

# *China Macro Monitor*

## *- No respite for the Chinese economy*

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Important disclosures and certifications are contained from page 51 of this report

## China outlook and trends: Revising GDP growth lower again

**Outlook.** We have revised our forecast for 2022 up to 3.3% from 2.8% following stronger-than-expected Q3. However 2023 is revised lower to 4.9% from 5.7% on stronger headwinds from the global economy, later expected end of zero-covid policy and the property crisis continuing for longer. Stimulus puts a floor under growth, but cannot drive a sustained recovery as long as the cloud of uncertainty over covid remains. We look for a modest recovery in 2023 on easing covid policy in H2, paving the way for a lift to home sales and private consumption. In 2024 we look for GDP to grow 5.3% as more pent-up demand is unleashed.

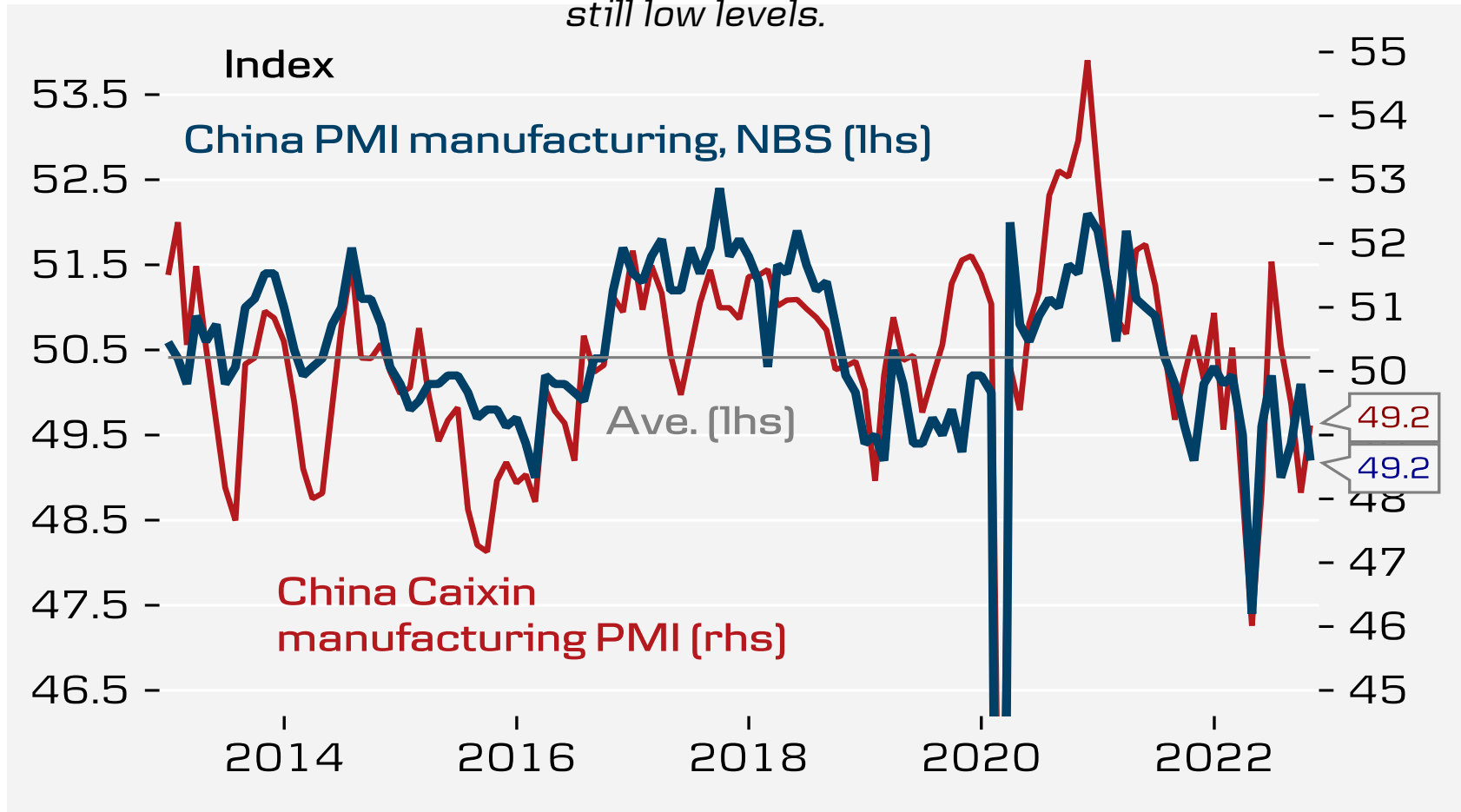
### China today

- **Growth.** *PMIs* for October moved broadly sideways at a weak level. The *credit impulse* is still decent, but has lost some momentum. *Retail sales* were weak in September at 2.5% y/y and *confidence* is low. *The property sector* is still in a deep crisis with stress rising further.
- **Inflation.** *PPI* inflation declined further to 0.9% in September coming from 13.5% in October last year. *CPI* inflation rose to 2.8% in September from 2.5% in August (below 3% target).
- **Monetary policy.** PBoC has kept the *RRR* rate unchanged since April, but cut interest rates in August by 10bp and *mortgage rate* by 15bp a couple of times. *M1* growth has picked up.
- **CNY.** The *yuan* seeing another leg of weakness against USD. Pressure still up in USD/CNY.
- **Stock markets.** *Stocks* at new lows on growth concerns, US tech restrictions and continued zero-covid policy. The *China USD offshore high yield* rate at new high.
- *For more China research, see our website [here](#)*

*Our current top five China indicators*

## NBS vs Caixin PMI

PMIs for manufacturing were a mixed bag in October. NBS version dropped, while Caixin version increased. Overall still low levels.

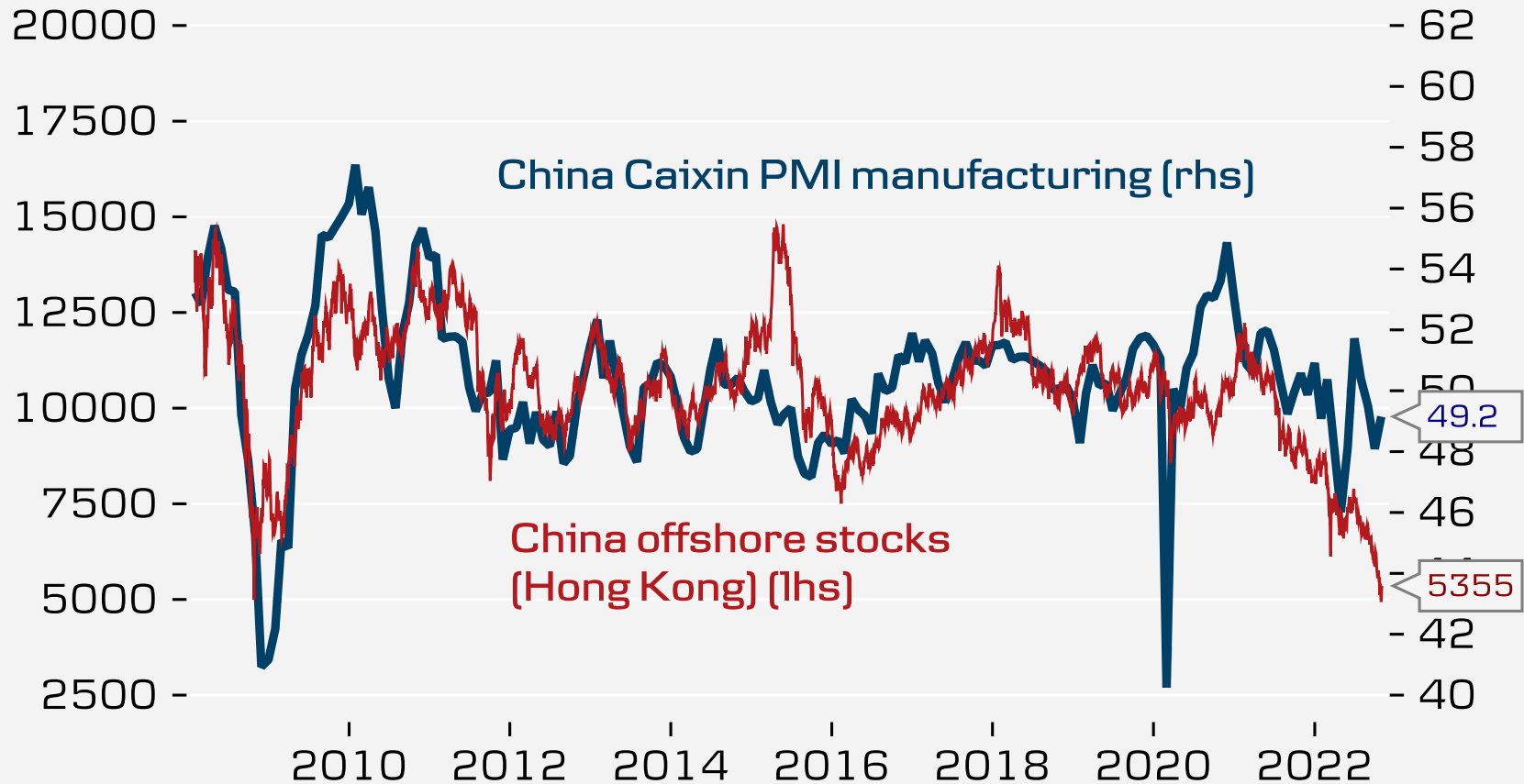


Source: Macrobond Financial, Markit, NBS, Danske Bank

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# Rising risk premium on Chinese assets

Offshore stocks as low as during GFC after post-Congress sell-off.

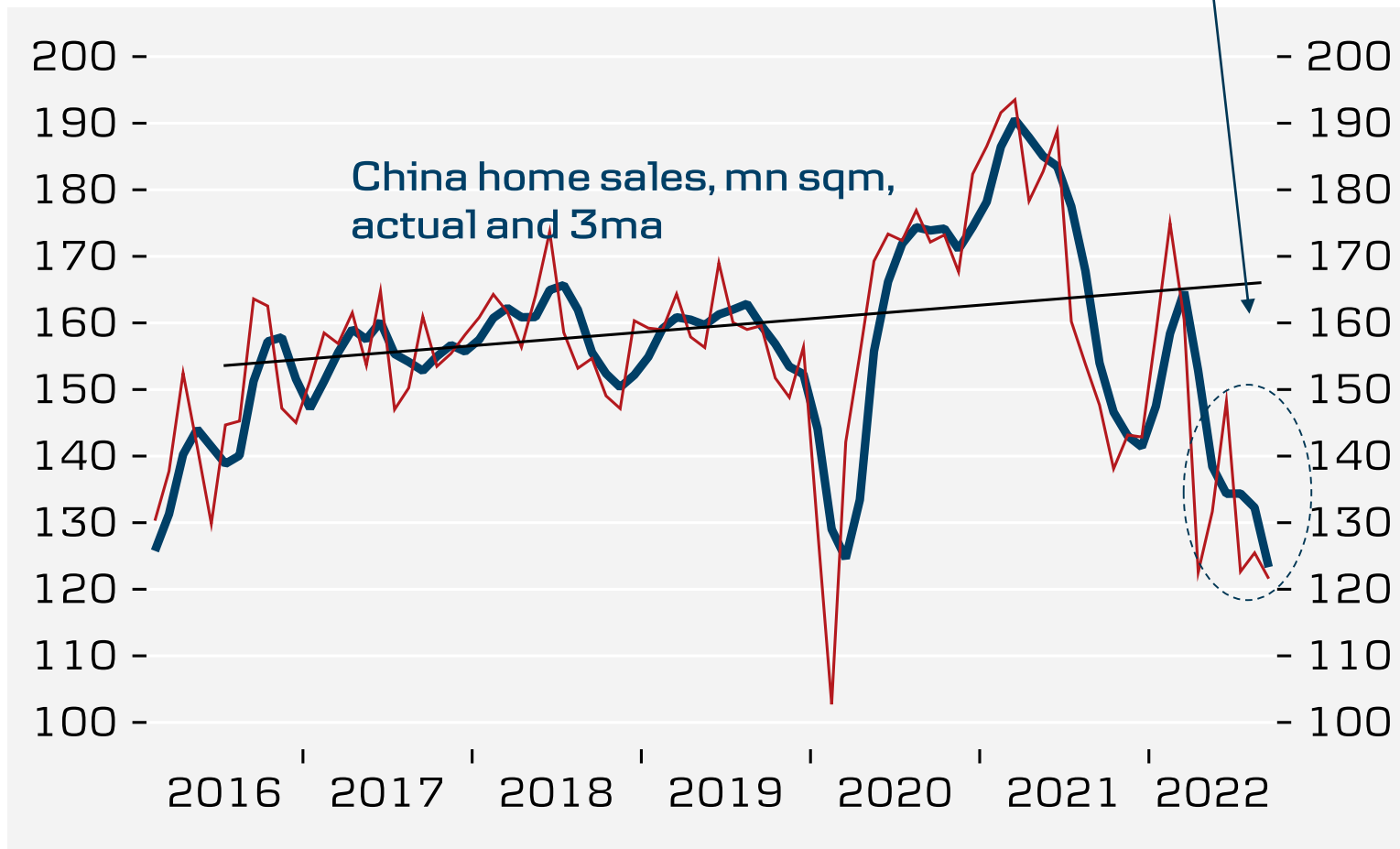


Source: Macrobond Financial, Markit, Bloomberg, Danske Bank  
 Note: Past performance is not a reliable indicator of current or future results

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# Property crisis continue

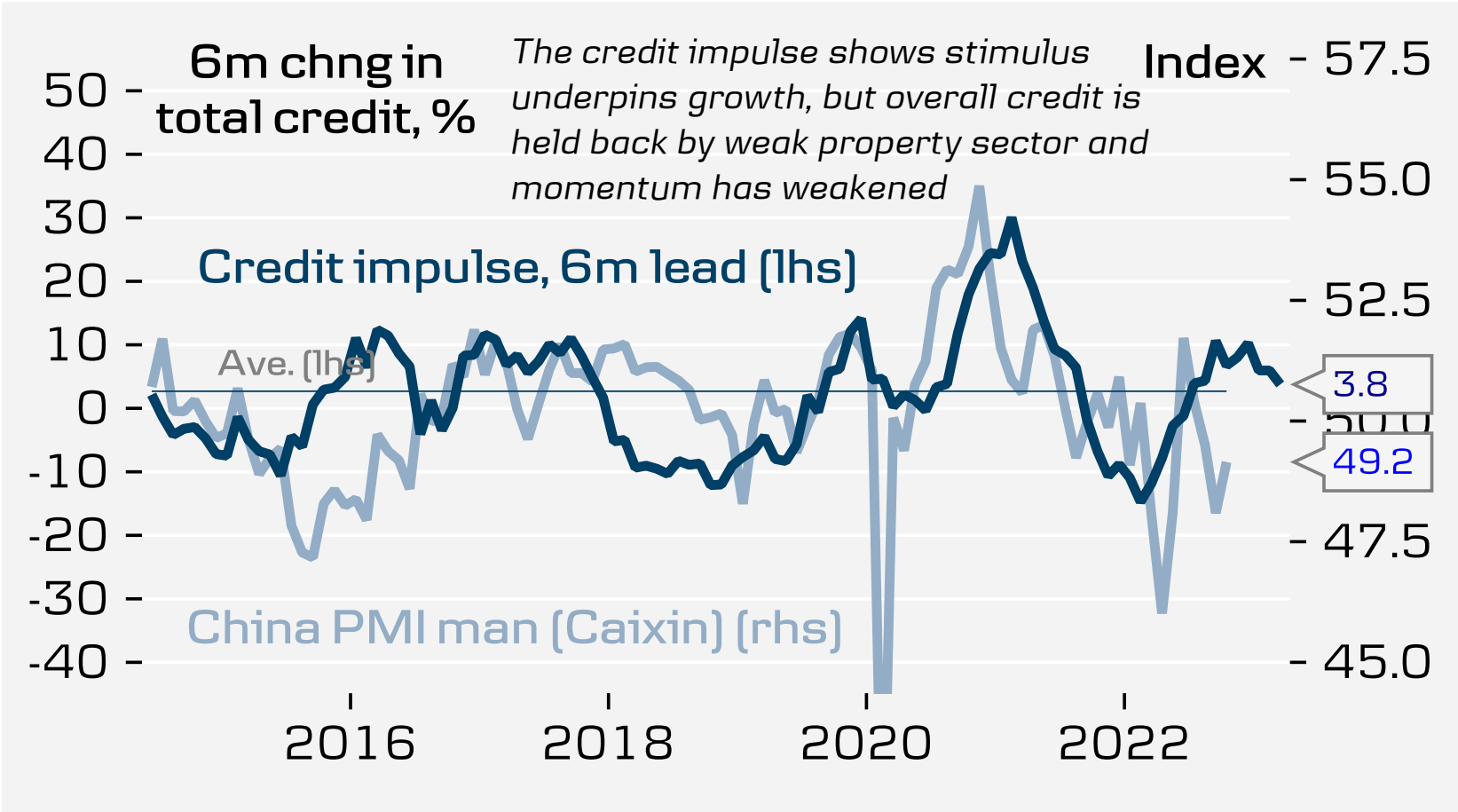
Home sales still at very low levels despite easing measures. More forceful easing is needed to improve buyer appetite.



