

China Macro Monitor

Growth momentum remained weak

- **Growth momentum:** China's growth momentum remained weak in May as the high-frequency economic activity index further declined. Exports, most durables and business capex seemed to weaken in May, while auto sales improved and recreational service consumption maintained good recovery trend. Commodity prices, long-term bond rates and RMB exchange rates all decreased as market expectations about China's economic prospect deteriorated. We expect the 2Y CAGR of GDP to slow from 4.6% in 1Q23 to 4% 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:** number of flights, subway passenger flow and movie audience flow maintained strong growth in May, indicating continuous recovery in service consumption. We expect NBS service output index to increase 12.8% YoY in May after rising 13.5% YoY in April. Service activity may further improve as the summer holiday comes in July-August. Auto sales also improved in May. Housing market continued to recover in tier-one cities while it was relatively weak in lower-tier cities. Construction activity softened as prices of related products dropped noticeably. The YoY growth of fixed asset investment (FAI) is expected to slow from 4.7% in 4M23 to 4.5% in 5M23. Overseas demand and prices continued to decline as South Korea's foreign trade activity further deteriorated. We expect China's exports of goods to drop 4% YoY in May after rising 8.5% YoY in April, and the value added industrial output to rise 3.7% YoY in May after growing 5.6% in April, with its 2Y CAGR slightly up from 1.3% in April to 2.2% in May.
- **Inflation trend:** the deflation pressure further increased in May. Food prices remained weak, while commodity prices noticeably declined. The weakening of China's economic activity especially in manufacturing and property hurt the sentiment in commodity market. The YoY growth of CPI may remain low at 0.1% in May, the same as in April. The PPI may further decline 4.1% YoY in May after dropping 3.6% YoY in April. Looking forward, there may be some mild reflation in 2H23-2024.
- **Monetary policy:** liquidity condition further eased as money market rates declined. Liquidity supply remained stable, while liquidity demand declined as economic activity, risk appetite and credit demand weakened. Credit policy should remain accommodative as China's GDP was below its potential growth with negative output gap and deflation pressure. As economic activity is likely to remain weak in 2Q23, the PBOC may mildly cut LPR in 3Q23 to boost the growth momentum.
- **RMB Exchange Rates:** renminbi seemed weaker than our expectations as both China's economic recovery and US's economic slowdown were slower than expected. As China's economy continues to recover and the US economy further slows in 2H23, renminbi may see some mild rebound in 2H23. We expect US\$/RMB spot rates to reach 6.8 at end-2023, compared to 6.95 at end-2022.

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Figure 1: Monthly Economic Forecast

	2023		
	Mar	Apr	May
GDP (YoY%, quarterly)	4.5		
VAIO (YoY%)	3.9	5.6	3.7
Service output index (YoY%)	9.2	13.5	12.8
Retail sales (YoY%)	10.6	18.4	13.5
FAI (YoY%, YTD)	5.1	4.7	4.5
Exports of goods (YoY%)	14.8	8.5	(4.0)
Imports of goods (YoY%)	(1.4)	(7.9)	(9.0)
CPI (YoY%)	0.7	0.1	0.3
PPI (YoY%)	(2.5)	(3.6)	(4.1)
RMB loans (YoY%)	11.8	11.8	12.1
M2 (YoY%)	12.7	12.4	12.2
Social financing (Rmb trn)	5.4	1.2	3.2
New RMB loans (Rmb trn)	3.9	0.7	2.0
3M Shibor(%)	2.45	2.43	2.30
10YT-bond rate(%)	2.86	2.79	2.75

Source: Wind, CMBIGM

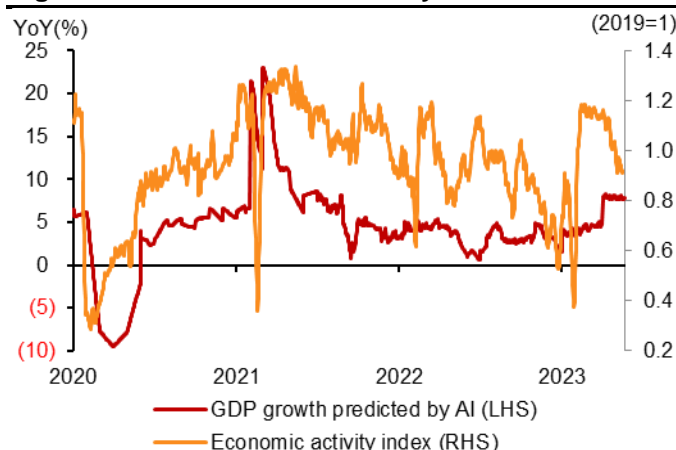
Figure 2: China's economy forecast

	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	5.7	4.9
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	18.6	20.3
Per capita GDP (US\$)	3823	4541	5597	6280	7057	7586	7923	8065	8797	9880	10124	10404	12615	12720	13207	14420
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	0.2	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
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	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
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	4.1	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	0.3	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	4.5	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	5.5	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)	(3.0)	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	5.0	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)	8.0	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
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 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 rate (%)	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	2.90
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	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	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	3.1	3.2
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	2.1	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	(1.5)	(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)	(0.2)
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	6.80	6.70

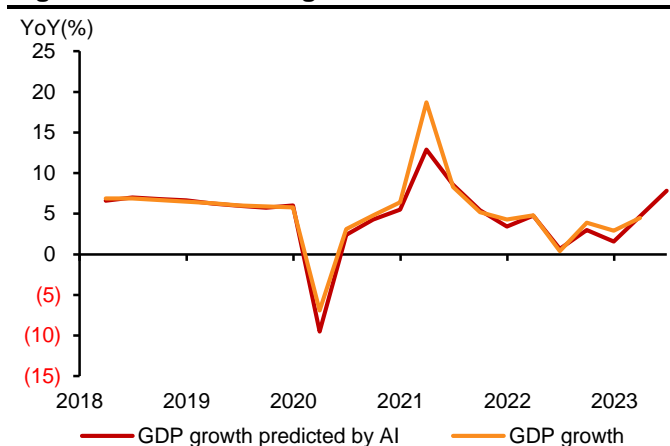
Source: Wind, CMBIGM

China's Economy Forecast

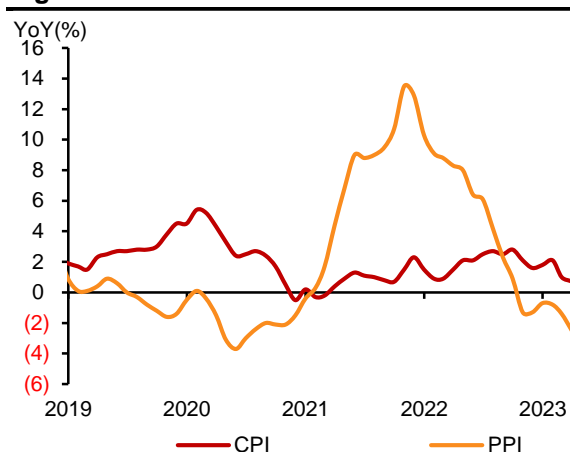
- **Economic activity further weakened as business confidence remained low.** Yicai high-frequency economic activity index dropped 13.3% in the first half of May compared to the average level in April. 2Q23 GDP growth predicted by AI was 7.8% in mid-May, down from 8% in late April. In May, both the number of domestic flights and subway passenger flow declined MoM. Meanwhile, second-hand home prices and commodity prices weakened again. Long-term bond rates and renminbi exchange rates also declined, indicating a deterioration in expectations about China's economic prospect. Private businesses were cautious to expand capex and employment as their confidence remained low. Therefore, the unemployment risk was still there and households were cautious to purchase housing or durables.
- **Employment condition and consumer confidence may improve in 2H23.** Service sector continued to recover with a better performance than other sectors. Service sector had over 60% of China's SMEs and accounted for over 60% of China's urban employment. Thanks to continuous recovery in service activity, China's urban 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 7.8%, 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 4.0%, 4.3% and 4.3%, down from 4.6% in 1Q23.
- **Deflation pressure increased in near term before possible mild reflation in 2H23-2024.** Commodity prices dropped noticeably in May as China's economic activity further weakened. China's PPI is expected to expand its YoY declines in May with more severe deflation in some industries. Meanwhile, the CPI growth should remain low. Looking forward, PPI and CPI may gradually improve in 2H23-2024. We maintain our forecast on 2023 CPI growth at 1.4% and that on 2023 PPI growth at -1.6%.
- **China may mildly cut LPRs in 3Q23 to boost the growth momentum.** China's growth momentum has noticeably declined with an increase of deflation pressure recently. Credit demand has also slowed due to slowdown in housing sales and durable consumption. We expect the PBOC may mildly cut LPRs in 3Q23 to boost the growth momentum.

