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Strategist/Economist

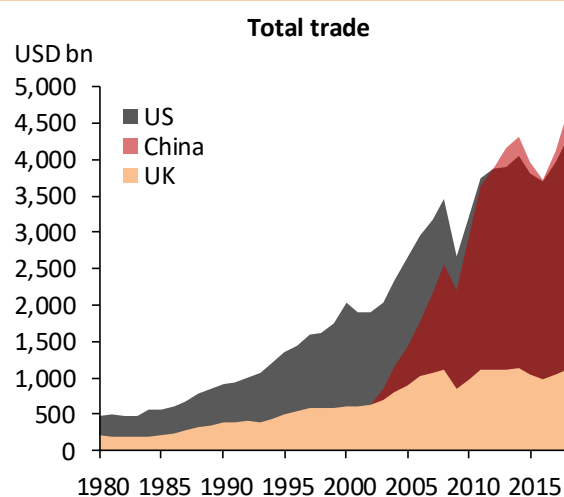


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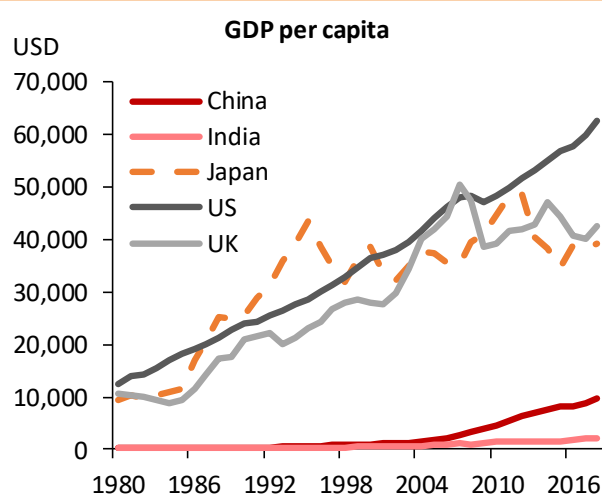
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Charts of the month

- The People's Republic of China (PRC) will mark its 70th anniversary on 1 October. Beijing has much to celebrate; since initiating market reforms in 1978, real GDP growth has averaged nearly 10% a year and more than 850mn people have been lifted out of poverty.
- China has been the largest single contributor to world growth since the global financial crisis of 2008 and surpassed Japan to become the world's 2nd largest economy in 2010. It became the biggest trading nation in 2013, overtaking the US in what Beijing described as "a landmark milestone" for the country.
- China remains a middle-income country; in 2018, its per capita GDP stood at USD9,777, one-fifth that of advanced economies. Rapid economic ascendance has also brought on many challenges, including a large increase in income inequality, high degree of leveraging, productivity slowdown, and unbalanced regional development.
- Still, aided by high savings rate, increased focus on innovation in science and technology, a burgeoning entrepreneurial culture, and greater attention to social welfare, China's chance of further gains seems substantial.



