

September 16, 2021

# Economic Acumen

Commentary by CEBI Research Team

## In Brief

- China's economy faced a slower growth in August as there were signs of weakness emerging from major economic indicators under which fixed asset investment (FAI), industrial production and retail sales decelerated in varying degree.
- China's manufacturing industry decelerated due to pandemic-related supply chain issues as factories and ports were disrupted by outbreak of the Delta coronavirus variant (DV) and the resulting restrictions as part of government's zero-tolerance policy of pandemic.
- China's policy makers will retain accommodative monetary and fiscal policy stance to alleviate the downside risks and stimulate growth, thus ensuring a more sustainable recovery of economic strengths.
- We forecast that the trajectory of China's economy is towards sound and sustainable growth with which GDP growth will reach 8.4% in 2021.

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## China's economy embracing modest growth momentum in August

China's economy faced a slower growth in August as there were signs of weakness emerging from major economic indicators under which fixed asset investment (FAI), industrial production and retail sales decelerated in varying degree. August survey-based urban unemployment rate stayed unchanged at 5.1%, reflecting stable conditions of job market. In sum, China's manufacturing industry decelerated due to pandemic-related supply chain issues as factories and ports were disrupted by outbreak of the Delta coronavirus variant (DV) and the resulting restrictions as part of government's zero-tolerance policy of pandemic. The recent spread of DV and unstable weather conditions disrupted business operations of service sector and market sentiment for consumption, adding to the recovery headwinds on the second largest economy of the world. We are of the view that China's policy makers will retain accommodative monetary and fiscal policy stance to alleviate the downside risks and stimulate growth, thus ensuring a more sustainable recovery of economic strengths. The economy is still embedded into modest recovery path with stable growth momentum, which is driven by the steady pick-up in domestic demand and external trade. We forecast that the trajectory of China's economy is towards sound and sustainable growth with which GDP growth will reach 8.4% in 2021.

**FAI expansion decelerated in 8M2021.** China's economic activities sowed signs of slowdown, reducing growth momentum of FAI during the first eight months of 2021. FAI expanded by 8.9% YoY, staying lower than the consensus estimate of 9.0% and 7M2021's 10.3%. The cooling expansion of FAI was driven by slower pace of YoY YTD investment in infrastructure (2.9% vs 7M2021's 4.6%), manufacturing activities (15.7% vs 7M2021's 17.3%), and property development (10.9% vs 7M2021's 12.7%). We are of the view that the government's recent efforts to restart infrastructure projects and acceleration of issuing more local government debt will help FAI maintain stable growth in coming months.

**Industrial value-added output grew at a moderate pace in August.** In August, industrial production grew by 5.3% YoY, staying below the consensus estimate of 5.8% and July's 6.4%. The slowing growth momentum of industrial activities was attributed to disrupted productions in several areas in China due to bad weather and the resurgence of coronavirus infected cases. For the first eight months of 2021, general growth of outputs reached 13.1%. In general, manufacturing activities in some product categories embraced stable growth in August. In particular, the value-added growth of "Manufacture of Medicines", "Manufacture of Computer, Communication Equipment and Other Electronic Equipment", "Manufacture of Fabricated Metal Products", and "Manufacture of Electric Machinery and Equipment", increased by 32.9% YoY, 13.3% YoY, 11.8% YoY and 10.3% respectively. We are of the view that the DV affects the process of the activities normalization in both China's economy and economies of trading partners, thus curbing the new orders of Chinese industrial products and growth of industrial production in coming months.

**Retail sales demonstrated slower growth in August.** Retail sales of consumer goods in August grew slowly by 2.5% YoY, staying below the consensus estimate of 7.0% and June's 8.5%. For 8M2021, retail sales expanded by 18.1% with which national online retail sales reached Rmb 8.12tr, posting a year-on-year growth of 19.7%. Slowing retail sales growth was mainly attributed to bad weather and resurgence of coronavirus cases. In general, sales of consumer goods for August were mainly driven by "Cultural and Office Appliances" (August: 20.4%, 8M2021: 21.5%), "Tobacco and Liquor" (August: 14.4%, 8M2021: 27.6%), "Building and Decoration Materials" (August: 13.5%, 8M2021: 26.8%), and "Petroleum and Related Products" (August: 13.1%, 8M2021: 20.7%). Looking forward, the DV's outbreak continues to hamper tourism and spending during the summer holidays. The latest coronavirus controls will likely reduce retail spending in coming months.

