China macro strategy – CNY and rates outlook for H2-2025

中国宏观策略 – 2025年下半年人民币及利率展望

20 June 2025

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Summary

China's economic growth will likely face more headwinds in H2, after front-loaded fiscal spending and exports in H1. The PBoC will likely ease more in H2 than H1, on deepening deflation, weak credit demand and renewed real-estate pressure. We see moderate CNY depreciation in H2 and keep our 10Y CGB yield forecast at 1.30% by end-2025.

Trade and tariffs:

- China and the US may engage in a protracted trade war, with average US import tariffs on China goods up by 30ppt YTD to 40% vs <10ppt in 2018-19 (P3)
- Robust China exports YTD (+6.0% in 5M-2025, P7) have indirectly benefited from front-loaded US imports (+21%, P8), but benefit unlikely to be sustained
- Long-term impact will likely be limited: China has well-diversified trade partners (P9-12) and export growth is now led by higher-value-added goods (P13)

Macro and policy:

- Headline GDP could moderate to <5.0% in H2 from above 5.0% likely in H1, on potential fading of fiscal impulse and exports after front-loading (P15-17)
- Deflationary pressure to deepen; non-food inflation has led CPI decline; industrial goods have led PPI decline, with industrial utilisation ratio declining (P18-21)
- Fiscal spending rose to the highest in H1 since 2020 despite declining revenue; fiscal impulse may decelerate in H2 without approving more deficit (P31-34)
- Monetary policy may ease more in H2 on weak credit growth, with the risk of faster OMO rate cuts (of 20-30bps) and CGB purchase resumption (P35-45)

Rates and FX:

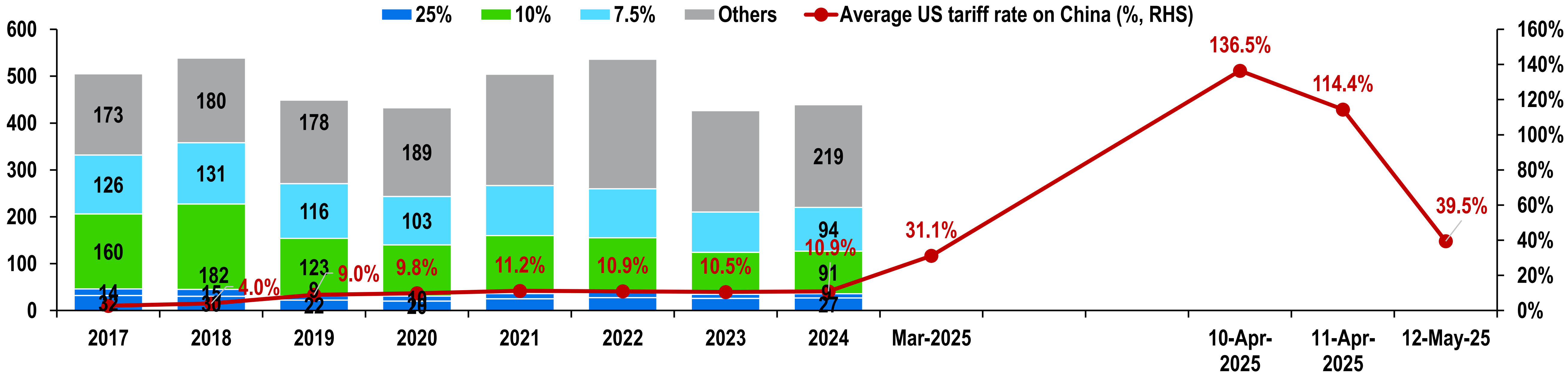
- CGB yield curve to bull flatten: Supply to stay strong in Q3 before easing in Q4; demand stays robust on weak loan growth, strong AUM growth (P46-60)
- CNY to weaken moderately: Exports may weaken after front-loading; USD vs CNY rates differential to stay wide or widen further; outbound investment to rise with the QDII quota approval resuming after a one-year pause; the exporter FX conversion ratio stayed at a record low YTD (P61-73)

Source: Standard Chartered Research

US-China trade war – Likely tough negotiations ahead
中美贸易战——未来谈判可能艰难

Average US tariffs on China imports have risen by 30ppt YTD to 40%, much higher than <10ppt during the last trade war

A summary of US tariff impositions on China imports: US imports from China, USD bn, US data (LHS); average US tariff rate, % (RHS)



Jul-18: List 1 (25%)
Aug-18: List 2 (25%)
Sep-18: List 3 (10%)

May-19: List 3 (25%)
Sep-19: List 4A (15%)
Phase-1 deal: Jan-20
Lists 4A (7.5%), 4B (0%)

1-Dec-18: Xi and Trump agreed a 90-day truce

15-Jan-20: Phase I trade deal was signed

Sep-24: 25-100% on USD 18bn goods (EV, batteries, chips, aluminium, etc.)

Feb/Mar-25: Fentanyl tariff (20%)

1 Feb-25: De minimis exemption revoked

5 Feb-25: Pause on closing of de minimis exemption

2-Apr: Reciprocal tariff (34%); Low-value goods duty (30%)

9-Apr-25: Reciprocal tariff (125%); Low-value goods duty (120%)

9-Apr-25: Lower RoW reciprocal tariff to 10% for 90 days

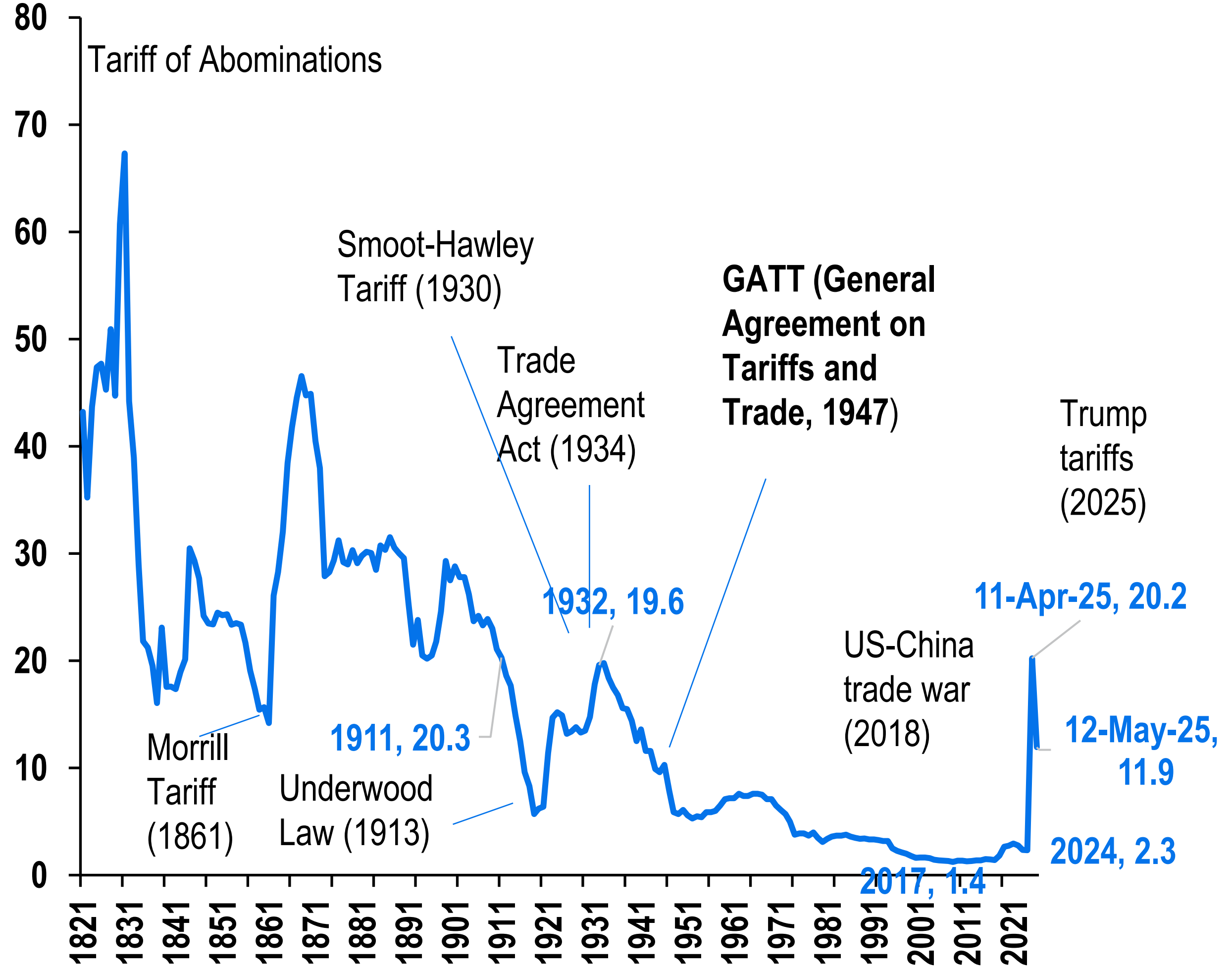
11-Apr-25: Electronics exemption (PC, smartphone)

12-May-25: Lower China reciprocal tariff to 10% (90-day)

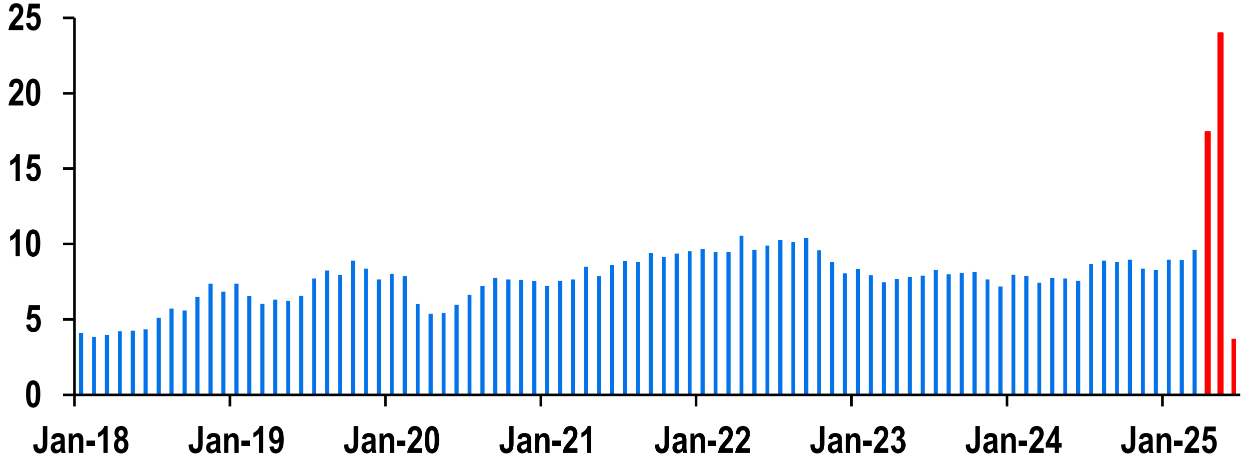
Source: USITC, Media reports, Standard Chartered Research

Outlook for Trump's global tariff imposition – Minimum 10% is likely to be maintained regardless
特朗普全球关税前景–美国将对别国征收至少 10% 的关税

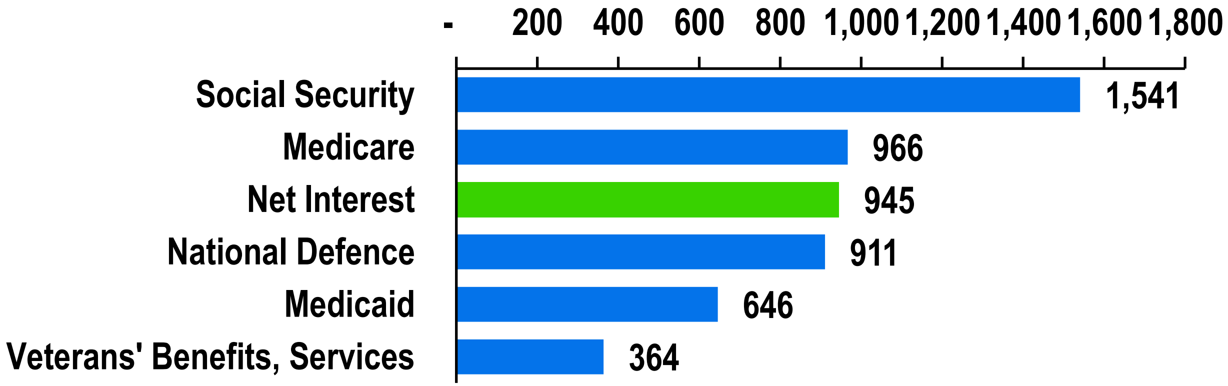
US import tariffs are at the highest since 1942
Average tariff of 11.9% as of 12 May = 2.3% (as of end-2024) + 9.6% (3.9ppt of reciprocal tariffs, 2.6ppt of fentanyl tariffs, 3.1ppt of sectoral tariffs)



US tariff income rose sharply after reciprocal tariffs
Monthly US tariff revenue, as of 16 June 2025 (USD bn)



Net interest payment has exceeded spending on national defence to become the third-largest spending item in the last 12 months *(Federal outlays: Jun-24 to May-25, USD bn)*



*In addition to reciprocal tariffs (ex-exemptions), we have considered 20% blanket tariffs on China and 25% sectoral tariffs on steel, aluminium, autos and auto parts
Source: Bloomberg, CBO, US Treasury, Standard Chartered Research

More than half of US imports from China are difficult to replace immediately
美国从中国进口的商品中，超半数短期内难以找到替代品

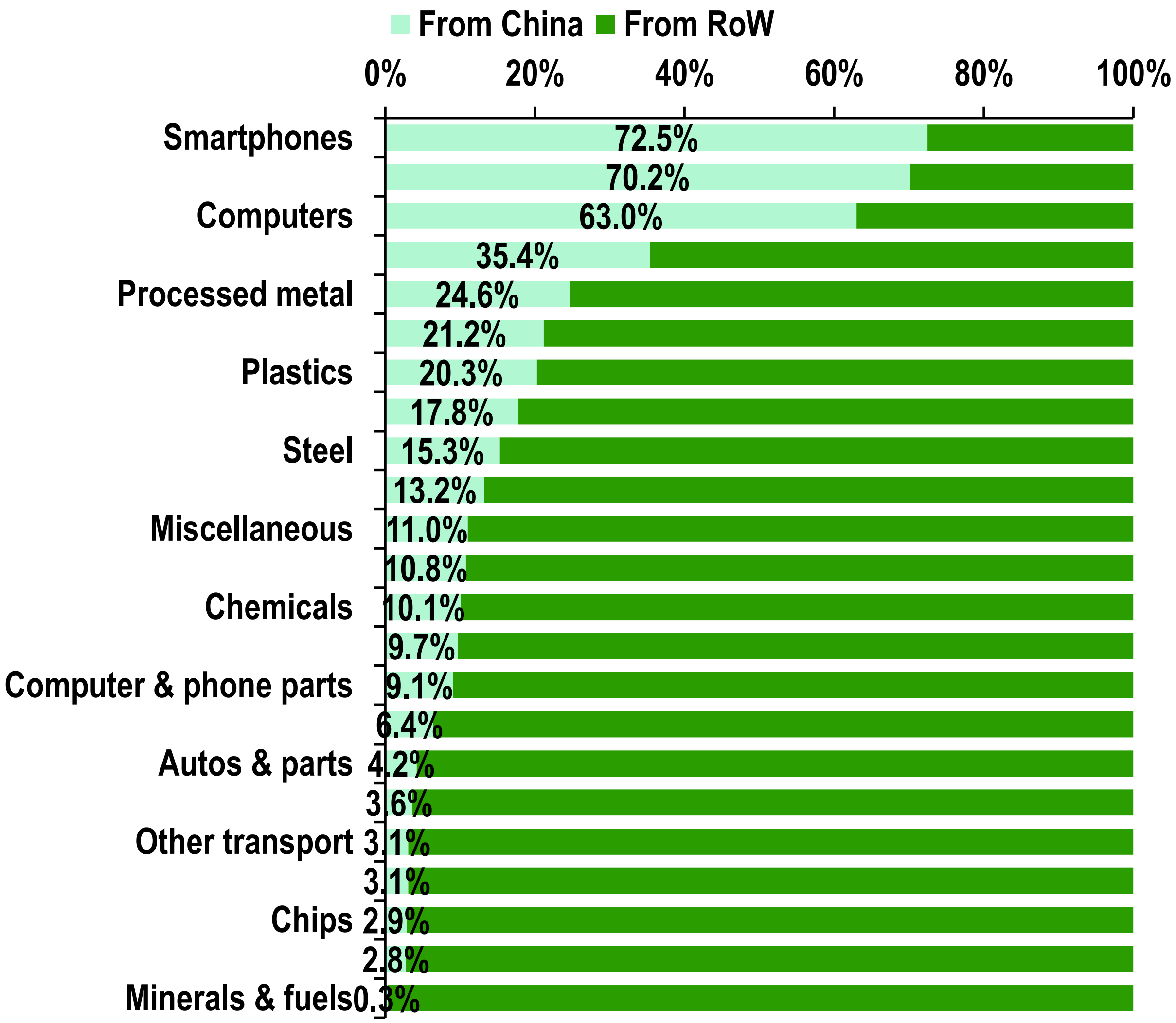
More than half of US imports from China are hard to replace immediately

(e.g., game consoles: 86%; PC monitors: 79%; toys: 76%; smartphones: 73%; lithium-ion batteries: 70%; laptops: 66%)

China's share of US imports by product category	Share of total US imports from China	2024 import value, USD bn
100%	0.1%	0.3
Above 90%	7.0%	32.3
Above 80%	24.1%	111.5
Above 70%	36.2%	167.5
Above 60%	49.4%	228.4
Above 50%	53.3%	246.8

US is most dependent on China in industrial goods

US imports by product, USITC, %, as of full-year 2024



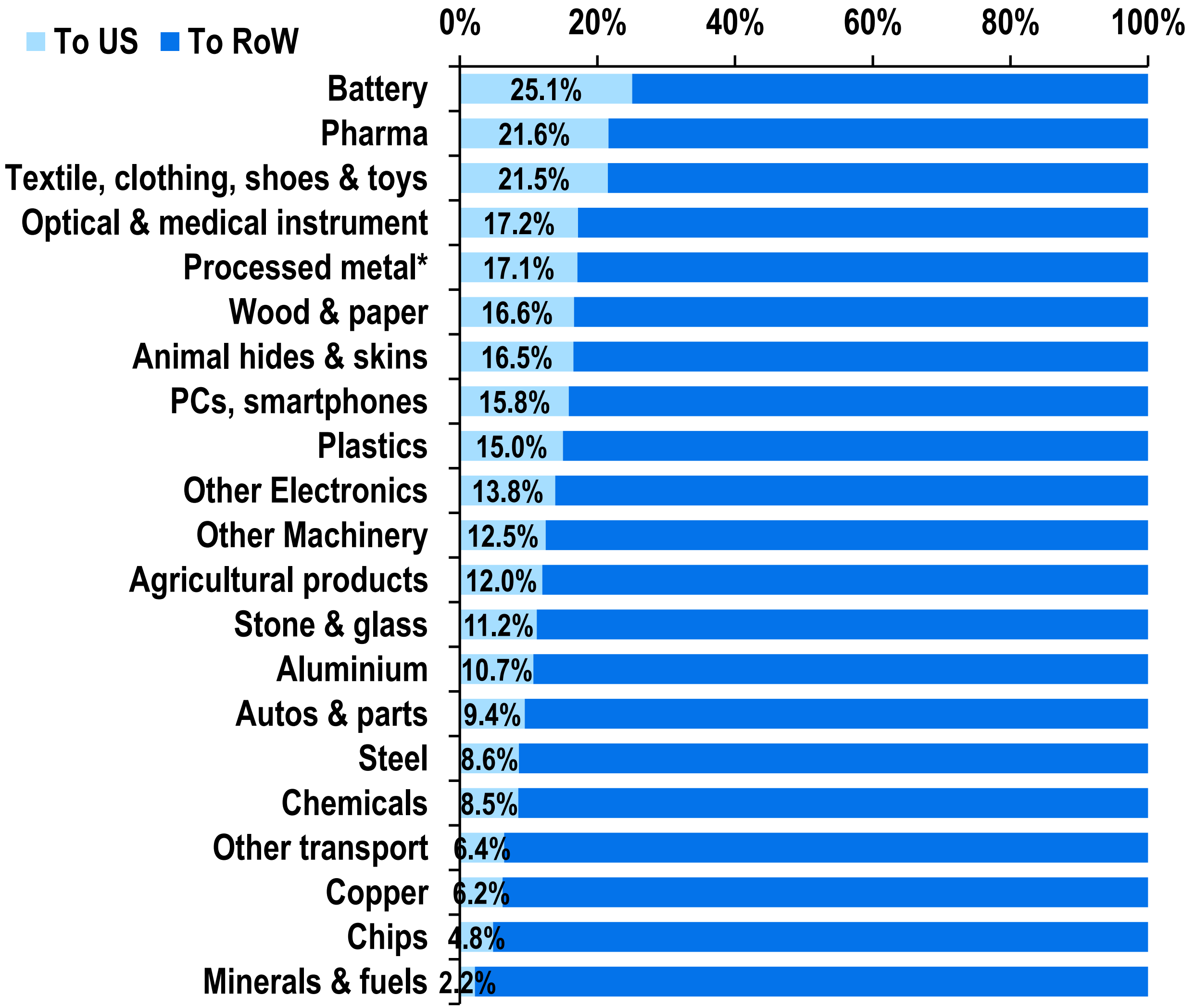
Source: USITC, Standard Chartered Research

China’s electronics products are more dependent on external demand than others
中国电子产品出口对外部需求的依赖程度高于其他产品

Exports and domestic consumption as a share of local production *(key export products, 2024 data)*

	CN exports to US value (USD bn)	% of CN total exports to US	Exports volume as % of production
Clothing	159.1	4.4%	21.3%
Smartphones	132.6	3.7%	46.9%**
Autos (including EV)	117.4	3.3%	18.7%
Computers	102.2	2.9%	39.6%
Home appliances*	100.1	2.8%	45.8%
Steel	68.2	1.9%	8.0%
Li-ion batteries	61.1	1.7%	13.3%
EVs	46.8	1.3%	10.0%
Aluminium	22.1	0.6%	9.6%
Fertiliser	8.7	0.2%	53.5%

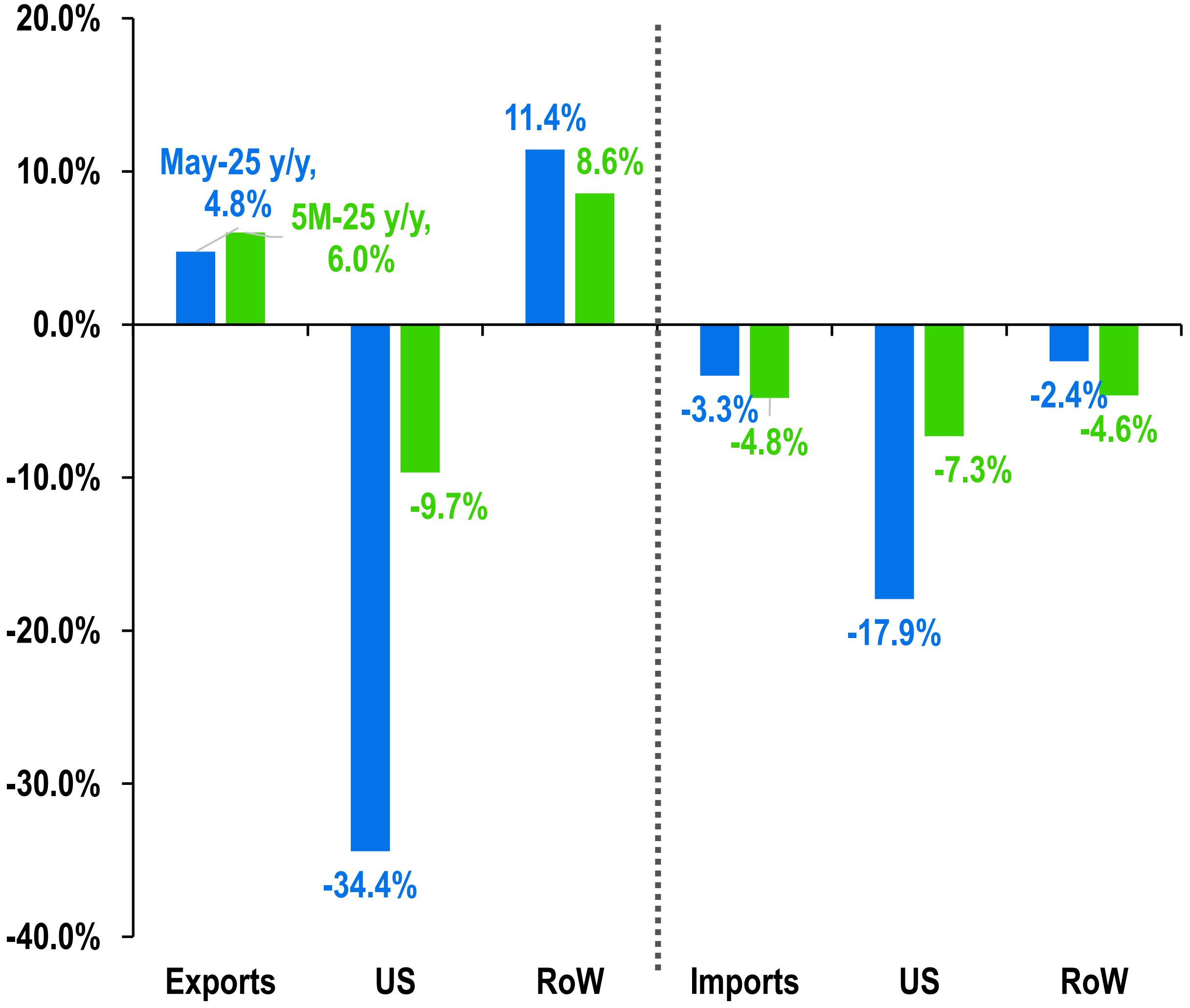
US accounts for a larger share of industrial goods from China
% of 2024 total exports, China customs data



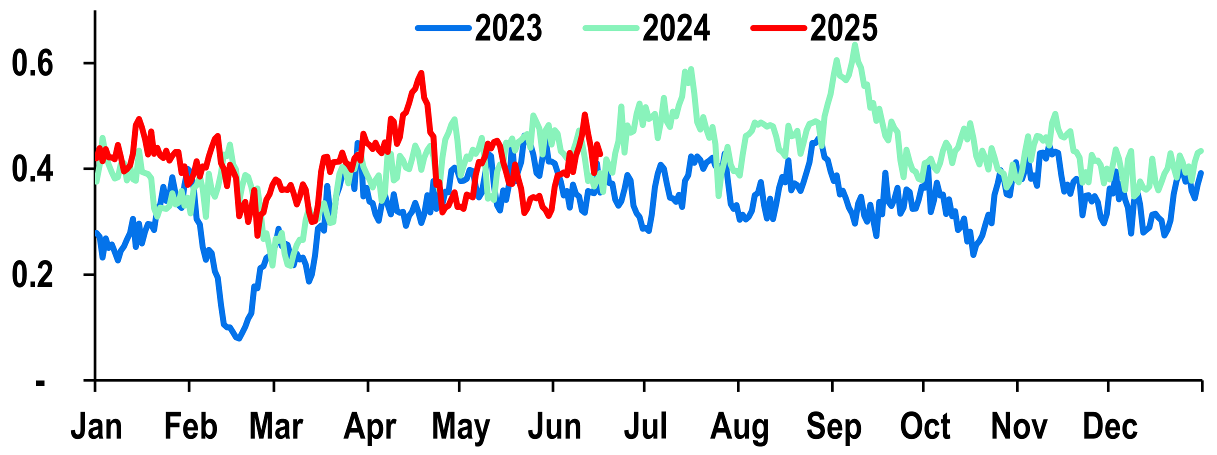
*Note: Home appliances: major products such as TVs, refrigerators, air conditioners, laundry machines are included in this calculation
**Note: 57% of China’s 2023 smartphone exports were iPhones
Source: China customs, media reports, Standard Chartered Research

China's exports after reciprocal tariffs – RoW gains more than offset US decline
对等关税后的中国出口——世界其他地区的增长足以抵消美国的下降

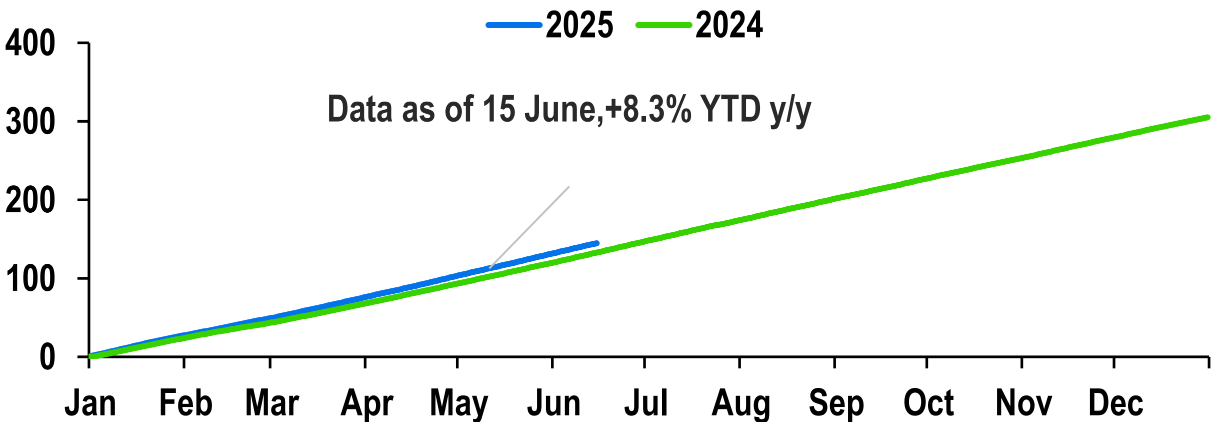
China's exports rose 4.8% y/y in May 2025; shipments to the US fell 34.4% y/y, while those to RoW rose 11.4% y/y



Vessels departing from China to US have rebounded since late May *(up to 17-Jun-25, 15-day rolling sum, mn TEU)*



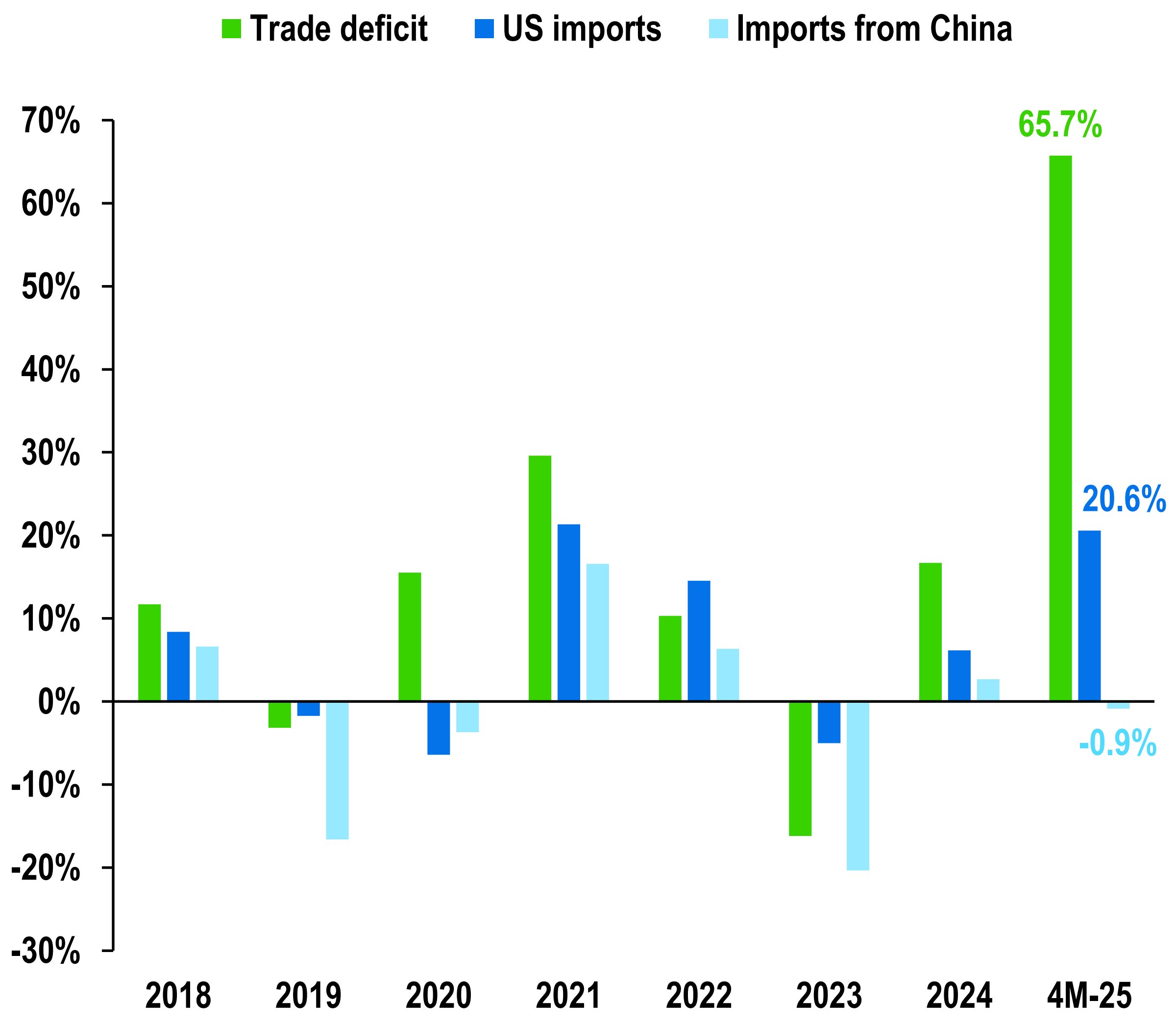
China port container throughput has risen 8.3% y/y YTD, as of 15 June *(mn TEU)*



Source: China Customs, Ministry of Transport, Bloomberg, Standard Chartered Research

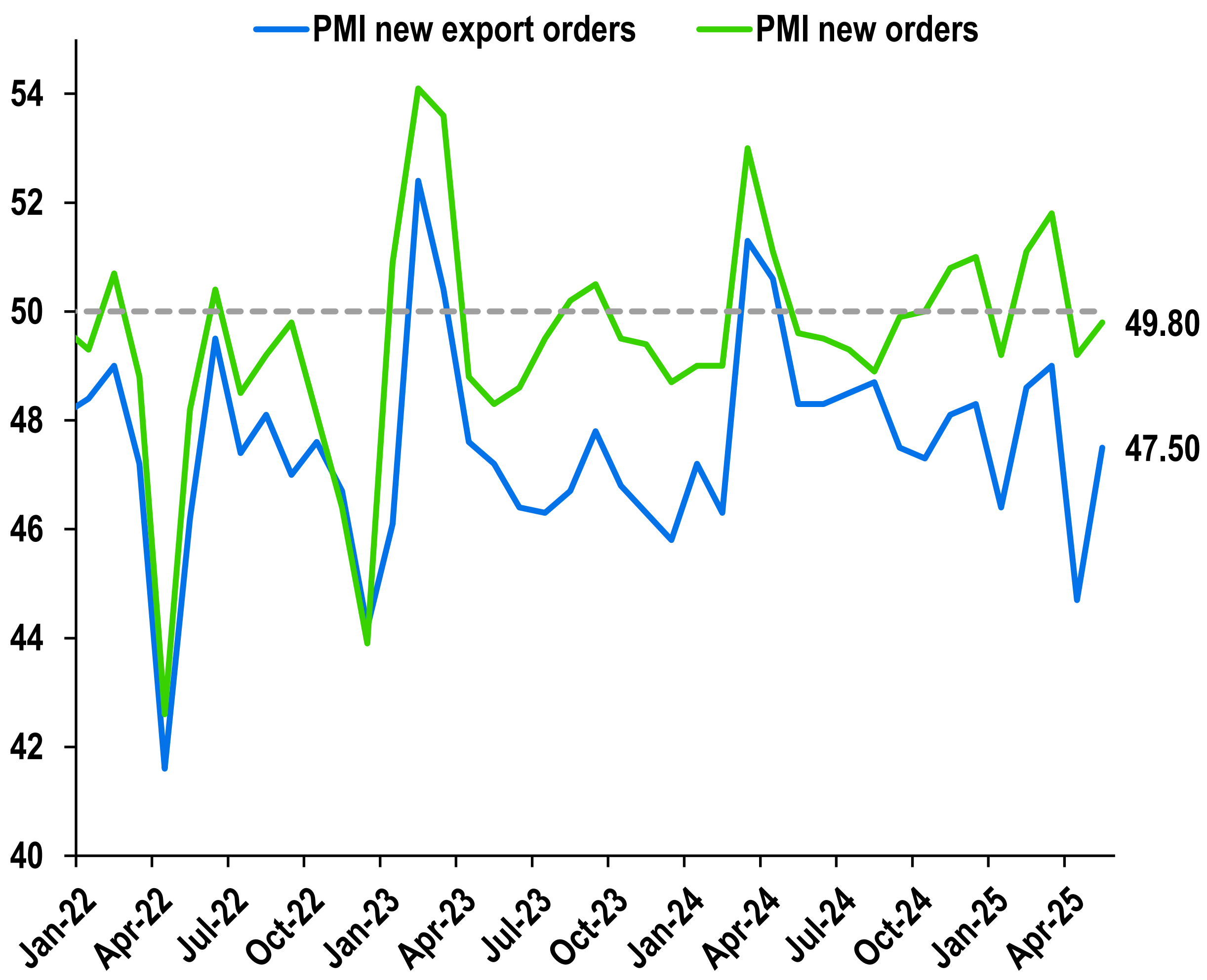
But front-loaded US imports suggest possibly weaker momentum ahead
但美国进口提前加速，意味着未来的增长动能可能较弱

US imports have been front-loaded, up 21% in 4M-2025, suggesting possibly slower imports ahead



China PMI new export orders index has weakened

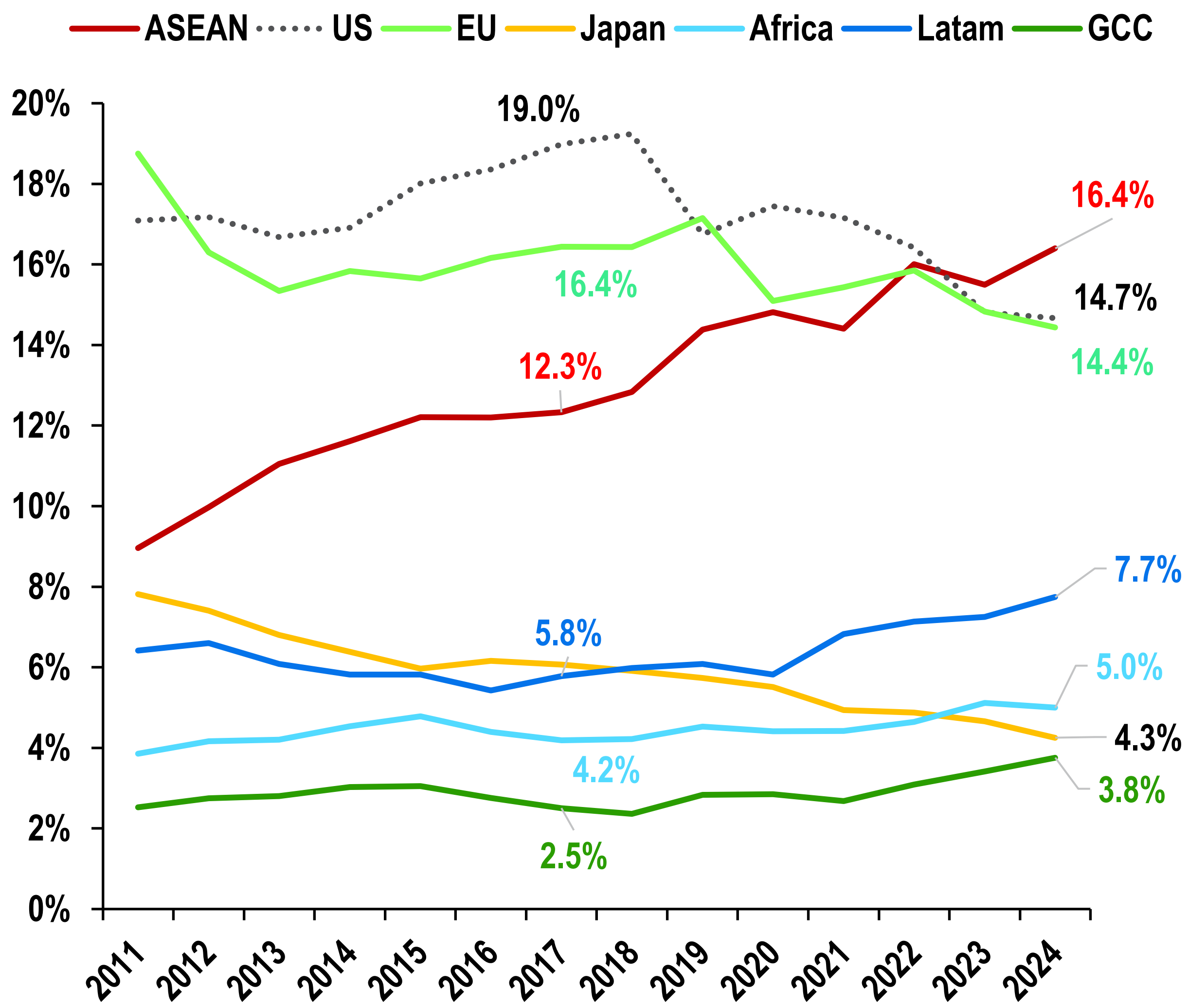
Sub-indices of China PMI manufacturing



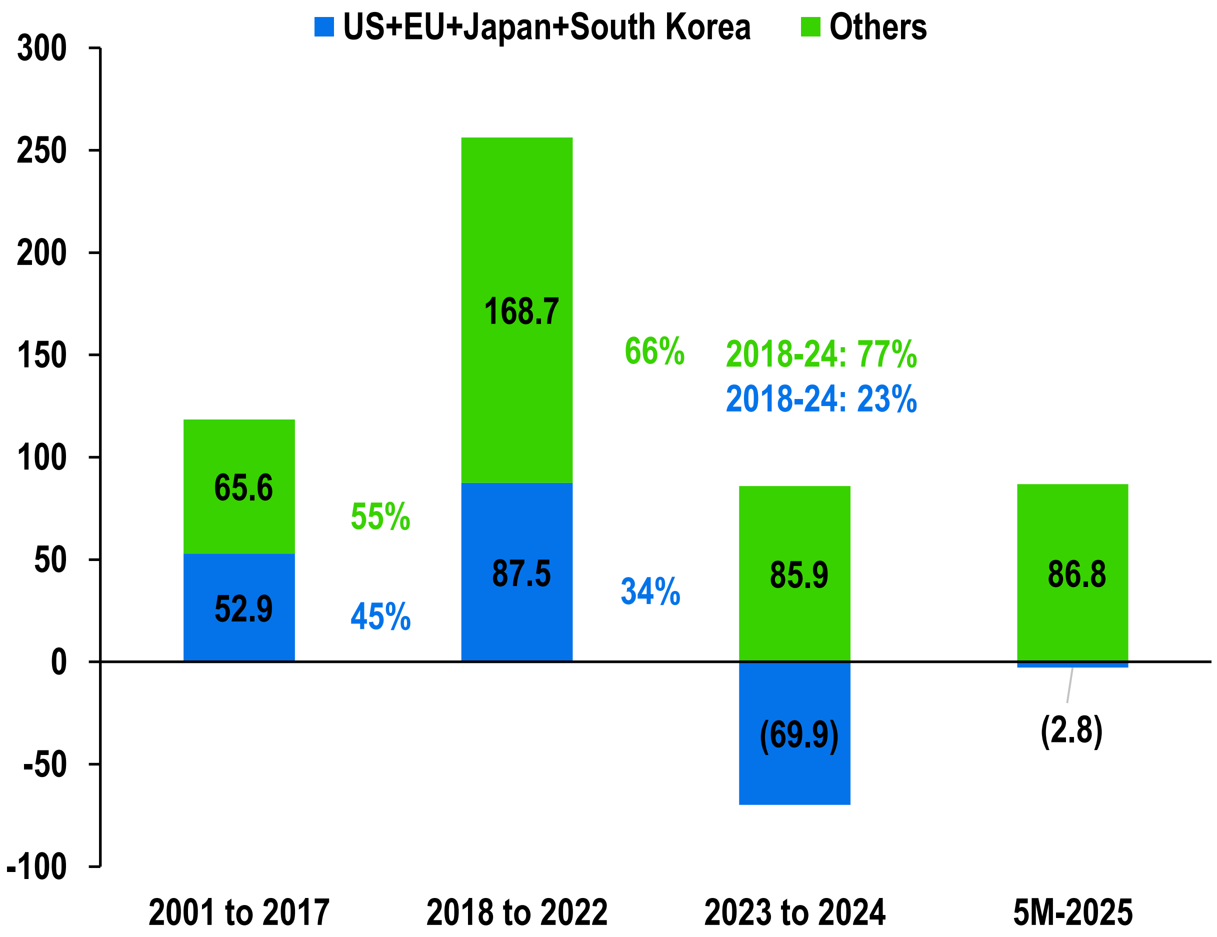
Source: Bloomberg, Standard Chartered Research

China to further accelerate the diversification of trade partners
中国未来将进一步加快贸易伙伴多元化

China’s exports by destination
Share of China’s total exports, annual, %



More than 100% of China's export growth has come from non-US and US allies YTD
Average change per annum for 2001-24; change in 5M-2025 (USD bn); share of total export growth (%)



