



China outlook

Covid-19: Shock unfolding, recovery tracking

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**This author is a debt research analyst in the Fixed Income, Currencies and Commodities Research department and is neither an equity research analyst nor subject to all of the independence and disclosure standards applicable to analysts who produce debt research reports under U.S. FINRA Rule 2242.*

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 PLEASE SEE ANALYST CERTIFICATIONS AND IMPORTANT DISCLOSURES BEGINNING ON PAGE 52.

Shock unfolding, recovery tracking

- High-frequency data suggest a steady recovery in manufacturing and services, with the latter still lagging. In particular, home sales fell c.40% y/y, compared with a c.70% drop in February; the contraction in auto sales eased to 45% from c.80%. Baidu's migration index rose to 90% of last year versus c.50%. Coal consumption recovered to 17% below the year-earlier level, compared with c.20% below in February.
- However, this pace of normalization still points to a sizable contraction in March activity. Our weekly tracker estimates that the fall in services and manufacturing still stood at ~35% and ~20% y/y, respectively in the week to 16 March, though much better than the declines of 70% and 50%, respectively in February. Together with the ~20%y/y contraction in Jan-Feb, this would bring the Q1 GDP decline to 15%.
- Therefore, we lowered our 2020 GDP growth forecast to 1.3% y/y, versus 5.8% before the Covid-19 outbreak. This also reflects weaker domestic demand versus the pre-outbreak level and rapid deterioration external demand amid a deep global recession (see [Global Synthesis: Forecasting the fallout](#), 20 March), which should be partially mitigated by some recovery of lost Q1 output and stepped up policy stimulus.
- Downside risks to our forecast include weaker external/domestic demand and/or delayed normalization, which could drag GDP into contraction by 2-3%. Upside risks include larger policy stimulus, stronger payback of Q1 losses and/or a quicker resolution of the global outbreak, which could lift growth to 2-3%.
- Our baseline forecast suggests a meaningful rebound in Q2 and a decent recovery in H2, where we see demand as a bigger challenge than capacity in light of the worsening global outbreak and its cascading effects on asset prices and economic activity. Moreover, our quarterly path assumes that services activity will return to normal in April-May and manufacturing returning to pre-virus capacity by late March.
- The spread of the disease remains critical to gauge the pace of normalization. The outbreak in China has appeared largely contained since mid-March, with zero local infections reported for 10 of the past 11 days (Wuhan/Hubei reporting zero cases since 18 March). However, imported cases began to surge as more overseas Chinese returned, with the total number rising to 353 in 19 provinces as of 22 March, from 189 in 12 provinces on 18 March and only ~20 in early March. As a result, fewer provinces (11 as of 22 March versus 18 as of 18 March) have reported zero cases for >14 days, adding risks to a further delay.

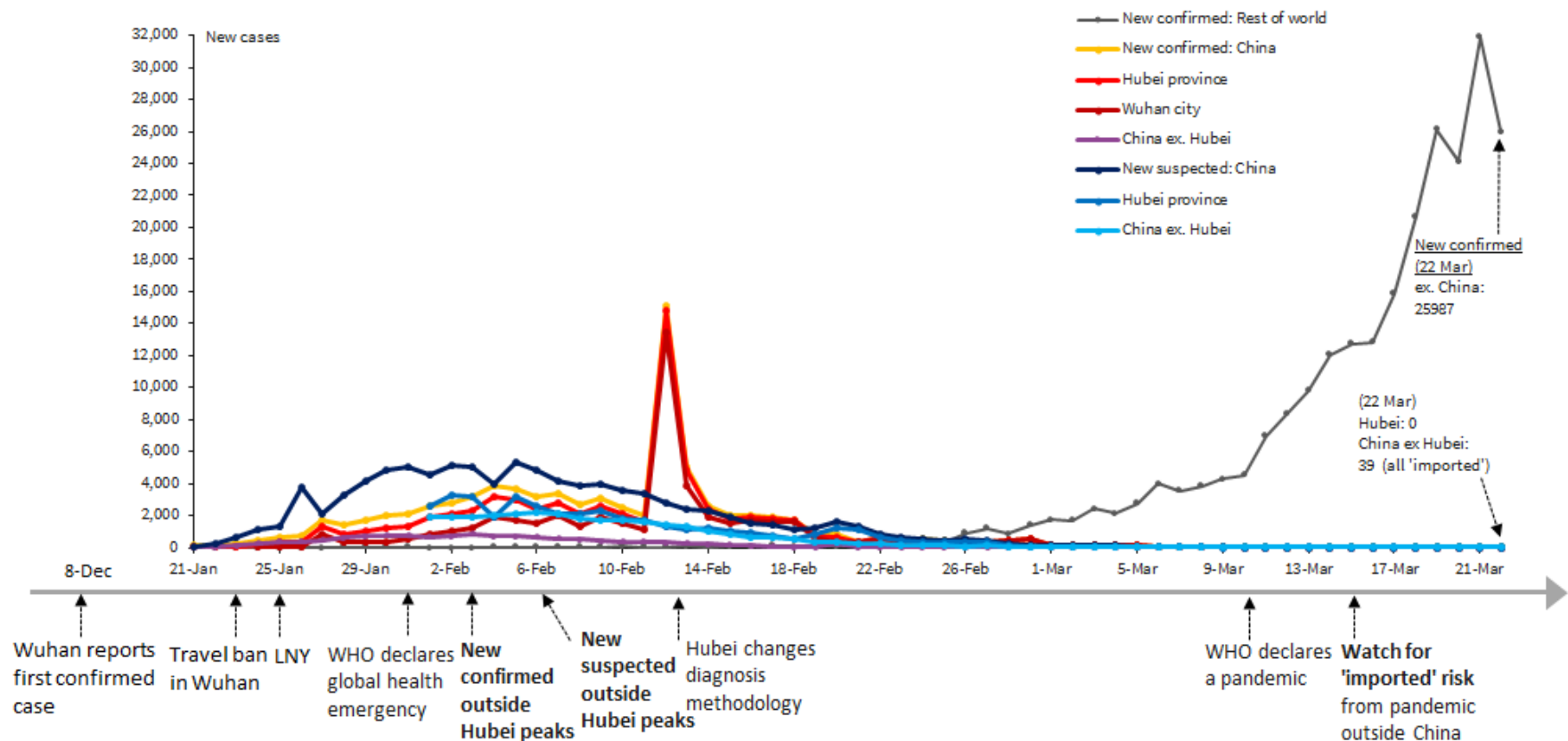
Roadmap

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Covid-19 outbreak: Watch for local infection vs imported cases

See [China: COVID-19: Activity tracking- watch for a turning point](#) 21 February 2020, [China: COVID-19: Activity tracking \(27 Feb 2020\)](#) 27 February 2020, [China: COVID-19: Activity tracking \(6 Mar\)](#) 6 March 2020, [China: COVID-19 - Activity tracking: Services fall deeper vs manufacturing](#), 13 March 2020, [China: Cutting GDP on deep Q1 slump, demand shock](#), 13 March 2020, [China: COVID-19 - Activity tracking: Downgrade 2020 GDP to 1.3%](#), 19 Mar 2020

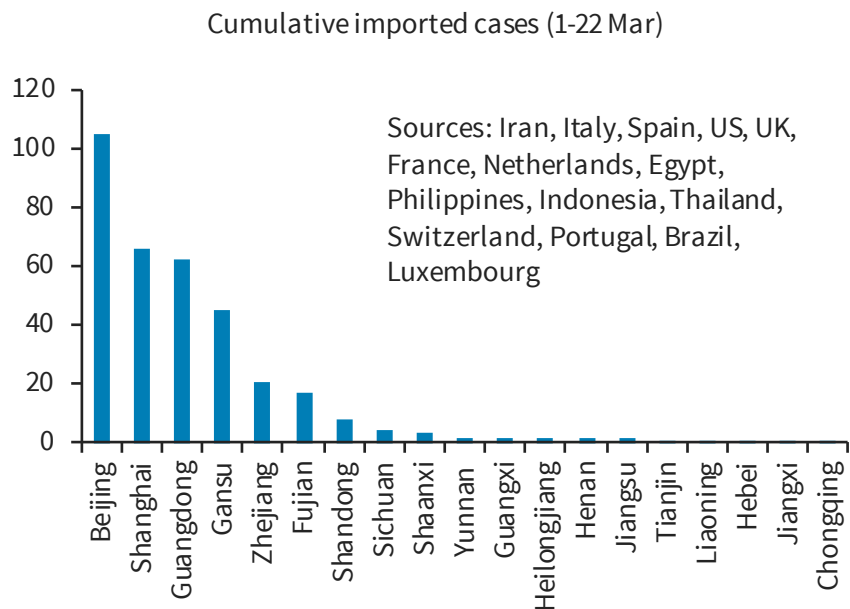
Covid-19: Battleground shifts from China to the RoW



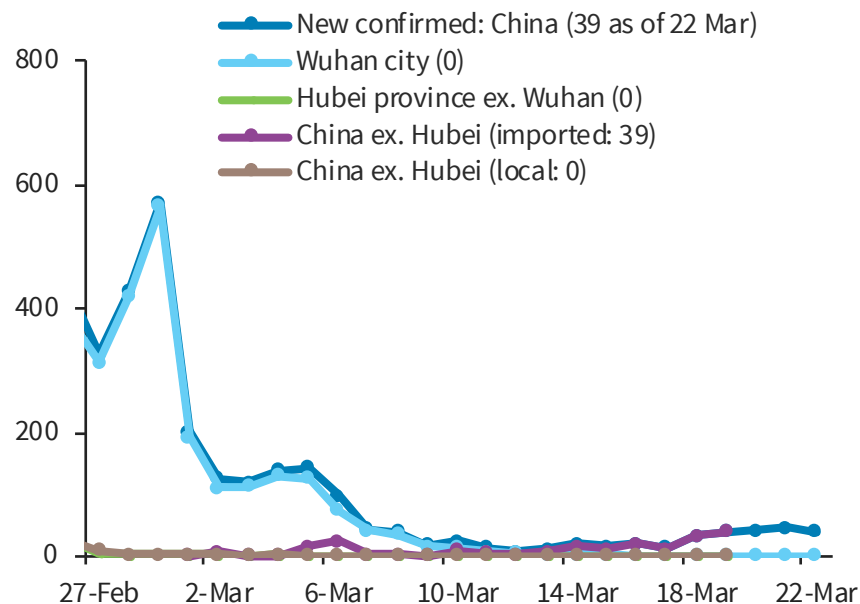
Source: PRC and Hubei NHC, WHO, Barclays Research

China: Imported cases surged, but local infections ~zero

353 imported cases in 19 provinces as of 22 Mar vs 189 cases (12 provinces) on 18 Mar



Local infection cases have stayed zero for 10 out of the past 11 days

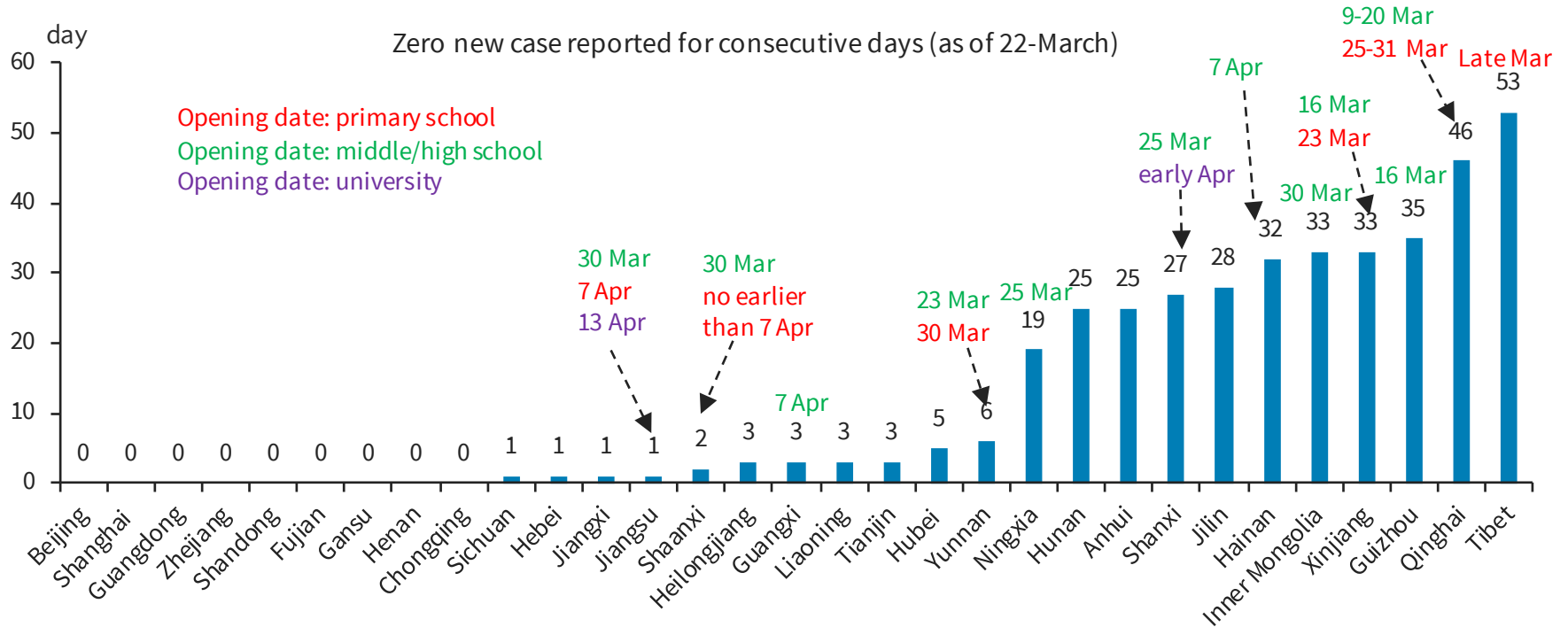


Note: Wuhan/Hubei, China's epicenter, have reported zero new cases since 18 March

Source: PRC NHC, Barclays Research

Source: PRC NHC, Barclays Research

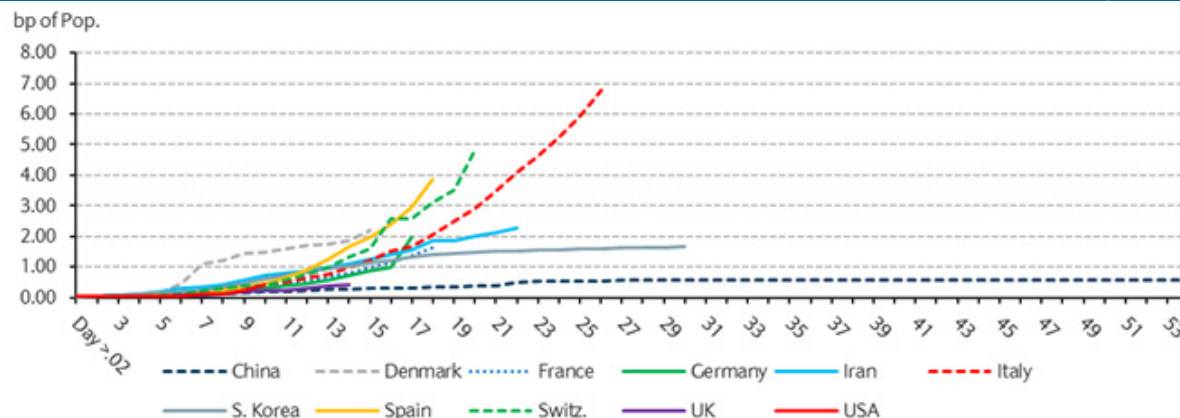
Fewer provinces are on zero-case trend now with more imported cases



Note: 11 provinces reported zero cases ≥ 14 consecutive days as of 22 Mar, compared to 18 provinces as of 18 Mar.
Source: PRC and provincial NHC, Barclays Research

Global pandemic: Significant casualties, more lockdowns

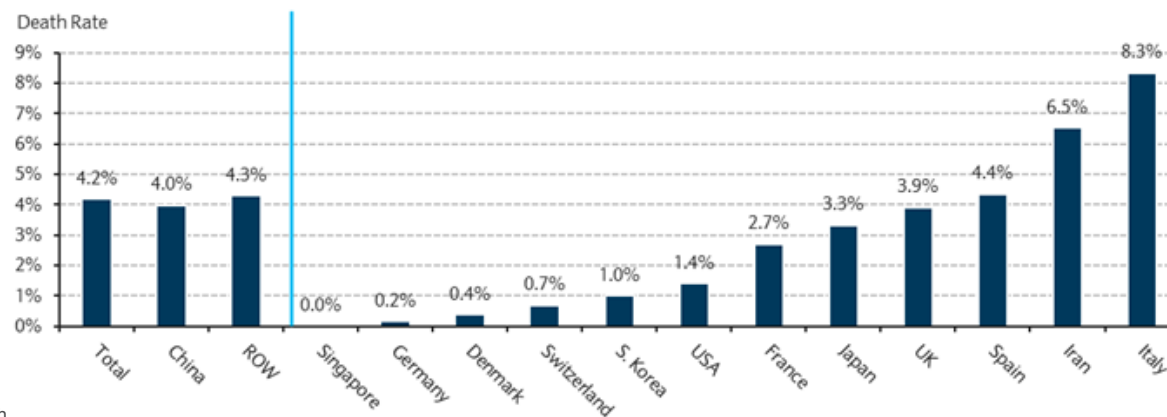
The outbreak is spreading at a faster rate outside China than it did in China
(Total reported cases as bp (1/10,000) of the total population, start on day first >0.02bp)



Source: WHO, Johns Hopkins Resource Center, Barclays Research

Total deaths reported by the WHO stood at 5,530 RoW (vs China: 3,248) as of 19 Mar
(Note: the reporting mechanisms could vary across countries)

