

China Macro Monitor

- Weaker external demand adds to domestic challenges

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China outlook and trends: Revising GDP growth lower again

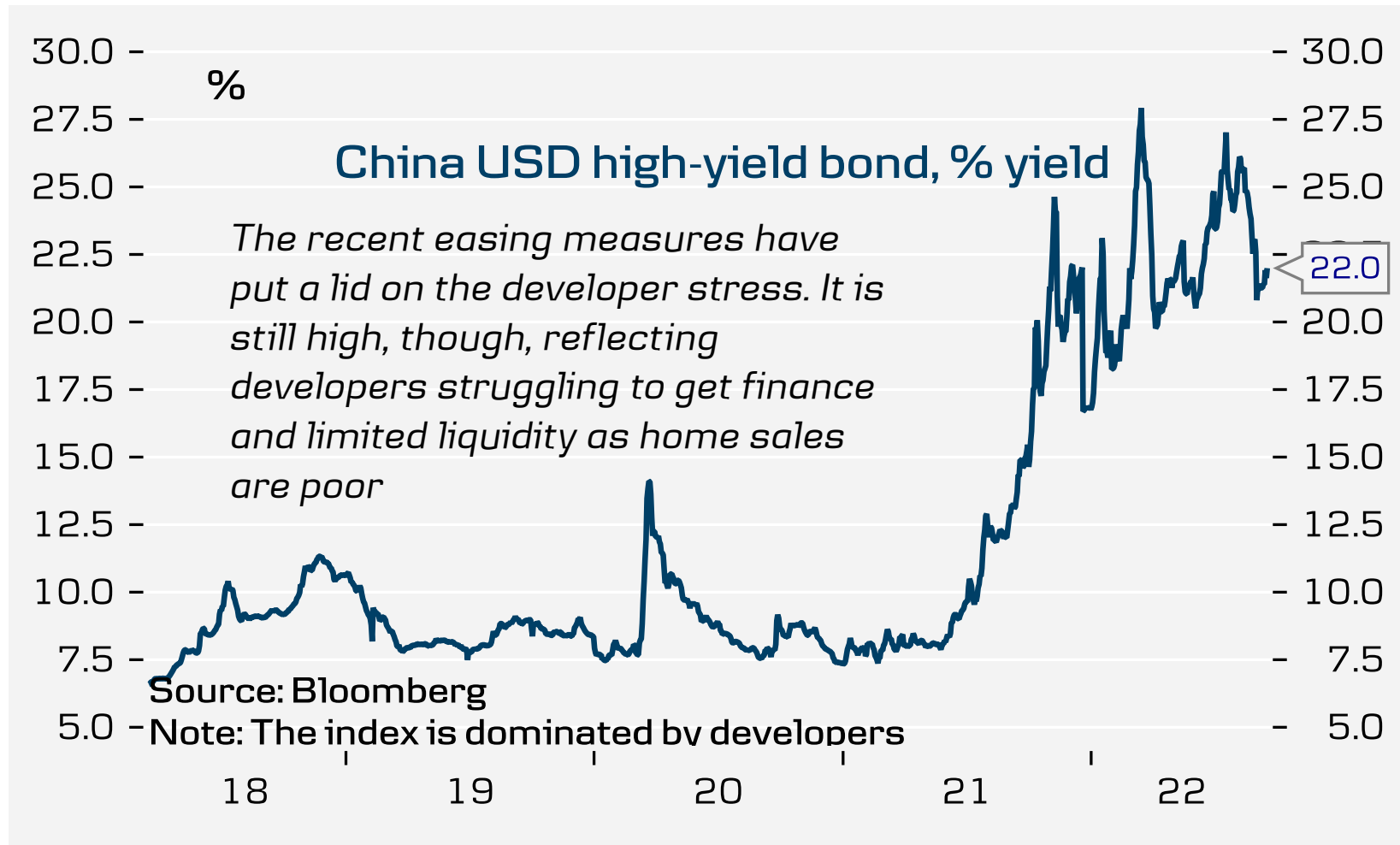
Outlook. We keep our forecast for 2022 at 2.7% (below consensus at 3.5%) and 5.7% for 2023 (above consensus at 5.2%). The economy continues to struggle with three strong headwinds: a) zero-covid policy, b) property crisis and c) fading global demand. Chinese stimulus continues to increase and it proves a floor under growth. But it cannot kickstart the economy as long as the cloud of uncertainty over covid remains and the property crisis continues. Exports are now also likely to struggle as the US and euro area are expected to enter recession. We look for a recovery in 2023 on easing covid policy and a gradual lift to housing.

China today

- **Growth.** *PMIs* dropped back in August, but the *credit impulse* is still robust. *Retail sales* surprised to the upside in August but remain weak. *Confidence* is low. *The property sector* is still in a deep crisis although stress among developers has eased somewhat lately.
- **Inflation.** *PPI* inflation declined further to 3.5% in August coming from 13.5% in October. *CPI* inflation declined to 2.5% in August from 2.7% in July, still below the 3% target.
- **Monetary policy.** PBoC has kept the *RRR* rate unchanged since April but has cut interest rates on 22 August by 10bp, mortgage rate by 15bp. *M1* growth has picked up.
- **CNY.** The *yuan* seeing another leg of weakness against USD. Pressure still up in USD/CNY.
- **Stock markets.** *Stocks* lower on growth concerns, US tech restrictions and global recession fears. The *China USD offshore high yield* rate has come down lately but is still above 20%.
- *For more China research, see our website [here](#)*

Our current top five China indicators

Property stress has come down but is still high



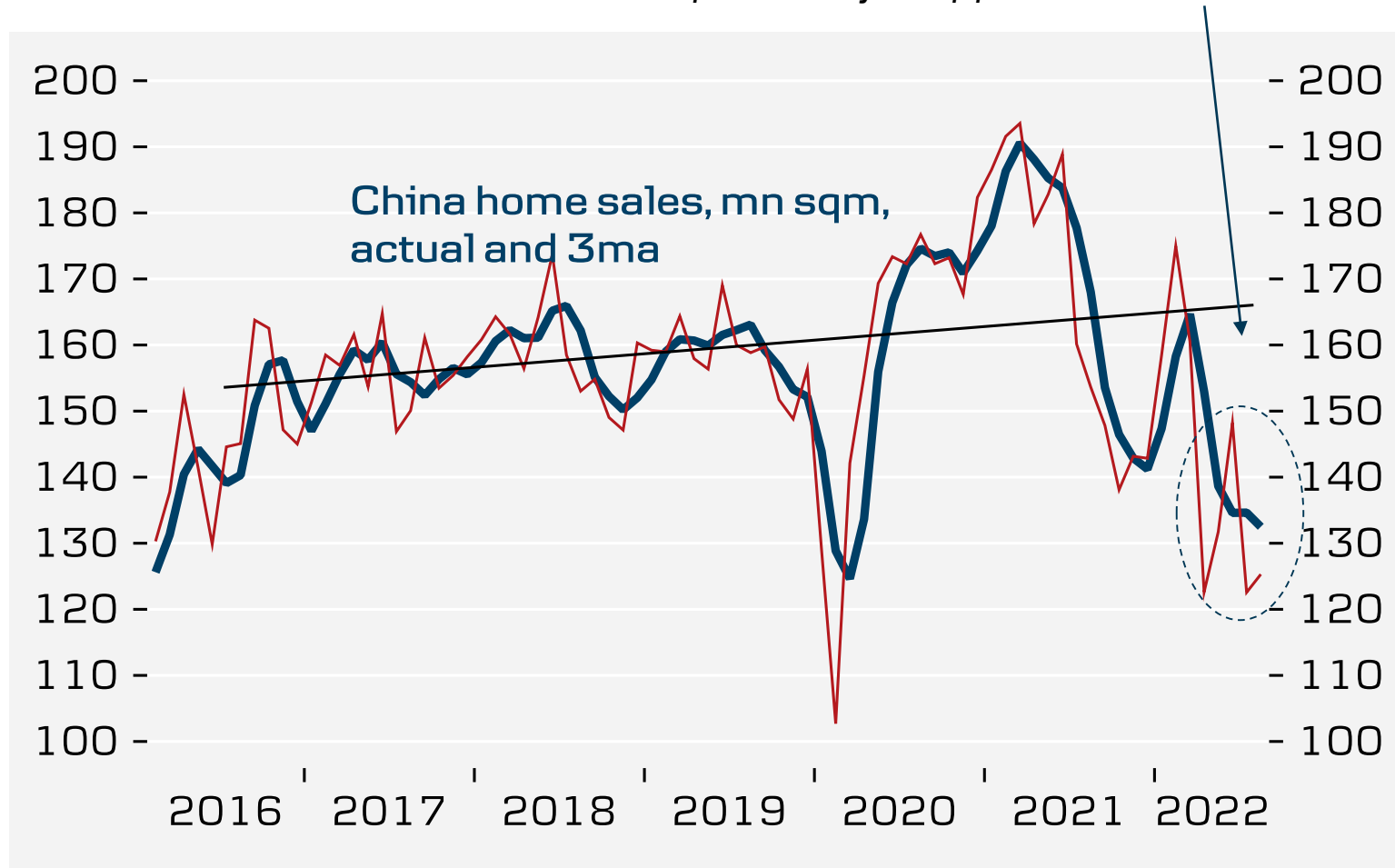
Source: Macrobond Financial, Bloomberg, Danske Bank

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

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Home sales still weak

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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Covid causing high uncertainty; a barrier for consumption

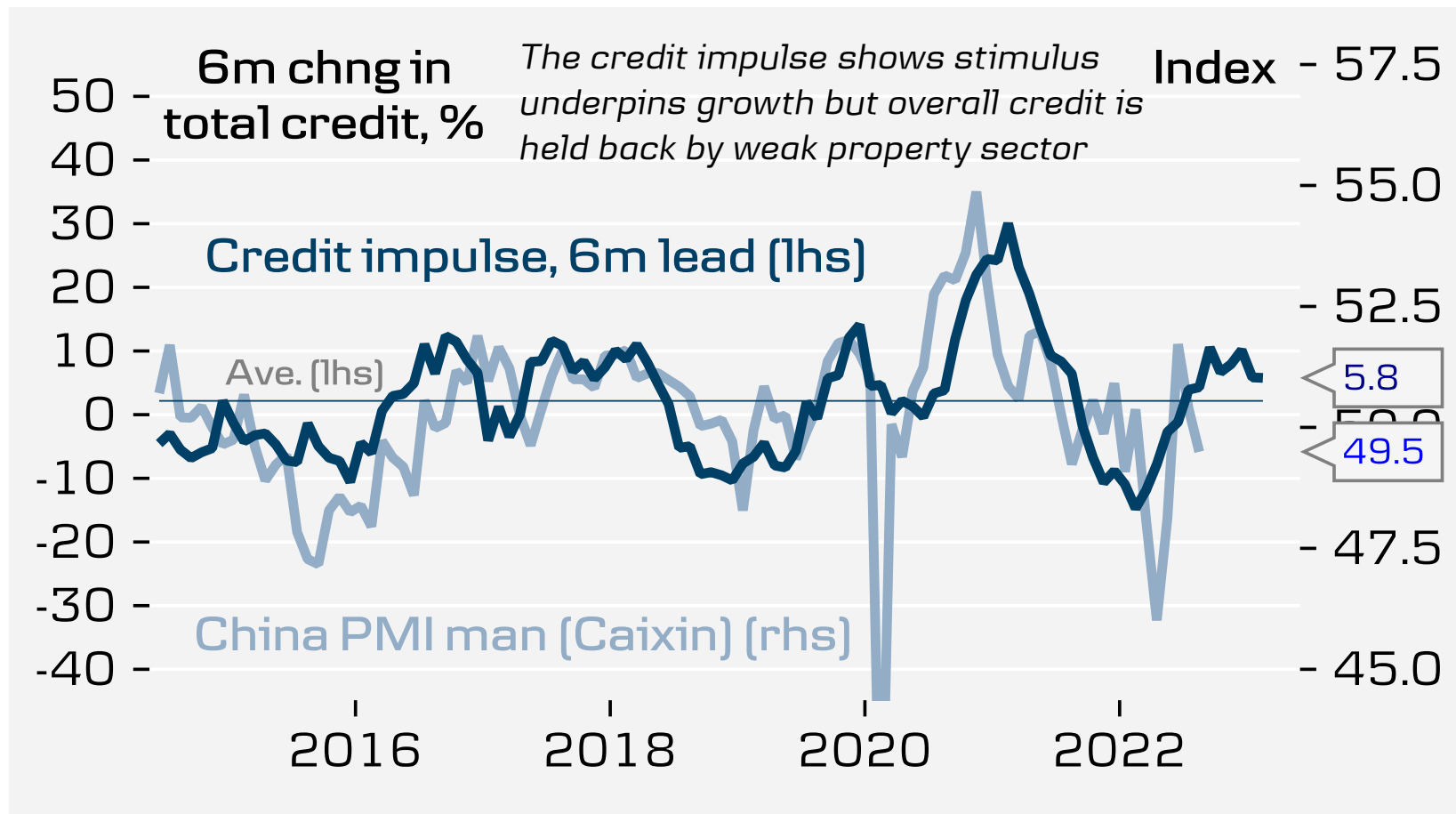


Continuously looming covid restrictions and a weak property sector put a cloud over household sentiment.

Source: Macrobond Financial, CAAM, 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

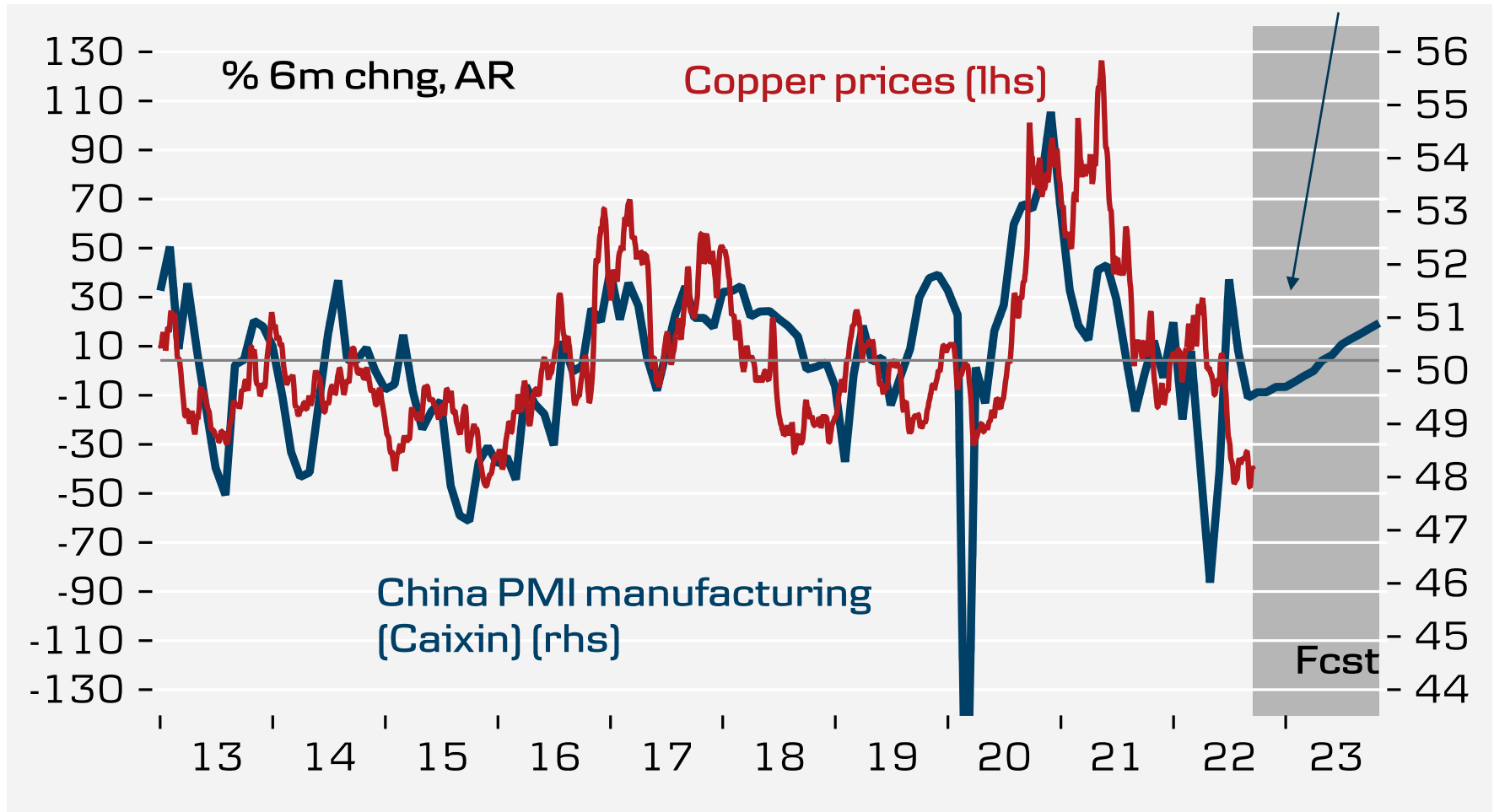
24 August:	19-point 1 trn CNY fiscal stimulus package (0.9% of GDP), included: <ul style="list-style-type: none"> • 300bn funding via policy banks for infrastructure projects • 500 bn funding for local governments also mainly for infrastructure • 200 bn funding for state-owned power generation companies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

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)

