CHINA'S STRATEGIC POLICY PIVOT & POST-COVID-19 OUTLOOK

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BNP PARIBAS
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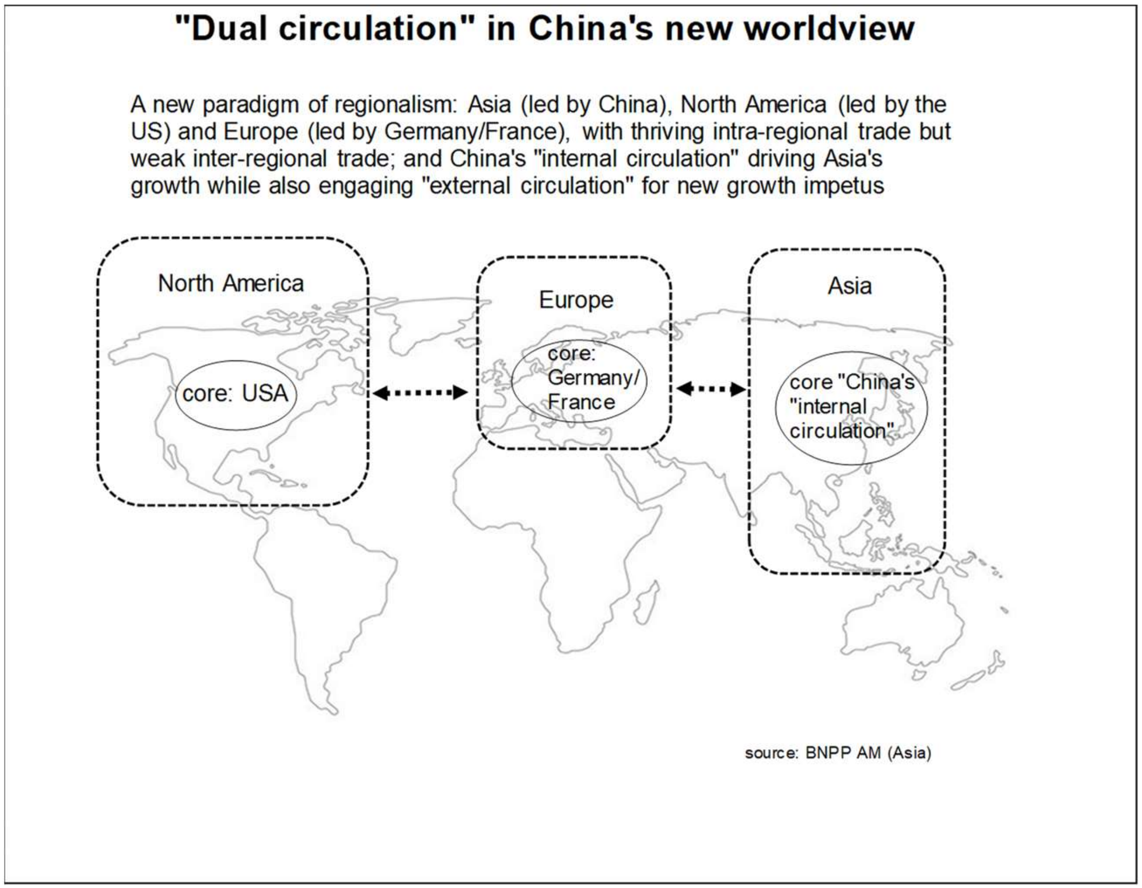
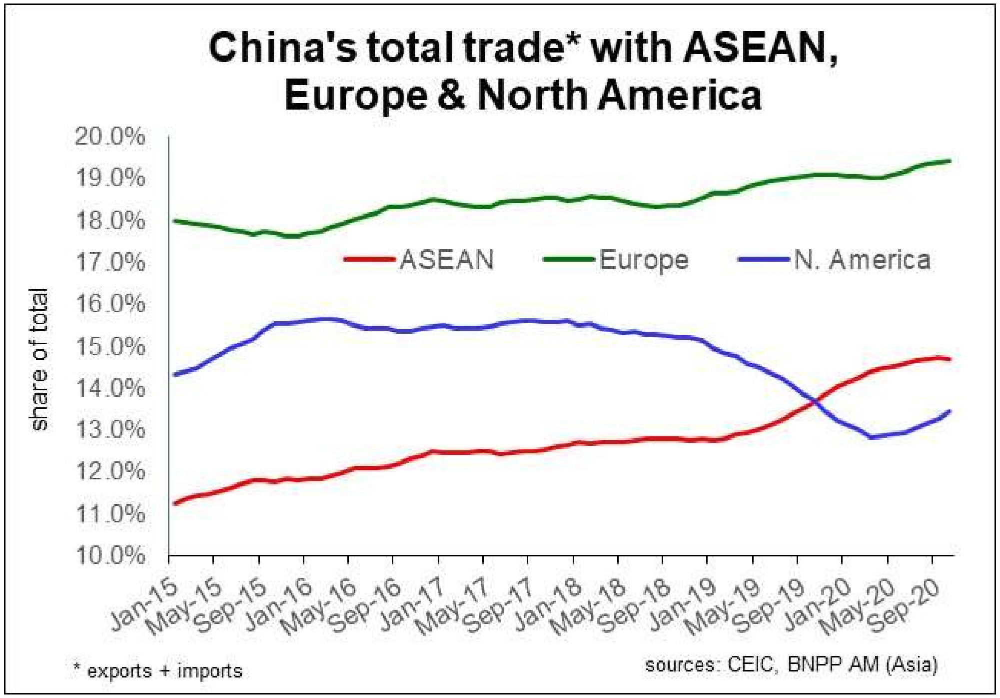
China's "dual circulation" policy shift

