

# *China Macro Monitor*

## *- Strong rebound but early signs of a peak*

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## Outlook and current trends

**Outlook.** After a very strong recovery, we look for *GDP* growth to moderate in 2021 with *PMIs* reaching a peak in Q1. Fading stimulus and a falling ‘catch-up’ effect mean fewer tailwinds to growth. Policy is heading for the exit but is in no rush. We believe the majority of the CNY appreciation is behind us as China slows and the US recovers. See the China section in *Big Picture – Darkest before dawn*, 1 December, for more on the outlook.

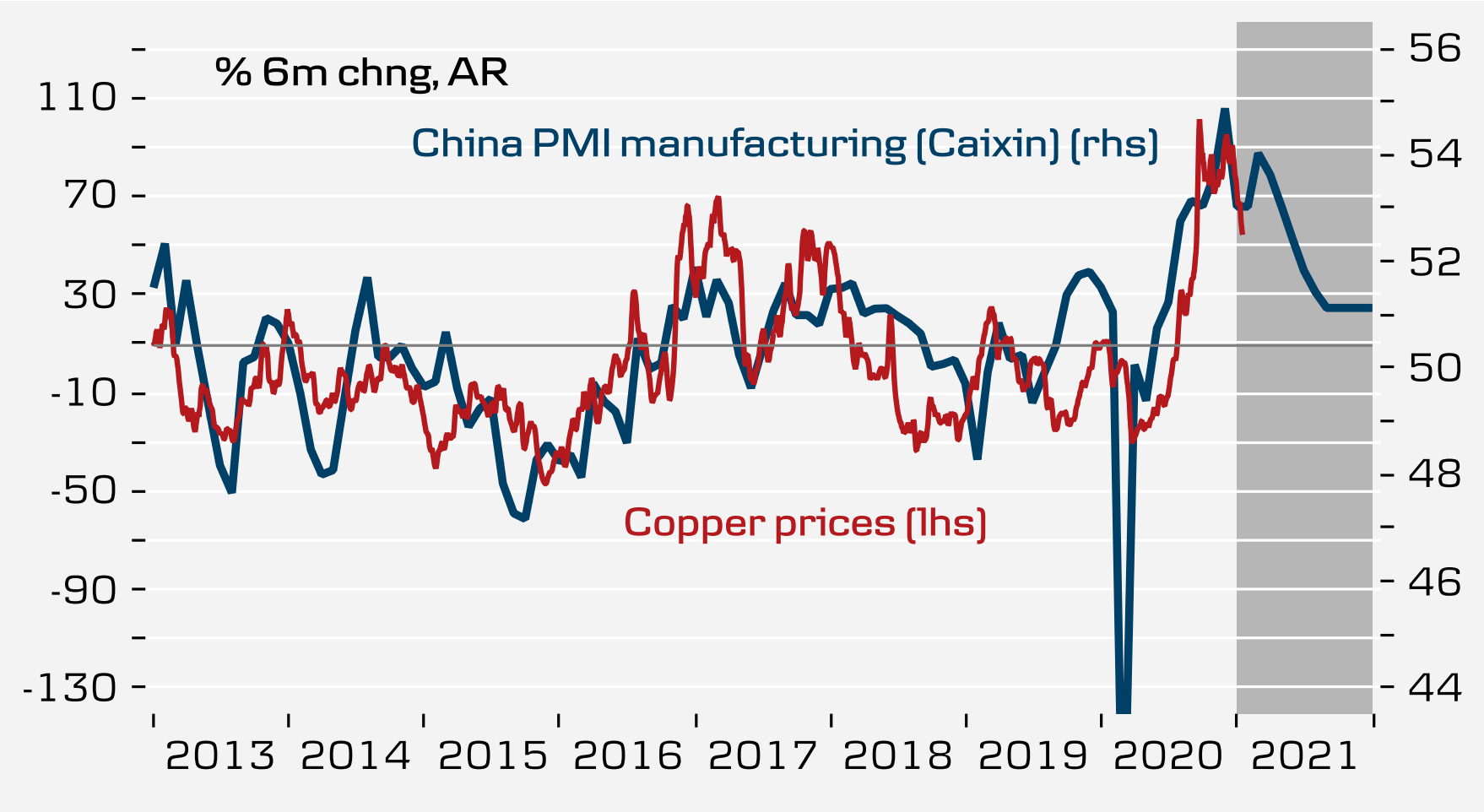
### China today

- **Growth.** GDP growth increased to 6.5% in Q4, taking GDP back to the pre-coronavirus trend line. Economic *indicators* strengthened further in Q4 but the December PMI shows early signs of peaking. The recovery has been broad based, with both domestic demand and exports being robust. *Copper* prices accelerated in Q4, confirming a strong finish to 2020.
- **Inflation.** CPI *inflation* is very low at 0.2% y/y. Excluding food, inflation stands at 0.0%.
- **Monetary policy.** *Rates* have been on hold for the past few quarters but *de facto policy* has tightened, with bond yields and money-market rates higher and CNY strengthening.
- **CNY.** The *yuan* has appreciated versus the USD and but less so on a trade-weighted basis.
- **Stock markets.** Chinese *stocks* have joined the global rally and continue to form one of the best performing markets.
- *For more China research, see our website [here](#).*

The background features a repeating pattern of large, light blue, stylized Chinese characters. The characters are rendered in a thick, rounded font, typical of modern Chinese typography. The pattern is dense and covers the entire page, creating a textured, decorative effect. The characters are slightly faded and overlap each other, giving a sense of depth and movement.

*Our China growth forecast*

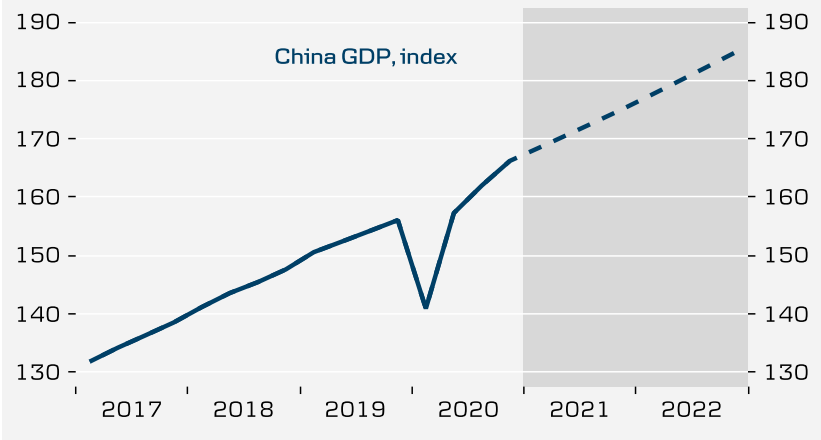
# PMI forecast profile (vs copper prices)



Source: Macrobond Financial, Markit, Danske Bank

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# GDP forecast profile

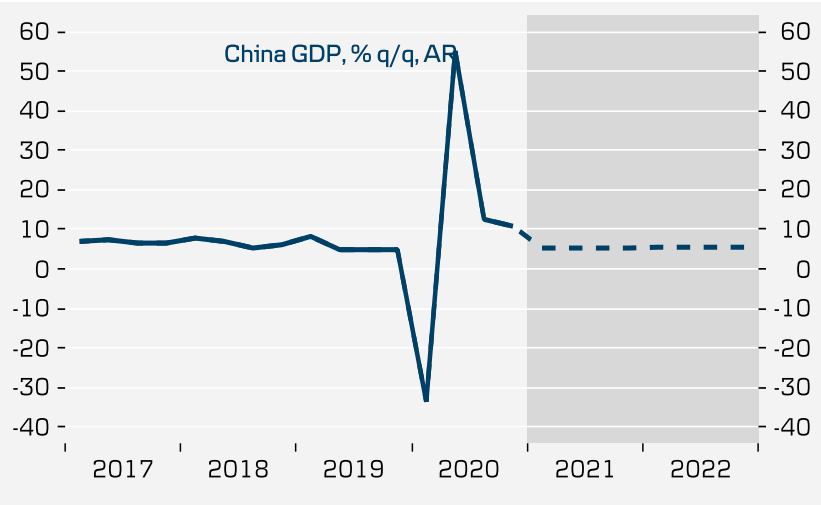


Source: Macrobond Financial, Danske Bank

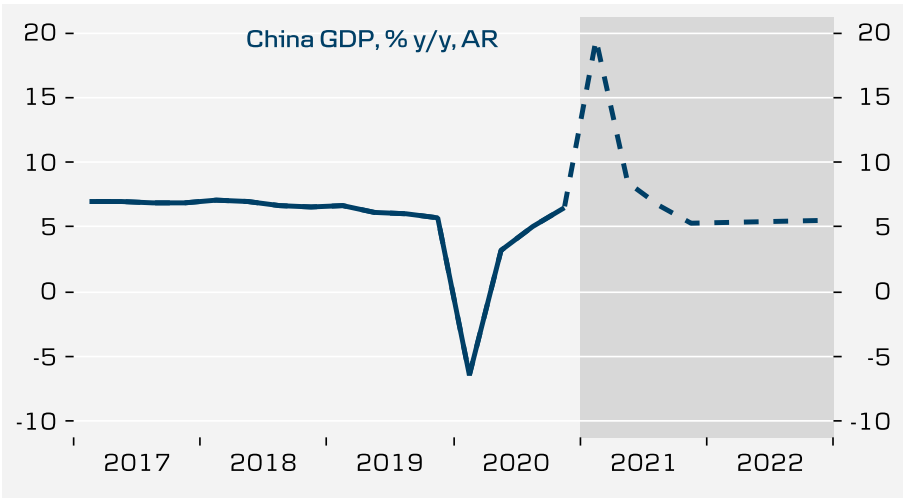
## GDP forecast

2020: 2.3%  
 2021: 9.2%  
 2022: 5.5%

Base effect set to have a substantial impact on y/y growth in Q1



Source: Macrobond Financial, Danske Bank



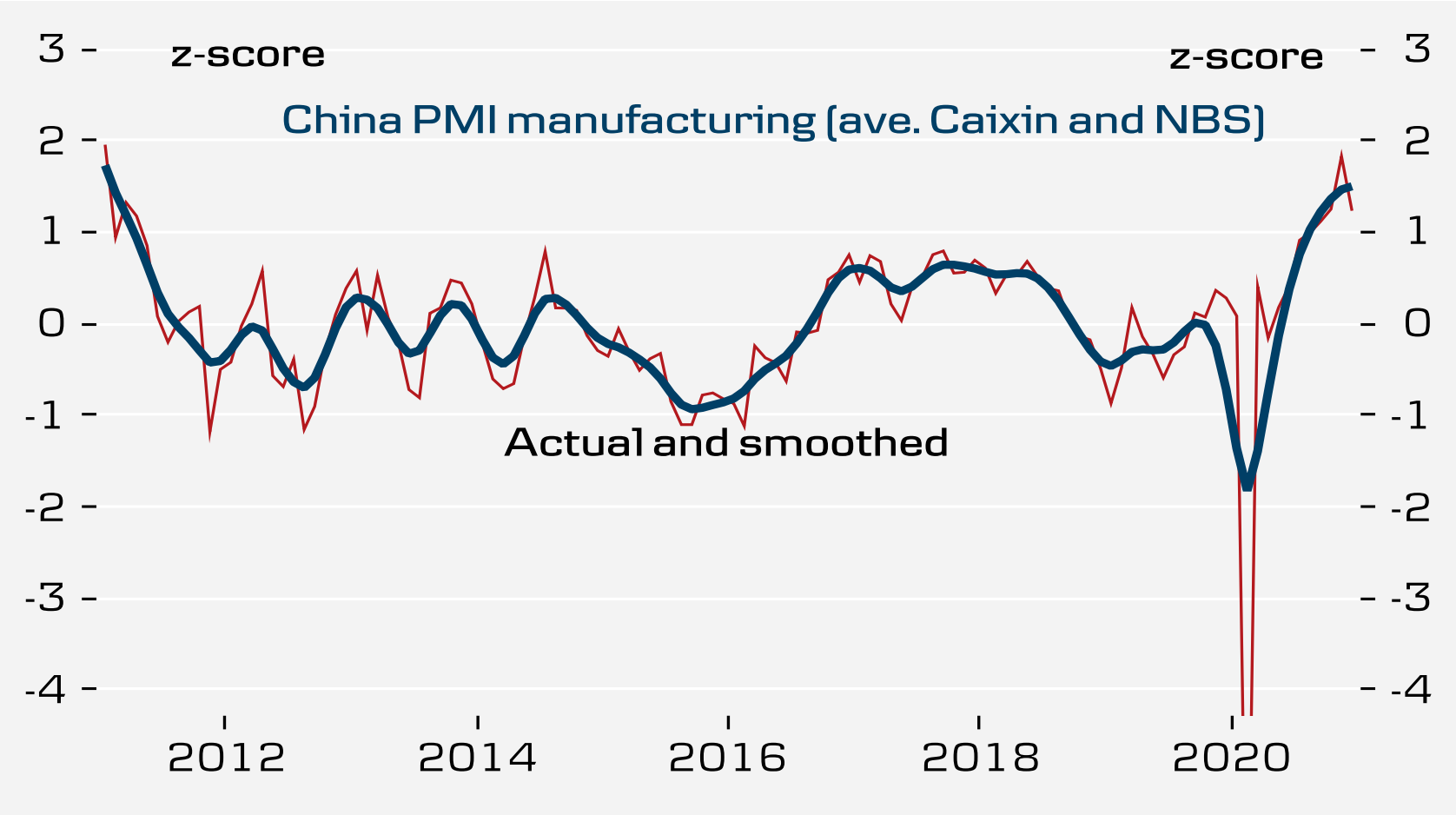
Source: Macrobond Financial, Danske Bank

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*Overview of China macro indicators*