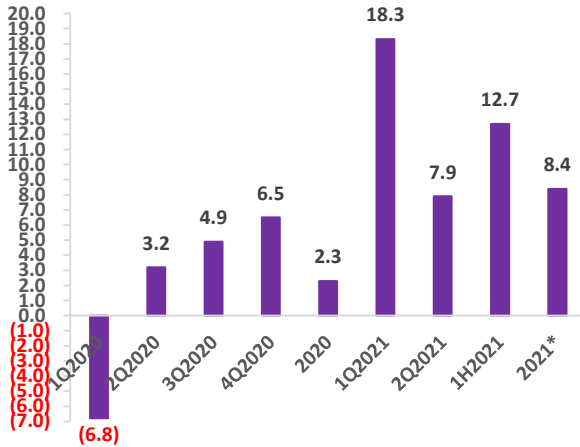
**Consumer inflation remained mild while producer price level surged on rising commodity prices.** China's consumer price index (CPI) grew by 0.8% in August, staying below the consensus estimate and July's 1.0%. The downtrend of August CPI was mainly driven by falling pork price by 44.9% YoY which offset continued increase in fuels for vehicles and travelling costs. For factory-gate prices, China's producer price index (PPI) maintained uptrend by posting 9.5% YoY in August, exceeding the consensus estimate and July's 9.0%. August's industrial prices rose at their fastest pace since 2008 due to the reopening of economic activities across the globe which triggered rally in international commodity prices and surging industrial prices in China. In sum, the mild rise in consumer prices constrained inflationary pressures, which created favorable conditions for macroeconomic adjustments to boost economic growth. A continuously stable inflation would facilitate the flexible monetary

policy in countering an economic slowdown. Although uneven recovery momentum of global economy on the DV's threat remains as the major growth headwind, China's growth momentum remained modest, which will further stabilize the general price level of consumers and producers.

**China's external trade embraced unexpected rebound in August despite DV's threat and port disruptions.** Global economic recovery continues to underpin China's external trade as August exports rose by 15.7% YoY in Yuan terms, staying above the consensus estimate of 8.4% and July's 8.1%, while August imports increased by 23.1% YoY, staying above the consensus estimate of 18.5% and July's 16.1%. The acceleration of both exports and imports was mainly due to the rebound in shipment of Chinese-made consumer goods such as electronics, furniture and recreational products for retailers in advanced economies replenishing their inventories ahead of the Christmas shopping seasons. The exports to the U.S. and EU have exceeded robust growth of 30% YoY for the first eight months of 2021, indicating that the threat of DV and surging commodity prices have not curbed their demand of Chinese products. Looking forward, major cities around the globe re-imposing lockdown measures to fight against the spread of DV disrupt the global supply chain with which Chinese exporters struggle with an ongoing global semiconductor shortage, logistics bottlenecks, and higher raw material and freight costs. We are of the view that global trading activities still pursue unstable recovery. As overseas new orders of the Chinese products remain uncertain, China's overall trade growth could face fluctuating momentum in coming months but will maintain modest growth for the rest of 2021.

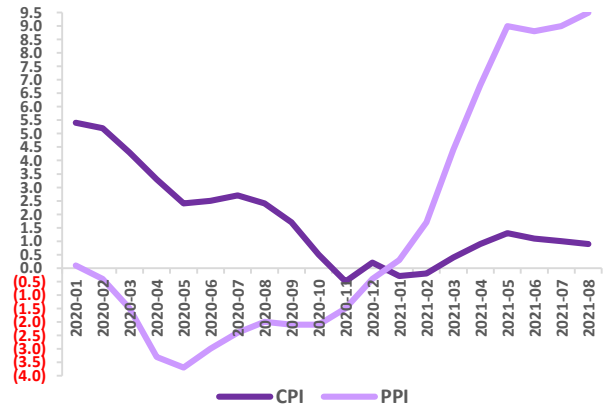
**Board credits and liquidity in the economy surged in August.** August's monetary indicators demonstrated a mixed trend as China's banks released new loans of Rmb1.22tr, standing below the consensus estimate of Rmb1.4tr but above July's Rmb 1.08tr while M2 growth grew by 8.2% YoY, staying below the consensus estimate of 8.4% and July's 8.3%. The aggregate financing to the real economy (flow), a broad measure of credit and liquidity in the economy, reached Rmb 2.96tr, exceeding the consensus estimate of Rmb 2.8tr and July's Rmb 1.06tr. In sum, the acceleration of liquidity injection into the economy driven by the Required Reserve Ratio (RRR) cut in July reflected faster credit growth to prop up the growth momentum of China. Looking ahead, the People Bank of China (PBOC) will continue to use different monetary tools to unleash the potential credits into the economy, thus fulfilling the credit demand of all types of enterprises as well as maintaining a stable monetary and financial environment for China's economy.

