UBS

China Economic Perspectives

China by the Numbers (June 2024)

Economics

China

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Our guide to Chinese monthly data

What the numbers are, what they mean, and the outlook going forward.

Mixed growth momentum in May

The recovery in May retail sales growth exceeded market expectations, albeit from a low base, and manufacturing fixed asset investment (FAI) remained robust. Export growth picked up strongly on the global tech upcycle and resilient external demand. However, property activities remained in deep contraction YoY with seasonally adjusted property sales and new starts slightly down from April and Q1. Housing price decline accelerated a bit in May. Infrastructure FAI softened YoY on weak local government (LG) fiscal conditions and restricted LGFV financing. Industrial production growth moderated more than the market expected, as soft domestic activities more than offset solid export demand. On a five-year CAGR, most economic activities (excl property) remained largely stable or recorded slightly better momentum than in April, but were still weaker than in Q1. See more in our comment.

Further policy easing is needed

Despite policy easing in mid-May, property sales have yet to recover meaningfully notwithstanding short-lived improvement around end-May, suggesting the impact of recent policy easing is likely diminishing. The PBC rolled out a new re-lending facility to support property destocking, but progress appears limited. We believe the government needs to further facilitate destocking with more low-cost funding, and possibly top-down guidance to clarify implementation details from central government. Meanwhile, the government is expanding its 'whitelist' scheme to support stalled property projects. Fiscal policy support has picked up since May, which should help to underpin infrastructure investment and overall credit growth, although we still see slower infrastructure FAI growth in 2024E. If overall growth momentum disappoints and property activities weaken further, we expect more policy support measures to be rolled out, possibly around or after the July Politburo meeting.

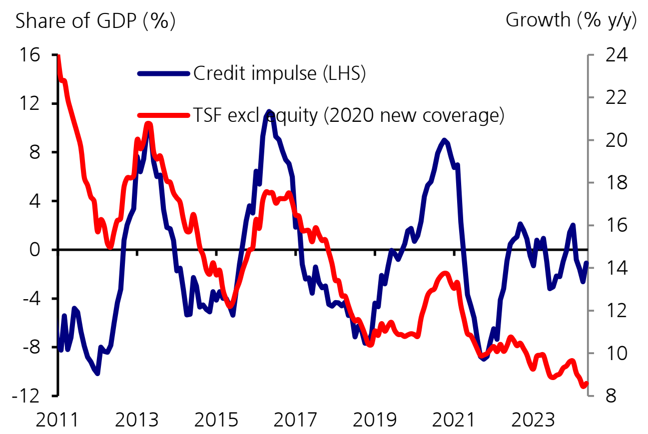
CFOs expect higher US tariffs and negative impact

With the US election coming up in a few months and former president Donald Trump reportedly considering further tariffs on Chinese goods, 85% of CFOs in UBS Evidence Lab's 13th China CFO survey expect higher US tariffs in 2025, although most expect them to be lower than 60%. In response to the shock, surveyed firms mostly plan to explore non-pricing channels, diverting products to other markets or domestically, reducing capex and wages, or closing factories. But even so, 78% of manufacturing exporters believe their export-related businesses could fall. Escalated trade frictions will also promote further supply chain shifts overseas. We believe a new trade war with much higher US tariffs in 2025 is a clear downside risk to China's growth next year.

GDP QoQ growth to slow in Q2, but lower base to support YoY growth

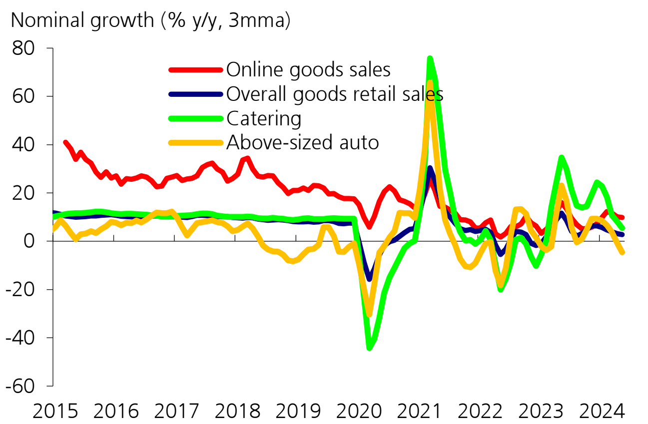
Our base case remains that property sales may bottom in the next few months, helped by ongoing policy easing. A weak labour market recovery and subdued income expectation suggest lingering headwinds for a consumption recovery, while we expect solid YoY export growth in June and early Q3. Overall, we expect sequential GDP growth to slow in Q2 from the strong Q1, although YoY growth may remain at around 5.3% due to the low base. We expect growth momentum to stabilise at 4-5% in H2, leading to full-year GDP growth of 4.9%. However, we flag some downside risks to our base case forecasts if additional property policy easing (especially inventory destocking) is weaker and later than expected, and property sales and prices decline much further.

Figure 1: Credit growth edged up but missed expectations in May



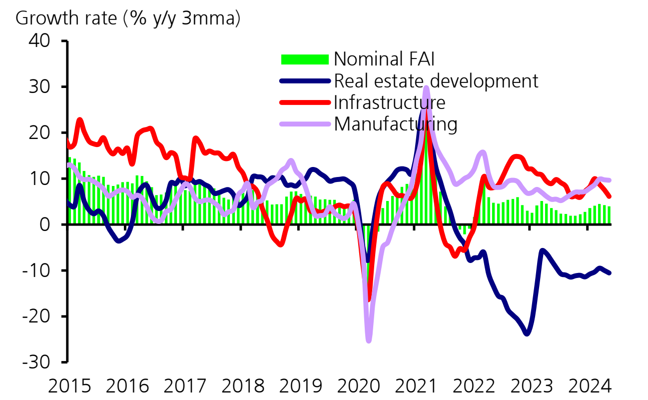
Source: CEIC, UBS estimates

Figure 2: Retail sales edged up on low base, better than expected



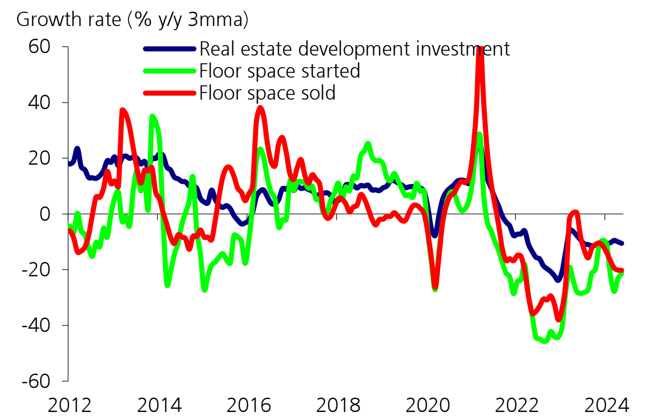
Source: CEIC, UBS estimates

Figure 3: Overall FAI growth largely stable y/y, with softer infrastructure and robust manufacturing FAI



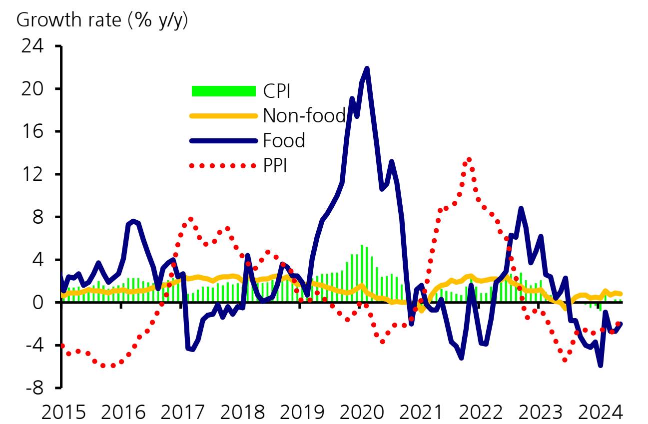
Source: CEIC, UBS estimates

Figure 4: Property activities remained in deep y/y decline



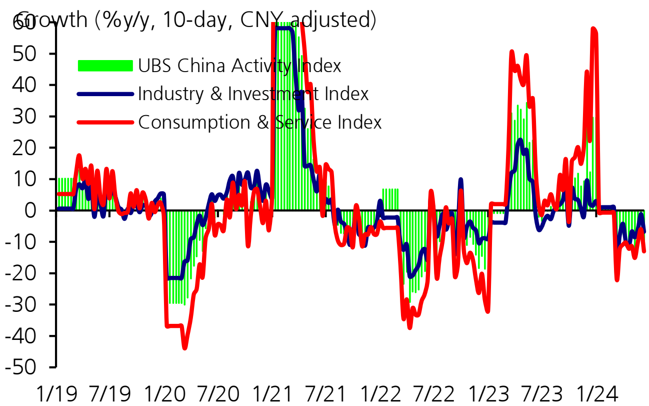
Source: CEIC, UBS estimates

Figure 5: CPI remained stable and PPI declined less y/y, both largely in line



Source: CEIC, UBS estimates

Figure 6: UBS China Activity Index



Source: CEIC, Wind, G7, China Port Association, UBS estimates

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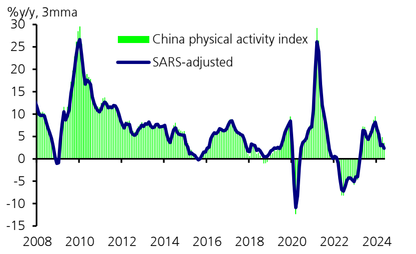
Source: UBS

UBS Activity Indicators

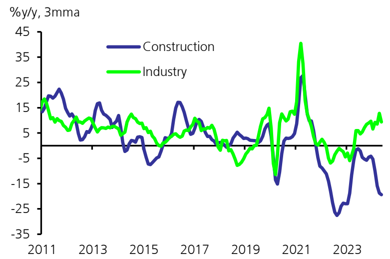
- **UBS Physical Activity Index moderated to 3.6%y/y in May** from 4.9%y/y before on 3mma basis, mainly dragged by slower industrial production and continued weakness in construction, which more than offset improving transportation activities.
- **UBS Expenditure Index edged up in May**, o/w investment and consumption both picked up while net exports growth moderated on 3mma basis from April.
- **Our high frequency data tracker** shows 30-city new property sales remained in contraction of -29% y/y in the first 22 days of June from -38% y/y in May. New home sales volume in high-tier cities moderated in the first 22 days (partly due to seasonality, Fig 2-3) from a short-lived uptick in the last 10 days in May (on policy easing), although it rebounded modestly again in the past week. FTL traffic index declined further to -6%y/y in the first 22 days from -2%y/y before. Subway passenger turnover remained elevated, while its growth decelerated slightly to 7%y/y in the first 20 days from 9%y/y. Auto retail sales weakened to -13%y/y in the first 16 days from 10%y/y despite a low base. Port cargo throughput growth moderated to 5% y/y in the first 16 days, while container throughput growth picked up to 11% y/y. In the past week (June 17-23), net issuance of CGB slid to a decline of RMB 108bn, while that of special LGB remained weak at RMB 2bn (see UBS China Daily Activity Tracker).

Figure 7: UBS Physical Activity Index



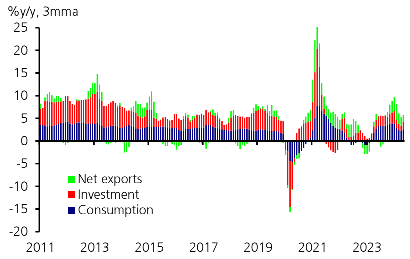
Source: CEIC, UBS estimates *chart is 3mma basis

Figure 8: Construction and industry



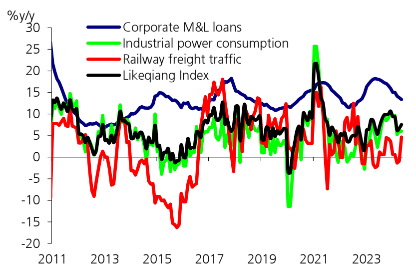
Source: CEIC, UBS estimates *chart is 3mma basis

Figure 9: UBS Expenditure Index



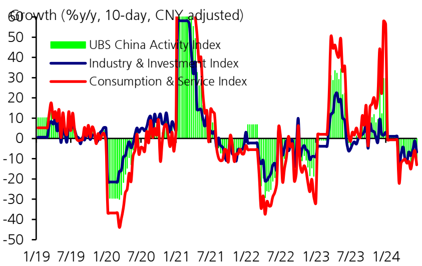
Source: CEIC, UBS estimates *chart is 3mma basis

Figure 10: Li Keqiang Index



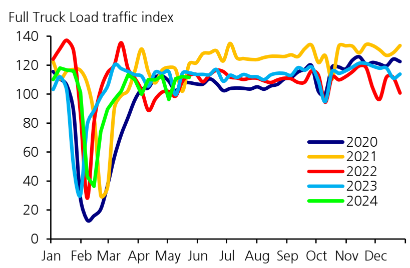
Source: CEIC, UBS estimates. Note: Our Li Keqiang index uses industrial power consumption and new corporate M&L loans, not total RMB lending and total power generation.