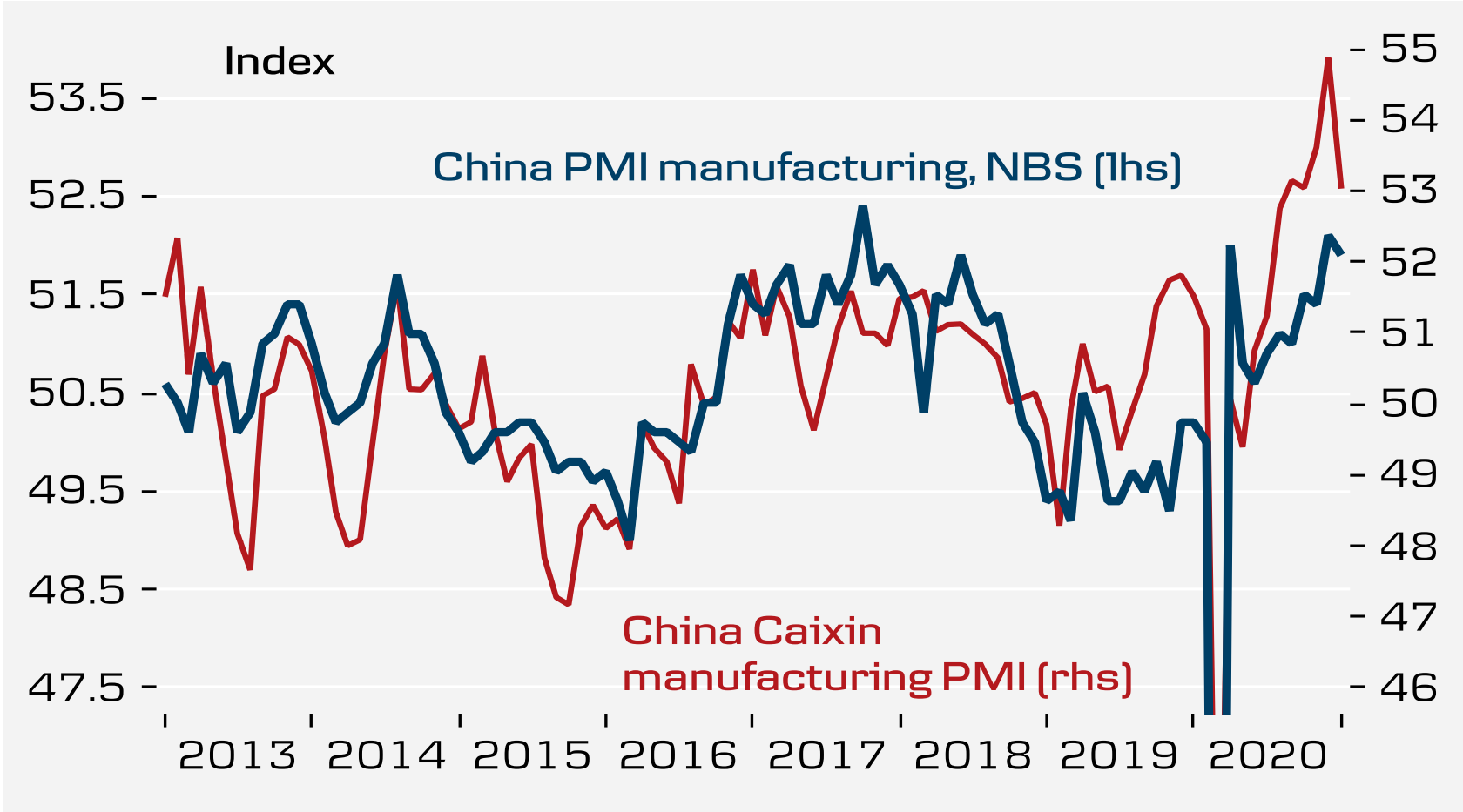
# PMI indicator (average of Caixin and NBS)



Source: Macrobond Financial, Markit, NBS, Danske Bank

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# NBS vs Caixin PMI

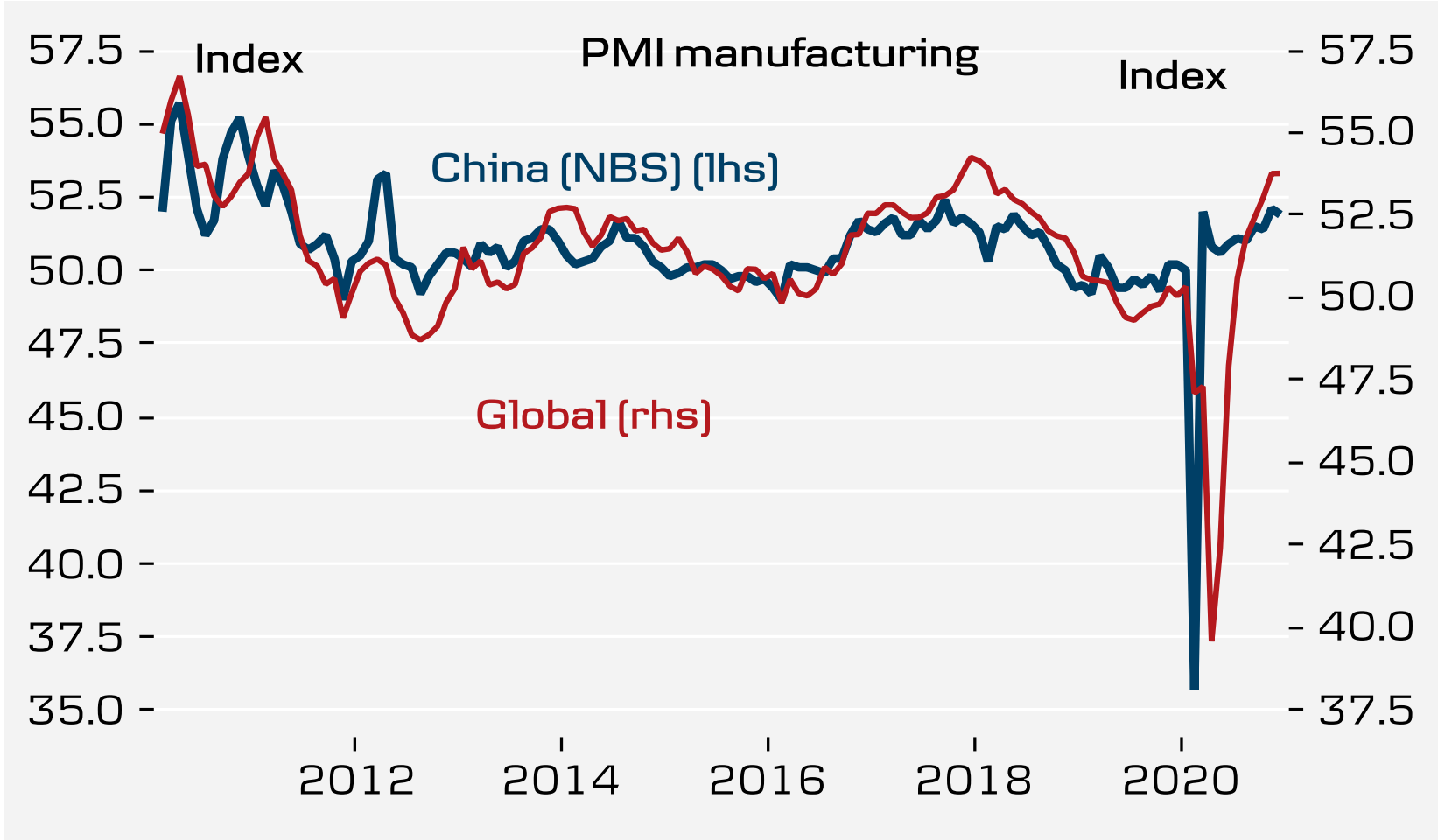


Source: Macrobond Financial, Markit, NBS, Danske Bank

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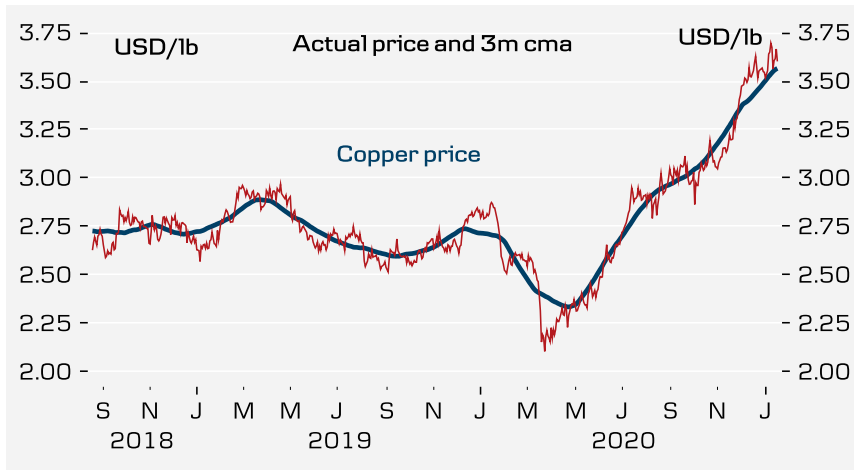
# Domestic vs global cycle



Source: Macrobond Financial, Markit, Danske Bank

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# Copper price momentum



Source: Bloomberg, Danske Bank

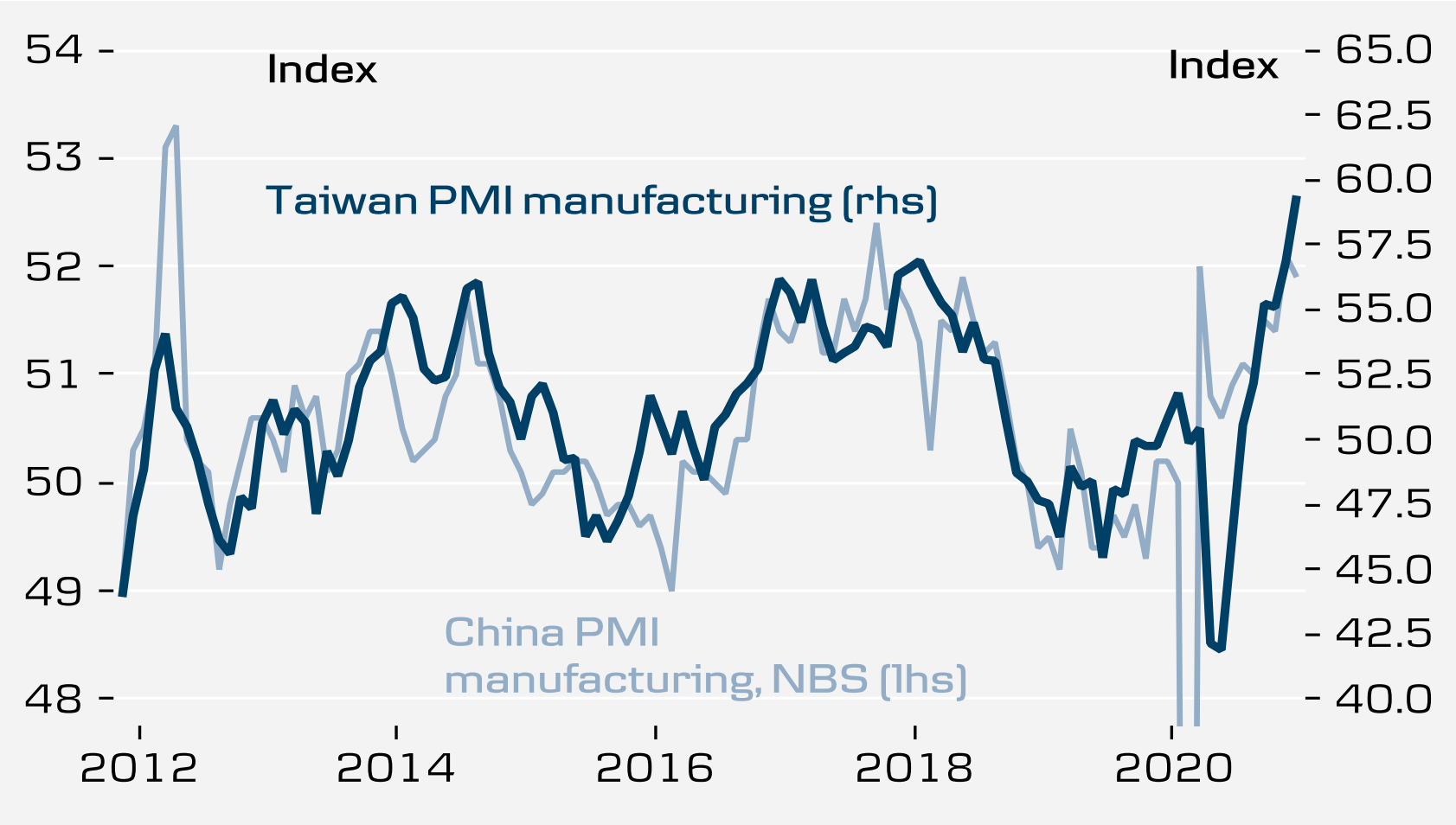


Source: Bloomberg, Danske Bank

Note: Copper prices are generally a good indicator of Chinese activity, as China drives around 50% of global demand for copper.

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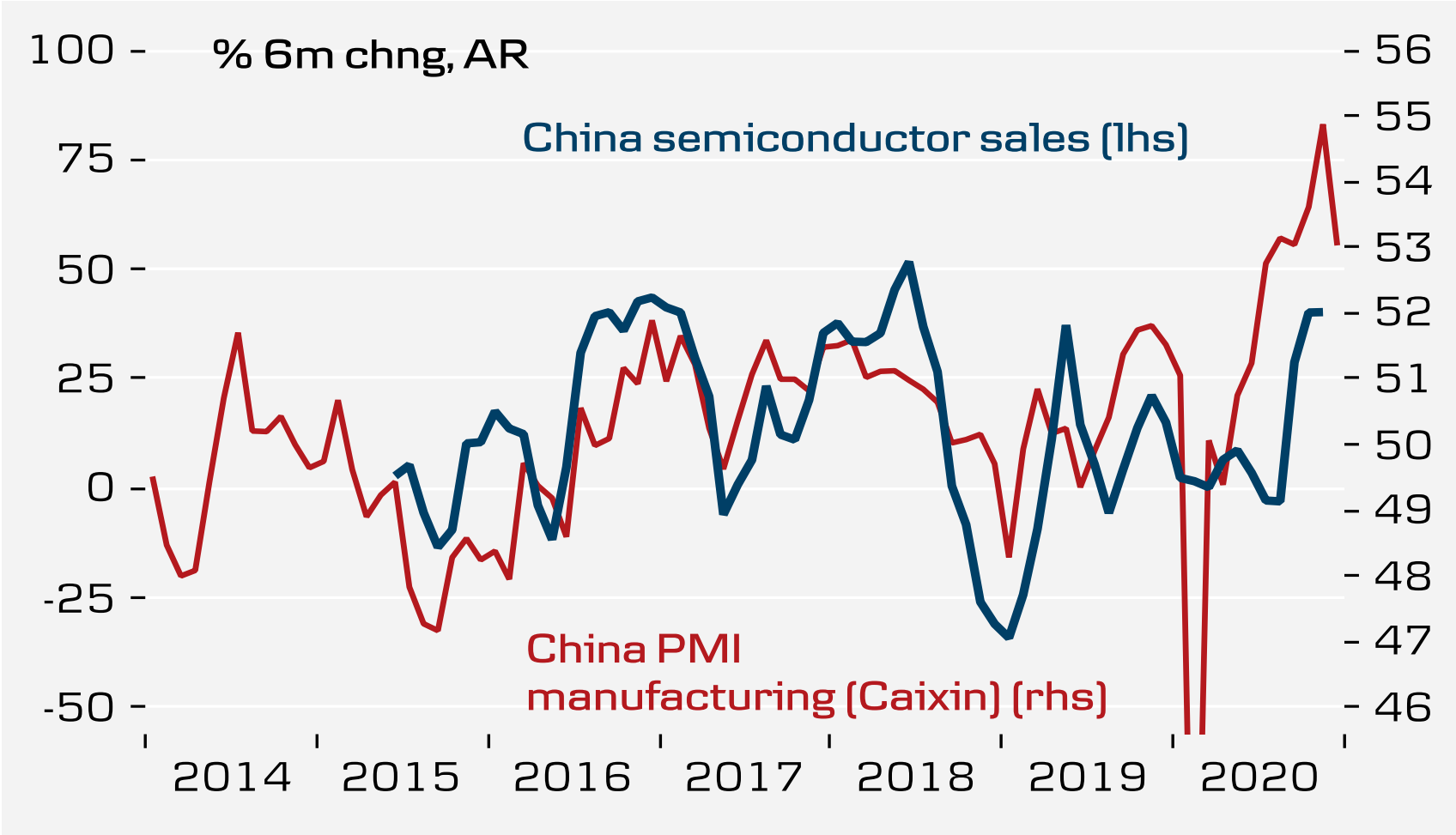
# Taiwan PMI vs mainland China PMI



