Danske Bank

China Macro Monitor

- Bottoming out

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Important disclosures and certifications are contained from page 49 of this report

Outlook and current trends: Moderate recovery

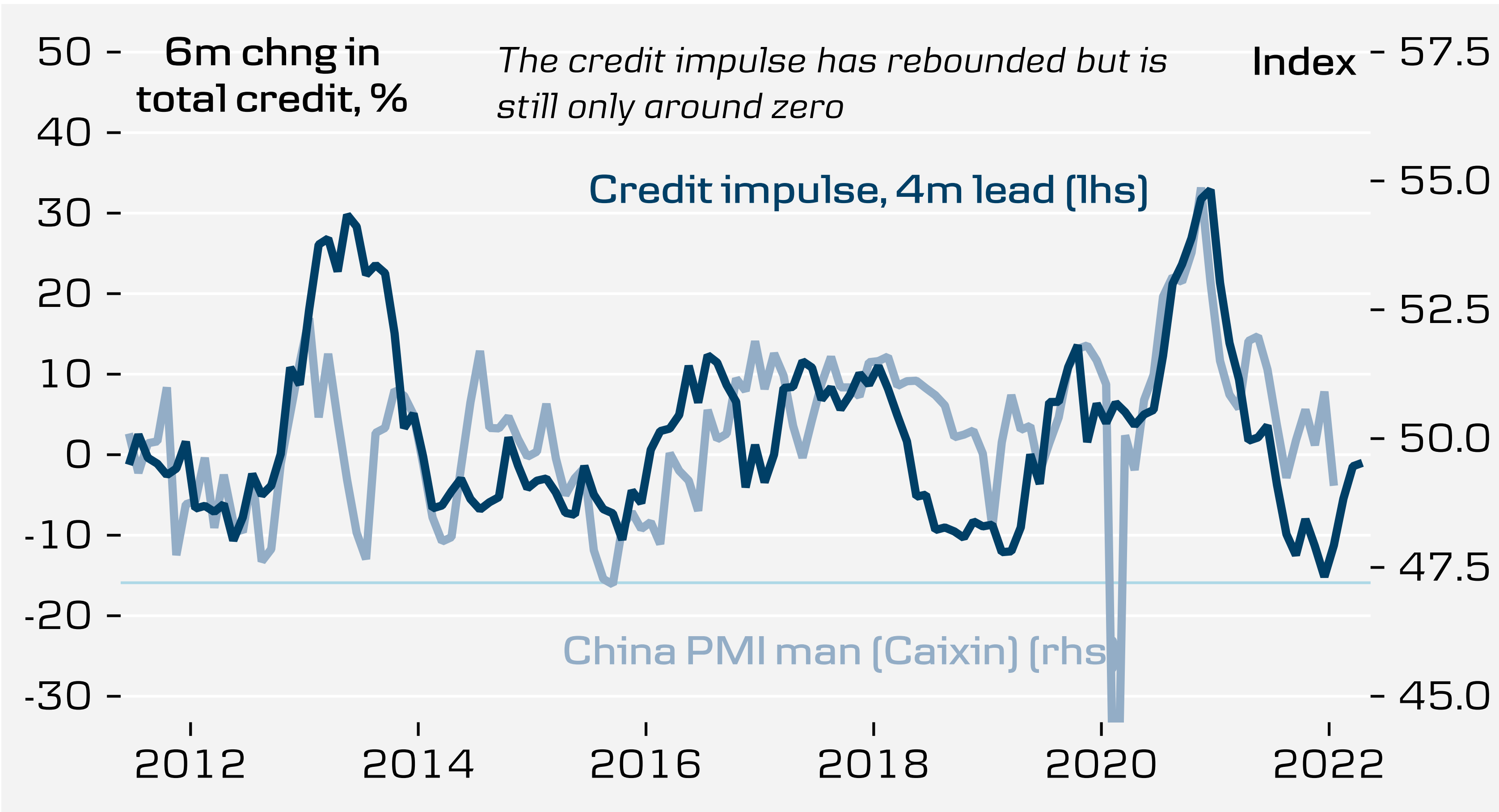
Outlook. The overall picture is still one of weakness, but policy easing has started, which should pave the way for a moderate recovery in GDP growth and PMI's this year. The short term picture is still weak, though, as the headwind from the property sector continues to linger. In addition consumption is tempered by more frequent lockdowns and momentum in exports is coming down. The government has stepped up policy easing and also provides support to the ailing property sector. Stability is a key priority this year due to the CPC Congress, see also Research China: Top 5 questions in 2022 – and financial implications, 13 January 2022.

China today

- **Growth.** *PMIs* are bottoming out, despite the decline in January. *Credit* growth has recovered in recent months. *Copper* prices move sideways still in line with weak manufacturing momentum.
- **Inflation.** *PPI* inflation fell to 10.3% in January from 13.5% in October. *CPI* inflation is still moderate at 2.1%, clearly below the 3% target.
- **Monetary policy.** PBoC cut the *RRR* rate by 50bp in December and is signalling further easing. The Medium Lending Facility (MLF) rate was also cut by 10bp. We look for another cut in both RRR and the MLF rate in Q1. M1 growth remains weak.
- **CNY.** The effective *yuan* is at the strongest levels in six years spurred by strong trade flows.
- **Stock markets.** *Stocks* have stabilized and *China USD high yield* rate is down from the highs.
- ***For more China research, see our website here***

Our top five China indicators currently

Credit impulse still weak but recovering



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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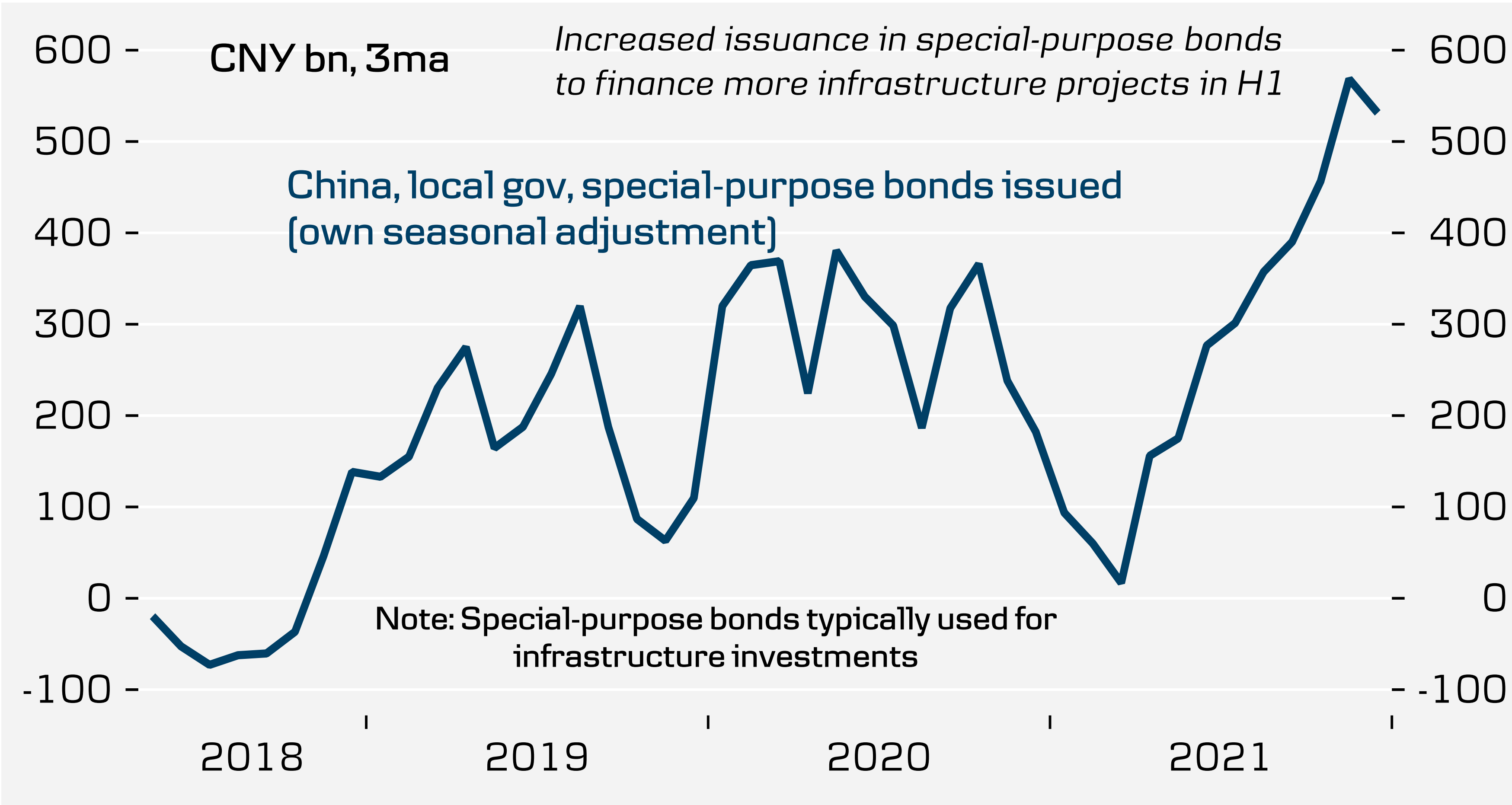
Issuance for infrastructure projects picked up in late '21



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

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Housing is a big drag currently

Source: Macrobond Financial, NBS, Danske Bank

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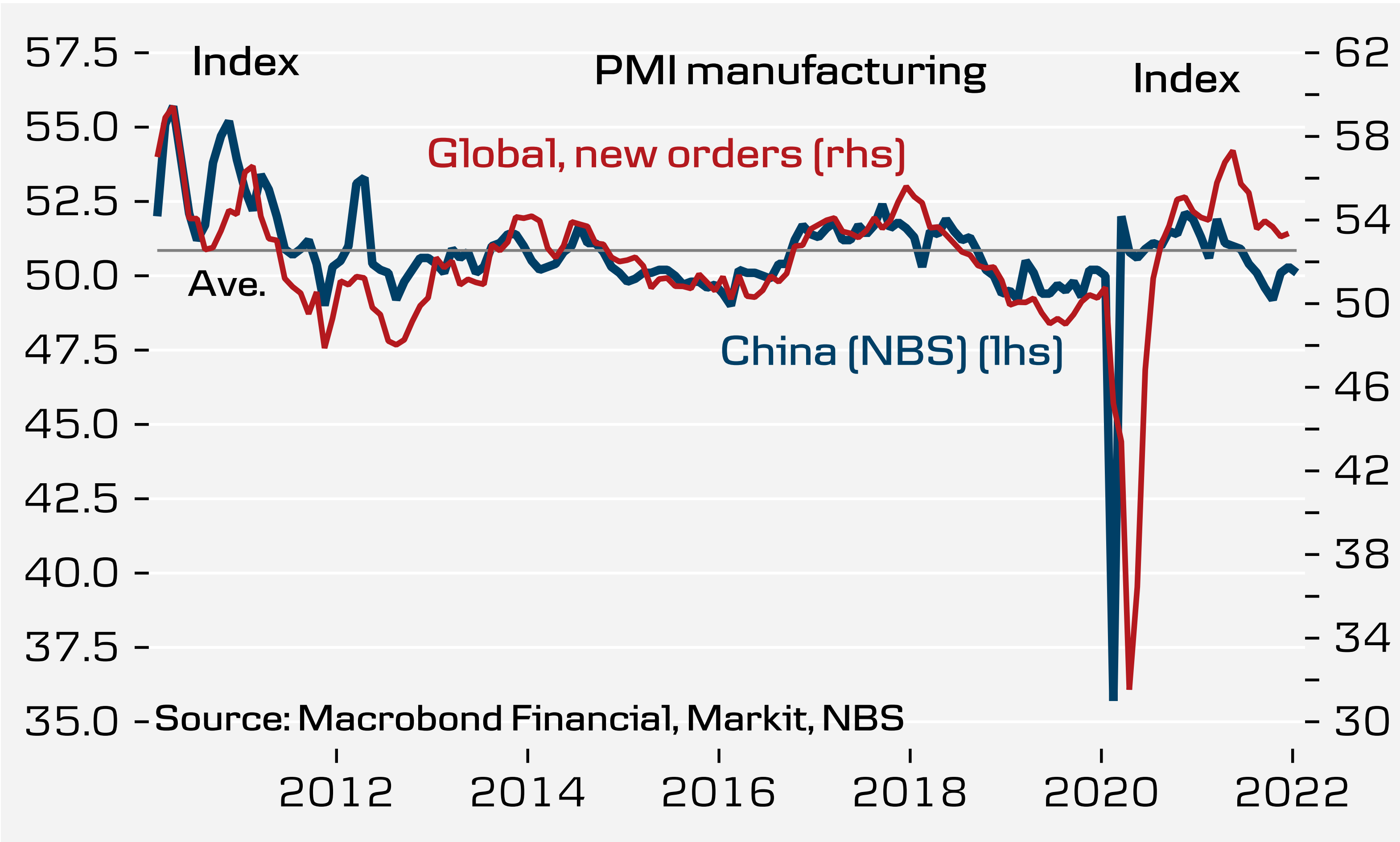
China still weighs on the global manufacturing cycle



Source: Macrobond Financial, Markit, Danske Bank

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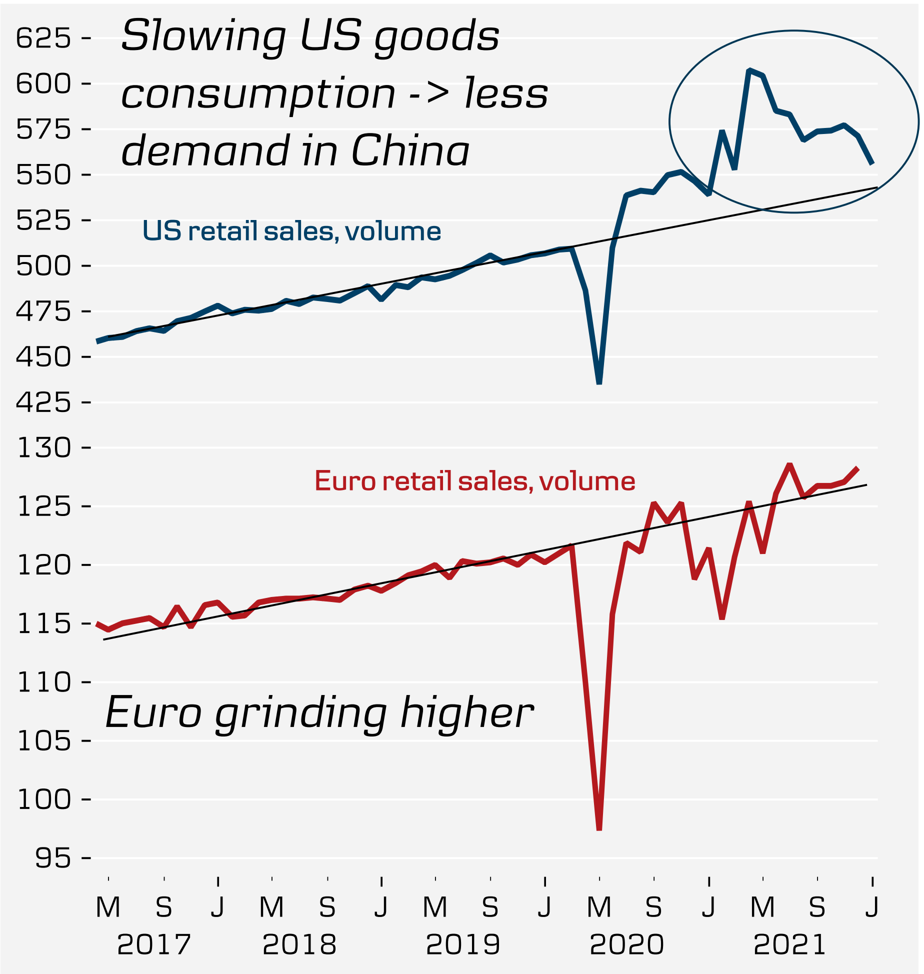
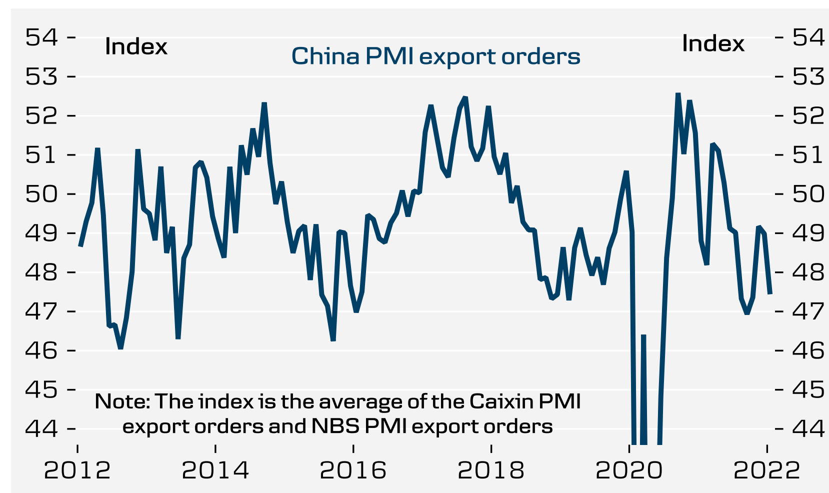
China exports to soften as US goods demand declines



Source: Macrobond Financial, Danske Bank

Growth in US goods consumption lower -> decline in China export order momentum.



