

1 September 2025

China Headlines

A-shares on fire, CNY strengthening, PMIs confirm softness

Markets

- **Chinese stocks on fire:** China A-shares (onshore market) have rallied strongly over the past month being up more than 10%. Foreign focus has suddenly shifted from whether China was investable to concerns over a new bubble on the mainland. H-share stocks on the other hand have traded more or less sideways during August. Why the sudden rise in onshore market when data has been quite disappointing lately?

It is hard to point to one trigger but we have seen a confluence of factors coming together. First, on-shore stocks were lagging behind H-shares this year (chart 1) but suddenly in July and especially August played catch-up. Second, there is a lot of herd behaviour in the onshore market dominated by retail investors, which sometimes accelerates moves once the ketchup comes out of the bottle. Household deposits are massive after years of high savings (chart 3) and some of that money increasingly comes into the market when households start fearing to miss out. Third, positive headlines from tech company earnings and tech in general have added to the positive sentiment. Fourth, we saw a big jump in shares of chip producers following signals that Chinese authorities are warning against using Nvidia's H20 chips and it got more fuel when Nvidia was reported to have told suppliers to halt production of components of the H20 chips. Chinese chip company Cambricon more than doubled in value in August leading them to send out a *warning* of trading risk in the stock.

Bubble or not? The onshore market is now at a 10-year high but with a forward P/E level around 15 it is hard to talk about a bubble at this point. With lots of more potential liquidity coming from more deposits, though, it is not impossible it *will* turn into the next equity bubble in China around the 10-year anniversary of the previous bubble. FOMO is a strong force and can drive more investors into the market. The offshore index is more dominated by foreign investors and is still below its' long-term average despite the sharp rally this year of more than 25%. Hence, it is hard to talk about a bubble in this market. For now, the trend seems to be your friend as the macro environment is overall benign and still lots of money that can potentially enter the market.

- **CNY appreciation:** USD/CNY has moved lower lately (chart 4) driven by a couple of factors: a) lower US yields that have narrowed the US-China yield spread, and b) PBOC guiding the cross down with a gradual lowering of the fixing for some time. I look for some stabilisation as the decline in US yields looks stretched to us. However, there is some downside risk now to our 12M target of 7.12 as PBOC may be aiming for a further appreciation of the CNY as it would support the rebalancing of the Chinese economy towards consumption and accommodate outside pressure due to China's ballooning trade surplus.

Chart 1: A-shares had been lagging behind this year



Source: Macrobond Financial, Bloomberg.

Note: Past performance is not a reliable indicator of current or future results.

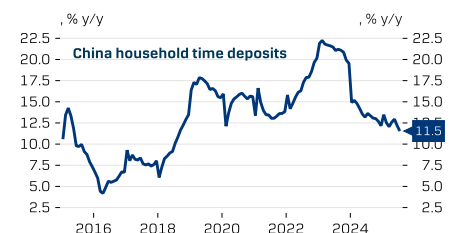
Chart 2: A-shares looking high, H-shares less so



Source: Macrobond Financial, Bloomberg.

Note: Past performance is not a reliable indicator of current or future results.

Chart 3: Chinese households have put a lot of savings in deposits since 2018



Source: Macrobond Financial, PBOC

Director

Allan von Mehren
+45 45141488
alvo@danskebank.dk

- **EUR/CNY** is lower as well below 8.40. However, as we are bullish on EUR/USD in the medium term, I also still see EUR/CNY trending higher toward 8.70. It thus makes sense to hedge CNY income for EUR based companies.

Economics:

- **August PMIs confirm soft picture:** Chinese PMIs for August released this morning and yesterday painted a still soft picture of the Chinese economy (charts 7-9). (Note the private PMI from S&P is now called RatingDog PMI instead of Caixin). While the headline numbers were slightly better than expected, the overall impression is still soft with details looking weak. Construction PMI fell to 40.6, which is close to the lows for the index and the composite PMI employment index, which correlates well with retail sales, dropped to a new one-year low at 46.5. The data highlights the need for a step-up in stimulus measures, especially targeting private consumption and housing.
- **Easing deflationary pressures?** The PMI price indices were the main bright spot in the PMI reports as they have increased lately (chart 10). It suggests the deflationary pressures are easing somewhat. Some the worst price wars have dampened after the government has spoken out against 'involution' and solar prices have started to *rise*, albeit from very levels.
- **More housing measures:** With housing still struggling, more cities roll out measures to underpin home sales. Shanghai has been the latest to announce new measures opening up for owning numerous flats outside the city's outer ring road. However, these small easings of restrictions have taken place for some time now and it is unlikely to create a turning point. I still see the housing crisis lingering into next year as new steps to support housing will probably again be insufficient.

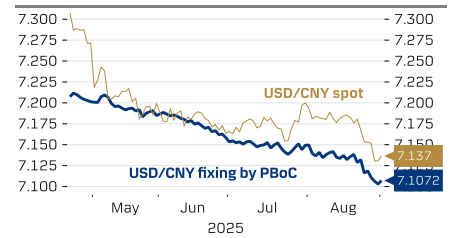
Geopolitics and tech

- **Nvidia developing new AI chip for China:** A lot of stories have surfaced on the chip front over the past weeks. Several sources said that Nvidia is developing a new AI chip for the Chinese market tentatively know as B30A, which is more advanced than the H20 chip it was recently allowed to sell. It is unclear, though, if Nvidia will get approval for shipping it to China. Nvidia said in a statement that *"We evaluate a variety of products for our roadmap, so that we can be prepared to compete to the extent that governments allow"*.

