



**IACPM and RMI
Credit Portfolio Management Educational
Workshop
August 1, 2023**

www.iacpm.org

SUAN Teck Kin

Head of Research

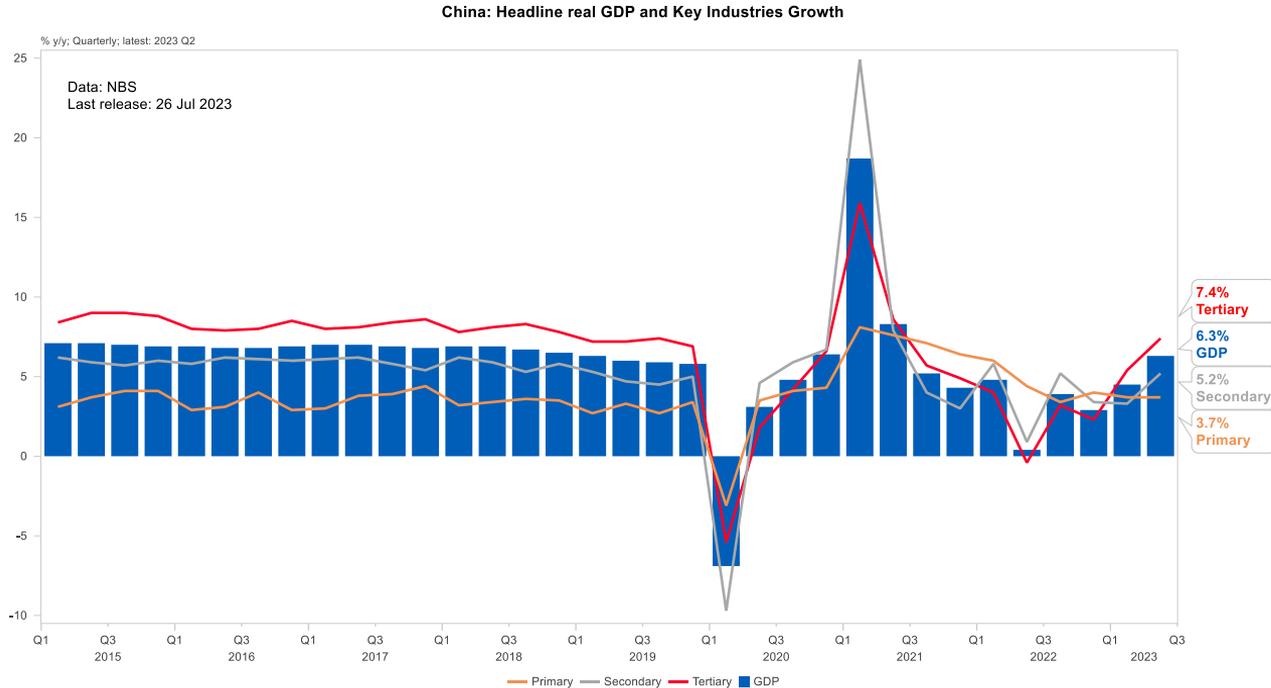
United Overseas Bank Ltd

China Outlook

- Near-term trend: China's growth 2~4 quarters ahead and what are the data saying?
- Medium-term: Weighed down by sentiment
- Shifting trends and their impact on China: Structural or cyclical?

China Outlook: 2Q surprisingly soft

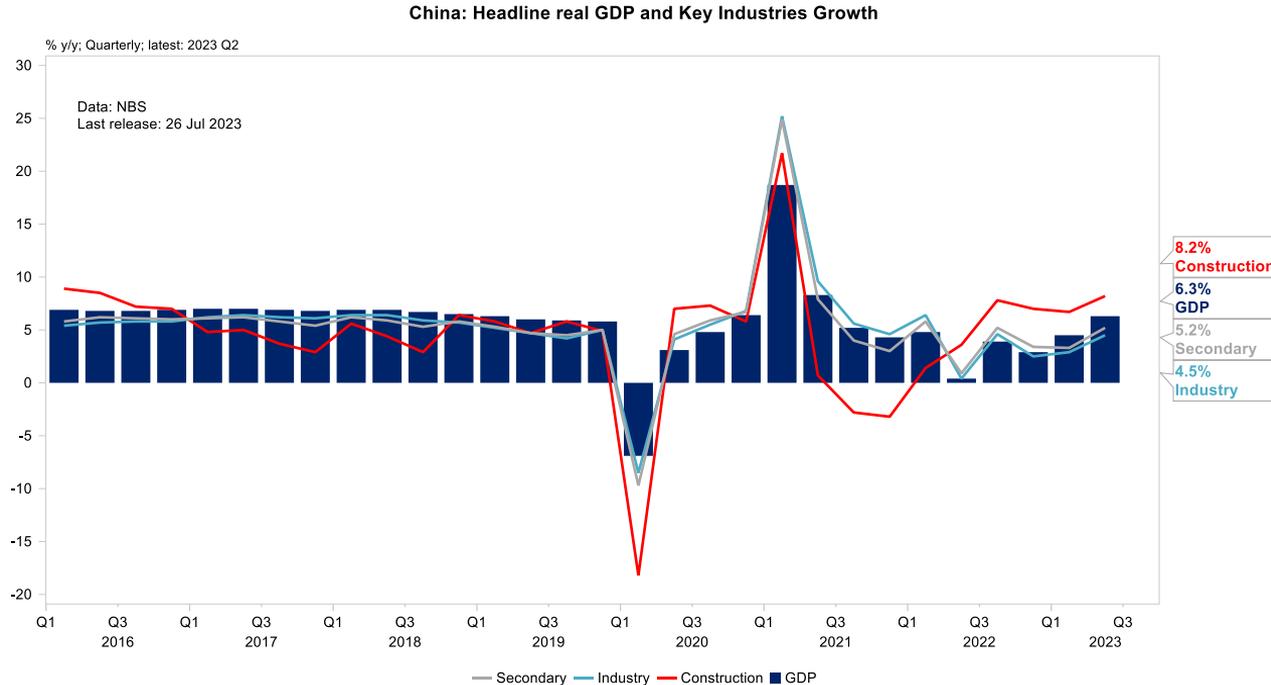
Disruptions from COVID-19 and other challenges linger on ...



Source: Macrobond, UOB Global Economics & Markets Research

China Outlook: 2Q surprisingly soft

Manufacturing sector the laggard, as exports demand weakened



Source: Macrobond, UOB Global Economics & Markets Research

China Outlook: 2Q surprisingly soft

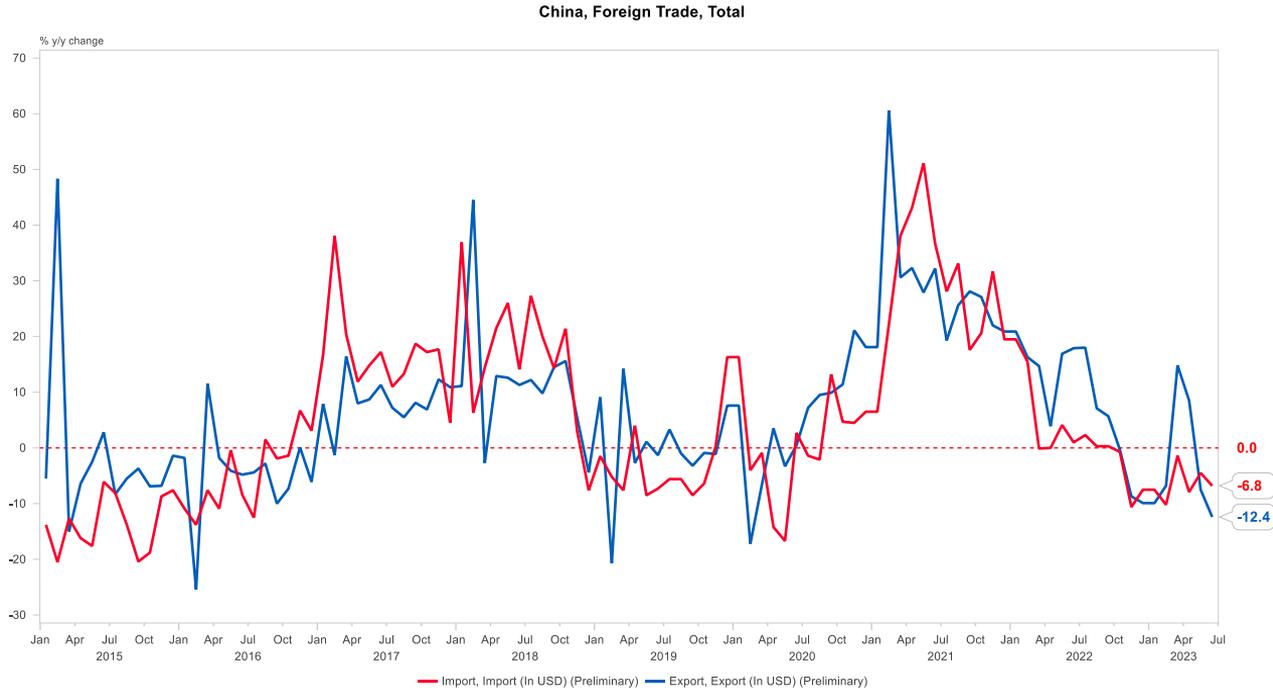
Performances of services sectors diverge significantly, unlike pre-COVID