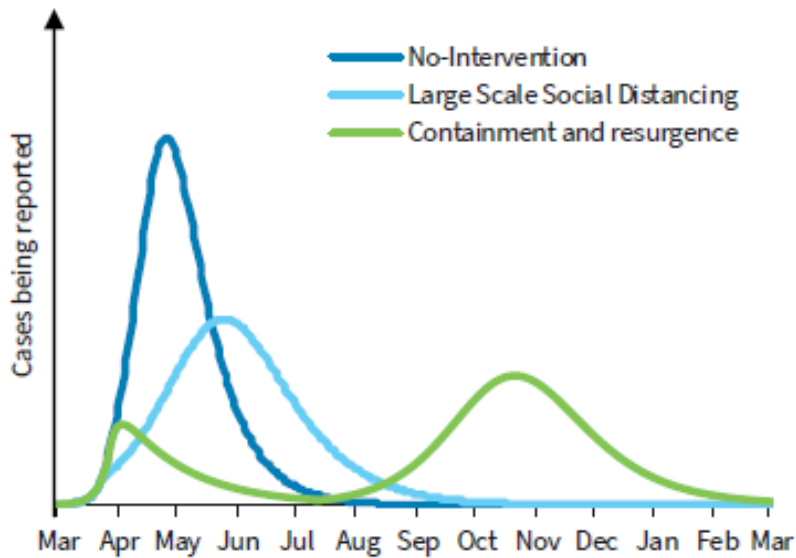
Death Rate by Region as of 3/19/2020



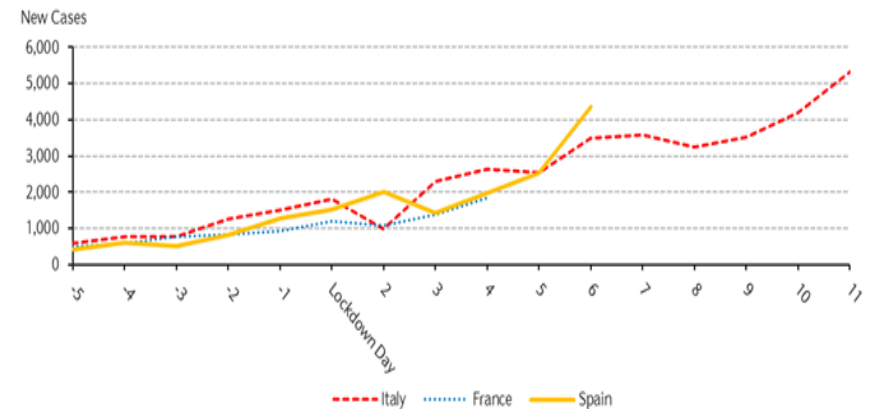
Source: WHO, Barclays Research

Dr. Zhang Wenhong: Outbreak unlikely to end by summer

The path of Covid-19 remains uncertain; much depends on government strategies



It remains to be seen when and how effectively lockdowns will work



Note: Dr. Zhang is Director of Huashan Hospital's Department of Infectious Disease and of the Shanghai panel overseeing the treatment of Covid-19. He gave an outlook on global pandemic in an article published on 15 March in his department's official social media account.

Source: Stylized scenario based on Anderson et. Al (2020). Barclays Research

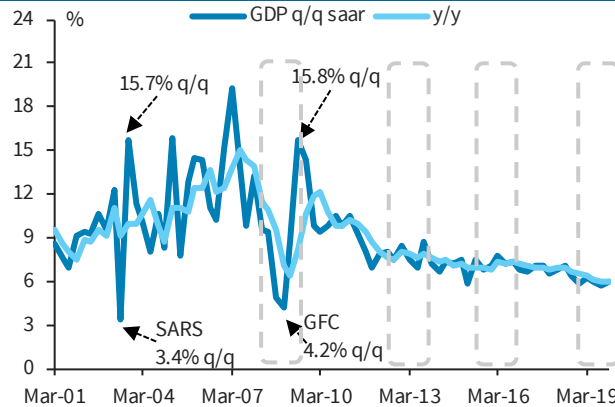
Source: Barclays Research

Forecast scenarios: An unprecedented shock

See [China Coronavirus: Evaluating the potential economic impact](#) 1 February 2020, [China: Coronavirus: GDP forecast downgrade](#) 7 February 2020, [China: COVID-19: Activity tracking- watch for a turning point](#) 21 February 2020, [China: COVID-19: Activity tracking \(27 Feb 2020\)](#) 27 February 2020, [China: COVID-19: Activity tracking \(6 Mar\)](#) 6 March 2020, [China: COVID-19 - Activity tracking: Services fall deeper vs manufacturing](#), 13 March 2020, [China: Cutting GDP on deep Q1 slump, demand shock](#), 13 March 2020, [China: Jan-Feb data suggest -10% y/y 1Q contraction](#), 16 March 2020, [China: COVID-19 - Activity tracking: Downgrade 2020 GDP to 1.3%](#), 19 Mar 2020

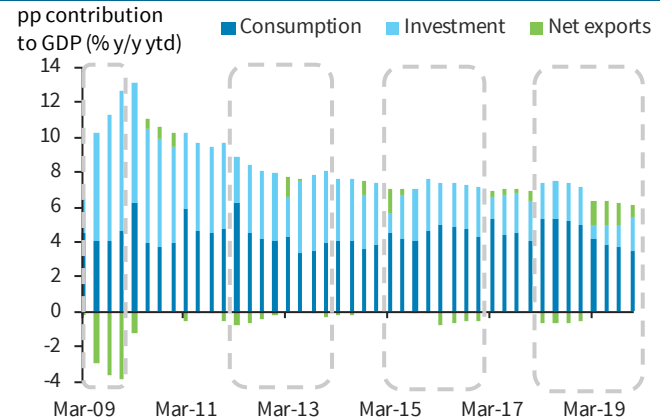
Expect a greater shock than past recessions

GDP growth path



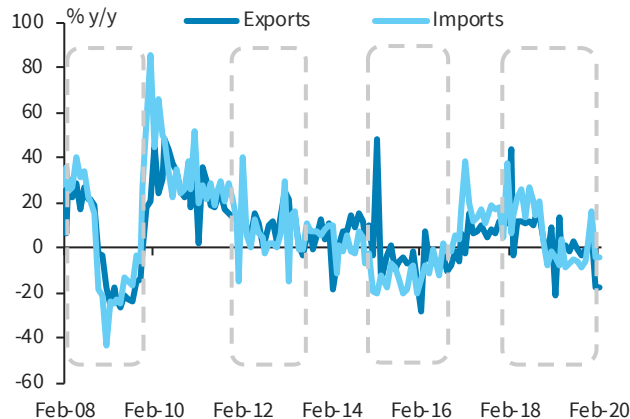
The cycles refers to four most-recent economic down cycles (2008-09, 2012-13, 2015-16, 2018-19), see [China: This easing cycle is different](#), 5 Sep 2019. Source: Haver, Barclays Research

C/ I/ NX contribution



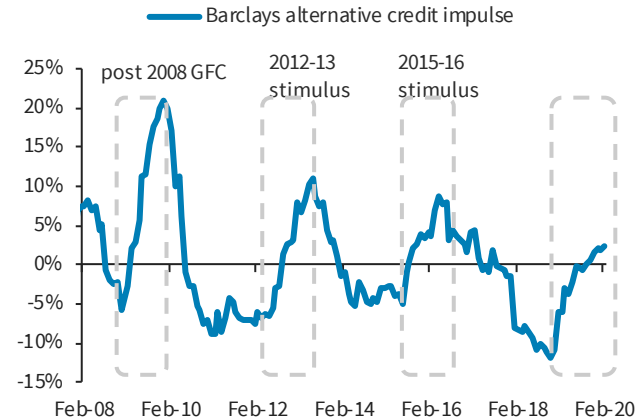
Source: Wind, Barclays Research

Exports and imports contraction



Source: Wind, Barclays Research

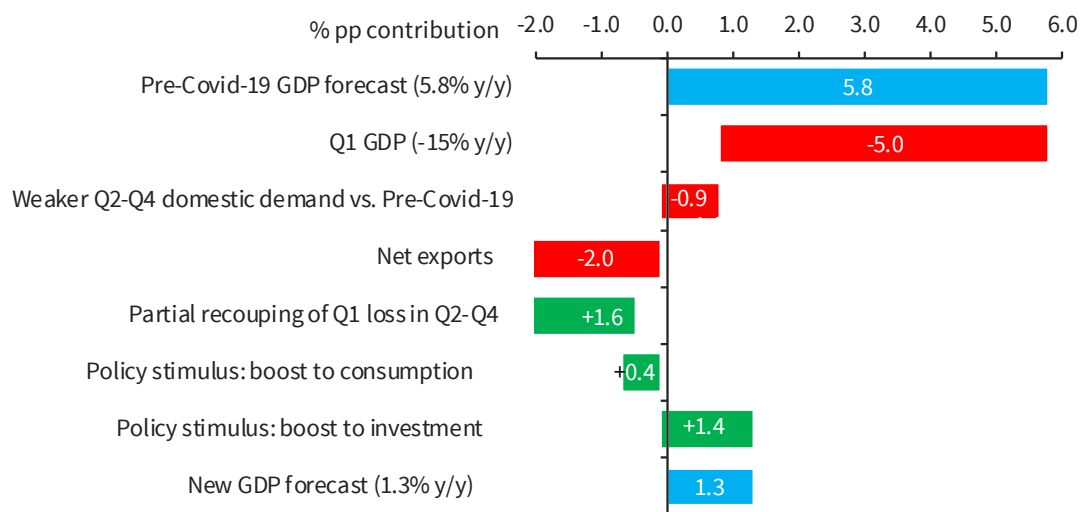
Credit stimulus boost



Source: Wind, Barclays Research

China GDP baseline forecast and risk scenarios

	Current (previous: 13 March)		Pre-COVID-19	Downside risk (weaker domestic/external demand and/or delayed normalisation)	Upside risk (larger policy stimulus or stronger payback of Q1 loss and/or a quick containment of the global outbreak)
%	y/y	q/q saar	y/y	y/y	y/y
Q1	-15.0 (-8.0)	-56.1 (-39.8)	5.8	-20.0 ~ -16.0	-15.0
Q2	5.0 (5.3)	147.3 (82.3)	5.8	-2.0~ 3.0	5.0 ~ 6.0
Q3	5.9 (6.3)	9.2 (9.5)	5.8	3.0~ 5.0	7.0~ 9.0
Q4	6.9 (7.5)	10.2 (11.0)	5.7	4.0~ 6.5	8.0 ~ 10
2020	1.3 (3.2)		5.8	-3.0~ 0.3	1.9 ~ 3.2



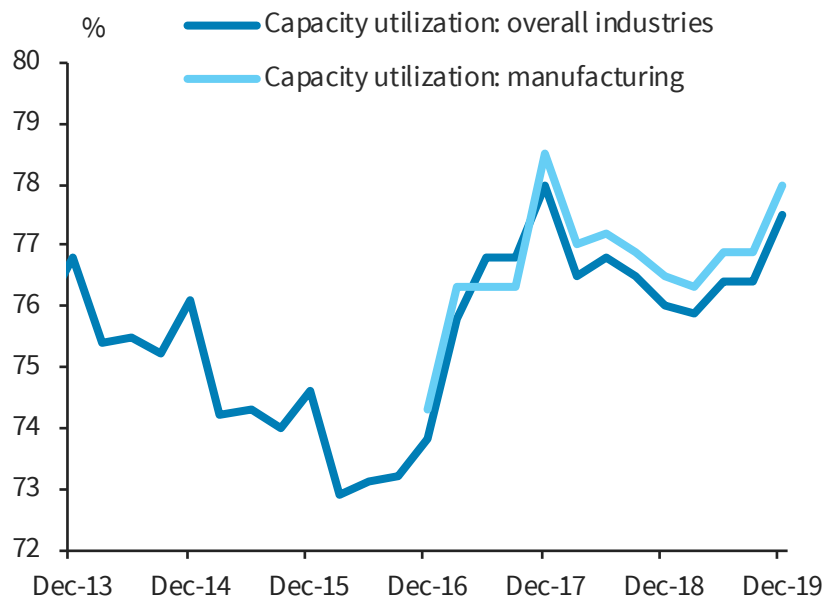
Source: Haver, Wind, Barclays Research

See [China Coronavirus: Evaluating the potential economic impact](#) 1 February 2020, [China: Coronavirus: GDP forecast downgrade](#) 7 February 2020, [China: Cutting GDP on deep Q1 slump, demand shock](#), 13 March 2020, [China: COVID-19 - Activity tracking: Downgrade 2020 GDP to 1.3%](#), 19 Mar 2020

Capacity less of a constraint than demand

We expect effective capacity utilization back to ~75% in Q2

More working days in Q2 and Q3 than in Q1

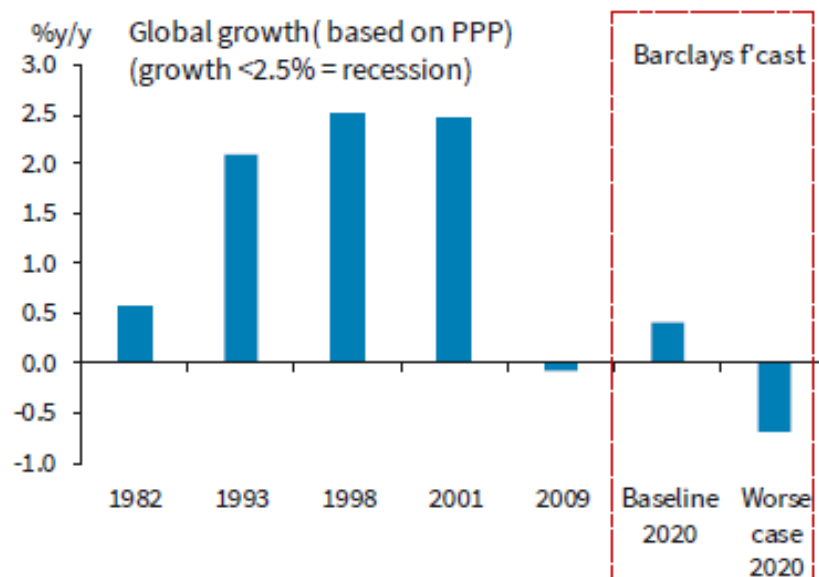


Source: Wind, Barclays Research

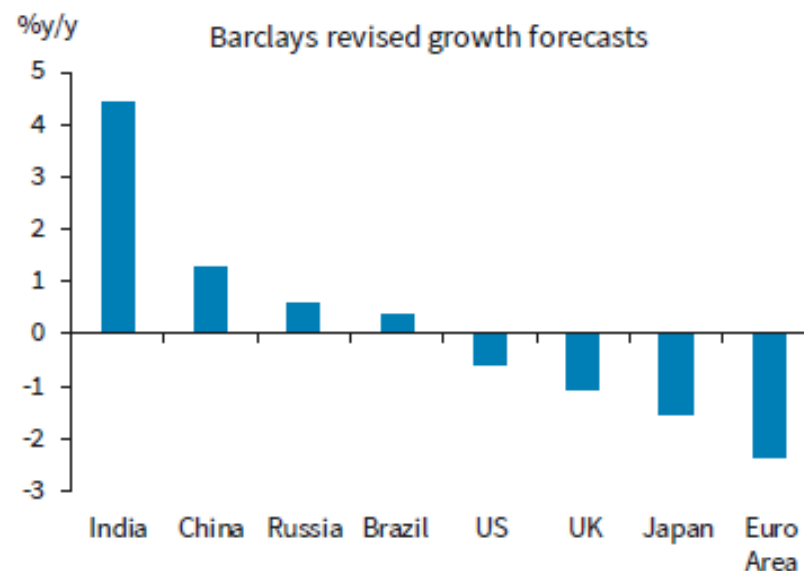
Source: The State Council, Barclays Research

Our forecast factors in a global recession not depression

... that has similar dimension to 2009's...