Source: Macrobond Financial, NBS, Danske Bank

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# Credit impulse points to decent stimulus amid headwinds



Source: Macrobond Financial, Markit, People's Bank of China

**Note: The Chinese credit impulse is measured as the 6-month change in total Chinese credit.**

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# Fiscal and monetary stimulus measures since spring

During 2022:	<b>Local governments eased property policies:</b> easing home purchase restrictions, lower down payment requirements, banks urged to increase lending to developers
24 August:	<b>19-point 1 trn CNY fiscal stimulus package (0.9% of GDP), included:</b> <ul style="list-style-type: none"> <li>• 300bn funding via policy banks for infrastructure projects</li> <li>• 500 bn funding for local governments also mainly for infrastructure</li> <li>• 200 bn funding for state-owned power generation companies</li> </ul>
22 August:	<b>15bp cut in 5-year mortgage rate, 10bp cut in regular rate</b>
19 August:	<b>Special loans for property , 200 bn CNY</b> <ul style="list-style-type: none"> <li>• To finish stalled projects</li> </ul>
30 June:	<b>Funding for infrastructure of 1.1trn CNY (1% of GDP)</b>
23 May:	<b>33-point rescue plan , included:</b> <ul style="list-style-type: none"> <li>• 142bn CNY in additional value-added tax rebates</li> <li>• 300 bn CNY railway construction bonds</li> <li>• Financing guarantee package for small and agri businesses</li> </ul>
20 May:	<b>35bp cut in mortgage rate (15bp cut + lower floor by 20bp)</b>
15 April:	<b>25bp cut in Reserve Requirement Ratio</b>
April:	<b>China issues draft law on Financial Stability Fund ("domestic IMF")</b>

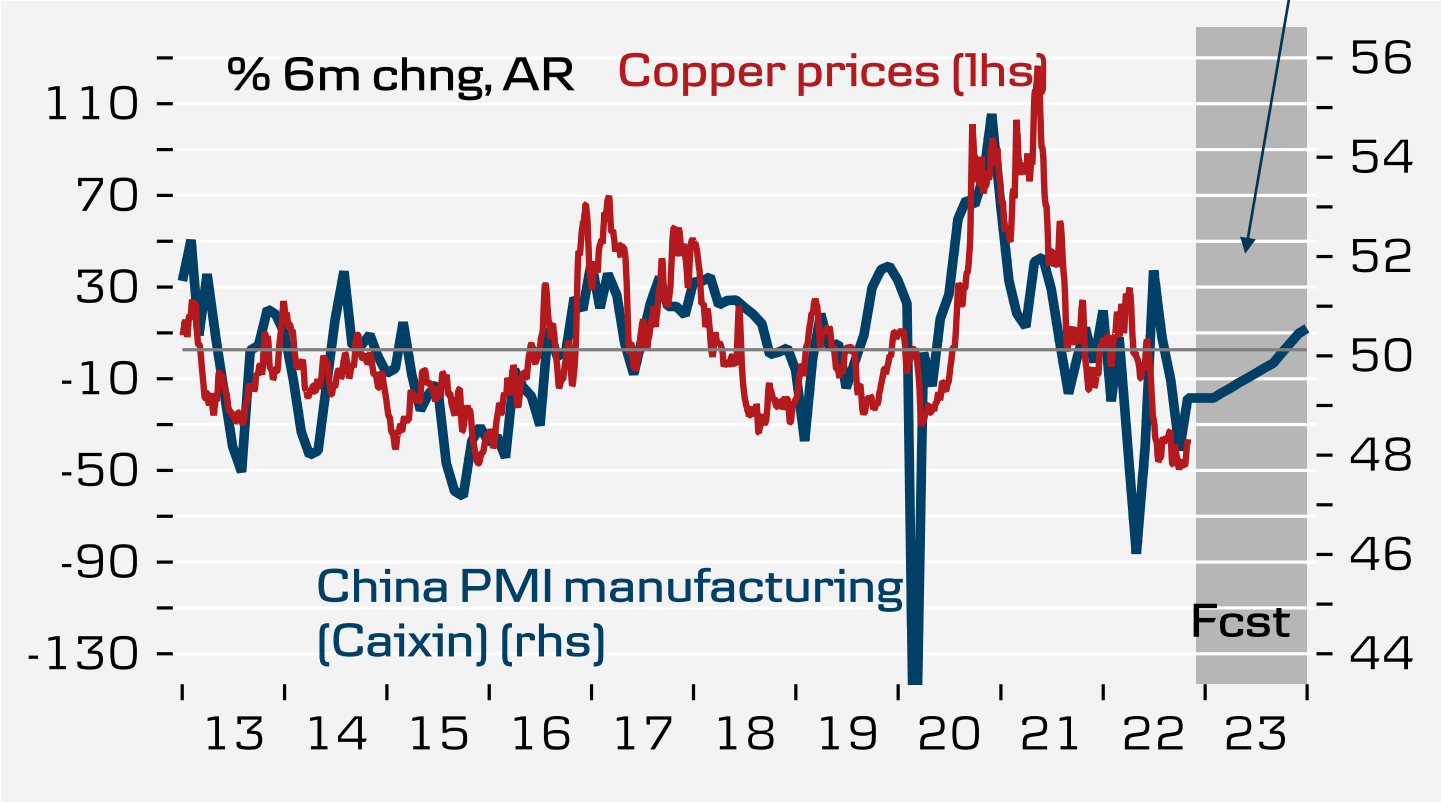
*China has continued to ease, but so far it has not been forceful enough to turn the property crisis and household spending*



*Forecast on PMI and GDP growth*

# PMI forecast profile (vs copper prices)

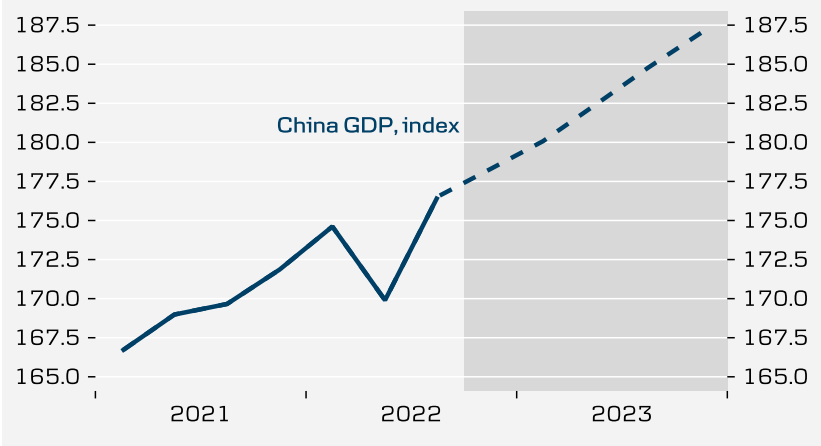
We look for Caixin PMI manufacturing to signal below-trend growth rest of H2, before gradual recovery in 2023



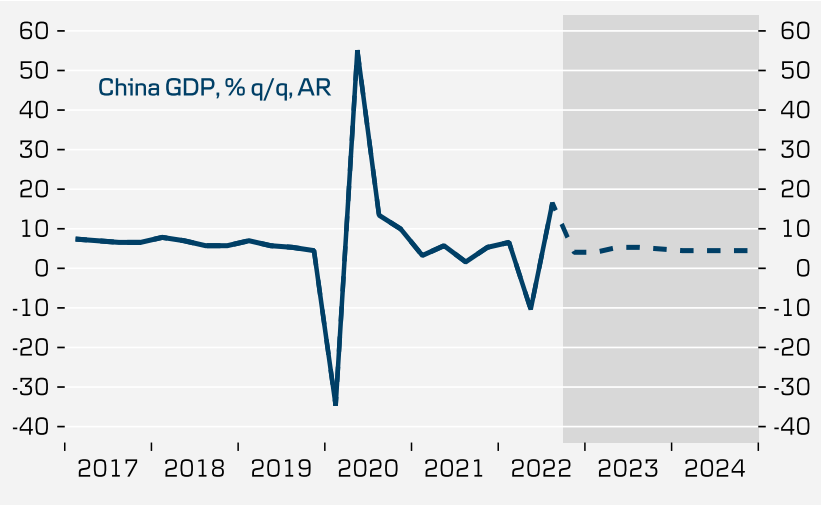
Note: Past performance is not a reliable indicator of current or future results. Source: Macrobond Financial, Markit, Danske Bank

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# GDP forecast profile



Source: Macrobond Financial, Danske Bank



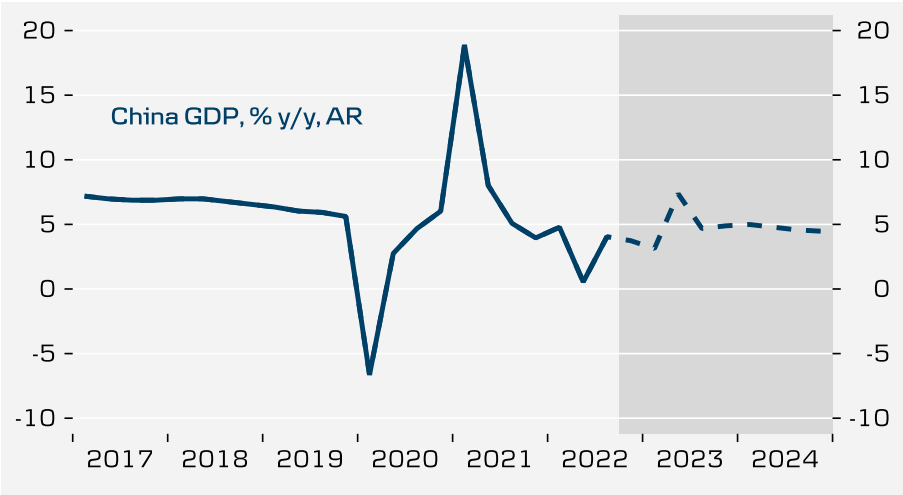
Source: Macrobond Financial, Danske Bank

## GDP forecast

- 2020: 1.6%
- 2021: 8.5%
- 2022: 3.3% (prev 2.8%)
- 2023: 4.9% (prev 5.7%)
- 2024: 5.3%

*Forecast revised up in 2022 as Q3 was stronger than expected.*

*2023 revised lower on zero-covid policy for longer. Pent-up demand to lift growth in 2024.*

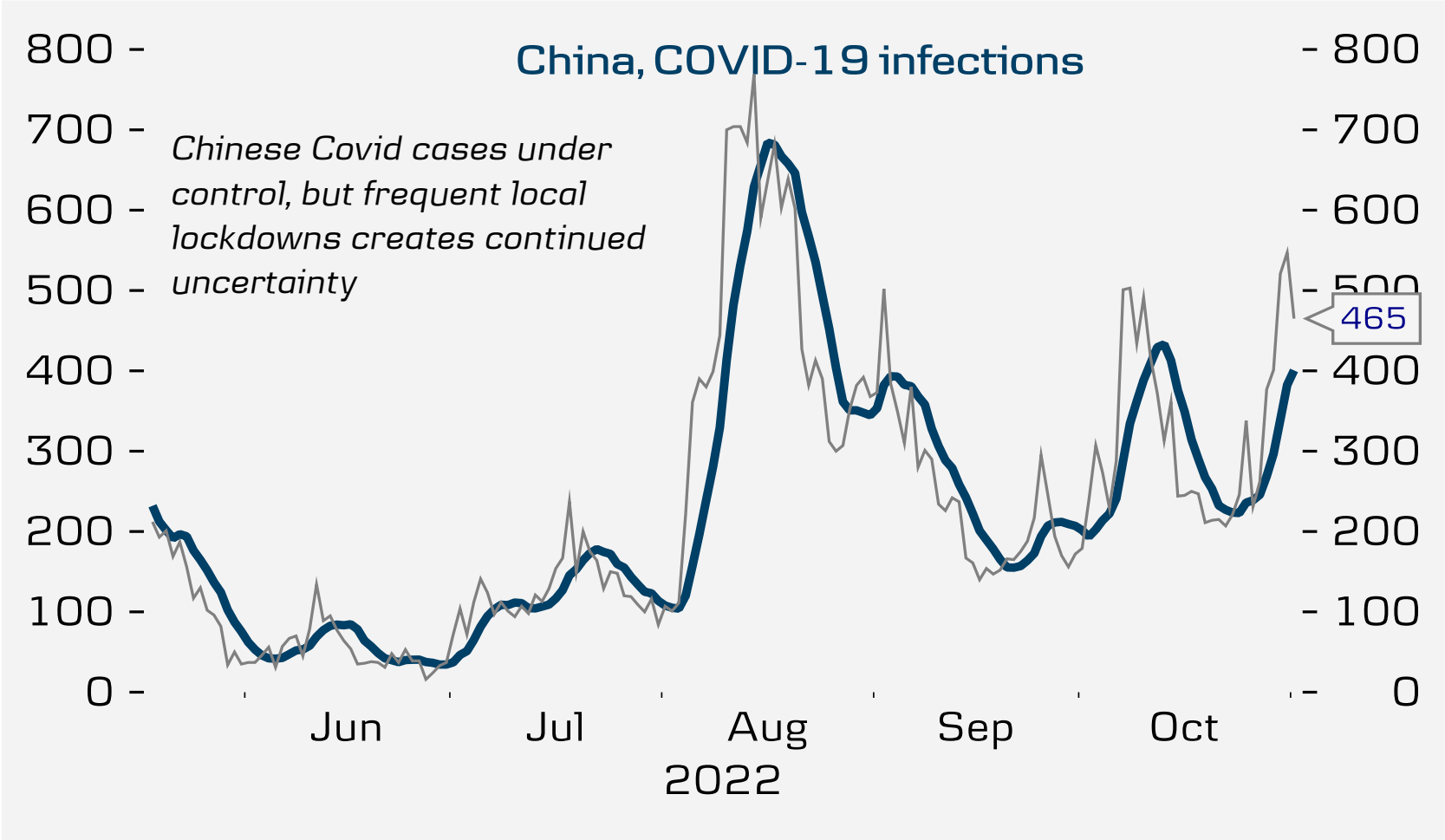


Source: Macrobond Financial, Danske Bank

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# *Overview of China macro indicators*

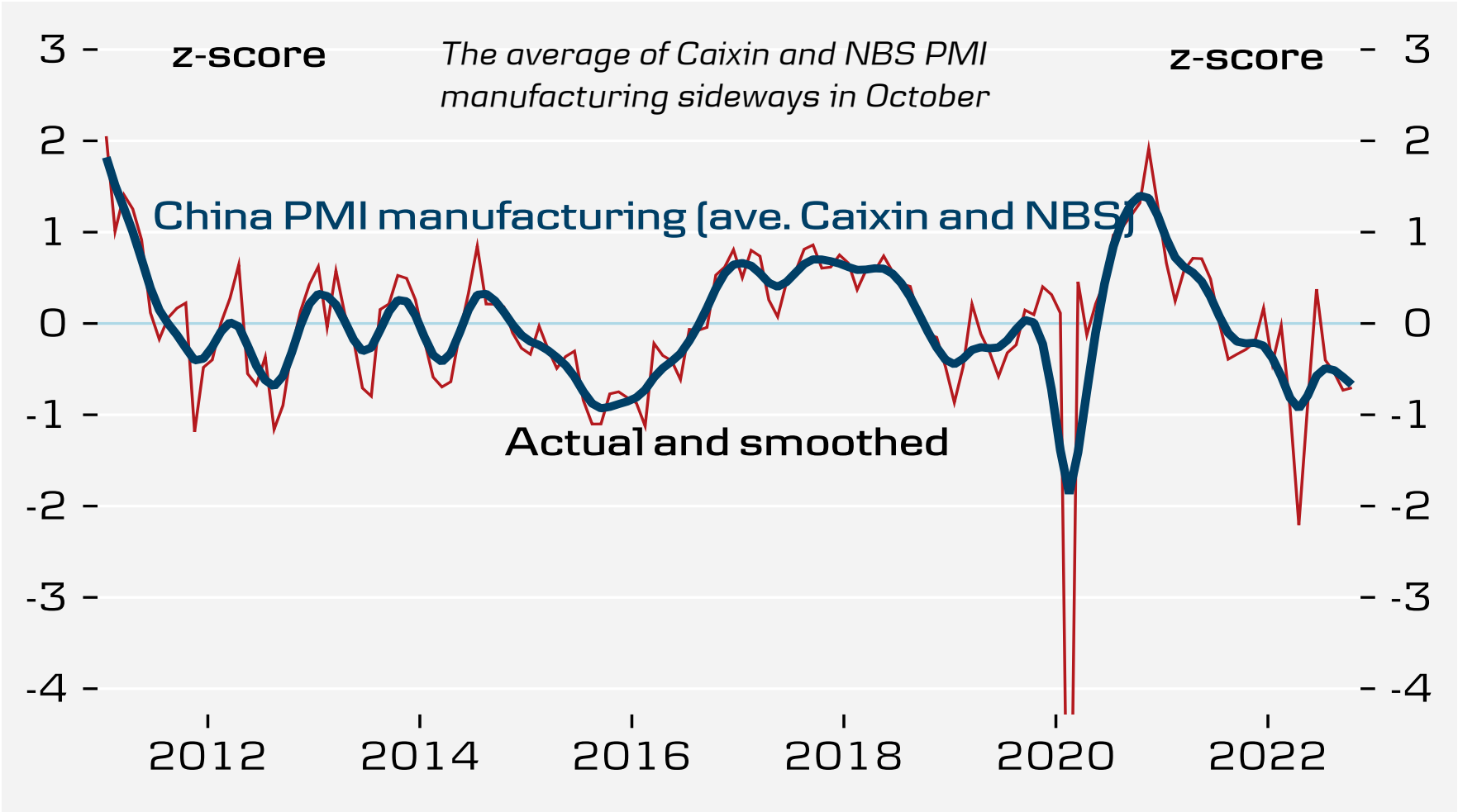
# Covid under control currently but causing uncertainty



Source: Macrobond Financial, Danske Bank

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# PMI indicator (average of Caixin and NBS)

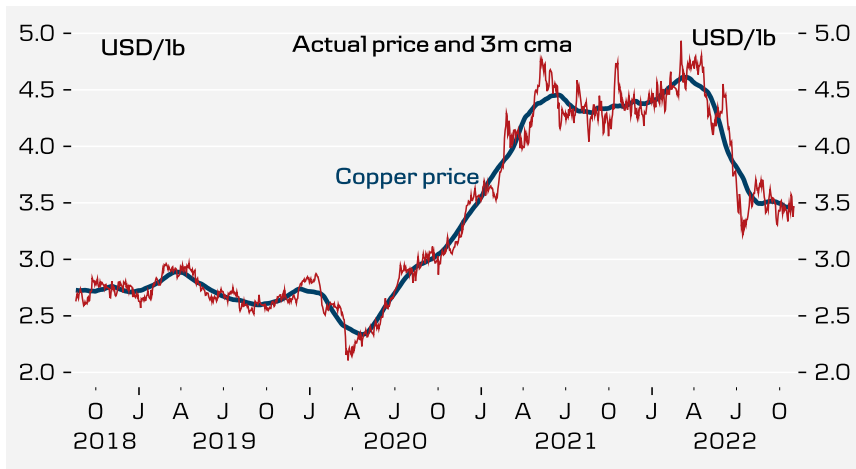


Source: Macrobond Financial, Markit, NBS, Danske Bank

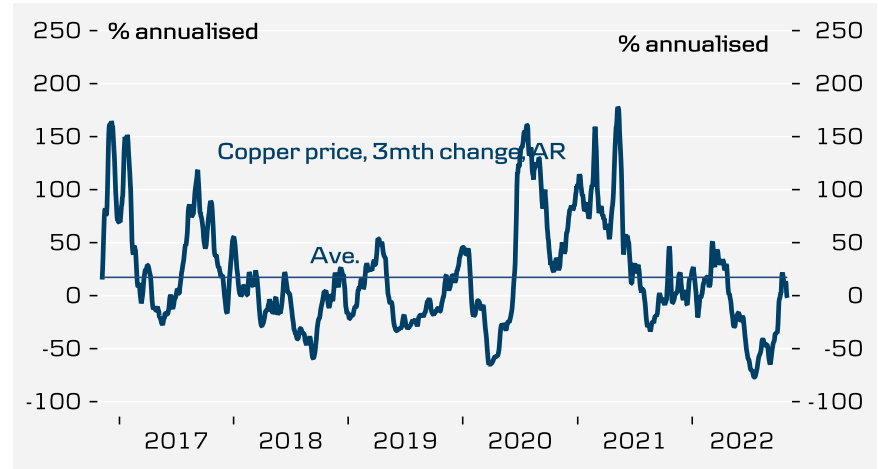
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# Copper price momentum

Copper prices have stabilized, but still signalling weak global manufacturing demand.



