

China Quarterly - Q2/2024

The crisis persists.

Economics
July 2024
Dr. Tariq Chaudhry

Executive Summary (1/2)

- In March 2024, the National People's Congress, the legislative body of the People's Republic of China, once again set the target of 5% economic growth for the current year. Despite moderate fiscal and so far ineffective monetary stimuli, this target is likely to be narrowly missed. We forecast an annual growth rate of 4.9% for 2024 and growth of 1.0% for the second quarter compared to the previous quarter (Q1: +1.6% QoQ). Our forecast for the annual growth rate has been revised upwards due to the surprisingly high growth in the first half of the year. This growth is not based on strong demand for Chinese export goods, but on lower imports. Growth momentum therefore remains weak. Even 18 months after the end of the zero covid policy, domestic consumption is not recovering. Due to a lack of consumer confidence, households continue to save a significant portion of their disposable income, meaning that consumption of goods has not yet reached the pre-pandemic level. This is also reflected in the inflation data, which remains well below the 3% target set by the People's Bank of China (PBoC). China is facing structural challenges, including an unfavorable demographic trend, massive problems in the construction industry and a complex geopolitical environment ("de-risking"). We expect the long-term downward trend in economic growth to continue in 2025 and GDP to grow by only 3.7% without major fiscal measures.
- The manufacturing industry in China continues to shrink, as shown by the Purchasing Managers' Index (NBS PMI) in June with a value of 49.5 - just below the expansion threshold of 50. Industry was unable to maintain the momentum from the start of the year into the second quarter. Beijing's long-standing efforts under the slogan "New Productive Forces" to expand the share of higher-value industrial production still do not seem to be working, although the share of these product categories in exports is increasing. The service sector continues to grow, but the pace has slowed compared to the previous quarter; the corresponding NBS PMI remained only slightly above 50 in the second quarter of 2024. The real estate sector continues to go through a painful consolidation phase. Prices are falling across the board and construction starts are being delayed. Beijing is apparently prioritizing individual real estate projects by struggling construction companies so as not to scare off private buyers. However, efforts to halt the general downward trend through government property purchases and improved refinancing conditions have been unsuccessful so far.

Executive Summary (2/2)

- Tensions between China and the EU have escalated further in the trade conflict - and the EU Commission's punitive tariffs on Chinese electric vehicles have added fuel to the fire. This latest measure greatly angered Beijing, which is now considering retaliatory measures, including possible punitive tariffs on European pork. China has to walk a tightrope here, as the EU remains important for Chinese exports as the second largest market (behind the ASEAN states), especially as the USA, China's third largest trading partner, is no longer an alternative sales market due to strict trade restrictions on electric vehicles. The PBoC is showing restraint in its monetary policy. After minimal interest rate cuts in the first quarter, it is shying away from further measures, partly due to the lack of interest rate cuts in the US to date. The PBoC is concerned that a greater interest rate differential to US government bonds could trigger increased capital flight and thus cause a further weakening of the yuan. However, both the construction sector and the retail trade urgently need monetary stimulus to strengthen domestic demand.
- China's foreign trade returned to growth in the first half of 2024, although the pace of export growth slowed significantly compared to previous periods. The improved foreign trade contribution was partly influenced by lower imports of Chinese companies, which indicates weaker domestic demand. Of particular note is the strong year-on-year increase in exports of cargo ships from January to May, almost doubling, as well as the 20% growth in car exports and integrated circuits. The year 2023 was characterized by stagnating trade growth due to declining demand in key export markets such as the EU and the US. Concerns about a trade war between the EU and China continue to weigh on bilateral relations, although an escalation would harm both sides. In view of the strong interdependence, it remains a challenge to prevent the situation from escalating further. China's current tensions with the US and the EU could slow down the momentum of exports in the coming quarters.

Contents (1/2)

