

Signs of bottoming out

Tommy Xie Dongming
Economist
+65 6530 7256
xied@ocbc.com

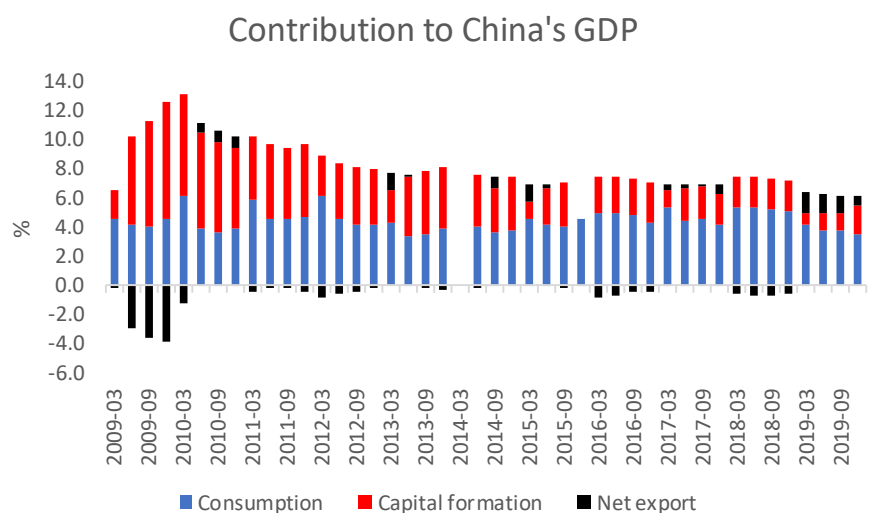
- China promised, China delivered.
- Surprisingly, net export of goods and services was one of the key drivers to growth in 2019 despite the trade war.
- The small V-shape recovery of nominal GDP growth in 4Q to 9.6% signals that the economy may have stabilized.
- The key disappointment came from infrastructure investment, which failed to respond to China’s supportive policies.
- The upcoming restock cycle could be positive after the removal of uncertainty thanks to trade truce.
- It is inevitable for property investment to slow down further.
- Infrastructure investment holds the key. A 6% growth is still possible.

The Chinese economy grew by 6% yoy in 4Q 2019, unchanged from 3Q growth. For 2019, the Chinese economy decelerated to 6.1% yoy from 6.6% yoy in 2018, in line with market expectation but within government’s target of 6-6.5%.

Three surprises in 2019

First, net export of goods and services was actually one of the key drivers to growth in 2019 despite the trade war. Net export contributed 11% to China’s growth in 2019, highest since China published the breakdown data from 2009. The surprisingly strong support from the net export was mainly because the decline of import growth was much bigger than export growth. This shows that China may have passed some of the costs of trade war the region.

Chart 1: Net export contributed positively to China’s growth in 2019



Second, China’s infrastructure investment decelerated to 3.8% yoy in 2019 from 4% in the first eleven months. The infrastructure investment failed to

Greater China

17 January 2020

pick up despite the supportive measures from Chinese government such as green light for local government special bond to be used as the capital for infrastructure projects. This shows that local government continued to face funding constraints due to breakdown of implicit guarantee and rising default risks in China.

Chart 2: Infrastructure investment growth failed to response to China's supportive policies

