

Caixin Global Webinar:

Rebooting the Economy Amid Coronavirus



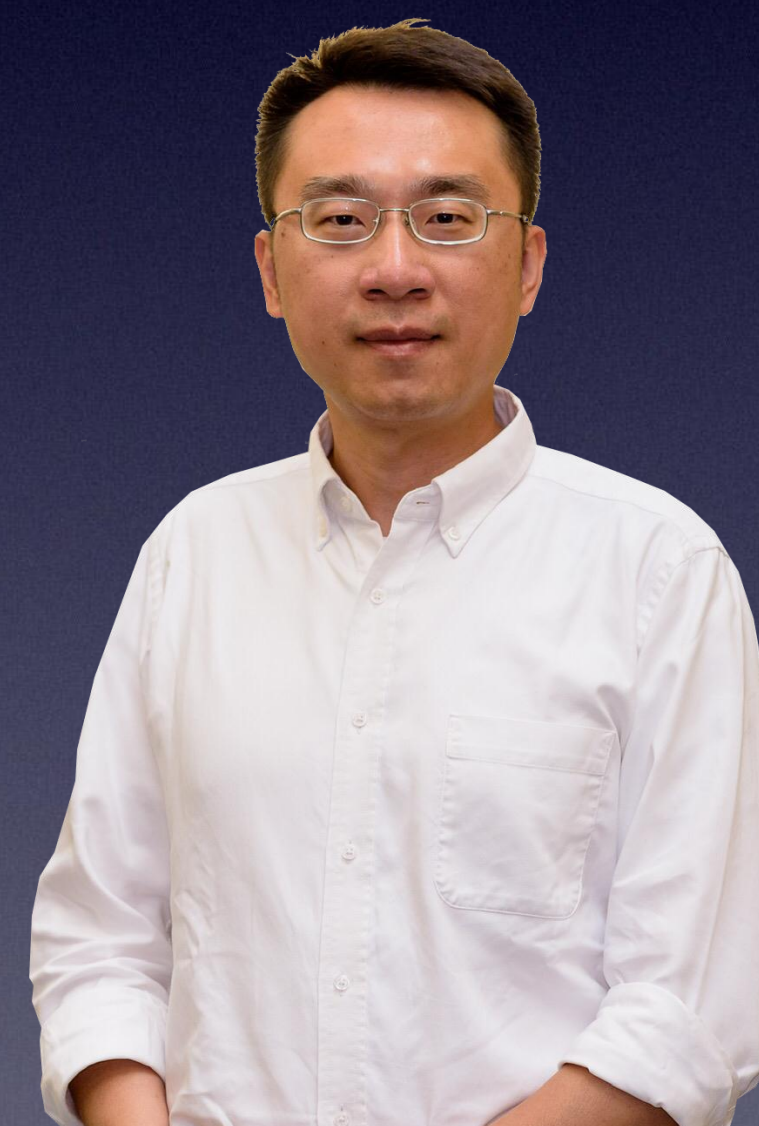
Speaker:

Wang Tao, Chief China Economist, UBS



Speaker:

Li Feng, Founding Partner, FreeS Fund



Speaker:

Huang Shan, Deputy Managing Editor, Caixin Media



Moderator:

