

China Macro Monitor

In continuous recovery

- Economic condition:** China economy continued to recover in March as customer flow and service activity further rebounded. The resumption pace was basically in line with expectations. We maintain our forecast on the GDP growth at 5.4% for 2023, with the YoY growth rates for the four quarters respectively at 3.8%, 7.7%, 4.6% and 5.6%.
- Traffic & passenger flow:** The YoY growth of traffic flow mildly slowed in March. However, passenger and customer flow further improved as service activity continued to rebound. Outbound and inbound tourism recovered noticeably as number of international flights significantly increased. Retail sales and service output index should continue to recover.
- Housing market, auto sales and construction activity:** China's housing sales picked up in March thanks to low base, easing credit policy, economic reopening and release of pent-up demand accumulated during lockdowns. Housing sales in higher-tier cities further improved while sales growth in lower tier cities slowed. Auto sales remained weak as potential buyers chose to wait due to a price war in the sector. Construction activity continued to improve thanks to strong infrastructure investment and improvement of property development investment.
- China exports:** China's exports remained weak in March as the recent overseas banking sector turmoil may cause credit tightening and increase downside pressure on overseas economy. US 10Y/3M and 10Y/2Y term spreads remained negative as bond market investors expected a recession in US in future. China's exports may remain weak in 1H23 and gradually improve from 2H23. We expect the exports to drop 3.5% in 2023 after rising 7% in 2022.
- China's liquidity condition & RMB exchange rates:** PBOC's RRR cut in March indicates its easing bias towards liquidity and credit policy to boost confidence and growth. Credit policy should remain accommodative especially for manufacturing, tech companies, service and SMEs. New credit remained strong as credit growth further rebounded in March. Sino-US long-term rate spread may rebound as China economy continues to rebound while US economy further slow. Renminbi may see moderate rebound against US dollar this year. We expect US\$/RMB spot rates to reach 6.6 at end-2023, compared to 6.95 at end-2022.

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Figure 1: Monthly Economic Forecast

	2022	2023	
	Dec	Jan-Feb	Mar (F)
GDP (YoY %, quarterly)	2.9	-	3.8
VAIO (YoY %)	1.3	2.4	2.8
Service index (YoY %)	(0.8)	5.5	5.8
Retail sales (YoY %)	(1.8)	3.5	4.5
FAI (YoY %, YTD)	5.1	5.5	5.7
Exports of goods (YoY %)	(10.0)	(6.8)	(6.0)
Imports of goods (YoY %)	(7.5)	(10.2)	(7.0)
CPI (YoY %)	1.8	1.5	1.0
PPI (YoY %)	(0.7)	(1.1)	(2.2)
RMB loans (YoY %)	11.1	11.6	11.8
M2 (YoY %)	11.8	12.9	12.7
Social financing (Rmb trn)	1.3	9.1	5.2
New RMB loans (Rmb trn)	1.4	6.7	3.8
3M Shibor(%)	2.42	2.44	2.45
10Y T-bond rate(%)	2.84	2.92	2.86

Source: Wind, CMBIGM

Figure 2: China Economy Forecast

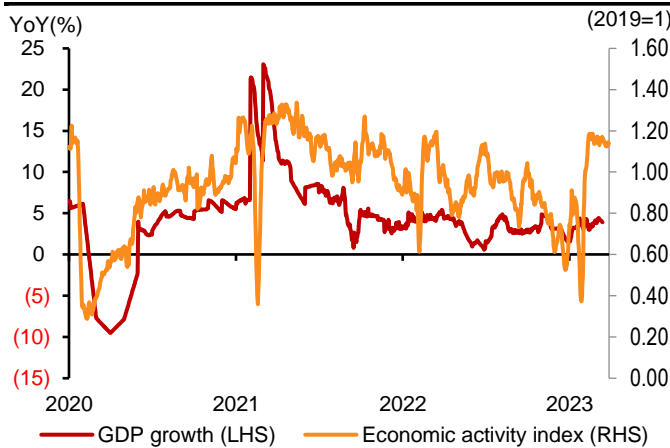
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023F	2024F
GDP																
Real GDP (YoY %)	9.4	10.6	9.6	7.9	7.8	7.4	7.0	6.8	6.9	6.7	6.0	2.2	8.4	3.0	5.4	4.9
Nominal GDP (US\$ trn)	5.1	6.1	7.6	8.5	9.6	10.4	11.0	11.2	12.3	13.9	14.3	14.7	17.8	18.0	19.0	21.1
Per capita GDP (US\$)	3823	4541	5597	6280	7057	7586	7923	8065	8797	9880	10124	10404	12615	12720	13487	14940
Inflation (YoY %)																
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	1.1	2.1
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	2.2	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	(0.5)	1.6
GDP by industry (YoY %)																
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 of enterprises above designated size	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	6.2	5.2
Contribution to GDP Growth (ppt)																
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	3.9	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	1.3	1.1
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
Demand indicators (YoY %)																
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	5.0	5.2
- 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	6.0	6.0
- 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)	(2.0)	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	8.0	5.0
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)	6.8	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	(3.5)	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	0.5	4.5
Monetary conditions																
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	6.6	7.2
New RMB loans (RMB trn)	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 trn)	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	10.0	9.5
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	3.00	2.95
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
Public finance																
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	2.9	3.0
BOP & Exchange rates																
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	3.7	3.0	3.1
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)	(0.5)	(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	1.5	1.7
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	(1.2)	(0.9)	(0.9)
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)	(0.5)	(0.2)	(0.2)
Forex reserve (US\$ trn)	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	3.13	3.18	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	6.60	6.50

Source: Wind, CMBIGM

China Economy Forecast

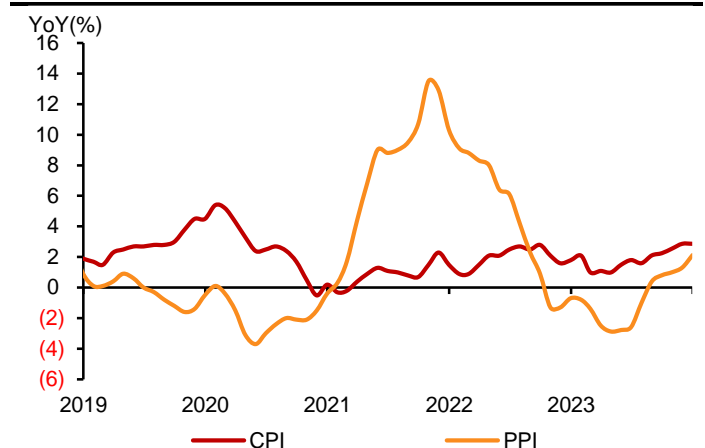
- GDP growth rates are expected to reach 3.8%, 7.7%, 4.6% and 5.6% respectively for the four quarters in 2023.** China economy continued to recover in March as the resumption pace was basically in line with expectations. We maintain our forecast on the GDP growth at 5.4% for 2023.
- Inflation may further decline in Mar-Apr before rebounding from May.** The pork supply cycle and recent overseas banking sector turmoil should outweigh the boost effect from China's economic reopening. We expect the CPI growth to remain low at around 1% in March-April and the PPI to further drop 2.5%-3% in next three months. As domestic demand continues to resume, inflation may gradually pick up in 2H23. The growth rates of CPI and PPI are expected to reach 2.2% and -0.5% in 2023.
- Credit growth may gradually rebound amid easing credit policy.** The recent RRR cut shows the PBOC's commitment to easing credit policy. Banks are guided to expand their credit supply to the real sector especially to manufacturing, service and SMEs. We estimate new renminbi loans may have increased by 20% YoY in March after rising 28.8% YoY in 2M23. The growth of renminbi loans and outstanding social financing may continue to rebound this year. However, M2 growth may mitigate as risk aversion sentiment drops.

