

# China Macro Outlook

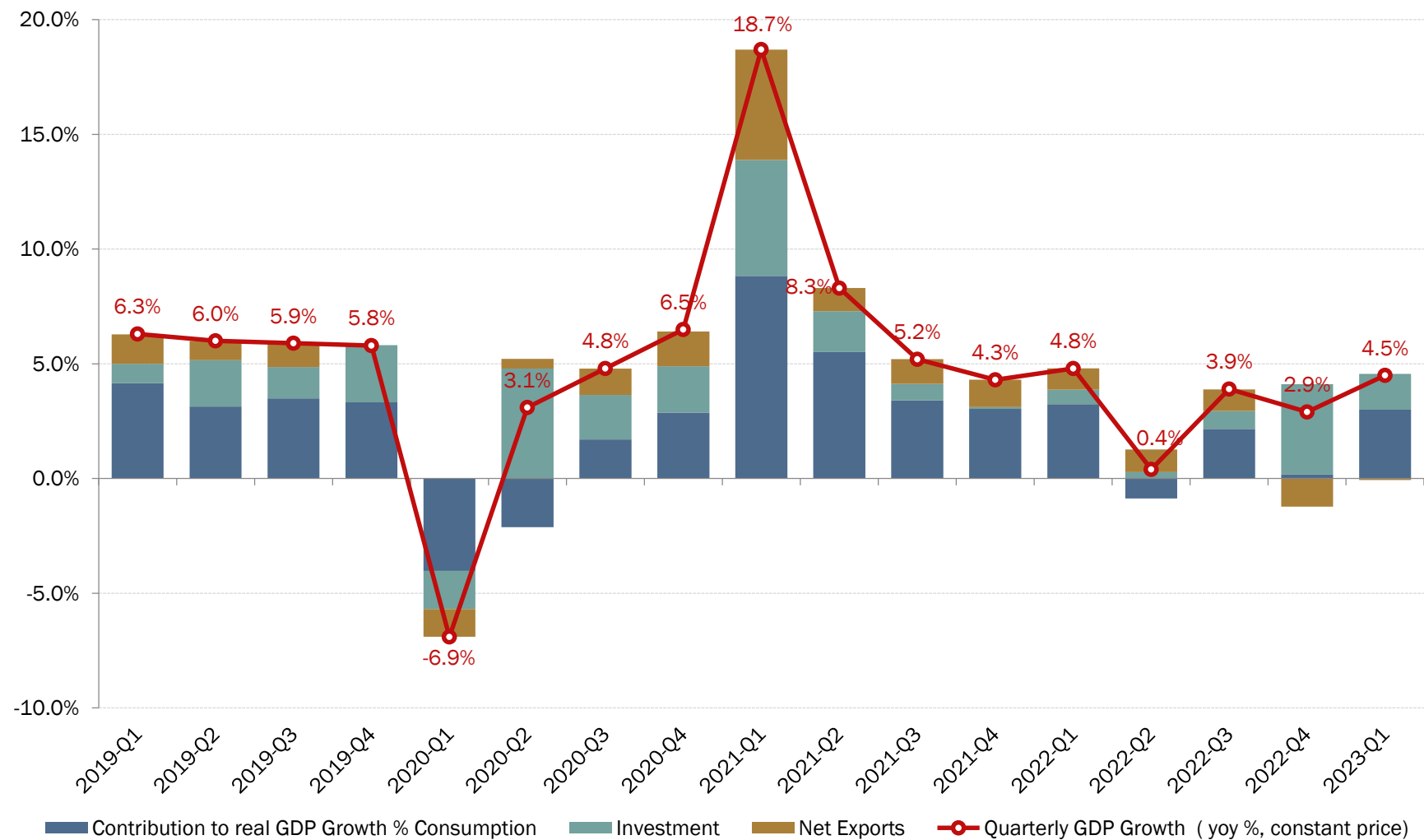
Restore, Recover, Rebalance

June 2023



## Strong Q1 rebound was widely anticipated following Q4 growth setback

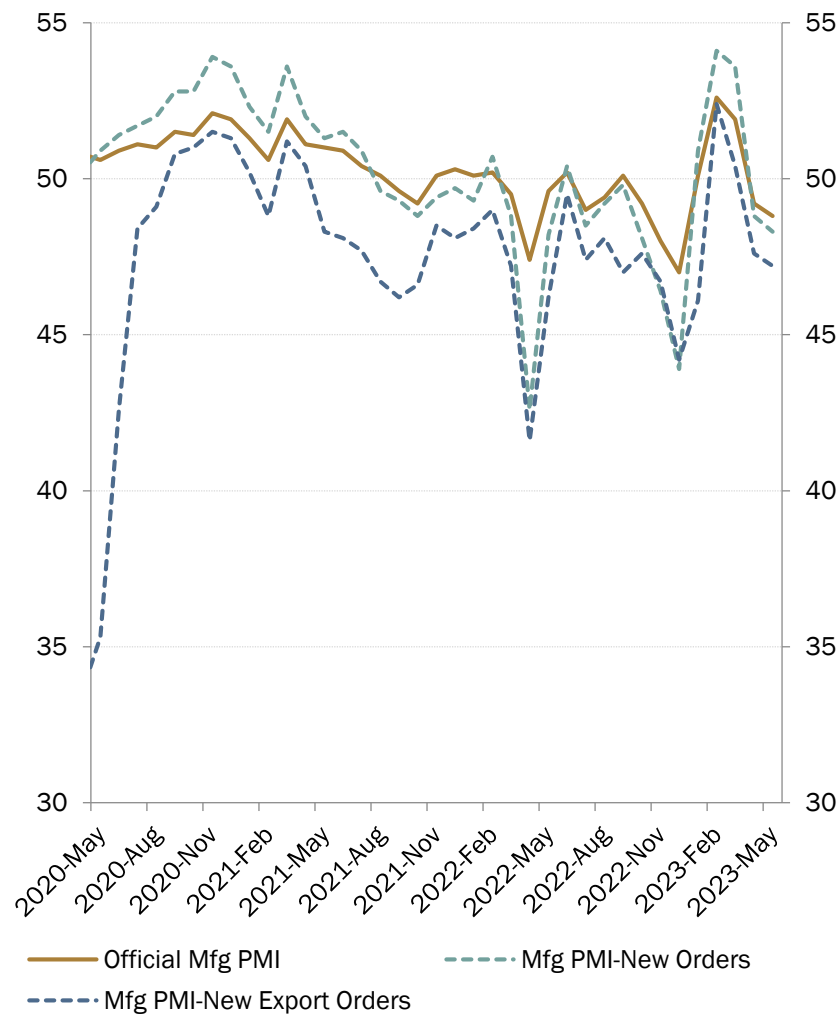
Q1 GDP growth in was mainly driven by rebound in consumption and ongoing support from investment, though net exports remained a drag.



Source: WIND, ICBC Standard

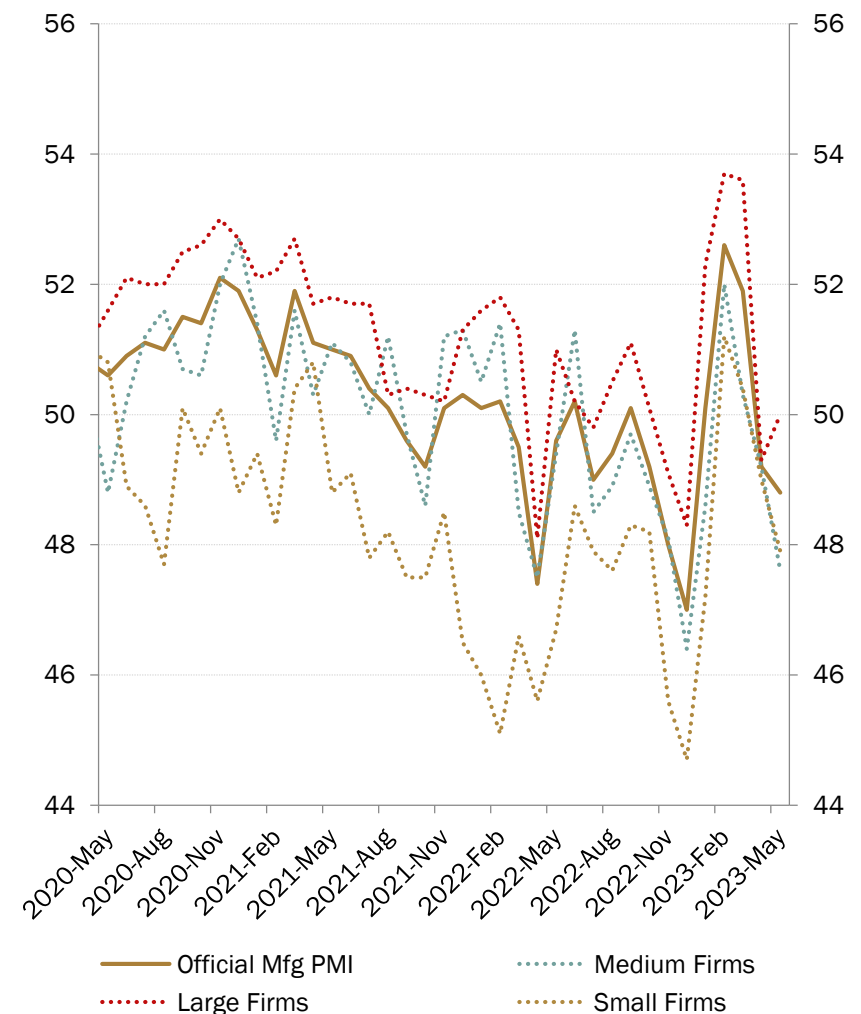
## Slowdown in manufacturing activities further confirms a two-speed recovery

Headline manufacturing PMI further retreated to 48.8 from 49.2 prior on sluggish demand and market confidence.



