

THEMATIC CHARTPACK

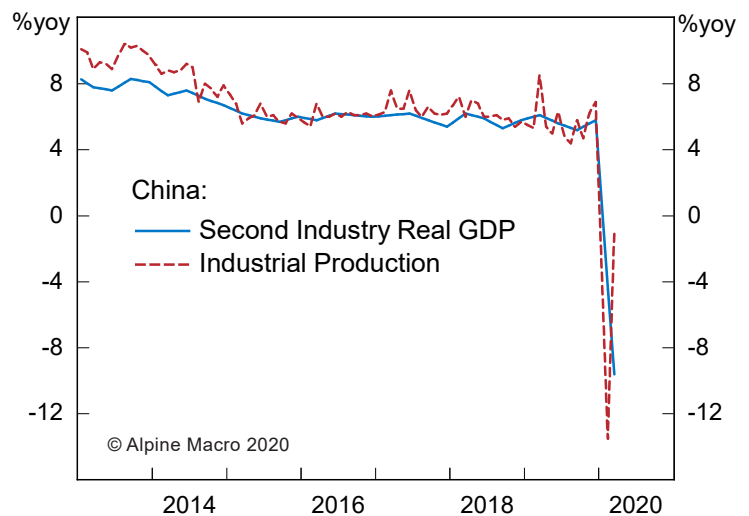
Chinese Growth: What To Watch After The Q1 Slump?

The 6.8% contraction in Chinese GDP in the first quarter is the poorest showing in the country's post-reform history. As the lockdown is gradually lifted and business activity resumes, the growth outlook will improve going forward. The first quarter should have marked the rock bottom of China's slowdown.

From Chinese authorities' point of view, the unprecedented growth contraction has two major policy consequences, which became clear in the latest Politburo meeting held last Friday. First, the Q1 GDP contraction has made it almost impossible to achieve the country's first "Centennial Goal" of "building a moderately prosperous society." Achieving the original target would require a minimum 5.7% GDP growth for 2020, which would need over 9% growth for the rest of the year after the Q1 slump, all but impossible considering the pandemic is still raging in other parts of the world.

Instead, the growth target has shifted to maintaining basic social and economic stability. In the latest Politburo meeting, the authorities downplayed the numeric GDP growth target and added "six guarantees" as the prime objectives for this year's economic work, including guaranteeing employment, basic livelihoods of households, supply of food and energy, continuity of supply chains, functioning of social grassroots organizations and preventing mass bankruptcies among market

Chart 1 Industrial GDP Is To Recover



entities. This means the government will focus more on directly providing relief to companies and households to help them survive the economic hardship.¹ It also underscores that the government is on high alert to guard against a worst-case scenario that could lead to social upheaval.

Second, the larger-than-expected growth crash in Q1 amid the imperative to maintain social stability also means the government has to step up growth-boosting efforts. The latest Politburo pledged more forceful fiscal and monetary stimulus measures to support the economy. Consequently, yesterday the Ministry of Finance announced an additional RMB 1 trillion quota for special local government bonds, and commercial banks' loan

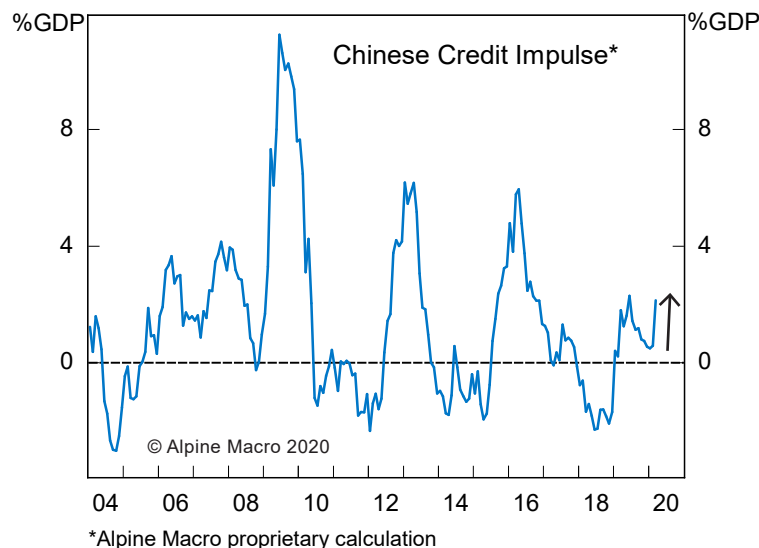
¹ Alpine Macro *EM & China Strategy* "China After "Liftoff" And A Glimpse Into The Post-Covid World" (April 15, 2020).

prime rate was lowered. Chinese stocks have been resilient amid the bad economic news, a sign that financial markets are pricing in more aggressive policy help and growth improvement.

In lieu of our regular report, this week we are publishing our thematic chartpack on China's economy and financial markets to track the country's growth trajectory. While the macro numbers in the first quarter are decisively bleak, growth conditions in March have begun to improve, suggesting the worst may have passed. Some developments are particularly noteworthy and should continue to be closely watched to gauge the Chinese growth outlook.

- The main culprit of the GDP slump has been the industrial sector, which contracted by a whopping 9.6% in Q1 from a year ago, lagging the primary industry and the service sector. Looking forward, the industrial sector is likely to accelerate strongly, as industrial production has already rebounded in March with the resumption of manufacturing. The industrial sector will likely be further boosted as infrastructure construction continues to gain momentum (**Chart 1**). Meanwhile, it is encouraging to see that the service industry has been more stable and resilient, even though some sectors such as restaurants, hotels and entertainment have been hit hard by the lockdown.
- Domestic demand – both capital spending and retail sales – has contracted more than external demand in Q1, which will change in the coming months. It has become clear that exports will remain sluggish, but that will force the Chinese authorities to ramp up support for domestic demand both through consumption and infrastructure spending. Some leading indicators on construction are promising. Steel production

Chart 2 Credit Impulse Is Reaccelerating



has been fairly buoyant, cement shipments and prices have been strengthening, excavator sales have rebounded, and imports of raw materials have accelerated strongly, all of which is consistent with a pending infrastructure spending cycle.

