

China & Global Macro

● Commodities

● Fixed Income & Currency

● Asset allocation

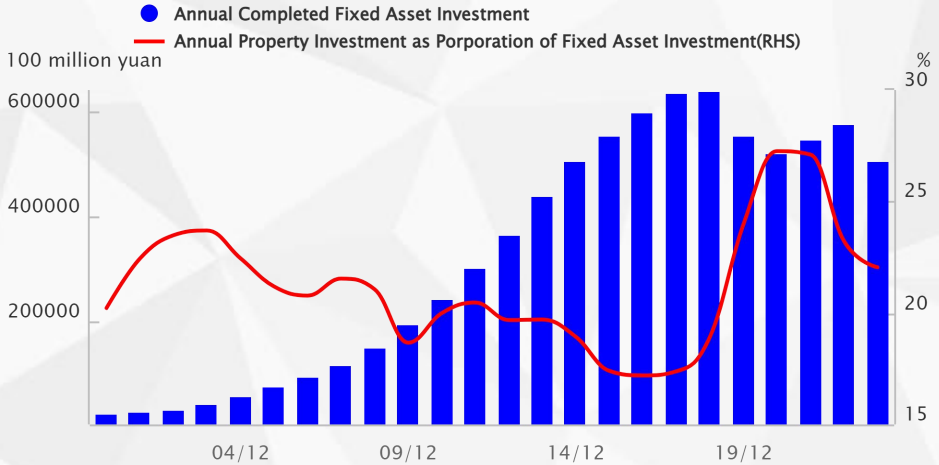


Horizon Insights

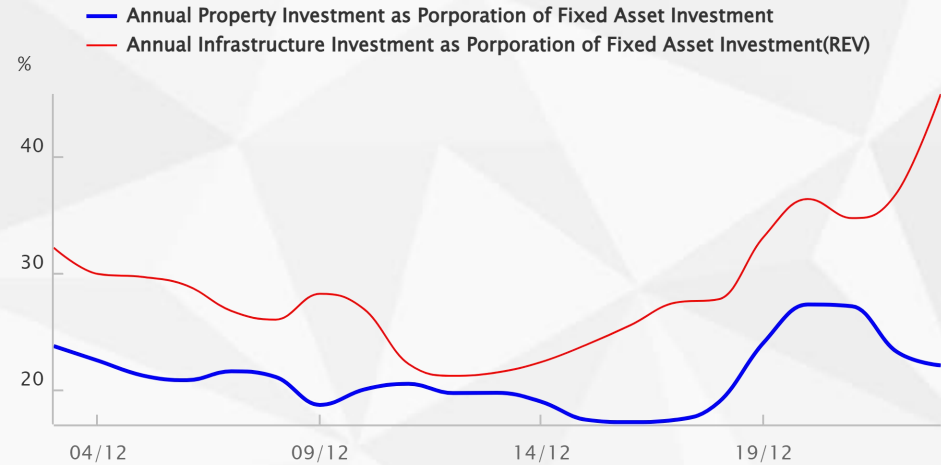
Expectation VS Reality: 2024 Macro and Metals Outlook

Juno Yao, Research Head of International Business

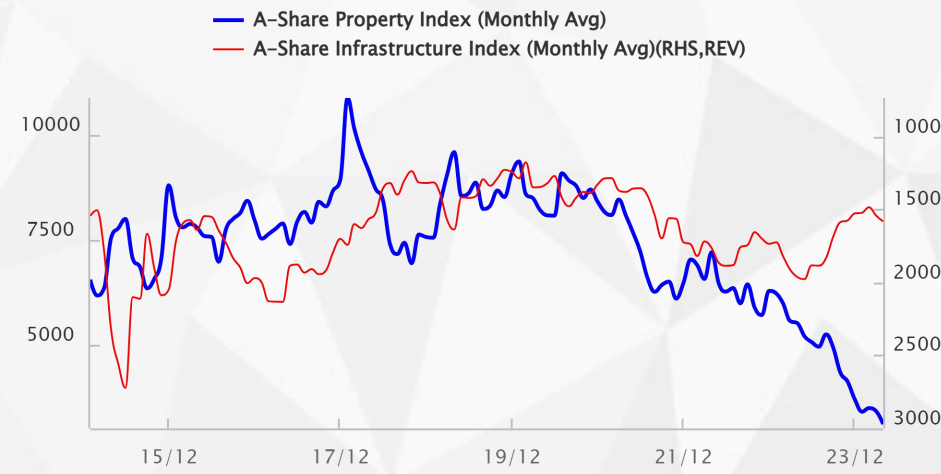
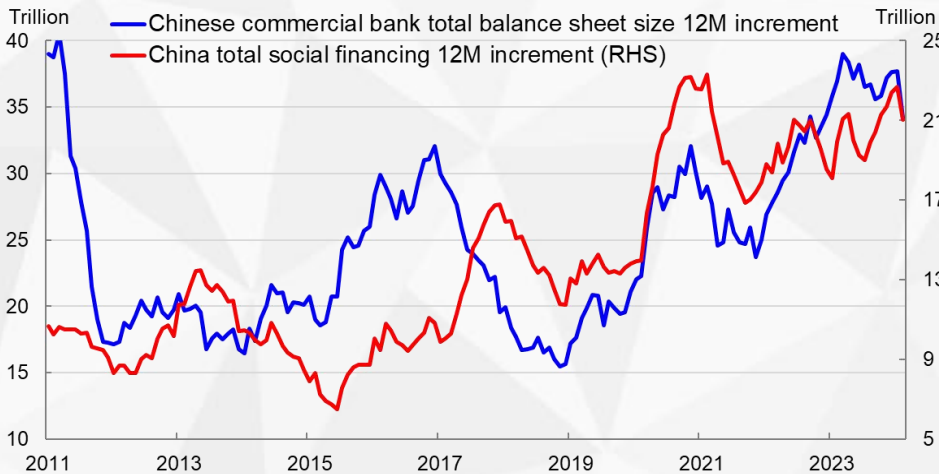
Credit expansion is bumpy without property sector as demand driver



Source: iFind, Horizon Insights,wind



Source:wind, Horizon Insights

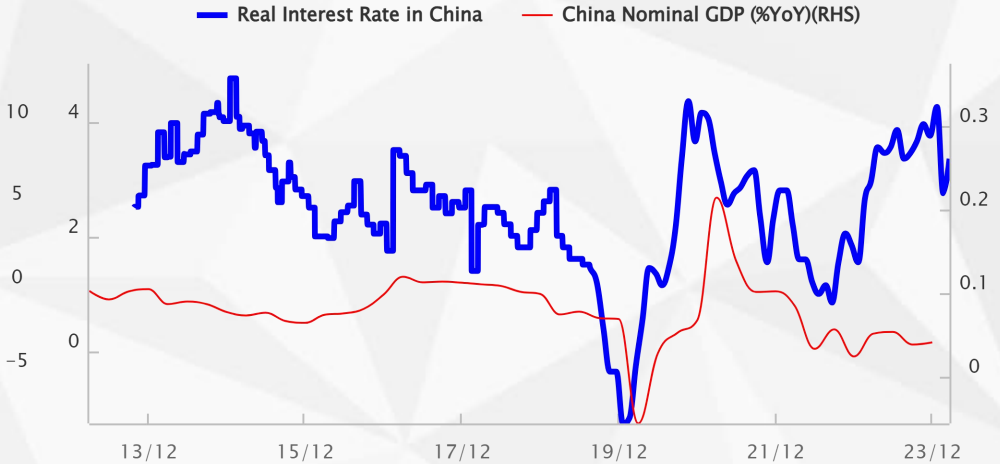


Source:wind, Horizon Insights

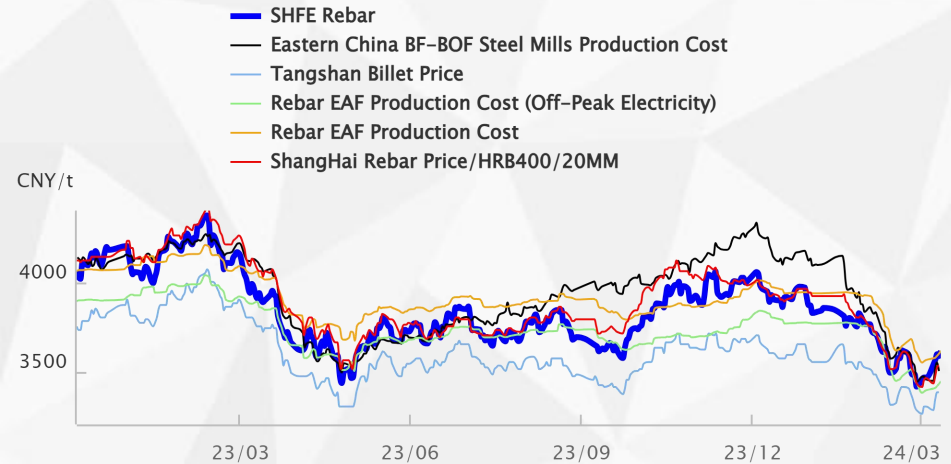
Financing environment is still tight with low investment returns



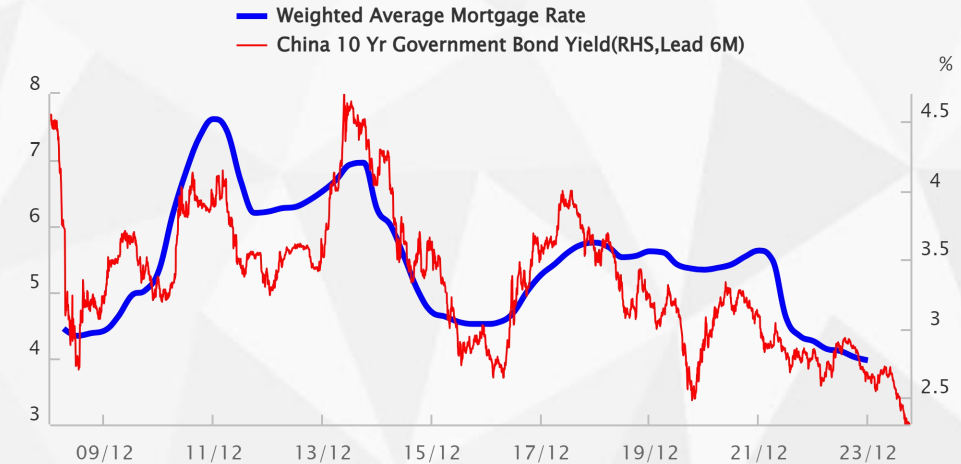
Source:wind, Horizon Insights



Source:wind, Horizon Insights



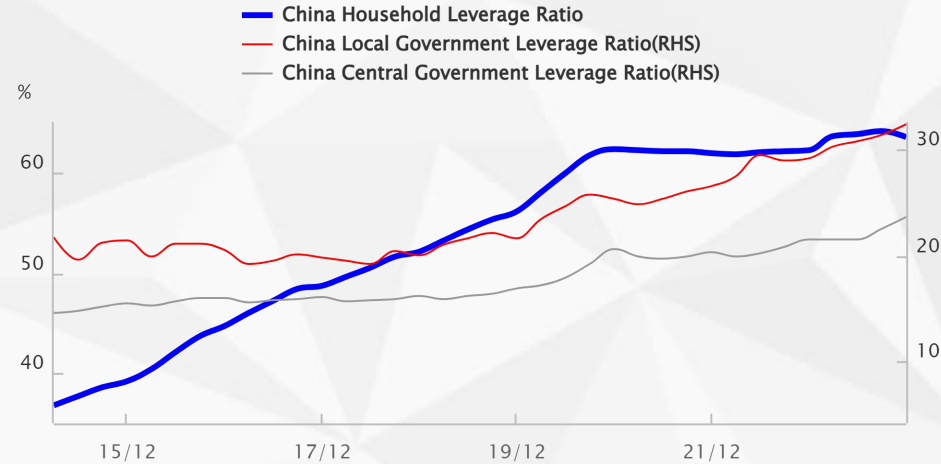
Source: iFind, Mysteel,wind, Horizon Insights