Figure 3: China's GDP & Economic Activity Index



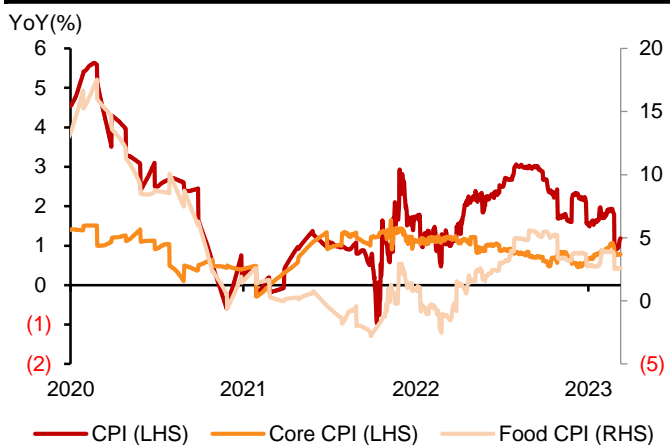
Source: WIND, CMBIGM

Figure 4: China's CPI & PPI Growth



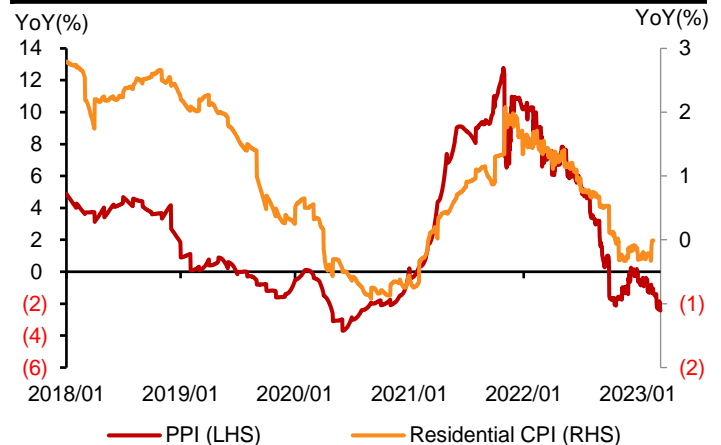
Source: WIND, CMBIGM

Figure 5: China's Inflation



Source: WIND, CMBIGM

Figure 6: China's PPI & Residential CPI

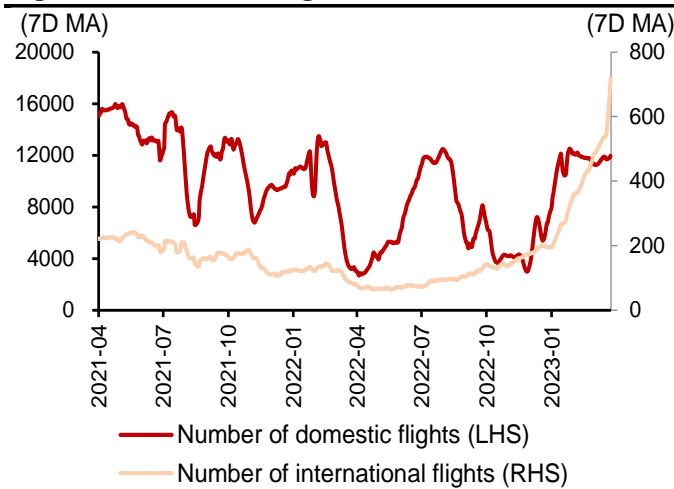


Source: WIND, CMBIGM

Passenger Flow in China

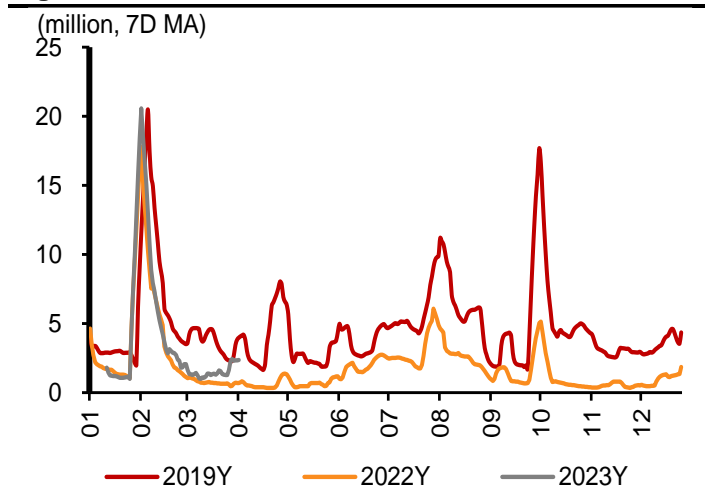
- **Flight:** Number of domestic flights has returned to a steady level, while that of international flights rebounded at an even faster rate in the second half of March due to the resumption of outbound and inbound tourism.
- **Movie market:** Movie market maintained a rebound towards the second half of March as consumers' recreation demand further recovered. Daily film audience improved jumped 97.9% YoY in March after slightly rising 1.1% YoY in 2M23.
- **Traffic & passenger flow:** Traffic congestion index in 40 largest cities increased 10% YoY in March, down from the growth of 14.3% in February. Subway passenger flow in most cities continued to rebound.
- **Prospect:** Passenger flow may continue to improve in 2Q23 as China braces Tomb-Sweeping Day in April, Labor Day in May and summer holiday in July and August.