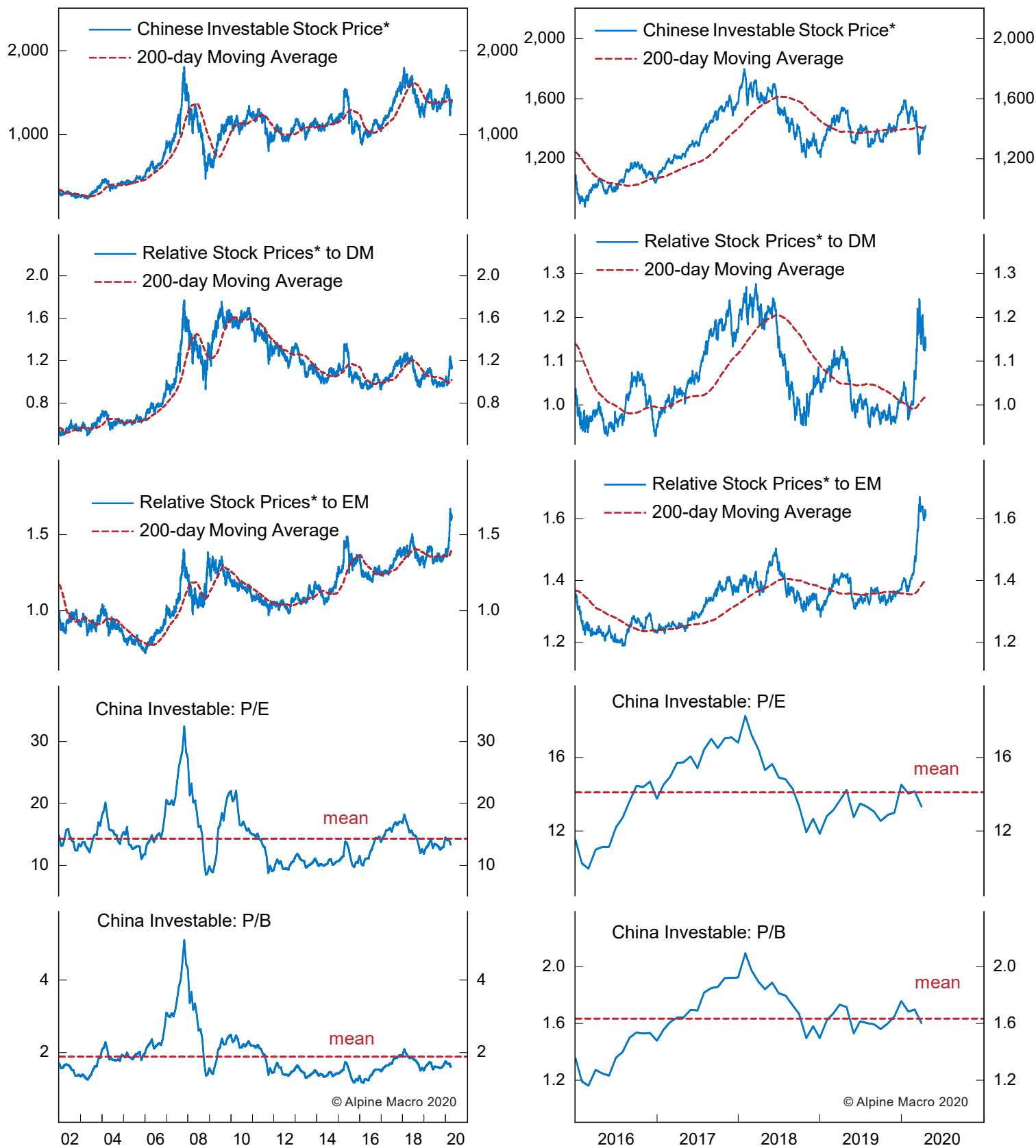
- Ongoing policy easing by the People's Bank of China has begun to improve the country's money and credit conditions. The monetary condition index has begun to ease, mainly due to falling interest rates. The credit impulse, which measures the change in credit flows, has reaccelerated after a temporary retreat in previous months (**Chart 2**). The yield curve has steepened sharply of late and corporate surveys show an improvement in funding conditions. This is setting the stage for a broader growth recovery going forward.

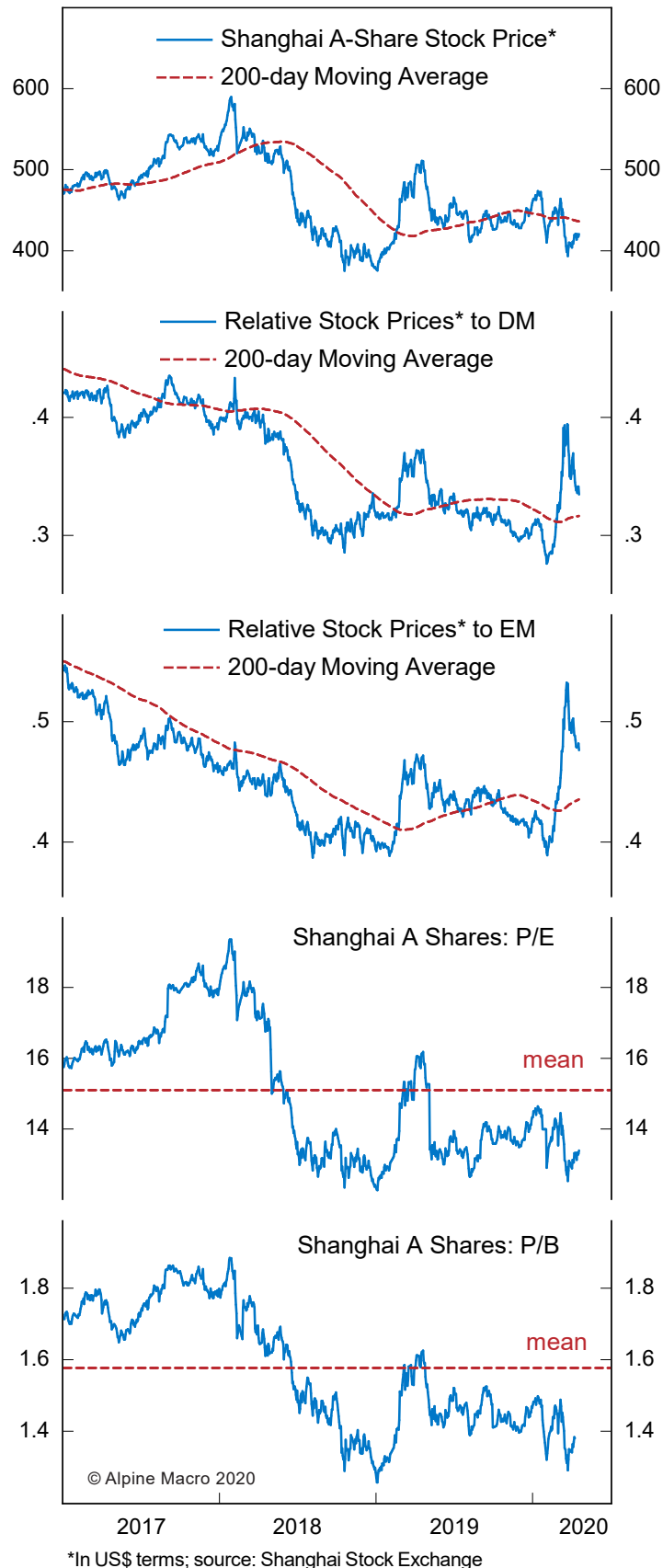
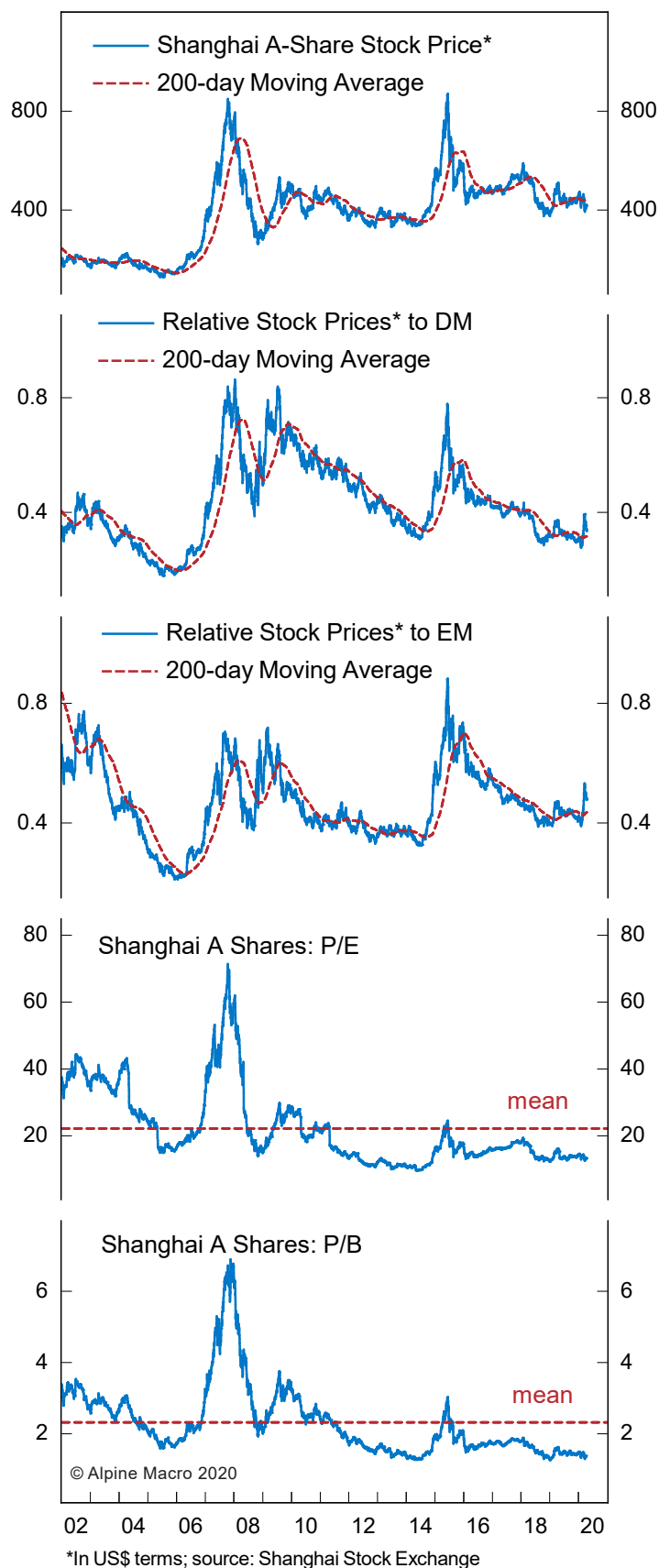
Yan Wang, CFA

