

China Macro Monitor

- Strong rebound but early signs of a peak

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Important disclosures and certifications are contained from page 41 of this report

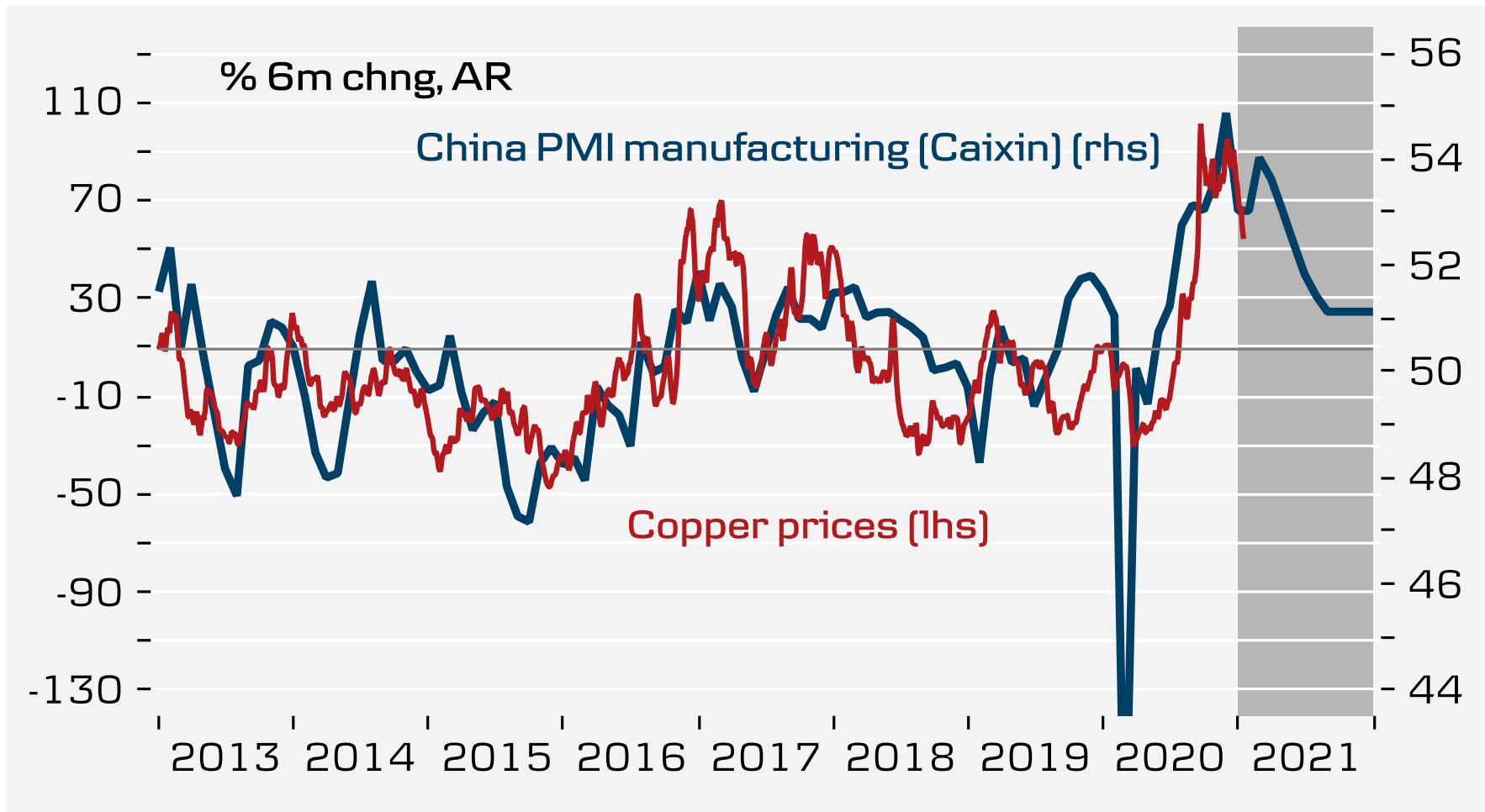
Outlook and current trends

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](#).**

Our China growth forecast

PMI forecast profile (vs copper prices)[Link to overview page](#)

GDP forecast profile



Source: Macrobond Financial, Danske Bank



Source: Macrobond Financial, Danske Bank

GDP forecast

2020: 2.3%

2021: 9.2%

2022: 5.5%

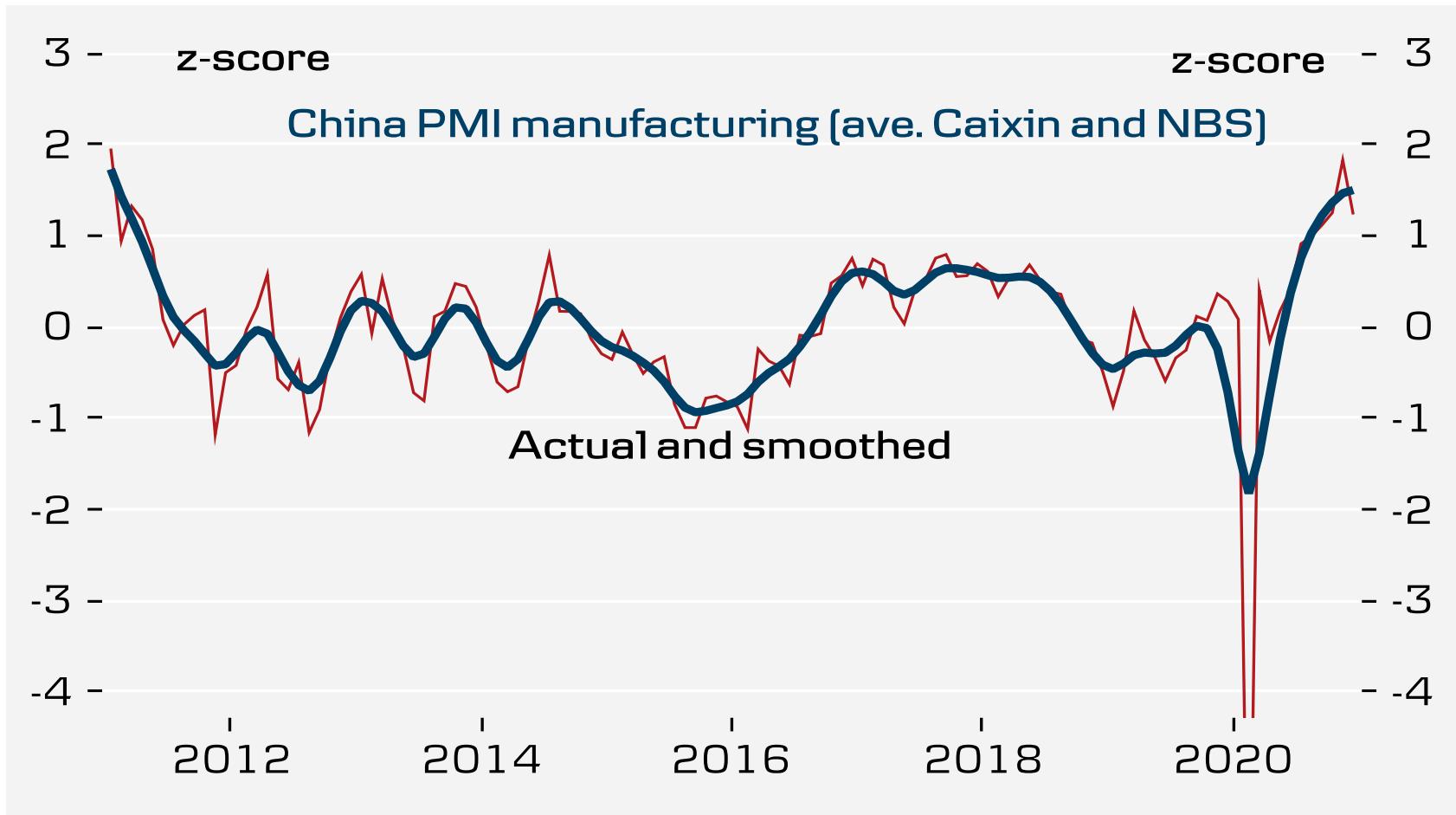
Base effect set to have a substantial impact on y/y growth in Q1



Source: Macrobond Financial, Danske Bank

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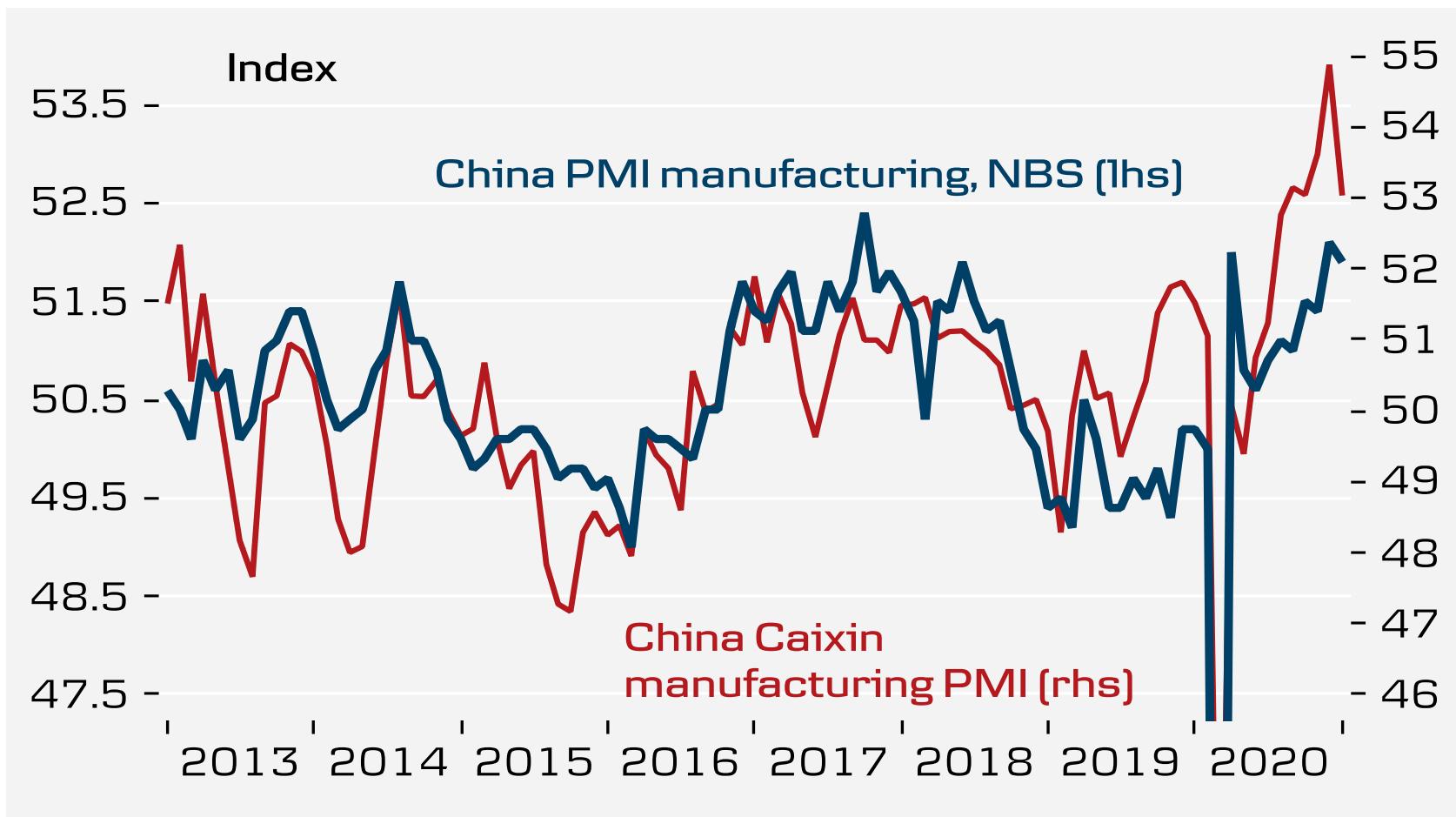
Overview of China macro indicators

PMI indicator (average of Caixin and NBS)

Source: Macrobond Financial, Markit, NBS, Danske Bank

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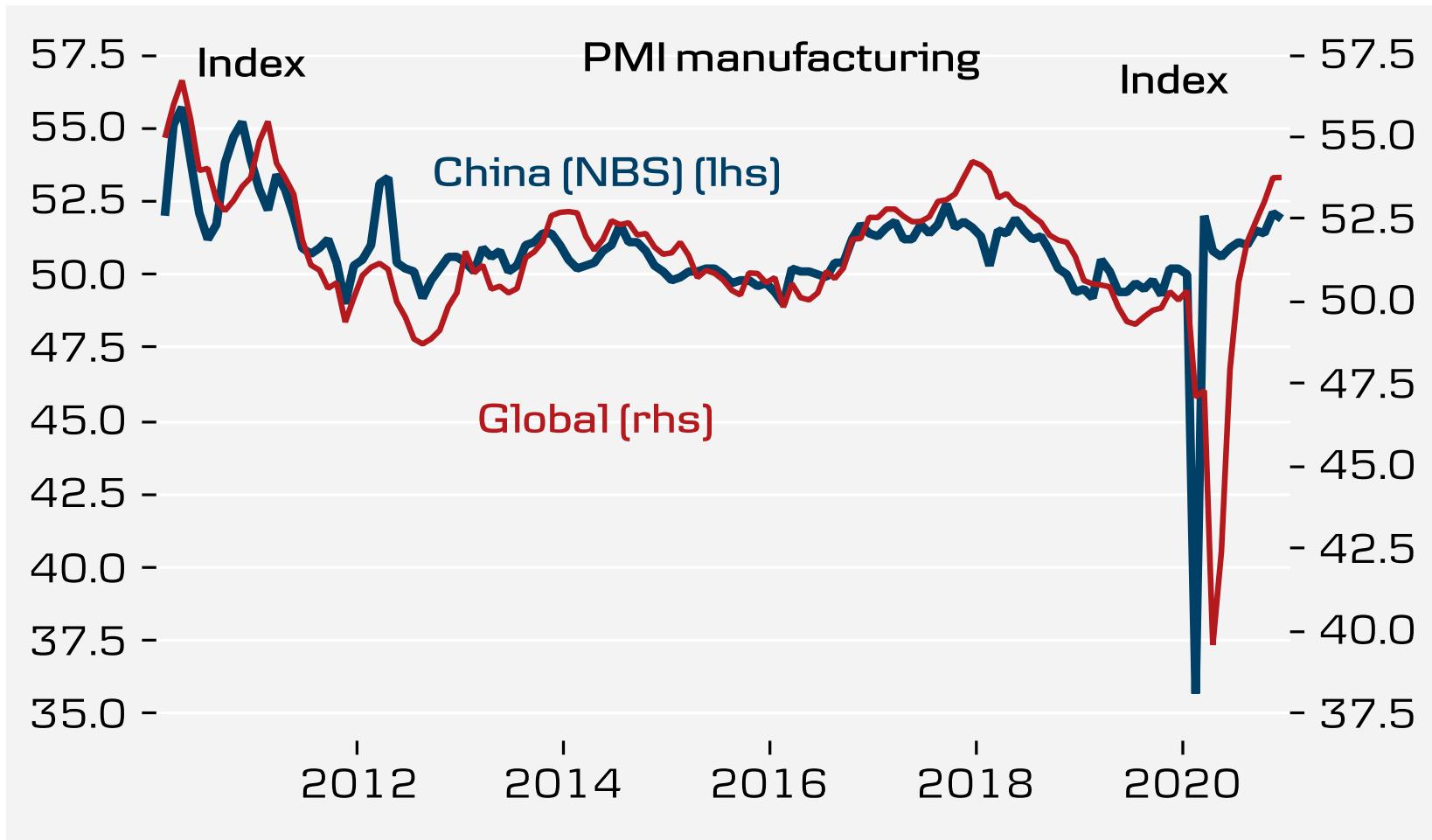
NBS vs Caixin PMI