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

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Forecast on PMI and GDP growth

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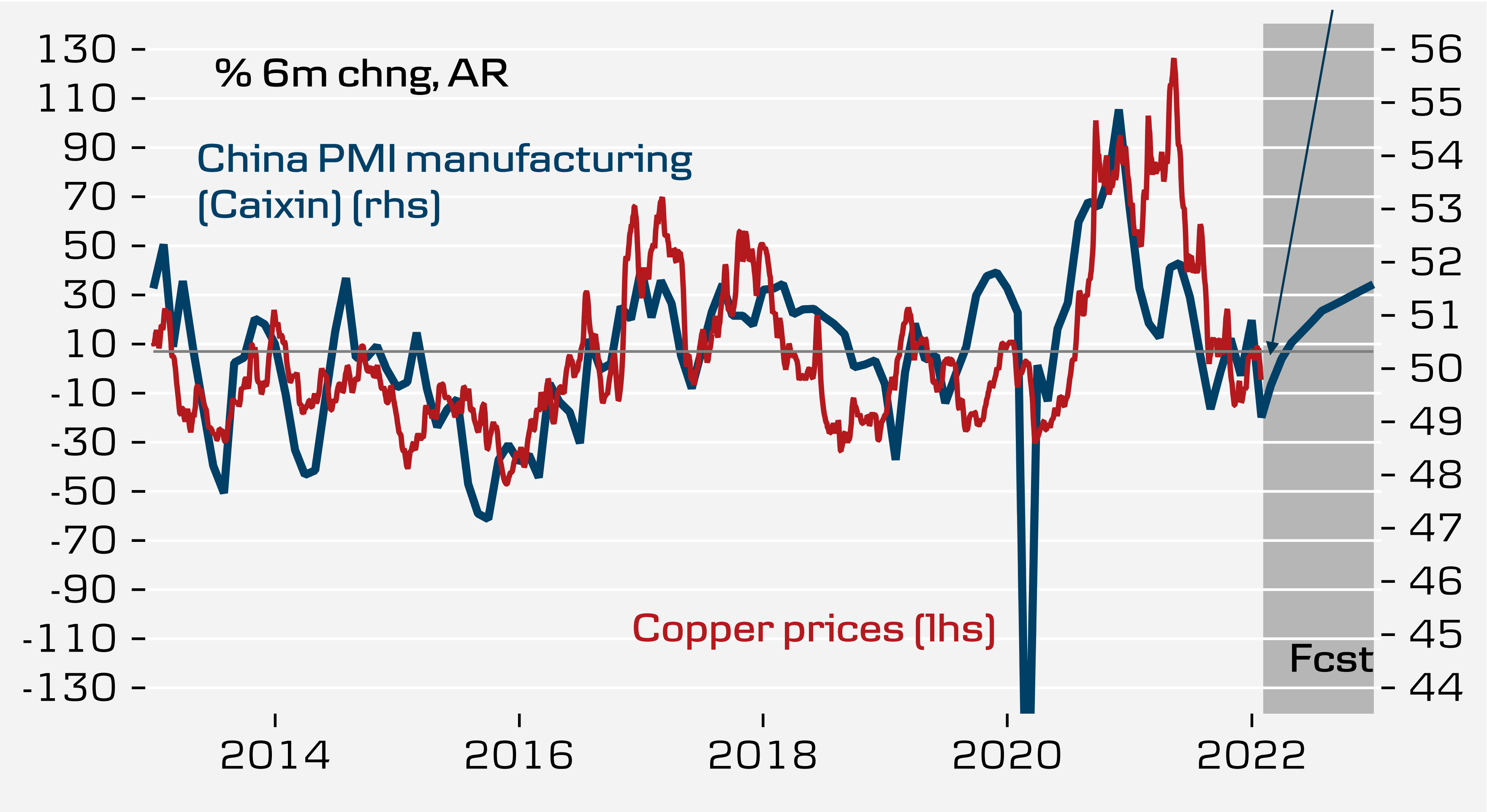
PMI forecast profile (vs copper prices)

We look for Caixin PMI manufacturing to move gradually higher in 2022 as Beijing aims for stability



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

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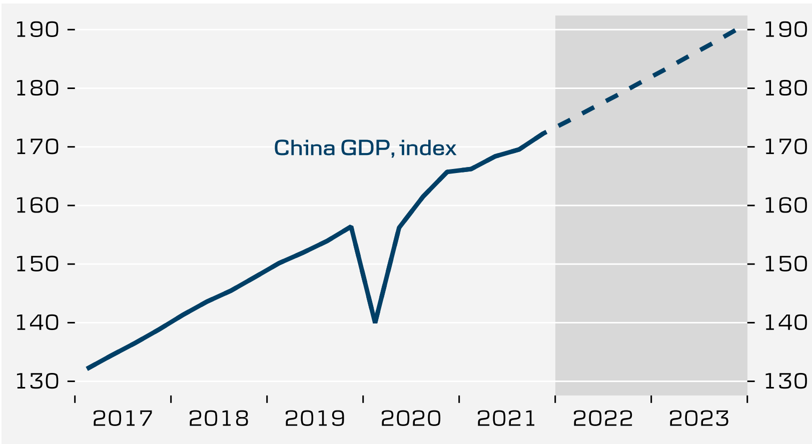
GDP forecast profile

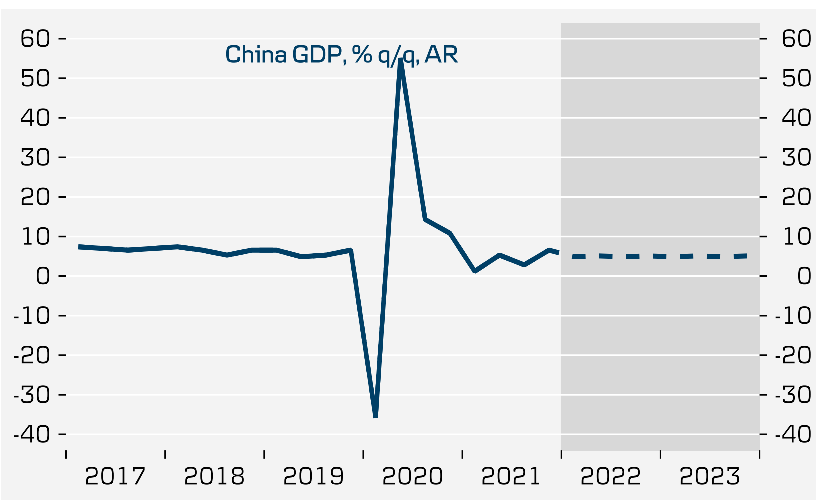


Source: Macrobond Financial, Danske Bank

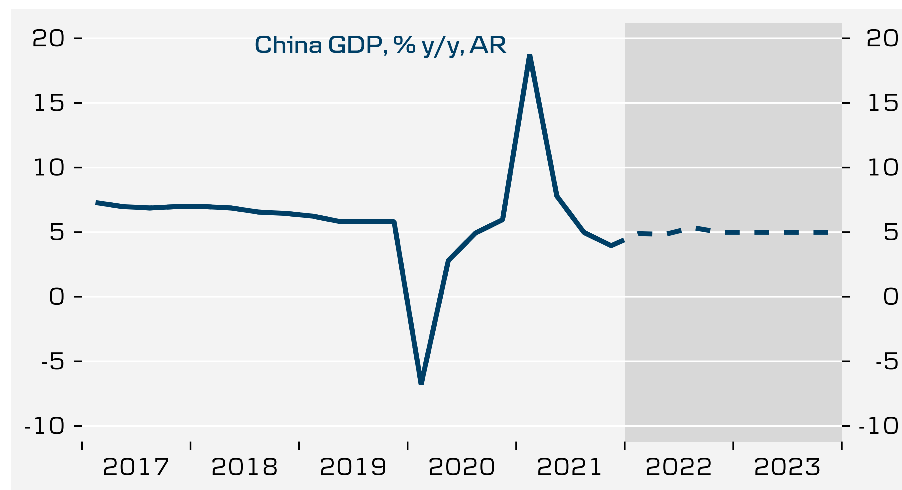
GDP forecast

2020: 2.3%
2021: 8.1%
2022: 5.0%
2023: 5.0%

We look for growth to be around 5% this year driven mostly by stimulus.



Source: Macrobond Financial, Danske Bank



Source: Macrobond Financial, Danske Bank

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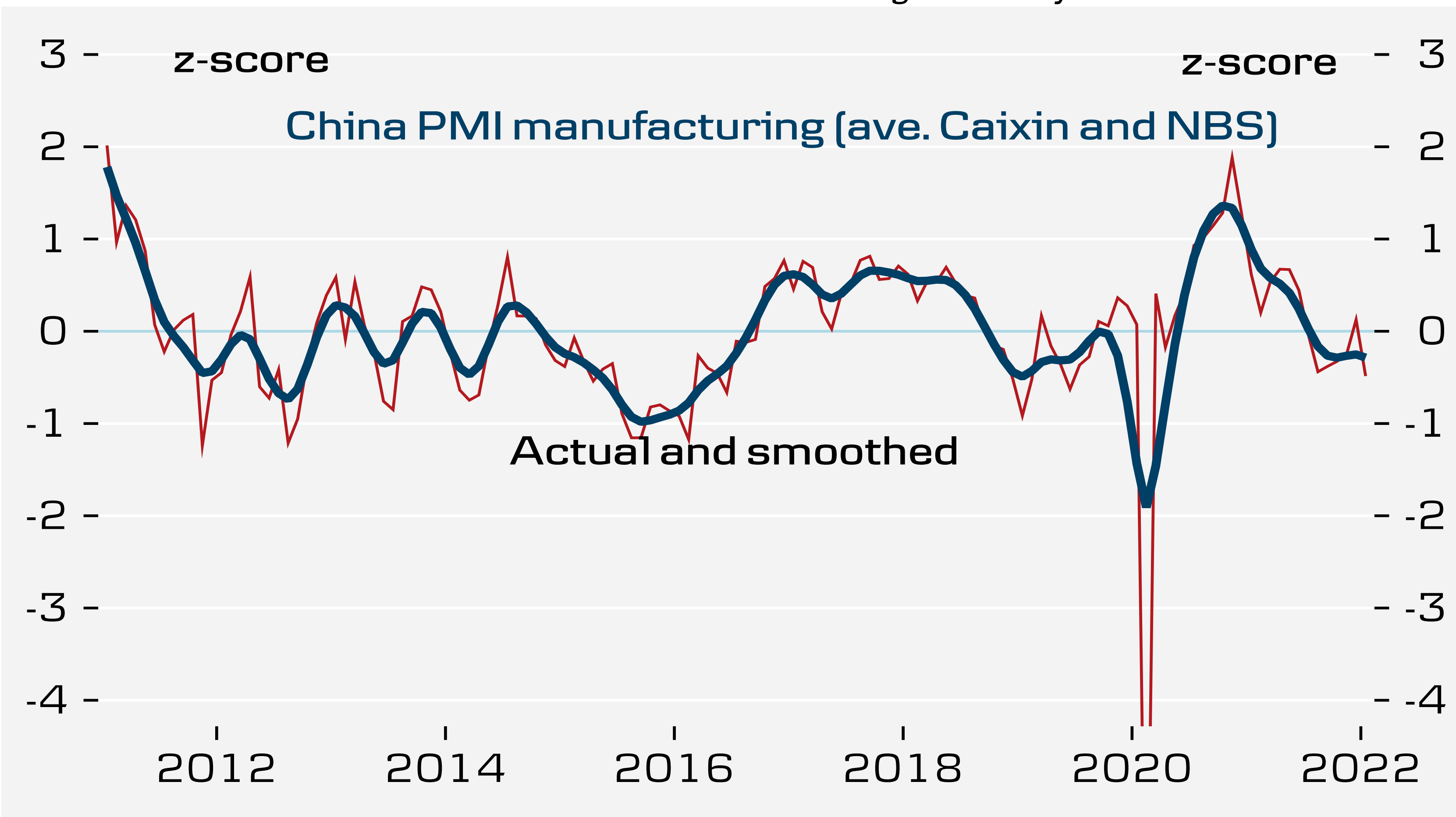
Overview of China macro indicators

PMI indicator (average of Caixin and NBS)

The average of Caixin and NBS PMI manufacturing sideways in recent months



Source: Macrobond Financial, Markit, NBS, Danske Bank

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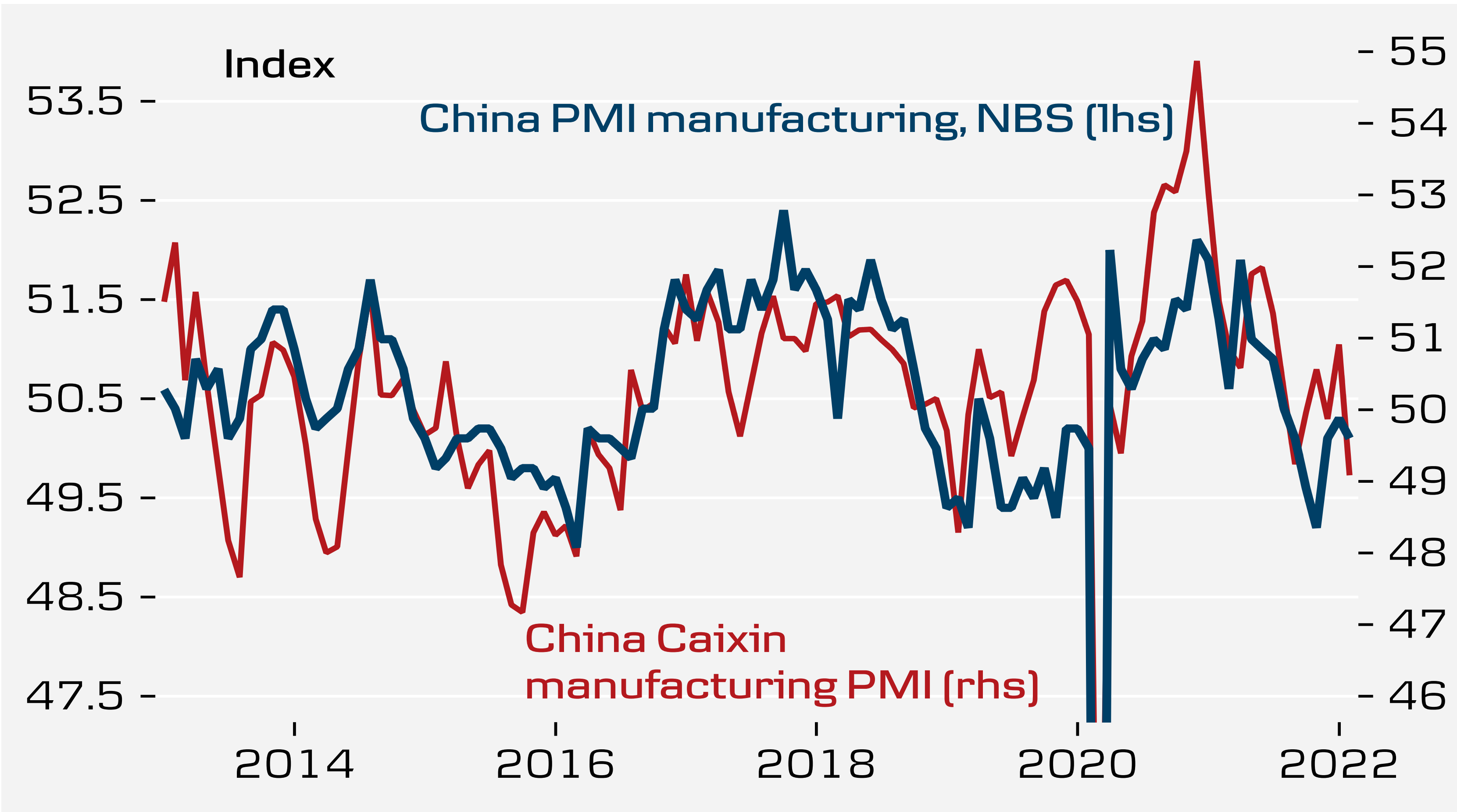
NBS vs Caixin PMI

NBS PMI much less volatile than Caixin PMI. Caixin corrected in January from 'too strong' levels



Source: Macrobond Financial, Markit, NBS, Danske Bank

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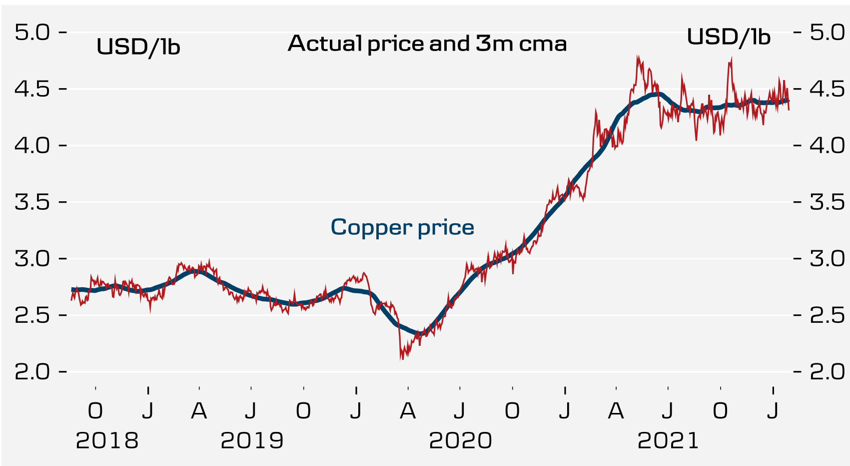
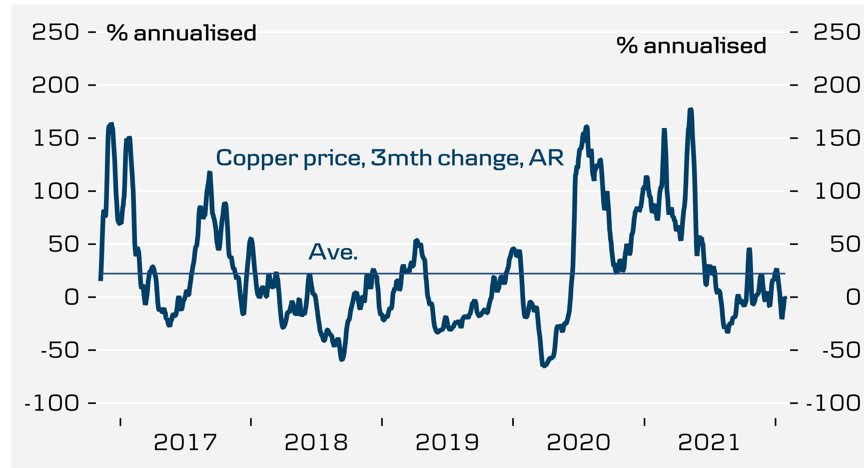
Copper price momentum

Copper prices move broadly sideways, which points to slow manufacturing growth.