Figure 7: Number of Flights



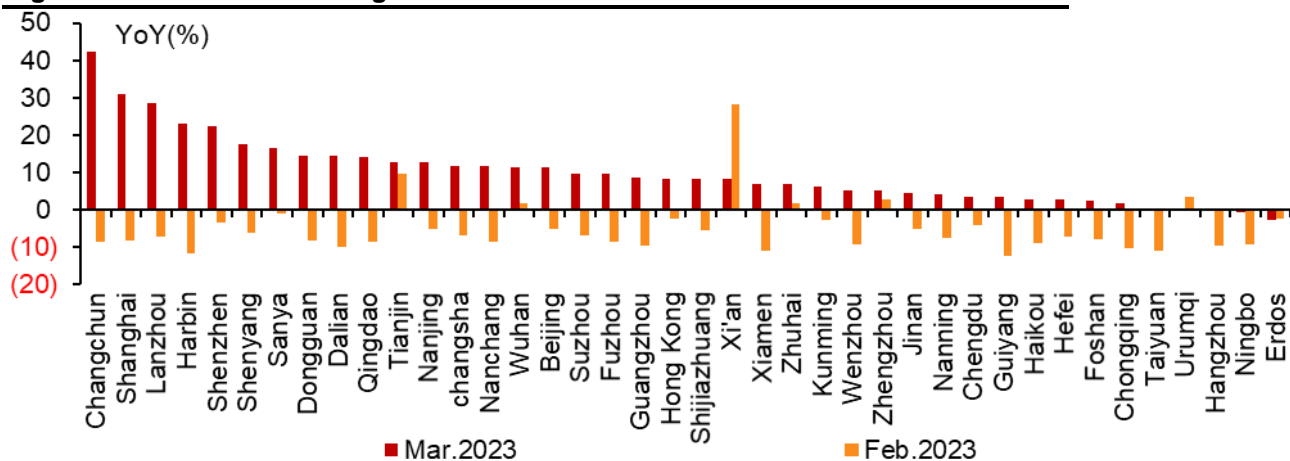
Source: WIND, CMBIGM

Figure 8: Number of Movie Audience



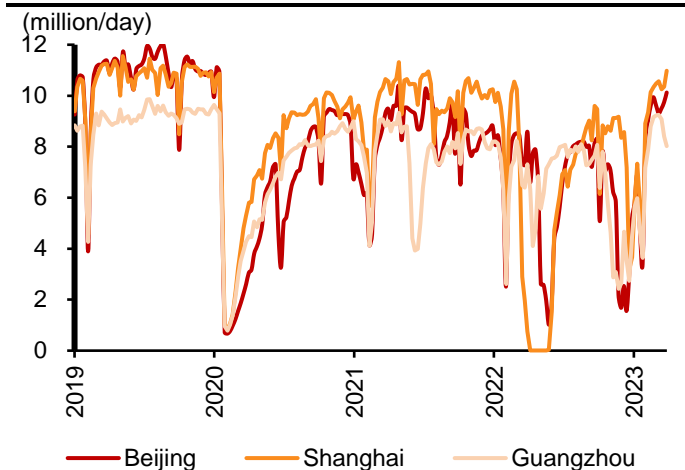
Source: WIND, CMBIGM

Figure 9: China's Traffic Congestion Index

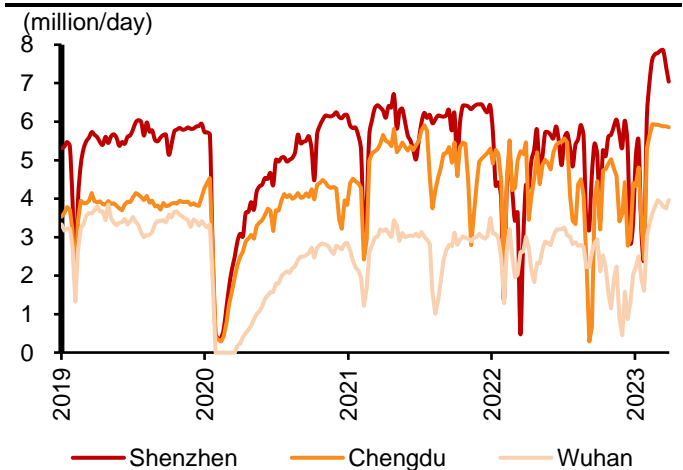


Source: WIND, CMBIGM

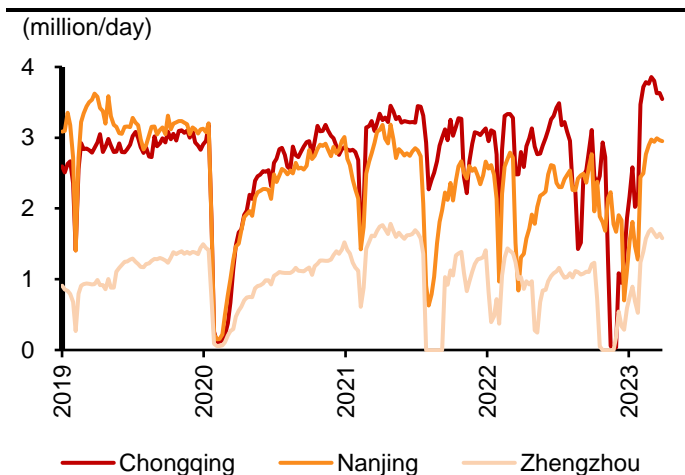
Figure 10: Subway Passenger Flow (Weekly Average)



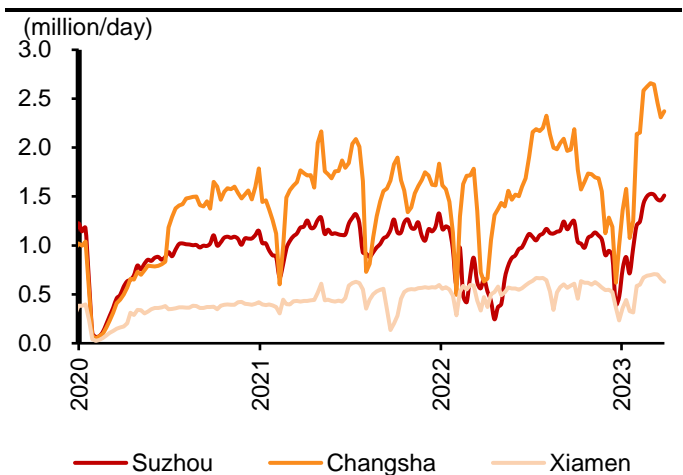
Source: WIND, CMBIGM



Source: WIND, CMBIGM



Source: WIND, CMBIGM

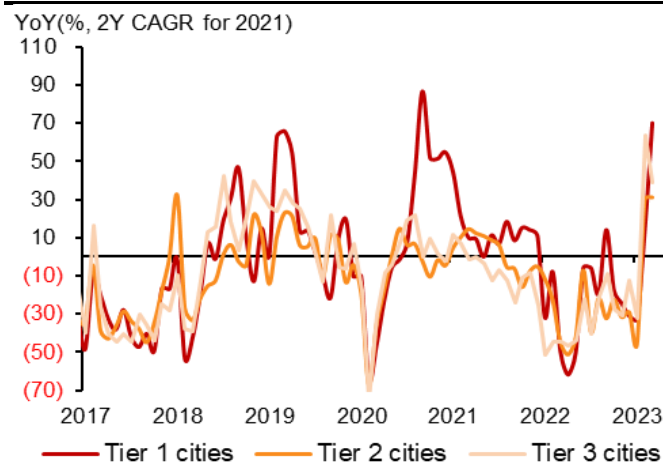


Source: WIND, CMBIGM

Housing Market, Auto Sales & Construction Activity in China

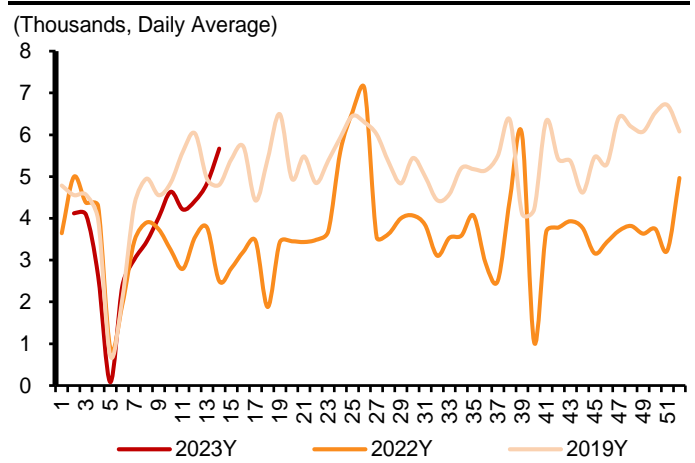
- Housing sales were strong in March especially in higher-tier cities.** Housing sales in higher-tier cities further rebounded in recent weeks with a release of the pent-up demand aggregated during the lockdowns. Commodity building sales volume respectively rose 70.4%, 31.2% and 38.7% YoY in tier-1, tier-2 and tier-3 cities in March, compared to the YoY growth of 13.3%, 30.3% and 63.8% in February. Second-hand housing sales in ten major cities in the last two weeks rebounded to similar levels in the same period in 2019. The strong growth of housing sales was mainly due to low base, easing credit and release of pent-up demand. The growth may accelerate in April-May and slow again during summer because of changing base and seasonal factor.
- Passenger vehicle sales were still weak in March.** According to the China Passenger Car Association, auto sales dropped 1% YoY in March. Total sales in 1Q23 dropped 15% YoY. However, sales of new energy vehicles (NEV) rose 10% YoY in March and by 18% YoY in 1Q23. Meanwhile, second-hand auto sales in Shanghai continued to recover as it jumped 86.6% YoY in March after rising 11% YoY in 2M23.
- Construction activity continued to improve thanks to strong infrastructure investment and improving property development investment.** Capacity operation rate of deformed steel bar and asphalt plant rose sharply in the second half of March. Construction material prices such as flat glass and PVC went up in the second half of March. Prices of deformed steel bar and iron ore retreated slightly after a rebound in early March.

Figure 11: Growth of Commodity Building Sales



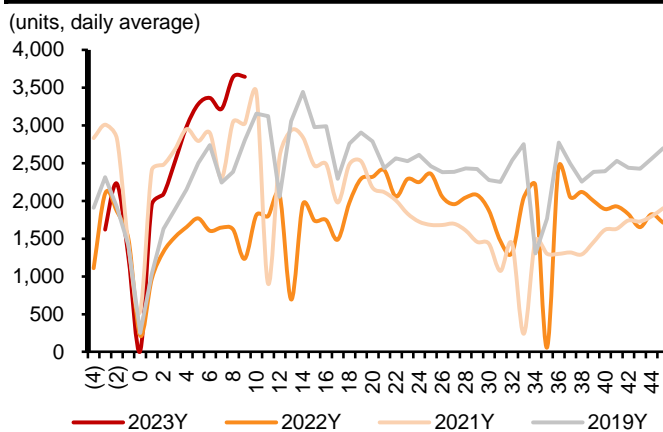
Source: WIND, CMBIGM

Figure 12: Daily Average Commodity Building Sales



Source: WIND, CMBIGM

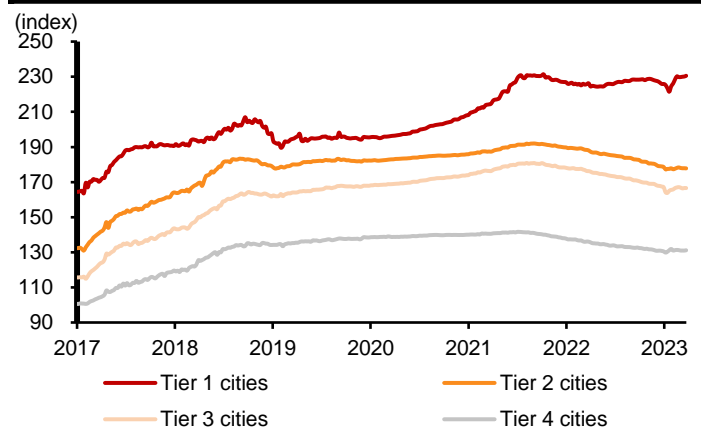
Figure 13: China's Second-hand Housing Sales



Source: WIND, CMBIGM

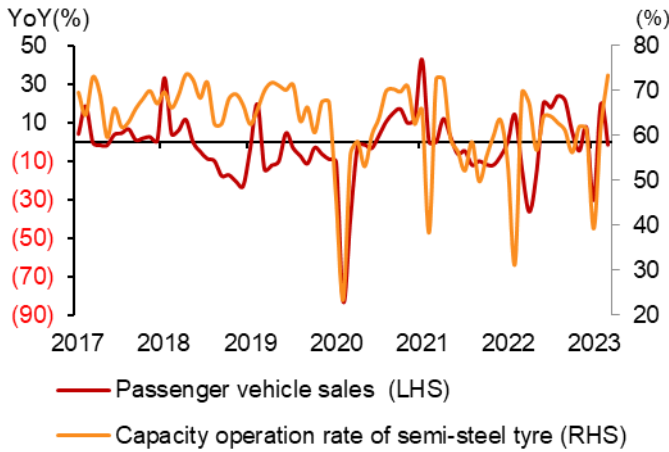
Note: 10 cities include Beijing, Shanghai, Guangzhou, Shenzhen, Hangzhou, Nanjing, Qingdao, Suzhou, Nanchang & Xiamen.

