In collaboration with:

GBA – Survey shows foot firmly on the gas pedal

- **Our gauge of GBA activity and sentiment shows expansion in Q1-2021, and an even stronger Q2 outlook**
- **Manufacturers outperformed again; Shenzhen and Guangzhou to benefit more from broadening recovery**
- **Local and global vaccine rollout to be a boon; cross-border Renminbi usage has plenty of room to grow**

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Expectations running high

Our GBA Business Confidence Index (GBAI), based on quarterly surveys of over 1,000 companies operating in the Guangdong-Hong Kong-Macau Greater Bay Area (GBA) conducted in collaboration with the Hong Kong Trade Development Council (HKTDC), shows business confidence was off to a strong start in Q1-2021. The GBAI's 'current performance' index for business activity rose further above the 50 neutral mark to 53.0 in Q1-2021 from 50.2 in Q4-2020. The improvement came despite a seasonal slowdown in factory production and transitory COVID containment measures around Lunar New Year, plus worsening profit pressure due to rising costs. Even more encouraging was the jump in the forward-looking 'expectations' index, to 62.7 from 54.1 prior. Worldwide vaccine rollout likely fuelled the broad-based improvement, with all eight sub-indices above 60. This, in our view, gives policy makers more cushion to taper stimulus, which could weigh on growth in H2-2021.

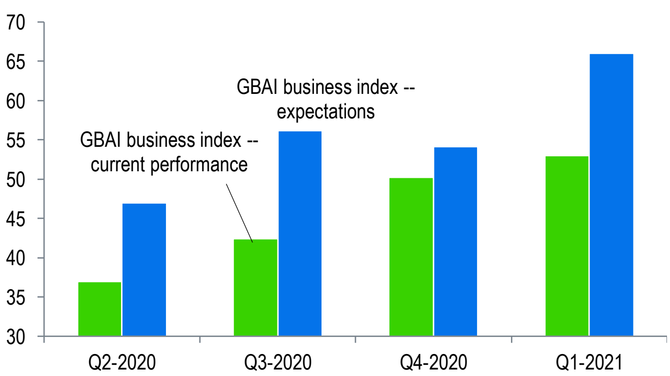
A detailed breakdown shows continued outperformance in 'manufacturing and trading'; more surprising was 'retail and wholesale' coming in second, beating IT and financial services; this hints at a broadening of China's services sector recovery. Shenzhen and Guangzhou's more developed services sectors likely contributed to their latest outperformance among cities, in our view, adding to their edge in manufacturing and technology. Our thematic questions showed that respondents are most upbeat towards vaccine rollouts in China and elsewhere, and are mostly concerned about higher costs and other production challenges in 2021. Over 20% of respondents already use Renminbi trade settlement, and another 16% plan to start doing so this year. We see room for policy relaxation to make cross-border money movement easier.

Figure 1: GBAI business index and its sub-components

	Current performance			Expectations		
	Q1	Q4	Q3	Q1	Q4	Q3
Business index	53.0	50.2	42.4	62.7	54.1	56.2
1. Production/sales	44.8	47.9	36.7	66.0	54.8	60.0
2. New orders	50.9	50.4	40.7	66.2	53.5	61.8
3. Capacity utilisation	47.8	46.3	40.0	62.2	53.0	53.5
4. Raw material inventory	57.1	50.5	46.4	60.0	50.0	50.8
5. Prices of finished goods/services	63.8	54.4	47.3	63.6	58.7	53.2
6. Fixed asset investment	55.3	50.5	45.3	60.9	52.6	55.3
7. Financing scale	56.7	52.2	47.3	60.1	54.1	55.1
8. Profit	47.3	49.4	35.9	62.7	55.8	59.9

Source: HKTDC, Standard Chartered Research

Figure 2: Expectations index points to further improvement



Source: HKTDC, Standard Chartered Research

Detailed findings of the GBAI survey for Q1-2021

Our latest GBAI was conducted between early February and mid-March, allowing us to capture not only the quick normalisation in production activity after Lunar New Year, but also the evident improvement in global growth prospects thanks to vaccine rollouts, adding to an already strong domestic recovery story.