**Fig. 1: China GDP growth (YoY%)**



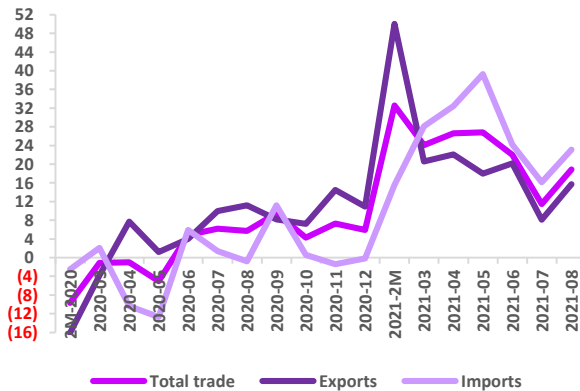
Source: Bloomberg  
\*CEBI forecast

**Fig. 2: CPI and PPI (YoY%)**



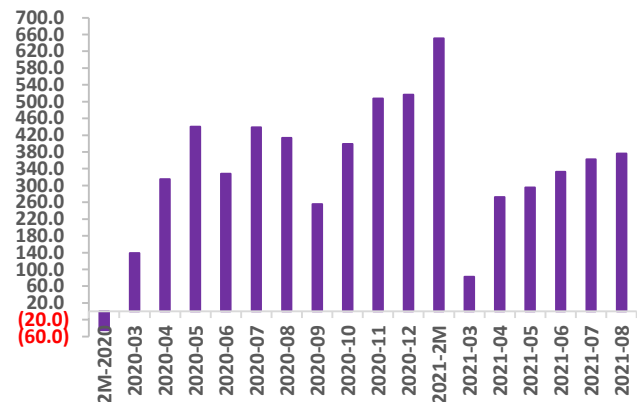
Source: Bloomberg

**Fig. 3: China Exports and Imports (RMB) (YoY%)**



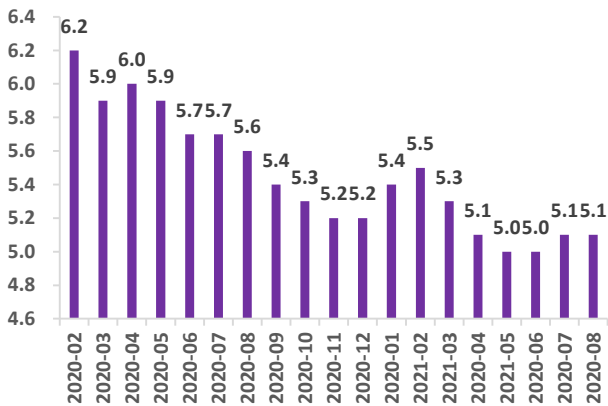
Source: Bloomberg

**Fig. 4: Trade Surplus (RMB bn)**



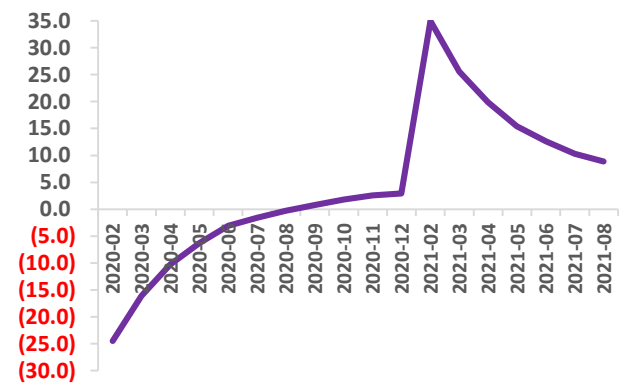
Source: Bloomberg

**Fig. 5: China's urban unemployment rate (%)**



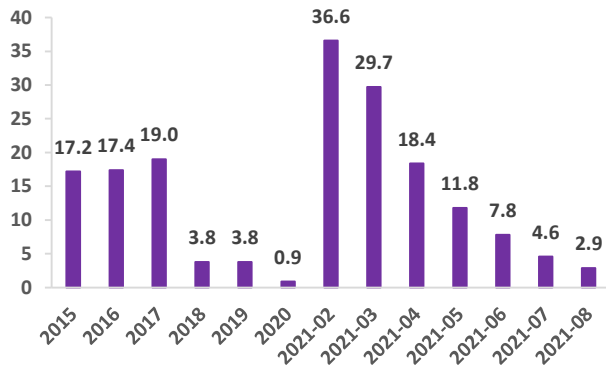
Source: Bloomberg

**Fig. 6: FAI (YTD YoY%)**



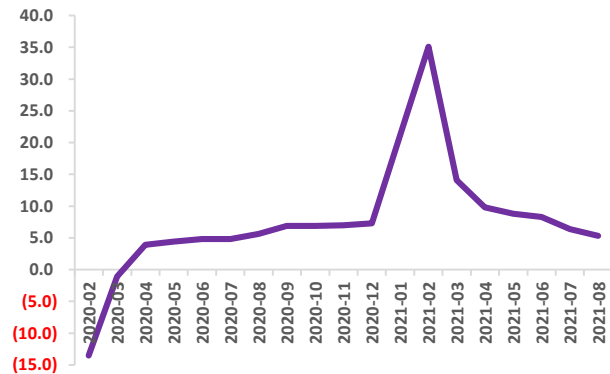
Source: Bloomberg

**Fig. 7: Infrastructure Investment (YTD YoY%)**



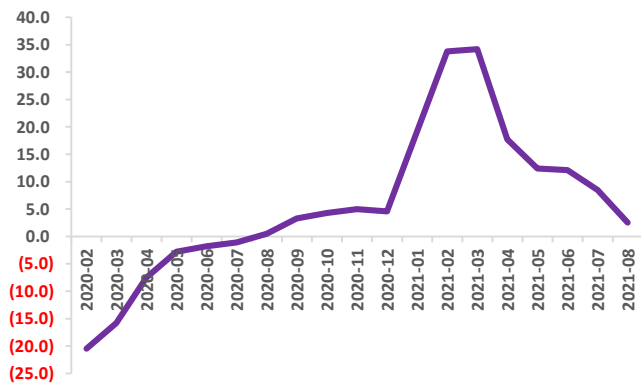
Source: Bloomberg

**Fig. 8: Industrial Production (YoY%)**



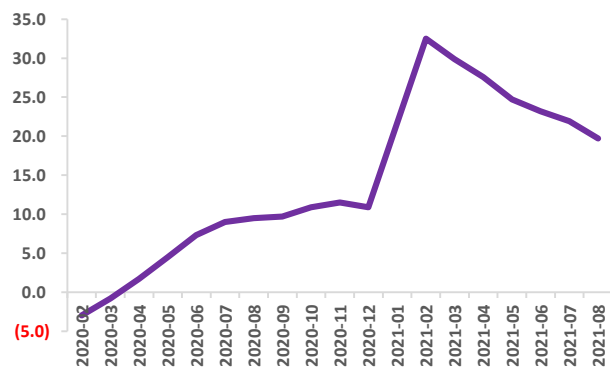
