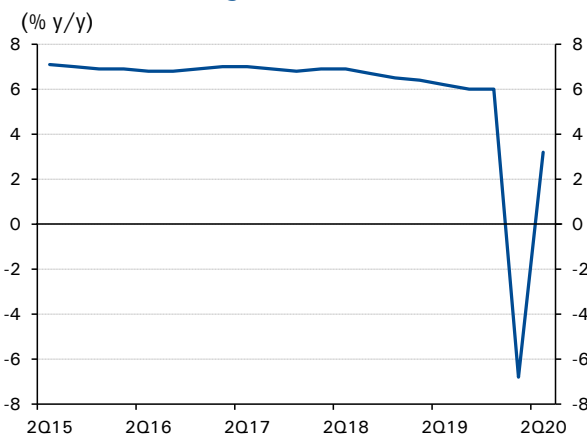


Economy recovering but downside risks stemming from lackluster demand persist

- GDP saw a 'V'-shaped recovery in Q2 led by an ease in mobility restrictions and a raft of stimulus measures.
- Industrial production edges higher, but consumer spending and investment continue to lag behind.
- While gains in manufacturing activity remain limited, the services sector is seeing a faster paced recovery.
- Traffic appears to be making a comeback, but still remains below average 2019 levels.
- The yuan saw some decent gains against the US dollar on an improved domestic economic outlook.
- Core CPI continues to soften against a backdrop of subdued domestic demand.

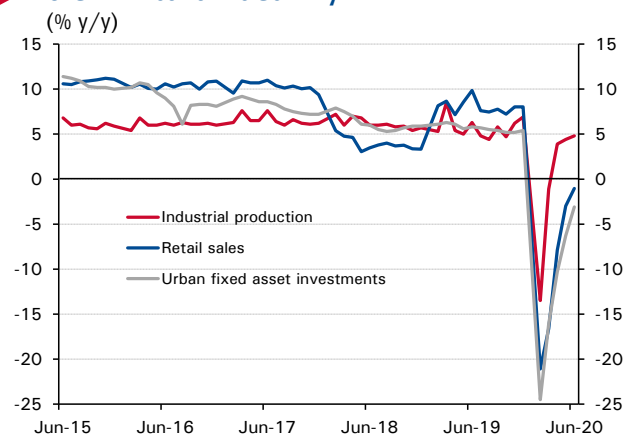
▶ **Chart 1: Real GDP growth**



GDP sees a 'V'-shaped recovery in Q2 (+3.2% y/y) led by the gradual re-opening of the economy and a series of monetary and fiscal stimulus measures.

Source: Refinitiv

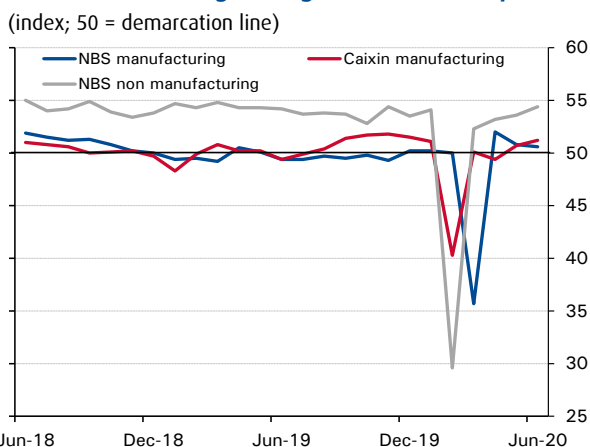
▶ **Chart 2: Economic activity**



Industrial output continued to edge up in June, thanks to a continued resumption in production activity. But the ongoing weakness in domestic demand continued to weigh on retail sales.

Source: Refinitiv

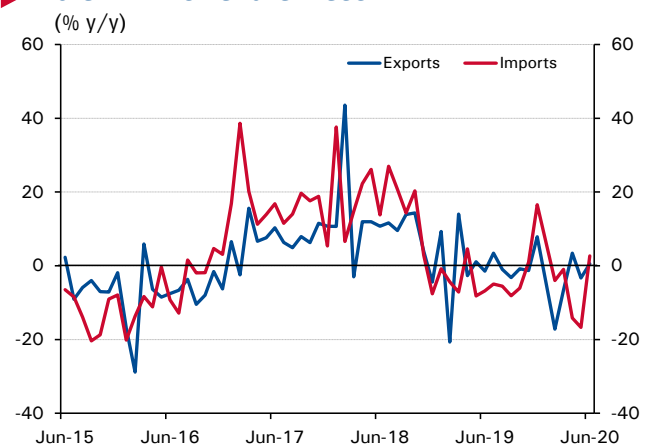
▶ **Chart 3: Purchasing Managers' Index surveys**



Gains in industrial activity remain limited by lacklustre global demand. The services sector, in contrast, is seeing a faster paced recovery led by increases in new business activity.