Source:wind, iFind, Horizon Insights

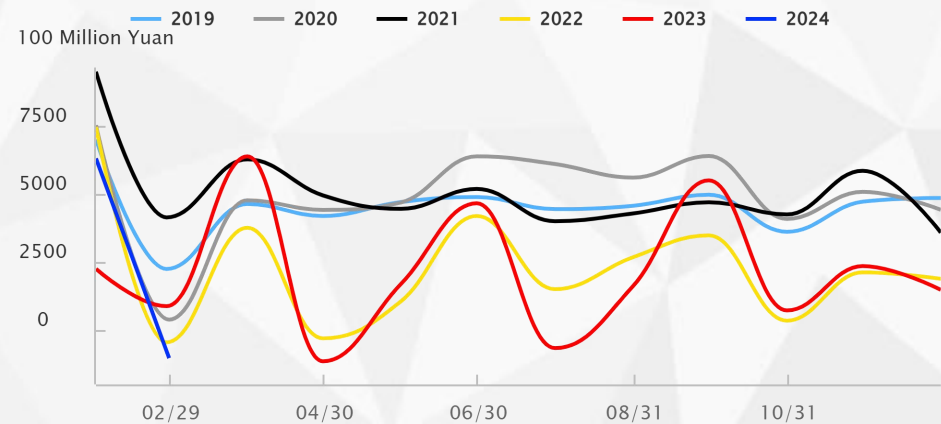
A divergence between GDP target and market sentiment

GDP Breakdown	2021	2022	2023E	2024E
GDP	8.1%	3%	5%	4.5%
Consumption	12.5	3.5%	7.2%	4.9%
Fixed Capital Investment	12.8%	5.7%	4%	4.9%
Manufacturing	13.5%	9.1%	6.0%	9.3%
Infrastructure	0.2%	11.5%	8%	6.2%
Property	4.4%	-10%	-9.5%	-11.2%
Net Export	18%	32.5%	-32.7%	-0.2%



Source:wind, iFind, Horizon Insights

China Household Medium and Long-Term Loan



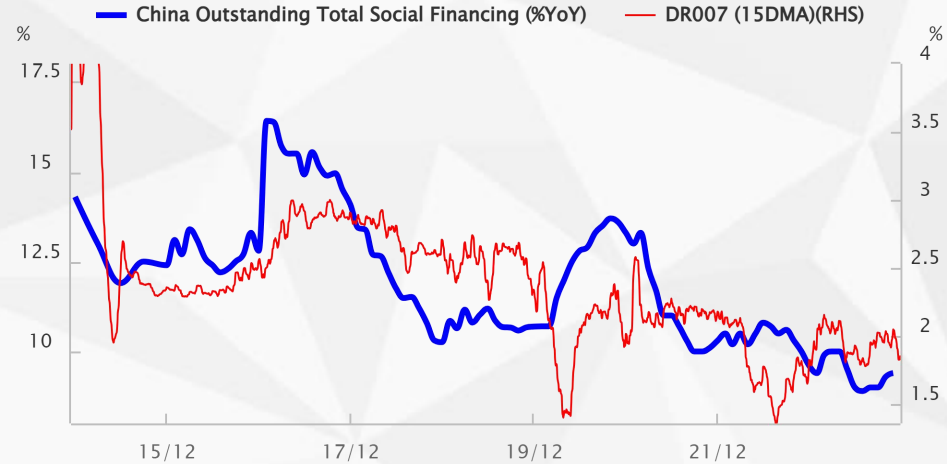
Source:wind, Horizon Insights



Source:wind, Horizon Insights

How to achieve 2024 GDP target? Existing debt resolution

Economic Target	2024	2023	2022	2021	2020	2019
GDP	5%	5%	6%	6%	NA	6-6.5%
Fiscal Deficit	3%	3%	~2.8%	~3.2%	>3.6%	2.8%
CPI	3%	3%	3%	3%	4%	3%
Special Purpose Bond	3.9 tn	3.8 tn	3.65 tn	3.65 tn	3.75 tn	2.15 tn
Special Sovereign Bond	1 tn	1 tn (24 Oct 2023)			Down	
Energy per unit of GDP	-2.5%	Down	Assess based on 14th five-year plan	-3%	Down	-3%



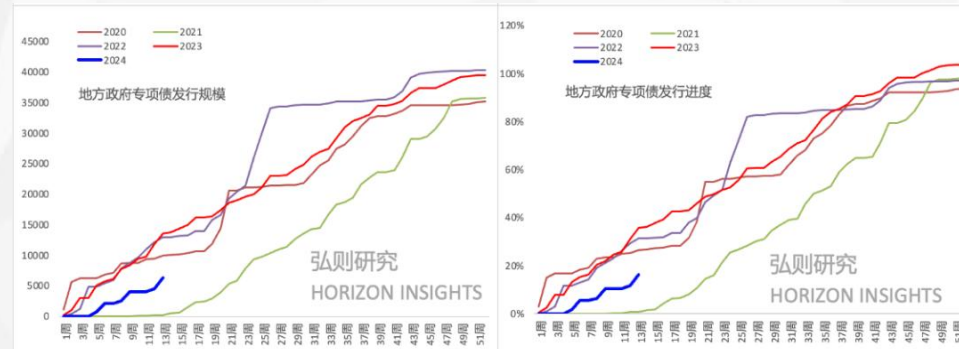
Source:wind, Horizon Insights

附件

停、缓建政府投资项目清单

单位: 亿元

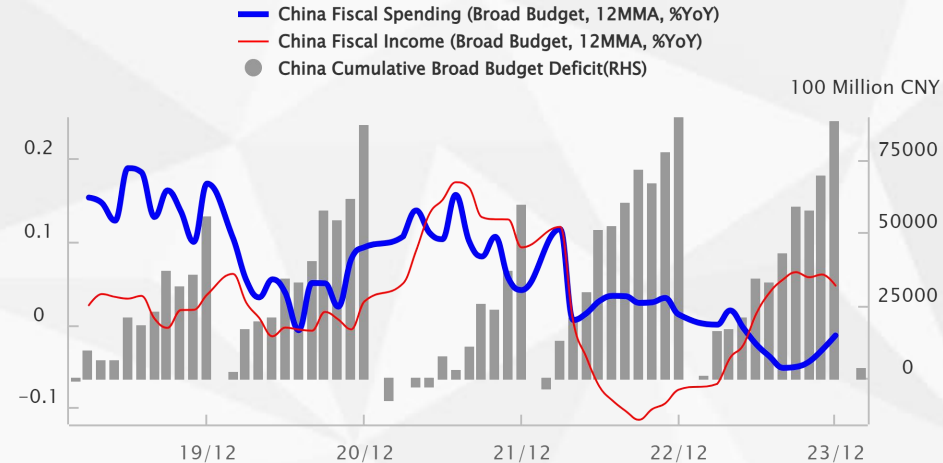
序号	所属州市	项目名称	项目建设地点	所属行业	总投资	可优先用于化债资金	处理意见
合计 (1153个)					2904.68	25.51	
在建 (189个)					483.81	24.56	
1	省本级	金沙江中游库区航运基础设施综合建设一期工程	丽江	交通	15.71	0.00	暂缓建设
2	省本级	金沙江中游库区航运基础设施综合建设二期工程	丽江、大理	交通	9.71	0.00	暂缓建设
3	省本级	云南中医药大学呈贡校区二期预留项目	云南中医药大学呈贡校区	教育	3.95	0.48	停止建设
4	省本级	云南省“智慧党建”工程(二期)	昆明市	数字经济	0.80	0.67	停止建设
5	省本级	云南省“智慧党建”工程(一期)	昆明市	数字经济	0.69	0.21	停止建设
6	昆明市	五华区221号市政道路建设项目	五华区	市政基础设施	1.61	0.21	暂缓建设
7	昆明市	西山1号规划路	西山区	市政基础设施	0.84	0.00	暂缓建设
8	昆明市	西山212号规划路新建工程	西山区	市政基础设施	1.08	0.00	暂缓建设
9	昆明市	西山217号规划路新建工程	西山区	市政基础设施	0.23	0.00	暂缓建设
10	昆明市	西山377号规划路新建工程	西山区	市政基础设施	0.85	0.00	暂缓建设
11	昆明市	西山235号规划路新建工程	西山区	市政基础设施	1.04	0.00	暂缓建设
12	昆明市	西山236号规划路新建工程	西山区	市政基础设施	0.83	0.00	暂缓建设
13	昆明市	西山233号规划路新建工程	西山区	市政基础设施	0.44	0.00	暂缓建设
14	昆明市	西山232号规划路新建工程	西山区	市政基础设施	0.30	0.00	暂缓建设



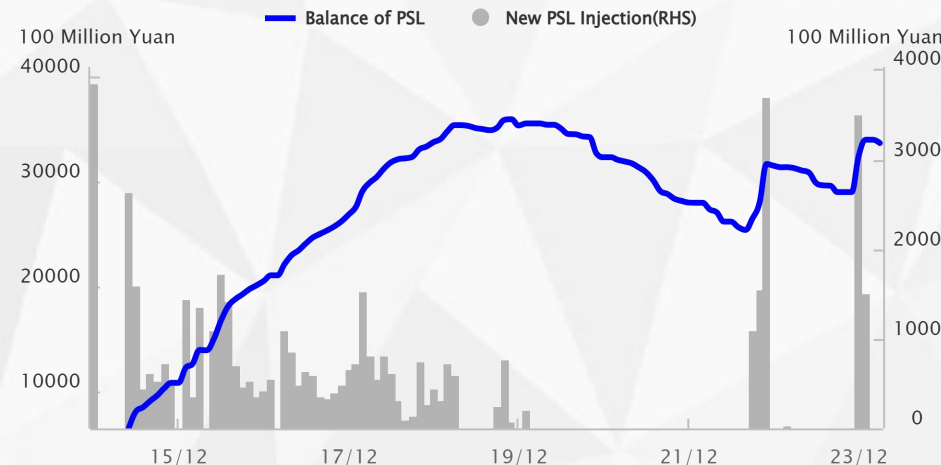
Local government special purpose bond issuance scale & progress

How to achieve 2024 GDP target? Fiscal support and quasi-quantitative easing

Economic Target	2024	2023	2022	2021	2020	2019
GDP	5%	5%	6%	6%	NA	6-6.5%
Fiscal Deficit	3%	3%	~2.8%	~3.2%	>3.6%	2.8%
CPI	3%	3%	3%	3%	4%	3%
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Special Sovereign Bond	1 tn	1 tn (24 Oct 2023)			Down	
Energy per unit of GDP	-2.5%	Down	Assess based on 14th five-year plan	-3%	Down	-3%



Source:wind, Horizon Insights



Source:wind, Horizon Insights

More than 10 cities introduced the 'New for Old' policies in the residential property sector. Such policies allow individuals to sell old houses and purchase new ones with subsidies. E.g. In Zhengzhou, government-backed investment units use the rental housing loan established in 2023 to buy back 5,000 units of second-hand houses as government-guaranteed rental housing. It also lifted all purchase restrictions for improvement demand say higher lending rate, etc. Under both approaches, individuals will enjoy a 30% deed tax reduction.

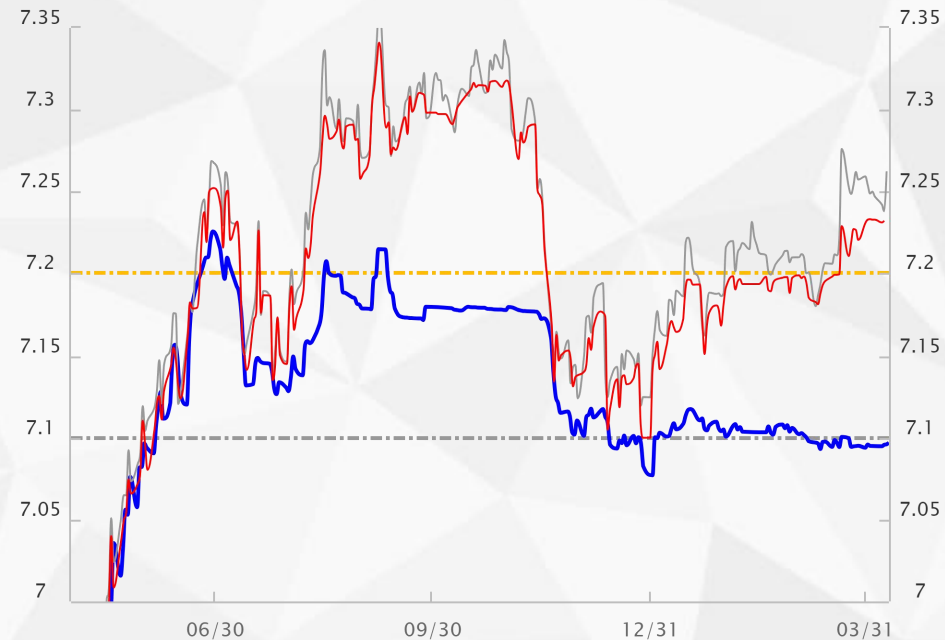
Expectation VS reality: the growth problem in China

— SSE50 A-share Index
— Onshore CNY(2-RHS,REV)
— Net Inflow of Northbound Funds(RHS)