Figure 3: China economic activity

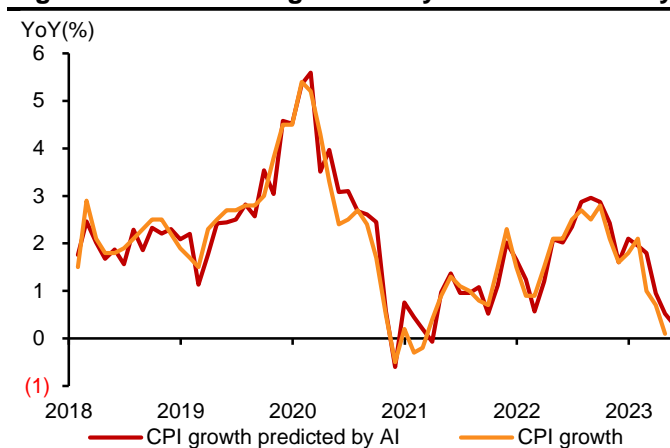
Source: WIND, CMBIGM

Figure 4: China's GDP growth

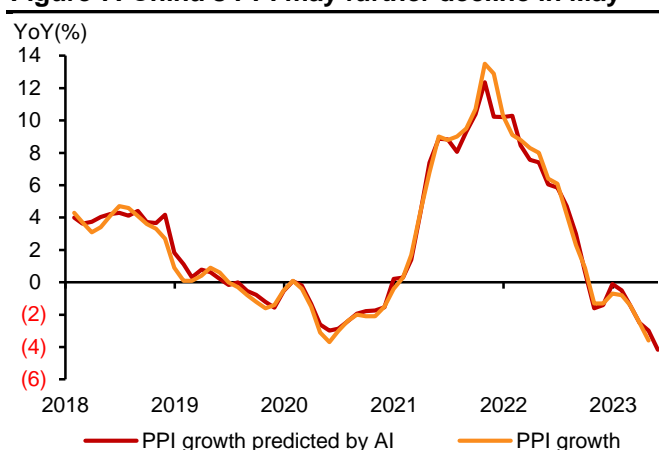
Source: WIND, CMBIGM

Figure 5: China's CPI & PPI

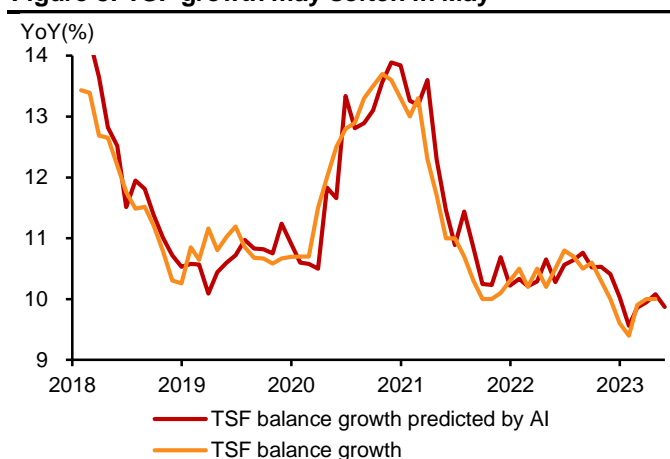
Source: WIND, CMBIGM

Figure 6: China's CPI growth may remain low in May

Source: WIND, CMBIGM

Figure 7: China's PPI may further decline in May

Source: WIND, CMBIGM

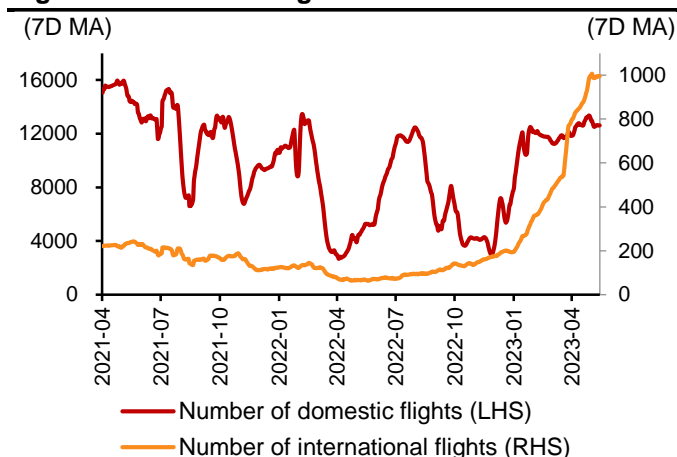
Figure 8: TSF growth may soften in May

Source: WIND, CMBIGM

Passenger Flow in China

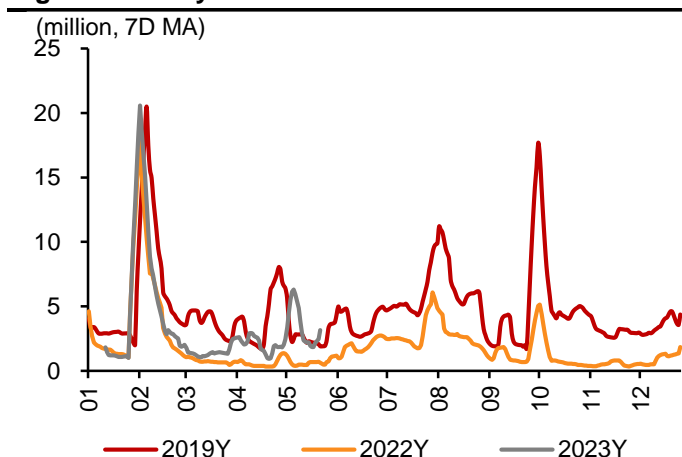
- **Air transportation:** Both number of domestic and international flights held steady following a surge during Labour Day holiday. In the first 20 days of May, number of domestic flights in China grew by 1.85% YoY and held flat from the previous month. Number of international flights grew by 13.9% YoY and 0.22% MoM during the same period.
- **Movie audience:** Number of movie audience increased by 348.1% YoY in the first 20 days of May after increasing by 410% YoY in April, showing a continuous recovery in customer flow in recreational service sector.
- **Subway passenger flow:** Subway passenger flow saw significant YoY increases in May due to low base caused by Shanghai lockdowns last year. Subway passenger flow in Beijing, Shenzhen and Guangzhou rose 297.5%, 39.5% and 38% YoY in the first 20 days of May after rising 35.5%, 50.3% and 48.2% YoY in April. Shanghai saw even sharper YoY growth. Subway passenger flow in Shenzhen, Chengdu, Wuhan, Suzhou, Chongqing and Zhengzhou in the first 20 days of May was 29.5%, 49.9%, 9.3%, 40.8%, 30.4% and 77.5% respectively higher than the levels in the same period in 2019. However, the passenger flow in Beijing, Shanghai and Guangzhou in the first 20 days of May was 14.4%, 6.8% and 5.7% lower than the same period of 2019.

