

# China Macro Outlook

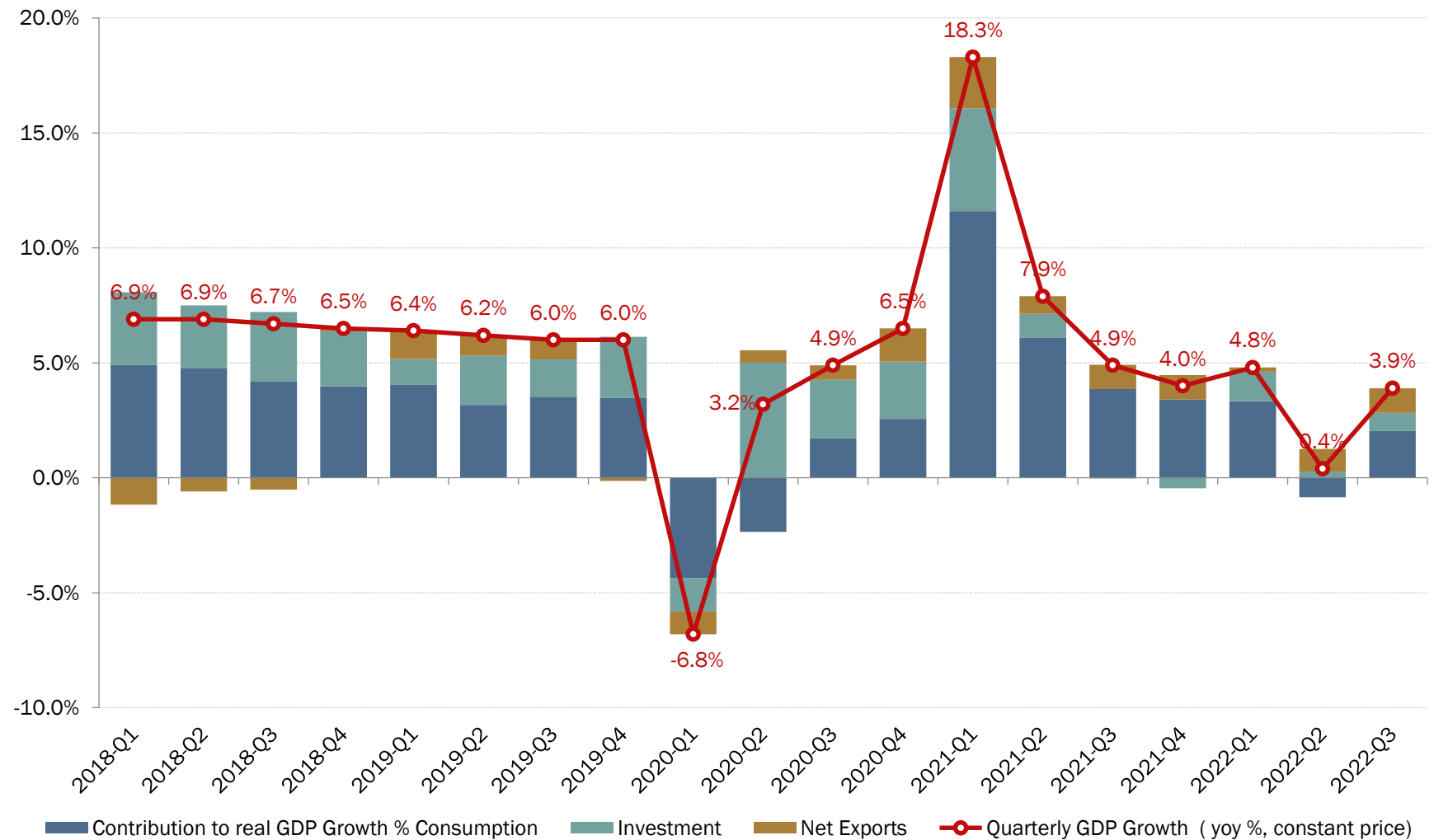
Recalibrating China's Development Path

November 2022



## Recovery in Q3-22 was coupled with near-term growth vulnerabilities

Mildly positive contribution from net exports and investment unable to offset weakness in consumption



Source: WIND, ICBC Standard

## Beijing has stepped up supportive measures to offset growth risks

State Council has approved an extra CNY 500bn reserve quota to boost special bond issuance before end-Oct as extra fiscal boost before year-end. The PBoC also approved CNY 300bn credit for policy banks and CNY 250bn for private bond financing as the latest supportive actions.

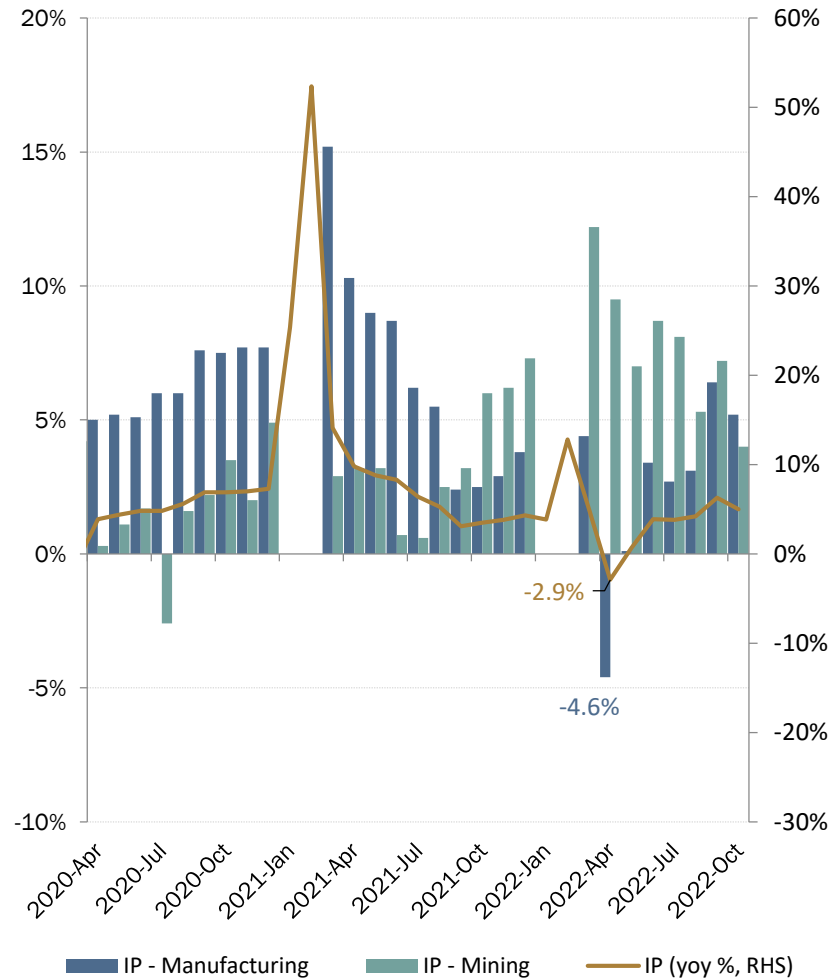
		2022 GWR Targets	2021 GWR Targets	2022 vs 2021
<b>GDP</b>	GDP Target (%)	c. 5.5%	>6.0%	↓
	Official Fiscal Deficit (CNY bn)	3,378 (est.)	3,446	↓
	Official Fiscal Deficit Ratio (% GDP)	2.8%	3.2%	↓
<b>Fiscal</b>	<b>Special Bond Quota (CNY bn) *</b>	<b>3,650*</b> • 500 additional reserve quota	<b>3,650</b>	↑
	Special Bond Quota (% GDP)	3.0% - 3.4%	c.3.4%	→
	<b>Special Fiscal Arrangement (CNY bn)</b>	<ul style="list-style-type: none"> <li>Extra 1,500 Special fiscal transfer payments to local gov. from central gov.</li> <li>A New Financial Stability Fund (tbc)</li> <li>300 new credit quota for policy banks</li> <li>250 funding for low-cost bond financing</li> </ul>	NA	New
	<b>Broad Fiscal Deficit Ratio (% GDP)</b>	<b>c. 7.0% - 8.0%</b>	<b>c. 6.5% - 7.0%</b>	↑
	<b>Tax Cuts (CNY)</b>	<b>Est. CNY 4.0 tn tax cut/rebate before December 2022</b>	<b>CNY 50,000 VAT free allowance per annum for SMEs</b>	↑
	Household Disposable Income Growth (yoy %)	"Same as nominal GDP growth rate" (c. 5.5%)	"Same as nominal GDP growth rate"	→
	Urban New Job Creation (mn)	11.00	11.00	→
<b>Social</b>	Unemployment Rate (%)	max. 5.50%	5.50%	→
	Poverty Reduction (mn)	NA	Social Welfare System (14 <sup>th</sup> FYP by 2025)	NA
	Climate Change Action	No specific targets	3% reduction in energy intensity	↓
<b>Monetary</b>	CPI (%)	c. 3.0%	3.0%	→
	New Loan Growth for SMEs (%)	NA	> 30%	NA
	<b>M2 (yoy %)</b>	"Same as nominal GDP growth rate"	"Same as nominal GDP growth rate"	→
	Total Social Financing (yoy %)	"Increase new loan base and lower borrowing cost for real economy"	"Same as nominal GDP growth rate"	→

Source: WIND, ICBC Standard

\* Note: More than CNY 3.5tn worth of local government special purpose bond issuance quota have already been rolled out by end-August. October saw another pickup local government bond issuances as MoF asks local government to deliver the extra CNY 500bn issuance quota by October-end.

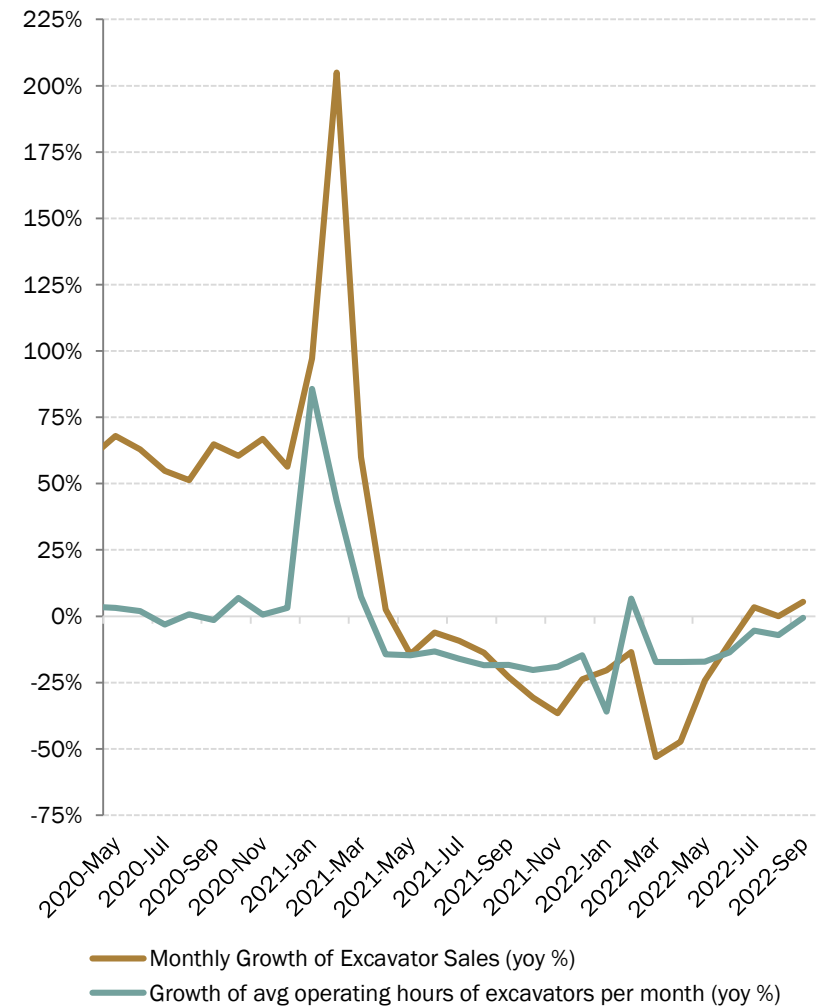
## IP stays broadly on track of a gradual recovery albeit weaker demand

October IP eased to 5.0% on slower growth in mining and manufacturing production but remained above the August reading.



