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China Macro Monitor

Growth remains tepid with further policy easing ahead

- **Economic activity:** China's growth momentum remained tepid in July as the high-frequency economic activity index saw a slight MoM decline. Property and exports remained two major drags on the economy. The recovery rates of housing sales further declined as household confidence about future income and housing price remained low. Exports of goods may have continued to slump as global manufacturing activity continued to shrink with the de-stocking cycle. The bright spots of China's economy were in infrastructure investment and some service sectors. Prices of some construction materials rebounded probably thanks to a pick-up of infrastructure investment. Meanwhile, passenger and tourist flow continued to improve, pointing to continuous recovery in some service activities. We expect a slight pick-up of value added industrial output (VAIO), service output index and retail sales with a further deterioration of housing sales, fixed asset investment (FAI) in July. The GDP is expected to grow 4.4% in 3Q23 and 5.3% in 4Q23 with the growth for 2023 at 5.1%.
- **Inflation trend:** China's CPI may have seen a YoY decline in July as consumer demand remained weak and pork price further decreased amid the de-stocking cycle. The CPI may gradually improve from August as consumption slowly recovers and pork price gradually stabilizes. We expect the CPI to rise 0.6% in 2023. The PPI should have narrowed its YoY declines in July thanks to base effect as well as a pick-up in commodity prices. Input material price in global manufacturing rebounded and labor cost continued to rise especially in advanced economies. China's de-stocking cycle may be close to the end as it is generally synchronized with the PPI cycle. Chinese enterprises increased material purchase and inventory sharply after China's economy reopening as the material purchase volume index jumped from 47.1% in 4Q22 to 52.5% in 1Q23. As aggregate demand deteriorated from this March, China faced an abrupt de-stocking cycle with severe deflation in 2Q23. The PPI should narrow its YoY declines in 2H23. We expect the PPI to drop 2.7% in 2023.
- **Economic policy:** China has further loosened monetary policy and property policy in July with possible additional policy easing in future. The liquidity condition further eased as the PBOC guided banks to increase credit supply to real sector and to roll over the debts of property developers and local government financing vehicles. More cities loosened property policies with less restrictions on home purchase and lower down-payment ratios & mortgage rates for first-home and second-home buyers. Looking forward, the central bank may further cut RRR, deposit rates and LPRs to boost economic growth momentum. Meanwhile, the policymakers may continue to loosen property policies to stabilize the housing market. The YoY growth of total social financing balance is expected to rebound from 3Q23.
- **RMB Exchange Rate:** Renminbi further weakened against US dollar in 2Q23 as US economy beat expectations and China growth was weaker than expected. Renminbi mildly rebounded in July as investors thought July Fed rate hike could be last. Looking forward, renminbi may mildly rebound against US dollar in 2H23-1H24 as China's economy gradually stabilizes and US economy gradually slows down. We expect US$/RMB spot rates to reach 7.07 at end-2023 and 7.00 at end-2024.

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Figure 1: Monthly Economic Forecast

	2023			
	Apr	May	Jun	Jul
GDP (YoY%, quarterly)			6.3	
VAIO (YoY%)	5.6	3.5	4.4	4.5
Service output index (YoY%)	13.5	11.7	6.8	7.0
Retail sales (YoY%)	18.4	12.7	3.1	3.3
FAI (YoY%, YTD)	4.7	4.0	3.8	3.5
Exports of goods (YoY%)	7.3	(7.1)	(12.4)	(10.0)
Imports of goods (YoY%)	(8.1)	(4.5)	(6.8)	(5.5)
CPI (YoY%)	0.1	0.2	0.0	(0.4)
PPI (YoY%)	(3.6)	(4.6)	(5.4)	(4.1)
RMB loans (YoY%)	11.8	11.4	9.0	9.2
M2 (YoY%)	12.4	11.6	11.3	11.1
Social financing (Rmb trn)	1.2	1.6	4.2	0.8
New RMB loans (Rmb trn)	0.7	1.4	3.1	0.7
3M Shibor(%)	2.43	2.22	2.17	2.10
10Y T-bond rate(%)	2.79	2.69	2.64	2.66

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
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	5.1	4.8
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	18.0	19.1
Per capita GDP (US$)	3823	4541	5597	6280	7057	7586	7923	8065	8797	9880	10124	10404	12615	12720	12761	13552
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	(0.7)	1.7
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	0.6	2.0
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	(2.7)	1.3
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	3.6	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	4.0	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	6.0	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	3.7	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
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	3.8	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	5.5	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)	(5.0)	2.5
- 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	8.5	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)	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	6.3	(2.3)	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	(3.2)	5.5
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	6.0	7.0
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	24.3	26.2
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	33.3	35.3
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	2.65	2.60
1Y LPR (%)					5.73	5.51	4.30	4.30	4.30	4.30	4.30	4.30	4.30	3.65	3.45	3.45
5Y LPR (%)											4.80	4.65	4.65	4.30	4.10	4.10
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	3.1	2.9
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
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	3.8	3.2	3.5
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	2.7	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$ 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	3.15	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	7.07	7.00

Source: Wind, CMBIGM

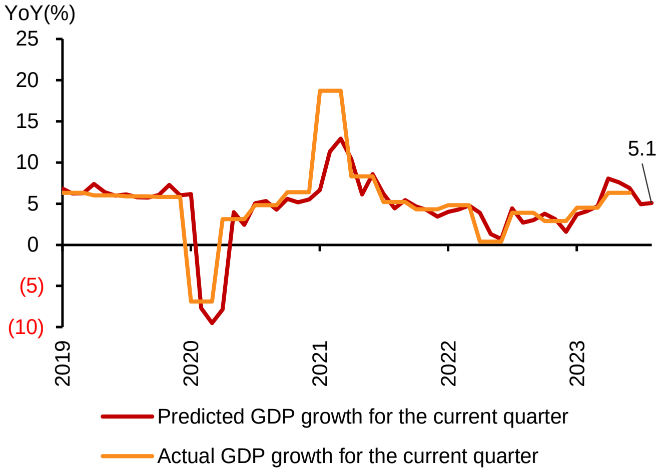
China's Economy Forecast

- **GDP growth may have seen the trough in 2Q23 and gradually improve from 3Q23.** The QoQ growth of China's GDP slowed from 2.2% in 1Q23 to 0.8% in 2Q23 due to a slump in housing market and exports as well as an abrupt de-stocking cycle in most sectors. Economic activity remained flat as Yicai high-frequency economic activity index mildly declined from 0.89 in June to 0.86 in July. Property market further deteriorated while construction activity and service customer flow improved. The 3Q23 GDP growth predicted by AI rose from 4.9% in July to 5.1% in August. As the summer holiday is approaching, transportation, catering & hotel, tourism and recreational services should further recover in 3Q23. However, property sales and business capex may continue to be weak as household and business confidence may remain low.

- **Deflation may gradually alleviate from 3Q23.** The CPI is expected to drop 0.4% YoY in July after zero growth in June and gradually pick up from August. For one thing, household consumption is expected to slowly recover and the de-stocking cycle in most durables should be close to the end. For the other, port price may gradually stabilize with an end of the de-capacity cycle. We expect the CPI to rise 0.6% in 2023 and 2% in 2024. The PPI is expected to decrease 4.1% YoY in July after dropping 5.4% in June. The PPI should gradually narrow its YoY declines in 2H23 as the de-stocking cycle is close to an end in China. We expect the PPI to drop 2.7% in 2023 and rise 1.3% in 2024.

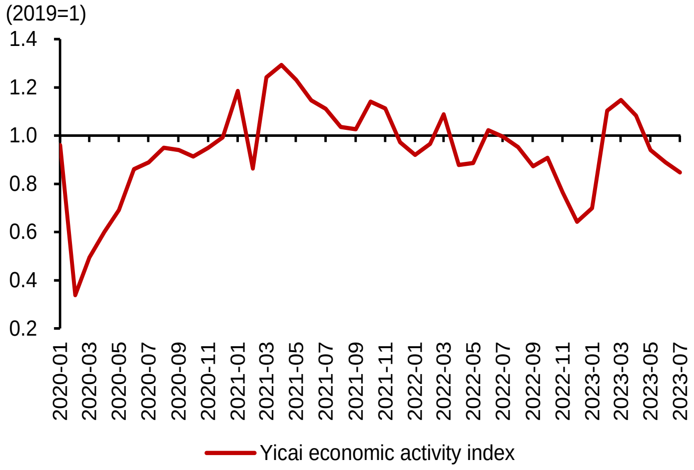
- **China may further loosen economic policies to boost growth momentum.** The July politburo meeting indicates a significant change of policy stance in China. The policymakers changed the optimistic view on the economic outlook and signaled more active policy easing ahead. Firstly, the PBOC would further loosen monetary policy with possible additional cuts in RRR, deposit rates and LPRs in next few months. Banks are encouraged to expand credit supply to manufacturing, SMEs and tech companies and roll over debt of property developers and local government financing vehicles. Secondly, the policymakers may further loosen property policy. More cities will abolish home-buying restrictions, loosen hukou system and lower down-payment ratios and mortgage rates for first-home and second-home buyers. Meanwhile, tier-1 and tier-2 cities will accelerate the renovation of urban villages and increase subsidized housing supply to boost fixed investment. Thirdly, the policymakers will adopt a more supportive stance towards internet companies and POEs to boost business confidence. Lastly, the policymakers may lower stamp tax, encourage state-owned listed companies to raise dividend payout and slow IPO pace to activate domestic capital market.