Nvidia's case is that as long as they can provide 'good-enough' AI chips but not the most advanced, it will keep China dependent on US technology rather than hand market shares to rivals that will make it more attractive for them to make major investments and catch up further with Nvidia. The news followed a story a few weeks ago that Nvidia had told suppliers to halt production of components for H20. On another note, Nvidia's CFO said that the US government had yet to put regulation in place for Nvidia paying the 15% commission saying *"I don't have to do this 15% until I see something that is a true regulatory document"*.

- **Modi and Xi vow more cooperation at SCO Summit:** India's prime minister Narendra Modi met in person with Chinese president Xi Jinping on Chinese soil for the first time in 7 years, when the two had an hour-long meeting ahead of the SCO Summit in Tianjin. The leaders of the world's two most populous countries representing a combined 2.8 billion people, pledge to bolster cooperation and solve their border dispute. It follows movement towards a thaw in the relations since late last year, which got extra momentum from Trump's 50% tariff on India recently. Modi has increasingly

Chart 4: USD/CNY moving lower as fixing drops



Source: Macrobond Financial, Bloomberg.

Note: Past performance is not a reliable indicator of current or future results.

Chart 5: Lower US yields have pushed the US-China yield spread lower



Source: Macrobond Financial, Bloomberg.

Note: Past performance is not a reliable indicator of current or future results.

Chart 6: We still see upside in EUR/CNY on a MT bullish EUR/USD view



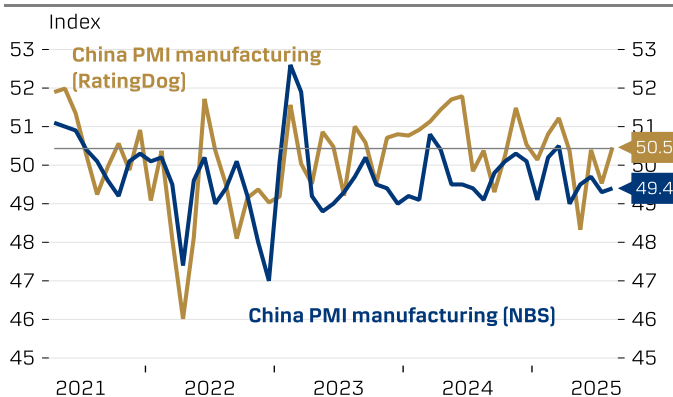
Source: Macrobond Financial, Bloomberg.

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called for more self-reliance following in the footsteps of China's strong quest for self-reliance for almost 10 years now accelerated by the US tech restrictions.

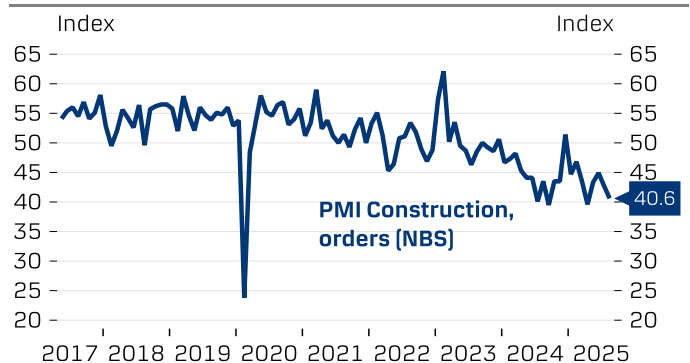
- Xi said to skip ASEAN Summit missing chance to meet Trump:** *Reuters* reported that Xi is likely to skip the ASEAN Summit in late October. It had been seen as an opportunity for a Xi-Trump meeting as Trump will attend according to Malaysia's PM. However, a more proper meeting between the two could take place in Beijing later this year when the two sides have struck a trade deal. The trade truce will expiry in November and a Xi-Trump meeting will probably not come until the other side of that. China's senior trade negotiator Li Chenggang was *in Washington* last week and the statements afterwards were not quite as positive as after previous rounds. Li called for "equal dialogue", indirectly indicating they did not feel it was equal, and Treasury Secretary Scott Bessent described the relationship as "very complicated".
- Few Western leaders at China's victory parade:** Highlighting the rising division between China and the West, there will be *hardly* be any Western leaders or representatives at China's Victory Parade on Wednesday, where they celebrate the 80th anniversary of the official surrender of Japan and end of WWII. Only Slovakia's Prime Minister Robert Fico and Serbian President Aleksandar Vukic will join leaders from mostly Global South countries such as Cambodia, Indonesia, Vietnam Malaysia, Pakistan as well as Russia, Iran and North Korea.

Chart 7: PMI manufacturing up in August but still looking soft



Source: Macrobond Financial, NBS, S&P

Chart 8: Construction PMI still very low



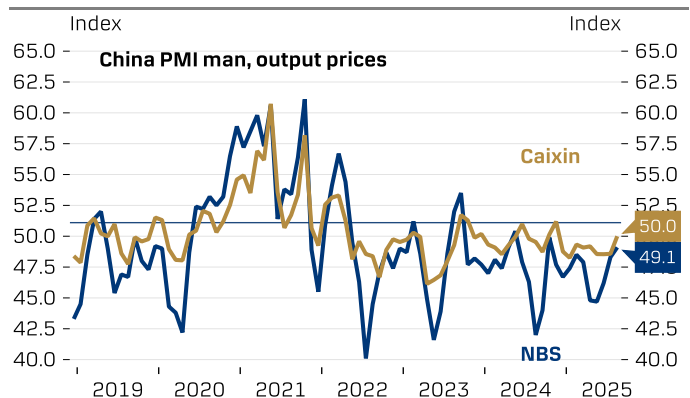
Source: Macrobond Financial, NBS, Danske Bank

Chart 9: Weak PMI employment points to continued consumer weakness



Source: Macrobond Financial, NBS, S&P, Danske Bank

Chart 10: PMI prices higher lately



Source: Macrobond Financial, NBS, S&P, Danske Bank

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