

# China Macro Monitor

## Growth remained sluggish with moderate policy easing

- Growth momentum:** China's growth momentum remained weak in June as the high-frequency economic activity index further declined. Exports, housing sales, most durable consumption and business capex remained sluggish, while passenger and tourist flow continued to recover. Commodity prices slightly rebounded as US Fed temporarily paused policy rate hike in June and China was expected to launch additional policy easing ahead. However, US banks continued to tighten credit condition while the Chinese policymakers remained cautious to launch strong policy loosening. Renminbi further depreciated. We expect the 2Y CAGR of GDP to slow from 4.6% in 1Q23 to 3.9% in 2Q23 before rebounding to 4.3% in 2H23. Service sector has over 60% of China's SMEs and accounts for over 60% of China's urban employment. Its continuous recovery should help boost private business confidence and employment condition, which may probably facilitate an improvement of consumption performance in 2H23.
- Economic activity:** NBS service output index is expected to rise 5.7% in June after increasing 11.7% in May. In term of 2Y CAGR, it may mildly improve. Service activity may further improve as the summer holiday comes in July-August. Housing market and auto sales weakened in June, but may gradually improve from 3Q23. Construction activity remained weak as prices of related products further declined or was flat. The YoY growth of fixed asset investment (FAI) is expected to slow from 4% in 5M23 to 3.7% in 1H23. Overseas demand slightly improved, but advanced economies continued to diversify supply chains beyond China. We expect China's exports of goods to drop 6.5% in June after decreasing 7.5% in May. The value added industrial output is expected to rise 1% in June, down from the growth of 3.5% in May, with a slight pick-up in term of 2Y CAGR.
- Inflation trend:** Commodity prices slightly rebounded, but downside pressure remains as the US Fed may keep its policy rate high for longer and China economy needs more time to gradually resume. The YoY growth of CPI may slightly climb while the PPI is expected to further decline in June. As service sector continues to recover, there should be some mild reflation in 2H23-1H24.
- Monetary policy:** liquidity condition further eased as the PBOC further loosened monetary policy by cutting refinancing rates and LPRs while credit demand of private businesses and households remained weak. The LPR cut indicates further moderate easing of credit policy in China. However, policymakers seemed reluctant to launch strong policy loosening as they still considered high-quality development as the priority. We expect the central bank would maintain accommodative credit policy as the economic growth remains below potential growth with limited reflation risk.
- RMB Exchange Rates:** renminbi continued to weaken against US dollar as the US economy remained strong while China's economy further deteriorated. Renminbi may further depreciate against US dollar in near term and mildly rebound in 2H23-1H24 thanks to improvement of China economy and slowdown of US economy in next few quarters. We expect US\$/RMB spot rates to reach 7.10 at end-2023 and 7.05 at end-2024.

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**Figure 1: Monthly Economic Forecast**

	2023			
	Mar	Apr	May	Jun (F)
GDP (YoY %, quarterly)	4.5			7.6
VAIO (YoY %)	3.9	5.6	3.5	1.0
Service output index (YoY %)	9.2	13.5	11.7	5.7
Retail sales (YoY %)	10.6	18.4	12.7	2.8
FAI (YoY %, YTD)	5.1	4.7	4.0	3.7
Exports of goods (YoY %)	14.8	8.5	(7.5)	(6.5)
Imports of goods (YoY %)	(1.4)	(7.9)	(4.5)	(4.0)
CPI (YoY %)	0.7	0.1	0.2	0.3
PPI (YoY %)	(2.5)	(3.6)	(4.6)	(4.7)
RMB loans (YoY %)	11.8	11.8	11.4	11.5
M2 (YoY %)	12.7	12.4	11.6	11.3
Social financing (Rmb trn)	5.4	1.2	1.6	3.8
New RMB loans (Rmb trn)	3.9	0.7	1.4	2.3
3M Shibor(%)	2.45	2.43	2.22	2.14
10Y T-bond rate(%)	2.86	2.79	2.69	2.68

Source: Wind, CMBIGM

**Figure 2: China's economy forecast**

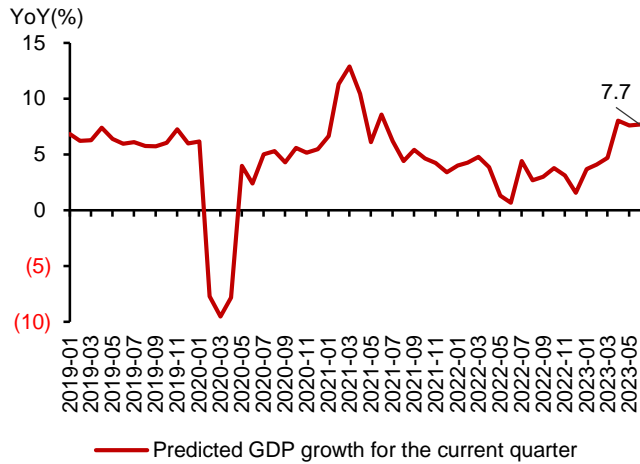
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023F	2024F
<b>GDP</b>																
Real GDP (YoY %)	9.4	10.6	9.6	7.9	7.8	7.4	7.0	6.8	6.9	6.7	6.0	2.2	8.4	3.0	5.7	4.8
Nominal GDP (US\$ tm)	5.1	6.1	7.6	8.5	9.6	10.4	11.0	11.2	12.3	13.9	14.3	14.7	17.8	18.0	18.2	19.4
Per capita GDP (US\$)	3823	4541	5597	6280	7057	7586	7923	8065	8797	9880	10124	10404	12615	12720	12925	13745
<b>Inflation (YoY %)</b>																
GDP deflator	(0.2)	6.9	8.0	2.3	2.1	1.1	0.0	1.5	4.3	3.5	1.2	0.5	4.6	2.2	0.2	2.2
CPI	(0.7)	3.3	5.4	2.6	2.6	2.0	1.4	2.0	1.6	2.1	2.9	2.5	0.9	2.0	1.4	2.5
PPI	(5.4)	5.5	6.0	(1.7)	(1.9)	(1.9)	(5.2)	(1.4)	6.3	3.5	(0.3)	(1.8)	8.1	4.1	(1.6)	1.8
<b>GDP by industry (YoY %)</b>																
Agriculture	4.0	4.3	4.2	4.5	3.8	4.1	3.9	3.3	4.0	3.5	3.1	3.1	7.1	4.1	4.1	4.3
Industry & construction	10.3	12.7	10.7	8.4	8.0	7.2	5.9	6.0	5.9	5.8	4.9	2.5	8.7	3.8	4.6	4.7
- VAIO	11.0	15.7	13.9	10.0	9.7	8.3	6.1	6.0	6.6	6.2	5.7	2.8	9.6	3.6	4.9	4.9
Service	9.6	9.7	9.5	8.0	8.3	8.3	8.8	8.1	8.3	8.0	7.2	1.9	8.5	2.3	6.8	5.2
<b>Contribution to GDP Growth (ppt)</b>																
Consumption	5.4	5.0	6.3	4.4	3.9	4.2	4.9	4.5	3.9	4.3	3.5	(0.2)	5.3	1.0	4.3	3.5
Investment	8.0	6.7	3.9	3.3	4.1	3.3	1.6	3.1	2.7	2.9	1.7	1.8	1.1	1.5	1.2	1.0
Net exports	(4.0)	(1.1)	(0.6)	0.2	(0.2)	(0.1)	0.5	(0.8)	0.3	(0.5)	0.8	0.6	1.7	0.5	0.2	0.3
<b>Demand indicators (YoY %)</b>																
FAI	30.4	24.5	23.8	20.6	19.6	15.7	10.0	8.1	7.2	5.9	5.4	2.9	4.9	5.1	4.0	4.5
- Manufacturing	26.6	26.9	31.8	22.0	18.5	13.5	8.1	4.2	4.8	9.5	3.1	(2.2)	13.5	9.1	5.0	5.5
- Property development	16.1	33.2	27.9	16.2	19.8	10.5	1.0	6.9	7.0	9.5	9.9	7.0	4.4	(10.0)	(3.5)	3.0
- Infrastructure	42.2	18.5	6.5	13.7	21.2	20.3	17.3	15.7	14.9	1.8	3.3	3.4	0.2	11.5	7.0	4.0
Retail sales	15.9	18.8	18.5	14.5	13.1	12.0	10.7	10.4	10.2	9.0	8.0	(3.9)	12.5	(0.2)	7.5	5.5
Exports of goods	(16.0)	31.3	20.3	7.9	7.8	6.0	(2.9)	(7.7)	7.9	9.9	0.5	3.6	29.6	7.0	(1.0)	6.5
Imports of goods	(11.2)	38.8	24.9	4.3	7.2	0.5	(14.3)	(5.5)	16.1	15.8	(2.7)	(0.6)	30.1	1.0	(2.5)	4.5
<b>Monetary conditions</b>																
M2 (YoY %)	27.7	19.7	13.6	13.8	13.6	12.2	13.3	11.3	8.1	8.1	8.7	10.1	9.0	11.8	11.0	9.5
M1 (YoY %)	32.4	21.2	7.9	6.5	9.3	3.2	15.2	21.4	11.8	1.5	4.4	8.6	3.5	3.7	6.0	7.0
New RMB loans (RMB tm)	9.6	8.0	7.5	8.2	8.9	9.8	11.7	12.7	13.5	16.2	16.8	19.6	20.0	21.3	23.7	25.4
Total social financing (RMB tm)	13.9	14.0	12.8	15.8	17.3	16.5	15.4	17.8	26.2	22.5	25.6	34.9	31.4	32.0	35.2	38.0
RRR for large banks (%)	15.5	18.5	21.0	20.0	20.0	20.0	17.5	17.0	17.0	14.5	13.0	12.5	11.5	11.0	10.5	10.0
10Y T-bond rates (%)	3.73	3.90	0.00	3.58	4.56	3.62	2.83	3.02	3.88	3.24	3.14	3.14	2.77	2.84	2.95	2.80
1Y LPR (%)					5.73	5.51	4.30	4.30	4.30	4.30	4.30	4.30	4.30	3.65	3.55	3.55
5Y LPR (%)												4.80	4.65	4.65	4.30	4.15
<b>Public finance</b>																
Fiscal revenue (YoY %)	11.7	21.3	25.0	12.9	10.2	8.6	5.8	4.5	7.4	6.2	3.8	(3.9)	10.7	0.6	6.7	5.0
Fiscal expenditure (YoY %)	21.9	17.8	21.6	15.3	11.3	8.3	13.2	6.3	7.6	8.7	8.1	2.9	0.3	6.1	5.6	4.0
General deficit ratio (%)	2.7	2.5	1.8	1.5	2.0	2.1	2.4	2.9	2.9	2.6	2.8	3.7	3.1	2.8	3.0	2.8
Special fund revenue (YoY %)				(9.3)	39.2	3.5	(21.8)	11.9	34.8	22.6	12.0	10.6	4.8	(20.6)	0.4	5.0
Special fund expenditure (YoY %)				(9.7)	37.9	1.8	(17.7)	11.7	32.7	32.1	13.4	28.8	(3.7)	(2.5)	6.7	10.0
LG special bond quota / GDP (%)								0.5	1.0	1.5	2.2	3.7	3.2	3.0	3.0	3.0
<b>BOP &amp; Exchange rates</b>																
Trade surplus of goods / GDP (%)	4.8	4.0	3.0	3.6	3.7	4.2	5.3	4.4	3.9	2.7	2.8	3.5	3.2	3.8	3.1	3.4
Trade surplus of service / GDP (%)	(0.5)	(0.4)	(0.6)	(0.9)	(1.3)	(2.0)	(2.0)	(2.1)	(2.1)	(2.1)	(1.8)	(1.0)	(0.6)	(0.7)	(0.7)	(0.9)
Current account balance / GDP (%)	4.8	3.9	1.8	2.5	1.5	2.3	2.7	1.7	1.5	0.2	0.7	1.7	1.8	2.2	2.6	1.8
Financial account balance / GDP (%)	3.8	4.6	3.4	(0.4)	3.6	(0.5)	(4.0)	(3.7)	0.9	1.2	0.1	(0.4)	0.2	(1.5)	(0.9)	(1.0)
Error & omission / GDP (%)	(0.8)	(0.9)	(0.2)	(1.0)	(0.7)	(0.6)	(1.8)	(1.9)	(1.7)	(1.3)	(0.9)	(1.1)	(0.9)	(0.3)	(0.2)	(0.3)
Forex reserve (US\$ tm)	2.40	2.85	3.18	3.31	3.82	3.84	3.33	3.01	3.14	3.07	3.11	3.22	3.25	3.15	3.20	3.10
US\$/RMB spot rate (year-end)	6.83	6.59	6.30	6.23	6.05	6.20	6.49	6.95	6.51	6.87	6.97	6.54	6.37	6.95	7.10	7.05