Figure 11: UBS China Activity Index



Source: CEIC, Wind, G7, China Ports Association, UBS estimates

Figure 12: Full Truck Load (FTL) Freight Traffic Index

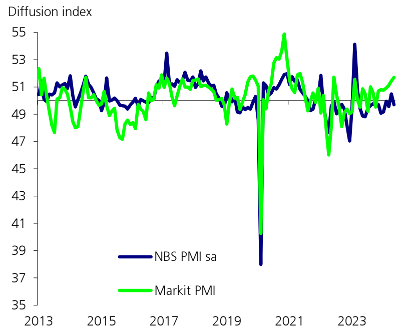


Source: Wind, G7, UBS estimates. Note: G7 revised the statistical approach after June 26th 2023

Business Indicators

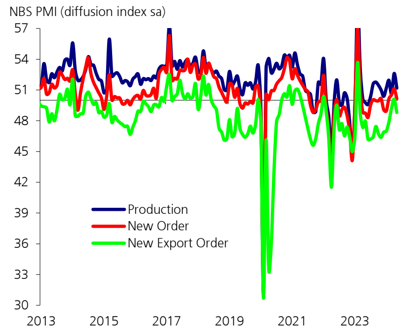
- **May NBS manufacturing PMI slid by 0.9ppt to 49.5**, much lower than expected. New orders fell by 1.5ppt to 49.6, while production index dipped by 2.1ppt to 50.8. New export orders weakened by 2.3ppt to 48.3. Raw material inventory edged down by 0.3ppt to 47.8, while quantity of purchased and finished goods dropped by 1.2ppt/0.8ppt to 49.3/46.5. Input and output prices both increased by 2.9ppt and 1.3ppt to 56.9 and 50.4, respectively, indicating an easing of deflationary pressures. Employment edged up by 0.1ppt to 48.1, reflecting lingering labour market pressures. In contrast, **Caixin PMI picked up further by 0.3ppt to 51.7**, with stronger production index (+1.2ppt) but softer new orders (-0.4ppt). Such divergence between NBS and Caixin PMIs is not uncommon, largely due to the difference in survey sample selection, while we may need other high frequency data points to cross-check the underlying strength of the manufacturing sector.
- **NBS non-manufacturing PMI edged down by 0.1ppt to 51.1,** while remaining above 50 consistently since January 2023. In particular, services PMI edged up by 0.2ppt to 50.5, while construction PMI cooled by 1.9ppt to 54.4, reflecting decelerating momentum of construction activities. By sector, PMIs of postal, telecom /TV / satellite, internet / software / IT, cultural /sports / entertainment services remained above 55; while those of the capital market and real estate sector remained subdued.

Figure 13: NBS and Caixin PMI



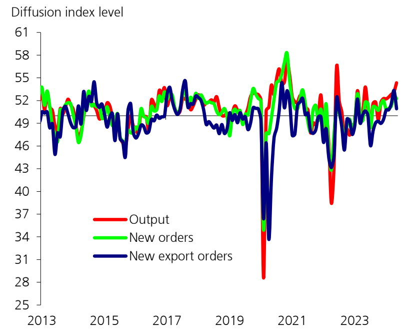
Source: CEIC, UBS estimates

Figure 14: NBS PMI breakdown



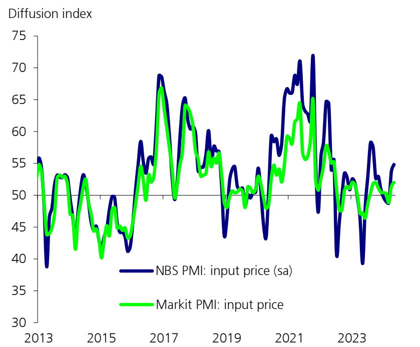
Source: CEIC, UBS estimates

Figure 15: Caixin PMI breakdown



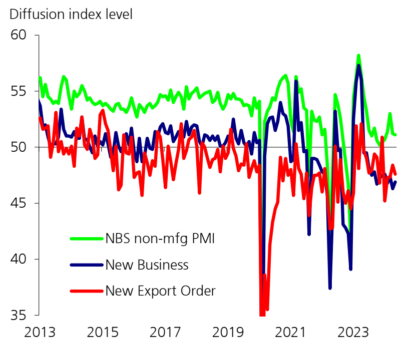
Source: CEIC, UBS estimates

Figure 16: Input prices



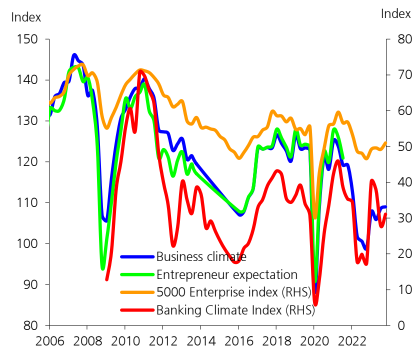
Source: CEIC, UBS estimates

Figure 17: NBS non-manufacturing PMI



Source: CEIC, UBS estimates

Figure 18: Other business climate indices



Source: CEIC, UBS estimates

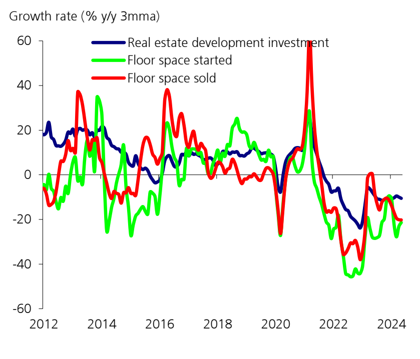
Note: Both sets of PMIs have different sample sizes & coverage – Caixin's PMI covers ~420 enterprises and is more biased to eastern regions and smaller enterprises. The official NBS PMI covers >3,000 enterprises nationwide, with more large companies represented. The NBS PMI sample coverage was expanded from 820 to 3,000 in Jan 2013, which may undermine its comparability with historical data, making it harder to interpret the results of our additional layer of seasonal adjustments.

Property

- **Property sales remained deep in contraction y/y.** Despite recent policy easing in mid-May, property sales continued to decline notably by 20.7% y/y (albeit slightly better than -22.7% in April on a low base), while new starts contracted further by 22.7% y/y (vs -14% y/y previously). After seasonal adjustments, new starts and property sales volumes dipped a bit further in May from April and the Q1 average. Property completions remained weak at -18.4% y/y (vs -19.1% y/y in April), as did property investments at -11% y/y (vs -10.5% previously). Developers' source of funds remained deep in contraction at -21.8% y/y. Moreover, the decline in 70-city housing prices deepened in May.

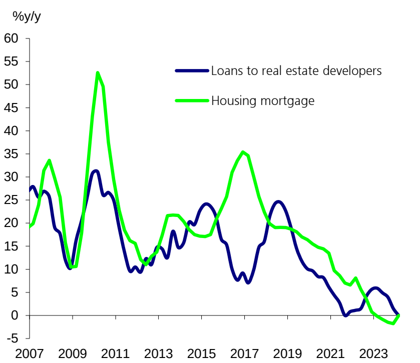
- **Property sales volumes to stabilise in the coming months; downside risks remain.** A combination of weakening fundamentals, previous policy tightening, and subdued home purchase intentions has driven the current sharp property downturn. The government started to ease policies in Q4 2022 and more notably after the July 2023 Politburo meeting. The April 2024 Politburo meeting called for ensuring housing delivery and destocking. On 17 May 2024, the government relaxed property policies further by lowering the minimum down payment ratio, removing the minimum mortgage rate requirement, and calling for more support for stalled projects and property inventory destocking. That said, new home sales remained weak in June after a short-lived rebound in end-May, while secondary listings remained elevated, suggesting a diminishing effect from demand-side policies. The PBC rolled out a new re-lending facility to support property destocking, but progress appears limited thus far. We believe the government needs to provide more low-cost funding and roll out top-down guidance to clarify implementation details. Our baseline remains that property sales and new starts will likely bottom in the next few months, with the help of ongoing policy easing. Overall, we expect property sales/starts/investment to fall by 5-10%/15-20%/5-10% in 2024, respectively, vs -8.5%/-20.4%/-9.6% in 2023.

Figure 19: Property activities remained in deep decline y/y



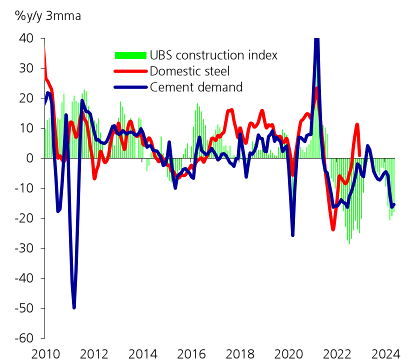
Source: CEIC, UBS estimates *chart is 3mma basis

Figure 20: Mortgage easing since 2022



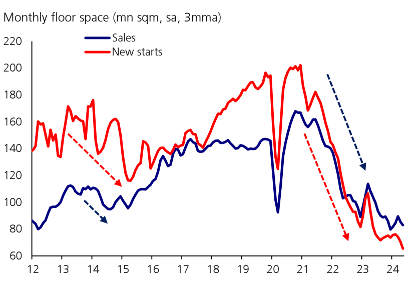
Source: CEIC, UBS estimates

Figure 21: Property construction vs steel & cement demand



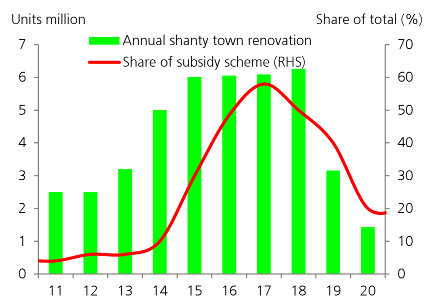
Source: CEIC, UBS estimates *chart is 3mma basis

Figure 22: Property activities weakened sharply since Q2 2023



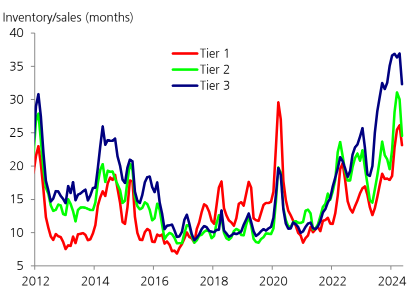
Source: CEIC, UBS estimates *chart is 3mma basis

Figure 23: 'Urban village' renovations are not the same as shanty-town renovations



Source: CEIC, UBS estimates

Figure 24: Inventory/sales ratio remained elevated

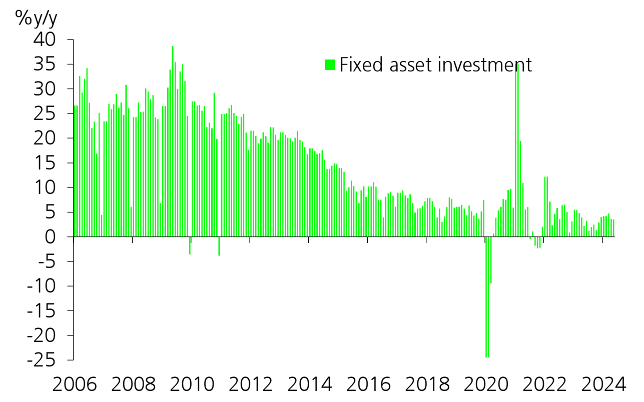


Source: CEIC, Wind, Soufun, UBS estimates

Fixed Asset Investment

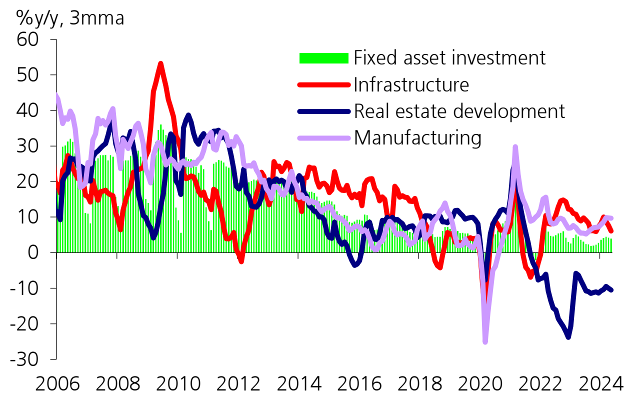
- **Overall FAI growth largely stabilized at 3.5% y/y in May.** Infrastructure FAI growth softened to 3.8% y/y in May from 5.9% y/y in April. While the issuance of 2024 special CGB and LGB accelerated in May, disbursement to local projects takes time. Meanwhile, the slow pace of government bond issuance previously, weak local land sales and tight control of LGFV debt may have weighed on overall financing of infrastructure FAI. On a five-year CAGR basis, infrastructure FAI growth edged up to 5.4% y/y from 5.1%. Meanwhile, manufacturing FAI growth held up robustly at 9.4% y/y in May (with the 5-yr CAGR edging up to 5.7%), partly due to continued policy support including equipment upgrading & replacement. Considering the continued decline of property investment, overall FAI growth largely stabilised at 3.5% y/y in May, with its CAGR edging down by 0.2ppt to 4%.
- **We expect both infrastructure and manufacturing growth to slow in 2024.** The central government plans to provide more explicit support to infrastructure FAI, with RMB1trn of special CGB and RMB3.9trn of special LG bonds in 2024. However, LGFV financing remains restricted, while local land sales are still under pressure. We expect full-year infrastructure FAI growth to slow to 5-6% in 2024 (vs 8.2% in 2023) with downside risks. We see further growth potential in new energy investment, hydraulic & water projects, city-cluster transport networks and public utility and facilities. In the manufacturing sector, we believe FAI in the sectors along the property supply chain will likely be held back by weak demand and profits, although FAI related to the green transition should remain robust, whereas FAI along the tech supply chain could improve. An export recovery could also support manufacturing FAI. Overall, we expect 5-6% growth in manufacturing investment in 2024 (6.5% in 2023). See more in our 2024-25 outlook.