Li Zengxin, Deputy General Manager, Caixin Global

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Wang Tao

Chief China Economist, UBS





UBS Investment Research

Rebooting China's Economy

Tao Wang

Chief China Economist

Head of Asian Economic Research

wang.tao@ubs.com / +852 2971 7525

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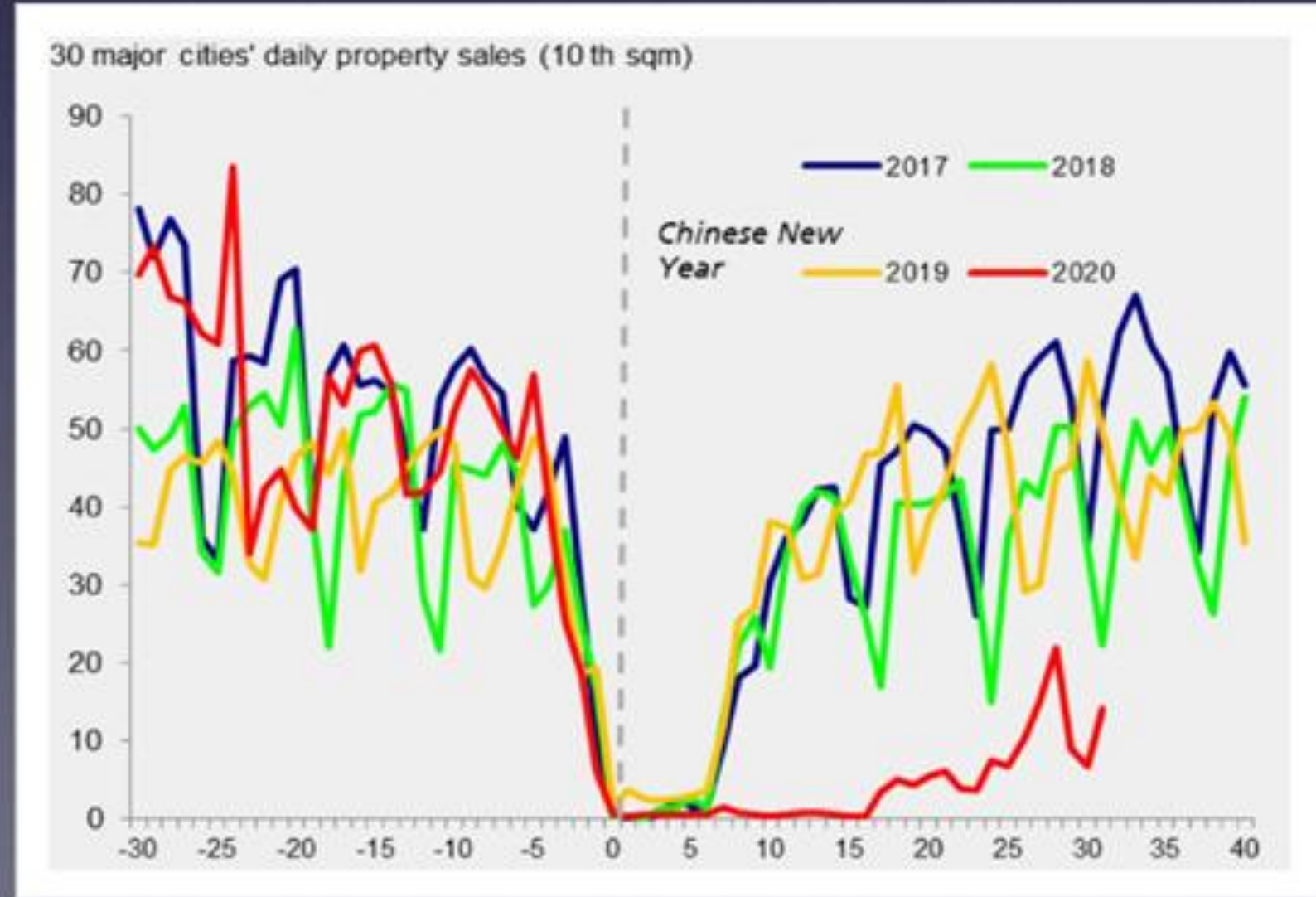
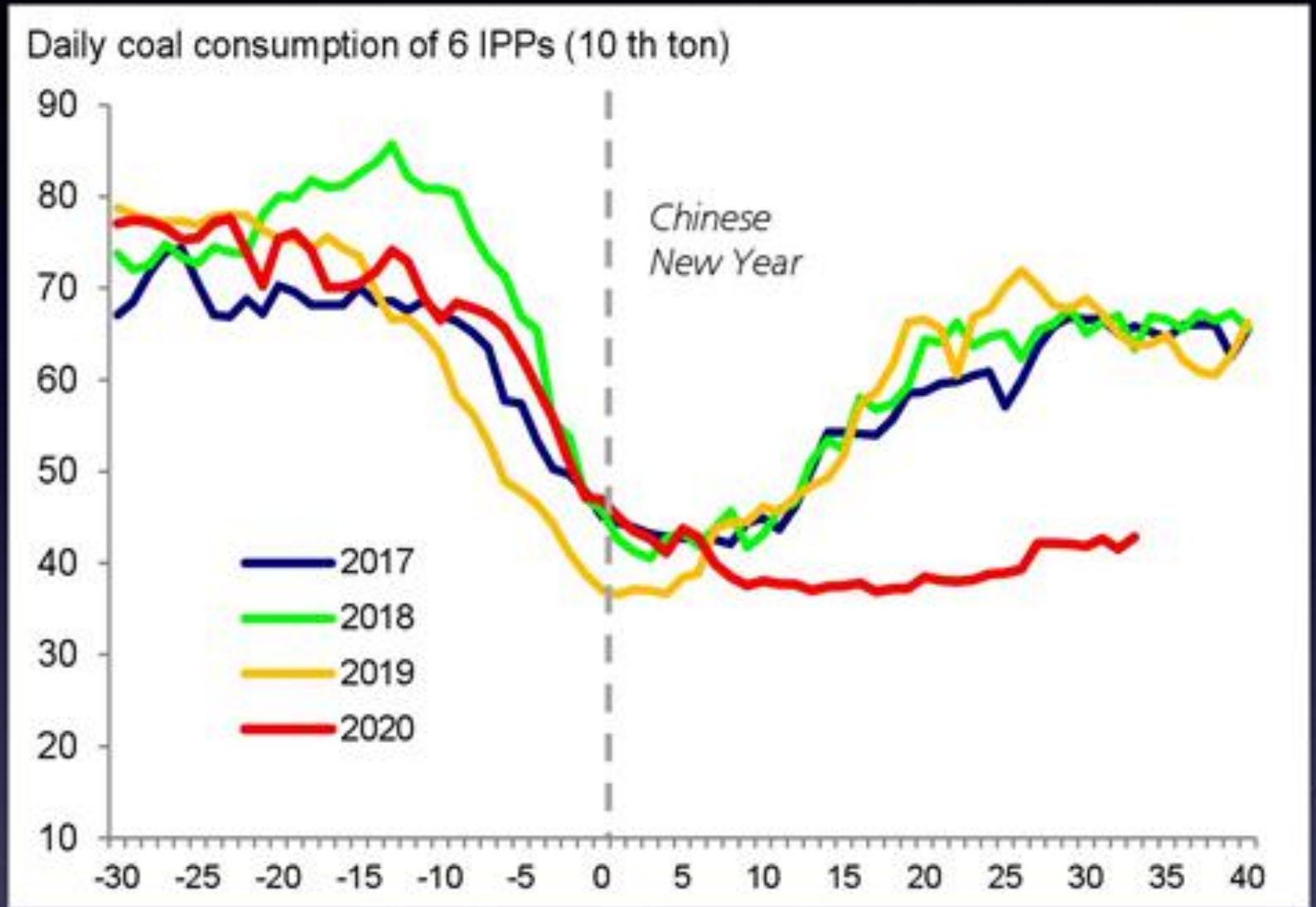
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Coronavirus: Macro Impact on China

