

## China: Revising GDP and yuan forecasts

China's recovery has started and looks sustainable because domestic demand has returned amid fewer Covid-19 cases. This leads us to revise our GDP forecast up to 2.5% year-on-year and our yuan forecasts up to 6.70, but the technology war is still the biggest risk to the economy



Woman wearing a face mask to help curb the spread of Covid-19 as her friends prepare to set up a picnic cloth on a scenic mountain in Yanqing, outskirts of Beijing, China

Source: Shutterstock

### Domestic driven demand

Recent data shows that domestic demand in China has risen, creating more jobs. Joblessness, by our estimate, is still high at around 7%, but it has fallen from a peak of 10% when Covid-19 cases were still high.

Due to low Covid-19 cases in China, the government is now allowing cross-provincial travel and the policy has helped support retail sales. New orders in PMIs from manufacturing to non-manufacturing have also increased.

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*Net exports should no longer be the sole engine of GDP growth in 3Q20*

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Industrial profits grew 19.6% year-on-year in July. Though we anticipated that some profit growth would follow on from low energy costs, this data also implies that the speed of GDP growth could also increase.

We don't think GDP growth in the third quarter will rely on big net export growth of 8.8% YoY as in 2Q20. The surge in 2Q20 was mainly a result of very weak import growth. As domestic demand picks up, we expect import growth will also pick up. Net exports should no longer be the sole engine of GDP growth in 3Q20.

## Revising GDP forecasts

We have revised our GDP growth forecast for 3Q20 to 2.5% YoY from 0.5% YoY, due to better than expected data. But growth in 4Q20 is revised down a bit from 5% YoY to 4% YoY due to potential escalation in the technology war.

The full-year forecast for GDP is 0.7% up from the previous 0.5%.

## Lockdown scenario

China has had frequent lockdowns due to its vast geographical area and a policy which prefers to lock down early rather than adopt a wait-and-see approach.

During these lockdowns, the strictest social distancing measures have been applied. This means that China falls into our scenario B as a base case rather than A, which is less strict when handling Covid-19 cases.

In Hong Kong, scientists reported the case of a man who became reinfected with Covid-19 after travelling to Europe - the first documented case of reinfection in the world. This means a single vaccine may not be able to stop people from getting Covid-19 again, especially when travel restrictions are relaxed. With China now allowing cross-provincial travel, this could mean the country needs to see the development of several vaccines to keep Covid-19 at bay.

## USD/CNY forecast at 6.7

As a result of the quick softening in the US dollar, our previous USD/CNY forecast is out of scope.

We believe the weakness of the dollar will continue irrespective of who wins the US presidential election, which means a further strengthening of the CNY against the dollar is more likely than a flat trend from now to the end of the year.

We are revising USD/CNY to 6.70 from the previous 6.97 at the end of 2020.