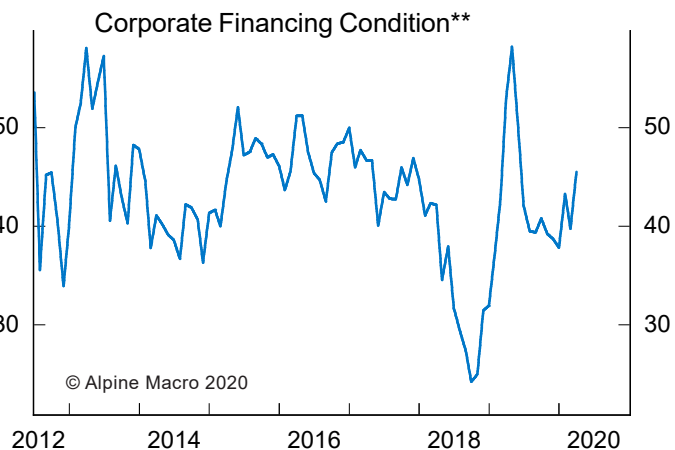
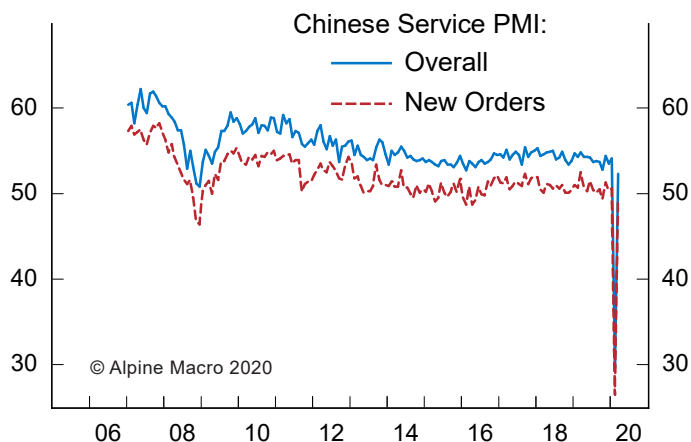
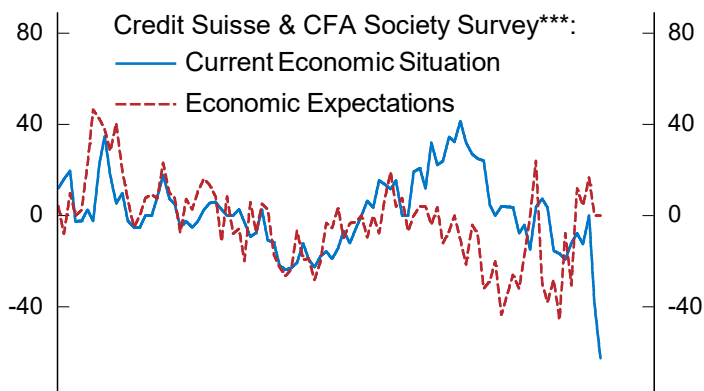
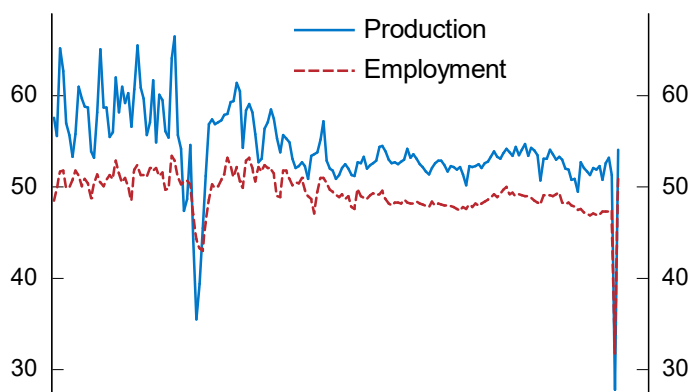
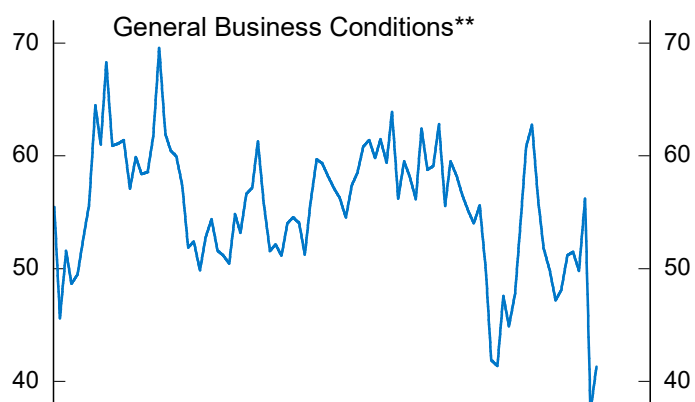
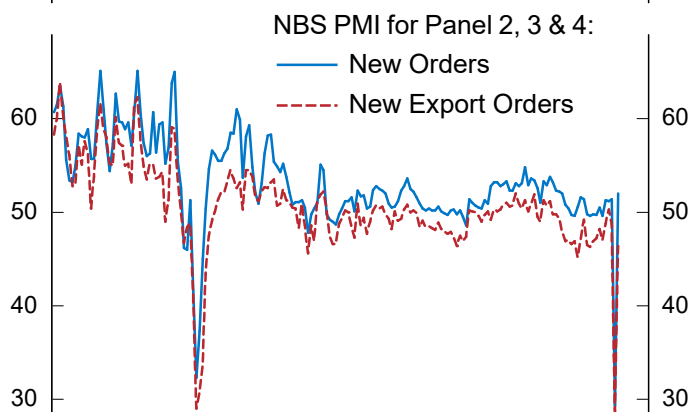
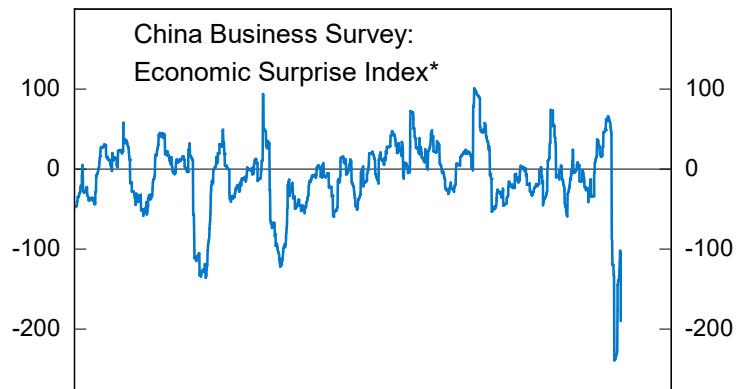
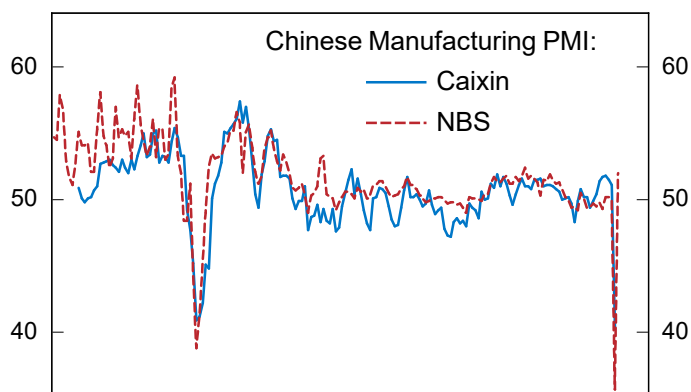
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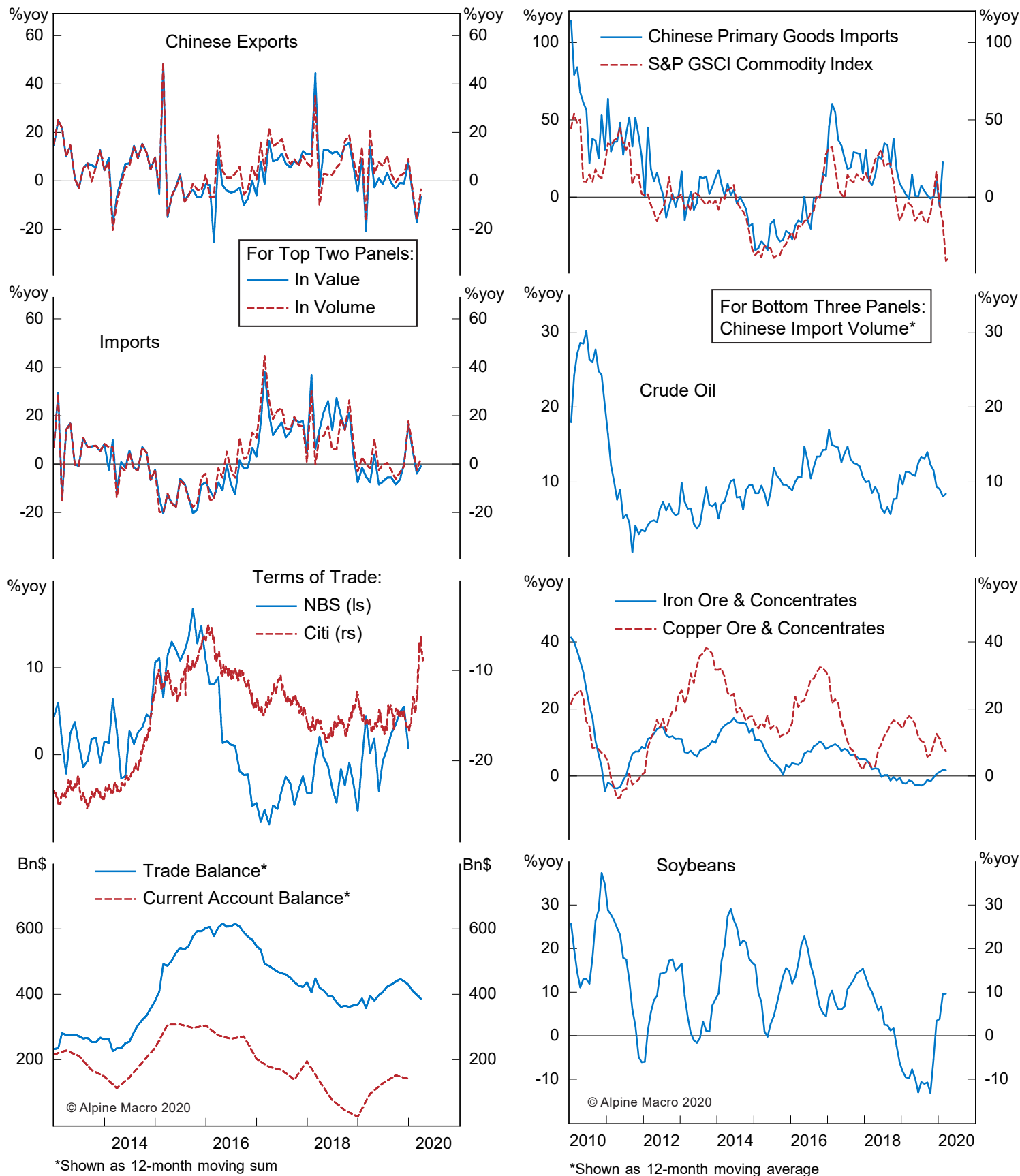
Source: Markit; Choice; China National Bureau of Statistics