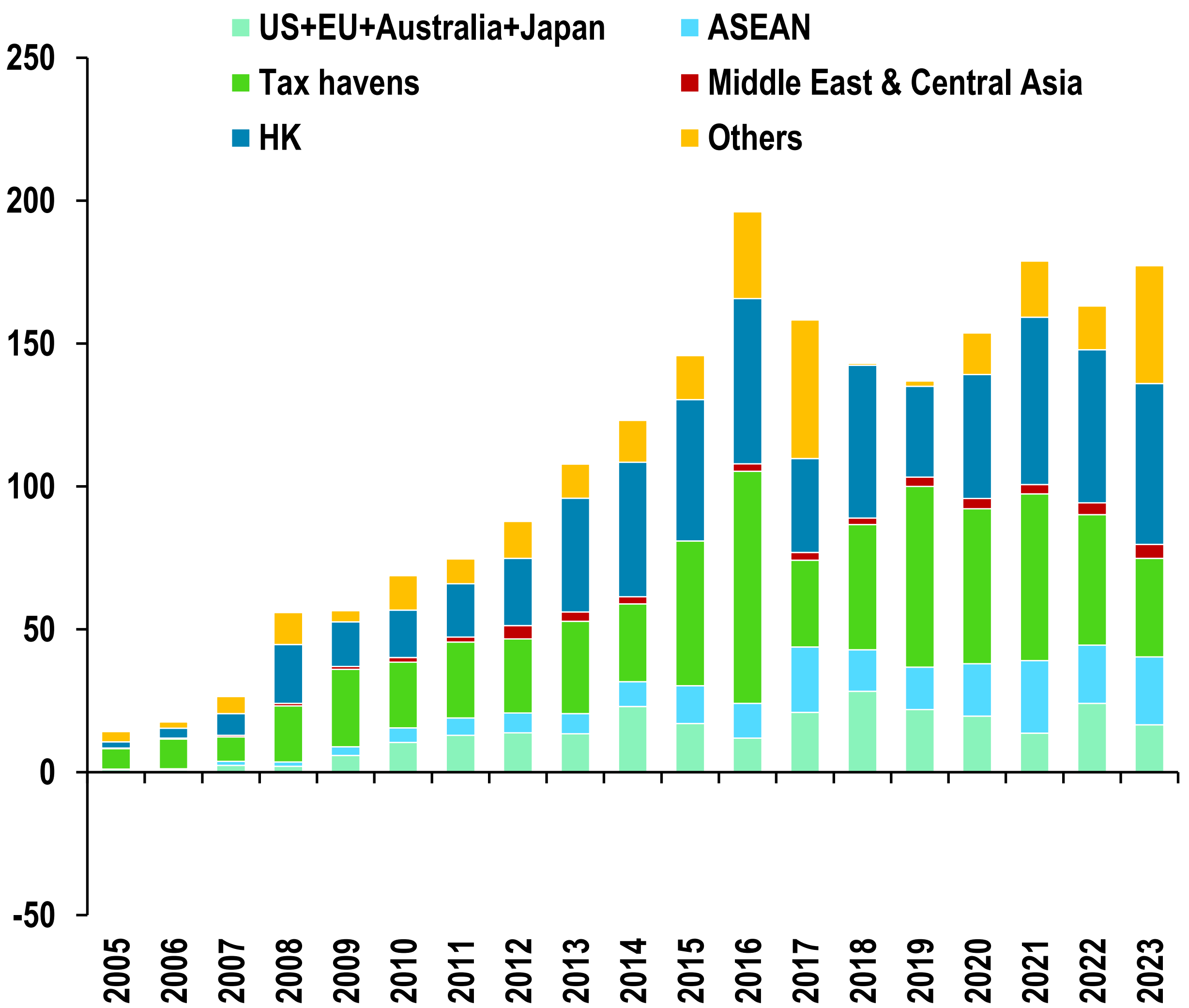
Source: China Customs, IMF, Wind, Standard Chartered Research

China's focus has been to forge closer economic and trade ties with RoW amid US tension
在中美关系紧张的情况下，中国的重点是与世界其他地区建立更紧密的经贸关系

China stepping up collaborations with RoW

Date	Region or country	Details
From 14-Apr to 18-Apr	ASEAN	State visits by President Xi to strengthen trade ties with ASEAN
	Vietnam	•Reaffirmed commitments to closer ties, broader cooperation •Agreed to enhance supply chain, cooperation over railways, etc.
	Cambodia	•Upgraded diplomatic ties to 'all-weather community of shared future in the new era' •Pledged to deepen traditional ties, expand cooperation
	Malaysia	•Pledged to build a high-level strategic Malaysia-China community with a shared future •Deepening economic cooperation in four areas: digital, green, blue, and tourism
From 10-May to 14-May	Brazil	State visit by Brazilian president •Signed 20 agreements on agricultural and ethanol imports •Agreed to increase investment in Brazil's mining and transportation sectors •Deepening collaboration on AI, climate, agriculture sectors
21-May-25	ASEAN	•Completed the Version 3.0 China-ASEAN Free-Trade Area negotiation •Agreed to enhance digital economy and supply chain connectivity •Relaxed visa policy for business purpose
25-May-25	LATAM	•Extended visa-free policy to five LATAM nations since 1 June •Deepening cooperation in infrastructure, agriculture, energy, mining, etc.
25-May-25	Indonesia	•Extended local currency settlements cooperation to all capital and financial accounts
27-May-25	GCC	•Extended visa-free policy to four more GCC nations since 9 June •Called for deeper cooperation among GCC, China, and ASEAN
28-May-25	UAE	•Agreed to set up a RMB clearing hub in the UAE, the second in GCC
3-Jun-25	EU	•Final stage negotiation on China EV imports
11-Jun-25	Africa	•China notified the WTO that it will expand its zero-tariff policy for the least-developed countries to cover 53 African countries from 33

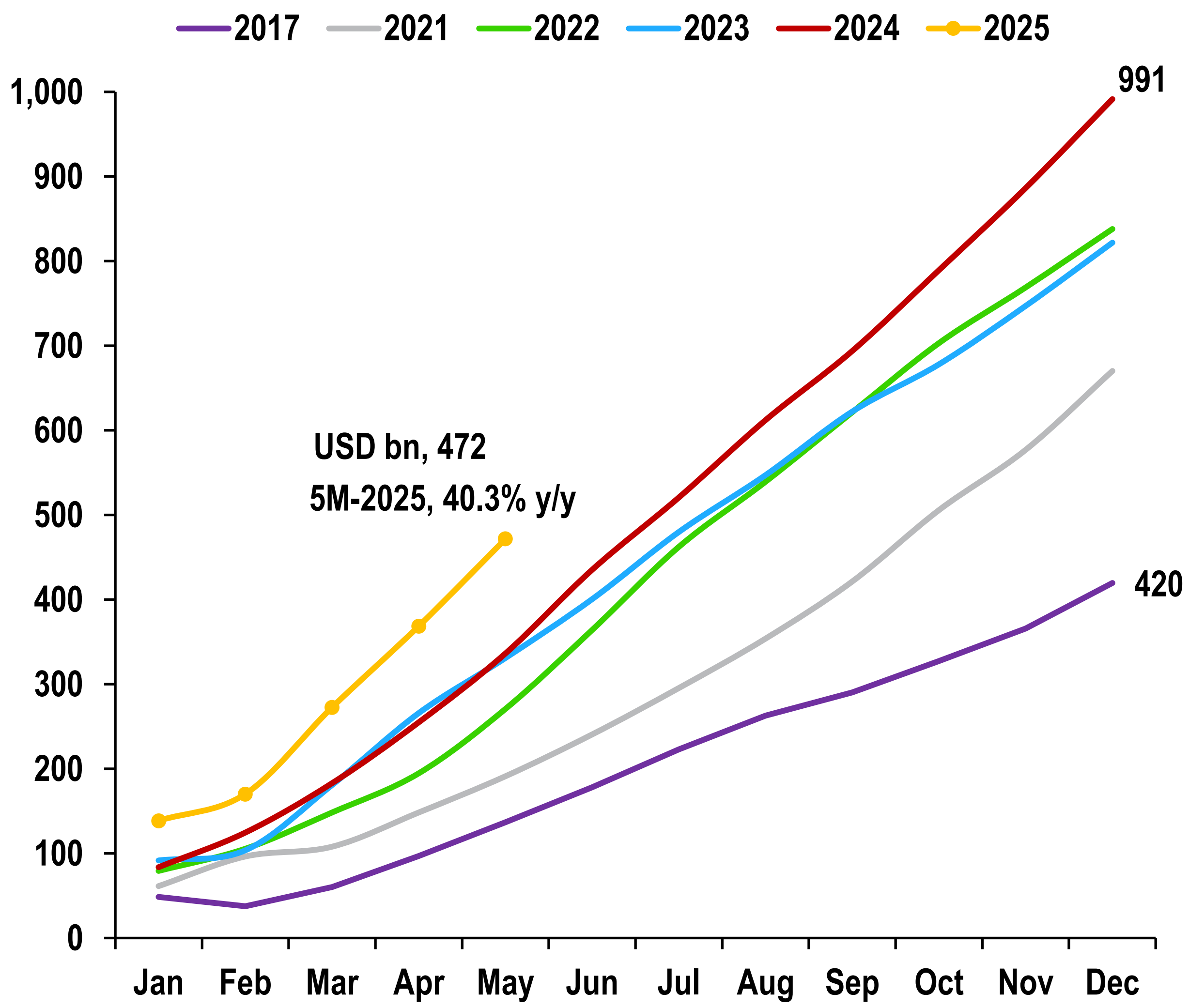
Historical ODI breakdown by region *(CNY bn)*



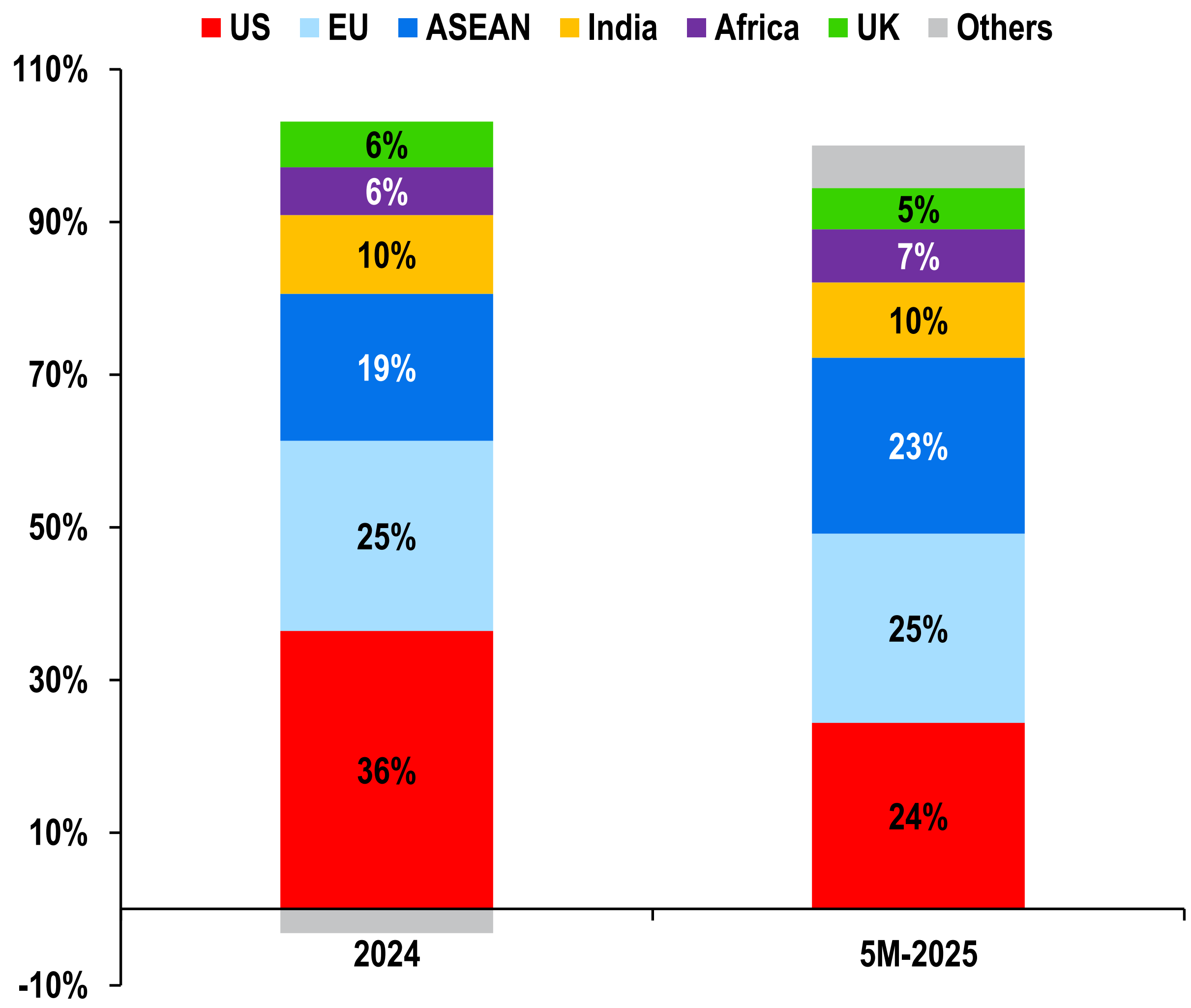
Source: Wind, Standard Chartered Research

China's trade surplus has increased significantly despite smaller contribution from the US
中国贸易顺差大幅增加，尽管对美贸易顺差有所收窄

The trade surplus reached a record high, +40% y/y in 5M-2025 *(China trade surplus, cumulative by year, USD bn)*



Share of US in China's total trade surplus declined meaningfully to 24% in 5M-2025 from 36% in 2024
China trade surplus breakdown among major regions, %

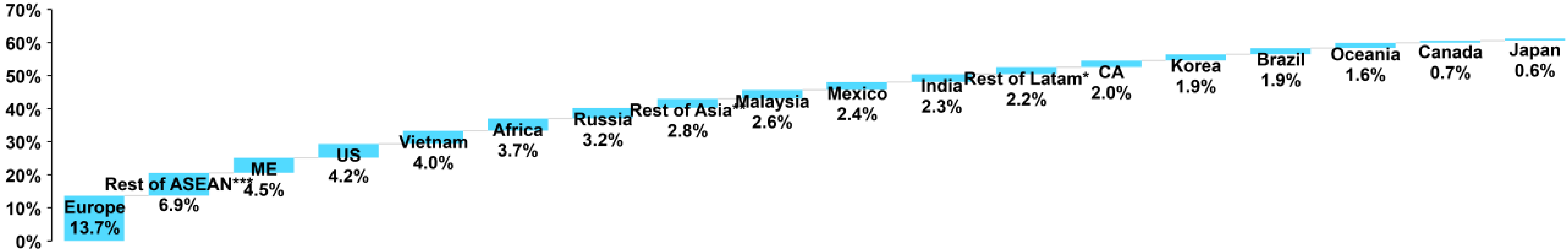


Source: Bloomberg, Standard Chartered Research

China's trade growth has been driven by regions outside US and traditional US allies since 2018
自 2018 年以来，中国贸易增长主要由美国及其传统盟友以外的地区驱动

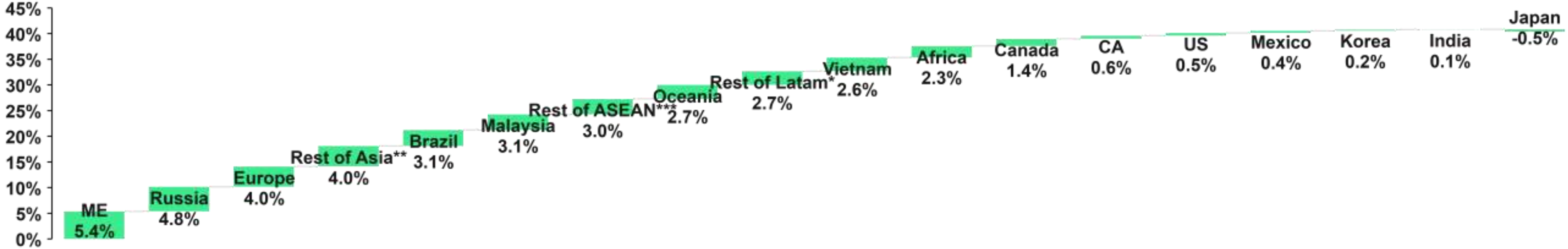
Exports increased 58% from 2017-24, led by Europe and ASEAN

Contributions to China's exports over 2017-24; breakdown by economies, calculated in USD terms



Imports increased 40% over 2017-24, led by the Middle East and Russia

Contributions to China's imports from 2017-24; breakdown by economies, calculated in USD terms



* Rest of Latam = Latin America excluding Brazil and Mexico

** Rest of Asia = Asia excluding CA, ME, ASEAN and Japan, Korea and India

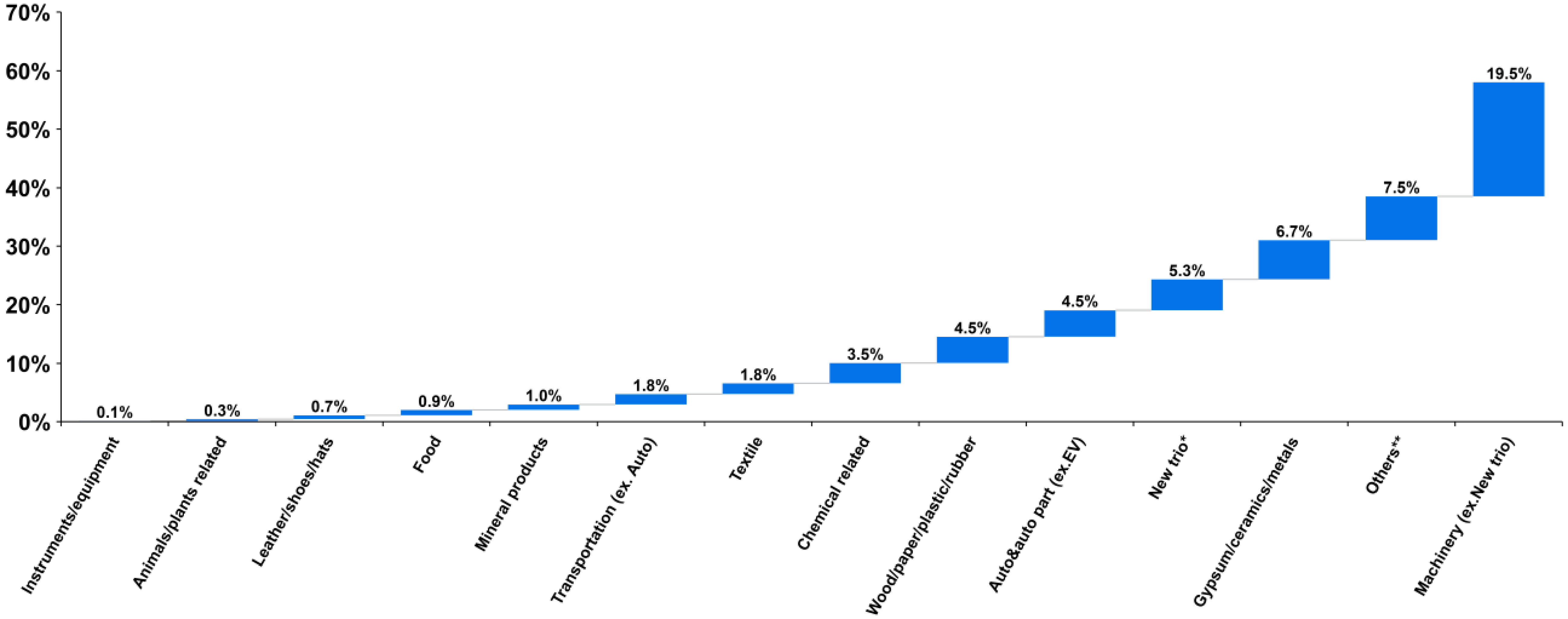
*** Rest of ASEAN = ASEAN excluding Vietnam and Malaysia

Source: China Custom, Standard Chartered Research

China's export growth has been driven by industrial upgrades since 2018
2018年以来，中国出口增长主要由产业升级推动

Exports increased 58% over 2017-24, led by machinery, 'new trio' and auto

Contributions to China's exports, 2017-24; breakdown by products



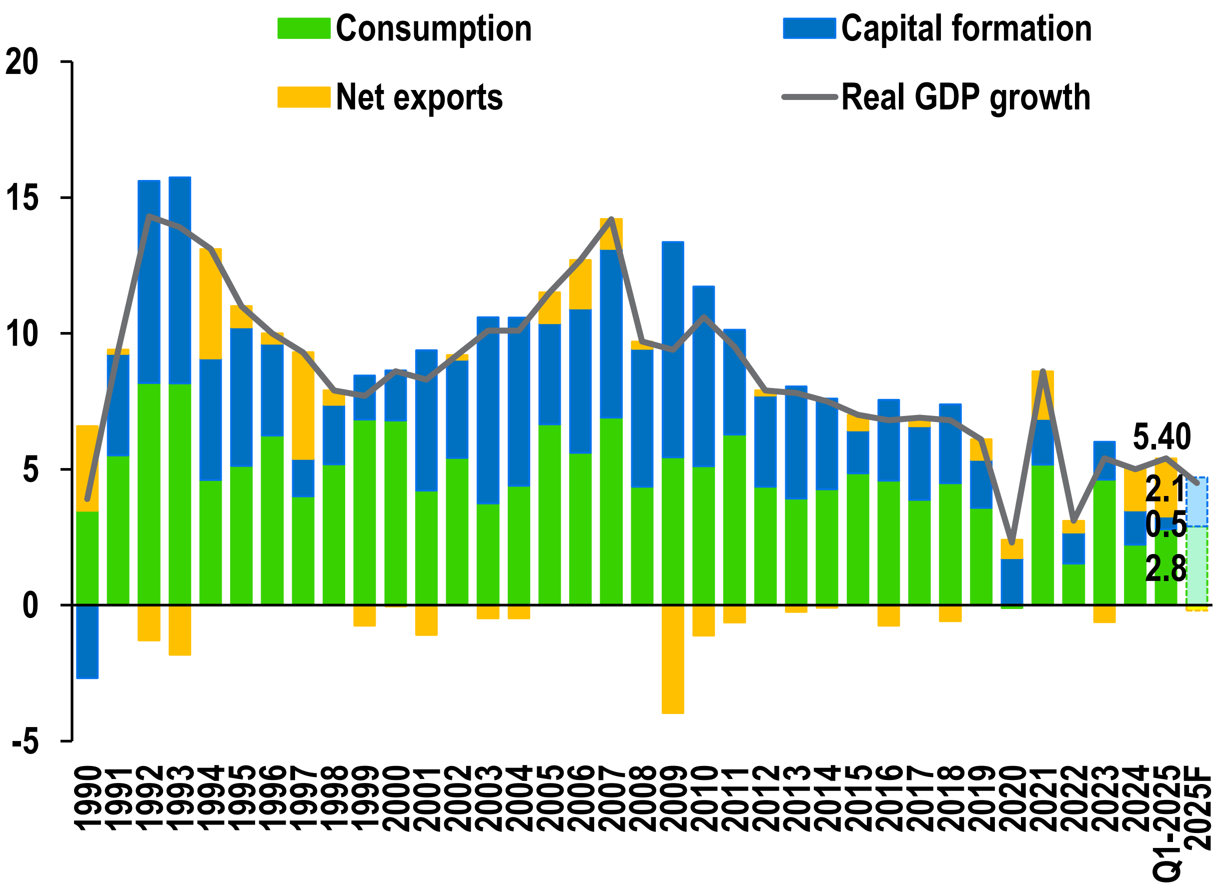
*New trio includes EV, solar cell and lithium battery; ** Others include weapons, ammunition, miscellaneous manufactured articles, artworks, collectibles, antiques, unclassified products.

Source: China Customs, Wind, Standard Chartered Research

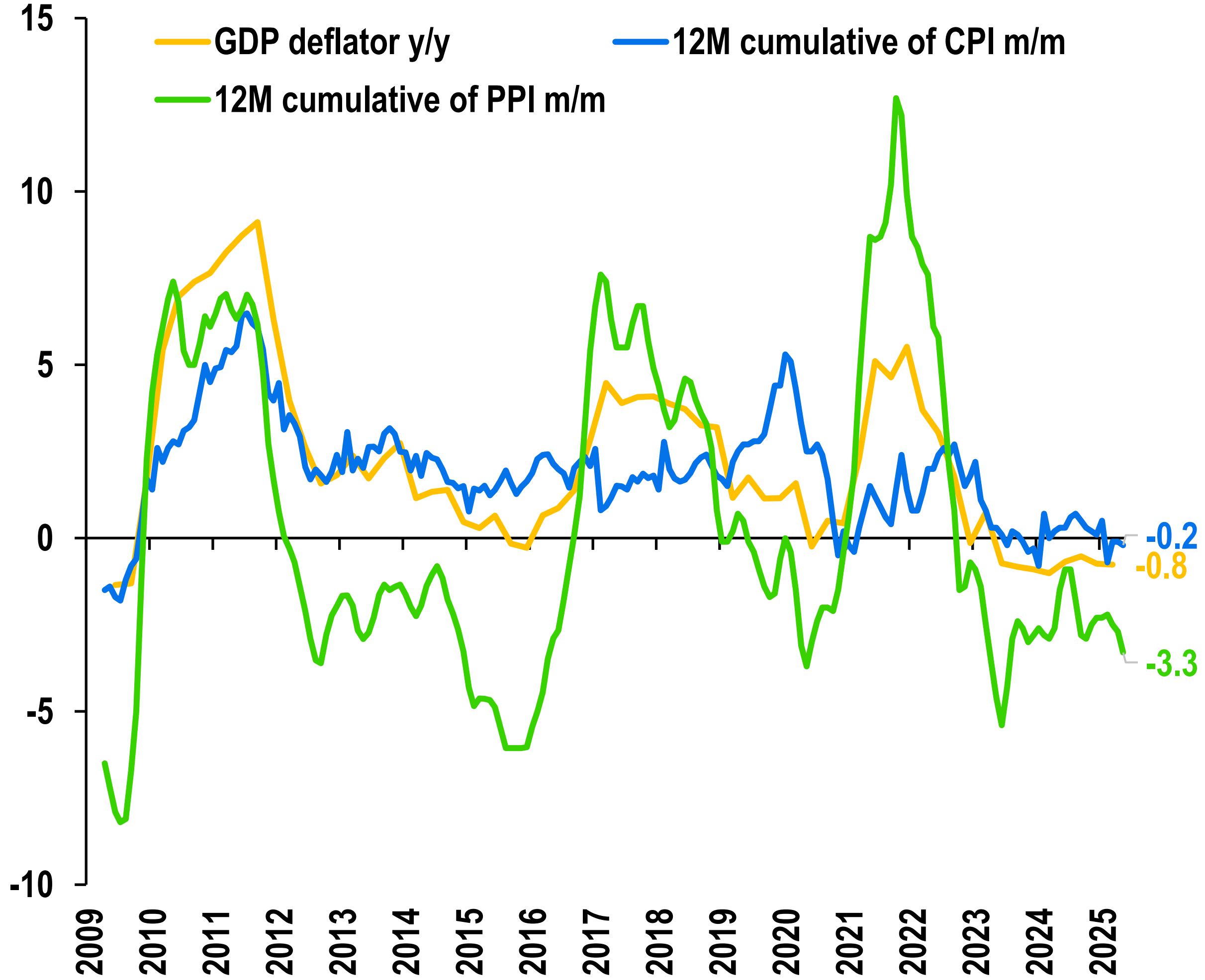
Macro outlook

China's growth may moderate in H2, deflationary pressure likely to deepen
中国增长恐在下半年放缓，通货紧缩压力加剧

China GDP will likely exceed 5.0% in H1 but could slow to sub-5.0% in H2 (consensus: 4.4% for Q3; 4.0% for Q4)
Consumption contributed 51.7% (+2.8ppt) to Q1 economic growth, following by net exports at 39.5% (+2.1ppt), and investment at 8.7% (+0.5ppt); contributions to GDP, ppt



Deflationary pressure likely to deepen in H2; GDP deflator fell to -0.8% in Q1 from -0.7% in 2024 (the lowest since 1999), with both CPI and PPI inflation declining further in Q2 *(%)*

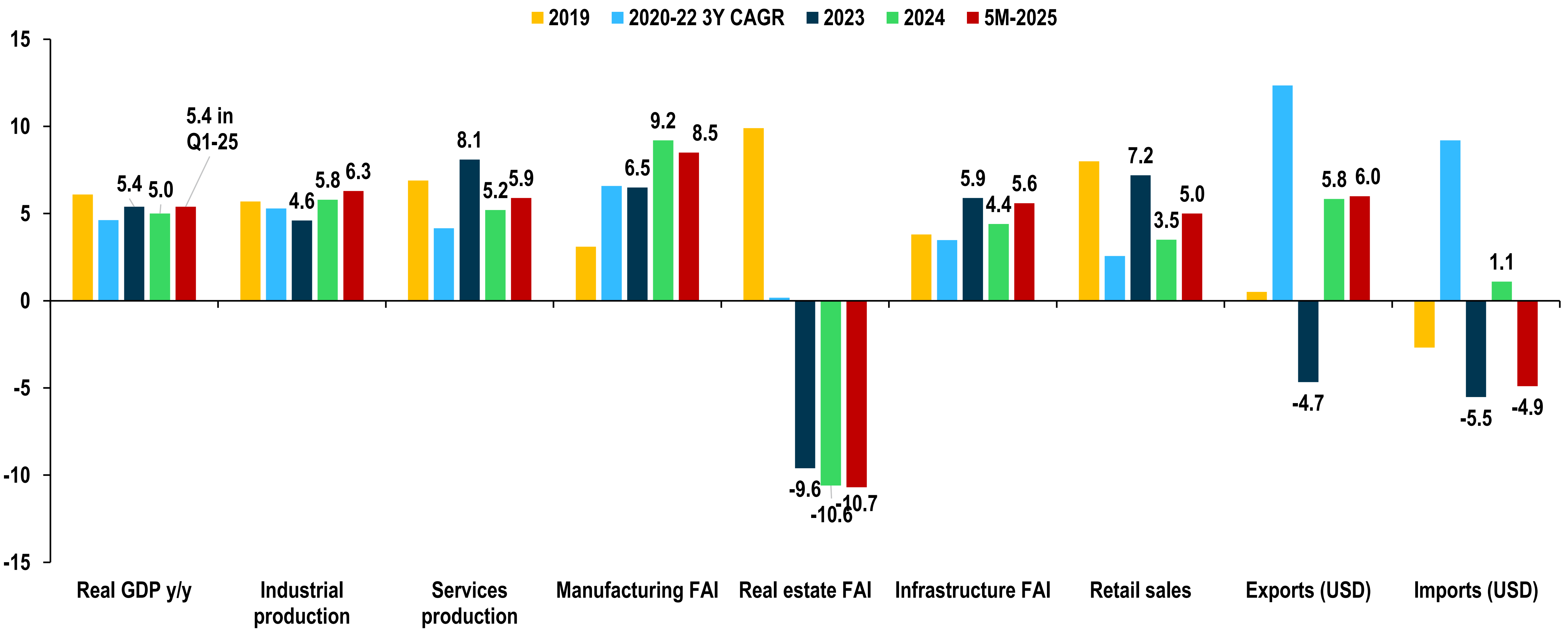


Source: Wind, Standard Chartered Research

Economic growth was strong in 5M-2025 with broad-based improvements
2025年前五个月，经济增长表现强劲，指标普遍改善

Broad-based improvements across production, consumption and export activity; the drag from the real-estate sector narrowed

Key economic indicators, %, YTD y/y

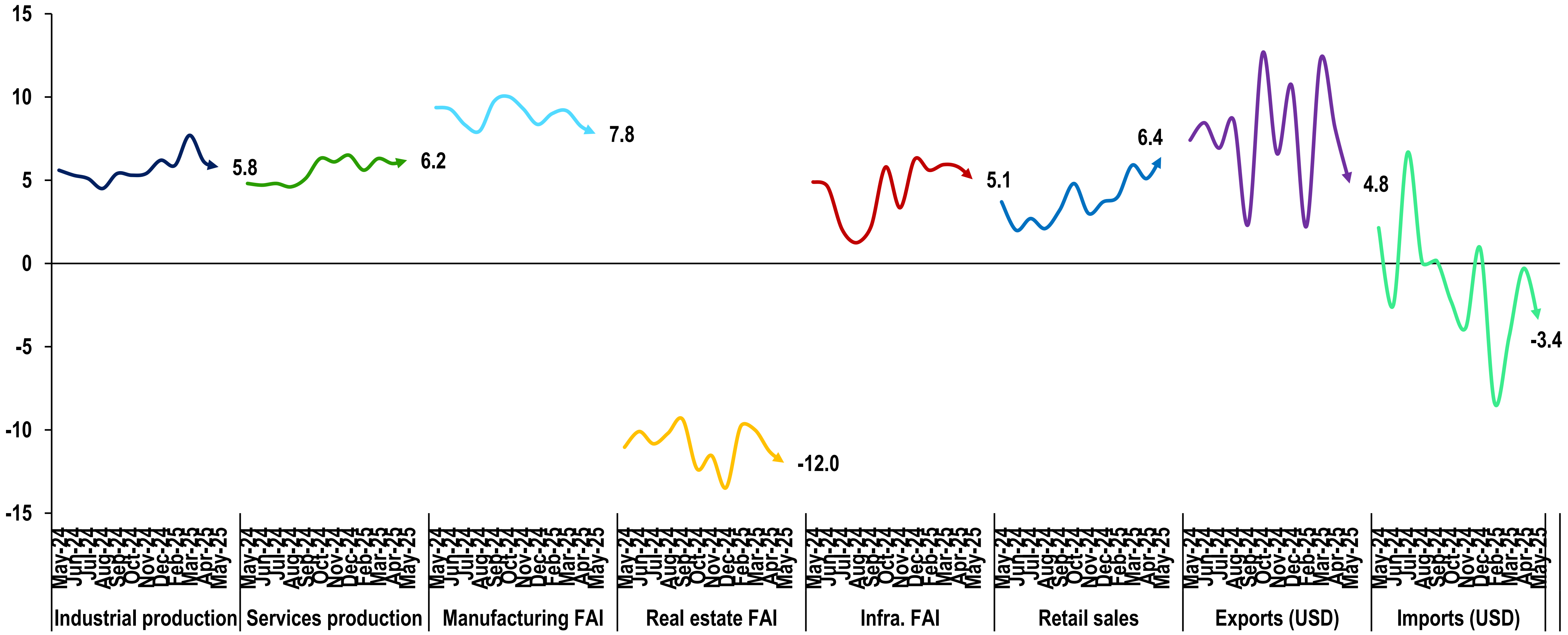


Source: Wind, Standard Chartered Research

Front-loading of fiscal spending and exports supported IP, retail sales; real-estate showed renewed weakness

财政支出和出口前置支撑了工业生产和零售销售；但房地产市场再次出现了疲软

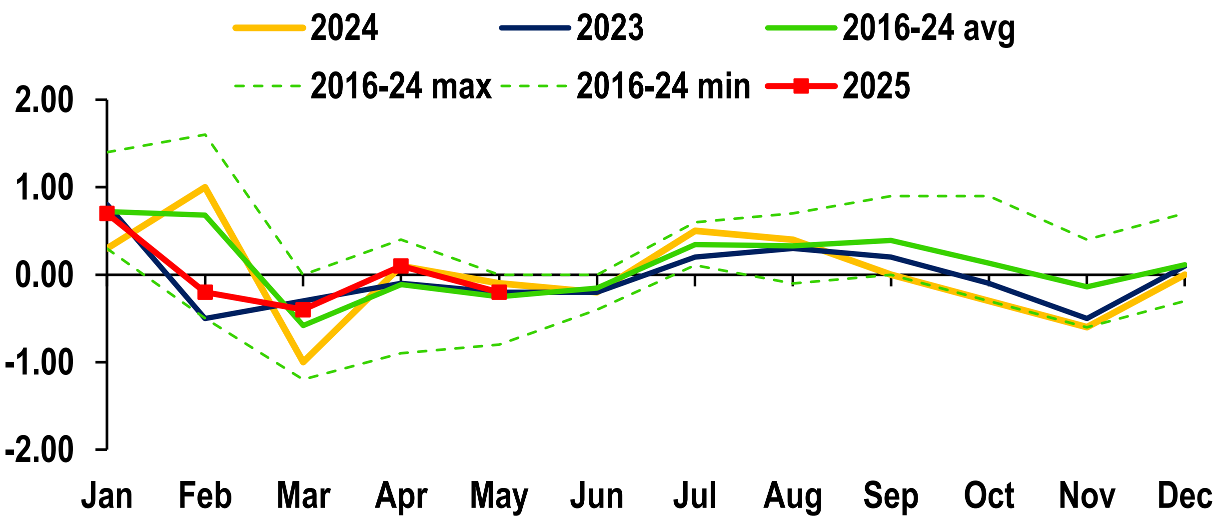
Key economic indicators of China *(y/y %, as of May 2025)*



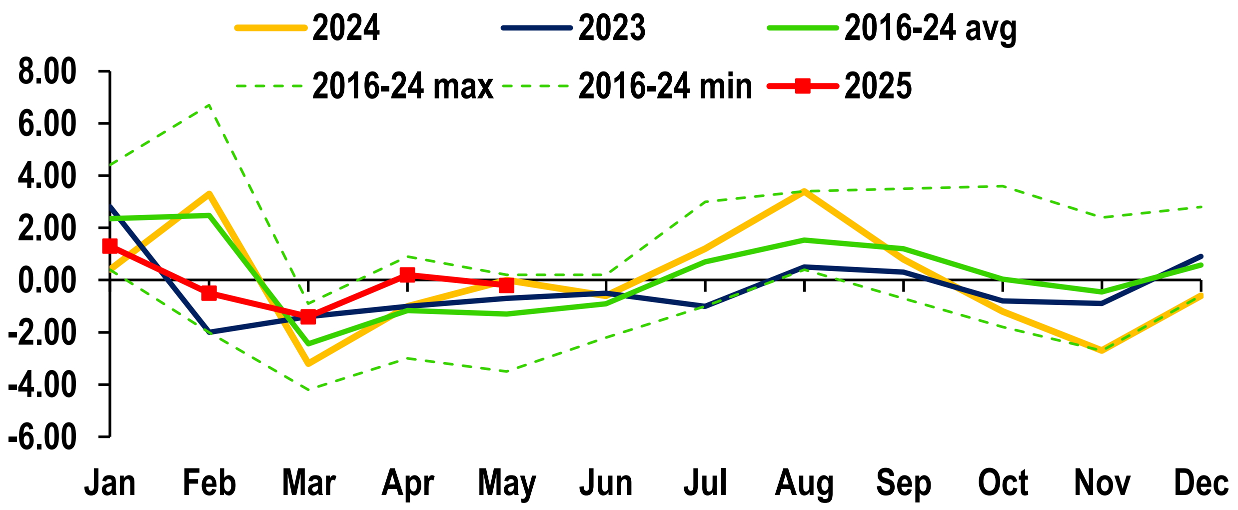
Source: Wind, Standard Chartered Research

CPI inflation – Non-food inflation to remain a key drag
CPI通胀——非食品价格依然形成拖累

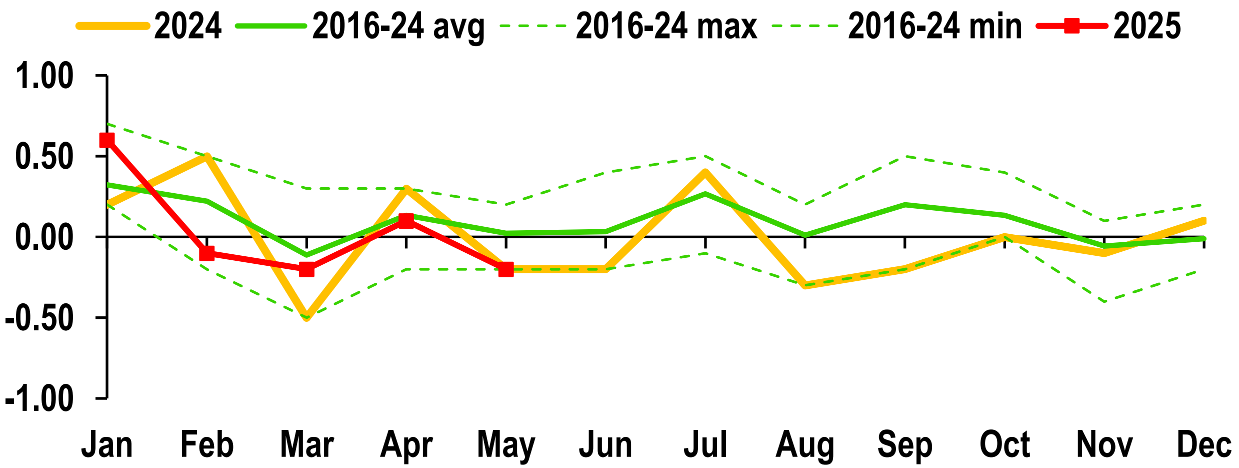
Headline CPI m/m (%)



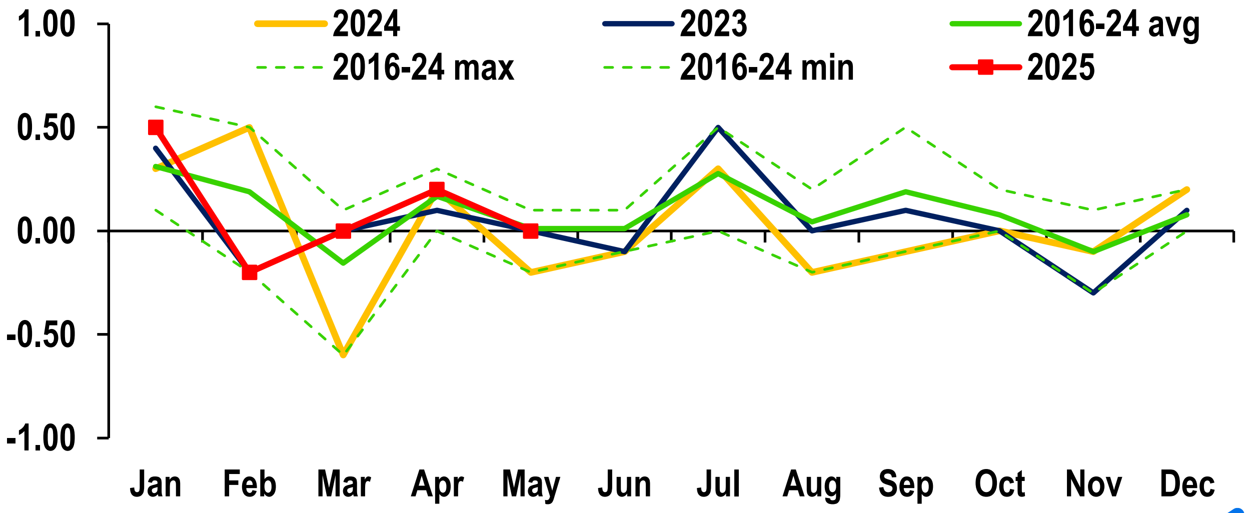
Food CPI m/m (%)



Non-food CPI m/m (%)



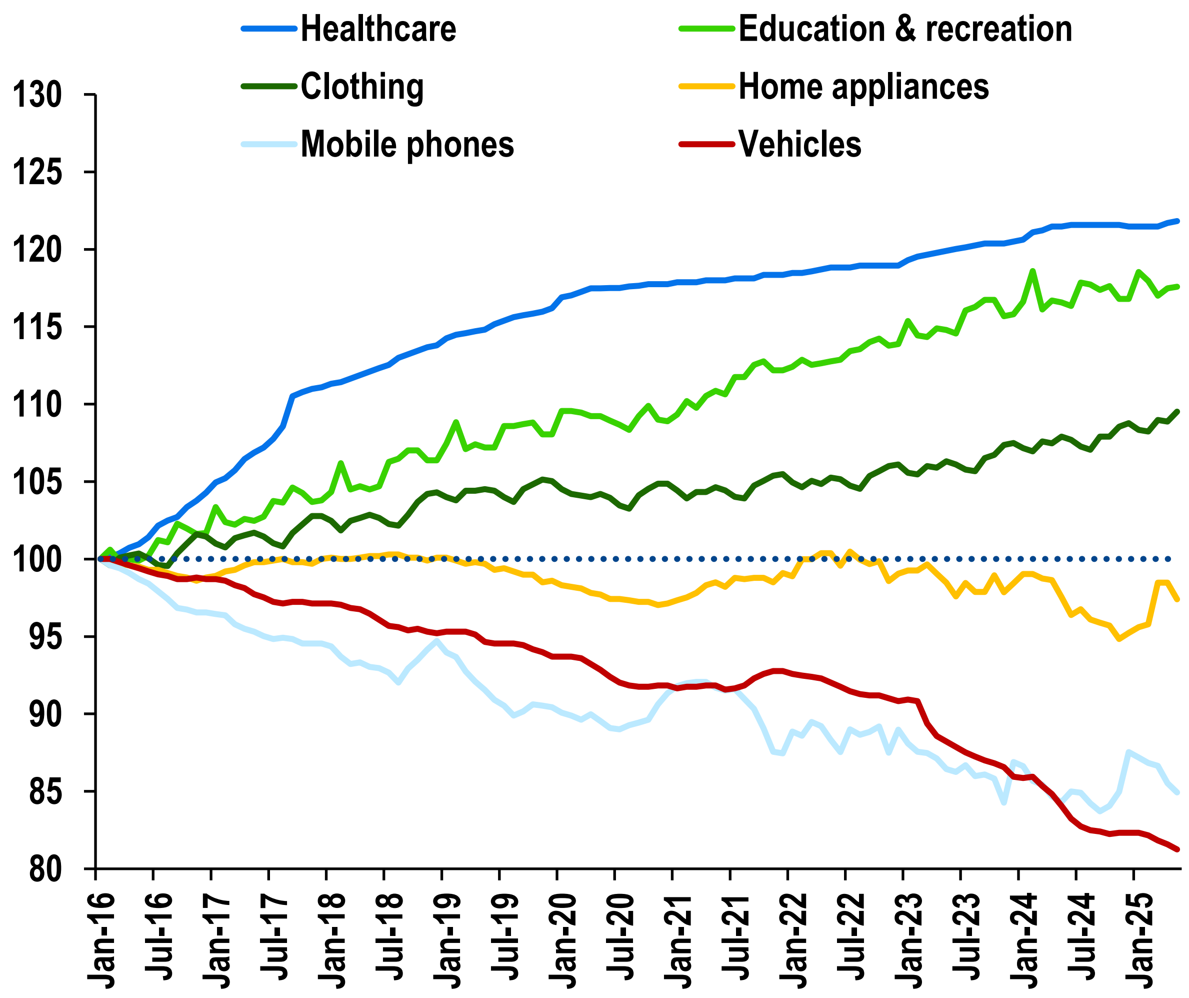
Core CPI m/m (%)



