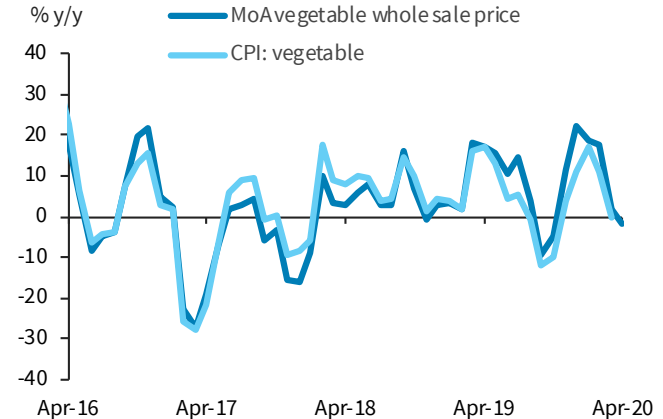
Watch for coronavirus impact on food prices

Food inflation falling...



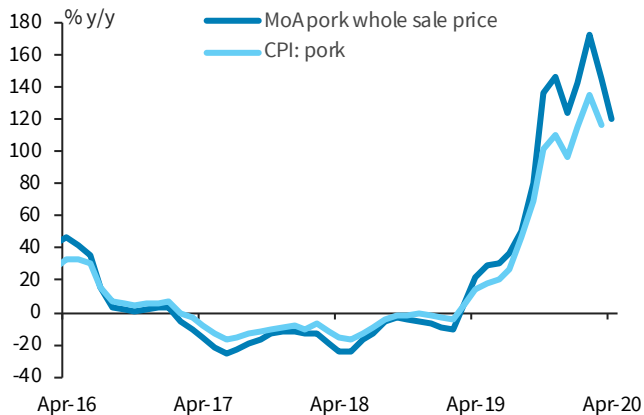
Source: CEIC, Barclays Research

...on declining vegetable prices...



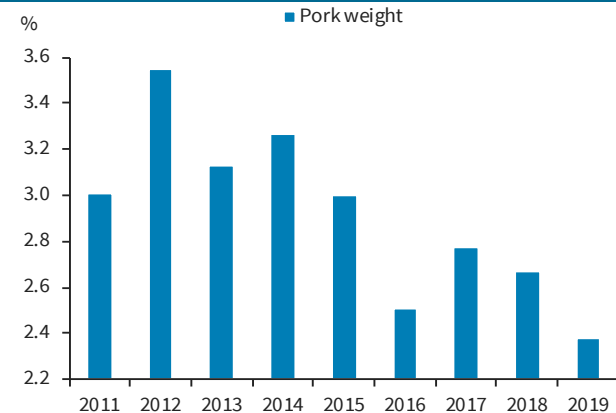
Source: CEIC, Barclays Research

... and easing pork prices



Source: Wind, Barclays Research

Smaller pork weighting in CPI basket

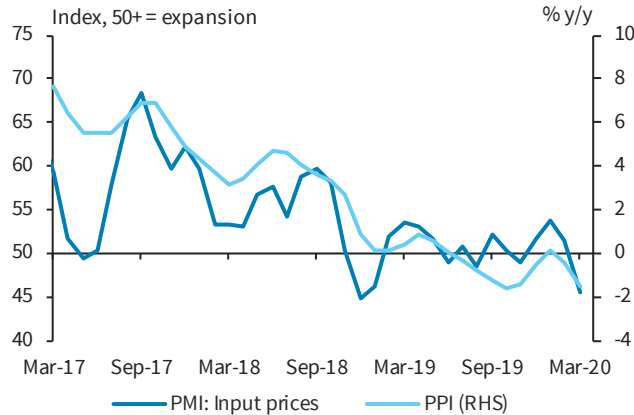


Source: Wind, Barclays Research

See [China: CPI inflation surges on LNY and coronavirus](#), 1 February 2020

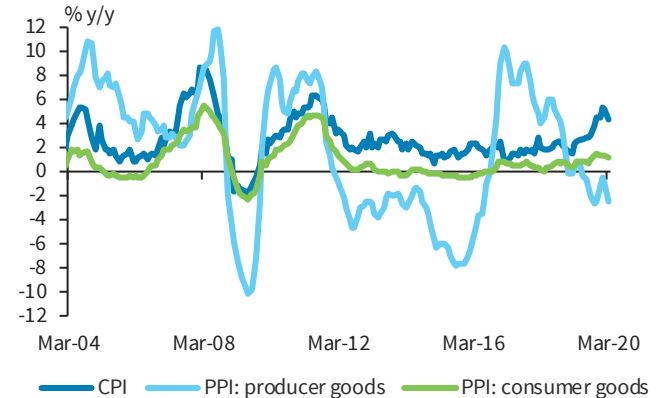
PPI deflation to widen on declining commodity prices

