

Global Research

At a Glance

# China – Tailwinds abating

6 August 2025

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Standard Chartered Bank (HK) Limited



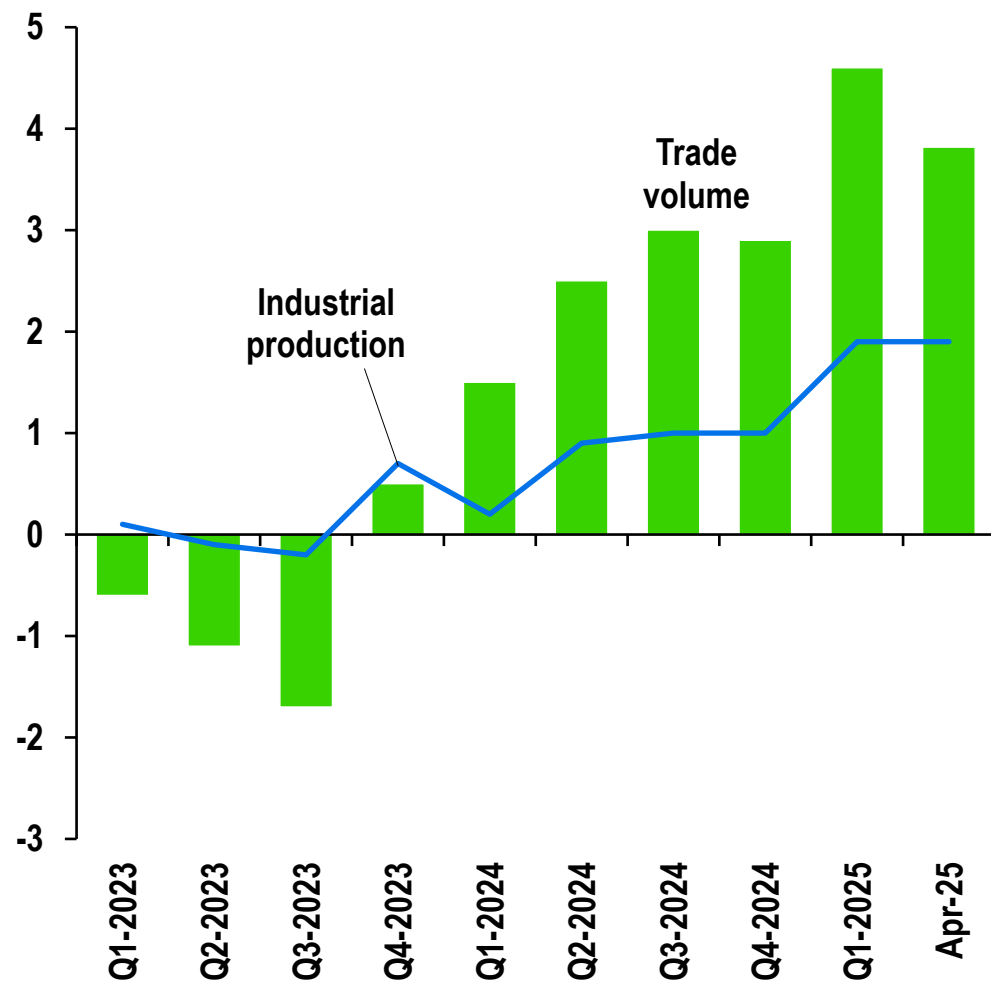
# Summary

- Global outlook: We expect global growth to weaken in H2-2025 as higher tariffs kick in; Asia to be the outperformer
  - We see growing downside risks to the US economy in H2; the inflationary impact of the US tariffs is likely to constrain Fed easing
  - For EU, the pace of EUR appreciation poses growth risks; we see a positive story emerging in 2027 as fiscal stimulus builds
  - A world order based on “might makes right” is more prone to instability and conflict, offering no mechanism for peaceful resolution
- China outlook: We expect a slowdown to 4.5% y/y in H2 and maintain our 2025 growth forecast at 4.8%; deflation pressure to linger
  - H1 outperformance was supported by front-loaded exports and fiscal stimulus, with consumption and net exports being the main contributors and property sector the main drag
  - High tariffs and normalisation of export orders are likely to take their toll; we expect the trade surplus to narrow in H2
  - July Politburo meeting called for the strengthening of macro policies when appropriate, indicating no urgency to add stimulus
  - Fiscal room under the broad budget is still decent in H2, though we expect support from local debt-swap operations to be much less. If the broad budget is fully implemented, the fiscal impulse would be 1.2% of GDP in H2
  - PBoC appears prepared to inject sufficient liquidity to absorb the surge in government bond supply and moderately cut policy rates to lower financing costs. We expect a further 10bps policy rate cut in Q4
  - Greater focus on stabilising the housing and equity markets: We expect the housing market divergence to widen with top-tier cities bottoming out first; a quasi-stabilisation fund is taking shape in the capital market with a PBoC backstop
- Boosting consumption tops policy-makers’ agenda in 2025: A better job/income outlook, stable asset prices and a broader social safety net are seen as essential to reducing precautionary savings; we see high potential in increasing services consumption
- Recent high-level meetings targeting disorderly competition herald more supply-side action ahead to address overcapacity, reflate the economy
- For the 15<sup>th</sup> Five-Year Plan (2026-30), China will likely focus on developing home-grown technology while pushing for RMB internationalisation



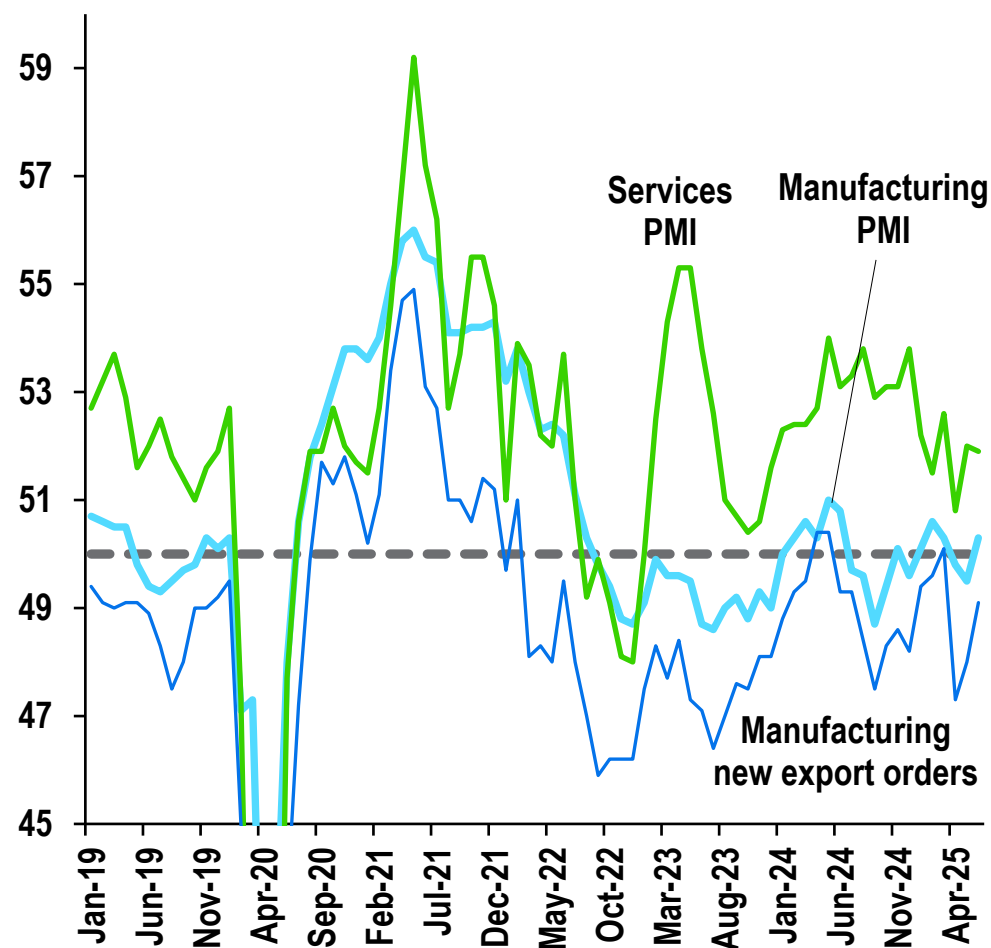
# Global outlook – Weaker H2 as higher tariffs kick in

**Tariff front-running, inventory build-up drove a rise in global goods trade in early 2025; % y/y**



Source: CPB, Standard Chartered Research

**Declining export orders act as a drag on PMIs**  
*Above 50 = expansion*



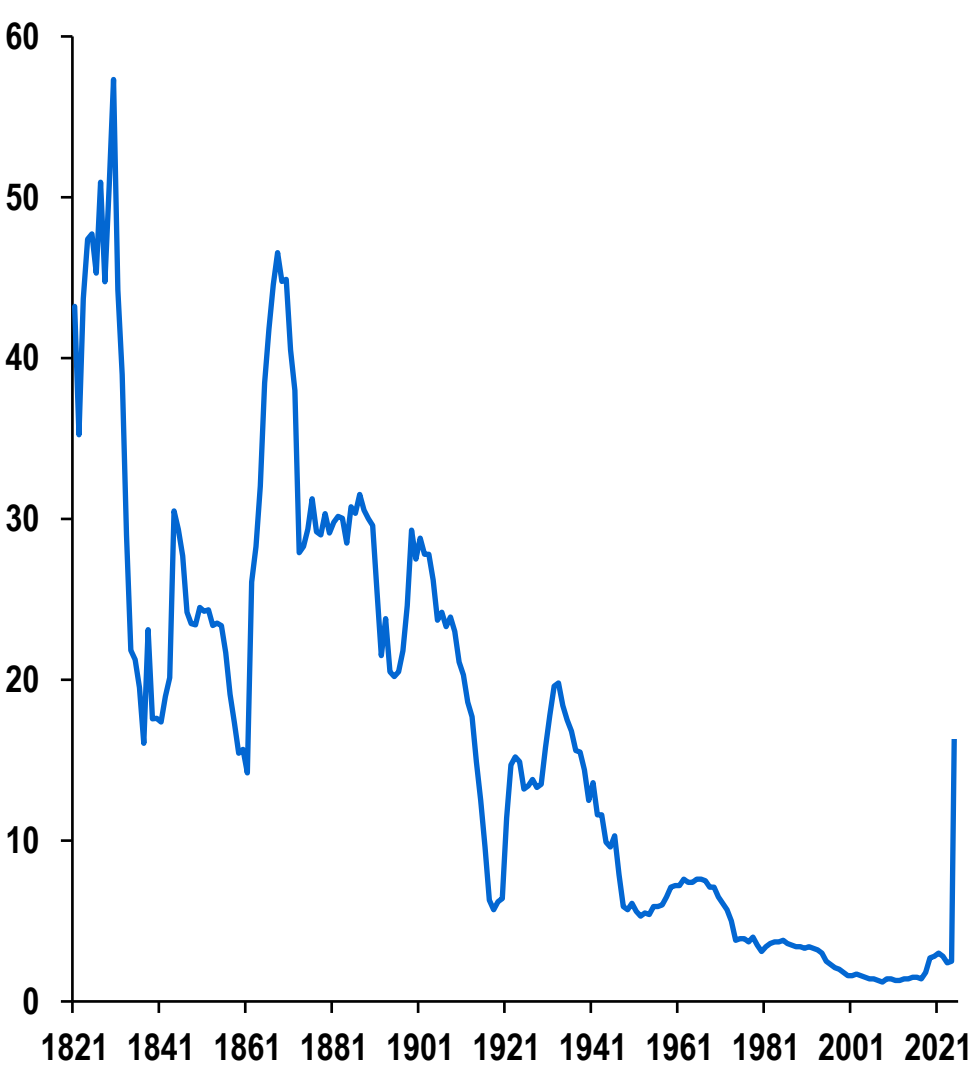
Source: S&P, Standard Chartered Research



# Taking stock of US tariff increases

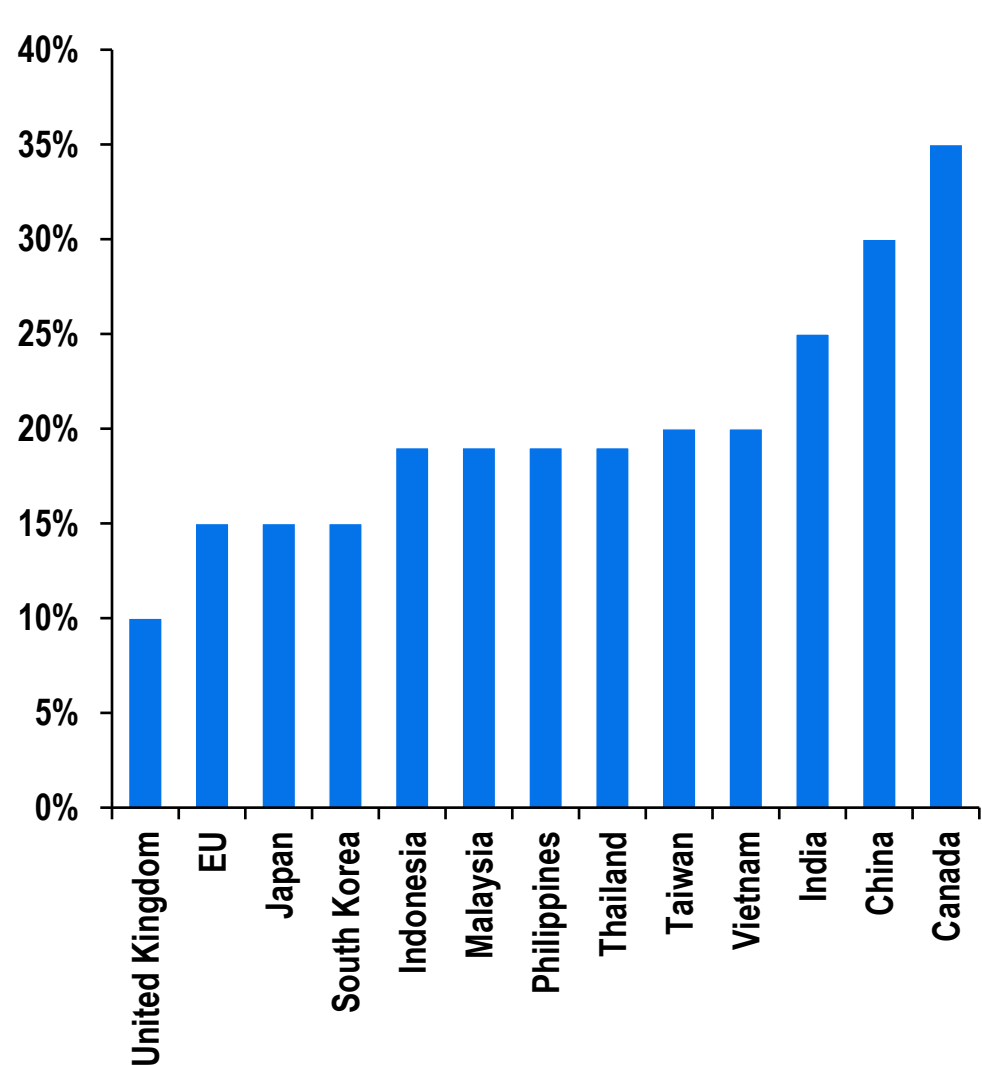
## US tariff rate has surged

Historical US tariff rate, %



## US reciprocal tariffs announced as of 31 July 2025

%

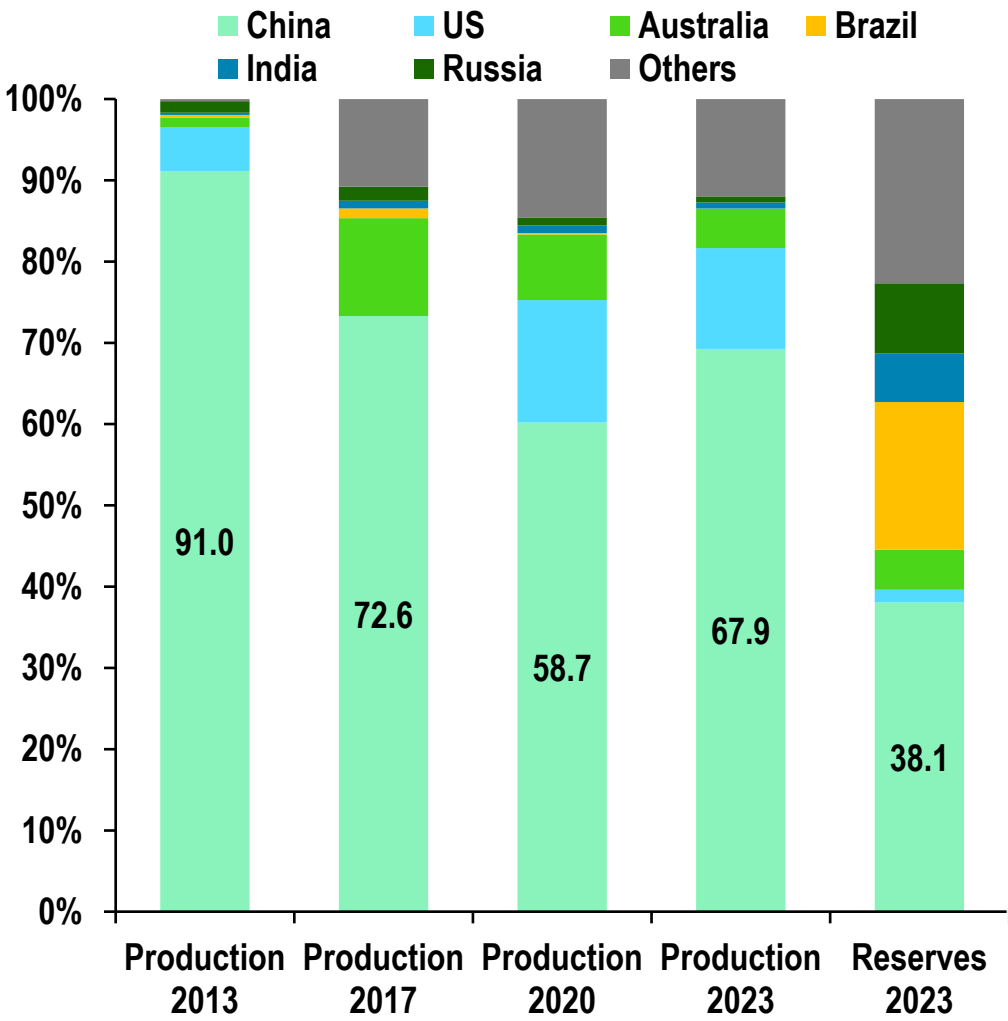


# China's bargaining chips

## US reliance on Chinese imports

China's share of US imports of itemised products (based on 8-digit HS code)	Share of total US imports from China
100%	0.0%
Above 90%	5.5%
Above 80%	22.5%
Above 70%	31.4%
Above 60%	47.1%
Above 50%	50.2%

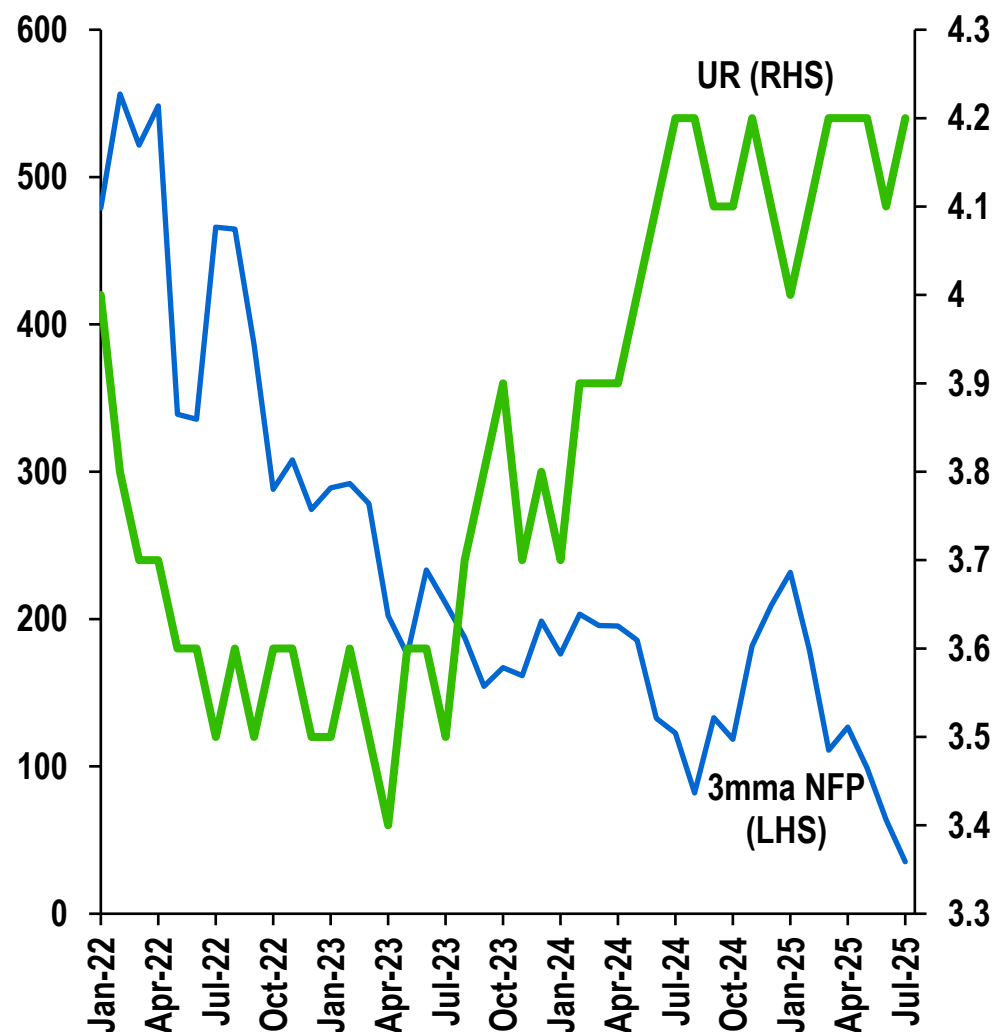
## Rare-earth metals – mine production and reserves *% of global share*



# US – Signs of stagflation

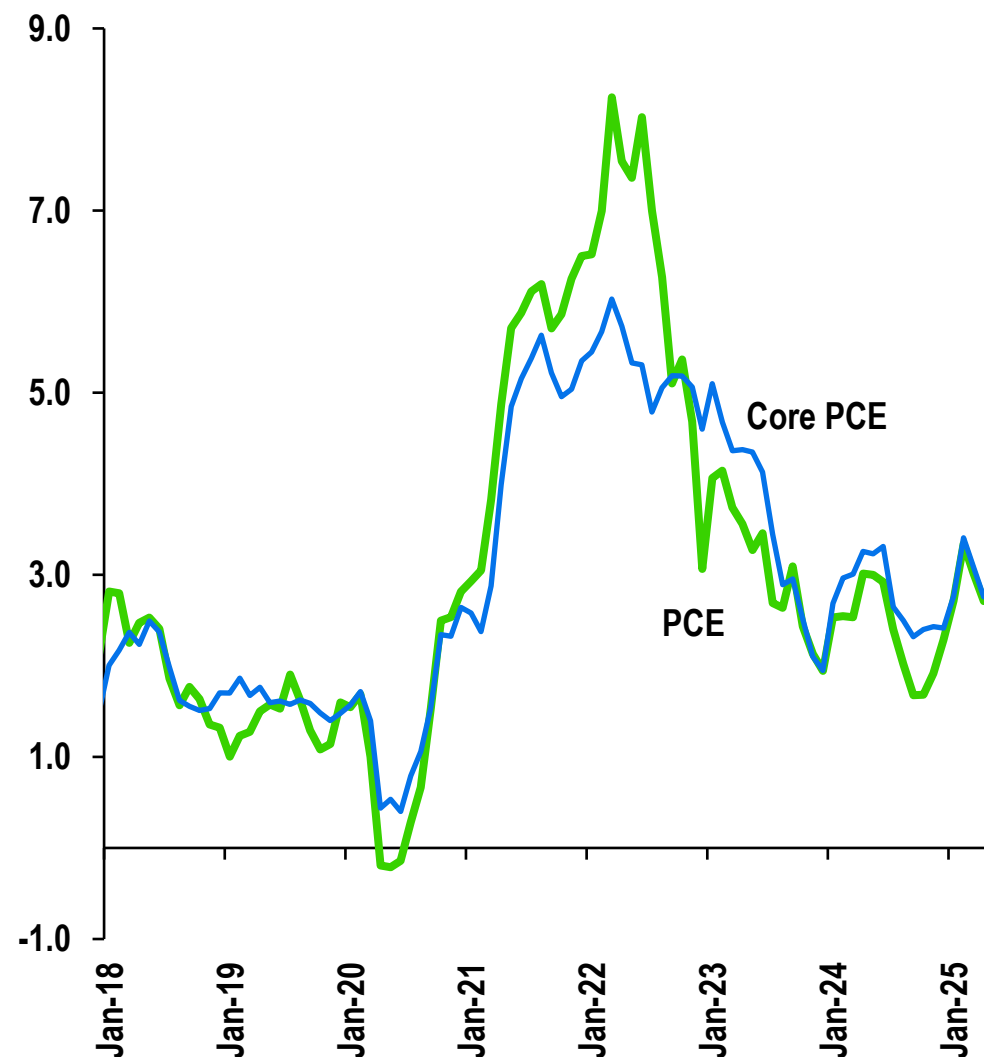
## Gradual slowdown in the labour market

*NFP 3mma ('000 persons); unemployment rate (%)*



## US inflation is stalling above target

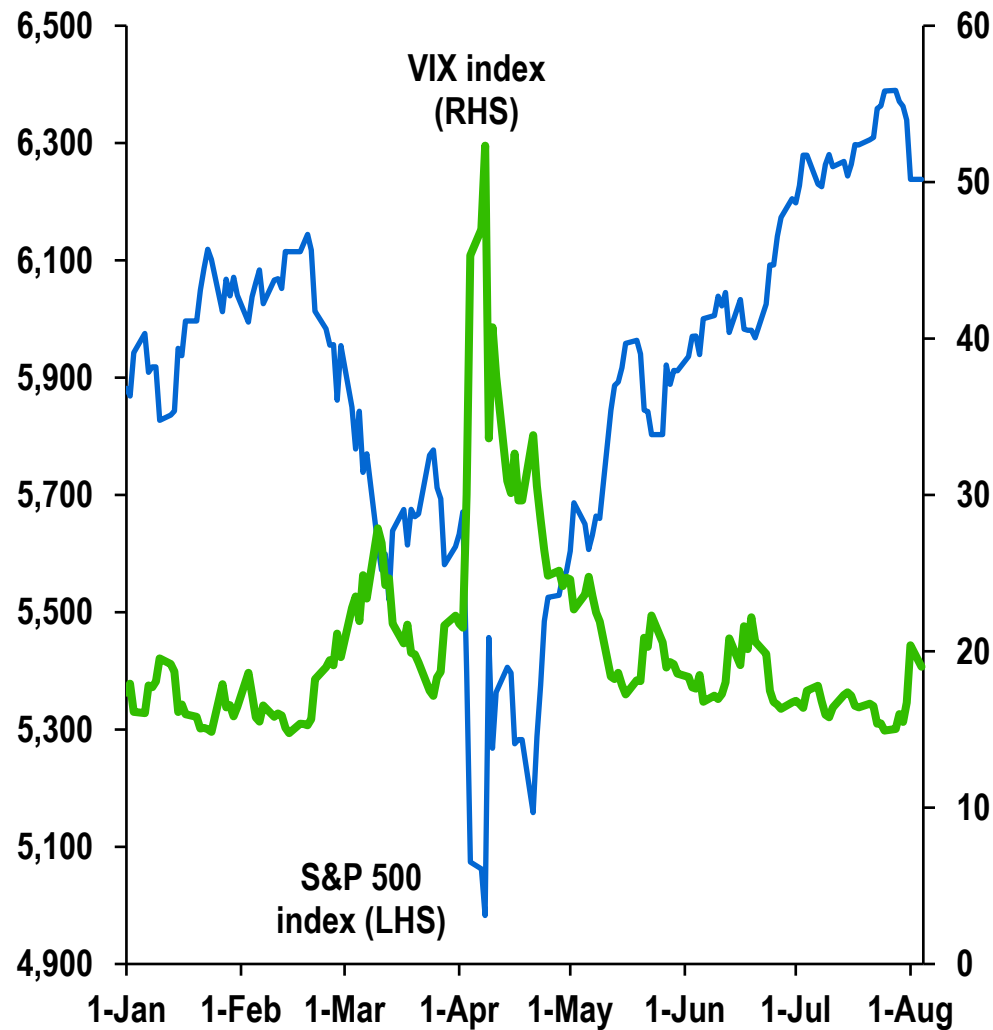
*Headline and core PCE, annualised 6mma (%)*



# The financial market has fluctuated

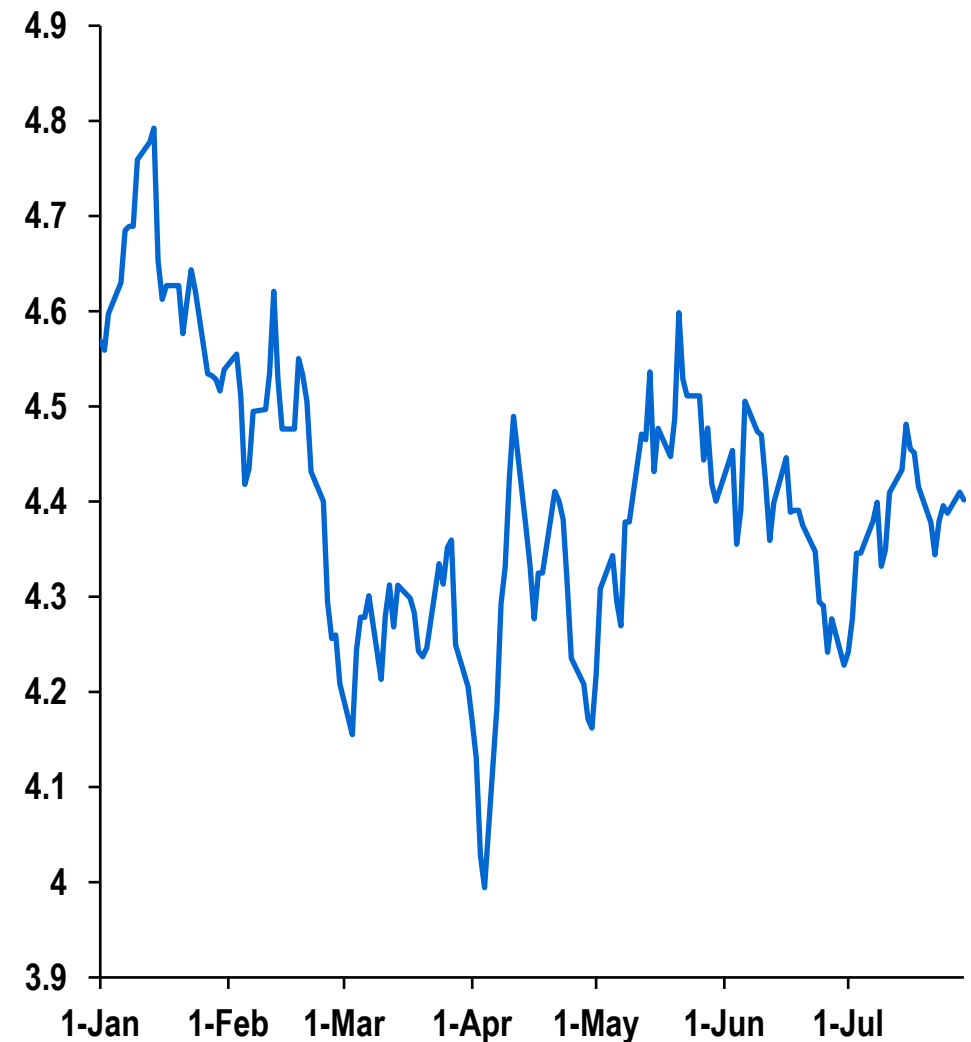
## The US stock market has recovered its losses

*S&P 500 index (LHS); VIX index (RHS)*



## Spike in 10Y UST yields

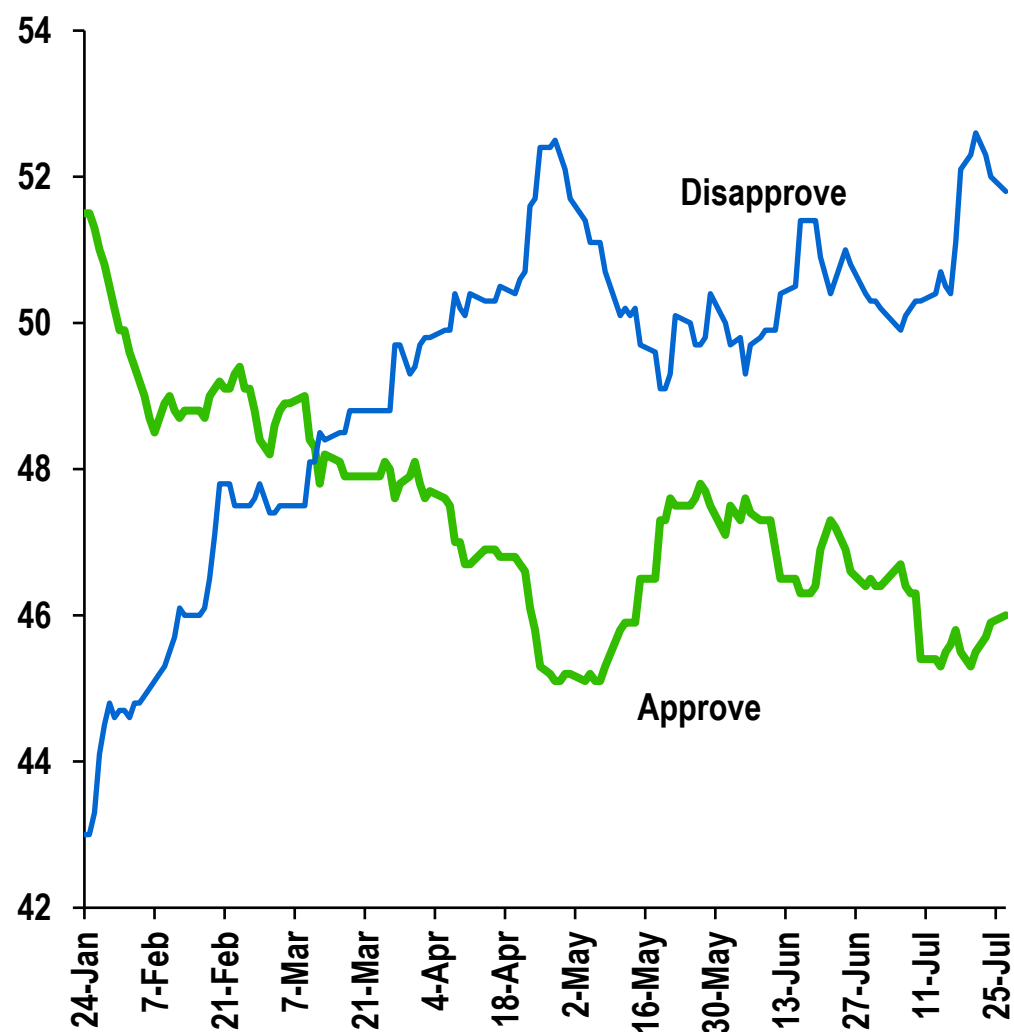
*%*



# Political consequences and the policy outlook

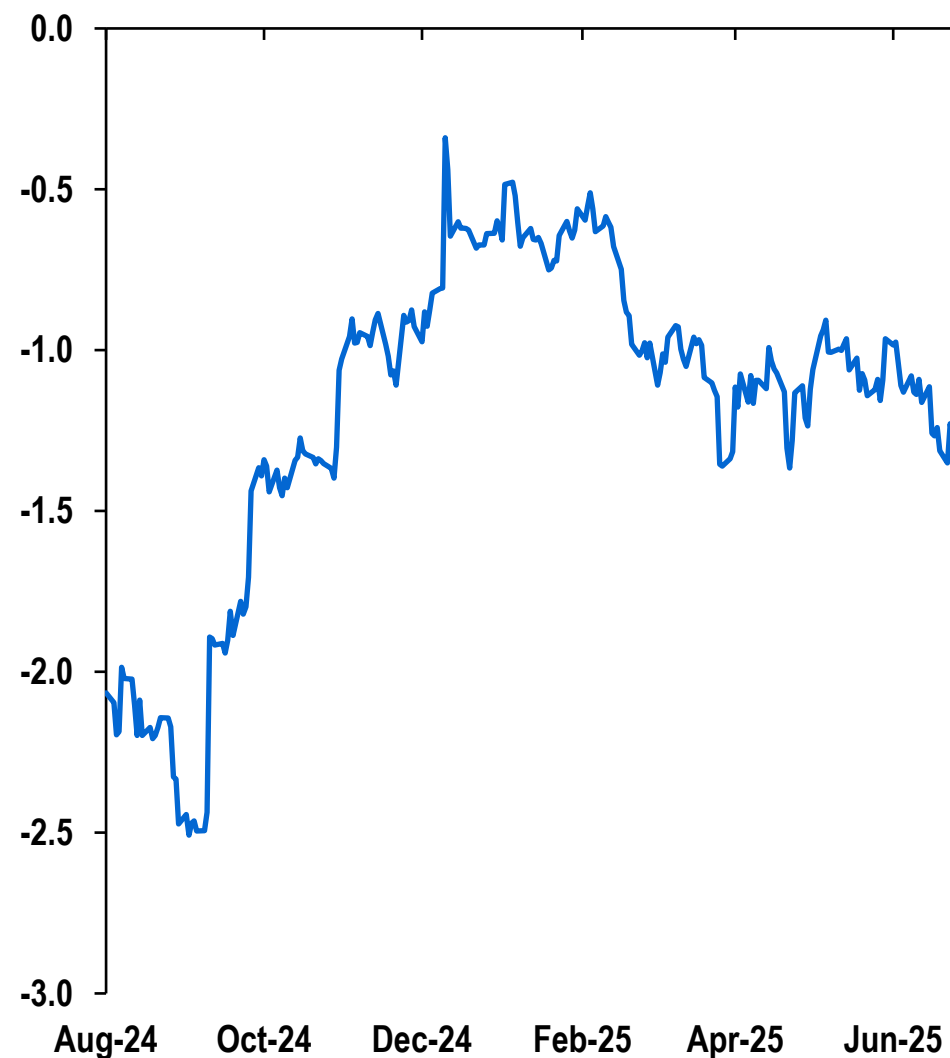
## President Trump's job approval ratings

*Approval ratings turned net negative around mid-March*



## FOMC rate cuts are at risk of being unwound

*Market-implied FOMC rate cuts, USD OIS, %*





# Geopolitics – A new world order?

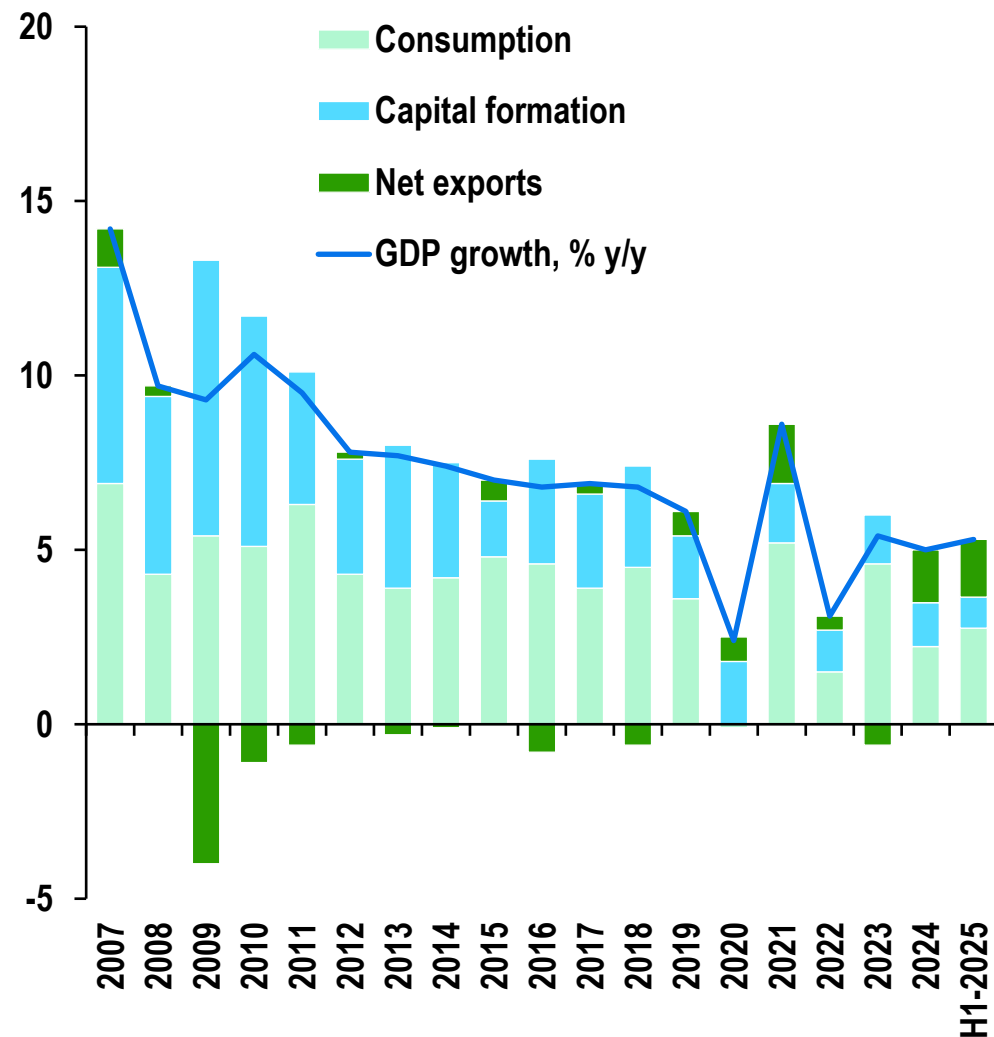
*The possible emerging world order is rife with risks and built-in flaws*