Figure 25: Overall FAI growth largely stabilised in May



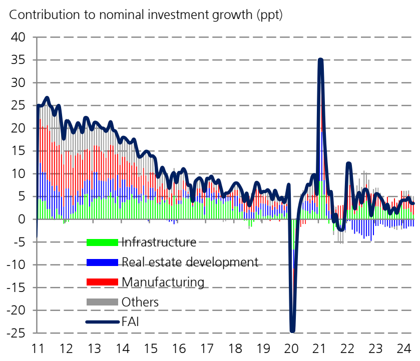
Source: CEIC, UBS estimates

Figure 26: Infrastructure FAI growth cooled



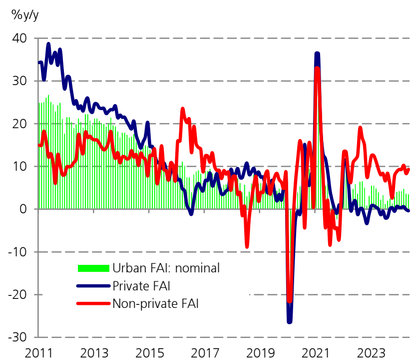
Source: CEIC, UBS estimates. *chart is 3mma basis

Figure 27: Manufacturing capex held up in May



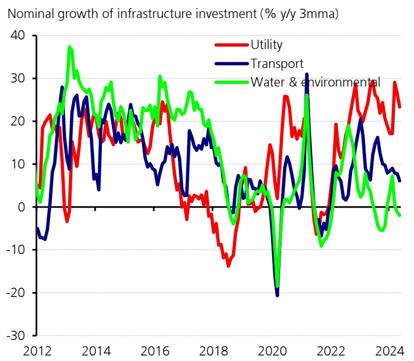
Source: CEIC, UBS estimates. *chart is 3mma basis

Figure 28: Private FAI tends to mirror property & manufacturing FAI



Source: CEIC, UBS estimates

Figure 29: Infrastructure investment breakdown

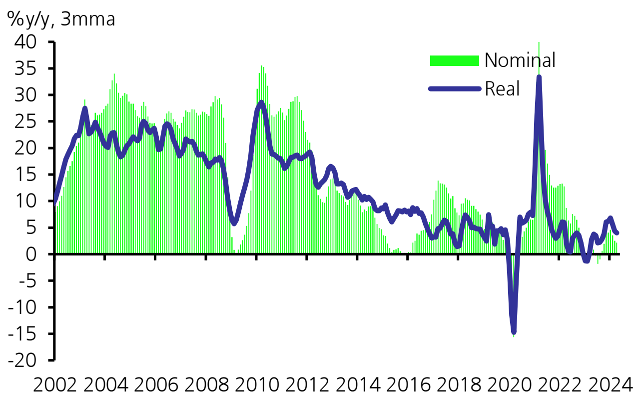


Source: CEIC, UBS estimates. *chart is 3mma basis

Industrial Production

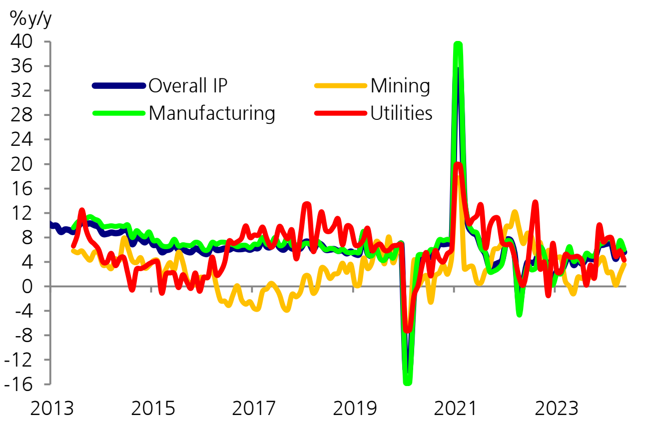
- **Industrial production (IP) growth edged down to 5.6% y/y in May.** The official seasonally adjusted IP level edged up by 0.3% m/m in May, slowing from 1% m/m in April. We estimate the five-year CAGR of IP remained largely stable at 4.6%. By sector, value added (VA) growth of the auto sector slid to a still solid pace of 7.6% y/y (vs 16.3% previously) and auto production softened, both on a high base. VA growth of communication appliances remained robust at 14.5% y/y (vs 15.6% previously) due to the global tech upcycle and robust external demand, while production growth of electronic ICs decelerated to a still solid pace. In addition, y/y growth of ferrous metal VA and steel production both improved, while that of non-metal minerals VA and cement production turned only slightly less bad.
- **China's inventory growth edged up further in April,** to 3.1% y/y in nominal terms (vs 2.5% y/y previously) and to 5% in real terms (vs 4.9% previously). Industrial inventory-to-sales ratio (seasonally adjusted, 6mma) has risen notably since 2022, now still well above the historical average, which means destocking will take a few more months.

Figure 30: Industrial sales growth improved in April



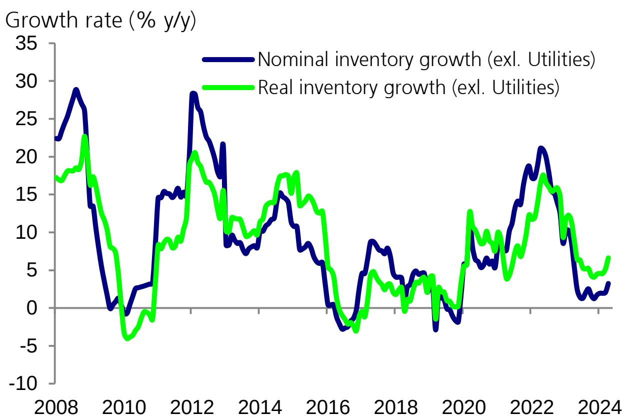
Source: CEIC, UBS estimates *chart is 3mma basis

Figure 31: Industrial production edged down in May, partly due to holiday effect



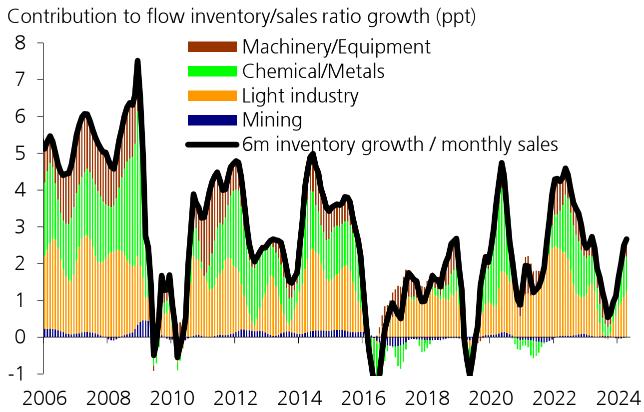
Source: CEIC, UBS estimates

Figure 32: Inventory growth edged up y/y in nominal terms in April...



Source: CEIC, UBS estimates

Figure 33: … while on flow basis it picked up too



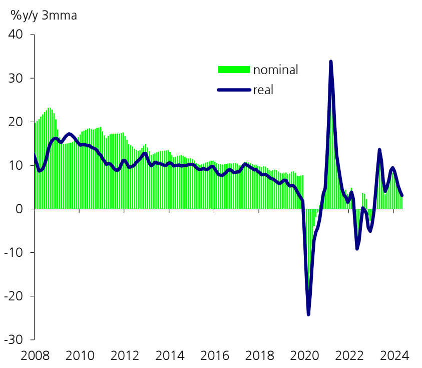
Source: CEIC, UBS estimates. Note: above chart is on a 6-month average, real, seasonally adjusted basis.

Consumption

- **Retail sales picked up to 3.7% y/y in May from 2.3% y/y in April**. We estimate May's seasonally adjusted retail sales level (in both nominal and real terms) edged up from April, as did the official estimate (nominal terms). In addition to a lower base, the shift in timing of the Labour Day holiday meant two more public holidays (excluding weekend) in May 2024 than a year ago, which likely helped support retail sales y/y growth slightly. The five-year CAGR of nominal retail sales growth improved to 3.6% (vs 3.2% in April), suggesting slightly better underlying growth momentum. By key category, goods retail sales improved with auto sales narrowing its y/y contraction. Among property-related products, sales of construction materials remained weak, while those of furniture and household appliances improved, the latter also boosted by a low base effect. Going-out related products (cosmetics, clothing, sports goods) picked up y/y on a low base. Meanwhile, catering sales edged up, while YTD services sales growth moderated.

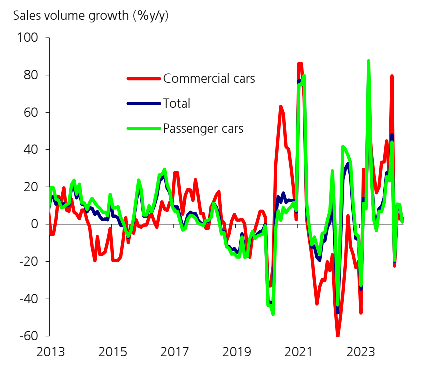
- **Consumption recovery should continue at a slightly slower pace in 2024.** China's post-COVID consumption recovery in 2023 lagged that in other economies due to subdued income growth recovery and weak consumer confidence. Our estimated real retail sales and the official consumer confidence level bottomed around Q323 and have been improving, but only slightly, since then. The official unemployment rate appears to have largely stabilised, while our labour market survey indicated continued pressures on the labour market and income growth. Later in the year, the expected stabilisation in property activities should prevent household confidence from sliding further. That will likely help to support a continued post-COVID consumption recovery, although at a slower pace. In Q124 the household savings rate remained above the pre-COVID 2019 level by 2ppt, indicating lingering cautious consumer sentiment and further accumulation of excess savings. Overall, we expect annual real consumption (GDP basis) to slow to 5.1% in 2024, from 6.4% in 2023.

Figure 34: Retail sales edged up y/y in May on a low base



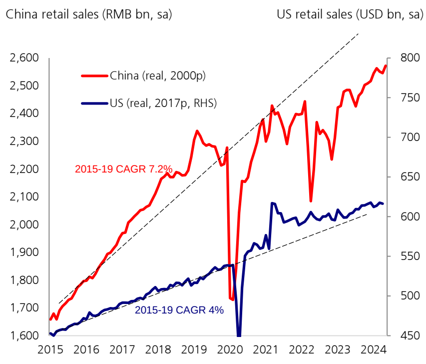
Source: CEIC, UBS estimates *chart is 3mma basis

Figure 35: Auto sales narrowed y/y decline



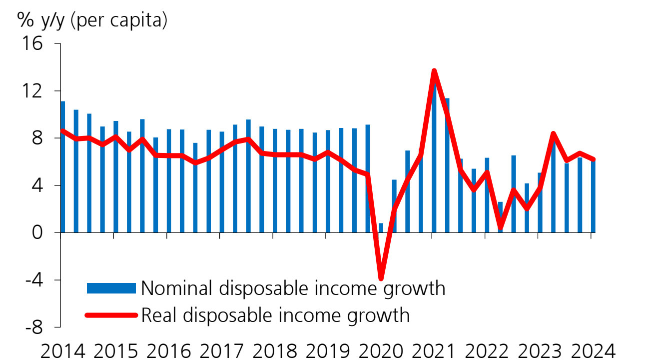
Source: CEIC, UBS estimates

Figure 36: China's retail sales recovery still has a long way to go



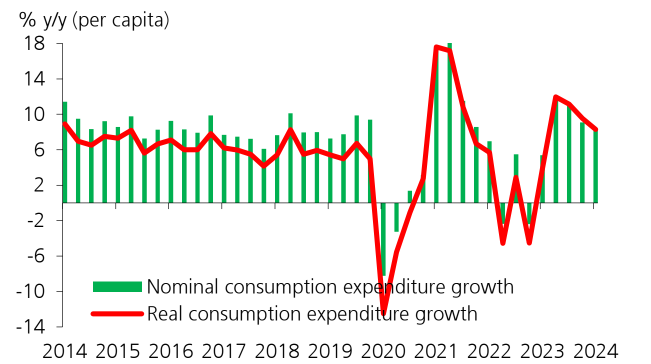
Source: CEIC, UBS estimates

Figure 37: Real household income cooled a bit y/y in Q1…



Source: CEIC, UBS estimates

Figure 38: … as did real consumption growth



Source: CEIC, UBS estimates

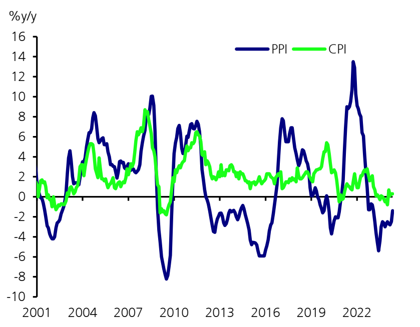
Inflation

- **Headline CPI held stable at 0.3% y/y in May.** Food inflation narrowed its contraction by 0.7ppt to -2%y/y, mainly driven by supply shocks in the form of heavy rains in Southern China and lower pork supply. Sequential price uptick and a lower base pushed pork price growth up to 4.6% y/y (vs 1.4% previously). Contrastingly, non-food prices softened y/y and declined by 0.2% m/m, with touring outgoing prices falling by 0.6% m/m on fading travelling demand after early May holidays. Utility prices saw another flat sequential m/m growth in May, despite news of utility price hikes in some localities.