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



Source: Bloomberg, Danske Bank
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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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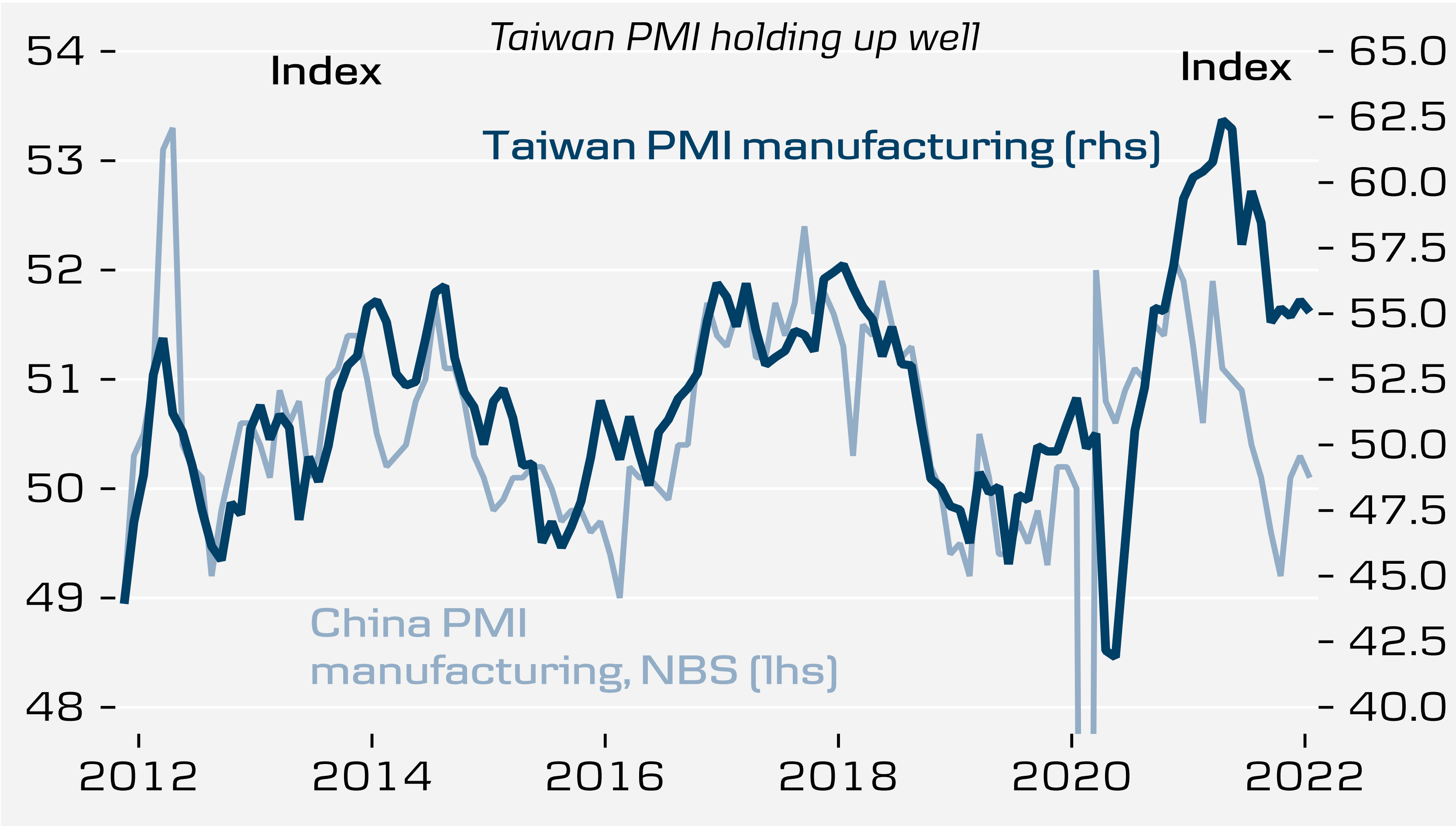
Taiwan PMI vs mainland China PMI



Source: Macrobond Financial, Markit, Danske Bank

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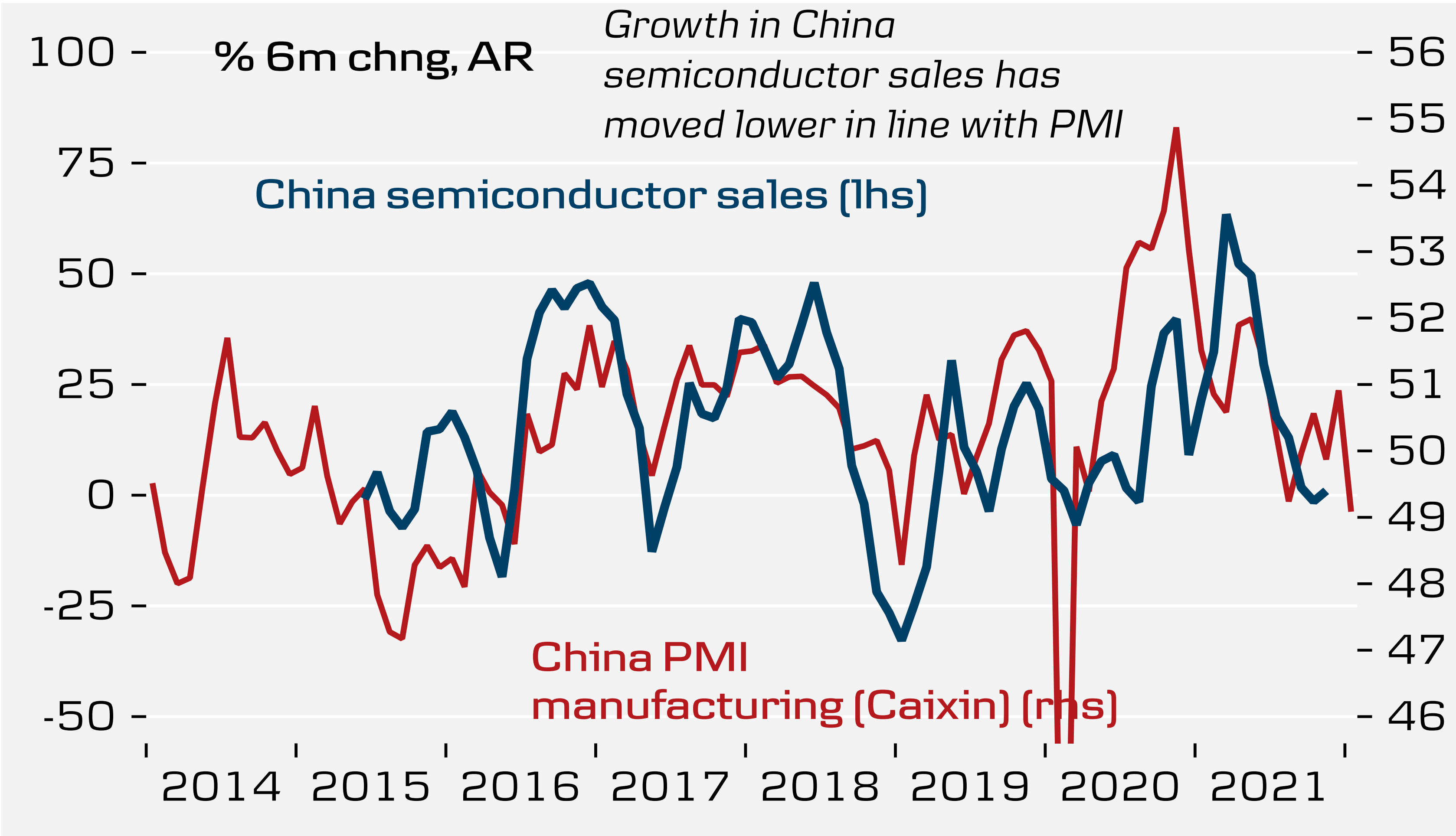
China semiconductor sales vs Chinese PMI



Source: Macrobond Financial, Markit, Semiconductor Industry Association

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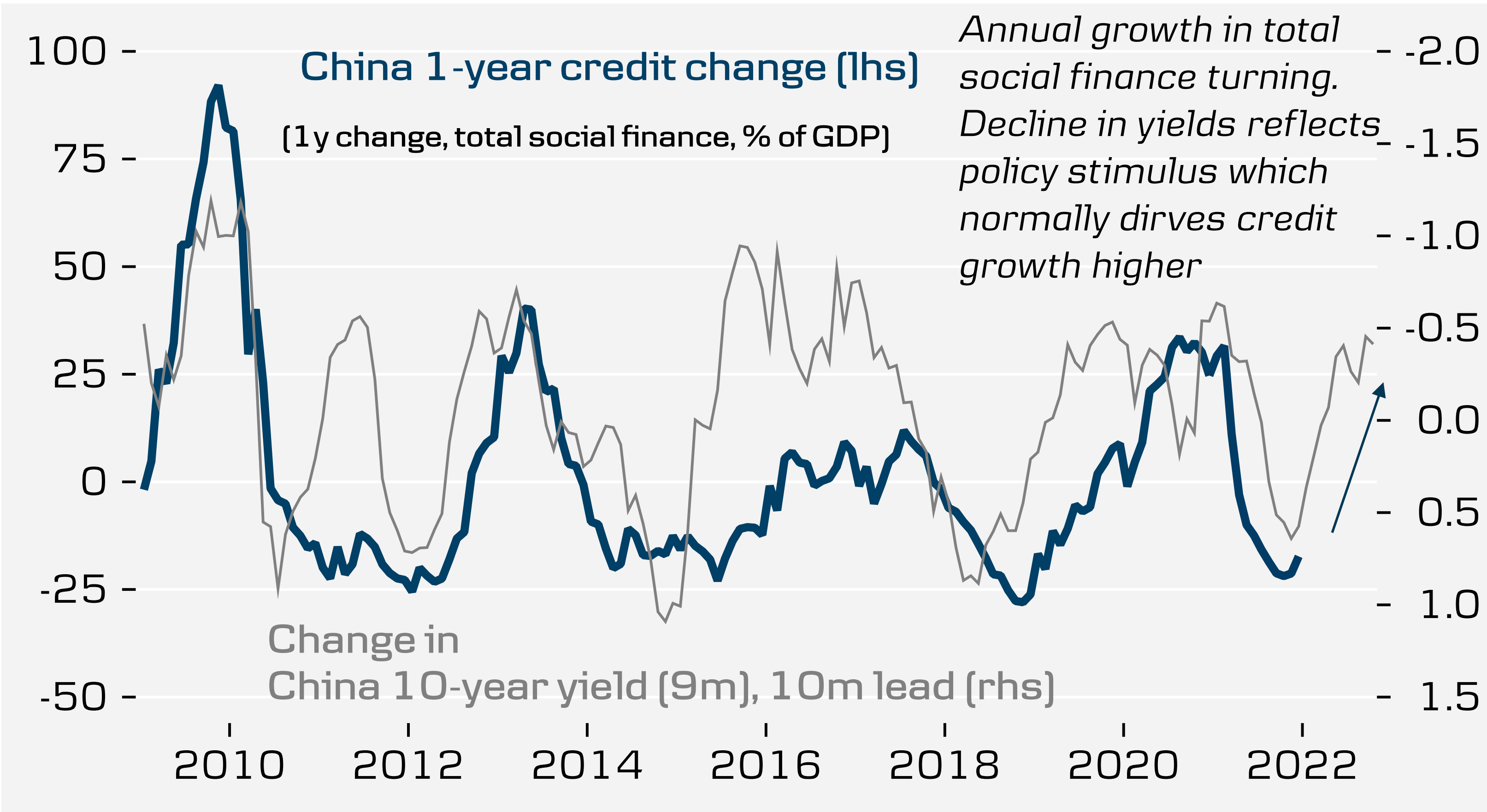
Credit growth vs change in government bond yields



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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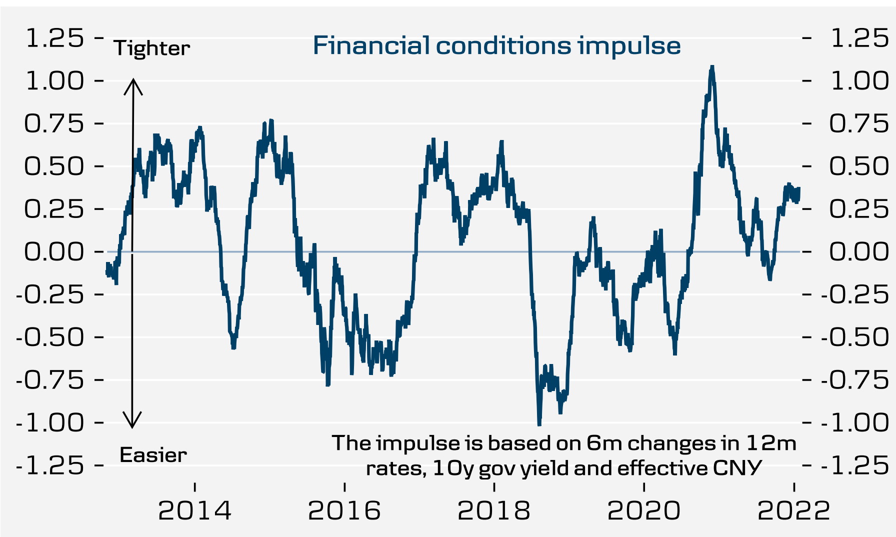
Financial conditions impulse

Our financial conditions impulse shows tightening driven by the continued appreciation by the CNY.



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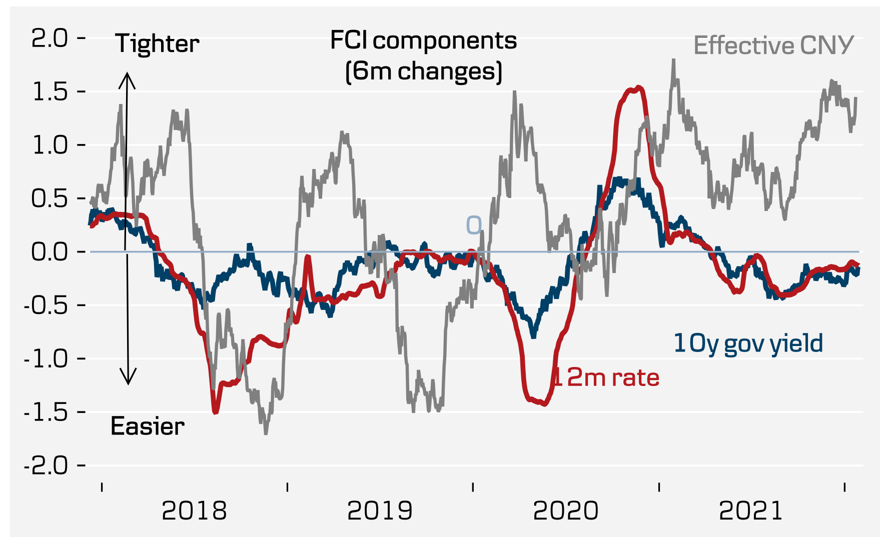

Source: Macrobond Financial, People's Bank of China, Danske Bank
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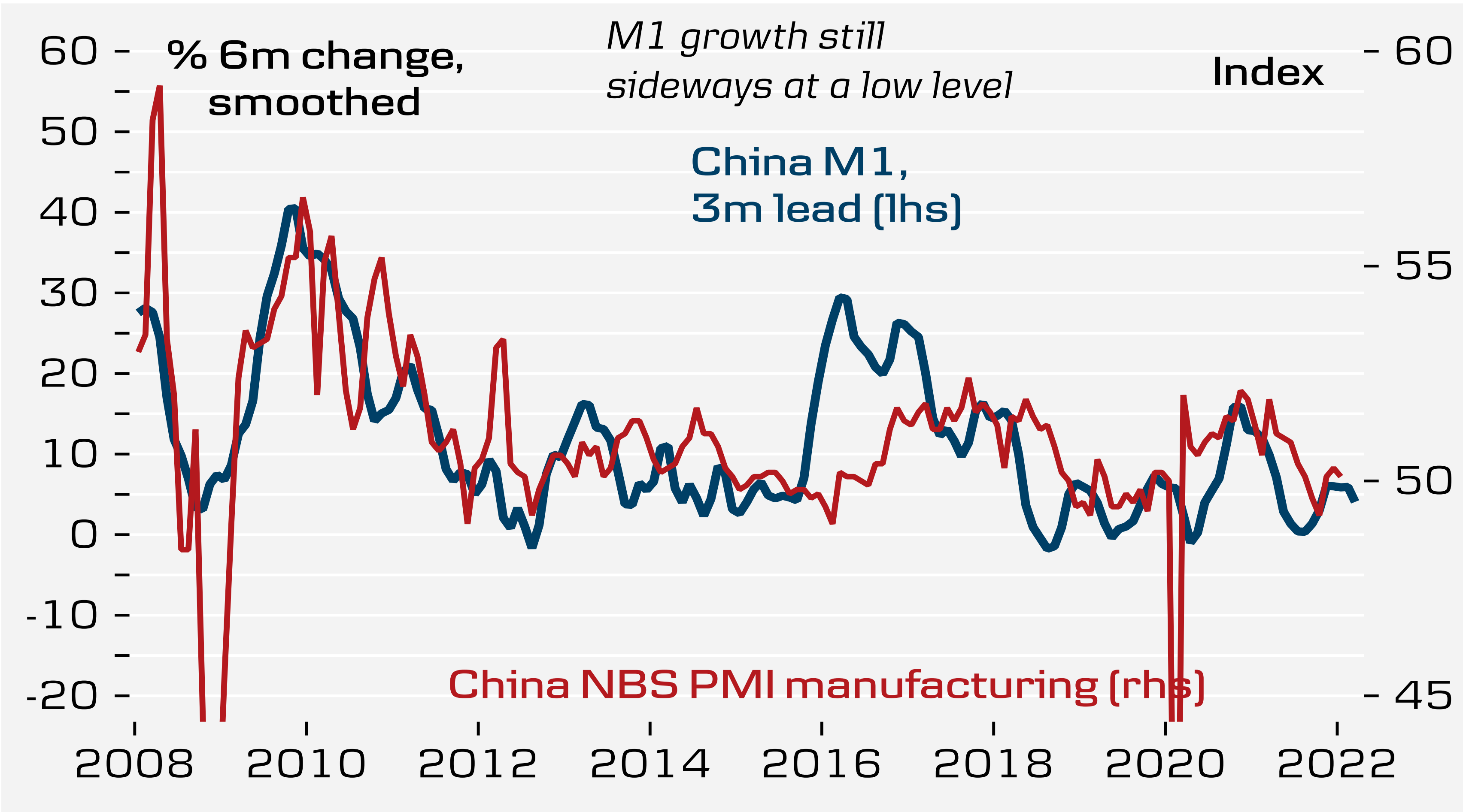
Money growth



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

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Exports – model

Export orders weakening in line with lower G3 PMI's and CNY appreciation

Source: Macrobond Financial, NBS, Markit, Danske Bank

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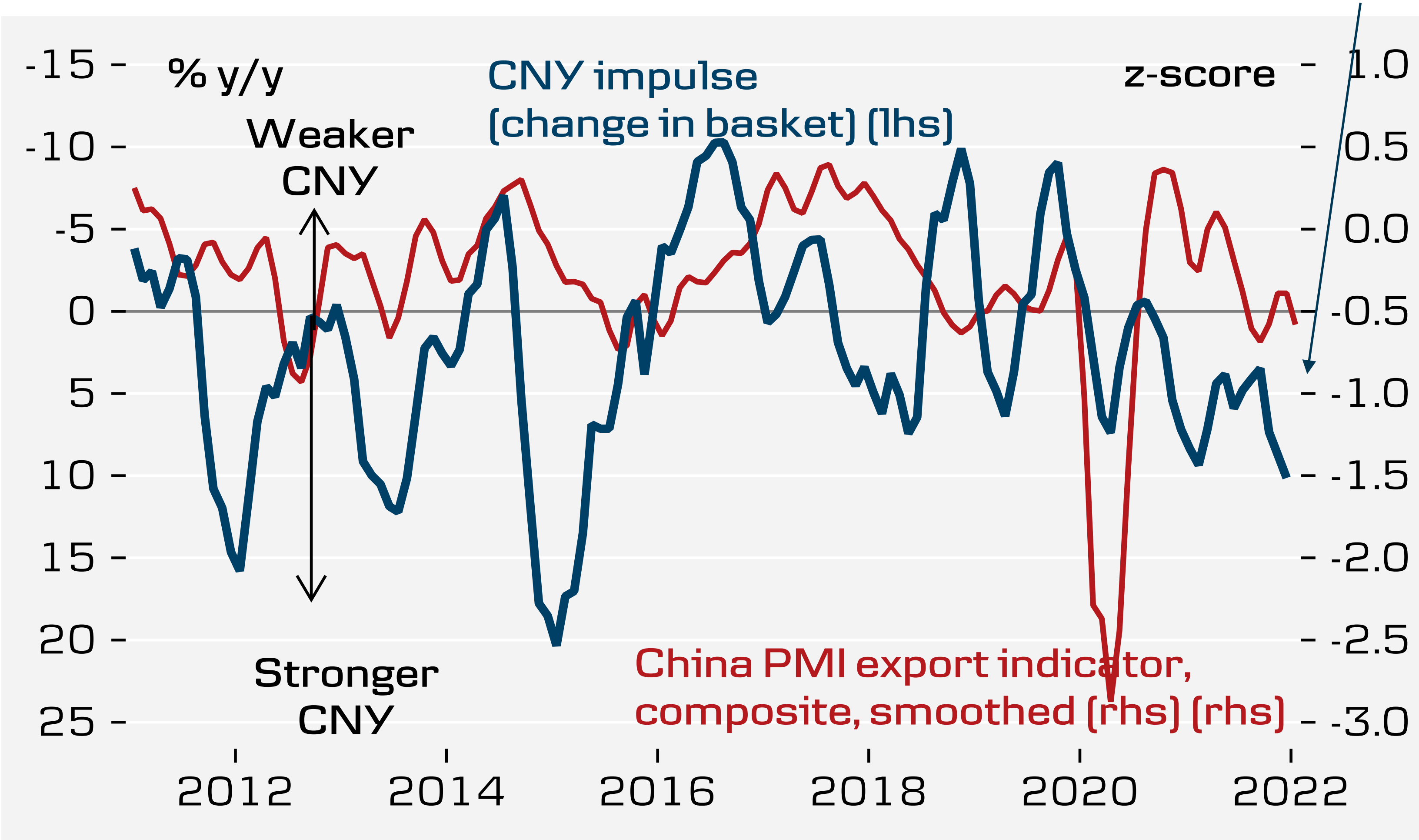
Exports – currency impulse