Figure 9: Number of flights



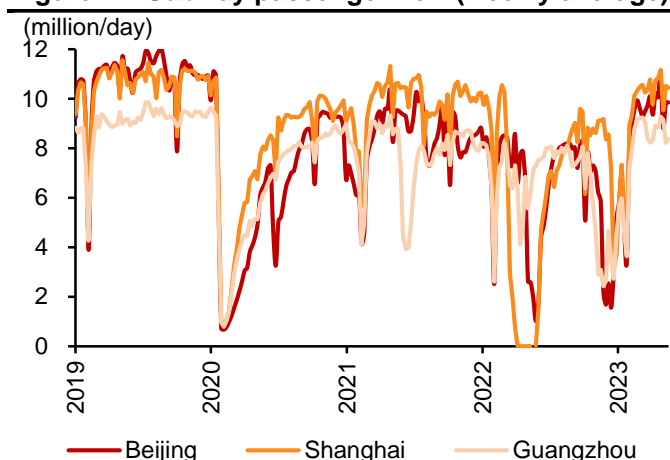
Source: WIND, CMBIGM

Figure 10: Daily movie audience flow

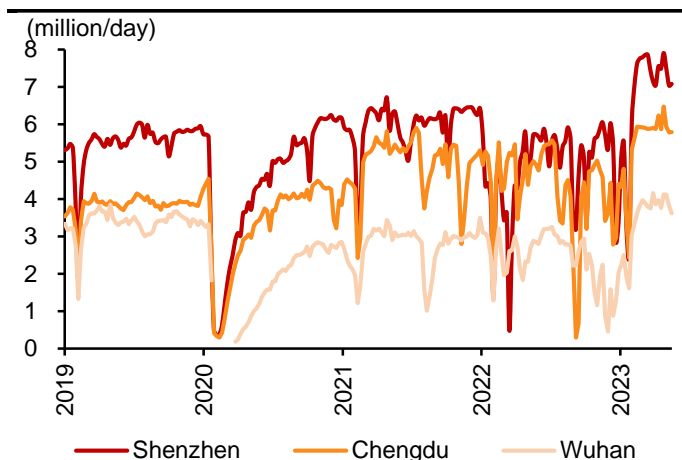


Source: WIND, CMBIGM

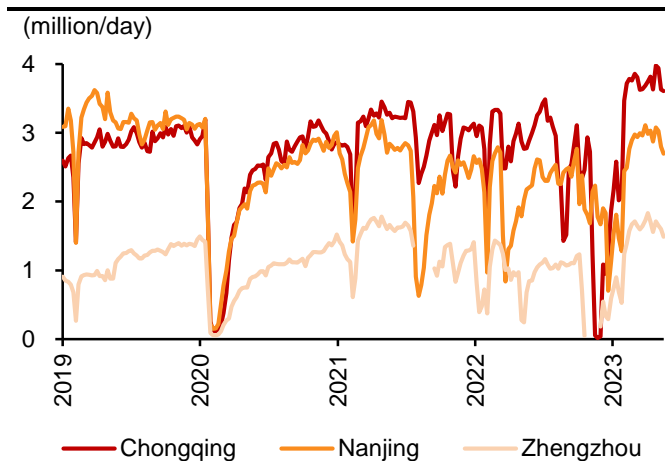
Figure 11: Subway passenger flow (weekly average)



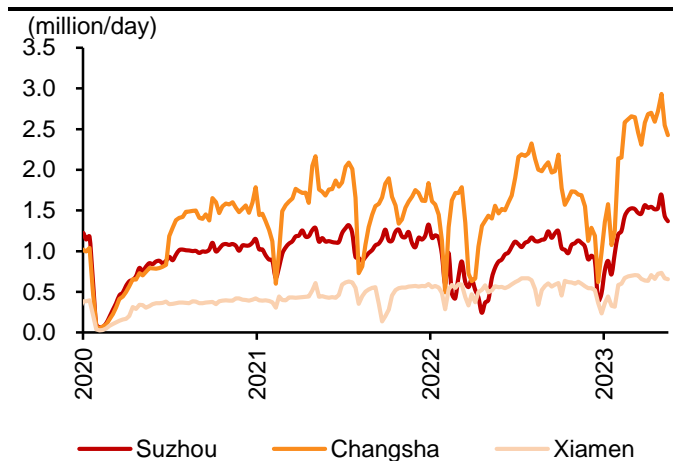
Source: WIND, CMBIGM



Source: WIND, CMBIGM



Source: WIND, CMBIGM

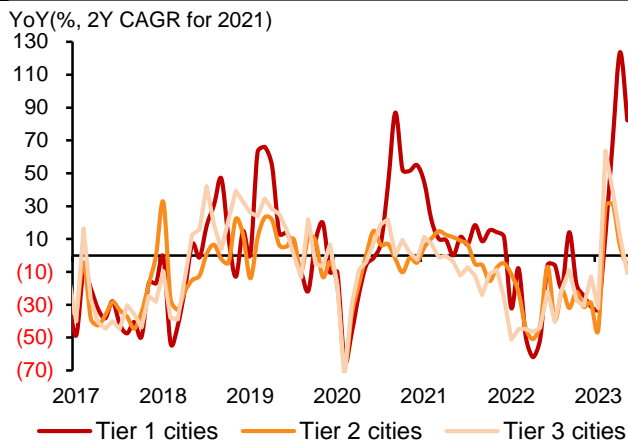


Source: WIND, CMBIGM

Housing Market, Auto Sales & Construction Activity in China

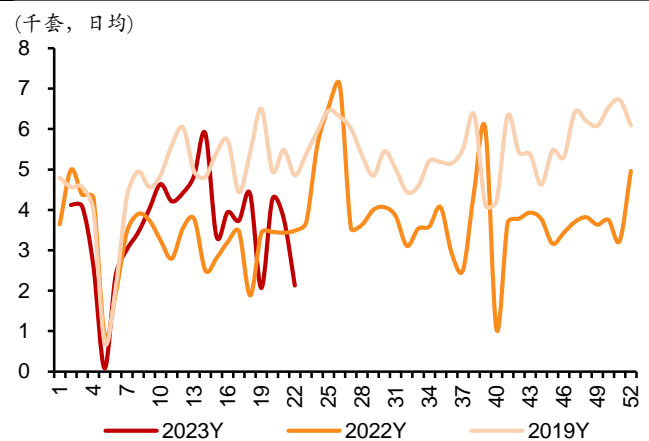
- Housing sales showed certain degree of resilience in tier-one cities, while sales in tier-two and -three cities remained weak.** Housing sales in tier-one cities rose 82.2% YoY, while that in tier-two and tier-three cities dropped 0.5% and 10.6% YoY during the first 20 days of May. In terms of 2Y CAGR, housing sales in tier-one, tier-two and tier-three cities respectively dropped 14.6%, 35.9% and 53.5% after declining 28.3%, 51.7% and 45.4% in April. Listing prices of second-hand houses slightly declined in the first two weeks of May compared to the levels in April.
- Passenger vehicle sales improved.** According to the China Passenger Car Association, China's auto sales increased 55.5% YoY in the first two weeks of May compared to the average level in last May. In terms of 2Y CAGR, auto sales rose 13.8% in May after increasing 2.6% in April. Capacity operation rate of semi-steel dropped to 67.3% in May from 72.6% in April. Second-hand car sales in Shanghai market rose 3.8% MoM in May. The second-hand car prices further dropped 2.4% MoM in May after decreasing 2.5% in April.
- Indicators for construction activity softened.** Capacity operation rate of deformed steel bar dropped to 45.9% in the first 20 days in May from 49.5% in April. Meanwhile, that of asphalt plant dropped to 31.7% from 37.1%. Future price of deformed steel bar dropped 2.5% in the past 20 days, while the iron ore prices basically held unchanged. At the same time, prices of cement and flat glass also experienced noticeable declines in May.

Figure 12: Growth of commodity building sales



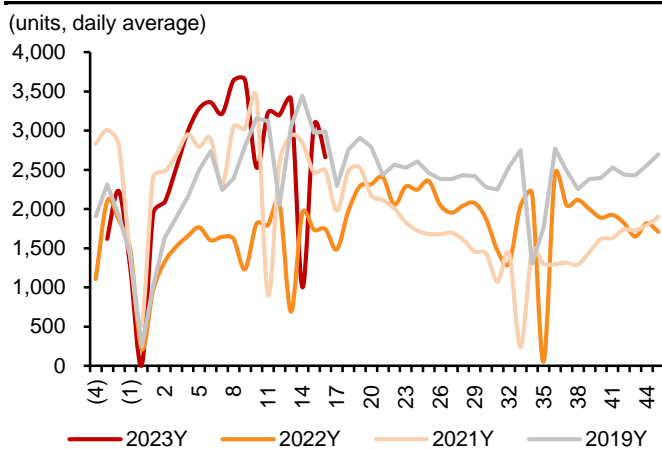
Source: WIND, CMBIGM

Figure 13: Daily average commodity building sales



Source: WIND, CMBIGM

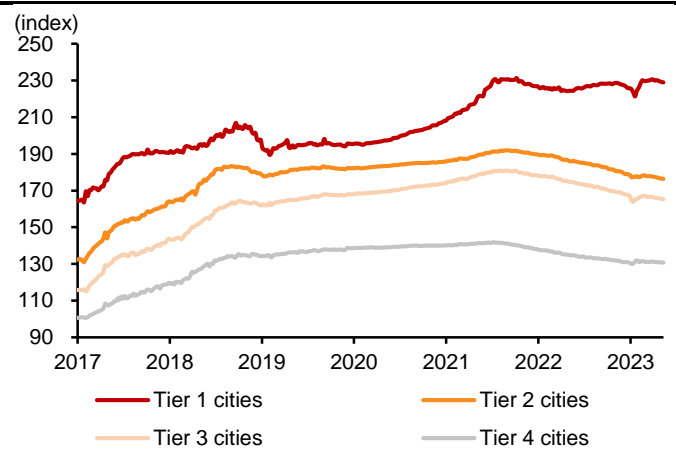
Figure 14: China's second-hand housing sales