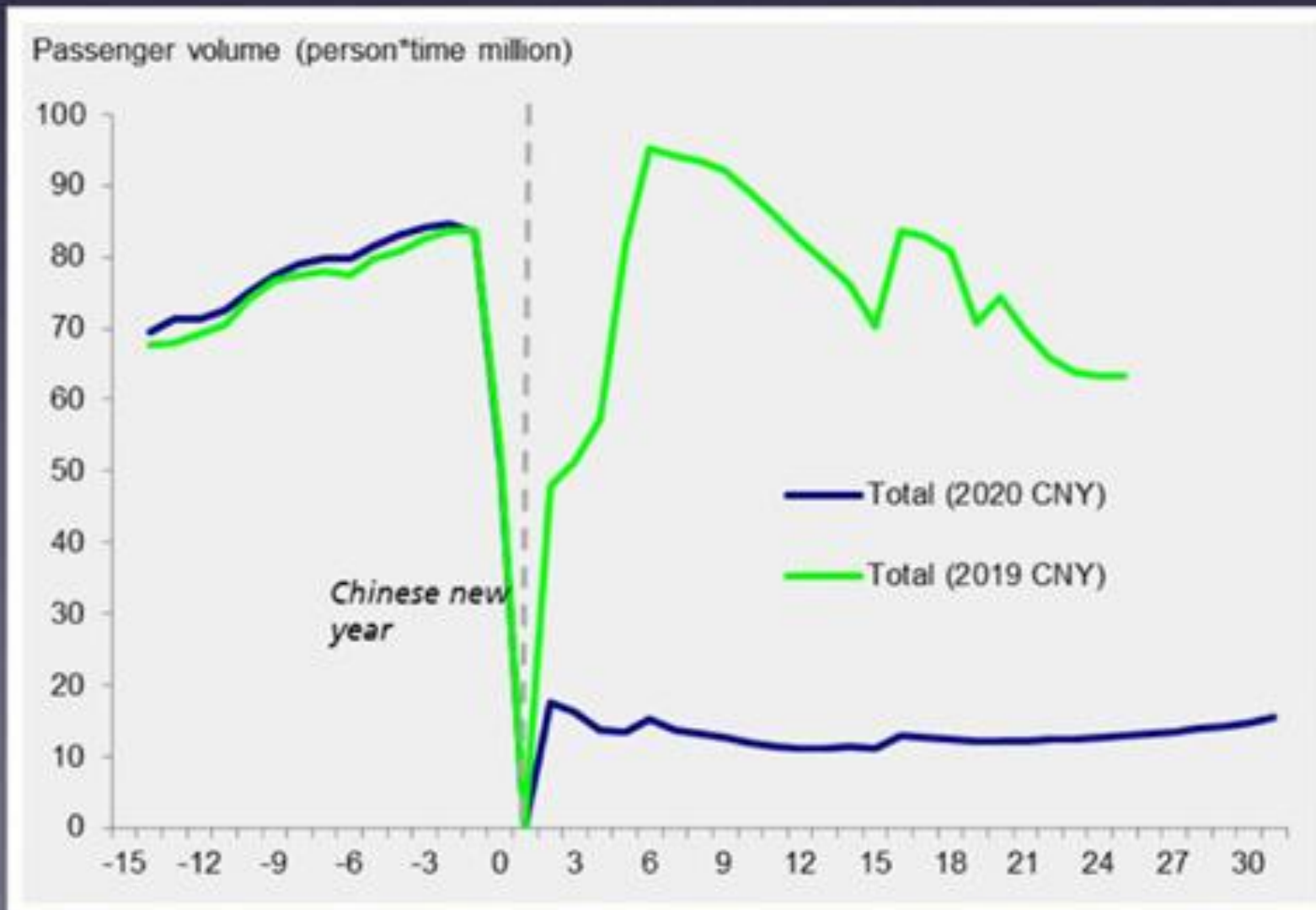
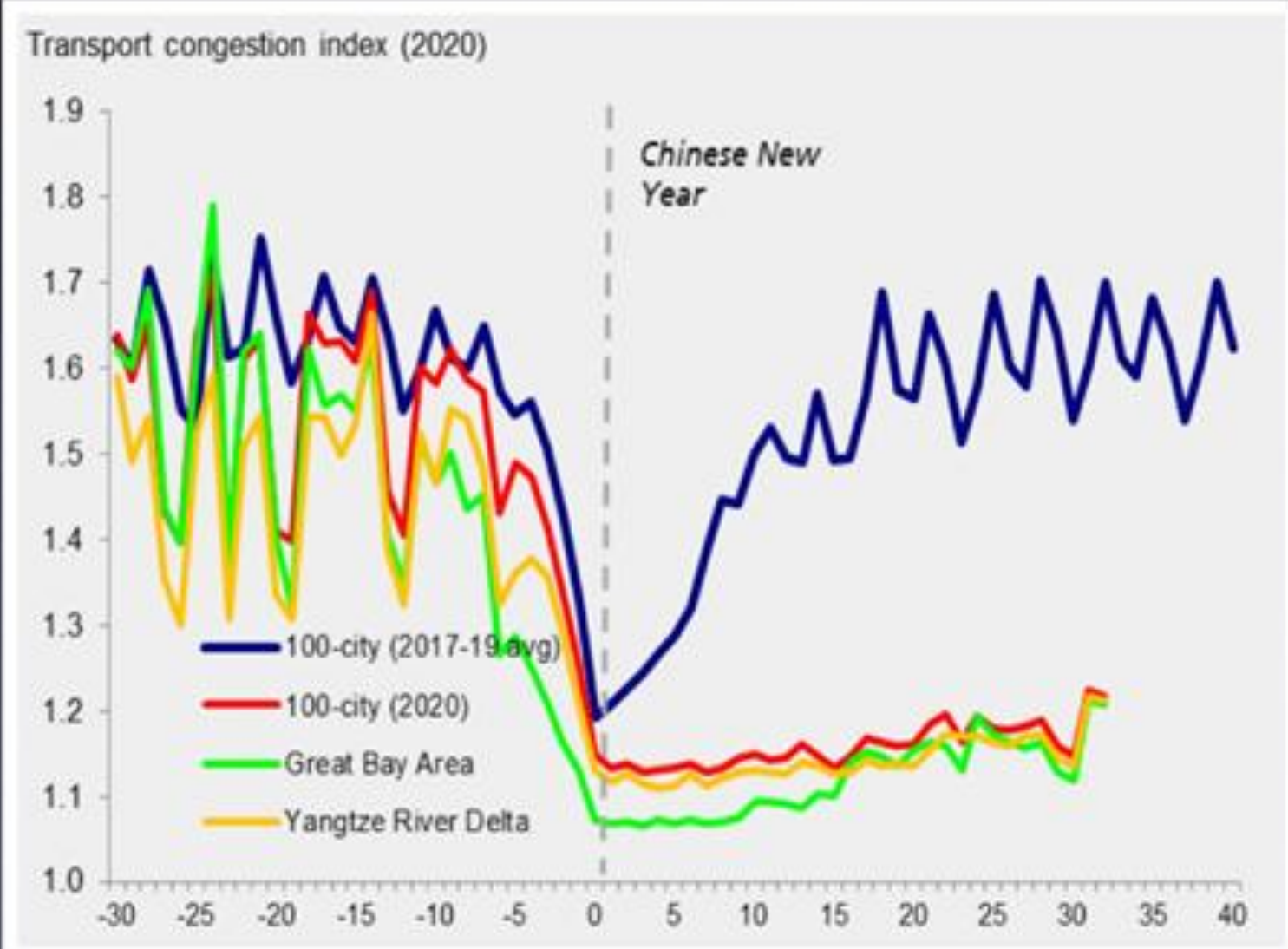
- Assuming it is controlled in Q1, growth hit will be largely in Q1. Downgrade Q1 to 3.8% y/y (-1.5% q/q), annual growth to 5.4%. More downside risk
- Consumption will be hurt more than investment and trade; travel, transport, hotel, restaurants biggest hit areas
- Possible production disruptions, and delays in exports/trade and investment. Expect strong rebound afterwards
- Corporate earnings will be hit, unemployment rate will rise
- See mixed impact on USDCNY and inflation, not changing forecast for now

