# Market Bulletin

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## China's 2Q GDP and June economic data improve on post-COVID rebound

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As the domestic shock from COVID-19 faded, China reopened its economy in late February. Real economic growth momentum has recovered with a positive year-over-year growth in Gross Domestic Product (GDP) for 2Q 2020, and a quick rebound on a quarter-over-quarter basis. As **Exhibit 1** on the next page illustrates, real GDP growth rose 3.2% year-over-year, better than market expectations. Among sectors, while industrial production has largely normalized, services sectors (especially consumption services like retail sales) are appearing to take a little longer.

Looking forward, we expect to see continuous improvement in the upcoming quarters as domestic economic activities largely resume. Along with the increase in government-driven infrastructure investment, consumption might become a new growth driver. As domestic households have accumulated huge amounts of bank deposits for precautionary savings during the economic slowdown and pandemic, a fast recovery may be seen in consumption as their confidence improves. However, external demand may remain weak as a result of lockdown measures in the U.S. and Europe. This suggests sustained pressure on employment, which is currently the government's foremost policy priority.

In terms of policies, fiscal measures, including infrastructure investment, fiscal subsidies, and tax or fee reductions for enterprises, are still the major tools for the government. On the other hand, the People's Bank of China (PBoC) is continuing with its data-dependent approach in its supportive measures. The PBoC had cut its relending and rediscounting rates by 25 basis points at the end of June, hoping to push commercial banks' lending to small and medium-sized enterprises. However, market liquidity has remained tight since May, probably reflecting policy makers' cautious stance against an asset bubble.

China's economic activity show signs of improvement

**EXHIBIT 1: CHINA ECONOMIC ACTIVITIES**

| | Reported (% y/y) | Consensus (% y/y) | Previous (% y/y) | Same period 2019 (% y/y) |
|---|---|---|---|---|
| GDP (2Q 2020) | 3.2 | 2.4 | -6.8 | 6.4 |
| Industrial production (Jun. 2020) | 4.8 | 4.8 | 4.4 | 6.3 |
| Fixed asset investment (Jan.-Jun. 2020) | -3.1 | -3.3 | -6.3 | 5.8 |
| Retail sales (Jun. 2020) | -1.8 | 0.5 | -2.8 | 9.8 |
| Exports (Jun. 2020) | 0.5 | -2.0 | -3.3 | -1.3 |
| Imports (Jun. 2020) | 2.7 | -9.0 | -16.7 | -7.3 |

Source: Wind, China National Bureau of Statistics, J.P. Morgan Asset Management. Data reflect most recently available as of 16/07/20.

The recent stock rally might help relieve some pressure on the policy side. As households are putting their money into the market, it becomes easier for the corporate sector to raise funds through initial public offerings and refinancing. Meanwhile, the wealth effect could also lend some support to consumption. The major concern is a 2015-style quick expansion-burst cycle of the bubble. Therefore regulators are taking actions to crackdown on over-the-counter margin trading activities to prevent the market from becoming overheated.

## Investment implications

As uncertainties sustain in the global and local economy, it is essential for investors to maintain a diversified and balanced portfolio, particularly after the recent stock market rally. In equities, A-shares' valuations are still reasonable, but the recent quick rise might imply some pressure over the short term. On the other hand, Hong Kong stocks have lagged A-shares, and they might benefit from the rally on the mainland. The recent correction in the Chinese bond market has further pushed up yields, which are attractive for global investors.

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