- **PPI turned less negative by 1.1ppt to -1.4% y/y on a low base,** and rose sequentially by 0.2% m/m (vs -0.2%m/m before), partly due to rising global commodity prices. Investment goods picked up by 1.5ppt to -1.6% y/y (0.4% m/m before), of which the mining and quarrying price narrowed its decline, raw materials turned positive y/y, and the manufacturing price improved to -2.6% y/y. PPI consumer goods edged up to -0.8% y/y (-0.1% m/m).

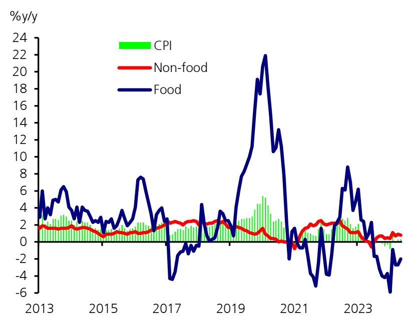
- **We expect positive but soft CPI inflation in 2024.** We continue to expect non-food consumer goods prices to increase slightly and pork prices to bottom out gradually in the rest of 2024. **Full-year CPI may only print 0.4% y/y in 2024** (vs 0.2% in 2023), given YTD softness, robust production activities and slow recovery of domestic demand. Manufacturing and consumer goods under PPI could remain soft in the coming months given the relatively low capacity-utilisation rate. Raw materials prices may stabilise gradually after a sharp decline since the end of 2023. We therefore expect PPI to remain in y/y contraction in most of 2024 and turn positive y/y only in early 2025, printing **a full-year contraction of 1-1.5%** (from -3% y/y in 2023).

Figure 39: CPI and PPI



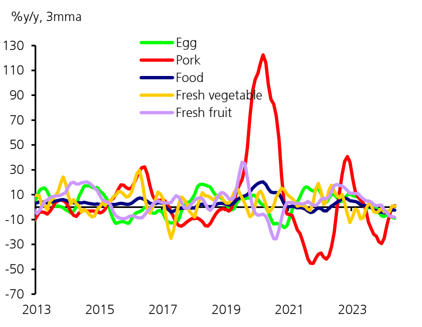
Source: CEIC, UBS estimates

Figure 40: Food / non-food inflation



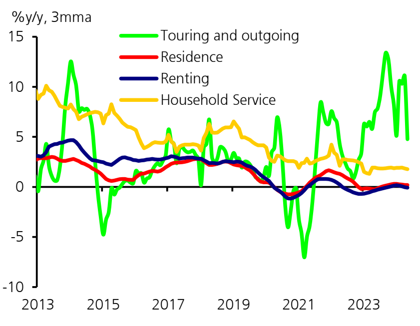
Source: CEIC, UBS estimates

Figure 41: Food CPI by component



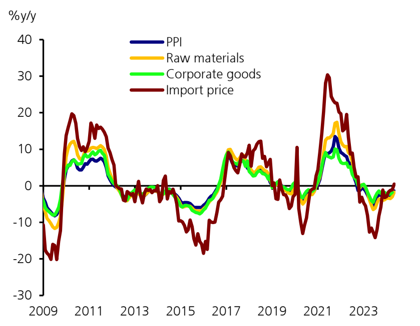
Source: CEIC, UBS estimates

Figure 42: Non-food CPI by component



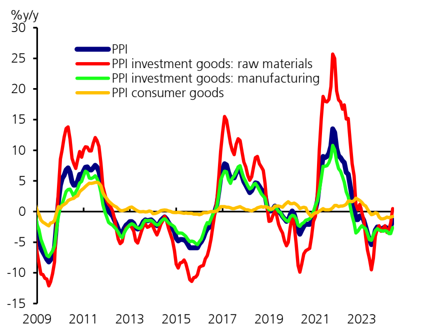
Source: CEIC, UBS estimates

Figure 43: Upstream price indices



Source: CEIC, UBS estimates

Figure 44: PPI by component

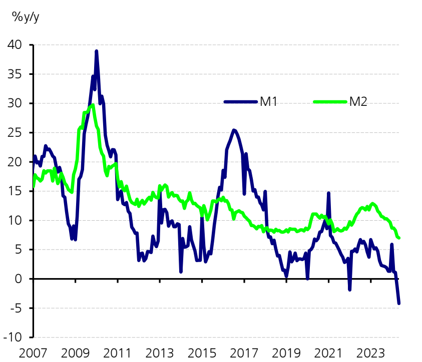


Source: CEIC, UBS estimates

Money & Credit

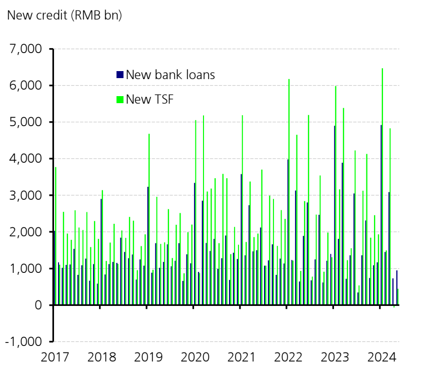
- **New credit missed expectations and M1 decline deepened.** The headline new RMB loans recorded RMB 950bn in May (-RMB410bn y/y), lower than the market expected. Similar to April, bill financing is the only component stronger than it was a year ago, while M&L corporate loans (at RMB 500bn, -RMB 270bn y/y) and M&L household loans (at RMB 51bn, -RMB 117bn y/y) were both lower than they were last May. The former illustrated soft credit demand from corporates, while the latter echoed subdued property sales. Meanwhile, net issuance of government bonds picked up notably to RMB 1.2trn as expected, much higher than a year ago (+RMB 668bn y/y). The official TSF growth and our adjusted TSF growth (excl equity) edged up by 0.1-0.2ppt to 8.5-8.6% y/y in May, while credit impulse declined less. M1 growth declined deeper to -4.2% y/y, dragged by a -7.2% y/y decline in corporate demand deposits partly on regulatory tightening and soft corporate cash flows. See more in our comment.
- **Credit demand may improve modestly in the rest of 2024.** We believe faster government bond issuance in the next few months should underpin credit growth. Corporate credit demand may also improve later in the year as growth momentum and property activities stabilise. That said, the new GDP estimation methodology and tighter financial regulation will continue to suppress credit growth in the rest of 2024. We believe this, plus weak corporate credit demand in general, may limit overall credit growth rebound to about 9% y/y at end-2024.

Figure 45: M1 saw deeper y/y decline of -4.2% y/y in May



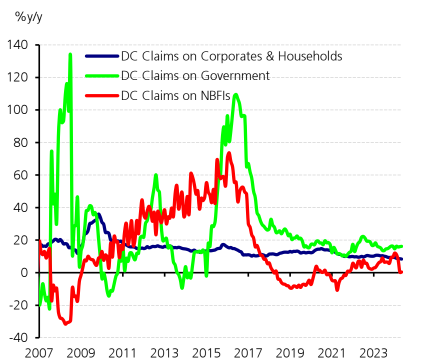
Source: CEIC, UBS estimates

Figure 46: New TSF came in softer than expected



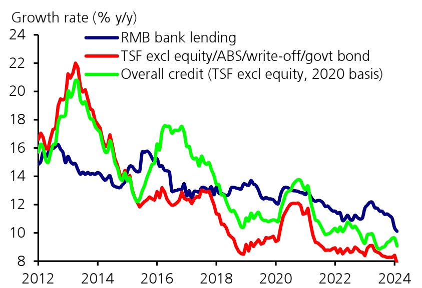
Source: CEIC, UBS estimates

Figure 47: Banks' domestic claims on NBFIs edged down



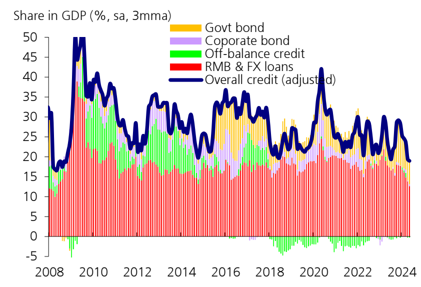
Source: CEIC, UBS estimates

Figure 48: TSF growth edged up in May, but missed expectation



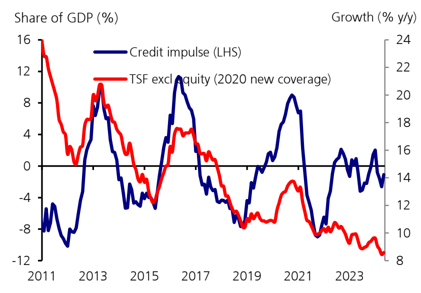
Source: CEIC, Wind, UBS estimates

Figure 49: New credit flows held stable on 3mma basis



Source: CEIC, UBS estimates *chart is 3mma basis

Figure 50: Credit impulse turned less negative



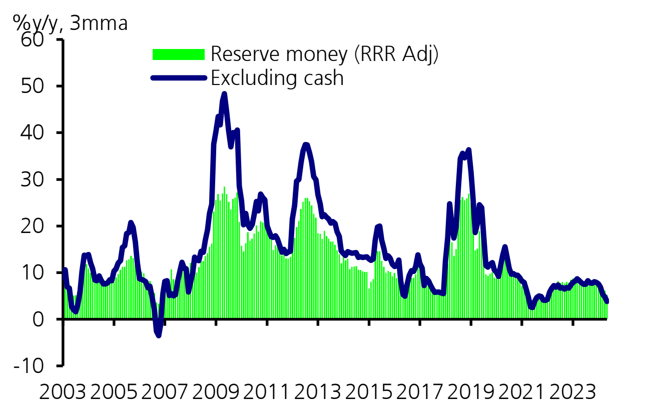
Source: CEIC, UBS estimates

Note: PBC changed TSF statistical coverage in Jul 2018 by including banks' ABS and loan write-offs, in Oct 2018 by including special LG bond, in Oct 2019 by adding ABS listed in exchange markets into corp bonds, and in Jan 2020 to include general LG bonds and treasury bonds

Base Money & Liquidity Operations

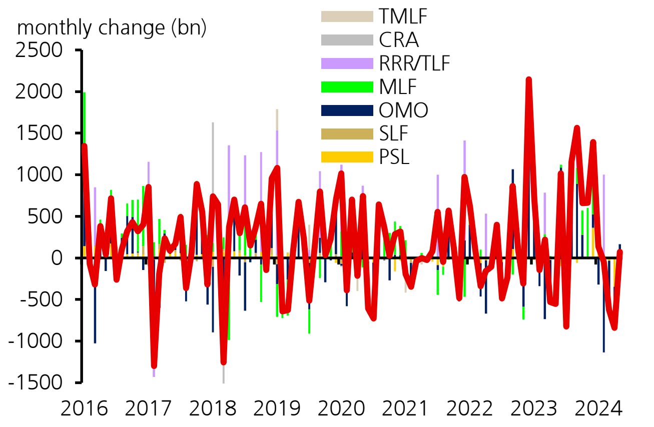
- **Base money growth slid by 1ppt to 3.8% y/y in May** (3mma), after adjusting for RRR cuts (eg, Jan 2020, July/Dec 2021, Apr/Dec 2022, Mar/Sep 2023, Feb 2024 and various targeted RRR cuts) and changes from other liquidity facilities.
- **The PBC injected liquidity in the interbank market in May.** The PBC injected RMB 70bn in liquidity in May, with RMB 164bn via open market operations (OMO), which offset the modest liquidity withdrawal of RMB 75bn through PSL (Pledged Supplementary Lending). Nevertheless, interbank rates hovered within a narrow range, suggesting largely stable liquidity conditions. The PBC cut RRR by 50bp on 5 February, which brought down the overall weighted average RRR for financial institutions to 7.0% from 7.4% and released base money liquidity of around RMB1trn, helping to keep overall liquidity ample (see RRR cut comment).
- **We expect continued accommodative monetary and credit policy, but no aggressive easing.** We expect the PBC to ensure ample liquidity by possibly cutting RRR once more and the use of other liquidity facilities in 2024, to accommodate the expected large bond issuance.