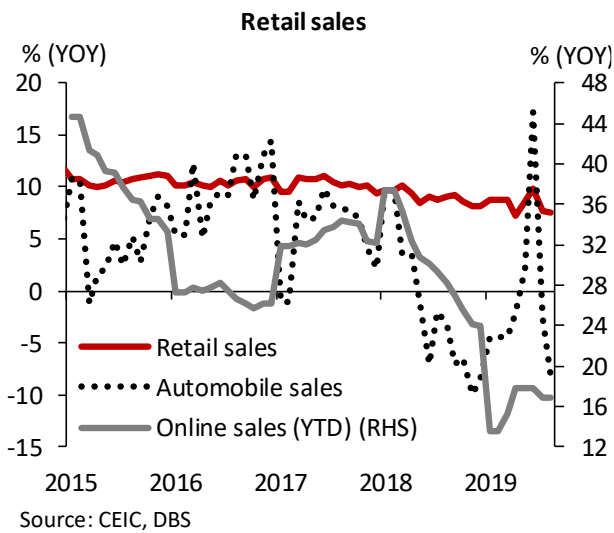
Source: CEIC, DBS



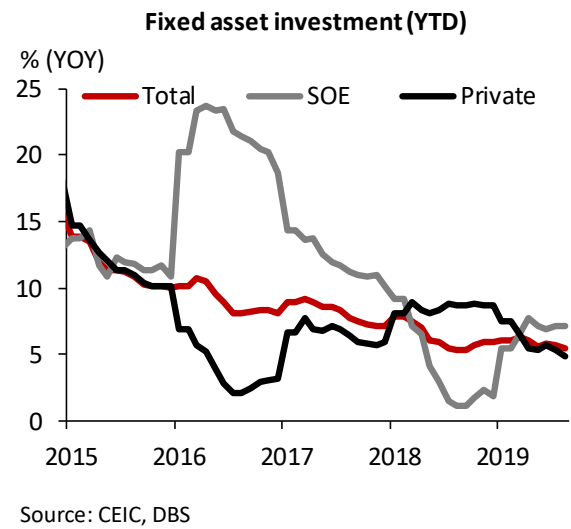
Source: IMF, DBS

Sales, investment, property, profits

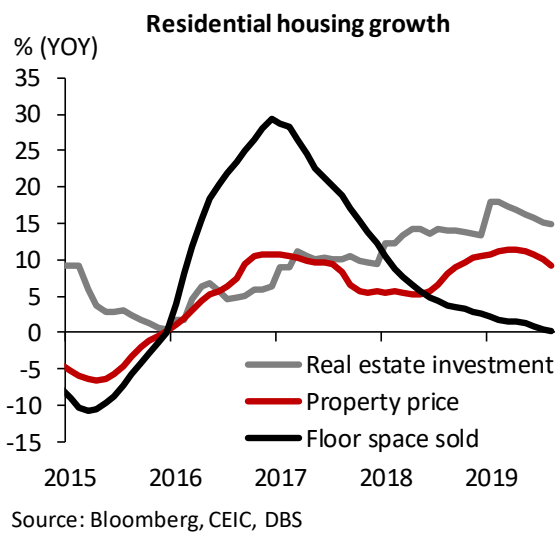
Advance in retail sales slowed to 7.5% in August from 7.5% in July; auto sales fell further from -2.6% to -8.1%.



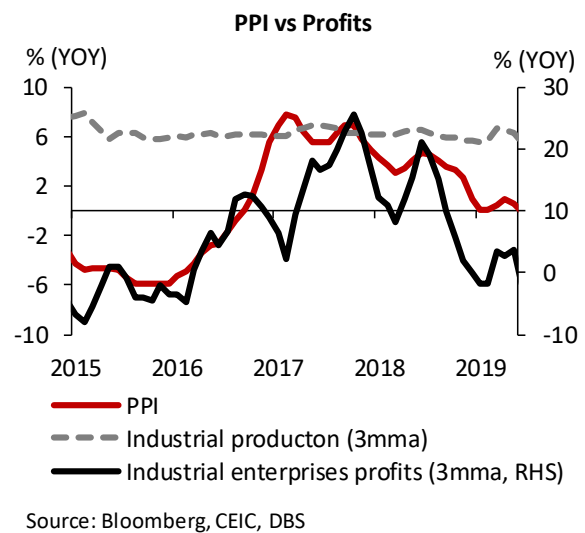
Investment was driven by SOEs; private investment remained weak amid external uncertainties.



Property price started to cool off, with floor space sales only grew mildly by 0.2% YoY.



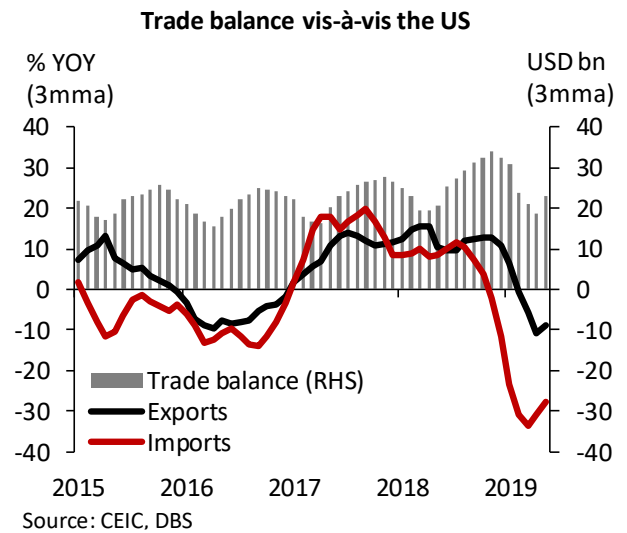
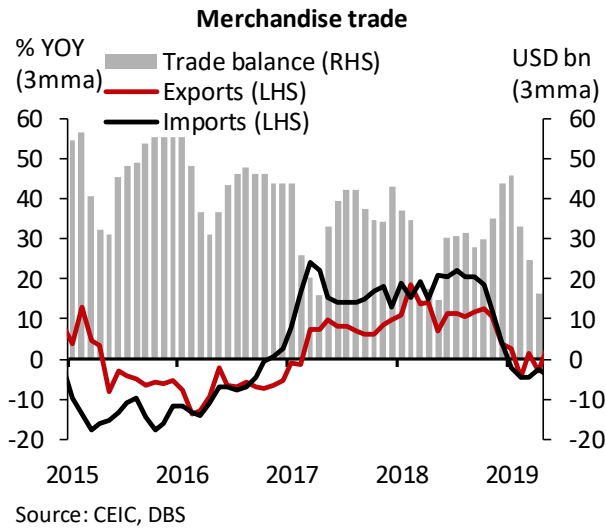
Industrial earnings growth fell by 2.0% in August alongside a weak producer inflation.



