

China: Weak August data calls for more loosening

Economics/Growth/Monetary/Rates

DBS Group Research

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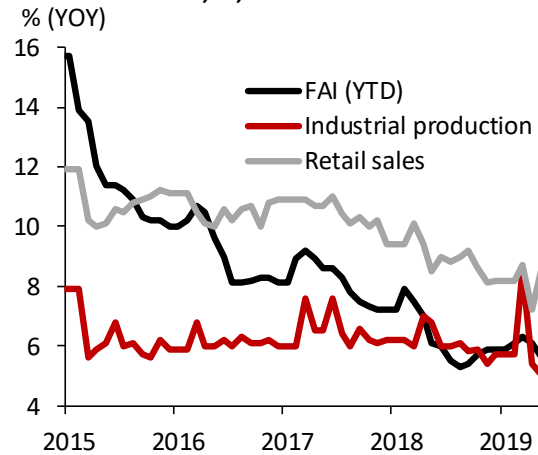


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- China's economy slowed further in August, with industrial production growing at the weakest pace in more than 17 years.
- We expect PBoC to lower RRR by another 50-100bps in Q4. The government will also speed up infrastructure spending.
- Property will unlikely be used as a short-term means of stimulating the economy given the still-elevated home prices.

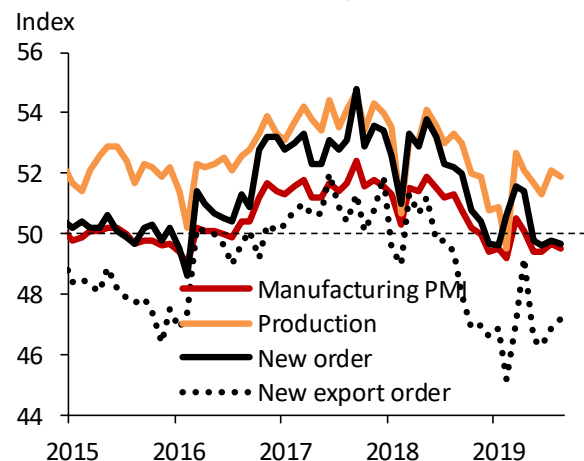
Domestic activity continued to deteriorate in August.

- Industrial production rose 4.4% YoY in August, the lowest since 2002 and slower than the 4.8% growth in July.
- Fixed asset investment rose 5.5% YTD, down from 5.7% previous month. Infrastructure investment accelerated but was not sufficient to offset the slowdown in private investment.
- Retail sales growth slowed to 7.5%, compared with 7.6% in July. Auto sales fell 8.1% after declining 2.6% previous month.

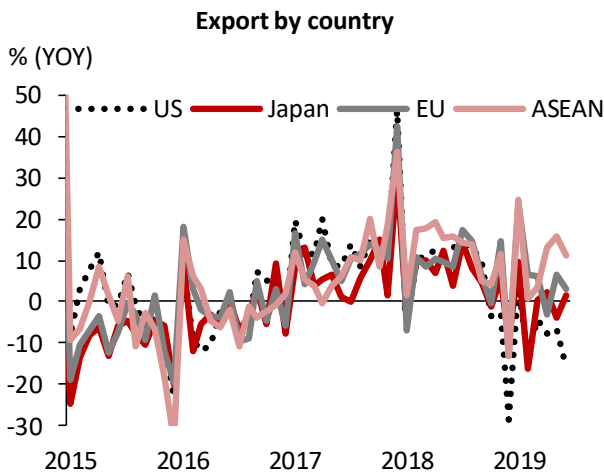
FAI, IP, and retail sales

Source: Bloomberg and DBS Group Research

The latest batch of data reinforces our view that growth will probably weaken more this quarter and increase the likelihood of further policy easing. Leading indicators showed mixed signals. Caixin manufacturing PMI increased to 50.4 in August from 49.9 previous month. But trends on the supply and demand side diverged, with rising output but falling new orders. Notably, new export orders slid deeper into contractionary territory.