Swift resumption of factory production after Lunar New Year helped limit the traditional holiday effect on production and sales

- **Current performance index shows a strong start to 2021:** The GBAI current performance index for business activity rose a third straight quarter to 53.0 in Q1 from 50.2 in Q4-2020 (Figure 1). This indicates a further pick-up in momentum, building on strong GDP growth of 6.5% in Q4, despite seasonal drags and lingering COVID disruptions around the Lunar New Year. Six out of eight GBAI sub-indices rose q/q, indicating improvements across new orders, capacity utilisation, investment and financing activity. 'Prices of finished goods and services' was particularly strong, jumping 9.4pts to 63.8, consistent with improving demand but possibly also stronger pass-through of higher costs amid rising commodity prices and component shortages. Building cost pressure helped explain the q/q fall in the 'profit' sub-index (-2.1pts).

  The other sub-index that worsened in Q1 was 'production/sales', easing to 44.8 from 47.9 prior, but we see no permanent setback. The slowdown in factory production around Lunar New Year was expected; if anything, we saw an earlier-than-usual resumption of factory production this year thanks to the government's 'stay put' policy, urging workers to stay in the GBA over the holidays for better pandemic control. The retail sector did well during the holidays for the same reason, albeit still lagging manufacturers (more on this later).

Upbeat expectations across production, orders, investment, prices and even profits

- **Respondents are unequivocally positive towards Q2 outlook:** The GBAI expectations index for business activity shot up to 62.7 after a small dip to 54.1 in Q4-2020. The strong improvement was broad-based, with all eight of its sub-indices rising above the 60 mark. The jump in 'production/sales' (+11.2pts) and 'new orders' (12.7pts) was particularly impressive, supported by strong demand both domestically and globally. The global reflation story, especially fuelled by the swift rollout of vaccines and an impending fresh round of fiscal stimulus in the US, has helped lift the new export orders outlook, boosting GBA's prominent manufacturing sector alongside the strong domestic recovery (Figure 15).

  'Profit' expectations remained upbeat (62.7), despite still-evident cost pressure based on the elevated 'prices of finished goods/services' expectations sub-index (63.6). This is possibly a reflection of respondents' confidence in passing on higher costs to customers, which is encouraging as we see *China's monthly PPI*

Expected improvement in cash position should help counter monetary policy normalisation

Figure 3: Current credit indices converging towards the 50 mark

Five sub-components of our GBAI's credit indices – current vs expectations

	Current performance			Expectations		
	Q1	Q4	Q3	**Q1**	Q4	Q3
Credit Index	**49.8**	49.6	45.9	**53.7**	50.8	52.4
1. Bank financing cost *	**48.4**	49.8	51.8	**46.5**	48.3	48.4
2. Non-bank financing cost *	**48.3**	50.9	51.7	**47.7**	49.8	48.3
3. Banks' attitude towards lending	**53.7**	50.3	48.6	**57.4**	50.4	52.7
4. Surplus cash	**50.5**	50.0	37.4	**60.4**	53.1	57.1
5. Receivables turnover	**48.0**	47.3	40.2	**56.7**	52.5	55.3

* Index above 50 indicates lower cost; Source: HKTDC, Standard Chartered Research

peaking only at c.5% y/y in Q3 (from 1.7% in February) and likely staying elevated in Q4. A robust Q2 could also make an inevitable growth normalisation in H2-2021 even more pronounced; we expect Q4 growth to slow to 4-5% y/y partly due to a high base in Q4-2020, as well as clear policy intentions to taper monetary and fiscal stimulus in order to stabilise debt. We believe our GBAI prints will start converging back towards the 50 neutral mark when the global reflation story stabilises and domestic policy tapering hits.

Respondents expect a continued improvement in their cash positions

- **Financial conditions stay neutral on balance:** The GBAI current performance index for credit was little changed at 49.8 versus 49.6 prior. Opposing forces between the bottoming out of borrowing costs (both bank and non-bank sub-indices dipped further below 50) and easing cash-flow stress (as reflected in improving willingness to lend by banks, surplus cash and receivables turnover sub-indices) largely cancelled out, keeping the headline credit index close to the 50 neutral mark (Figure 3). Our expectations index for credit, which rebounded to 53.7 from 50.8 prior, suggests that potential relief from improving cash positions (especially with the jump in the 'surplus cash' expectations sub-index to 60.4) will become more pronounced in Q2, more than offsetting a likely continued rise in financing costs. Looking ahead, the breakdown shows manufacturing and financial respondents expecting a more evident rise in borrowing costs in Q2, while retail and technology respondents expect the biggest improvement in their own cash positions.