Figure 14: Listing Price Index of Second-hand House



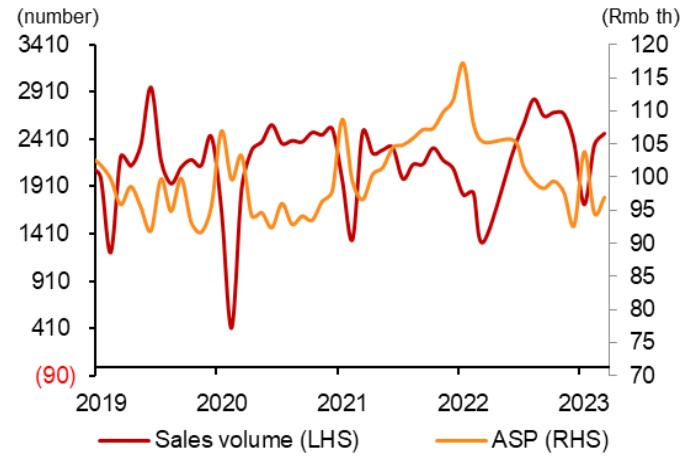
Source: WIND, CMBIGM

Figure 15: Auto Sales



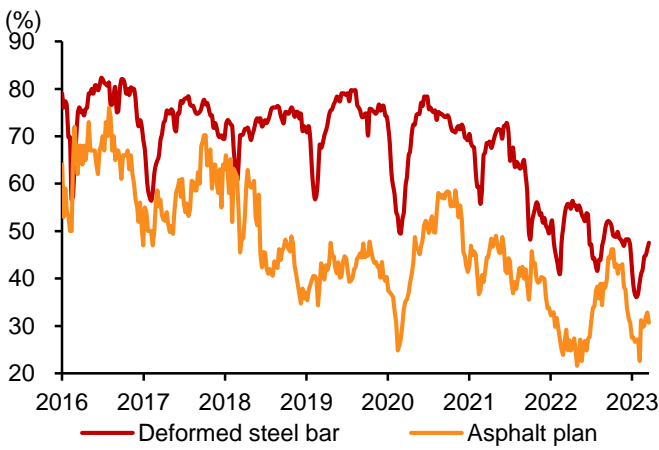
Source: WIND, CMBIGM

Figure 16: Second-hand Auto Sales



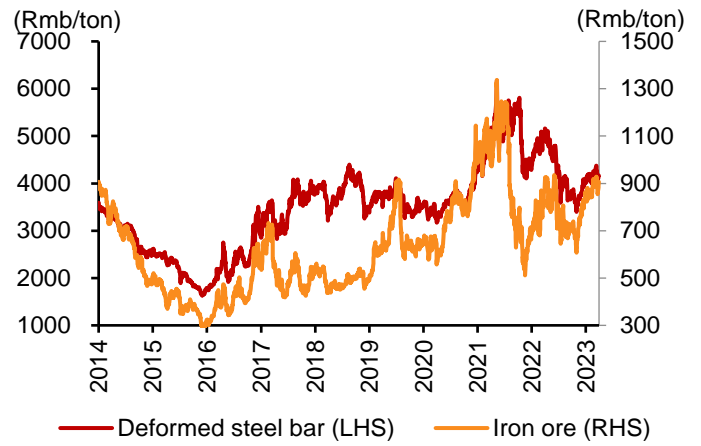
Source: WIND, CMBIGM

Figure 17: Capacity Operation Rates



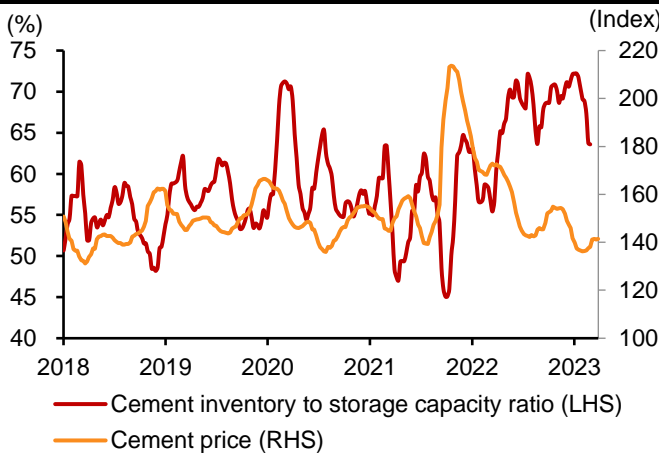
Source: WIND, CMBIGM

Figure 18: Commodities' Prices



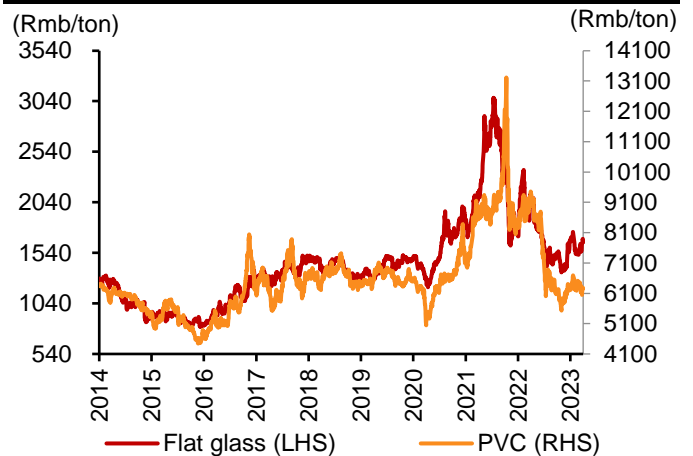
Source: WIND, CMBIGM

Figure 19: Cement Price



Source: WIND, CMBIGM

Figure 20: Flat Glass and PVC Prices

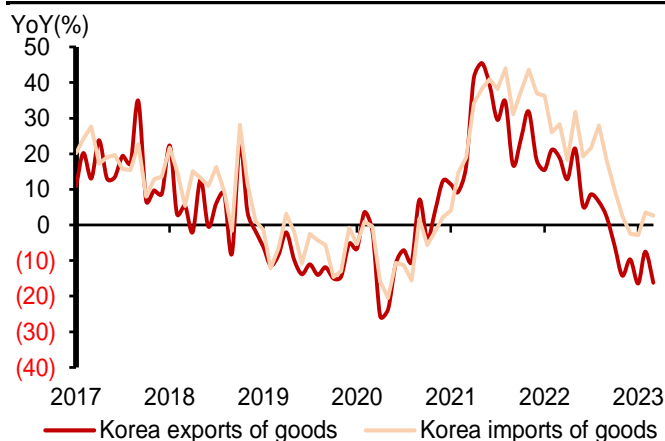


Source: WIND, CMBIGM

China Exports and US Recession Risk

- China's exports remained weak in March.** China's exports of goods dropped 1.3% YoY in February after decreasing 10.5% YoY in January. China's trade with South Korea showed some improvement in March. China's exports order index in PMI contracted in March, signalling weak condition for exports amid overseas economic slowdown and disinflation. We expect China's exports to drop 7%, 6% and 3% YoY in the first three quarters, and to rise 2% YoY in the last quarter.
- US recession risk rose due to the recent turmoil in its banking sector.** The recent banking sector turmoil in US and Europe may lead to tightening credit condition and increase the downside pressure on the economy in future. Both 10Y/3M and 10Y/2Y Treasury yield curves remained inverted. However, the Fed has to rescue its credibility in inflation control as it may further hike the federal fund rates by another 25bps in May. It may take some time for the high inflation to gradually decline.
- Financing costs for US private sector stayed high in March.** LPR increased 25bps in March, while 30Y fixed-rate mortgage costs decreased 33bps in March. The 2Y Treasury bond yields decreased over 80bps to 4.06%, posting one of the biggest monthly drops in 15 years as investors expected a recession ahead.