Source: Refinitiv

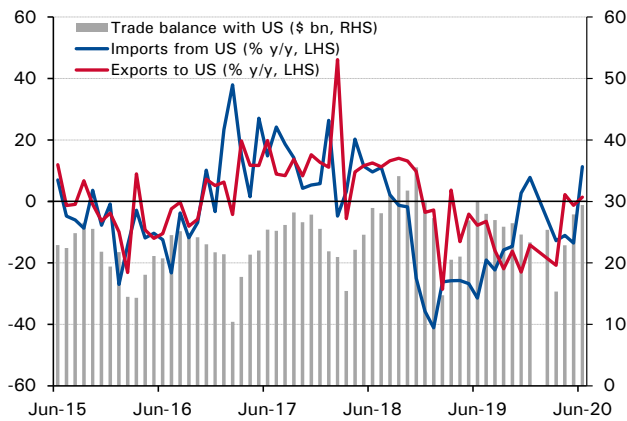
▶ **Chart 4: International trade**



Imports rose for the first time this year as demand for commodities picked up. Exports were propped up by higher demand for medical equipment and computers.

Source: Refinitiv

▶ **Chart 5: Trade with the US**

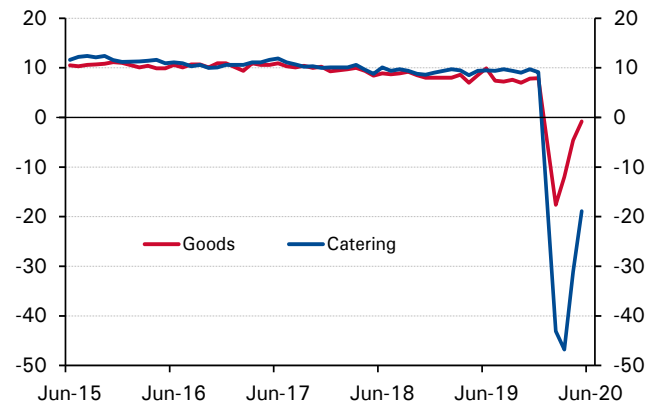


Imports from the US jumped in June, led by higher purchases of US agricultural goods as part of the trade deal. That said, China's trade surplus with the US still widened to a multi-month high.

Source: Refinitiv

▶ **Chart 6: Retail sales**

(% y/y)

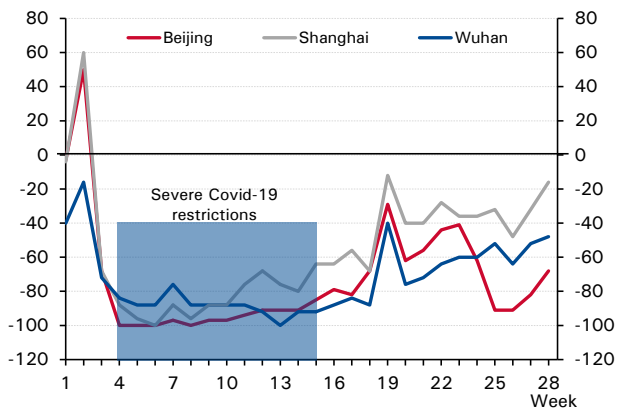


The recovery in catering (restaurants etc.) lags that of goods not least because it was (and continues to be) hardest hit by Covid-19-induced mobility and social restrictions.

Source: Refinitiv

▶ **Chart 7: Congestion level vs. 2019 average**

(TomTom Traffic Index)

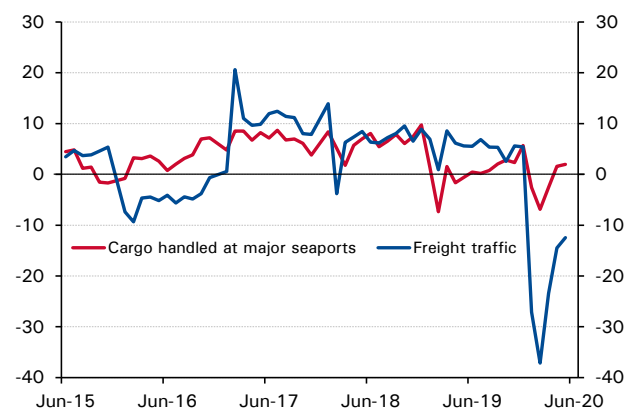


Traffic appears to be gradually recovering as virus-containment measures ease, but still remains well below average 2019 levels.