# China near-term outlook – Activity below trend despite H1 outperformance

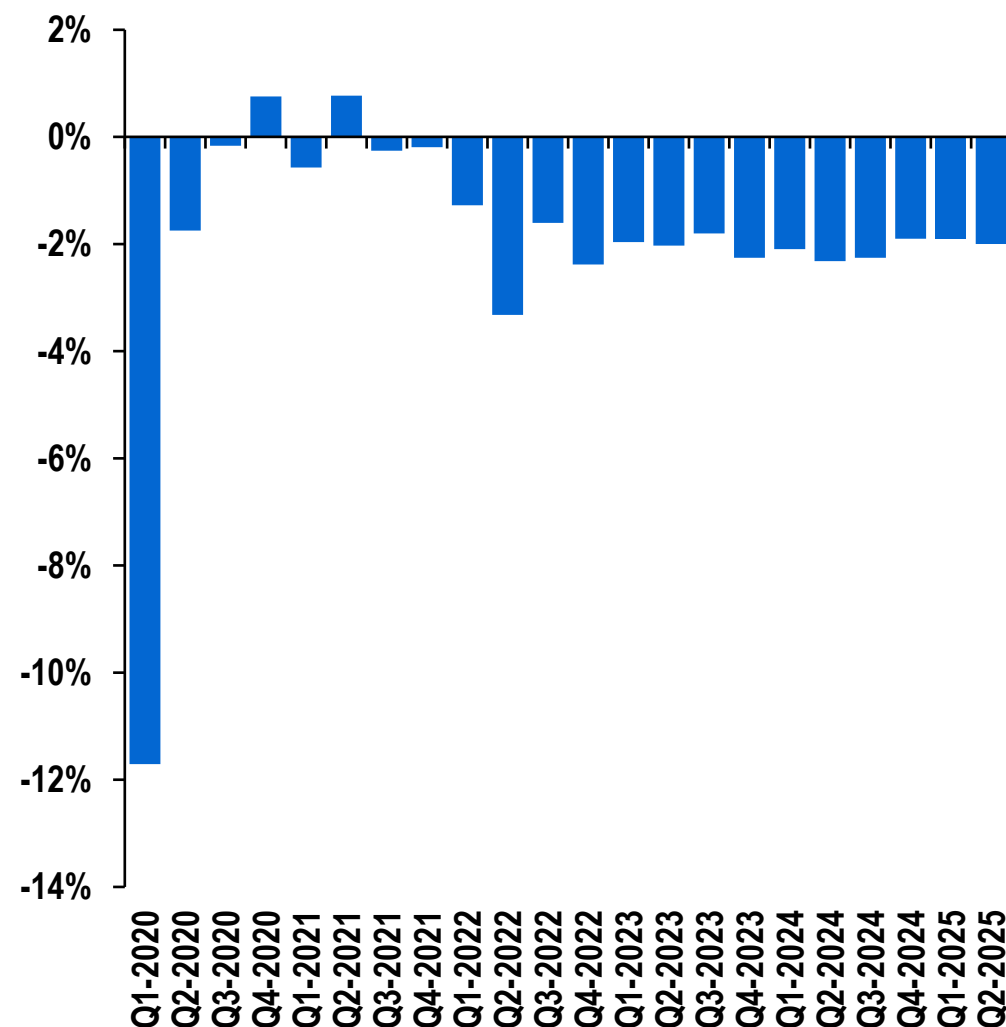
## Net exports contributed 1.7ppt to growth in H1

*Contribution to GDP growth, ppt*



## Negative output gap sustained

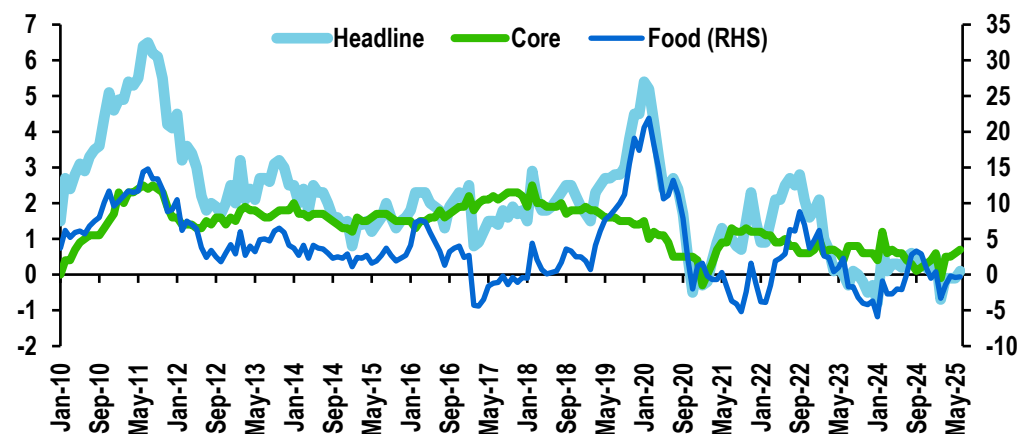
*% of actual economic output above or below trend level*



# Deflation lingers

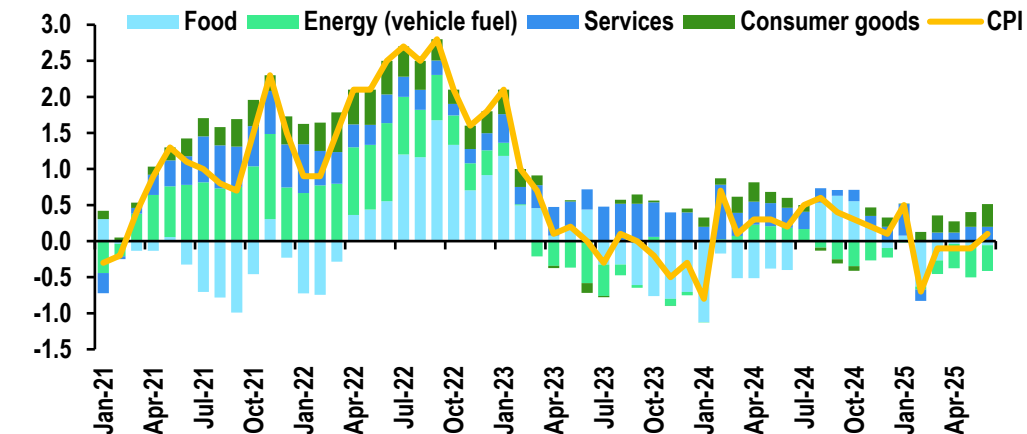
## CPI inflation

% y/y



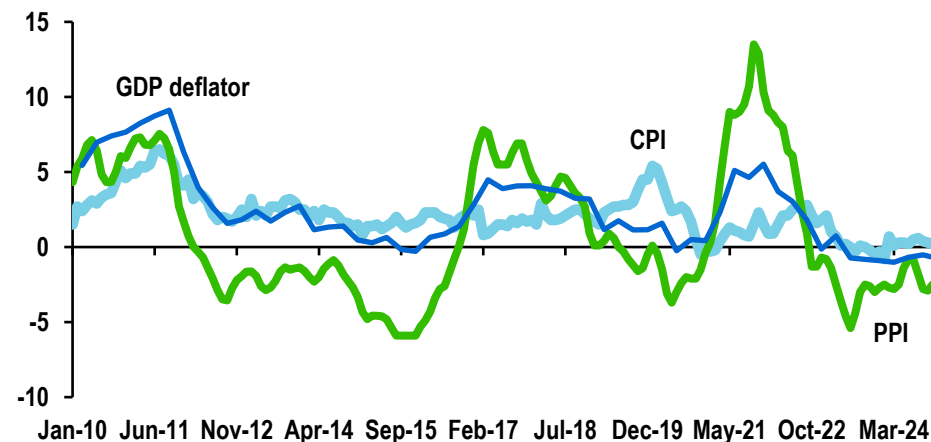
## CPI inflation contribution

ppt

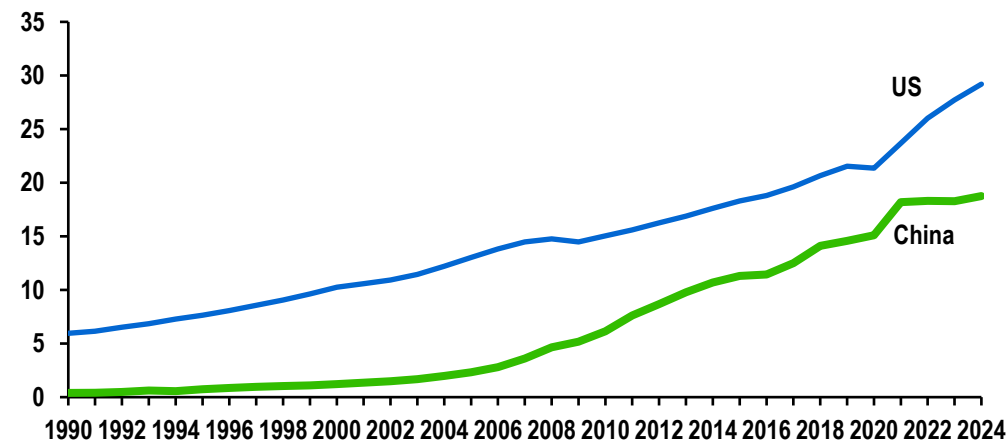


## Deflation has lingered for over two years

% y/y



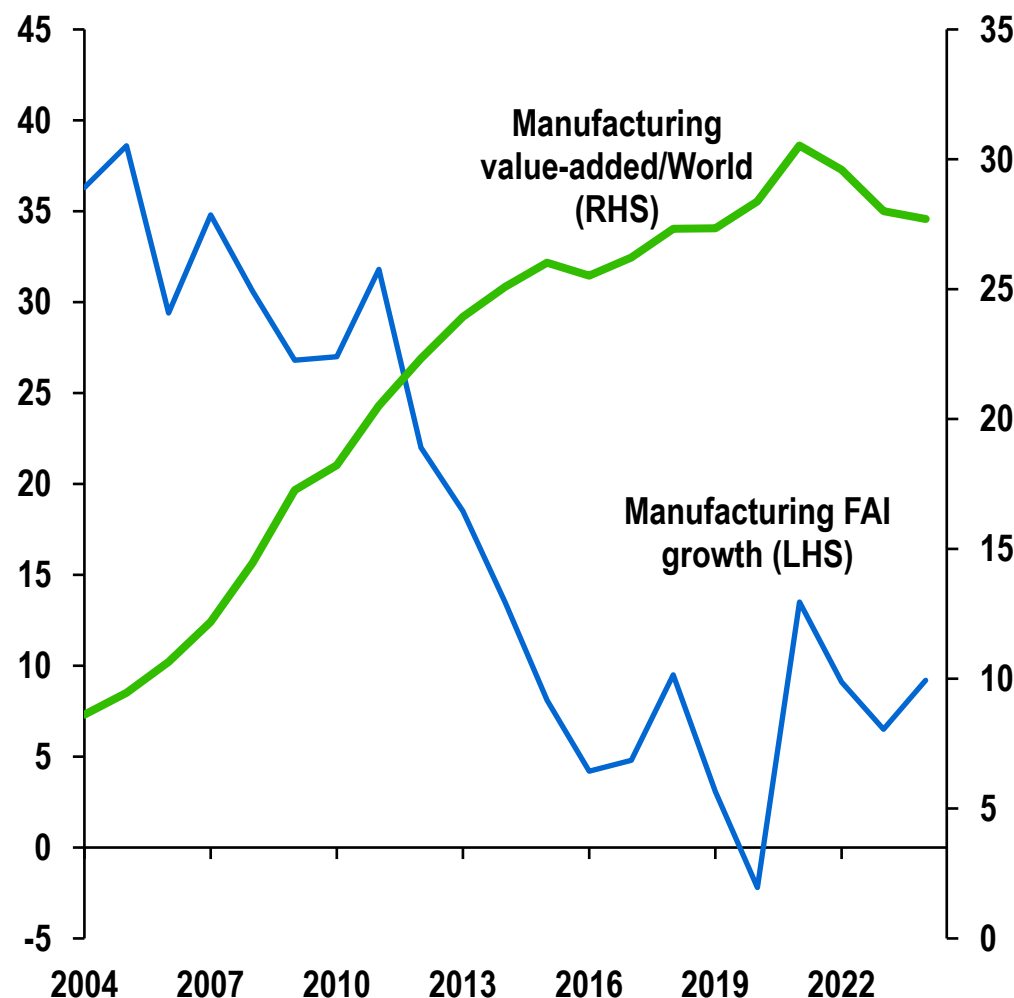
## Widening US-China GDP gap partly due to deflation in China; *nominal GDP, USD tn*



# Factors that may have contributed to prolonged deflation

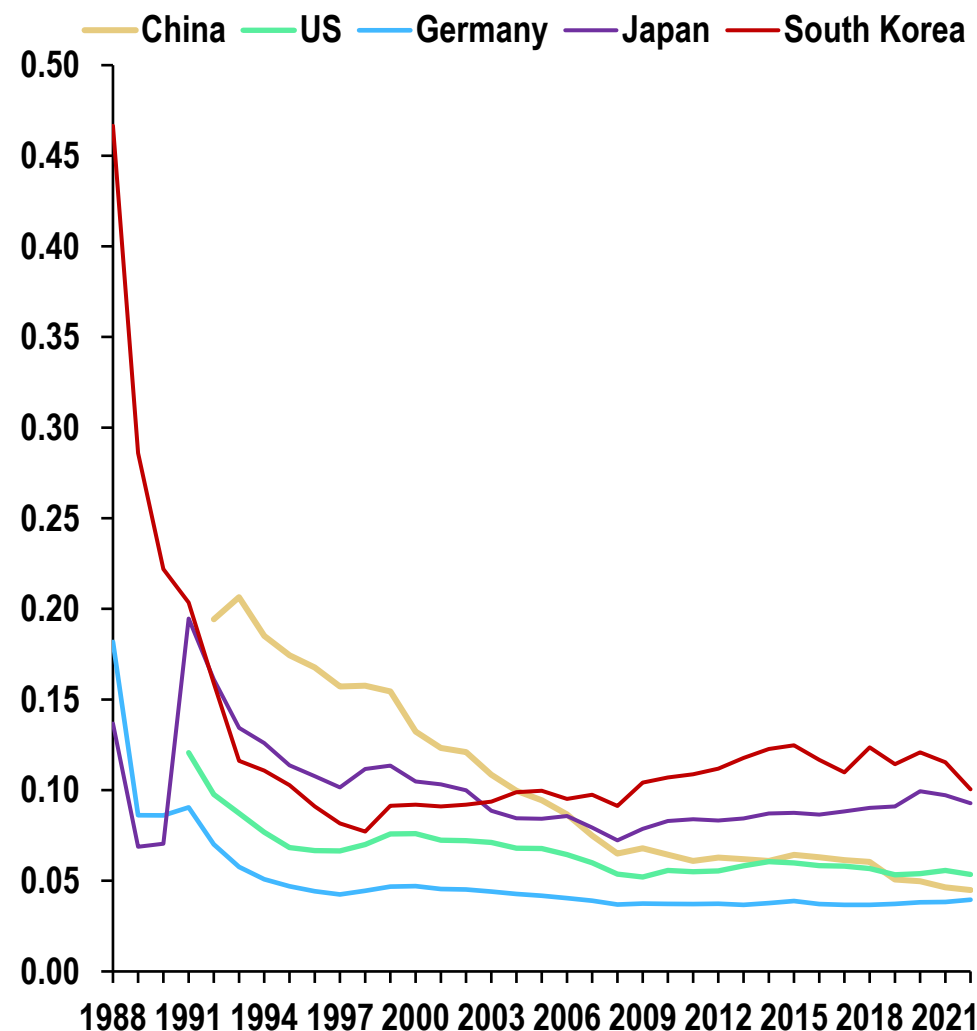
## New investment continues to add capacity

% y/y (LHS); % of world manufacturing value-added (RHS)



## Low market concentration fuels competition

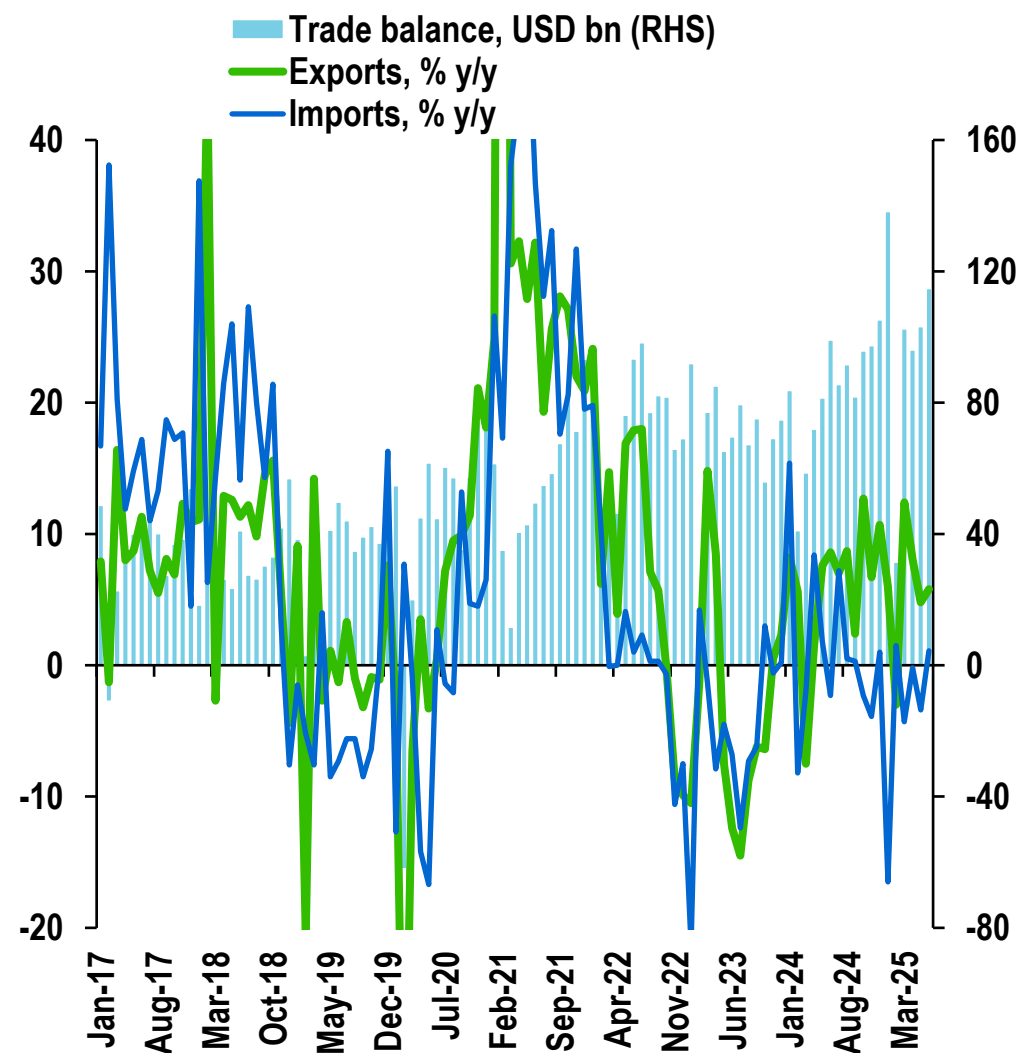
HH market concentration index



# Trade surplus widens on resilient exports and declining imports

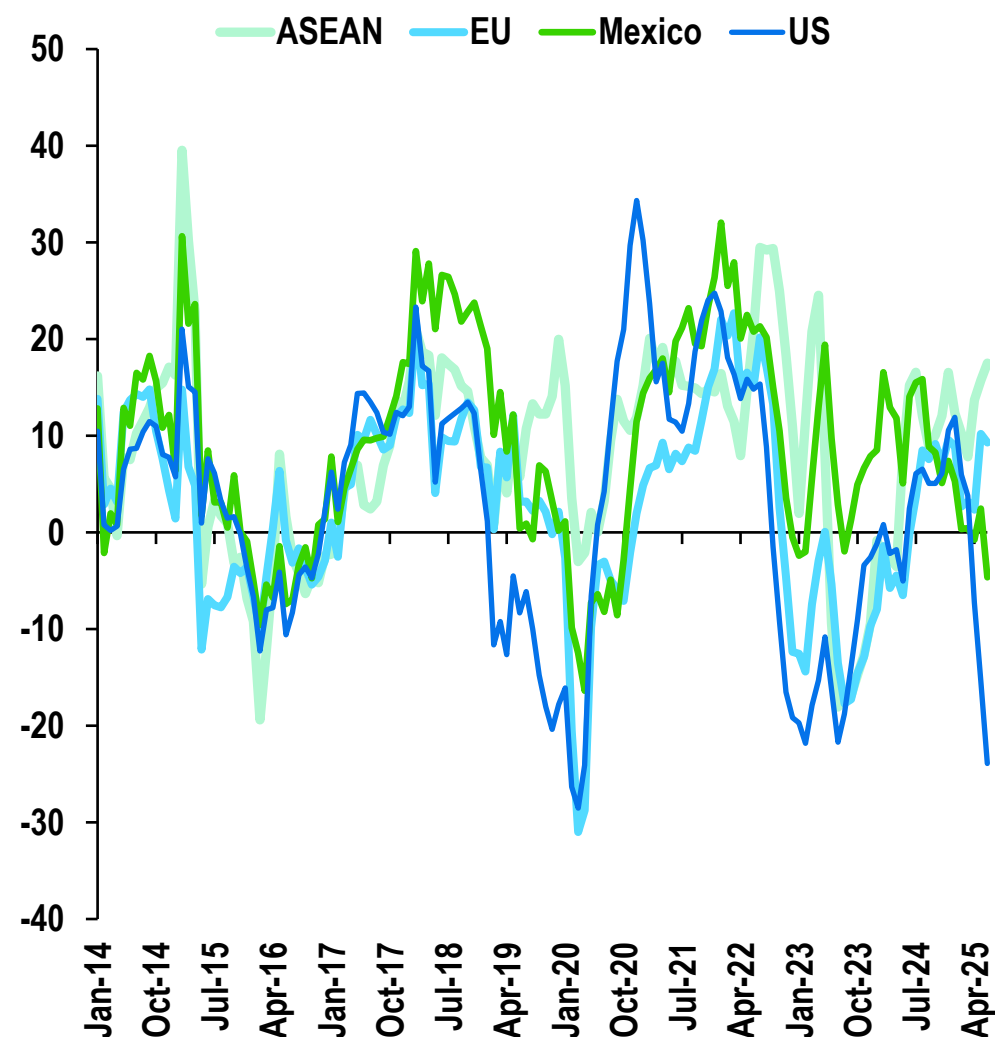
## Trade performance

% y/y (LHS); USD bn (RHS)



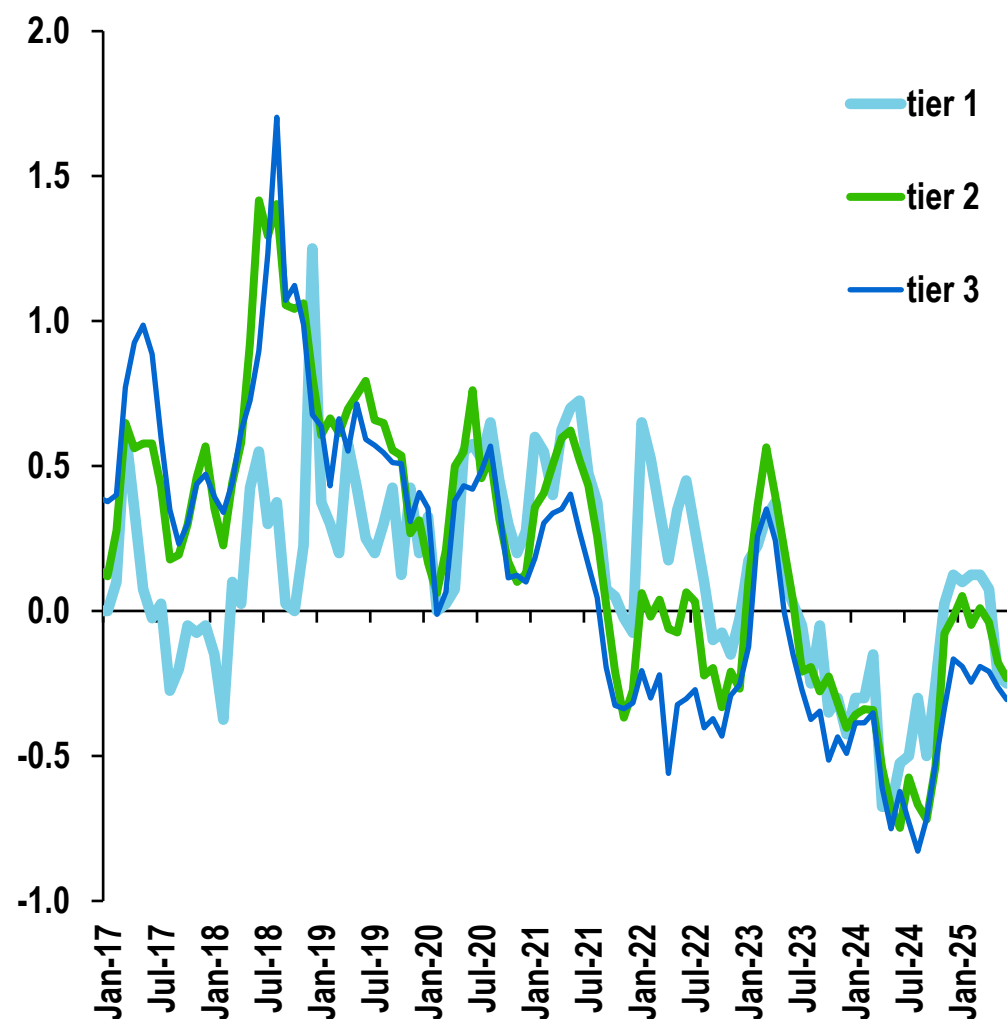
## Exports by region

% y/y (3mma, 2Y CAGR for 2021)

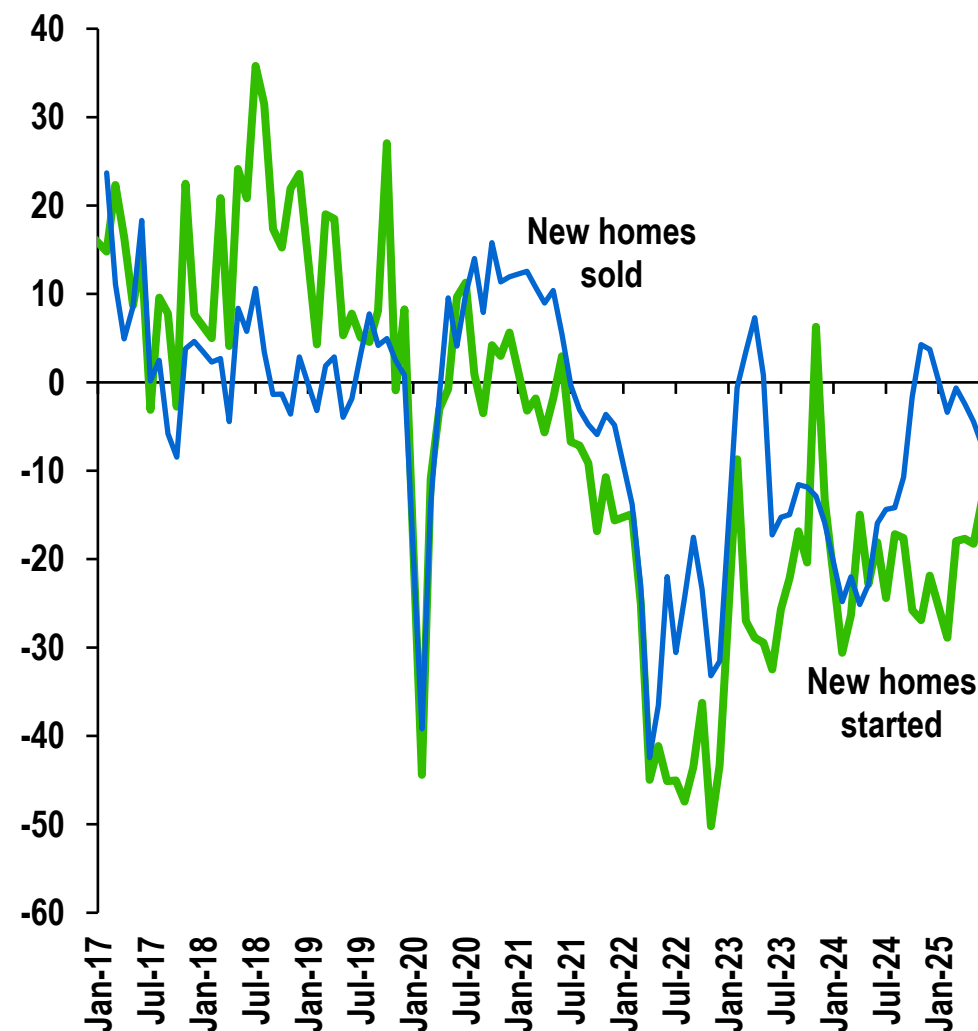


# Renewed housing-market weakness

**70-cities' new home prices**  
% m/m change by tier

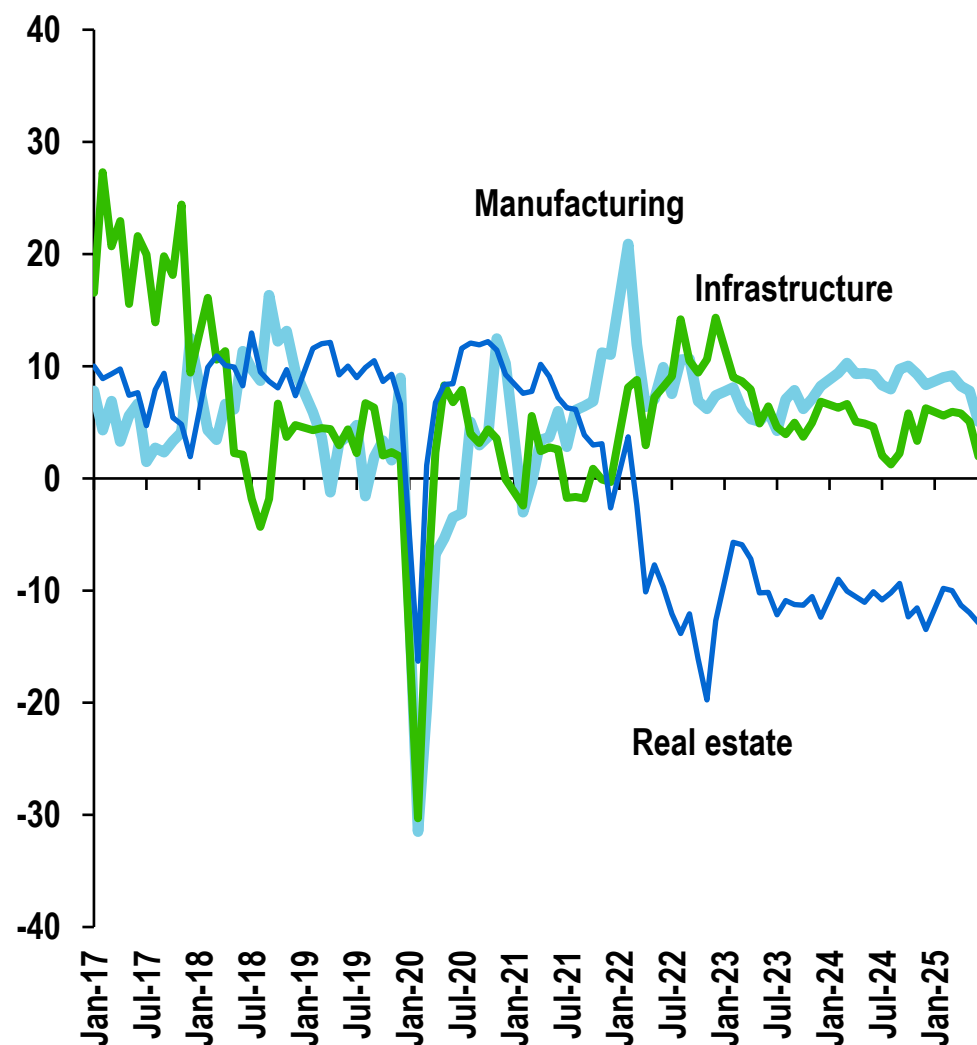


**Housing market leading indicators**  
% y/y (2Y CAGR for 2021)

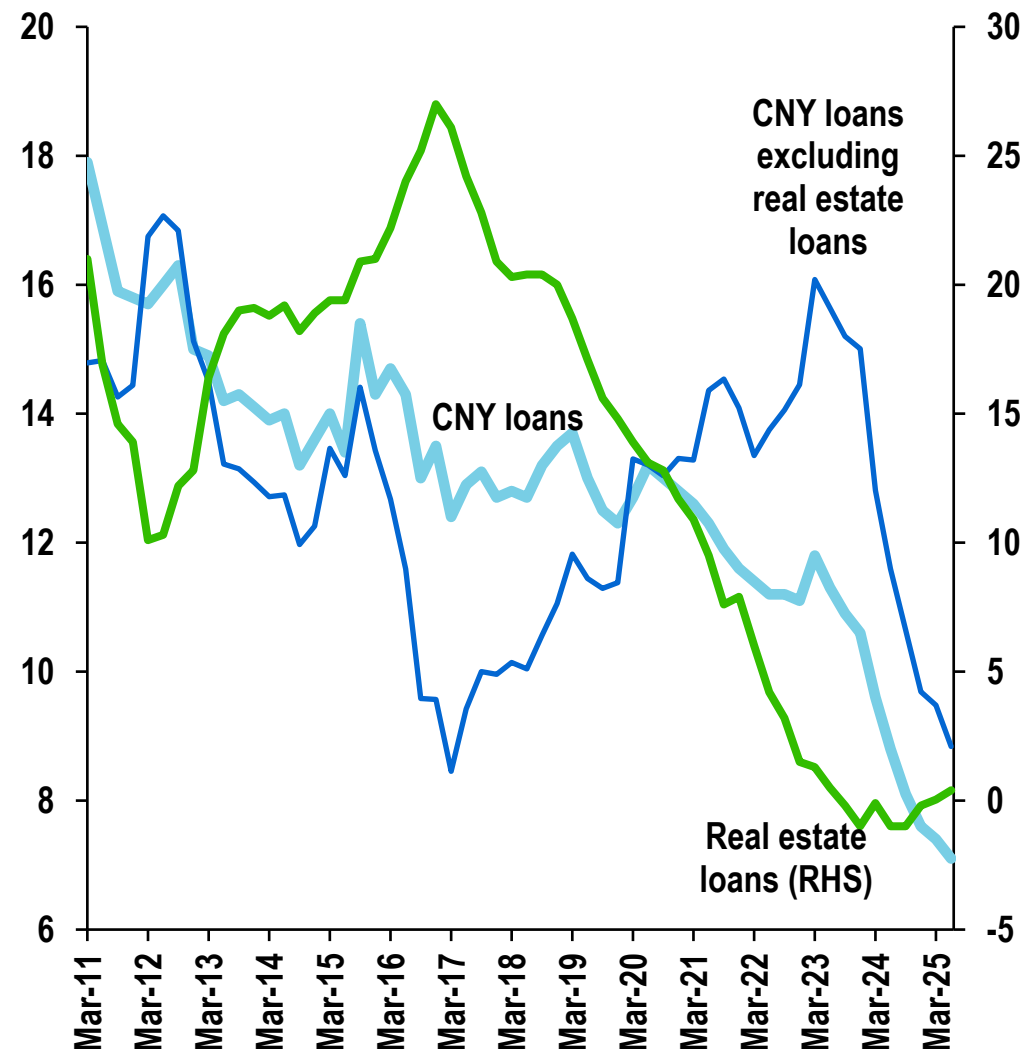


# The housing sector has yet to find the bottom

**Fixed asset investment (FAI) growth by sector**  
% y/y (2Y CAGR for 2021)



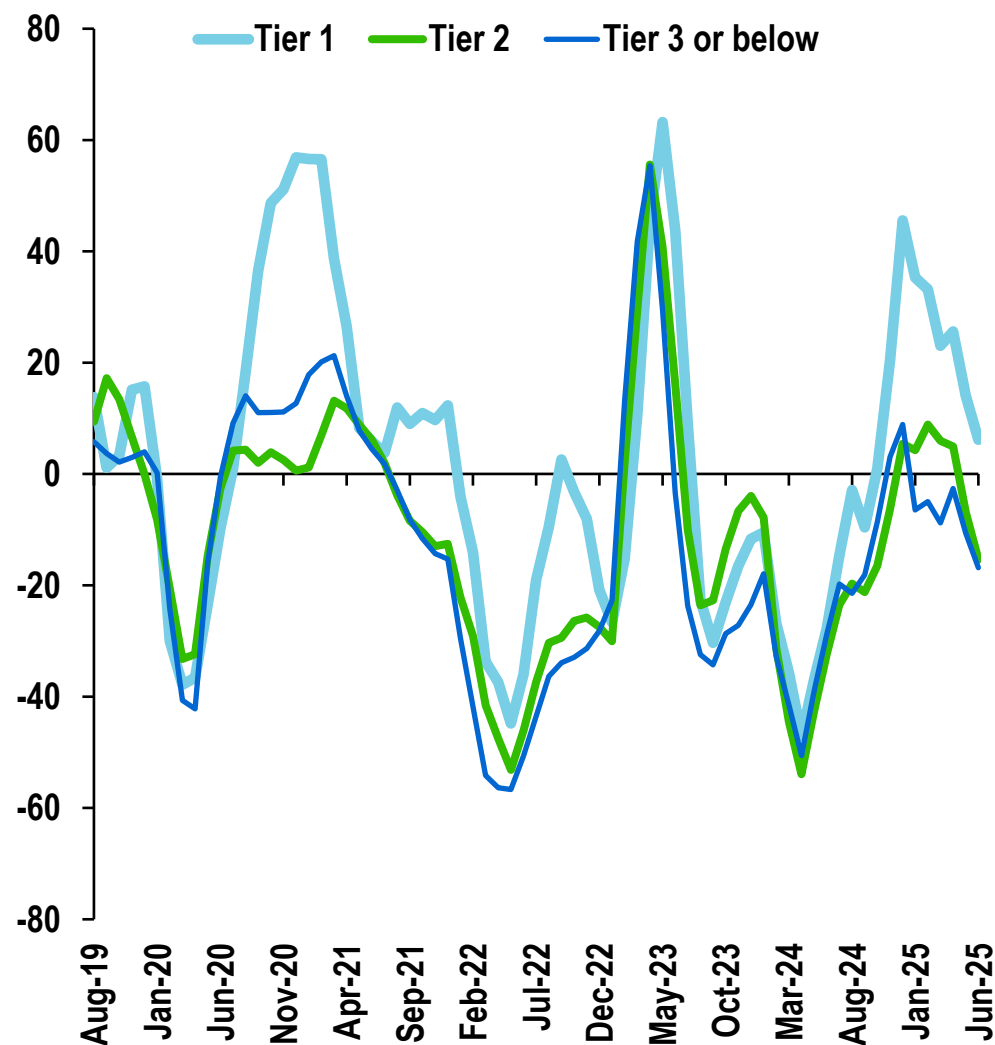
**Real estate loans remain sluggish**  
% y/y



