

CHINA ECONOMICS WEEKLY

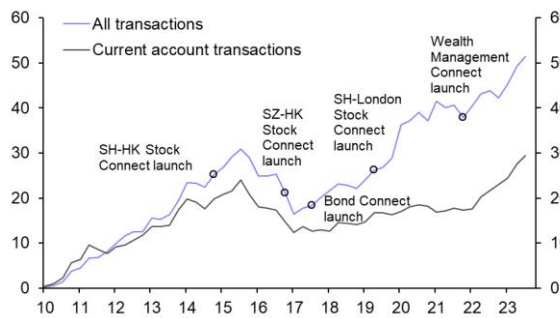
The renminbi's rise in China's global transactions

Over half of cross-border settlement now in RMB

Earlier this week, the People's Bank published its annual report on renminbi internationalisation. The message from the 84-page document is that global use of China's currency has been gaining momentum recently.

The volume of cross-border transactions between China and the rest of the world that are settled in renminbi rose 24% during the first three quarters of this year, outpacing the 15% rise last year. As a result, the renminbi share of China's global transactions has risen above 50% for the first time (see Chart 1), with the currency dislodging the US dollar from its top spot earlier this year.

Chart 1: RMB Share of Cross-border Settlement (%)



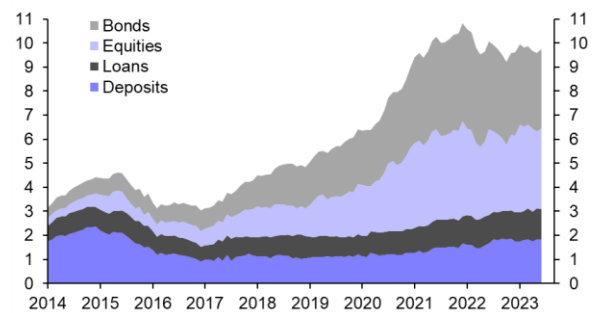
Sources: CEIC, Capital Economics

This is noteworthy. But a key caveat is that most of the increase in cross-border use of the renminbi over the past decade reflects the growth of flows through China's various Connect schemes, which link the mainland's capital markets with Hong Kong and, on a much smaller scale, a couple of other global financial centres. Because of capital controls, these schemes have a near-monopoly on facilitation of cross-border portfolio flows and, by design, they require settlement to be in renminbi. It is no surprise then, that over half of cross-border transactions in renminbi are with Hong Kong. Singapore and London are a distant second and third.

One challenge to China's global reserve currency ambitions is that this source of growth in international renminbi use has slowed recently and

is at risk of going into reverse. That's because foreign appetite for Chinese assets has diminished. (See Chart 2.) It remains to be seen how much of this reflects cyclical forces, exacerbated by shifting rate differentials, versus longer-lasting concerns about geopolitical risks and China's medium-term outlook. But we think the latter is a meaningful headwind to growth in the renminbi's use outside China.

Chart 2: Foreign Holdings of Onshore Assets (RMBbn)



Sources: CEIC, Capital Economics

So far, this headwind has been offset by greater use of the renminbi in trade. The currency's share in China's current account transactions recently surpassed its 2015 high, hitting 29%. (See Chart 1 again.) But the rise in renminbi settlement is concentrated in bilateral relationships with trade partners that align politically with China – countries like Russia, Pakistan, Nigeria and Argentina. The sanctions response to the war in Ukraine has made some of them more eager to reduce their dependence on the US dollar and euro.

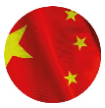
There is a limit to how high the share of China's trade settled in renminbi can rise on the back of its allies alone. As things stand, 60% of China's trade is with countries that we classify as aligned with the US. Few of these countries have shown much interest in adopting the renminbi in trade settlement.

The week ahead

We think the trade and inflation data will add to renewed concerns about China's economy, which looks to have slipped back into deflation. But the credit data should point to still strong fiscal support.

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Data Previews

Tue. 7th Nov. – Trade (Oct.)

Forecasts	Time (China)	Previous	Consensus	Capital Economics
Exports (USD, % y/y)	-	(-6.2%)	(-2.9%)	(-5.5%)
Imports (USD, % y/y)	-	(-6.2%)	(-4.5%)	(-5.8%)
Trade Balance (USD)	-	+78bn	-	+78bn

Exports probably dropped back

Export values continued to contract year-on-year in September, but this was due to lower prices rather than export volumes, which hit a record high. They are likely to have declined last month, however.

Foreign orders still hint at some downside to exports in the near-term. (See Chart 3.) And the export orders components of the PMIs edged down and point to a fall in exports. Early trade data from other countries in the region has been consistent with softer external demand too.