... as G7 economies contract



Note: IMF classifies global growth of 2.5% y/y as a world recession.
Source: IMF WEO, Haver, Barclays Research

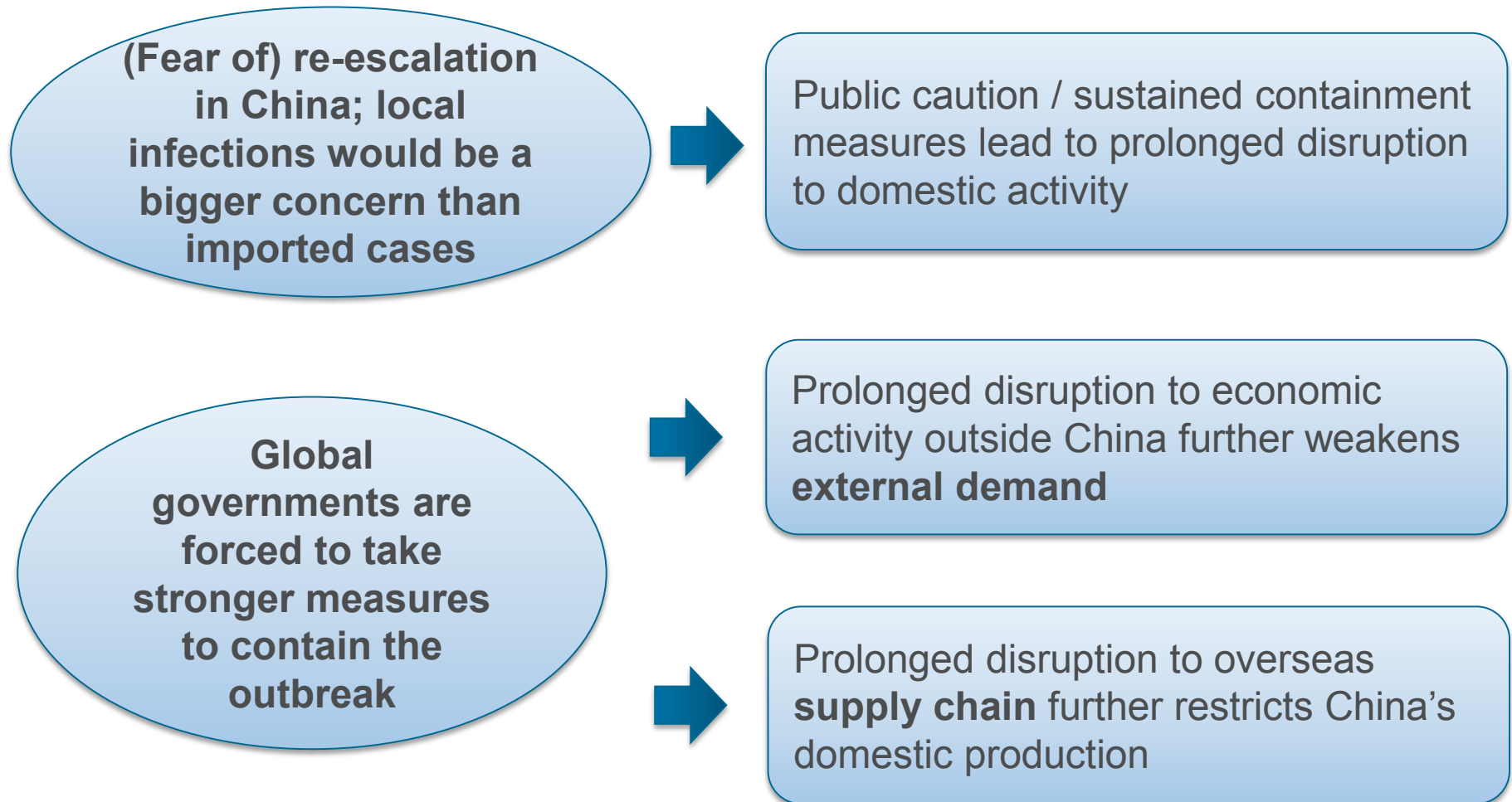
Note: chart shows 2020 baseline growth forecasts.
Source: Barclays Research

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	6.0 ↑	-14.5 ↓	30.1 ↑	7.6 ↑	6.4 ↑	3.9	3.2	0.4 ↓	3.9 ↑	
Advanced	40.9	0.3	-1.8 ↓	-8.7 ↓	2.5 ↑	2.7 ↑	2.2	1.7	-1.3 ↓	1.3	
Emerging*	59.1	9.9 ↑	-23.2 ↓	56.3 ↑	11.0 ↑	9.0 ↑	5.1	4.2	1.5 ↓	5.6 ↑	
BRIC	40.4	4.8	-32.0 ↓	83.9 ↑	12.1 ↑	9.3	5.9	5.1	2.0 ↓	6.2	
Americas*	25.8	14.6 ↑	-1.5 ↓	-6.5 ↓	2.6 ↑	2.6 ↑	2.5	1.9	-0.7 ↓	1.3 ↓	
United States	18.6	2.1	-0.5 ↓	-7.0 ↓	0.0 ↓	1.0 ↓	2.9	2.3	-0.6 ↓	0.9 ↓	
Europe and Africa	24.1	0.9 ↓	-1.7 ↓	-10.3 ↓	4.7 ↑	4.3 ↑	2.1	1.3	-1.2 ↓	1.9 ↑	
Euro area	13.4	0.5	-3.4 ↓	-13.5 ↓	4.2 ↑	4.9 ↑	1.9	1.2	-2.4 ↓	1.5 ↑	
France	2.7	-0.2	-2.7 ↓	-11.2 ↓	4.9 ↑	4.7 ↑	1.7	1.3	-1.8 ↓	1.8 ↑	
Germany	3.9	0.1	-3.0 ↓	-11.7 ↓	3.5 ↑	4.7 ↑	1.5	0.6	-2.3 ↓	1.6 ↑	
Italy	2.1	-1.2	-5.3 ↓	-16.7 ↓	7.1 ↑	5.6 ↑	0.7	0.3	-3.7 ↓	1.6 ↑	
Spain	1.7	2.1	-2.7 ↓	-10.9 ↓	4.3 ↑	4.5 ↑	2.4	2.0	-1.4 ↓	1.6 ↑	
United Kingdom	2.7	0.1	0.8	-15.0 ↓	10.3 ↑	5.2 ↑	1.3	1.4	-1.1 ↓	2.3 ↑	
Asia/Pacific	50.1	4.1	-27.2 ↓	67.5 ↑	11.4 ↑	9.4 ↑	5.4	4.8	1.6 ↓	6.1 ↑	
Japan	5.0	-7.1	-3.1	0.2	1.4	1.2	0.3	0.7	-1.6	1.3	
Australia	1.2	2.1	-3.6 ↓	-2.6 ↓	7.7 ↑	4.2 ↑	2.7	1.8	0.6 ↓	2.6 ↑	
Emerging Asia	44.0	5.4	-30.5 ↓	76.7 ↑	12.6 ↑	10.4 ↑	6.1	5.3	2.0 ↓	6.6 ↑	
China	23.7	6.0	-56.1 ↓	147.3 ↑	9.2	10.2 ↓	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

Downside risks: Global pandemic and weaker demand



Source: Barclays Research

China's base case economic forecasts

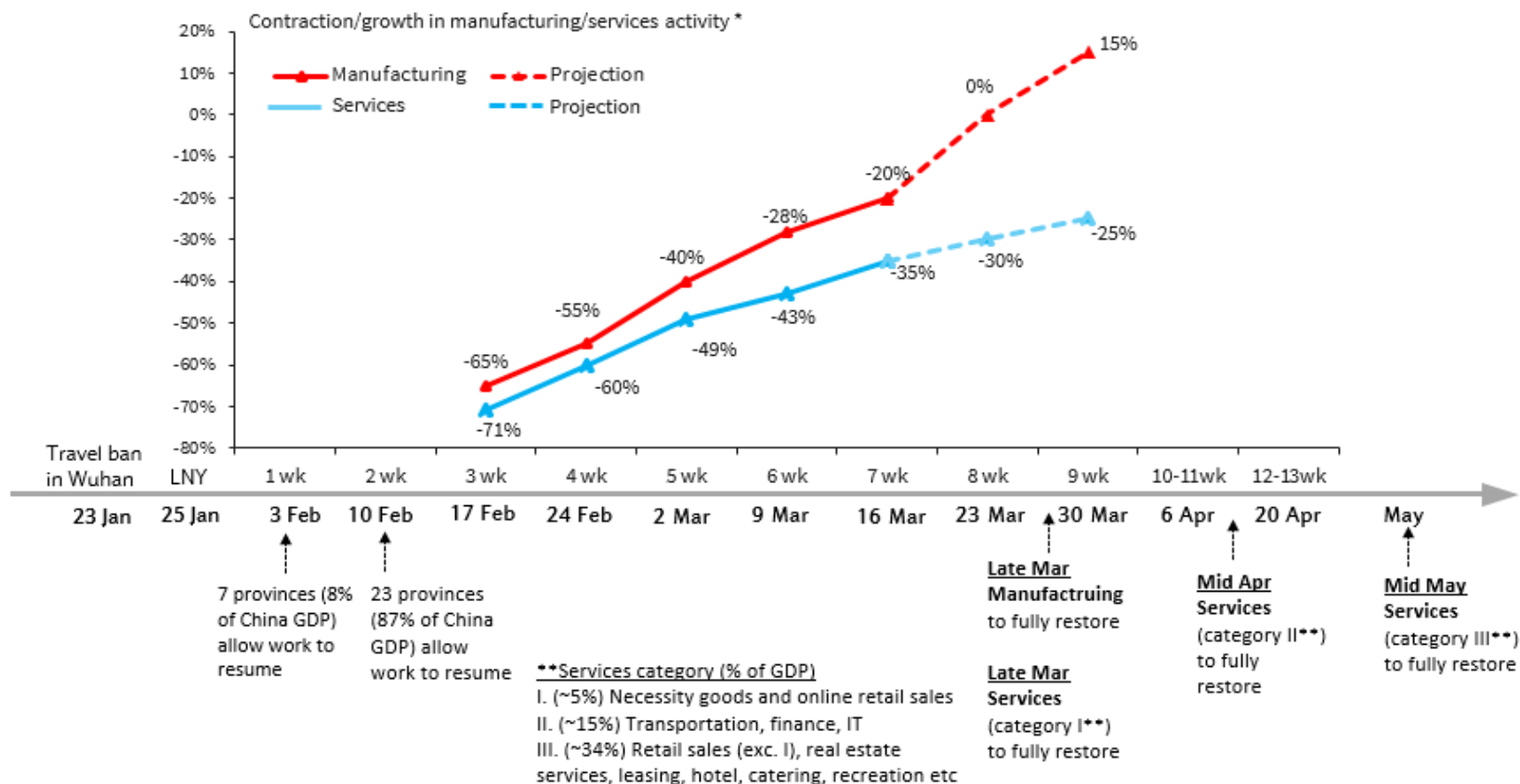
	2020F	2019	2018	2010-17 average
GDP (%y/y)	1.3	6.1	6.6	7.9
--Consumption (pp)	1.4	3.5	5.0	4.3
--Investment (pp)	1.9	1.9	2.2	3.8
--Net exports (pp)	-2.0	0.7	-0.6	-0.2
FAI (%y/y)	~5	5.4	5.9	16.2
Property inv't (%y/y)	~5	9.9	9.5	16.7
Infrastructure inv't (%y/y)	~10-15	3.3	1.8	16.0
Manufacturing inv't (%y/y)	-5.0	3.1	9.5	16.2
Exports(%y/y)	-12.0	0.5	9.9	8.8
Retail sales(%y/y)	3.0	8.0	9.0	9.0
IP (%y/y)	1.1	5.7	6.2	9.5

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Tracking the recovery: High-frequency indicators and our trackers

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Recovery on track but still a sizable March contraction

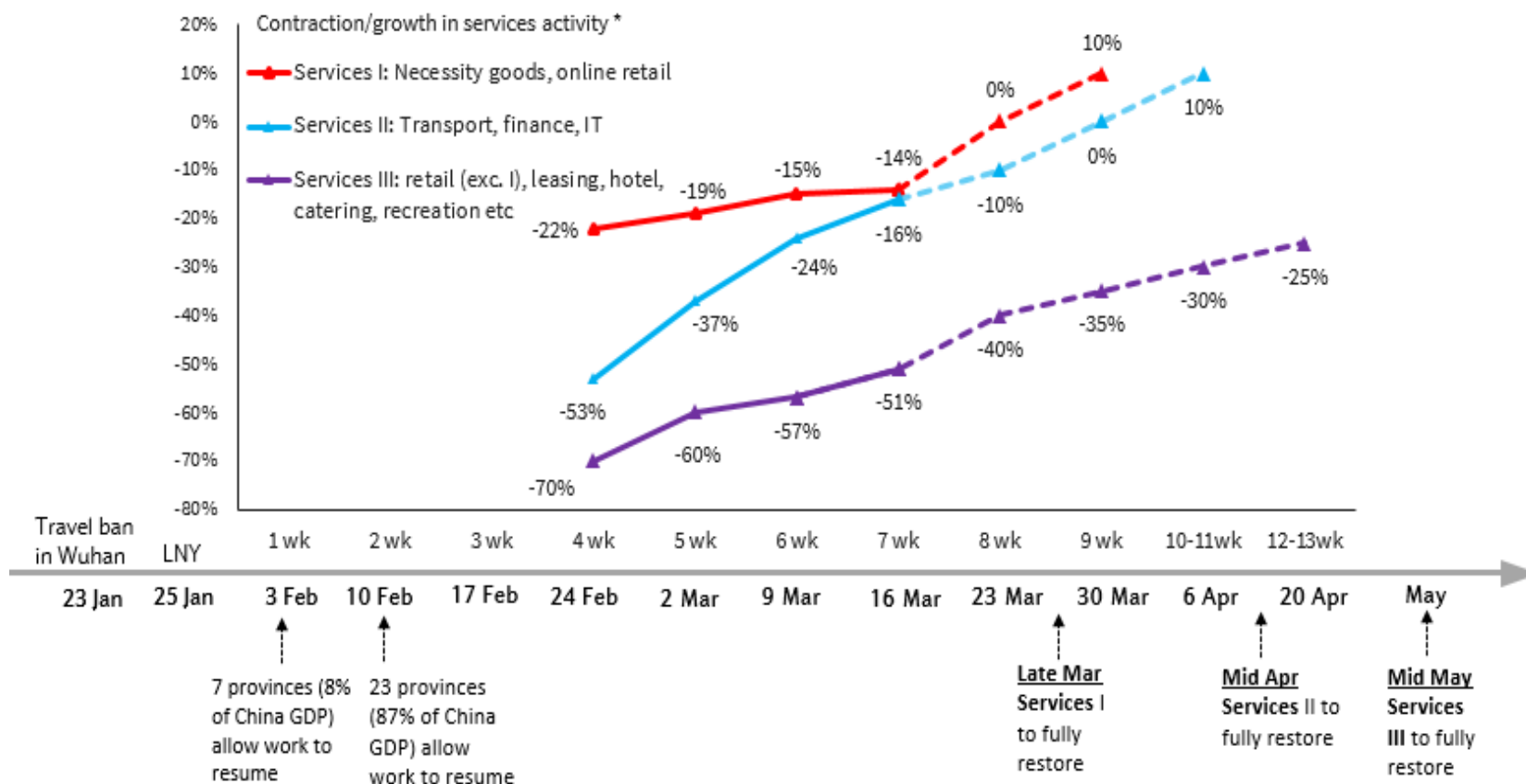


Note on methodology: The contraction or growth in manufacturing and services activity is now based on hard activity data instead of our estimated operation rates. Specifically, for manufacturing activity (30% of GDP), we take a simple average of implied y/y growth of: 1) the Baidu Migration Index; 2) manufacturing operation rate in textiles; 3) coal consumption by six major power plants (*1.5); and 4) air quality index (*1.5). For services activity (54% of GDP), we take a weighted average of implied y/y growth of: 1) category I services (proxied by road congestion); 2) category II services (proxied by manufacturing and migration index); and 3) category III (proxied by home sales, auto sales, and hotel revenue).

Source: Barclays Research

See [China: COVID-19: Activity tracking- watch for a turning point](#) 21 February 2020, [China: COVID-19: Activity tracking \(27 Feb 2020\)](#) 27 February 2020, [China: COVID-19: Activity tracking \(6 Mar\)](#) 6 March 2020, [China: COVID-19 - Activity tracking: Services fall deeper vs manufacturing](#), 13 March 2020, [China: COVID-19 - Activity tracking: Downgrade 2020 GDP to 1.3%](#), 19 Mar 2020

Services: we account for varying levels of disruption



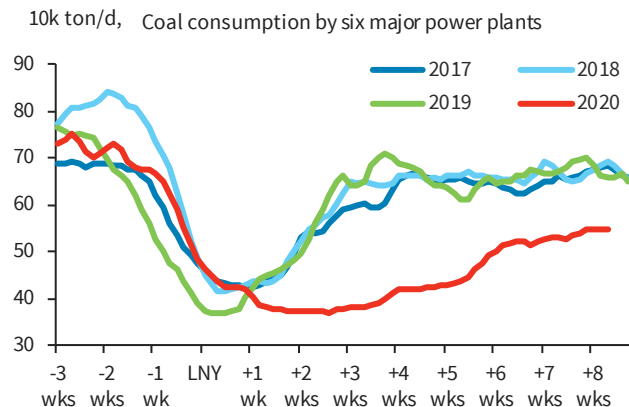
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Source: Barclays Research

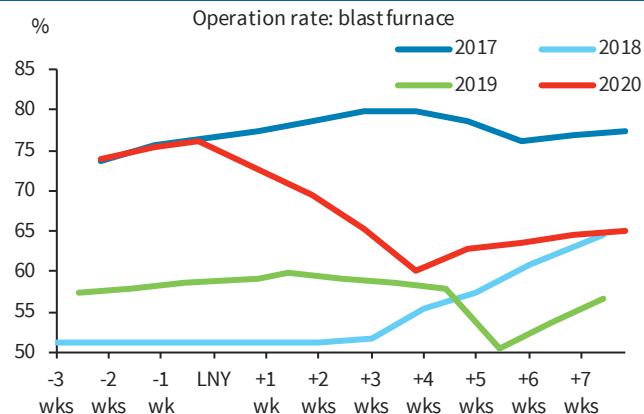
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Manufacturing: Tracking at down ~20% y/y

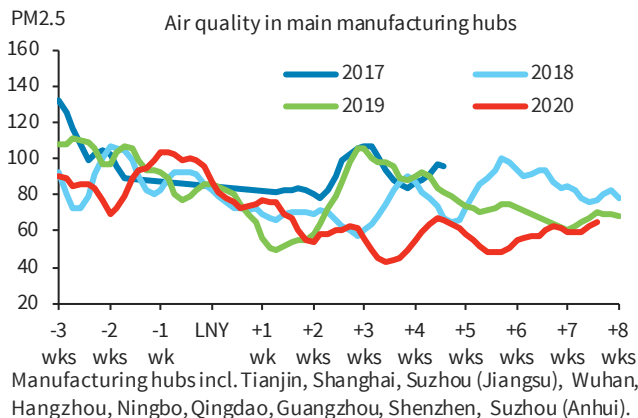
Coal consumption stabilized at ~-20% y/y



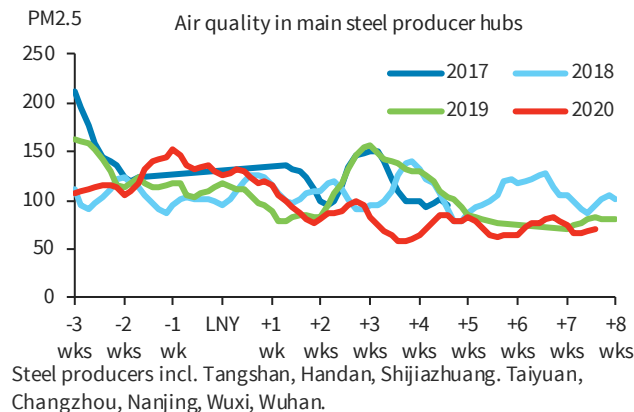
Blast furnace operation improved gradually