Figure 3: Predicted GDP growth



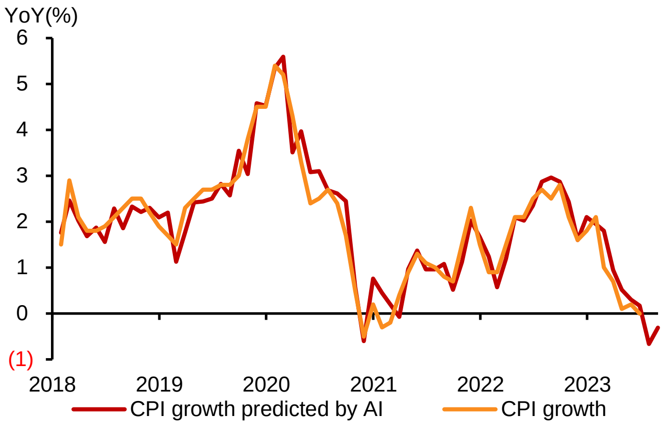
Source: WIND, CMBIGM

Figure 4: High-frequency economic activity index



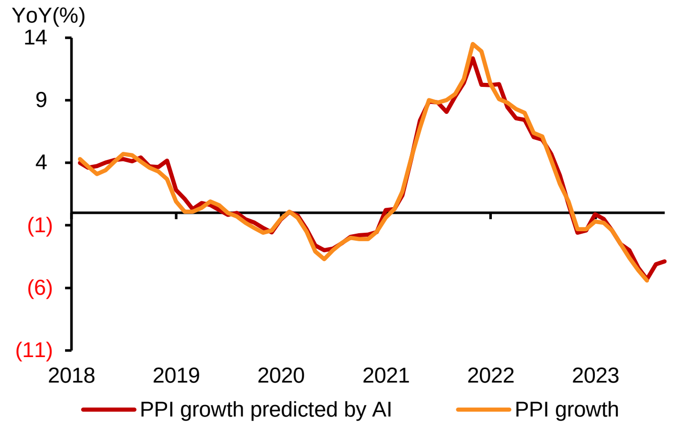
Source: WIND, CMBIGM

Figure 5: China's CPI growth



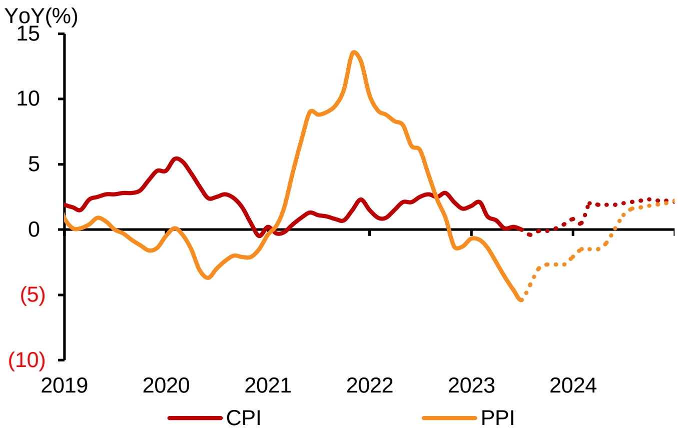
Source: WIND, CMBIGM

Figure 6: China's PPI growth



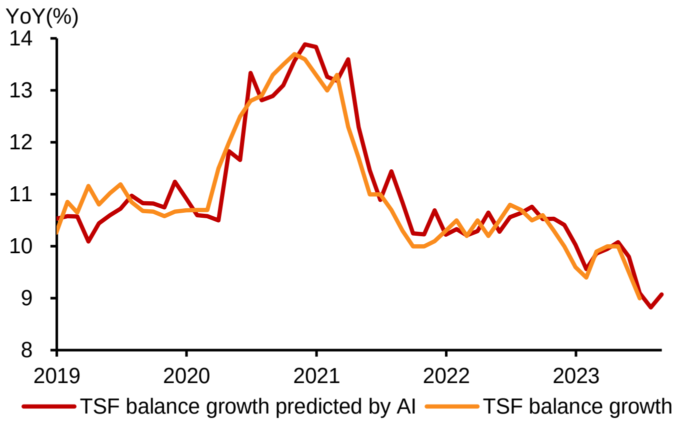
Source: WIND, CMBIGM

Figure 7: China's CPI and PPI growth forecast



Source: WIND, CMBIGM

Figure 8: TSF balance growth

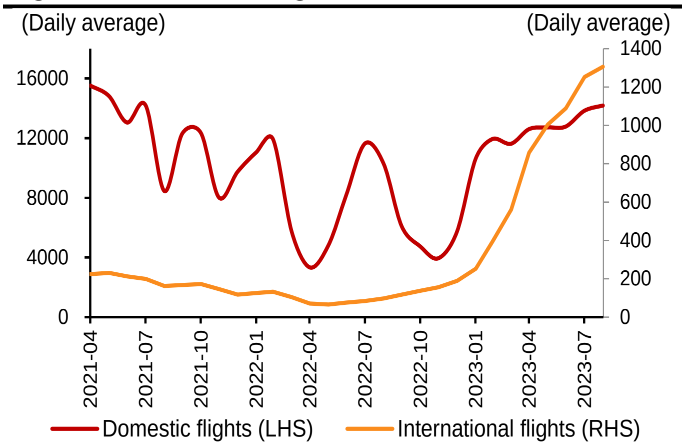


Source: WIND, CMBIGM

Passenger & Customer Flow

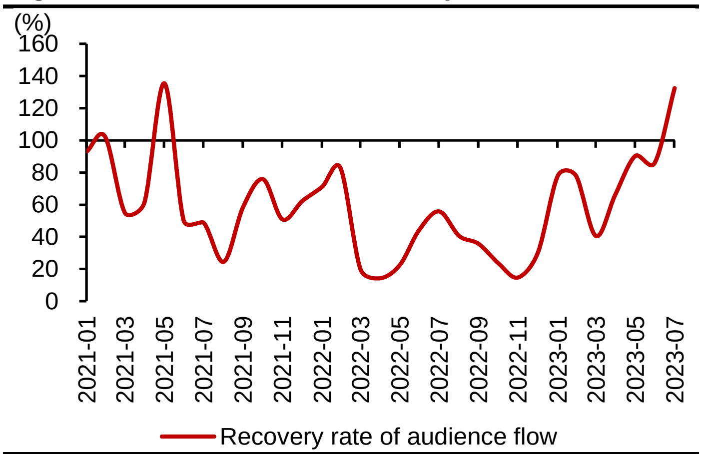
- **Air transportation:** Air transportation indicators continued to recover. The number of flights continued to recover in July. Domestic flights rose 8.3% MoM and 18.8% YoY while international flights jumped 15% MoM and 1391.3% YoY in July. Compared to July 2021, the recovery rates of domestic flights and international flights reached 97.4% and 629.4%, respectively. To resume business ties with international community, the Chinese policymakers vowed to increase number of international flights. We expect air transportation service to further improve in 3Q23 as the summer holiday comes and passenger flow continues to recover.
- **Movie audience flow:** Movie audience flow improved significantly in July, indicating continuous recovery in recreational service consumption. The recovery rates of daily audience flow and box office revenue compared to 2019 rose from 85.9% and 96.3% in June to 148.4% and 172.6% in July.
- **Subway passenger flow:** Subway passenger flow continued to recover in most cities. The recovery rates of daily subway passenger flow in Shenzhen, Guangzhou, Chengdu, Suzhou, Nanjing and Wuhan rose from 129.7%, 92.8%, 148.1%, 139%, 86.8% and 109.5% in June to 137.3%, 96%, 152.6%, 169.3%, 90.3% and 112.1% in July. However, the recovery rates in Beijing and Shanghai mildly declined from 88.5% and 95.3% in June to 86.4% and 95% in July. Generally speaking, catering, hotel, tourism and recreational service activities are quite sensitive to changes in daily passenger flow in cities. The subway passenger flow indicates continuous recovery in related service activity.

