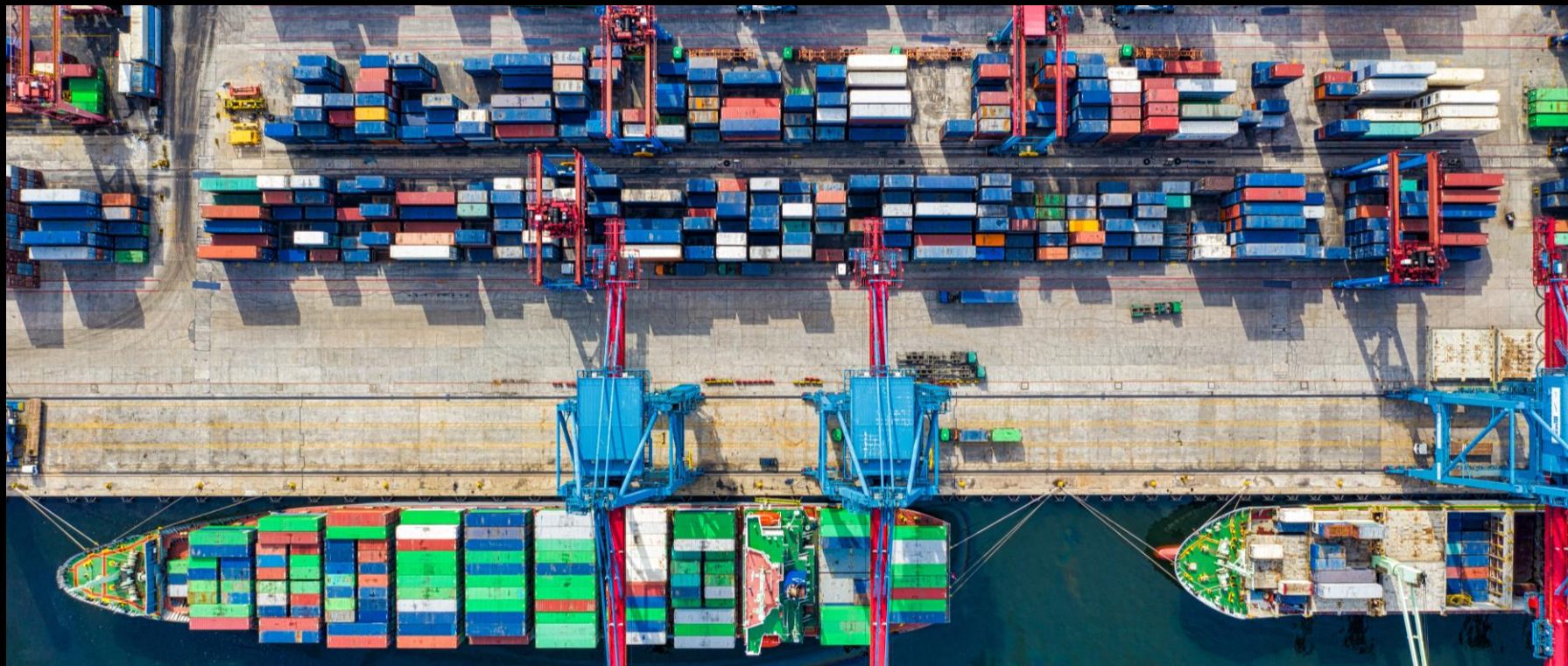


Recovery 2021: Forecasts Stabilize, Risks Balanced

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AmCham Shanghai Capstone Conference



S&P Global
Ratings

Forecasts Are Stabilizing, Risks More Balanced

- The outlook is settling down, risks to growth now balanced. Acute downside risks to growth have eased. Some upside risks emerging, including vaccines.
- Trade as an economic engine: Trade has been the big upside surprise. Further momentum may rely on capital goods and emerging markets.
- China's "careful" recovery means moderate growth momentum. Both households and policymakers are showing restraint.
- New rules for trade: Regional Comprehensive Economic Partnership and the new U.S. administration important for Asia-Pacific's trade landscape.

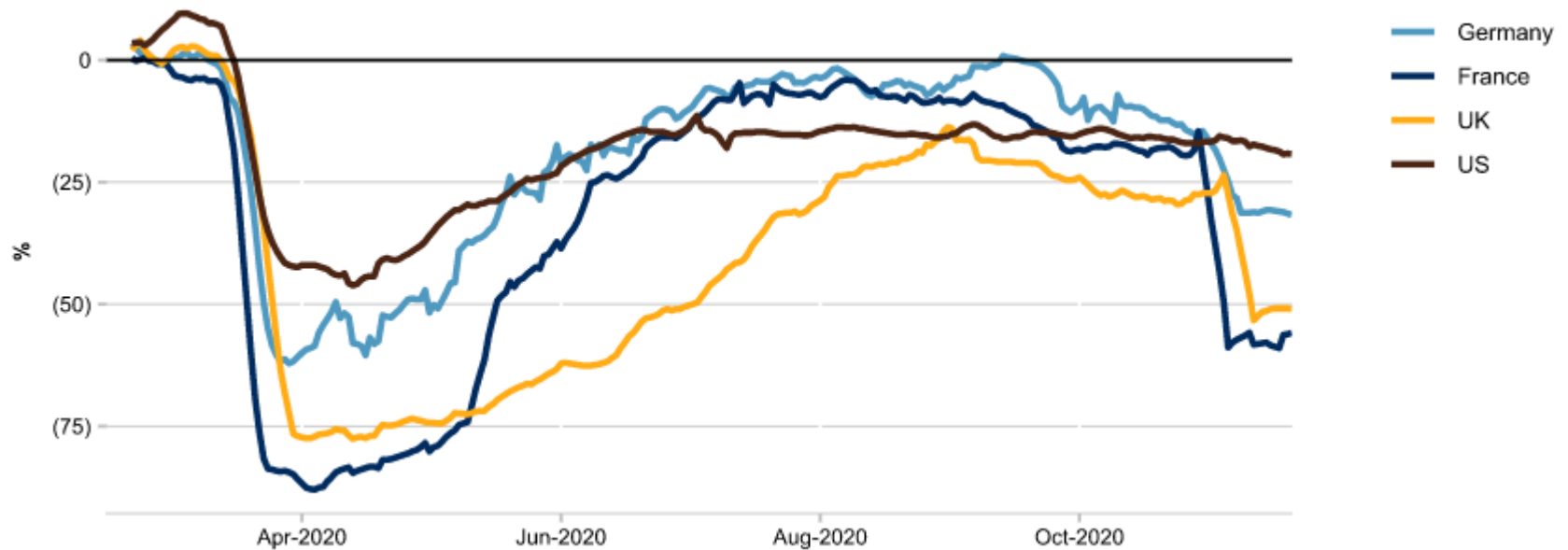
Forecasts Stabilize, Risks Balanced

A more settled picture (by recent standards) for the next 12 to 18 months

Vaccines Coming But COVID Not Yet Defeated

- The prospect of vaccine distribution in H1 2021 increases upside risks to activity later next year.
- But for now, the rapid rise in infections is hitting face-to-face activities again.
- Financial markets are looking through near-term difficulties and pricing in recovery.