Import volumes dropped back a bit in September and we have pencilled in little change last month. In particular, we think the scope for a further rise in

energy imports, which surged earlier this year, is limited in the near-term.

Chart 3: Exports & Industrial Export Sales (\$, 2019=100, CE seas. adj.)



Sources: CEIC, Capital Economics

9th – 15th Nov. – Net New Bank Loans, M2, AFRE (Oct.)

Forecasts	Time (China)	Previous	Consensus	Capital Economics
Net New Bank Loans (RMB)	-	+2,310bn	+650bn	+700bn
M2 (% y/y)	-	(+10.3%)	-	(+10.6%)
Aggregate Financing “AFRE” (RMB)	-	+4,120bn	+1,917bn	+1,400bn

Fiscal easing supporting credit growth

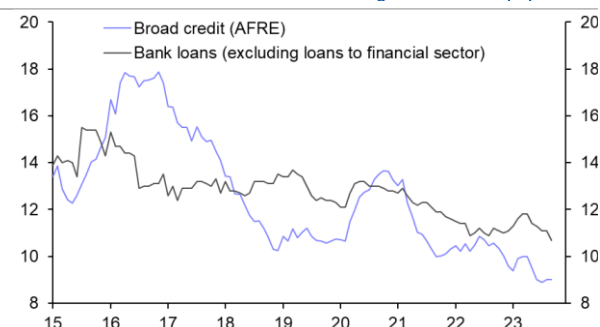
After slowing sharply in Q2, broad credit growth has stabilised recently thanks to a renewed step up in fiscal support. (See Chart 4.)

We think bank loan growth held steady last month. Although there are tentative signs that new home sales are bottoming out thanks to recent property easing measures, this is unlikely to have lifted mortgage lending much last month due to the delayed effect on mortgage disbursements.

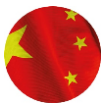
Realtime data point to slower corporate bond issuance and equity financing. But this has been offset by stronger government bond issuance, which should result in a marginal acceleration in the year-

on-year growth in outstanding AFRE, the PBOC’s broad credit measure.

Chart 4: Growth of Outstanding Credit (% y/y)



Sources: CEIC, Capital Economics



Thu. 9th Nov. – CPI, PPI (Oct.)

Forecasts	Time (China)	Previous	Consensus	Capital Economics
CPI (% y/y)	09.30	(+0.0%)	(-0.2%)	(-0.2%)
PPI (% y/y)	09.30	(-2.5%)	(-2.8%)	(-2.7%)

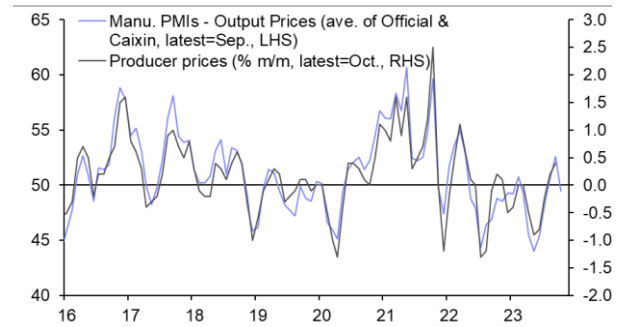
Disinflationary pressures have returned

Consumer prices remained unchanged in September, but they look to have dipped into deflationary territory last month. High frequency data suggest that energy price inflation has turned positive for the first time since March. But this looks to have been more than offset by a decline in food price inflation. And core inflation probably softened a touch given evidence of a recent [loss of economic momentum](#).

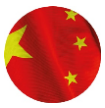
PPI deflation eased further in September. And in m/m terms, factory-gate prices increased by the most in 18 months. But the manufacturing PMIs point to a renewed decline last month, suggesting that PPI

deflation will have deepened for the first time in four months. (See Chart 5.)

