

China Economy

Looking for silver linings of the virus outbreak

The outbreak of 2019-nCoV has added to concerns over economic activities in China. Work suspension, travel restrictions and confined movement of people and goods are posing downward pressure on 1Q economic performance and corporate earnings. Despite near term worries, we hold the belief that 1) the outbreak of 2019-nCoV will eventually be under control. Together as one we will conquer; 2) the growth story and drivers remain largely intact in 2020 and onward. The crisis is likely to trigger beneficial reforms; 3) more steadfast policy support is coming along to calm frayed nerves and provide relief for the entire economy and in particular affected industries and sectors.

- **Economic concerns are real, but too early to reach quantitative conclusion.** Downward pressure primarily comes from work suspension and reduced consumption demand. At least 22 provinces (excluding Hubei) has announced provincial-level plan to extend holidays until 10 Feb 2020, i.e. 10 extra days on top of official CNY holiday. People are suggested to restrict travel and movement, thus reduced demand for transportation, dining-out and etc. According to some rough calculations, we expect the virus outbreak may **drag 1Q GDP by 0.5 to 0.8ppt** under the assumption that an inflection point will show up in mid-Feb when the number of confirmed cases begin to decline. Consumption is likely to suffer the most with bleak retail sales figures, followed by investment and industrial production. Although the future trajectory of the virus infection is not certain, we expect **impact on the whole year GDP growth would be milder** because 1) the rebound of economic activities after the virus is under safe control could turn out to be astonishing; 2) Jan-Feb is usually the weak season during the whole year due to CNY effect.
- **Growth story and drivers remain intact.** Despite near term woes, the outbreak of 2019-nCoV will eventually be under control. This temporary shock does not derail China's macro story restocking and weak stabilization in 2020. Nor does it shake China's commitment to a robust economy and fostering quality growth. Moreover, every crisis brings lessons. The incident may trigger an overhaul and introspection of China's public health system and local authorities' duties per se. All these will provide solid backbones for future growth of China.
- **Steadfast policy support.** We think the outbreak of 2019-nCoV will firm determination of policy easing, via 1) fiscal, 2) monetary, and 3) industry policies. Prior to the virus outbreak, policy easing faced many restrictions ranging from inflation, leverage, to household affordability. But the crisis is bringing authorities closer together. In order to counteract negative impact from the external virus outbreak, synchronized and coordinated efforts are called on from the PBoC, MoF, together with CBIRC, CSRC, SAFE and all other related bodies of authorities. **1)** Regarding monetary policies, we continue to expect easing in both quantity (via OMO, MLF, etc) and price (LPR cut), added by extend loans and reduced interest rates. **2)** On the fiscal front, we expect VAT cut, corporate tax cut and reduction in social security fees for targeted industries. **3)** We also expect industry policies to step up urging expense reductions and alleviating regulatory burdens, thus providing friendly environment for small businesses to grow.

Ding Wenjie, PhD

(852) 3900 0856 /
(86) 755 2367 5597

dingwenjie@cmbi.com.hk

Related Reports

On monthly China economy

1. China Economy in 2019: Bottom-up stabilization in 4Q – 20 Jan 2019
2. China Economy in Nov: The light of dawn – 17 Dec 2019
3. China economy in Oct: Look beyond seasonality for stabilization in Nov and Dec – 15 Nov 2019
4. China Economy in Sep: Trough in 3Q, expect marginal stabilization in 4Q – 21 Oct 2019
5. China Economy in Aug: Still in a trough & why we bet on stabilization in 4Q – 17 Sep 2019

On inflation/PMI monitors

6. Distortions from pork will gradually abate – 9 Jan 2020
7. China PMI in Dec: A tempo – 31 Dec 2019
8. China inflation in Nov: Pork remains in the spotlight – 11 Dec 2019
9. China inflation in Sep: Pork price up higher – 15 Oct 2019

Other thematic reports

10. Embracing new relationship in the new decade: on China-US Phase One Deal – 17 Jan 2020
11. China CEWC key takeaways: Economic stability and policy coordination – 13 Dec 2019
12. The toughest grass stands strong winds: 2020 China economic outlook – 2 Dec 2019
13. China-US trade talk: Phase One Deal for tentative truce – 14 Oct 2019

Figure 1: Schedule of extended holiday

Province	Date to resume work (Not earlier than)	# of days on break	% of GDP (2019)
Nationwide	3-Feb-20	10	100.0%
Hubei	14-Feb-20	21	4.6%
Beijing	10-Feb-20	17	3.6%
Shanghai	10-Feb-20	17	3.9%
Chongqing	10-Feb-20	17	2.4%
Guangdong	10-Feb-20	17	10.9%
Jiangsu	10-Feb-20	17	10.1%
Shandong	10-Feb-20	17	7.2%
Zhejiang	10-Feb-20	17	6.3%
Henan	10-Feb-20	17	5.5%
Fujian	10-Feb-20	17	4.3%
Hunan	10-Feb-20	17	4.0%
Anhui	10-Feb-20	17	3.7%
Hebei	10-Feb-20	17	3.5%
Shaanxi	10-Feb-20	17	2.6%
Liaoning	10-Feb-20	17	2.5%
Jiangxi	10-Feb-20	17	2.5%
Yunnan	10-Feb-20	17	2.3%
Guangxi	10-Feb-20	17	2.1%
Shanxi	10-Feb-20	17	1.7%
Inner Mongolia	10-Feb-20	17	1.7%
Heilongjiang	10-Feb-20	17	1.4%
Guizhou	10-Feb-20	17	1.7%
Gansu - some part	10-Feb-20	17	0.9%
Sichuan	Flexible	N/A	4.7%
Tianjin	Postpone, N/A	N/A	1.4%
Hainan	Flexible	N/A	0.5%
Total (except Hubei)			91.4%

Source: News, CMBIS

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIS Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIS

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Securities Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Securities Limited ("CMBIS") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIS does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIS recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIS, solely for the purpose of supplying information to the clients of CMBIS or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIS nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIS has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIS provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIS may issue other publications having information and/ or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIS may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIS may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIS does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIS may have a conflict of interest that could affect the objectivity of this report and CMBIS will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIS.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIS.

For recipients of this document in the United States

This report is intended for distribution in the United States to "major US institutional investors", as defined in Rule 15a-6 under the US, Securities Exchange Act of 1934, and may not be furnished to any other person in the United States. Each major US, institutional investor that receives a copy of this research report by its acceptance hereof represents and agrees that it shall not distribute or provide this research report to any other person.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.