

China Macro Monitor

- Growth revised lower as property crisis to linger into 2022

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Important disclosures and certifications are contained from page 47 of this report

Outlook and current trends

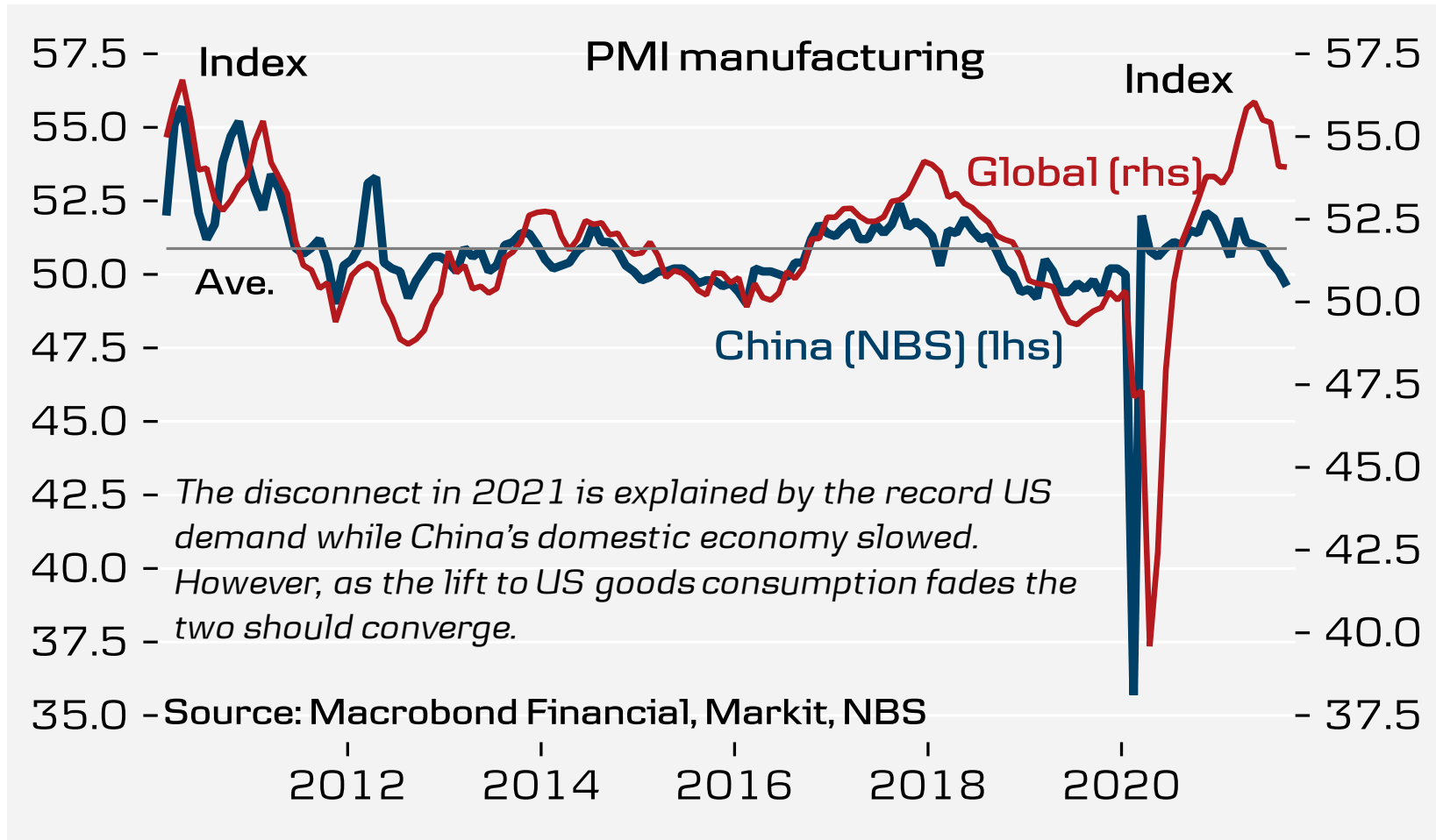
Outlook. Disappointing data and the renewed drag from the property crisis has led us to *revise lower our GDP estimate for 2021 to 8.0% from 8.3% as we now look for growth of less than 3% annualised in H2. For 2022 we revise down our GDP forecast to 4.5% from 5.0%*, as we believe the headwind from the property sector will linger for some time. With both consumption, construction and exports looking weak, there are few growth engines left. The government is likely to add some stimulus but given the focus on deleveraging, they are unlikely to step significantly on the gas. Some short term pain for long term gain will be tolerated, in our view.

China today

- **Growth.** *PMIs* have continued lower and *credit* growth remains very weak. *Copper* prices move sideways still signalling that the global manufacturing cycle is moving lower.
- **Inflation.** *PPI* inflation has rebounded but there is still little sign of pass-through to *CPI* inflation, which is below 1%.
- **Monetary policy.** PBoC cut the *RRR* rate by 50bp on 9 July and we look for more easing soon. *M1* growth remains weak and rising credit yields add new headwind.
- **CNY.** The *yuan* has been remarkably stable despite financial stress and overall USD strength.
- **Stock markets.** *Stocks* have taken a further hit following the property crisis.
- *For more China research, see our website [here](#)*

Our top five China indicators currently

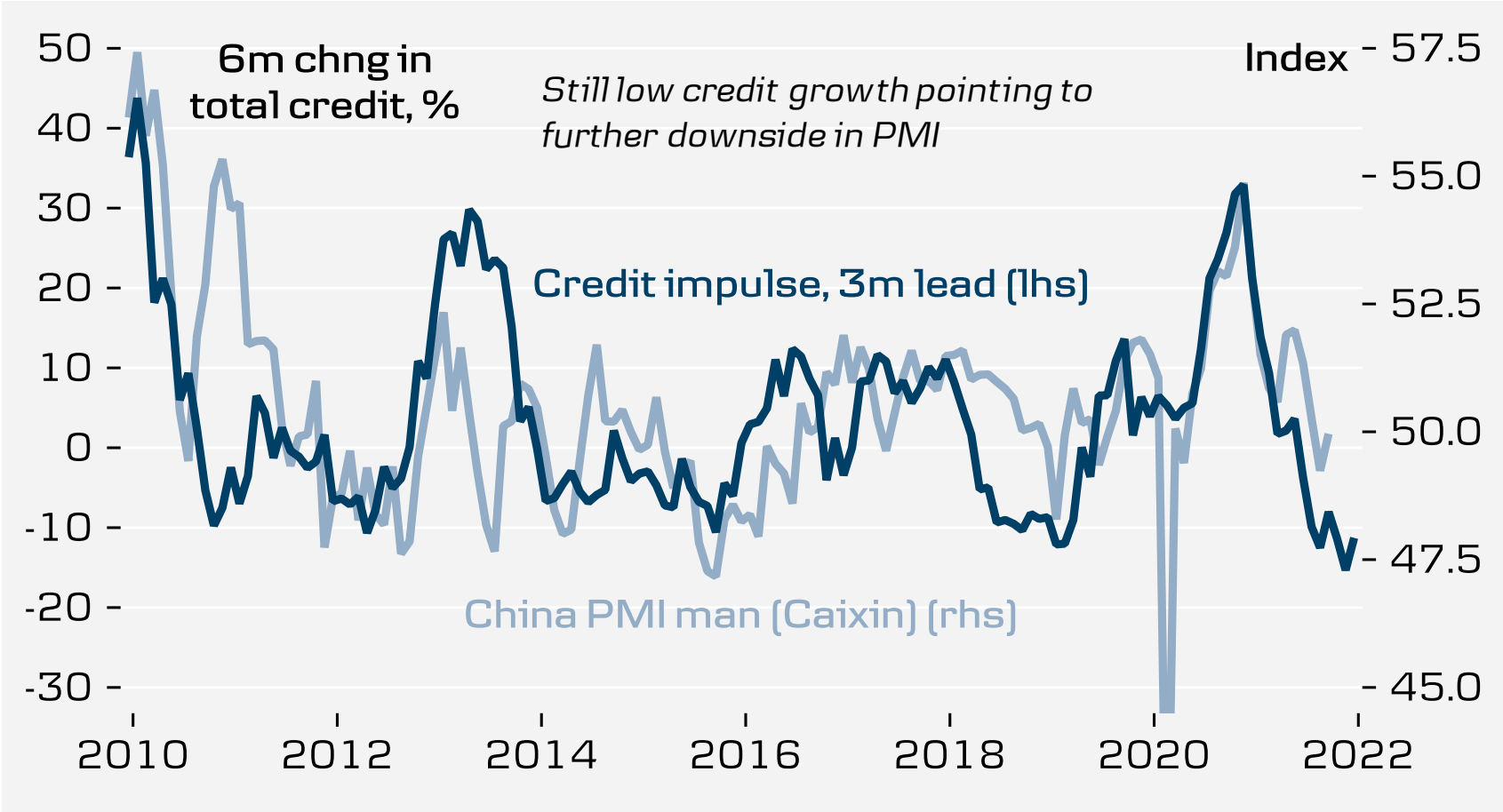
China a rising drag on the global economy



Source: Macrobond Financial, Markit, Danske Bank

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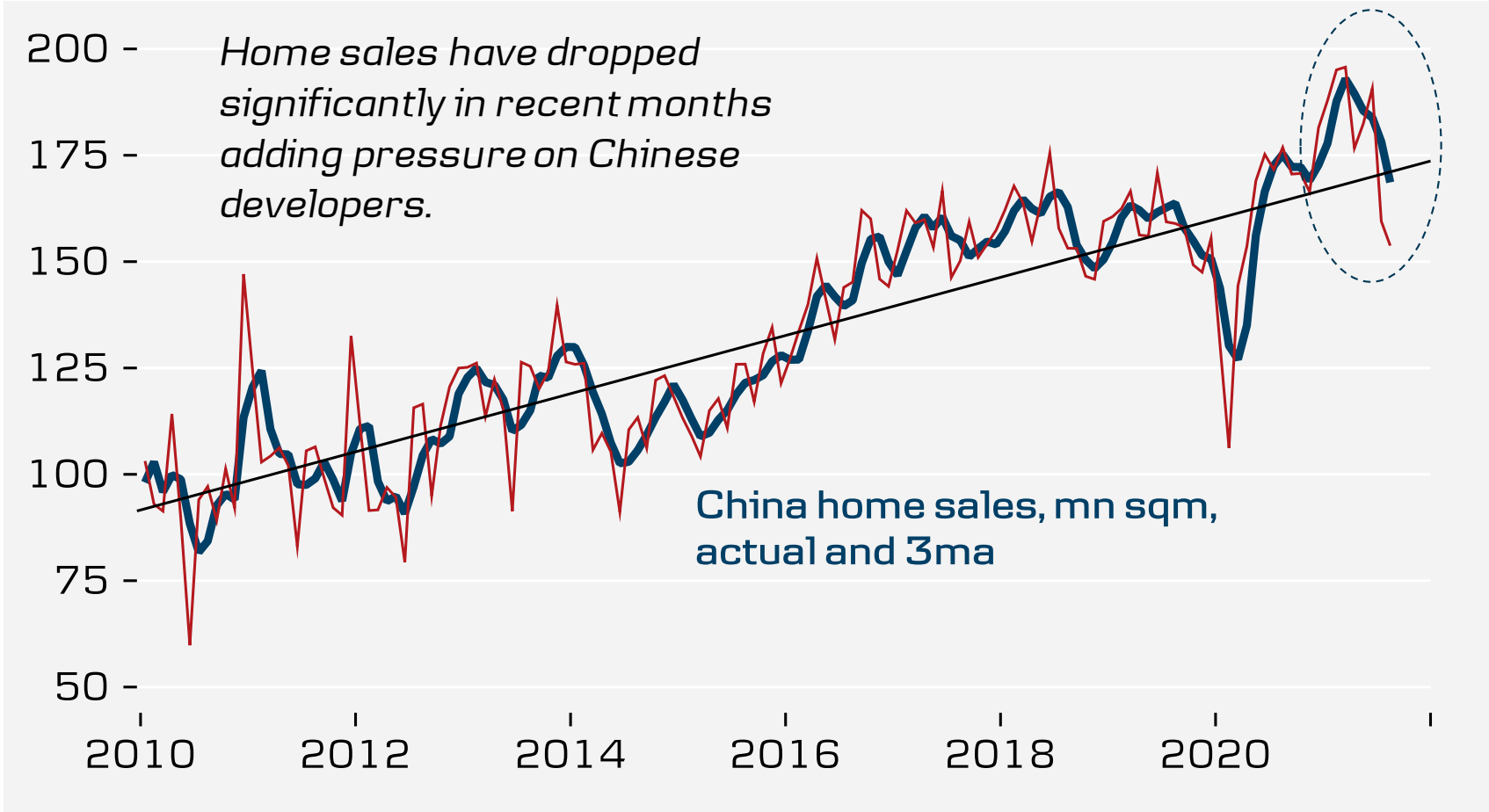
Credit growth is weak – but should recover in H2 on new stimulus



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

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Home sales have fallen sharply hurting property sector



Source: Macrobond Financial, NBS, Danske Bank

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Financial conditions - High yield rates



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

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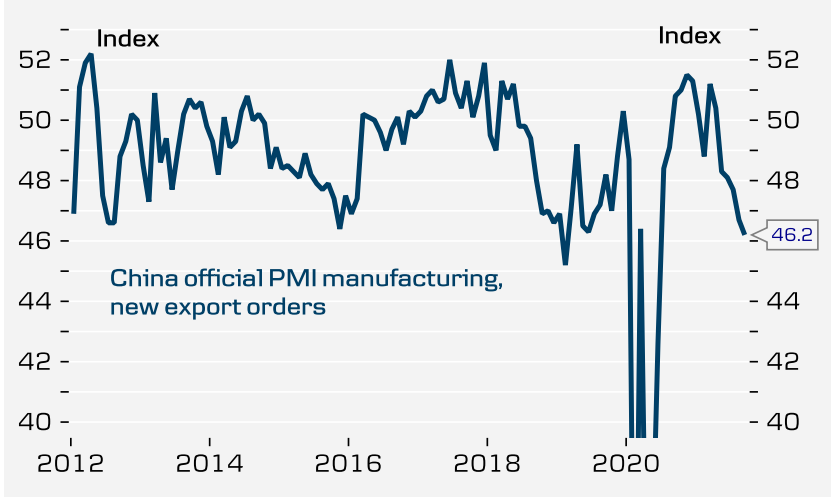
US goods spending still high – but growth rate falling



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

However, the growth in US goods consumption is lower and pushing down export order momentum.