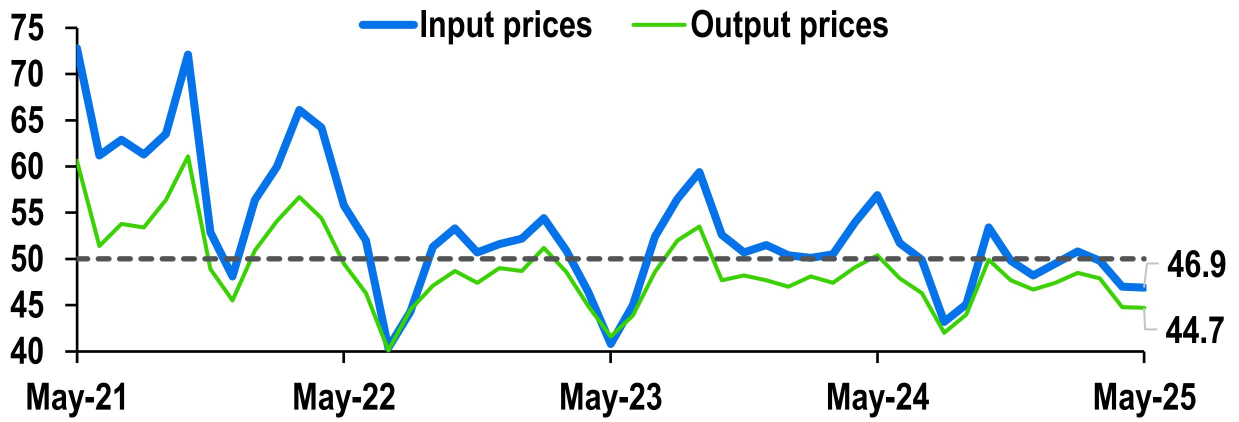
Source: Wind, Standard Chartered Research

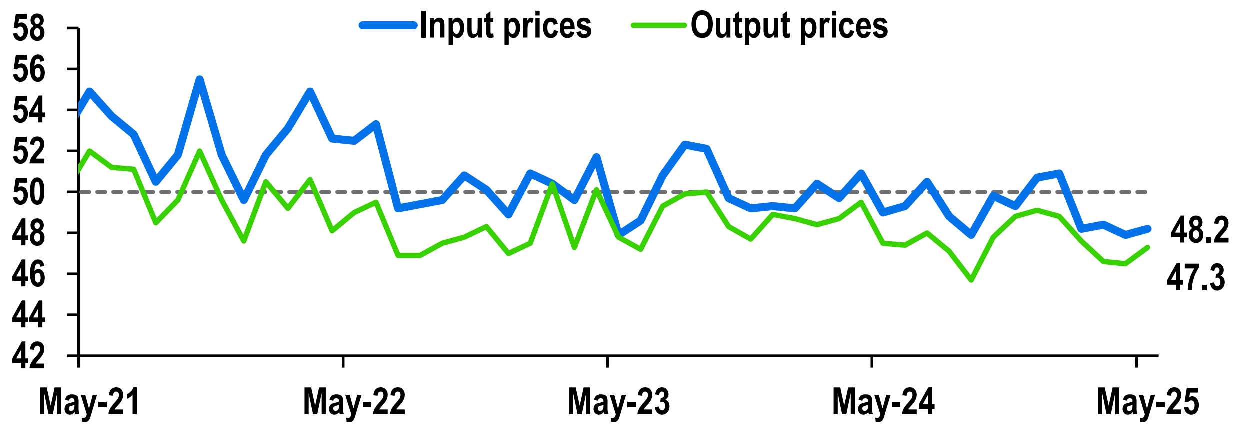
Price pressure has been led by industrial goods
价格下行的压力主来源于工业品

Industrial goods have been leading the price decline
NBS seasonally adjusted price index Jan-2016=100



PMI price sub-indices point to further deflationary pressure in both manufacturing and services sectors
Top chart: price sub-indices of manufacturing PMI;
Bottom chart: price sub-indices of service PMI

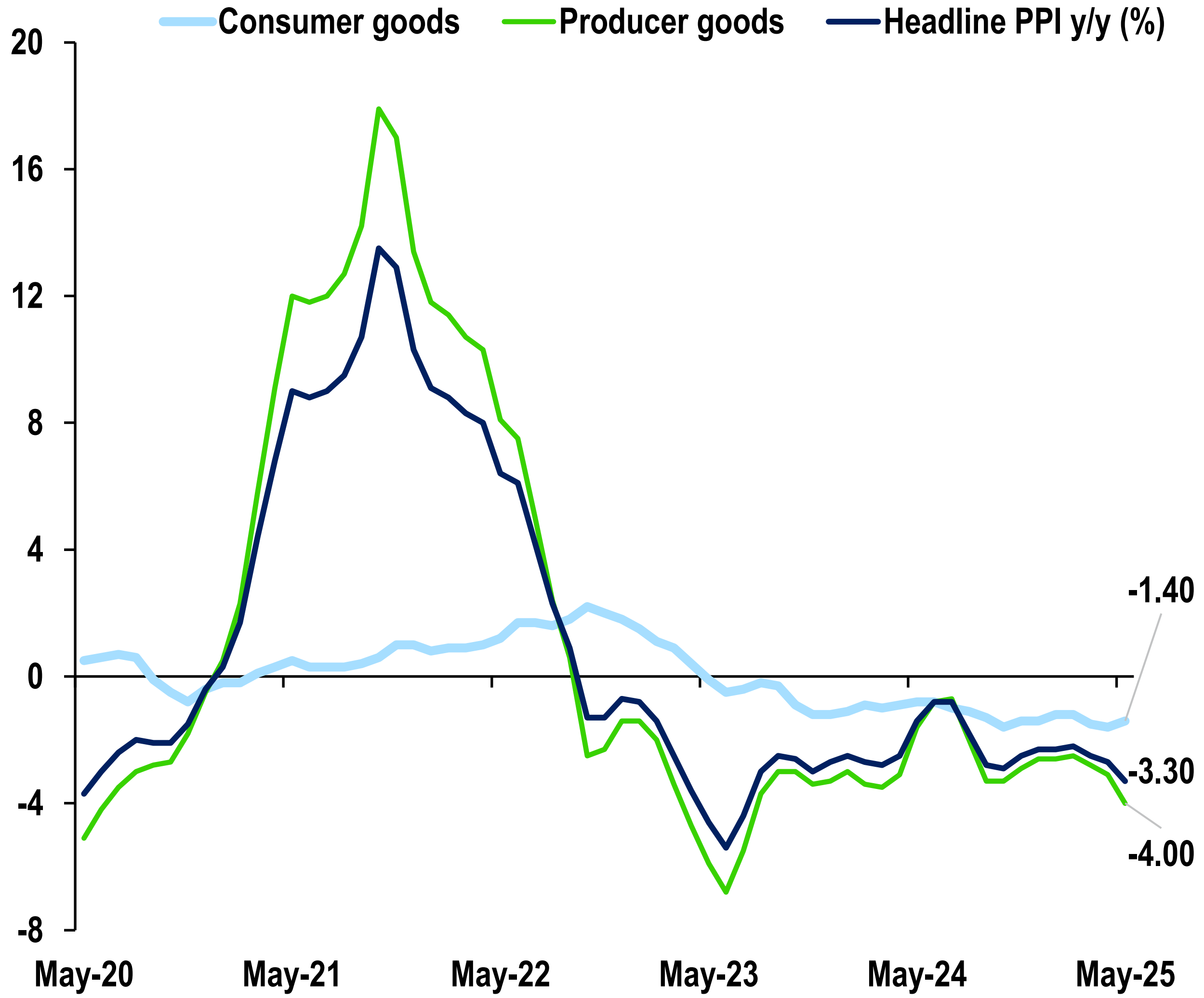




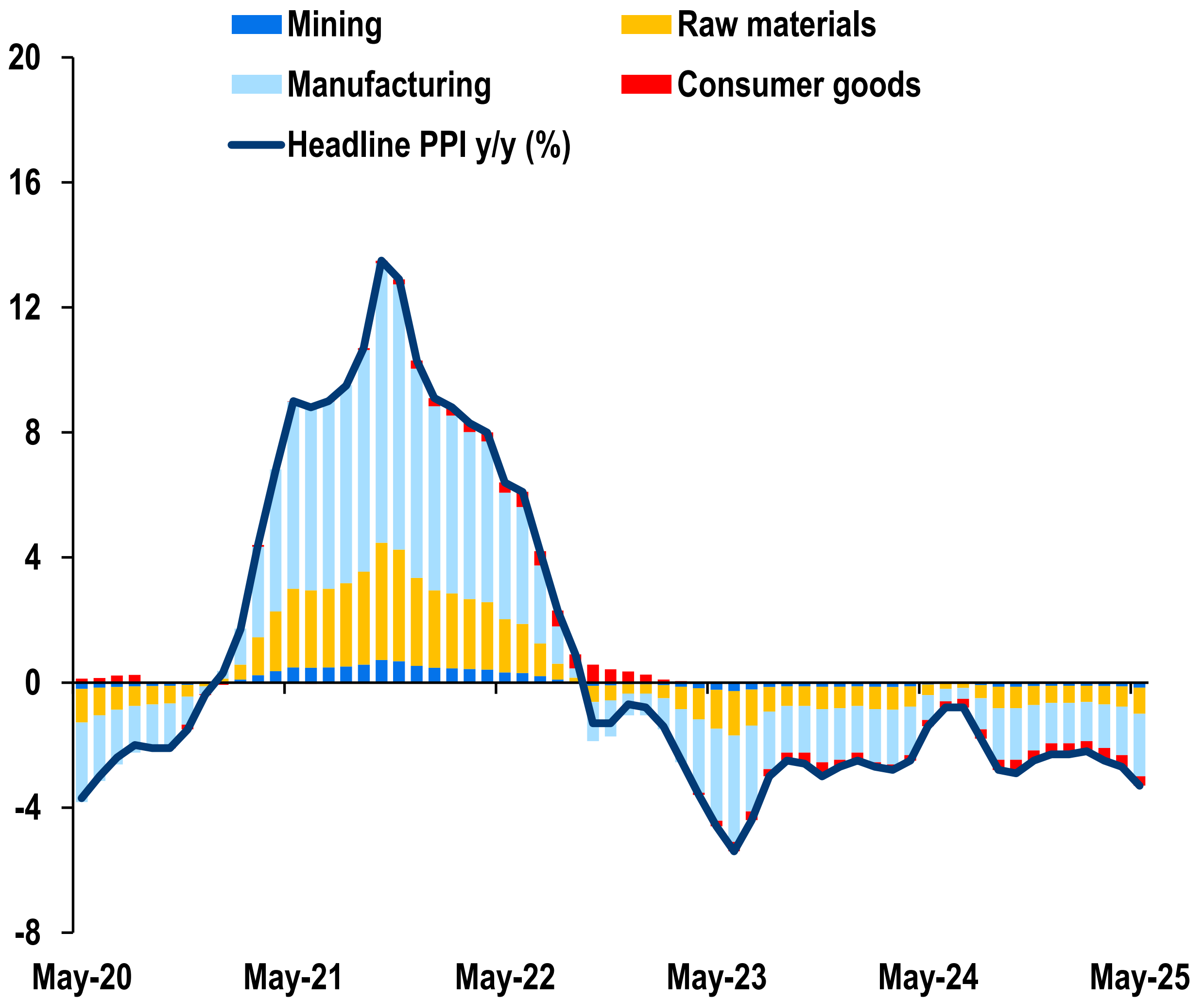
Source: Wind, Standard Chartered Research

PPI inflation – Producer goods prices the key drag, primarily from the manufacturing sector
PPI通胀——生产资料价格是主要拖累因素，尤其是制造业部门

Producer goods prices have declined faster than consumer goods prices *(%, y/y)*



Manufacturing sector has been the key drag for producer goods inflation *(%, y/y)*

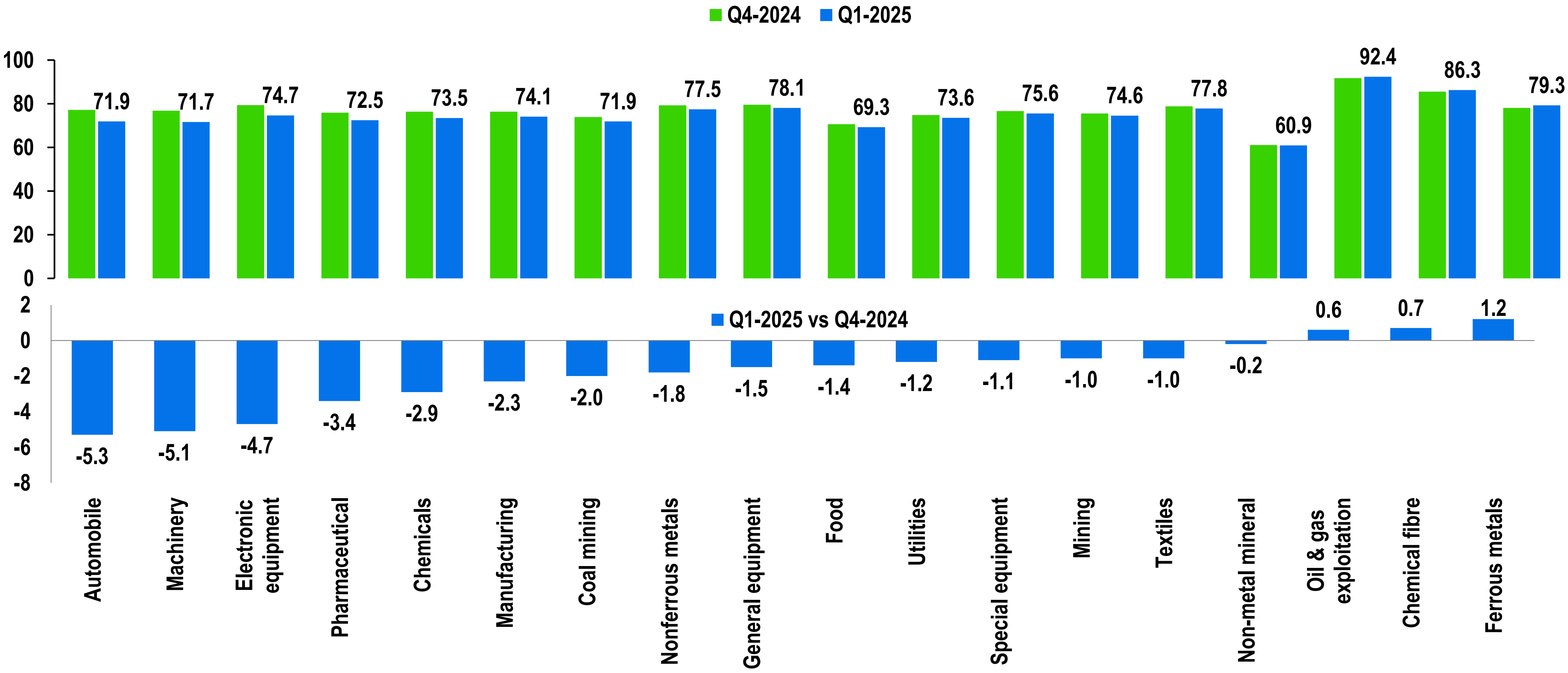


Source: Wind, Standard Chartered Research

Industrial utilisation ratio declined further, led by auto and machinery
工业利用率进一步下降，汽车和机械行业领跌

Overall industrial capacity utilisation rate decreased by 2.1ppt to 74.1% in Q1-2025

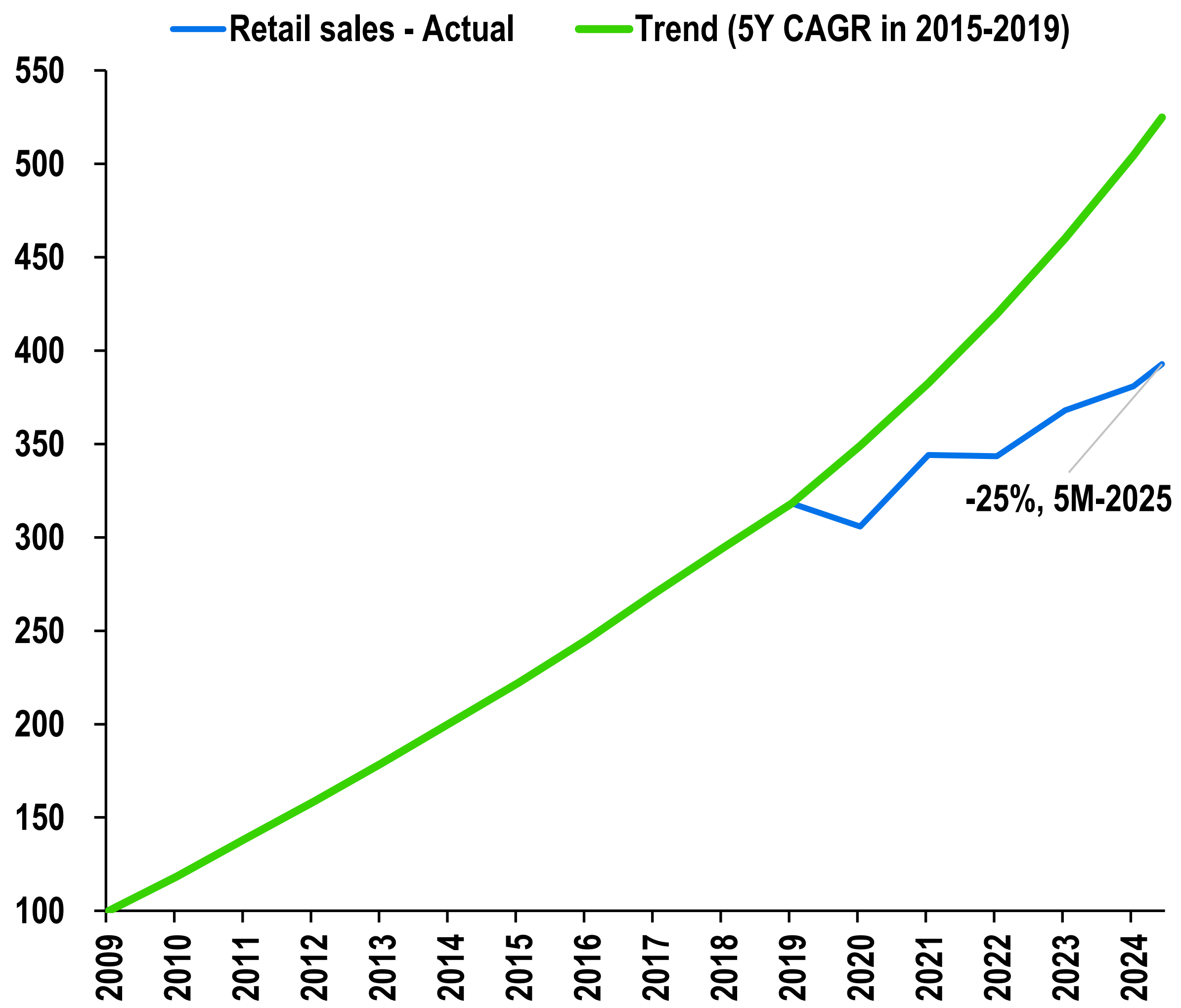
%, by industry, ranked by q/q change; actual ratio in the upper chart, q/q ratio changes in the lower chart



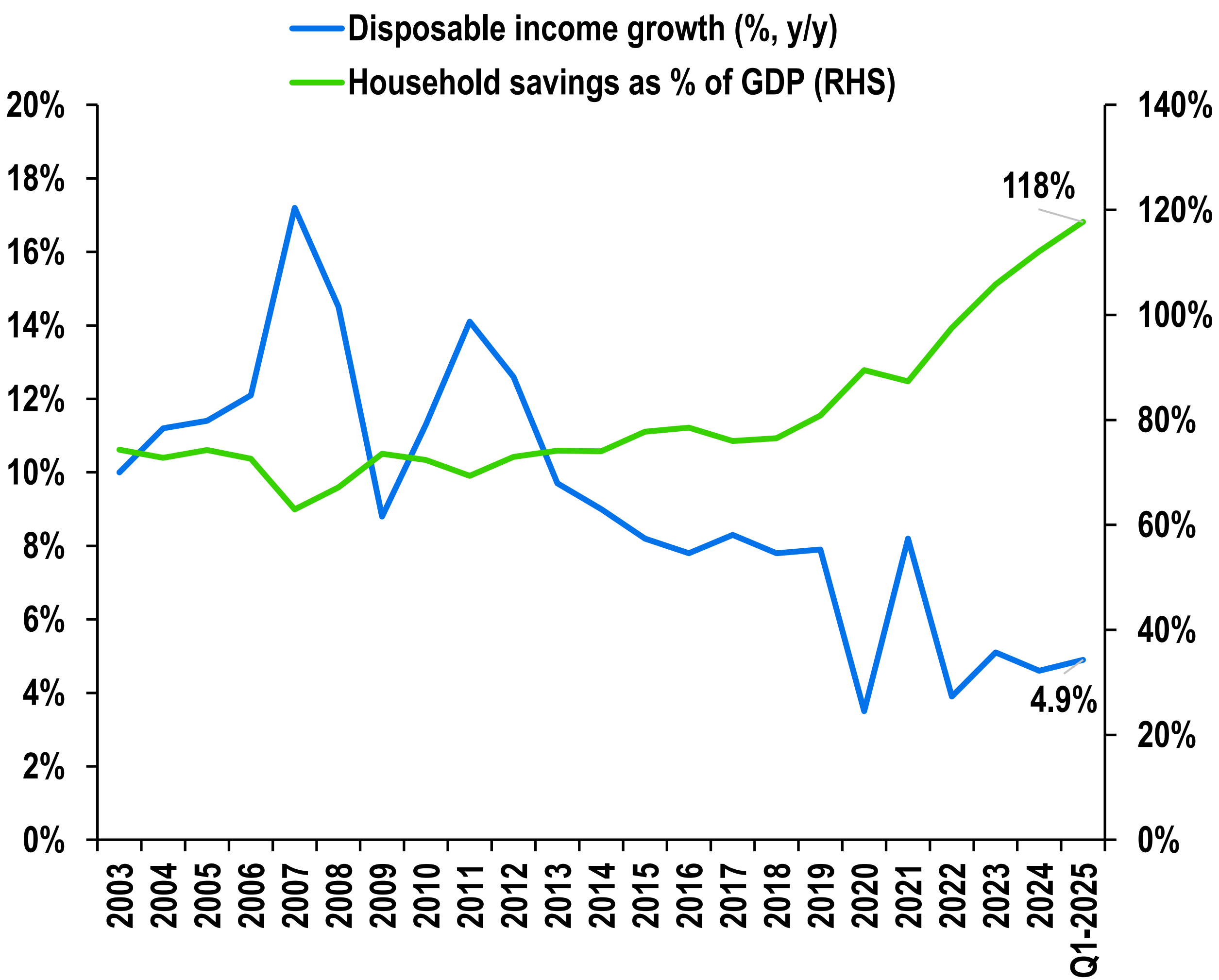
Source: Wind, Standard Chartered Research

Domestic consumption remains far below trend on weak household balance sheet, low confidence
由于家庭资产负债表疲软、信心低迷，国内消费仍远低于趋势水平

Retail sales are materially below trend
End-2009 = 100, retail sales growth



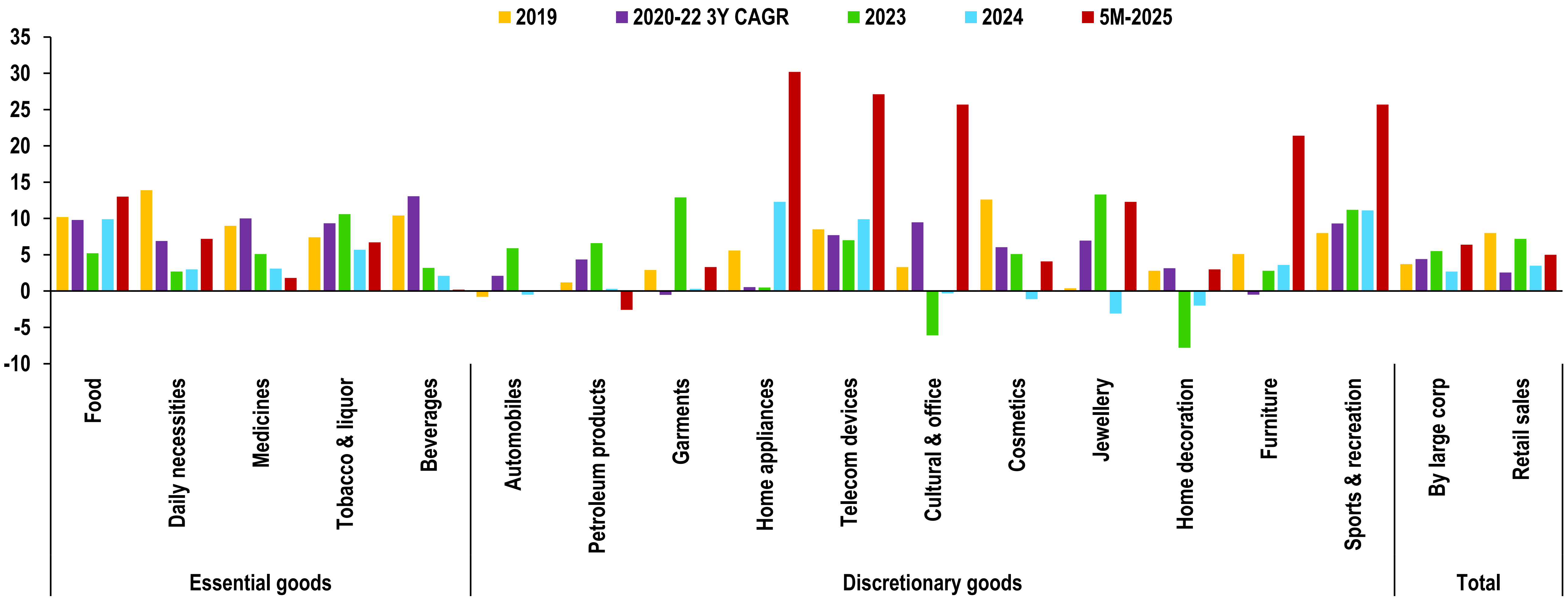
Disposable income growth slowed, while overall savings rose *(%, y/y)*



Source: Bloomberg, Standard Chartered Research

Government subsidy has boosted consumption on related items, but sustainability in question
政府补贴刺激了相关商品的消费，但可持续性仍存疑

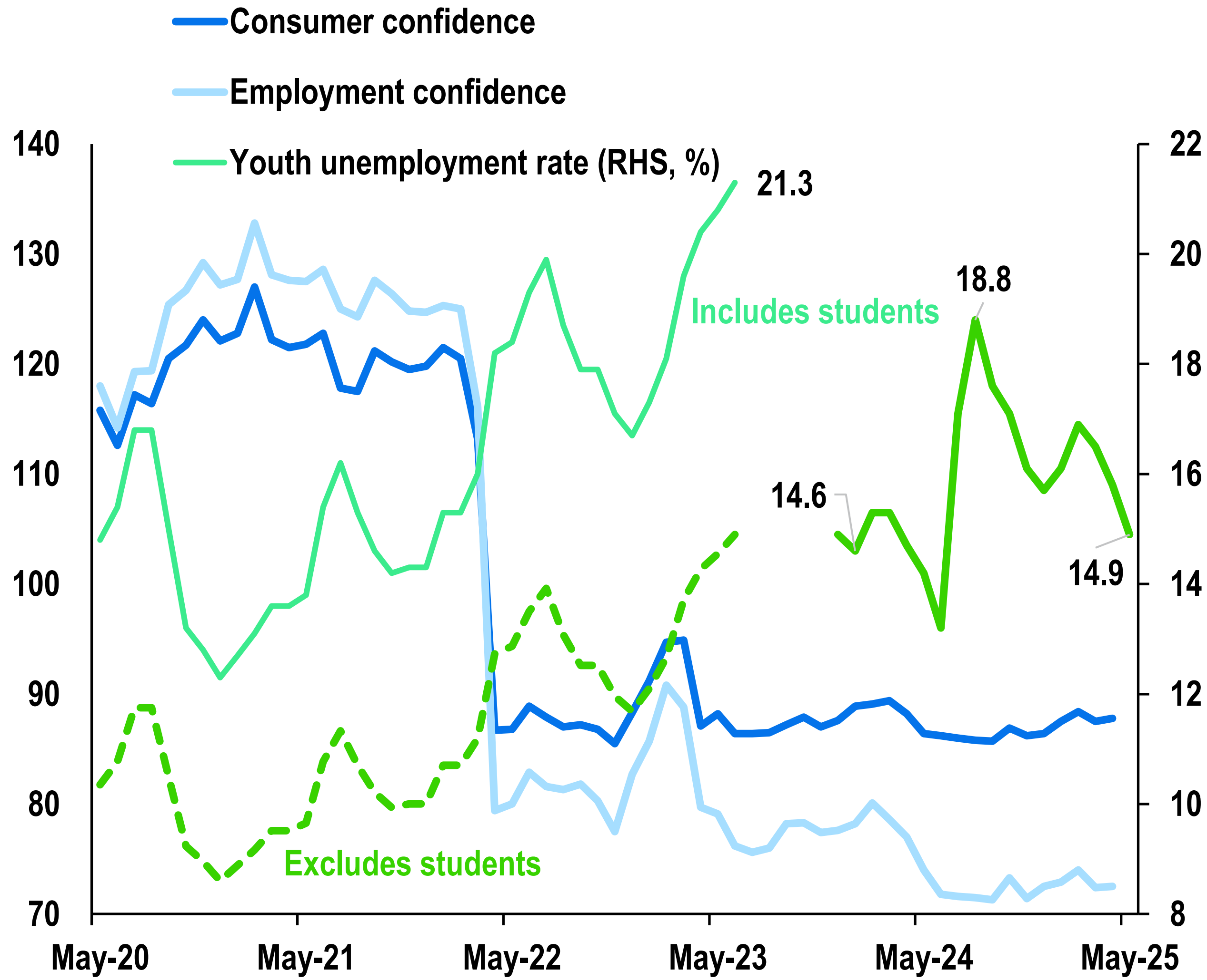
Retail sales by large corporations
%, YTD y/y



Source: Standard Chartered Research

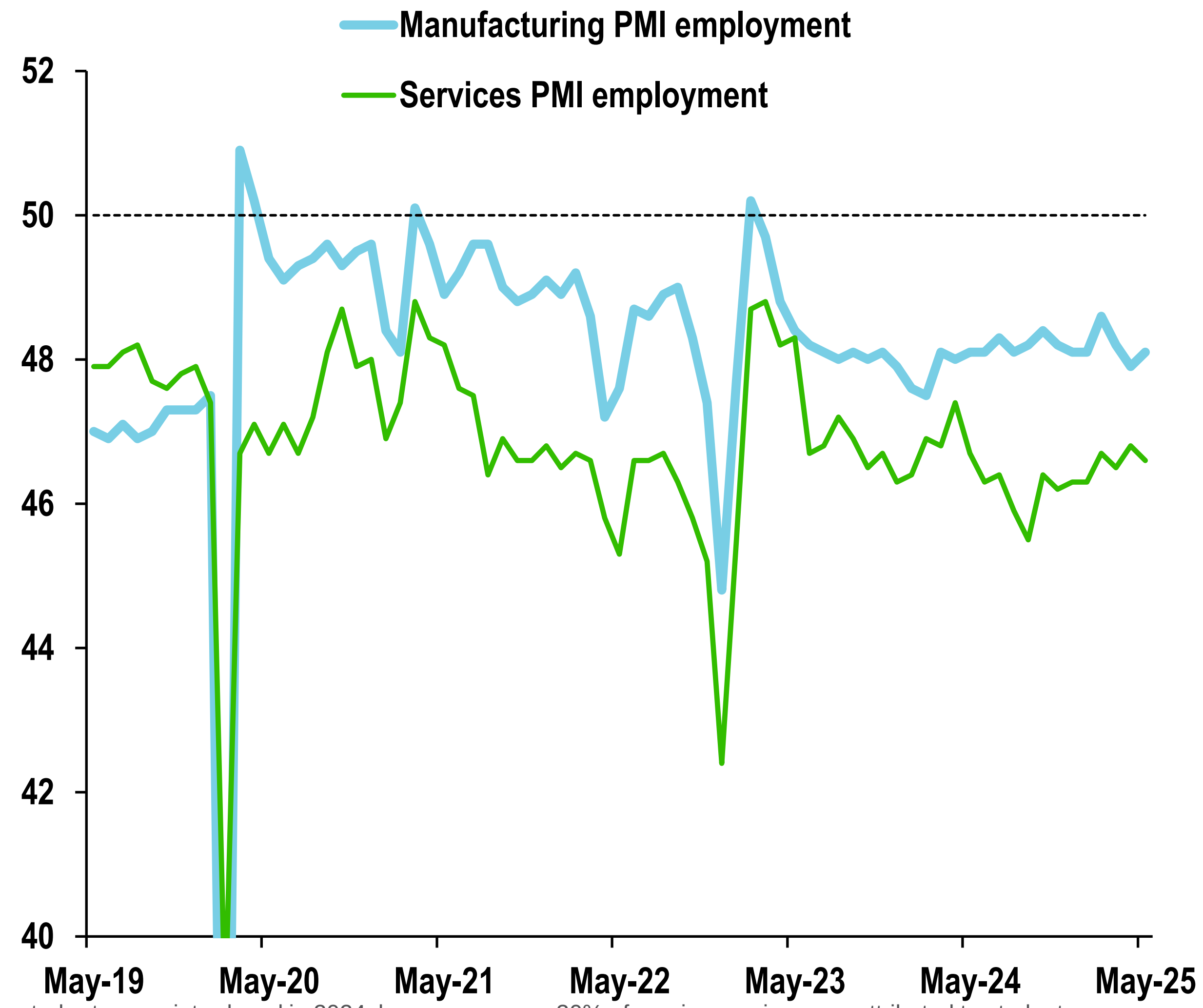
Labour markets and income outlook remain challenging
就业市场和收入前景仍然面临挑战

Youth unemployment remains high, while consumer confidence stays low



PMI employment sub-indices worsened

PMI sub-indices



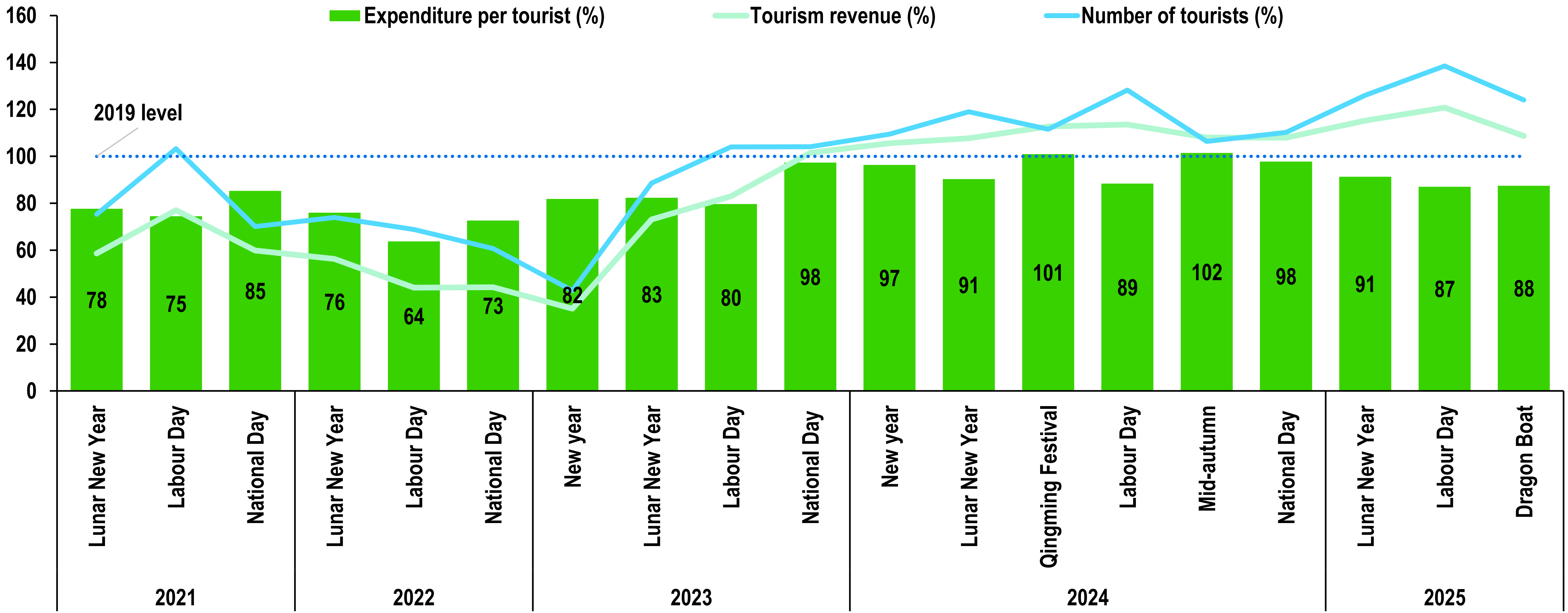
Note: Youth unemployment rate used to include students until 2023 before it was suspended; then a new series excluding students were introduced in 2024; here we assume 30% of previous series were attributed to students (assuming youth unemployment rate unchanged during the period of data suspension)

Source: Wind, Standard Chartered Research

*

Tourism spending remains far below pre-COVID levels
旅游支出仍远低于新冠疫情之前

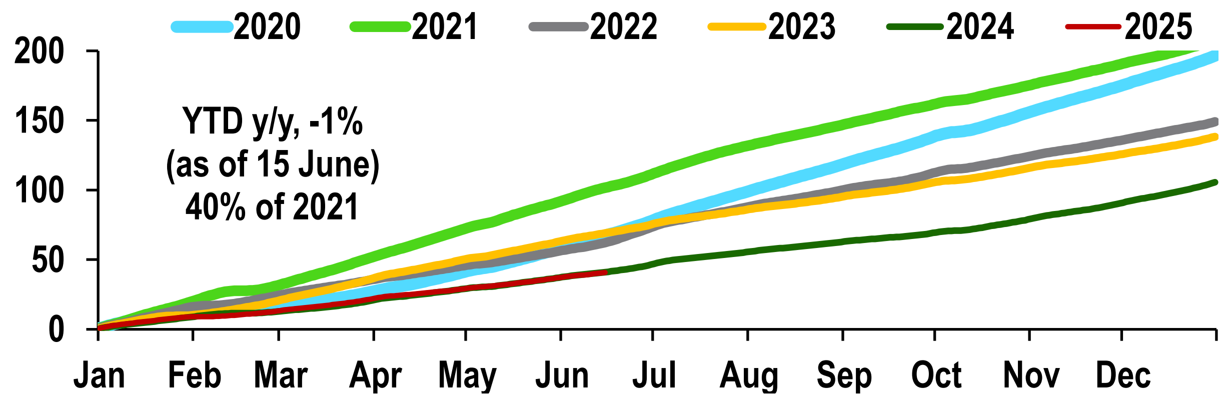
Tourism per capita spending remains c.10% below pre-COVID levels, with total revenue up by only 9-21% vs 2019 while nominal GDP grew by 34% over 2019-24 *(% of 2019 level)*



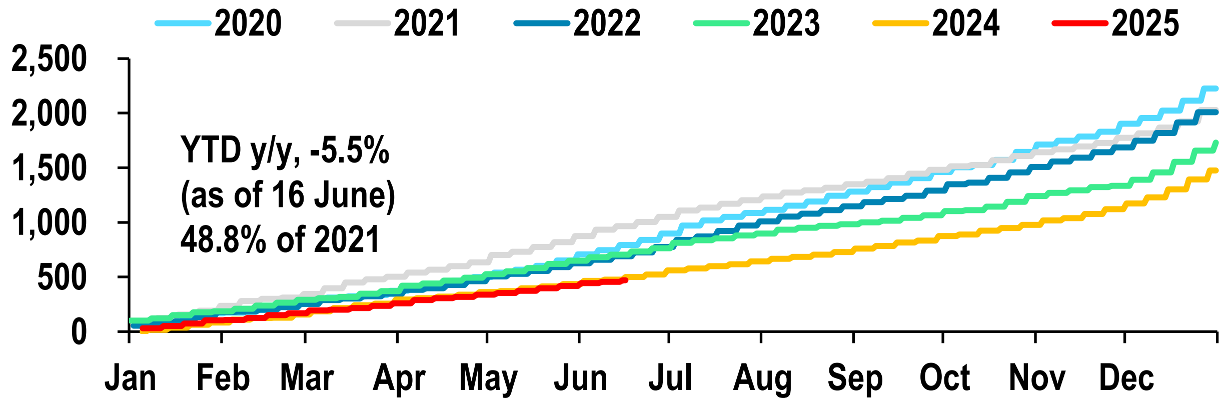
Source: Wind, Standard Chartered Research

Real-estate sector is yet to bottom out, although pace of decline has decelerated
房地产市场可能仍未见底，但跌幅开始放缓

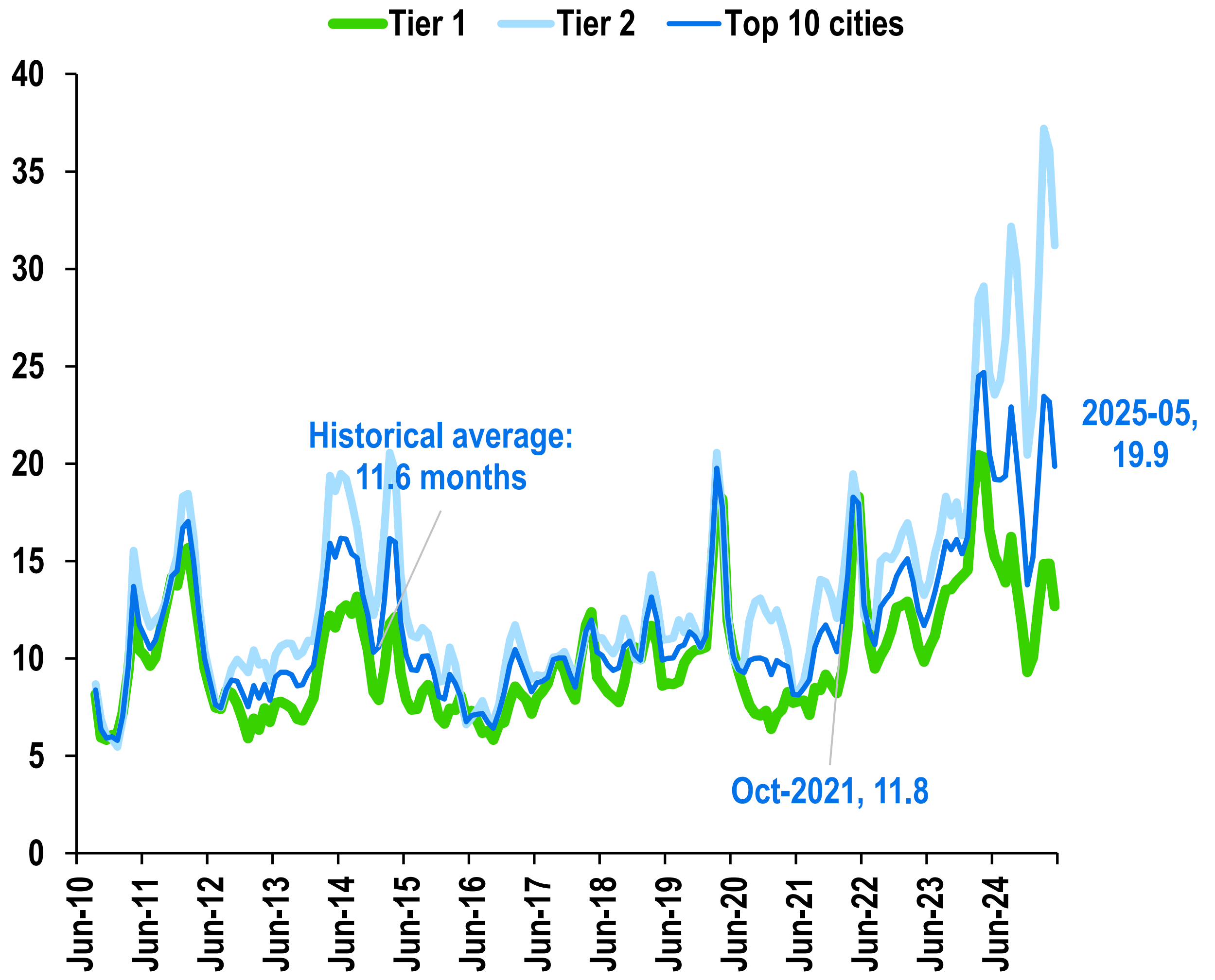
YTD home sales in top-30 cities
7d ma, million sqm



Floor space of land purchases in top-100 cities has decreased 5.5% y/y YTD *(YTD, million sqm)*