External sector

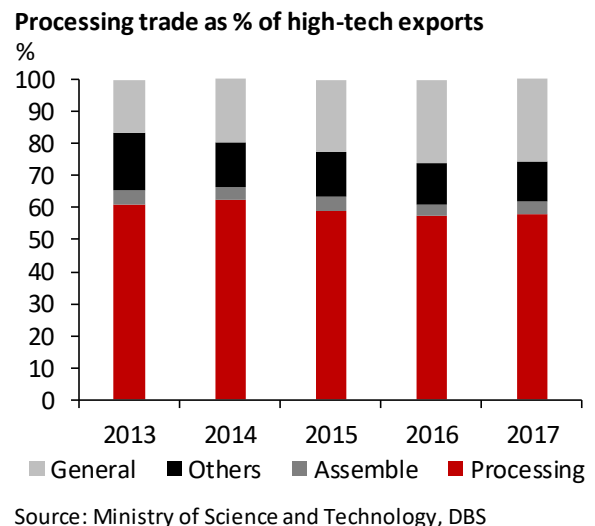
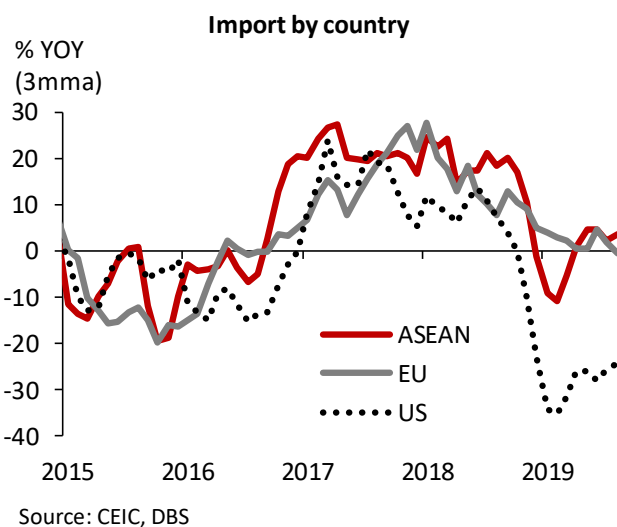
Exports dropped 1.0% YoY in August from growth of 3.3% in July due to moderating global demand and lingering trade conflicts with the US.

Trade surplus with the US remained high amid a significant drop of inward shipment from the US.



Imports from the EU moderated; that from the US continued to record high double-digit drop.

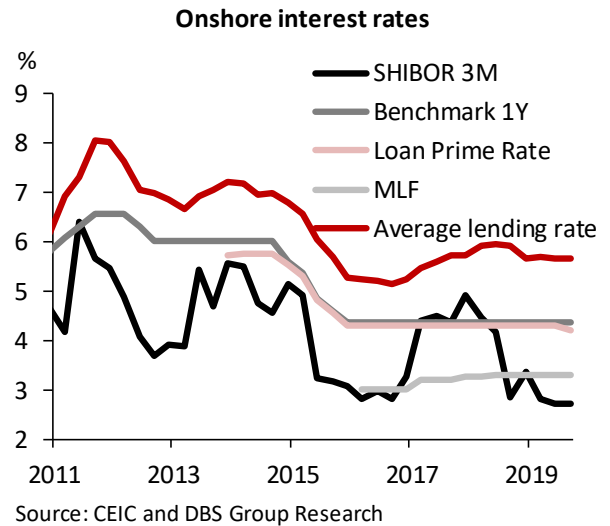
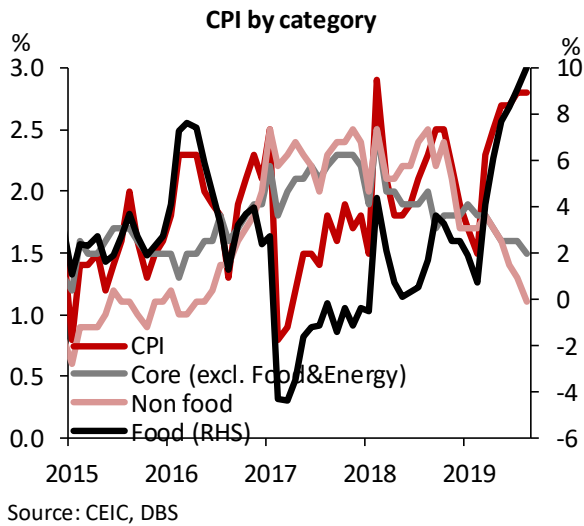
Share of processing trade continued to drop; yet it remained as the major high-tech export component.



