

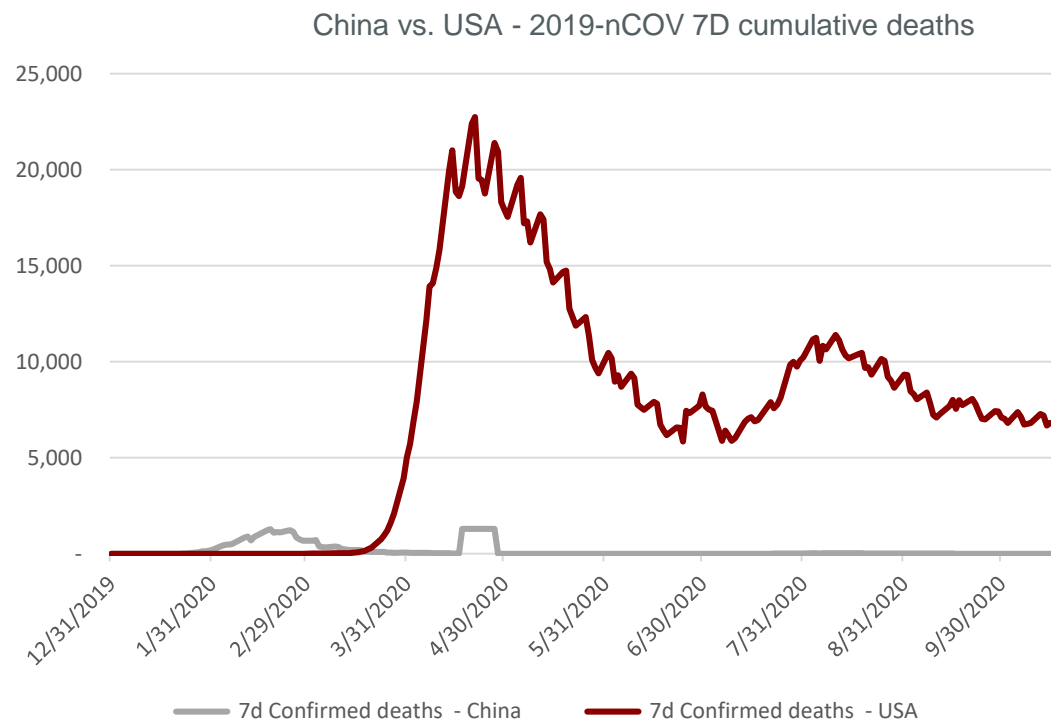
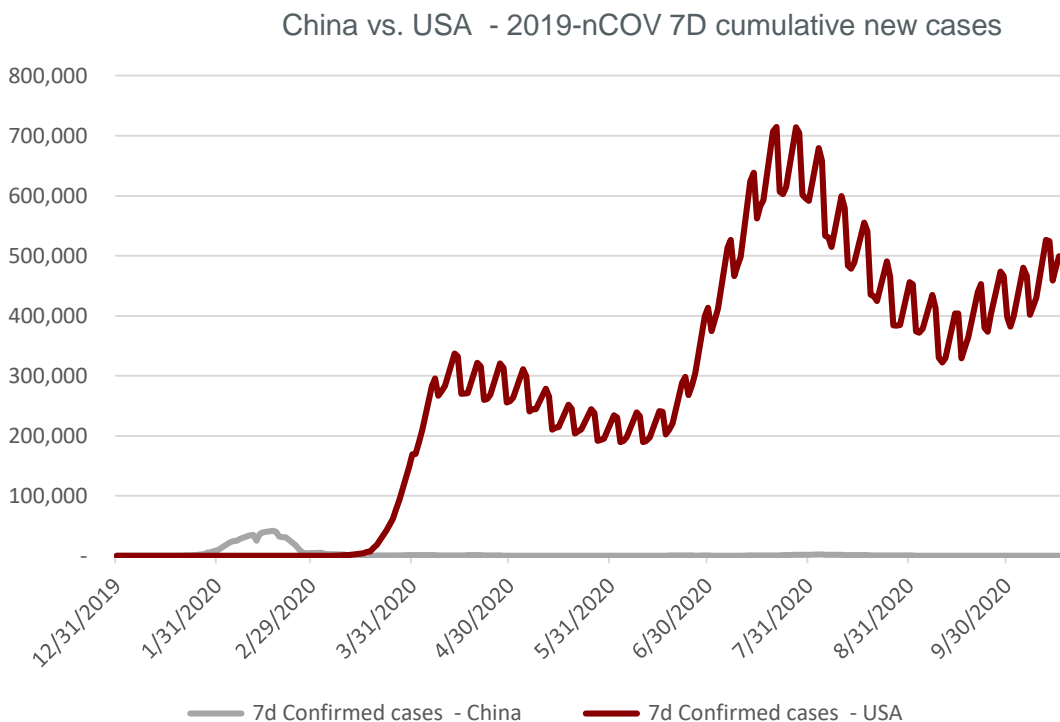


BANQUE  
ERIC STURDZA

# INVESTMENT FOCUS : CHINA TIME TO LOOK EAST, WHEN EVERYONE IS LOOKING WEST?

# MANAGING THE COVID-19 PANDEMIC

## CHINA VS. USA, A SHARP CONTRAST



Source Bloomberg ,WHO, Banque Eric Sturdza

- **China** : 18.2% of world population, 0.25% of total COVID-19 cases and 0.5% of total deaths
- **USA** : 4.3% of world population, 20.2% of total COVID-19 cases and 20% of total deaths