Source:wind, Horizon Insights

— USDCNY (Central Parity Rate)(RHS)
— USDCNY: Spot Exchange Rate



Source: iFind, Horizon Insights,wind

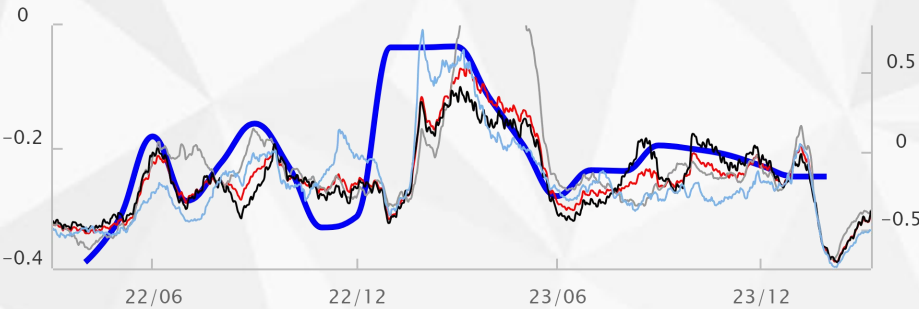
Expectation: stronger support from central government

Reality: conservative policy reaction, slow issuance of government funding, still high financing cost and low investment return, fiscal deficit for local government

Outcome: domestic market lost confidence regarding policy effectiveness (or at least financial market is not betting on it)

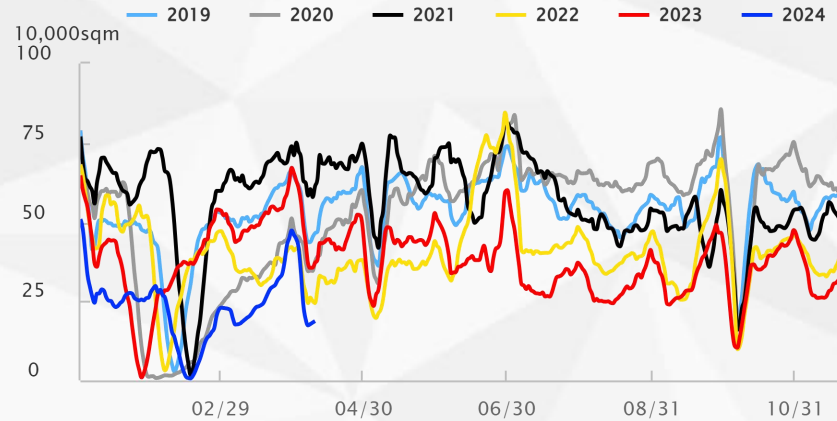
Transaction volume still declining in residential property market

- Floor Space of Commercial Housing Sold (%YoY)
- 30 Cities Floor Space of Buildings Sold (30DMA, %YoY)(RHS)
- 30 Cities Floor Space of Buildings Sold in First-Tier Cities (30DMA%YoY)(RHS)
- 30 Cities Floor Space of Buildings Sold in Second-Tier Cities (30DMA%YoY)(RHS)
- 30 Cities Floor Space of Buildings Sold in Third-Tier Cities (30DMA%YoY)(RHS)



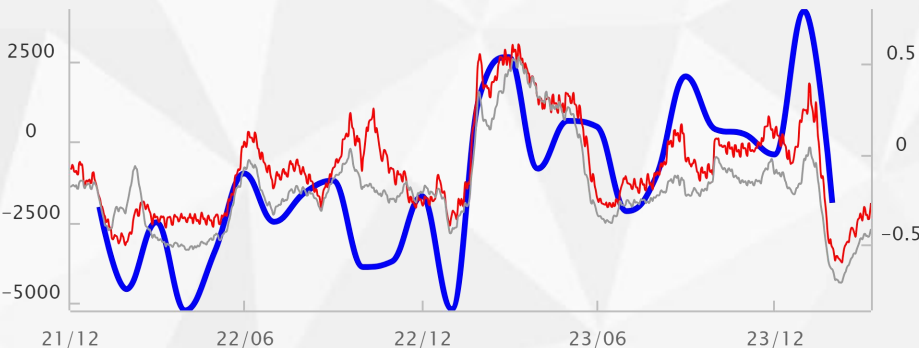
Source:wind, Horizon Insights

30-Cities GFA Sold (7DMA)



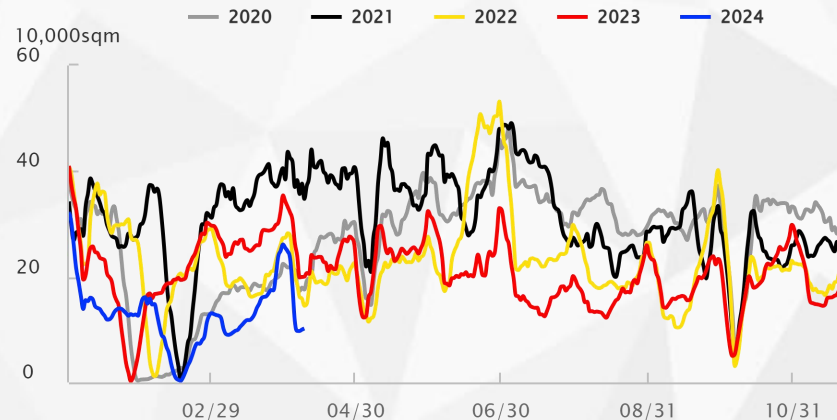
Source:wind, Horizon Insights

- New Household Mid & Long-Term Loans (YoY CHG)
- Second-hand Commercial Housing Transacted GFA in 14 Cities (30DMA, %YoY)(RHS)
- 30 Cities Floor Space of Buildings Sold (30DMA, %YoY)(RHS)



Source:wind, Horizon Insights

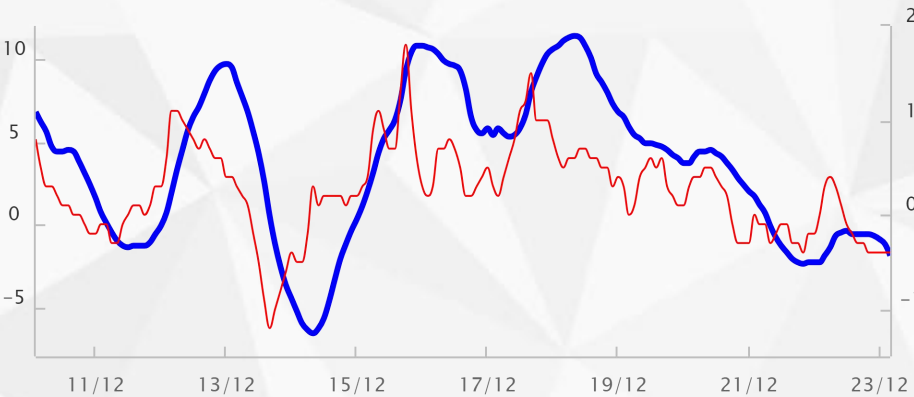
30-Cities GFA Sold: Second-Tier Cities (7DMA)



Source:wind, Horizon Insights

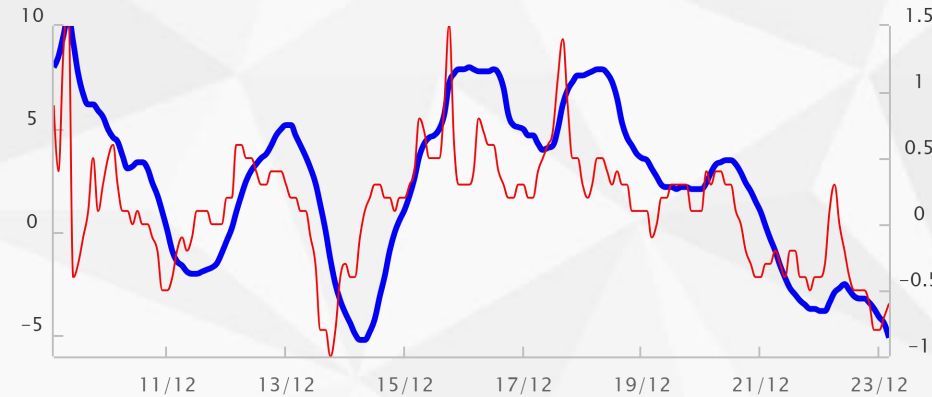
Housing price still declining with second-hand market more promising

— China 70-Cities New Housing Price (%YoY)
— 70-Cities New House Price MoM(RHS)



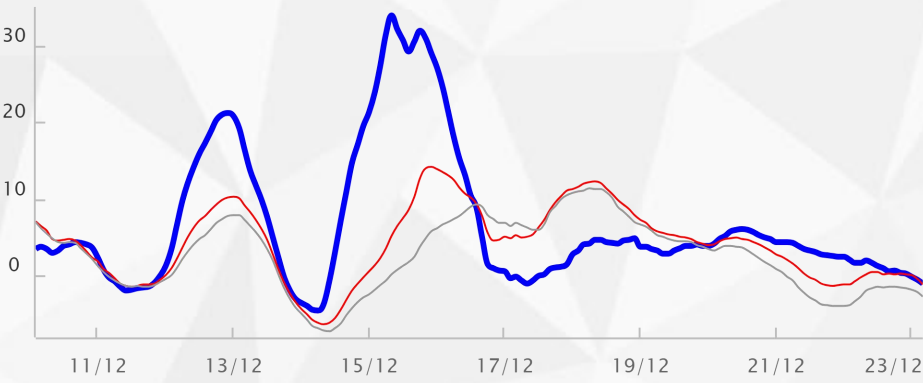
Source:wind, Horizon Insights

— 70 Cities Second-Hand House Price YoY
— 70-Cities Second-Hand House Price MoM(RHS)



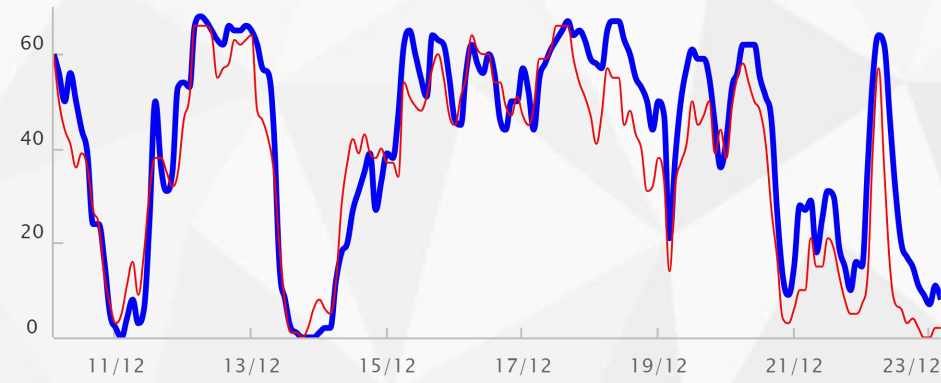
Source:wind, Horizon Insights

— 70-City New Home Price YoY: Tier 1 — 70-City New Home Price YoY: Tier 2
— 70-City New Home Price YoY: Tier 3



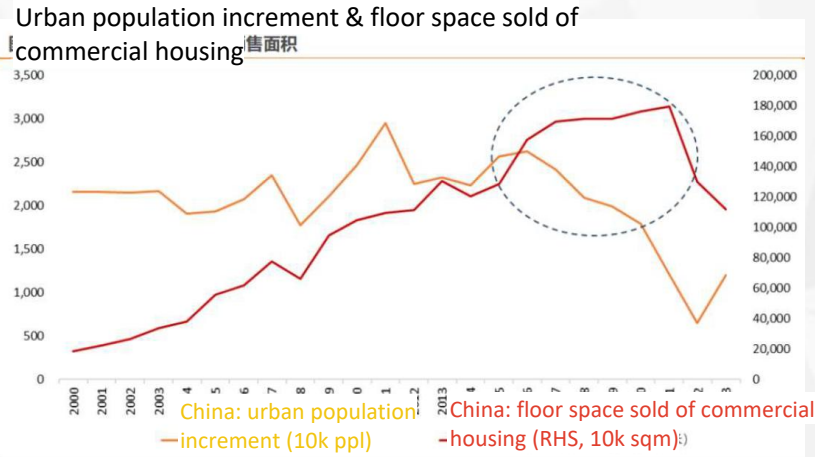
Source:wind, Horizon Insights

— No. of Cities with New Home Price Rising MoM (70-Cities)
— No. of Cities with 2nd-Hand Housing Price Rising MoM (70-Cities)