Air quality in main manufacturing hubs

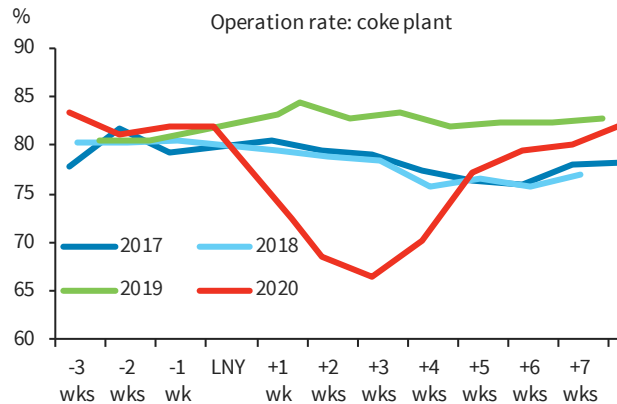


Air quality in main steel producer hubs



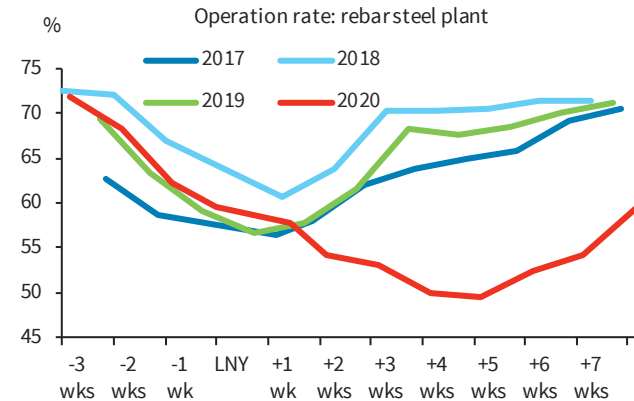
Manufacturing operation rates: Roughly ~80%

Mining and smelting: Coke plants



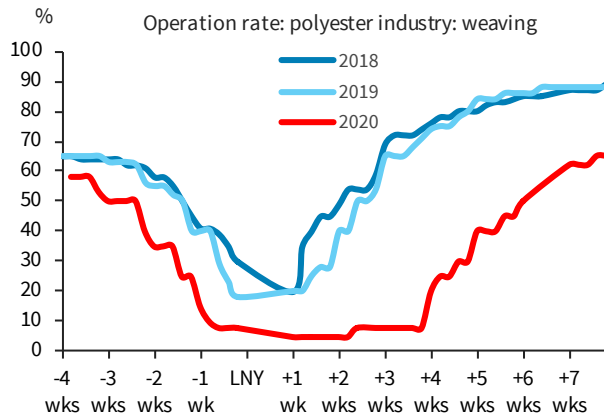
Source: Wind, Barclays Research

Mining and smelting: Steel plants



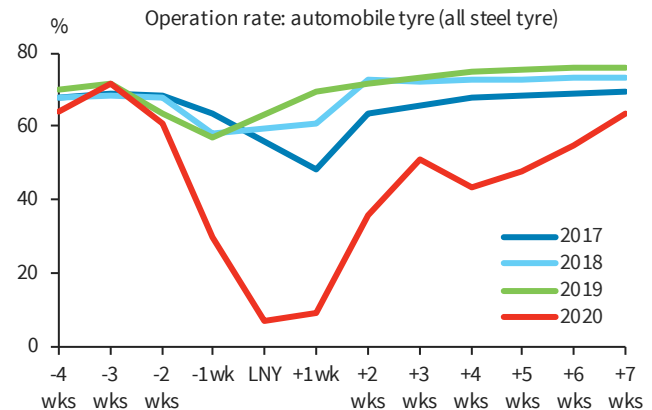
Source: Wind, Barclays Research

Textiles: Weaving factories



Source: Wind, Barclays Research

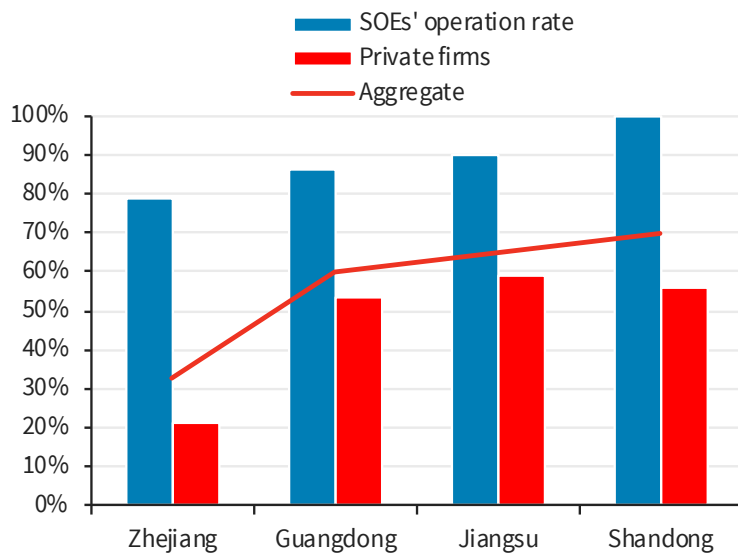
Auto parts: Tire factories



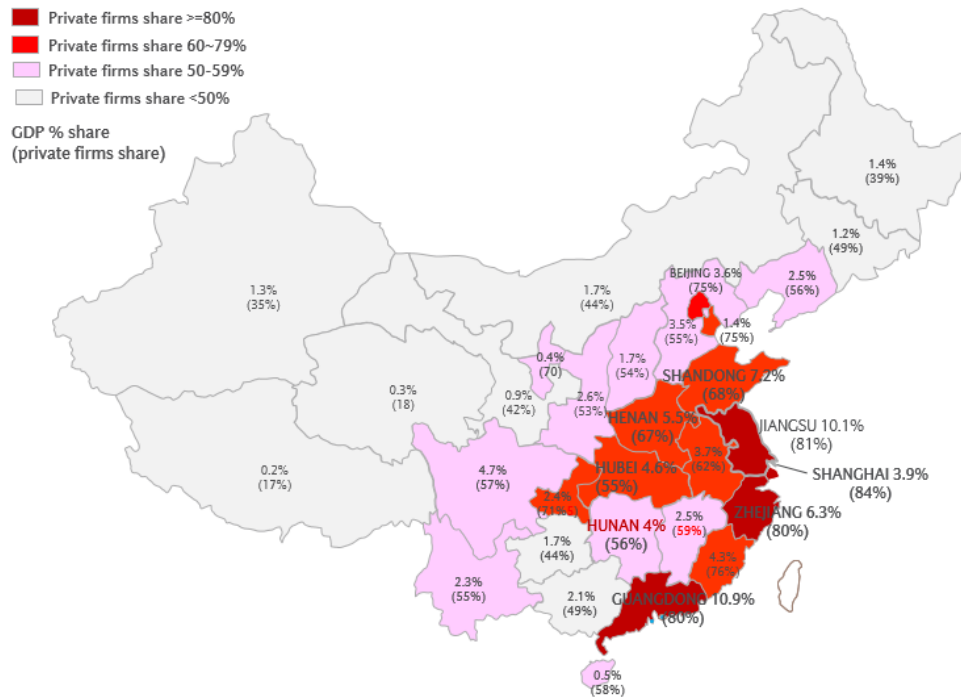
Source: Wind, Barclays Research

Slower recovery by POEs/SMEs could account for the better official IP (sampling large firms) than we estimated

Lower operation rates in the private sector



Private firms account for a larger share of GDP in economically important provinces

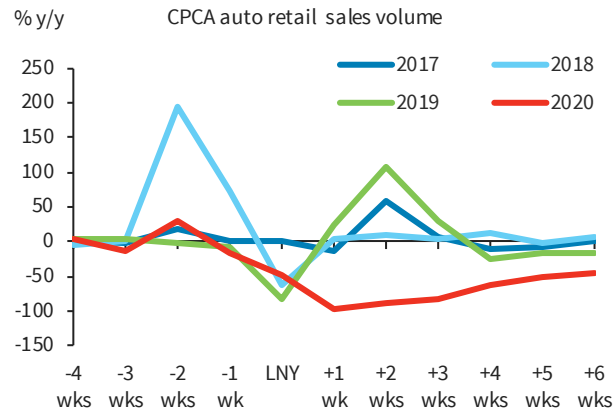


Source: SASAC, Barclays Research

Source: Wind, Barclays Research

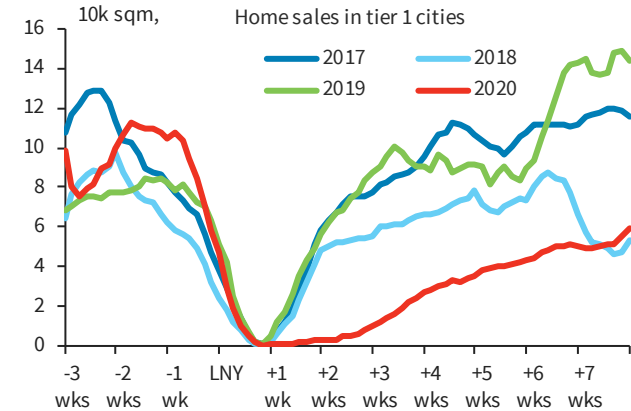
Services: Tracking at down ~35% y/y...

Auto sales decline slowed to ~45% y/y



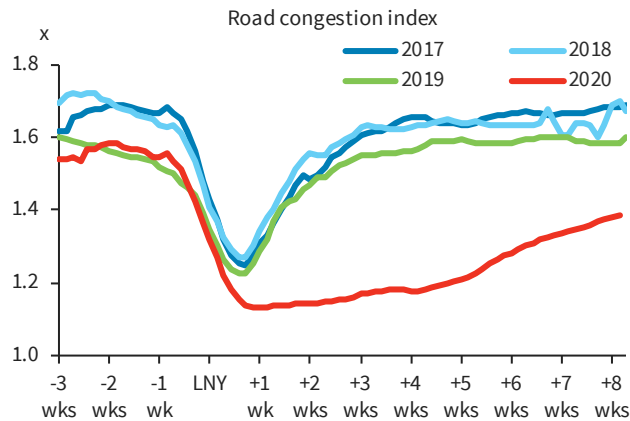
Source: Wind, Barclays Research

Home sales decline eased to ~40% y/y



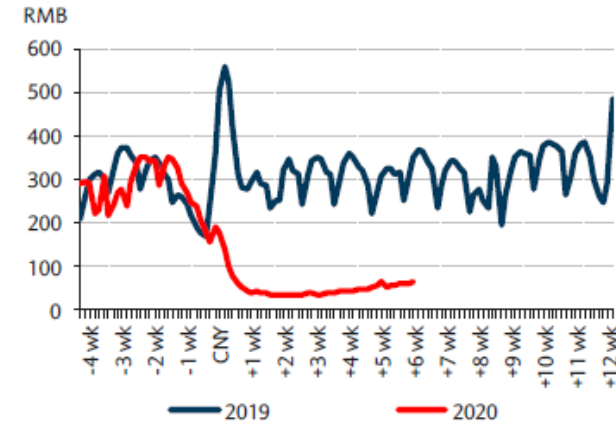
Source: Wind, Barclays Research

Road congestion index continued to increase



Source: AMAP, Wind, Barclays Research

Hotel revenue per room barely recovered

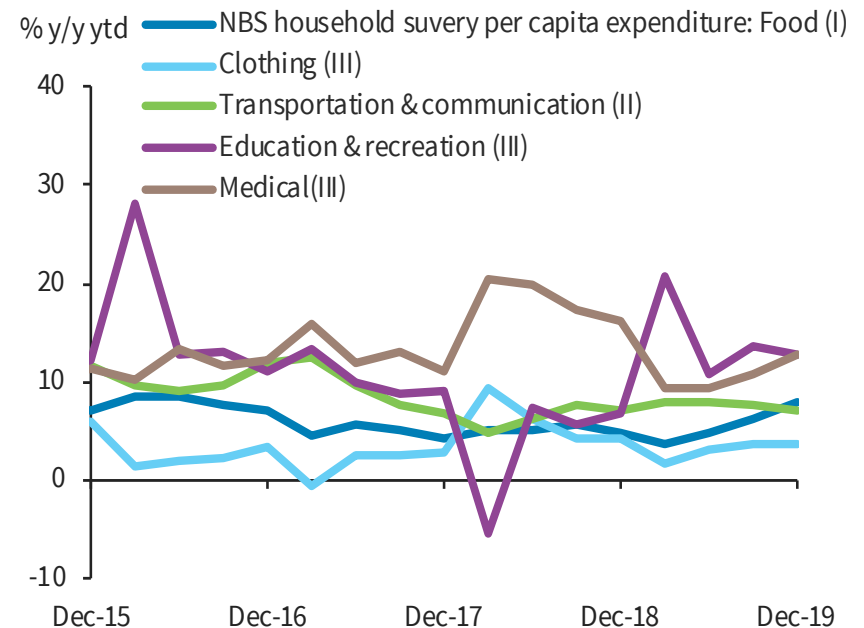
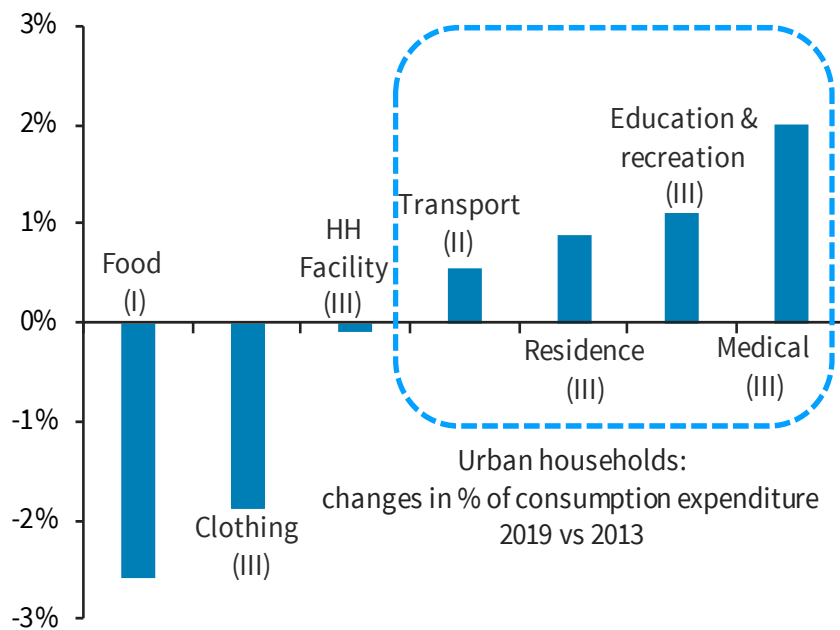


Source: Wind, Barclays Research

... which suggests consumption in the GDP data is likely to fall more sharply than retail sales, in our view

Consumption expenditure has shifted toward services...

... led by education and recreation, and medical care



Source: Wind, Barclays Research

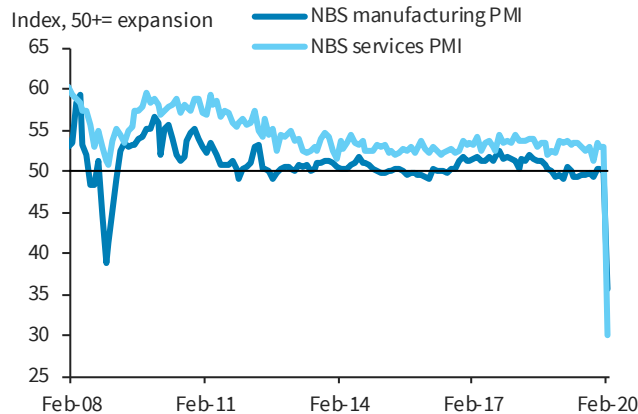
Source: Wind, Barclays Research

A deep Q1 Slump: confirmed by Jan-Feb data

See [China Coronavirus: Evaluating the potential economic impact](#) 1 February 2020, [China: Coronavirus: GDP forecast downgrade](#) 7 February 2020, [China: COVID-19: Activity tracking- watch for a turning point](#) 21 February 2020, [China: COVID-19: Activity tracking \(27 Feb 2020\)](#) 27 February 2020, [China: COVID-19: Activity tracking \(6 Mar\)](#) 6 March 2020, [China: COVID-19 - Activity tracking: Services fall deeper vs manufacturing](#), 13 March 2020, [China: Cutting GDP on deep Q1 slump, demand shock](#), 13 March 2020, [China: Jan-Feb data suggest -10% y/y 1Q contraction](#), 16 March 2020, [China: COVID-19 - Activity tracking: Downgrade 2020 GDP to 1.3%](#), 19 Mar 2020

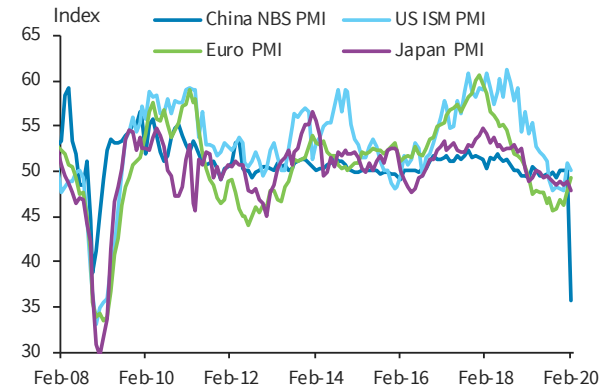
Services PMI 29.6 fell more than manufacturing's 35.7

NBS manufacturing and services PMI



Source: Wind, Barclays Research

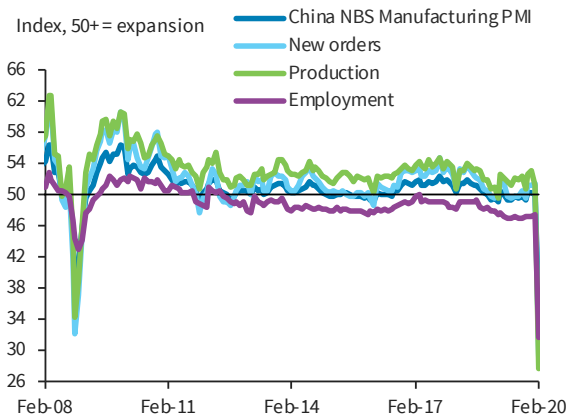
Global PMIs likely to follow China's path