Rising COVID infections in the U.S. and Europe are resulting in declining social mobility, raising the risks of a W-shaped recovery

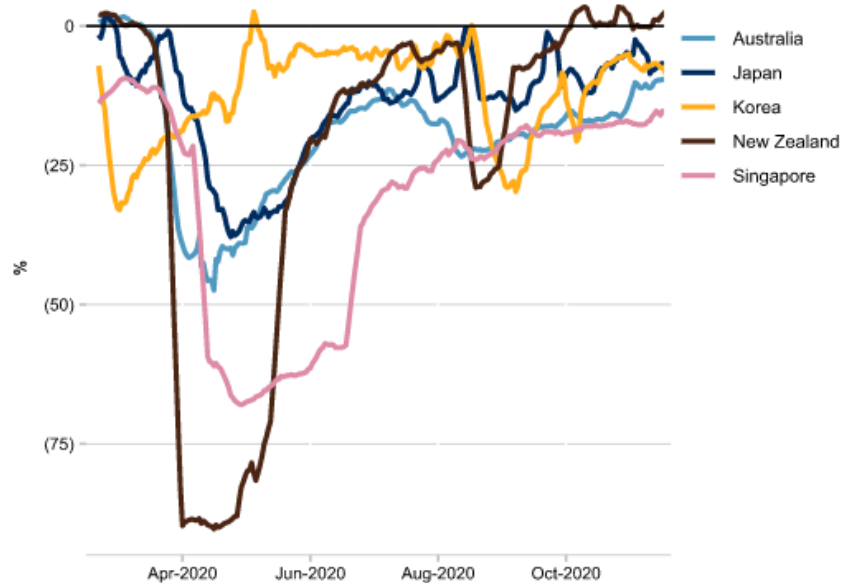


Note: Survey uses Google mobile data to track individuals' trips to 'major' destinations (shops, parks, transit stops, etc.) Source: Google Mobility Reports and S&P Global Economics

Asia-Pacific Is Normalizing Faster

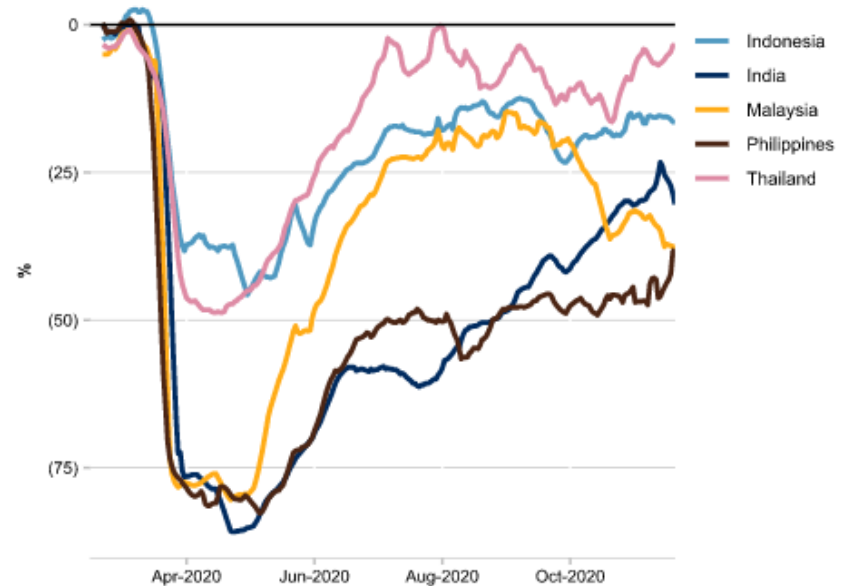
- Mobility has improved and stabilized in many Asia-Pacific economies.
- Progress has been slower in emerging markets but even here there has been progress.
- No full return to normal until herd immunity—which means a vaccine.

APAC developed markets mobility



Note: Survey uses Google mobile data to track individuals' trips to 'major' destinations (shops, parks, transit stops, etc.) Source: Google Mobility Reports and S&P Global Economics

APAC emerging markets mobility

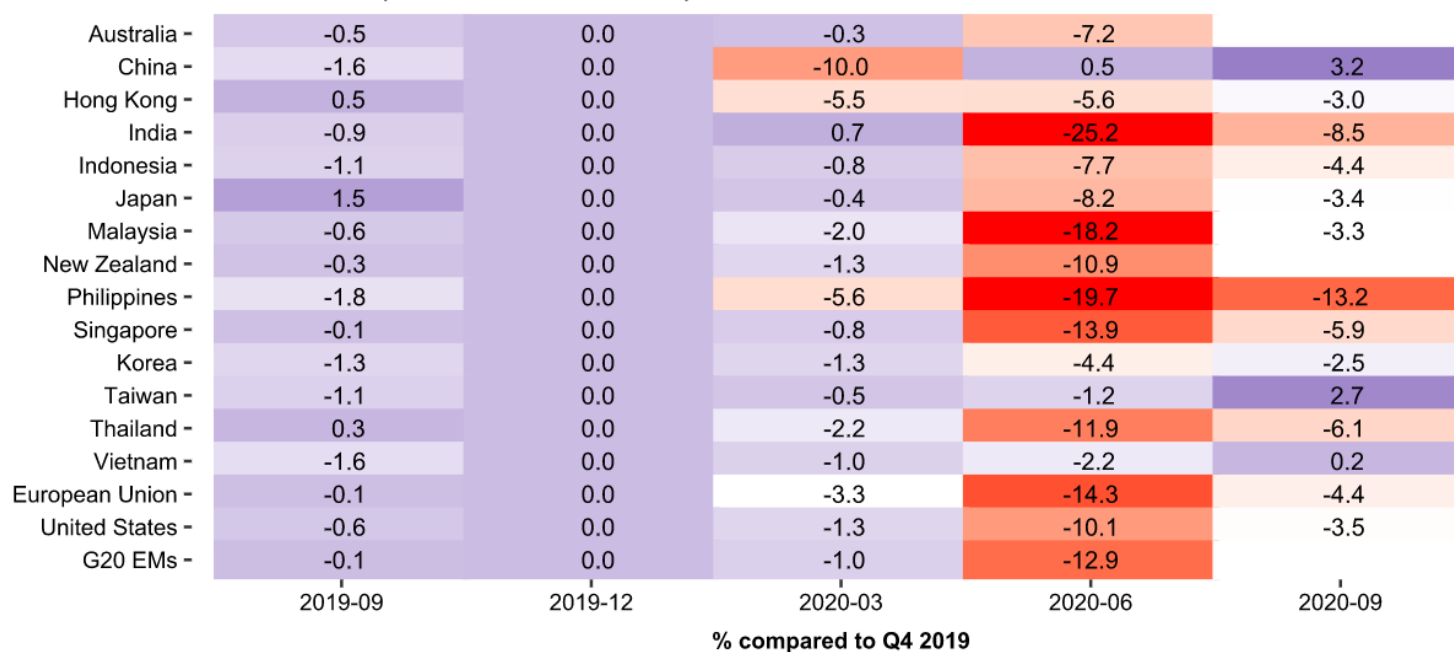


Note: Survey uses Google mobile data to track individuals' trips to 'major' destinations (shops, parks, transit stops, etc.) Source: Google Mobility Reports and S&P Global Economics

Economies mostly below pre-COVID levels

- In most cases, output is about 3% to 5% below pre-COVID levels in most cases.
- The gap between the pre-COVID trend (which is rising) is even larger.
- Closing this gap will take time and this will keep inflation (and interest rates) low.