Figure 9: Number of flights



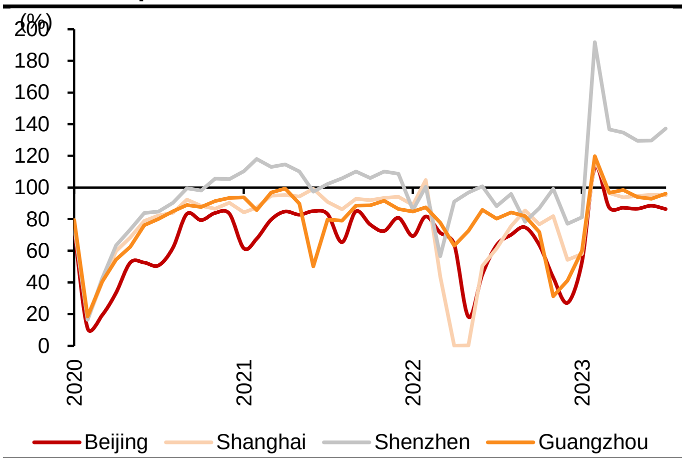
Source: WIND, CMBIGM

Figure 10: Movie audience recovery rate to 2019



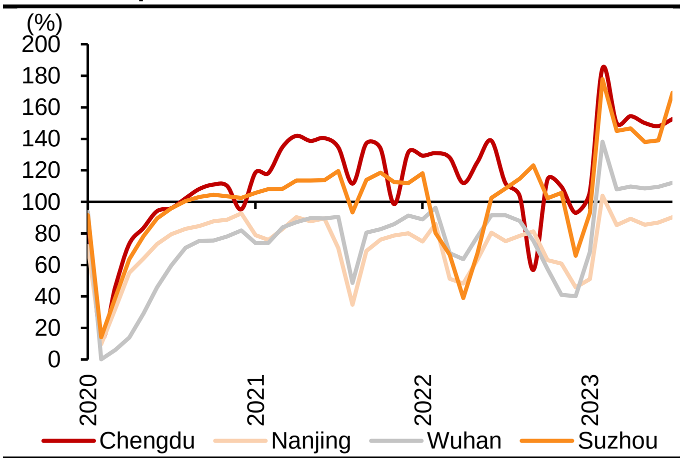
Source: WIND, CMBIGM

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

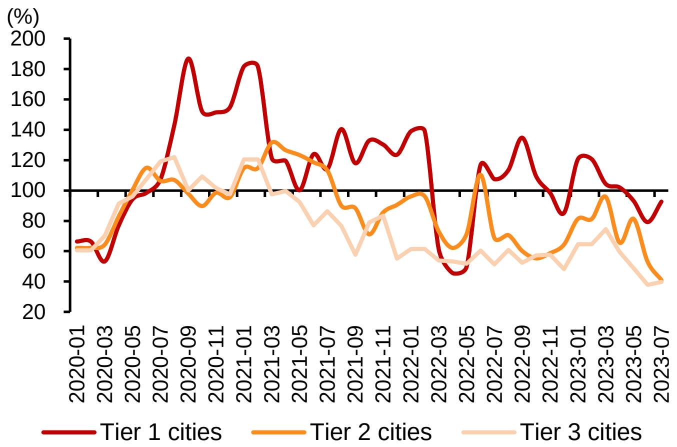


Source: WIND, CMBIGM

Housing Market, Auto Sales & Construction Activity in China

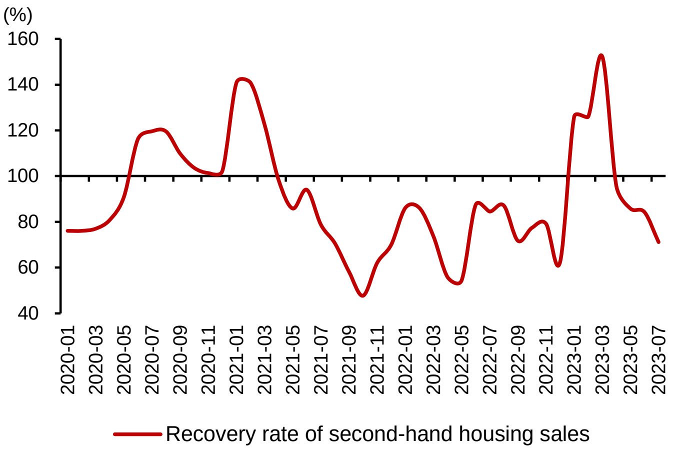
- **Housing sales further weakened in most cities.** The recovery rates of new housing sales in China's largest 30 cities compared to the same period in 2019 continued to decline from 72.3% in May to 52.9% in June and 49.1% in July. Tier-1 cities rebounded with the recovery rates up from 79.2% in June to 92.7% in July, while tier-2 cities further deteriorated with the recovery rates down from 53.3% to 41%. Tier-3 cities remained weak as the recovery rates were still low at 39.7%. Second-hand housing sales also weakened as the total recovery rate in 11 selective cities declined from 84.2% in June to 72.6% in July. Meanwhile, listing prices of second-hand housing prices continued to decline across different tiers of cities.
- **Passenger vehicle sales stayed flat.** According to the China Passenger Car Association, retail sales of passenger vehicle makers dropped 2.8% in July after decreasing 3.8% in June. In terms of 2Y CAGR, passenger vehicle sales rose 7% in July after rising 7.5% in June. Capacity operation rate of semi-steel tyre increased to 71.8% in July from 71.4% in June. In Shanghai second-hand car market, daily average sales volume declined 17.5% in July after rising 5.9% in June and the ASP dropped 3.9% after slumping 14.3%. The recovery rates of daily average sales volume and price compared to 2021 respectively rose from 104.9% and 86.6% in June to 106.5% and 93.1% in July.
- **Construction indicators mildly rebounded.** Capacity operation rates of deformed steel bar and asphalt plant respectively rose from 46.4% and 34.2% in June to 47.3% and 37% in July. Prices of flat glass and PVC also moderately rebounded in July. However, cement price continued to weaken as its inventory-to-capacity ratio stayed at historic high. The major reason is new housing start remained weak while the latest round of infrastructure investment was less cement-intensive than in the previous cycles.

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



Source: WIND, CMBIGM

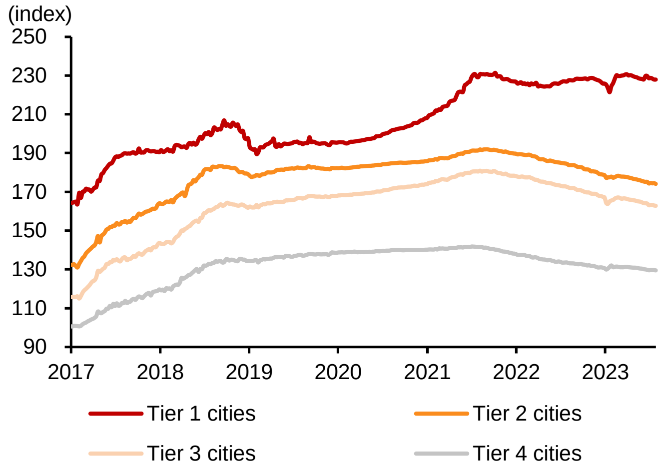
Figure 14: Recovery rate of second-hand housing sales compared to 2019 in 11 selective cities



Source: WIND, CMBIGM

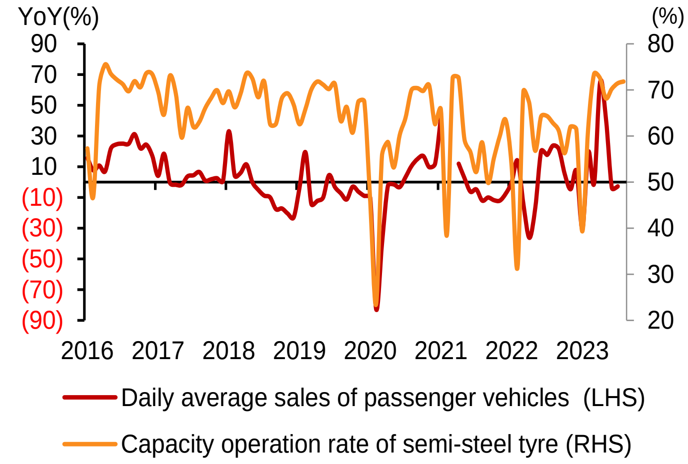
11 cities include Beijing, Shenzhen, Hangzhou, Nanjing, Chengdu, Qingdao, Suzhou, Xiamen, Wuxi, Dongguan and Foshan

