

Spotlight on China policy and its impact on metals

Monday 24 October, London and online



SETTING THE GLOBAL STANDARD



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Moderator:

Yang Liu, Head of China Sales, *London Metal Exchange*

Panellists:

- **Amelia Fu Xiao**, Head of Commodity Markets Strategy, *BOCI*
- **Clyde Russell**, Asia Commodities and Energy Columnist, *Thomson Reuters*
- **Jinny Yang**, Managing Director, Chief China Economist, China Market Strategy, *ICBC Standard*
- **Julian Kettle**, Vice Chairman, Metals and Mining, *Wood Mackenzie*

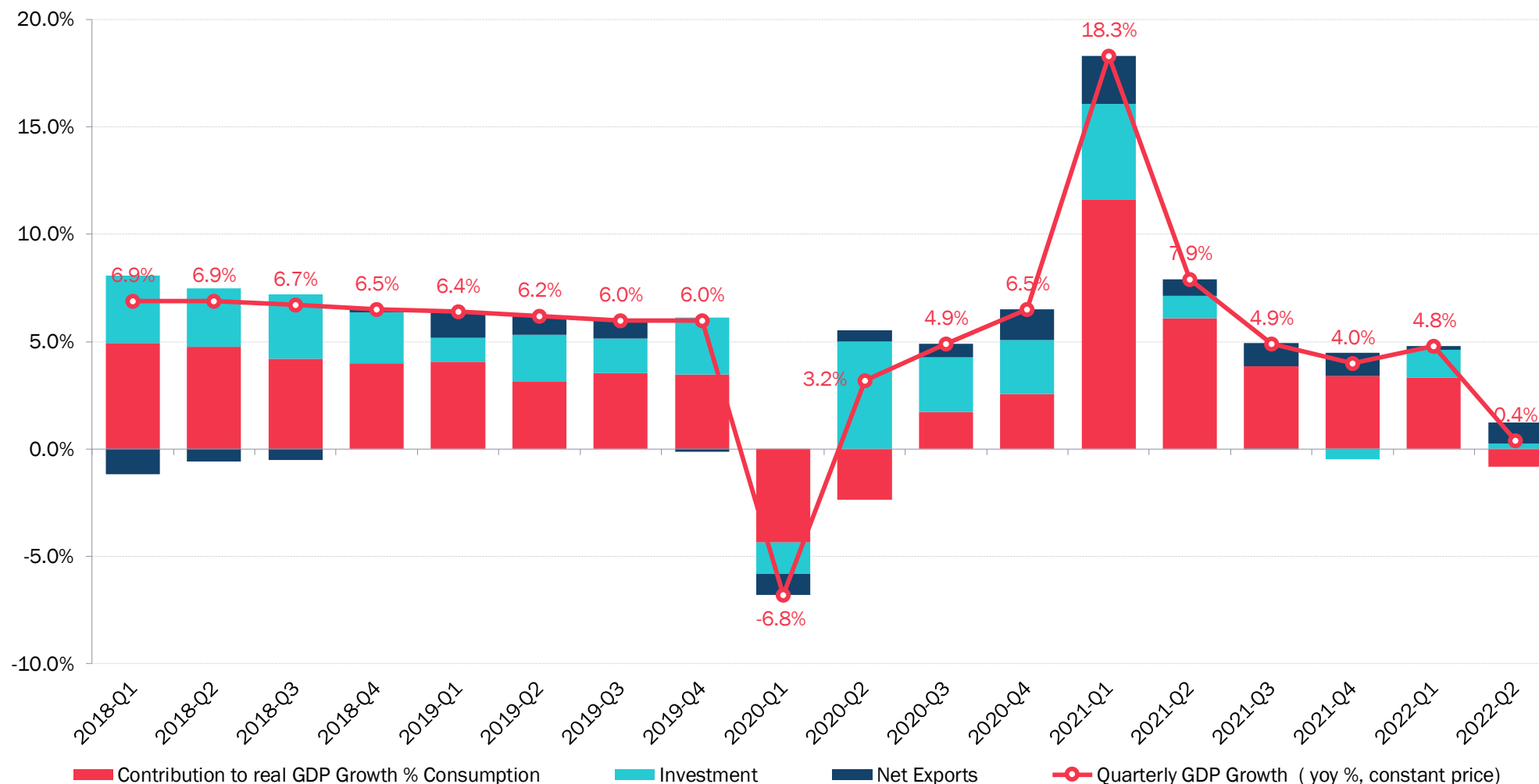
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0.4% GDP growth in Q2-22 reflected a notable contraction in consumption

Mildly positive contribution from net exports and investment unable to offset weakness in consumption.



Source: WIND, ICBC Standard



Beijing recently stepped up supportive measures to offset growth risks

CNY 3.52tn special purpose bond have already been rolled out by end-August. An additional CNY 500bn reserve quota has recently been approved by State Council to enable further special bond issuance before end-October as extra fiscal boost before year-end.

		2022 GWR Targets	2021 GWR Targets	2022 vs 2021
GDP	GDP Target (%)	c. 5.5%	>6.0%	
Fiscal	Official Fiscal Deficit (CNY bn)	3,378 (est.)	3,446	
	Official Fiscal Deficit Ratio (% GDP)	2.8%	3.2%	
	Special Bond Quota (CNY bn) *	3,650* • 500 additional reserve quota	3,650	
	Special Bond Quota (% GDP)	3.0% - 3.4%	c.3.4%	
	Special Fiscal Arrangement (CNY bn)	• Extra 1,500 Special fiscal transfer payments to local gov. from central gov. • A New Financial Stability Fund (tbc) • 300 new credit quota for policy banks	NA	New
	Broad Fiscal Deficit Ratio (% GDP)	c. 7.0% - 8.0%	c. 6.5% - 7.0%	
	Tax Cuts (CNY)	Est. CNY 2.5tn tax cut/rebate before year-end	CNY 50,000 VAT free allowance per annum for SMEs	
Social	Household Disposable Income Growth (yoy %)	"Same as nominal GDP growth rate" (c. 5.5%)	"Same as nominal GDP growth rate"	
	Urban New Job Creation (mn)	11.00	11.00	
	Unemployment Rate (%)	max. 5.50%	5.50%	
	Poverty Reduction (mn)	NA	Social Welfare System (14 th FYP by 2025)	NA
	Climate Change Action	1) Flexible annual target with the goal to achieve 14 th FYP target by 2025 2) Energy consumption quota to exclude usage of raw material & renewable energy	3% reduction in energy intensity	
Monetary	CPI (%)	c. 3.0%	3.0%	
	New Loan Growth for SMEs (%)	NA	> 30%	NA
	M2 (yoy %)	"Same as nominal GDP growth rate"	"Same as nominal GDP growth rate"	
	Total Social Financing (yoy %)	"Increase new loan base and lower borrowing cost for real economy"	"Same as nominal GDP growth rate"	