Source: Wind, CMBIGM

## China's Economy Forecast

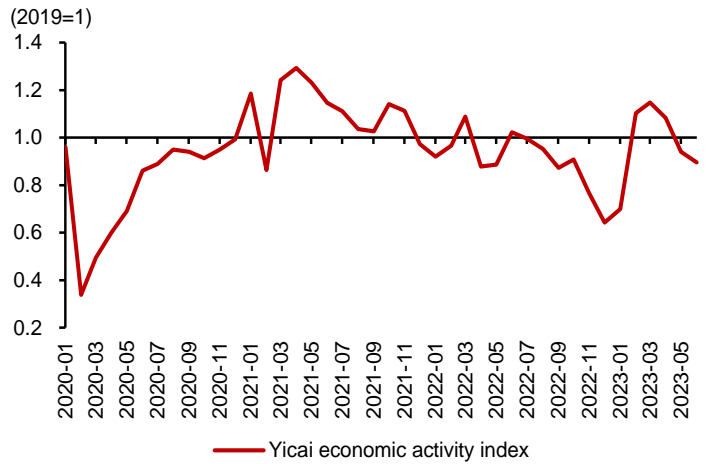
- **Economic activity remained sluggish with slight improvement.** Yicai high-frequency economic activity index further declined from 0.94 in May to 0.9 in the first 13 days of June. The index saw its lowest level in recent three months on 6 June and then gradually rebounded. 2Q23 GDP growth predicted by AI remained at 7.6% last week, the same as in May. Number of flights further recovered thanks to continuous improvement of passenger flow. The recovery rate of city subway passenger flow remained stable, while that of housing sales moderately declined. Long-term bond rates slightly declined while renminbi further depreciated as expectations about China's economic prospect remained weak. Private business remained cautious to expand capex and employment, while consumer confidence was low.
- **Employment condition and consumer confidence may moderately improve in 2H23.** Service activity continued to recover with a better performance than manufacturing activity. Service sector had over 60% of China's SMEs and absorbed over 60% of China's urban employment. Thanks to continuous recovery in service activity, the employment condition may gradually improve in 2H23. Consumer confidence may recover along with the improvement of employment condition. We expect GDP growth to respectively reach 7.6%, 4.7% and 5.8% in the remaining three quarters with the full-year growth at 5.7%. The 2Y CAGRs of GDP in the three quarters are expected to be at 3.9%, 4.3% and 4.3%, down from 4.6% in 1Q23.
- **Deflation pressure increased in 2Q23 before possible mild reflation from 2H23.** Commodity prices mildly rebounded in June as the US Fed kept policy rate unchanged and the market expected China to launch additional policy stimulus ahead. PPI may see its largest YoY declines in June and gradually improve in 2H23. CPI growth may also mildly rebound in the second half year thanks to the moderate reflation in service sector. We expect PPI to drop 2.3% in 2023 before rising 1.7% in 2024. CPI is expected to rise 0.8% in 2023 before increasing 2.4% in 2024.
- **China may launch moderate policy stimulus in 2H23 to boost the growth.** China economy has noticeably deteriorated with rising deflation pressure in 2Q23. The PBOC cut the LPRs by 10bps on 20 June, indicating a new round of moderate policy stimulus on the way. More cities may follow Qingdao to moderately loosen property policies (reduction in down-payment ratios and new mortgage loan rates). The MoF may provide additional fiscal subsidy and tax credit to targeted sectors like hard technology, high-end manufacturing and small business. The cabinet may also extend the tax reduction policy for new energy vehicles for longer. In addition, some municipal governments may provide coupons to consumers. However, overall policy stimulus should be moderate as the small magnitude of LPR cut indicates. High-quality development and Sino-US strategic competition remains the priority for Chinese policymakers.

