The pandemic will push China for more stimulus but China will still fall short of a full “V-shape” recovery

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20/03/2020

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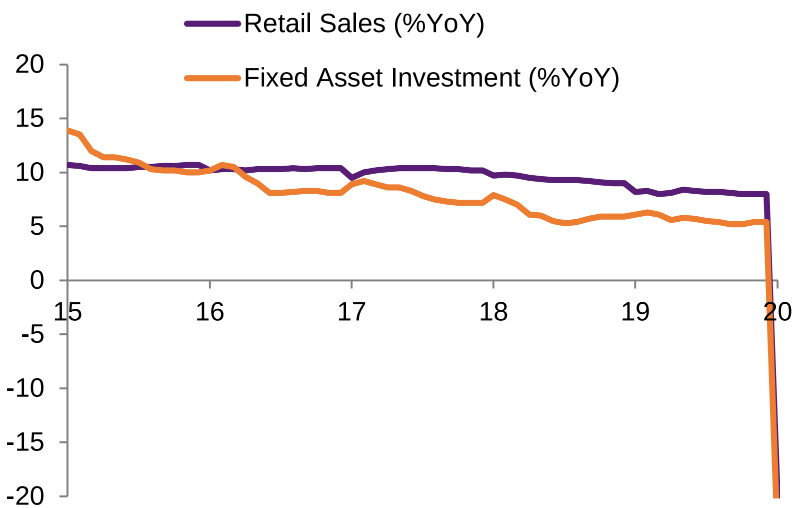
ECONOMIC IMPACT OF CORONAVIRUS IN CHINA AND GLOBALLY TO PUSH FOR LAXER DEMAND POLICIES IN CHINA

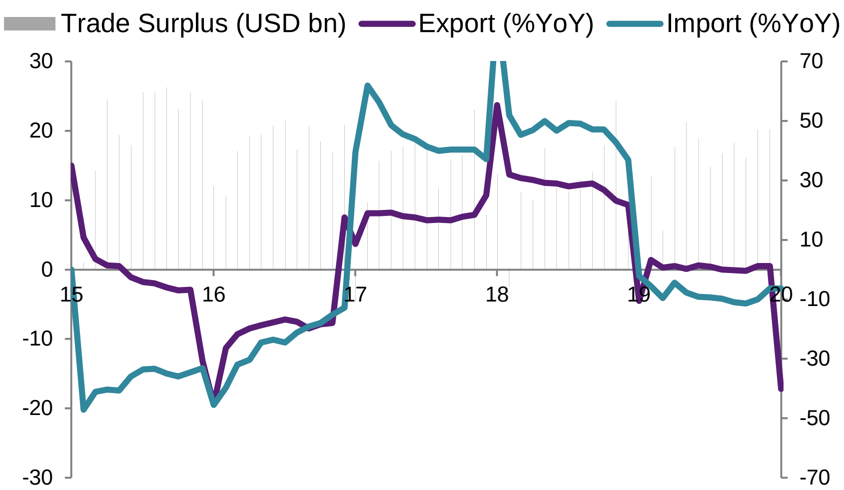
Coronavirus has massively worsened China consumption, investment and trade, leading to its worst performance in recent history

China retail sales & investment (%)



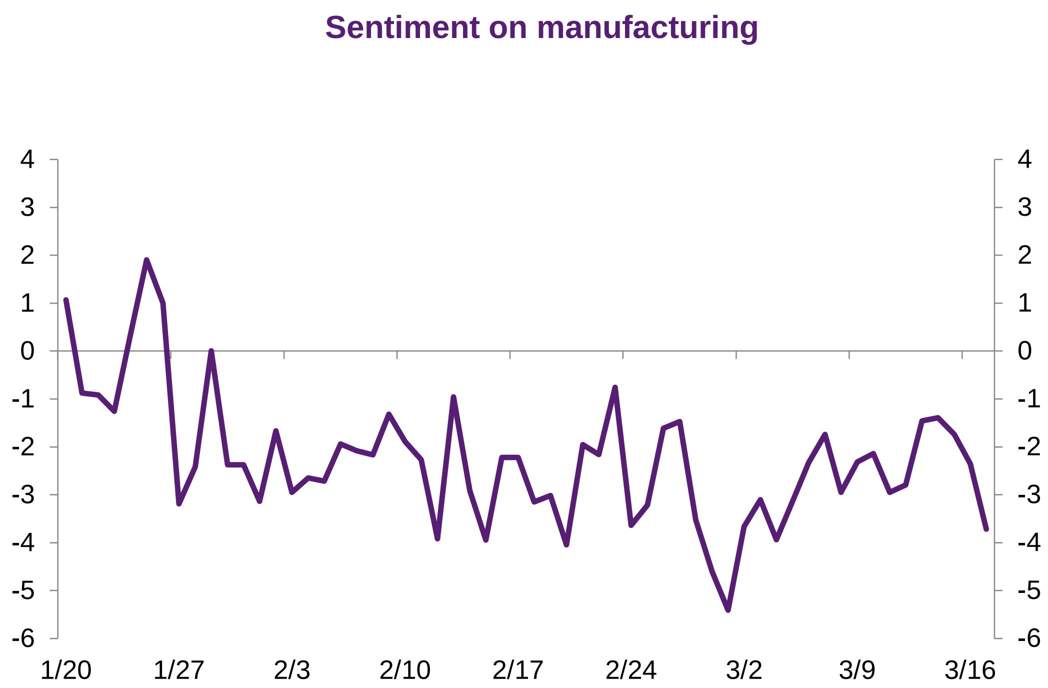
Source: Bloomberg, Natixis

China trade(%)



