

CCXI & CCXAP – Research & Commentary

China's Economy Continues to Recover Steadily with Structural Opportunities in Risk Assets

Hong Kong, 29 October 2020 -- China Chengxin International Credit Rating Co., Ltd. ("CCXI") issued a report entitled *"The Economy Continues to Recover Steadily with Structural Opportunities in Risk Assets – Macroeconomic and Asset Allocation Analysis and Outlook for Q3 2020"*, as the confidence of enterprises and residents has been restored and the policy of stabilization of growth has started to work with the epidemic under effective control, the Chinese economy continued to recover steadily in the third quarter, market factors improved significantly, and the endogenous driving force for economic recovery escalated. Looking ahead, China's economy is still expected to maintain the recovery trend, and witness a post-epidemic growth peak in the first quarter of next year in consideration of the low base this year. The report suggests that in the context of steady economic recovery, risk assets are likely to perform relatively strongly, and we should closely follow the structural opportunities. It is recommended to have an overweight on commodities (industry-related), a market weight on the stock (pro-cyclical and low-valuation), and an underweight on gold and bonds.

The report points out that, in the context of the effective measures for domestic epidemic prevention and control in the third quarter, the economy was further restored, market factors improved remarkably, and the recovery of supply and demand was unbalanced. The recovery imbalance between policy and market factors improved, but we should notice that the quarter-on-quarter GDP growth rate after seasonal adjustment decelerated, and the recovery pace slowed down obviously. From the perspective of production, industrial production maintained a momentum of rapid growth. From August to September, the year-on-year growth exceeded the same period of last year. With the improvement of consumer confidence, the recovery of service industry production accelerated. As viewed from demand, China has taken the lead in resuming staggered export growth in the context of work and production resumption, becoming the brightest spot on the demand side. While policy investment in infrastructure and real estate continued to pick up, manufacturing investment further improved, but still maintained a negative growth. Although the monthly growth rate of total retail sales of consumer goods turned positive, the cumulative year-on-year growth rate still remained low, and consumption was still in the process of slow recovery. Recovery of services and consumption is promising under the effective control of the epidemic. Overall, the economic recovery in the second quarter was mainly attributed to the improvement of policy factors supported by the policy of the administrative resumption of work and production. Since the third quarter, the recovery of market factors has accelerated significantly, and the economic recovery structure has become more balanced. However, the recovery of market factors remained weak currently. The motivation to improve the policy factors has been weakened due to the gradual exit from stimulus policies, which may bring certain pressure to subsequent economic recovery.

The report reminds that China's economic recovery still faces various challenges and risks. First, the epidemic is still spreading worldwide, the global economy and trade are sluggish, while the Sino-US game continues. The dual uncertainties of the impact of the epidemic and

the game of big powers coexist. We should also keep a close eye on “de-sinicized globalization”; second, structural imbalances in economic operations remains, as evidenced by the imbalance of the supply and demand structure, the imbalance of the restoration of different ownerships, the restoration imbalance of enterprises of different sizes, and the imbalance of the development of the real economy and the financial industry, which still impede the continuous restoration of the economy. In addition, financial risks are still high, and the impact of the epidemic and the response to it have caused some financial risks to show an upward trend again. Macroeconomic policies still face a high-risk constraint.

According to the report, in the context of the current economic recovery under multiple pressures, macroeconomic policy will remain consistent and stable, monetary policy will be still prudent and flexible, with more emphasis on precise guidance; fiscal policy will be more active. With earmarked bond funds in place, the role of the earmarked bonds in driving infrastructure investment will be further brought into play. In the face of new changes in internal and external situations, many important meetings of the CPC Central Committee have called for establishing a new development pattern, which looks at the domestic market as the country’s economic mainstay with domestic and foreign markets complementing each other. The top-level design of China’s long and medium-term economic development has been further strengthened. Under the new development pattern with the domestic market as China’s economic mainstay, the bottlenecks in the domestic industrial chain and supply chain will be further broken through, providing new momentum to the short-term economic recovery and medium- and long-term economic growth.

Looking to the future, the report believes that China’s economic will continue recover if the epidemic is effectively prevented and controlled and will not spread on a large scale. **It is expected that the country’s GDP growth rate in 2020 will be approximately 2.3%-2.5%.** Given the low base this year, China will likely see a peak growth of GDP in the first quarter of 2021, which may slow down in the coming year and gradually return to the potential economic growth rate. **The report maintains its forecast for the year-on-year GDP growth of 6%-6.5% for 2021.**

In the first three quarters of 2020, risk assets performed relatively strongly, and the stock and commodity indices both surpassed that at the beginning of the year. The report believes that, in the context of global economic recovery and continuous pickup in China, risk assets are likely to perform relatively strongly, and the demand for safe-haven assets may remain relatively low; given that the stock and commodity indices surged high previously, we should closely follow the structural opportunities. **It is recommended to have an overweight on commodities (industry-related), a market weight on the stock (pro-cyclical and low-valuation), and an underweight on gold and bonds.**

To obtain the full report, please call our Customer Service Hotline +852-2860 7111.

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