FX & Rates	3Q24F	4Q24F	1Q25F	2Q25F
USD/CNY	7.20	7.13	7.06	7.00
CNY 1Y Loan Prime Rate	3.20	3.20	3.20	3.20
Economic Indicator	2022	2023	2024F	2025F
GDP (%)	3.0	5.2	5.1	4.7
CPI (avg y/y %)	2.0	0.2	0.7	1.4
Unemployment Rate (%)	5.5	5.1	5.1	5.2
Current Account (% of GDP)	2.5	1.4	1.3	1.0
Fiscal Balance (% of GDP)	-4.7	-4.6	-4.9	-4.8

ECONOMY

Growth may exceed 5% target in 2024

Following the surprisingly strong 1Q24 GDP growth of 5.3% y/y, the data in Apr showed domestic demand faltered and the property price decline worsened despite a jump in industrial activities.

While China's economic recovery has continued to be uneven and patchy, the outlook turned more positive compared to the start of the year as more stimulus measures, particularly on the fiscal front, are being rolled out. In Mar, the State Council issued an action plan to promote large-scale equipment renewals and trade-ins of consumer goods. In the durable consumer goods segment, the upgrading of cars and home appliances is estimated to boost demand by more than CNY1 tn (0.8% of GDP). The industrial sector upgrade including the CNY344 bn semiconductor investment fund will boost growth in key manufacturing industries in the coming years amid China's efforts to increase self-reliance in the sector.

The first batch of special treasury bonds was issued on 17 May and the remaining of the CNY1 tn amount will be issued by mid-Nov, to be used in specific areas including technology innovation, education, healthcare and other areas of major national importance and national security. The issuance of local government bonds was also ramped up in May to a 7-month high.

The property market will be less of a drag on China's growth in 2024 and 2025 compared to recent years. The property rescue package in May further lowered the minimum downpayment and establish a CNY300bn relending program for social housing in addition to its "whitelist" program in Jan to provide funding for selected projects. We estimate that PBOC's relending program could digest as much as 19% of the 391 million square meters completed unsold units (as of Apr 2024). While this could help to stabilise market, it is not expected to turn around the property sector as prices remain soft and structural factors such as reduced demand for investment purposes and ageing population may continue to hold back home purchases. The program also has its limitation as it is a "voluntary basis" and take up could be hampered by the low rental yield. Further measures may need to be rolled out if the newly announced package fails to stabilise market.

Exports will remain the main growth driver this year and thus the intensifying trade tensions with the US and the EU will be of concern. In May, the White House announced tariff increases on US$18 bn worth of Chinese goods (4.2% of US' imports from China or 0.5% of China's total exports in 2023) including EVs, semiconductors, batteries, solar cells, and critical minerals. Many of the tariff hikes will be effective from 1 Aug, except for semiconductors (2025) and non-EV lithium-ion batteries, some critical minerals and medical gloves (2026). So far, the impact of the targeted tariff hikes is expected to be muted but there are greater worries over Trump's proposed 60% tariff for all Chinese goods if he is re-elected and whether EU will follow the US to tighten their imports of Chinese goods such as the EVs as well as China's retaliatory measures that may follow. Trade tensions with the US are likely to escalate in 2H24 ahead of the Nov presidential election. For now, we are maintaining our forecast for China's export growth of 7.0% (2023: -4.6%) this year on the back of a positive tech demand outlook and expected easing of global financial conditions in the later part of the year.

Factoring in the support measures and stronger 1Q24 GDP, we revise higher our growth forecast for China to 5.1% (from 4.8%) in 2024 and 4.7% (from 4.4%) in 2025. The domestic property market and local government debt risks as well as trade tensions with the US and EU continue to have significant bearings on China's outlook. Meanwhile, the upcoming third plenum in Jul is expected to emphasize China's efforts to deepen reforms and modernize its economy.

CENTRAL BANK

Monetary policy easing continues

In the first four months of the year, headline and core inflation averaged 0.1% y/y and 0.7% y/y, respectively. Weak demand and falling food prices contributed much to the soft CPI readings. We expect the headline inflation rate to remain positive but stay mild under 1% until 3Q24. Our forecast for headline inflation is at 0.7% for 2024 and 1.4% for 2025.

The beginning of Fed's rate cut cycle which we expect to be in Sep, would create the space for further monetary policy easing by the PBOC. As such, we still expect the 1Y loan prime rate (LPR) to fall to 3.20% by end-4Q24 (current 3.45%) while the 5Y LPR may stay on hold at 3.95% through the rest of 2024 after the 25 bps reduction in Feb. We also think there is a possibility of another 50 bps cut to the reserve requirement ratio (RRR) in 2H24, adding to the 50 bps reduction in Feb.

CURRENCY

Modest recovery

Tethered by a stable fixing, the CNY was little changed on the quarter at 7.2450/USD despite US-China rate differentials widening against the CNY. The rate differentials may start to narrow starting 3Q24 in favour of CNY as the Fed rate cut narrative regains momentum. Together with a brighter economic outlook boosting investor sentiment and reduced tail-risks on China's property sector, the stage is set for a modest CNY recovery in 2H24. That said, potential escalation of trade tariffs on China's exports and dividend outflows in summer mean the ensuing recovery is likely to be bumpy. Overall, our latest USD/CNY forecasts are 7.20 in 3Q24, 7.13 in 4Q24, 7.06 in 1Q25 and 7.00 in 2Q25.