

Chartbook

NBK Economic Research Department | 25 July 2022

China

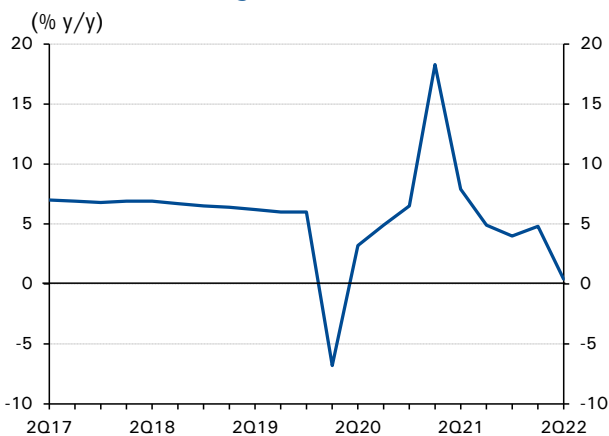
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Growth target unlikely to be met; favorable signs for Q3 recovery

- The government's 2022 target of 5.5% GDP growth has become ever more elusive after anemic 2Q22 figures.
- Retail sales, industrial production, and fixed asset investment grew in June as Covid-19 lockdowns were lifted.
- Manufacturing and service PMIs expanded for the first month in four in June as Covid-19 curbs were eased.
- Consumer price inflation picked up in June while producer price inflation continued to soften.
- The PBoC kept rates steady in July amid uncertain economic conditions.
- Equities have dropped MTD in July on growth fears and real estate market woes.

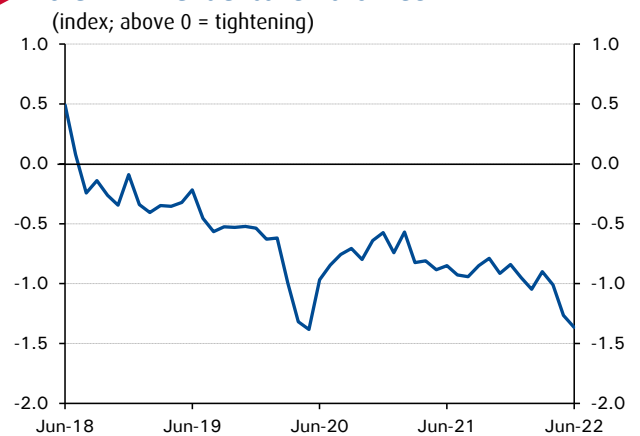
▶ **Chart 1: Real GDP growth**



Growth slowed considerably (+0.4% y/y; -2.6% q/q) in 2Q22 as widespread lockdown measures weighed on economic activity.

Source: Refinitiv

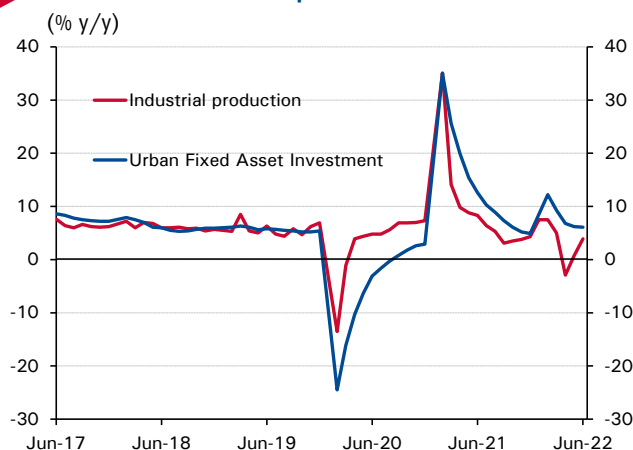
▶ **Chart 2: Financial conditions index**



Financial conditions continued to be more accommodative in June amid a government push for additional infrastructure funding.

Source: Yicai, Haver Analytics.