Source: Macrobond Financial, Markit, NBS, Danske Bank

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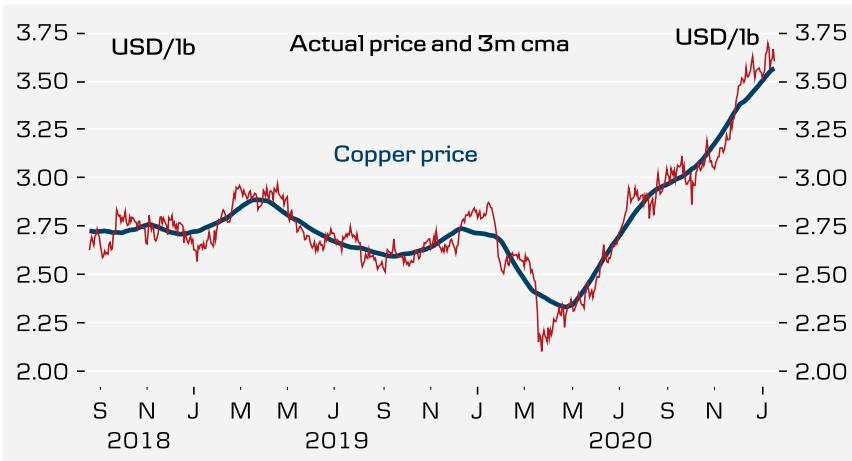
Domestic vs global cycle



Source: Macrobond Financial, Markit, Danske Bank

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Copper price momentum



Source: Bloomberg, Danske Bank

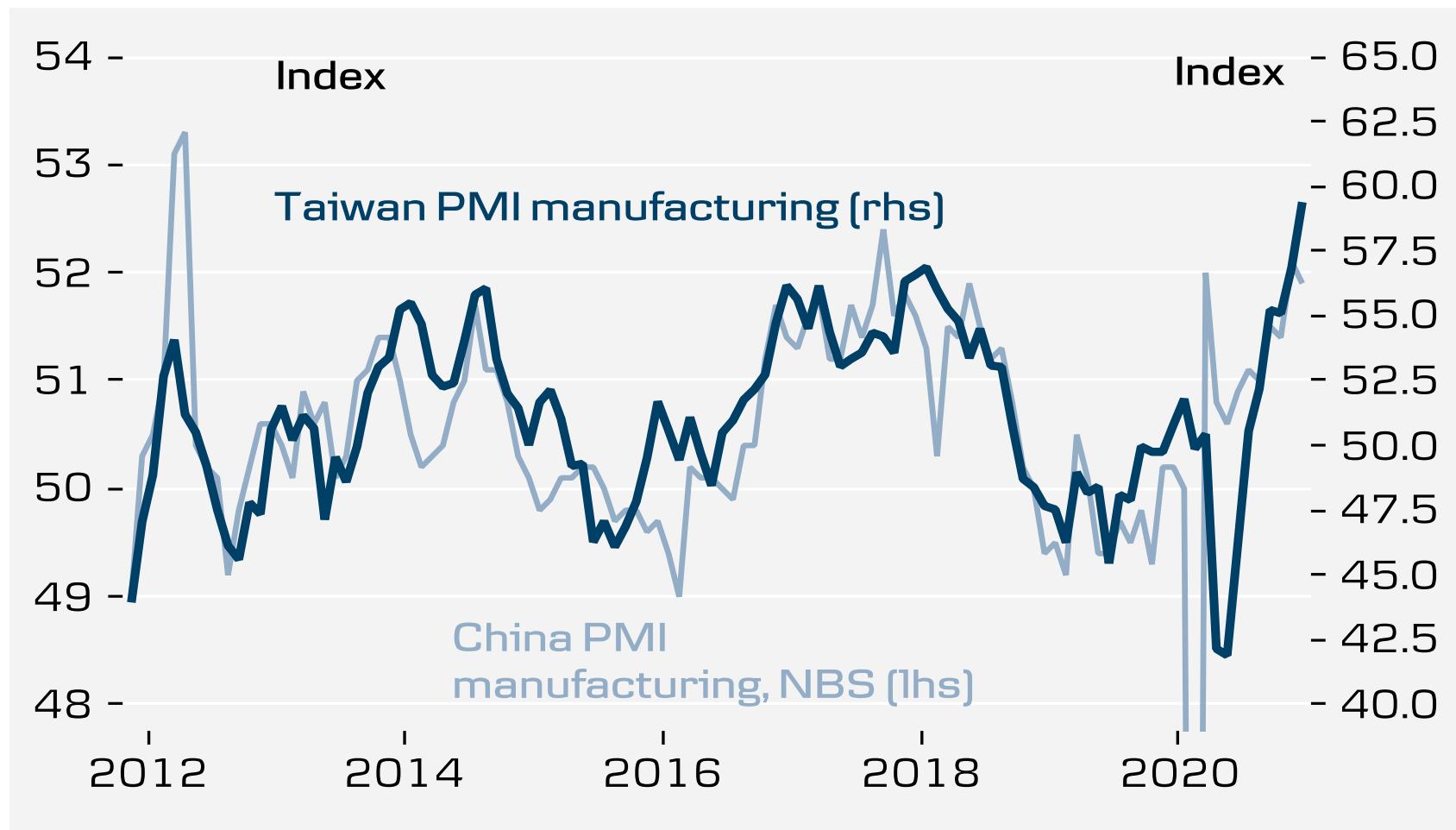


Source: Bloomberg, Danske Bank

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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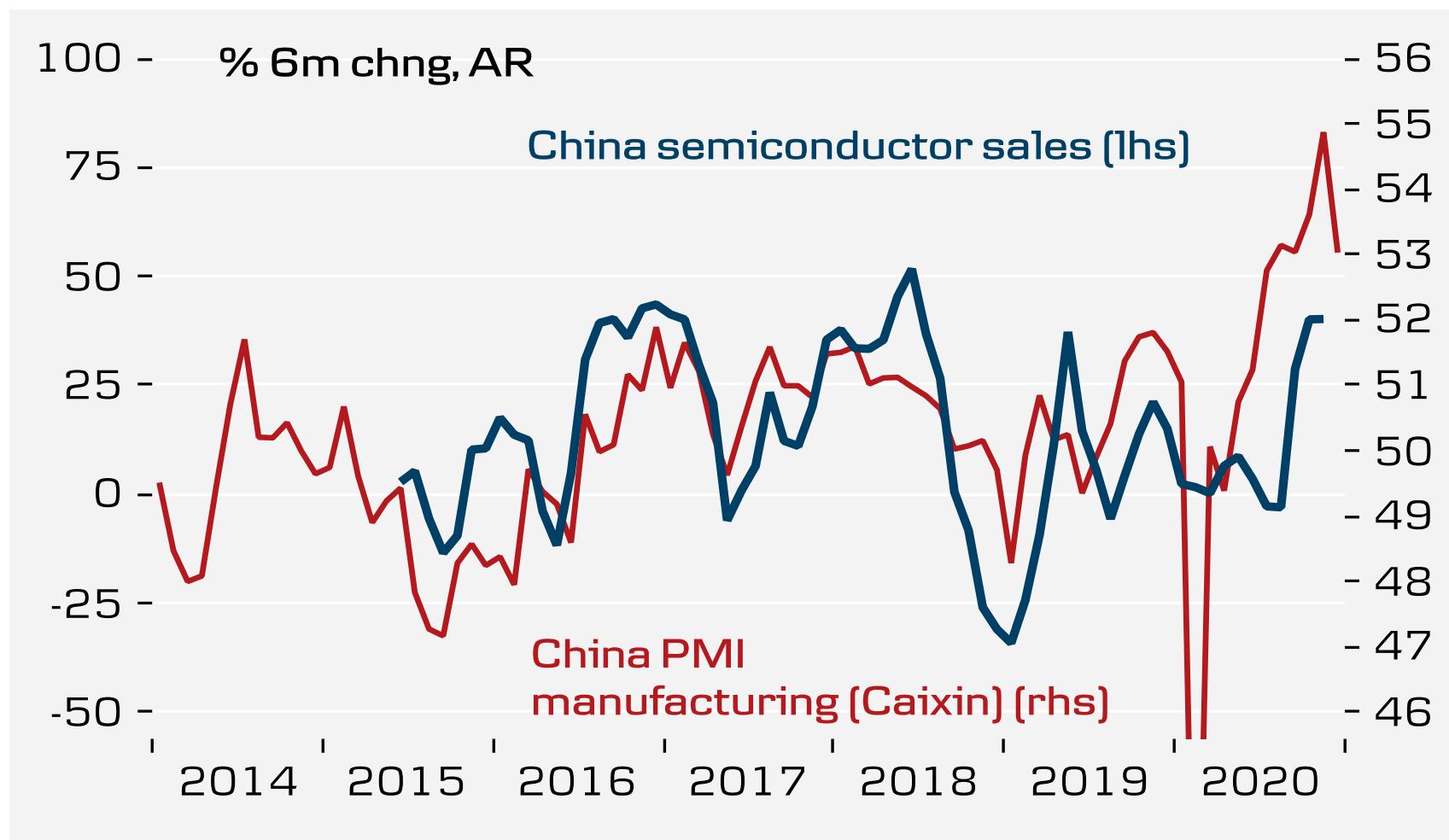
Taiwan PMI vs mainland China PMI



Source: Macrobond Financial, Markit, Danske Bank

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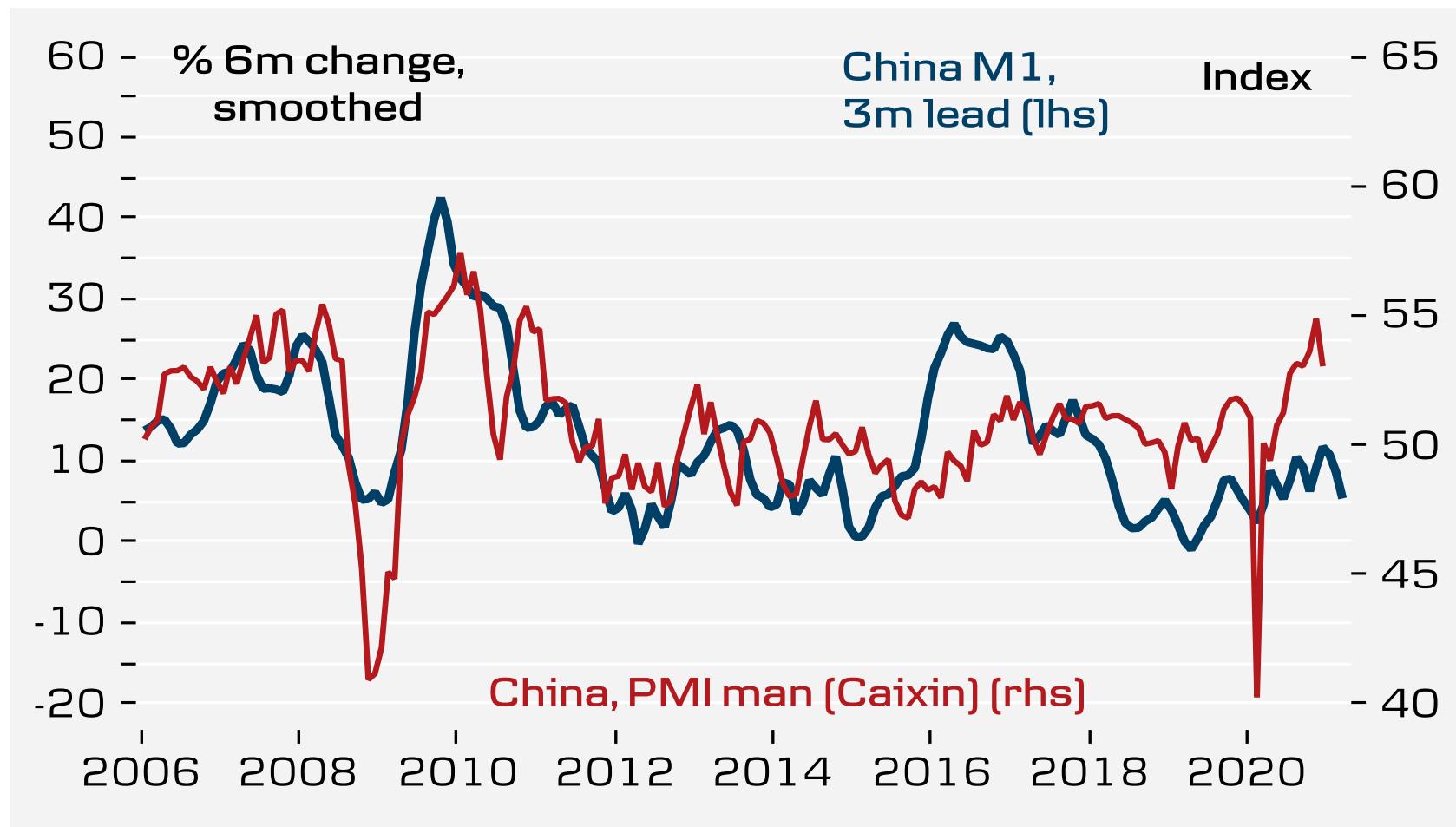
China semiconductor sales vs Chinese PMI