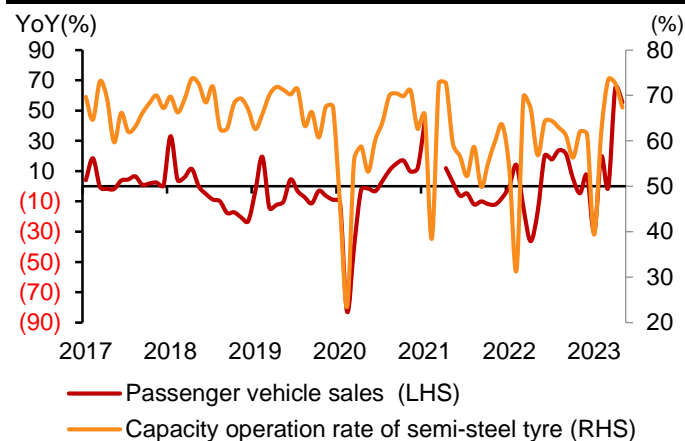
Source: WIND, CMBIGM

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

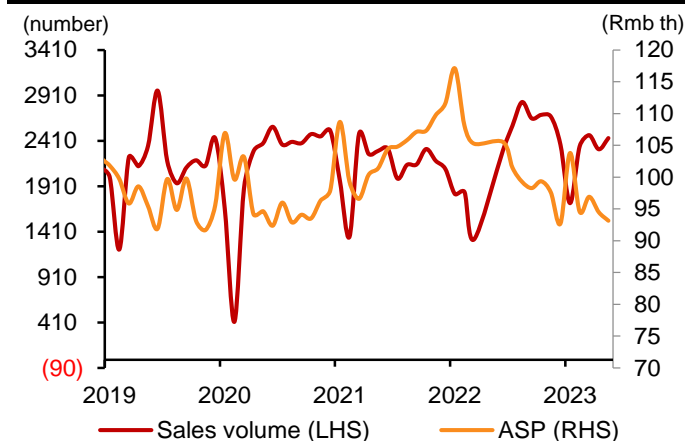
Figure 15: Listing price index of second-hand house



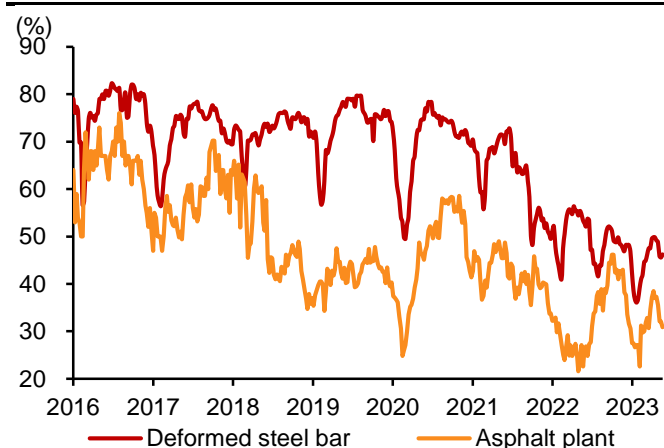
Source: WIND, CMBIGM

Figure 16: Auto sales

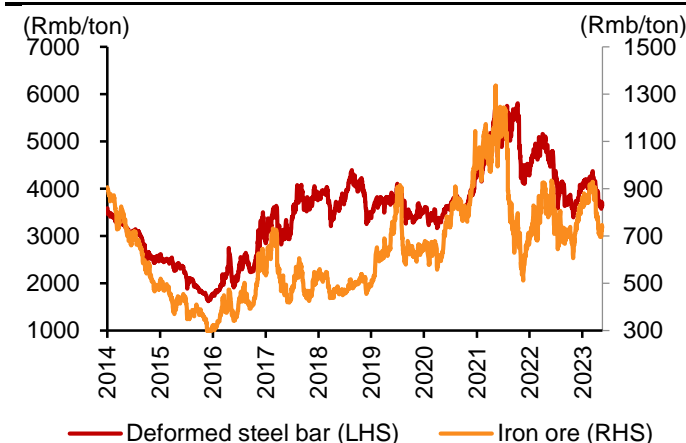
Source: WIND, CMBIGM

Figure 17: Second-hand auto sales

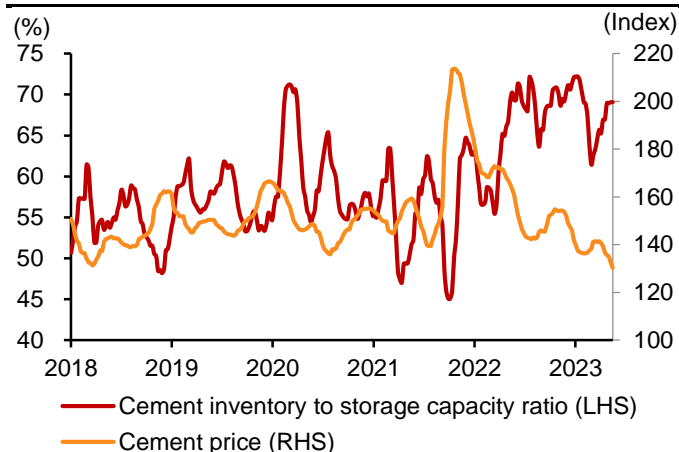
Source: WIND, CMBIGM

Figure 18: Capacity operation rates

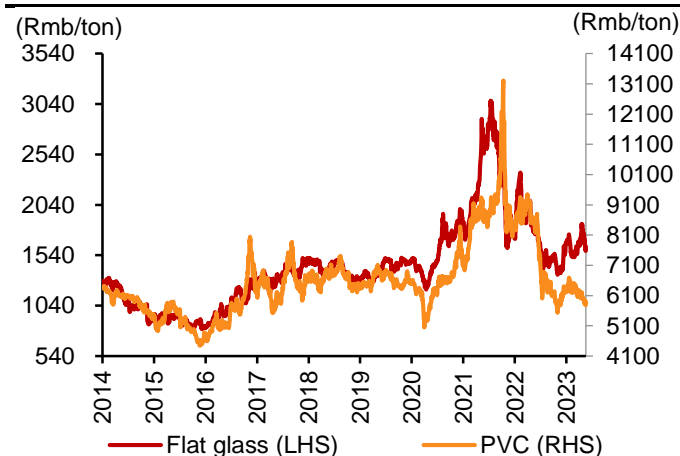
Source: WIND, CMBIGM

Figure 19: Commodities' prices

Source: WIND, CMBIGM

Figure 20: Cement price

Source: WIND, CMBIGM

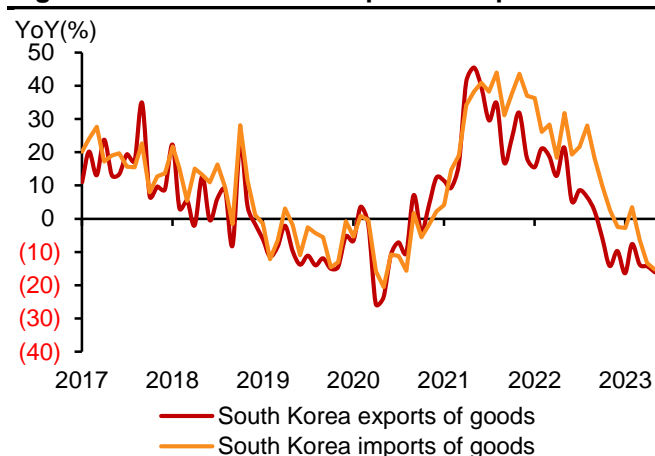
Figure 21: Flat glass and PVC prices

Source: WIND, CMBIGM

China's Exports and US Recession Risk

- **China's exports may deteriorate in May.** Overseas demand and commodity prices continued to decline. South Korea's exports of goods dropped 16.1% YoY and its imports of goods dropped 15.3% YoY in the first 20 days of May, compared to the declines of 14.3% and 13.3% in April. Meanwhile, South Korea's exports to China and imports from China respectively dropped 5.1% and 15.7% YoY after rising 10.2% and 2.1%. We expect China's exports and imports of goods respectively to drop 4% and 9% YoY in May.
- **US yield curve remained inverted indicating recession risk still there.** US 10Y/2Y treasury yield spreads remained negative after declining further in the first 20 days of May, while 10Y/3M treasury yield spreads also decreased significantly for another 34bps in the first 20 days of May. Investors eye for the deadline for raising US debt ceiling to avoid a potential default. Coupling with the prior banking turmoil, investors continue to expect a tightening of credit condition. US banks' total asset continued to decrease in the first half of May by dropping 1.2% compared to end-April.
- **Financing costs for US private sector continued to rise in May.** The BB-rated corporate bond yields reached 6.95% by mid-May, surging by 42bps compared to that in end-April. 30Y fixed-rate mortgage rates slightly declined by 4bps by mid-May, while mortgage application volume also fell to March level after a brief rebound in the first half of May. Banks' LPR further increased by 25bps from 8% at end-April to 8.25% in mid-May.

