

Chinese renminbi

	Spot close 28.02.20	Q1 2020	Q2 2020	Q3 2020	Q4 2020
USD/CNY	6.9896	7.0700	7.0000	7.0500	7.1200
USD/HKD	7.7935	7.8000	7.8200	7.8000	7.7800
		Range	Range	Range	Range
USD/CNY		6.8350-7.0800	6.9000-7.0500	6.9500-7.1500	7.0000-7.2000
USD/HKD		7.7600-7.8100	7.7800-7.8200	7.7600-7.8000	7.7500-7.8000

MARKET UPDATE

Weaker; more drops in reverse repos, MLF and LPR

Renminbi weakened in March as USD/CNY rose from (an artificially truncated) January London close of 6.9300 to 6.9896 in February. Coronavirus led to an immediate -10bp cut in reverse repo rates, followed by drops in the MLF and LPR that matched our expectations.

OUTLOOK

To our relief, February PMIs looked credible

In a way we were secretly pleased with the official February PMIs. No, we're not pleased China's economy and those who depend on it are struggling. Consensus forecasts, however, were clearly, in hindsight, expecting authorities to fake higher #s at a time of zero workers in factories and no one daring nor permitted to leave homes for empty restaurants and shopping malls. So the official signal sent by this release (of all-time record weakness) show authorities willing to face up to the actual size of the economic tasks ahead. To us, that's good – we never know how to solve any problem without acknowledging it in the first place.

Which increases confidence in public health data

The bracing sobriety of these official PMIs also provide, in passing, a boost to the credibility of China's COVID-19 #s, which have been under doubt. If China's COVID-19 figures were doctored to somehow encourage consumer and business sentiment – well, that cause seems lost now. And if there had been doctoring up ahead of time, how do you explain *not* doctoring up the PMIs?

It still looks like a late April – early May peak for COVID-19 in China, with 100% capacity availability by April

So Bottom Line we stick to original working assumptions: COVID-19 will peak in late April to early May. Though there are times when official happy talk trends - the country is already 70-80% back at work so by end-March, the coronavirus will only be a distant memory - we don't think they're accurate. China ends February operating at probably only 40-50% of capacity (consistent with traffic congestion). In March we will move towards 100% but may not get there in one month, because of the time it takes for quarantined workers to be allowed back in the shop and because of normal startup times required to bring some plants back online (think refineries). The staggered pattern of COVID-19 outbreaks along a global, variegated supply chain, which stalls, shuts down and restarts only in uncoordinated spurts will also delay the final return to 100%. But by end-March, if we are fortunate, China may be back at 70-80%, and in April, we go back to 100%.

Any headline 1Q20 Chinese GDP growth > 0% is likely fake

This means that from the bottom set by February PMIs – since PMI questionnaires only ask if things are better or worse relative to a month ago – China's PMIs should *all* be > 50 in March. That does not mean, however, that Chinese growth rates will be positive. Maybe on a %SAMM basis, but certainly not in headline %YoY terms. COVID-19 took a sliver of January output and probably 90% of February output, so that even if March fires away on all of the cylinders that are available, we still think 70-80% means March output is most likely -ve in terms of %YoY. That means for China's 1Q20 GDP, any headline growth > 0% we will likely consider fake.

	Interest Rate Close	Q1 2020	Q2 2020	Q3 2020	Q4 2020
Loan Prime Rate 1Y	4.05%	4.00%	3.85%	3.70%	3.55%
MLF 1Y	3.15%	3.10%	3.00%	2.90%	2.80%
7-Day Repo Rate	2.38%	2.25%	2.50%	2.50%	2.75%
5-Year Yield	2.52%	2.40%	2.55%	2.65%	2.90%

* Interest rate assumptions incorporated into MUFG foreign exchange forecasts.

