

China Macro Monitor

- Strong headwinds from property, covid and global recession risks

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China outlook and trends: Revising GDP growth lower again

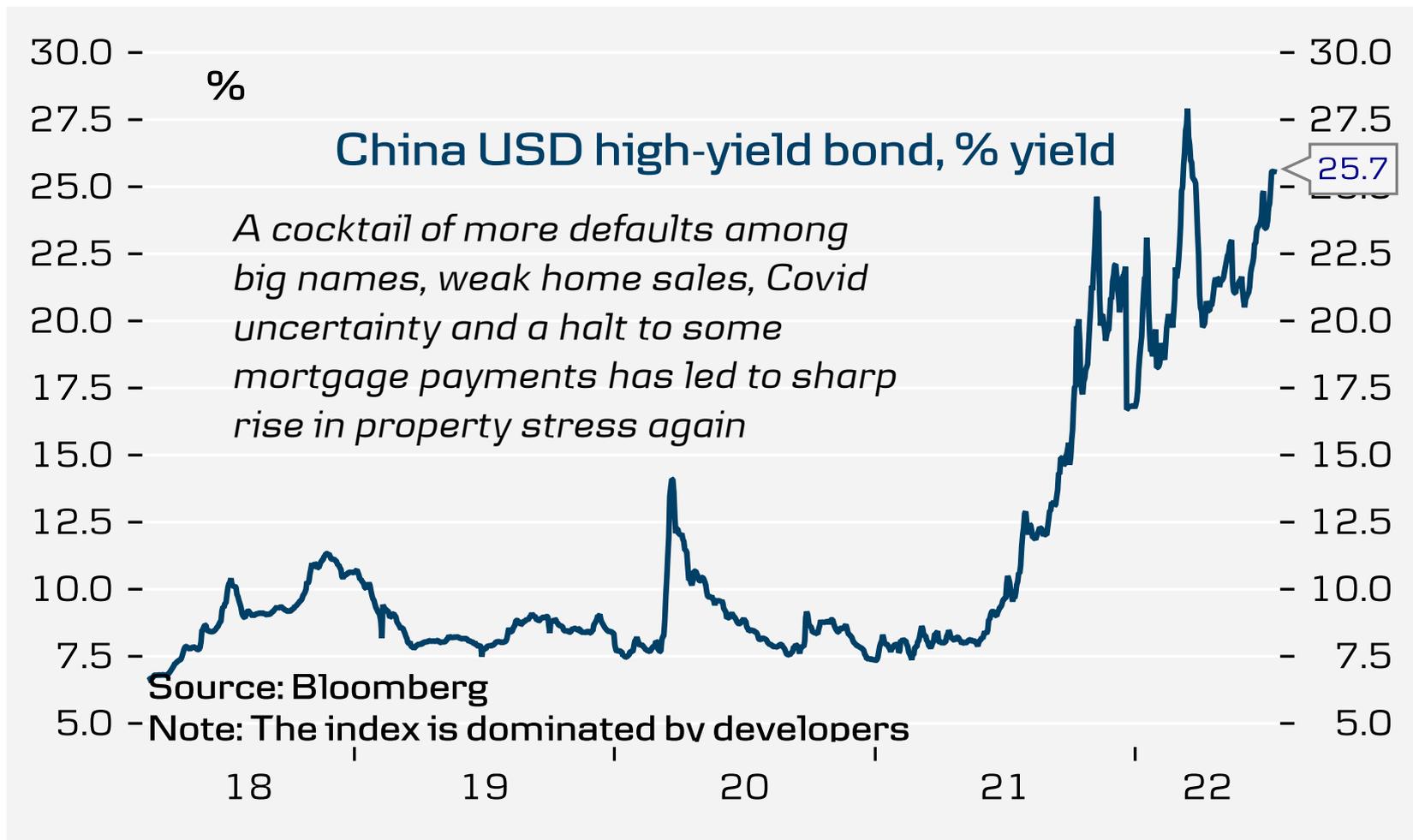
Outlook. We lower our GDP forecast for 2022 to 2.7% (from 3.7%) while keeping the 5.7% forecast for 2023. The economy recovered in June in a post-lockdown rebound. However, China is facing renewed headwinds from rising property stress and weakening US and euro demand. Q2 GDP was weaker than we expected falling 2.6% q/q. Uncertainty over new possible covid restrictions takes a big toll on private consumption and small businesses and the arrival of the more contagious Omicron variant BA.5 is adding to the uncertainty. The main impetus to growth comes from stimulus, not least the part related to infrastructure.

China today

- **Growth.** *PMIs* rebounded further in June and the *credit impulse* is robust. *Retail sales* increased in June but is still weak. *Confidence* is very low. *The property sector* is still in a deep crisis and stress among developers has increased again lately.
- **Inflation.** *PPI* inflation declined further to 6.1% in June coming from 13.5% in October. *CPI* inflation is edging higher to 2.5% in June from 2.1% in May, but still below the 3% target.
- **Monetary policy.** PBoC has kept the *RRR* rate unchanged since April. China is reluctant to cut rates and prefers fiscal policy to underpin growth. *M1* growth is still weak.
- **CNY.** The *yuan* is still stable against USD after weakening in May.
- **Stock markets.** *Stocks* declined lately on renewed concerns over the property sector and covid. The *China USD offshore high yield* rate has pushed higher to almost 26%.
- *For more China research, see our website [here](#)*

Our current top five China indicators

Property stress in focus again

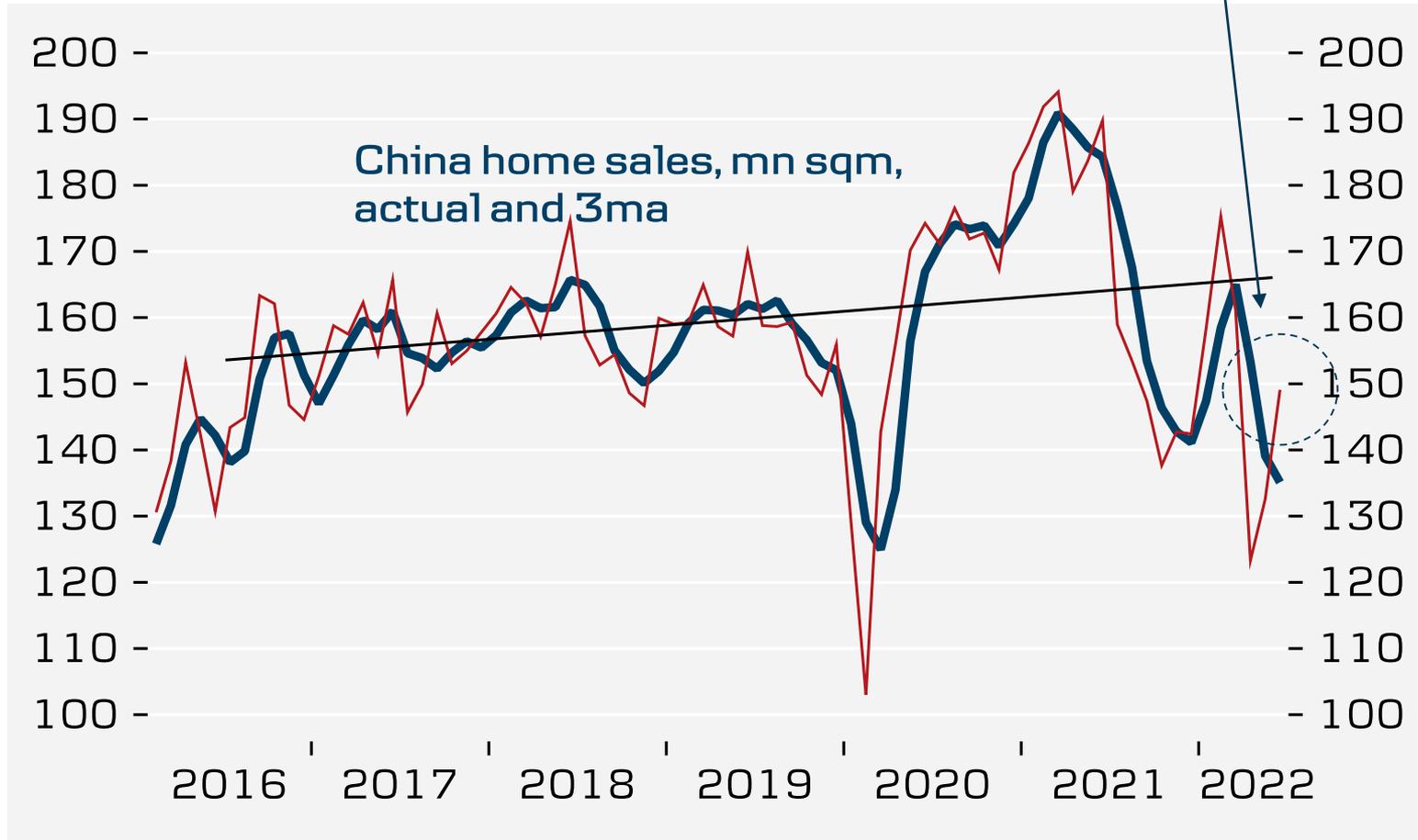


Source: Macrobond Financial, Bloomberg, Danske Bank
 Note: Past performance is not a reliable indicator of current or future results

[Link to overview page](#)

Home sales still weak

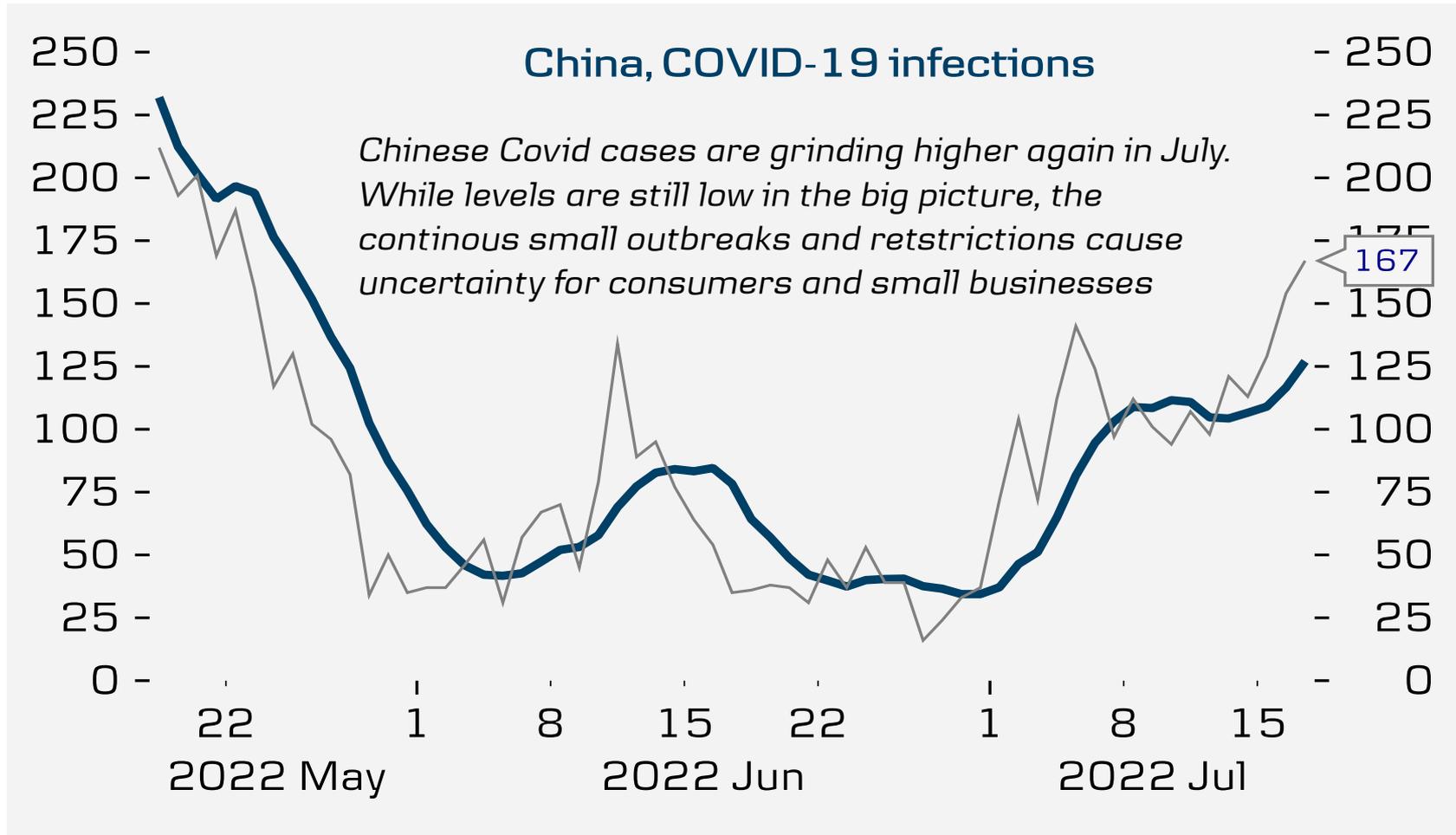
Home sales higher in June as lockdown ended but still at weak levels. Some high-frequency data points to new decline in July



Source: Macrobond Financial, NBS, Danske Bank

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Covid causes great uncertainty



Source: Macrobond Financial,

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Very high uncertainty a barrier for consumption growth