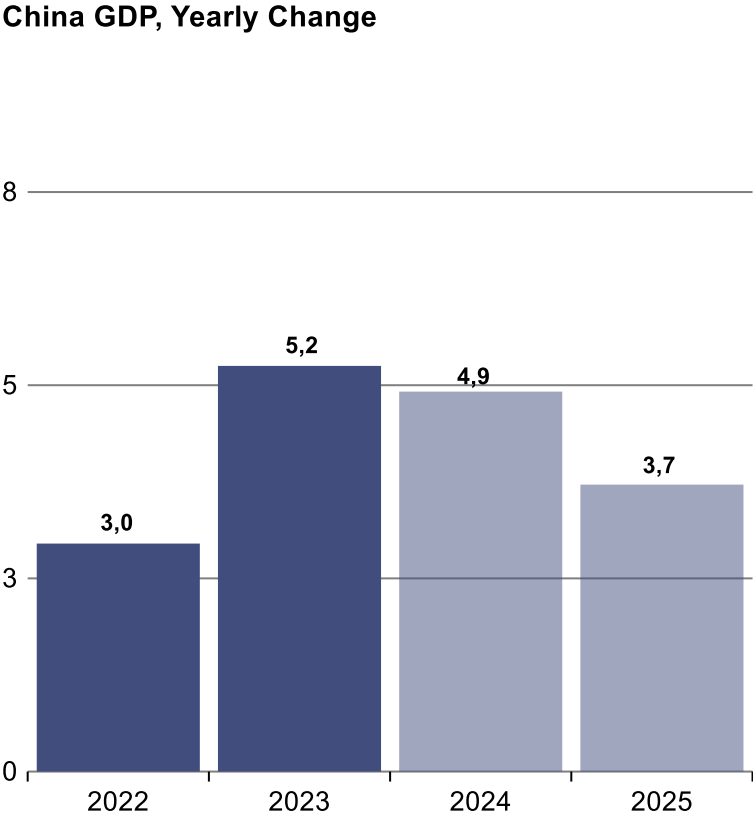
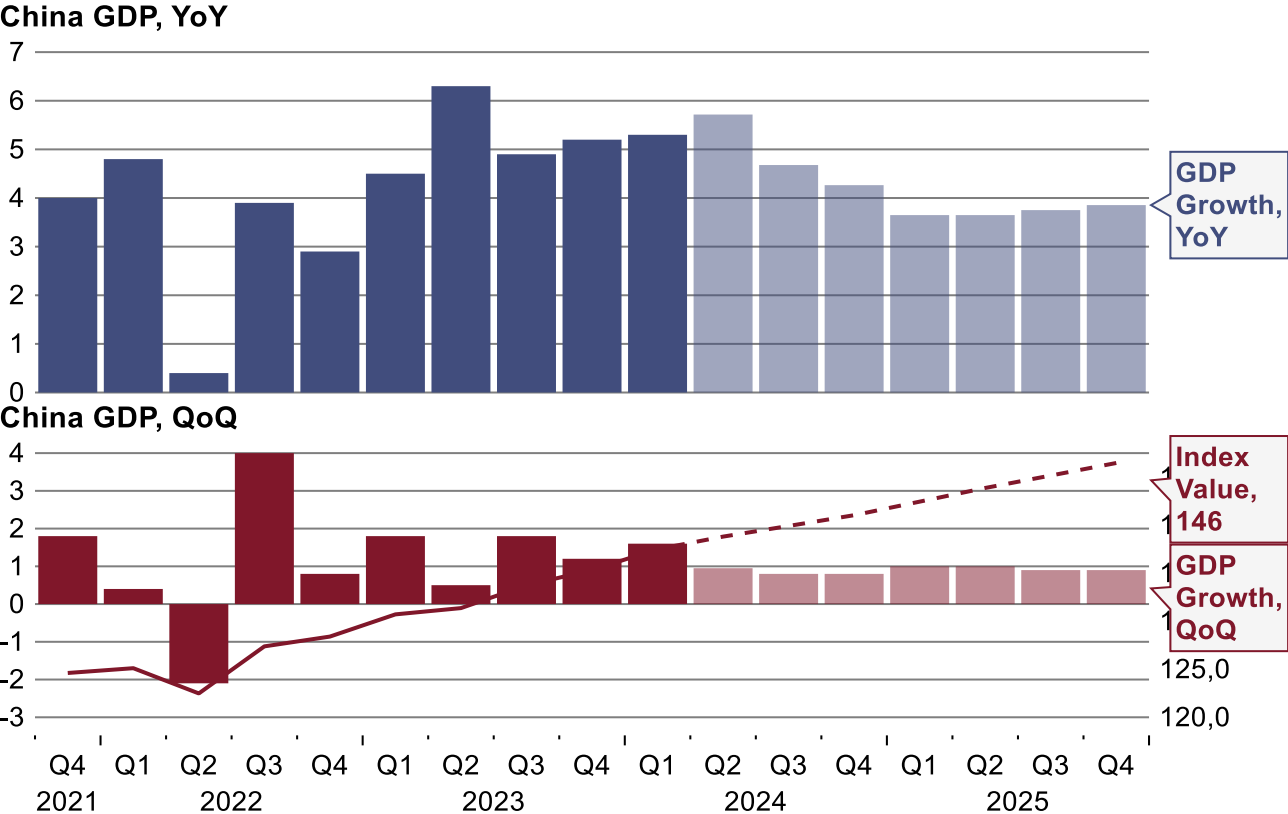
- **GDP:** China is expected to close the second quarter at 1.0% QoQ, with the industrial sector in particular slowing down. We expect a year-on-year growth of 4.9% for 2024 and only 3.7% for 2025 due to increasing structural problems.
- **Industrial Production:** Industrial production grew by 2.4% QoQ in the first quarter of 2024. Current indicators point to a slowdown in growth in Q2. Trade tensions with the West are likely to pose an increasing challenge to Chinese production.
- **Services:** In Q1 2024, services production grew by 1% QoQ. Further moderate growth of +1.0% QoQ is expected in Q2 2024. The PMIs (NBS) indicate emerging weaknesses in the services sector.
- **Consumption:** Retail sales rose by 0.6% QoQ in Q1 2024. In the second quarter of 2024, the increase is also likely to be 0.6 %. This shows that consumer confidence remains at a historic low despite the lifting of the zero Covid strategy.
- **Investments:** Growth in Q1 2024 was 6.4% QoQ and investment growth was significantly slower at 0.4% QoQ in Q2. The weakness in construction continues to weigh primarily on investments.
- **Foreign Trade:** We expect the trade balance to increase by USD 11.1 billion in Q2 2024. Increased foreign demand for motor vehicles and integrated circuits is driving the current trade momentum.

Contents (2/2)

- **Lending:** Despite significant interest rate cuts by the PBoC, lending remains weak as demand for real estate, investment and consumer goods is low. This situation is similar to a typical liquidity trap.
- **Construction:** Following a sharp decline in Q1 2024 (-9.9% QoQ), the number of construction starts is expected to fall again in Q2 2024 (-1.0% QoQ). The crisis among construction developers is leading to delays in already planned real estate projects.
- **Construction:** Despite government aid packages, the real estate crisis does not appear to have been overcome: After a drastic slump in prices in Q1 2024 (-9.5% QoQ), we expect little improvement in Q2 2024 and virtual stagnation at +0.4% QoQ.
- **Foreign Exchange Reserves:** Foreign exchange reserves weakened significantly in Q2 2024, with weaker foreign investment in China and weakening exports in particular causing foreign exchange reserves to grow less significantly than in the previous quarter.
- **Inflation:** Weak Chinese consumption requires urgent action from Beijing. Nevertheless, the government continues to focus on investment, which could exacerbate the problem and further fuel inflation.
- **FX Market:** The Chinese central bank (PBoC) has halted the renminbi's downward trend for the time being. By fixing the CNY/USD exchange rate, Beijing has ended the strong devaluation and is now only allowing it to continue cautiously and gradually.
- **Monetary Policy:** The PBoC left refinancing conditions unchanged in the second quarter after intervening significantly in Q1 2024. As long as the US central bank does not cut interest rates, the PBoC is likely to continue to wait and see.

GDP - Beijing's 2024 growth target is likely to be achieved.