Figure 15: Listing price index of second-hand house



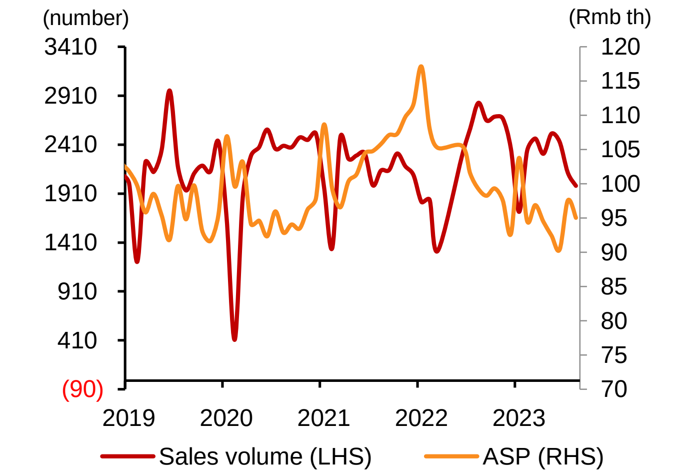
Source: WIND, CMBIGM

Figure 16: Auto sales



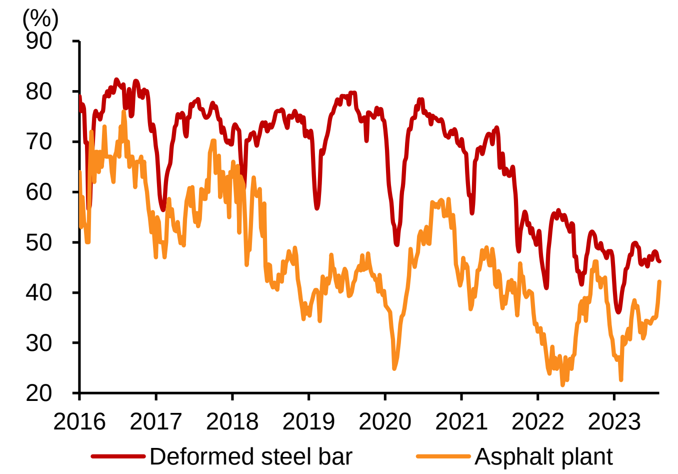
Source: WIND, CMBIGM

Figure 17: Second-hand auto sales in Shanghai



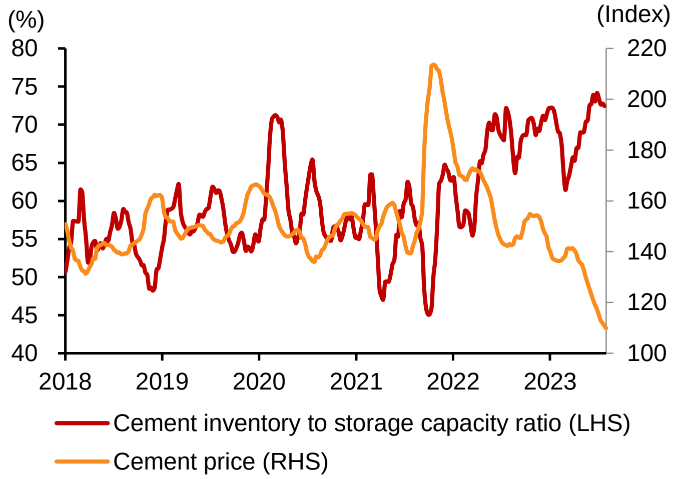
Source: WIND, CMBIGM

Figure 18: Capacity operation rates



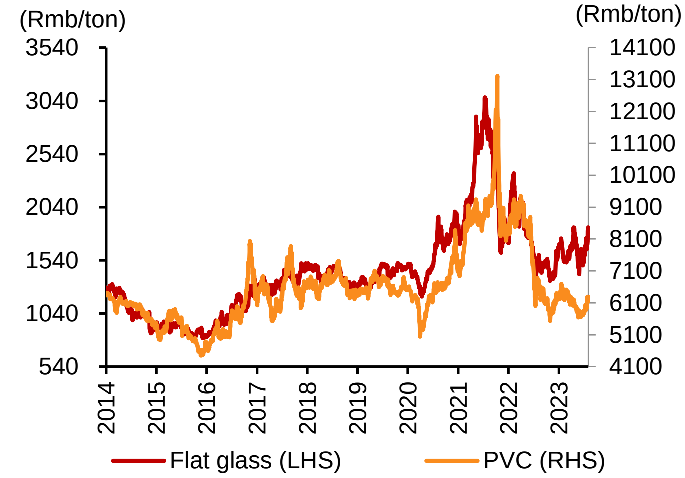
Source: WIND, CMBIGM

Figure 19: Cement price



Source: WIND, CMBIGM

Figure 20: Flat glass and PVC prices



Source: WIND, CMBIGM

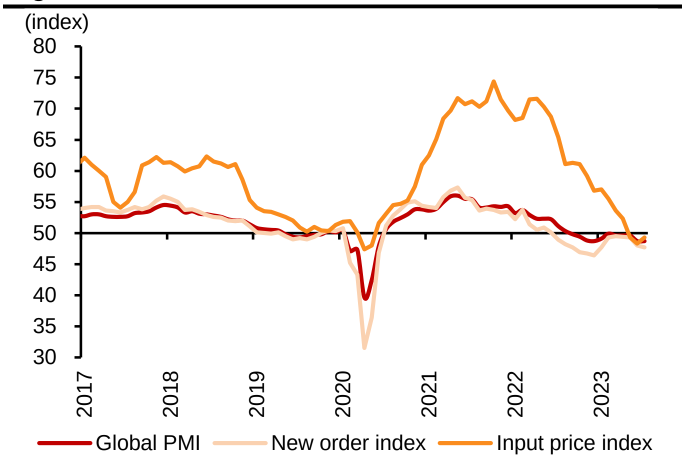
China's Exports and US Recession Risk

- **China's exports may remain weak in July.** The recent better-than-expected performance of US economy was mainly supported by the non-tradable sector. Overseas demand for goods remained weak amid the de-stocking cycle in most manufacturing industries. Global manufacturing PMI further declined in July as worldwide factories reported deeper downturn in production and trade. South Korea's exports of goods further deteriorated while Vietnam's exports of goods narrowed its YoY decline in July. China's new export order index and import index in manufacturing further contracted in July, indicating continuous weak performance in foreign trade activity.

- **US yield curve remained inverted as future recession risk was still there.** US 10Y/2Y treasury yield spreads remained negative with slight narrowing in July. 10Y/3M treasury yield spreads kept negative from last November, indicating future recession risk is still there. The inverted yield curve also indicated continuous pressure on the banking system as US banks may continue to tighten their credit supply condition.

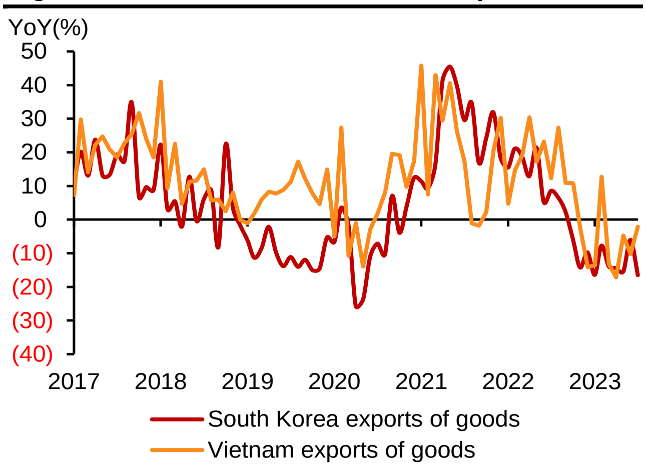
- **Real sector financing costs increased and credit growth slowed.** The BB-rated corporate bond yields rose from 6.9% at end-June to 7.06% in early August. Meanwhile, the 30Y fixed-rate mortgage rates increased from 6.71% to 6.9%. Mortgage application volume stayed low as households were reluctant to refinance their mortgage with high mortgage rates. Banks' LPR further increased by 25bps from 8.25% at end-June to 8.5% at end-July. Banks' credit supply dropped 0.2% YoY at end-July after rising 0.4% YoY at end-June, with the YoY growth of consumer credit and mortgage loans respectively down from 6.7% and 7.9% at end-June to 5.9% and 7.1% at end-July.