Asia-Pacific Should be Back To Pre-COVID Levels Of Activity By Mid-2021

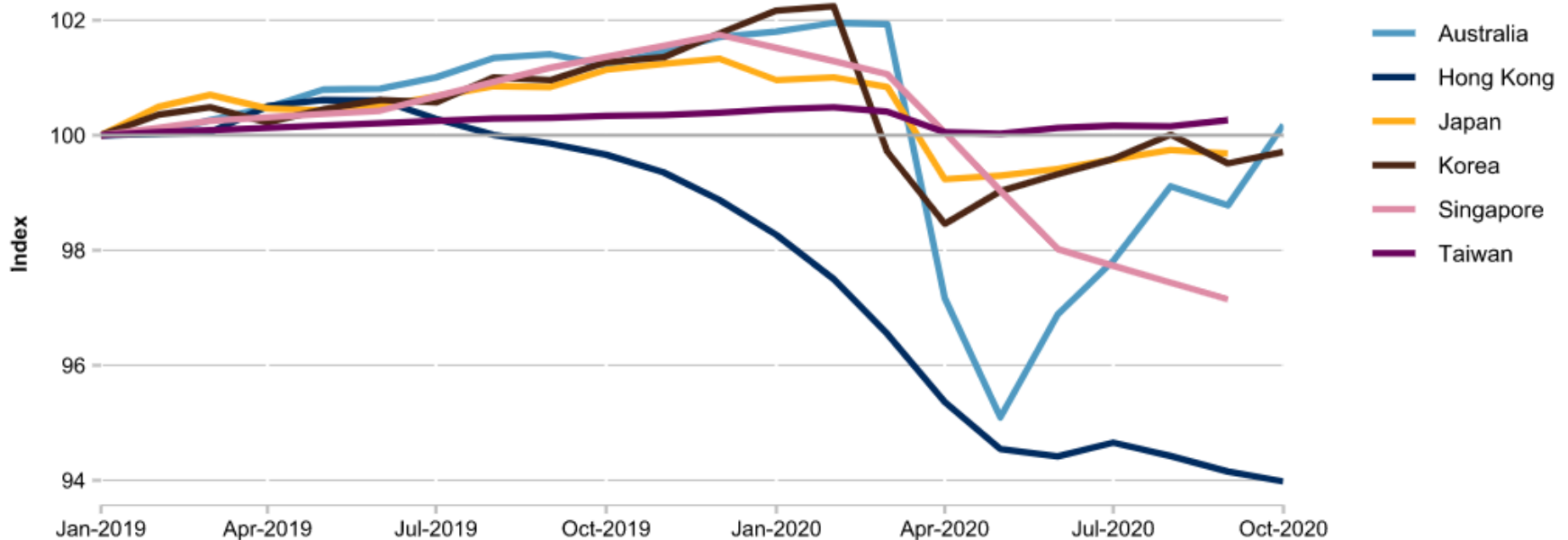


Note: Note: All data are seasonally adjusted and calculated as the difference from the level in 2019-Q4. G20 EMs refers to the unweighted average of Brazil, Mexico, Russia, South Africa, and Turkey.. Source: National statistical authorities, CEIC and S&P Global Economics.

Jobs Are Returning But Long Way To Go

- Policies aimed at supporting employment have been effective in Asia-Pacific
- Still employment remains below pre-COVID levels in most economies
- With so many people looking for work, wage growth is likely to remain soft

Asia-Pacific Jobs Are Bouncing Off The Floor But The Rebound Varies Across Economies

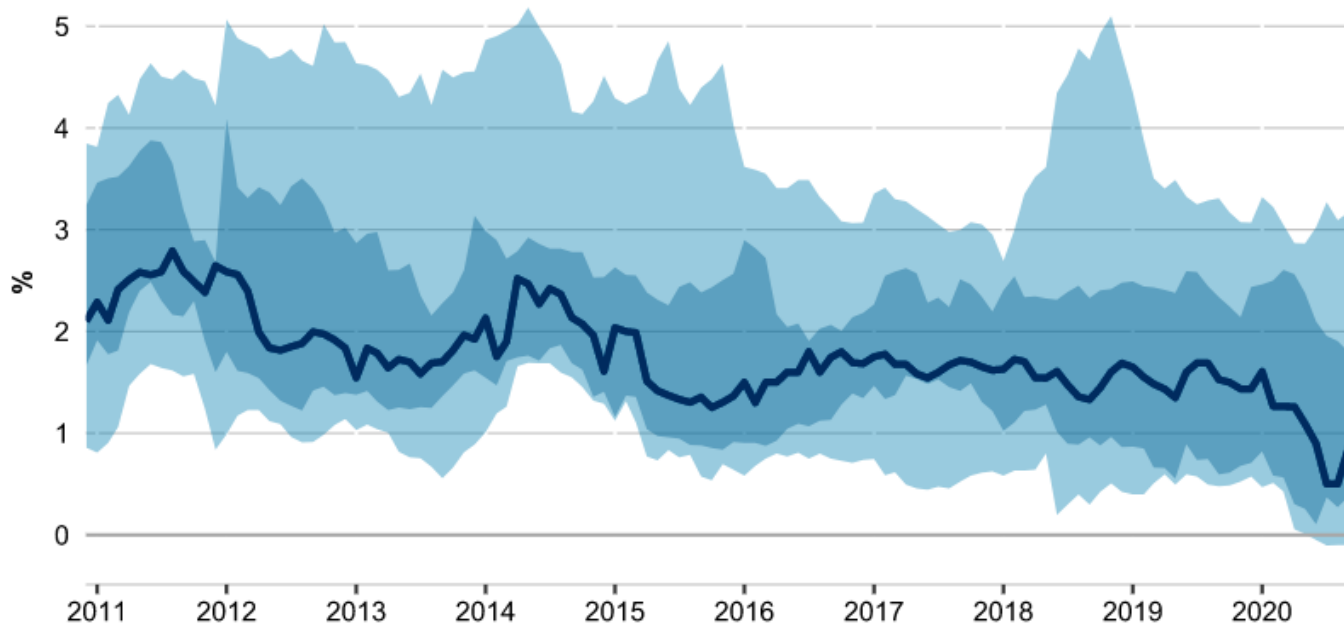


Note: Seasonally-adjusted employment rebased to January 2019. Source: national statistical authorities and S&P Global.

Inflation Falls In A Pandemic (Now We Know)

- There was some uncertainty early in the pandemic about what would happen to prices.
- This is because we did not know how big the demand shock would be compared to the supply shock.
- At least for COVID-19 we have the answer—the demand shock is larger, and inflation falls.

Core Consumer Price Inflation Across Asia Pacific—The Median And The Distribution



Note: Median, 10th, 25th, 75th, and 90th percentiles from a distribution of the annual percent change in non seasonally-adjusted core consumer prices across 12 Asia-Pacific economies. Source: National statistical authorities and S&P Global Economics.

Growth Rebound In 2021 But Inflation To Stay Low

- Key assumption: COVID-19 vaccines are widely distributed during the second half of 2021.
- Spare capacity, particularly in the labor market, will keep inflation low for some time.

S&P Global Economics Forecasts For Growth And Inflation

	Real GDP growth				Consumer price inflation				Inflation targets
	2019	2020	2021	2022	2019	2020	2021	2022	
High-income economies									
Australia	1.8	-3.4	4.0	3.2	1.6	0.7	1.4	1.6	2 to 3
Hong Kong, China	-1.2	-5.8	4.8	2.9	2.9	0.1	1.6	1.8	...
Japan	0.7	-5.5	2.7	1.3	0.5	0.2	0.5	0.6	> 2
New Zealand	2.2	-4.9	4.3	2.9	1.6	1.7	1.5	1.5	1 to 3
Singapore	0.7	-6.1	6.0	3.0	0.6	-0.2	1.5	1.7	...
South Korea	2.0	-1.0	3.6	3.2	0.4	0.6	0.9	1.0	2
Taiwan	2.7	1.6	2.9	2.5	0.6	-0.2	1.1	1.0	...
Emerging market economies									
China	6.1	2.1	7.0	5.0	2.9	2.8	2.1	2.2	...
India	4.9	-7.2	6.6	5.1	3.7	6.3	4.2	4.8	2 to 6
Indonesia	5.0	-1.7	5.4	5.2	2.8	2.0	2.4	3.0	2 to 4
Malaysia	4.3	-5.6	7.5	5.2	0.7	-1.1	1.9	2.3	...
Philippines	6.0	-9.5	9.6	7.6	2.5	2.8	3.0	2.6	2 to 4
Other key economies									
United States	2.2	-3.9	4.2	3.0	1.8	1.2	1.9	1.8	2
Eurozone	1.3	-7.2	4.8	3.9	1.2	0.2	1.0	1.3	< 2

Source: S&P Global Economics.