Source: Macrobond Financial, Markit, Danske Bank

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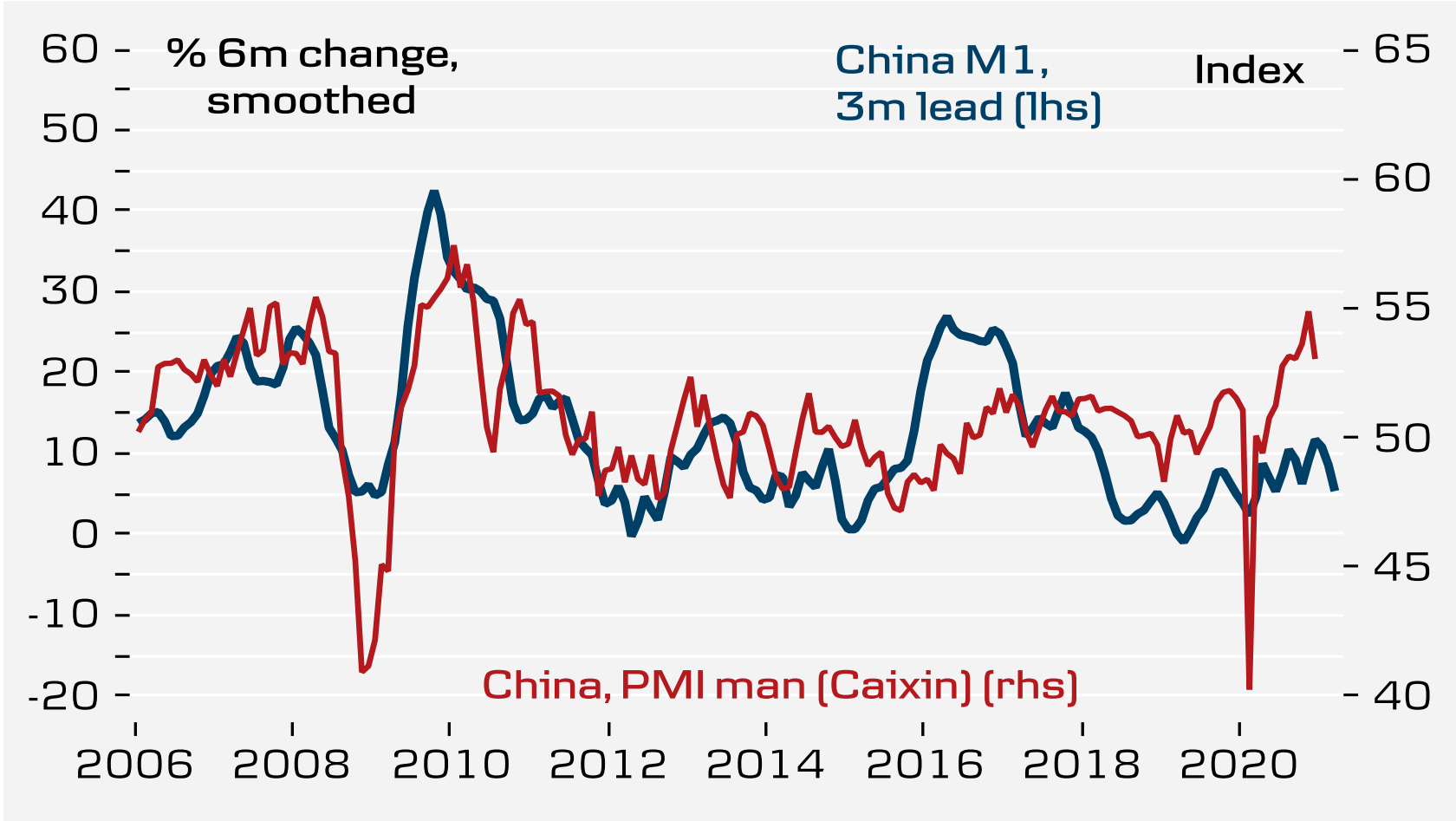
# China semiconductor sales vs Chinese PMI



Source: Macrobond Financial, Markit, Semiconductor Industry Association

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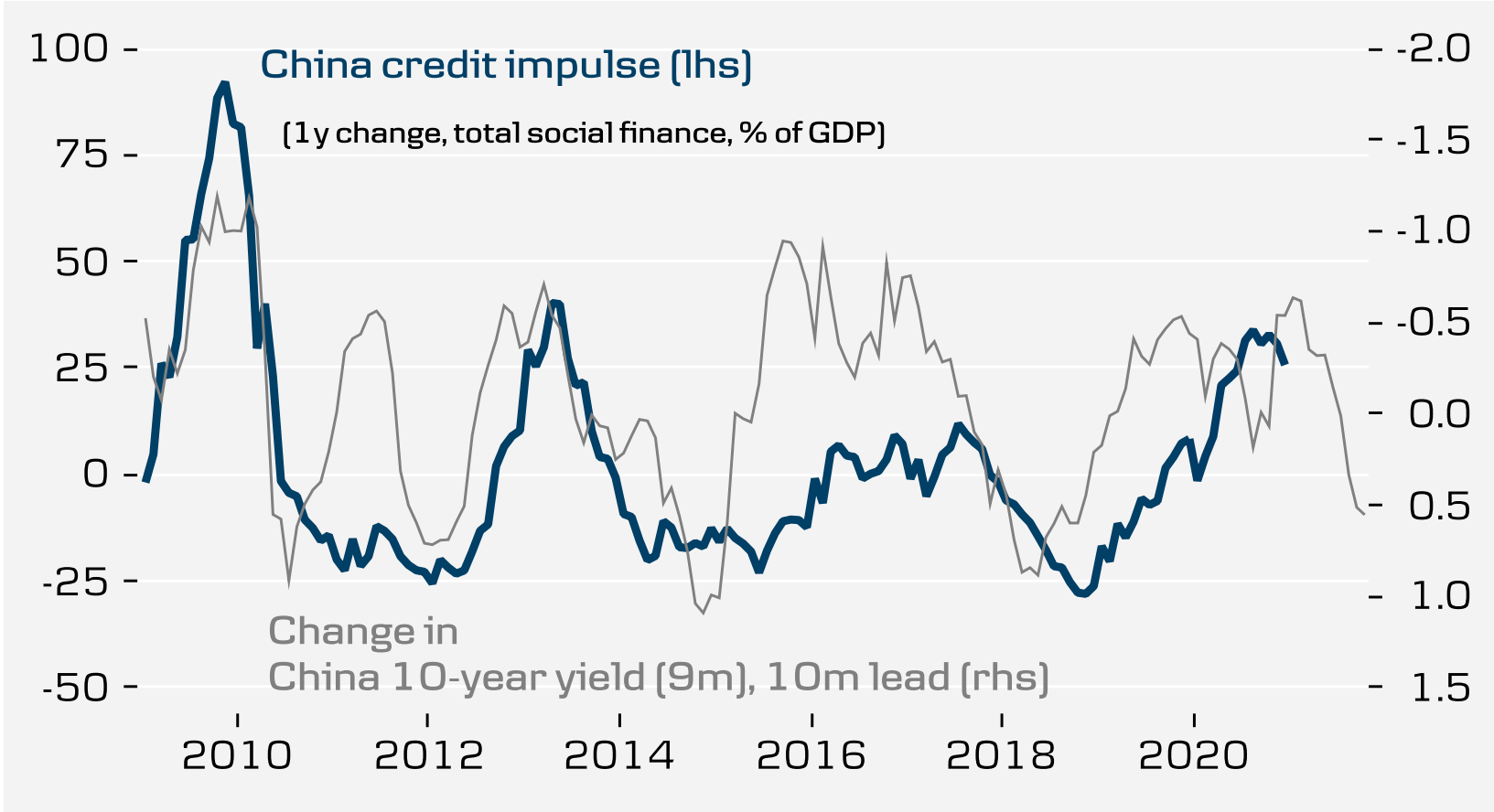
# Money growth and PMI



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

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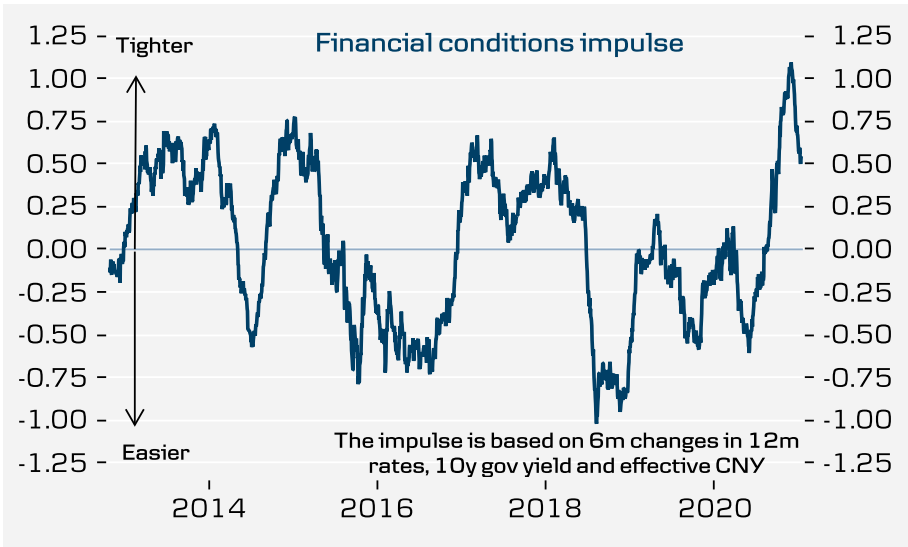
# Stimulus supported recovery but momentum set to fade in H1



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

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# Financial conditions impulse and credit momentum



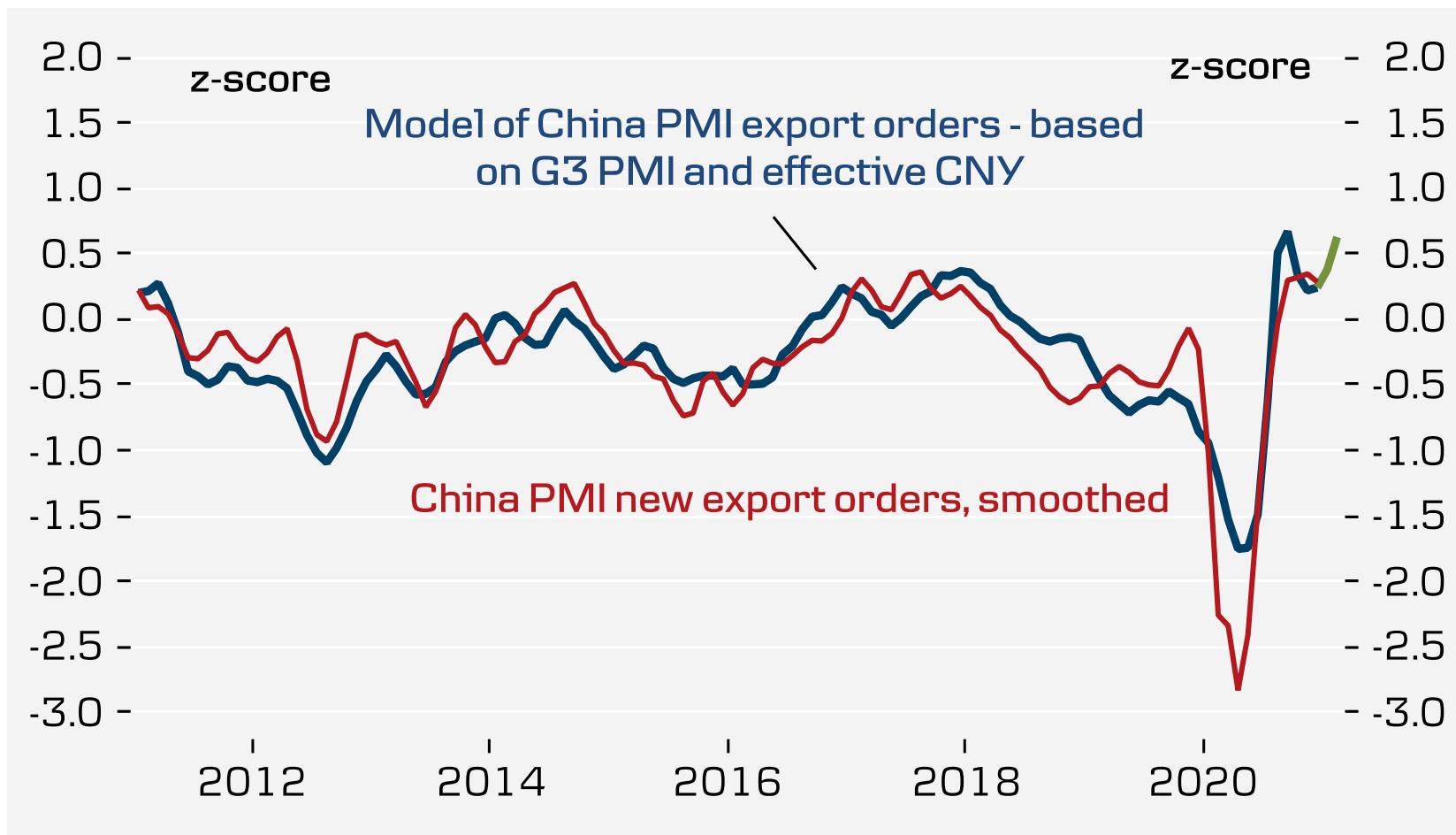
Source: Macrobond Financial, People's Bank of China, Danske Bank