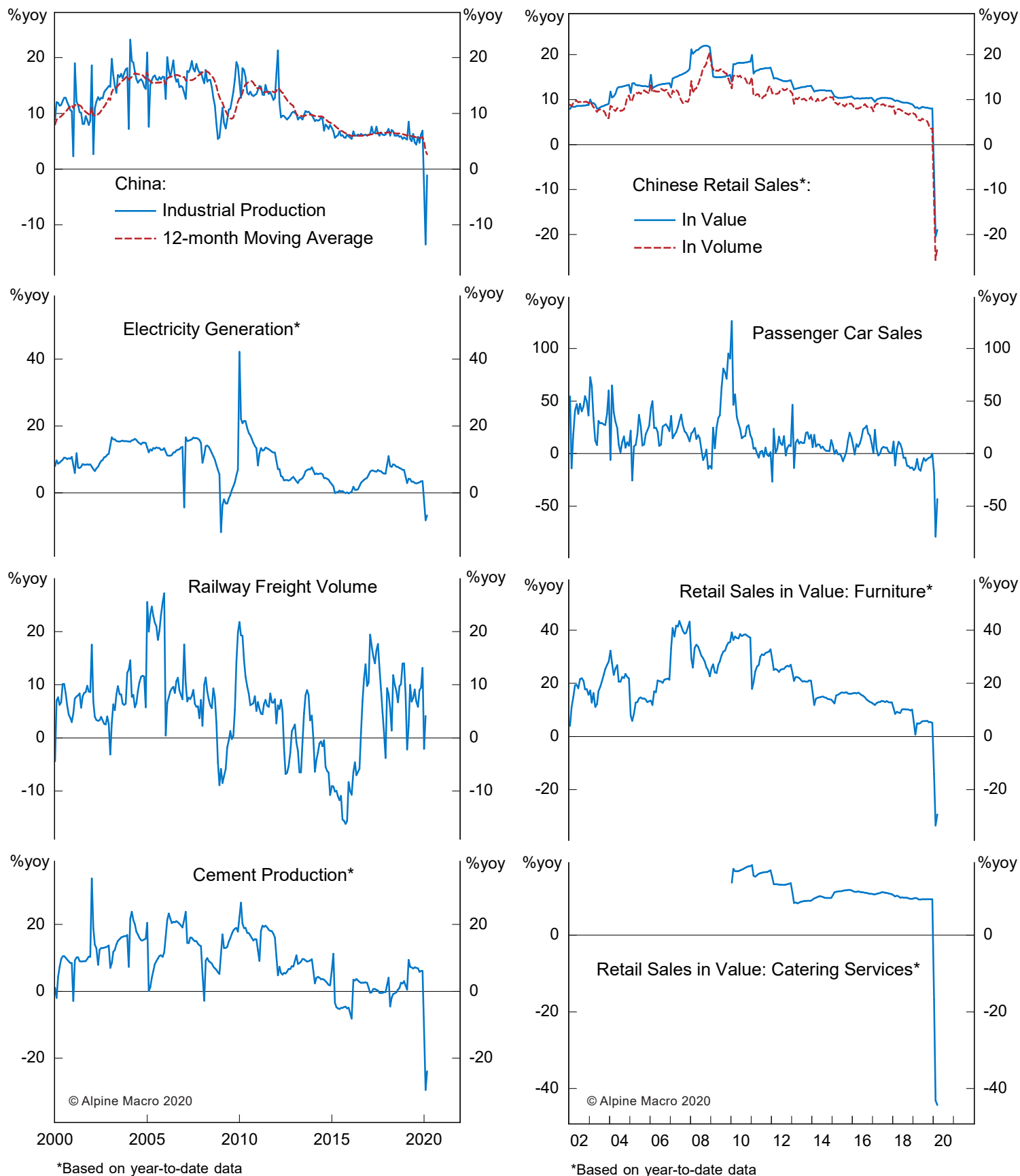
*Source: Citi

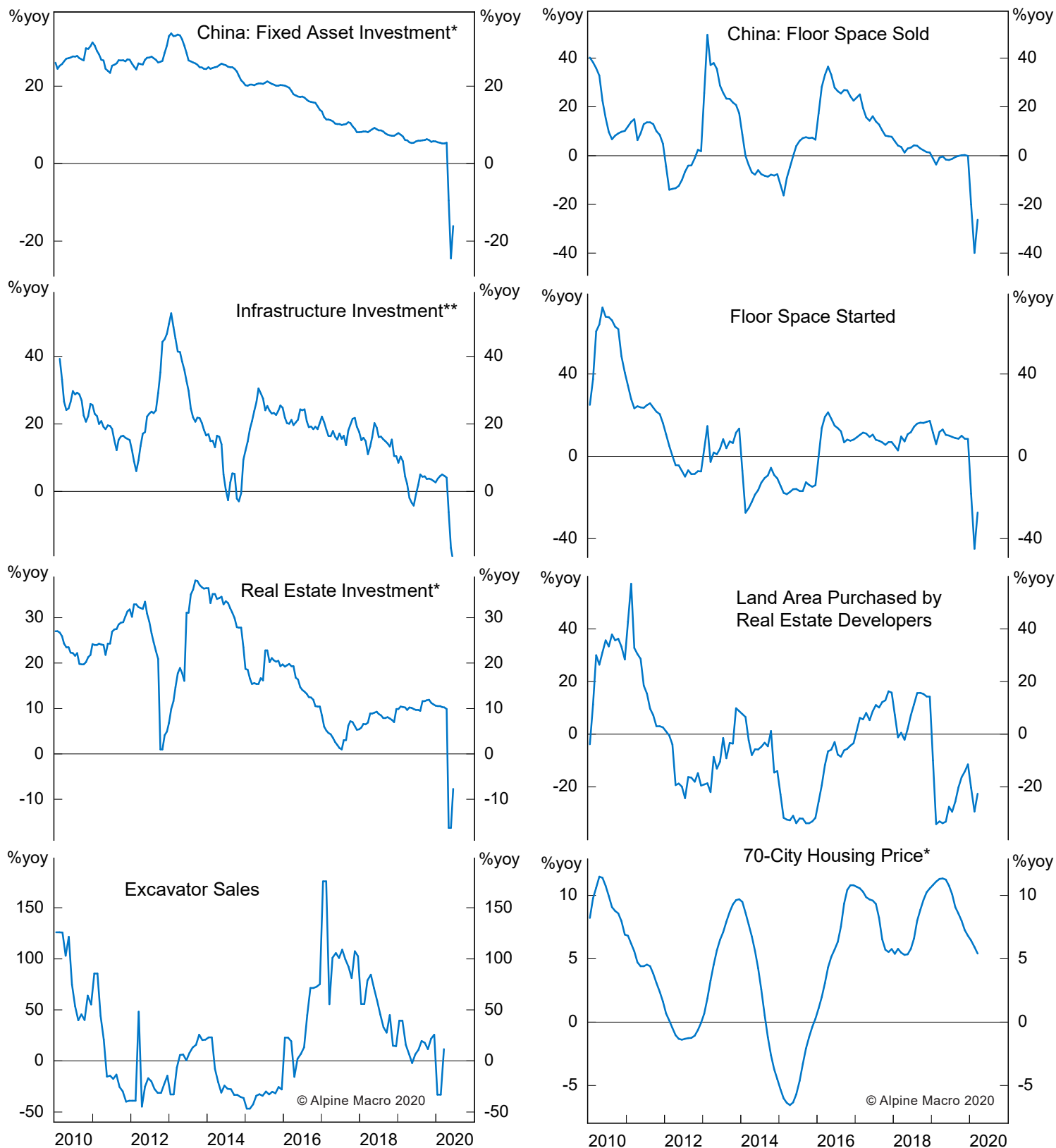
**Source: Cheung Kong Graduate School of Business

***Source: Credit Suisse







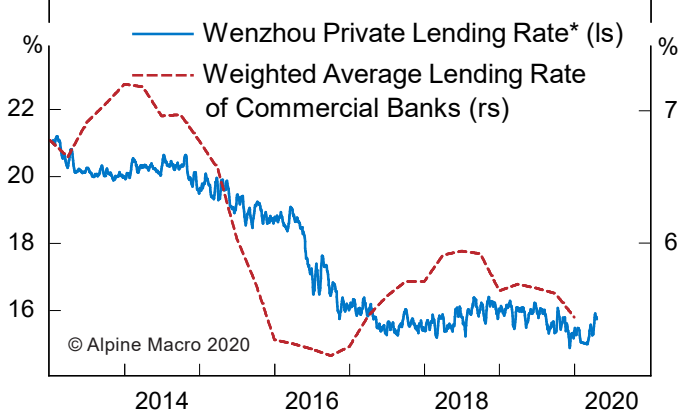