# Top-tier cities have outperformed

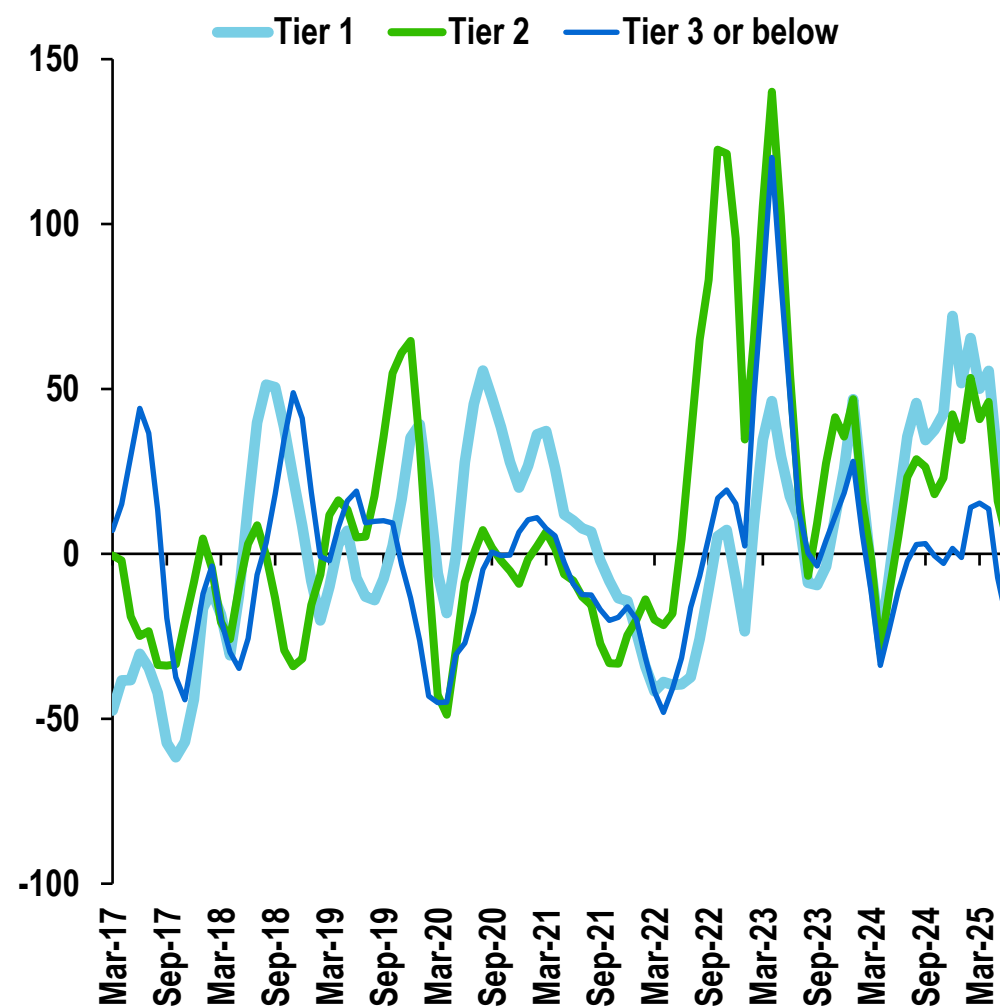
## New home sales are down in Tier 2 and 3 cities

45-cities' new home sales (floor area), % y/y 3mma



## Pre-owned home sales have retreated

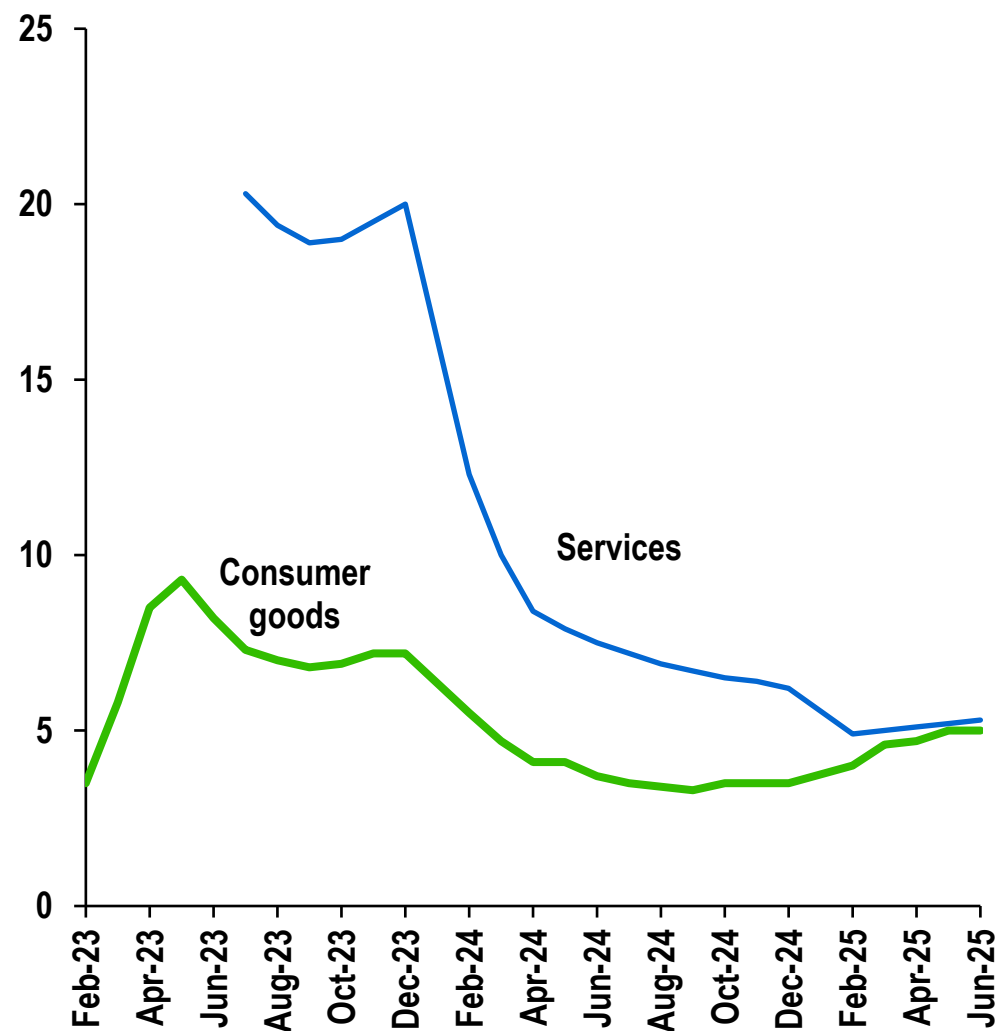
12-cities' pre-owned home sales (floor area), % y/y 3mma (2Y CAGR for 2021)



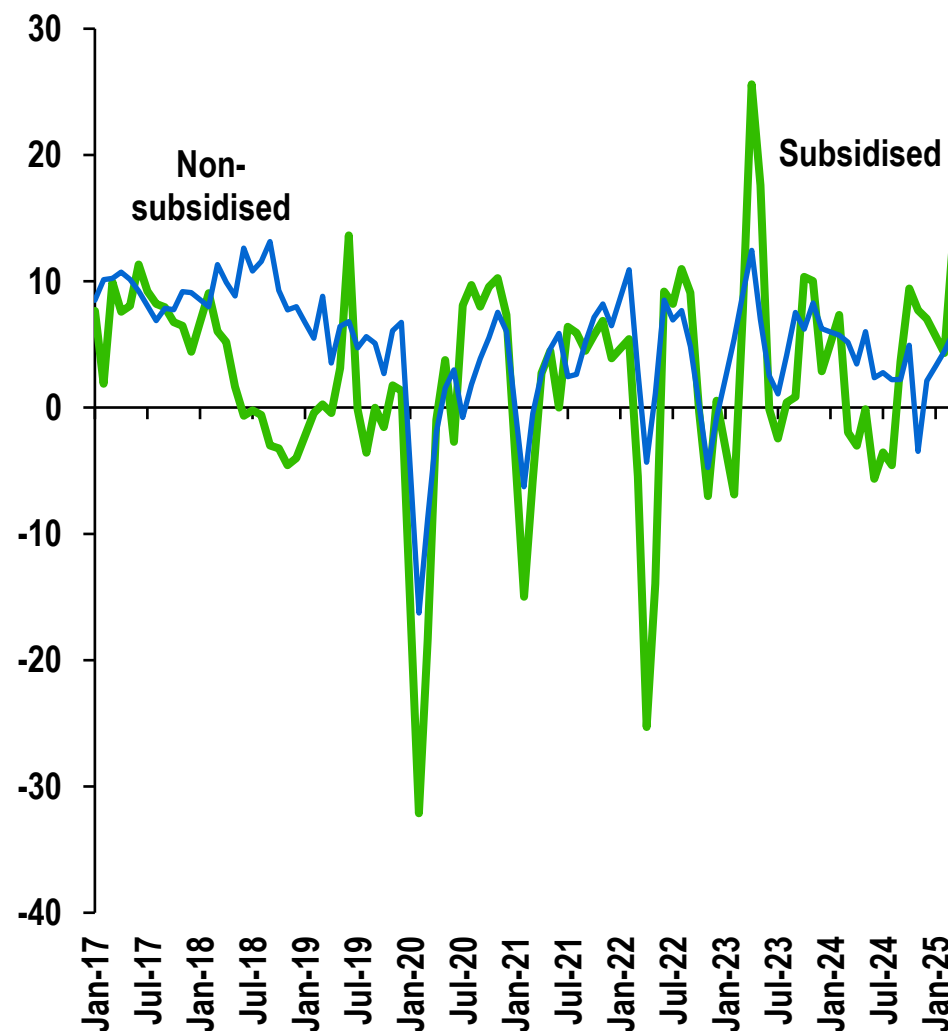


# Trade-in programme has boosted retail sales

**Steady retail sales growth**  
% y/y YTD



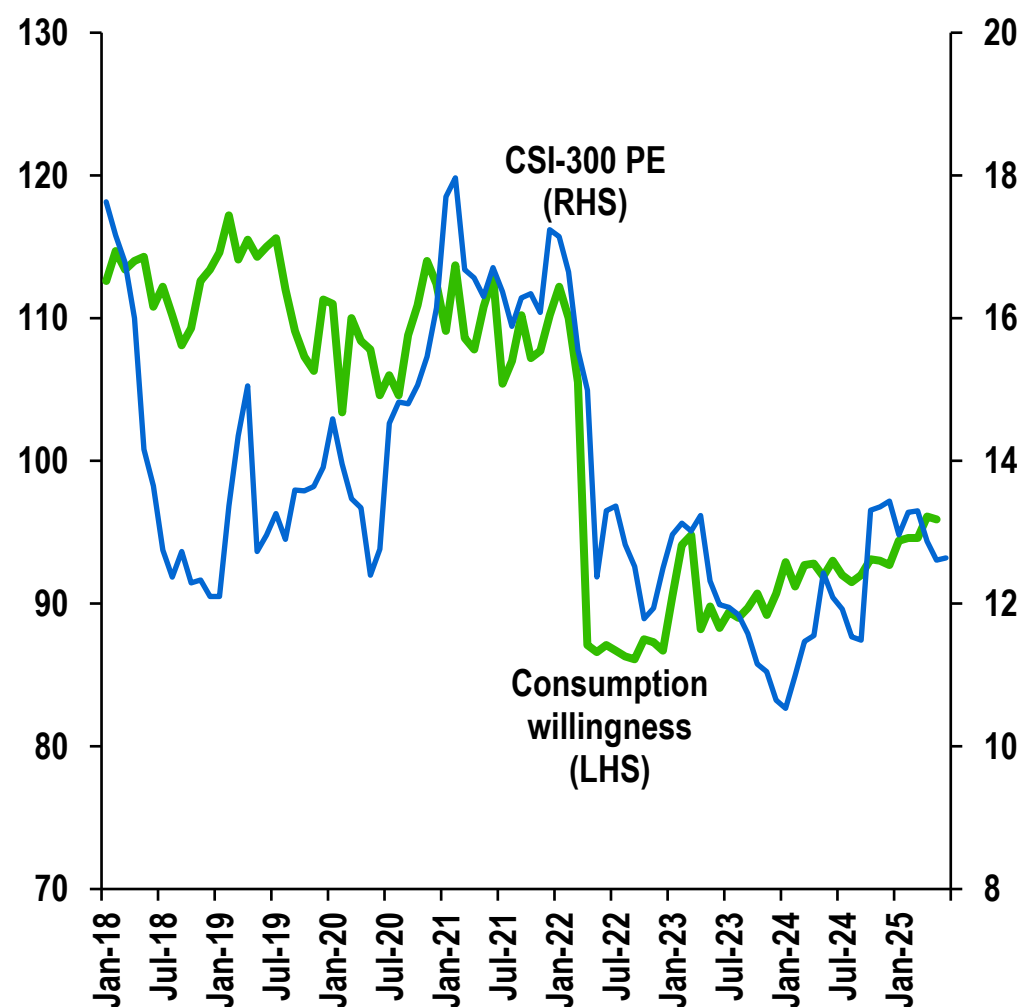
**Retail sales in subsidised sectors have surged**  
*Commodity retail sales growth, % y/y*



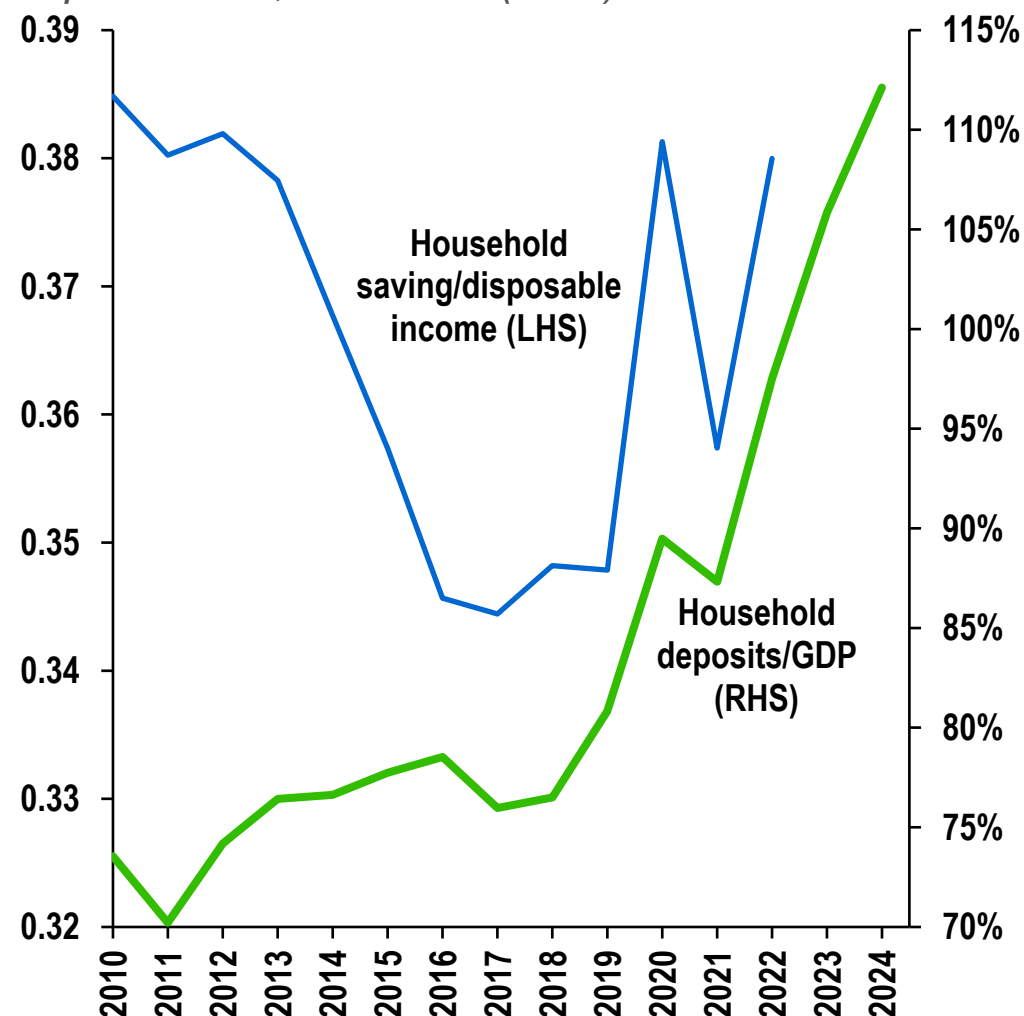
# Consumer sentiment remains weak

## Stock market rally has yet to boost consumption

Consumption willingness index (above 100 means expanding)



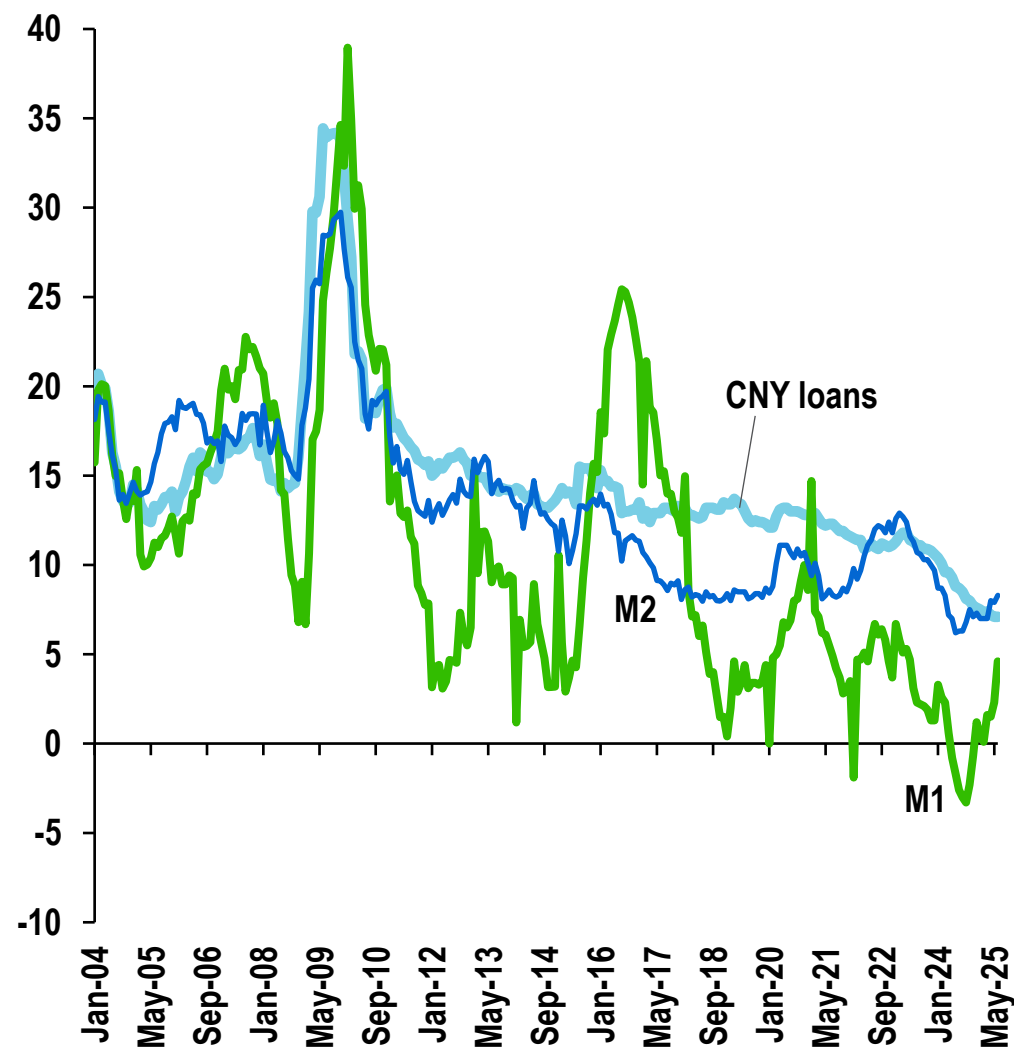
## Growing consensus to lower precautionary savings; household savings ratio (LHS), household deposits/GDP, % of GDP (RHS)



# Loan demand remains sluggish

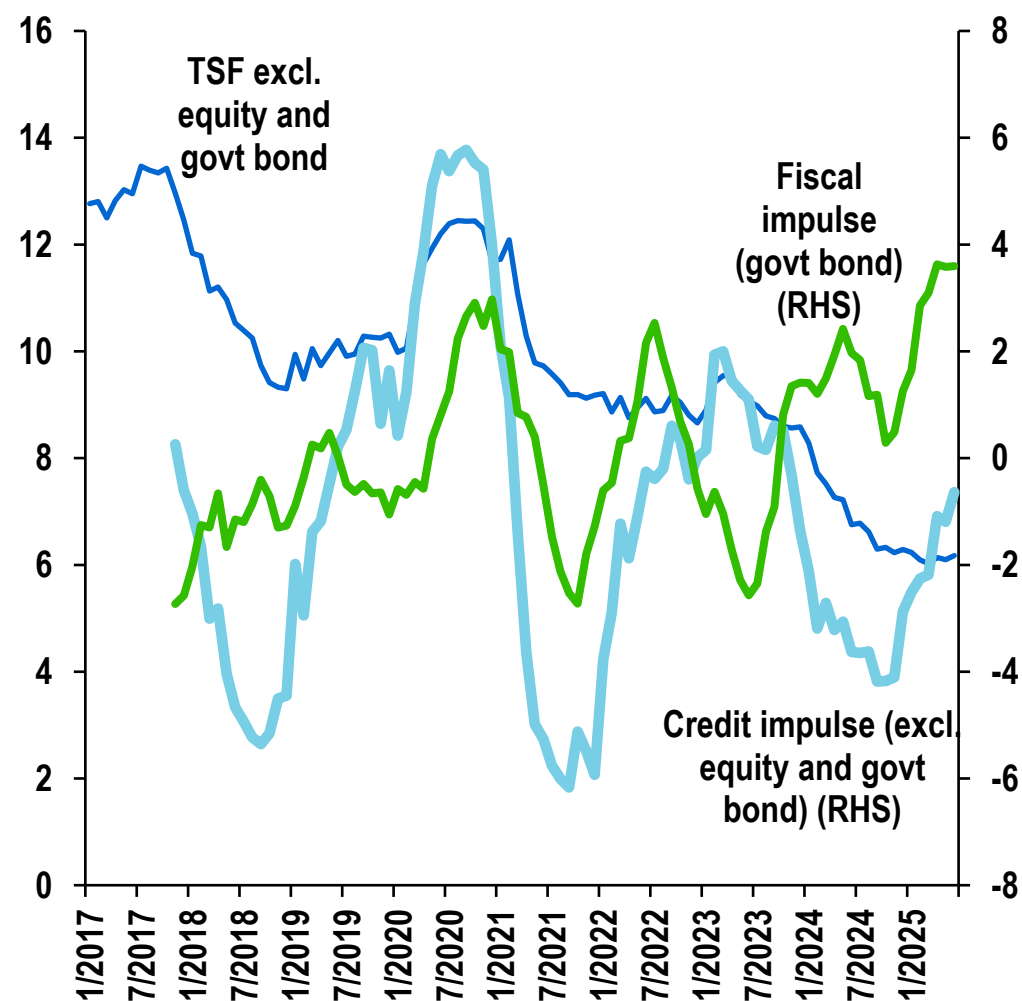
## Money and loan growth

% y/y



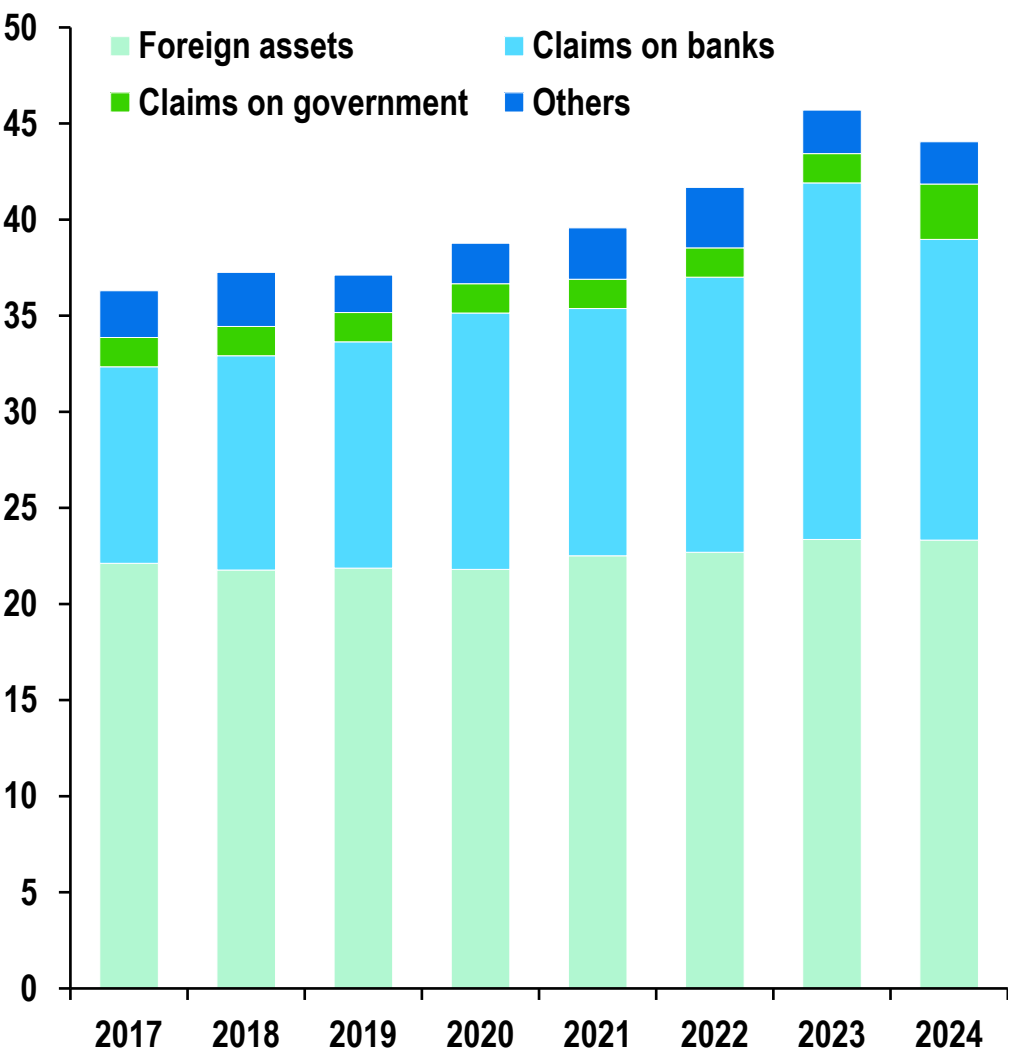
## Credit and fiscal impulse

*TSF growth, % y/y (LHS); fiscal and credit impulse, % of GDP (RHS)*

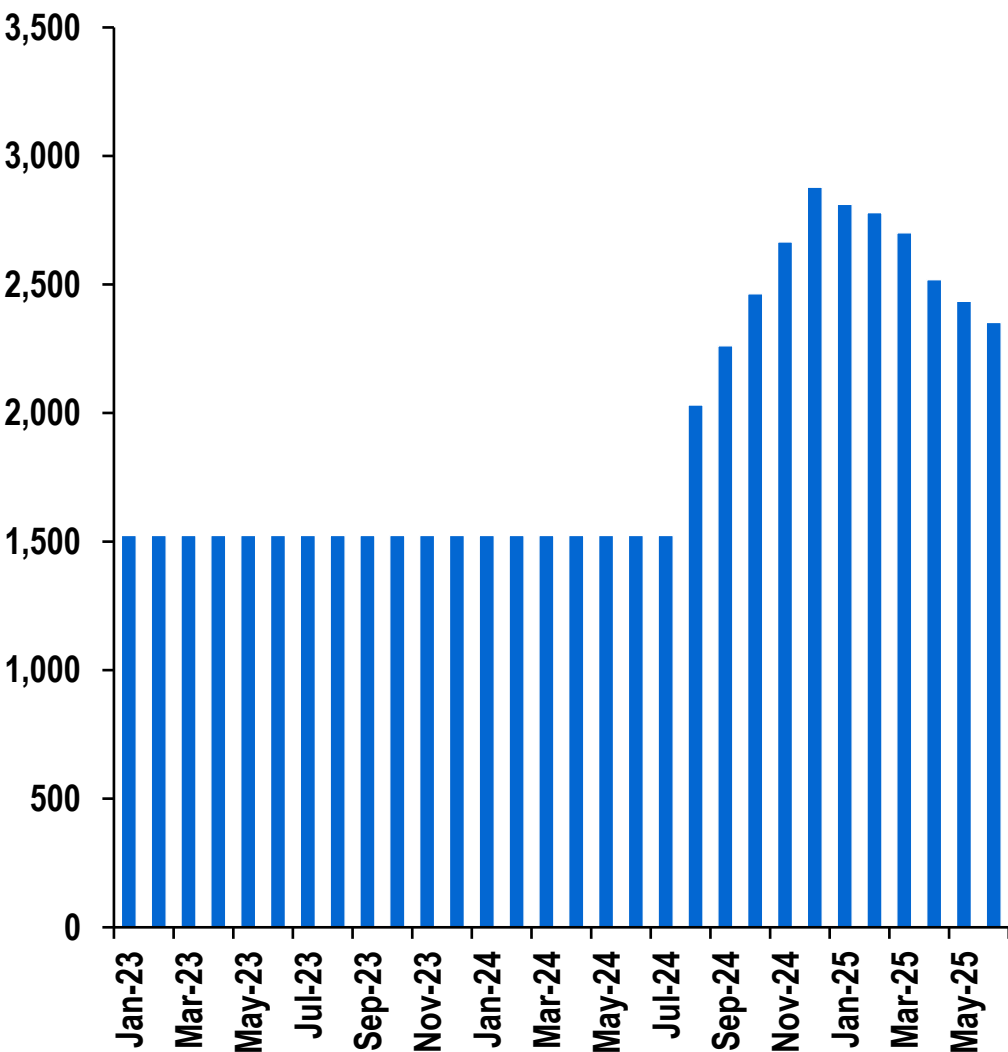


# PBoC balance sheet expansion paused temporarily

**PBoC’s claims on banks grew markedly in 2022-23;** *PBoC balance sheet: assets breakdown, CNY tn*

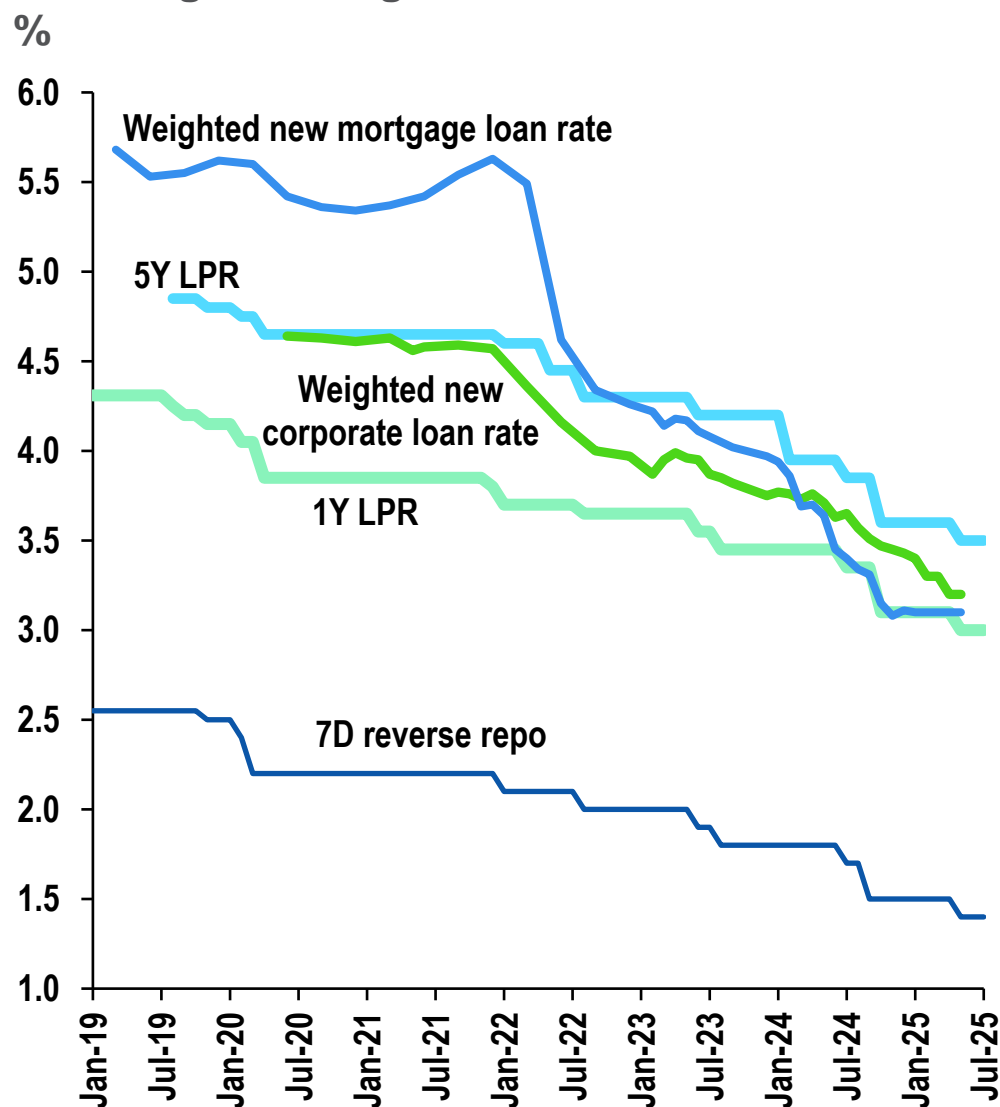


**PBoC net-purchased CGBs from Aug-Dec 2024** *PBoC holdings of government bonds, CNY bn*

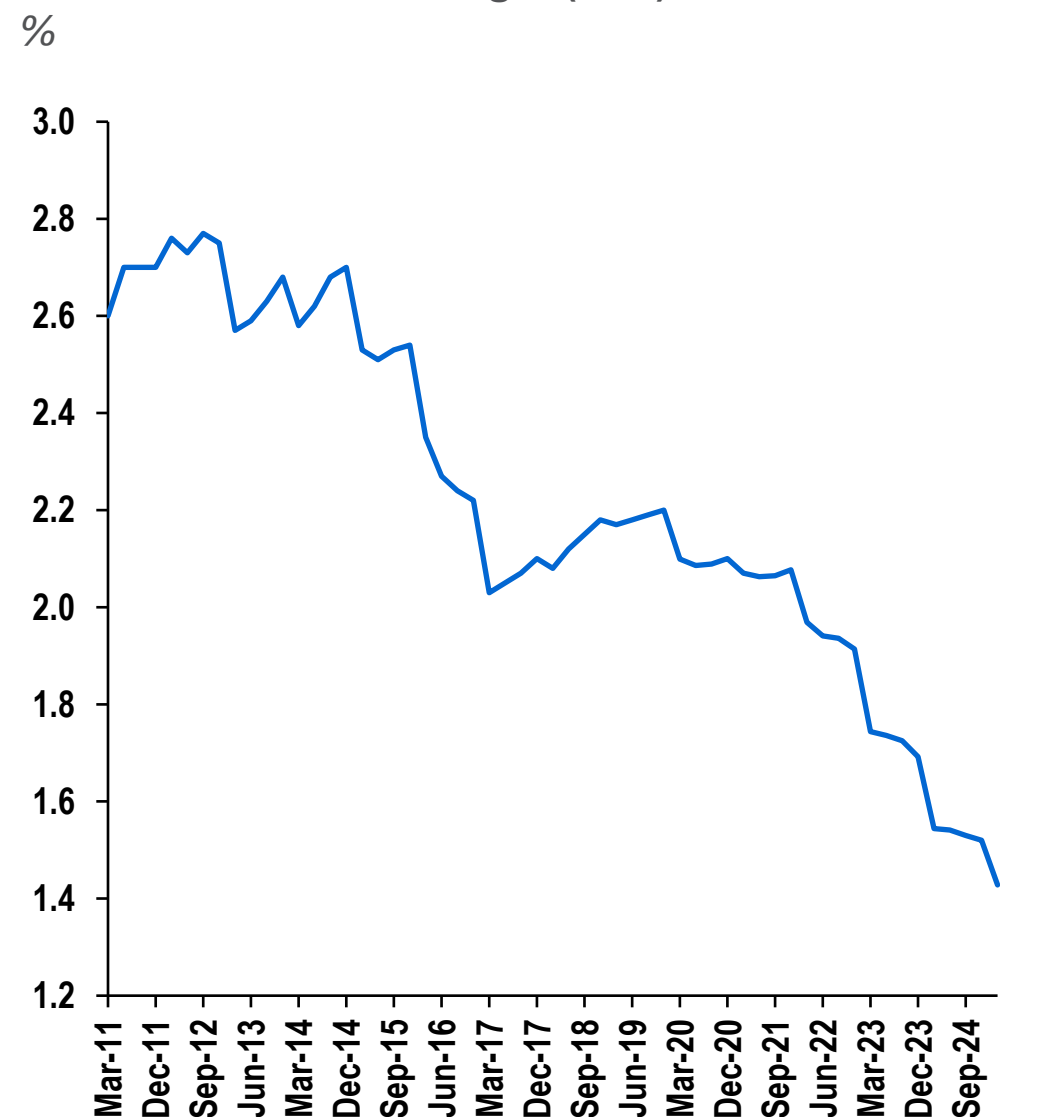


# Room for more rate cuts constrained by NIMs

## Lowering financing costs

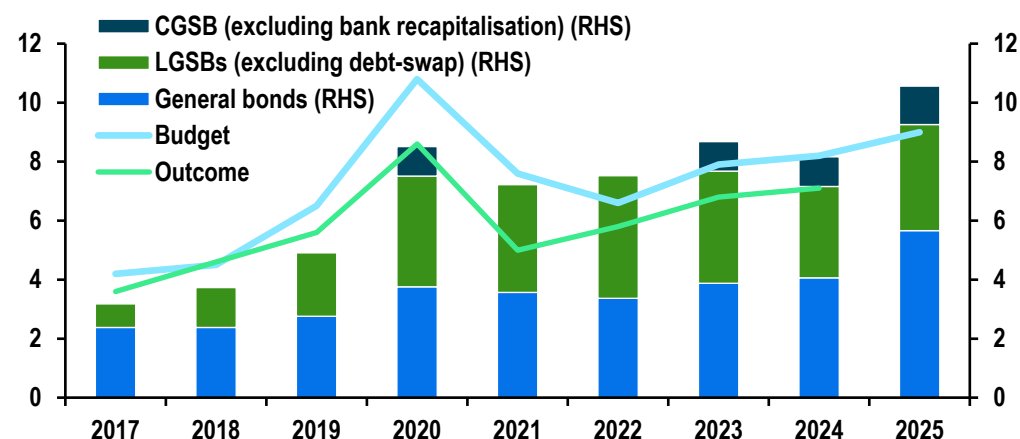


## Banks' net interest margin (NIM) down to a new low

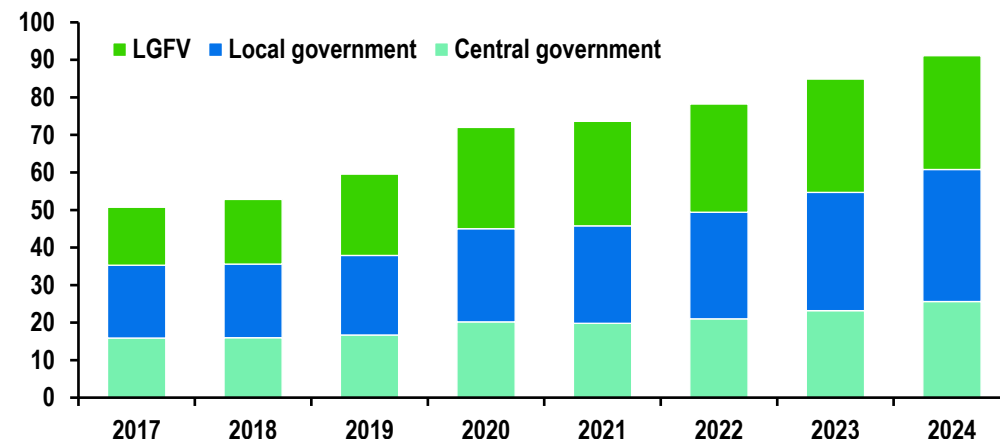


# Fiscal policy – Leveraging the central government's strength

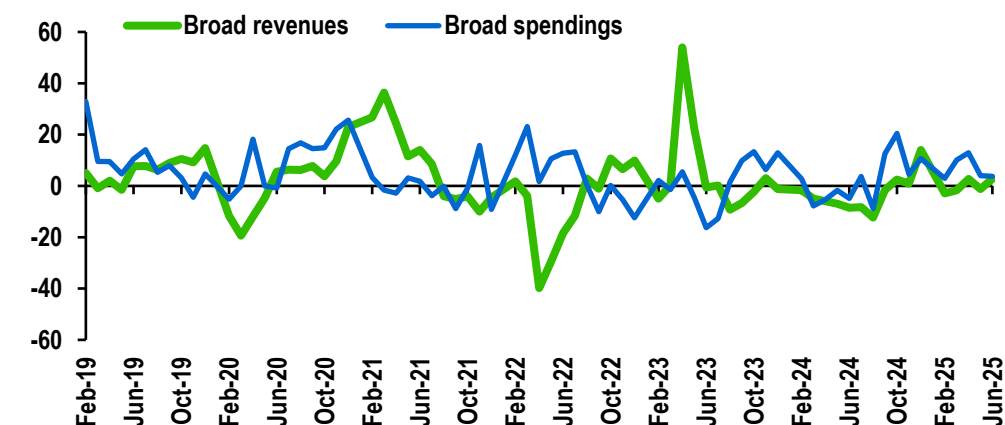
**Fiscal deficit\*, % of GDP (LHS) and government bond issuance quota; CNY tn (RHS)**



