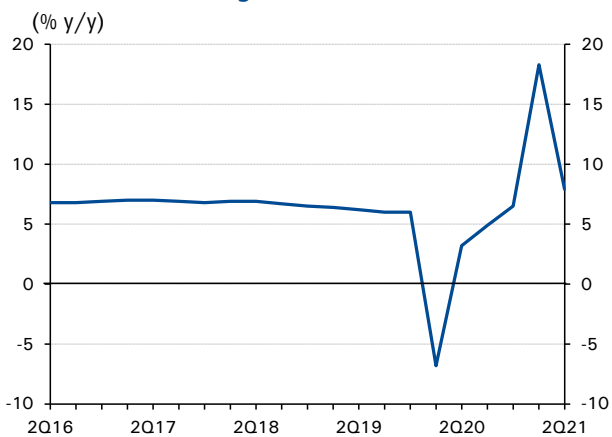


Growth prospects remain uncertain as economy stabilizes

- GDP growth eased on higher raw material costs and slower industrial activity.
- Growth in manufacturing and services softened, weighed down by higher input costs and logistics bottlenecks.
- Retail sales eased on Covid-related lockdowns and extreme weather conditions.
- Producer price inflation remained elevated at 9% while headline consumer inflation remained muted at 1%.
- The central bank cut its reserve requirement ratio in early July following a worsening in economic indicators.
- The yuan remained stable although a possible lockdown due to Delta variant could affect the tourism sector.

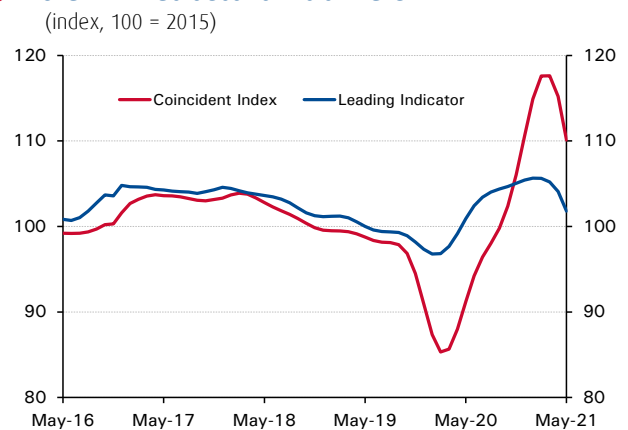
► **Chart 1: Real GDP growth**



The economy grew by 7.9% in 2Q21, down from record growth set in 1Q21 (18.3% y/y) as higher raw material costs and slower industrial activity weighed on the recovery.

Source: Refinitiv

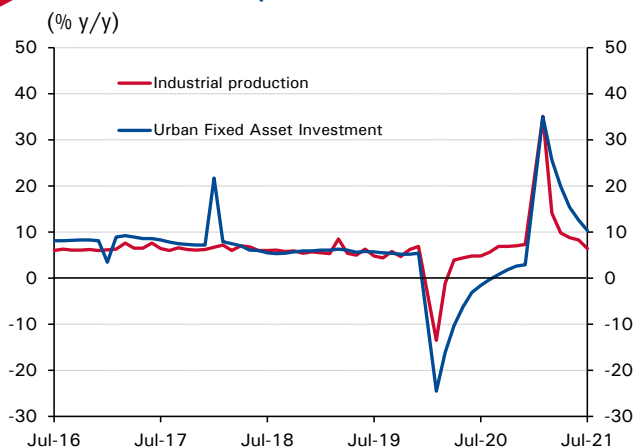
► **Chart 2: Macroeconomic climate**



Macroeconomic indicators edged down in May as economic activity continued to soften.