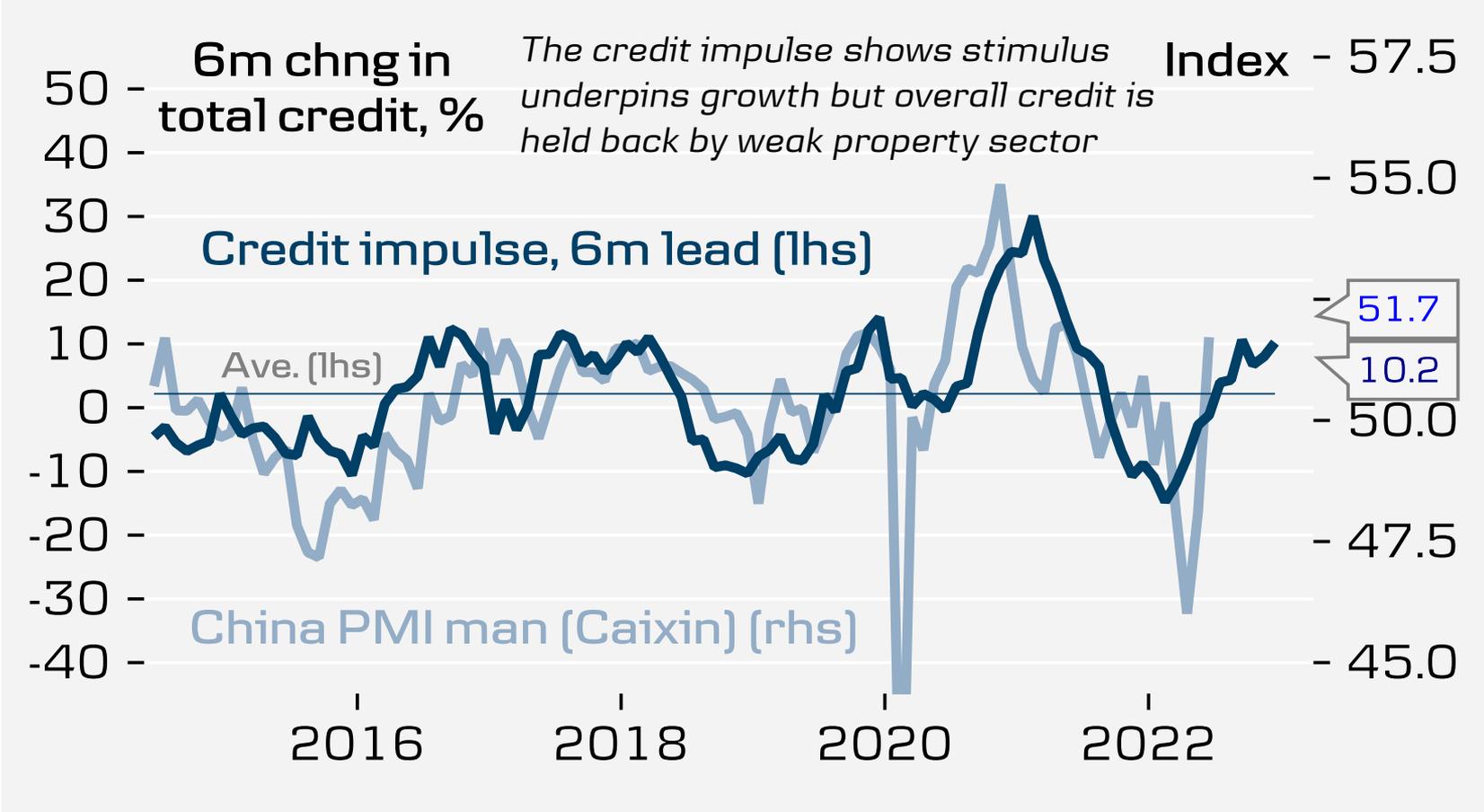


Household income expectations are very weak and people look to boost savings. It seems continuous covid restrictions increasingly weigh on consumers

Source: Macrobond Financial, CAAM, Danske Bank

[Link to overview page](#)

Credit impulse points to decent stimulus amid headwinds



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

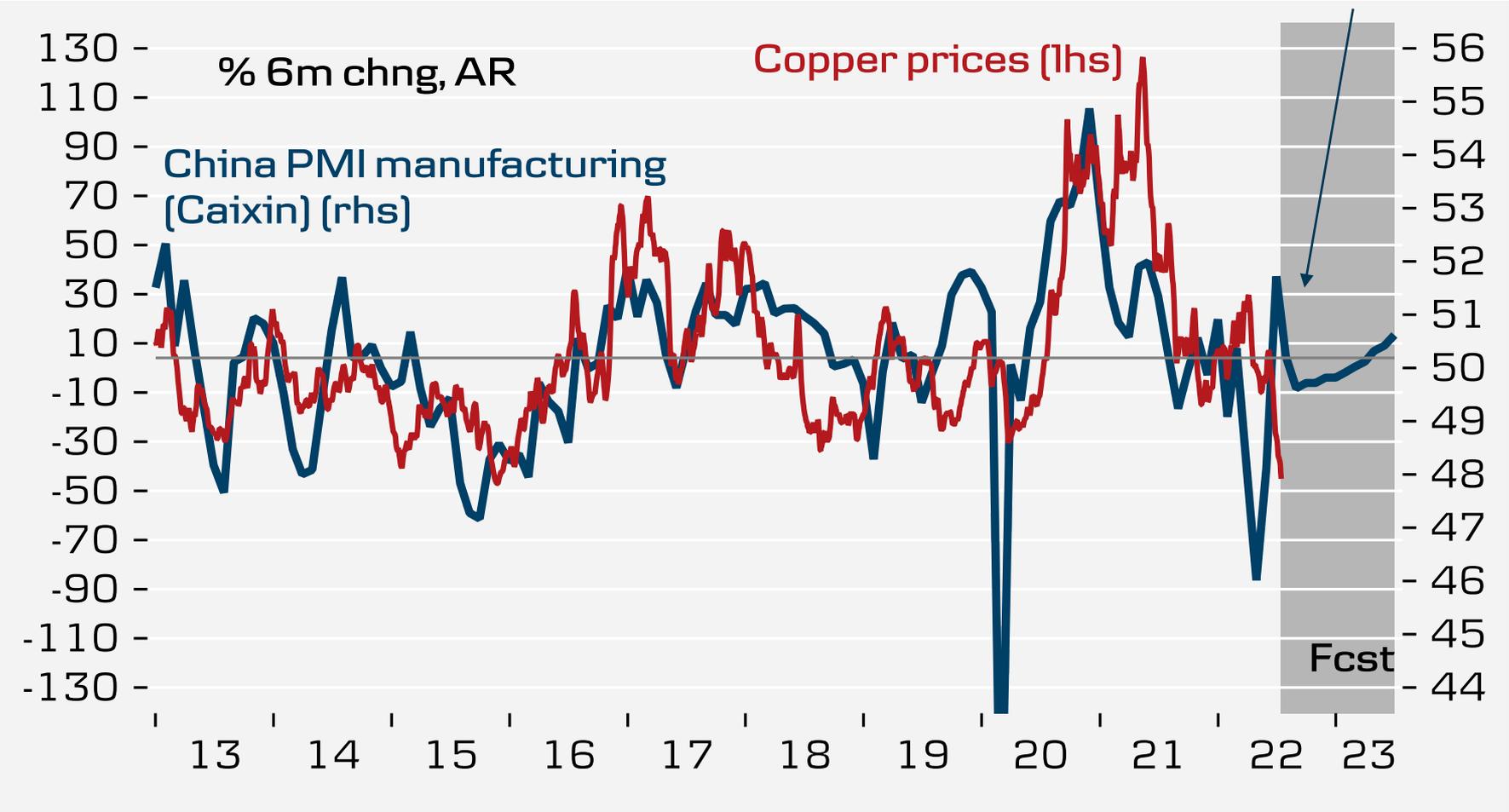
Note: The Chinese credit impulse is measured as the 6-month change in total Chinese credit.

[Link to overview page](#)

Forecast on PMI and GDP growth

PMI forecast profile (vs copper prices)

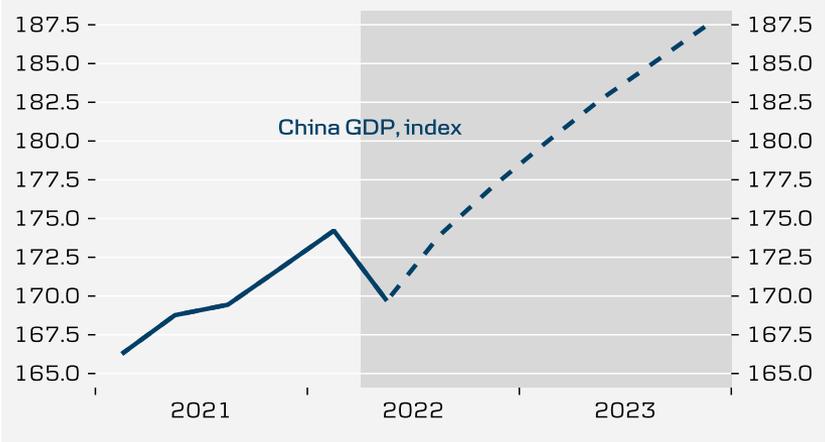
We look for Caixin PMI manufacturing to fall back again after sharp post-lockdown rebound



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: 1.6%
 2021: 8.5%
 2022: 2.8%
 2023: 5.7%

We revise down the growth outlook again due to a) weaker-than-expected Q2 and b) new headwinds to the property sector.

2022 forecast lowered to 2.8% from 3.7%. 2023 forecast unchanged at 5.7%.



Source: Macrobond Financial, Danske Bank



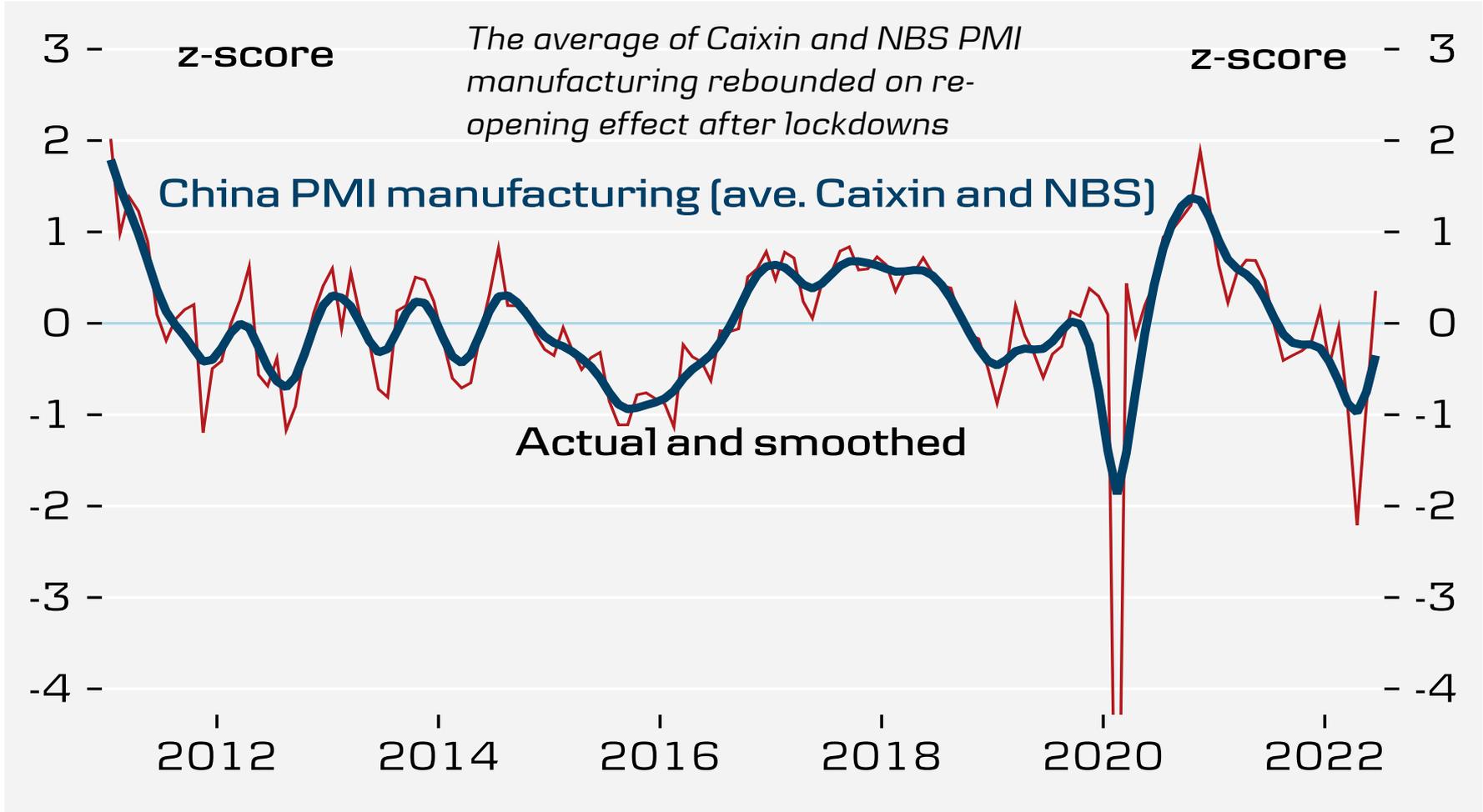
Source: Macrobond Financial, Danske Bank

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The background of the slide features a repeating pattern of large, light blue Chinese characters. The characters are stylized and semi-transparent, creating a subtle watermark effect. The characters include '中' (China), '国' (Country), '经' (Economy), and '济' (Economy), which together mean 'China's Economy'.

Overview of China macro indicators

PMI indicator (average of Caixin and NBS)



Source: Macrobond Financial, Markit, NBS, Danske Bank

[Link to overview page](#)

NBS vs Caixin PMI

The private Caixin index rebounded, stronger than NBS index.

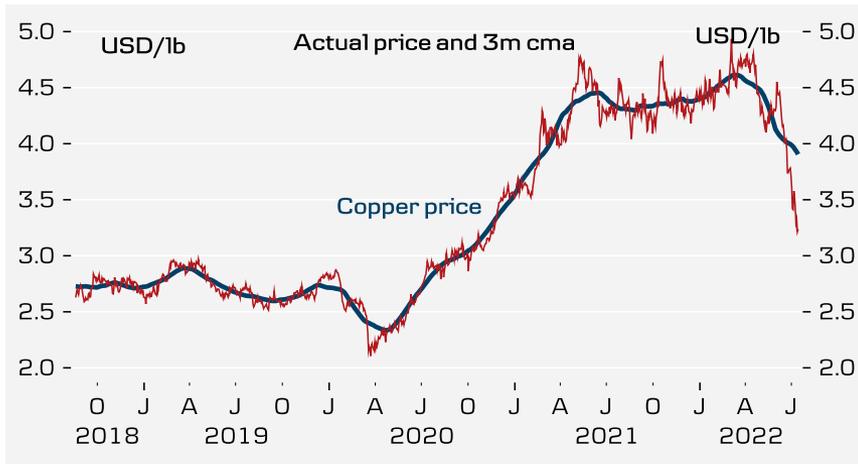


Source: Macrobond Financial, Markit, NBS, Danske Bank

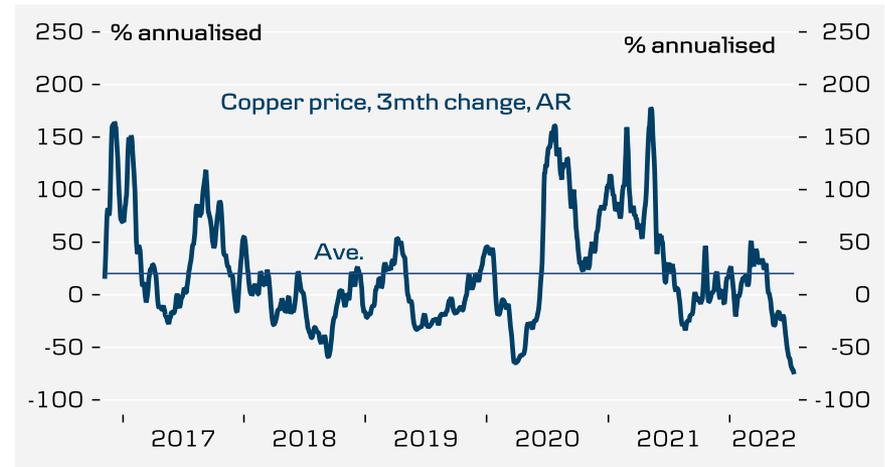
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Copper price momentum

Copper prices have plummeted lately pointing to a sharp decline in global demand - and probably new China weakness.



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.