Source: Macrobond, UOB Global Economics & Markets Research

China Outlook: 2Q surprisingly soft

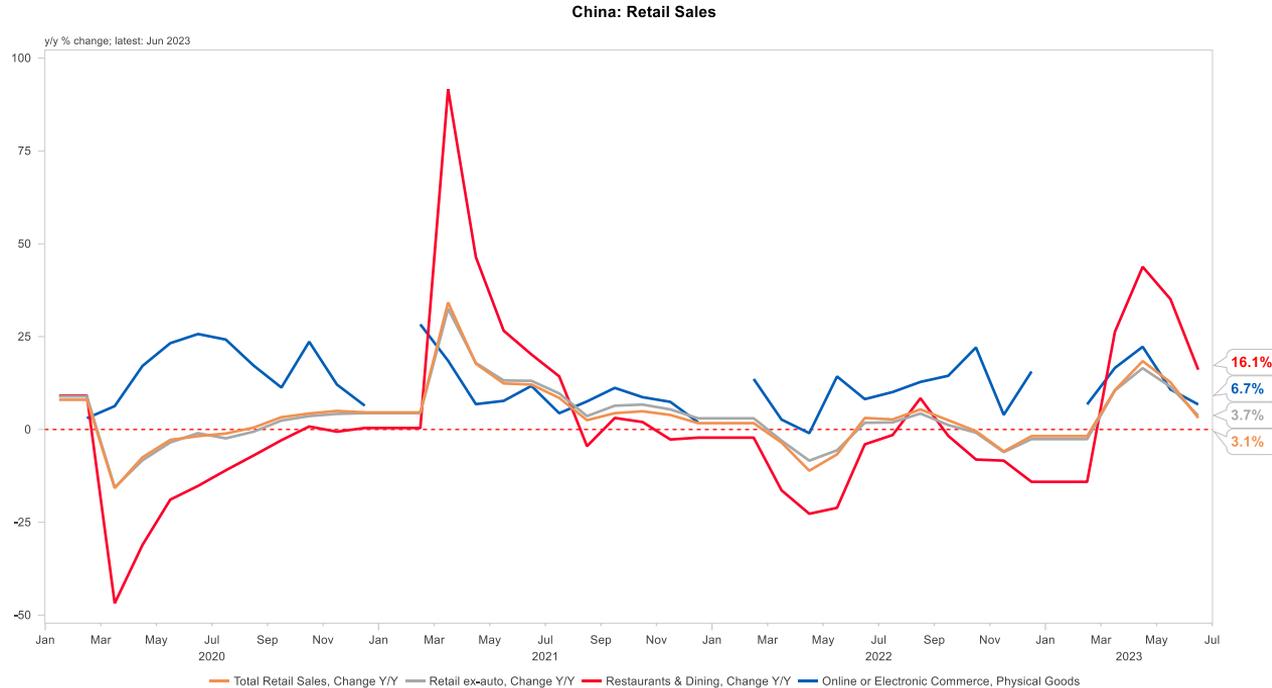
Weak external demand a key factor



Source: Macrobond, UOB Global Economics & Markets Research

China Outlook: 2Q surprisingly soft

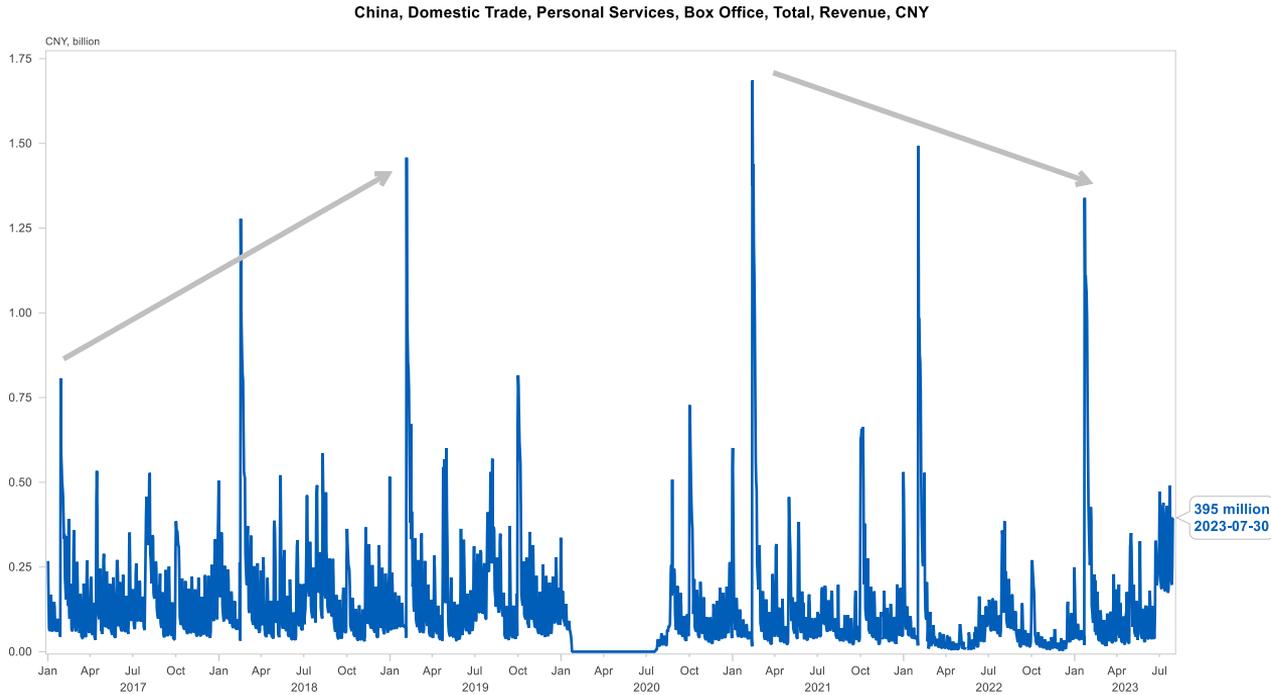
... while domestic demand also muted despite low base in previous year



Source: Macrobond, UOB Global Economics & Markets Research

China Outlook: 2Q surprisingly soft

... contrast of pre and post-COVID China's box office sales



Source: Macrobond, UOB Global Economics & Markets Research

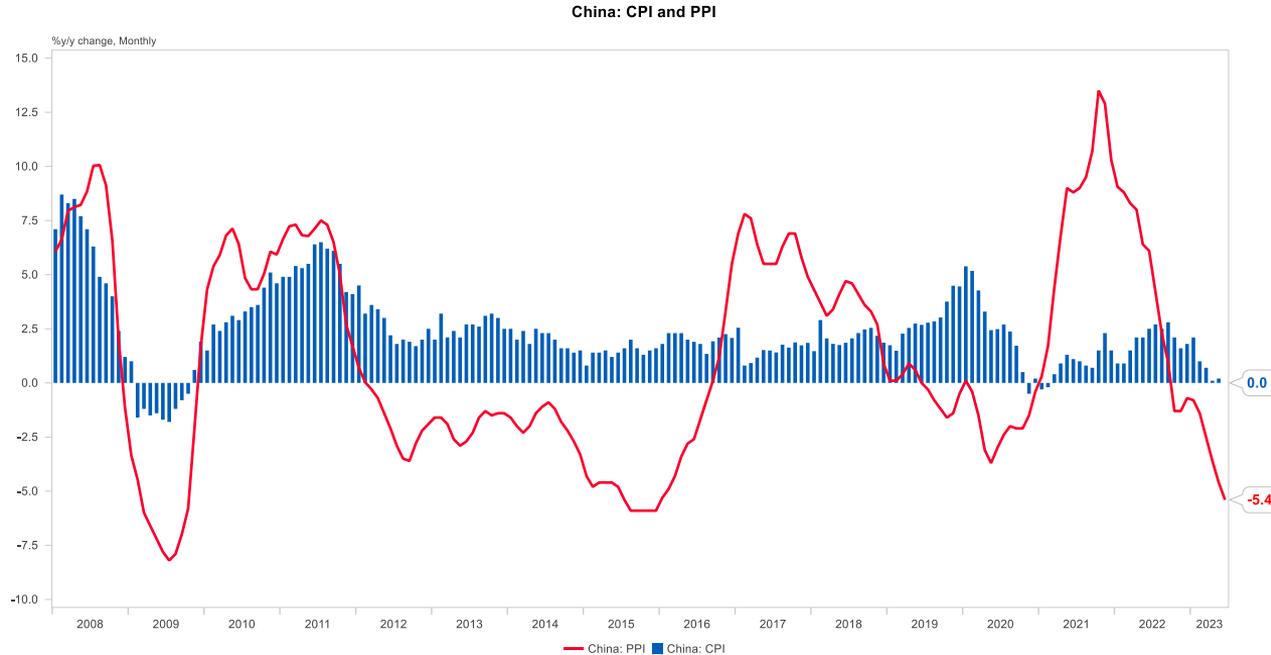
China Outlook: 2Q surprisingly soft

... youth unemployment record highs though overall remains stable



China Outlook: 2Q surprisingly soft

... excess supply and weak demand – deflation pressures building



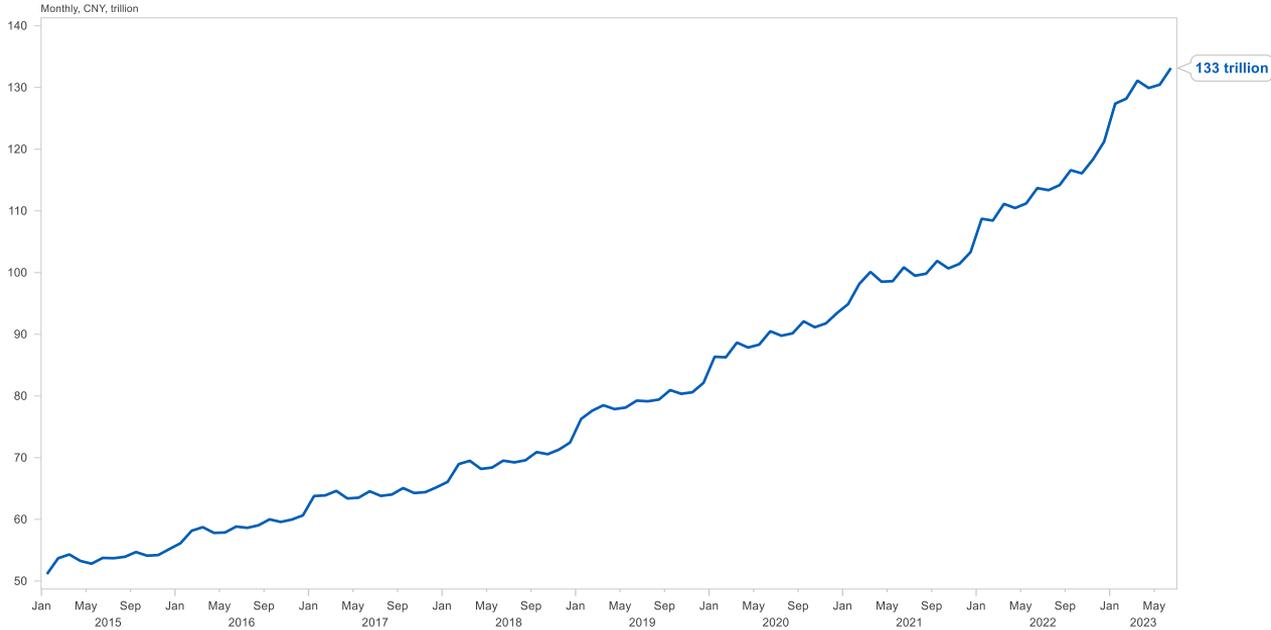
Source: Macrobond, UOB Global Economics & Markets Research

China Outlook: 2Q surprisingly soft

... consumers' precautionary actions also play a part

China Banks Deposits: Household, CNY

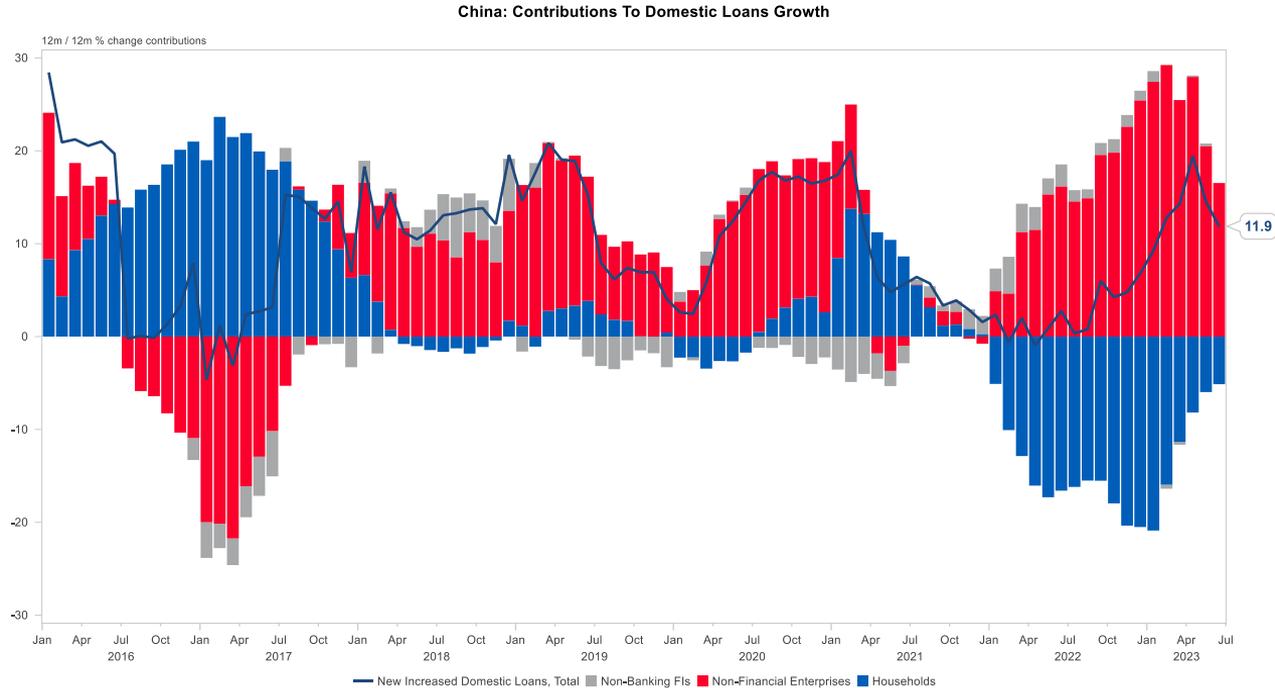
China's household deposits gained more than 40% from 2020 to RMB121 tn by end-2022