Source: Refinitiv

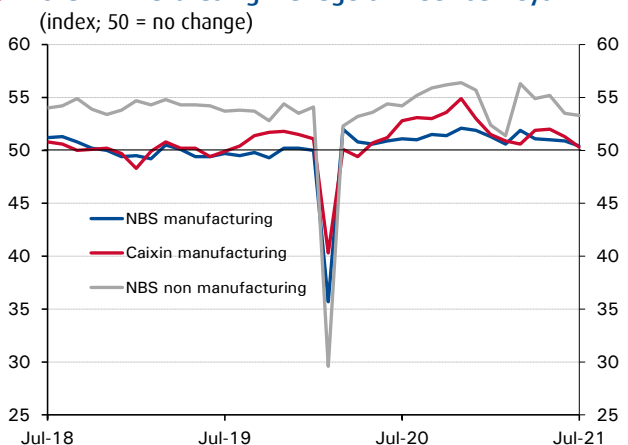
► **Chart 3: Industrial prod. and urban investment**



Industrial production and fixed asset investment came in below market expectations on supplychain disruptions, extreme weather events, and spread of Delta variant in multiple cities.

Source: Refinitiv

► **Chart 4: Purchasing Managers' Index surveys**

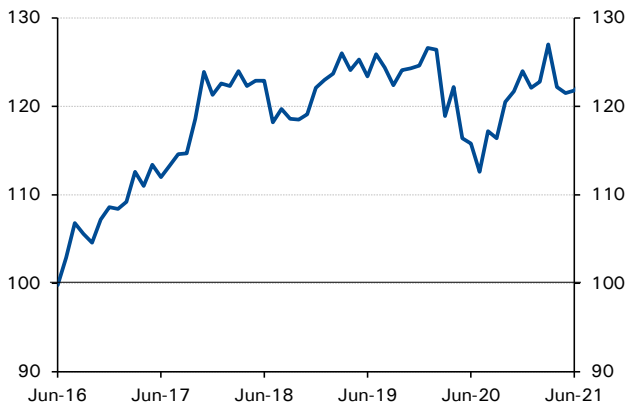


The three major activity indices continued their decline in July amid a Covid outbreak and extreme weather conditions.

Source: Refinitiv

Chart 5: Consumer confidence

(index, 100 = no change)

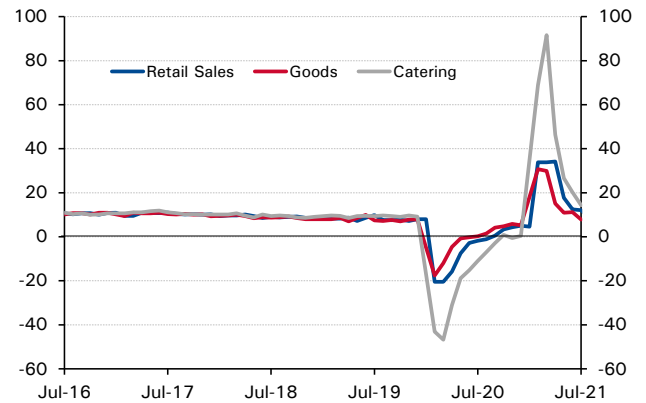


Consumer confidence edged up slightly to 122.8 in June on strong vaccine roll-out as government administers over 1.8 billion doses.

Source: Refinitiv

Chart 6: Retail sales

(% y/y)

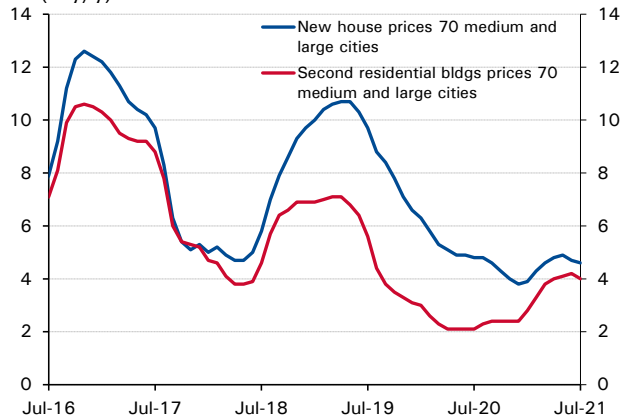


Retail sales eased in July to 8.5% (y/y) as consumption moderated during the latest Delta variant outbreak and related lockdowns.

