

# *China Macro Monitor*

## *- more signs of slowdown*

*Chief Analyst, China*  
Allan von Mehren  
+45 45 12 80 55  
alvo@danskebank.dk

23 March 2021

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Important disclosures and certifications are contained from page 43 of this report

## Outlook and current trends

**Outlook.** After a strong recovery in 2020, growth has slowed in early 2021. We look for *GDP* growth to moderate further during the year on policy tightening and lower growth in global goods demand. We look for a bounce in March PMI following strong goods consumption in US in Q1. Slowing credit growth, a shift from goods to service driven growth on export markets and a fading 'catch-up' effect mean fewer tailwinds to growth. We believe the majority of the CNY appreciation vs. USD is behind us but look for further strengthening vs. EUR.

### China today

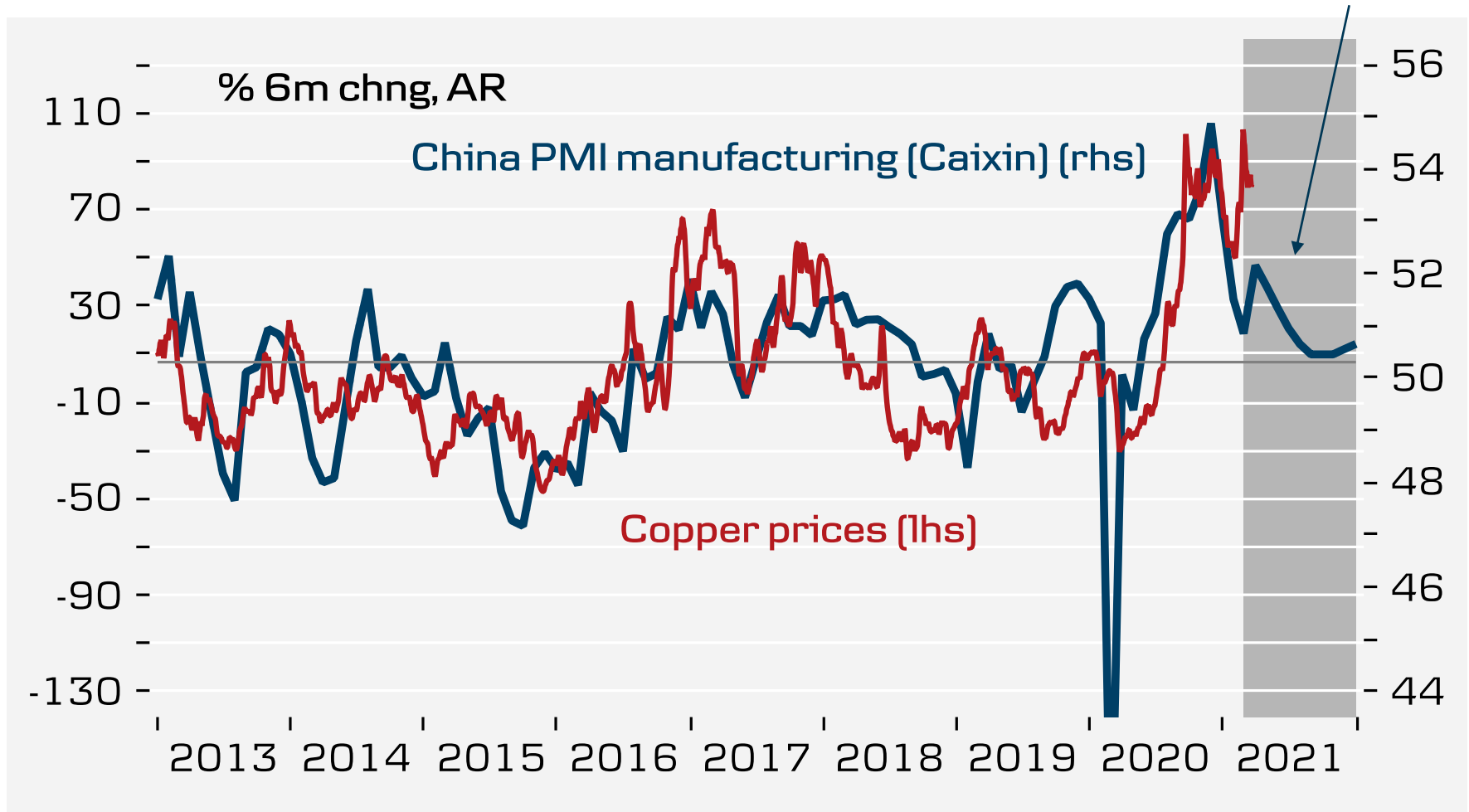
- **Growth.** After a strong growth rebound during 2020 *PMI's* point to a peak in the cycle supported by slowing *credit* growth. *Copper* prices re-accelerated in early 2021 signalling still strong demand, but supply constraints and low inventories also play a role.
- **Inflation.** CPI is still in *deflation* territory as consumer prices fell 0.2% y/y in February. PPI inflation has moved higher but monetary tightening should cool commodity price inflation.
- **Monetary policy.** *Rates* have been on hold for the past few quarters but *de facto policy* has tightened. However, financial tightening has slowed lately according to our *FCI indicator*.
- **CNY.** The *yuan* appreciation vs. the USD has come to a halt as the relative economic strength is shifting back towards the US.
- **Stock markets.** *Stocks* have corrected lower as retail investors have been .
- *For more China research, see our website [here](#) and our new global forecast update [here](#).*

The background of the slide features large, faint, light blue Chinese characters. The characters are stylized and appear to be 'R' and 'Q', which are part of the Chinese characters for 'Forecast' (预测).

*Our China growth forecast*

## PMI forecast profile (vs copper prices)

PMI has fallen quite a lot the past three months signalling slower momentum. After a rebound in March we look for a further moderation

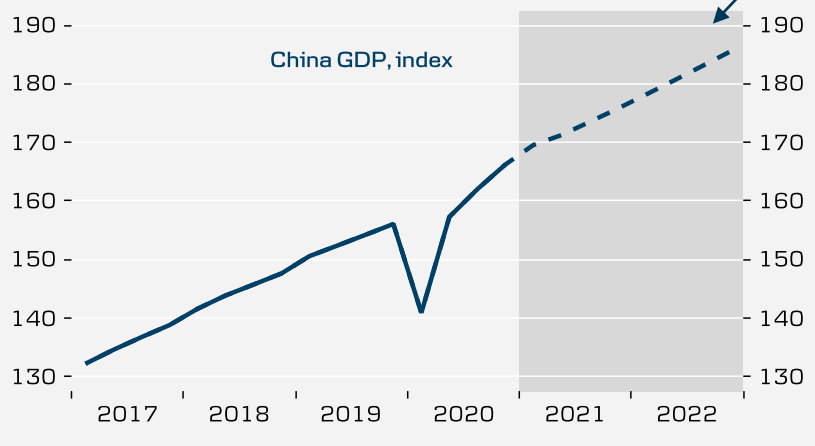


Source: Macrobond Financial, Markit, Danske Bank

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# GDP forecast profile

*GDP returning to trend growth after strong recovery*

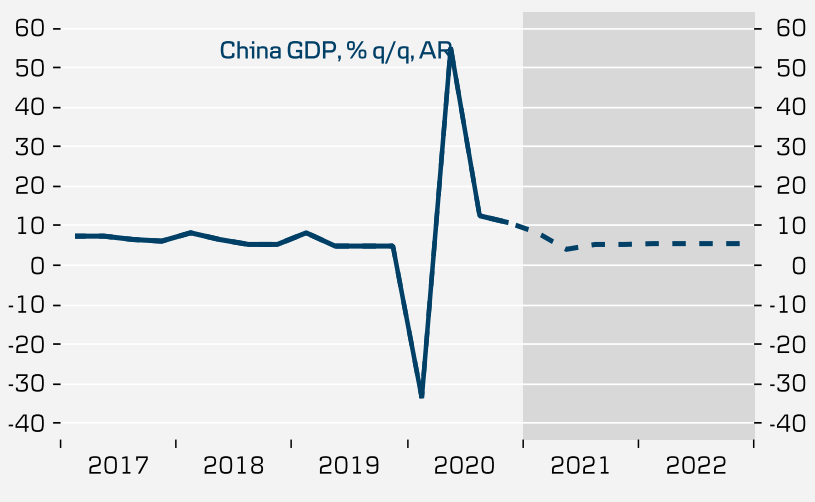


Source: Macrobond Financial, Danske Bank

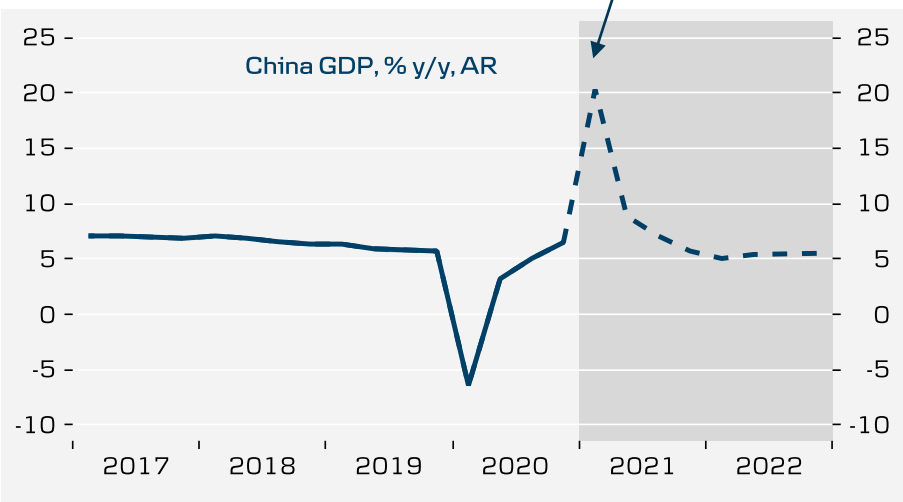
# GDP forecast

2020: 2.3%  
 2021: 9.5%  
 2022: 5.4%

*Base effect set to have a substantial impact on y/y growth in Q1 as already seen in industrial production etc.*



Source: Macrobond Financial, Danske Bank



Source: Macrobond Financial, Danske Bank

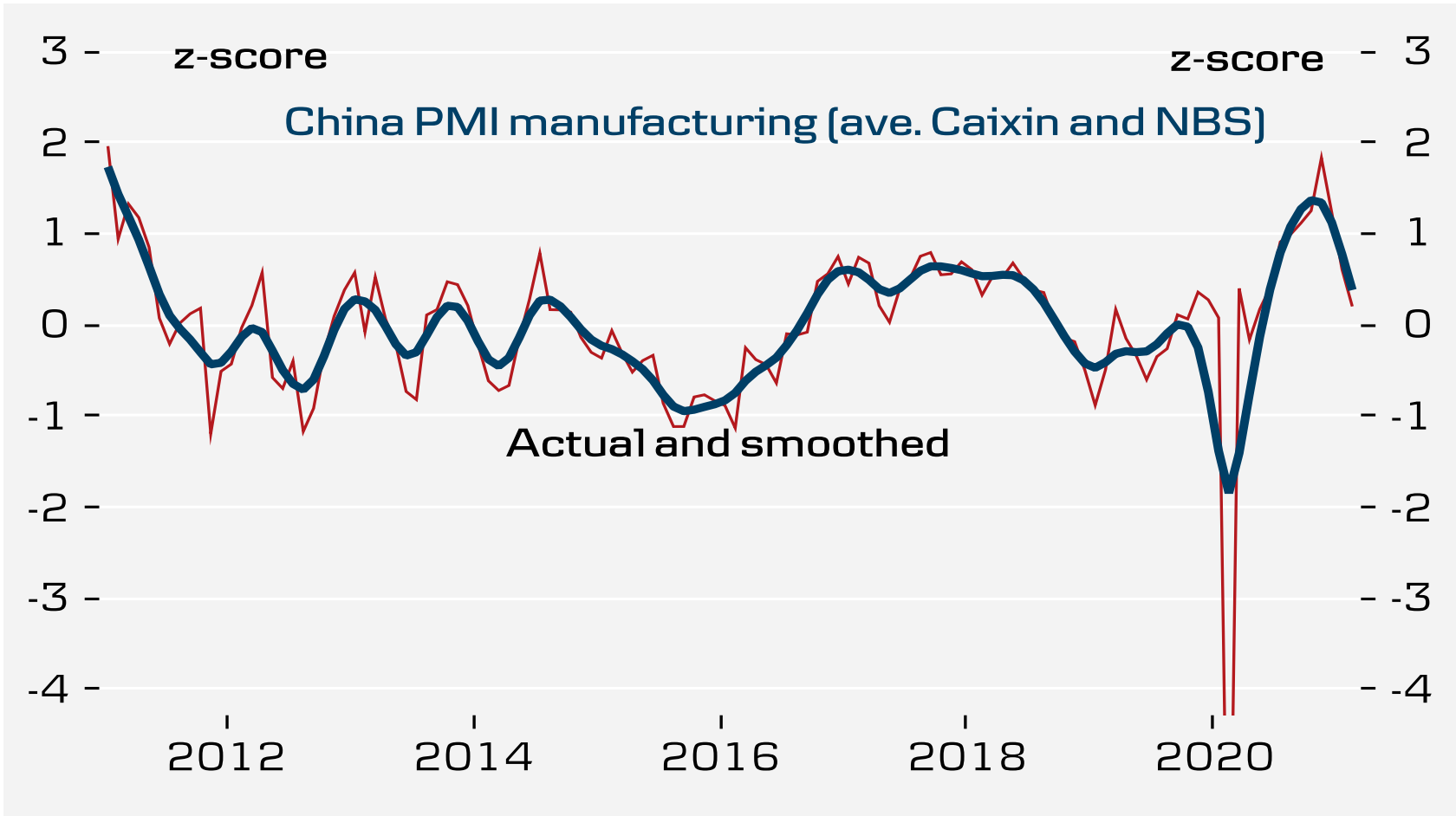
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*Overview of China macro indicators*