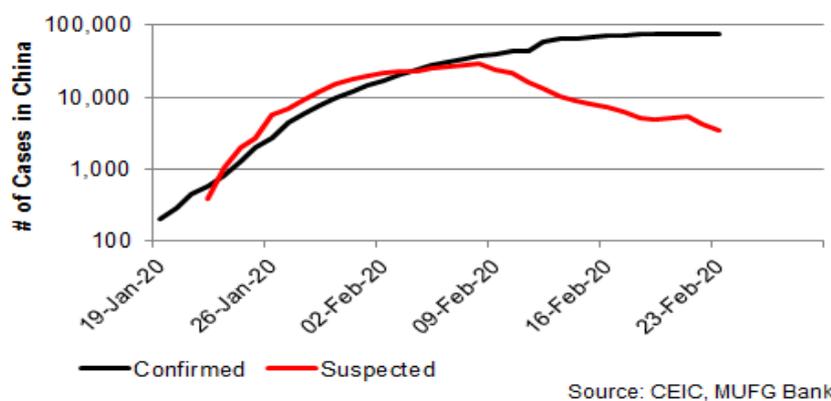
INTEREST RATE OUTLOOK

A heavy duvet of debt

Though some Chinese economic statistics during a snapback will look impressive, underlying potential growth is still slowing. It became clearer over February PBOC is under greater pressure to ease, probably one of the worst-kept secrets in China. It will succumb. But lower interest rates in farther horizons is a hint this economy will not sustainably recover the 6-growth handle, wasting monies along the way to prop up nonperforming assets. We are still deadly serious about the debt overhang; the problem is worse this year than last. China has rushed to change rules and otherwise almost coerce banks to not report rising NPLs after COVID-19. It's not that other countries would not have refinancing problems after a pandemic. But if we are correct that this pandemic is limited in duration, the correct policy tool would be temporary liquidity. But we suspect it will become an excuse to extend more permanent liquidity that, over time, will further suffocate this economy and its efficiency with too heavy a duvet of debt.

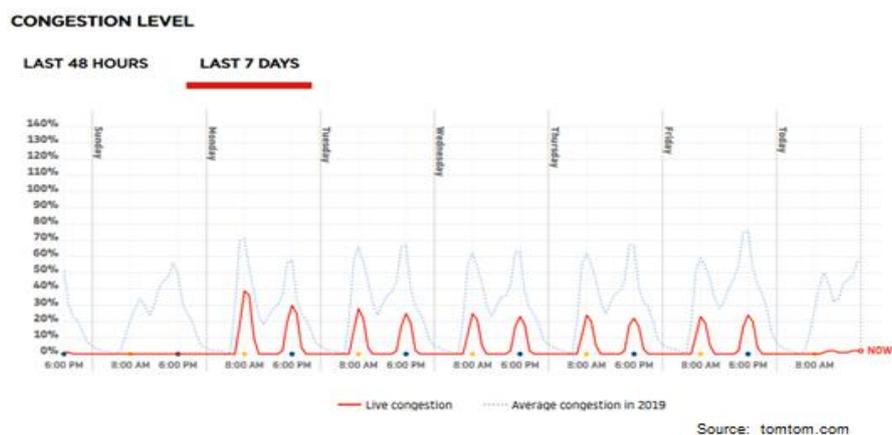
Levelling out

COVID-19 CASES IN CHINA



Only partially back

POST-LUNAR NEW YEAR CONFESTION IN BEIJING RELATIVE TO AVERAGE



Disclaimer

CERTIFICATION

The author(s) mentioned on the cover of this report hereby certify(ies) (or, where multiple authors are responsible, individually certify with respect to each security that the author covers in this report) that the views expressed in this report accurately reflect their personal views about the subject company(ies) and its (their) securities, and also certify(ies) that they have not been, are not, and will not be receiving direct or indirect compensation in exchange for expressing any specific recommendation(s) or view(s) in this report.

DISCLAIMERS

DISCLAIMERS

This report has been prepared by the Global Markets Research, US Rates and Credit Strategy desks within MUFG Bank, Ltd. ("MUBK") and MUFG Securities EMEA plc ("MUS(EMEA)") and may be distributed to you either by MUBK, MUS(EMEA) or by another subsidiary of the Mitsubishi UFJ Financial Group ("MUFG").

Legal entities and branches

The securities related businesses within MUFG (together referred to in this presentation as "MUFG Securities") are: (1) MUFG SECURITIES EMEA PLC ("MUS(EMEA)") which is authorised in the United Kingdom by the Prudential Regulation Authority ("PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA (FS Registration Number 124512). MUS(EMEA) has a branch office that is registered at Level 3, East Wing, The Gate, Dubai International Financial Centre, PO Box 506894, Dubai, UAE ("Dubai Branch"). The Dubai Branch is authorised to operate in the Dubai International Financial Centre ("DIFC") as a Non-DIFC Entity (Commercial License Number CL1656) and is regulated by the Dubai Financial Services Authority (Reference Number F002623); (2) MUFG Securities (Europe) N.V. ("MUS (EU)") which is authorized and regulated in the Netherlands by the Dutch Authority for the Financial Markets (AFM) and also regulated by De Nederlandsche Bank (DNB). MUS (EU) Paris Branch is regulated in France by the Autorité de contrôle prudentiel et de résolution (ACPR) and the Autorité des marchés financiers (AMF); (3) MUFG SECURITIES AMERICAS INC. ("MUSA") which is registered in the United States with the Securities and Exchange Commission ("SEC") and regulated by the Financial Industry Regulatory Authority ("FINRA") (SEC# 8-43026; CRD# 19685); (4) MUFG SECURITIES (CANADA), LTD. ("MUS(CAN)") is an investment dealers registered in Canada with the Ontario Securities Commission ("OSC") and in each province and territory of Canada, a member of the Investment Industry Regulatory Organization of Canada ("IIROC"), and a member of the Canadian Investor Protection Fund ("CIPF"). Customers' accounts are protected by CIPF within the specified limits; (5) MUFG SECURITIES ASIA LIMITED ("MUS(ASIA)") which is incorporated in Hong Kong, licensed under the Hong Kong Securities and Futures Ordinance and regulated by the Hong Kong Securities and Futures Commission (Central Entity Number AAA889). MUS(ASIA) is registered as a foreign company under the Corporations Act 2001 of Australia ARBN No. 169 329 453; and (6) MUFG Securities Asia (Singapore) Limited ("MUS(ASP)") which is licensed as an approved merchant bank by the Monetary Authority of Singapore. In respect of the financial services provided to wholesale clients in Australia, MUS(ASIA), MUS(EMEA), MUS(USA) and MUS(ASP) are each exempt from the requirement to hold an Australian financial services licence under the Corporations Act 2001 of Australia under the Australian Securities and Investments Commission Class Order Exemption CO 03/1099, CO 03/1103, CO 03/1100, and CO 03/1102, respectively. Each of MUS(ASIA), MUS(EMEA), MUSA, MUS(CAN), and MUS(ASP) are regulated under the laws of Hong Kong, the United Kingdom, the United States, Canada and Singapore respectively, which differ from Australian laws.