Source: Refinitiv

Chart 7: House prices in 70 medium & large cities

(% y/y)

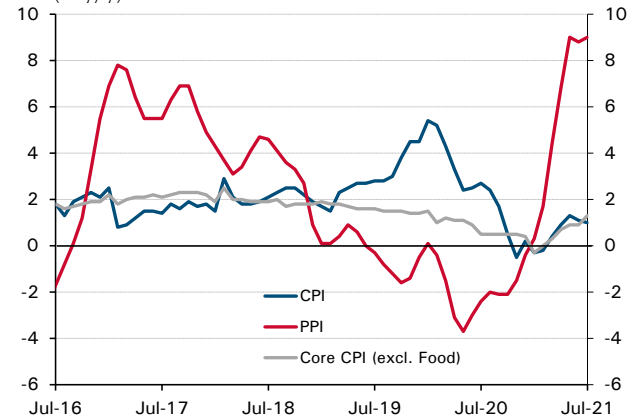


New and old house prices slowed as government-introduced mortgage rate hikes and credit tightening offset strong property demand and cooled the housing market.

Source: Refinitiv

Chart 8: Inflation

(% y/y)

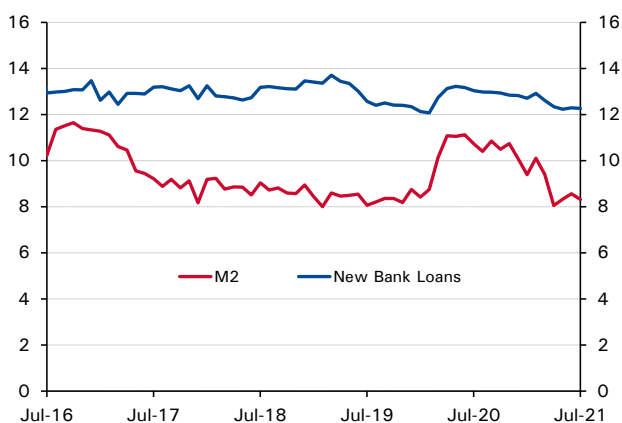


Producer price inflation remained elevated in July, exceeding market expectations while consumer inflation rates were largely steady at 1%.

Source: Refinitiv

Chart 9: Broad money supply & credit lending

(% y/y)

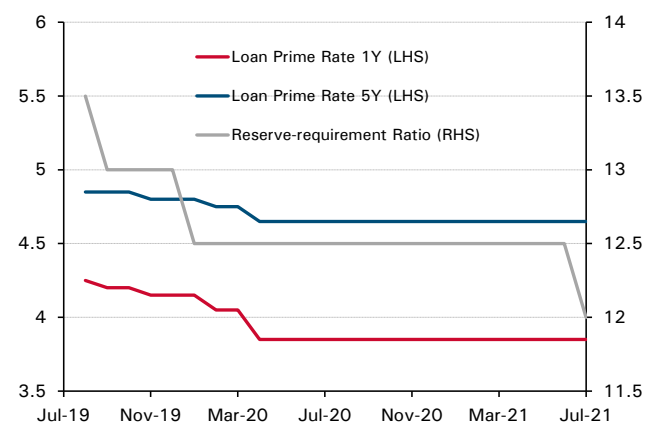


M2 growth slowed to 8.3% (y/y) while new bank loans remained unchanged at 12.3% (y/y), both below market forecasts.

Source: Refinitiv

Chart 10: Nominal interest rates

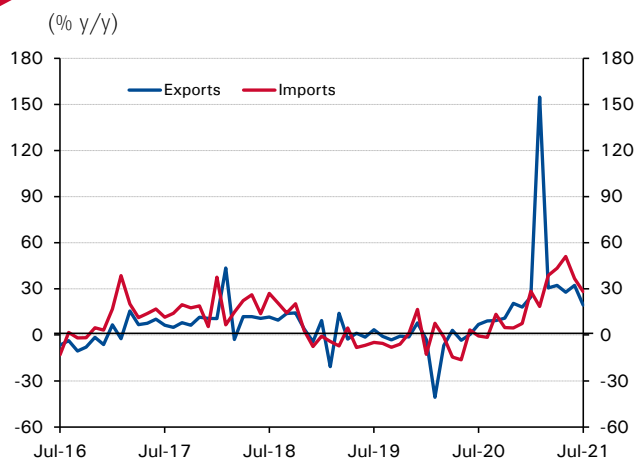
(%)



The PBoC left its benchmark interest rates unchanged. However, the bank cut its reserve requirement ratio in early July to release more liquidity and boost growth amid slowdown.