- **Retailers are catching up, while manufacturers remain strong:** 'Manufacturing and trading' was once again the clear outperformer, with the highest prints for both current performance (54.0) and expectations (63.9) among key sectors (Figure 4). In particular, manufacturing respondents came out on top for five of the eight current performance sub-indices, and seven of the eight expectations sub-indices, including key ones like 'production/sales', 'new orders', 'fixed assets investment' and 'profit'. We have acknowledged that *industrial production has been spearheading China's strong post-COVID recovery*, and the latest GBAI

Figure 4: GBAI's industry business sub-indices

Business activity	Current performance			Expectations		
	Q1	Q4	Q3	**Q1**	Q4	Q3
Manufacturing and trading	**54.0**	51.6	43.3	**63.9**	55.4	57.2
Retail and wholesale	**50.3**	42.8	36.9	**59.2**	47.8	50.5
Financial services	**46.4**	40.8	38.9	**58.7**	48.7	46.5
Professional services	**39.1**	40.2	38.4	**44.7**	43.4	47.6
Innovation and technology	**46.8**	50.7	46.9	**58.7**	52.4	68.0

Source: HKTDC, Standard Chartered Research

Figure 5: GBAI's industry credit sub-indices

Credit	Current performance			Expectations		
	Q1	Q4	Q3	**Q1**	Q4	Q3
Manufacturing and trading	**50.1**	49.9	46.5	**53.6**	50.6	52.8
Retail and wholesale	**49.4**	49.4	41.7	**55.4**	52.8	49.1
Financial services	**50.2**	45.9	44.9	**54.2**	50.6	51.1
Professional services	**46.4**	44.8	45.2	**48.8**	46.9	48.4
Innovation and technology	**41.0**	51.7	48.9	**52.8**	52.2	59.1

Source: HKTDC, Standard Chartered Research

confirms that factory production could remain strong in Q2 as exports benefit from vaccine rollout elsewhere. The GBA, being China's manufacturing powerhouse, is well-positioned to capture a pick-up in the global recovery, in our view.

More surprising was the strong q/q increase in the 'retail and wholesale' sub-index for current performance (+7.5pts) and expectations (+11.4), making it the second-best industrial group that we track. The 'stay put' policy over the Lunar New Year holiday likely kept migrant workers' spending power in town; still, retailers' strong GBAI performance is at odds with what official data for January-February suggested – that it was primarily the IT, financial services and real-estate sectors driving the services sector recovery, while consumer-related activity in the retail sector (alongside hospitality and transportation) continued to face headwinds from capacity restriction requirements. The latest GBAI readings suggest that the services sector recovery could become more broad-based in Q2 and beyond.

Core mainland GBA cities look to maintain their edge across manufacturing, services and technology

- **Shenzhen and Guangzhou retake the lead:** The last time Shenzhen and Guangzhou had the highest headline scores was back in Q2-2020, when we first launched the GBAI and when China's post-COVID rebound was still in nascent stages (Figure 6). Both cities have regained their top spot, probably reflecting the bigger cities' (1) natural competitiveness now that smaller cities are done catching up after their slower recovery start last year; and (2) inherent advantage to benefit from the vaccine-induced export recovery and, more importantly, a broadening of the services sector rebound.

In comparison, **Foshan** was the clear underperformer among the mainland GBA cities after a very strong showing in Q4-2020 (albeit not as weak as Hong Kong). The recent announcement by the Foshan government *to offer financial support*

Figure 6: GBAI's city business sub-indices

Business activity	Current performance			Expectations		
	Q1	Q4	Q3	**Q1**	Q4	Q3
Hong Kong	**37.3**	34.9	29.6	**50.7**	38.3	38.0
Guangzhou	**55.6**	48.7	44.3	**66.0**	51.1	56.2
Shenzhen	**58.4**	51.8	44.2	**65.9**	56.9	62.7
Foshan	**49.2**	59.3	43.7	**60.8**	60.2	58.8
Dongguan	**52.6**	56.4	42.6	**64.1**	59.6	59.5
Macao and other cities	**55.1**	55.8	49.3	**64.5**	61.1	55.0

