Macro Research

Macro Comment China

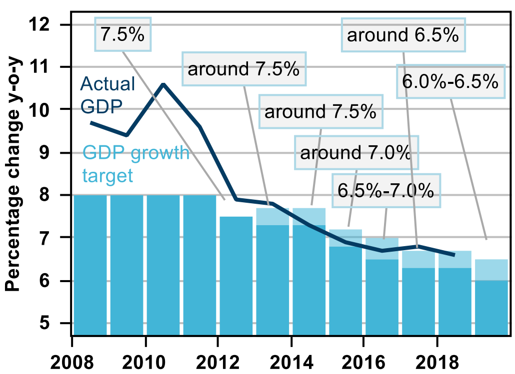
China lowers growth target and eases fiscal policy

By lowering the growth target and at the same time announcing growth stimulus, the authorities clearly acknowledge the current weak stance of the economy. Renewed focus on fiscal instead of monetary policy easing bodes well for the fight against excessive credit.

The official GDP growth target has been lowered to “between 6.0 and 6.5 percent” for 2019 compared to “around 6.5 percent” in 2018. Actual GDP growth was 6.6 percent in 2018. The new target was as usual announced at the convention of the National People’s Congress (NPC), China’s national legislature. The target was likely decided upon at the Economic Work Conference in December, but was published during Premier Li Keqiang’s opening speech at the NPC.

The target has been lowered gradually in recent years (see chart), so the lowering should not have surprised markets. In fact, some might have feared an even lower target or no target at all, which would have been a sign of less need for policy stimulus to the economy. That would most likely had been seen as negative by equity and commodity investors globally, as (policy-driven) Chinese infrastructure and property construction remain an important driver of demand for iron ore and industrial metals. In the longer term, it would be positive for China’s economy if it were to abandon the unhealthy obsession to fulfil the growth targets and instead create room for economic reforms, we believe, but financial markets likely do not have such a long horizon.

Growth target revised down



Source: Macrobond

Fiscal policy easing, particularly in the form of VAT cuts of a noticeable size, was also announced. By doing this and at the same time lowering the growth target, the authorities clearly acknowledge the current growth headwinds. The target for the fiscal deficit has been increased from 2.6 percent of GDP to 2.8 percent (a higher deficit equals fiscal policy easing). This does not sound like a lot but should only be seen as a direction signal. Fiscal stimulus is often financed off balance sheet and/or at the local government level and does not affect the official primary deficit measure. Indeed, infrastructure project investments have already been boosted by local governments’ higher quotas for issuing bonds

Regarding monetary policy, a promise to lower reserve requirements for smaller banks was announced. Targeting monetary policy easing to help smaller companies is appropriate. It is also good that monetary policy is not eased more broadly as that would risk re-inflating the credit bubble that the authorities have put so much effort into reining in. This is also why shifting focus toward fiscal easing makes sense.

In his speech, Li promised to improve the exchange rate mechanism, which is interesting amid the trade war and Trump insisting that China’s currency is unfairly weak. Li also reiterated the promise to keep the currency “generally stable at an adaptive and balanced level”. We continue to interpret this as keeping the effective CNY stable within an undefined interval (see our Macro Comment China).

We expect to see the first signs of the stimulus-induced rebound in economic growth soon, but it is still too early to call off the slowdown. As premier Li put it in his speech: “China must be fully prepared for a tough economic battle ahead”.

Bjarke Roed-Frederiksen, +45 46791229, bjro03@handelsbanken.dk

Research disclaimer

Risk warning

All investments involve risks and investors are encouraged to make their own decision as to the appropriateness of an investment in any securities referred to in this report, based on their specific investment objectives, financial status and risk tolerance. The historical return of a financial instrument is not a guarantee of future return. The value of financial instruments can rise or fall, and it is not certain that you will get back all the capital you have invested.