Source: WIND, ICBC Standard

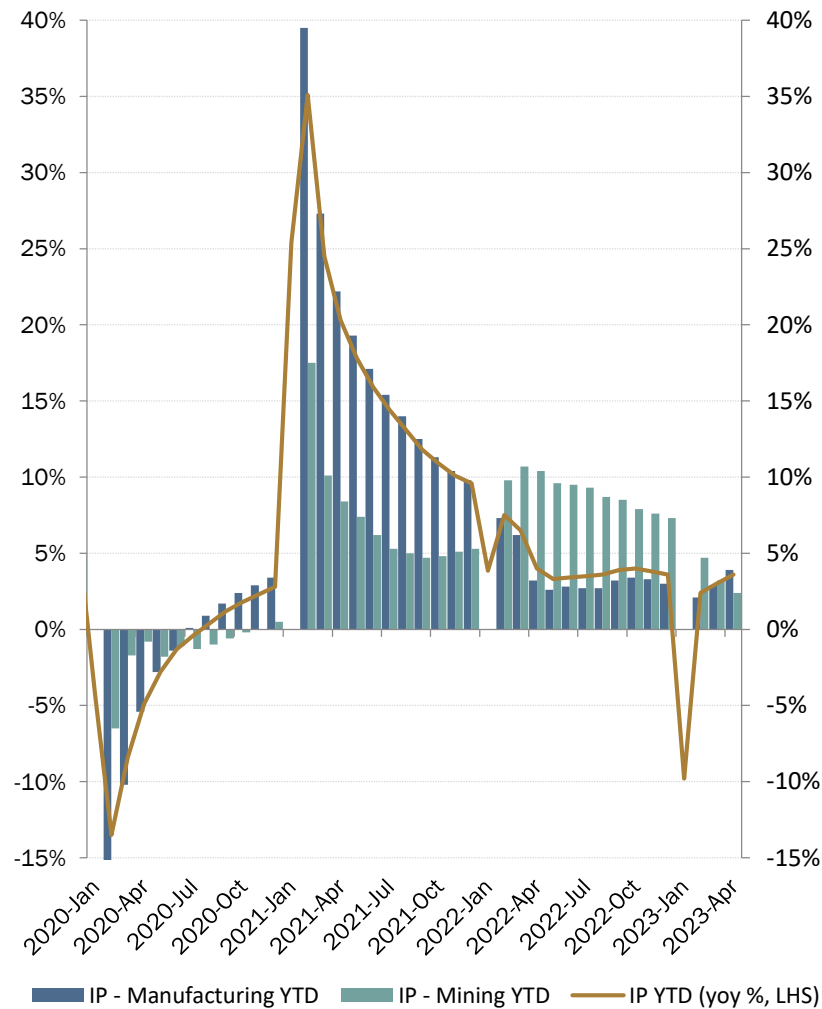
The reopening momentum further waned in May across the entire manufacturing sector, except large SOE firms.



Source: WIND, ICBC Standard

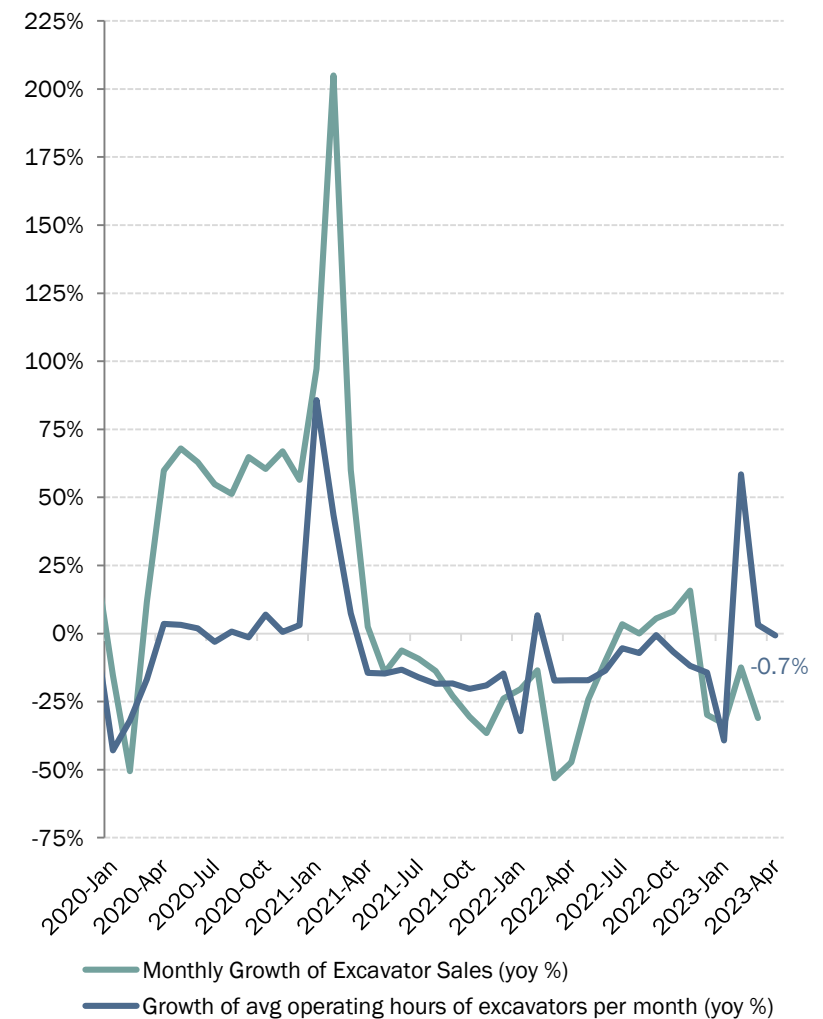
# Industrial production continues to fall short of market expectations

**Manufacturing activities stalled in April once the low base-effect support is removed.**



Source: WIND, ICBC Standard

**Operating hours of excavators retreated from February peak but stayed in the expansionary territory at 4.0% yoy growth in March.**



Source: WIND, ICBC Standard

## Continued fiscal support coupled with stable monetary policies in 2023

More than 25% of the annual quota for local government special purpose bond (CNY 1tn) has already been front-loaded before end-Q1 2023.

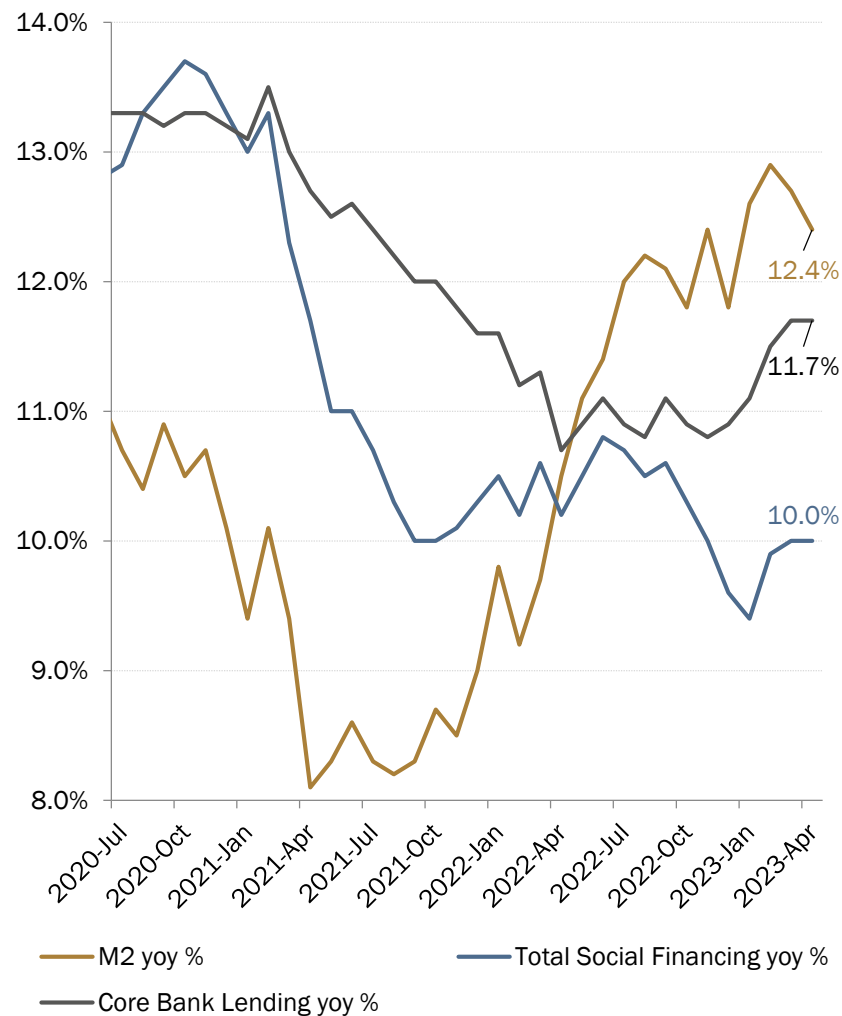
		2023 GWR Targets	2022 GWR Targets	2023 vs 2022
GDP	GDP Target (%)	5.0%	c. 5.5%	↓
	Official Fiscal Deficit (CNY bn)	3,812 (est.)	3,378 (est.)	↑
	Official Fiscal Deficit Ratio (% GDP)	3.0%	2.8%	↑
	<b>Special Bond Quota (CNY bn) *</b>	<b>3,800</b>	<b>3,650 * (4,030 actual)</b>	↓
	Special Bond Quota (% GDP)	3.0%	3.0% *(3.3% actual)	↓
Fiscal	<b>Special Fiscal Arrangement (CNY bn)</b>	<b>None</b>	<b>1) Extra 1,500 Special fiscal transfer payments to local gov. from central gov. 2) A New Financial Stability Fund (cancelled)</b>	↓
	<b>Broad Fiscal Deficit Ratio (% GDP)</b>	<b>c. 6.0% - 6.5%</b>	<b>c. 7.0%</b>	↓
	<b>Tax Cuts (CNY)</b>	<b>Extend existing tax cut policy for SMEs</b>	<b>Est. CNY 2.5tn tax cut/rebate by year-end</b>	↓
Social	Household Disposable Income Growth (yoy %)	"Same as nominal GDP growth rate" (c. 5.0%)	"Same as nominal GDP growth rate" (c. 5.5%)	→
	Urban New Job Creation (mn)	12.00	11.00	↑
	Unemployment Rate (%)	max. 5.50%	max. 5.50%	→
	Climate Change Action	1) Flexible annual target with the goal to achieve 14 <sup>th</sup> FYP target by 2025 2) Reduce annual consumption of fossil fuels	1) Flexible annual target with the goal to achieve 14 <sup>th</sup> FYP target by 2025 2) Energy consumption quota to exclude usage of raw material & renewable energy	↓
Monetary	CPI (%)	c. 3.0%	c. 3.0%	→
	New Loan Growth for SMEs (%)	NA	NA	NA
	M2 (yoy %)	"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"	"Increase new loan base and lower borrowing cost for real economy"	→