**Figure 3: Predicted GDP Growth**



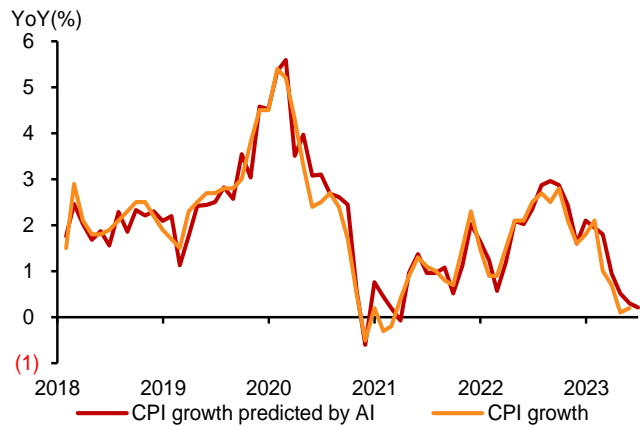
Source: WIND, CMBIGM

**Figure 4: China Economic Activity**



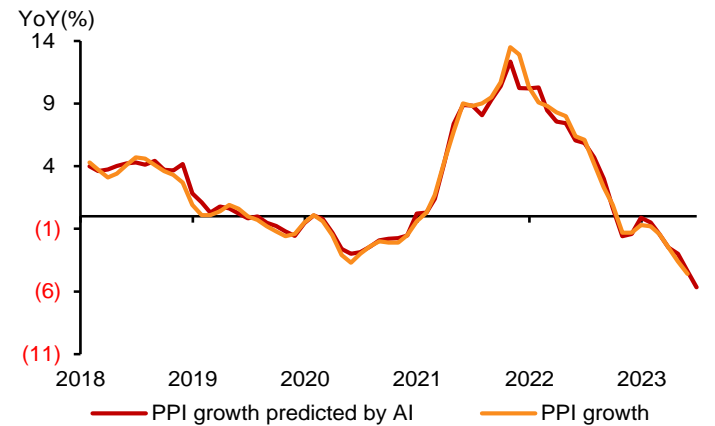
Source: WIND, CMBIGM

**Figure 5: CPI growth may remain low in June**



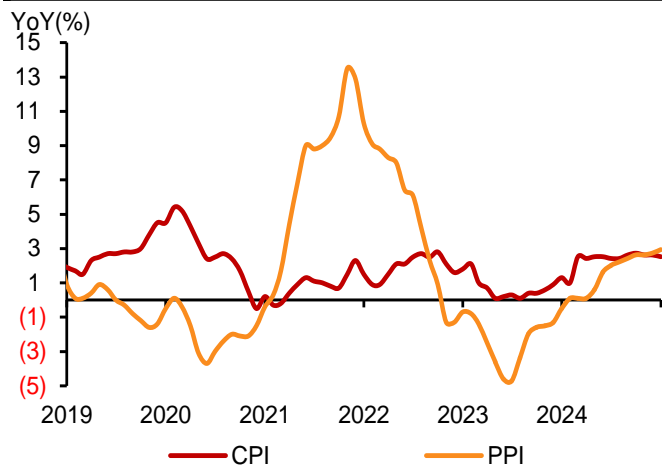
Source: WIND, CMBIGM

**Figure 6: China's PPI may further decline in June**



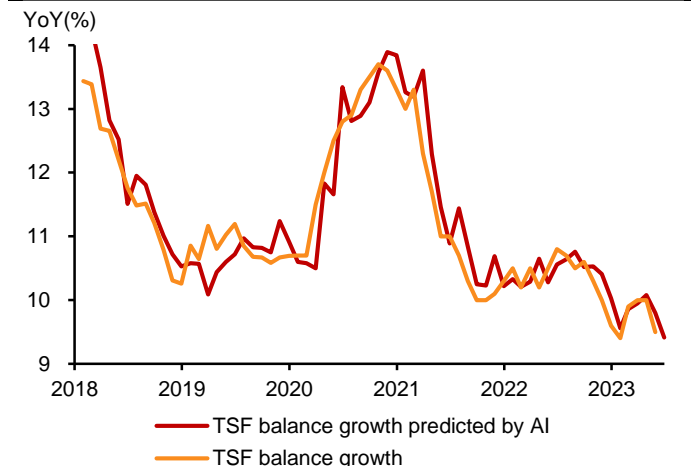
Source: WIND, CMBIGM

**Figure 7: China's CPI and PPI**



Source: WIND, CMBIGM

**Figure 8: TSF growth may continue to weaken in June**

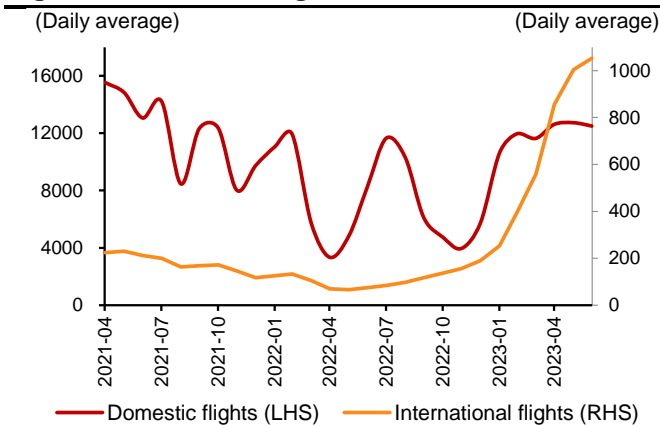


Source: WIND, CMBIGM

## Passenger & Customer Flow

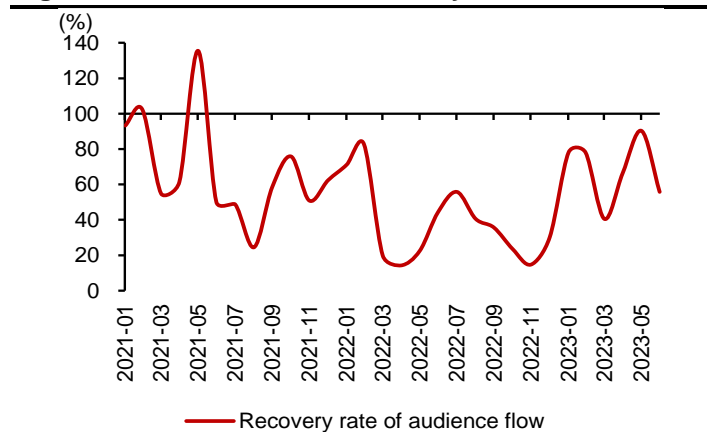
- Passenger & tourist flow during the Dragon Boat Festival:** During the Dragon Boat Festival this year, passenger flows by railway, highway, water and air transportation rose 150.2%, 64.4%, 99.3% and 287% YoY, with the recovery rates compared to the holiday in 2019 at 112.8%, 66.7%, 56.4% and 103%, respectively. Meanwhile, tourist flow and tourism operation income respectively increased 32.3% and 44.5% YoY, with the recovery rates at 112.8% and 94.9% compared to 2019.
- Air transportation:** Both domestic and international flights recovered steadily. In the first 24 days of June, number of domestic flights in China held flat from the previous month, while number of international flights grew firmly. The recovery rate in number of domestic flights compared to the same period in 2019 rose from 85.8% in May to 96.9% in the first 24 days of June. Meanwhile, the recovery rate of international flights rose from 435.9% to 499.3%. As air passenger flow continues to improve and China tries to resume business ties with international community, number of domestic and international flights should continue to rebound.
- Subway passenger flow:** Daily subway passenger flow was flat in term of recovery rates compared to the same period in 2019. The recovery rates of daily subway passenger flow in Beijing, Shanghai, Guangzhou and Shenzhen respectively reached 87.4%, 93%, 93.6% and 129.6% in the first 24 days of June, compared to 86.6%, 94.6%, 94% and 129.5% in May. Most other cities also saw a mild improvement in the recovery rates of daily subway passenger flow.
- Movie audience flow:** Recovery rates of daily audience flow and box office revenue compared to 2019 dropped to 77.5% and 85.1% in the first 24 days of June from 90.3% and 92.8% in May. It indicates a decline of customer flow in recreational service sector.

**Figure 9: Number of flights**



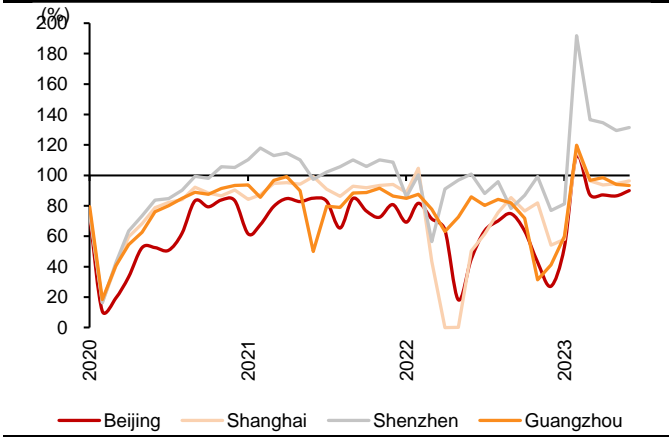
Source: WIND, CMBIGM

**Figure 10: Movie audience recovery rate to 2019**



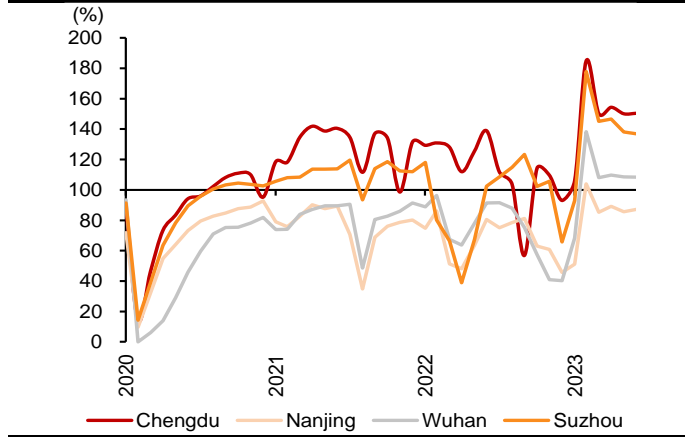
Source: WIND, CMBIGM

**Figure 11: Subway passenger recovery rate in Tier 1 cities compared to 2019**



Source: WIND, CMBIGM

**Figure 12: Subway passenger recovery rate in Tier 2 cities compared to 2019**

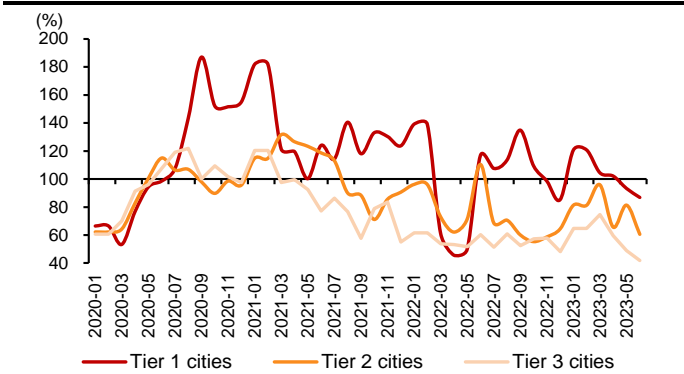


Source: WIND, CMBIGM

### Housing Market, Auto Sales & Construction Activity in China

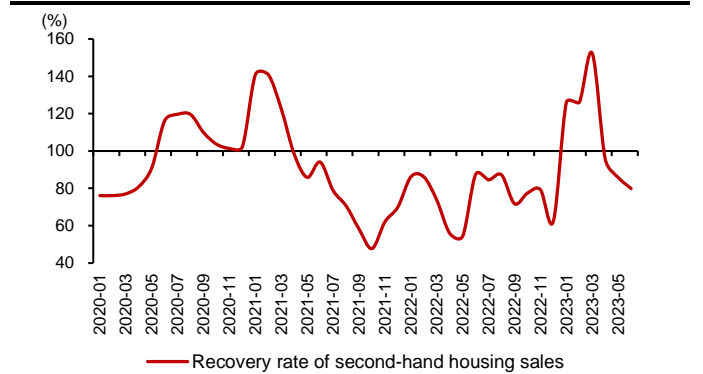
- Housing sales further weakened especially in lower tier cities.** The recovery rates of new housing sales compared to the same period in 2019 in tier-1 cities, tier-2 cities and tier-3 cities further declined from 93.2%, 81.3% and 48.9% in May to 86.8%, 60.5% and 41.9% in the first 24 days of June. Second-hand housing sales mildly deteriorated as the recovery rate in 11 selective cities declined from 85.8% in May to 79.8% in the first 24 days of June. Meanwhile, listing prices of second-hand houses slightly rebounded in tier-1 cities while decreasing in other cities.
- Passenger vehicle sales mildly slowed.** According to the China Passenger Car Association, China's auto sales decreased 7% YoY in the first three weeks of June after a 41% YoY increase in May. In terms of 2Y CAGR, meanwhile, auto sales rose 5.7% after increasing 8.3% in May. Capacity operation rate of semi-steel increased to 70.4% in June from 68.2% in May. In Shanghai second-hand car market, daily average sales price continued to decline, while daily average sale volume jumped by 15.4% YoY in the first 21 days of June. At the same time, the recovery rate compared to 2021 mildly declined from 109.7% to 107%.
- Construction related indicators remained weak.** Capacity operation rate of deformed steel bar remained stable at 46.9% last week, compared to 26.6% at end-May. Meanwhile, the capacity operation rate in asphalt plant mildly rebounded from 31.8% to 33.8%. At the same time, cement price continued to decline in June as its inventory-to-capacity ratio rose to a historic high. Price of flat glass and PVC remained flat in June.