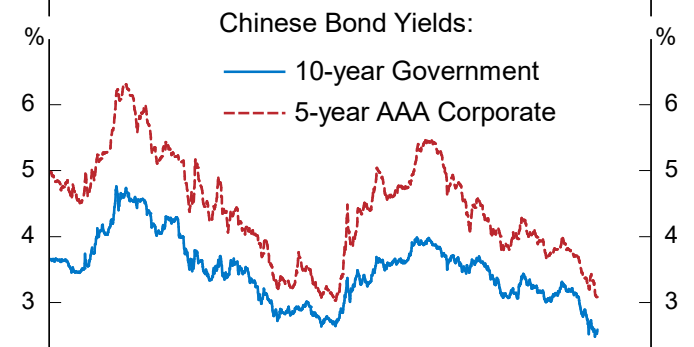
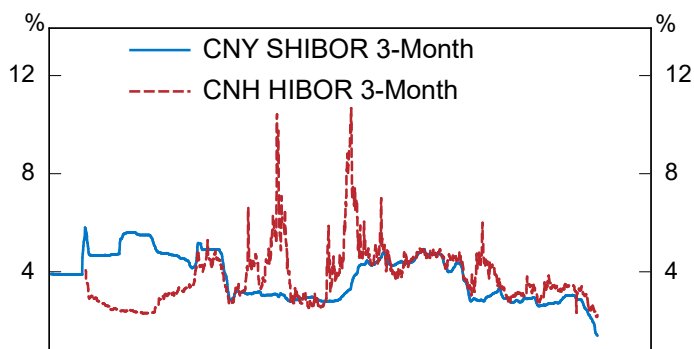
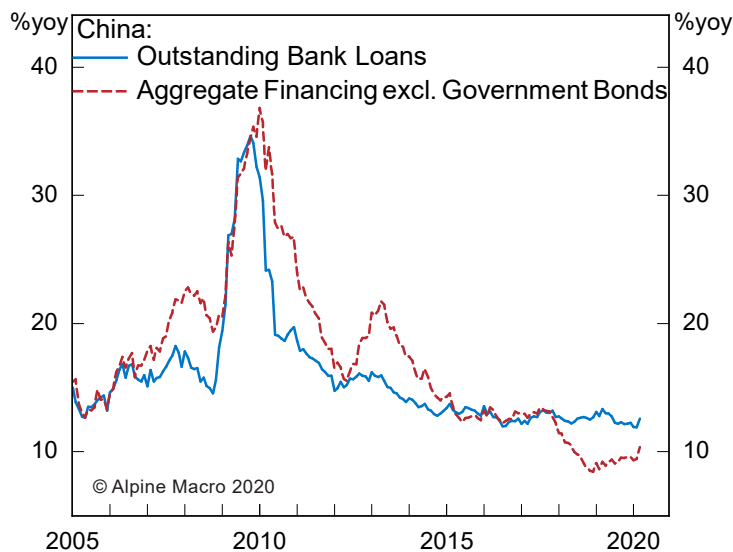
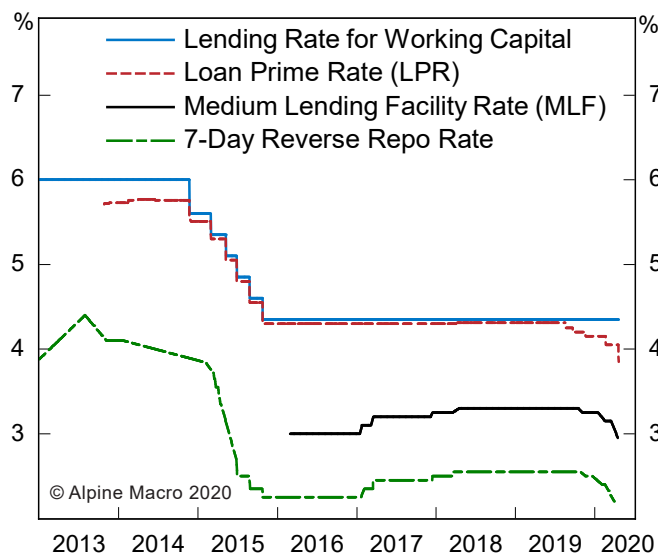