Source: WIND, ICBC Standard

\* Note: c. CNY 1tn worth of the local government special purpose bond issuance quota (over a quarter of the total CNY 3.8tn quota) have already been issued by end-March 2023. Market expects another issuance peak in late Q2 as local governments have set end-H1 2023 as a soft deadline to deliver the bulk of their annual special purpose bond quota.

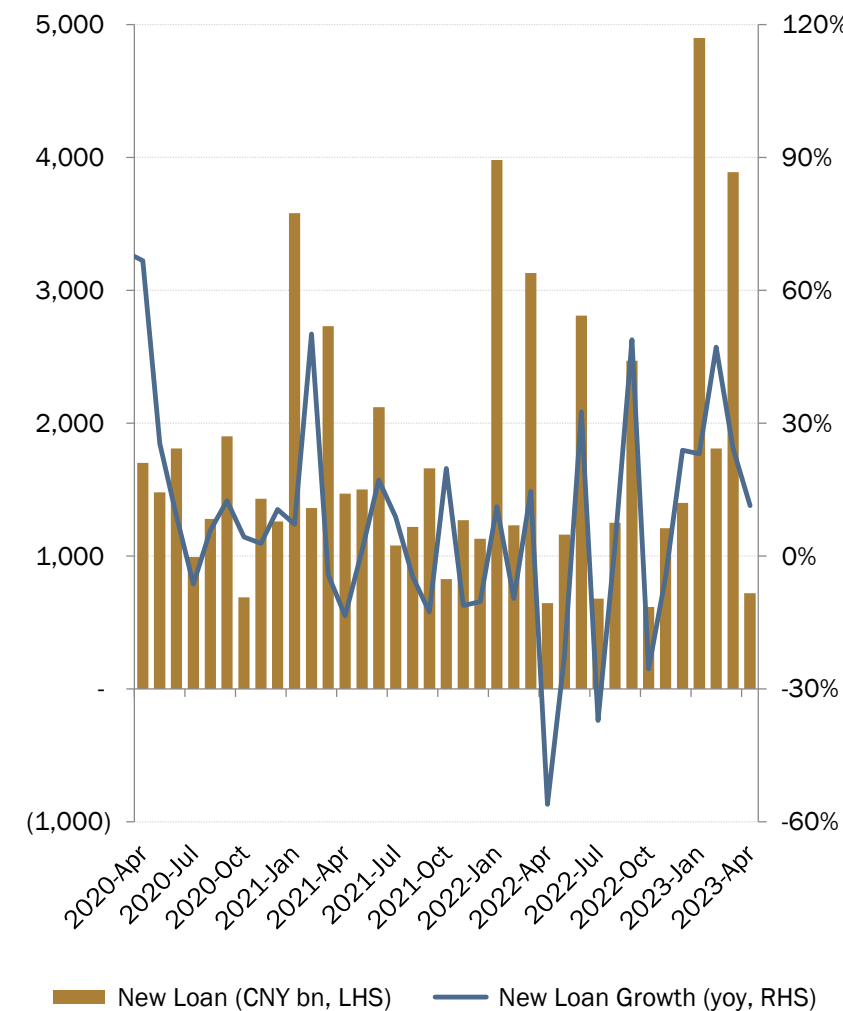
## Money supply remains buoyant as credit growth is still on the mend

March TSF and credit impulse both began to catch up on the back of policy efforts, while M2 growth remained elevated through Q1.



Source: WIND, ICBC Standard

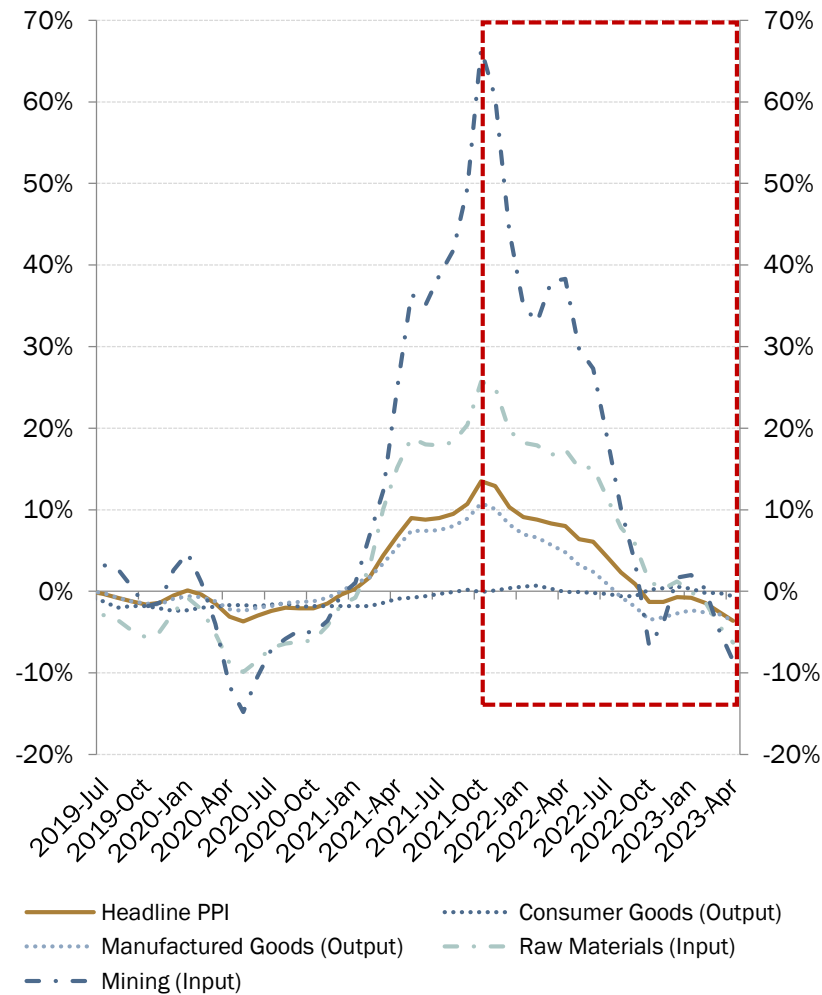
As household loans saw another large net drop, slowdown in April credit growth highlights the persistent pressure to restore confidence.



Source: WIND, ICBC Standard

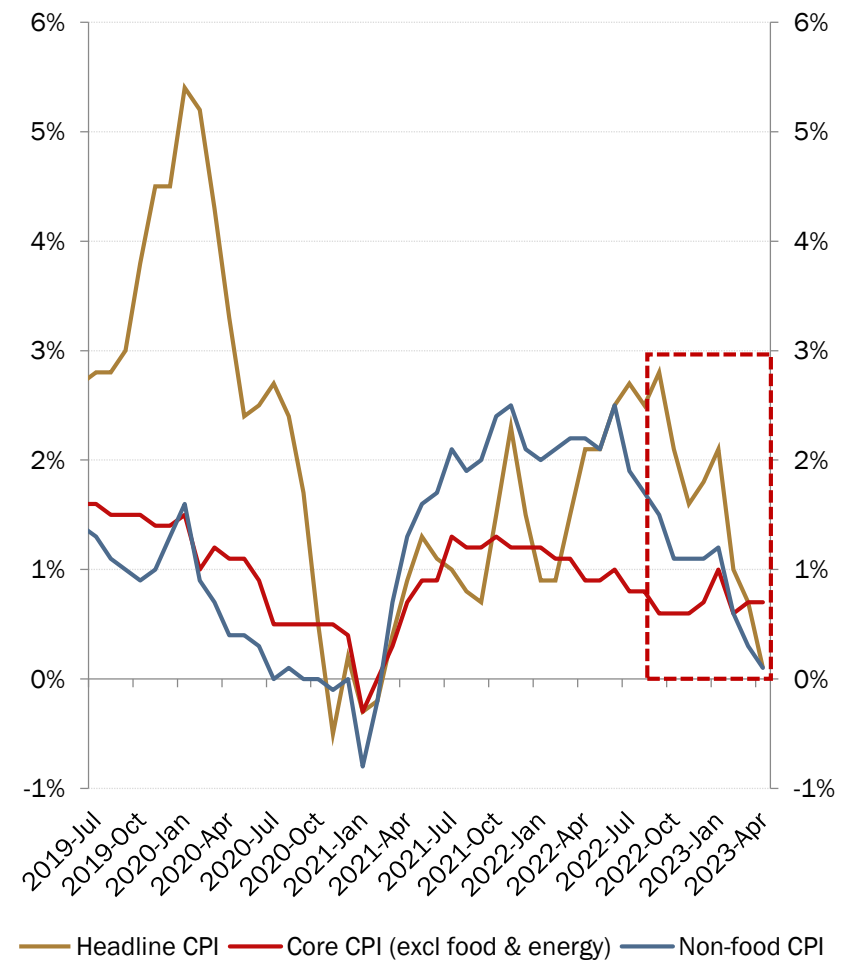
## Muted inflationary pressure allows PBoC to focus policy on growth

April headline PPI further demonstrated the deflationary pressure on softer raw material prices and the high base effect.