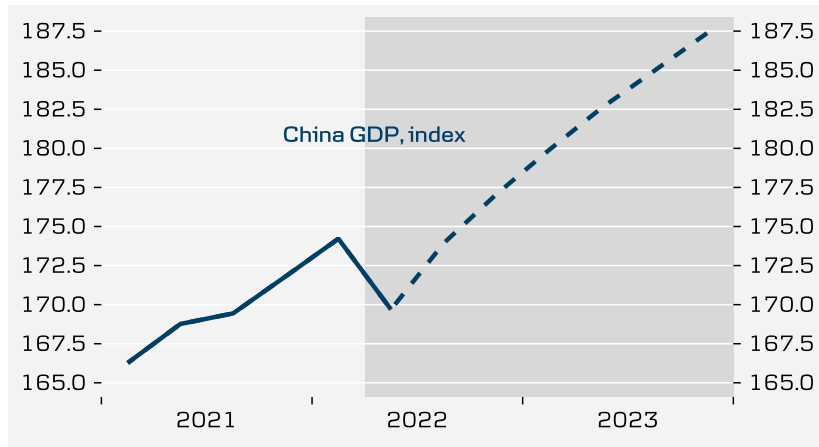
We look for Caixin PMI manufacturing to signal below-trend growth rest of H2 before recovering in 2023



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

GDP forecast

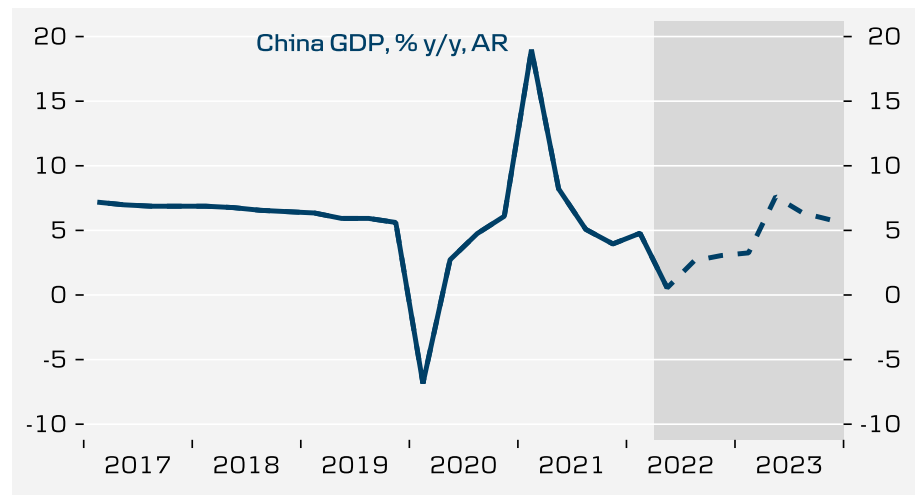
2020: 1.6%
2021: 8.5%
2022: 2.8%
2023: 5.7%

*Growth forecast unchanged.
We are still slightly below
consensus in 2022 at 2.8%
[consensus 3.5%].*

*However, in 2024 we look for
more recovery with growth at
5.7% [consensus 5.2%].*



Source: Macrobond Financial, Danske Bank



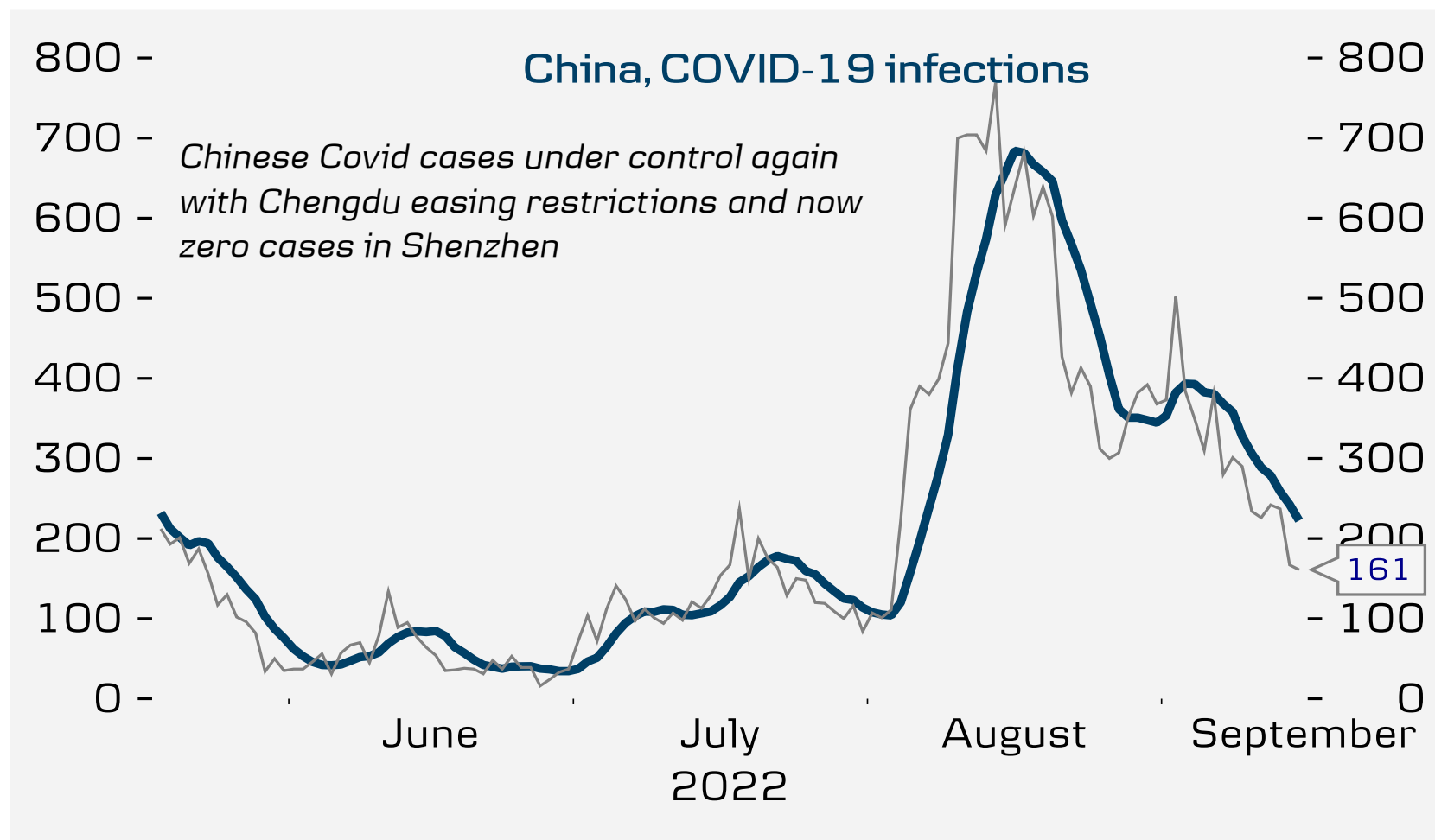
Source: Macrobond Financial, Danske Bank

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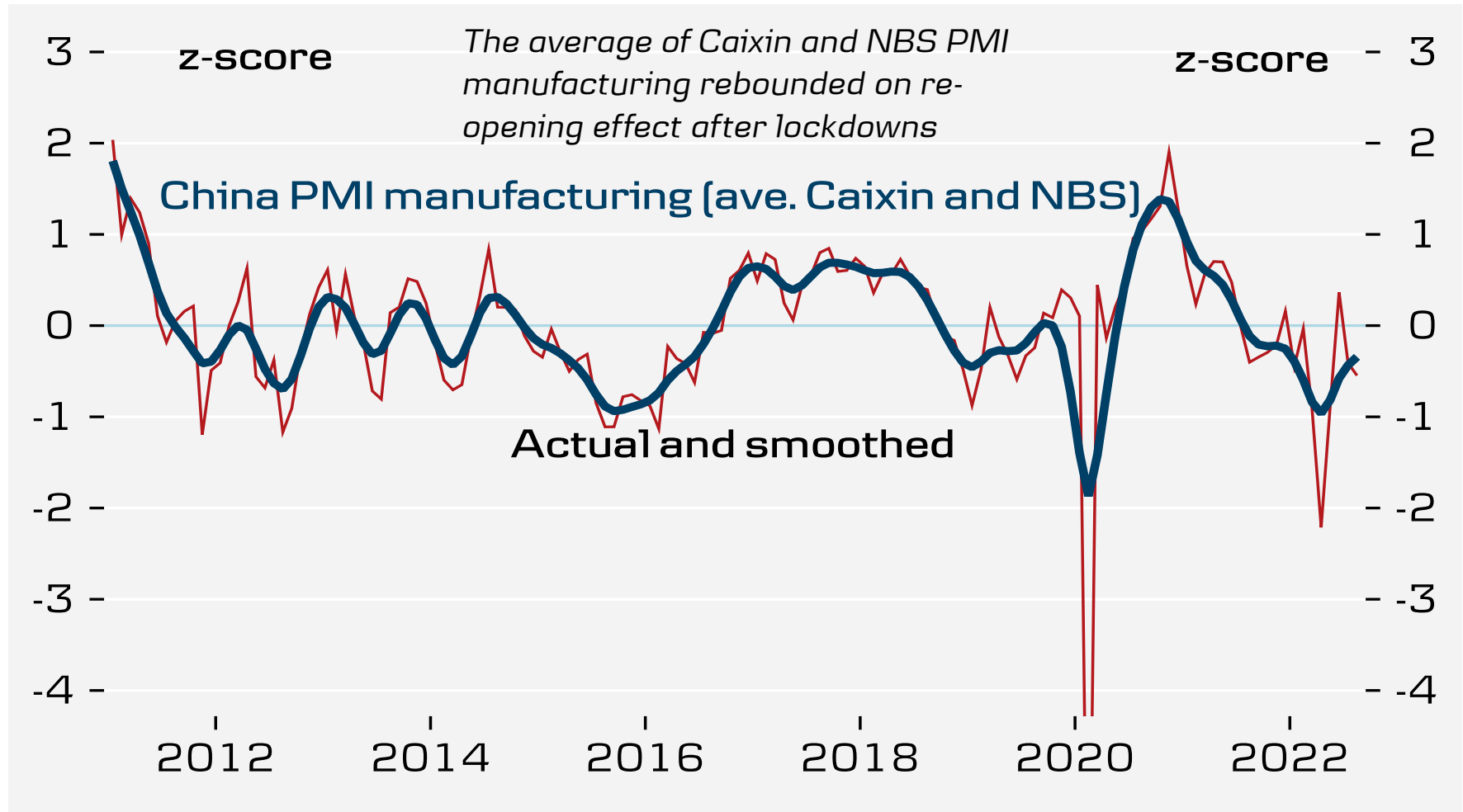


Overview of China macro indicators

Covid under control currently but causing great uncertainty



PMI indicator (average of Caixin and NBS)

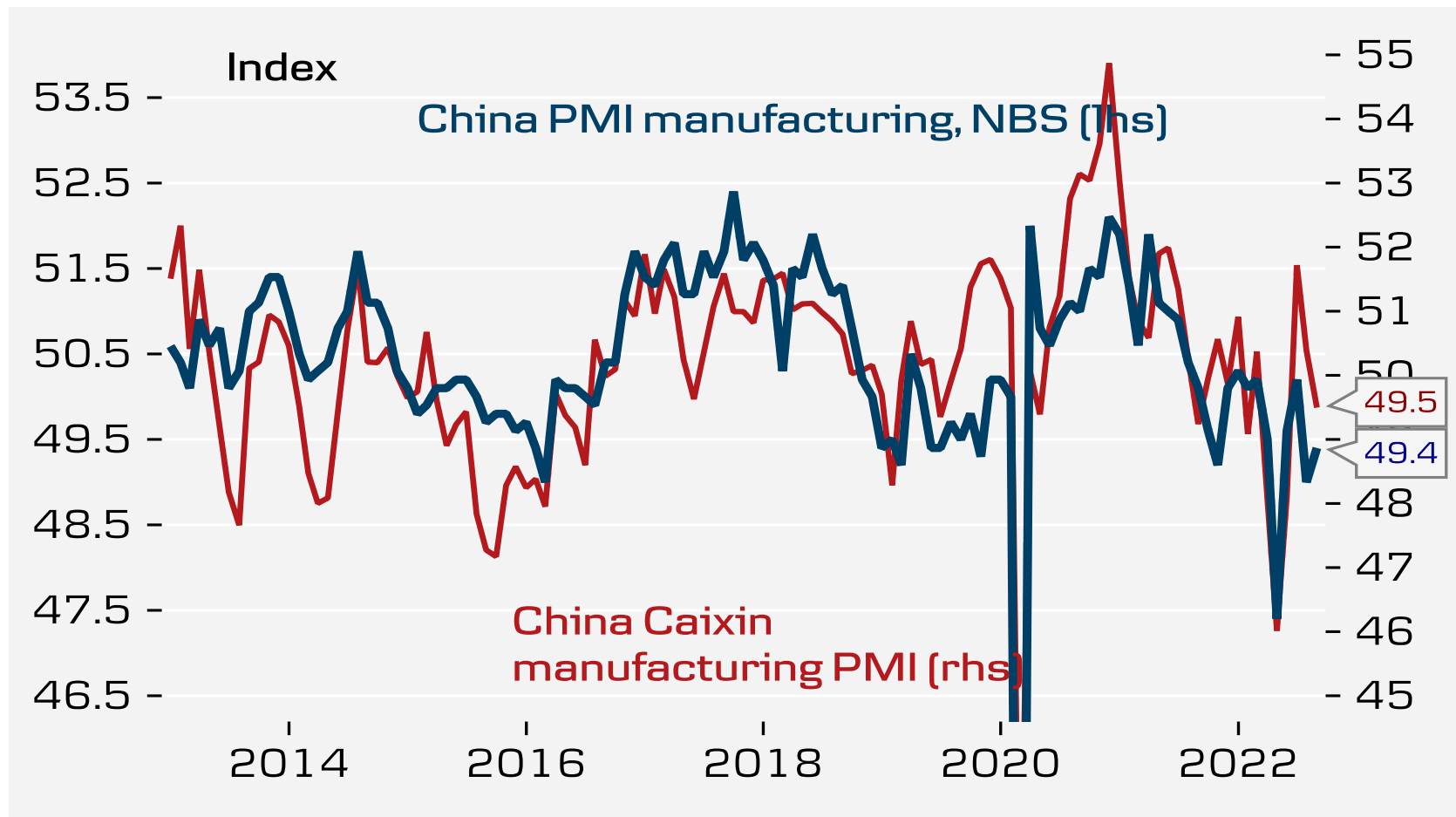


Source: Macrobond Financial, Markit, NBS, Danske Bank

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NBS vs Caixin PMI

Both the private Caixin and official NBS PMI's are below 50.

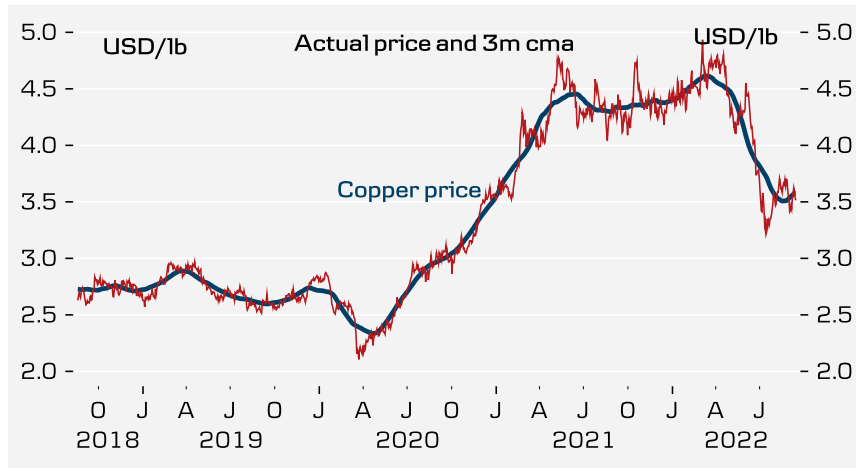


Source: Macrobond Financial, Markit, NBS, Danske Bank

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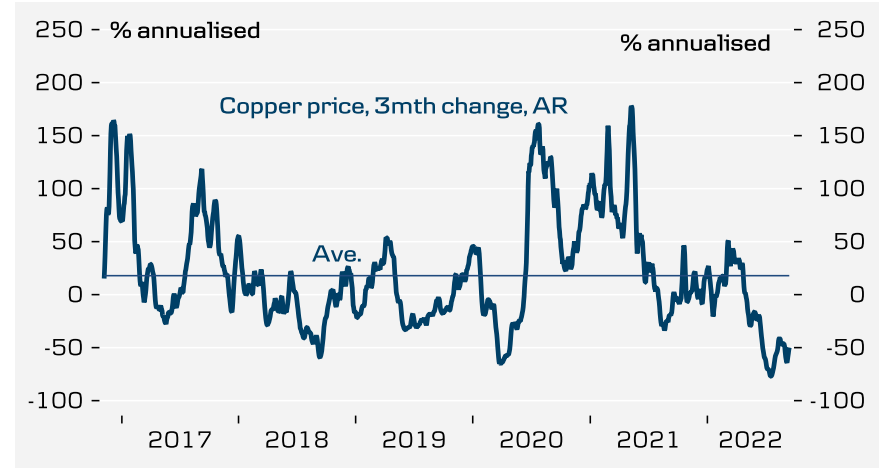
Copper price momentum

