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Macroeconomic Forecast and Investment Decisions for China in 2023

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ABSTRACT
The global equity investment market in 2023 is paying extra attention to Chinese assets, which are generally considered to be at a low valuation, while the economic situation in China will get a quicker recovery with the liberalization of released pandemic policies, and Chinese assets are in a value depression in the long cycle. Global investors' concerns about potential economic risks in Europe and the U.S., especially the shift in the Federal Reserve's interest rate policy, have further promoted the intention to diversify. Based on our years of experience in policy interpretation and judgment of stock market development trends, this paper presents detailed macro forecasts and corresponding investment strategies from the perspective of the main components of GDP as well as fiscal and monetary policies, with extra emphasis on the timing of the rebound in China's domestic consumption sector, providing reference for Chinese and foreign investors.

Introduction

Starting with the year of 2020 pandemic, the world has entered a testing period for the economy (Nicola et al.). It has been three years since the Covid-19 began, and the misalignment of the timing of the pandemic and its spread (Kuckertz et al.), combined with the misalignment of the geographic transmission speed of the geopolitical conflict of the war, has led to a misalignment of the economic cycles of the world's two largest economies, which we call central bank interest rate scissors. With the widening of the macroeconomic scissors, China and Europe and the US have or will have recessions and rebound (Deni et al.). Based on China's perspective, this paper considers the economic conditions in the US and Europe as external influences and will elaborate on the macroeconomic trend changes in China in the year of 2023, while giving pro-cyclical investment strategies.

External environment and impact

The risk of recession in Europe and the United States in the year of 2023 is high, and it may only be a matter of time, especially in the United States

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with the last substantial interest rate hike by the Federal Reserve (Chen), the U.S. economic situation is likely to take a sharp turn to a crash landing. At that time, rising unemployment and declining income will become a new social problem. The high interest rate (>5%) monetary environment will make the Federal Reserve and the U.S. Treasury Department to regulate the policy strapped and may even appear conflicting policy phenomenon. During the pandemic, a considerable amount of stimulus has been overdrawn (Chen et al.), and when a new recession comes, there may be even fewer economic regulation tools available. At the same time, investors should pay close attention to the potential risks of debt in Europe and the United States (Steinbock), especially the risk of dollar debt in the euro zone. Leaving aside the financial risks experienced by third world less developed countries with the ups and downs of the dollar's return tide (Pieterse), looking at the Eurozone alone, the third largest economy, the potential national debt risk among the allied countries is very high, with Germany even running a trade deficit not seen for years during the hyperinflationary period in the year of 2022 (Langdana). If Germany and France to impose a slightly tighter monetary and fiscal policy, the eurozone debt crisis will probably erupt immediately. The weakening of the external environment and foreign demand for foreign exchange will create an unfavourable environment for China's GDP development, which also raises the status of expanding domestic demand in the year of 2023, as well as the urgent need for stable employment.

China has largely survived the darkest bottom of the economy in the year of 2022, exerting its macro-control power in a global hyperinflationary environment (Calinescu et al.). In a year when inflation in Europe and the US was around 10% (Hall et al.), China innovatively kept inflation strictly within a reasonable, even lower, range through supply-side safeguards (Yuhui and Rongrong), paving the way for continued expansion of accommodative monetary and fiscal policies in 2023. Overall, China's GDP growth target for 2023 should be set at 5% or more, and if it continues to fall below that, it will not be able to meet its goal of doubling the wealth of all people by 2035. At the same time, after three years of pandemic depression, China's economy is in dire need of a situation to boost market confidence (Chi-Wei Su et al.) and increase the speed of GDP development. Our research suggests the following areas of focus:

2.1 Real Estate

Scandal real estate events have seriously lowered the growth rate of GDP, so governments have to improve the real estate industry. In the year of 2022, the government has basically stabilized the downward trend of the real estate sector by starting with the purchase of indemnificatory apartment and three quick-fix arrows of Abenomics to protect the money supply side of the sector (Han et al.). But if economy want to rebound government must start from the consumer side (Castro et al.), which must give residents confidence in the development of the industry and either be willing to take out savings to purchase for exchanging existing house or take out a loan for consumption, all of which requires the overall economic environment to develop upward so that housing prices can continue to perform their anti-inflationary function. From the point of view of the declining birth rate growth rate (Zhang et al.), the pattern of more houses and fewer people will become the general trend, but in the economically popular areas with continuous population inflow (Qiang and Hu), as well as the rural areas with huge potential consumption willingness under the rural revitalization, the high-speed development situation of real estate is still considerable. At the same time, the demand for improved home purchase and home exchange in ordinary cities and counties will also support regional real estate industry development. Considered together, the recovery of the consumer side of real estate is directly beneficial to the banking sector and the home appliance and building materials sector.

2.2 Consumption

The biggest potential bright spot is still consumption. First of all, the pandemic suppressed the enthusiasm of consumption has not been eliminated, and the cash holding effect is significant when sentiment is low (He). Some scholars have developed machine learning techniques to examine users' sentiments during online product marketing (Fang et al.). However, the phenomenon of retaliatory consumption has a logical basis (Shi and Jiao). Therefore, if the government issues consumption vouchers or digital renminbi (RMB) bonuses for the purpose of consumption at this particular point in time when the bottom is to be rebounded, it will amplify the consumption stimulation effect and enhance the recovery slope of consumption. Our research predicts that with the end of the first wave of pandemic infections, the first wave of consumption rebound will be ushered in, which should be completed in the first quarter, when the biggest highlight will be the reasonable return consumer price index (e.g., pork price), directly benefiting meat countryside farming stocks. In the second quarter, the centre of direction of consumption will shift, and the new rural supply and marketing sector, which is superimposed with the double benefits of rural revitalization and consumption, will complete the action of sprinting to the highest valuation point. It is worth being cautious that the slope of several waves of consumer outbreaks will slow down in the second half of the year, when investors should hold big fire sales opportunistically.

