

MORGAN CREEK

CAPITAL MANAGEMENT

ALTERNATIVE THINKING ABOUT INVESTMENTS

New China Perspectives



Welcome to the weekly issue of Morgan Creek's *New China Perspectives*. It is comprised of research from Morgan Creek's China-based investment team together with curated articles of interest. In addition to timely political and economic news covering greater China, Morgan Creek's China team seeks to provide in-depth perspectives on investing in the technology, consumer and healthcare sectors in the region. Our research leverages the "on the ground"

insights of our team together with Morgan Creek's decades-long experience in covering the region. Our team are focused, thematic investors primarily covering the technology, consumer, and healthcare sectors and investing in private companies and early-stage managers with deep local expertise. To learn more about our team and investment offerings, please email chinateam@morgancreekc.com.

Best Regards,

Handwritten signature of Mark W. Yusko

Mark W. Yusko
CEO & CIO

NOTES FROM THE BUND¹

Shanghai has been under lockdown since March 28. ² Caseloads have declined to 245 per day, and barring any new infections, we expect gradual reopening to occur in the coming weeks. In our prior newsletter, we discussed possible reasons behind China's reason so far to maintain its zero COVID-19 policy. In this newsletter, we will discuss the impact of the lockdown on supply chains and logistics from the perspective of a Shanghai resident during the lockdown and measures the government have taken to support the economy.

Shanghai's lockdown has caused significant disruptions in intra and inter city logistics as restrictions on movement are applied to truck drivers and delivery personnel. The already tight supply is exacerbated by huge increase in demand for delivery of food and other necessities from quarantined personnel.

Residents under quarantine in Shanghai currently have several avenues to obtain supplies including:

- Online grocery apps: these include the likes of Meituan [36900.HK], Dingdong [DDL], Duoduo [PDD], etc. However, there is a delivery constraint, and success rate for placing orders is not very high
- Groupbuying: this is where residents in a neighborhood or building aggregate orders to [buy items in bulk](#). The group leader will be responsible for all logistics, including tallying

- number of orders and contacting the merchant and arranging a courier
- Bartering: this is where neighbors will exchange items by trading what they have. This can be spices, soft drinks, cereal, etc. An interesting video is [linked here](#) that documents the process
- For special needs including medicine, residents have to contact merchants directly and find a courier to deliver. However, a courier currently charges RMB 200 every 5km, or more than 12 times the regular rate.
- Prices for necessities in the first few weeks of quarantine were high, but prices have since gradually trended back to normal as the authorities have stepped in and businesses gradually reopen.

Logistics companies, especially truckers also face stringent restrictions:

- Logistics companies need to apply for a permit to operate, and drivers need to be fully vaccinated and obtain a “green code” to enter Shanghai
- After entry, truck drivers are not allowed to disembark from their truck. They will drive directly to the required site to unload and then head to a quarantine facility for 14 days
- As such, the rates for a truck run to compensate the driver for quarantine down time and costs are very high

There has also been adverse impacts on factory production. A recent [European Union Chamber of Commerce letter](#) to the Chinese authorities highlighted that 1/3 of Germany’s companies have experienced severe impact or significant disruption in production and manufacturing due to the lockdown measures.

As one can imagine, the overall impact to the economy from both a demand side due to decreased consumption and supply side due to production and logistics disruptions will be significant. In April, demand contracted significantly, with the new order index falling by 6.2%; the production index dropping 5.1%; PMI trending down 0.7% and supplier delivery time index falling 9.3%.³ Prior to the lockdown, the Chinese authorities announced a GDP target of 5.5 per cent for 2022. Depending on the duration and continued severity of the lockdowns, some analysts project that more than a third of the targeted growth could be adversely impacted and might not materialize.