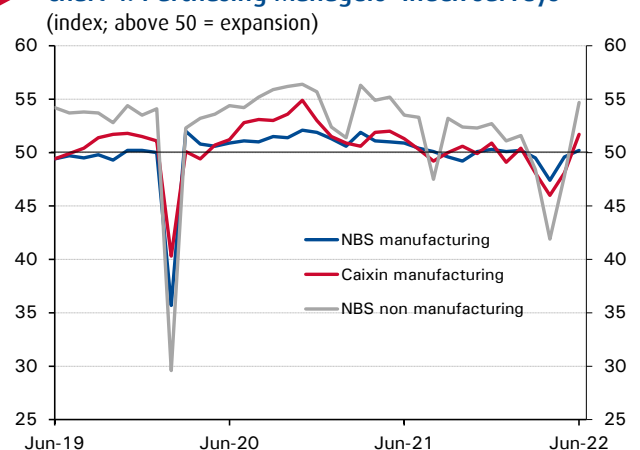
▶ **Chart 3: Industrial output and urban investment**



Industrial production (3.9%) and fixed asset investment (6.1%) both grew y/y in June as lockdown measures were eased.

Source: Refinitiv

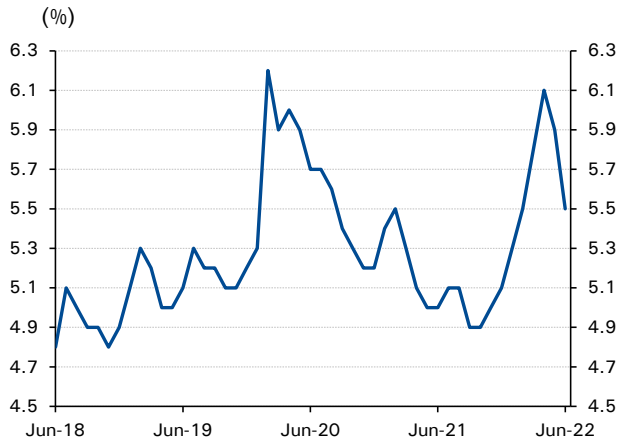
▶ **Chart 4: Purchasing Managers' Index surveys**



PMI figures showed the first expansion in four months in June with solid recovery in both manufacturing and services.

Source: Refinitiv

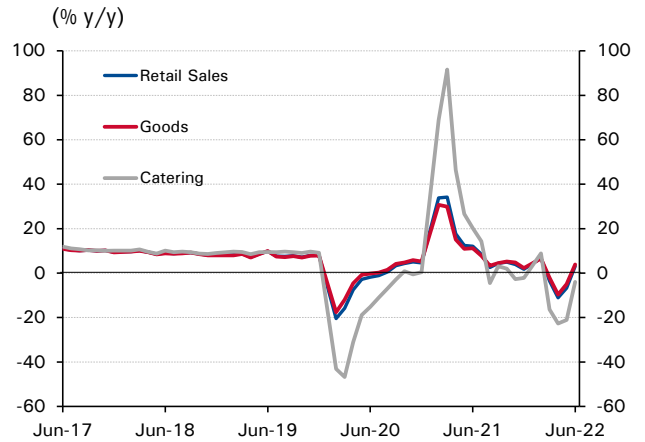
▶ **Chart 5: Unemployment rate**



The unemployment rate dropped to 5.5% in June, the lowest rate since February, as Covid-19 curbs were lifted.

Source: Refinitiv

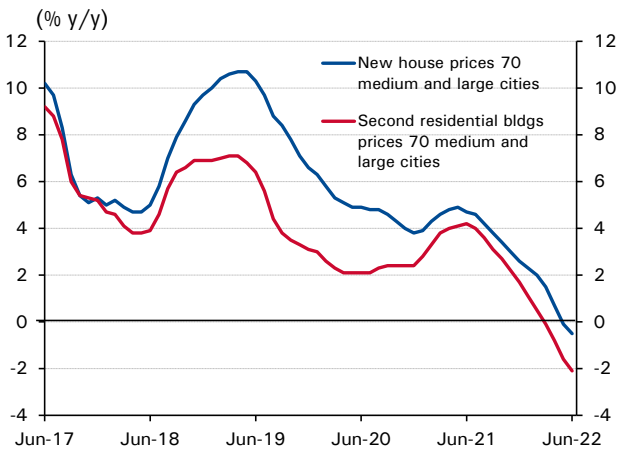
▶ **Chart 6: Retail sales**



Easing Covid restrictions also boosted retail sales, which at 3.1% y/y in June beat market expectations.