Figure 21: Growth of South Korea Exports & Imports



Note: the latest month covered the first 20 days

Figure 22: China Exports of Goods

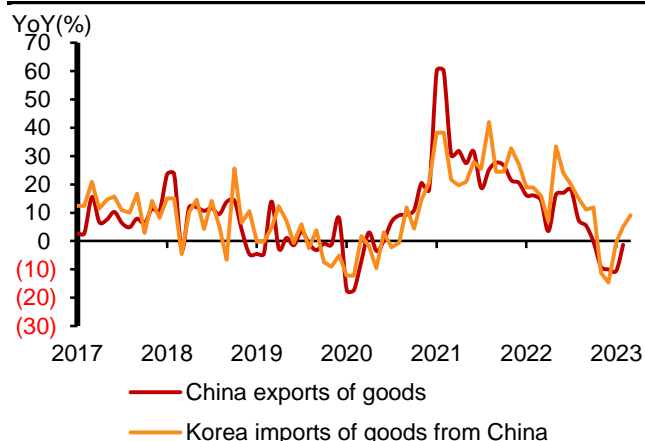
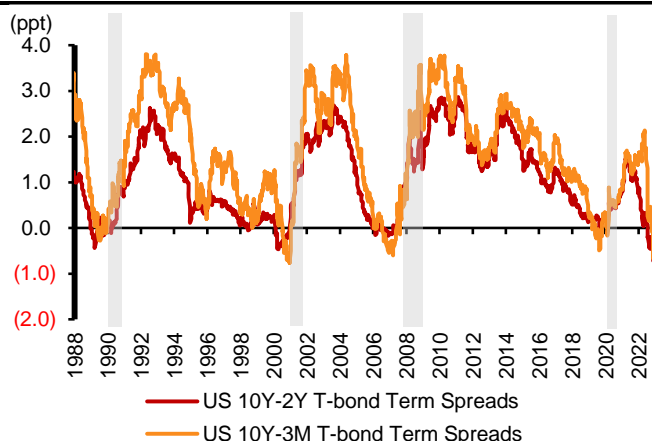