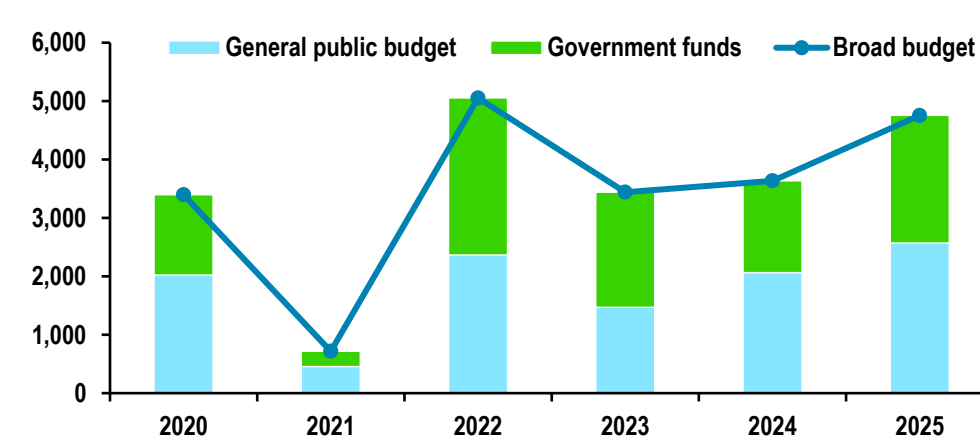
**Debt-to-GDP**  
% of GDP



**Broad revenue and spending growth**  
% y/y



**Broad budget deficit in H1**  
CNY bn



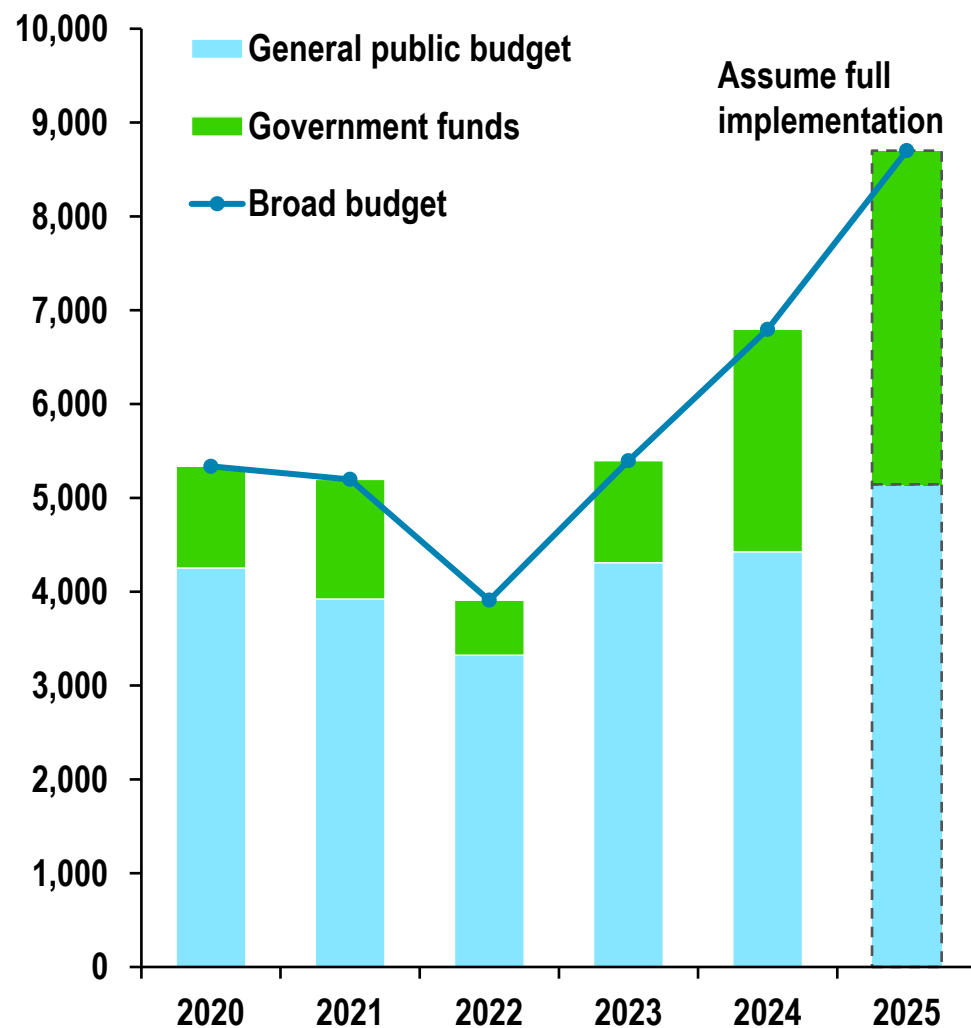
\*Based on our calculation following widely accepted fiscal accounting, covering the general public budget and government funds budget

Source: CEIC, MoF, WIND, Standard Chartered Research

# Fiscal support likely to be smaller in H2

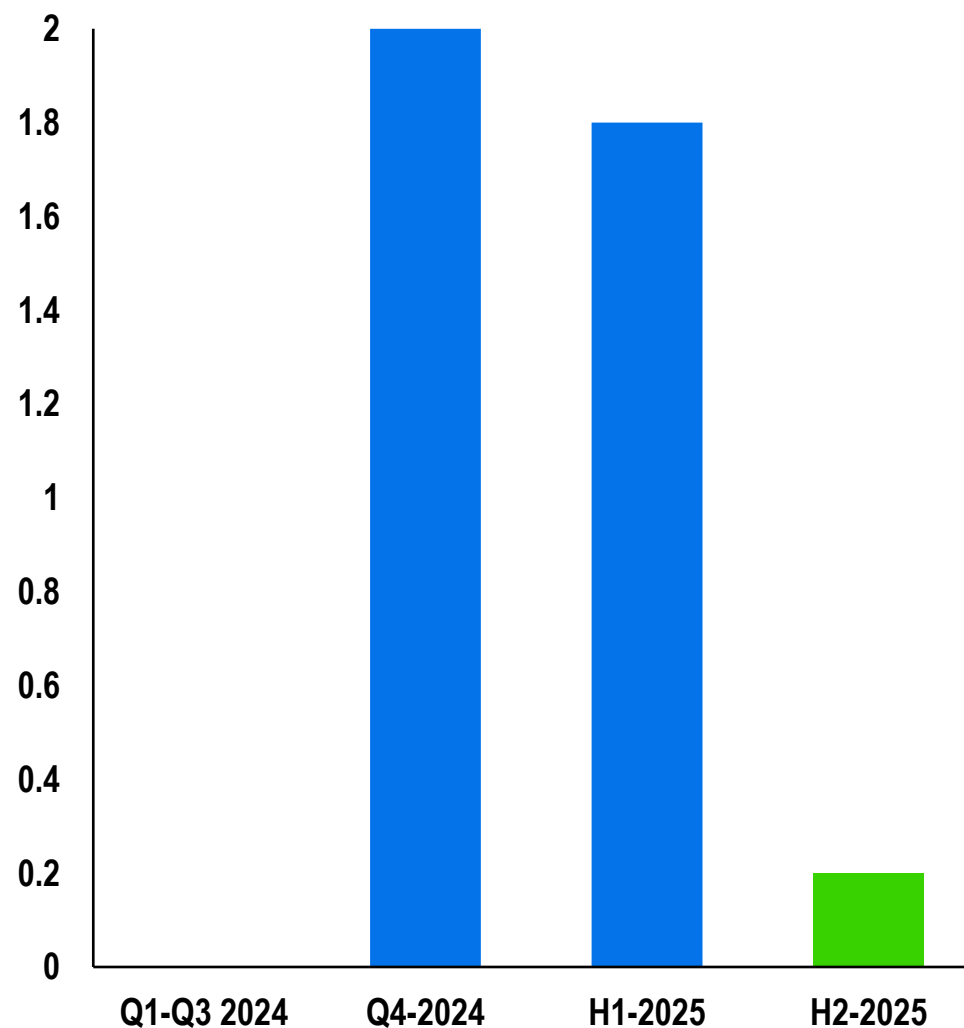
## Broad budget can still run a sizeable deficit

Broad deficit for H2, CNY tn



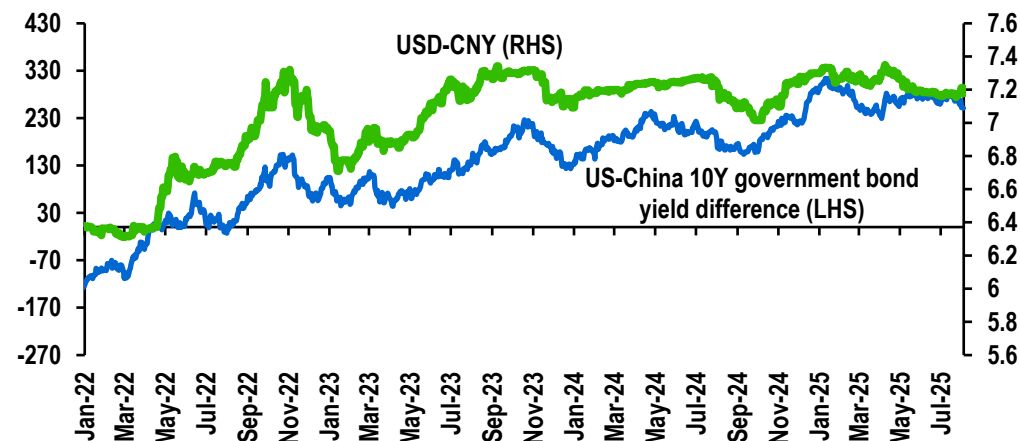
## Limited debt-swap bond issuance quota left

Debt-swap bond issuance, CNY tn

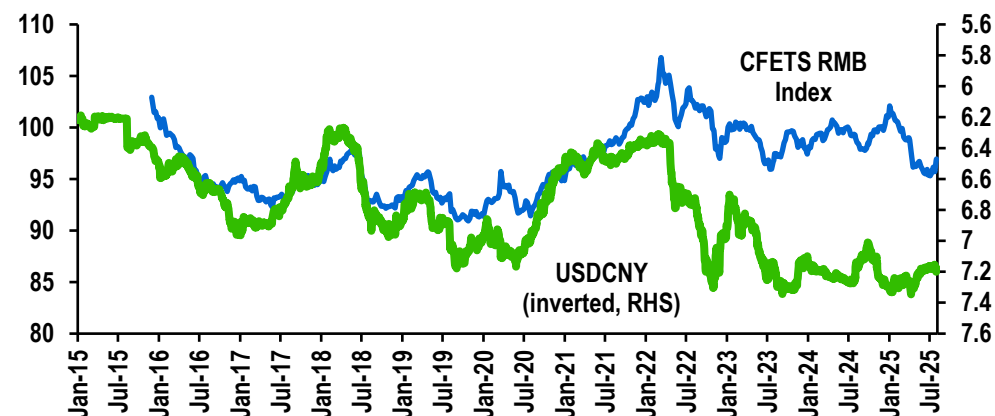


# Focus on currency stability

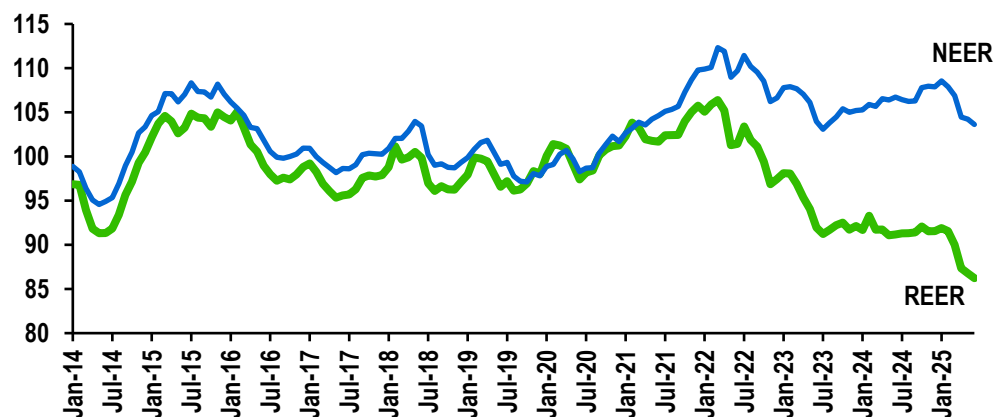
**US-China 10Y government bond yield spread**  
Bps (LHS); USD-CNY (RHS)



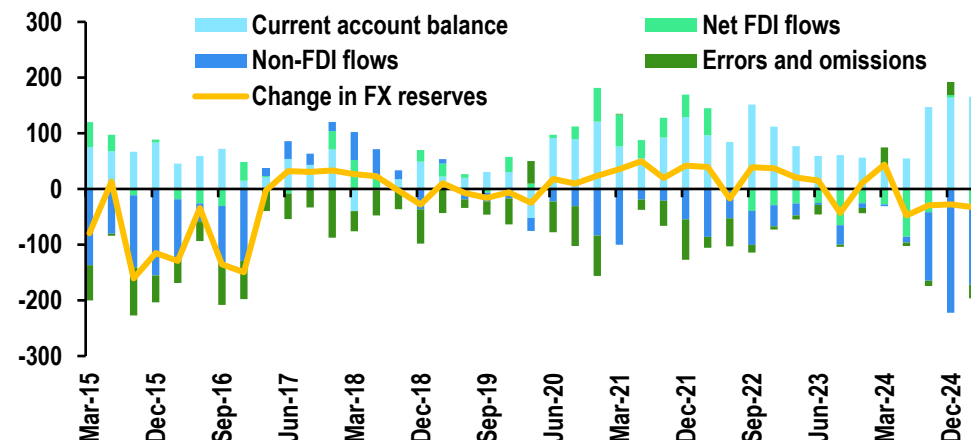
**CNY against basket of currencies vs USD**  
CFETS RMB Index (LHS); USD-CNY, inverted (RHS)



**BIS effective exchange rate index 2020=100**



**Balance of payments (BoP)**  
USD bn

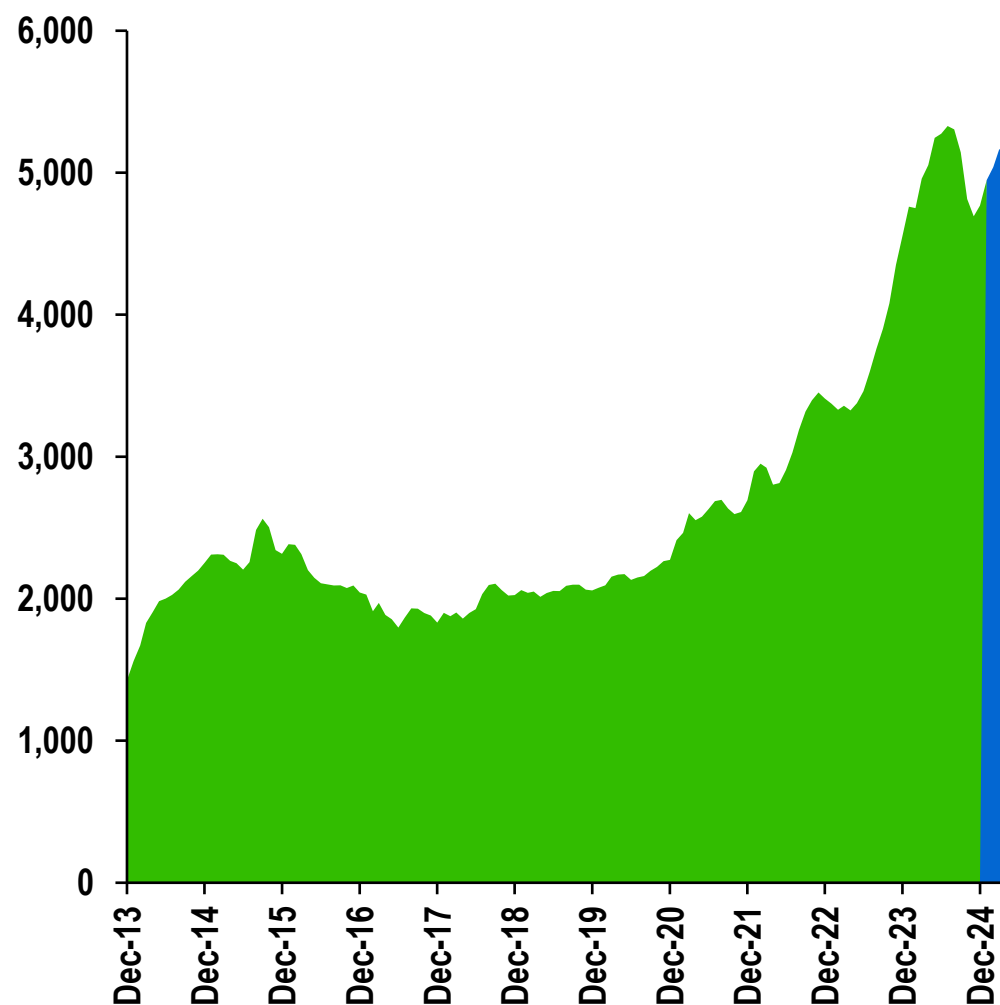




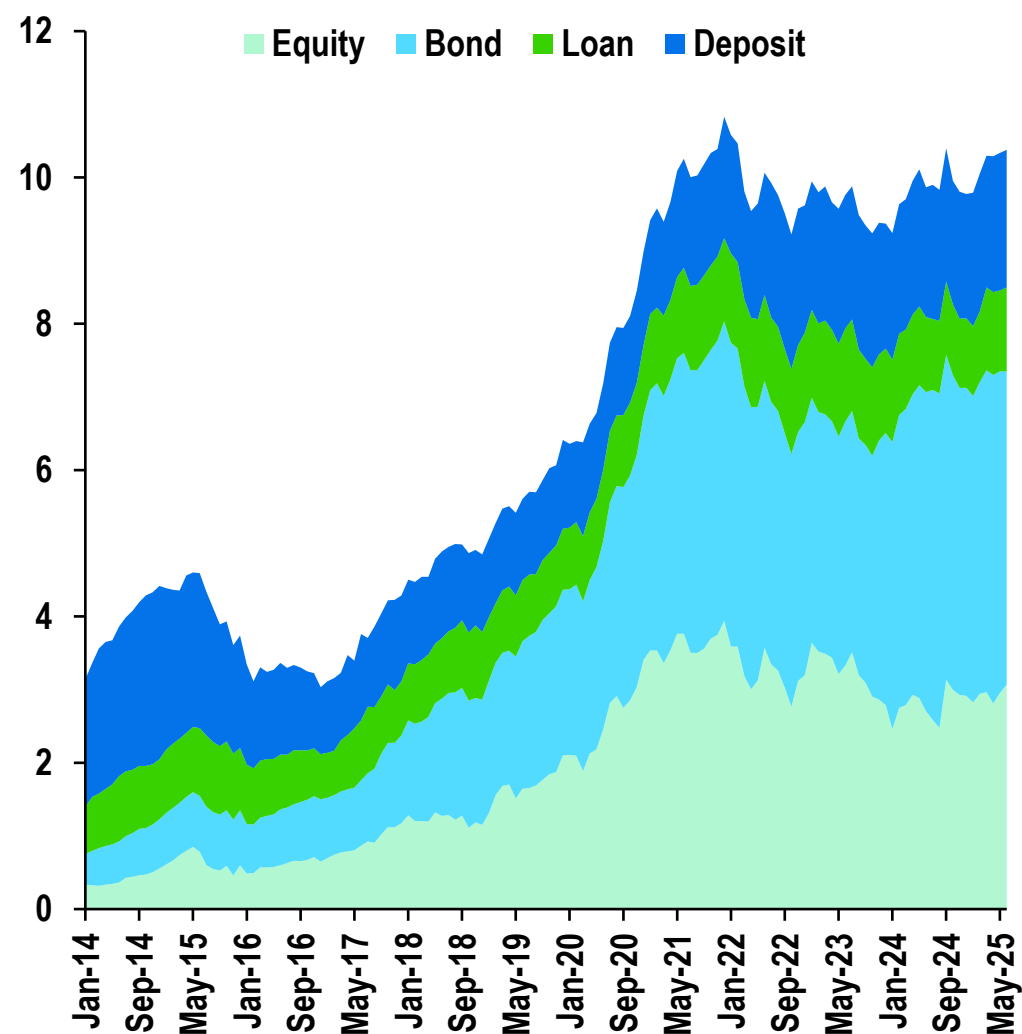
# RMB ambitions reawakened

## RGI up 8.3% YTD in 4M-2025

Standard Chartered Renminbi Globalisation Index (RGI), newest prints in blue (Feb-Apr 2025)



## Foreign holdings of onshore RMB financial assets; CNY tn



# China – Our forecasts

	2024	2025F	2026F
GDP growth (real % y/y)	5.0	4.8	4.3
CPI (% annual average)	0.2	-0.1	1.0
Policy rate (%)*	1.50	1.30	1.30
USD-CNY*	7.30	7.35	7.20
Current account balance (% GDP)	2.2	2.8	1.7
Fiscal balance (% GDP)	-7.1	-9.0	-7.8

	GDP growth, % y/y	7D reverse repo rate	USD-CNY
Q1-2024	5.3	1.80	7.22
Q2-2024	4.7	1.80	7.27
Q3-2024	4.6	1.50	7.02
Q4-2024	5.4	1.50	7.30
Q1-2025	5.4	1.50	7.25
Q2-2025	5.2	1.40	7.17
Q3-2025F	4.6	1.40	7.25
Q4-2025F	4.4	1.30	7.35



\*end-period; Source: Standard Chartered Research

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# Focus on trade war



# Another trade war with China under Trump 2.0

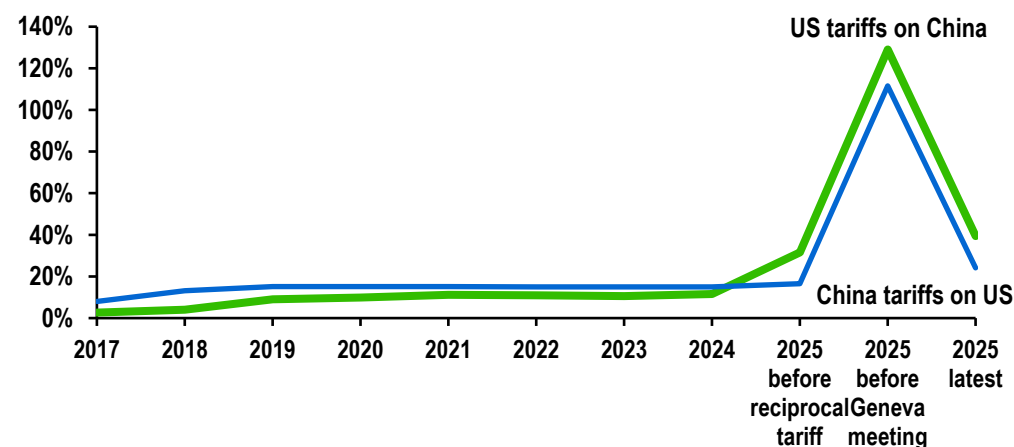
Date	Actions
4 February	US imposed 10% additional tariffs on all Chinese imports under the International Emergency Economic Powers Act (IEEPA)
10 February	China retaliated against US tariffs under IEEPA: 15% additional tariffs on coal and LNG; 10% additional tariffs on crude oil, agricultural machinery, cars and trucks
4 March	US amended the 4 February tariffs, imposing 20% on all Chinese imports under IEEPA
10 March	China retaliated against US's amendment: 15% tariff on chicken, wheat, corn and cotton; 10% tariff on sorghum, soybeans, pork, beef, aquatic products, fruits, vegetables and dairy products
2 April	US announced reciprocal tariffs on China and other trading partners, starting with a baseline tariff of 10% for all trading partners on 5 April, and raising this to 34% for China on 9 April
4 April	China retaliated against US' reciprocal tariffs, imposing an additional 34% tariffs on all US imports effective 10 April
8 April	US increased reciprocal tariffs on China from 34% to 84%, effective 9 April
9 April	China increased retaliatory tariffs on the US from 34% to 84%, effective 10 April
10 April	US increased reciprocal tariffs on China from 84% to 125%
12 April	China increased retaliatory tariffs on the US from 84% to 125%
12 May	Initial trade agreement reached. US tariffs on China lowered to 30%, with another 24% reciprocal tariffs on hold for 90 days; China tariffs on the US lowered to 10%, with another 24% tariffs on hold for 90 days
27 Jun	US and China confirmed trade agreement signed; China approved rare earth minerals exports to the US and US lifted export restrictions of chips software, the chemical ethane and jet engines on China.
28-29 July	Third round of trade talks in Sweden to work on extending the 90-days pause of the 24% reciprocal tariffs.



# Bilateral tariffs have risen to punitively high levels

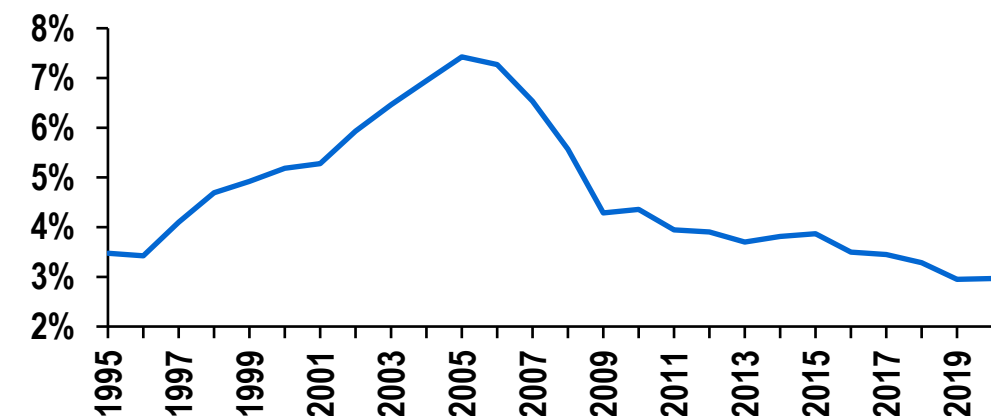
## Tariffs were lowered significantly following initial trade talks

*Estimated effective tariffs, %*



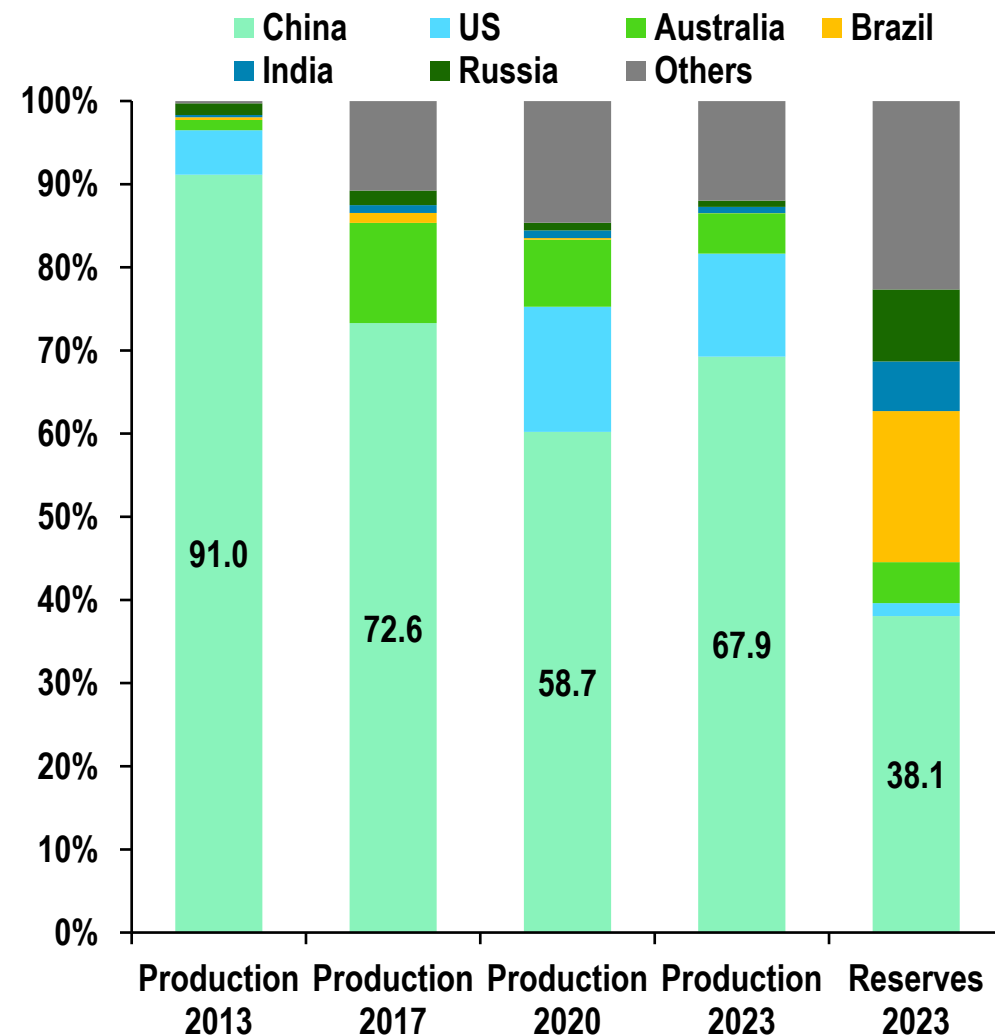
## China's value-add in US final demand/China GDP

*%*



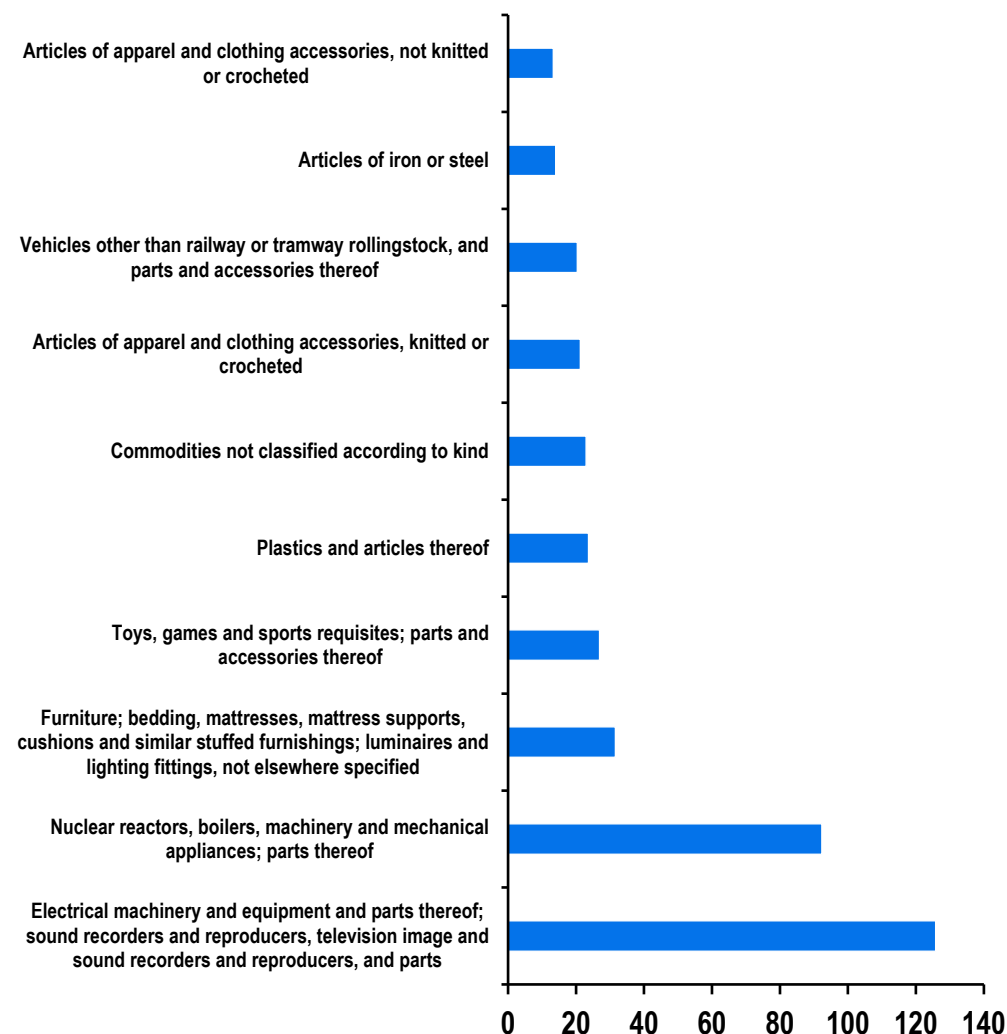
## Rare-earth metals – mine production and reserves

*% of global share*

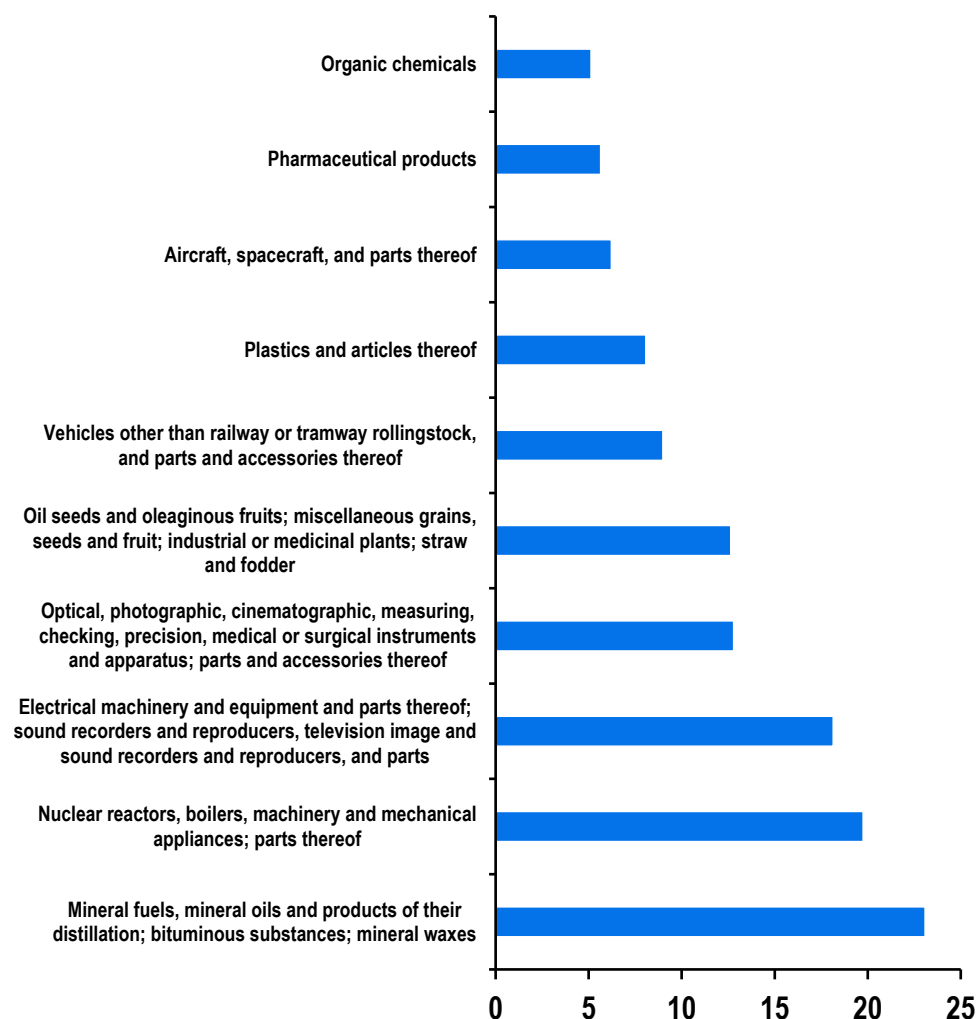


# China – Trade value with the US by key sector

## China's top-10 exporting sectors *USD bn (2024)*



## China's top-10 importing sectors *USD bn (2024)*



# China-US import reliance (itemised)

## US imports from China (HS-8)

China's share in US imports of itemised products	Share in total US imports from China	Import values, USD bn
<b>100%</b>	0.0%	0.1
<b>Above 90%</b>	5.5%	25.3
<b>Above 80%</b>	22.5%	104.0
<b>Above 70%</b>	31.4%	145.2
<b>Above 60%</b>	47.1%	217.7
<b>Above 50%</b>	50.2%	232.1
<b>Above 40%</b>	56.6%	262.1
<b>Above 30%</b>	64.8%	299.6
<b>Above 20%</b>	75.3%	348.2
<b>Above 10%</b>	87.5%	404.9
<b>Above 0%</b>	100.0%	462.6

## China's imports from the US (HS-8)

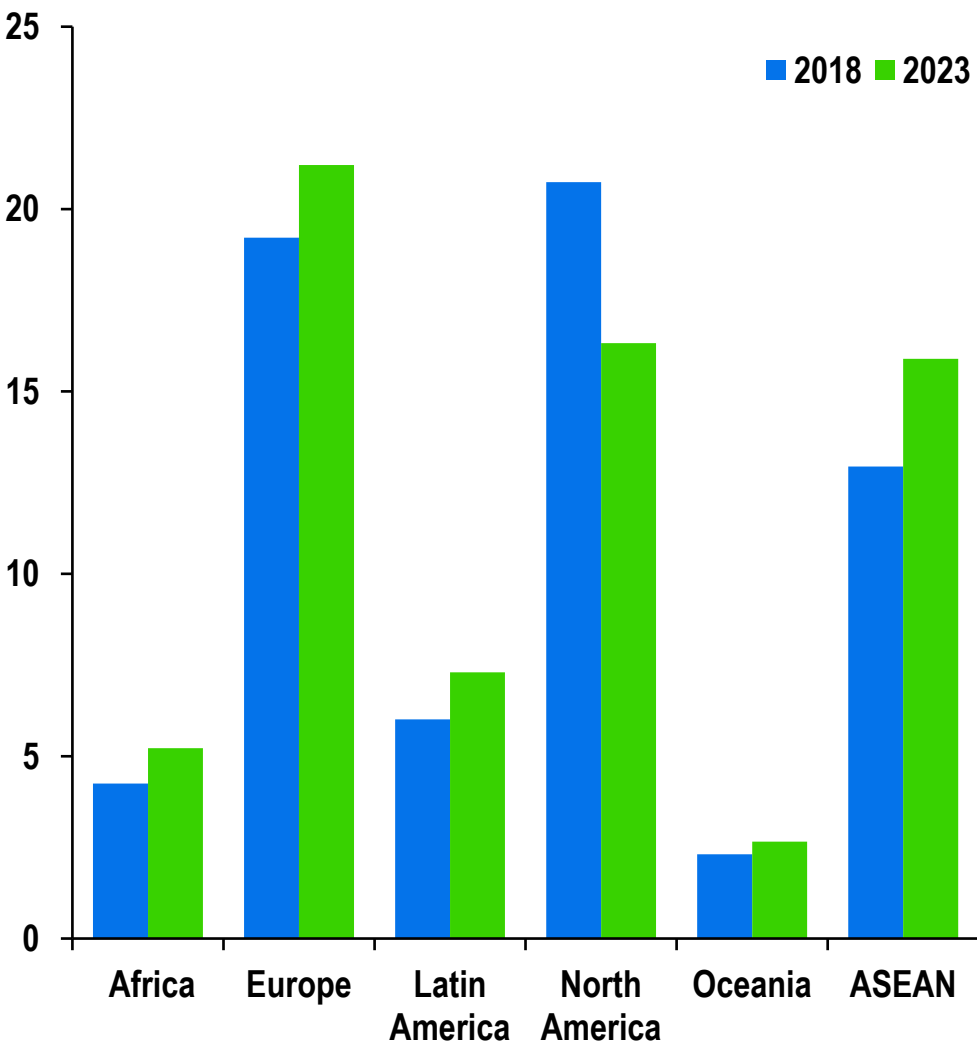
US's share in China imports of itemised products	Share in total China imports from US	Import values, USD bn
<b>100%</b>	0.1%	0.2
<b>Above 90%</b>	3.8%	6.2
<b>Above 80%</b>	4.6%	7.5
<b>Above 70%</b>	10.3%	16.8
<b>Above 60%</b>	15.9%	26.1
<b>Above 50%</b>	24.8%	40.6
<b>Above 40%</b>	27.9%	45.6
<b>Above 30%</b>	36.4%	59.6
<b>Above 20%</b>	58.3%	95.3
<b>Above 10%</b>	75.0%	122.6
<b>Above 0%</b>	100.0%	163.6