Copper prices have stabilized but still signalling weak global manufacturing 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 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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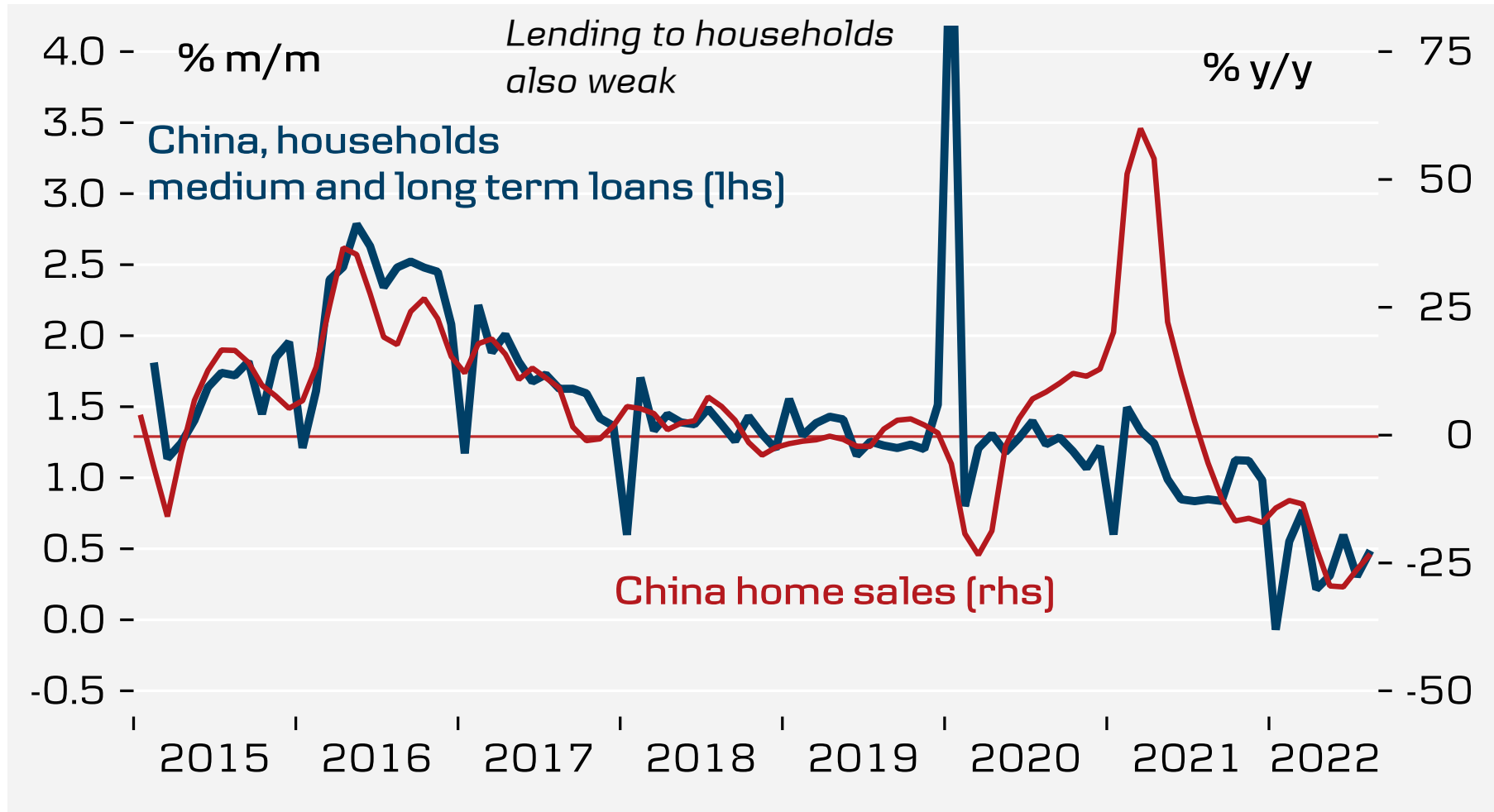
Housing – home sales and housing starts



Source: Macrobond Financial, NBS, Danske Bank

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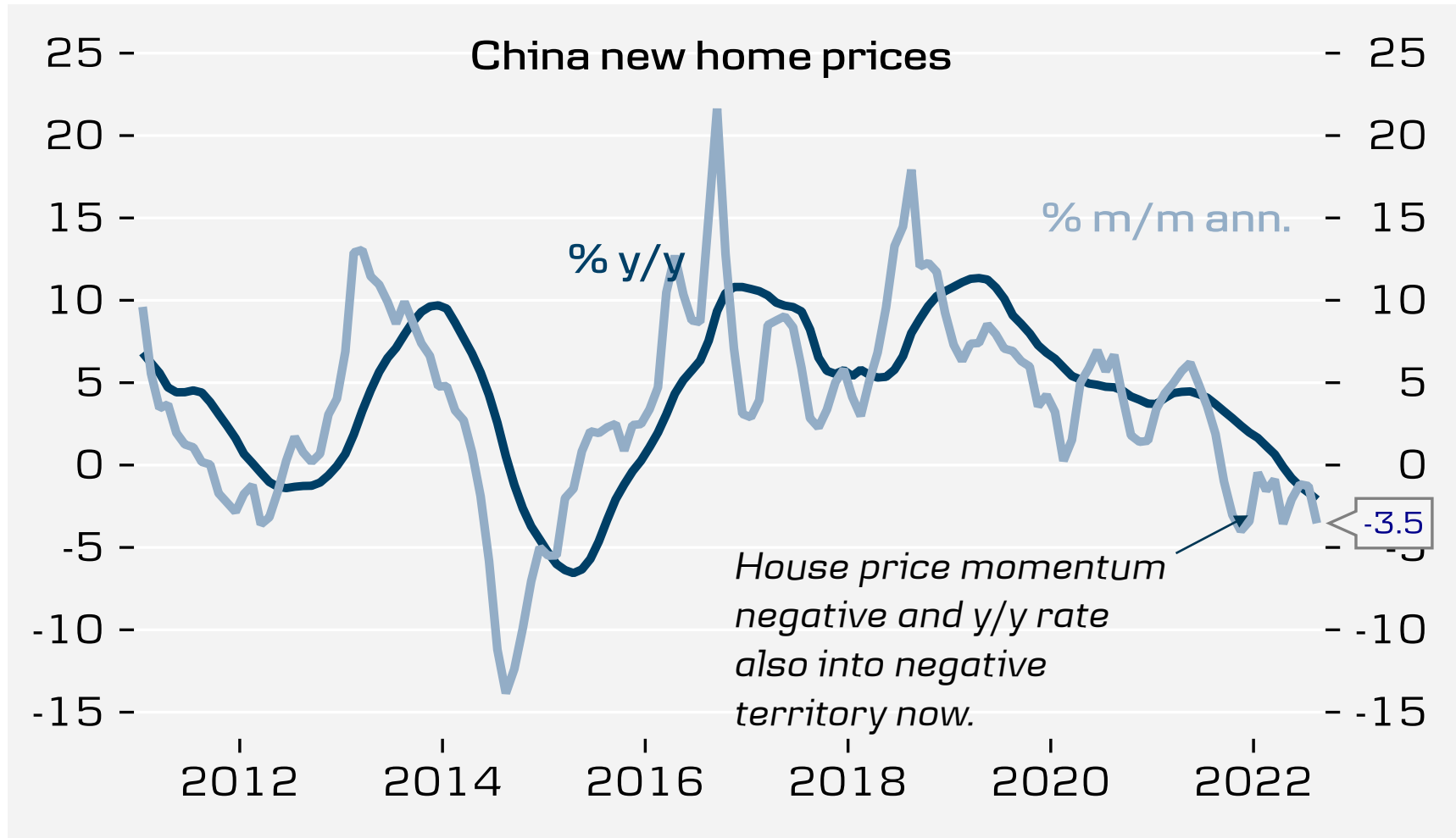
Housing – home sales and household credit



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

Tech stocks pulling down the overall index lately whereas developer stocks have stabilized



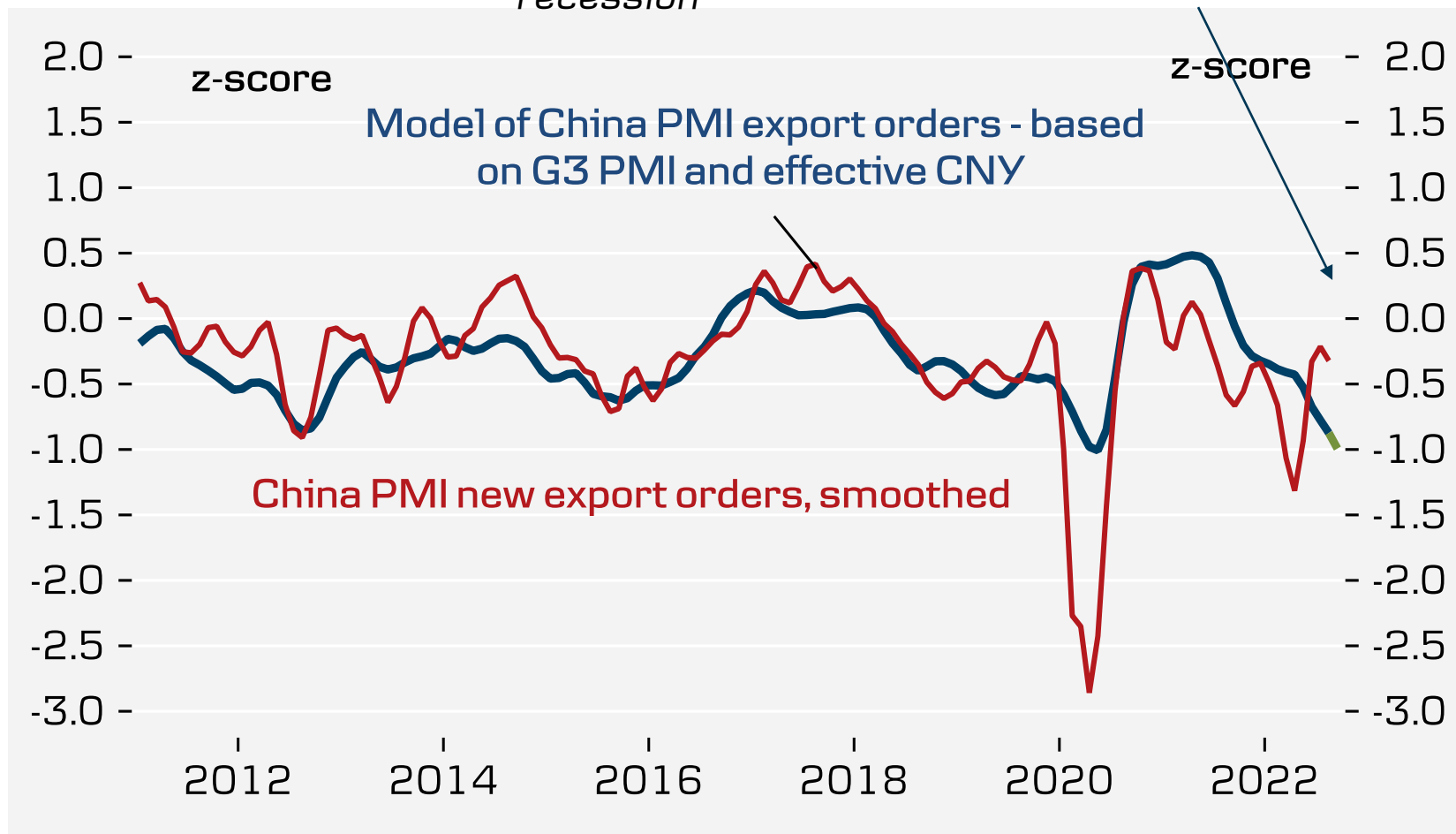
Source: Macrobond Financial, Bloomberg

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Exports – model

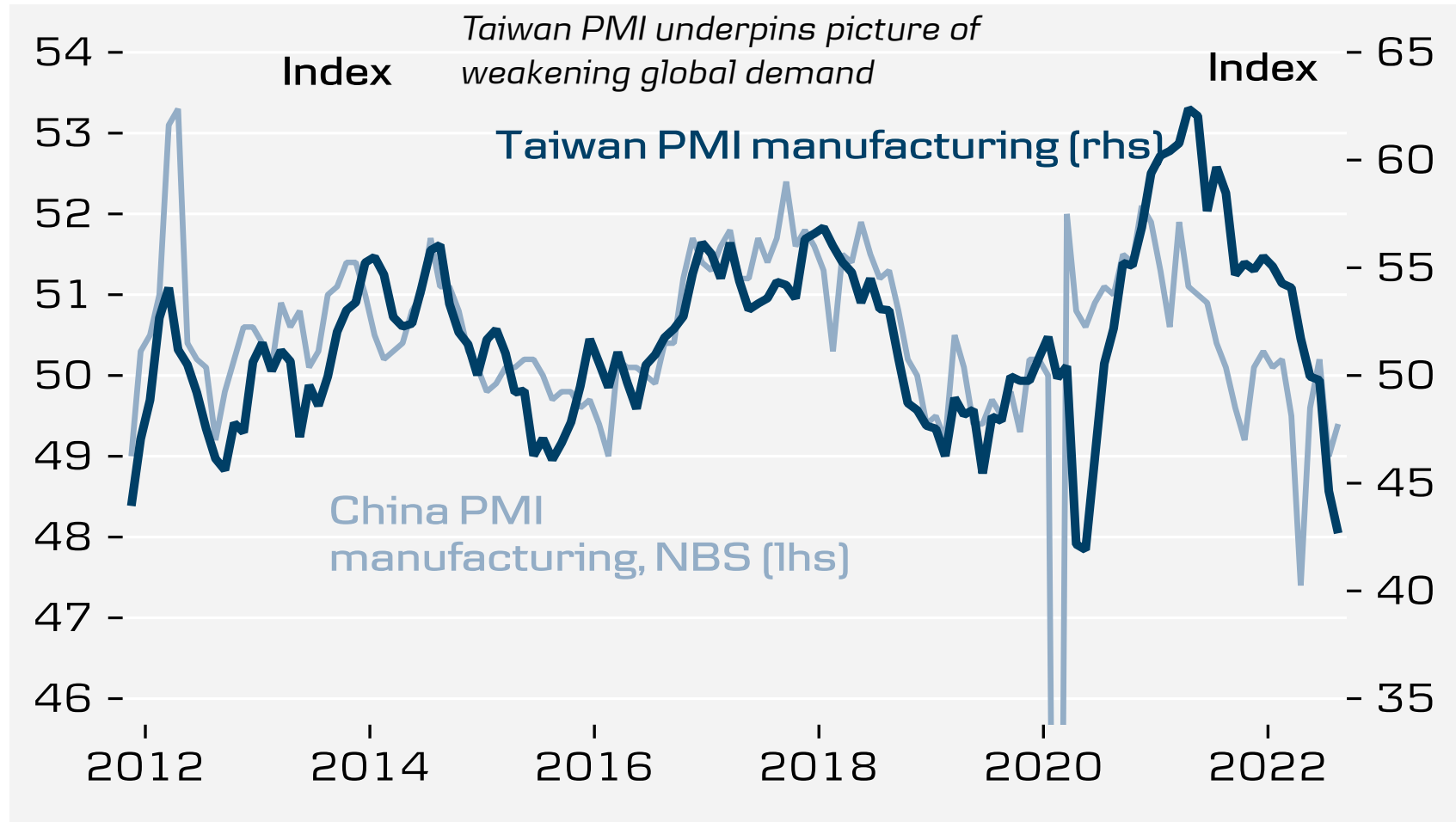
Export orders bounced but we look for declines in coming months as US and Europe are heading into recession



Source: Macrobond Financial, NBS, Markit, Danske Bank

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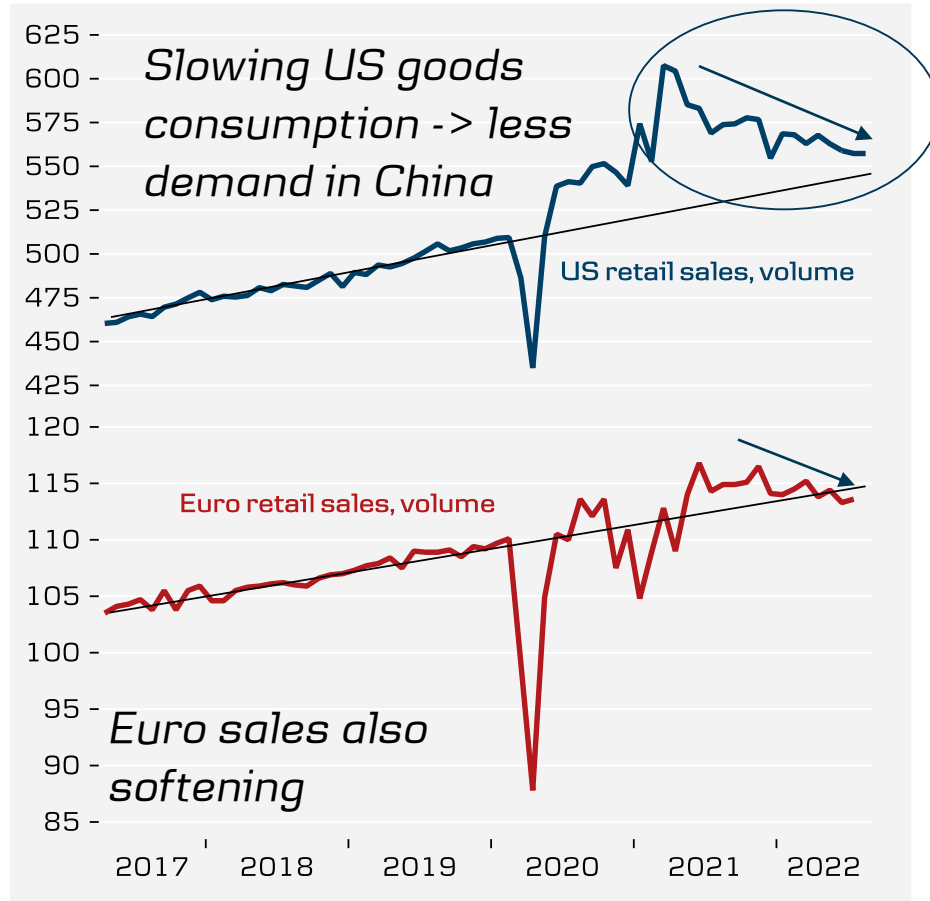
Taiwan PMI vs mainland China PMI