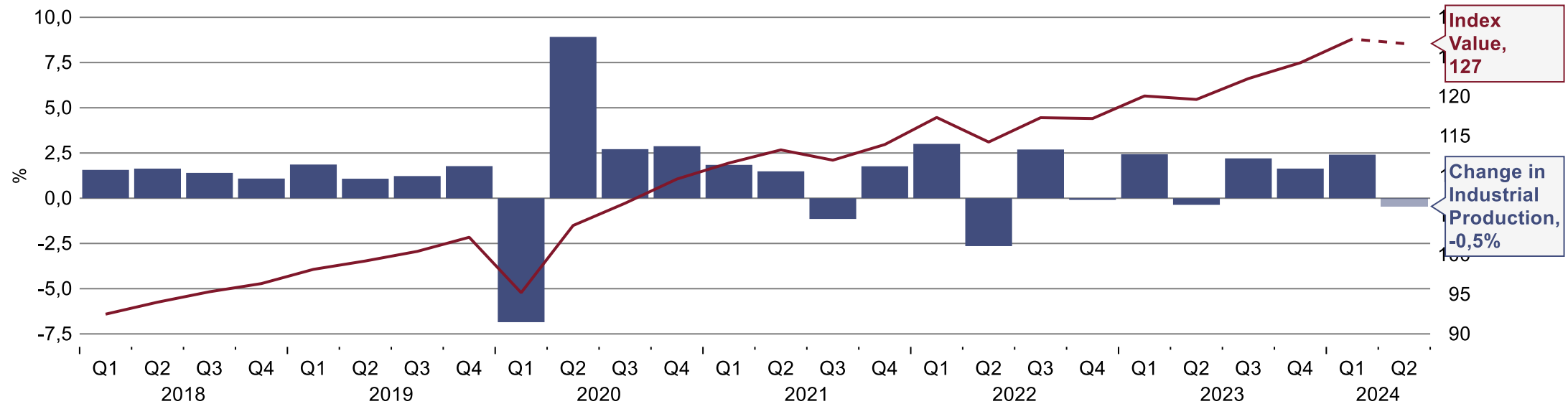
China is expected to close the second quarter with 1.0% QoQ, with industry in particular slowing down. We expect year-on-year growth of 4.9% for 2024 and only 3.7% for 2025 due to increasing structural problems.



Industrial Production - production facing increasing challenges.

Industrial production grew by 2.4% QoQ in the first quarter of 2024. Current indicators point to a slowdown in growth in Q2. Trade tensions with the West are likely to pose an increasing challenge to Chinese production.

China, Industrial Production, QoQ and Index, Own Calculations



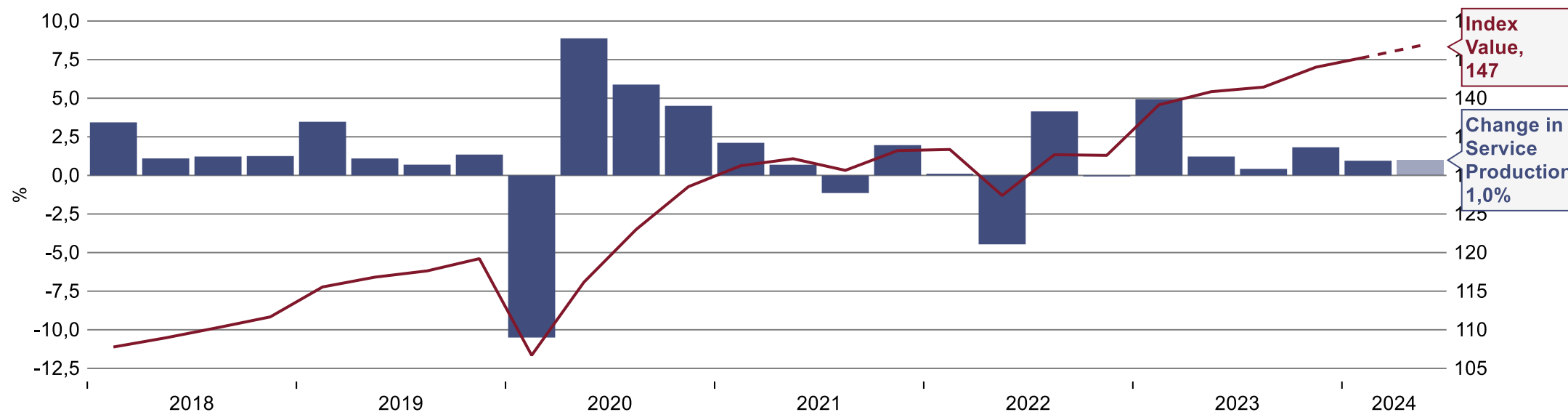
Source: Macrobond, HCOB Economics, China National Bureau of Statistics (NBS), Note: Index 2019 = 100

China monthly data	5-2024	4-2024	3-2024	2-2024	1-2024	12-2023	11-2023
Industrial Production, YoY	5,6	6,7	4,5	7,0	6,8	6,8	6,6
Industrial Production, MoM (own calculation)	0,6	-0,1	-2,7	3,5	0,5	0,4	0,7

Services - Service sector continues to grow.

In Q1 2024, service production grew by 1% QoQ. Further moderate growth of +1.0% QoQ is expected in Q2 2024. The PMIs (NBS) indicate emerging weaknesses in the services sector.

China, Services, QoQ and Index, Own Calculations



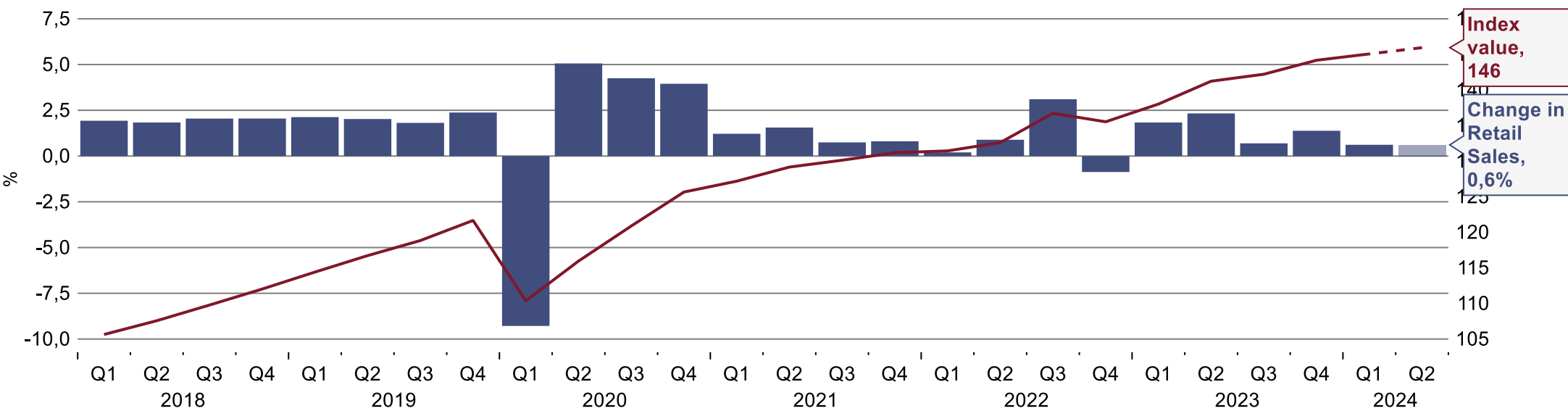
Source: Macrobond, HCOB Economics, China National Bureau of Statistics (NBS)

China monthly data	5-2024	4-2024	3-2024	2-2024	1-2024	12-2023	11-2023
Services Production, YoY	4,8	3,5	5,0	5,8	8,5	8,5	9,3
Services Production, MoM (own calculation)	1,9	-0,9	0,8	0,3	0,4	0,0	0,4

Consumption - Retail sales still unable to recover.