# PMI indicator (average of Caixin and NBS)

PMI suggests growth falling back to around trend

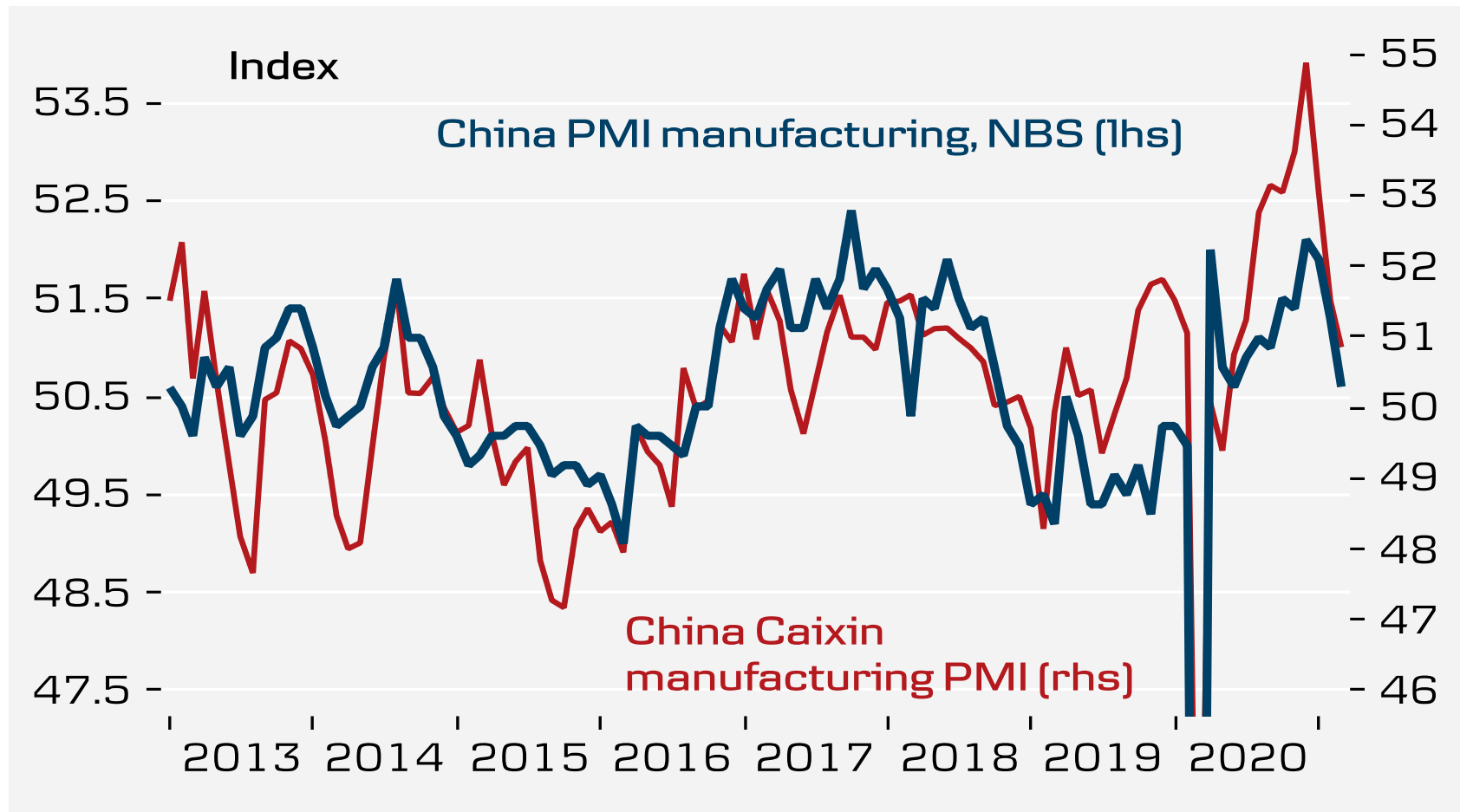


Source: Macrobond Financial, Markit, NBS, Danske Bank

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# NBS vs Caixin PMI

Both NBS and Caixin points to slower growth

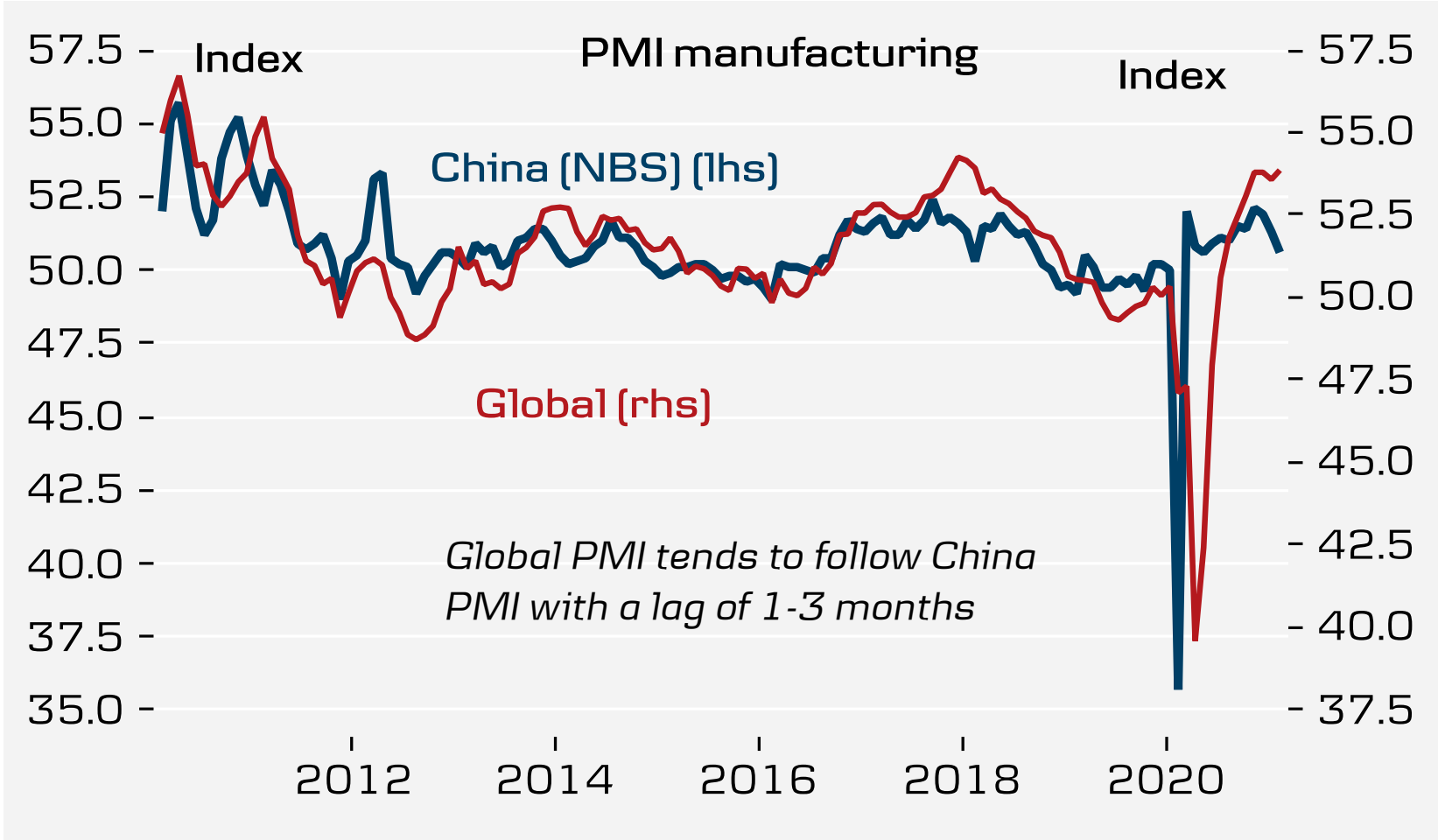


Source: Macrobond Financial, Markit, NBS, Danske Bank

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# Domestic vs global cycle

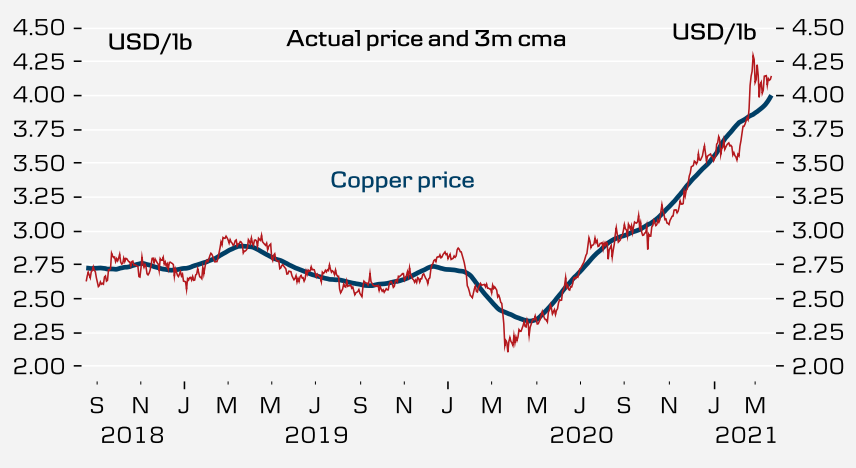


Source: Macrobond Financial, Markit, Danske Bank

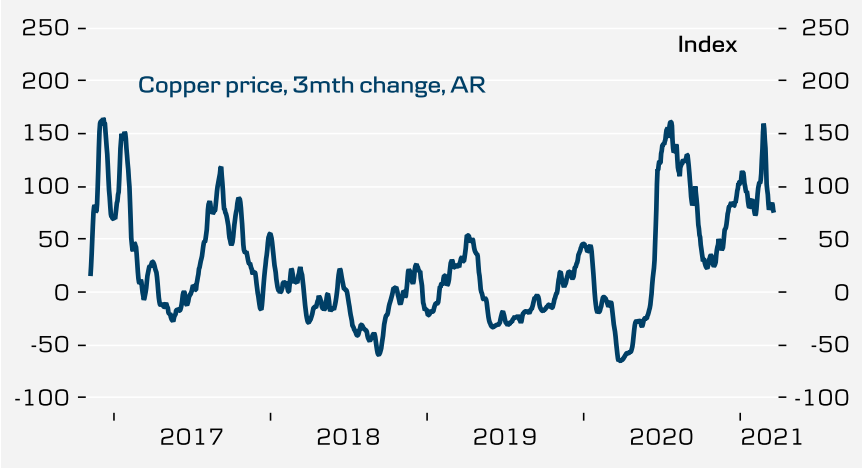
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# Copper price momentum

Note: Copper prices are generally a good indicator for Chinese activity, as China drives around 50% of global demand. Currently supply shortages and low inventories are also a market driver, though.



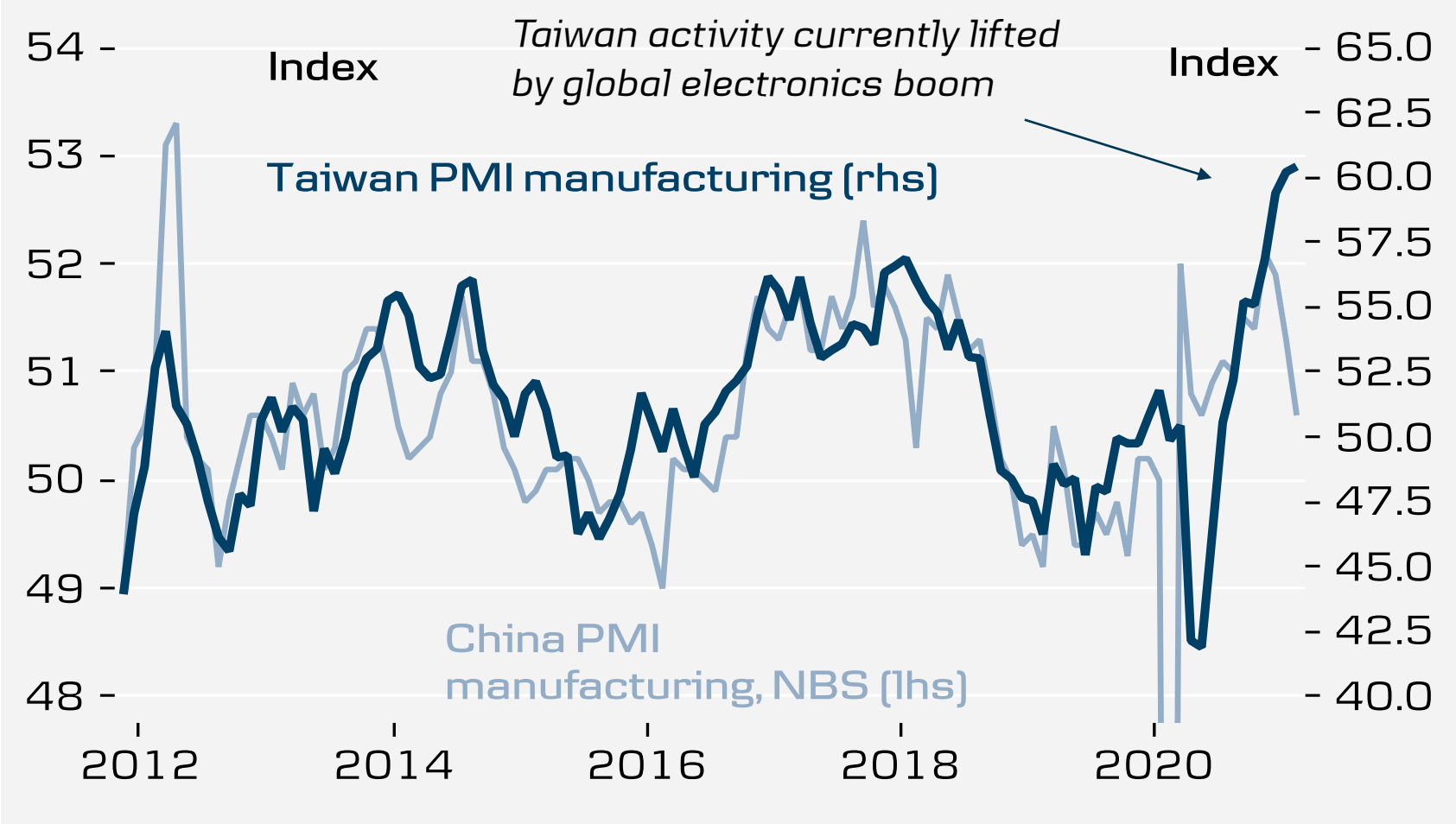
Source: Bloomberg, Danske Bank



Source: Bloomberg, Danske Bank

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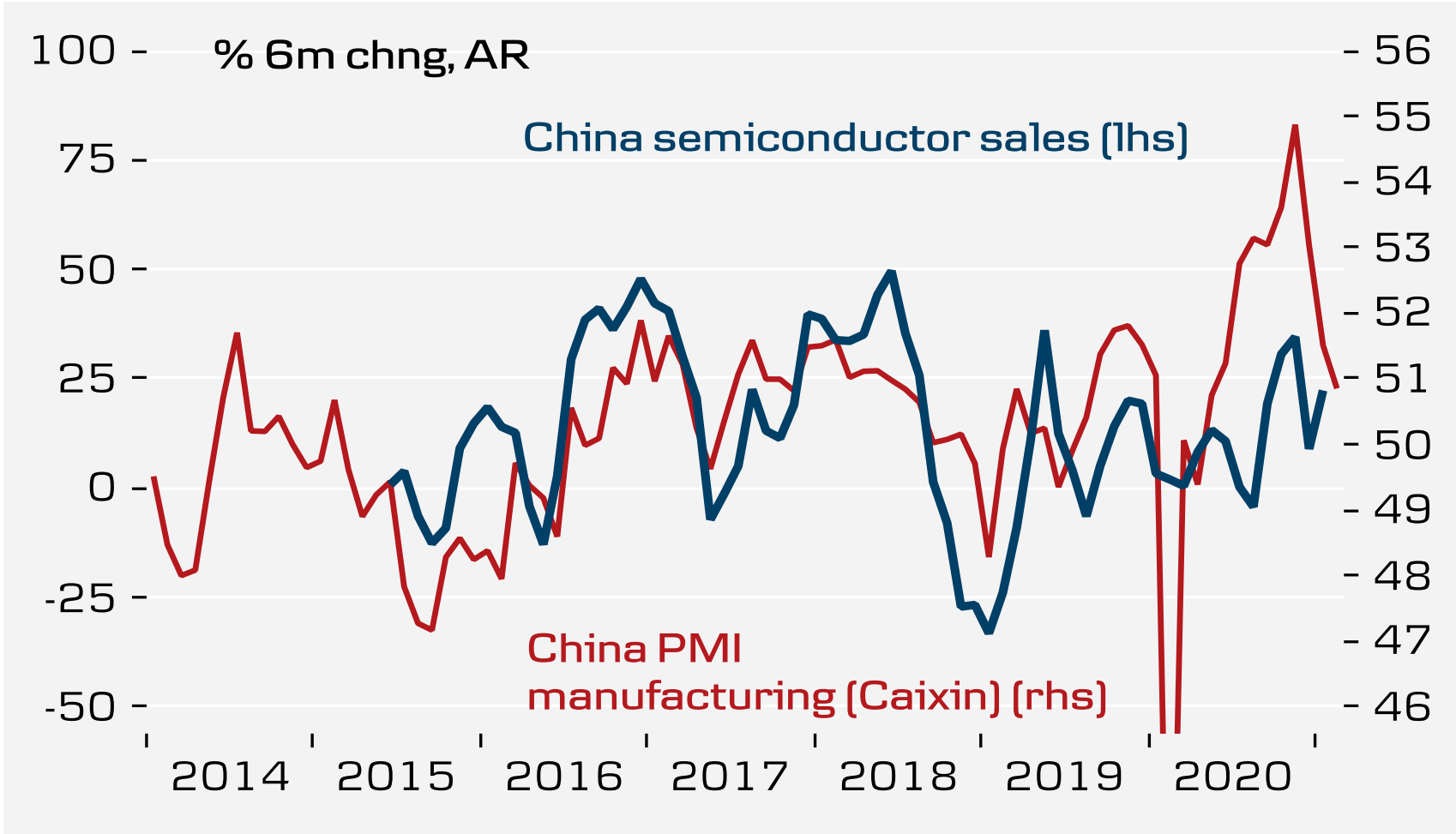
# Taiwan PMI vs mainland China PMI



Source: Macrobond Financial, Markit, Danske Bank

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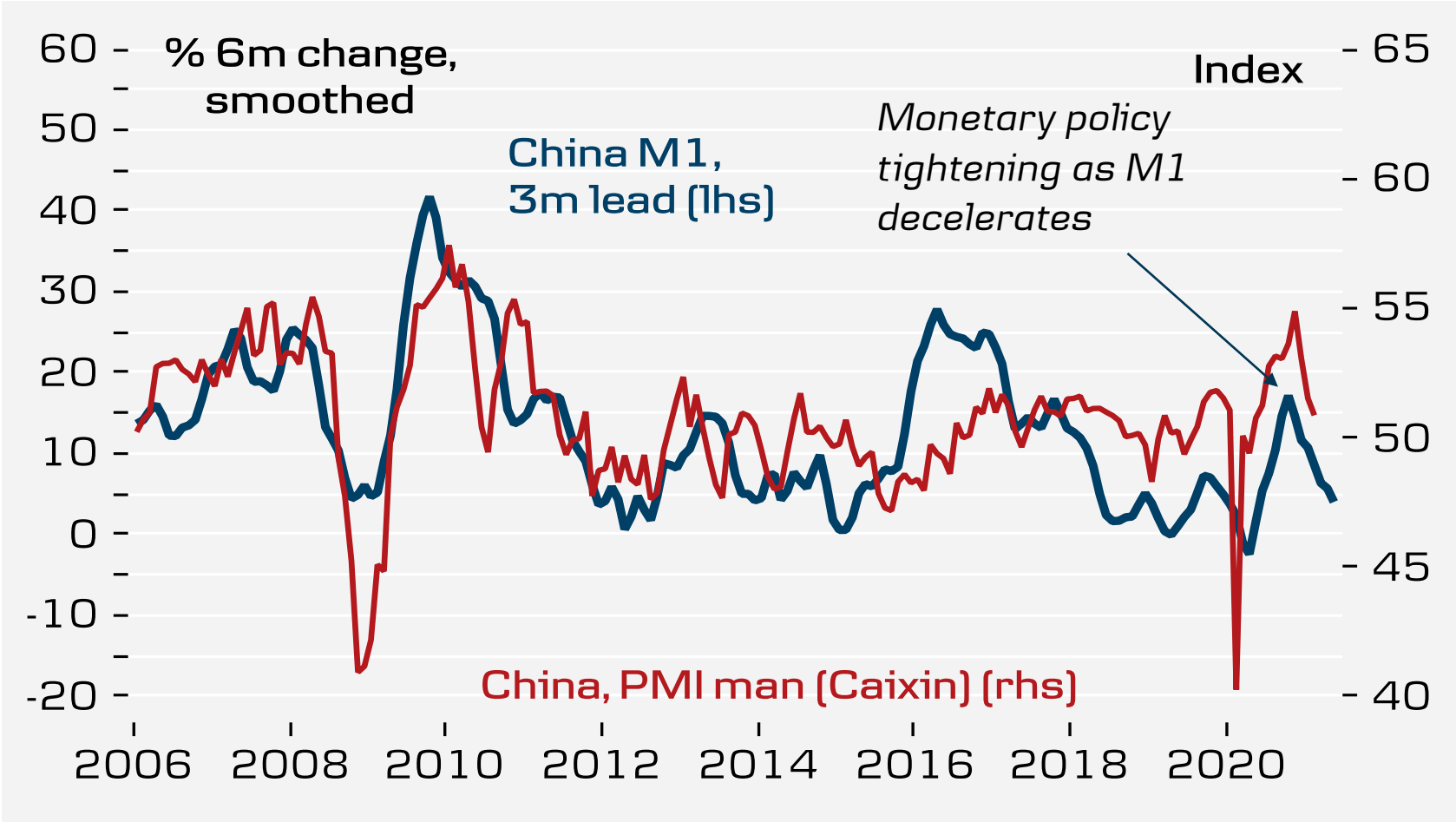
# China semiconductor sales vs Chinese PMI