Source: Refinitiv

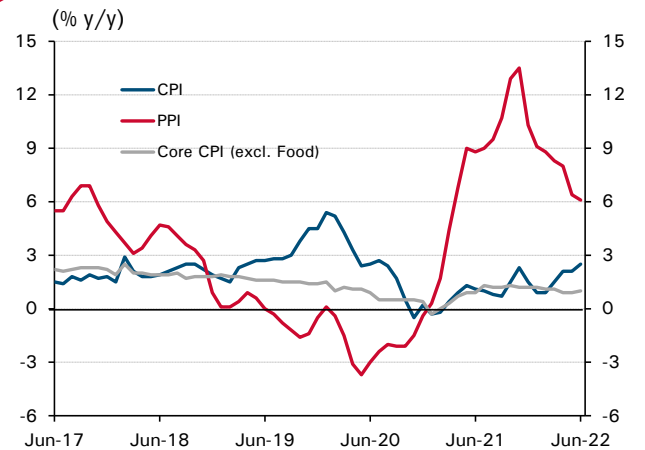
▶ **Chart 7: House prices in 70 medium & large cities**



Average house prices, both new and old, declined by 0.5% y/y in June as weak demand weighs on property market.

Source: Refinitiv

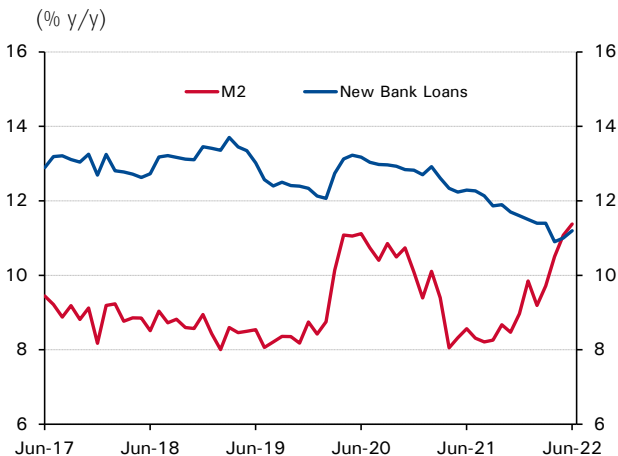
▶ **Chart 8: Consumer and producer price inflation**



Consumer inflation jumped to 2.5% y/y in June, the highest print since July 2020. Producer inflation continued to ease (6.1% y/y).

Source: Refinitiv

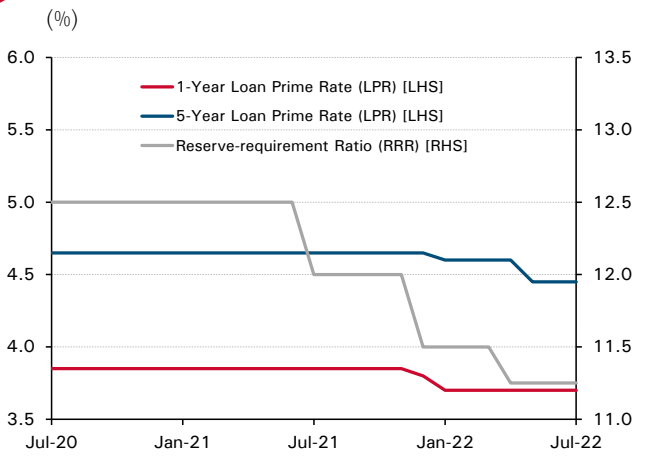
▶ **Chart 9: Broad money supply (M2) & credit growth**



M2 and new bank loans grew in June by 11.4% and 11.2%, respectively, amid supportive economic policies.

Source: Refinitiv

▶ **Chart 10: Interest rates**



The PBoC kept rates steady in its July fixing amid uncertain domestic economic conditions and the global rate hiking cycle.

Source: Refinitiv

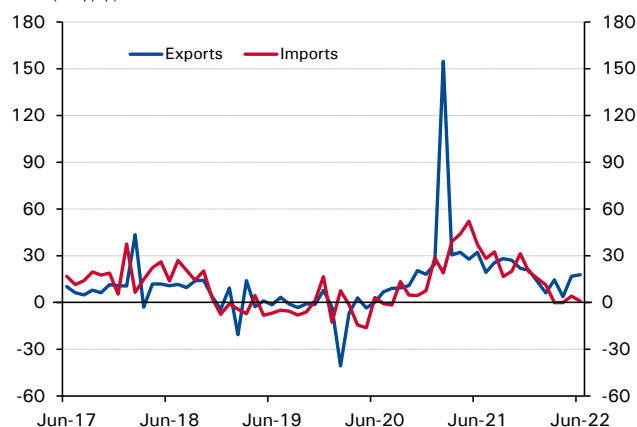
Chart 11: Exchange rate
(CNY/USD)



The yuan depreciated slightly (1%) MTD in July as accommodative monetary policy and a stronger dollar weighed on the currency.