**Figure 13: Recovery rate of commodity building sales compared to 2019**



Source: WIND, CMBIGM

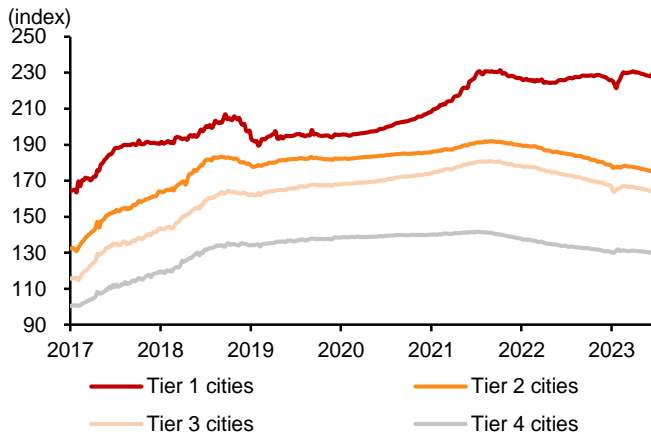
**Figure 14: Recovery rate of 2<sup>nd</sup> hand housing sales compared to 2019 in 11 selective cities**



11 cities include Beijing, Shenzhen, Hangzhou, Nanjing, Chengdu, Qingdao, Suzhou, Xiamen, Wuxi, Dongguan and Foshan  
Source: WIND, CMBIGM