Source: Macrobond Financial, Markit, Semiconductor Industry Association

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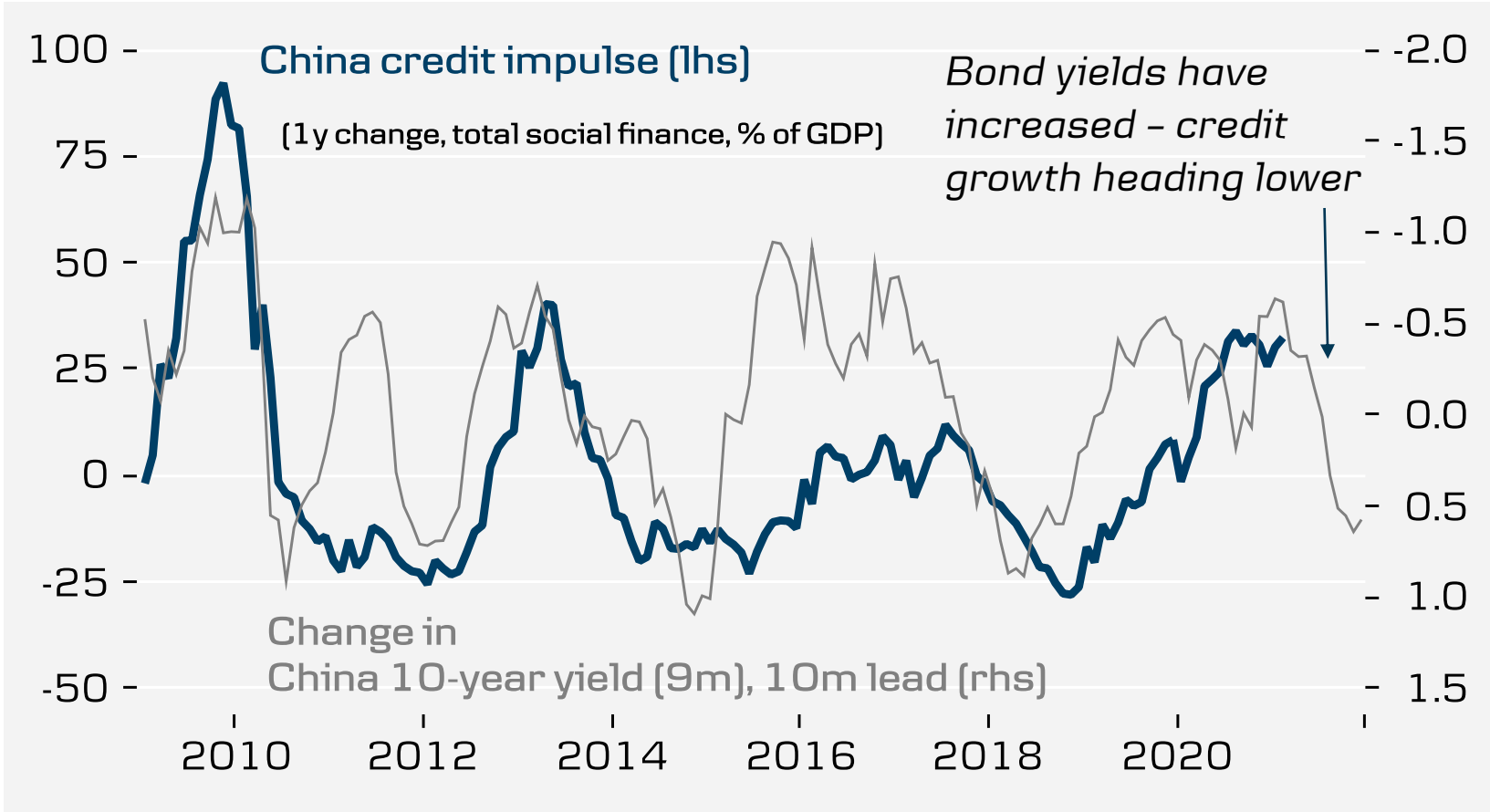
# Money growth and PMI



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

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# Credit growth vs change in bond yields

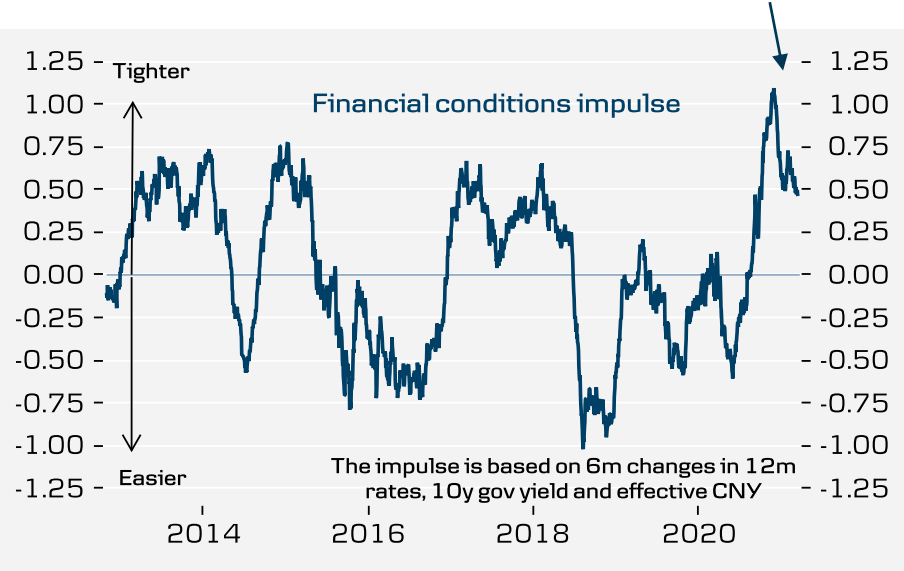


Source: Macrobond Financial, People's Bank of China, Danske Bank

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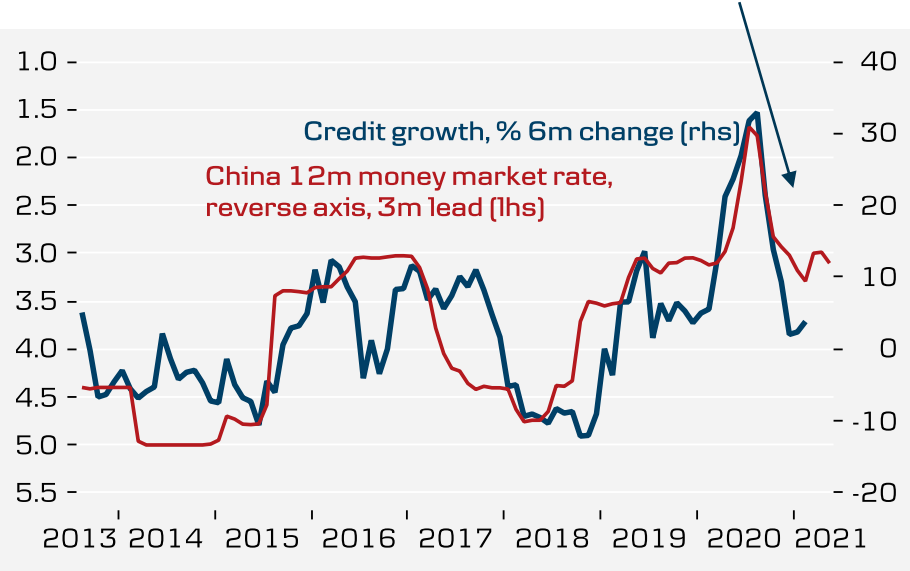
# Financial conditions impulse and credit momentum

*Tightening is slowing down*



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

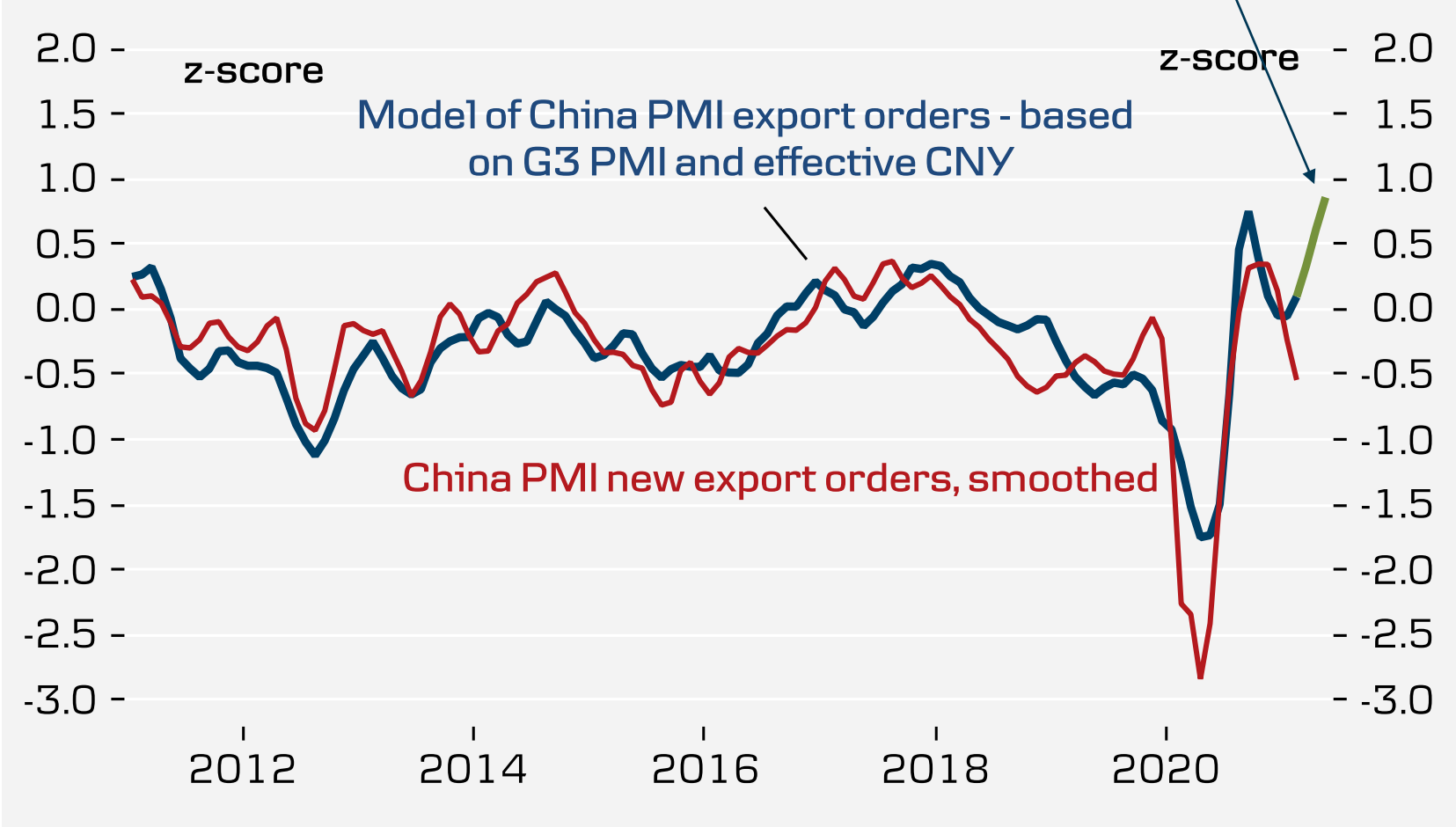
*Momentum in credit has decelerated a lot - government target is around 7-8% (nominal GDP growth)*



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# Exports - model

Rise in G3 PMI has lifted the model lately



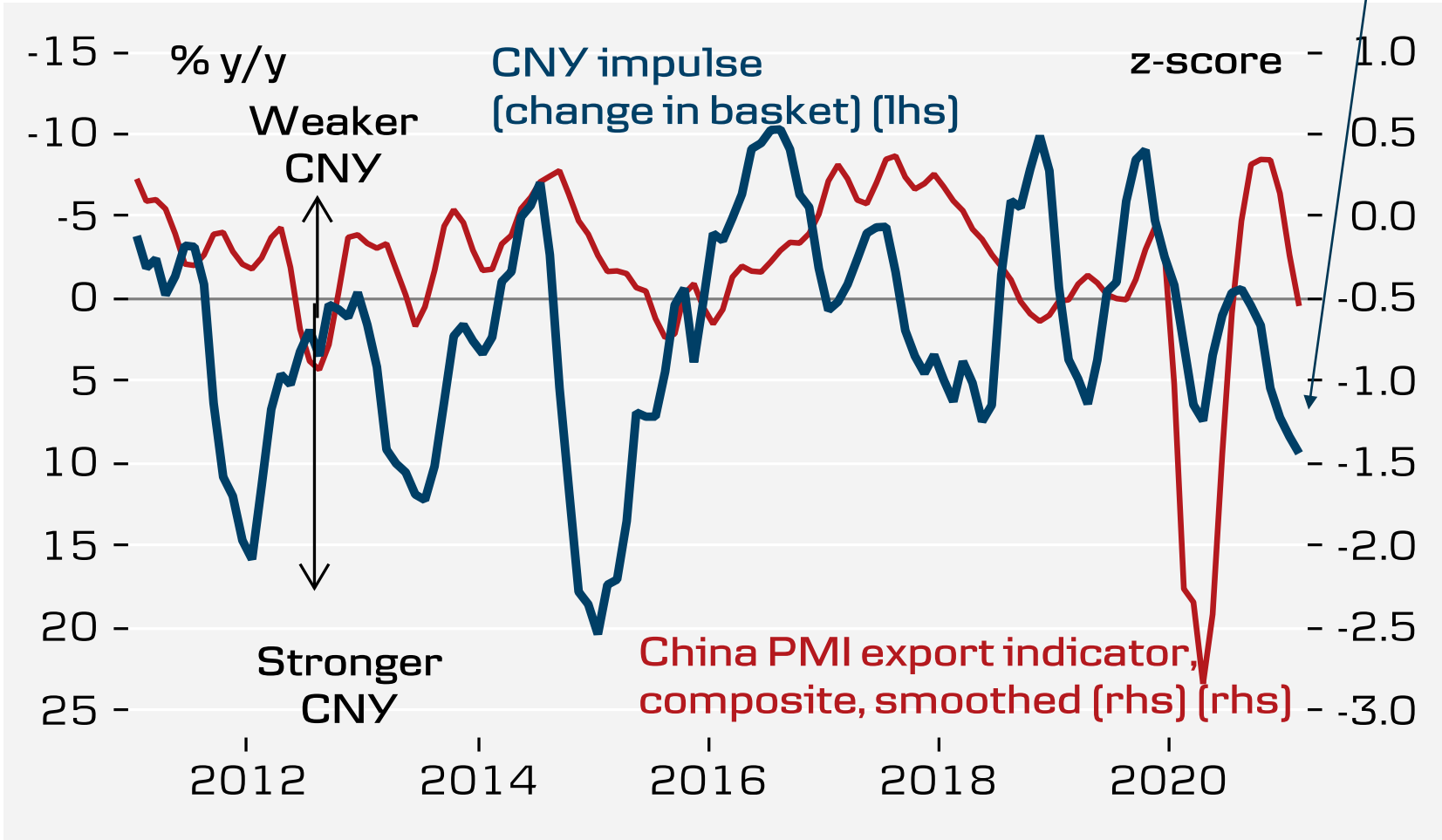
Source: Macrobond Financial, NBS, Markit, Danske Bank

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# Exports - currency impulse

