

China Macro Monitor

A nonlinear recovery

China economy has been in the resumption cycle thanks to economic reopening, credit policy loosening and pro-business policy shift. Local governments and SOEs have all strived for a good start this year as the top leader has attached more importance to the economic growth. Inner-city mobility has recovered, supporting a rapid recovery in some service consumption. Housing sales, durable consumption and business capex should gradually rebound with some fluctuations in their recovery pace in future. The reflation pressure should be moderate as China's inflation may retreat in 1H23 before rebounding in 2H23. The liquidity and credit policy should remain accommodative. We mildly revise up our forecast for 2023 GDP growth from 5.1% to 5.4% and maintain the forecast for 2024 GDP growth at 4.9%.

- China's consumption recovery has two different sides.** We see both bright spots and underlying uncertainty in China's consumption recovery. As the Chinese people start to go out for work or pleasure, transportation, catering, travel, accommodation, recreation, clothing & footwear, cosmetics and personal care rapidly recover. We see crowd people in stations, busy traffic in cities and more customers in shopping malls, indicating household consumption is well on its way to recover. However, China's consumption recovery may also have some weaknesses. As a sign of weak confidence, Chinese households continued to repay their mortgage debt in advance and increase savings in January. China's core CPI picked up very mildly as consumption for key items improved very slowly. The residential CPI continued to decline as the employment and income condition was still weak. We believe the severe damage to consumer confidence last year and Chinese households' preference for precautionary savings indicates a gradual resumption of consumption in future.
- Housing market may see a nonlinear recovery.** China's housing market may see the first round of recovery in next few months as depressed demands during lockdowns gradually release and housing prices start to stabilize in tier one cities. The recovery pace may slow again in future after the postponed demand is exhausted and the policy prospect marginally changes. Chinese policymakers are very idealistic as they are used to seeking a balance between multiple targets. As the recovery pace slows again, the policy may also be adjusted. To sum up, China's housing market will gradually resume with some fluctuations in the recovery pace. We expect gross floor area for commodity buildings and property development investment respectively to drop 7.5% and 5% in 2023 after decreasing 24.3% and 10% in 2022.
- Liquidity & credit policy may remain accommodative.** The possibility of additional credit loosening may decline in near term as new loans were much stronger than expected in January-February and the second-hand housing market in tier-one cities noticeably recovered. However, the liquidity and credit policy should remain accommodative this year. The GDP growth remains below potential growth and the reflation risk is quite low. The recovery is nonlinear and unbalanced in different sectors. Housing market, durable consumption and private capex should resume in a gradual manner.

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	Dec	Jan	Feb	Mar
GDP (YoY %, quarterly)	2.9	-	-	3.5
VAIO (YoY %)	1.3	-	2.6	2.9
Service index (YoY %)	(0.8)	-	2.5	3.0
Retail sales (YoY %)	(1.8)	-	2.1	2.6
FAI (YoY %, YTD)	5.1	-	4.8	4.7
Exports of goods (YoY %)	(9.9)	(8.5)	(7.0)	(10.0)
Imports of goods (YoY %)	(7.5)	(6.0)	(5.0)	(4.0)
CPI (YoY %)	1.8	2.1	2.3	1.9
PPI (YoY %)	(0.7)	(0.8)	(1.3)	(2.0)
RMB loans (YoY %)	11.1	11.3	11.7	11.8
M2 (YoY %)	11.8	12.6	12.4	12.2
Social financing (Rmb trn)	1.3	6.0	1.4	4.5
New RMB loans (Rmb trn)	1.4	4.9	1.5	3.6
3M Shibor(%)	2.42	2.36	2.39	2.41
10Y T-bond rate(%)	2.84	2.90	2.89	2.91

Source: Wind, CMBIGM

- **China may continue with the pro-business shift in next two years.** The pandemic, housing market slump, tech regulatory crackdown and Sino-US tensions make it more difficult for China to achieve its 14th 5Y plan targets and 2035 vision goals. After being clearly aware of the challenges, China has rapidly adjusted various policies with a pro-business shift almost overnight. The country dismantled zero-Covid policy, launched rescue policy for property developers, changed policy stance towards internet giants and took efforts to improve ties with other countries. For local government officials, boosting GDP growth and attracting capital became their important KPIs again. However, private entrepreneurs may need some time to restore their confidence as the economy recovery should be in a gradual manner. Therefore, China may continue with the pro-business shift in 2023-2024.

Figure 1: China Economy Forecast

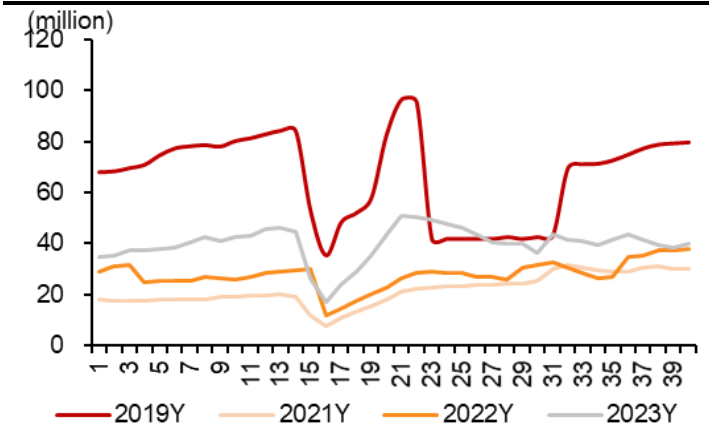
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022F	2023F	2024F
GDP																
Real GDP (YoY %)	9.4	10.6	9.6	7.9	7.8	7.4	7.0	6.8	6.9	6.7	6.0	2.2	8.4	3.0	5.4	4.9
Nominal GDP (US\$ tm)	5.1	6.1	7.6	8.5	9.6	10.4	11.0	11.2	12.3	13.9	14.3	14.7	17.8	18.0	19.0	21.1
Per capita GDP (US\$)	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	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	4.6	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)	(5.0)	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	1.1	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 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	10.0	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	4.30	3.65	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	6.0	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	5.0	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	2.8
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)	0.0	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)	7.0	12.0
LG special bond quota / GDP (%)								0.5	1.0	1.5	2.2	3.7	3.2	3.0	3.1	2.9
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	3.0	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	2.3	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	(0.4)	0.1	(0.3)
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)	(1.1)	(0.7)	(0.9)
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	6.60	6.50

Source: Wind, CMBIGM

Mobility in China after Economic Reopening

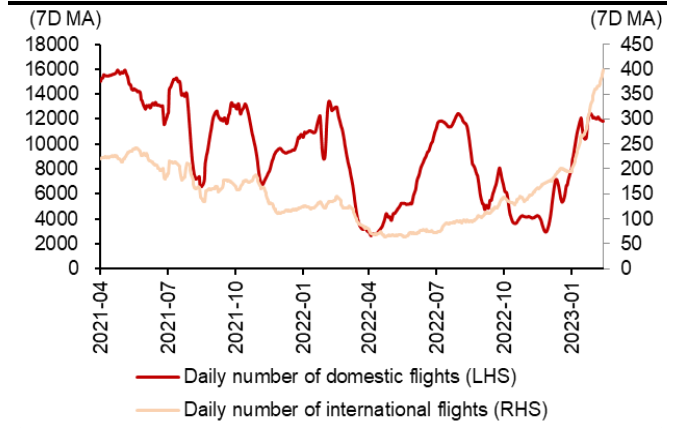
- Passenger flow:** China's daily passenger flow has stopped growing in the last several days of the "Spring Rush" (春运). It seemed some rural migrant workers chose to stay with family for longer than usual as many hadn't seen their family members for a long time. Some migrant workers had not figured out whether they should return to cities to look for jobs because of the uncertainty in urban labor market. China's private SMEs absorbed 80% of urban employment, but they suffered a lot last year. Private entrepreneurs were still very cautious on capex and labor expansion. It may take some time for them to restore their confidence and labor demand.
- Freight flow:** Daily average truck flow in expressways increased by 37.2% in the first half of February compared to the average in January. But it was still 12.2% lower than the average level in 2H22. Freight throughput of China's major ports increased 13.3% YoY in the first half of February after dropping 1.5% YoY in January and rising 0.9% YoY in 2022.
- Inner-city traffic flow:** Traffic flow indicators have significantly rebounded in cities as people became free to go out. Wuhan, Suzhou, Changsha, Beijing, Shenzhen, Nanjing, Chengdu, Shijiazhuang, Shanghai and Guangzhou saw significant increases in their traffic congestion indexes in February after mild YoY declines for most in January. Meanwhile, subway passenger flow in most cities in February resumed to their average levels in 2021.
- Movie market:** Recreation activity especially of the youth recovered rapidly as daily film audience flow has maintained a similar trend like in 2019 after the CNY holiday. The number of film audience and box office respectively increased by 4.6% and 9.8% YoY year to the 18 February.