CNY strength a headwind for exports



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

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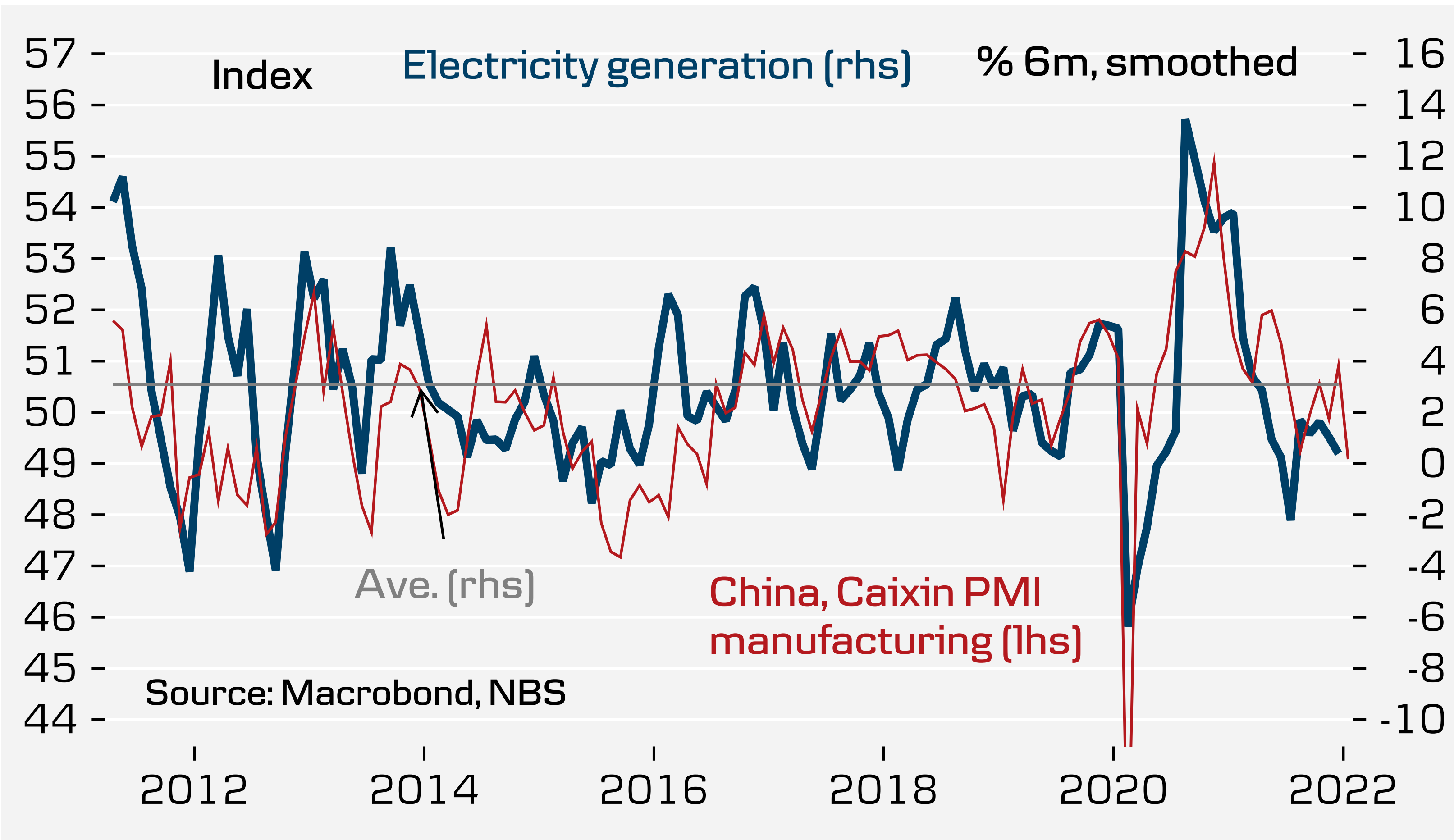
Electricity generation

Electricity growth at weak levels



Source: Macrobond Financial, Markit, NBS, Danske Bank

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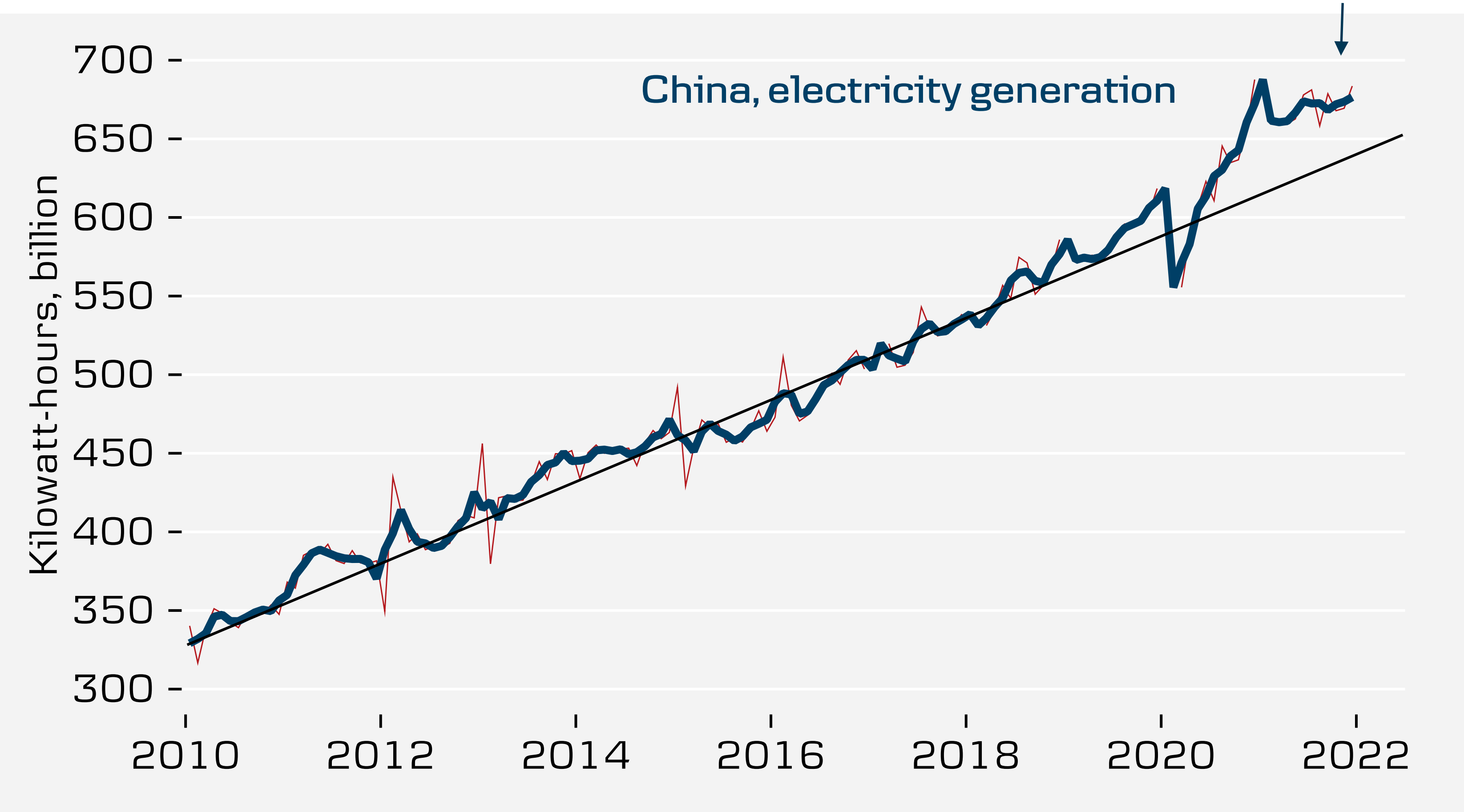
Electricity generation level

Official data still show high level of electricity generation – but momentum is weak



Source: Macrobond Financial, Markit, NBS, Danske Bank

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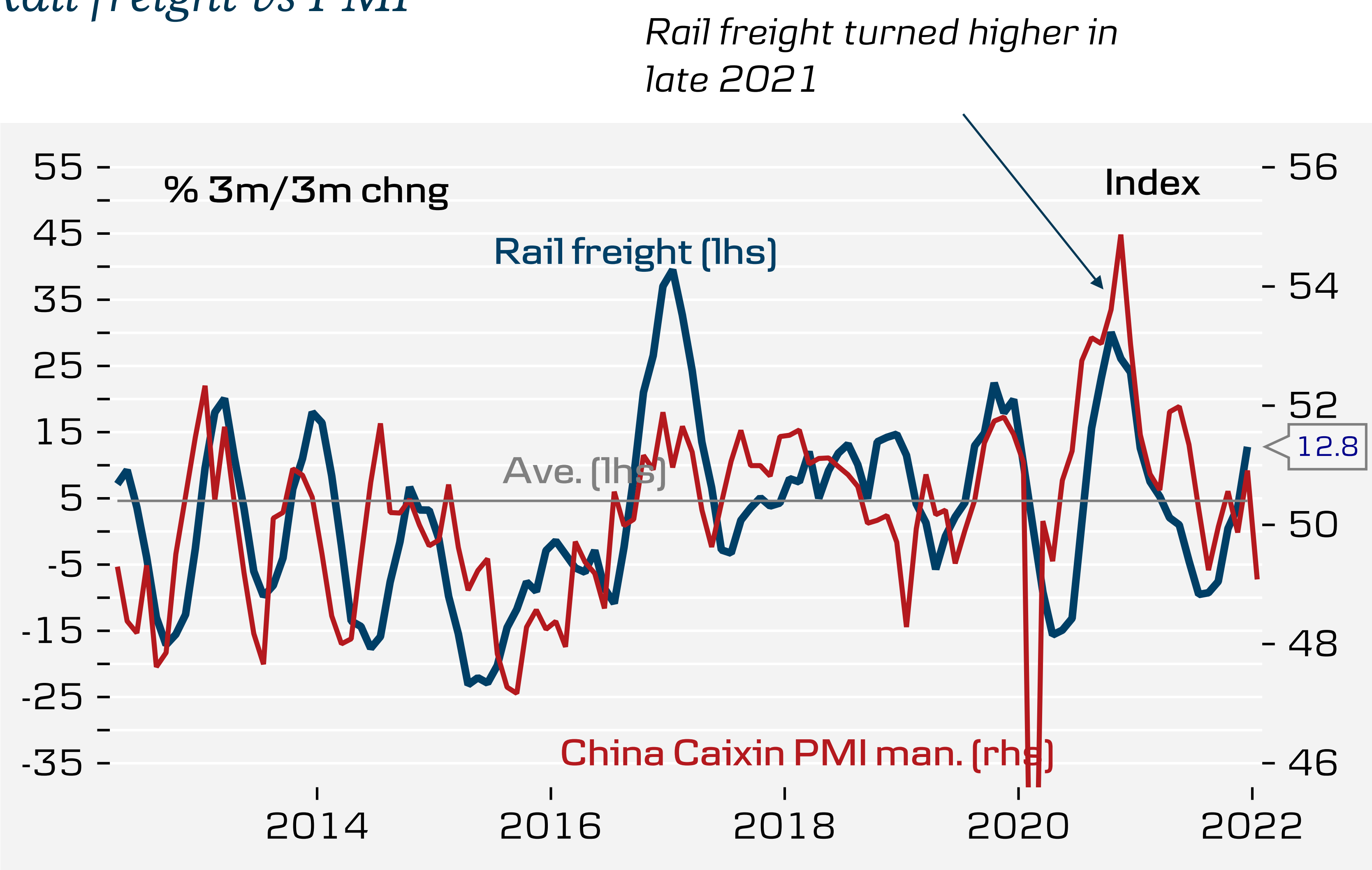
Rail freight vs PMI



Source: Macrobond Financial, Markit, NBS, Danske Bank

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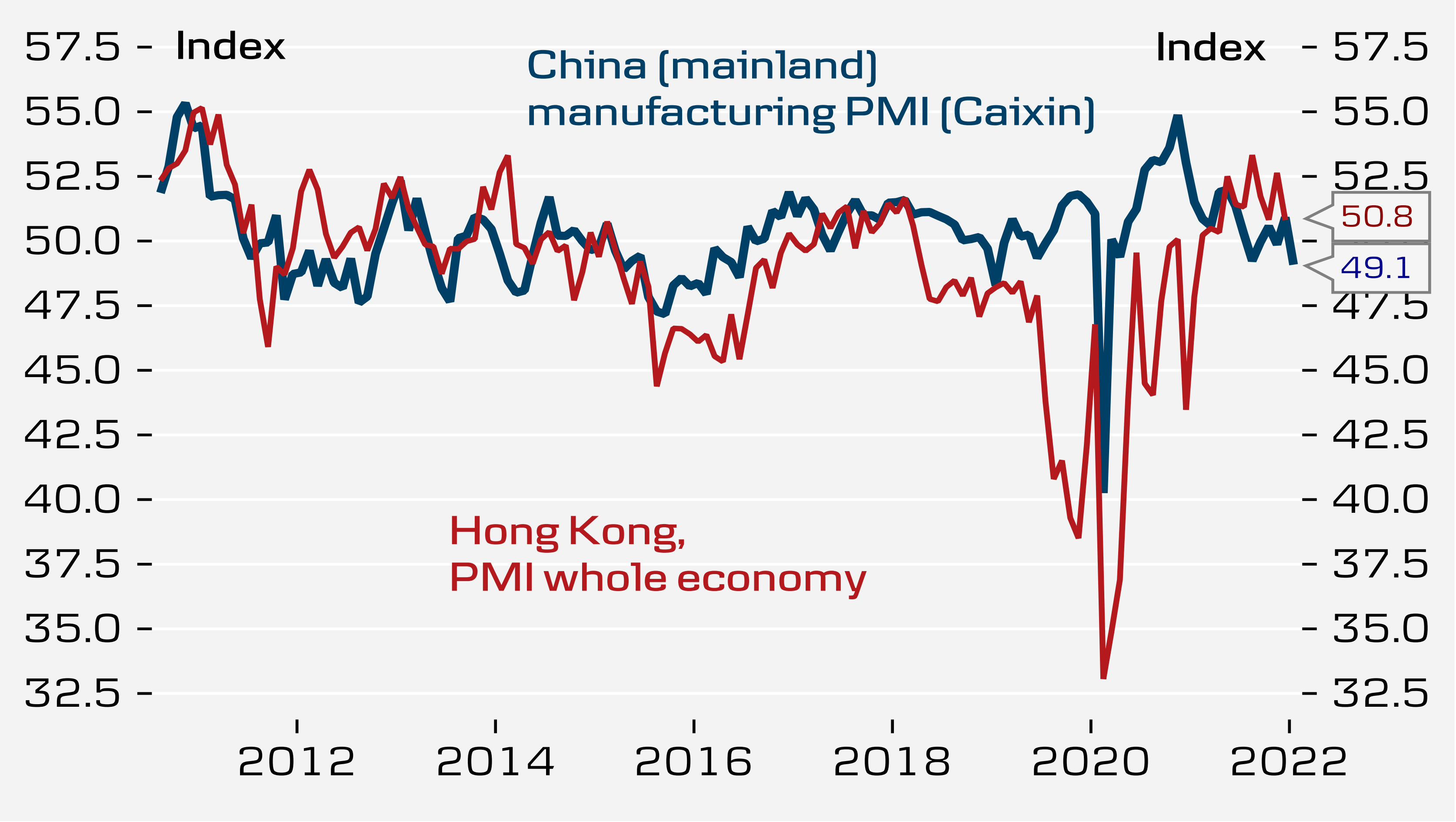
Hong Kong PMI vs China PMI



Source: Macrobond Financial, Markit, Danske Bank

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Industrial production vs GDP