Source: Macrobond Financial, Markit, Danske Bank

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China exports 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 weakening global demand kicks in

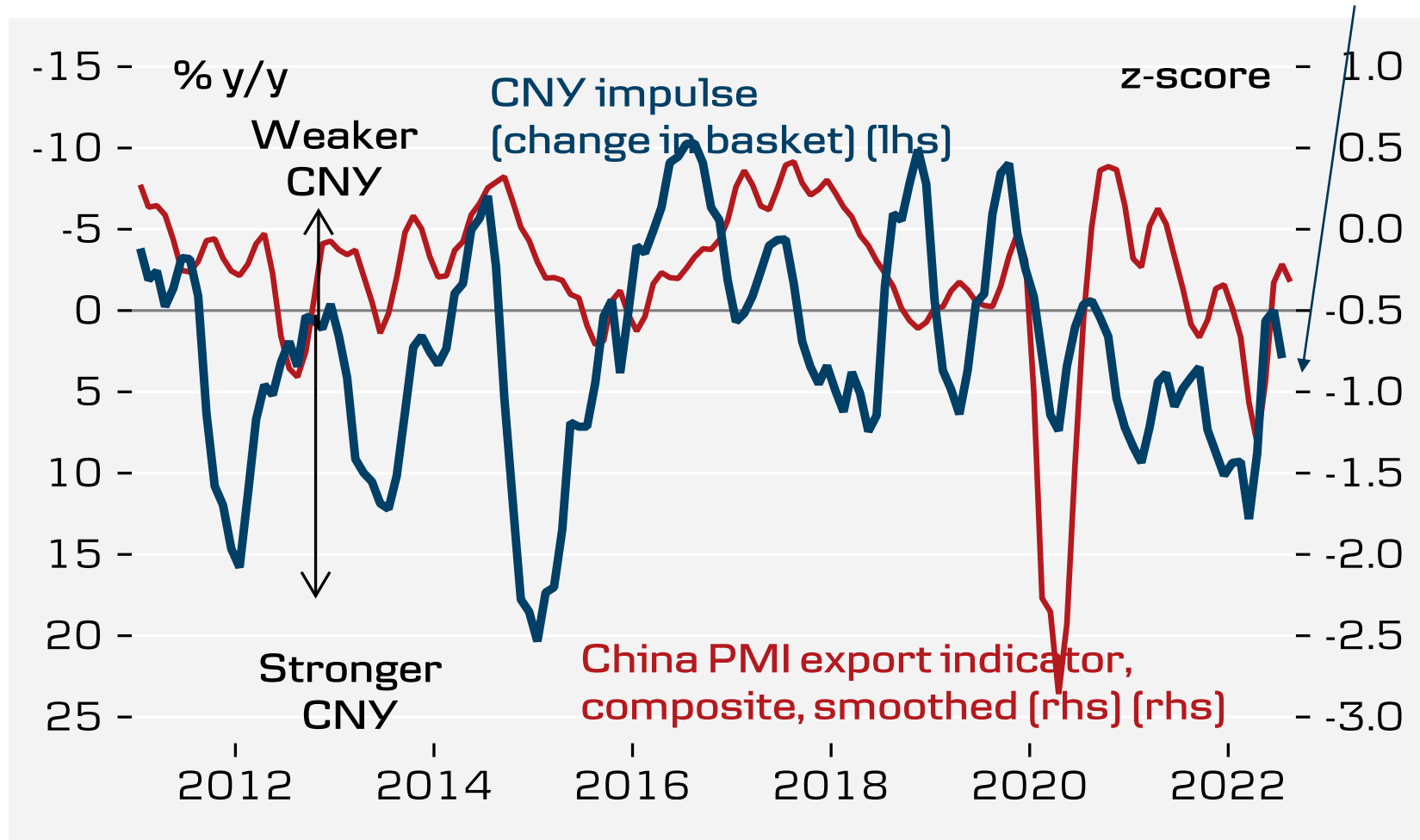


Source: Macrobond Financial, Danske Bank

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Exports - currency impulse

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



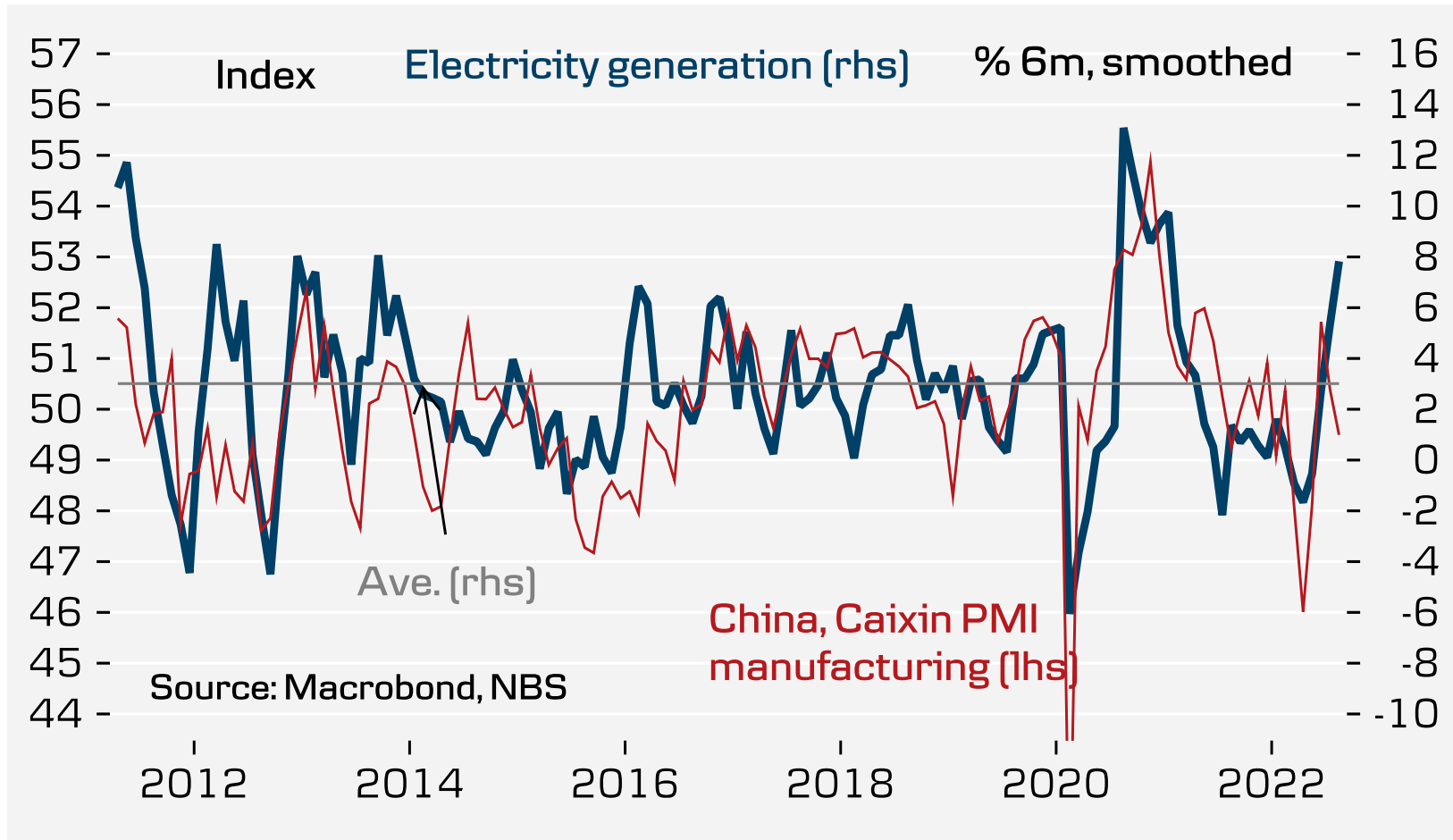
Source: Macrobond Financial, NBS, Markit, Danske Bank

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Electricity generation

Electricity growth picked up lately but may be due to heat wave causing demand for cooling to increase

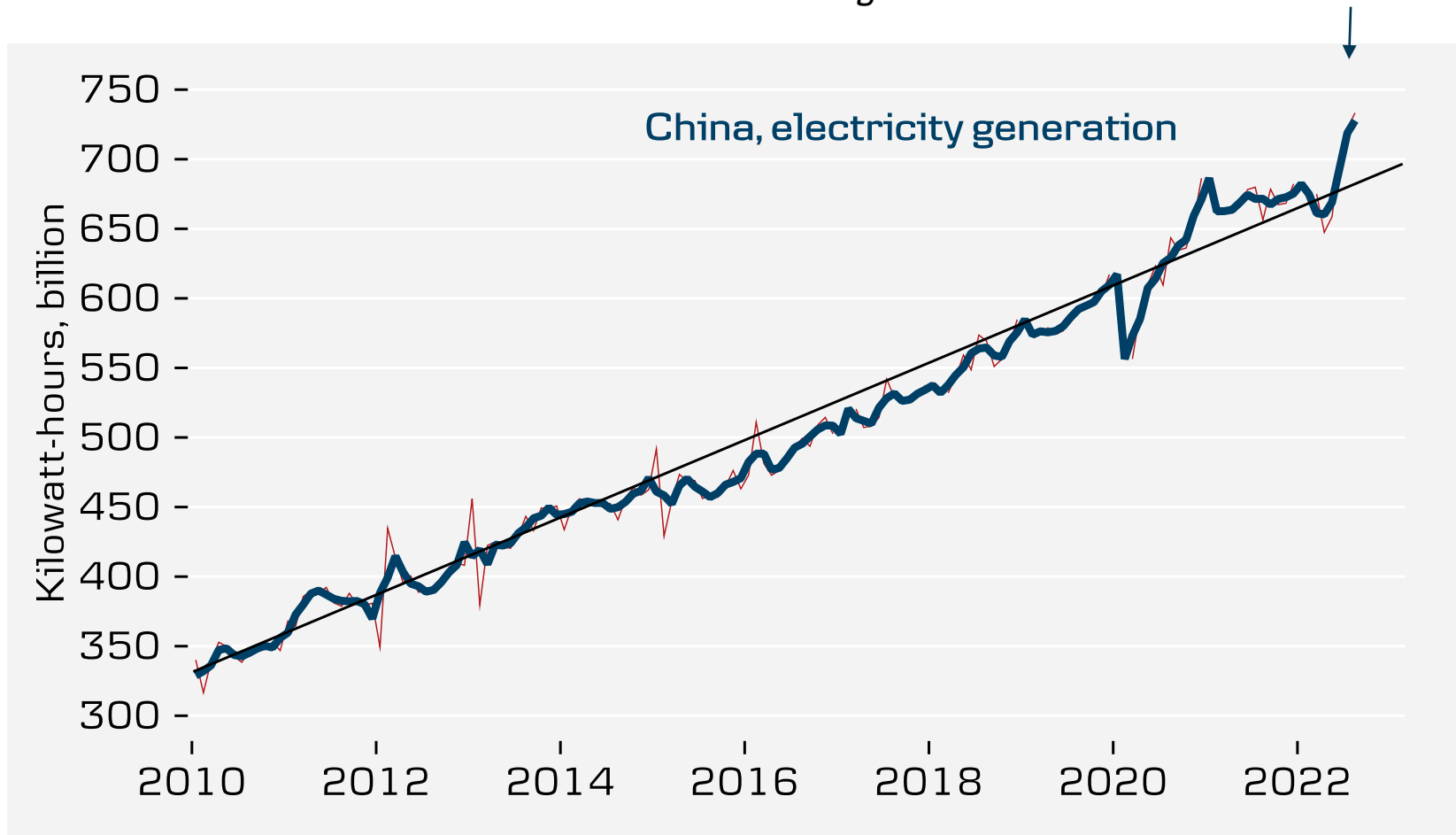


Source: Macrobond Financial, Markit, NBS, Danske Bank

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Electricity generation level