Monetary

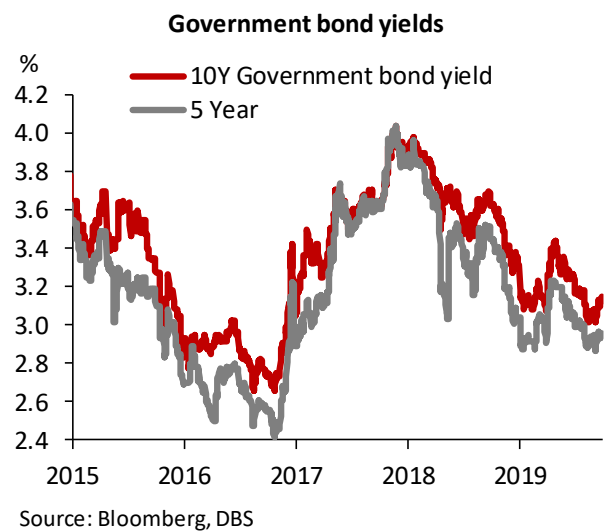
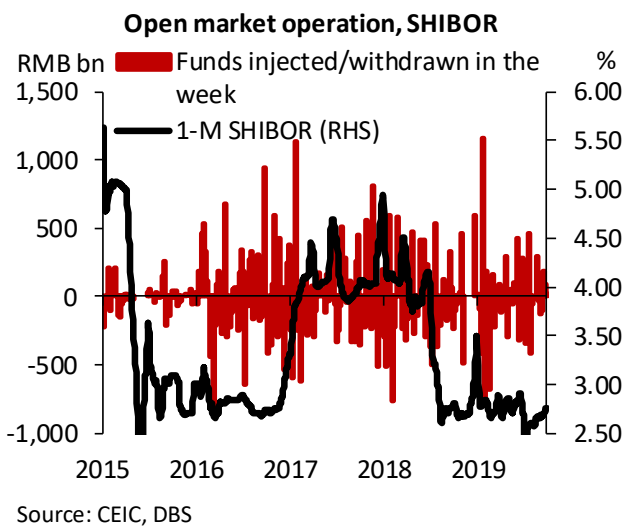
Headline CPI stayed elevated at 2.8% in August, the fastest pace since November 2013. Food price inflation accelerated due to widespread of pork disease.

Funding cost retreated due to liquidity injections and the revamped Loan Prime Rate.



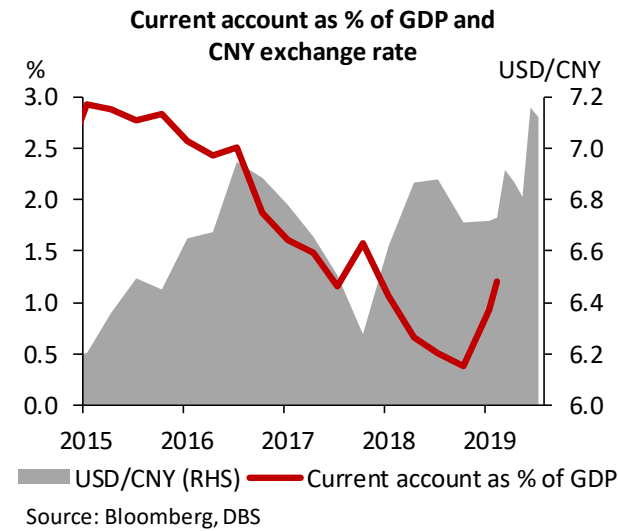
PBoC increased liquidity injection through open market operation from RMB90bn to RMB200bn.

PBOC's accommodative stance will add downward pressure to the borrowing cost.