Source: Macrobond Financial, Danske Bank

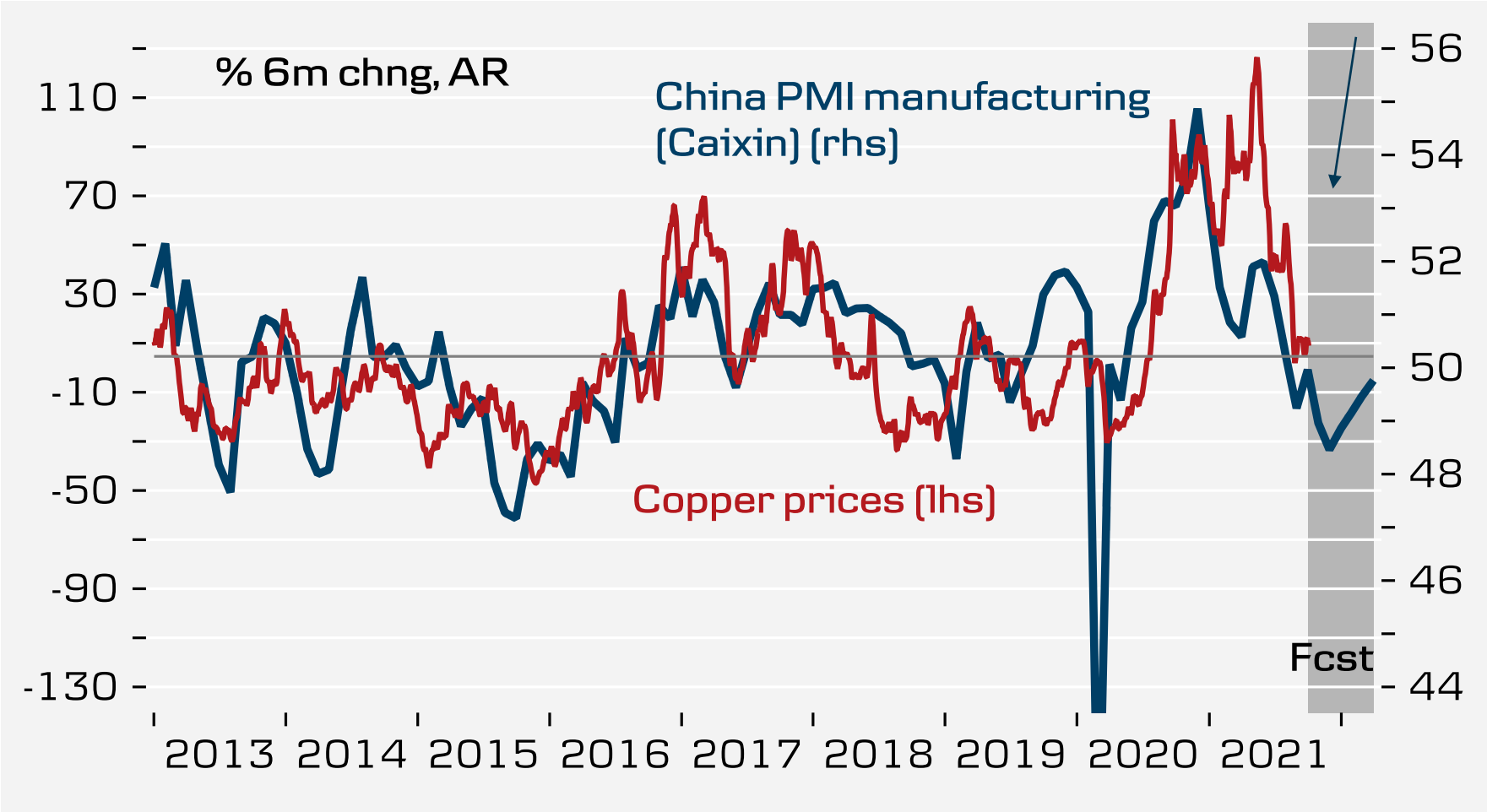
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Forecast on PMI and GDP growth

PMI forecast profile (vs copper prices)

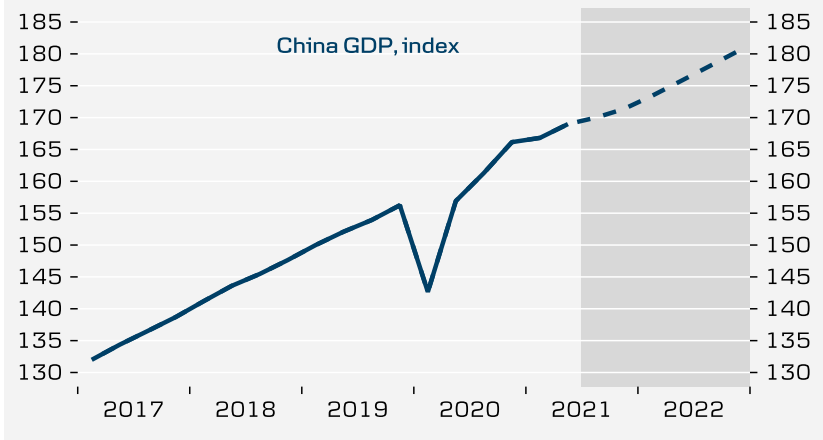
PMI below long term average. We expect more weakness in the short term and PMI to remain below 50 for some time



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

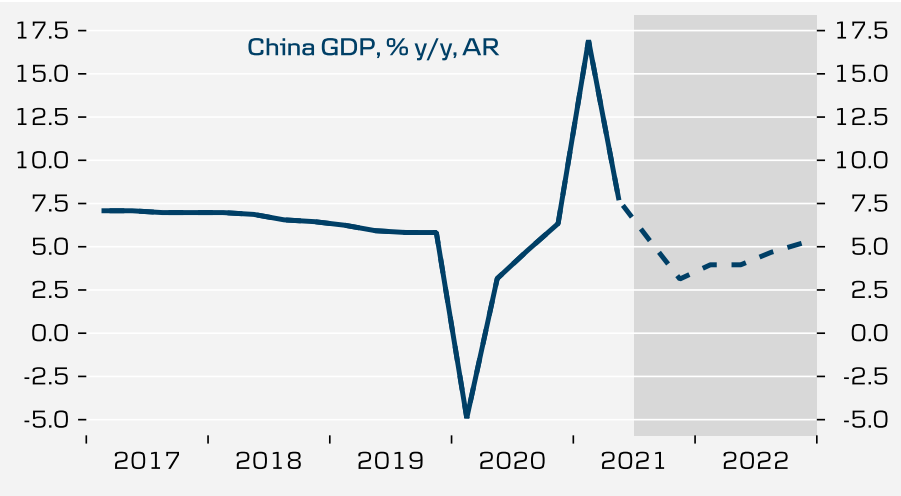
GDP forecast

2020: 2.3%
 2021: 8.0%
 2022: 4.5%

We have lowered our forecast to 8.0% (from 8.3%) in 2021 and to 4.5% (from 5.0%) in 2022.



Source: Macrobond Financial, Danske Bank



Source: Macrobond Financial, Danske Bank

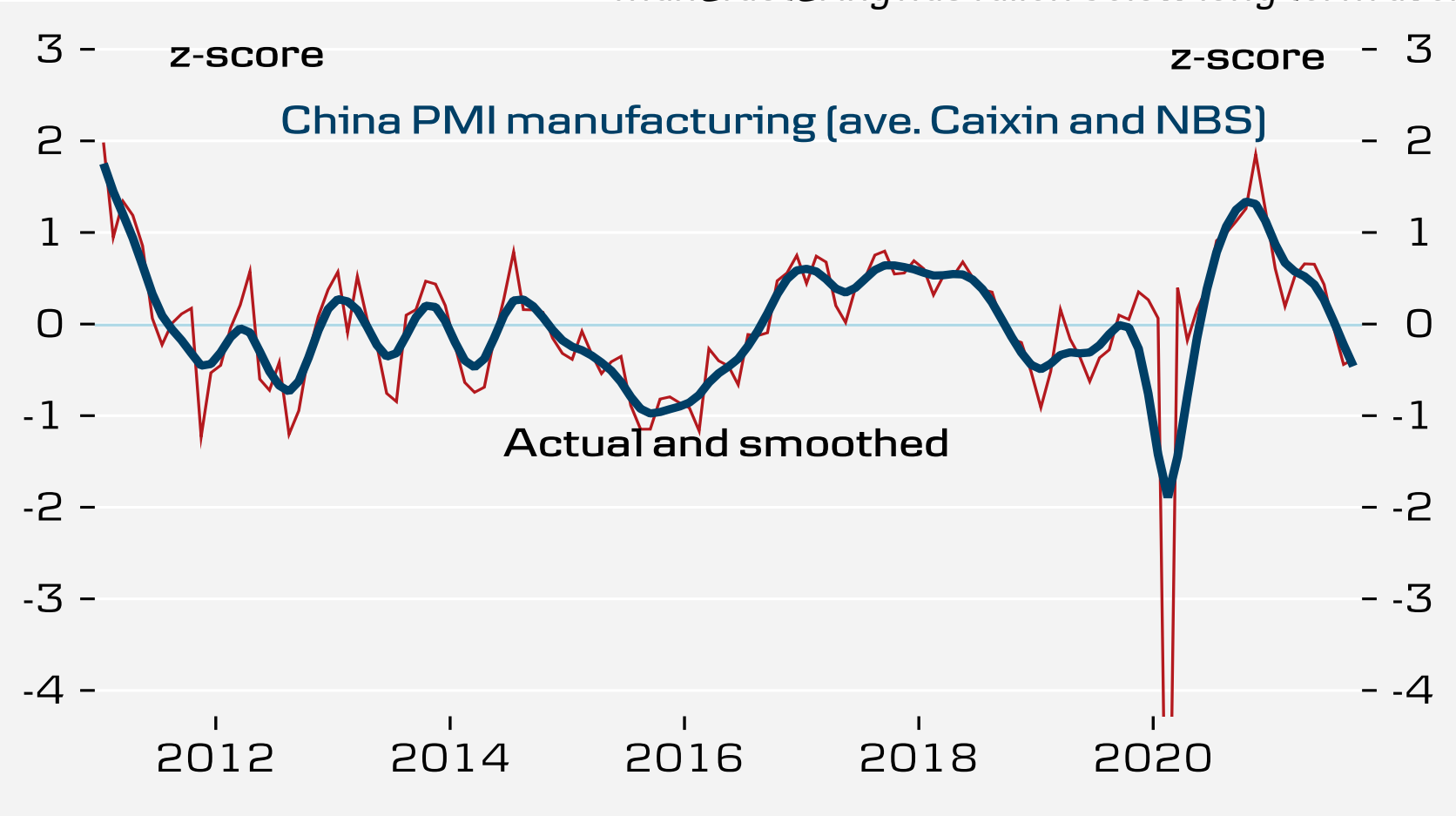
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The background of the slide features a repeating pattern of large, light blue Chinese characters. The characters are stylized and appear to be variations of the character '中' (Zhong), which means 'middle' or 'China'. They are arranged in a grid-like fashion, creating a subtle, textured background.

Overview of China macro indicators

PMI indicator (average of Caixin and NBS)

The average of Caixin and NBS PMI manufacturing has fallen below long term average

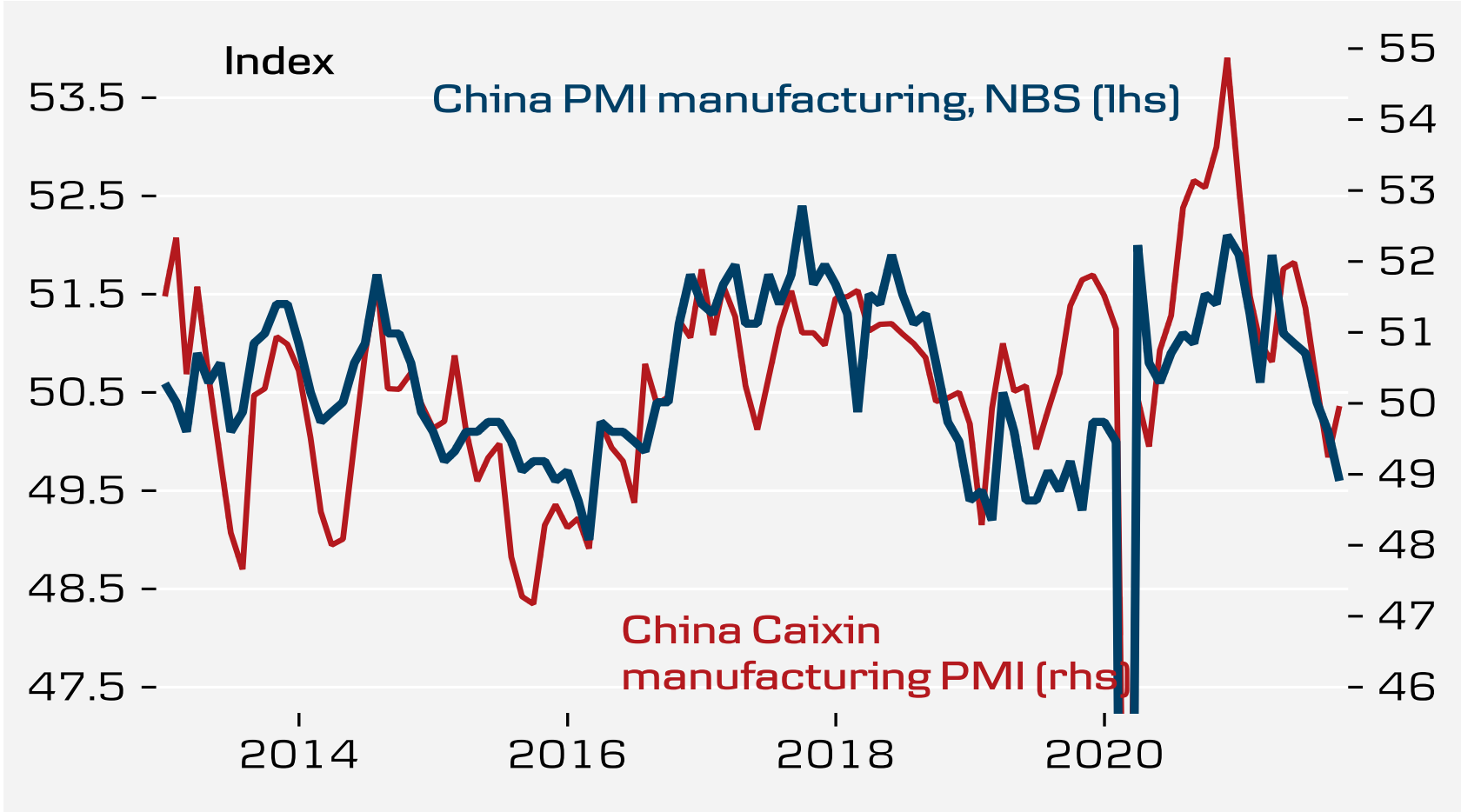


Source: Macrobond Financial, Markit, NBS, Danske Bank

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NBS vs Caixin PMI

NBS PMI less volatile than Caixin PMI. Both point to weak manufacturing growth

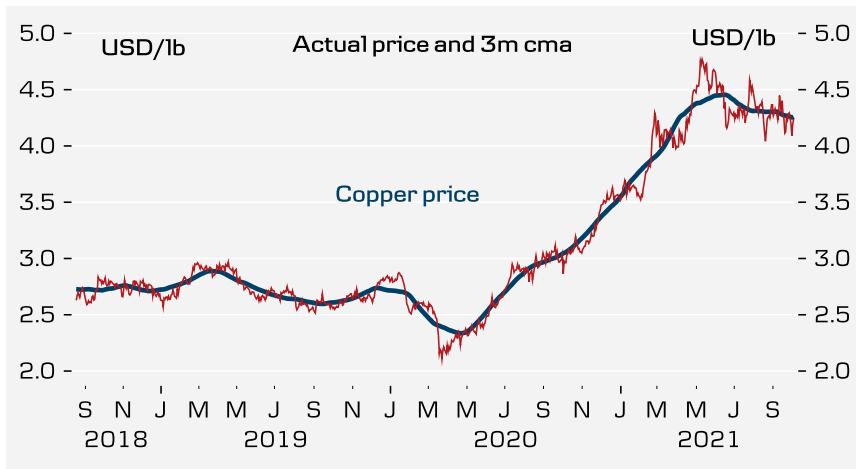


Source: Macrobond Financial, Markit, NBS, Danske Bank

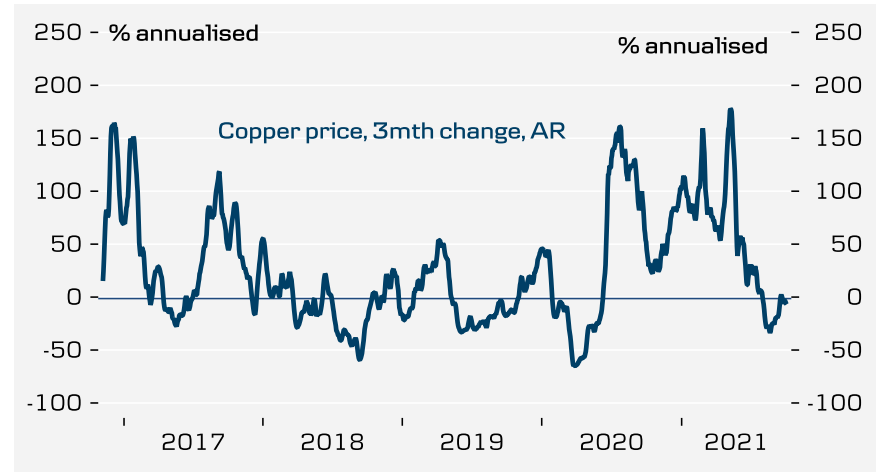
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Copper price momentum

Copper prices trending slightly lower. Growth rate fallen significantly from high levels in early 2021 in line with weaker growth.