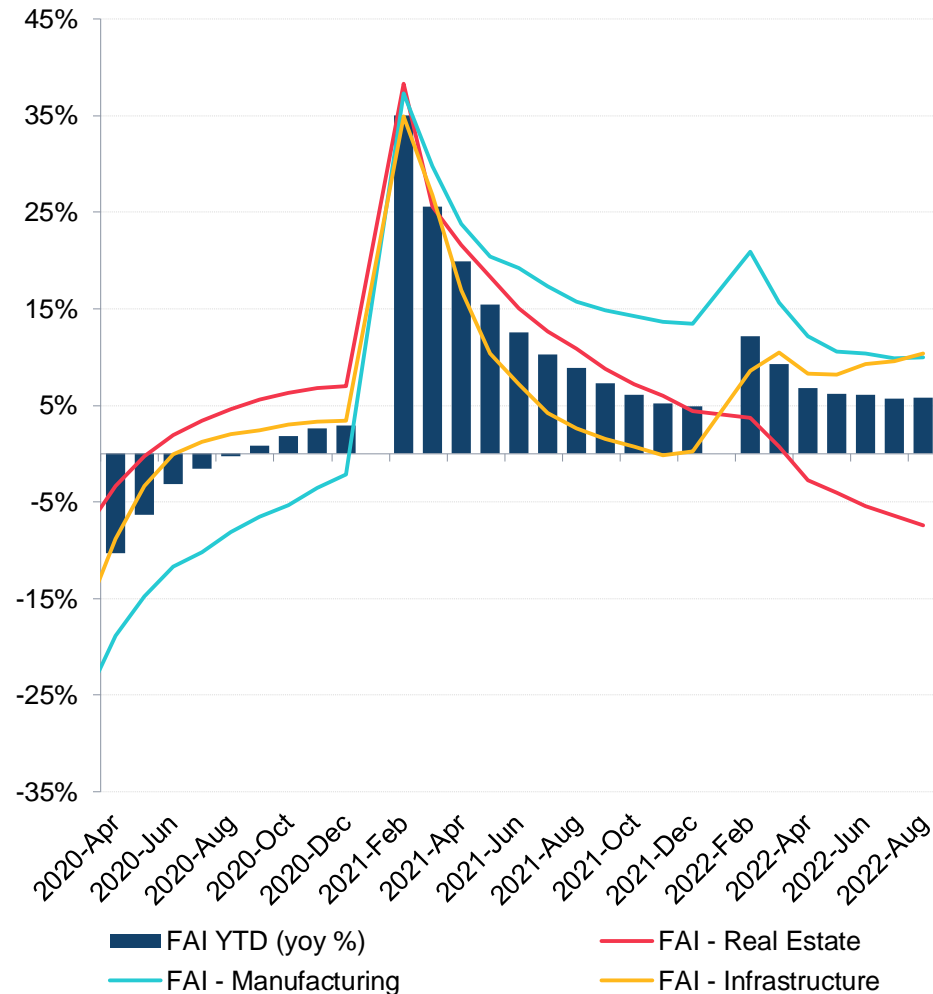
Source: WIND, ICBC Standard

* Note: More than CNY 3.5tn worth of local government special purpose bond issuance quota have already been rolled out by end-August. Market expects another issuance peak in late September and October as MoF asks local government to deliver the extra CNY 500bn issuance quota by October-end.



Slowdown in housing sector continued to weigh on investment sentiment

Investment in property sector continued to deteriorate this summer, despite a pickup in infrastructure spending led by public demand.



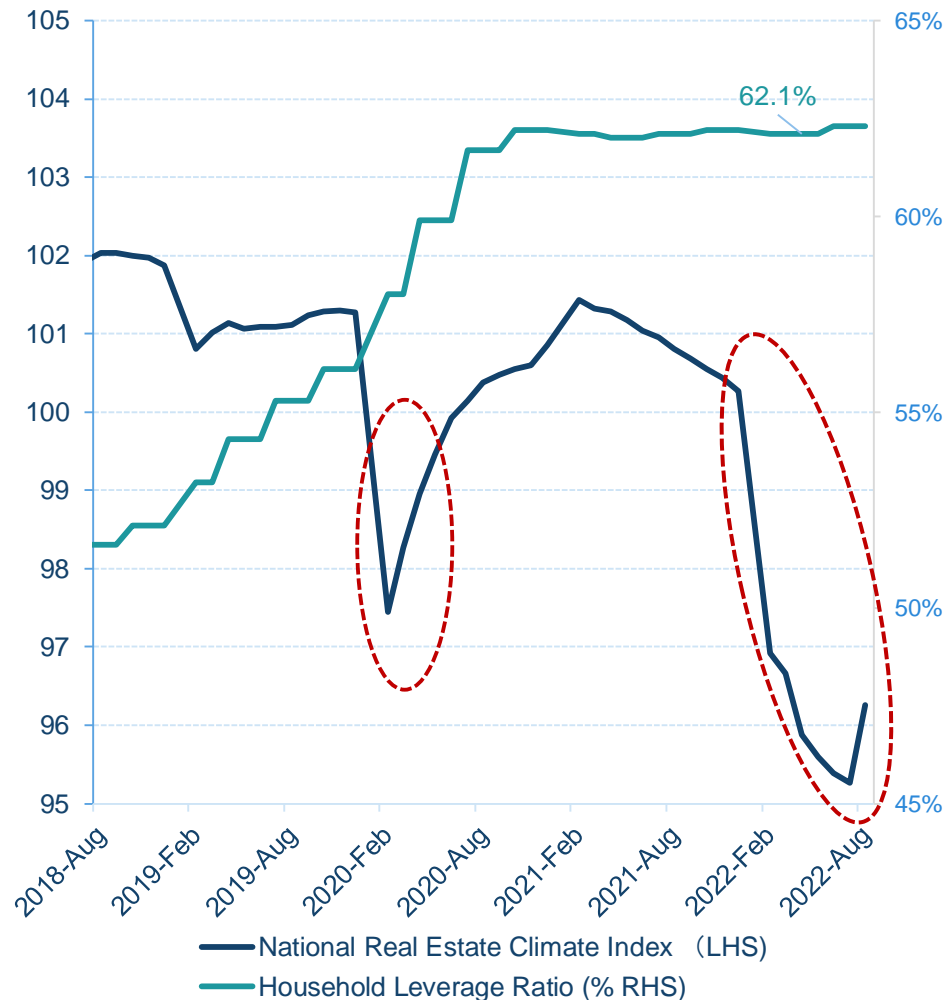
Source: WIND, ICBC Standard

Government continues to be the key growth driver of national investment in Aug, but bearish sentiment in private sector persists.