Source: HKTDC, Standard Chartered Research

Figure 7: GBAI's city credit sub-indices

Credit	Current performance			Expectations		
	Q1	Q4	Q3	**Q1**	Q4	Q3
Hong Kong	**46.1**	44.7	41.9	**51.1**	46.2	45.9
Guangzhou	**49.7**	48.2	48.6	**55.1**	48.1	49.9
Shenzhen	**51.0**	50.5	46.2	**53.4**	50.6	56.0
Foshan	**51.3**	53.5	44.5	**55.2**	53.6	52.5
Dongguan	**47.8**	51.2	46.1	**54.4**	53.0	55.5
Macao and other cities	**50.9**	52.1	47.5	**54.8**	57.7	50.6

Source: HKTDC, Standard Chartered Research

to tech start-ups (up to CNY 20mn in funding for eligible companies) and lure talent from neighbouring GBA cities is a reminder of the challenges facing non-core GBA cities to stand out from the GBA crowd and stay competitive in attracting the right kind of companies and talent over time. In the end, Foshan is not the only GBA city that has plans to focus on developing industries such as high-end equipment manufacturing, blockchain and quantum information, new energy, biomedicine and health care.

Hong Kong's expectations index for business activity finally crossed the 50 neutral mark

Meanwhile, **Hong Kong** finally showed early signs of improvement, albeit remaining the worst performer in the region. While Hong Kong's current performance index for business activity stayed below 40 for a fourth straight quarter, its expectations index jumped to 50.7 – consistent with economic expansion – from 38.3 prior. We believe a shallow recovery is underway. Externally, we expect Hong Kong to benefit from the improving global outlook; domestically, the unwinding of social-distancing measures since February should provide relief. Vaccine rollout is set to pick up pace after a slow start, thanks to the recent expansion of eligibility to more age groups. We however expect momentum to pick up only in H2, as headwinds from a still-rising unemployment rate could linger in the coming months.

Key takeaways from our thematic questions

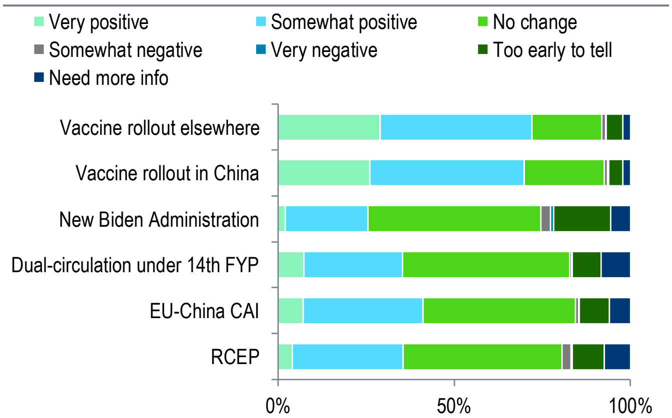
Our thematic questions this time focused on (1) how respondents see various opportunities and challenges in 2021; and (2) what their plans are for Renminbi trade redenomination and their views on the ease of cross-border money movement. We list our key findings below:

All eyes on vaccine rollout

- **Opportunities on the horizon:** Our first question was about the impact of various events on respondents' businesses in 2021. Unsurprisingly, almost 70% of respondents see either very positive or somewhat positive implications from the large-scale vaccination rollout in China (and an even higher 72% for vaccine rollout elsewhere; Figure 8). This helps explain the leap in the GBAI expectations indices, as the US is currently on track (and China striving) to achieve herd immunity (with an over 70% vaccination rate) by the end of this year, making border reopening and international travelling a real possibility on the horizon.

Figure 8: How do you see the following events impacting your business in 2021?

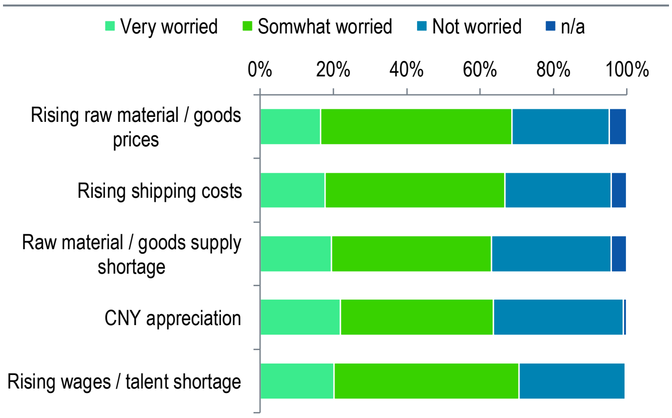
% of respondents



Source: HKTDC, Standard Chartered Research

Figure 9: How concerned are you about the impact of the following on your business in 2021?

