CAPITAL ECONOMICS 凯投宏观

CHINA ECONOMICS WEEKLY

Property stimulus tea leaves, BRICS expansion

Have the leadership given up on property stimulus?

Global concerns about Country Garden and other property developers have died down this week. But the sector is showing no signs of a turnaround. High frequency data show that home sales are on course to decline further this month.

Despite this, policymakers have continued to disappoint expectations for greater property-related support. The phrase "houses are for living in, not for speculation", which had been omitted from recent policy statements, even reappeared in an editorial published by state media on Wednesday.

This suggests that, despite the current economic weakness, policymakers remain reluctant to support the property sector at any cost. That said, we don't think this precludes further easing. It is not clear how much weight to put on a single editorial. And in any case, more forceful measures to support first-time homebuyers would still be consistent with the policy that "houses are for living in, not speculation".

If policymakers do want to support housing demand, then why was the 5-year loan prime rate (LPR) – the benchmark for mortgage rates – left unchanged on Monday, to the surprise of most analysts?

One explanation is that the PBOC thinks a 5Y LPR cut could actually be counterproductive to its efforts to lower rates on existing mortgages, which have not fallen by nearly as much as those for new mortgages. Unlike in most countries, mortgage contracts don't allow for refinancing in China. As such, the PBOC has been pushing the banks to renegotiate existing mortgage terms.

A cut to the 5Y LPR would feed through to existing mortgages but only on 1st January. In anticipation of the resulting impact on their net interest margins, this may discourage banks from renegotiating mortgage terms in the interim, potentially delaying the reduction in household mortgage payments.

If this is indeed the reason, then the lack of a 5Y LPR cut may tell us less about the leadership's desire to support the housing market than many think.

BRICS expansion still leaves a China-India divide

The 2023 BRICS summit ended yesterday with an announcement that the group will be expanded from five to eleven countries. The new members will be Argentina, Egypt, Ethiopia, Iran, Saudi Arabia and the UAE. This is a small victory for China, which had pushed for expansion. But in the end, fewer countries agreed to join than had been speculated.

The alignment of the first four new members was never in much doubt – they were all classified as China allies in our previous work on mapping decoupling. The addition of Saudi Arabia and the UAE is more noteworthy – we had classified both as unaligned but, for the former at least, we now think it sits in the China camp. This is a shift that has been underway for some time. It has been clear since at least last year that Saudi Arabia was increasingly leaning toward China.

The expanded BRICS may prove less useful as a geopolitical counterweight against the West than China hopes. Despite meeting since 2009, the BRICS never achieved much as a group, partly because its members have disparate priorities and interests. Admittedly, Brazil has pivoted toward China recently (though it remains to be seen if this shift will outlive the Lula Presidency) and South Africa has taken some steps in that direction too. The BRICS have also found a degree of common purpose with their desire to curb reliance on the US dollar. But India remains wary of China's ambitions and is, if anything, developing closer ties with the US. India is likely to veto any BRICS proposals that would undermine its own foreign policy interests.

Even if India doesn't get in the way, it's still not clear what the BRICS could usefully do to advance the interests of its members, beyond what is being done on a bilateral basis and at other multilateral forums. The most high-profile proposal, a BRICS currency, wouldn't make it any easier to ditch the dollar.

The week ahead

The PMIs are likely to show that economic momentum softened further in August.

Julian Evans-Pritchard, Head of China Economics, julian.evans-pritchard@capitaleconomics.com

Data Previews

Thu. 31st Aug. / Fri. 1st Sep. – Manufacturing PMIs (Aug.)

Forecasts	Time (China)	Previous	Consensus	Capital Economics
"Official" PMI (31st Aug.)	09.30	49.3	49.1	49.0
Caixin/S&P Global PMI (1st Sep.)	09.45	49.2	49.2	49.0

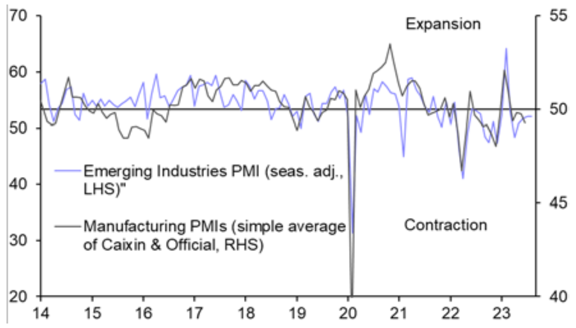
Further signs of few headwinds to factory activity

The official manufacturing PMI edged up slightly in July, while the Caixin survey dropped back sharply. Given differences in the composition of the firms surveyed, this suggests that the outperformance of firms located in export-dependent coastal areas is fading. The average of the two PMIs fell and is consistent with some deterioration in factory activity.

Early indicators for August paint a gloomy picture. Steel output edged down, cement inventories rose further, and freight traffic appears to have stagnated. What's more, flash PMIs for major developed economies point to a further pullback in demand in key export markets.

Consistent with this, the Emerging Industries PMI – which covers high-tech parts of industry – remained under 50 in August and suggests the manufacturing PMIs likely remained weak too. (See Chart 1.)

Chart 1: Manufacturing & Emerging Industry PMIs



Sources: CEIC, S&P Global, Capital Economics

Thu. 31st Aug. / Tue. 5th Sep. – Non-manufacturing PMIs (Aug.)