PPI and input prices



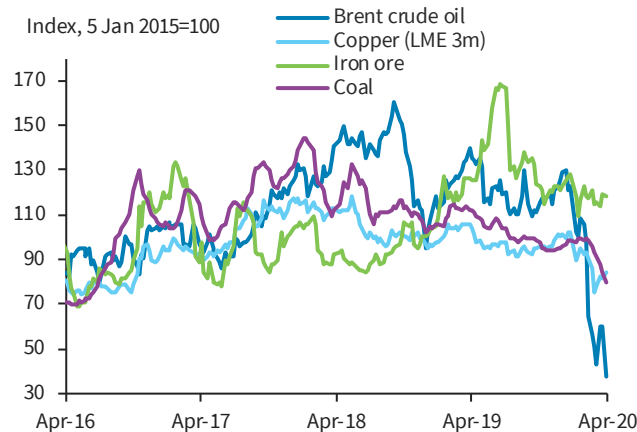
Source: CEIC, Barclays Research

PPI breakdown and CPI



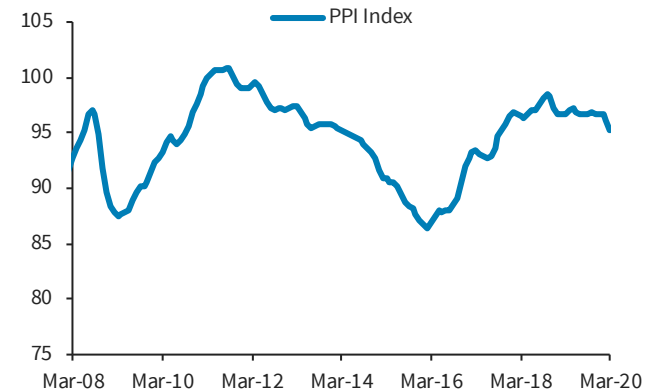
Source: CEIC, Barclays Research

Major commodity prices



Source: Wind, Barclays Research

PPI index



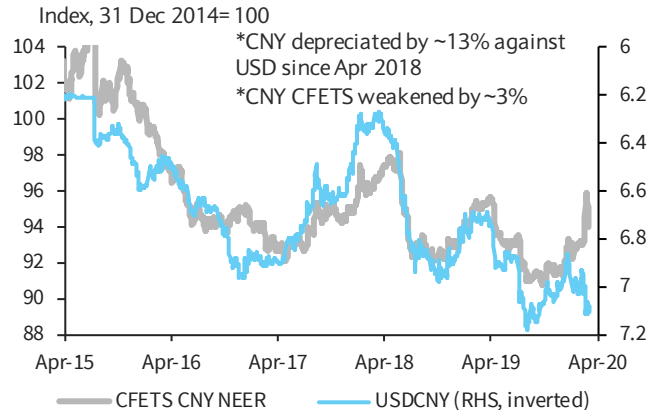
Source: Wind, Barclays Research

See [China: CPI inflation eases on food prices; PPI deflation to worsen on contracting exports](#), 10 Apr 2020