Source: Bloomberg, Danske Bank  
 Note: Past performance is not a reliable indicator of current or future results



Source: Bloomberg, Danske Bank  
 Note: Past performance is not a reliable indicator of current or future results

Note: Copper prices have generally been a good indicator for Chinese activity, as China drives around 50% of global demand. However, it could be gradually changing, as global electrification takes hold as copper is a key commodity in the green transition.

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# Housing - home sales and housing starts

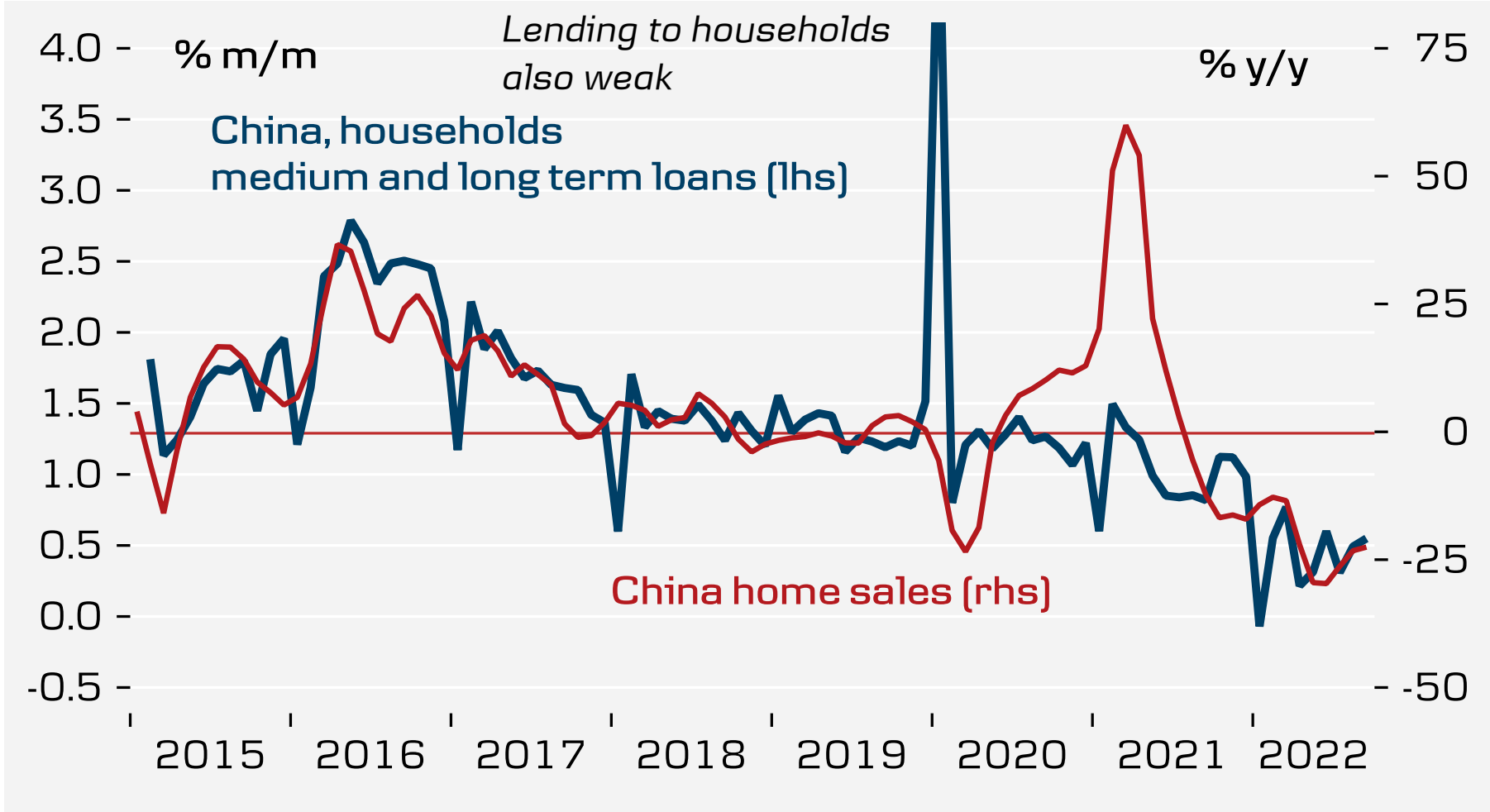


Source: Macrobond Financial, NBS, Danske Bank

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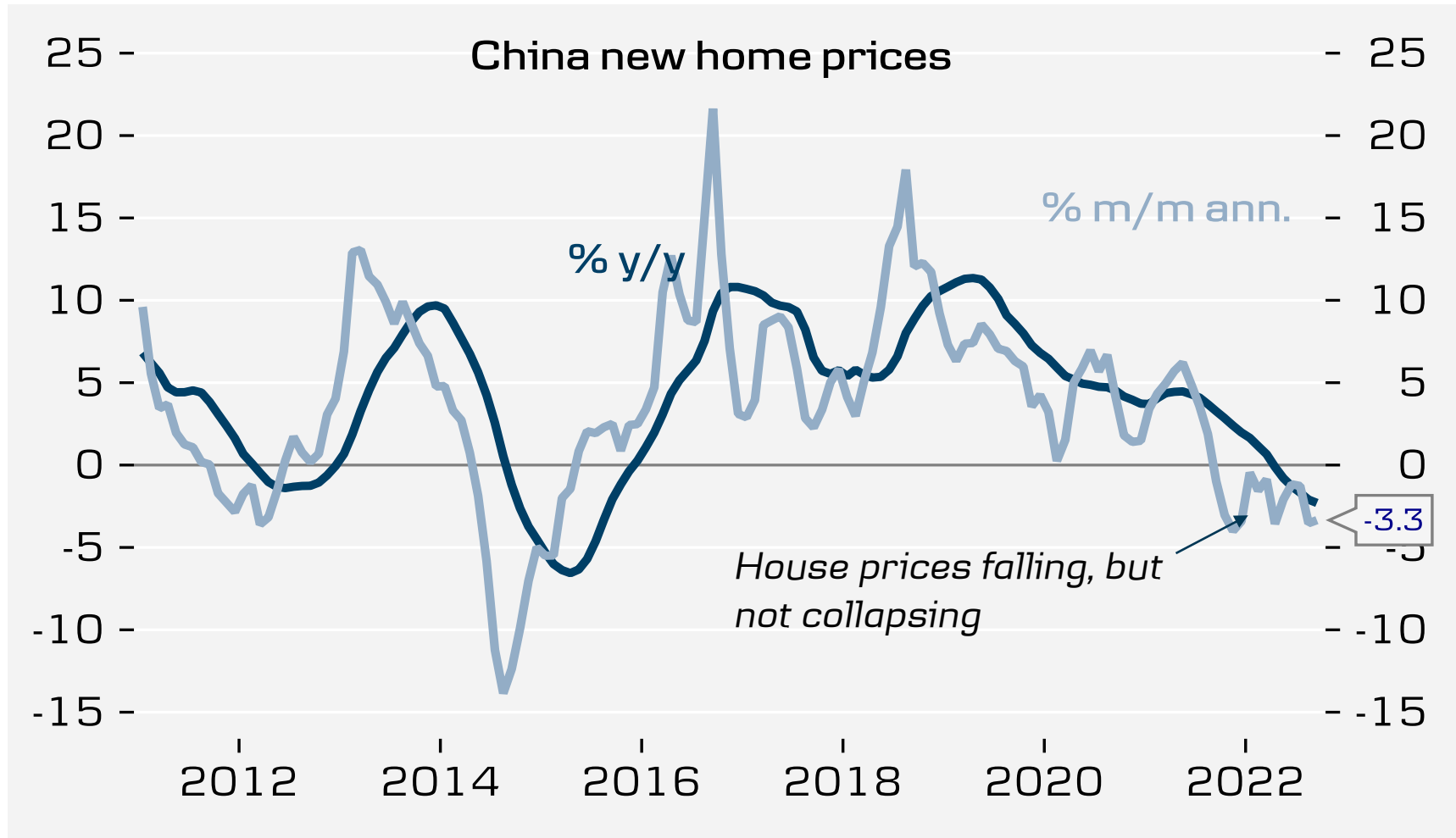
# Housing - home sales and household credit



Source: Macrobond Financial, Markit, NBS, People's Bank of China, Danske Bank

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# House prices



Source: Macrobond Financial, NBS

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# Housing - developer stocks

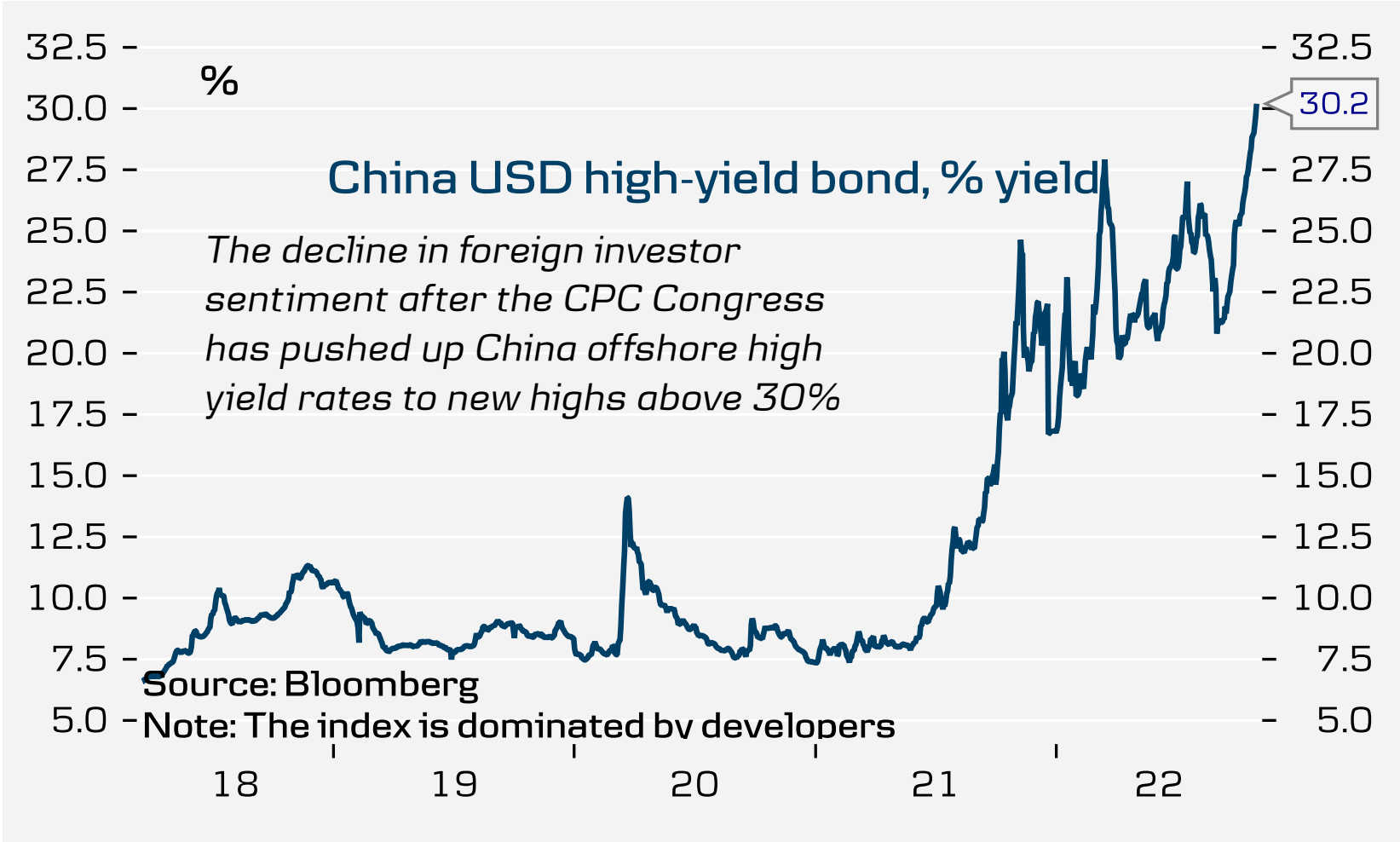
Developer stocks underperforming lately and trading at very low levels, after losing 30% in past three months



Source: Macrobond Financial, Bloomberg  
Note: Past performance is not a reliable indicator of current or future results

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# Property stress in offshore market intensified after the Congress



Source: Macrobond Financial, Bloomberg, Danske Bank  
Note: Past performance is not a reliable indicator of current or future results

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# Exports - model

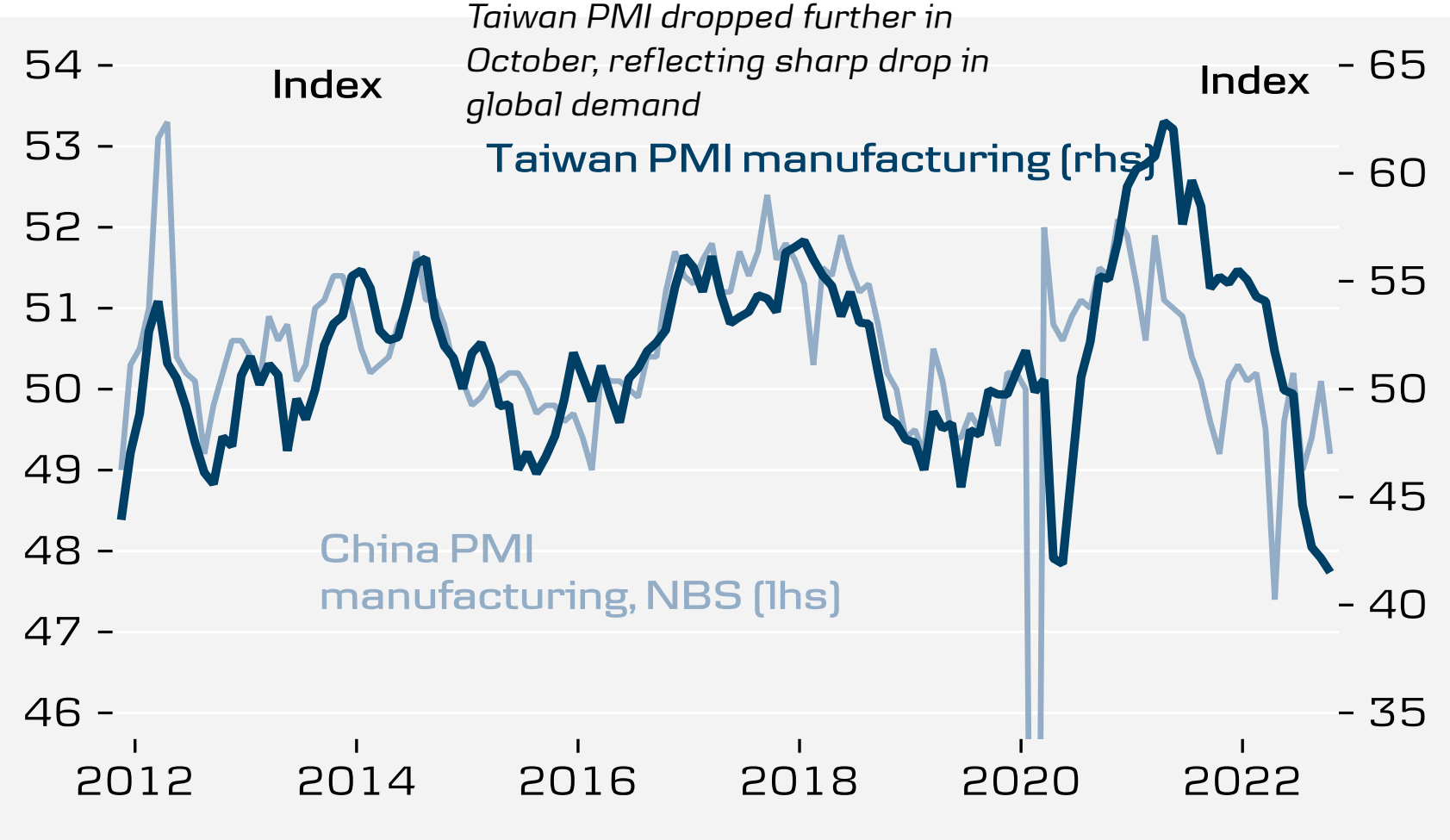
PMI export order holding up relatively well, but likely to face more headwinds