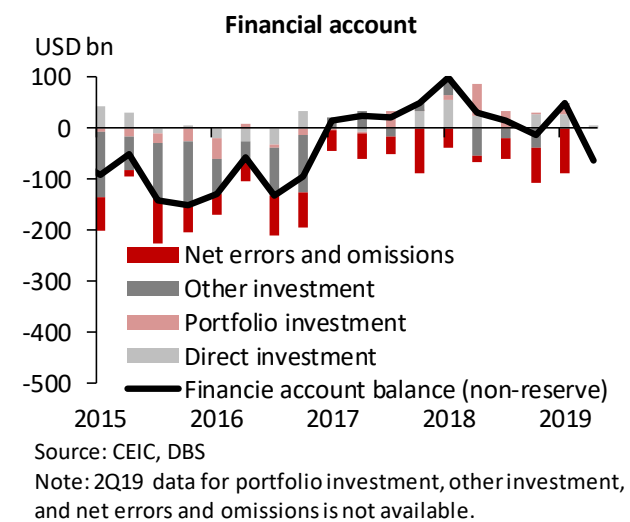


Capital flows

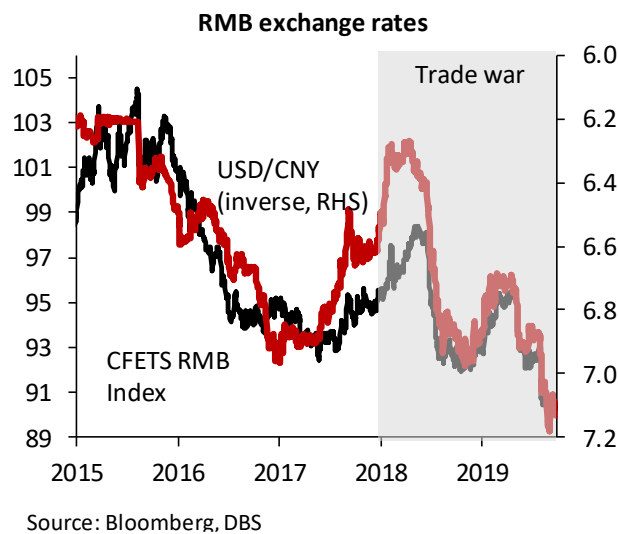
Current account surplus continued to grow in 2Q19 due to weakening import demand.



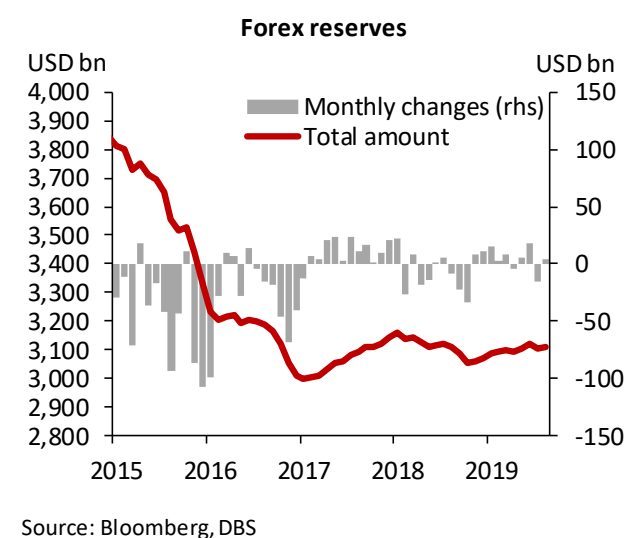
Financial account turned negative in 2Q19, with a deficit of USD64.6bn.



CNY depreciated against the USD as more monetary loosening is expected.

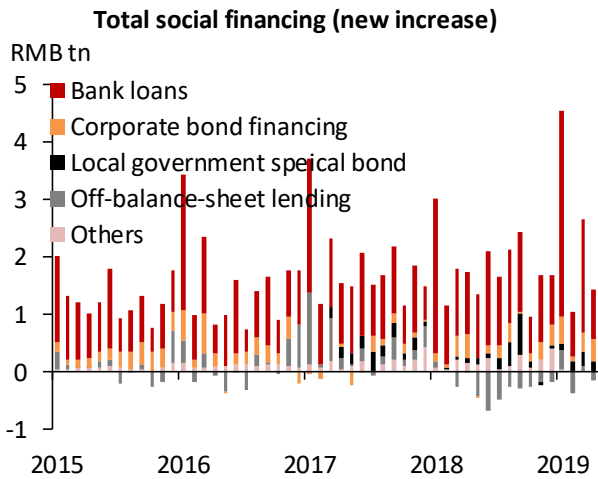


Forex reserves recorded mild month-to-month increase and stayed above USD3trn.