Source: Refinitiv

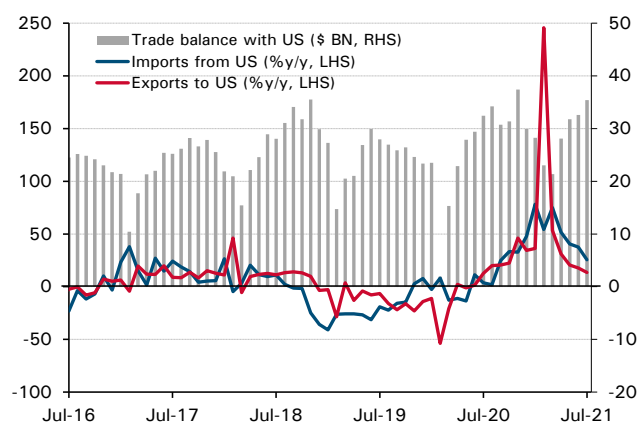
▶ **Chart 11: International trade**



Both export and import growth came below market expectations amid global spread of the Delta variant and higher input costs.

Source: Refinitiv

▶ **Chart 12: Trade with the US**



Trade with the US slowed as both export and import growth fell in July. The trade surplus widened slightly as imports growth decreased more than exports'.

Source: Refinitiv

▶ **Chart 13: Stock Market**



The Shanghai stock index fell in August as government regulatory bodies crackdown on tech and education companies.

Source: Refinitiv

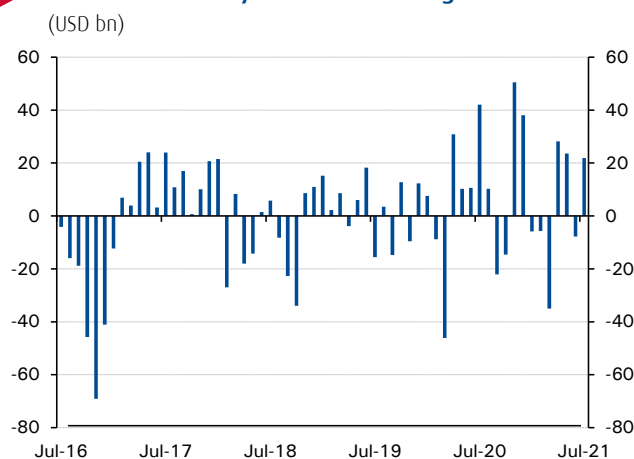
▶ **Chart 14: Exchange rate**



The yuan held steady against the dollar in August despite Delta outbreak threats to tourism and the service sector activity.

Source: Refinitiv

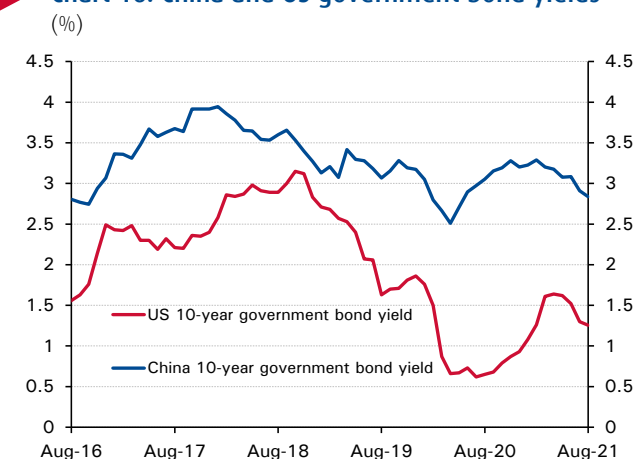
▶ **Chart 15: Monthly FX reserve change**



Foreign official reserves increased in July, exceeding market expectations and reaching levels last seen in January 2016 (\$3.236T).

Source: Refinitiv

▶ **Chart 16: China and US government bond yields**



Both bond yields continued their downward momentum weighed down by Covid concerns.

Source: Refinitiv

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