Chart 5: Producer Prices & PMI Output Prices



Sources: CEIC, Capital Economics



Economic Diary & Forecasts

Upcoming Events and Data Releases

Date	Country	Release/Indicator/Event	Time (China)	Previous*	Median*	CE Forecasts*
November						
Tue 7 th		Chn Foreign Exchange Reserves (Oct., USD)	-	+3.1bn	-	-
		Chn Exports (Oct., USD)	-	(-6.2%)	(-2.9%)	(-5.5%)
		Chn Imports (Oct., USD)	-	(-6.2%)	(-4.5%)	(-5.8%)
		Chn Trade Balance (Oct., USD)	-	+77.7bn	-	+78.0bn
Thu 9 th		Chn Consumer Prices (Oct.)	(09.30)	(0.0%)	(-0.2%)	(-0.2%)
		Chn Producer Prices (Oct.)	(09.30)	(-2.5%)	(-2.8%)	(-2.7%)
Fri 10 th		HK GDP (Q3, Fin.)	(16.30)	+0.1%(+4.1%)p	-	+0.1%(+4.1%)

Also expected during this period:

8 th – 18 th		Chn Foreign Direct Investment (Oct., RMB)	-	(-8.4%)	-	-
9 th – 15 th		Chn Aggregate Financing “AFRE” (Oct., RMB)	-	+4120bn	+1917bn	+1400bn
9 th – 15 th		Chn New Net Lending (Oct., RMB)	-	+2310bn	+650.0bn	+700bn
9 th – 15 th		Chn M2 Money Supply (Oct., RMB)	-	(+10.3%)	-	(+10.6%)
TBC		Chn Vehicle Sales (Oct.)	-	-	-	-
TBC		Chn Job Openings to Job Seekers Ratio (Q3)	-	-	-	-
TBC		Chn CBRC Data on Financial Institutions (Assets, Earnings, NPL, Q3)	-	-	-	-
TBC		Chn Current Account Balance – Preliminary	-	-	-	-

Selected future data releases and events:

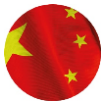
November

15 th – 17 th		US Possible Meeting Between President Biden and Xi at APEC Summit 2023
Wed 15 th		Chn 1-Yr Medium-Term Lending Facility (MLF) Auction (Nov.)
		Chn Spending and Activity Data (Oct.)
		Chn Foreign Exchange Net Settlement and Receipts (Oct., RMB)
Thu 16 th		Chn Home Prices (70 Cities, Oct.)
		HK Unemployment Rate (Oct.)

Main Economic & Market Forecasts

%q/q annualised (%y/y), unless stated	Latest	Q4 2023	Q1 2024	Q2 2024	Q3 2024	2022	2023f	2024f	2025f
Official GDP	+1.3(+4.9)*	(5.1)	(3.9)	(4.5)	(4.3)	(3.0)	(5.0)	(4.5)	(4.0)
GDP (CE CAP-derived estimates)	+0.9(+7.0)*	(9.8)	(5.1)	(4.4)	(4.4)	(-3.7)	(8.0)	(4.5)	(3.0)
Consumer Prices	(0.0)**	(-0.1)	(0.7)	(0.9)	(1.4)	(2.0)	(0.5)	(1.0)	(1.5)
Producer Prices	(-2.5)**	(-3.5)	(-3.1)	(-1.9)	(-1.3)	(4.0)	(-3.0)	(-2.0)	(-1.0)
Broad Credit (AFRE)	(+9.0)**	(10.3)	(9.4)	(10.0)	(10.1)	(9.6)	(10.3)	(9.7)	(8.4)
Exports (US\$)	(-6.2)**	(-8.0)	(-16.0)	(-19.0)	(-17.5)	(7.5)	(-6.5)	(-14.5)	(1.5)
Imports (US\$)	(-6.2)**	(-10.0)	(7.0)	(-1.5)	(-6.0)	(1.0)	(-8.0)	(0.0)	(1.5)
RMB/\$ [†]	7.32	7.30	7.20	7.10	7.00	6.95	7.30	6.90	6.70
7-day PBOC reverse repo [†] %	1.80	1.60	1.60	1.60	1.60	2.00	1.60	1.60	1.60
1-year Loan Prime Rate [†] (LPR) %	3.45	3.25	3.25	3.25	3.25	3.65	3.25	3.25	3.25
1-year MLF Rate [†] %	2.50	2.30	2.30	2.30	2.30	2.75	2.30	2.30	2.30
10-year Government Bond Yield [†] %	2.68	2.40	2.50	2.60	2.60	2.85	2.40	2.60	2.60
RRR (major banks) [†] %	10.50	10.25	10.25	10.25	10.25	11.00	10.25	10.25	10.25
CSI 300 Index [†]	3,554	3,800	3,900	4,000	4,100	3,872	3,800	4,200	4,900
Hong Kong GDP	(+4.1)*	(5.9)	(1.7)	(3.5)	(5.2)	(-3.5)	(3.5)	(4.0)	(4.5)
Hang Seng Index [†]	17,231	18,400	19,365	20,325	21,290	19,781	18,400	22,250	25,500

Sources: Bloomberg, Refinitiv, CEIC, Capital Economics *Q3; **Sep.;[†]End of period



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