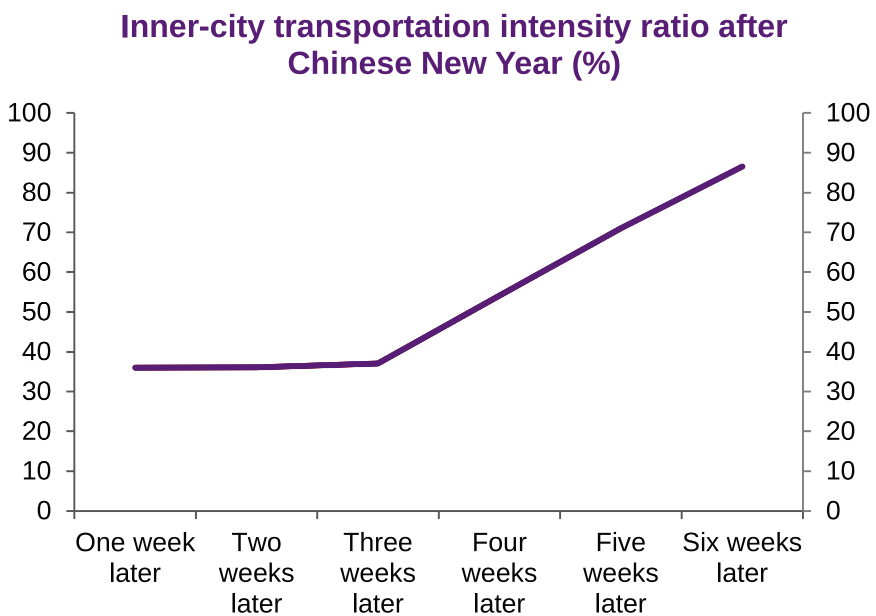
Source: Bloomberg, Natixis

In addition, production in manufacturing sector several hit by social distancing policies



N.B. Measure of market sentiment is based on big data of financial media. Value greater than zero indicates positive sentiment.
Source: Natixis, GDELT

However, the resumption of production and consumption is happening in China but less so for services (especially entertainment/ hospitality)

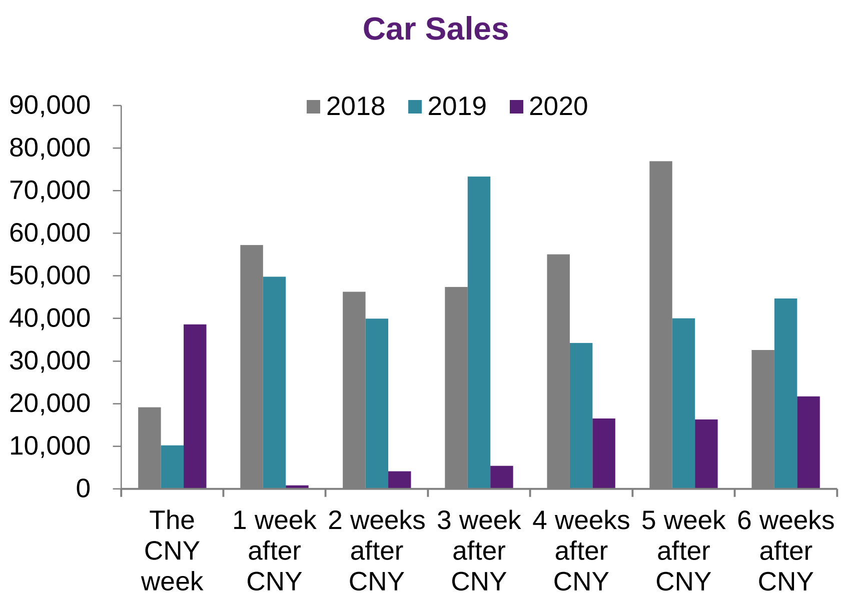


Source: Natixis, Baidu Chuxing
N.B. Inner-city transportation intensity is the indexation of the number of people who travel in this city to the population of this city. Inner-city transportation intensity ratio equals to the average intensity of the four tier-one cities in weekdays in 2020 as a share of that in 2019.

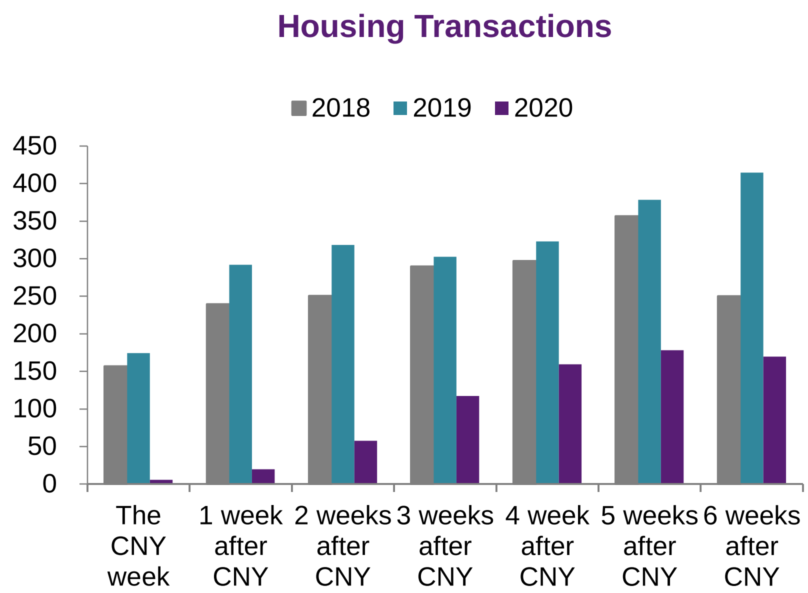
Indicator	Prior	Latest	Change
Daily housing transaction (unit)	2248	2593	↑
Coal usage (thousand tons)	476	504	↑
Steel Factory Weekly Utilization Rate (%)	62	65	↑
Box Office Revenue (USD mn)	0.71	0.67	↓
Inner-city transportation intensity index * (Monday to Friday)	71%	87%	↑

Source: Natixis, Bloomberg, WIND, Baidu
* Inner-city transportation intensity is the indexation of the number of people who travel in this city to the population of this city. Inner-city transportation intensity ratio equals to the average intensity of the four tier-one cities in 2020 as a share of that in 2019.

Recovery is shaky as pandemic has hit the global economy and sentiment is not improving. This is keeping consumer durables (auto sales) and the real estate sector (land sales) in the doldrums