Investment

China's infrastructure in 2022 focused on water conservancy (Zhou et al.), transportation in western areas (Xu et al.) and infrastructure for the digital economy (Zhao et al.) has achieved a countercyclical function of stabilizing the economy (Liu and Liu). The year of 2023 is not expected to continue to rely solely on infrastructure to pull the economy, private capital investment confidence has to play a greater and more important role, social finance growth rate should achieve a stronger bottoming out rebound. If the increment of domestic infrastructure loans from policy banks to commercial banks as the main force, the handover baton of infrastructure to boost the economy will be perfectly realized.

In addition to infrastructure, the most popular investment area will be high-end manufacturing. On the time requirement of double carbon policy (Jiang et al.) and under the space coverage of digital economy (Ding et al.), environmental-friendly equipment, internet security with machine learning techniques, new energy storage (Gao et al.) and other sectors will be exploding (Hartlieb-Wallthor et al.). A new round of Juglar cycle is about to kick off (Cai and Zhang), high-end manufacturing of chips, security software, quantum technology and robot automation are expected to become the main player of the new cycle, but the situation is still unclear (He et al.). From the perspective of the development trend of advanced technology in Europe and the United States, it seems that robotics (Zhao and Gereffi) and augmented reality and virtually reality (Lee et al.) have more promising. At the same time, ecosystem construction encouraged by governments in the technological companies will also contribute to the demand for high-end manufacturing, and thus to the economic recovery (Chang Su et al. "The Strategy of Local Government Constructing Regional Innovation Ecosystem").

Macro Tools and Policies

China's overall policy of the Ministry of Finance is bound to continue to be accommodative in the year of 2023, with a high annual amount of $3.6 trillion in local special bonds (Ouyang1a and Wan) already approved and the central treasury will appropriately increase the deficit rate, perhaps above 3%. Our research suggests that the government may achieve support for the specific groups and achieve a new era of balanced distribution of overall social wealth by issuing rural digital RMB bonuses to poor groups and special digital RMB subsidies for vocational education, further education and student loans to specific education groups. The digital RMB has great potential to stimulate the consumption potential of disadvantaged groups in multiple initiatives to achieve GDP growth, which is worth looking forward to (Chang Su et al. "The Relationship between Digital Rmb and Digital Economy in China"). In addition, the use of machine learning (Gao and Su "Analysis of Earnings Forecast of Blockchain Financial Products Based on Particle Swarm Optimization") to measure financial product (e.g., digital RMB) returns has also become a direction explored by scholars in recent years (Gao and Su "Analysis on Block Chain Financial Transaction under Artificial Neural Network of Deep Learning").

In terms of monetary policy, it is clear that the central bank's surplus has been greatly reduced (Boateng et al.), on the one hand as a result of the large amount of balance profits surrendered in the pandemic years, and on the other hand as a result of the sharp decline in profits under the pandemic recession. In the year of 2022, the central bank's main tactic was to put in base money, resulting in a year-on-year growth of over 12% in M2 in November 2022, breaking a new high since April 2016, while at the same time M0 and social consumption did not synchronize. This indicates that the released base money is not confident in the economy and is not flowing into consumption and investment, but rather into precautionary deposits (both on the business side and consumer side). This is already a sign that the loose money is idling in the financial system, and the central bank should step up its supervision in this area to let the new money flow into the real economy. We believe that in the year of 2023, the central bank will choose more digital RMB methods in terms of money release, and at the same time will generally reduce the incremental base money release; at the same time, it will increase the use of tools to lower the interest rate in order to expand the monetary multiplier effect. Both loan prime rate (LPR) and medium-term lending facility (MLF) are ready to fall in the general environment, just waiting for the right chance (probably LPR down in the first half of the year, MLF down in the second half of the year). According to our research, LPR is expected to fall by more than 10 Basis Point (BP), and bank deposit and loan interest spreads are expected to continue to squeeze by more than 10 BP. On the surface, the bank spread will decline, but the increase in the number of customers will far make up for the negative impact of this spread, the overall banks are still the larger beneficiaries.

Overall, the Chinese stock market will rebound in the year of 2023, but the strength of the rebound remains to be studied, and the confidence index of fund managers within the public offering fund and within the privately offered fund is currently not in the same class. In the bond market, treasury bonds may be at their highest point in recent years with a potential rate cut in the first quarter. On the foreign exchange side, the value of the RMB has become more and more prominent, and with a pullback in the USD index and a recovery in China's GDP, even overlaid with some positive international events such as oil settlement in RMB, the RMB exchange rate will return to pre-pandemic levels. China's economic performance overall upward in 2023, we believe that the digital RMB index (Chang Su et al. "The Relationship between Digital Rmb and Digital Economy in China") and China-style digital economy index (Chang Su et al. "The Relationship between Digital Rmb and Digital Economy in China") will pull upward, especially the digital currency usage to reach the influence of digital economy superimposed amplification effect , which will provide a strong reference to the overall recovery of the world economy. Therefore, this aspect deserves more in-depth original research.

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