# THE COVID-19 PANDEMIC

## CHINA STANDING OUT

- China's figures should be taken with caution as Chinese authorities have been rightly criticized for their communication and lack of transparency surrounding the COVID-19 pandemic, but the sharp contrast with the US and the EU remains
- China is also at the forefront of the **testing activity**. In Qingdao, the whole population – 9mln people / more than the Swiss population – has been tested over a 5-day period, because of a new cluster of a dozen cases.
- **4 out of 11** vaccine research programs in Phase III or approved for limited use have been developed by or in partnership with Chinese research institutes

Vaccine programs in Phase III

Developer / Manufacturer	Vaccine platform	Clinical Stage
Gamaleya Research Institute	Non-Replicating Viral Vector	PIII / Approved for early use
Sinovac	Inactivated	PIII / Limited Approval
Wuhan Institute of Biological Products / Sinopharm	Inactivated	PIII / Limited approval
Beijing Institute of Biological Products / Sinopharm	Inactivated	PIII / Limited approval
CanSino Biological Inc. / Beijing Institute of Biotechnology	Non-Replicating Viral Vector	PIII / Limited approval
University of Oxford / Astra Zeneca	Non-Replicating Viral Vector	PII/PIII
Johnson & Johnson / Beth Israel Deaconess Medical Center	Adenovirus 26	PIII
Janssen Pharmaceutical Cies	Non-Replicating Viral Vector	PIII
Novavax	Protein Subunit	PIII
Moderna / NIAD	RNA	PIII
BioNTech/Fosun Pharma /Pfizer	RNA	PII/PIII

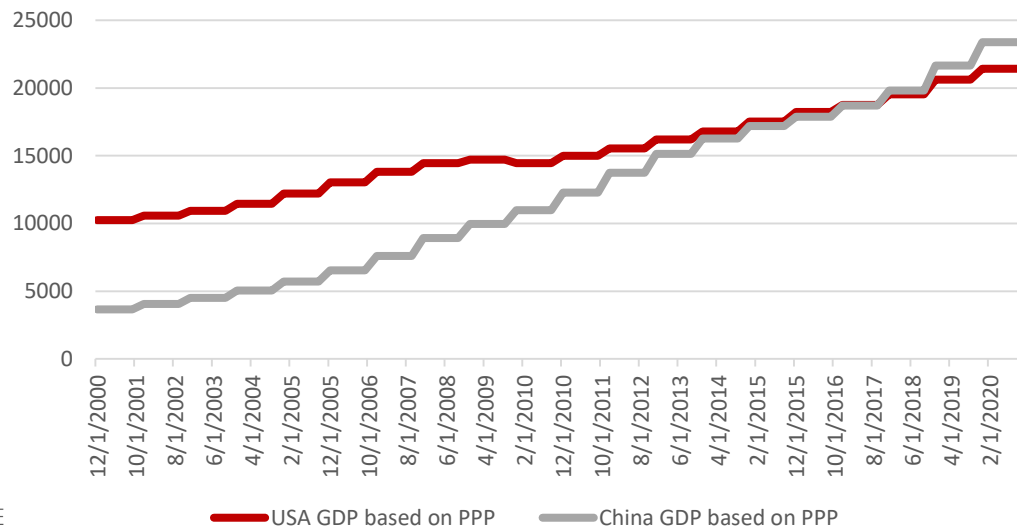
Source WHO, Banque Eric Sturdza

# USA vs. CHINA

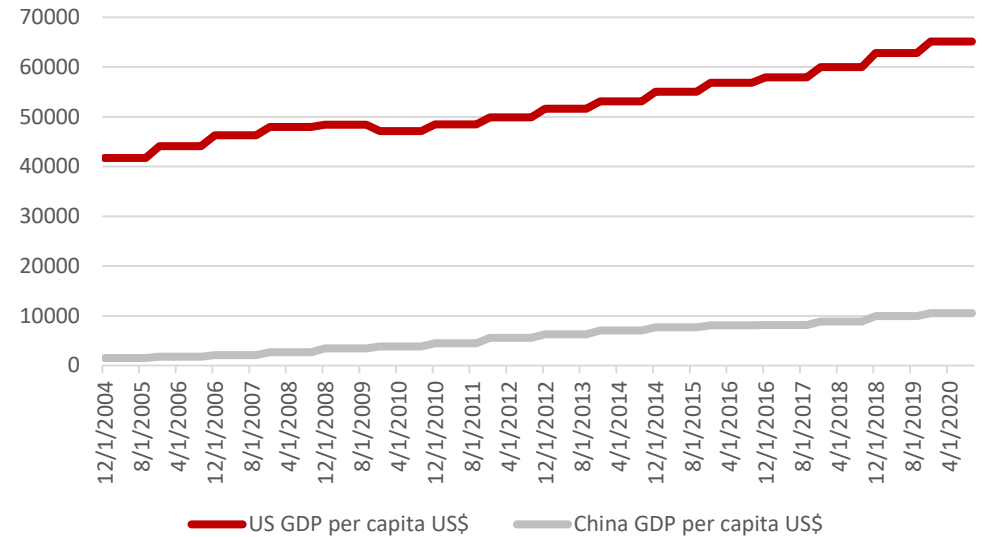
## THE RACE TOWARDS WORLD LEADERSHIP

- The United States remains the biggest economy based on GDP. China is 2<sup>nd</sup> and closing the gap.
- Based on purchasing power parity, China already outpaced the US.
- On a GDP per capita, China is clearly lagging, even if the aggregate figure is masking disparities between regions.