Figure 21: Global PMI



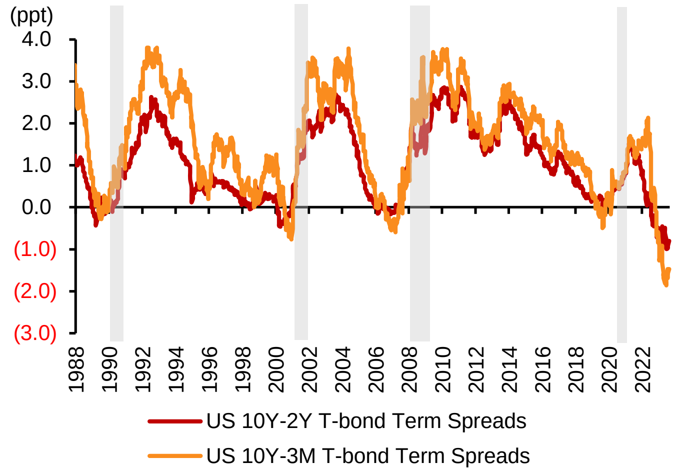
Source: WIND, CMBIGM
Note: the latest month covered the first 20 days of the month

Figure 22: South Korea & Vietnam exports



Source: WIND, CMBIGM

Figure 23: US term spreads & recession risk

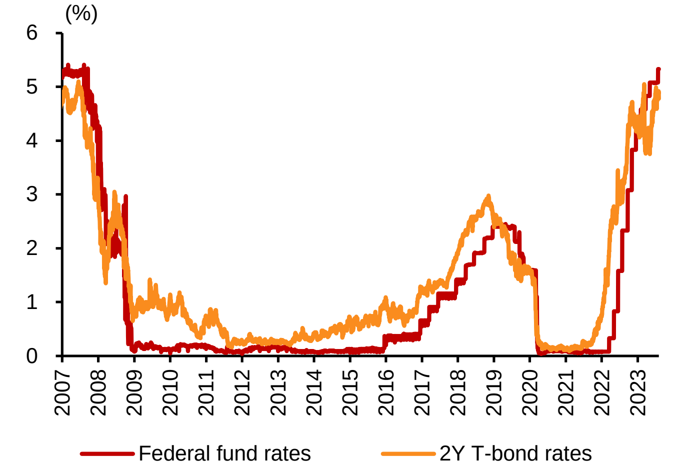


Source: WIND, CMBIGM

Figure 24: US inflation expectations

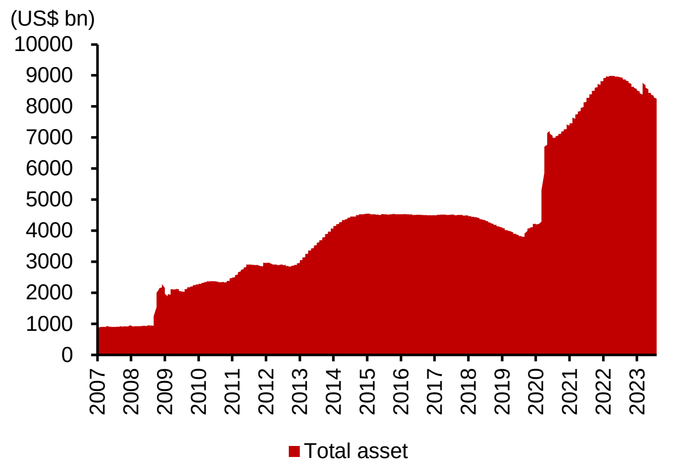
Source: WIND, CMBIGM

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



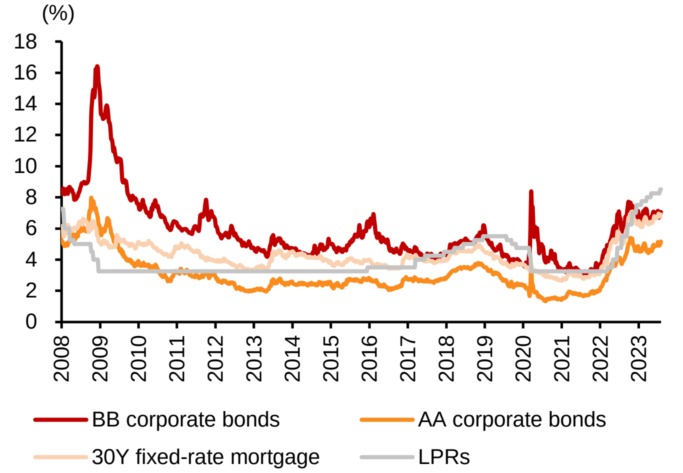
Source: WIND, CMBIGM

Figure 26: US Fed's total asset



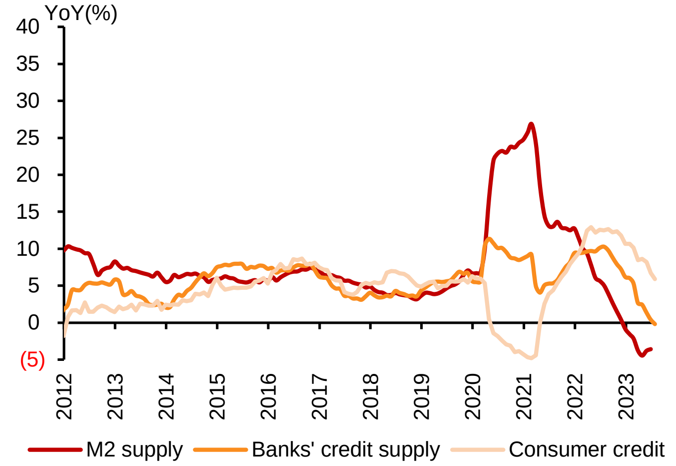
Source: WIND, CMBIGM

Figure 27: Financing costs of US private sectors



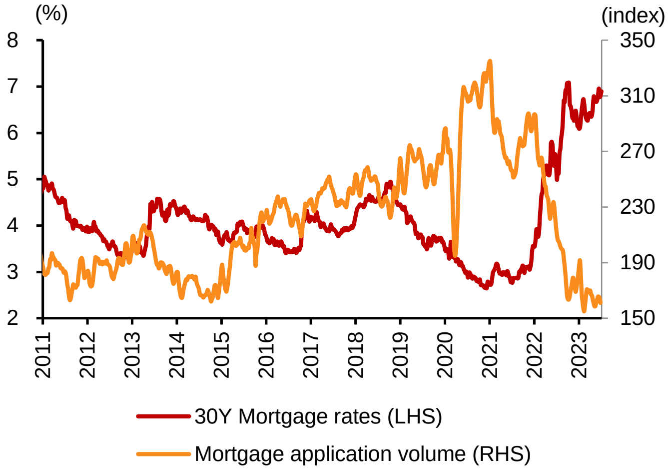
Source: WIND, CMBIGM

Figure 28: US M2 and banks' credit supply



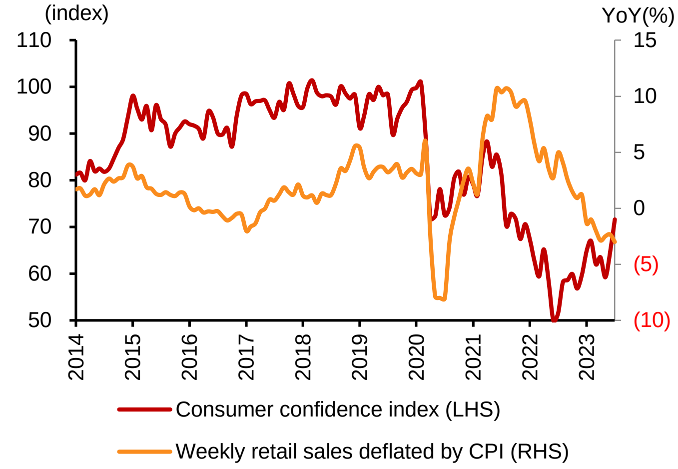
Source: WIND, CMBIGM

Figure 29: US mortgage rates



Source: WIND, CMBIGM

Figure 30: US consumer confidence & retail sales

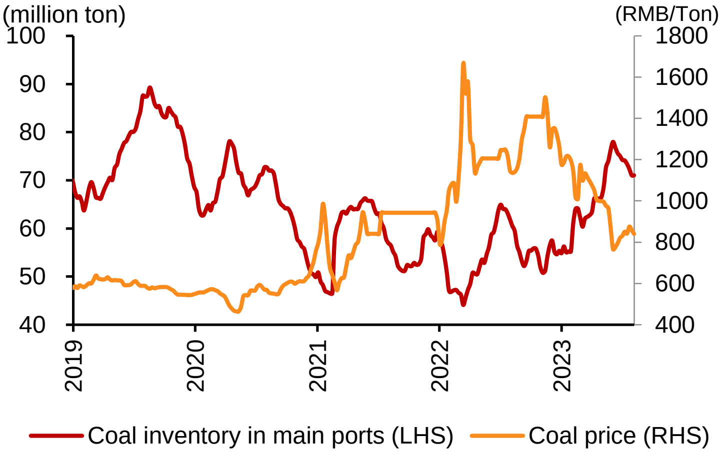


Source: WIND, CMBIGM

Factory Activity in China

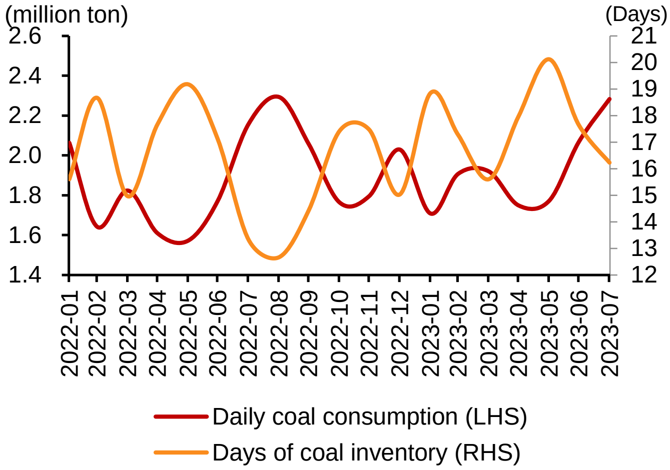
- China's manufacturing PMI slightly improved in July while still remaining in the contraction territory. Due to high temperature this summer, however, power generation and cooling products registered strong growth. Coal inventory in main ports dropped 5.4% MoM and coal price in Qinhuangdao port increased 4.6% MoM in July. Business activity remained tepid as the wholesale reference price of Kweichou Moutai was flat in July. Supply capacity competition in manufacturing remained tough as prices of lithium carbonate and photovoltaic module continued to decline in July.