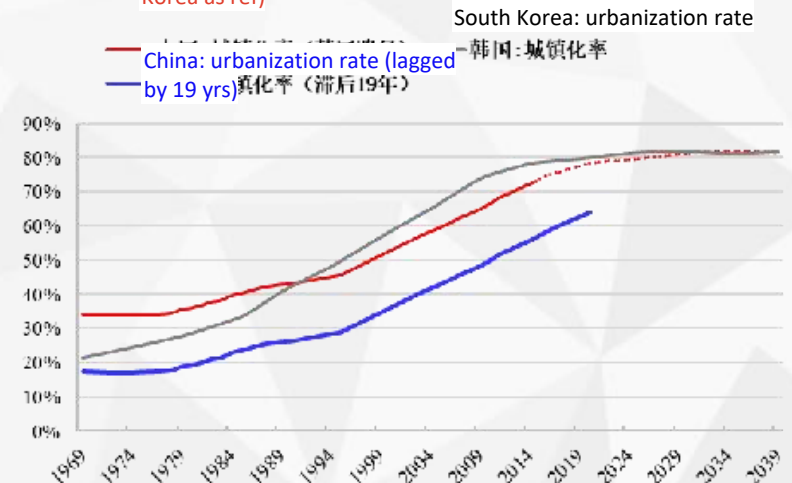
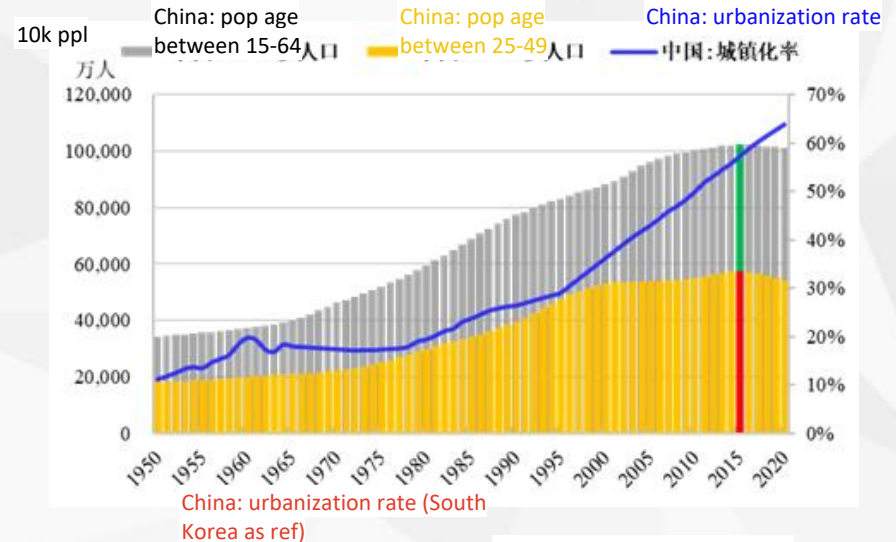
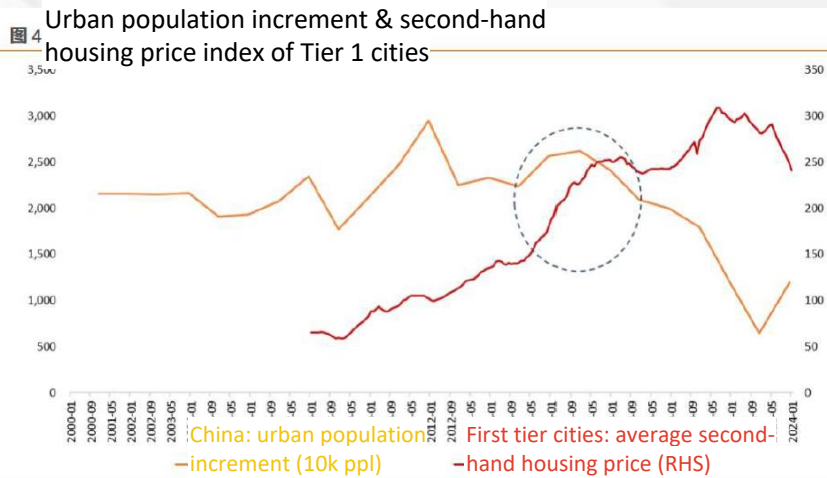


Source:wind, Horizon Insights

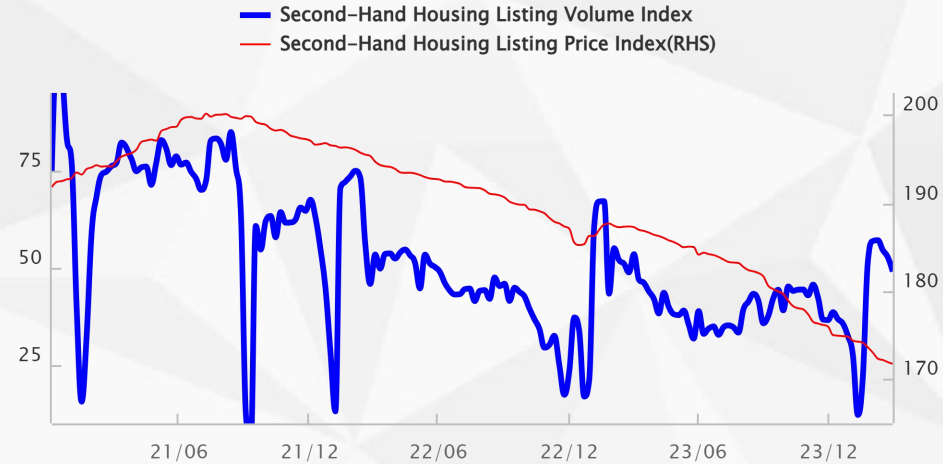
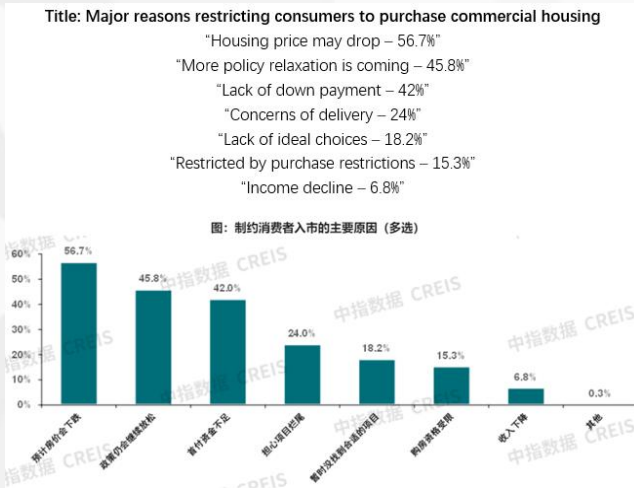
A resync of the population and housing cycle indicates limited downside to the property sector (but not a turnaround yet)



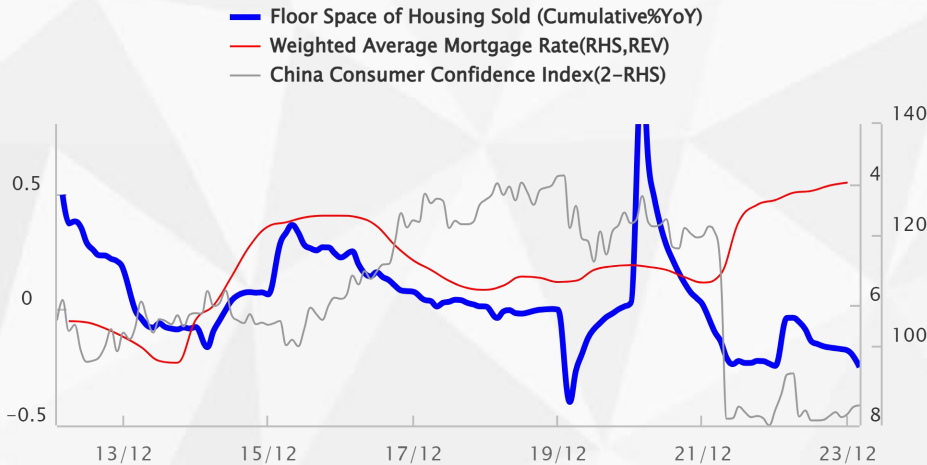
资料来源: Wind, 天风证券研究所



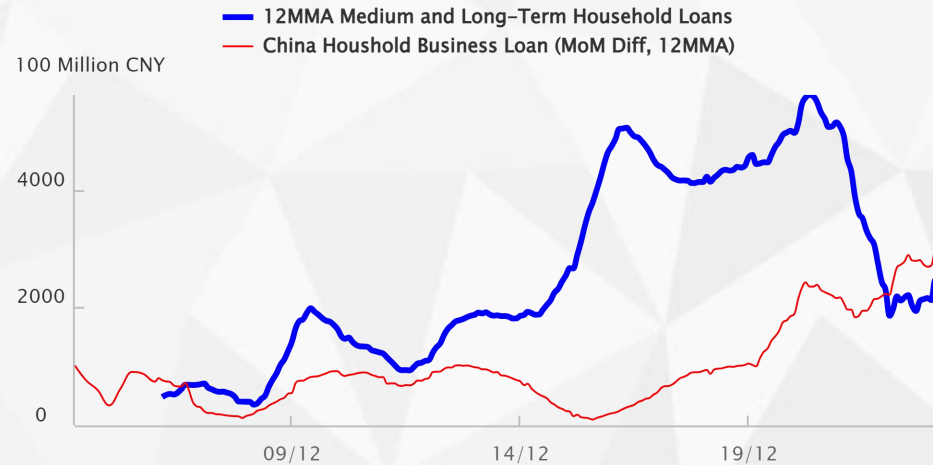
Early signs of stabilization may be seen on the second-hand housing market first



Source: iFind, Horizon Insights



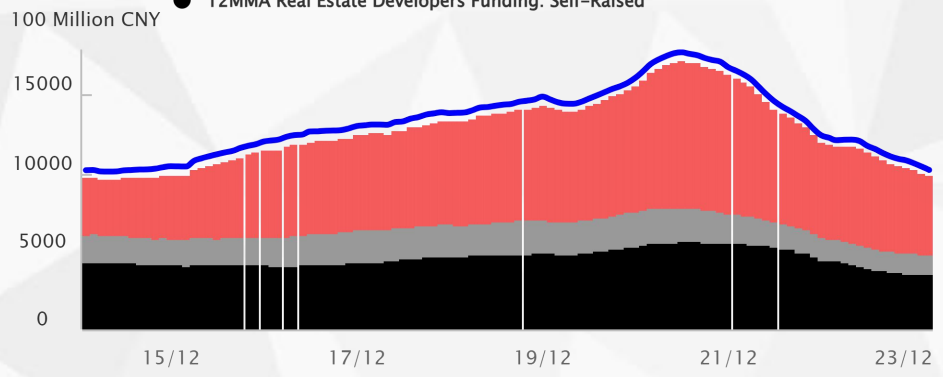
Source:wind, iFind, Horizon Insights



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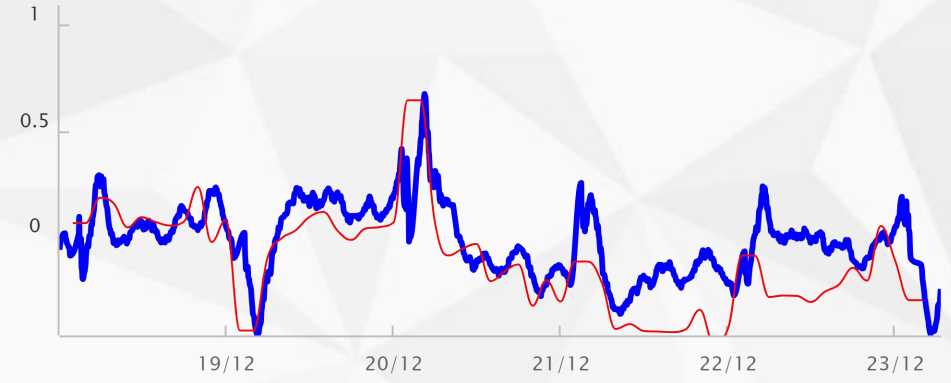
For construction materials, property sales' stabilization means demand stabilization

- 12MMA Real Estate Developers Funding
- 12MMA Real Estate Developers Funding: Mortgage + Downpayment
- 12MMA Real Estate Developers Funding: Loans
- 12MMA Real Estate Developers Funding: Self-Raised