Figure 2: Daily Passenger Flow During the Spring Rush



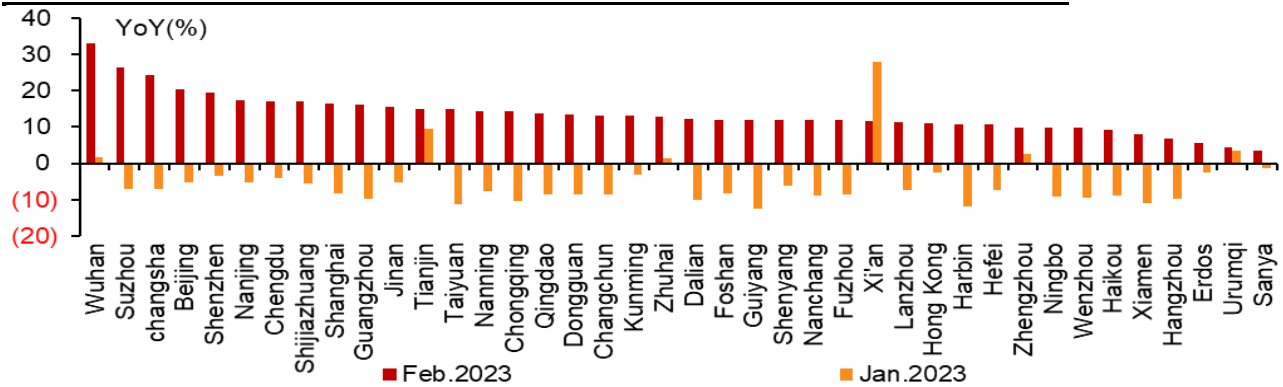
Source: WIND, CMBIGM

Figure 3: Daily Number of Flights



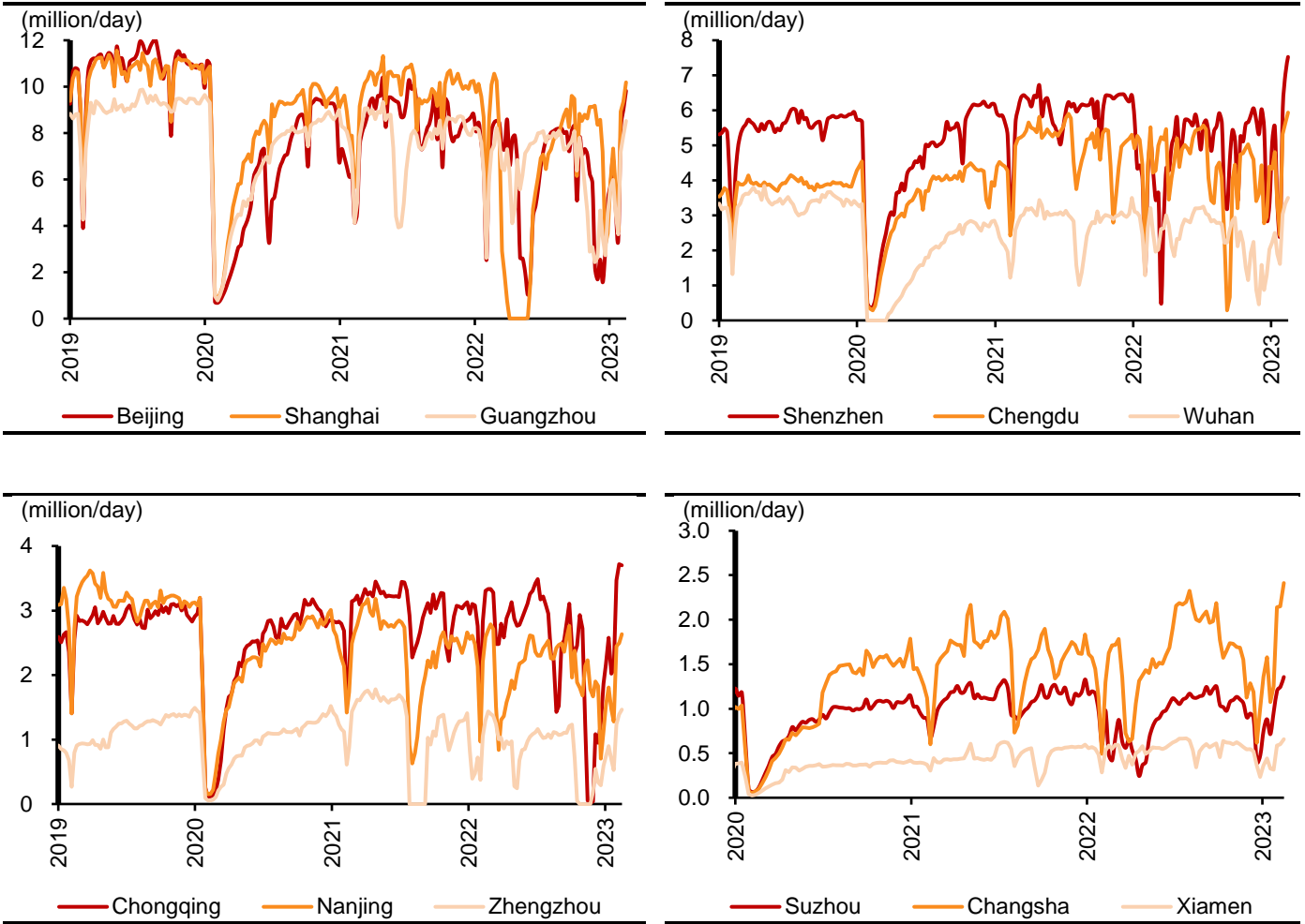
Source: WIND, CMBIGM

Figure 4: YoY Change of Daily Average Traffic Congestion Index by City



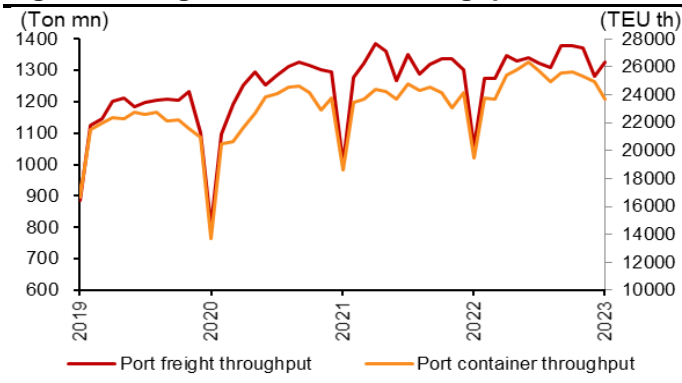
Source: Wind, CMBIGM

Figure 5: Subway Passenger Flow (Weekly Average)