Activities remain subdued: I



Source: CEIC, WIND, UBS estimates

Activities remain subdued: II



Source: CEIC, WIND, UBS estimates.

Work resumption rate of selected provinces

Province	Activity resumption ratio (% , as of latest)	Activity resumption ratio (% , as of 18-Feb)	Provincial share of China's GDP (%)
Guangdong	82.2% (21-Feb) 65% (I&C, 21-Feb)	60% (14-Feb) -	10.9%
Jiangsu	80% (20-Feb)	65% (16-Feb)	10.1%
Shandong	84.1% (20-Feb)	67.7% (14-Feb)	7.2%
Zhejiang	>90% (24-Feb)	50% (16-Feb)	6.3%
Henan	>66% (Zhengzhou, 19-Feb))	30% (Henan, 13-Feb)	5.5%
Sichuan	83.7% (18-Feb) 86% (SOE, 18-Feb) 20% (POE, 19-Feb)	35.6% (13-Feb) 80% (SOE, 13-Feb)) -	4.7%
Fujian	83.3% (21-Feb)	60% (16-Feb)	4.3%
Hunan	46% (18-Feb)	42.3% (16-Feb)	4.0%
Shanghai	73% (19-Feb) >70% (I&C, 19-Feb) 80% (SOE, 19-Feb)	70% (manufacturing, 10-Feb) 80% (software, 10-Feb) 80% (SOE, 14-Feb)	3.9%
Anhui	51.5% (18-Feb) Above 85% (SOE, 20-Feb)	40.4% (16-Feb) -	3.8%
Beijing	61.2% (19-Feb) ~100% (SOE, 12-Feb)	~90% (CBD, 12-Feb) ~100% (SOE, 12-Feb)	3.6%
Hebei	75.1% (22-Feb) 81% (SOE, 20-Feb)	35% (10-Feb) -	3.6%
Shaanxi	53.4% (24-Feb) 78% (SOE, 24-Feb)	- 44% (SOE, 13-Feb)	2.6%
Liaoning	83% (21-Feb) 83% (SOE, 21-Feb)	57.7% (13-Feb) -	2.5%

Source: Local government websites, media reports, UBS estimates. Note: All activity resumption ratios are for above-sized industrial sector unless otherwise indicated.