CNY strength a headwind for exports



Source: Macrobond Financial, NBS, Markit, Danske Bank

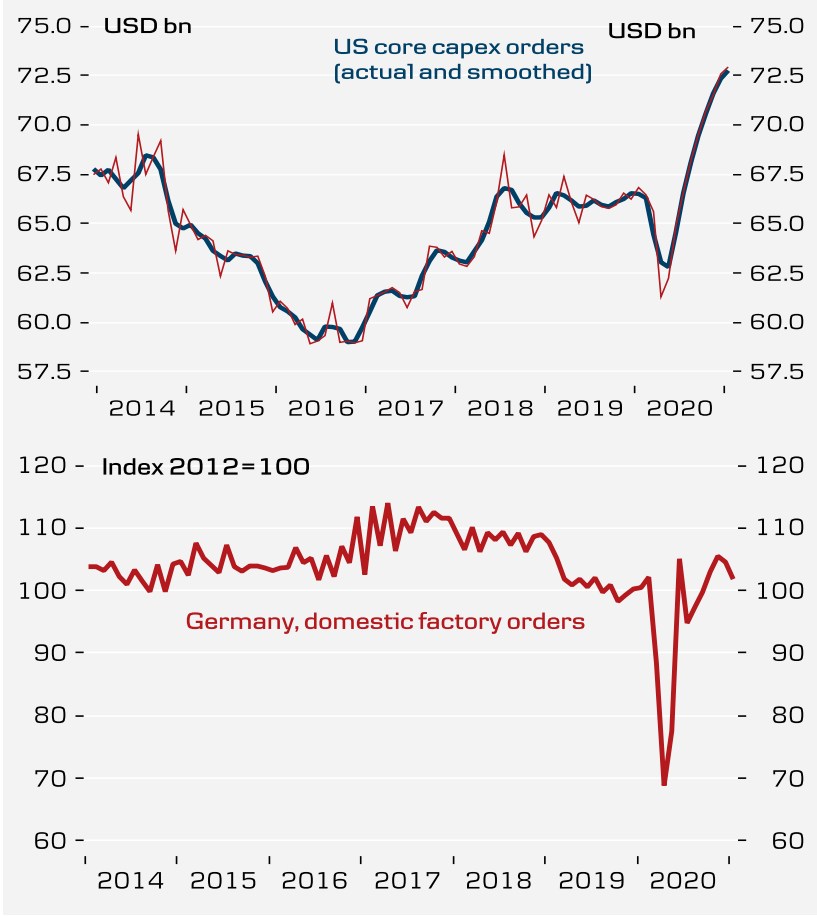
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# Exports – goods spending in US and euro area



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

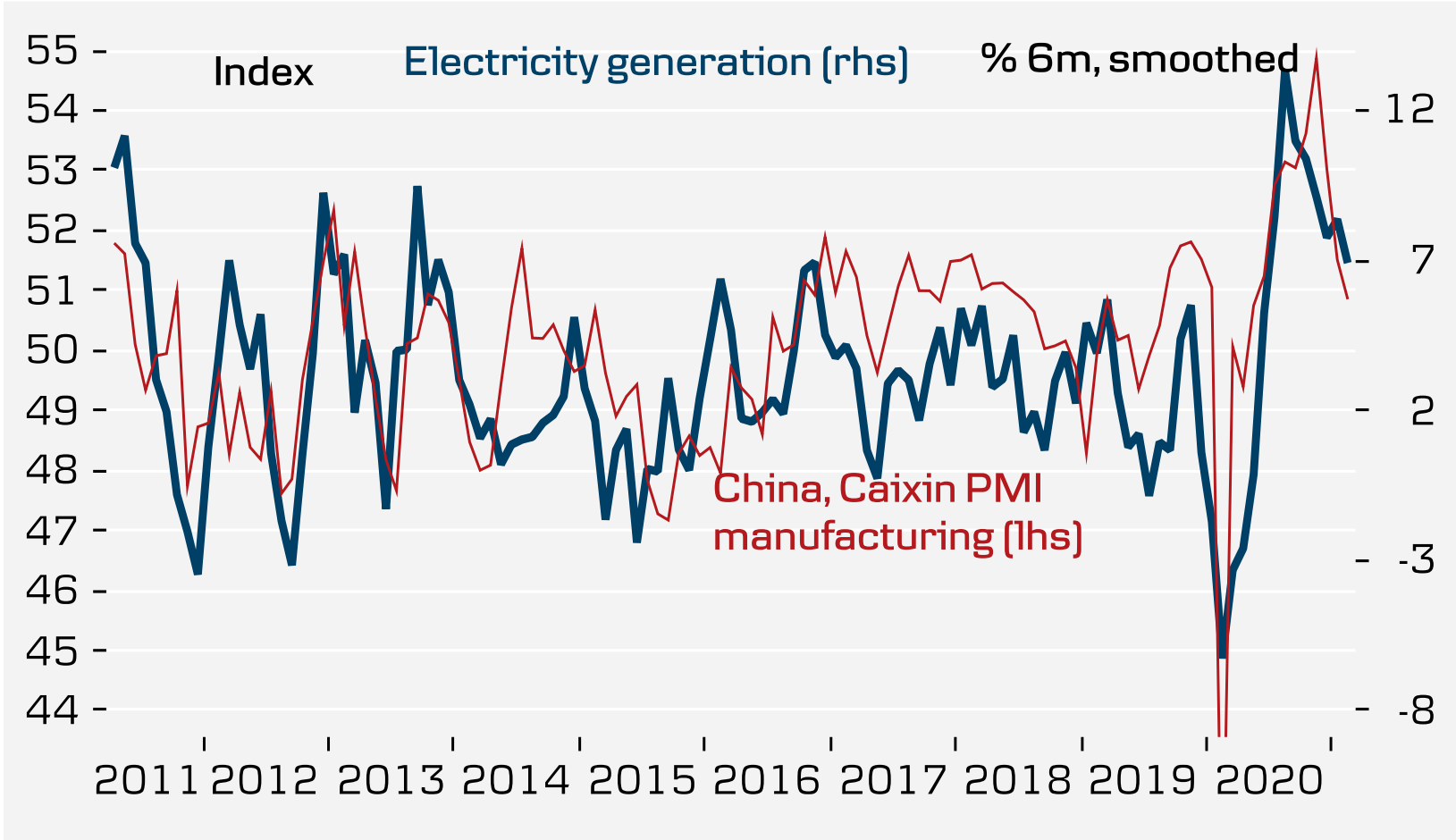


Source: Macrobond Financial, Danske Bank

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# Electricity generation vs PMI

*Fading momentum in electricity generation underpins picture of slowing growth*

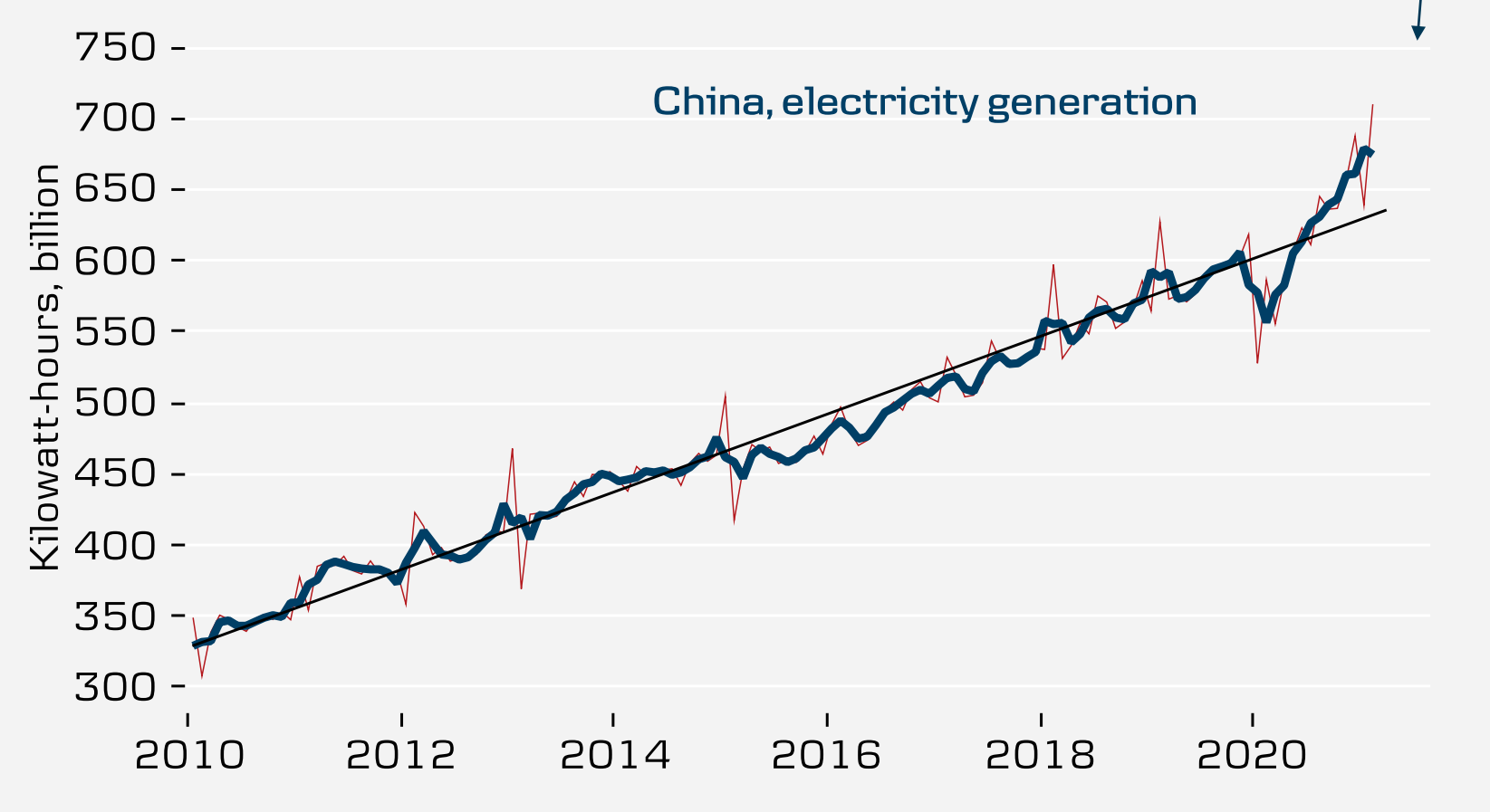


Source: Macrobond Financial, Markit, NBS, Danske Bank

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# Electricity generation level

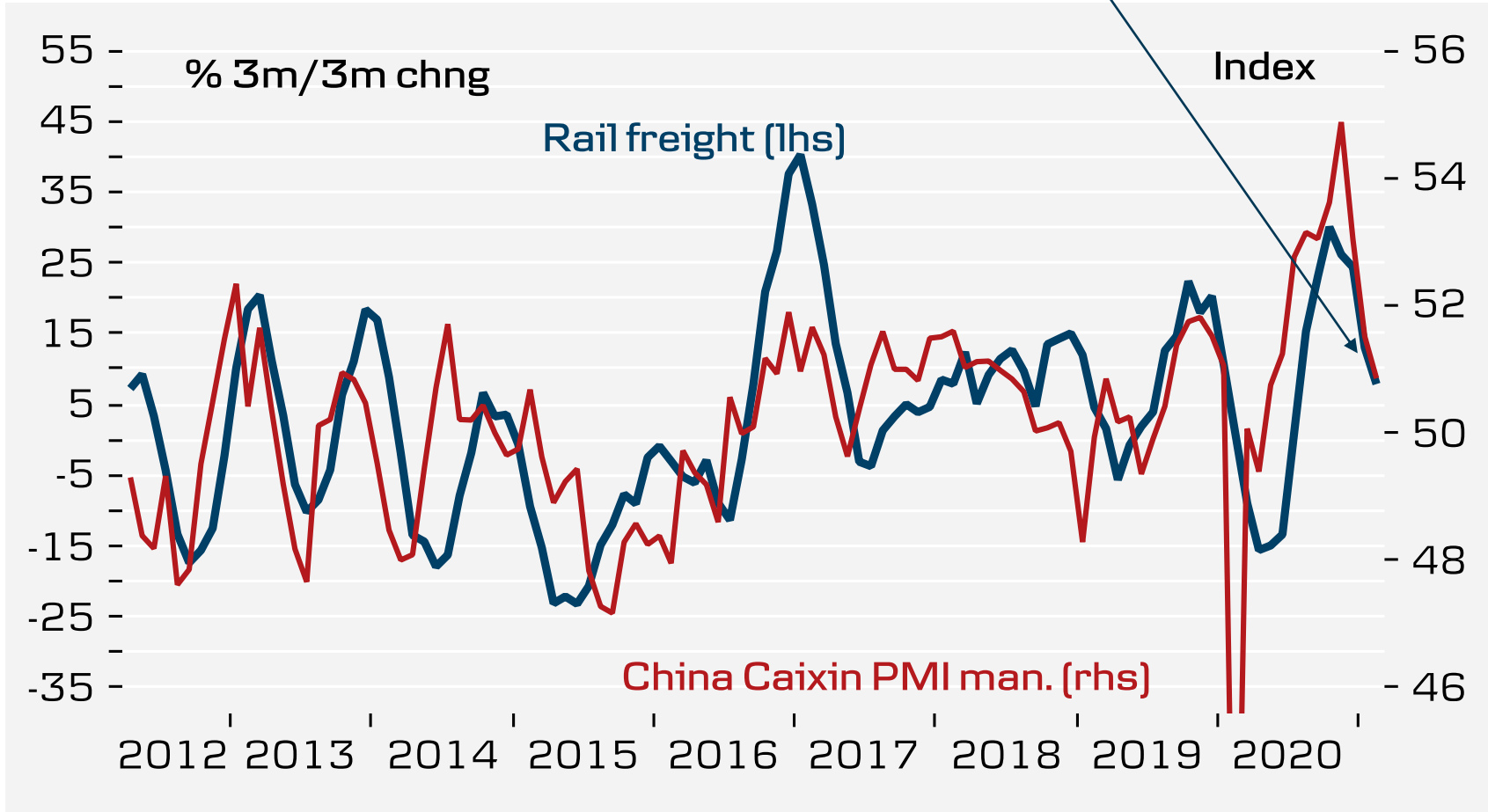
*Level of electricity generation still clearly above trend*



Source: Macrobond Financial, Markit, NBS, Danske Bank

# Rail freight vs PMI

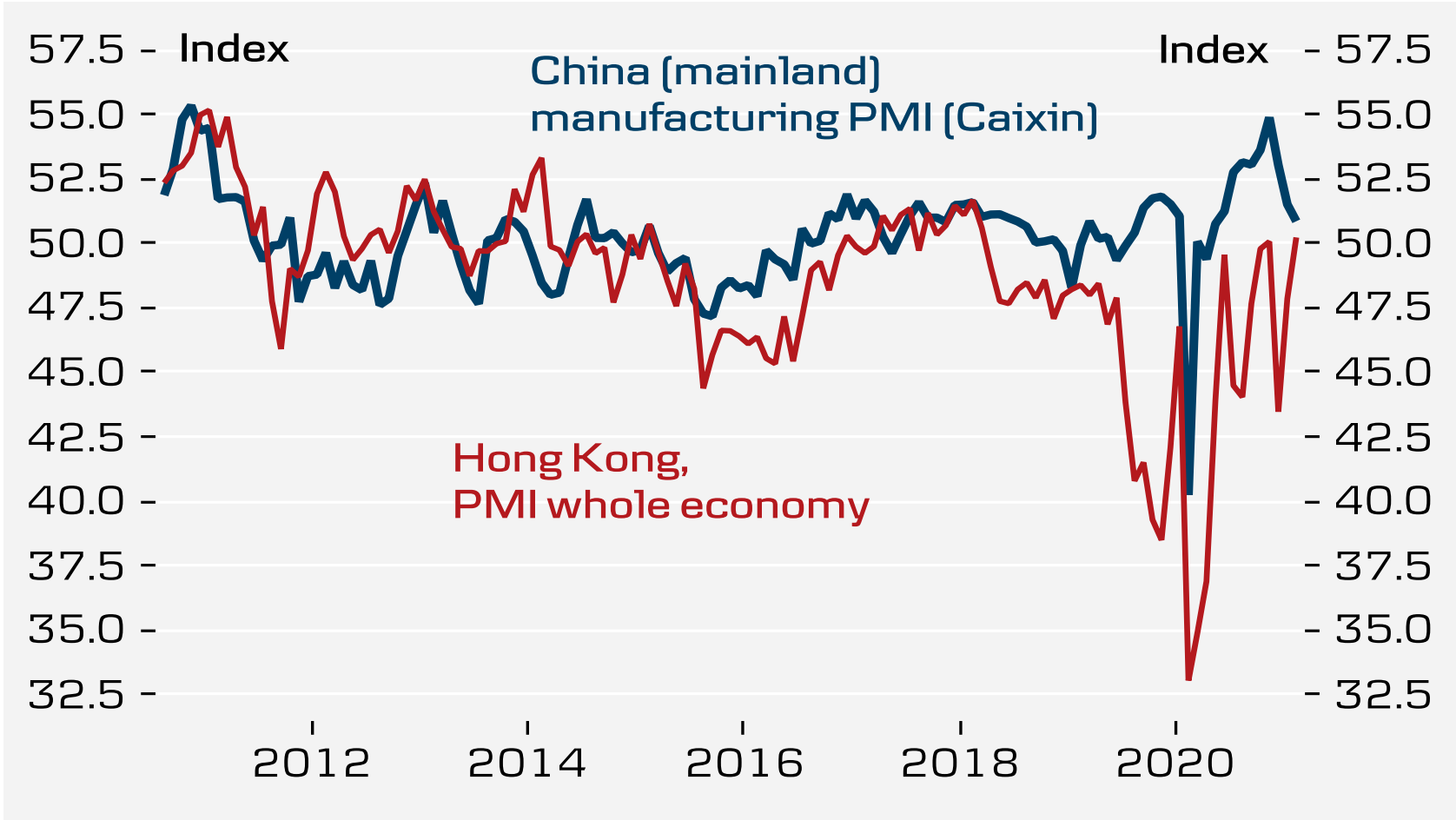
*Slower growth in rail freight also underpin picture of a moderation in growth*