[Link to overview page](#)

Housing - home sales and housing starts



Source: Macrobond Financial, NBS, Danske Bank

[Link to overview page](#)

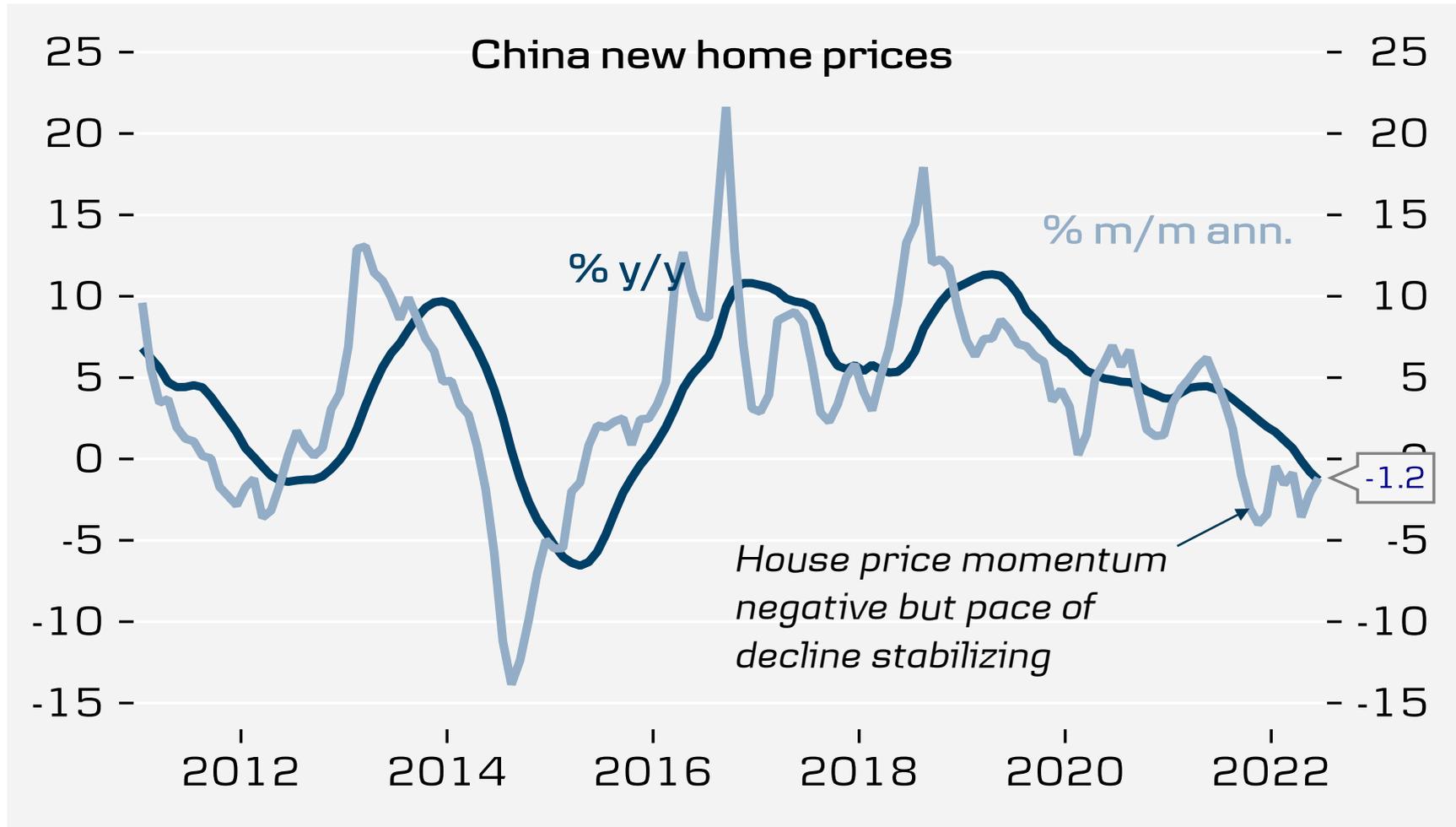
Housing - home sales and household credit



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

[Link to overview page](#)

House prices

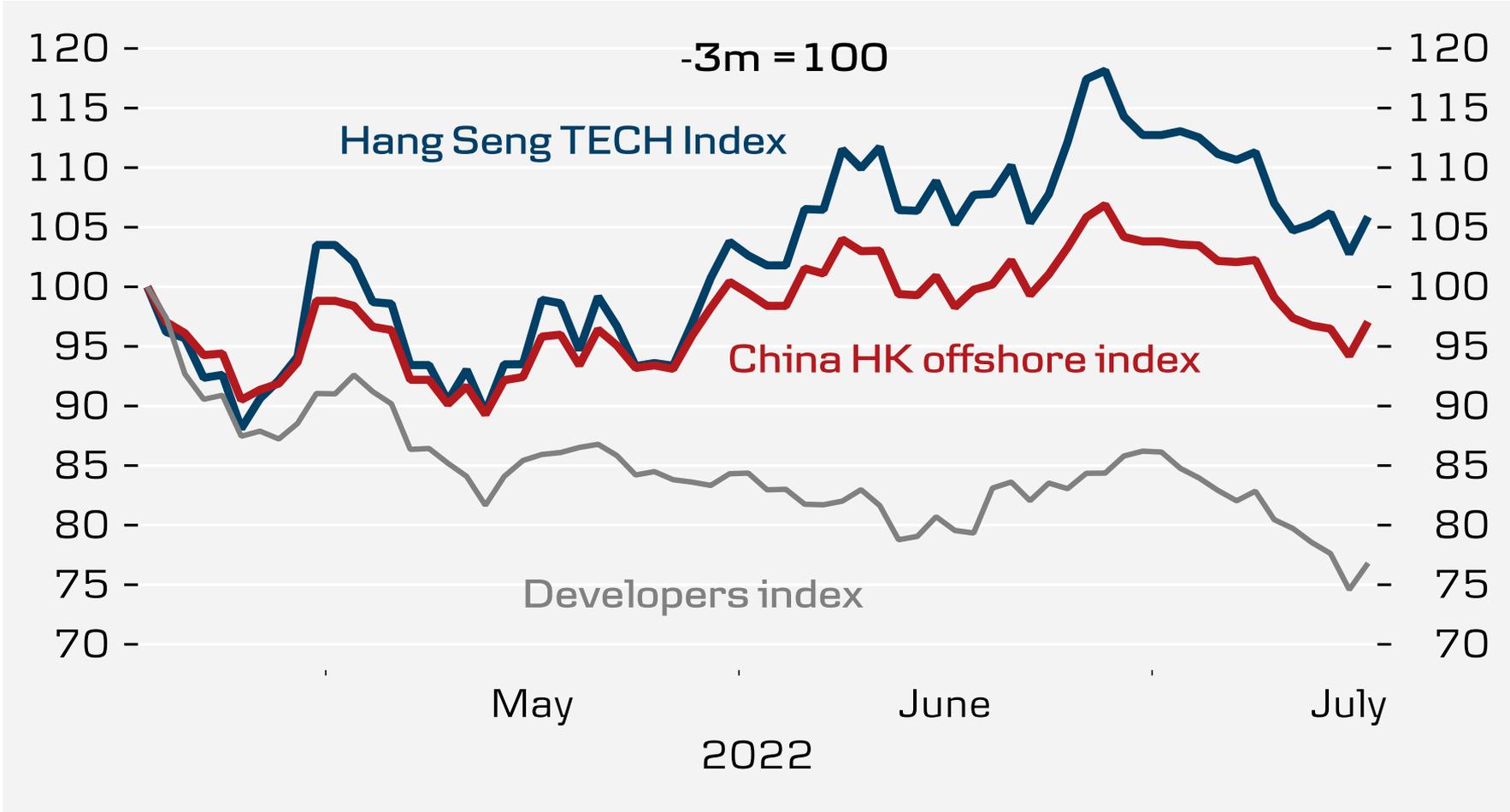


Source: Macrobond Financial, NBS

[Link to overview page](#)

Housing - developer stocks

Developer stocks have clearly underperformed and trading close to lows



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

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Exports - model

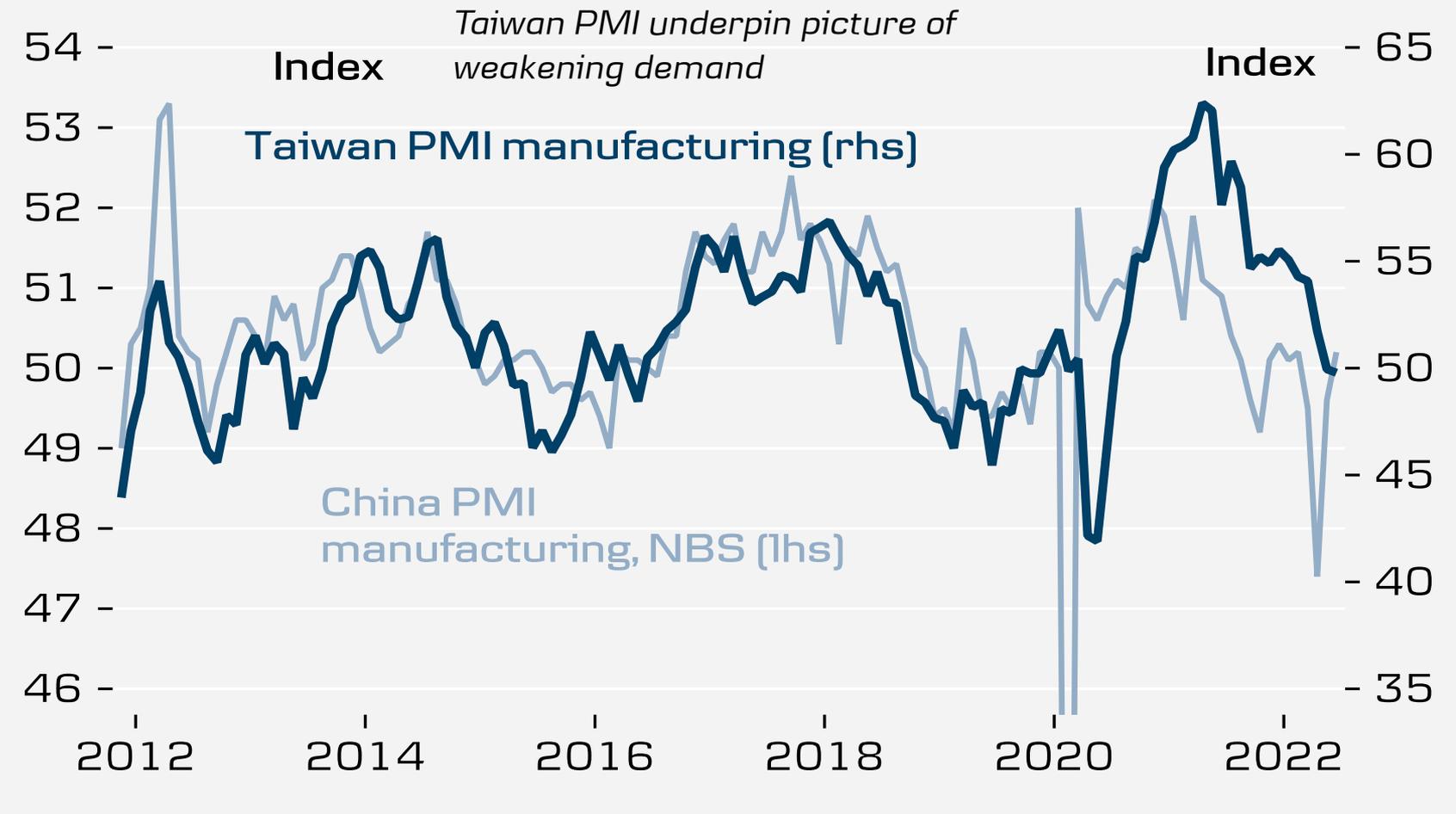
Export orders bounced in June. We believe it is due to the re-opening and expect it to weaken as US and Euro goods demand is weakening.



Source: Macrobond Financial, NBS, Markit, Danske Bank

[Link to overview page](#)

Taiwan PMI vs mainland China PMI



Source: Macrobond Financial, Markit, Danske Bank

[Link to overview page](#)

China exports to soften as US and euro goods demand decline



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

PMI export orders likely to decline again as re-opening effects end and weakening global demand kicks in