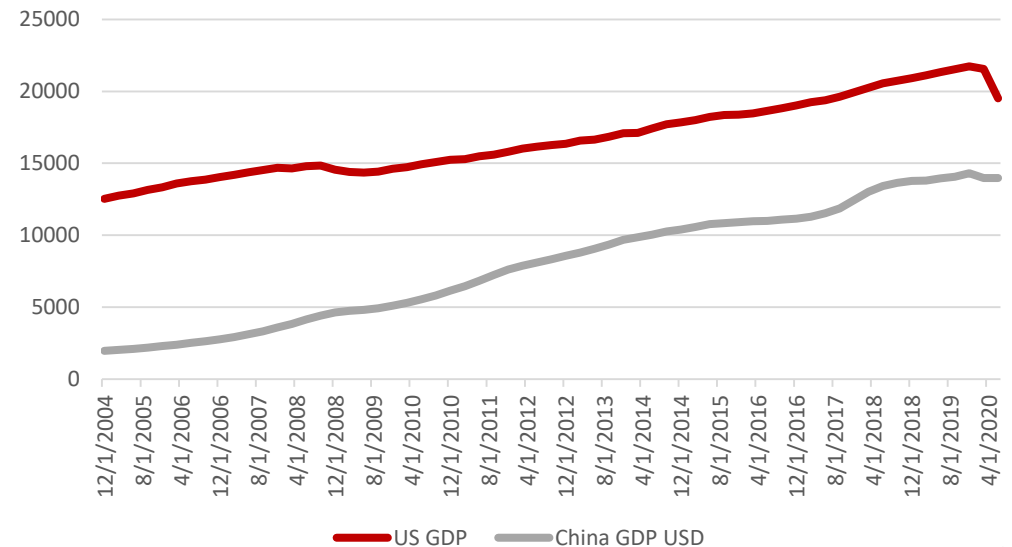
US vs. China – GDP in US\$ PPP



US vs. China – GDP per capita in US\$



US vs. China – GDP in US\$



# COVID-19 TRIGGERED RECESSION

## CHINA: FIRST IN, FIRST OUT !

- China has been the first country entering into a COVID triggered recession and the first one to exit from it
- China is expected to be the **only economy** from the G20 to have a **positive growth in 2020**
- Looking beyond 2020, the economic recovery profile of China in 2021 is expected to be one of the strongest.