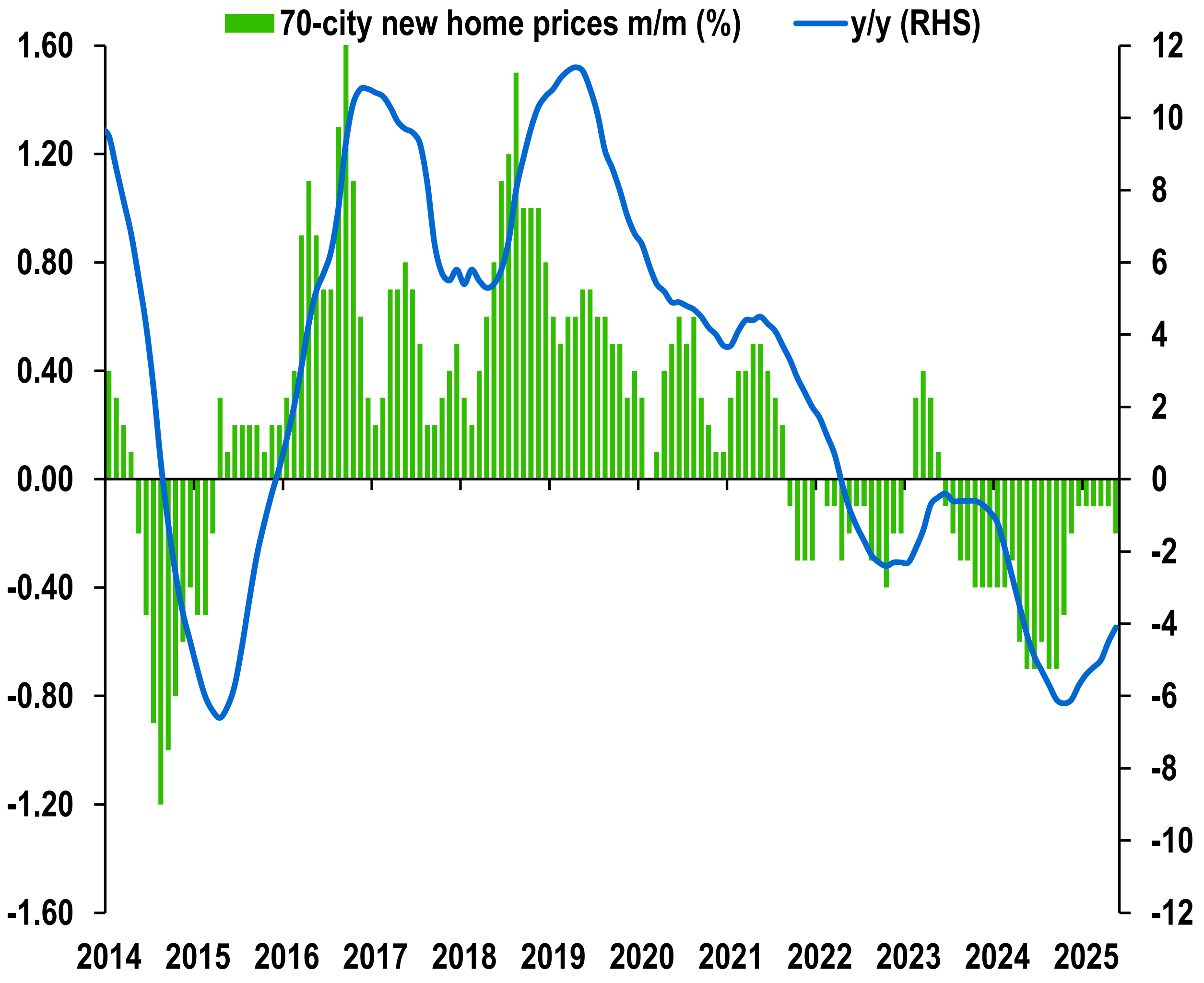
Home inventory levels remain high
Inventory absorption period, no. of months



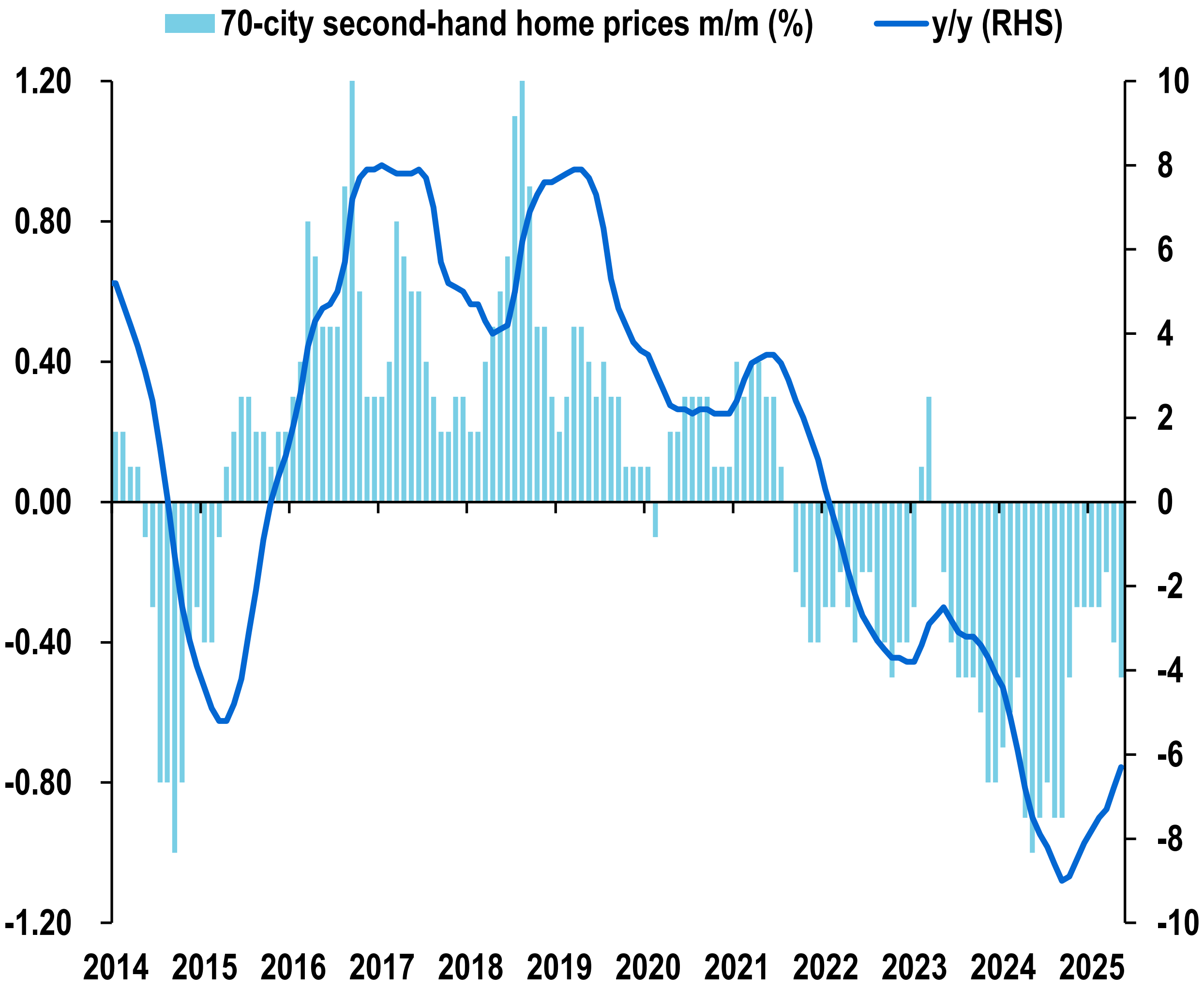
Source: Wind, Standard Chartered Research

Home prices are still falling, albeit more slowly
房价仍在下跌，尽管跌幅有所减缓

Top-70 cities new home sales price
% m/m (LHS) vs % y/y (RHS)



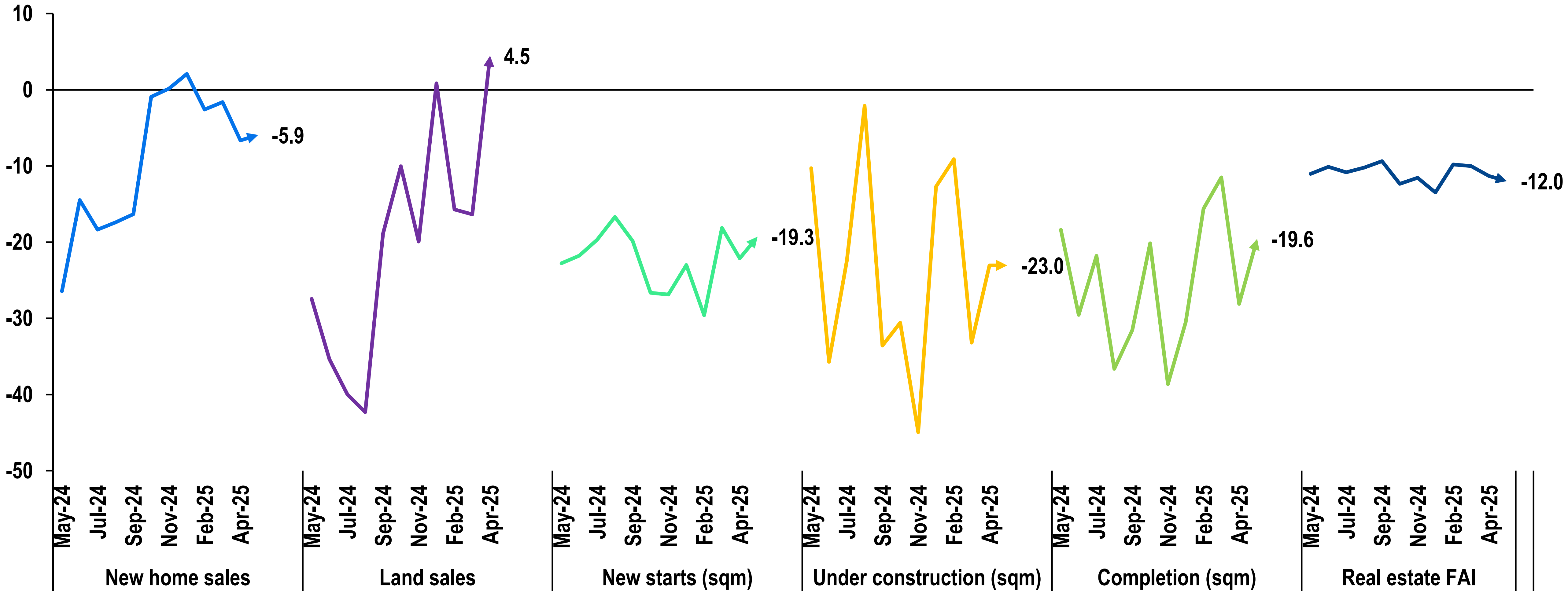
Top-70 cities second-hand home sales price
% m/m (LHS) vs % y/y (RHS)



Source: Wind, Standard Chartered Research

Renewed real-estate weakness since Q2 calls for additional policy support
房地产市场二季度以来再度疲软，需要更多政策支持

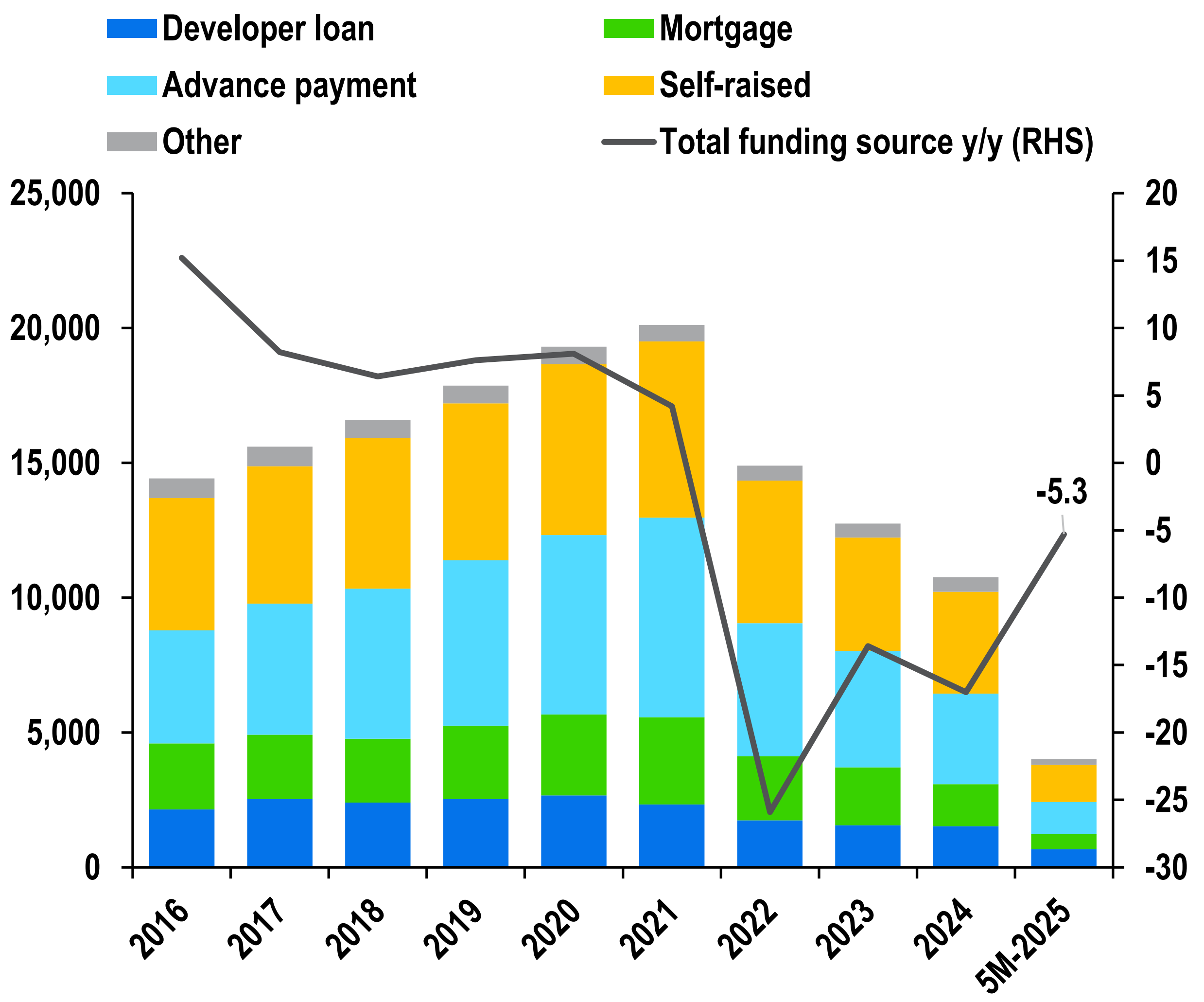
Leading indicators for real-estate investment remain weak
%, y/y



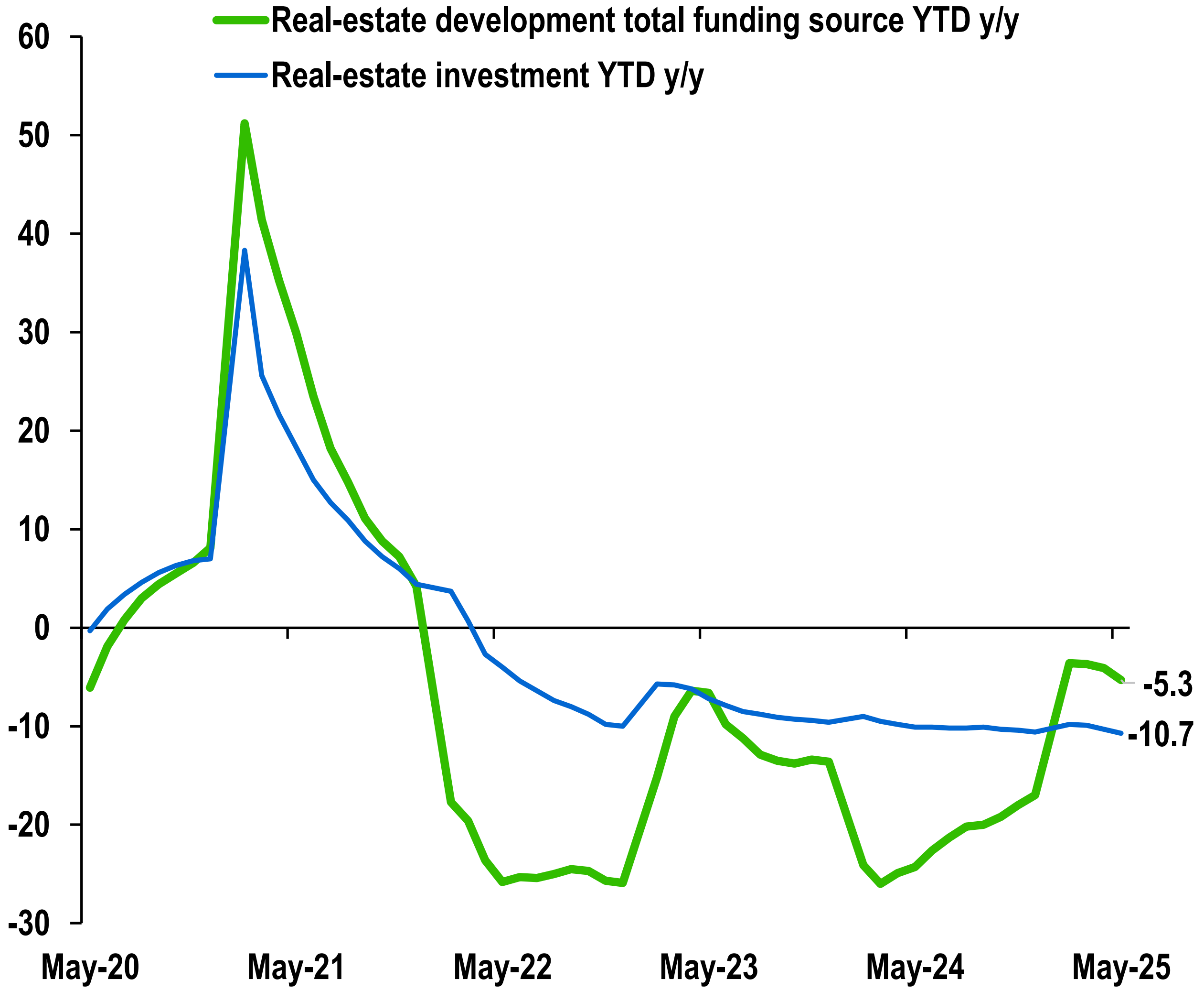
Source: Wind, Standard Chartered Research

Liquidity stress-induced defaults likely ending, but new starts to stay weak structurally
流动性挤兑引发的房企违约潮已经结束， 但新开工仍会结构性疲弱

Breakdown of real-estate development total funding source
CNY bn



Real-estate development total funding source vs real-estate investment *(% YTD y/y)*

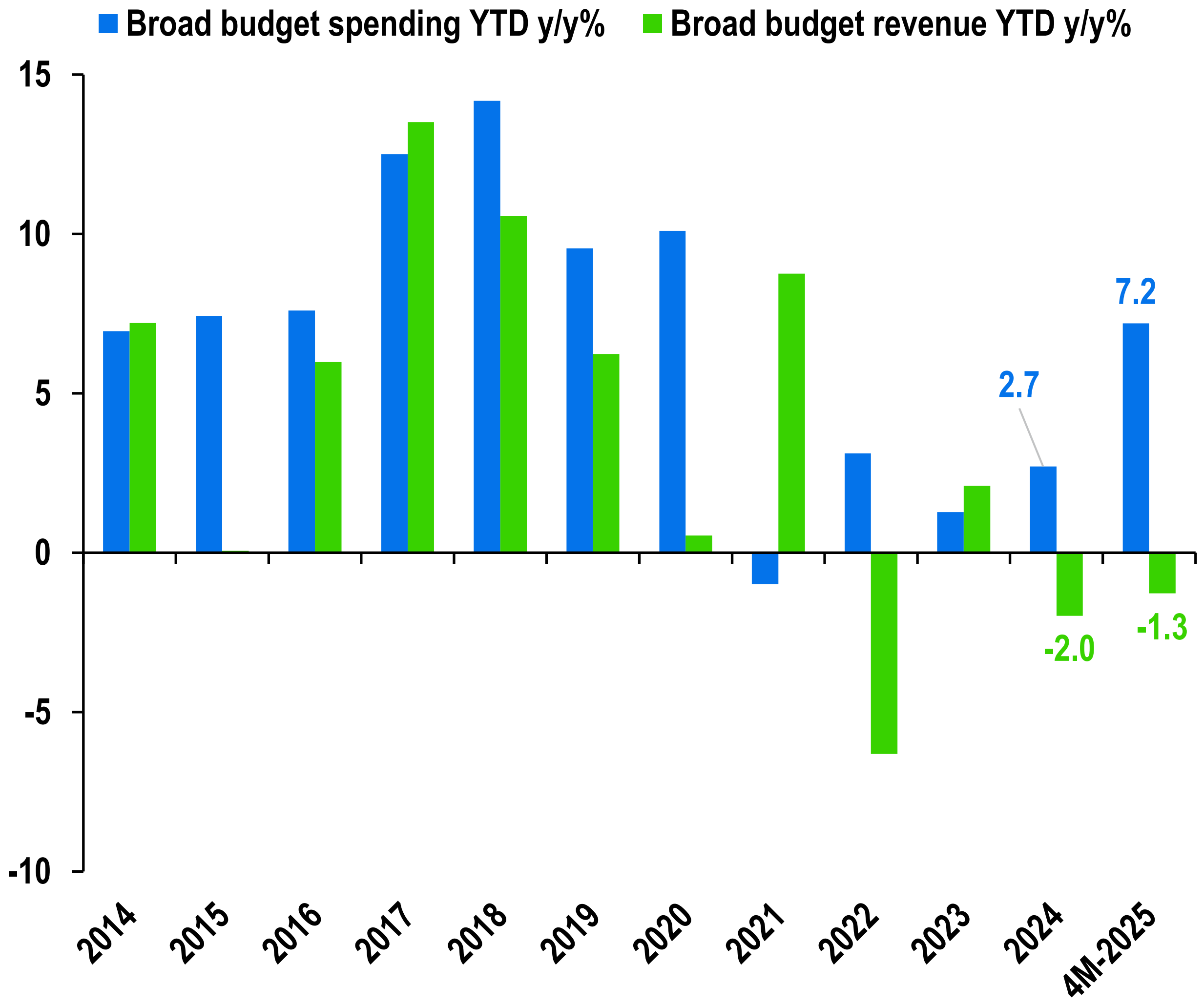


Source: Standard Chartered Research

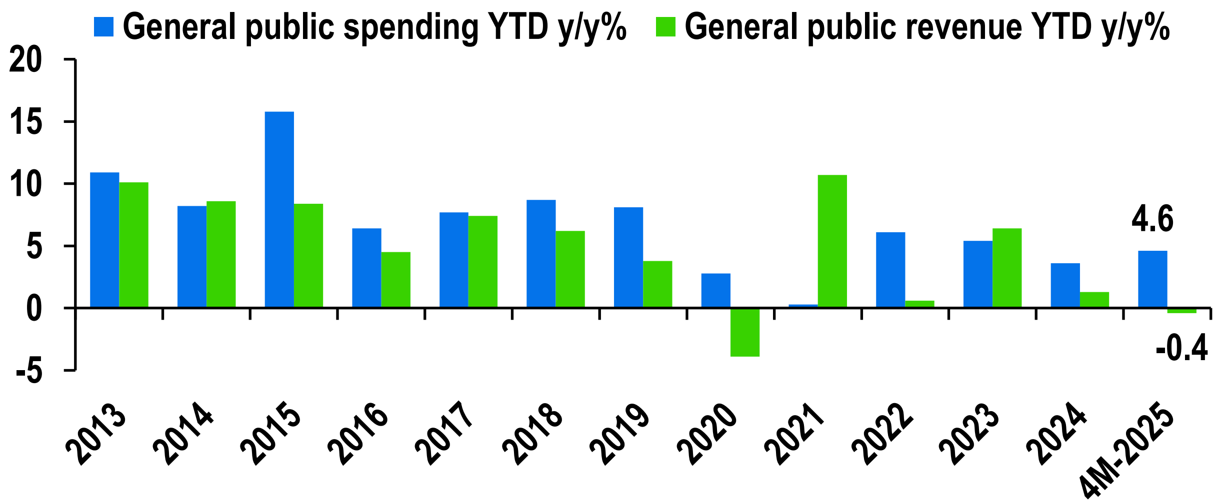
Policy outlook

Fiscal policy – A sharp acceleration in fiscal spending despite weak revenue growth in H1
财政政策 – 上半年财政支出在收入增长继续放缓的背景下仍大幅增加

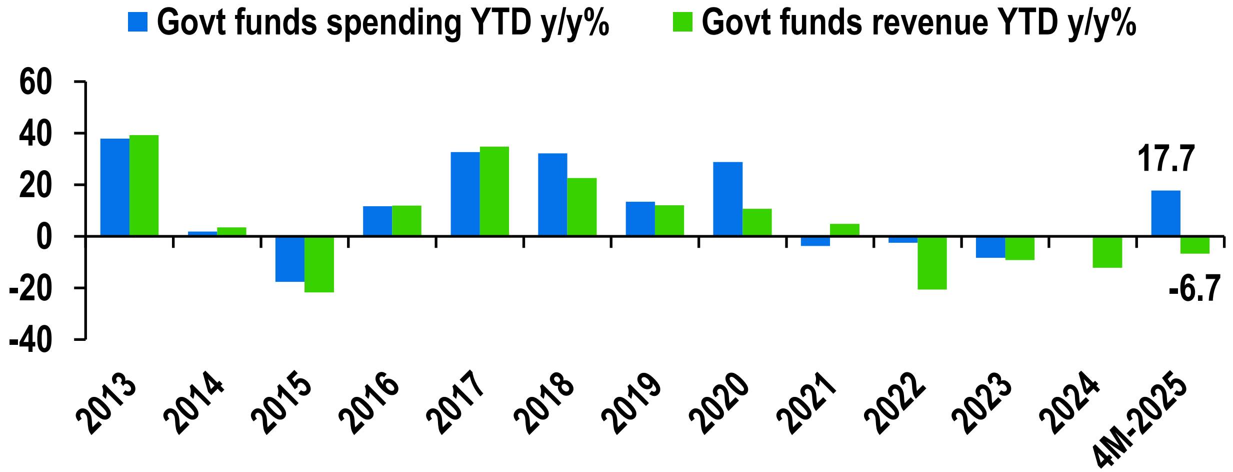
Broad budget spending and revenue
% annual growth



General public budget spending and revenue



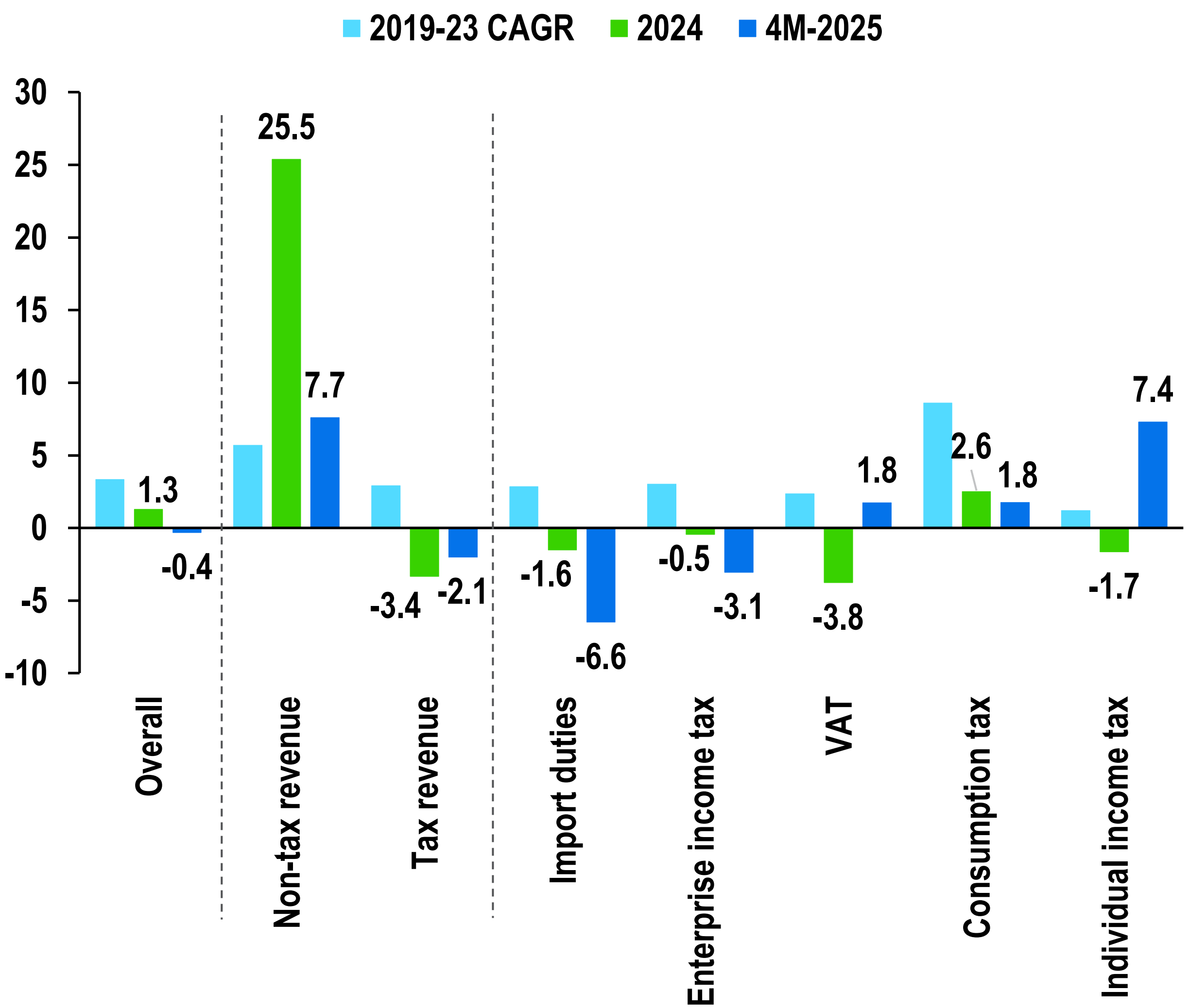
Government funds budget spending and revenue



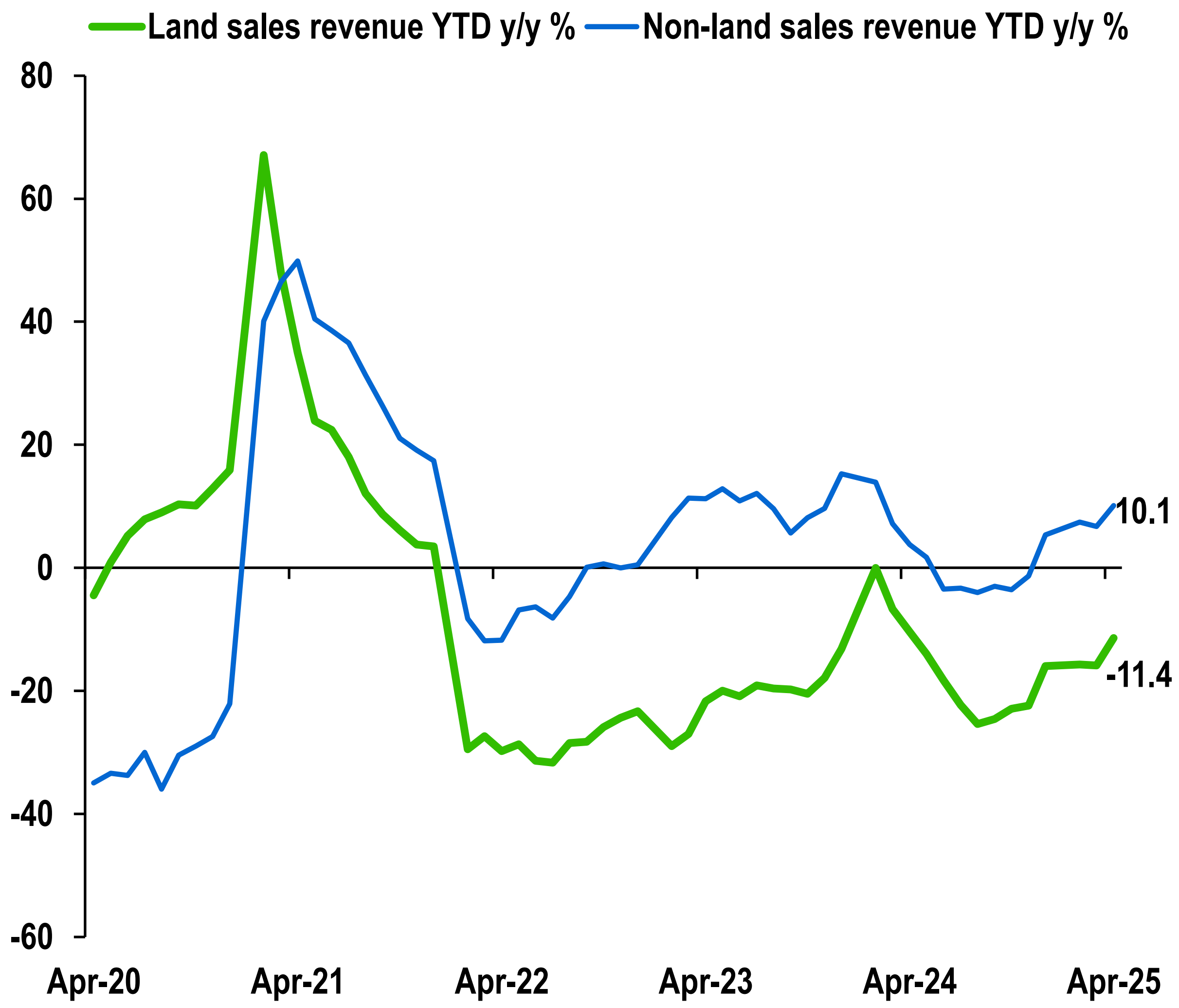
Broad budget = General public budget + government funds budget
Source: Wind, MoF, Standard Chartered Research

Conventional fiscal revenue growth stayed negative on declining tax revenue, land sales
由于税收收入和土地出让金减少，传统财政收入增长仍然为负

General public revenue: non-tax revenue slowed, while tax revenue contraction eased *(% YTD y/y)*



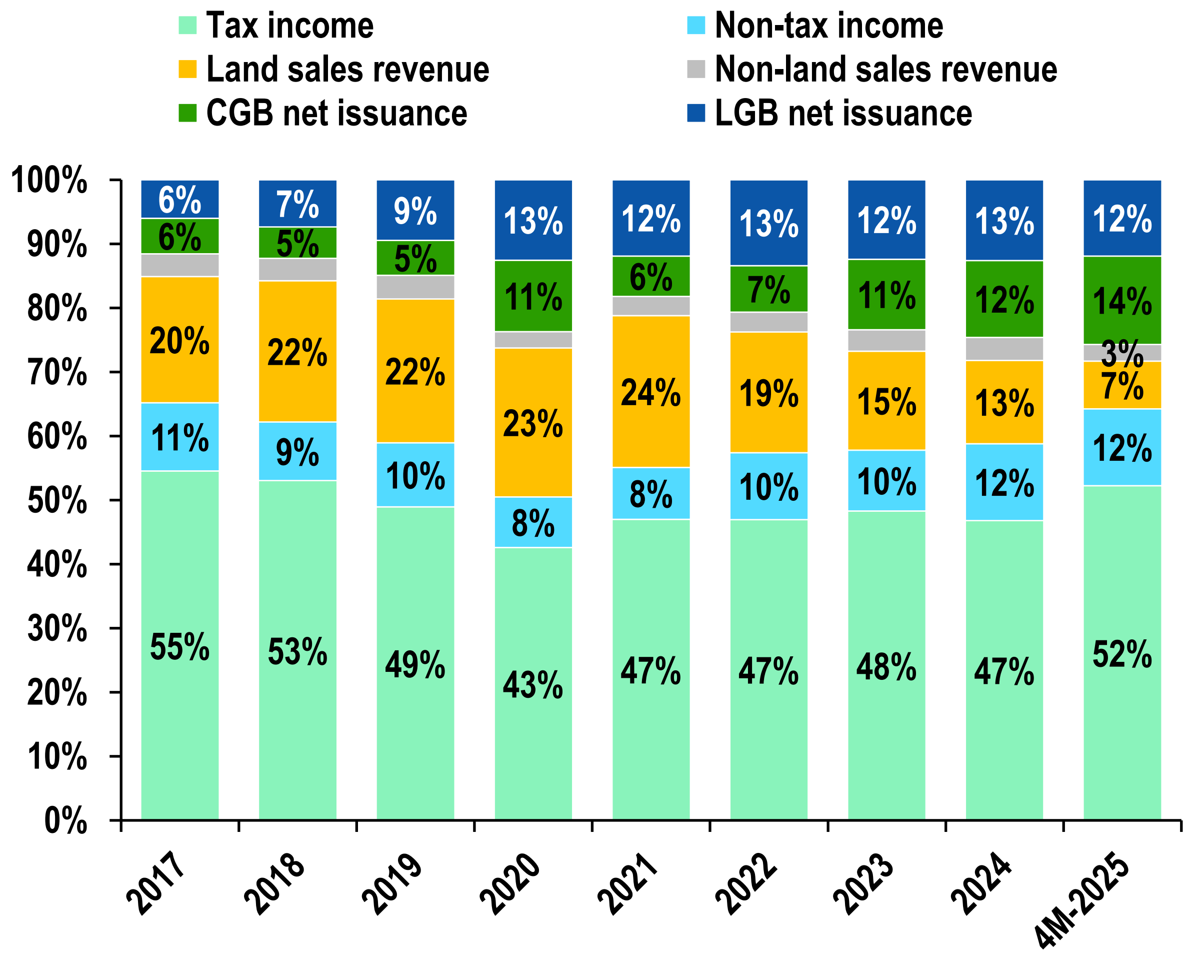
Government fund: land sales revenue still down *(YTD y/y %)*



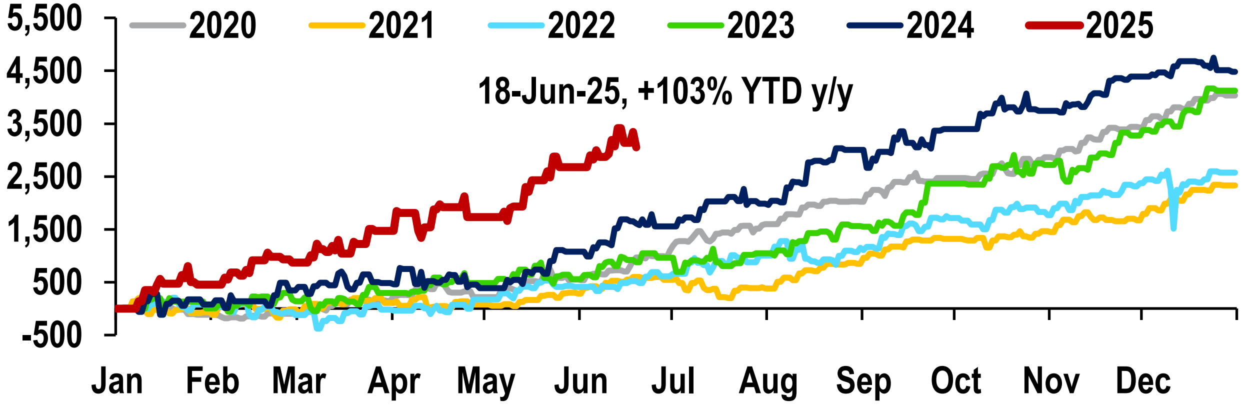
Source: Wind, Standard Chartered Research

Government bond issuance has increasingly become a more important source of fiscal income
政府债券发行日益成为财政收入的重要来源

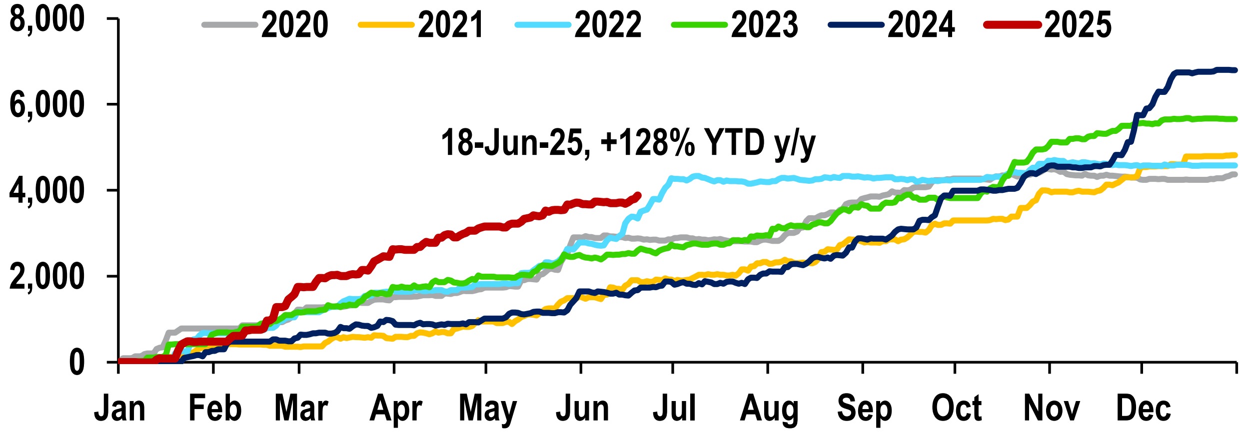
Government bond issuance* accounted for 26% of total fiscal income in 4M-2025, higher than the 2017-24 average of 19%
A breakdown of total fiscal revenue, %



YTD net issuance of CGBs has doubled to CNY 3.3tn, or 50% of annual quota *(CNY bn, as of 18 June)*



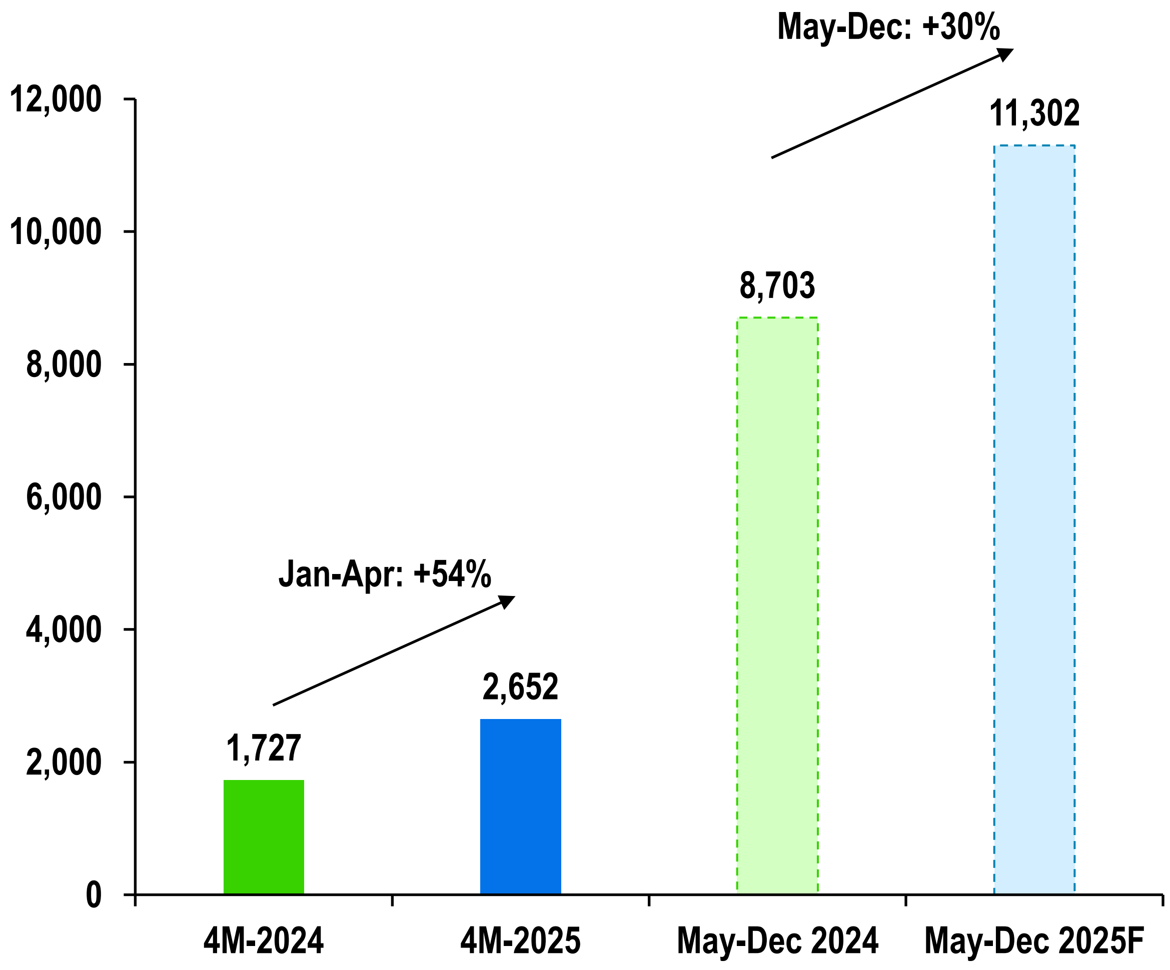
YTD net issuance of LGBs more than doubled to CNY 3.8tn, or 53% of annual quota *(CNY bn, as of 18 June)*



*Government bond issuance includes general CGB, special CGB, general LGB and project LGB bonds
Source: Standard Chartered Research

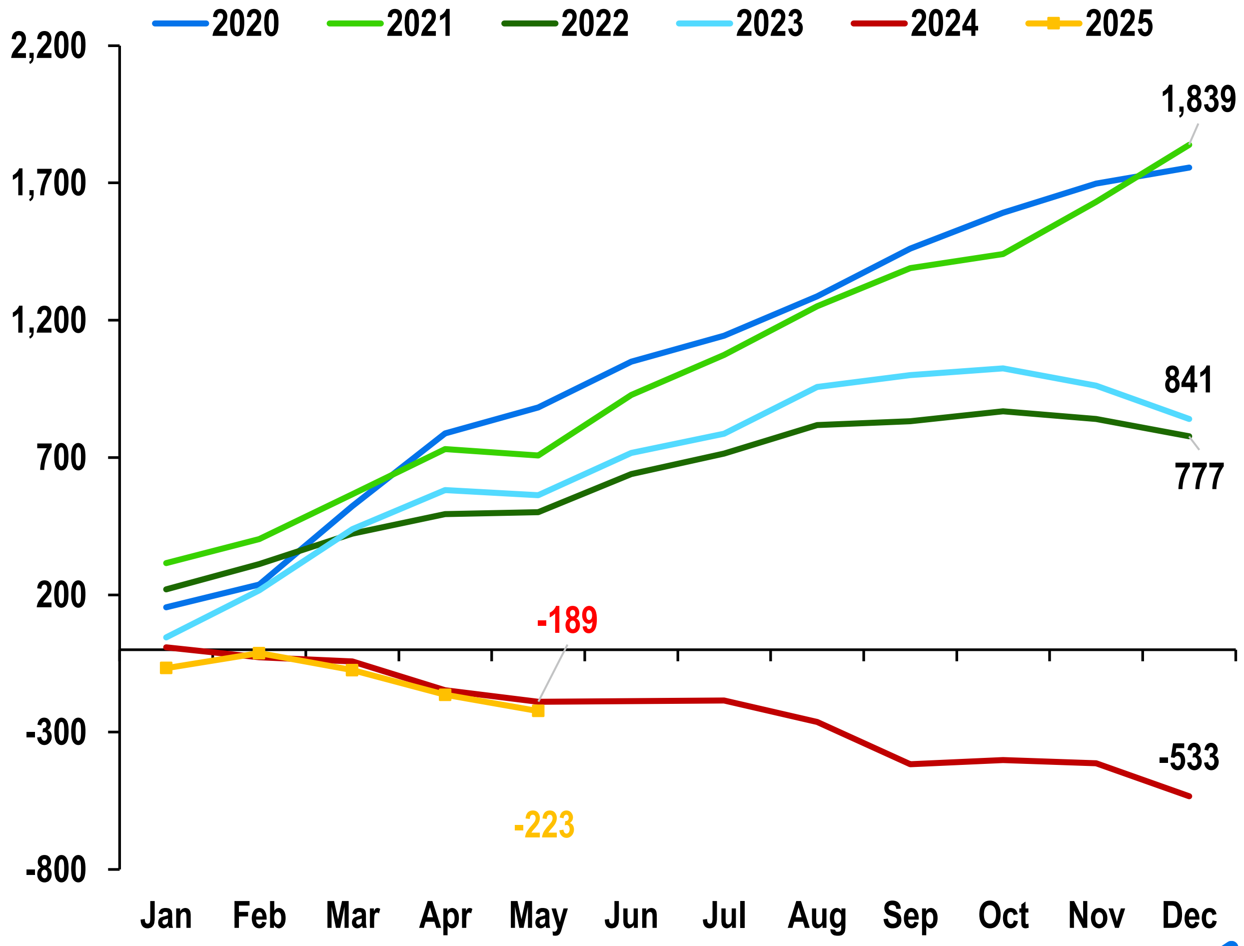
But fiscal impulse may weaken in H2 without additional resources
但如果缺乏额外资源，下半年财政刺激可能会减弱