Retail sales rose by 0.6% QoQ in Q1 2024. In the second quarter of 2024, the increase is also likely to be 0.6 %. This shows that consumer confidence remains at a historic low despite the lifting of the zero Covid strategy.

China, Retail Sales, QoQ and Index Value, Own Calculations



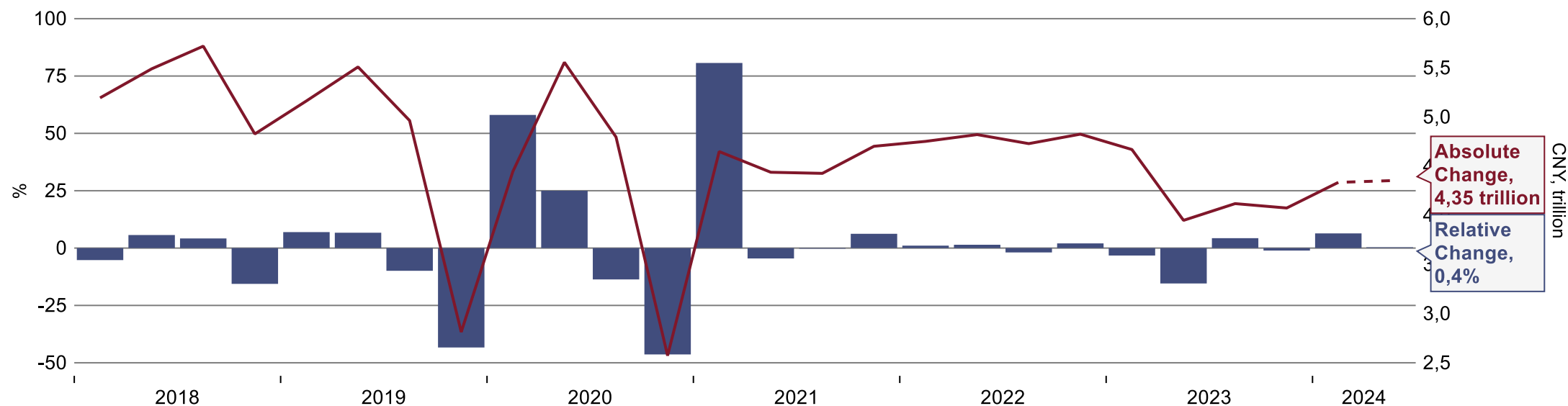
Source: Macrobond, HCOB Economics, China National Bureau of Statistics (NBS)

China monthly data	5-2024	4-2024	3-2024	2-2024	1-2024	12-2023	11-2023
Retail Sales, YoY	3,6	3,2	4,2	4,9	6,3	6,9	6,3
Retail Sales, MoM	0,5	0,1	0,4	0,1	0,1	0,4	0,1

Investments - growth is weakening.

Growth in Q1 2024 was 6.4% QoQ and investment growth was significantly slower at 0.4% QoQ in Q2. The weakness in construction continues to weigh primarily on investments.

China, Fixed Urban Investment, QoQ: Absolute and Relative, CNY, Own Calculations



Source: Macrobond, HCOB Economics, China National Bureau of Statistics (NBS)

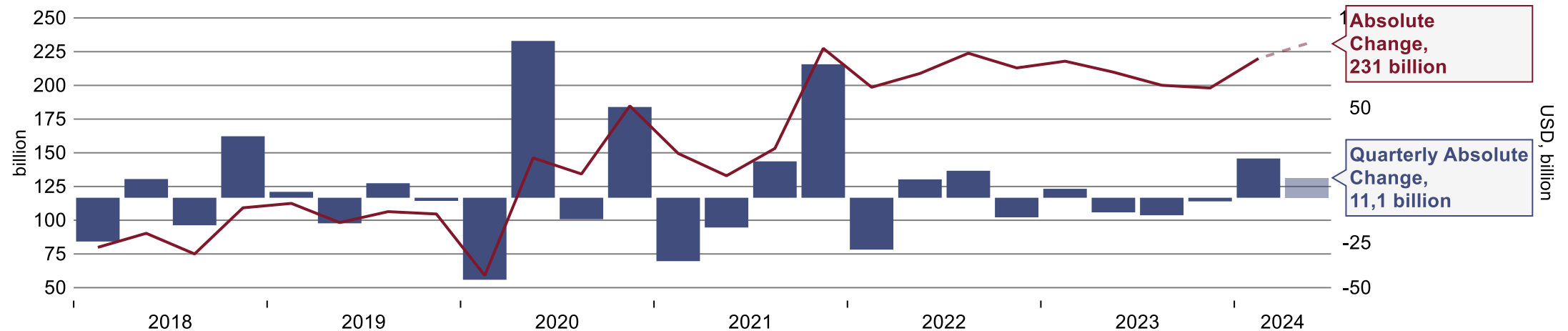
China monthly data	5-2024	4-2024	3-2024	2-2024	1-2024	12-2023	11-2023
Fixed Asset Investment, YoY	10,8	8,8	-9,6	-5,9	-5,9	-18,5	-14,9
Fixed Asset Investment, MoM	-0,7	1,6	-0,4	-1,3	9,6	-2,0	-1,7

Note: China does not publish YoY and MoM data of fixed capital investment, but only ytd data. Therefore, outliers are possible due to inconsistencies of the original data taken as base for own calculations.

Foreign Trade - foreign demand is slowly gaining momentum.

We expect the trade balance to increase by USD 11.1 billion in Q2 2024. Increased foreign demand for motor vehicles and integrated circuits is driving the current trade momentum.