*Based on year-to-date data

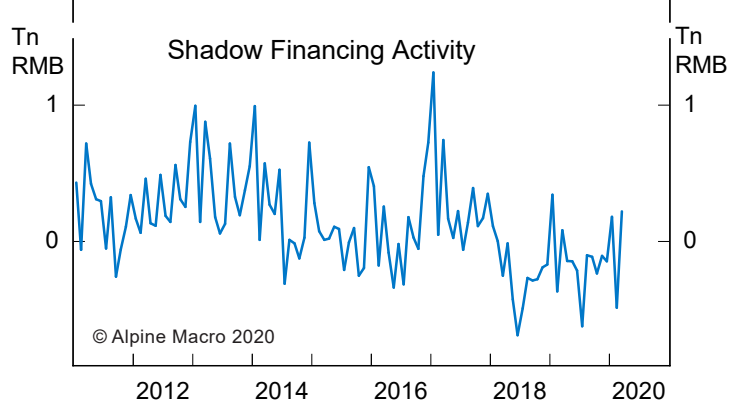
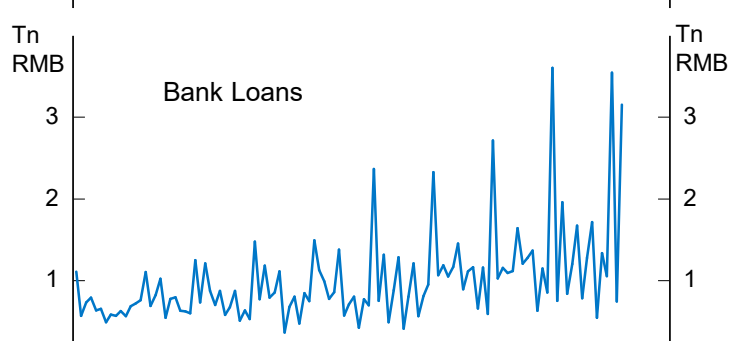
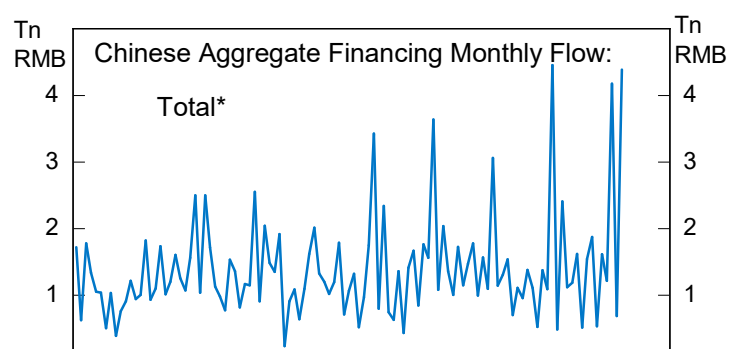
**Shown as 3-month moving average