Source: Macrobond Financial, Markit, Semiconductor Industry Association

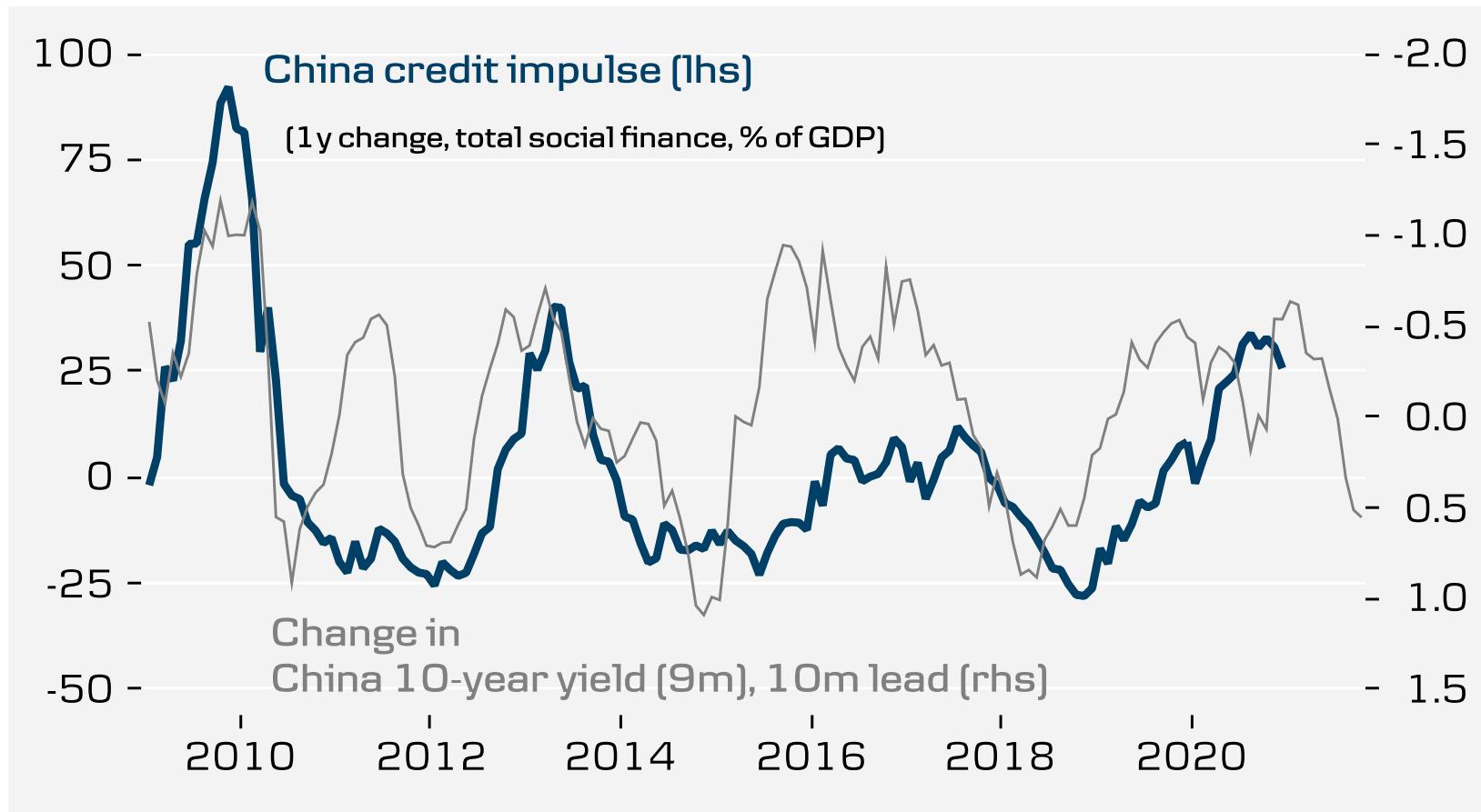
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Money growth and PMI



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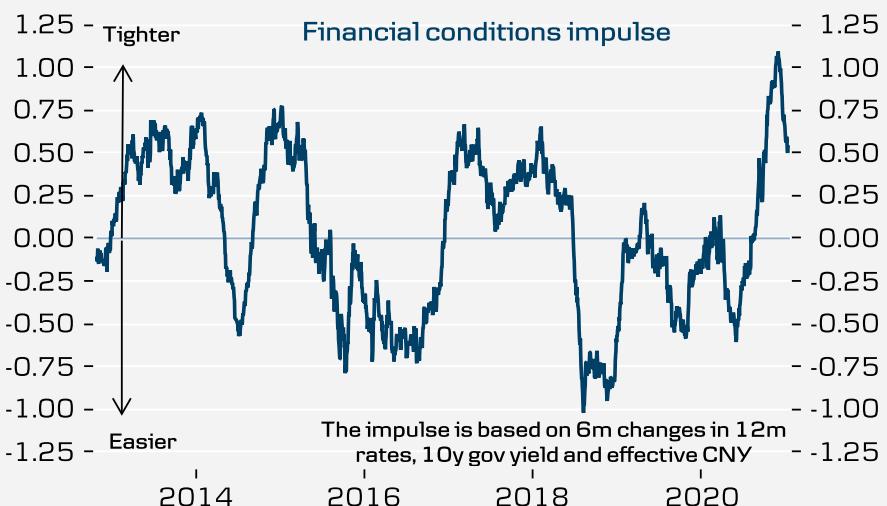
Stimulus supported recovery but momentum set to fade in H1



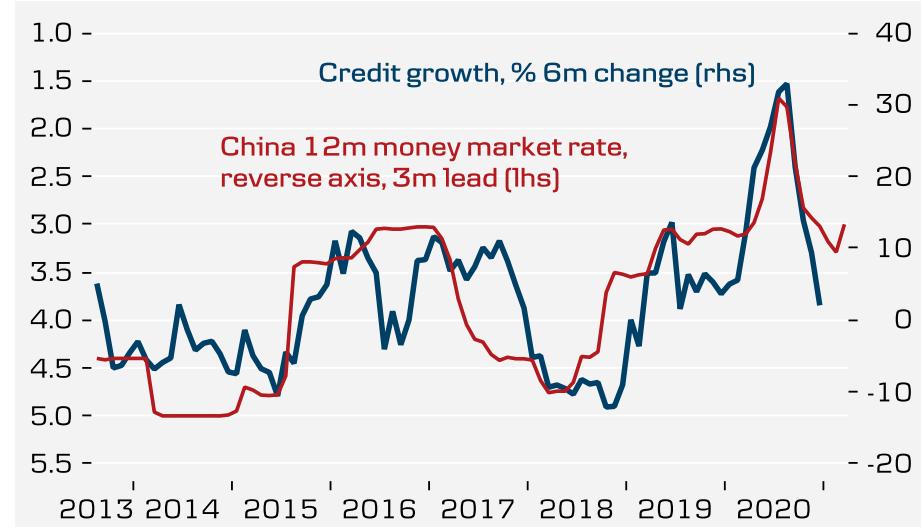
Source: Macrobond Financial, People's Bank of China, Danske Bank

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Financial conditions impulse and credit momentum



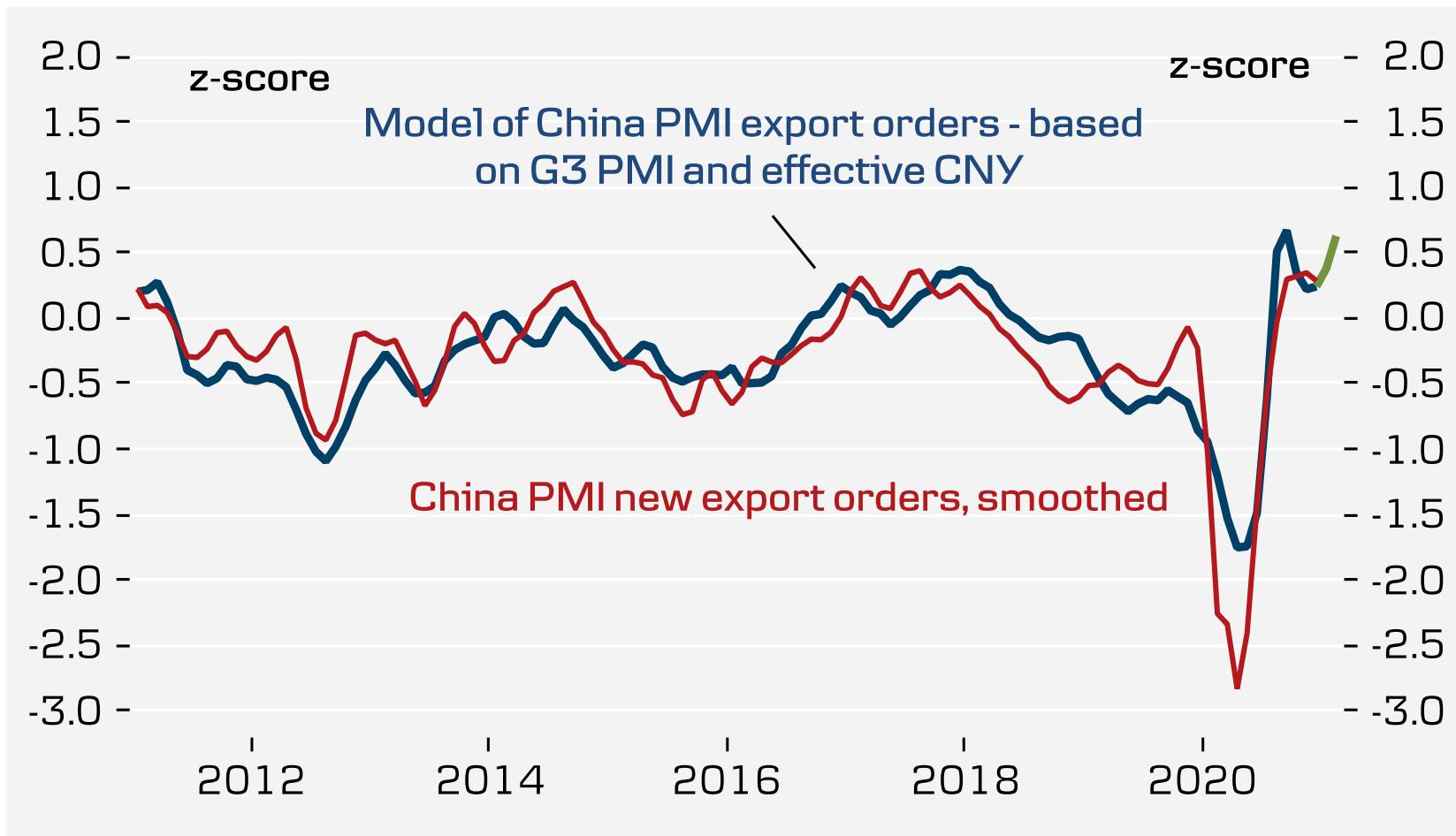
Source: Macrobond Financial, People's Bank of China, Danske Bank



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

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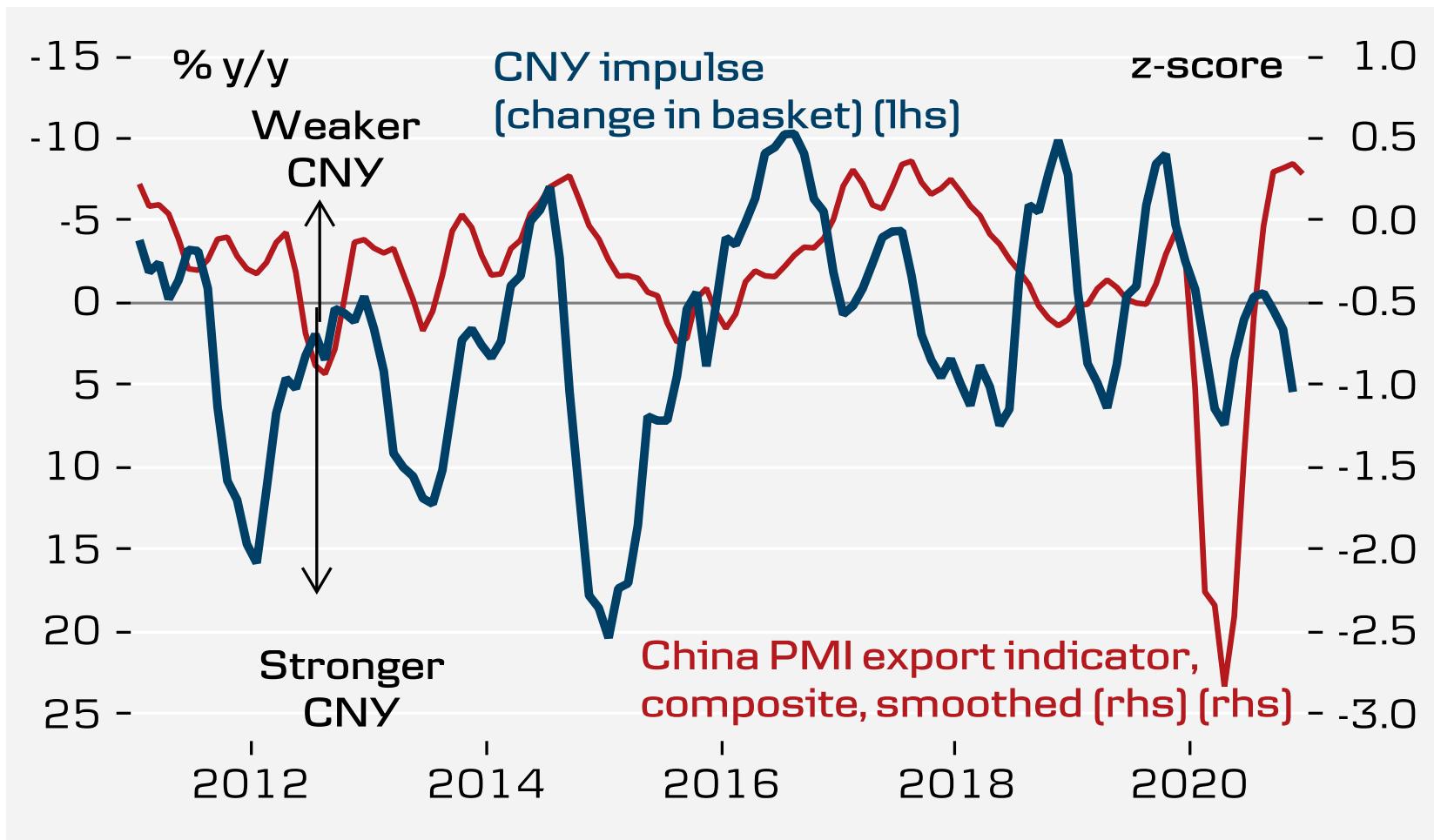
Exports - model