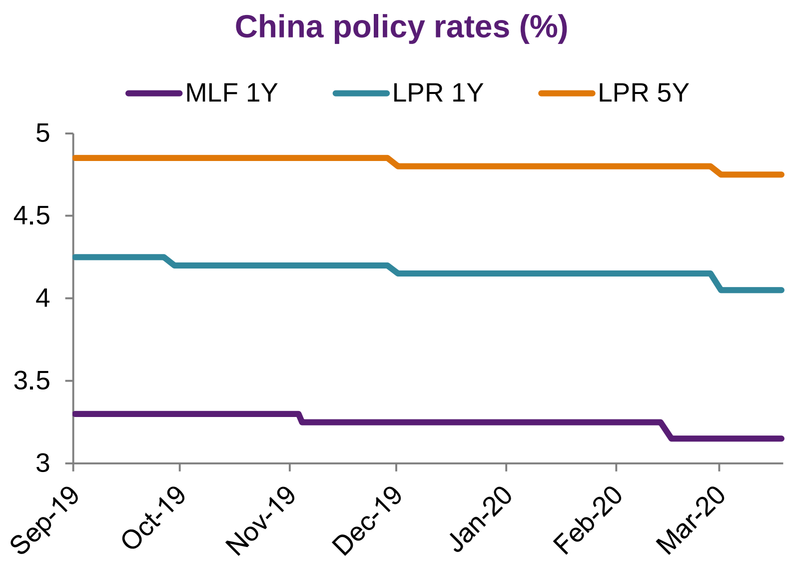


Source: Wind, Natixis

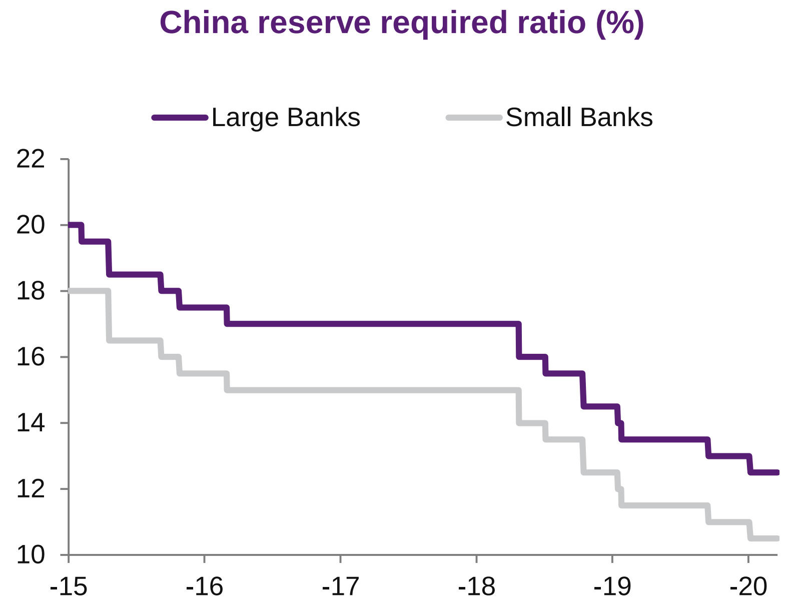


Source: Wind, Natixis

Monetary policy is being eased as China's leadership is sticking to fulfill the 2020 growth objective (somewhat below 6%)



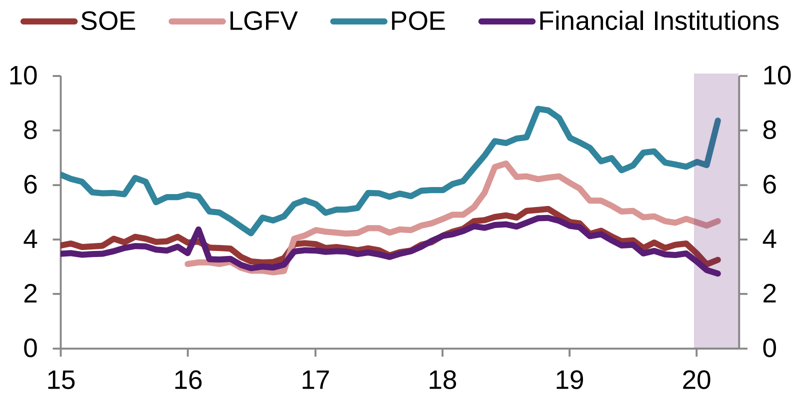
Source: Bloomberg, Natixis



Source: Bloomberg, Natixis

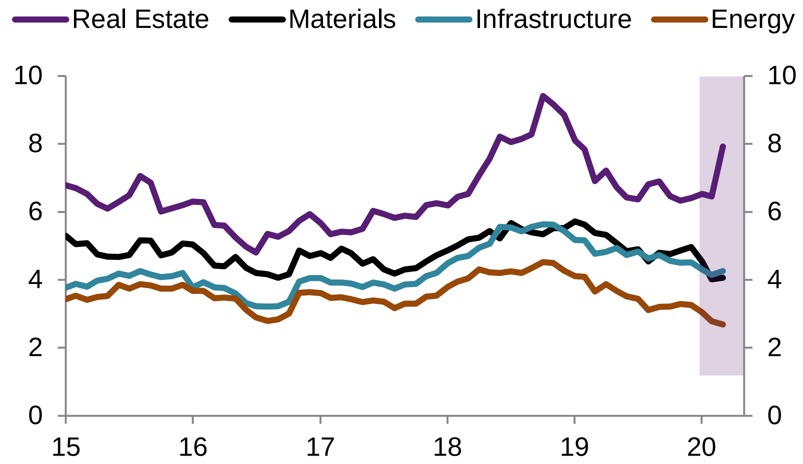
But transmission mechanism not fully working and private sector funding costs increasing

Offshore Bond Yield by Type of Issuers (%)



N.B. Included non-government bonds issued by Chinese corporates and financial institutions. Data as of 13 March 2020.
Source: Natixis, Bloomberg

Offshore Bond Yield by Sector (%)



N.B. Included non-government bonds issued by Chinese corporates. Data as of 13 March 2020. Source: Natixis, Bloomberg