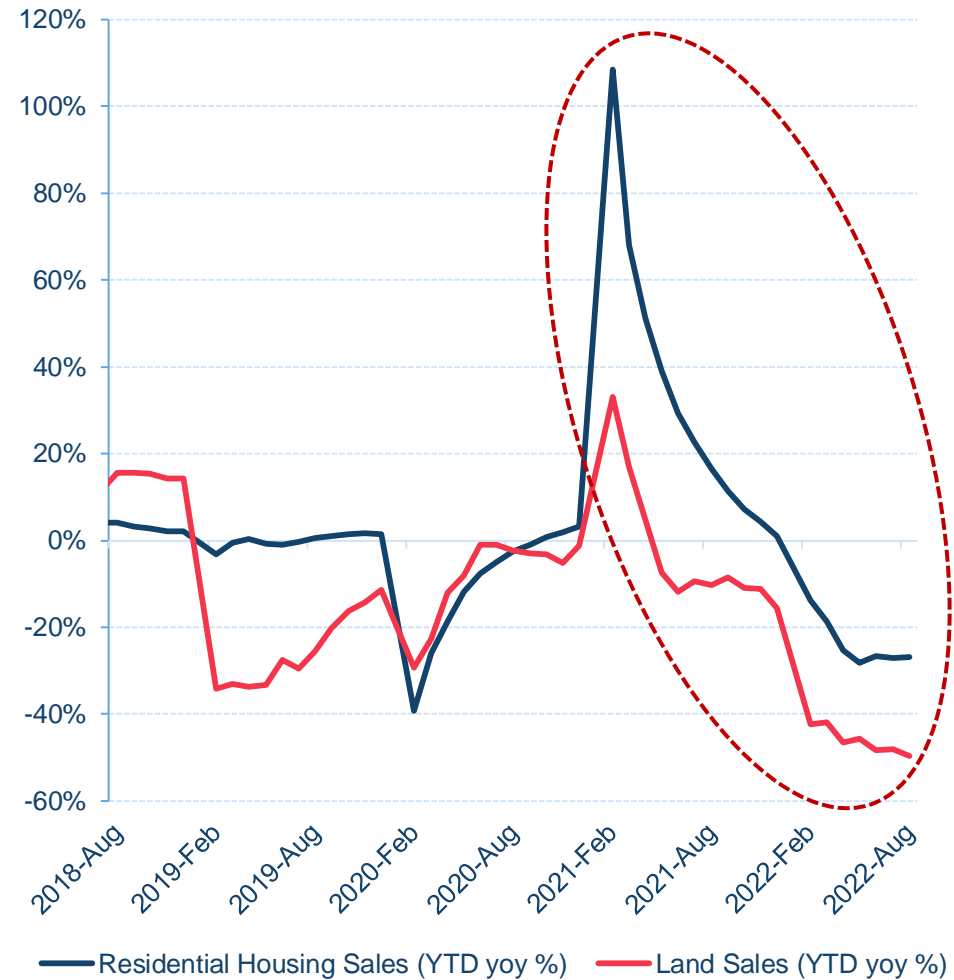


Property market stalled amidst mortgage boycott and bearish outlook

Sporadic COVID outbreaks significantly weakened household confidence and borrowing appetite despite easing mortgage policies.

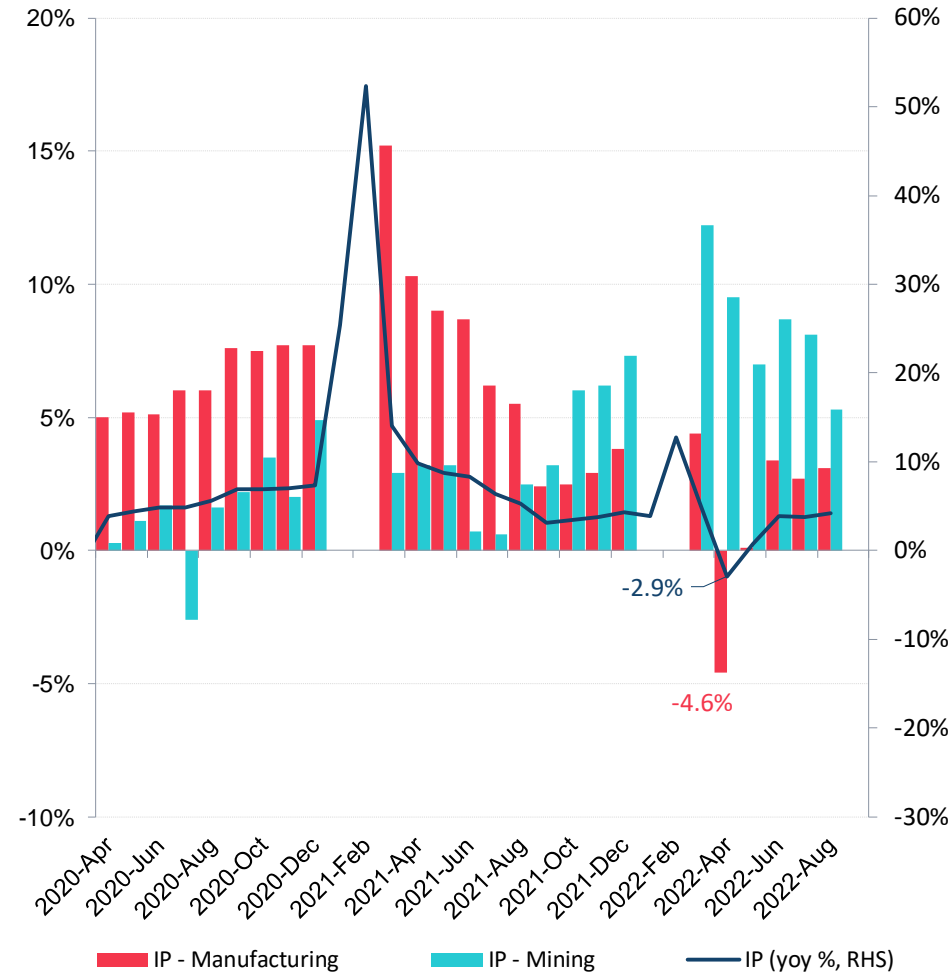


Home sales slump worsens as mortgage boycott in July dented home buyers' confidence with signs of recovery yet to emerge.