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

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## Exports - model

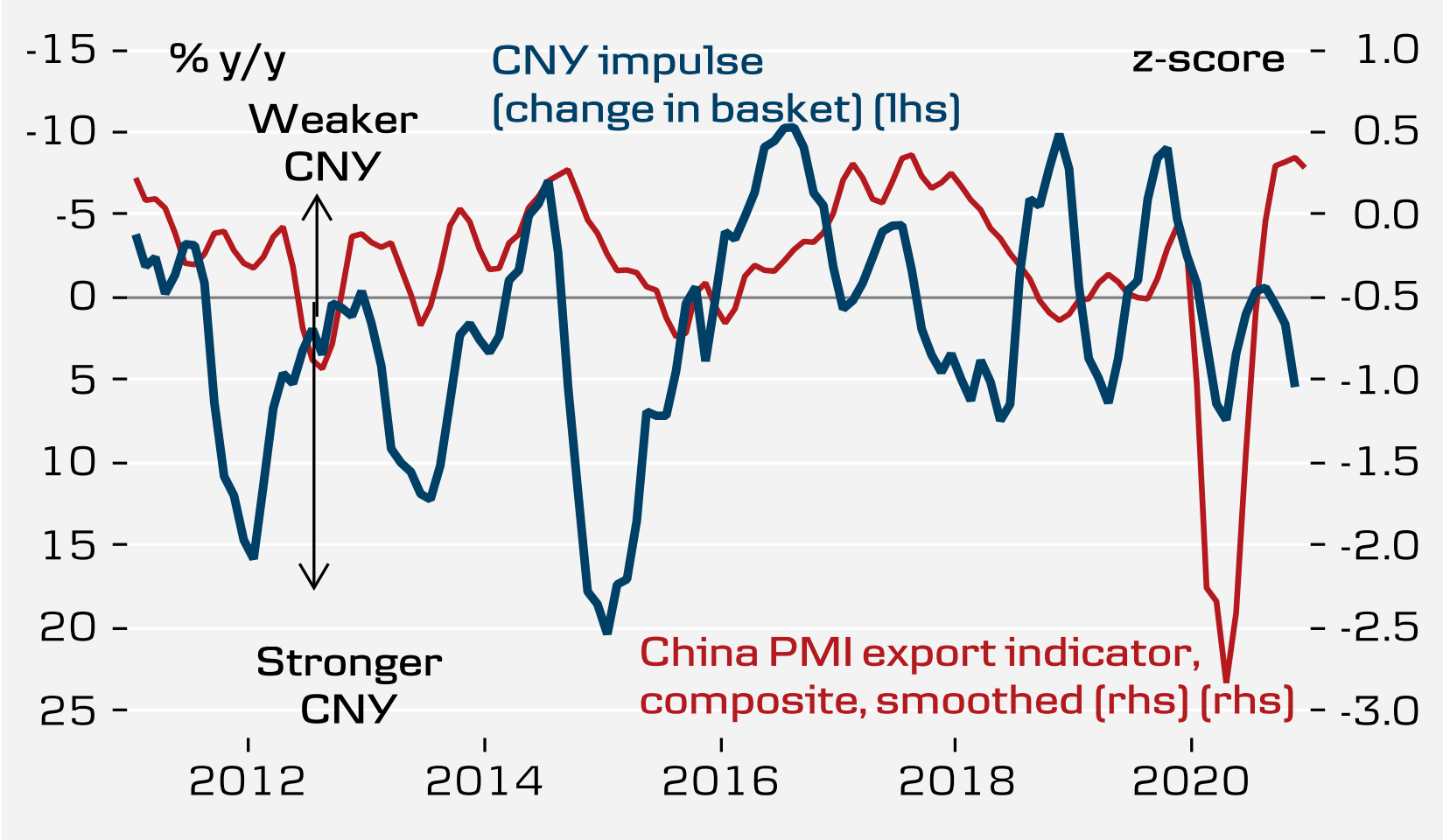


Source: Macrobond Financial, NBS, Markit, Danske Bank

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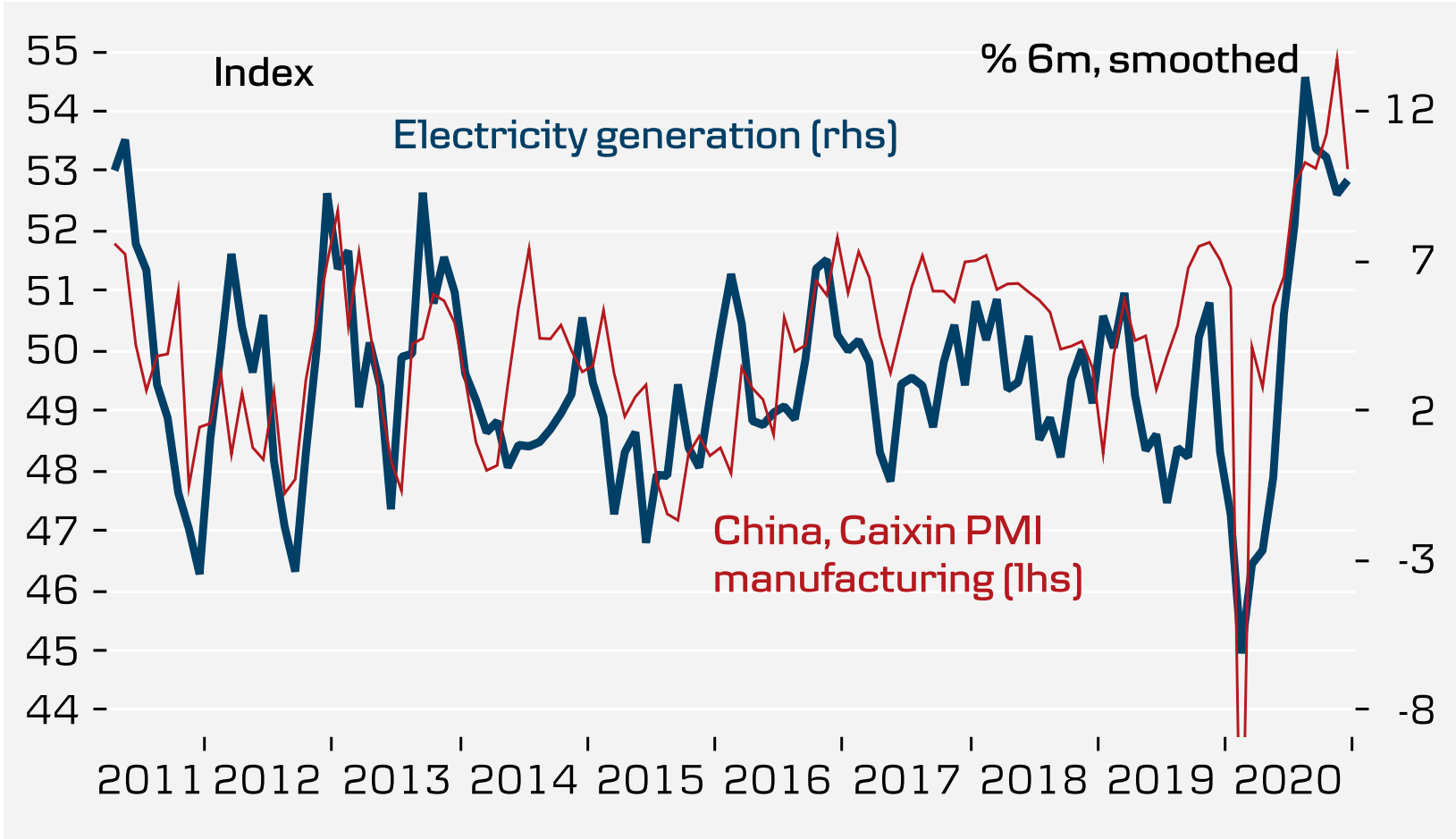
# Exports - currency impulse



Source: Macrobond Financial, NBS, Markit, Danske Bank

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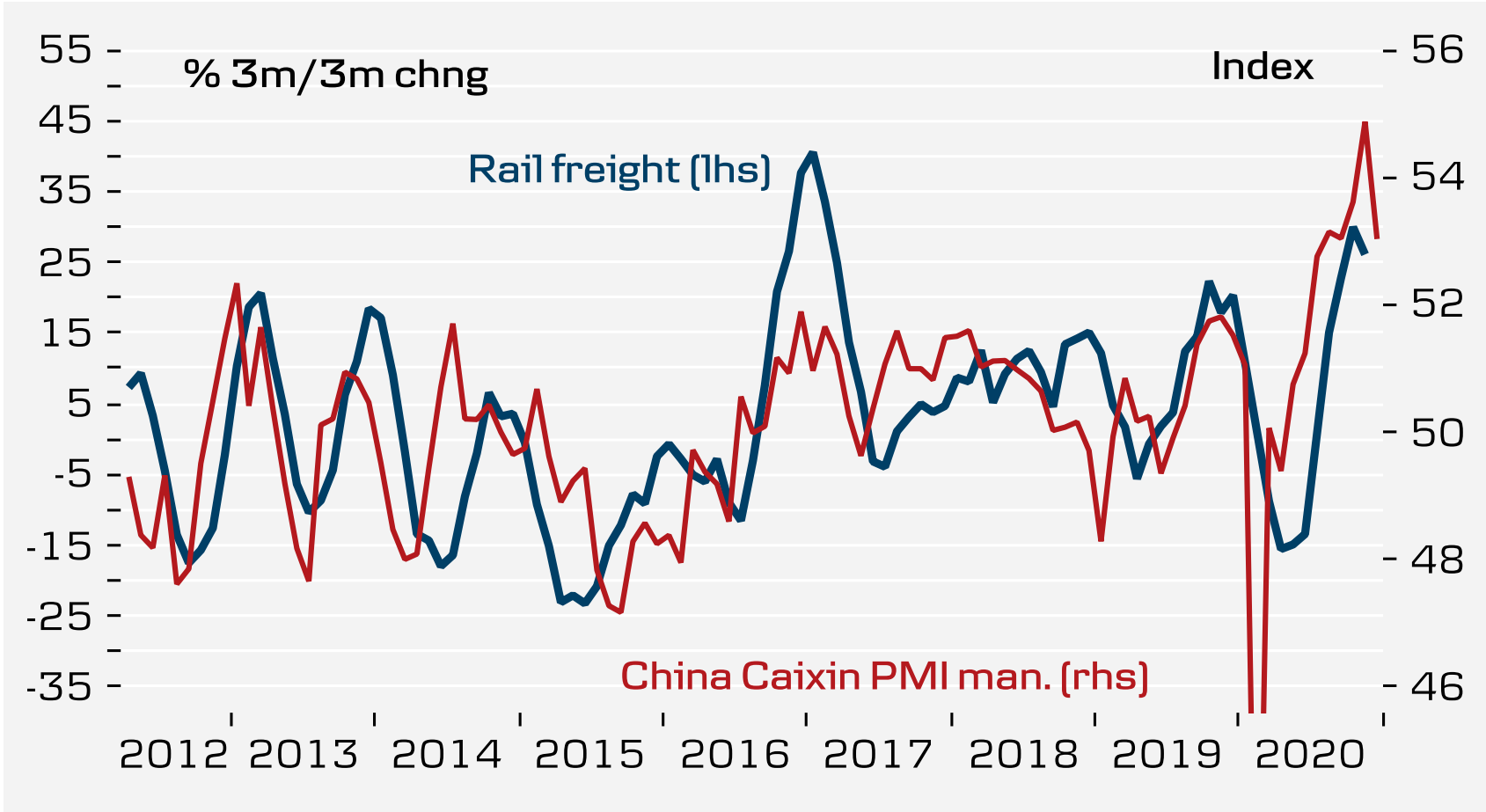
# Electricity generation vs PMI



Source: Macrobond Financial, Markit, NBS, Danske Bank

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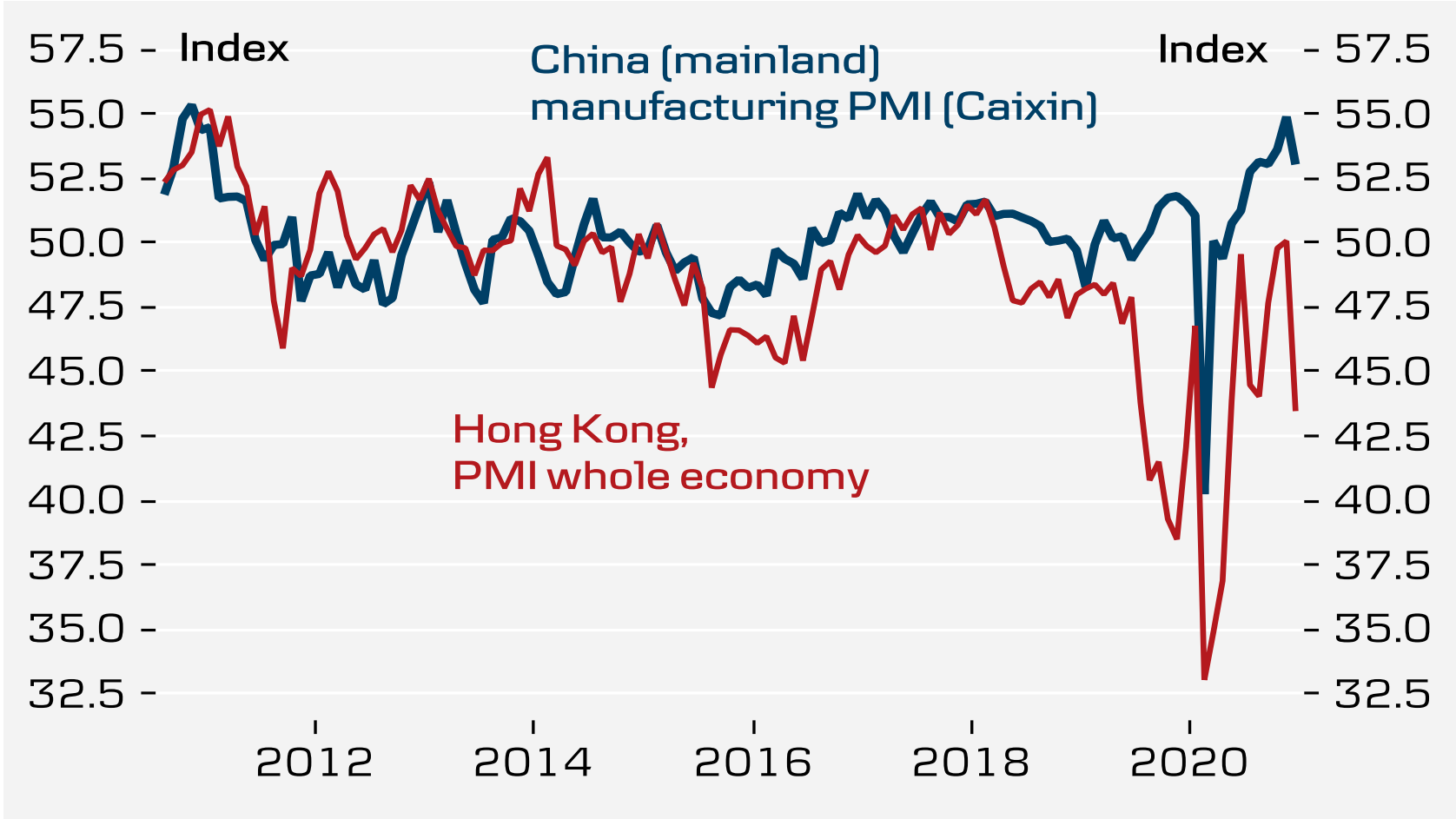
# Rail freight vs PMI