Figure 51: Base money growth on 3mma basis



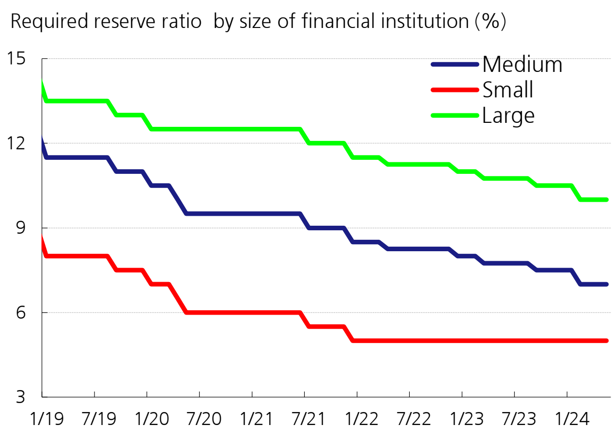
Source: CEIC, UBS estimates *chart is 3mma basis

Figure 52: PBC liquidity provisions



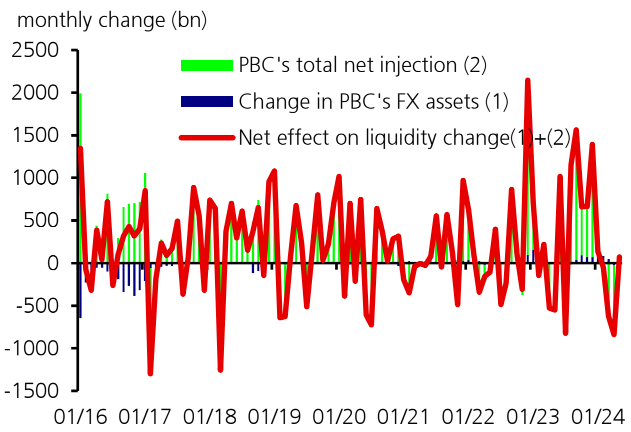
Source: CEIC, Wind, UBS estimates

Figure 53: PBC cut RRR by 50bp in Feb, lowering the average RRR to 7.0% from 7.4% previously



Source: CEIC, UBS estimates

Figure 54: PBC injected liquidity modestly in May



Source: CEIC, UBS estimates

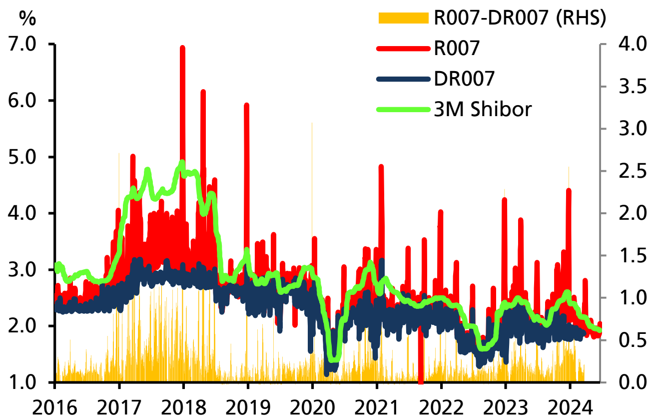
Interest Rates & Bond Market

- **REPO rate unchanged in 2024.** Interbank rates typically move up toward month-end on seasonal liquidity demand and edge down at the start of the following month. The PBC cut the Reverse REPO rate by 20bp in 2023 and has kept it unchanged in 2024 thus far. DR007 averaged 1.94% in 2023 and recently hovered around 1.8-1.9%.

- **Yields edged down as property downturn deepened.** 10-year CGB yield trended down since Q2 2023 due to subdued growth momentum, except for a period of modest rebound in Aug-Oct 2023 on signs of growth bottoming. Since late 2023, 10yr CGB yield has trended down again on expected policy easing and investors' preference for safety assets, hovering around 2.2-2.3% recently. Corporate yields dropped as well, and corporate credit spreads narrowed modestly. May issuance of government bond picked up pace, as expected.

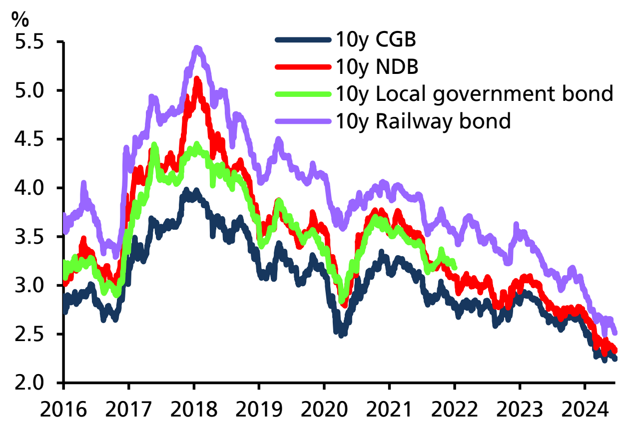
- **Likely no policy rate cut in 2024.** In 2023, the PBC cut the MLF rate by 25bp, 1yr LPR by 20bp and 5yr LPR by 10bp. Commercial banks were asked to lower rates of outstanding mortgages and deposit rates. In Feb 2024, the PBC cut 5yr LPR by 25bp without cutting the MLF rate. In light of strong USD and expectations of a Fed rate cut only in Q424, we do not expect the PBC to cut MLF policy rates this year. We think there may be room to guide banks' LPR rate down by another 10-20bp alongside further reductions in bank deposit rates.

Figure 55: REPO rate was cut by 10bp in August 2023 and kept unchanged since



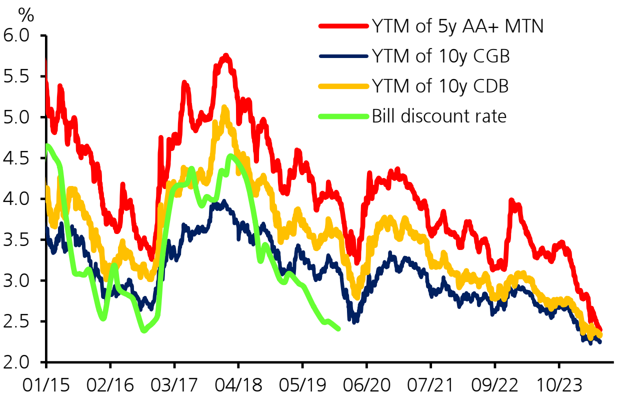
Source: CEIC, Wind, UBS estimates. NB: R007 is the average 7-day repo traded by all FIs, whereas DR007 is the 7-day repo only traded by depository institutions making it a less volatile benchmark.

Figure 56: 10y CGB yield softened to around 2.2-2.3% recently



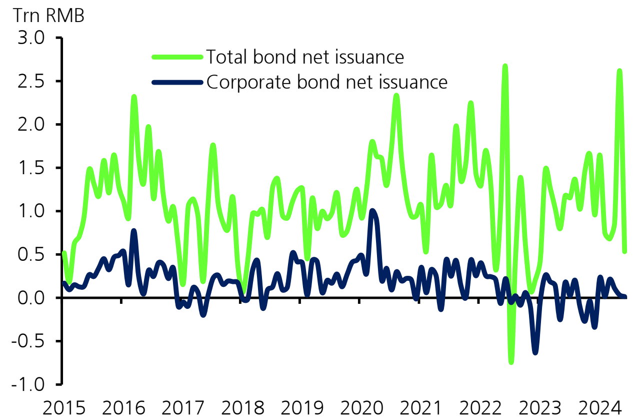
Source: CEIC, Wind, UBS estimates

Figure 57: Corporate bond yields also declined



Source: CEIC, Wind, UBS estimates

Figure 58: Net issuance of all bonds and corporate bonds



Source: Wind, UBS estimates

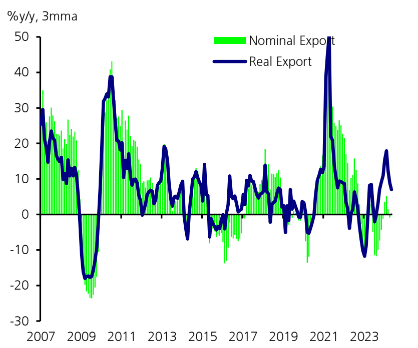
Trade

- **Exports accelerated to 7.6% y/y growth in May, from 1.5% in April.** Import growth moderated to 1.8% y/y. The monthly trade balance widened to USD 82.6bn in May from USD 72.4bn in April. Taking 2019 as the base, exports and imports grew by 7.2% and 4.9% in May, vs priors of 8.6% and 4.0%, respectively. Full-year exports contracted by 4.6% y/y and imports by 5.5% y/y in 2023, after growing 5.6% and 0.7% in 2022. Real exports and imports expanded by 4.6%/2.9% in 2023.

- **Shipments to the US bounced back to growth; IT exports growth accelerated.** Shipments to the G3 (the US, the EU and Japan) registered 1.2% y/y growth in May vs a 2.9% y/y contraction in April, due to an upswing in shipments to the US. Export growth to ASEAN economies outperformed again, with y/y shipment growth accelerating to 21.3% y/y. Consistent with the tech upcycle, shipment growth of the IT basket accelerated to 13.7% y/y in May (from prior of 11.4%). Shipments of consumer goods returned to 1.6% y/y growth in May, after y/y contractions in the previous two months.

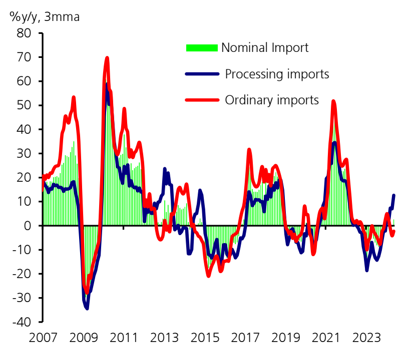
- **A slight trade recovery in 2024.** Trade growth data from neighbouring economies continued to suggest steady momentum of external demand. Contrastingly, survey data displayed a softening bias. In our view, current data combinations suggest the external demand recovery has continued for China into Q224 with steady sequential momentum, although there is still limited evidence to suggest a boom for export demand. Given the statistical base is turning lower for the coming months, we believe the steady sequential momentum should support exports to remain in y/y growth. We expect full-year exports to record 3.5% y/y in 2024 (vs -5% in 2023, see latest view).

Figure 59: Exports accelerated further in May



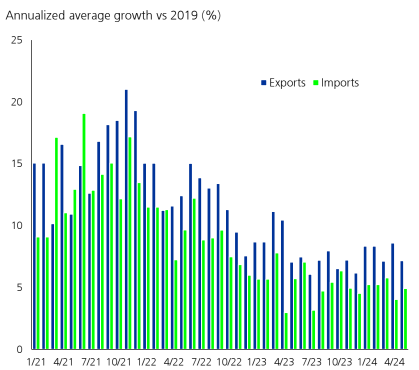
Source: CEIC, UBS estimates *chart is 3mma basis

Figure 60: Import growth softened



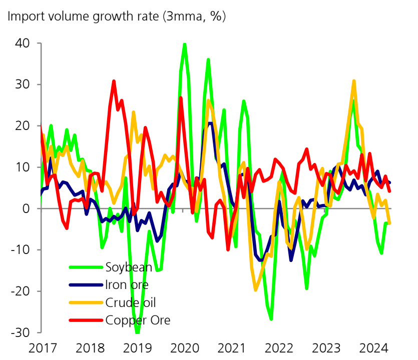
Source: CEIC, UBS estimates *chart is 3mma basis

Figure 61: Average annualised trade growth since 2019



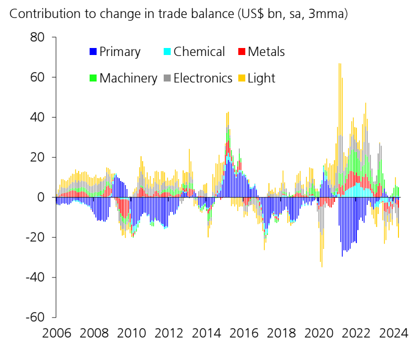
Source: CEIC, UBS estimates

Figure 62: Key commodity imports



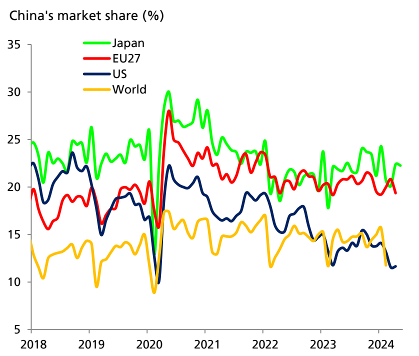
Source: CEIC, UBS estimates *chart is 3mma basis

Figure 63: Contribution to change in trade balance by product



Source: CEIC, UBS estimates *chart is 3mma basis

Figure 64: China's market share likely peaked in Q2 2020



Source: CEIC, UBS estimates

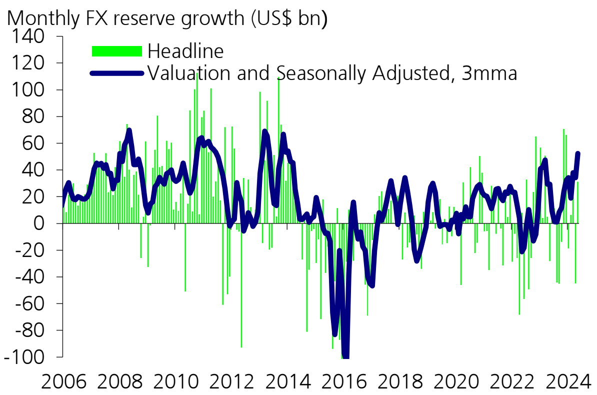
FX Reserves and Capital Flows

- **Headline FX reserves expanded by USD 31.2bn to USD 3.23trn in May vs April**. China's FX reserves increased by USD110bn in 2023, declined by USD 123bn in 2022, and increased by USD 34bn in 2021, following gains in 2019-20 and losses in 2018.