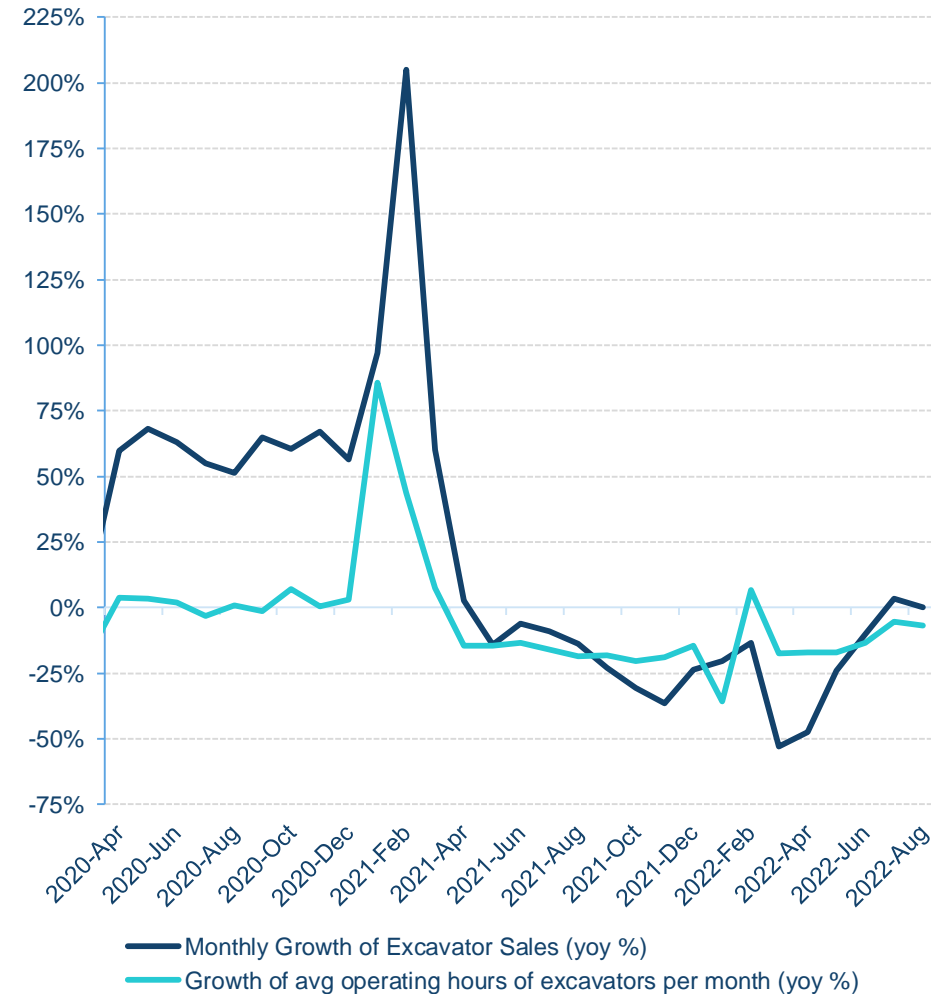


Leading indicators suggest projects are resuming despite weaker IP

Despite less pressure from logistic disruptions, recovery of IP is still limited with IP easing to 3.8% in July from the 3.9% rebound in June.

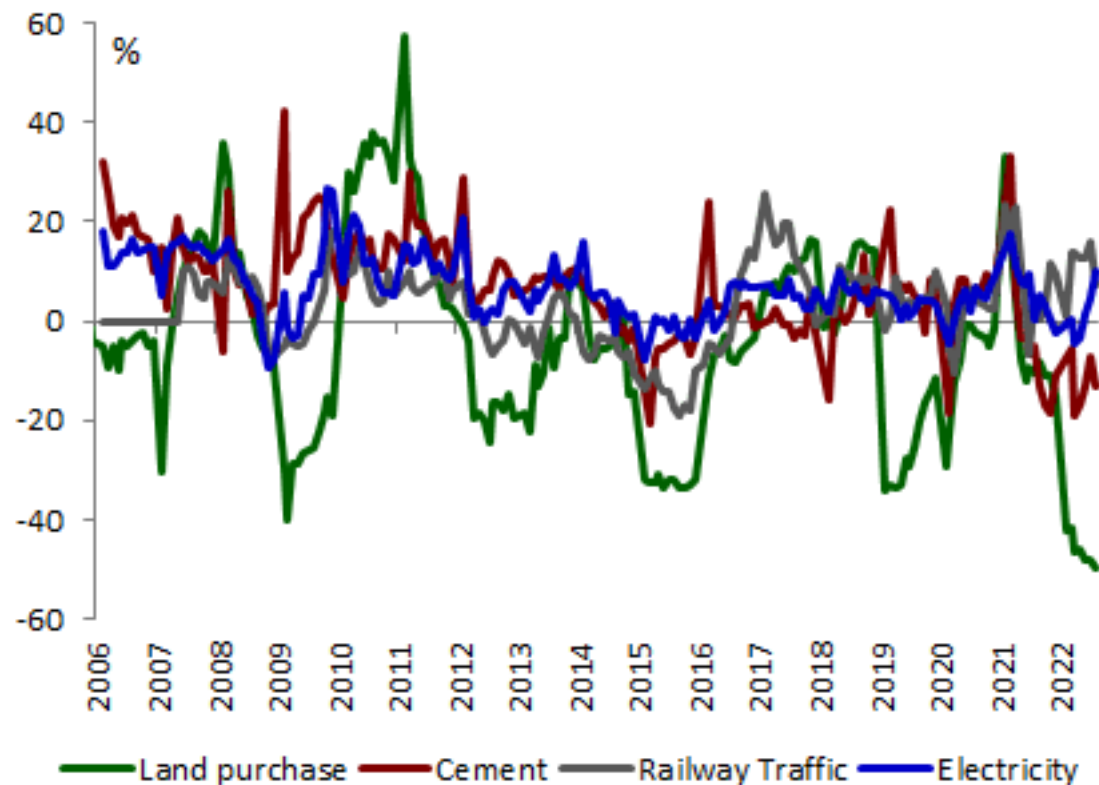


Sales and occupancy rate of excavators suggest more efforts to deliver infrastructure projects but are yet to return positive growth.