Level of electricity generation also at a high level

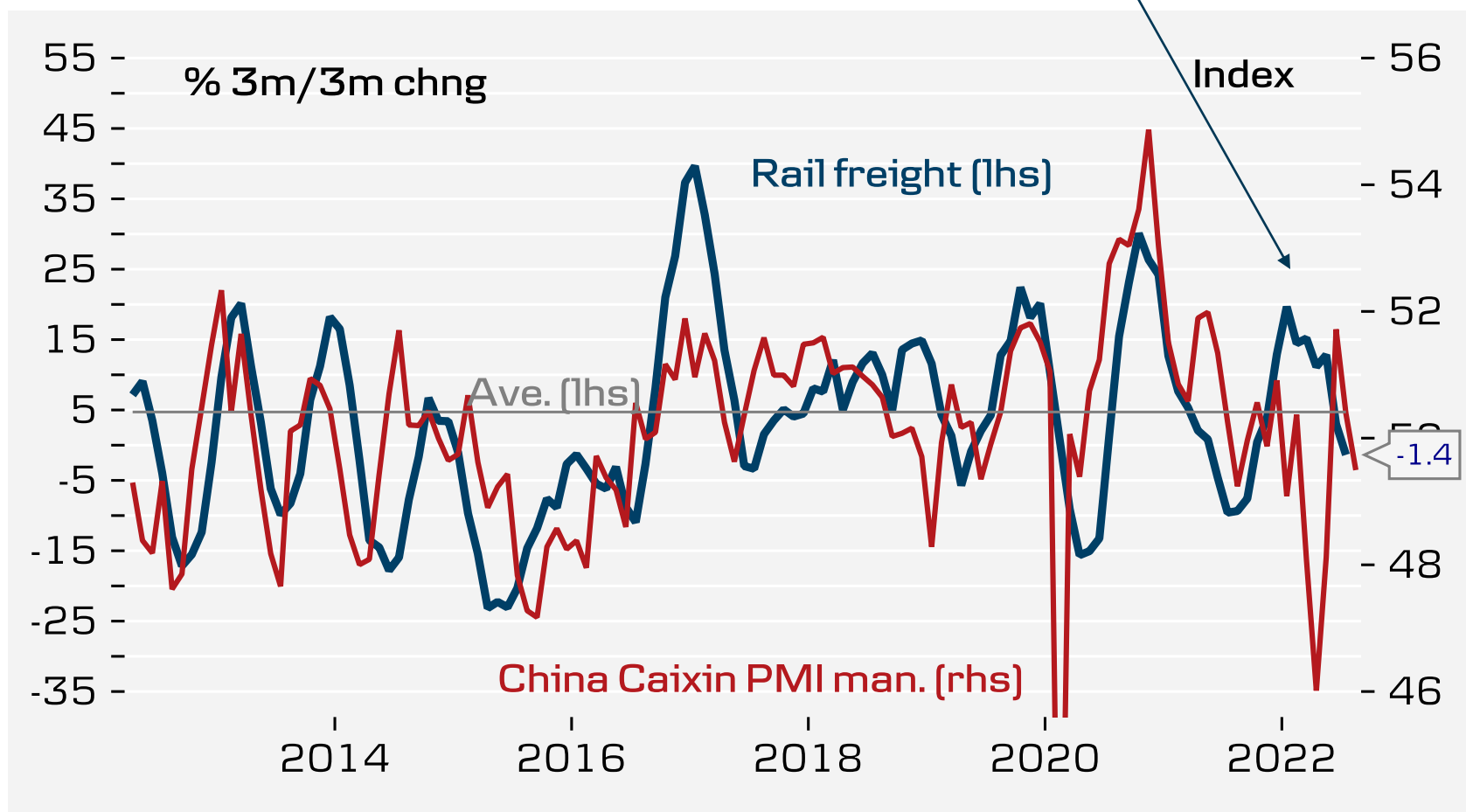


Source: Macrobond Financial, Markit, NBS, Danske Bank

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Rail freight vs PMI

Rail freight growth coming down in line with weaker economy

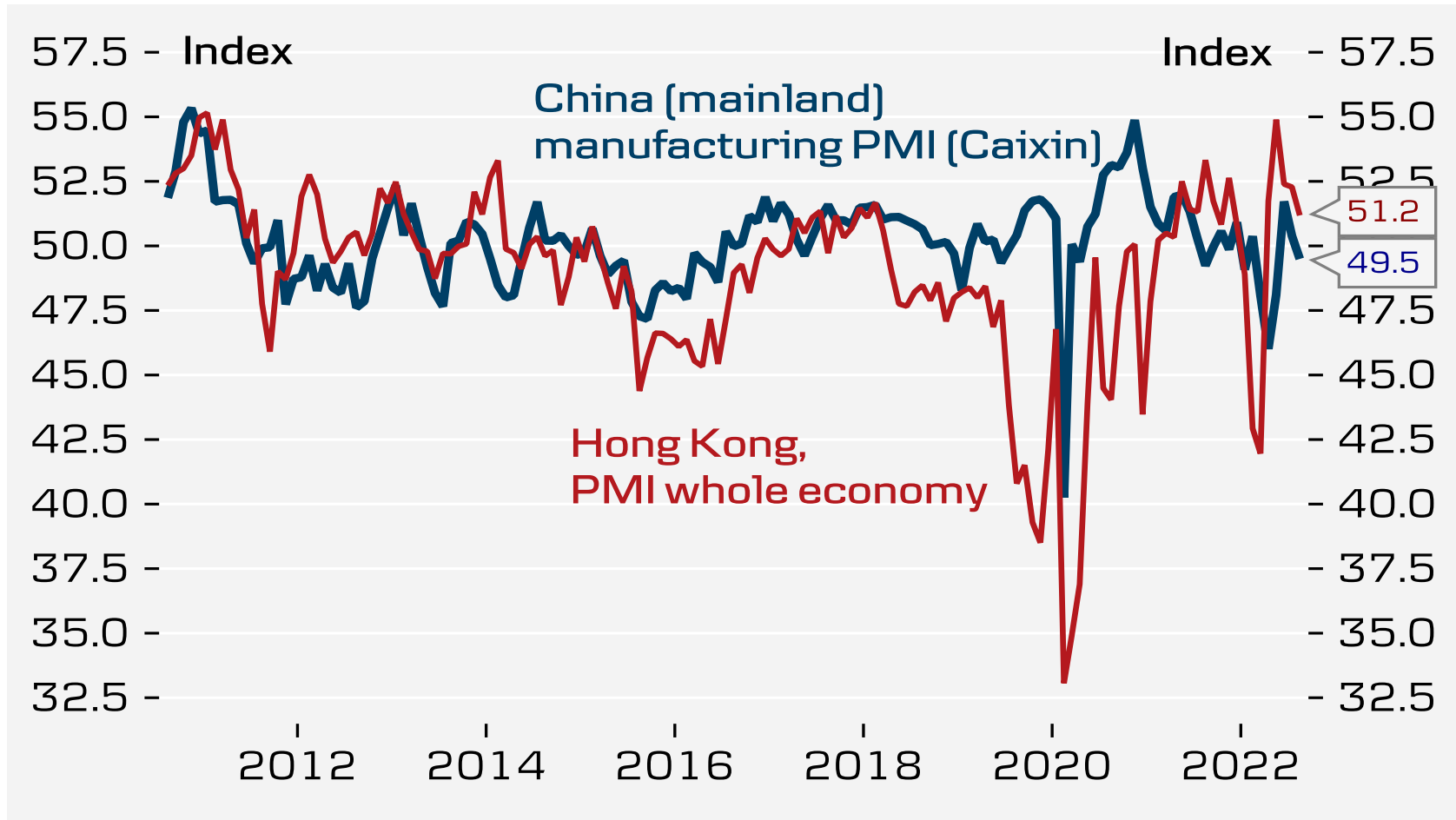


Source: Macrobond Financial, Markit, NBS, Danske Bank

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Hong Kong PMI vs China PMI

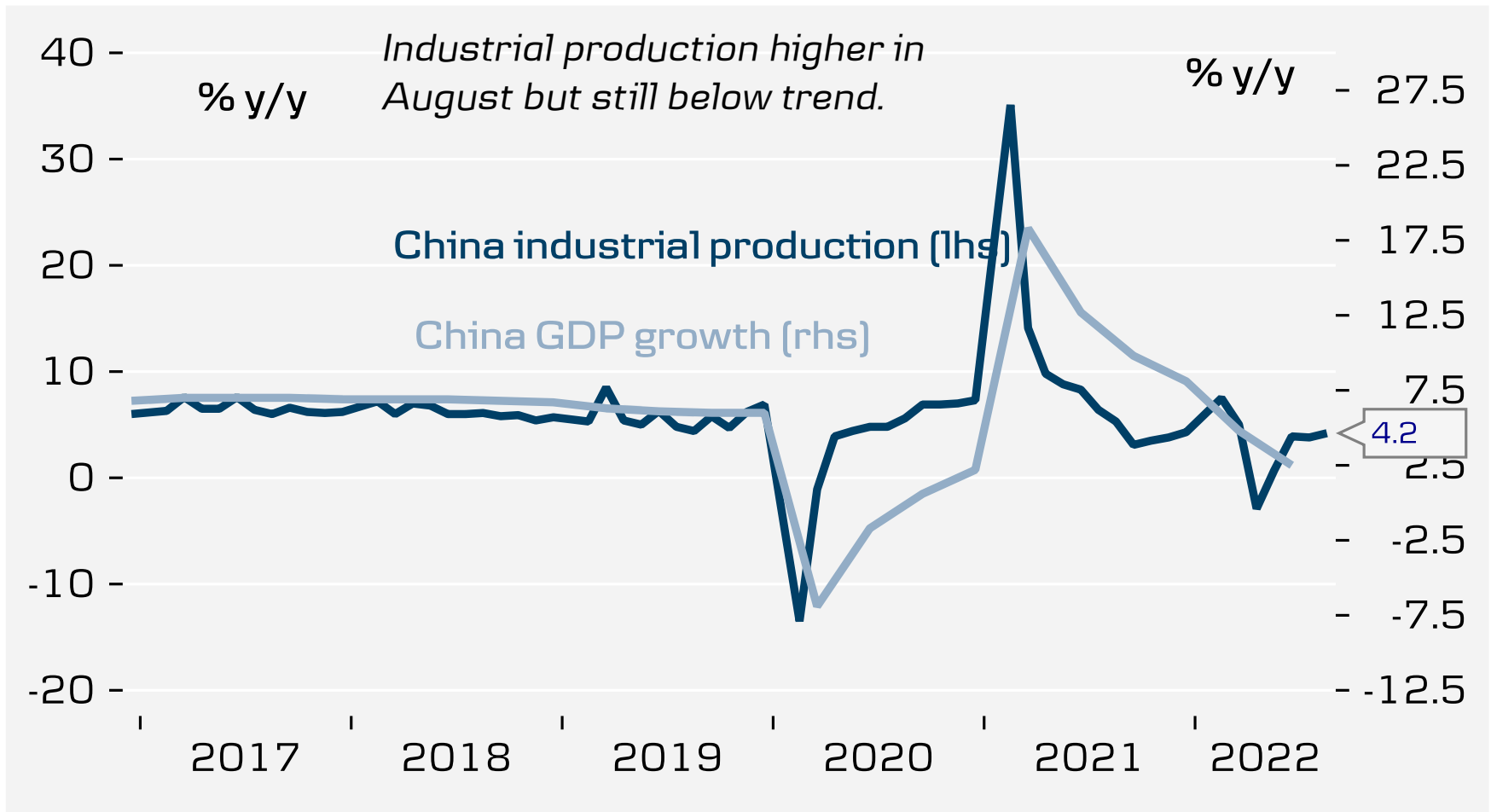
Decline in HK PMI likely to continue as exports falter



Source: Macrobond Financial, Markit, Danske Bank

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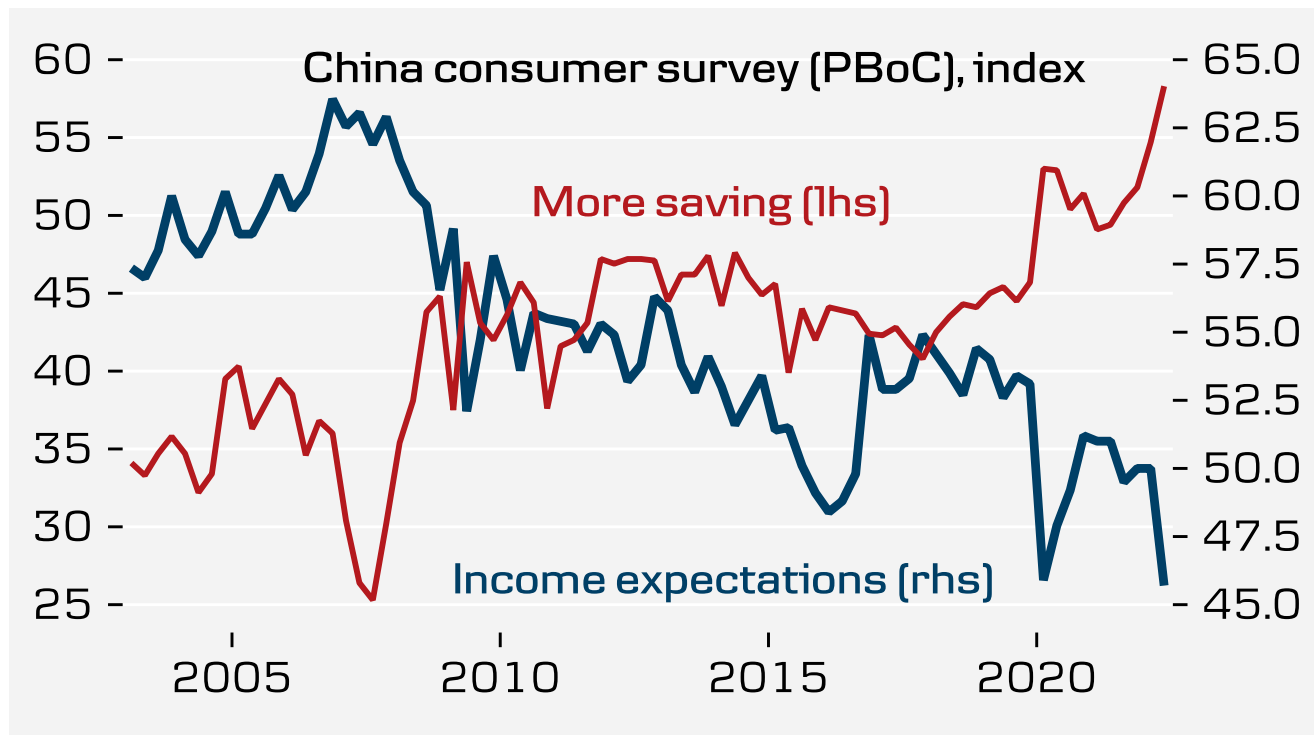
Industrial production vs GDP



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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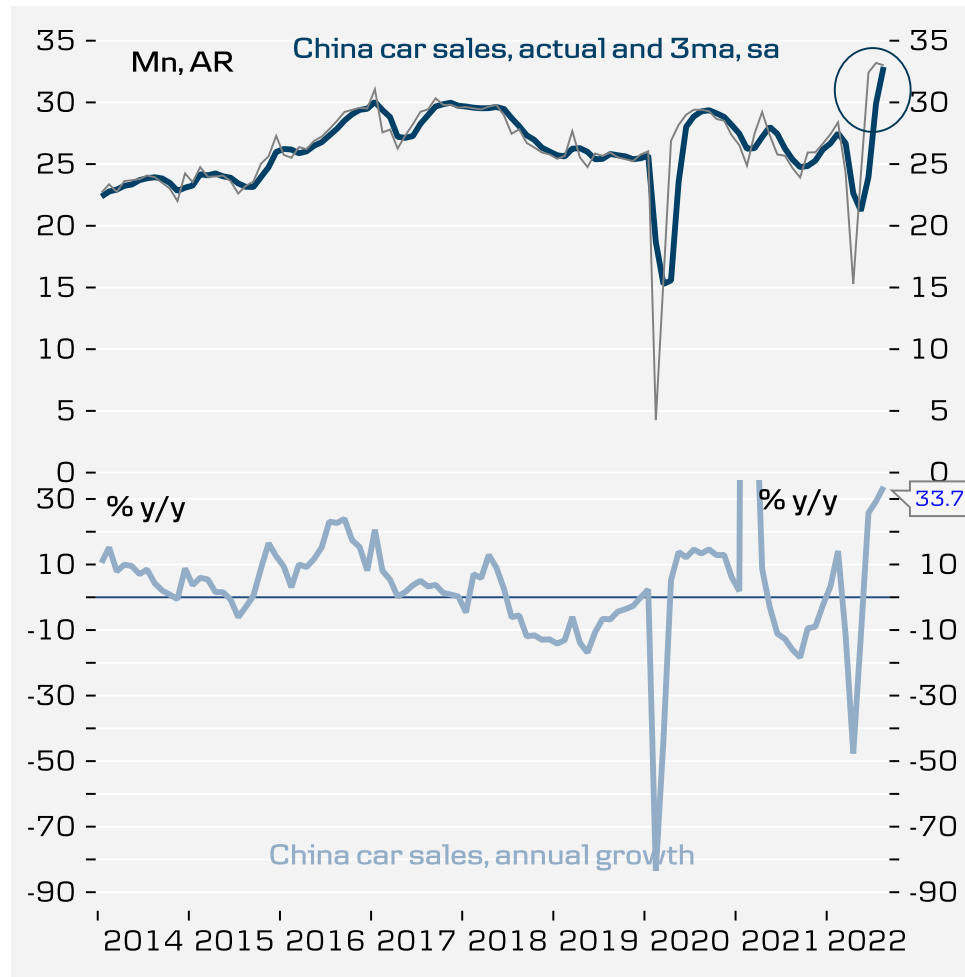
Consumer – retail sales and employment



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 lockdown ended and incentives for buying cars put in place

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Profits vs PMI

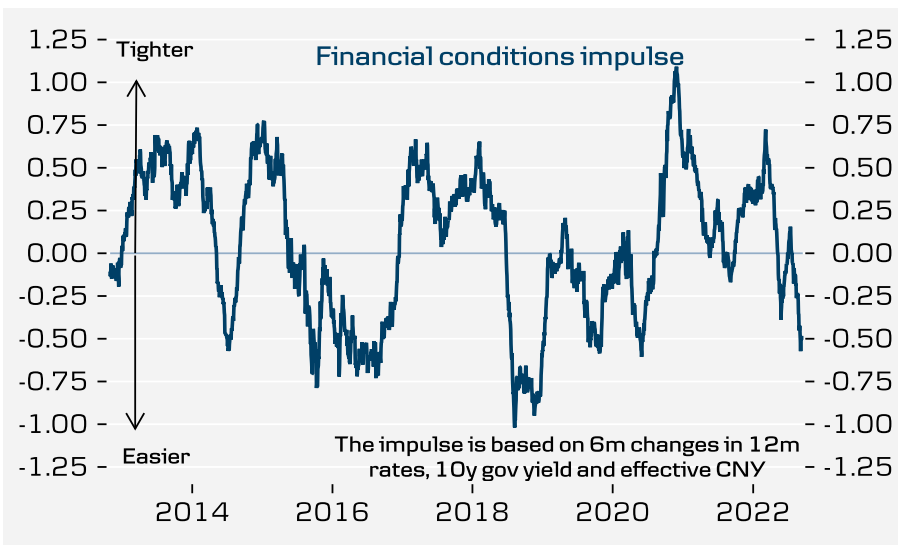


Source: Macrobond Financial, NBS, Markit, Danske Bank

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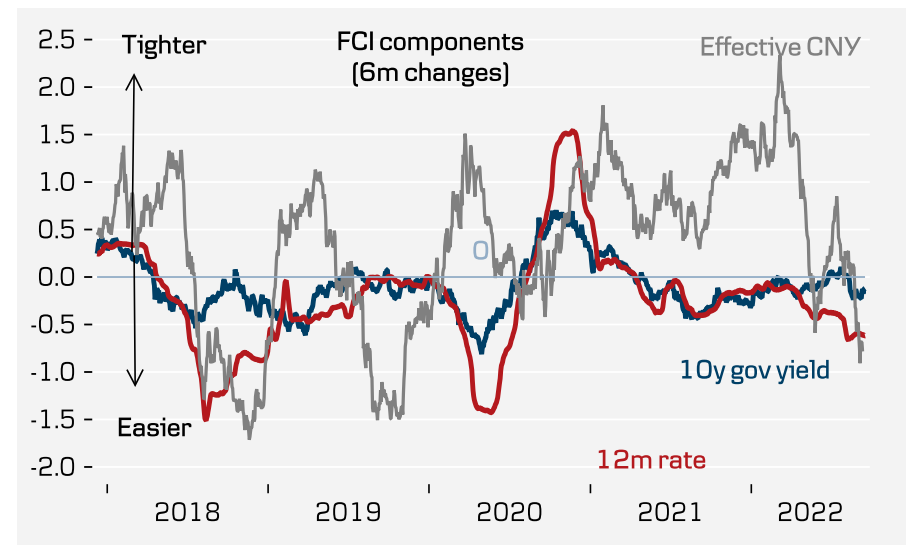
Financial conditions impulse