China, Exports - Imports, QoQ: Trade Balance and Absolute Change, USD



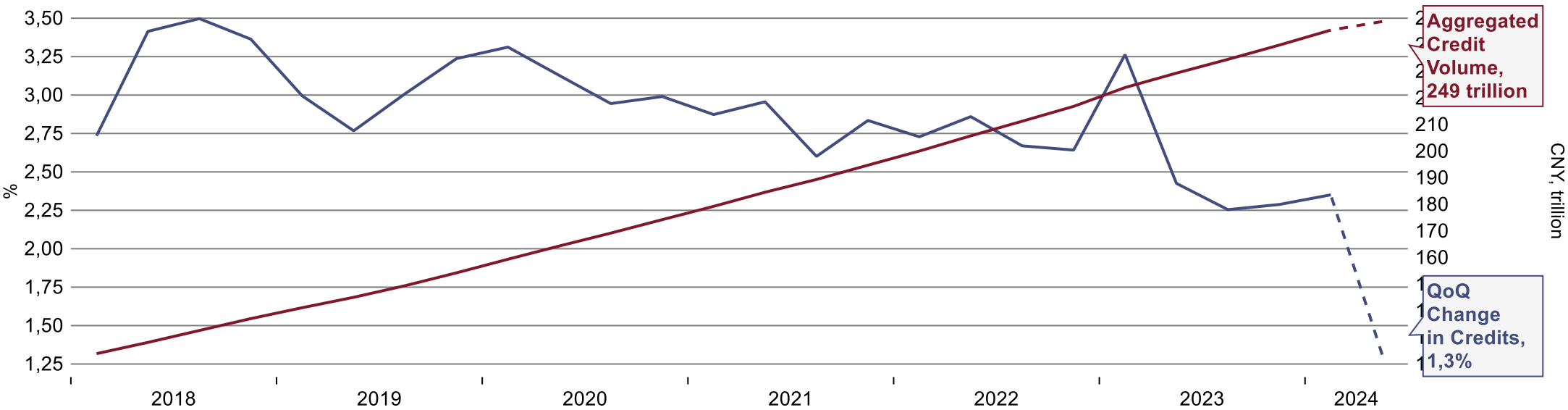
Source: Macrobond, HCOB Economics, China Customs Statistics Information Center (CCS)

China monthly data	5-2024	4-2024	3-2024	2-2024	1-2024	12-2023	11-2023
Exports, MoM	1,3	-1,8	2,7	-0,9	3,8	1,6	2,3
Imports, MoM	-0,9	-0,3	2,9	-2,3	-0,8	2,5	-2,1
Exports, YoY	7,3	-1,1	-6,6	1,0	6,7	4,3	1,7
Imports, YoY	2,2	2,9	2,6	-11,9	13,3	1,8	0,0
Trade Balance, in billion USD	83,5	62,2	61,7	73,3	71,5	67,3	68,9

Loans - banks reluctant to lend.

Despite significant interest rate cuts by the PBoC, lending remains weak as demand for real estate, investment and consumer goods is low. This situation is similar to a typical liquidity trap.

China, Credit Volume, QoQ: Aggregated and Relative, CNY



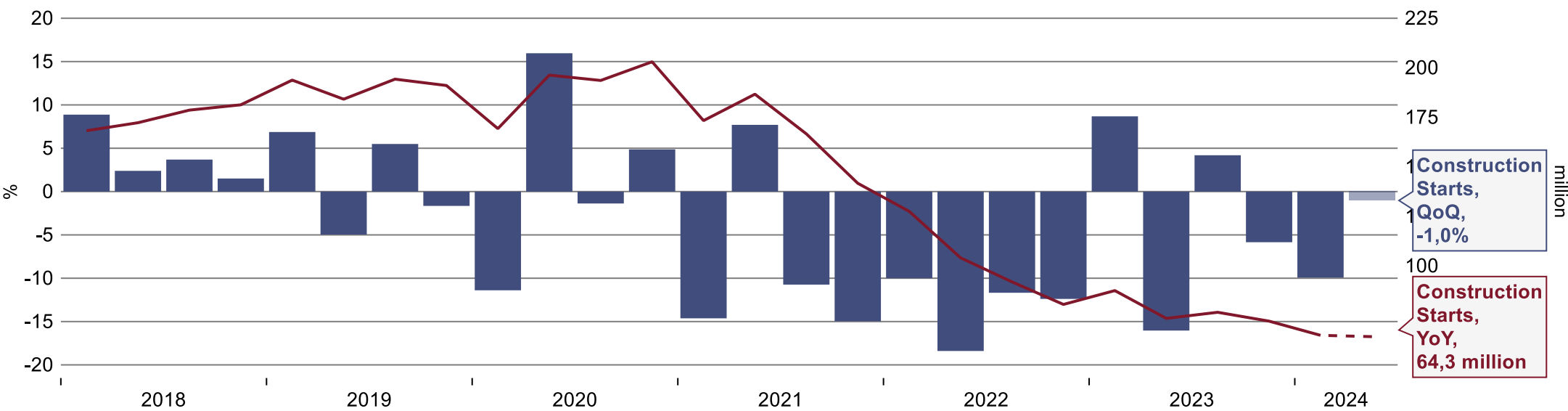
Source: Macrobond, HCOB Economics, People's Bank of China (PBoC)

China monthly data	5-2024	4-2024	3-2024	2-2024	1-2024	12-2023	11-2023
Credits, YoY	9,4	9,7	9,6	10,2	10,4	10,7	10,8
Credits, MoM	0,4	0,4	1,3	0,6	2,0	0,5	0,4

Construction - housing starts continue to fall.

Following a sharp decline in Q1 2024 (-9.9% QoQ), the number of construction starts is expected to fall again in Q2 2024 (-1.0% QoQ). The crisis among construction developers is leading to delays in already planned real estate projects.