# China diversified exports and investment

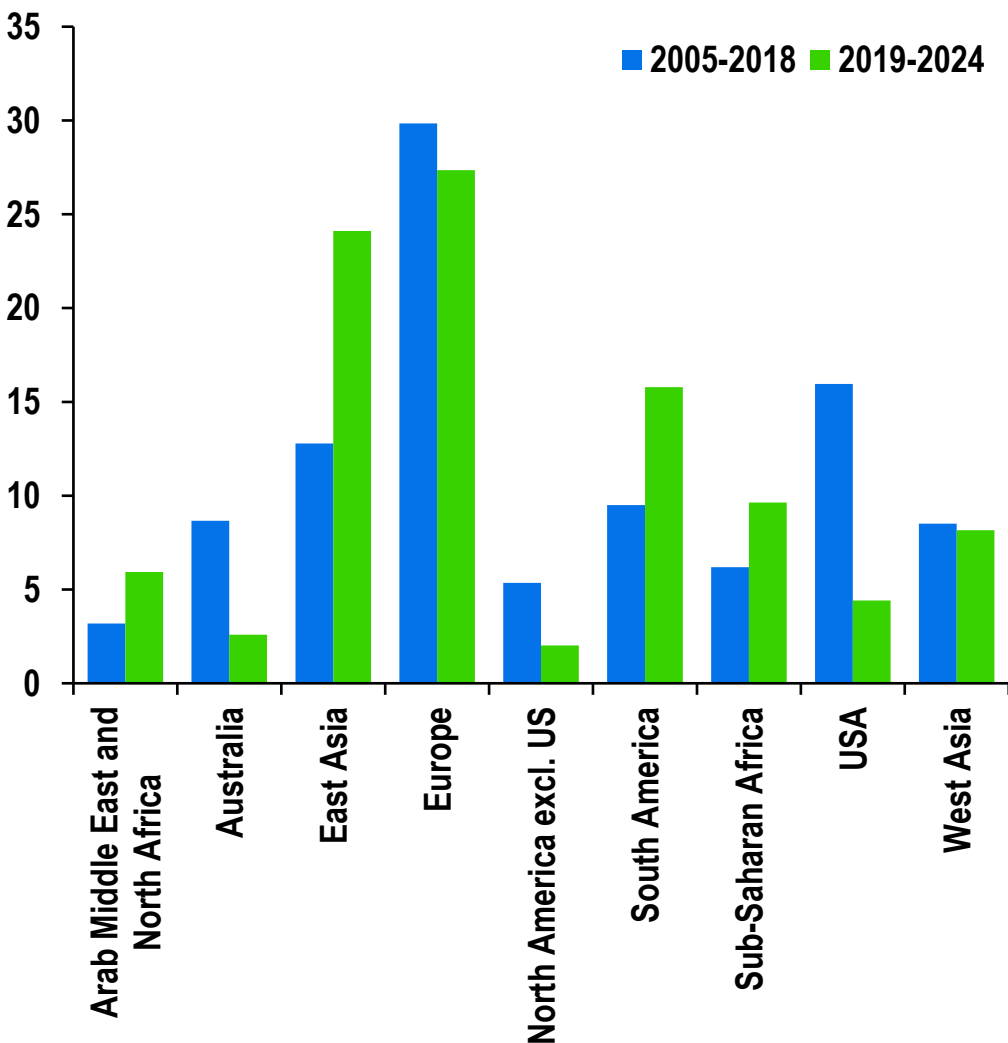
## Expanding exports elsewhere

China exports by destination, % of total exports



## Investing abroad

China ODI, by region, AEI data, % share of total

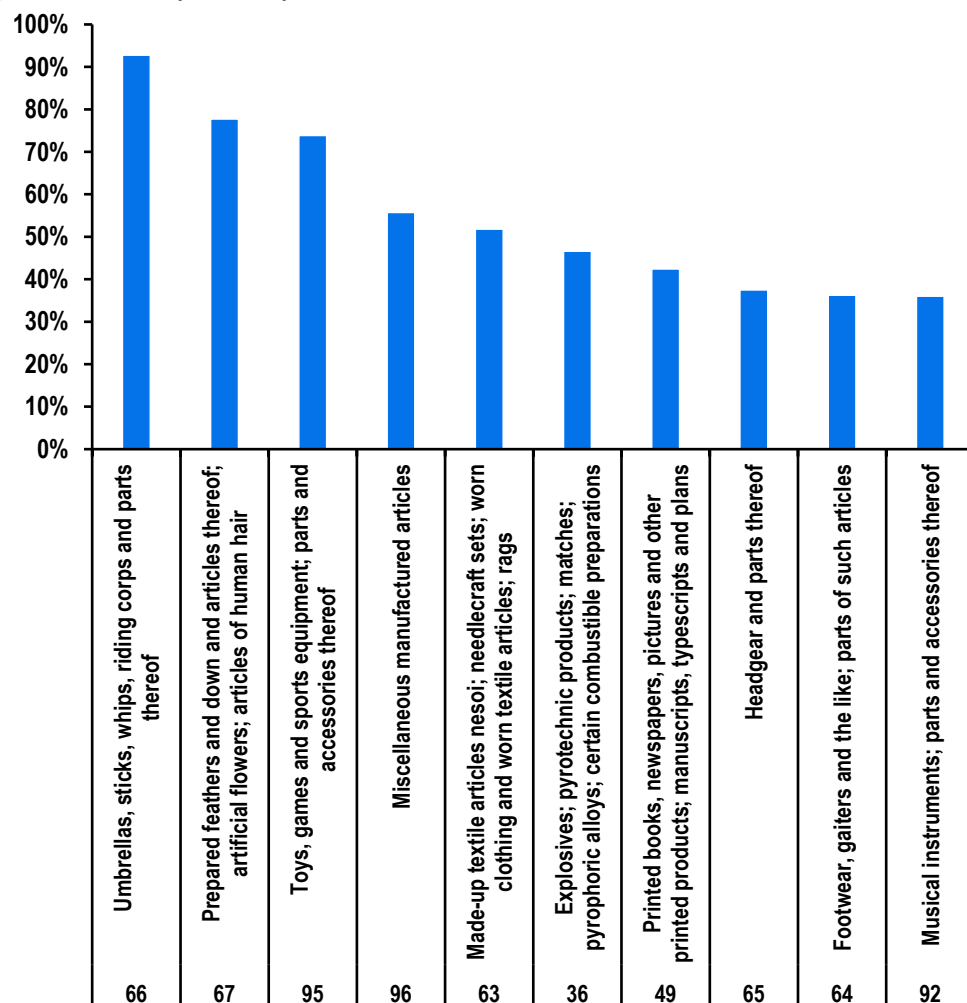


Source: American Enterprise Institute and Heritage Foundation, China Global Investment Tracker, January 2025, <https://www.aei.org/china-global-investment-tracker/>, CEIC, Standard Chartered Research

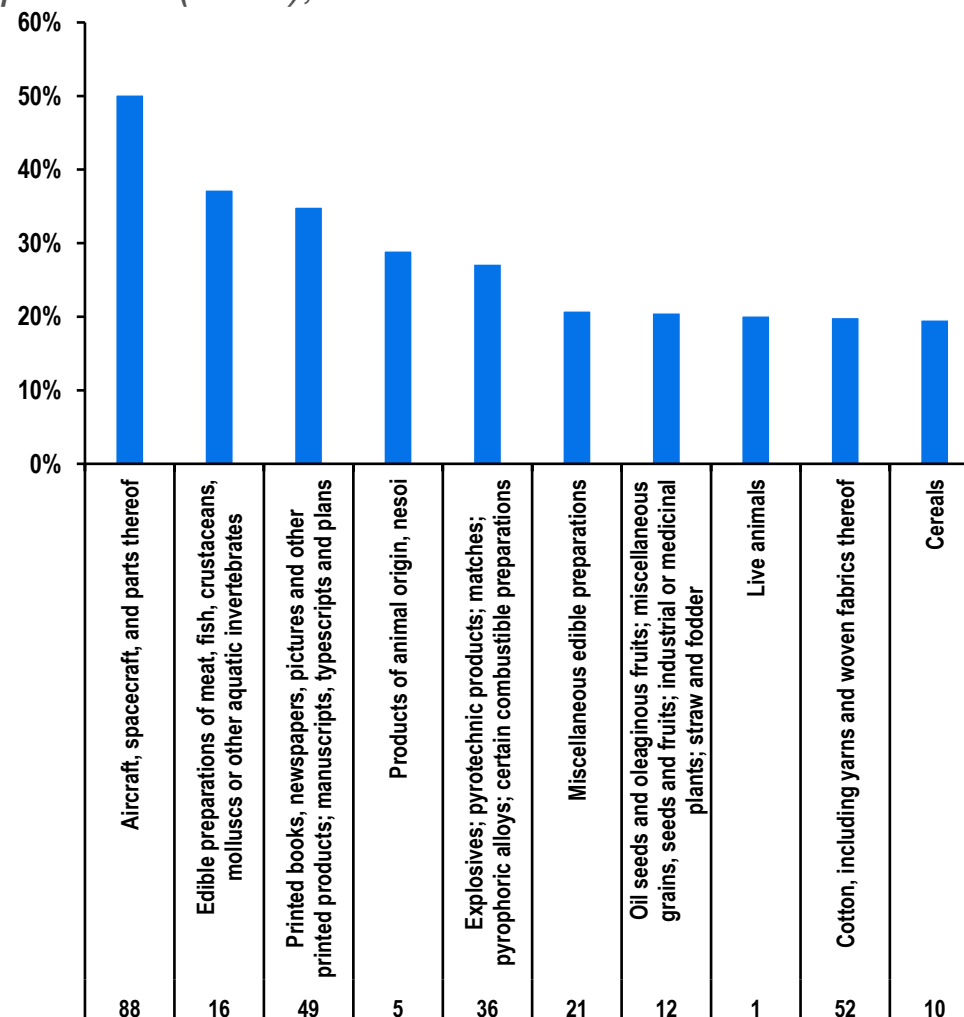


# China-US import reliance (itemised)

**Top-10 import items for which the US is reliant on China; China's share of US imports of itemised products (HS-2), %**



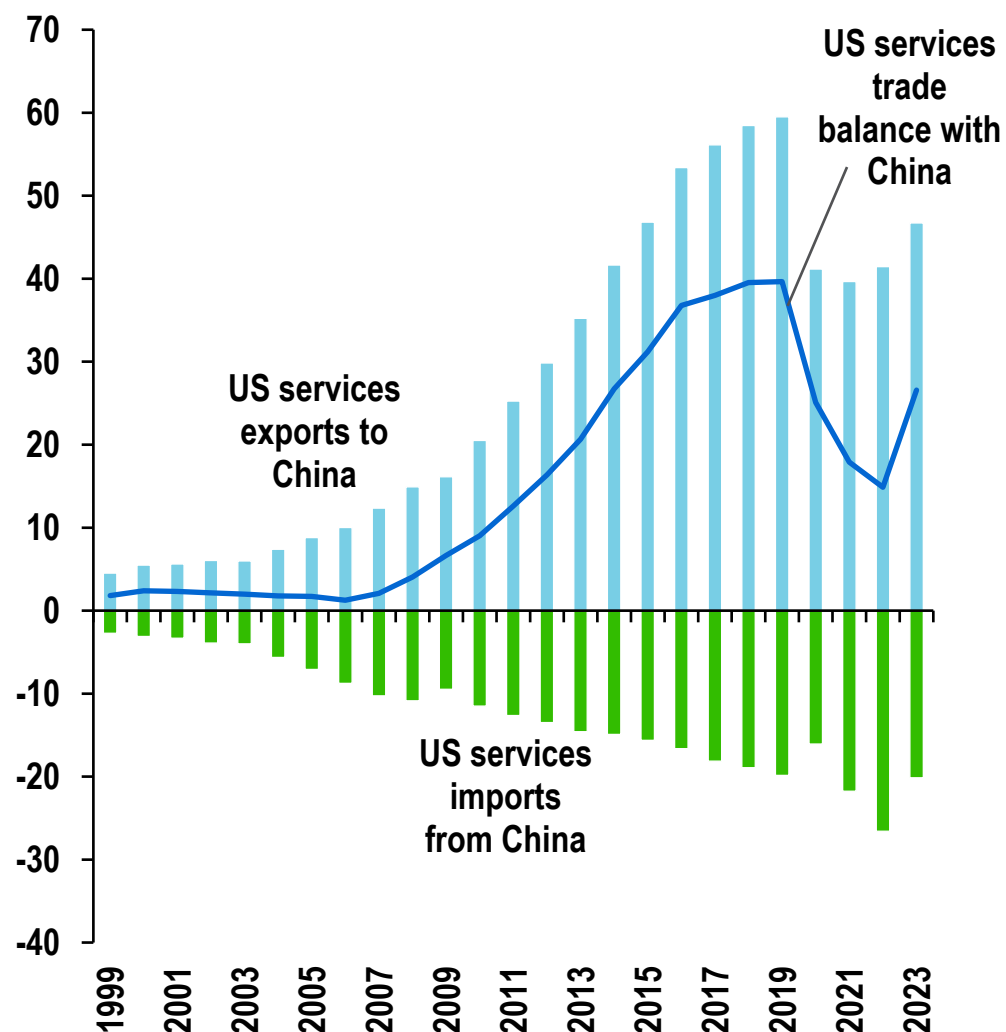
**Top-10 import items for which China is reliant on the US; US share of China's imports of itemised products (HS-2), %**



# China-US services trade

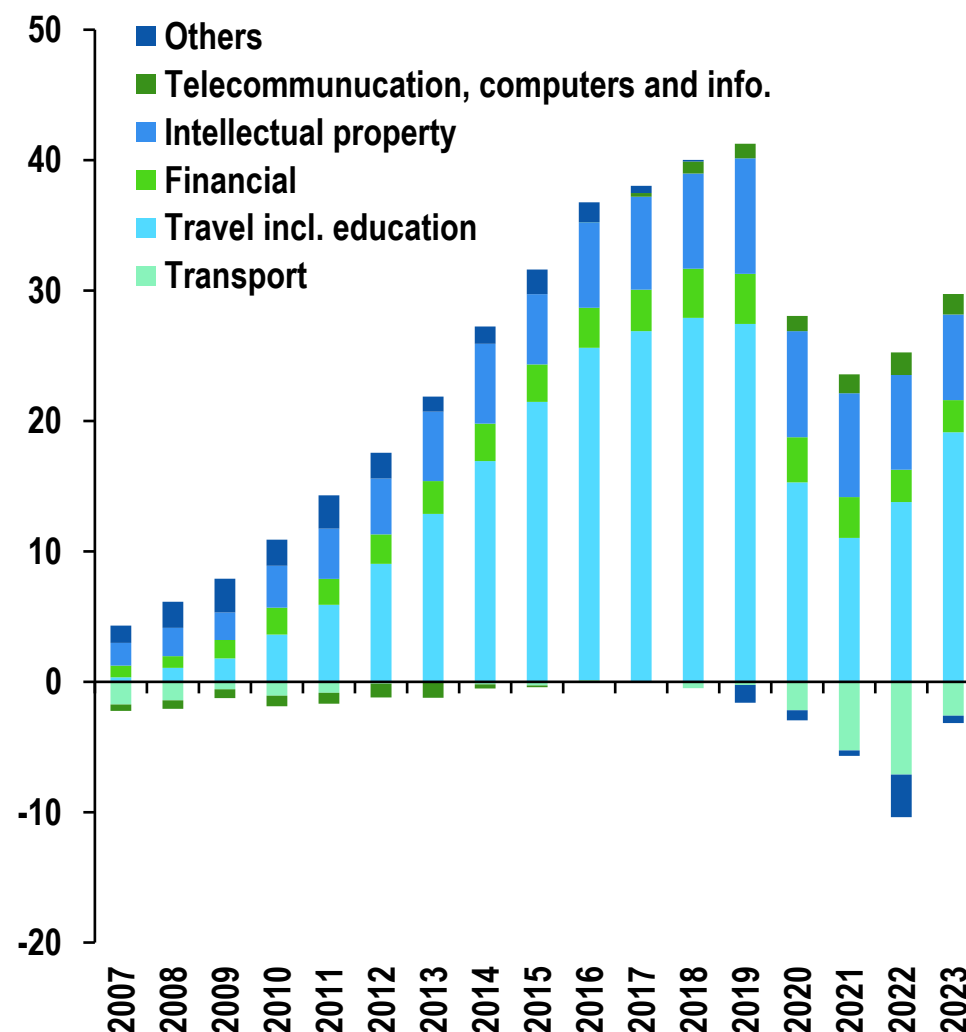
## US-China services trade

USD bn



## US-China services trade balance breakdown

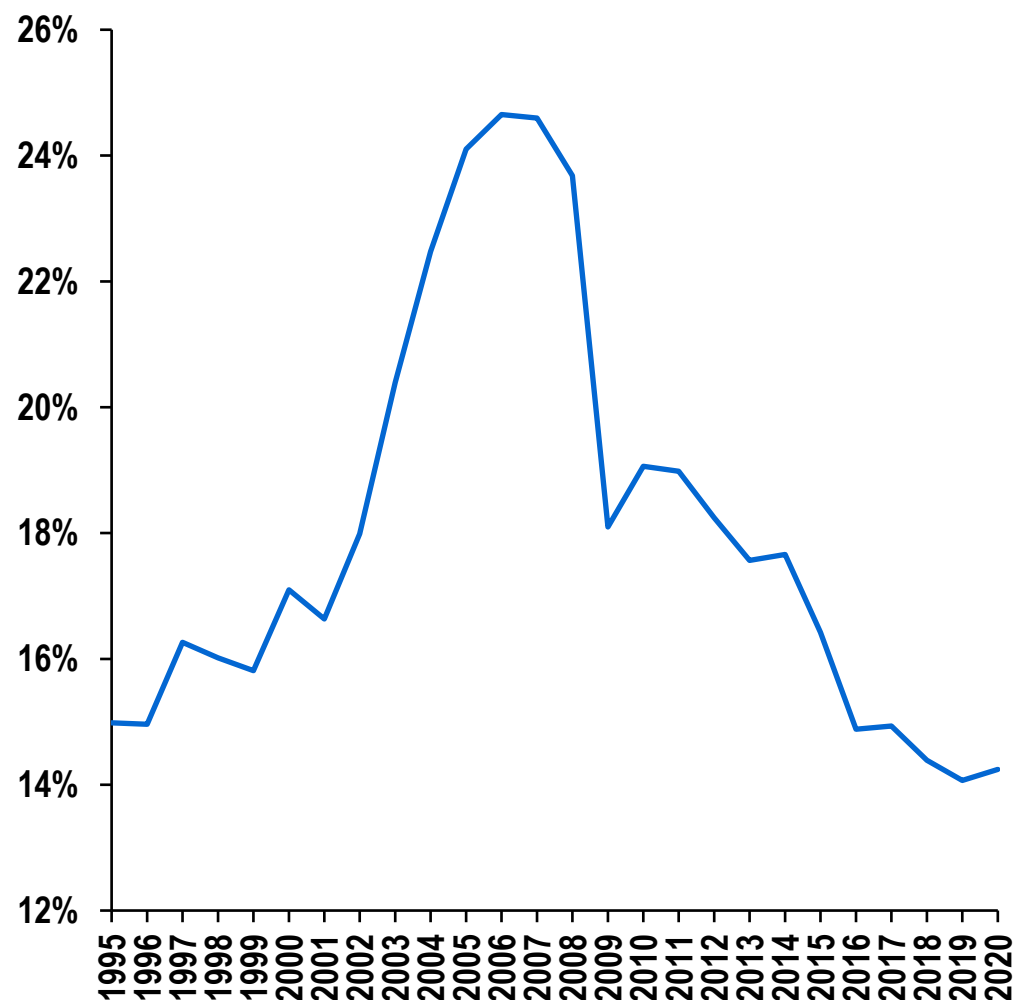
USD bn



# China's reliance on foreign final demand

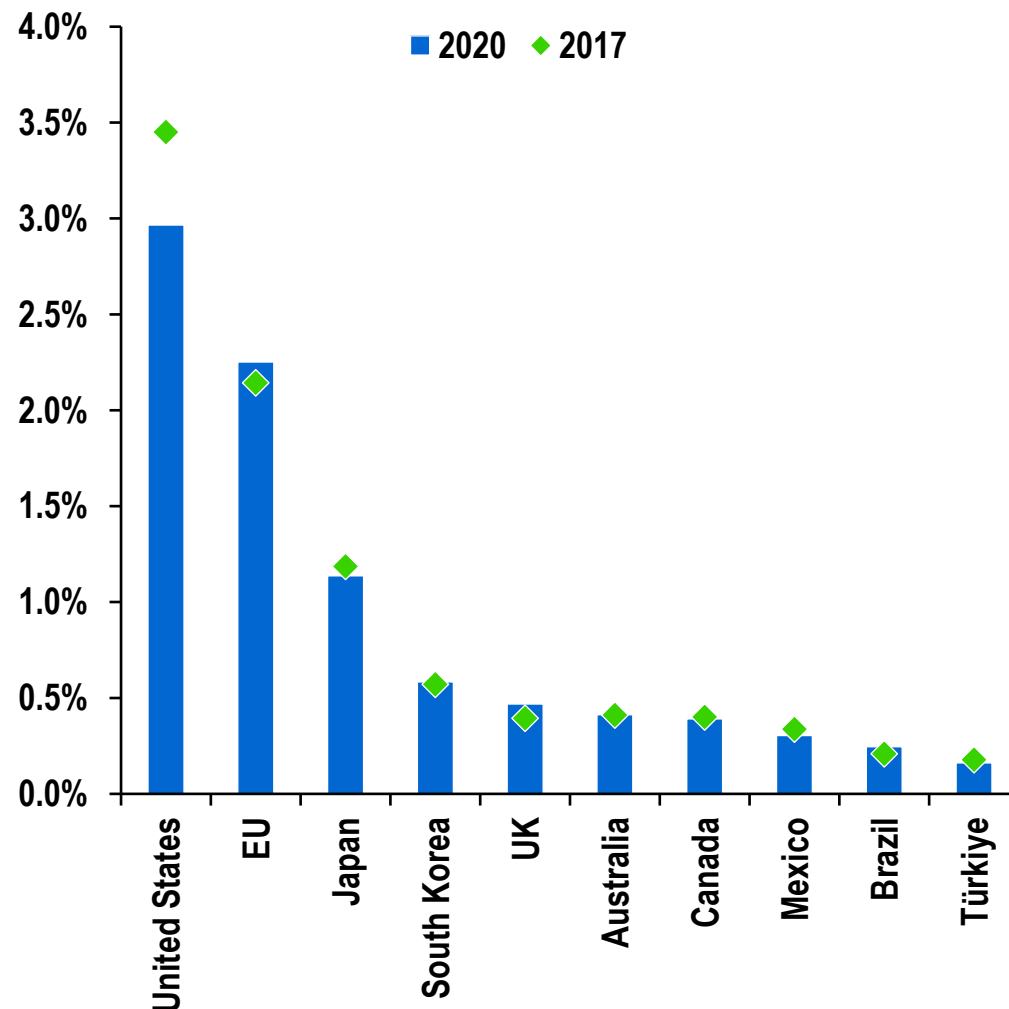
## China's reliance on foreign final demand

*Domestic value-add in foreign final demand/China's total value-add, %*



## China's top-10 reliant partners

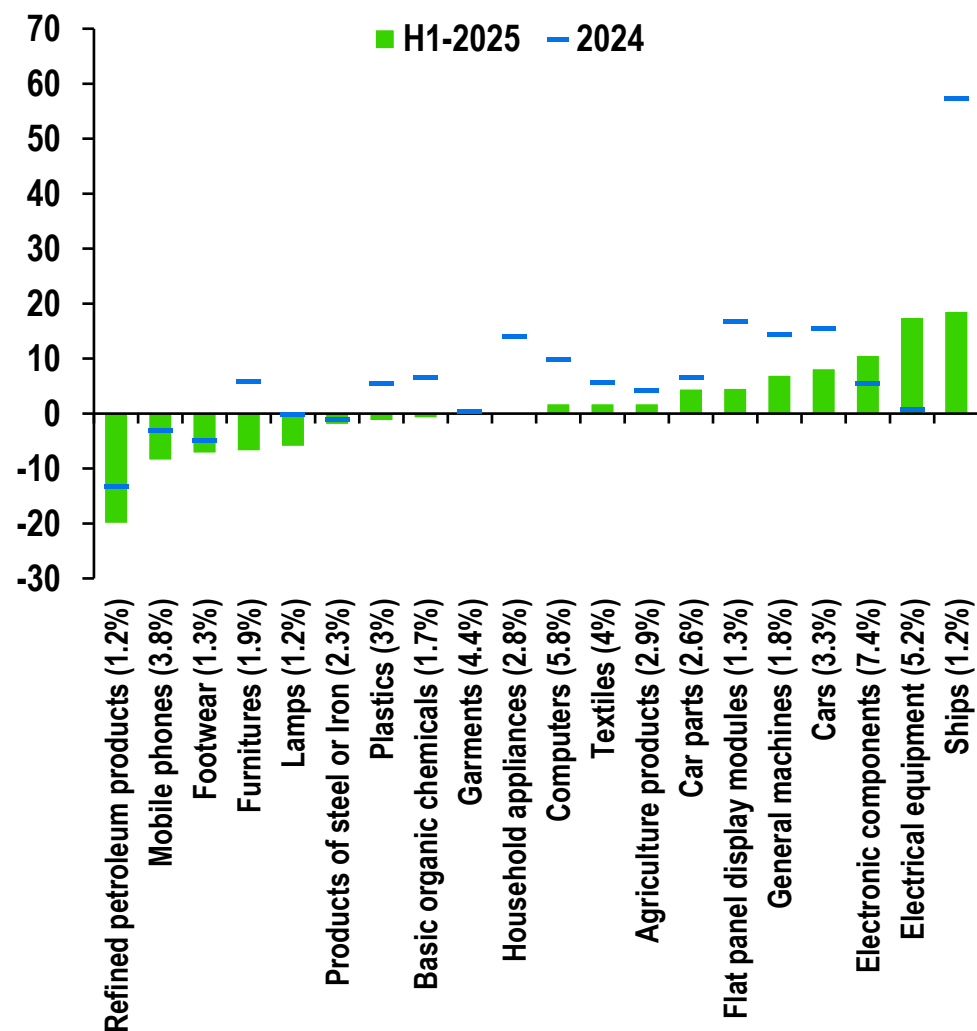
*Domestic value-add in foreign final demand/China's total value-add, %, 2020 vs 2017*



# China's export profile

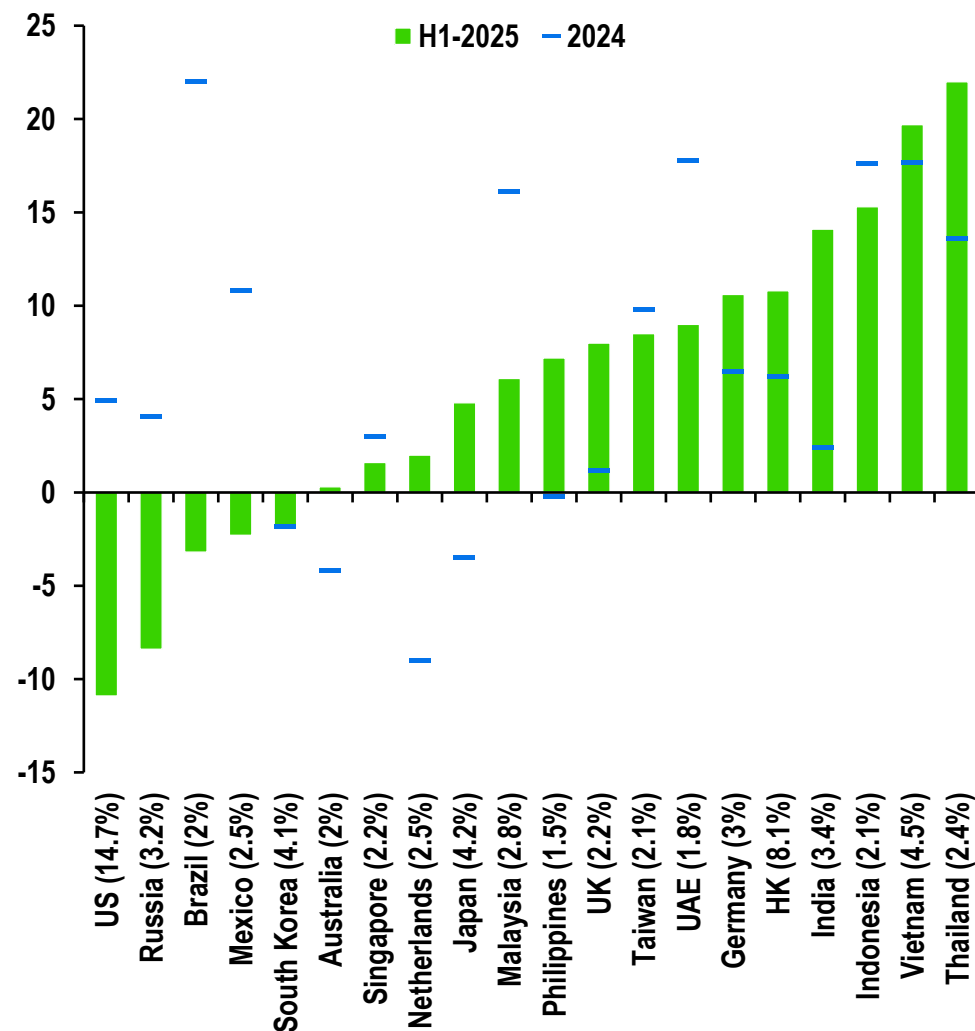
## Top-20 export products' performance

Export growth, % y/y (share of total exports in 2024)



## Top-20 export destinations

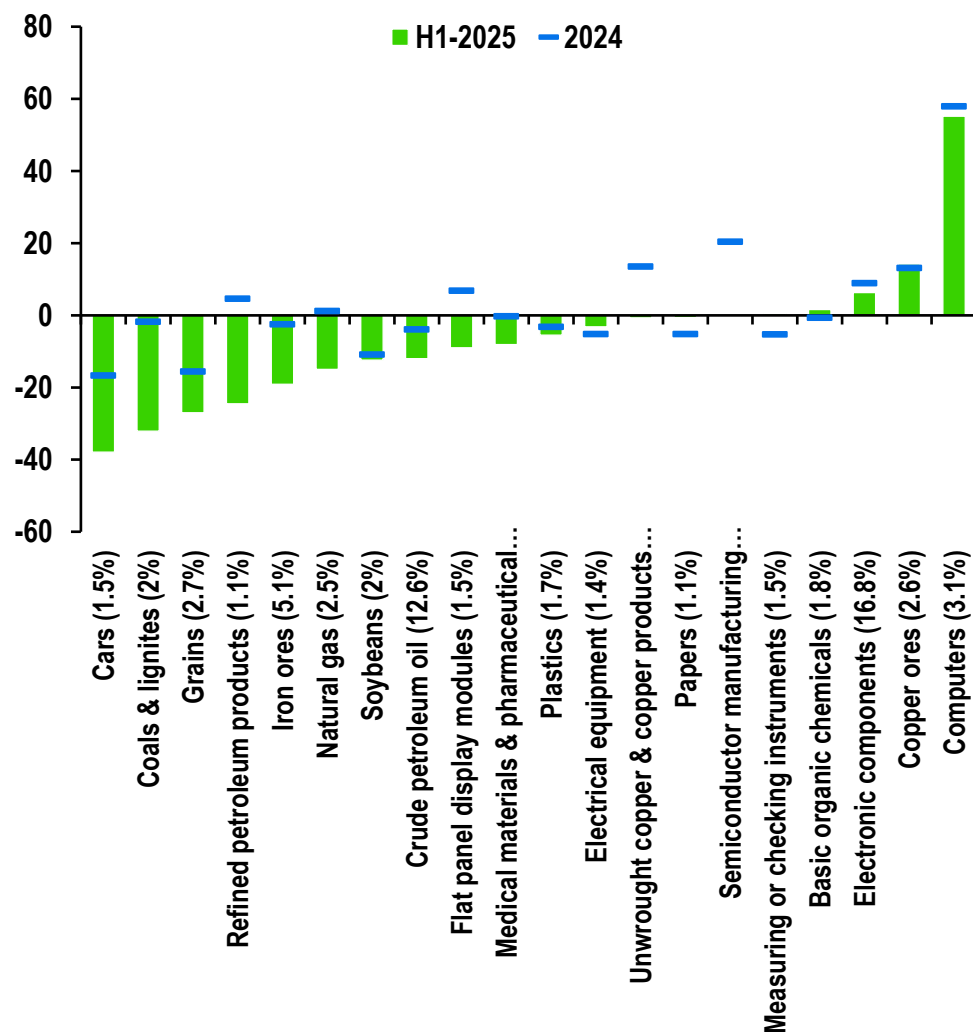
Export growth, % y/y (share of total exports in 2024)



# China's import profile

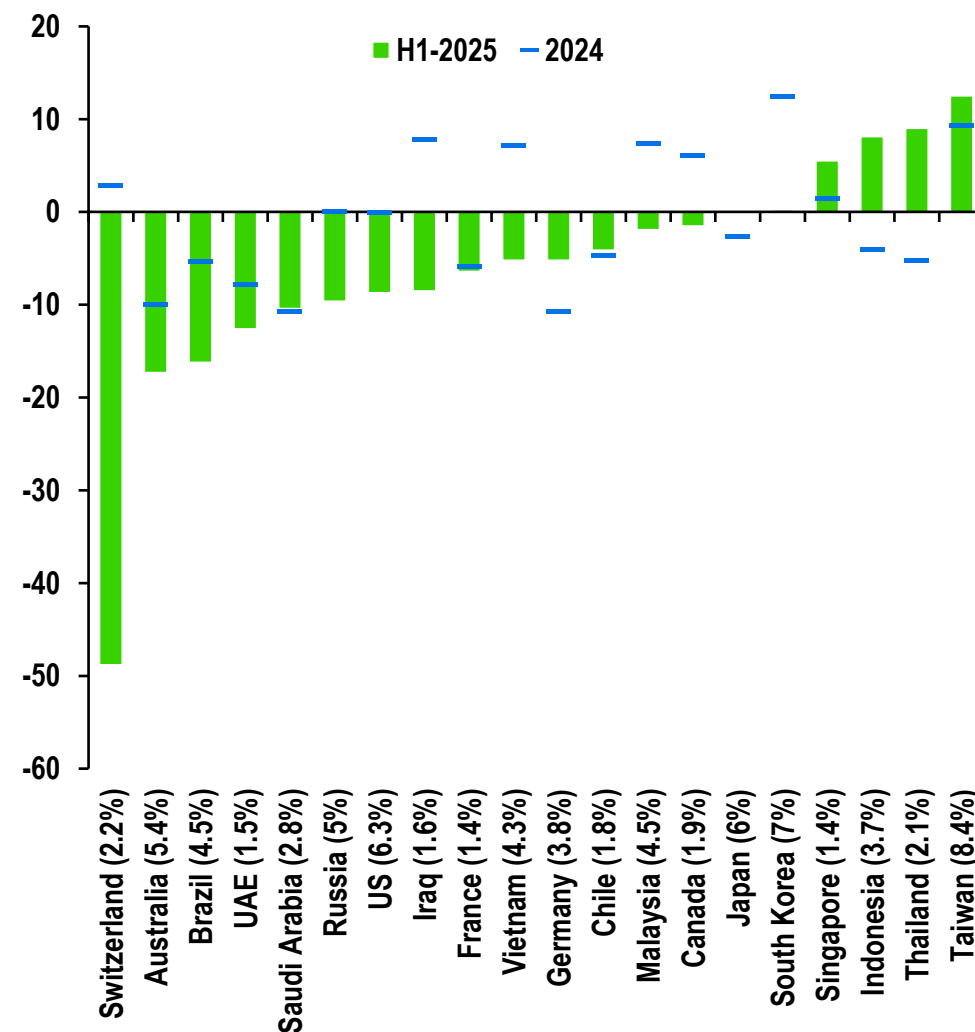
## Top-20 import products' performance

Import growth, % y/y (share of total imports in 2024)



## Top-20 import locations

Import growth, % y/y (share of total imports in 2024)

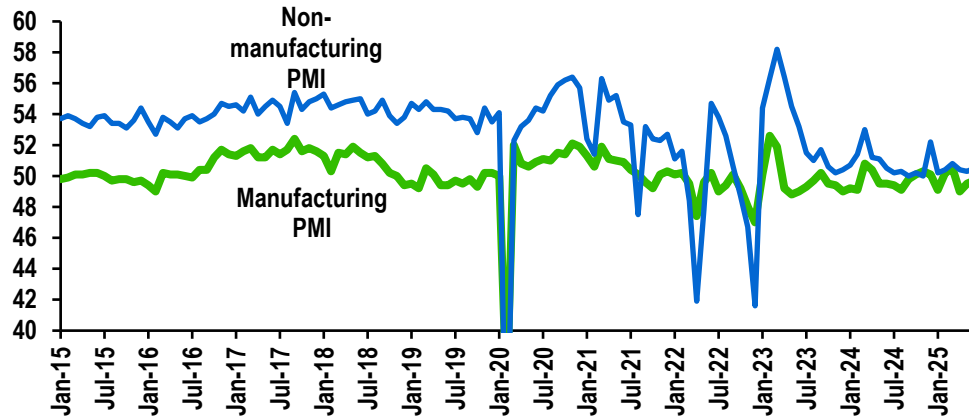


# Economic activity on the ground

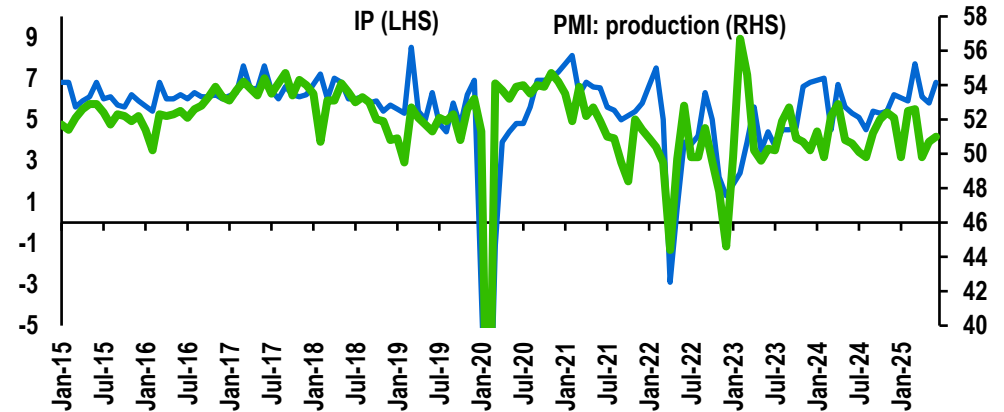


# PMIs

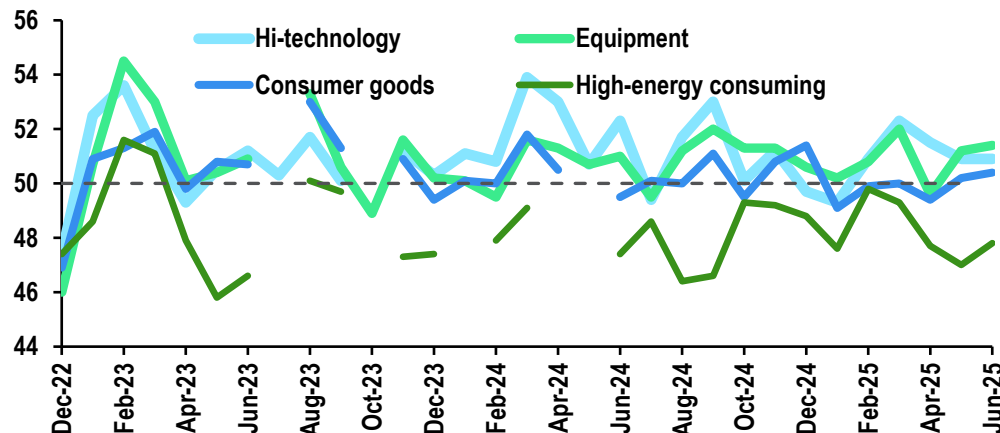
China official PMI indices



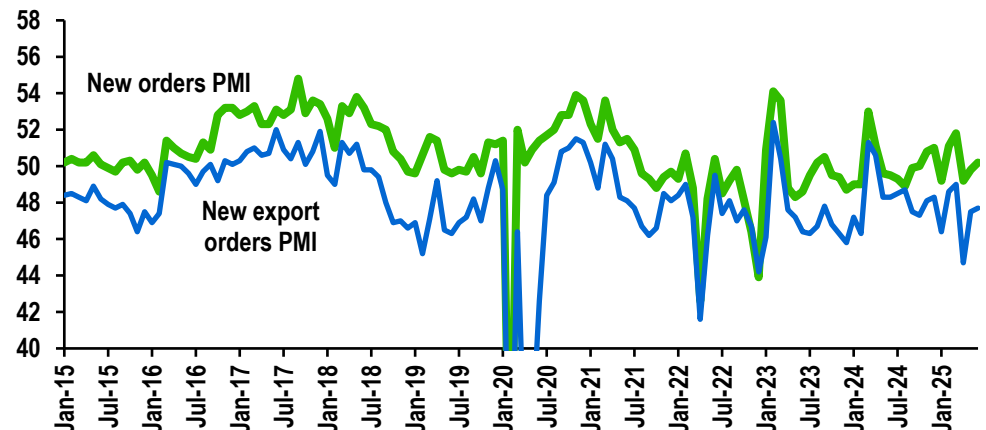
IP growth, % y/y (LHS); PMI production index (RHS)