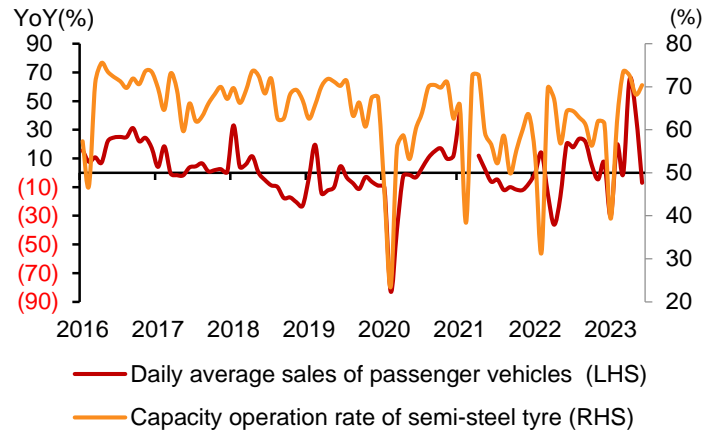


**Figure 15: Listing price index of second-hand house**



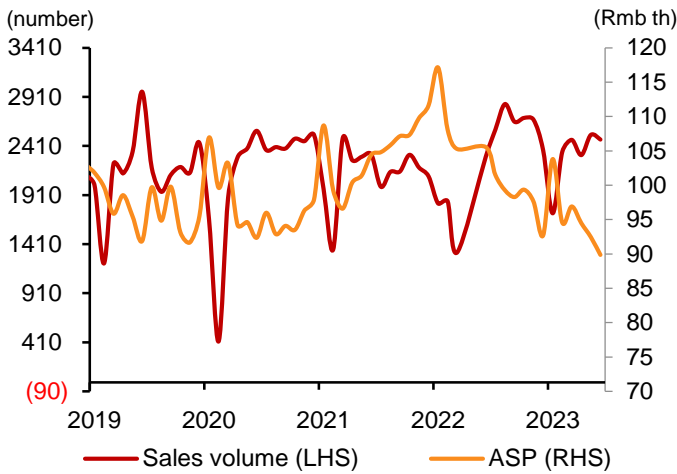
Source: WIND, CMBIGM

**Figure 16: Auto sales**



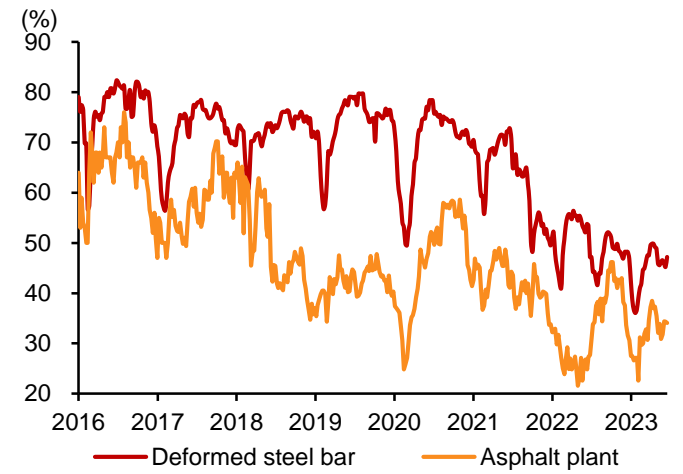
Source: WIND, CMBIGM

**Figure 17: Second-hand auto sales**



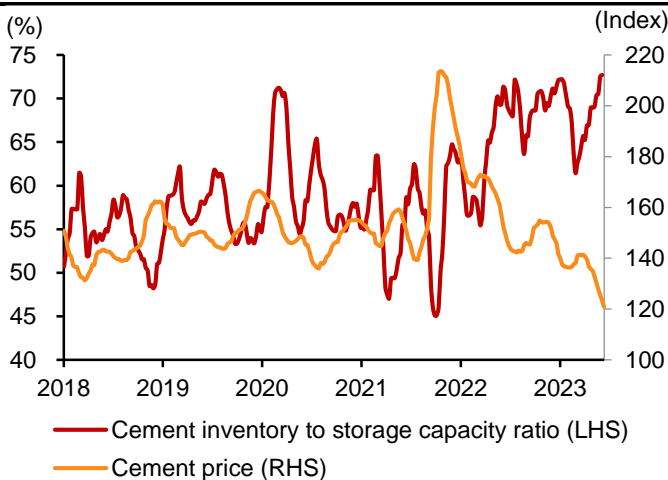
Source: WIND, CMBIGM

**Figure 18: Capacity operation rates**



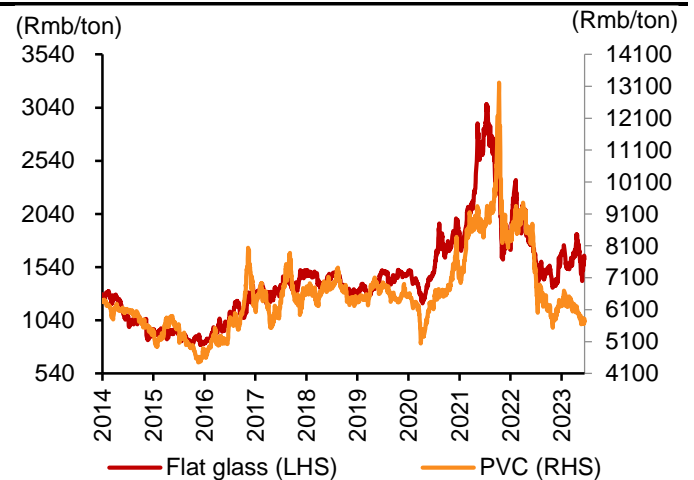
Source: WIND, CMBIGM

**Figure 19: Cement price**



Source: WIND, CMBIGM

**Figure 20: Flat glass and PVC prices**

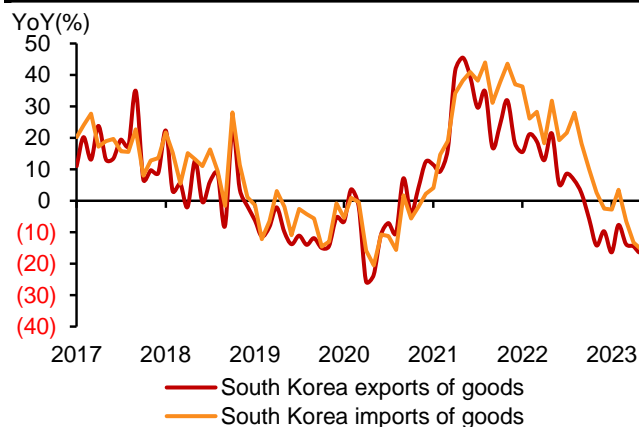


Source: WIND, CMBIGM

## China's Exports and US Recession Risk

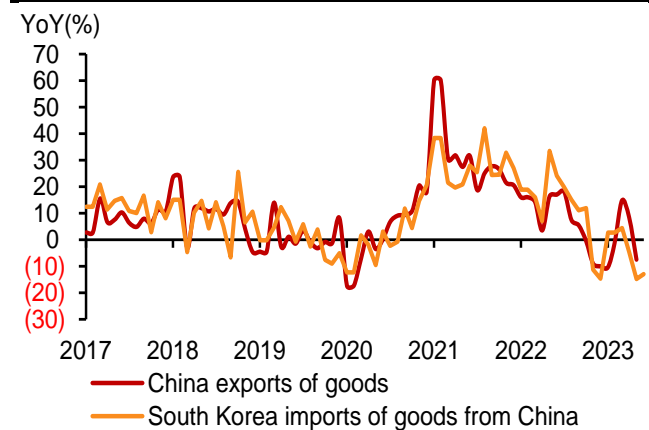
- China's exports may remain weak in June.** US, EU and Japan have seen signs of economic improvement recently. Consumer confidence has rebounded thanks to energy and food disinflation as well as strong labor market. However, uncertainties still exist as banks continue to tighten credit condition. Meanwhile, advanced countries continue to diversify their supply chains beyond China. China's exports may remain weak in next few months. In the first 20 days of June, South Korea's exports of goods picked up 5.3% YoY and its imports of goods further declined 20.7% YoY, compared to the corresponding decrease of 16.1% and 5.7% in May. Meanwhile, South Korea's exports to China and imports from China respectively dropped 12.5% and 10.9% YoY after decreasing 23.4% and 14.7% YoY.
- US yield curve remained inverted as recession risk was still there.** US 10Y/2Y treasury yield spreads remained negative after declining further in the first 23 days of June. 10Y/3M treasury yield spreads slightly rebounded, yet remained negative. Coupling with the prior banking turmoil, banks continued to tighten credit supply condition. Banks' asset continued to decline MoM in June. The YoY growth of banks' credit supply slowed to 0.6% by middle June from 1.5% at end-May.
- Financing costs for US private sector continued to rise.** The BB-rated corporate bond yields dropped to 6.82% by mid-June, down 26bps compared to that in end-May. 30Y fixed-rate mortgage rates increased by 12bps by mid-June, while mortgage application volume fell to historic low since 2011. Banks' LPR remained unchanged at 8.25%.

**Figure 21: South Korea's imports & exports**



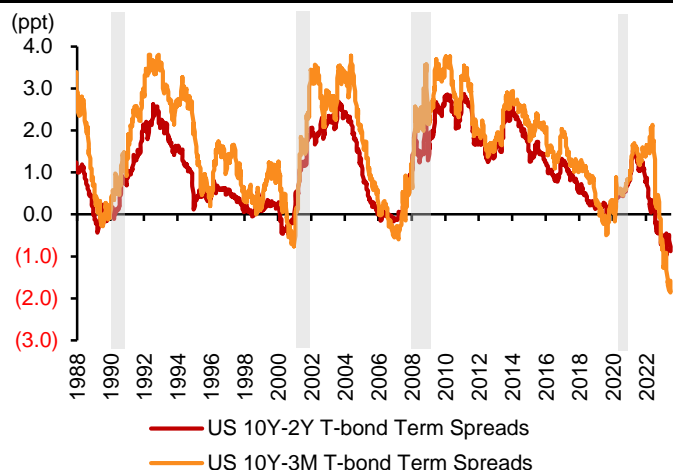
Note: the latest month covered the first 20 days of the month

**Figure 22: China's exports**





**Figure 23: US term spread as a leading indicator for recession risk**



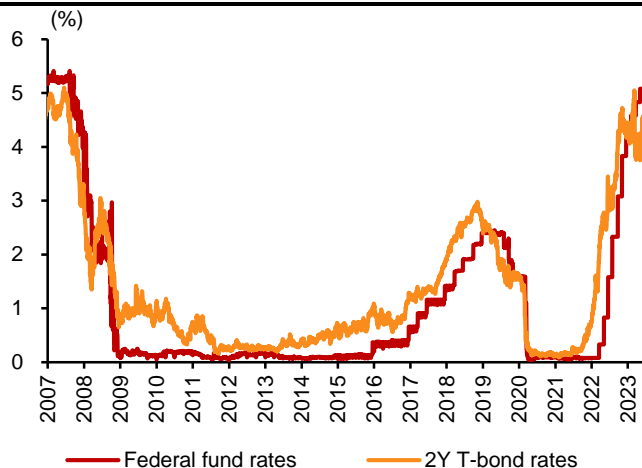
Source: WIND, CMBIGM

**Figure 24: US breakeven inflation to reflect inflation expectations**



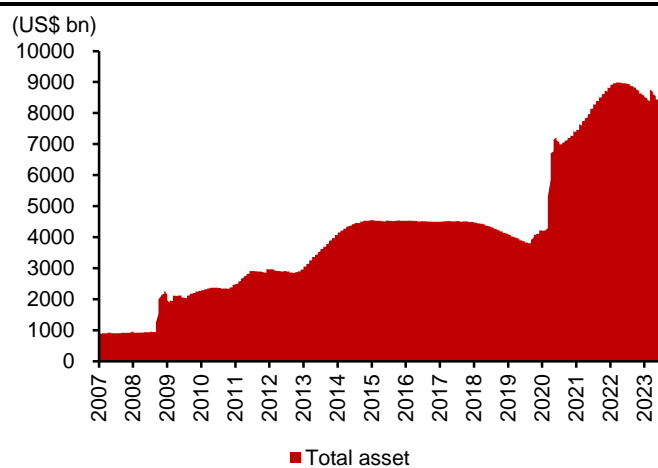
Source: WIND, CMBIGM

**Figure 25: 2Y T-bond rates precede fed policy rates**



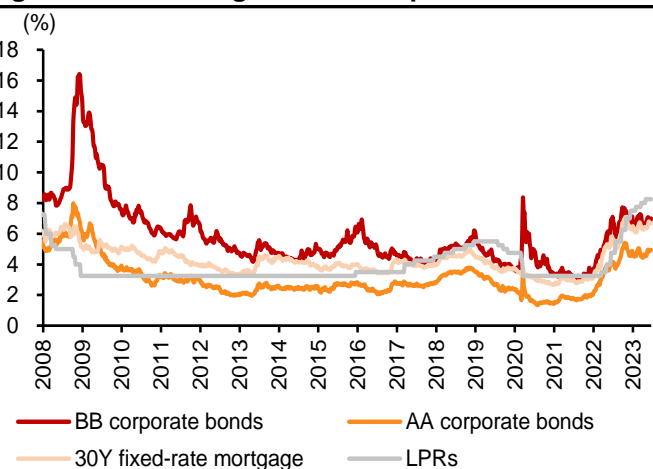
Source: WIND, CMBIGM

**Figure 26: US Fed's total asset**



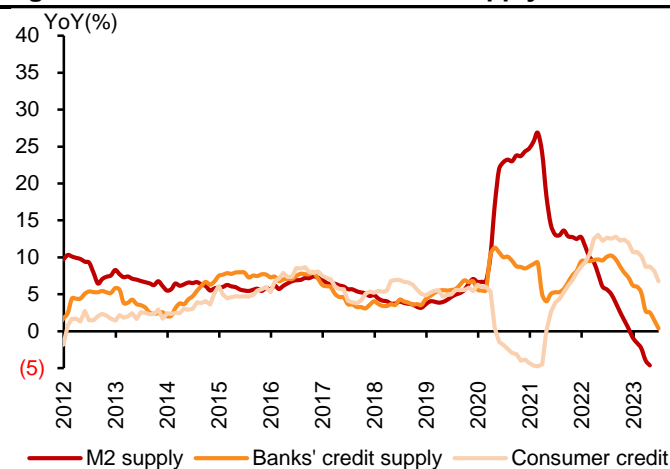
Source: WIND, CMBIGM

**Figure 27: Financing costs of US private sector**

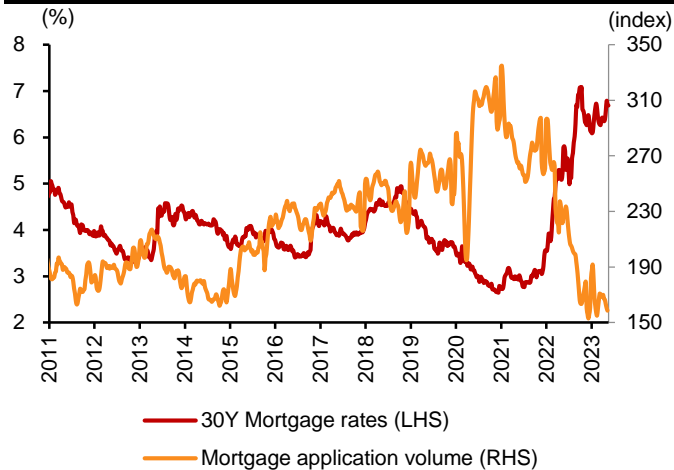


Source: WIND, CMBIGM

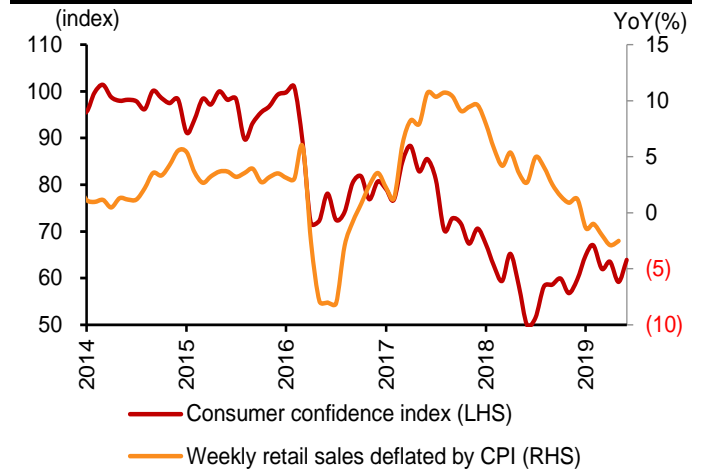
**Figure 28: US M2 and banks' credit supply**