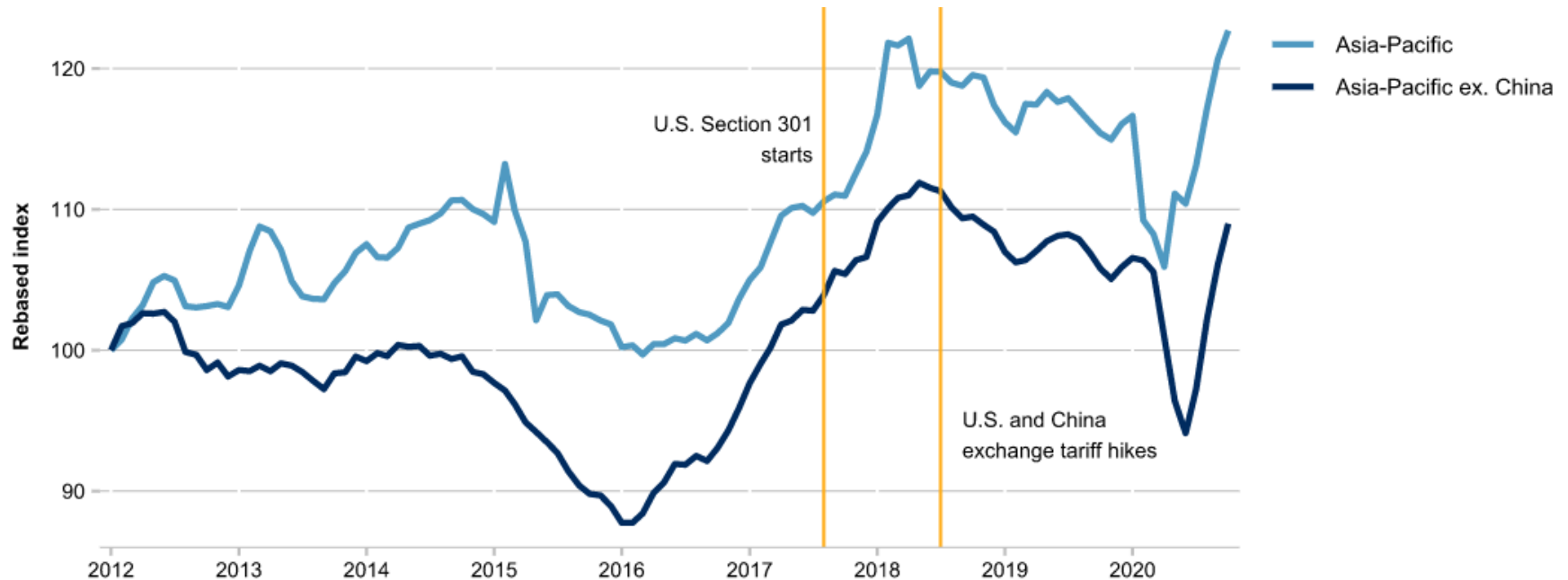
Trade the Big Upside Surprise in 2020

Can the trade upswing last through 2021?

Asia-Pacific's Exports Have Rebounded Sharply

- Exports, excluding fuel, now back at or above pre-COVID levels.
- For the whole region, exports are back to levels before the trade war began.
- Much shallower goods trade recession compared to 2014-2015 episode.

Asia-Pacific's Non-Fuel Export Revenues Are Back At Or Above Pre-COVID Levels

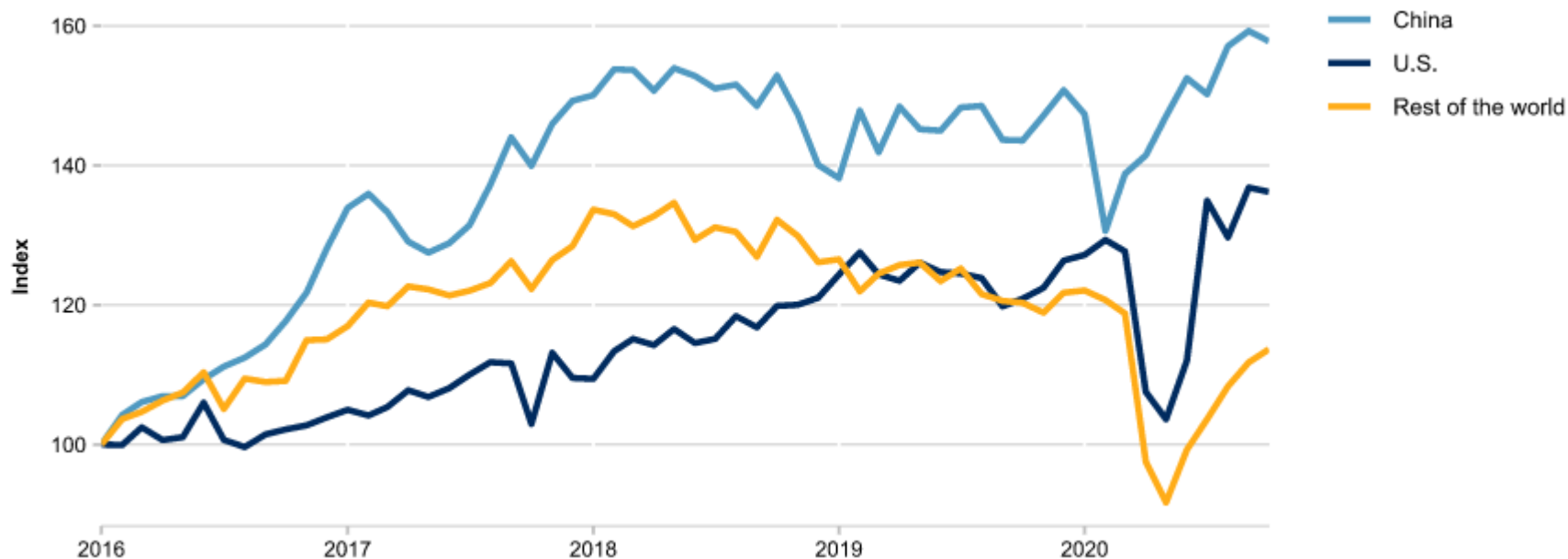


Note: Non-fuel export revenues in U.S. dollars.

Export Demand Driven By China And U.S. For Now

- By destination, exports to the U.S. and, for the rest of Asia, China explain most of the rebound
- Rest of the world, Europe and emerging markets, may drive the next stage of the rebound