Source: WIND, ICBC Standard

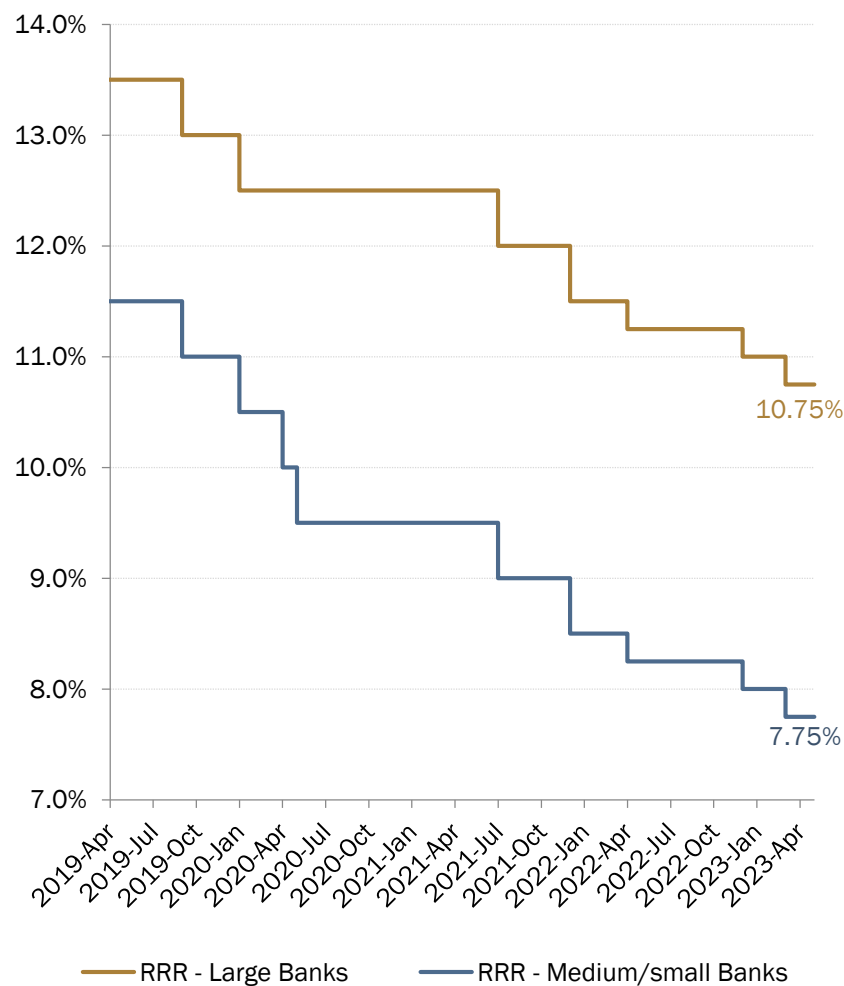
Near-zero headline CPI in April add to market concerns over the post-pandemic recovery progress.



Source: WIND, ICBC Standard

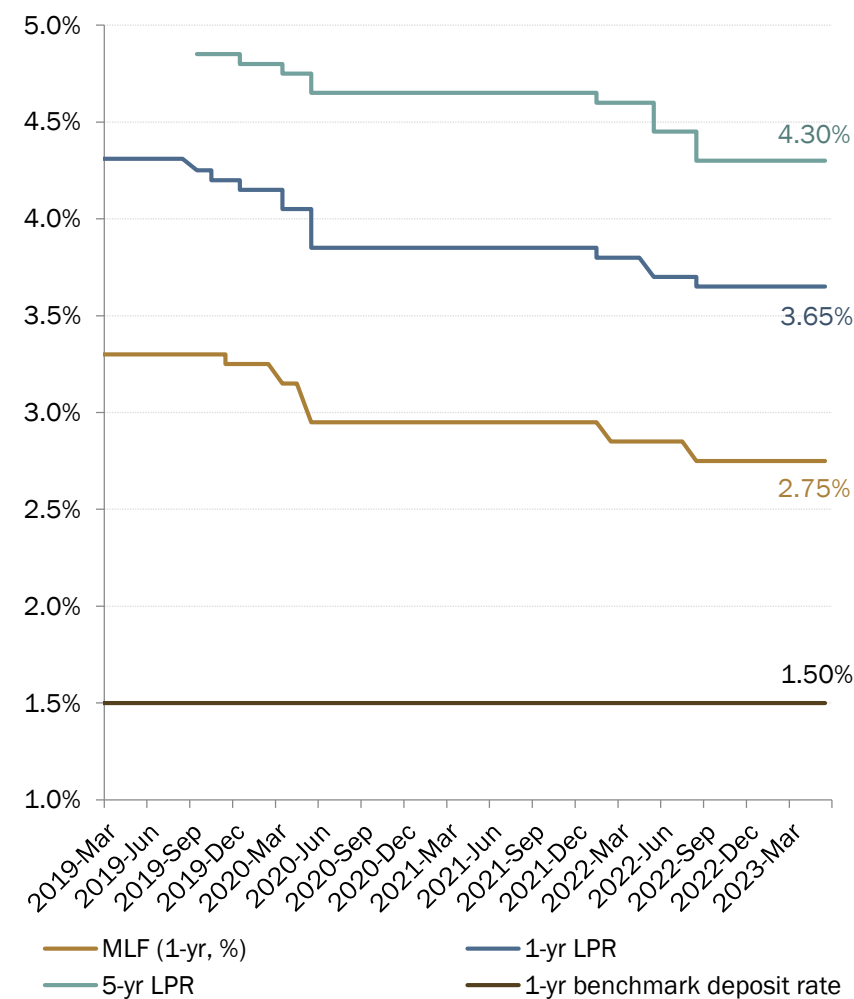
## Monetary policy is firmly anchored to support the real economy

The 25bps RRR cut in late March demonstrated the PBoC's commitment to supporting real economy after the Two Sessions.



Source: WIND, ICBC Standard

PBoC has kept MLF and LPR unchanged in Q1 2023 but ensured sufficient liquidity provision through OMO operations.