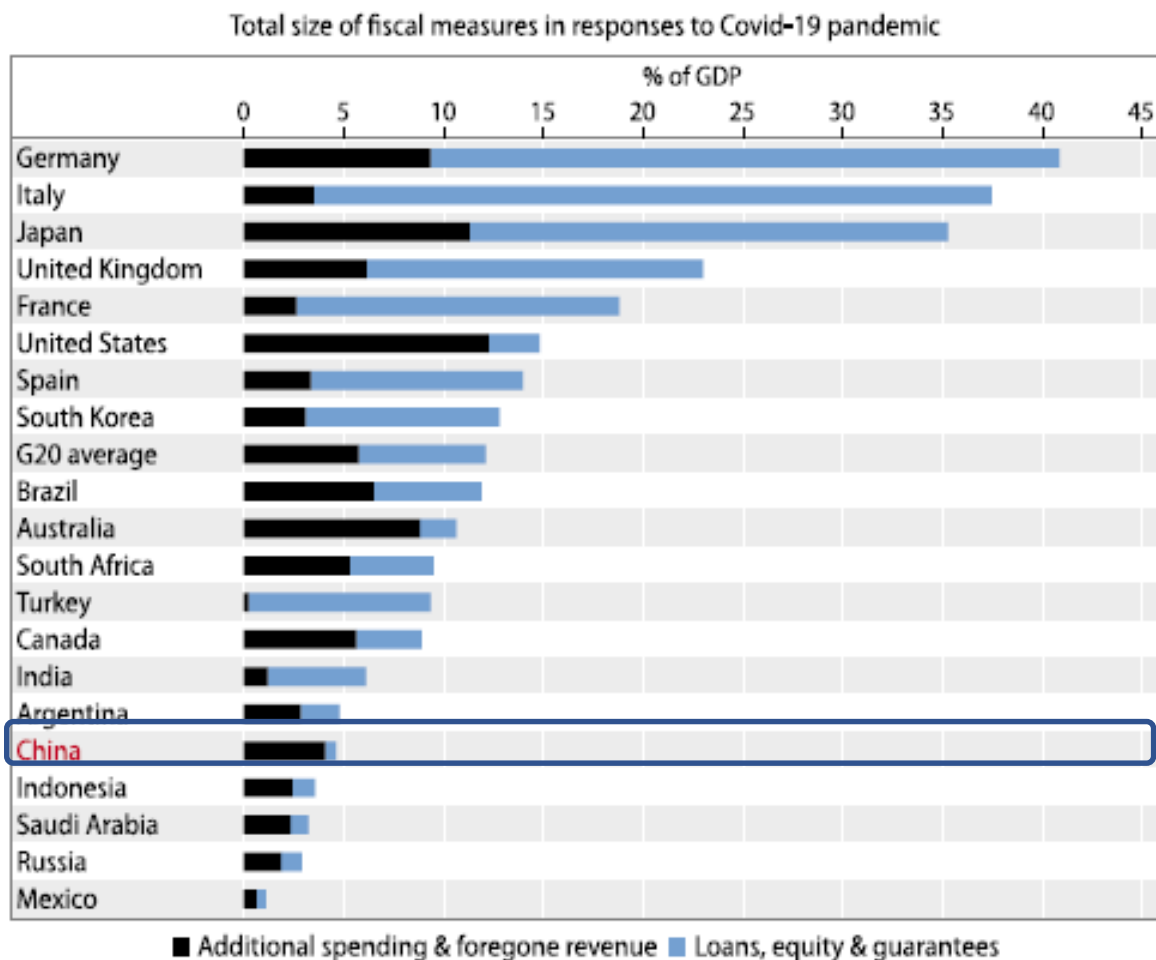
GDP Growth forecasts

	2017	2018	2019	2020-2021				
				2020e	Q1	Q2	Q3e	2021e
<b>World</b>	3.8%	3.6%	2.9%	<b>-4.4%</b>				<b>5.2%</b>
<b>USA</b>	2.2%	2.9%	2.3%	<b>-4.3%</b>	-1.3%	-7.9%	5.3%	<b>3.1%</b>
<b>Euro Zone</b>	2.4%	1.9%	1.3%	<b>-8.3%</b>	-3.6%	-12.1%	8.2%	<b>5.2%</b>
- Germany	2.2%	1.4%	0.6%	<b>-6.0%</b>	-2.0%	-9.7%	6.1%	<b>4.2%</b>
- France	2.3%	1.7%	1.5%	<b>-9.8%</b>	-5.9%	-13.8%	11.8%	<b>6.0%</b>
- Italy	1.7%	0.9%	0.3%	<b>-10.6%</b>	-5.5%	-12.8%	7.9%	<b>5.2%</b>
- Spain	3.0%	2.6%	2.0%	<b>-12.8%</b>	-5.2%	-18.5%	10.3%	<b>7.2%</b>
<b>Switzerland</b>	1.7%	2.5%	1.3%	<b>-5.3%</b>	-2.5%	-8.2%	6.0%	<b>4.2%</b>
<b>United Kingdom</b>	1.8%	1.4%	1.4%	<b>-9.8%</b>	-2.2%	-20.4%	14.0%	<b>5.9%</b>
<b>Japan</b>	1.9%	0.8%	0.7%	<b>-5.3%</b>	-0.6%	-7.0%	3.2%	<b>2.3%</b>
<b>High Growth markets</b>	4.8%	4.5%	3.7%	<b>-3.3%</b>				<b>6.0%</b>
<b>Asia ex Japan</b>	6.6%	6.4%	5.5%	<b>-1.7%</b>				<b>8.0%</b>
- China	6.8%	6.6%	6.1%	<b>1.9%</b>	-10.0%	11.5%	4.9%	<b>8.2%</b>
- India	7.2%	6.8%	4.2%	<b>-10.3%</b>				<b>8.8%</b>
<b>Latin America</b>	1.2%	1.0%	0.1%	<b>-8.1%</b>				<b>3.6%</b>
- Brazil	1.1%	1.1%	1.1%	<b>-5.8%</b>	-2.5%	-9.7%	5.3%	<b>2.8%</b>
- Mexico	2.1%	2.0%	0.9%	<b>-9.0%</b>	-1.2%	-17.1%	8.0%	<b>3.5%</b>
<b>Russia</b>	1.6%	2.3%	1.3%	<b>-8.1%</b>				<b>3.6%</b>