Source: Macrobond, UOB Global Economics & Markets Research

China Outlook: 2Q surprisingly soft

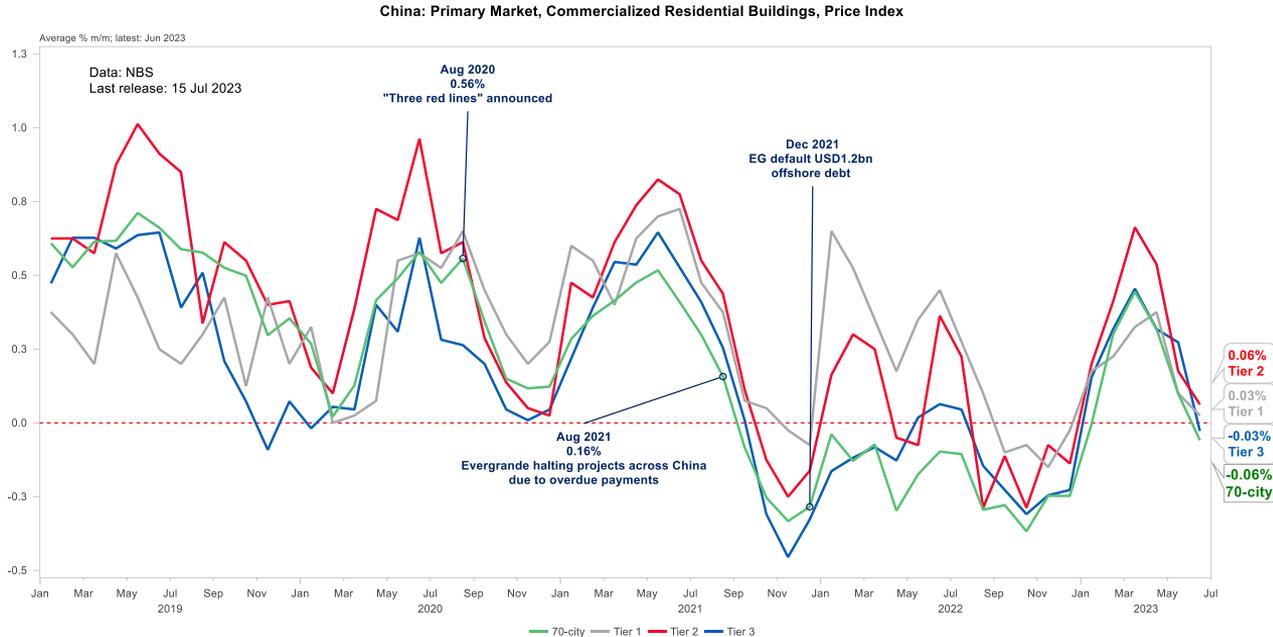
... consumers' precautionary actions also play a part



Source: Macrobond, UOB Global Economics & Markets Research

China Outlook: 2Q surprisingly soft

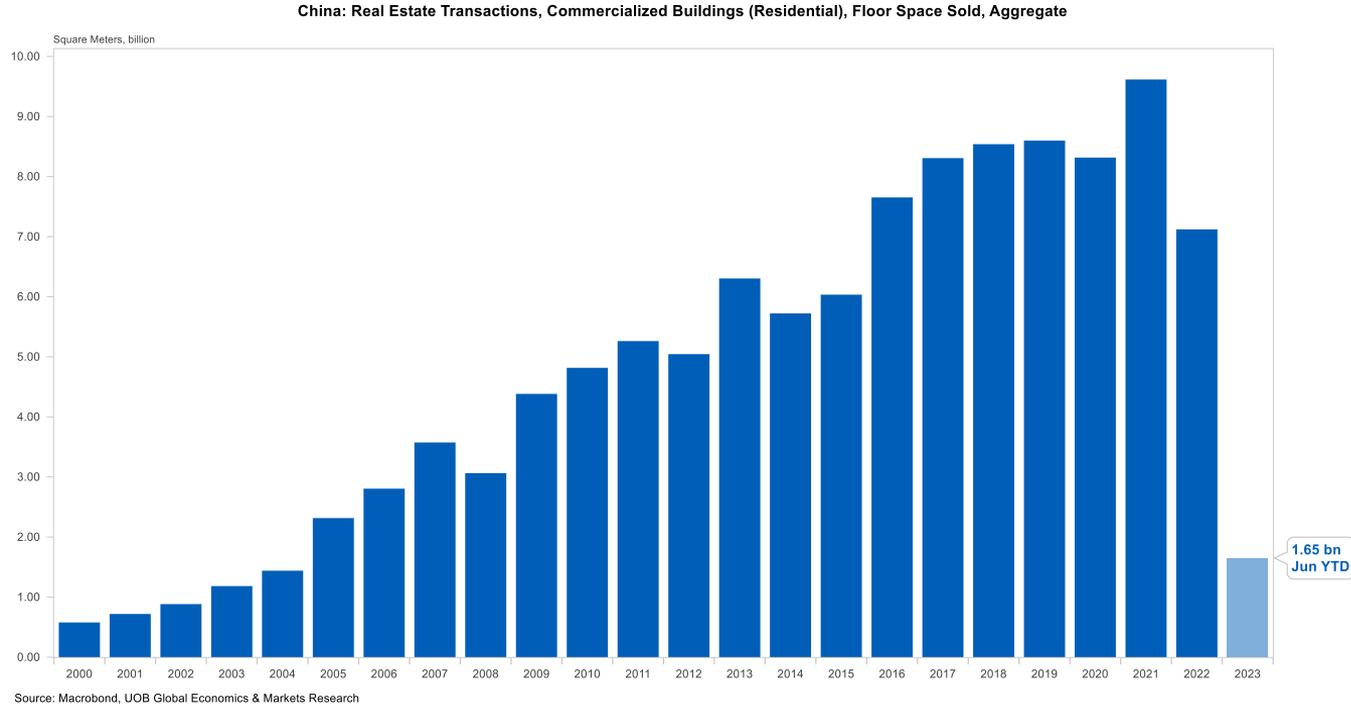
... consumers' precautionary actions also play a part



Source: Macrobond, UOB Global Economics & Markets Research

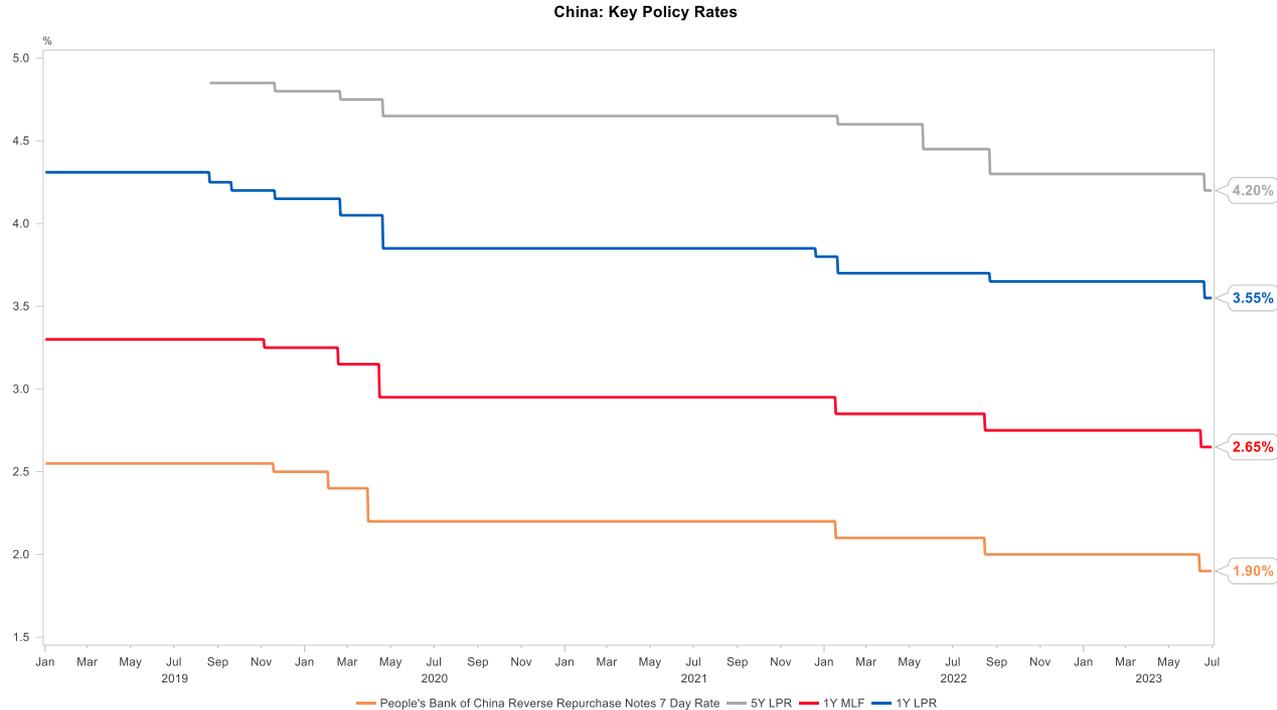
China Outlook: 2Q surprisingly soft

... consumers' precautionary actions also play a part



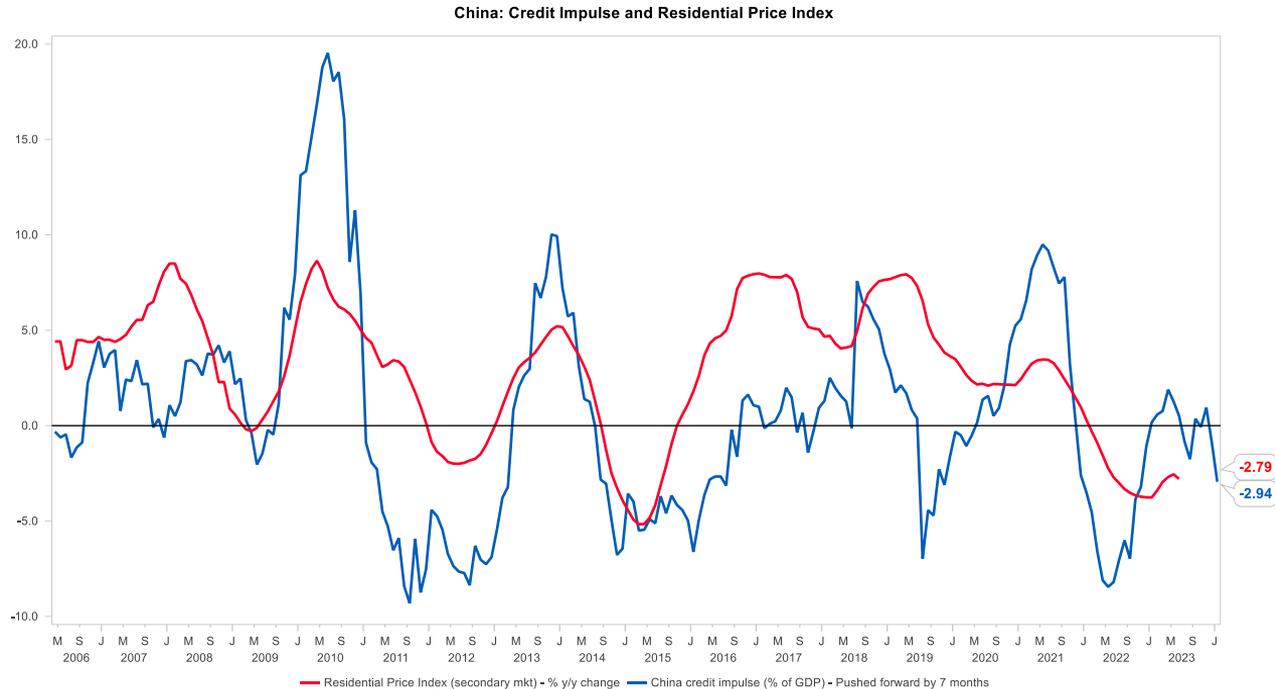
China Outlook: 2Q surprisingly soft

... meanwhile, policy responses are far from aggressive



China Outlook: 2Q surprisingly soft

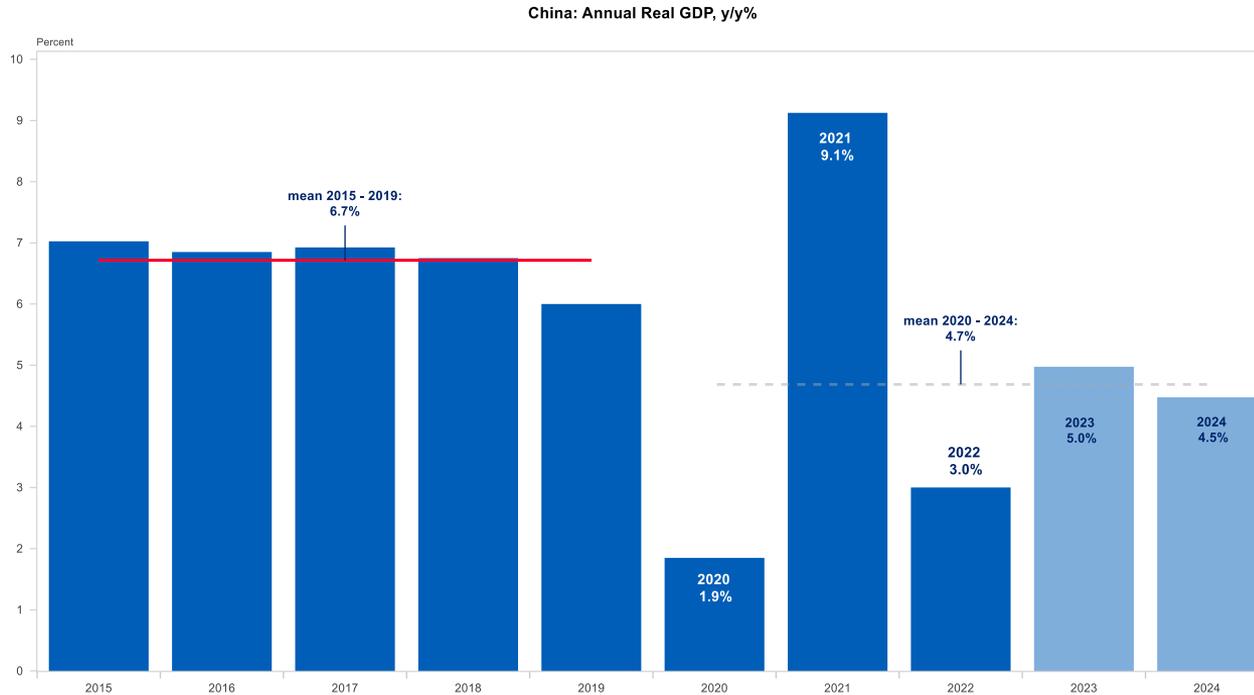
... meanwhile, policy responses are far from aggressive