Source: Bloomberg

**Fig. 9: Retail Sales (YoY%)**



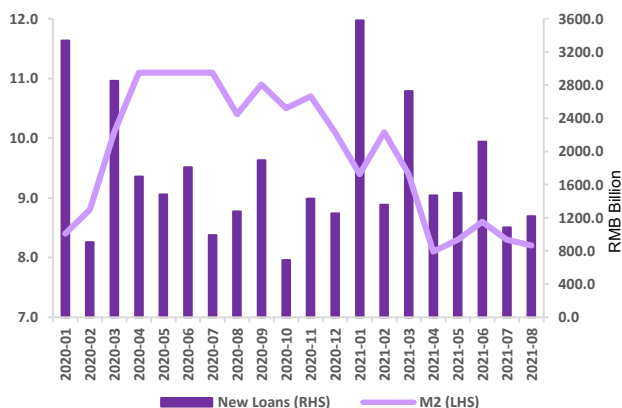
Source: Bloomberg

**Fig. 10: Online Retail Sales (YTD YoY%)**



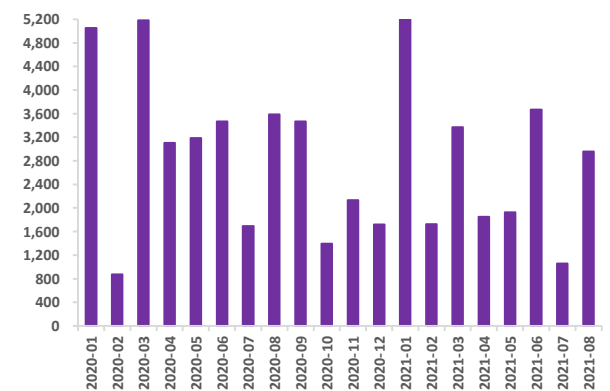
Source: Bloomberg

**Fig. 11: New loans and M2 growth (YoY%)**



Source: Bloomberg

**Fig. 12: Aggregate Social Financing (RMB bn)**



Source: Bloomberg

## China economic indicators

	2019	1Q2020	2Q2020	3Q2020	4Q2020	2020	1Q2021	2Q2021
Real GDP (YoY%)	6.0	(6.8)	3.2	4.9	6.5	2.3	18.3	7.9
PMI Manufacturing (%)	50.2	45.9	50.8	51.2	51.8	51.9	51.3	51.0
PMI Non-Manufacturing (%)	53.5	45.3	53.7	55.1	56.1	55.7	53.4	54.5
Exports (RMB YoY %)	5.0	(11.7)	4.2	9.8	10.9	4.0	38.6	20.1
Imports (RMB YoY %)	1.7	(1.0)	(5.6)	4.7	0.04	(0.4)	20.0	31.6
Trade Balance (RMB/bn)	2912.0	95.9	1068.5	1082.1	1407.7	3654.1	733.4	900.3