Source: Macrobond Financial, Markit, NBS, Danske Bank

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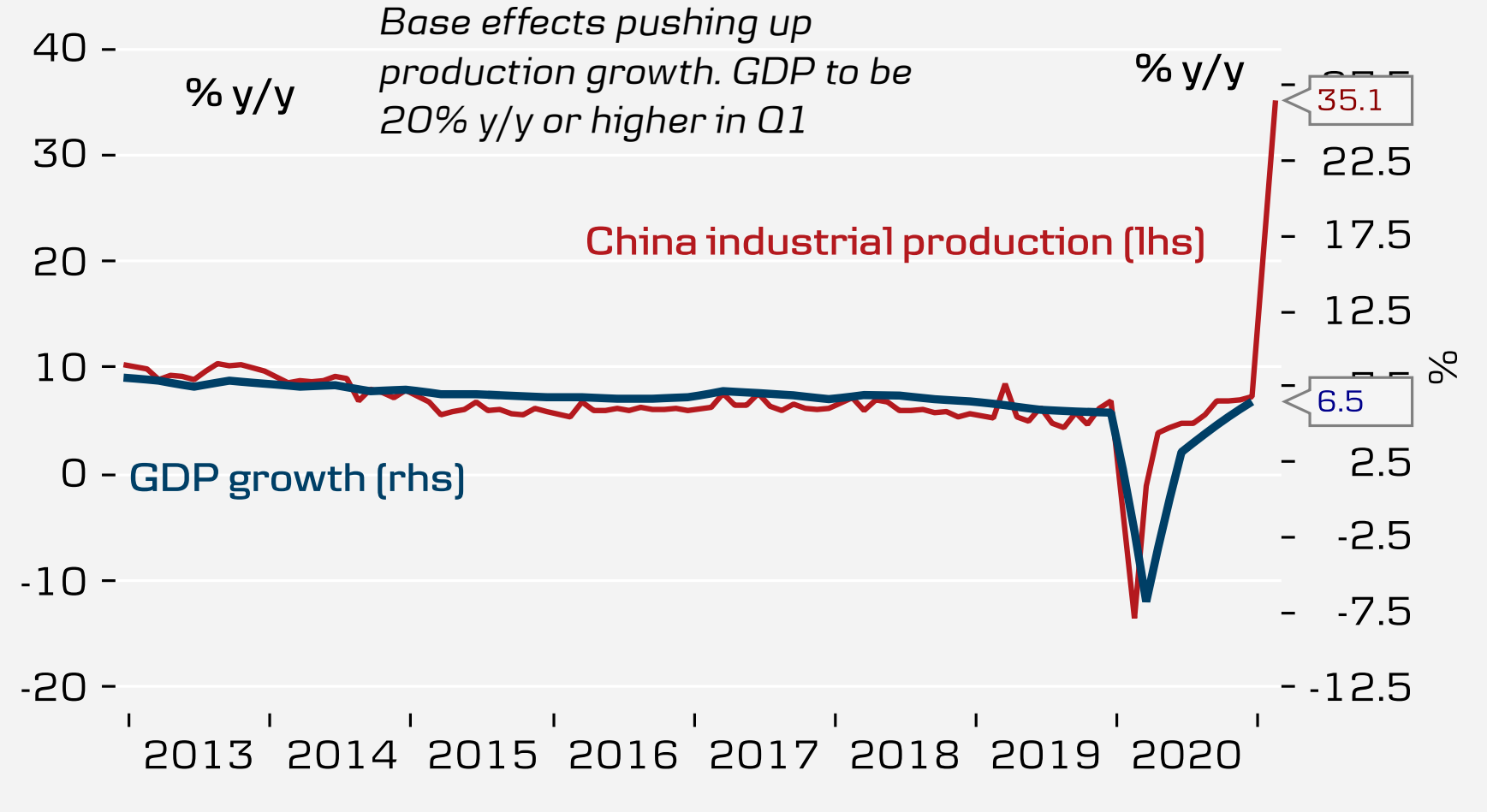
# Hong Kong PMI vs China PMI



Source: Macrobond Financial, Markit, Danske Bank

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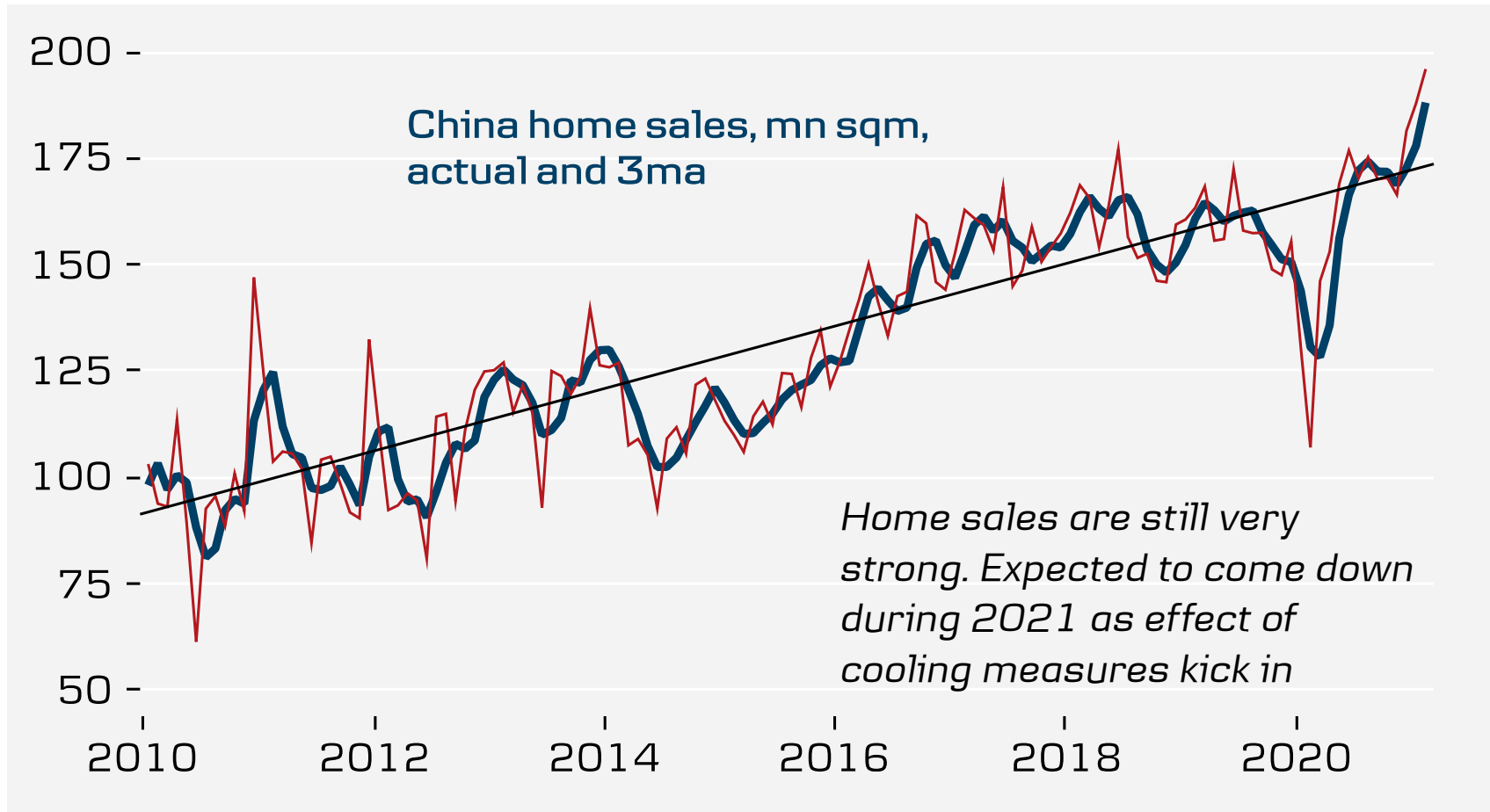
# Industrial production vs GDP



Source: Macrobond Financial, NBS, Danske Bank

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## Housing - home sales level

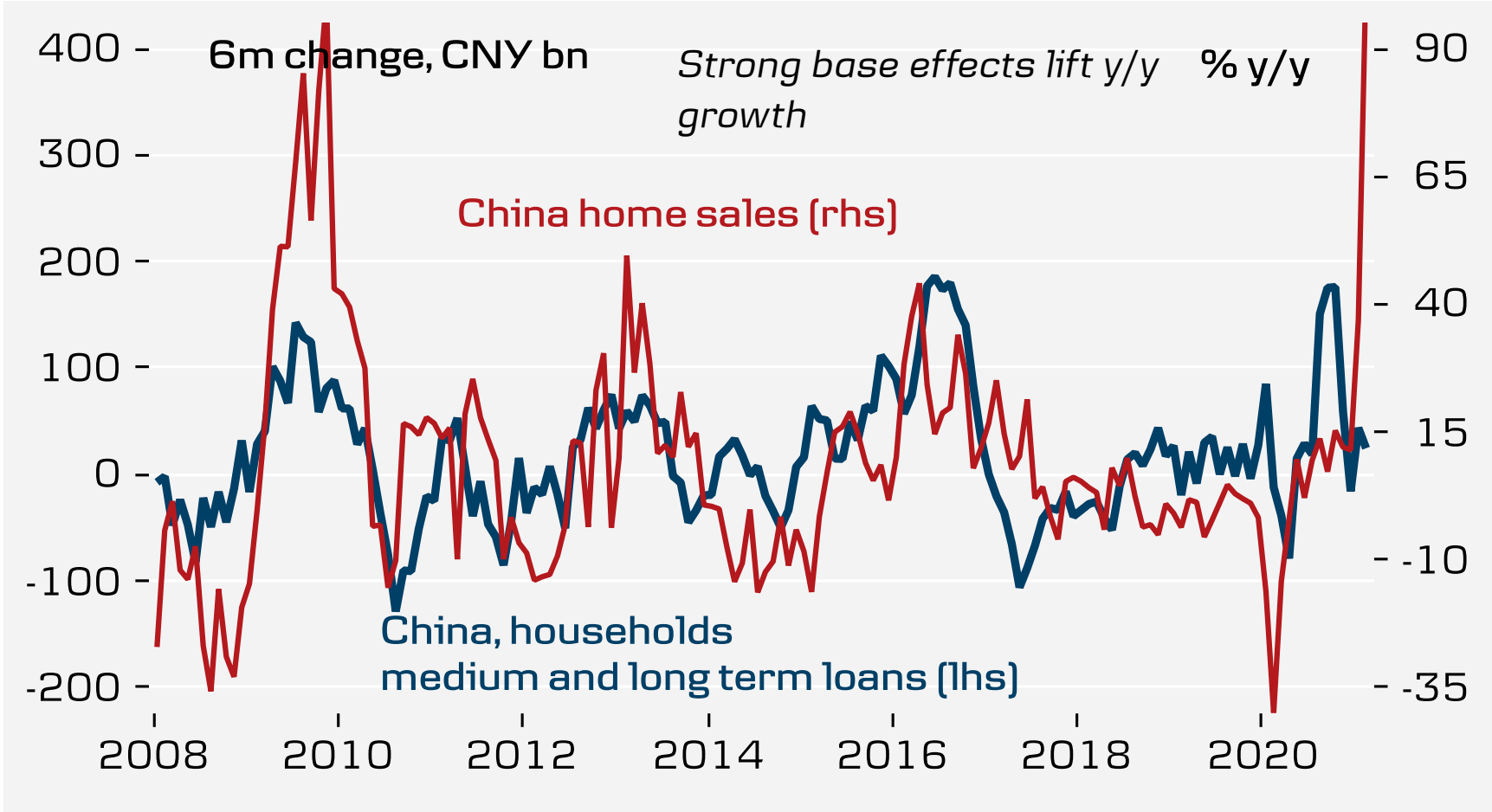


Source: Macrobond Financial, NBS, Danske Bank

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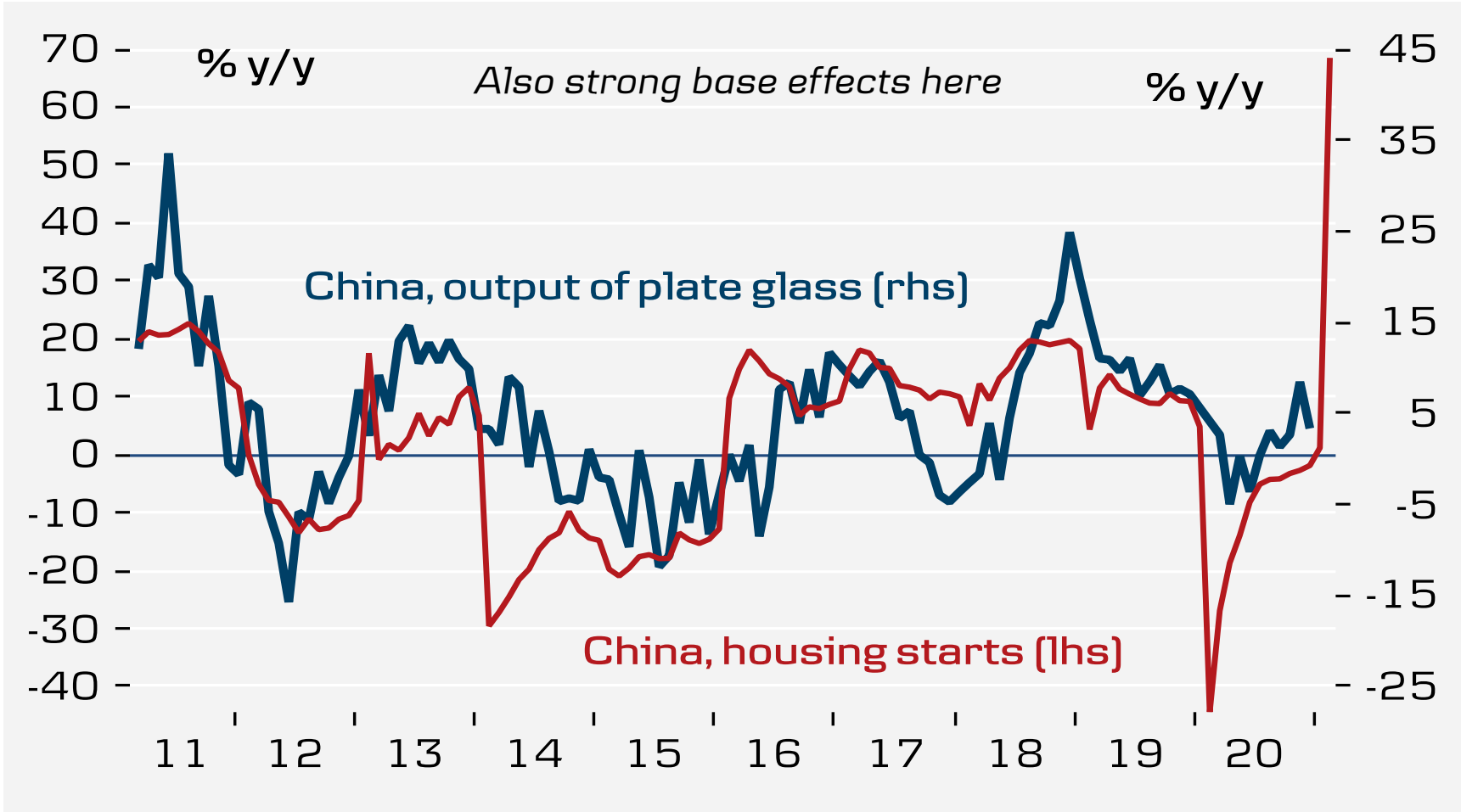
# Housing - home sales and household credit



