03 January 2023

China Outlook

Earlier reopening to drive faster rebound

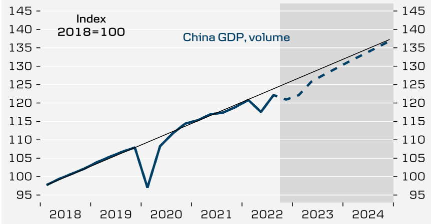
- The Chinese reopening happened faster than we expected, leading us to revise the growth profile for China. We now expect GDP to take a **bigger hit in Q4 and Q1 but that the recovery starts already in February/March, 3-4 months earlier than we previously expected.** The weak start of the year pulls down the average of 2023 taking our annual growth forecast down to 4.6% (previously 4.9%) whereas a stronger starting point in 2024 pushes up the growth forecast to 6.0% (previously 5.3%).
- As seen in other countries, **reopening of the economy is set to unleash pent-up demand** (see charts on p2). In China, both services and goods consumption has been depressed over the past year due to the cloud of uncertainty from the zero-covid policy and we look for a rebound in both types of spending. Travel bookings have already picked up. High savings over the past two years leaves plenty of cash in households for consumption when sentiment improves. At the Economic Work Conference in December the Chinese government also signalled that growth is a top priority in 2023 with lifting domestic demand a key focus, see *Research China – Renewed focus on growth and the private sector*, 20 December 2022.
- The zero-covid policy also worsened the property crisis as it has pushed down home sales through all of 2022. **We expect the reopening to improve home buyer sentiment**, which in combination with more forceful easing measures towards the property sector is likely to lead to a turnaround here as well.
- We also look for **improving business confidence to drive a turn higher in private investments**. The government has vowed to support the private sector in 2023, which could entail more positive measures and signals to underpin private investments, not least in the tech sector and manufacturing.
- A **Chinese recovery will have a positive spill-over to the global economy but also be an inflationary force** through its' effect on commodity prices. This could challenge central banks' fight against inflation and points to a risk of more hikes and/or fewer cuts in 2023/24 than the markets are pricing.

China GDP outlook

GDP forecast	Danske Bank	Previous	Change
2022	2.8	3.3	-0.5
2023	4.6	4.9	-0.3
2024	6.0	5.3	0.7

Source: Danske Bank

China to close output gap as pent-up demand gets unleashed



Source: Macrobond Financial, Danske Bank

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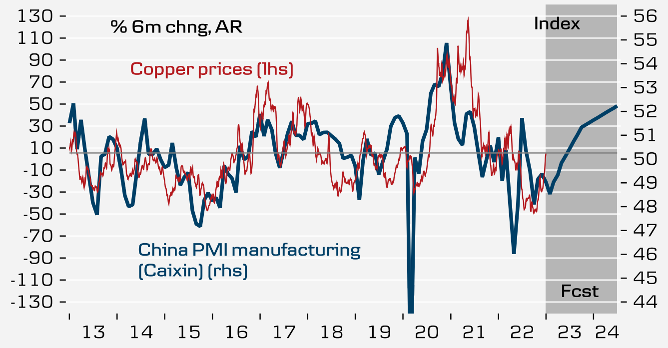
Rebound in Q2 set to make China inflationary force again



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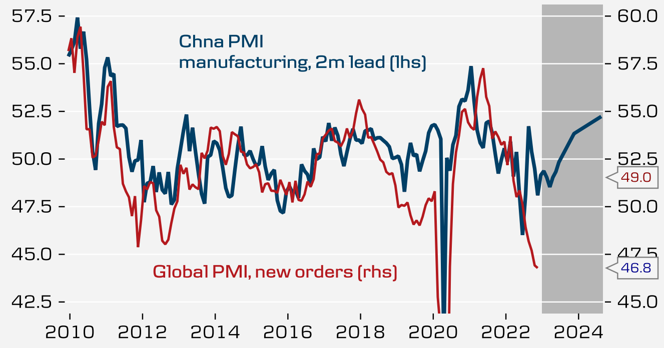
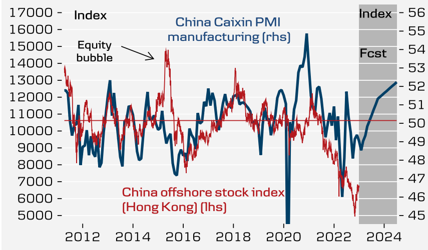
GDP to be weak short term but rebound from Q2



Source: Macrobond Financial, Danske Bank

- **The Chinese rebound leaves more upside potential for Chinese offshore equities**, in our view. Stocks took a strong beating in 2022 and despite the latest rally, the levels are very low in a historical perspective. As elsewhere, Chinese equities correlate quite strongly with the business cycle and a growth recovery should underpin Chinese stocks. Boosting market confidence was also an explicit goal stated at the Economic Work Conference in December, which suggests that the crack-down on big tech is behind us. Chinese leaders even underlined the importance of the internet companies in supporting the economy.
- We also look for a **lower risk premium in Chinese assets to push EUR/CNH lower** over the next six months. Our forecast of a higher USD/CNH on a 6-12m horizon is challenged by the faster reopening and rising appetite for Chinese assets.

Upside for Chinese equities if economy recovers



Source: Macrobond Financial, Danske Bank. Note: Past performance is no indication of future performance

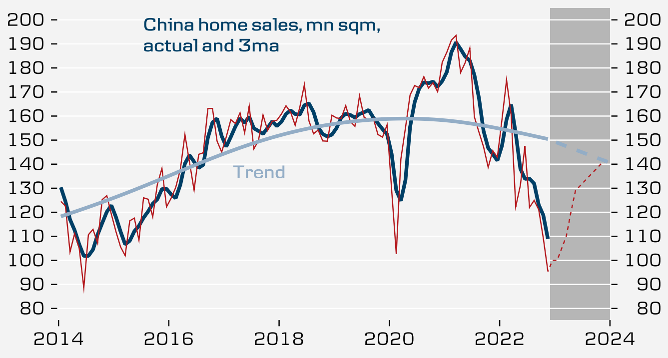
Pent-up demand in retail sales

Source: Macrobond Financial, Danske Bank

Savings have been elevated during pandemic due to cloud of uncertainty from zero-covid

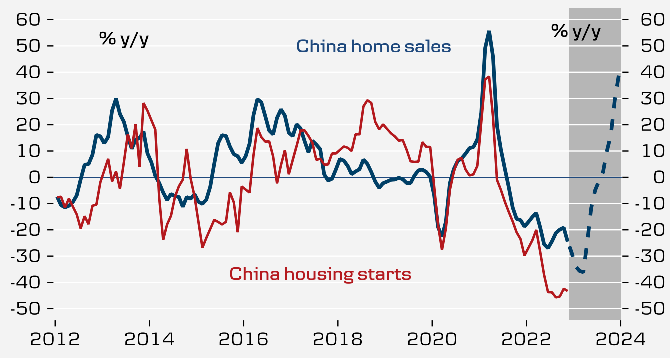
Source: Macrobond Financial, Danske Bank

Home sales to stage cyclical recovery within longer term declining trend



Source: Macrobond Financial, Danske Bank

In growth terms the projected rebound in home sales level translates to 40% y/y by early 2024



Source: Macrobond Financial, Danske Bank

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Report completed: 03 January 2023, 12:06 CET

Report first disseminated: 03 January 2023, 12.20 CET