Source IMF, Bloomberg Banque Eric Sturdza

# FISCAL STIMULUS

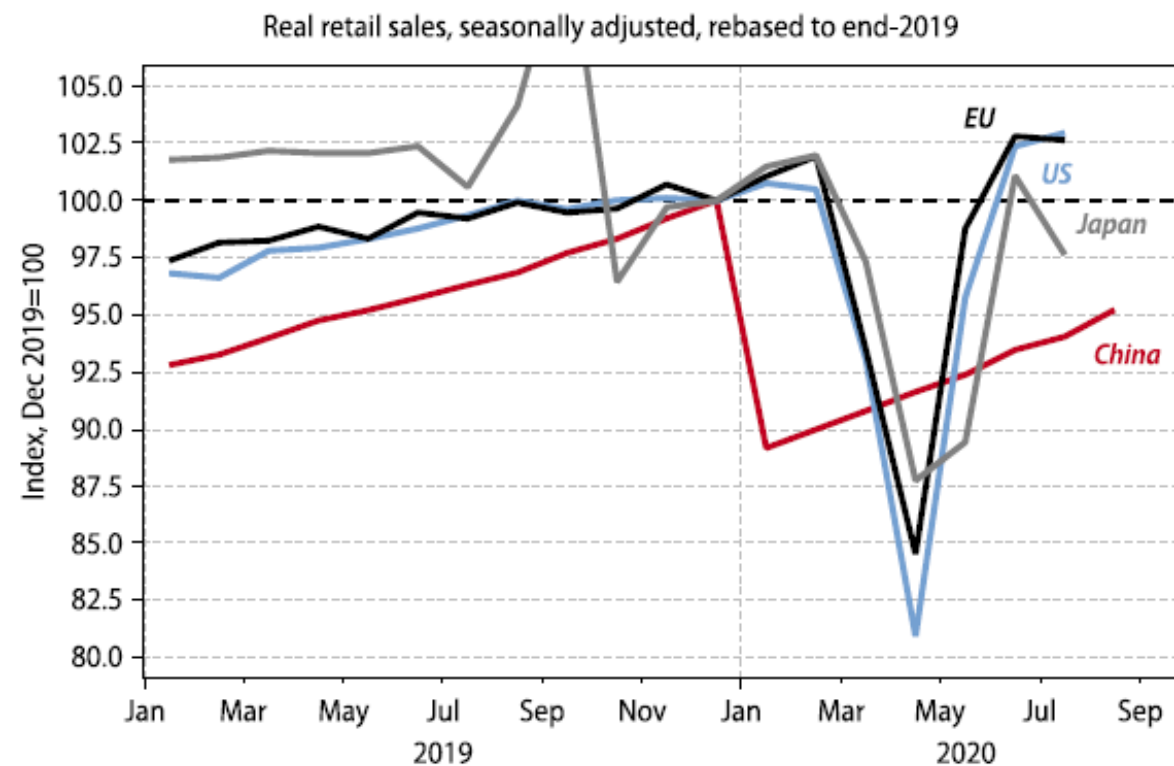
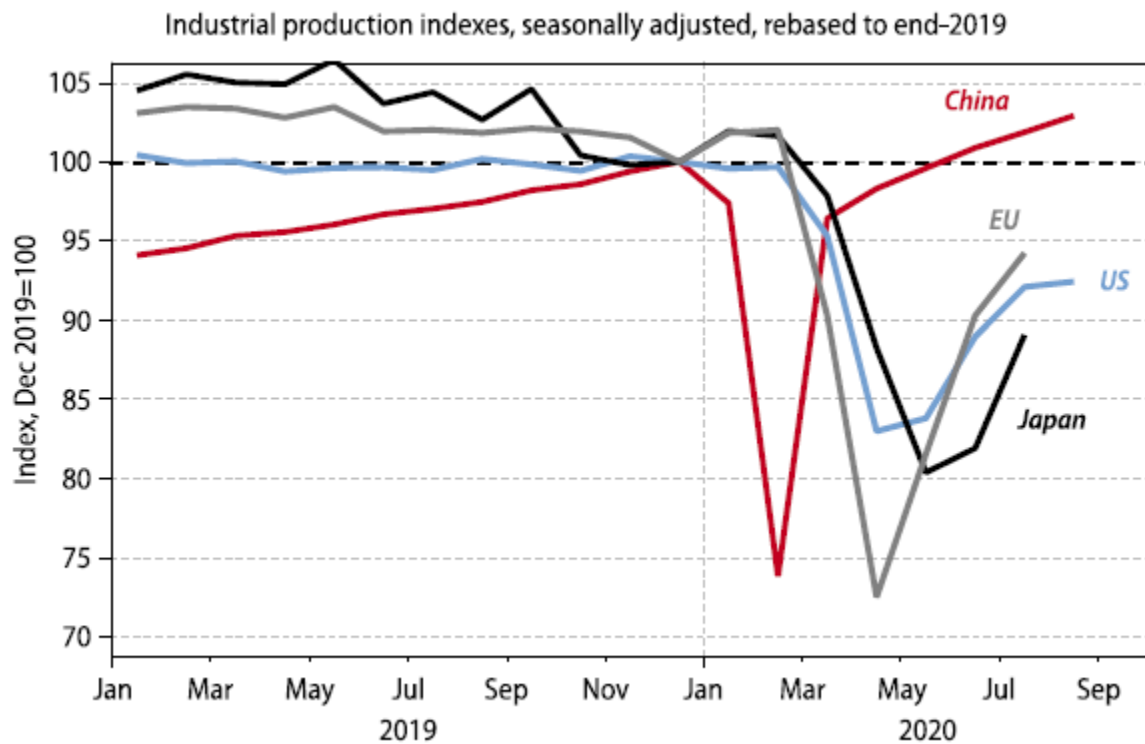
## WHAT IS DOING CHINA ?



- The Chinese economy being quite resilient, Chinese authorities have refrained themselves to commit to a large stimulus package. They kept some dry powder
- Chinese authorities have focused on targeted measures : corporate tax breaks, interest rate cuts, etc.
- Not willing to replicate 2008 mistakes, Chinese authorities shied away from big infrastructure spending that led to increased leverage at the corporate and local levels.
- The beneficiaries of the 2020 stimulus package may be different from 2008.