Source: Macrobond, UOB Global Economics & Markets Research

China Outlook: Settling on a lower plane

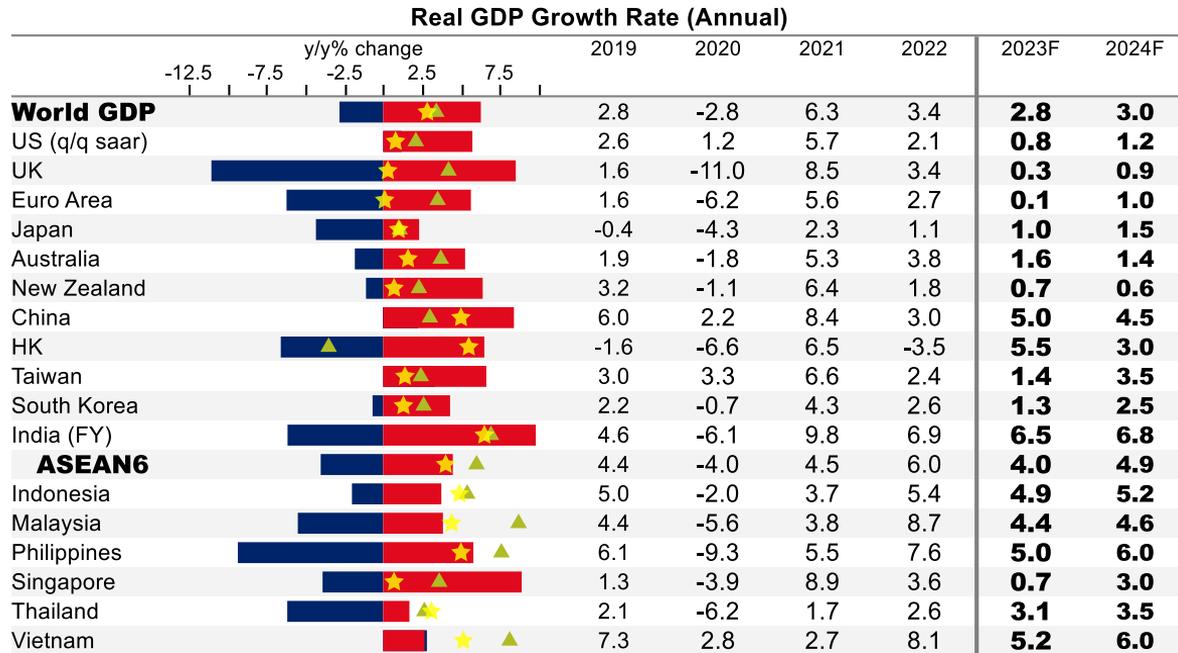
5% expansion in 2023, for about ~4.7% avg in 2020-2024



Source: Macrobond, UOB Global Economics & Markets Research

China Outlook: Settling on a lower plane

Slower growth across Asia in 2023 and mild rebound in 2024



Printed on: Mon 31 Jul 2023, 11:11 AM

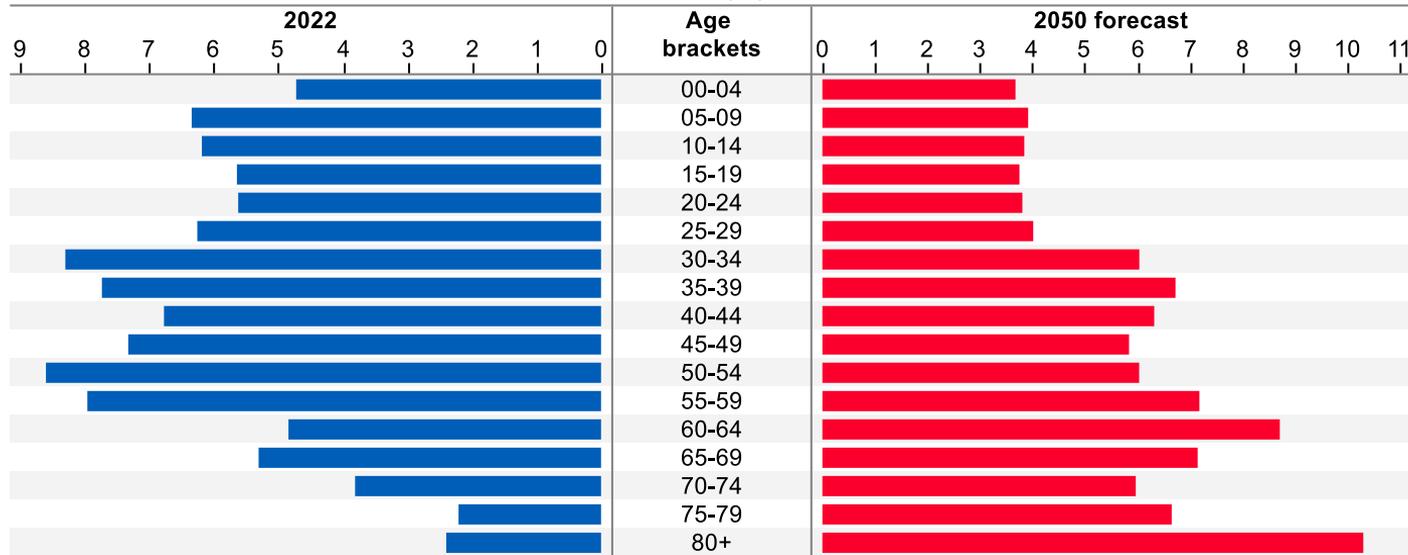
■ 2020 ■ 2021 ▲ 2022 ★ 2023F

Source: Global Economics & Markets Research

China Outlook: Structural factors in play

Shifting demographic profile – aging population

Share of Chinese population by age
as % of total population



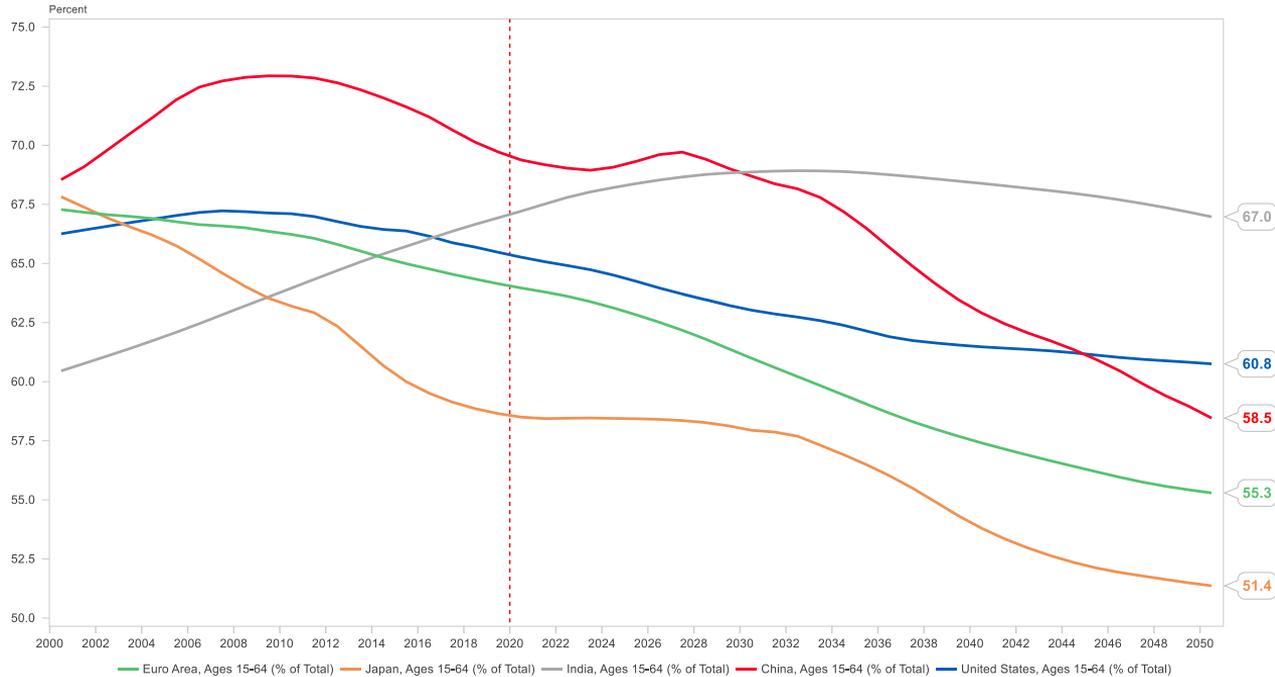
Data source: World Bank

Source: Global Economics & Markets Research

China Outlook: Structural factors in play

Shifting demographic profile – shrinking working age population

World Bank Estimates: Share Of China's Working Age Population To Decline Sharply



Source: Macrobond, UOB Global Economics & Markets Research

China Outlook: Structural factors in play

De-globalization/regionalization causing disruptions

The screenshot shows a web browser displaying a TechWire Asia article. The URL is techwireasia.com/2022/12/globalization-and-free-trade-is-almost-dead-says-tsmc-ceo/. The article title is "Globalization and free trade is 'almost dead', says TSMC CEO". The author is Dashveenjit Kaur, dated 19 December, 2022. The article content includes a quote from TSMC CEO Morris Chang: "Globalization is almost dead. Free trade is almost dead." The article discusses the dangers of excessive government export controls and the need for an alternative solution. A social media share button for 57 Social Buzz is visible. A sidebar on the right features a Kaspersky advertisement with the headline "Get a firm grip on evasive threats".

techwireasia.com/2022/12/globalization-and-free-trade-is-almost-dead-says-tsmc-ceo/

UOB United Overseas Bank UOB Xchange Outlook UOB eLearning Finance Acad - Intui... Digital Banks 数字... RCEP CPTPP US debt ceiling

TECHWIRE ASIA Spotlight Insights Latest Popular Topics

Globalization and free trade is "almost dead", says TSMC CEO

57 SOCIAL BUZZ

Globalization and free trade is "almost dead", says TSMC CEO(Photo by AFP) / China OUT

By Dashveenjit Kaur | 19 December, 2022

- The CEO of TSMC warned of the dangers of excessive government export controls, noticing that mutual trust and cooperation among countries has begun to weaken.
- He urged politicians to come up with an alternative solution.
- The TSMC chief also emphasized how multilateral export controls will create a lot of challenges for China's chip industry.