Source: Macrobond Financial, NBS, Danske Bank

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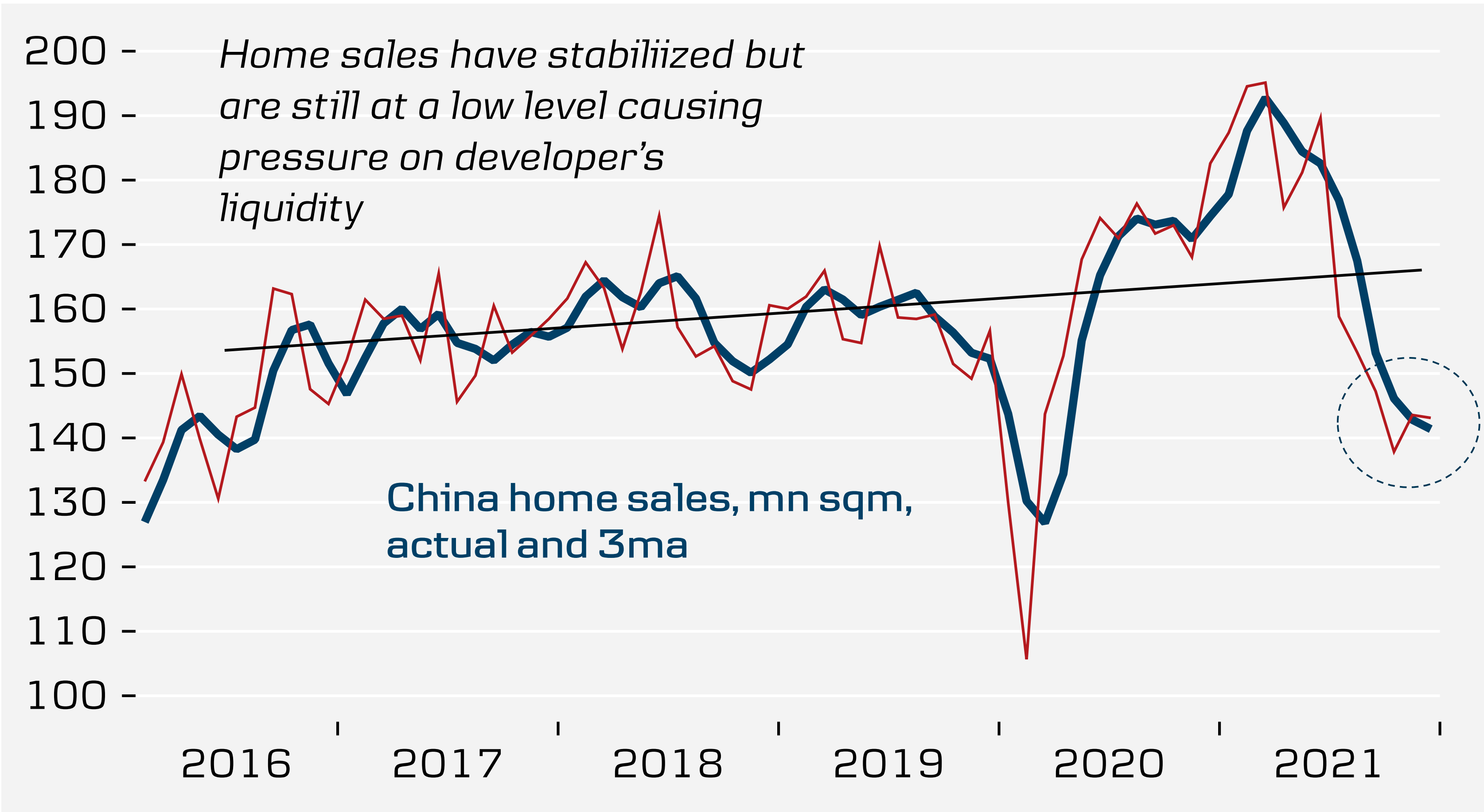
Housing - home sales



Source: Macrobond Financial, NBS, Danske Bank

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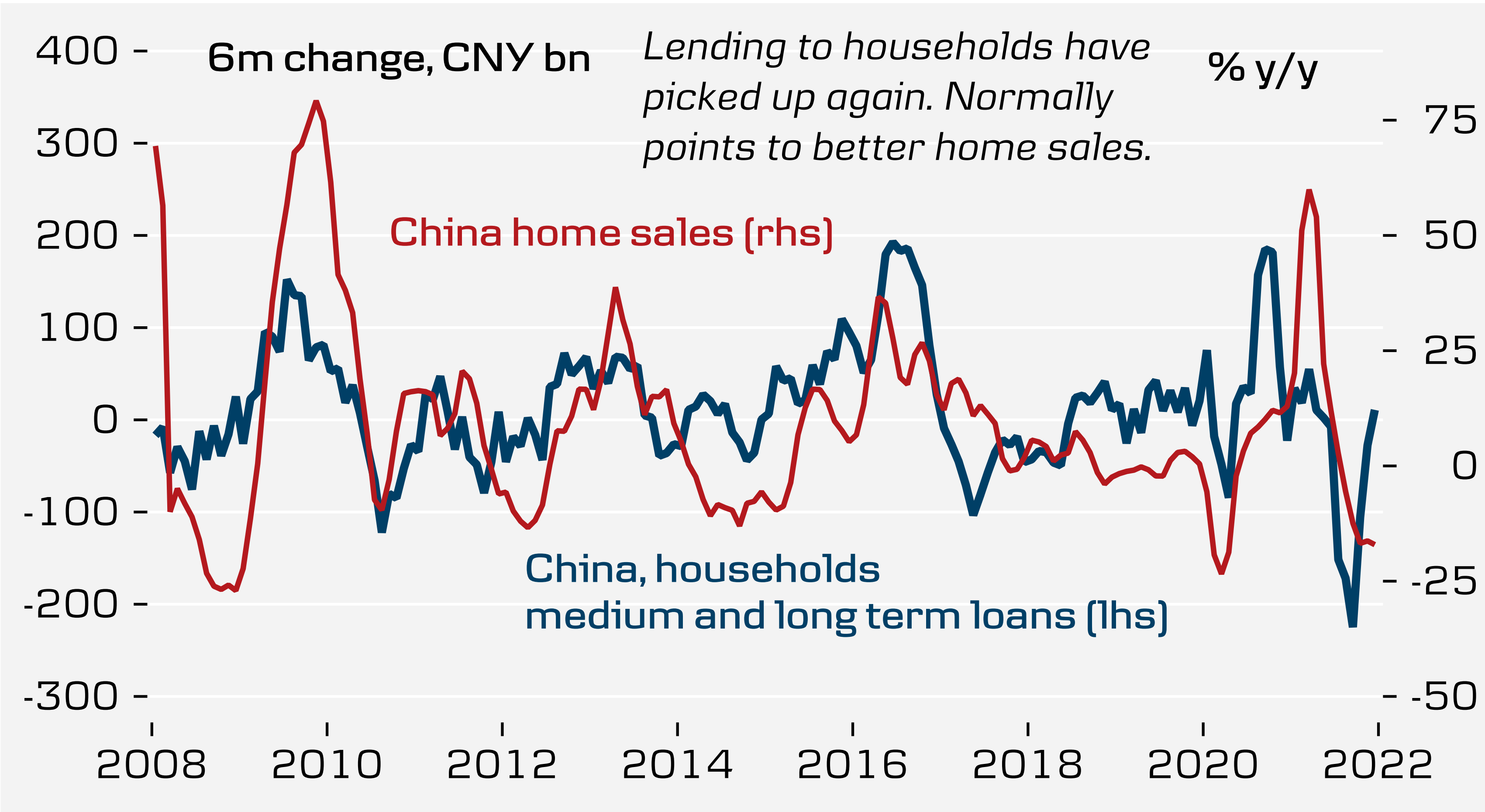
Housing – home sales and household credit



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

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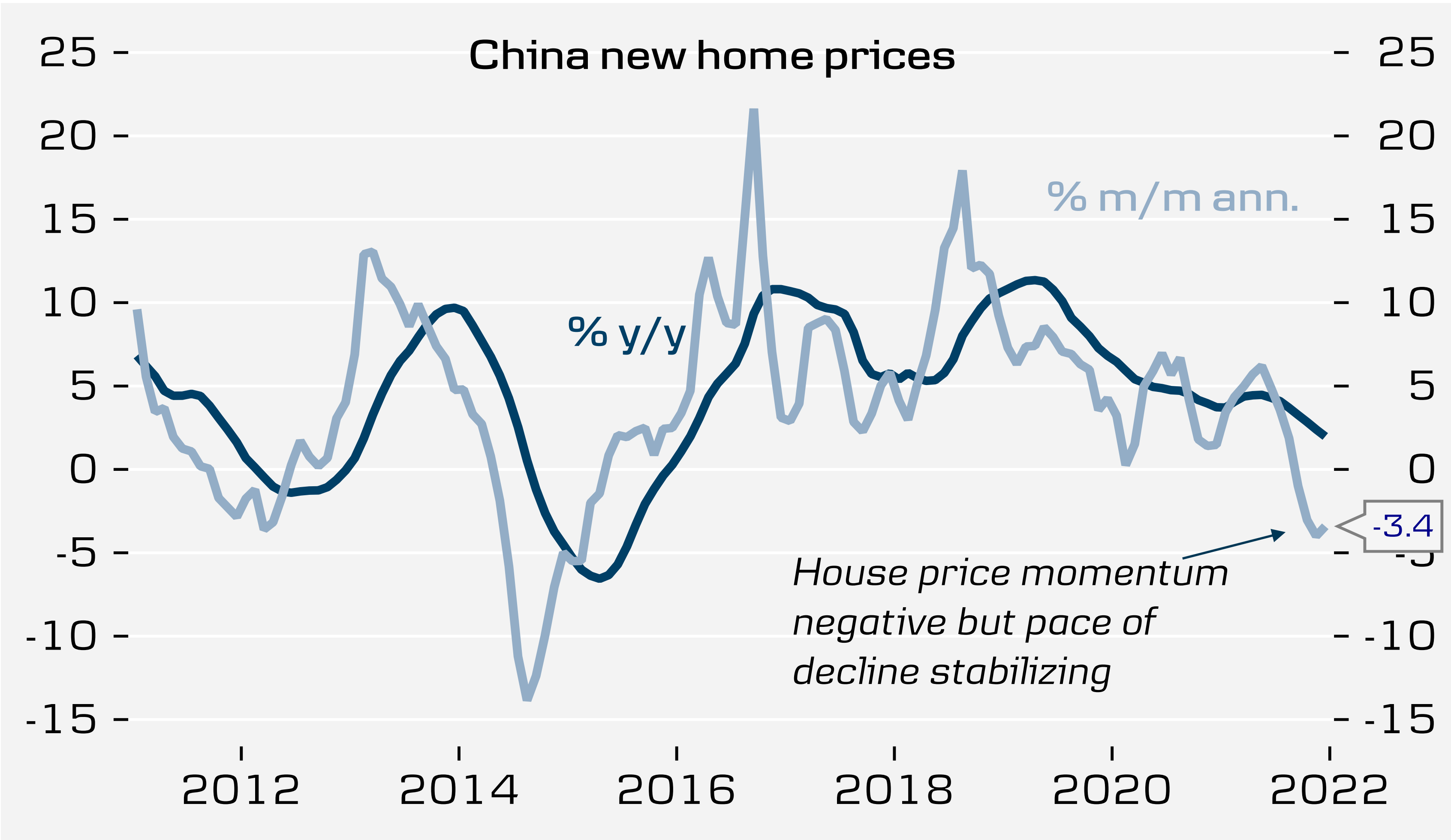
House prices



Source: Macrobond Financial, NBS

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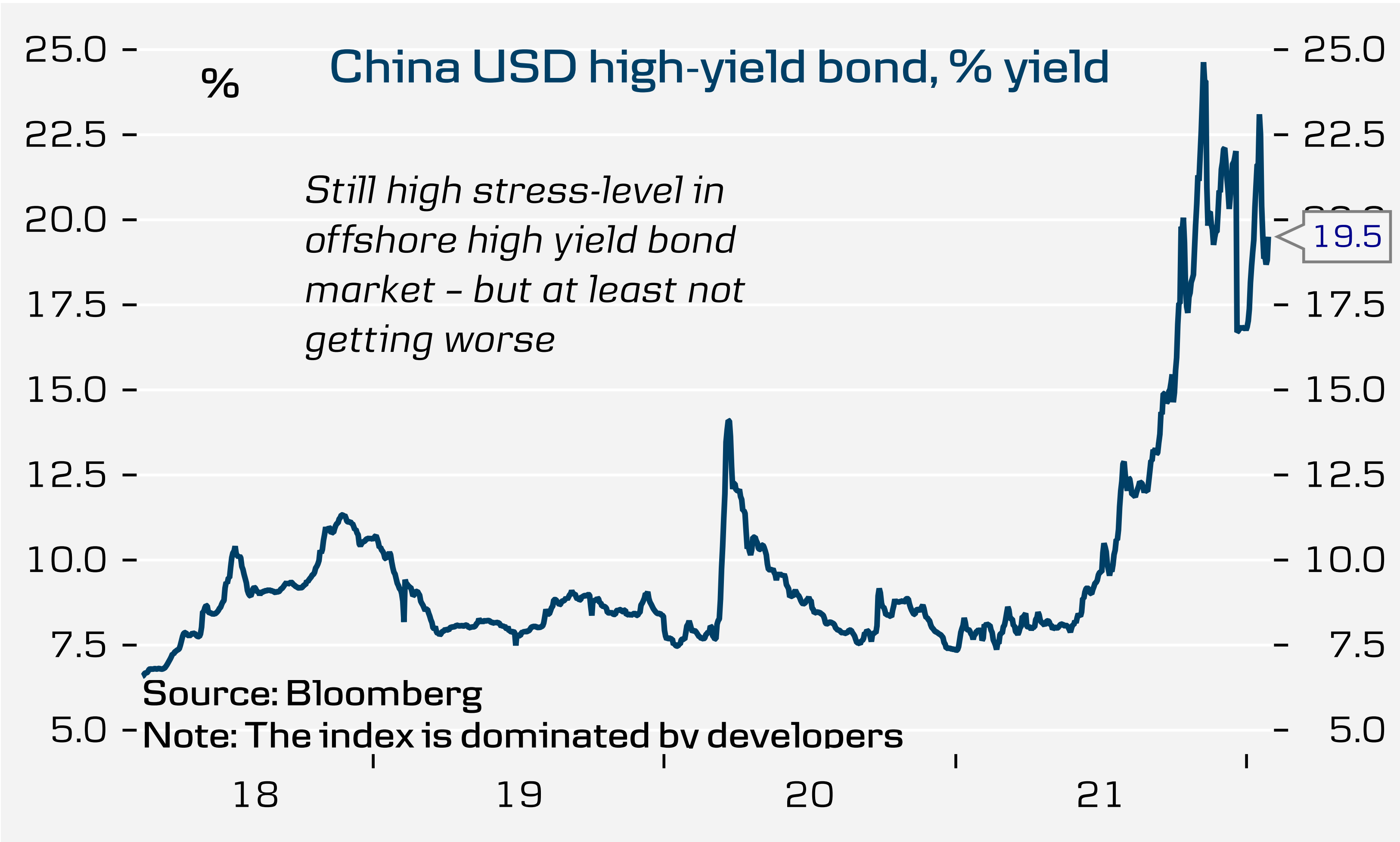
Housing – developer offshore credit yields



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

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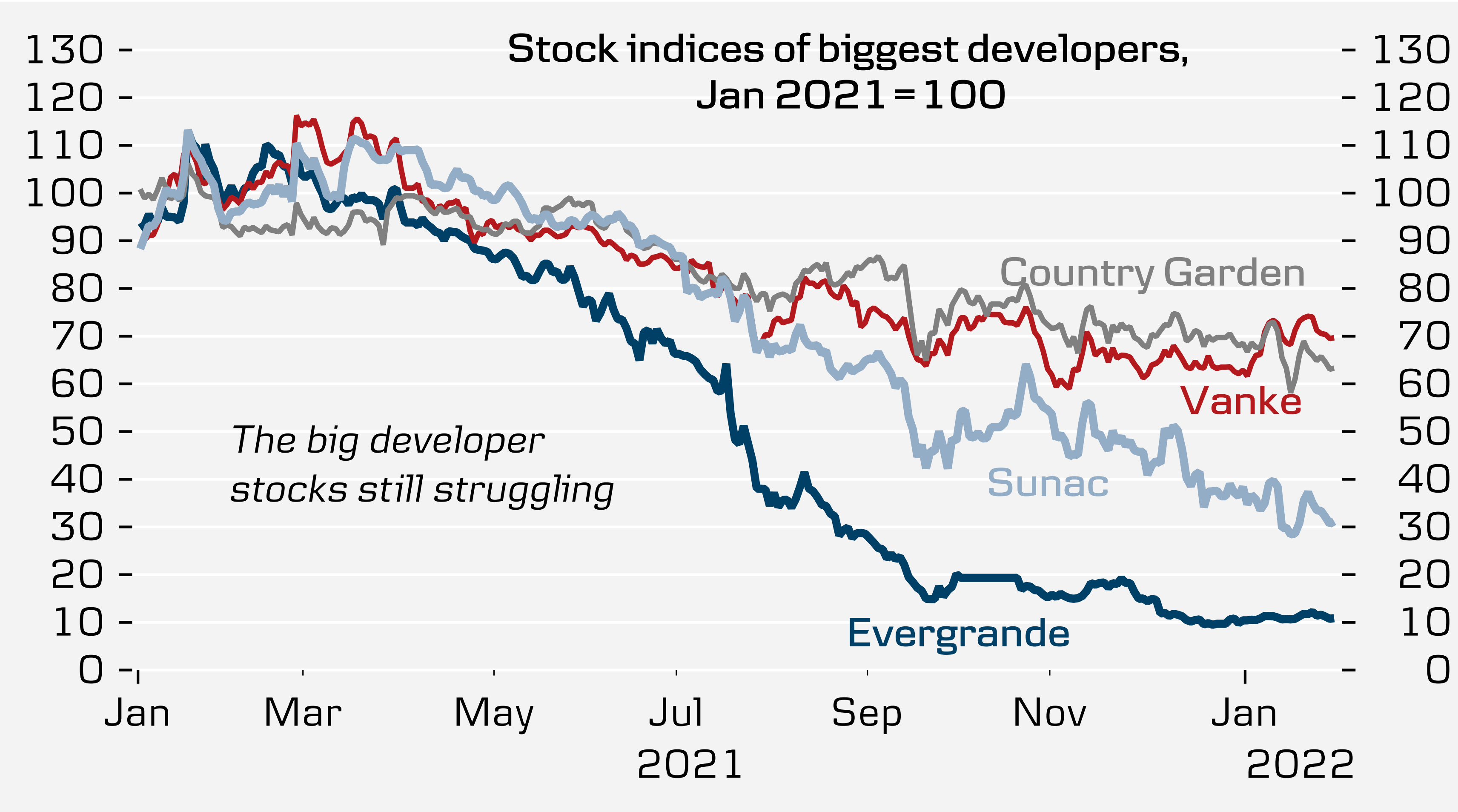
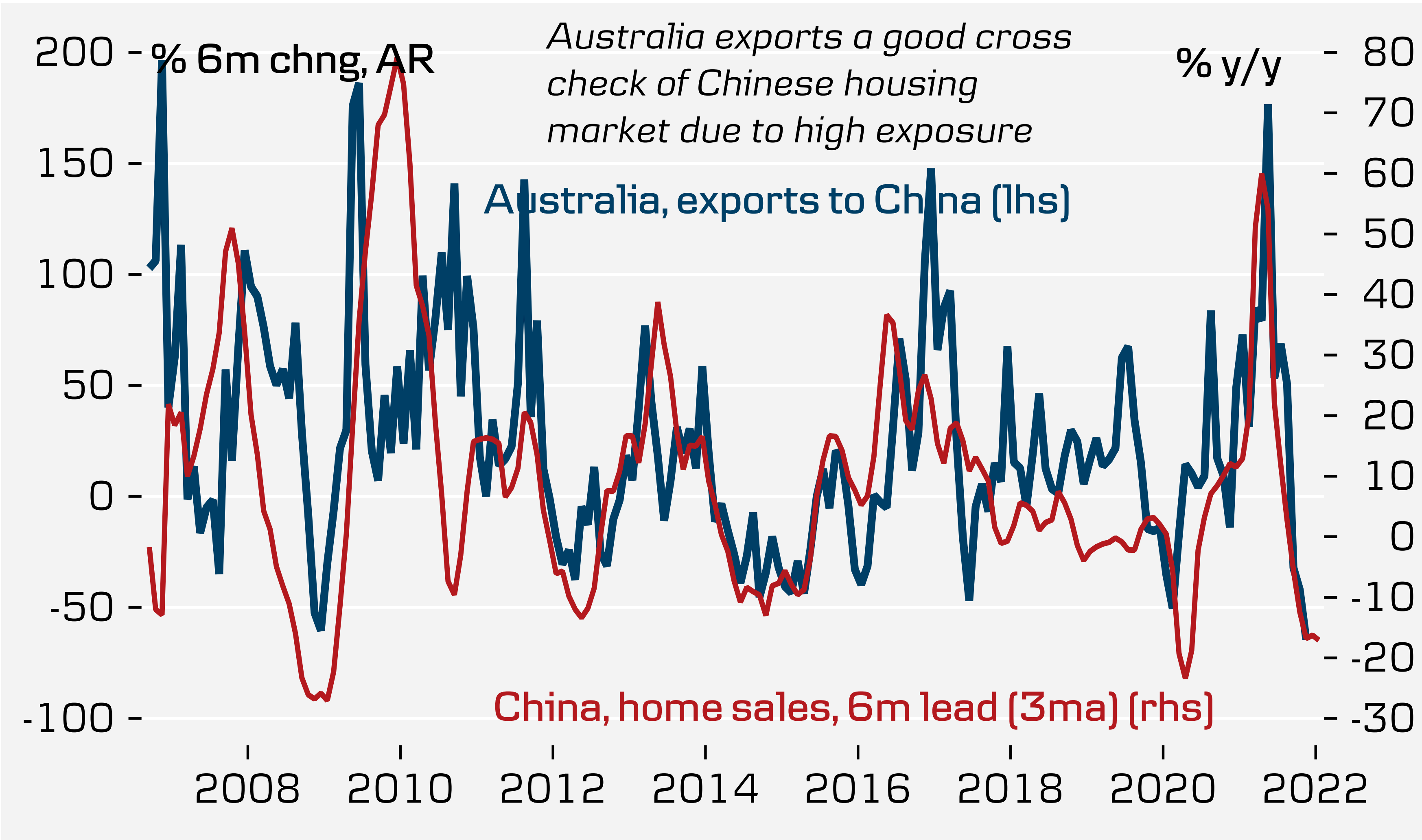
Housing – developer stocks