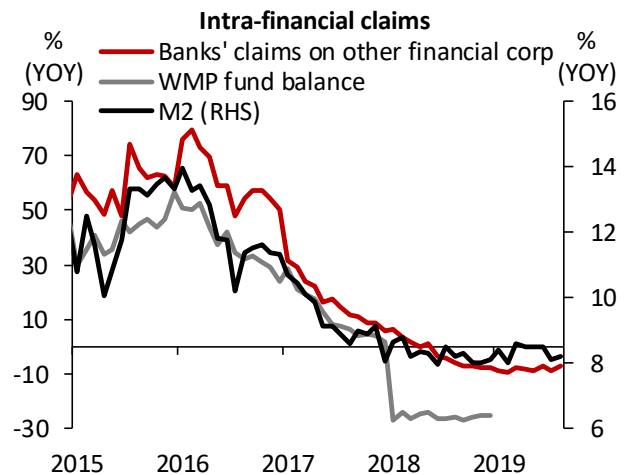
Deleveraging

New increase in shadow lending stayed in negative zone for 5 months, indicating the lending continued to shift back onto the book.



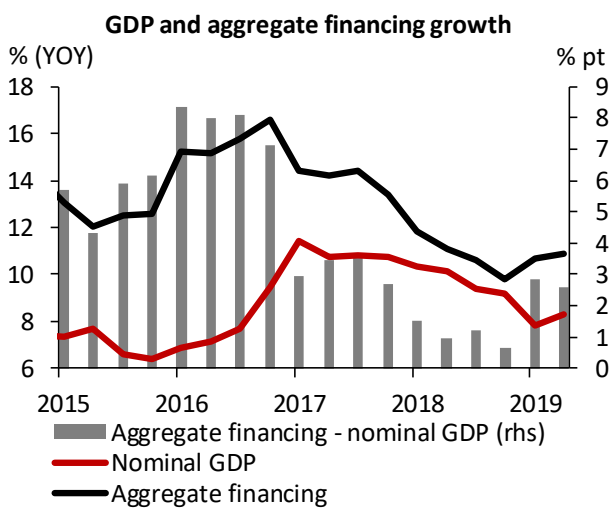
Source: CEIC, DBS

Intra-financial claims registered negative growth since June 2018.



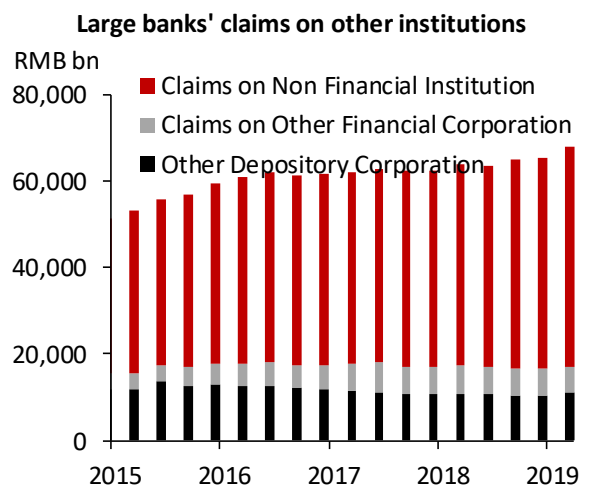
Source: CEIC, DBS

The gap between aggregate financing and nominal GDP growth fell to 2.6 %pts in 2Q19 from 2.9 %pts in 1Q19.



Source: CEIC, DBS

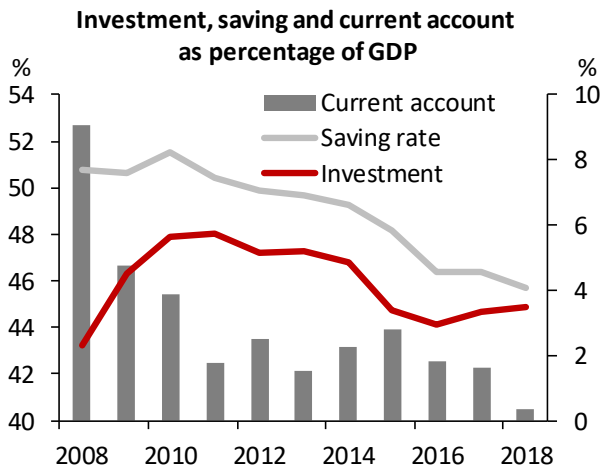
The existing large stock of intra-financial sector credit is a persistent risk to financial stability.