Note: all PMIs refer to manufacturing

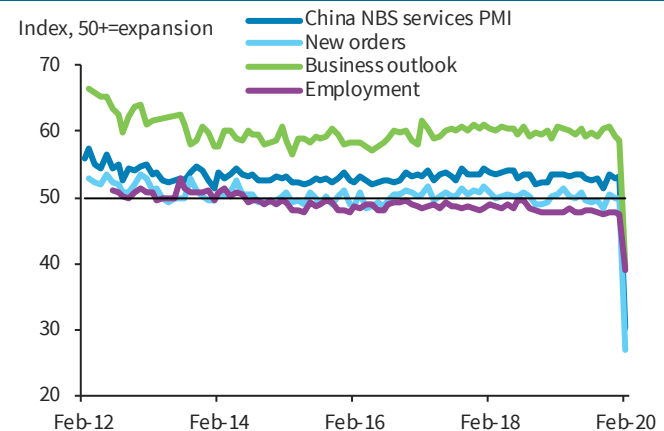
Source: Wind, Barclays Research

Manufacturing PMI breakdowns



Source: Wind, Barclays Research

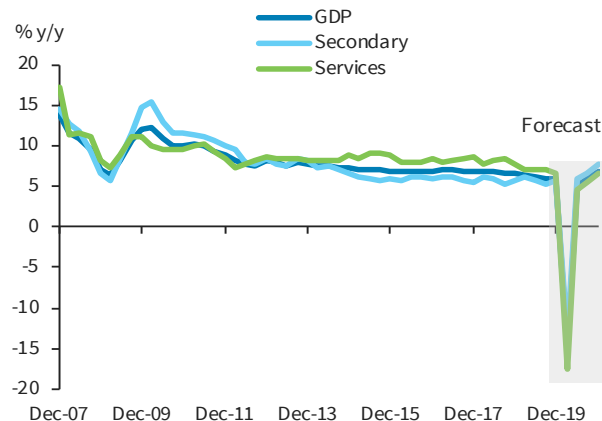
Services PMI breakdowns



Source: Wind, Barclays Research

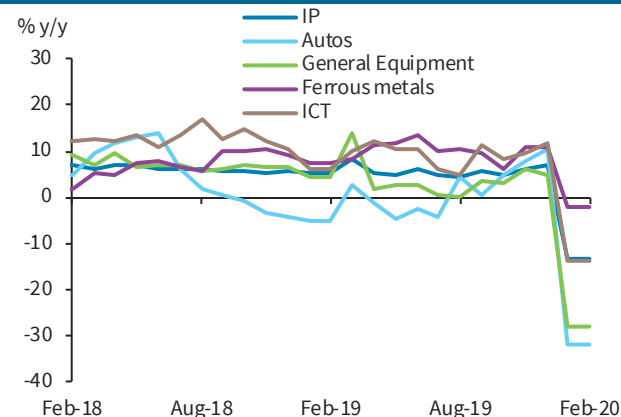
Jan-Feb official activity data: Double-digit contractions

1Q GDP on track to contract ~15% y/y



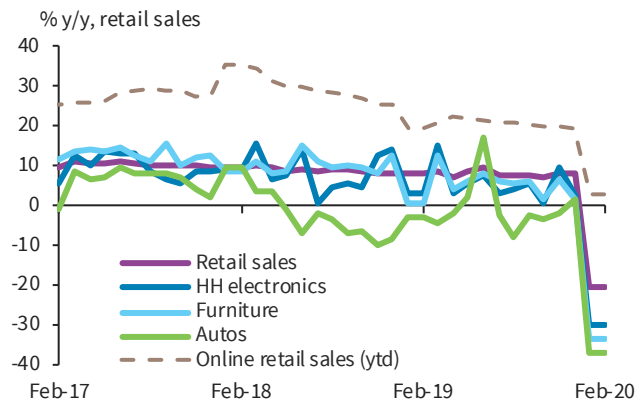
Source: CEIC, Barclays Research

Jan-Feb industrial production down 13.5% y/y



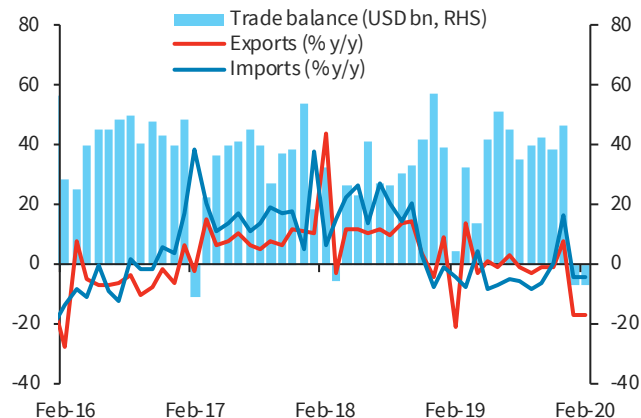
Source: CEIC, Barclays Research

Jan-Feb retail sales down 20.5%



Source: Wind, Barclays Research

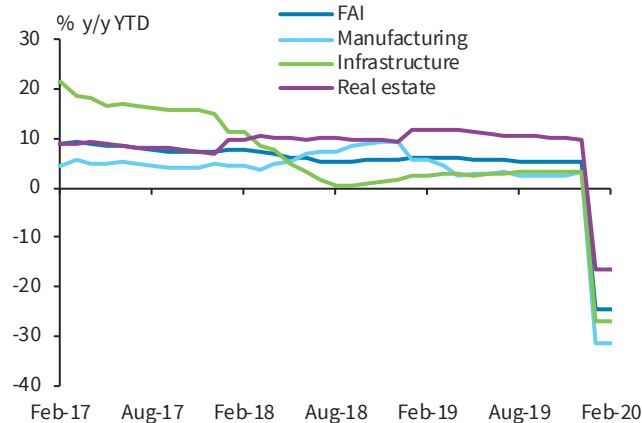
Jan-Feb exports down 17.2%, imports down 4.0%



Source: Wind, Barclays Research

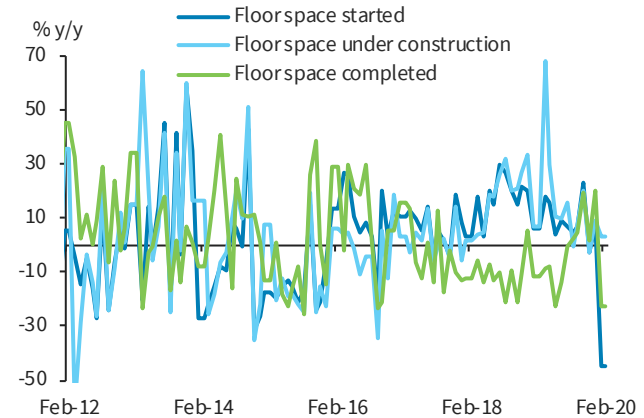
Jan-Feb official activity data: FAI and housing market

FAI breakdown



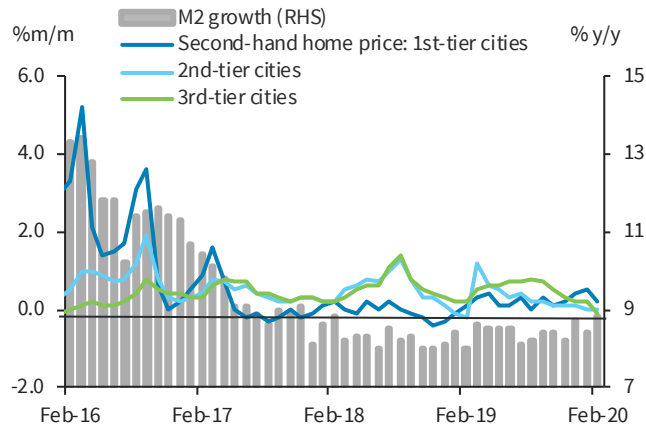
Source: CEIC, Barclays Research

Floor space started and completed



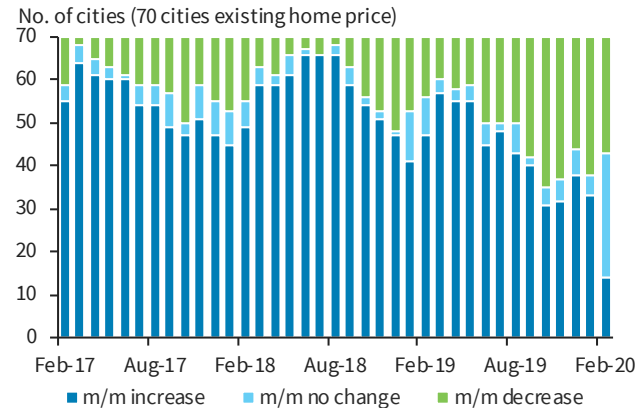
Source: Wind, Barclays Research

Home price by city tiers



Source: Wind, Barclays Research

Home prices (2nd hand) in 70 cities



Source: Wind, Barclays Research

Policy response: Measured and targeted so far

See [China: Coronavirus: GDP forecast downgrade](#) 7 February 2020, [China: COVID-19: Activity tracking- watch for a turning point](#) 21 February 2020, [China: Cutting GDP on deep Q1 slump, demand shock](#), 13 March 2020, [China: COVID-19 - Activity tracking: Downgrade 2020 GDP to 1.3%](#), 19 Mar 2020

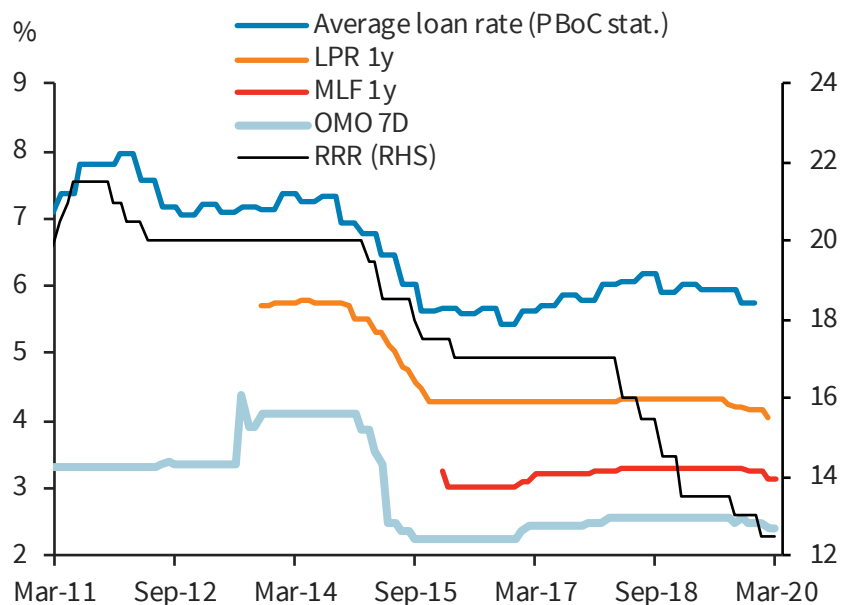
Smaller scale than past cycles so far despite the shock

	2008-09	2012-13	2015-16	2018 - Jan 20	Feb 20 -
Monetary/credit policy					
Barclays alternative credit aggregate growth (pp increase)	+18pp (Dec 2008-Nov 2009)	+6.1pp (May 2012- May 2013)	+4.2pp (Apr 2015- Apr 2016)	+0.6pp (Nov 2018- Jan 2020)	+0.1pp
Benchmark interest rate cuts	216bp (Sep-Dec 2008)	56bp (Jun-Jul 2012)	125bp (Mar-Oct 2015)	0	0
RRR cuts (for major banks)	200bp (Oct – Dec 2008)	150bp (Dec 2011-May 2012)	300bp (Feb 2015 – Mar 2016)	400bp (~230bp netting out MLF replacement, April 2018 - Jan 2020)	~70bp (Mar 2020)
Fiscal policy					
Budget fiscal deficit as % of CDP (pp increase)	+2.1pp (2009)	+0.4pp (2013)	+0.7pp (2016)	+0.2pp (2019)	>0.2pp (2020E)
Augmented fiscal deficit as % of CDP (pp increase)	-	+1.3pp (2013)	+3.5pp (2016)	+1pp (2019)	+~5pp (2020E)
Tax & fee cuts as % of CDP (pp increase)	+0.5pp (2009)	-	0 (2016)	+0.8pp (2019)	-~1pp (2020E)

Source: Wind, Barclays Research
See [China: This easing cycle is different](#), 5 September 2019

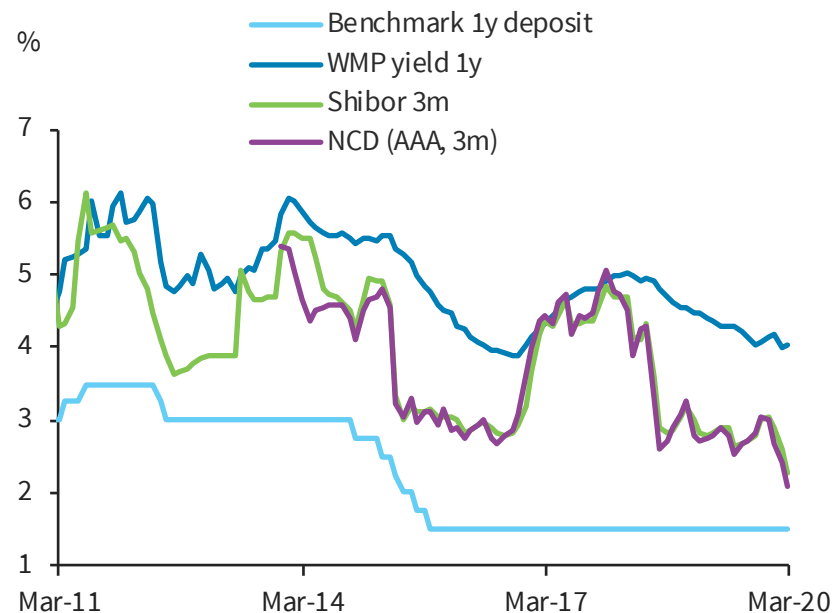
PBoC has been cautious to lower interest rates

MLF/OMO rates cut once by only 10bp



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

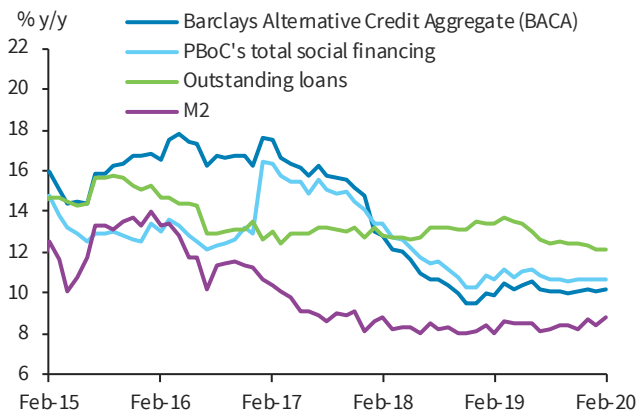
Banks' funding costs from WMPs and interbank declined; costs from deposits unchanged



Source: Wind, Barclays Research

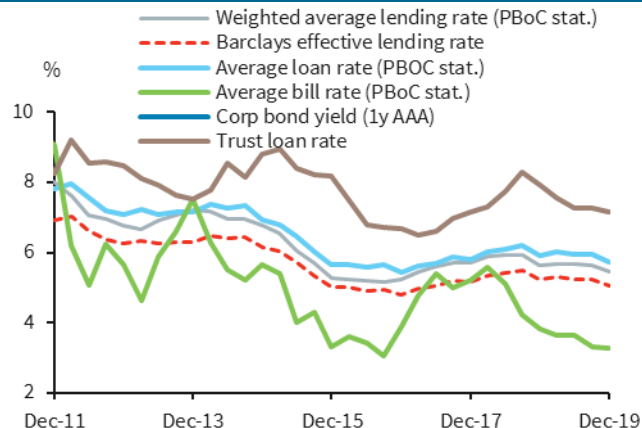
Understanding the PBoC's caution – main tasks

Credit growth stabilized in February



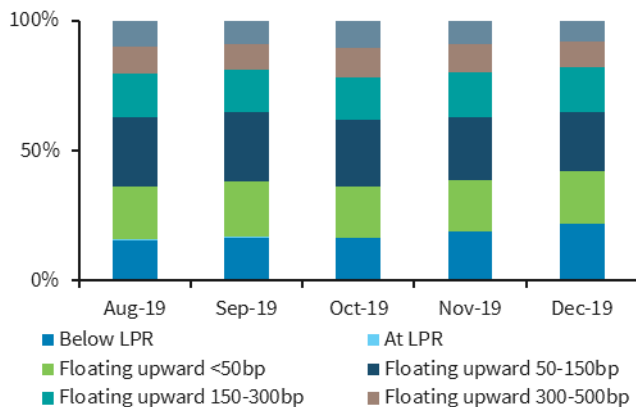
Source: Wind, Barclays Research

Average loan rate fell 22bp in Q4



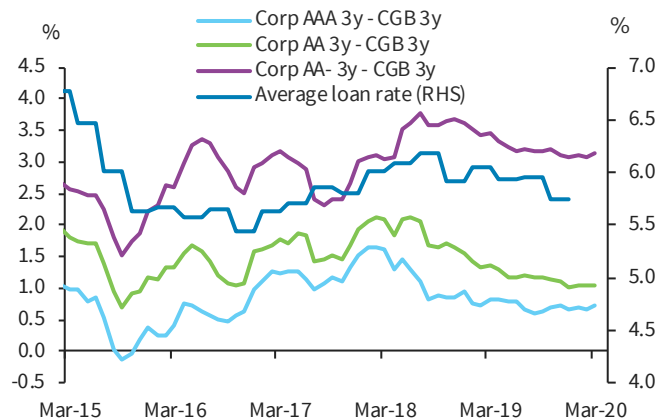
Source: Wind, Barclays Research

More loans being priced below 1y LPR



Source: Wind, Barclays Research

Credit spreads have been flat recently

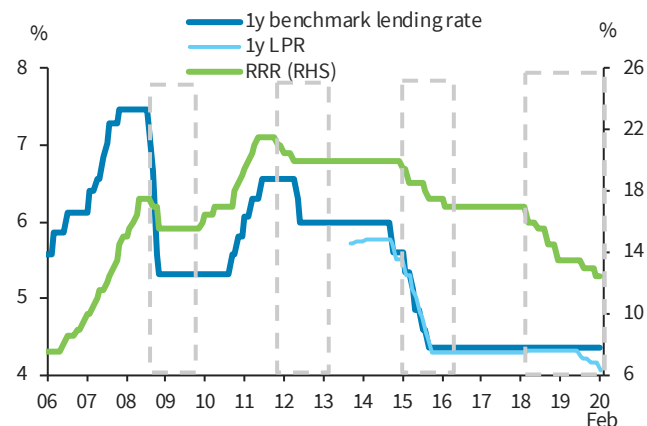


Source: Wind, Barclays Research

See [China: PBoC watching: Interest rate cuts in sight](#), 1 February 2019, and [PBoC Watching: Constraints, substitutes, triggers to rate cuts](#), 29 August 2019