Work resumption rate of selected industries

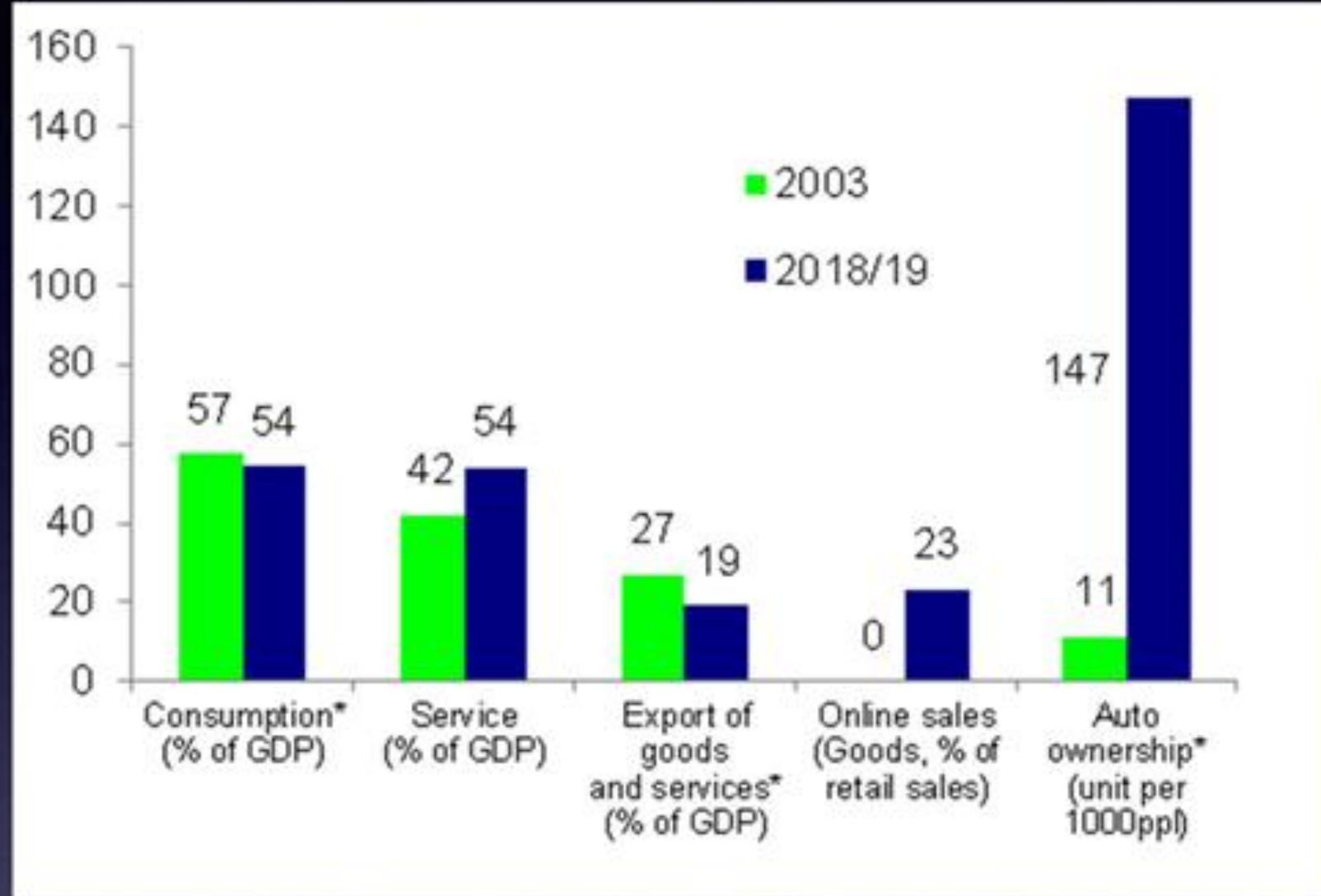
Sector	Activity resumption ratio (%)
Coal mines	76.5%(Feb 22)
Steel sector	67.4% (Feb 24)
Non-ferrous metal sectors	86.3% (Feb 24)
Grain production/processing	>70% (Feb 24)
Auto production	75% (Feb 19)
Auto dealer	Comprehensive-14.83% (employee-37.2%, sales-8%, aftersales service-10.5%, Feb 24)
Carload freight	43.1% of Nov 2019 level (Feb 24)
Transportation - toll road	Corporate 28%; employee 44% (Feb 22)
Transportation - water	Corporate 41%; employee 68% (Feb 22)
Transportation - port	65%; all major ports are functioning normally (Feb 22)
Delivery	66.7%; major express delivery companies have resumed business (Feb 24)
Chain supermarket	>95% (Feb 22)
Major chain fast food stores	~90% (Feb 22)
Chain convenient stores	80% (Feb 22)
Shopping malls	50% (Feb 22)

Source: NDRC, SASAC, CAAM, CADA, G7&Chemanman, Mysteel, media reports, UBS estimates