- **Valuation effect turned positive; widening trade balance provided support.** We estimate the positive valuation effect from major reserve currencies' movements in May has likely been around USD 15bn due to incremental USD weakness at end-May vs end-Apr. Global financial market fluctuations might have brought additional valuation gains too, but a widening trade balance vs Apr should have offered some support as well. Overall, capital outflow pressure has likely continued in May, following a net inflow in Q124. Meanwhile, the balance of total foreign holdings of China's onshore bonds registered another expansion of RMB 51bn in April, after gaining RMB 328/474bn in Q124/Q423. Foreign holding balance recorded a RMB 282bn gain in 2023 (contractions in most of the early months but turning positive since Sep), after a RMB 616bn loss in 2022.

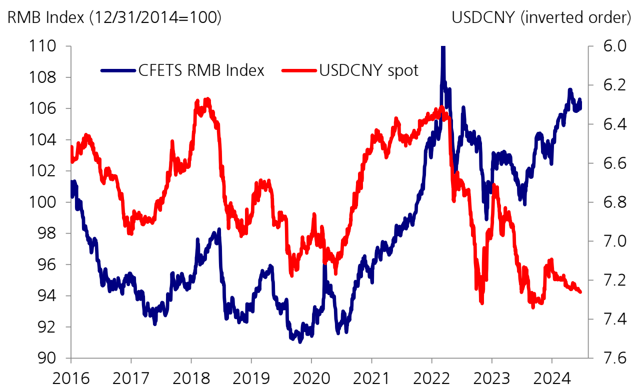
- **We expect the new normal to continue**, with larger two-way capital flows. The rise in capital outflows will mainly reflect non-government entities' accumulation of overseas assets, especially as controls on capital outflows gradually ease over the longer term. Continued supply chain shifts overseas will also drive outward direct investment (ODI). The recent sharp drop in foreign direct investment (FDI) into China is partly due to a decline in retained profits and high USD costs, but also reflects pressures of decoupling. We expect FDI to recover in 2024-25, but not back to pre-pandemic levels. Meanwhile, we believe the continued opening of China's financial market and solid economic growth potential should continue to attract more inflows (see our deep dive).

Figure 65: Headline FX reserves balance expanded in May…



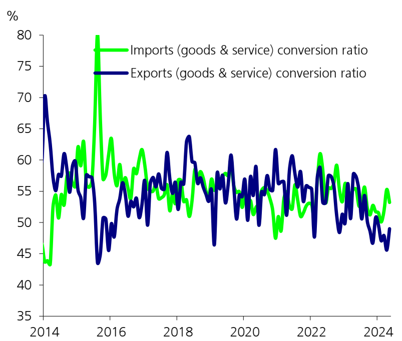
Source: CEIC, UBS estimates

Figure 66: … partly due a weaker USD



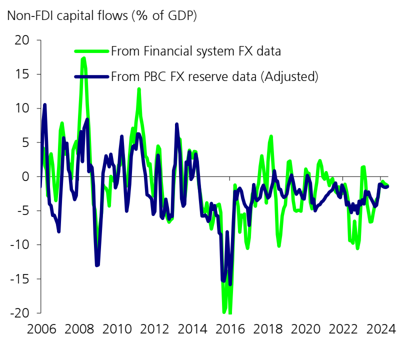
Source: Wind, UBS estimates

Figure 67: Export/import conversion ratio



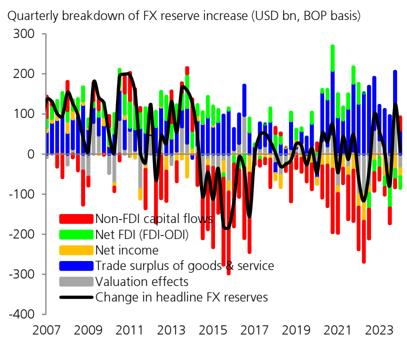
Source: CEIC, Wind, UBS estimates

Figure 68: Non-FDI capital outflows may have continued



Source: CEIC, UBS estimates

Figure 69: Breakdown of change in FX reserves



Source: CEIC, UBS estimates

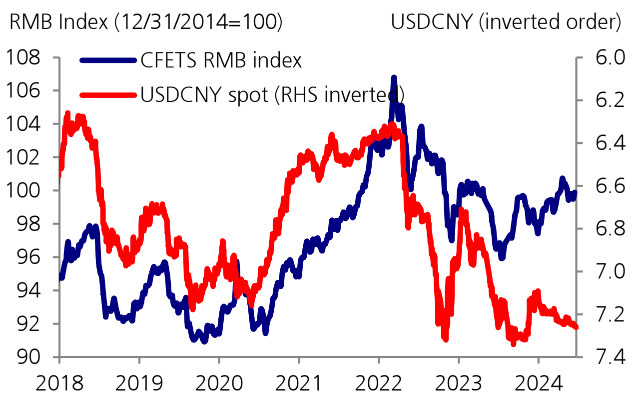
Exchange Rate

- **RMB remained largely unchanged in the range of 7.24 against the USD comparing end-May** to end-Apr. That said, the RMB depreciated more in the 2nd half of May, giving up gains from the first half, and softened further in recent days. The CNY depreciated by 0.7% against the CFETs basket over May. In 2023, full-year RMB weakened by 2% vs USD, and strengthened by 1% against the basket. This followed 9% depreciation vs the USD and 2.4% weakness vs the basket in 2022.

- **RMB exchange rate has been driven by various factors.** Resilient trade balance is a supporting factor, while the negative China-US rate differentials and concerns on China's growth momentum slowdown are main headwinds. The PBC lowered RRR for FX deposits by 200bp/100bp in Sep/Apr 2022. The SAFE raised the macroprudential adjustment parameter for cross-border financing from 1 to 1.25 in Oct 2022, and further to 1.5 in July 2023.

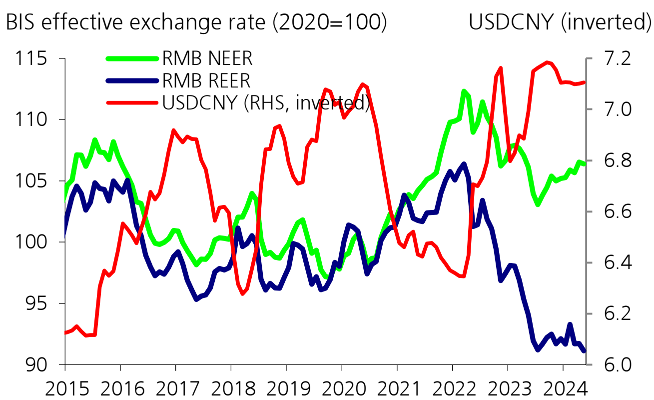
- **RMB may strengthen to 7.1-7.2 range by end 2024E.** Similar to the recent depreciations, the dynamics of the interest rate differentials, USD index, as well as China's growth data and property market weakness, may still bring episodes of CNY weakness ahead. That said, the PBC will likely use various tools (including counter-cyclical factor in daily fixing) to prevent further CNY weakness much beyond 7.3, amid rapid episodes of depreciation and significant increases in volatility. Given our expectation of stabilisation in China's growth momentum as well as expected US Fed interest rate cuts, we continue to expect RMB to strengthen a bit by end-2024E to 7.1-7.2.

Figure 70: CNY vs USD depreciated more in the 2nd half of May



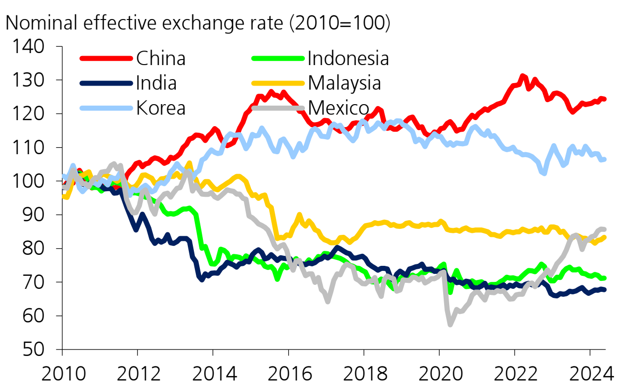
Source: Wind, UBS estimates

Figure 71: CNY weakened in REER terms in 2022 and 2023



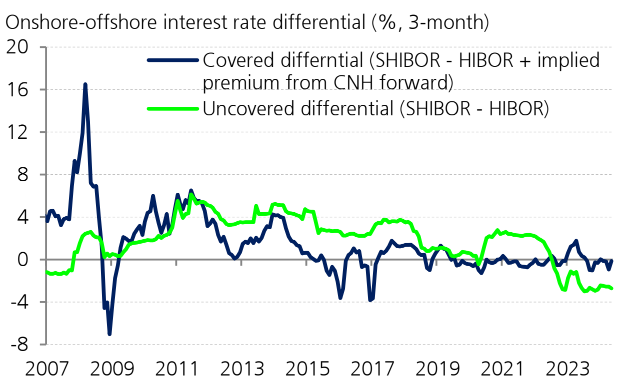
Source: CEIC, UBS estimates

Figure 72: RMB vs competitor currencies



Source: CEIC, UBS estimates

Figure 73: Interest rate differential

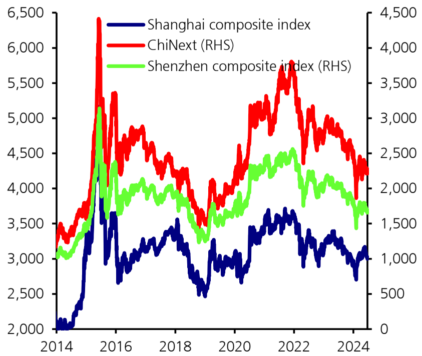


Source: CEIC, Bloomberg, UBS estimates

Financial Markets

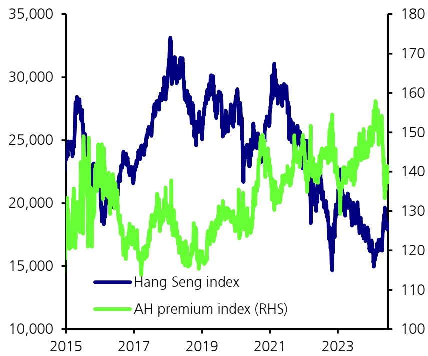
- **Total industrial profit recovered to 4.3% y/y in April** from -3.7% y/y in March, with revenue growth and profit margin both recovering. Total industrial revenue improved to 3.3% y/y in April from -1.2% y/y previously. By sector, profit growth in the mining industry remained deep in contraction y/y, while that of the manufacturing industry rebounded, and the utilities sector improved further.
- **UBS expects MSCI China index target at $65 in 2024**. UBS equity strategists continue to hold a positive view on the China equity market given trough valuation, low investor positioning, modest policy support and improving earning momentum ahead. Taking into account adjusted EPS forecast for this year, alongside unchanged view on valuation, they update MSCI China index target to $65 (see updating MSCI China index target).
- **2024E sector allocations:** UBS equity strategists adopt a barbell strategy with high dividend stocks on the one hand (comprised of select SOE, utility and financials stocks), and internet, property, education, semi-equipment and outbound travel on the other. They shift preferences away from domestic consumption stocks, as they believe a recovery in consumption fundamentals may take a bit longer, while in the event of a grinding market recovery, property and internet sectors may be better positioned. See more in Shifting sector allocations.

Figure 74: A-share market has recovered from the trough since Feb...