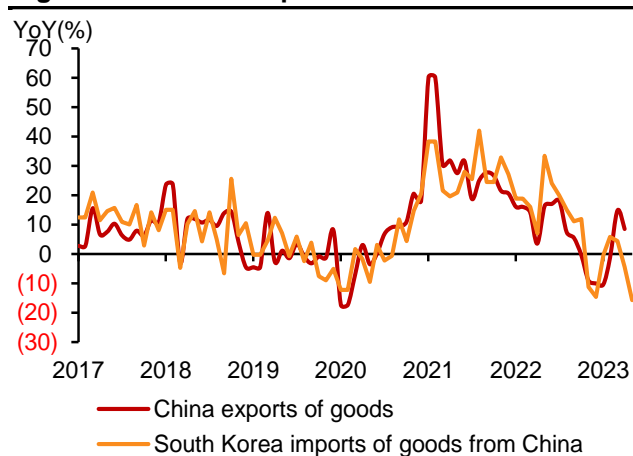
Figure 22: South Korea's imports & exports



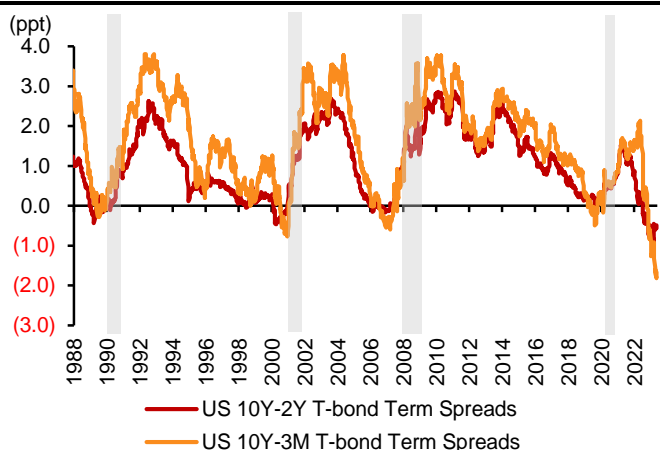
Source: WIND, CMBIGM

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

Figure 23: China's exports



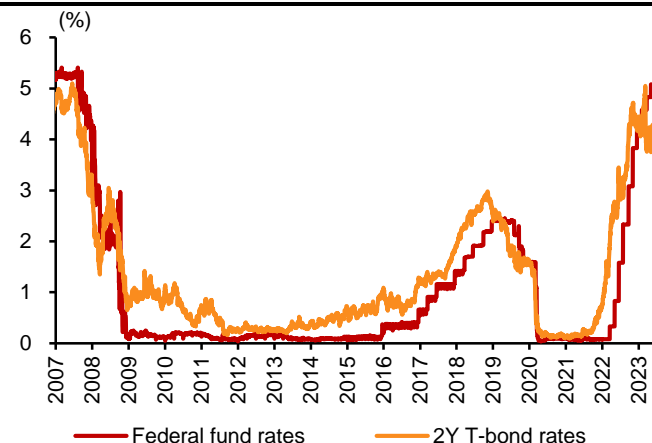
Source: WIND, CMBIGM

Figure 24: US term spread as a leading indicator for recession risk


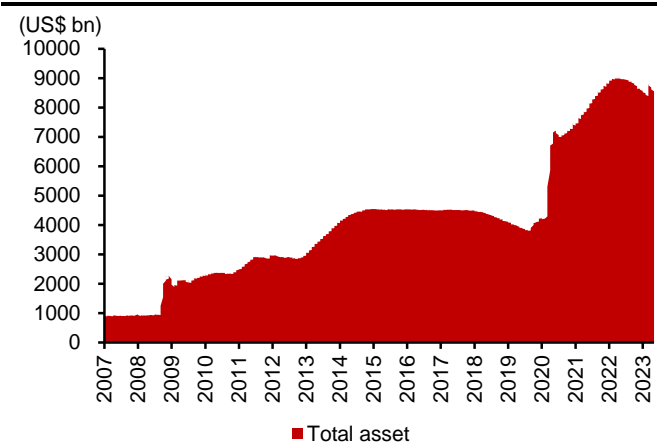
Source: WIND, CMBIGM

Figure 25: US breakeven inflation to reflect inflation expectations

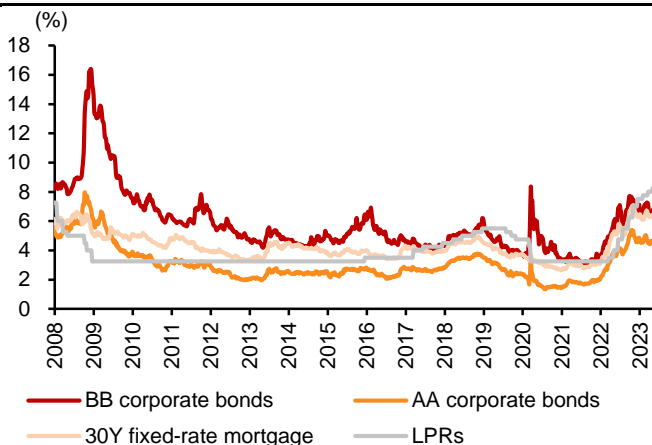

Source: WIND, CMBIGM

Figure 26: 2Y T-bond rates precede fed policy rates


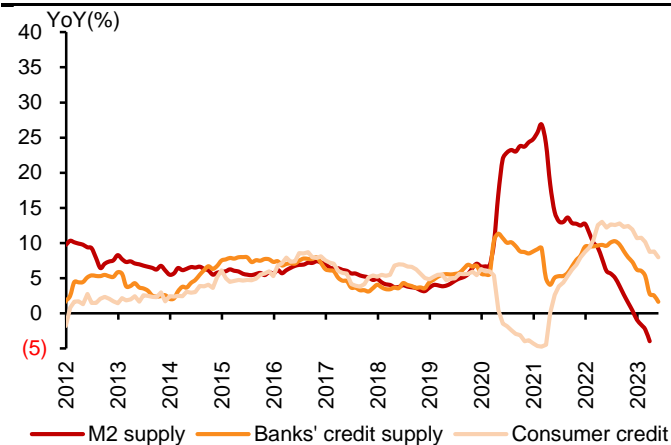
Source: WIND, CMBIGM

Figure 27: US Fed's total asset


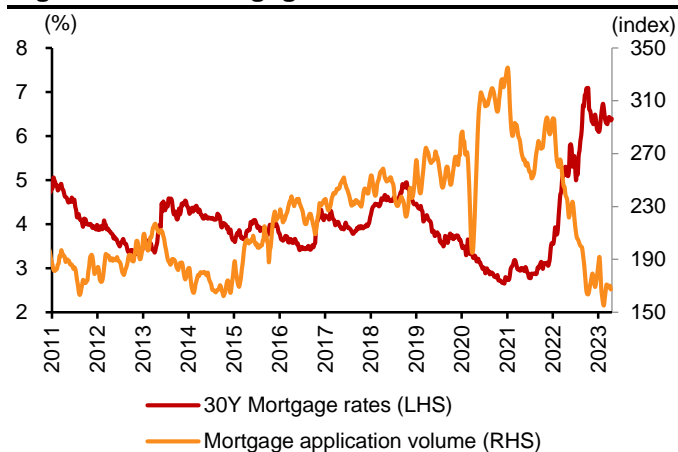
Source: WIND, CMBIGM

Figure 28: Financing costs of US private sector


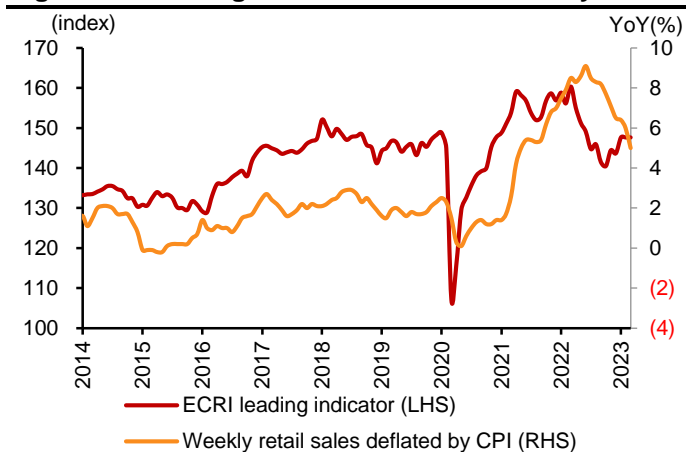
Source: WIND, CMBIGM

Figure 29: US M2 and banks' credit supply


Source: WIND, CMBIGM

Figure 30: US mortgage rates & demands

Source: WIND, CMBIGM

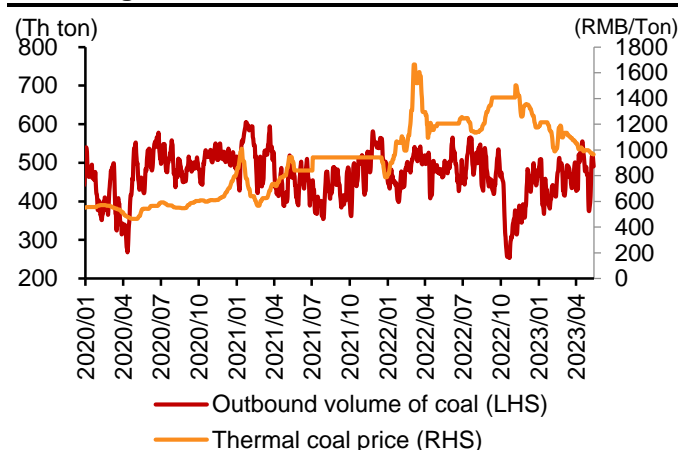
Figure 31: Leading indicators for US economy