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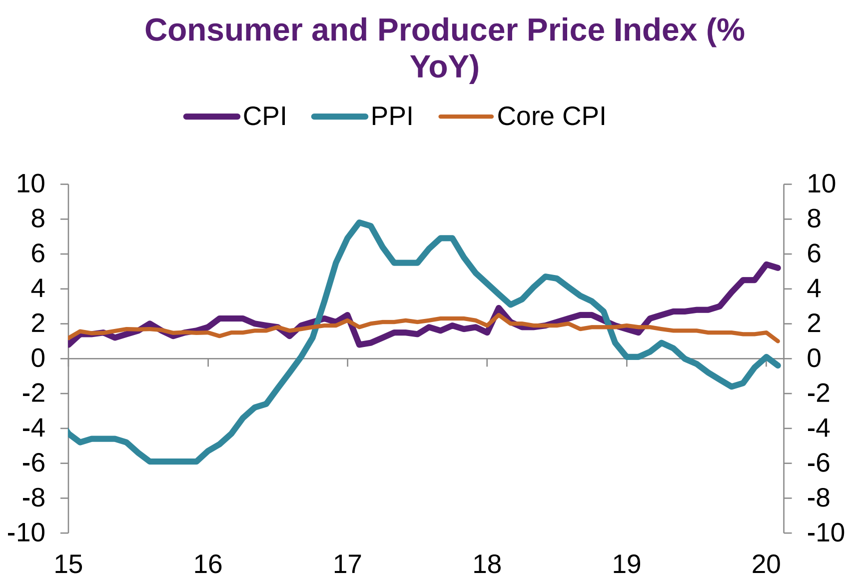
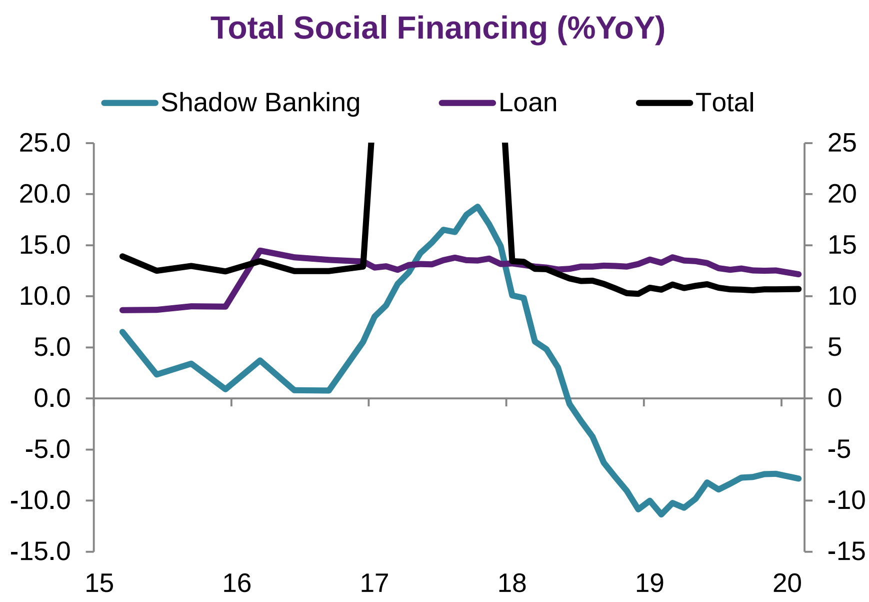
Inflation still a concern but not for long. Deflation could become more of an issue if global demand sags. One of the measures not yet announced but very possible is to resort to shadow banking again by lifting some of the regulatory constraints

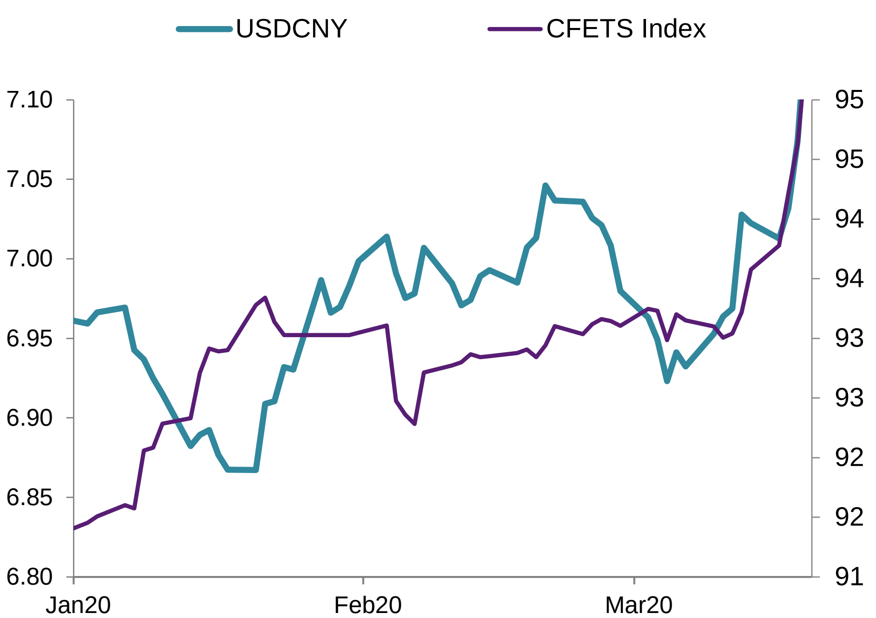


Sources : NBS, Natixis

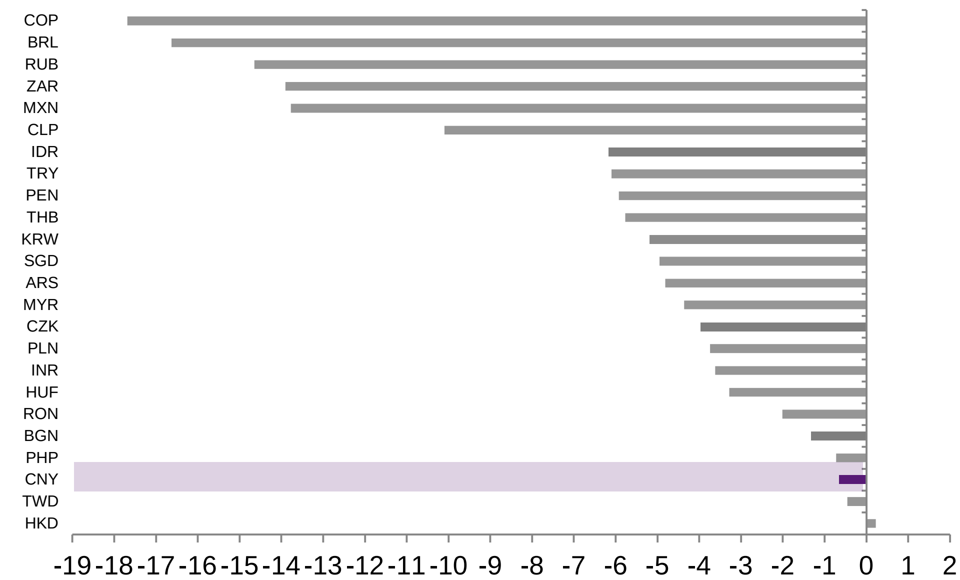


Source: Natixis, People's Bank of China, WIND

The RMB depreciated at the beginning of the outbreak but global fears about coronavirus with a calmer outlook in China and the FED turning stance seem to have insulated the RMB from other EM currencies