Source: WIND, ICBC Standard

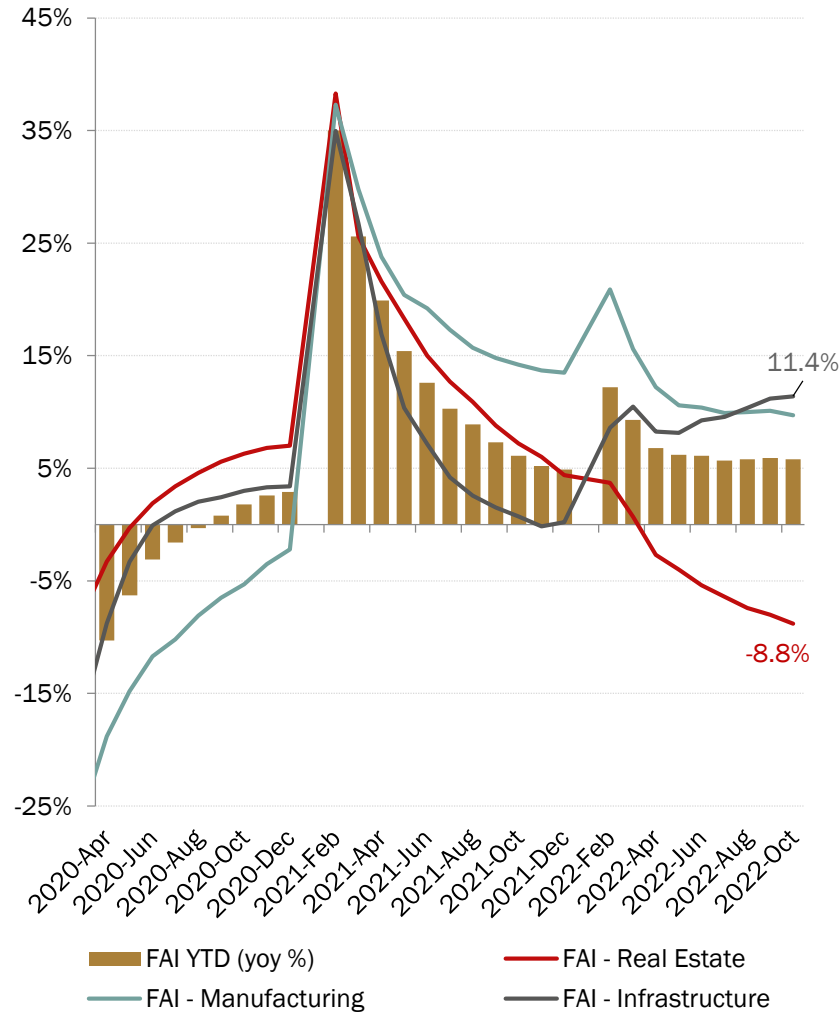
Sales and occupancy rate of excavators confirm efforts to deliver infrastructure projects with sales growth resumed positive in Sep.



Source: WIND, ICBC Standard

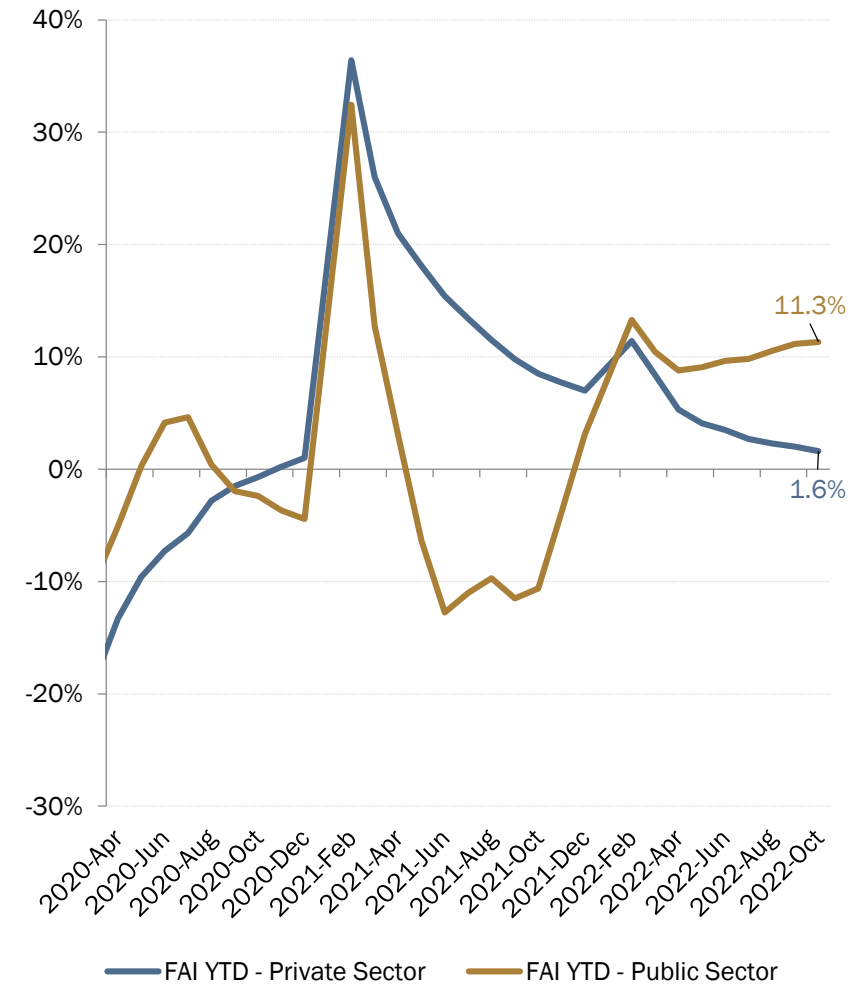
## Infrastructure investment took the lead amidst further housing slowdown

Infrastructure investment saw further pickup at 11.4% in October, while investment in property sector continued to deteriorate.



Source: WIND, ICBC Standard

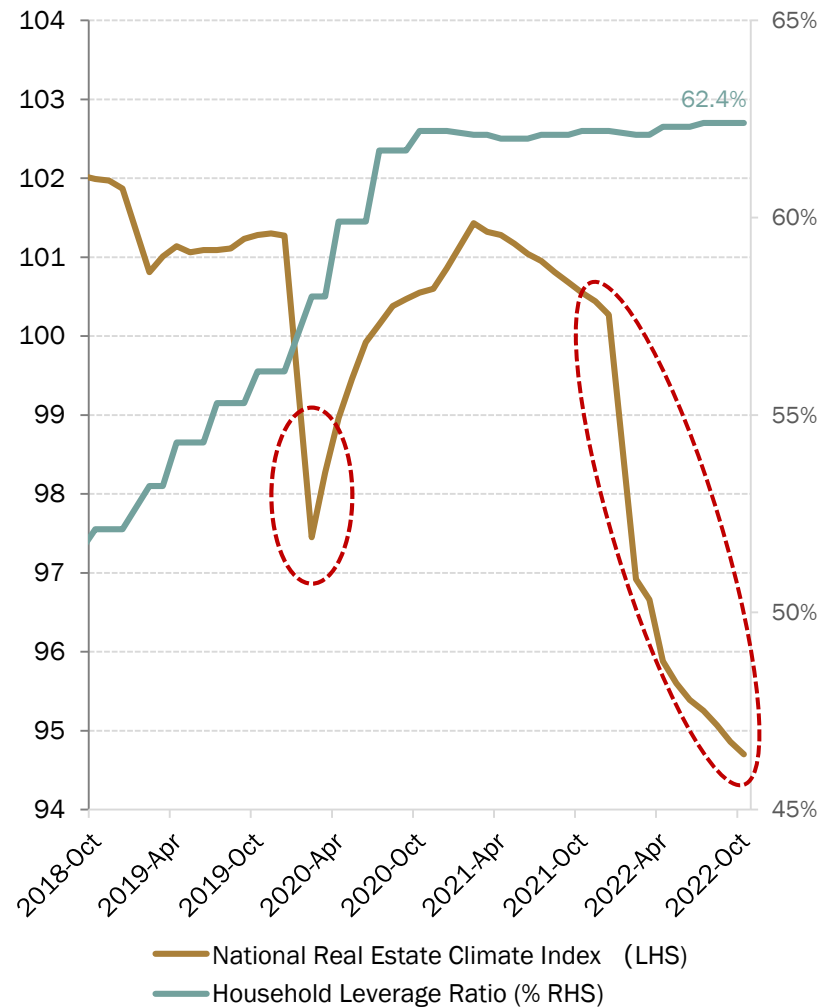
Government's effort became much more prominent while the bearish investment sentiment in private sector was yet to pivot.



Source: WIND, ICBC Standard

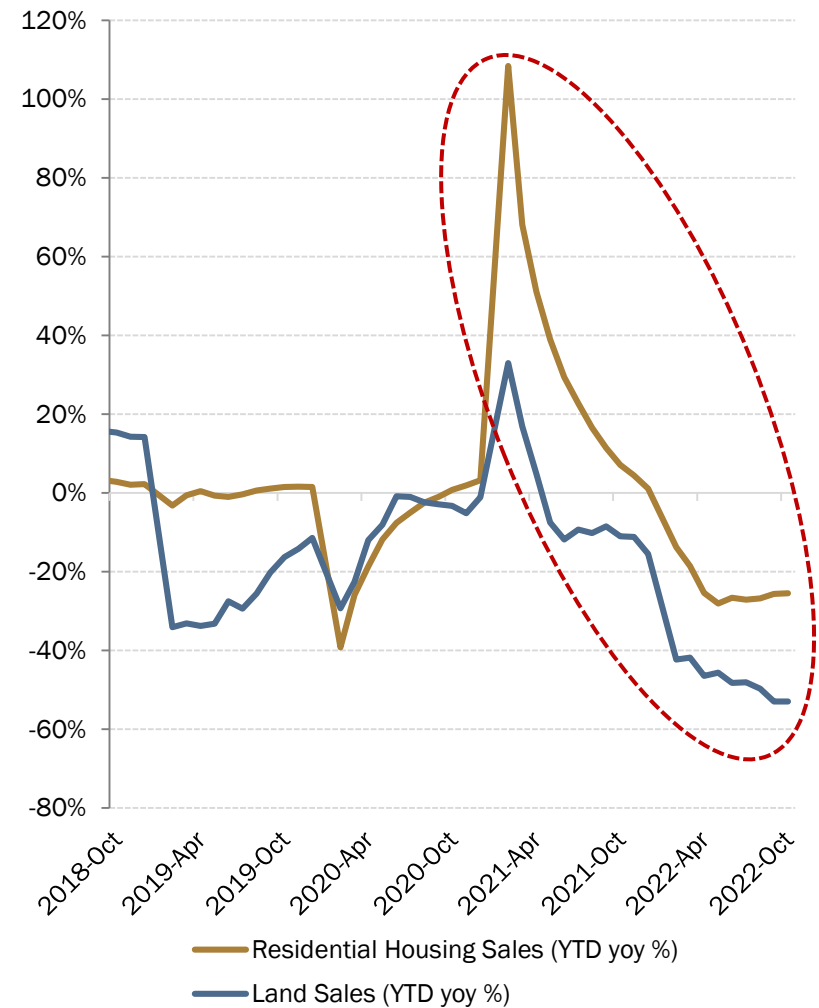
# Property sector faces continued headwinds despite recent liquidity support