Source: Macrobond Financial, NBS, Markit, Danske Bank

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# Taiwan PMI vs mainland China PMI



Source: Macrobond Financial, Markit, Danske Bank

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# China exports see fading support from US and Europe



*US and euro consumer goods demand has come down, but has not collapsed. Headwinds to continue, though.*



Source: Macrobond Financial, Danske Bank

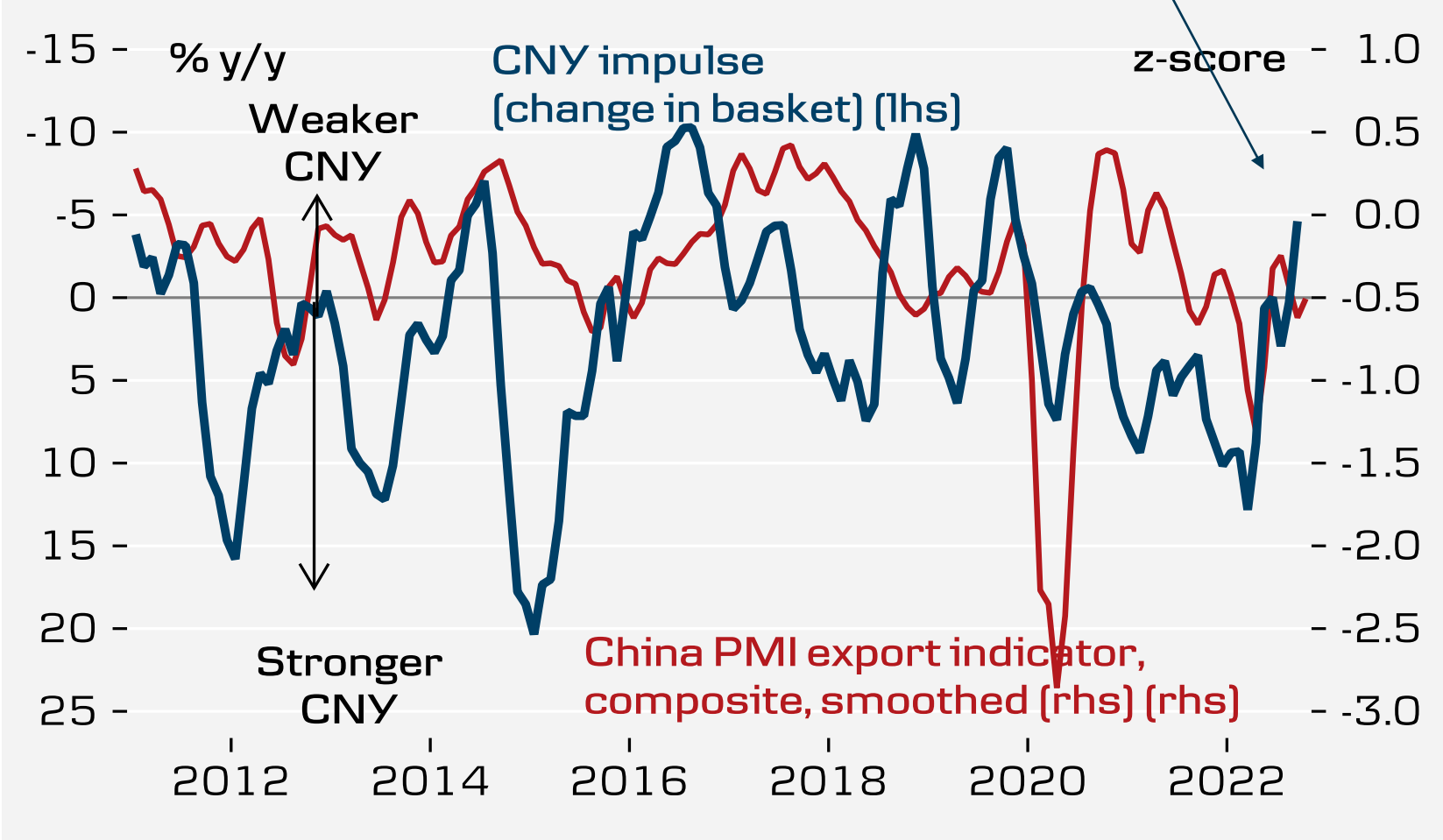
Source: Macrobond Financial, Danske Bank

*Note: Since China is still "the factory of the world" of many goods, the development in goods spending in US and Europe is important for Chinese exports*

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# Exports - currency impulse

CNY weakening should give some support to exports



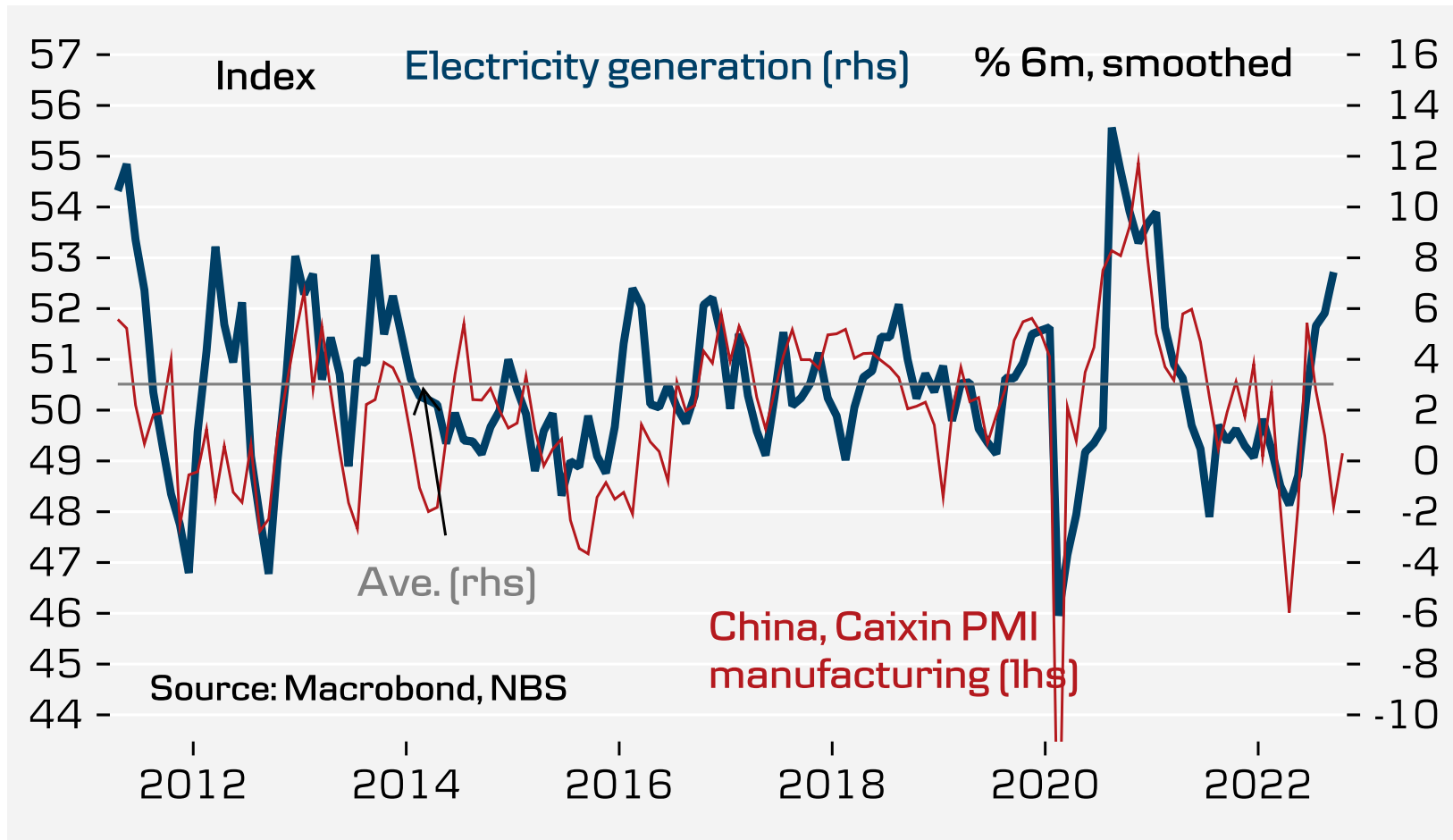
Source: Macrobond Financial, NBS, Markit, Danske Bank  
Note: Past performance is not a reliable indicator of current or future results

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# Electricity generation

*Electricity growth has picked up – possibly because sectors seeing stimulus has high energy intensity*



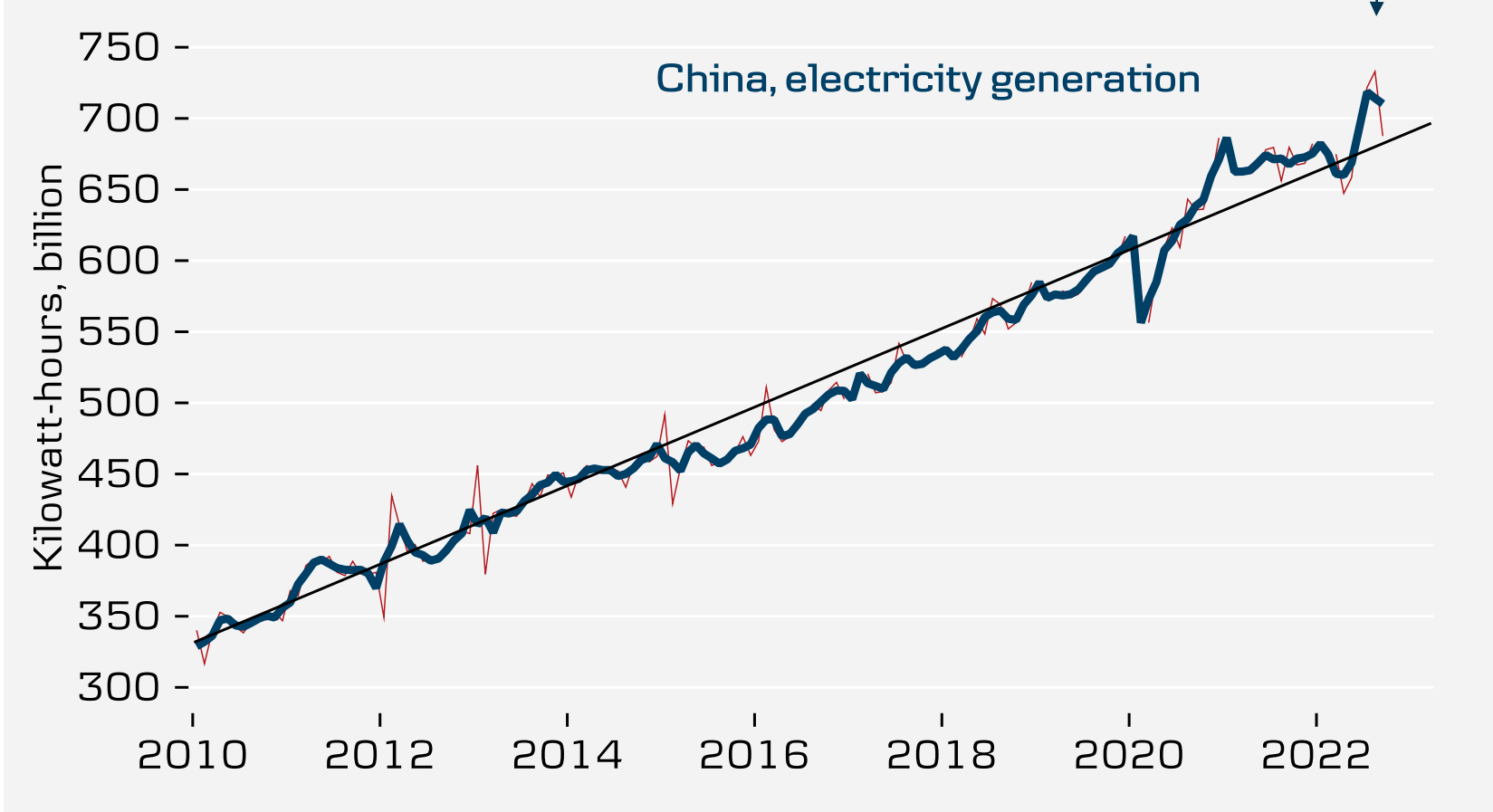
Source: Macrobond, NBS

Source: Macrobond Financial, Markit, NBS, Danske Bank

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# Electricity generation level

