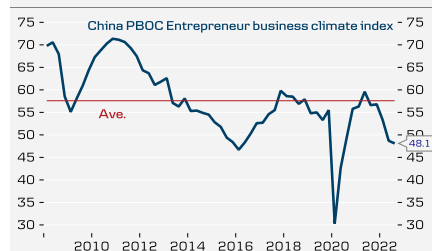


# Research China

## Renewed focus on growth and the private sector

- **Growth, growth, growth:** The annual Economic Work Conference in December finished on Friday, and it left little doubt that getting the economy back on track and boosting confidence will be the key priority for 2023.
- At the conference, the **leaders pledged to revive private consumption, and highlighted specific support to the private sector.** People's Daily, a key mouthpiece for the Chinese government, ran a front-page article on Sunday with the headline "*The key is to boost confidence*". In the article, Xi was quoted to say that he had always supported private businesses and "*I also worked in places where the private economy is relatively developed*". During his rise, Xi Jinping was Party Secretary in the Zhejiang province, which is known for having one of the highest shares of private enterprises. Several of the new people in China's top leadership, the Standing Committee of the Politburo, also have their relationship with Xi from the time in Zhejiang and another successful province Fujian on the south east coast, see *Research China: CPC congress cements Xi's power – and the US-China rivalry*, 24 October. The coming premier Li Qiang, who was Party Secretary in Shanghai the past five years, has been described business-friendly and implementation-oriented, according to *Wall Street Journal*.
- Leaders at the Economic Work Conference also called on internet firms to play a leading role in development and creating jobs. The new message **indicates that after years of tighter regulation and crack-down on some of the big private tech companies, China will take a step back and prioritise lifting confidence in the private sector.** It will be led by new people in the leadership that has experience in doing exactly that in the past in the South-eastern high-growth provinces. However, the proof is in the pudding, as they say, and we have to wait and see how much change we will see in real policies and actual implementation. But, the shift in tone is noteworthy.
- **Other quotes from *People's Daily*:**
  - "Pointing out that there are a multitude of tasks in the economic work in 2023, the meeting underlined moves to improve public expectations and boost confidence for development."
  - "The country will focus on boosting domestic demand next year by prioritizing the recovery and expansion of consumption, increasing urban and rural personal income through multiple channels and encouraging more private capital to participate in the construction of key national projects, said the meeting".
- **Little news on Covid, the surge continues:** With official data for both cases and deaths no longer being reliable, we are flying a bit blind in terms of gauging the development. But experience from other countries suggest the virus will keep spreading and peak around early February (see our *paper* last week on this)

### Entrepreneur confidence is weak



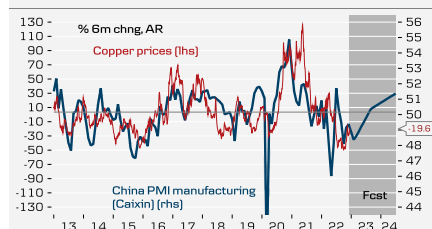
Source: Macrobond Financial, PBOC

### Savings boosted amid low income expectations during pandemic



Source: Macrobond Financial, PBOC

### Outlook for Chinese economy – short term weakness, recovery from Q2

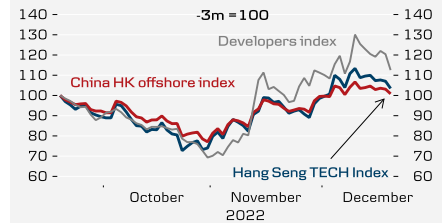


Source: Markit, Macrobond Financial, Danske Bank. Note: Past performance is not a reliable indicator of current or future performance.

and have ‘normalised’ in early April. We will probably have to rely on anecdotal evidence in order to judge when the worst is over.

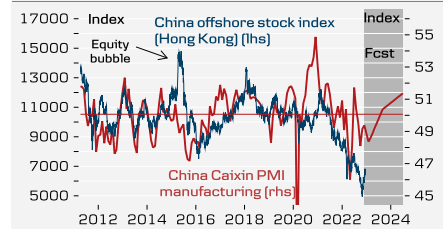
- Policy doc on expanding domestic demand:** Last week, China also released a policy document on how to lift domestic demand in 2022-2035. It puts out guidelines for boosting private consumption and investments as China aims to create a stronger domestic market and more resilient supply chains amid a challenging international environment; hence part of the ‘dual circulation’ strategy. It is also very much needed to lift consumption and manufacturing investments as demand from construction and infrastructure will be less of a growth driver in the years ahead. With its long time line, the plan is more structural than cyclical, so it does not address the short-term need to boost consumption and private investments. Some of the measures outlined are new industrialisation, investments in AI, 5G, big data and infrastructure in energy, logistics and water conservation. It also stressed it would reduce parents burden of raising children; partly also an attempt to make Chinese have more children again.
- Stock markets in limbo as we go through the tough months:** Chinese stocks have corrected a bit lower this week as the covid surge puts a lid on the sentiment and global equity sentiment has been souring lately. The next couple of months will likely see some see-saw pattern but as the economy moves from dark to dawn in Q2, we would expect more upside in Chinese stocks. Risk premia are very high still and a recovery normally entails more positive equity momentum.
- CNH treading water:** Volatility has come down in the yuan as both USD/CNH and EUR/CNH has moved sideways lately. The latter trades with quite high correlation with EUR/USD and we expect both crosses to move lower again on a 3-6m horizon, see also *FX Top Trades 2022*, 3 December.

**Stock rally stalls amid covid surge**



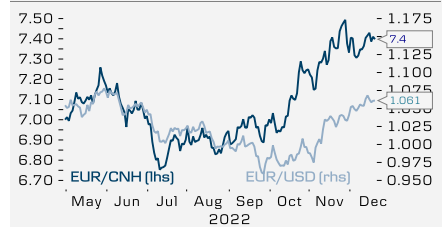
Source: Markit, Macrobond Financial, Danske Bank. Note: Past performance is not a reliable indicator of current or future performance.

**More upside in stocks when China gets to the other side of covid surge**



Source: Macrobond Financial, Markit, Danske Bank. Note: Past performance is not a reliable indicator of current or future performance.

**EUR/CNH sideways lately, we look for decline in tandem with lower EUR/USD**



Source: Markit, Macrobond Financial, Danske Bank. Note: Past performance is not a reliable indicator of current or future performance.

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