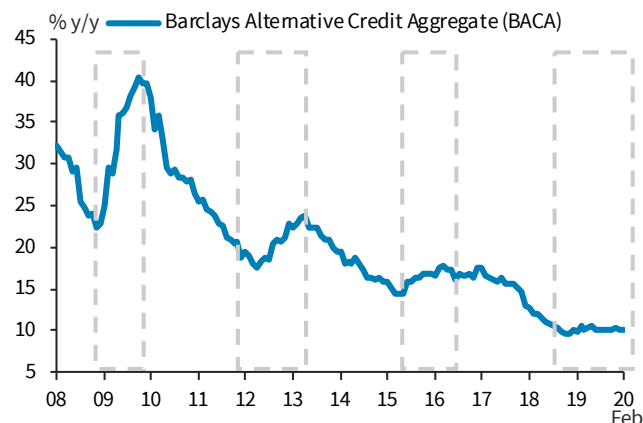
Reduced stimulus likely due to policy room and efficacy

Monetary policy: RRR and benchmark interest rate



Source: Wind, Barclays Research

Credit growth: Barclays alternative credit aggregate



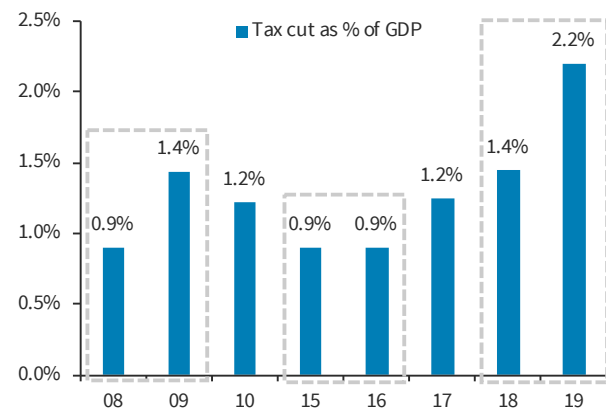
Source: Wind, Barclays Research

Fiscal policy: Budget and augmented fiscal deficit



Source: Wind, Barclays Research

Fiscal policy: Tax cuts



Note: No official data for 2011-2014

Source: Wind, Barclays Research

Policy responses since February

Monetary

13-Mar	PBoC delivered targeted RRR cuts by 0.5-1pp and additional 1pp for joint-stock banks, releasing CNY550bn of liquidity.
11-Mar	PBoC stepped up support to corporate bond financing.
11-Mar	Premier Li urged use of targeted RRR cuts to lower financing costs for SMEs. He also added that as long as employment remains stable this year, it is less important to have slower or higher economic growth.
20-Feb	1-year LPR quoted 10bp lower to 4.05% and 5-year LPR 5bp lower to 4.75%.
17-Feb	1-year MLF rate cut by 10bp to 3.15%.
07-Feb	PBoC set up a CNY300bn special re-lending fund to offer preferential loans to key enterprises at 100bp lower than LPR 1-year rate in Jan.
03-Feb	PBoC injected CNY1.2 trn of liquidity through open market operations, lowering 7d and 14d OMO rates by 10bp.
01-Feb	The PBoC, MoF, CBIRC, CSRC and SAFE jointly published a total of 30 measures on enhancing financial support for combating the coronavirus and reviving the real economy, including ensuring sufficient liquidity, providing key enterprises with preferential loans at favorable rates, providing credit support for enterprises which are heavily affected by the epidemic, simplifying the business procedures and requirements etc

Fiscal

18-Feb	The State Council asked to lower or waive employers' social insurance contributions and deferring their payments to the housing provident fund.
11-Feb	MoF frontloaded CNY848bn of new LG bonds quota, including CNY290bn special bonds and CNY558bn general bonds.
05-Feb	The State Council announced more tax and fee exemption to support coronavirus containment and the economy, including VAT exemption for some transportation and courier; waiving the registration fee for drugs and medical equipment for coronavirus containment; waiving the payment for civil aviation development fund; also calling for banks to offer preferential loans at fiscally subsidized interest rates below 1.6% for key enterprises.
02-Feb	MoF said the central government will subsidize 50% of interests for PBoC's relending to key enterprises during epidemic control, and also subsidize interests for loans to MSEs and individuals who are heavily affected by the epidemic.

Housing

More than 20 provinces/cities have proposed/announced measures to relax hukou rules (essentially linked to home purchase) and measures to support property market. These include deferring land purchase payment; properly delaying the dates of start and completion of buildings; lowering the ratio of deposit for land bidding; deferring or exempting tax and fees of agencies; offering fund subsidies to long-term rental companies.

Nanning has allowed to use Housing Provident Fund to buy the second house, with the down payment ratio below 40%. A regional bank in Zhejiang Province has lowered the down payment ratio to 20% from 30% for the first house.

Local government policies

Credit	Provide credit support for industries and firms which are heavily affected by the epidemic; forbid withdrawing or delaying loans to relevant firms.
Lowering operation costs	Returning parts of payment of social insurance of last year to employers who won't cut or cut fewer jobs.
	Deferring employers' payment of social insurance.
	Reducing or exempting rental cost for SMEs.
	Reducing or exempting tax such as property tax and urban land use tax for SMEs.
Mitigating losses	Hainan launched the first specially designed insurance product to cover losses incurred by businesses as a result of the Covid-19 outbreak.

Source: Xinhua, Barclays Research

Boosting consumption a priority: Vouchers issued by LGs

Date	Province	City	Consumption voucher program
03-Mar	Shandong	Jinan	The city will issue CNY20mn worth of vouchers to residents for cultural and tourism consumption.
05-Mar	Zhejiang	Hangzhou	Jiande City (under the jurisdiction of Hangzhou) will roll out CNY10mn worth of vouchers to tourists.
06-Mar	Liaoning		The province encourages municipal governments to issue vouchers for cultural and tourism consumption.
12-Mar	Zhejiang		The province will roll out CNY1bn worth of voucher and CNY100mn "red packet" program to boost cultural and tourism consumption.
13-Mar	Jiangsu	Nanjing	The city will issue CNY318mn worth of vouchers to residents in a bid to facilitate seven categories of consumption, including catering, sports, travelling, culture and recreation, etc.
13-Mar	Zhejiang	Ningbo	The city will issue CNY100mn worth of vouchers to boost the consumption. The coupon will offer residents a discount for spending in cinemas, hotels, bookstores, and gyms.
13-Mar	Hebei		The province will hand out CNY15mn worth of sports vouchers.

Source: Xinhua, Barclays Research

Further policy easing we expect

Monetary/credit	RRR	MLF 1y rate	OMO 7d rate	LPR 1y	Benchmark deposit rate	BACA (chg)
2018	-250bp	+5bp	+5bp	no change	no change	-5.3pp
2019	-150bp	-5bp	-5bp	-16bp	no change	+0.6pp
2020 Q1 (as of 23 Mar)	~-120bp	-10bp	-10bp	-10bp	no change	+0.1pp
2020 (expected for rest of year)	-100~150bp	-35~50bp	-35~50bp	-35 ~ 50bp	-10bp	

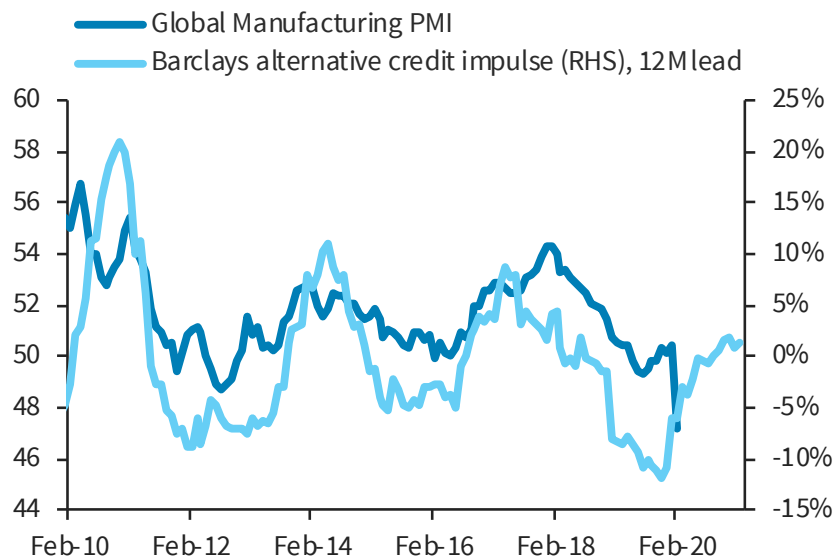
Fiscal	Fiscal deficit (as % of GDP)		LG bonds (in CNY)		Tax cuts (total as % of GDP; items in CNY)			
	Budget	Augmented	General	Special	Total (% of GDP)	(i) Individual income tax	(ii) Corporate VAT	(iii) Corporate income tax
2018	2.6%	11.2%	0.83trn	1.35trn	1.4%	~100bn	~400bn	~170bn
2019	2.8%	12.6%	0.93trn	2.15trn	2.2%	~400bn	~1000bn	~200bn
2020 (expected)	>3.0%	17~18%	~1trn	3.3~4trn	less	targeted	targeted	likely

Source: Wind, Barclays Research

See [PBoC Watching: Constraints, substitutes, triggers to rate cuts](#), 29 August 2019, [China: This easing cycle is different](#), 5 September 2019, [China Investor Trip: Slower growth tests policy patience](#), 4 October 2019, [China PBoC Watching: RRR cut delivered; we expect MLF rate cut in November](#), 6 September 2019, [China Quarterly Outlook: Soft demand, recovering momentum](#) 20 November 2019, [China CEWC: 2020 macro policy: domestic focused, more credit support to manufacturing, and likely reduced fiscal impulse](#), 13 December 2019, See [China Coronavirus: Evaluating the potential economic impact](#) 1 February 2020, [China: Coronavirus: GDP forecast downgrade](#) 7 February 2020, [China: COVID-19: Activity tracking- watch for a turning point](#) 21 February 2020, [China: Cutting GDP on deep Q1 slump, demand shock](#), 13 March 2020, [China: COVID-19 - Activity tracking: Downgrade 2020 GDP to 1.3%](#), 19 Mar 2020

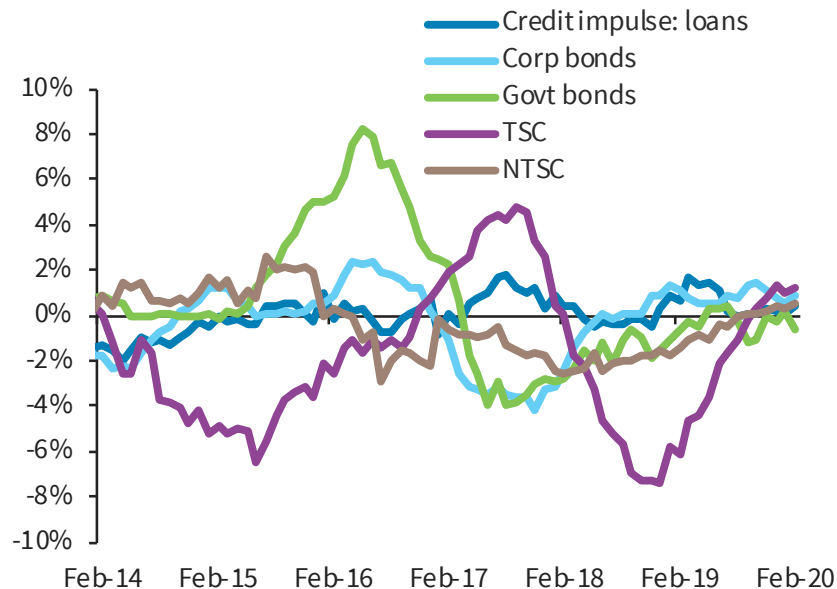
Credit impulse: Pre-outbreak improving trend to sustain

Credit impulse turned positive pre Covid-19



Source: Wind, Barclays Research

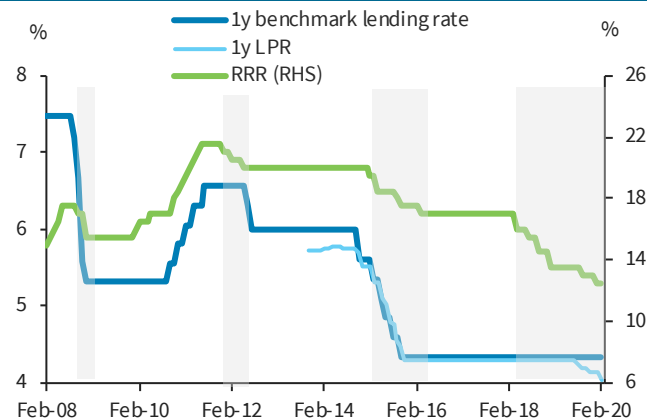
Credit impulse breakdown



Source: Wind, Barclays Research

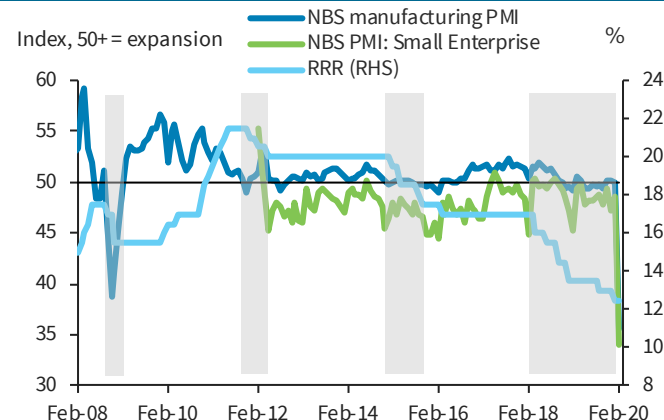
RRR cuts: Driven by liquidity, growth and sentiment

RRR and benchmark lending rate cut cycles



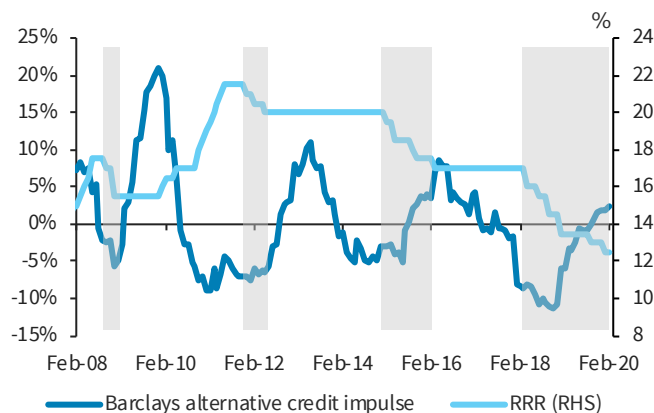
Note: shades mark RRR cut cycles. Source: Wind, Barclays Research

PMI vs RRR cuts



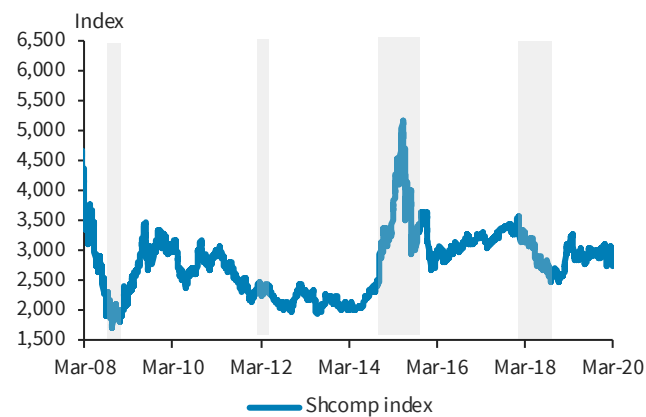
Source: Wind, Barclays Research

Credit impulse vs RRR cuts



Source: Wind, Barclays Research

Equity market vs RRR cuts

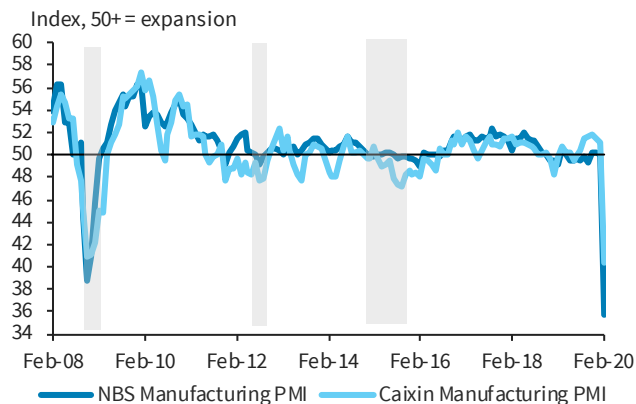


Source: Wind, Barclays Research

See [China: PBoC watching: Gauging policy direction from Governor Yi's comments](#), 10 March 2019

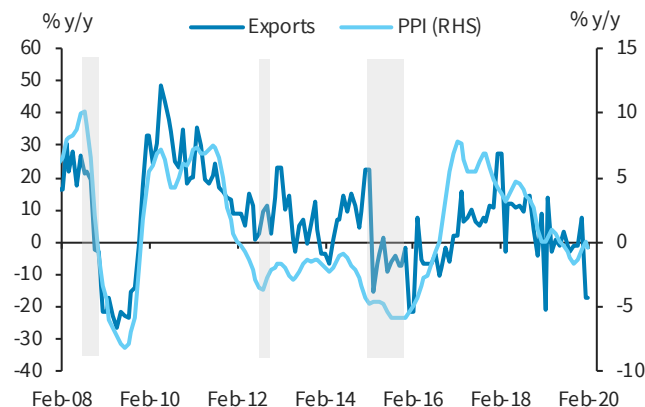
Typical economic conditions for rate cut cycles

Past three rate cut cycles suggest lending rate most likely lowered when PMI contracts...