**Surge in COVID cases weakened household confidence and borrowing appetite despite easing mortgage policies.**



Source: WIND, ICBC Standard

**Land sales continued to deteriorate in October on tightened restrictions to tackle new and rapidly spreading COVID clusters.**



Source: WIND, ICBC Standard

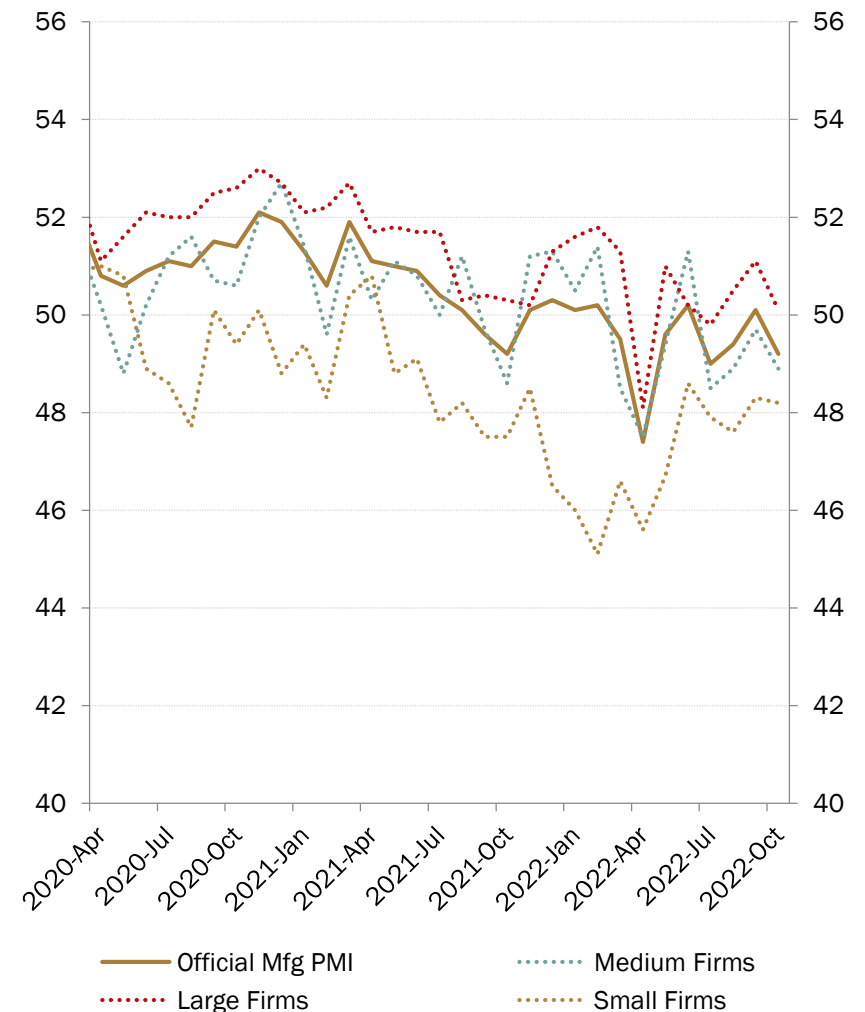
# PMIs highlight fragile sentiment upon global recession concerns and COVID

**Headline PMI in October turned negative again on growing challenges of weak domestic and external demand.**



Source: WIND, ICBC Standard

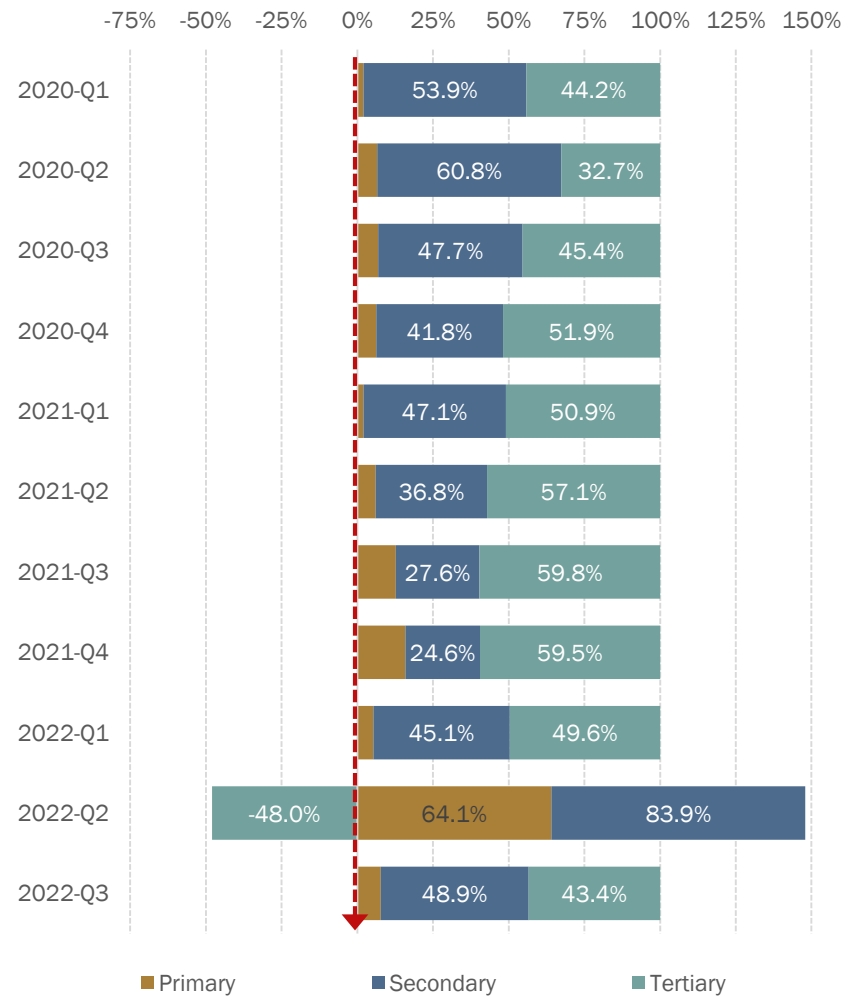
**Large firms continued to show resilience, but small and medium sized manufacturers faced stronger headwinds in October.**



Source: WIND, ICBC Standard

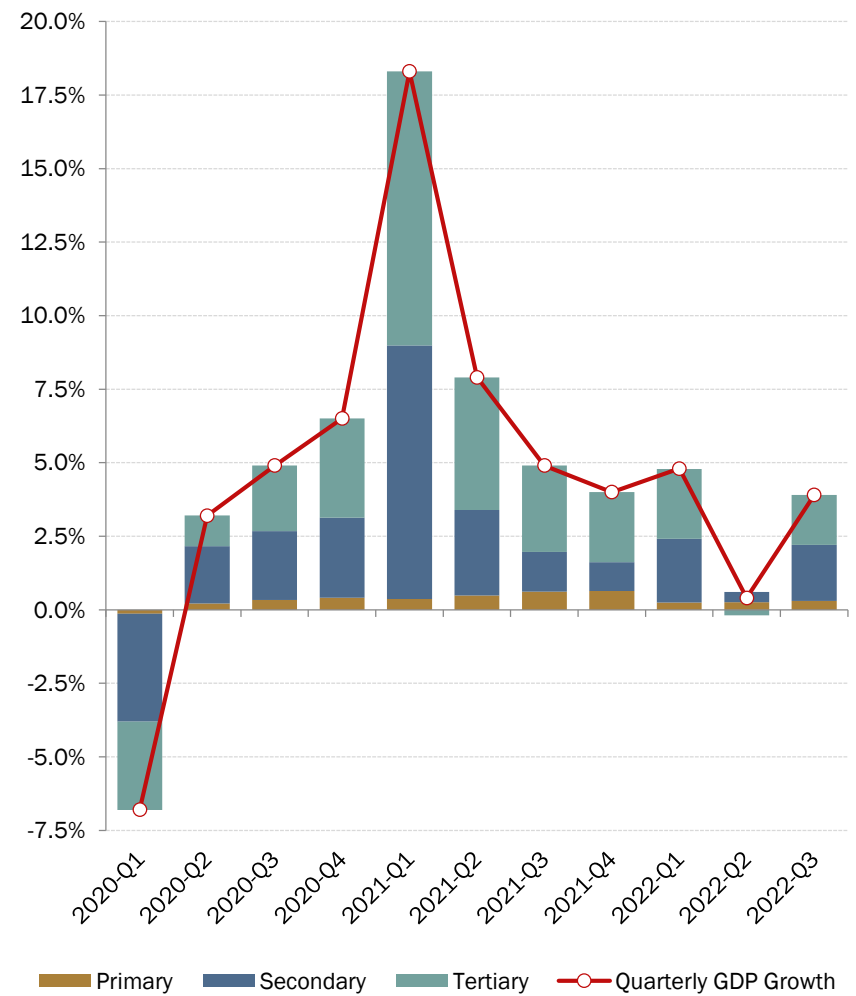
## Services sector is yet to resume as dominant growth contributor

**Tertiary sector resumed as a positive GDP contributor but with the lowest share of total GDP since Q2 2020 at 43.4% in Q3 2022.**



Source: WIND, ICBC Standard

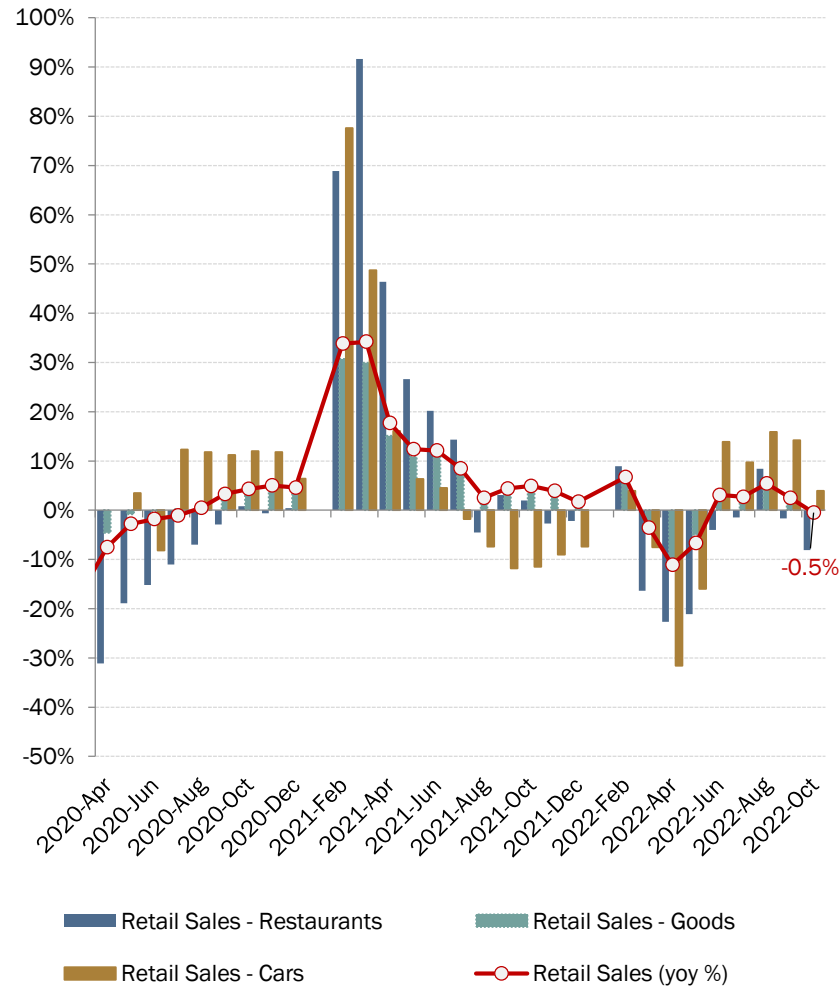
**Stronger policy action is needed to unleash greater growth contribution from the tertiary sector in Q4-2022 and beyond.**