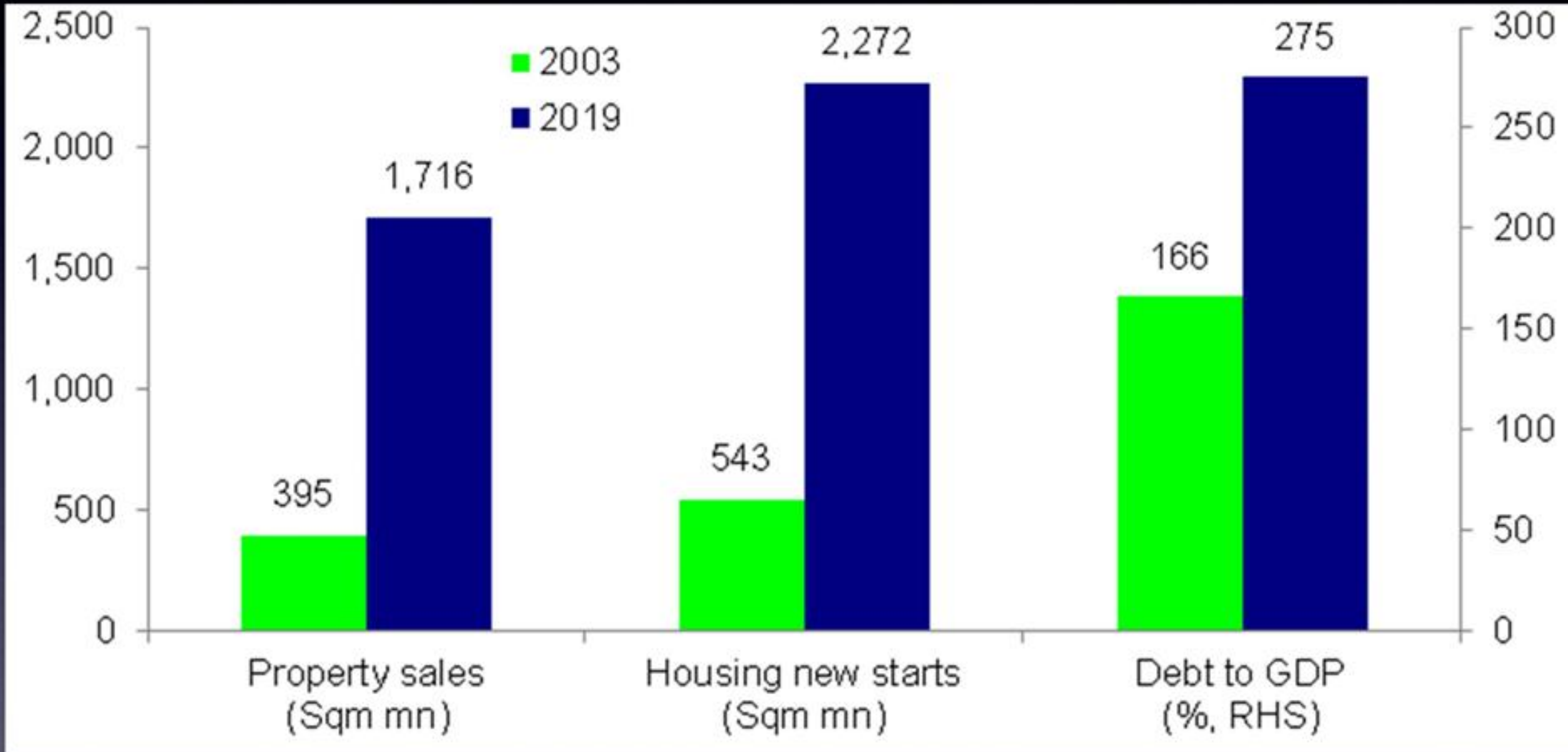
China's policy response

- Policy support has focused on liquidity provision, onlending/credit support , rate cut, tax/fee reduction, subsidies and other targeted support
- Expect additional RRR cuts, liquidity provision, 10 bps MLF cut. Expect increased spending on health care, and more infrastructure spending
- Allow for some local easing on property but no nationwide property stimulus
- Long-term growth trends and structural patterns should remain

Some notable differences, 2003 and now



Policy space is more limited now



Source: CEIC, UBS estimates

Impact on the rest of world

- Main channels of impact: tourism, trade, supply chain disruptions
- Hong Kong SAR, Singapore, Thailand likely hit most by tourism drop
- Taiwan region, S Korea, Australia, Japan: trade and supply chain impact
- Expect more policy easing from other central banks, and fiscal easing
- Expect US Fed to cut rates 3 times in 2020

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Li Feng

Founding Partner, FreeS Fund



How does Coronavirus
impact the business world?

—— Li Feng, founding partner of FreeS Fund

Impact of the Coronavirus outbreak

- The degree of digitalization in various industries and consumers behavior has increased;
- online and offline integrates;
- the level of automation improves;
- the applications of Artificial Intelligence speed up.