Source: Macrobond Financial, Bloomberg

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

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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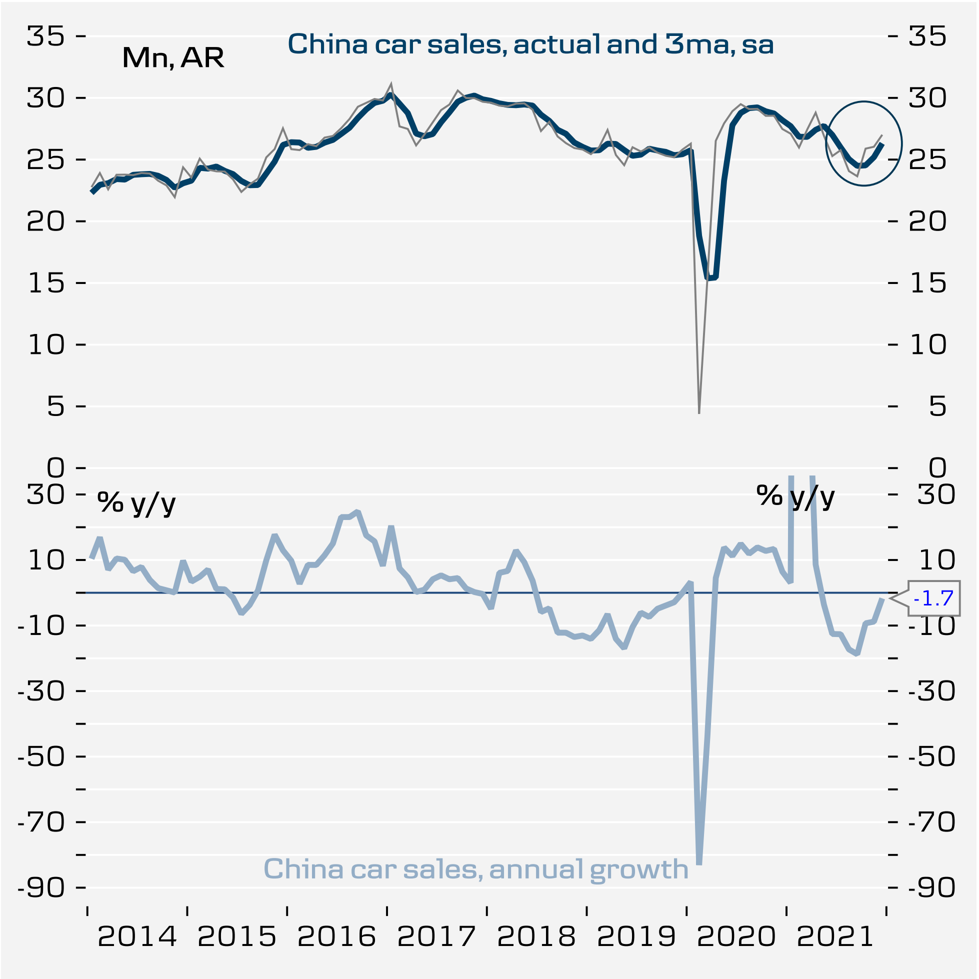
Consumer – car sales



Source: Macrobond Financial, CAAM, Danske Bank

Signs of a turn in car sales. Expiring subsidies lifted NEV sales in December.

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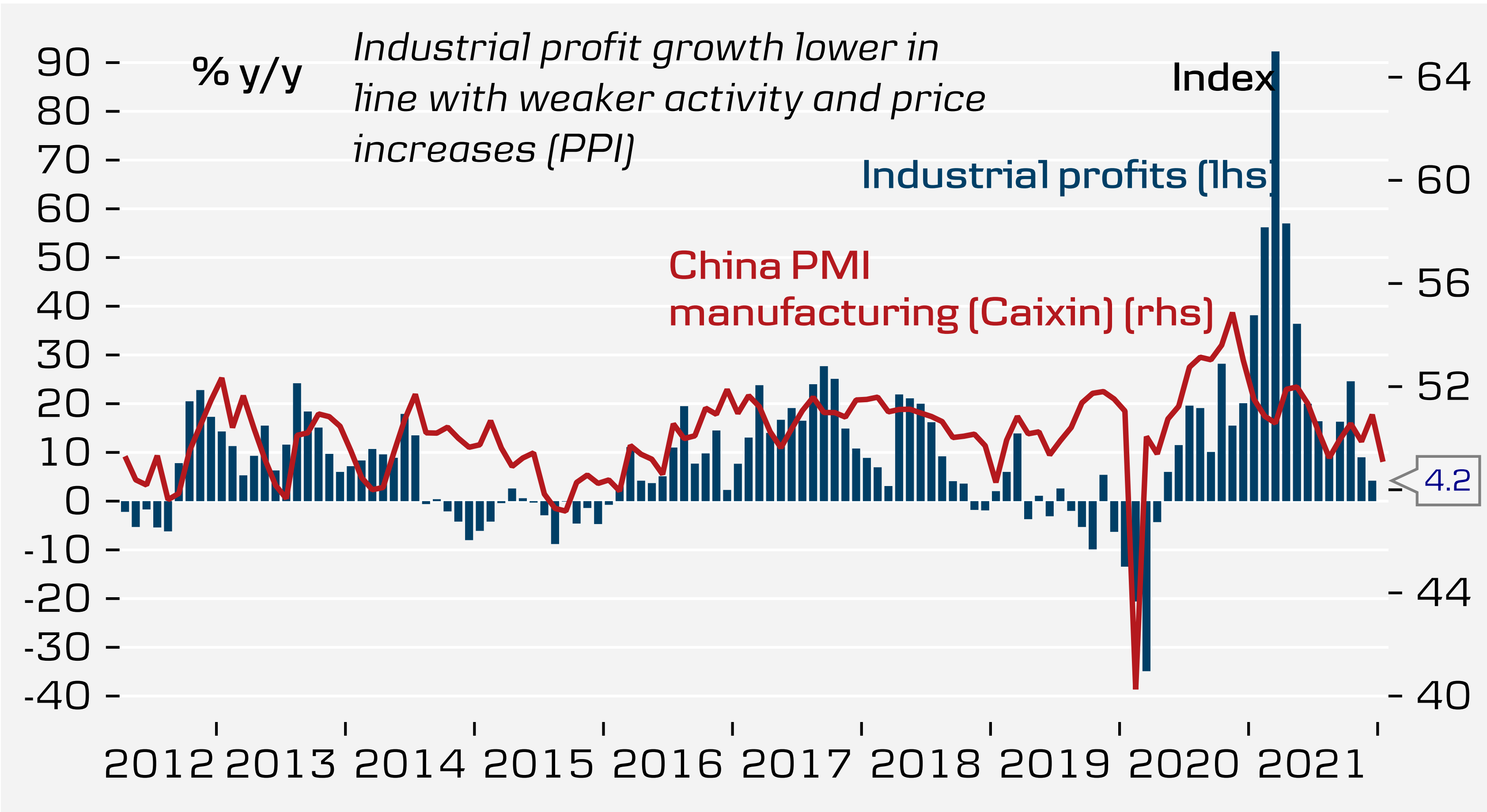
Profits vs PMI



Source: Macrobond Financial, NBS, Markit, Danske Bank

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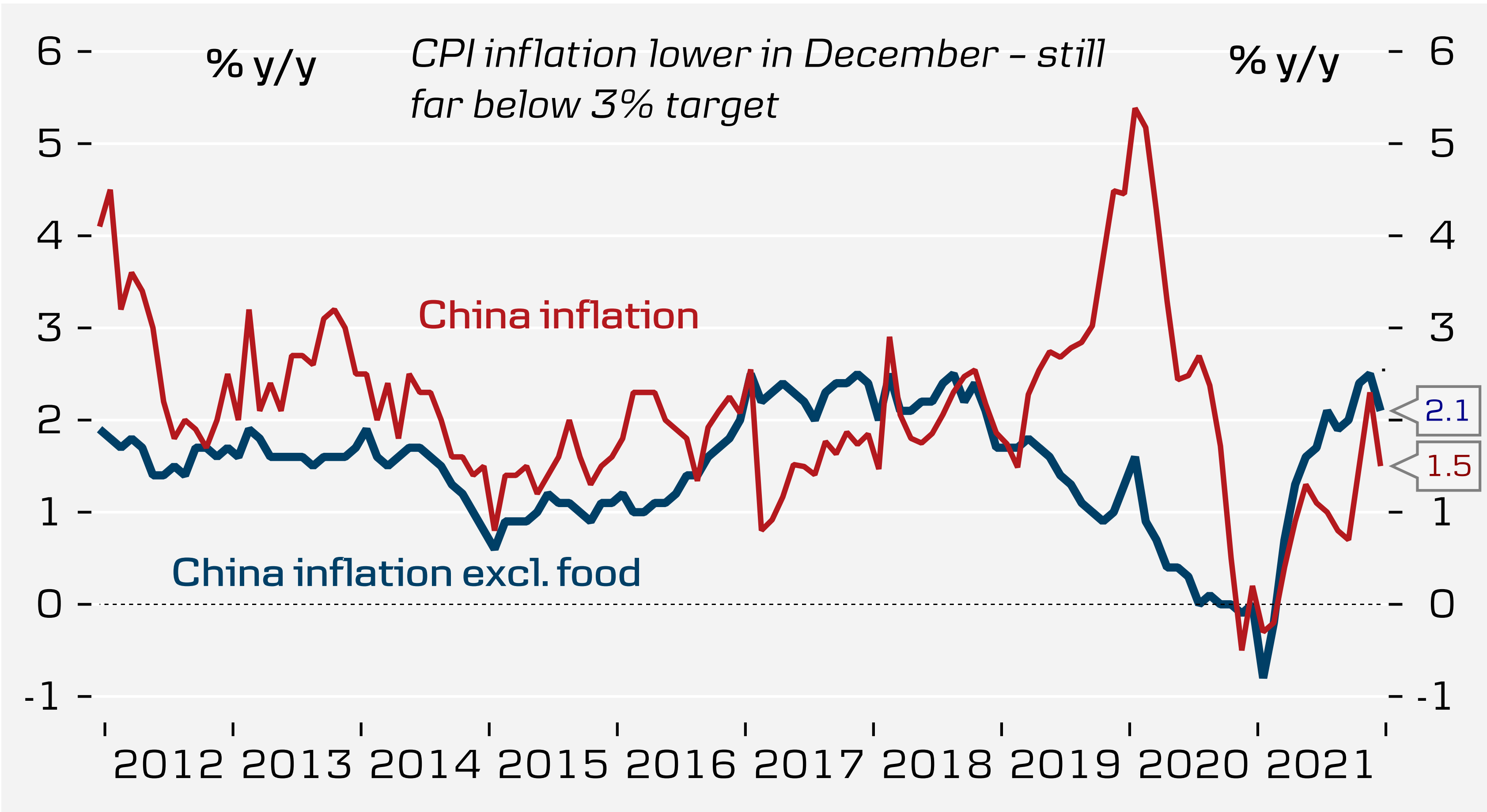
Inflation – CPI



Source: Macrobond Financial, NBS, Danske Bank

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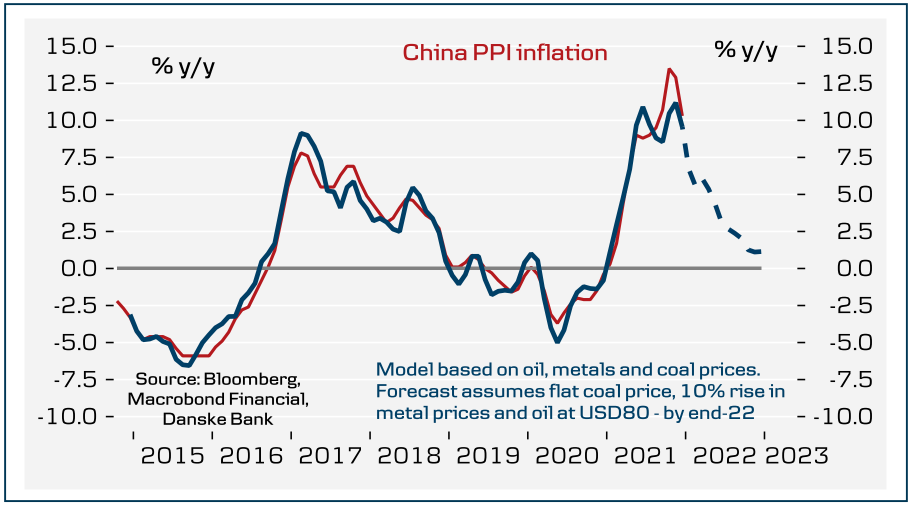
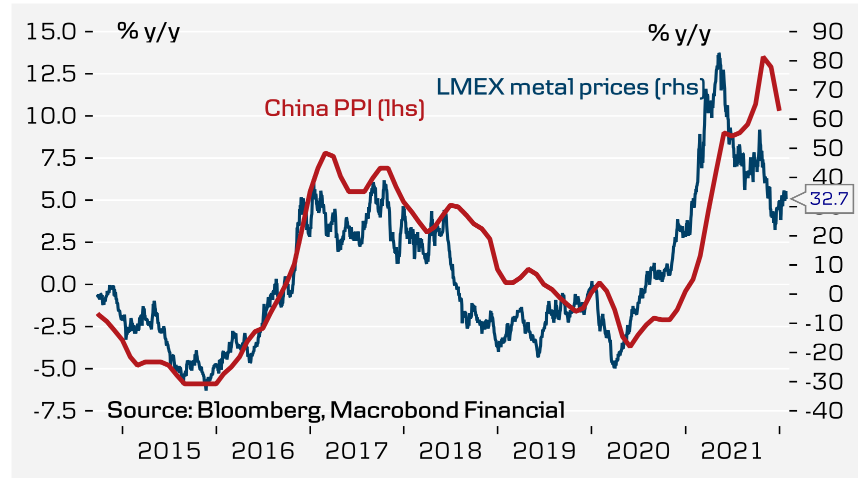
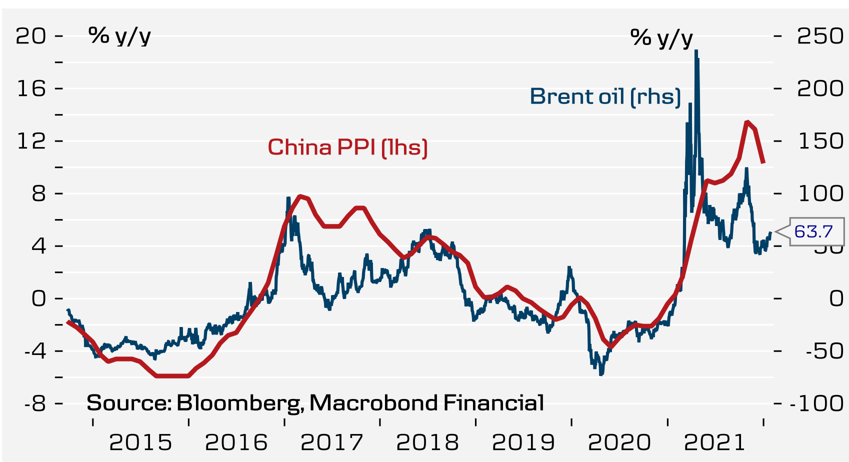
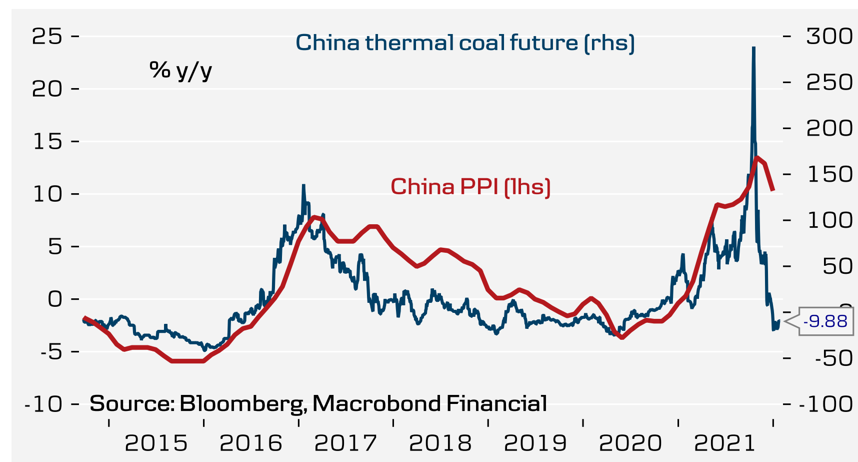
Input prices y/y vs PPI y/y

Easing commodity price inflation should pull PPI lower – barring a continued strong rise in oil prices