*Source: Choice



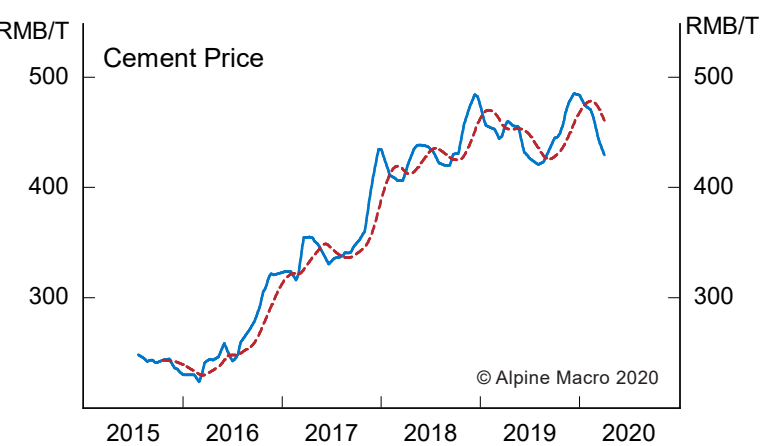
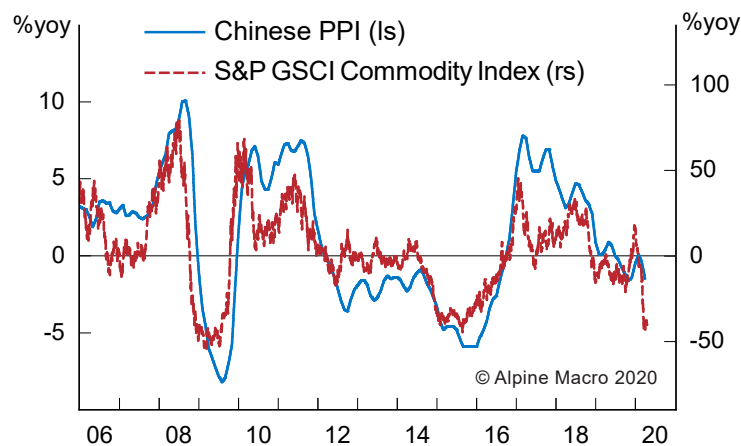
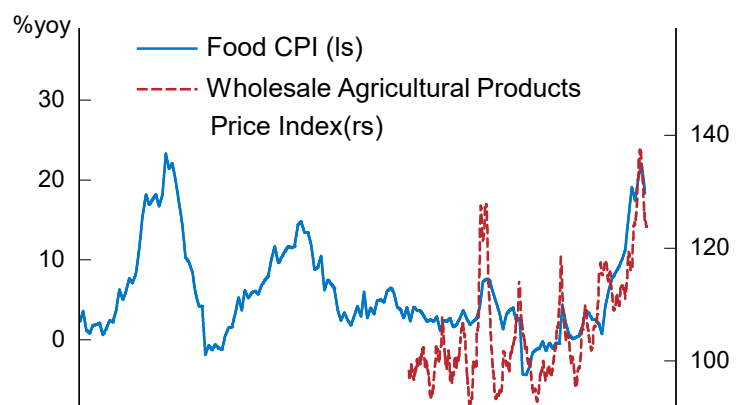
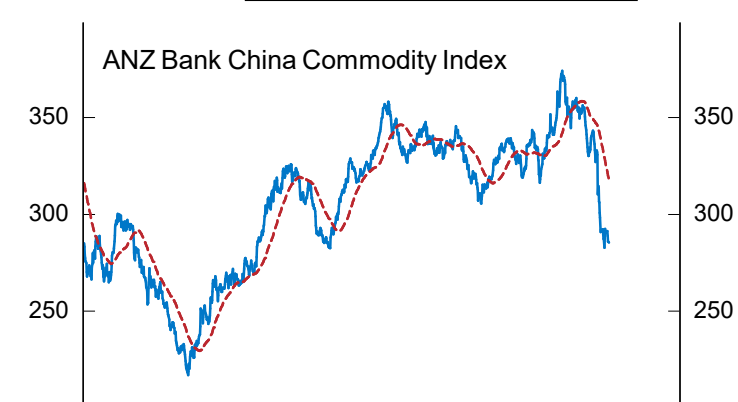
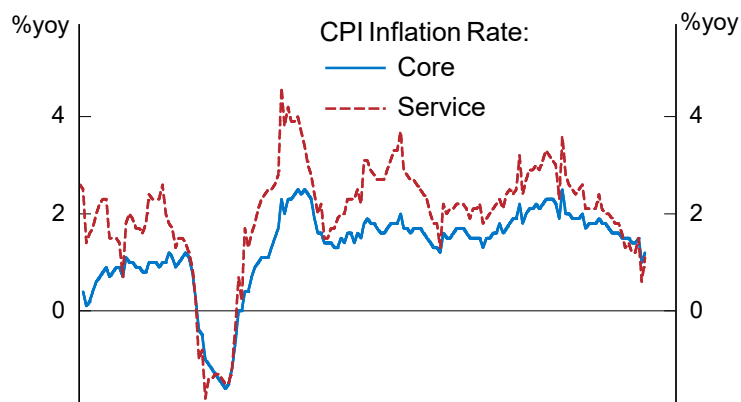
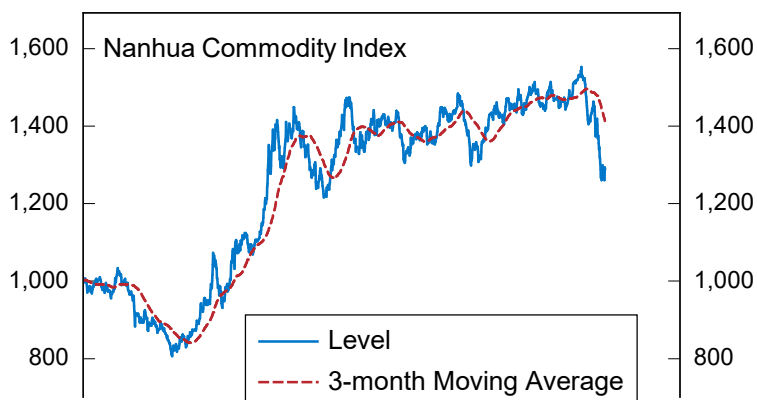
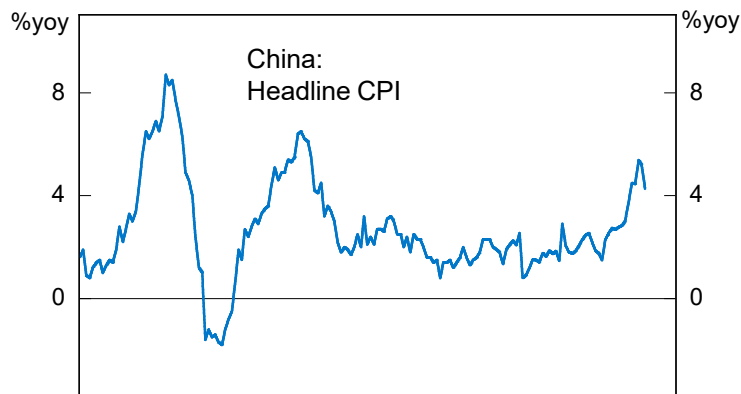