Source: WIND, CMBIGM

**Figure 29: US mortgage rates & demands**

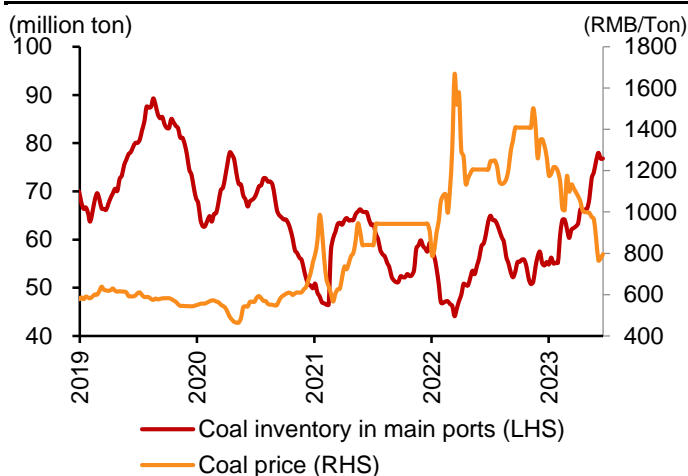
Source: WIND, CMBIGM

**Figure 30: Leading indicators for US economy**

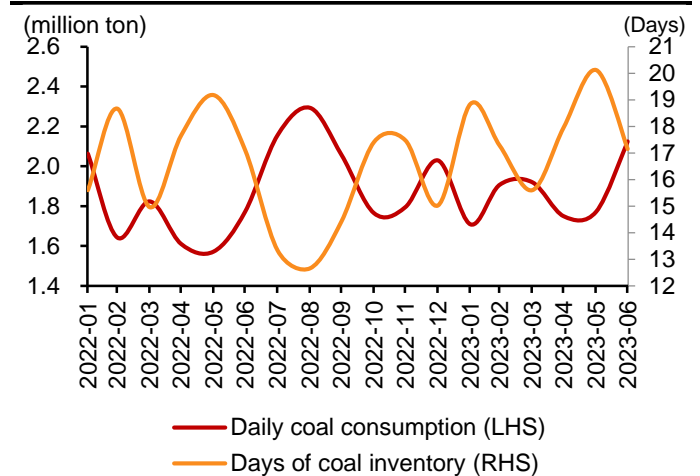
Source: WIND, CMBIGM

## Factory Activity in China

- The average coal inventory in main ports rose to a three-year peak at 78 million tons in early June as factory activity was weak. Coal price in Qinghuangdao port declined to the lowest level for two years in early June. However, the hot summer with lack of hydropower this year has supported thermal power generation and coal demand recently. Coal inventory declined while coal price rebounded slightly in middle June. Business activity remained tepid as the wholesale reference price of Kweichou Moutai kept flat in June. Price of lithium carbonate remained increasing in the first half of June, posting a 6.44% growth MoM while Polysilicon continued to freefall with a 32.4% drop MoM.

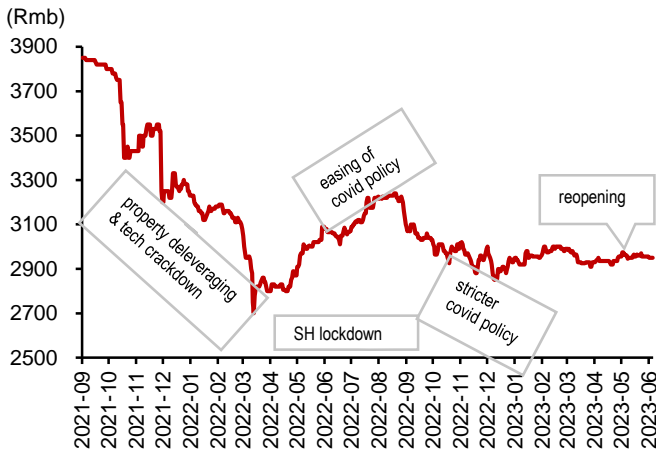
**Figure 31: Coal inventory in main ports & price in Qinhuangdao Port**

Source: WIND, CMBIGM

**Figure 32: Daily coal consumption and days of inventory in Southern China**

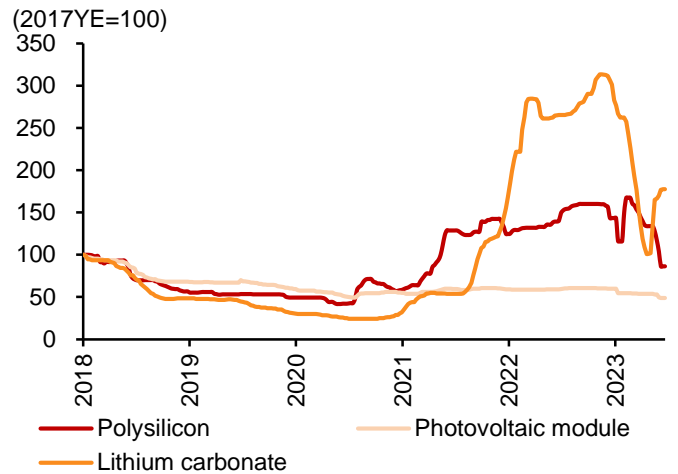
Source: WIND, CMBIGM

**Figure 33: Wholesale Reference Price of Kweichow Moutai**



Source: WIND, CMBIGM

**Figure 34: Prices of polysilicon, PV modules & lithium carbonate**

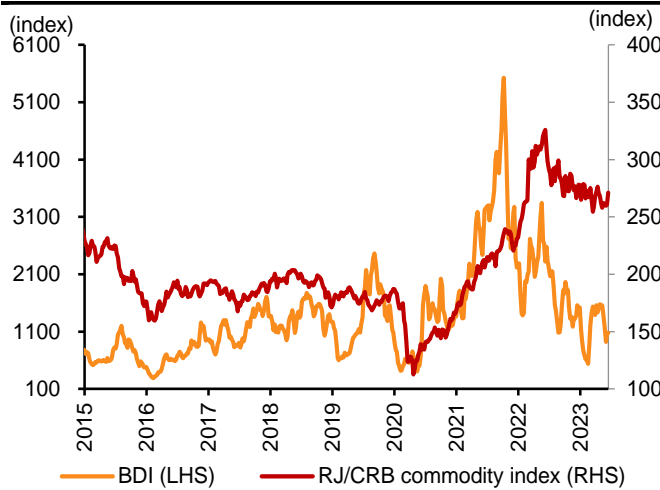


Source: WIND, CMBIGM

**Commodity Price**

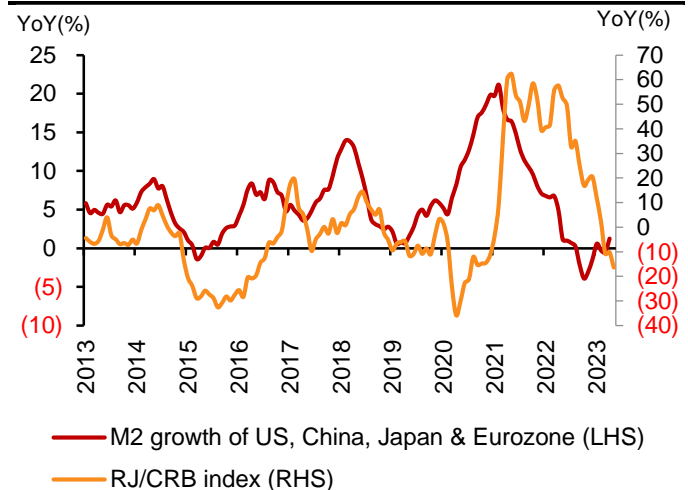
- Commodity prices mildly rebounded as the Fed held off further rate hike in June and China was expected to launch additional policy easing ahead.** RJ/CRB commodity price index rose 4.7% and China's Nanhua industrial price index grew 6.8% MoM in the first three weeks of June after respectively dropping 5.3% and 6.7% in May. Meanwhile, BDI jumped 26.9% after decreasing 38% in May. However, crude oil prices slightly declined in June. Looking forward, commodity prices may see additional downside pressure as US Fed may keep its policy rate at a high level while China economy needs more time to gradually resume.
- Food prices remained weak with less MoM declines.** China's agricultural product prices continued to drop in June, yet with less MoM declines. The agricultural price index and vegetable index respectively dropped 0.8% and 0.9% MoM in the first 25 days of June after decreasing 2.7% and 3.2% MoM in May. Pork price gradually stabilized after sharp declines from 4Q22 as the live hog to corn ration remained below the break-even point for several months.