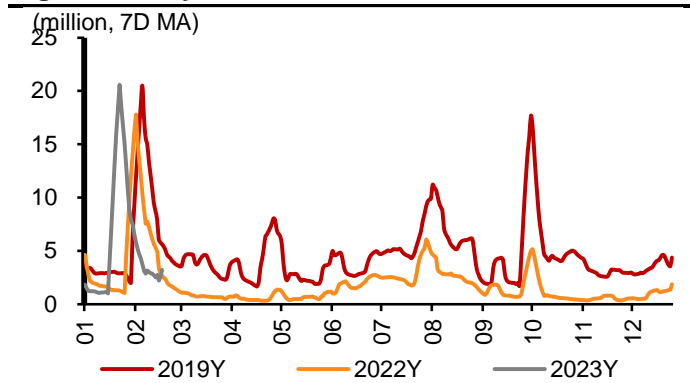
Source: WIND, CMBIGM

Figure 6: Freight & Container Throughput of Ports



Source: WIND, CMBIGM

Figure 7: Daily Number of Film Audience



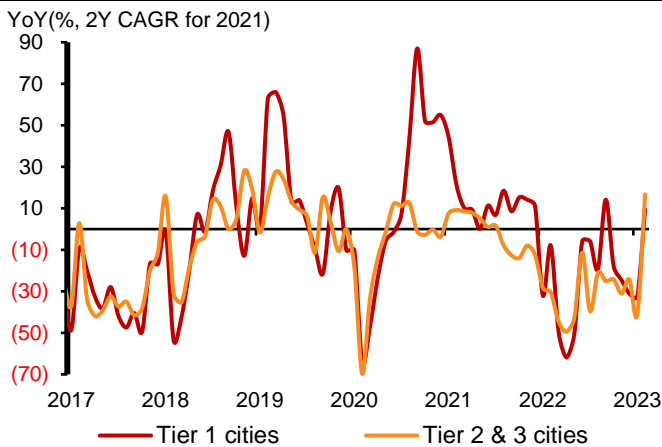
Source: WIND, CMBIGM

Housing Market, Auto Sales & Construction Activity in China

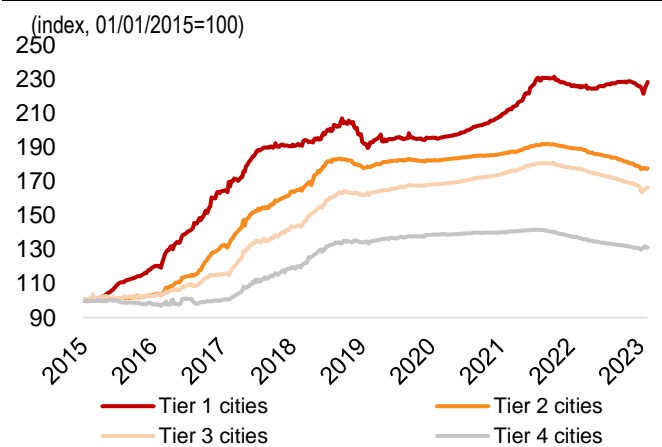
- **China's housing sales noticeably improved after the CNY holiday as depressed demands during lockdowns started to release.** Commodity building sales volume in 30 largest cities declined 1.6% YoY in the past two weeks after dropping 32.8% in January and 31.1% last December. As the CNY holiday fell in February last year, commodity building sales volume increased by 9.6% in the first half of February compared to the average level last February. Listing price of second-hand houses in

tier one cities started to see mild WoW increases in the past two weeks. New housing inventory slightly declined in core cities. As the depressed demands during lockdowns started to release, housing market may see noticeable improvement in next two months. However, there should be some fluctuations of its recovery pace because it needs some time for households to restore their confidence and income growth.

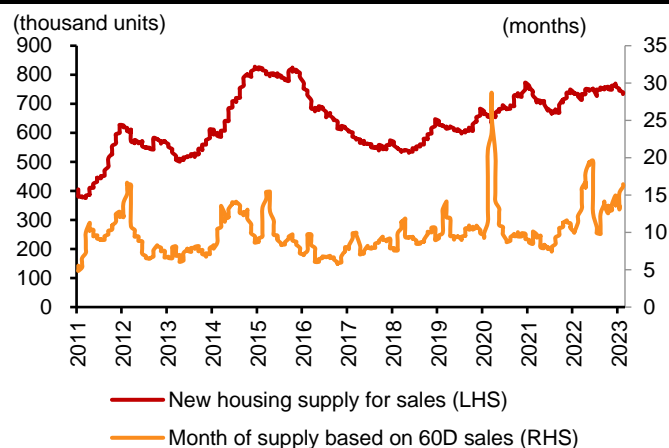
- **Passenger vehicle sales also sharply rebounded due to base effect and transport demand improvement.** Passenger vehicle sales volume increased 45.5% YoY in the first half of February thanks to base effect and resumption of transport demand. Capacity operation rate of semi-steel tyre also rebounded sharply after the CNY holiday.
- **Construction activity seemed weaker than expected.** Capacity operation rate of deformed steel bar and asphalt plant only slightly rebounded after the CNY holiday. Construction material prices were stable after some mild increases in January. We believe total fixed asset investment growth may be below market consensus in the first two months as property development investment may continue to shrink and infrastructure investment growth is likely to see some slowdown.

Figure 8: YoY Growth of Commodity Building Sales


Source: WIND, CMBIGM

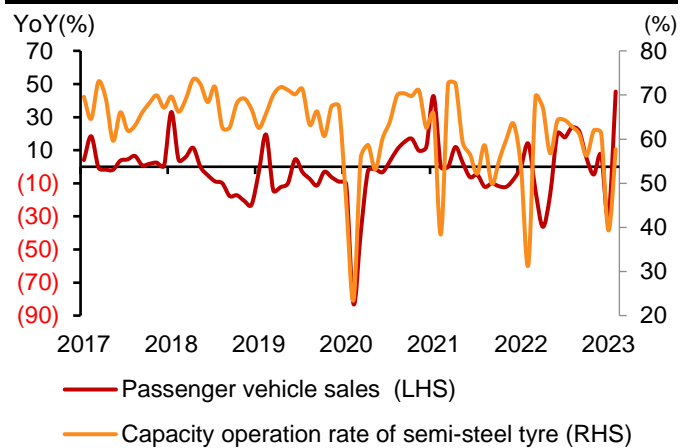
Figure 9: Listing Price Index of Second-hand House


Source: WIND, CMBIGM

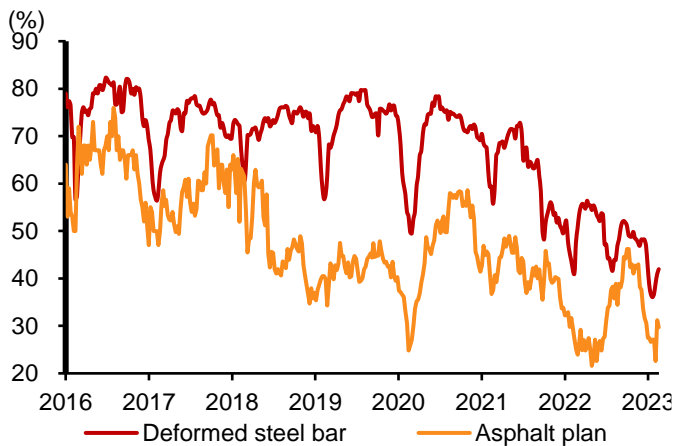
Figure 10: New Housing Supply in 10 Cities


Source: WIND, CMBIGM

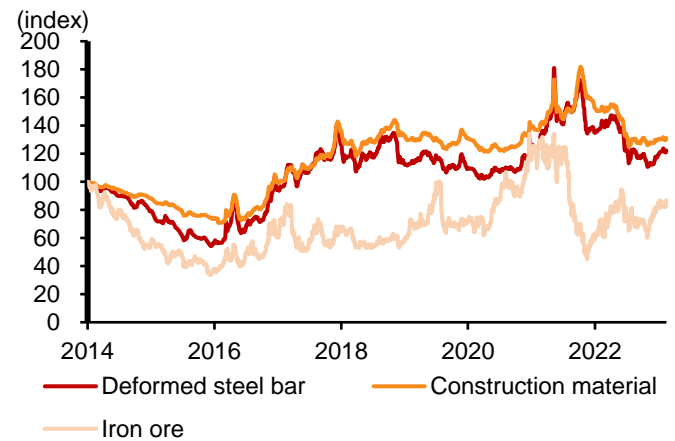
Note: 10 cities include Beijing, Shanghai, Guangzhou, Shenzhen, Hangzhou, Nanjing, Qingdao, Suzhou, Nanchang & Xiamen.

Figure 11: Auto Sales Volume


Source: WIND, CMBIGM

Figure 12: Capacity Operation Rate

Source: WIND, CMBIGM

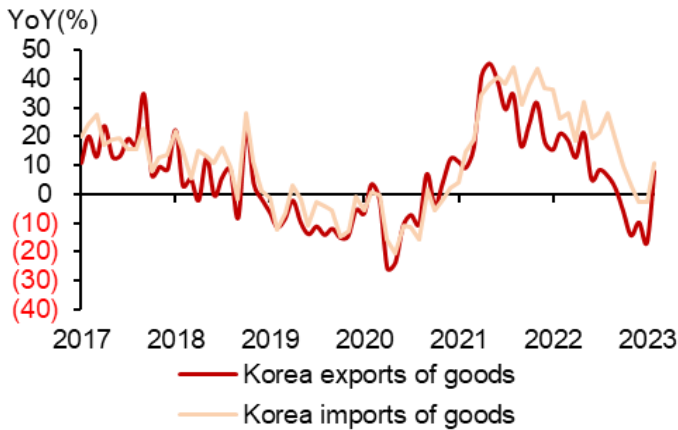
Figure 13: Steel & Construction Material Price