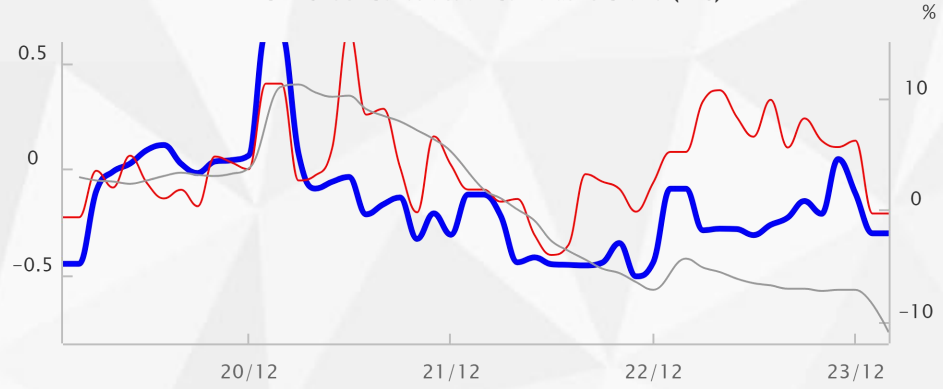
Source:wind, Horizon Insights

- Construction Steel Spot Trading Volume (30DMA, %YoY)
- China Floor Space of Commercial Housing Newly Started (%YoY)



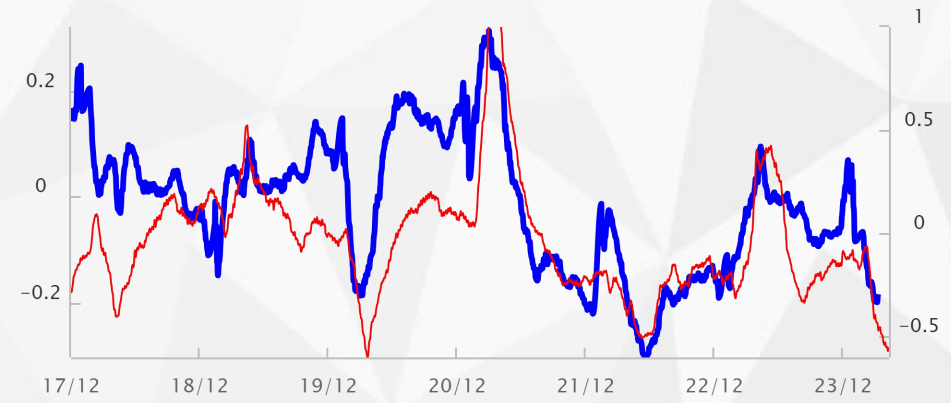
Source: Mysteel,wind, Horizon Insights

- Newly Started GFA (%YoY)
- Completed GFA YoY
- GFA Under Construction Cumulative Growth(RHS)



Source:wind, iFind, Horizon Insights

- Construction Steel Daily Transactions (66DMA,%YoY)
- China GFA Transacted of Commercial Housing in 30 Cities (60DMA, %YoY)(RHS,Lead 1M)

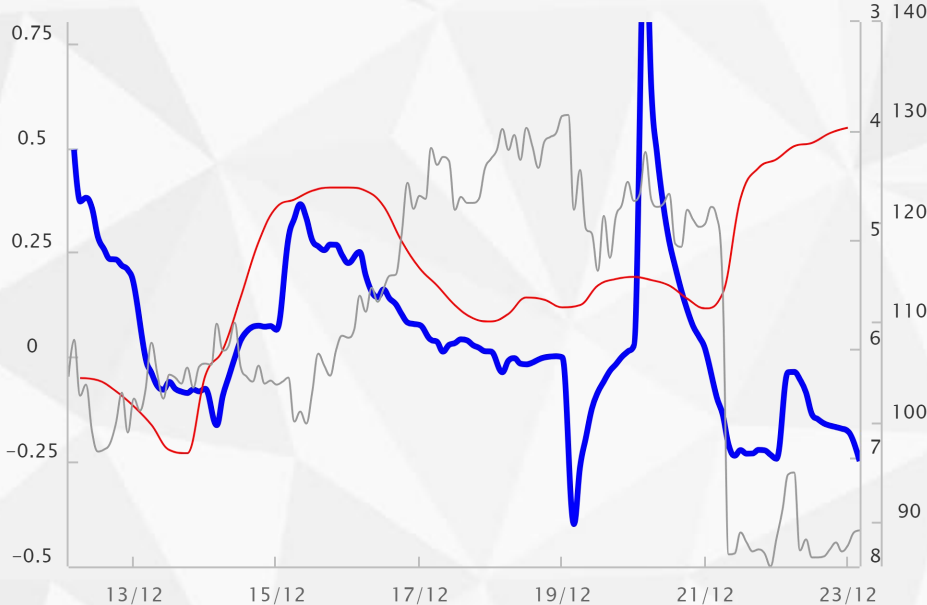


Source: Mysteel, Horizon Insights,wind

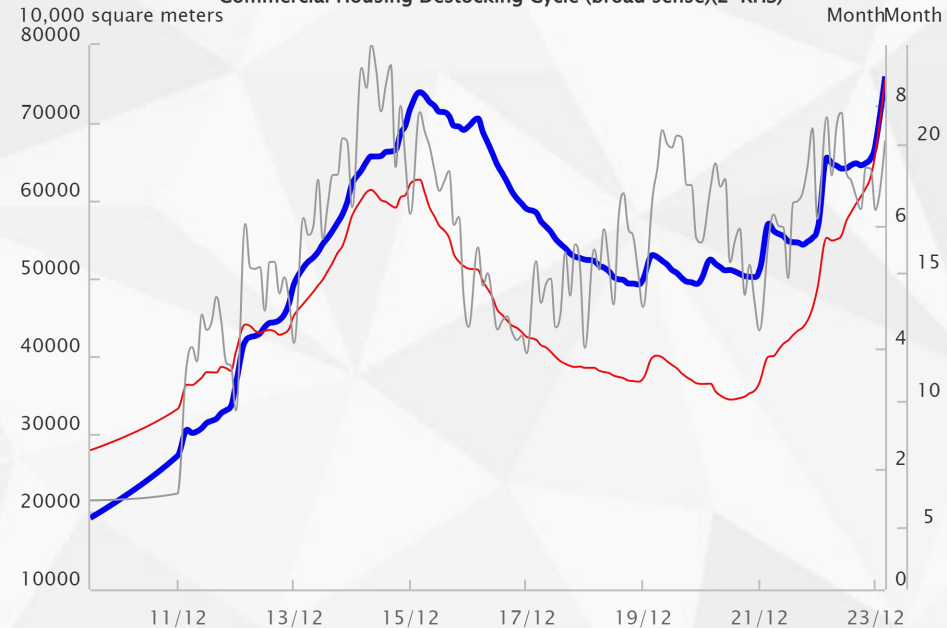
Expectation VS reality: property sector in China

- Floor Space of Housing Sold (Cumulative%YoY)
- Weighted Average Mortgage Rate(RHS,REV)
- China Consumer Confidence Index(2-RHS)

- Commercial Housing Inventory (narrow sense)
- Commercial Housing Destocking Cycle (narrow sense)(RHS)
- Commercial Housing Destocking Cycle (broad sense)(2-RHS)



Source:wind, iFind, Horizon Insights



Source:wind, Horizon Insights

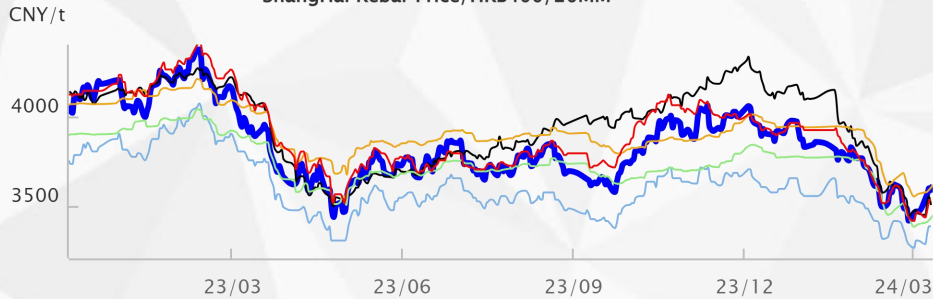
Expectation: relaxation of developer's funding situation, government buybacks, a lift of purchase restrictions on a larger scale

Reality: guaranteed delivery slows down with developers' deposit being held, slow roll-outs of supportive policies

Outcome: market gives no upside to the performance of property sector (risk of underestimation)

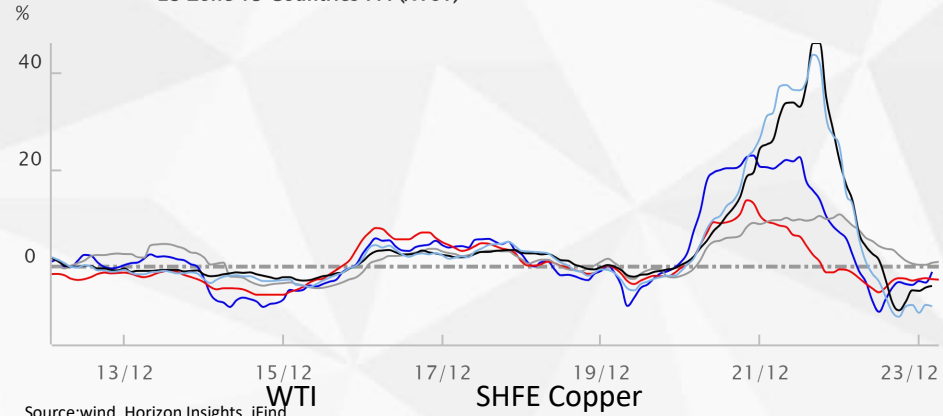
Overcapacity (on the global scale) resulted in low profit margin and amplified the pricing weight of macro factors

- SHFE Rebar
- Eastern China BF-BOF Steel Mills Production Cost
- Tangshan Billet Price
- Rebar EAF Production Cost (Off-Peak Electricity)
- Rebar EAF Production Cost
- ShangHai Rebar Price/HRB400/20MM



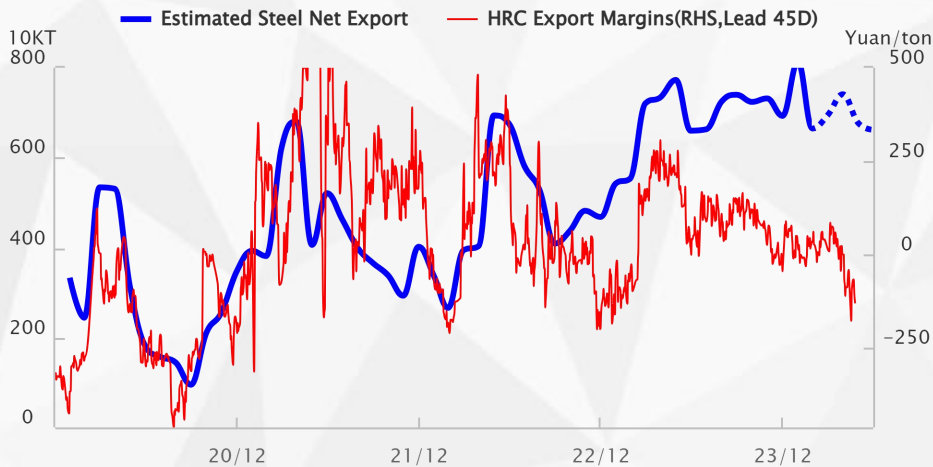
Source: iFind, Mysteel, wind, Horizon Insights

- U.S. PPI: All goods (%YoY)
- Janpan PPI (%YoY)
- EU Zone 19 Countries PPI (%YoY)
- China PPI (%YoY)
- Germany PPI (%YoY)

