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China's economic recovery quickens in 3Q 2020

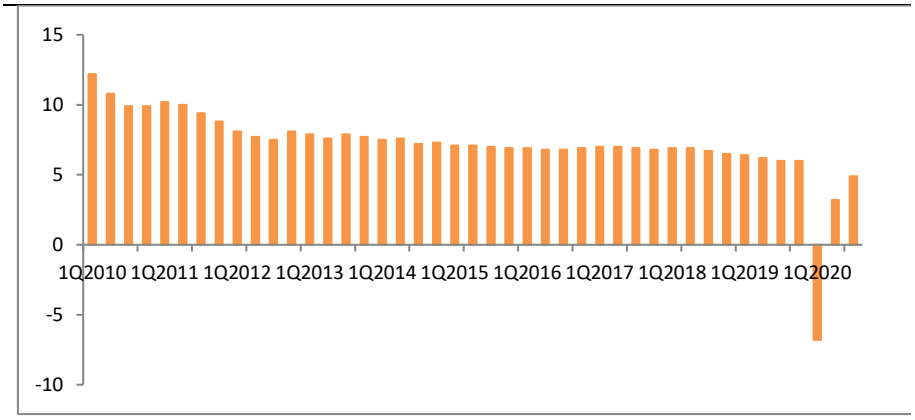
- **China 3Q20 GDP grew 4.9% yoy**
- **Tech-related industries push China's industrial output higher**
- **Consumption growth shows encouraging factors**
- **FAI flips to positive in first three quarters**
- **Unemployment challenges as urban surveyed unemployment rate edged lower**
- **China remains on the road to recovery**

China's economy grew by 4.9% yoy in 3Q20, accelerating from growth of 3.2% yoy growth in 2Q20 as a shaky recovery from the coronavirus pandemic gathered strength. However, GDP growth was lower than consensus forecast of 5.5% yoy. Still, the world's second-largest economy has recovered strongly after shrinking by 6.8% in 1Q20 – the first official contraction since the end of the Cultural Revolution in 1976 – due to the lockdown efforts aimed at stemming the tide of the coronavirus pandemic. Underpinning the recovery has been an aggressive containment of the deadly coronavirus that has allowed factories to quickly reopen and capitalise on a global rush for medical equipment and work-from-home technology - a dynamic that helped exporters win record market share in the seven months to July. The stronger growth in 3Q20 was led by strength in industry driven by robust investment and exports.

On a quarter-on-quarter basis, GDP rose 2.7% in 3Q20, compared with 11.5% rise in the previous quarter. For the first nine months of the year, the economy grew by 0.7% from the same period of 2019.

The recovery was broad-based across the three key industries. However, tertiary industry recovery continued to lag expectation at 4.3% yoy (2Q20: 1.9% yoy) while the secondary industry stood out with a growth of 6.0% yoy (2Q20: 4.7% yoy), the fastest pace since 1Q19. Primary industry growth edged higher to 3.9% yoy from 3.3% in 2Q20. Overall, the services, or tertiary, sector of the economy recovered more slowly than the primary and secondary sectors, which respectively refer broadly to agriculture and manufacturing. Out of the three categories, the services sector has grown the fastest for the last few years, but has lagged so far in 2020, up 0.4% in the first three quarters of the year versus 2.3% in the primary sector and 0.9% for the secondary.

Chart 1: GDP Growth (YoY, %)



Source: Bloomberg, BIMB Securities

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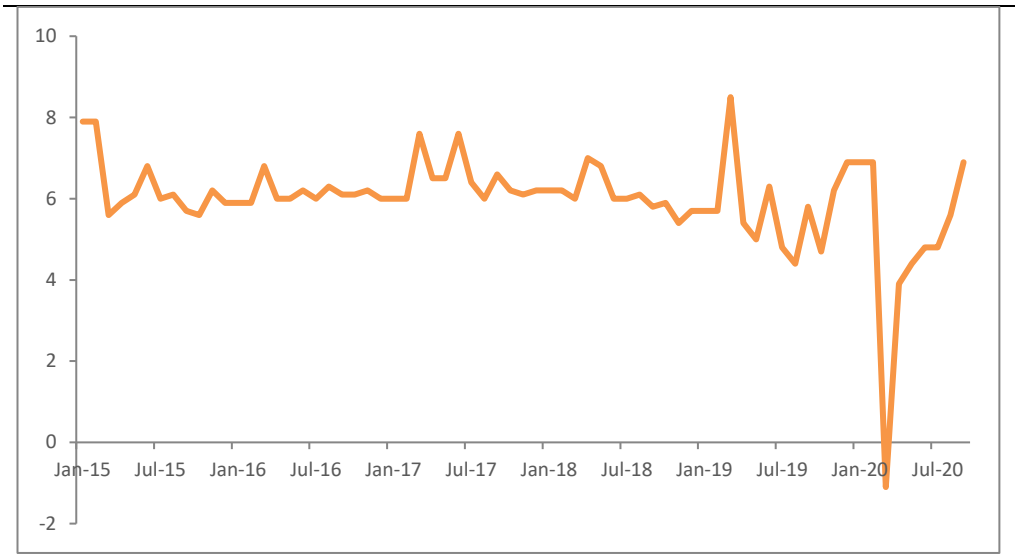
Tech-related industries push China's industrial output higher