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

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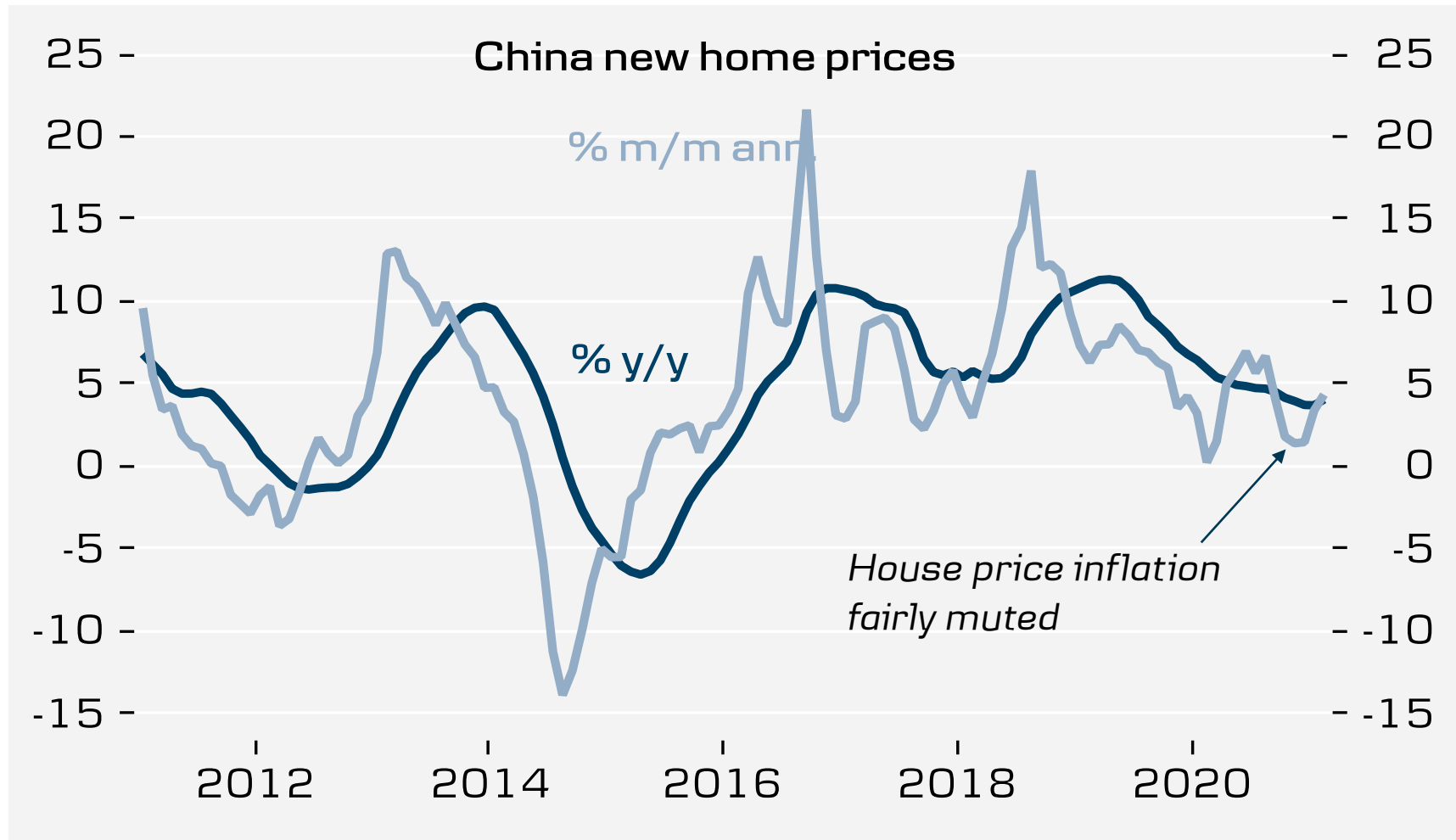
# Housing - housing starts and plate glass



Source: Macrobond Financial, NBS, Danske Bank

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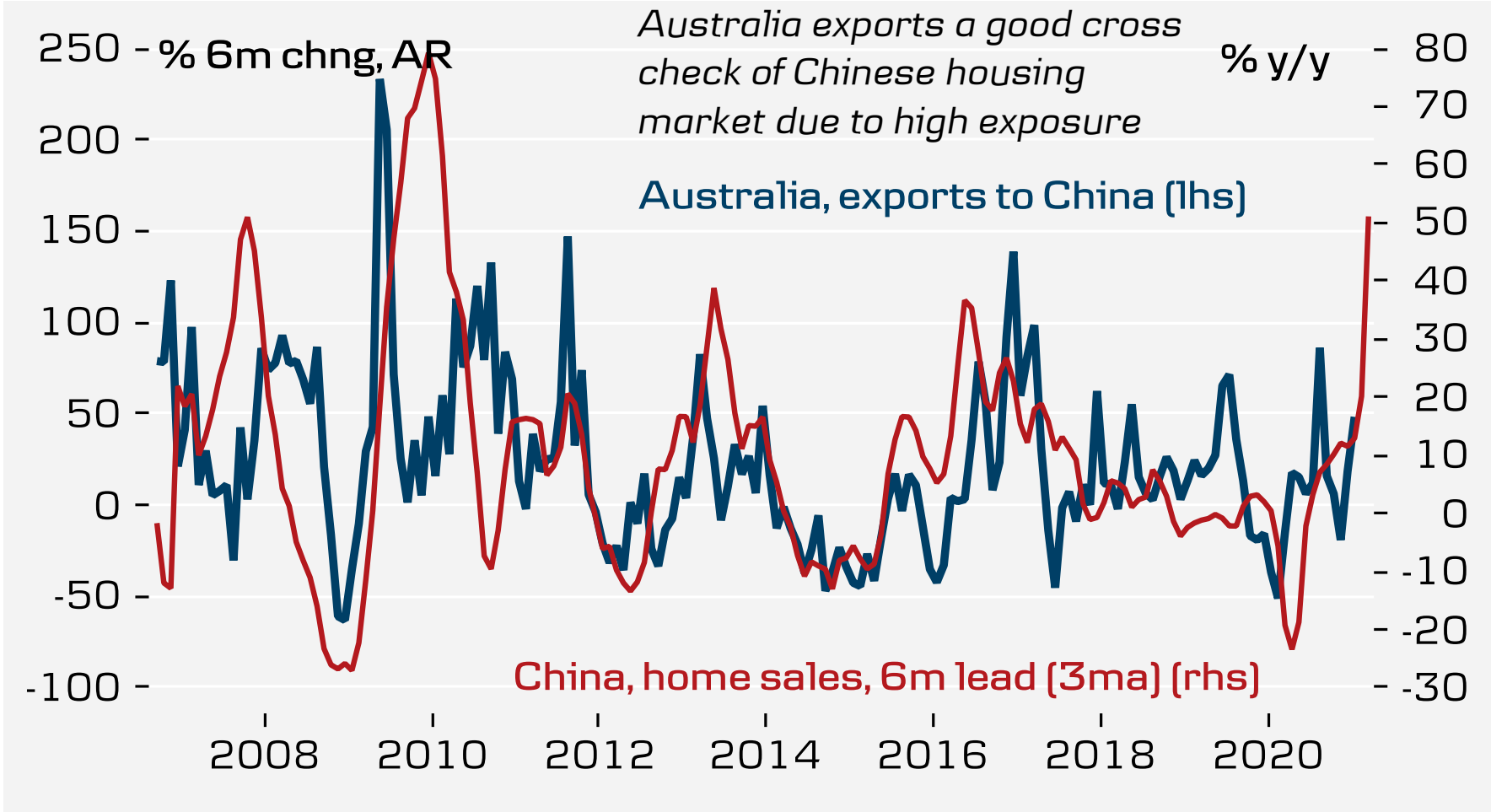
# House prices



Source: Macrobond Financial, NBS

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# Housing - Australia exports to China vs home sales



Source: Macrobond Financial, NBS, Danske Bank

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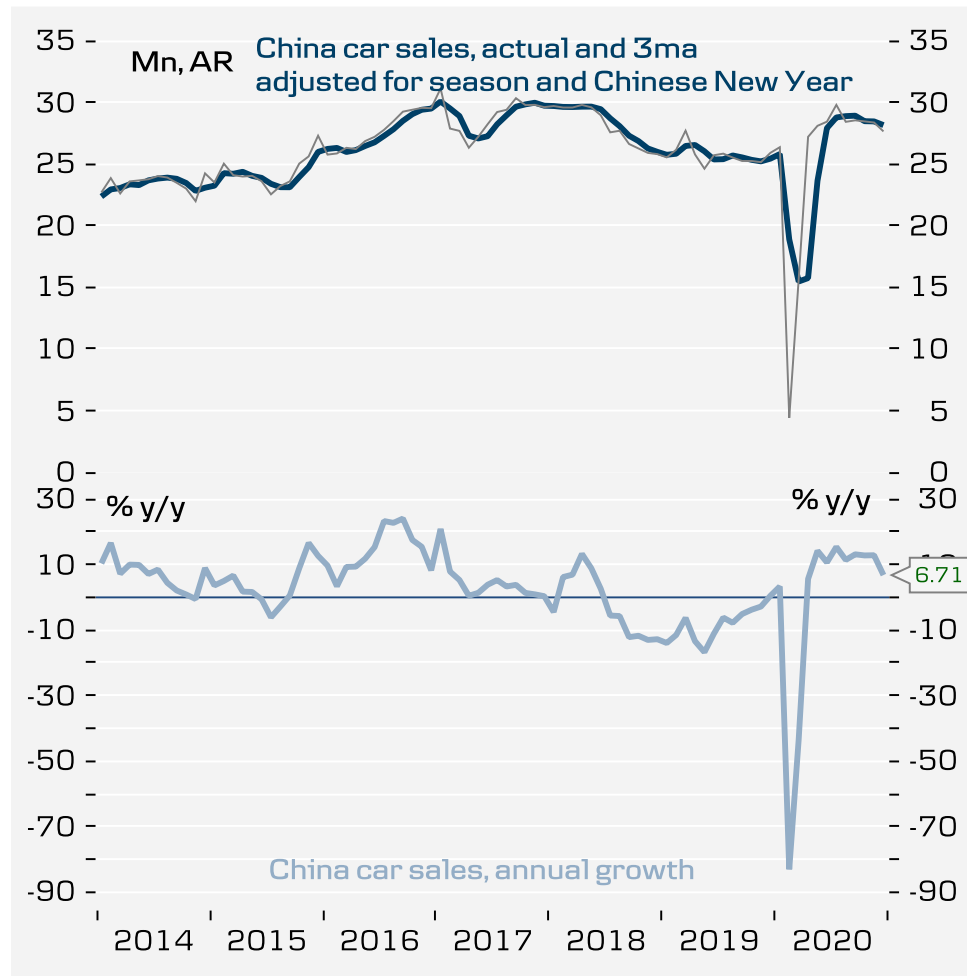
## Consumer - retail sales



Source: Macrobond Financial, NBS, Danske Bank

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# Consumer – car sales



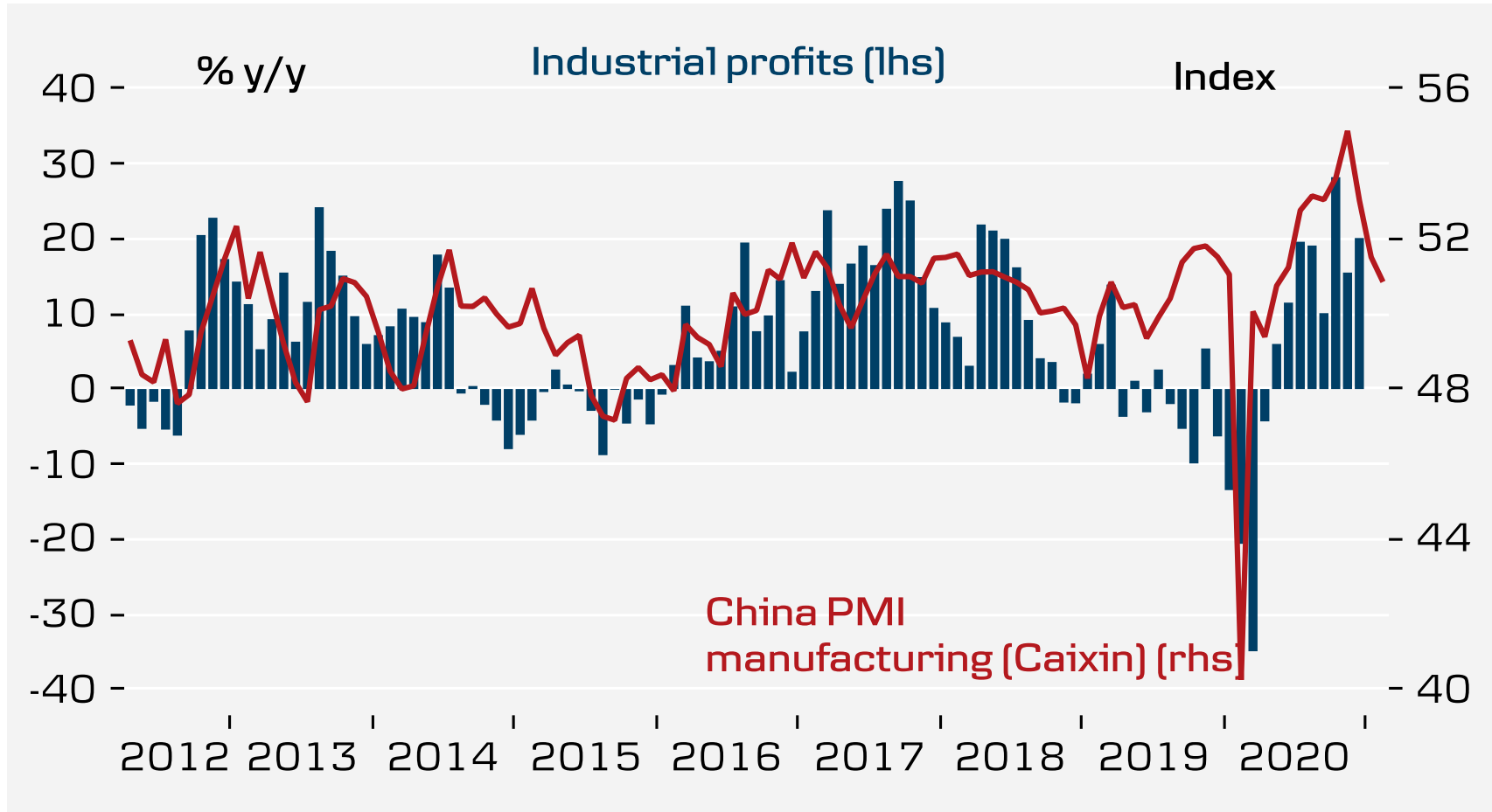
Source: Macrobond Financial, CAAM, Danske Bank

*Chinese car sales saw decent rebound but growth levelling off*

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# Profits vs PMI

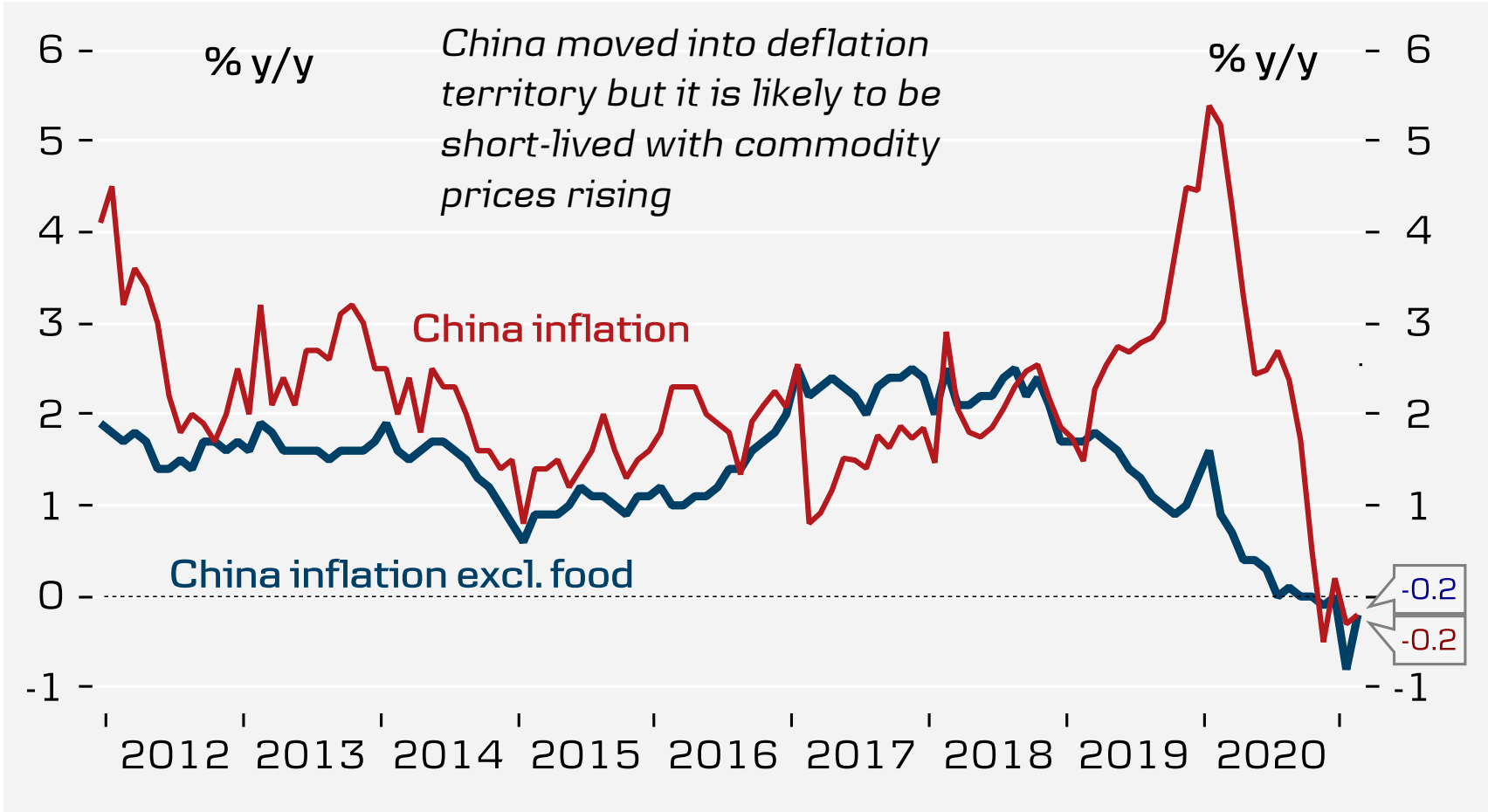
Industrial profit growth still robust around 20% y/y.