Source: TomTom; note: Using Saturday data to remove working day effects

▶ **Chart 8: Freight & seaport activity**

(% y/y)

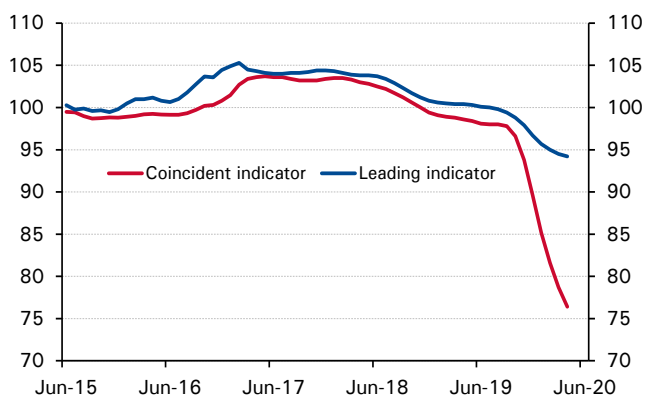


Both freight and seaport activity are on the rise, which will bode well for supply chains and production activity.

Source: Refinitiv

▶ **Chart 9: Macroeconomic climate**

(index, 100 = 2015)

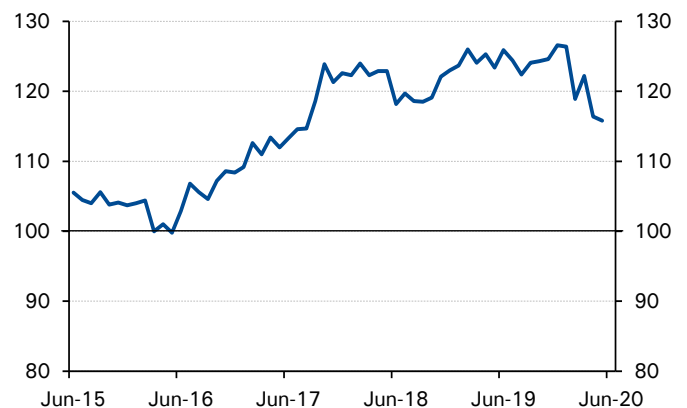


While current economic conditions continue to be challenging, the outlook on the economy appears to be approaching an inflection point.

Source: Refinitiv

▶ **Chart 10: Consumer confidence**

(index, 100 = demarcation line)

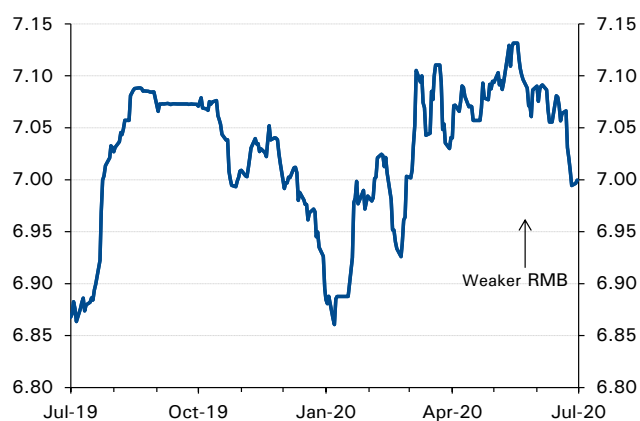


Consumer confidence remains weighed down by job insecurities and fears of a second wave of virus infections.

Source: Refinitiv

Chart 11: Exchange rate

(RMB/USD)

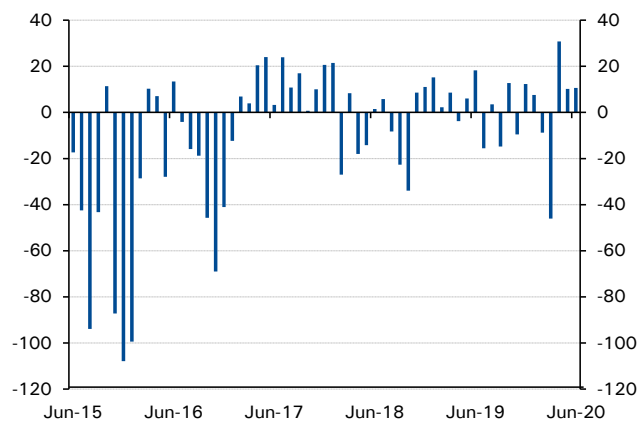


The yuan strengthened by 1.3% m/m vs. the US dollar as of mid-July, thanks to an improved economic outlook and some USD weakness.