China, Construction Starts, QoQ and YoY value



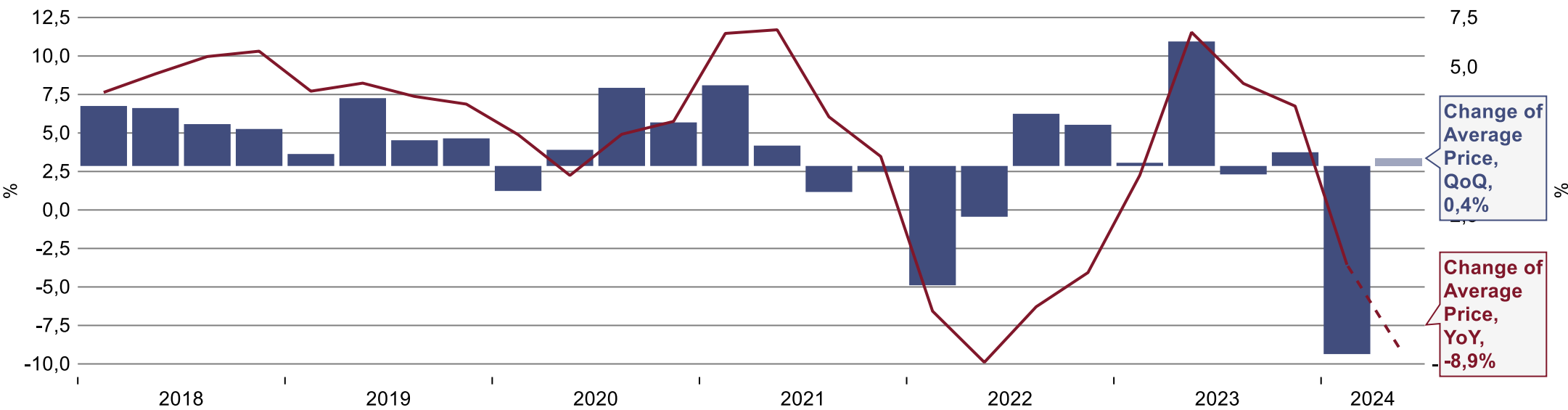
Source: Macrobond, HCOB Economics, China National Bureau of Statistics (NBS)

China monthly data	5-2024	4-2024	3-2024	2-2024	1-2024	12-2023	11-2023
Construction Starts, YoY	-21,1	-12,7	-25,8	-33,5	-33,8	-10,5	3,5
Construction Starts, MoM	-6,9	2,5	-7,8	-3,2	0,9	-4,4	1,4

Construction - Prices on the real estate market show no signs of recovery.

Despite government aid packages, the real estate crisis does not appear to be over: After a drastic slump in prices in Q1 2024 (-9.5% QoQ), we expect little improvement in Q2 2024 and virtual stagnation at +0.4% QoQ.

China, Average Price of Commercialized Buildings, QoQ and YoY Value

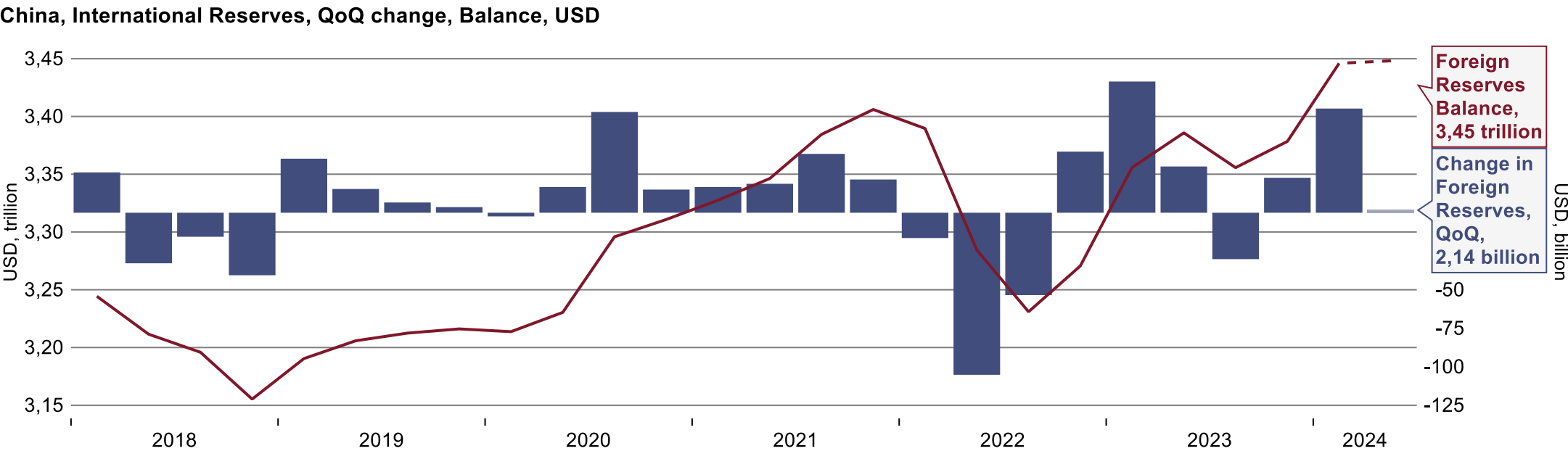


Source: Macrobond, HCOB Economics, China National Bureau of Statistics (NBS)

China monthly data	5-2024	4-2024	3-2024	2-2024	1-2024	12-2023	11-2023
Average Price, YoY	-9,2	-9,2	-7,6	-9,0	6,4	6,4	7,1
Average Price, MoM	1,4	1,8	1,4	-11,0	0,0	-0,4	-0,2

Currency Reserves - weaker growth in foreign currency reserves.

Foreign exchange reserves weakened significantly in Q2 2024, with weaker foreign investment in China and weakening exports in particular causing currency reserves to grow less significantly than in the previous quarter.



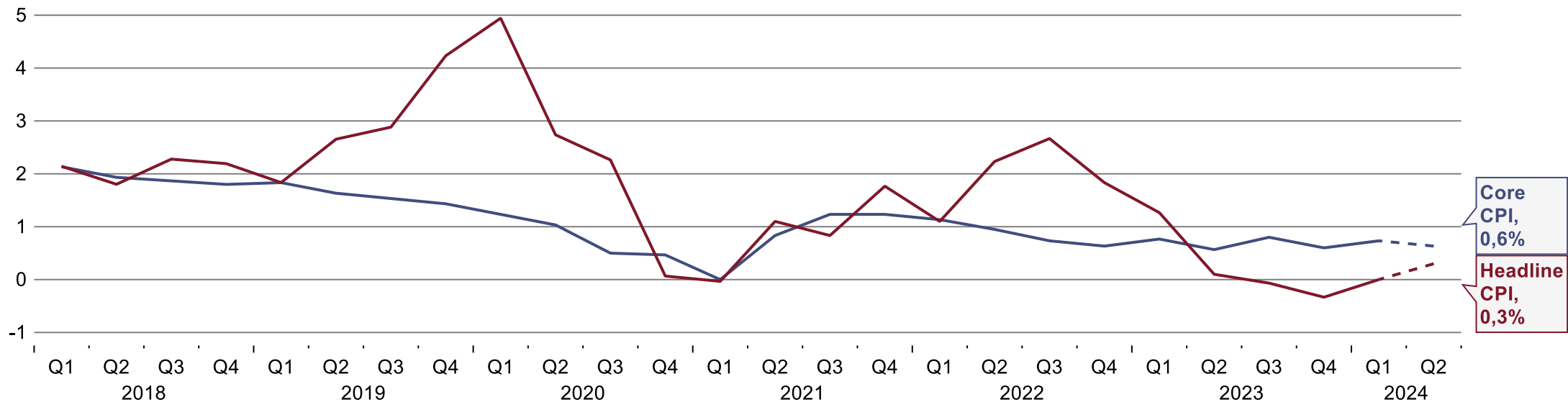
Source: Macrobond, HCOB Economics, People's Bank of China (PBoC)