PMI by sector

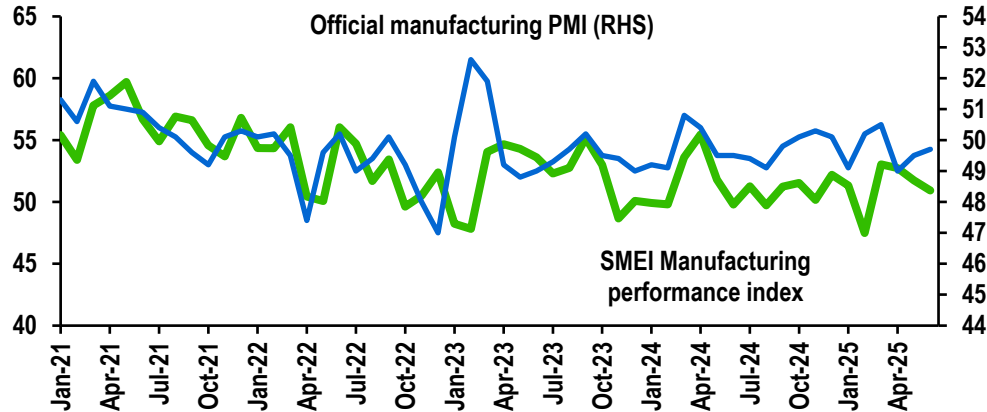


China manufacturing PMI new orders and export orders

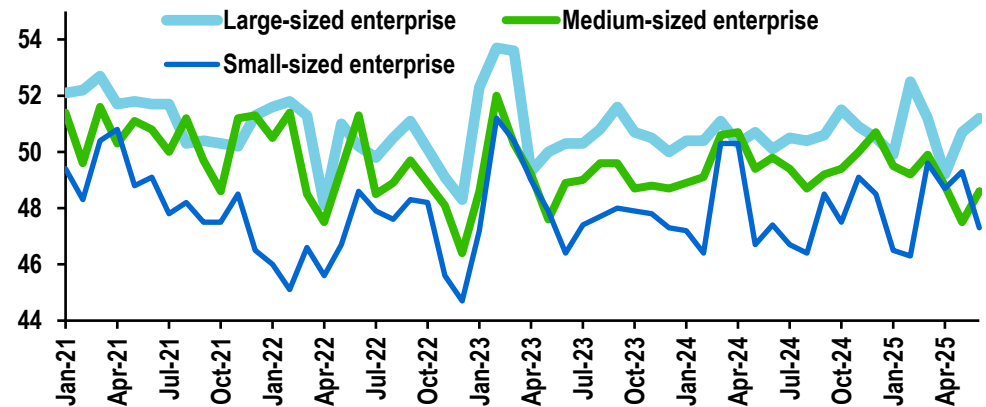


# PMIs

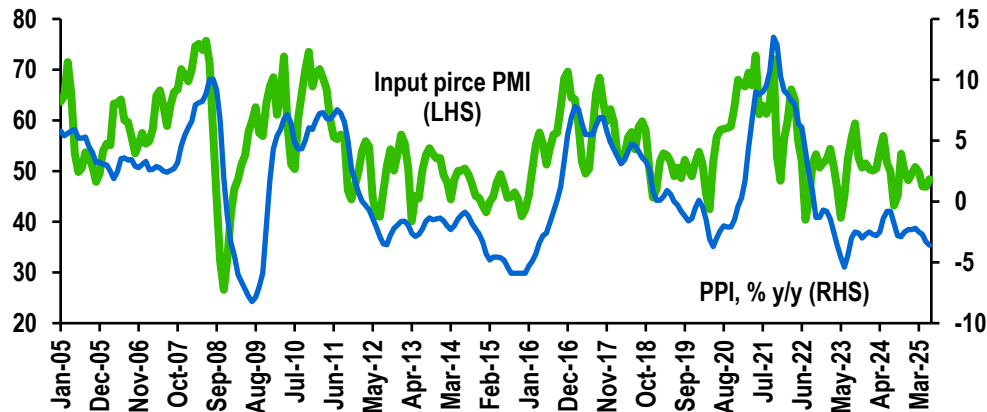
China official PMI and SC SMEI index



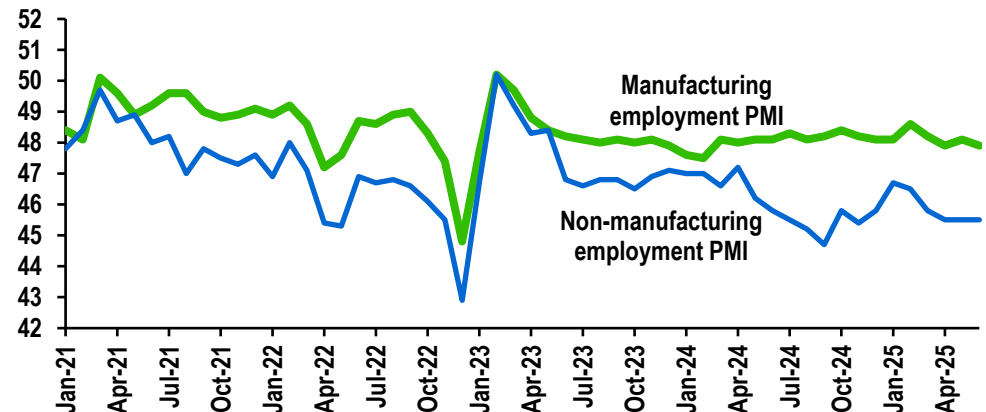
China official PMI by enterprise size



China official PMI, input price; PPI, % y/y



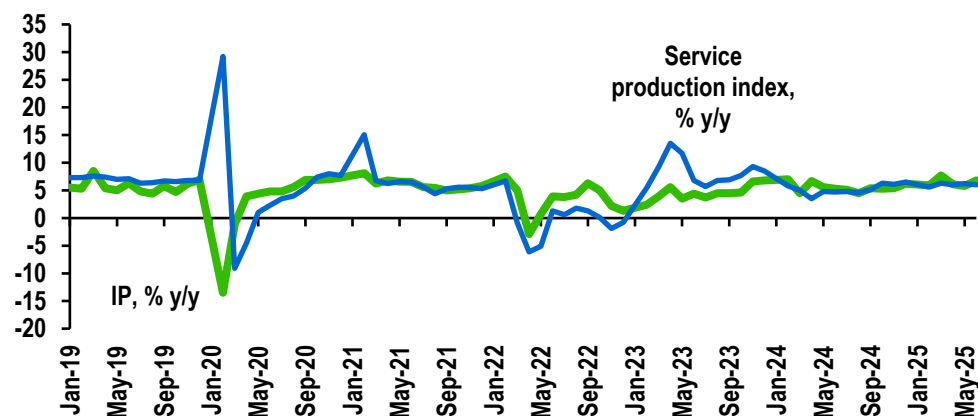
China official PMI, employment indices



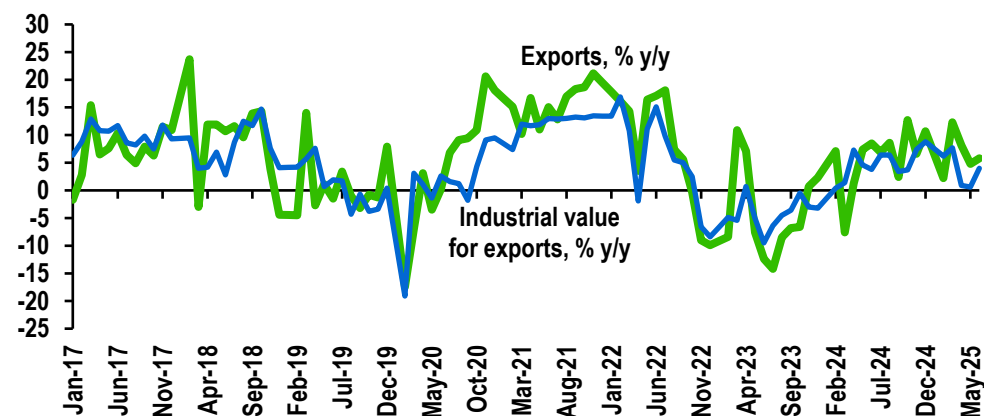


# Industrial production

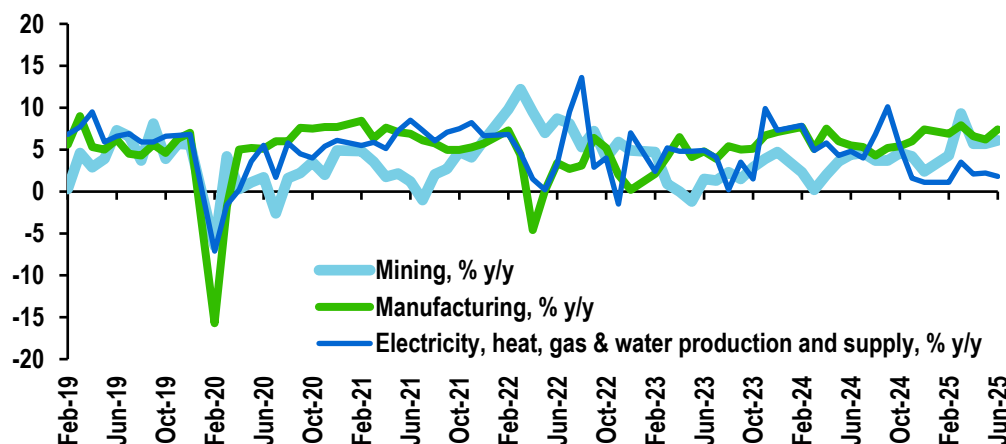
*IP and services production index growth, % y/y (2Y CAGR for 2021)*



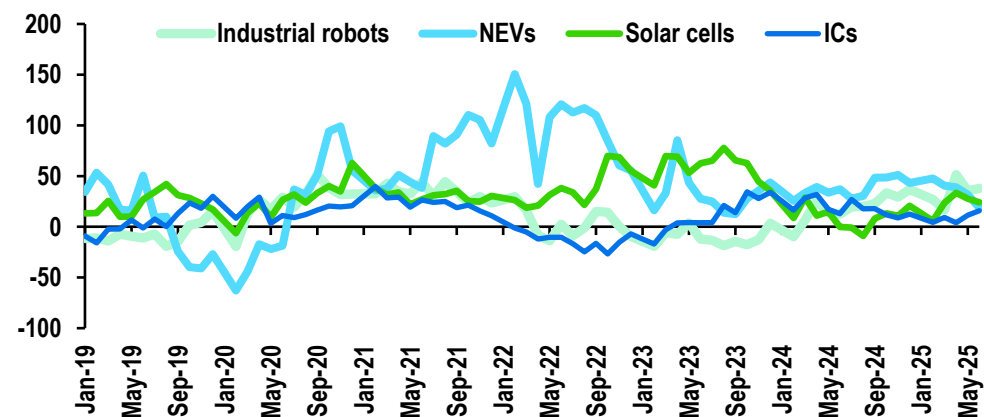
*Exports and industrial value for exports growth, % y/y (2Y CAGR for 2021)*



*Value-added growth, % y/y (2Y CAGR for 2021)*

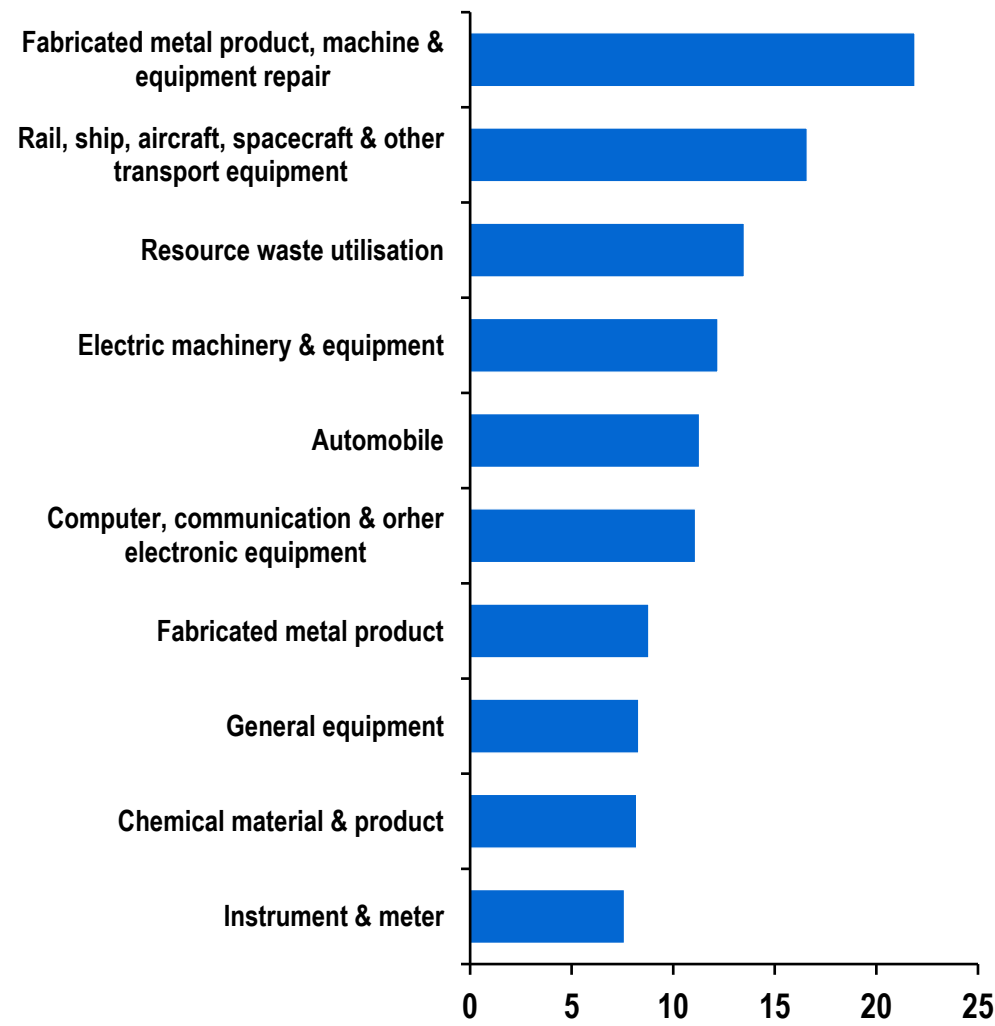


*Production growth, % y/y (2Y CAGR for 2021)*

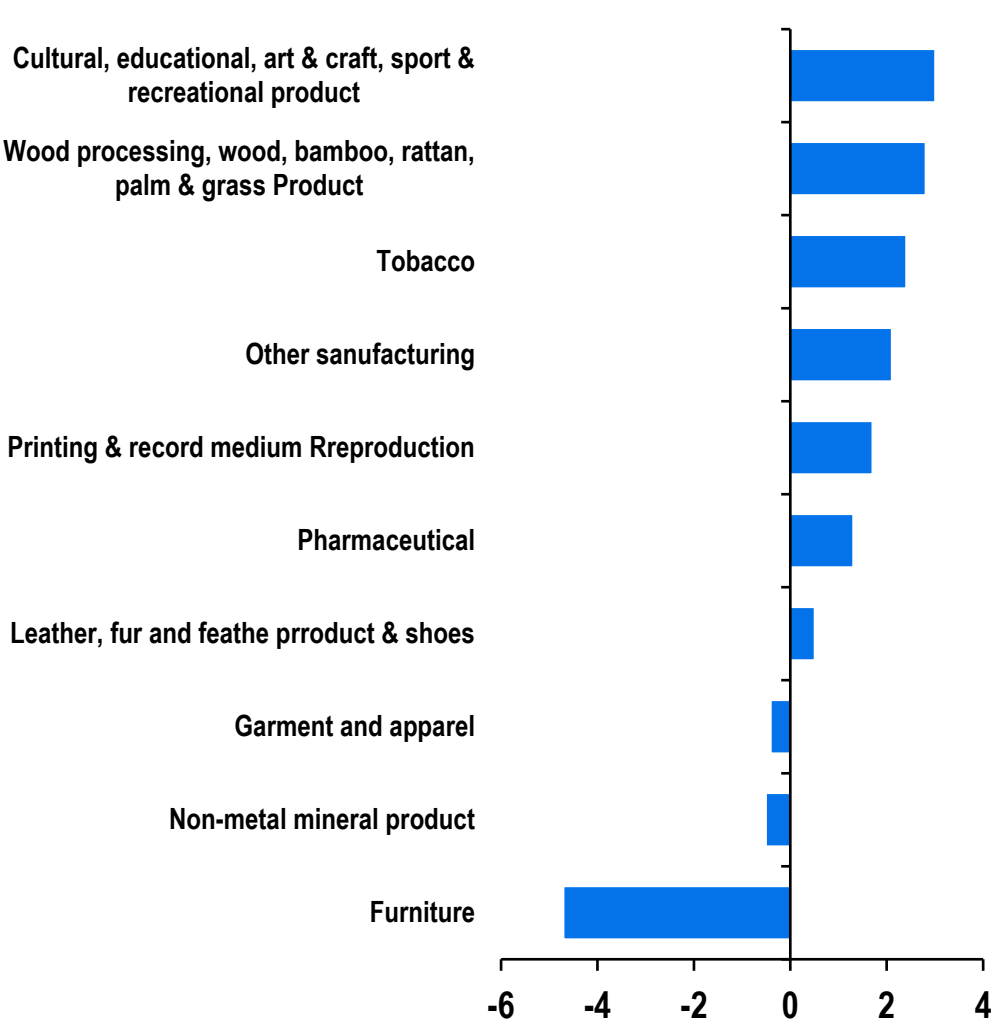


# Manufacturing performance by sector

Value-added growth of top-10 manufacturing sectors , % y/y YTD

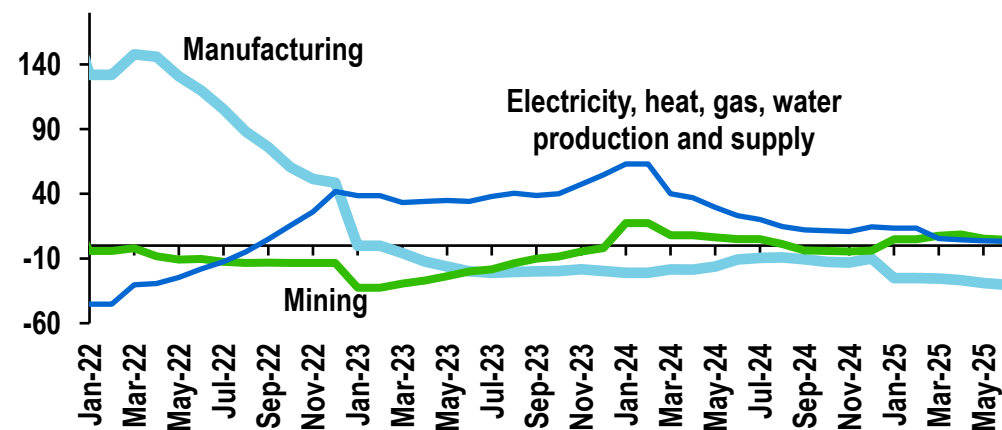


Value-added growth of bottom-10 manufacturing sectors ,% y/y YTD

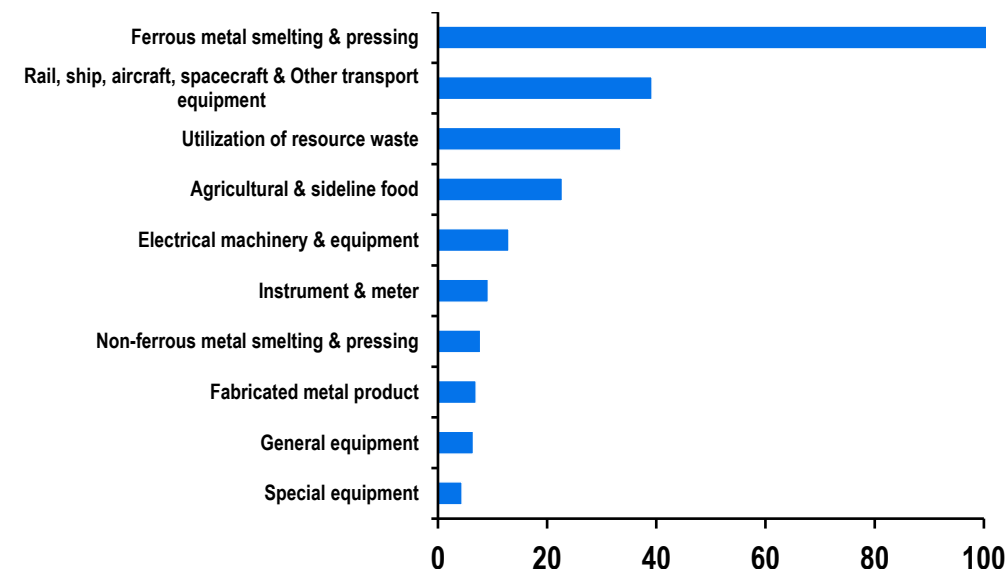


# Industrial profit and inventory

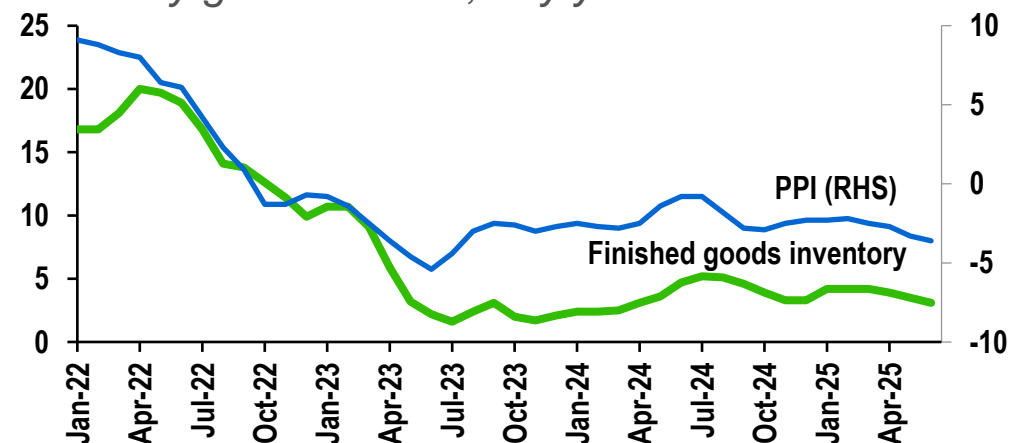
Industrial profit growth YTD, % y/y



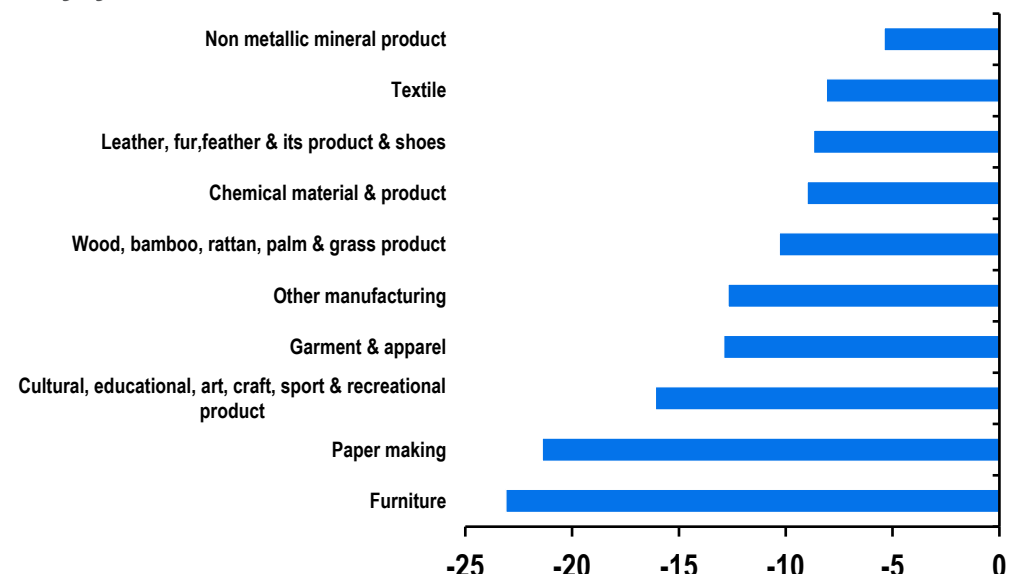
Profit growth of the top-10 manufacturing sectors, % y/y YTD



Inventory growth vs PPI, % y/y

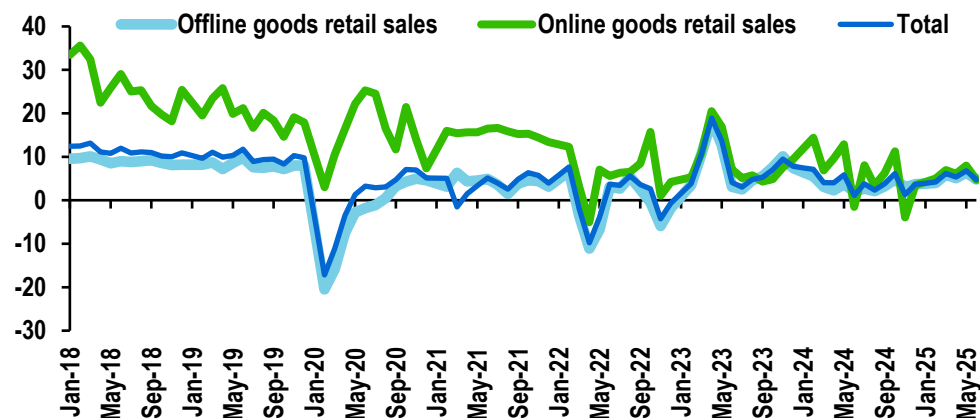


Profit growth of the bottom-10 manufacturing sectors, % y/y YTD

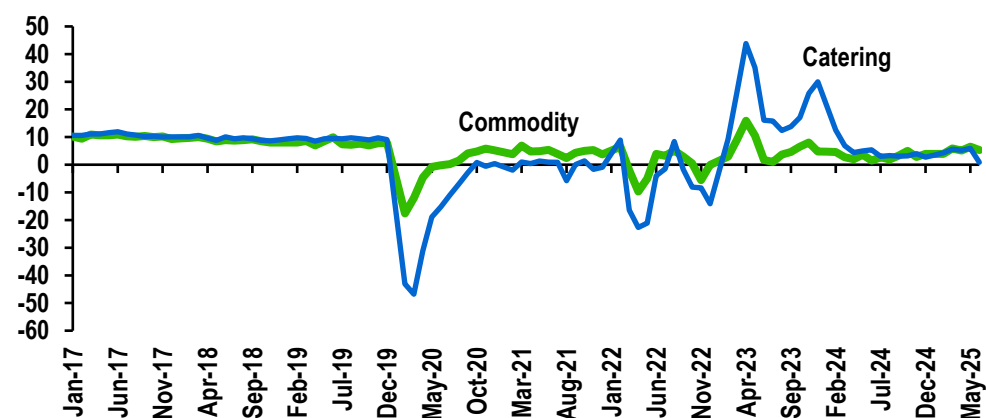


# Retail sales

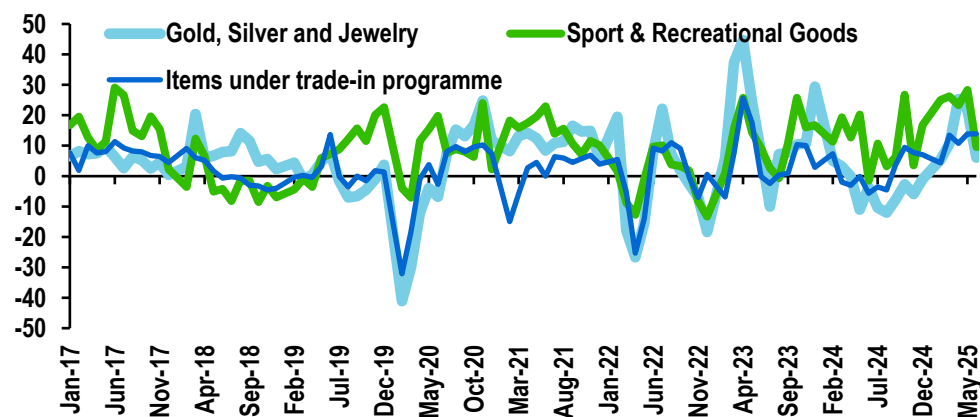
Retail sales growth, % y/y (2Y CAGR for 2021)



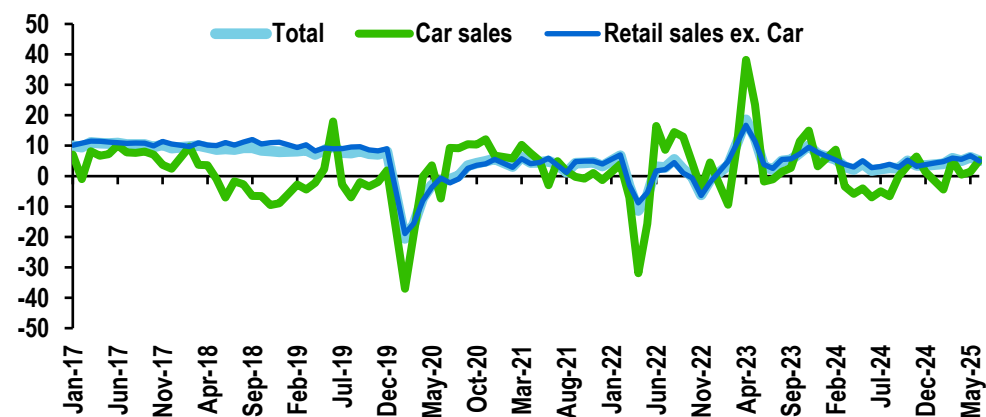
Commodity and catering retail sales growth, % y/y (2Y CAGR for 2021)



Commodity retail sales growth, % y/y (2Y CAGR for 2021)

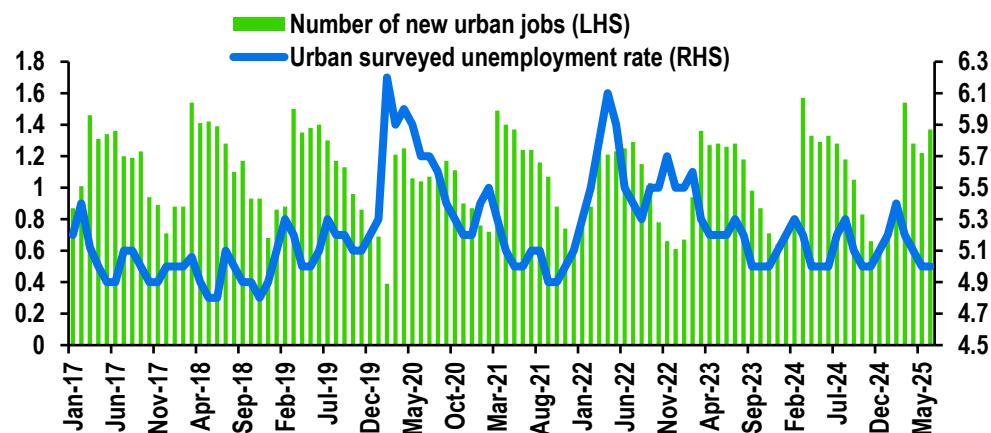


Retail sales growth, % y/y (2Y CAGR for 2021)

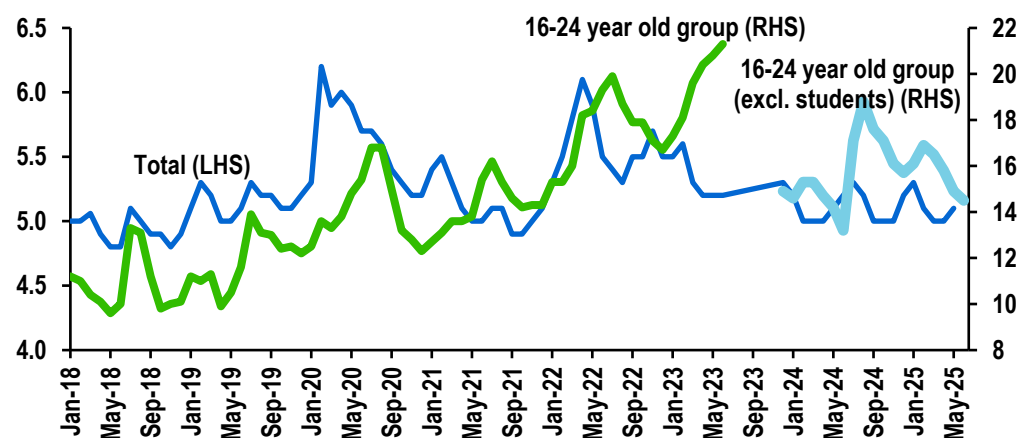


# Labour market, wages, household sentiment

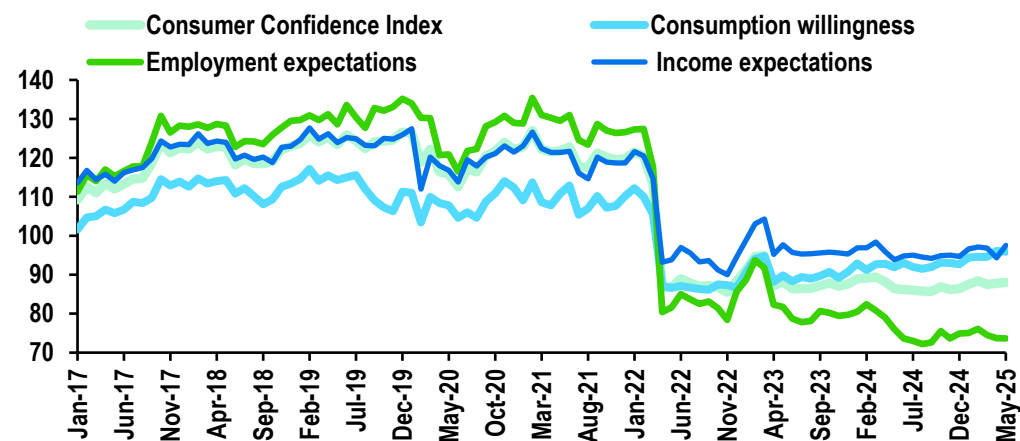
New job creation; mn persons (LHS), % (RHS)



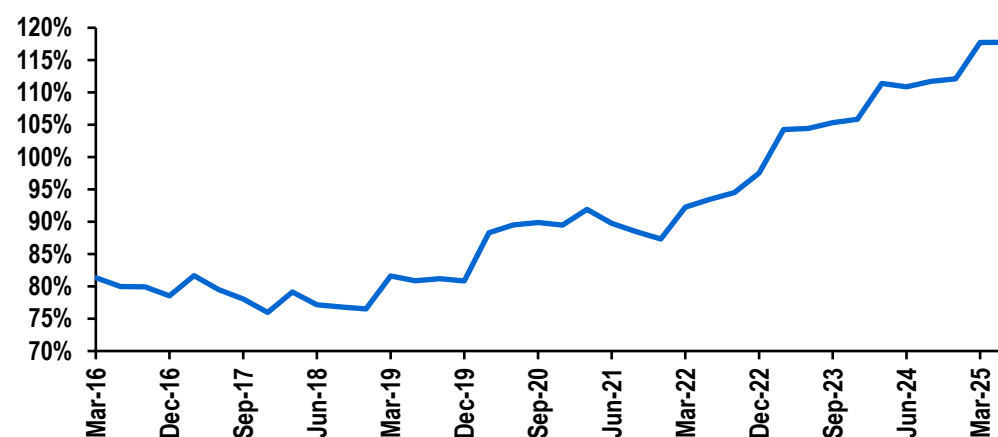
Surveyed urban unemployment rate, %



Consumer confidence index benchmarked at 100

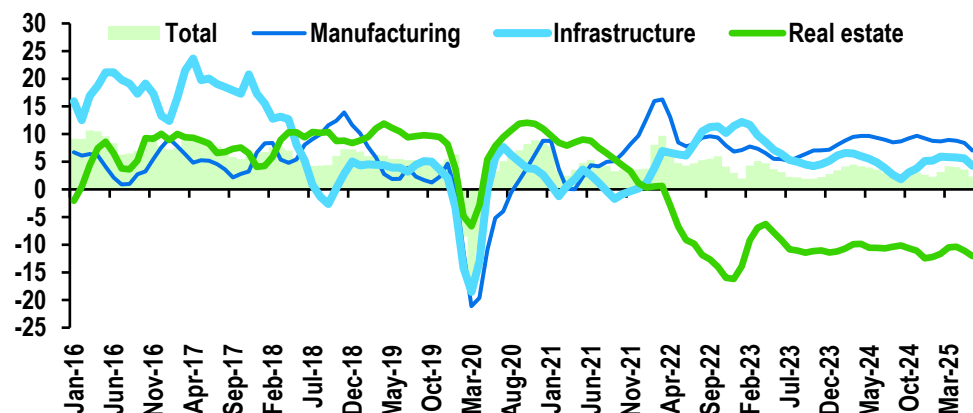


Household savings/GDP (4Q rolling sum), % of GDP

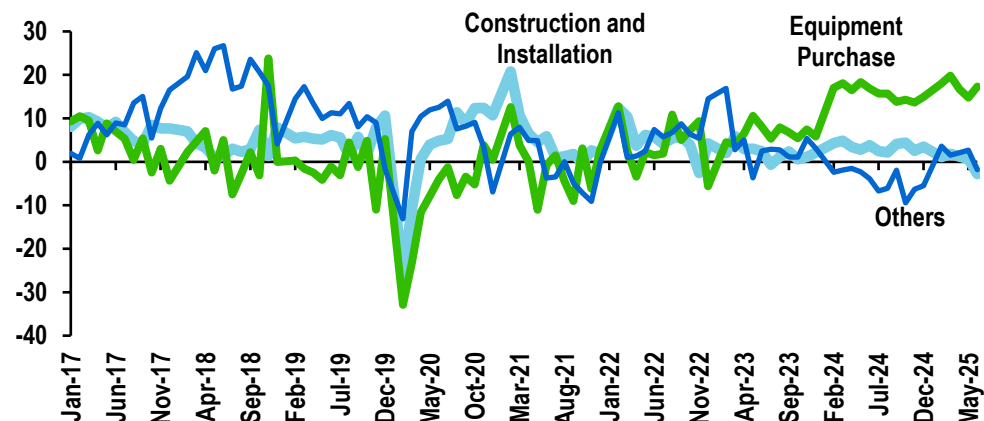


# FAI

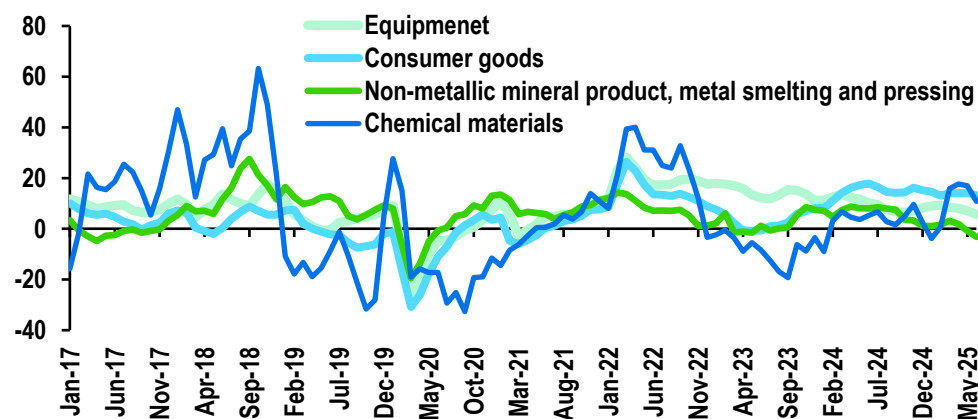
FAI growth, % y/y 3mma (2Y CAGR for 2021)



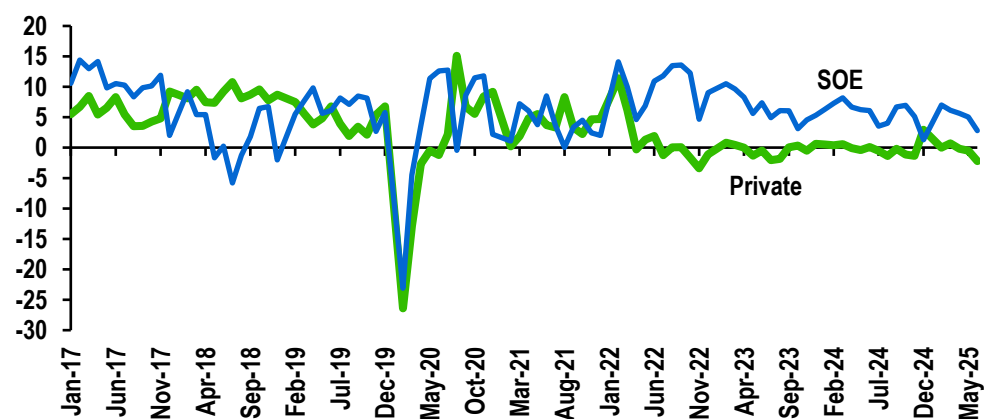
FAI growth, % y/y 3mma (2Y CAGR for 2021)



Manufacturing FAI growth, % y/y 3mma (2Y CAGR for 2021)