Level of electricity generation high but down in September

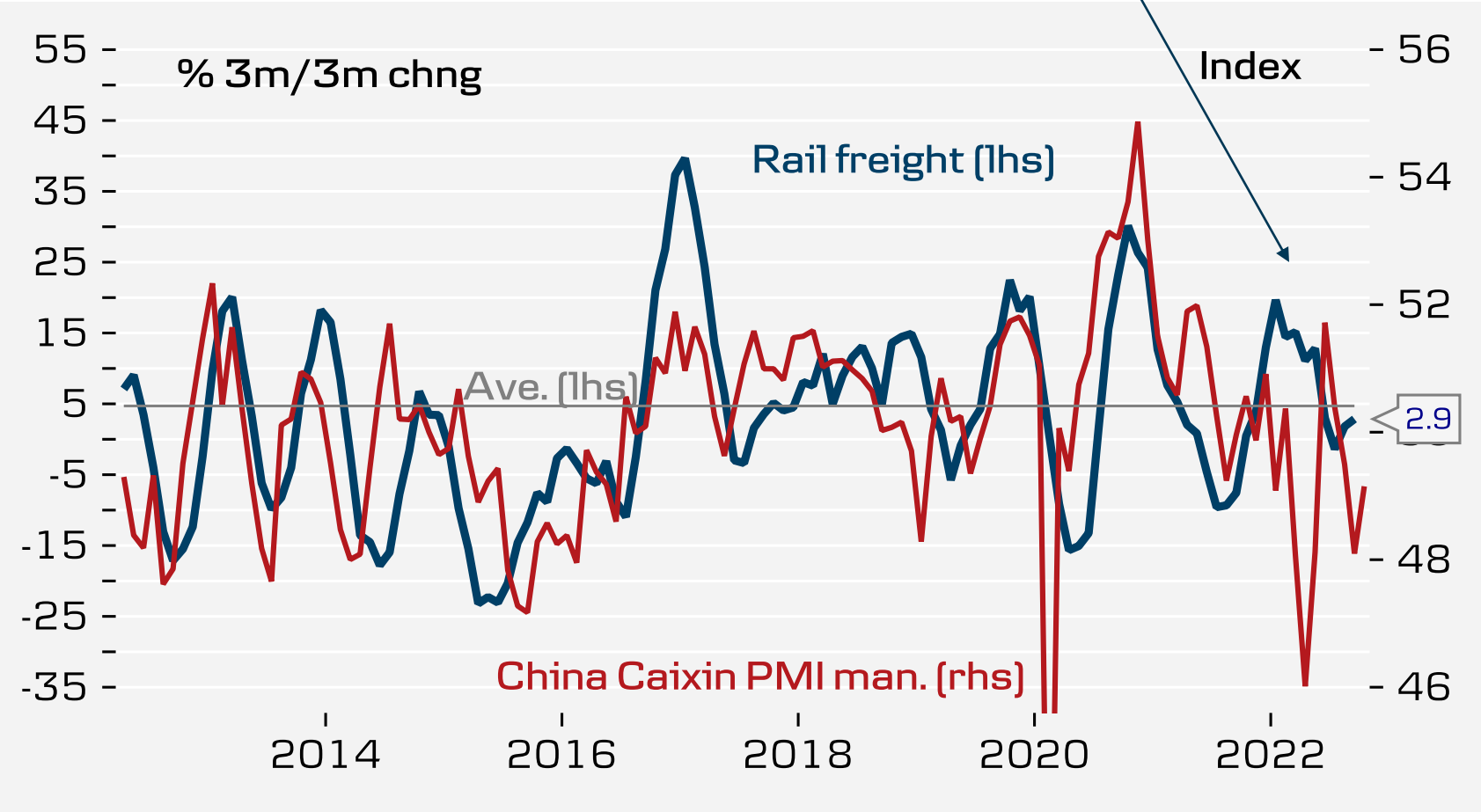


Source: Macrobond Financial, Markit, NBS, Danske Bank

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# Rail freight vs PMI

Rail freight growth holding up

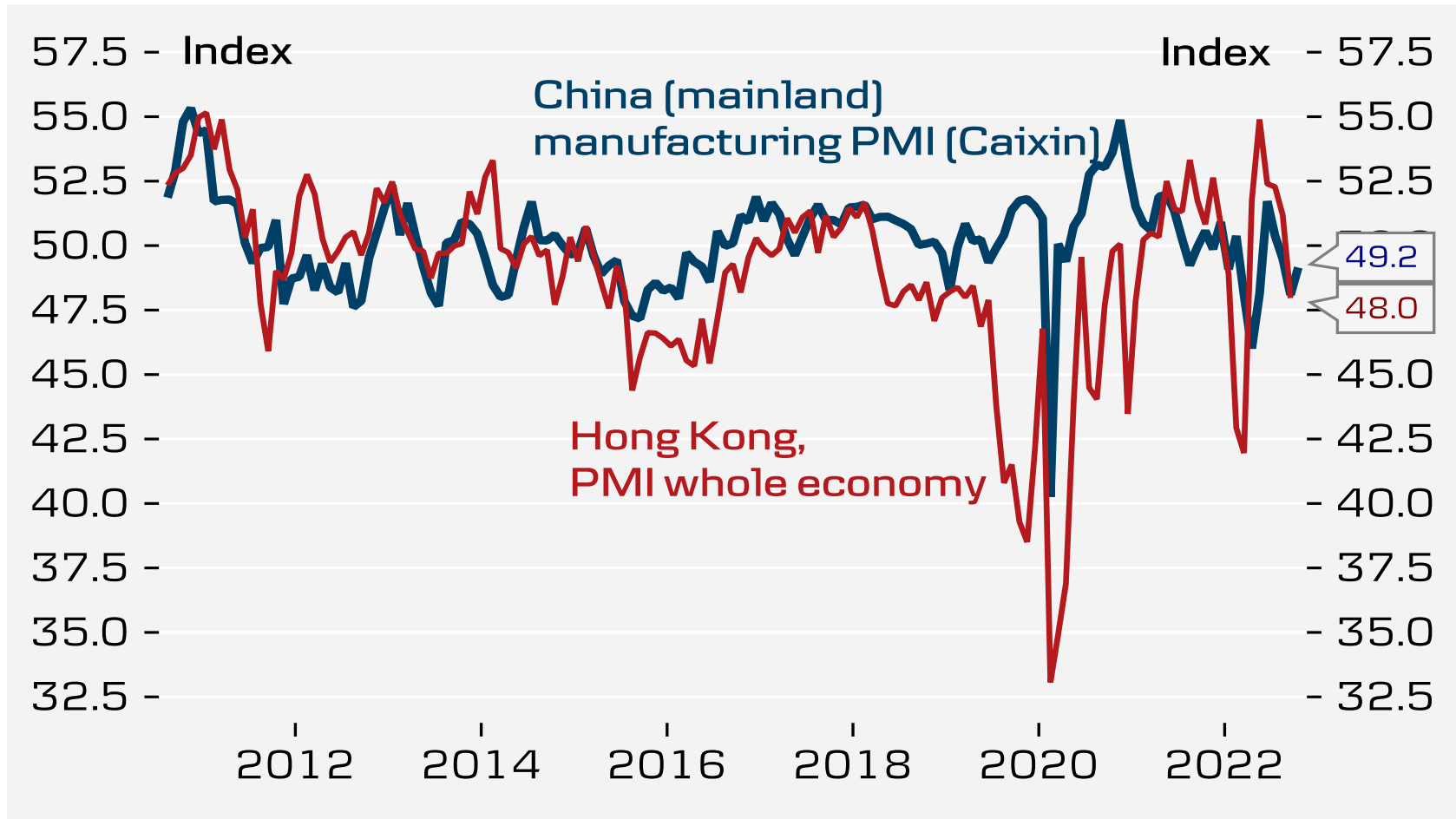


Source: Macrobond Financial, Markit, NBS, Danske Bank

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# Hong Kong PMI vs China PMI

HK PMI has moved in tandem with China PMI lately



Source: Macrobond Financial, Markit, Danske Bank

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# Industrial production vs GDP



Source: Macrobond Financial, NBS, Danske Bank

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# Consumer – confidence



*Household income expectations are very weak and people look to boost savings. Covid and property crisis weigh on confidence*

Source: Macrobond Financial, CAAM, Danske Bank

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# Consumer - retail sales and employment

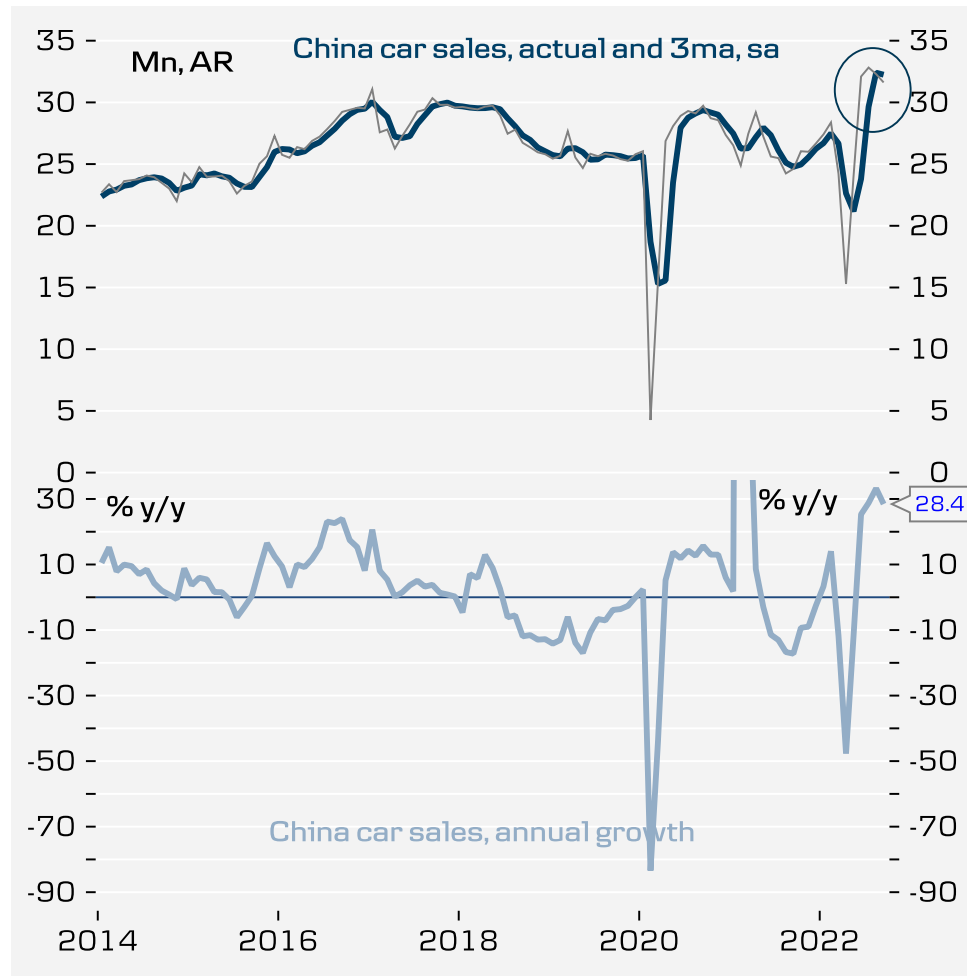


*Retail sales fell back again in September as weak employment and covid uncertainty weigh on consumption*

Source: Macrobond Financial, NBS, Danske Bank

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## Consumer – car sales



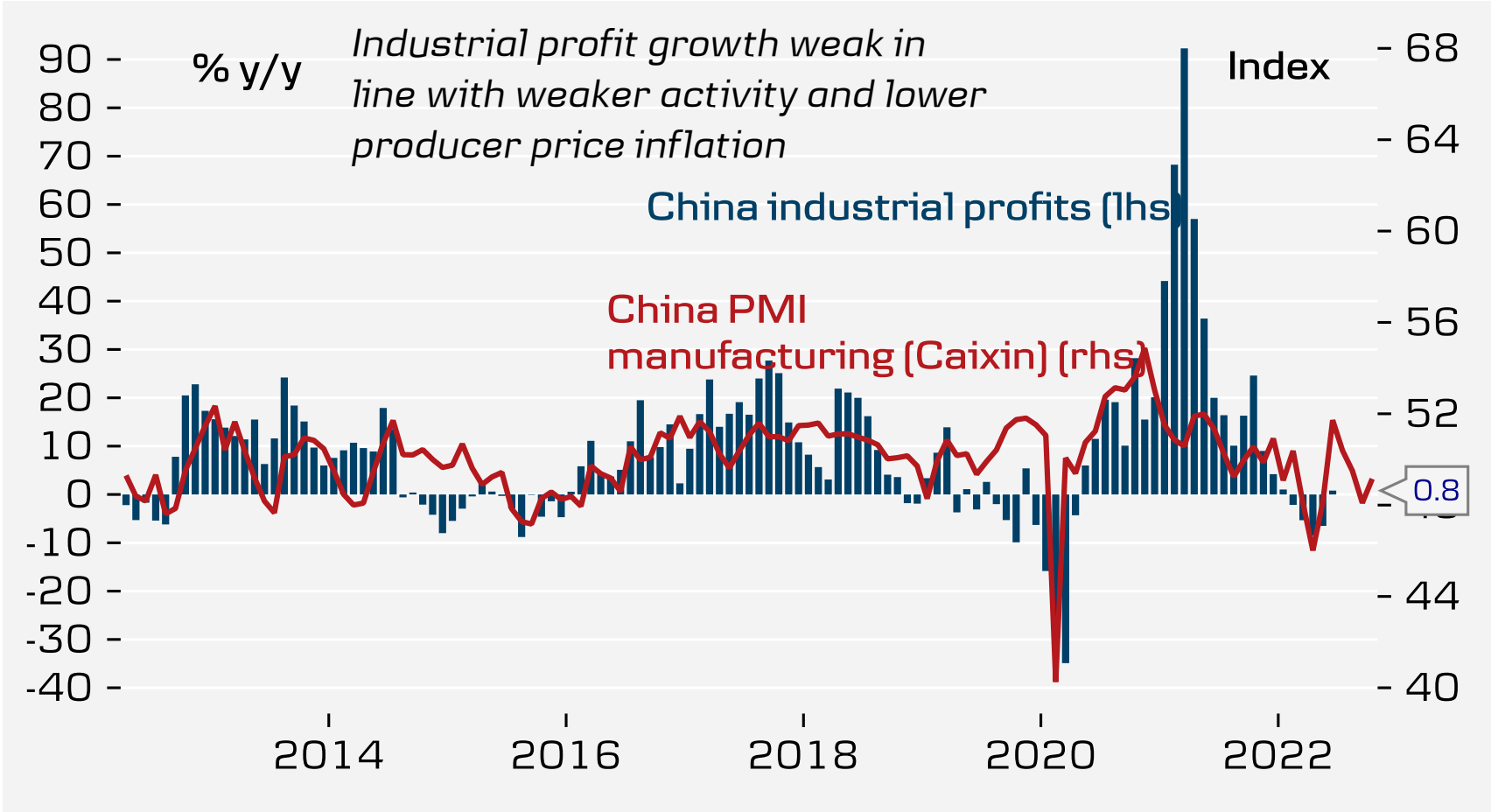
Source: Macrobond Financial, CAAM, Danske Bank

*Car sales have rebounded sharply, as lockdowns ended and incentives for buying cars put in place*

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# Profits vs PMI

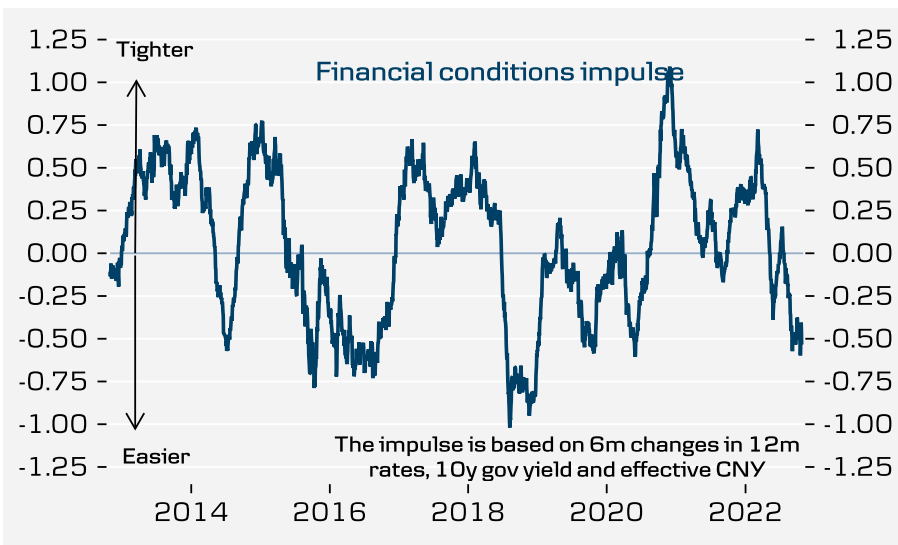


Source: Macrobond Financial, NBS, Markit, Danske Bank

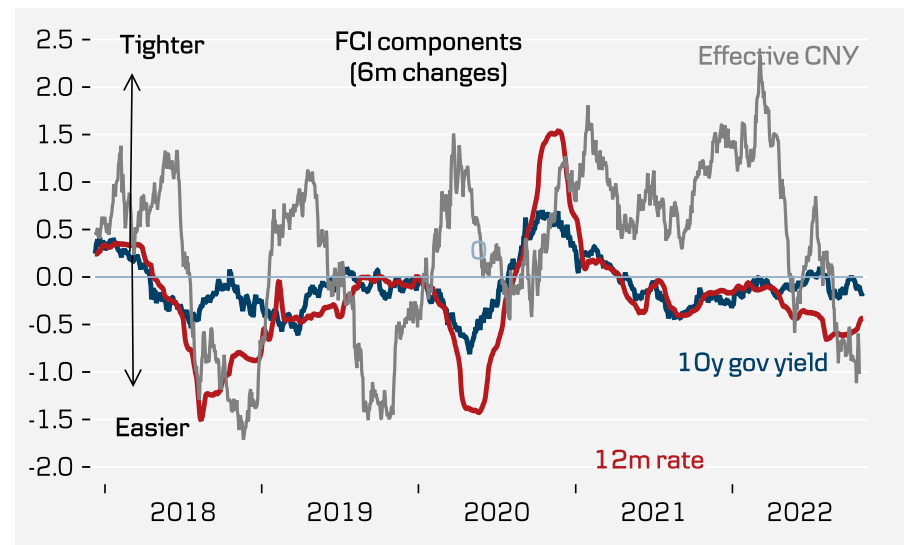
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# Financial conditions impulse

*Financial conditions are easing on the back of PBOC stimulus and weakening of the CNY*