Source: Macrobond Financial, Markit, NBS, Danske Bank

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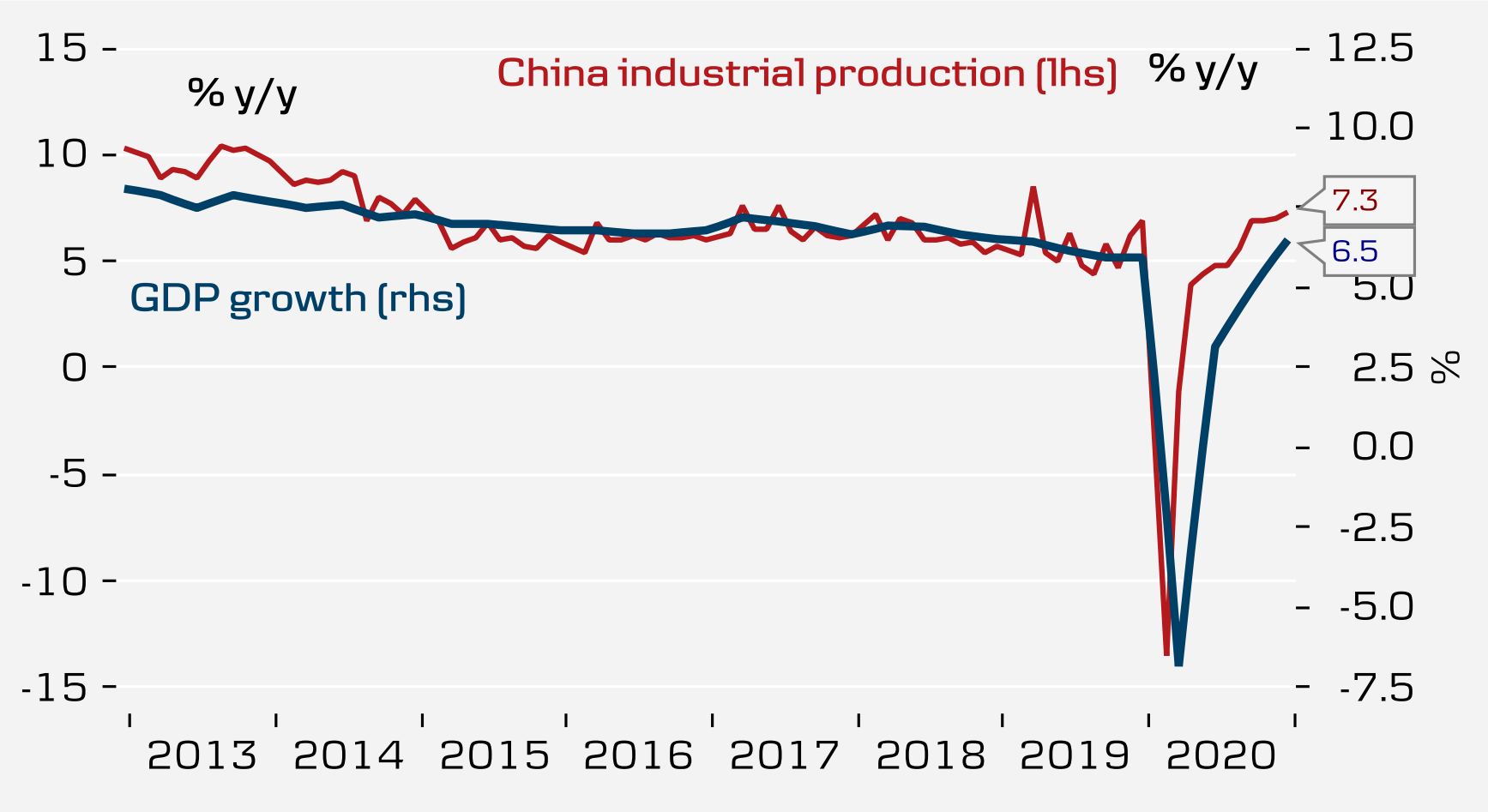
# Hong Kong PMI vs China PMI



Source: Macrobond Financial, Markit, Danske Bank

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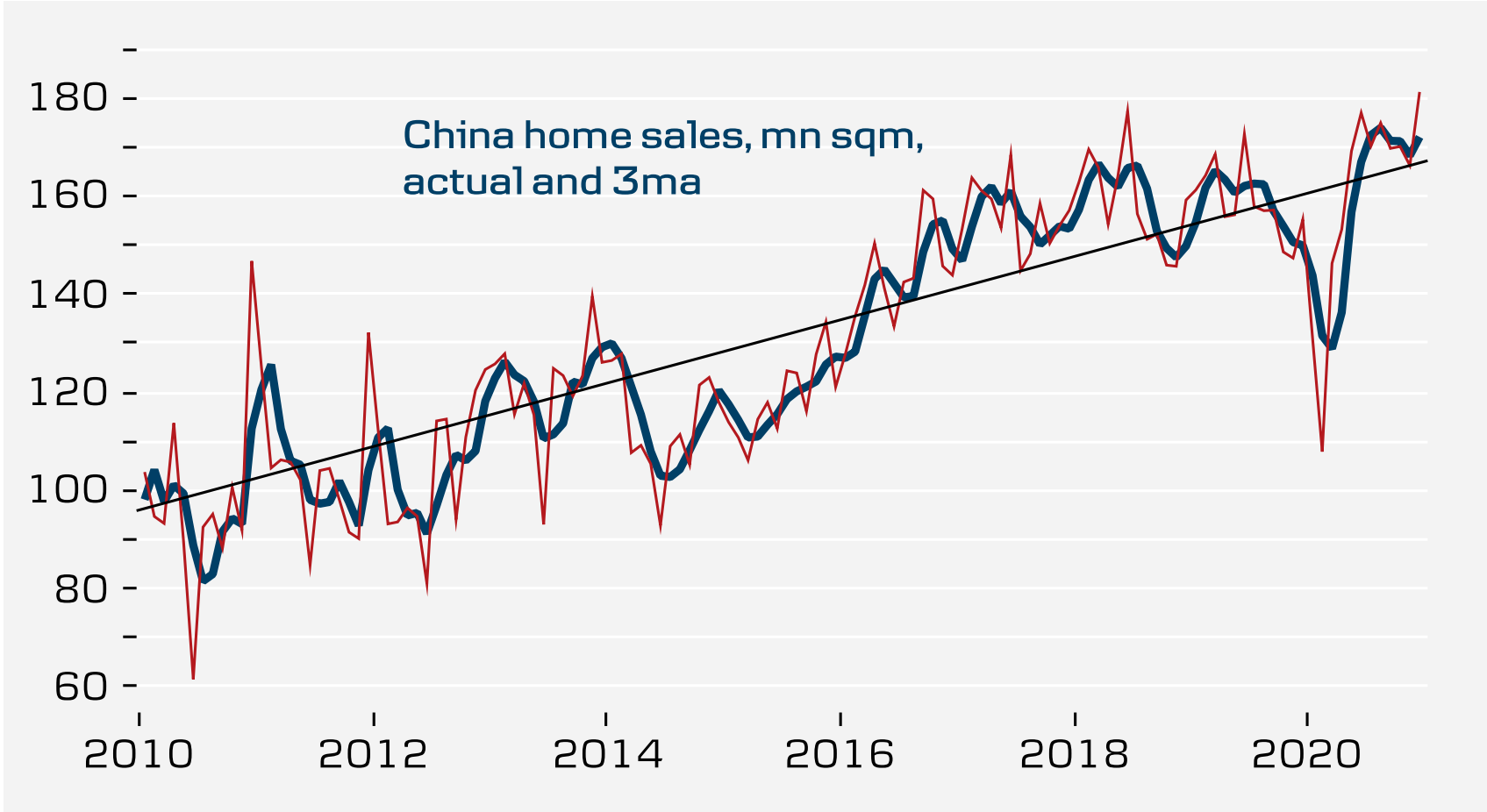
# Industrial production vs GDP



Source: Macrobond Financial, NBS, Danske Bank

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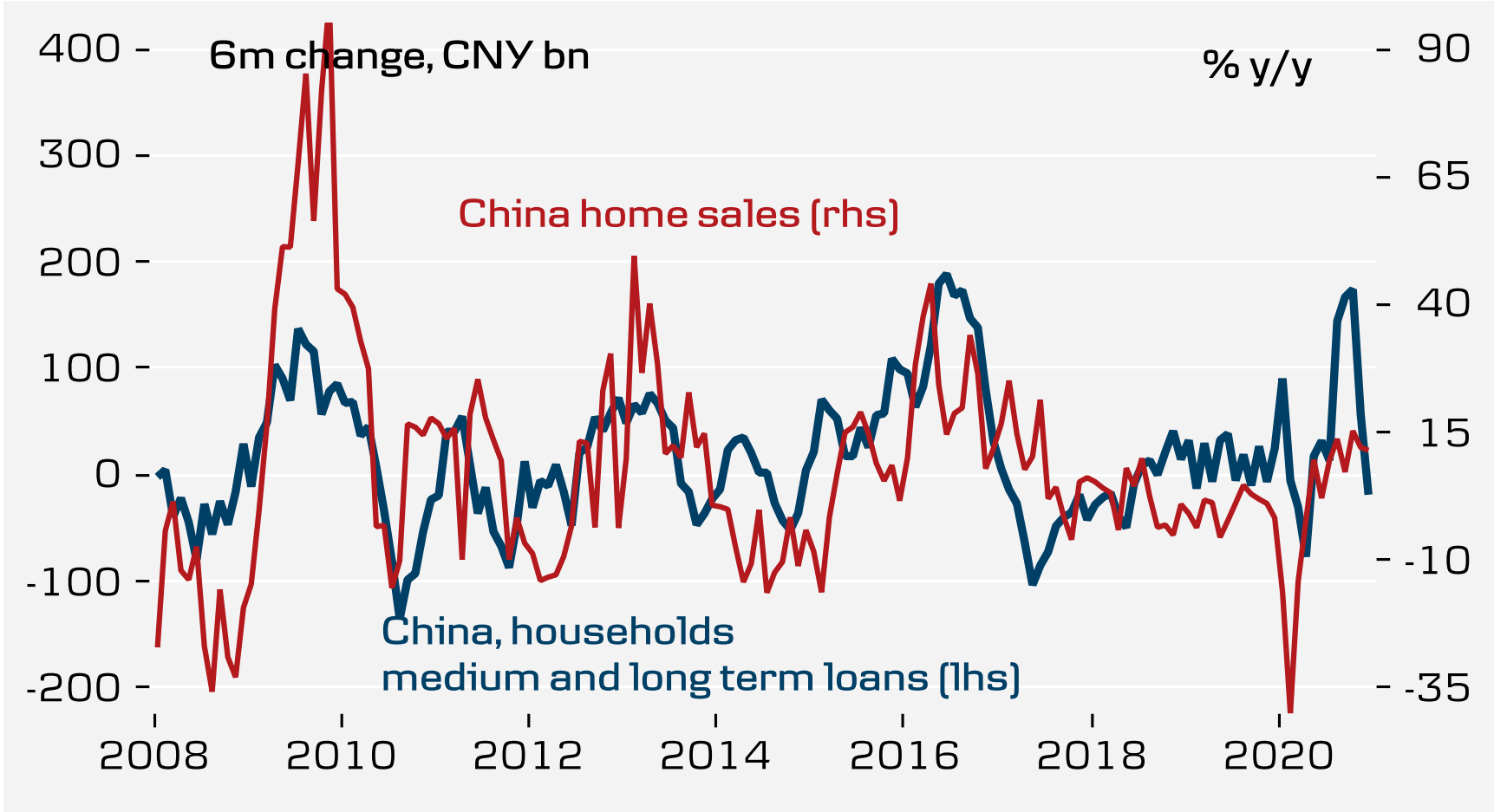
# Housing – home sales level