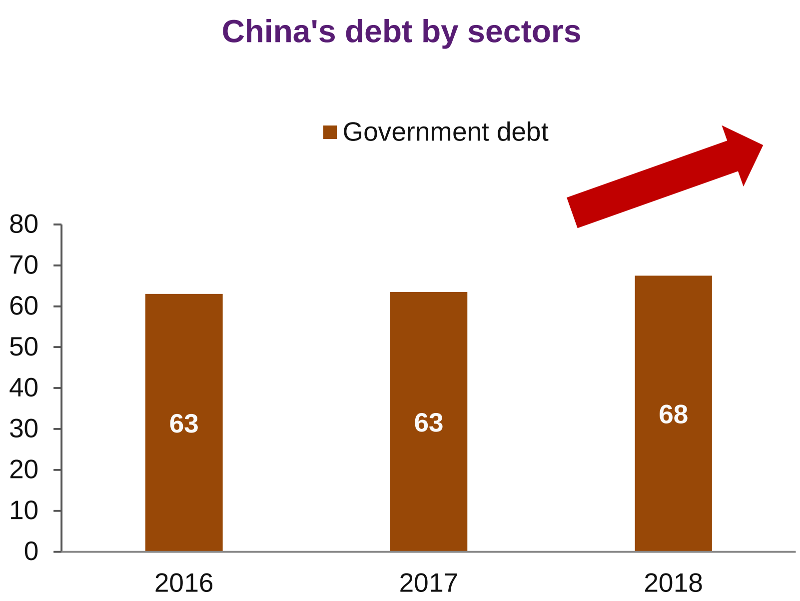


Source: Bloomberg, Natixis

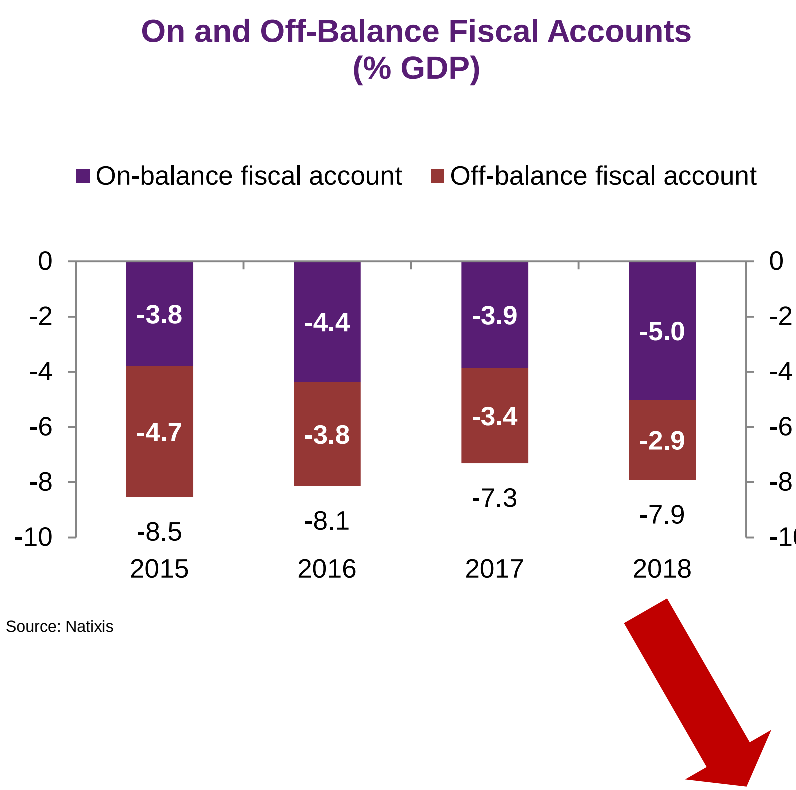


urce: Bloomberg, Natixis

But monetary policy not enough. Fiscal stimulus will also be needed



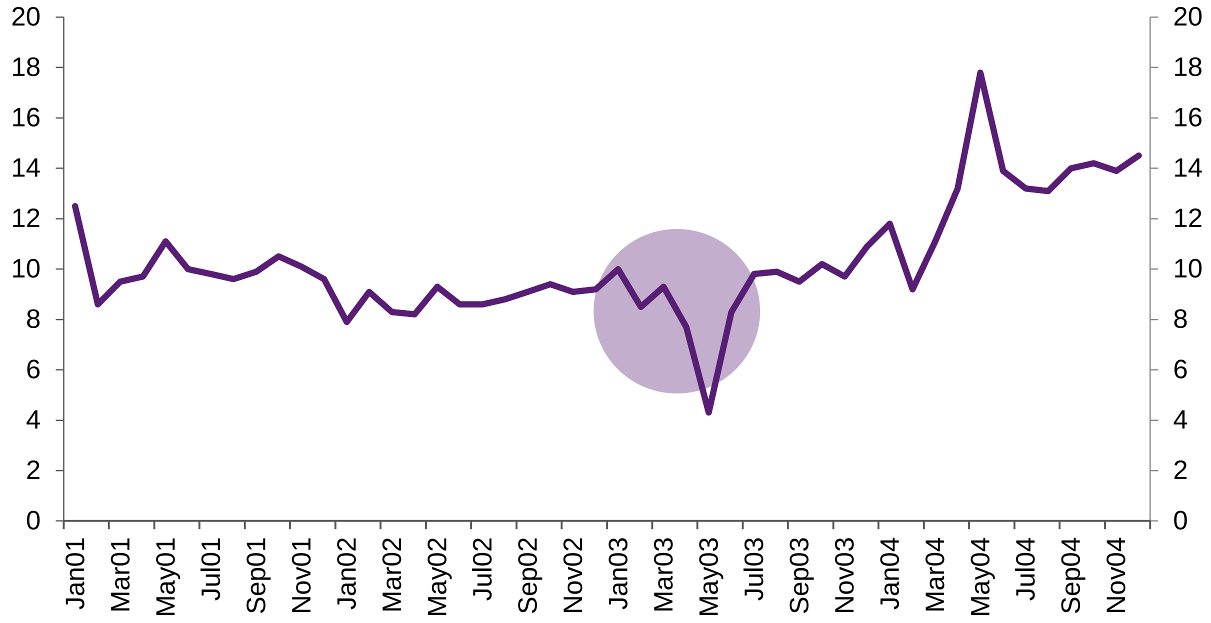
Source: Natixis



Source: Natixis

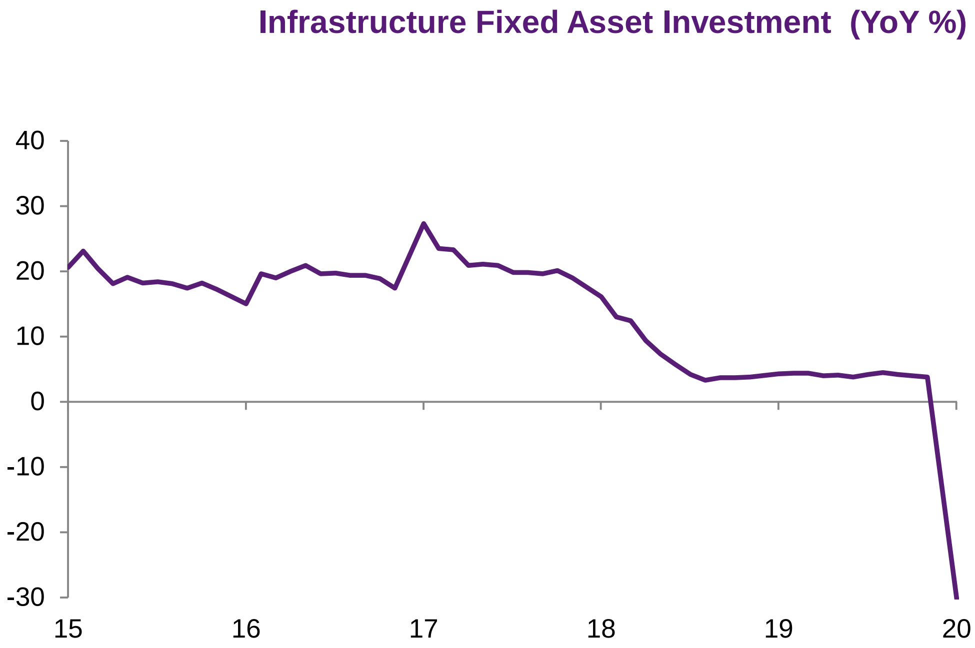
On the fiscal side, we expect more subsidies on consumption (especially durable goods) but the earlier SARS experience suggest that the pent-up demand might not be that strong

Retail sales during the early 2000s (%,YoY)



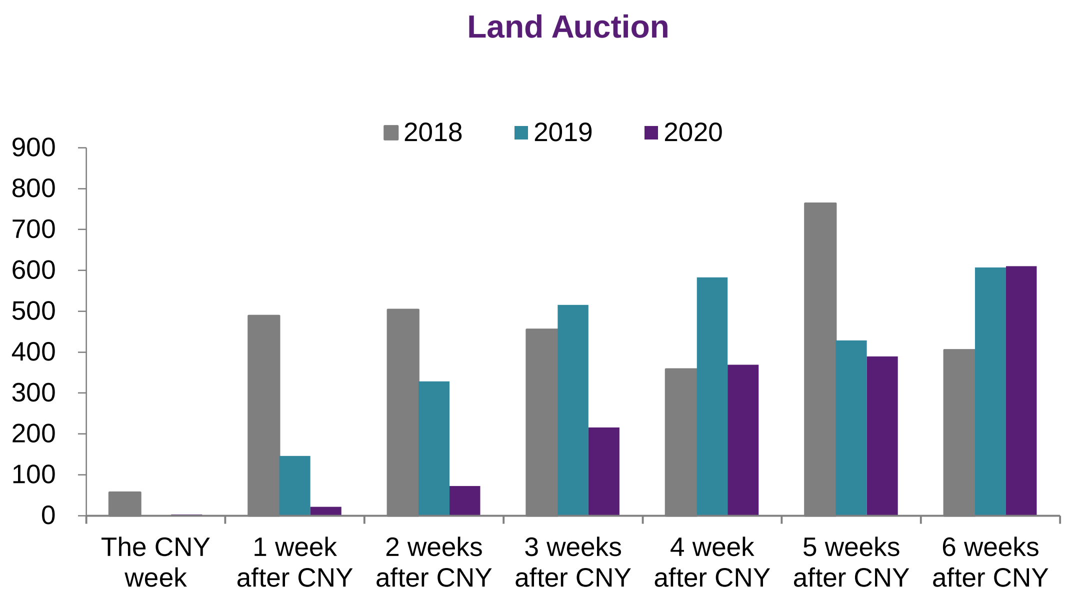
Source: Natixis, WIND