Exports (USD YoY %)	0.5	(13.6)	(0.2)	8.4	16.6	3.6	48.9	30.7
Imports (USD YoY %)	(2.7)	(3.1)	(9.5)	3.6	5.4	(0.7)	28.7	43.3
Trade Balance (USD/bn)	421.1	12.7	151.7	153.7	209.3	526.9	112.4	139.2
CPI (YoY %)	2.9	4.9	2.7	2.3	0.1	2.5	0.0	1.1
PPI (YoY %)	(0.3)	(0.6)	(3.3)	(2.2)	(1.3)	(1.8)	2.1	8.2
FAI (YTD/ YOY %)	5.4	(16.1)	(3.1)	0.8	2.9	2.9	25.6	12.6
Real Estate Investment (YTD YoY %)	9.9	(7.7)	1.9	5.6	7.0	7.0	25.6	15.0
Industrial Production (YoY %)	5.7	(8.4)	4.4	5.8	7.1	2.8	24.5	9.0
Retail Sales (YoY%)	8.0	(19.0)	(3.9)	(0.4)	3.2	(3.9)	33.9	13.9
New Lending (RMB/bn)	16817.5	7096.6	4990.9	4166.7	3378.7	19632.9	7667.9	5090.0
M2 (YoY %)	8.7	10.1	11.1	10.9	10.1	10.1	9.4	8.6
Aggregate Financing (RMB bn)	25673.5	11111.0	9757.4	8747.4	5176.0	34791.8	10266.2	7440.7