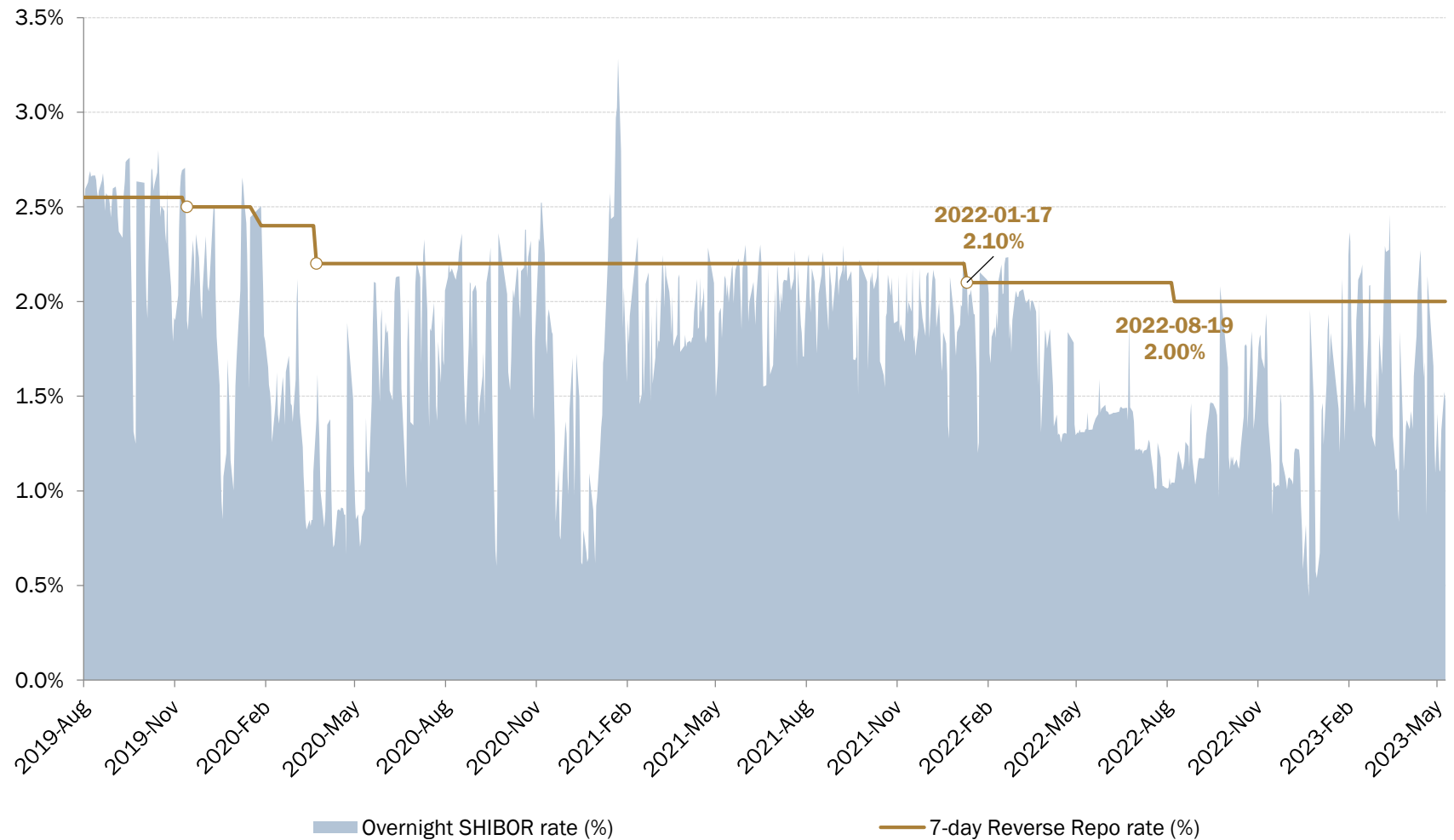


Source: WIND, ICBC Standard



## Interbank liquidity remains ample despite occasional squeeze in early Q1

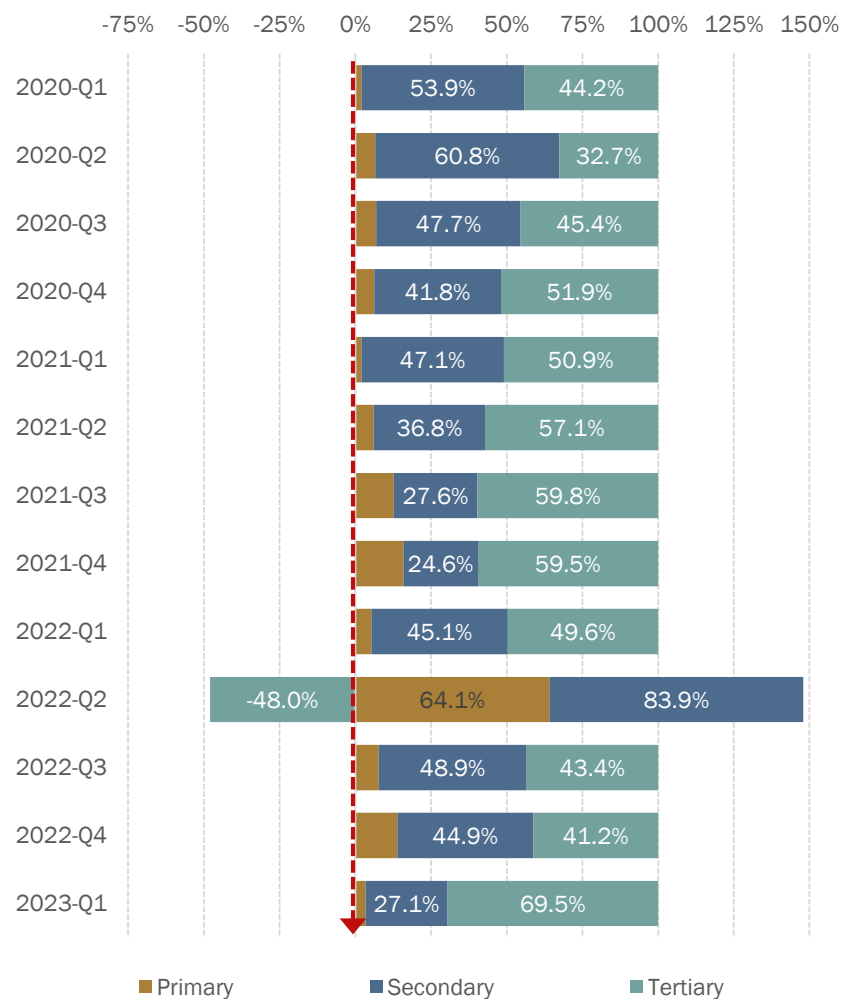
7D reverse repo rate frequently exceeded the 2.0% benchmark rate in early Q1 as commercial banks stepped up lending efforts.



Source: WIND, ICBC Standard

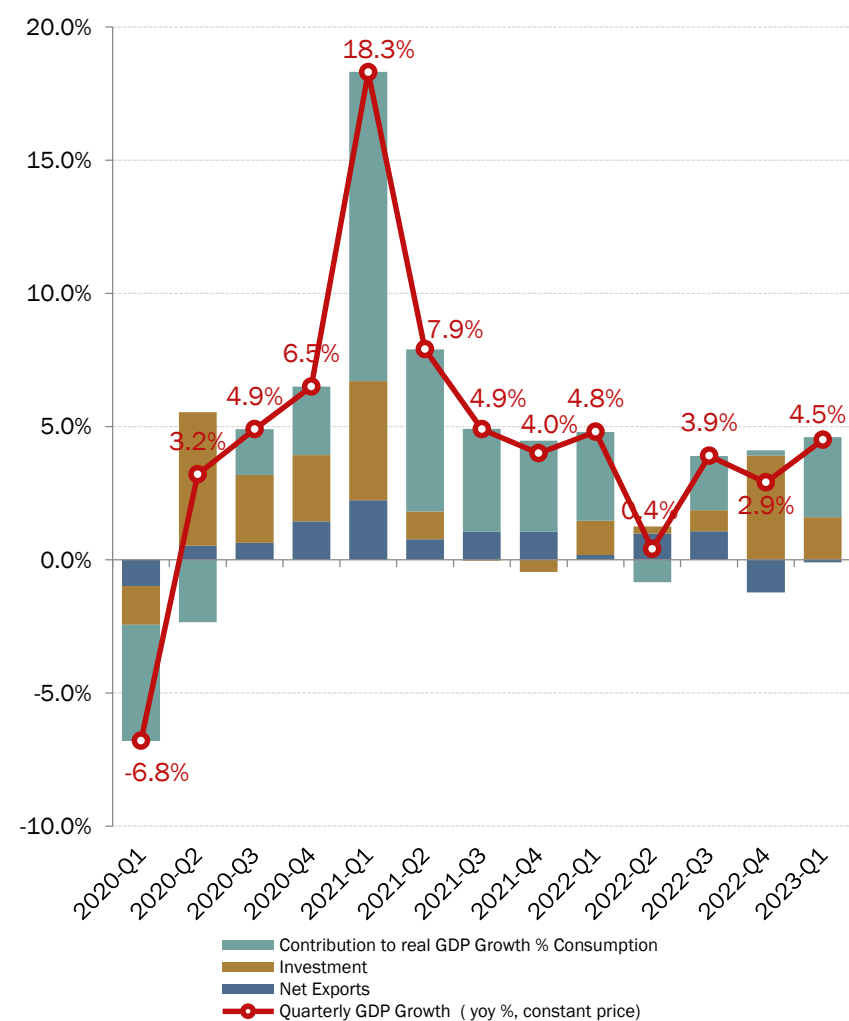
# Consumption rebound is key to recovering pre-pandemic growth momentum

**Sectoral share of GDP data confirms both secondary and tertiary sectors experienced a setback, but has plenty of room for rebound.**



Source: WIND, ICBC Standard

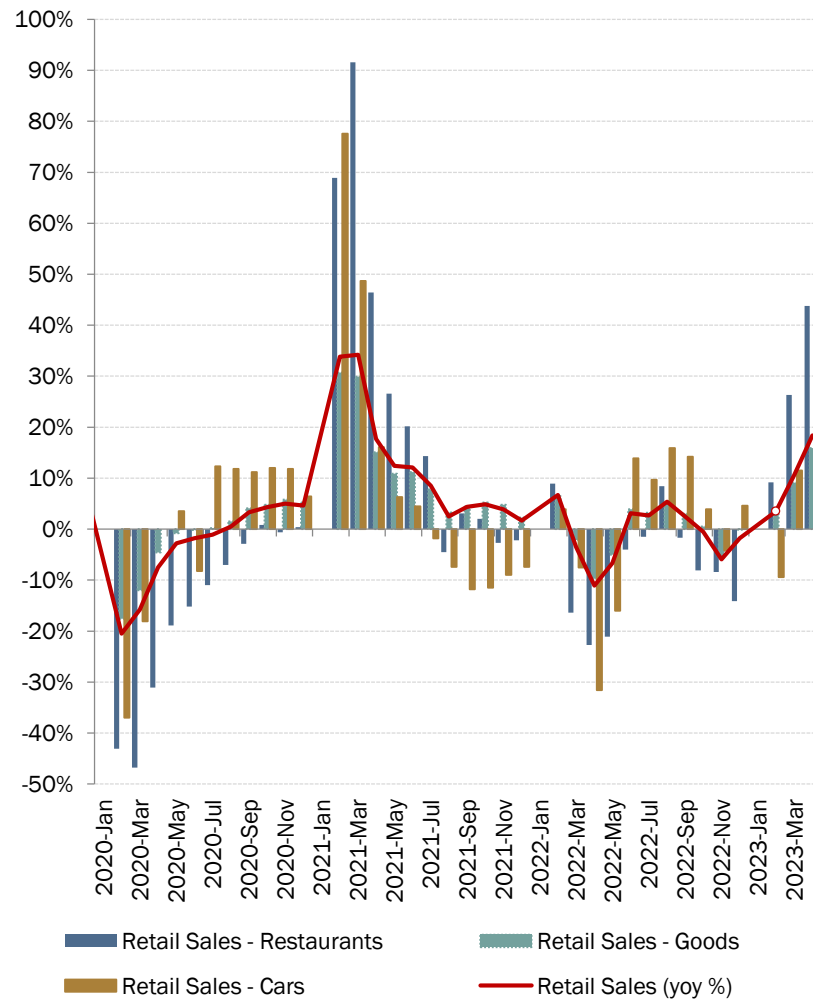
**Growth supportive measures are still necessary to steer a sustained recovery, especially if net exports remains a drag on growth.**