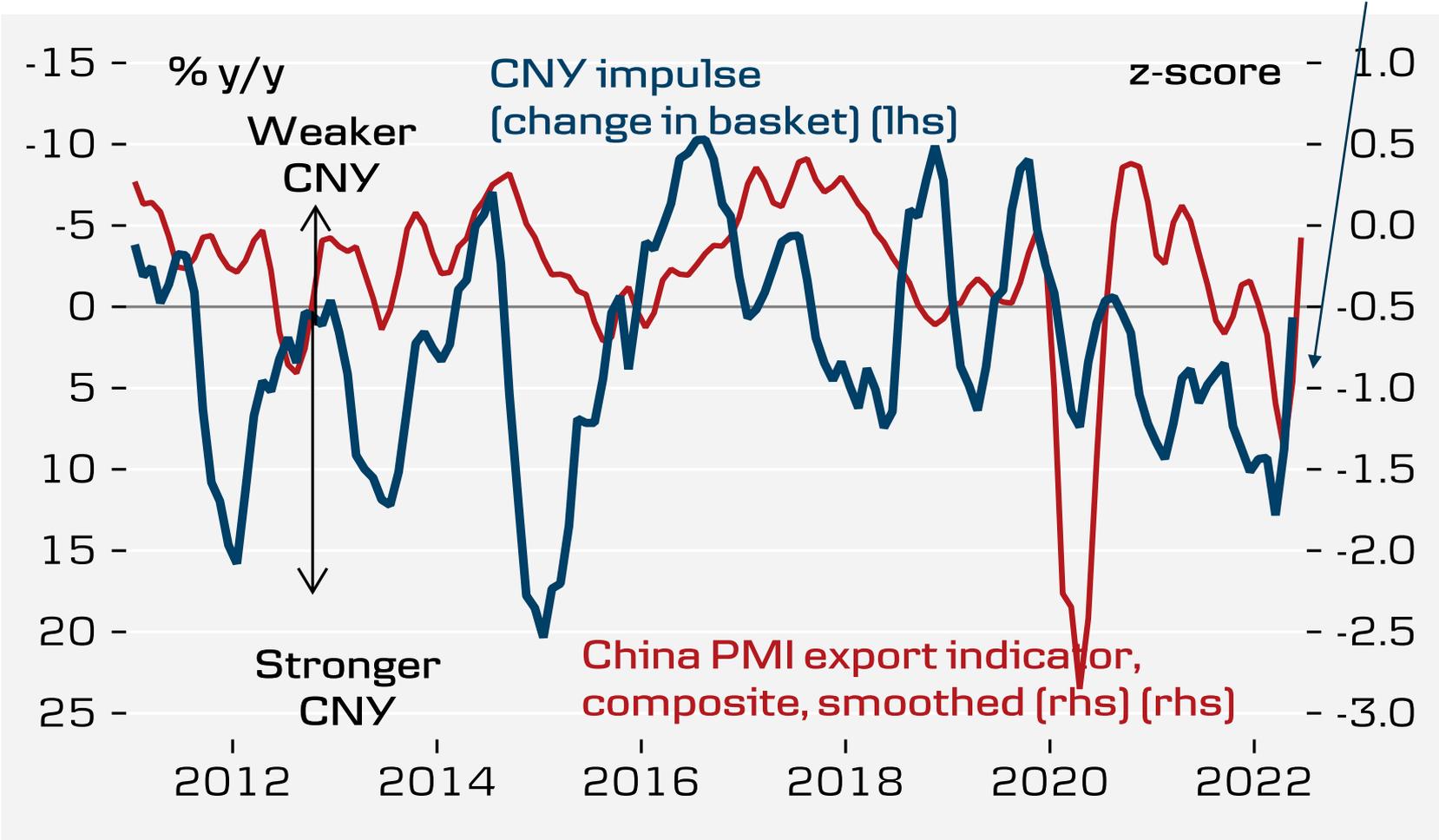


Source: Macrobond Financial, Danske Bank

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Exports - currency impulse

CNY still stronger in y/y terms although the headwind is easing

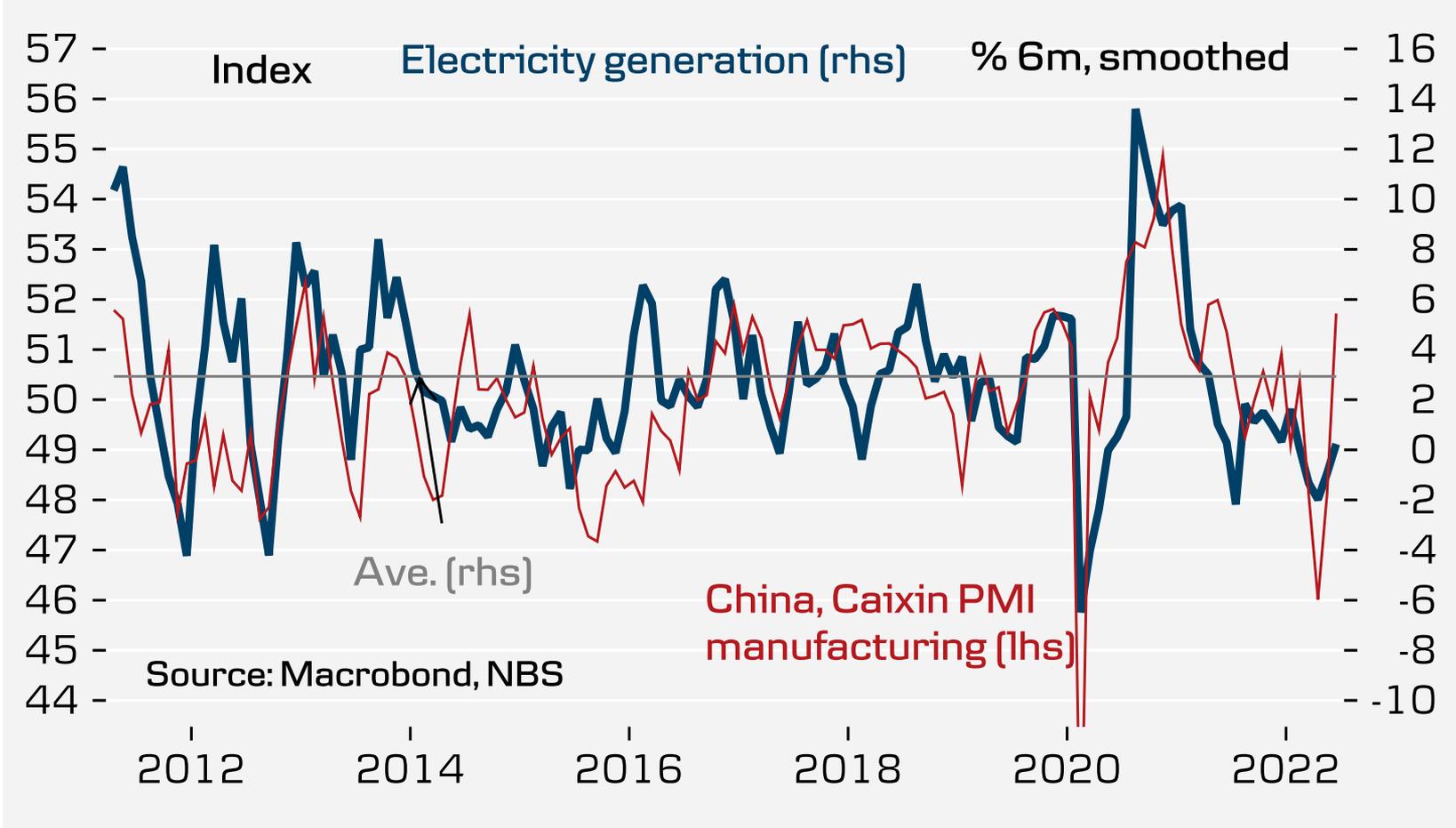


Source: Macrobond Financial, NBS, Markit, Danske Bank
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Electricity generation

Electricity growth still at weak levels pointing to underlying softness



Source: Macrobond, NBS

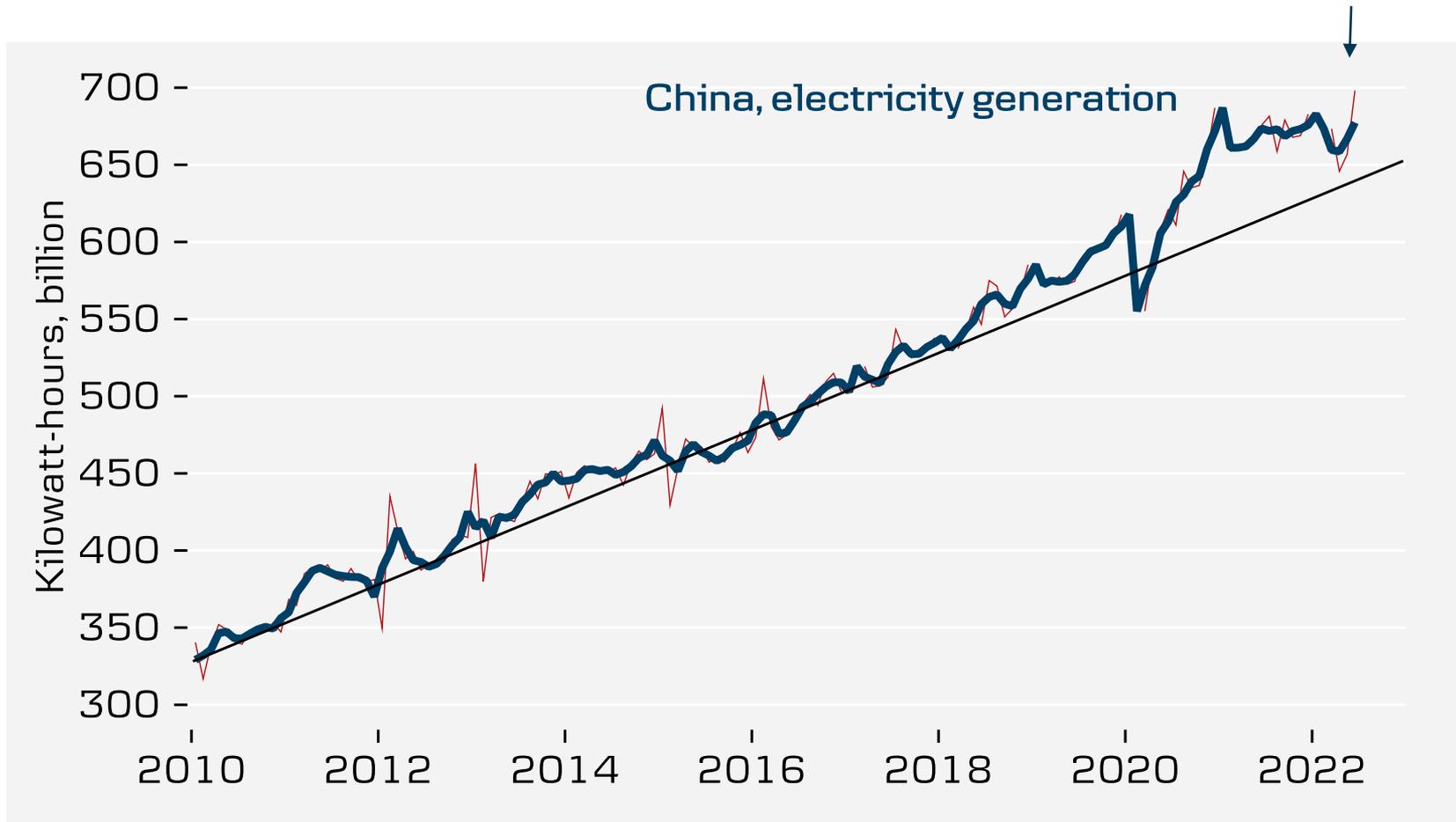
China, Caixin PMI manufacturing (lhs)

Source: Macrobond Financial, Markit, NBS, Danske Bank

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Electricity generation level

Level of electricity generation bounced sharply in June as the economy re-opened

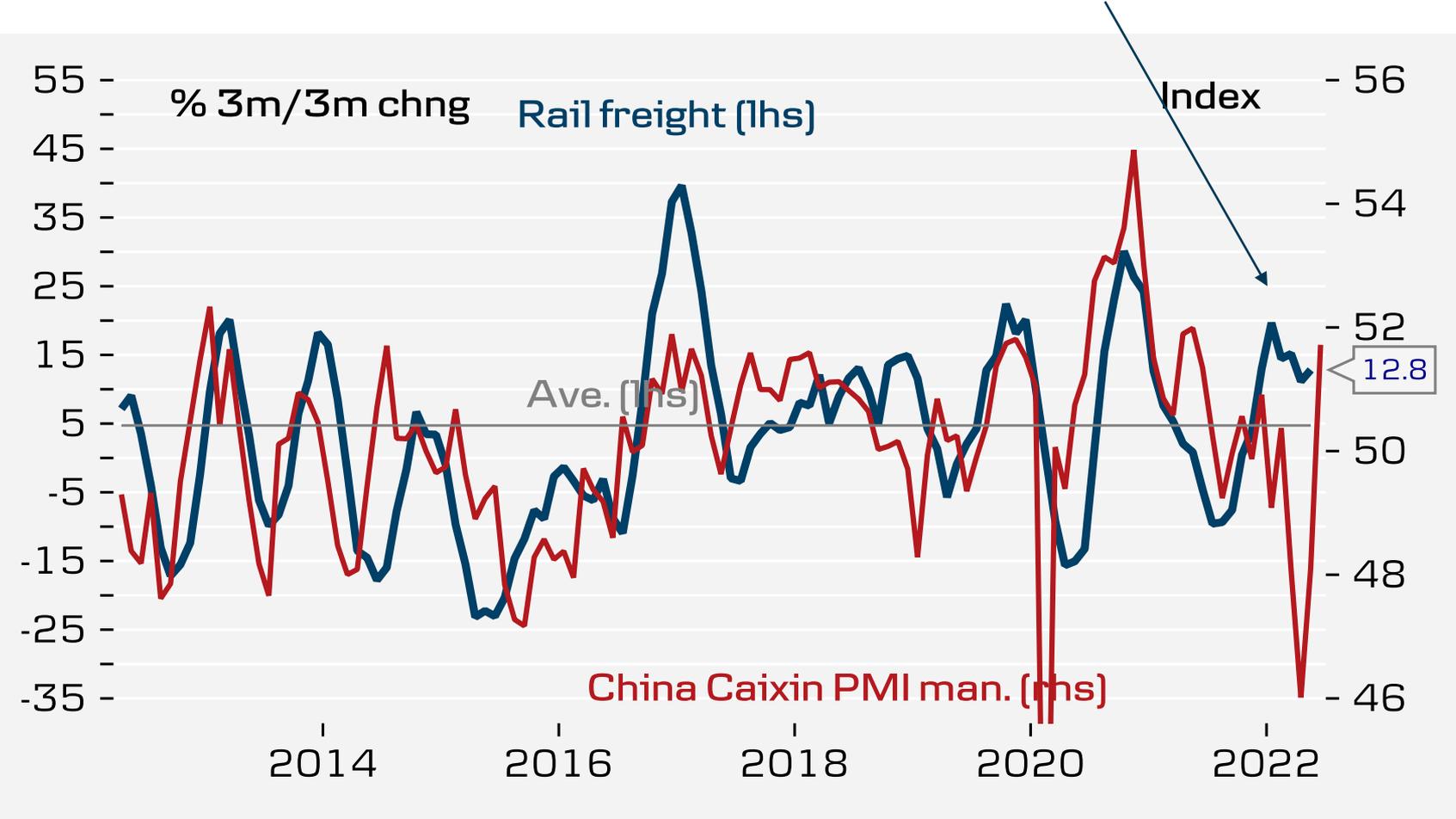


Source: Macrobond Financial, Markit, NBS, Danske Bank

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Rail freight vs PMI

Rail freight growth is still decent.