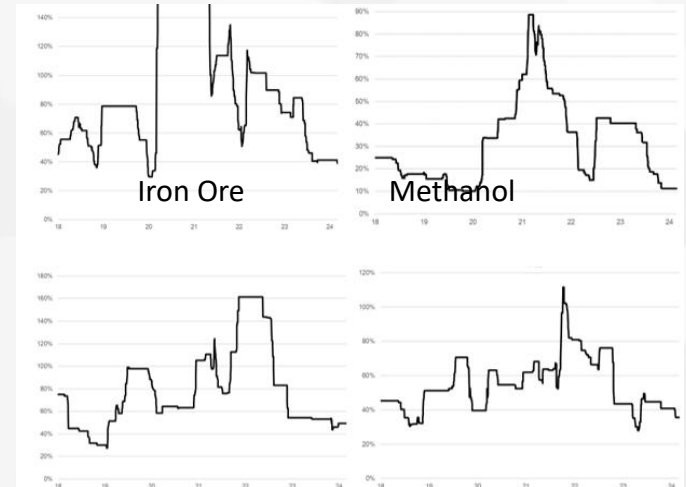


Source: wind, Horizon Insights, iFind

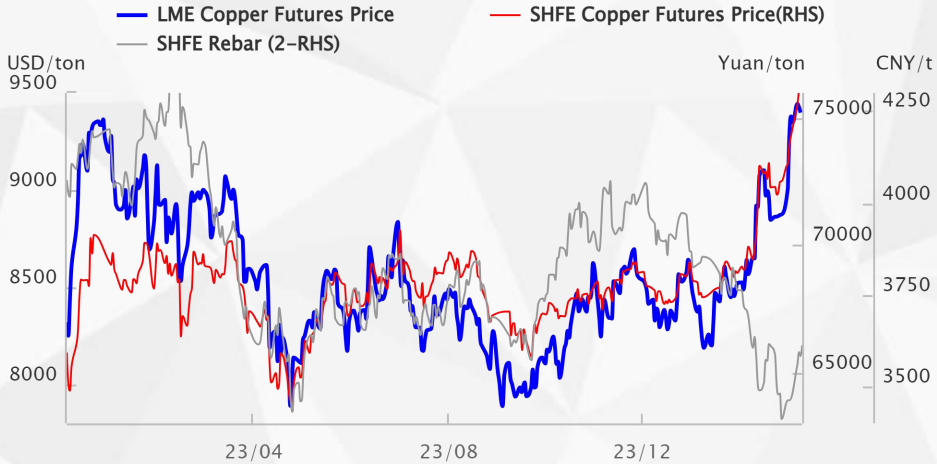
WTI SHFE Copper



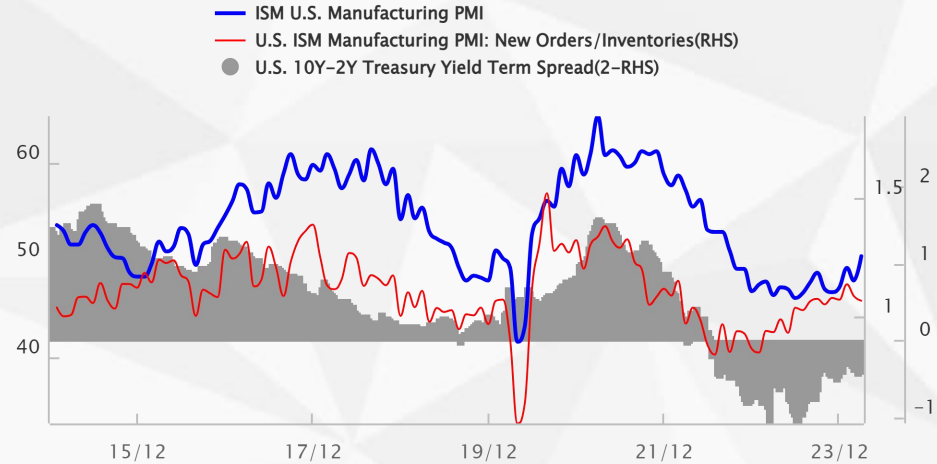
Source: Mysteel, wind, Horizon Insights



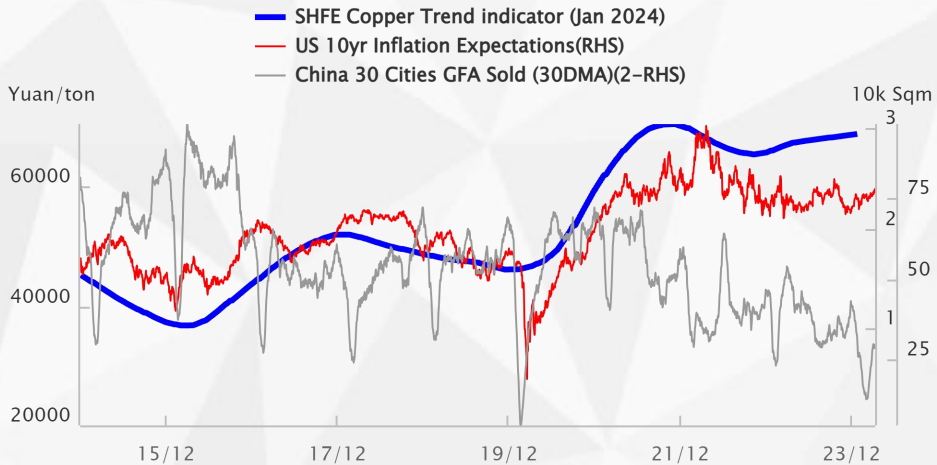
Metals' performance diverge based on how much China factors are priced in



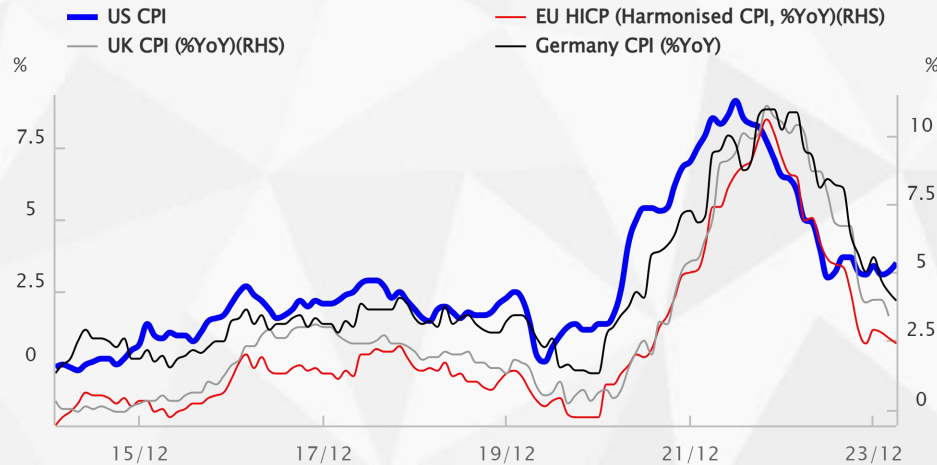
Source: iFind, Horizon Insights,wind



Source: iFind, Horizon Insights,wind



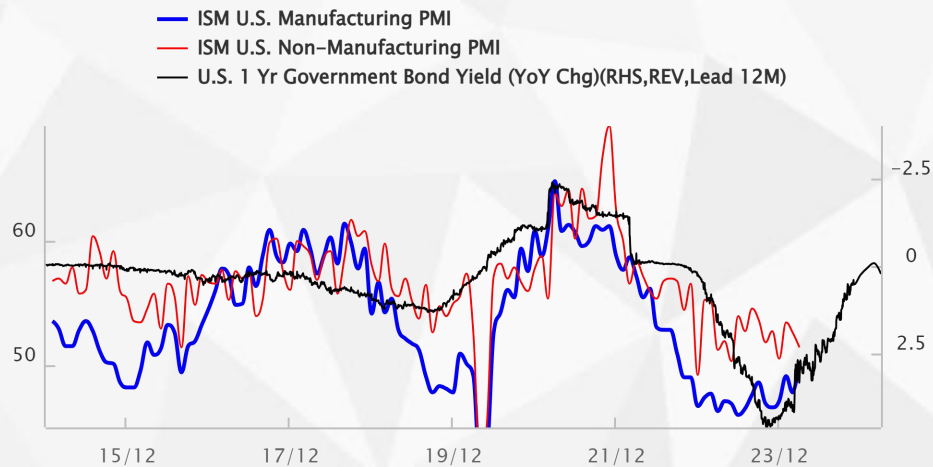
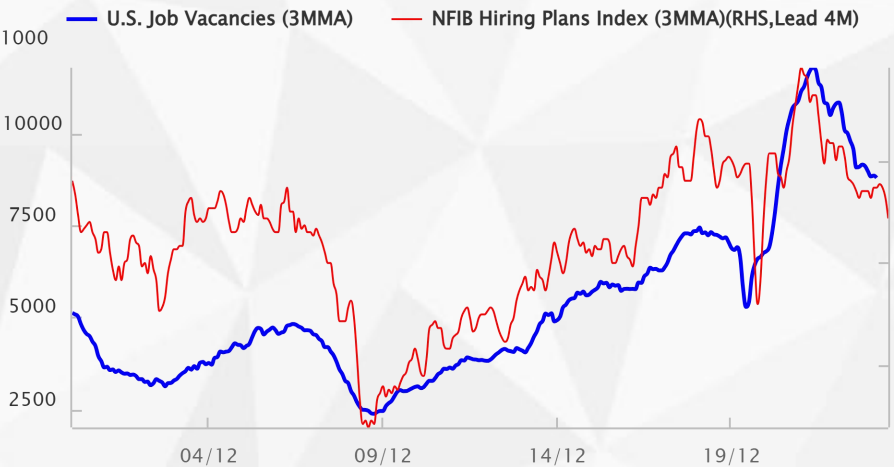
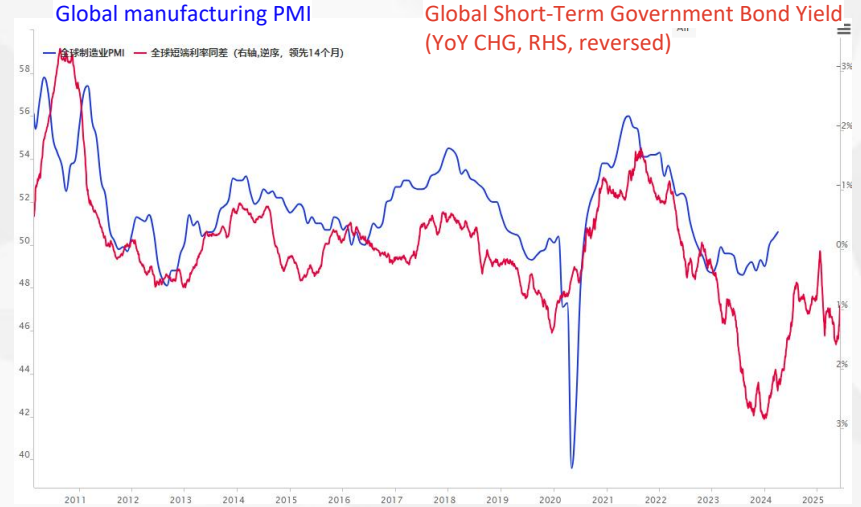
Source: Horizon Insights, Bloomberg,wind



Source:wind, Bloomberg, Horizon Insights

Q2 is key to verify if metals are more sensitive to global rate cut cycle than U.S.

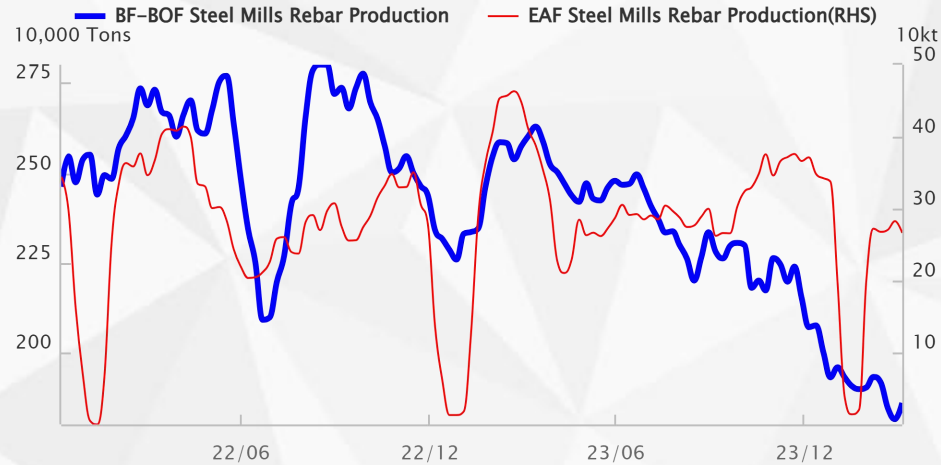
	U.S.	Eurozone
Guidance	Baseline: less than 3 rate cuts First cut: summer or earlier	Baseline: None First cut: March the earliest, most agreed to June or later
Consensus	Baseline: 2 rate cuts First cut: September	Baseline: 4 rate cuts First cut: April
Fundamentals	Baseline: Soft landing Current driver: profitability improvement, liquidity, downside risks in certain sectors	Baseline: 2024 GDP growth is adjusted downward to 0.8% Current driver: inflations easing, profitability, liquidity
	U.K.	Japan
Guidance	Baseline: no rate cut expectations First cut: after signs of inflation easing	Baseline: need to confirm inflation can reach 2% in the LT First hike: None
Consensus	Baseline: 2 rate cuts First cut: August	Baseline: None First hike: April
Fundamentals	Baseline: 23Q3&Q4 is the bottom of economy, GDP growth is stagnant but little recession concern Current driver: inflation pressure easing	Baseline: 24Q1 may continue to see negative GDP growth Current driver: inflation, income growth