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



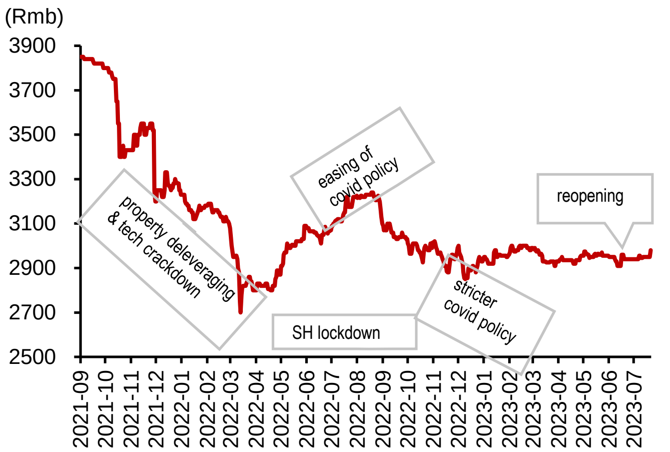
Source: WIND, CMBIGM

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



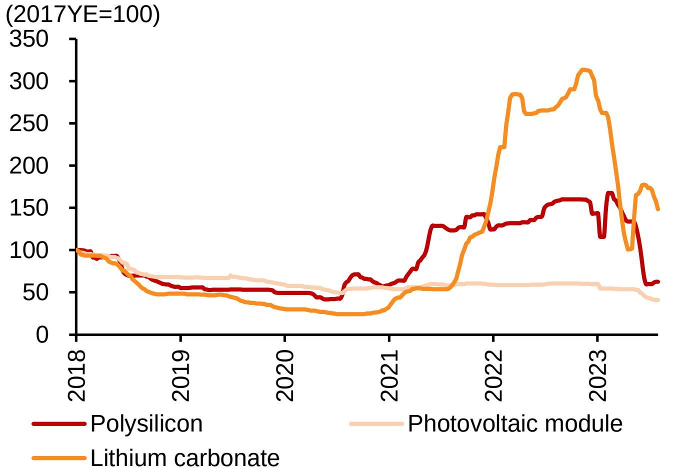
Source: WIND, CMBIGM

Figure 33: Wholesale Reference Price of Kweichow Moutai



Source: WIND, CMBIGM

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



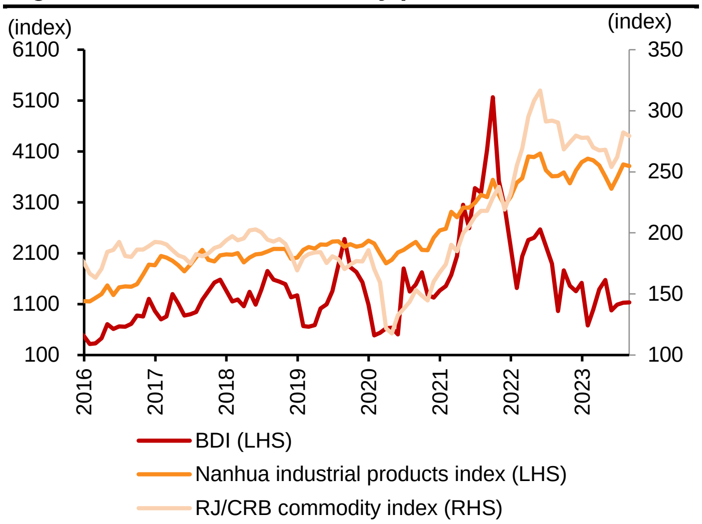
Source: WIND, CMBIGM

Commodity Prices

- **Global commodity prices rebounded as investors expected July Fed rate hike could be last and China may deliver additional policy easing ahead.** BDI increased 4.1% from end-June to early August. Meanwhile, RJ/CRB commodity price index and China's Nanhua industrial price index respectively grew 6.7% and 6.2%. Investors expected US policy rates could peak after July Fed rate hike and China may deliver additional policy easing to boost its growth. In addition, OPEC+ signaled discretionary crude oil capacity cut and the US may have to make up its strategic oil reserve, boosting the oil price. Looking forward, commodity prices may see some fluctuations along with the changing market expectations about the Fed policy rate path and China's stimulus policy prospect.

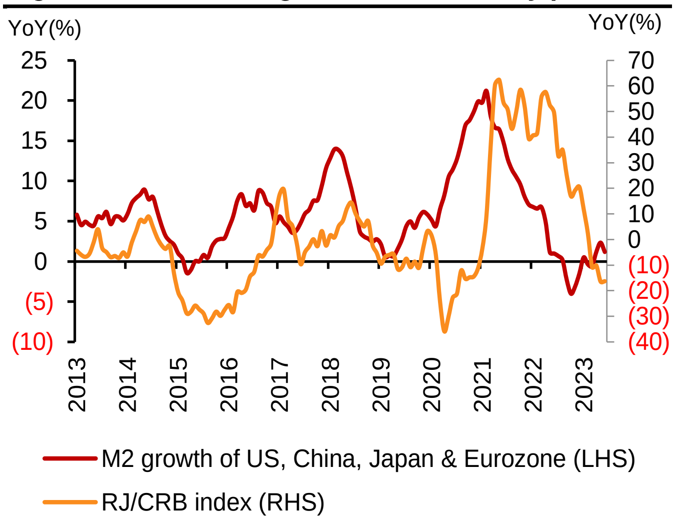
- **China's food prices may gradually bottom out in 2H23.** China's wholesale price indexes of agricultural products and vegetables respectively dropped 2.7% and 3.1% MoM in July, posting additional downside pressure on the CPI growth. Pork price also weakened in July. Looking forward, China's food price may gradually bottom out in 2H23 as catering consumption continues to recover and the de-capacity cycle is close to the end.