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

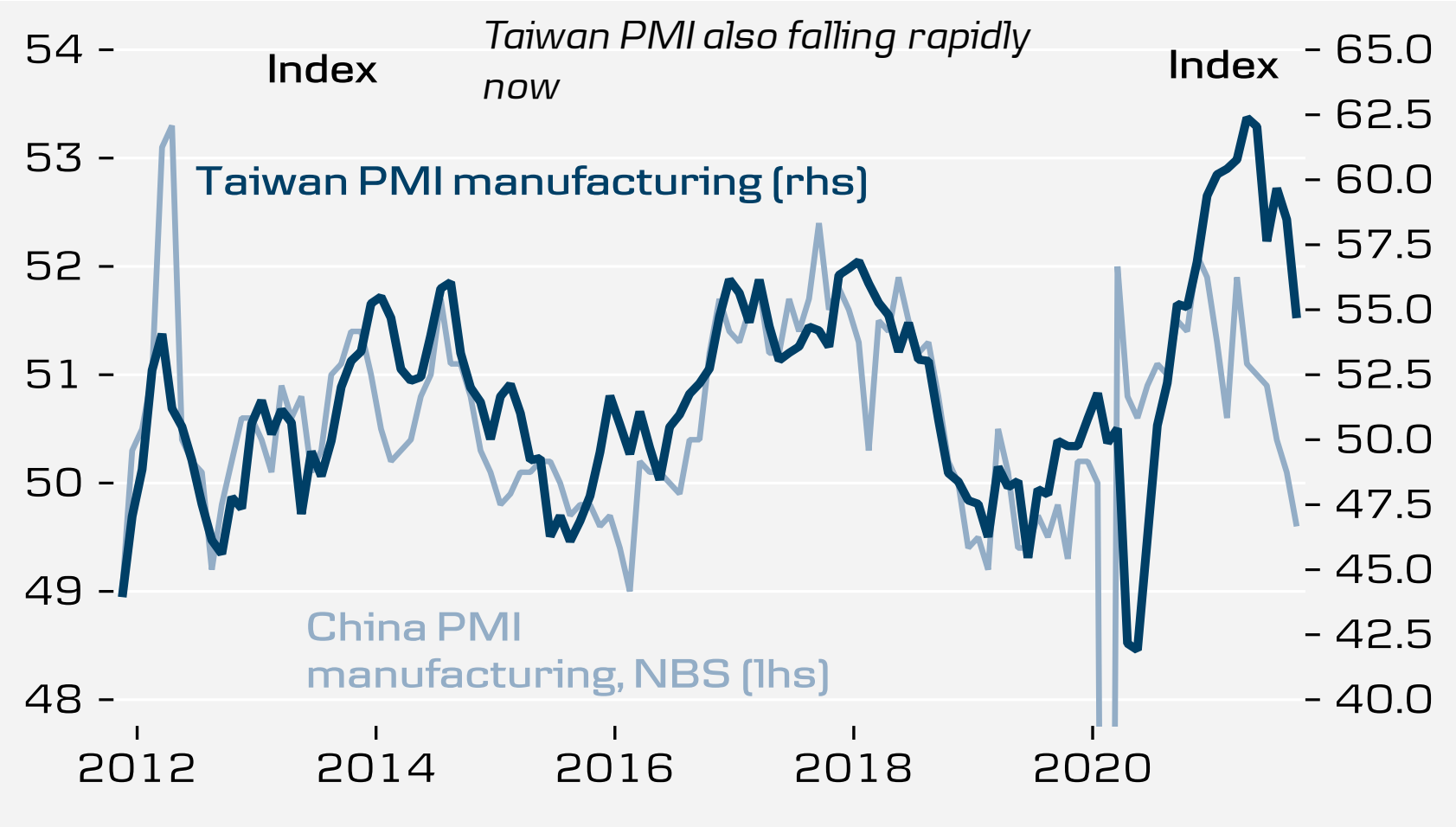


Source: Bloomberg, Danske Bank
 Note: Past performance is not a reliable indicator of current or future results

Note: Copper prices are generally a good indicator for Chinese activity, as China drives around 50% of global demand. However, the strength of US goods demand is likely the dominating driver of metals currently so the indicator may be less good for China at the moment.

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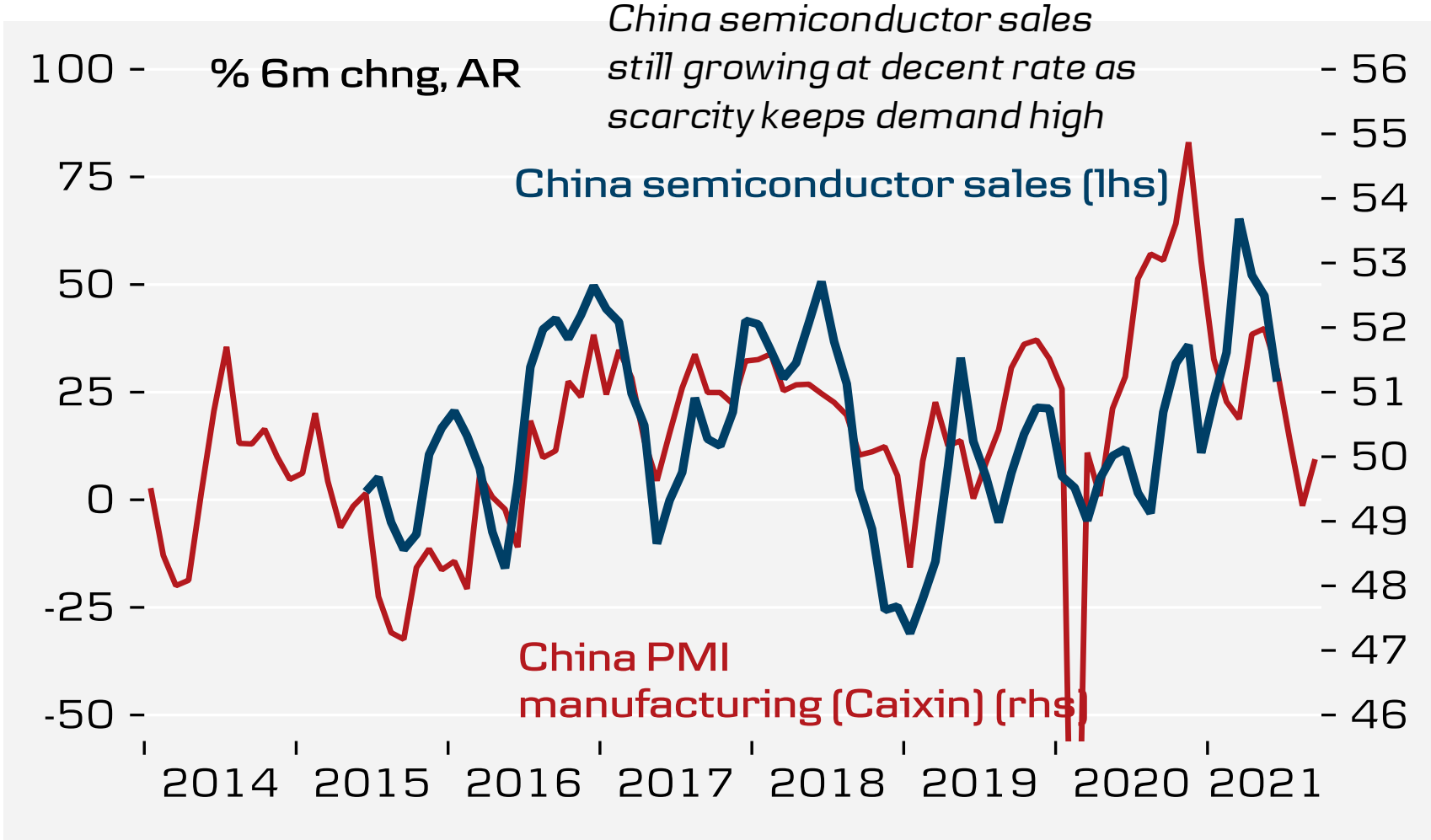
Taiwan PMI vs mainland China PMI



Source: Macrobond Financial, Markit, Danske Bank

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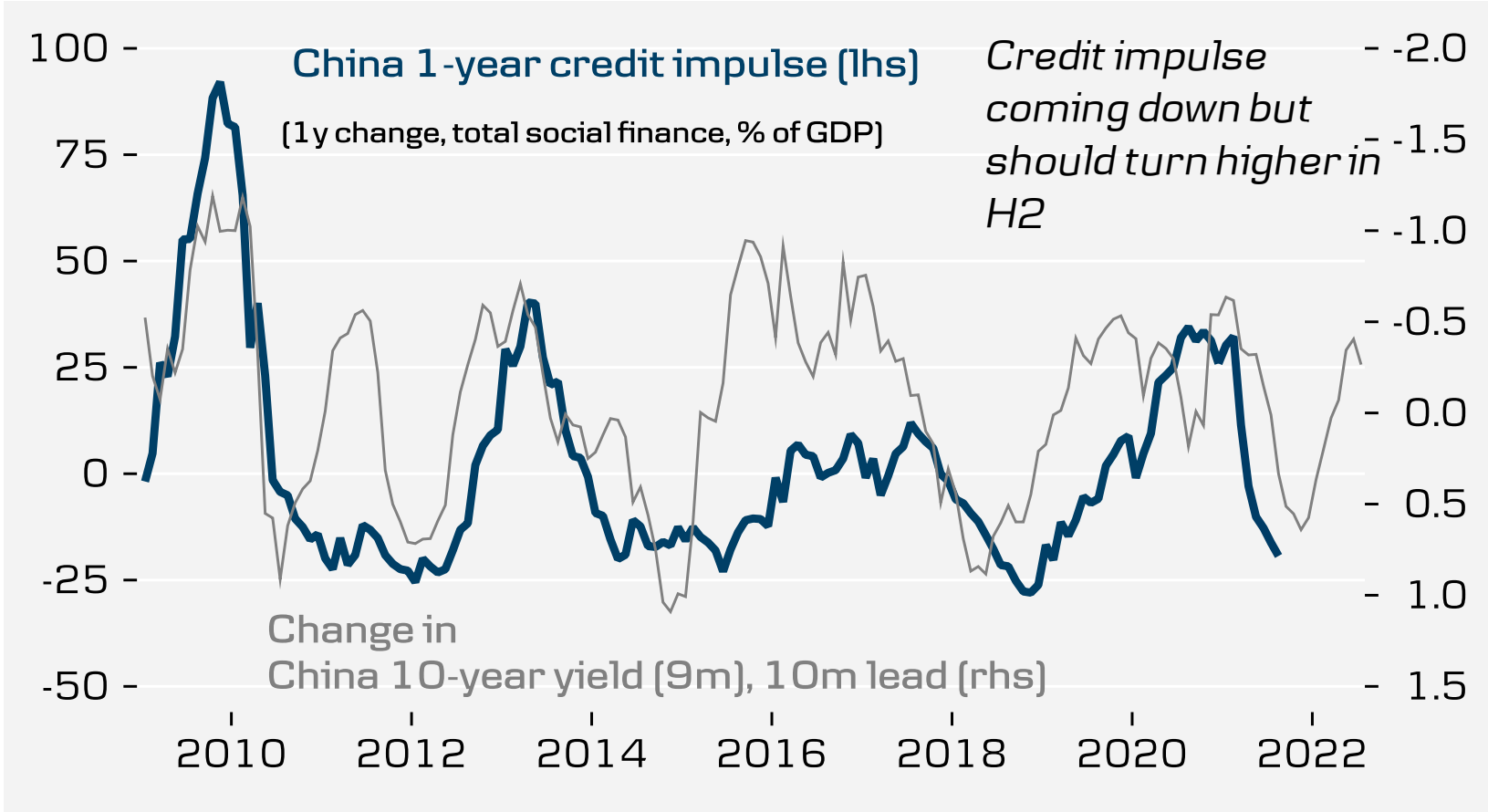
China semiconductor sales vs Chinese PMI



Source: Macrobond Financial, Markit, Semiconductor Industry Association

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Credit growth vs change in government bond yields

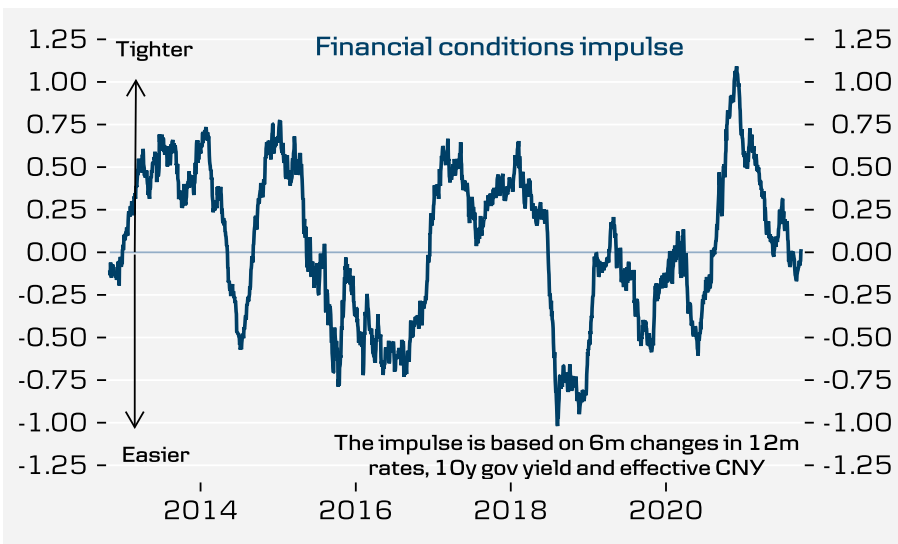


Source: Macrobond Financial, People's Bank of China, Danske Bank
Note: Past performance is not a reliable indicator of current or future results

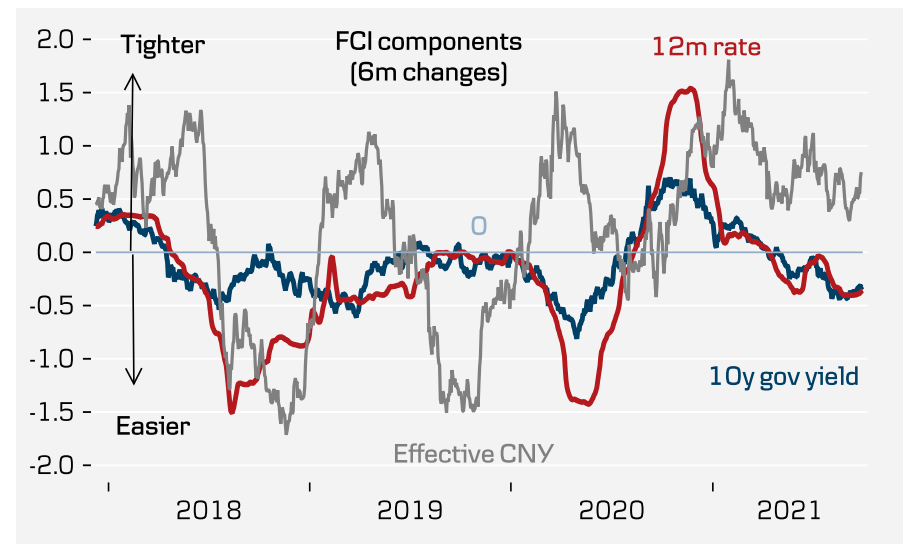
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Financial conditions impulse

Financial conditions have moved from tightening to neutral. But strengthening CNY keeps it as a tightening force in contrast with lower rates and gov yields. The impulse does not include high yield rates but these have increased significantly (see page 7)



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



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

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Money growth



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

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Export orders have weakened more than explained by model, which is still held up by high PMI level in US