Industrial production, a gauge of activity in the manufacturing, mining and utilities sectors, grew by 6.9% yoy in September after a 5.6% rise in August. Within September's figures for industrial production, output from China's mining sector rose 2.2% yoy. Output for the manufacturing sector – the biggest component within industrial production – rose 7.6% yoy, while the utilities sector also rose 4.5% yoy in September. Tech-related industries contributed to most of the growth. Industrial robots soared +51.4% yoy. That was a lot faster than 18.2% yoy YTD in September. Meanwhile integrated circuits gained +16.4% yoy, which was also faster than 14.7% yoy YTD. Other parts of industrial production grew steadily but were not particularly eye-catching. Industrial production grew 1.2% for the first nine months of the year compared to -1.3% yoy in the first half of the year.

Chart 2: Industrial Output (YoY, %)



Source: Bloomberg, BIMB Securities

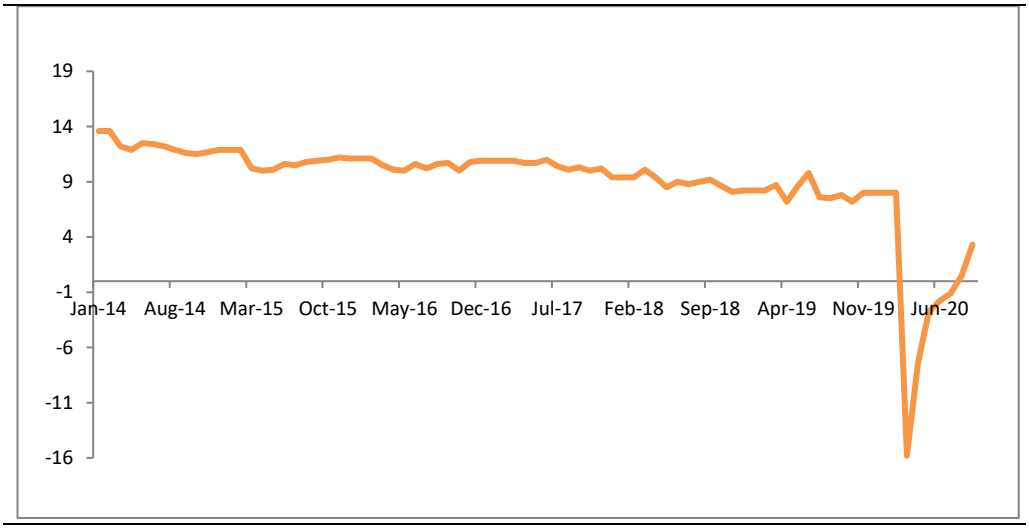
Consumption growth shows encouraging factors

Retail sales, a key measurement of consumer spending in the world's most populous nation, grew by 3.3%, improving further from the 0.5% increase in August. This brought a 0.9% increase in the third quarter. For the first nine months of the year, retail sales contracted 7.2%. During those three quarters, online sales of goods rose 15.3% from a year ago, accounting for 24.3% of retail sales.

August's growth in retail sales was the first expansion this year, as consumer spending recovered more slowly than other areas of the economy. The big jump in September shows that consumption has further stabilised, and there was also evidence of more spending from the business side and now it seems to have momentum, with imports also rising by 13.2% yoy in September, up from a 2.1% contraction in August, sending monthly inbound shipments to an all-time high of USD203bn. One reason for the improvement can be government's promotion of cross-provincial travel which led to spending on tourism services as well as other consumer discretionary.