Source: WIND, ICBC Standard

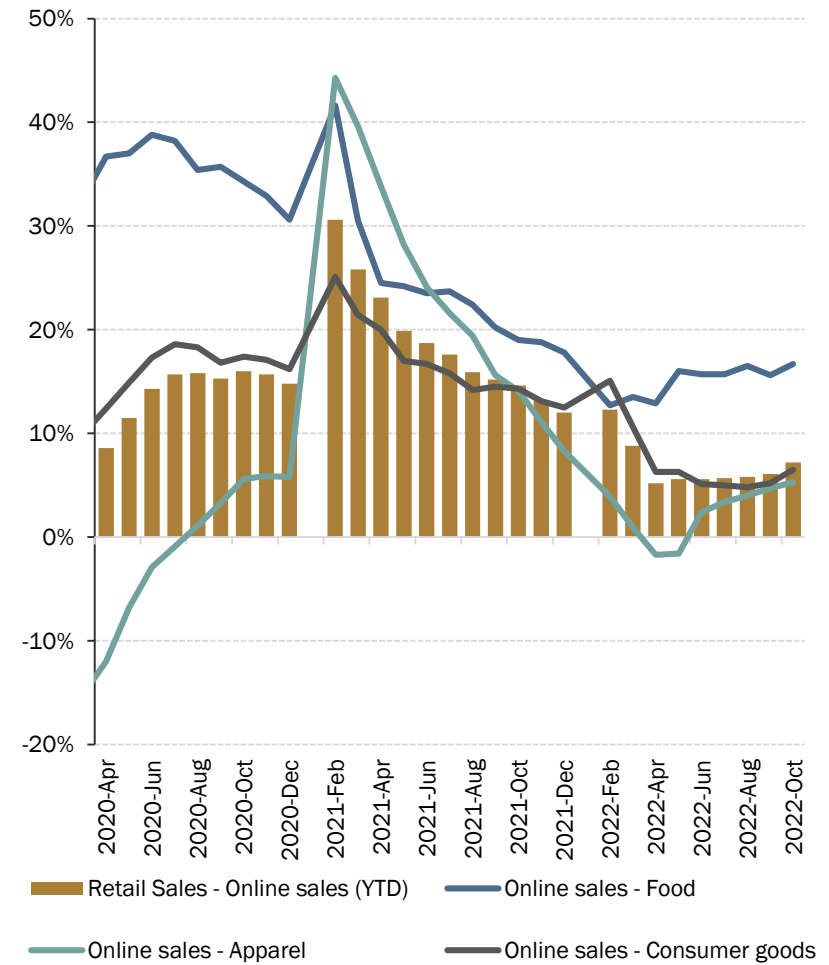
## Fragile consumption highlights persistent pressure from COVID cases

Monthly retail sales remain highly sensitive to mobility restrictions and dipped to negative territory again in October on tightened measures.



Source: WIND, ICBC Standard

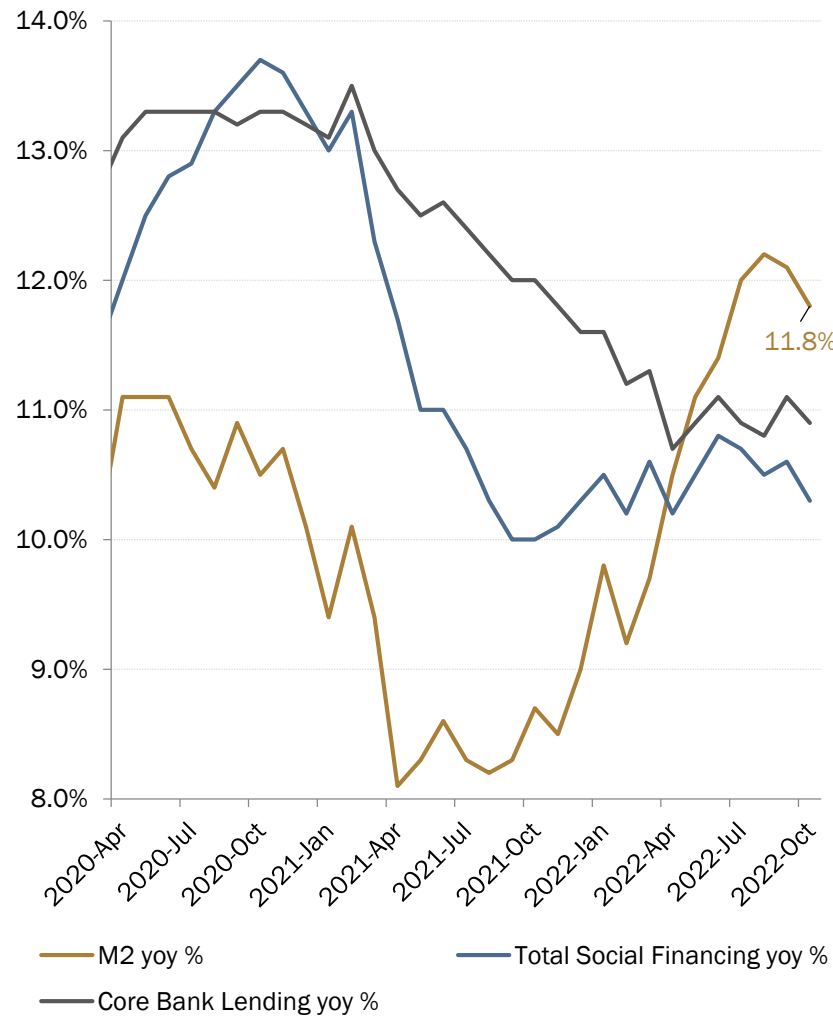
Growth of overall online sales has also fall short of previous years in both 2020 and 2021 since April 2022.



Source: WIND, ICBC Standard

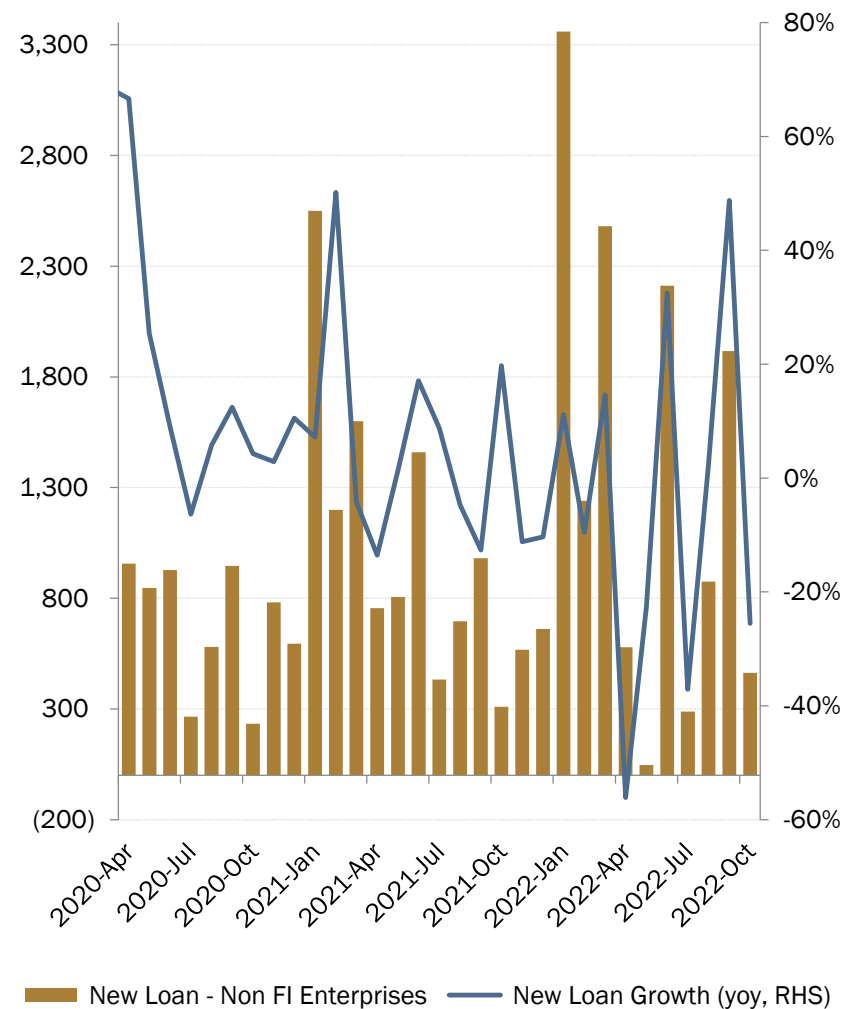
# Money Supply buoyed by bond issuance but credit demand remains weak

**M2 growth saw marginal drop to 11.8% in October from 12.1% in September, which remained well above the peak in Q2 2020.**



Source: WIND, ICBC Standard

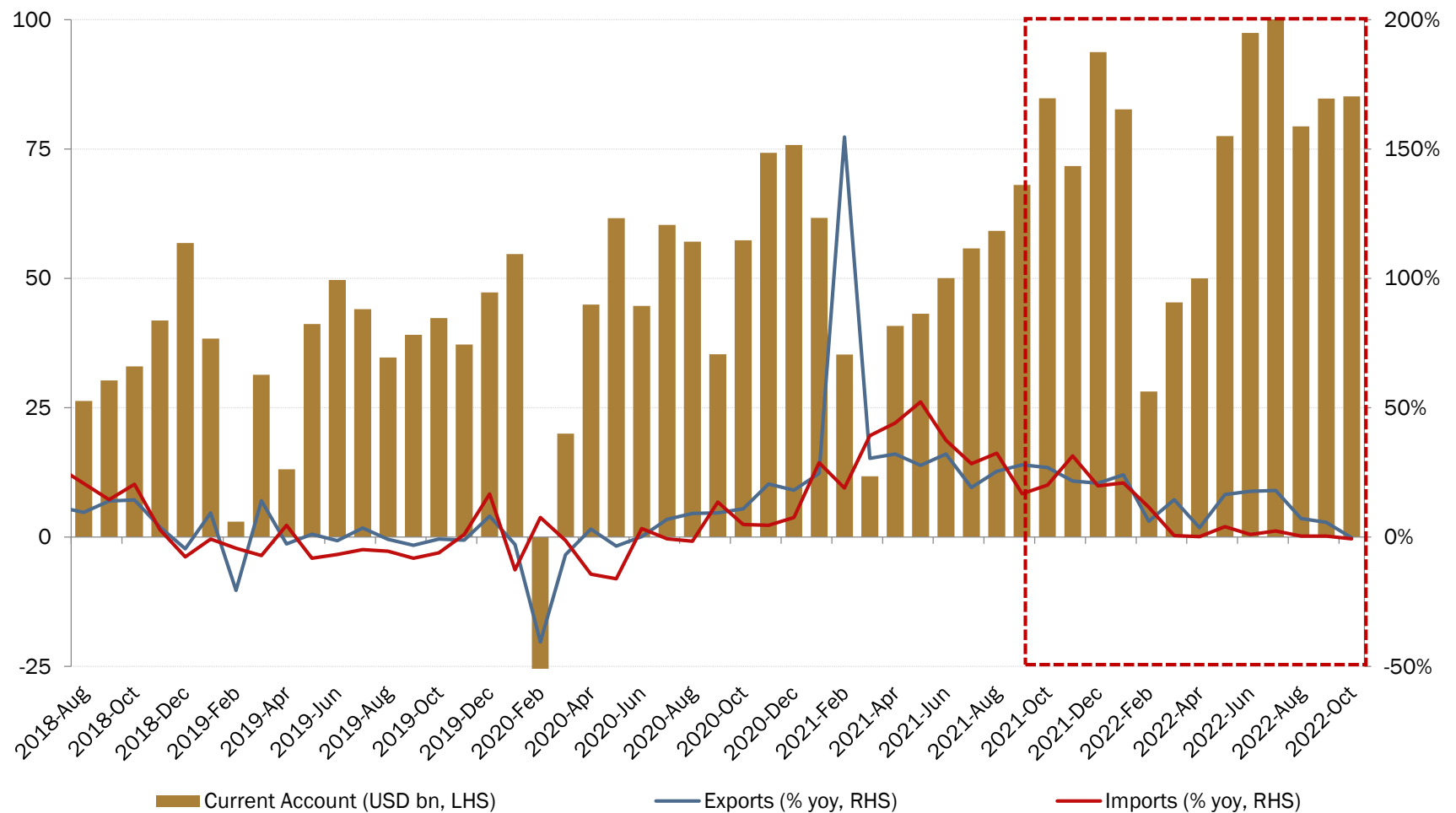
**Weak credit growth in October continues to highlight corporate and household demand deficiency amidst weak sentiment.**