Source: WIND, CMBIGM

China Exports and US Recession Risk

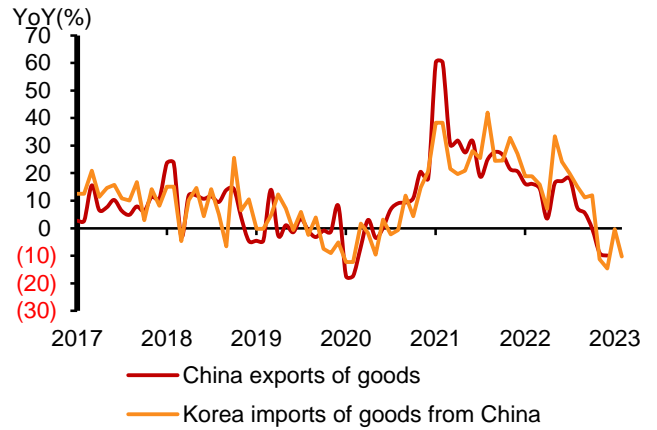
- **China's exports may continue to decline with some mild improvement in the first two months.** South Korea's foreign trade experienced noticeable fluctuations in its YoY changes in the past three months. It deteriorated in January and improved in February probably due to a temporary improvement of global consumer sentiment amid disinflation. However, South Korea's trade with China showed a different pattern in the YoY changes. It temporarily improved in January and deteriorated again in the first ten days of February. South Korea's trade with China has a parallel trend with China's total trade performance. We expect China's exports may temporarily improve in 2M22 before deteriorating again in March. We maintain our forecast that China's exports of goods may drop by 3.5% in 2023 after rising 7.1% in 2022.
- **US leading indicators continued to send warning signals for a recession ahead.** US retail sales, CPI and PPI in January all beat expectations, indicating a resilient economy with persistent inflation in the country. The latest data indicates a recession may not come soon. The Fed's tightening cycle may last longer than expected, which will add downside pressure on the growth in the future. We cannot rule out the possibility of a recession for US economy this year. Both 10Y/3M and 10Y/2Y Treasury yield curves remained inverted, indicating the recession risk is still there. If we look at US economy by sector, condition has varied in different sectors. Housing market has already been in a deep recession as the residential investment dropped by over 10% YoY in 2022. The manufacturing sector has been close to the critical point of a recession as its PMI remained below 50% in the past three months and the industrial output growth slowed from 3.9% in 2022 to 0.8% in January. However, service sector has continued to expand. Service consumption at constant price grew 3.3% YoY last December and service PMI reached 55.2% in January.
- **Financing costs for US private sector slightly rebounded after mild declines.** The Fed officials sent more hawkish signals after the economic data beat expectations. US bond rates and mortgage rates slightly rebounded in February after some mild declines in January. The 2Y Treasury bond yields, which is sensitive to US Fed policy rate path in future, increased by over 40bps in the past 30 days. The 30Y fixed-rate mortgage costs increased by over 20bps in February. Meanwhile, banks' LPRs further rose by 25bps.

Figure 14: Growth of South Korea Exports & Imports



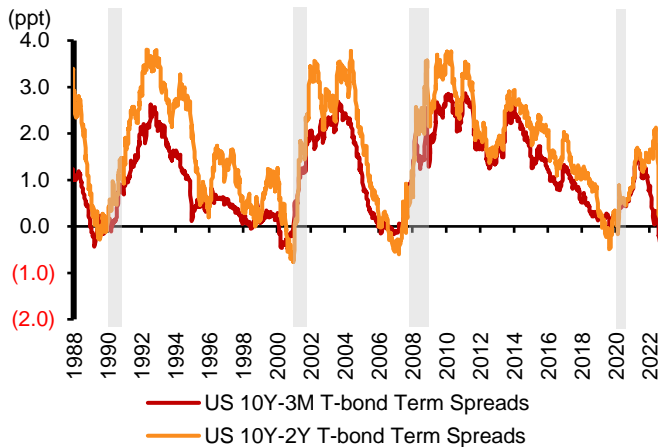
Source: WIND, CMBIGM
Note: the latest month covered the first 20 days

Figure 15: China Exports of Goods



Source: WIND, CMBIGM

Figure 16: US Term Spread as A Leading Indicator for Recession Risk



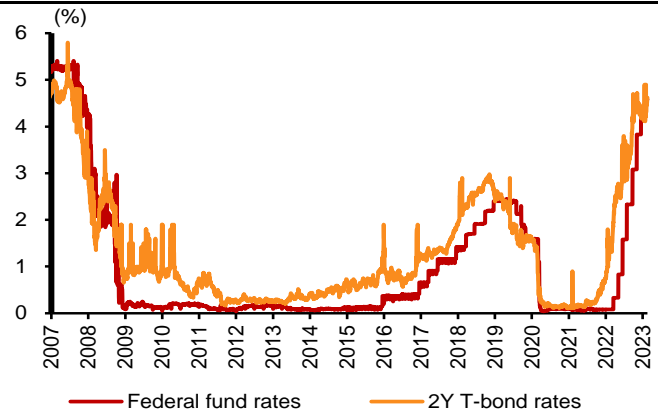
Source: WIND, CMBIGM

Figure 17: US Breakeven Inflation to Reflect Inflation Expectations



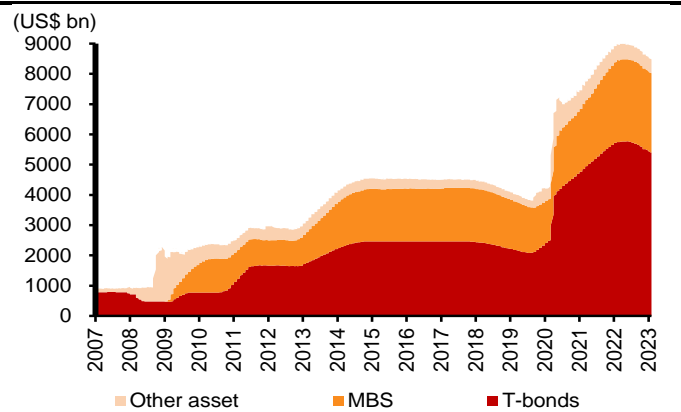
Source: WIND, CMBIGM

Figure 18: 2Y T-bond Rates Precede Fed Policy Rates

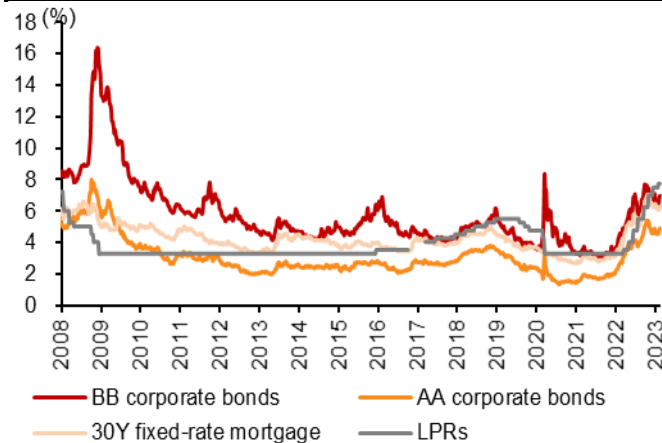


Source: WIND, CMBIGM

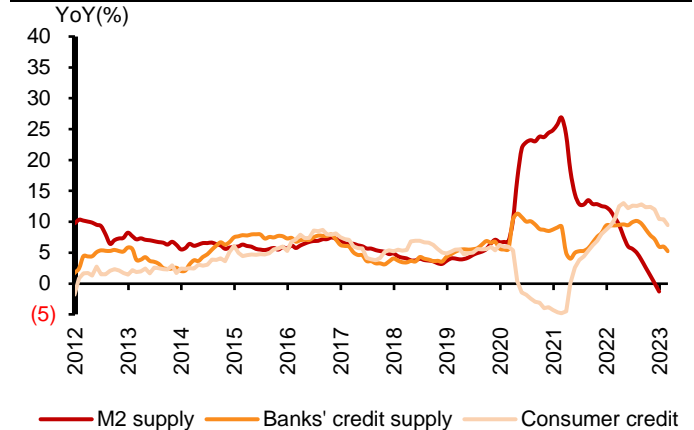
Figure 19: Fed's Assets in Its Balance Sheet