Source: Refinitiv

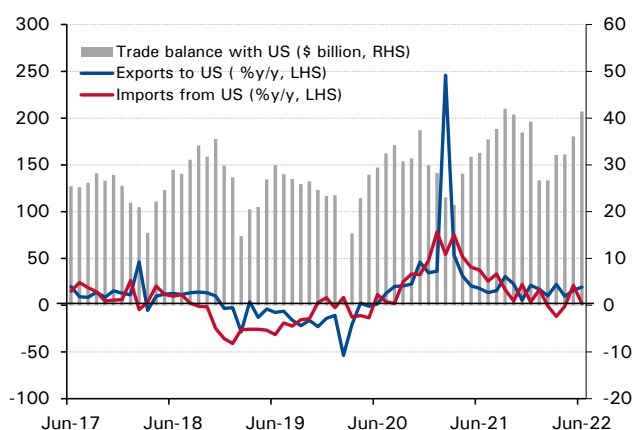
Chart 12: International trade
(% y/y)



Export growth remained robust in June (17.9% y/y) while import growth eased to 1% y/y.

Source: Refinitiv

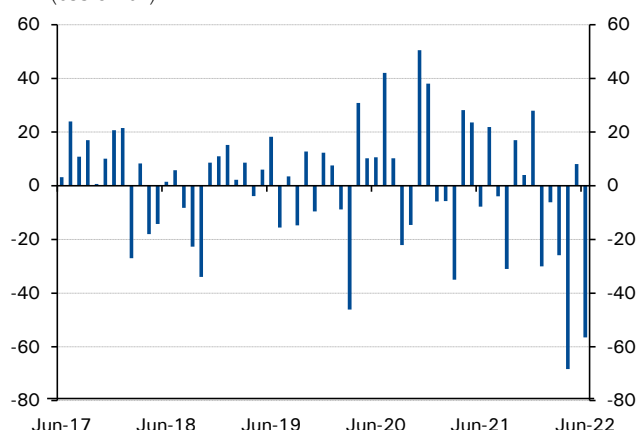
Chart 13: Trade with the US



The trade surplus with the US expanded to \$41.4 billion in June as exports grew by 19.3% while imports expanded by 1.7% y/y.

Source: Refinitiv

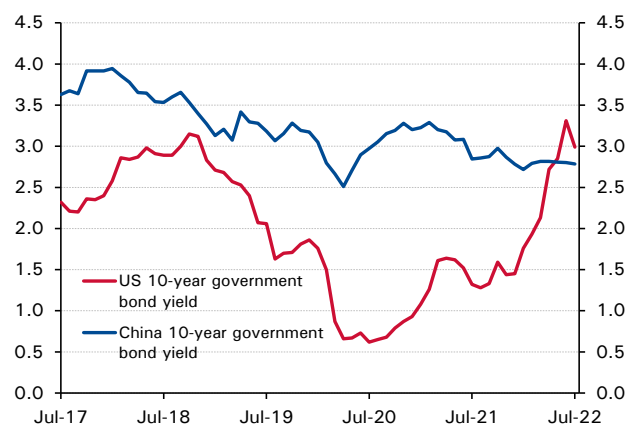
Chart 14: Monthly FX reserve changes
(USD billion)



Foreign currency reserves declined by \$56.5 billion to \$3.07 trillion in June on US dollar strength.

Source: Refinitiv

Chart 15: China and US government bond yields
(%)



Yields on US 10-yr treasuries continued to exceed their Chinese counterparts as the Fed remained hawkish amid high US inflation.

Source: Refinitiv

Chart 16: Stock market
(Shanghai Stock Index, CSI 300)



The CSI 300 dropped 5% MTD in July on widespread slowdown fears and ongoing domestic property market boycotts.

Source: Refinitiv

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