YTD, retail sales were still in contraction of -7.2% yoy, albeit narrowing from -11.4% yoy in the first half. But e-commerce sales rose 9.7% yoy YTD.

Chart 3: Retail Sales (YoY, %)



Source: Bloomberg, BIMB Securities

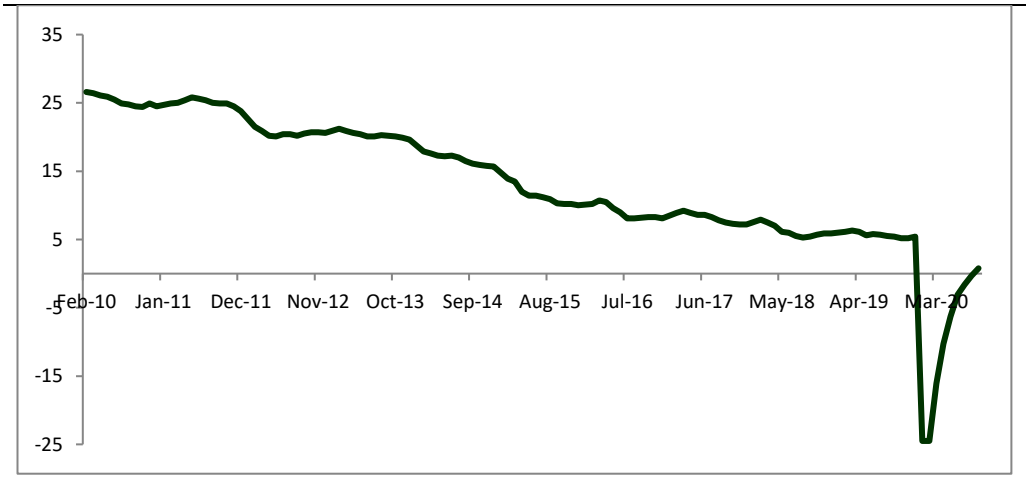
FAI flips to positive in first three quarters

China's fixed-asset investment (FAI), a gauge of spend on infrastructure, property, machinery and equipment, rose CNY43.65tn or up 0.8% in the first nine months of the year, an increase from the 0.3% decline in the first eight months. This marks the first month in which the year to date growth has turned positive.

For September alone, FAI grew +7.5% yoy, moderating from +8.1% in August. Real estate investment, soaring +5.6% yoy in the first 9 months, continued to accelerate. After returning to the expansionary territory in June, real estate investment growth has been accelerating every month. While real estate investment has been providing substantial contribution to economic growth, this has also raised concerns of demand/supply imbalance as investors might remain cautious in light of uncertainty about the development of the pandemic.

Property prices are vital to the financial health of property developers. The market is now in positive sentiment, which is good. But another round of COVID-19 globally will certainly dampen China's exports. And this might also weigh on prospective property investors' appetite for property investments with investors more cautious about committing cash to illiquid investments like property, and maintaining higher precautionary balances. Therefore, they might be reluctant to participate in illiquid investments at the current market situation.

Chart 4: Fixed Asset Investment YTD (% YoY)



Source: Bloomberg, BIMB Securities

Unemployment challenges as urban surveyed unemployment rate edged lower

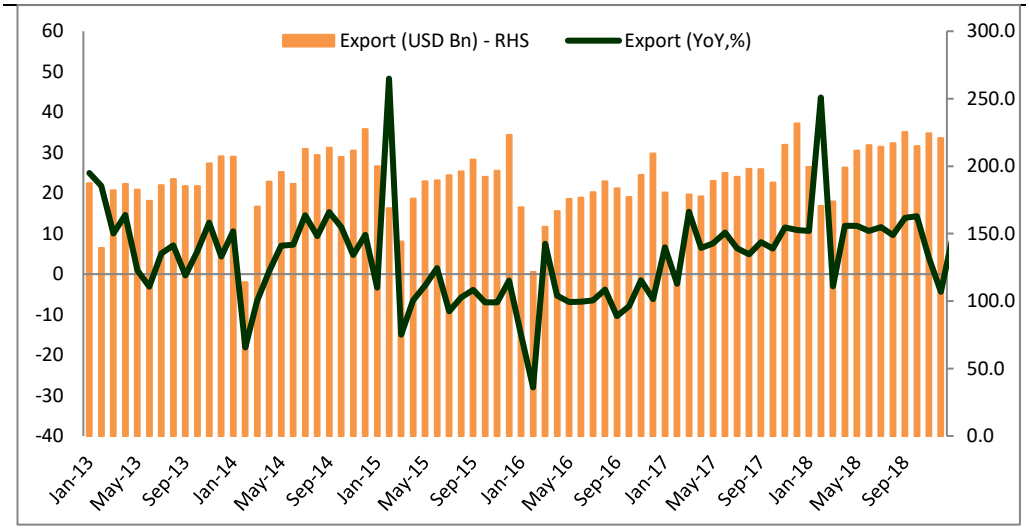
The surveyed jobless rate in urban areas stood at 5.4% in September. This was down from 5.6% in August and the peak of 6.2% in February. China's government has set a target of creating 9 million new urban jobs in 2020, compared with 11 million last year, and maintaining a surveyed urban unemployment rate of around 6.-%, compared with 5.5% last year. In 2019, China created 13.52 million new urban jobs. However, while this is an indicator of the unemployment rate in a certain segment of the urban population, analysts do not view it as an accurate depiction of the overall employment situation, partly because it excludes millions of migrant workers.