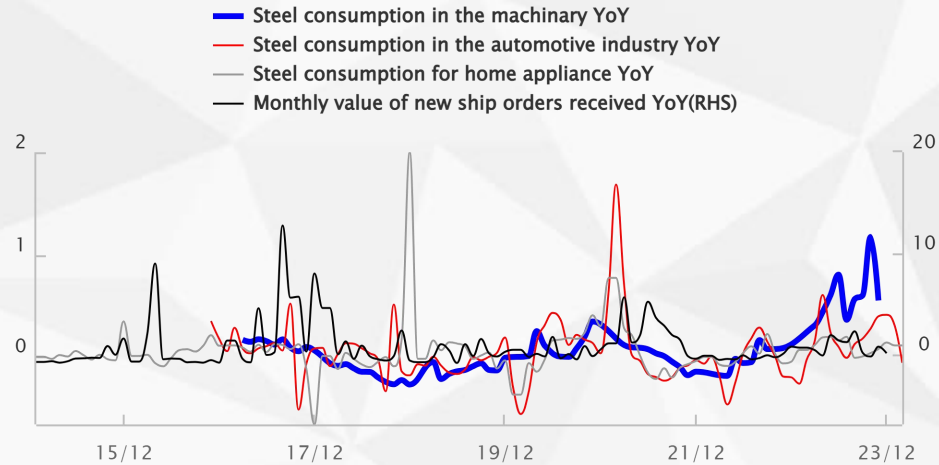
Source: iFind, Horizon Insights, Bloomberg

Source: iFind, Horizon Insights, wind

Supply factors are the key driver for ferrous metal, Q1 weakness is a reconfirmation of weak demand

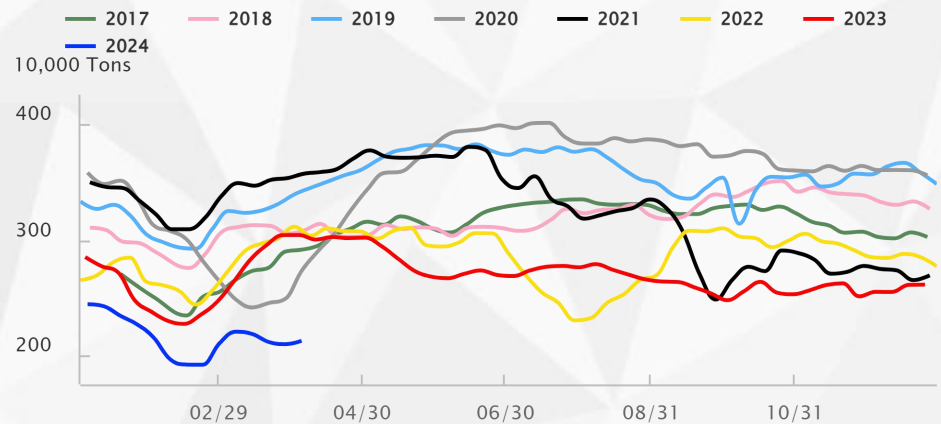


Source: Mysteel, Horizon Insights

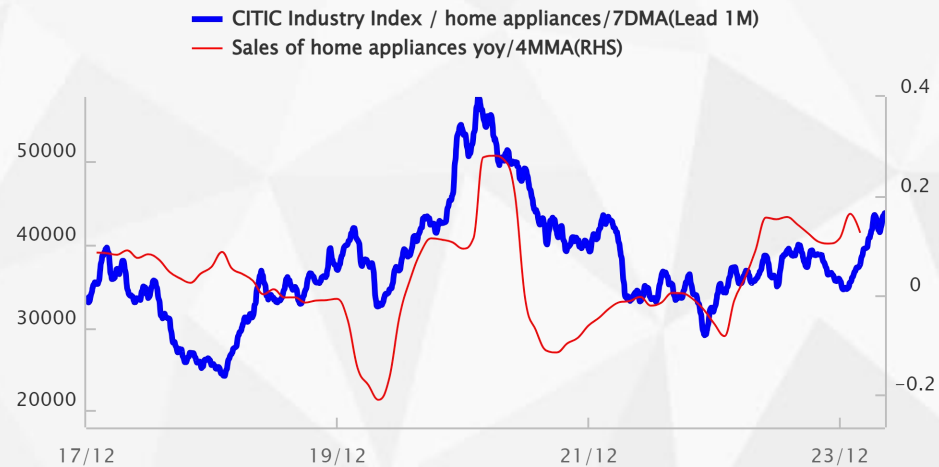


Source: wind, Horizon Insights

China Rebar Production



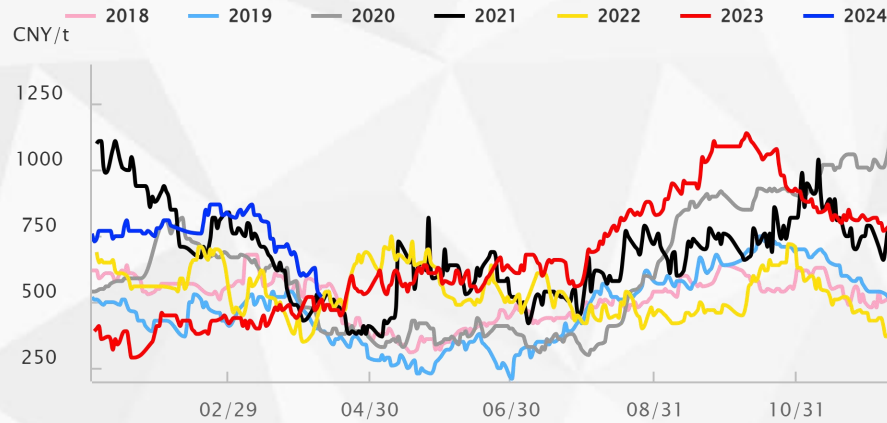
Source: Mysteel, Horizon Insights



Source: iFind, Horizon Insights, wind

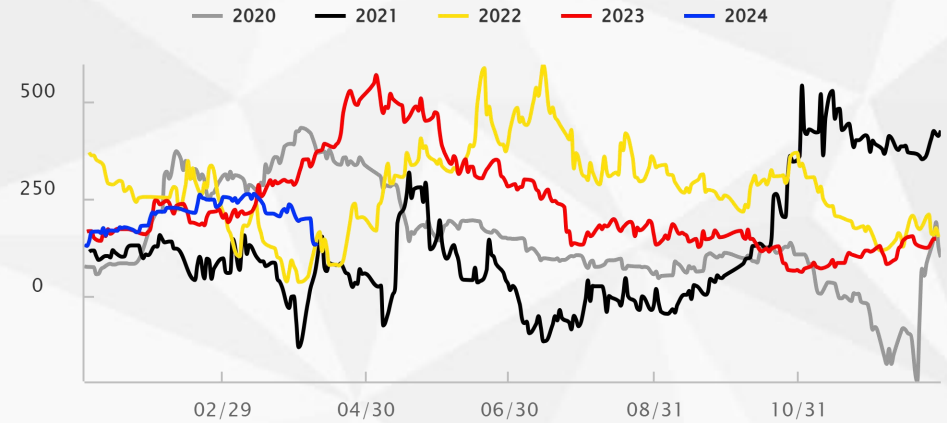
A balance can only be met through production reduction