# THE CHINESE ECONOMIC RECOVERY

## SUPPLY VS. DEMAND, PICK YOUR BATTLE !

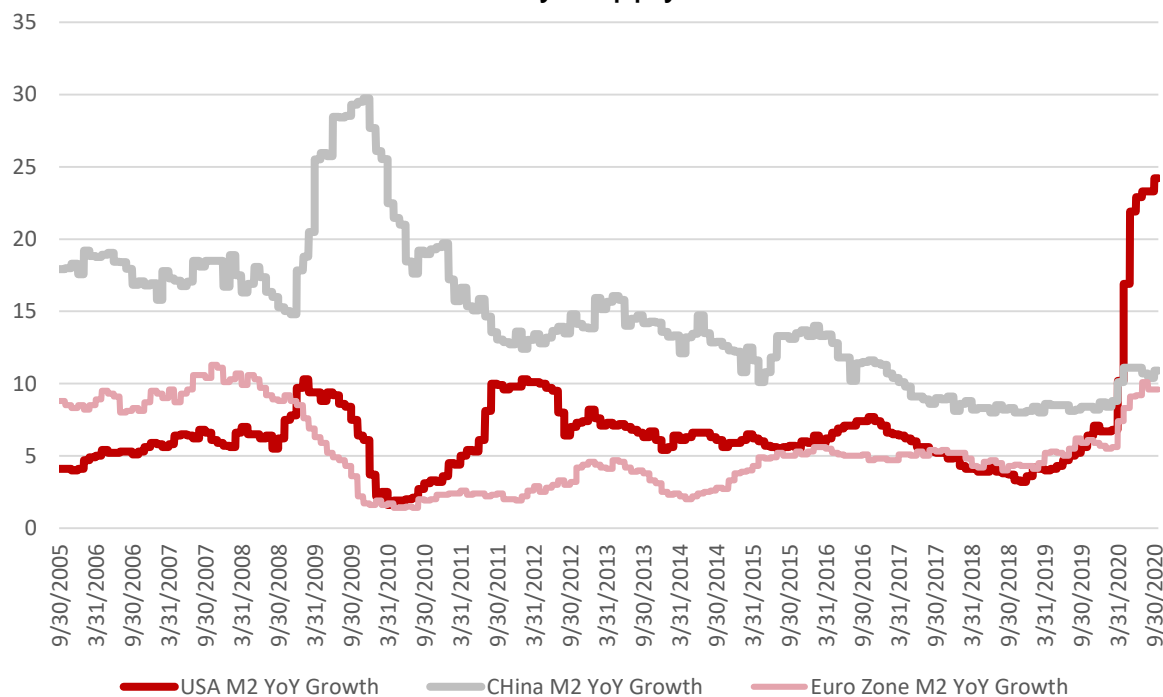


Source Gavekal Macrobonds

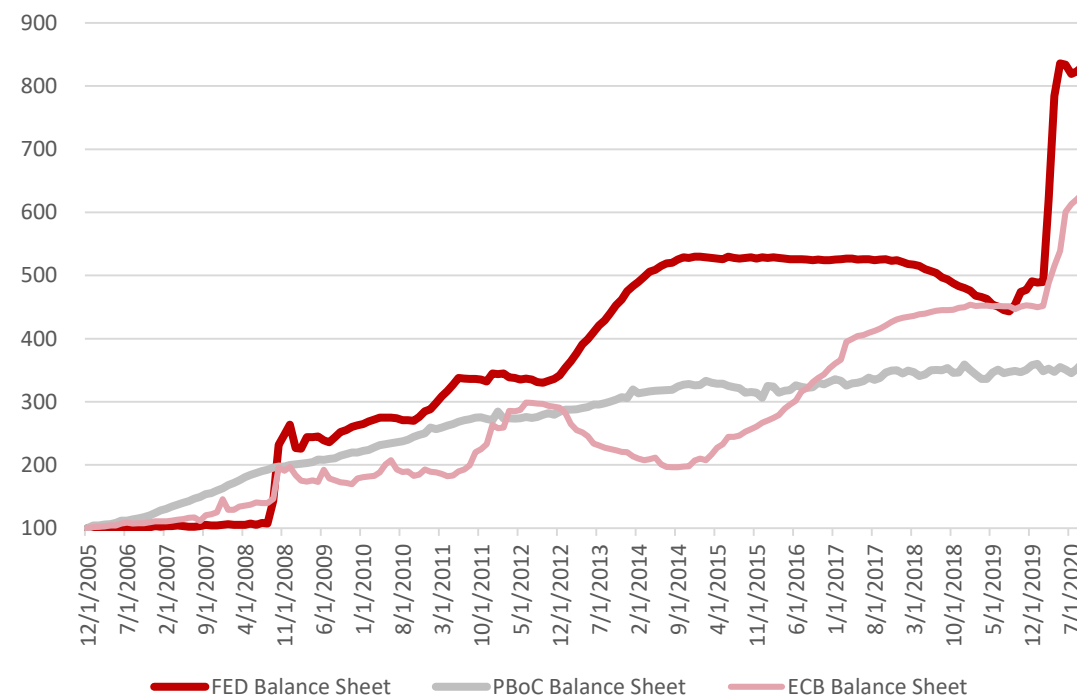
- The selective efforts led to a more pronounced recovery on the demand side of the economy. This quite a sharp contrast to developed markets where stimulus plans were more focused on households.

# MONETARY RESPONSE CHINA IN A GLOBAL CONTEXT

## Money Supply Growth



## Central banks – Balance Sheet



Source Bloomberg, Banque Eric Sturdza, base 100 as of Dec

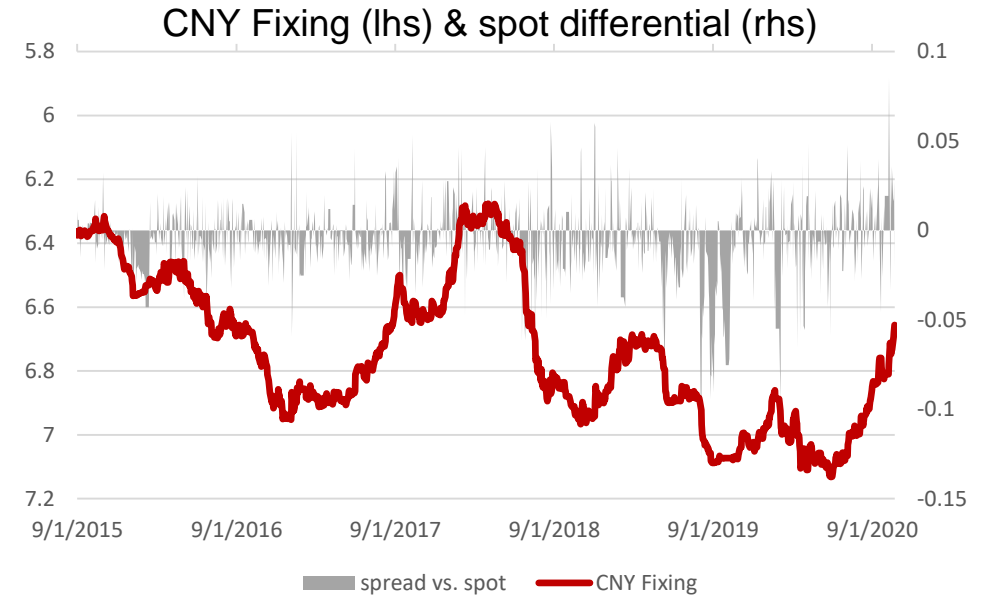
- Similarly to what happened on the fiscal front, China adopted a more moderate monetary response to the Coronavirus keeping some dry powder in case of further deterioration. Despite different starting points, the increase in PBoC's balance sheet was less material.