Broad budget deficit was up by 54% in 4M-2025, and may decelerate to 30% in May-Dec without further widening of the budget deficit *(CNY bn)*



Off-balance sheet funding conditions remain challenging, with local government financial vehicle (LGFV) repayment accelerating further YTD

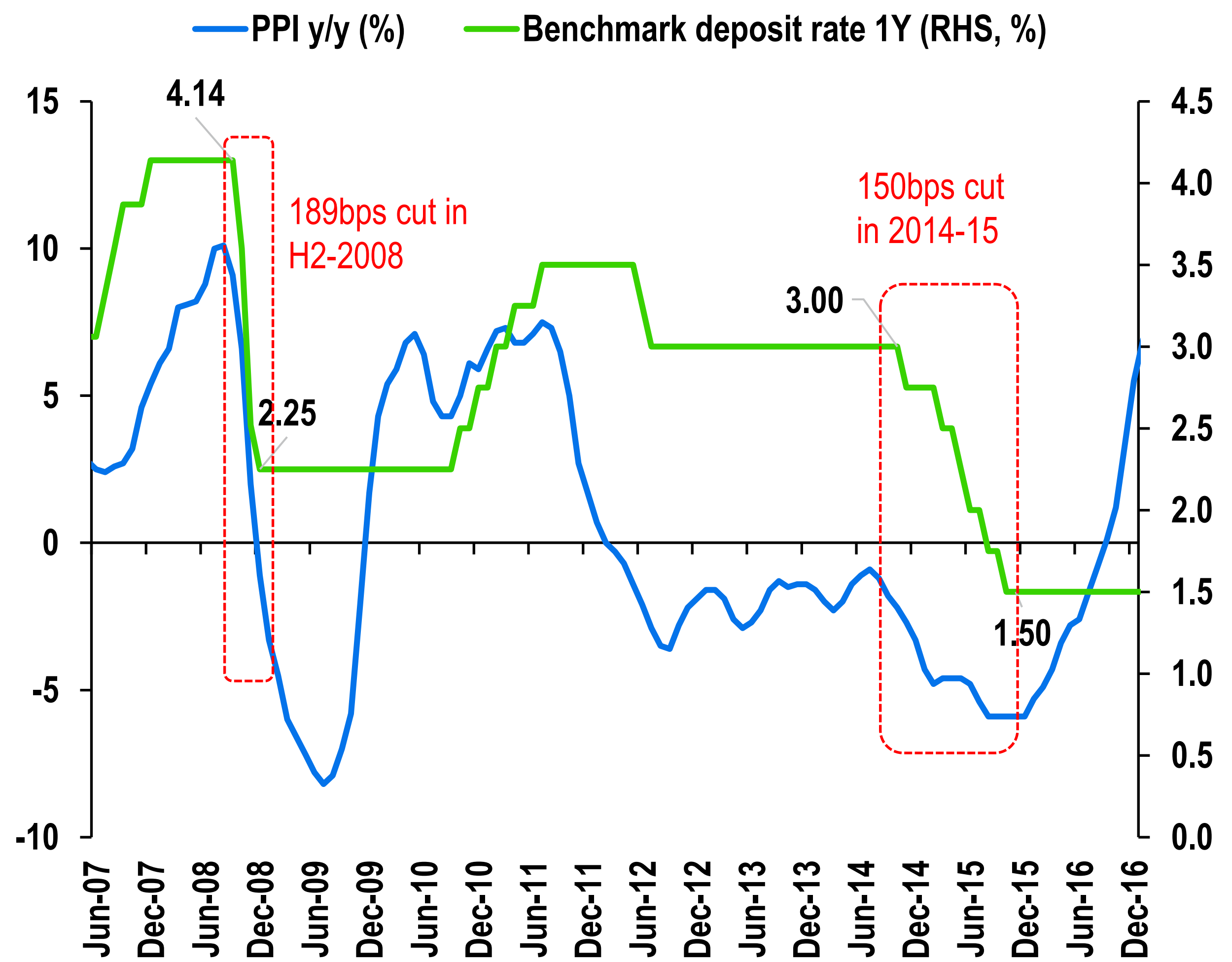
YTD LGFV net bond issuance in the onshore market, CNY bn



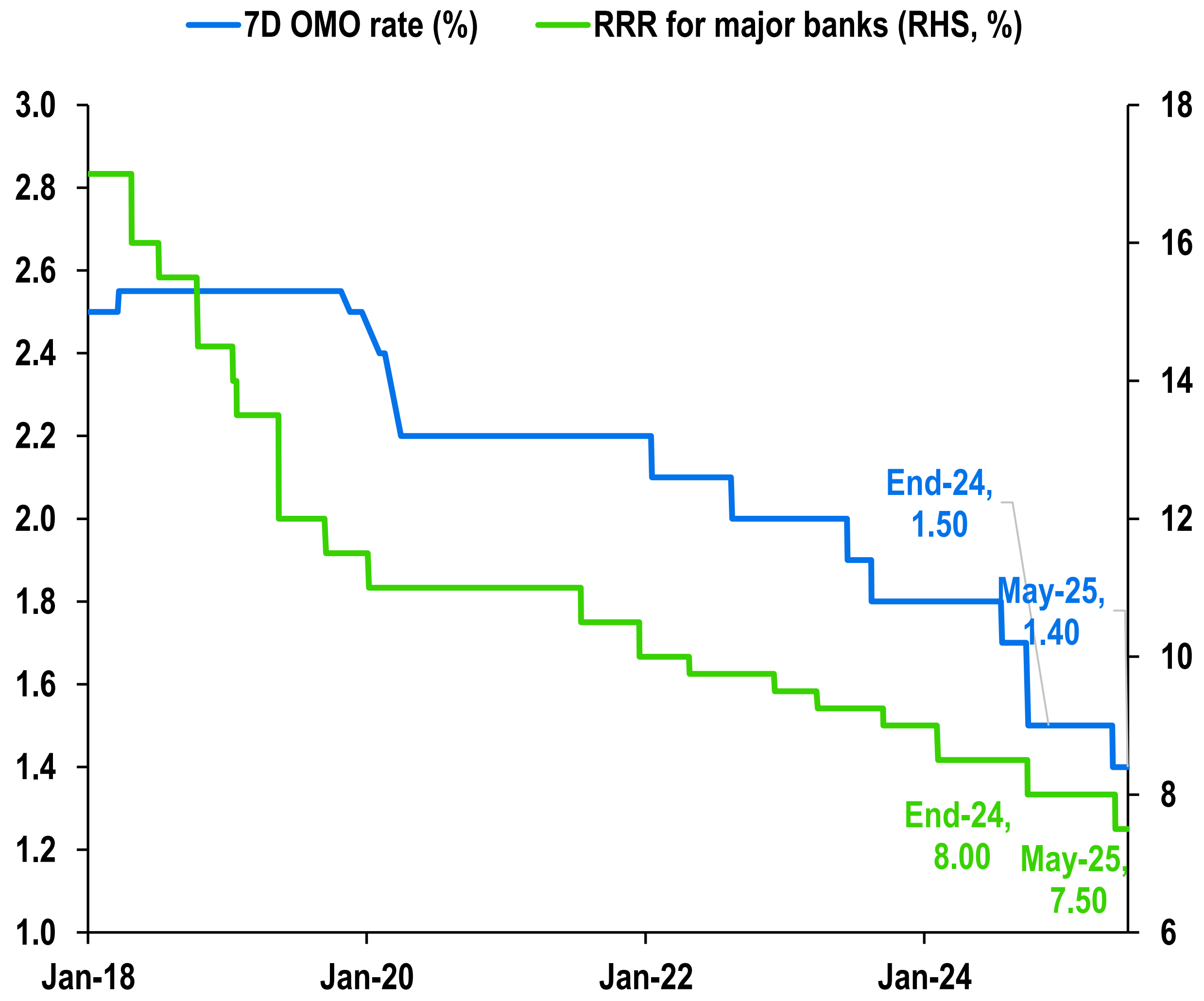
Source: Wind, Standard Chartered Research

Monetary policy – 2025 CEWC restored 'moderately easing' stance for the first time since GFC
2025中央经济工作会议重提“适度宽松的货币政策”，为全球金融危机以来首次

PBoC cut rates forcefully in 2008-10 when a 'moderately easing' monetary policy stance was adopted the last time



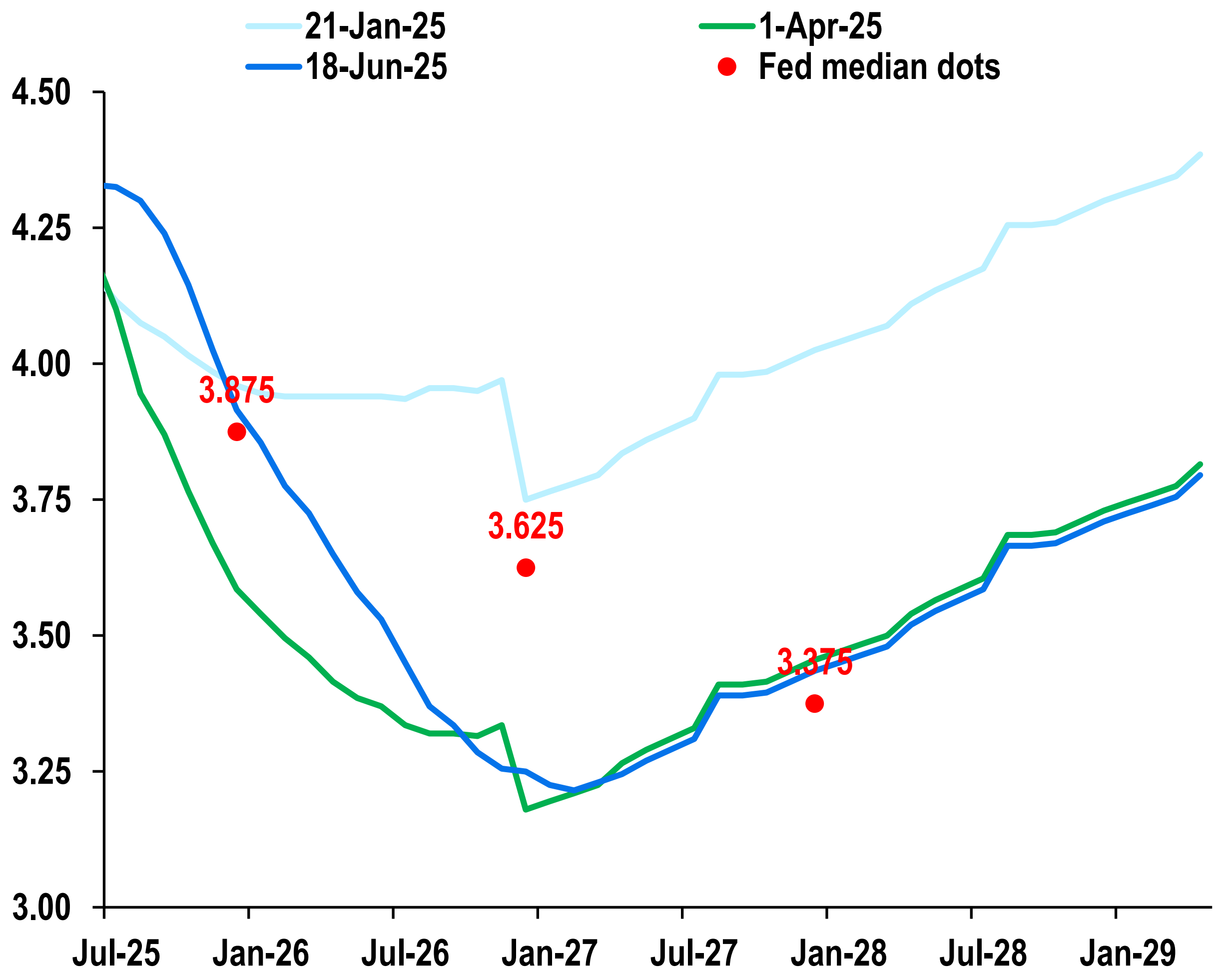
PBoC's monetary policy has diverged from the Fed, cutting OMO by 10bps and RRR by 50bps YTD



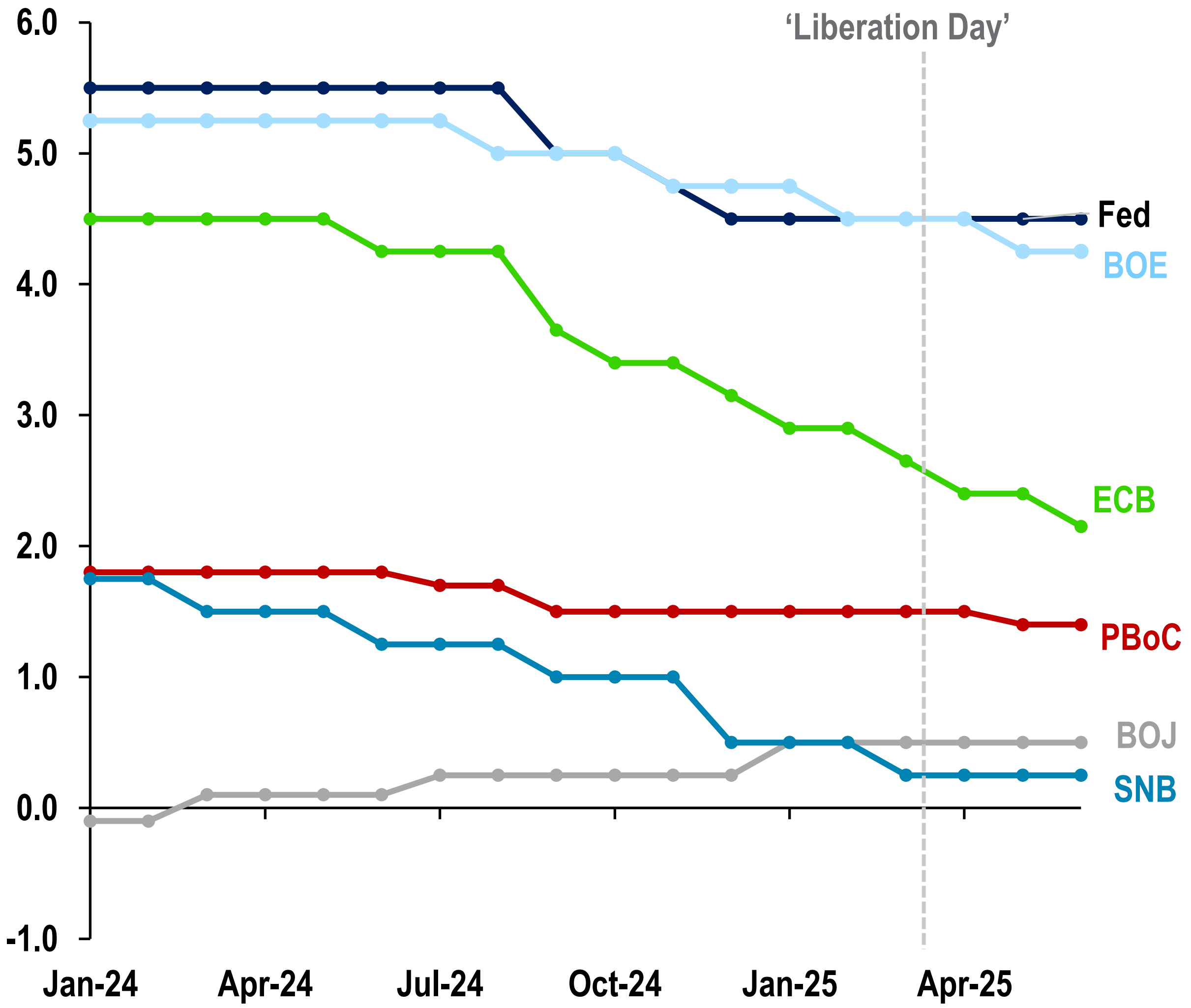
Source: Wind, Standard Chartered Research

PBoC has eased ahead of Fed alongside other central banks; policy divergence to remain
中国央行和其他央行已经比美联储更早放松货币政策；政策分化或持续

Fed: Market sees under two 25bps cuts in 2025; we now see only one cut by year-end
%, based on Fed funds futures, as of various dates



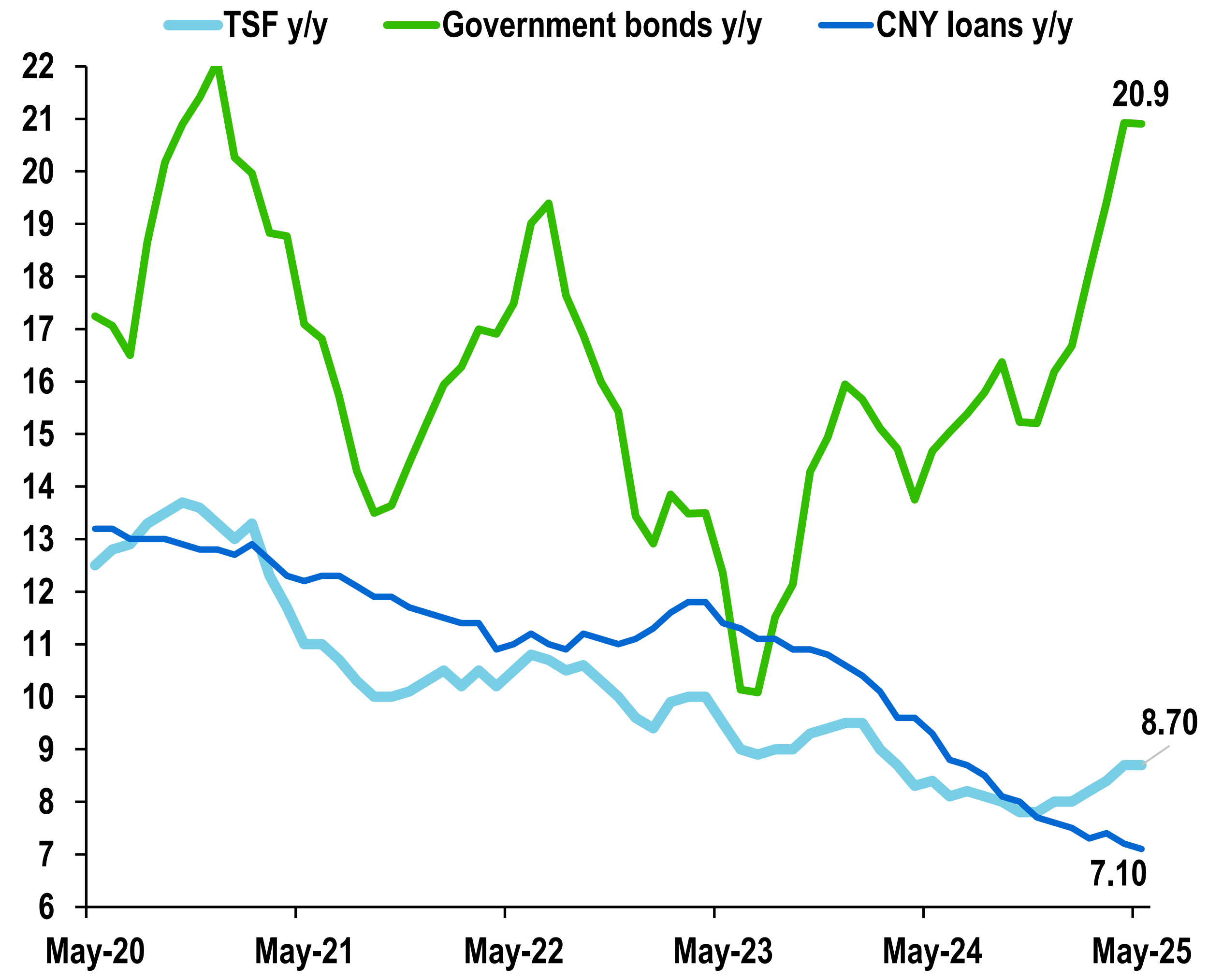
Other central banks: Acceleration of rate cuts since 'Liberation Day' *(policy rates, %)*



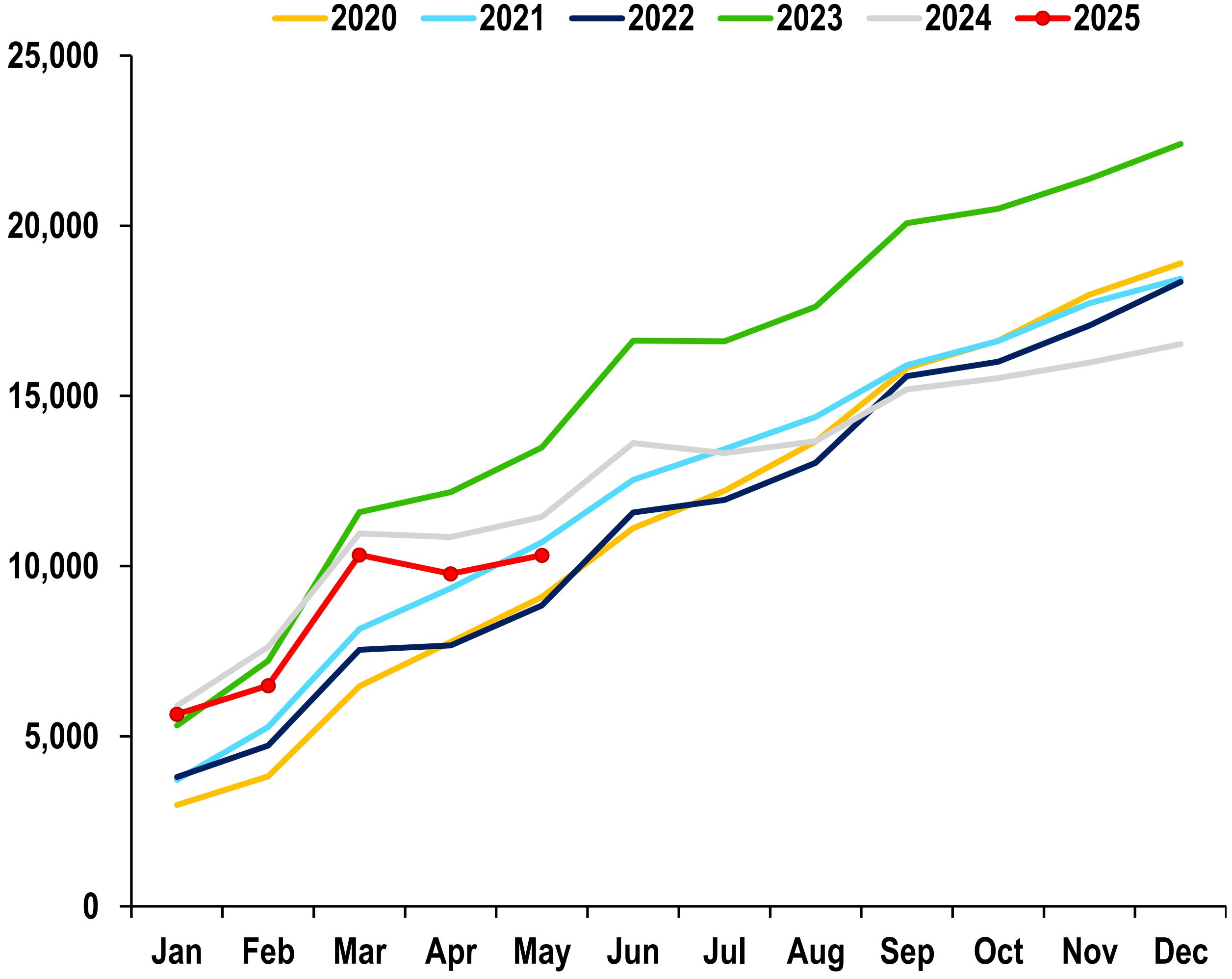
Source: Bloomberg, Standard Chartered Research

Weak credit growth masked by strong bond issuance
强劲的债券发行掩盖了信贷增长疲软

TSF strength was lifted by strong government bond issuance
y/y %



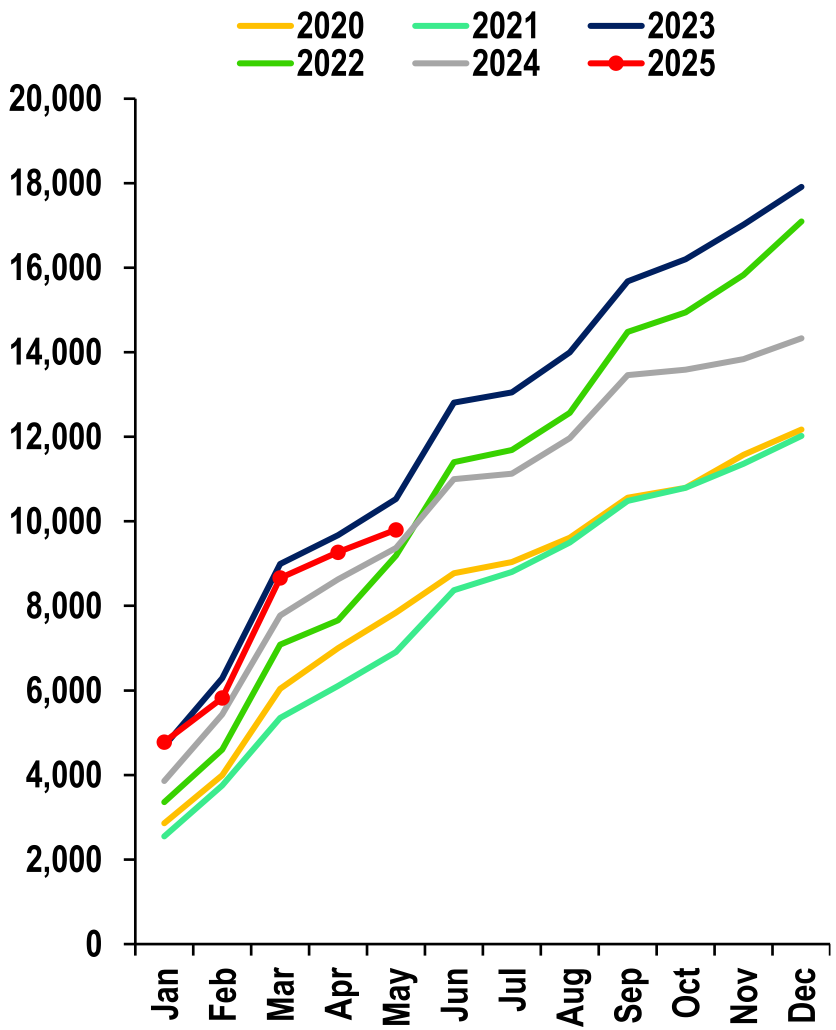
While new TSF rose by 26% y/y in 5M-2025, new CNY loans (ex-bills) are down 10% y/y
YTD new CNY loans ex-bills, CNY bn



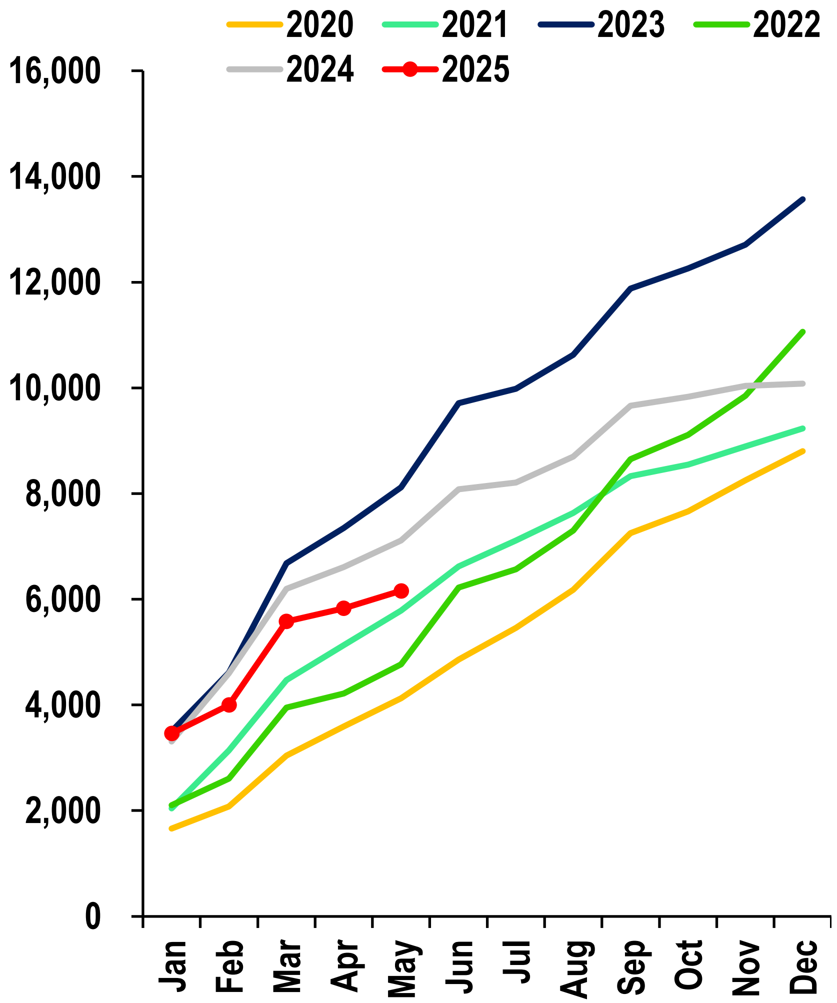
Source: Wind, Standard Chartered Research

Corporate loans were weak, with long-term new loans down 13% y/y in 5M-2025
企业贷款疲软，2025 年前五个月长期新增贷款同比下降 13%

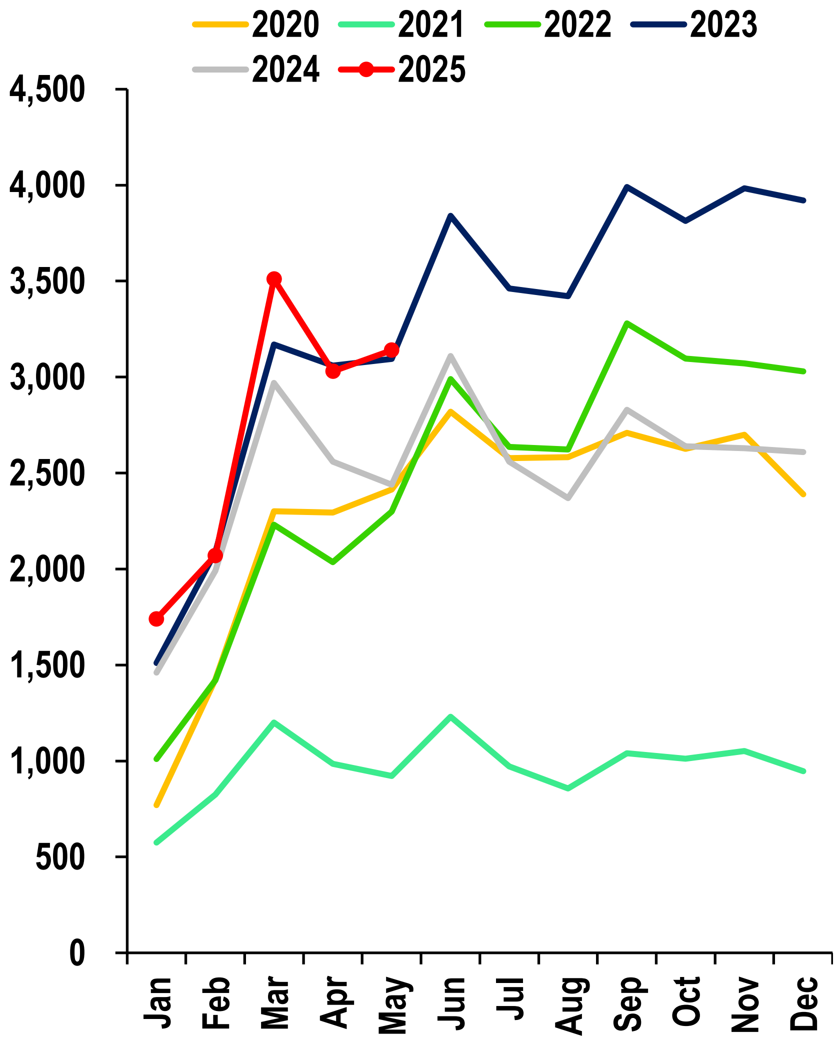
YTD new corporate loans
CNY bn



YTD new long-term corporate loans
CNY bn



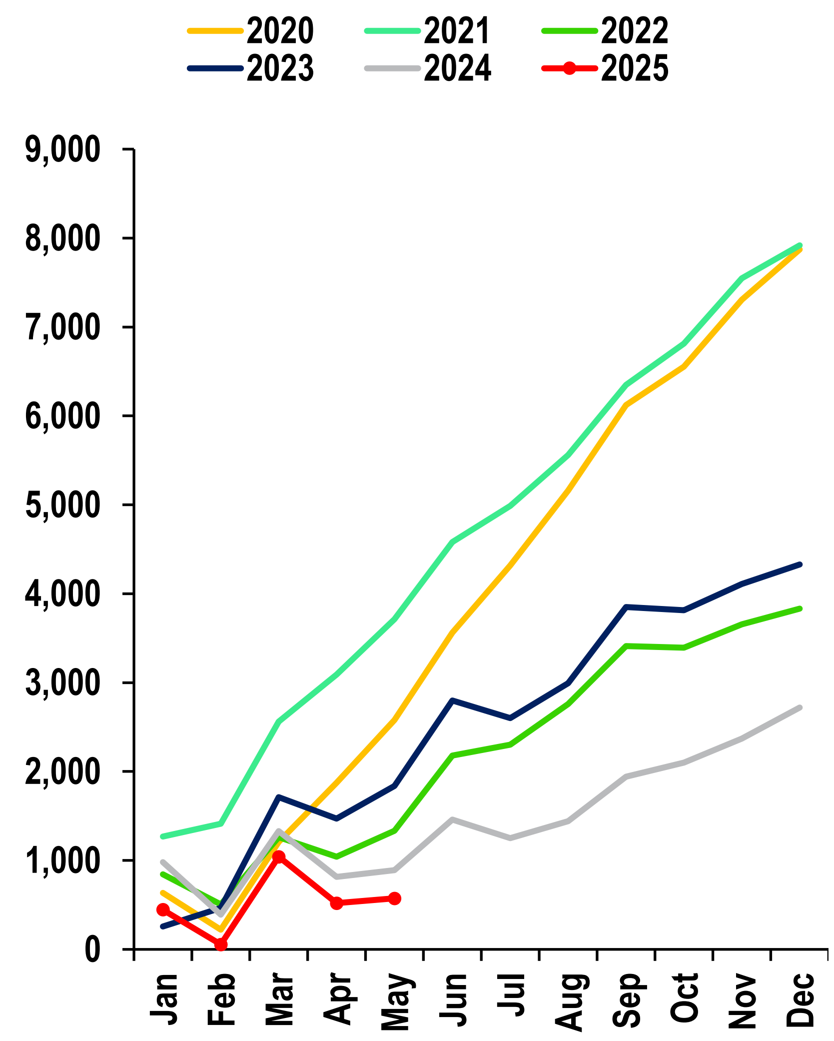
YTD new short-term corporate loans
CNY bn



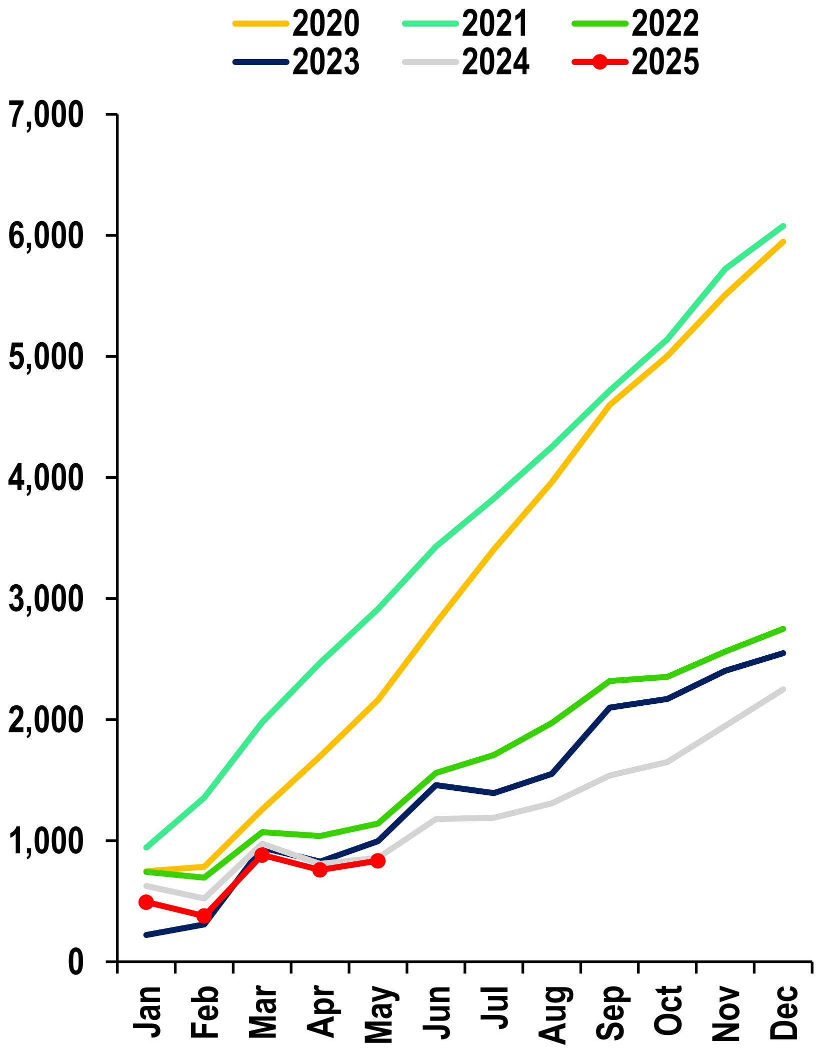
Source: Wind, Standard Chartered Research

Household loans were even weaker, in both short- and long-term loans
家庭贷款更加疲软，无论是短期贷款还是长期贷款

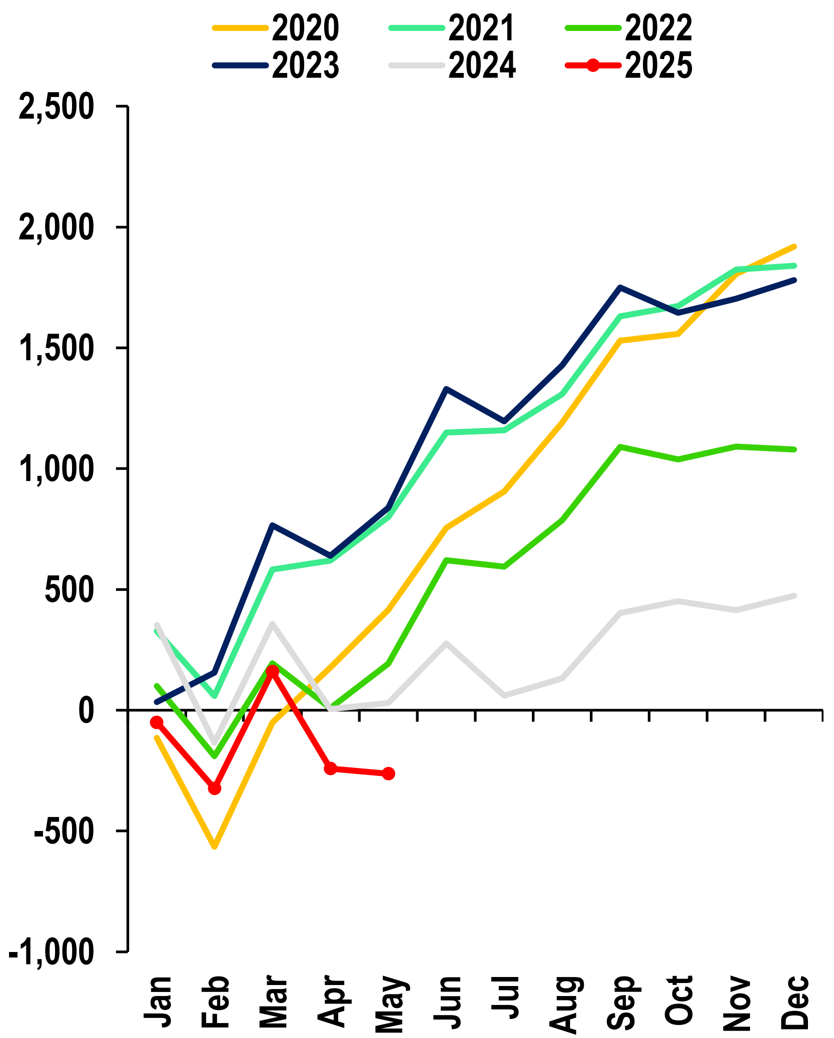
YTD new household loans
CNY bn



YTD new long-term household loans
CNY bn



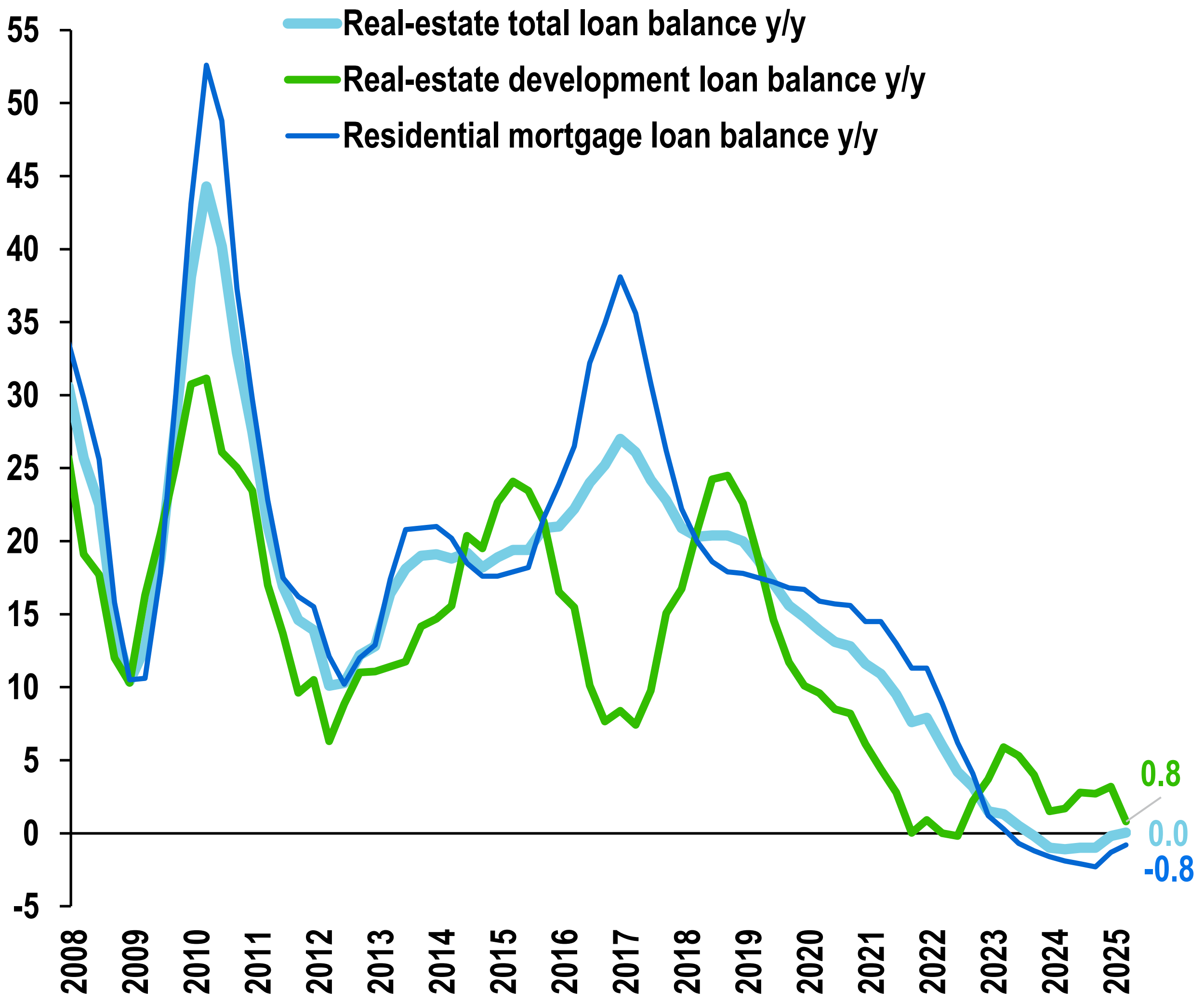
YTD new short-term household loans
CNY bn