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

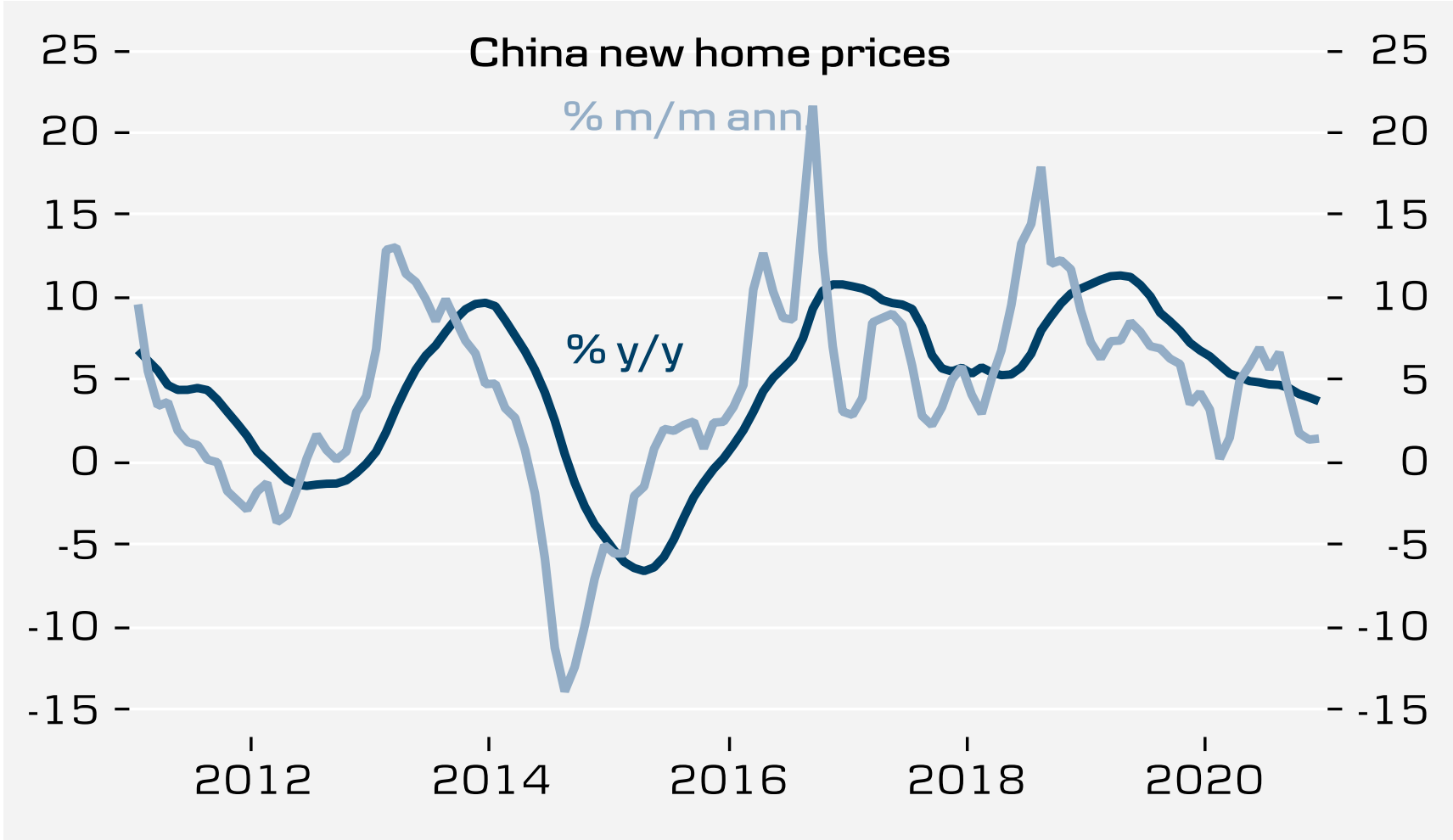


Source: Macrobond Financial, NBS, Danske Bank

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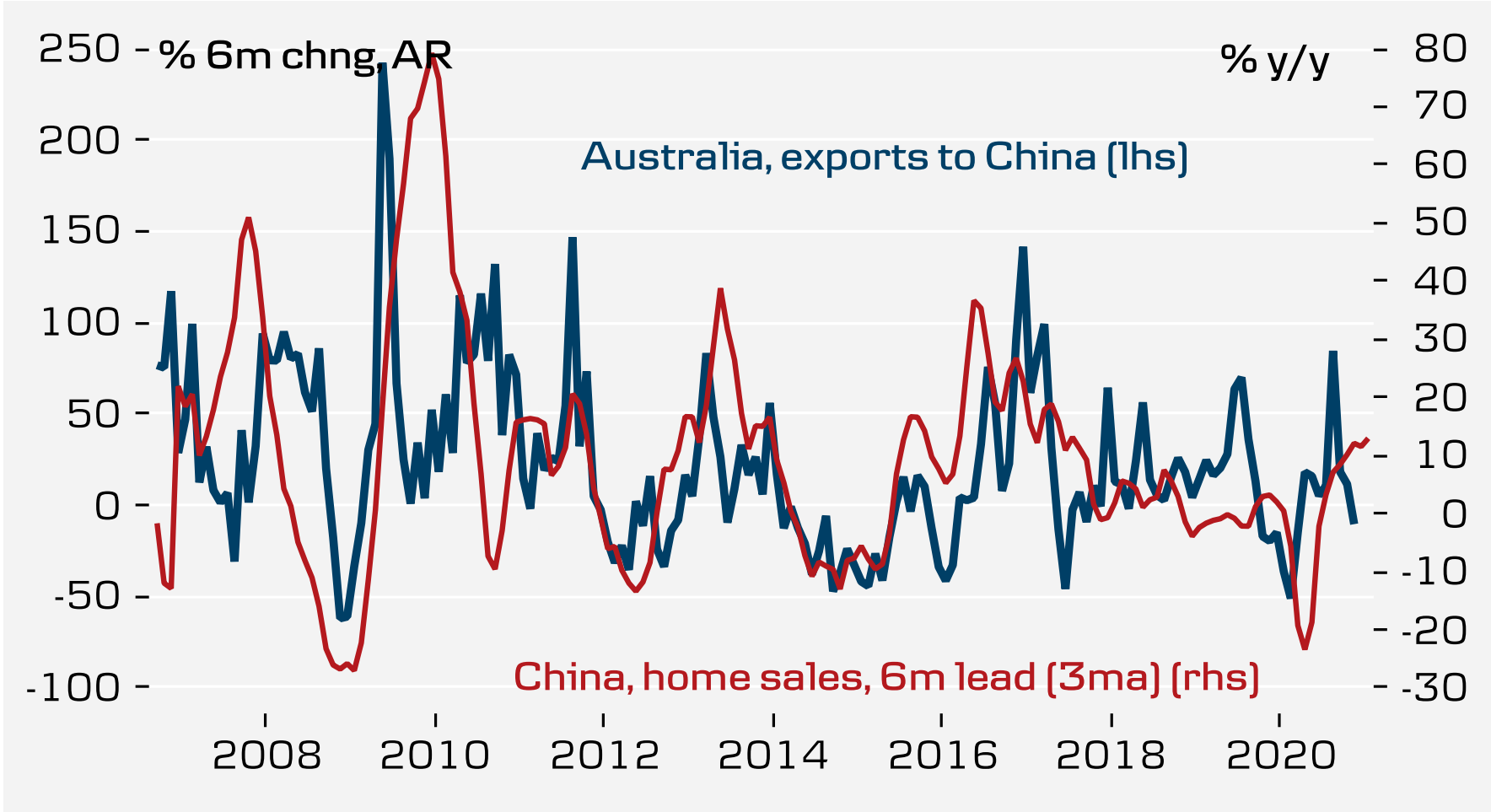
# House prices



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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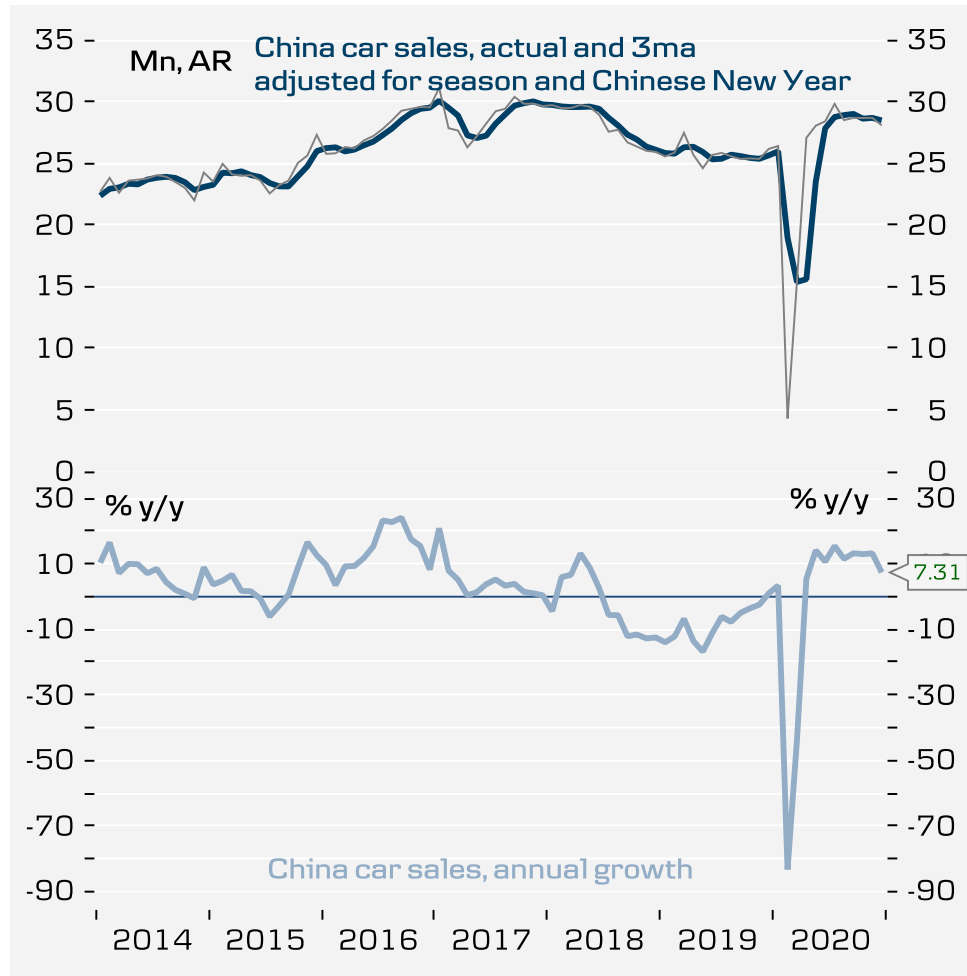
# Consumer - retail sales



Source: Macrobond Financial, NBS, Danske Bank

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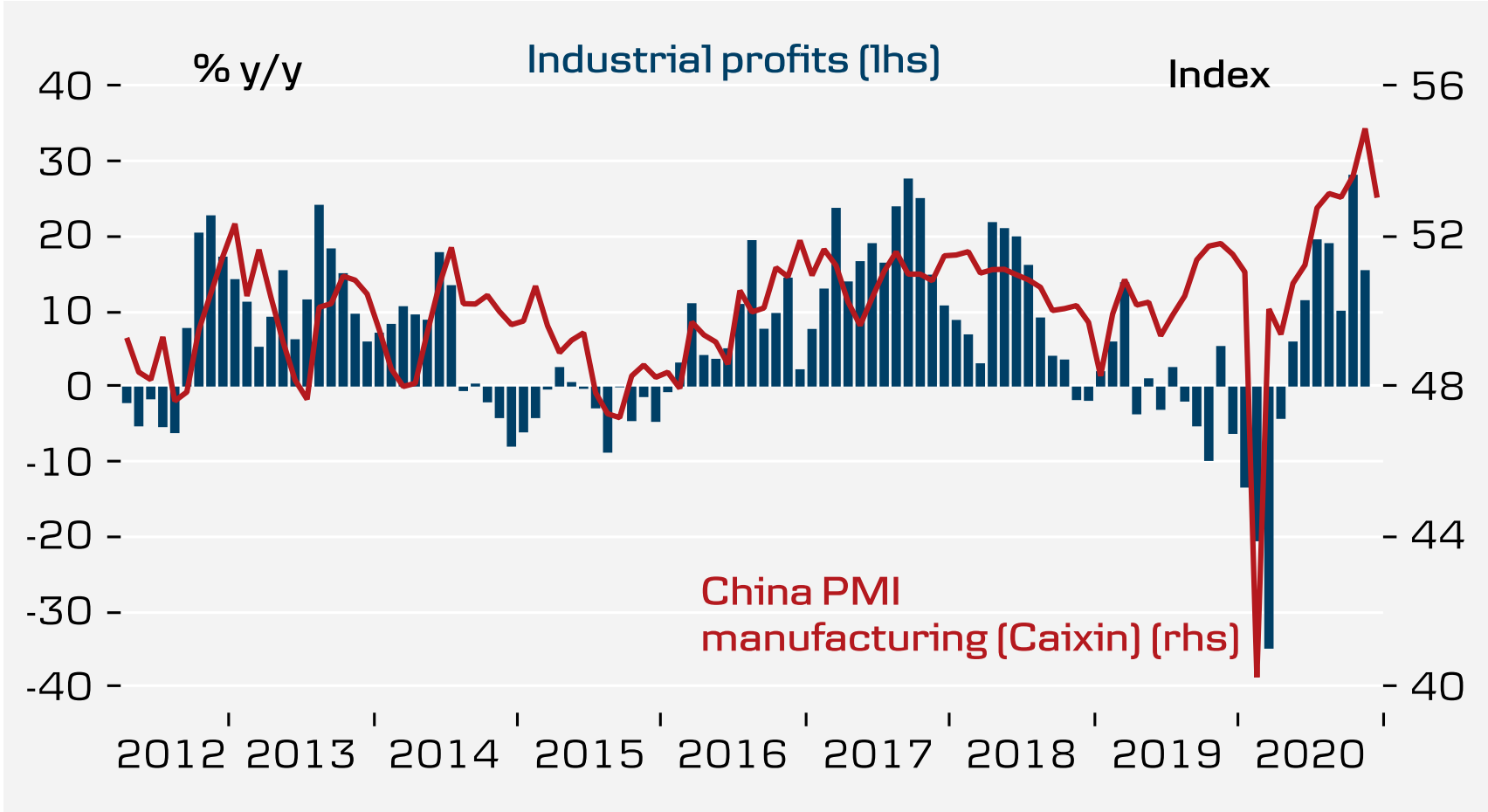
# Consumer – car sales



Source: Macrobond Financial, CAAM, Danske Bank

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# Profits vs PMI



Source: Macrobond Financial, NBS, Markit, Danske Bank

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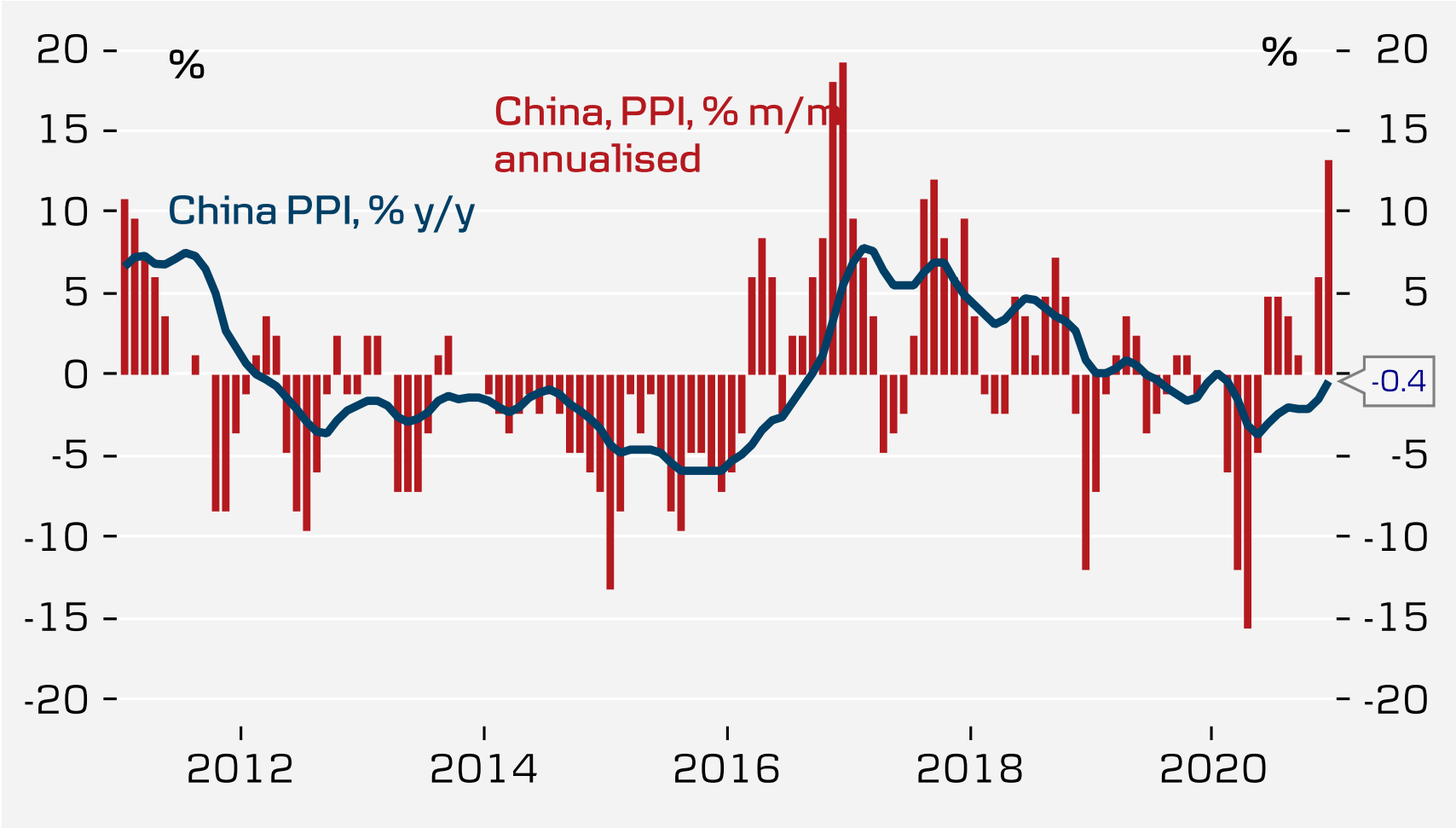
# Inflation - CPI