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

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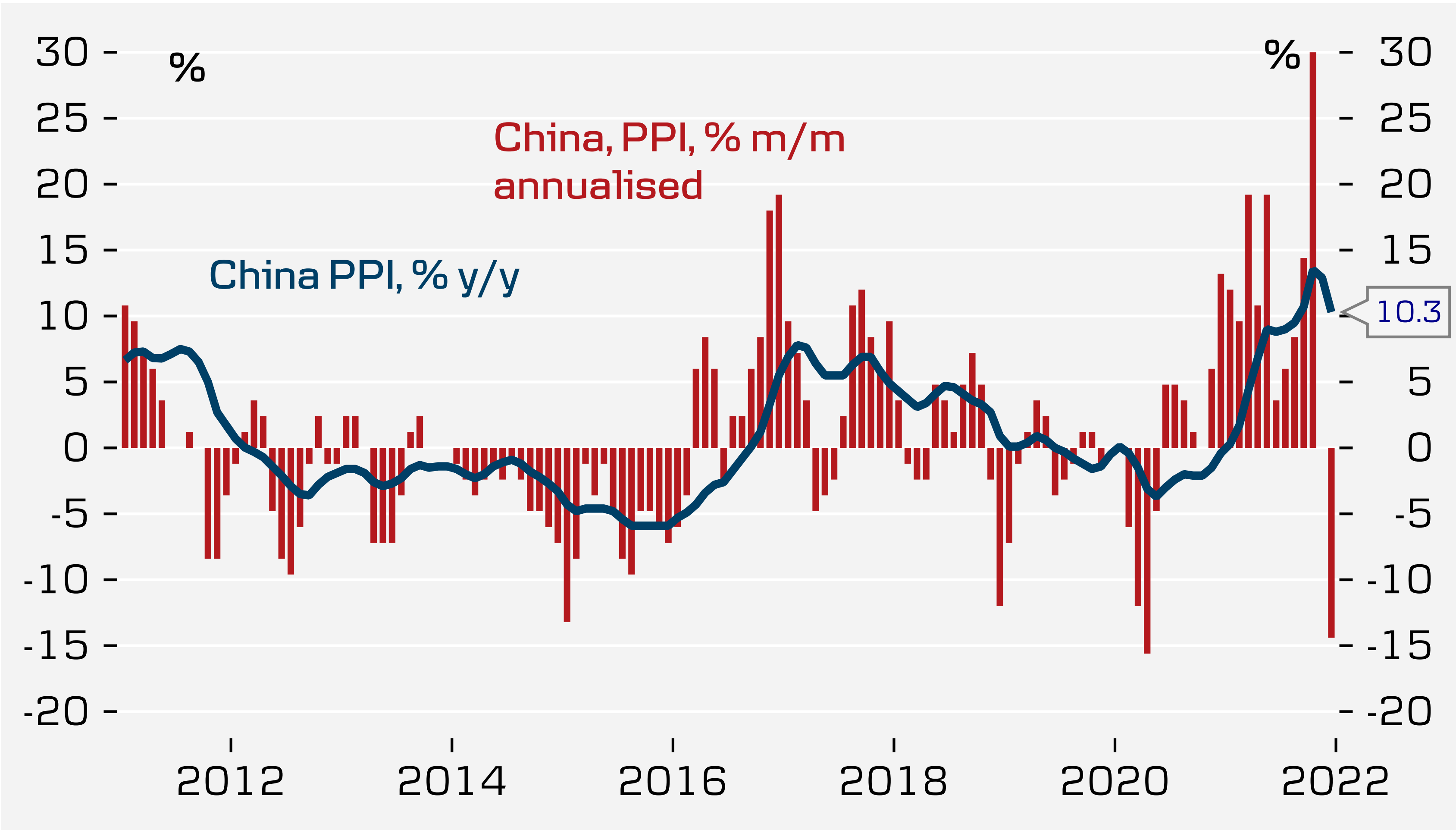
Inflation – PPI

PPI reversed in December falling m/m.



Source: Macrobond Financial, NBS, Danske Bank

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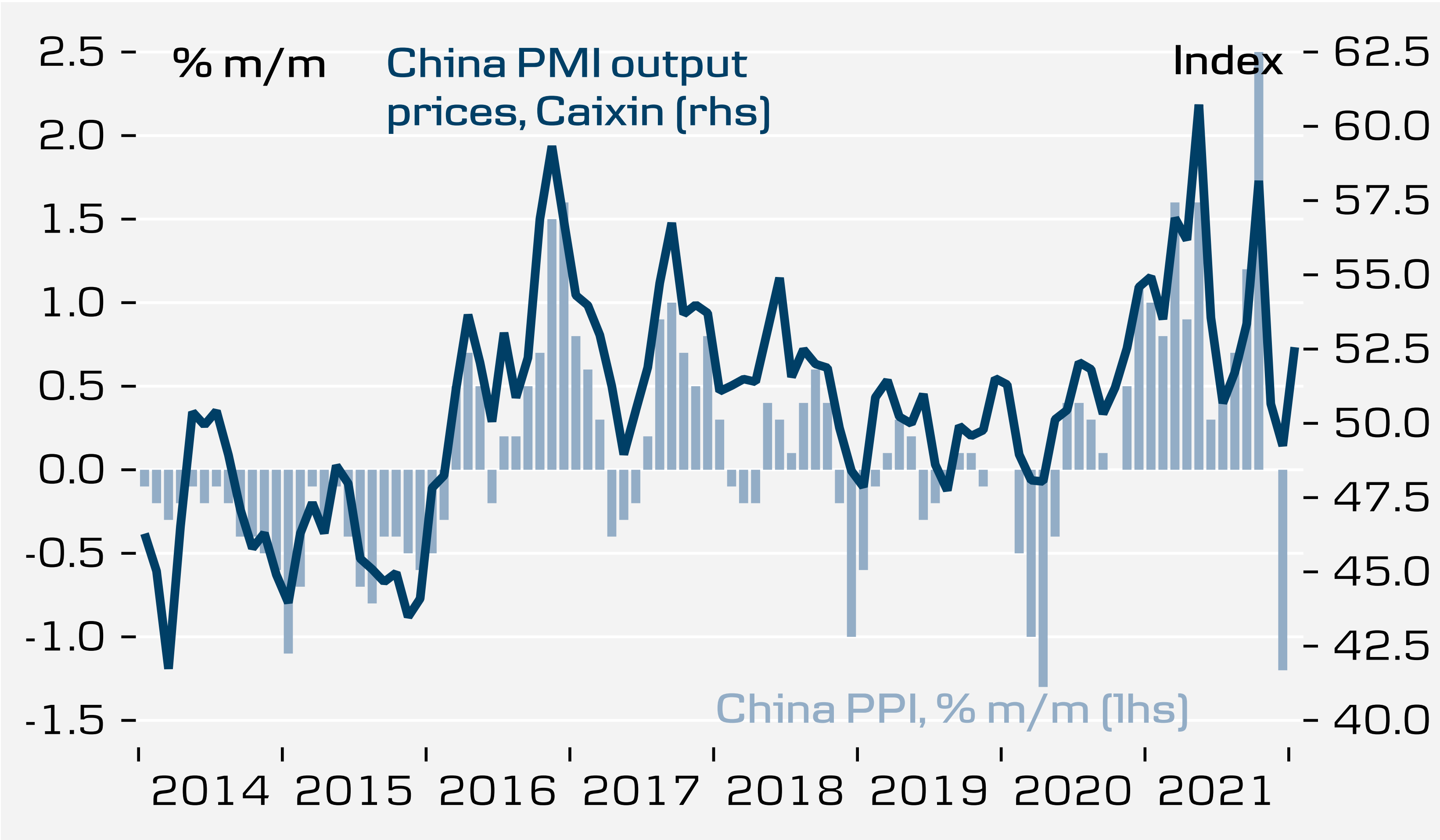
Inflation – PMI output prices and PPI m/m

PMI prices has turned higher again following recent rise in oil prices.



Source: Macrobond Financial, Markit, NBS, Danske Bank

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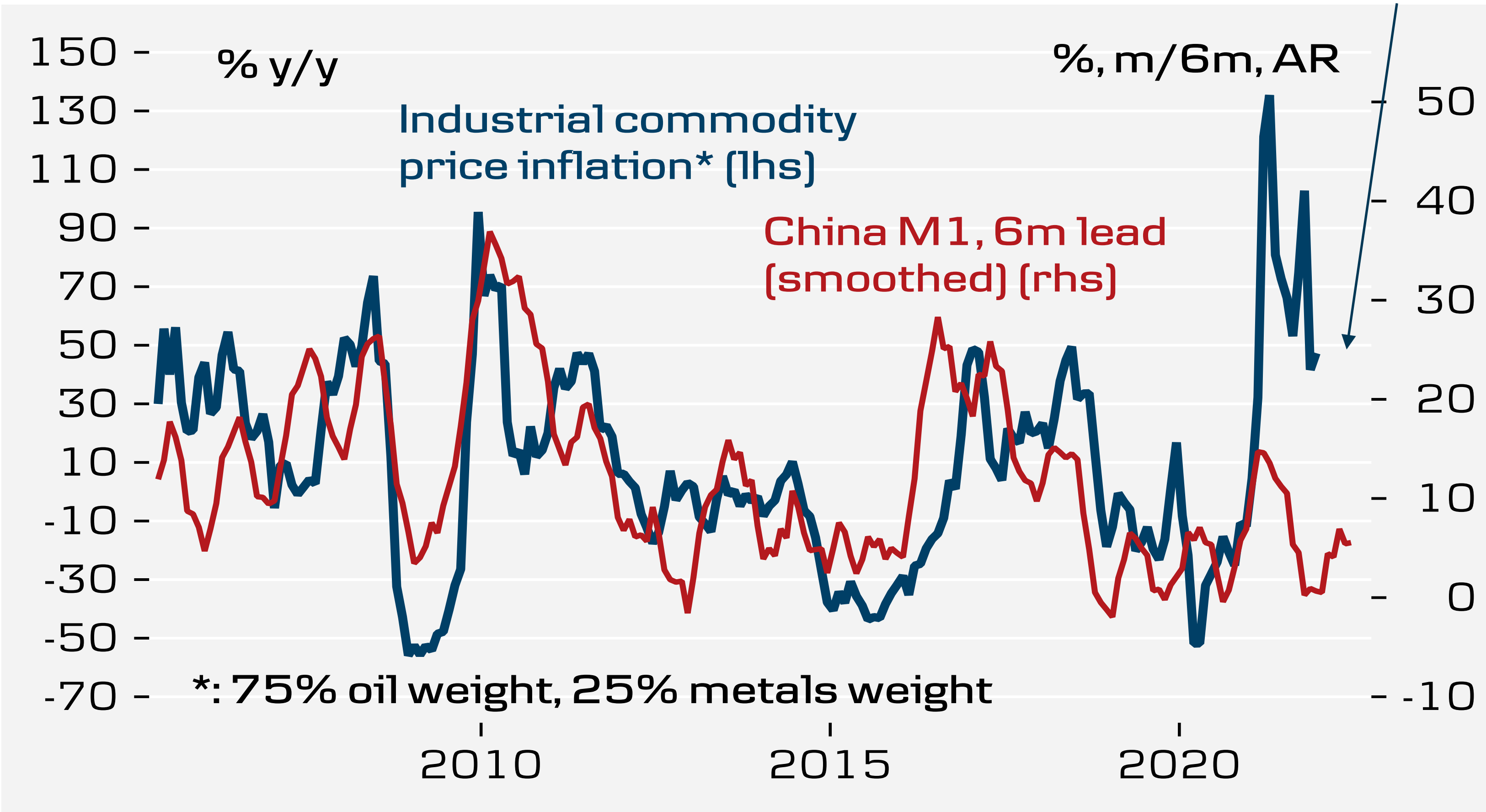
M1 and industrial commodity prices

Decoupling between China cycle and commodities. Probably linked to strong US goods demand.



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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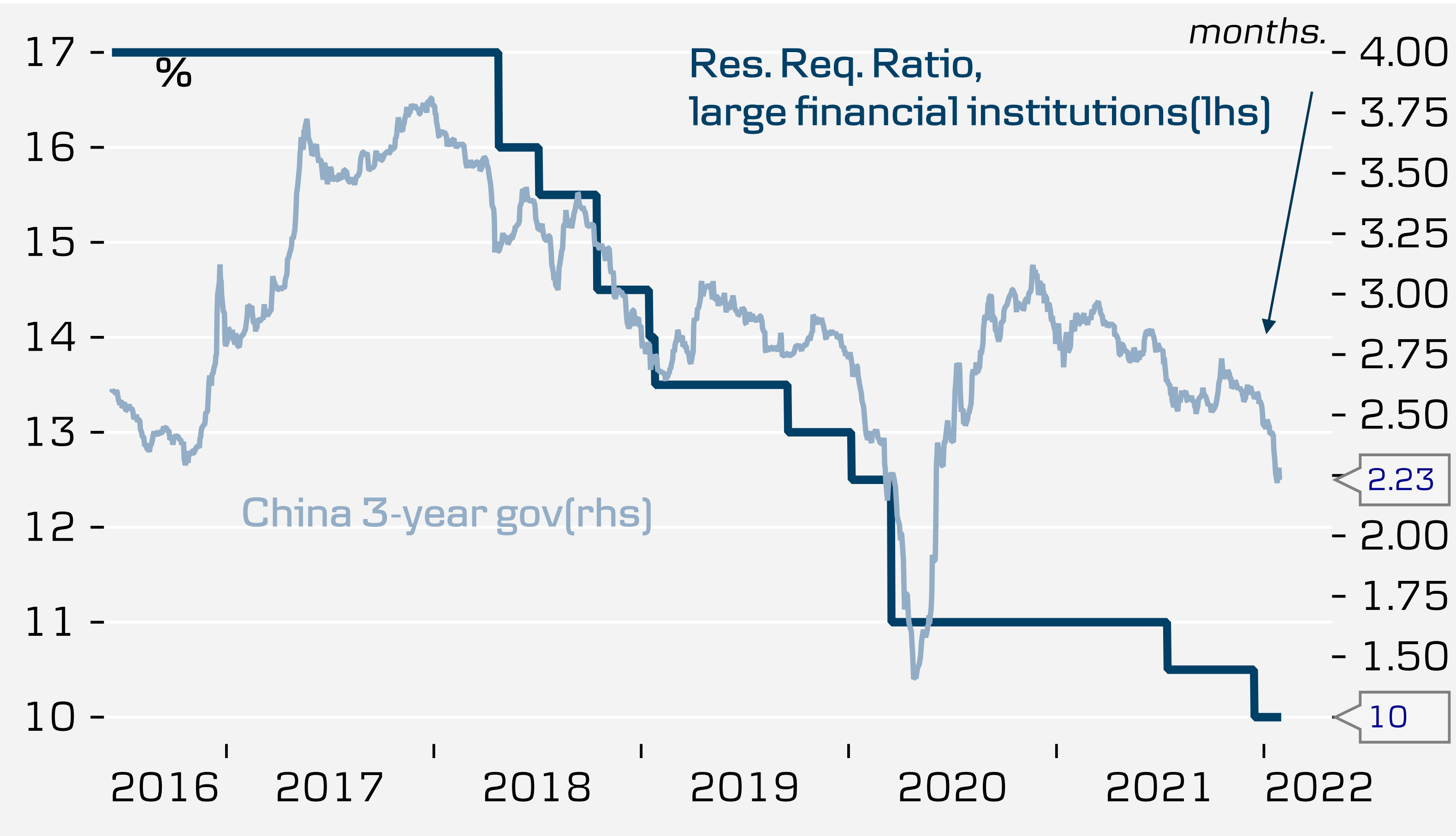
Monetary policy – Reserve Requirement Ratio

RRR cut sent yields lower. We look for another 50bp 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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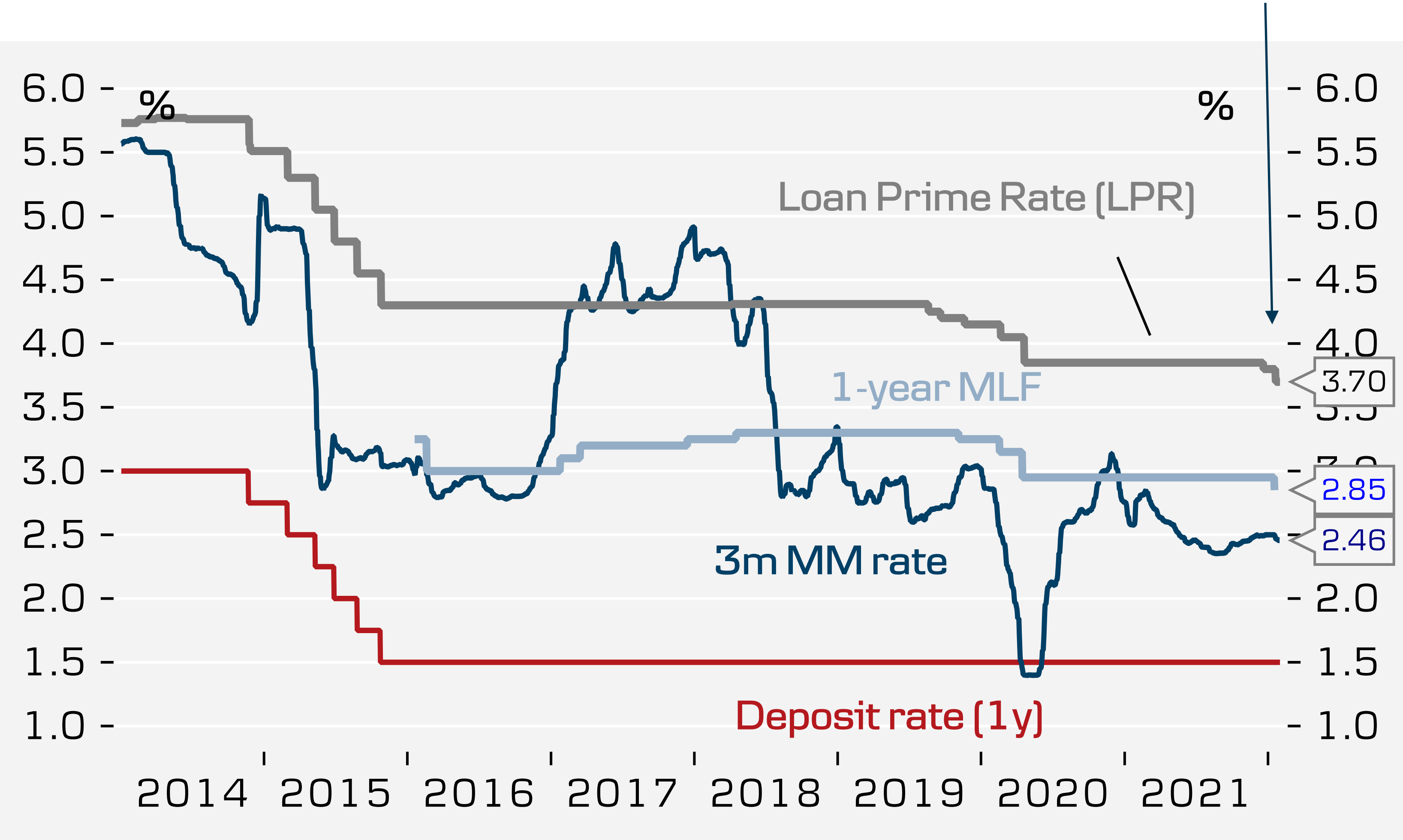
Monetary policy – rates

A small reduction in policy rates.