Source: WIND, CMBIGM

Factory Activity in China

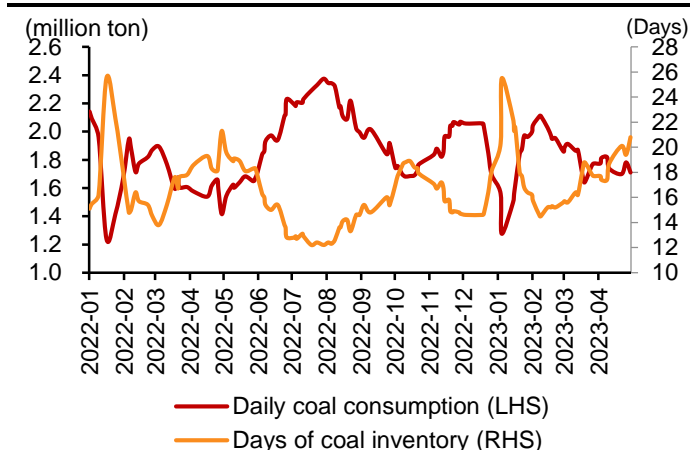
- The daily average coal consumption of power generators in South China decreased 1.2% MoM in the first half of May after declining 8.8% MoM in April. From the YoY perspective, coal consumption increased 10.6% after rising 8.8% in April, showing a pick-up in industrial activity. The days of coal inventory rose to 20.8 days by mid-May from 18.7 days in end-April. The wholesale reference price of Kweichou Moutai increased 1.02% MoM by mid-May. Price of lithium carbonate strongly rebounded in the first half of May, posting a MoM change of 63.1%.

Figure 32: Outbound coal volume & price in Qinhuangdao Port



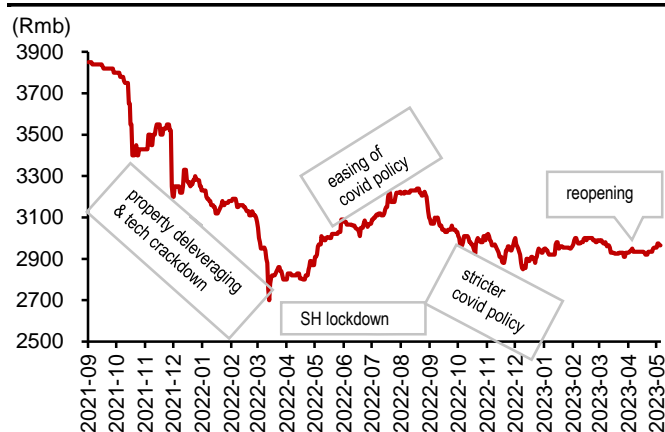
Source: WIND, CMBIGM

Figure 33: Power generator coal consumption in South China



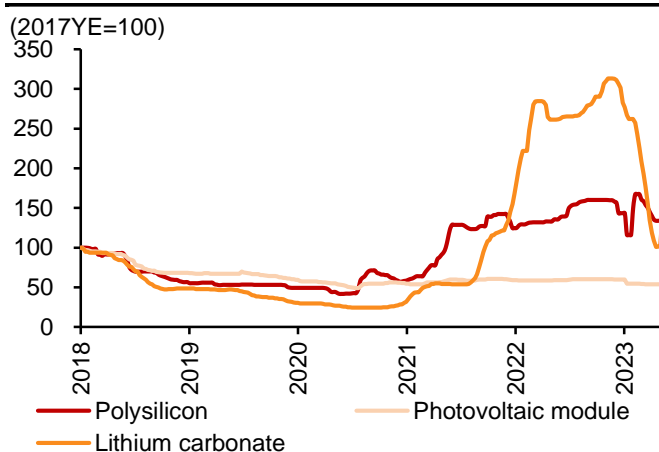
Source: WIND, CMBIGM

Figure 34: Wholesale Reference Price of Kweichou Moutai



Source: WIND, CMBIGM

Figure 35: Prices of polysilicon, PV modules & lithium carbonate



Source: WIND, CMBIGM

Commodity Price

- **Commodity prices continued to retreat as China's weak economic data hit the market sentiment.** RJ/CRB commodity price index and China's Nanhua industrial price index respectively dropped 12.2% and 1.9% MoM by first half of May. China's manufacturing PMI, credit growth and economic activity all deteriorated in April, hitting the sentiment in commodity market. Base metals, which are sensitive to China's demand, experienced noticeably declines in May. Looking forward, aggregate demand may remain weak in China as the deflation pressure rises in near term.
- **Food prices remained weak.** China's agricultural product prices continued to drop in May, posting a decline of 2.9% MoM by mid-May. Pork price slightly rebounded by 0.3% MoM during first half of May, while live hog to corn price ratio rose by 0.2% MoM during the same time period.

