China CITIC Bank International latest market outlook

Pandemic-hit global economy to plunge into first recession since financial tsunami

(Hong Kong: 4 May 2020) China CITIC Bank International Limited (the "Bank" or "CNCBI") today releases its latest market outlook with in-depth data showing that the global economies have been hit hard to varying degrees by the COVID–19 pandemic. In an optimistic baseline scenario where the pandemic is expected to be contained in the middle of 2020, the year's global GDP would shrink by 1.3%, contributing to a first global recession since the 2008-09 global financial tsunami. In turn, GDP growth of 2.4% is expected for mainland China in 2020, a contraction of 3.7 percentage points on the year whereas Hong Kong is expected to experience growth of -2.8% which indicates a recession deeper than that in the previous year which recorded a GDP growth of 1.2% also in the negative territory.

Mainland Chinese economy to see annual growth dip to 2.4%

In response to the pandemic-induced economic impacts, the Central Government implemented a series of easing policies and measures including targeted RRR (reserve requirement ratio) cuts, open market interest rate reductions, targeted fiscal aids and consumption stimulus. However, economic activities shrank dramatically in January and February, leading to a record drop in various economic indicators which may have improved significantly in March but still fell short of market expectations as threats of imported COVID-19 cases decelerated easing of virus curbs. The mainland economy suffered a dramatic decline of -6.8% in GDP growth in 1Q, which marked mainland China's first negative quarterly growth since the country's reforms and opening-up.

Dr Liao Qun, Chief Economist, CNCBI, says that the mainland's economic growth for the next 3 quarters this year hinges on the development of the pandemic locally and globally. In a baseline scenario where the pandemic is to be contained around mid-year, easing of mainland's containment measures can be expected to gain pace from May onwards with ramped up policy easing measures including across-the-board RRR cuts, reductions of benchmark interest rates for deposits and loans, further tax slashes, accelerated infrastructure investment and various targeted easing in a move to fuel complete recovery in production, supply, consumption and demand. Prevailing risks of imported COVID-19 cases are however slowing the pace to lifting restrictions and economic recovery. Worse-off pandemic development in other countries also hinder recovery of external economic activities. The market will need to keep an eye on the pandemic as well as other risk factors such as a US stock market crash, massive bankruptcies of small- and medium-sized firms on the mainland, reignited China-US trade spats and geopolitical crises.

Hong Kong into deeper recession with 2.8% GDP slip

Hong Kong's retail sales dropped by 31.8% across January and February and logged a record 44% plunge in February alone, reflecting the heavy blow to the city's economy by the pandemic following the social event since last year. The Hong Kong government rolled out a series of COVID-19 containment measures and relief packages for individuals and SMEs. Dr Liao points out however that such measures are not enough to provide strong support for Hong Kong's economic recovery because there are no real monetary policies in Hong Kong and room for infrastructure spending is scarce. It is estimated that the 1Q Hong Kong economy will have seen a recession of -6.0% or worse.

Regarding the economic development in the next three quarters, Dr Liao believes that mainland China will create rebound conditions for Hong Kong as the mainland economy recovers progressively in 2Q onwards when the pandemic is basically contained in a baseline scenario. However, the pandemic is expected to prevail in other parts of the world before mid-year and a complete containment domestically remains unforeseeable, Hong Kong's economy is poised for a noticeable recession in 2Q. Should the pandemic be contained further and subsided in the second half of the year, economic recovery risk factors may be triggered aside from a second pandemic breakout in the winter. These may include massive bankruptcies of SMEs on the mainland as a result of a rapid slowdown of the mainland economy and a new round of global economic and financial crisis set off by a drastic US economic recession.

Please visit www.cncbinternational.com/personal/investments/market-information/en/index.jsp for more market insights. You may also access the mobile edition of *Market Express* on the Bank's inMotion (Open the inMotion app and tap "Wealth Management at the bottom right corner).

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Dr Liao Qun, Chief Economist, CNCBI, estimates that the mainland Chinese economy will see a sharp GDP slowdown to 2.4% for the year and that Hong Kong will suffer from deeper recession with -2.8% GDP growth

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