"Globalization is almost dead. Free trade is almost dead." those were the words of the founder of the Taiwan Semiconductor Manufacturing Co (TSMC), Morris Chang, at the opening ceremony of the company's plant in Arizona two weeks ago. He sounded alarmed — "I really don't think they will be back for a while." A week later, the CEO of TSMC, CC Wei, urged politicians to come up with an alternative solution instead of excessive government

Get a firm grip on evasive threats

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CYBERSECURITY CYBERATTACKS ROBOT CHINA FINTECH SUPPLY CHAIN APPS

Source:

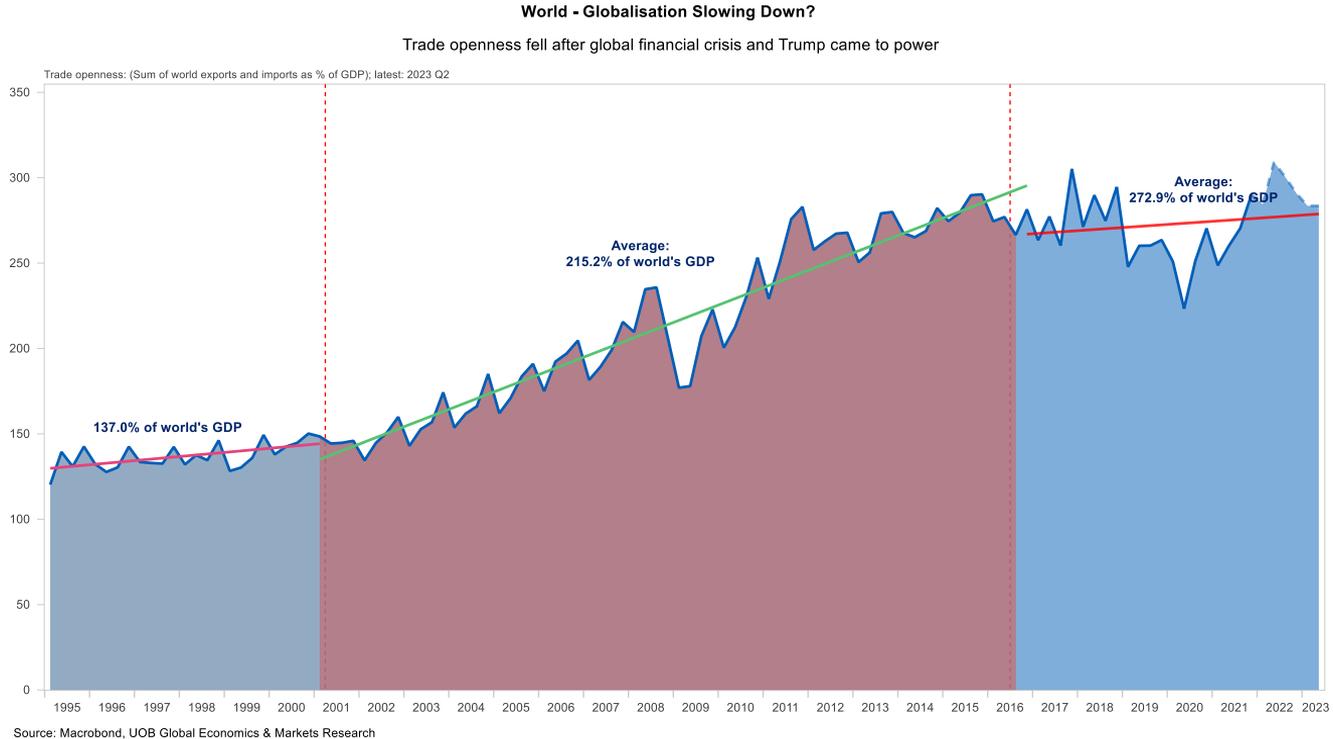
<https://techwireasia.com/2022/12/globalization-and-free-trade-is-almost-dead-says-tsmc-ceo/>

Full speech:

<https://semiwiki.com/forum/index.php?threads/morris-chang-globalization-is-almost-dead-and-free-trade-is-almost-dead-speech.17215/>

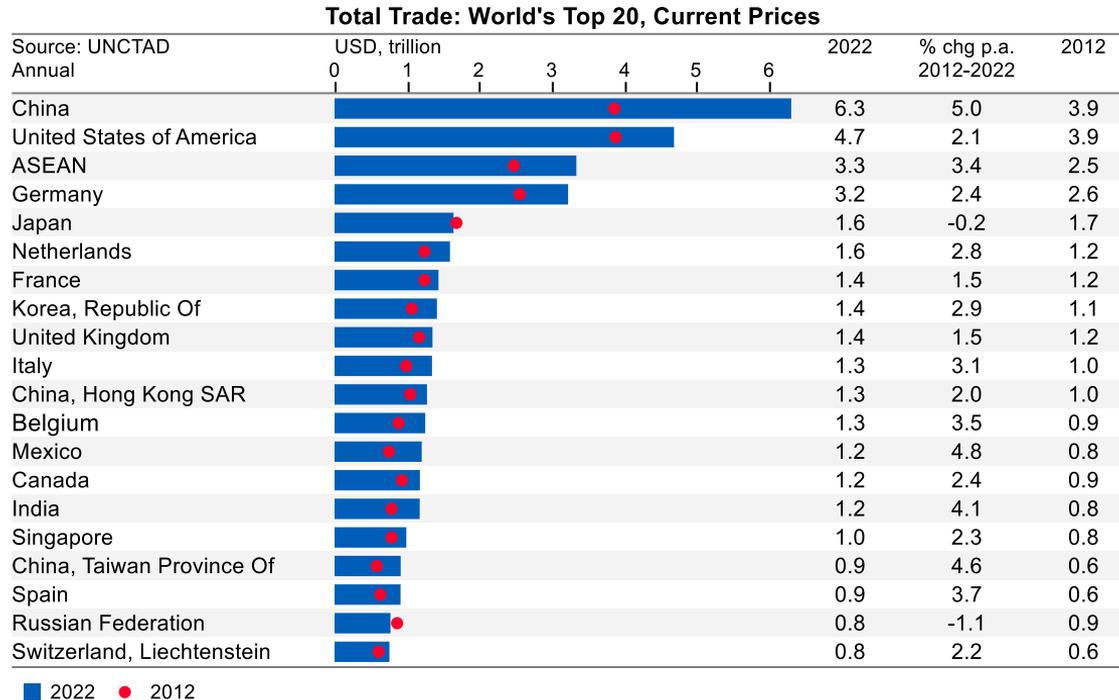
China Outlook: Structural factors in play

De-globalization/regionalization causing disruptions



China Outlook: Structural factors in play

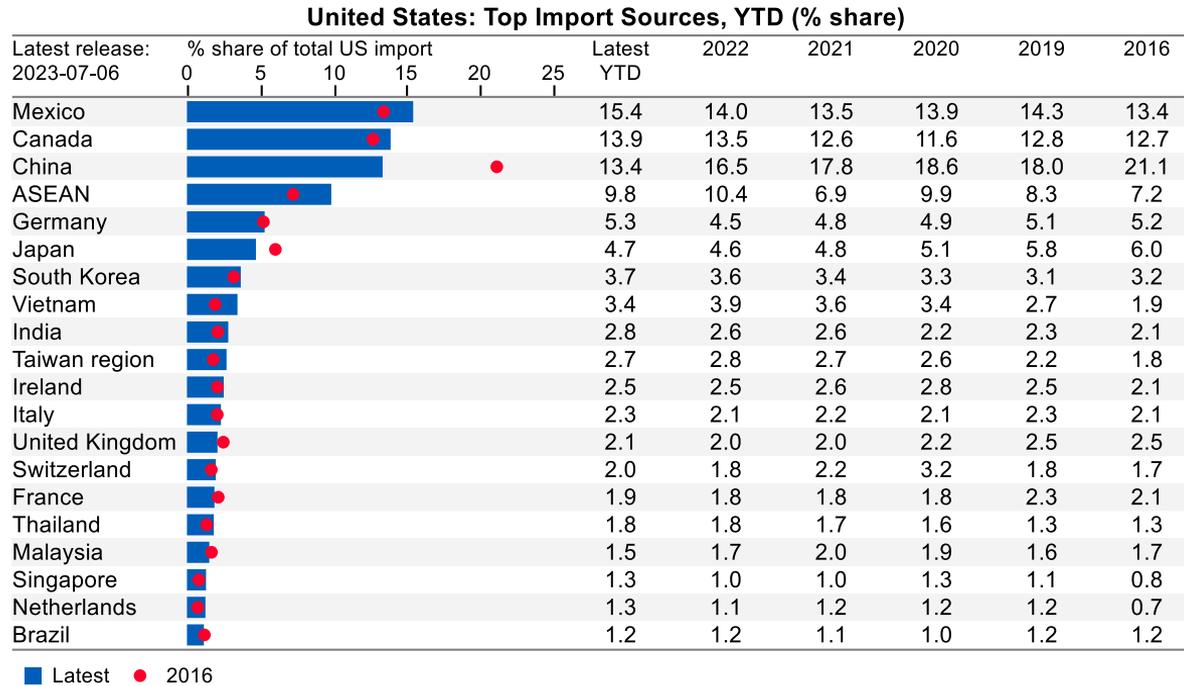
De-globalization/regionalization: Rise of ASEAN's trade prowess ...



Source: Global Economics & Markets Research

China Outlook: Structural factors in play

De-globalization/regionalization: ... just as US' imports patterns shift

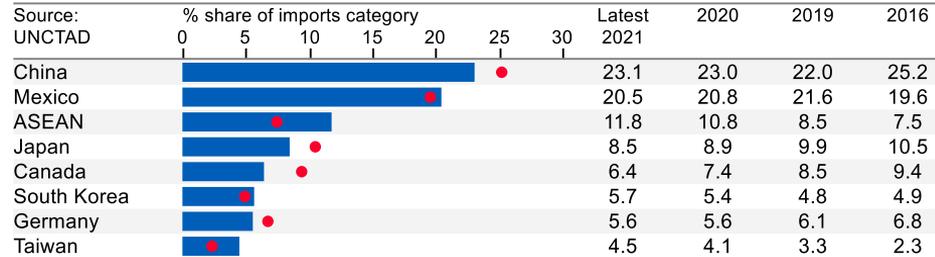


Source: Global Economics & Markets Research

China Outlook: Structural factors in play

De-globalization/regionalization: ... clear shift away from China imports

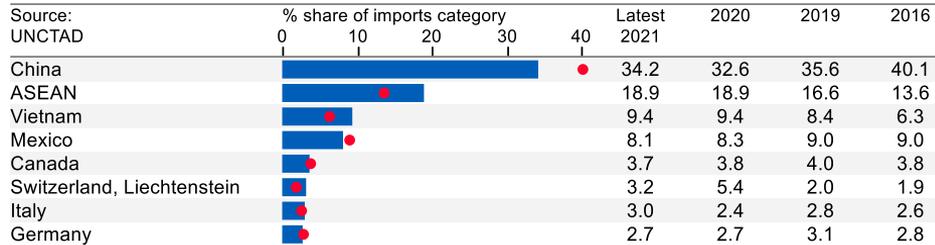
US: Import of Machinery & Transport Equipment, by Major Sources



■ Latest ● 2016

Source: Global Economics & Markets Research

US: Import of Miscellaneous Manufactured Goods, by Major Sources



■ Latest ● 2016

Source: Global Economics & Markets Research

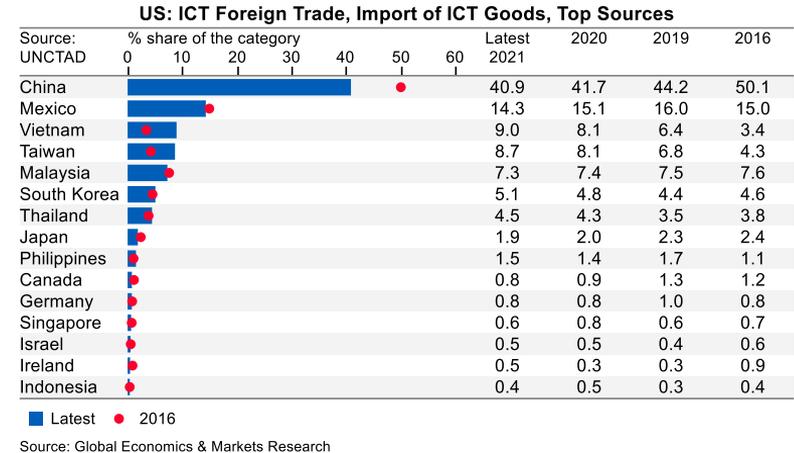
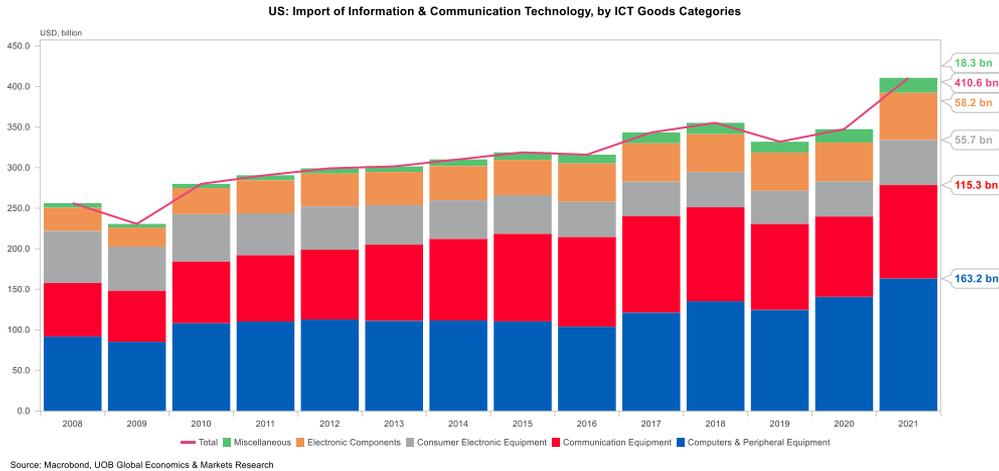
Note: Machinery & transport + misc manufactured goods accounted for 40% and 17% shares of US' total imports of USD2.93 tn in 2021