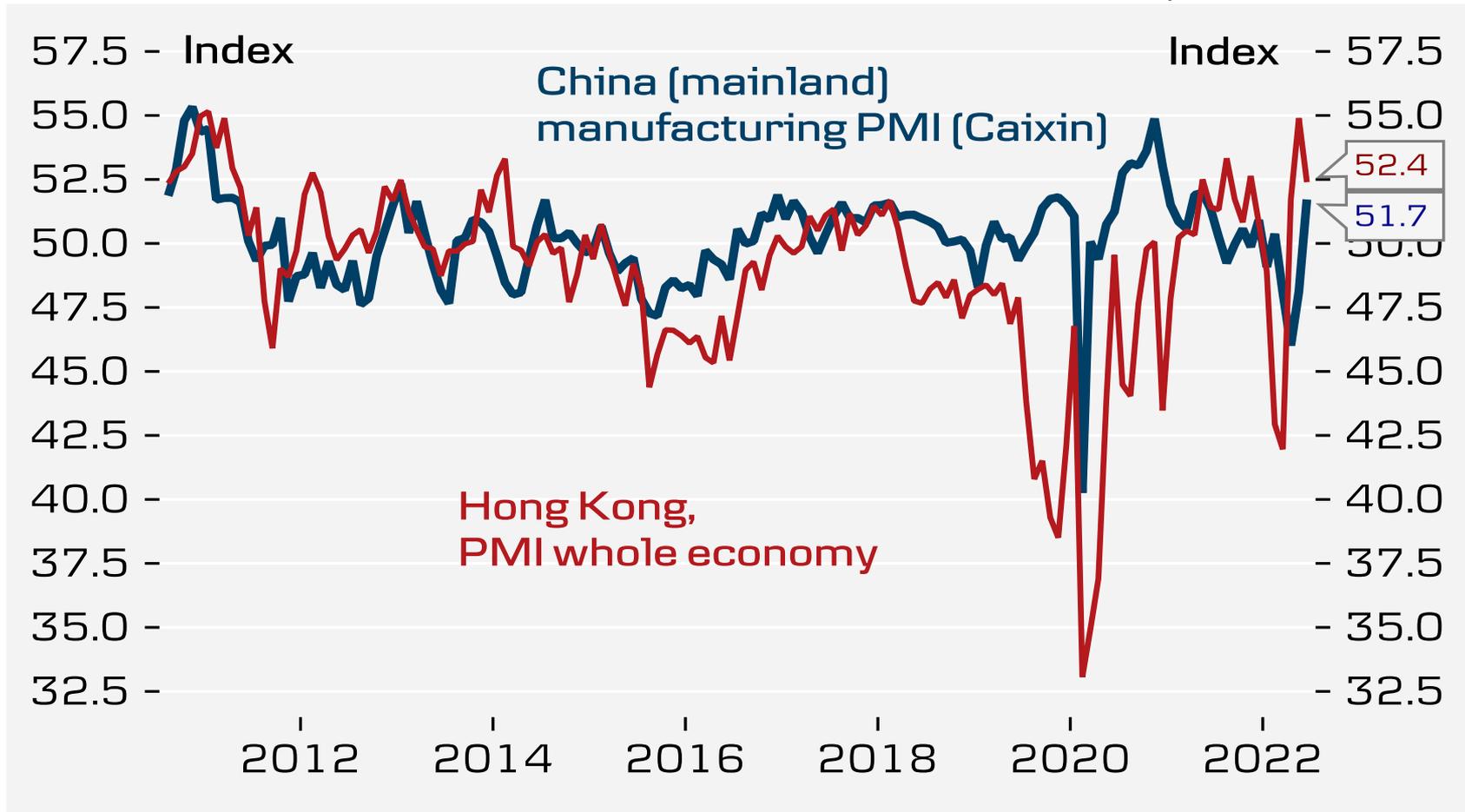


Source: Macrobond Financial, Markit, NBS, Danske Bank

[Link to overview page](#)

Hong Kong PMI vs China PMI

Decline in HK PMI illustrates the swings coming from big covid outbreaks. Some normalisation after post-outbreak rebound



Source: Macrobond Financial, Markit, Danske Bank

[Link to overview page](#)

Industrial production vs GDP



Source: Macrobond Financial, NBS, Danske Bank

[Link to overview page](#)

Consumer – confidence



Household income expectations are very weak and people look to boost savings. It seems continuous covid restrictions increasingly weigh on consumers

Source: Macrobond Financial, CAAM, Danske Bank

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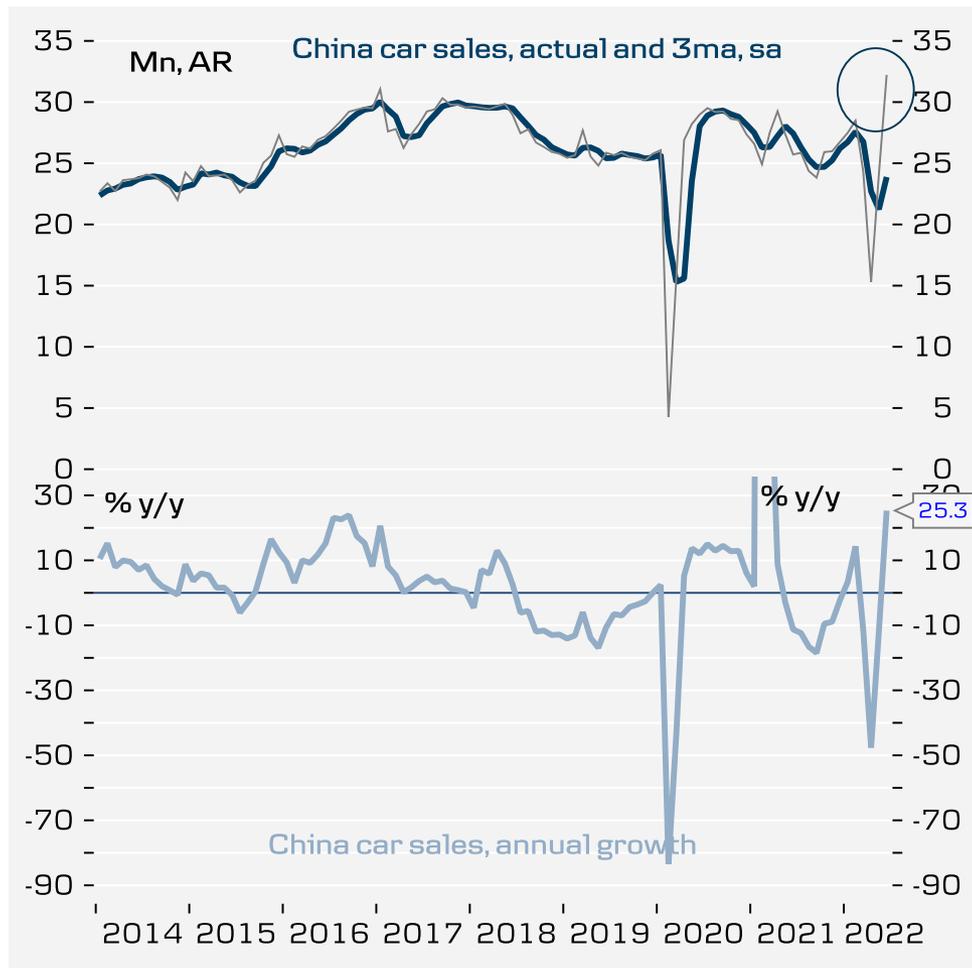
Consumer - retail sales and employment



Source: Macrobond Financial, NBS, Danske Bank

[Link to overview page](#)

Consumer – car sales



Car sales have rebounded sharply as lockdown ended and incentives for buying cars put in place

Source: Macrobond Financial, CAAM, Danske Bank

[Link to overview page](#)

Profits vs PMI

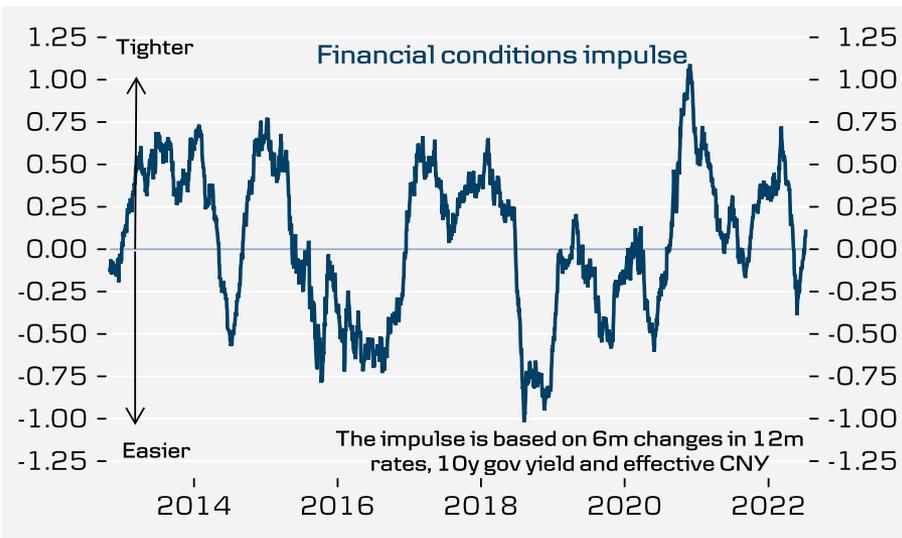


Source: Macrobond Financial, NBS, Markit, Danske Bank

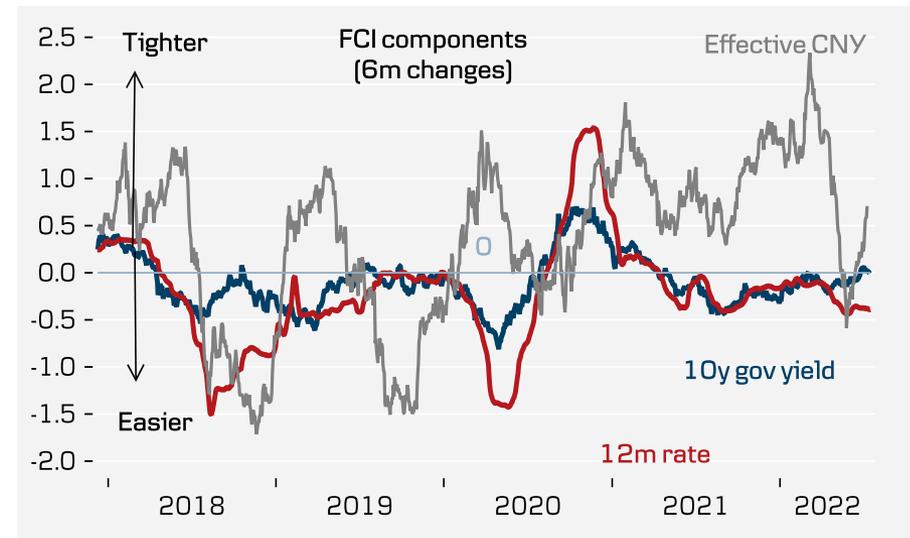
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Financial conditions impulse

Our financial conditions impulse is neutral again following a rise in the trade weighted CNY



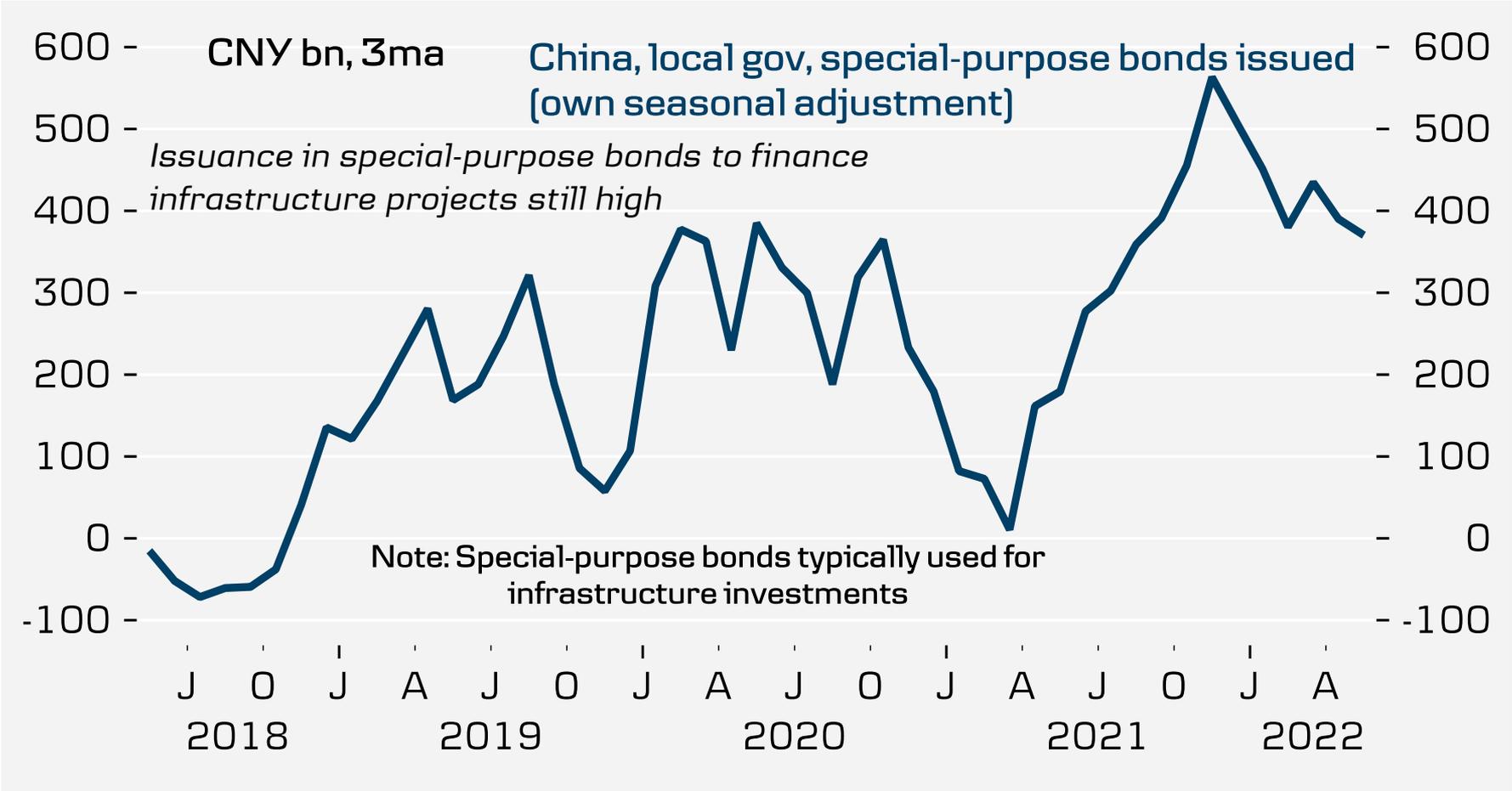
Source: Macrobond Financial, People's Bank of China, Danske Bank
 Note: Past performance is not a reliable indicator of current or future results



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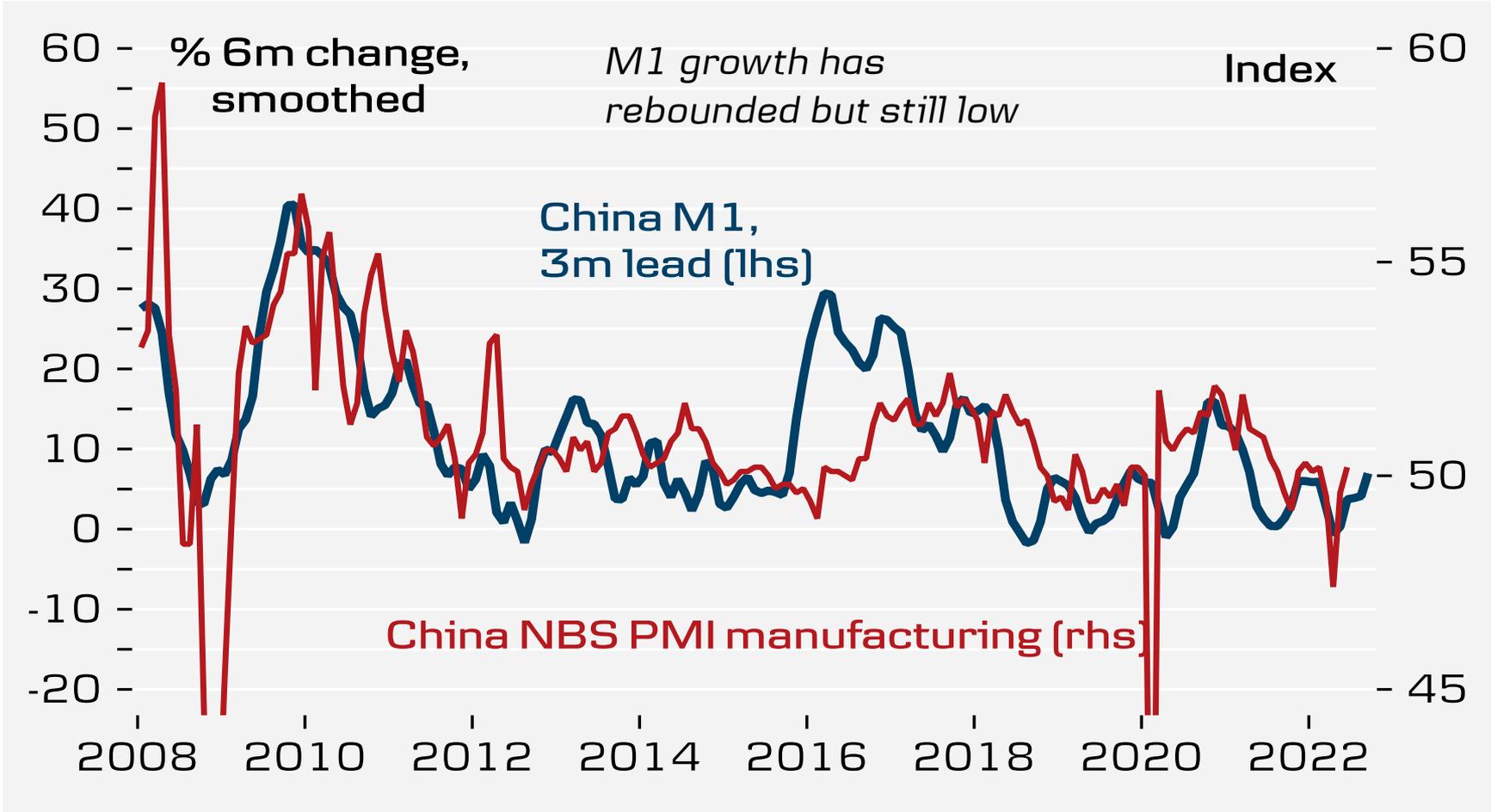
Issuance for infrastructure projects