Infrastructure projects, which was stagnant in 2019, can be another push but it needs funding.



Source: Natixis, WIND

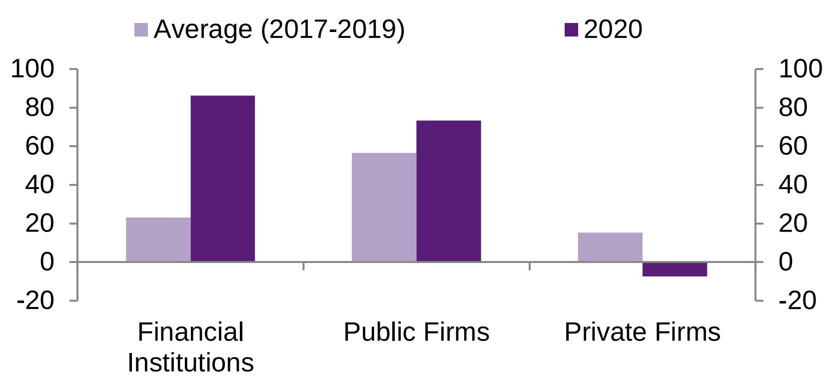
China may consider easing restrictions on purchasing real estate assets given the sector's importance as a growth engine and for China's financial stability



Source: Wind, Natixis

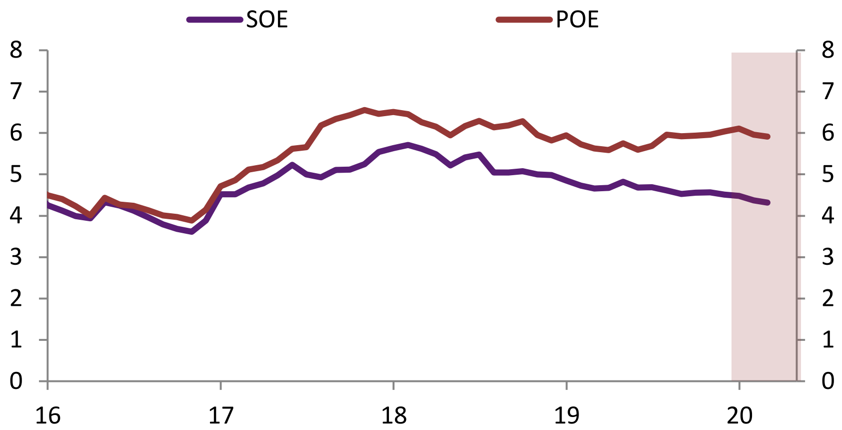
Local government are stepping up their bond issuance (frontloading of yearly targets allowed already and new special bond issuance also). More importantly, the restrictions on LGFV needs to be relaxed, equating to more shadow banking