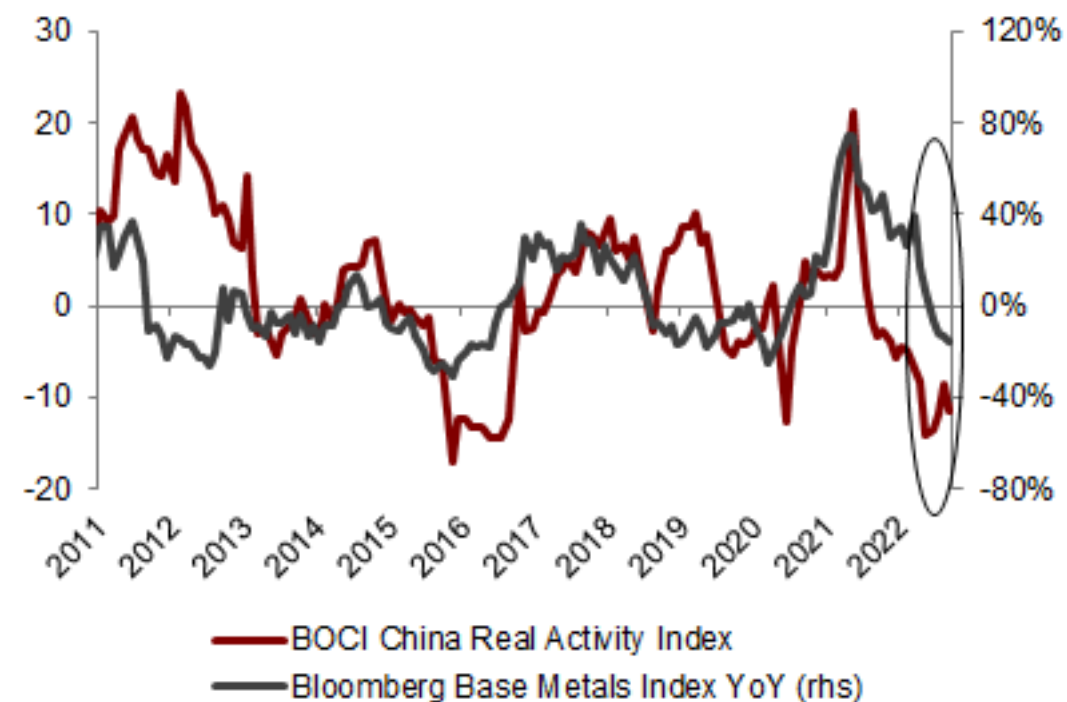


Base Metals vs China Real Activity Index

Components of China Real Activity Index



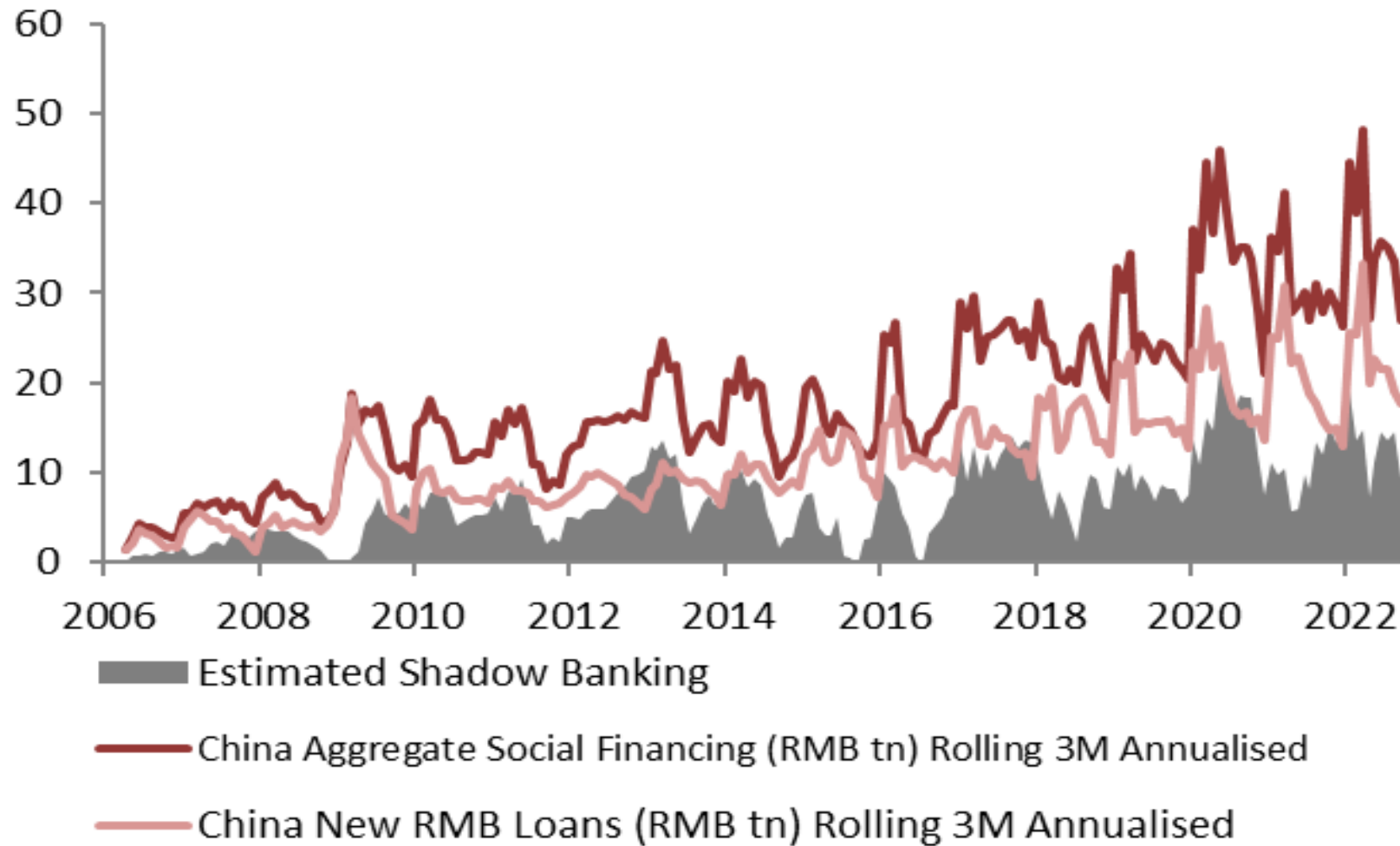
Base Metals have trended broadly with China Real Activity Index



Source: BOCI Global Commodities, Reuters



Improving New Loans in September Reflects Policy Support



Monetary policy divergence and strong dollar rally weigh on the yuan

USDCNH reached multi-year highs and has once stood above the 7.0 threshold in late Sep driven primarily by strong dollar rally.



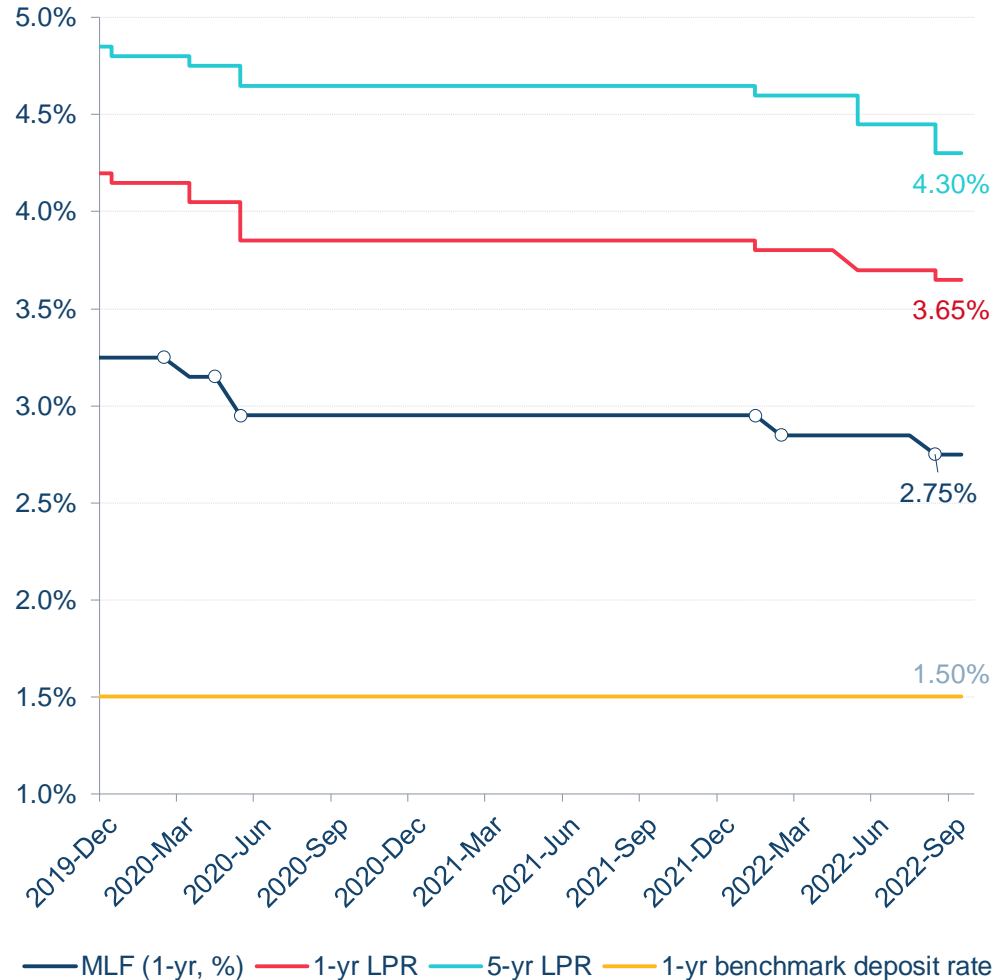
Source: WIND, ICBC Standard

Recent yuan depreciation is nonetheless in sync with other non-USD major currencies amidst further divergence of monetary policies.