	Aug 20	Sept 20	Oct 20	Nov 20	Dec 20	Jan 21	Feb 21	Mar 21	Apr 21	May 21	Jun 21	July 21	Aug 21
Real GDP (YoY%)	-	4.9	-	-	6.5	-	-	18.3	-	-	7.9	-	-
PMI - Manufacturing %	51.0	51.5	51.4	52.1	51.9	51.3	50.6	51.9	51.1	51.0	50.9	50.4	50.1
PMI - Non-manufacturing%	55.2	55.9	56.2	56.4	55.7	52.4	51.4	56.3	54.9	55.2	53.5	53.3	47.5
Exports (RMB YoY %)	11.2	8.2	7.2	14.5	10.9	16.5	139.3	20.6	22.1	18.0	20.2	8.1	15.7
Imports (RMB YoY %)	(0.8)	11.2	0.6	(1.4)	(0.2)	19.6	11.2	28.1	32.4	39.3	24.2	16.1	23.1
Trade Balance (RMB/bn)	405.0	248.0	395.7	502.8	509.2	412.4	238.3	82.7	272.3	295.2	332.7	362.7	376.3
Export (USD YoY %)	9.1	9.4	10.9	20.6	18.1	24.7	154.7	30.5	32.2	27.8	32.2	19.3	25.6
Import (USD YoY %)	(2.3)	12.7	4.4	3.9	6.5	28.0	18.2	38.5	43.3	50.8	36.7	28.1	33.1
Trade Balance (USD/bn)	57.3	35.6	57.5	74.8	77.0	62.9	36.5	13.0	42.2	45.4	51.5	56.6	58.3
CPI (YoY %)	2.4	1.7	0.5	(0.5)	0.2	(0.3)	(0.2)	0.4	0.9	1.3	1.1	1.0	0.8
PPI (YoY %)	(2.0)	(2.1)	(2.1)	(1.5)	(0.4)	0.3	1.7	4.4	6.8	9.0	8.8	9.0	9.5
FAI (YTD/ YOY %)	(0.3)	0.8	1.8	2.6	2.9	-	35.0	25.6	19.9	15.4	12.6	10.3	8.9
Real Estate Investment (YTD/ YoY %)	4.6	5.6	6.3	6.8	7.0	-	38.3	25.6	21.6	18.3	15.0	12.7	10.9
Industrial Production (YoY %)	5.6	6.9	6.9	7.0	7.3	-	35.1	14.1	9.8	8.8	8.3	6.4	5.3
Retail Sales (YoY%)	0.5	3.3	4.3	5.0	4.6	-	33.8	34.2	17.7	12.4	12.1	8.5	2.5
New Lending (RMB/bn)	1278.3	1895.7	689.8	1433.7	1255.2	3578.3	1359.4	2730.3	1470.0	1500.0	2120.0	1083.2	1220.0
M2 (YoY %)	10.4	10.9	10.5	10.7	10.1	9.4	10.1	9.4	8.1	8.3	8.6	8.3	8.2
Aggregate Financing (RMB bn)	3585.3	3469.3	1392.9	2135.5	1647.6	5193.6	1724.5	3372.1	1850.3	1926.3	3668.9	1056.6	2960.0
Urban Unemployment Rate (%)	5.6	5.4	5.3	5.2	5.2	5.4	5.5	5.3	5.1	5.0	5.0	5.1	5.1
Urban Unemployment Rate in 31 major cities (%)	5.8	5.7	5.5	5.3	5.2	5.1	-	5.5	5.3	5.2	5.2	5.2	5.3

## World Economic/Financial Indicators

Global Indices			
Index	Closing Price	P/E	One Week chg(%)
<b>U.S.</b>			
DJIA	34,814.39	21.06	(0.62)
S&P 500	4,480.70	26.83	(0.74)
NASDAQ	15,161.53	123.69	(0.82)
<b>EUR</b>			
FTSE 100	7,016.49	19.69	(1.11)
DAX	15,616.00	17.88	0.04
CAC40S	6,583.62	22.66	(1.28)
STOXX EUR 600	463.91	24.69	(0.85)
<b>Asia</b>			
HSI	25,033.21	10.32	(4.89)
HSCEI	8,936.53	9.61	(5.43)
CSI300	4,867.32	16.69	(2.11)
SSE Composite	3,656.22	15.58	(0.52)
SZSE Composite	2,486.13	35.75	(0.26)
NIKKEI 225	30,511.71	17.60	1.10
KOSPI	3,153.40	16.48	(0.30)
TWSE	17,354.00	15.90	0.48
S&P/ASX 200	7,417.03	24.53	(1.26)
<b>MSCI Index</b>			
MSCI WORLD	3,127.71	24.30	(0.61)
MSCI DEVELOPED	737.08	22.91	(0.77)
MSCI EMERGING	1,288.68	16.10	(1.90)
MSCI US	4,357.88	27.55	(0.77)
MSCI UK	1,966.93	18.86	(1.05)
MSCI France	189.03	23.44	(1.41)
MSCI Germany	170.65	18.63	(0.30)
MSCI China	91.75	16.44	(5.79)
MSCI Hong Kong	15,664.84	24.16	(3.70)
MSCI Japan	1,285.28	17.39	0.74

\* As of 2021/09/15 closing for all markets.