Source: Macrobond Financial, NBS, Markit, Danske Bank

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# Inflation - CPI



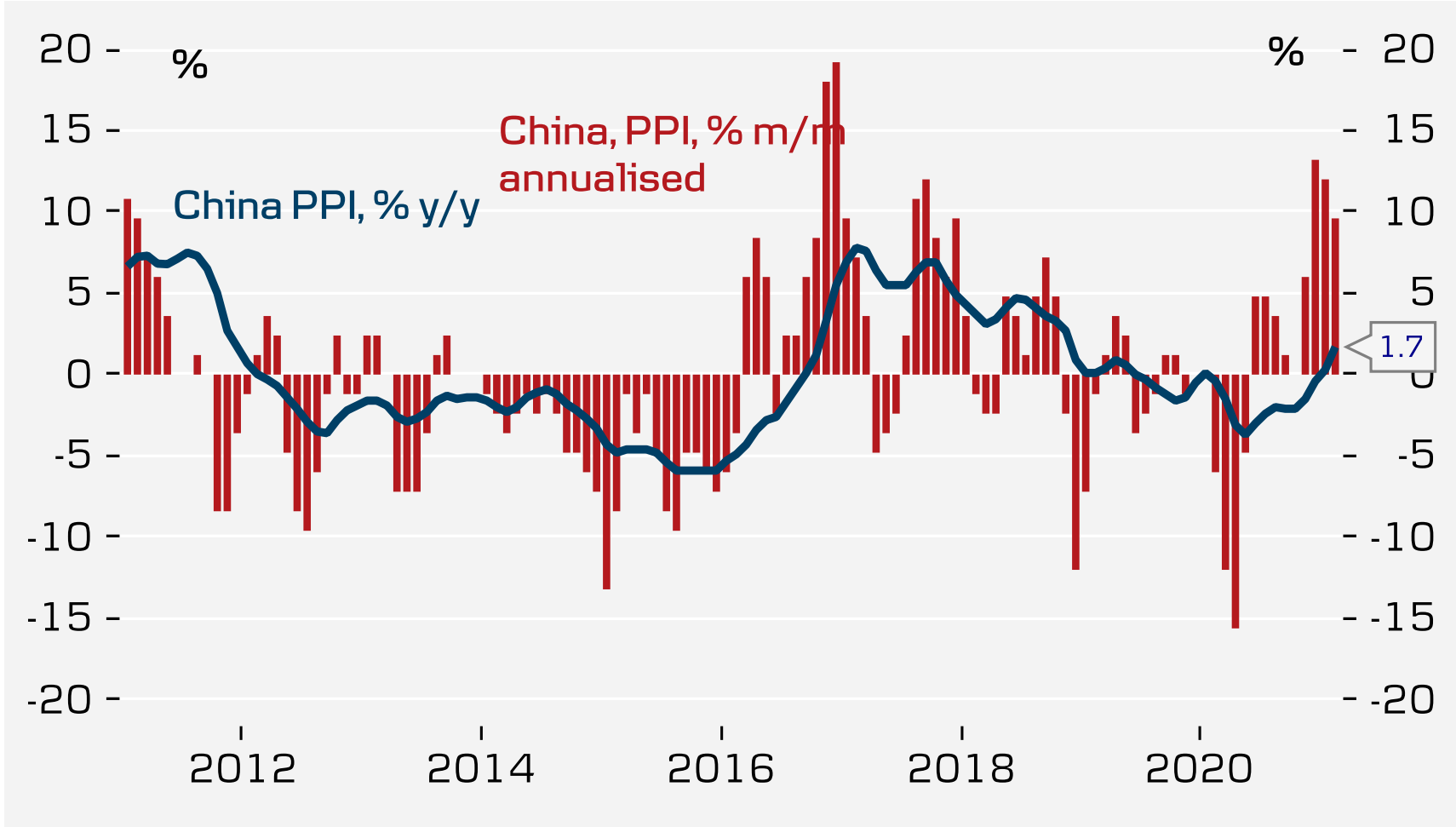
Source: Macrobond Financial, NBS, Danske Bank

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# Inflation - PPI

PPI now rising at run rate of 10% annualised (red bars).

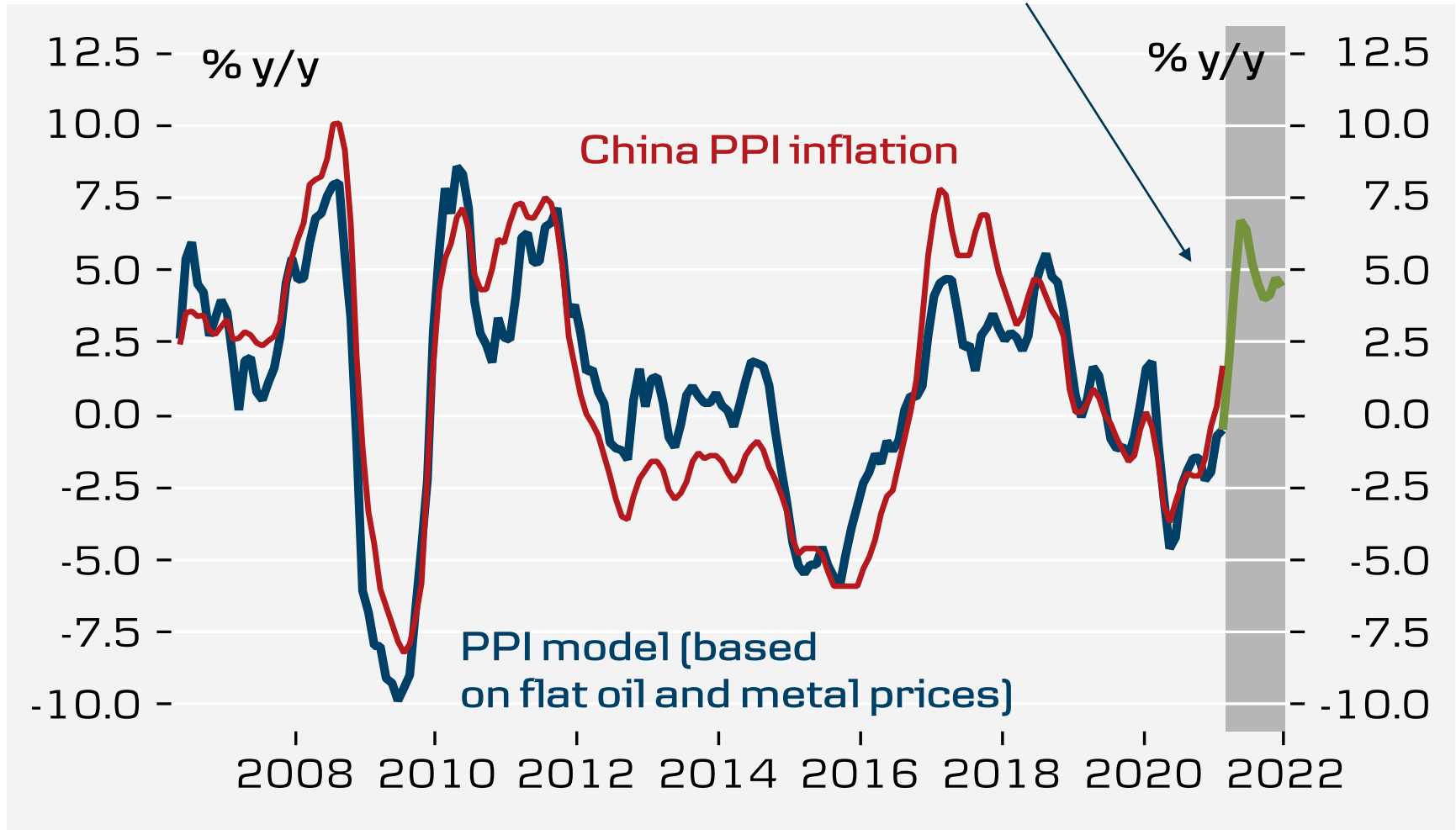


Source: Macrobond Financial, NBS, Danske Bank

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# Inflation - PPI model

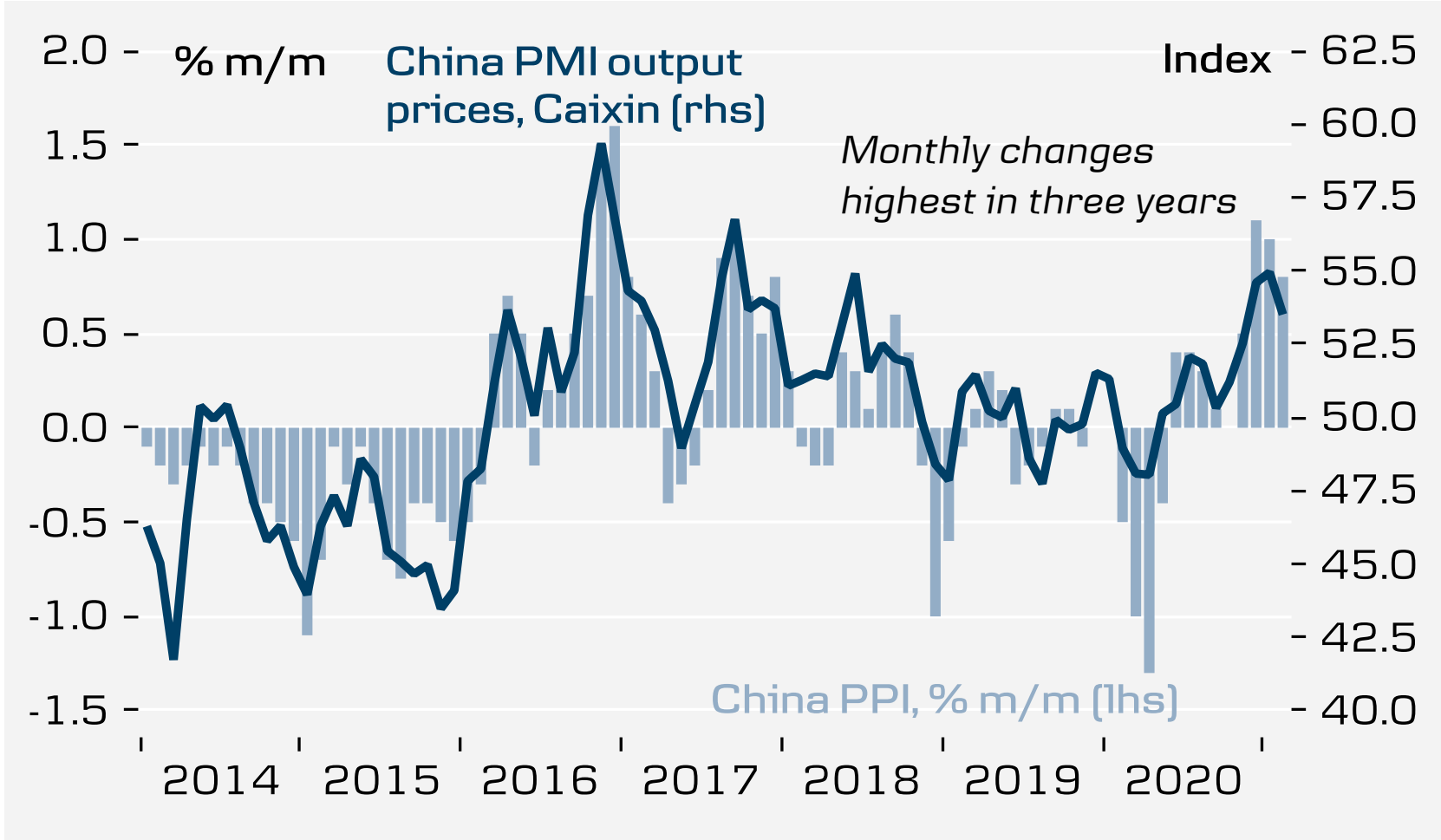
*PPI inflation to move higher in coming months on back of commodity price rally*



Source: Macrobond Financial, NBS, Danske Bank

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# Inflation - PMI output prices and PPI m/m

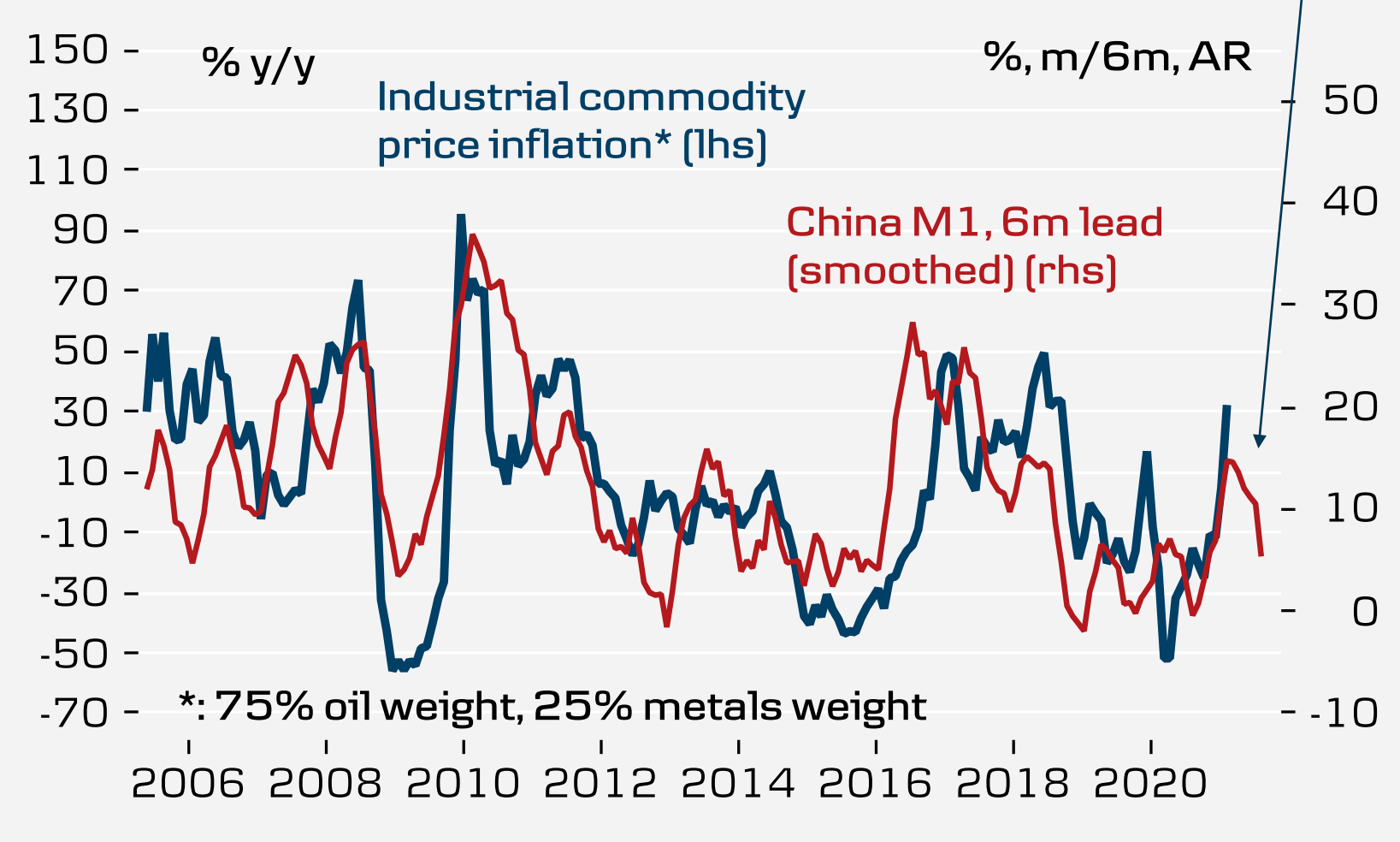


Source: Macrobond Financial, Markit, NBS, Danske Bank

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# M1 and industrial commodity prices

Monetary tightening in China to cool commodity inflation

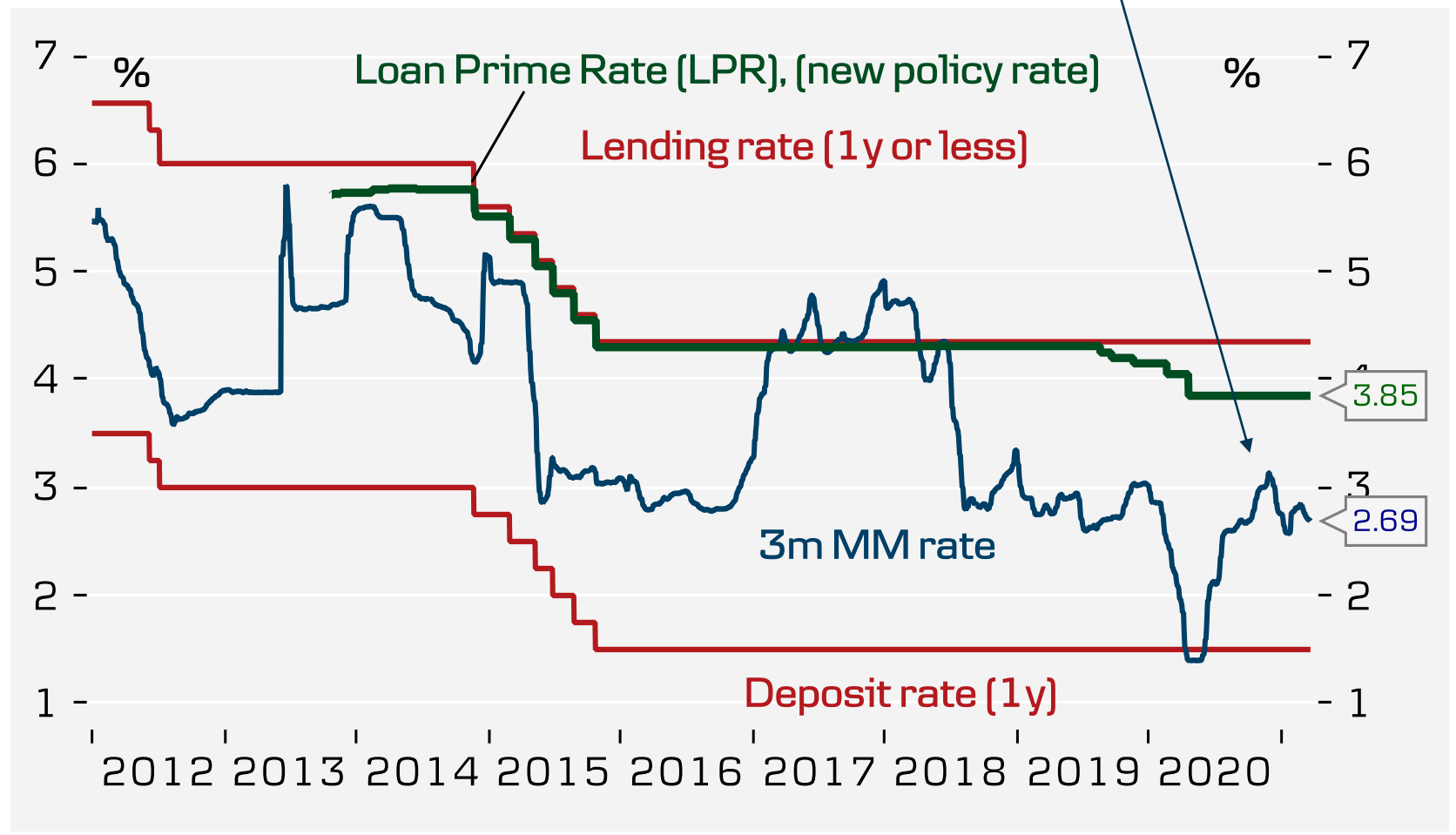


Source: Macrobond Financial, Markit, People's Bank of China, Danske Bank

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Money market rates cooling down again