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

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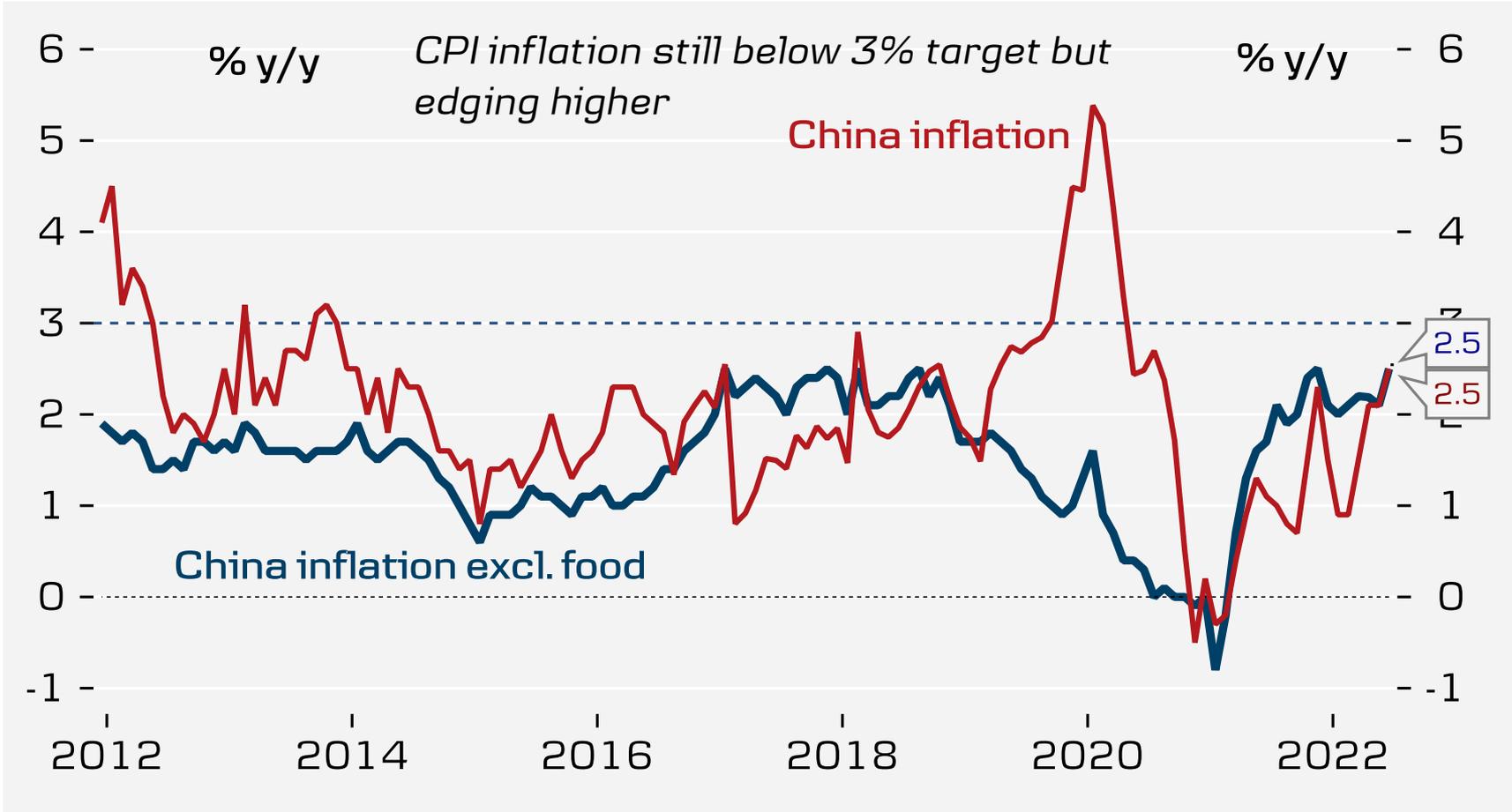
Money growth



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

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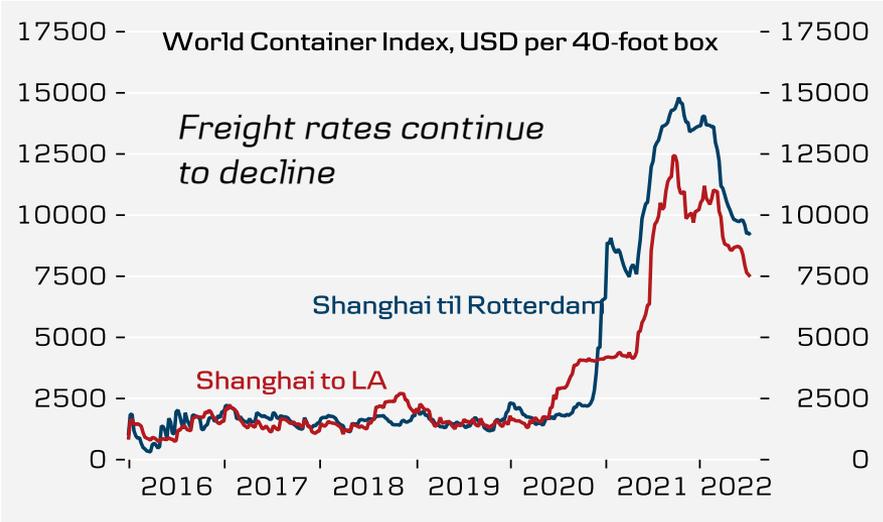
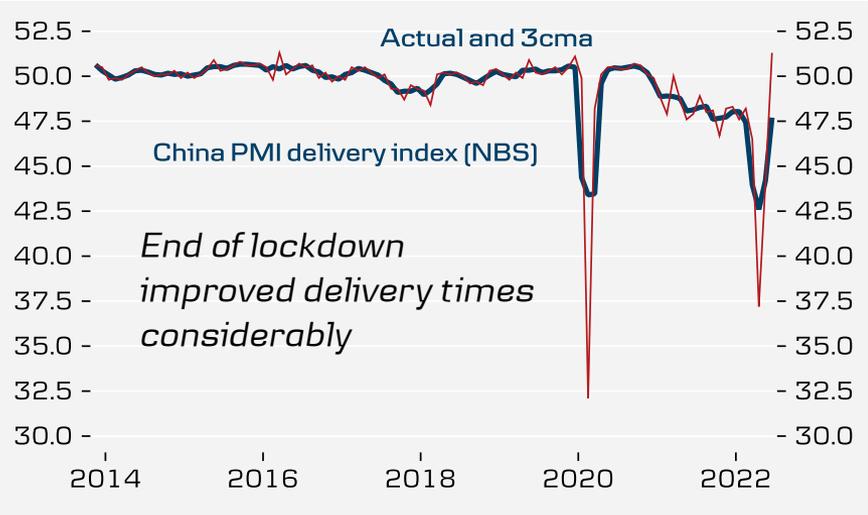
Inflation - CPI



Source: Macrobond Financial, NBS, Danske Bank

[Link to overview page](#)

Inflation – delivery times and freight rates

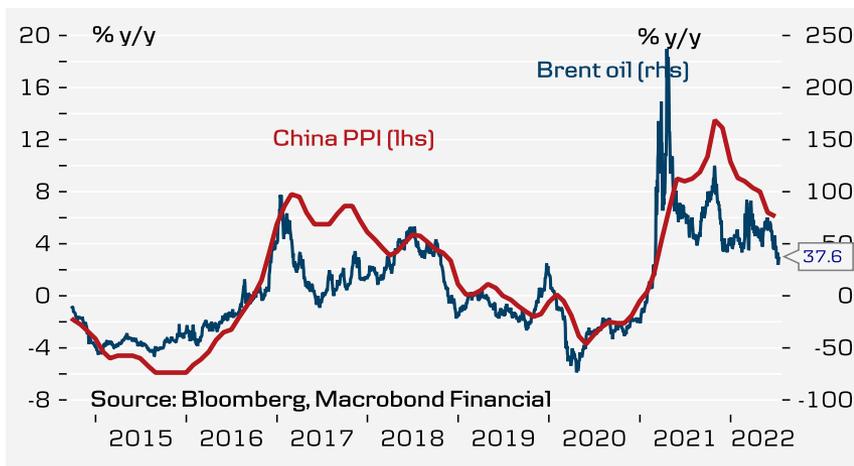
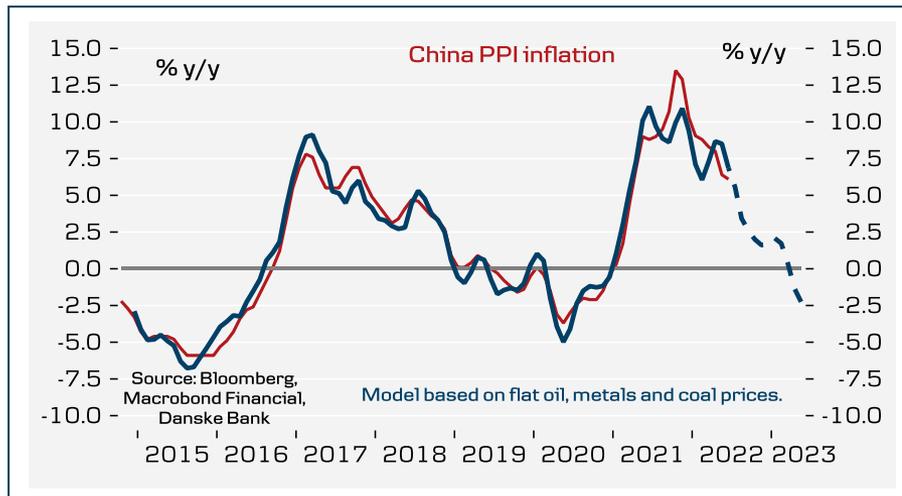


Source: Macrobond Financial, NBS, Danske Bank

[Link to overview page](#)

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 sharp decline over the next year. Metals already in negative in y/y growth

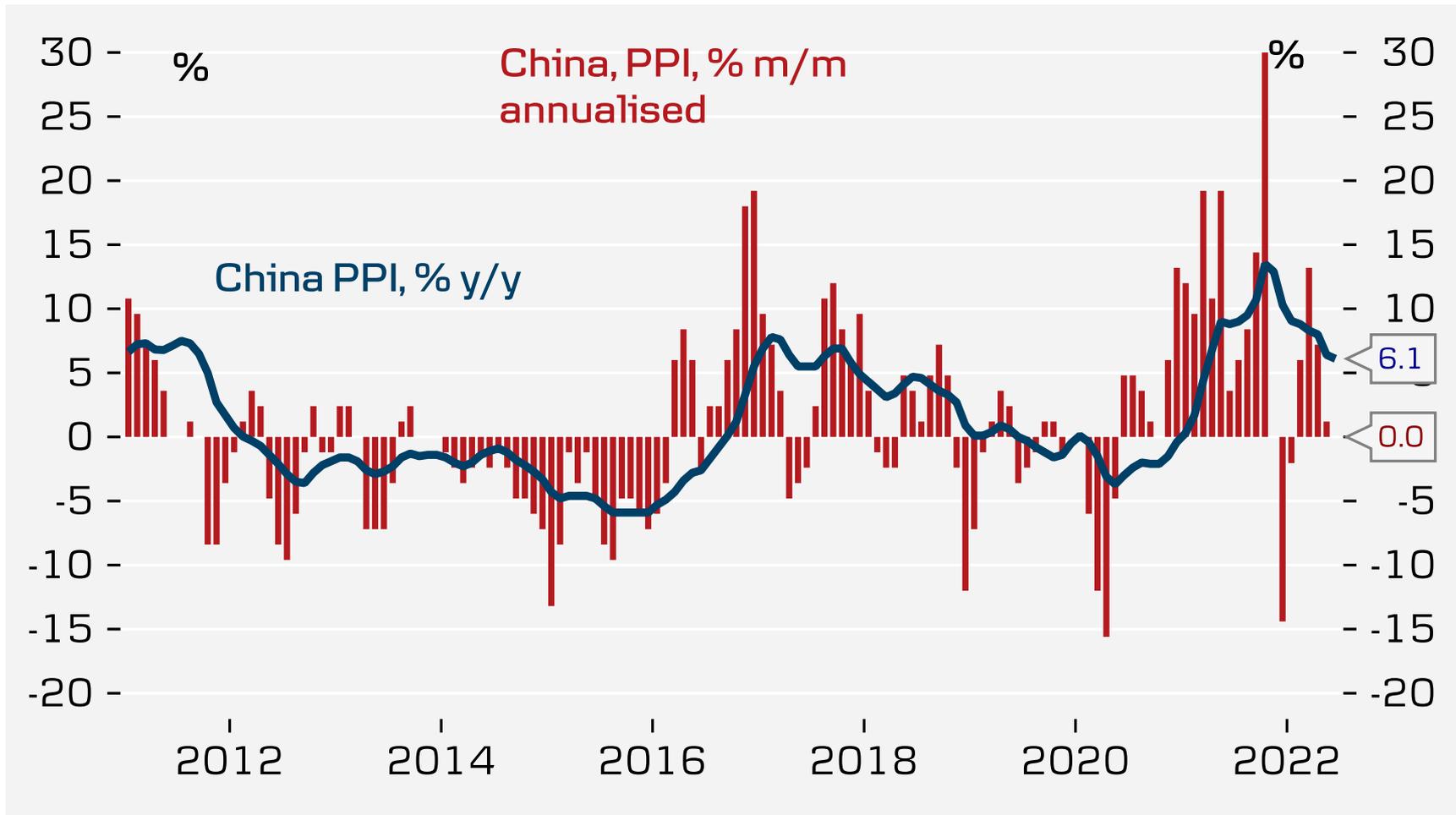


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[Link to overview page](#)