Source: Macrobond Financial, NBS, Markit, Danske Bank

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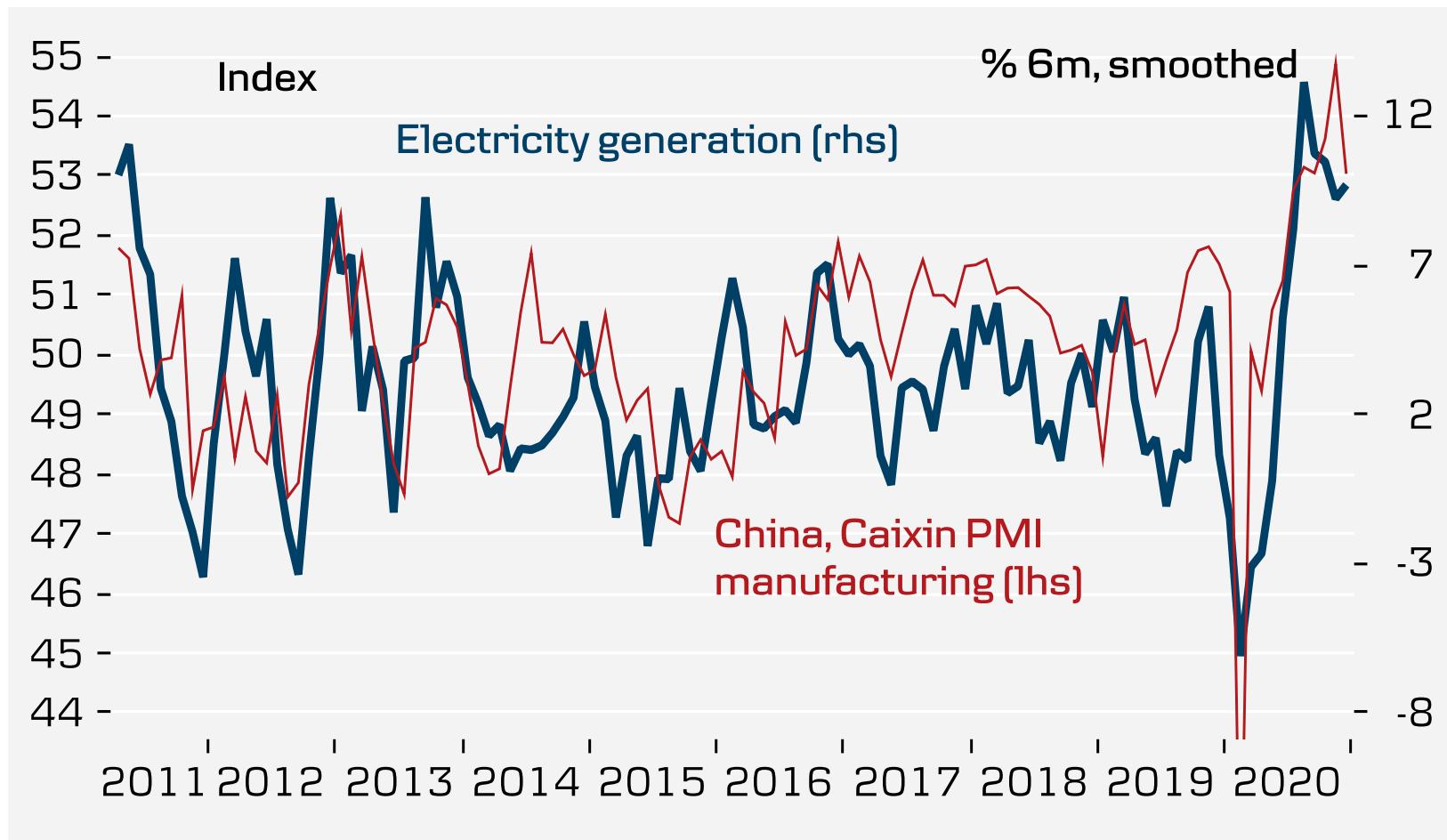
Exports - currency impulse



Source: Macrobond Financial, NBS, Markit, Danske Bank

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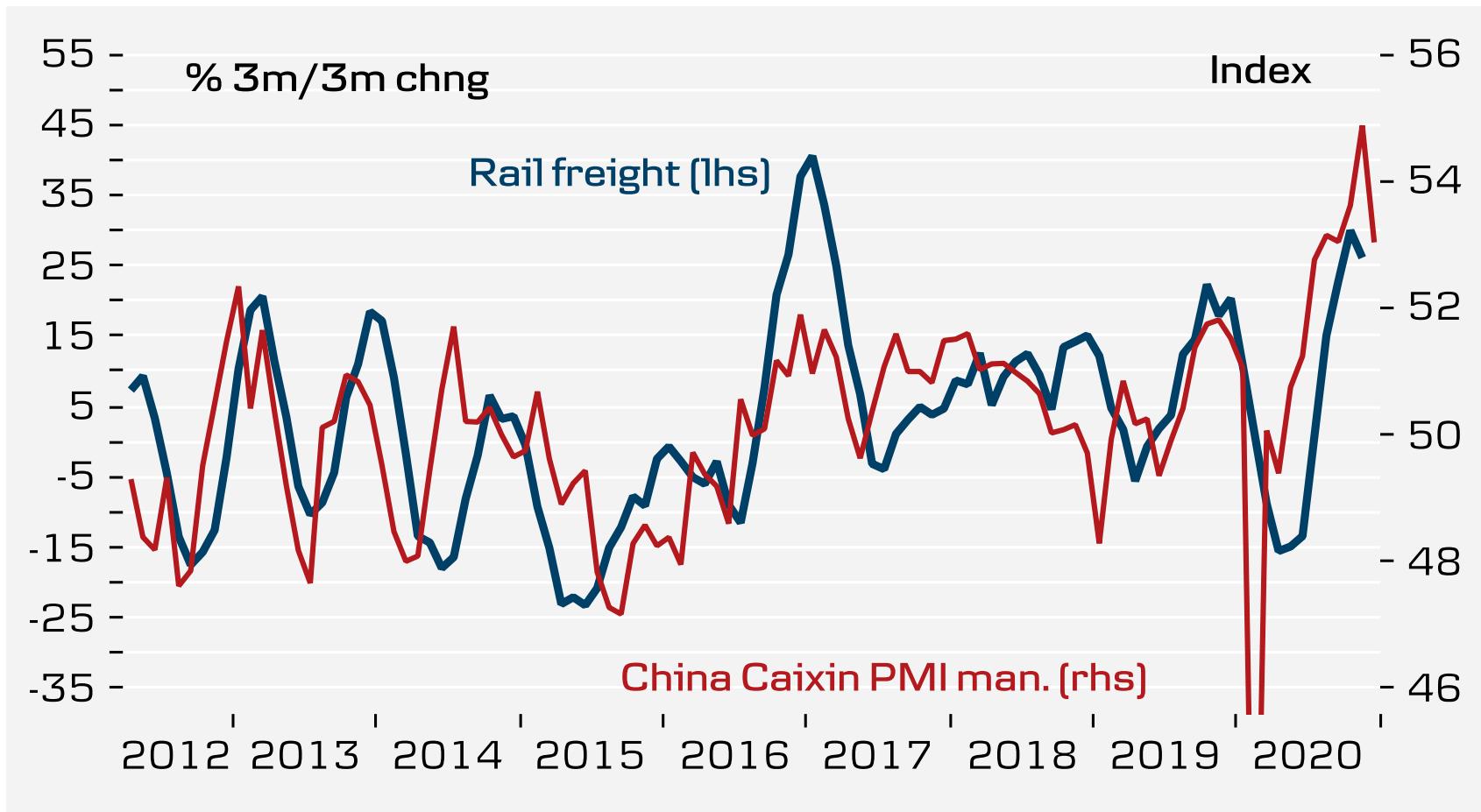
Electricity generation vs PMI



Source: Macrobond Financial, Markit, NBS, Danske Bank

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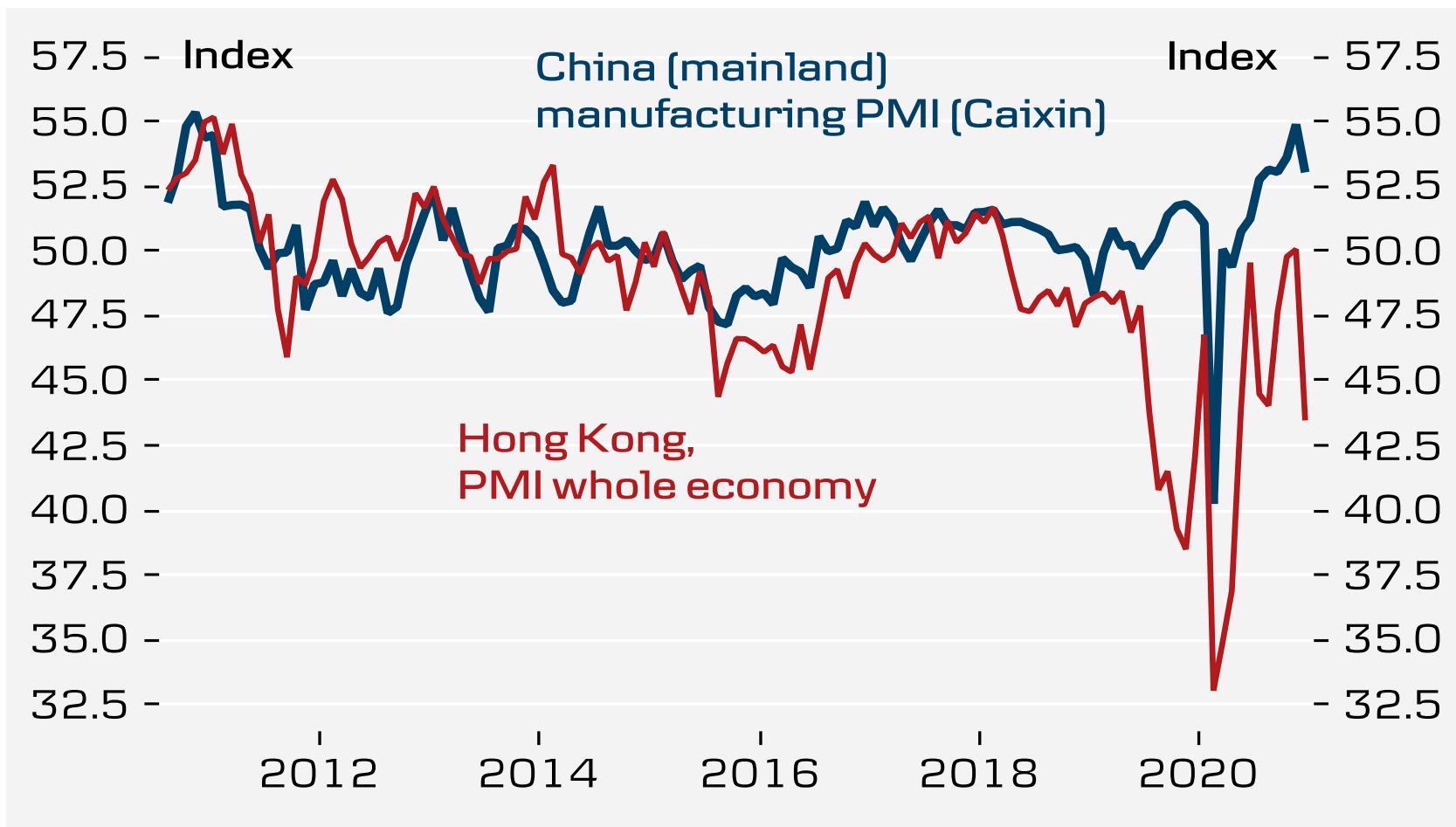
Rail freight vs PMI



