

# China: At the Forefront of Recovery

- GDP growth in 3Q was supported by second and third industries
- FAI and industrial production led September improvements, while retail sales recovered more
- One area of concern is that leverage levels have risen, in household and government sectors

## Summary

We revise up our 2020 China GDP forecast to 1.7% (1.4% prior), given an expected 5+% YOY expansion in 4Q. This comes as China's GDP growth improved to 4.9% YOY in 3Q (3.2% in 2Q), bringing YTD growth to 0.7%. September data metrics highlighted further recovery, bringing economic activity closer to trend levels.

## Growth Improvement, at the Expense of Leverage

The improvements appear to be mainly in second (manufacturing) and third (tertiary) industries. The tertiary sectors grew around 4-5% YOY (estimated) in 3Q compared to 2% in 2Q. This means that many services sectors are recovering, albeit still lower than the 6-7% growth rates in 2019. Primary industry appeared to be still expanding around 5% YOY, unchanged from the previous quarter.

A slight area of concern is that leverage levels have risen (269.2% of GDP in 3Q, from 265.4% in 2Q). This is from household and government sectors, as non-financial corporates' debt levels slightly dipped.

## Broad Recovery in September

Industrial production surged in September (6.9% YOY; 5.6% prior), compared to the whole year. This was supported by manufacturing and mining. Autos, Machineries, general equipment, and metals all saw double-digit expansions, while food production is recovering.

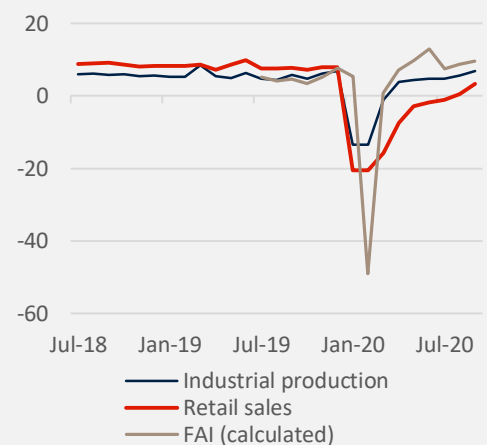
Retail sales growth figures were also the strongest YTD, expanding by 3.3% YOY (0.5% a month ago). Demand for autos, cosmetics and jewellery were strong, hinting at broad consumer spending. There were slight drags from restaurants/catering and household electronics. A fall in the surveyed jobless rate (5.4% in September, from a peak of 6.2% in February) is likely to support consumer spending ahead.

Meanwhile, fixed asset investment (FAI) growth improved further to 0.8% YOY YTD (-0.3% previous). This translates to an almost 10% YOY increase in September (our estimates). Property investment was also buoyant at 5.6% YOY YTD (4.6% prior).

## Market Outlook

The favourable economic outlook is favourable for the CNY. Our forecast of 6.80 faces downside risks, given current spot close to 6.70. We do not expect further easing by the People's Bank of China at this stage, given that China's fundamentals already outperform most of the rest of the world.

Figure 1: China's key monthly metrics (% YOY)



Source: Bloomberg, HL Bank

Figure 2: Key forecasts (%)

	2020	2021
GDP	1.7 (1.4)	8.0 (7.0)
Inflation (avg)	3.0 (3.4)	2.7 (3.0)
USD/CNY	6.80	6.90

Previous forecasts in brackets. Source: HL Bank

Figure 3: Risks to our views

### Upside:

- More international cooperation
- Domestic demand / labour market improves

### Downside:

- Prolonged disruption from Covid-19 virus to 2021 and beyond
- Another round of US-China trade war / deteriorating US-China foreign relations

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