Classifications of products: Standard International Trade Classification (SITC) Revision 3, UNCTAD

https://unctadstat.unctad.org/en/Classifications/DimSicRev3Products_Official_Hierarchy.pdf

China Outlook: Structural factors in play

De-globalization/regionalization: ... clear shift away from China imports



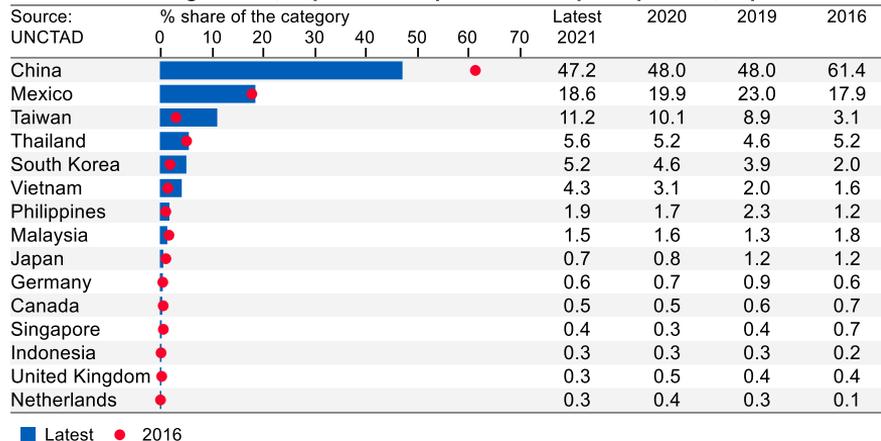
Note: ICT goods accounted for about 14% share of US' total imports of USD2.93 tn in 2021

Classifications of products: Updating The Partnership Definition Of ICT Goods From HS 2007 To HS 2012, UNCTAD
https://unctad.org/system/files/official-document/tn_unctad_ict4d02_en.pdf

China Outlook: Structural factors in play

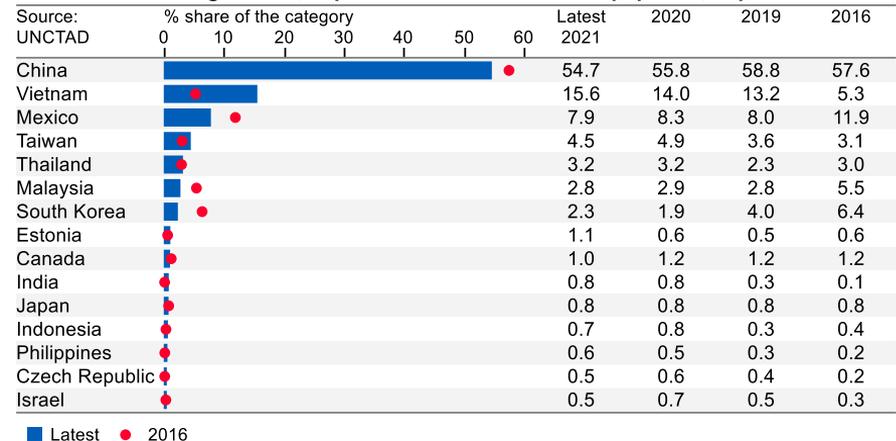
De-globalization/regionalization: ... clear shift away from China imports

US: ICT Foreign Trade, Import of Computers & Comp Peripherals, Top Sources



Source: Global Economics & Markets Research

US: ICT Foreign Trade, Import of Communications Equipment, Top Sources



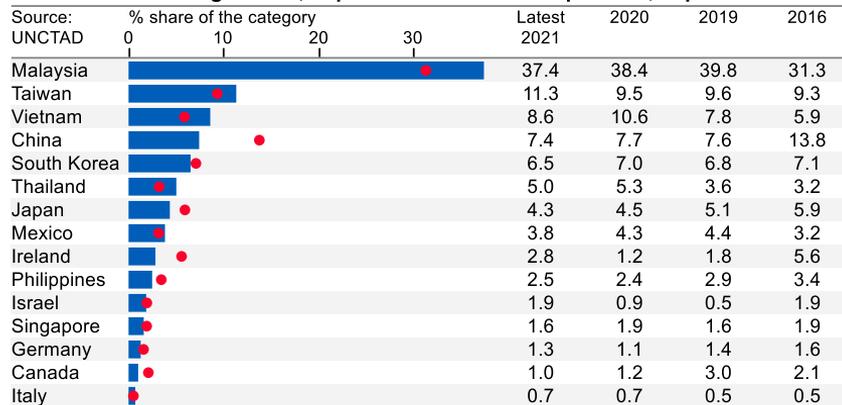
Source: Global Economics & Markets Research

Classifications of products: Updating The Partnership Definition Of ICT Goods From HS 2007 To HS 2012, UNCTAD
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China Outlook: Structural factors in play

De-globalization/regionalization: ... clear shift away from China imports

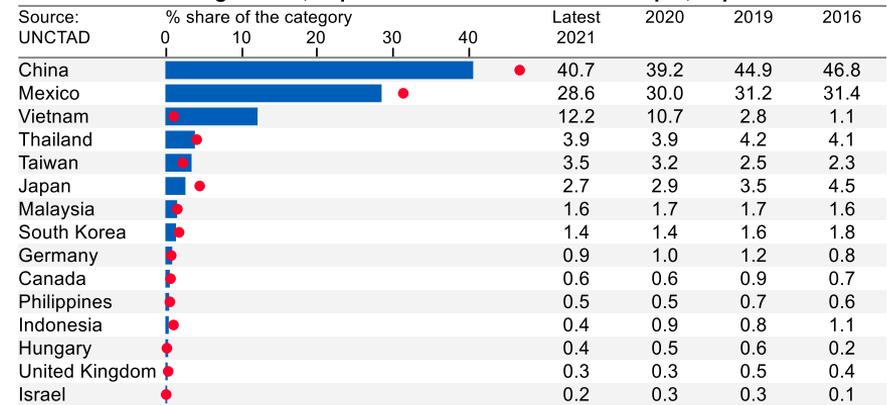
US: ICT Foreign Trade, Import of Electronic Components, Top Sources



■ Latest ● 2016

Source: Global Economics & Markets Research

US: ICT Foreign Trade, Import of Consumer Electronic Eqmt, Top Sources



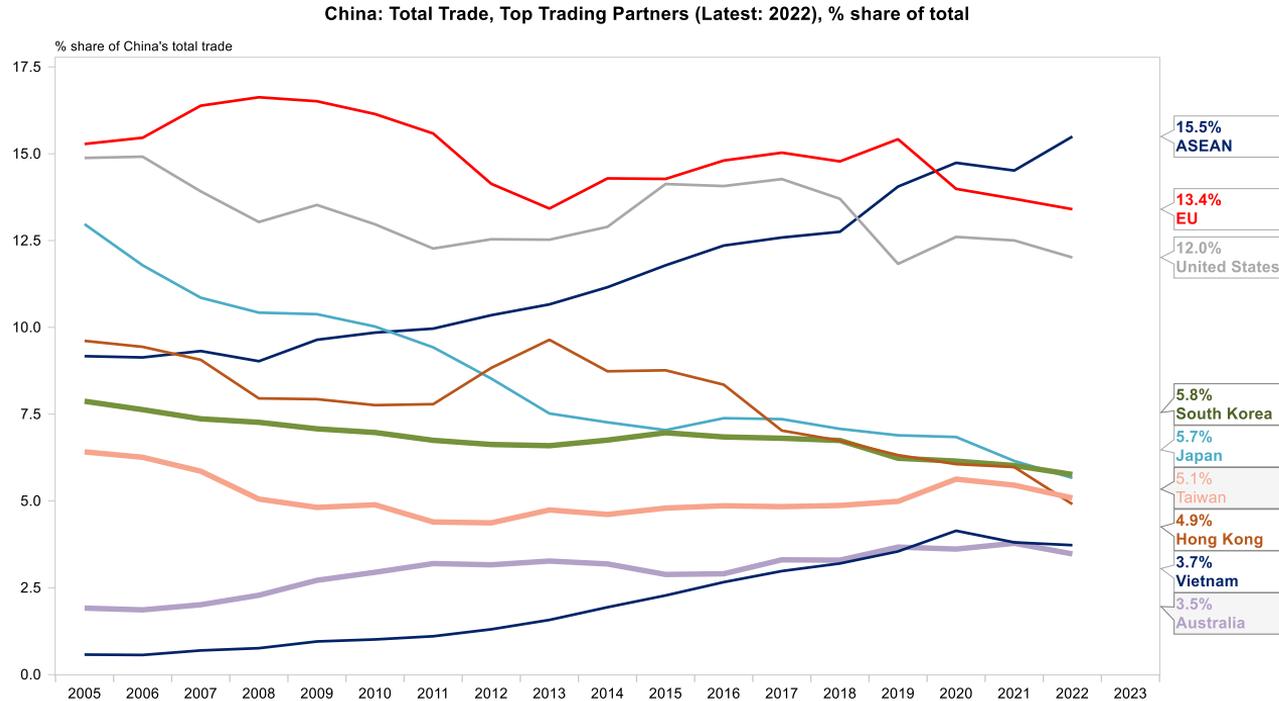
■ Latest ● 2016

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China Outlook: Structural factors in play

De-globalization/regionalization: ... in favor of ASEAN



Source: Macrobond, UOB Global Economics & Markets Research

China Outlook: Structural factors in play

De-globalization/regionalization: ... shifts in investment flows

Top Foreign Direct Investment (FDI), Inflows destinations

| UNCTAD | Annual, USD, billion | | | | |
|----------------------|----------------------|-------|-------|--------|-------|
| Last: 15 Aug 2022 | 2021 | 2020 | 2019 | CAGR % | 2010 |
| | 2010-2021 | | | | |
| United States | 367.4 | 150.8 | 225.1 | 5.8 | 198.0 |
| China | 181.0 | 149.3 | 141.2 | 4.2 | 114.7 |
| ASEAN | 175.2 | 122.0 | 174.9 | 4.1 | 112.9 |
| Hong Kong | 140.7 | 134.7 | 73.7 | 6.5 | 70.5 |
| EU | 137.5 | 209.5 | 401.7 | -7.8 | 335.9 |
| Canada | 59.7 | 23.2 | 50.1 | 7.0 | 28.4 |
| Brazil | 50.4 | 28.3 | 65.4 | -3.9 | 77.7 |
| India | 44.7 | 64.1 | 50.6 | 4.6 | 27.4 |
| South Africa | 40.9 | 3.1 | 5.1 | 24.6 | 3.6 |
| Russia | 38.2 | 10.4 | 32.1 | 1.7 | 31.7 |
| Mexico | 31.6 | 27.9 | 34.4 | 1.4 | 27.2 |
| Germany | 31.3 | 64.6 | 52.7 | -6.5 | 65.6 |
| United Kingdom | 27.6 | 18.2 | 45.5 | -6.6 | 58.2 |
| Sweden | 27.0 | 18.8 | 9.1 | 66.8 | 0.1 |
| Belgium | 25.6 | 11.9 | 1.8 | -7.1 | 57.6 |
| Australia | 25.1 | 16.7 | 39.4 | -3.4 | 36.8 |
| Poland | 24.8 | 13.8 | 13.5 | 6.2 | 12.8 |
| Japan | 24.7 | 10.7 | 13.8 | n/a | -1.3 |
| United Arab Emirates | 20.7 | 19.9 | 17.9 | 8.1 | 8.8 |
| Saudi Arabia | 19.3 | 5.4 | 4.6 | -3.7 | 29.2 |