Source: Macrobond Financial, NBS, Danske Bank

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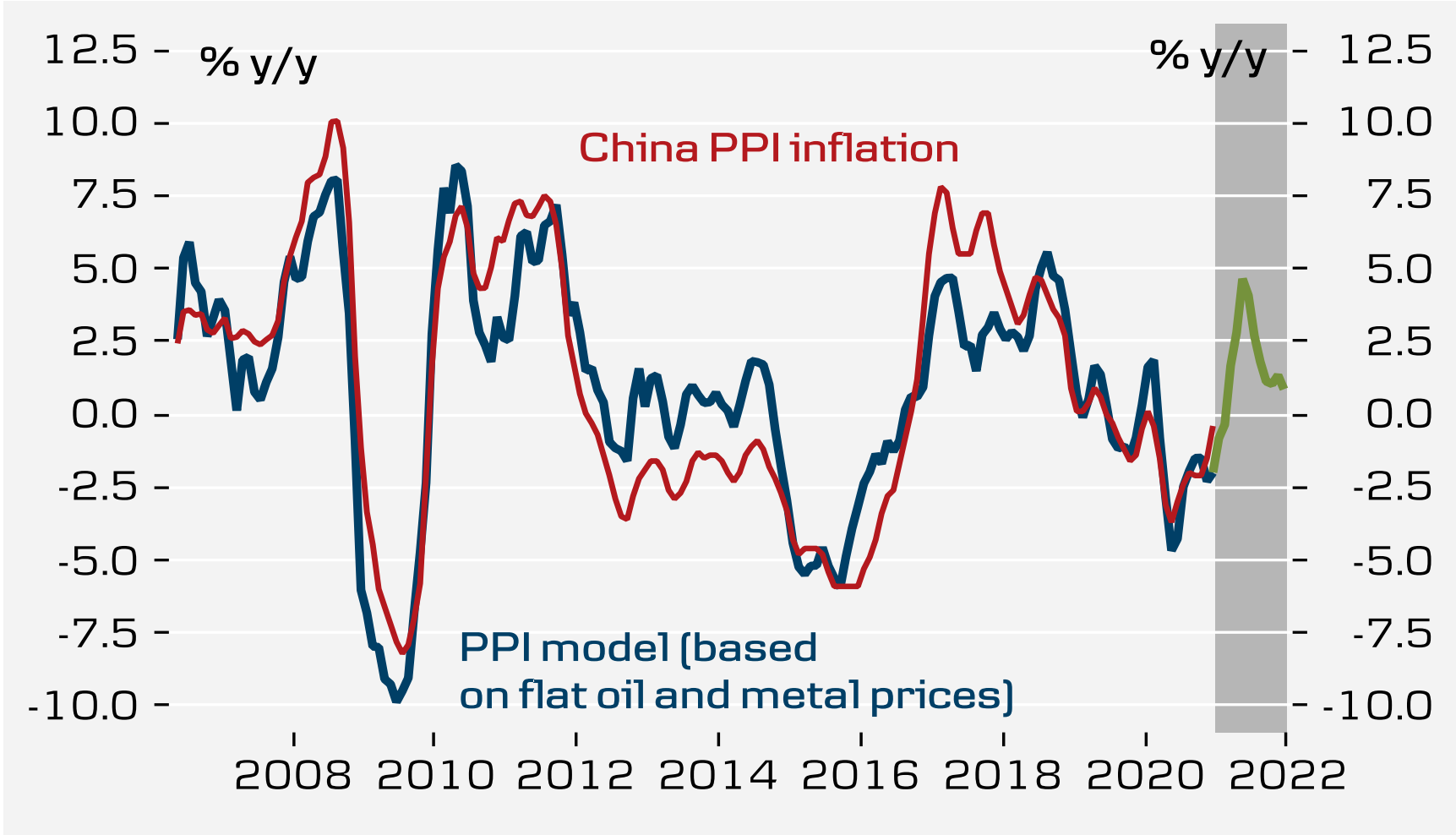
# Inflation - PPI



Source: Macrobond Financial, NBS, Danske Bank

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# Inflation - PPI model

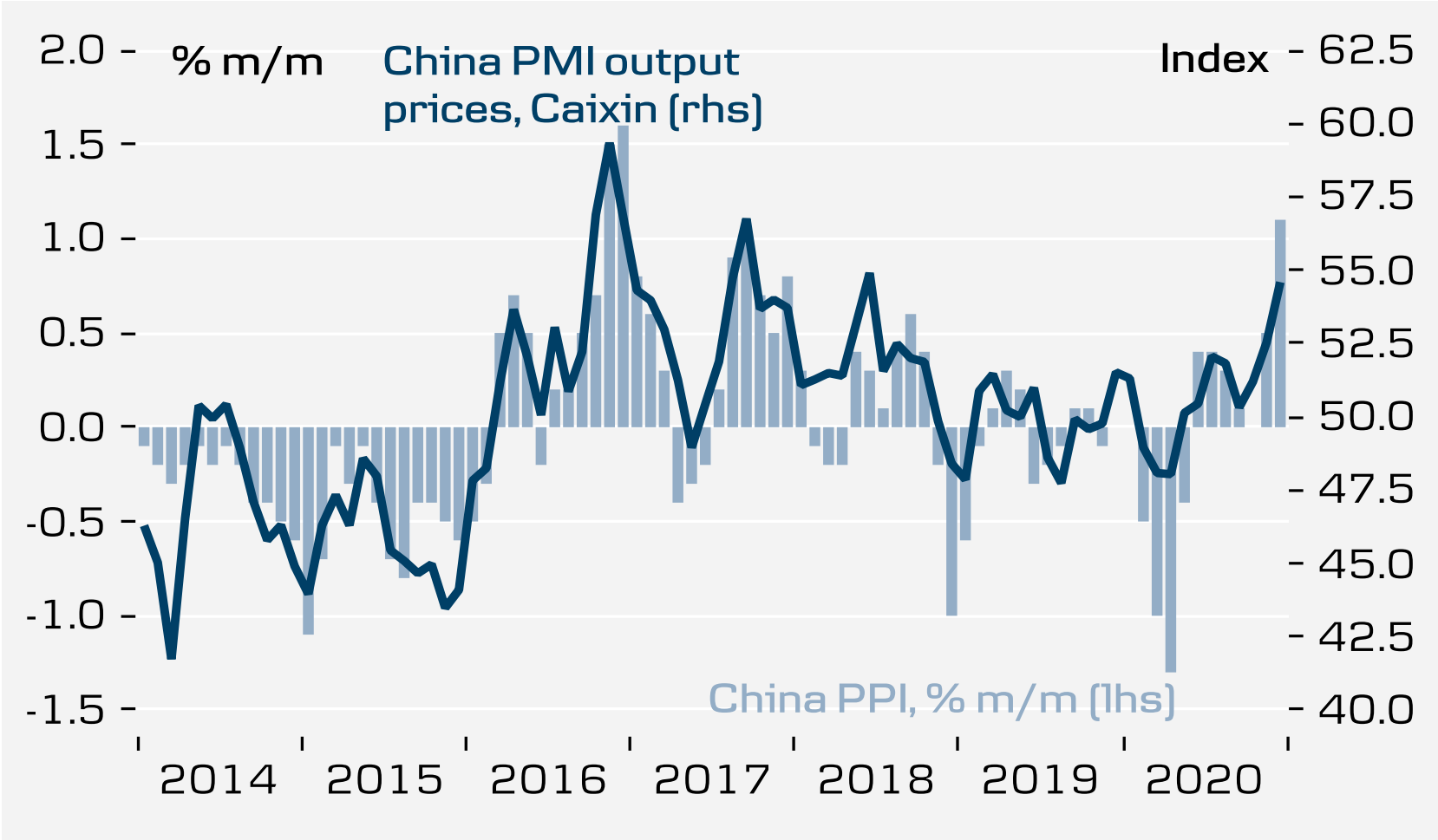


Source: Macrobond Financial, NBS, Danske Bank

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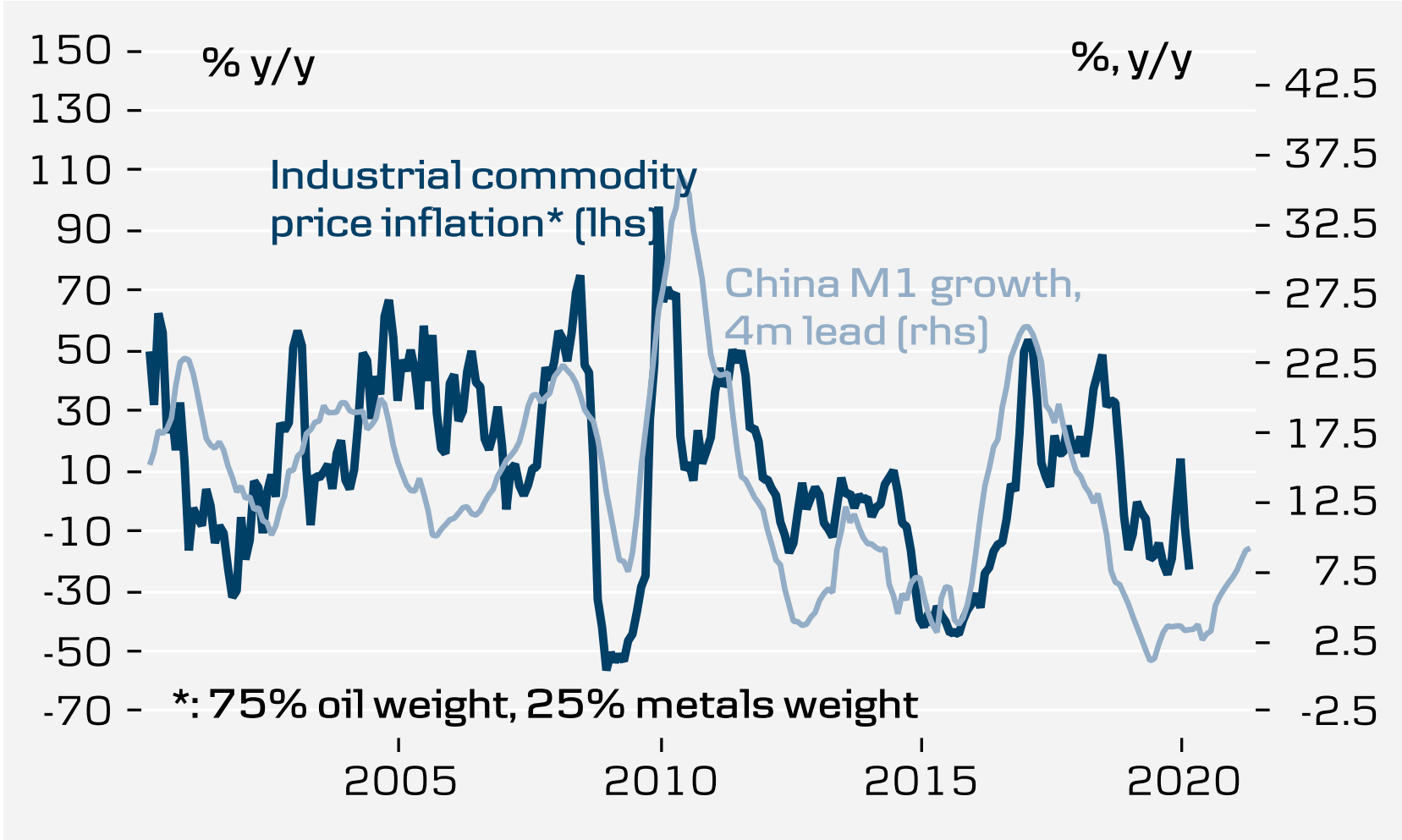
# Inflation - PMI output prices and PPI m/m



Source: Macrobond Financial, Markit, NBS, Danske Bank

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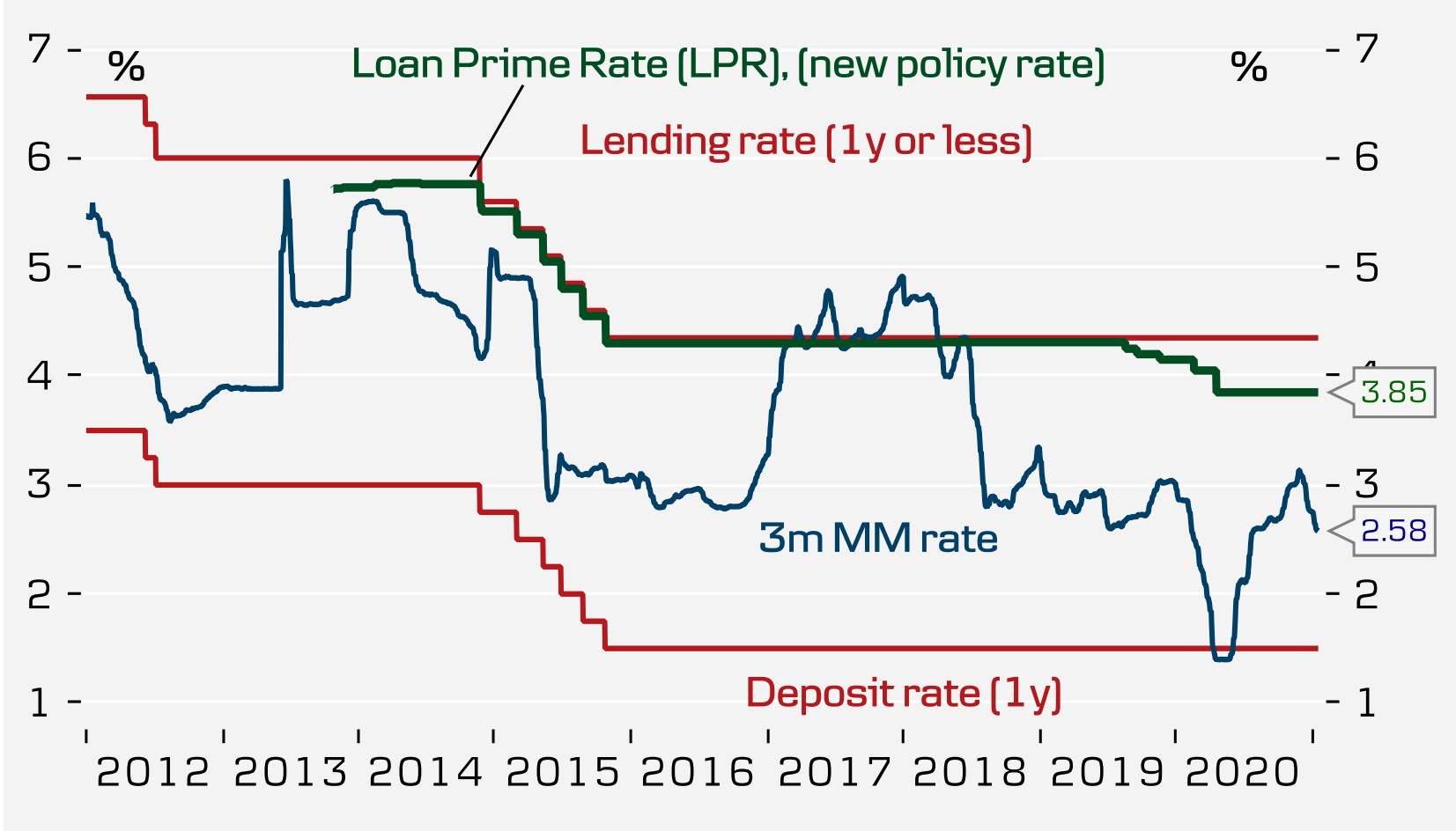
# M1 and industrial commodity prices