Source: Macrobond Financial, Markit, NBS, Danske Bank

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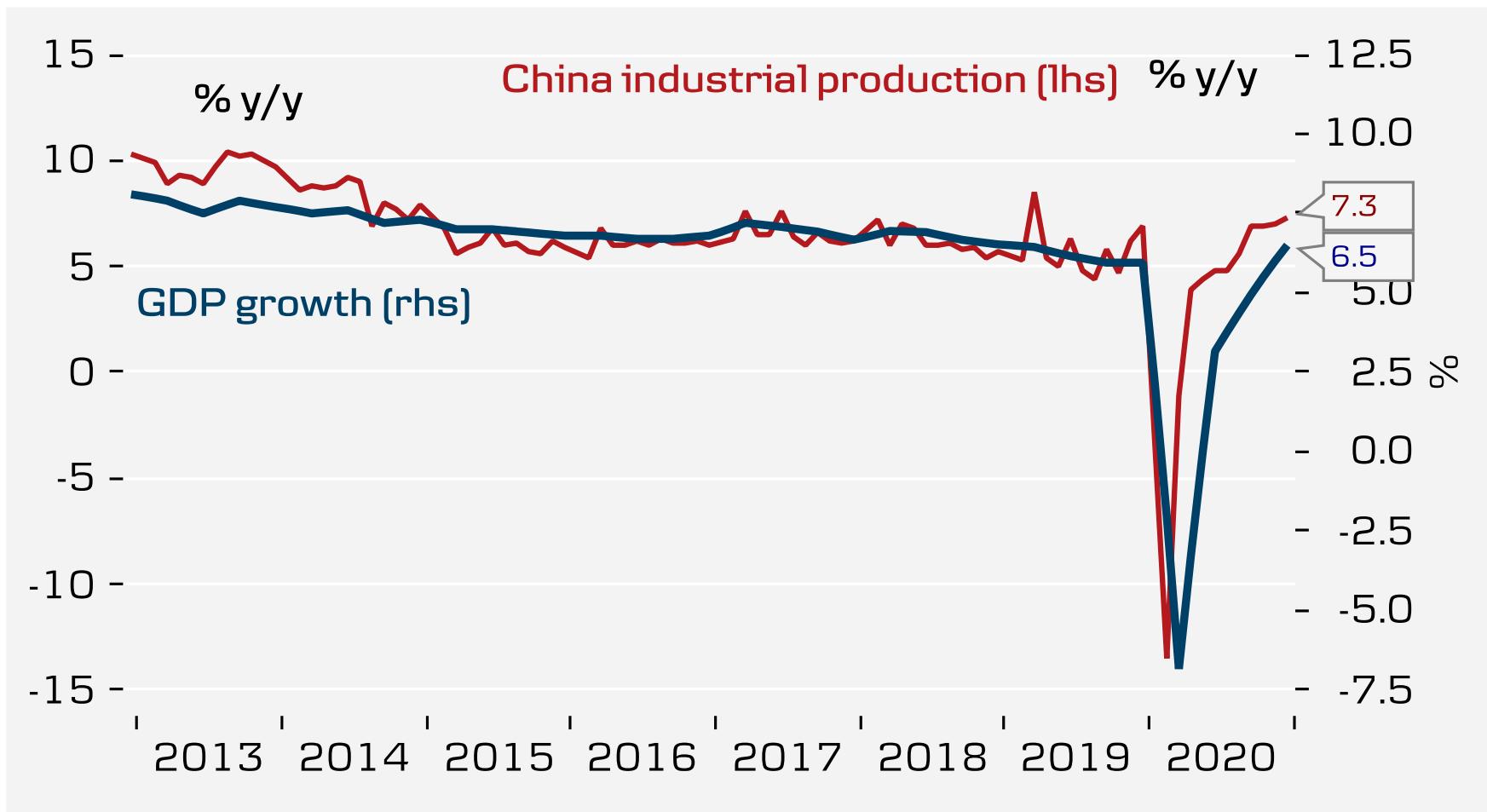
Hong Kong PMI vs China PMI



Source: Macrobond Financial, Markit, Danske Bank

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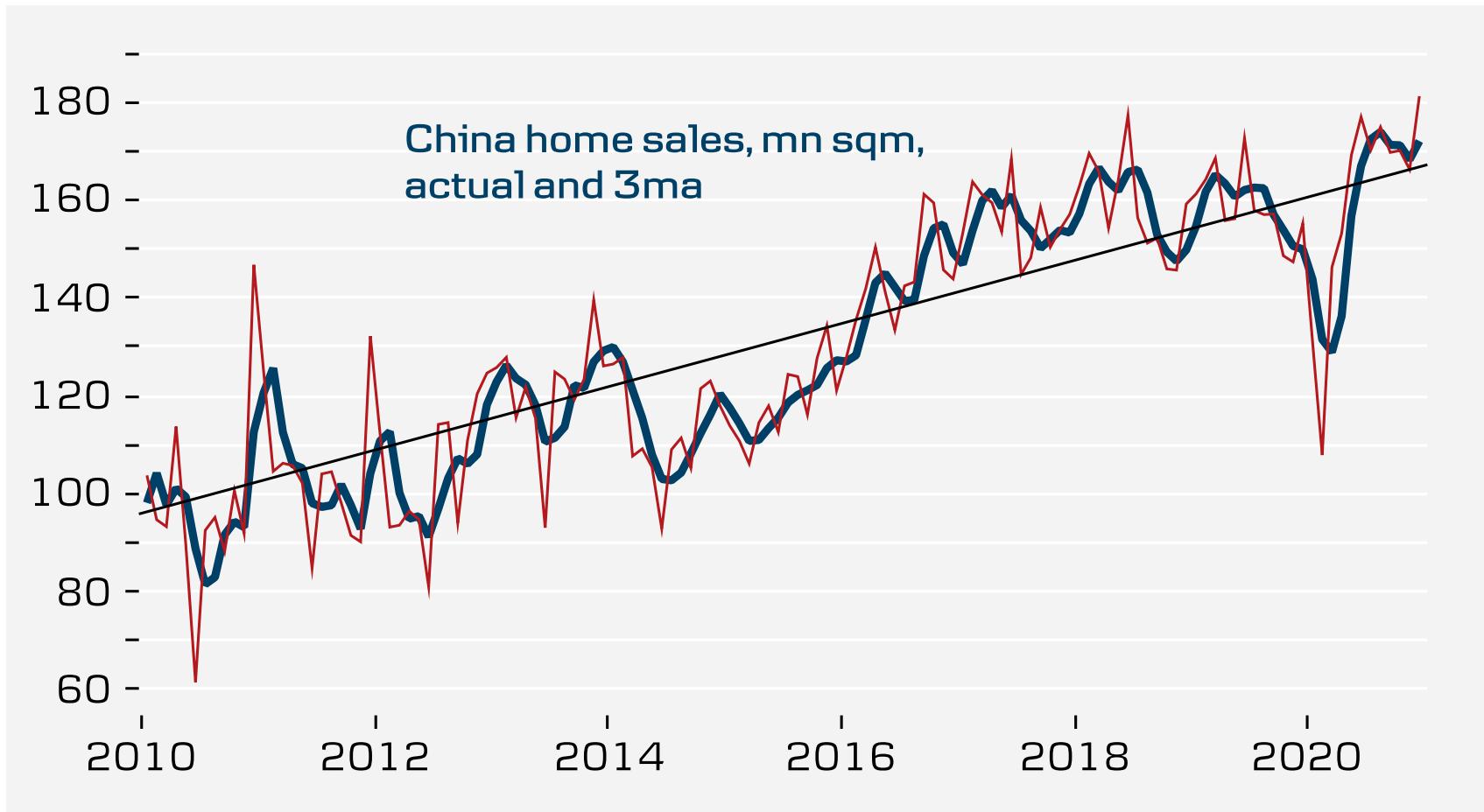
Industrial production vs GDP



Source: Macrobond Financial, NBS, Danske Bank

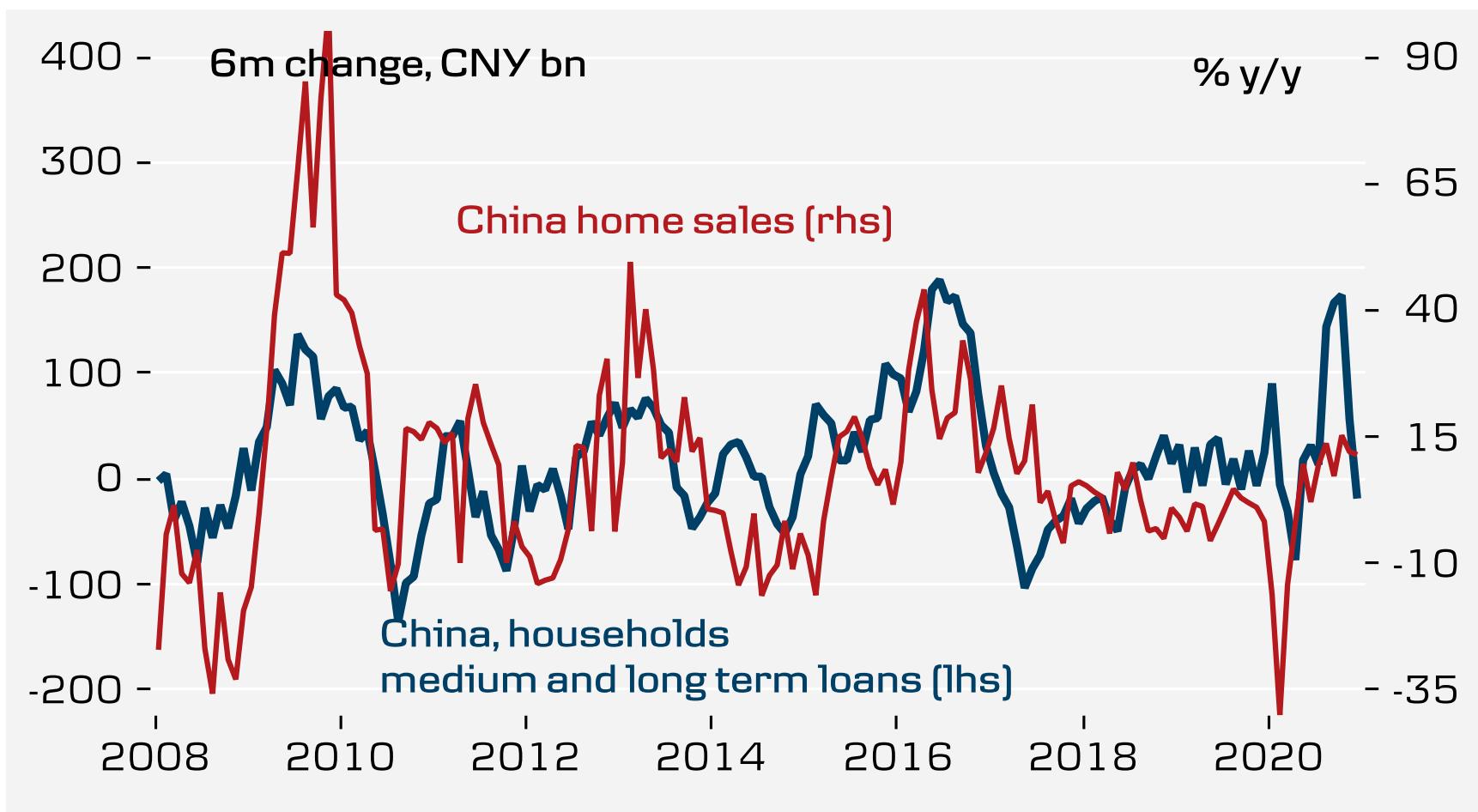
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Housing - home sales level



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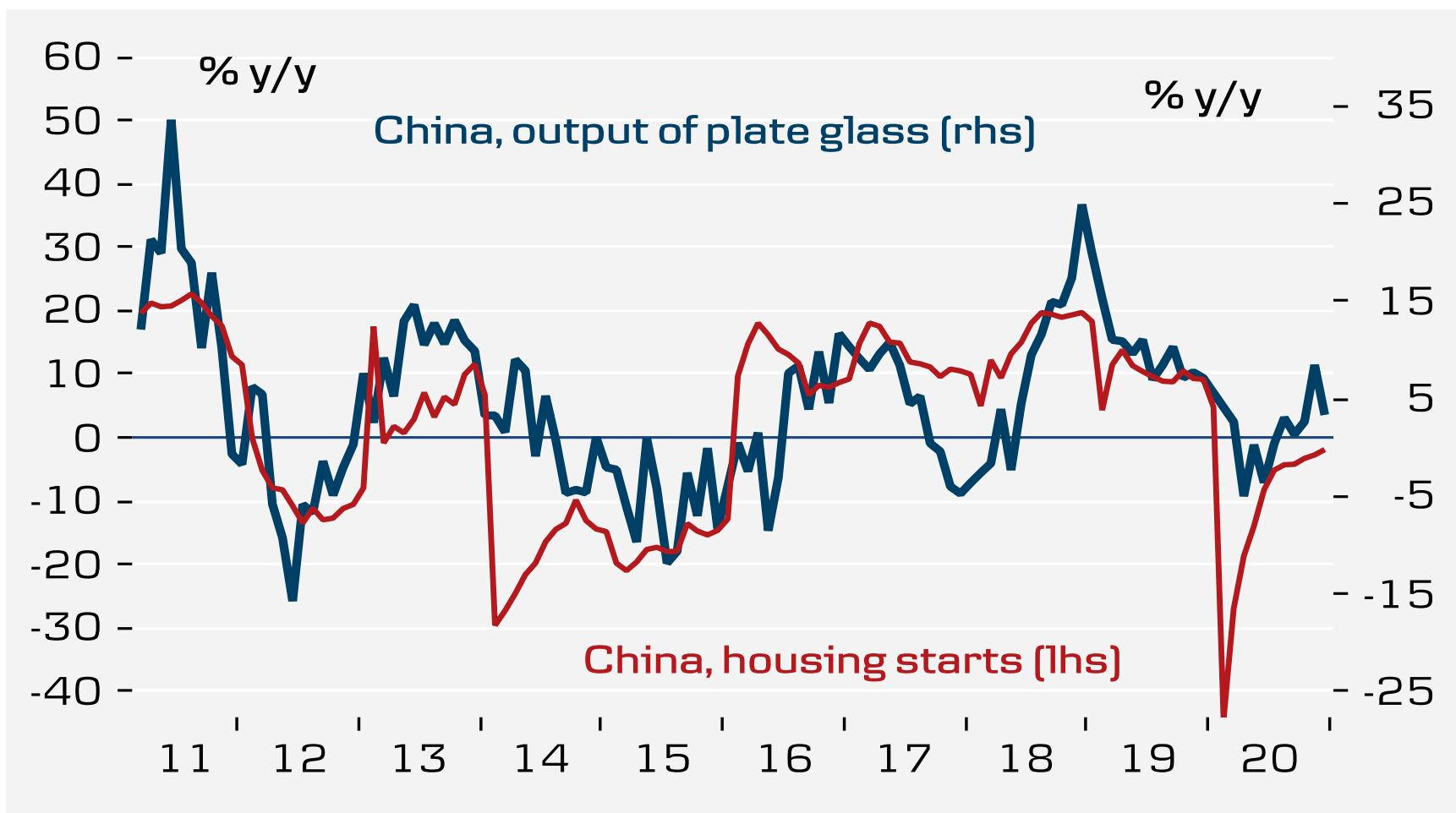
Housing - home sales and household credit