CNY and capital flows: expectation anchored

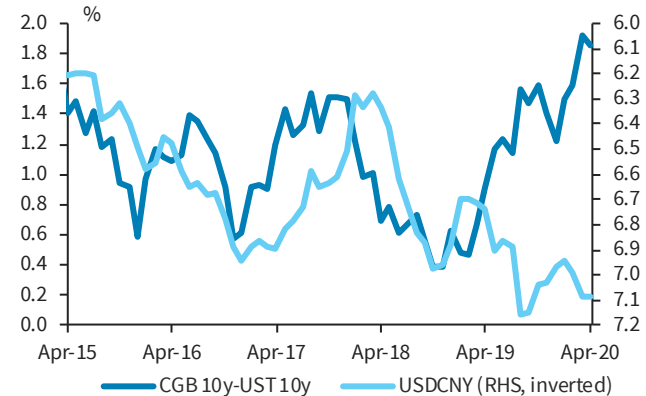
CNY: Market expectations well anchored

CNY depreciated against USD during periods of tariff escalation



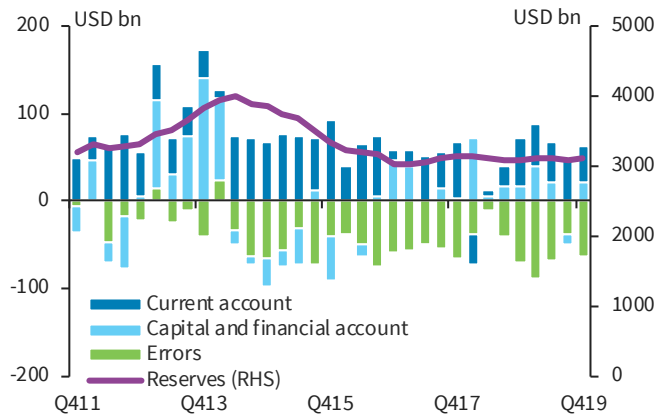
Source: Bloomberg, Barclays Research

Yield differentials have widened



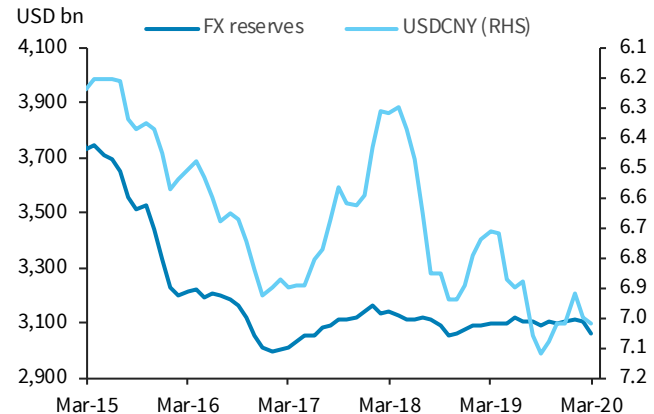
Source: Bloomberg, Barclays Research

Current account registered surplus in 2019



Source: Wind, Barclays Research

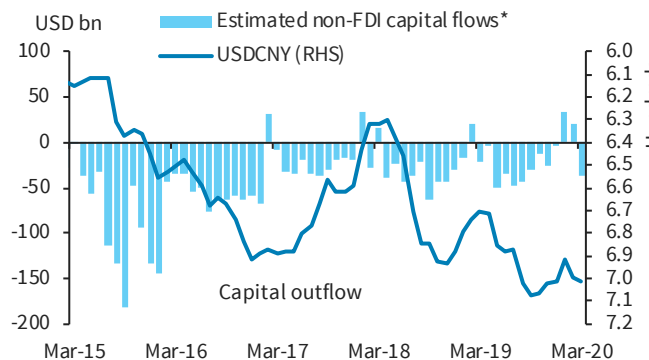
FX reserves stay above USD3trn



Source: Bloomberg, Barclays Research

Capital outflows remain contained

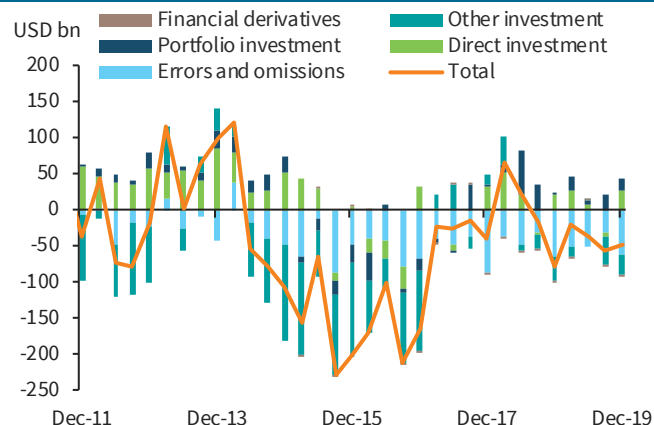
High-frequency data suggest capital outflows are still contained



* Estimated capital flows = change in FX purchase position - trade balance - net direct investment + change in FX deposits