Figure 36: BDI and commodity price

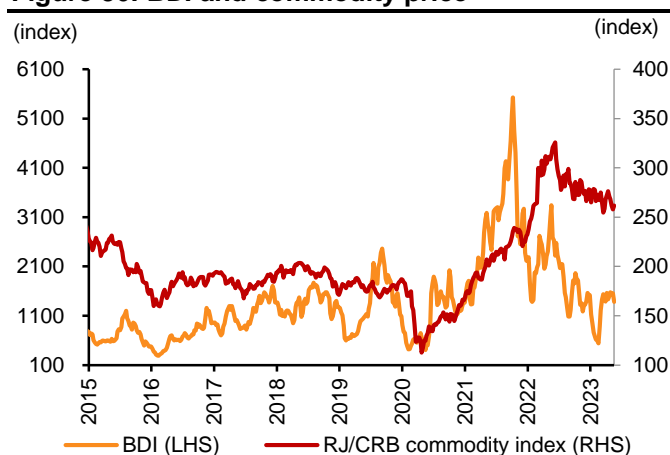


Figure 37: Global M2 growth & commodity price

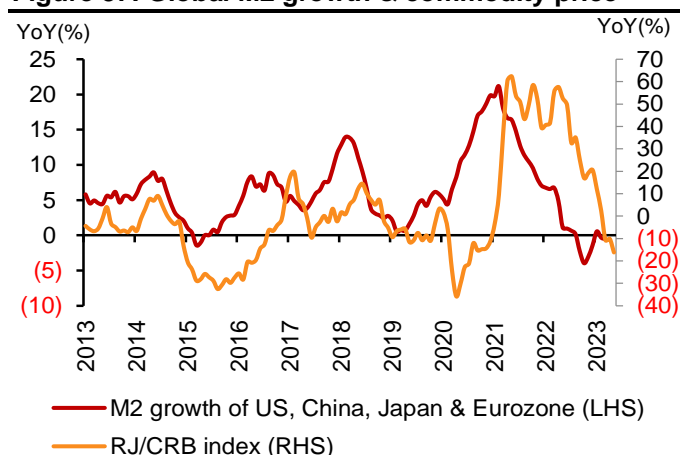


Figure 38: US real-term rate & gold price

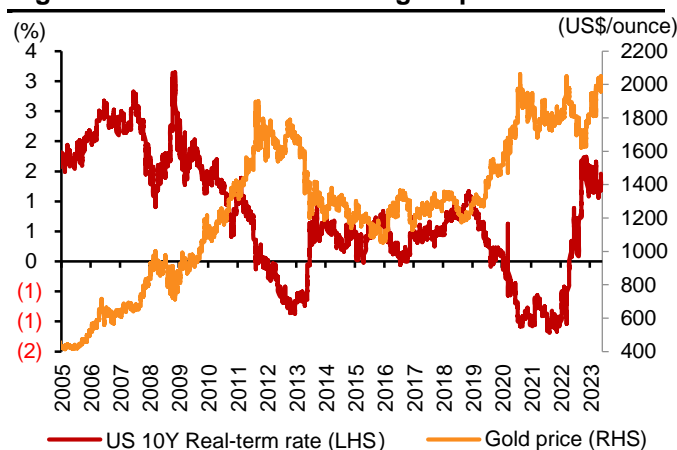


Figure 39: US T-bond rate & copper to gold ratio

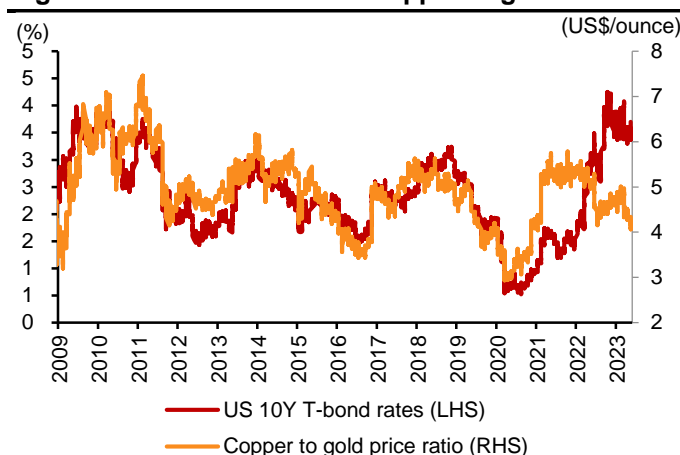
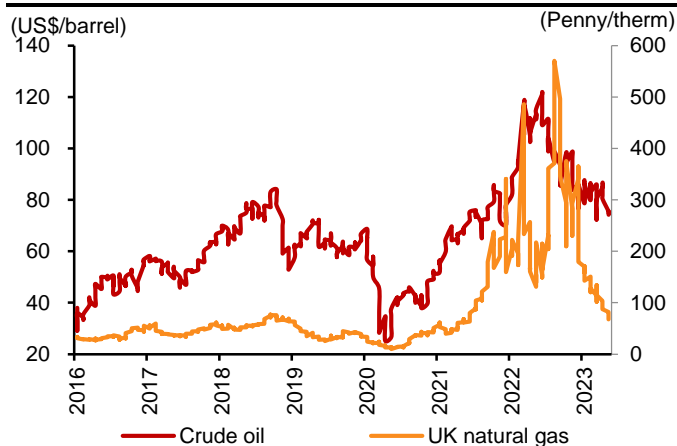
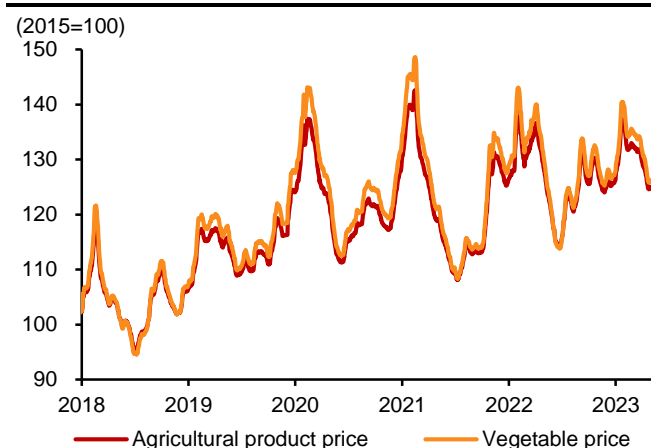
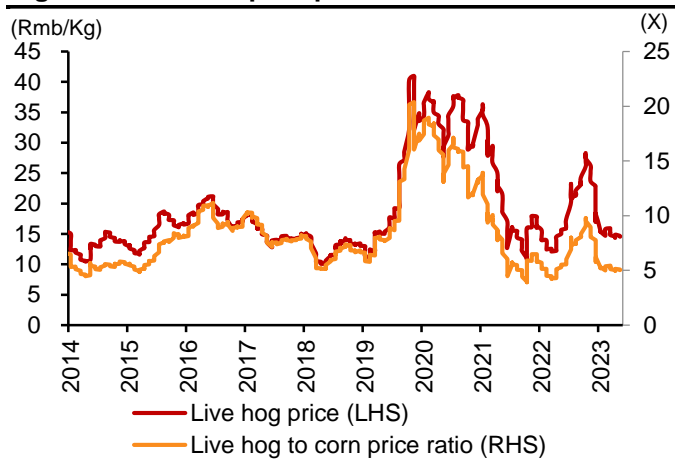


Figure 40: Global crude oil & UK natural gas prices

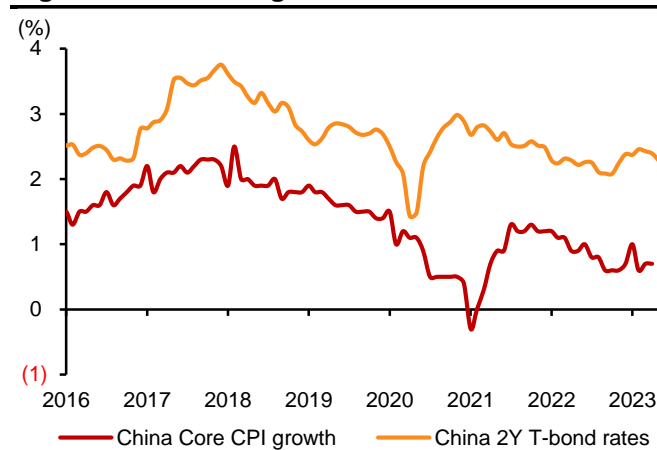
Source: WIND, CMBIGM

Figure 41: China's agricultural product price

Source: WIND, CMBIGM

Figure 42: China's pork price

Source: WIND, CMBIGM

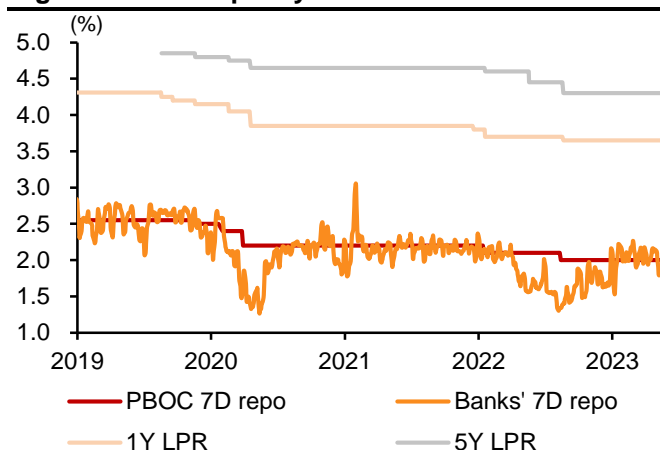
Figure 43: Core CPI growth & 2Y T-bond rates

Source: WIND, CMBIGM

China's Liquidity Condition & RMB exchange Rates

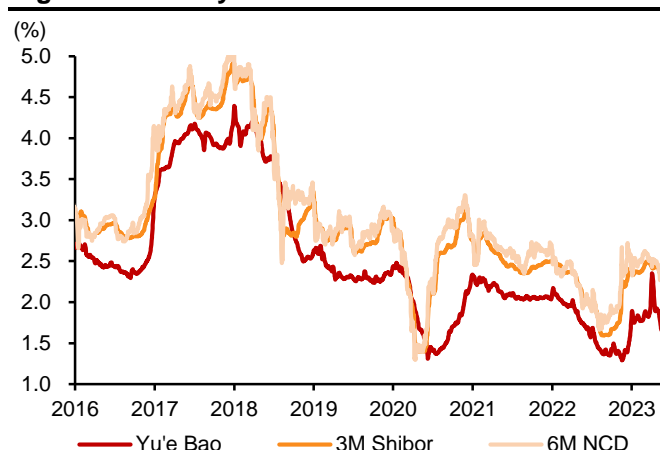
- Liquidity condition:** Liquidity condition eased as DR007 and 3M Shibor respectively dropped by 33bps and 17bps in the first 22 days of May. Liquidity supply remained stable, while liquidity demand decreased as economic activity, investor risk appetite and credit demand softened.
- Bond rates:** Long-term bond rates declined as investors expect a weakening of China's growth prospect. 7Y Treasury bond rates declined to the low levels in last October.
- Credit condition:** Credit policy and supply remained accommodative. However, credit demand softened as private businesses were cautious to increase capex and households were reluctant to take leverage to buy houses or durables. Therefore, 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 was much weaker than our expectations as both China's economic recovery and US economic slowdown were slower than expected. However, the wind may change as China's economy continues to recover and the US economy may further slow in 2H23. We expect US\$/RMB spot rates to drop to 6.80 at end-2023.