Inflation - PPI

PPI monthly momentum stayed low in June

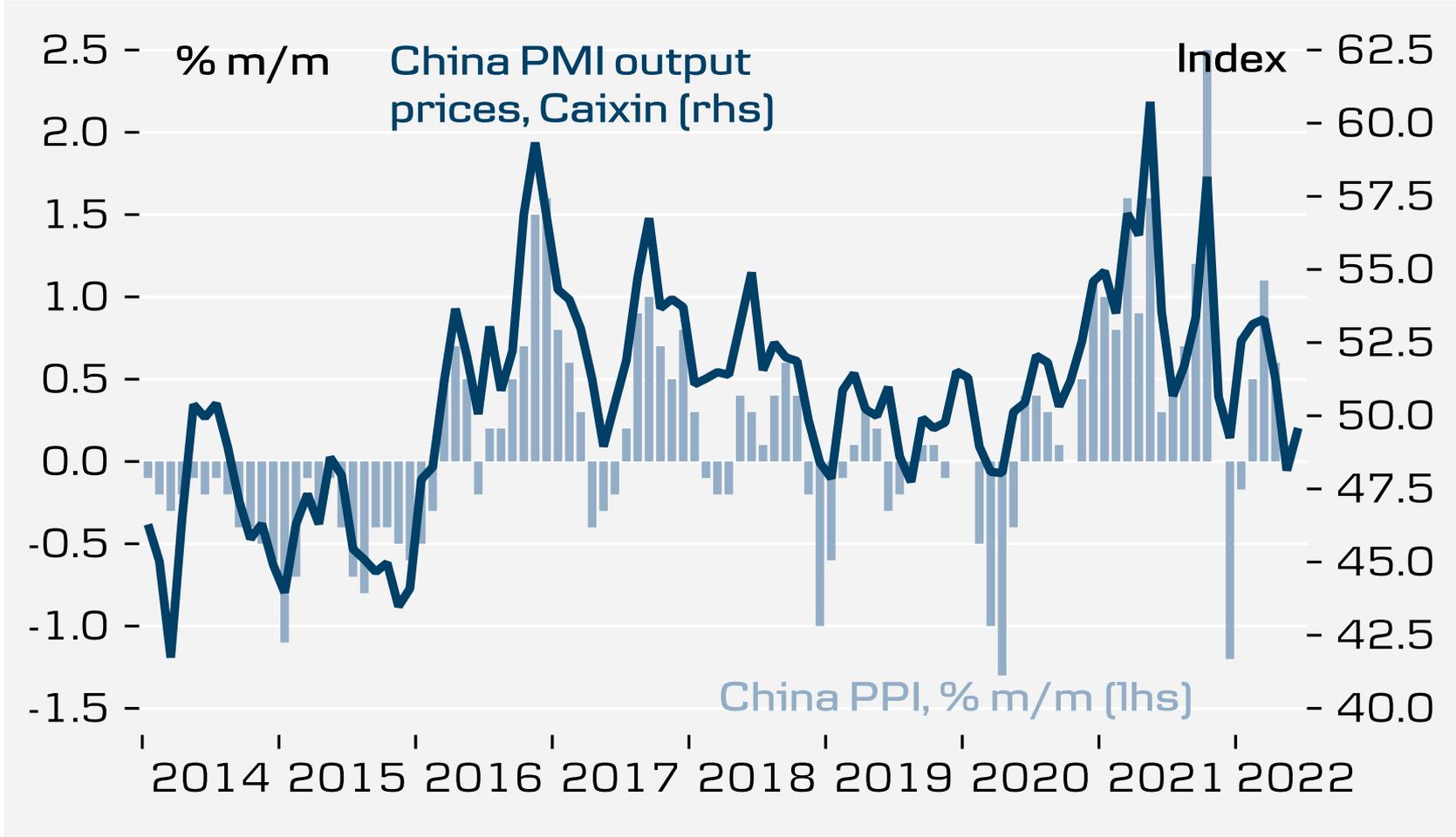


Source: Macrobond Financial, NBS, Danske Bank

[Link to overview page](#)

Inflation - PMI output prices and PPI m/m

PMI prices confirm picture of lower price pressures

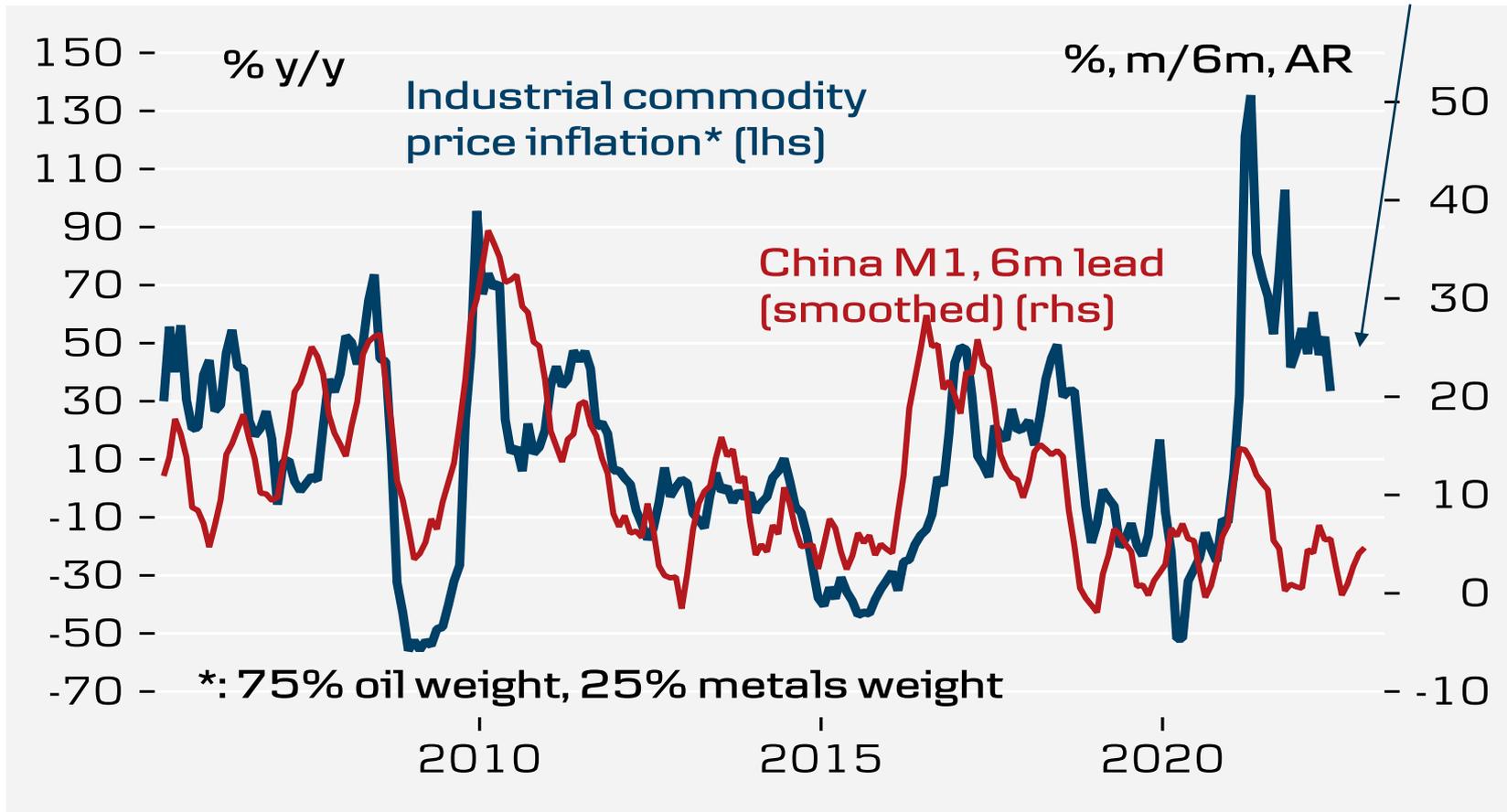


Source: Macrobond Financial, Markit, NBS, Danske Bank

[Link to overview page](#)

M1 and industrial commodity prices

Global commodities and Chinese activity decoupled over past years on record goods demand in US

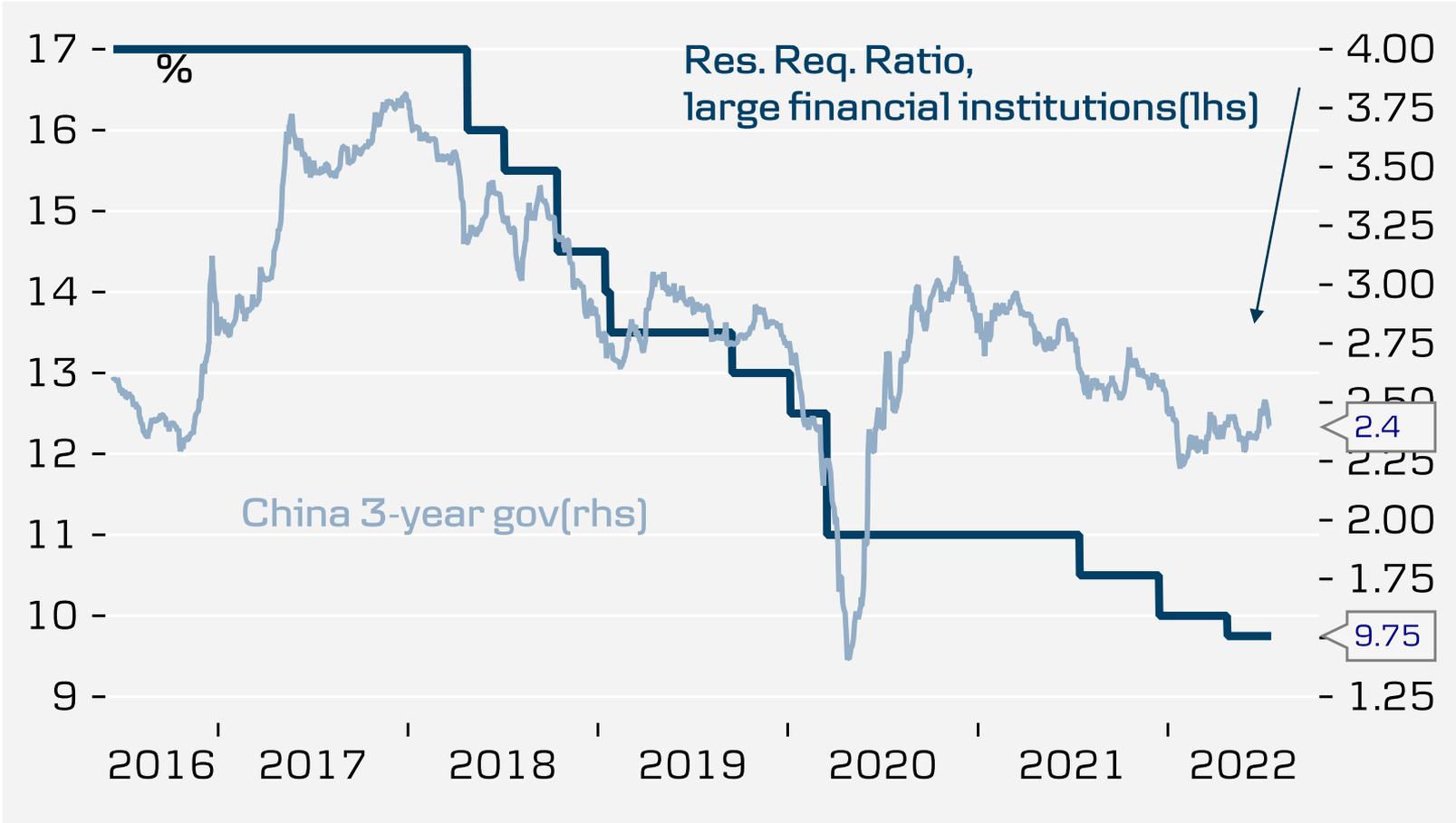


Source: Macrobond Financial, Markit, People's Bank of China, Danske Bank
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Monetary policy - Reserve Requirement Ratio

Yields stabilizing

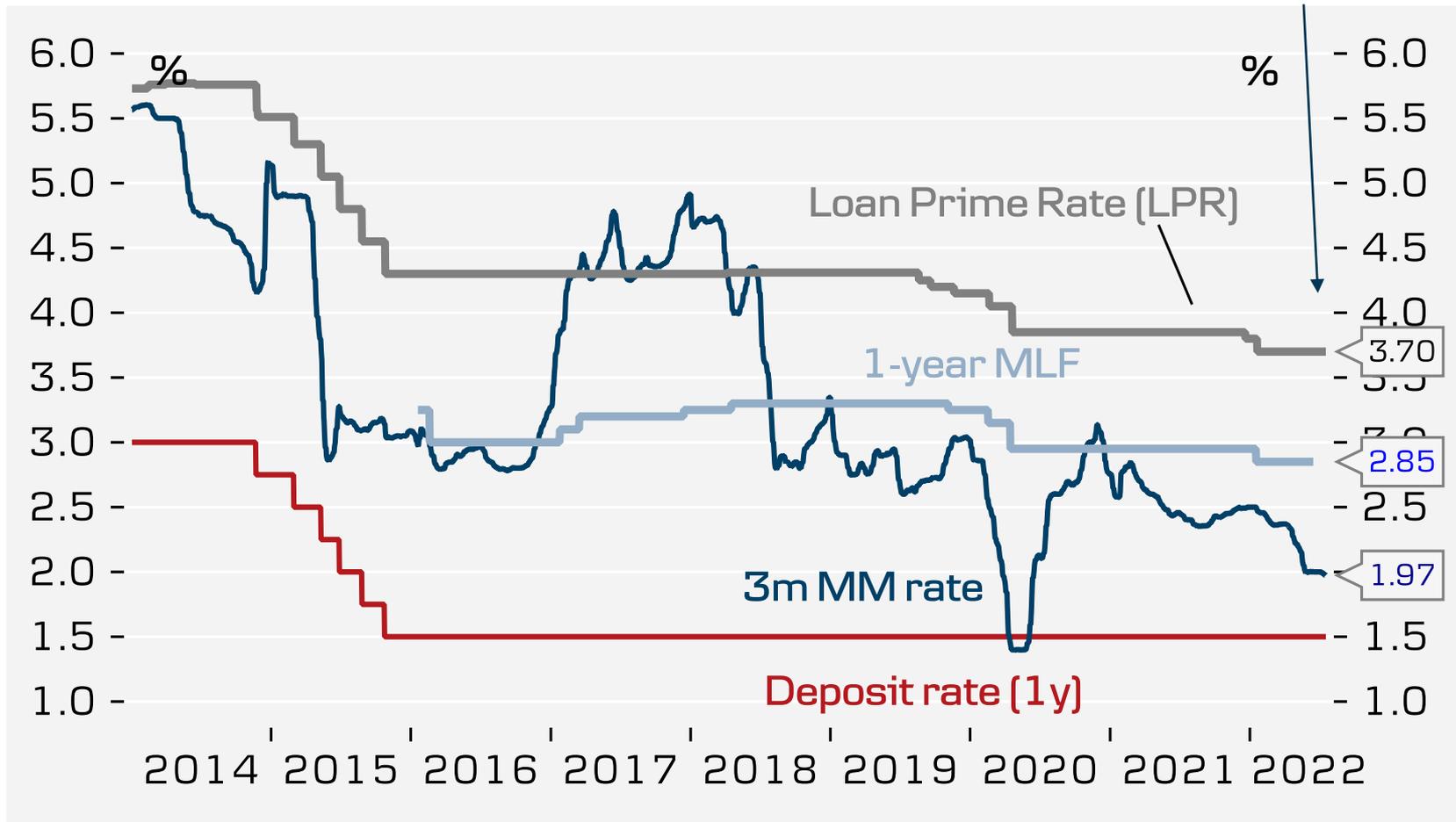


Source: Macrobond Financial, Markit, People's Bank of China
Note: Past performance is not a reliable indicator of current or future results

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Monetary policy – rates

PBoC not moving official policy rates much. Fiscal policy preferred tool to underpin growth. Money market rates lower.

