

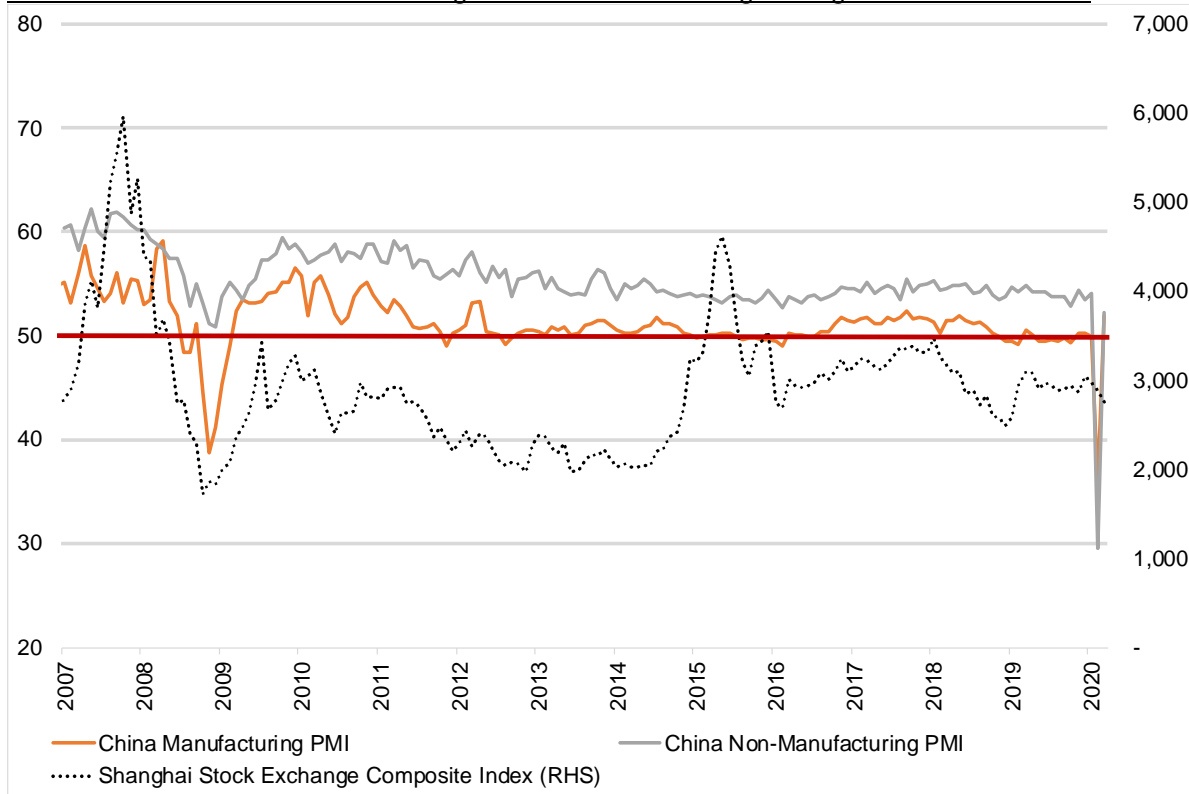


China: Into A Legend

China will be the new legend after COVID-19 because we believe it will lead the world in both global economic and market recovery.

Although WHO recently declared COVID-19 which is caused by SARS-Cov-2 virus as pandemic on 11 March 2020, we still believe that China will be the first to recover as seen in the rebound of its March official manufacturing and non-manufacturing Purchasing Managers' Index (PMI) of 52.0 and 52.3 respectively. Albeit coming from a record low in February, PMI shows the measure of the prevailing direction of the economic trends where a reading above 50 represent an expansion as compared to the previous month. Historically, weakness in market can be observed when the PMI reading hits below 50 level, followed by rebound in the market as when PMI is above 50 (Chart 1).

Chart 1: China historical Manufacturing and Non-Manufacturing PMI against China market.