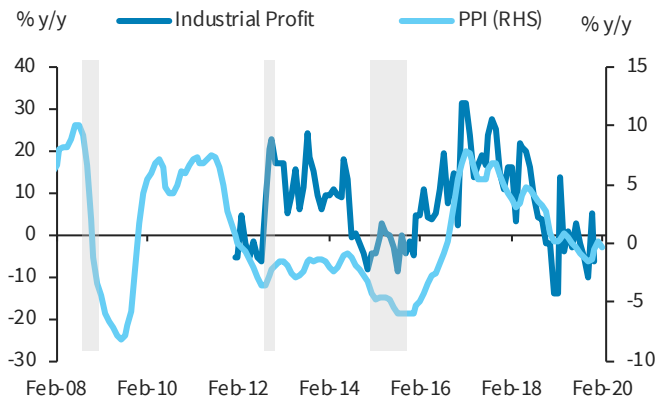
Note: shades mark rate cut cycles. Source: Wind, Barclays Research

... export growth deteriorates, PPI plummets



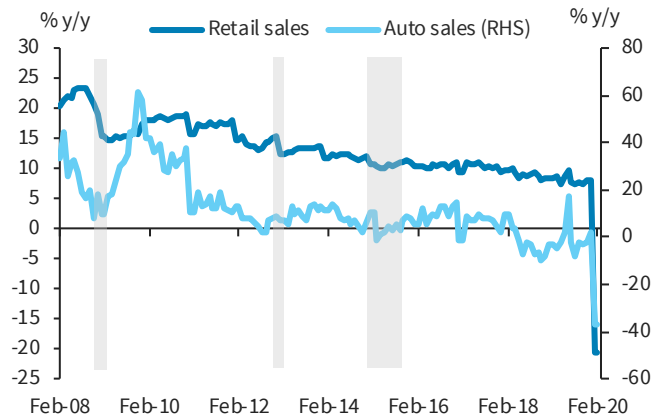
Source: Wind, Barclays Research

... industrial profits contract...



Source: Wind, Barclays Research

... and retail sales slow



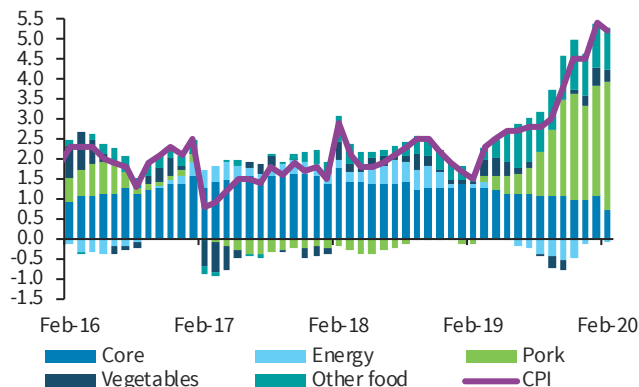
Source: Wind, Barclays Research

See [China: PBoC watching: Interest rate cuts in sight](#), 1 February 2019, [PBoC Watching: Constraints, substitutes, triggers to rate cuts](#), 29 August 2019

Monetary easing could be delayed on elevated y/y CPI

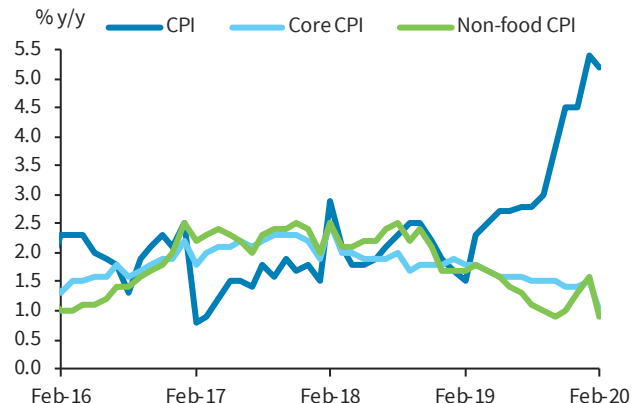
Pickup in inflation driven by rising food prices

pp contribution to CPI inflation (% y/y)



Source: CEIC, Barclays Research

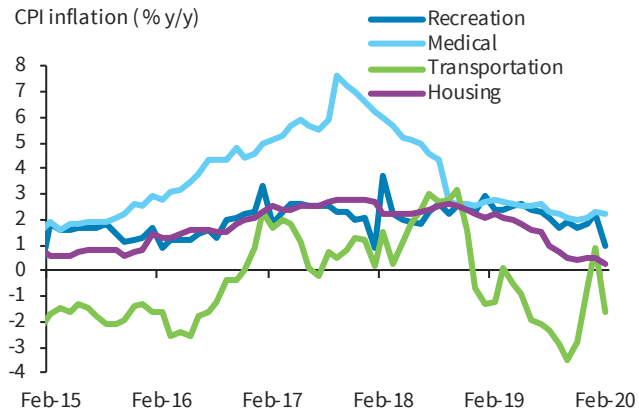
Non-food inflation declined...



Source: CEIC, Barclays Research

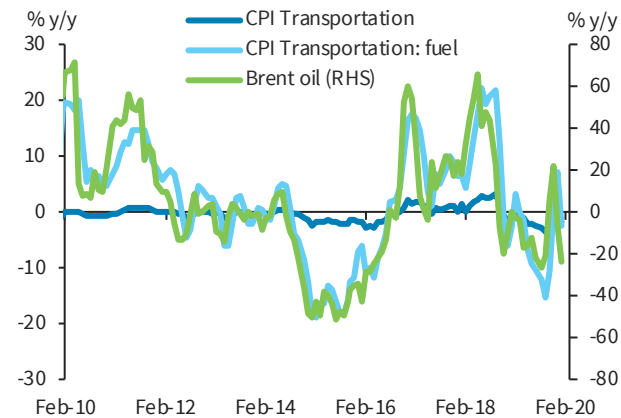
... led by recreation, and transportation ...

CPI inflation (% y/y)



Source: Wind, Barclays Research

... amid declining oil prices

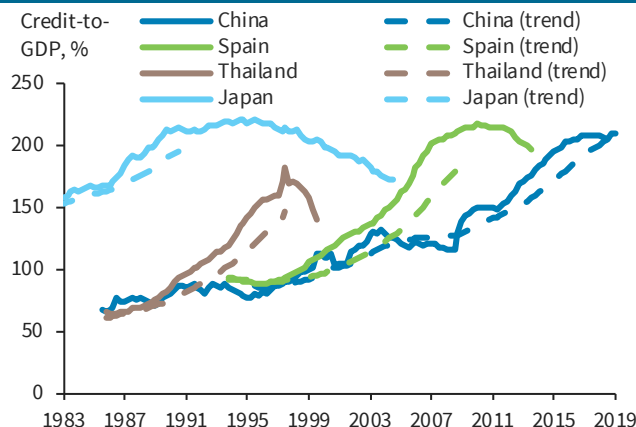


Source: Wind, Barclays Research

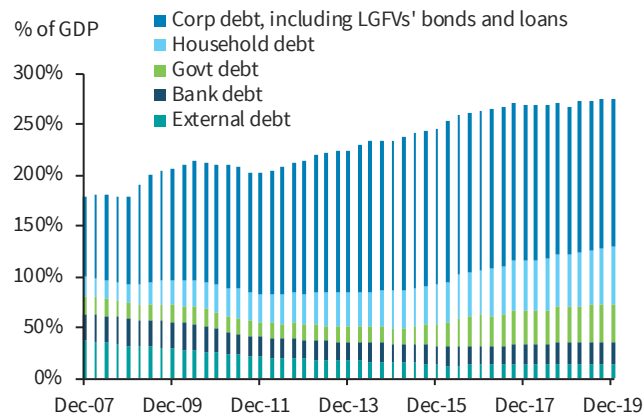
See [China: CPI inflation surges on LNY and coronavirus](#), 1 February 2020, [PBoC Watching: Constraints, substitutes, triggers to rate cuts](#), 29 August 2019

Medium-term financial risks and debt remains a concern

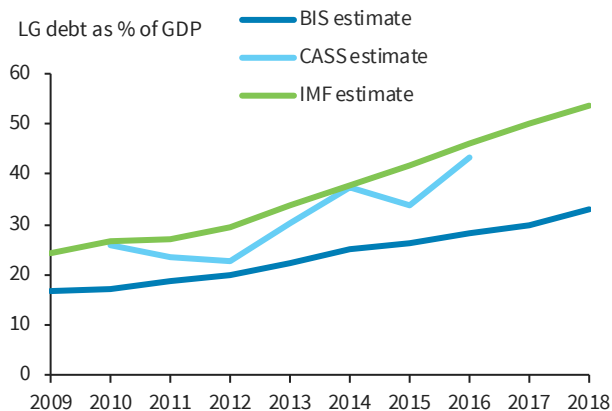
China's credit/GDP gap



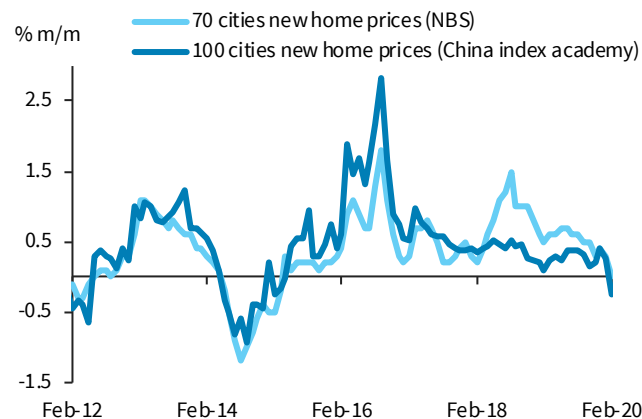
Debt/GDP rose 6pp in 19 vs 18



Unsustainable local-government debt



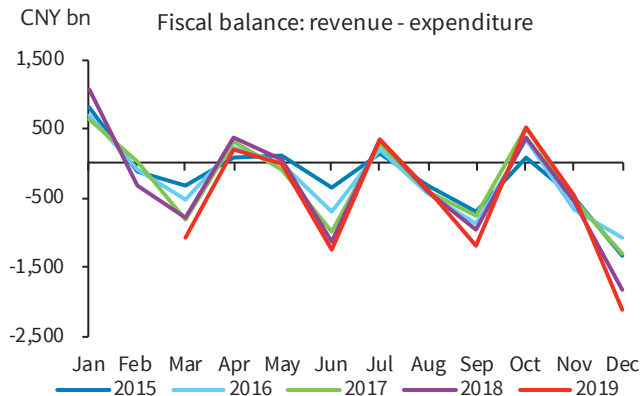
Bubble concerns on sustained price increases



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

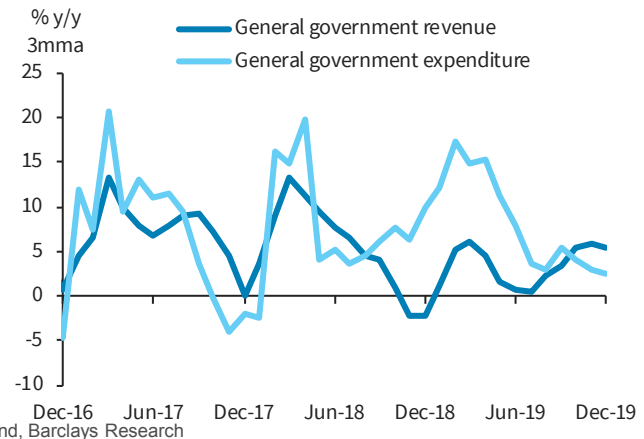
Fiscal: budget deficit likely to break 3%, more LG bonds

Fiscal deficit wider than usual...



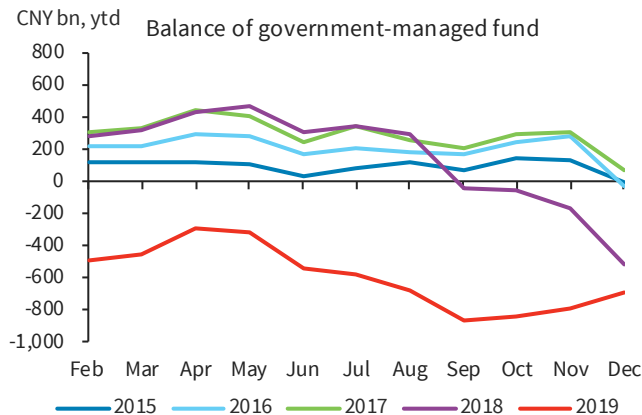
Source: Wind, Barclays Research

... due to large-scale tax and fee cuts



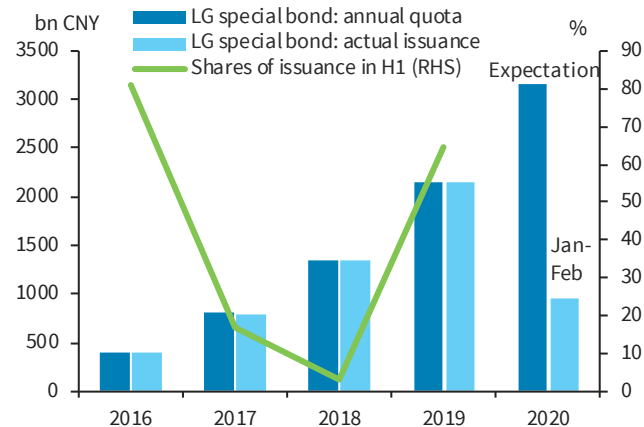
Source: Wind, Barclays Research

Larger deficit in government-managed fund



Source: Wind, Barclays Research

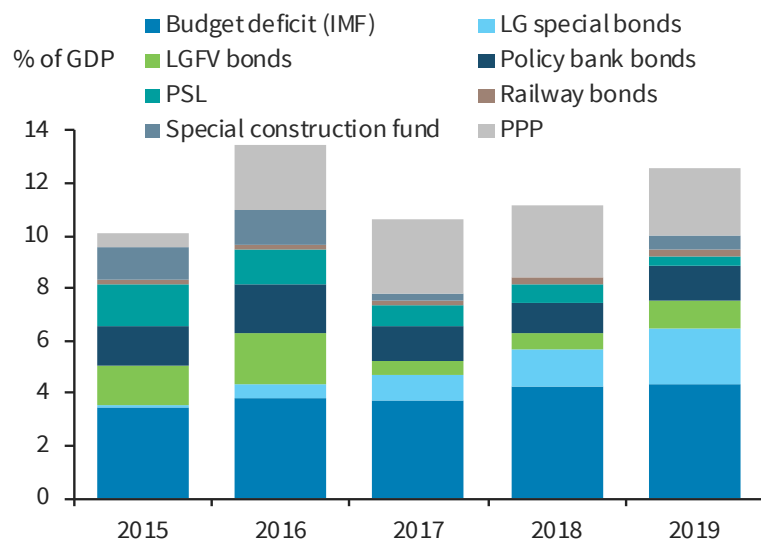
Large LG special bonds issuance in Jan



Source: Wind, Barclays Research

Fiscal: Overall deficit likely to rise by 5-6pp of GDP

Augmented fiscal deficit increases



Consolidated general government budget

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



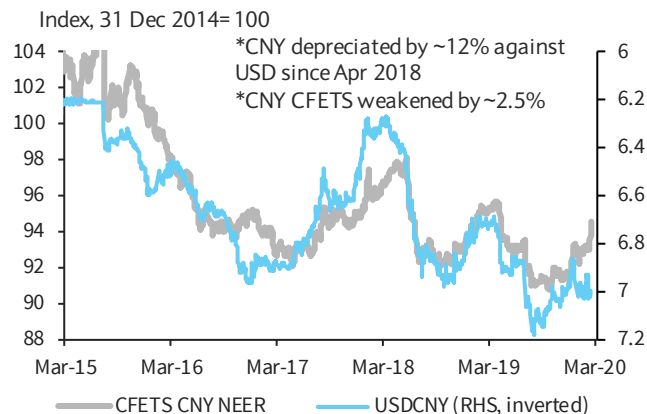
Consolidated general government budget	Major revenue sources
1) General budget balance (2019 revenue = general budget revenue: CNY19.3trn + budget stabilisation fund & carryover fund: CNY1.5trn)	Tax revenue (~80%)
2) Government-managed fund (revenue: CNY10trn)	Land sales revenue (~85%)
3) SOE fund (revenue: 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