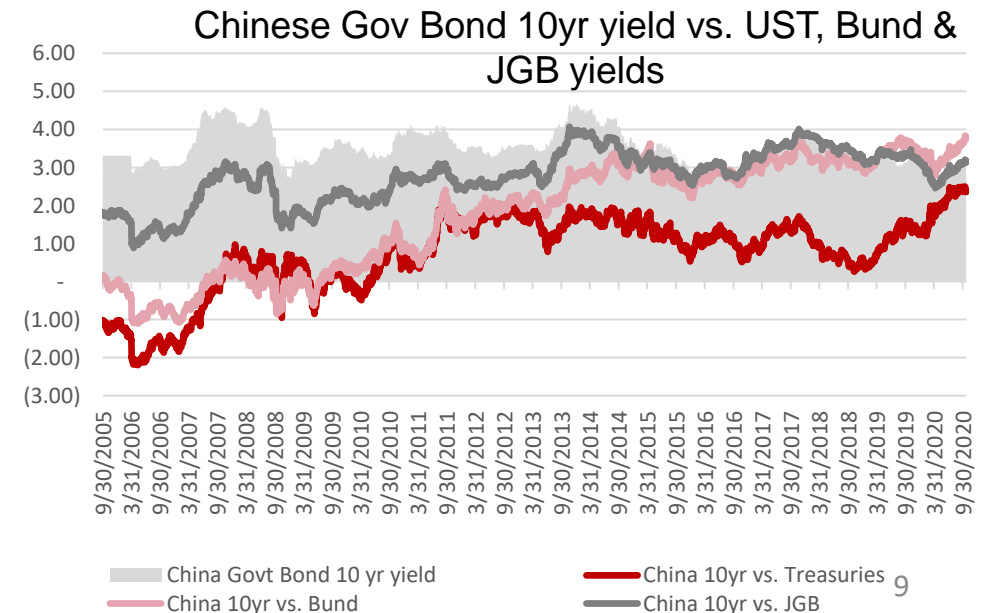
# THE CNY AND DOMESTIC BOND MARKETS

## ATTRACTIVE YIELDS AND CURRENCY

- Investors are getting used to ongoing US-China tensions. Stronger fundamentals and the Chinese willingness to deemphasize the USD in Asian and commodity trade should support a mildly constructive view on the Chinese currency.
- Chinese domestic bonds offer attractive yields, especially when comparing Chinese government bond yields with other countries. The attractiveness is also reinforced by the fact that China is the only country refraining from stimulating aggressively and as it is increasing the availability of Chinese assets to foreign investors.