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



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

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

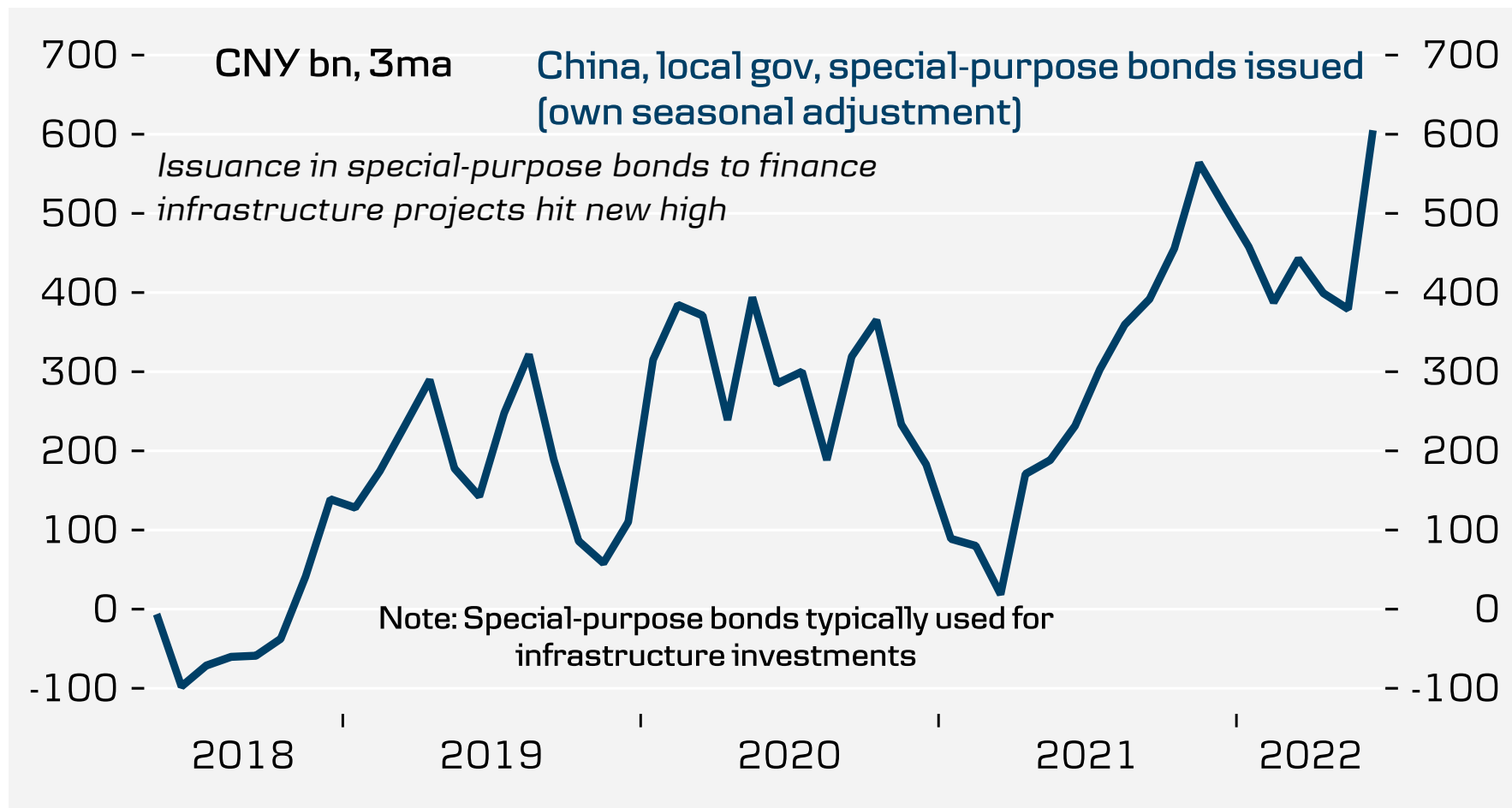


Source: Macrobond Financial, People's Bank of China, Danske Bank

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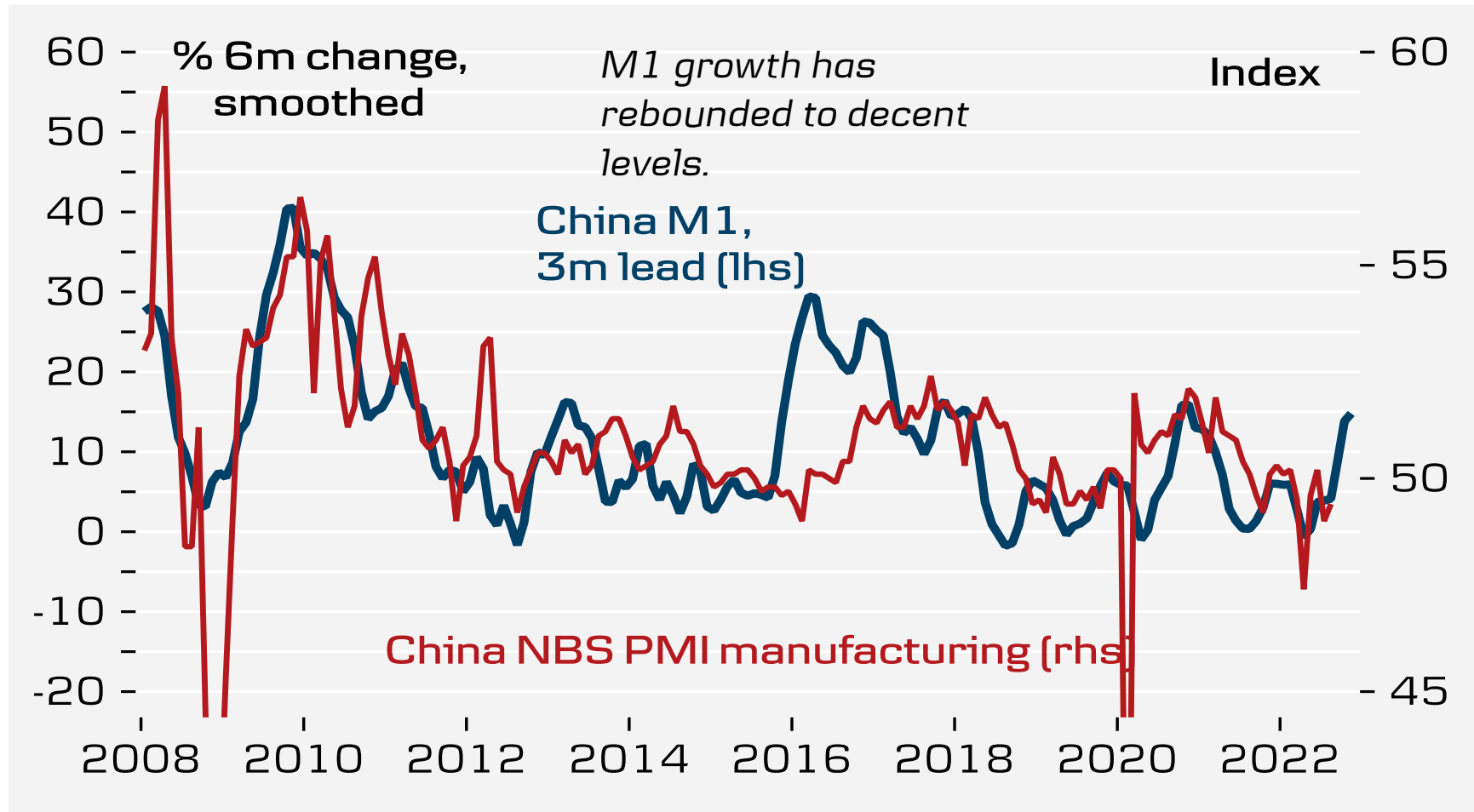
Issuance for infrastructure projects



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

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Money growth

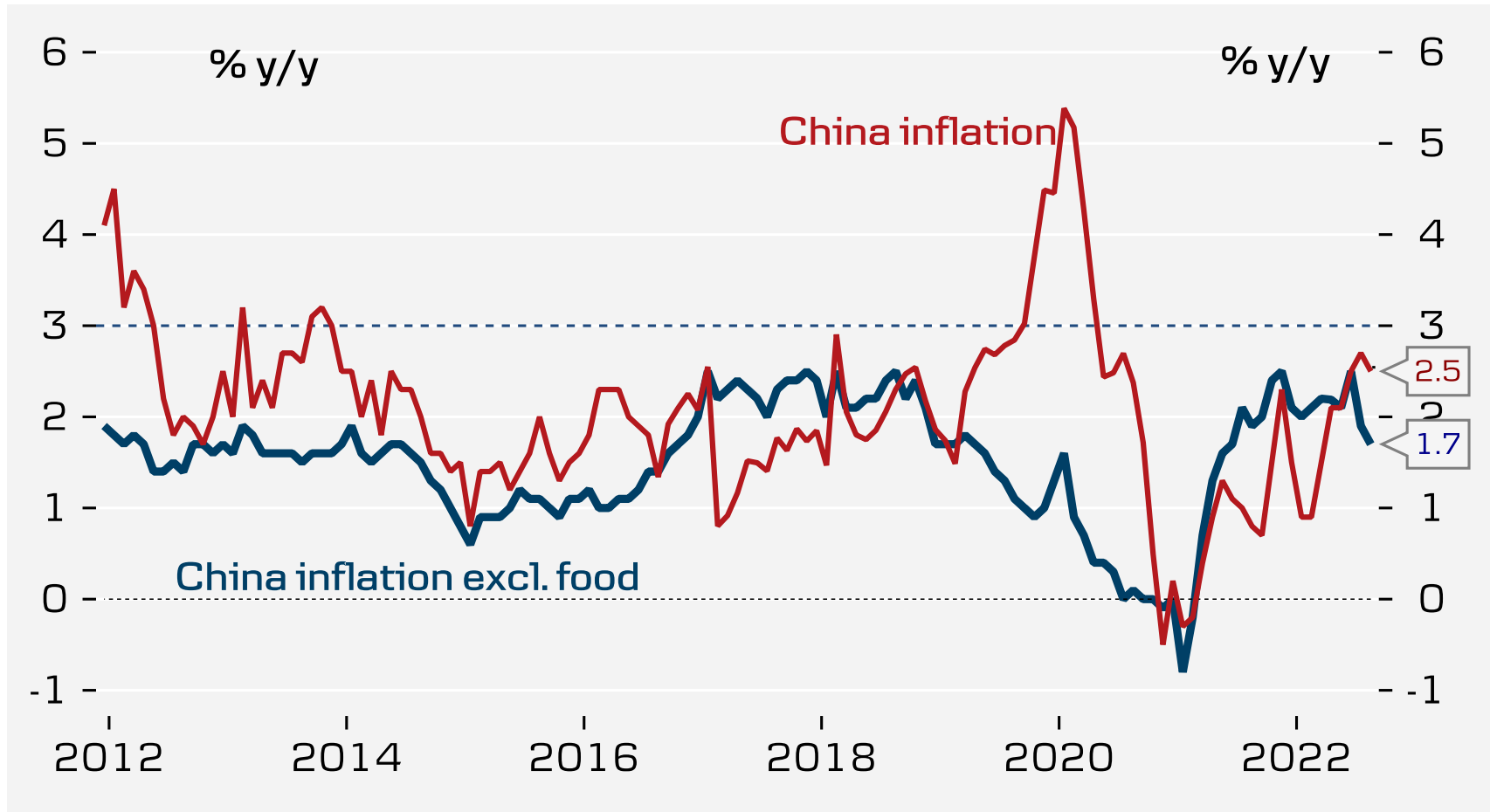


Source: Macrobond Financial, Markit, People's Bank of China

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Inflation – CPI

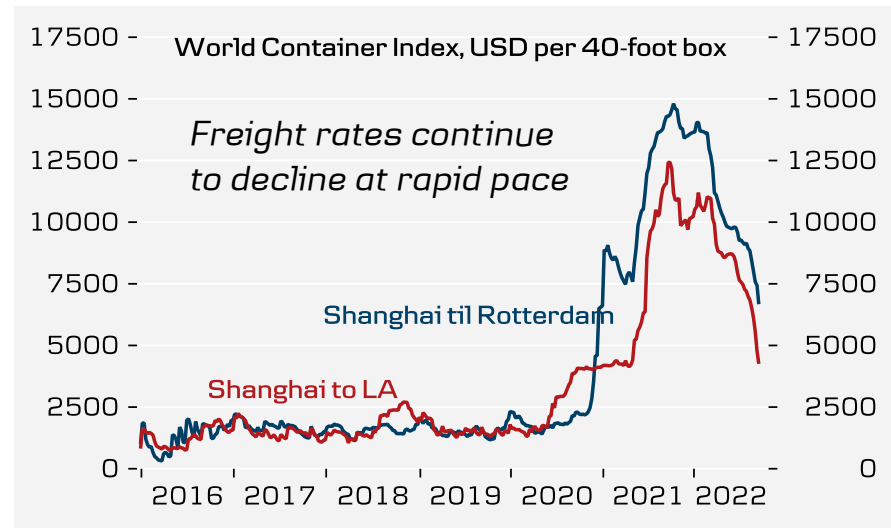
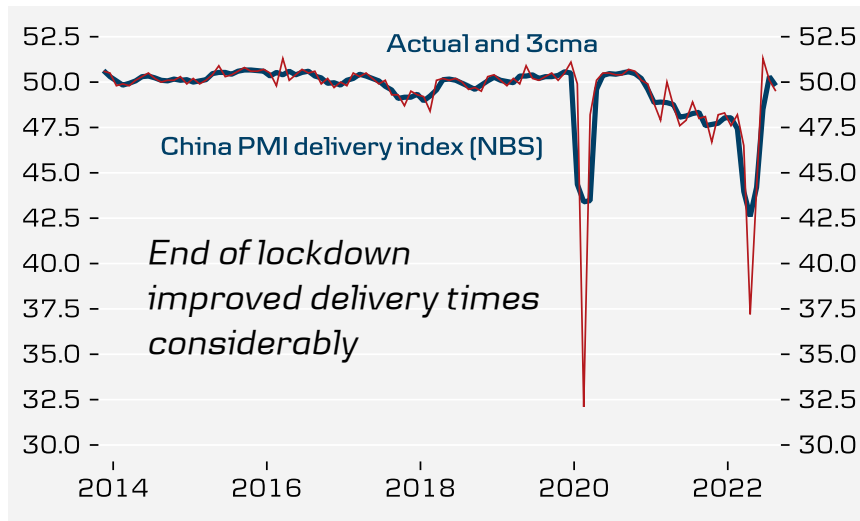
CPI inflation still below 3% target, core CPI has fallen lately as consumer demand is very weak



Source: Macrobond Financial, NBS, Danske Bank

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Inflation – delivery times and freight rates

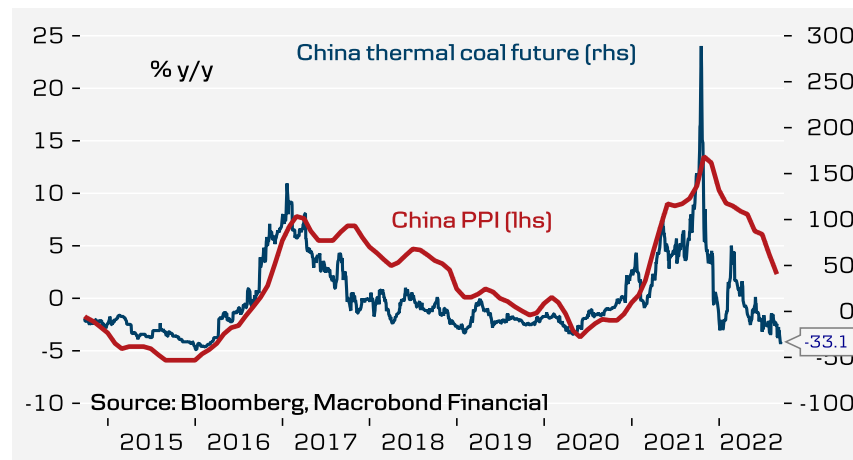
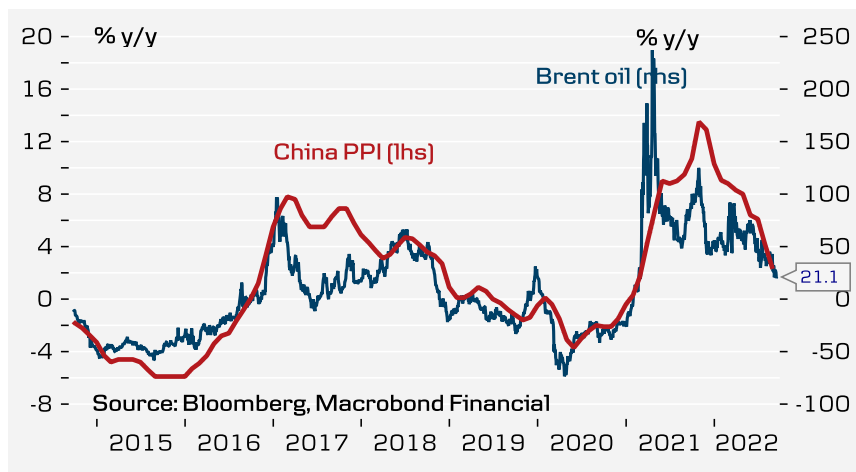
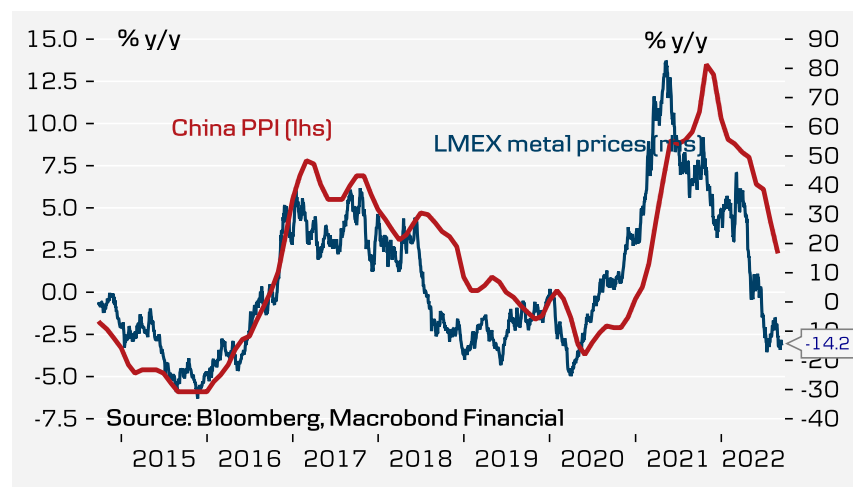
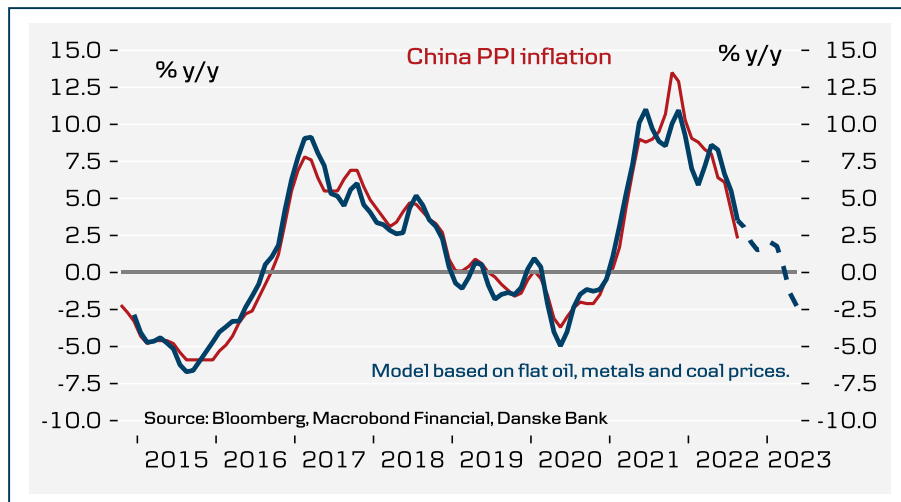