Figure 23: US Term Spread as A Leading Indicator for Recession Risk



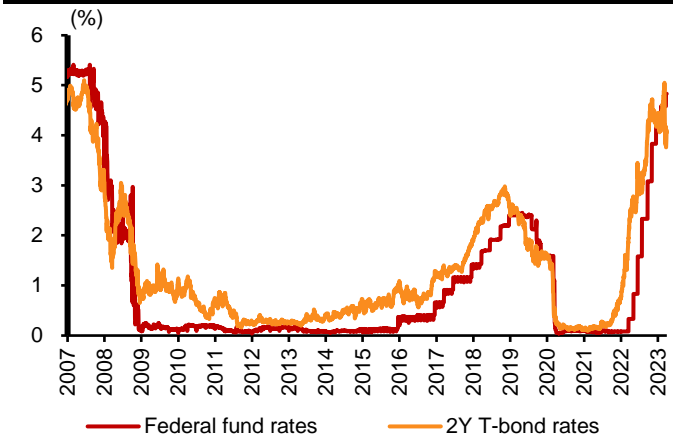
Source: WIND, CMBIGM

Figure 24: US Breakeven Inflation to Reflect Inflation Expectations



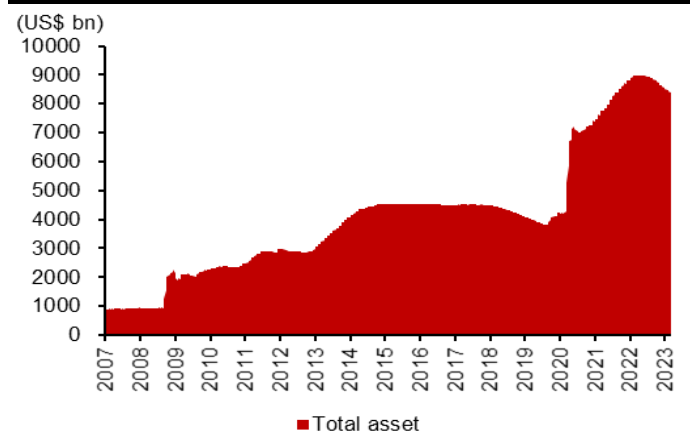
Source: WIND, CMBIGM

Figure 25: 2Y T-bond Rates Precede Fed Policy Rates



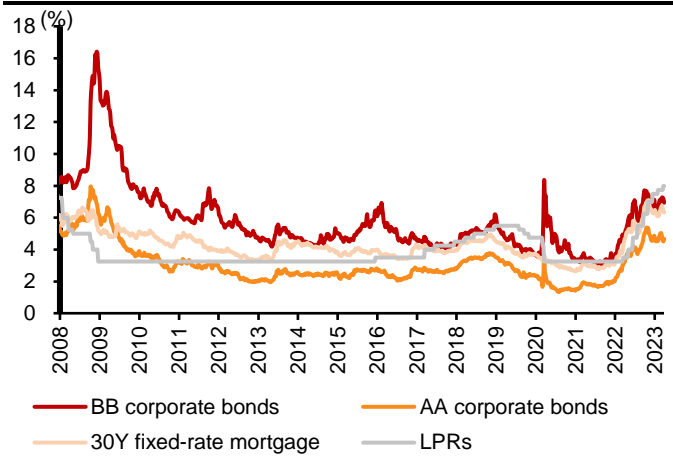
Source: WIND, CMBIGM

Figure 26: US Fed's Total Asset



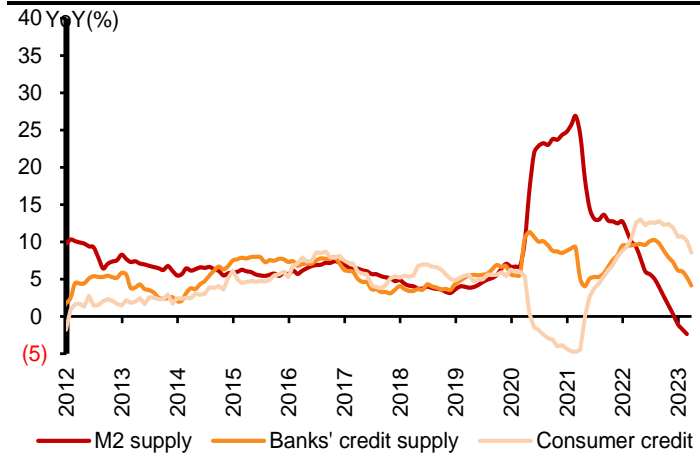
Source: WIND, CMBIGM

Figure 27: Financing Costs of US Private Sector



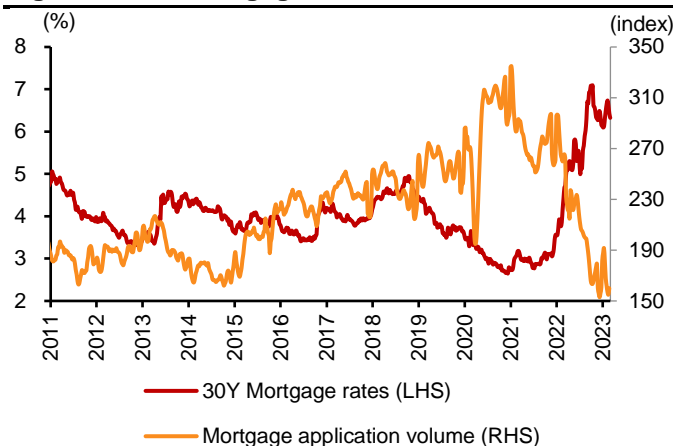
Source: WIND, CMBIGM

Figure 28: US M2 and Banks' Credit Supply



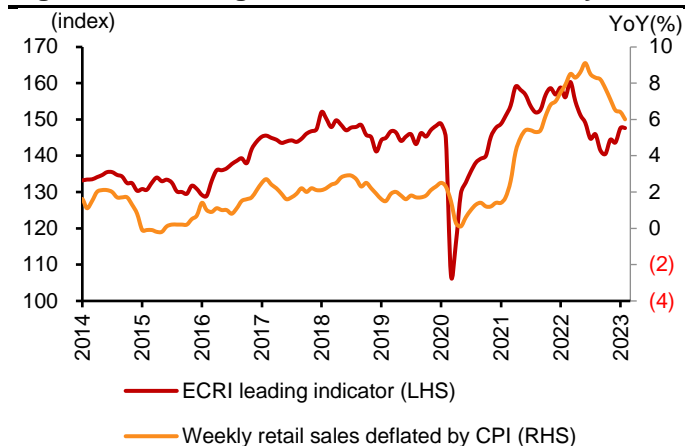
Source: WIND, CMBIGM

Figure 29: US Mortgage Rates & Demand



Source: WIND, CMBIGM

Figure 30: Leading indicators for US Economy

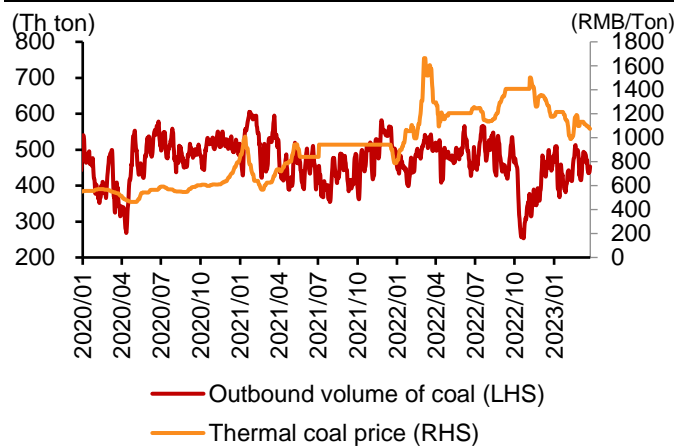


Source: WIND, CMBIGM

Factory Activity in China

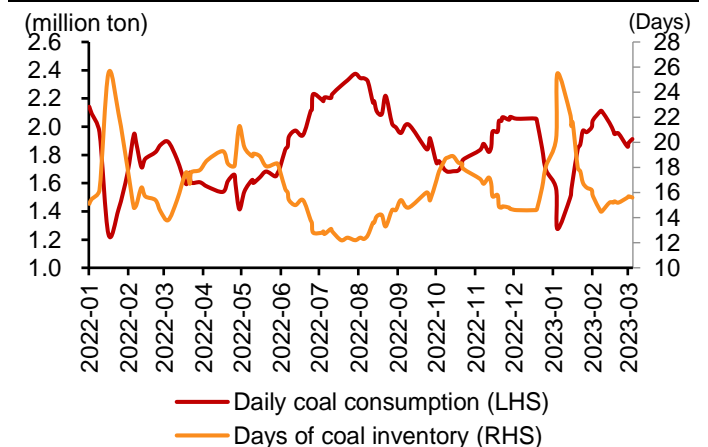
- Factory activity continued to improve, but the growth slowed.** The daily average coal consumption of power generators in South China rose 3.7% YoY in the first 21 days of March. Outbound coal volume by ship rebounded towards the end of March as coal price dropped. The wholesale reference price of Kweichow Moutai decreased slightly in March, showing a probable slowdown of business activity. Prices of lithium carbonate dropped by 52.7% YoY and 40.5% MoM in March due to weak sales of new energy vehicles.

Figure 31: Outbound Coal Volume & Price in Qinhuangdao Port



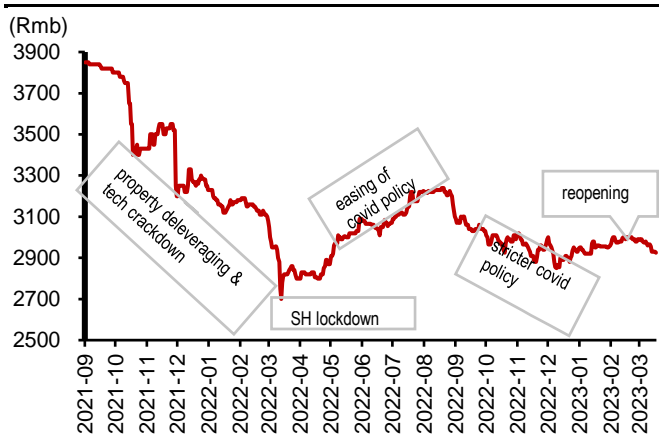
Source: WIND, CMBIGM

Figure 32: Port Power Generators' Coal Consumption in South China



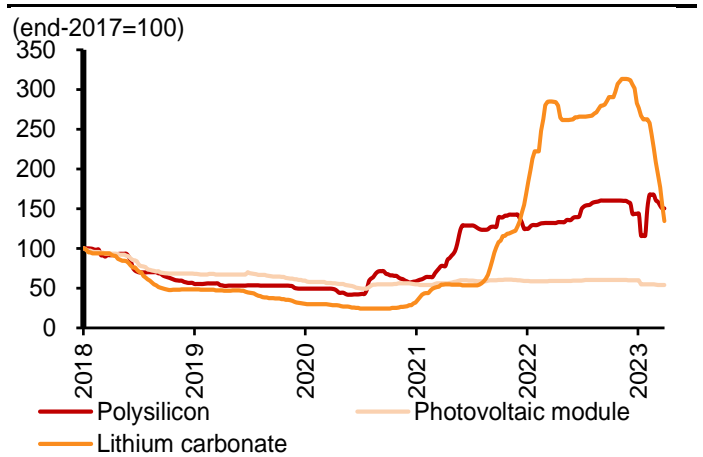
Source: WIND, CMBIGM

Figure 33: Wholesale Reference Price of Kweichow Moutai



Source: WIND, CMBIGM

Figure 34: Prices of Polysilicon, PV Modules & Lithium Carbonate

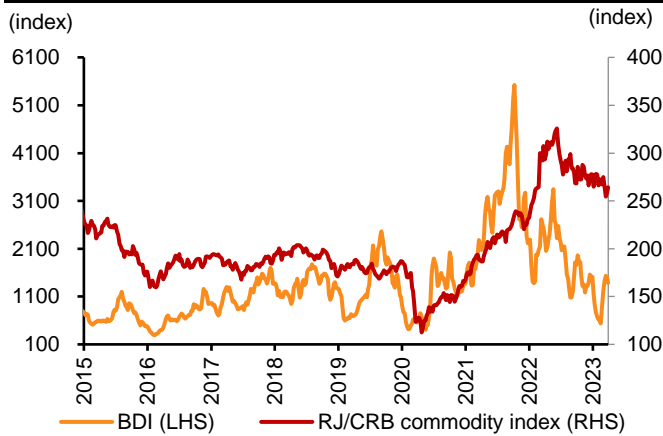


Source: WIND, CMBIGM

Commodity Price

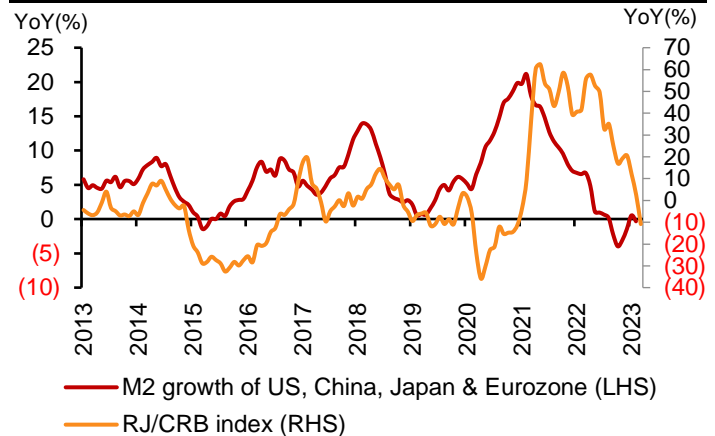
- **Commodity prices further declined as the recent banking sector turmoil increased risk.** Downside risk from overseas recession outweighed boost from China's economic recovery, which was gradual and service driven.
- **China's reflation pressure was low.** Prices of pork and vegetables continued to decline in March. Global crude oil and natural gas prices were much lower than the levels in the same period last year. .