Source: CEIC, DBS

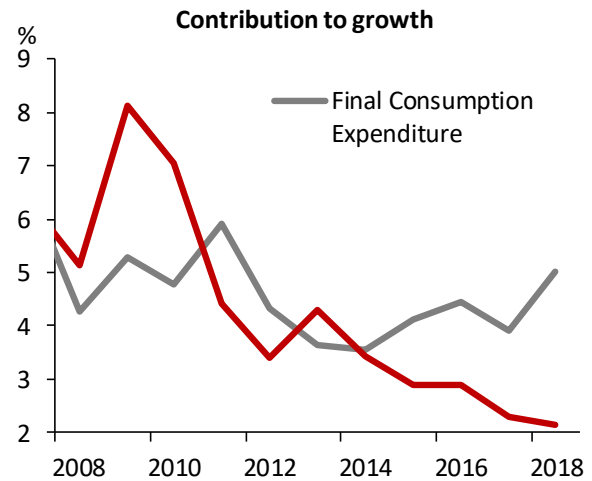
Rebalancing

External rebalancing advanced with national savings falling faster than investment.



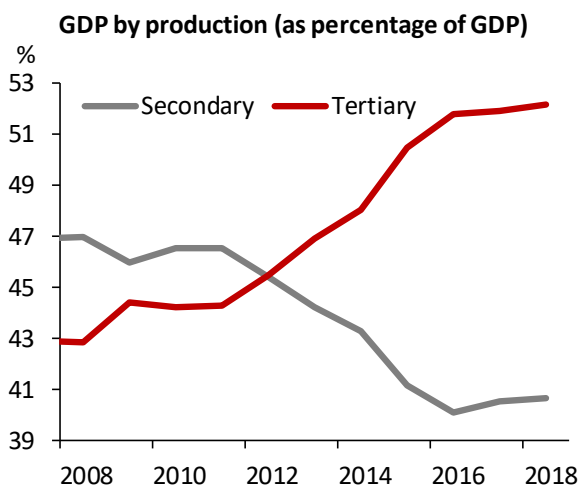
Source: Bloomberg, CEIC, DBS

Domestic rebalancing continued with ongoing strength in consumption.



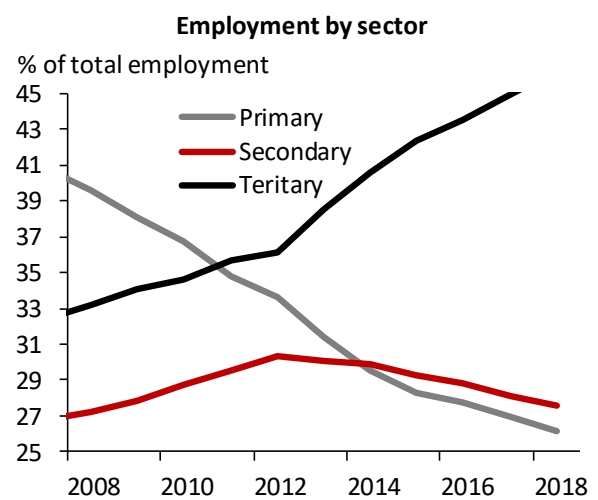
Source: CEIC, DBS

On the supply side, the share of services in GDP continued to rise...



Source: CEIC, DBS

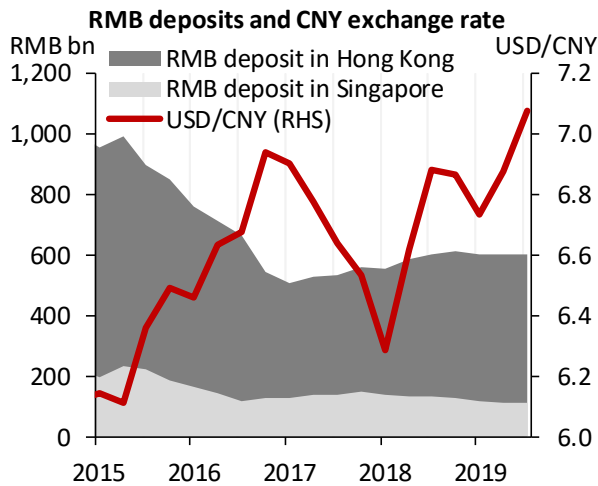
... with labour relocation from agriculture and industry to service.