Source: Macrobond Financial, NBS, Danske Bank

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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 already in negative in y/y growth

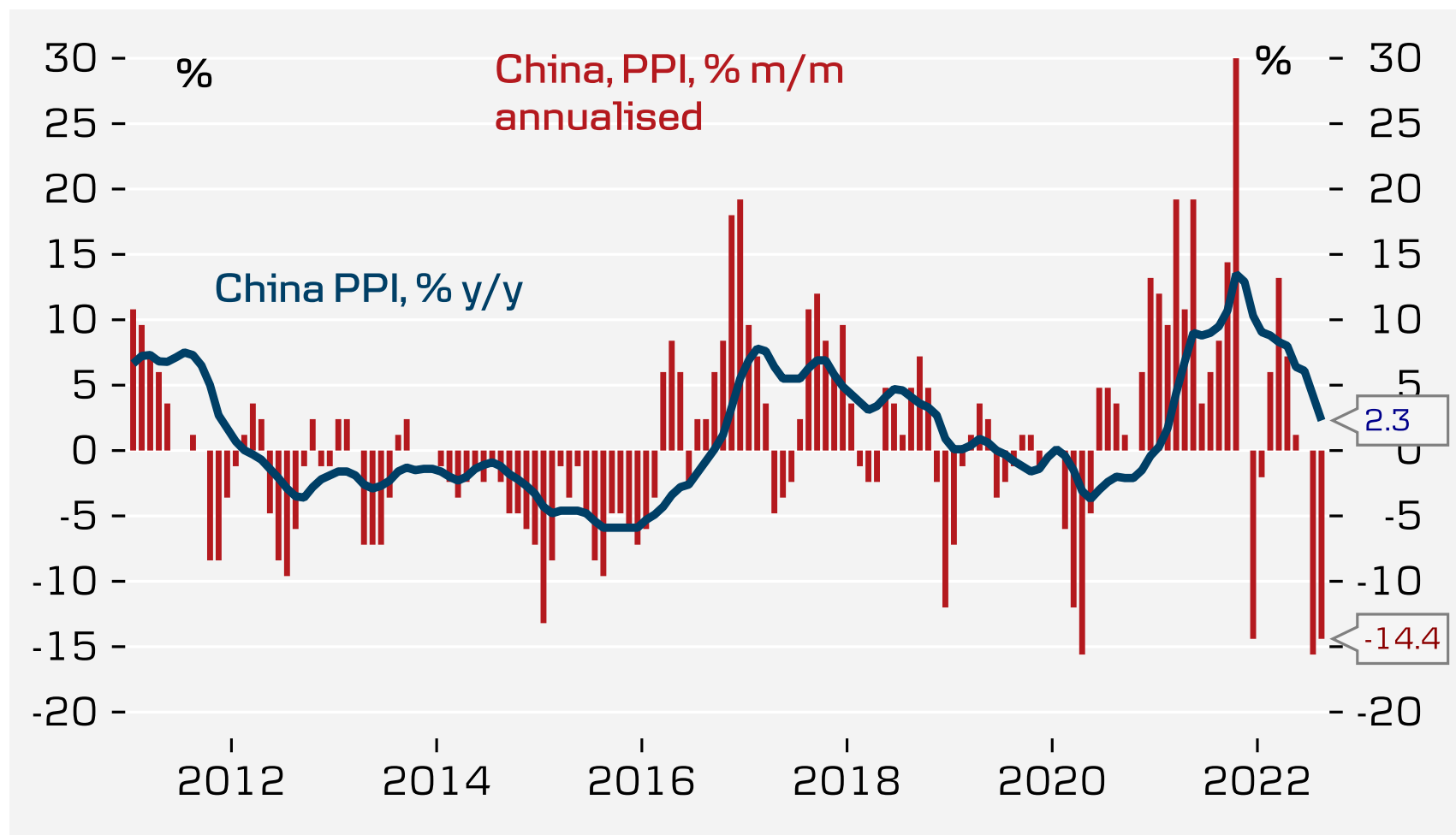


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Inflation - PPI

PPI monthly momentum negative again in August

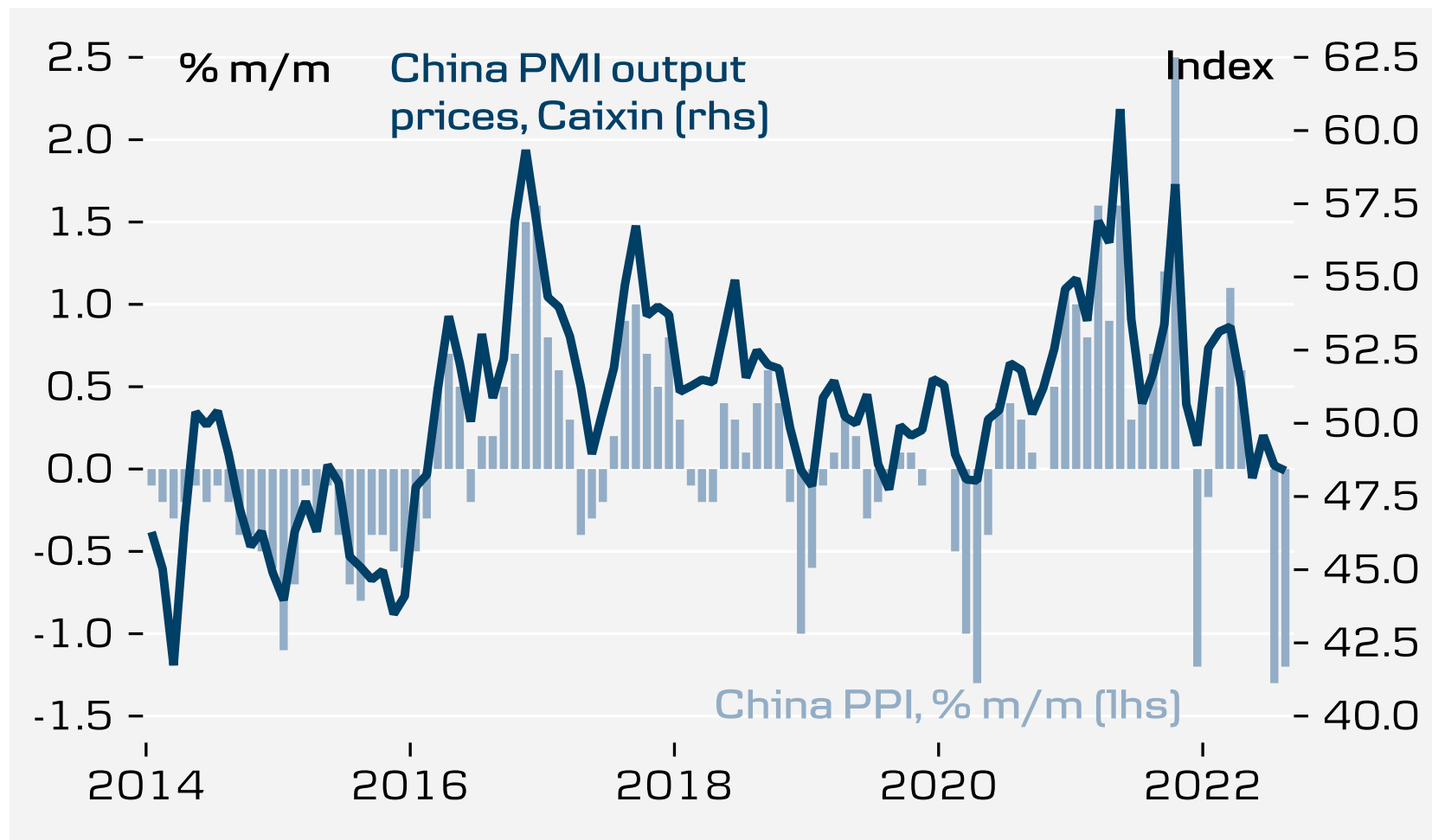


Source: Macrobond Financial, NBS, Danske Bank

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Inflation – PMI output prices and PPI m/m

PMI prices confirm picture of lower price pressures

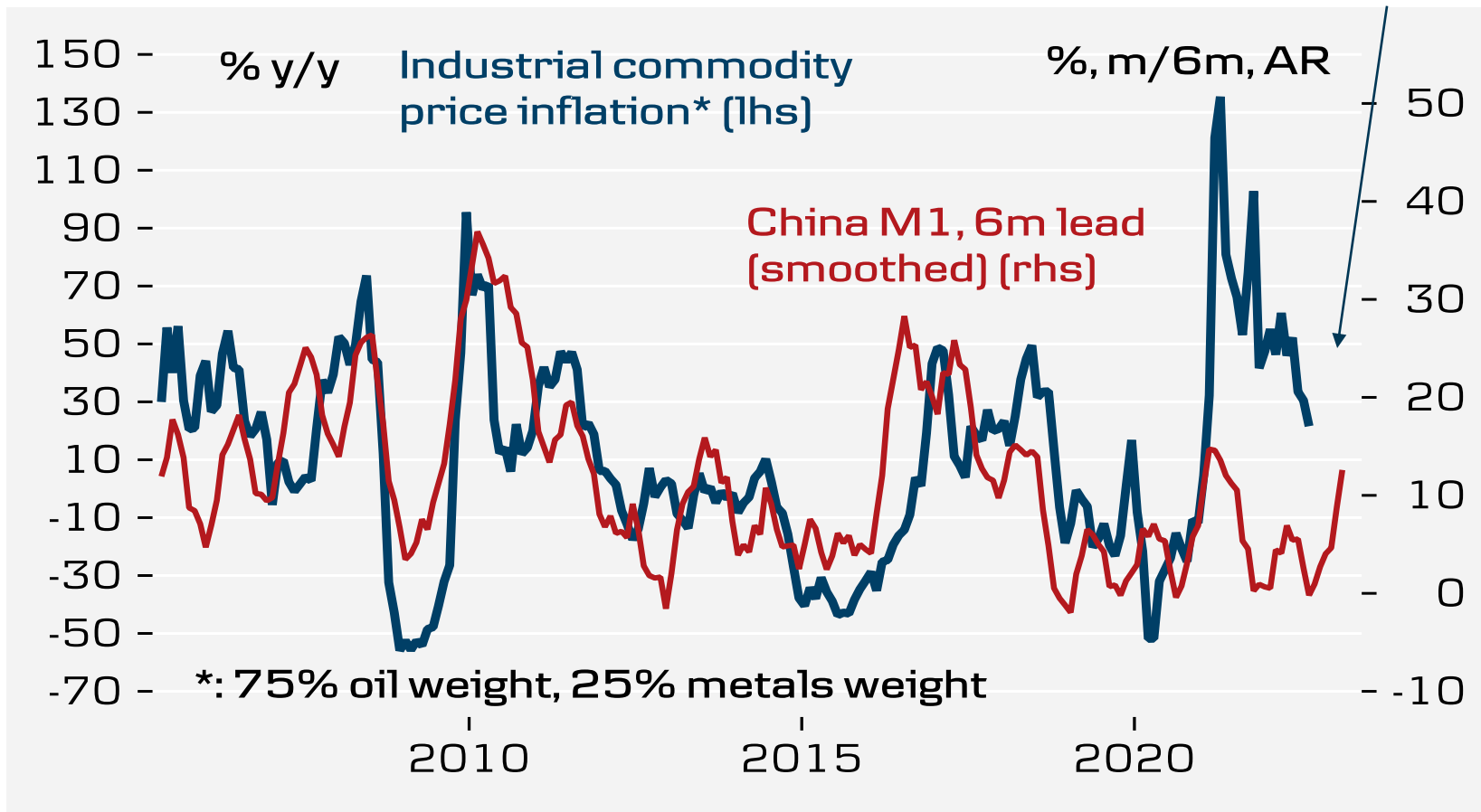


Source: Macrobond Financial, Markit, NBS, Danske Bank

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

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Monetary policy – Reserve Requirement Ratio

Yields lower on more easing



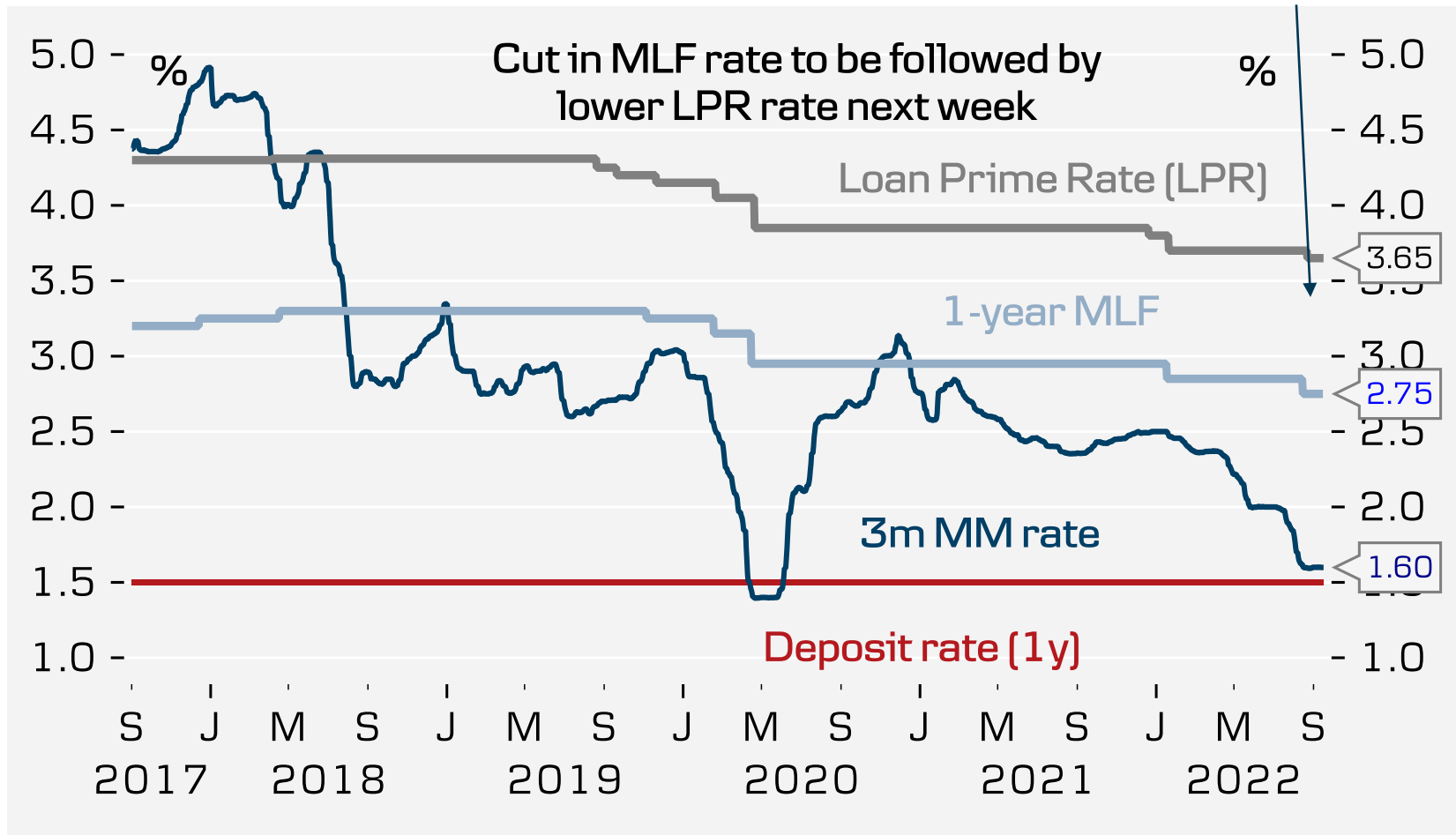
Source: Macrobond Financial, Markit, People's Bank of China

