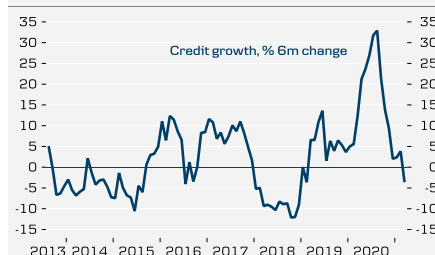


The China Letter

Credit growth slows further, tensions over Taiwan grow

- Credit and money growth slowed further in March.** As the chart to the right illustrates credit growth is now negative when measured on 6-month change. M1 growth has also continued to decline underpinning the picture of policy tightening (see chart one next page). We believe the tightening mostly reflects slower infrastructure growth. The residential construction sector is still underpinned by strong home sales, though (chart 2). However, tighter policies should cool down home sales and the construction sector in H2. PMI data for March were a bit mixed but we put the most weight on NBS PMI manufacturing, which suggests the manufacturing sector saw some relief in March. Looking ahead, we expect it to fall again due to the policy tightening.
- Concern over commodity prices.** On Thursday 8 April, China's Financial Stability and Development Committee warned that authorities "*should keep a close eye on commodities prices*". On Sunday, China's premier Li Keqiang said that China will strengthen controls on raw materials markets to help limit costs for companies.
- Tensions over Taiwan intensify.** While the US over the past years has stepped up diplomatic relations with Taiwan officials, China's response has been to increasingly *flex* its muscles around Taiwan. US Secretary of State Antony Blinken *said on Sunday*, the US is concerned about China's aggressive actions against Taiwan. Beijing on the other hand is blaming the US for raising the tensions. An *editorial* in China Daily last week stated that the US was playing with fire by sailing warships through the Taiwan Strait. A new *bill* on how to confront China further is currently going through the US Congress. Among other things, the 280-page bill states that Taiwan plays "*a vital part of the United States Indo-Pacific strategy*" and that there should be no restrictions on U.S. officials' interaction with Taiwanese counterparts. I wrote about the brewing Cold War 2.0 in *Research China – At the foothills of a new cold war – and what it implies*, 31 July 2020
- USD/CNY has stabilized lately around 6.55 but is still in the upward trend starting early this year.** As chart 7 shows it broadly mirrors the moves in EUR/USD. We still look for more upside in USD/CNY, see *The China Letter – Tide is turning for USD/CNY amid slowing Chinese growth*.
- China has fined e-commerce giant Alibaba Group over monopoly conduct.** The group founded by Jack Ma was imposed the fine of USD2.79bn based on China's antimonopoly law for "exclusive dealing agreement" that hindered competition, see *Xinhua*. China's giga-companies are under increased scrutiny for not exploiting a dominant market position. Regulators have also clamped down on Jack Ma's Ant Group to become a financial holding company under their supervision in order to fight financial risks, see *SCMP*.
- China's vaccinations continue at a higher pace of 2-2.5% of the population per week** (chart 8).
- Chinese bond yields are still range trading, while stocks have corrected lower this year.** So far, it still looks like a bull trend, though.

Credit growth slowing further



Source: Macrobond Financial, PBoC, Danske Bank

CNY forecast

EUR/CNY		
	Danske	Forward (NDF)
12-Apr	7.80	
+3M	7.73	7.87
+6M	7.72	7.94
+12M	7.71	8.08
USD/CNY		
	Danske	Forward (NDF)
12-Apr	6.55	
+3M	6.55	6.59
+6M	6.60	6.64
+12M	6.70	6.73

Source: Bloomberg, Danske Bank

Recent China research

The China Letter – Tide is turning for USD/CNY amid slowing Chinese growth, 26 March 2021

China Macro Monitor: More signs slowdown, 25 March 2021

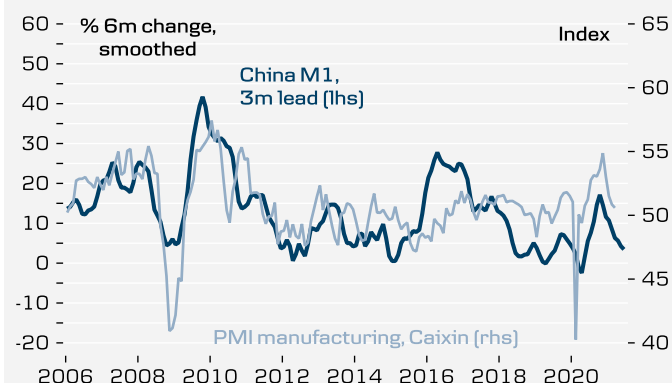
Big Picture update: Divergent fortunes, 23 March 2021 (China on page 5).