Source: WIND, ICBC Standard

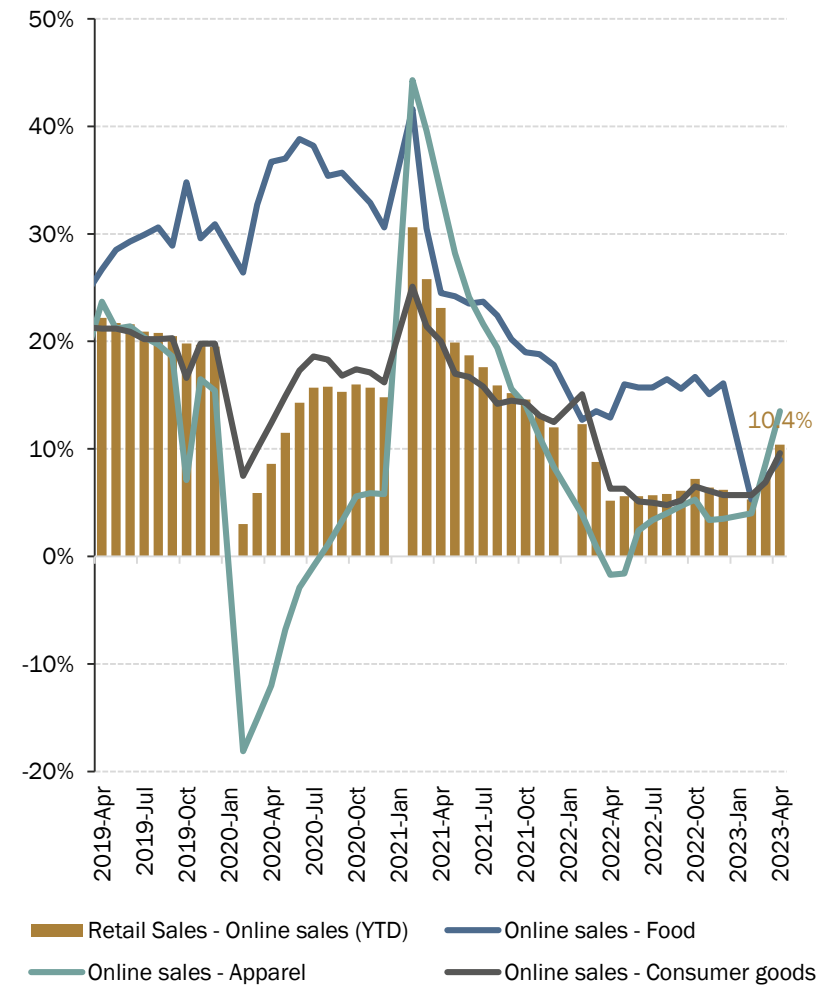
# Scarred household consumption gradually gathers recovery momentum

**April retail sales continued to enjoy the low-base support and healthy recovery across catering and auto-sales.**



Source: WIND, ICBC Standard

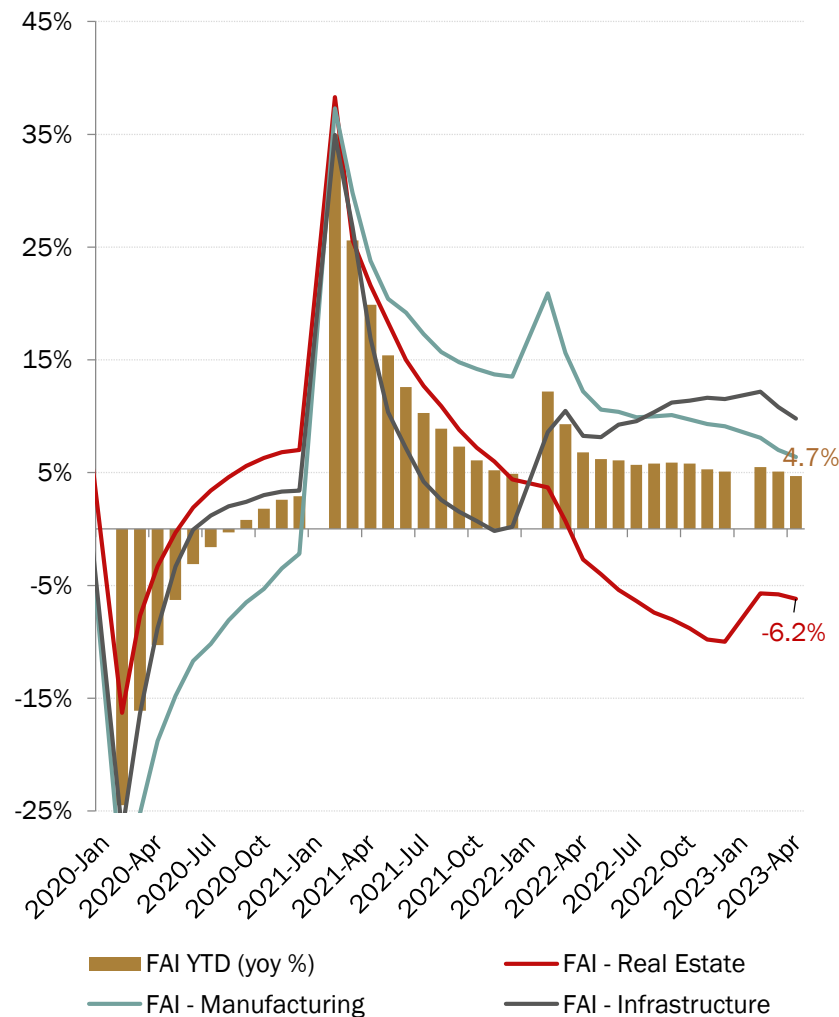
**Continued improvement of online sales is consistent with the high-frequency stats in the run up to the early-May holiday break.**



Source: WIND, ICBC Standard

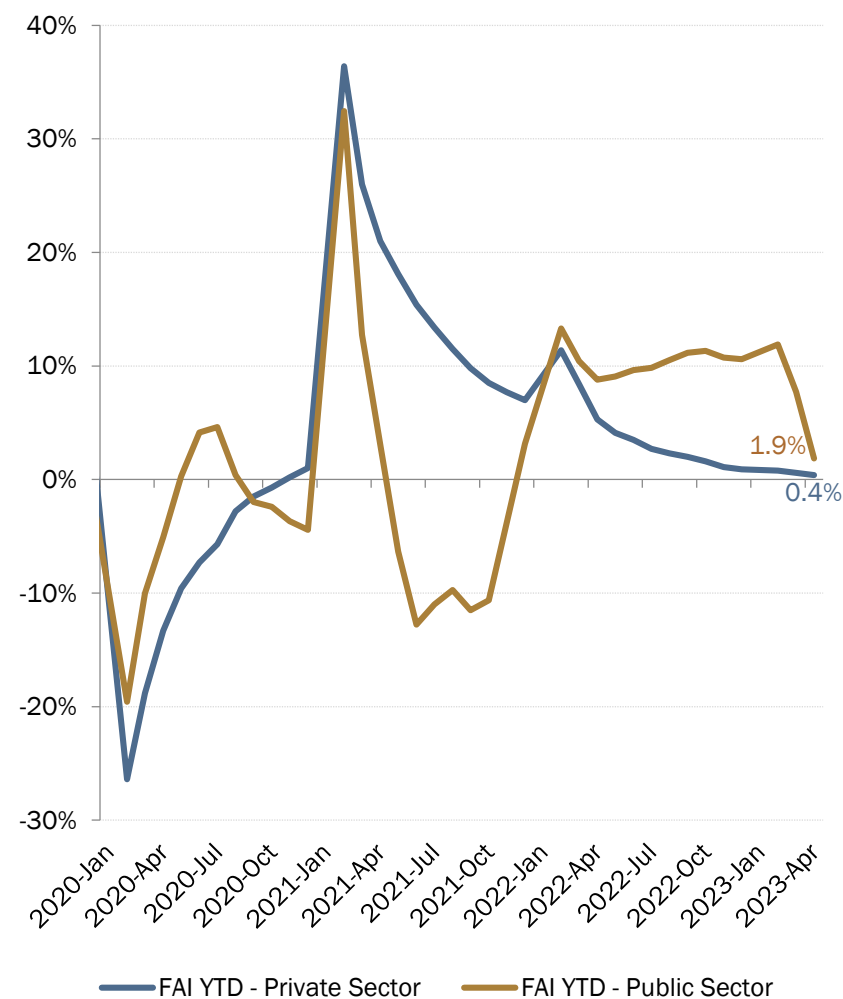
## Infrastructure FAI remains critical to offset unexpected growth headwinds

**Investment momentum further eased to 4.7% in April, with housing sector facing renewed pressure as investment momentum worsened.**