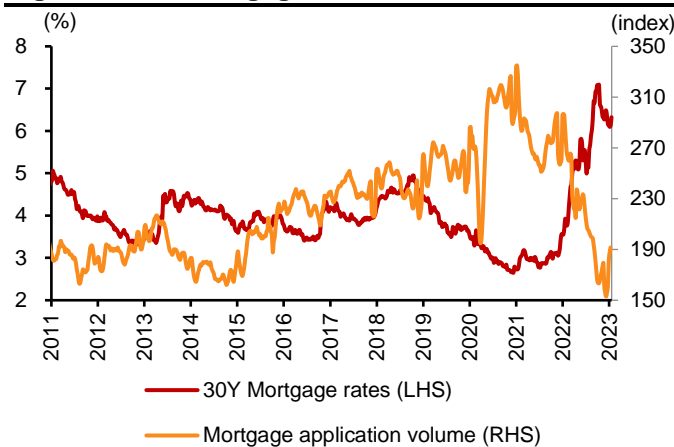
Source: WIND, CMBIGM

Figure 20: Financing Costs of US Private Sector

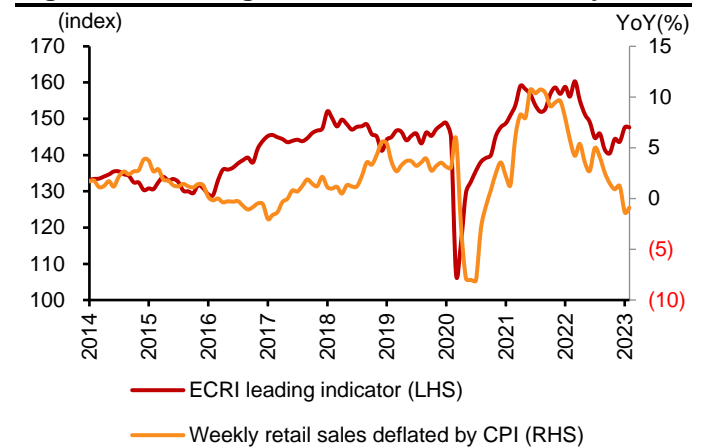
Source: WIND, CMBIGM

Figure 21: US M2 and Banks' Credit Supply

Source: WIND, CMBIGM

Figure 22: US Mortgage Rates & Demand

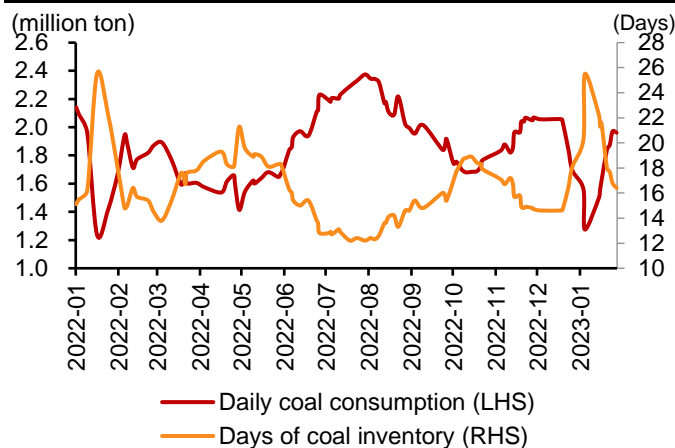
Source: WIND, CMBIGM

Figure 23: Leading indicators for US Economy

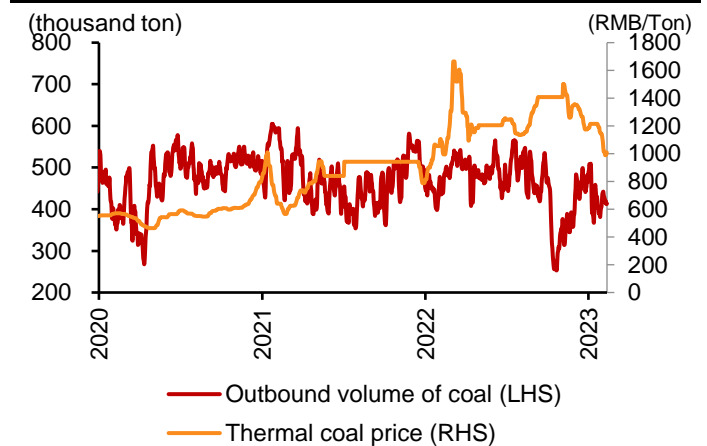
Source: WIND, CMBIGM

Factory Activity in China

- Factory activity has gradually improved after the CNY holiday with a possible YoY moderate growth.** The daily average coal consumption of power generators in South China in the first half of this February increased by 9.7% compared to the average level last February. The days of their coal inventory last week dropped to a similar level seen in the similar period last year. However, outbound coal volume by ship in Qinhuangdao port recovered more slowly with declines of its coal prices. Due to resumption of coal imports especially from Australia, commercial traders accelerated sales of their inventory, causing downside pressure on domestic coal prices.

Figure 24: Power Generators' Coal Consumption in South China


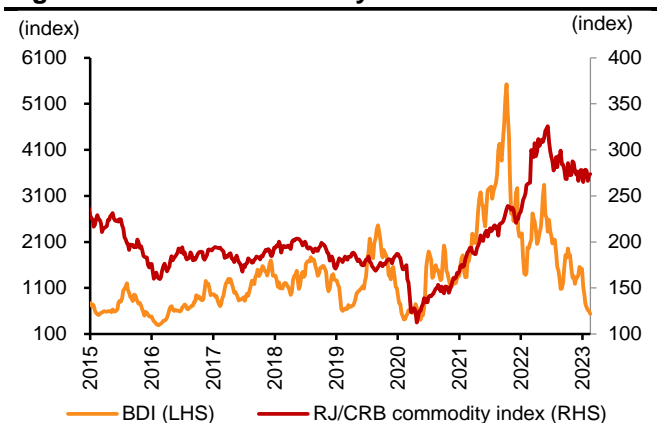
Source: WIND, CMBIGM

Figure 25: Outbound Coal Volume & Price in Qinhuangdao Port


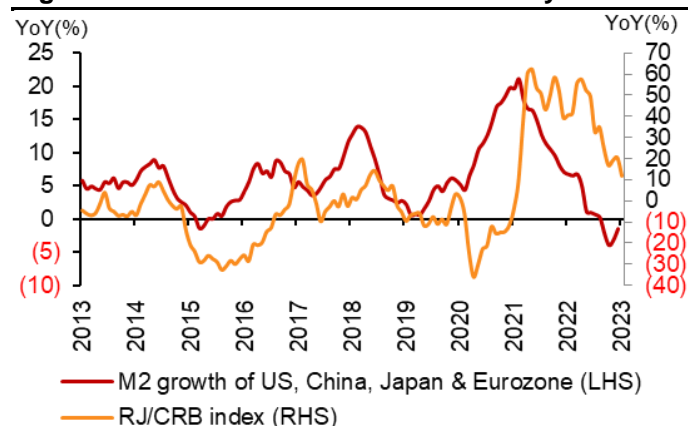
Source: WIND, CMBIGM

Commodity Inflation & China's Reflation Process

- Commodity inflation will further decline.** Commodity prices slightly declined as the prospect of further tightening by the Fed eclipsed the boost effect from China's reopening. Global economy should continue to see downside pressure with high interest rates, while China's recovery may follow a gradual manner. Therefore, commodity prices can hardly see another booming cycle this year. Due to base effect, commodity inflation will further decline. Global M2 growth as a leading indicator generally precedes commodity inflation. M2 growth has remained low recently, indicating commodity prices may have additional downside room ahead.
- China's reflation pressure remains moderate.** China's reopening has caused a reflation in some service sectors like air transportation, hotel & recreation as demand resumed faster than supply capacity in those sectors. However, the overall reflation pressure has remained moderate. The decline of pork price has restrained food inflation, while weak durable consumption capped core CPI growth. China's 2Y Treasury bond rates, which are sensitive to core inflation expectations, have only mildly climbed recently. Recent information indicates China's PPI may further deteriorate with more significant YoY declines in next 2-3 months before seeing positive increases in 2H23. Residential CPI have only mildly improved recently as it needs some time for the employment and income condition to noticeably improve. The wholesale reference price of Kweichou Moutai has also slightly risen, indicating a moderate recovery in business activity.