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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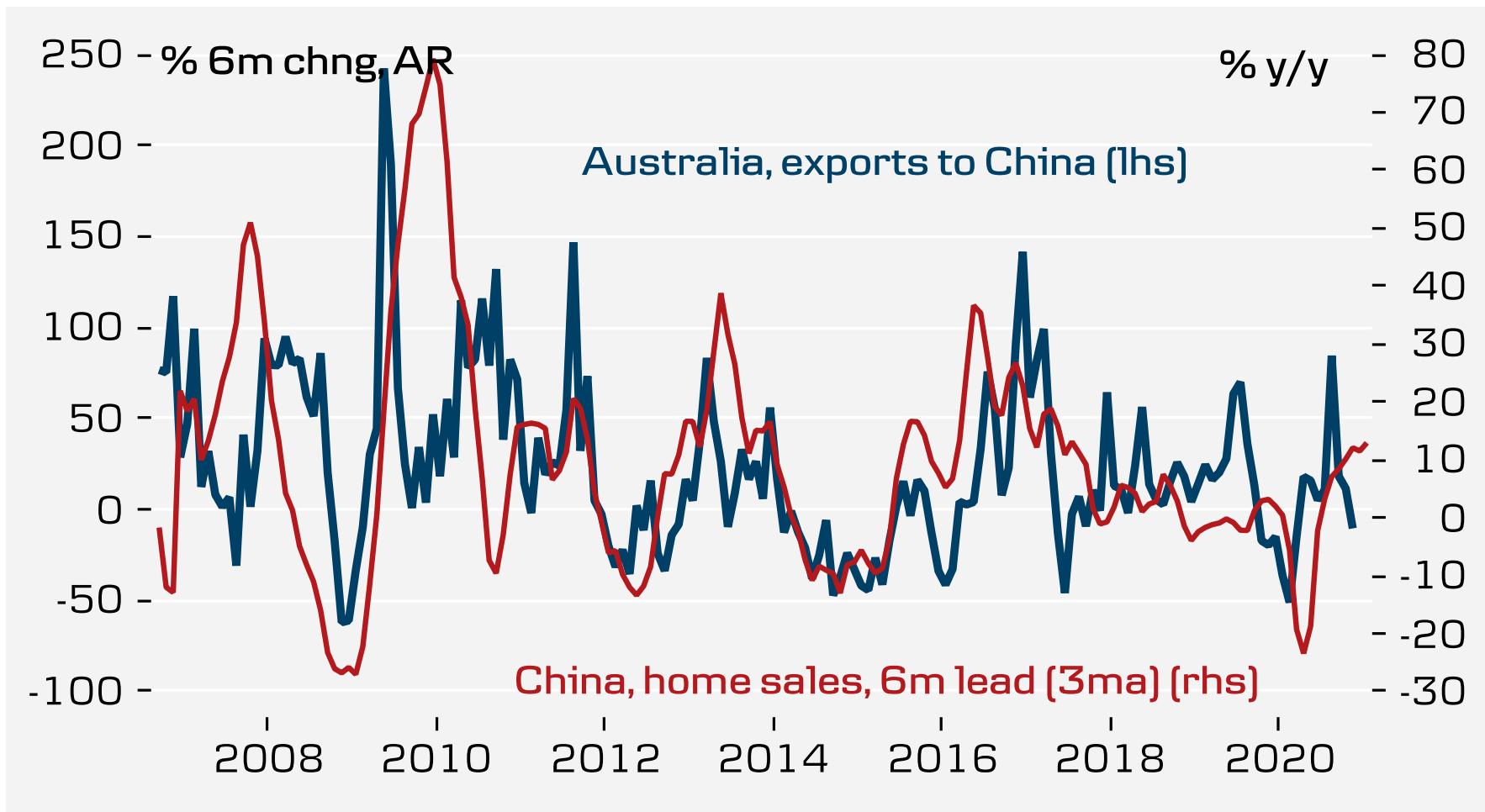
House prices



Source: Macrobond Financial, NBS

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Housing - Australia exports to China vs home sales



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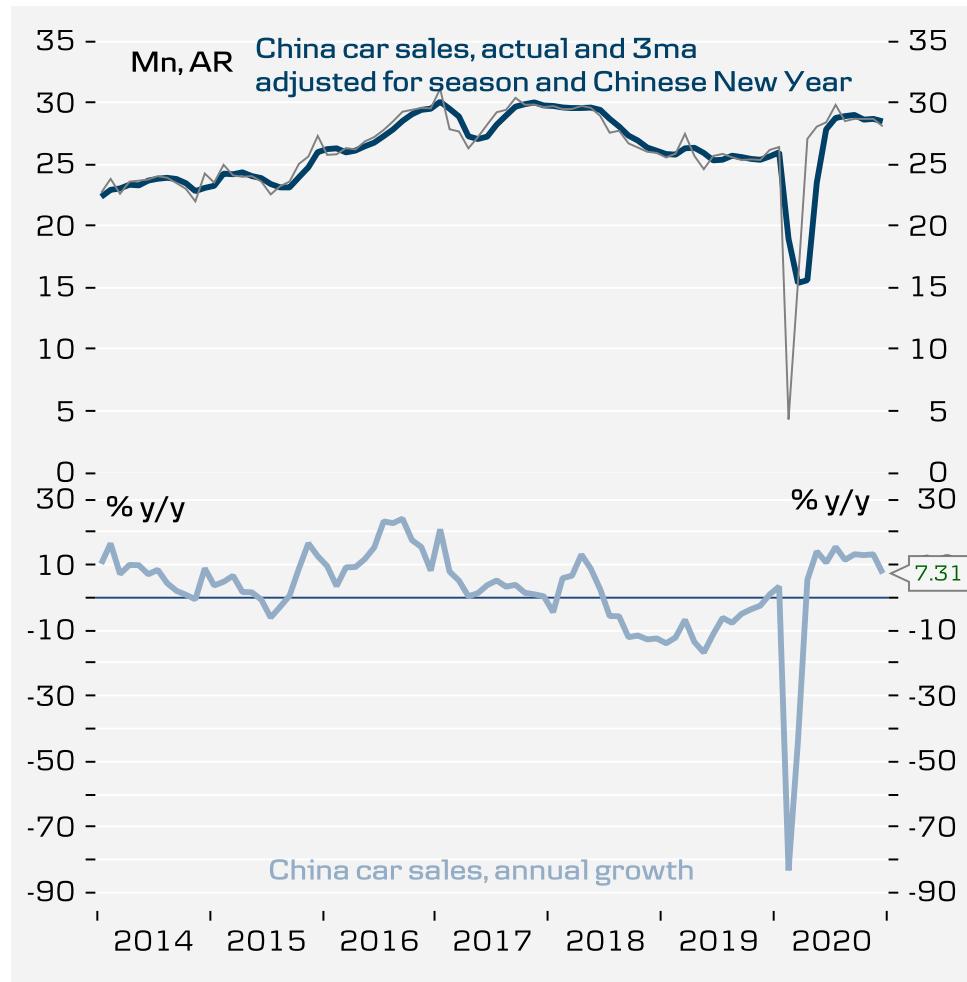
Consumer - retail sales



Source: Macrobond Financial, NBS, Danske Bank

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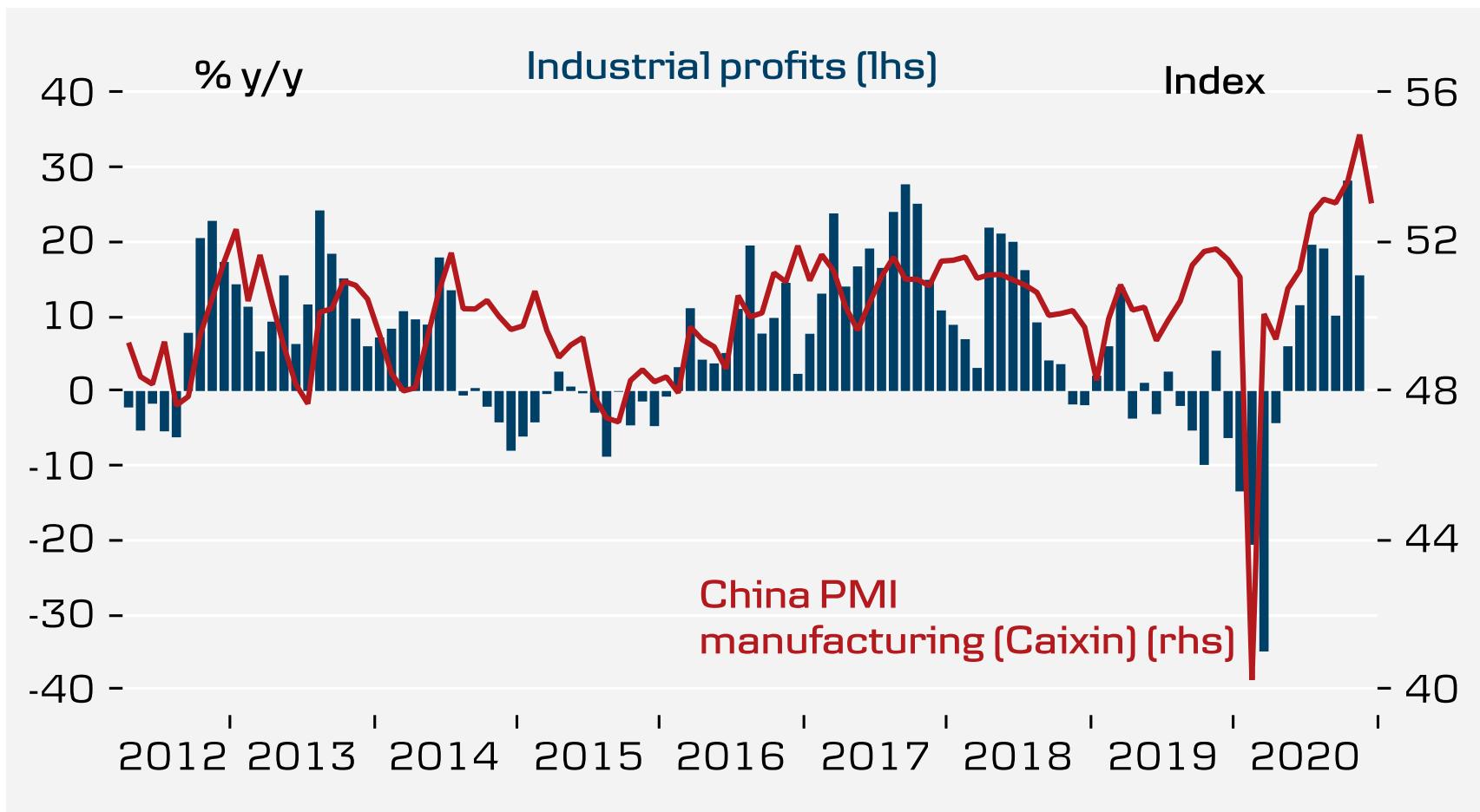
Consumer - car sales



Source: Macrobond Financial, CAAM, Danske Bank

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Profits vs PMI



Source: Macrobond Financial, NBS, Markit, Danske Bank

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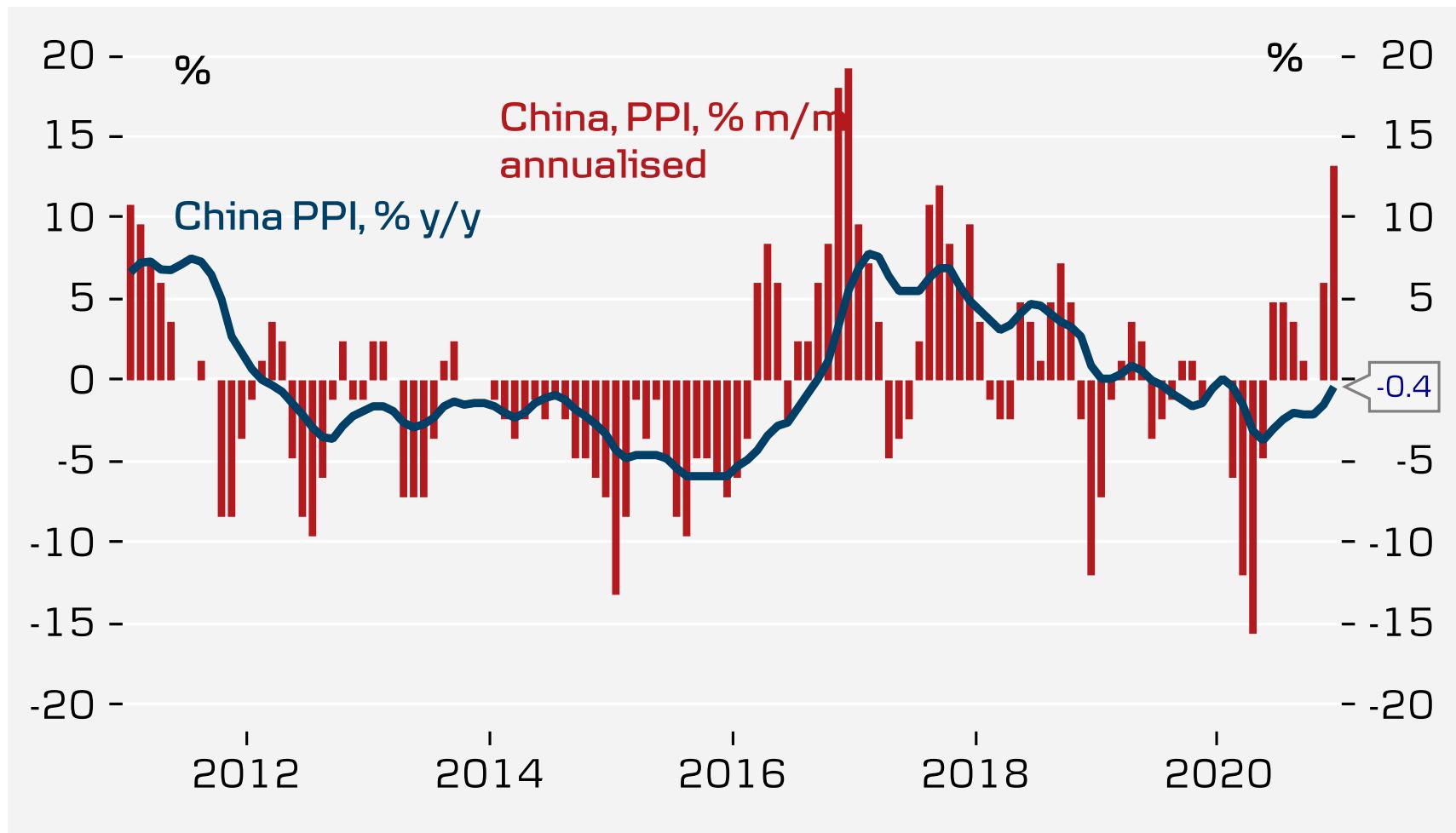
Inflation - CPI