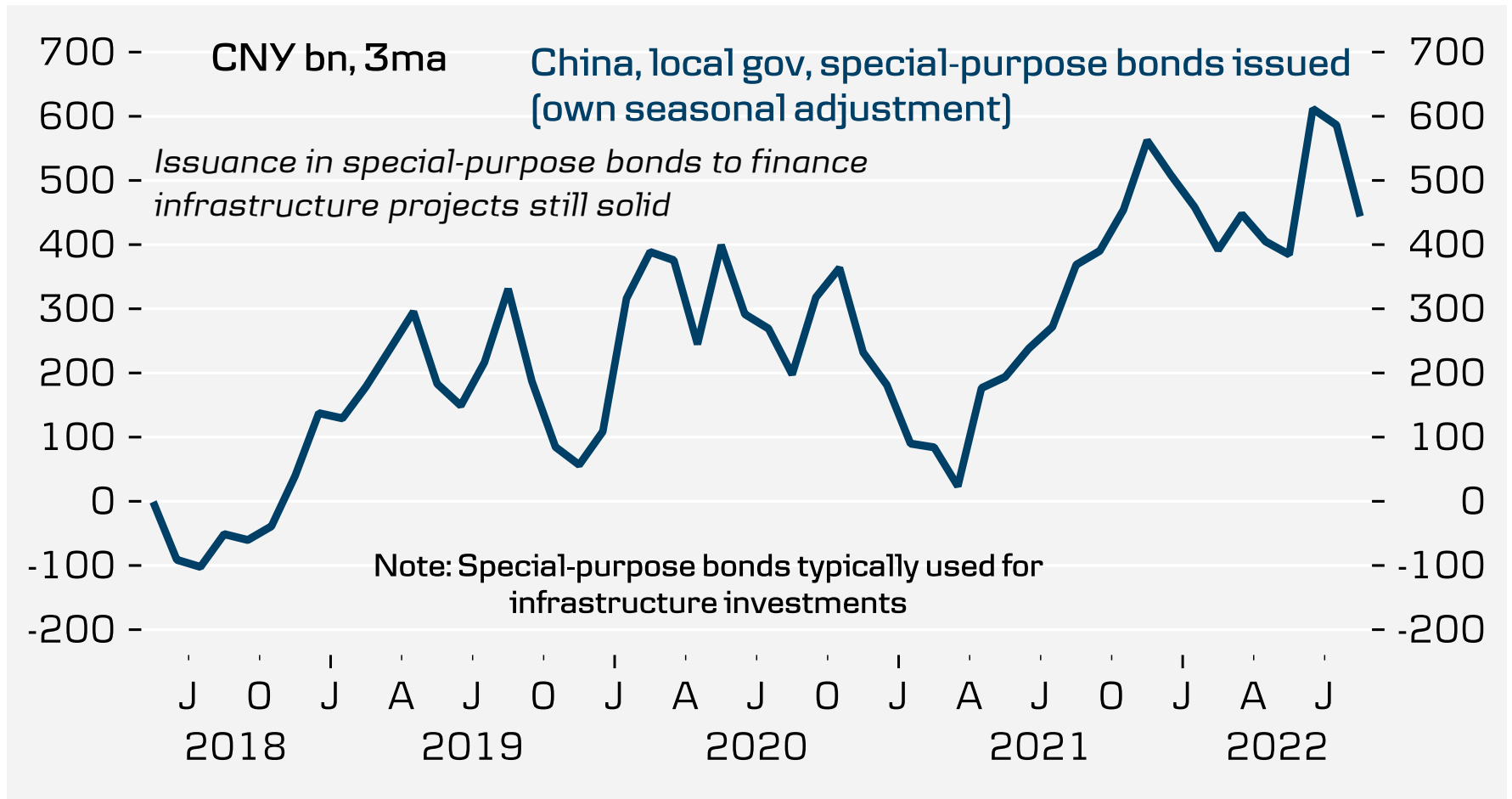
Source: Macrobond Financial, People's Bank of China, Danske Bank  
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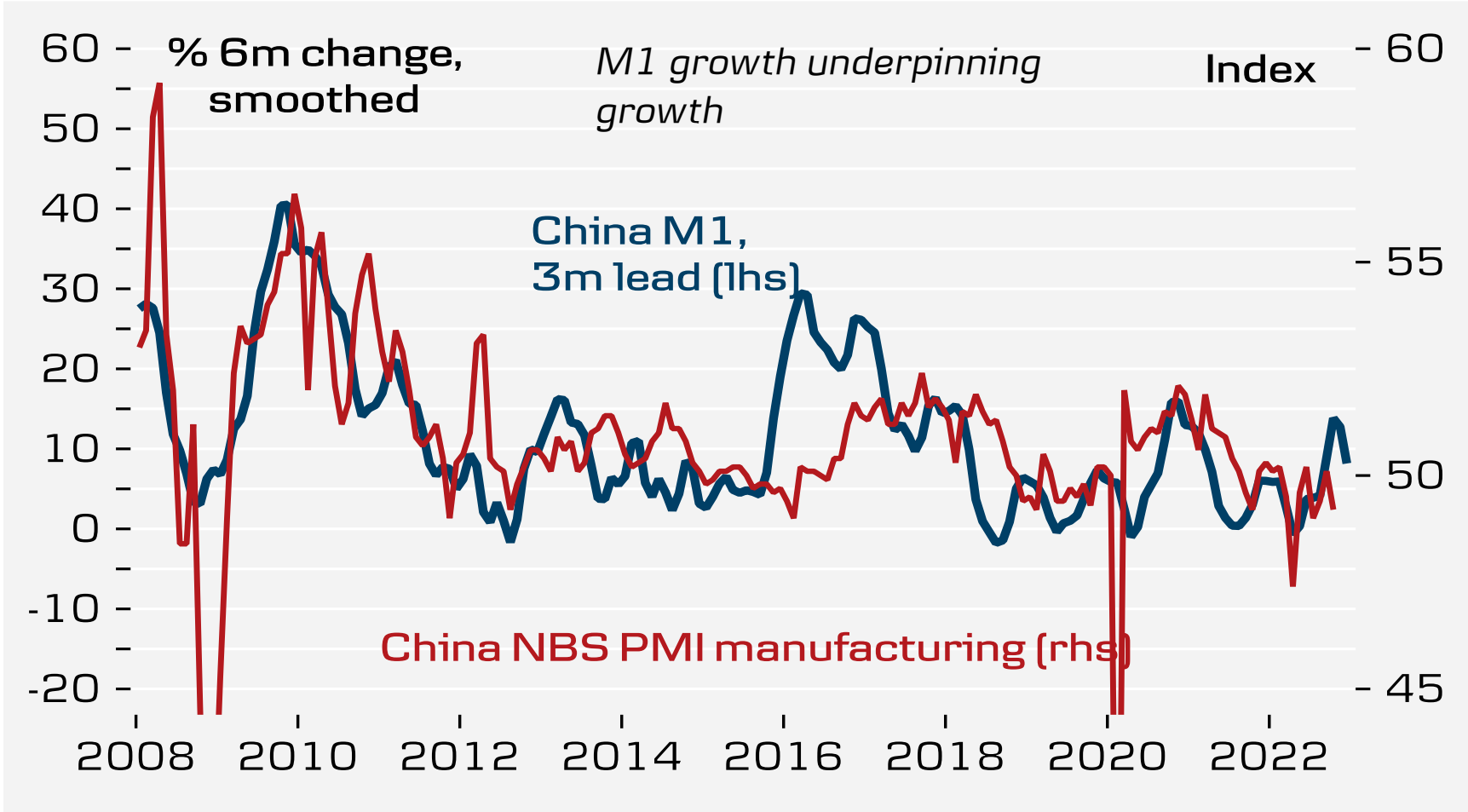
## Issuance for infrastructure projects



Source: Macrobond Financial, Markit, People's Bank of China

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# Money growth

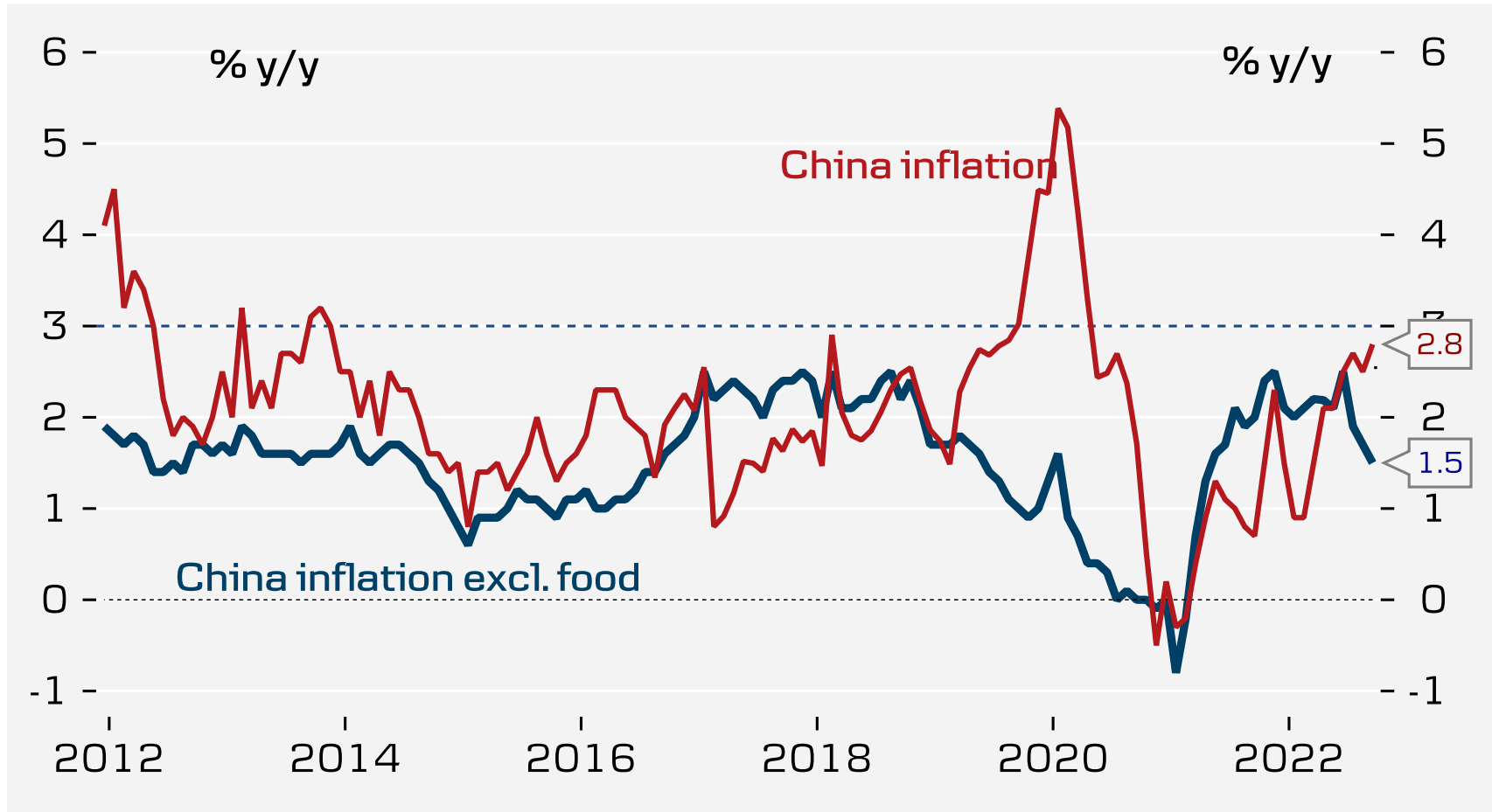


Source: Macrobond Financial, Markit, People's Bank of China

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*CPI inflation still below 3% target, but lifted by food prices. Core CPI has fallen lately as consumer demand is weak*

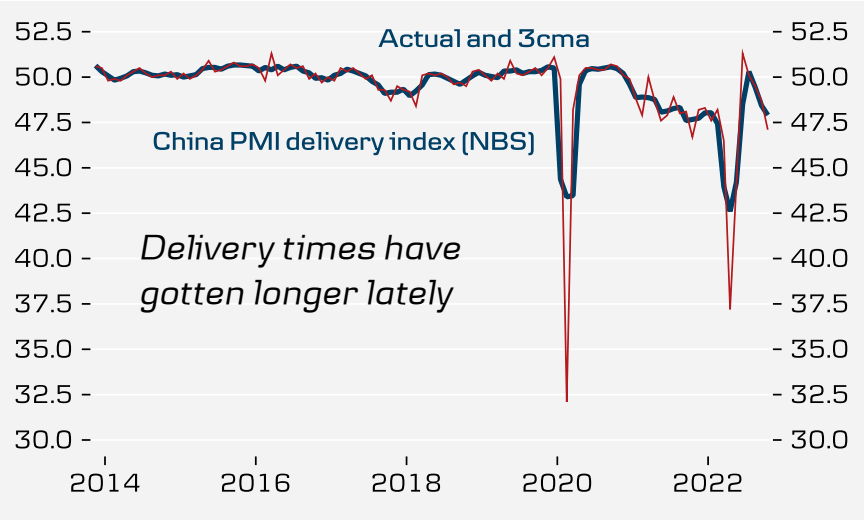
## Inflation – CPI



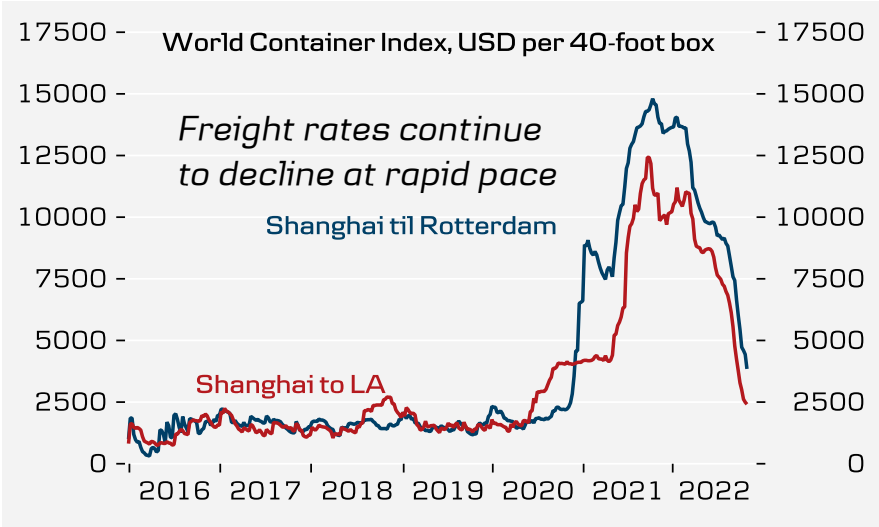
Source: Macrobond Financial, NBS, Danske Bank

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# Inflation – delivery times and freight rates



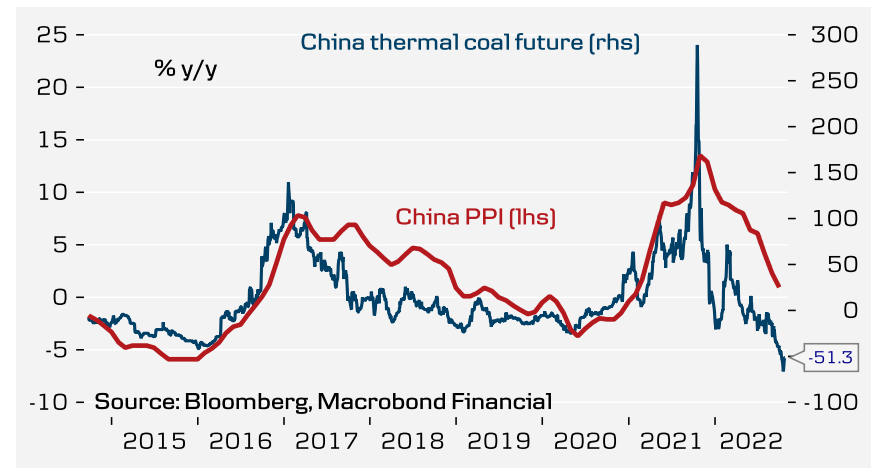
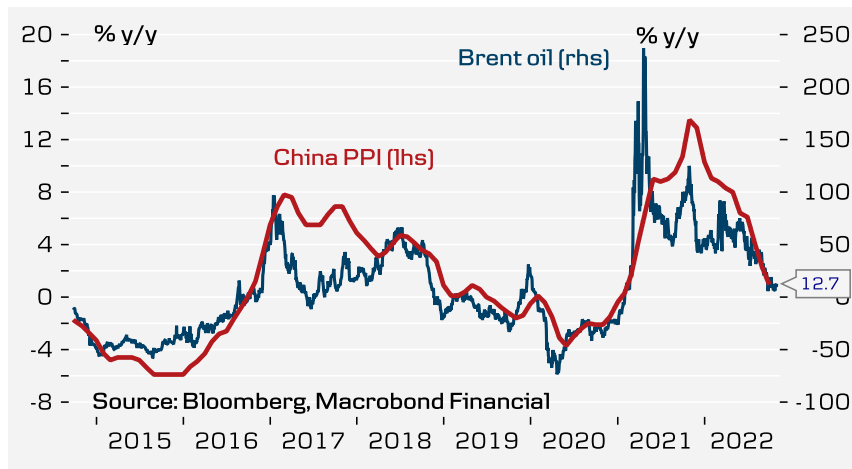
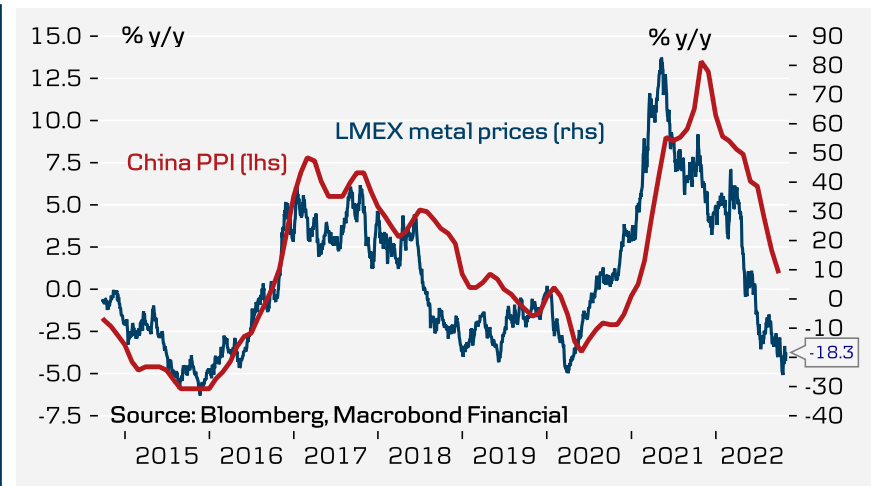
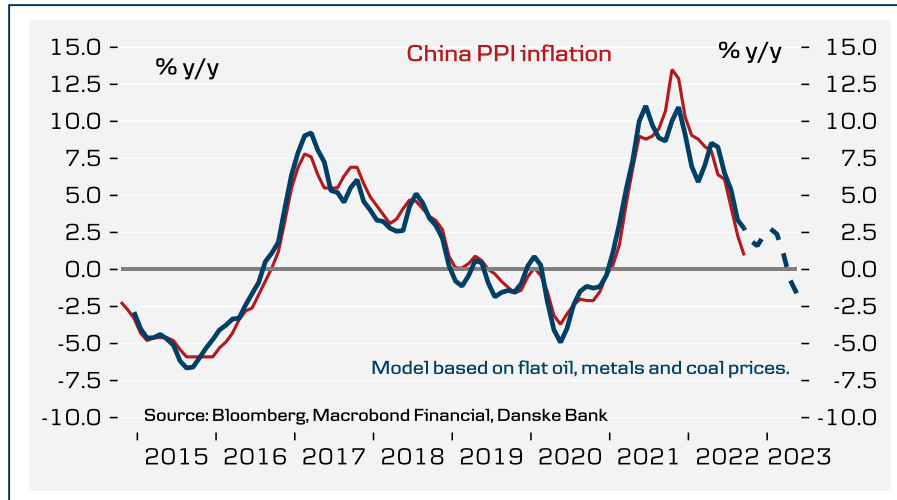
Source: Macrobond Financial, NBS, Danske Bank



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# Input prices y/y vs PPI y/y

PPI inflation has eased on lower commodity price inflation. If price levels are flat from here it will lead to a further decline over the next year. Metals and coal already in negative y/y growth