Source: WIND, ICBC Standard

## Export growth sharply slowed in October as global demand weakens

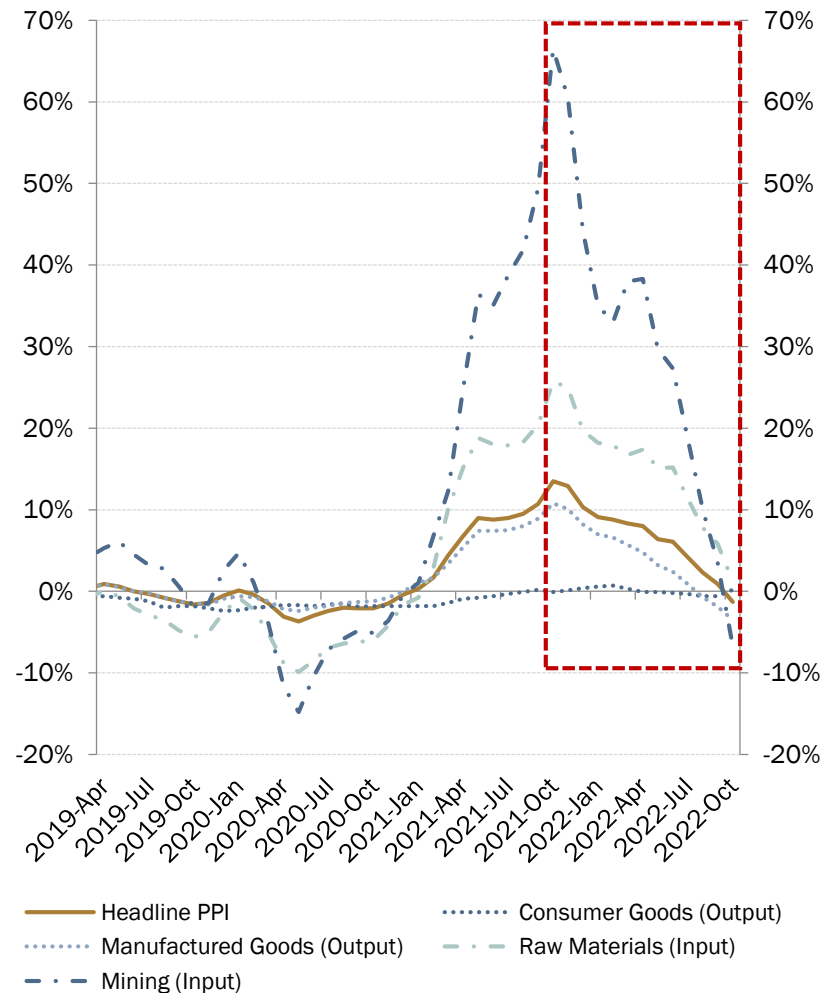
While current account surplus remained broadly steady in October, export growth saw notable slowdown to -0.3% from 5.7% in September with further contraction of import growth at -0.7% amidst rising global recession concerns and sluggish domestic demand in China.



Source: WIND, ICBC Standard

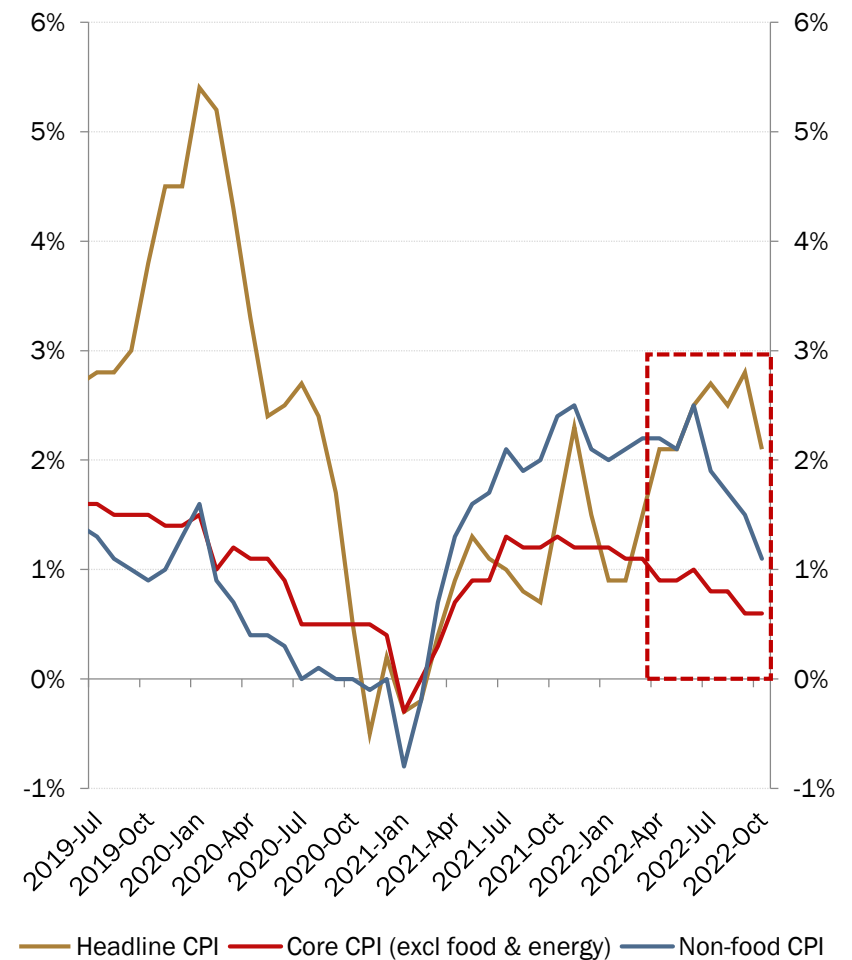
## PPI deflation in China may help to alleviate global inflationary pressures

**Headline PPI dipped to -1.3% in Oct on softer commodities prices, high base effect and NDRC's administrative measures.**



Source: WIND, ICBC Standard

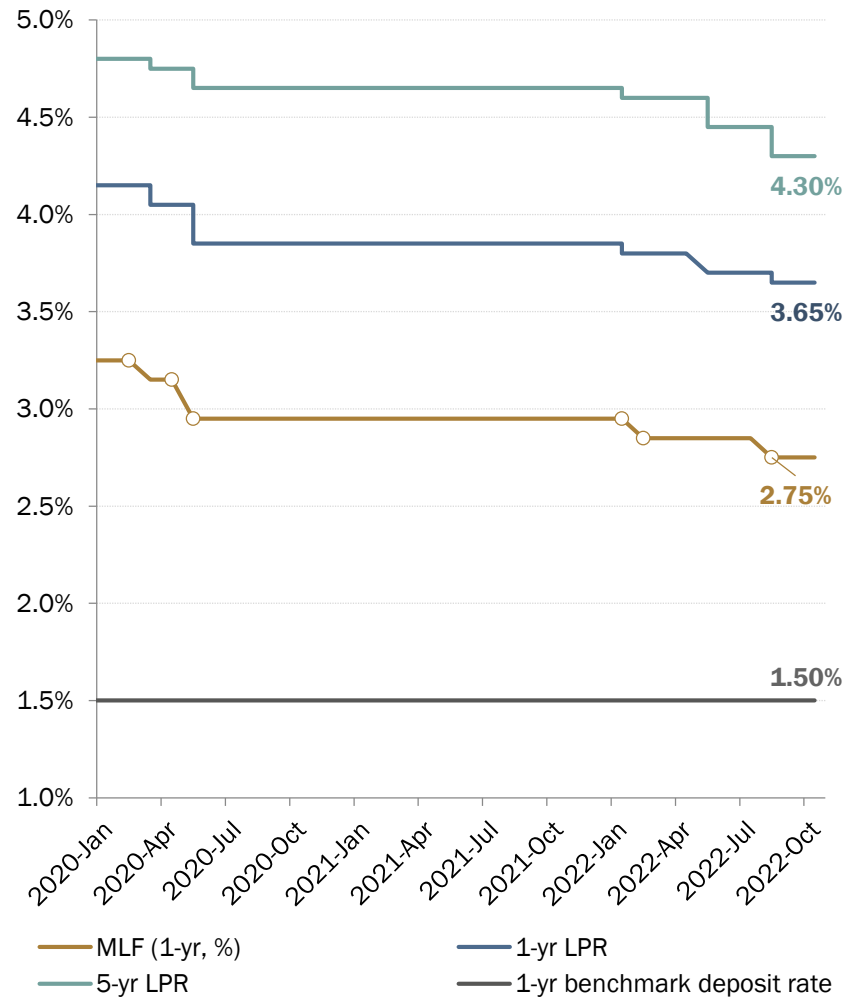
**Headline CPI eased to 2.1% despite continued pork price rally in Oct, but the 0.6% core CPI still reflects persistent demand sluggishness.**



Source: WIND, ICBC Standard

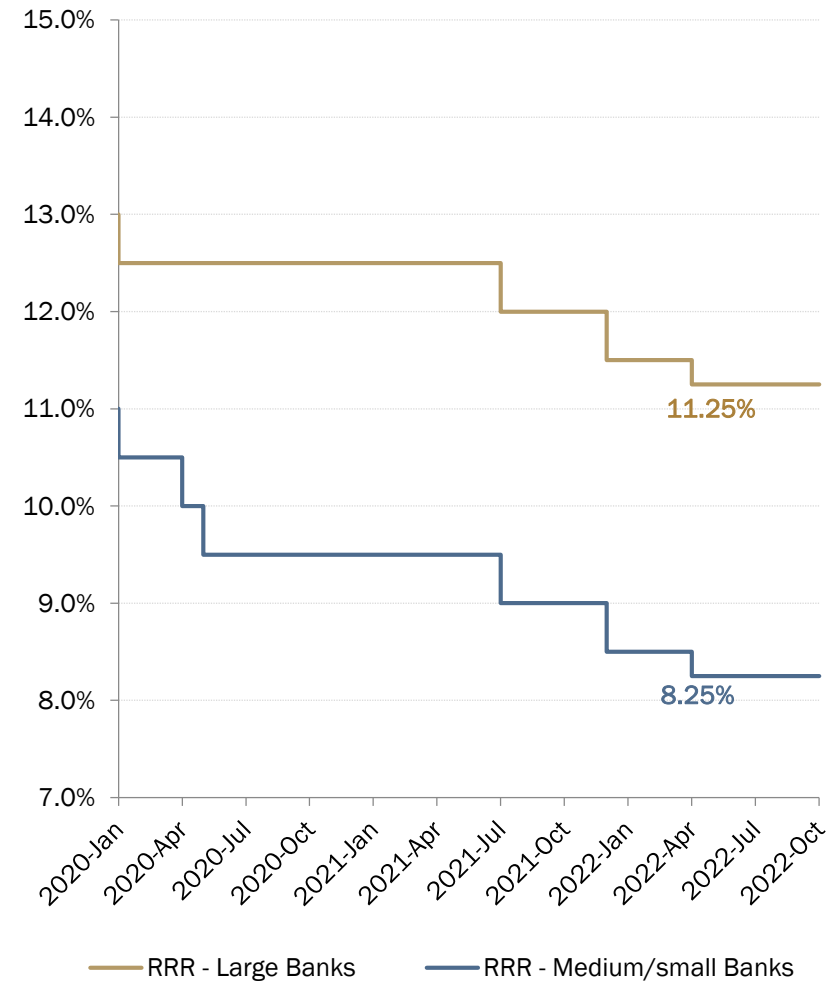
## PBoC has already cut benchmark rates to offset rising growth pressure

Market still expect further LPR lowering to encourage home purchasing as the August asymmetric cuts may not be sufficient.