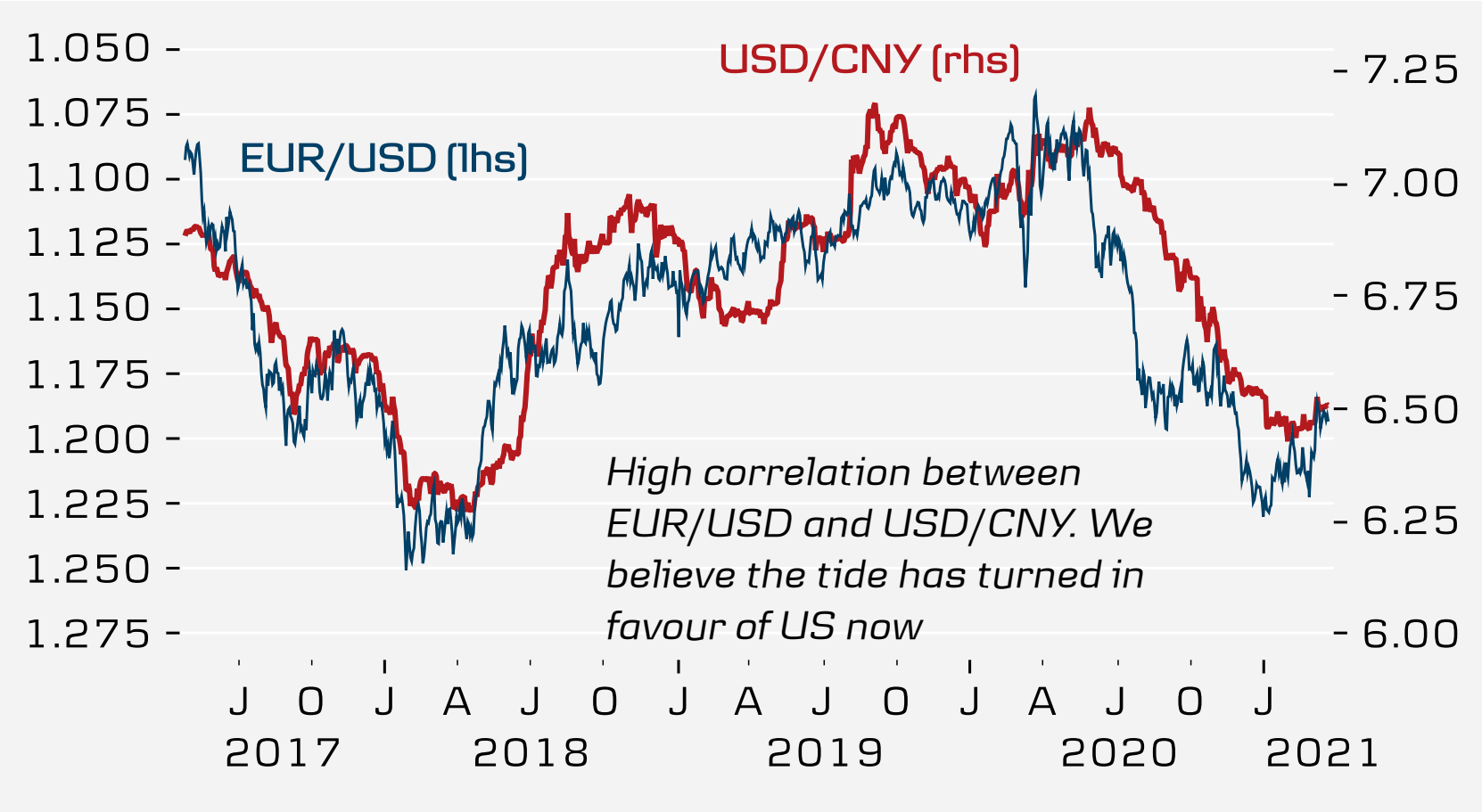
# Monetary policy - rates



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

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# CNY - overall USD development important for USD/CNY

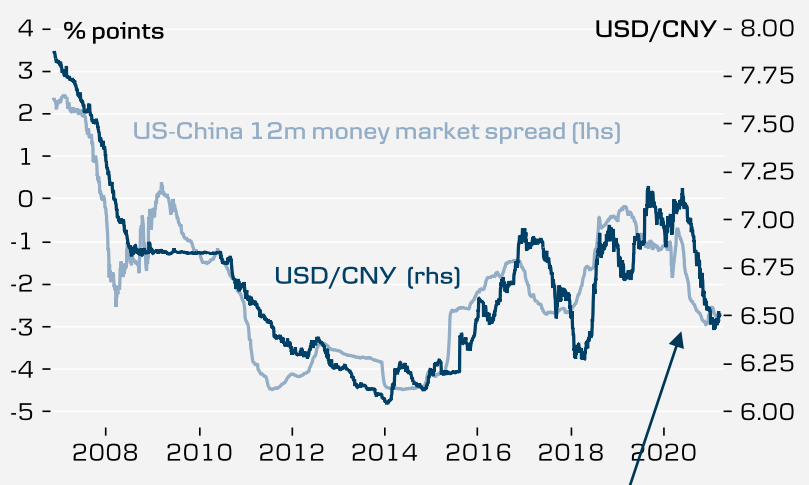


Note: EUR/USD on reverse axis in this chart, past performance is not a reliable indicator of current or future results  
Source: Macrobond Financial, People's Bank of China

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# CNY - relative rates a good long-term anchor

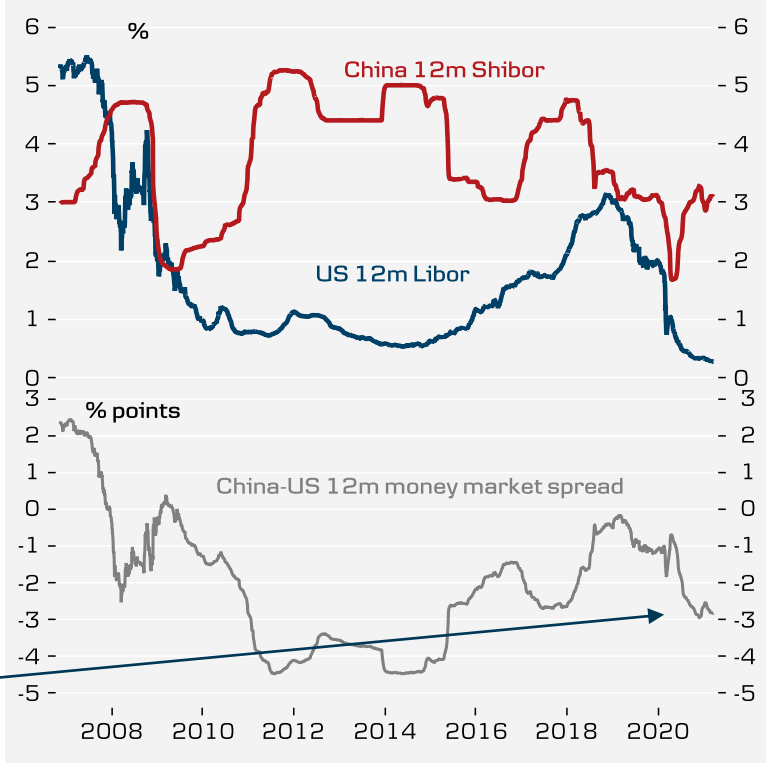
Relative rates vs USD/CNY



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

*USD/CNY decline coming to a halt as relative rates have stabilized*

US and China money 12M rates

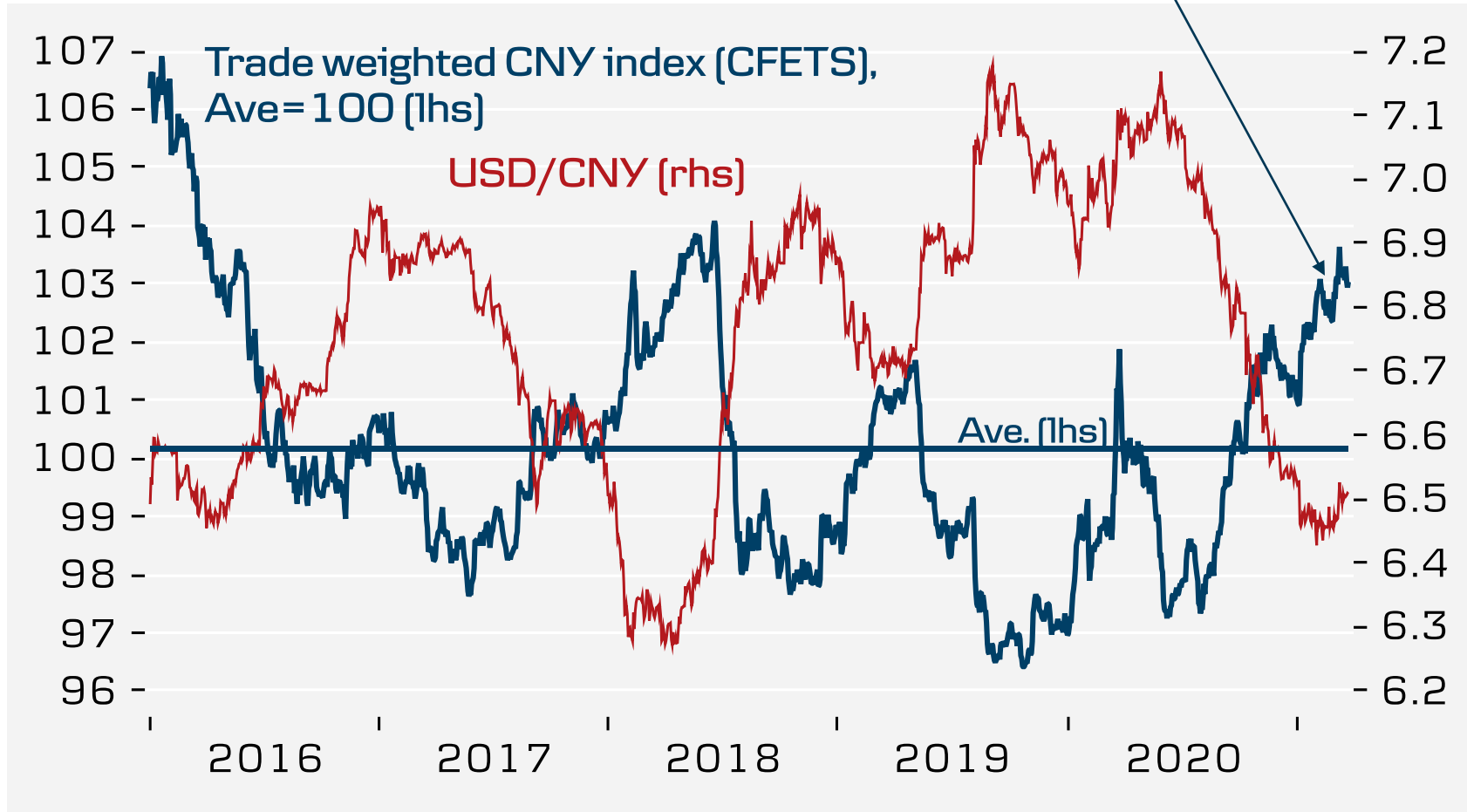


Note: Past performance is not a reliable indicator of current or future results  
 Source: Macrobond Financial, People's Bank of China

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# USD/CNY and CNY basket

Effective CNY strongest in 2½ years but only 3% above the five-year 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

*Correction in onshore stocks deepened over the past month as retail investors left the market*

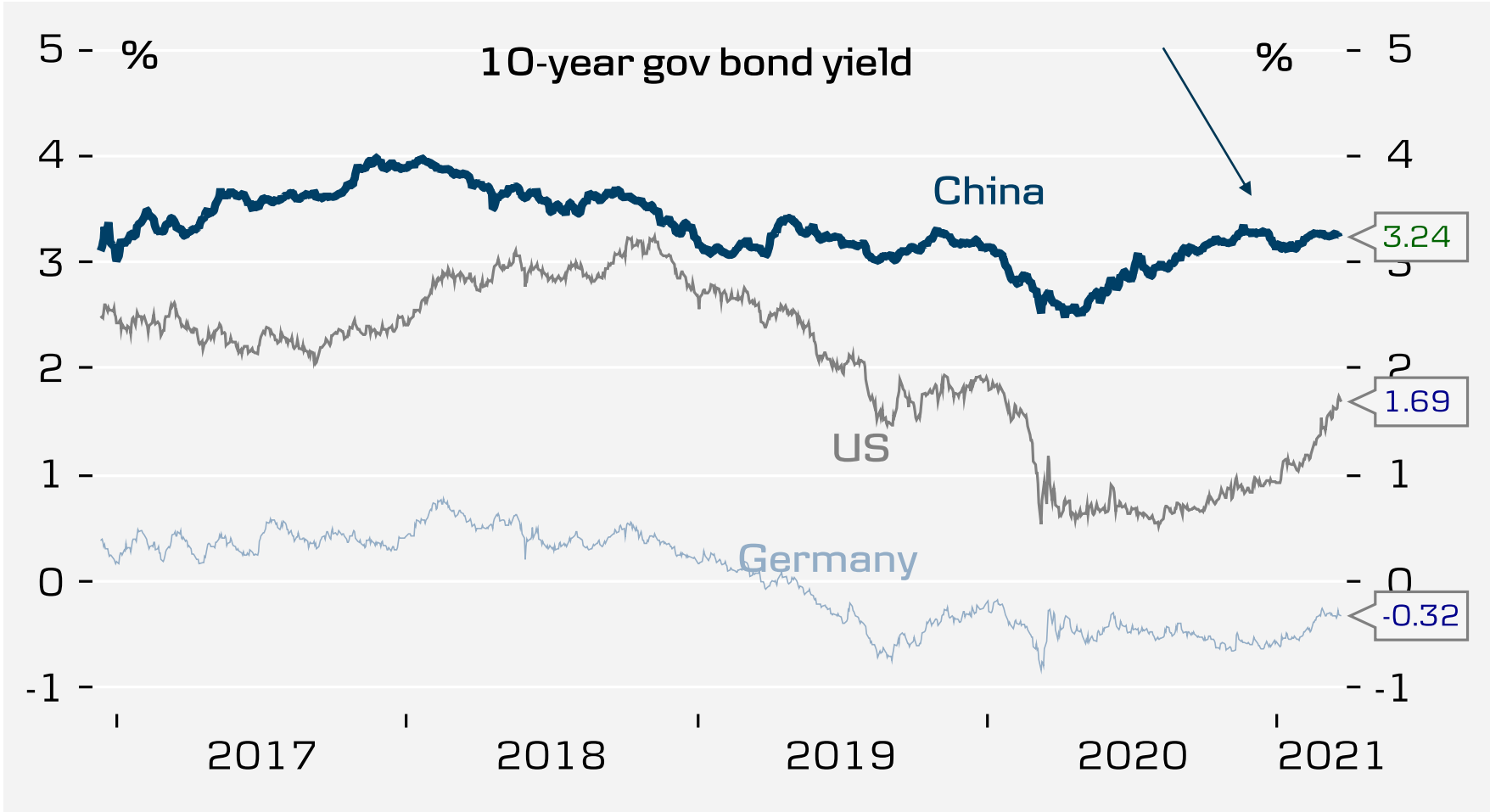


*Note: Past performance is not a reliable indicator of current or future results*  
 Source: Macrobond Financial, People's Bank of China

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# China bond yields (vs US and Germany)

Chinese bond yields stable during the US bond sell-off



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

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**Report completed:** 23 March 2021, 13:08 CET

**Report first disseminated:** 23 March 2021, 13:30 CET