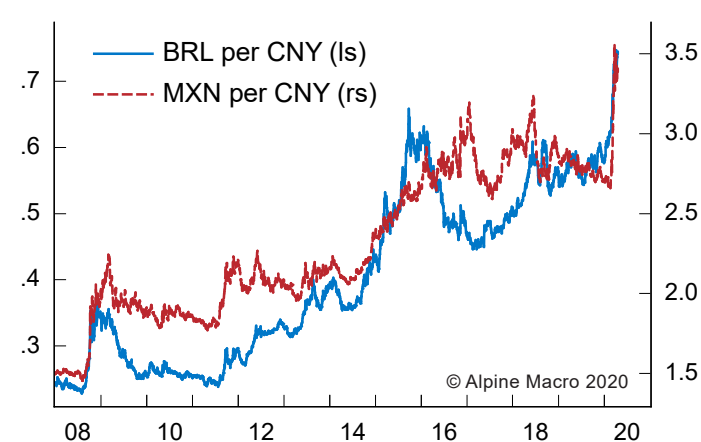
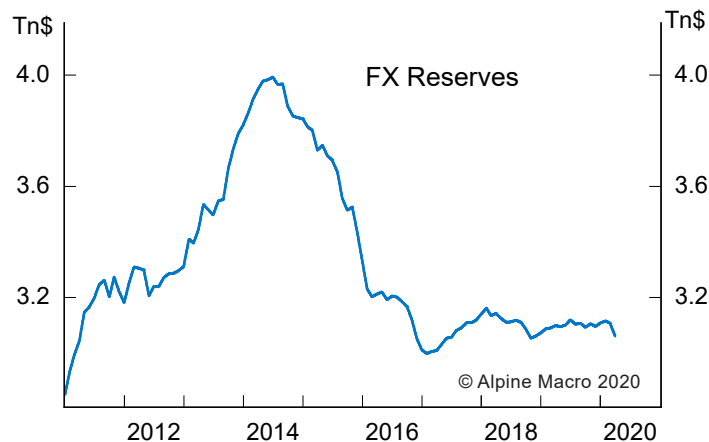
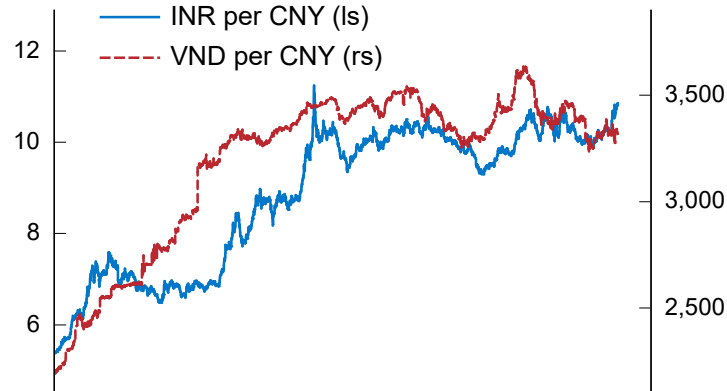
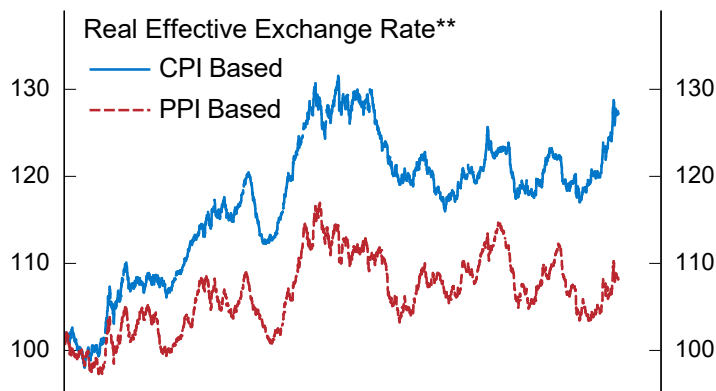
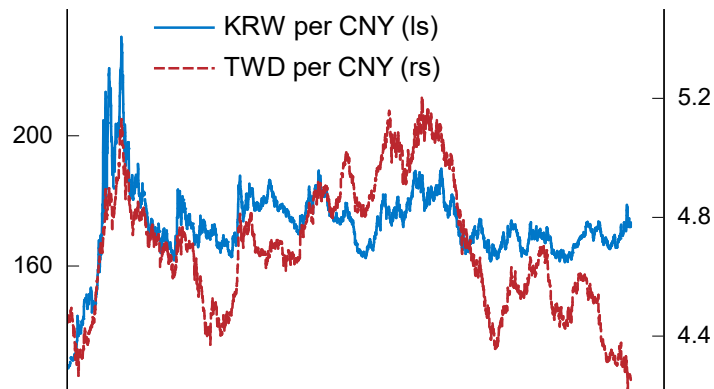
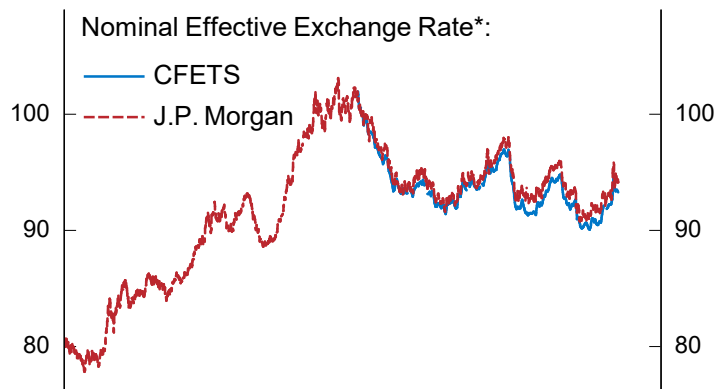
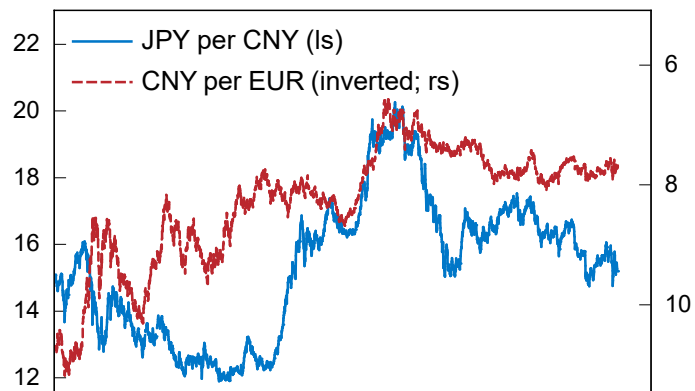
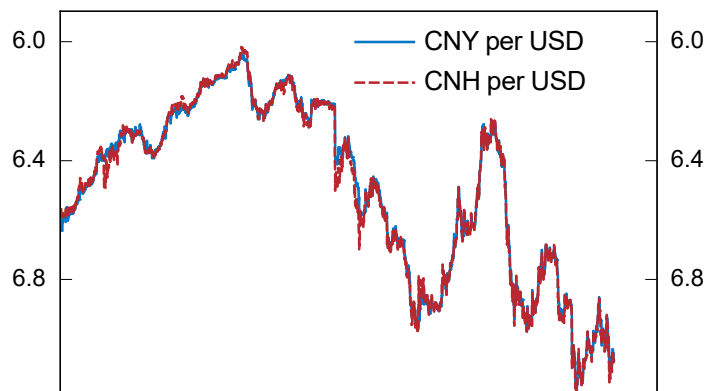
*Shown as 10-day moving average



*Includes bank loans, non-bank credit, corporate bonds & equity issuance







*Both series are rebased to January 2016=100

**Source: J.P. Morgan



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Our Leadership

Chen Zhao, Founding Partner and Chief Global Strategist From 2015 to 2016, Chen was Co-Director of Macro Research at Brandywine Global Investment Management. Prior to Brandywine Global, Chen spent 23 years at BCA Research. As a Partner, Managing Editor and Chief Global Strategist, Chen developed and wrote BCA's China and Emerging Markets publications in the 1990s. Chen became the firm's Chief Global Strategist in the 2000s and was the author of BCA's flagship publication, Global Investment Strategy from 2005 to 2015. He holds an MA in economics from the Central University of Finance and Economics, was a visiting scholar at the University of Illinois at Urbana-Champaign and pursued post graduate studies with a PhD candidacy at McGill University.

J. Anthony Boeckh, PhD, Founding Partner, CEO & Editor-In-Chief Tony was previously Founder, Chairman, Chief Executive and Editor-In-Chief of Montreal-based BCA Research for 34 years. He authored The Great Reflation (Wiley) in 2010 and was publisher of, among others, the Bank Credit Analyst, a monthly big-picture analysis of the U.S. and global economies and financial markets. He is a founding trustee of the Fraser Institute in Vancouver, British Columbia — an economic “think tank” dedicated to free market principles. Tony has a PhD in Finance and Economics from the Wharton School, University of Pennsylvania, and a B.Com. from the University of Toronto.

David Abramson, Partner, Chief U.S. Strategist & Director of Research David was a Macro Strategist holding a variety of senior roles at BCA Research. Most recently, he was Chief U.S. Strategist and also Director of Research for the firm. During his tenure at BCA Research, David launched and managed the European Strategy and Commodity & Energy Strategy services. In addition, he was the Managing Editor for the Foreign Exchange Strategy and the China Investment Strategy services. He has taught international finance to MBAs at McGill University for 20 years, and is on the Client Committee of the Kenneth Woods Portfolio Management Program at Concordia University.

Yan Wang, Partner and Chief Emerging Markets and China (EMC) Strategist Prior to Alpine Macro, Yan spent 15 years at BCA Research, as Managing Editor and Chief Strategist for BCA's China Investment Strategy service, and played a major role in formulating BCA's view on the Greater China region and emerging Asia. Prior to joining BCA, he spent six years as an equity analyst in China and Hong Kong. Yan holds an MBA in Finance from McGill University, an M.A. in Economics from Tianjin Institute of Finance and a B.A. in Finance from Nankai University. He also holds the CFA designation.

Harvinder Kalirai, Partner and Chief Fixed Income & Currency Strategist Before joining Alpine Macro, Harvinder spent a decade with BCA Research, where he headed the firm's Foreign Exchange Strategy service from 2008 to 2016 and Daily Insights from 2016 to 2018. Prior to BCA, Harvinder was Head of Currency Management at CIBC Global Asset Management. Previously, he held various positions at State Street Global Markets, including Senior Macro Strategist (London), Head of Currency Research, Asia-Pacific (Sydney), and Senior FX Strategist (Boston). Harvinder began his career at the Bank of Canada in 1995 with an MA (Economics) and a BCom (Finance) from McGill University. He also holds the CFA designation.

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