Asia-Pacific's Export Rebound Driven By Demand From China And The United States

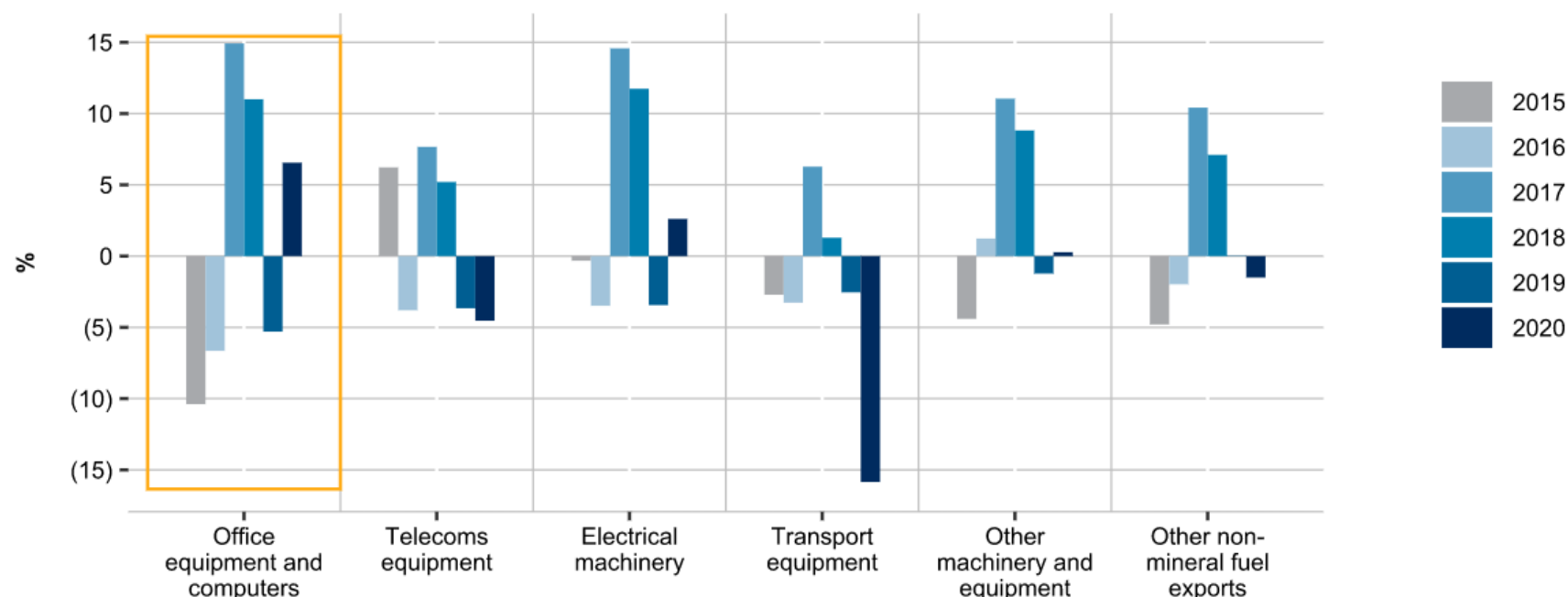


Note: Exports for Asia-Pacific excluding China, Hong Kong, and India. Source: National statistical authorities and S&P Global Economics.

Electronics Drives The Export Rebound

- Consumers save on vacations and spend on electronics.
- Work-from-home boom also drives the export rebound.
- Capital goods weaker as firms go slow on investment

Asia-Pacific's Exports Have Improved Due Mainly To Electronics



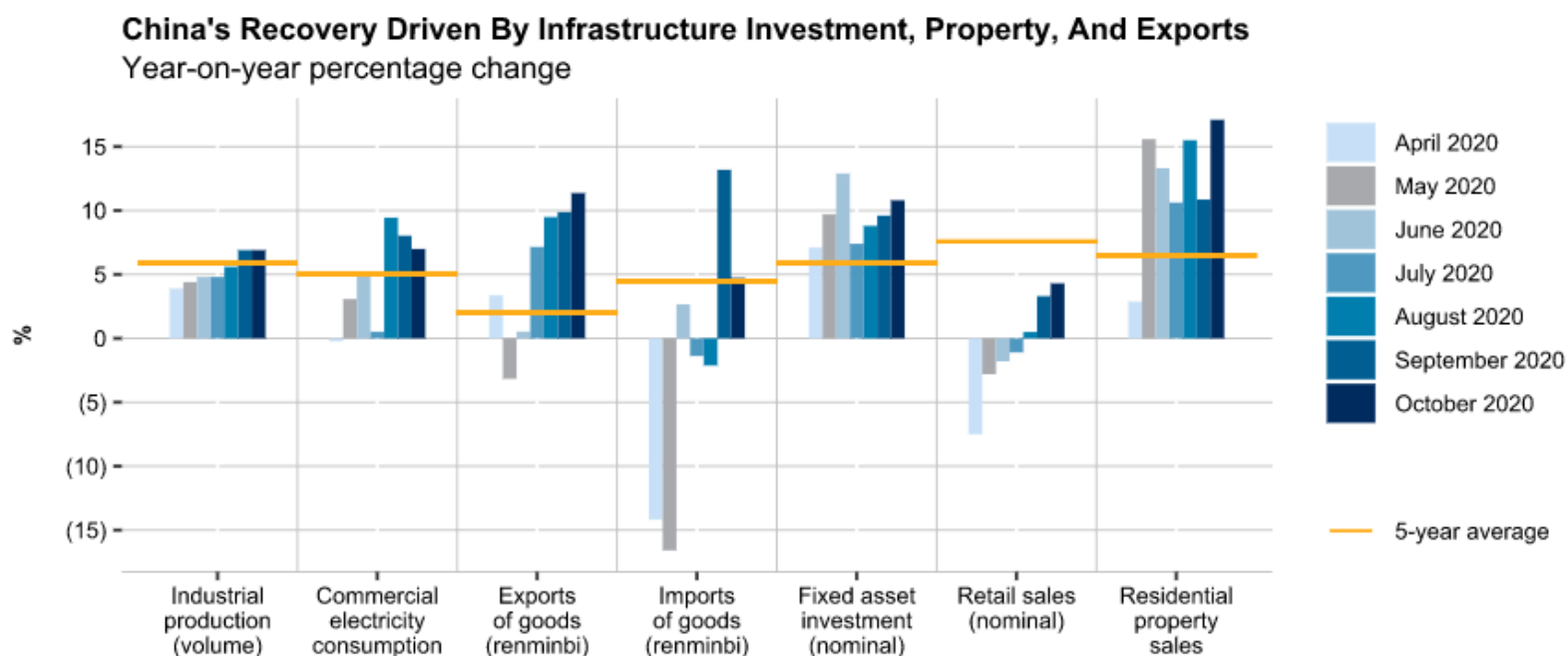
Note: Asia Pacific in this chart includes Australia, China, Indonesia, Korea, Malaysia, the Philippines, Singapore, Taiwan, Thailand, and Vietnam. India is excluded due to data availability. For the latest year, the growth rate is for the year to date compared to the same period in the previous year. Missing data forecast using a time-series model. Source: National statistical agencies, CEIC, and S&P Global Economics

China's Careful Recovery

Consumers are holding back spending,
policymakers are cautious

China's Recovery Is Unbalanced

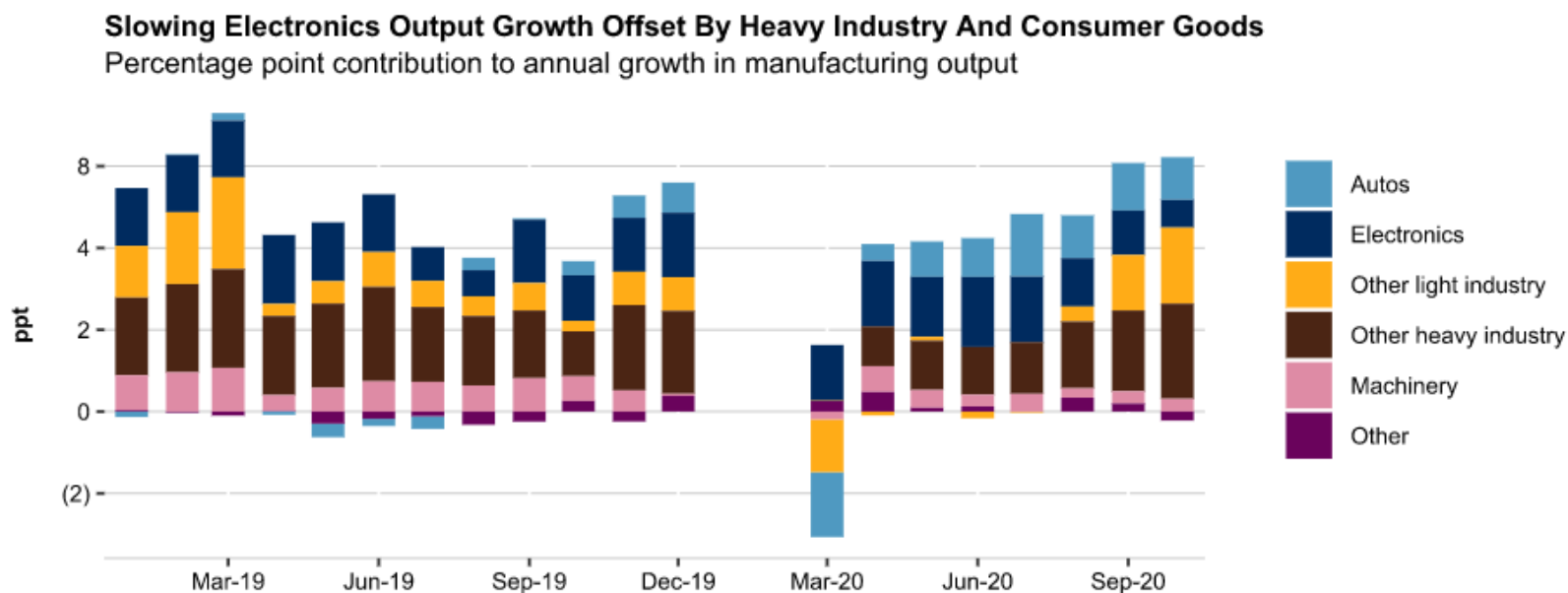
- Economy driven by infrastructure investment, property, and exports
- Private demand, especially consumption, is recovering only slowly
- Households hit by a large income shock in the first half of 2020 (1% growth vs. 8% trend growth)