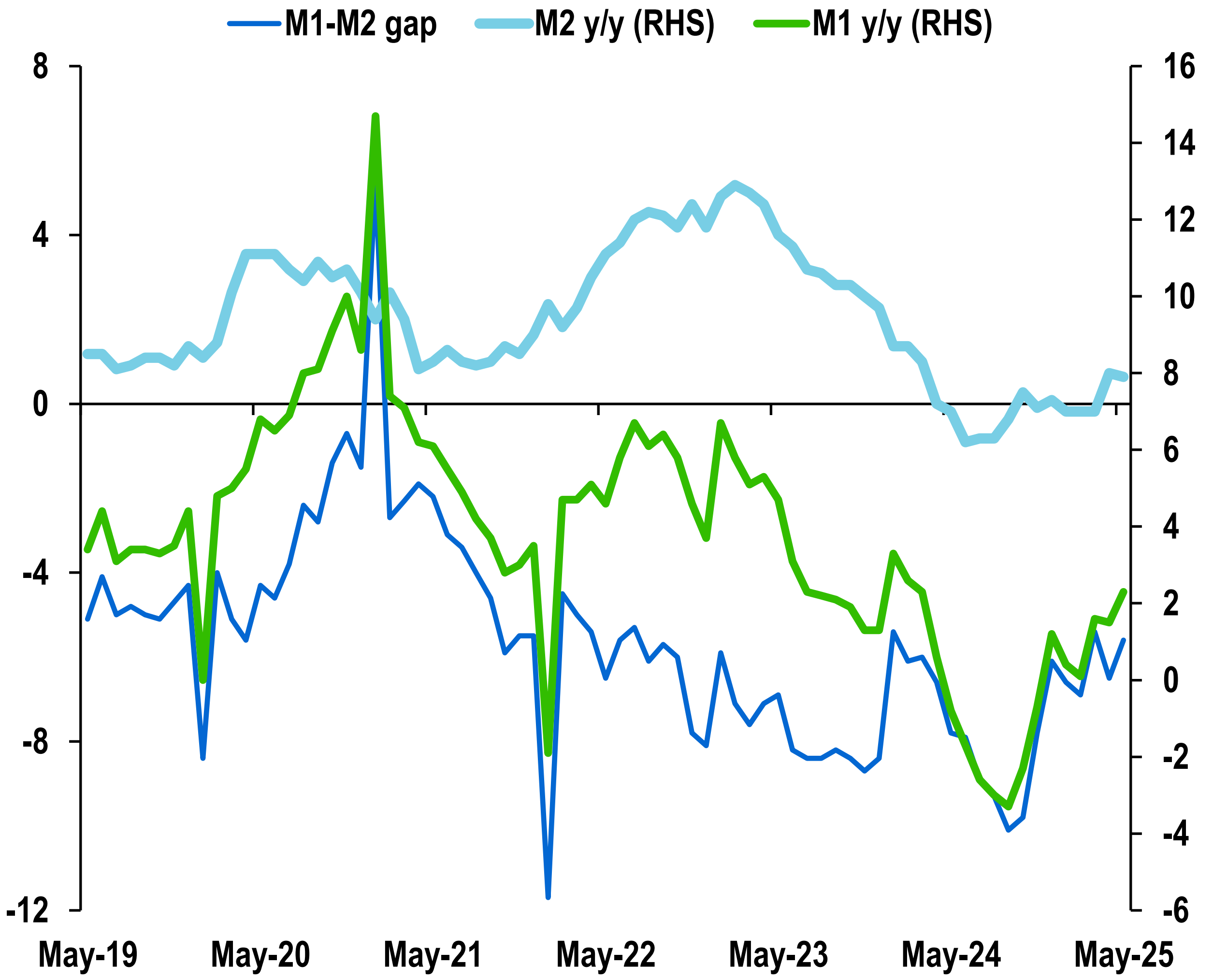
Source: Wind, Standard Chartered Research

Credit growth to stay weak in the foreseeable future
信贷增长在可预见的未来将保持疲软

Real-estate weakness remains a key drag
y/y



M1 vs M2 gap remained deeply negative
% y/y

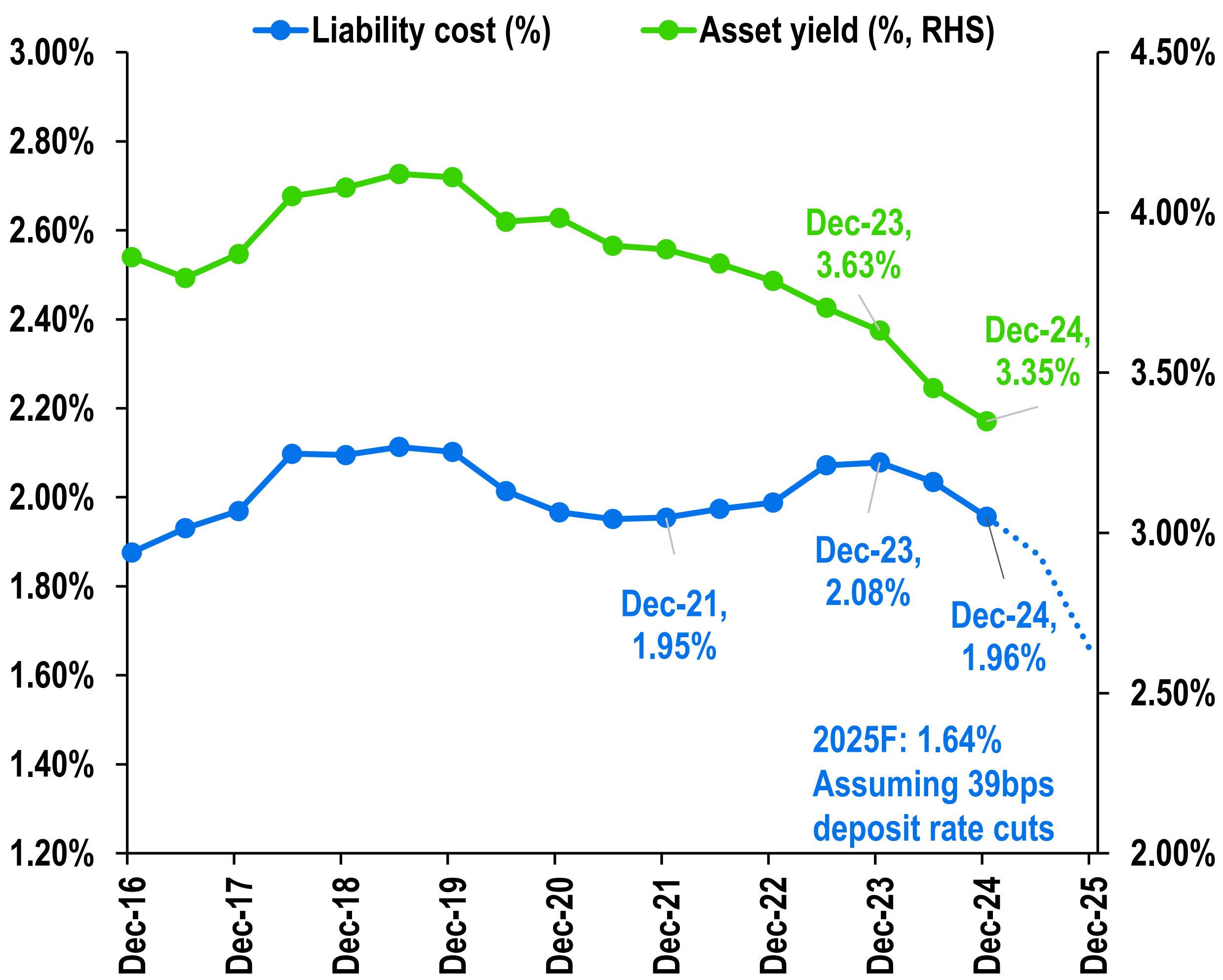


Source: Wind, Standard Chartered Research

PBoC may cut rates faster in H2 than in H1; bank deposit rates to fall further
央行下半年降息速度或快于上半年；银行存款利率或将进一步下降

PBoC could cut OMO faster in H2 than H1

%, based on filings of 42 A-share listed China banks



Historical deposit rate cuts

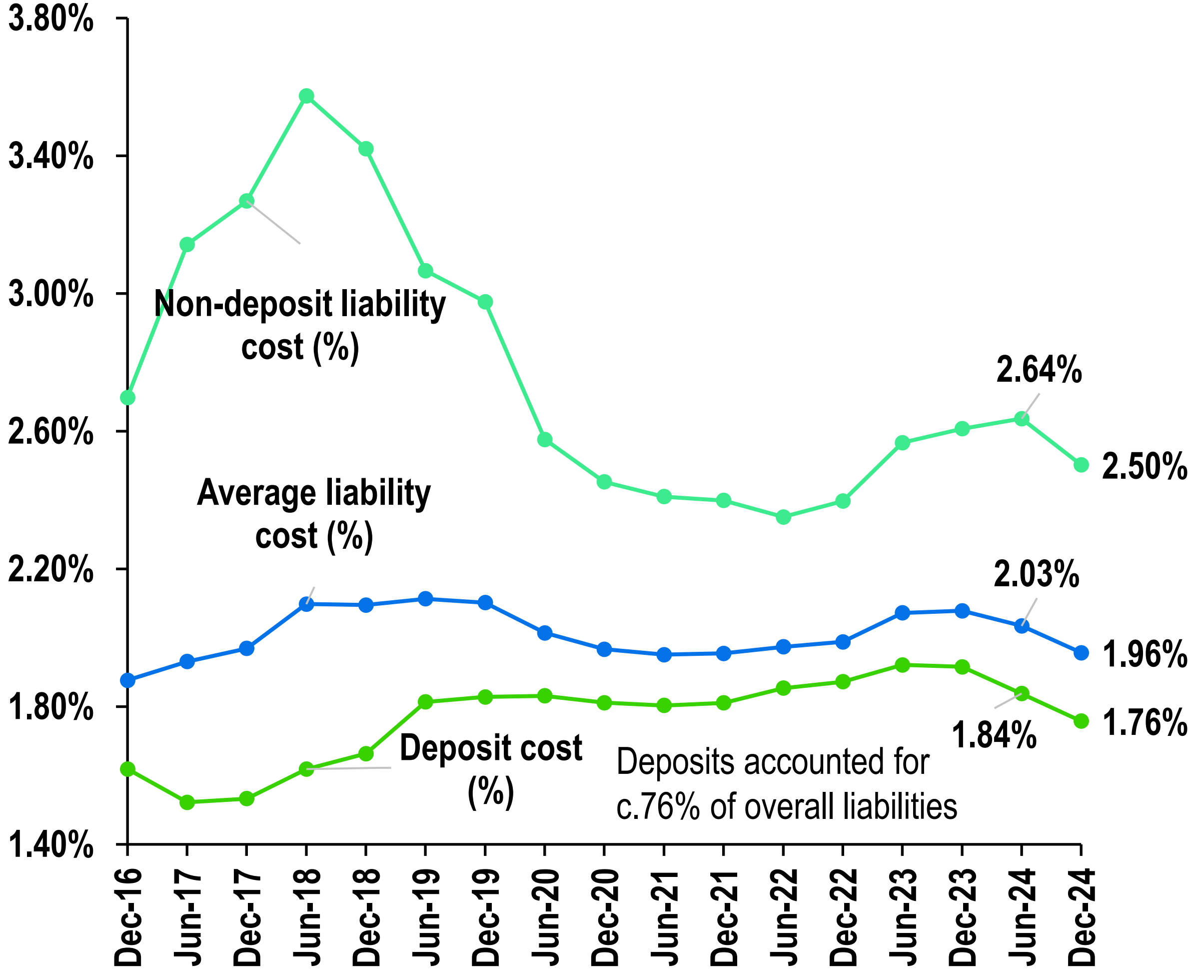
Bps, cuts in deposit rates benchmark for big-4 banks

	Demand	3M	6M	1Y	2Y	3Y	5Y	Weighted average
Sep-2022	-5	-10	-10	-10	-10	-15	-10	-12
Jun-2023	-5	0	0	0	-10	-15	-15	-6
Sep-2023	0	0	0	-10	-20	-25	-25	-12
Dec-2023	0	-10	-10	-10	-20	-25	-25	-16
Jul-2024	-5	-10	-10	-10	-20	-20	-20	-14
Oct-2024	-5	-25	-25	-25	-25	-25	-25	-25
May-2025	-5	-15	-15	-15	-15	-25	-25	-19
2022	-5	-10	-10	-10	-10	-15	-10	-12
2023	-5	-10	-10	-20	-50	-65	-65	-34
2024	-10	-35	-35	-35	-45	-45	-45	-39
5M-2025	-5	-15	-15	-15	-15	-25	-25	-19

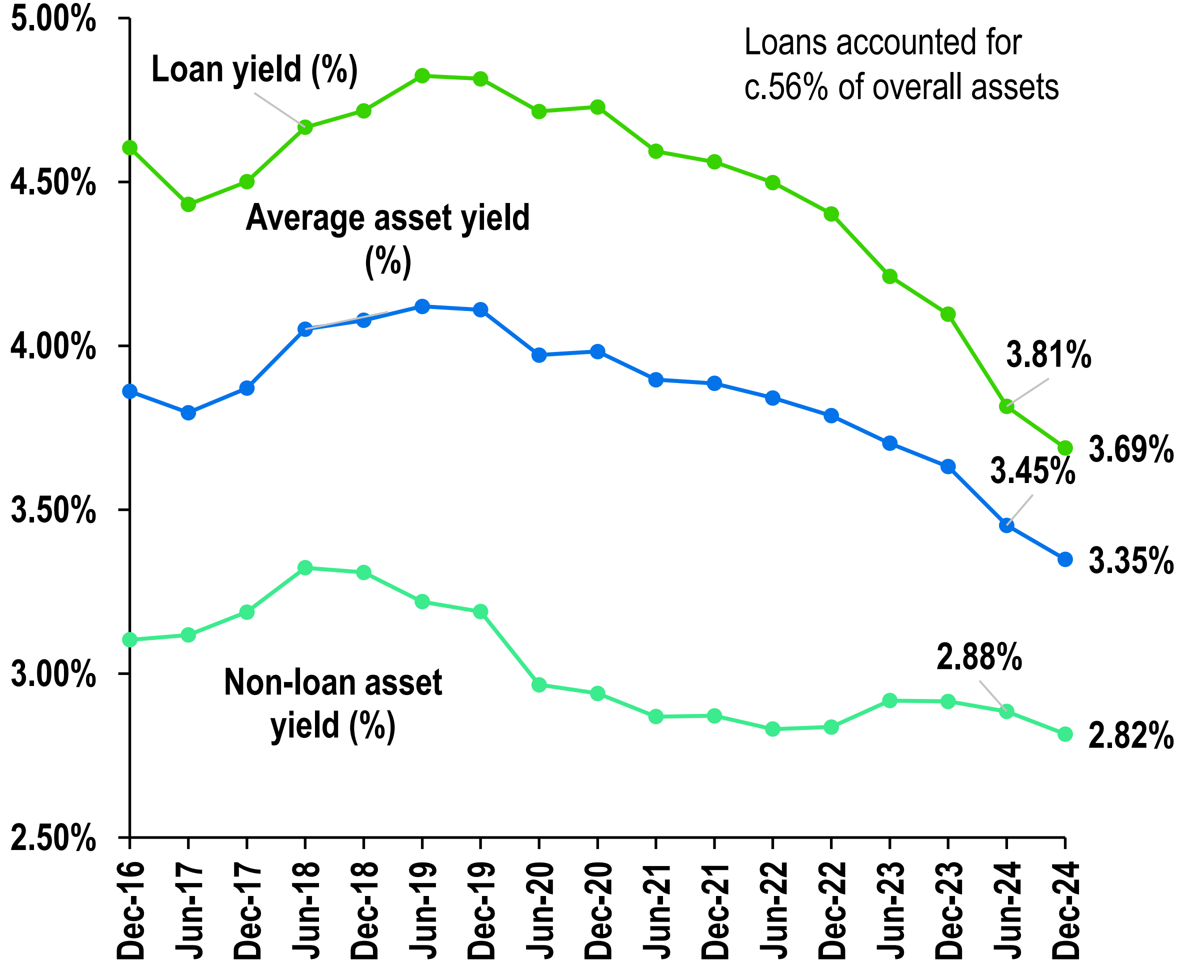
Source: Wind, Standard Chartered Research

Banks' liability costs have fallen, but at a slower pace than asset yield
银行的负债成本已经下降，但下降速度仍慢于资产端

Overall liability costs fell by 8bps in H2-2024 (vs -4bps in H1-2024) on phase-in of previous deposit rate cuts, NBFI deposit regulatory tightening and lower interbank rates *(%)*



Overall asset yield down by 10bps in H2-2024 (vs -18bps in H1-2024), given much faster pass-through of OMO cuts to asset yield than of deposit rate cuts to liability cost *(%)*



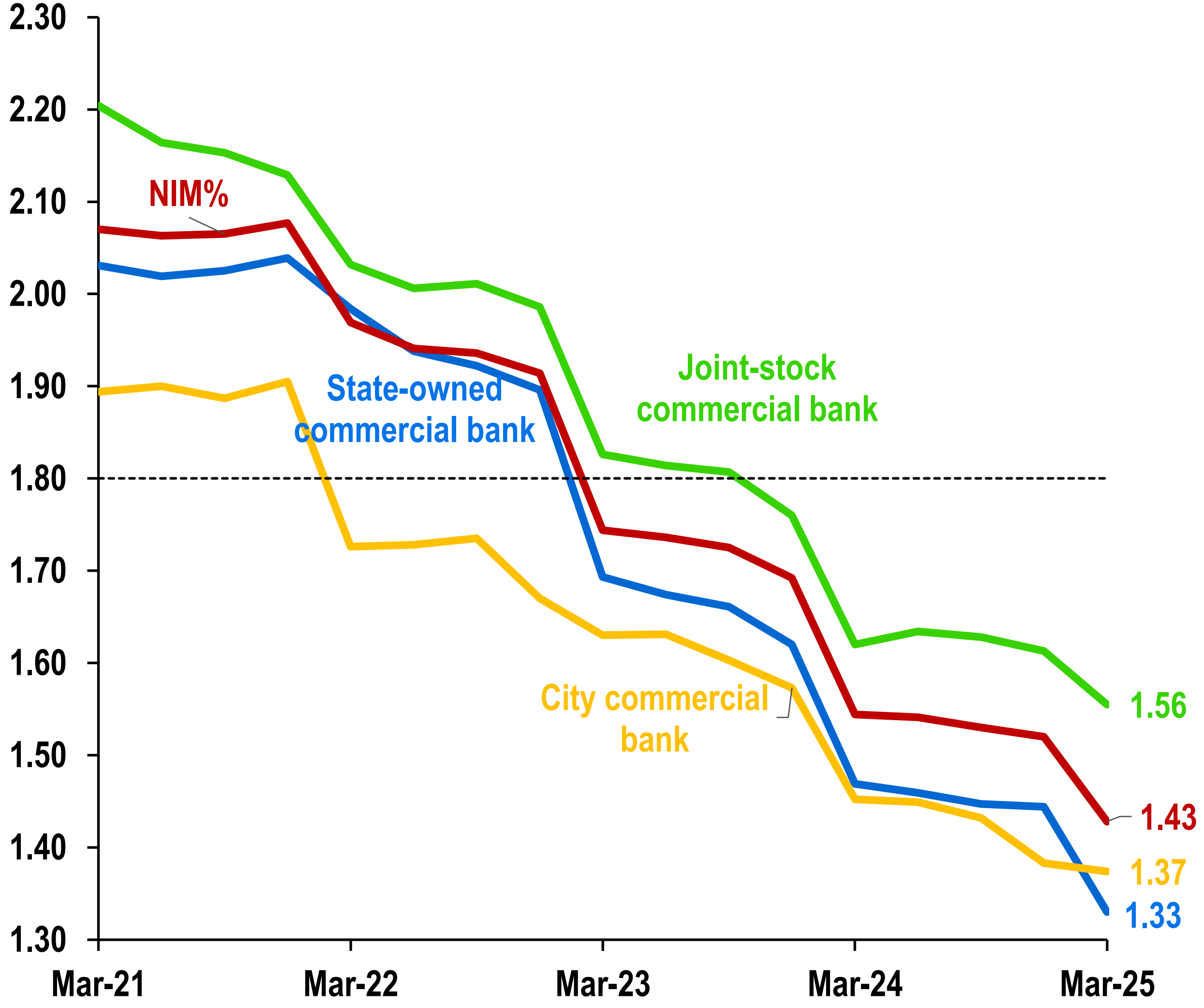
Source: Wind, Company filings, Standard Chartered Research

NIM compression has led to state-capital injection to banks to allow more rate cuts
净息差压缩导致国家直接给银行注资，给进一步降息提供空间

Recapitalisation (CNY 500bn) to improve the capital adequacy ratio of four state-owned banks by 0.85ppt

	BOC	CCB	BOCOM	PSBC	Weighted average
MoF capital injection (CNY bn)	165	105	112	118	125
Capital adequacy ratio before injection %)	18.76	19.69	16.02	14.44	18.04
Capital adequacy ratio after injection (%)	19.62	20.17	17.21	15.80	18.88
Change (ppt)	+0.86	+0.48	+1.19	+1.36	+0.85

Banks' net interest margins (NIMs) at a record low
%, per NFRA data

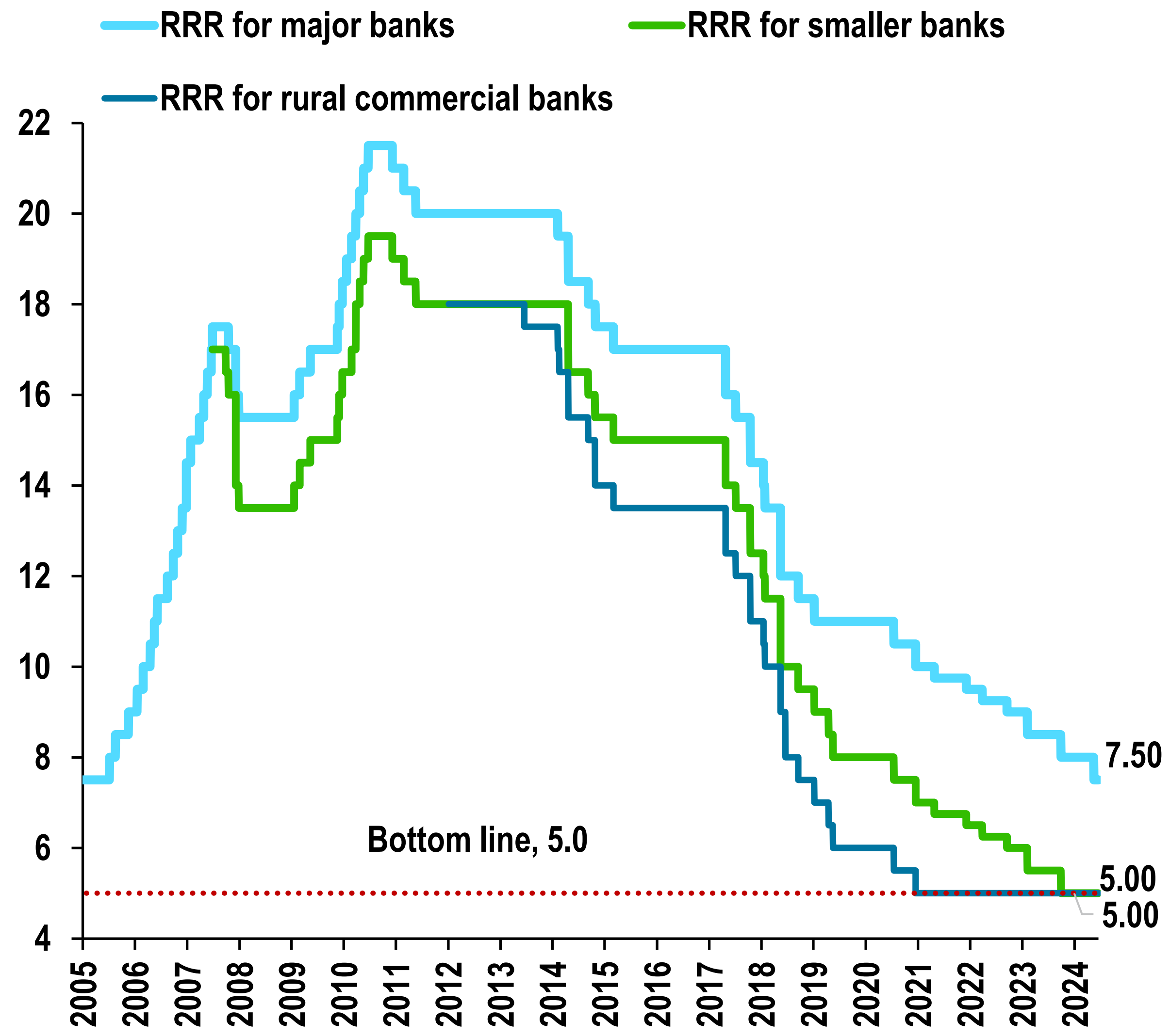


Source: Wind, Company filings, Standard Chartered Research

PBoC needs to rely more on alternative tools to inject liquidity as traditional tools approaching limits 传统工具已接近极限，中国人民银行需要更多地依赖替代工具来注入流动性

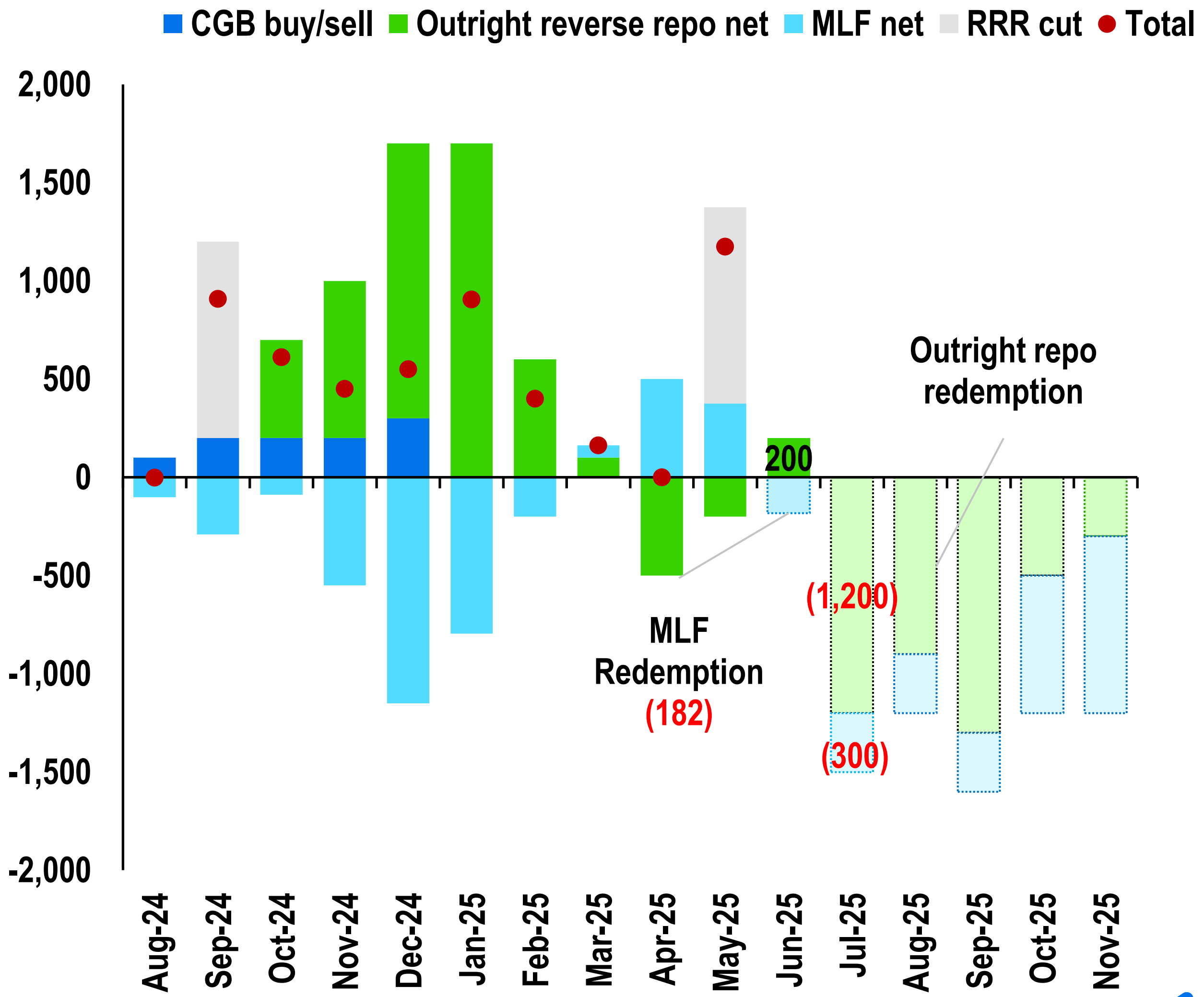
Average RRR at 6.2% currently, only 120bps from the floor

Historical RRR by type of bank, %



A summary of PBoC mid- to long-term liquidity facilities

CNY bn



Source: Wind, Standard Chartered Research

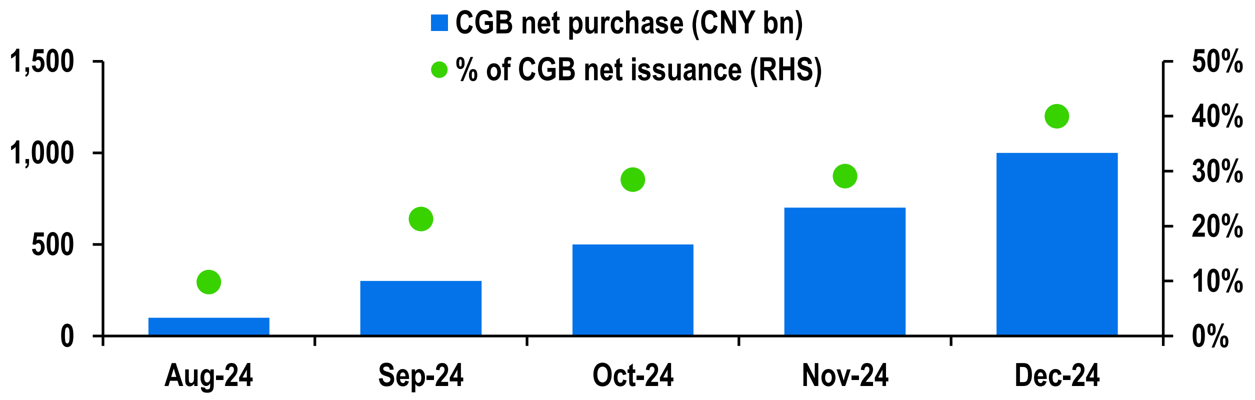
PBoC will likely resume CGB purchases in H2
中国央行或将于下半年重启国债购买

PBoC introduced a CGB buy/sell tool in August 2024; paused since January 2025 on market conditions

Date	Amount (CNY bn)	PBoC CGB holdings (CNY bn)
Aug-24	+100	2,031
Sep-24	+200	2,261
Oct-24	+200	2,464
Nov-24	+200	2,666
Dec-24	+300	2,966

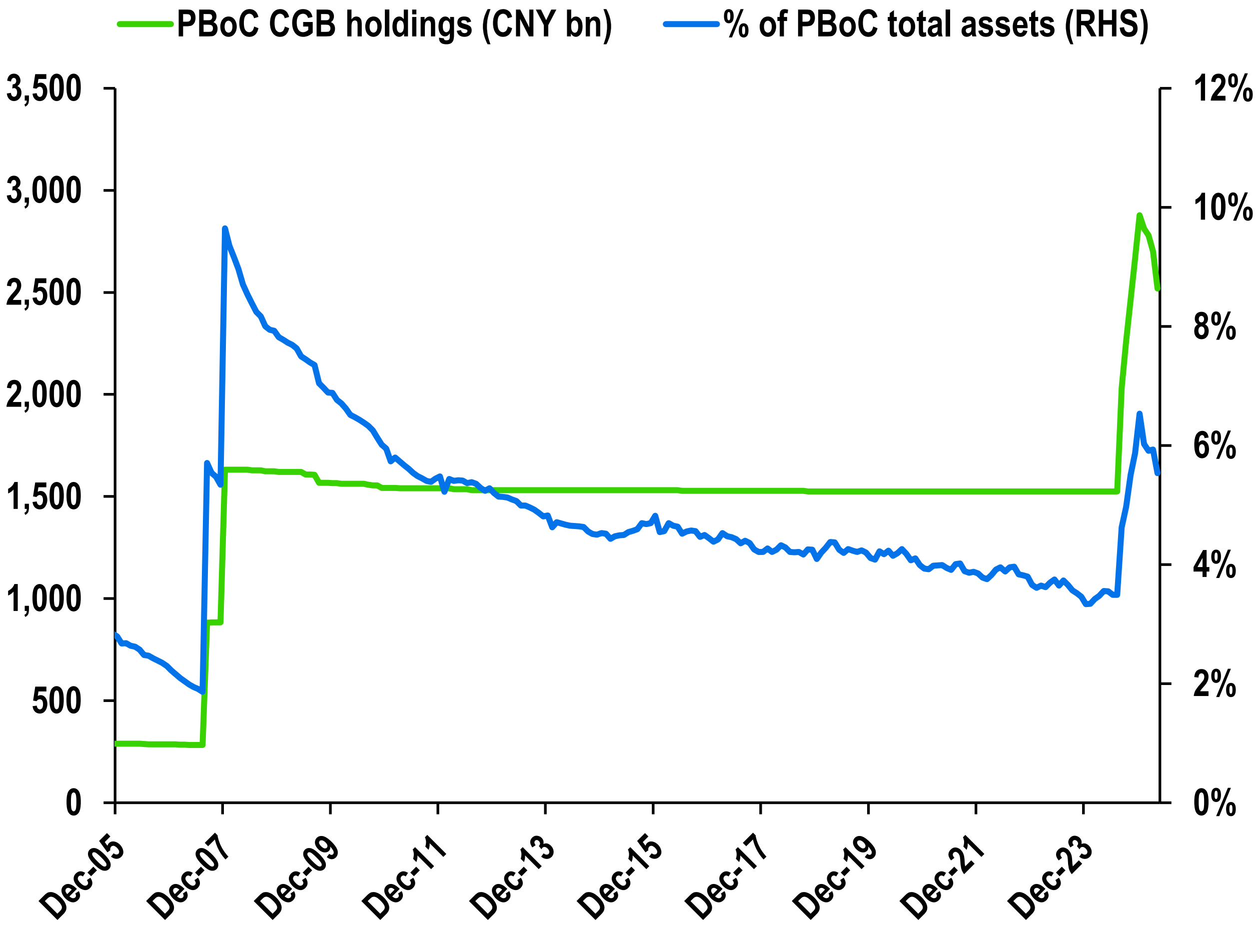
Share of cumulative CGB net purchases in CGB net issuance reached 40% during Aug-Dec

Cumulative since Aug-24, CNY bn (LHS); % (RHS)



PBoC's bond holding declined by 15% in 5M-2025, prompting a need to resume purchases in H2 as more will likely mature soon

CNY bn (LHS); % (RHS)



Source: Wind, Standard Chartered Research

China rates outlook

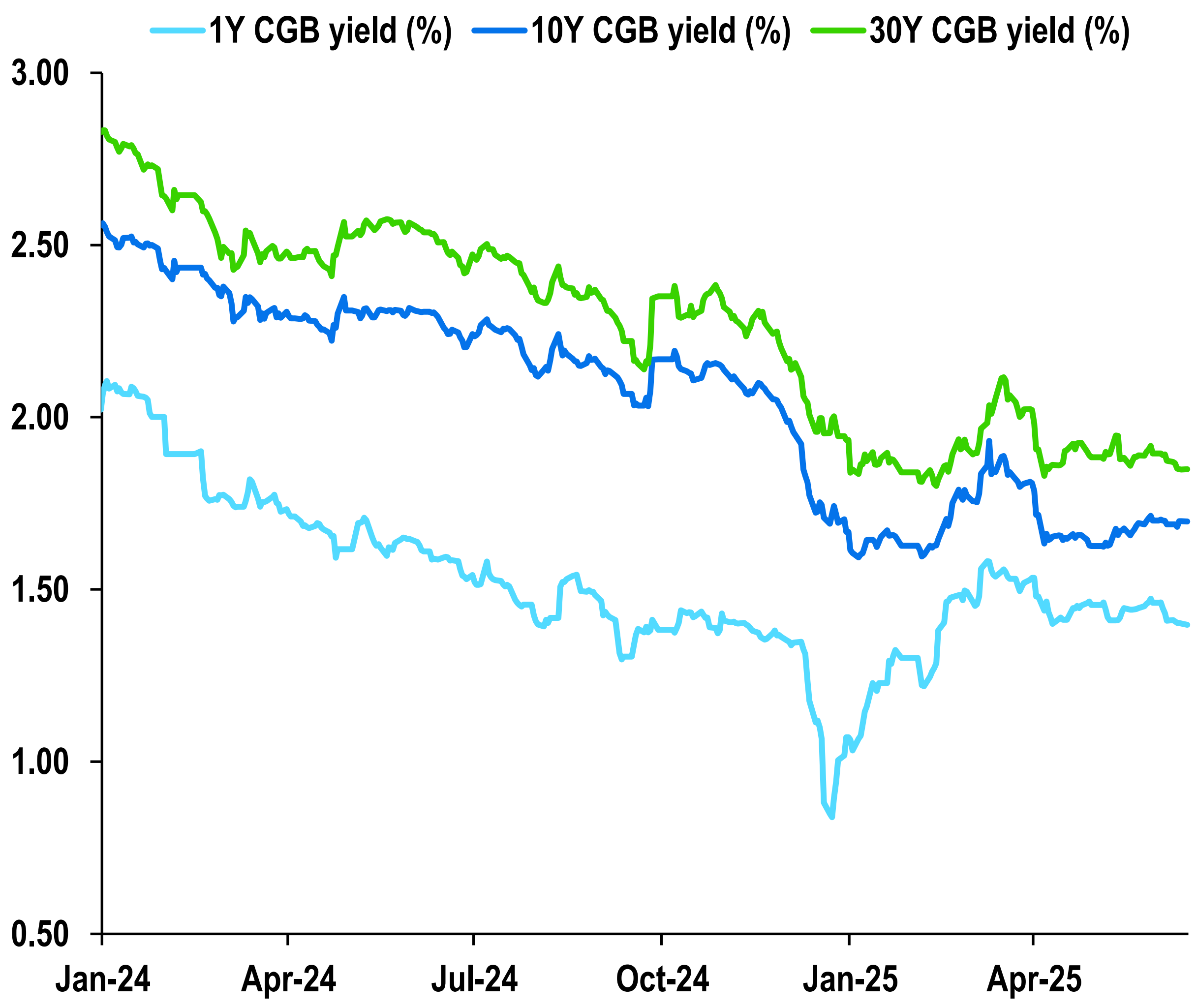
China rates outlook for H2

China rates to fall further on deflationary pressure and more monetary policy easing

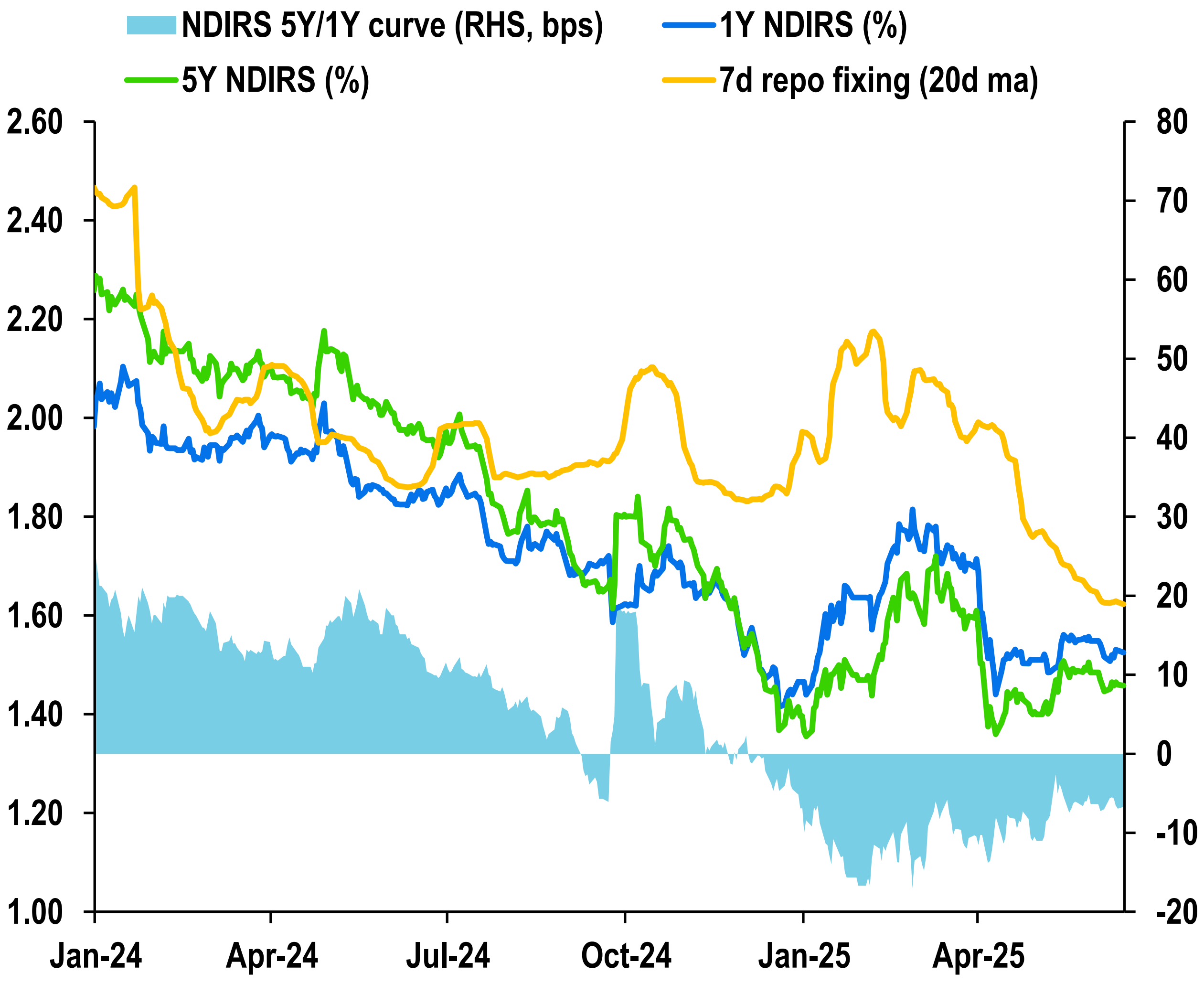
- We see further downside to China rates in H2 on likely slower growth, lower inflation, more monetary policy easing, flush liquidity, and robust bond demand from local banks, asset managers and the PBoC
- We maintain our forecast of 10Y CGB yields at 1.3% by end-2025 with the curve flattening further (P48)
- We expect the PBoC to keep interbank liquidity conditions ultra-accommodative in H2 by relying more on alternative tools (outright reverse repo, MLF, CGB purchases) to accelerate liquidity injection; we see the PBoC resuming CGB purchases soon
- We see the 7-day repo fixing possibly dropping to 1.3-1.4% in H2 vs the YTD average of 1.9% (P49)
- Primary supply will likely stay strong in Q3 (-1% y/y and 9% q/q) even after front-loading in H1, but will likely fall meaningfully in Q4 (-24% y/y and -25% q/q; P50) on higher redemptions (P51)
- Supply of duration is likely to remain heavy (average tenor of government bond issuance at c.12 years in 5M-2024) on more ultra-long-dated special CGB and LGB project bond issuance in Q3; with over 80% of LGB debt-swap issuance being completed, additional quota approval seems possible in H2, in our view (P53-56)
- Banks' bond demand to stay strong on weaker credit growth; strong AUM growth to support funds' bond demand, but the risk of asset rotation to equities persists (P57-60)

We see CGB curve flattening further, with 10Y yield declining to 1.3% by end-2025
国债收益率曲线将进一步趋平，我们预计10 年期国债利率2025年底将降至 1.3%

We see 10Y CGB yields falling to 1.30% by end-2025; curve to flatten



NDIRS 5Y/1Y curve to stay inverted

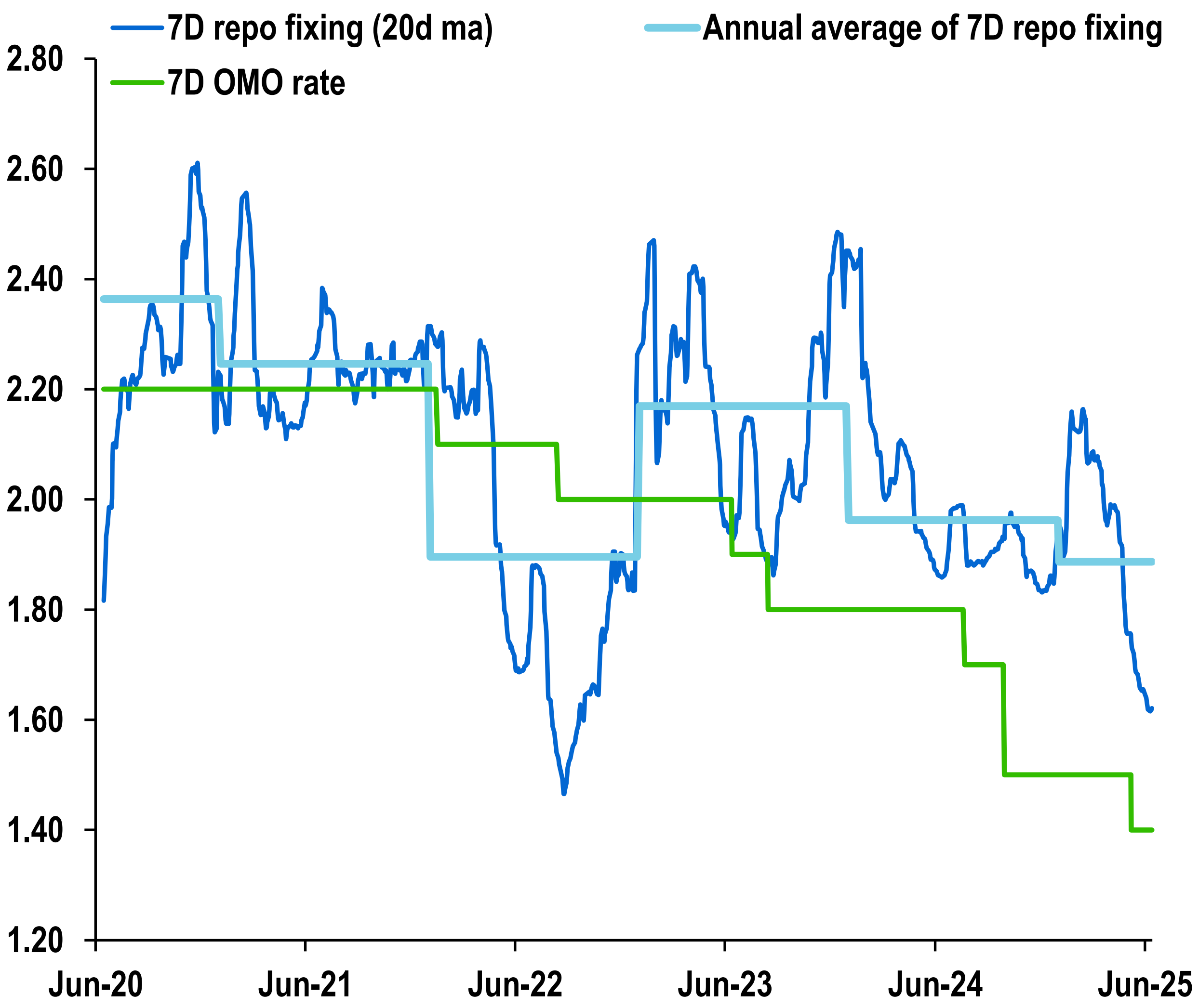


Source: Bloomberg, Standard Chartered Research

Interbank rates to decline further on easing of liquidity stance
央行对流动性的支持下，银行间资金利率或进一步下行