Research disclaimers

Handelsbanken Capital Markets, a division of Svenska Handelsbanken AB (publ) (collectively referred to herein as 'SHB'), is responsible for the preparation of research reports. SHB is regulated in Sweden by the Swedish Financial Supervisory Authority, in Norway by the Financial Supervisory Authority of Norway, in Finland by the Financial Supervisory Authority of Finland and in Denmark by the Danish Financial Supervisory Authority. All research reports are prepared from trade and statistical services and other information that SHB considers to be reliable. SHB has not independently verified such information and does not represent that such information is true, accurate or complete.

In no event will SHB or any of its affiliates, their officers, directors or employees be liable to any person for any direct, indirect, special or consequential damages arising out of any use of the information contained in the research reports, including without limitation any lost profits even if SHB is expressly advised of the possibility or likelihood of such damages.

The views contained in SHB research reports are the opinions of employees of SHB and its affiliates and accurately reflect the personal views of the respective analysts at this date and are subject to change. There can be no assurance that future events will be consistent with any such opinions. Each analyst identified in this research report also certifies that the opinions expressed herein and attributed to such analyst accurately reflect his or her individual views about the companies or securities discussed in the research report.

Research reports are prepared by SHB for information purposes only. The information in the research reports does not constitute a personal recommendation or personalised investment advice and such reports or opinions should not be the basis for making investment or strategic decisions. This document does not constitute or form part of any offer for sale or subscription of or solicitation of any offer to buy or subscribe for any securities nor shall it or any part of it form the basis of or be relied on in connection with any contract or commitment whatsoever. Past performance may not be repeated and should not be seen as an indication of future performance. The value of investments and the income from them may go down as well as up and investors may forfeit all principal originally invested. Investors are not guaranteed to make profits on investments and may lose money. Exchange rates may cause the value of overseas investments and the income arising from them to rise or fall. This research product will be updated on a regular basis.

No part of SHB research reports may be reproduced or distributed to any other person without the prior written consent of SHB. The distribution of this document in certain jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restrictions.

The report does not cover any legal or tax-related aspects pertaining to any of the issuer's planned or existing debt issuances.

Please be advised of the following important research disclosure statements:

SHB employees, including analysts, receive compensation that is generated by overall firm profitability. Analyst compensation is not based on specific corporate finance or debt capital markets services. No part of analysts' compensation has been, is or will be directly or indirectly related to specific recommendations or views expressed within research reports.

From time to time, SHB and/or its affiliates may provide investment banking and other services, including corporate banking services and securities advice, to any of the companies mentioned in our research.

We may act as adviser and/or broker to any of the companies mentioned in our research. SHB may also seek corporate finance assignments with such companies.

We buy and sell securities mentioned in our research from customers on a principal basis. Accordingly, we may at any time have a long or short position in any such securities. We may also make a market in the securities of all the companies mentioned in this report. [Further information and relevant disclosures are contained within our research reports.]

SHB, its affiliates, their clients, officers, directors or employees may own or have positions in securities mentioned in research reports.

In conjunction with services relating to financial instruments, the Bank may, under certain circumstances, pay or receive inducements, i.e. fees and commission from parties other than the customer. Inducements may be both monetary and non-monetary benefits. If inducements are paid to or received from a third party, it is required that the payment must aim to improve the quality of the service, and the payment must not prevent the Bank from safeguarding the customer's interests. The customer must be informed about such remuneration that the Bank receives. When the Bank provides investment research, the Bank receives minor non-monetary benefits. Minor non-monetary benefits consist of the following:

- Information or documentation about a financial instrument or an investment service that is general in character.
- Written material produced by a third party that is an issuer to market a new issue.
- Participation at conferences and seminars regarding a specific instrument or investment service
- Corporate hospitality up to a reasonable amount.