Note: Annual percentage changes in some cases estimated from year-to-date figures by S&P Global Economics. Property sales measured by the annual percent change in residential floor space sold. Exports, fixed asset investment, and retail sales are measured in nominal Chinese renminbi.
Source: National Bureau of Statistics, CEIC, and S&P Global Economics.
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Manufacturing Is A Bright Spot

- Electronics drove the early stages of recovery.
- Electronics output growth now waning
- Heavy industry and consumer durables are picking up



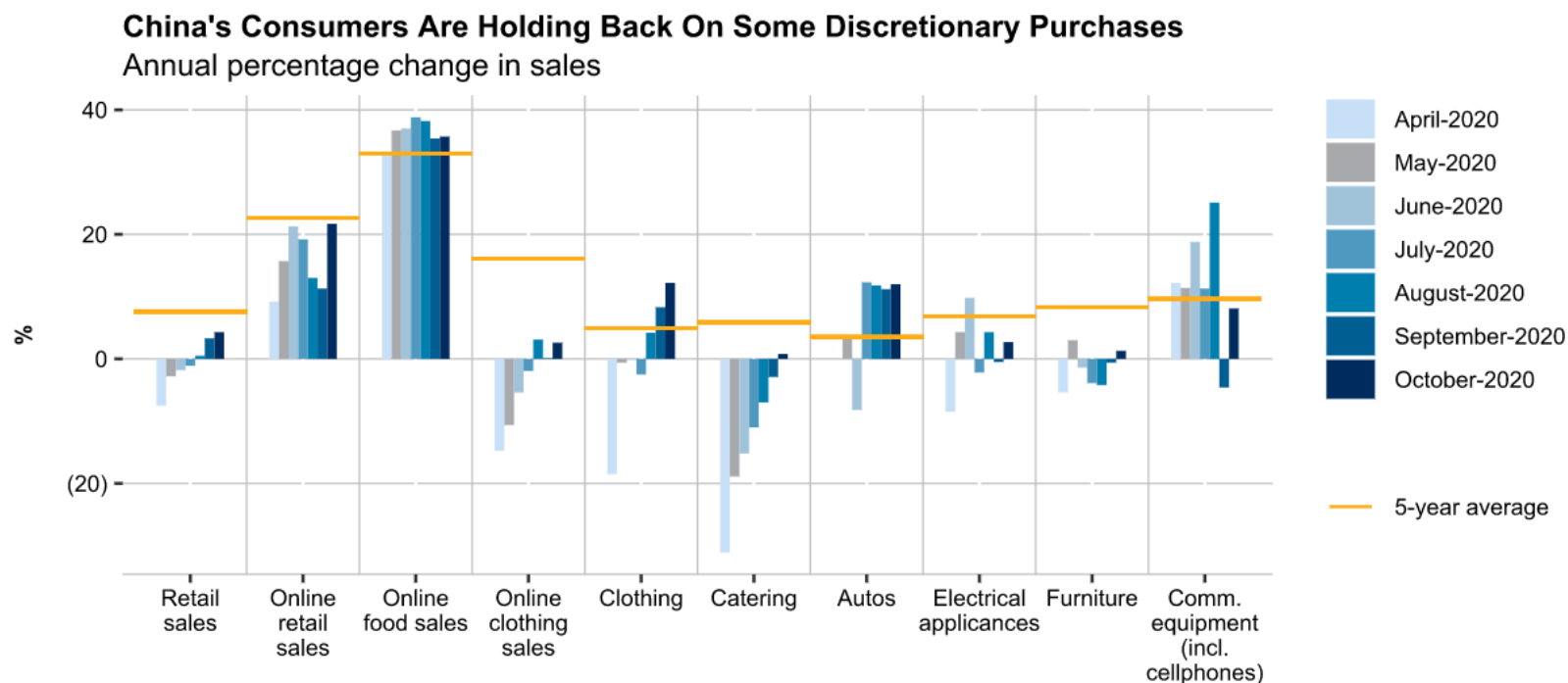
Note: Contributions to year-on-year growth estimated using a constrained non-linear regression. Other light industry includes consumer durables and food and beverages. Other heavy industry includes chemicals, minerals, non-ferrous metals, and steel. Data for January and February 2020 not reported and not interpolated as in previous years.

Source: CEIC and S&P Global Economics.

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Consumers Are Still Holding Back Spending

- Only autos, boosted by incentives and pandemic-related demand, is seeing a sustained surge
- Many categories are still struggling, including eating out
- Income shock is taking some time to wear off



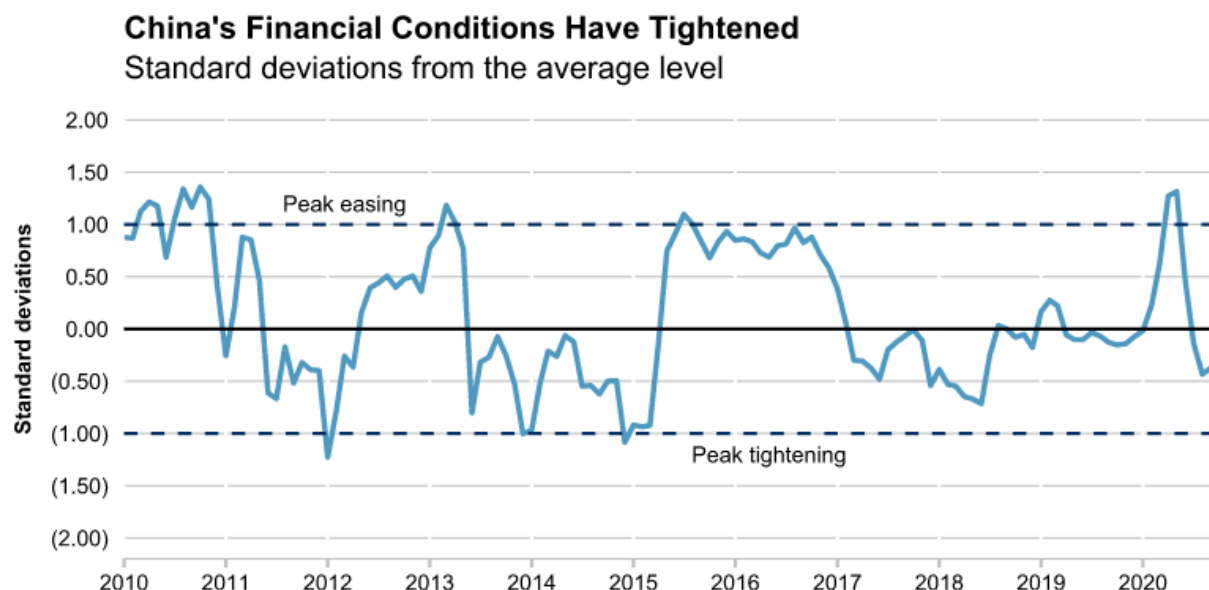
Note: Annual percentage changes in nominal renminbi in some cases estimated by S&P Global Economics from year-to-date figures.

Source: National Bureau of Statistics, CEIC, and S&P Global Economics.