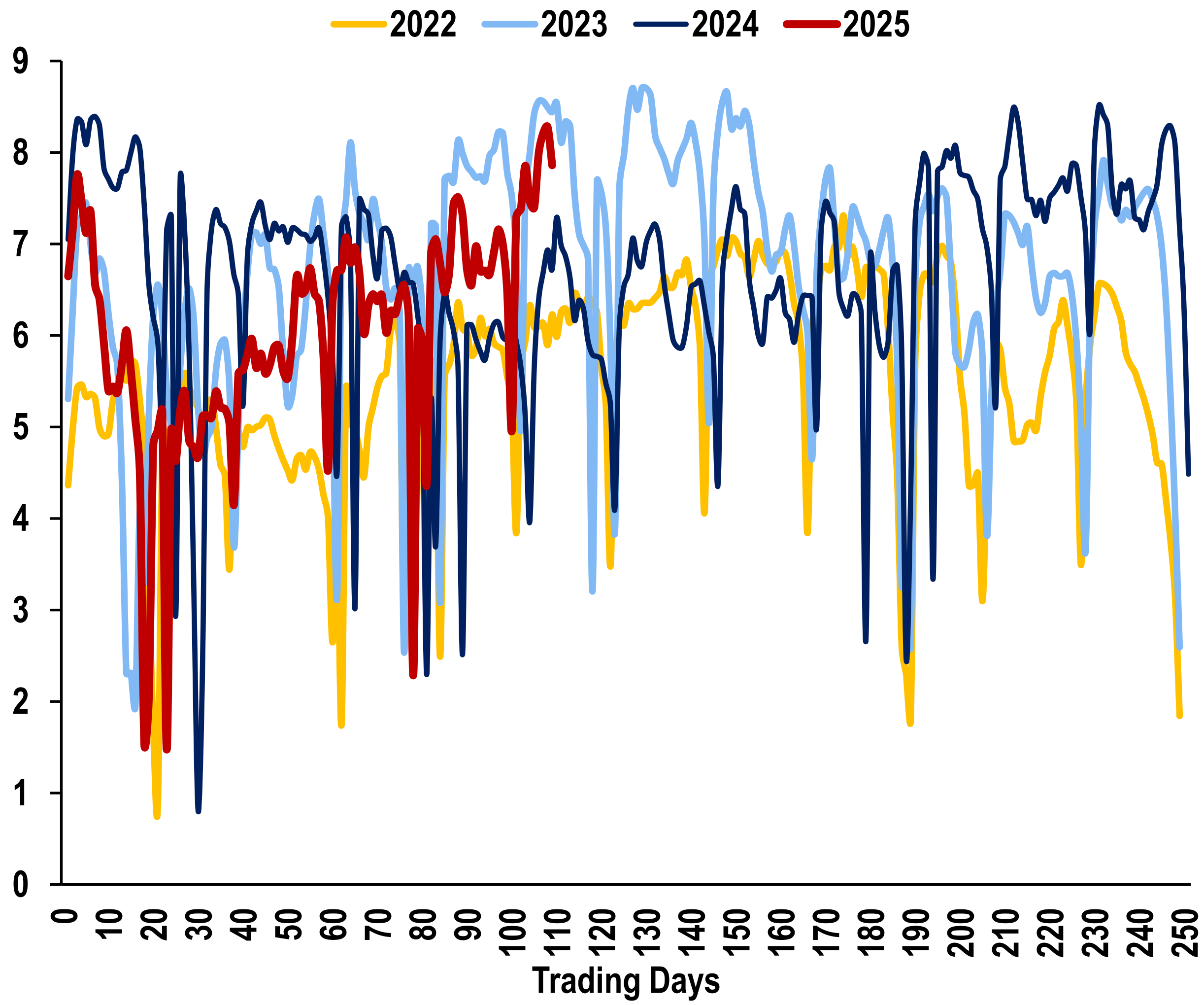
Interbank liquidity conditions have started to ease since April

7D repo fixing vs OMO rate, %



Interbank leverage ratio has increased only modestly

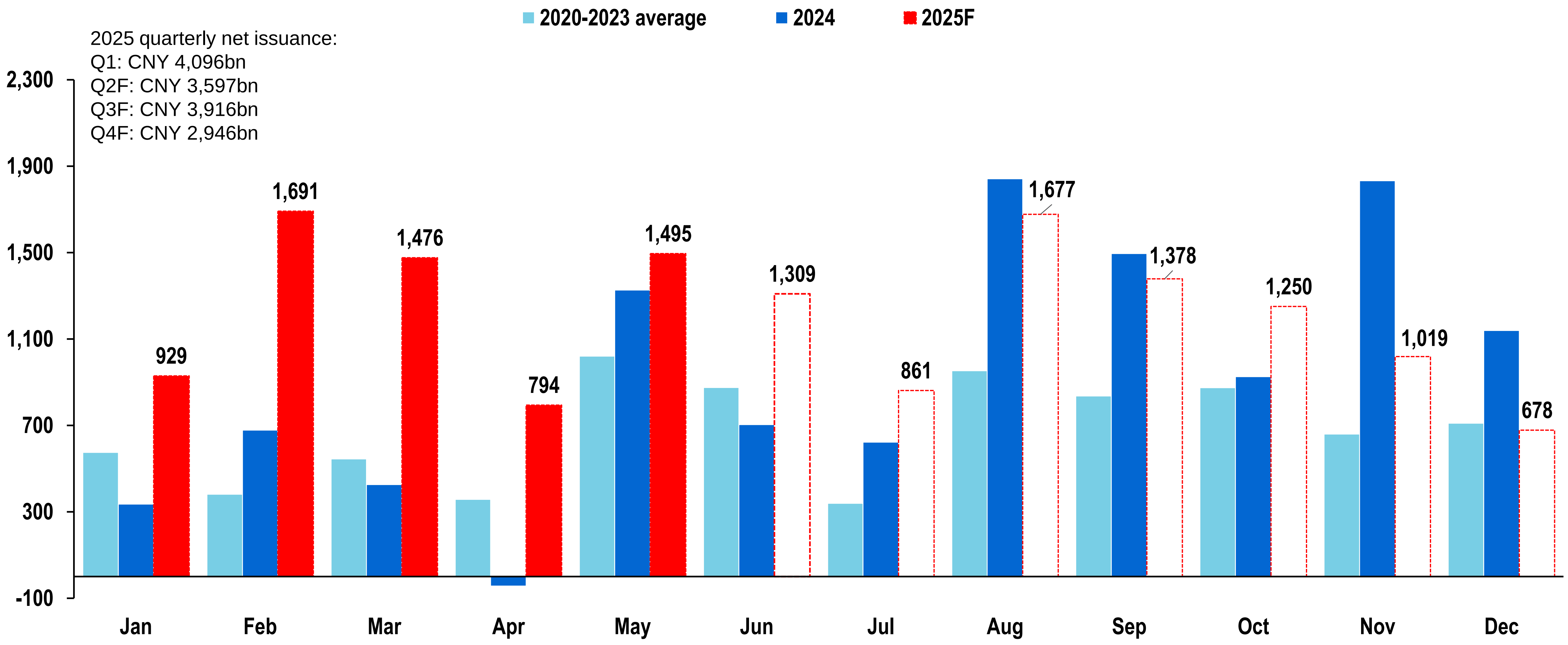
CNY tn, daily interbank repo turnover



Source: Wind, Standard Chartered Research

Supply outlook – Issuance to stay strong in Q3 before moderating in Q4
供给前景 – 第三季度发行量保持强劲，第四季度则有所放缓

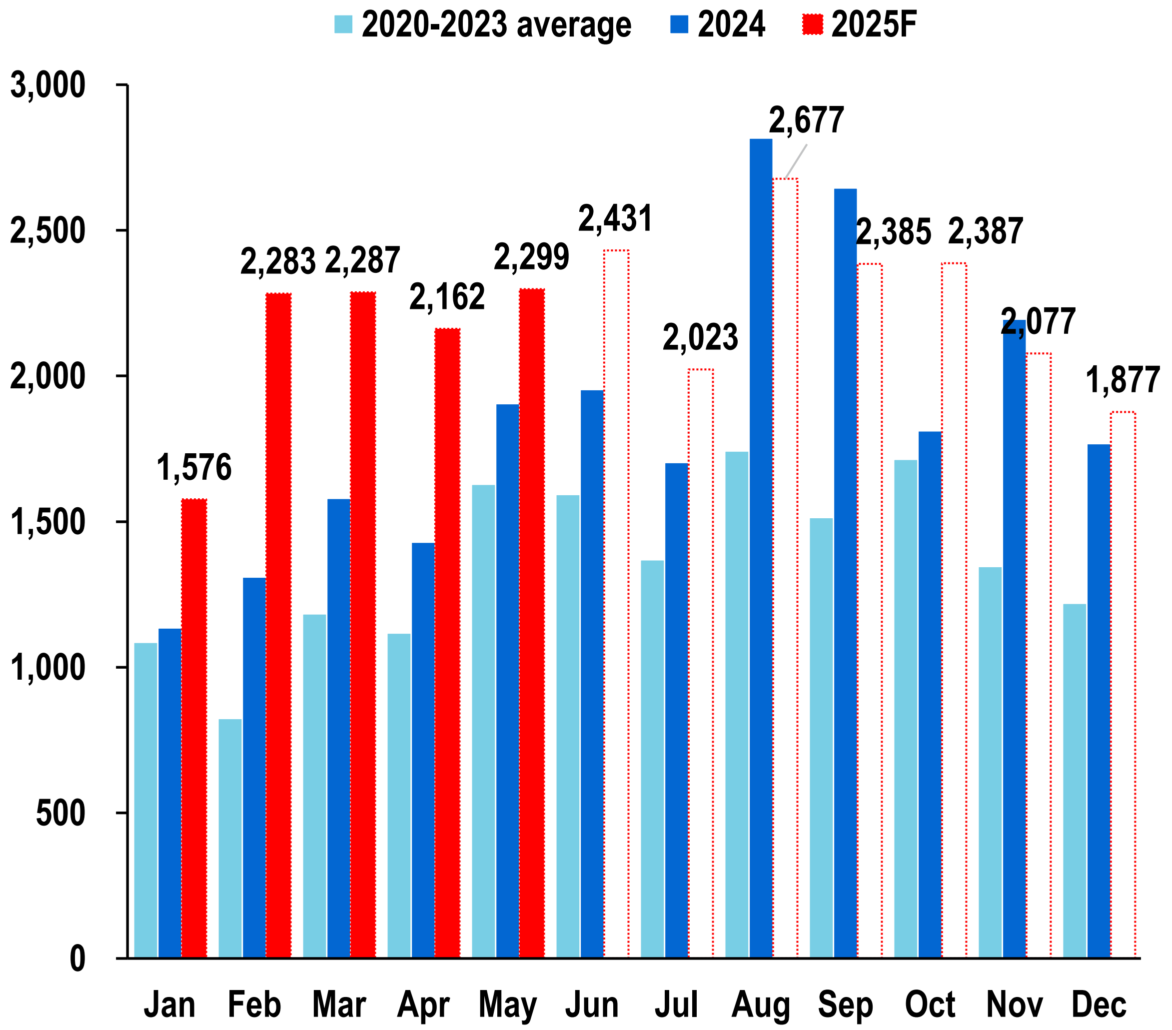
We expect net issuance of government bonds to stay strong in Q3 at CNY 3.92tn (-1% y/y and +9% q/q) before falling in Q4 to CNY 2.95tn (-24% y/y and -25% q/q) given stronger redemptions *(CNY bn, monthly net issuance of CGBs and LGBs)*



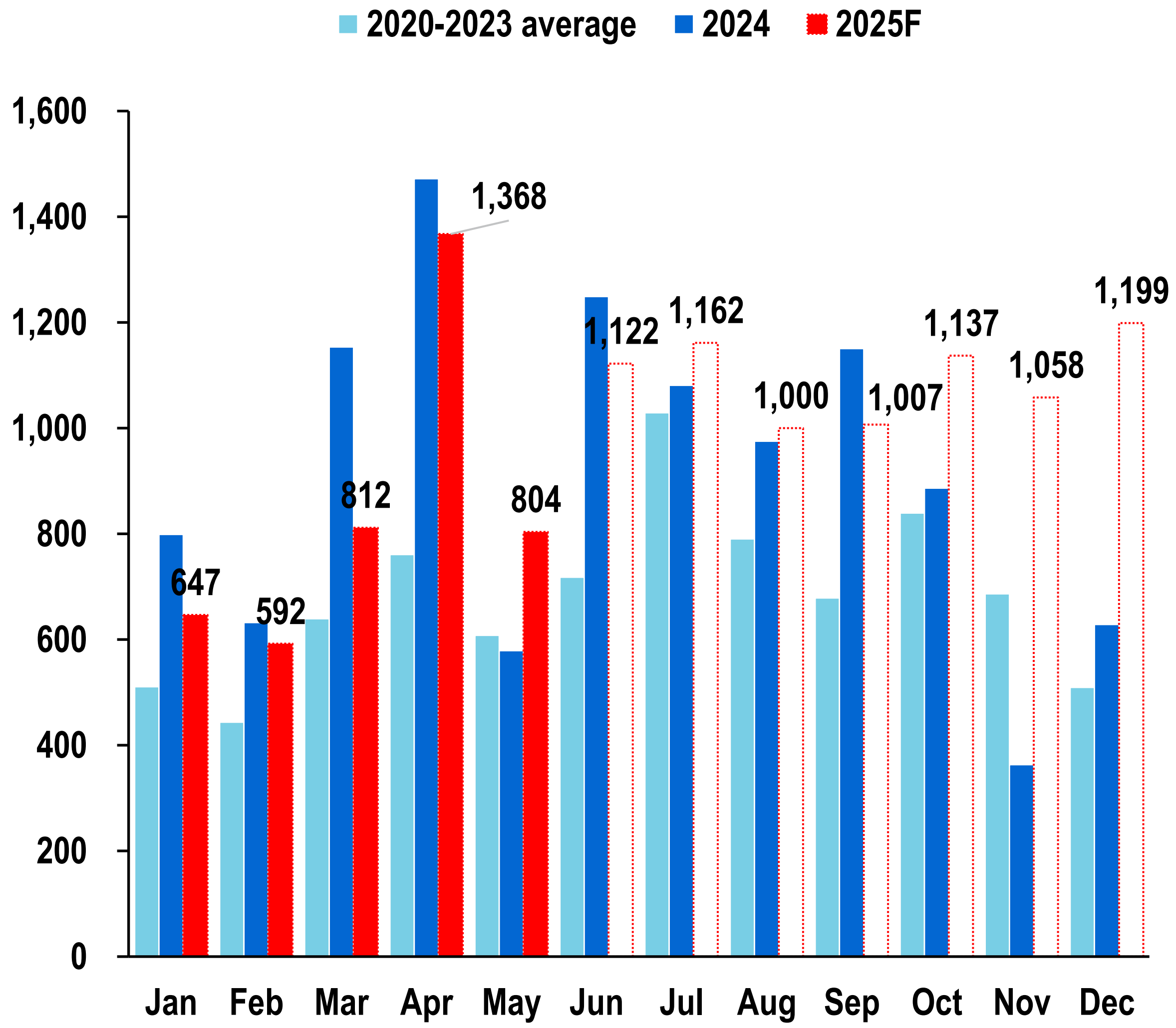
 Source: Wind, Standard Chartered Research

Redemptions of government bonds to stay flat in Q3 before rising 81% y/y in Q4
政府债券到期量在三季度较去年同期持平，四季度同比增长81%

Gross issuance of CGBs and LGBs to fall 1% y/y in Q3 and rise 10% y/y in Q4 *(CNY bn, by month)*



Redemptions of CGBs and LGBs to fall 1% y/y in Q3 and rise 81% y/y in Q4 *(CNY bn, by month)*

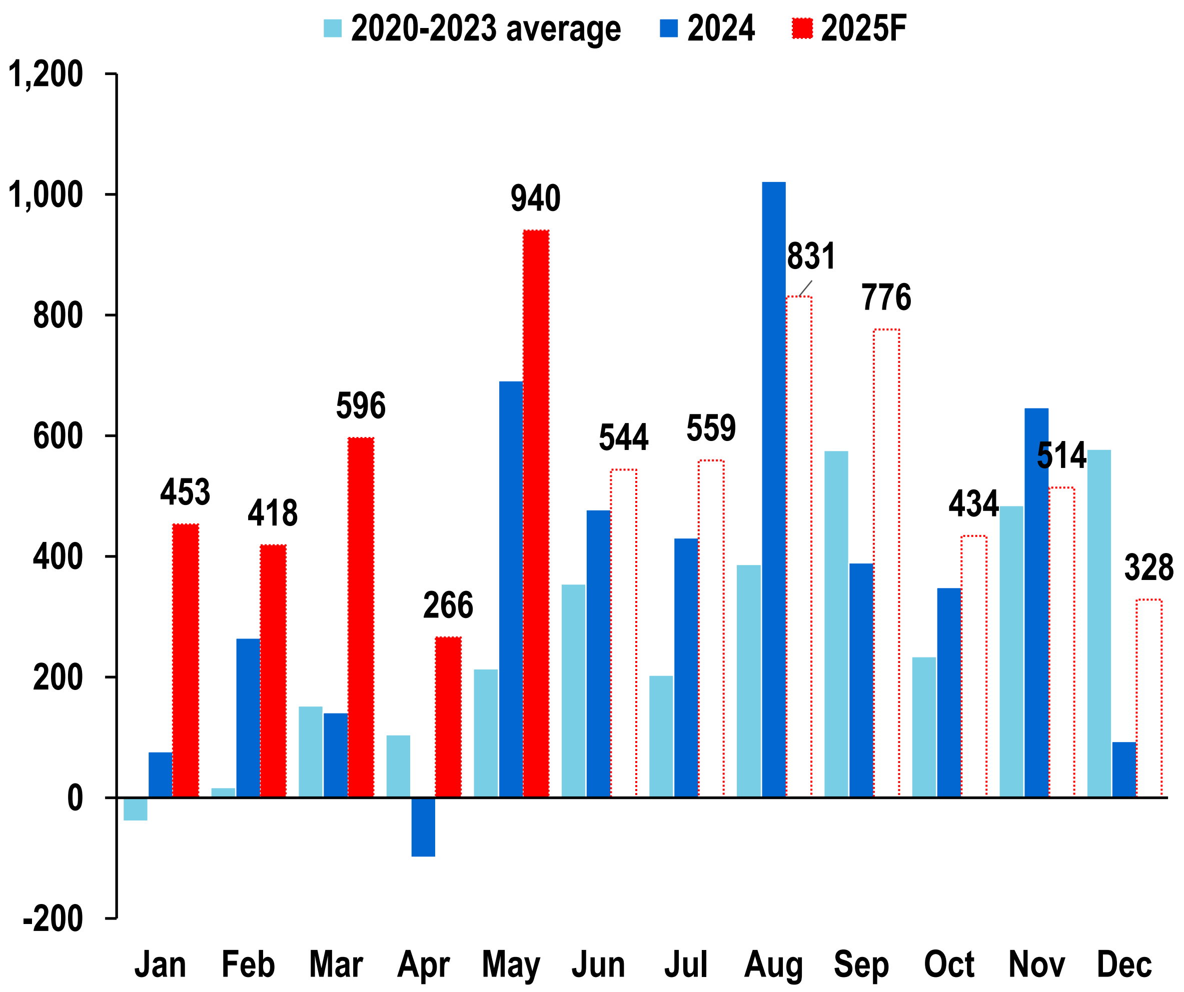


Source: Wind, Standard Chartered Research

CGB net issuance to stay strong in Q3; LGB net issuance to slow in H2 on higher redemptions
三季度国债净供给保持强劲；由于到期量增加，地方债净供给下半年放缓

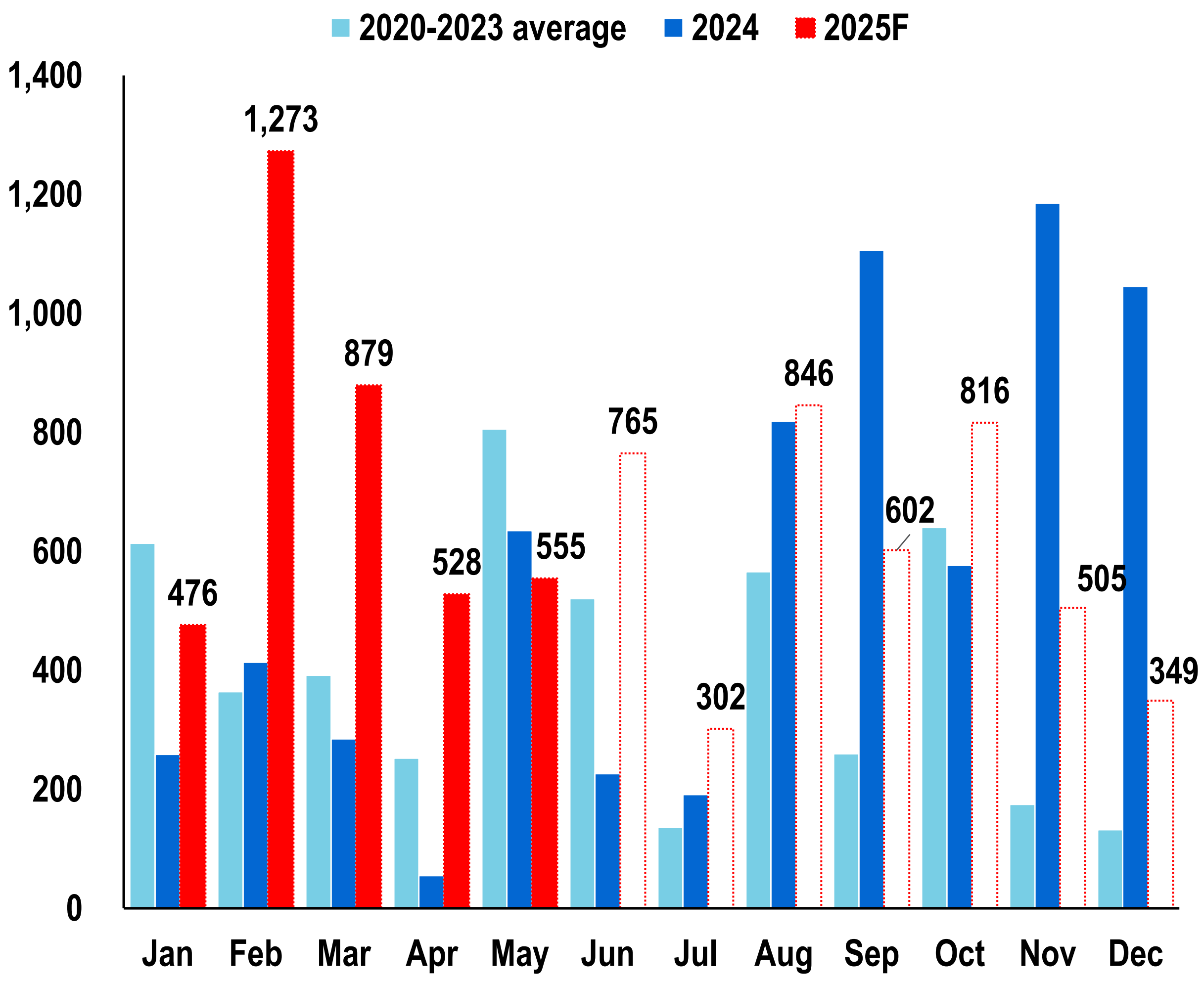
Net issuance of CGBs to rise 18% y/y (+24% q/q) in Q3 to CNY 2.17tn and 17% y/y (-41% q/q) in Q4 to CNY 1.28tn

CNY bn, monthly net issuance of CGBs



Net issuance of LGBs to fall 17% y/y (-5% q/q) in Q3 to CNY 1.75tn and fall 40% y/y (-5% q/q) in Q4 to CNY 1.67tn

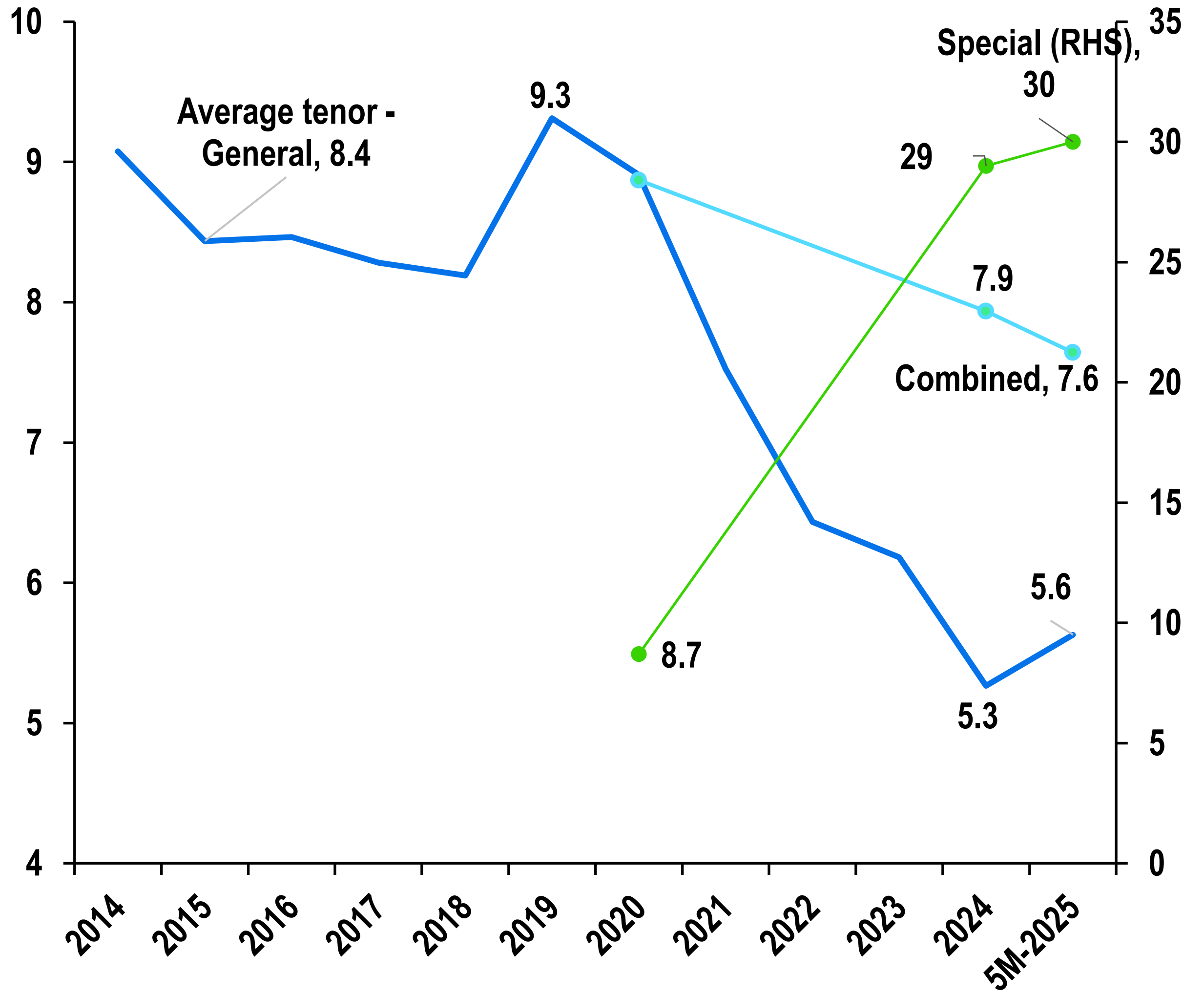
CNY bn, monthly net issuance of CGBs



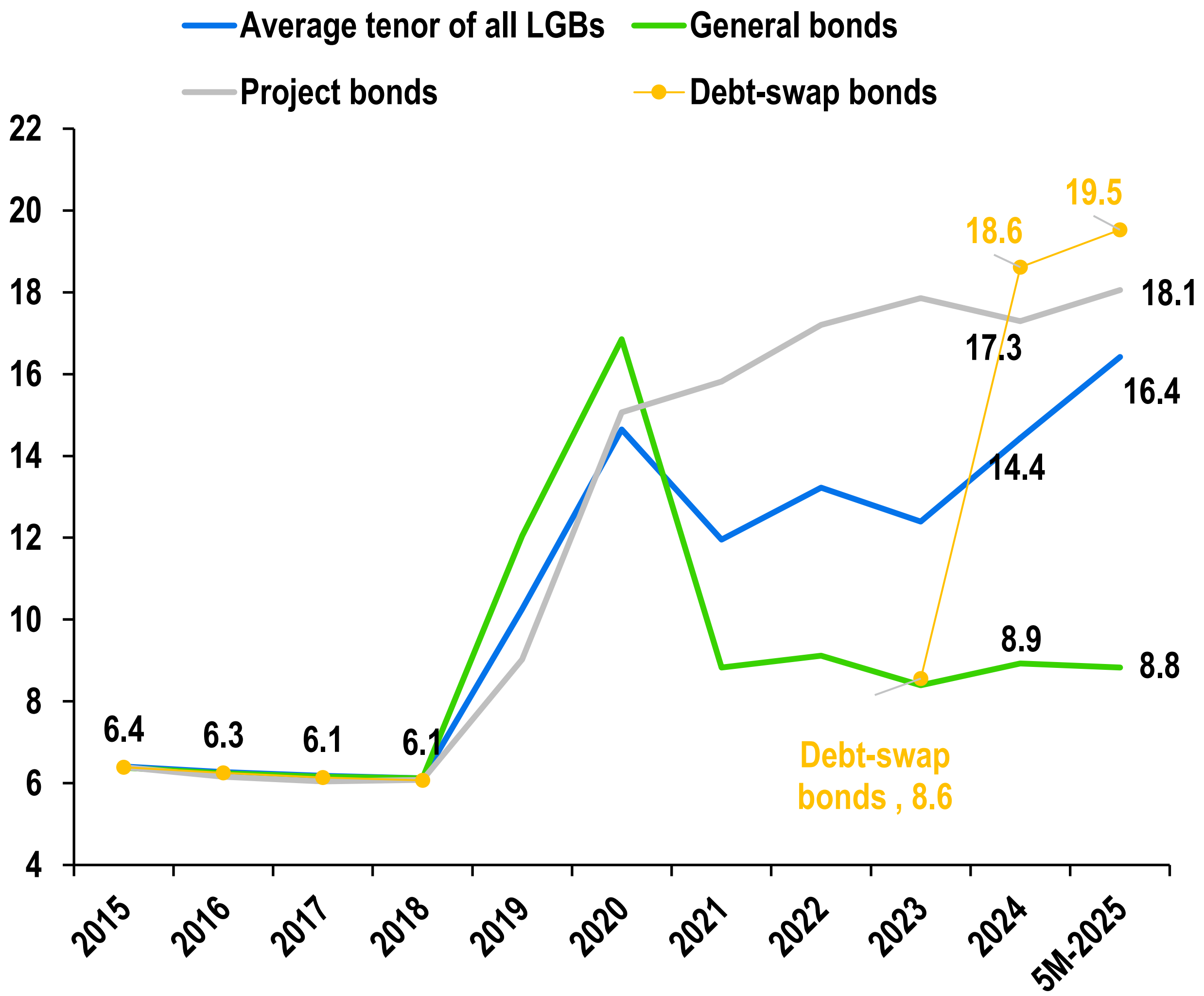
Source: Wind, Standard Chartered Research

Supply of duration remains heavy on more special CGBs and LGB project bonds
久期供给压力仍大，特别国债及地方专项债发行仍然强劲

Weighted average issuance tenor of CGBs
Years



Weighted average issuance tenor of LGBs
Years



 Source: Wind, Standard Chartered Research

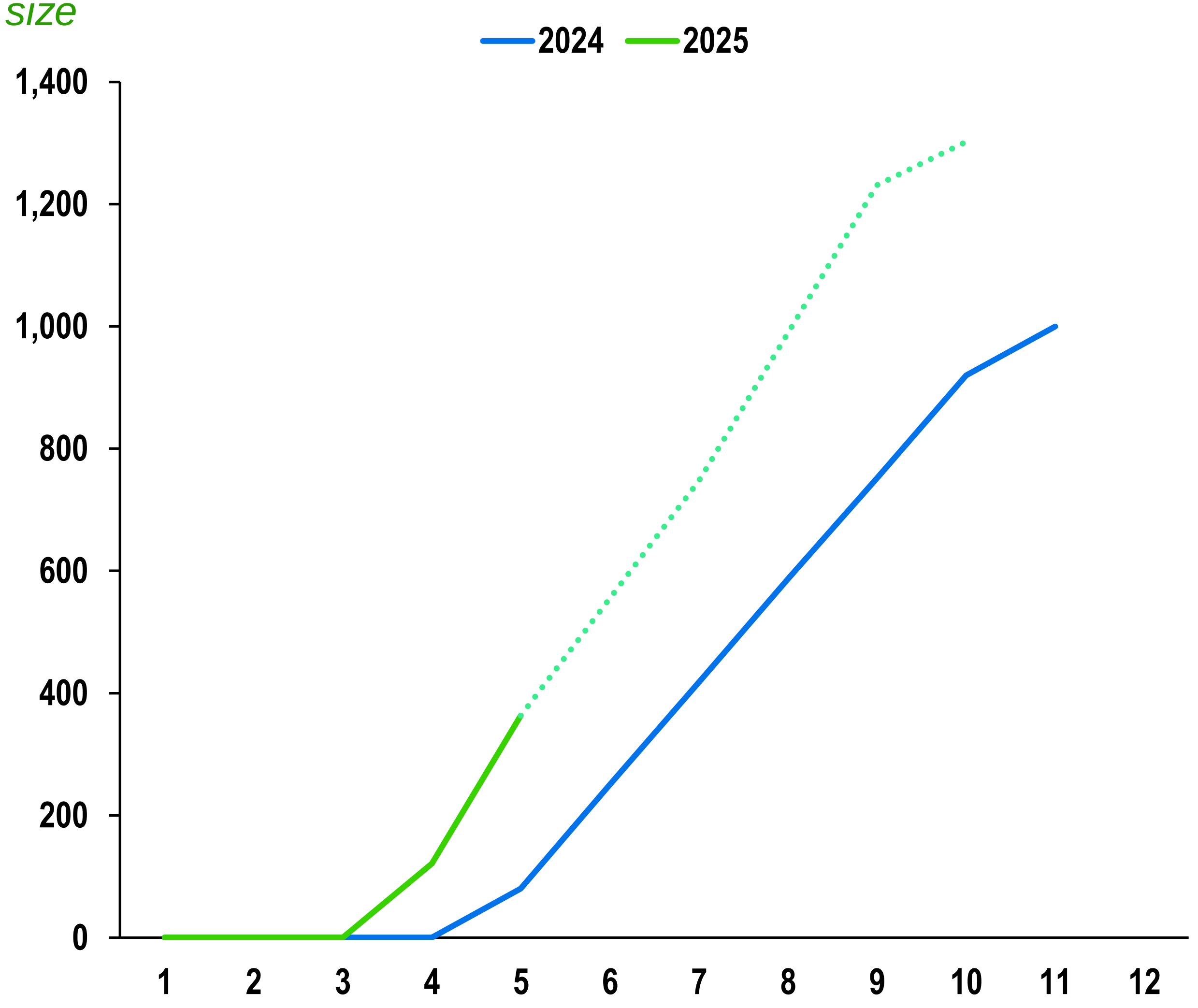
Issuance of ultra-long-dated special CGBs to remain heavy in Q3
超长期特别国债发行或在三季度保持高位

CNY 1.3tn of ultra-long-dated special CGBs to be issued in Apr-Oct 2025 in 21 auctions, with 14 auctions remaining (CNY 745bn)

Auction date	Term (years)	Type
20-Jun-25	20	Re-open
24-Jun-25	30	Re-open
14-Jul-25	**30**	**New issue**
24-Jul-25	**30**	**Re-open**
24-Jul-25	**20**	**New issue**
1-Aug-25	**50**	**Re-open**
8-Aug-25	**30**	**Re-open**
14-Aug-25	**20**	**Re-open**
22-Aug-25	**30**	**New issue**
12-Sep-25	**30**	**Re-open**
17-Sep-25	**20**	**Re-open**
24-Sep-25	**50**	**Re-open**
26-Sep-25	**30**	**Re-open**
10-Oct-25	**30**	**Re-open**

YTD issuance of ultra-long-dated special CGBs

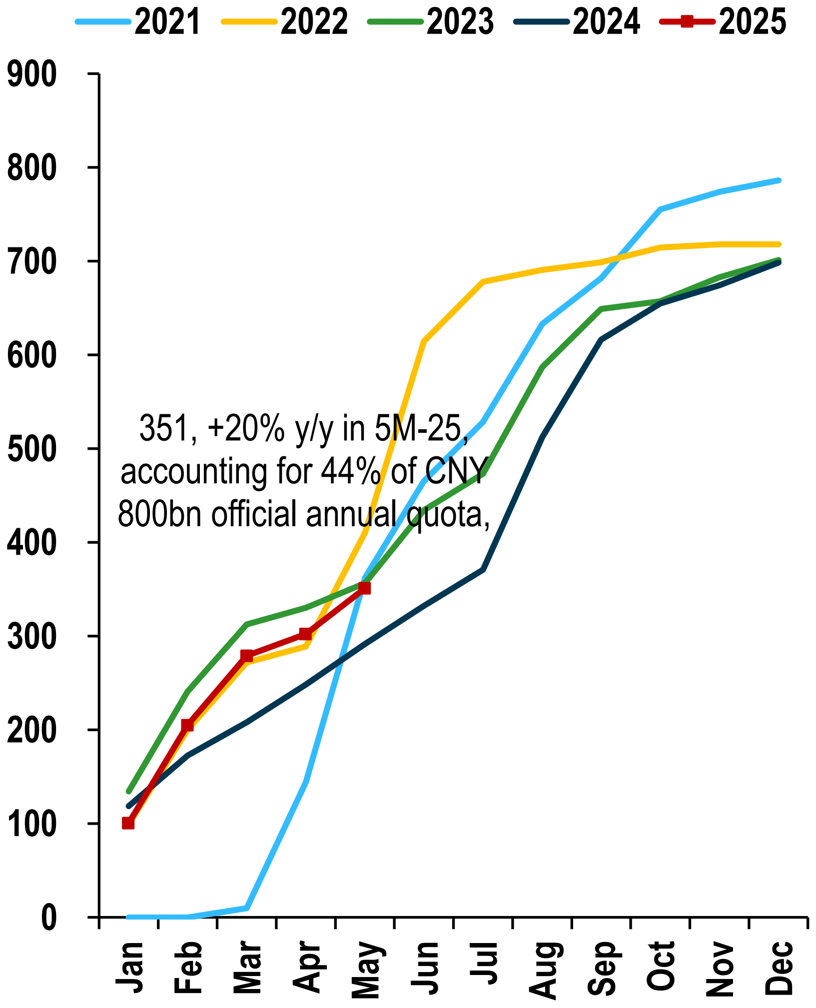
CNY bn, dotted line denotes forecasts based on historical auction size



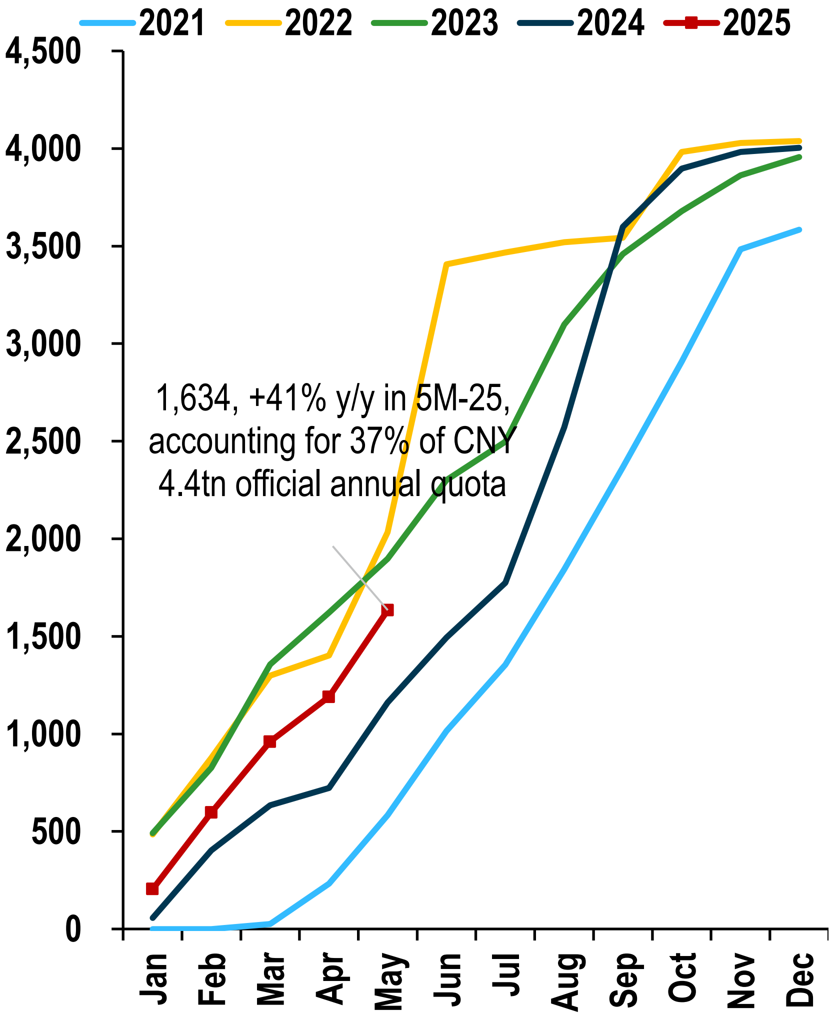
Source: Wind, Standard Chartered Research

LGB project bond issuance to accelerate, based on historical seasonal pattern
按照季节性规律，地方专项债发行将进一步加速

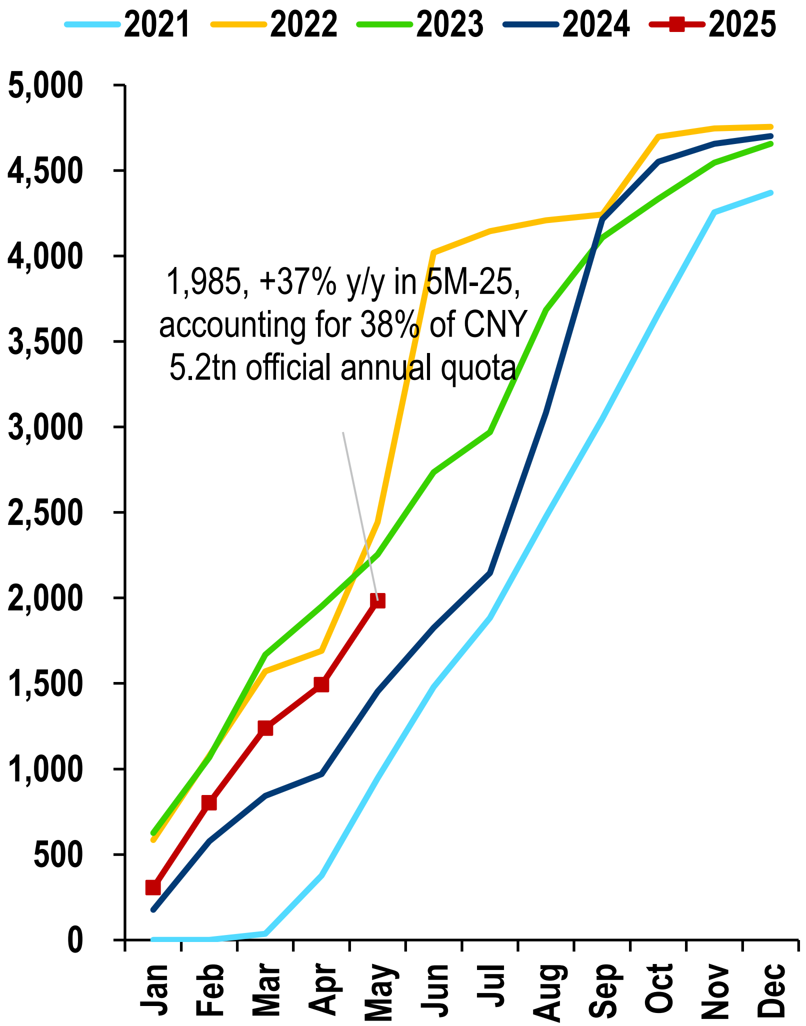
LGB general bond issuance
CNY bn, YTD



LGB project bond issuance
CNY bn, YTD



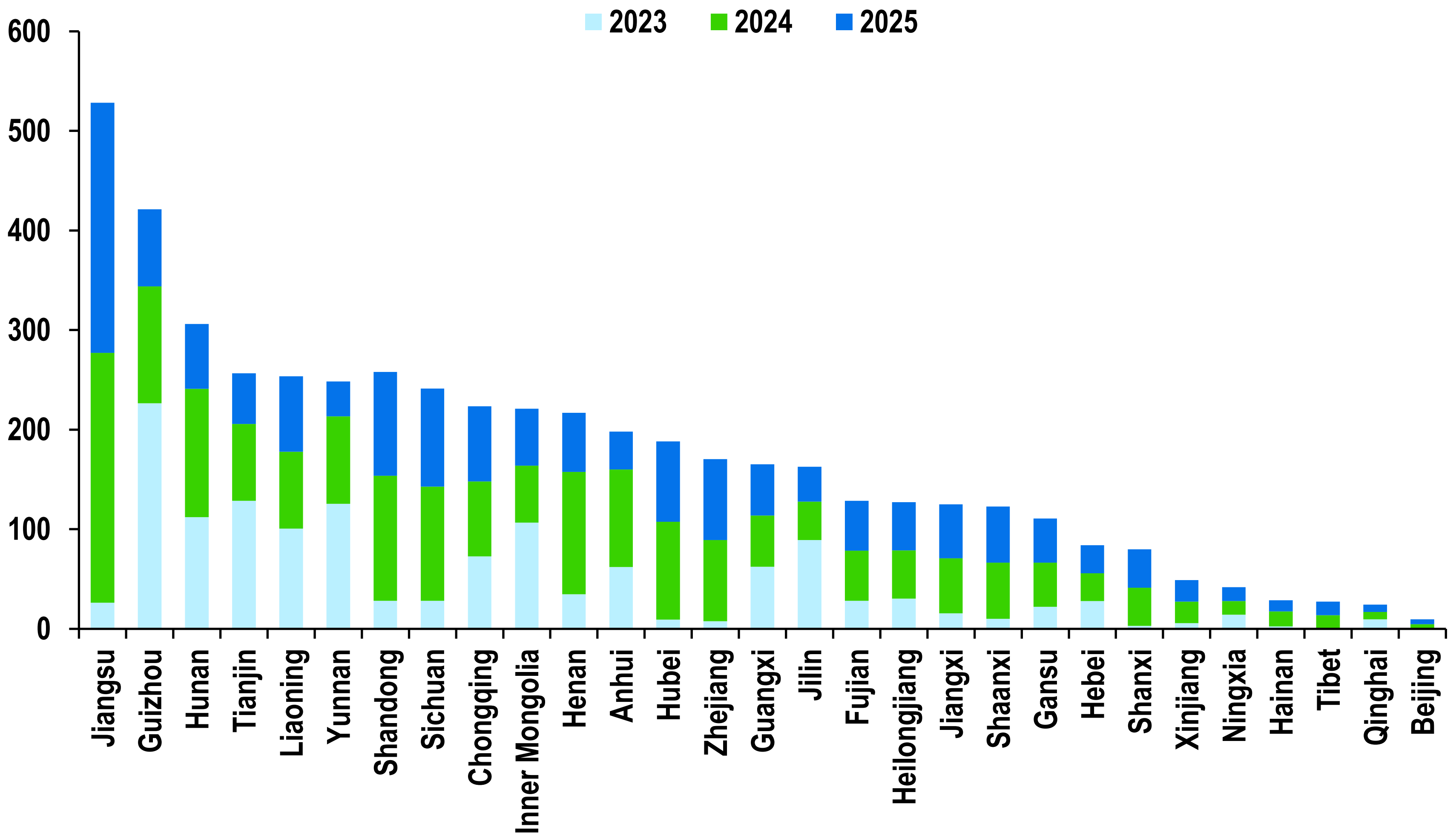
LGB general and project bond issuance
CNY bn, YTD