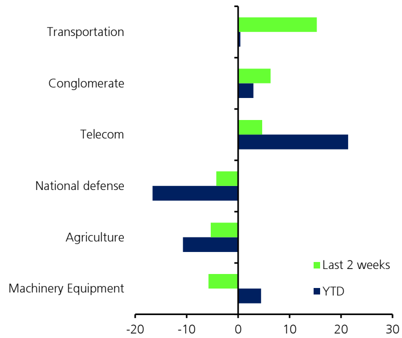
Source: CEIC, UBS estimates

Figure 75: ... same with H-share market



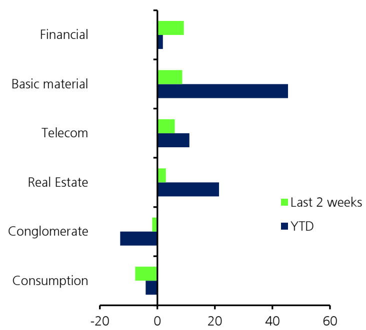
Source: CEIC, UBS estimates

Figure 76: Sector performance divergence in the A-share...



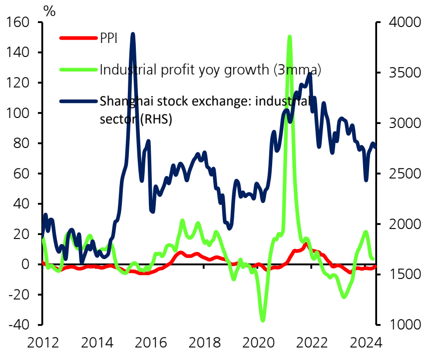
Source: Wind, UBS estimates

Figure 77: ... and the H-share market



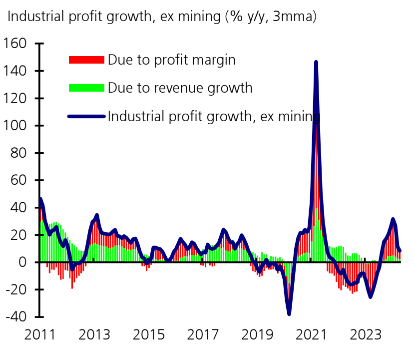
Source: Wind, UBS estimates

Figure 78: Industrial profit recovered y/y in April



Source: CEIC, UBS estimates

Figure 79: Both revenue growth and margin improved



Source: CEIC, UBS estimates *chart is 3mma basis

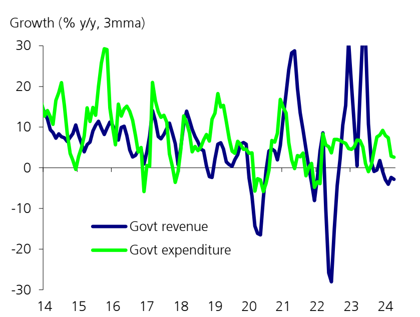
Fiscal

- **Fiscal revenue weakened further while expenditure rebounded y/y in April.** Headline fiscal revenue declined by 3.7% y/y in April from -2.4% y/y in March (-2.3% y/y in Q1). On a comparable basis (after controlling a high base due to delayed SME tax collection and carry-over of tax cuts since mid-2023), the underlying fiscal revenue grew 2% y/y in Jan-Apr (vs headline -2.7% y/y). Fiscal expenditure rebounded to 6.1% y/y in April from -2.9% y/y in March (+2.9% y/y in Q1). Corporate income tax revenue cooled to 0.7% y/y in April (1% y/y in Q1), while personal income tax slid again to -18.8% y/y on a high base (-4.5% y/y in Q1). As such, April saw a headline fiscal surplus of RMB42bn, smaller than the average level in previous years. Local land revenue declined by another -21% y/y in April from -19% y/y in March (-6.7% y/y in Q1).

- **Further progress in addressing LGFV debt issue**. Local governments issued RMB1.39 trillion of special refinancing LG bonds to swap for qualified LGFV debt and/or pay arrears to corporate suppliers in H2 2023. In 2024, we expect additional issuance of special refinancing LG bonds and banks to increase restructuring of LGFV bank loans, while YTD issuance has been very limited at RMB 84bn. We think the long-term solution (eg, adjustment of central-local fiscal relations and debt structure) may not materialise soon but could possibly be discussed in the upcoming 3rd Plenum (see NPC takeaway and Politburo meeting).

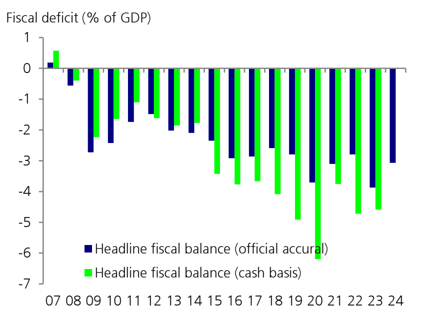
- **Modest fiscal support in a more explicit way**. China announced a headline general fiscal deficit of 3% of GDP, additional RMB1trn special CGB and RMB3.9trn special LG bonds for 2024. The combined budget deficit (general fiscal + govt funds) on a cash basis is estimated to be 8.2% of GDP (+1.2ppt larger 2023 outturn). We expect the Augmented Fiscal Deficit (AFD) to expand by 1ppt in 2024 after no increase in 2023. The government called for faster issuance of special CGB and special LGB, and is avoiding fiscal tightening as it did in H1 2023. Overall, fiscal support will be more explicit in stronger on-budget spending, especially from central government. We think local government land sales revenue may decline by another 10% in 2024, while off-budget LGFV financing will likely be muted amid the ongoing emphasis of controlling implicit debt risk (see NPC takeaway).

Figure 80: April fiscal revenue slid but expenditure rebounded



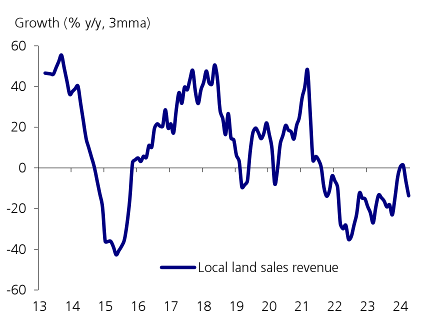
Source: CEIC, UBS estimates.

Figure 81: Fiscal deficit 3% of GDP in 2024, excluding 1 trillion special CGB



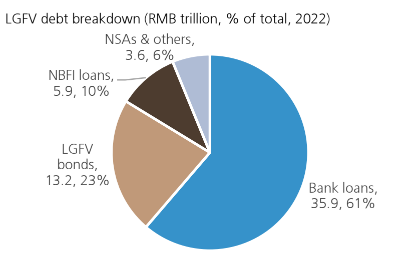
Source: CEIC, UBS estimates

Figure 82: Local land sales revenue -21% y/y in April



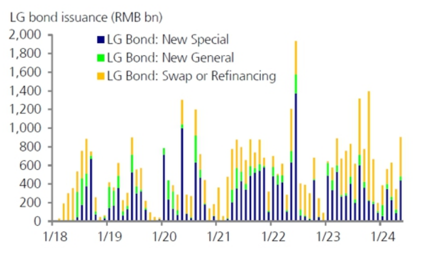
Source: CEIC, Wind, UBS estimates

Figure 83: LGFV debt reached RMB 59trn in 2022



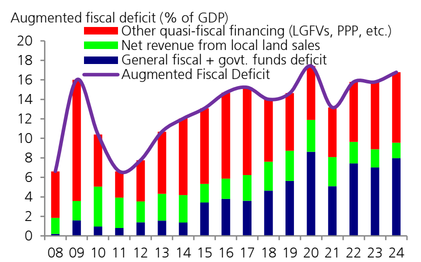
Source: CEIC, Wind, UBS estimates

Figure 84: Slow issuance of special LGB in Jan-May



Source: CEIC, UBS estimates

Figure 85: China's AFD to expand by 1ppt in 2024E after no change in 2023



Source: CEIC, Wind, UBS estimates

Macroeconomic data tables

		May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Apr-24	May-24
Physical Activity Index (SARS-adjusted)		7.6	4.0	3.2	5.4	7.4	7.2	9.1	8.7	4.9	4.9	1.9	3.0	2.8
Industry		6.9	2.8	4.7	8.9	7.9	8.6	10.2	10.0	8.8	8.8	8.1	12.0	8.0
Elec		7.5	4.4	3.2	2.6	9.2	7.0	9.8	10.1	6.6	6.6	3.9	3.8	5.1
Trans		44.7	27.3	24.5	27.0	34.3	39.3	44.3	38.9	13.7	13.7	8.7	6.8	14.8
Cons		0.3	-2.7	-4.6	-7.1	-4.8	-5.8	-3.2	-3.2	-12.9	-12.9	-20.6	-19.3	-17.9
Agri		3.7	3.4	-1.0	3.9	4.3	4.1	4.3	4.3	2.0	2.0	3.2	3.1	3.0
CPI sa	02=100	163.3	163.5	163.5	163.9	163.8	163.4	163.0	163.2	163.4	163.5	163.3	163.5	163.7
Food	02=100	277.4	281.5	276.2	275.3	273.0	271.2	268.9	269.3	268.6	269.4	268.9	268.3	270.9
Goods	02=100	115.7	115.7	116.0	116.4	116.6	116.6	116.4	116.6	116.8	116.9	116.9	117.1	117.0
Services	02=100	142.4	131.0	131.6	127.8	127.9	129.5	127.1	130.2	130.4	128.3	143.7	143.9	143.9
CPI	y/y%	0.2	0.0	-0.3	0.1	0.0	-0.2	-0.5	-0.3	-0.8	0.7	0.1	0.3	0.3
Food	y/y%	1.0	2.3	-1.7	-1.7	-3.2	-4.0	-4.2	-3.7	-5.9	-0.9	-2.7	-2.7	-2.0
Goods	y/y%	-0.7	-1.5	-0.9	-0.1	0.2	0.3	-0.1	0.1	0.2	0.8	0.6	1.1	0.9
Services	y/y%	0.6	0.6	1.0	1.1	1.1	1.1	0.9	0.9	0.7	1.7	0.8	0.8	0.8
PPI	96=100	129.9	129.2	129.1	130.0	130.0	129.7	129.2	129.3	129.1	128.8	128.0	127.6	127.8
RMI	96=100	172.8	171.7	170.6	172.0	172.5	172.0	171.8	171.8	171.8	171.3	170.2	169.5	169.6
CGPI	96=100	127.8	127.5	127.9	128.6	128.8	128.3	128.2	128.6	128.1	127.6	126.7	126.5	#N/A
Import	96=100	154.1	152.1	148.1	150.8	154.3	157.5	158.3	158.4	157.7	157.6	157.3	154.8	155.4
PPI	y/y%	-4.6	-5.4	-4.4	-3.0	-2.5	-2.6	-3.0	-2.7	-2.5	-2.7	-2.8	-2.5	-1.4
RMI	y/y%	-5.3	-6.5	-6.1	-4.6	-3.6	-3.7	-4.0	-3.8	-3.4	-3.4	-3.5	-3.0	-1.7
CGPI	y/y%	-4.1	-4.5	-3.0	-2.0	-1.4	-2.1	-2.1	-1.8	-2.2	-2.2	-2.3	-1.8	#N/A
Import	y/y%	-10.8	-12.5	-14.4	-11.9	-8.3	-5.9	-1.3	-3.3	-2.9	-1.7	-1.2	-1.1	0.5
M0	RMB bn sa	10,708	10,850	10,943	11,025	11,165	11,267	11,373	11,301	11,258	11,027	11,611	11,760	11,918
M1	RMB bn sa	67,957	67,664	67,606	67,571	67,712	67,536	67,241	67,450	68,892	69,278	68,172	66,807	65,225
M2	RMB bn sa	281,753	283,853	285,442	287,744	289,428	291,623	294,016	294,830	297,152	299,053	300,896	300,479	301,375
Loans	RMB bn sa	227,925	229,311	231,953	233,763	236,146	238,778	241,475	241,504	242,296	244,646	247,486	248,506	251,325
Deposits	RMB bn sa	274,104	275,406	276,817	279,103	280,931	283,552	285,907	288,031	289,160	291,563	292,126	291,085	292,341
M0	y/y%	9.6	9.8	9.9	9.5	10.7	10.2	10.4	8.3	5.9	12.5	11.0	10.8	11.7
M1	y/y%	4.7	3.1	2.3	2.2	2.1	1.9	1.3	1.3	5.9	1.2	1.1	-1.4	-4.2
M2	y/y%	11.6	11.3	10.7	10.6	10.3	10.3	10.0	9.7	8.7	8.7	8.3	7.2	7.0
Loans	y/y%	11.4	11.3	11.1	11.1	10.9	10.9	10.8	10.6	10.4	10.1	9.6	9.6	9.3
Deposits	y/y%	11.6	11.0	10.5	10.5	10.2	10.5	10.2	10.0	9.2	8.4	7.9	6.6	6.7
Reserve money	RMB bn sa	34732	36056	35856	36316	36159	36088	36842	37095	37513	36493	36222	36476	36275
Reserve money (adjusted)	y/y%	6.6	8.9	7.6	8.4	8.1	7.4	9.5	7.4	5.6	8.5	4.5	5.4	5.9
Fixed asset investment	y/y%	2.2	3.3	1.2	2.0	2.5	1.3	2.9	4.0	4.2	4.2	4.7	3.6	3.5
Real FAI	y/y%	3.4	5.3	3.6	3.6	3.5	2.2	3.9	4.6	4.4	4.1	4.6	3.4	2.8
Industrial sales real growth	%y/y	2.7	1.9	1.9	3.0	3.5	5.0	9.8	3.8	6.8	6.8	1.0	5.3	#N/A
Industrial value added growth	%y/y	3.5	4.4	3.7	4.5	4.5	4.6	6.6	6.8	7.0	7.0	4.5	6.7	5.6
Industrial inventories	RMB bn	6090.1	6003.2	6066.4	6127.6	6094.8	6172.5	6237.3	6097.3	6044.7	6044.7	6207.1	6280.5	#N/A
Inventory/sales ratio	%	60.3	60.1	59.8	59.7	59.4	59.0	58.6	61.6	62.3	63.4	64.2	64.3	#N/A
Industrial profits	RMB bn	2668.9	3388.5	3944.0	4655.8	5412.0	6115.4	6982.3	7685.8	914.1	914.1	1505.5	2094.7	#N/A
Profit margin (sa)	%	5.4	5.4	5.5	6.0	6.0	6.4	6.5	6.4	6.1	5.8	5.4	5.3	#N/A
Retail sales	RMB bn	3780.3	3995.1	3676.1	3793.3	3982.6	4333.3	4250.5	4355.0	4065.3	4065.3	3902.0	3569.9	3921.1
Real retail sales	%y/y SARS	12.9	3.5	3.6	5.1	6.2	8.6	11.5	8.4	6.7	5.7	3.4	2.2	3.6
Urban per capita disposable income	RMB sa	2704.0	2704.8	2715.7	2715.2	2721.7	2719.0	2723.8	2717.4	2760.1	2769.5	2792.3	#N/A	#N/A
Urban per capita expenditure	RMB sa	1709.0	1720.5	1742.4	1758.1	1782.5	1748.3	1728.1	1693.0	1745.7	1765.6	1791.8	#N/A	#N/A
Rural cash income	RMB sa	1054.4	1062.7	1065.9	1066.3	1068.5	1081.2	1091.9	1098.2	1099.9	1103.7	1107.7	#N/A	#N/A
Rural cash consumption expenditure	RMB sa	883.5	898.6	907.8	915.7	927.1	910.4	909.8	887.5	915.8	924.7	934.3	#N/A	#N/A
Composite construction index ex land	% y/y	-0.2	-1.2	-4.4	-4.9	-5.1	-6.1	-3.3	-4.2	-9.3	-10.0	-20.6	-18.8	-17.9
Exports	USD bn	283.8	285.3	281.8	284.8	296.7	274.3	292.7	303.5	307.7	220.3	279.7	292.5	302.3
Imports	USD bn	217.6	214.7	201.2	216.5	221.2	218.1	223.3	228.2	222.3	180.6	221.1	220.1	219.7
Trade balance	USD bn	66.3	70.6	80.6	68.3	75.5	56.1	69.5	75.3	85.5	39.7	58.6	72.4	82.6
Real export growth	% y/y	-0.3	-1.8	-4.0	5.9	7.9	7.4	12.0	13.3	20.7	19.6	-1.3	9.8	13.6
Real import growth	% y/y	7.1	6.5	2.4	5.3	2.2	9.4	0.6	3.6	18.9	-6.6	-0.7	9.6	1.3
FDI utilized YTD	USD bn	84.4	98.1	111.8	121.7	131.9	141.2	148.7	161.8	15.9	30.3	42.5	0.0	0.0
FDI utilized monthly sa	USD bn	11.4	14.2	31.7	11.4	11.0	10.9	7.9	5.5	16.2	16.7	33.5	0.0	0.0
FX reserves	USD bn	3176.5	3193.0	3204.3	3160.1	3115.1	3101.2	3171.8	3238.0	3219.3	3225.8	3245.7	3200.8	3232.0
Monthly intervention (adj sa)	USD bn	34.3	20.2	57.4	54.8	71.0	55.1	25.5	24.9	60.3	-14.5	86.6	61.0	46.1
Current account (est)	% GDP	2.3	2.5	2.5	2.4	2.5	2.4	2.5	2.1	2.2	1.8	1.4	1.0	#N/A
FDI	% GDP	1.0	1.0	0.9	0.9	0.8	0.7	0.6	0.7	0.9	1.0	0.9	0.8	#N/A
"Other" capital (residual)	% GDP	-2.2	-2.9	-3.3	-3.8	-4.6	-4.5	-3.1	-1.1	-1.1	-1.4	-1.6	-1.6	-1.5
CN NDF 3M	%	0.6	0.7	0.9	0.7	0.9	1.1	1.2	0.9	1.1	1.3	1.4	1.5	1.8
CN NDF 12M	%	2.3	2.7	2.9	2.7	2.4	2.3	2.5	2.2	2.4	2.5	2.6	2.5	2.9
CN Average CIBOR and REPO 7-day	%	2.0	2.1	2.0	1.9	2.1	2.2	2.2	2.1	2.1	2.0	2.0	2.0	1.9
CN average long yield	%	2.9	2.8	2.8	2.7	2.8	2.8	2.8	2.7	2.6	2.5	2.4	2.4	2.4
SH market		3283.6	3219.7	3216.6	3174.7	3124.8	3052.8	3044.6	2958.9	2880.0	2881.4	3044.4	3058.9	3127.5