% of responses



Source: HKTDC, Standard Chartered Research

Next was the EU-China Comprehensive Agreement on Investment (CAI, with a total 41% positive responses), reflecting the importance for both sides to continue pushing the deal forward after the European Union Parliament recently cancelled its review meeting on the agreement. Respondents are similarly positive towards the signing of the Regional Comprehensive Economic Partnership (RCEP, 36%), and China's launch of the dual circulation strategy under its 14th Five Year Plan (35%). More uncertain was the view on what the new Biden administration will bring (26%), with the highest share of respondents saying 'too early to tell' (16%). While we believe the US still views China as an economic competitor and could still clash on issues like technology and human rights, the hope is that a more multilateral US approach should increase predictability compared with the Trump era.

Respondents identified the challenges that come with recovering demand

- **Rising costs and other supply-side challenges:** The majority of respondents expressed concern about various production challenges in 2021. Those that are either very worried or somewhat worried account for over 60% of respondents, be it towards cost increases, supply shortage, labour market tightness or CNY appreciation (Figure 9). Interestingly, CNY appreciation not only had a higher share of 'very worried' responses (22%), but also 'not worried' ones (36%), reflecting a more varied view on the impact of currency volatility.

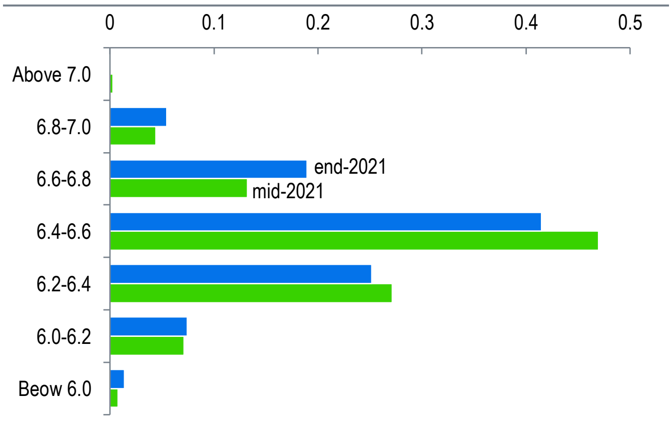
- **Median USD-CNY forecast range at 6.4-6.6:** Speaking of the CNY, over 40% of respondents see USD-CNY staying within the current 6.4-6.6 range, both by mid- and end-2021 (Figure 10). The second highest was 6.2-6.4, at 27% for mid-2021 and 25% for end-2021. This slight neutral-to-appreciation bias is consistent with our view that the CNY is likely to remain supported by China's solid growth and persistent capital inflows driven by global QE and index inclusion.

One-fifth of respondents already use Renminbi for settling international trade; another 16% plan to start doing so in 2021

- **Warming up to Renminbi internationalisation:** Our proprietary tracker for Renminbi internationalisation showed a strong start to the year, reflecting broad-based improvement in the Chinese currency's usage fuelled by CNY appreciation, and more importantly the renewed policy push from Beijing amid lingering US-China tensions. It is against this promising backdrop that we asked respondents their plans for Renminbi usage in international trade settlement this year (Figure 11). 21% respondents said they were already using Renminbi trade settlement; this beats nation-wide official data, which showed c.15% of China's total goods trade were settled in the Renminbi in 2M-2021. Within that 21% of

Figure 10: Where do you see the USD-CNY exchange rate by mid-2021 and end-2021?