Figure 35: BDI and commodity price



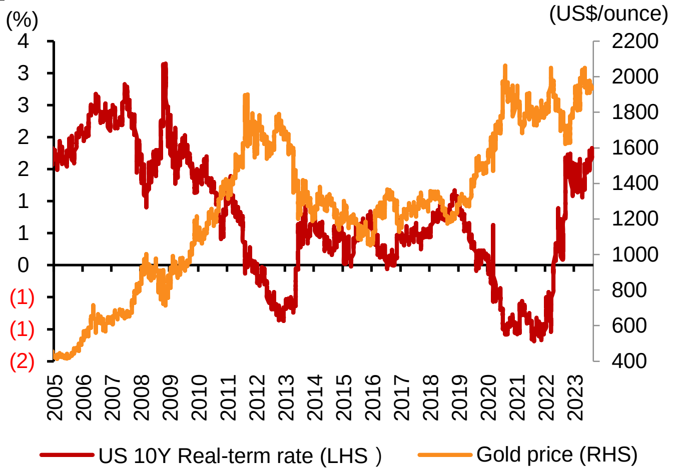
Source: WIND, CMBIGM

Figure 36: Global M2 growth & commodity price



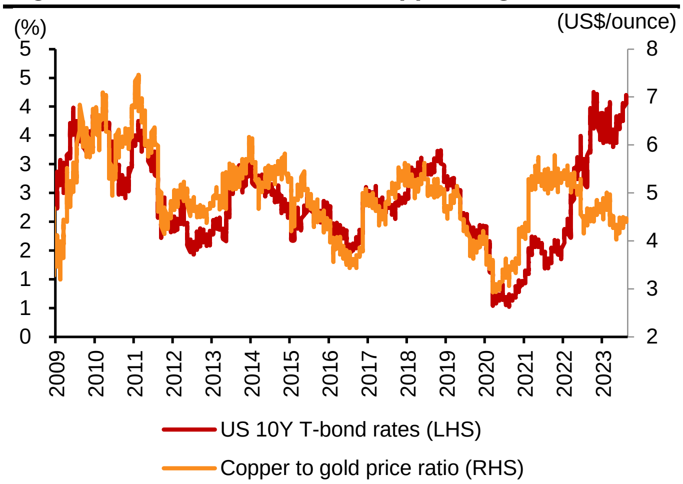
Source: WIND, CMBIGM

Figure 37: US real-term rate & gold price



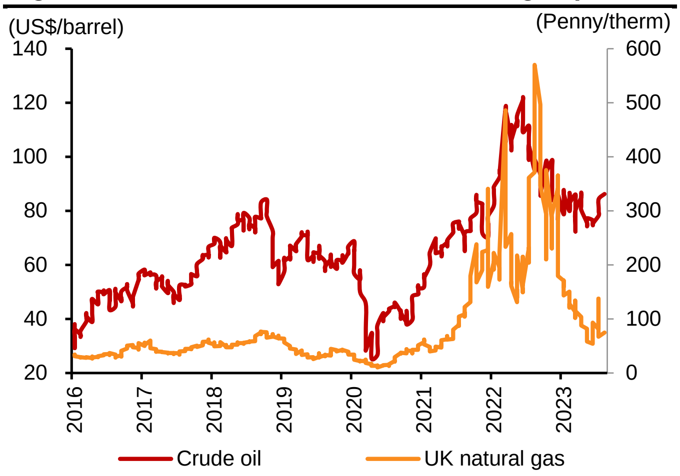
Source: WIND, CMBIGM

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



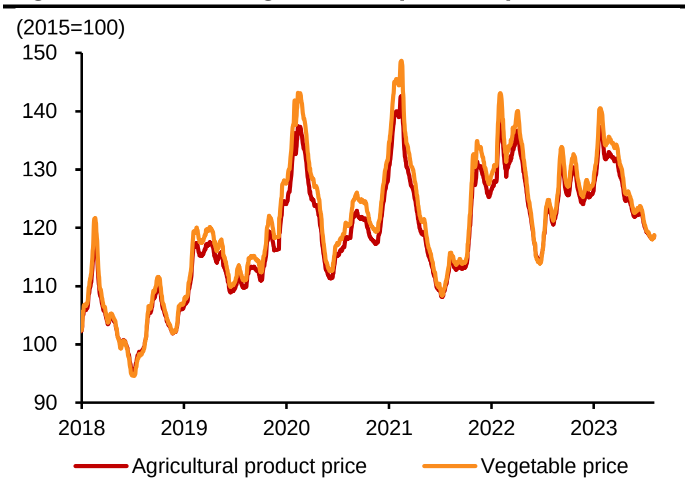
Source: WIND, CMBIGM

Figure 39: Global crude oil & UK natural gas prices



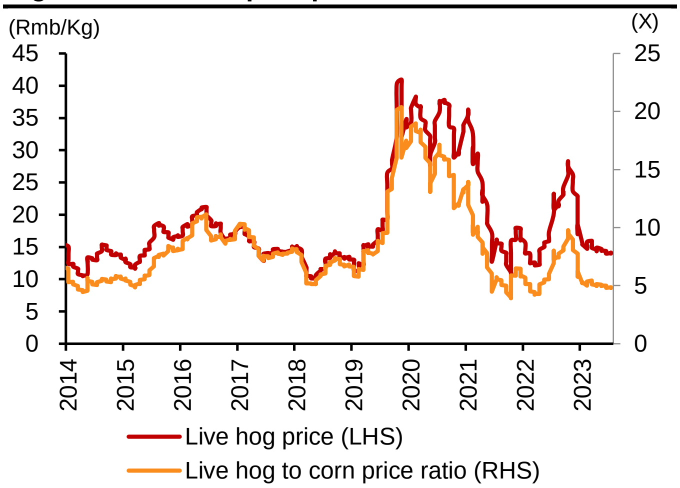
Source: WIND, CMBIGM

Figure 40: China's agricultural product price



Source: WIND, CMBIGM

Figure 41: China's pork price



Source: WIND, CMBIGM

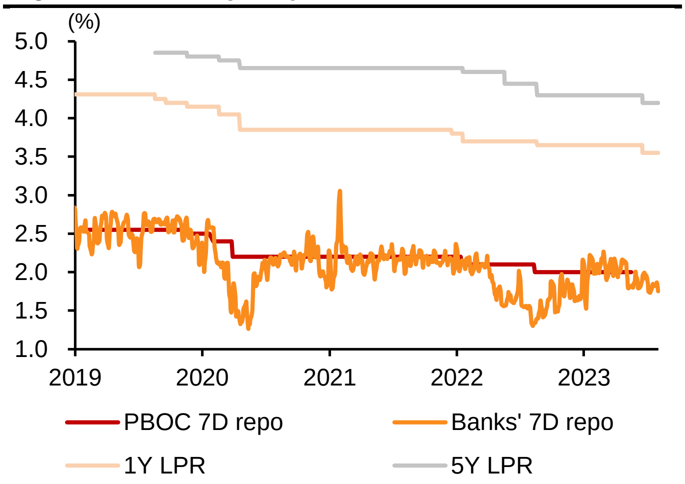
Figure 42: Core CPI growth & 2Y T-bond rates

Source: WIND, CMBIGM

China's Liquidity & Credit Condition

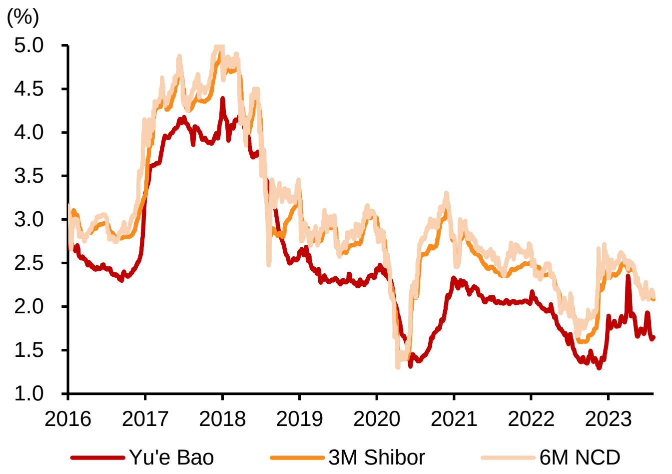
- **Liquidity condition:** Liquidity condition further eased as average DR007 declined from 1.89% in June to 1.8% in July and below 1.8% in early August. Meanwhile, 3M Shibor and banks' 6M NCD rate respectively 2.17% and 2.21% at end-June to 2.09% and 2.11% in early August. Looking forward, the PBOC may further loosen the liquidity supply by cutting the RRR in 3Q23.
- **Bond rates:** Long-term bond rates slightly declined as investor expectations about long-term economic prospect remained weak. The dynamic of long-term bond rates is highly dependent on the condition in housing market and credit demand. If housing market and credit demand remain weak, long-term bond rates may keep low in short term.
- **Credit condition:** The PBOC may guide banks to further lower deposit rates in 2H23 to alleviate banks' net interest margin pressure and create additional room for LPR cut. The central bank may also encourage banks to expand credit supply to manufacturing and service sectors and roll over the debts of property developers and LGFVs. As consumption may continue to recover and housing sales may gradually stabilize, credit demand is likely to improve in 2H23.