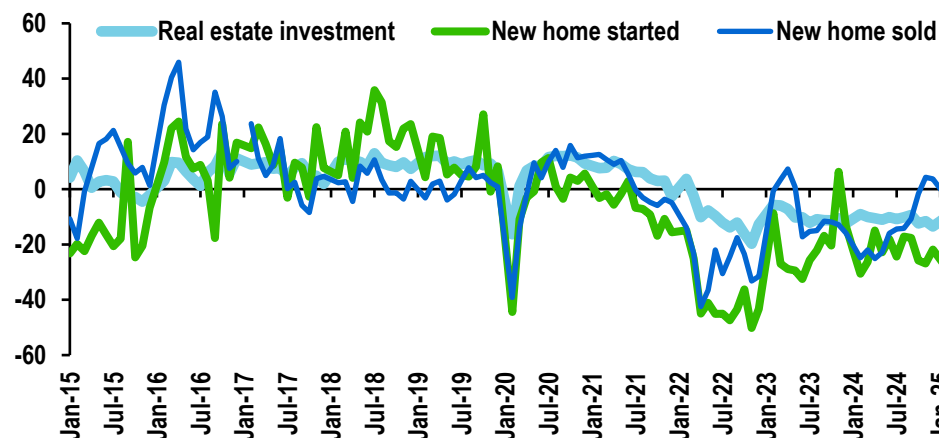


FAI growth, % y/y (2Y CAGR for 2021)

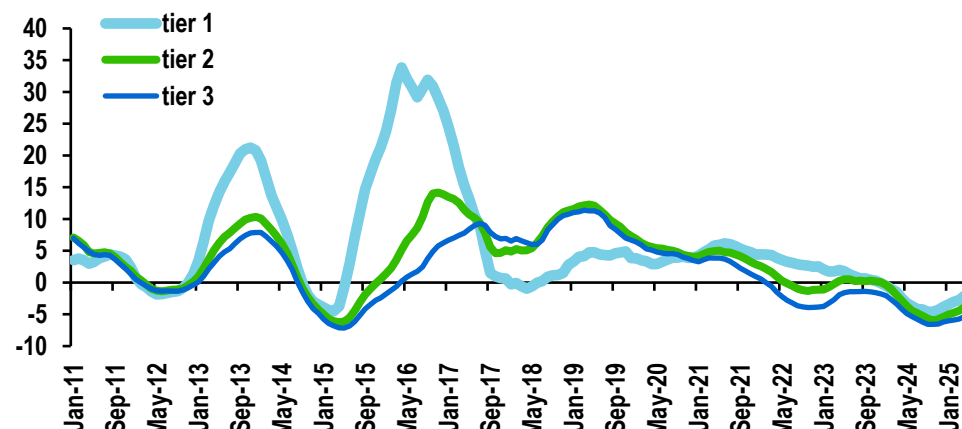


# Housing market

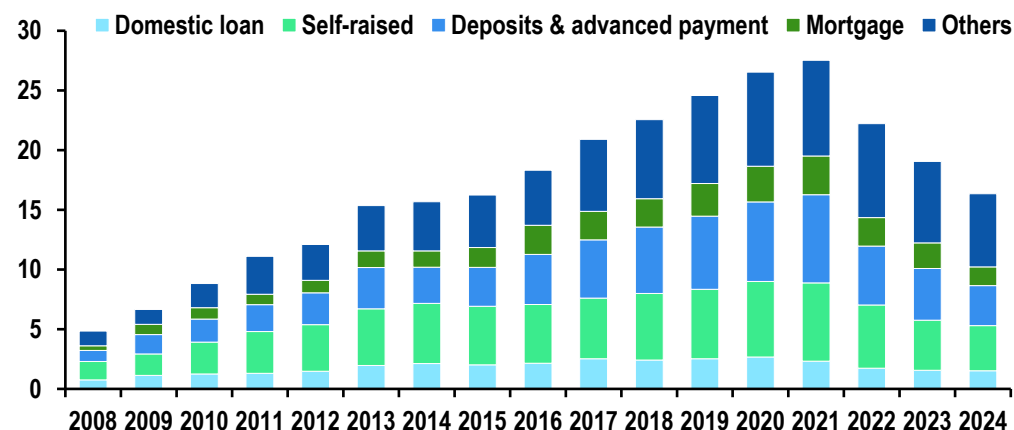
Growth, % y/y (2Y CAGR for 2021)



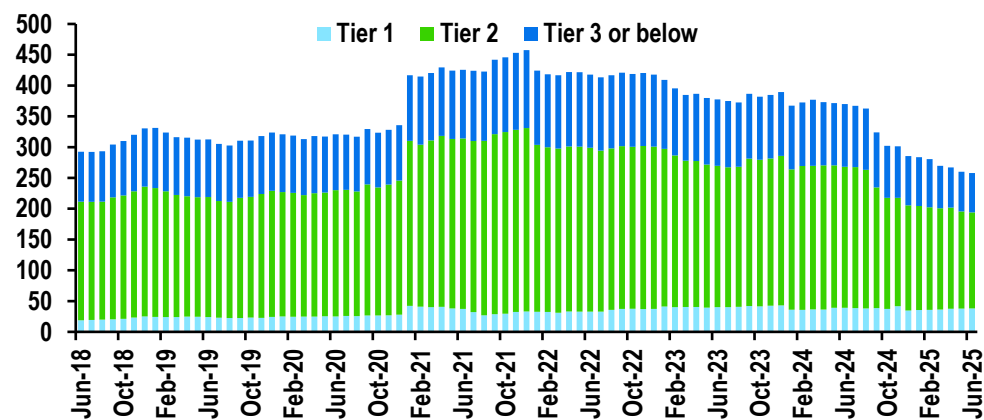
70-city average new home prices, % y/y



Source of funds for real estate investment, CNY tn

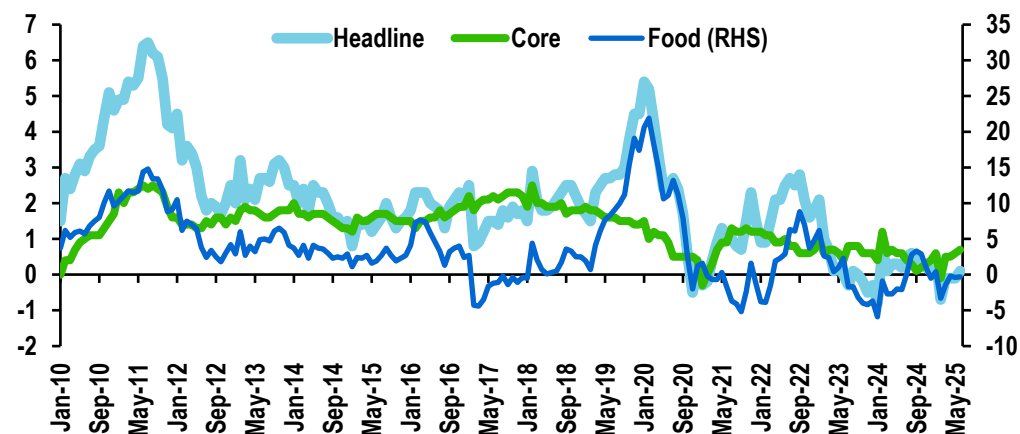


Inventory by tier of city, floor area waiting for sales sqm mn (45 cities)

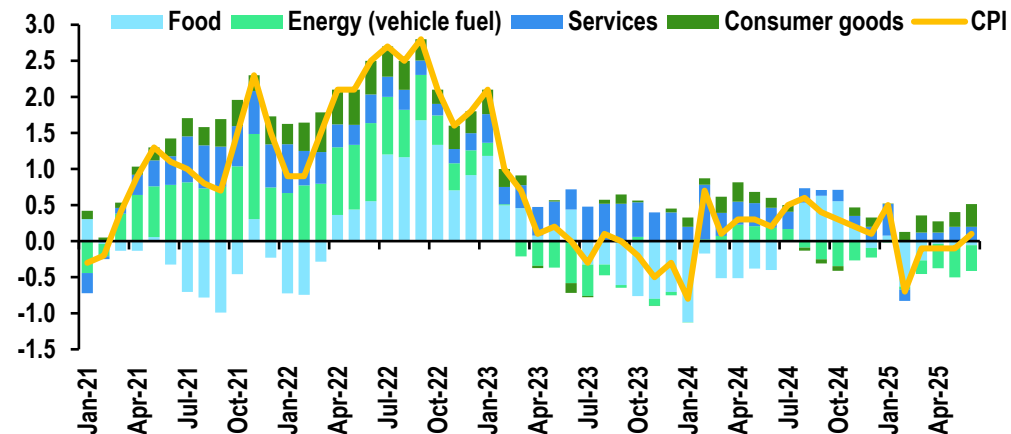


# Inflation

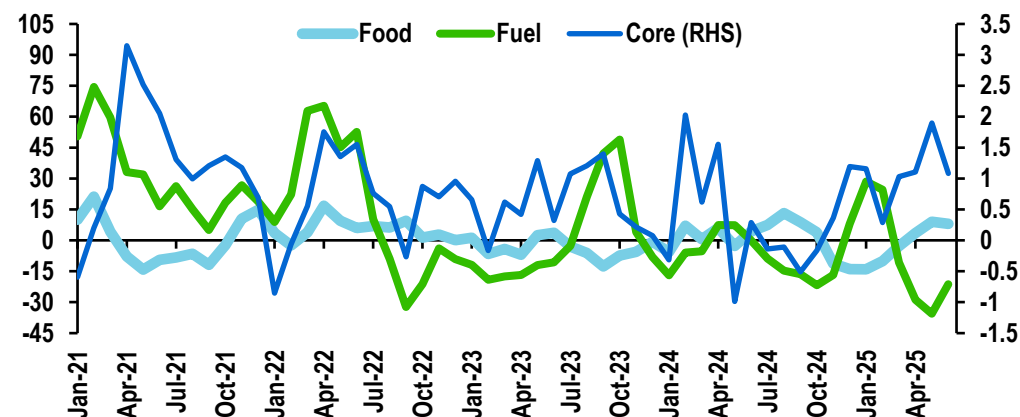
CPI inflation, % y/y



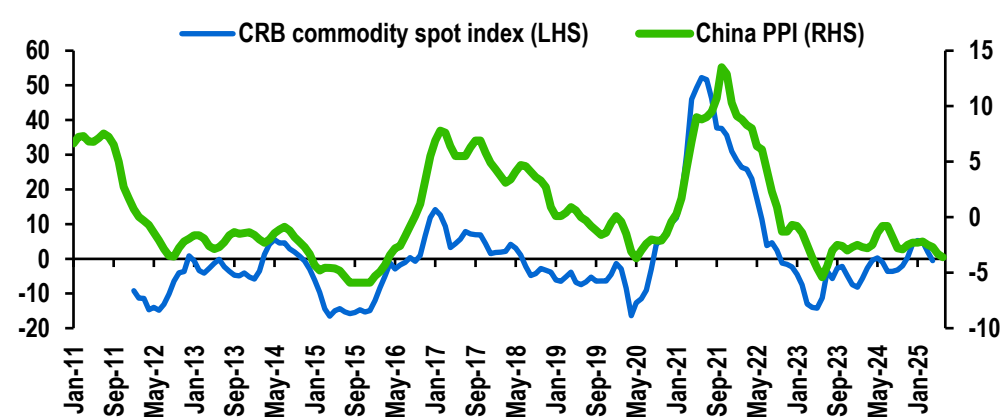
CPI inflation contribution, ppt



CPI inflation, % y/y, SAAR 3mma



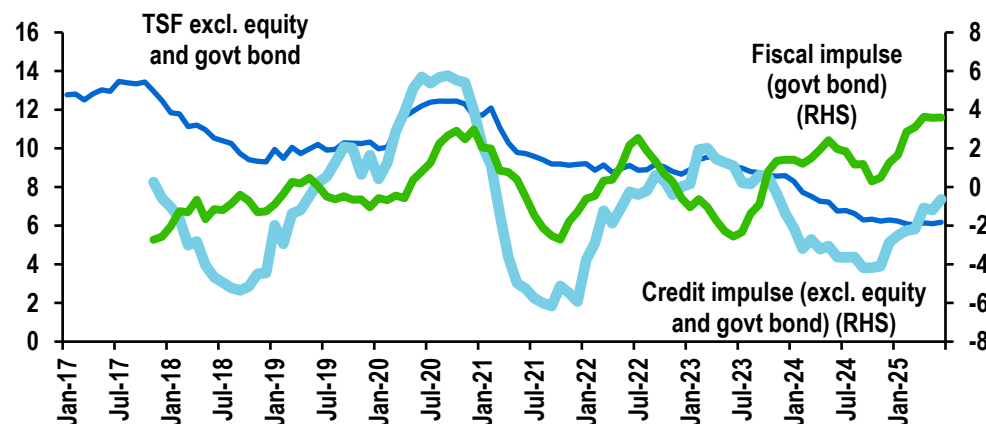
PPI inflation and global commodity prices, % y/y



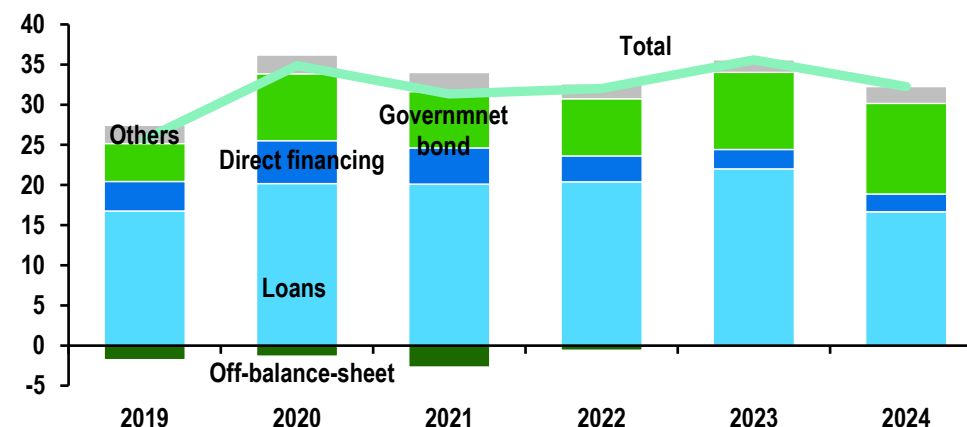


# Monetary policy – Credit

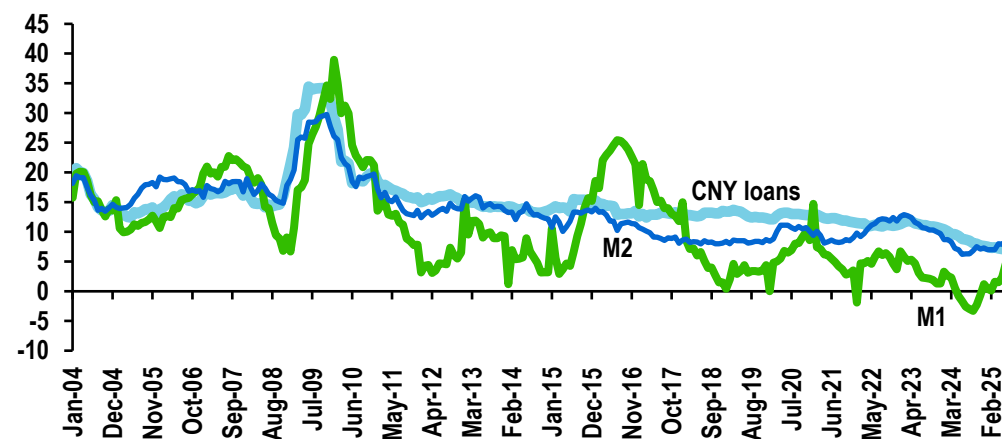
Credit and fiscal impulse; TSF growth, % y/y (LHS),  
TSF impulse, % of GDP (RHS)



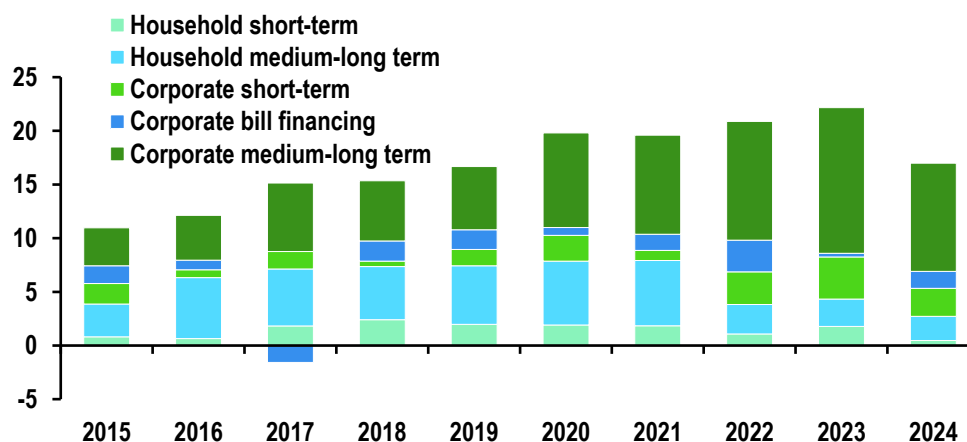
New TSF breakdown, CNY tn



Money and loan growth, % y/y

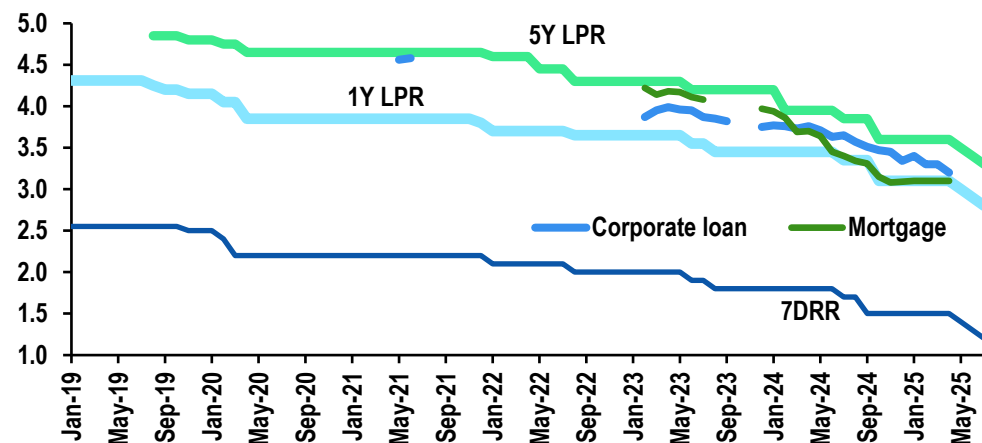


New CNY loans breakdown, CNY tn

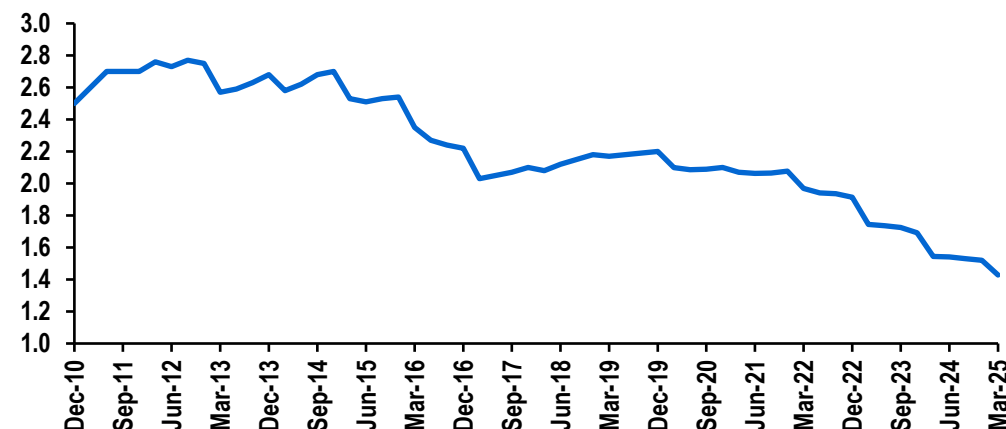


# Monetary policy – Interest rate and liquidity

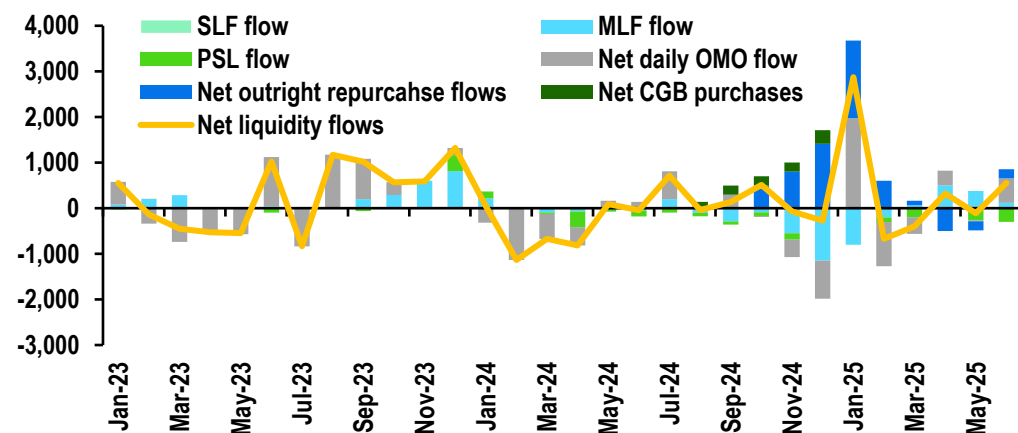
Interest rates, %



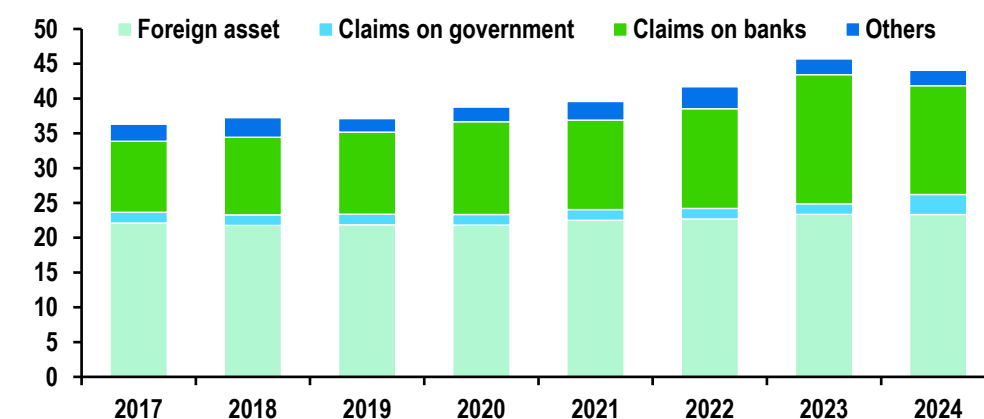
Banks' net interest margin (NIM)



PBoC liquidity management, CNY bn

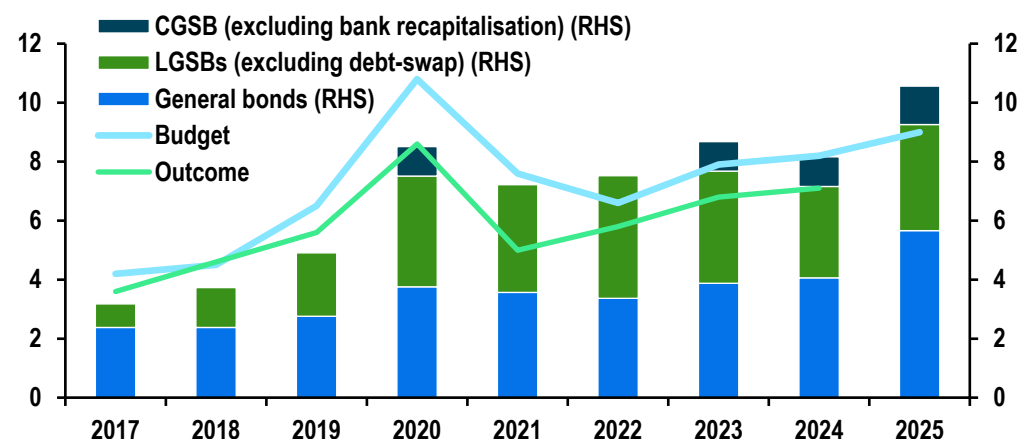


PBoC balance sheet, CNY tn

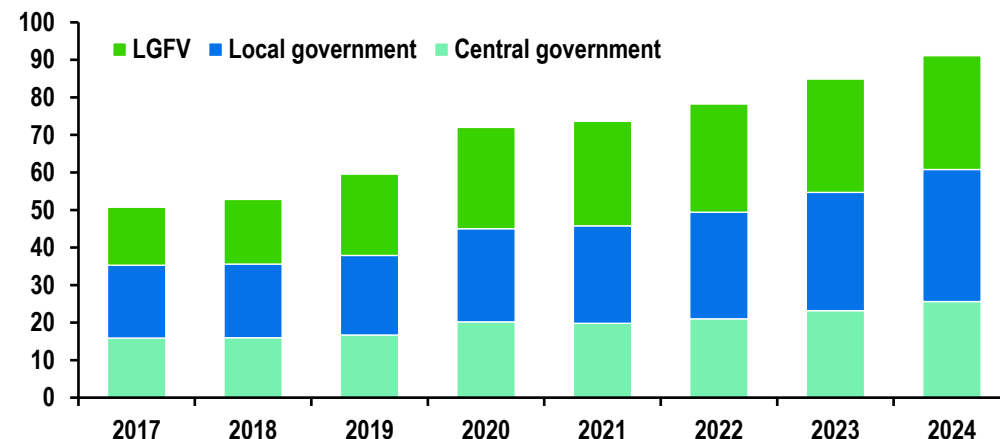


# Fiscal policy

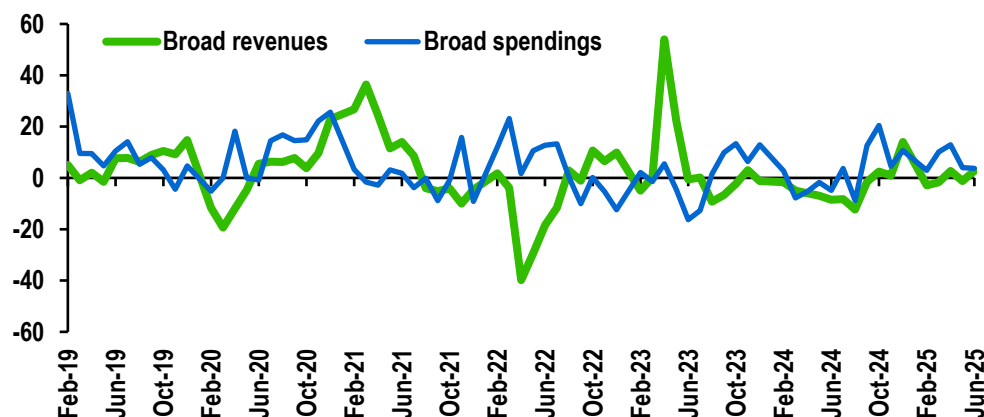
*Fiscal deficit\*, % of GDP (LHS); government bond issuance quota, CNY tn (RHS)*



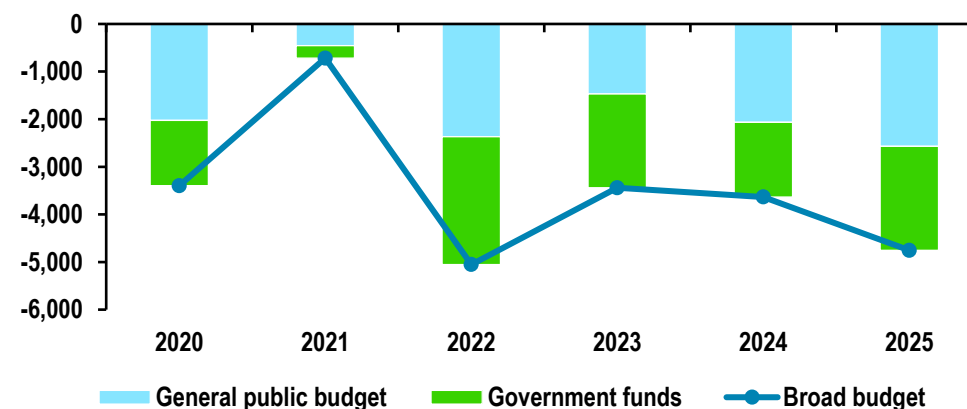
*Debt-to-GDP, % of GDP*



*Broad revenue and spending growth, % y/y*



*Broad budget balance in H1, CNY bn*



\*Based on our calculation following widely accepted fiscal accounting, covering general public and government funds budget

Source: CEIC, MoF, WIND, Standard Chartered Research

# Policy turns more consumption-focused

## Allocation of ultra-long special CGB proceeds

Use of ultra-long special CGB proceeds, CNY bn

Programme	Category	2024	2025
Consumer goods trade-in	Consumption	150	300
Equipment upgrading	Investment	150	200
'Two Major'	Investment	700	800
Total		1,000	1,300
Consumption		150 (0.1% of GDP)	300 (0.2% of GDP)
Investment		850 (0.6% of GDP)	1,000 (0.7% of GDP)

## Consumer goods trade-in programme

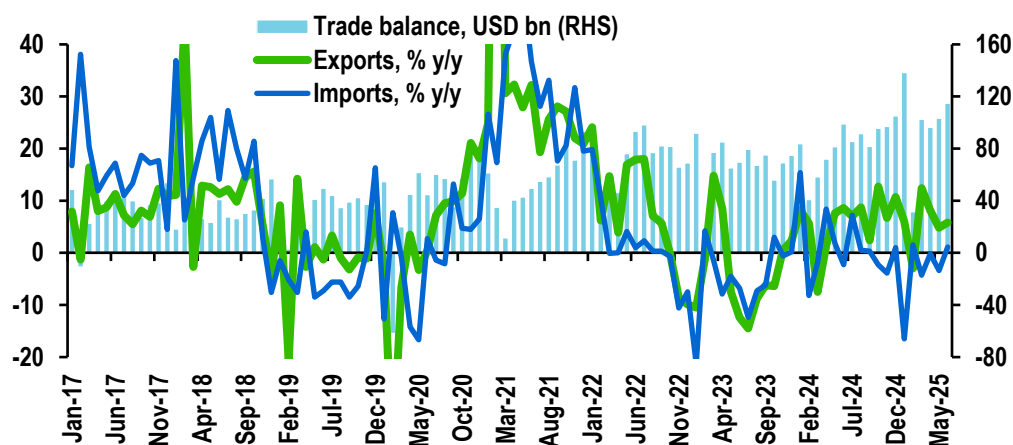
Categories that receive fiscal subsidies

Vehicles	Refrigerators
Washing machines	TV
Air conditioners	Computers
Water heaters	Household stoves
Range hoods	Microwave oven
Water purifiers	Dishwashers
Rice cookers	Mobile phones
Tablets	Smart watches

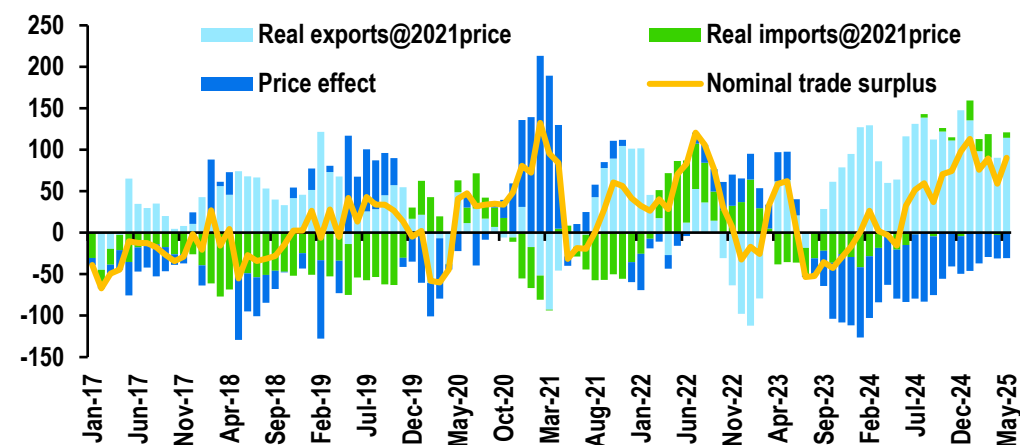


# International trade

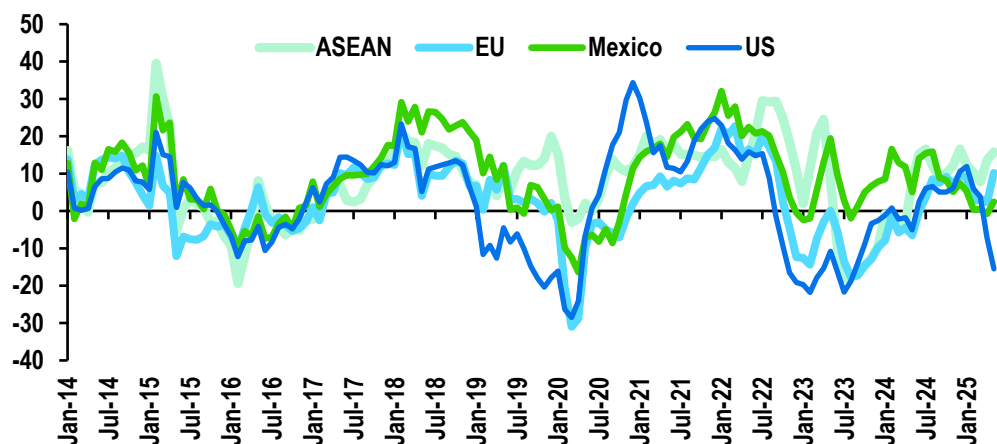
## Trade performance



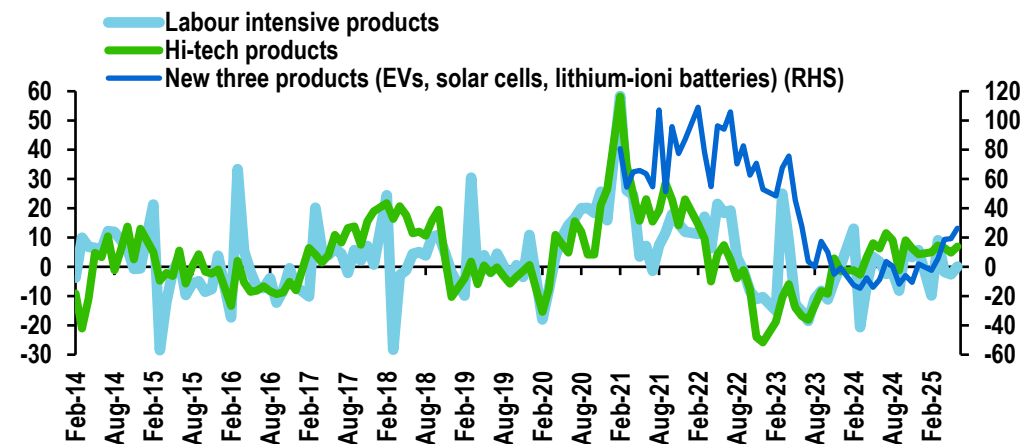
## y/y change in trade surplus, USD bn (3-month moving sum)



## Exports by region, % y/y (3mma, 2Y CAGR for 2021)

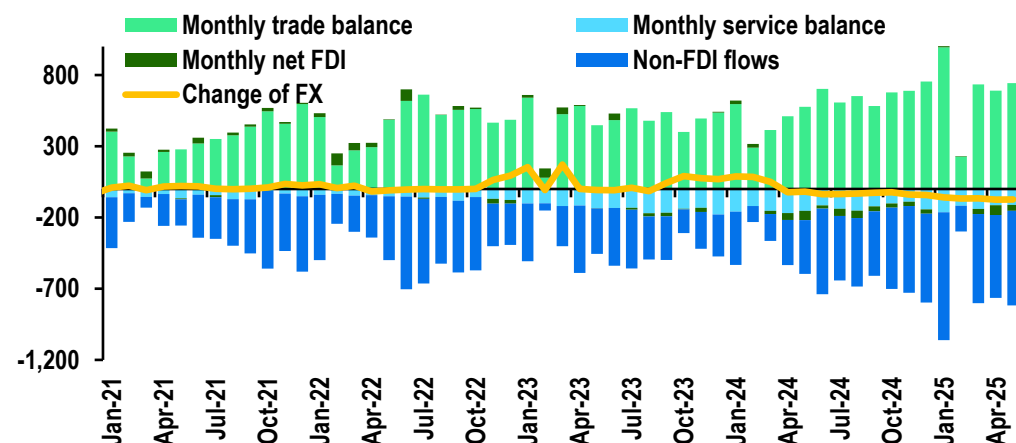


## Exports by key products, % y/y

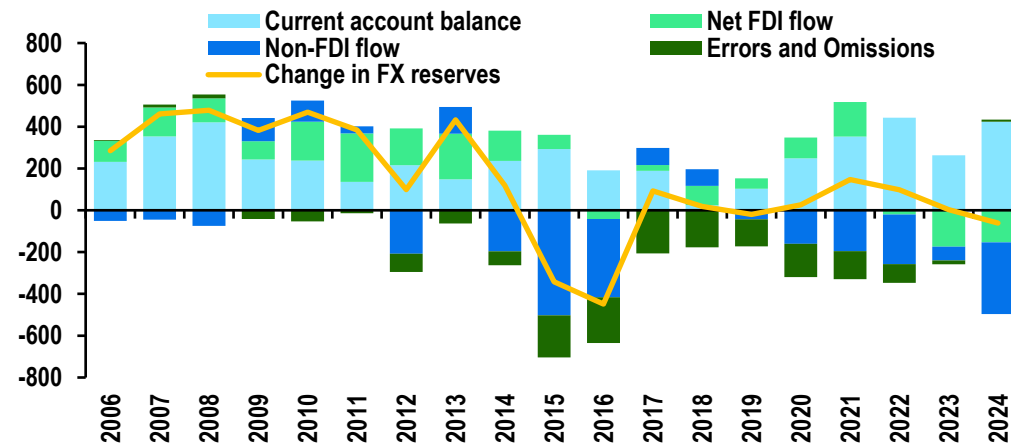


# Capital flows

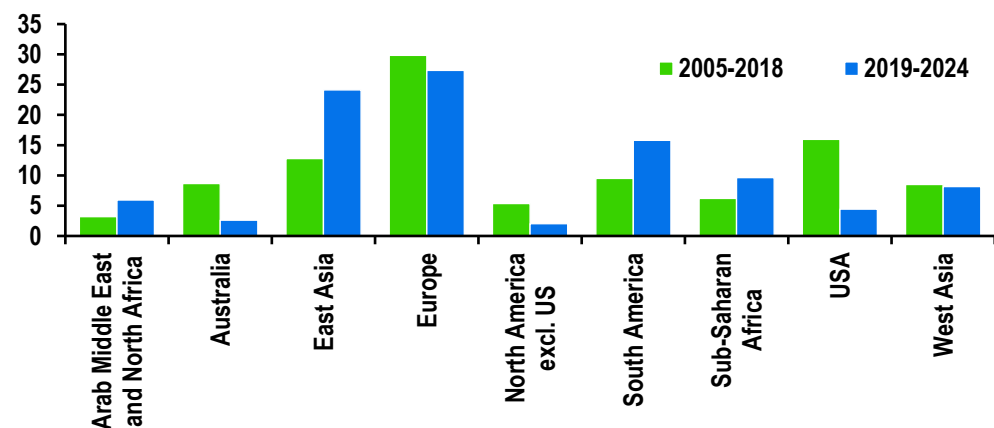
Monthly capital flows tracker, CNY bn



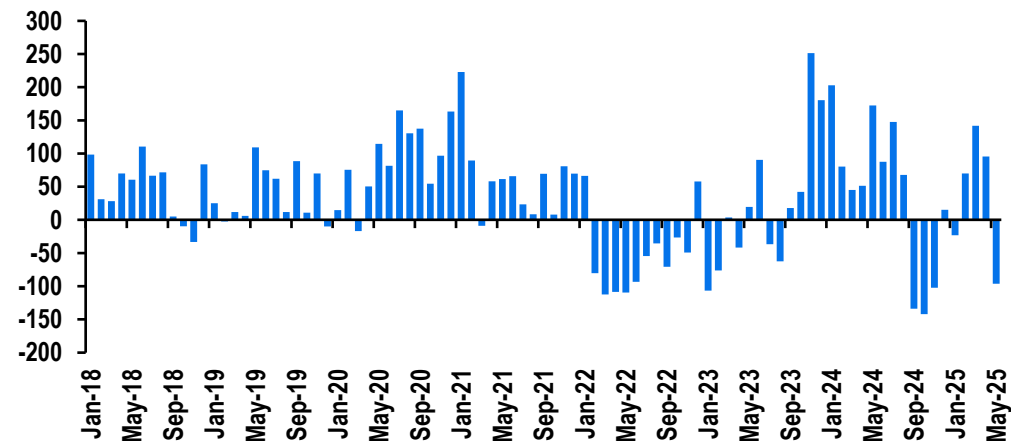
Balance of payments, USD bn



China's ODI share by region, % of total

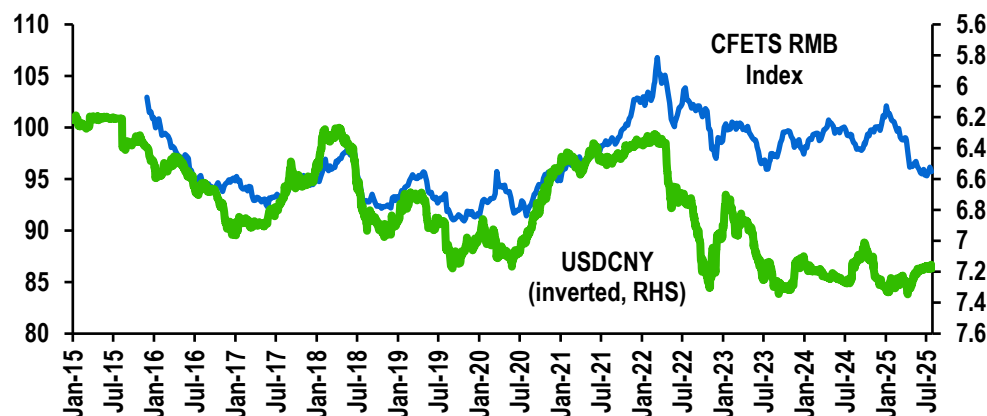


Monthly foreign bond inflows, CNY bn

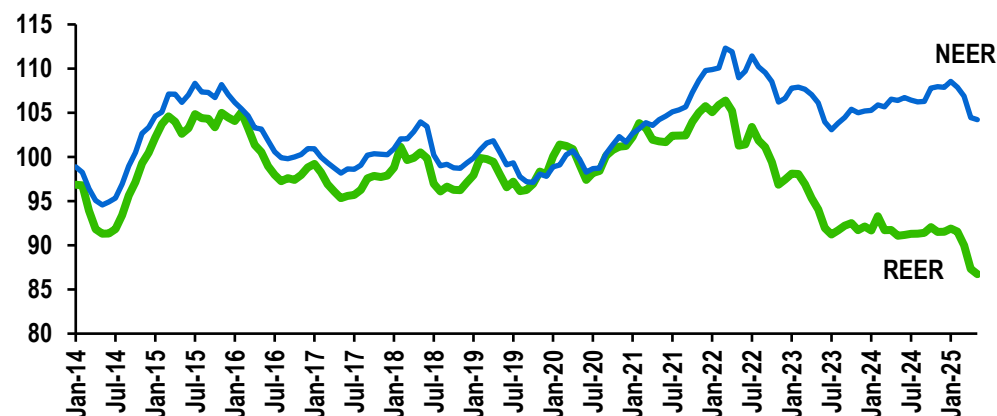


# CNY

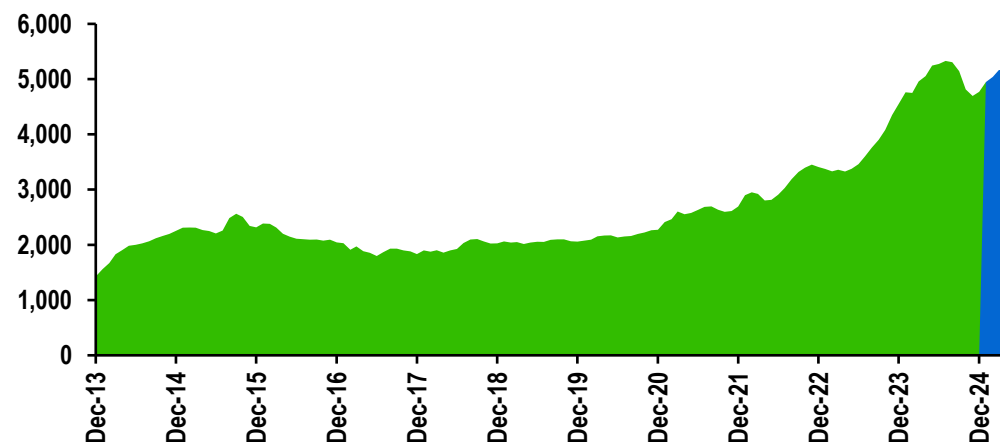
*CNY against basket of currencies vs USD*  
*LHS: CFETS RMB Index; RHS: USD-CNY (inverted)*