Source: WIND, ICBC Standard

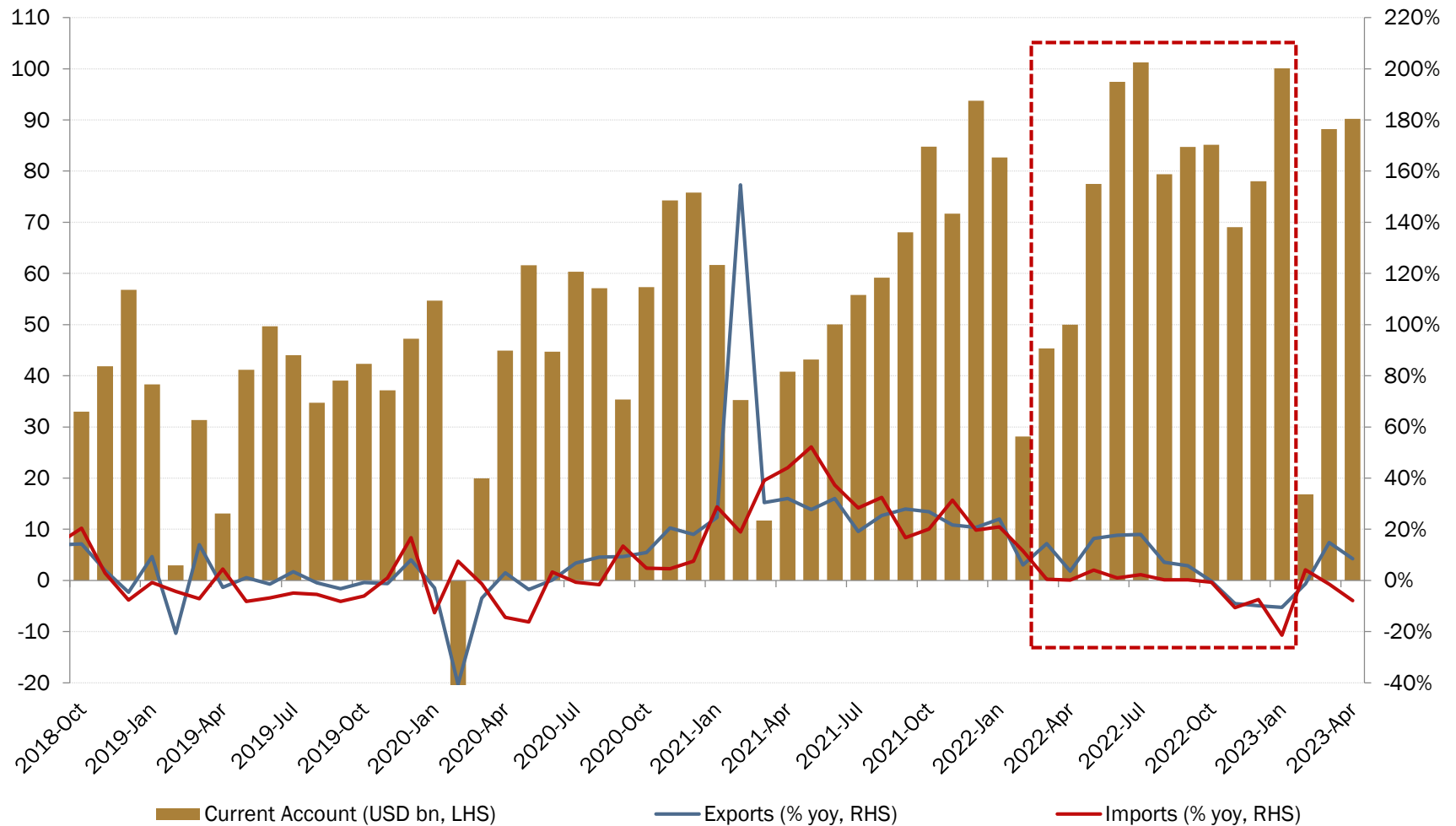
**While investment sentiment across private sector remains lacklustre, public investment also dropped to 1.9% in April from 7.7% prior.**



Source: WIND, ICBC Standard

## Net exports is expected to weigh on growth amidst weaker global outlook

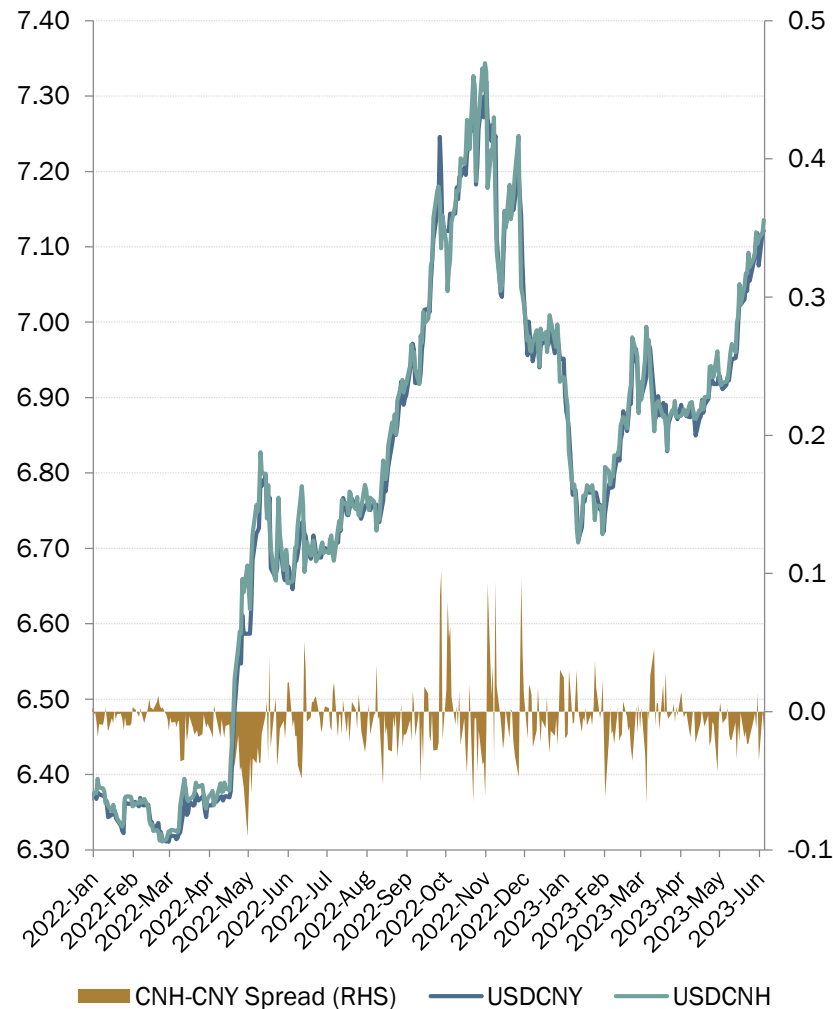
Exports growth slowed to 8.5% yoy in April from the unexpected 14.8% March pickup on the back of low base support, yet imports became much weaker with growth contraction widened to -7.9% yoy. Weak trade data further confirms the continuation of a two-speed recovery.



Source: WIND, ICBC Standard

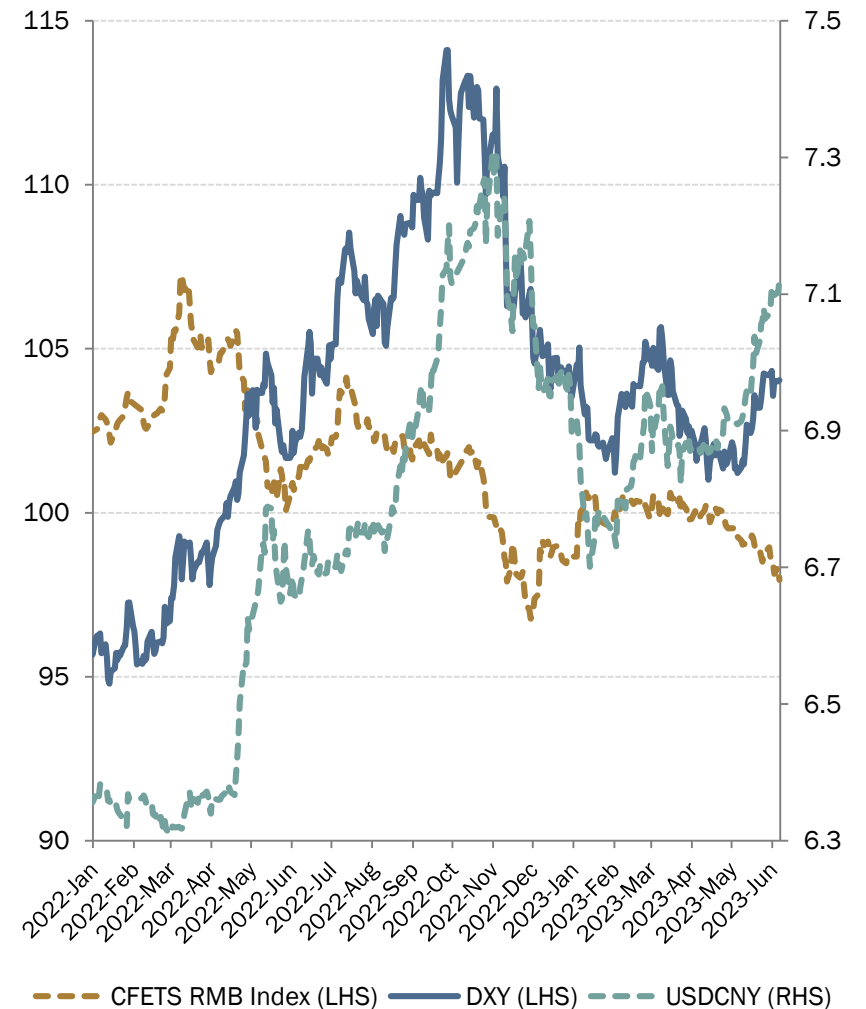
## Weaker USD may help offset FX pressures from a narrower trade surplus