Source: UBS estimates. Note: FDI (MOFCOM) in USD term is derived from CNY term since August 2023

World and APAC snapshot

	Real Growth (%YoY)				Consumer Prices (%YoY)				Industrial Production (%YoY)			
	2022	2023	2024F	2025F	2022	2023	2024F	2025F	2022	2023	2024F	2025F
World	3.4	3.3	3.1	3.1	8.4	6.2	5.8	3.9	2.5	1.7	2.1	3.1
Major economies												
US	1.9	2.5	2.3	1.4	8.0	4.1	3.1	2.5	3.4	0.2	-0.2	0.5
Eurozone	3.5	0.5	0.6	1.2	8.4	5.5	2.4	2.1	2.2	-2.0	0.2	1.1
Asia Pacific												
China	3.0	5.2	4.9	4.6	2.0	0.2	0.4	1.4	2.7	4.2	4.0	4.2
Hong Kong	-3.7	3.2	2.5	2.8	1.9	1.8	1.8	2.1	na	na	na	na
India	7.0	8.2	7.0	7.0	6.7	5.4	4.5	4.5	-2.2	9.9	5.6	6.6
Indonesia	5.3	5.0	4.9	5.0	4.1	3.7	3.0	2.5	4.9	4.6	4.1	5.0
Japan	1.0	1.9	0.2	1.0	2.5	3.3	2.4	1.9	0.0	-1.4	0.2	2.8
Malaysia	8.9	3.6	4.1	4.3	3.4	2.5	2.4	2.7	8.1	0.7	-2.7	9.5
Philippines	7.6	5.5	5.7	6.1	5.8	6.0	3.3	2.6	4.9	1.3	5.3	6.1
Singapore	3.8	1.1	2.6	2.7	6.1	4.8	2.7	2.0	2.7	-4.3	-1.2	3.6
Korea	2.6	1.3	2.3	2.1	5.1	3.6	2.2	1.9	4.9	1.1	3.8	2.1
Taiwan	2.6	1.3	3.8	3.1	2.9	2.5	2.3	1.9	-1.5	-13.3	5.5	2.8
Thailand	2.5	1.9	2.8	3.3	6.1	1.2	0.8	1.8	1.3	-3.8	1.6	3.2
Vietnam	8.0	5.2	6.4	6.8	3.2	3.0	3.1	2.9	7.9	3.6	6.7	6.4
Australia	3.9	2.0	1.2	2.1	6.6	5.6	3.3	3.3	0.0	0.4	0.9	1.7

	Current Account (%GDP)				Exchange Rate(LC per $, end period)***				Policy Rate (% p.a, end period)			
	2022	2023	2024F	2025F	2022	2023	2024F	2025F	2022	2023	2024F	2025F
Major economies												
US	-3.8	-3.5	-3.5	-3.5	--	--	--	--	4.33	5.33	5.08	3.33
Eurozone	-0.7	1.9	2.2	2.4	1.07	1.08	1.05	1.10	2.00	4.00	3.25	2.25
Asia Pacific												
China	2.5	1.4	1.2	1.2	6.96	7.08	7.15	7.00	2.75	2.50	2.50	2.50
Hong Kong	10.2	6.2	6.4	6.4	7.80	7.81	7.75	7.75	4.99	5.15	4.30	3.02
India	-2.0	-0.7	-1.4	-1.8	82.3	82.6	83.0	84.0	6.50	6.50	6.25	6.00
Indonesia	1.0	-0.1	-0.9	-1.1	15731	15416	16000	15800	5.50	6.00	6.25	5.50
Japan	1.9	3.6	4.2	4.8	132.1	140.0	160.0	140.0	-0.10	-0.10	0.25	1.00
Malaysia	3.1	1.6	3.5	3.1	4.41	4.59	4.70	4.60	2.75	3.00	3.00	3.00
Philippines	-4.5	-2.6	-2.0	-2.7	56.1	55.6	57.0	56.0	5.50	6.50	6.00	5.00
Singapore	18.0	19.8	16.9	15.9	1.34	1.32	1.33	1.31	2.53	3.58	3.00	2.00
Korea	1.5	2.1	3.6	3.9	1265	1288	1330	1350	3.25	3.50	3.25	2.00
Taiwan	13.4	13.9	11.7	12.3	30.7	30.7	32.0	31.0	1.75	1.88	2.00	1.63
Thailand	-3.2	1.4	2.9	4.8	34.6	34.4	36.0	35.5	1.25	2.50	2.50	2.25
Vietnam	-0.2	4.5	4.0	4.6	23555	24255	23527	23057	6.00	4.00	4.00	5.00
Australia	3.9	-0.9	-1.1	-1.6	0.68	0.65	0.66	0.66	3.10	4.35	4.35	3.35

Source: CEIC, Haver, UBS estimates. *FY Beginning April

Key global indicators

	2022	2023	2024F	2025F	1Q23	2Q23	3Q23	4Q23	1Q24
Real GDP Growth, % yoy									
World	3.4	3.3	3.1	3.1	2.8	3.7	3.3	3.5	3.5
US	1.9	2.5	2.3	1.4	1.7	2.4	2.9	3.1	2.9
Eurozone	3.5	0.5	0.6	1.2	3.6	3.5	3.4	2.3	1.9
Japan	1.0	1.9	0.2	1.0	2.4	2.2	1.5	1.2	-0.3
China	3.0	5.2	4.9	4.6	4.5	6.3	4.9	5.2	5.3
Non-China Asia	5.6	5.5	5.4	5.4	4.3	5.3	5.6	6.0	6.0
Industrial Production, % yoy									
World	2.5	1.7	2.1	3.1	--	--	--	--	--
US	3.4	0.2	-0.2	0.5	--	--	--	--	--
Eurozone	2.2	-2.0	0.2	1.1	--	--	--	--	--
Japan	0.0	-1.4	0.2	2.8	--	--	--	--	--
China	2.7	4.2	4.0	4.2	2.9	4.5	4.2	5.2	6.1
Non-China Asia	1.3	3.9	4.4	5.5	1.9	1.7	6.7	6.2	4.0
CPI Inflation, % yoy									
World	9.5	7.5	8.2	5.1	--	--	--	--	--
US	8.0	4.1	3.1	2.5	5.7	4.0	3.6	3.2	3.2
Eurozone	8.4	5.5	2.4	2.1	8.0	6.2	5.0	2.7	2.6
Japan	2.5	3.3	2.4	1.9	3.6	3.3	3.2	2.9	2.6
China	2.0	0.2	0.4	1.4	1.3	0.1	-0.1	-0.3	0.0
Non-China Asia	5.4	4.3	3.4	3.3	5.4	3.9	4.5	3.9	3.6
Key commodity prices									
Brent Oil (USD/barrel)	99.0	82.2	83.2	80.0	82.2	77.8	85.9	82.0	81.8
Thermal Coal (US$/t, Australia FOB)	357	175	122	110	248	160	147	135	127
CRB Index	592.5	546.4	--	--	552.0	546.9	555.1	531.5	521.6
Key interest rates (end period)									
US Fed Funds rate	4.33	5.33	5.08	4.58	4.83	5.08	5.33	5.33	5.33
3M USD Libor	4.77	5.59	5.04	4.54	5.19	5.55	5.66	5.59	5.56
ECB refinancing rate	2.50	4.50	3.75	3.50	3.50	4.00	4.50	4.50	4.50
10-year US treasury	3.88	3.88	4.00	3.95	3.48	3.81	4.59	3.88	4.27
10-year German bond	2.57	2.03	2.00	1.90	2.28	2.39	2.85	2.03	2.29
Key exchange rates (end period)									
EUR/USD	1.07	1.08	1.05	1.10	1.1	1.1	1.1	1.1	1.1
USD/JPY	132	140	160	140	133.1	144.9	148.8	141.4	151.3
CNY/USD	7.0	7.1	7.2	7.0	6.89	7.16	7.30	7.14	7.20

Source: CEIC, Haver and UBS estimates

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