Manufacturing PMI

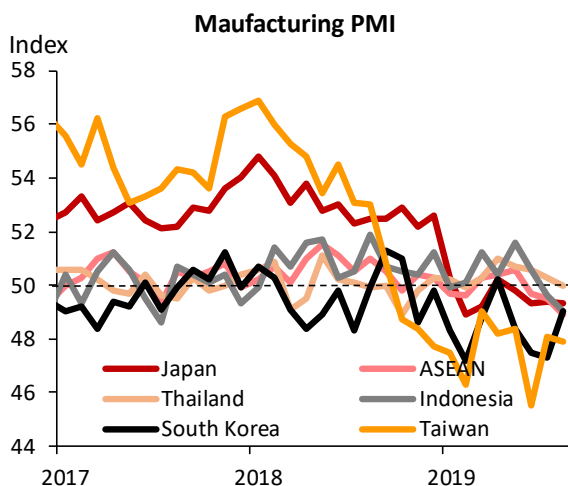
Source: CEIC and DBS Group Research



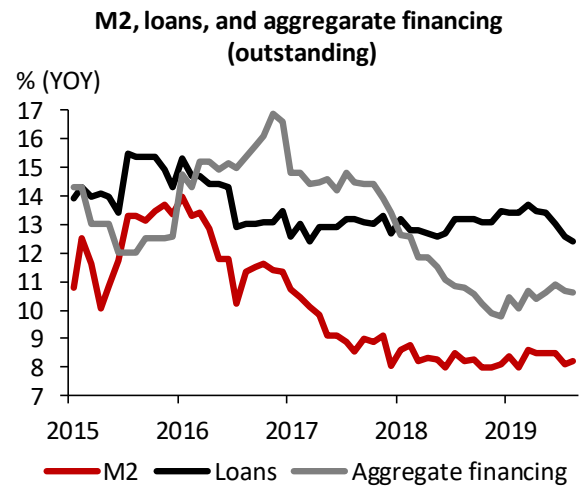
Source: CEIC and DBS Group Research

Recent signs of front-loading suggest that exports of goods such as toys could be weakened should the proposed tariffs be levied in December.

Washington and Beijing have agreed to resume trade talks in October. Yet it remains unclear whether the talks would produce a breakthrough and defuse tensions. Some China's exporters have directed shipments from the US to other regions. Exports to ASEAN recorded double-digit growth for a third straight month in August, while those to Japan and the EU also rose from a year earlier. Sustainability, however, is in question given the PMIs of all China's major trading partners are currently in contraction.

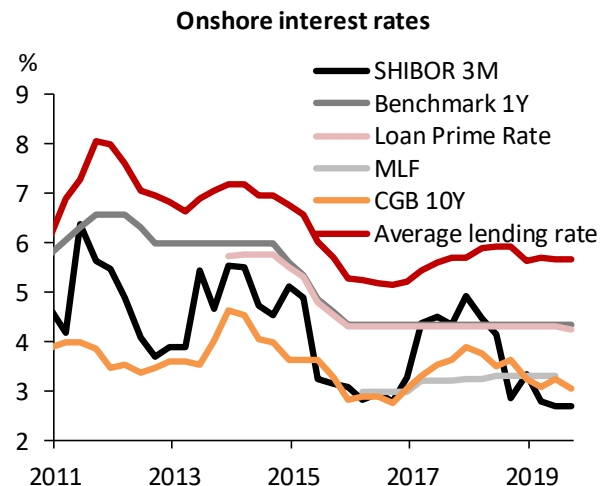


Source: Bloomberg and DBS Group Research



Source: CEIC and DBS Group Research

Demand for credit was lacklustre amid rising uncertainty. Growth in total social financing remained flat at 10.7% in August, while loan growth retreated by 0.2pp to 12.4%. The impact of targeted policy easing has so far been limited. Since early 2018, PBoC has injected more than RMB3.6tn in net liquidity through seven reserve cuts. However, financing costs for the real economy has failed to decline. The weighted average lending rates have remained broadly unchanged in the past three quarters (5.66% for Q2 2019; 5.69% for Q1 2019; 5.64% for Q4 2018). M2 stayed historically low, albeit edging up 0.1pp to 8.2% in August.



Source: CEIC and DBS Group Research

We expect Beijing to strive to put a floor under the economy. A rate above 6% in 2019 and 2020 would be needed to double 2010 GDP by next year. On the fiscal front, an increase in project approvals and special local government bond issuance in recent months should translate into more infrastructure spending ahead. As of August, local governments has used up more than 90% of their 2019 new debt quotas. Early assessment on how much debt needs to be issued next year is already in progress, three months ahead of the usual schedule. Part of the quota will be allocated in

advance to ensure funding availability at the beginning of 2020. The recent cut in banks' reserve requirement ratio should help to supply liquidity. **We expect PBoC to lower RRR by another 50-100bps in Q4** (see "China: More easing in the pipeline", September 9). Property, however, will unlikely be used as a short-term means of stimulating the economy given the still-elevated home prices.

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Sources: Data for all charts and tables are from CEIC, Bloomberg and DBS Group Research (forecasts and transformations).

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