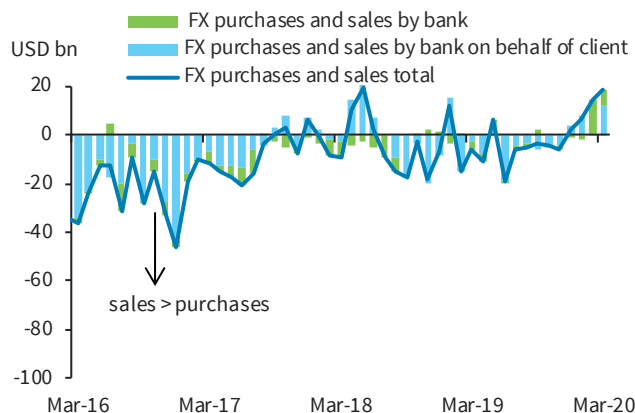
Source: Wind, Barclays Research

BOP data show milder capita outflows in 2019 vs 2015-16



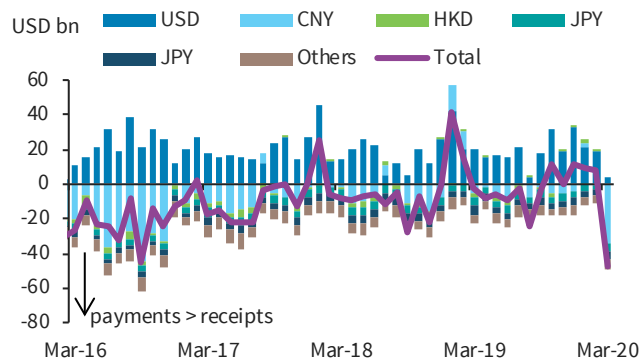
Source: Wind, Barclays Research

FX settlement and sales by banks



Source: Wind, Barclays Research

Balance of cross-border receipts and payments by banks on behalf of clients



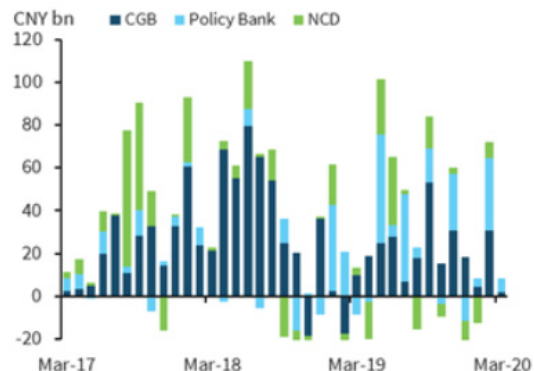
Note: The chart plots cross-border receipts and payments by banks on behalf of clients by currencies

Source: Wind, Barclays Research

Persistent bond inflows vs equity outflows

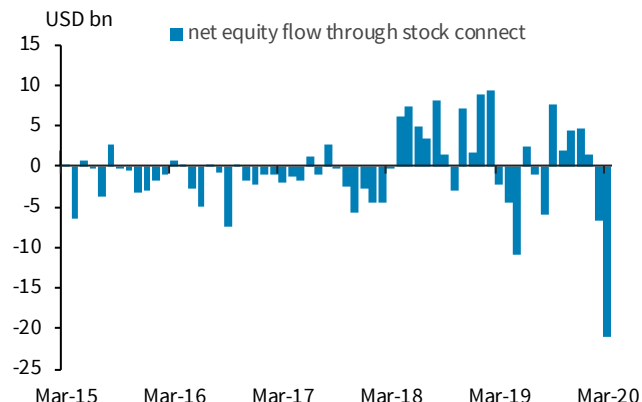
Bond inflows continued but slowed in March

Foreign investor holdings – net change



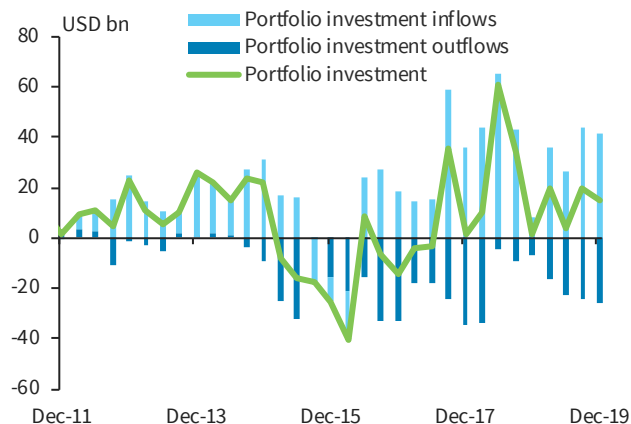
Source: Wind, Barclays Research

Equity outflows widened



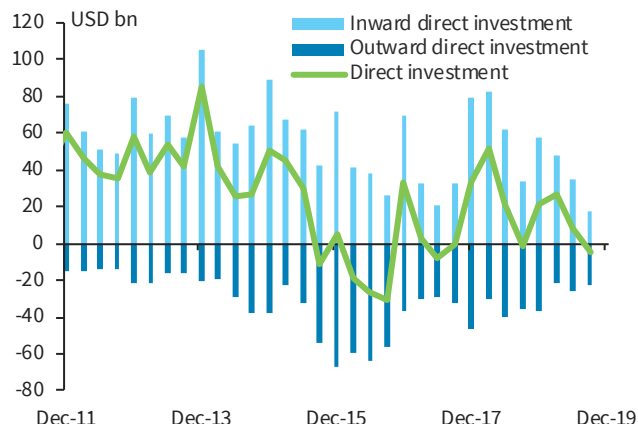
Source: Wind, Barclays Research

Portfolio flows registered a surplus in 2019



Source: Wind, Barclays Research

FDI flows have declined since Q2 19



Source: Wind, Barclays Research

2020 China economic calendar

(Beijing time, UTC/GMT+8)