■ 2021 ▲ 2010

Source: Macrobond, UOB Global Economics & Markets Research

Foreign Direct Investment (FDI), Inward Flows

| UNCTAD | Annual, USD, billion | | | | |
|--------------------|----------------------|-------|-------|--------|-------|
| Last: 15 Aug 2022 | 2021 | 2020 | 2019 | CAGR % | 2010 |
| | 2010-2021 | | | | |
| China | 181.0 | 149.3 | 141.2 | 4.2 | 114.7 |
| ASEAN | 175.3 | 122.1 | 175.0 | 4.1 | 112.9 |
| Singapore | 99.1 | 75.4 | 106.3 | 5.1 | 57.5 |
| Brazil | 50.4 | 28.3 | 65.4 | -3.9 | 77.7 |
| India | 44.7 | 64.1 | 50.6 | 4.6 | 27.4 |
| South Africa | 40.9 | 3.1 | 5.1 | 24.6 | 3.6 |
| Russia | 38.2 | 10.4 | 32.1 | 1.7 | 31.7 |
| Mexico | 31.6 | 27.9 | 34.4 | 1.4 | 27.2 |
| Indonesia | 20.1 | 18.6 | 23.9 | 3.5 | 13.8 |
| Vietnam | 15.7 | 15.8 | 16.1 | 6.3 | 8.0 |
| Turkey | 12.5 | 7.8 | 9.6 | 3.0 | 9.1 |
| Malaysia | 11.6 | 3.2 | 7.8 | 2.3 | 9.1 |
| Thailand | 11.4 | -4.8 | 4.8 | -2.2 | 14.7 |
| Philippines | 10.5 | 6.8 | 8.7 | 23.1 | 1.1 |
| Argentina | 6.5 | 4.0 | 6.7 | -4.9 | 11.3 |
| Cambodia | 3.5 | 3.6 | 3.7 | 8.6 | 1.4 |
| Myanmar | 2.1 | 1.9 | 2.5 | -10.1 | 6.7 |
| Lao | 1.1 | 1.0 | 0.8 | 13.0 | 0.3 |
| Brunei | 0.2 | 0.6 | 0.4 | -7.5 | 0.5 |

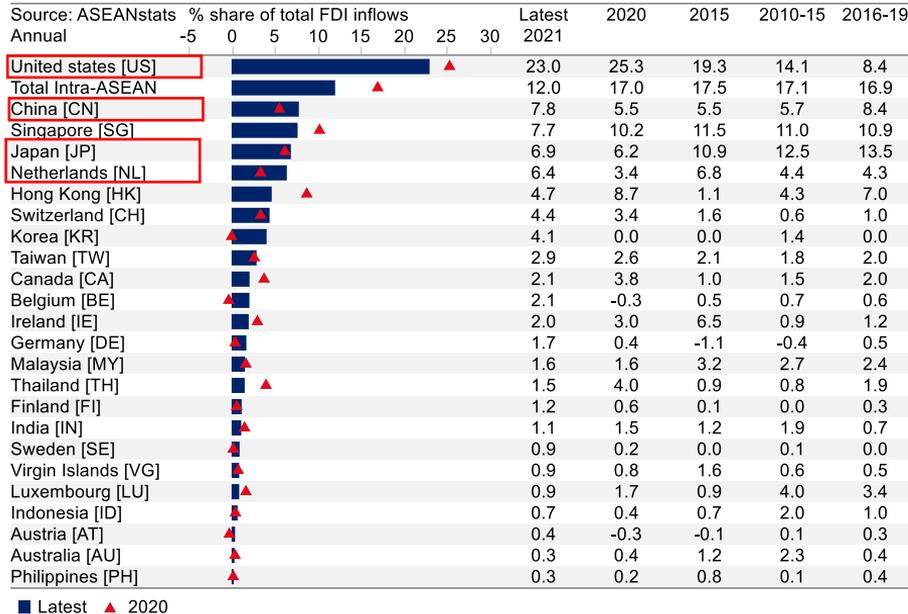
■ 2021 ▲ 2010

Source: Macrobond, UOB Global Economics & Markets Research

China Outlook: Structural factors in play

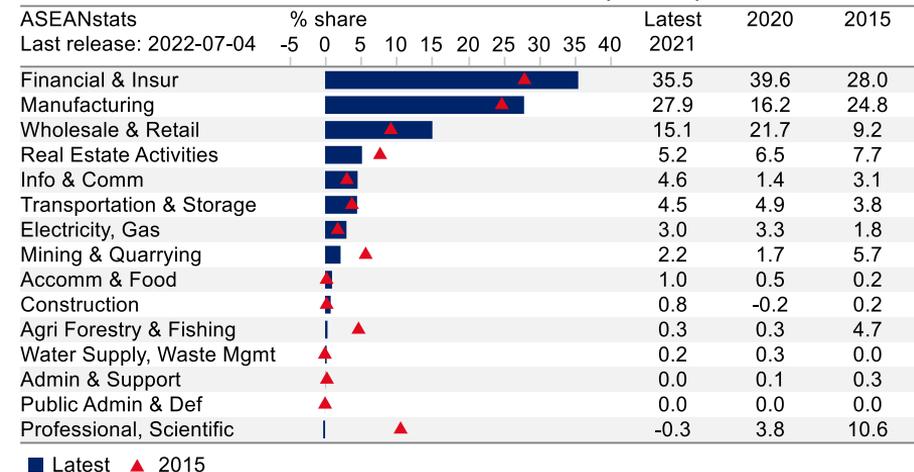
De-globalization/regionalization: ... shifts in investment flows

ASEAN Foreign Direct Investments Inflows (Major sources)



Source: Macrobond, UOB Global Economics & Markets Research

ASEAN: FDI Inflows to Sectors (Annual)



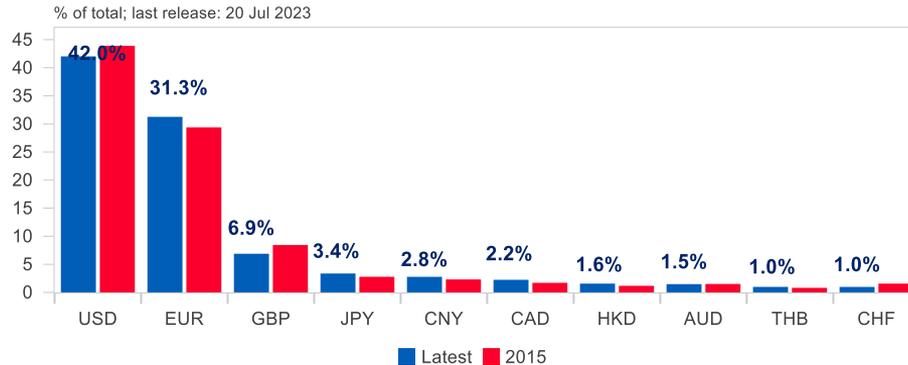
Source: Macrobond, UOB Global Economics & Markets Research

China Outlook: Structural factors in play

De-dollarization: a long road ahead

SWIFT: USD Is The Dominant Currency For Payments

SWIFT: Top 10 Payment Currencies



Source: Macrobond, UOB Global Economics & Markets Research

For further details: De-dollarization: A Reality Check, 15 May 2023 https://www.uobgroup.com/web-resources/uobgroup/pdf/research/MSN_230515.pdf

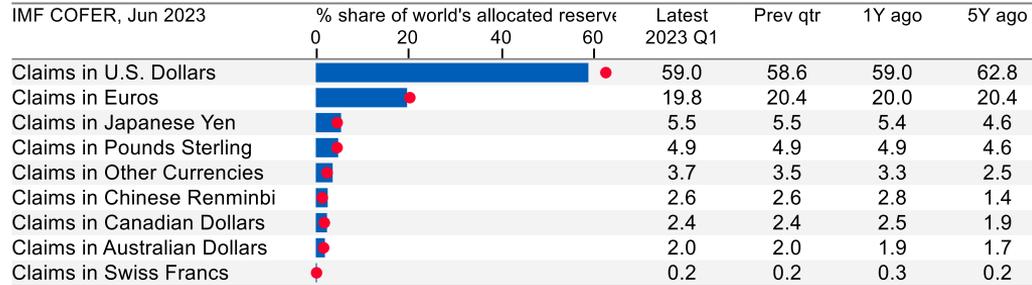
China Outlook: Structural factors in play

De-dollarization: a long road ahead

SWIFT: USD Is The Dominant Currency For Payments

Source: Macrobond, UOB Global Economics & Markets Research

World, International Reserves, Currency Composition



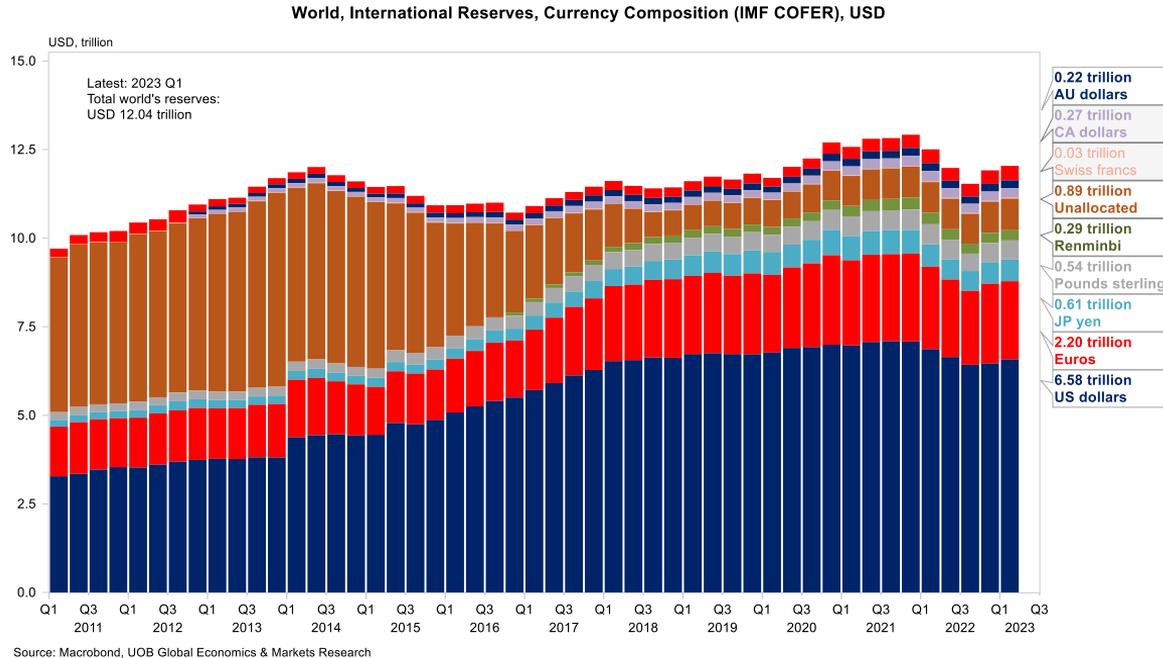
■ Latest ● 5Y ago

Source: Global Economics & Markets Research

For further details: De-dollarization: A Reality Check, 15 May 2023 https://www.uobgroup.com/web-resources/uobgroup/pdf/research/MSN_230515.pdf

China Outlook: Structural factors in play

China's total trade = USD6.3 tn in 2022; USD290 bn in RMB can fund less than 3 weeks' worth of trade, while US dollars can fund 1.4x of US' total trade in 2022 ...



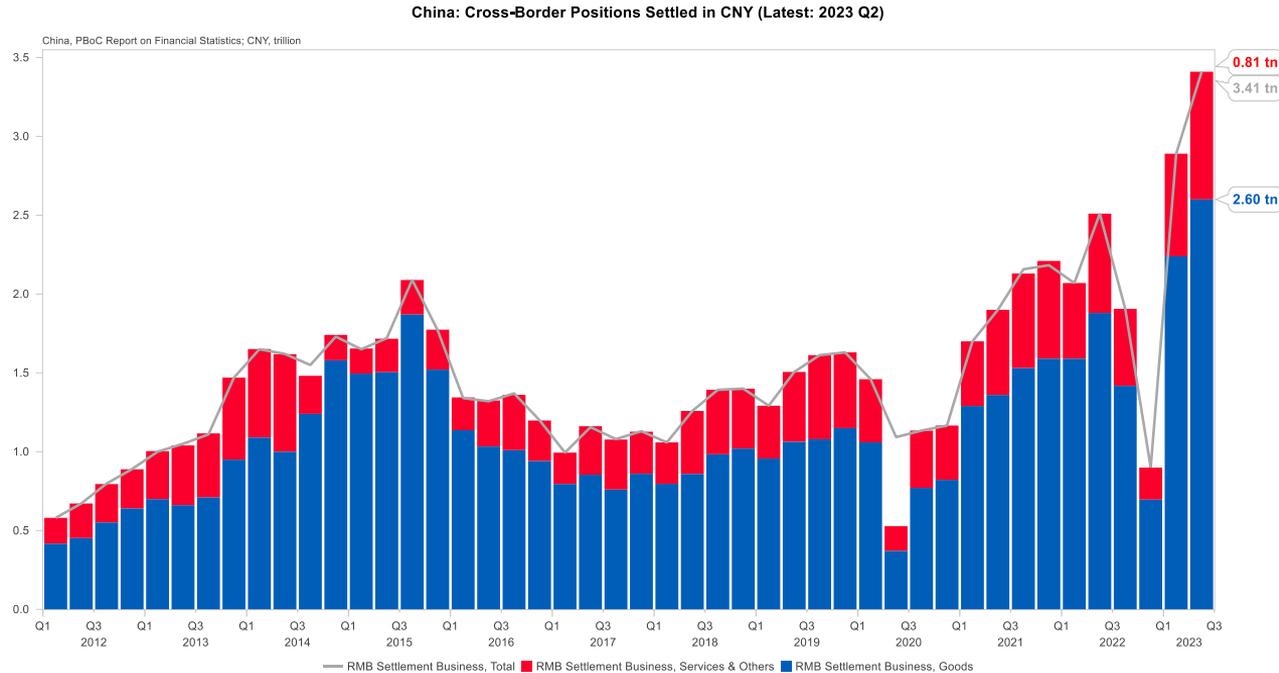
China Outlook: Structural factors in play

De-risking: China's holdings of US Treasury assets falling but still substantial ...