For the key group of recent university graduates, the pressure on employment is still relatively high. An unspecified unemployment rate for 20- to 24-year-olds holding at least a college degree — primarily new graduates — was 4 percentage points higher in September than a year ago, despite falling slightly from August. In addition, about 3.8 million fewer migrant workers from rural parts of China had returned to their jobs in cities by the end of September, versus the same period last year, a decline of 2.1%.

Meanwhile, data released earlier highlighted that China's trade economy continued to grow strongly in September. China's exports maintained strong growth in September while imports reversed two preceding months of contraction with a surprise surge. In USD-terms, exports were up 9.9% yoy (Aug: +9.5%) while imports unexpectedly surged by 13.2% yoy in September (Aug: -2.1%). The growth in exports was the strongest performance since March 2019, when exports expanded by 14.2%. It comes amid rising consumption abroad as markets reopened from coronavirus shutdowns, boosting China's shipments. As such, China's trade surplus narrowed to its lowest in six months at USD37.00bn from USD58.93bn in August. US accounted for a significant share of China's trade surplus in September, though it tapered to USD30.75bn from USD34.24bn in August.

Year-to-date, exports and imports were still in contraction at -0.8% yoy and -3.1% yoy respectively

Chart 5: Exports (% YoY)

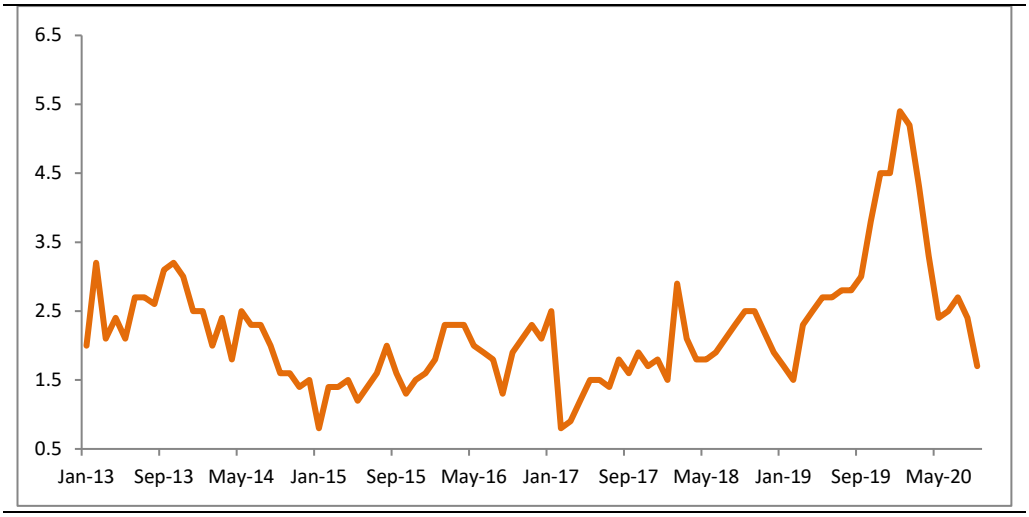


Source: Bloomberg, BIMB Securities

The inflation report earlier this month showed that China's consumer price index (CPI) moderated to 1.7% yoy in September (Aug: 2.4%). This is the slowest pace since February 2019 when the headline inflation registered 1.5% yoy. Similarly, on a month-on-month comparison, the CPI gains moderated to 0.2% from 0.4% in August. Core inflation (excluding food and energy) was unchanged for the third consecutive month at 0.5% yoy while services

inflation was only at 0.2% yoy in September. Overall, CPI was up 3.3% yoy in the first nine months of the year.