To counter external exigencies & global demand shift



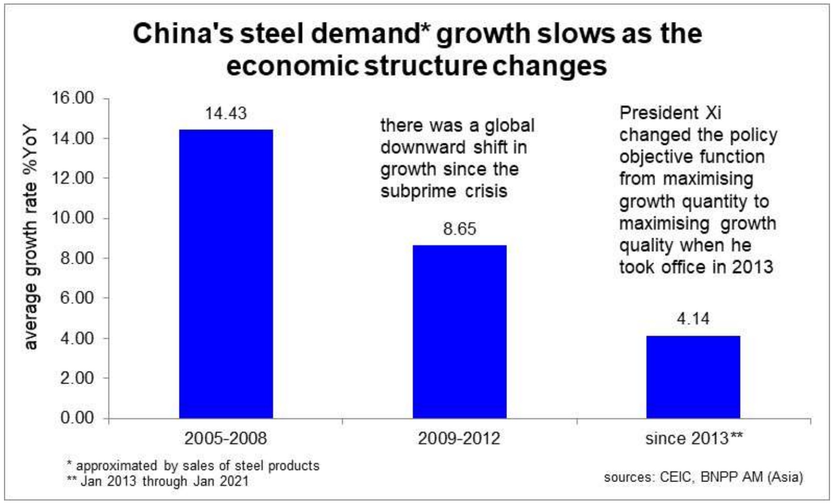
- Goal is to sustain long-term growth in the face of strategic competition with the US:
  - strengthen the domestic sector
  - reduce reliance on the external sector
- Focusses:
  - industrial upgrading
  - import substitution
  - consumption upgrading (shift outbound tourist spending back to China)

International impact

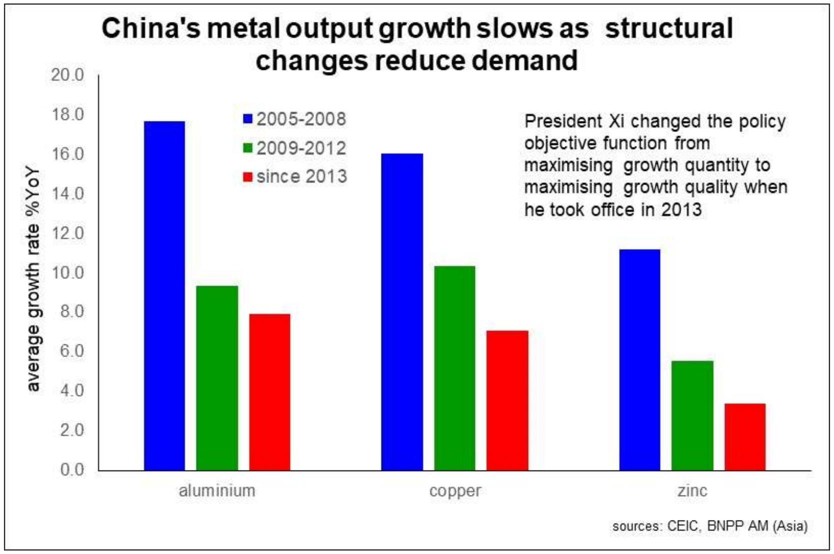


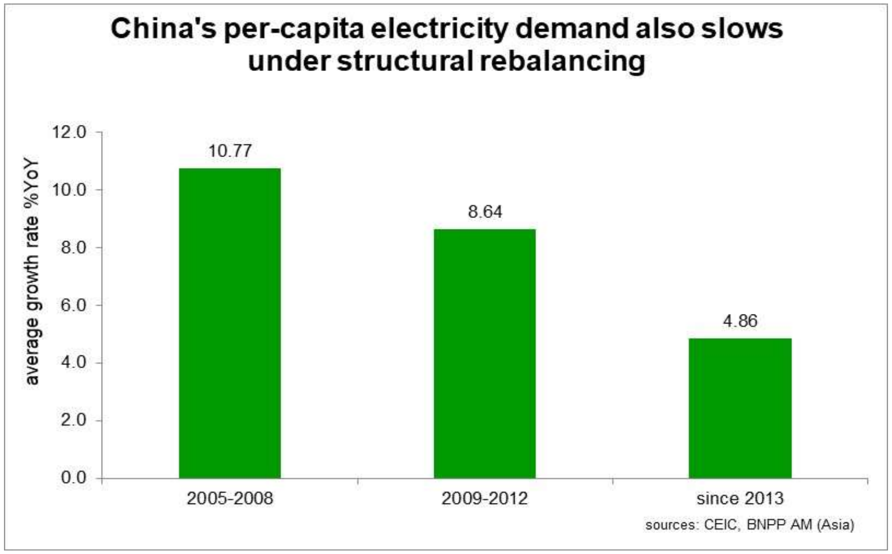
- ASEAN has become China's 2nd largest trading partner after Europe since late 2019, reflecting:
  - the huge potential of economic linkage between the two sides
  - their cooperation through the pandemic despite shrinking global trade & increasing protectionism
- The RCEP (Nov 2020) + the CAI (Dec 2020) = platforms for working with Asia & Europe
- Chinese growth/demand will remain key for global growth => China's "dual circulation" is key for commodity demand (directly & indirectly)