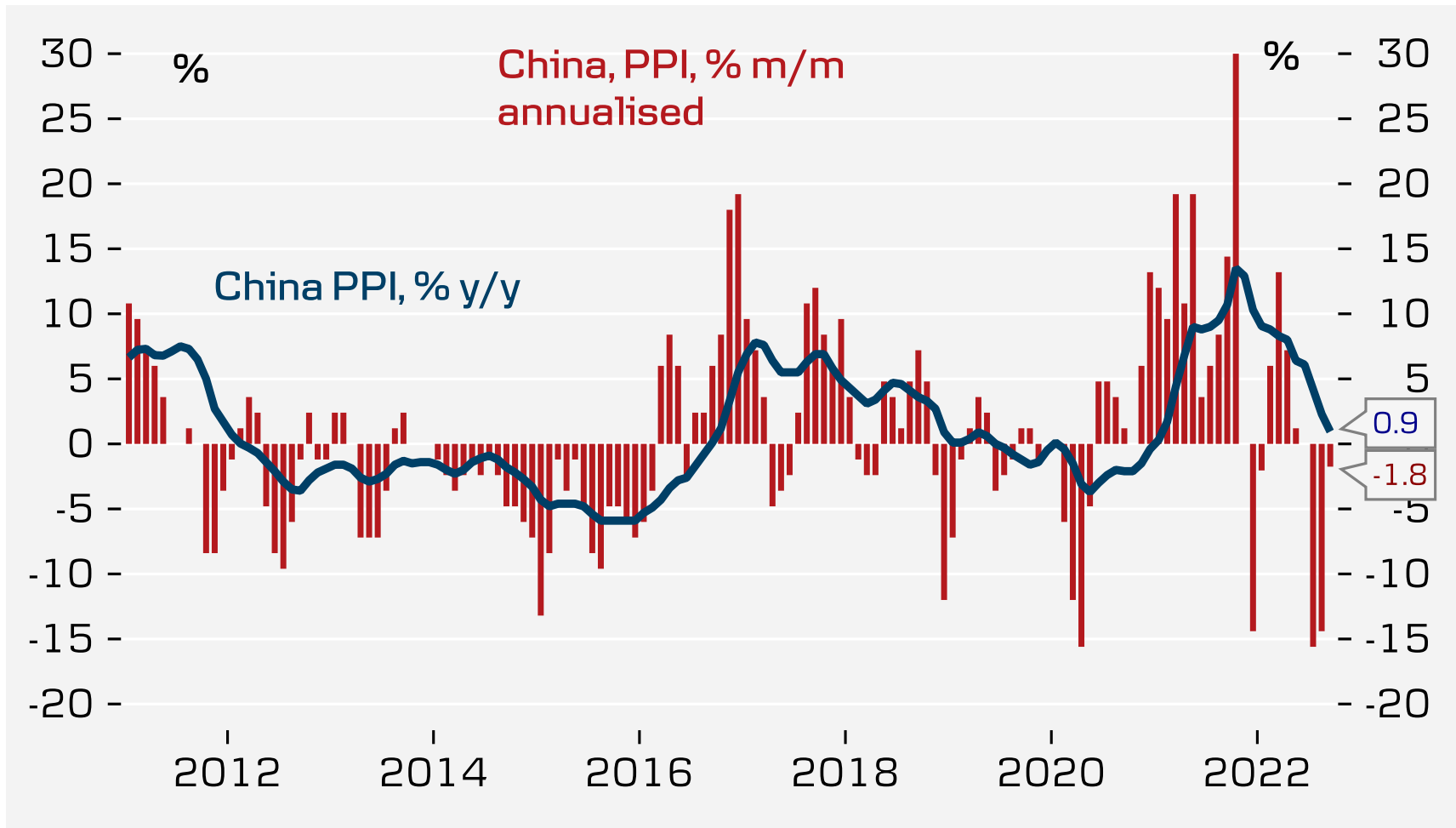


Note: Past performance is not a reliable indicator of current or future results

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# Inflation - PPI

*PPI monthly momentum negative again in September for third month in a row*



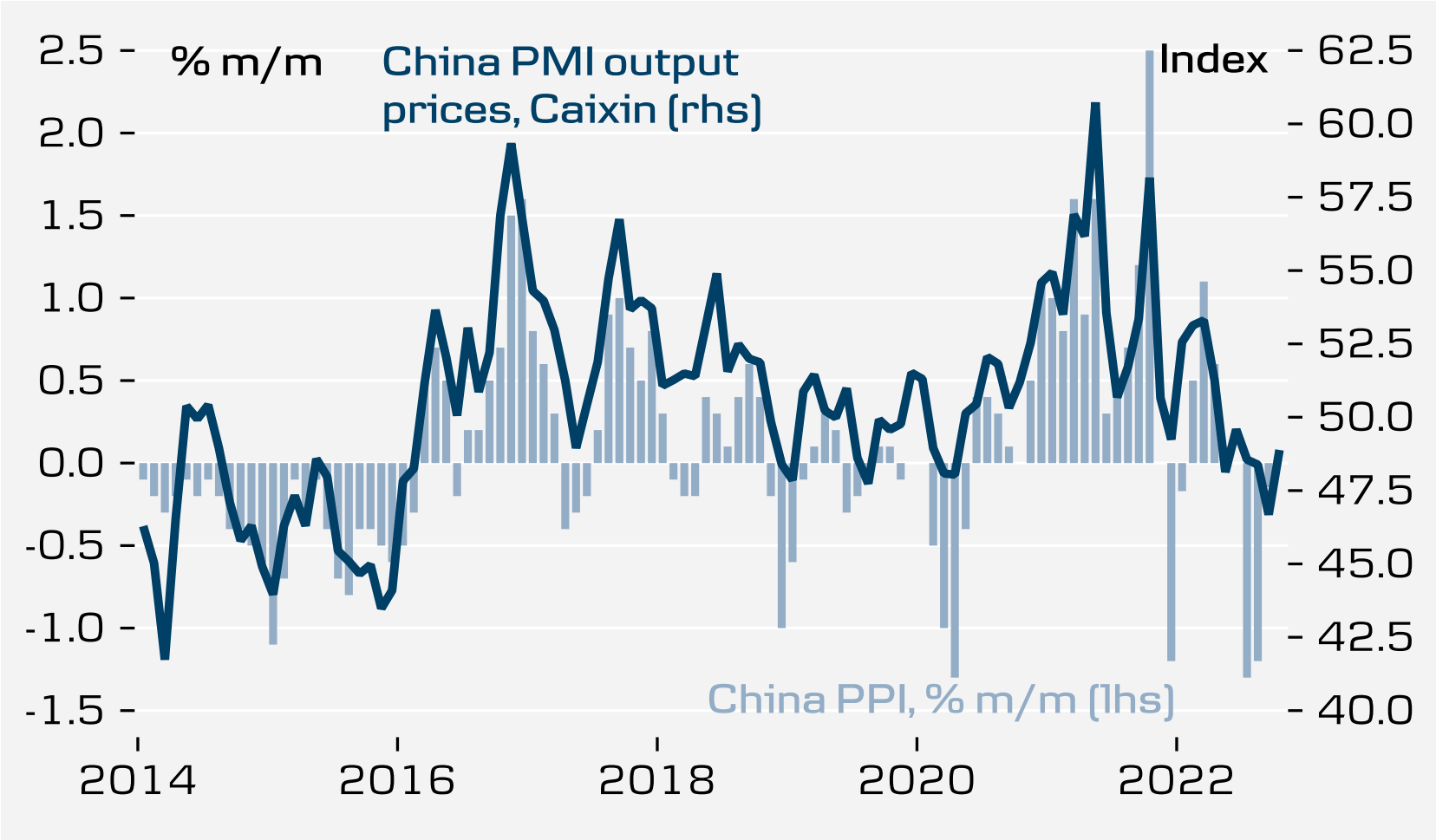
Source: Macrobond Financial, NBS, Danske Bank

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# Inflation - PMI output prices and PPI m/m

PMI prices higher in October but still quite low

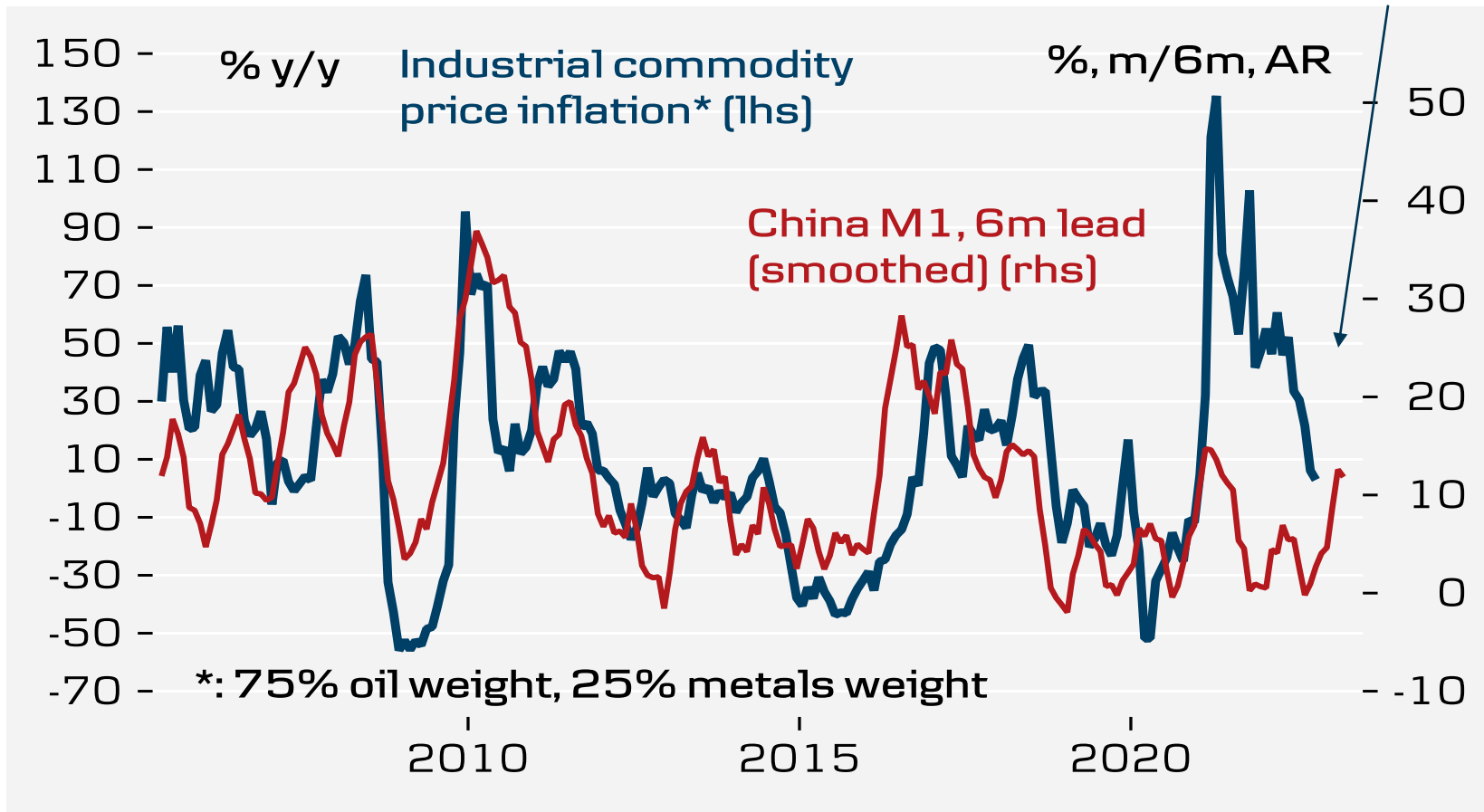


Source: Macrobond Financial, Markit, NBS, Danske Bank

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# M1 and industrial commodity prices

Global commodities and Chinese M1 growth decoupled over past years, as US demand has been strong

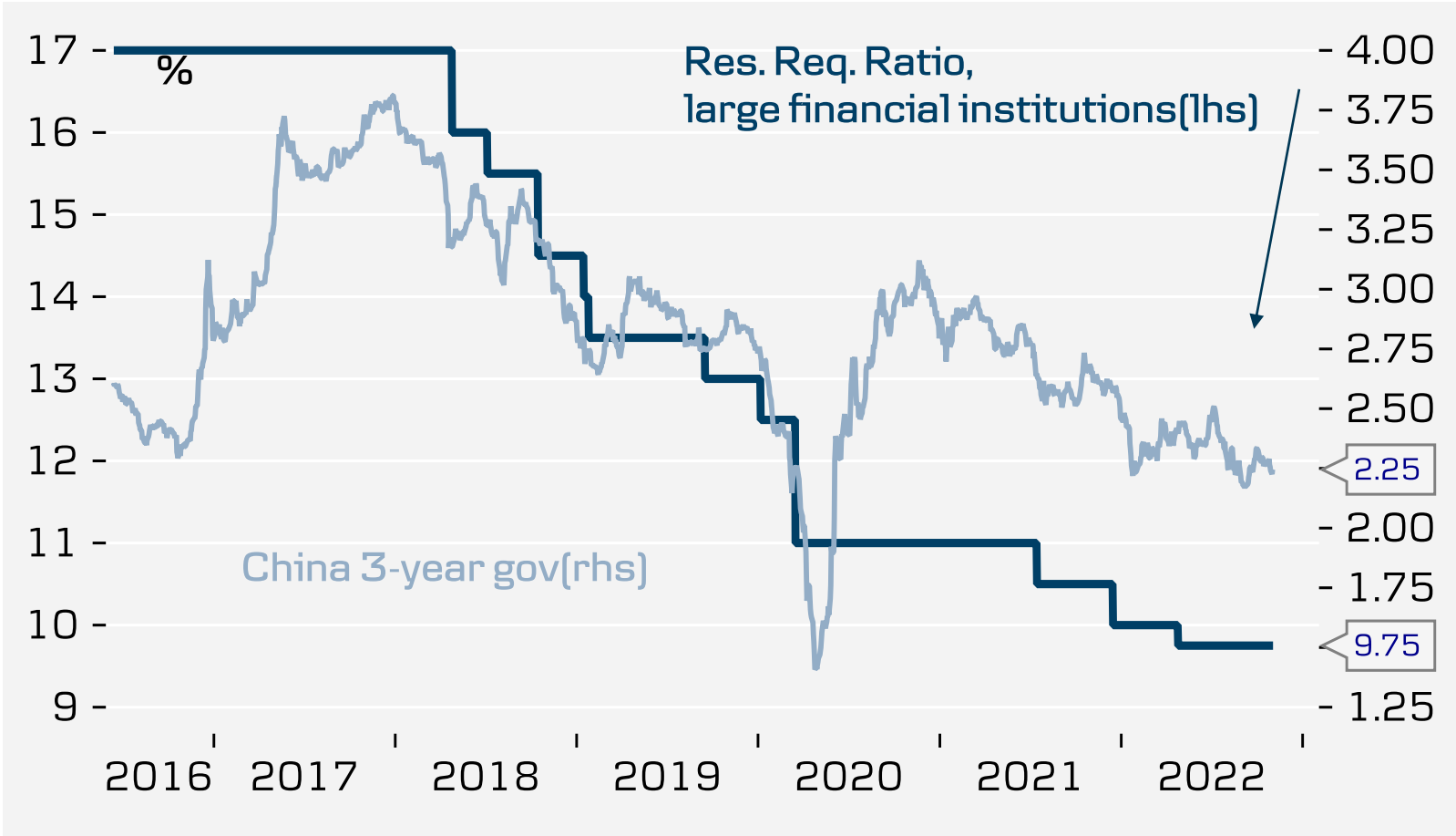


Source: Macrobond Financial, Markit, People's Bank of China, Danske Bank  
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# Monetary policy - Reserve Requirement Ratio

Yields stabilizing

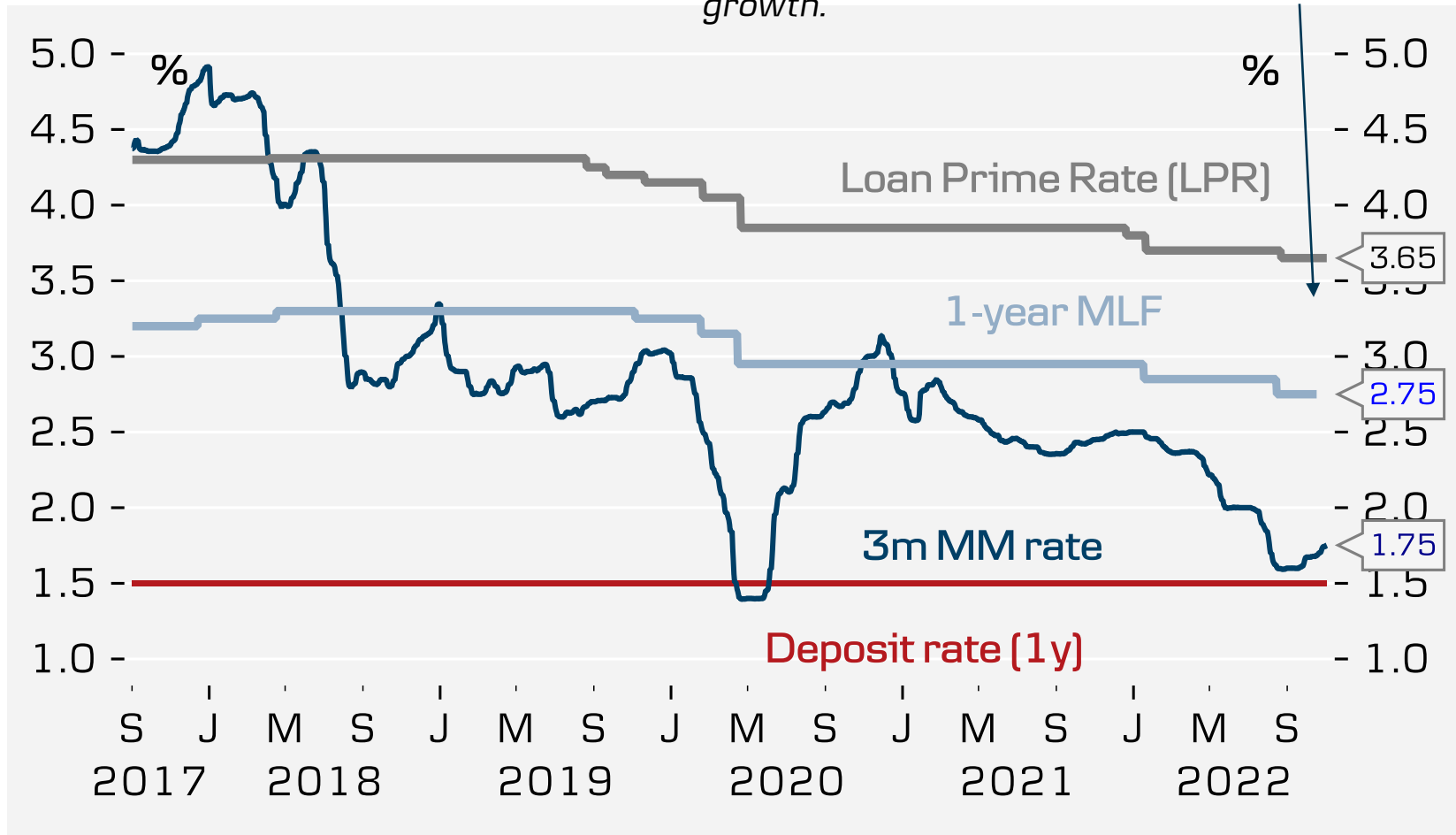


Source: Macrobond Financial, Markit, People's Bank of China  
Note: Past performance is not a reliable indicator of current or future results