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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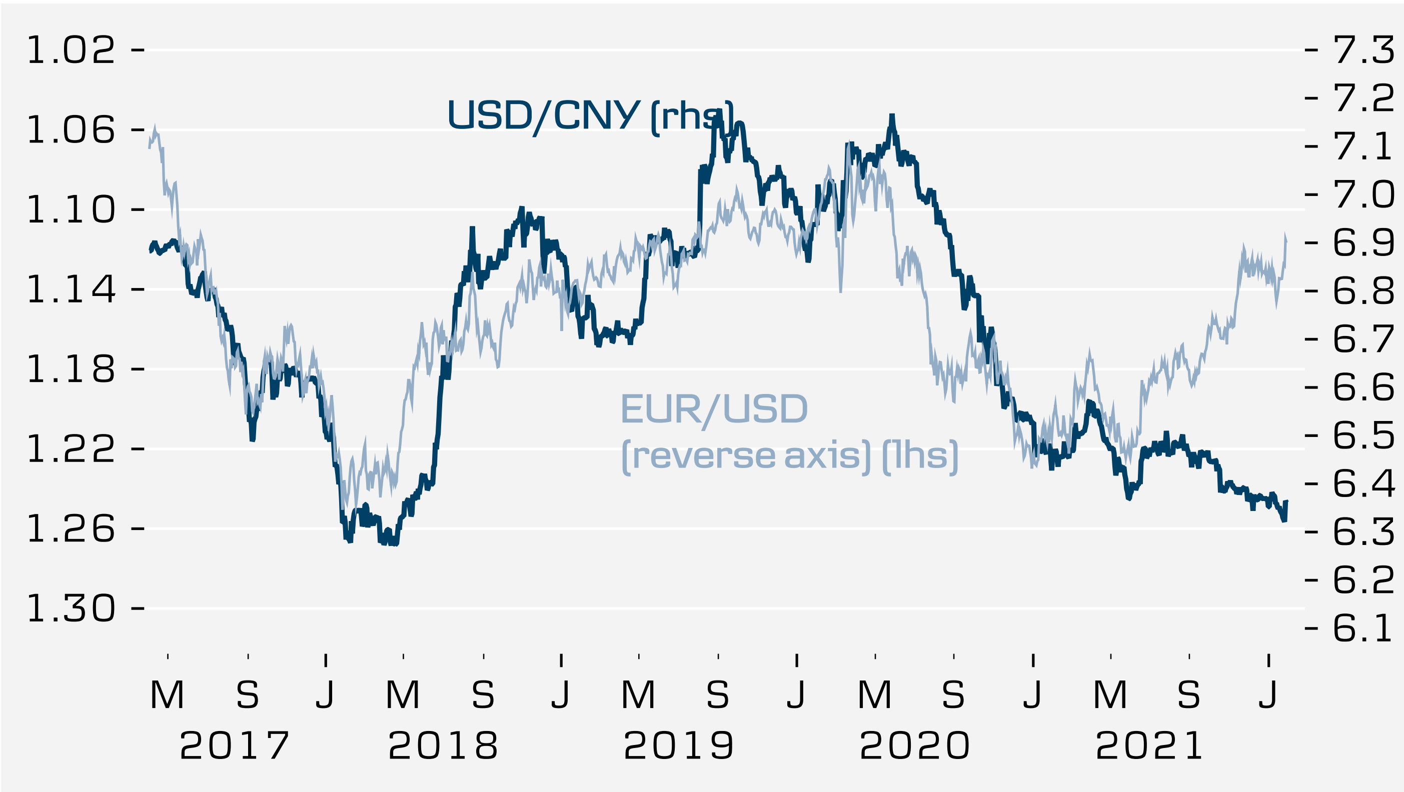
CNY – USD/CNY vs EUR/USD



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

We continue to see a break-down in the normal correlation between USD/CNY and EUR/USD.

See our paper – CNY Strategy – Why is the CNY so strong?, 18 November 2021, for more on the CNY strength

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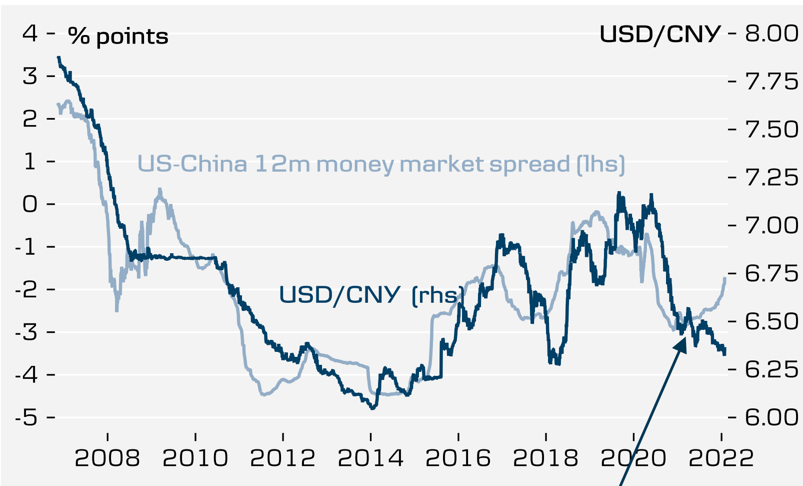
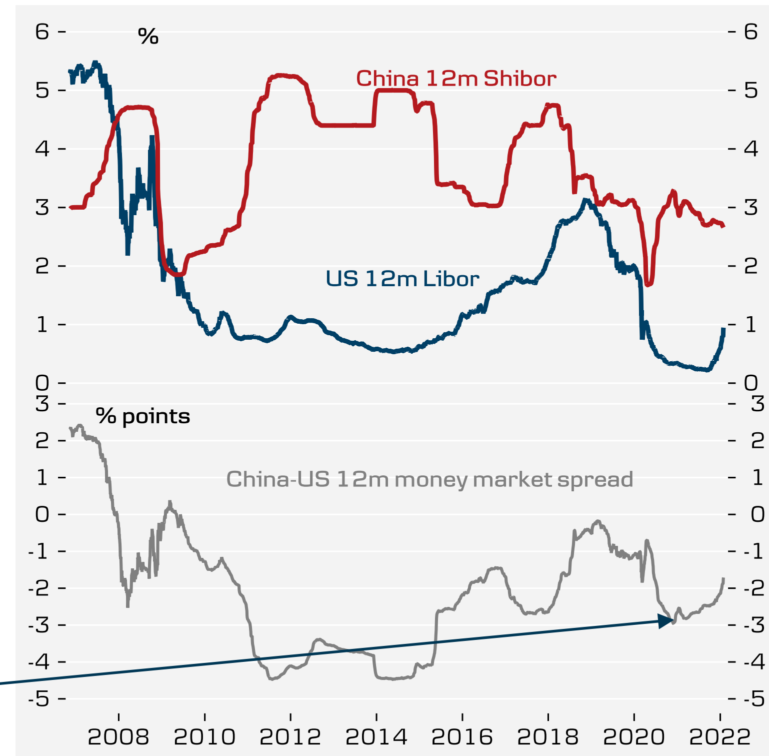
CNY – relative rates a good long-term anchor

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 not happening yet.

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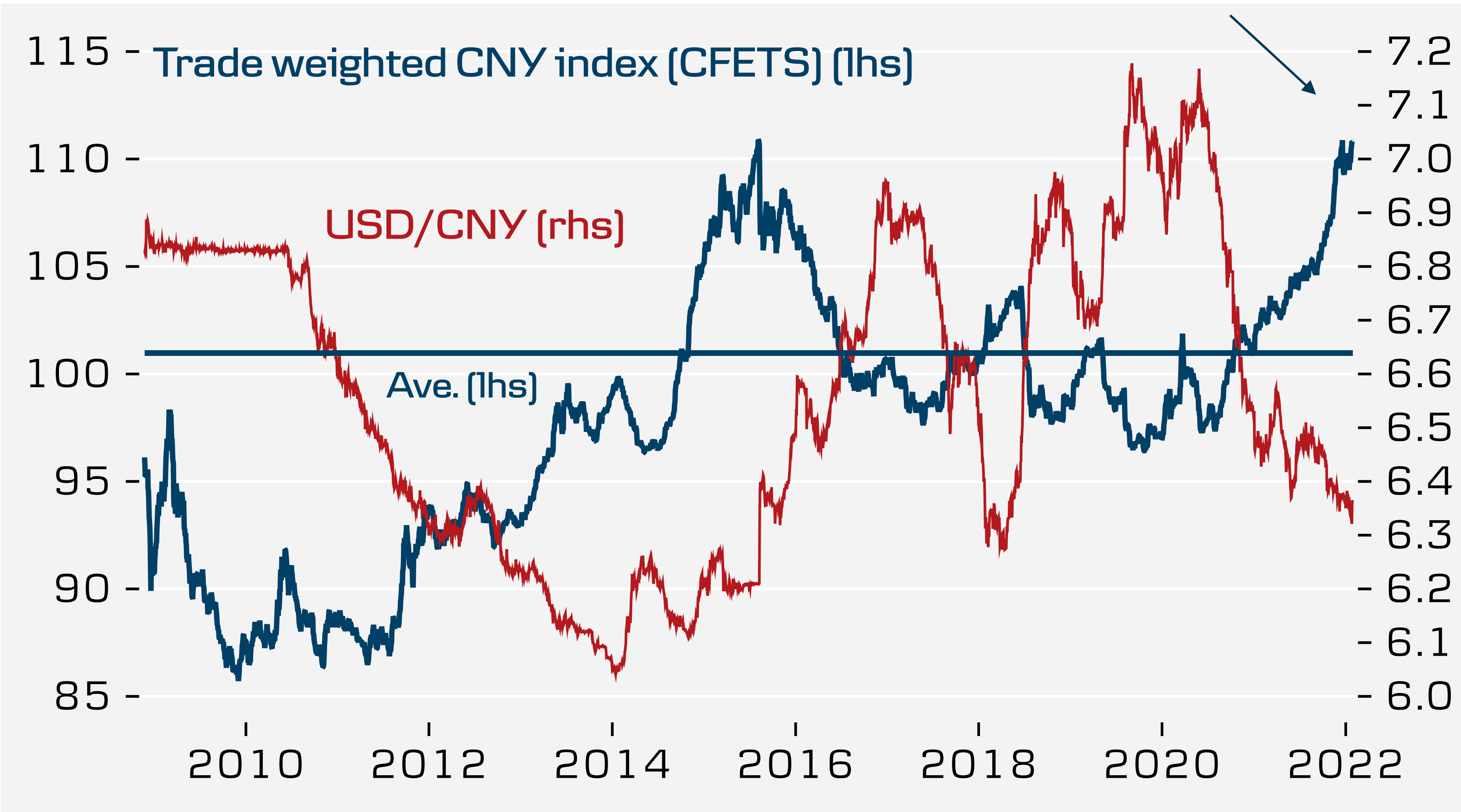
USD/CNY and CNY basket

Effective CNY strengthening to highest level in six 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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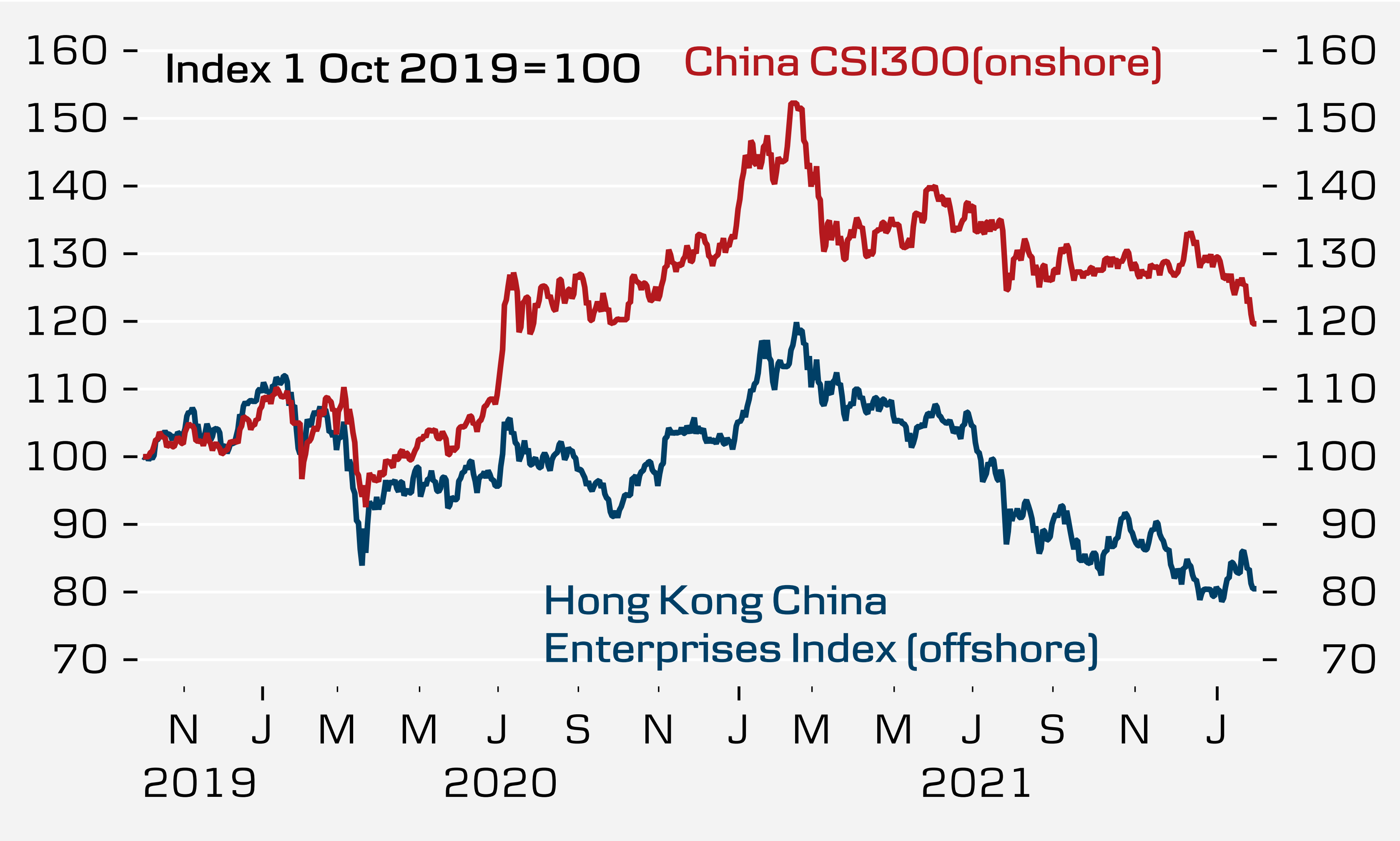
China stock market

Offshore stocks (H-shares) underperformed onshore (A-shares) in 2021. To reverse in 2022?



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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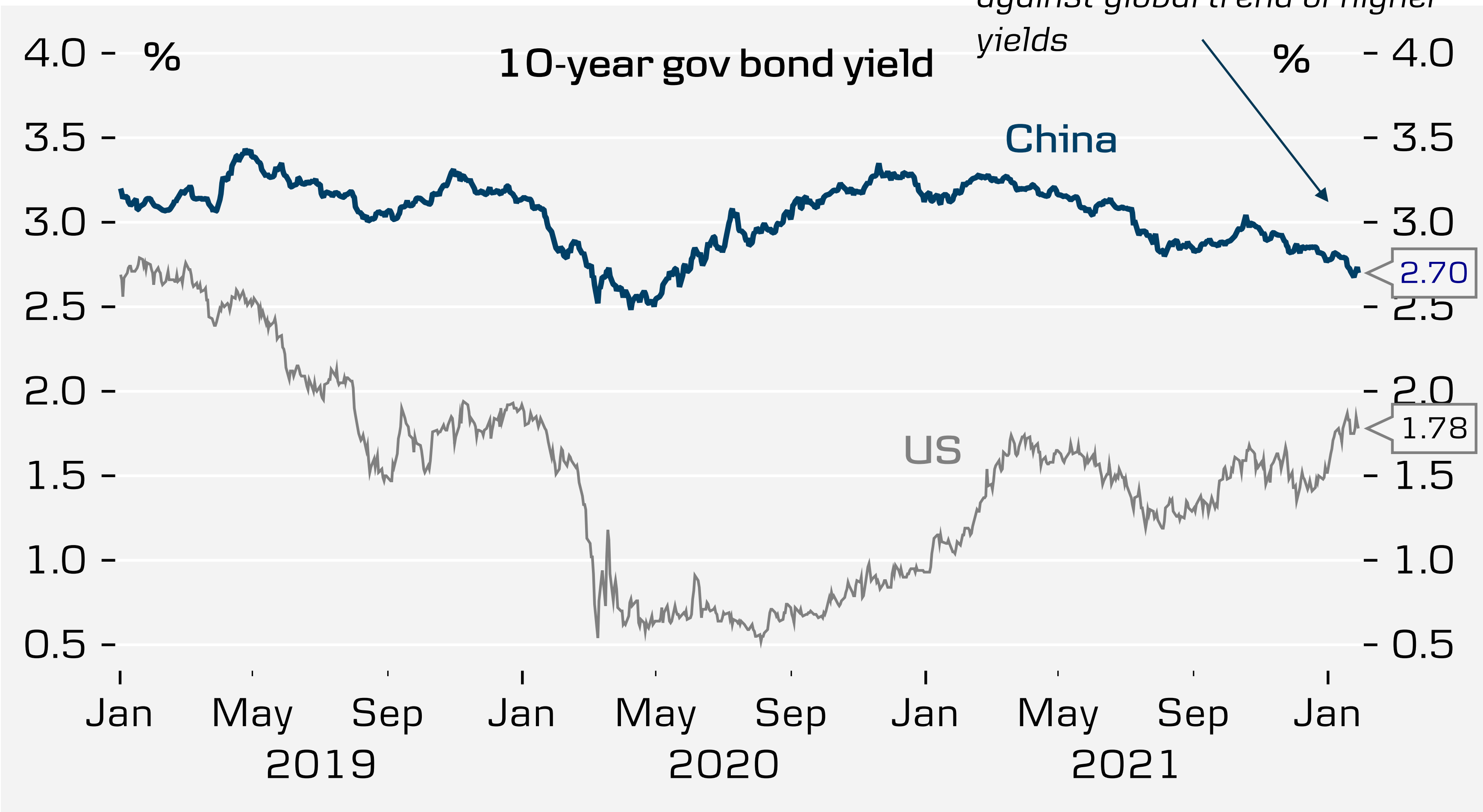
China bond yields (vs US and Germany)

Lower Chinese bond yields on back of PBOC easing. Goes against global trend of higher yields



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

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Disclosures

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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