Indicators	Time	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
NBS manufacturing/non-manufacturing PMI	09:00	31/Fri	29/Sat	31/Tue	30/Thu	31/Sun	30/Tue	31/Fri	31/Mon	30/Wed	31/Sat	30/Mon	31/Thu
Caixin manufacturing PMI	09:45	2/Thu	3/Mon	2/Mon	1/Wed	6/Wed	1/Mon	1/Wed	3/Mon	1/Tue	30-Sep/ Wed	2/Mon	1/Tue
FX reserves		7/Tue	7/Fri	9/Mon	7/Tue	7/Thu	8/Mon	7/Tue	7/Fri	7/Mon	9/Fri	9/Mon	7/Mon
Trade		14/Mon	7/Fri	7/Sat	14/Tue	7/Thu	7/Sun	14/Tue	7/Fri	7/Mon	13/Tue	7/Sat	7/Mon
CPI, PPI	09:30	9/Thu	10/Mon	10/Tue	10/Fri	12/Tue	10/Wed	9/Thu	10/Mon	9/Wed	15/Thu	10/Tue	9/Wed
Money and credit		10~15	10~15	10~15	10~15	10~15	10~15	10~15	10~15	10~15	10~15	10~15	10~15
Activities (IP, FAI, retail sales); GDP*	10:00	*17/Fri	-	16/Mon	*17/Fri	15/Fri	15/Mon	*16/Thu	14/Fri	15/Tue	*19/Mon	16/Mon	15/Tue
70-city housing prices	09:30	16/Thu	17/Mon	16/Mon	16/Thu	18/Mon	15/Mon	16/Thu	14/Fri	14/Mon	20/Tue	16/Mon	14/Mon
Industrial profit	09:30		3/Mon	27/Fri	27/Mon	27/Wed	28/Sun	27/Mon	27/Thu	27/Sun	27/Tue	27/Fri	27/Sun
FOMC meeting		30/Thu 3:00		19/Thu 2:00	30/Thu 2:00		11/Thu 2:00	30/Thu 2:00		17/Thu 2:00		6/Fri 3:00	17/Thu 3:00

All in Beijing time. Source: Bloomberg, Barclays Research.

Analyst Certifications and Important Disclosures

Analyst Certification(s)

We, Jian Chang, Eric Zhu and Yingke Zhou, hereby certify (1) that the views expressed in this research report accurately reflect our personal views about any or all of the subject securities or issuers referred to in this research report and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

Important Disclosures:

Barclays Research is produced by the Investment Bank of Barclays Bank PLC and its affiliates (collectively and each individually, "Barclays").

All authors contributing to this research report are Research Analysts unless otherwise indicated. The publication date at the top of the report reflects the local time where the report was produced and may differ from the release date provided in GMT.

Availability of Disclosures:

For current important disclosures regarding any issuers which are the subject of this research report please refer to <https://publicresearch.barclays.com> or alternatively send a written request to: Barclays Research Compliance, 745 Seventh Avenue, 13th Floor, New York, NY 10019 or call +1-212-526-1072.

Barclays Capital Inc. and/or one of its affiliates does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that Barclays may have a conflict of interest that could affect the objectivity of this report. Barclays Capital Inc. and/or one of its affiliates regularly trades, generally deals as principal and generally provides liquidity (as market maker or otherwise) in the debt securities that are the subject of this research report (and related derivatives thereof). Barclays trading desks may have either a long and / or short position in such securities, other financial instruments and / or derivatives, which may pose a conflict with the interests of investing customers. Where permitted and subject to appropriate information barrier restrictions, Barclays fixed income research analysts regularly interact with its trading desk personnel regarding current market conditions and prices. Barclays fixed income research analysts receive compensation based on various factors including, but not limited to, the quality of their work, the overall performance of the firm (including the profitability of the Investment Banking Department), the profitability and revenues of the Markets business and the potential interest of the firm's investing clients in research with respect to the asset class covered by the analyst. To the extent that any historical pricing information was obtained from Barclays trading desks, the firm makes no representation that it is accurate or complete. All levels, prices and spreads are historical and do not necessarily represent current market levels, prices or spreads, some or all of which may have changed since the publication of this document. Barclays Research Department produces various types of research including, but not limited to, fundamental analysis, equity-linked analysis, quantitative analysis, and trade ideas. Recommendations and trade ideas contained in one type of Barclays Research may differ from those contained in other types of Barclays Research, whether as a result of differing time horizons, methodologies, or otherwise.

In order to access Barclays Statement regarding Research Dissemination Policies and Procedures, please refer to <https://publicresearch.barcap.com/S/RD.htm>. In order to access Barclays Research Conflict Management Policy Statement, please refer to: <https://publicresearch.barcap.com/S/CM.htm>.

All pricing information is indicative only. Unless otherwise indicated, prices are sourced from Refinitiv and reflect the closing price in the relevant trading market, which may not be the last available price at the time of publication.

Types of investment recommendations produced by Barclays FICC Research:

In addition to any ratings assigned under Barclays' formal rating systems, this publication may contain investment recommendations in the form of trade ideas, thematic screens, scorecards or portfolio recommendations that have been produced by analysts in FICC Research. Any such investment recommendations produced by non-Credit Research teams shall remain open until they are subsequently amended, rebalanced or closed in a future research report. Any such investment recommendations produced by the Credit Research teams are valid at current market conditions and may not be otherwise relied upon.