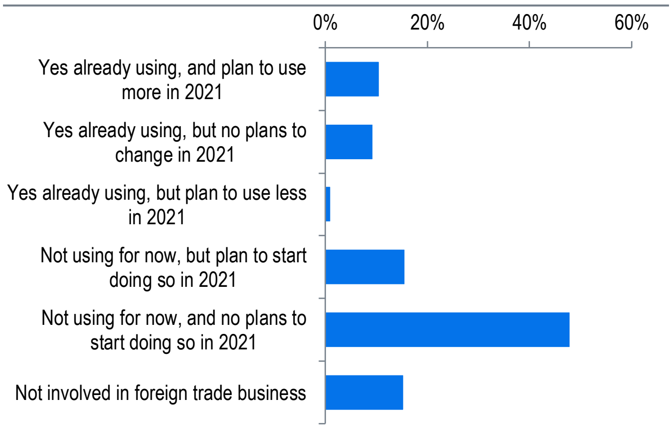
% of respondents



Source: HKTDC, Standard Chartered Research

Figure 11: Are you using Renminbi trade settlement? Any plan to use more or start doing so in 2021?

% of responses



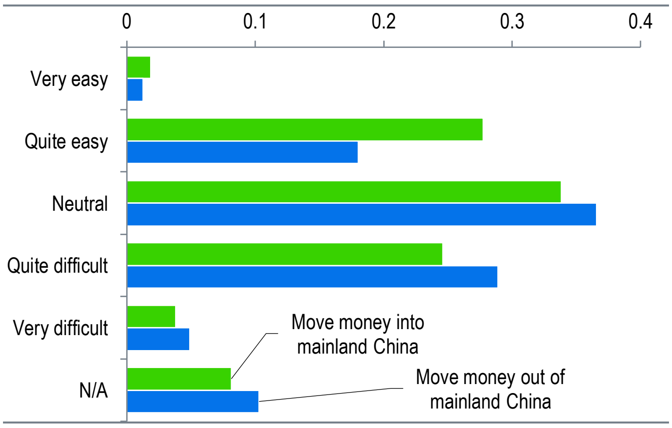
Source: HKTDC, Standard Chartered Research

respondents, just over half of them expect an increase in usage in 2021, while a majority of the rest said they expect no change. Another 16% of total respondents are currently not using Renminbi invoicing for international trade, but plan to start doing so in 2021; this supports our call for a likely evident pick-up in Renminbi globalisation in the coming quarters.

Respondents said lack of enough channels and quotas are the main challenges in moving money across the border

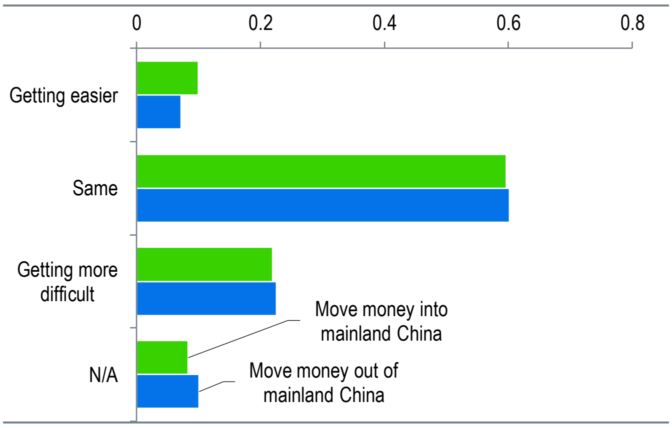
We also asked respondents how easy it is for them to move money in and out of mainland China. 29.6% of respondents said it was either very easy or quite easy to move money into the mainland, versus 19.3% for moving money out; this slight inbound bias matches the general perception that China has favoured facilitating inflows over outflows in recent years to avoid CNY depreciation pressure (Figure 12). But in both cases, more respondents see moving money across the border as difficult to do than those considering it easy, and that on balance it has become more difficult, rather than easier, compared to a year ago (Figure 13). This reflects plenty of room for further policy relaxation: respondents would like to see more cross-border channels (37%), more quotas (35%), simpler account structure requirements (23%), and streamlined settlement processes (21%) (Figure 14).

Figure 12: How easy is it for you to move money in and out of mainland China right now?
% of respondents



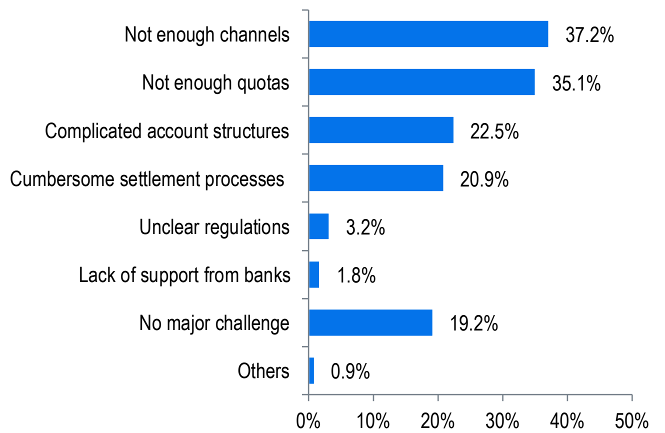
Source: HKTDC, Standard Chartered Research