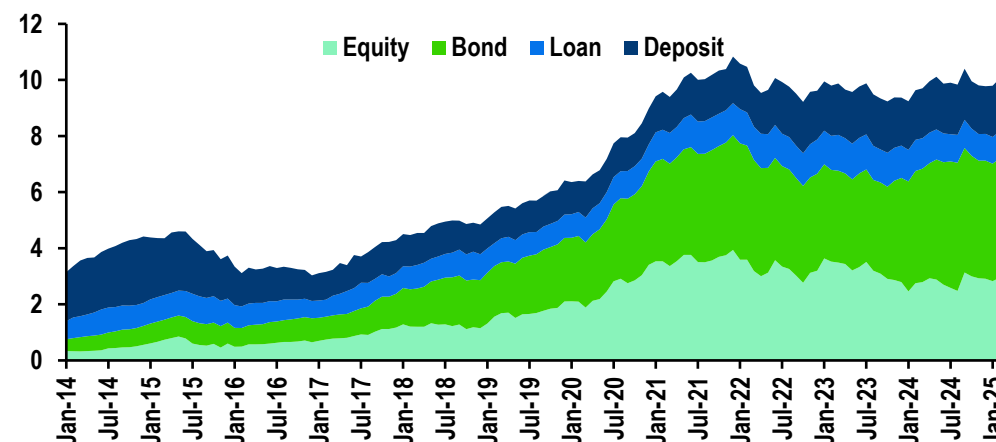
*BIS effective exchange rate index 2020=100*



*Standard Chartered Renminbi Globalisation Index (RGI), newest prints in blue (Feb-Apr 2025)*



*Foreign holdings of onshore RMB financial assets, CNY tn*



# Long-term trends

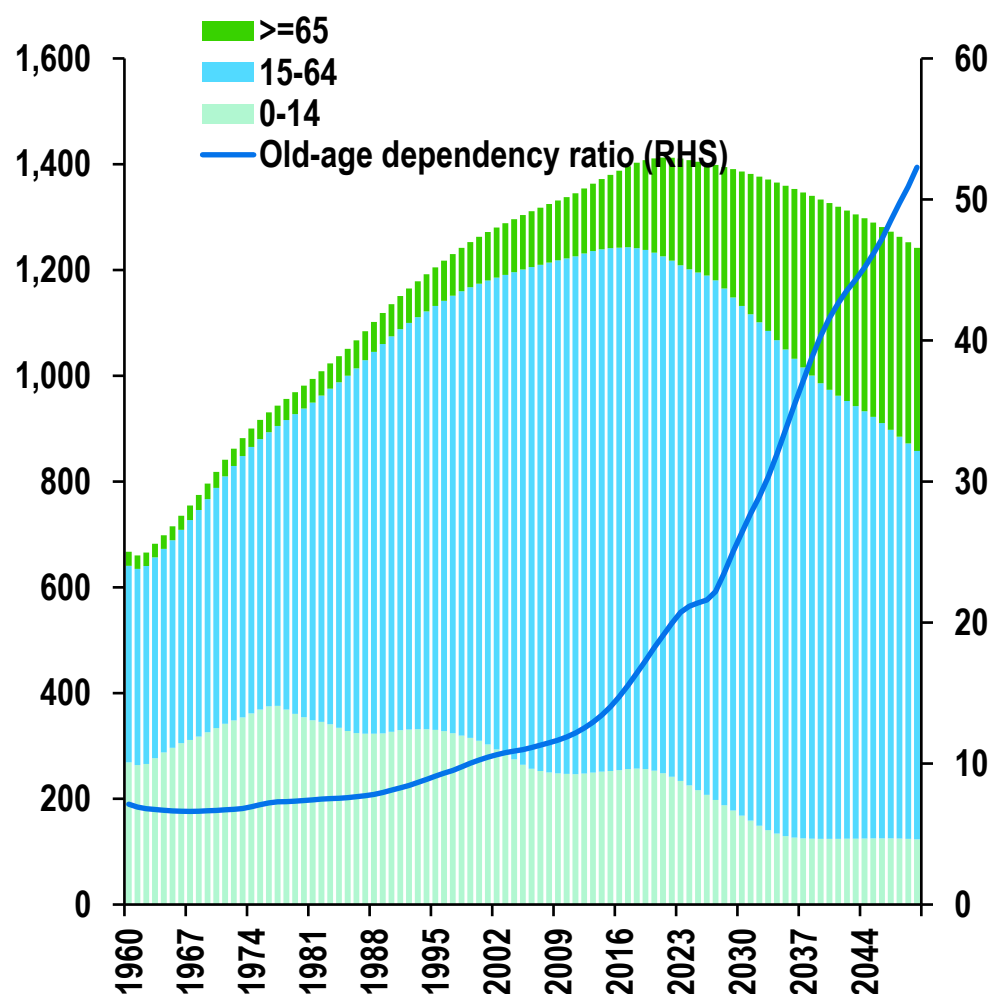




# China long-term themes – An ageing population

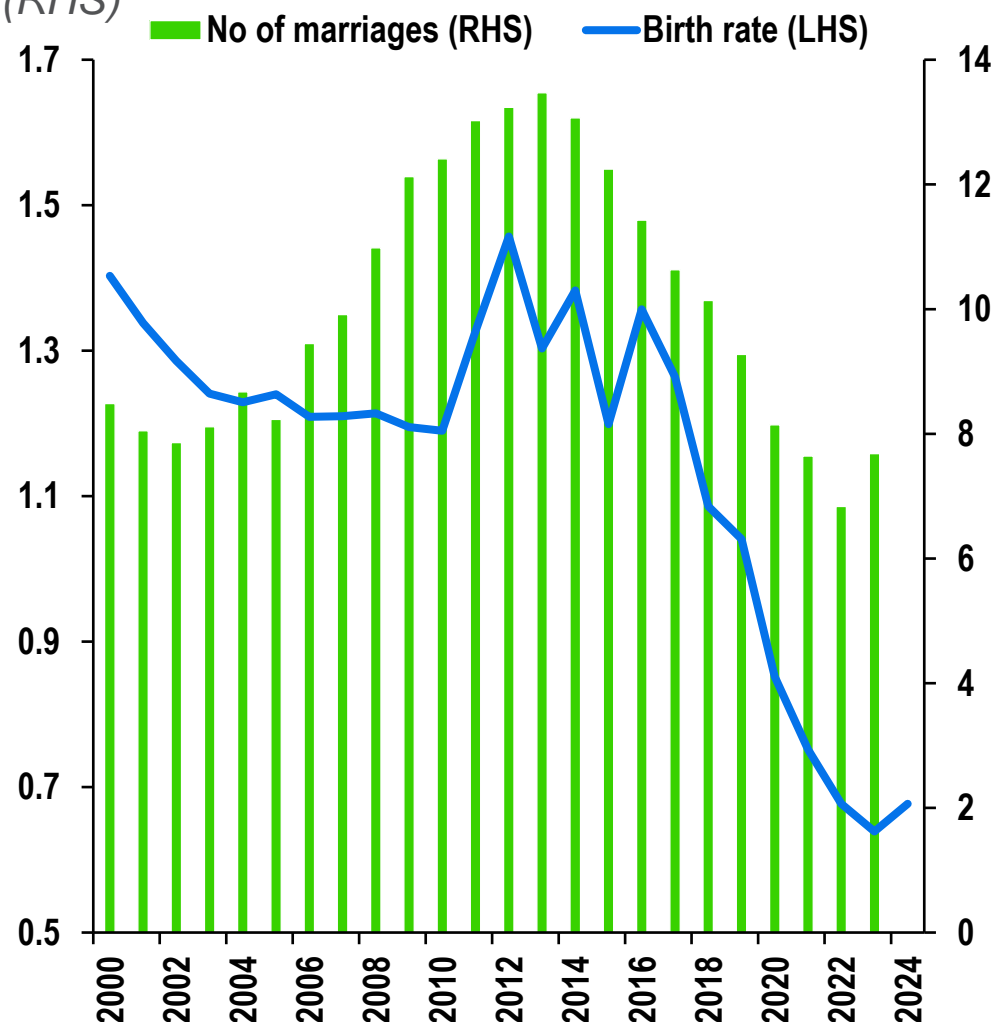
## Working-age population is declining

Population by age group (mn), actuals (1960-2023) and UN forecasts (2024-50)



## Sharp decline in birth rate

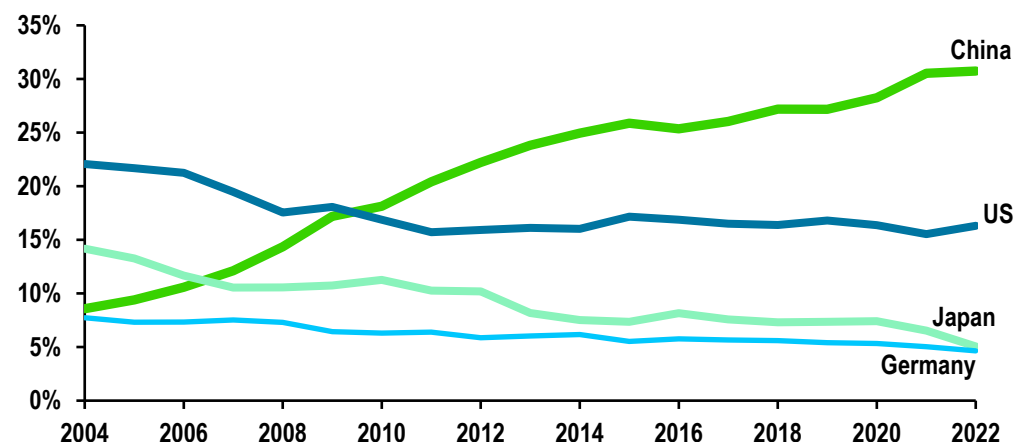
Birth rate, % (LHS); number of marriages, mn cases (RHS)



# China long-term themes – Innovation

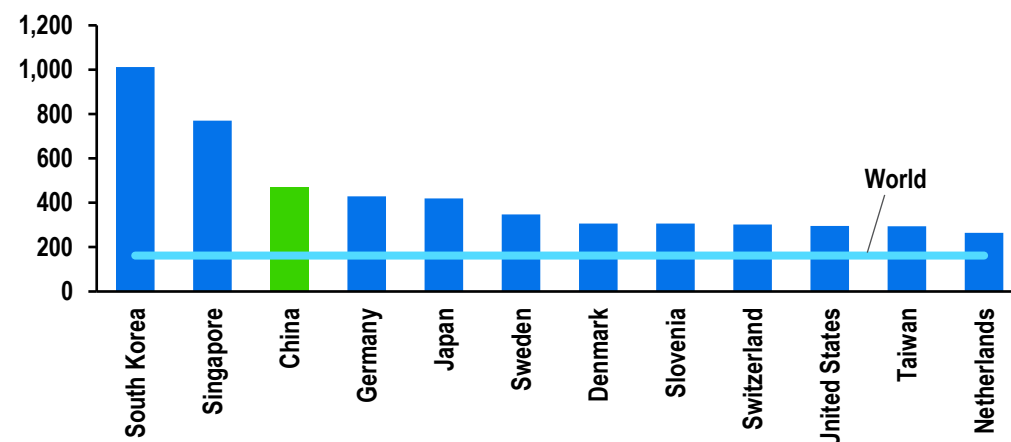
## China is the world's largest manufacturer

Share of the world's manufacturing value-added, %



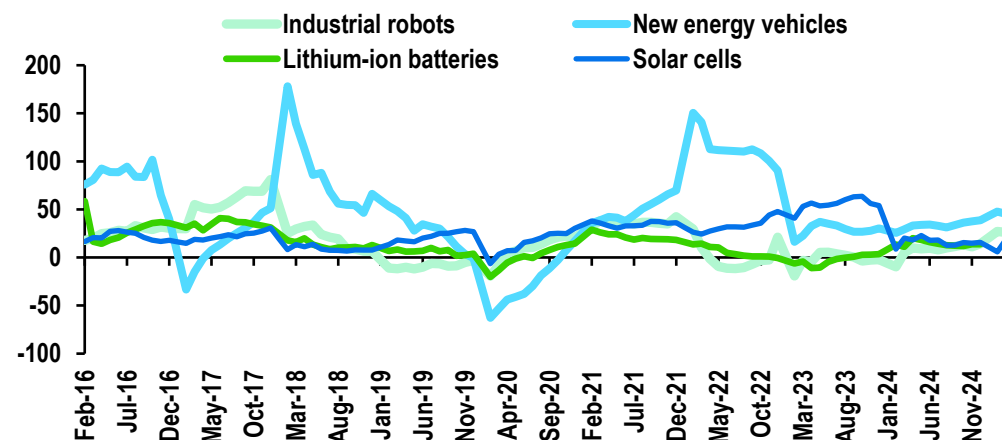
## Robot density in the manufacturing industry, 2023

Number of robots in operation per 10,000 employees



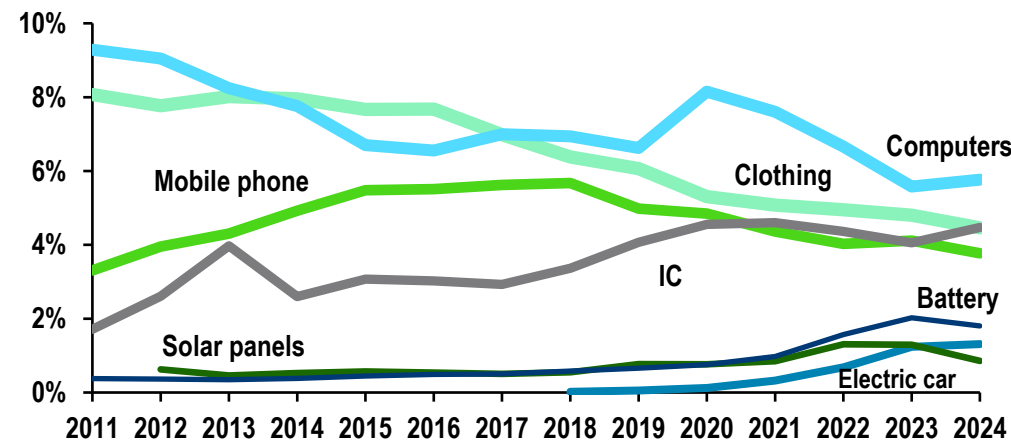
## Resilient new products production

Industrial production, % y/y YTD (2Y CAGR for 2021)



## China's major export products

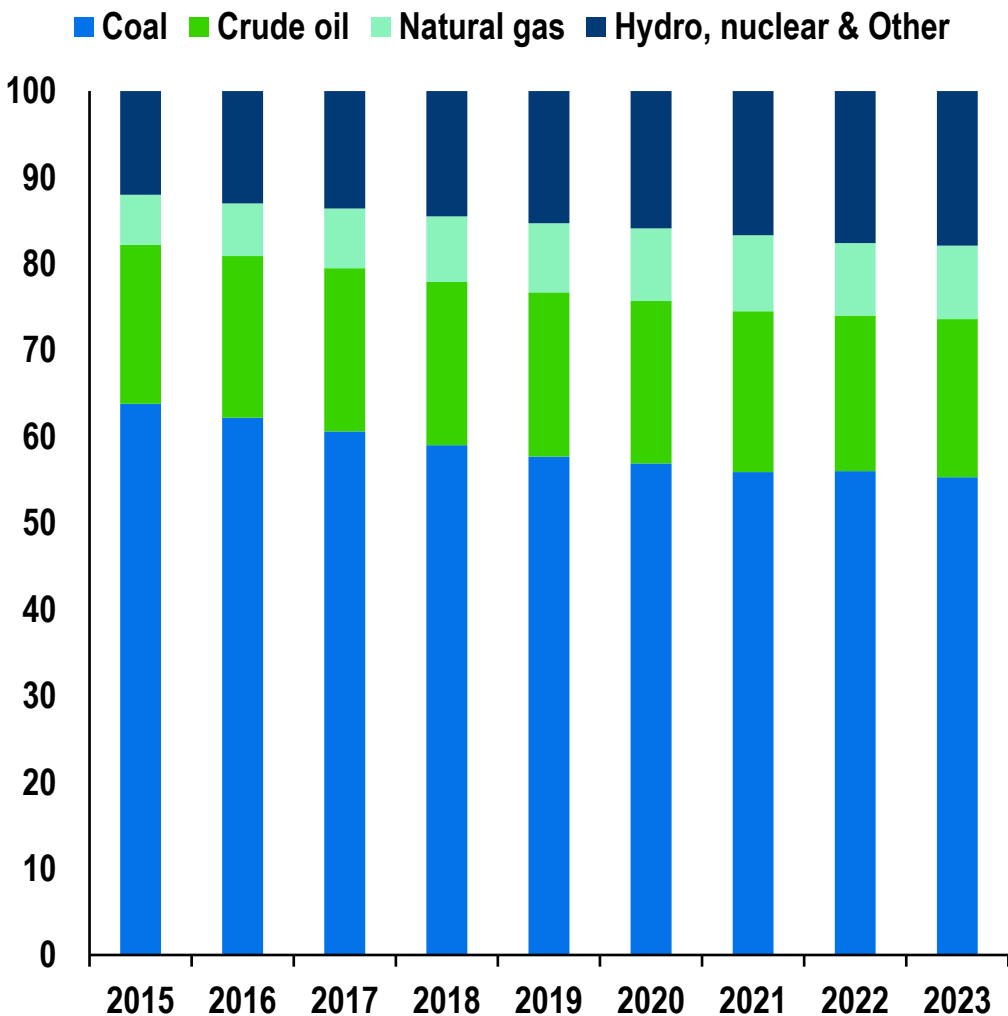
% of total exports



# China long-term themes – Decarbonisation

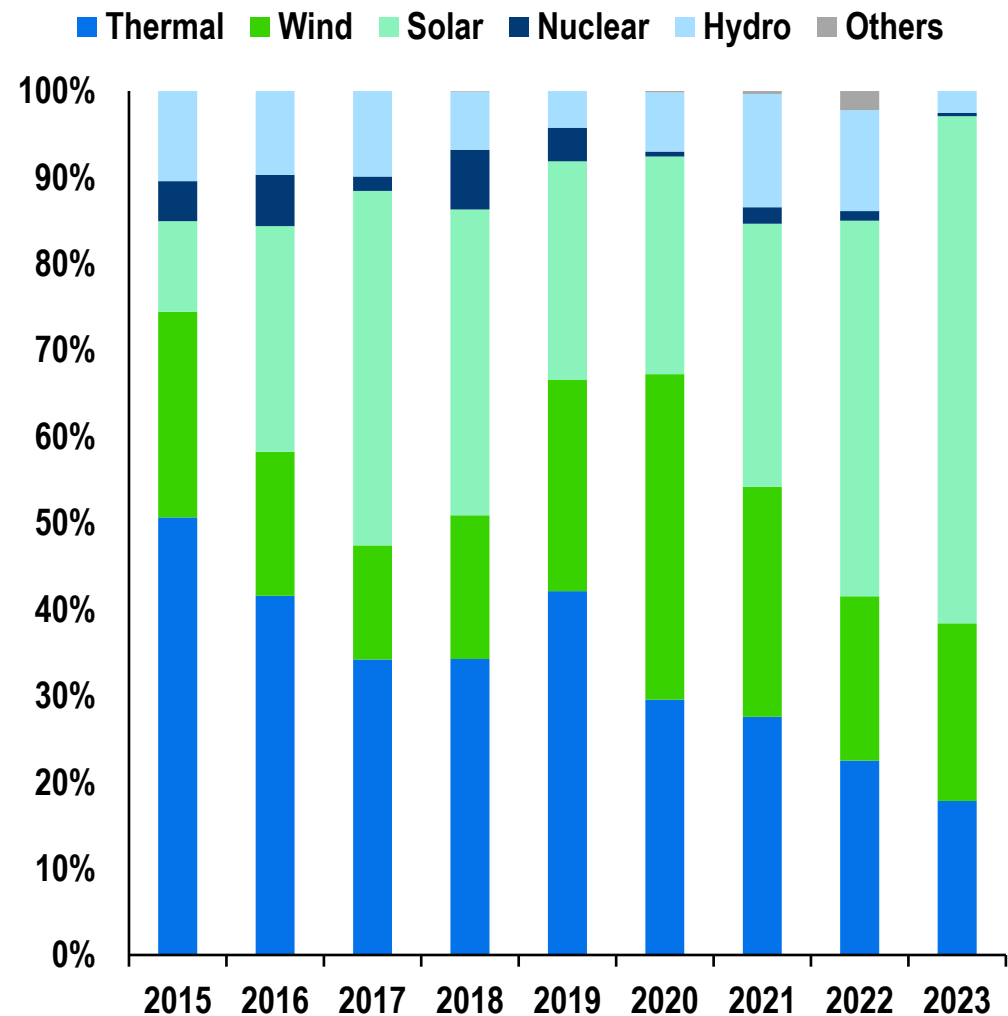
## Energy mix dominated by coal

Energy consumption by source, %



## Increase in power-generating capacity

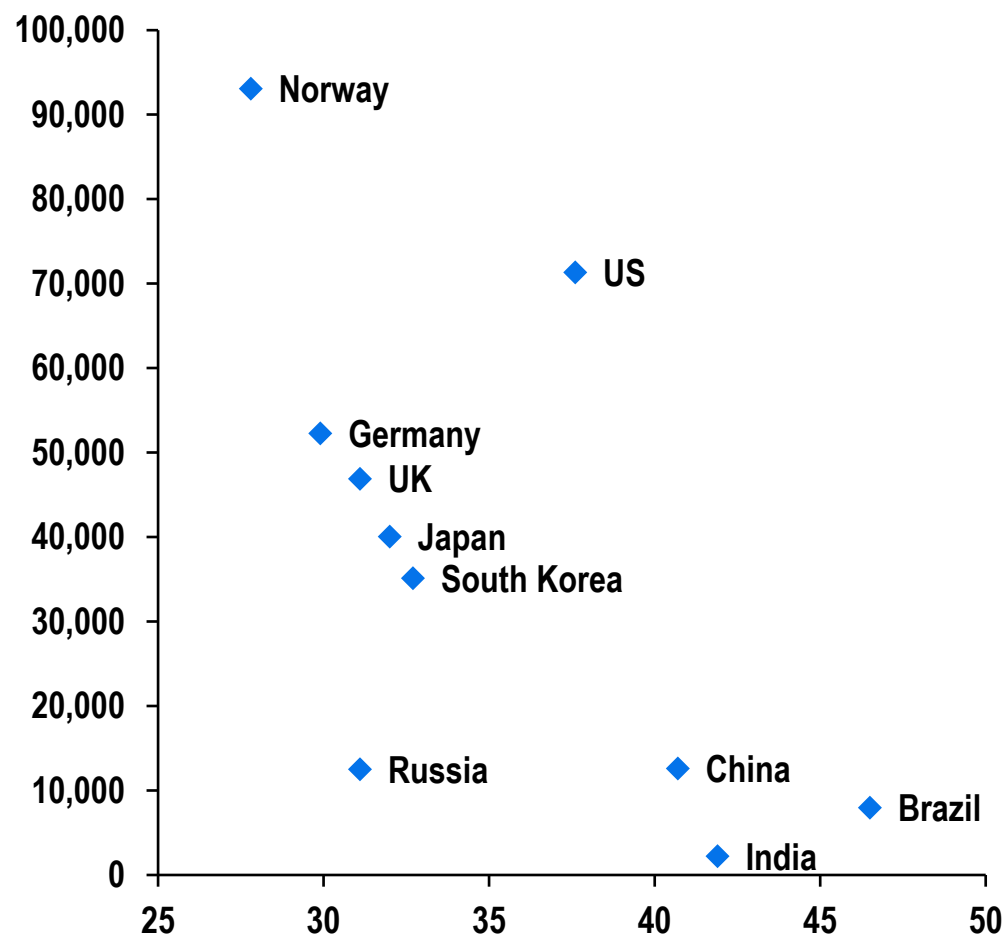
% of annual increase in capacity



# 'Common prosperity'

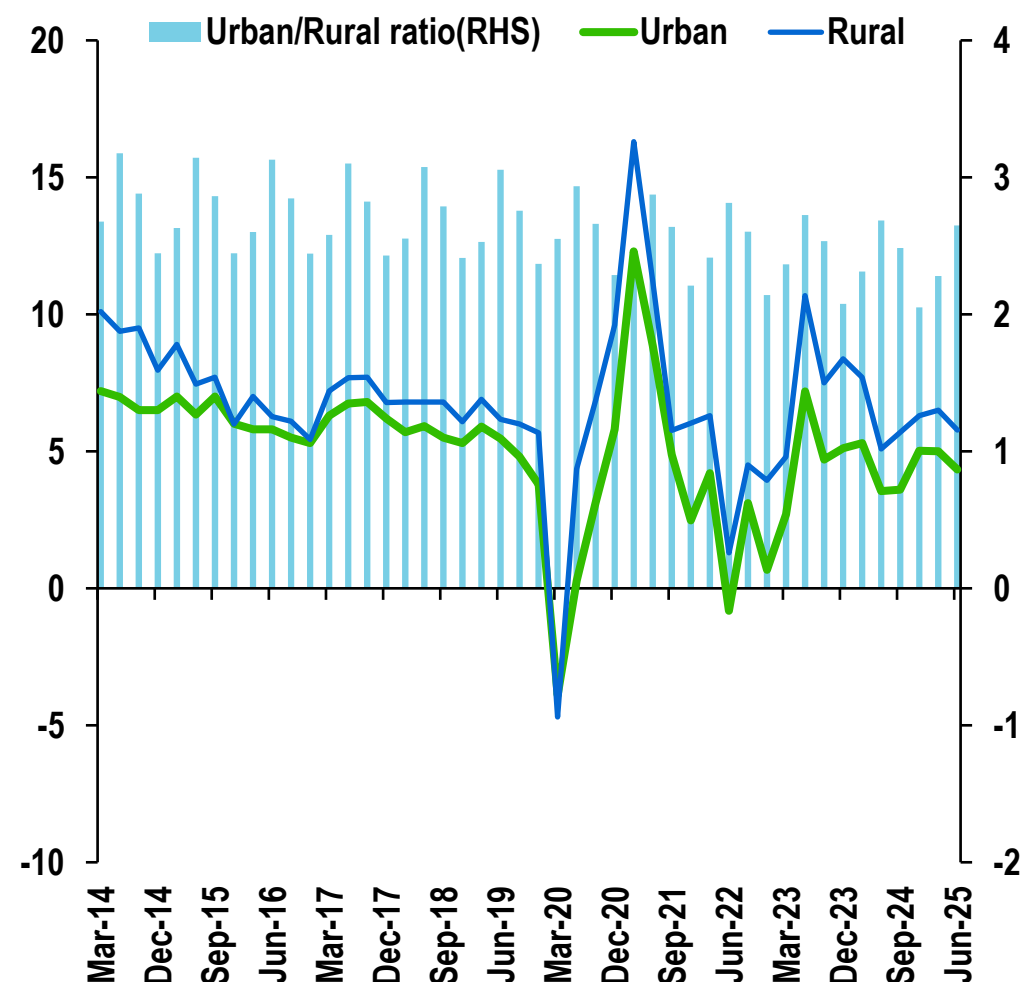
## China's income disparity appears high versus advanced economies

X-axis: standardised Gini coefficient (2021) and  
Y-axis: GDP per capita, USD (2021)



## Urban and rural discrepancy

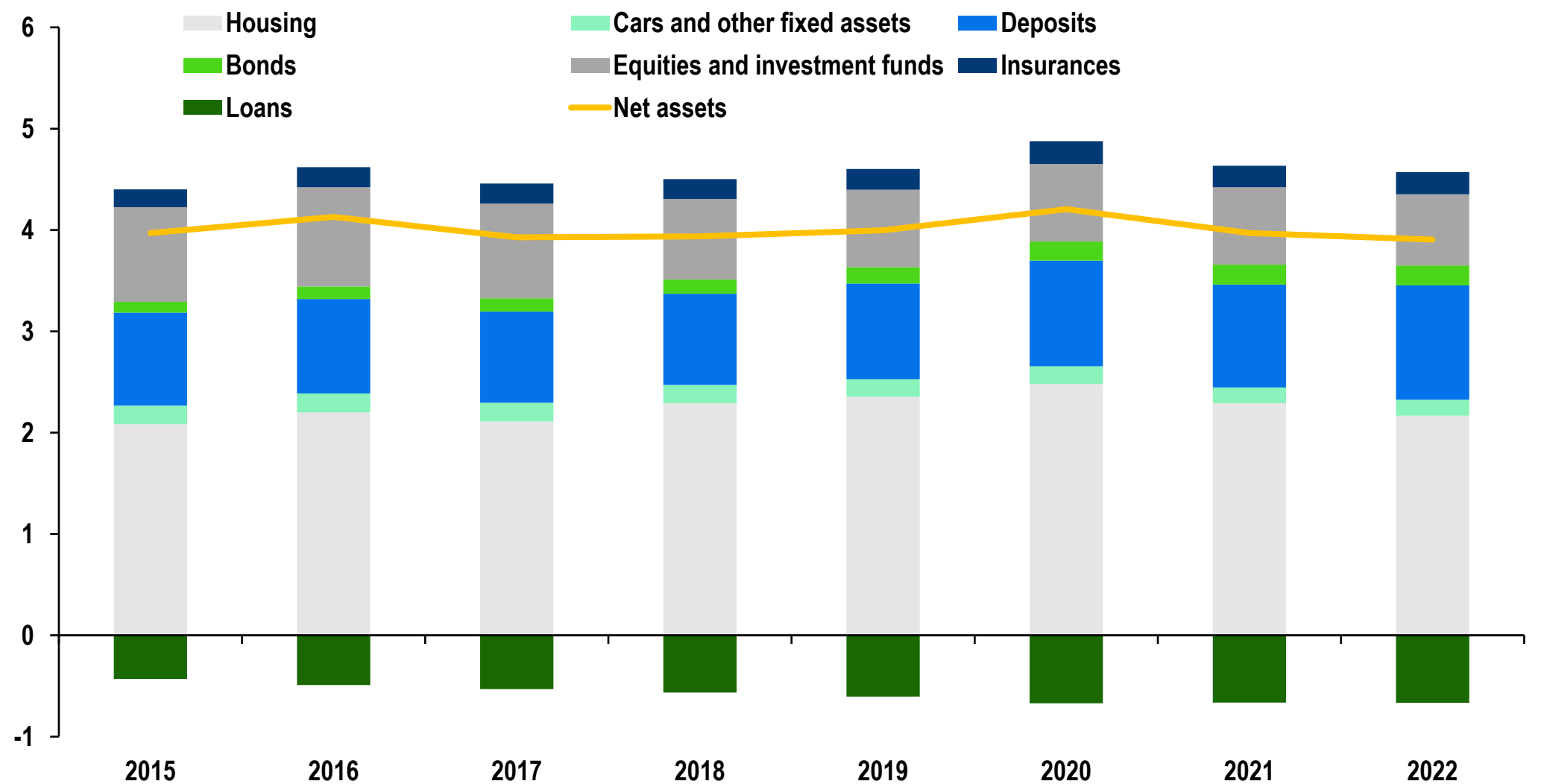
Household disposable income per capita; growth, % y/y (LHS); income ratio (RHS)



# Household balance sheet remains relatively stable

## Households' net assets show a modest drop

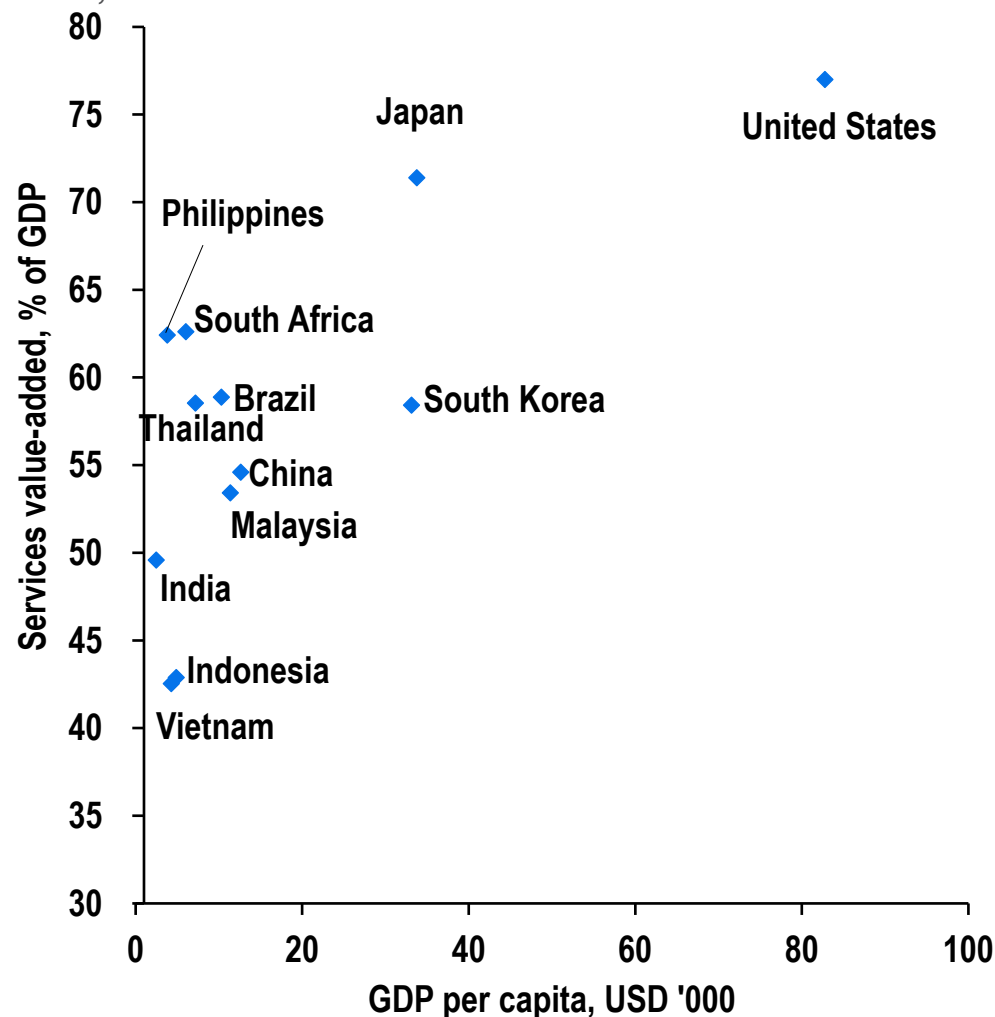
*Household balance sheet, % of GDP*



# Services consumption has potential

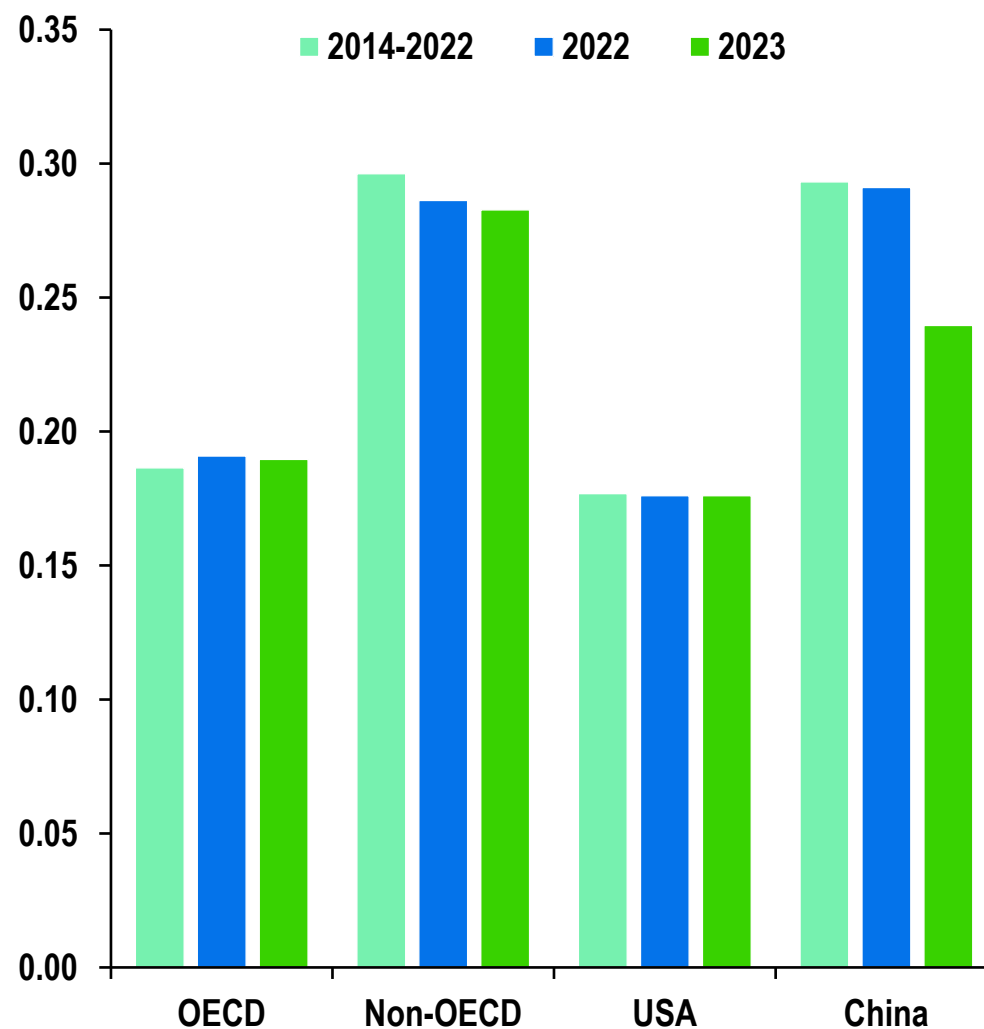
## China's services-sector share of GDP is low

Services value-added, % of GDP vs GDP per capita, USD, 2023



## China's services trade is opening up

Services trade restrictiveness index



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