Impact on the commodity market

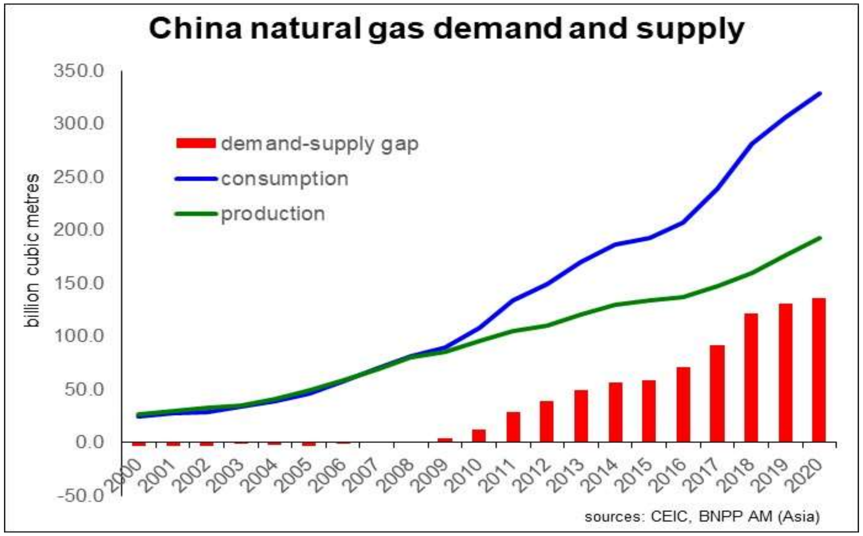


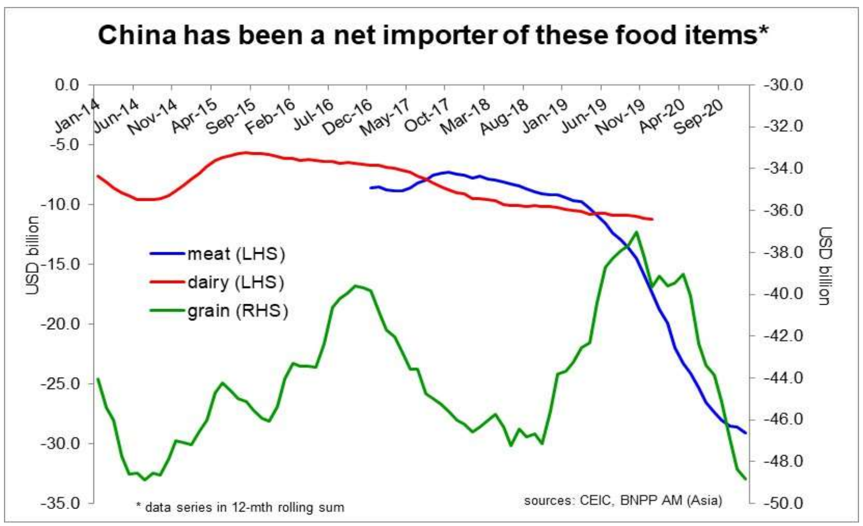
- China is becoming less important in driving commodity prices in the post-Covid world
- Western infrastructure and global green infra spending are key factors in the next commodity price upturn
- But China's demand base is large, so even an avg of 4% YoY growth, for example, in its demand still matters





Structural change in China's demand





- Demand will change to high-quality metals, energy & agricultural products from low-end and crude commodities
- Carbon neutrality by 2060
  - => cuts on industries with heavy power consumption and high emissions and increase in investment in renewable energy, smart grids and electrification
  - Copper, graphite electrodes, alloy and natural gas to benefit from China's switch from coal to gas and renewable energies and EV production
- Demand for high-quality foods – grains, meat, dairy products – to continue to rise along with income growth

The bottom lines

- China's commodity demand is changing as its growth shifts away from heavy investment to high-value manufacturing, consumption and services
- The new 14^{th} Five-Year-Plan (ending 2025) focusses on improving growth quality through digitalisation, high-tech development, consumption upgrading and continued structural reforms to cut excessive capacity => all are not commodity-intensive
- There will not be significant Chinese demand growth across all commodity classes in the post-pandemic global recovery
- China's demand will shift to high-quality commodity and energy products in the coming years.

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