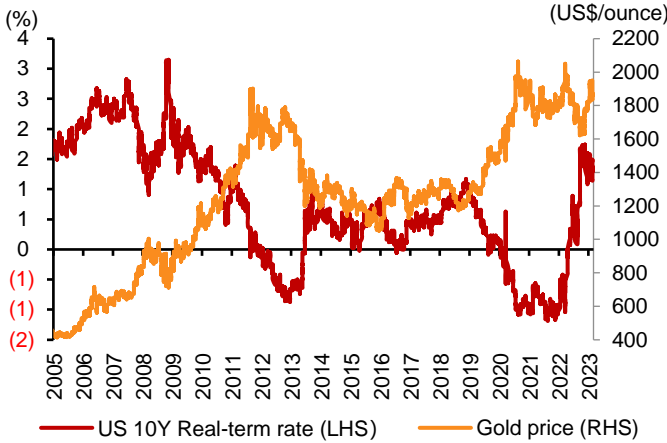
Figure 26: BDI & Commodity Price


Source: WIND, CMBIGM

Figure 27: Global M2 Growth & Commodity Inflation


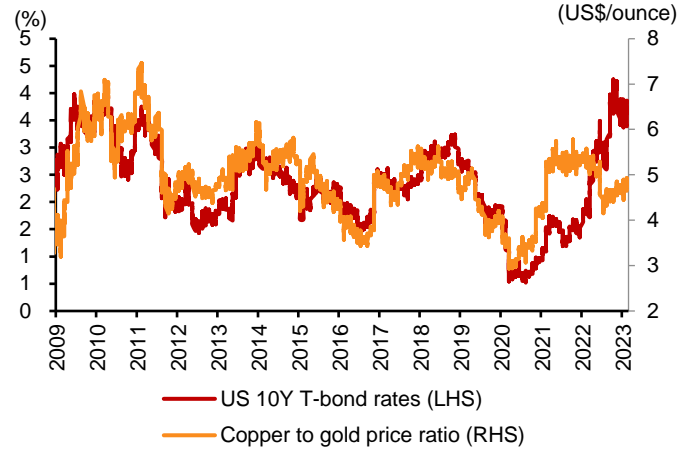
Source: WIND, CMBIGM

Figure 28: US 10Y Rates & Gold Price



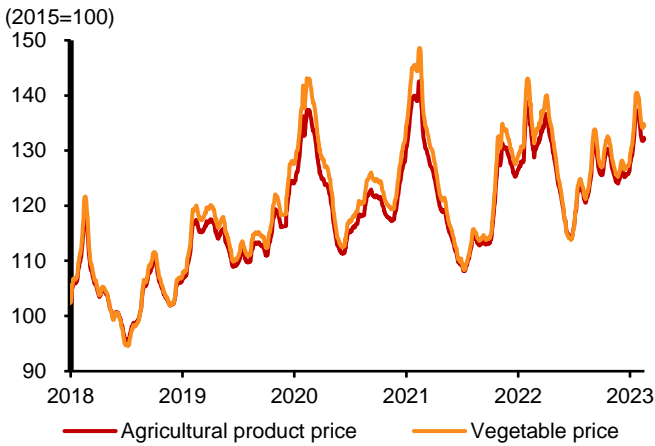
Source: WIND, CMBIGM

Figure 29: US 10Y Rates & Copper-to-Gold Ratio



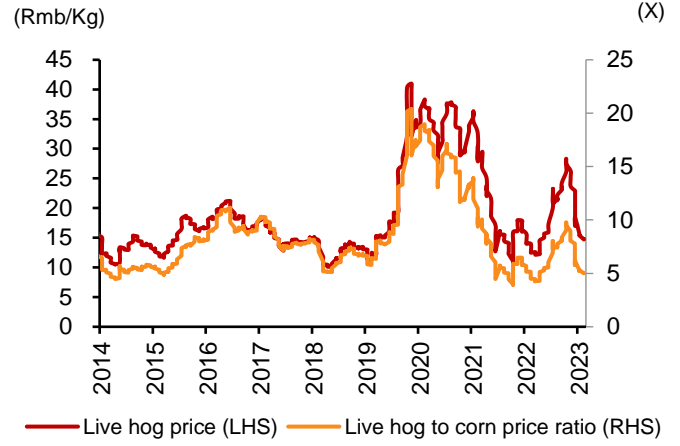
Source: WIND, CMBIGM

Figure 30: Agricultural Price in China



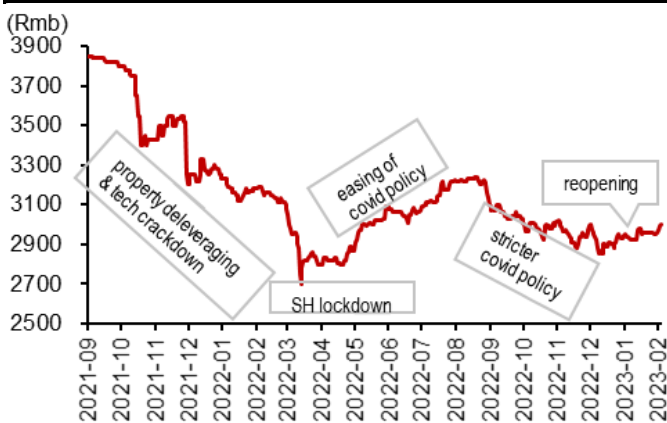
Source: WIND, CMBIGM

Figure 31: Live Hog Price in China



Source: WIND, CMBIGM

Figure 32: Wholesale Reference Price of MOUTAI

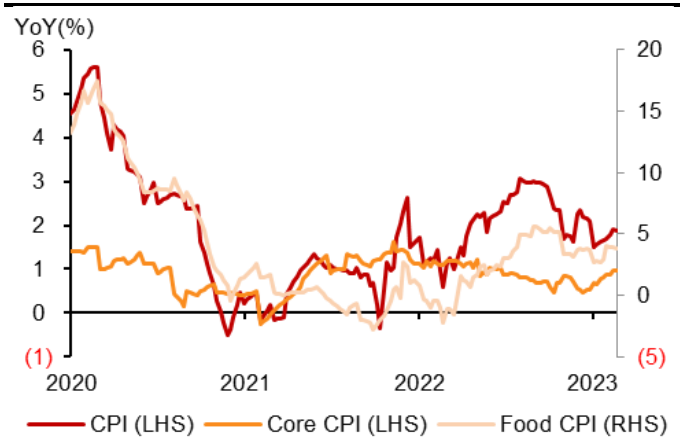


Source: WIND, CMBIGM

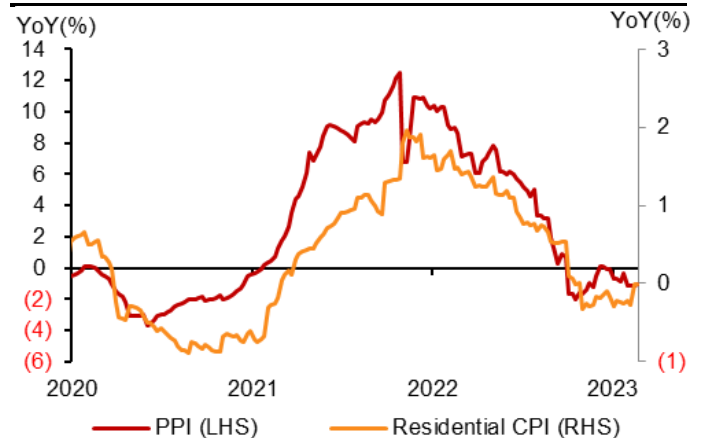
Figure 33: Moderate Core CPI Reflation in China



Source: WIND, CMBIGM

Figure 34: China's CPI & Core CPI Growth Projected by AI


Source: WIND, CMBIGM

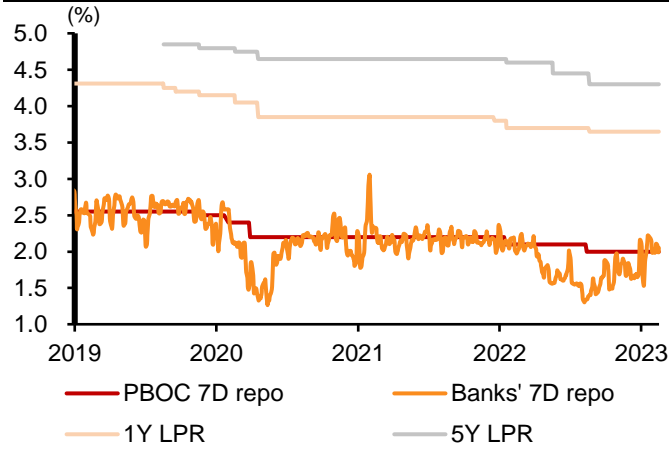
Figure 35: China's PPI & Residential CPI Growth Projected by AI