**USDCNH broke 7.10 resistant level in June 2023 on renewed dollar strength as the US debt ceiling crisis unfold.**



Source: WIND, ICBC Standard

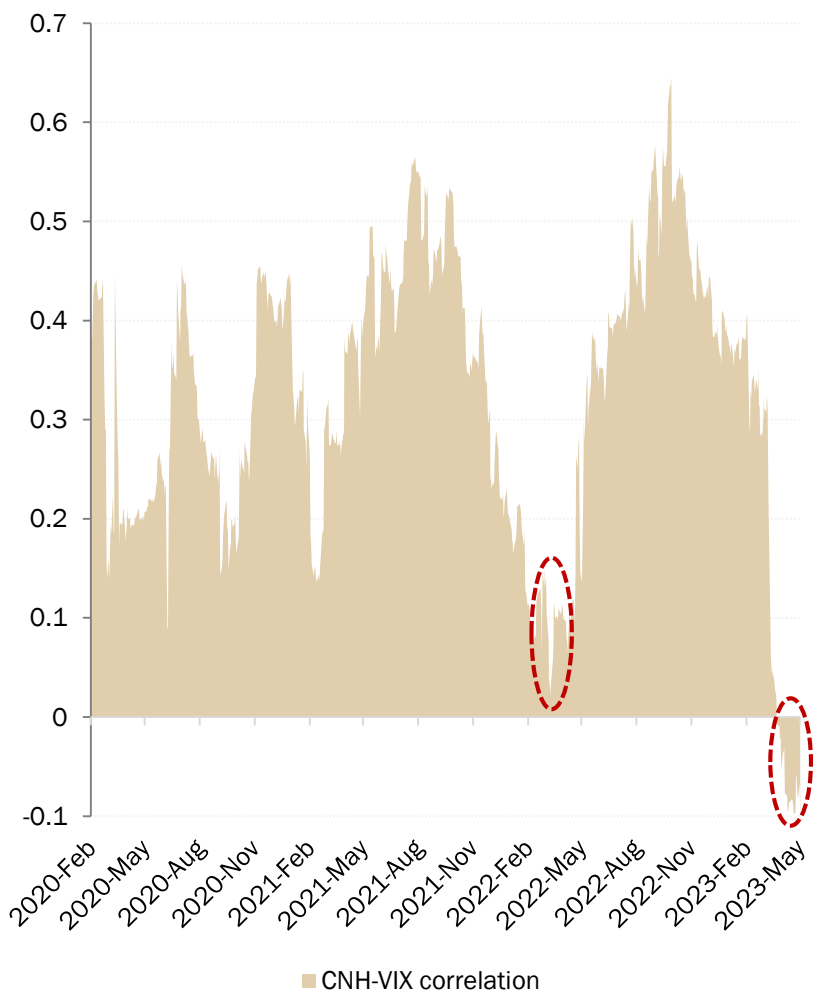
**The CFETS RMB index dropped on recent dollar strength, though a weaker USD is still widely expected in H2 2023.**



Source: Bloomberg, ICBC Standard

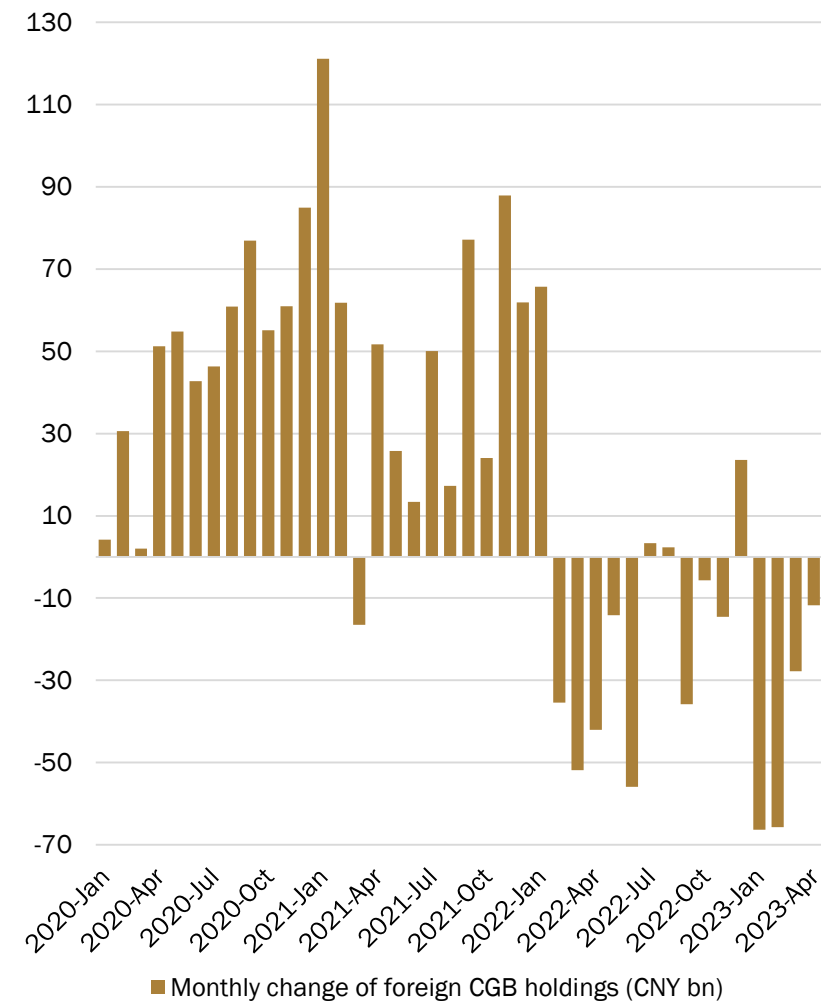
## Fed policy uncertainty remains the key driver of FX market volatility

CNH's correlation with VIX turned negative since March when Beijing prioritised financial stability amidst heightened global volatility.



Source: Bloomberg, ICBC Standard

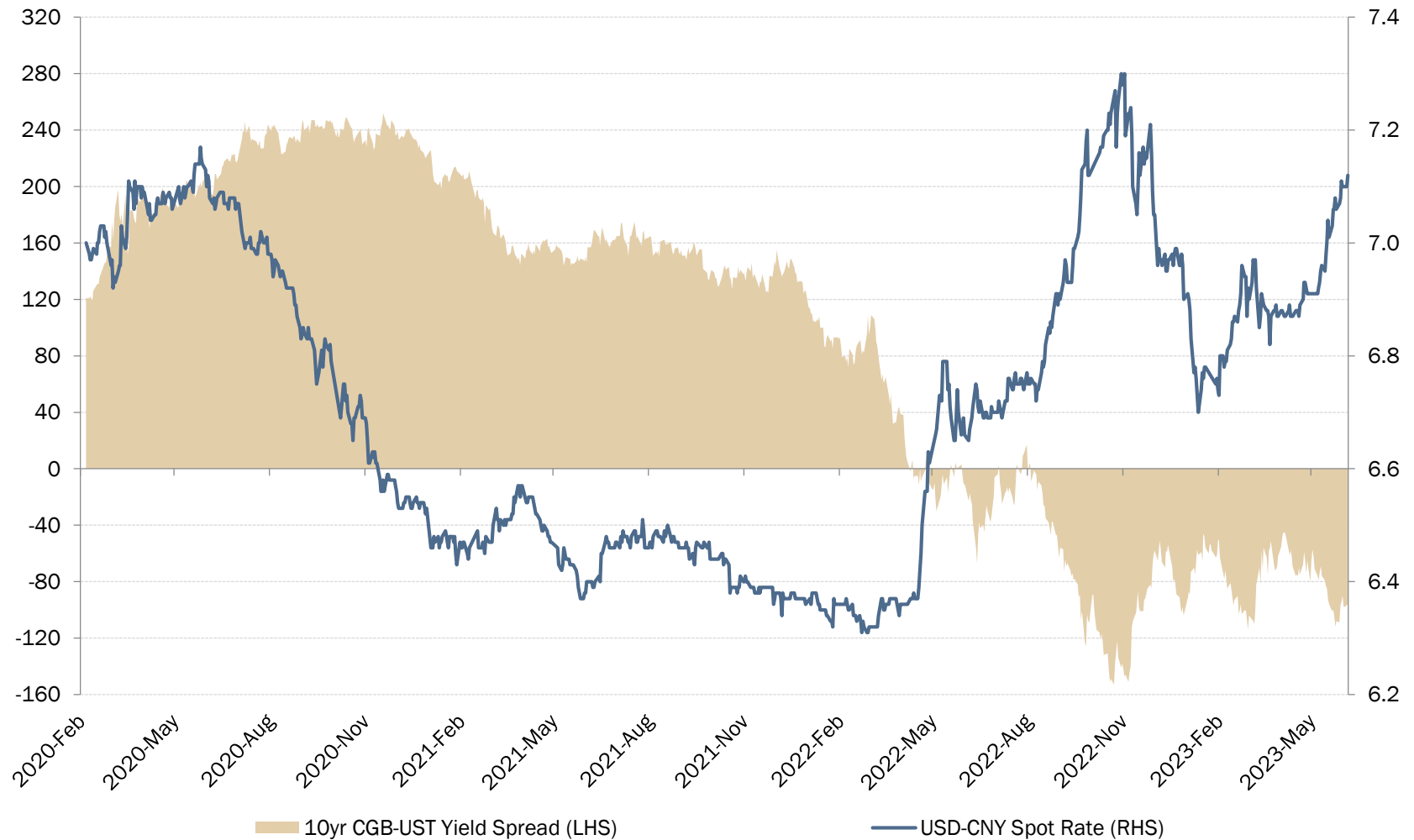
Despite record pickup in China equity inflows, market saw ongoing fixed-income outflow in Q1-23 as negative carry continued.



Source: CFETS, ICBC Standard

## Yield-spread inversion remains key obstacle to expand inflows near-term

Yield-spread between 10yr CGB-UST remains inverted and is likely to keep the status quo before year-end. That said, new offering of risk hedging tools through the “Swap Connect” scheme may help to boost global investors’ interest in the longer run.



Source: Bloomberg, ICBC Standard



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