Onshore Bond Net Issuance by Issuer Type (February, RMB bn)



N.B. Included bonds with maturity more than one year. Excluded certificate of deposits. Data as of February 2020.
Public firms include state-owned enterprises and local government financial vehicles.
Source: Natixis, Bloomberg

Natixis China Onshore Bond Indexes - Real Estate (Yield to Maturity, %)



Source: Natixis, Bloomberg

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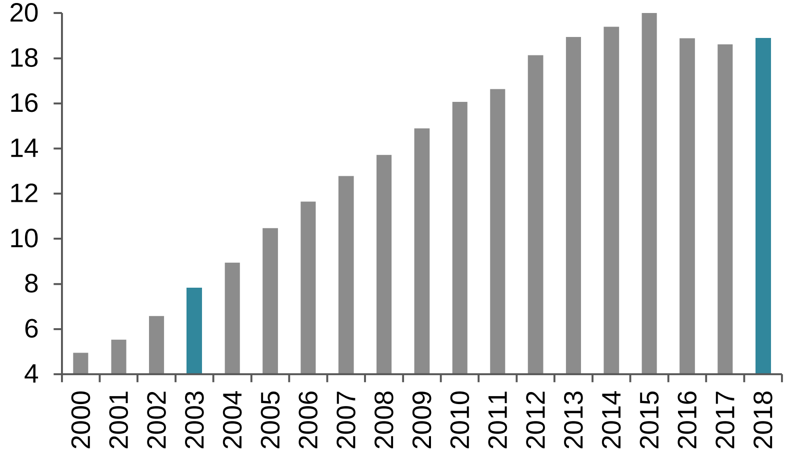
IMPACT ON THE REST OF THE WORLD FROM SUPPLY DUE TO CHINA'S CENTRAL ROLE IN GLOBAL SUPPLY CHAIN

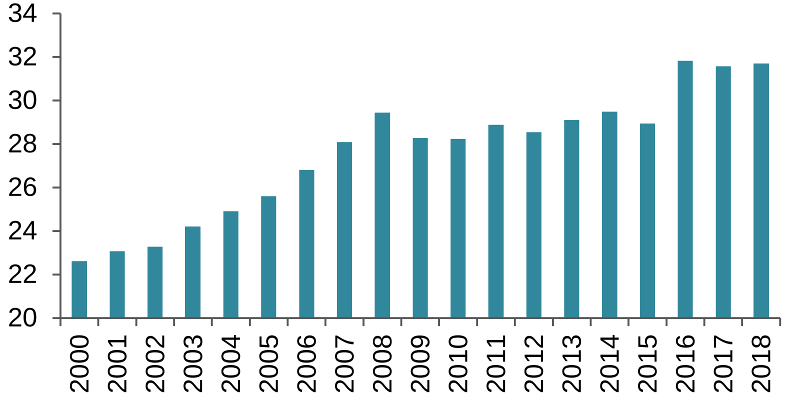
Cyclical headwind also comes harder as the outbreak of coronavirus impact Asia wider due to China’s larger role in export of intermediates

China’s global market share of manufacturing exports (%)



Source: Natixis, UNCTAD

Increasing export of intermediates used by other countries' exports (DVX % of total exports)



Source: UNCTAD-Eora database, Natixis
N.B. Results for 2018 are forecasted by UNCTAD-Eora

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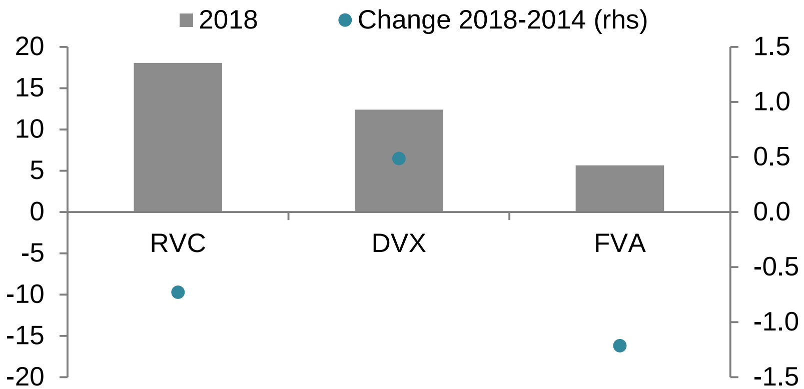
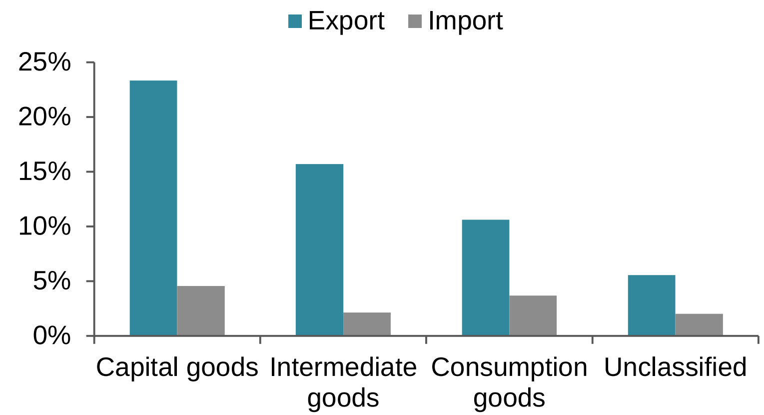
It is worth noting that the asymmetric transformation means the world becomes more dependent on China but not the other way around

China's value chain integration within Asia (%)



Source: UNCTAD-Eora database, Natixis
N.B. Results for 2018 are forecasted by UNCTAD-Eora