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China's Financial Conditions Tighten

- Credit flows have fallen by almost 4ppts of GDP since the peak in May
- Real interest rates have risen to 5-year highs, including the effective lending rate
- Financial conditions typically foreshadow shifts in growth momentum.



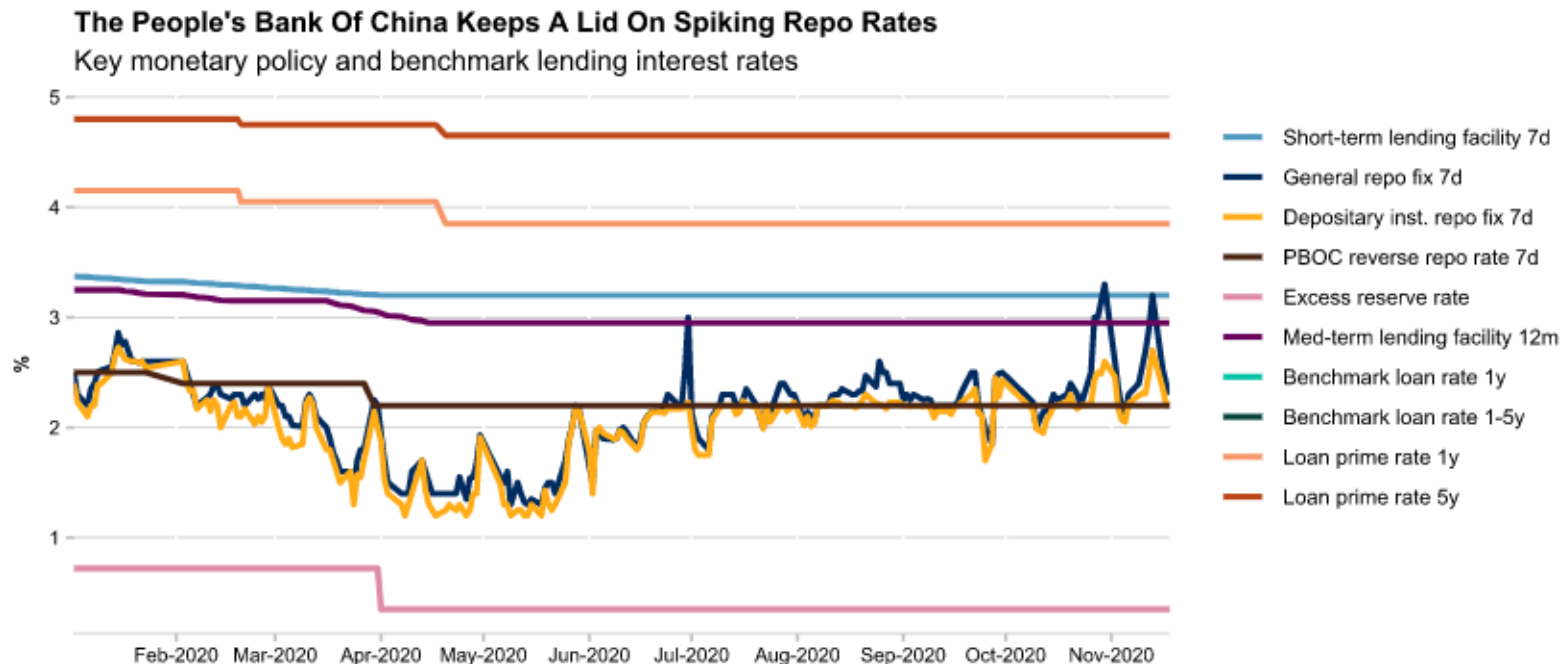
Note: Average of the first two principal components of 22 financial variables including de-trended real interest rates, effective and benchmark lending rates, and real bond yields, credit spreads, aggregate credit as a share of trend GDP, and financial market turnover.

Source: People's Bank of China, CEIC, and S&P Global Economics.

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Credit Stresses Are Being Felt In The Repo Market

- The repo market is the fulcrum of China's financial system, monthly turnover about 50% of GDP
- The PBOC operates a corridor interest rate system—liquidity operations target DI repo (DR07)
- Corporate bond stress triggered a mini-liquidity squeeze but quickly ended by PBOC



Source: CEIC and S&P Global Economics.

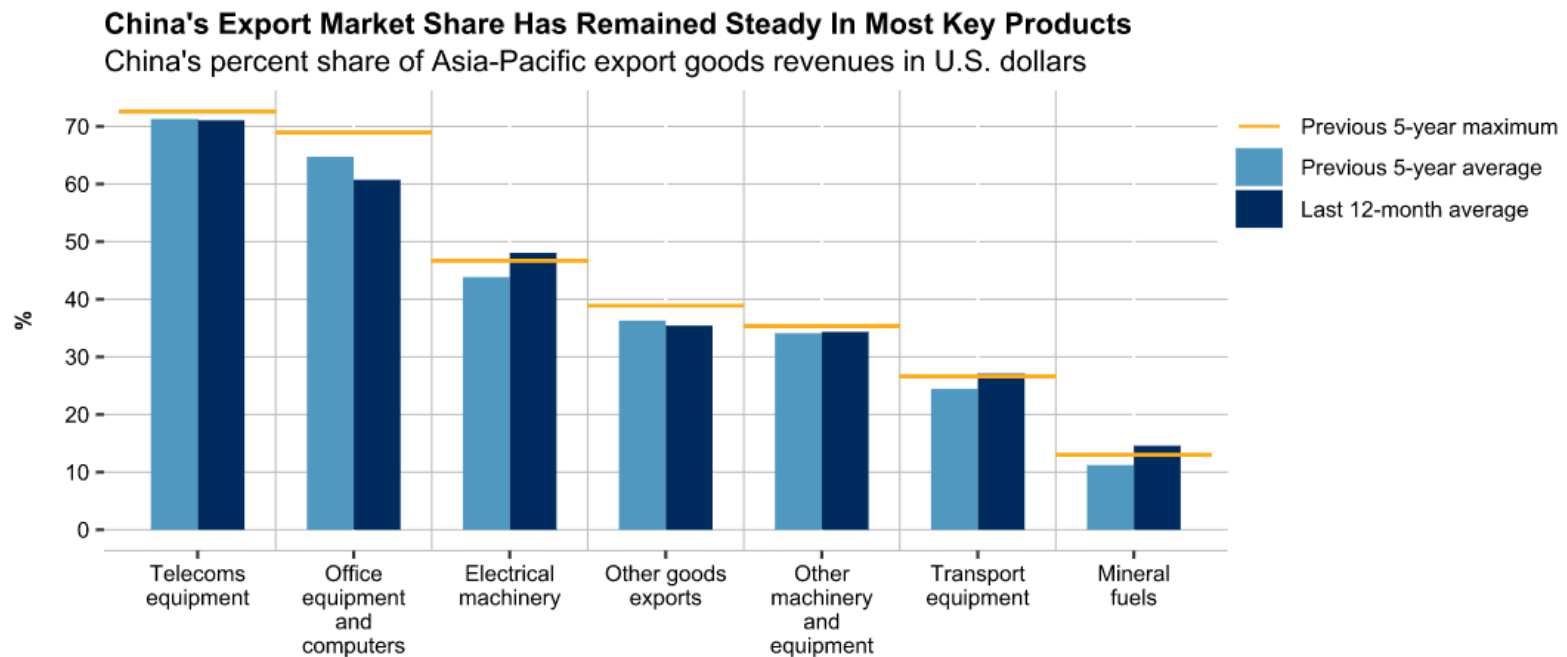
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A New Deal For Trade?

An economist's perspective

Starting Point: China's Market Share Still Solid

- China's share of Asia-Pacific exports for key technology products is stable over the last year
- China still dominates telecoms equipment
- Smaller share in capital equipment.



Note: Asia-Pacific includes Australia, China, Indonesia, Japan, Korea, Malaysia, the Philippines, Singapore (domestic exports), Thailand, Taiwan, and Vietnam. Missing data forecast using time-series models.