MUFG Bank Ltd ("MUBK"), is a limited liability stock company incorporated in Japan and registered in the Tokyo Legal Affairs Bureau (company no. 0100-01-008846). MUBK's head office is at 7-1 Marunouchi 2-Chome, Chiyoda-Ku, Tokyo 100-8388, Japan. MUBK's London branch is at Ropemaker Place, 25 Ropemaker Street, London EC2Y 9AN, and is registered as a UK establishment in the UK register of companies (registered no. BR002013). The principal office of MUBK's Canada branch (MUFG Bank, Ltd., Canada Branch) is located at 200 Bay Street, Suite 1800, Toronto, Ontario, M5J 2J1, Canada. MUFG Bank's Canada branch is an authorized foreign bank branch permitted to carry on business in Canada pursuant to the Bank Act (Canada); Deposits with MUFG Bank Canada are not insured by the Canada Deposit Insurance Corporation. MUBK is authorised and regulated by the Japanese Financial Services Agency. MUBK's London branch is authorised by the UK Prudential Regulation Authority ("PRA") and regulated by the UK Financial Conduct Authority ("FCA") with limited regulation by the PRA.

General disclosures

This report is for information purposes only and should not be construed as investment research as defined by MIFID 2 or a solicitation of any offer to buy or sell any security, commodity, futures contract or related derivative (hereafter "instrument") or to participate in any trading strategy. This report does not constitute a personal recommendation and does not take into account the individual financial circumstances, needs or objectives of the recipients. Recipients should therefore seek their own financial, legal, tax or other advice before deciding to invest in any of the instruments mentioned in this report.

Certain information contained in this report has been obtained or derived from third party sources and such information is believed to be correct and reliable but has not been independently verified. MUFG does not make any guarantee, representation, warranty or undertaking, express or implied, as to the fairness, accuracy, reliability, completeness, adequacy or appropriateness of any information or comments contained in this report. Furthermore the information may not be current due to, among other things, changes in the financial markets or economic environment. MUFG has no obligation to update any such information contained in this report.

The information contained in this report may contain forward-looking information (“FLI”). FLI is information regarding possible events, conditions, or results of operations that is based on assumptions about future economic conditions and courses of action and may be presented as either a forecast or a projection. This report is not intended to forecast or predict future events. Past performance is not a guarantee or indication of future results. Upon receipt of this report, each recipient acknowledges and agrees that any FLI included herein should not be considered material. Recipients should consult their own legal and financial advisers for additional information. Any prices provided herein (other than those identified as being historical) are indicative only and do not represent firm quotes as to either price or size.

This report is proprietary to MUFG and may not be quoted, circulated or otherwise referred to without our prior written consent. Notwithstanding this, MUFG shall not be liable in any manner whatsoever for any consequences or loss (including but not limited to any direct, indirect or consequential loss, loss of profits and damages) arising from any reliance on or usage of this report and accepts no legal responsibility to any investor who directly or indirectly receives this material.

Country and region specific disclosures

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or is located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to any law, regulation or rule. Each entity and branch within MUFG is subject to distinct regulatory requirements and certain products and services discussed in this document may not be available in all jurisdictions or to all client types.