Disclosure of other investment recommendations produced by Barclays FICC Research:

Barclays FICC Research may have published other investment recommendations in respect of the same securities/instruments recommended in this research report during the preceding 12 months. To view all investment recommendations published by Barclays FICC Research in the preceding 12 months please refer to <https://live.barcap.com/go/research/Recommendations>.

Important Disclosures Continued

Legal entities involved in producing Barclays Research:

Barclays Bank PLC (Barclays, UK)

Barclays Capital Inc. (BCI, US)

Barclays Bank Ireland PLC, Frankfurt Branch (BBI, Frankfurt)

Barclays Bank Ireland PLC, Paris Branch (BBI, Paris)

Barclays Bank Ireland PLC, Milan Branch (BBI, Milan)

Barclays Securities Japan Limited (BSJL, Japan)

Barclays Bank PLC, Hong Kong branch (Barclays Bank, Hong Kong)

Barclays Capital Canada Inc. (BCCI, Canada)

Barclays Bank Mexico, S.A. (BBMX, Mexico)

Barclays Securities (India) Private Limited (BSIPL, India)

Barclays Bank PLC, India branch (Barclays Bank, India)

Barclays Bank PLC, Singapore branch (Barclays Bank, Singapore)

Barclays Bank PLC, DIFC Branch (Barclays Bank, DIFC)

Disclaimer

This publication has been produced by Barclays Research Department in the Investment Bank of Barclays Bank PLC and/or one or more of its affiliates (collectively and each individually, "Barclays"). It has been prepared for institutional investors and not for retail investors. It has been distributed by one or more Barclays affiliated legal entities listed below. It is provided to our clients for information purposes only, and Barclays makes no express or implied warranties, and expressly disclaims all warranties of merchantability or fitness for a particular purpose or use with respect to any data included in this publication. To the extent that this publication states on the front page that it is intended for institutional investors and is not subject to all of the independence and disclosure standards applicable to debt research reports prepared for retail investors under U.S. FINRA Rule 2242, it is an "institutional debt research report" and distribution to retail investors is strictly prohibited. Barclays also distributes such institutional debt research reports to various issuers, media, regulatory and academic organisations for their own internal informational news gathering, regulatory or academic purposes and not for the purpose of making investment decisions regarding any debt securities. Media organisations are prohibited from re-publishing any opinion or recommendation concerning a debt issuer or debt security contained in any Barclays institutional debt research report. Any such recipients that do not want to continue receiving Barclays institutional debt research reports should contact debtresearch@barclays.com. Clients that are subscribed to receive equity research reports, will not receive certain cross asset research reports co-authored by equity and FICC research analysts that are distributed as "institutional debt research reports" unless they have agreed to accept such reports. Eligible clients may get access to such cross asset reports by contacting debtresearch@barclays.com. Barclays will not treat unauthorized recipients of this report as its clients and accepts no liability for use by them of the contents which may not be suitable for their personal use. Prices shown are indicative and Barclays is not offering to buy or sell or soliciting offers to buy or sell any financial instrument.

Without limiting any of the foregoing and to the extent permitted by law, in no event shall Barclays, nor any affiliate, nor any of their respective officers, directors, partners, or employees have any liability for (a) any special, punitive, indirect, or consequential damages; or (b) any lost profits, lost revenue, loss of anticipated savings or loss of opportunity or other financial loss, even if notified of the possibility of such damages, arising from any use of this publication or its contents.

Other than disclosures relating to Barclays, the information contained in this publication has been obtained from sources that Barclays Research believes to be reliable, but Barclays does not represent or warrant that it is accurate or complete. Barclays is not responsible for, and makes no warranties whatsoever as to, the information or opinions contained in any written, electronic, audio or video presentations of third parties that are accessible via a direct hyperlink in this publication or via a hyperlink to a third-party web site ("Third-Party Content"). Any such Third-Party Content has not been adopted or endorsed by Barclays, does not represent the views or opinions of Barclays, and is not incorporated by reference into this publication. Third-Party Content is provided for information purposes only and Barclays has not independently verified its accuracy or completeness.

The views in this publication are solely and exclusively those of the authoring analyst(s) and are subject to change, and Barclays Research has no obligation to update its opinions or the information in this publication. Unless otherwise disclosed herein, the analysts who authored this report have not received any compensation from the subject companies in the past 12 months. If this publication contains recommendations, they are general recommendations that were prepared independently of any other interests, including those of Barclays and/or its affiliates, and/or the subject companies. This publication does not contain personal investment recommendations or investment advice or take into account the individual financial circumstances or investment objectives of the clients who receive it. The securities and other investments discussed herein may not be suitable for all investors. Barclays is not a fiduciary to any recipient of this publication. Investors must independently evaluate the merits and risks of the investments discussed herein, consult any independent advisors they believe necessary, and exercise independent judgment with regard to any investment decision. The value of and income from any investment may fluctuate from day to day as a result of changes in relevant economic markets (including changes in market liquidity). The information herein is not intended to predict actual results, which may differ substantially from those reflected. Past performance is not necessarily indicative of future results. The information provided does not constitute a financial benchmark and should not be used as a submission or contribution of input data for the purposes of determining a financial benchmark.