CRC-HRC Price Spread



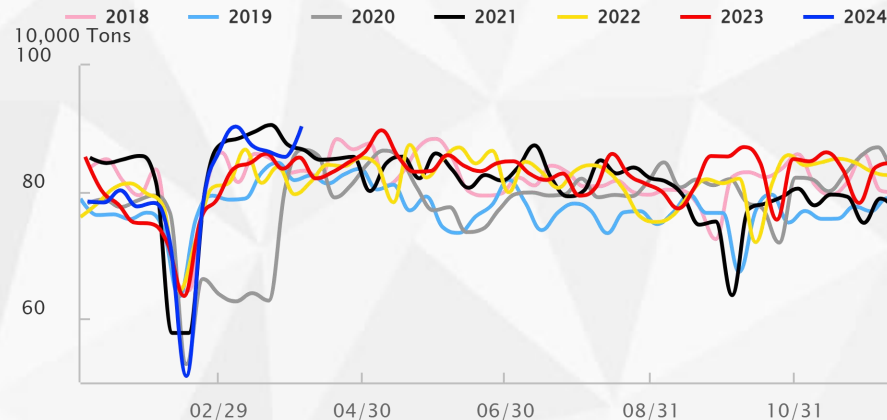
Source: wind, Horizon Insights

Seasonality of Steel Plate-HRC Price Spread



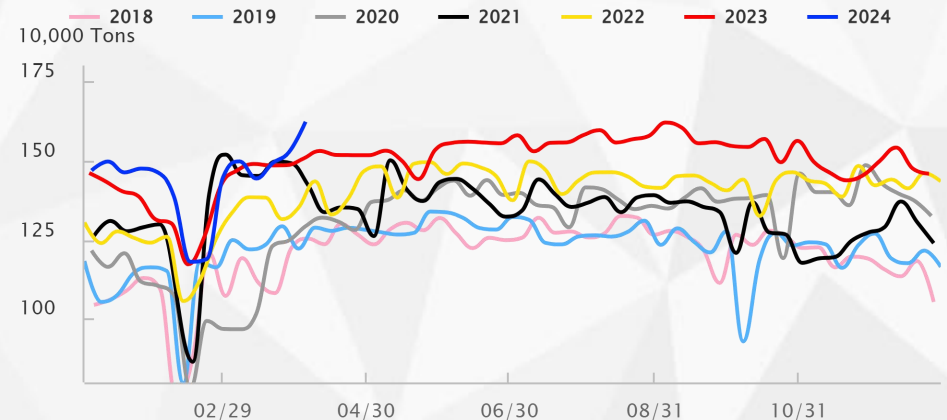
Source: wind, iFind, Horizon Insights

China CRC Apparent Consumption



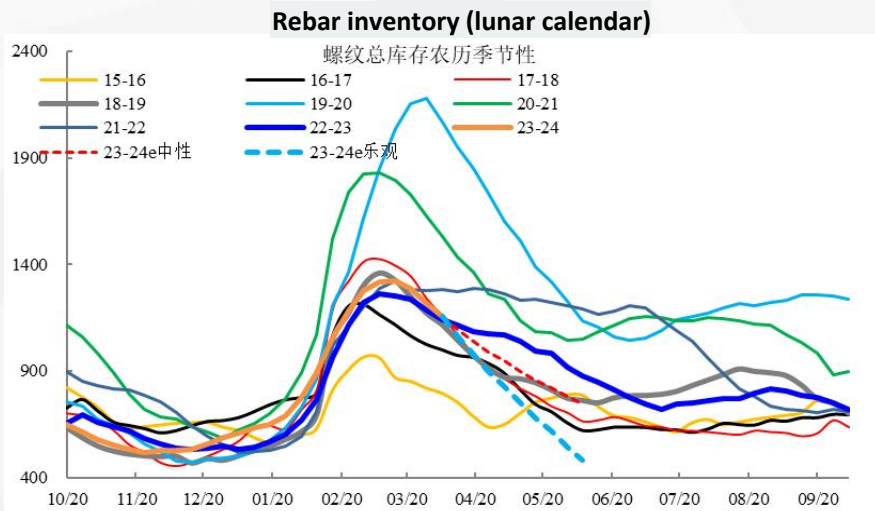
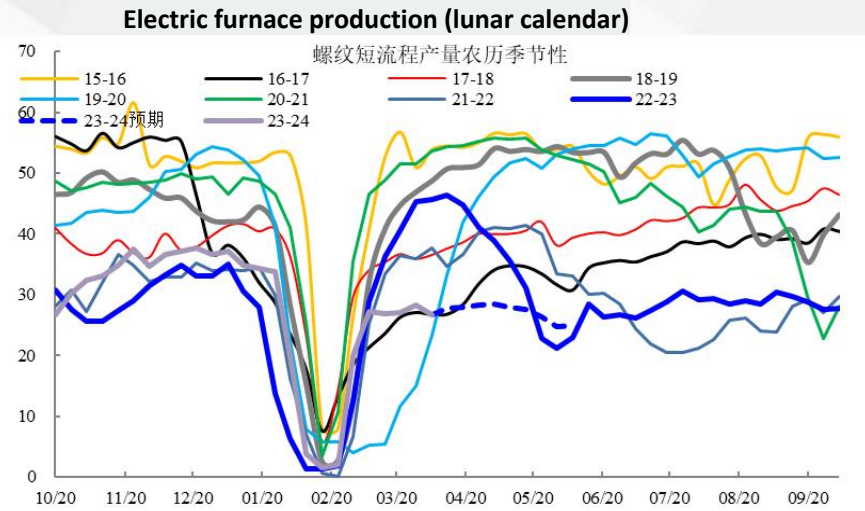
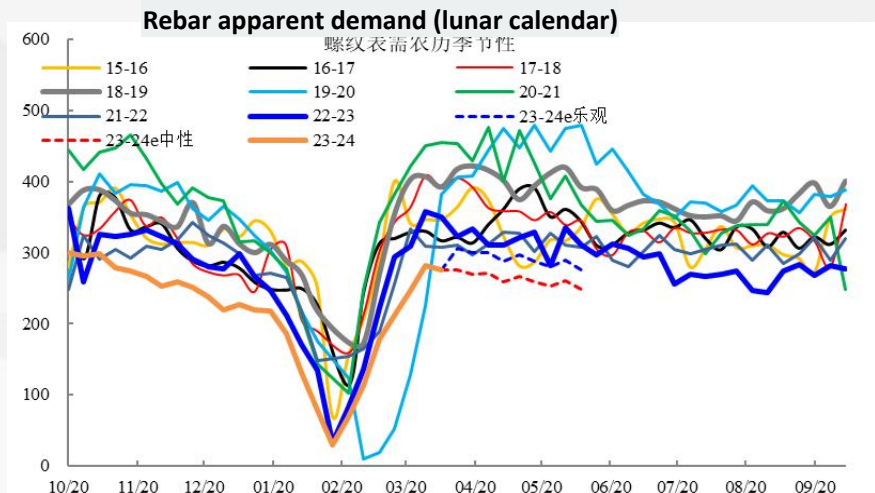
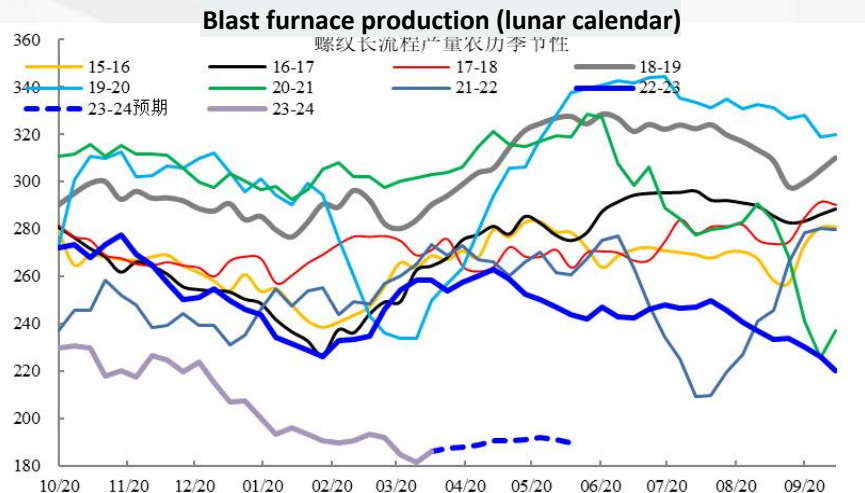
Source: Mysteel, Horizon Insights

China Steel Plates Apparent Consumption



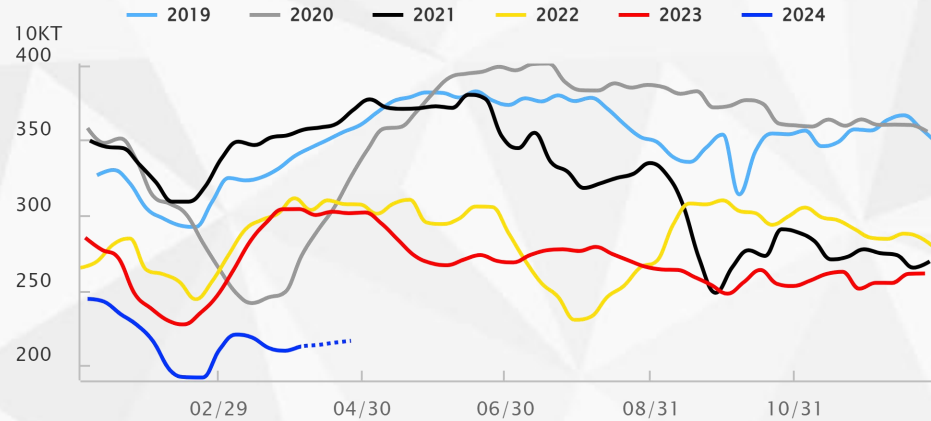
Source: Mysteel, Horizon Insights

Such balance may have been met due to steel mills' voluntary production cut



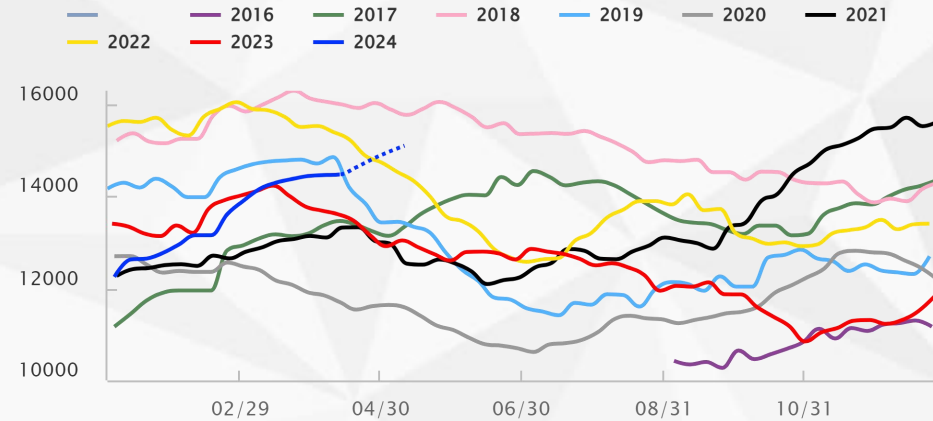
As such, hot metal output stabilizes and benefits raw materials

Weekly production of rebar (2024 Spring Festival forecast)



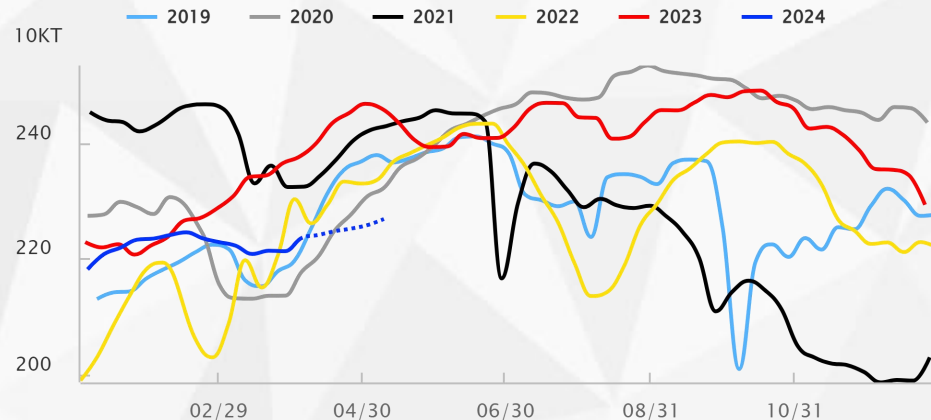
Source: Mysteel, Horizon Insights

Iron Ore 45 Ports Inventory (Estimated Based on Shipments)



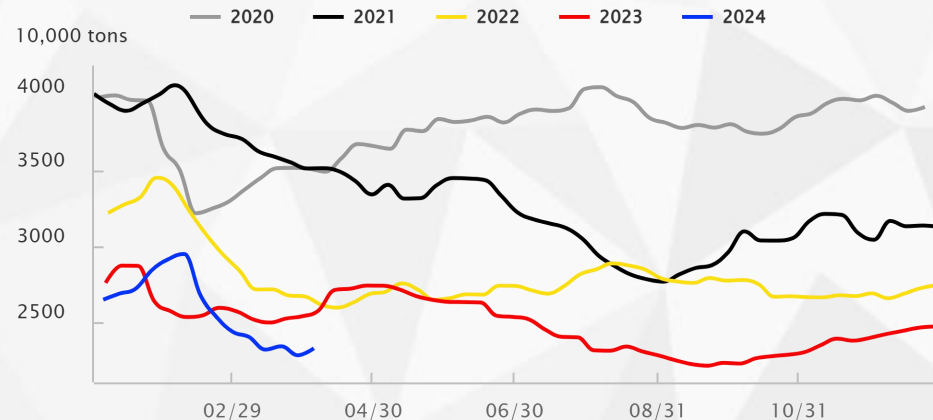
Source: Mysteel, Horizon Insights

Hot Metal Output (Estimated based on maintenance)



Source: Mysteel, Horizon Insights

China Coking Coal Total Inventory



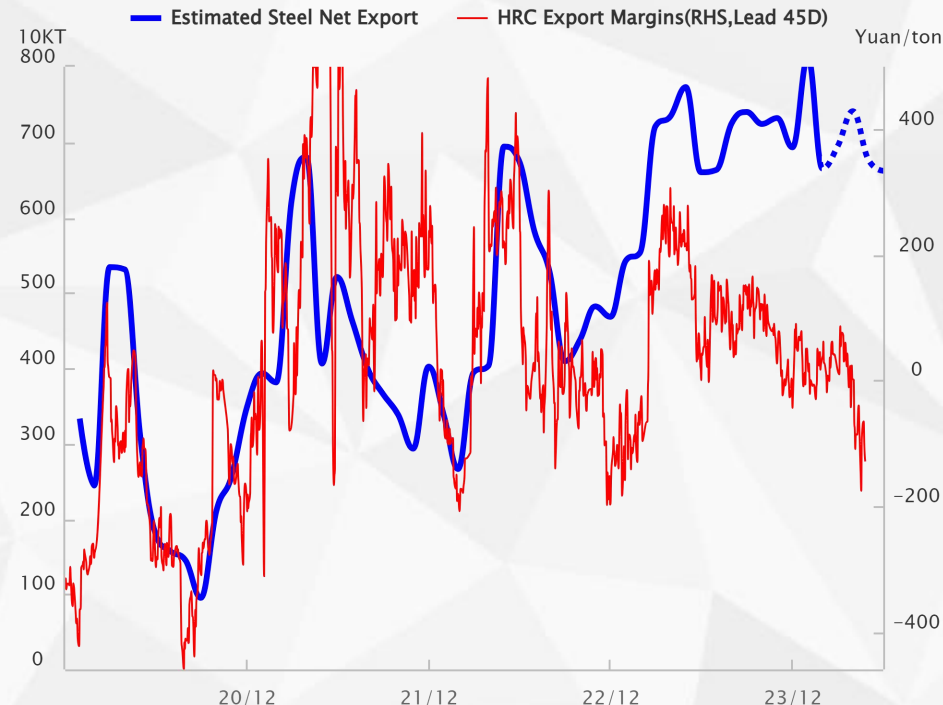
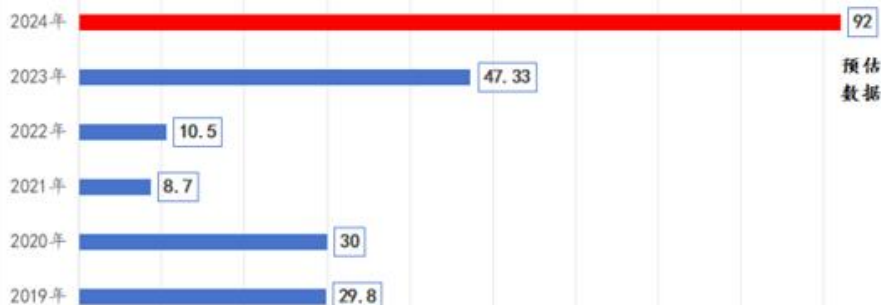
Source: Mysteel, Horizon Insights

Expectation VS reality: overcapacity issue in the manufacturing sector

Daily Avg Passenger Transport Volume	%YoY than 2019
Railway	24.59%
Highway	12.45%
Non-commercial Highway	33.29%
Commercial Highway	-48.07%
Waterway	-49.87%
Airway	18.65%

Past 10yr's Inter-City Mobility during CNY Travel Rush (100 million ppl)

近10年春运每年全社会跨区域人员流动量 (亿人次)



Source: Mysteel,wind, Horizon Insights

Expectation: new-for-old policies can drive up scrapping cycle and stimulate demand

Reality: no constructive solution for overcapacity in the long-term yet, implementation of new-for-old policies is still at early stage, export profit is subject to global demand which see no trend yet

Outcome: ferrous metal may be oversold as market gives no upside to the performance of property sector and lack confidence in policy effectiveness

Key factors: 1) new-for-old policies; 2) alternative demand driver other than property; 3) global rate cycle.

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