Source: National statistical authorities, CEIC, and S&P Global Economics.

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RCEP Changes The Game...Slowly

- RCEP includes 15 Asia-Pacific economies accounting for 30% of U.S. dollar global GDP
- Will eliminate tariffs on over 90% of goods tariff lines over two decades, about 60% of services
- RCEP does not talk about environmental standards, labor standards, and state-owned enterprises

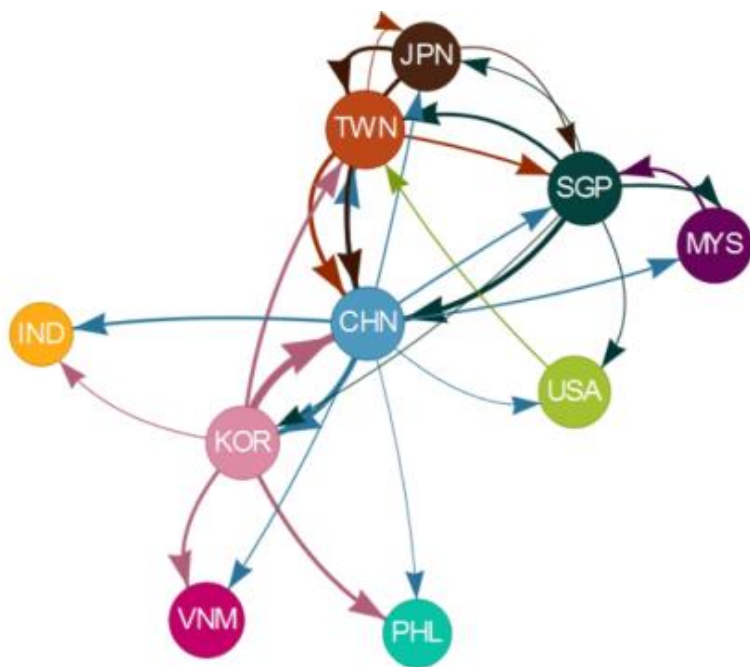
RCEP peels off seven CPTPP economies in a broad but shallow free-trade deal

CPTPP		RCEP			
Economy	Share	Economy	Share	Economy	Share
Canada	1.98	Australia	1.58	China	16.80
Chile	0.32	Brunei	0.02	Indonesia	1.28
Mexico	1.44	Japan	5.80	Cambodia	0.03
Peru	0.26	Malaysia	0.42	Korea	1.88
		New Zealand	0.23	Lao P.D.R.	0.02
		Singapore	0.43	Myanmar	0.08
		Vietnam	0.38	Philippines	0.43
				Thailand	0.62

Note: share denotes the share of global GDP in U.S. dollars. Source: S&P Global Economics.

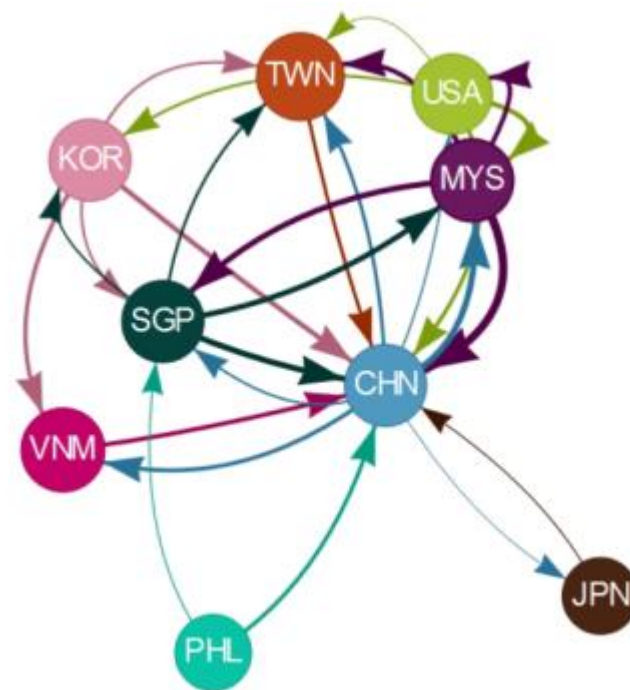
How Will RCEP Re-Wire Asia-Pacific's Trade Model?

Memory chips



Source: U.N. Comtrade and S&P Global Economics

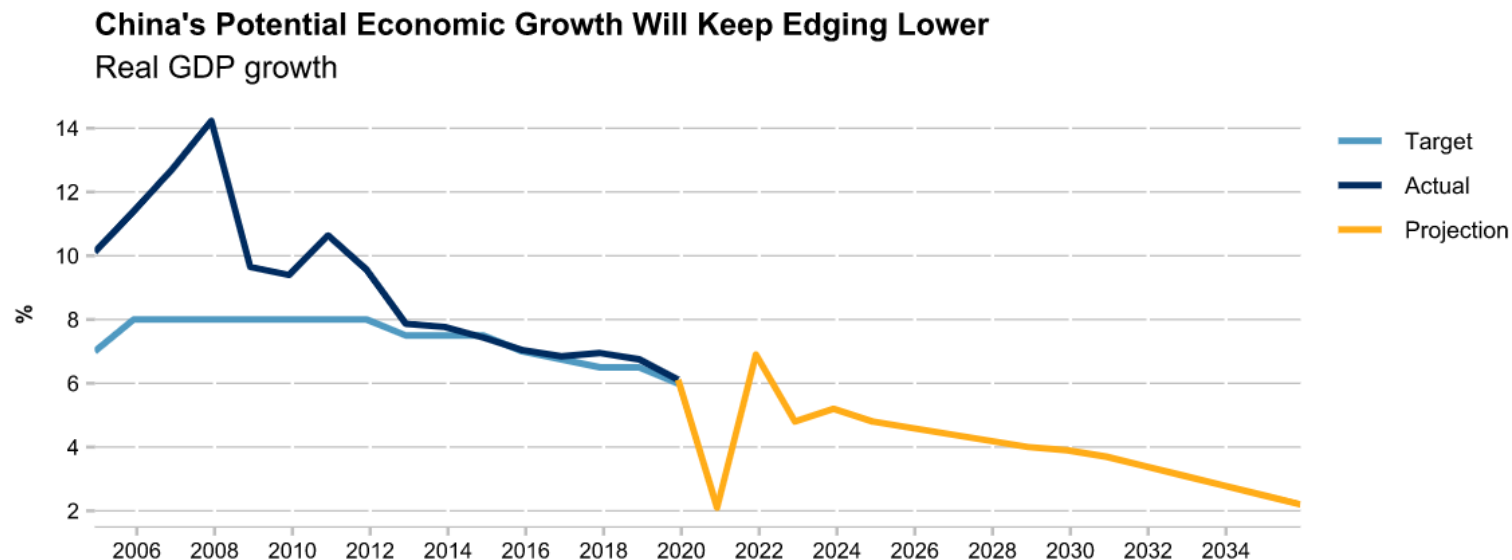
Integrated circuits



Source: U.N. Comtrade and S&P Global Economics

China's Tech Independence Will Not Come Cheaply

- The Five-Year Plan for 2021-25 will provide insight on how fast the government thinks China can grow
- May see a more flexible and lower growth target—we think sustainable growth is about 5% 2021-25
- Tech Independence a key goal—the more self-reliant China tries to become, the slower it will grow.



Note: Target denotes the official growth target set annually in the government work report. The long-term real GDP projections are derived from a supply-side decomposition of growth and based on United Nations' working age population projections, an assumption that the capital-output ratio stabilizes over time, and estimates from a global productivity fixed-effects panel regression based on relative income, openness to trade, and human capital. The unbalanced panel model is estimated using non-overlapping 5-year periods since 1950. The baseline forecast assumes growth is equal to potential over the long run.

Source: National Bureau of Statistics, United Nations, Penn World Tables 9.1, International Monetary Fund, CEIC and S&P Global Economics.
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