The Bank has adopted Guidelines concerning Research which are intended to ensure the integrity and independence of research analysts and the research department, as well as to identify actual or potential conflicts of interests relating to analysts or the Bank and to resolve any such conflicts by eliminating or mitigating them and/or making such disclosures as may be appropriate. As part of its control of conflicts of interests, the Bank has introduced restrictions (“Information barriers”) on communications between the Research department and other departments of the Bank. In addition, in the Bank’s organisational structure, the Research department is kept separate from the Corporate Finance department and other departments with similar remits. The Guidelines concerning Research also include regulations for how payments, bonuses and salaries may be paid out to analysts, what marketing activities an analyst may participate in, how analysts are to handle their own securities transactions and those of closely related persons, etc. In addition, there are restrictions in communications between analysts and the subject company. According to the Bank’s Ethical Guidelines for the Handelsbanken Group, the board and all employees of the Bank must observe high standards of ethics in carrying out their responsibilities at the Bank, as well as other assignments. For full information on the Bank’s ethical guidelines please see the Bank’s website www.handelsbanken.com and click through to About the bank – Sustainability at Handelsbanken – Sustainability – Policy documents and guidelines – Policy documents – Policy for ethical standards in the Handelsbanken Group. Handelsbanken has a ZERO tolerance of bribery and corruption. This is established in the Bank’s Group Policy on Bribery and Corruption. The prohibition against bribery also includes the soliciting, arranging or accepting bribes intended for the employee’s family, friends, associates or acquaintances. For full information on the Bank’s Policy against corruption please see the Bank’s website www.handelsbanken.com and click through to About the bank – Sustainability at Handelsbanken – Sustainability – Policy documents and guidelines – Policy documents – Policy against corruption in the Handelsbanken Group.

When distributed in the UK
Research reports are distributed in the UK by SHB.
SHB is authorised by the Swedish Financial Supervisory Authority (Finansinspektionen) and the Prudential Regulation Authority and subject to limited regulation by the Financial Conduct Authority and Prudential Regulation Authority. Details about the extent of our authorisation and regulation by the Prudential Regulation Authority, and regulation by the Financial Conduct Authority are available from us on request.
UK customers should note that neither the UK Financial Services Compensation Scheme for investment business nor the rules of the Financial Conduct Authority made under the UK Financial

Services and Markets Act 2000 (as amended) for the protection of private customers apply to this research report and accordingly UK customers will not be protected by that scheme.
This document may be distributed in the United Kingdom only to persons who are authorised or exempted persons within the meaning of the Financial Services and Markets Act 2000 (as amended) (or any order made thereunder) or (i) to persons who have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the “Order”), (ii) to high net worth entities falling within Article 49(2)(a) to (d) of the Order or (iii) to persons who are professional clients under Chapter 3 of the Financial Conduct Authority Conduct of Business Sourcebook (all such persons together being referred to as “Relevant Persons”).

When distributed in the United States
Important Third-Party Research Disclosures:
SHB research is not “globally branded” research and each recipient of SHB research is advised that in the United States, SHB research is distributed by Handelsbanken Markets Securities, Inc., (“HMSI”) an affiliate of SHB. HMSI does not produce research and does not employ research analysts. SHB research and SHB research analysts and its employees are not subject to FINRA’s research analyst rules which are intended to prevent conflicts of interest by, among other things, prohibiting certain compensation practices, restricting trading by analysts and restricting communications with the companies that are the subject of the research report. SHB has no affiliation or business or contractual relationship with HMSI that is reasonably likely to inform the content of SHB research reports; SHB makes all research content determinations without any input from HMSI.
SHB research reports are intended for distribution in the United States solely to “major U.S. institutional investors,” as defined in Rule 15a-6 under the Securities Exchange Act of 1934. Each major U.S. institutional investor that receives a copy of research report by its acceptance hereof represents and agrees that it shall not distribute or provide research reports to any other person.
Any U.S. person receiving SHB research reports that desires to effect transactions in any equity securities discussed within the research reports should call or write HMSI. HMSI is a FINRA Member, telephone number (+1-212-326-5153).