United Kingdom: This document is being distributed (1) only by or with the approval of an authorised person (Barclays Bank PLC) or (2) to, and is directed at (a) persons in the United Kingdom having professional experience in matters relating to investments and who fall within the definition of "investment professionals" in Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "Order"); or (b) high net worth companies, unincorporated associations and partnerships and trustees of high value trusts as described in Article 49(2) of the Order; or (c) other persons to whom it may otherwise lawfully be communicated (all such persons being "Relevant Persons"). Any investment or investment activity to which this communication relates is only available to and will only be engaged in with Relevant Persons. Any other persons who receive this communication should not rely on or act upon it. Barclays Bank PLC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority and is a member of the London Stock Exchange.

European Economic Area ("EEA"): This material is being distributed in the EEA by Barclays Bank PLC. Barclays Bank PLC is not registered in France with the Autorité des marchés financiers or the Autorité de contrôle prudentiel.

Americas: The Investment Bank of Barclays Bank PLC undertakes U.S. securities business in the name of its wholly owned subsidiary Barclays Capital Inc., a FINRA and SIPC member. Barclays Capital Inc., a U.S. registered broker/dealer, is distributing this material in the United States and, in connection therewith accepts responsibility for its contents. Any U.S. person wishing to effect a transaction in any security discussed herein should do so only by contacting a representative of Barclays Capital Inc. in the U.S. at 745 Seventh Avenue, New York, New York 10019.

Non-U.S. persons should contact and execute transactions through a Barclays Bank PLC branch or affiliate in their home jurisdiction unless local regulations permit otherwise.

This material is distributed in Canada by Barclays Capital Canada Inc., a registered investment dealer, a Dealer Member of IIROC (www.iiroc.ca), and a Member of the Canadian Investor Protection Fund (CIPF).

This material is distributed in Mexico by Barclays Bank Mexico, S.A. This material is distributed in the Cayman Islands and in the Bahamas by Barclays Capital Inc., which it is not licensed or registered to conduct and does not conduct business in, from or within those jurisdictions and has not filed this material with any regulatory body in those jurisdictions.

Disclaimer (continued)

Japan: This material is being distributed to institutional investors in Japan by Barclays Securities Japan Limited. Barclays Securities Japan Limited is a joint-stock company incorporated in Japan with registered office of 6-10-1 Roppongi, Minato-ku, Tokyo 106-6131, Japan. It is a subsidiary of Barclays Bank PLC and a registered financial instruments firm regulated by the Financial Services Agency of Japan. Registered Number: Kanto Zaimukyokucho (kinsho) No. 143.

Asia Pacific (excluding Japan): Barclays Bank PLC, Hong Kong Branch is distributing this material in Hong Kong as an authorised institution regulated by the Hong Kong Monetary Authority. Registered Office: 41/F, Cheung Kong Center, 2 Queen's Road Central, Hong Kong.

All Indian securities-related research and other equity research produced by Barclays' Investment Bank are distributed in India by Barclays Securities (India) Private Limited (BSIPL). BSIPL is a company incorporated under the Companies Act, 1956 having CIN U67120MH2006PTC161063. BSIPL is registered and regulated by the Securities and Exchange Board of India (SEBI) as a Research Analyst: INH000001519; Portfolio Manager INP000002585; Stock Broker/Trading and Clearing Member: National Stock Exchange of India Limited (NSE) Capital Market INB231292732, NSE Futures & Options INF231292732, NSE Currency derivatives INE231450334, Bombay Stock Exchange Limited (BSE) Capital Market INB011292738, BSE Futures & Options INF011292738; Depository Participant (DP) with the National Securities & Depositories Limited (NSDL): DP ID: IN-DP-NSDL-299-2008; Investment Adviser: INA000000391. The registered office of BSIPL is at 208, Ceejay House, Shivsagar Estate, Dr. A. Besant Road, Worli, Mumbai – 400 018, India. Telephone No: +91 2267196000. Fax number: +91 22 67196100. Any other reports produced by Barclays' Investment Bank are distributed in India by Barclays Bank PLC, India Branch, an associate of BSIPL in India that is registered with Reserve Bank of India (RBI) as a Banking Company under the provisions of The Banking Regulation Act, 1949 (Regn No BOM43) and registered with SEBI as Merchant Banker (Regn No INM000002129) and also as Banker to the Issue (Regn No INBI00000950). Barclays Investments and Loans (India) Limited, registered with RBI as Non Banking Financial Company (Regn No RBI CoR-07-00258), and Barclays Wealth Trustees (India) Private Limited, registered with Registrar of Companies (CIN U93000MH2008PTC188438), are associates of BSIPL in India that are not authorised to distribute any reports produced by Barclays' Investment Bank.