**Figure 35: BDI and commodity price**



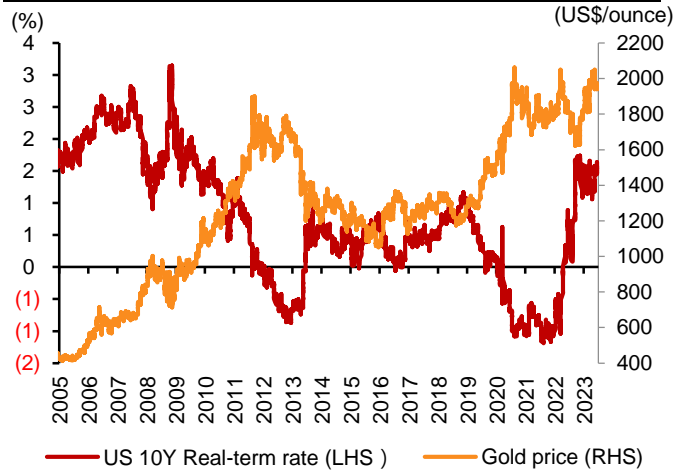
Source: WIND, CMBIGM

**Figure 36: Global M2 growth & commodity price**



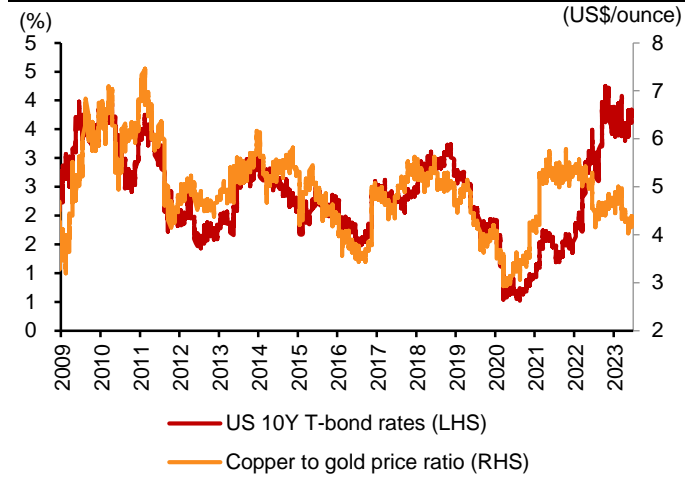
Source: WIND, CMBIGM

**Figure 37: US real-term rate & gold price**



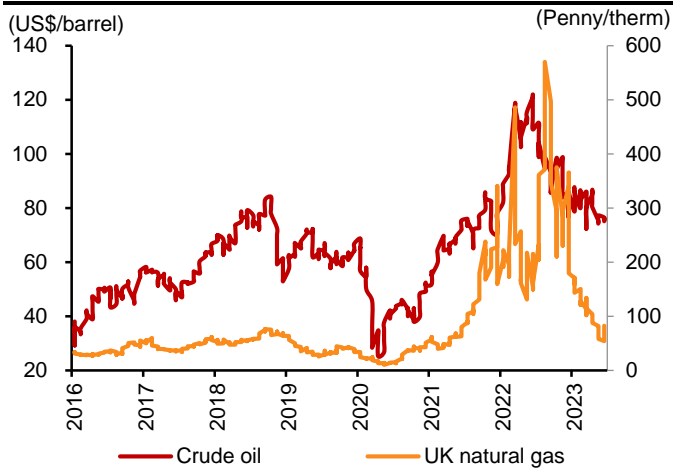
Source: WIND, CMBIGM

**Figure 38: US T-bond rate & copper to gold ratio**



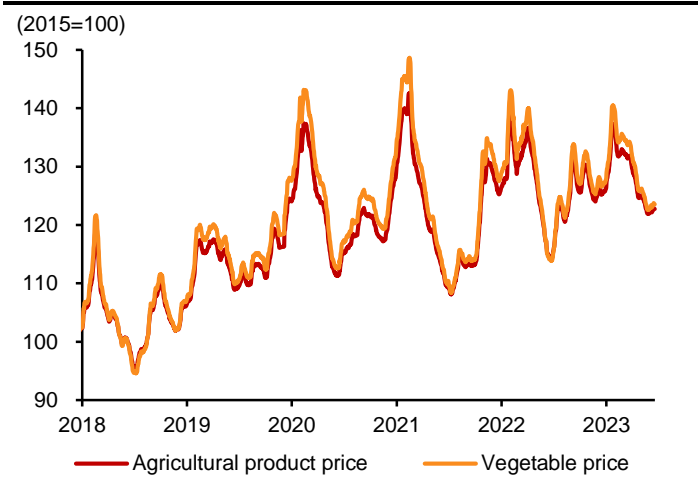
Source: WIND, CMBIGM

**Figure 39: Global crude oil & UK natural gas prices**



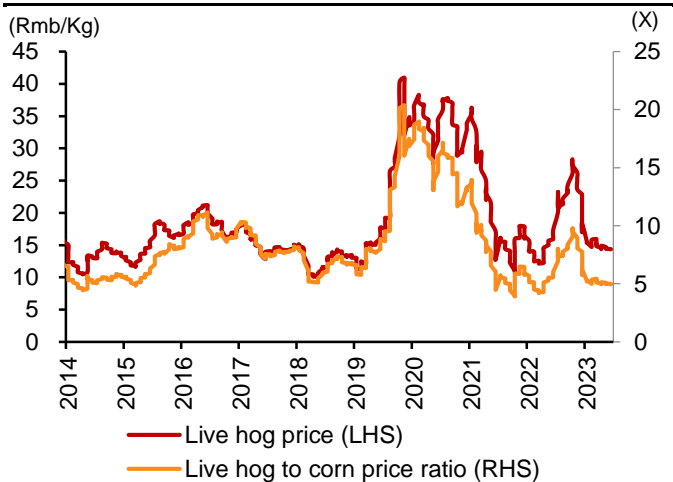
Source: WIND, CMBIGM

**Figure 40: China's agricultural product price**



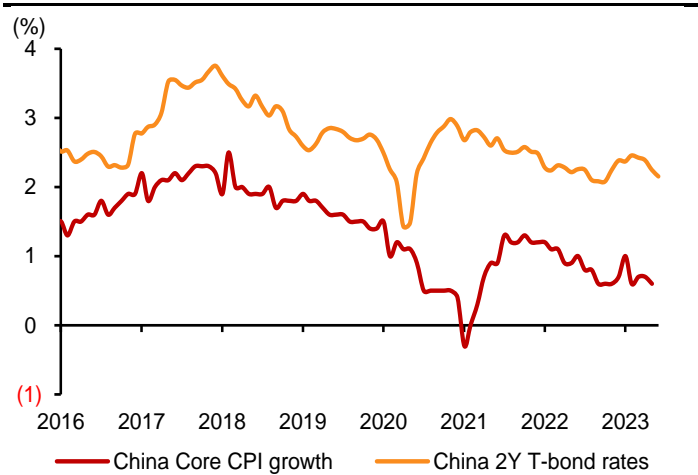
Source: WIND, CMBIGM

**Figure 41: China's pork price**



Source: WIND, CMBIGM

**Figure 42: Core CPI growth & 2Y T-bond rates**

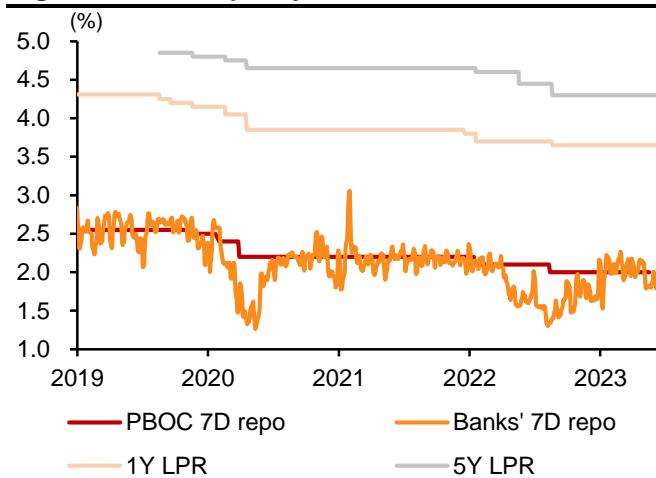


Source: WIND, CMBIGM

## China's Liquidity Condition & RMB exchange Rates

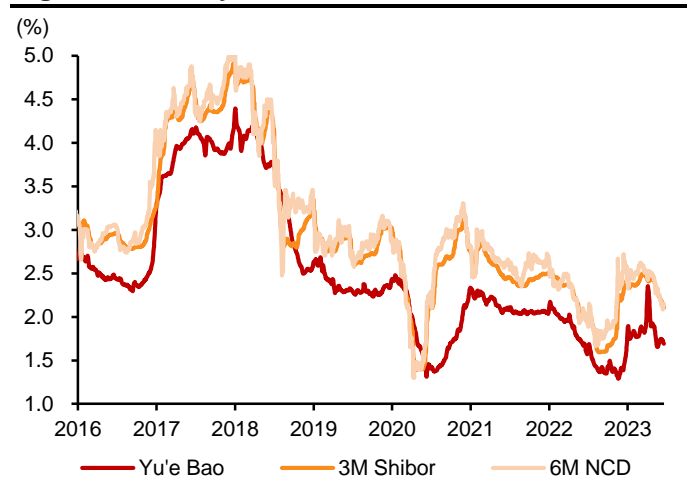
- Liquidity condition:** Liquidity condition slightly eased as the cut in 7D repo refinancing rates, MLF rates and LPRs indicates further monetary policy easing. DR007 and 3M Shibor respectively dropped by 13bps and 8bps in the first 21 days of June. Liquidity supply remained stable, while liquidity demand decreased as economic activity, investor risk appetite and credit demand softened.
- Bond rates:** Long-term bond rates slightly declined as investors expect weakening economic growth and additional easing of monetary policy. 7Y Treasury bond rates declined to the lowest level since 4Q22.
- Credit condition:** The LPR cut indicates further moderate easing of credit policy in China. The PBOC will guide banks to maintain easing credit supply to facilitate credit supply expansion and boost growth momentum. However, credit demand remained weak as private business was cautious to expand capex and households were reluctant to purchase housing in most cities. Credit prices or loan rates faced additional downward pressure. To protect banks' NIMS, the PBOC guided banks to lower their deposit contract rates and was reluctant to aggressively cut LPRs.
- RMB exchange rates:** Renminbi remained weak to USD as both China's momentum of economic recovery diminishing and US economy still running hot. As the bond spread between US and China continued to widen following the rate cut from PBOC and the eroding export of China, RMB is likely to face additional pressure in near term. In 2H23, renminbi may see some mild appreciation against US dollar as China economy starts to recover while US economy further slows. We expect US\$/RMB rates to reach 7.10 at end-2023 and 7.05 at end-2024.