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

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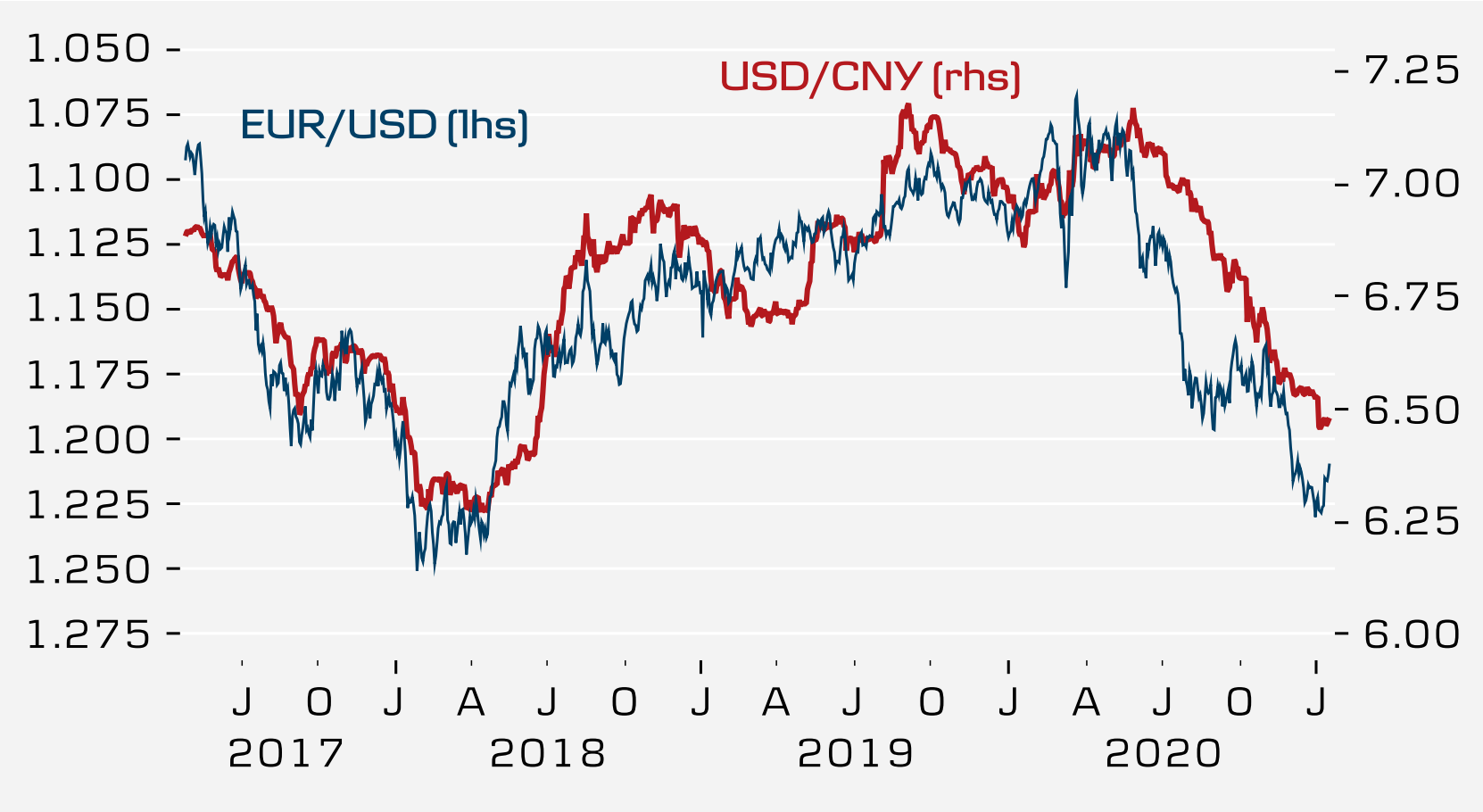
# Monetary policy - rates



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

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# CNY – overall USD development important for USD/CNY

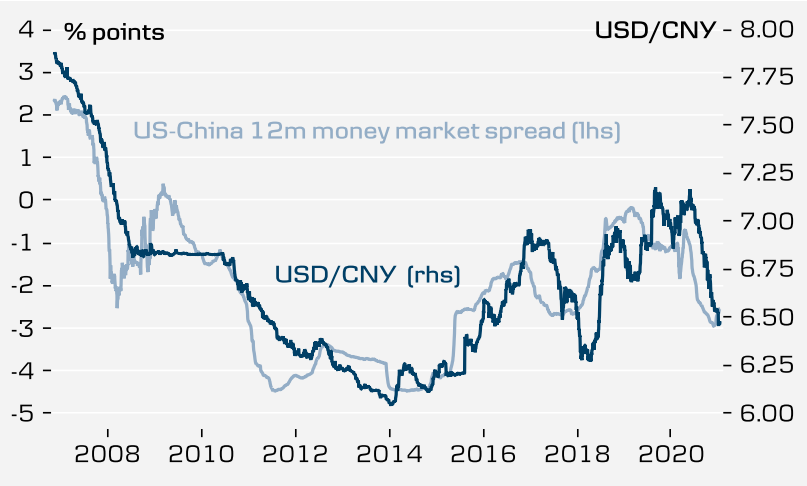


Note: EUR/USD on reverse axis in this chart, past performance is not a reliable indicator of current or future results  
 Source: Macrobond Financial, People's Bank of China

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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

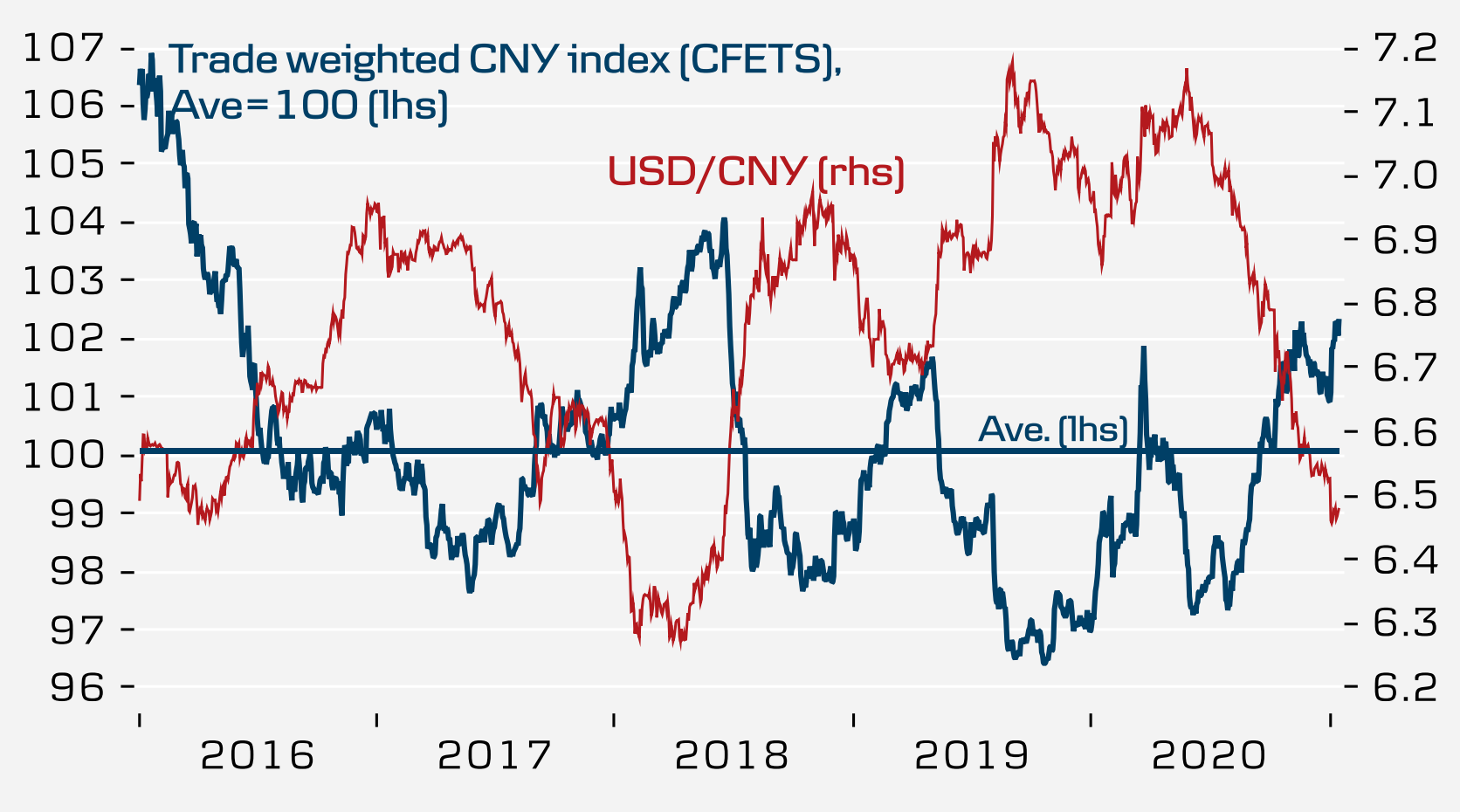
US and China money 12M rates



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



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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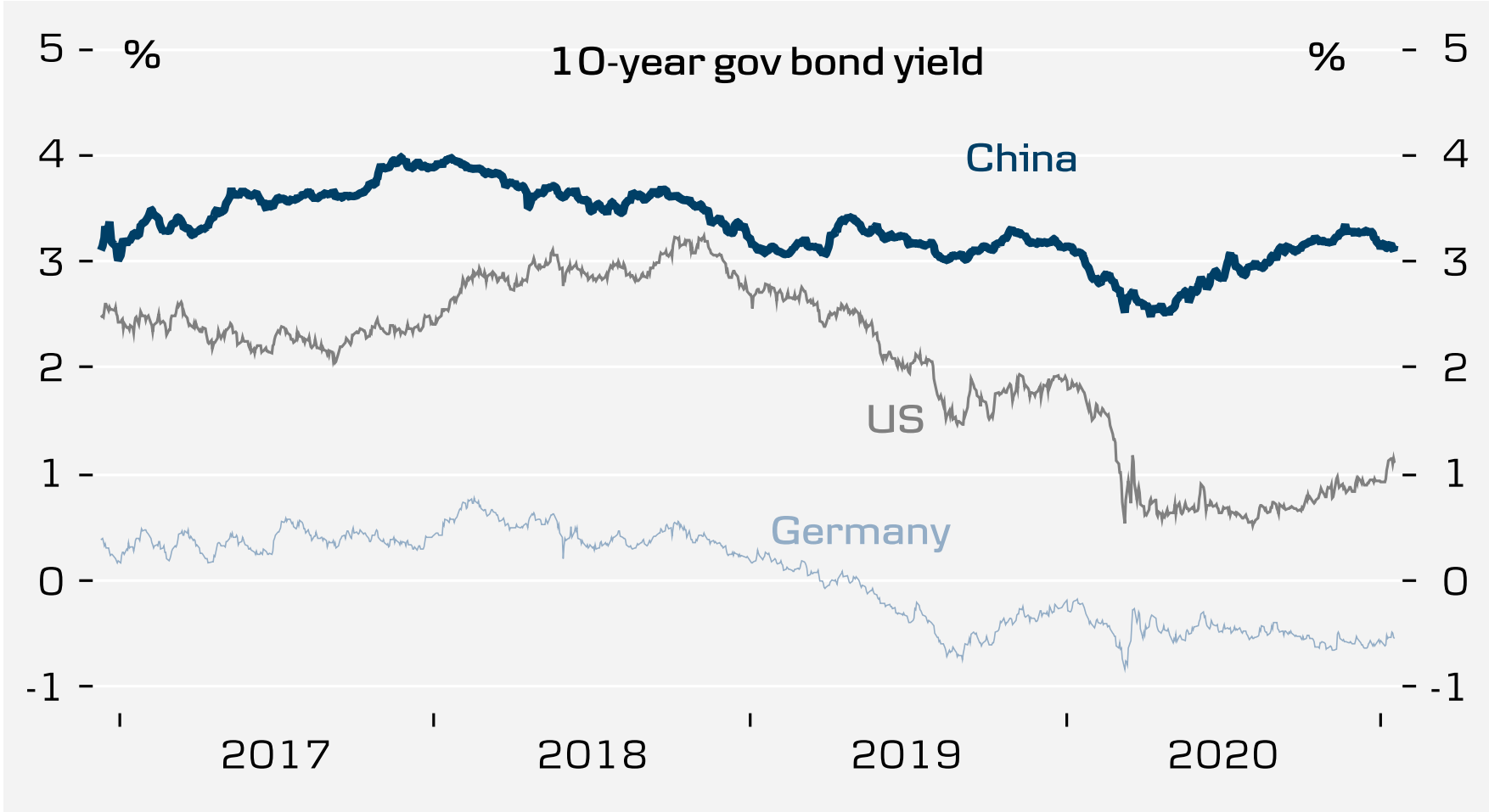
# China stock market



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)



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

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