In light of these challenges, the Chinese authorities have begun to unveil a host of monetary and fiscal measures to combat these challenges:

- The People’s Bank of China (“PBOC”) released [a draft Financial Stability Law](#) on April 6. Among the law’s provisions is the proposal to set up a financial stability fund where the PBOC could step in with its balance sheet to support China’s financial sector and economy, similar to the Fed and its Quantitative Easing (“QE”) program
- On April 15, the PBOC [cut domestic banks’ required reserve rate](#) by 25bps
- On April 20, China’s 10 year [bond yield fell below US 10 year treasury](#) rate for the first time since 2010
- On April 26, President Xi calls out for more [infrastructure spending](#). Bloomberg estimates that local governments are planning more than \$2.3 trillion of infrastructure projects, or twice the spending approved by US congress last year
- Leading up to the May Day holidays (April 30 – May 4), multiple Chinese cities [issue consumer coupons](#): Shenzhen (RMB 500m), Ningbo (RMB 300m), Fuzhou (RMB 370m)

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CHINA NEWS SPOTLIGHT

China Makes 10 Bln Yuan Available To Subsidize Grain Growers: China's central government has made available 10 billion yuan (\$1.49 billion) for "one-off" subsidies to support individuals and companies involved in grain cultivation and production. [Read more.](#)

Chinese premier stresses faster implementation of macro policies: Chinese Premier Li Keqiang has called for an accelerated pace and ramped-up efforts in the implementation of macro policies. [Read more.](#)

China seen lowering lending benchmark LPR to support economy: China is expected to cut benchmark lending rates at its monthly fixing on Friday, a second reduction this year, a Reuters survey showed, as it seeks to prop up credit demand to cushion an economic slowdown due to COVID-19 disruptions. [Read more.](#)

Canada to ban China's Huawei and ZTE from its 5G networks: Canada says it will ban two of China's biggest telecoms equipment makers from working on its 5G phone networks. Francois-Philippe Champagne says the move will improve Canada's mobile internet services and "protect the safety and security of Canadians". [Read more.](#)

NIO Stock Closes Higher in Its Singapore Debut: Shares of Chinese electric-vehicle maker NIO closed higher Friday in their first trading day in Singapore, the third exchange on which investors can trade the stock. [Read more.](#)

China's Big Tech sees new wave of job cuts as COVID-19 lockdowns hurt economy: A new wave of job cuts has hit China's largest technology companies, as regulatory pressure and COVID-19 lockdowns battered their business. It is yet unclear how much of those firms' work forces would be affected because few are willing to publicly disclose their plans, but there have been extensive reports of job reductions across a wide spectrum of job functions in the sector, according to local media and sources interviewed by the *South China Morning Post*. [Read more.](#)

Zenas BioPharma Submits Investigational New Drug Application in China for ZB001 for the Treatment of Thyroid Eye Disease:

Zenas BioPharma, a global biopharmaceutical company committed to becoming a leader in the development and commercialization of immune-based therapies for patients in need around the world, today announced the submission of an investigational new drug (IND) application to the China National Medical Products Administration (NMPA) for the initiation of a Phase 1/2 clinical study of ZB001 for the treatment of Thyroid Eye Disease (TED). [Read more.](#)

WHO grants EUL to CanSinoBIO's COVID-19 vaccine: The World Health Organization (WHO) has granted an emergency use listing (EUL) for CanSino Biologics' (CanSinoBIO) recombinant novel COVID-19 vaccine, Convidecia. Given as a single-dose vaccination, Convidecia is a genetically engineered vaccine with the replication-defective adenovirus type 5 vector that expresses the spike S protein of the SARS-CoV-2 virus. [Read more.](#)

China Junshi's potential COVID-19 drug shows promise in small trial: An antiviral oral drug being co-developed by Shanghai Junshi Biosciences' ([688180.SS](#)) subsidiary and other Chinese institutes showed early promise in speeding the clearing of virus in COVID-19 patients, according to a small clinical trial. [Read more.](#)

¹The Bund is a historic waterfront area in central Shanghai, where Morgan Creek's office is located. From the 1860s to the 1930s, it was the rich and powerful center of the foreign establishment in Shanghai, operating as a legally protected treaty port. The picture above is part of the historical waterfront.

²The official lockdown started on March 28. Though targeted lockdown has begun since March 5.

³Data from Wind database

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