Source: Refinitiv

Chart 12: Monthly FX reserve change

(USD bn)

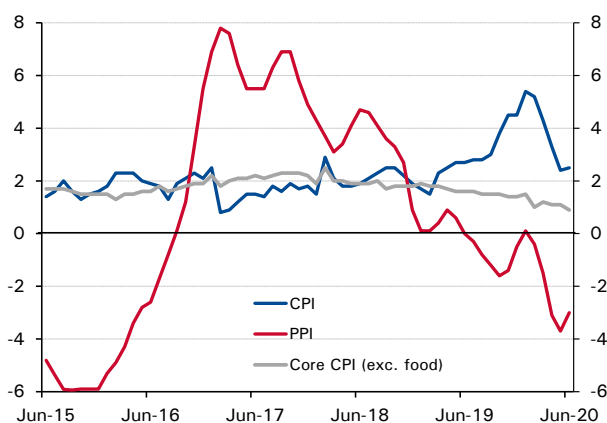


The central bank's FX reserves rose for a third straight month in June amid an increase in global asset prices and a softer US dollar.

Source: Refinitiv

Chart 13: Inflation

(% y/y)

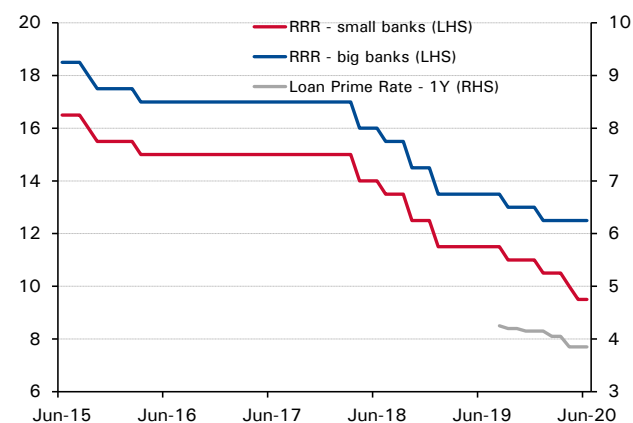


Core CPI continued to soften in June amid subdued domestic demand. Meanwhile, the PPI ticked up slightly for the first time since January.

Source: Refinitiv

Chart 14: Nominal interest rates

(%)

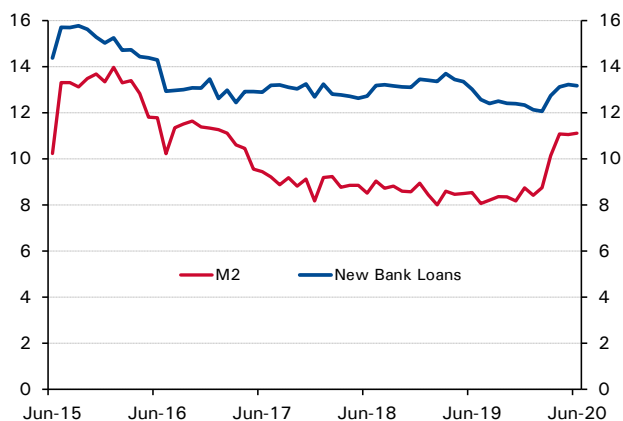


The PBoC holds off on further reductions in its prime rate for the time being. Another RRR cut however, is expected in the near-to-medium term to aid the economic recovery.

Source: Refinitiv

Chart 15: Broad money supply & credit lending

(% y/y)

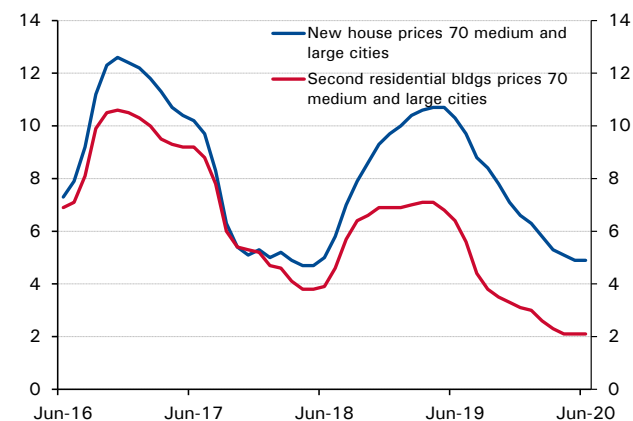


M2 growth holds at a three-year high of 11.1 % y/y, pointing to ample liquidity. Growth in lending activity also remained firm, supported by a gradual economic recovery.

Source: Refinitiv

Chart 16: House prices 70 medium & large cities

(% y/y)



The deceleration in house price increases appears to have plateaued in June amid improvements in property demand.

Source: Refinitiv

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