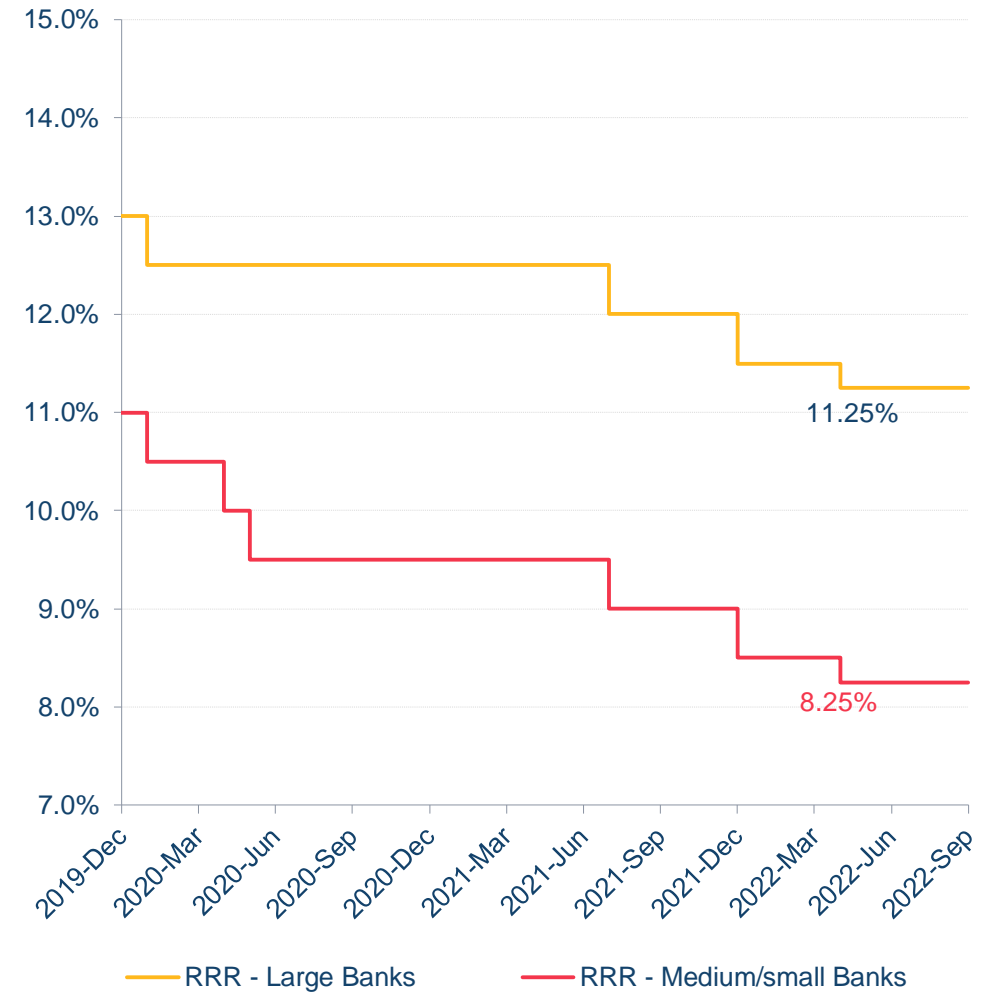
PBoC further lowered benchmark rates amidst growing growth pressure

The asymmetric cuts in 1yr & 5yr LPR were tailored to boost housing demand following the 10bps MLF rate cut in August.



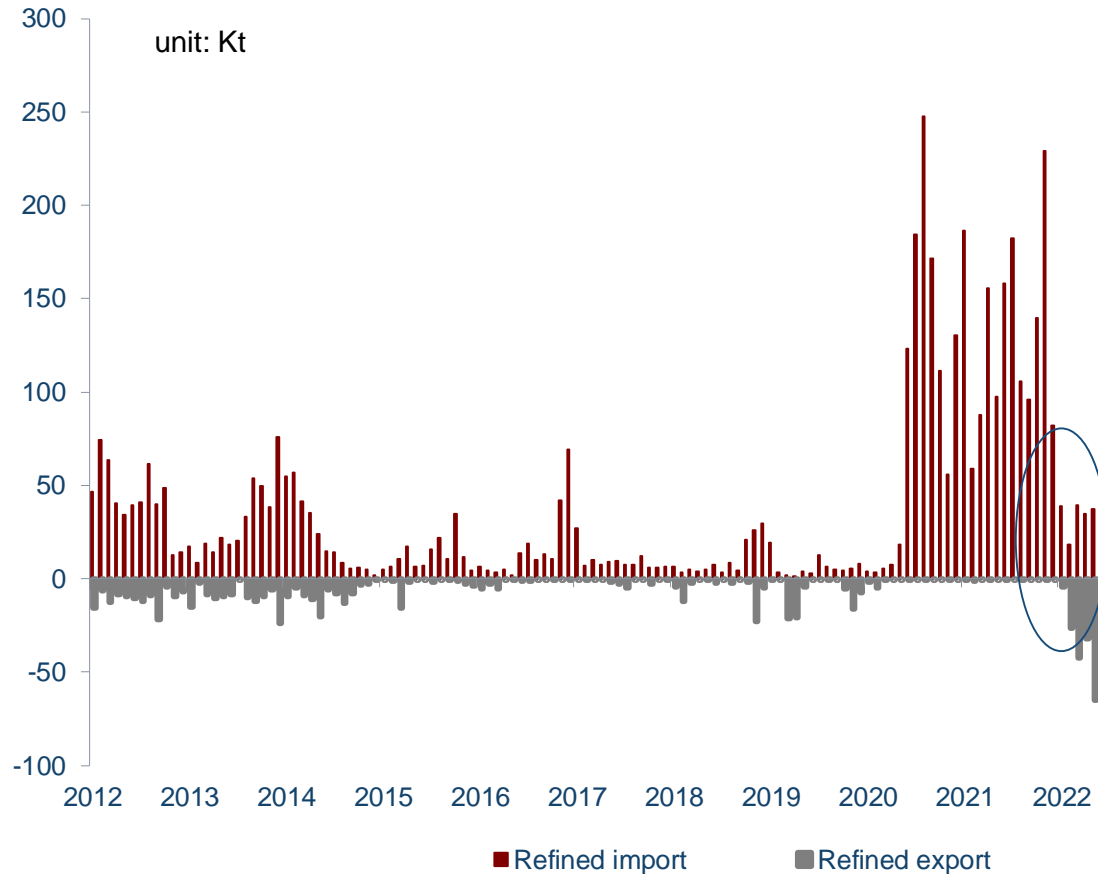
Source: WIND, ICBC Standard

The broader RRR remains unchanged after the 25bps cut in April to offset the pandemic impact, though missed market expectation.