Source: WIND, ICBC Standard

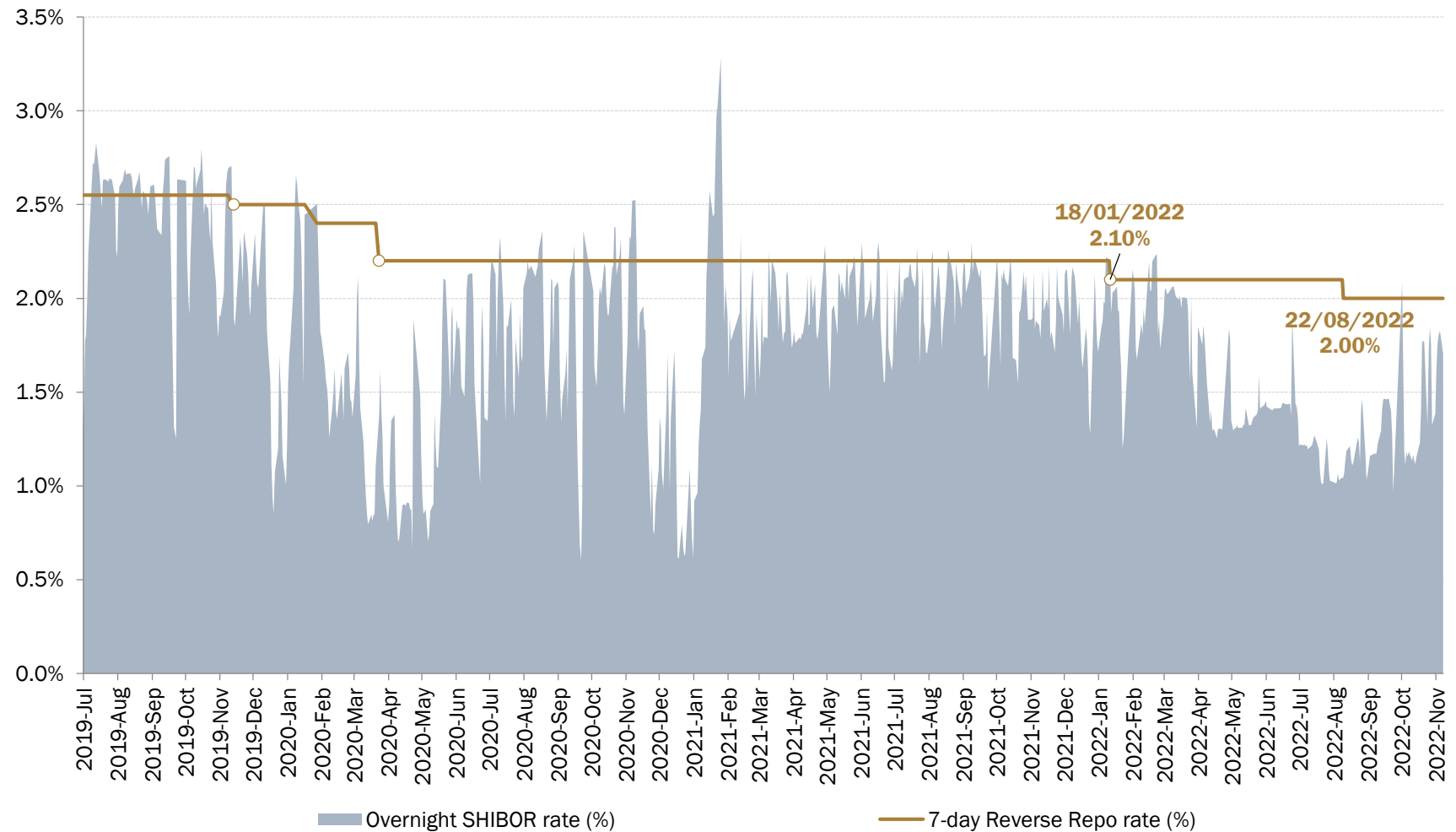
There's also room for further RRR cut as banks have been urged to release more credits to support the real economy before year-end.



Source: WIND, ICBC Standard

## Short-term interbank liquidity remains ample and market rates stay low

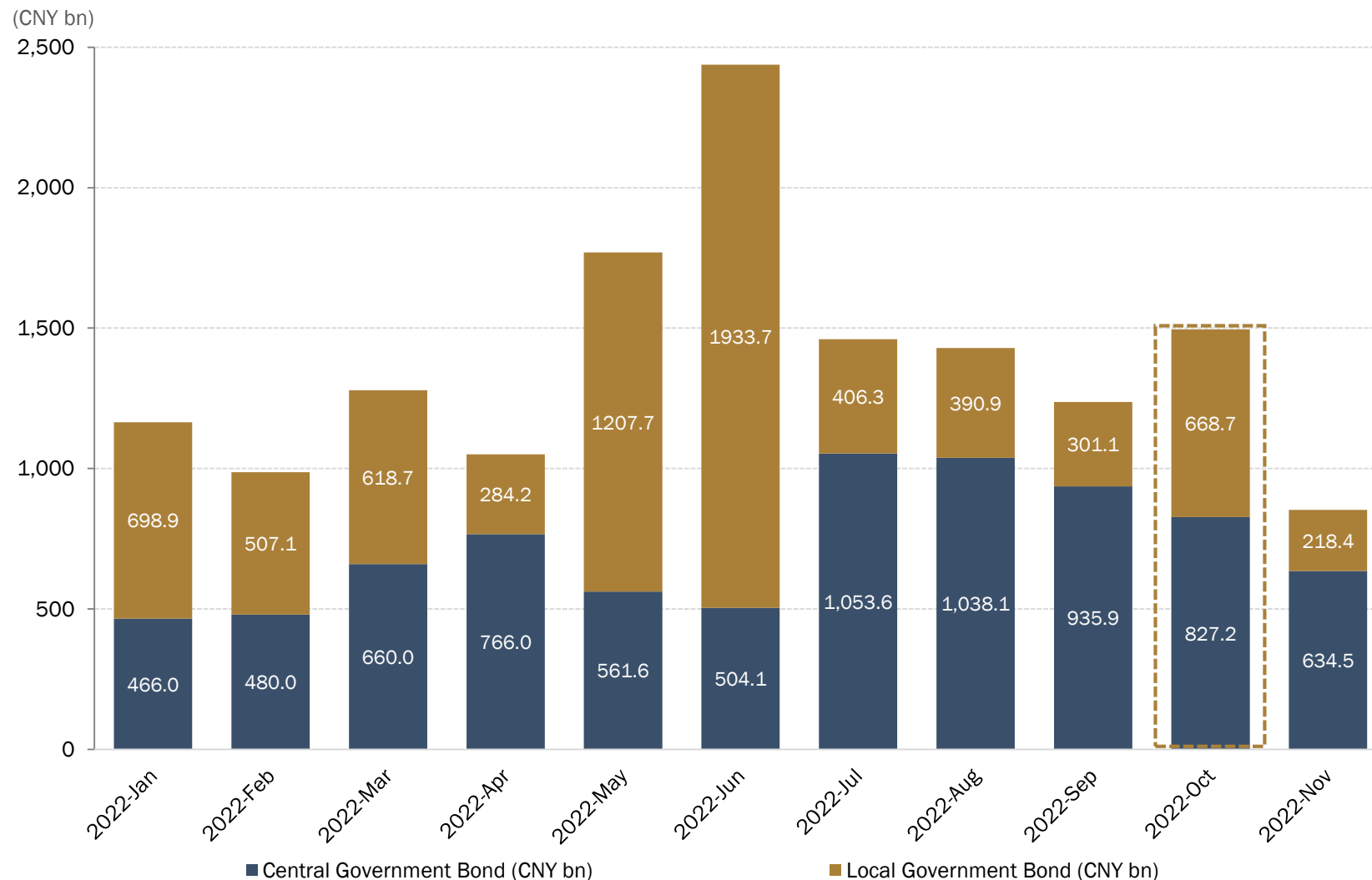
7D reverse repo rate continued to stay well below the 2.0% policy rate, reflecting weak interbank lending and borrowing demand since April.



Source: WIND, ICBC Standard

## Markets expect early approval of at least CNY 1.5tn bond quota before Dec

Local gov. bond issuance picked up in October on MoF's requirement to materialise the additional CNY 500bn special bond quota.

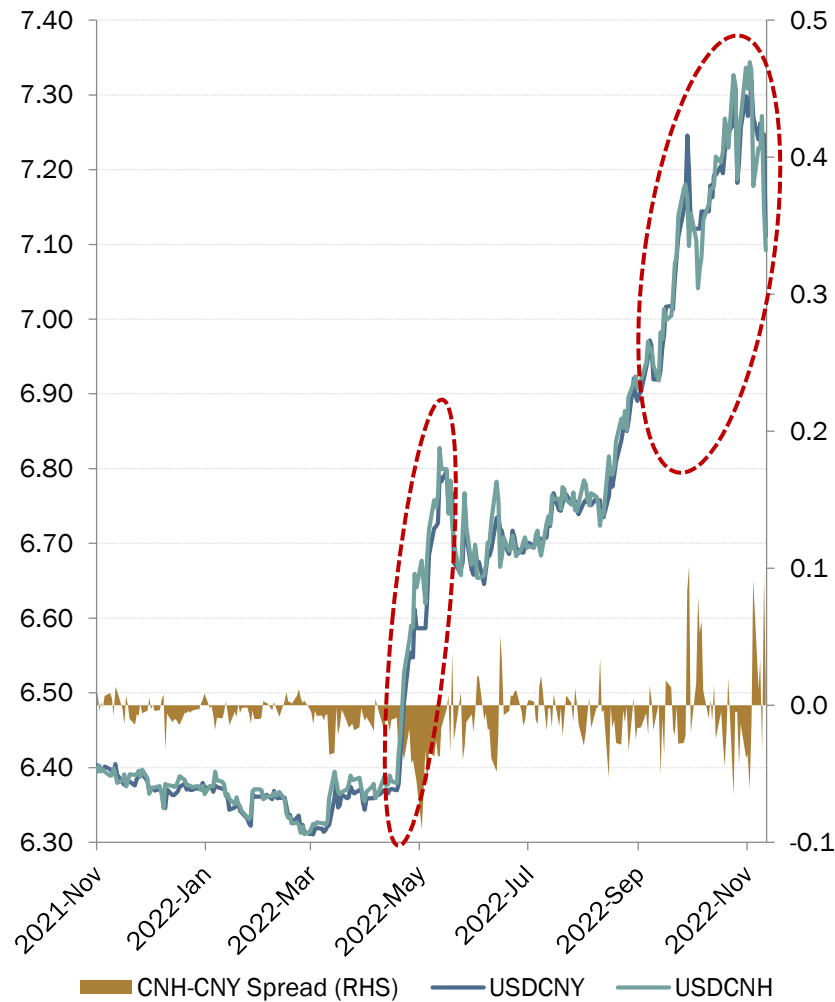


Source: WIND, ICBC Standard

\* \* Note: More than CNY 3.5tn worth of local government special purpose bond issuance quota have already been rolled out by end-August. Market expects another issuance peak in late September and October as MoF asks local government to deliver the extra CNY 500bn issuance quota by October-end.