Figure 35: BDI and Commodity Price



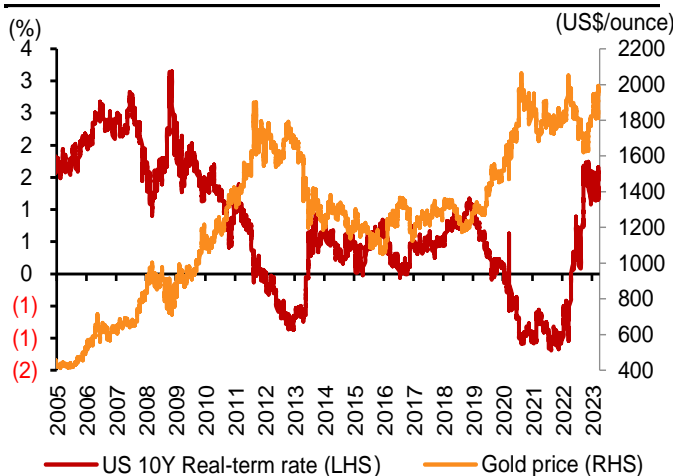
Source: WIND, CMBIGM

Figure 36: Global M2 Growth & Commodity Price



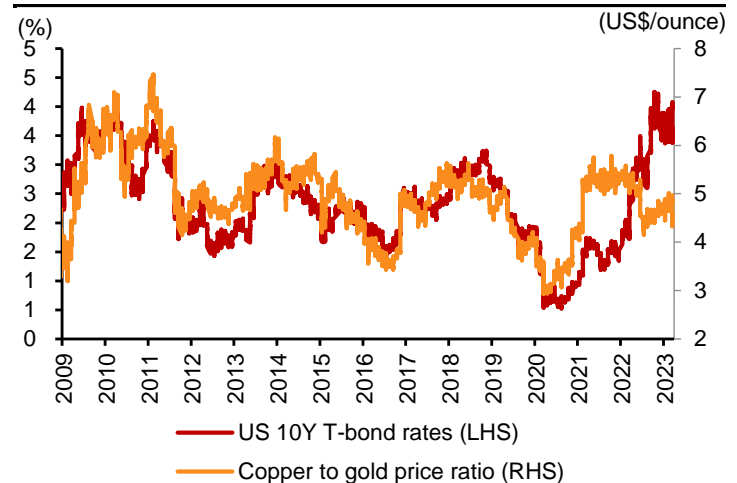
Source: WIND, CMBIGM

Figure 37: US Real-term Rate & Gold Price



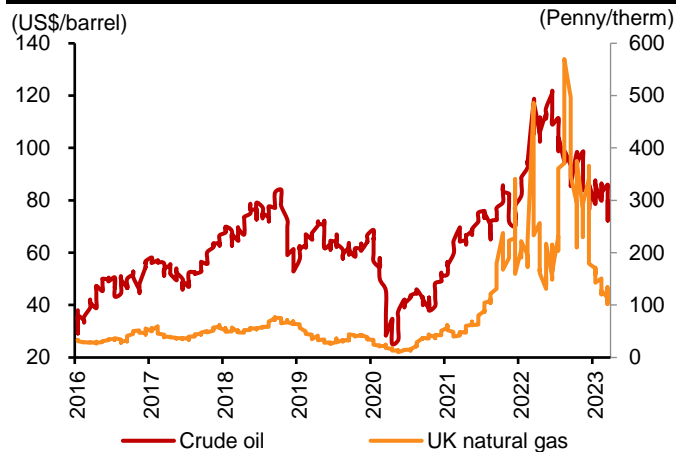
Source: WIND, CMBIGM

Figure 38: US T-bond Rate & Copper to Gold Ratio



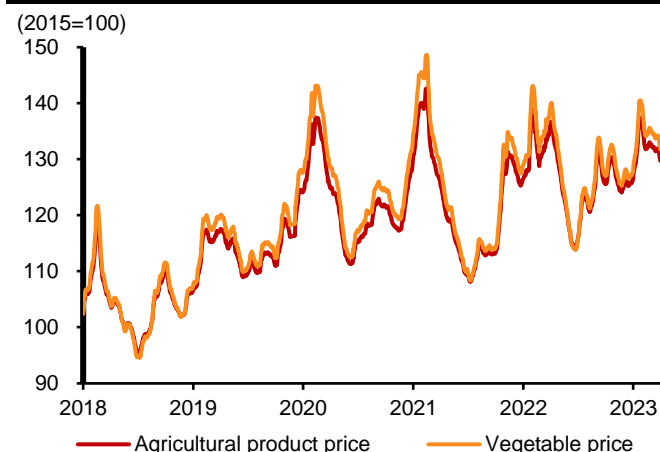
Source: WIND, CMBIGM

Figure 39: Global Crude Oil & UK Natural Gas Prices



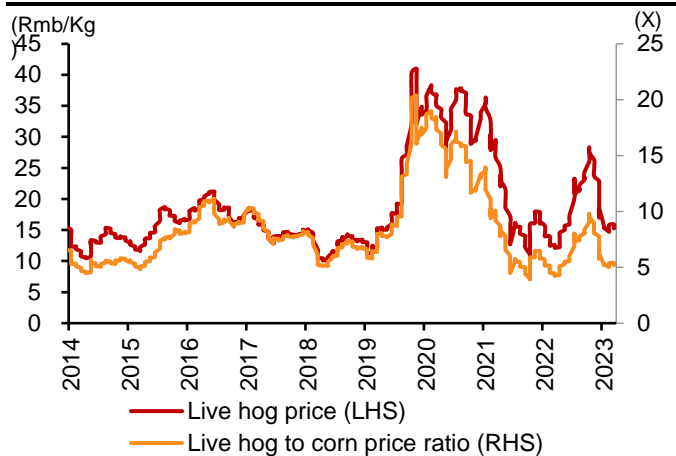
Source: WIND, CMBIGM

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

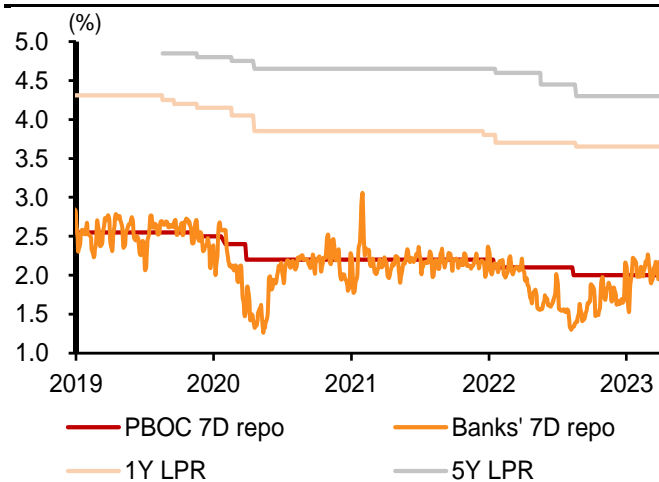


Source: WIND, CMBIGM

China's Liquidity Condition & RMB exchange Rates

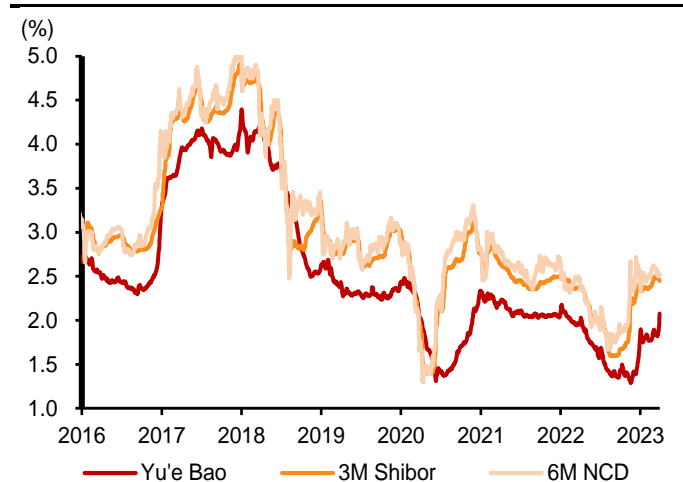
- Liquidity Condition:** PBOC's RRR cut in March indicates its easing bias for liquidity and credit policy to boost economy. DR007 or banks' 7D repo rate rose 8bps in March after increasing 27bps in February. As DR007 reached above the PBOC's 7D refinancing rate, the liquidity condition may gradually stabilize.
- Bond market:** Long-term bond rates dropped in March, as investor confidence about China's recovery declined.
- Credit condition:** Outstanding social financing and renminbi loans may continue to pick up with an improvement of government and corporate bond financing. The PBOC will maintain easing credit condition especially to manufacturing, service businesses and SMEs.
- RMB exchange rates:** Renminbi held largely unchanged against US Dollar in the second half of March. Sino-US 2Y T-bond spread rebounded after dropping to one of the lowest levels since September in 2022 due to the recent banking failures in the US that caused its 2Y treasury yield to trend lower. Looking forward, renminbi may rebound against US dollar after the US economy starts to see a recession. We maintain our forecast on US\$/RMB spot rate at 6.60 at end-2023.