Global Commodities			
	Unit	Price	One Week chg(%)
<b>Energy</b>			
NYMEX WTI	USD/bbl	72.61	4.78
ICE Brent Oil	USD/bbl	75.46	3.94
NYMEX Natural	USD/MMBtu	5.46	11.11
<b>Basic Metals</b>			
LME Aluminum	USD/MT	2,870.30	3.35
CMX Copper	USD/lb.	440.65	4.10
LME Steel Rebar	USD/MT	660.00	(1.12)
LME Lead Cash	USD/MT	2,237.75	(3.88)
<b>Precious Metals</b>			
CMX Gold	USD/T. oz	1,802.51	0.26
Gold Futures	USD/T. oz	1,794.80	0.07
CMX Silver	USD/T. oz	23.83	(1.98)
NYMEX Platinum	USD/T. oz	945.56	(6.04)
<b>Agricultural</b>			
CBOT Corn	USD/bu	533.50	4.56
CBOT Wheat	USD/bu	712.25	0.39
NYB-ICE Sugar	USD/lb.	20.26	0.90
CBOT Soybeans	USD/bu.	1,294.50	1.17

All data sources: Bloomberg

Money market		
	Yield (%)	One Week chg(%)
US Fed Fund Rate	0.25	0.00
US Prime Rate	3.25	0.00
US Discount Window	0.25	0.00
ECB Rate (Refinancing)	0.00	0.00
BOJ Policy Rate	(0.10)	0.00
US Treasury (1 Mth)	0.04	0.003
US Treasury (1 Yr)	0.07	(0.003)
US Treasury (5 Yr)	0.80	(0.01)
US Treasury (10 Yr)	1.30	(0.039)
US Treasury (30 Yr)	1.86	(0.10)
1-Month LIBOR	0.0846	0.002
3 Month LIBOR	0.1180	0.002
Japan 1-Yr Gov. Bond	(0.11)	0.001
Japan 10-Yr Gov. Bond	0.04	(0.01)
German 1-Yr Gov. Bond	(0.67)	(0.00)
German 10-Yr Gov. Bond	(0.31)	0.02
China LPR (1-year)	3.85	0.00
China 1-Yr Gov. Bond	2.34	0.09
China 5-Yr Gov. Bond	2.76	0.08
China 10-Yr Gov. Bond	2.90	0.03
O/N SHIBOR	2.14	(0.05)
1-mth SHIBOR	2.34	0.04
HK Base rate	0.50	0.00
O/N HIBOR	0.04	(0.0014)
1-mth HIBOR	0.06	(0.005)
O/N CNH HIBOR	1.94	0.31
1-mth CNH HIBOR	3.55	0.21
<b>Corporate Bonds (Moody's)</b>		
Aaa	2.42	(0.17)
Baa	3.15	(0.14)

Currency market		
	Spot Rate	One Week chg(%)
US Dollar Index	92.55	(0.11)
Euro/USD	1.1828	0.08
GBP/USD	1.3826	0.44
AUD/USD	0.7328	(0.64)
USD/CAD	1.2679	0.06
USD/JPY	109.26	(0.89)
USD/CHF	0.9166	(0.48)
USD/CNY Midpoint	6.4492	(0.28)
USD/CNY	6.4325	(0.45)
USD/CNY NDF-12-mth	6.6132	(0.37)
USD/CNH	6.4273	(0.46)
USD/HKD	7.7813	0.06
CNY/HKD	1.2098	0.53
CNH/HKD	1.2106	0.51
USD/KRW	1,170.45	0.33
USD/TWD	27.69	(0.20)
USD/SGD	1.3409	(0.36)
USD/INR	73.49	0.11

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