Source: WIND, CMBIGM

China's Liquidity Condition & RMB exchange Rates

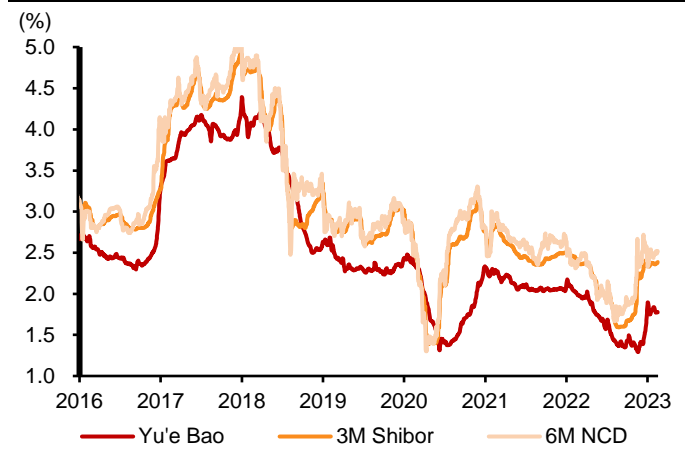
- **Liquidity condition:** Liquidity condition has remained stable recently as money market rates kept around 2%. As risk appetite and credit demand has rebounded, liquidity demand has increased in the past several weeks. This has caused upside pressure on money market rates. DR007 or banks' 7D repo rates rose from 1.7% in 4Q22 to 1.9% in January and 2% in February. However, we do not expect the PBOC will significantly tighten the liquidity condition as the resumption of housing market should be gradual and the reflation pressure should be moderate.
- **Bond market:** Long-term bond rates mildly rose after China announced to reopen its economy. However, they may gradually lose upside momentum as the market is priced in the recovery story. China's resumption should be in a gradual manner with a moderate reflation. From the medium to long term perspective, the growth should slow down again after the resumption period. Therefore, China's long-term bond rates may only see moderate upside room in the economic resumption cycle.
- **Credit condition:** Credit demand from LGFVs and SOEs has noticeably rebounded. Private business and households resumed more slowly. New loans may continue to improve in February as banks' bill discounting rates have continued to rise. The YoY growth of total social financing balance may mildly rebound in February-March. Credit policy has remained accommodative for manufacturing, service business & SMEs. The PBOC has guided banks to expand special loan supply to industrial upgrading, tech innovation & green development projects. To boost housing market recovery, the central bank may further ease mortgage policy for upgrading housing demand or second-home purchasers in future.
- **RMB exchange rates:** Renminbi mildly depreciated against US dollar in the past two weeks. The US dollar index rebounded as Fed officials seemed to be more hawkish after the growth and inflation data beat expectations. In addition, investors' bullish expectations about China's recovery also retreated. Looking forward, renminbi may see further mild declines before rebounding in 2H23. We maintain our forecast on US\$/RMB spot rate at 6.60 at end-2023.

Figure 36: PBOC Policy Rates



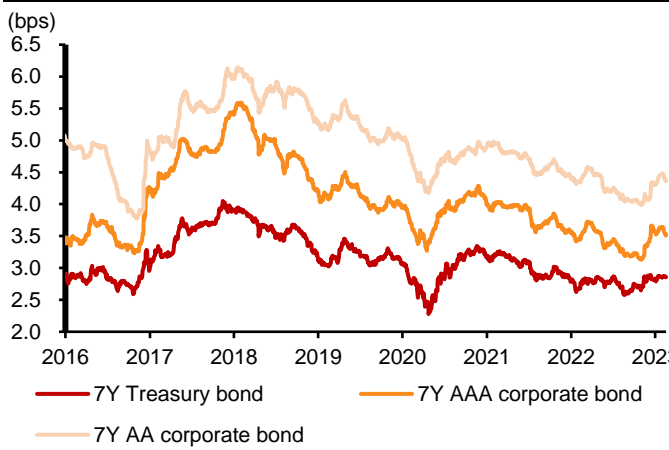
Source: WIND, CMBIGM

Figure 37: China's Money Market Funding Cost



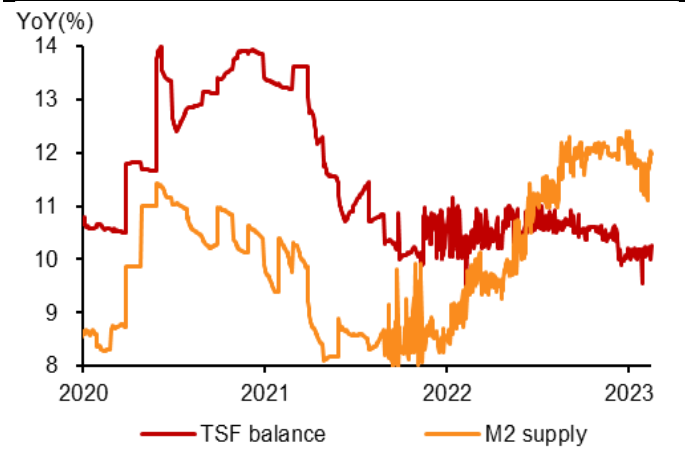
Source: WIND, CMBIGM

Figure 38: China T-bond Rates



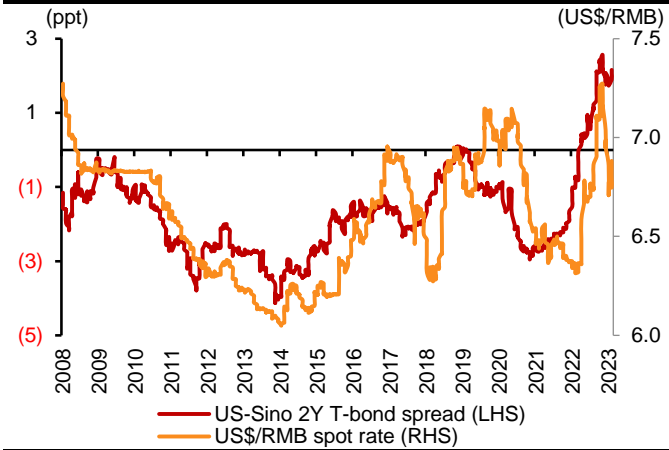
Source: WIND, CMBIGM

Figure 39: TSF Balance & M2 Growth Projected by AI



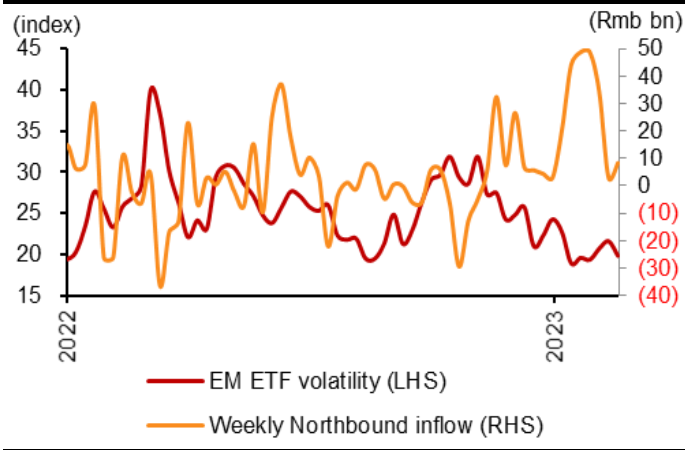
Source: WIND, CMBIGM

Figure 40: US\$/RMB Rates & Interest Spreads

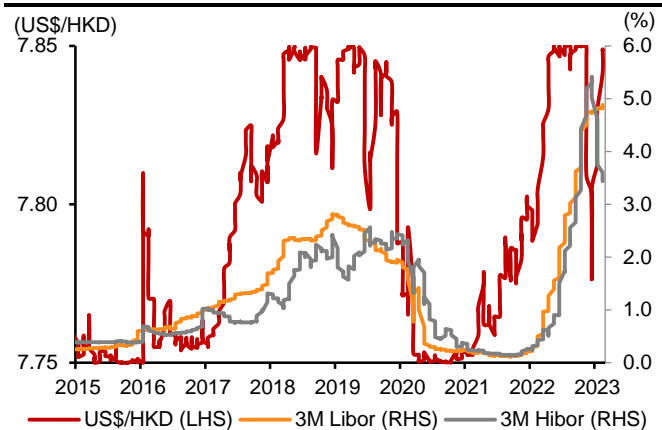


Source: WIND, CMBIGM

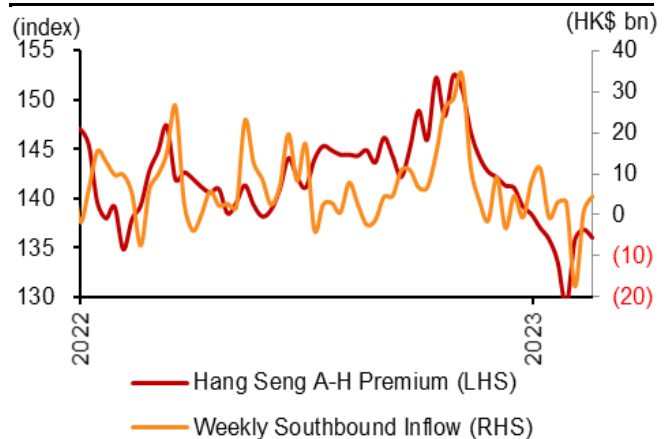
Figure 41: Northbound Inflow to A Shares