Forecasts	Time (China)	Previous	Consensus	Capital Economics
"Official" PMI (31st Aug.)	09.30	51.5	51.0	51.5
Caixin/S&P Global PMI (5th Sep.)	09.45	54.1	53.3	52.0

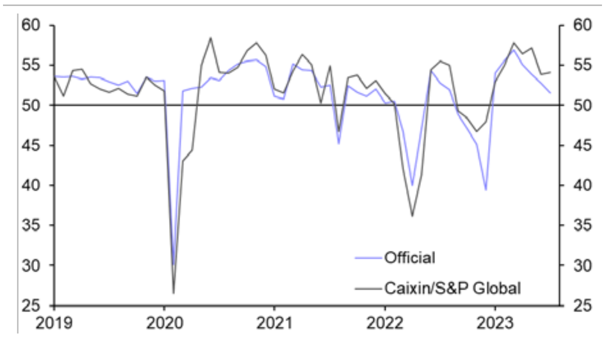
Further slowdown in services

The services PMIs also diverged in July. (See Chart 2.) The bigger picture though is that the average of the two points to a further decline and adds to wider evidence of a further loss of momentum in the service sector last month.

The high frequency data suggest that the sector probably deteriorated further in August. Home sales appear to have tumbled again, car sales stagnated and service sector job posting continued to slide.

In contrast, construction activity, which is part of the official non-manufacturing PMI, might have picked up. Admittedly, new housing starts almost certainly fell again amid declining home sales and problems at Country Garden. But bond issuance by local government rose on the back of directives to fully utilise annual quotas for special bonds by the end of next month. As such, infrastructure construction probably picked up this month.

Chart 2: Services PMIs



Sources: CEIC, S&P Global, Capital Economics

Economic Diary & Forecasts

Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (China)	Previous*	Median*	CE Forecasts*
August						
Sun 27th		**Chn** Profits of Large Industrial Firms (Jul.)	(09.30)	(-16.8%)	-	-
Thu 31st		**Chn** "Official" Manufacturing PMI (Aug.)	(09.30)	49.3	49.1	49.0
		Chn "Official" Non-manufacturing PMI (Aug.)	(09.30)	51.5	51.0	51.5
		HK Retail Sales (Jul.)	(16.30)	(+19.6%)	-	-
September						
Fri 1st		**Chn** Caixin Manufacturing PMI (Aug.)	(09.45)	49.2	49.2	49.0

Selected future data releases and events:

September

Tue 5th		**Chn** Caixin Services PMI (Aug.)
Thu 7th		**Chn** Foreign Exchange Reserves (Aug., USD)
		Chn Trade Data (Aug., USD)

Also expected during this period:

TBC		**HK** Trade Data (Aug., HKD)
TBC		**Chn** Current Account Balance – Preliminary (Aug.)

Main Economic & Market Forecasts

%q/q annualised (%y/y), unless stated	Latest	Q3 2023	Q4 2023	Q1 2024	Q2 2024	2022	2023f	2024f	2025f
Official GDP	+0.8(+6.3)*	(3.9)	(4.9)	(3.9)	(4.2)	(3.0)	(5.0)	(4.5)	(4.0)
GDP (CE CAP-derived estimates)	+2.5(+11.3)*	(4.7)	(7.7)	(5.2)	(3.4)	(-3.4)	(6.5)	(4.0)	(2.5)
Consumer Prices	(-0.3)**	(-0.2)	(0.0)	(0.9)	(1.0)	(2.0)	(0.5)	(1.0)	(1.0)
Producer Prices	(-4.4)**	(-2.9)	(-2.6)	(-2.2)	(-1.0)	(4.0)	(-3.0)	(-1.5)	(-0.5)
Broad Credit (AFRE)	(+8.9)**	(10.0)	(10.8)	(9.5)	(9.3)	(9.6)	(10.8)	(8.9)	(8.3)
Exports (US$)	(-14.5)**	(-16.0)	(-5.5)	(-10.0)	(-4.0)	(7.0)	(-8.0)	(-3.0)	(2.5)
Imports (US$)	(-14.5)**	(-11.0)	(-3.0)	(15.5)	(6.5)	(1)	(-7)	(7.5)	(1.5)
RMB/$†	7.28	7.25	7.30	7.20	7.10	6.95	7.30	6.90	6.70
7-day PBOC reverse repo† %	1.80	1.70	1.60	1.60	1.60	2.00	1.60	1.60	1.60
1-year Loan Prime Rate† (LPR) %	3.45	3.30	3.20	3.20	3.20	3.65	3.20	3.20	3.20
1-year MLF Rate† %	2.50	2.40	2.30	2.30	2.30	2.75	2.30	2.30	2.30
10-year Government Bond Yield† %	2.56	2.50	2.40	2.50	2.60	2.85	2.40	2.60	2.60
RRR (major banks)† %	10.75	10.50	10.25	10.25	10.25	11.00	10.25	10.25	10.25
CSI 300 Index†	3,721	3,821	3,800	3,900	4,000	3,872	3,800	4,200	4,900
Hong Kong GDP	(+1.5)*	(7)	(10.5)	(7)	(10.5)	(-3.5)	(5.5)	(9)	(6)
Hang Seng Index†	18,212	18,633	18,250	23,938	24,875	19,781	18,250	23,000	26,750

Sources: Bloomberg, Refinitiv, CEIC, Capital Economics   *Q2; **Jul.; † End of period