Chart 6: Inflation (% YoY)



Source: Bloomberg, BIMB Securities

Meanwhile, Producer Price Index (PPI) fell at a marginally larger pace of -2.1% yoy (Aug: -2.0%). This was the 14th month of decline out of 15 months. However, the month-on-month gains continued into the fourth straight month though the pace moderated to 0.1% in September from 0.3% in August. Headline PPI deflation is likely to continue for the rest of the year but may narrow with firming global demand and commodity prices. Year-to-date, China's PPI fell 2.1% yoy.

Table 1: China's key macroeconomic data (YoY, %)

Indicators	3Q20			2Q20		
GDP % y-o-y	**4.9**			**3.2**		
GDP % q-o-q sa	**2.7**			**11.5**		
Primary Industry	**3.9**			**3.3**		
Secondary Industry	**6.0**			**4.7**		
Tertiary Industry	**4.3**			**1.9**		
	Sep	**Aug**	**Jul**	**Jun**	**May**	**Apr**
Industrial Output	6.9	5.6	4.8	4.8	4.4	3.9
FAI YTD	0.8	-0.3	-1.6	-3.1	-6.3	-10.3
Retail sales	3.3	0.5	-1.1	-1.8	-2.8	-7.5
PMI NBS	51.5	51.0	51.1	50.9	50.6	50.8
PMI Caixin/Markit	53.0	53.1	52.8	51.2	50.7	49.4
CPI	1.7	2.4	2.5	2.5	2.4	3.3
PPI	-2.1	-2.0	-2.4	-3.0	-3.7	-3.1
Exports (% yoy)	9.9	9.5	7.2	0.5	-3.2	3.4
Imports (% yoy)	13.1	-2.1	-1.4	2.7	-16.6	-14.2
Trade Balance (USD'bn)	37.0	58.9	62.3	46.4	63.0	45.2

Source: National Bureau of Statistic, Bloomberg, BIMB Securities Research

China remains on the road to recovery

China's economy expanded by 4.9% in 3Q20 after rising by 3.2% in 2Q20. That makes it the only major country to recover for two straight quarters. The impressive growth was spread across all sectors, with fixed asset investments rising by 0.8% and industrial production rising by 6.9%. Exports also continued to rise as demand from foreign companies increased.

Despite the weaker-than-expected GDP performance, output expanded 0.7% in the year to date, compared to a contraction of -1.6% yoy in the first half of 2020, meaning that the world's second-largest economy regained all the ground it lost in the first half. Strong import growth in the third quarter may have dented the GDP number while still being a positive sign for overall output. However, that should not be viewed negatively, as strong growth in imports reflected recovery in underlying economic growth is strengthening.

The International Monetary Fund (IMF) said China's economy would grow by 1.9% this year, an upgrade of 0.9 percentage points from June's forecast, making it the only G20 economy projected to expand this year. The IMF said China's growth will accelerate to 8.2% next year. Meanwhile, the World Bank has just lifted its forecast for Chinese GDP growth in 2020, as the economy continues to convalesce from the impacts of the COVID-19 pandemic. According to its latest round of economic forecasts for the East Asia and Pacific region, the World Bank sees the Chinese economy growing by 2% in 2020. The World Bank also forecasts Chinese GDP growth of 7.9% in 2021, based on expectations of the development of an effective COVID-19 vaccine

The numbers are not a surprise because of China's successful containment of the COVID-19 pandemic and the government's effective policies in reversing the economic downward trajectory created by the virus. Household consumption should return to growth in fourth quarter and become a more important growth driver next year than in 2020.

Although China's 3Q20 GDP growth fell just short of the consensus but the growth rate was in fact quite good. Domestic demand in the last two months saw stronger pick-up and this could lead to a greater prospect for the GDP growth in 4Q20. The result of a stronger-than-expected recovery of the domestic recovery and factoring in a stronger GDP growth in 4Q20 we expect a full-year 2020 GDP growth at 1.8%

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BUY	Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.
TRADING BUY	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.
HOLD	Share price may fall within the range of +/- 10% over the next 12 months
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SELL	Share price may fall by more than 10% over the next 12 months.
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OVERWEIGHT	The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months
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