Macro Research and Trading Strategy

Macro Research

Lena Fahlen	Head of Macro Research	+46 8 701 83 29
Christina Nyman	Chief Economist	+46 8 701 51 58

Web Editor

Terese Loon		+46 8 701 28 72

Sweden

Helena Bornevall	Scenario Analysis and Senior Economist	+46 8 701 18 59
Johan Löf	Senior Economist, Sweden	+46 8 701 5093
Anders Bergvall	Senior Economist, Thematic Analysis and US	+46 8 701 8378

Finland

Tiina Helenius	Head, Macro Research	+358 10 444 2404
Janne Ronkanen	Senior Economist, Finland	+358 10 444 2403

Denmark

Jes Asmussen	Head, Macro Research, Denmark and Netherlands	+45 46 79 12 03
Rasmus Gudum-Sessingø	Senior Economist, Denmark and Eurozone	+45 46 79 16 19
Bjarke Roed-Frederiksen	Senior Economist, China and Latin America	+45 46 79 12 29

Norway

Kari Due-Andresen	Head, Macro Research, Norway, UK	+47 22 39 70 07
Nils Kristian Knudsen	Senior Strategist FX/FI	+47 22 82 30 10
Marius Gonsholt Hov	Senior Economist, Norway	+47 22 39 73 40
Halfdan Grangård	Senior Economist, Norway	+47 22 39 71 81

Trading Strategy

Claes Måhlén	Chief Strategist	+46 8 463 45 35
Martin Jansson	Senior Commodity Strategist	+46 8 461 23 43
Nils Kristian Knudsen	Senior Strategist FX/FI	+47 22 82 30 10
Lars Henriksson	Strategist FX	+46 8 463 45 18
Kiran Sakira	Strategist FX	+46 8 701 46 14

Debt Capital Markets

Tony Lindlöf	Head of Debt Capital Markets	+46 8 701 25 10
Per Eldestrand	Head of Debt Capital Markets Sweden	+46 8 701 22 03
Måns Niklasson	Head of Corporate Loans and Acquisition Finance	+46 8 701 52 84
Thomas Grandin	Head of Corporate Bonds	+46 8 463 45 83

Sales

Fixed Income Sales
Henrik Franzén +46 8 701 11 41

Corporate Sales
Bo Fredriksson +46 8 701 345 31

FX Sales
Håkan Larsson +46 8 701 345 19

Syndication
Thomas Grandin +46 8 701 345 83

Regional sales

Copenhagen
Kristian Nielsen +45 46 79 12 69

Gothenburg
Björn Torsteinsrud +46 31 774 83 39

Gävle
Petter Holm +46 26 172 103

Helsinki
Mika Rämänen +358 10 444 62 20

Linköping
Fredrik Lundgren +46 13 28 91 10

London
Tolga Kulahcigil +44 207 578 86 12

Luleå/Umeå
Ove Larsson +46 90 154 719

Malmö
Fredrik Lundgren +46 40 243 900

Oslo
Petter Fjellheim +47 22 82 30 29

Stockholm
Malin Nilén +46 8 701 27 70

Toll-free numbers	From Sweden to N.Y. & Singapore	From Norway to N.Y. & Singapore	From Denmark to N.Y. & Singapore	From Finland to N.Y. & Singapore	Within the US
	020-58 64 46	800 40 333	8001 72 02	0800 91 11 00	1-800 396-2758

Svenska Handelsbanken AB (publ)

Stockholm
Blasieholmstorg 11
SE-106 70 Stockholm
Tel. +46 8 701 10 00
Fax. +46 8 611 11 80

Copenhagen
Havneholmen 29
DK-1561 Copenhagen V
Tel. +45 46 79 12 00
Fax. +45 46 79 15 52

Helsinki
Itämerenkatu 11-13
FI-00180 Helsinki
Tel. +358 10 444 11
Fax. +358 10 444 2578

Oslo
Tjuvholmen allé 11
Postboks 1249 Vika
NO-0110 Oslo
Tel. +47 22 39 70 00
Fax. +47 22 39 71 60

London
3 Thomas More Square
London GB-E1W 1WY
Tel. +44 207 578 8668
Fax. +44 207 578 8090

New York
Handelsbanken Markets Securities, Inc.
875 Third Avenue, 4th Floor
New York, NY 10022-7218
Tel. +1 212 326 5153
Fax. +1 212 326 2730
FINRA, SIPC