Figure 43: PBOC policy rates



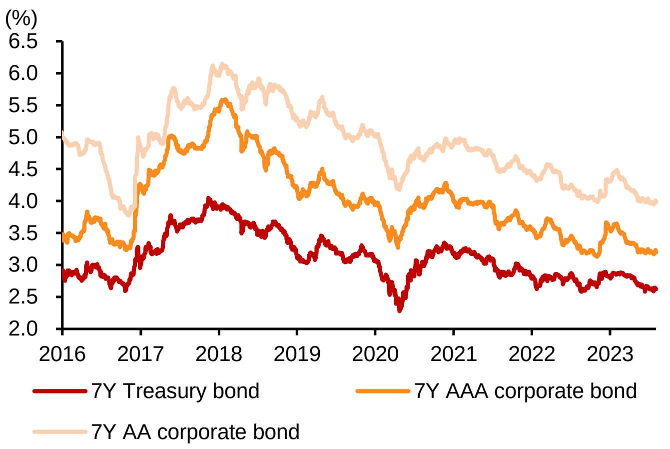
Source: WIND, CMBIGM

Figure 44: Money market rates



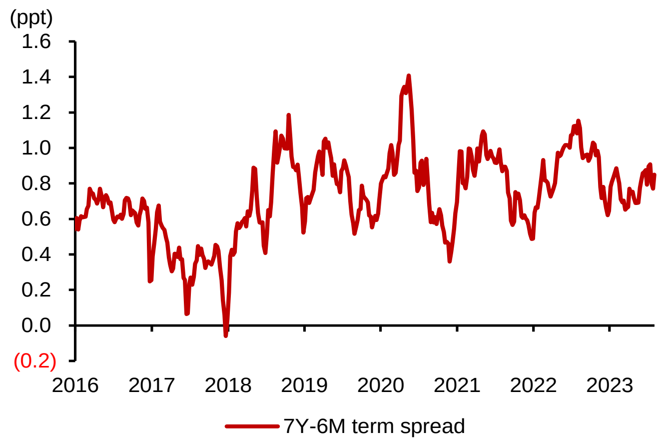
Source: WIND, CMBIGM

Figure 45: China's bond rates



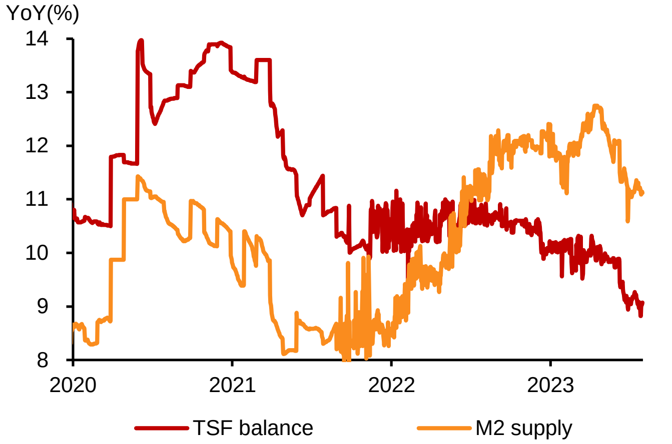
Source: WIND, CMBIGM

Figure 46: 7Y-6M term spreads



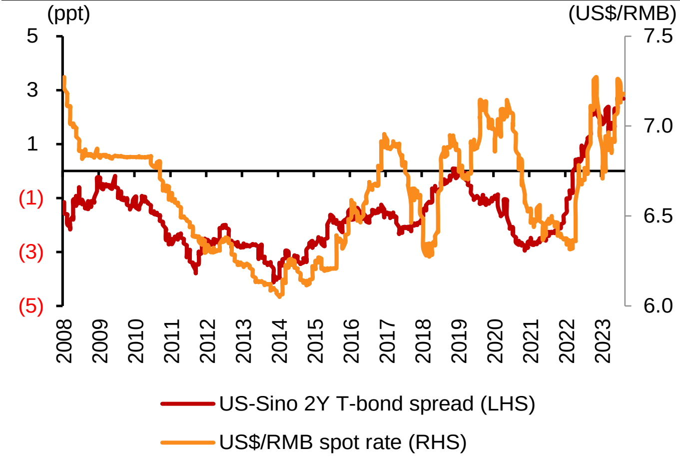
Source: WIND, CMBIGM

Figure 47: China's credit growth



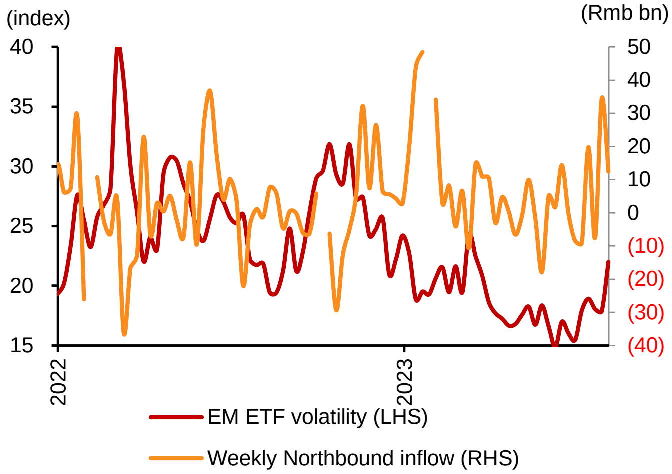
Source: WIND, CMBIGM

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



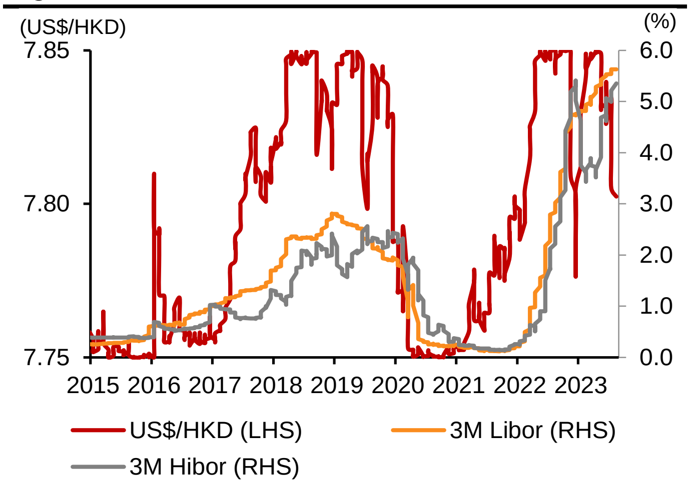
Source: WIND, CMBIGM

Figure 49: EM ETF volatility & northbound inflow



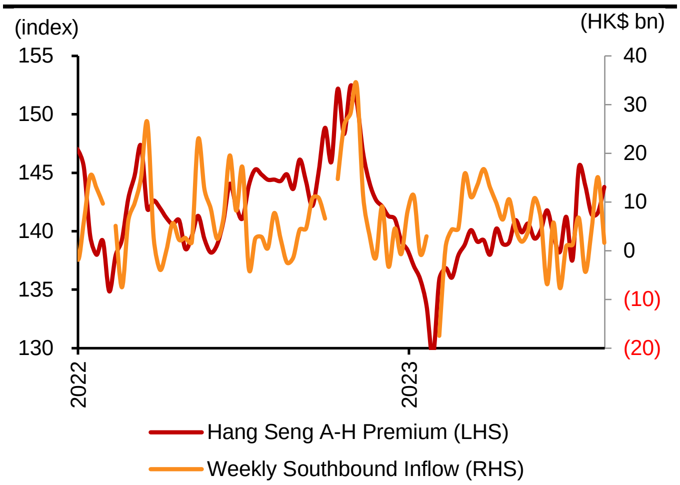
Source: WIND, CMBIGM

Figure 50: US$/HKD rates & interest rates



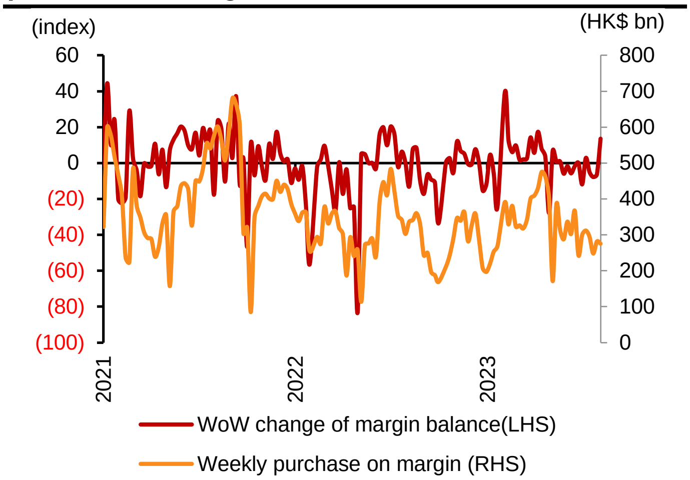
Source: WIND, CMBIGM

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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