E.g., retail, education, healthcare, corporate services

The possible macro-economic policy

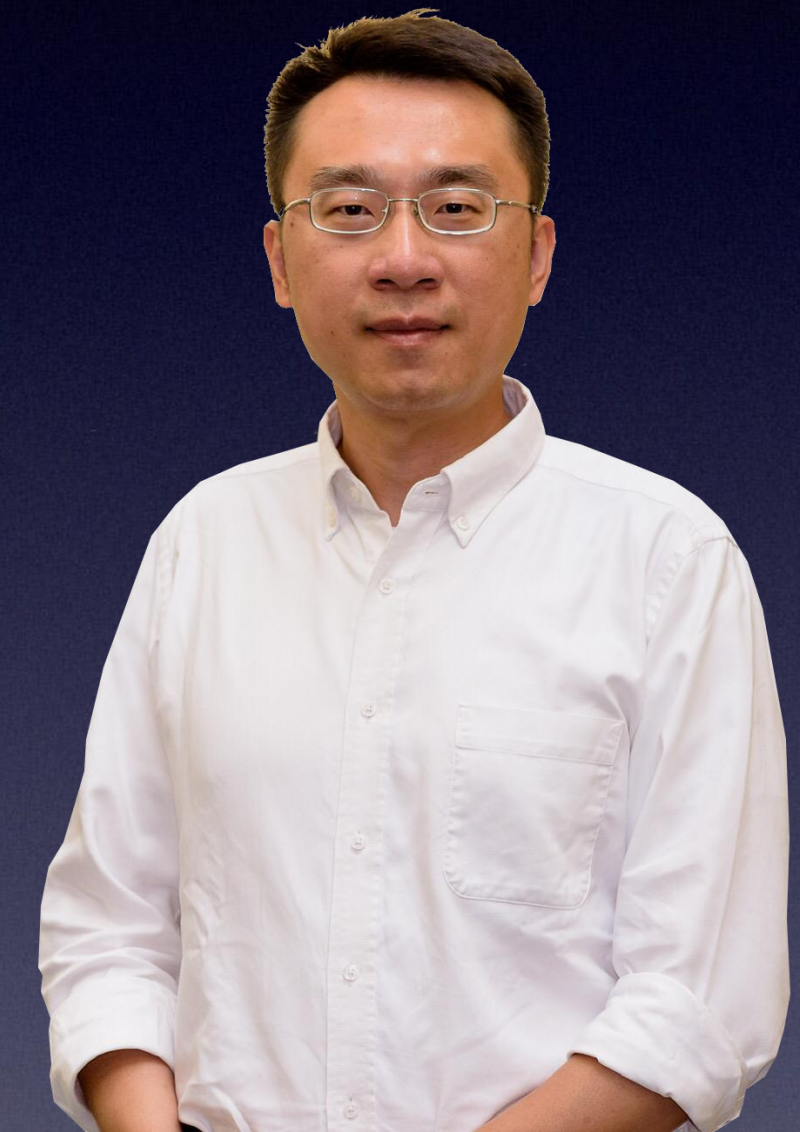
- Economic stimulus policies (fiscal and monetary policies),
- 5G related and other infrastructure investments,
- technological innovation,
- consumer related stimulus, e.g., in automobile industry

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Huang Shan

Deputy Managing Editor, Caixin Media



How Coronavirus Outbreaks May Shape China's External Relations

—— Huang Shan, Deputy Managing Editor, Caixin Media

Caixin's Timeline in Reporting on Virus Outbreak in China

1. Ran stories (print and web-based) on a number of pneumonia cases linked to unknown pathogen early January
2. Sent in advance team on Jan. 20 to the epicenter of the outbreak, which made Caixin one of the first Chinese media outlets to have reporters on the ground before the lockdown imposed on Jan. 23rd
3. Interviewed frontline medical workers to raise public awareness of the breadth and severity of the novel virus
4. Interviewed community worker to tell our readers what the life was like and how infections (including patients with mild symptoms or suspected patients) were screened and confirmed
5. Interviewed all stakeholders to see how medical supplies struggled to keep pace with the mounting demands in Wuhan and the rest of Hubei province
6. Draw attention to those who were left behind in the campaign against coronavirus, people who have chronic diseases, stranded migrant workers, and people living in senior nursing homes, among others
7. Reporting on the dilemma in balancing the urgent need to battle the virus and revive the economy

How the epidemic speeds up changes that has been happening

Before the epidemic

- The trade war along with other structural factors has kicked off relocations of some manufacturing facilities from China
- The Chinese leadership has begun their shift of focus from the US to other regions, particularly the EU
- China has already increased its stakes in int'l institutions and been active in UN-initiated activities
- The landmark project BRI has been slowing down in the wake of criticisms over debt traps and one-sided favors to Chinese contractors

After the epidemic

- The epidemic has highlighted the risks with the concentration of supply chains in China and the MNCs will diversify their suppliers at a quicker clip
- China will accelerate its strategic diversification and reduce its obsession with the US-China relations
- China will pursue closer int'l coordination with a focus on public health area, as evidenced by the intimate coordination between China and the WHO
- Stakeholders in the BRI including state-owned financial institutions and construction contractors will think twice before moving ahead. It calls for greater economic and financial sense to proceed with BRI projects



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