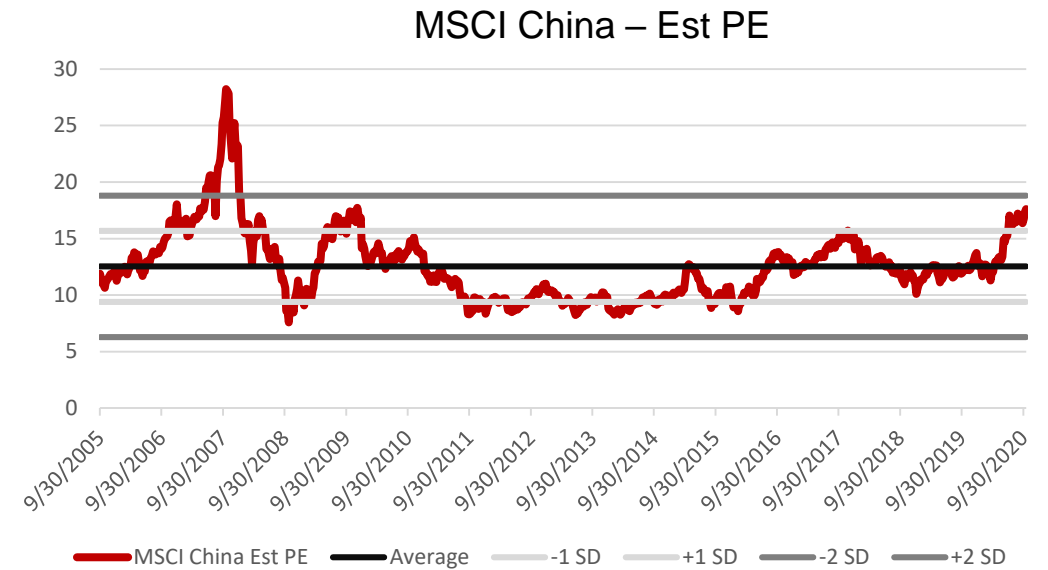
Source Bloomberg, Banque Eric Sturdza



# THE CHINESE STOCK MARKET

## A LOOK AT FUNDAMENTALS

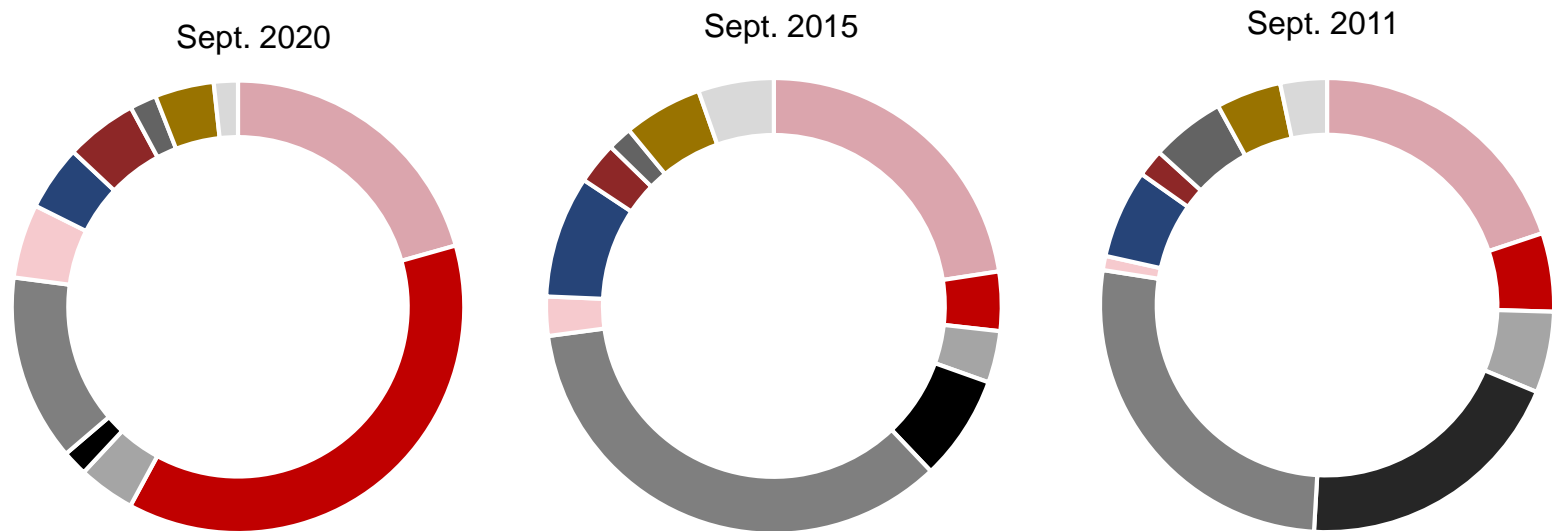
- Valuation metrics drifted higher on Chinese stocks - one standard deviation above long term average.
- A level consistent with the 2009-2010 recovery period, but far from the excess reached in 2006-2007.
- The price level appreciation has been partly matched by an increase in EPS. Post COVID-19, markets recovered on the back of expectations that earnings will recover in 2021.
- The index composition also partly explains the valuation differential with Alibaba and Tencent weighting 34% of the index.



# CHINESE STOCKS AN EVER EVOLVING MARKET...

## MSCI China – Sector breakdown & Top 10

- Communication Services
- Consumer Discretionary
- Consumer Staples
- Energy
- Financials
- Health Care
- Industrials
- Information Technology
- Materials
- Real Estate
- Utilities



TOP 10		TOP 10		TOP 10	
ALIBABA GROUP HOLDING	20.62	TENCENT HOLDINGS LTD	11.05	CHINA MOBILE LTD	11.57
TENCENT HOLDINGS LTD	14.14	CHINA MOBILE LTD	9.37	CNOOC LTD	5.81
MEITUAN DIANPING-CLASS B	4.14	CHINA CONSTRUCTION BANK	7.17	IND & COMM BK OF CHINA-H	5.77
JD.COM INC-ADR	2.47	IND & COMM BK OF CHINA-H	5.45	CHINA CONSTRUCTION BANK	5.73
CHINA CONSTRUCTION BANK	2.31	BANK OF CHINA LTD-H	4.38	PETROCHINA CO LTD-H	5.06
PING AN INSURANCE GROUP C	2.29	PING AN INSURANCE GROUP C	3.35	TENCENT HOLDINGS LTD	4.13
CHINA MOBILE LTD	1.47	CHINA LIFE INSURANCE CO-H	3.33	BANK OF CHINA LTD-H	3.57
NETEASE INC-ADR	1.40	CNOOC LTD	2.37	CHINA LIFE INSURANCE CO-H	3.48
BAIDU INC - SPON ADR	1.29	CHINA PETROLEUM & CHEMIC	1.98	CHINA PETROLEUM & CHEMIC	3.22
IND & COMM BK OF CHINA-H	1.17	PETROCHINA CO LTD-H	1.87	CHINA SHENHUA ENERGY CO-	2.66

# CHINESE ASSETS

## STILL UNDEROWNED BY INTERNATIONAL INVESTORS

### **CNY / CNH**

Despite the fact that China accounts for 20% of world GDP (PPP basis), the Chinese currency only represents **2.5%** of world trade settlement. China is pushing hard to deemphasize the USD in its commodity trading and with its Asian partners

### **Domestic Bonds**

The Chinese domestic bond markets are 2<sup>nd</sup> to the US ones, but they only represent a smaller share of world bond benchmark index : Less than **6%** of the Bloomberg Barclays Global Aggregate Index. Similarly to equity, bond index providers are gradually increasing the weighting of Chinese domestic bonds in their index.

### **Domestic Shares**

Similarly to domestic bonds, local shares (A Shares) are gradually included in worldwide equity indices. As a reference, A shares weigh less than **5%** of the MSCI Emerging Markets.

### **Chinese Stocks**

Despite being the 2<sup>nd</sup> world economy, Chinese / Hong Kong stocks only weigh **6.0%** in the MSCI All Countries World Index. As a reference, US stocks account for 57% of the index

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