In this regard, please note the following in relation to the jurisdictions in which MUFG has a local presence:

- United Kingdom / European Economic Area (EEA): This report is intended for distribution to a “professional client” or “eligible counterparty” as those terms are defined in the rules of the FCA and PRA. In other EEA countries, this report is intended only for persons regarded as professional investors (or equivalent) in their home jurisdiction.

- United States of America: This report, when distributed by MUSA, is intended for Institutional Investors (“Institutional Accounts” as defined by FINRA Rule 4512(c)). When distributed by a non-US affiliate of MUSA, this report is intended for distribution solely to “major U.S. institutional investors” or “U.S. institutional investors” pursuant to Rule 15a-6 under the U.S. Securities Exchange Act of 1934, as amended. Securities referenced in this report may have been underwritten by MUSA and/or its affiliates. Nothing in this report should be considered an offer or solicitation of an offer to buy or sell securities or any other financial product or a commitment of any kind with respect to any transaction.

IRS Circular 230 Disclosure: MUFG Securities does not provide tax advice. Accordingly, any discussion of U.S. tax matters included herein (including any attachments) is not intended or written to be used, and cannot be used, in connection with the promotion, marketing or recommendation by anyone not affiliated with MUSA of any of the matters addressed herein or for the purpose of avoiding U.S. tax-related penalties.

- Hong Kong: This report is only intended for distribution to a “professional investor” as that term is defined in the Securities and Futures Ordinance and should not be passed onto any other person.

- Singapore: This report is only intended for distribution to an “institutional investor”, “accredited investor” or “expert investor” as those terms are defined under regulation 2 of the Financial Advisers Regulation. It is solely for the use of such investors and shall not be distributed, forwarded, passed on or disseminated to any other person. Investors should note that, as a result of exemptions that apply when this report is distributed to “accredited investors” and “expert investors”, MUFG is exempt from complying with certain requirements under the Financial Advisers Act, including section 25 of the Financial Advisers Act (which requires a financial adviser to disclose all material information on certain investment products), section 27 (which requires a financial adviser to have a reasonable basis for making recommendations on investments) and section 36 (which requires a financial adviser to disclose any interests that it holds in securities that it recommends).

- Canada: When distributed in Canada by MUS(EMEA) or MUSA. MUS(EMEA) operates under an International Dealer Exemption from registration with the securities regulators in Alberta, British Columbia, Manitoba, Ontario and Québec. MUSA operates under an International Dealer Exemption from registration with the securities regulators in all Canadian Provinces and Territories. When distributed by MUS(EMEA) or MUSA, this report is only intended for a “permitted client” as that term is defined under the National Instrument 31-103 in Canada and is not intended for re-distribution to any other person. When distributed by MUS(CAN), this report is only intended for an “institutional client” as that term is defined under the IIROC dealer member rules and is not intended for re-distribution to any other person. The information contained herein is not, and under no circumstances is to be construed as, a prospectus, an advertisement, a public offering, an offer to sell securities described herein, or solicitation of an offer to buy securities described herein, in Canada or any province or territory thereof. Under no circumstance is the information contained herein to be construed as investment advice in any province or territory of Canada and is not tailored to the needs of the recipient.
- Japan: This Note, when distributed by MUFG Securities affiliates located outside of Japan, is intended for distribution in accordance with Article 58-2 of the Financial Instruments Exchange Act 1948 (“FIEA”) i) to a “Financial Instruments Business Operator” engaged in “Securities-Related Business” as defined in the FIEA or ii) to the government, the Bank of Japan, a qualified financial institution defined in Article 209 of the Cabinet Office Ordinance Concerning Financial Instruments Business, Etc., or an Investment Manager.

When distributed by Mitsubishi UFJ Morgan Stanley Securities Co., Ltd. (“MUMSS”), this Note is intended for distribution to a “Professional Investor (tokutei-toushika)” as defined in the FIEA.

- United Arab Emirates: This report is only intended for distribution to a “Professional Client” or “Market Counterparty” as those terms are defined under the rules of the Dubai Financial Services Authority and only a person meeting the criteria for these terms should act upon this report.

• Australia: This Note is only intended for distribution to persons in Australia who are sophisticated or professional investors for the purposes of section 708 of the Corporations Act of Australia, and are wholesale clients for the purposes of section 761G of the Corporations Act of Australia. This Note is not intended to be distributed or passed on, directly or indirectly, to any other class of persons in Australia.

Other jurisdictions:

MUFG Securities also relies on local registrations or regulatory exemptions in order to undertake certain securities business in other countries. In Thailand, MUS(EMEA) has a derivatives dealer registration with the Securities and Exchange Commission, Thailand. In Canada, MUS(EMEA) and MUSA each operate under an international dealer exemption registered with the securities regulators. MUS(EMEA) operates under the exemption in Alberta, Quebec, Ontario, British Columbia and Manitoba. MUSA operates under the exemption in all Canadian Provinces and Territories