China monthly data	5-2024	4-2024	3-2024	2-2024	1-2024	12-2023	11-2023
Foreign Reserves, YoY	2,8	0,9	2,7	3,7	1,7	4,3	2,8
Foreign Reserves, MoM	1,0	-1,1	0,9	0,2	-0,5	2,0	2,3

Inflation - weakness continues.

Weak Chinese consumption requires urgent action from Beijing. Nevertheless, the government continues to focus on investment, which could exacerbate the problem and further fuel inflation.

China, CPI: Headline and Core, Quarterly YoY, Own Calculation



Source: Macrobond, HCOB Economics, China National Bureau of Statistics (NBS)

China monthly data	5-2024	4-2024	3-2024	2-2024	1-2024	12-2023	11-2023
Headline, YoY	0,3	0,3	0,1	0,7	-0,8	-0,3	-0,5
Core, YoY	0,6	0,6	0,6	1,2	0,4	0,6	0,6
Headline, MoM	-0,1	0,1	-1,0	1,0	0,3	0,1	-0,5
Core, MoM	-0,2	0,0	-0,6	0,5	0,3	0,1	-0,3

FX Market - Renminbi more stable against the US dollar.

The Chinese central bank (PBoC) has halted the renminbi's downward trend for the time being. By fixing the CNY/USD exchange rate, Beijing has put an end to the strong devaluation and is now only allowing it to continue cautiously and gradually.

China, FX Spot Rates, Daily

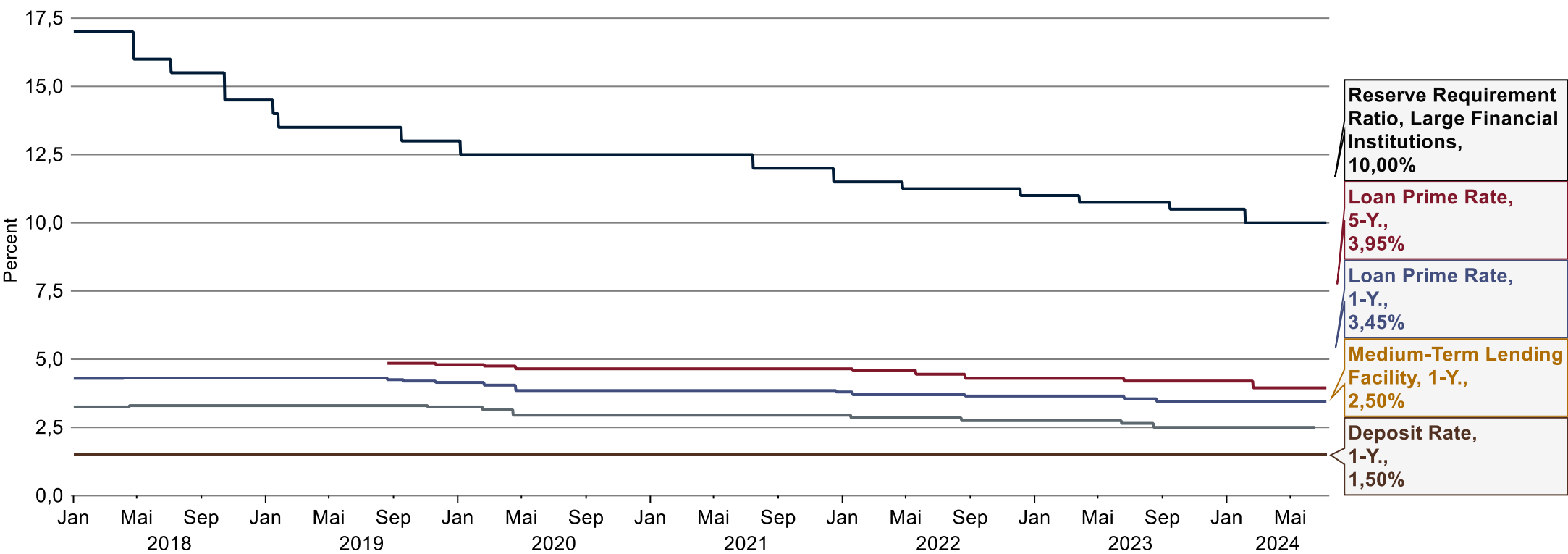


Source: Macrobond, HCOB Economics, People's Bank of China (PBoC), Macrobond Financial AB

Monetary Policy - interest rate cuts are not working.

The PBoC left refinancing conditions unchanged in the second quarter after intervening significantly in Q1 2024. As long as the US central bank does not cut interest rates, the PBoC is likely to continue to wait and see.