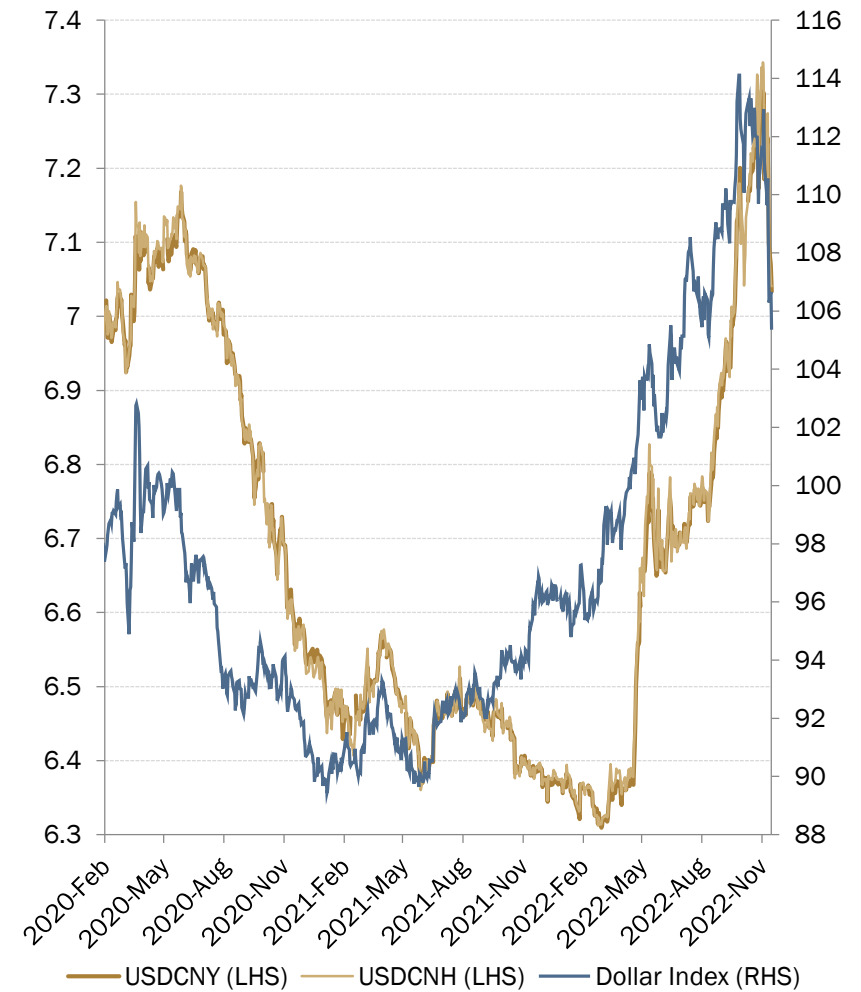
## Monetary policy divergence and strong dollar rally weigh on the yuan

**USDCNH reached multi-year highs above the 7.30 threshold in late October driven primarily by strong dollar rally.**



Source: WIND, ICBC Standard

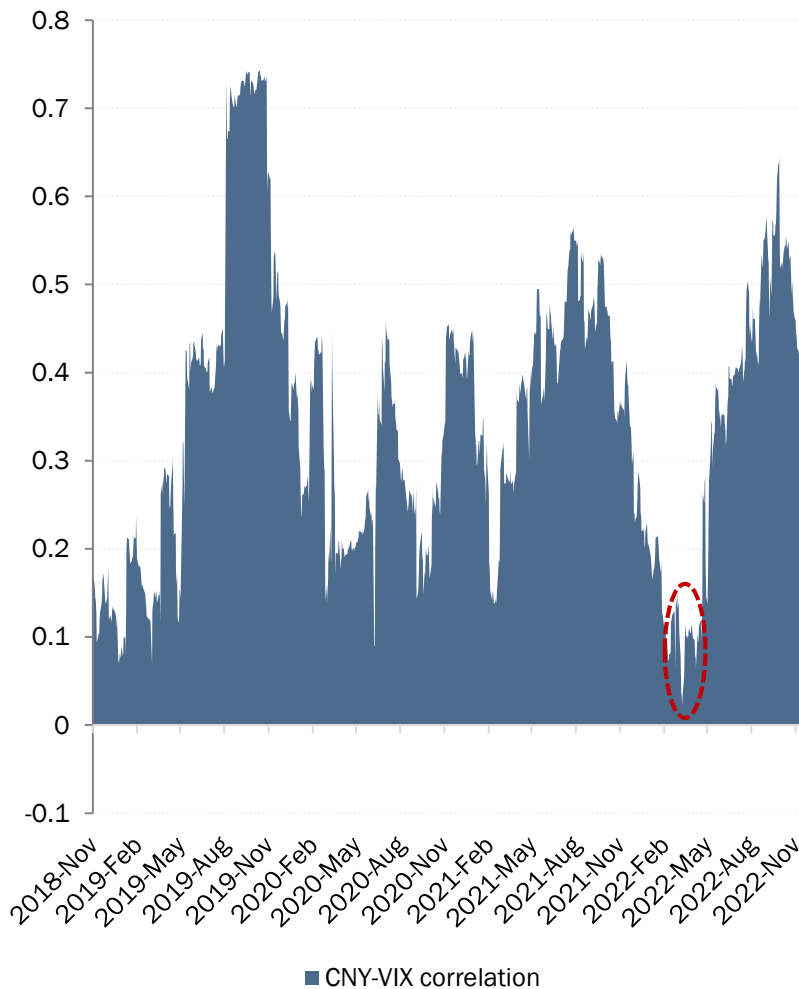
**Recent yuan depreciation is nonetheless in sync with other non-USD major currencies amidst greater divergence of monetary policies.**



Source: Bloomberg, ICBC Standard

## Two-way FX volatility is likely to rise as DXY reaches inflection point

Offshore yuan's correlation with VIX returned to elevated level similar to Q3-21 as yuan saw renewed depreciation since Aug.



Source: Bloomberg, ICBC Standard

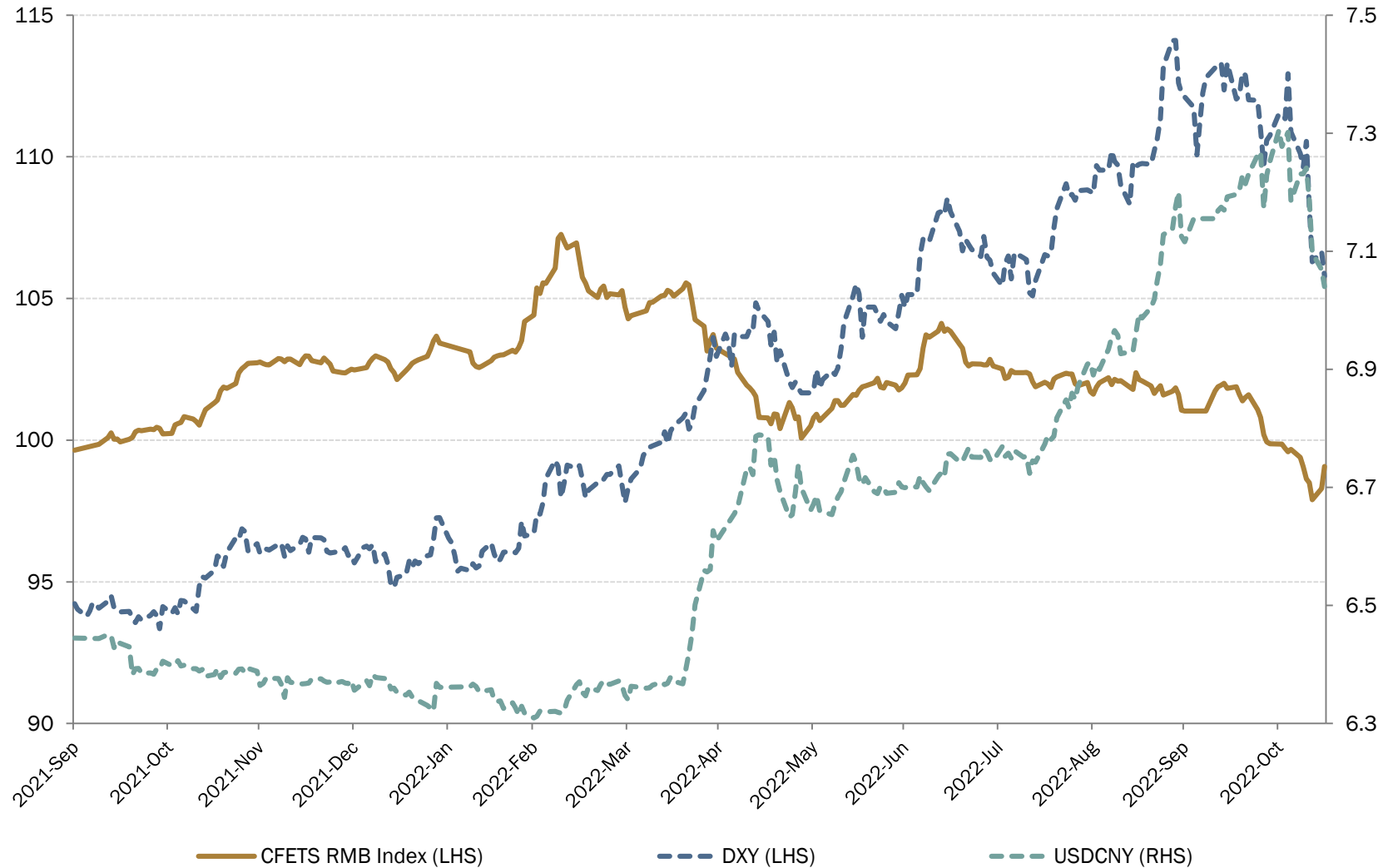
PBoC has frequently adopted macro-prudential tools to steer market expectation and ease excessive market volatility.