Figure 44: PBOC policy rates



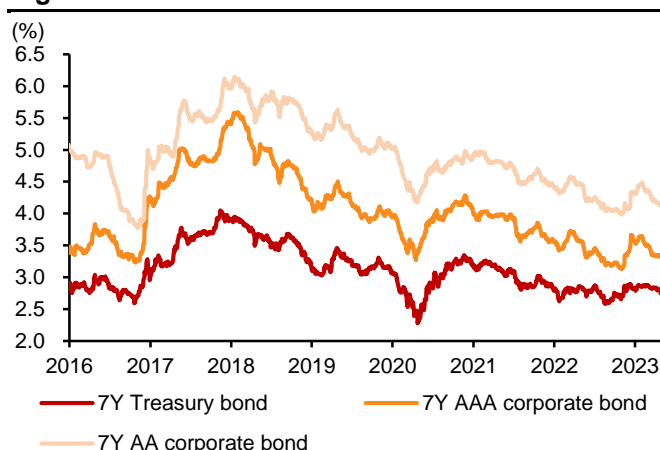
Source: WIND, CMBIGM

Figure 45: Money market rates



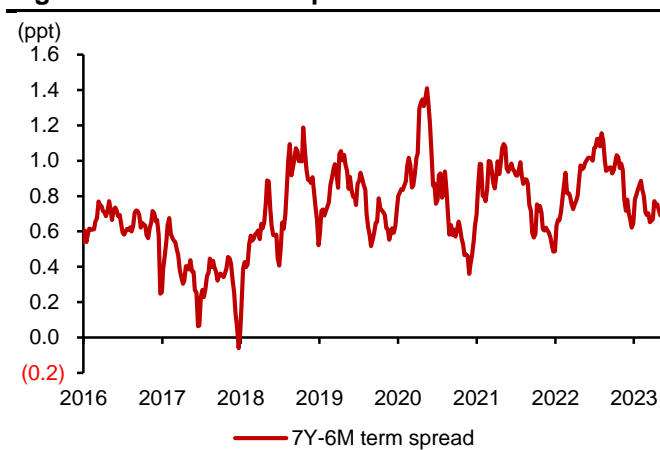
Source: WIND, CMBIGM

Figure 46: China's bond rates

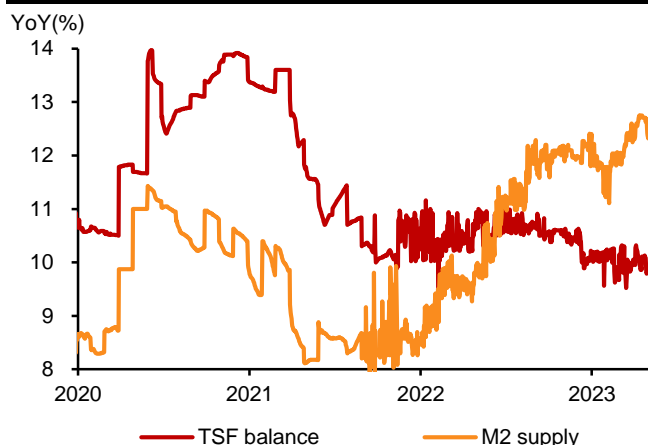


Source: WIND, CMBIGM

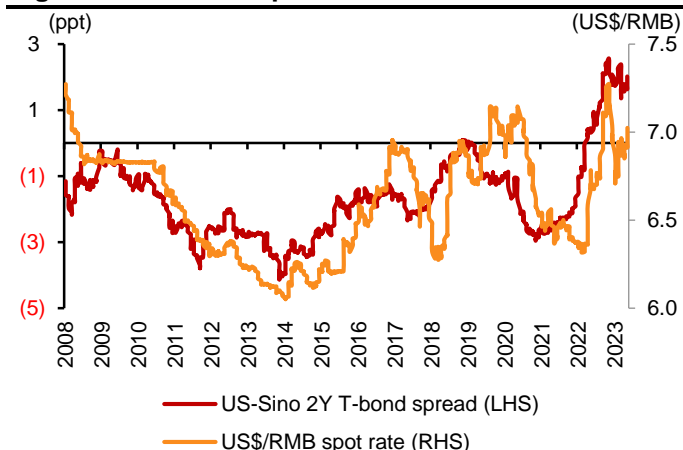
Figure 47: 7Y-6M term spreads



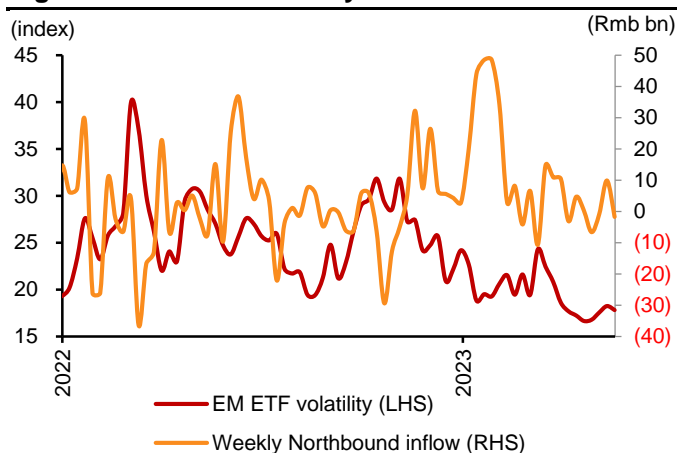
Source: WIND, CMBIGM

Figure 48: China's credit growth

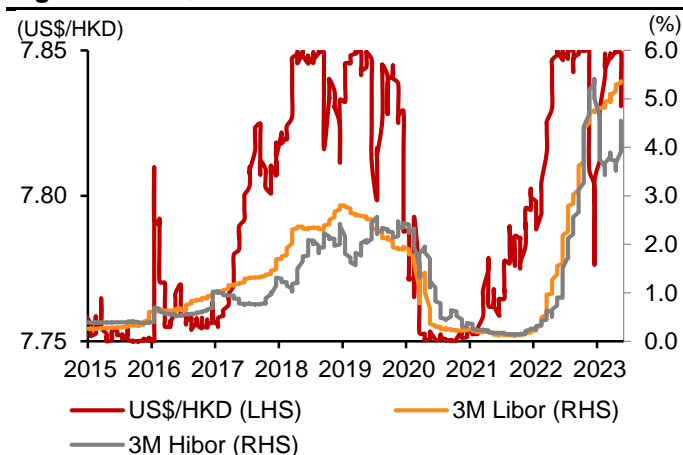
Source: WIND, CMBIGM

Figure 49: US-Sino spread & US\$/RMB rate

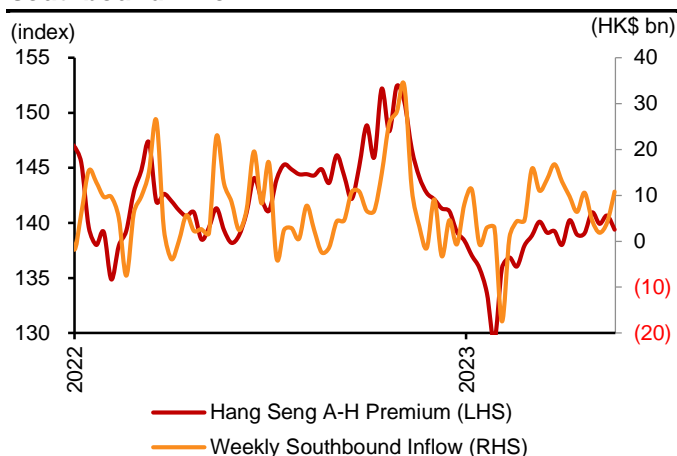
Source: WIND, CMBIGM

Figure 50: EM ETF volatility & northbound inflow

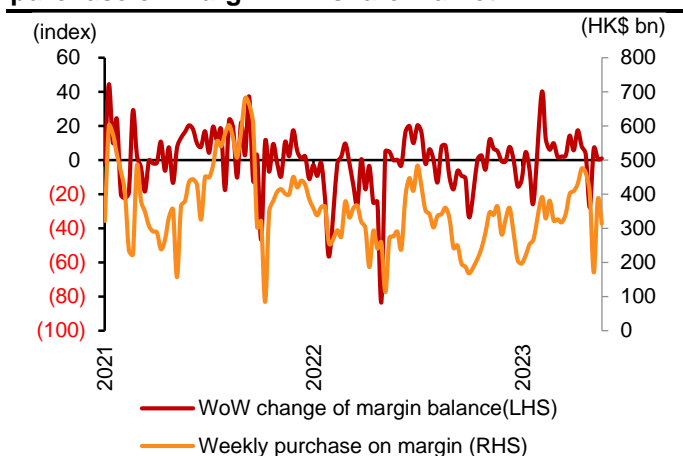
Source: WIND, CMBIGM

Figure 51: US\$/HKD rates & interest rates

Source: WIND, CMBIGM

Figure 52: Hang Seng A/H premium and weekly southbound inflow

Source: WIND, CMBIGM

Figure 53: WoW change of margin balance & weekly purchase on margin in A share market

Source: WIND, CMBIGM

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