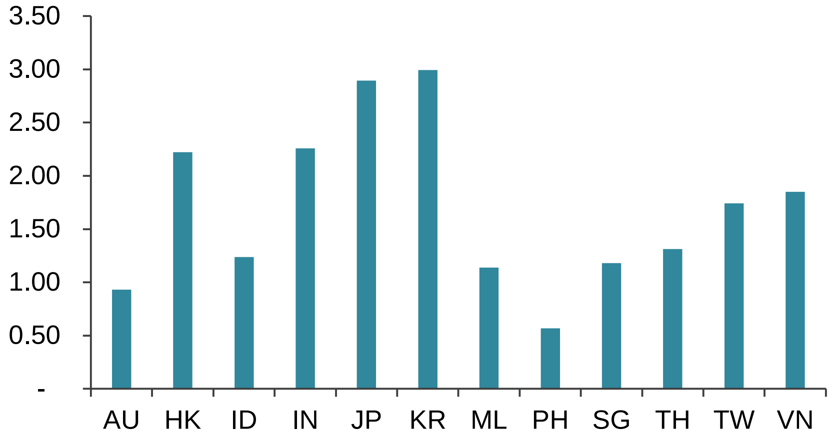
Share of China in global trade (by stage of production, %)



Source: Natixis, UNCTAD
N.B.: Product classified under the Broad Economic Categories (BEC). Unclassified product consists mainly of food & live animals

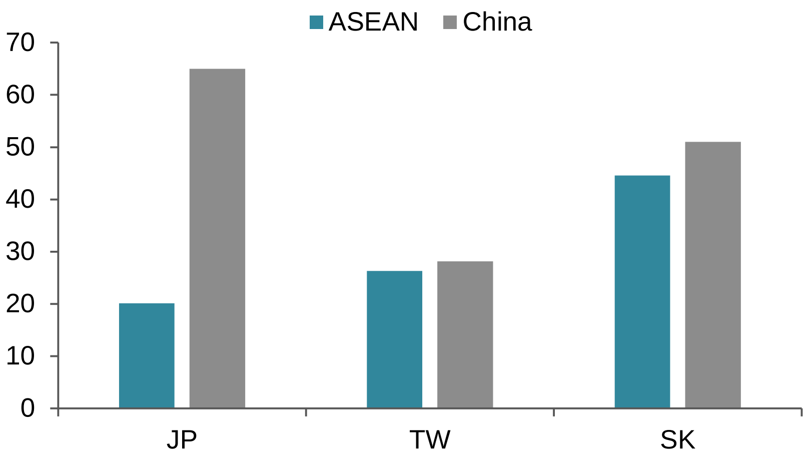
From a global value chain disruption and nominal value perspective, the impact is most felt by South Korea and Japanese firms. They are also impacted via a sizeable investment in China and Southeast Asia

1 Quarter 20% disruption of supply chain GDP impact translated into USD bn



Source: UNCTAD, CEIC, Natixis

FDI stock into ASEAN and Mainland China (since 2015, USD bn)



Source: Natixis, CEIC,WIND

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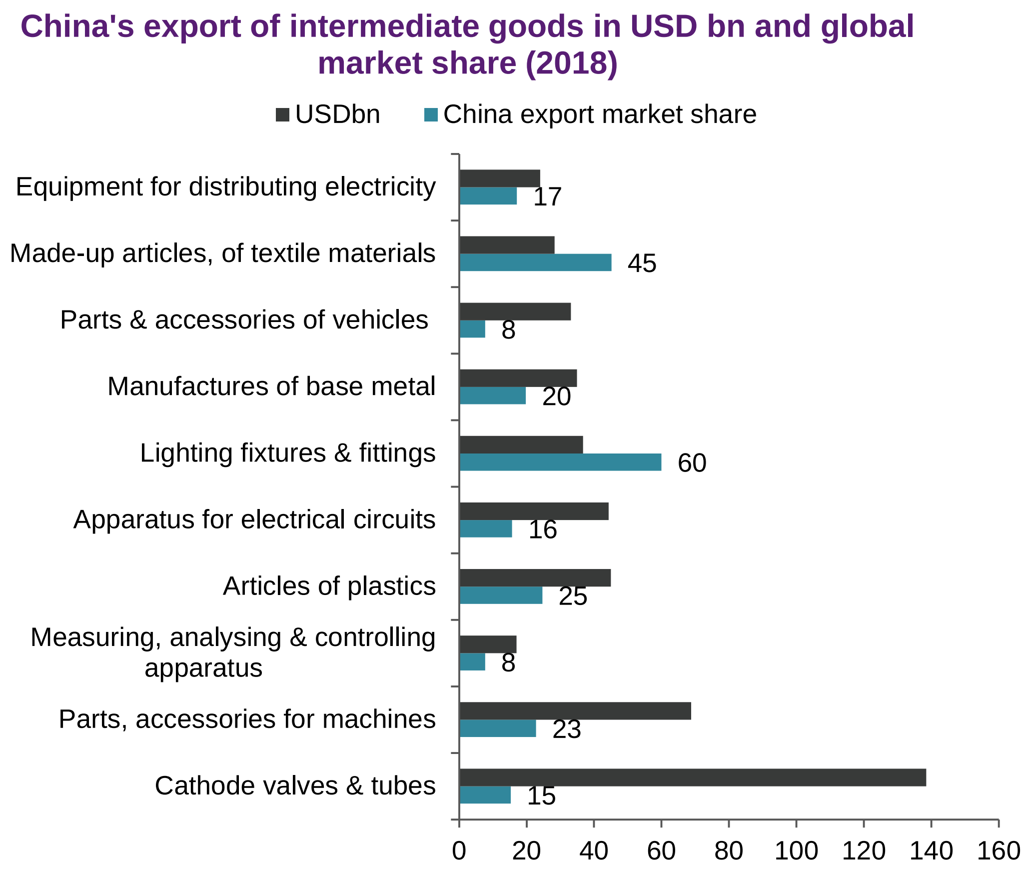
Electronic, automobile, machinery and textile sectors most negatively impacted, which directly hurts North Asian corporates and highly dependent Southeast Asian economy such as Vietnam



Source: UNCTAD, Natixis

In conclusion

- China was at the center of the coronavirus outbreak and its economic consequences
- China is no longer at the center of the outbreak as it has become global but it cannot isolate itself from the direct consequences on its economy let alone global ones
- China's fall in demand from the rest of the world to be the first knock-down effect for the global economy (commodity prices, and especially energy) have paid a heavy price for this
- But there is also a negative effect from the rest of the global economy towards China
- As for the global value chain, the supply shock from China's coronavirus outbreak is huge because of China's central role in the global value chain
- Softer financial conditions globally allow for room for the PBoC to be laxer without worrying about capital outflows and the RMB. However, increasing risk aversion will hit those sectors that are more leveraged especially if using the offshore market to fund itself (such as the real estate sector)
- Finally, China's push for a coordinated solution to the global economic fallout is one of the positive angles. Some kind of "coordination by threat" as China realizes that the fallout of Europe and US will clearly hurt China's recovery and growth goals

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