Date	PBoC FX Policy Measures/Events
Jan. 2021	Reduce macro-prudential adjustment coefficient from 1.25 to 1.00 for firms borrowing from overseas.
May 2021	Host PBoC FX Standing Committee meeting calling Chinese banks to stay neutral on FX trading.
May 2021	Raise the reserve requirement ratio for FX deposits from 5% to 7% with effective from 15 <sup>th</sup> June.
Jun. 2021	Grant fresh QDII quotas of c. USD 10bn to allow domestic institutional investors to undertake more outbound investment activities.
Jun. 2021	CDB sells USD 2bn of 1-year notes on the interbank market, the first onshore dollar bond issuance since 2015. Market sees the move as a signal for state FIs to help absorb onshore USD liquidity.
Sep. 2021	PBoC relaxes restrictions on domestic banks' ability to provide yuan-denominated loans overseas, a further step to increase global use of the RMB.
Nov. 2021	PBoC warns against one-way yuan bets
Nov. 2021	China Foreign Exchange Committee (CFEC) urges banks to cap the size of commercial banks' proprietary trading accounts after the rapid ascent in the yuan recently.
Jan. 2022	CFETS adjusts the currency basket and marginally increased the weight for USD, EUR and GBP
Apr. 2022	PBoC drops FX RRR for FIs to 8% from 9%, sending the first signal to ease sharp depreciation pressure prior to the early-May holiday.
Sep. 2022	PBoC further cuts FX RRR to 6% from 8%, a firmer signal to stabilise recent FX volatility amidst dollar rally

Source: CFETS, ICBC Standard

## RMB demonstrates more resilience in CFETS basket terms amid DXY rally

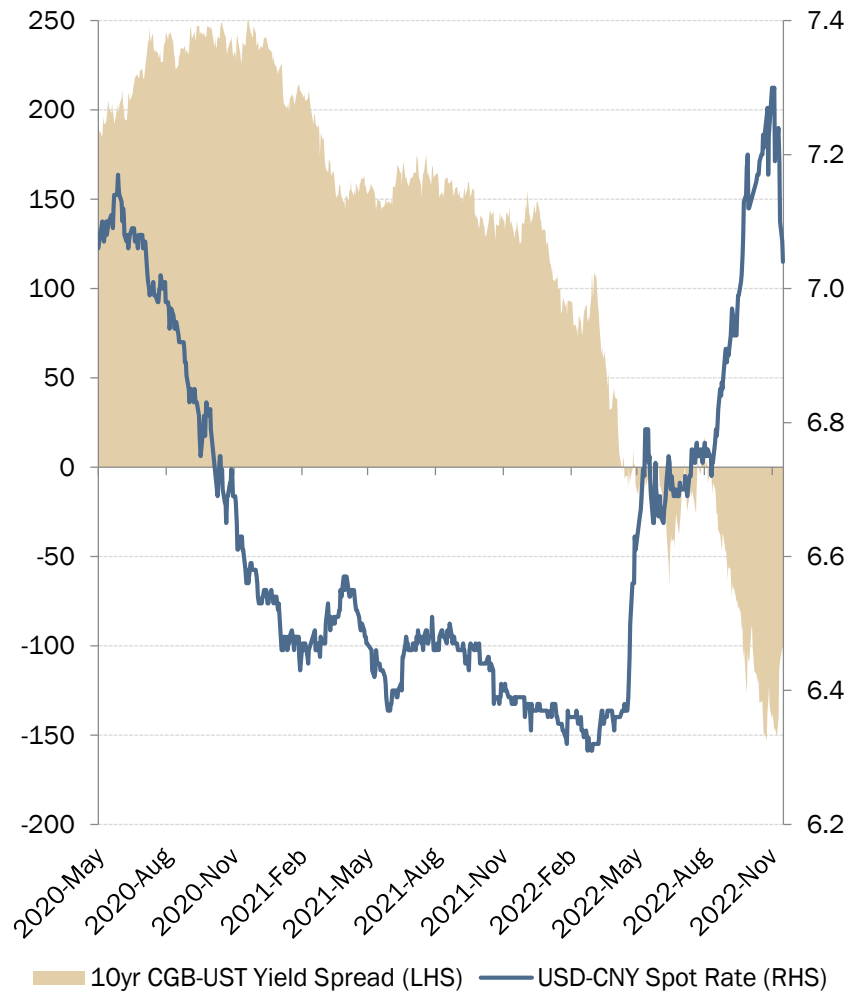
Recent USDCNY depreciation was primarily driven by the DXY rally while CFETS Index shown less volatility against non-USD currencies.



Source: Bloomberg, ICBC Standard

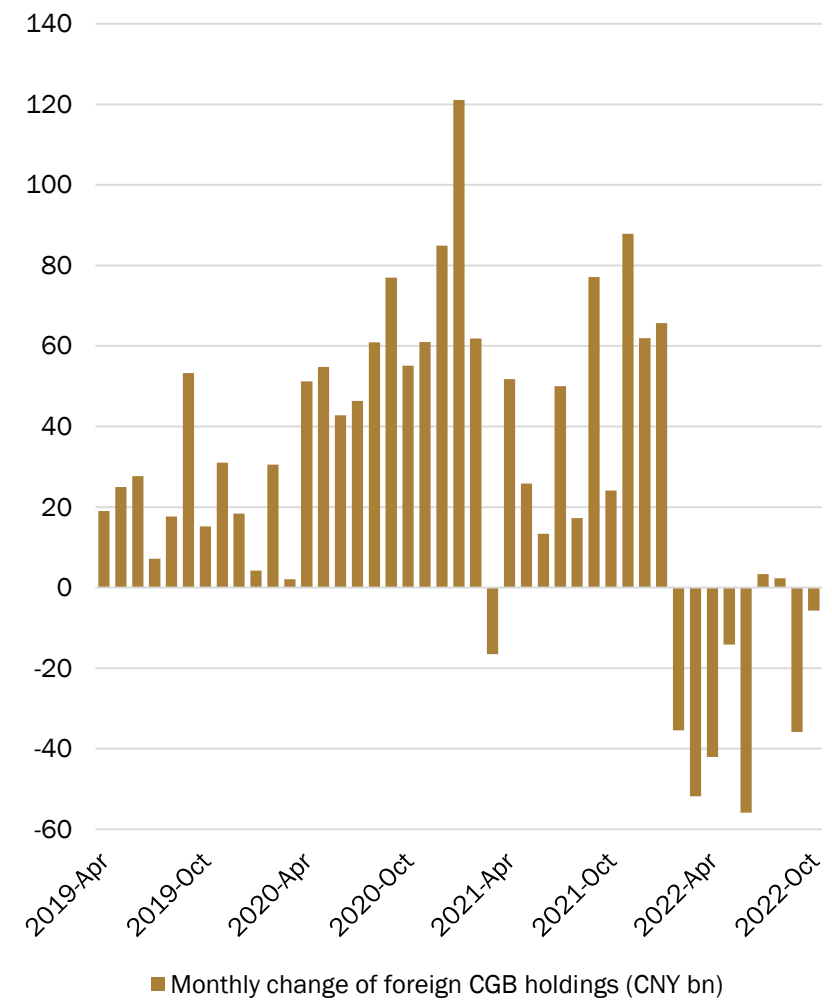
## Wide CGB-UST yield spreads inversion may continue to weigh on inflows

Yield spread between 10yr CGB-UST stays inverted and further widened to c. -150 bps in Nov-22 on 10yr UST yields rally.



Source: Bloomberg, ICBC Standard

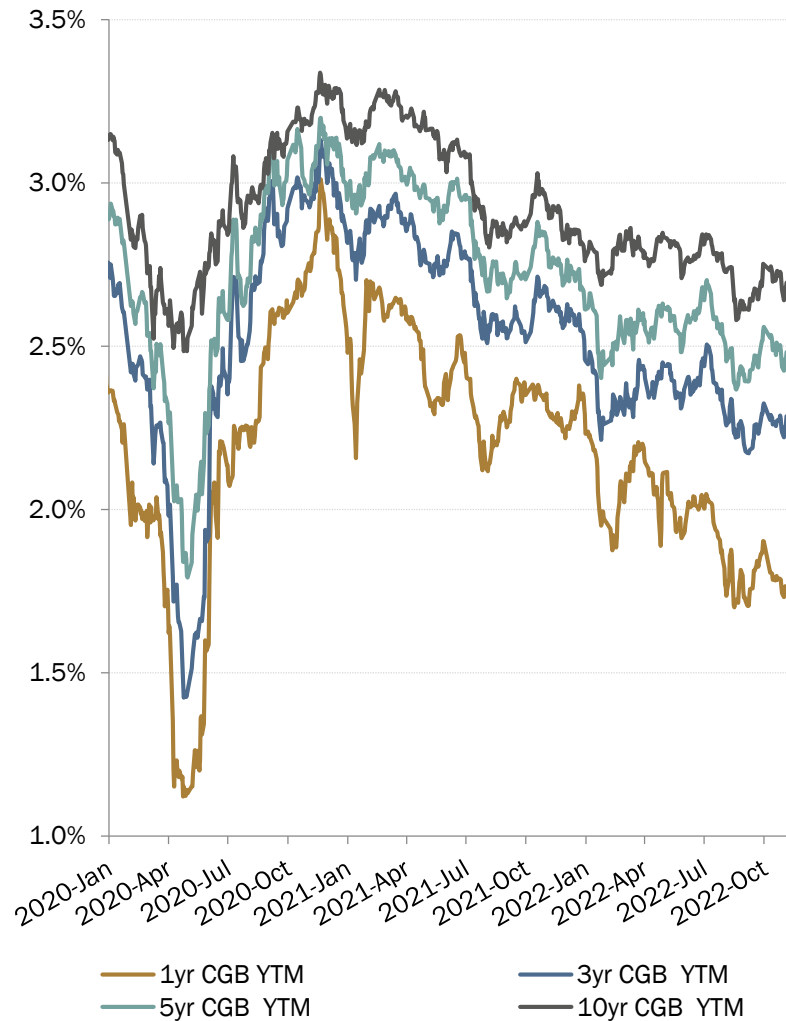
Markets saw renewed capital outflow from the onshore bond market in Sep & Oct as risk-off sentiment persisted.



Source: Bloomberg, ICBC Standard

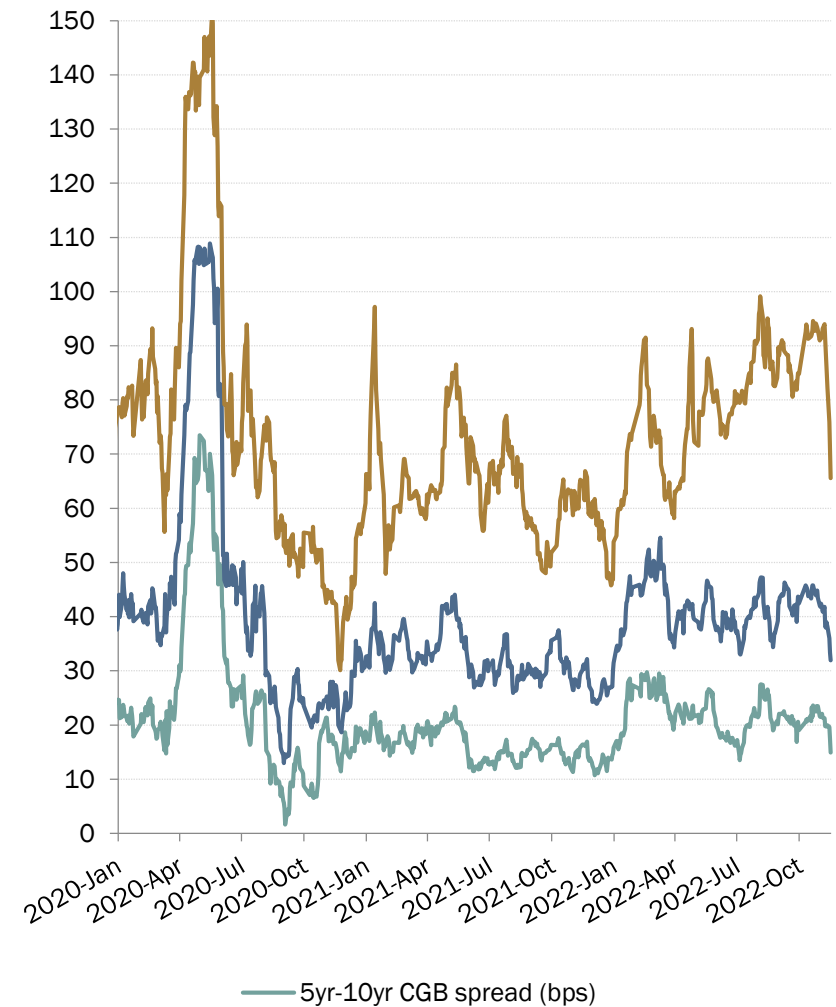
## CGB yields have moderate upside upon policy fine tuning

CGB yields notably jumped in Nov on prospects of gradual easing of the dynamic ZC measures and interbank liquidity withdrawal actions.



Source: WIND, ICBC Standard

1yr-10yr CGB spread saw sharpest drop from the recent highs as market expects gradual tightening of short-term inter-bank liquidity.



Source: Bloomberg, ICBC Standard

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