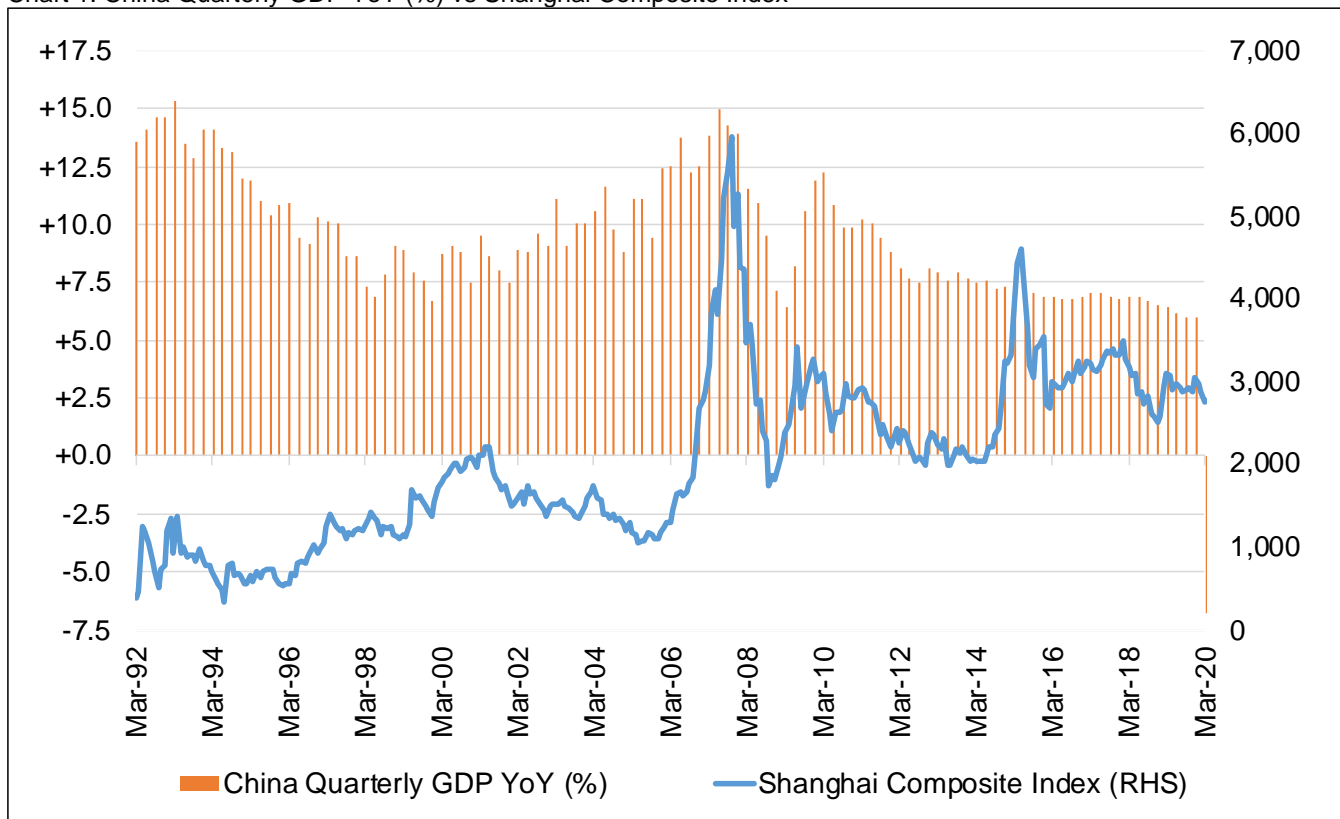




China: Into a Legend Part 2

China will be the new legend after COVID-19. Although we are currently not over-optimistic on global economic recovery, we believe China will lead the world in both global economic and market growth post COVID-19. On 17 April, China announced that its 1Q20 GDP fell 6.8% YoY, slightly lower than consensus (Table 1). Albeit the quarterly series of China GDP growth are only available from 1992 onwards, 1Q20 was the only quarter where China has recorded negative growth YoY (Chart 1).

Chart 1: China Quarterly GDP YoY (%) vs Shanghai Composite Index



Source: Bloomberg, compiled by PRSB

According to Reuters who quoted from 4 policy sources, China 2020's GDP will only be revised down to 5-5.5% from the planned target of around 6.0%, as this year is a crucial year for President Xi Jinping to fulfill his goal of doubling GDP and incomes in the decades from 2010 to 2020. The Chinese Communist Party's Politburo, China's top decision-making body held a meeting on 17 April pledged to step up policy stimulus to offset COVID-19's devastating impact. The Politburo has vowed to secure six targets: employment; livelihood; survivorship of market entities (enterprises and small business owners); food and energy safety; smooth functioning of supply chains; and operation of local governments.

Since beginning of March, Chinese government has been running a campaign to restart its economy. In response, good progress in the resumption of work and production can be seen where industrial production in March posted a strong recovery, beating market consensus when it recorded to fall only 1.1% YoY (Table 1), in line with the strength shown in the March's Manufacturing Purchasing Manager Index (PMI) data (China: Into A Legend – [Read more](#)). Recovery can be seen in the major industrial and pharmaceuticals sectors, driven by increased demand resulting from the COVID-19 pandemic; aside from completed accumulated orders for computers, telecommunications and other electronics devices where production has resumed in about 90% of factories.

The COVID-19 pandemic has largely affected consumer behavior, coupled with decline in incomes which led to lower consumption. Albeit the retail sales is worse than consensus, the decline narrowed in March at -15.8% from -20.5% YoY in February (Table 1). Consumption in catering, tourism, transportation and hotels still reported a large YoY decline in March, while

YoY growth can be seen in food, pharmaceuticals and telecommunication devices. Automobile and gasoline consumption on the other hand were still weak.

Fixed asset investment (FAI) fell 16.1% YoY in 1Q20, narrowing by 8.4%pts as compared with the decline in the first two months of this year. The rebound in FAI growth was stronger in tertiary industry than in secondary industry because weakness in tourism, transportation, catering and entertainment was offset by strength in financials, hygiene, culture and education and IT services.

Table 1: China Economic Data

	March (Actual)	February
GDP Growth Rate (Q1)	-6.8%	
GDP Growth Rate QoQ (Q1)	-9.8%	
Industrial Production	-1.1%	-13.5%
Retail Sales	-15.8%	-20.5%
Fixed Asset Investment (FAI)	-16.1%	-24.5%

Source: Bloomberg, compiled by PRSB

Albeit 2Q20 challenges remain to be significant, we believe that China's policymakers will continue to be responsive. On 20 April, PBOC lowered borrowing costs where one-year loan prime rate was set at 3.85% vs 4.05% in March, while the Chinese government promised to sell another RMB 1 Tn (US\$ 141.3 bil) in bonds, on top of RMB 1.29 Tn of special local government bonds that has been approved this year to fund infrastructure projects. The Finance Ministry official mentioned that almost 90% of the existing quota has been sold. We believe that more easing is likely to come with a view to engineering a recovery in China's economic activity.

In summary, we expect economy activities to further improve in April while Beijing will continue implement policy support to combat economic damages from COVID-19. For those who want to leverage on this opportunity, below is a 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	CIMB-Principal Greater China Equity
5	RHB Shariah China Focus MYR