Source: WIND, CMBIGM

Figure 42: US\$/HKD Rates & Interest Rates

Source: WIND, CMBIGM

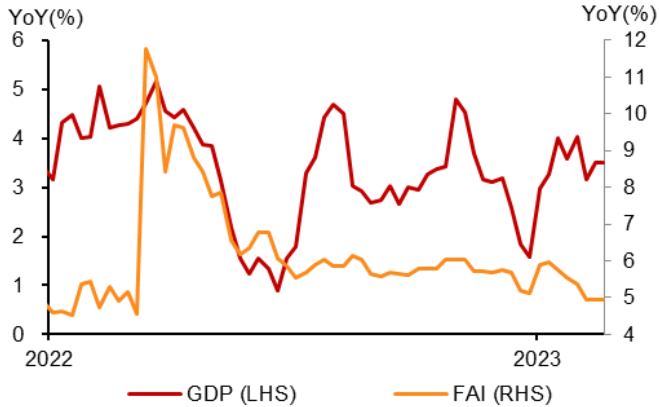
Figure 43: Southbound Inflow into HK Stocks

Source: WIND, CMBIGM

China Economy Forecast

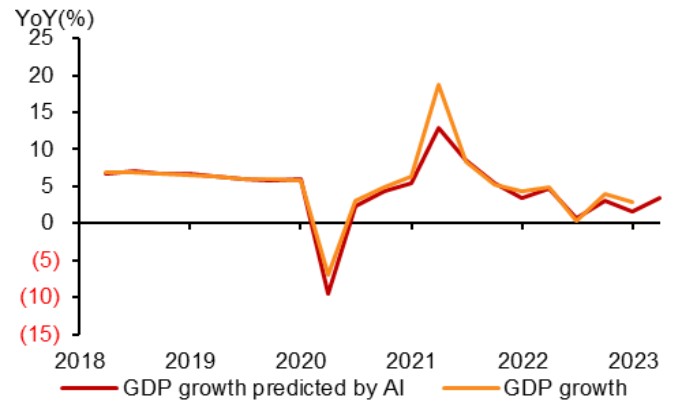
- **We mildly revise up our forecast on China's 2023 GDP growth from 5.1% to 5.4%.** We expect the GDP growth in the four quarters may respectively reach 3.5%, 7.7%, 4.8% and 5.7%, compared to the previous forecast of 3.2%, 7.2%, 4.6% and 5.5%. However, China's GDP growth should remain below potential growth this year as the expected 2Y CAGR in 2022-2023 is only at 4.2%.
- **On the GDP growth target:** Some investors have been worried that China's pro-growth policy may not be as strong as expected as the low base last year makes it easy for China to achieve its GDP growth target at 5% or higher this year. However, we do not think the 5% growth target implies less importance attached to the growth. The GDP growth target for 2023 was decided by the top leaders at the Central Economic Working Conference in early December last year. The proposal was made by experts and officials even earlier. At that time, Chinese officials were concerned about domestic pandemic wave as bearish foreign investors considered the 5% growth target was ambitious. Looking forward, the Chinese leaders will take economic growth as the priority and GDP growth will become important KPI for local governments. The new leaders will take efforts to boost the confidence of private businesses and households in China.
- **China's inflation may retreat in 1H23 and rebound in 2H23.** CPI growth may decline from above 2% in 2M23 to 1.7%-2% in March-July and gradually rebound in 2H23. We maintain our forecast on CPI growth at 2.2% in 2023 and 2.5% in 2024. Core CPI growth may moderately rise with a moderate reflation in service sector. PPI may further decline in next few months before seeing positive YoY increases in 2H23. We expect PPI to drop 0.5% in 2023 and rise 1.6% in 2024.
- **Broad credit growth may rebound amid credit policy loosening.** The YoY growth of outstanding social financing may gradually pick up thanks to credit policy loosening. Renminbi loans are likely to remain strong. However, M2 growth may gradually decline as risk aversion sentiment drops.

Figure 44: China's GDP & FAI Growth Projected by AI



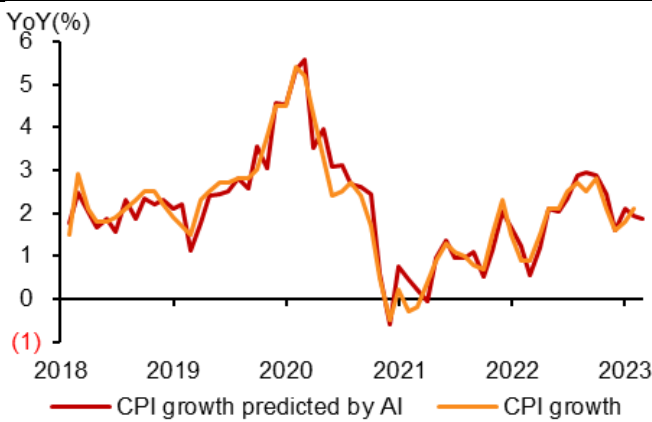
Source: WIND, CMBIGM

Figure 45: China's GDP Growth



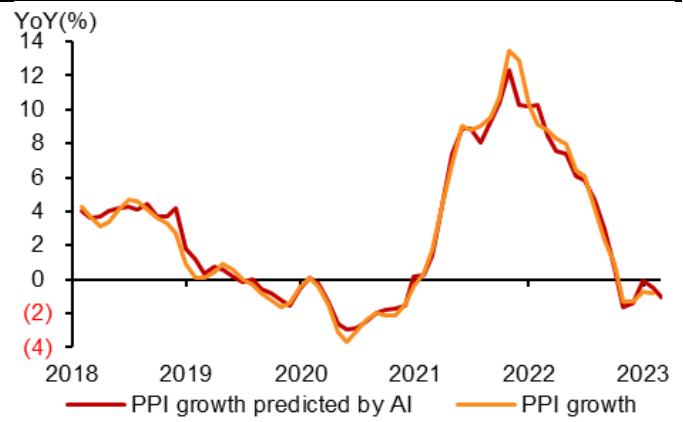
Source: WIND, CMBIGM

Figure 46: China's CPI Growth



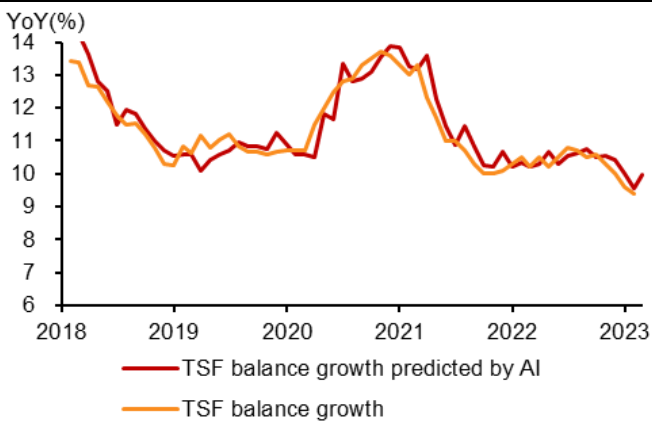
Source: WIND, CMBIGM

Figure 47: China's PPI Growth



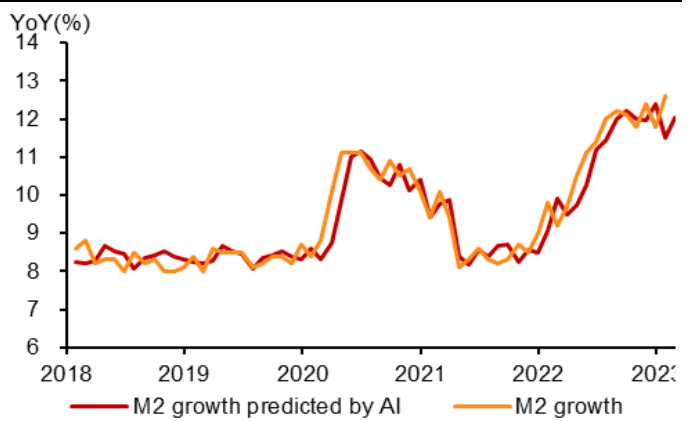
Source: WIND, CMBIGM

Figure 48: China's TSF Balance Growth



Source: WIND, CMBIGM

Figure 49: China's M2 Growth



Source: WIND, CMBIGM

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