Figure 13: Is moving money in and out of mainland China getting easier or more difficult compared with a year ago?
% of responses



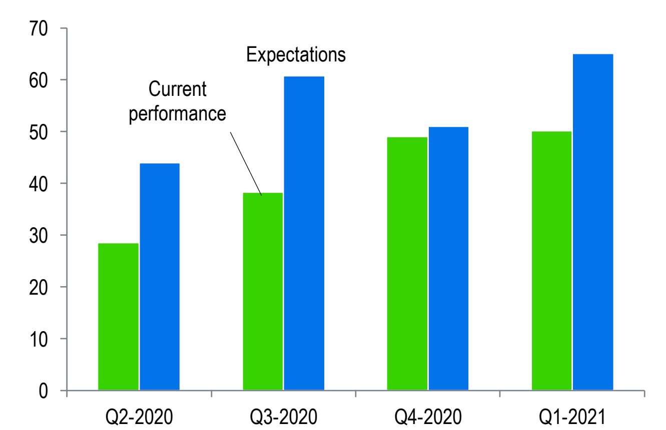
Source: HKTDC, Standard Chartered Research

Figure 14: What are the biggest challenges for moving money across the border?
Can choose multiple answers, % of respondents



Source: HKTDC, Standard Chartered Research

Figure 15: Improving external demand is playing a key role in driving GBAI higher
GBAI new export orders sub-indices



Source: HKTDC, Standard Chartered Research

Appendix: How the GBAI works

The GBAI is a diffusion index based on responses from no less than 1,000 enterprises across 11 GBA cities and key industry sectors

The GBAI is compiled based on a quarterly survey conducted by the HKTDC in collaboration with Standard Chartered. Every quarter, no less than 1,000 enterprises in key business sectors across the GBA provide valuable feedback on a range of subjects, including their current business situation and credit conditions, and their outlooks on these subjects for the coming quarter. The GBAI also asks respondents thematic questions that help us understand what drives their business decisions and plans, and how this might shape the GBA's future.

Index calculation: The GBAI comprises two main business indices, one gauging 'current performance' (in this case Q1-2021), and the other looking at 'expectations' (Q2-2021). Each index is calculated as an average of eight sub-indices that reflect different aspects of business activity, as outlined in Figure 1. Respondents indicate the corresponding changes, actual or expected, in three ways: up, same or down; a diffusion index is then calculated using the following formula:

$$\text{Up\%} \times 100 + \text{Same\%} \times 50 + \text{Down\%} \times 0$$

An index reading above 50.0 means that respondents are generally optimistic about the business environment in the coming quarter, while a reading below 50.0 indicates predominantly pessimistic sentiment. A reading of 50 is neutral.

The two credit indices are calculated in the same way, but with five of their own sub-components that focus on measuring the costs and ease of obtaining credit, and respondents' willingness and/or eagerness to do so (Figure 2).

Sample distribution: The sub-indices above are weighted according to the sample sizes and GDP of these industries in the respective cities. Figure 11 shows the distribution of survey responses, which are based on the cities' industrial sectors and number of enterprises. The five designated industrial sectors are (1) manufacturing and trading, (2) retail and wholesale, (3) financial services, (4) professional services, and (5) innovation and technology. By GBA city, Hong Kong, Guangzhou and Shenzhen have the largest samples, of 200 each.

Figure 16: GBAI

Number of respondents

By city	
	Targeted respondents
Hong Kong	200
Guangzhou	200
Shenzhen	200
Foshan	100
Dongguan	100
Huizhou Zhongshan Jiangmen Zhuhai Zhaoqing Macau	200
Total	**1,000**

By industry	
	Targeted respondents
Manufacturing and trading	500
Retail and wholesale	200
Financial services	125
Professional services	125
Innovation and technology	50
Total	**1,000**

Source: HKTDC, Standard Chartered Research

Disclosures appendix

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