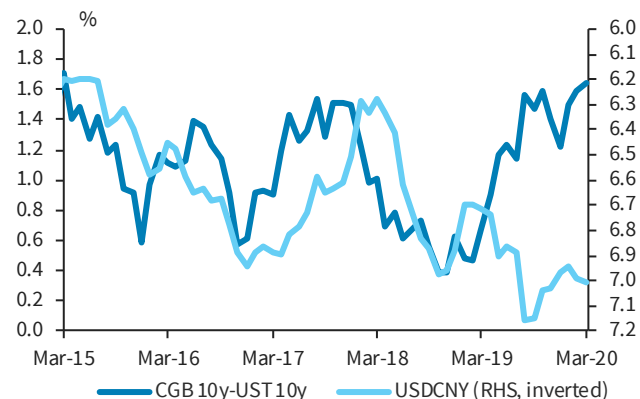
Source: Wind, Barclays Research

CNY: Market expectations well anchored

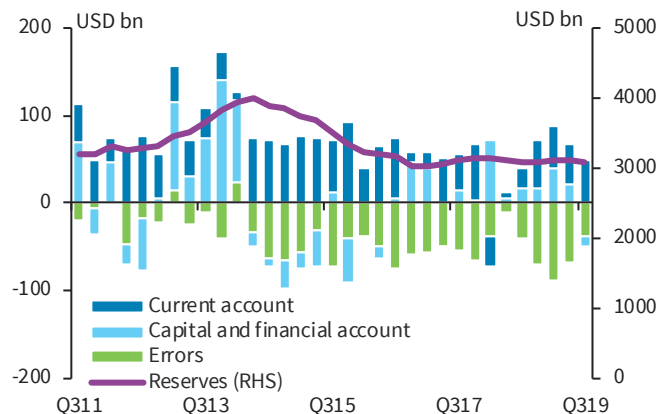
CNY depreciated against USD during periods of tariff escalation



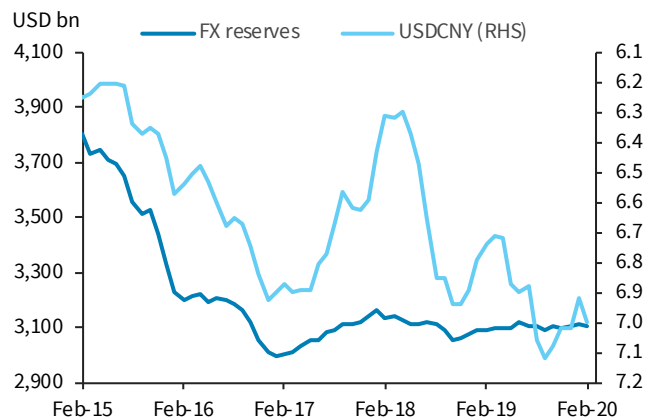
Yield differentials have narrowed



Current account registered surplus in Q1-Q3



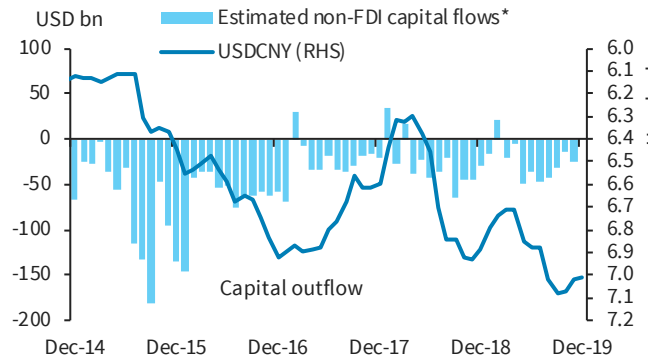
FX reserves stay above USD3trn



See [China Outlook: CNY breaks 7.0, Sino-US tension escalates](#), 9 August 2019, [PBoC Watching: Constraints, substitutes, triggers to rate cuts](#), 29 August 2019

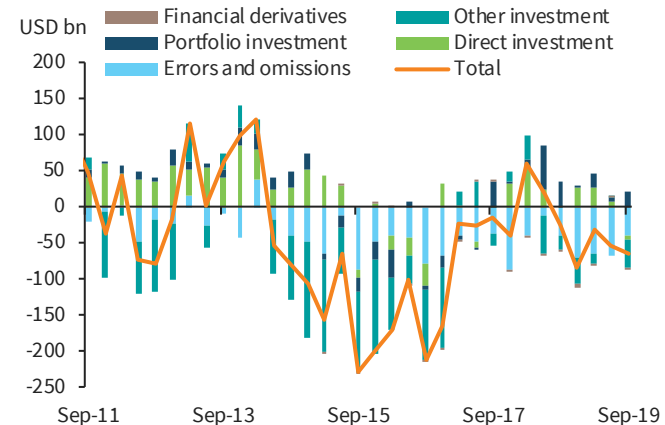
Capital outflows remain contained

High-frequency data suggest capital outflows are still contained



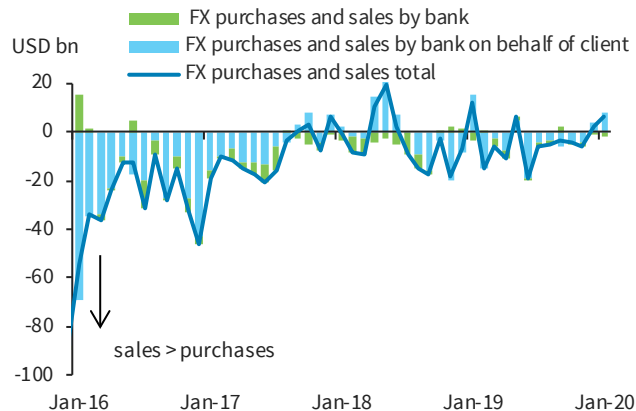
Source: Wind, Barclays Research

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



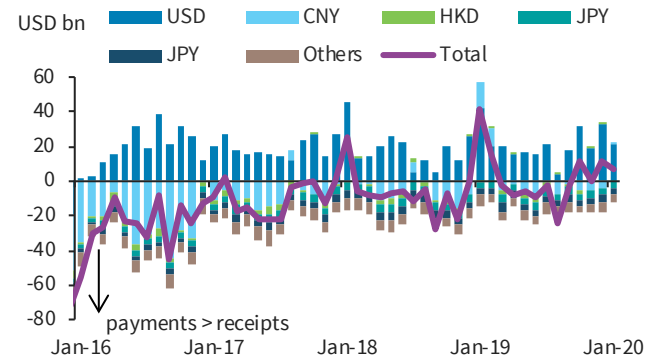
Source: Wind, Barclays Research

FX settlement and sales by banks



Source: Wind, Barclays Research

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

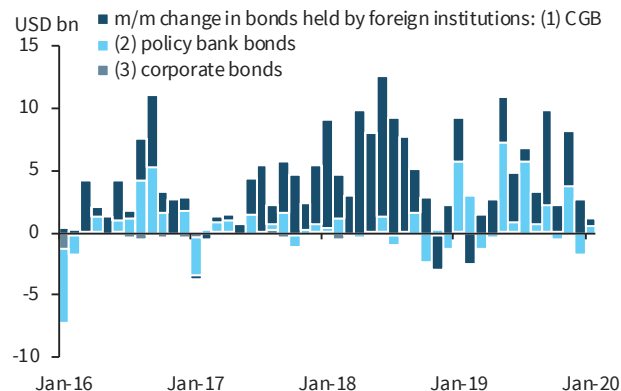


Note: The chart plots cross-border receipts and payments by banks on behalf of clients by currencies

Source: Wind, Barclays Research

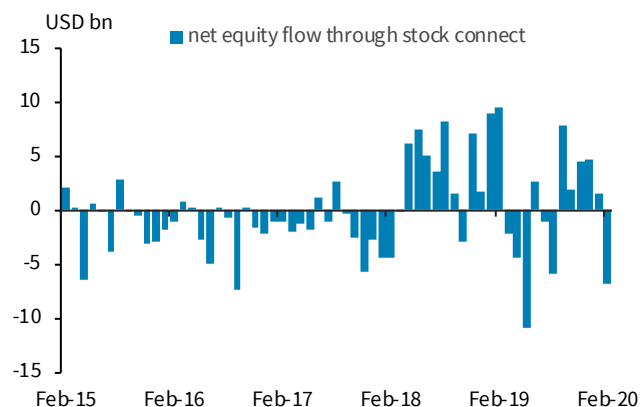
Persistent bond inflows vs volatile equity flows

Bond inflows rebounded in Q4



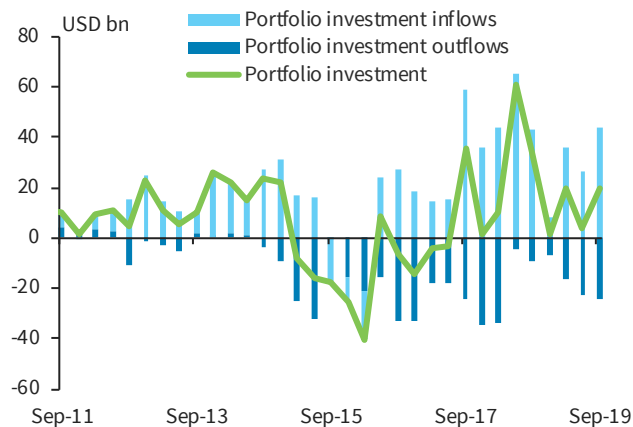
Source: Wind, Barclays Research

Equity flows fluctuated in 2019



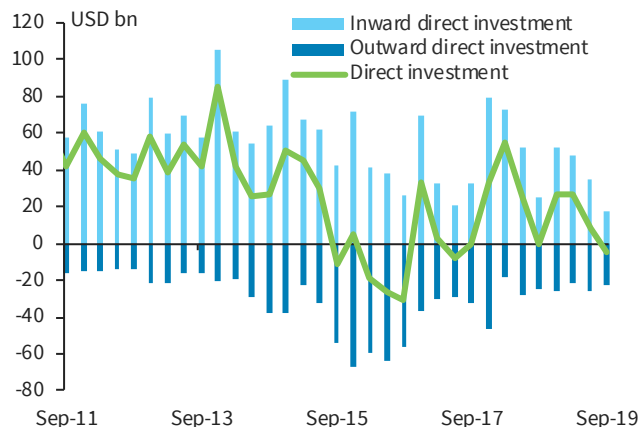
Source: Wind, Barclays Research

Portfolio flows registered a surplus in Q1-Q3 19



Source: Wind, Barclays Research

FDI flows have slowed since Q2 19



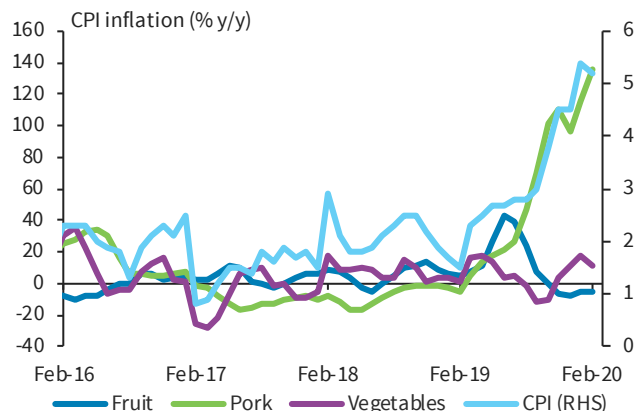
Source: Wind, Barclays Research

Inflation: Covid-19 adds uncertainties

See [China: CPI inflation surges on LNY and coronavirus](#), 10 Feb 2020

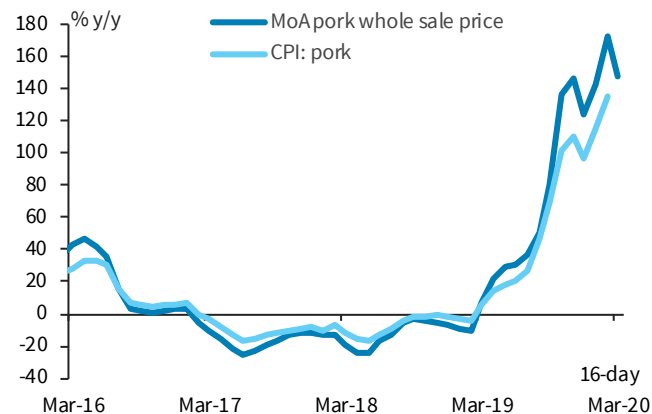
Watch for coronavirus impact on food prices

Food inflation was largely driven by pork prices in February...



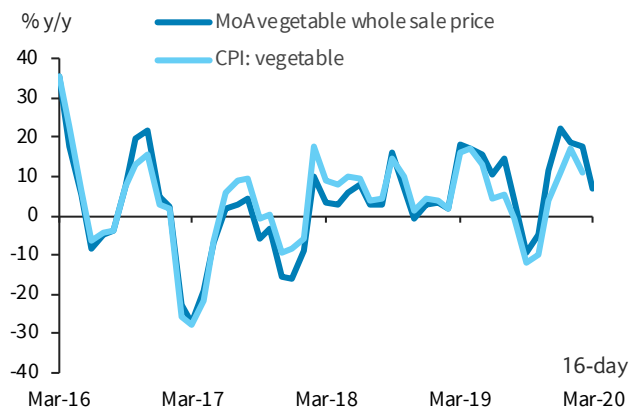
Source: CEIC, Barclays Research

... but pork prices started to ease in March



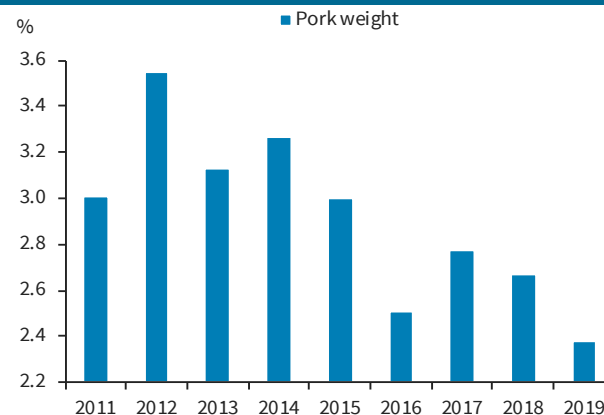
Source: CEIC, Barclays Research

... and inflation in vegetable prices is slowing



Source: Wind, Barclays Research

Pork's weight in CPI basket was lowered

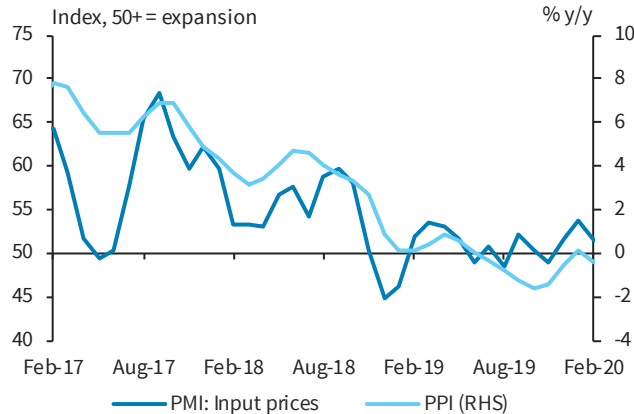


Source: Wind, Barclays Research

See [China: CPI inflation surges on LNY and coronavirus](#), 1 February 2020, [PBoC Watching: Constraints, substitutes, triggers to rate cuts](#), 29 August 2019

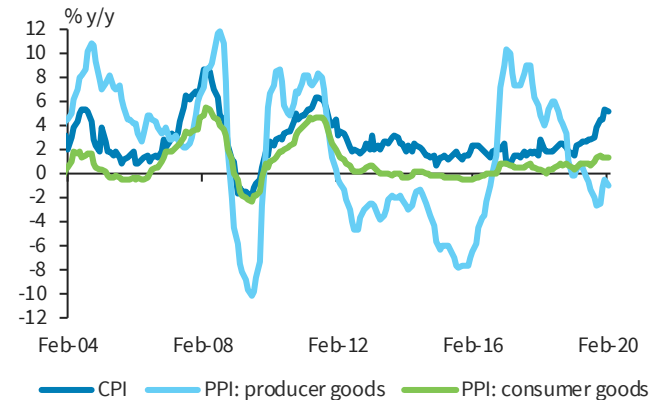
PPI returned to deflation on declining commodity prices

PPI and input prices



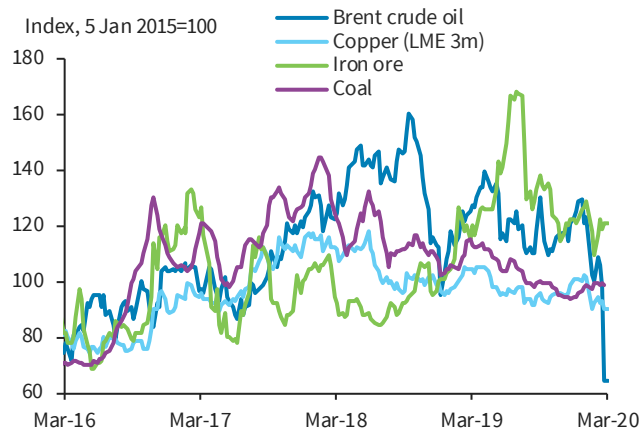
Source: CEIC, Barclays Research

PPI breakdown and CPI



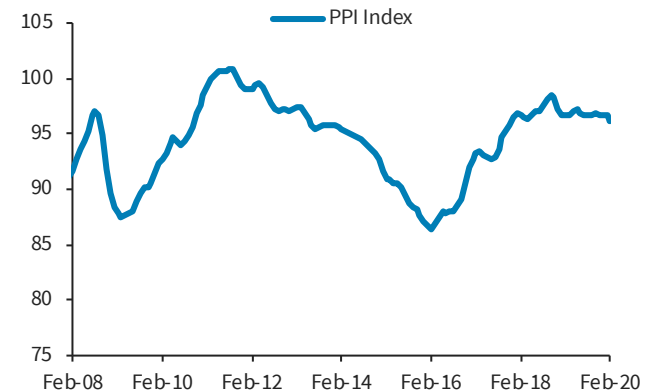
Source: CEIC, Barclays Research

Major commodity prices



Source: Wind, Barclays Research

PPI index



Source: Wind, Barclays Research

For details, see [China: PPI deflation in sight](#), 15 February 2019, [PBoC Watching: Constraints, substitutes, triggers to rate cuts](#), 29 August 2019

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.

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