Exports - model

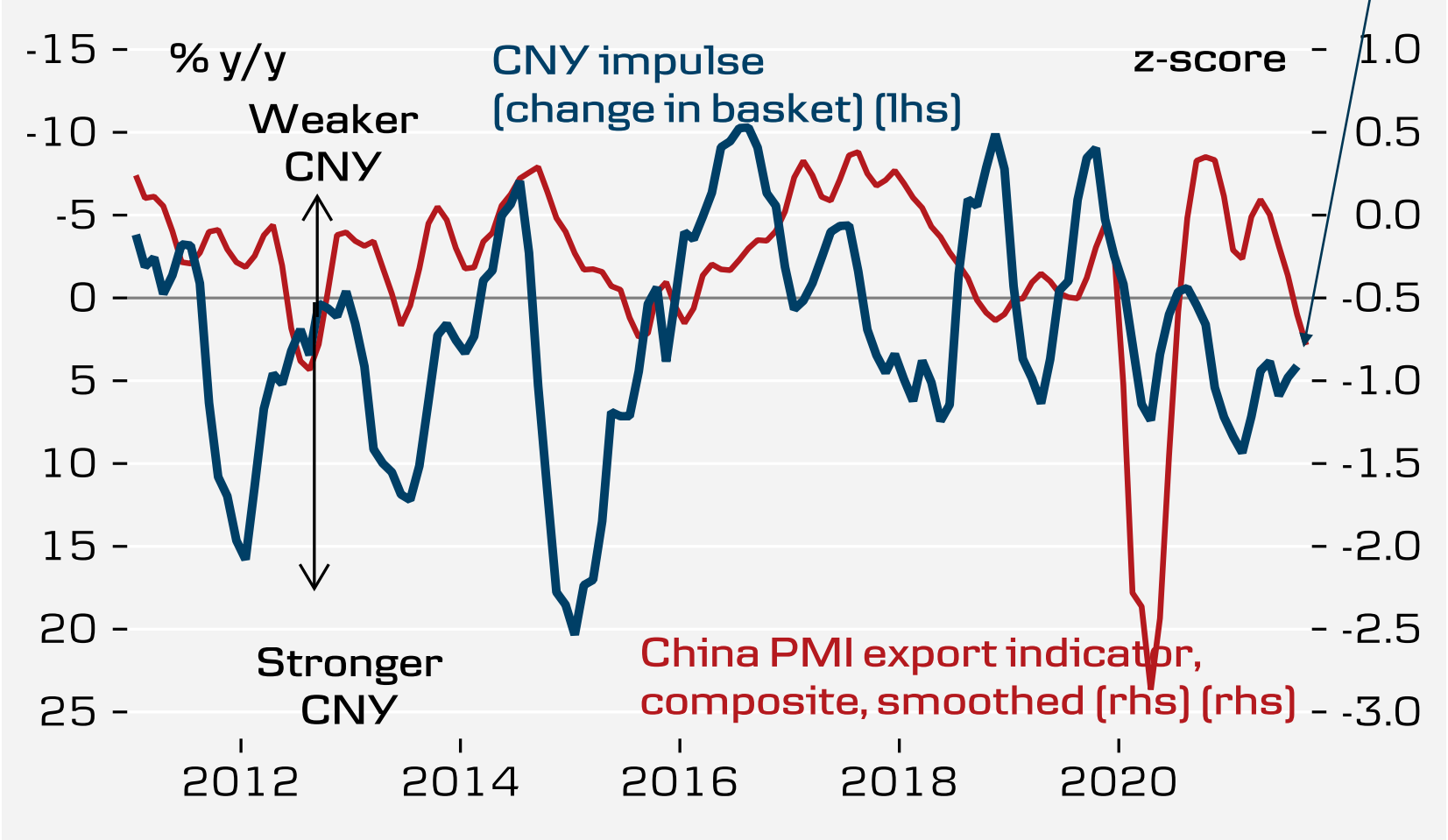


Source: Macrobond Financial, NBS, Markit, Danske Bank

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Exports - currency impulse

CNY strength a headwind for exports currently

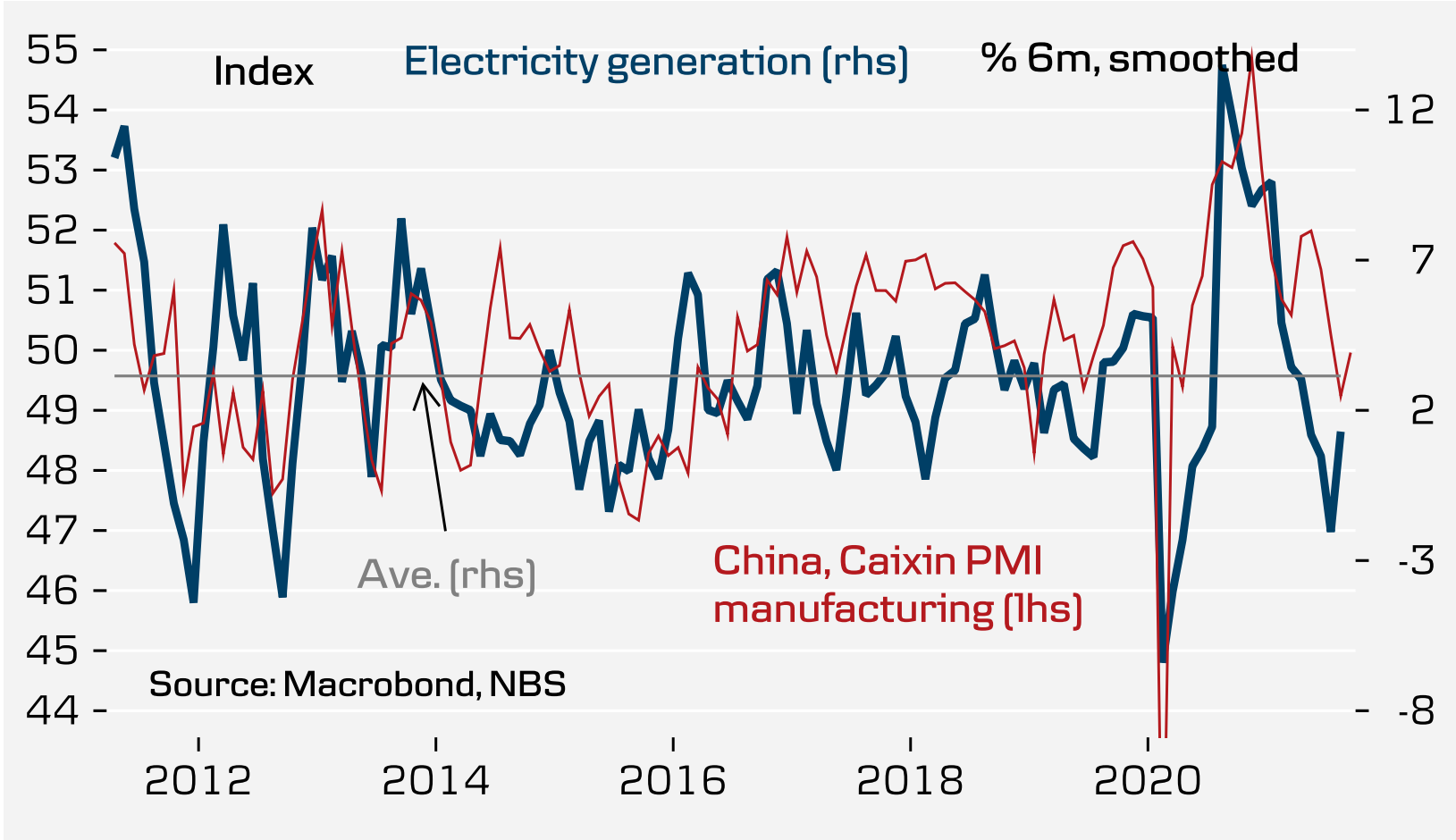


Source: Macrobond Financial, NBS, Markit, Danske Bank

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Electricity generation

Also point to weakness.
 September likely to be very weak
 after recent power shutdowns



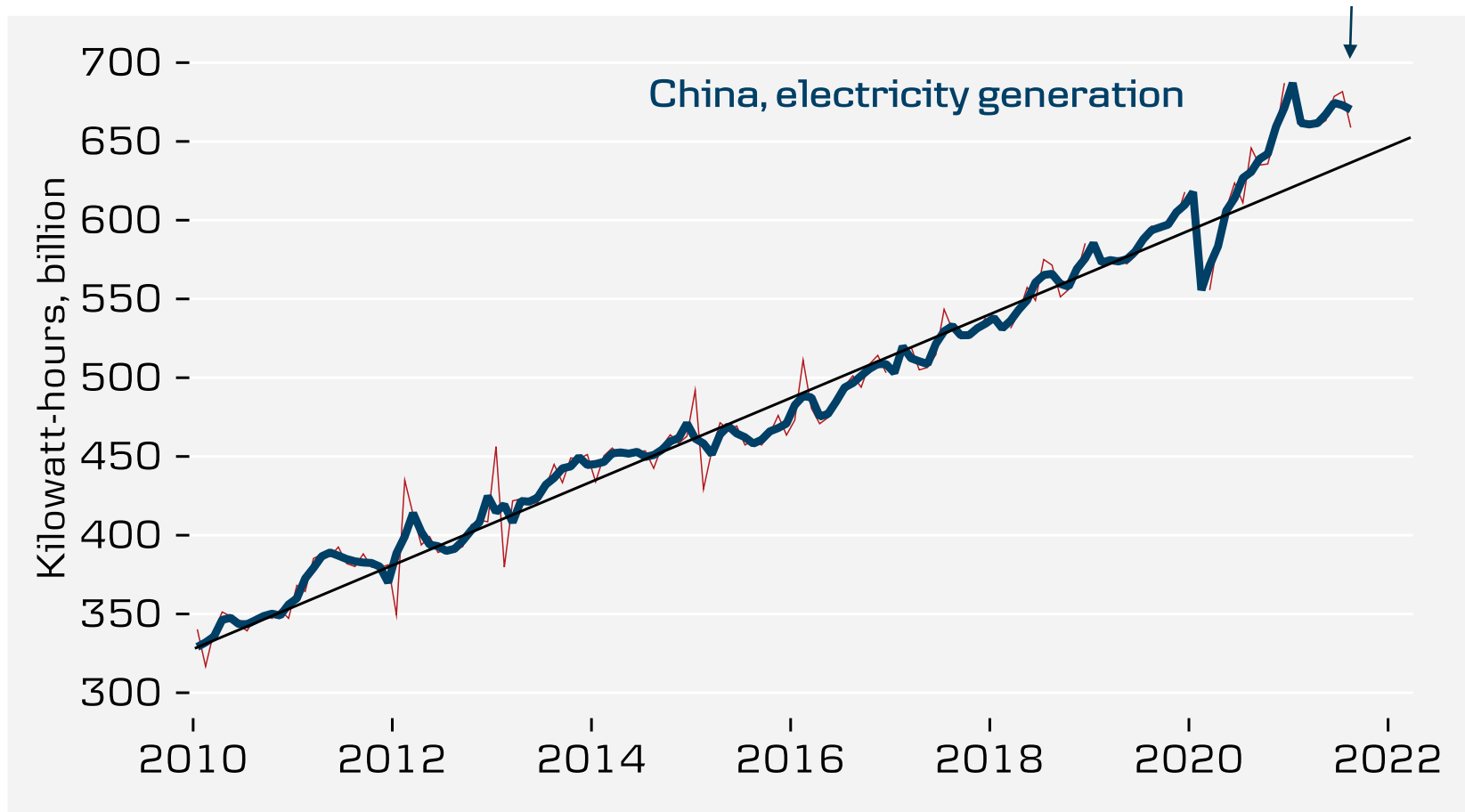
Source: Macrobond, NBS

Source: Macrobond Financial, Markit, NBS, Danske Bank

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Electricity generation level

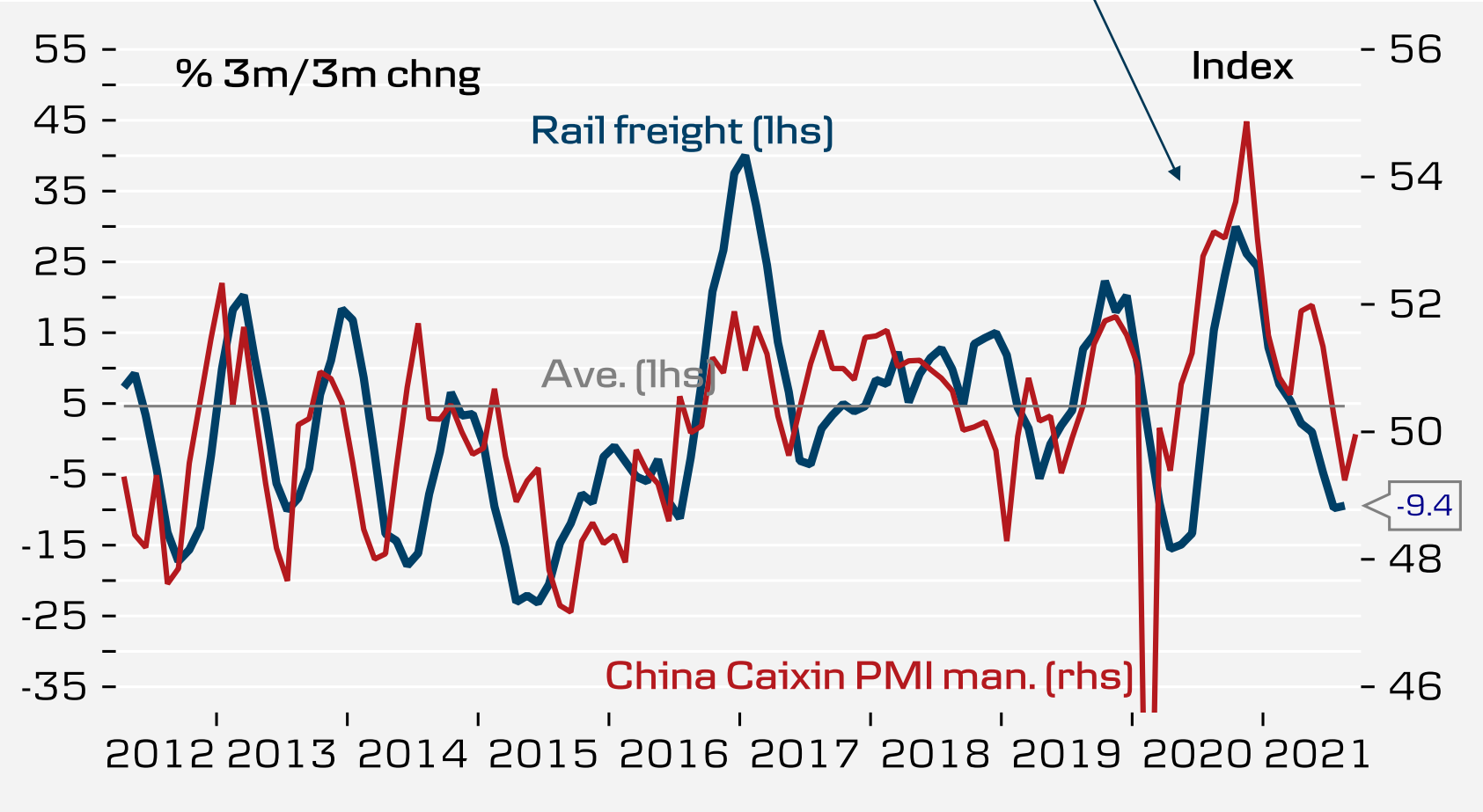
Momentum fading in electricity generation (does include September where shutdowns took place)