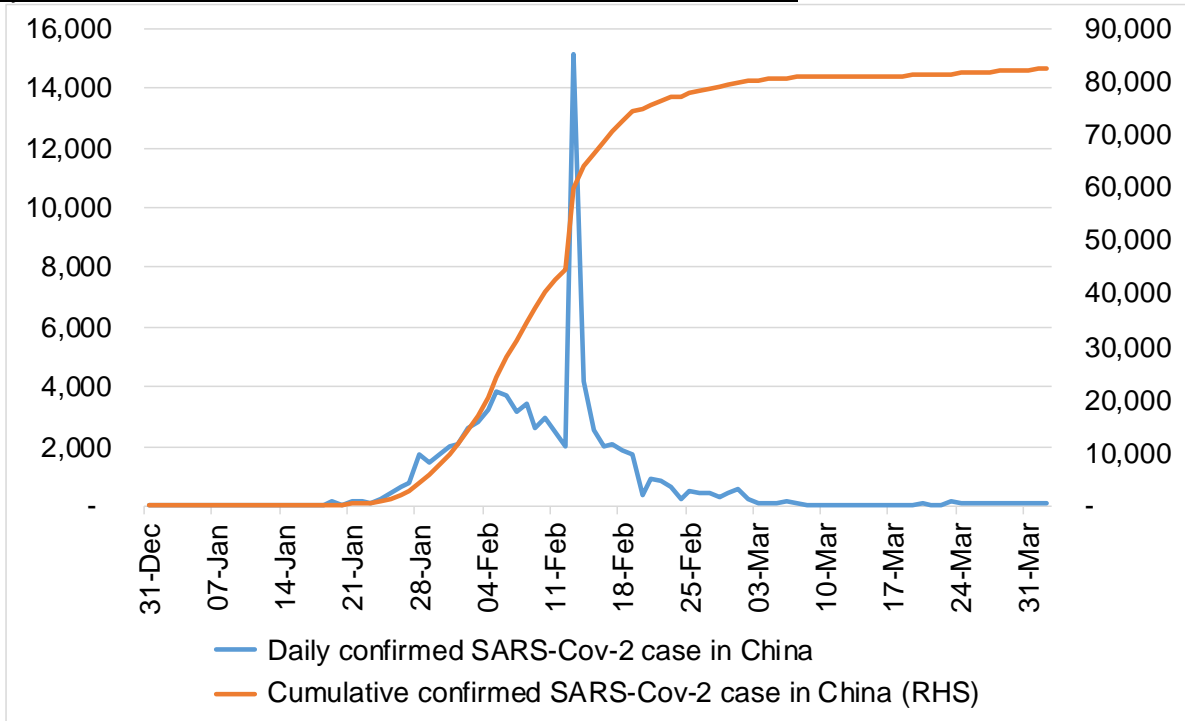


Note: Highlighted period indicate times in history when PMI recorded below 50 reading.

Source: Bloomberg, compiled by PRSB

While it is still too early to expect PMI to continue to stay above 50, it does signal that business activities start to kick off when the situation within China peaked on 13 February (Chart 2).

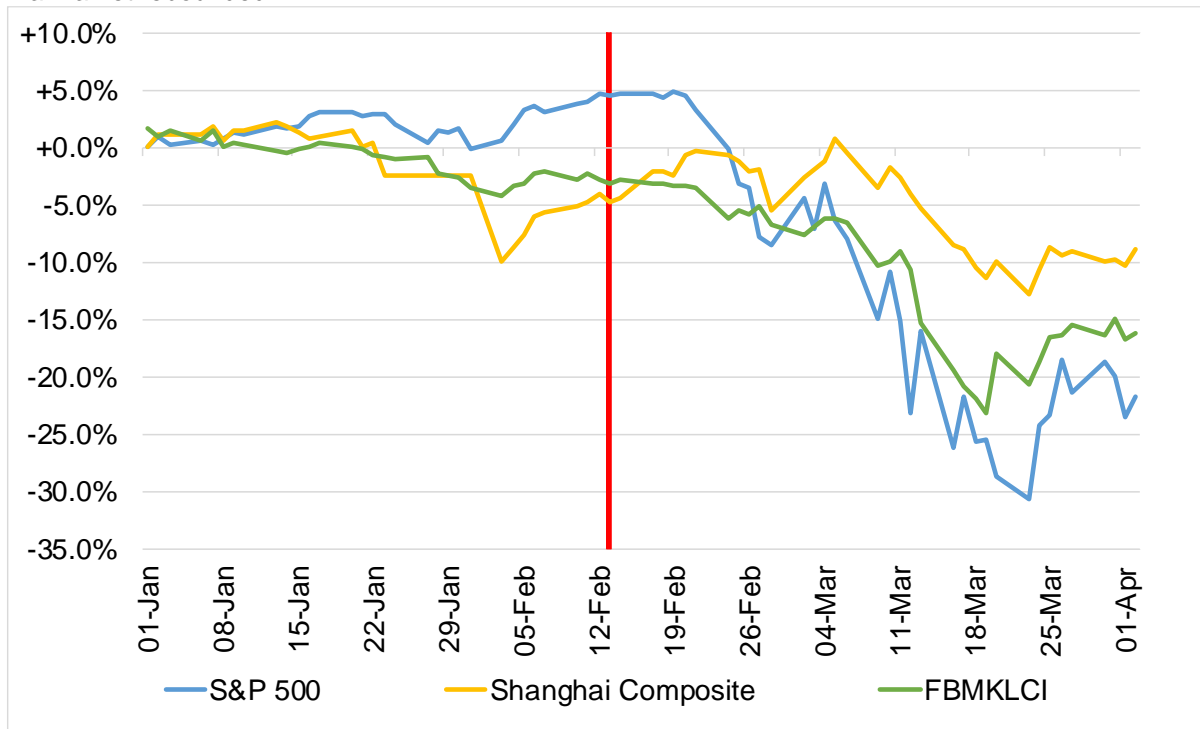
Chart 2: Daily and Cumulative number of confirmed SARS-Cov-2 case in China



Source: WHO

Chart 3 shows that China market rebounded after the cases of SARS-Cov-2 in China peaked but subsequently experienced some sell offs because of global market sell down where the cases outside of China rise at an alarming rate and eventually being declared as pandemic by WHO.