China Outlook: Structural factors in play

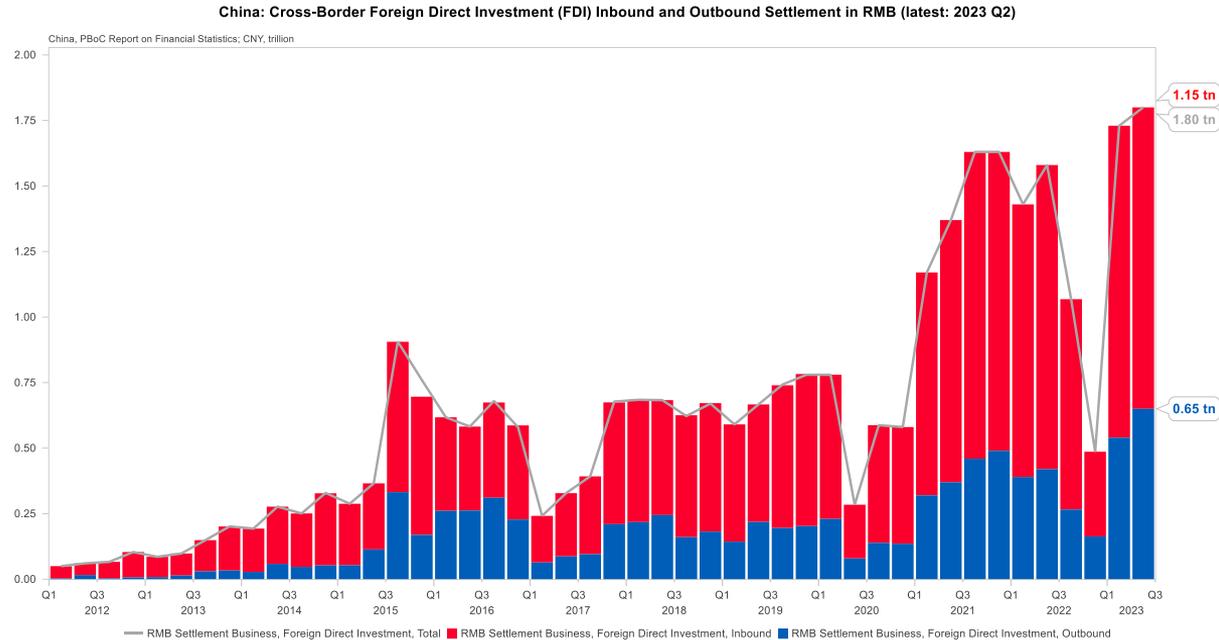
De-risking: Record amount of settlement in RMB in 1H23 for goods & services trade purposes



Source: Macrobond, UOB Global Economics & Markets Research

China Outlook: Structural factors in play

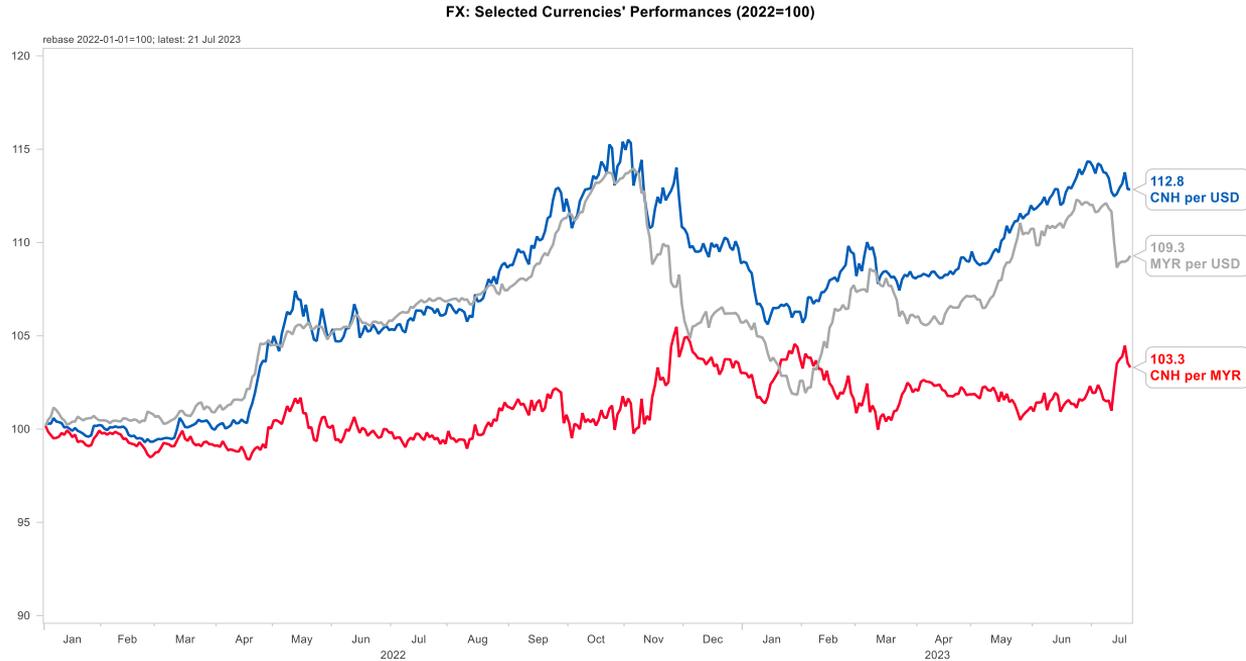
De-risking: Record amount of settlement in RMB in 1H23 for direct investment purposes



Source: Macrobond, UOB Global Economics & Markets Research

China Outlook: Structural factors in play

De-risking: US dollar exchange rate volatility vs Local Currency Settlement (LCS)



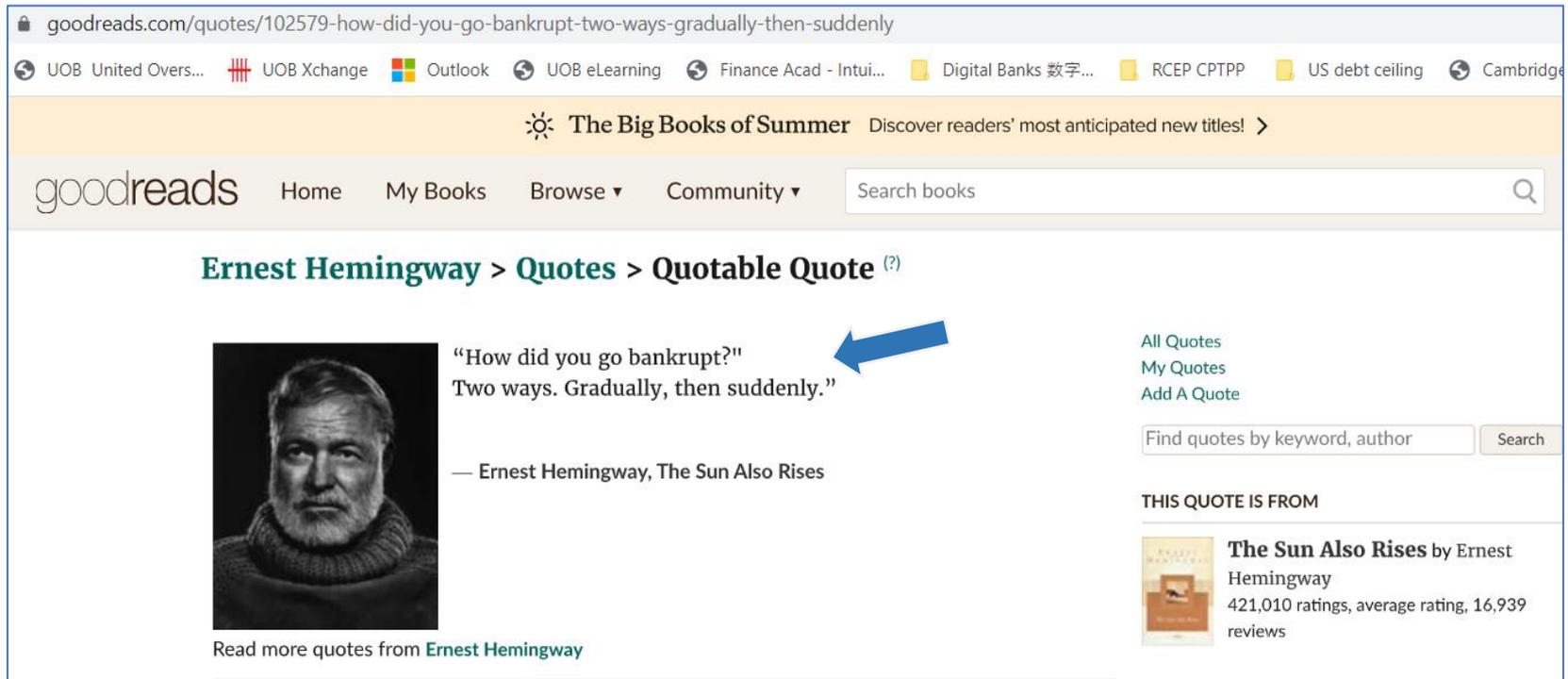
China Outlook: Structural factors in play

Watch out for developments in Local Currency Settlement (LCS)

- De-dollarization/RMB internationalization will be a long process: **US dollar dominant** in the financial markets, efficiency in cross-border transactions, ease of deploying excess dollars, inertia, etc are main factors
- However, US dollar's volatility means companies are exposed **to exchange rate risks (and other risks)**, especially in projects or contracts that stretch out for years. How to reduce these risks?
- If the local currency's moves are highly correlated with the RMB, **LCS will be one way** to manage exchange rate volatility, reduce costs of currency exchange (no US dollar involved), accelerate fund settlement time (can it be as fast as T+0?) and reduce funding costs
- The LCS framework is now available in regional countries, e.g. Indonesia, and will be moving in tandem with de-dollarization / RMB internationalization trends
- As such, status quo looks set to remain near term, but be **prepared for changes and to manage risks ahead**

...

De-dollarization: Gradually, then Suddenly?



The screenshot shows a web browser window with the Goodreads website. The address bar displays the URL: `goodreads.com/quotes/102579-how-did-you-go-bankrupt-two-ways-gradually-then-suddenly`. The browser's tab bar shows several open tabs, including "UOB United Overs...", "UOB Xchange", "Outlook", "UOB eLearning", "Finance Acad - Intui...", "Digital Banks 数字...", "RCEP CPTP", "US debt ceiling", and "Cambridge". The Goodreads header features a banner for "The Big Books of Summer" with the text "Discover readers' most anticipated new titles! >". Below the banner is the Goodreads logo and navigation links for "Home", "My Books", "Browse", and "Community". A search bar is located on the right side of the header.

The main content area displays the quote: **Ernest Hemingway > Quotes > Quotable Quote (?)**. On the left, there is a black and white portrait of Ernest Hemingway. To the right of the portrait, the quote is displayed: "How did you go bankrupt?" Two ways. Gradually, then suddenly." A blue arrow points from the quote text to the right. Below the quote, it is attributed to "— Ernest Hemingway, The Sun Also Rises".

On the right side of the page, there are links for "All Quotes", "My Quotes", and "Add A Quote". Below these links is a search box with the placeholder text "Find quotes by keyword, author" and a "Search" button. Further down, a section titled "THIS QUOTE IS FROM" features a book cover for "The Sun Also Rises" by Ernest Hemingway, along with the text "421,010 ratings, average rating, 16,939 reviews".

At the bottom left of the quote section, there is a link that says "Read more quotes from Ernest Hemingway".