Source: Macrobond Financial, Markit, NBS, Danske Bank

Rail freight vs PMI

Rail freight has slowed a lot

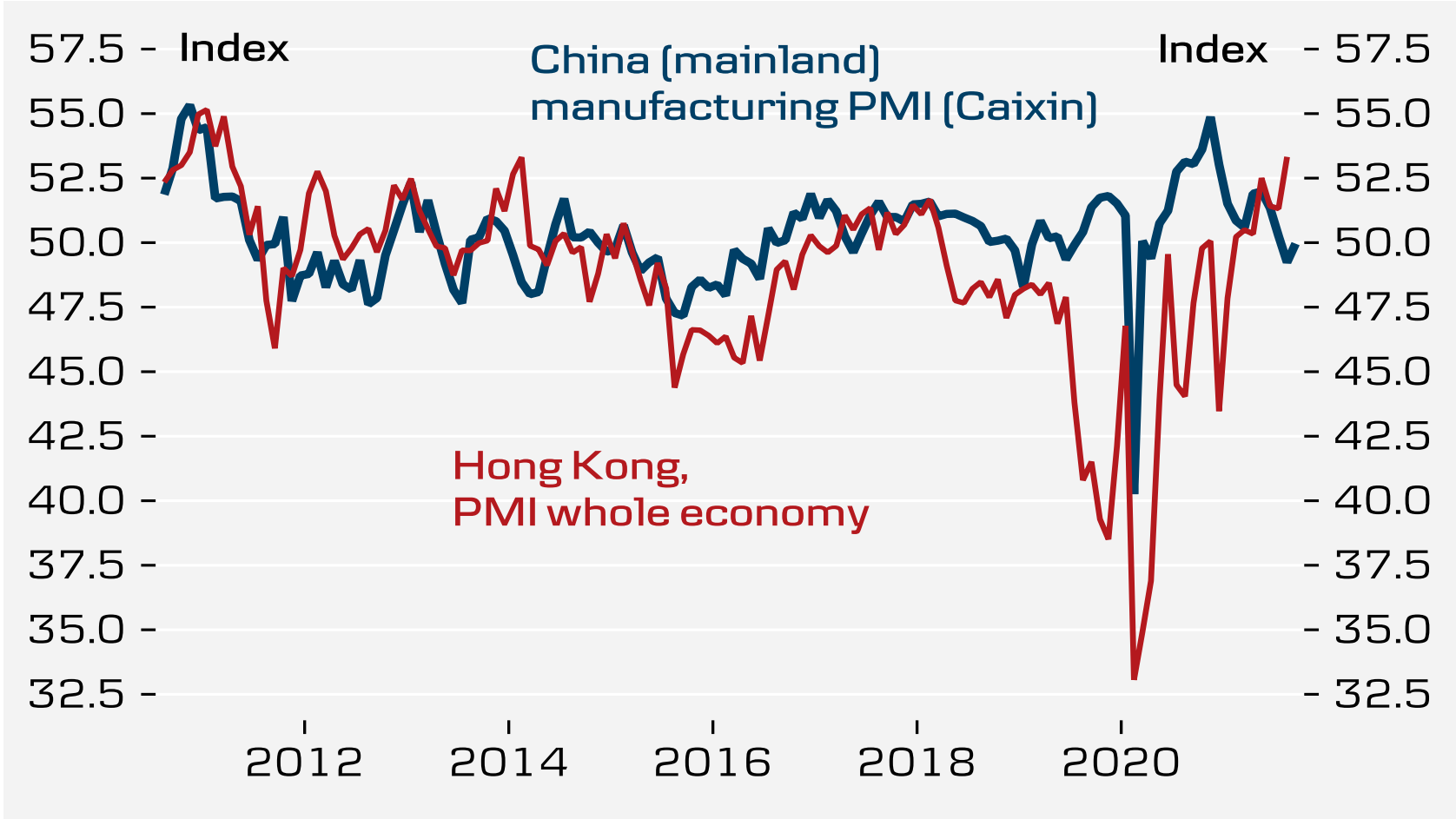


Source: Macrobond Financial, Markit, NBS, Danske Bank

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Hong Kong PMI vs China PMI

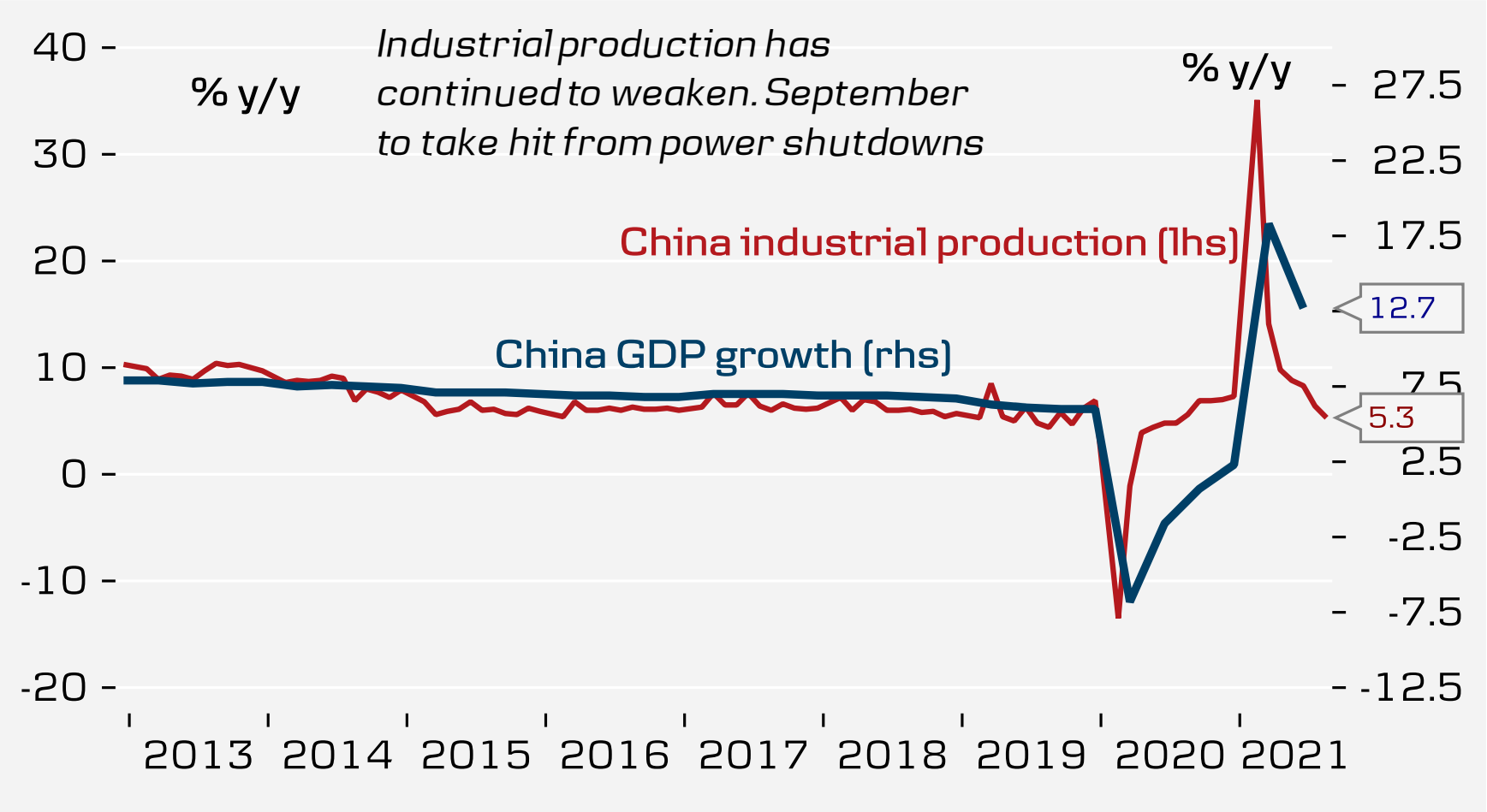
HK PMI very strong lately



Source: Macrobond Financial, Markit, Danske Bank

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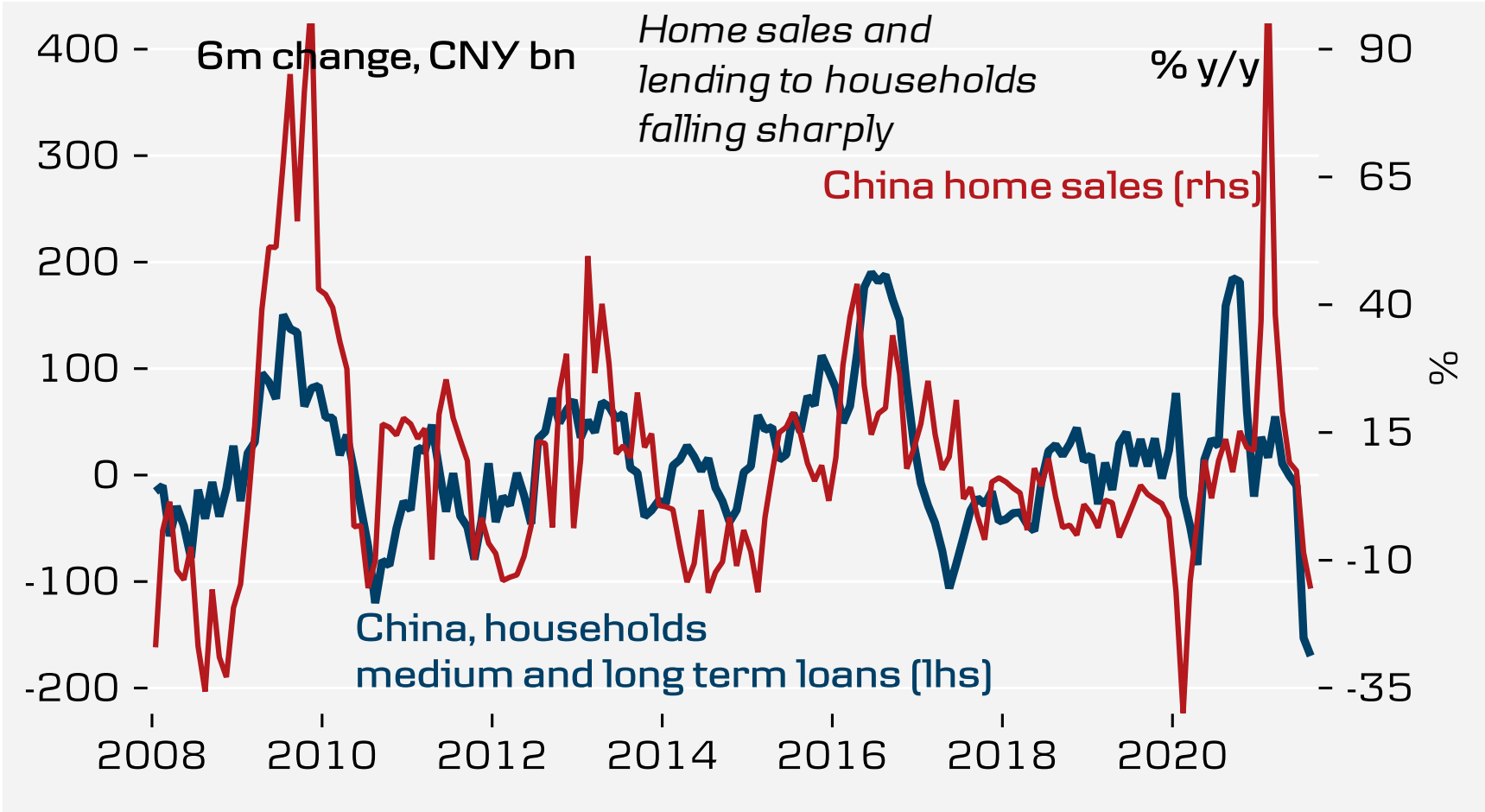
Industrial production vs GDP



Source: Macrobond Financial, NBS, Danske Bank

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Housing - home sales and household credit



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

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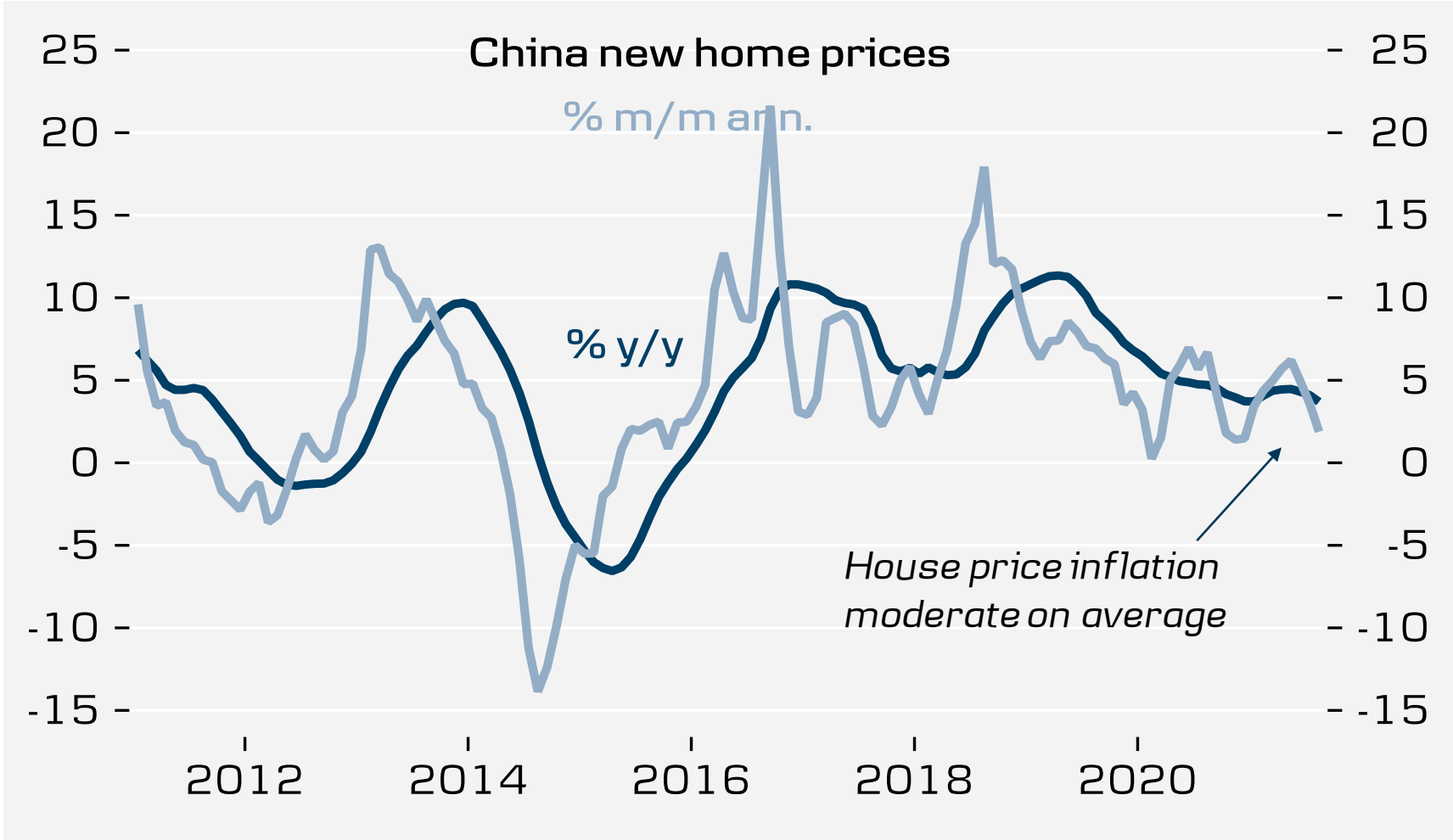
Housing - housing starts and plate glass



Source: Macrobond Financial, NBS, Danske Bank

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House prices

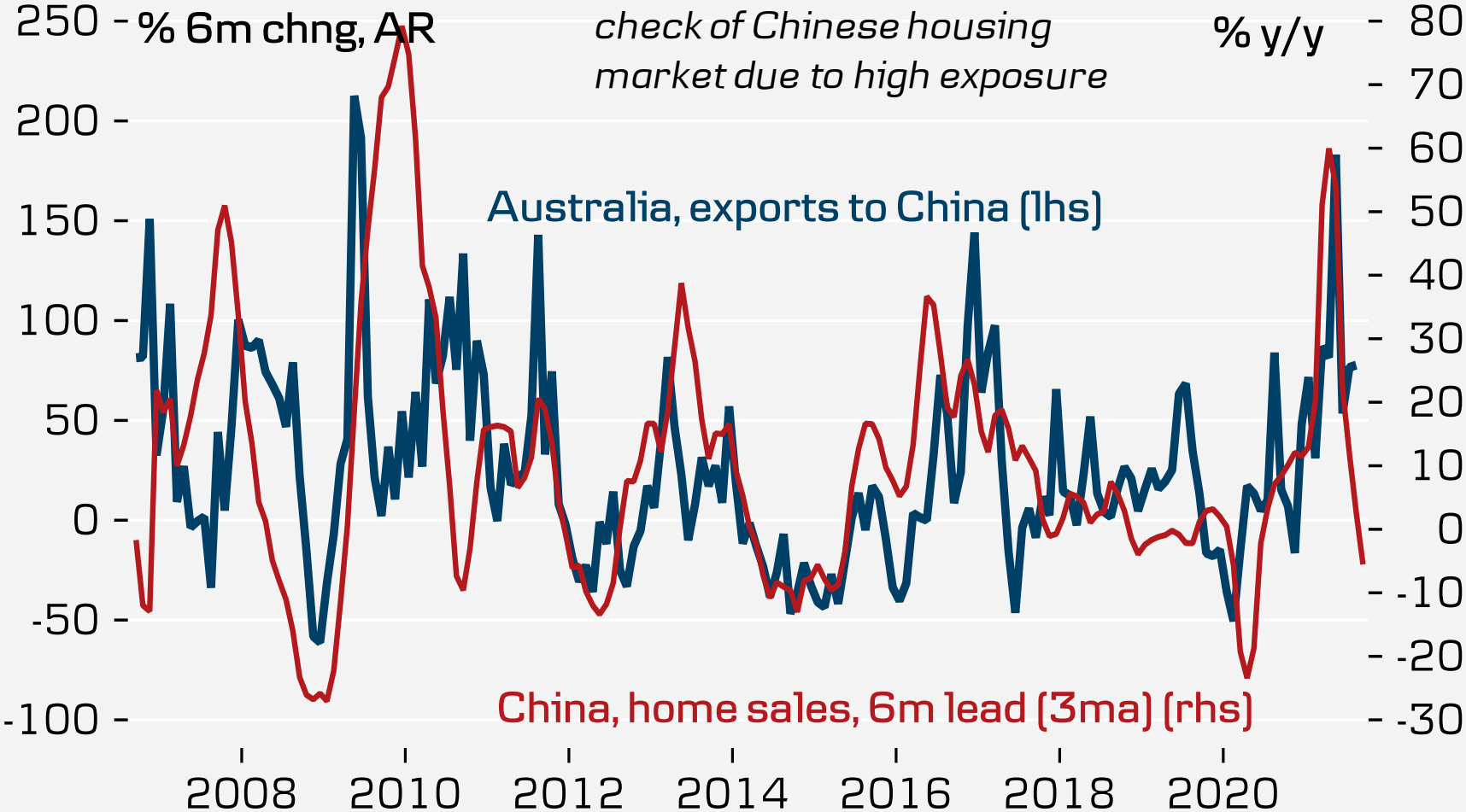


Source: Macrobond Financial, NBS

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Housing - Australia exports to China vs home sales

Australia exports a good cross check of Chinese housing market due to high exposure