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## Monetary policy – rates

*PBoC not moving official policy rates much on concern of too fast CNY depreciation. Fiscal policy preferred tool to underpin growth.*



Note: MLF is medium lending facility set by PBoC, which is used as reference for the bank's Loan Prime Rates

Source: Macrobond Financial, Markit, People's Bank of China

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

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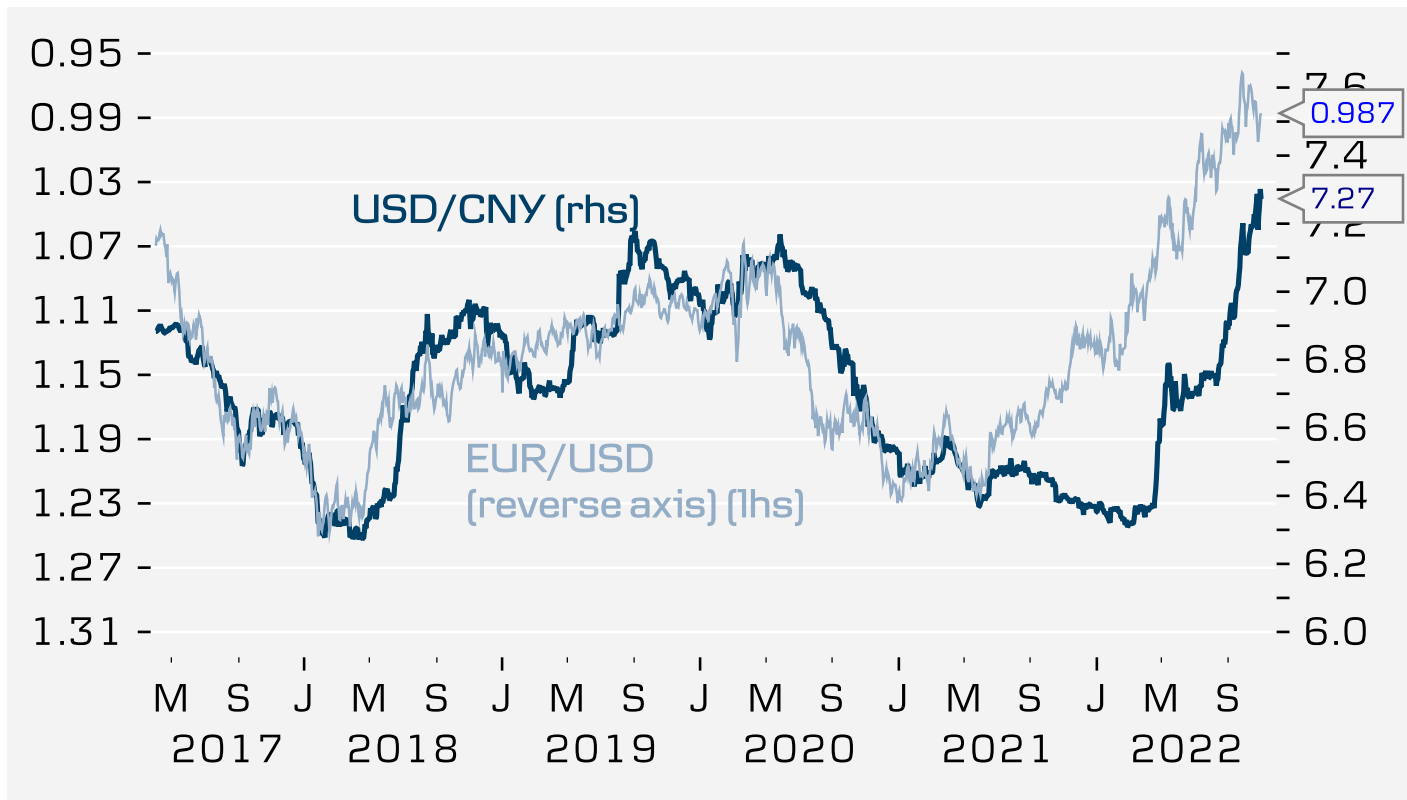
# Mortgage rates lowered 35bp this year



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Source: Macrobond Financial, Markit, People's Bank of China  
Note: Past performance is not a reliable indicator of current or future results

## CNY - USD/CNY vs EUR/USD



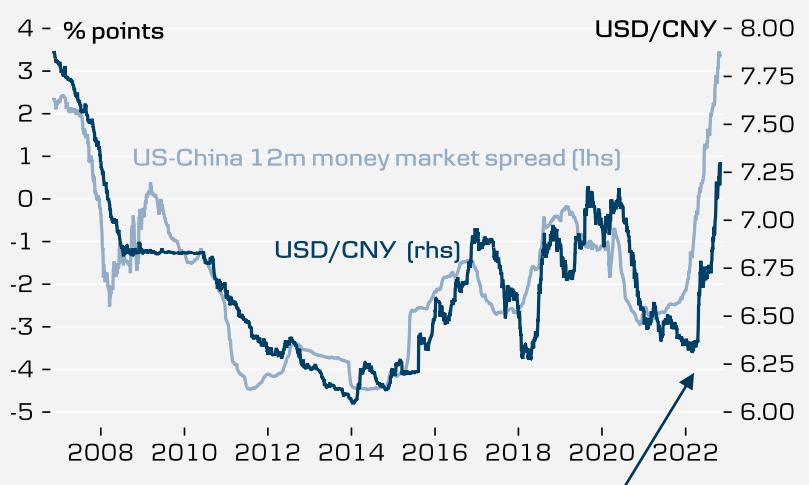
*USD/CNY has taken another leg higher lately on weaker foreign sentiment towards China and monetary policy divergence*

Note: EUR/USD on reverse axis in this chart, past performance is not a reliable indicator of current or future results  
 Source: Macrobond Financial, People's Bank of China

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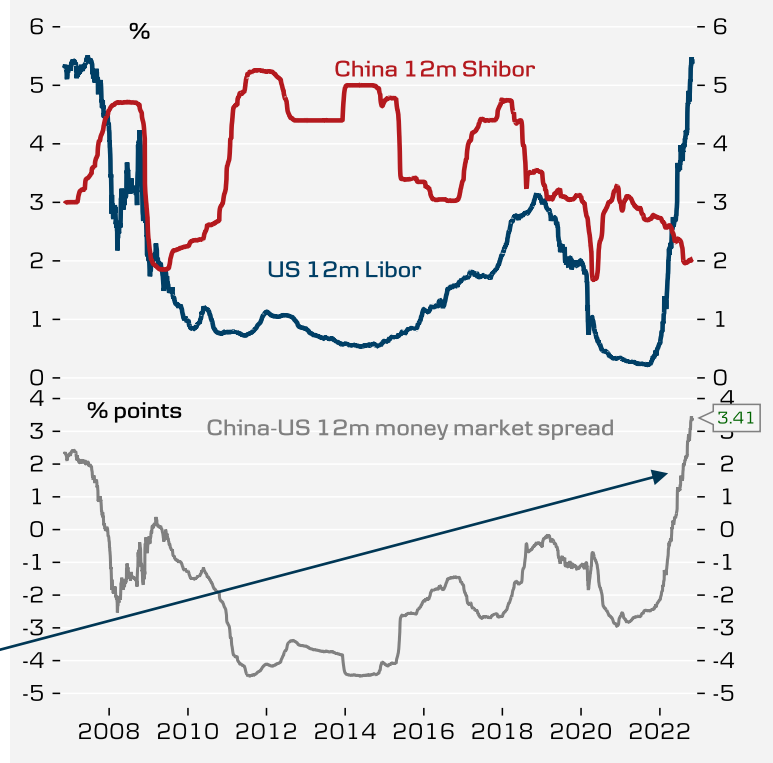
# CNY - relative rates a good long-term anchor

Relative rates vs USD/CNY



Note: Past performance is not a reliable indicator of current or future results  
 Source: Macrobond Financial, People's Bank of China

US and China money 12M rates



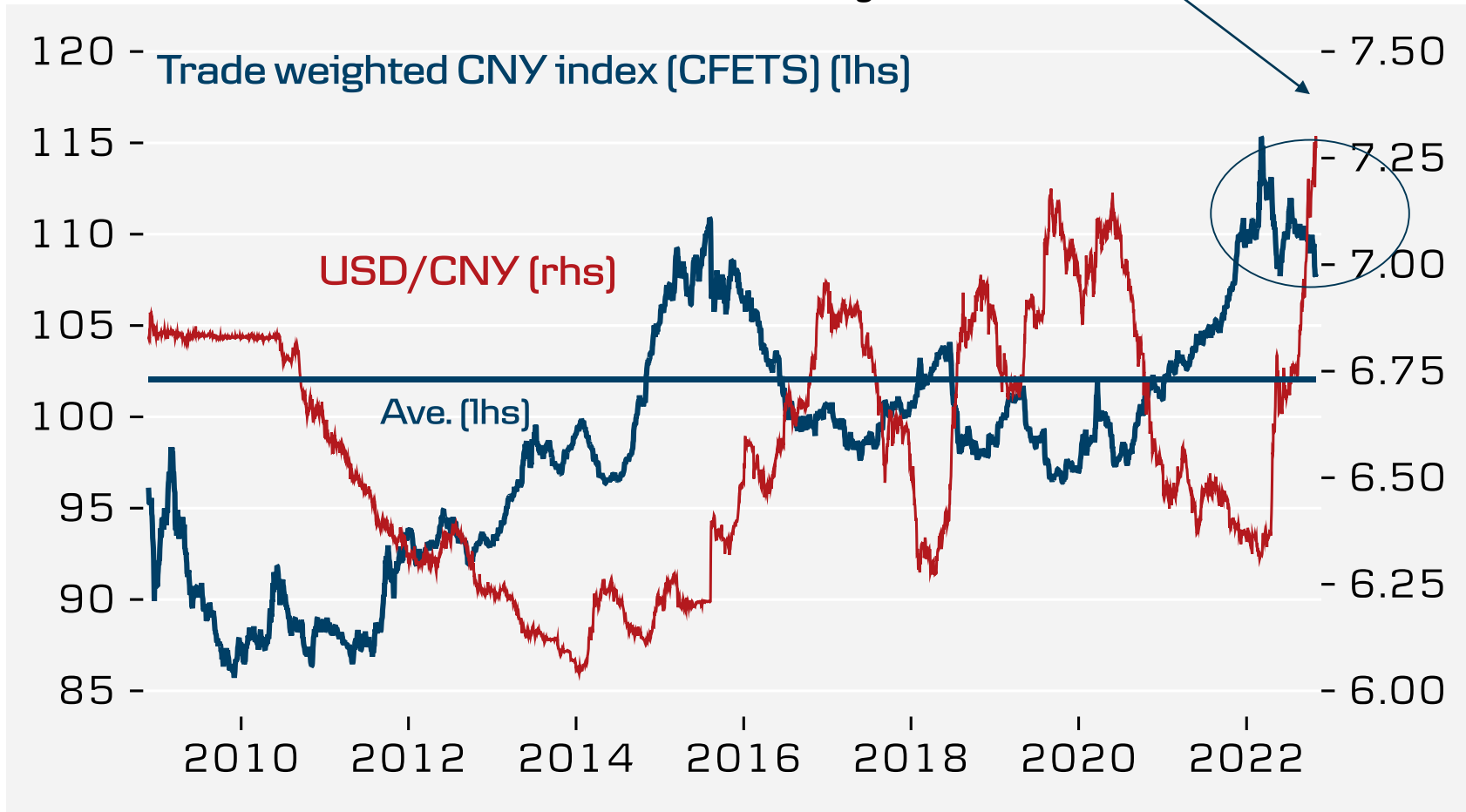
Note: Past performance is not a reliable indicator of current or future results  
 Source: Macrobond Financial, People's Bank of China

Relative rates clearly in favour of higher USD/CNY. US money market rates now far above Chinese.

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# USD/CNY and CNY basket

Effective CNY lower but still high relative to long term average



Note: Past performance is not a reliable indicator of current or future results  
 Source: Macrobond Financial, People's Bank of China

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# China stock market

Stock markets have weakened on strong growth headwinds, US tech restrictions and falling investor confidence after the CPC Congress. Risk premia high.

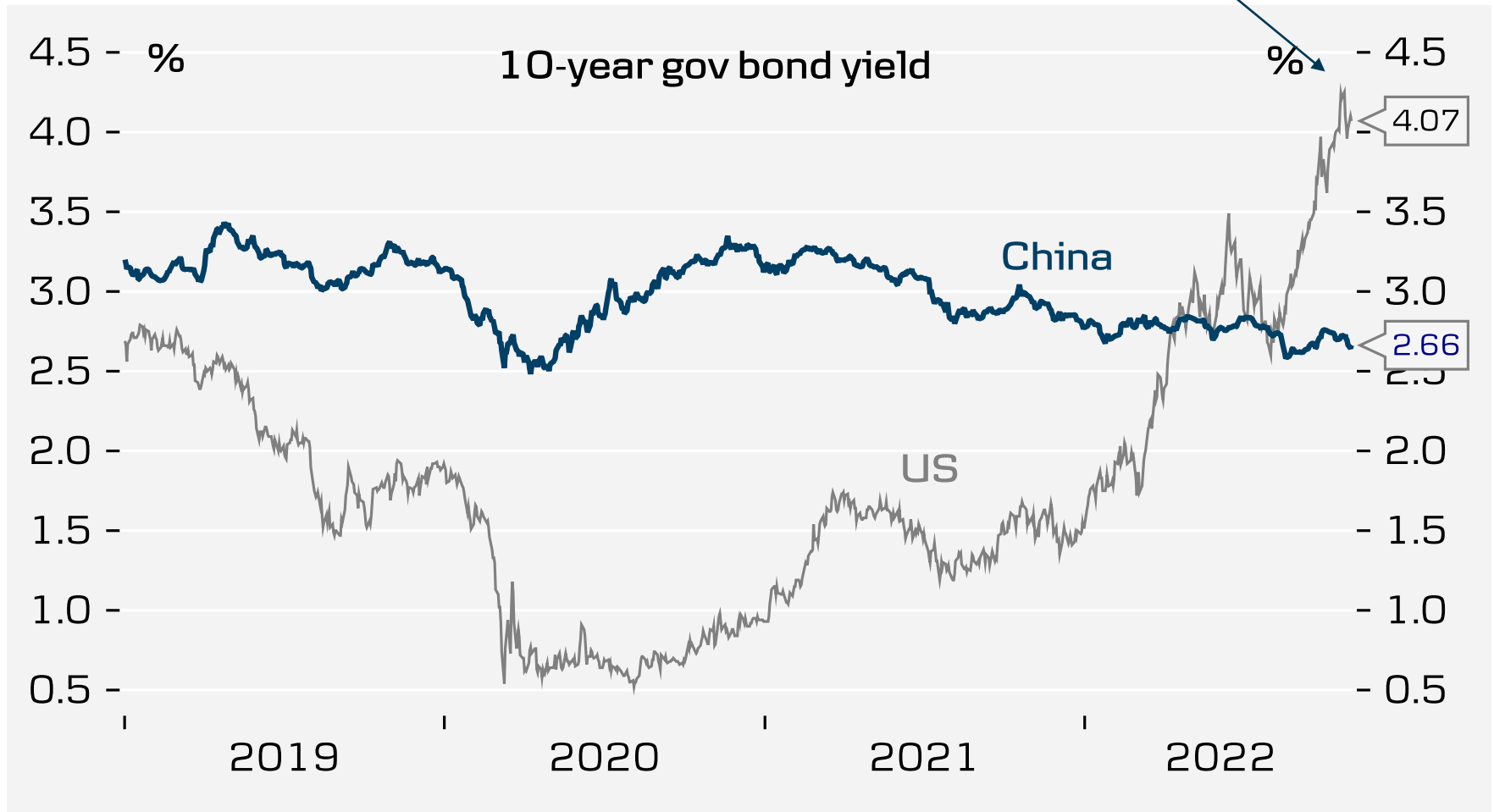


Note: Past performance is not a reliable indicator of current or future results  
 Source: Macrobond Financial, People's Bank of China

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# China bond yields (vs US and Germany)

US 10-year yields clearly above Chinese



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

Source: Macrobond Financial

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