This material is distributed in Singapore by the Singapore branch of Barclays Bank PLC, a bank licensed in Singapore by the Monetary Authority of Singapore. For matters in connection with this material, recipients in Singapore may contact the Singapore branch of Barclays Bank PLC, whose registered address is 10 Marina Boulevard, #23-01 Marina Bay Financial Centre Tower 2, Singapore 018983.

This material is distributed to persons in Australia by Barclays Bank PLC or one of the Barclays group entities. None of Barclays Bank PLC, nor such Barclays group entity, holds an Australian financial services licence and instead relies on an exemption from the requirement to hold such a licence. This material is intended to only be distributed to "wholesale clients" as defined by the Australian Corporations Act 2001. This material is distributed in New Zealand by Barclays Bank PLC, but it has not been registered, filed or approved by any New Zealand regulatory authority or under or in accordance with the Financial Markets Conduct Act of 2013, and this material is not a disclosure document under New Zealand law..

Middle East: Nothing herein should be considered investment advice as defined in the Israeli Regulation of Investment Advisory, Investment Marketing and Portfolio Management Law, 1995 ("Advisory Law"). This document is being made to eligible clients (as defined under the Advisory Law) only. Barclays Israeli branch previously held an investment marketing license with the Israel Securities Authority but it cancelled such license on 30/11/2014 as it solely provides its services to eligible clients pursuant to available exemptions under the Advisory Law, therefore a license with the Israel Securities Authority is not required. Accordingly, Barclays does not maintain an insurance coverage pursuant to the Advisory Law.

This material is distributed in the United Arab Emirates (including the Dubai International Financial Centre) and Qatar by Barclays Bank PLC. Barclays Bank PLC in the Dubai International Financial Centre (Registered No. 0060) is regulated by the Dubai Financial Services Authority (DFSA). Principal place of business in the Dubai International Financial Centre: The Gate Village, Building 4, Level 4, PO Box 506504, Dubai, United Arab Emirates. Barclays Bank PLC-DIFC Branch, may only undertake the financial services activities that fall within the scope of its existing DFSA licence. Related financial products or services are only available to Professional Clients, as defined by the Dubai Financial Services Authority. Barclays Bank PLC in the UAE is regulated by the Central Bank of the UAE and is licensed to conduct business activities as a branch of a commercial bank incorporated outside the UAE in Dubai (Licence No.: 13/1844/2008, Registered Office: Building No. 6, Burj Dubai Business Hub, Sheikh Zayed Road, Dubai City) and Abu Dhabi (Licence No.: 13/952/2008, Registered Office: Al Jazira Towers, Hamdan Street, PO Box 2734, Abu Dhabi). This material does not constitute or form part of any offer to issue or sell, or any solicitation of any offer to subscribe for or purchase, any securities or investment products in the UAE (including the Dubai International Financial Centre) and accordingly should not be construed as such. Furthermore, this information is being made available on the basis that the recipient acknowledges and understands that the entities and securities to which it may relate have not been approved, licensed by or registered with the UAE Central Bank, the Dubai Financial Services Authority or any other relevant licensing authority or governmental agency in the UAE. The content of this report has not been approved by or filed with the UAE Central Bank or Dubai Financial Services Authority. Barclays Bank PLC in the Qatar Financial Centre (Registered No. 00018) is authorised by the Qatar Financial Centre Regulatory Authority (QFCRA). Barclays Bank PLC-QFC Branch may only undertake the regulated activities that fall within the scope of its existing QFCRA licence. Principal place of business in Qatar: Qatar Financial Centre, Office 1002, 10th Floor, QFC Tower, Diplomatic Area, West Bay, PO Box 15891, Doha, Qatar. Related financial products or services are only available to Business Customers as defined by the Qatar Financial Centre Regulatory Authority.

Russia: This material is not intended for investors who are not Qualified Investors according to the laws of the Russian Federation as it might contain information about or description of the features of financial instruments not admitted for public offering and/or circulation in the Russian Federation and thus not eligible for non-Qualified Investors. If you are not a Qualified Investor according to the laws of the Russian Federation, please dispose of any copy of this material in your possession.

IRS Circular 230 Prepared Materials Disclaimer: Barclays does not provide tax advice and nothing contained herein should be construed to be tax advice. Please be advised that any discussion of U.S. tax matters contained herein (including any attachments) (i) is not intended or written to be used, and cannot be used, by you for the purpose of avoiding U.S. tax-related penalties; and (ii) was written to support the promotion or marketing of the transactions or other matters addressed herein. Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.

© Copyright Barclays Bank PLC (2020). All rights reserved. No part of this publication may be reproduced or redistributed in any manner without the prior written permission of Barclays. Barclays Bank PLC is registered in England No. 1026167. Registered office 1 Churchill Place, London, E14 5HP. Additional information regarding this publication will be furnished upon request.

AS9187