Source: Macrobond Financial, NBS, Danske Bank

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Consumer - retail sales



Source: Macrobond Financial, NBS, Danske Bank

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Consumer – car sales



Source: Macrobond Financial, CAAM, Danske Bank

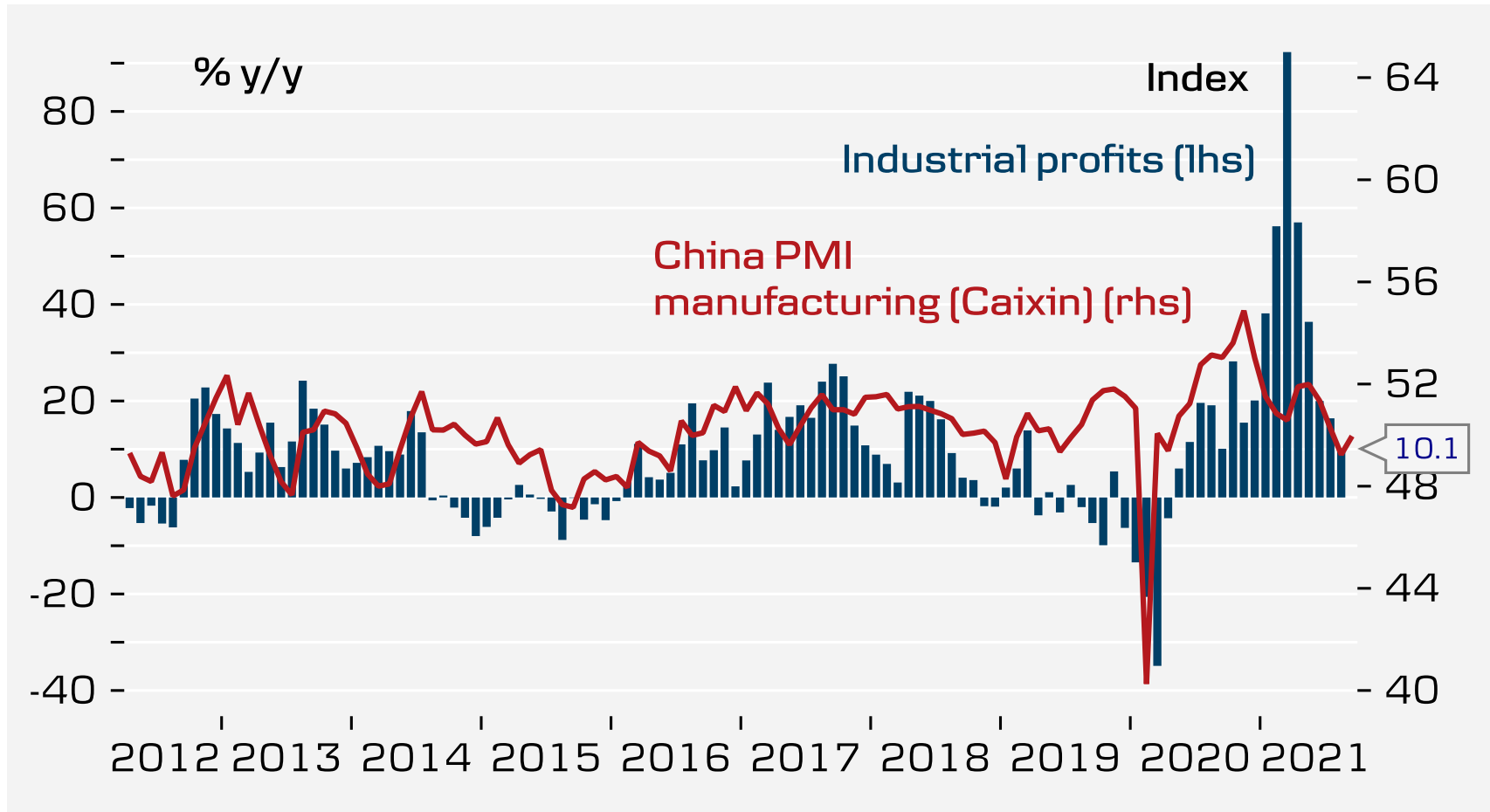
Chinese car sales moving lower still.

Growth rate now very negative after positive base effects have fallen out.

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Profits vs PMI

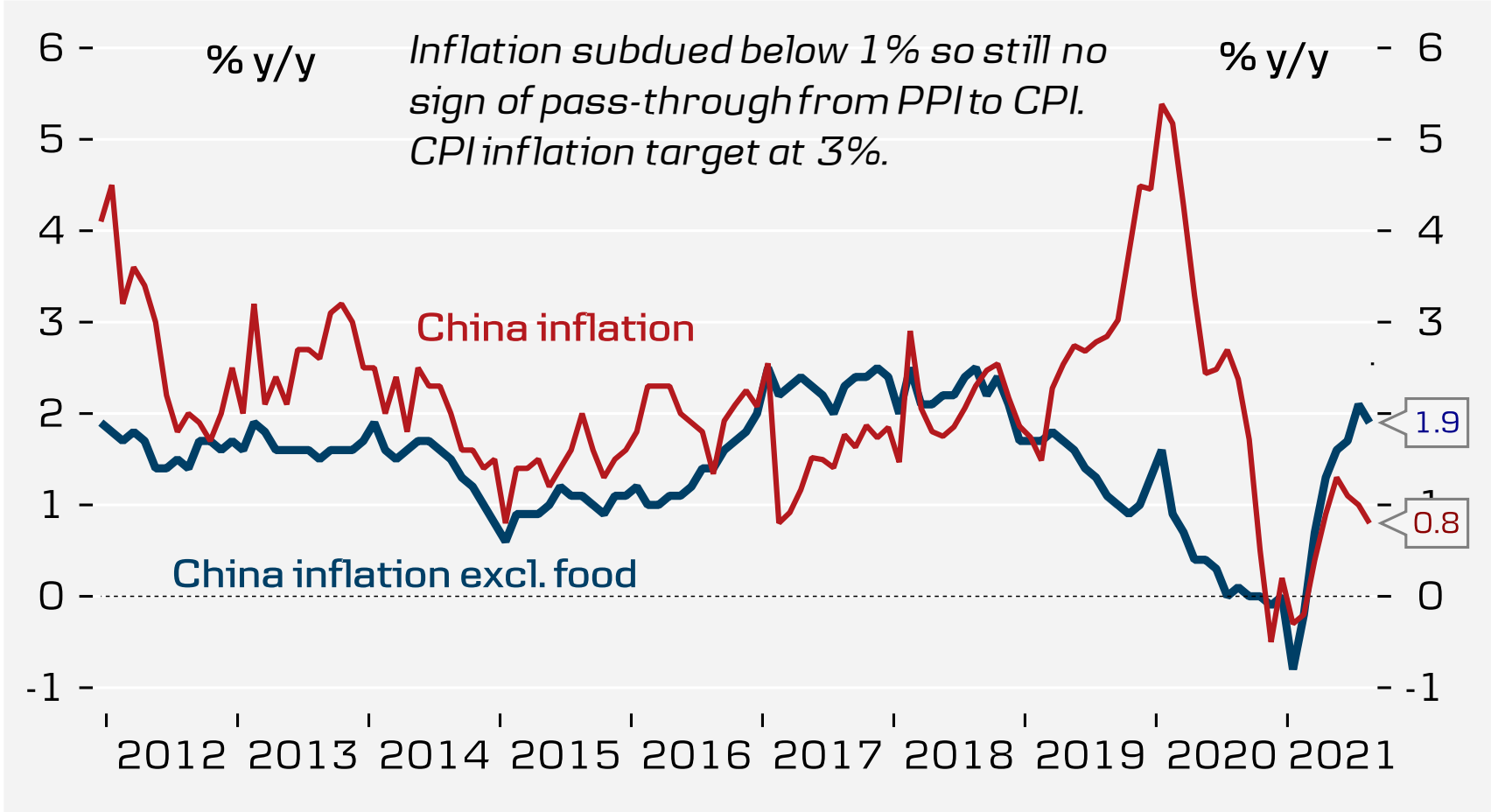
Industrial profit growth moving lower



Source: Macrobond Financial, NBS, Markit, Danske Bank

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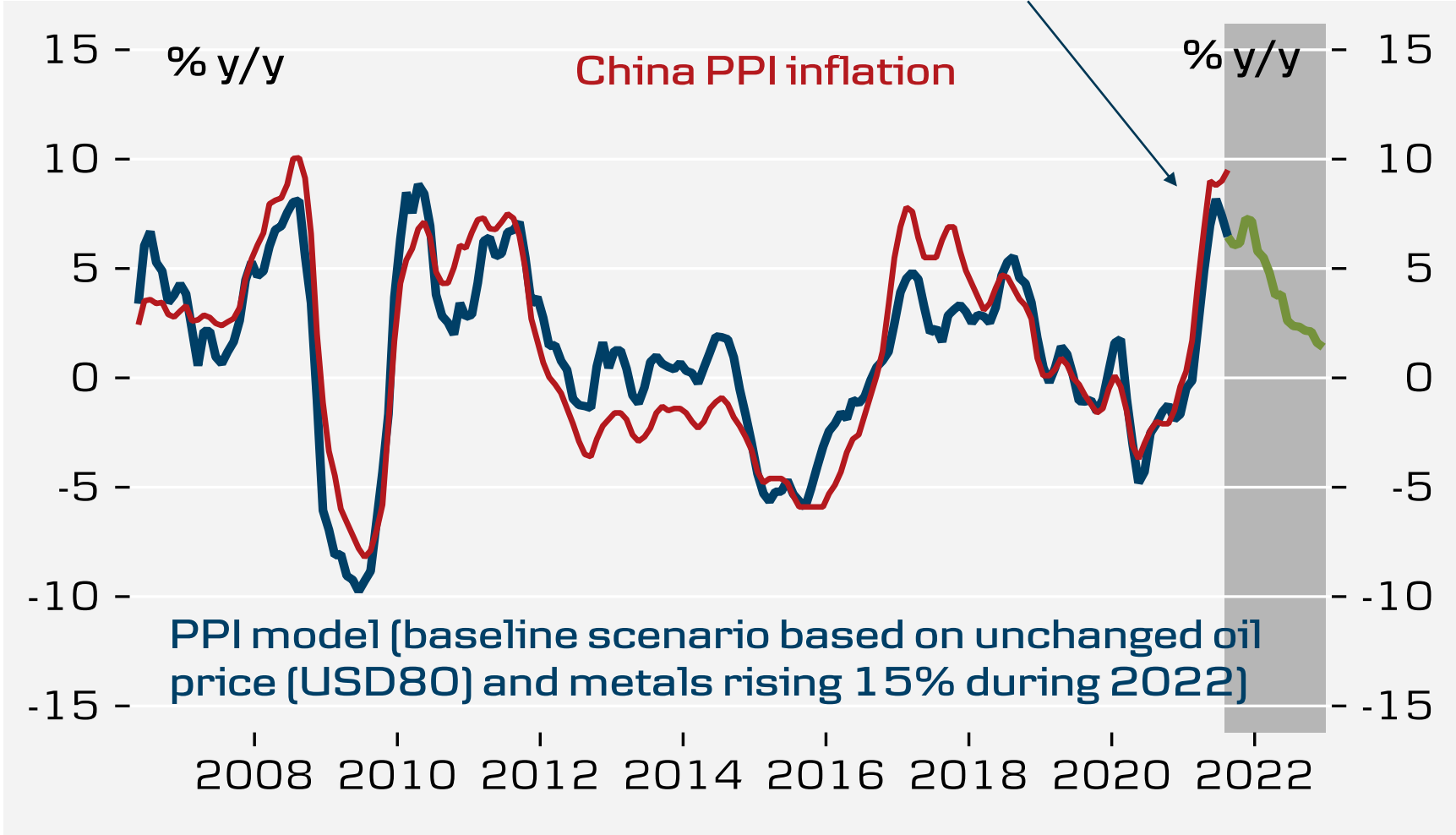
Inflation - CPI



Source: Macrobond Financial, NBS, Danske Bank

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Inflation - PPI

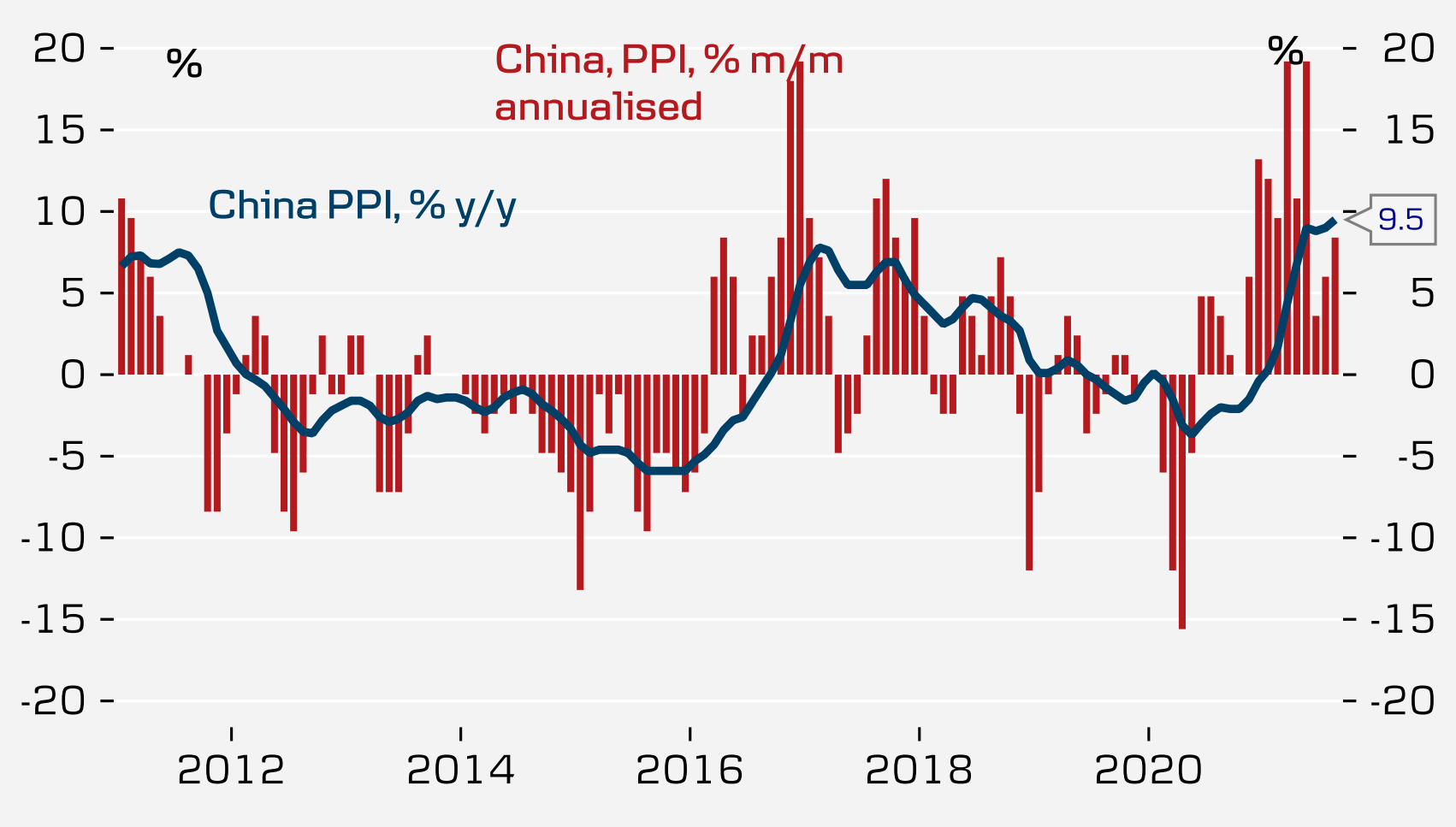


Source: Macrobond Financial, NBS, Danske Bank

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Inflation - PPI

PPI inflation has moved higher again both in y/y and m/m terms, partly driven by higher coal prices