FX Forecast Update, 19 March 2021 (CNY on page 12)

Chief Analyst

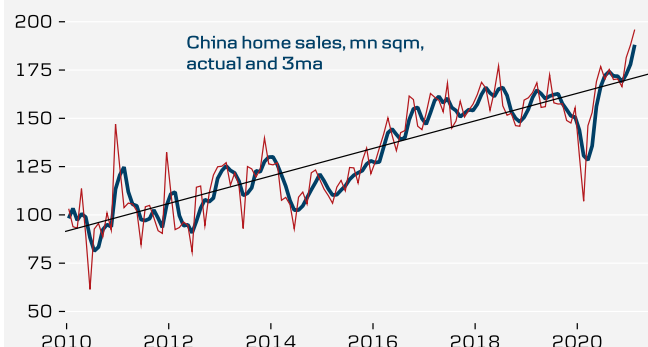
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Chart 1: Decline in M1 growth underpin picture of slowdown



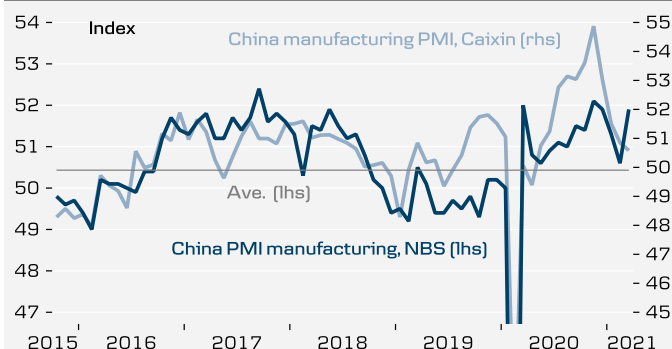
Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

Chart 2: Home sales very strong in recent months



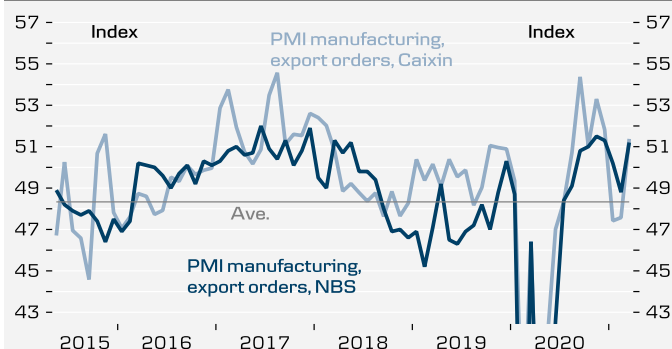
Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

Chart 3: NBS and Caixin send conflicting signals in March



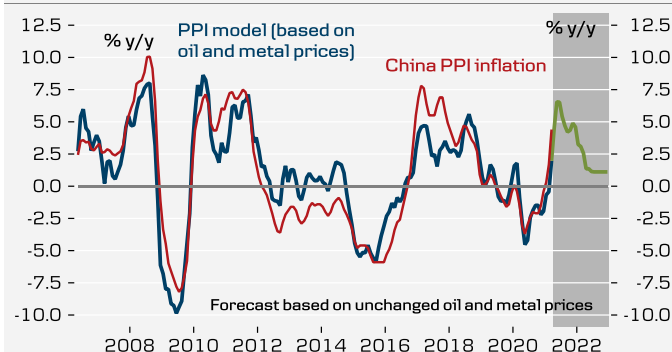
Source: Macrobond Financial, Danske Bank

Chart 4: Export orders rebounded in March



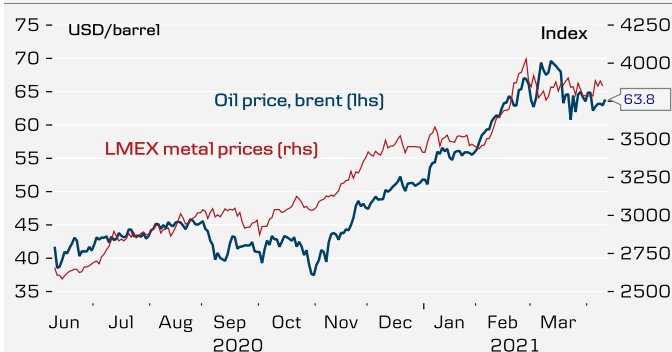
Source: Macrobond Financial, China National Health Commission