**Figure 43: PBOC policy rates**



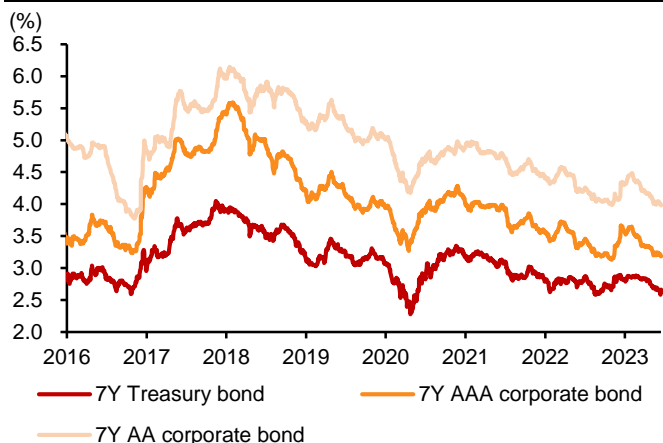
Source: WIND, CMBIGM

**Figure 44: Money market rates**



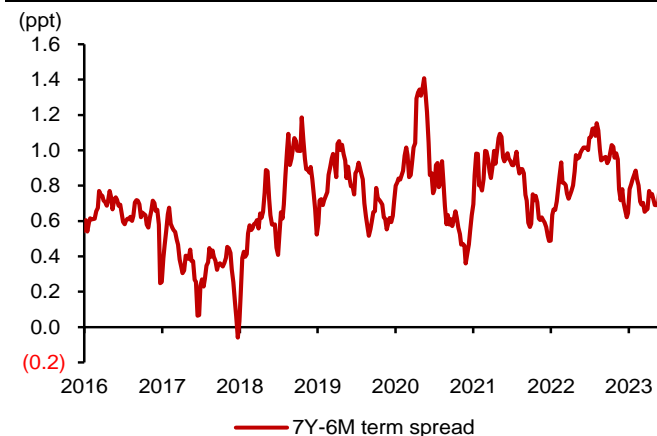
Source: WIND, CMBIGM

**Figure 45: China's bond rates**



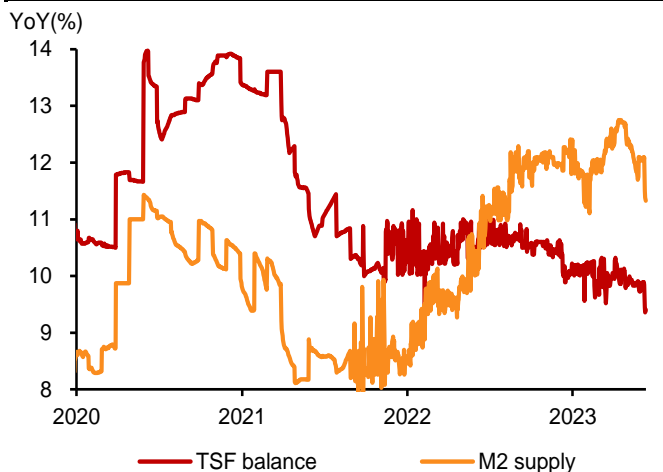
Source: WIND, CMBIGM

**Figure 46: 7Y-6M term spreads**



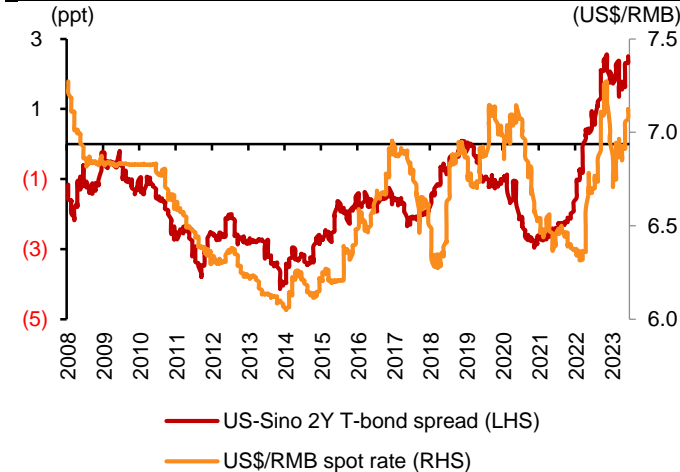
Source: WIND, CMBIGM

**Figure 47: China's credit growth**



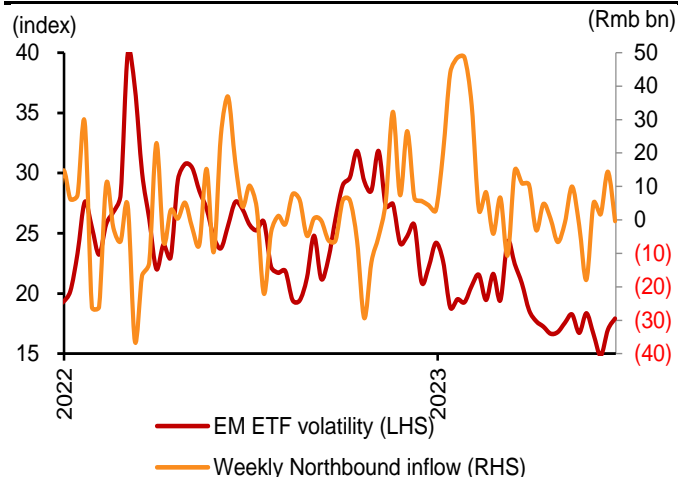
Source: WIND, CMBIGM

**Figure 48: US-Sino spread & US\$/RMB rate**



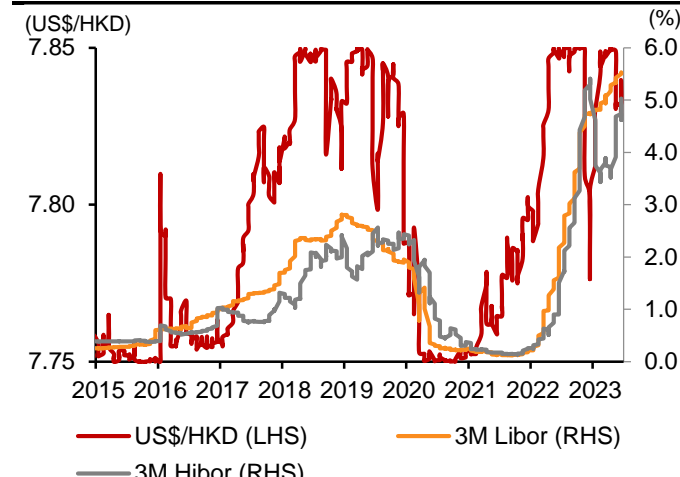
Source: WIND, CMBIGM

**Figure 49: EM ETF volatility & northbound inflow**



Source: WIND, CMBIGM

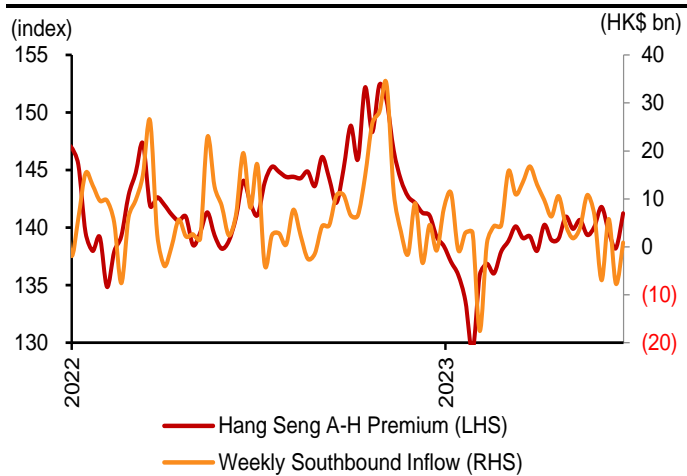
**Figure 50: US\$/HKD rates & interest rates**



Source: WIND, CMBIGM

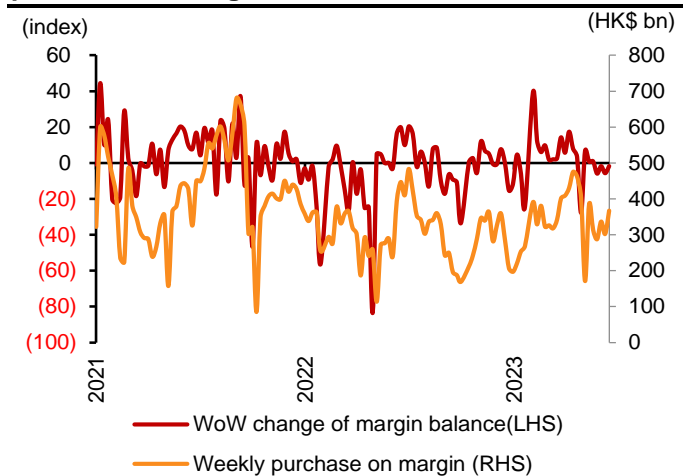


**Figure 51: Hang Seng A/H premium and weekly southbound inflow**



Source: WIND, CMBIGM

**Figure 52: WoW change of margin balance & weekly purchase on margin in A share market**



Source: WIND, CMBIGM

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