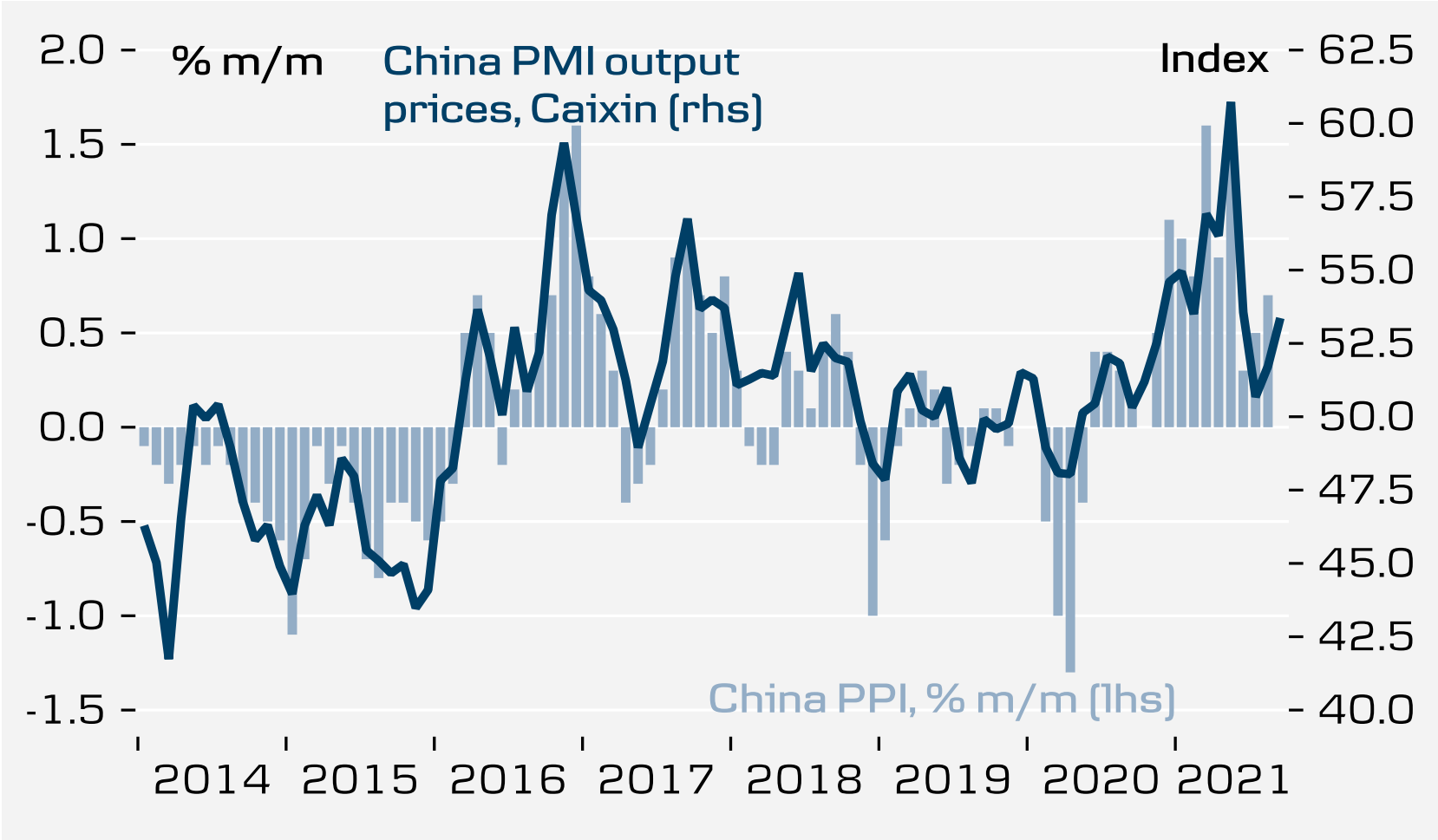


Source: Macrobond Financial, NBS, Danske Bank

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Inflation - PMI output prices and PPI m/m

PMI prices has also turned higher

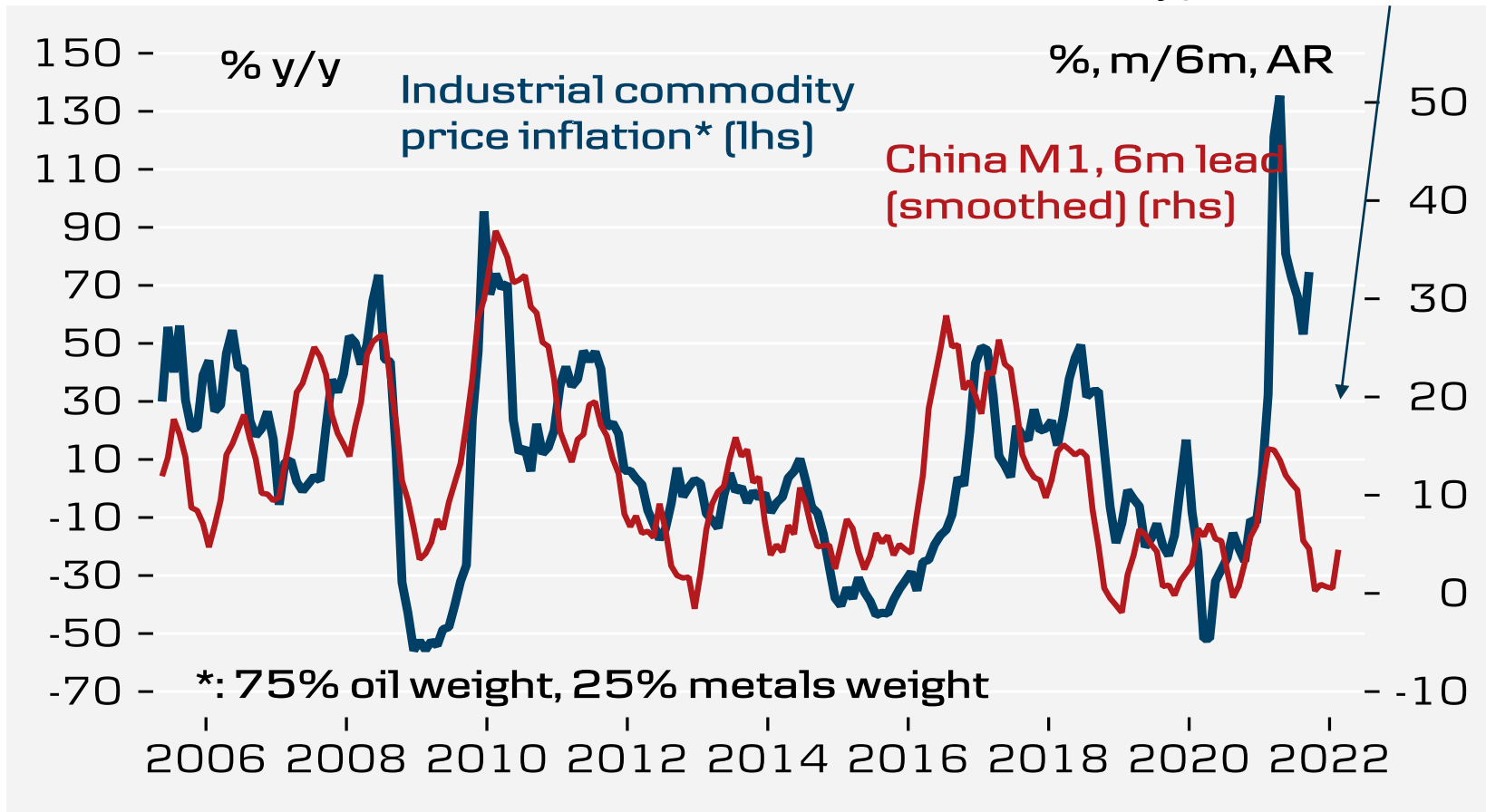


Source: Macrobond Financial, Markit, NBS, Danske Bank

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M1 and industrial commodity prices

Weak Chinese growth should weigh on demand but supply restrictions may impact commodity price inflation more

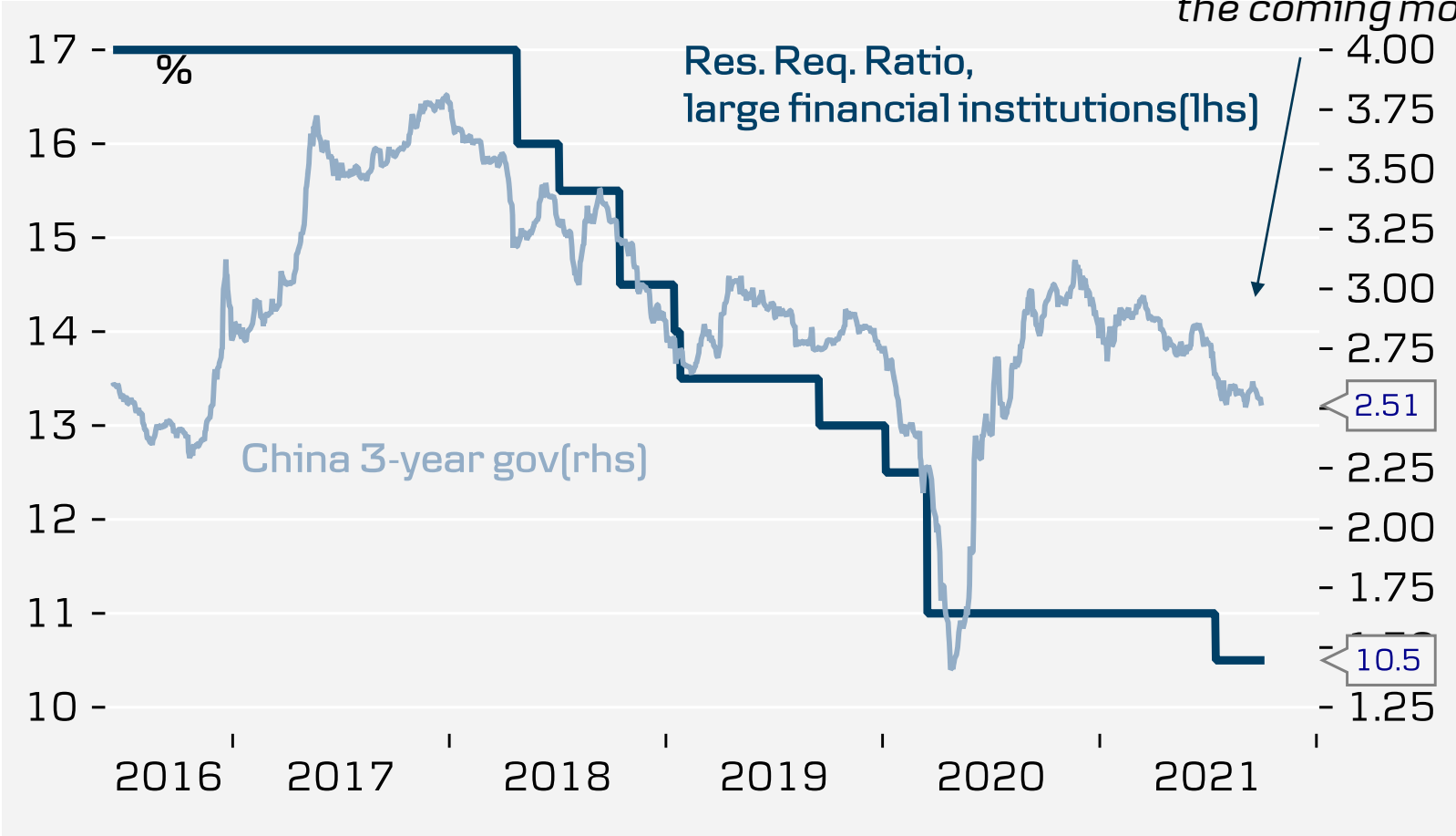


Source: Macrobond Financial, Markit, People's Bank of China, Danske Bank
 Note: Past performance is not a reliable indicator of current or future results

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Monetary policy - Reserve Requirement Ratio

RRR cut sending gov yields lower. We look for another cut in RRR over the coming months.

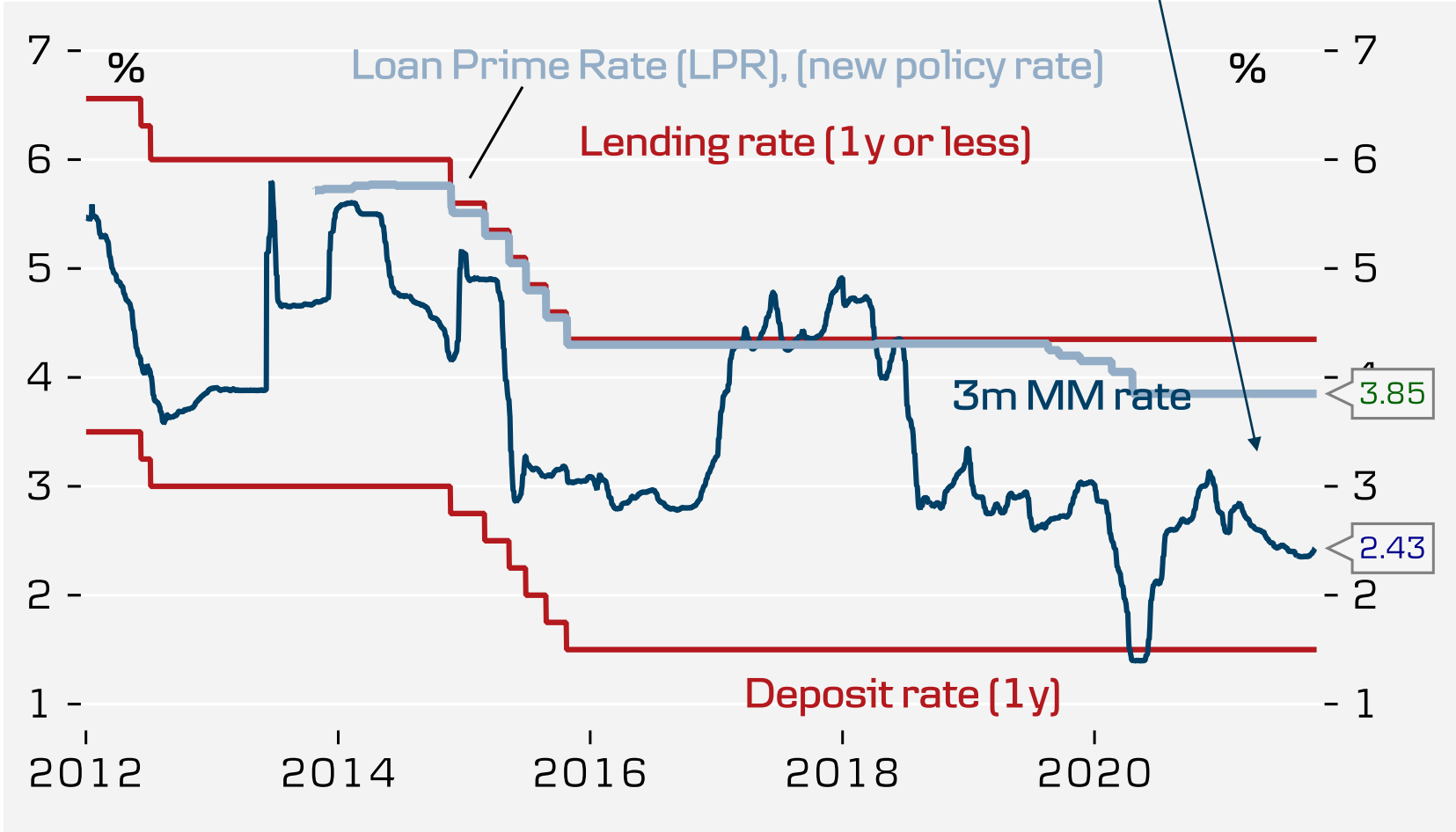


Source: Macrobond Financial, Markit, People's Bank of China
 Note: Past performance is not a reliable indicator of current or future results

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Monetary policy - rates

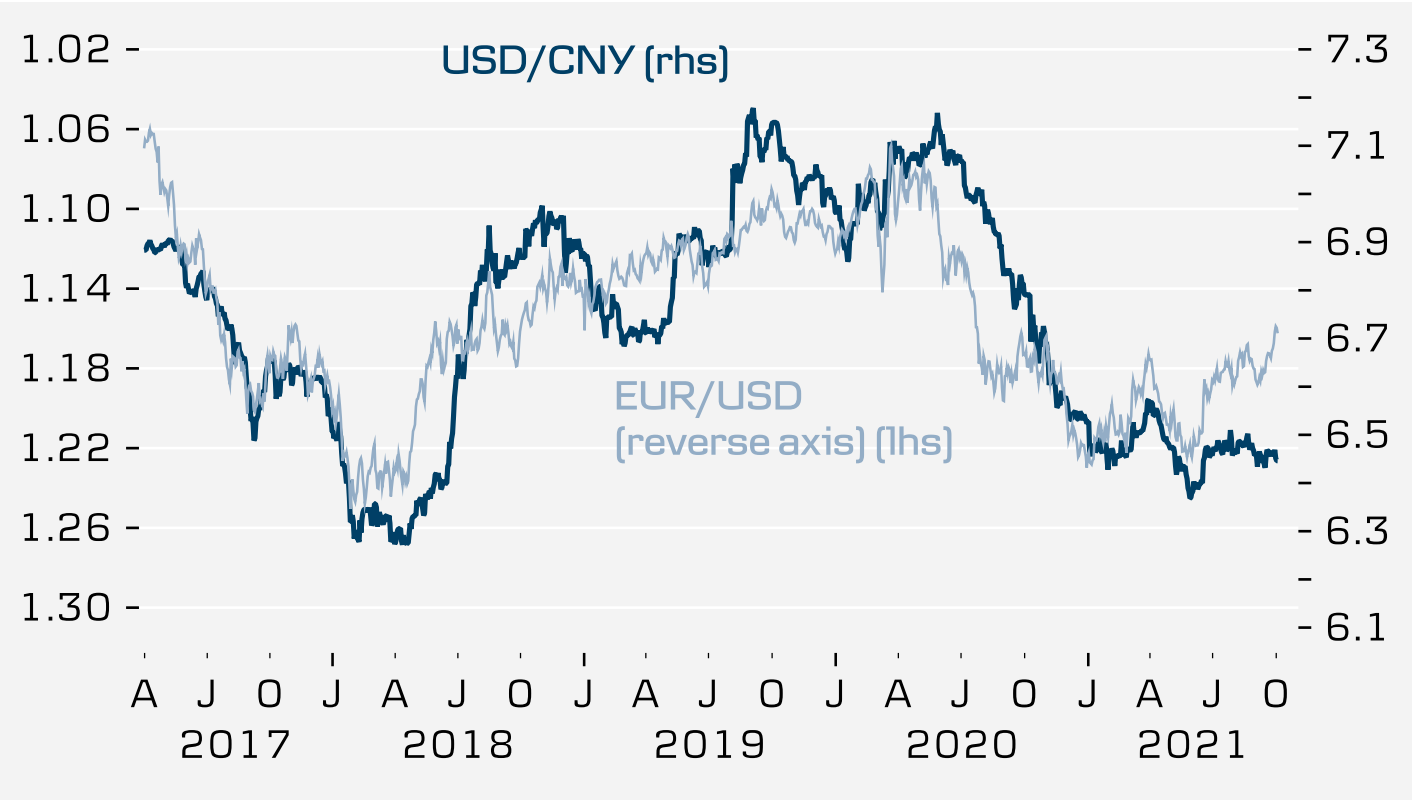
Money market rates slightly higher lately