Source: CEIC, DBS

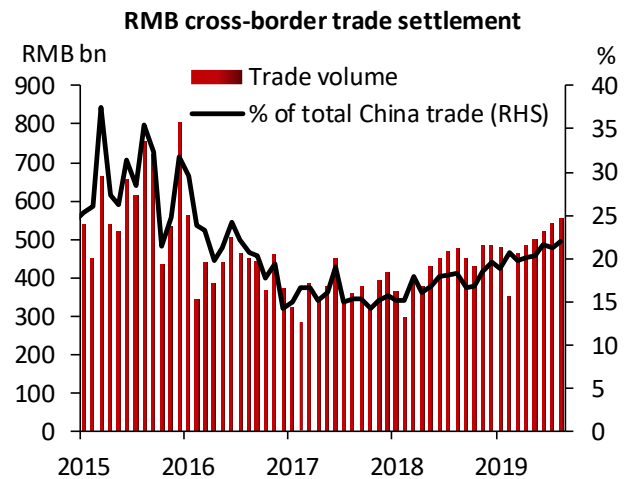
RMB internationalization

Offshore RMB deposits have fallen 40% from their 2014 peak.



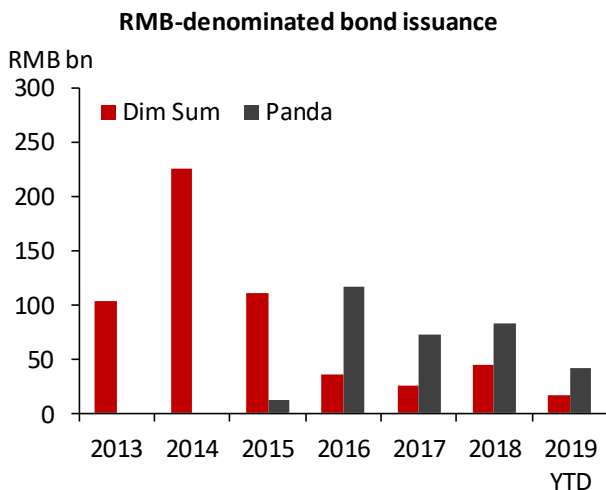
Source: CEIC, DBS

RMB cross-border transactions have rebounded somewhat.



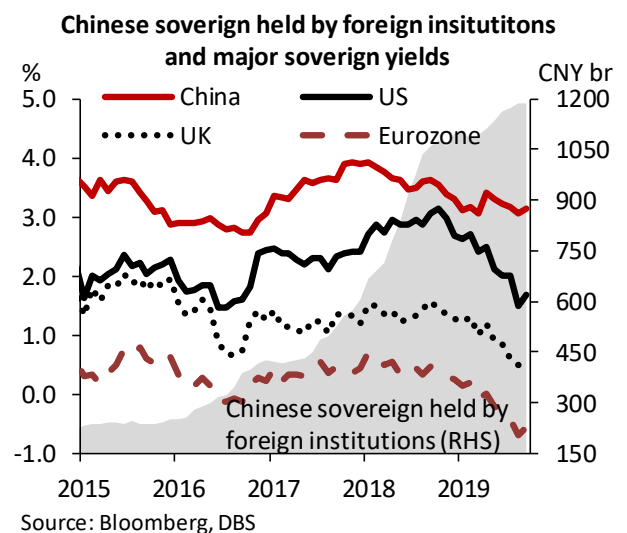
Source: CEIC, DBS

Both Dim Sum bond and Panda bond markets shrank due to a weakening borrowing sentiment.



Source: Global Capital, DBS

Foreign investors have increased their holdings of Chinese sovereign bonds.



Source: Bloomberg, DBS

Forecasts on major indicators:

	GDP				CPI inflation			
	2017	2018	2019f	2020f	2017	2018	2019f	2020f
Growth rate (% YoY)	6.9	6.6	6.2	6.0	1.6	2.1	2.3	2.3

Exchange rate and interest rates forecasts									
		Q1 19	Q2 19	Q3 19	Q4 19	Q1 20	Q2 20	Q3 20	Q4 20
USD/CNY	eop	6.71	6.87	7.10	7.20	7.15	7.10	7.05	7.00
Benchmark lending rate	1Y (%)	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
Government bond yields	3Y (%)	2.91	2.92	2.80	2.70	2.70	2.70	2.70	2.70
	10Y (%)	3.36	3.24	3.00	2.80	2.80	2.90	3.00	3.00
	10Y-3Y (bps)	45	32	20	10	10	20	30	30

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

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