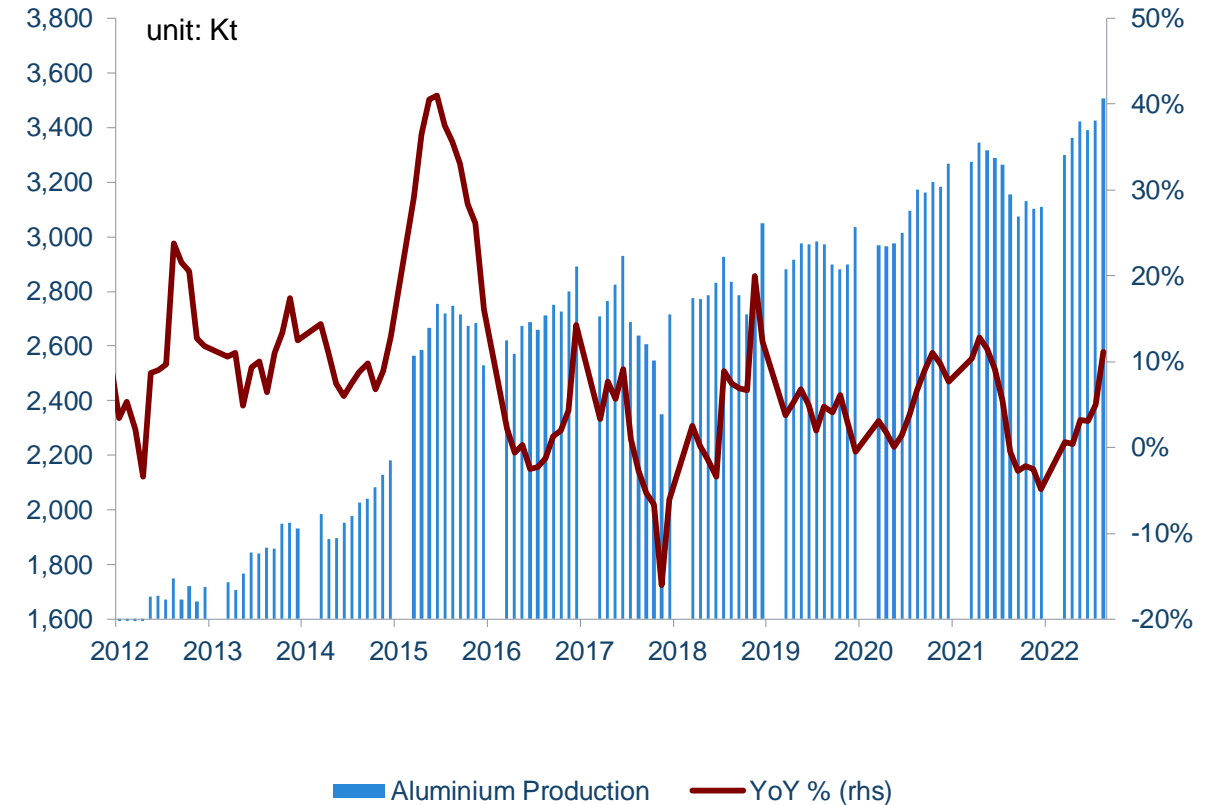


China's Refined Aluminium Exports & Production

China Turned into a Net Exporter of Refined Aluminium in 2022

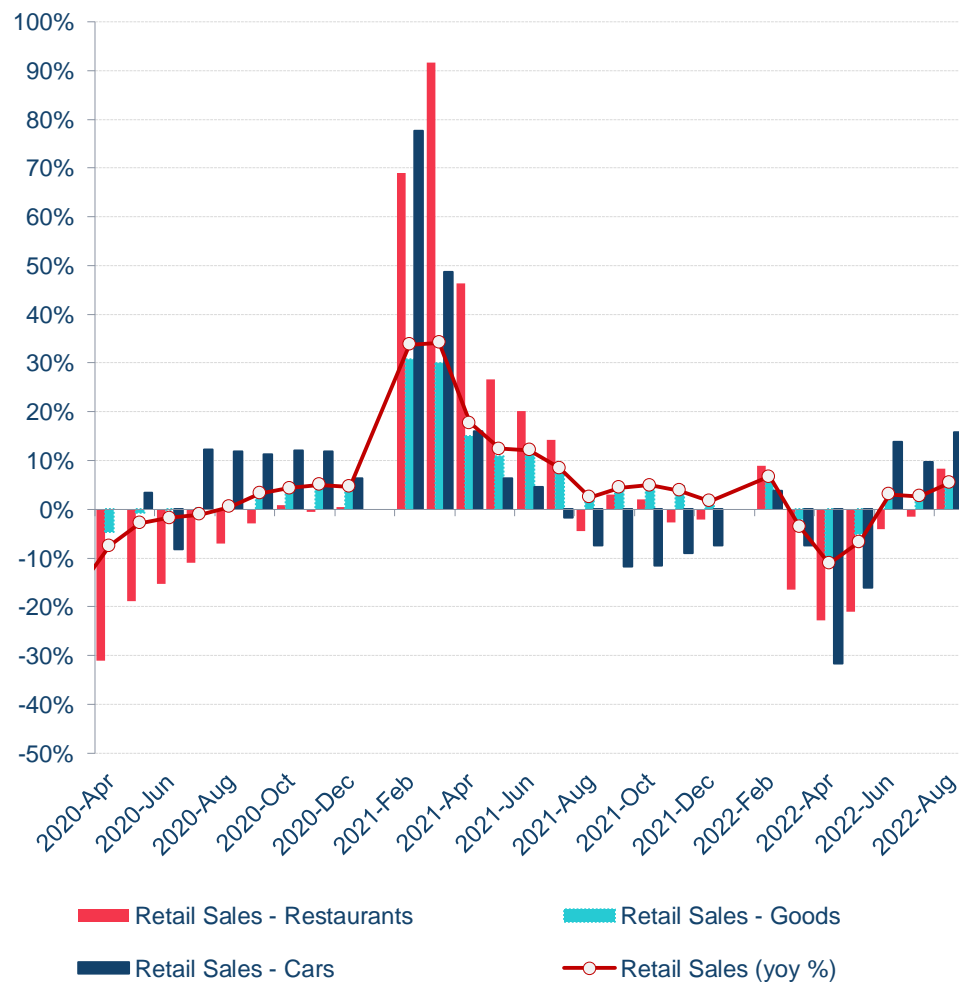


China's Aluminium Production Growth Improved



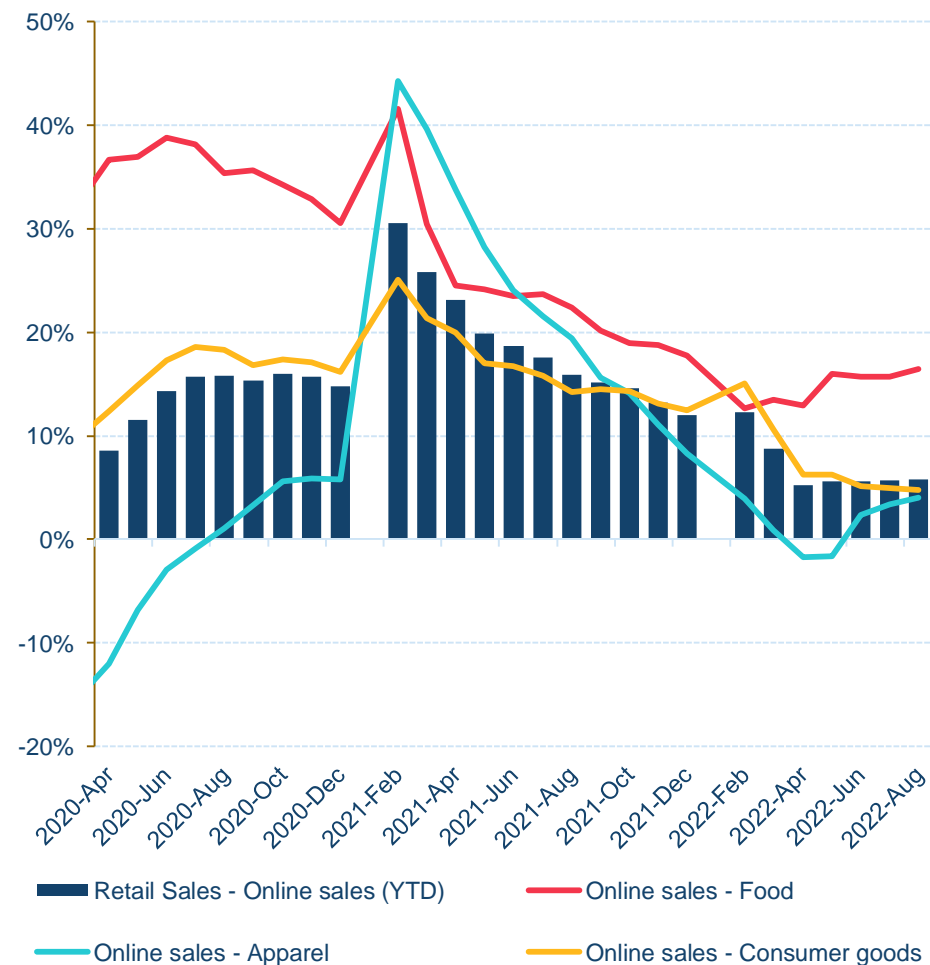
Recovery post June opening-up faded with new waves of COVID cases

Monthly retail sales are sensitive to new restrictions imposed across major cities, but auto sales (especially EV) remains resilient.



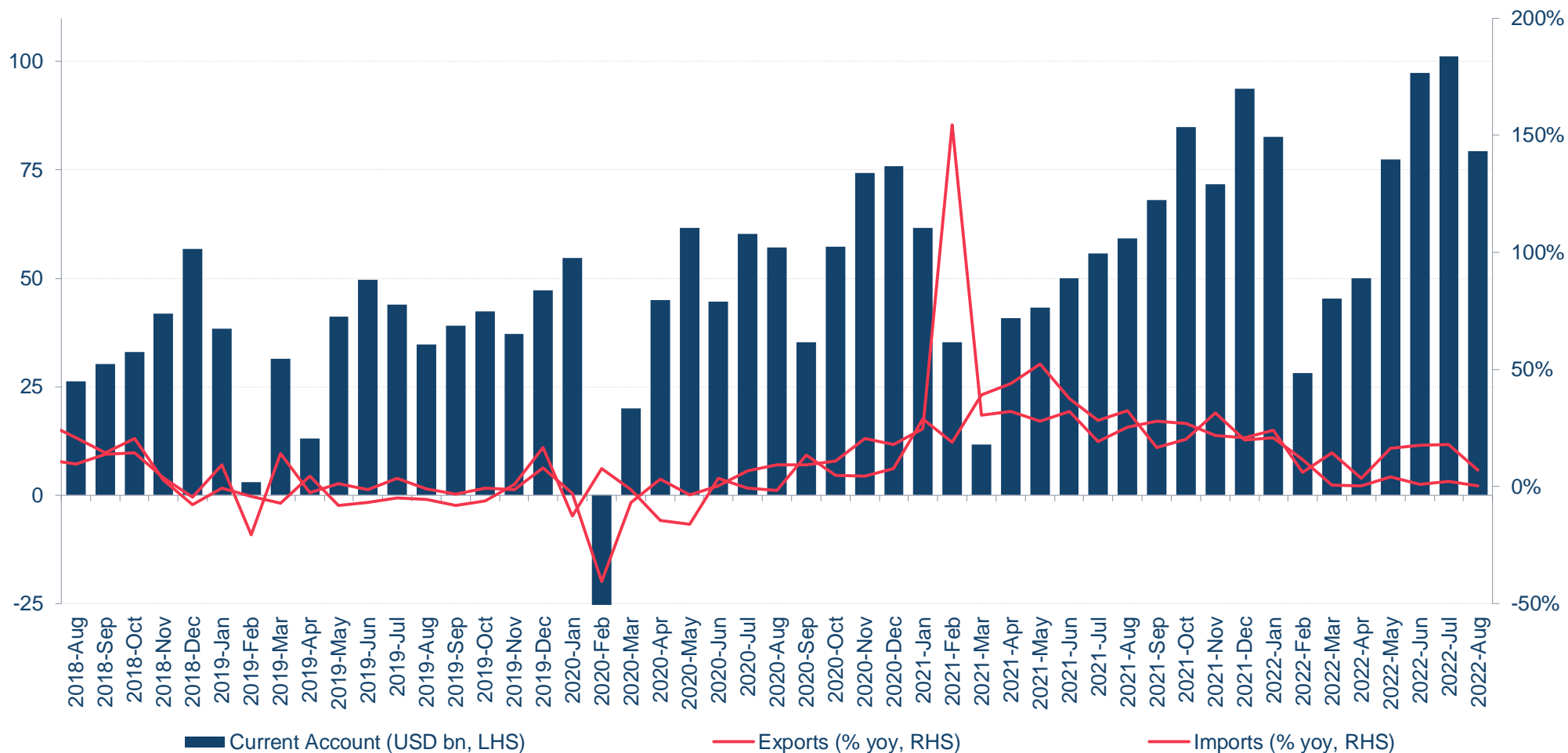
Source: WIND, ICBC Standard

August online sales of consumer goods further dropped on weak demand and YTD online sales remain below pre-pandemic level.



Export growth sharply slowed in August as global demand weakens

While current account surplus remained broadly steady in August, export growth saw notable slowdown to 7.1% from 18.0% in July with limited import growth amidst rising global recession concerns and sluggish domestic demand in China.



Source: WIND, ICBC Standard



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