Figure 43: PBOC Policy Rates



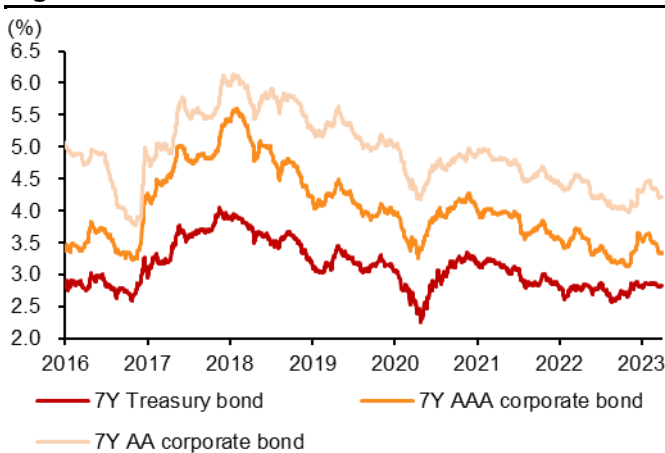
Source: WIND, CMBIGM

Figure 44: Money Market Rates



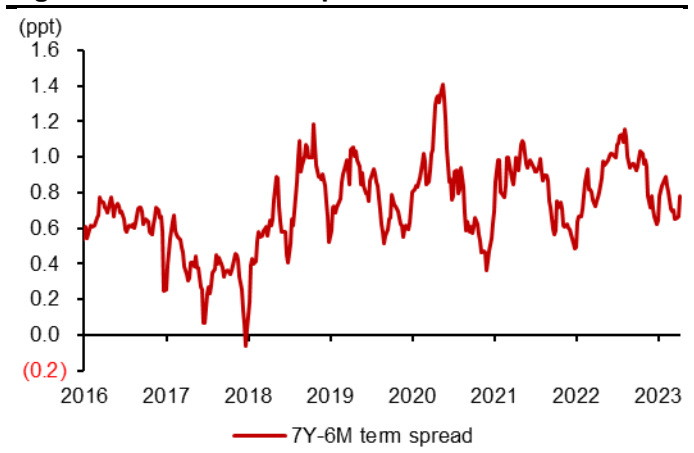
Source: WIND, CMBIGM

Figure 45: China's Bond Rates



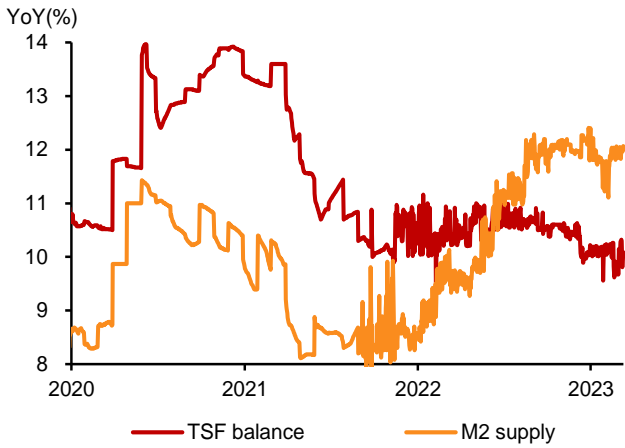
Source: WIND, CMBIGM

Figure 46: 7Y-6M Term Spreads



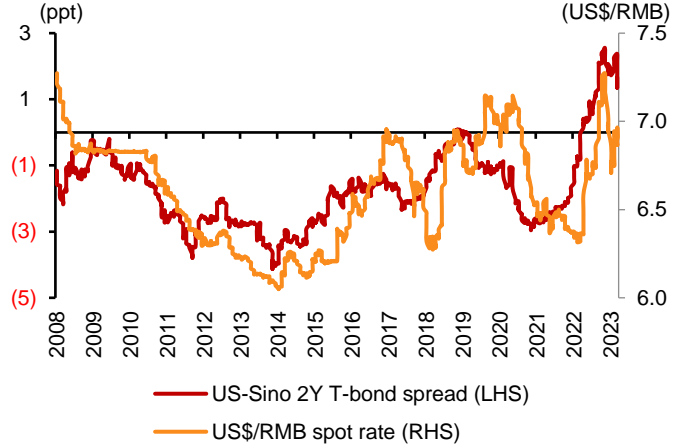
Source: WIND, CMBIGM

Figure 47: China's Credit Growth



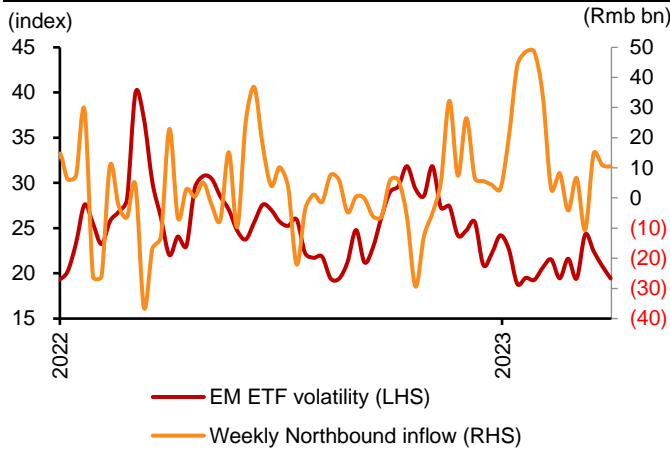
Source: WIND, CMBIGM

Figure 48: US-Sino Spread & US\$/RMB Rate



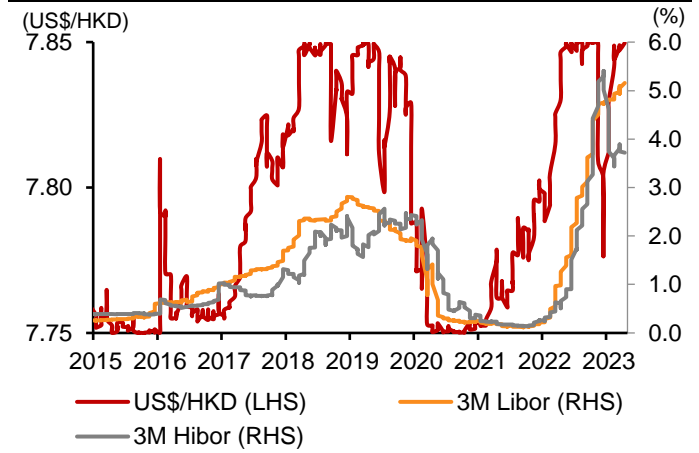
Source: WIND, CMBIGM

Figure 49: EM ETF Volatility & Northbound Inflow



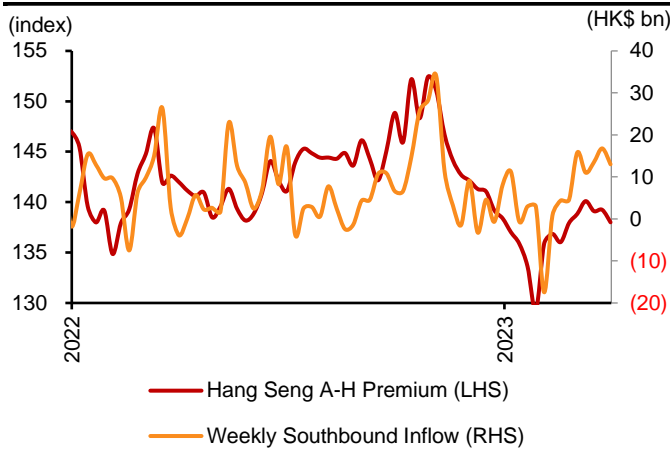
Source: WIND, CMBIGM

Figure 50: US\$/HKD Rates & Interest Rates



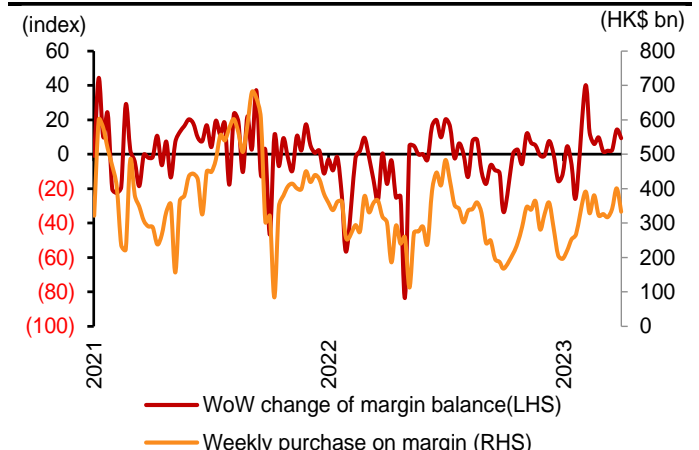
Source: WIND, CMBIGM

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



Source: WIND, CMBIGM

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