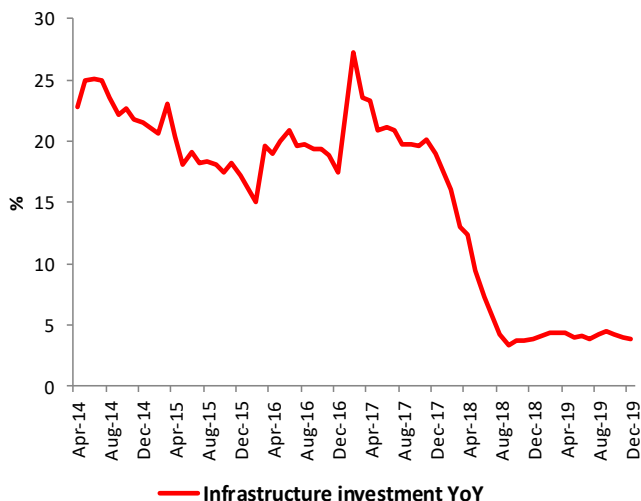
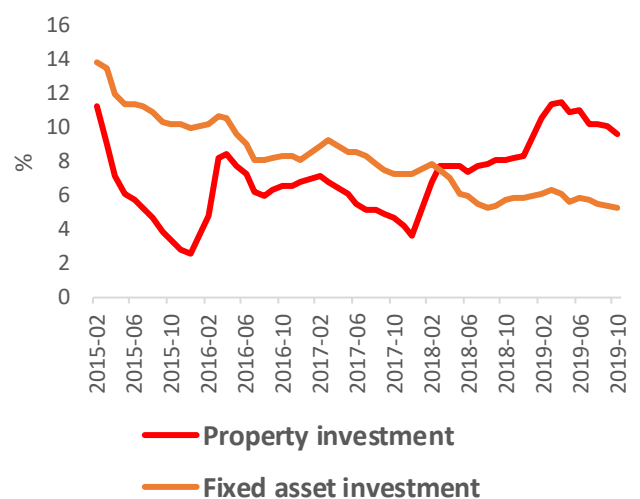


Chart 3: Property investment remained resilient despite tightening measures



Third, property market was more resilient than expected. China's property investment growth decelerated gradually to 9.9% yoy in December. Despite all the property tightening measures, the close to double-digit growth in property investment helped partially offset the weak manufacturing and infrastructure investment.

Signs of bottoming out

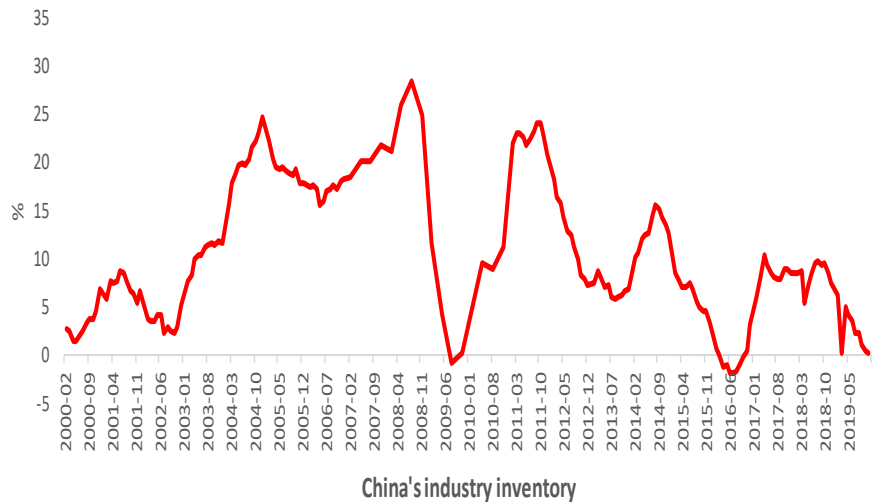
Although real GDP remained intact at 6% yoy in 4Q, China's nominal GDP growth reaccelerated to 9.63% yoy from 7.57% yoy. The small V-shape recovery in nominal GDP reinforced our view that the Chinese economy may have stabilized in the near term thanks to trade truce and more supportive policies.

Manufacturing sector has also shown signs of stabilization. Manufacturing output rose by 7% in December, strongest since March 2019. Meanwhile, fixed asset investment in manufacturing reaccelerated to 3.1% yoy from 2.5%. The removal of uncertainty from trade truce and China's increasing support to high tech manufacturing sectors will continue to support the manufacturing sectors in our view.

Time for re-stock?

From industry inventory perspective, the current destock cycle may near the end. Coupled with the trade truce with the US, we expect a start of restock cycle in 2020, which will help support the growth.

Chart 4: China’s 2-year destock cycle may be near the end



However, it is inevitable that China’s property investment will trend down further in 2020 as a result of falling land acquisition last year as well as tightening property measures.

The outlook of China’s growth in 2020 will hinge on whether China’s infrastructure investment is able to reaccelerate, which may require further support from both monetary policy and fiscal policy.

To **conclude**, the stabilized manufacturing investment and expected recovering infrastructure investment are likely to offset the deceleration of property investment in 2020, which may bring the fixed asset investment growth back to 6-7% range. As such, we think a 6% growth is still possible in 2020.

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products.

This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.:193200032W