Source: Macrobond Financial, NBS, Danske Bank

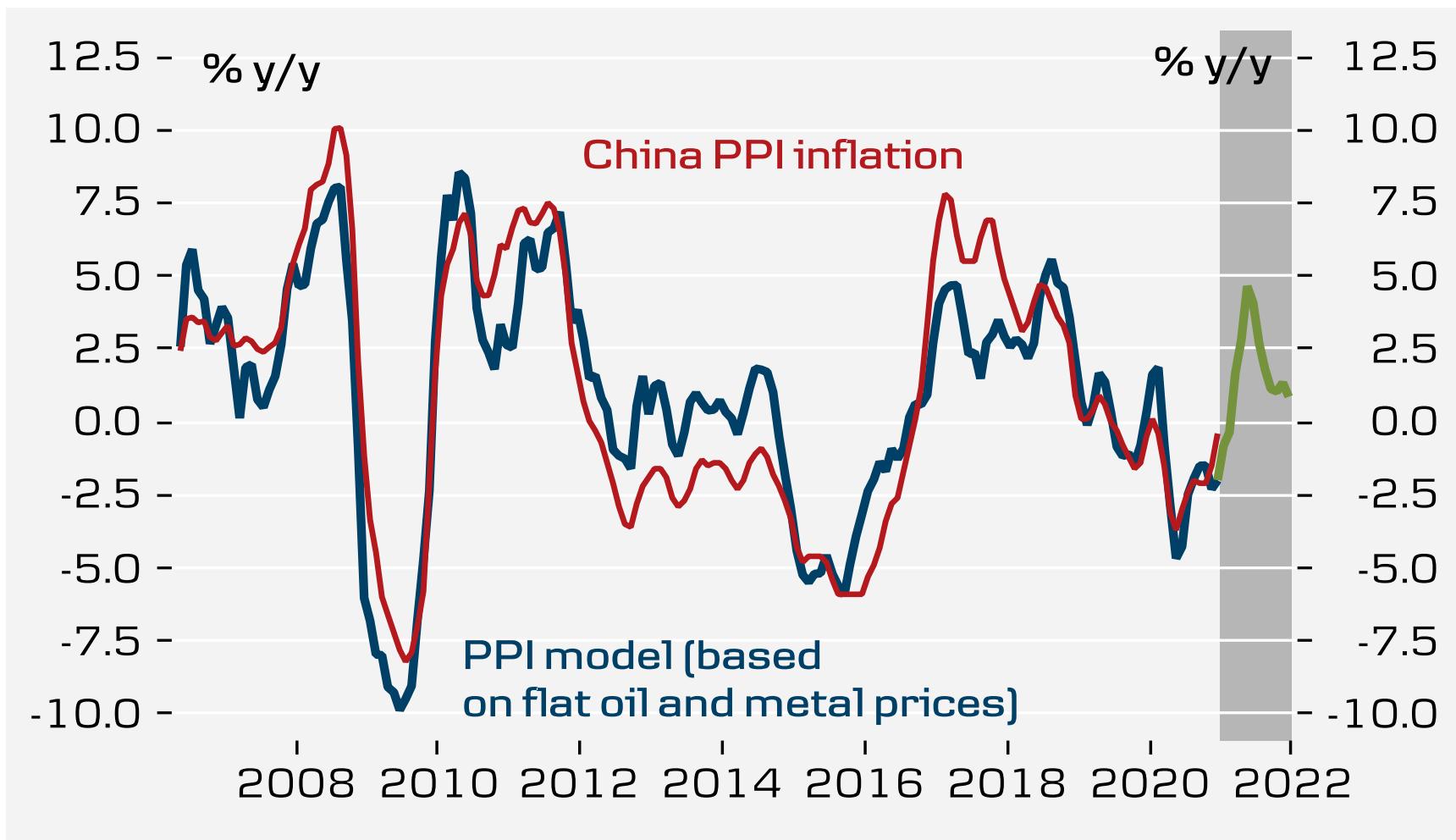
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Inflation - PPI



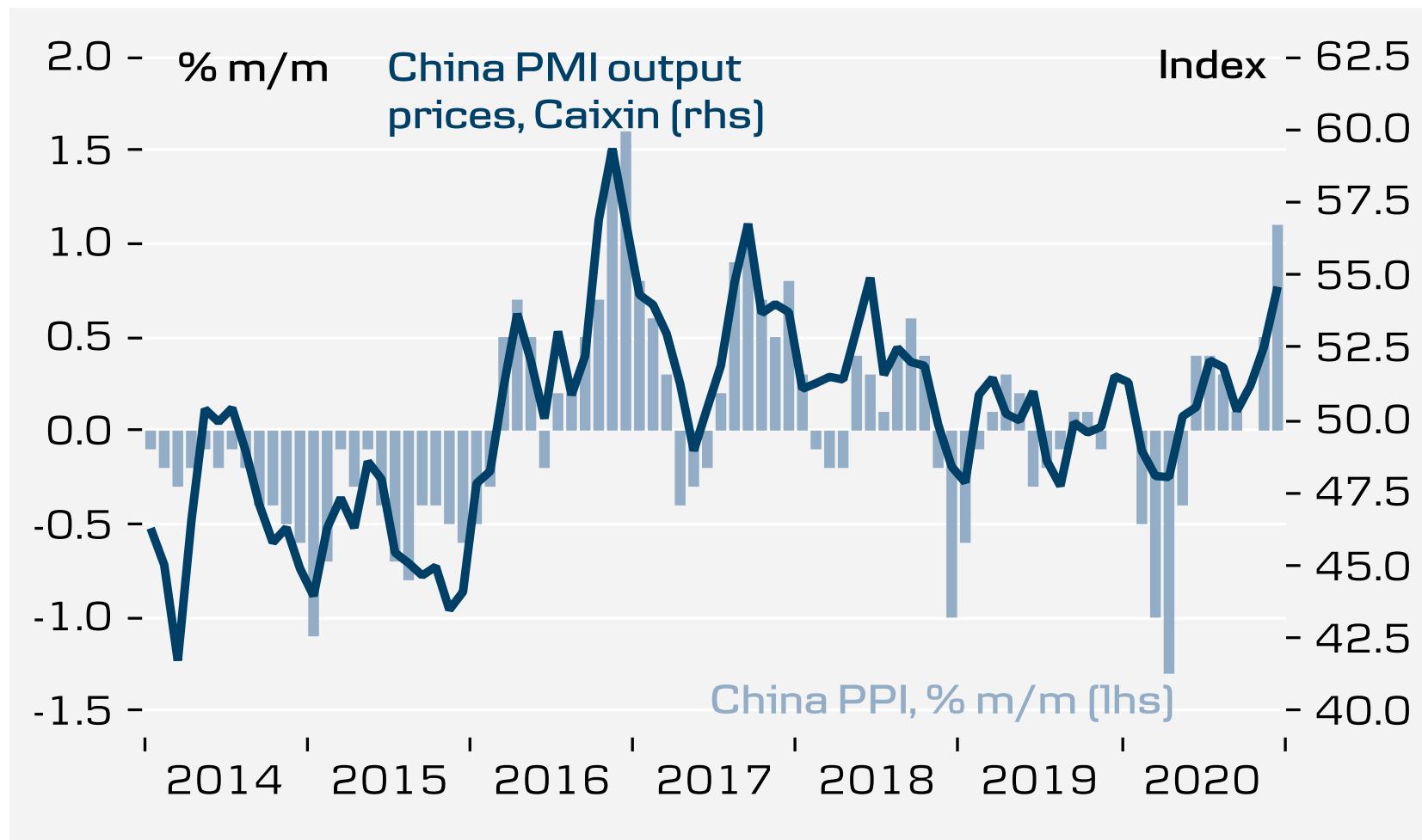
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Inflation - PPI model



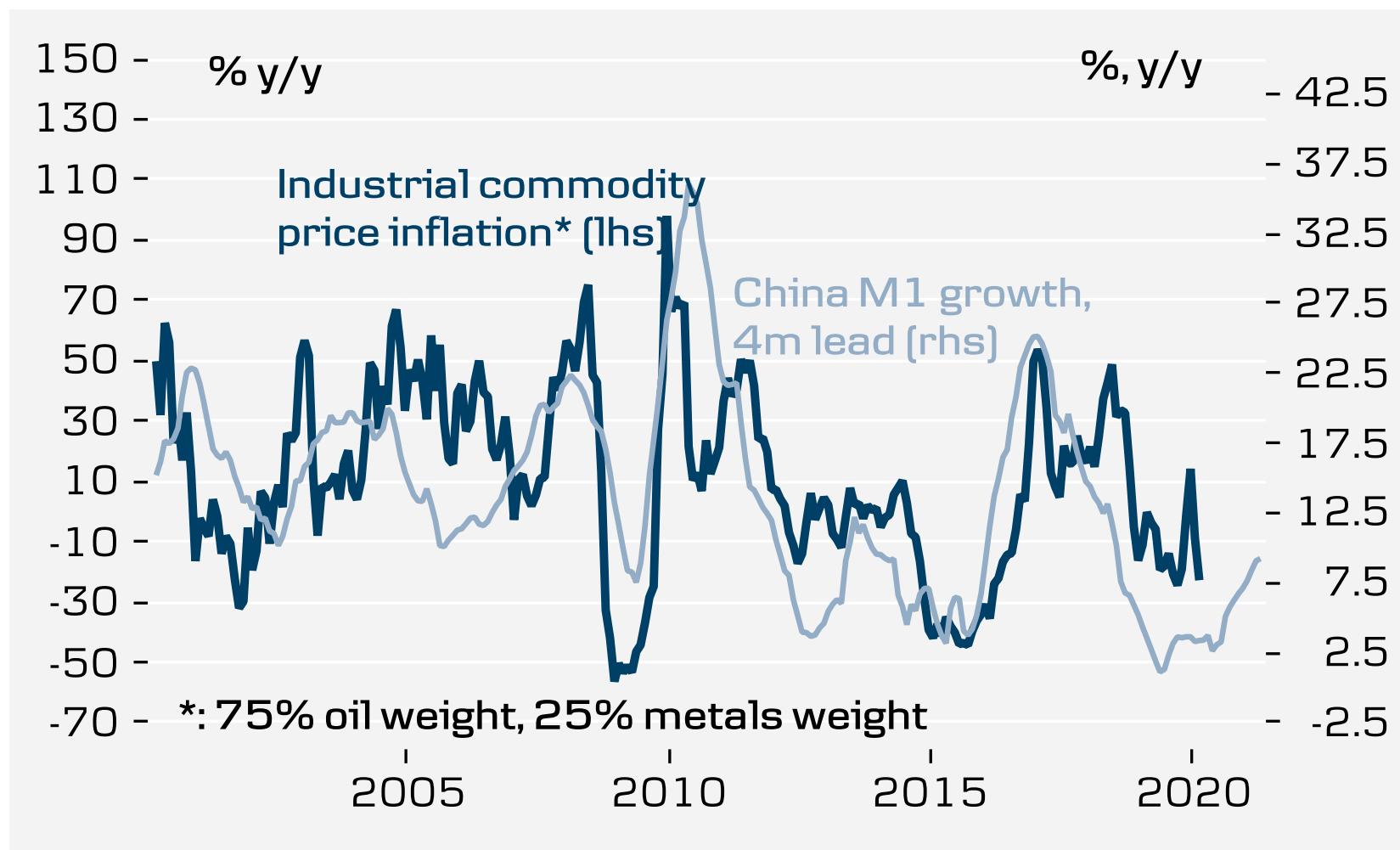
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Inflation – PMI output prices and PPI m/m



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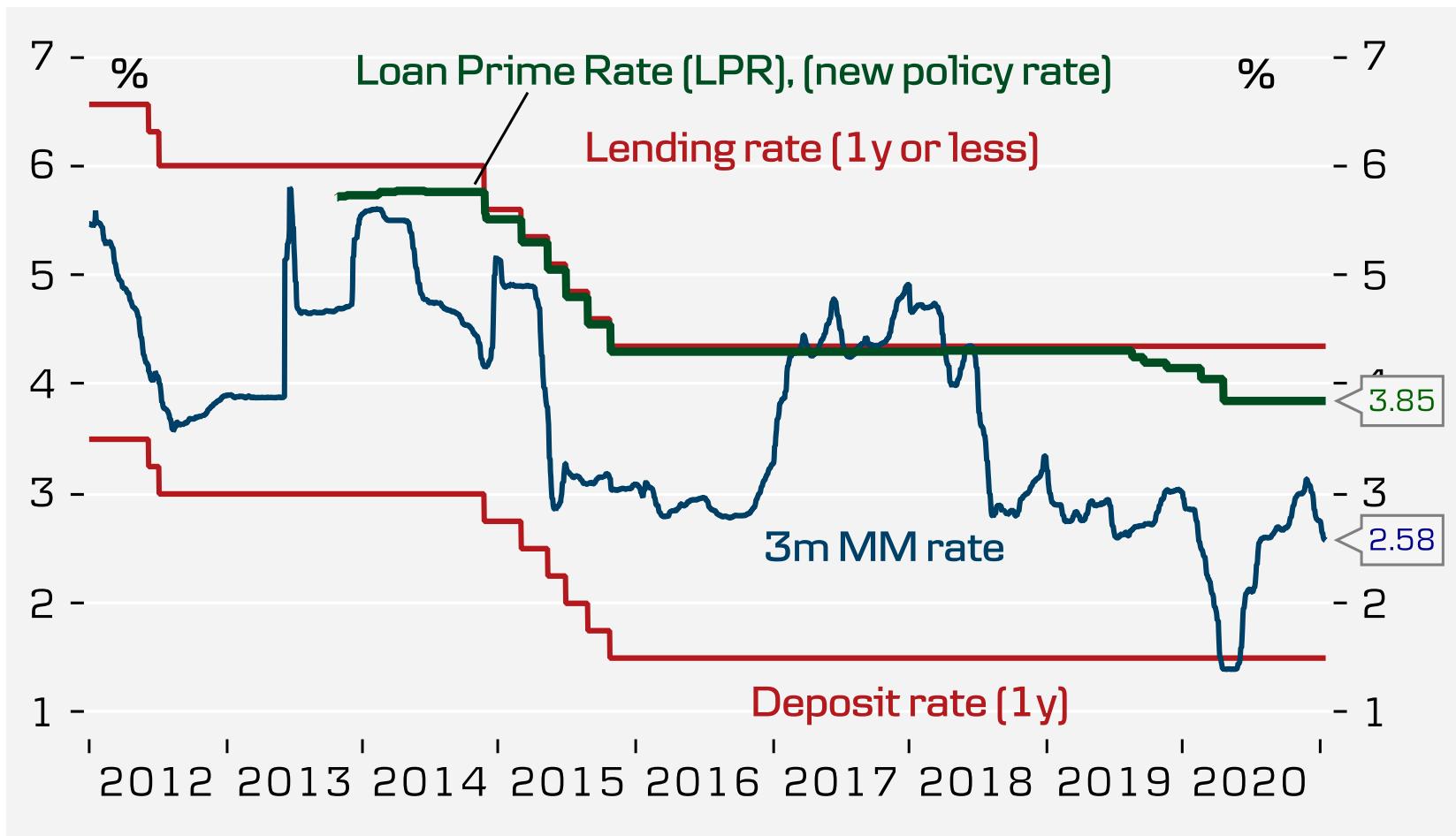
M1 and industrial commodity prices