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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CNY - USD/CNY vs EUR/USD



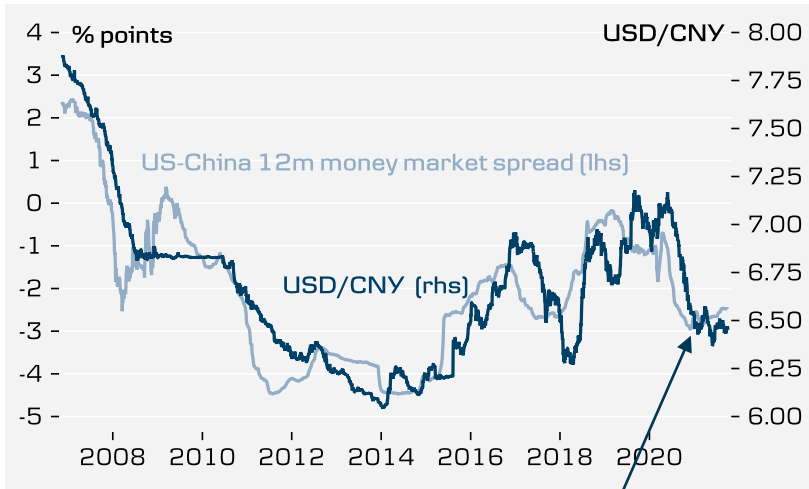
CNY continues to look very strong when compared with the overall appreciation of the USD

*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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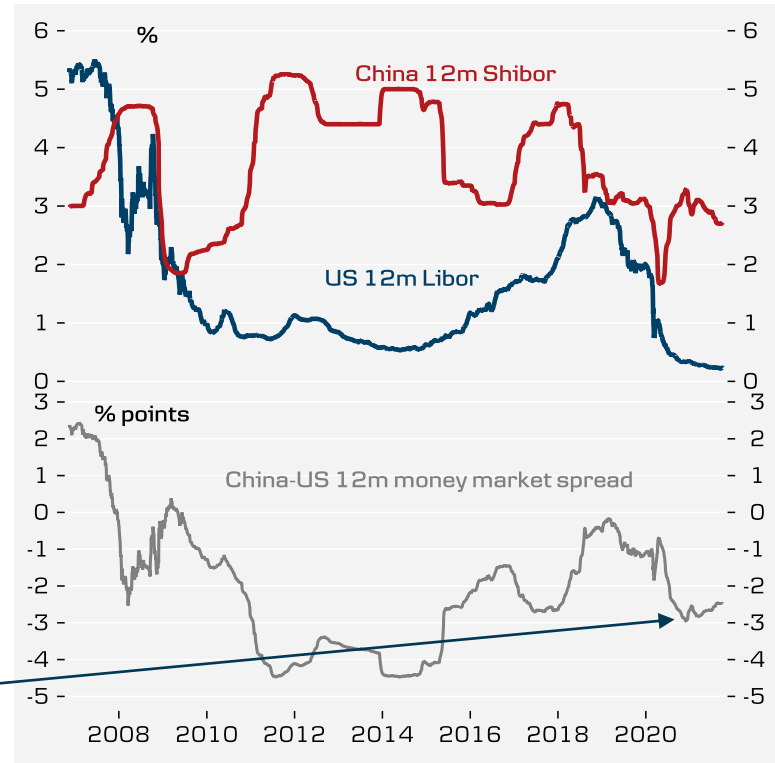
CNY – relative rates a good long-term anchor

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



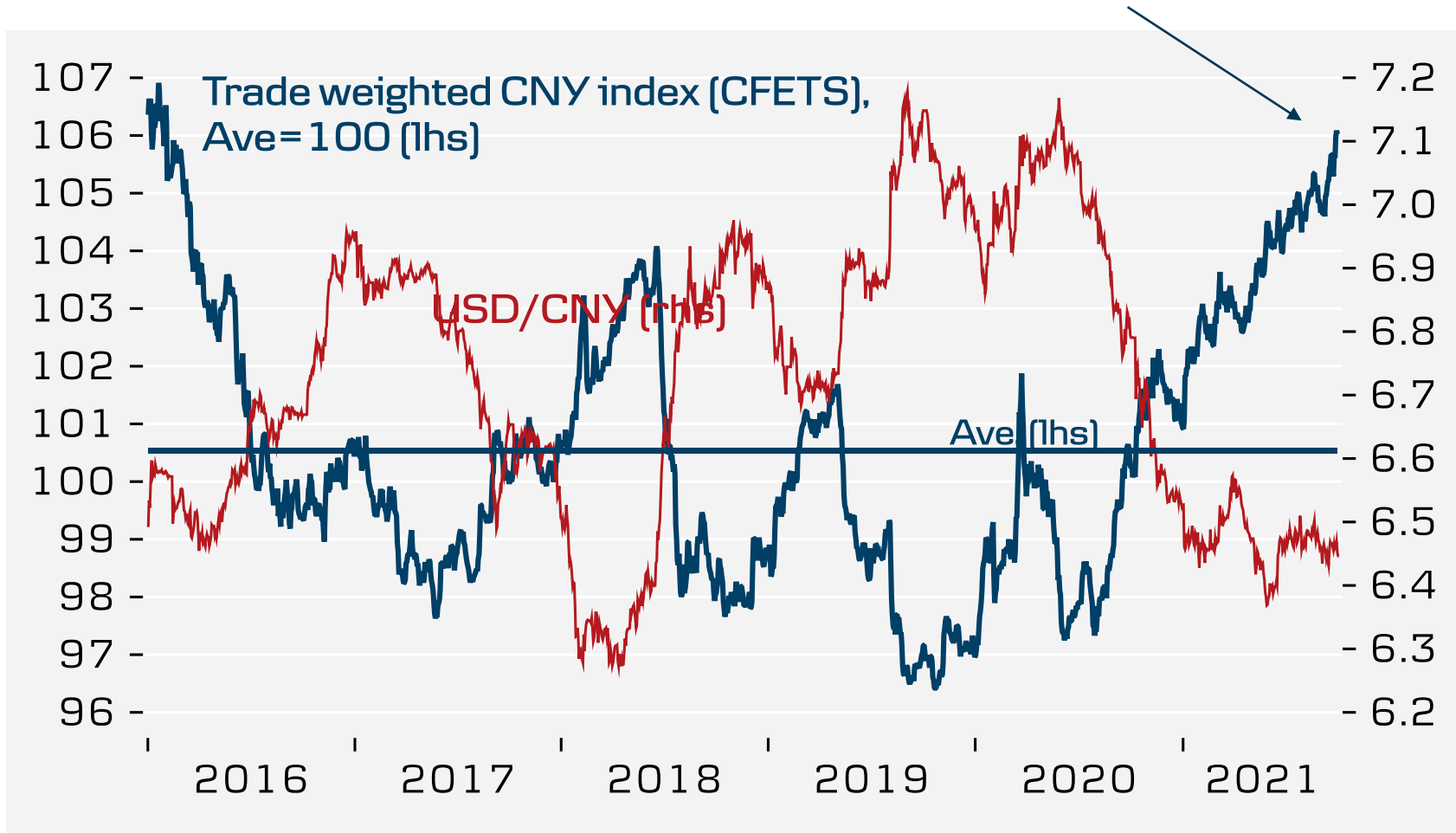
Note: Past performance is not a reliable indicator of current or future results
 Source: Macrobond Financial, People's Bank of China

Relative rates starting to move in favour of US as Chinese money market rates are falling. Points to higher USD/CNY – but so far little movement.

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USD/CNY and CNY basket

Effective CNY strengthening to highest level in five years

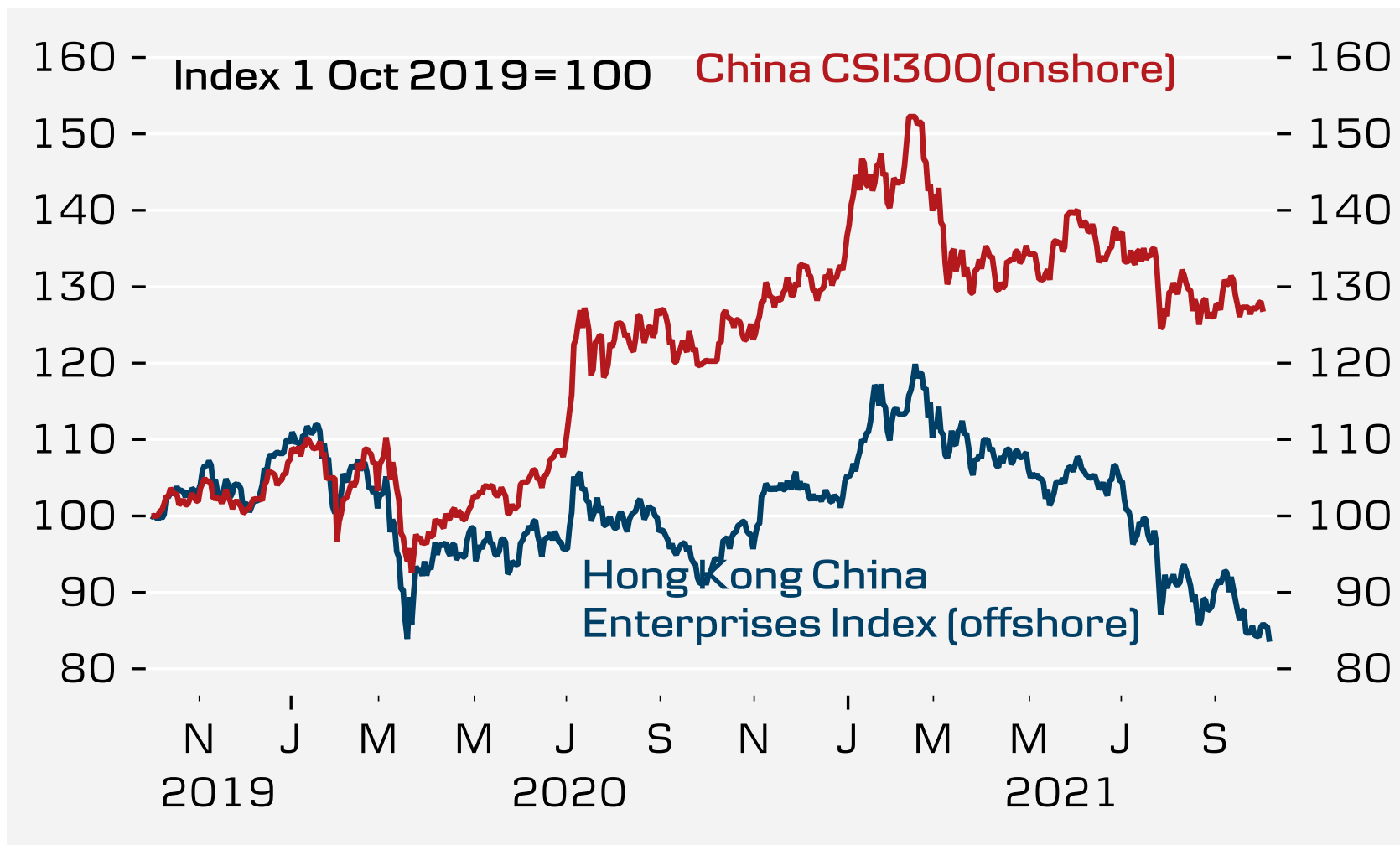


Note: Past performance is not a reliable indicator of current or future results
 Source: Macrobond Financial, People's Bank of China

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China stock market

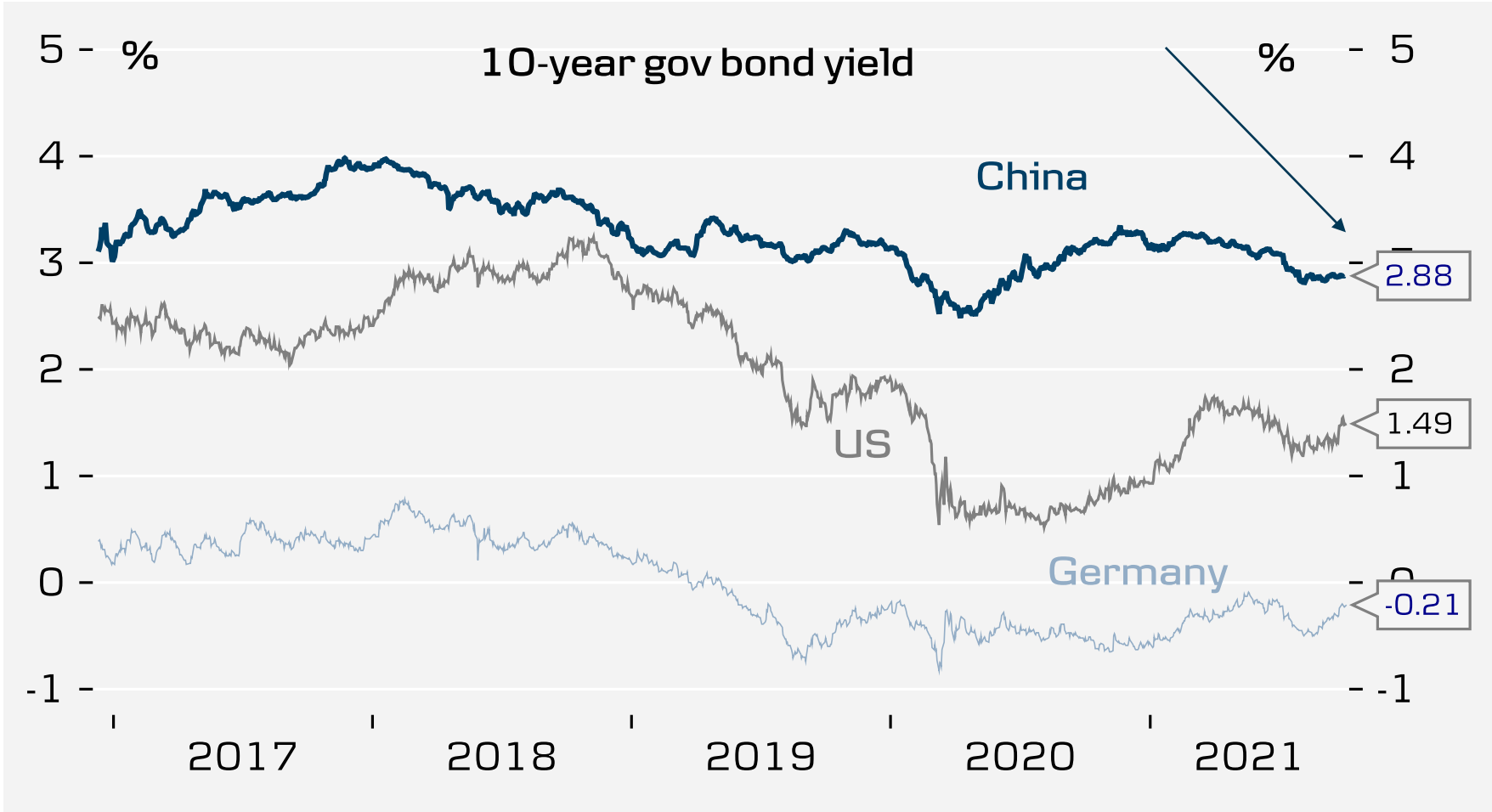
Offshore stocks has taken a further hit from the Evergrande / developer crisis



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) *Chinese bond yields sideways*



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

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