Chart 3: China market rebounded



Source: Bloomberg data as at 2 Apr 2020.

Against this backdrop, on 18 March China shared with the world that an influenza medicine developed by Fujifilm Holdings group is effective against SARS-Cov-2. Favipiravir, which was sold under the brand name Avigan showed that patients are tested negative after a median of four days, compared to 11 days in the control group. Following the endorsement, President

Jokowi announced that Indonesia will be importing millions of doses to treat their patients and under Prime Minister Abe leadership, Japan will also begin trial procedures aimed at winning approval for the anti-flu drug Avigan as a treatment for the coronavirus. Avigan stops the genes of the virus from replicating within infected cells, thus, effectively stop the SARS-Cov-2 from spreading further. Several other medicines are also under clinical tests (Table 1).

Table 1: Potential Medicines for SARS-Cov-2

| | Kaletra | Remdesivir | Avigan | Chloroquine | Blood Plasma |
|----------------------------------|----------------|--|-----------------------|--------------------|---------------------|
| Original Usage | HIV | Ebola | Influenza | Malaria | - |
| Manufacturer | AbbVie Ltd | Gilead Science Inc. | FujiFilm | Generic | - |
| Effectiveness against SARS-CoV 2 | X | Clinical test results to be announced this month | China, Japan, Germany | ? | ? |

Source: Various news, compiled by PRSB

Similar to how China market rebounded when SARS-Cov-2 peaked and contained, we believe that there's light at the end of the tunnel, where researchers believe that at least one of these medicines will be adopted as SARS-Cov-2 treatment to cure patients. This will boost the world confidence in combating the virus, saving lives and economic activities back to normal. At the same time, we believe that China's government will continue to be responsive, introducing more fiscal stimulus to spur the domestic economy and PBOC will continue to be more accommodative in terms of monetary policy (Table 2).

Table 2:

| Containment Measures | Monetary Policy | Fiscal Policy |
|---|---|---|
| <p>15 cities were on lockdown, starting from Wuhan on 23 January 2020.</p> <p>Social distancing measures are beginning to relax with schools beginning to reopen</p> <p>Nationwide, officials are permitting supermarkets, convenience stores and retail businesses to reopen if they are in areas with no confirmed or suspected cases</p> <p>In Wuhan, authorities have begun removing checkpoints in the city used to enforce a strict lockdown, although routes out of Wuhan remain blocked</p> | <p>PBOC expanded reverse repo operations by USD174bil</p> <p>PBOC cut the 1-year medium term lending facility rate by 10bps, followed by cutting its 1-year and 5-year prime rates 10bps and 5bps respectively.</p> <p>Loan Prime Rate was cut by 10 bps to 4.05%.</p> <p>Non-performing loan recognition temporarily relaxed.</p> <p>PBOC lowered bank reserve requirements by 0.5% to 1%, freeing up about US\$ 79mil (RMB 550bil)</p> <p>RMB 800bil re-lending loans to SMEs, with interest subsidy.</p> <p>Reverse repurchase agreements was cut by 20 bps, largest in nearly 5 years</p> | <p>Various government fees and charges waived or delayed (contributions to social security, medical insurance)</p> <p>State Taxation Administration announced to delay the tax declaration date of March from Mar 16 to Mar 23</p> <p>VAT waiver for small business inside Hubei Province, and rate cut from 3% to 1% for small business outside of Hubei during March 1 to May 31</p> <p>China has not released its budget for 2020 as the health crisis delayed a key political meeting. The official deficit hasn't exceeded 3% of economic output for more than a decade.</p> |

Source: Various news, compiled by PRSB

We thus believe China will lead the world in both global economic and market recovery. For those who want to leverage on this opportunity, below is the list of Top 5 China Funds based on our scoring that is available through our platform that may be of your interest:

| No | Name |
|-----------|---------------------------------------|
| 1 | AmChina A-Shares MYR |
| 2 | Eastspring Investments Dinasti Equity |
| 3 | RHB Big Cap China Enterprise |
| 4 | RHB Shariah China Focus MYR |
| 5 | CIMB-Principal Greater China Equity |