China, Monetary policy instruments, Key interest rates, Daily



Source: Macrobond, HCOB Economics, People's Bank of China (PBoC)

China: The key economic quarterly data at a glance

Overview - Quarterly Data for China	Q2-2024*	Q1-2024	Q4-2023	Q3-2023	Q2-2023	Q1-2023	Q4-2022	Q3-2022
GDP QoQ	1,0	1,6	1,2	1,8	0,5	1,8	0,8	4,0
GDP YoY	5,7	5,3	5,2	4,9	6,3	4,5	2,9	3,9
Industrial Production QoQ	-0,5	2,4	1,6	2,2	-0,4	2,4	-0,1	2,7
Services QoQ	1,0	1,0	1,8	0,4	1,2	4,9	-0,1	4,1
Retail Sales QoQ	0,6	0,6	1,4	0,7	2,3	1,8	-0,9	3,1
Fixed Urban Investment QoQ	0,4	6,4	-1,1	4,3	-15,4	-3,2	2,0	-1,9
Trade Balance QoQ	3,2	13,3	-0,1	-6,7	-6,1	15,9	-13,4	8,9
Core CPI QoQ	0,6	0,7	0,6	0,8	0,6	0,8	0,6	0,7
Headline CPI QoQ	0,3	0,0	-0,3	-0,1	0,1	1,3	1,8	2,7
Credit Volume QoQ	1,3	4,2	0,2	2,4	2,8	4,7	0,3	3,8
Average Real Estate Prices QoQ	0,4	-9,5	0,7	-0,4	6,3	0,2	2,1	2,6
Construction Starts QoQ	-1,0	-9,9	-5,8	4,2	-16,0	8,7	-12,4	-11,7
Foreign Reserves (tril. USD)	3,4	3,4	3,4	3,4	3,4	3,4	3,3	3,2
Change in Foreign Reserves (bil. USD)	2,1	67,6	22,7	-30,1	30,0	85,2	39,7	-53,5
Loan Prime Rate, 1-Y., (in %)	3,45	3,45	3,45	3,45	3,55	3,65	3,65	3,65

*Forecast

China: Annual calendar 2024 - all important dates at a glance

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Data Release Dates												
GDP QoQ	-	-	-	18	-	-	17	-	-	18	-	-
Industrial Production (monthly)	17	-	15	18	16	15	17	15	15	18	15	15
Retail Sales (monthly)	17	-	15	18	16	15	17	15	15	18	15	15
Trade Balance (monthly)	13	-	7	13	9	7	13	8	7	13	7	7
Foreign Reserves (monthly)	14	-	7	13	9	7	13	8	7	13	7	7
CPI (monthly)	12	10	9	11	11	9	10	9	9	13	9	9
Loan Prime Rate (monthly)	20	20	20	20	22	20	20	21	20	20	20	20
Important Events												
Public Holidays	10-17 [*]			4-6 [*]	1-5 [*]	8-10 [*]	15-17 [*]			1-7 [*]		
Politburo Meeting	TBA									TBA		
BRICS Summit	TBA											
Taiwan Elections	13											
	TBA = to be announced			*Chinese New Year			*Tomb-Sweeping Day			*Labour Day		
	*Dragon Boat Festival			*Mid-Autumn Festival			*Golden Week					

Contact persons

Economics

Dr. Cyrus de la Rubia

Chief Economist

Phone: +49 176 90180792

cyrus.delarubia@hcob-bank.com

Dr. Tariq Chaudhry

Economist

Phone : +49 171 9159096

tariq.chaudhry@hcob-bank.com

Norman Liebke

Economist

Phone: +49 171 5466753

norman.liebke@hcob-bank.com

Jonas Feldhusen

Junior Economist

Phone: +49 40 3333-0

jonas.feldhusen@hcob-bank.com

Economics

Nils Müller

Junior Economist

Phone: +49 16090887804

nils.mueller@hcob-bank.com

Christian Eggers

Senior FX Trader

Phone: +49 171 8493460

christian.eggers@hcob-bank.com

Institutional & Liability Sales

Thomas Benthien

Phone: +49 151 14833046

Corporate Treasury Sales

Fritz Bedbur

Phone: +49 151 14651131

Boris Gettkowski

Phone: +49 175 2281619

Syndicate & Credit Solutions

Tim Bolzen

Phone: +49 151 15244845

Editorial deadline for this issue: July 10, 2024

Gerhart-Hauptmann-Platz 50, 20095 Hamburg, Phone: 040-3333-0

Disclaimer

- The market information contained in this presentation is for informational purposes only.
- It can not substitute own market research or separate legal-, tax- and financial advice and information. This information is a marketing communication by the meaning of Section 63 Paragraph 6 German Securities Trading Act [“Wertpapierhandelsgesetz”, “WpHG”] and Article 24 Paragraph 3 of the Directive 65/2014/EU. This information does not contain ‘information recommending or suggesting in investment strategy’ or ‘investment recommendations’ (“investment research”) by the meaning of Section 2 Paragraph 9 Point 5 WpHG or Article 3 Paragraph 1 Point 34 and Point 35 of the Regulation (EU) No. 596/2014. Therefore this information is not prepared in accordance with legal requirements designed to promote the independence of investment research and it is not subject to any prohibition on dealing ahead of the dissemination of investment research. This presentation does not constitute an offer to buy or sell certain assets.
- Hamburg Commercial Bank AG points out that the herein published market information is only meant for investors with own economical experience, who are able to evaluate the risks and chances of the herein discussed market / markets and who are themselves able to conduct research through a variety of sources. The statements and data contained in this presentation are based on either thorough research by Hamburg Commercial Bank AG or on sources that are considered reliable but cannot be verified. Hamburg Commercial Bank AG regards the sources used as reliable but can not assess their reliability with absolute certainty. Single pieces of information could only be assessed regarding their plausibility; an assessment regarding their accuracy has not been made. Furthermore, this presentation contains estimates and predictions based upon numerous assumptions and subjective evaluations made by Hamburg Commercial Bank AG as well as outside sources. This information is only meant to provide non-binding perceptions of markets and products as of the time this presentation was issued. Hamburg Commercial Bank AG and its respective employees thoroughly conducted work on this presentation but can not guarantee completeness, actuality and accuracy of the provided information and predictions.
- This document may only be distributed in compliance with the legal regulations in the respective countries and persons obtaining possession of this document should inform themselves about and comply with the applicable local regulations.
- This document does not contain all material information needed for economic decisions and the information and predictions provided can vary from those made by other sources / market participants. Hamburg Commercial Bank AG as well as their organizational bodies and employees can not be held responsible for losses resulting from the use of this presentation, its contents or for losses which in any way are connected to this presentation.
- Hamburg Commercial Bank AG points out that it is not allowed to disseminate this presentation or any of its contents. Damages to Hamburg Commercial Bank AG resulting from the unauthorised dissemination of this presentation or any of its contents have to be compensated for by the disseminator. The disseminator has to keep Hamburg Commercial Bank AG free from all claims arising from the unauthorised dissemination of this presentation or any of its contents and all legal cost in connection with those claims. This particularly applies to a dissemination of this presentation to U.S. Persons or persons situated in United Kingdom.