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

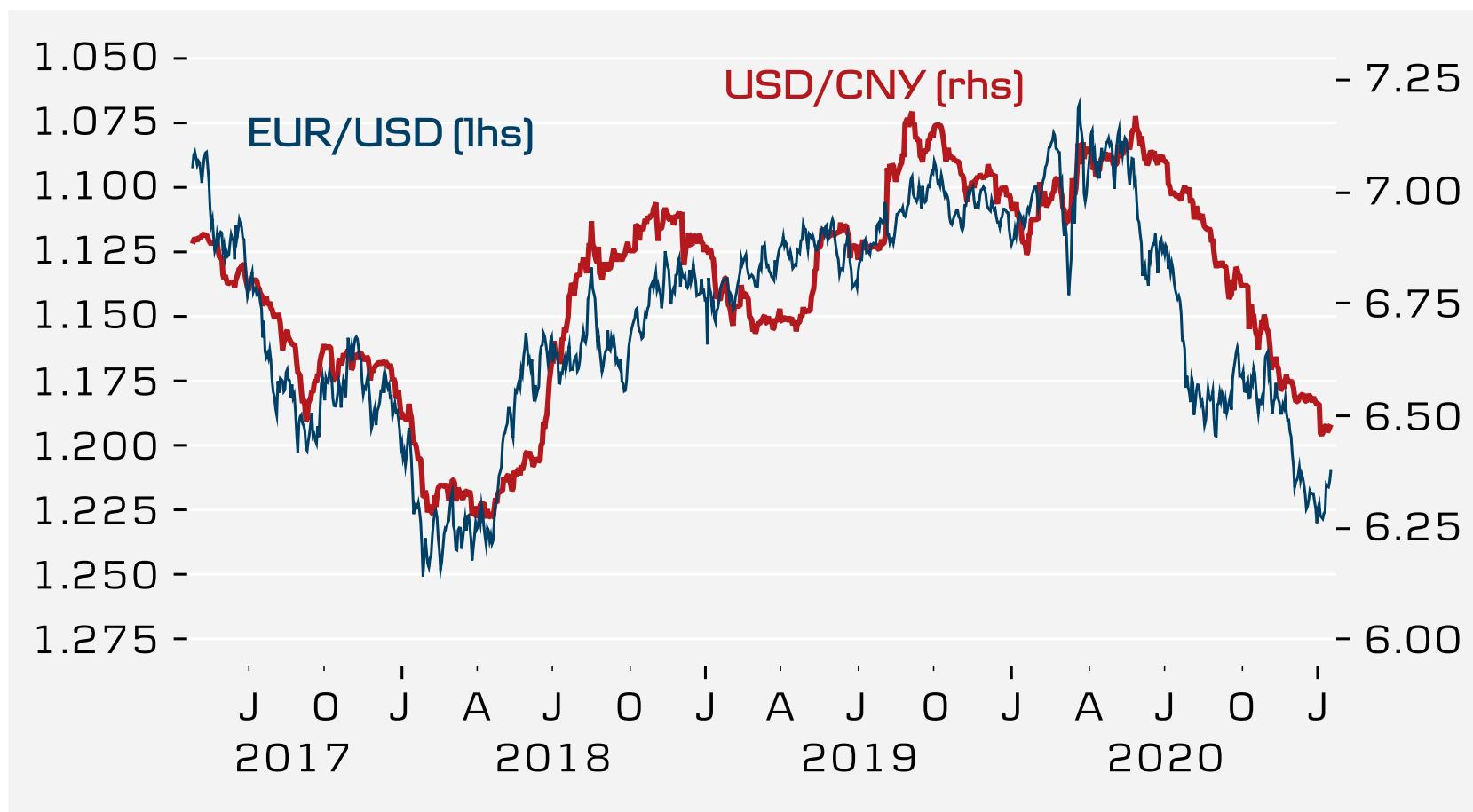
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Monetary policy - rates



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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

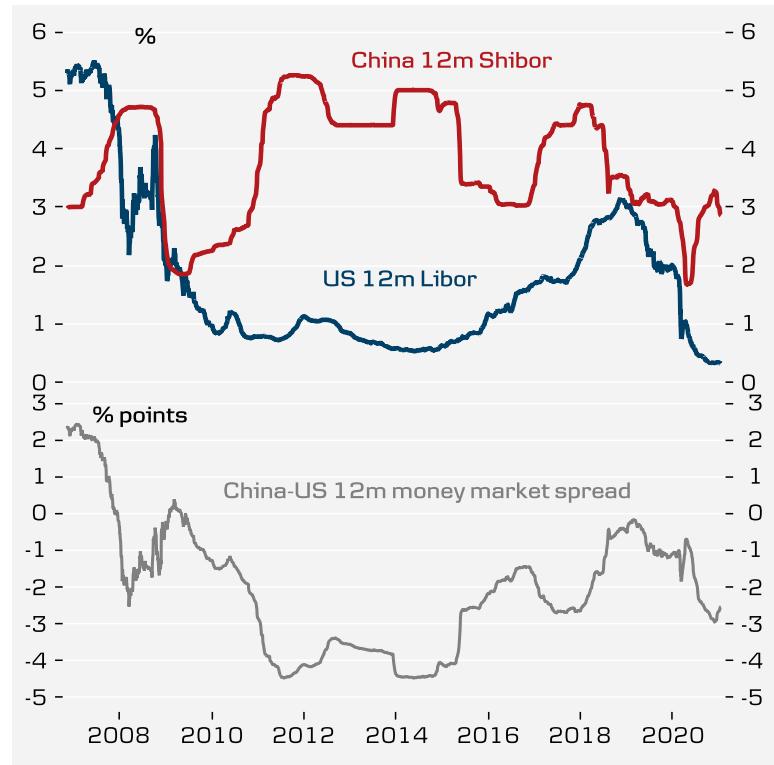
Relative rates vs USD/CNY



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

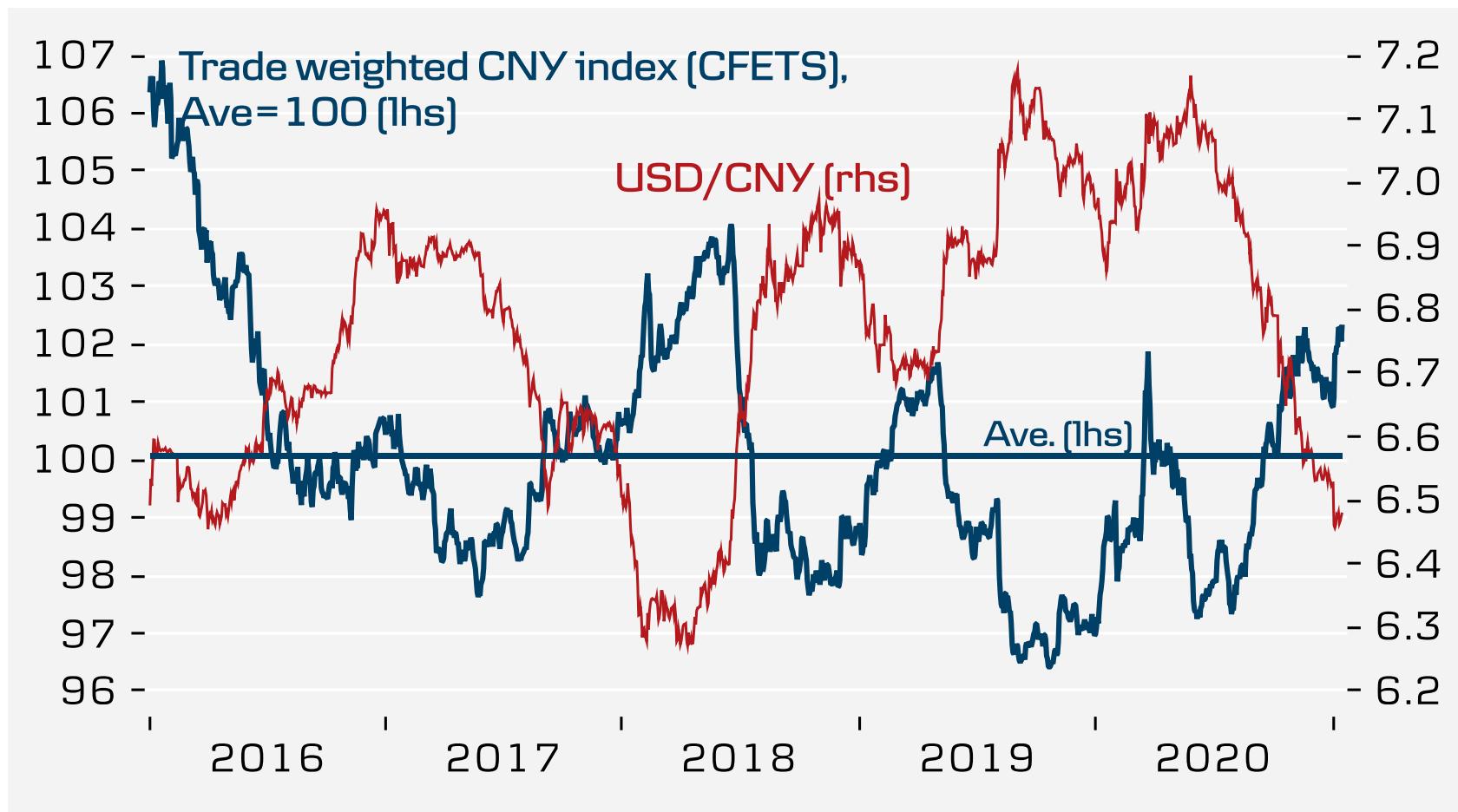


Note: Past performance is not a reliable indicator of current or future results

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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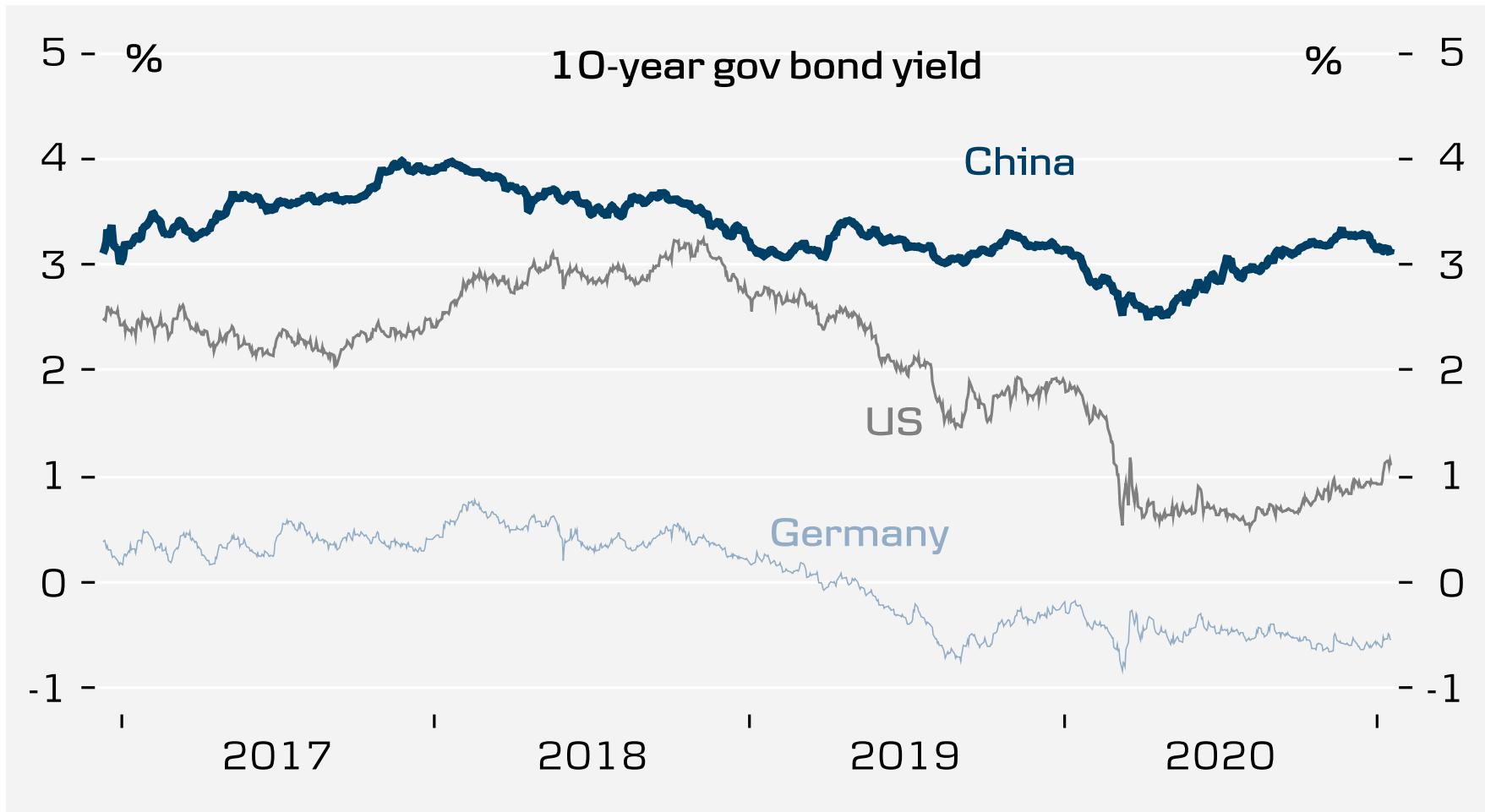
China stock market



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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