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.*



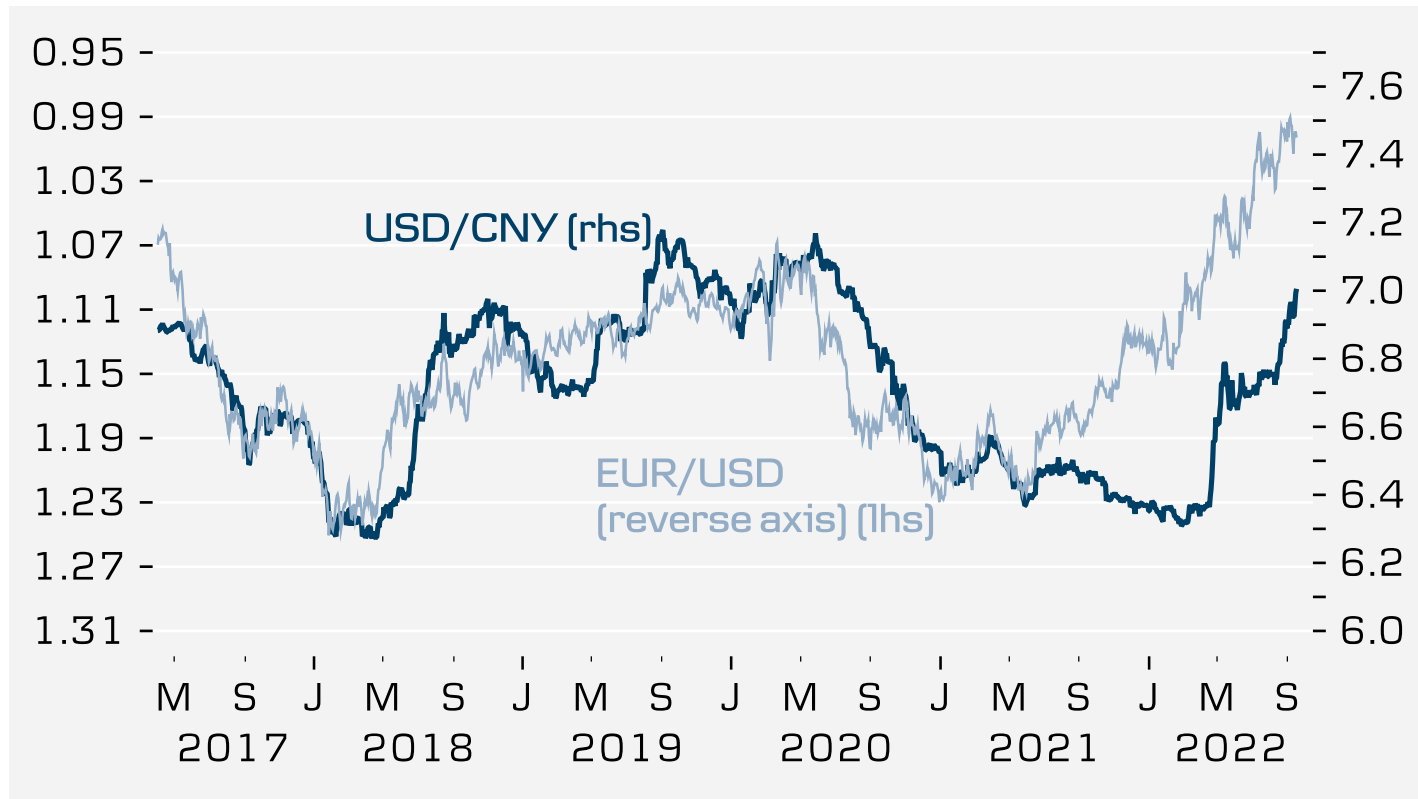
Note: MLF is medium lending facility set by PBoC, which is used as reference for the bank's Loan Prime Rates

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

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

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CNY - USD/CNY vs EUR/USD



USD/CNY has taken another leg higher lately on a stronger USD and wider US-China spread

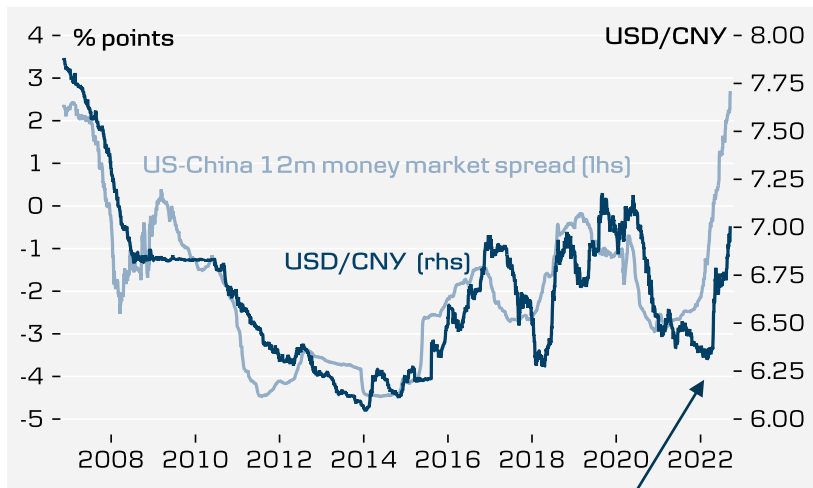
Note: EUR/USD on reverse axis in this chart, past performance is not a reliable indicator of current or future results

Source: Macrobond Financial, People's Bank of China

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CNY – relative rates a good long-term anchor

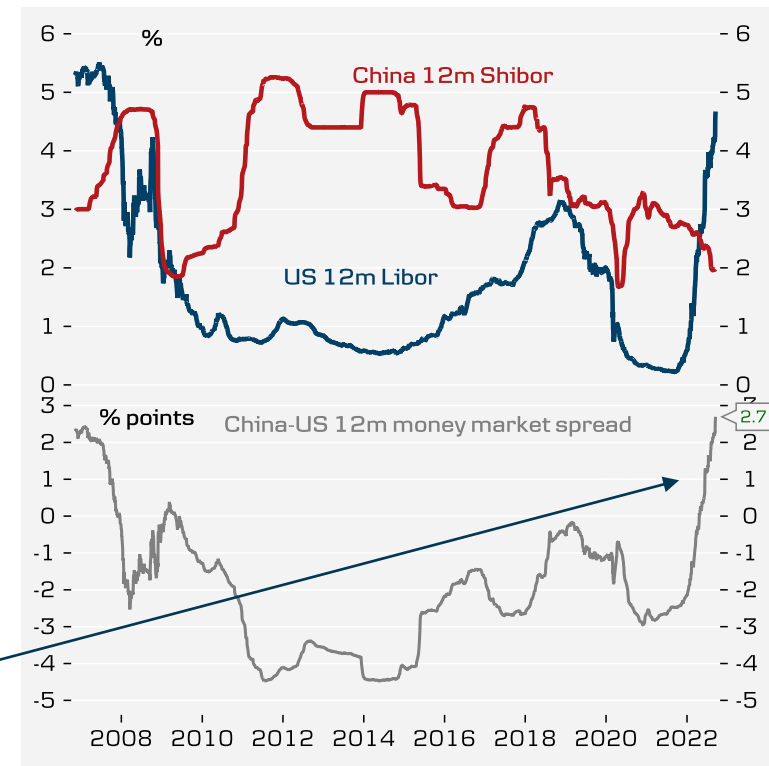
Relative rates vs USD/CNY



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

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

US and China money 12M rates

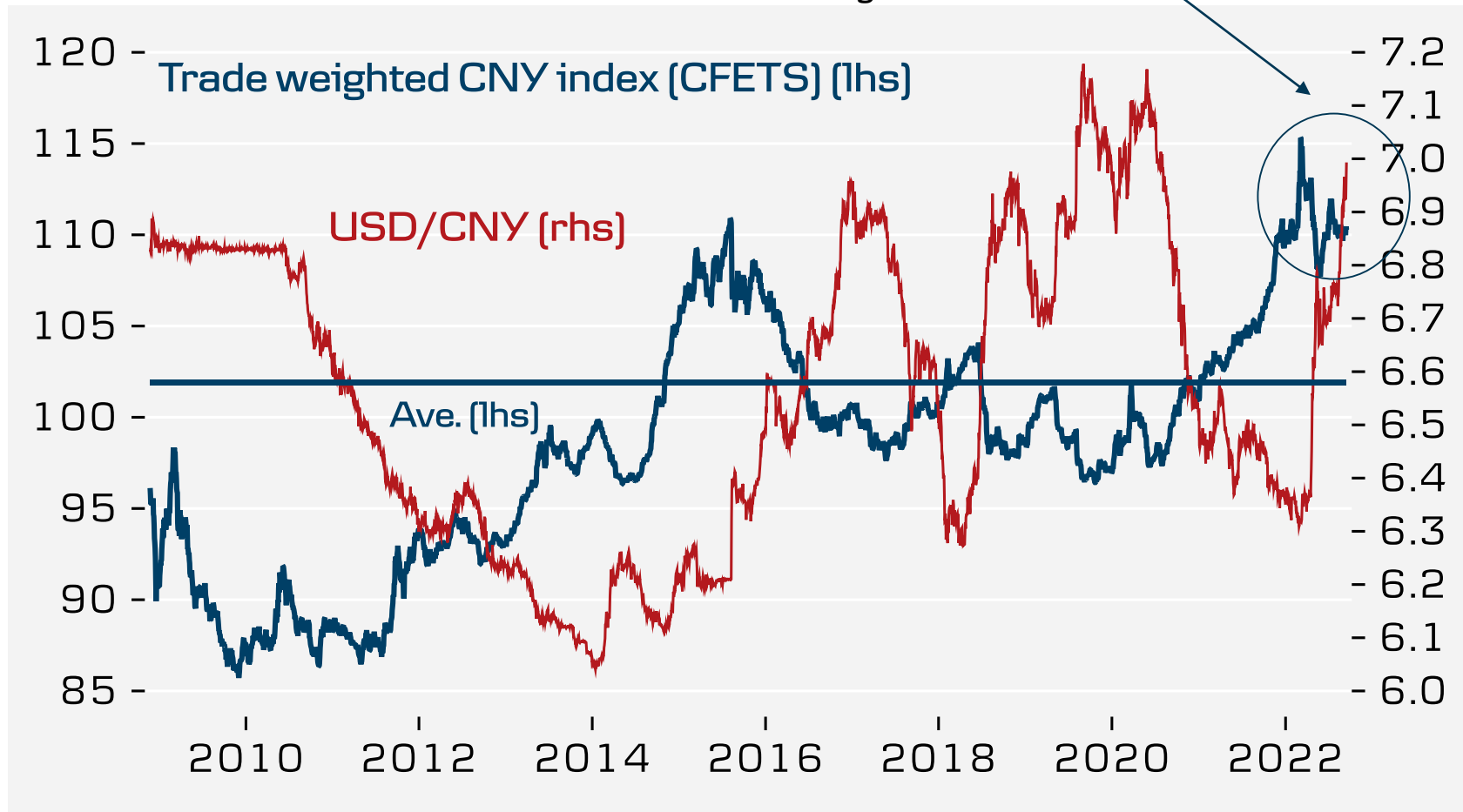


Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, People's Bank of China

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USD/CNY and CNY basket

Effective CNY lower but still high relative to long term average

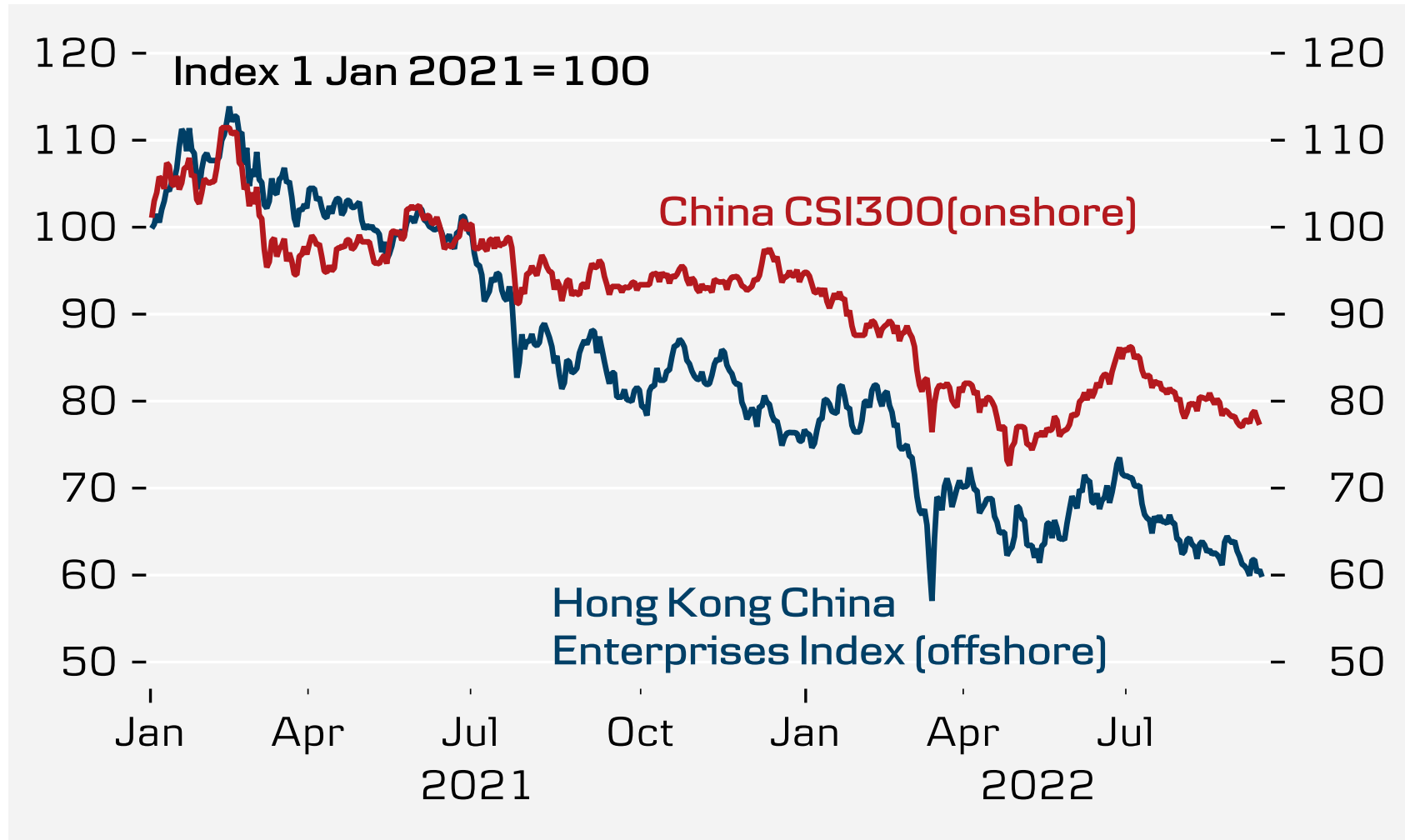


Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, People's Bank of China

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China stock market

Stock markets weaker lately on global recession fears, more US restrictions on Chinese tech, continued property crisis and weaker CNY.

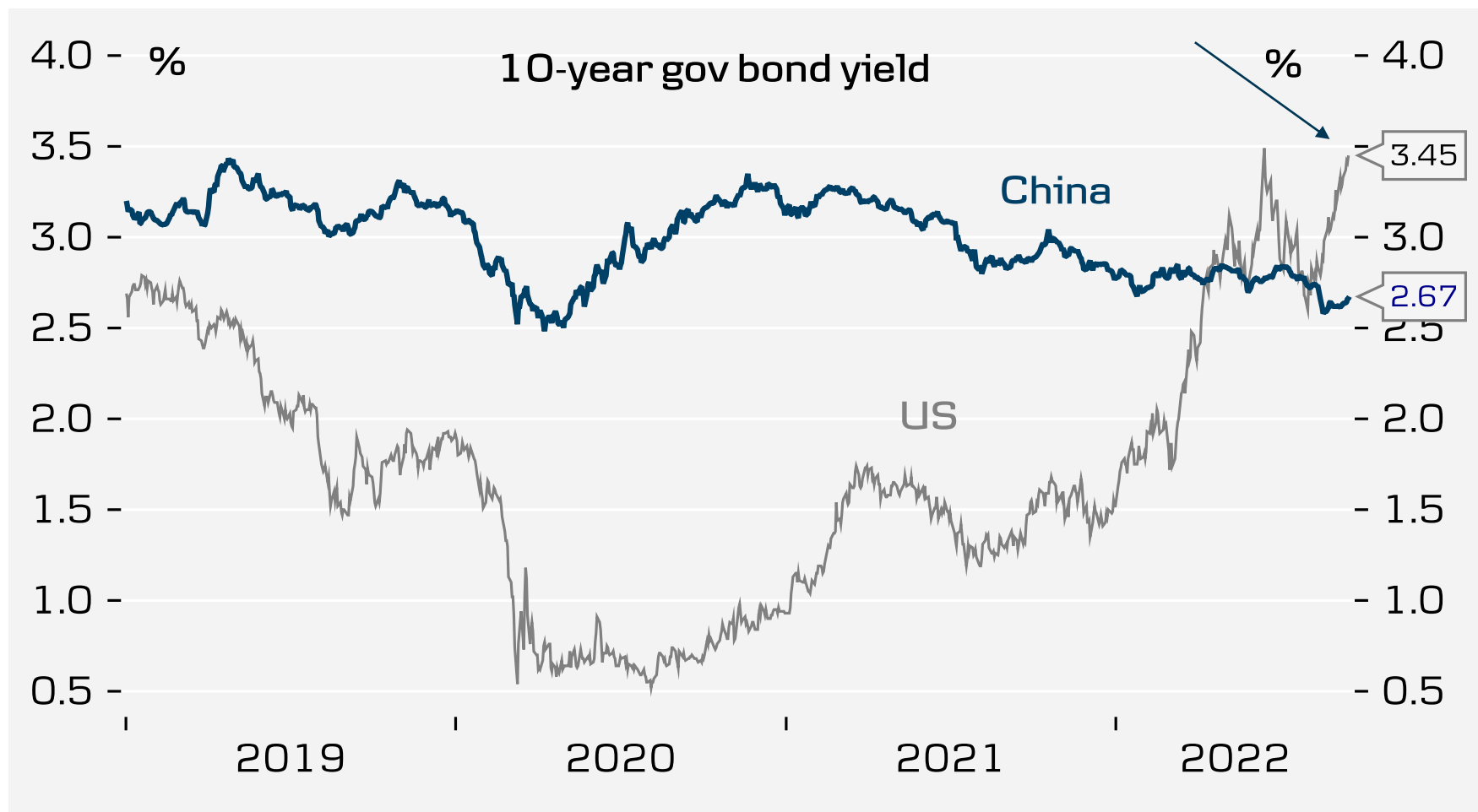


Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, People's Bank of China

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China bond yields (vs US and Germany)

US 10-year yields back to the highs again and further away from Chinese levels



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

Source: Macrobond Financial

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Allan von Mehren, Chief Analyst.

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