Chart 5: PPI inflation pushed higher in March driven by the rise in commodity prices



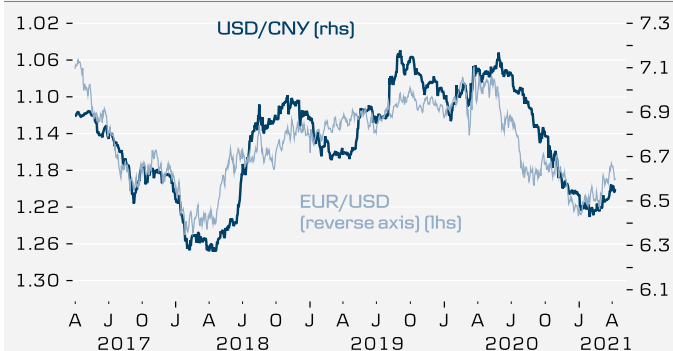
Source: Macrobond Financial, Danske Bank

Chart 6: Rise in commodities have caused concern in Beijing. Prices slightly lower over past month



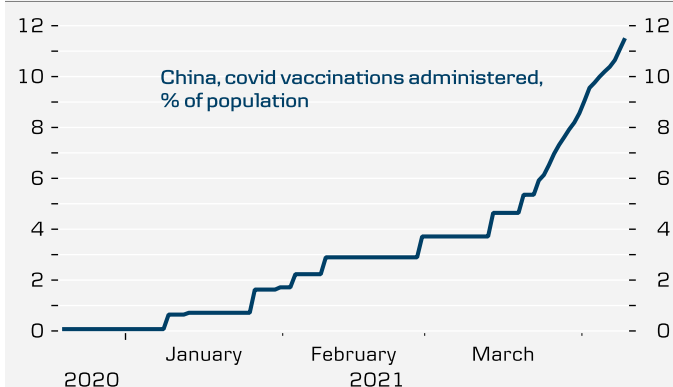
Source: Macrobond Financial

Chart 7: USD/CNY still shadowing EUR/USD, we look for further upside on broad USD strength



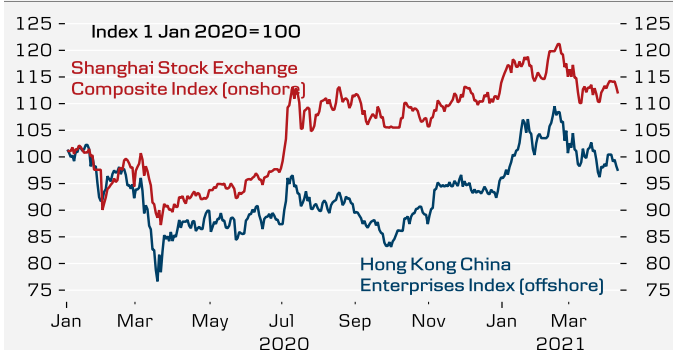
Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, Danske Bank

Chart 8: Vaccination pace increased to 8-10% per month



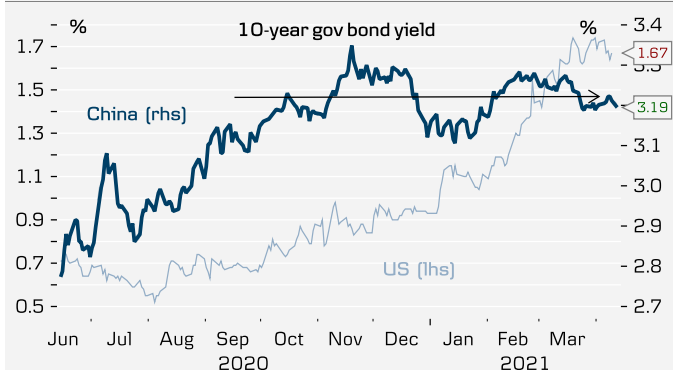
Source: Macrobond Financial, China National Health Commission

Chart 7: Still looks like a bull trend but stocks correcting lower this year



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

Chart 8: Chinese bond yields still going broadly sideways



Note: Past performance is not a reliable indicator of current or future results
Source: Macrobond Financial, China National Health Commission

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