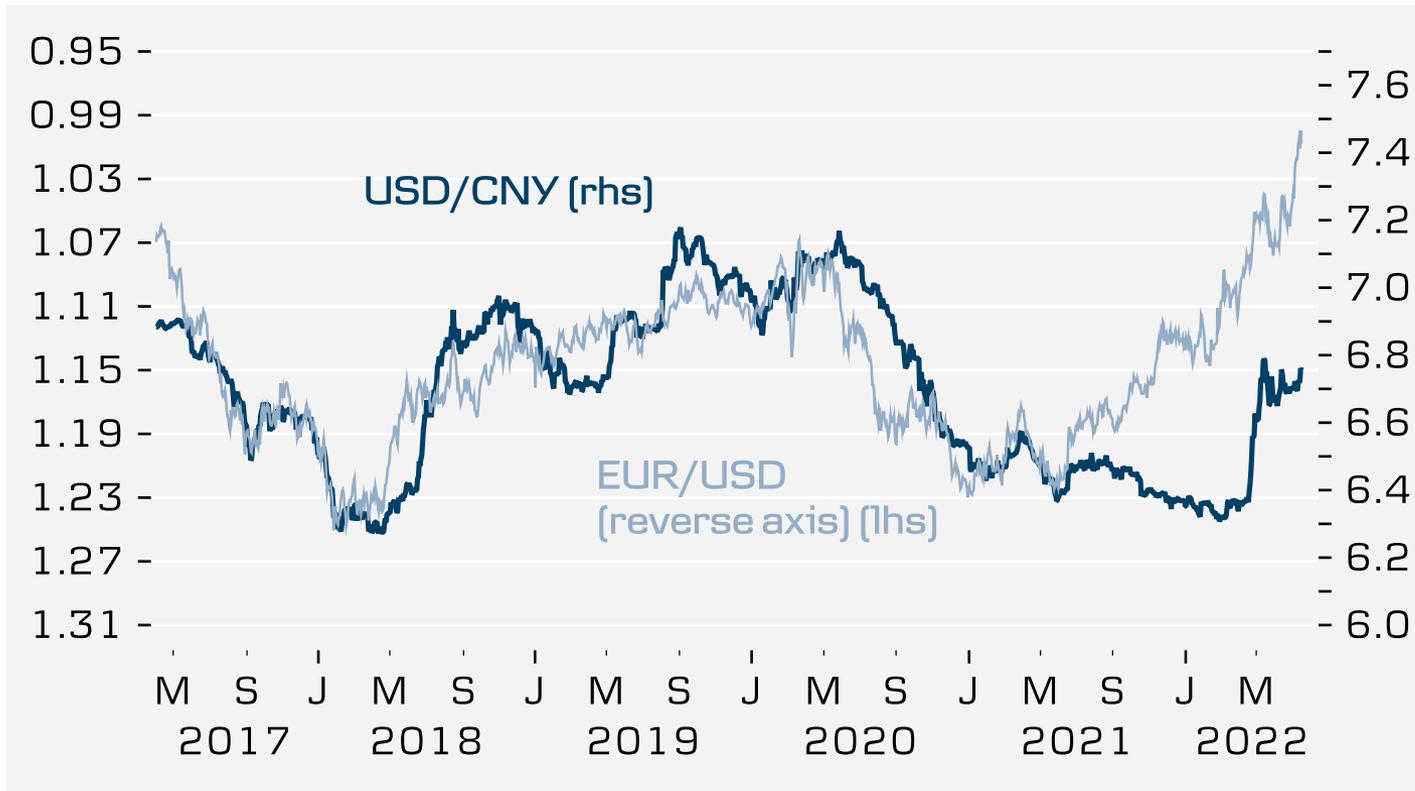


Note: MLF is medium lending facility set by PBoC, which is used as reference for the bank's Loan Prime Rates

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

[Link to overview page](#)

CNY - USD/CNY vs EUR/USD



USD/CNY has stabilized but pressure is still on the upside as USD strength continues and trade surplus weakens

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

[Link to overview page](#)

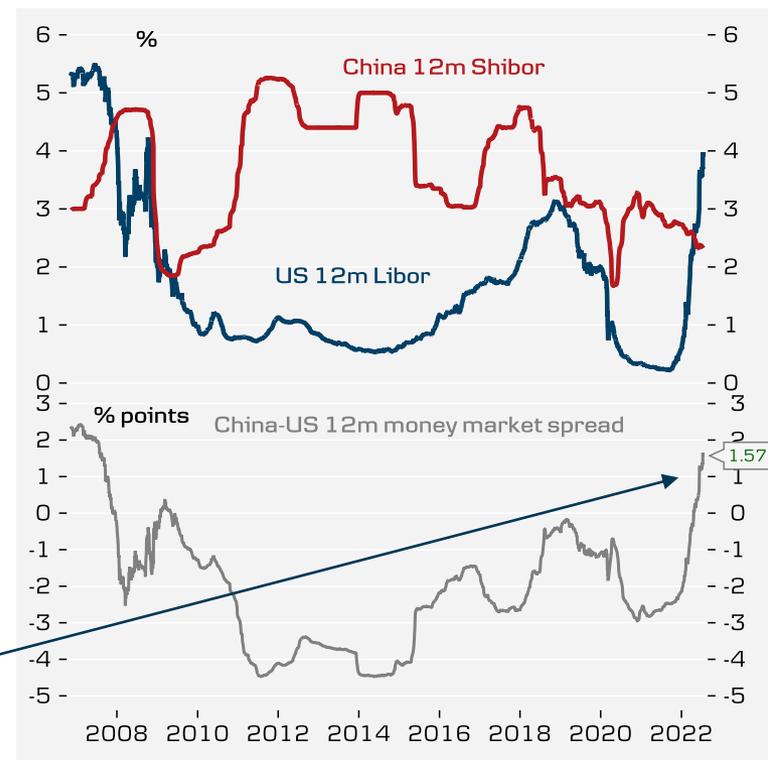
CNY - relative rates a good long-term anchor

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



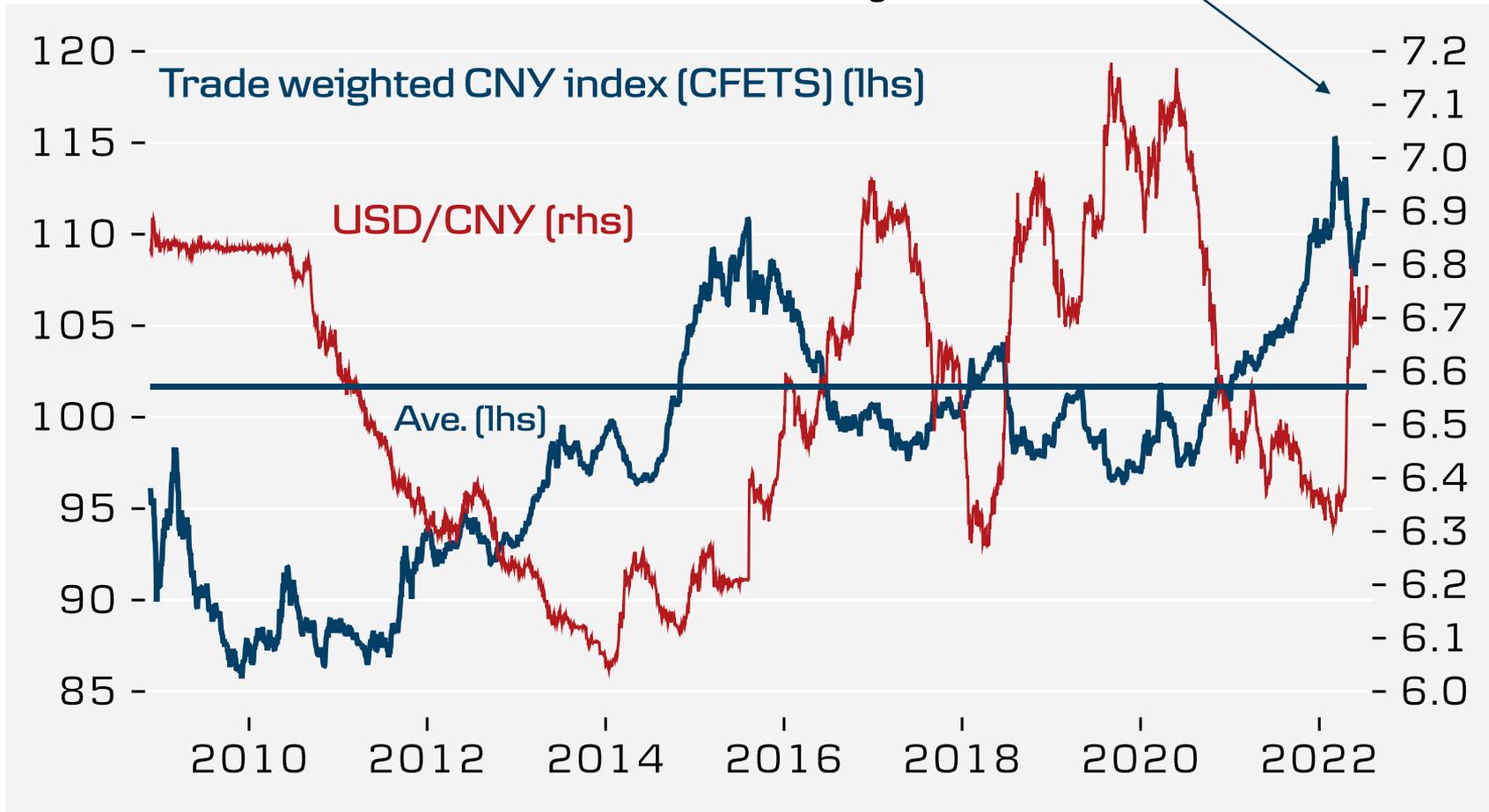
Note: Past performance is not a reliable indicator of current or future results
 Source: Macrobond Financial, People's Bank of China

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

[Link to overview page](#)

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 weaker lately on renewed covid angst and property stress

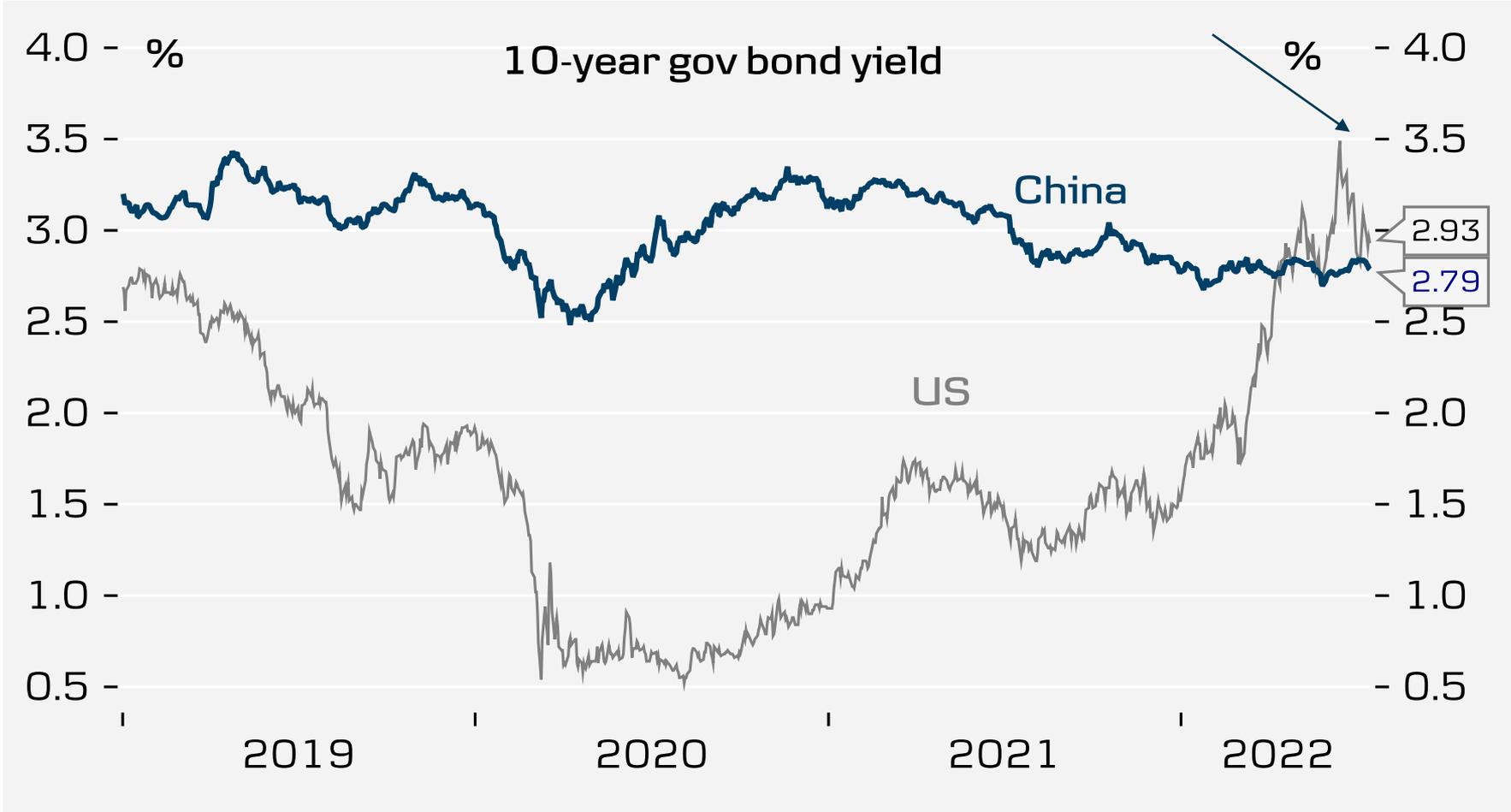


Note: Past performance is not a reliable indicator of current or future results
 Source: Macrobond Financial, People's Bank of China

[Link to overview page](#)

China bond yields (vs US and Germany)

US 10-year yields lower and getting closer to Chinese again



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

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