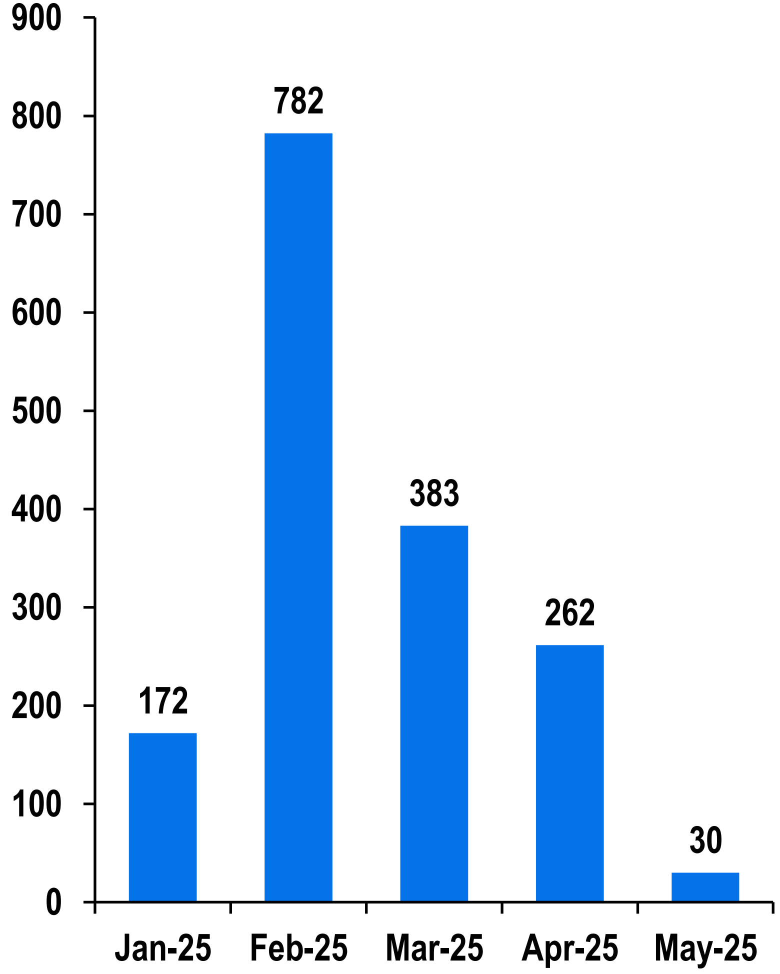
Source: Wind, Standard Chartered Research

80%+ of 2025 LGB debt-swap issuance done, additional quota approval possible for H2
超过80%的2025地方置换债已完成发行，下半年有进一步加码的可能性

29 provinces issued debt-swap bonds totalling CNY 1.63tn as of 5M-2025 (81% of the CNY 2tn official quota for swapping local off-balance-sheet debt this year)
CNY bn, data as of 5M-2025



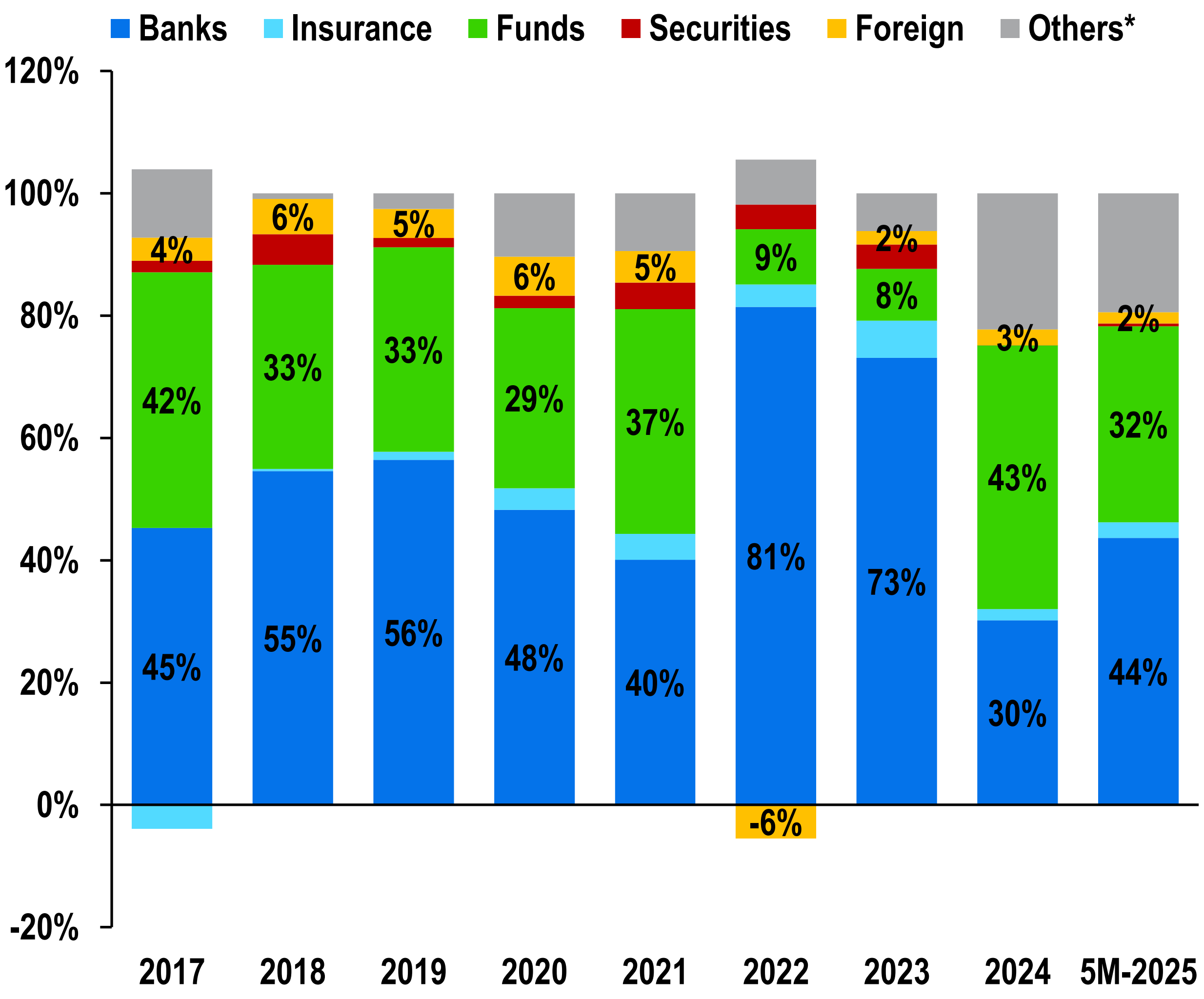
LGB debt-swap bond issuance by month
CNY bn



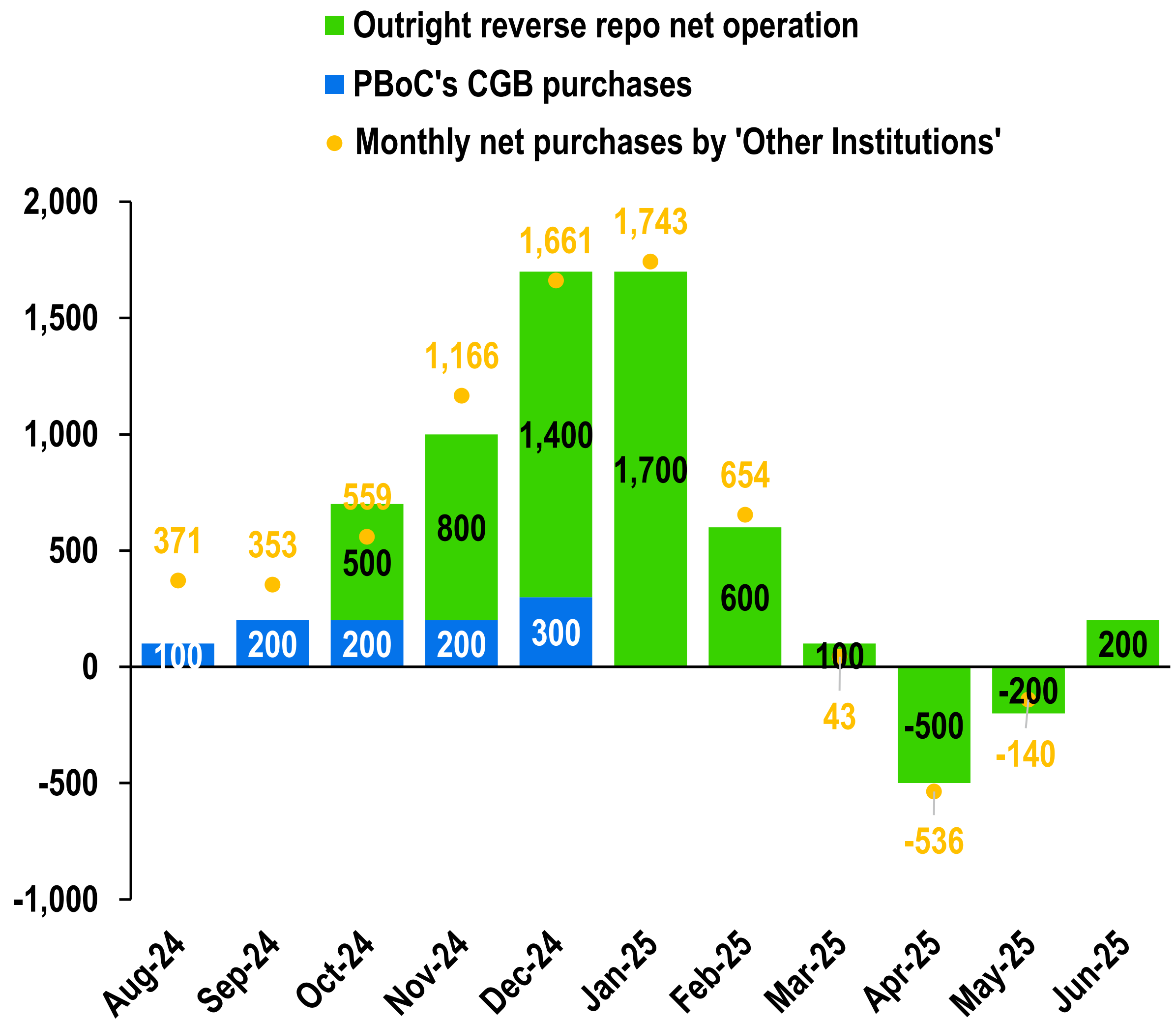
Source: Wind, Standard Chartered Research

Demand outlook – Bank, fund and PBoC demand to stay robust in H2
需求前景 – 下半年银行、基金和中国人民银行的需求将保持强劲

Funds were the second largest buyers of cash bonds in 5M-2025 *(% of total net purchases of onshore bonds)*



‘Other institutions’ are primary PBoC operations, which closely track outright repo operations *(CNY bn)*

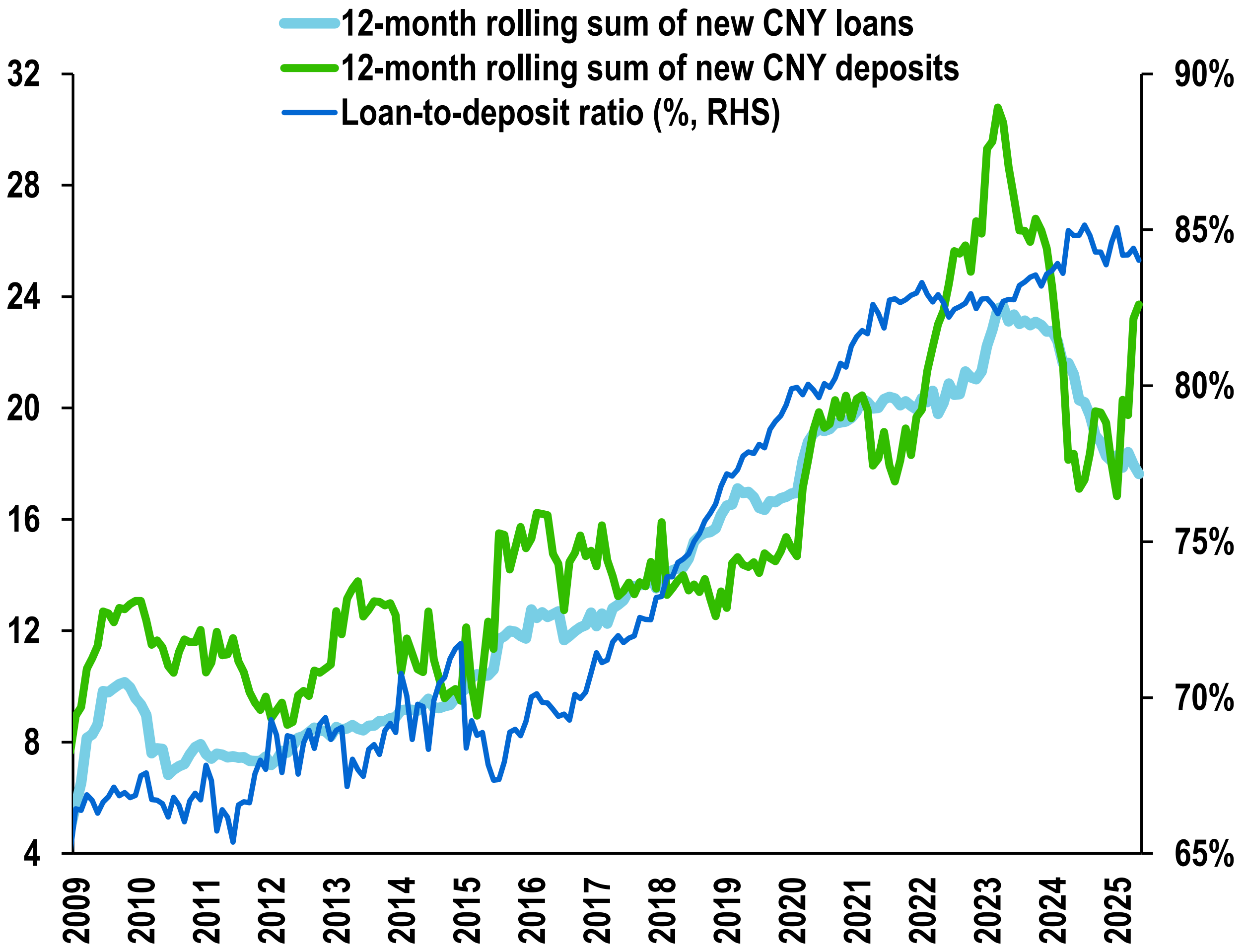


Note: ‘Others’ primarily reflects PBoC outright reverse repo operations and CGB buying programme; data for WMPs’ AUM is for 5M-2025
Source: Wind, Standard Chartered Research

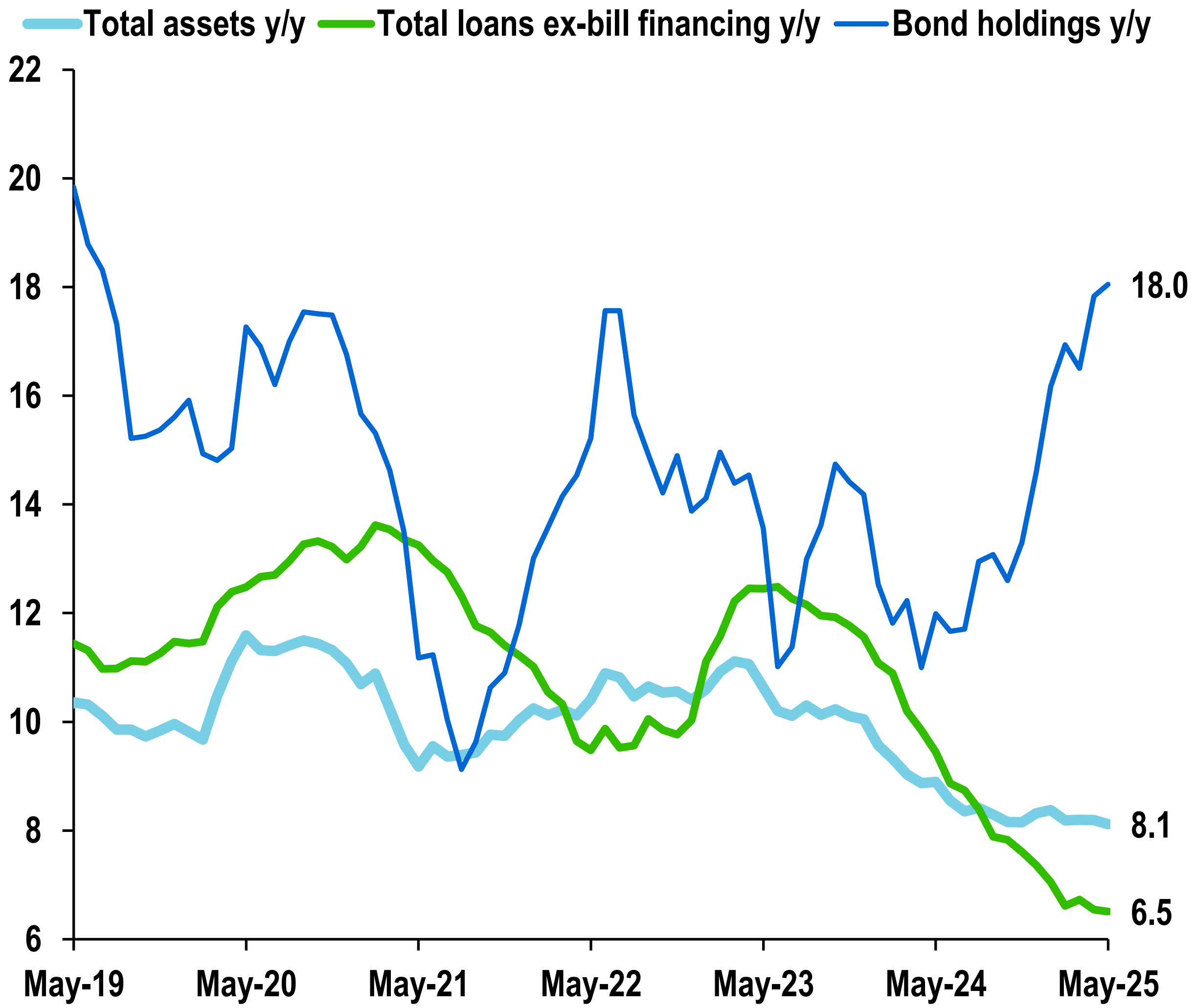
*

Banks – Demand for bonds to stay strong on weak credit growth
银行——信贷增长疲软，债券需求保持强劲

Deposits rebounded sharply while new loan growth remained weak *(12M-rolling sum of new CNY loans vs new CNY deposits, CNY tn)*



Banks' bond holdings growth rose to the highest since July 2019 *(% y/y)*

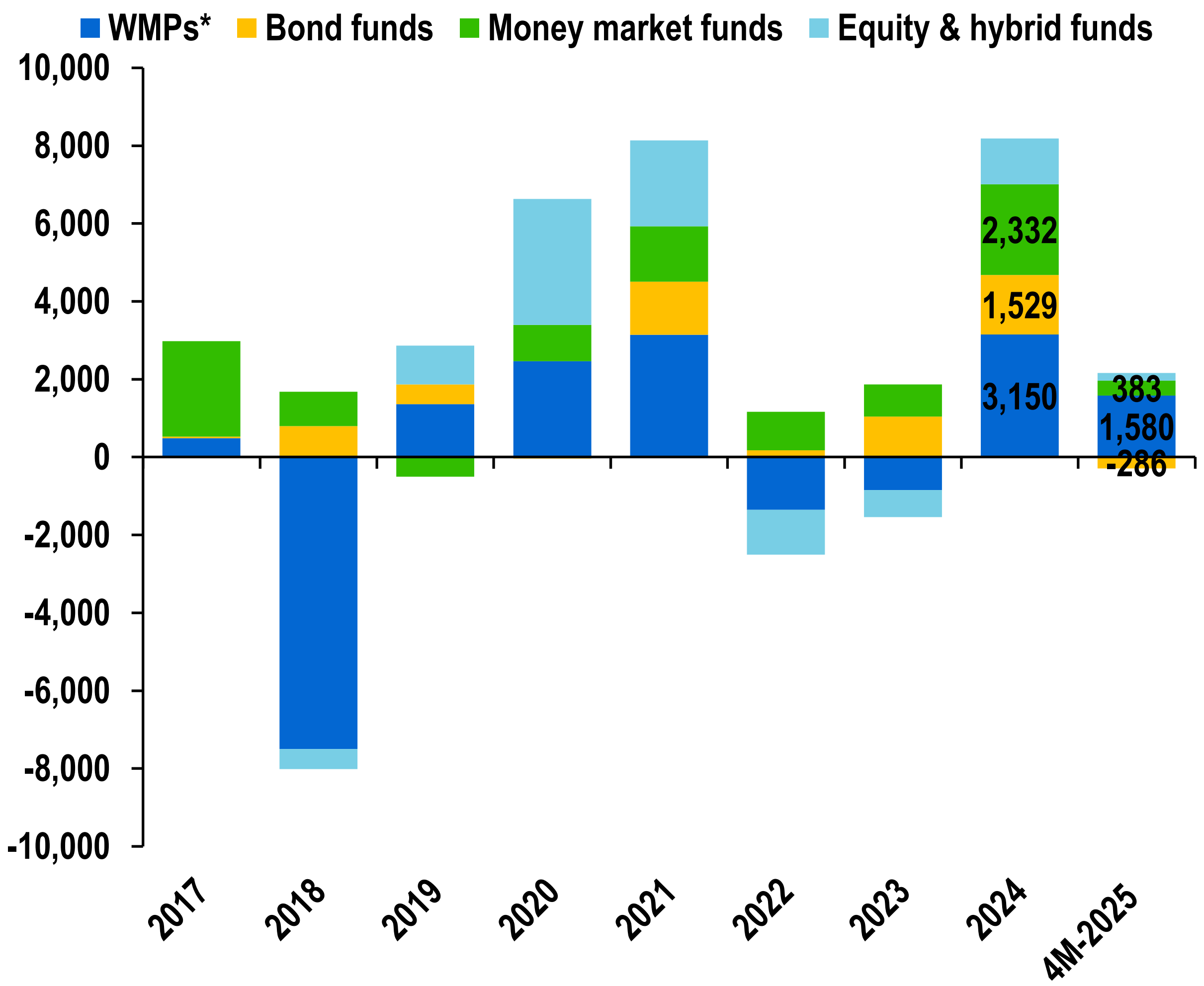


Source: Wind, Standard Chartered Research

Funds – Strong WMP AUM growth boosts bond demand, but risk of re-allocation to equities
基金 – 理财产品资产管理规模强劲增长提振债券需求，但存在重新配置至股票的风险

Strong AUM growth of bank WMP on conventional deposit rate cuts, but bond funds shrank

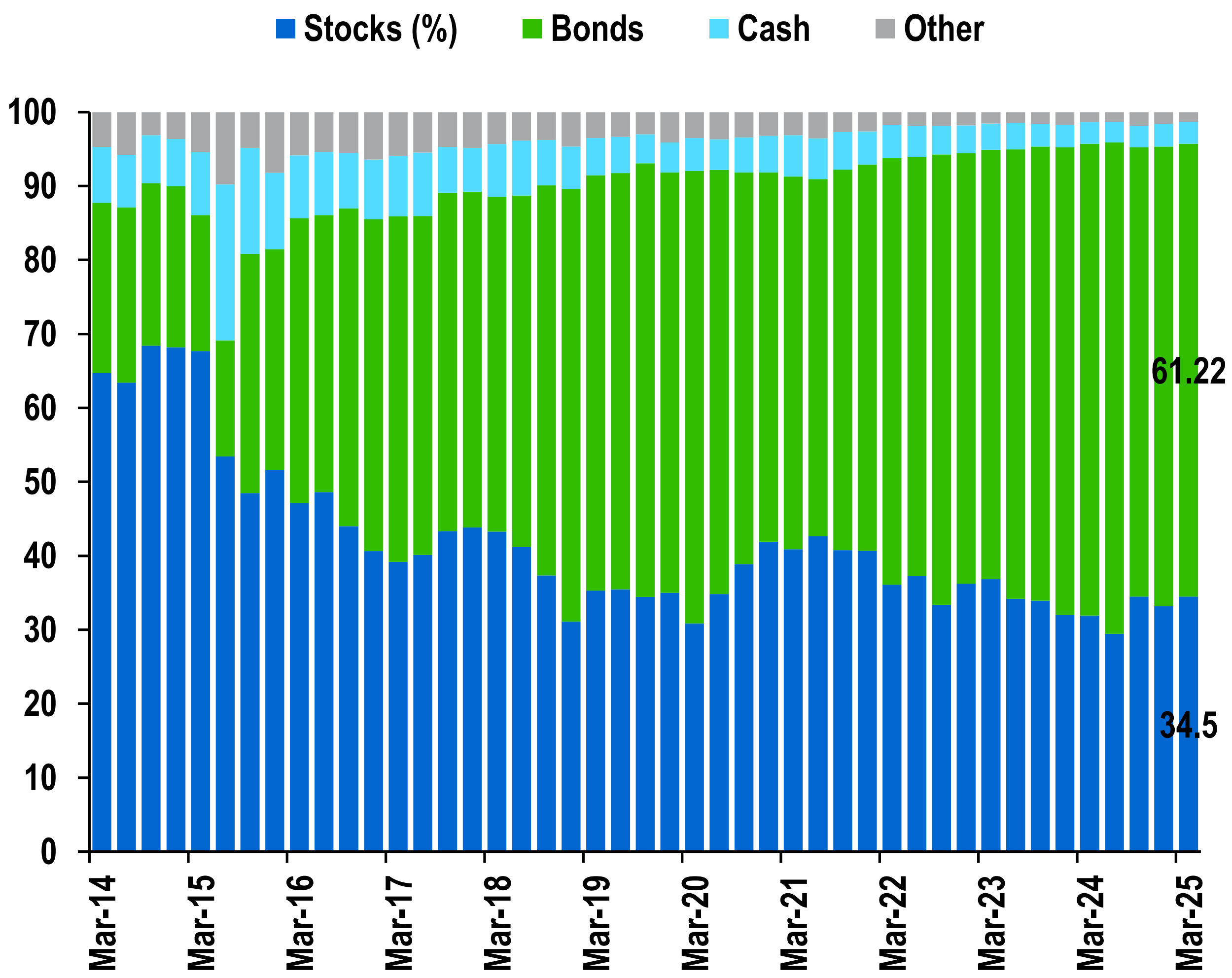
Annual change in AUMs, CNY bn



Mutual funds' bond allocation remains near record high

China's mutual fund (ex MMFs) allocation, %

10Y average (2015-24): stocks 38.6%; bonds 52.1%

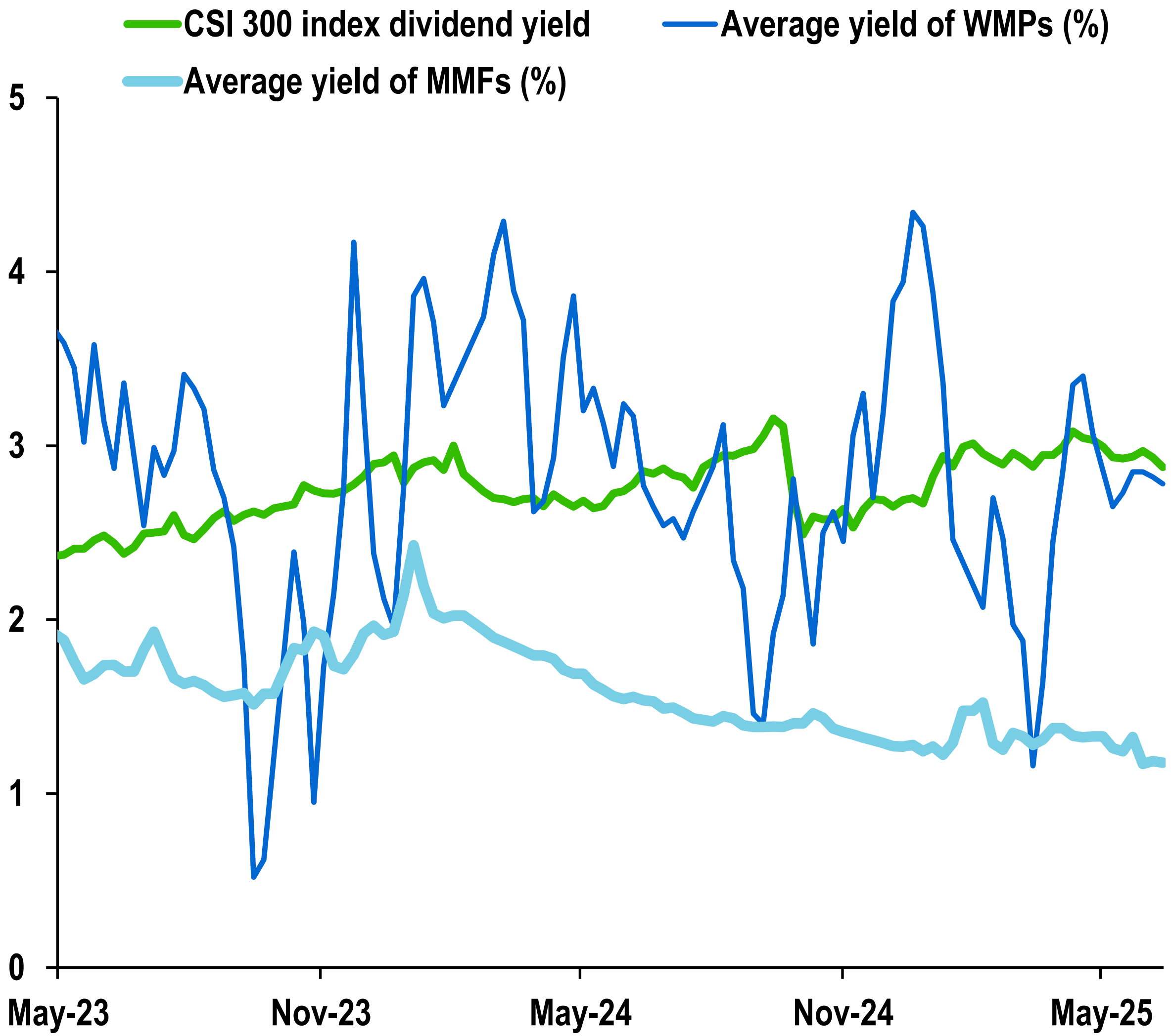


* Bank WMPs' AUM is as of 5M-2025

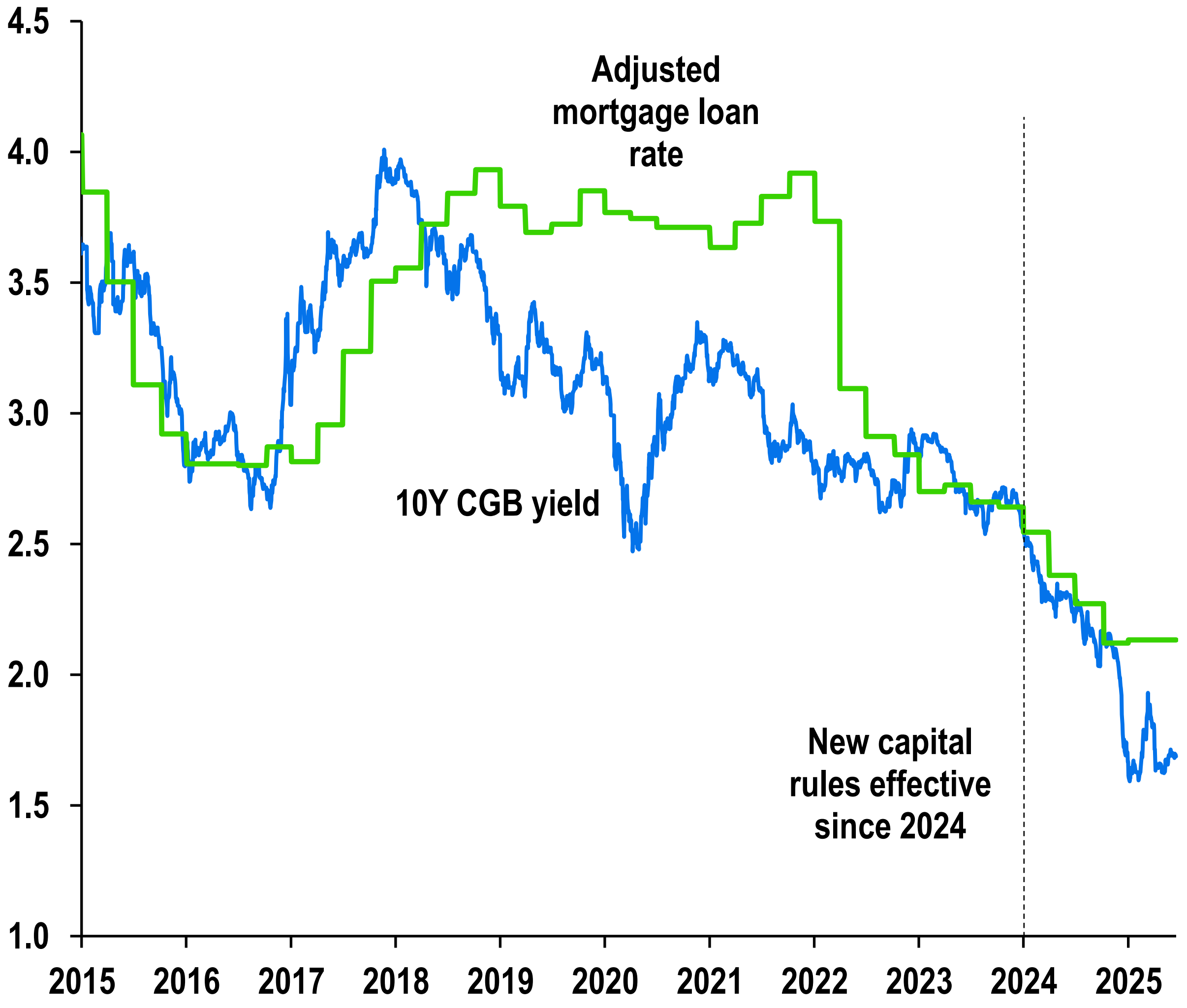
Source: Wind, Bloomberg, PY Standard, Standard Chartered Research

Bond valuation has become less attractive to both banks and funds
从估值来看，目前债券对银行和基金的吸引力下降

Bank WMP returns have rebounded to levels closer to CSI 300 dividend yield *%*



10Y CGB yield vs adjusted mortgage loan rate *%*



Source: Standard Chartered Research

CNY outlook

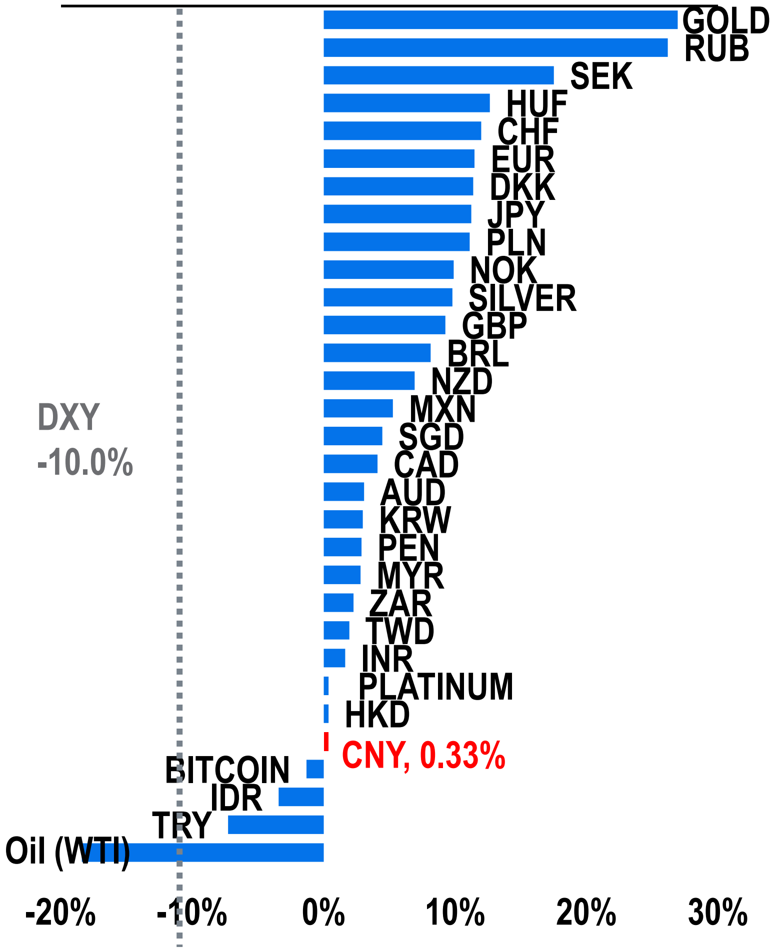
CNY outlook for H2

We see a moderate CNY depreciation in H2 on potential exports pressure and material rates differentials. China's authorities have started to relax outbound investment since June, likely leading to more capital outflows. Sharp devaluation remains unlikely as the CNY is already highly competitive at its current valuation

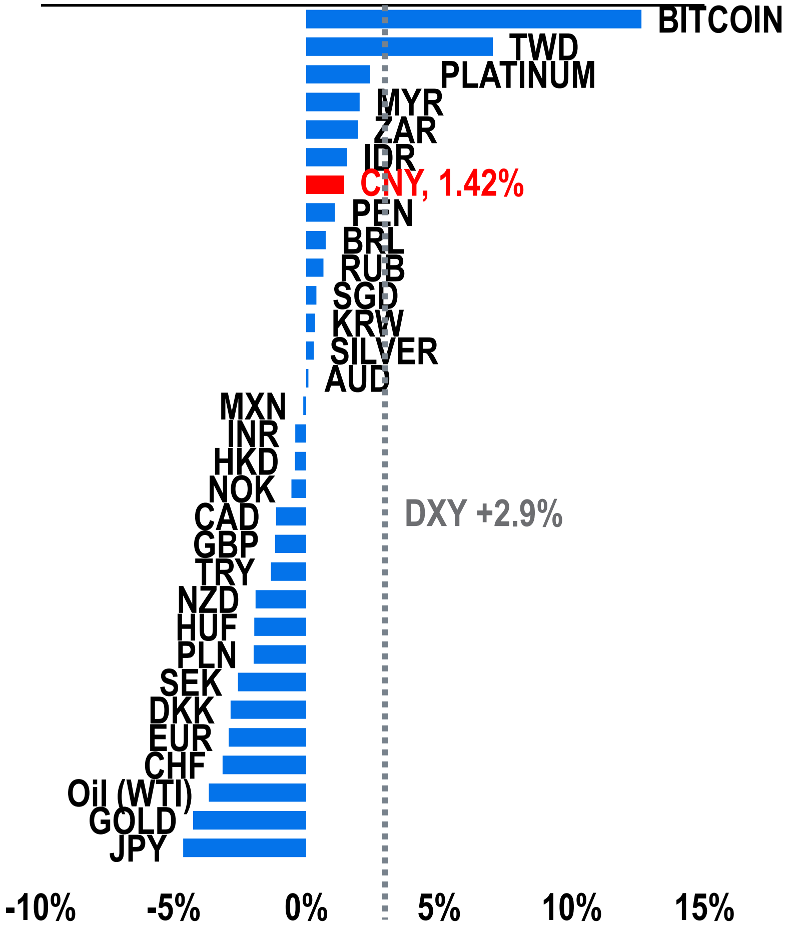
- While the market has turned extremely bearish on DXY, expectations of CNY appreciation remained limited (P63-64)
- We expect moderate CNY depreciation in H2 on looming exports pressure, capital outflows, and potential monetary policy divergence between the PBoC and the Fed to lead to an even wider interest rate differential (P67-68)
- PBoC has restored a neutral fixing stance since mid-May following sharp DXY weakness, indicating reduced intervention on both sides (P65)
- SAFE announced the resumption of QDII (Qualified Domestic Institutional Investor) quota approval in June after a one-year pause, indicating the desire to curb recent CNY strength by allowing more outbound investments (P66)
- Southbound Bond Connect investments will likely also be relaxed soon, leading to more capital outflows on wide rates differential (P66-67)
- Onshore entities remained net FX buyers in 5M-2025, with net FX buying for services trade and ODI at a historical high (P69-71)
- FX conversion ratios modestly improved in May, but the YTD FX selling ratio remained at a record low vs previous years (P72)
- A sharp devaluation is unlikely, as the CNY is already highly competitive – indicated by a 40% increase in the YTD trade surplus – as the real effective exchange rate (REER) fell by 14% since 2020 to the lowest level since 2012 (P73)

A review of FX performance – CNY has been pegged to USD during the sharp USD sell-off
外汇市场表现回顾：在美元被抛售的期间，人民币对美元汇率几乎保持不变

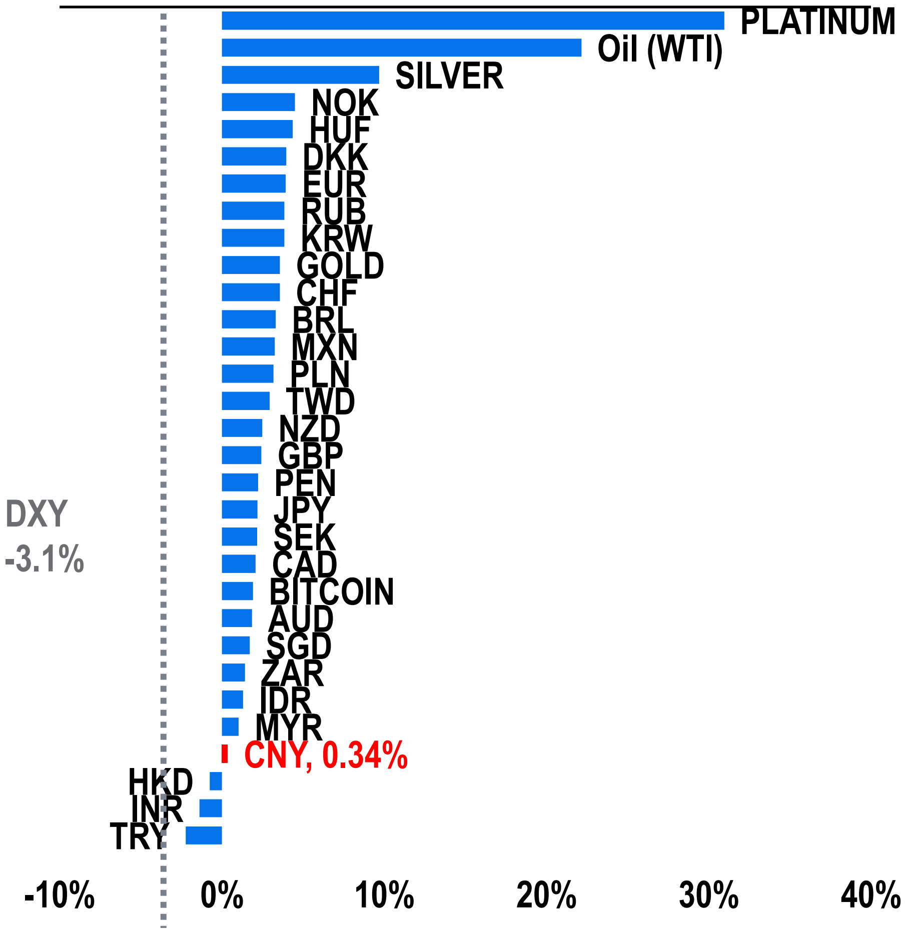
CNY has lagged during sharp DXY weakening
Performance against the USD (13-Jan-25 to 22-Apr-25)



CNY outperformed when DXY rebounded
Performance against the USD (22-Apr-25 to 12-May-25)



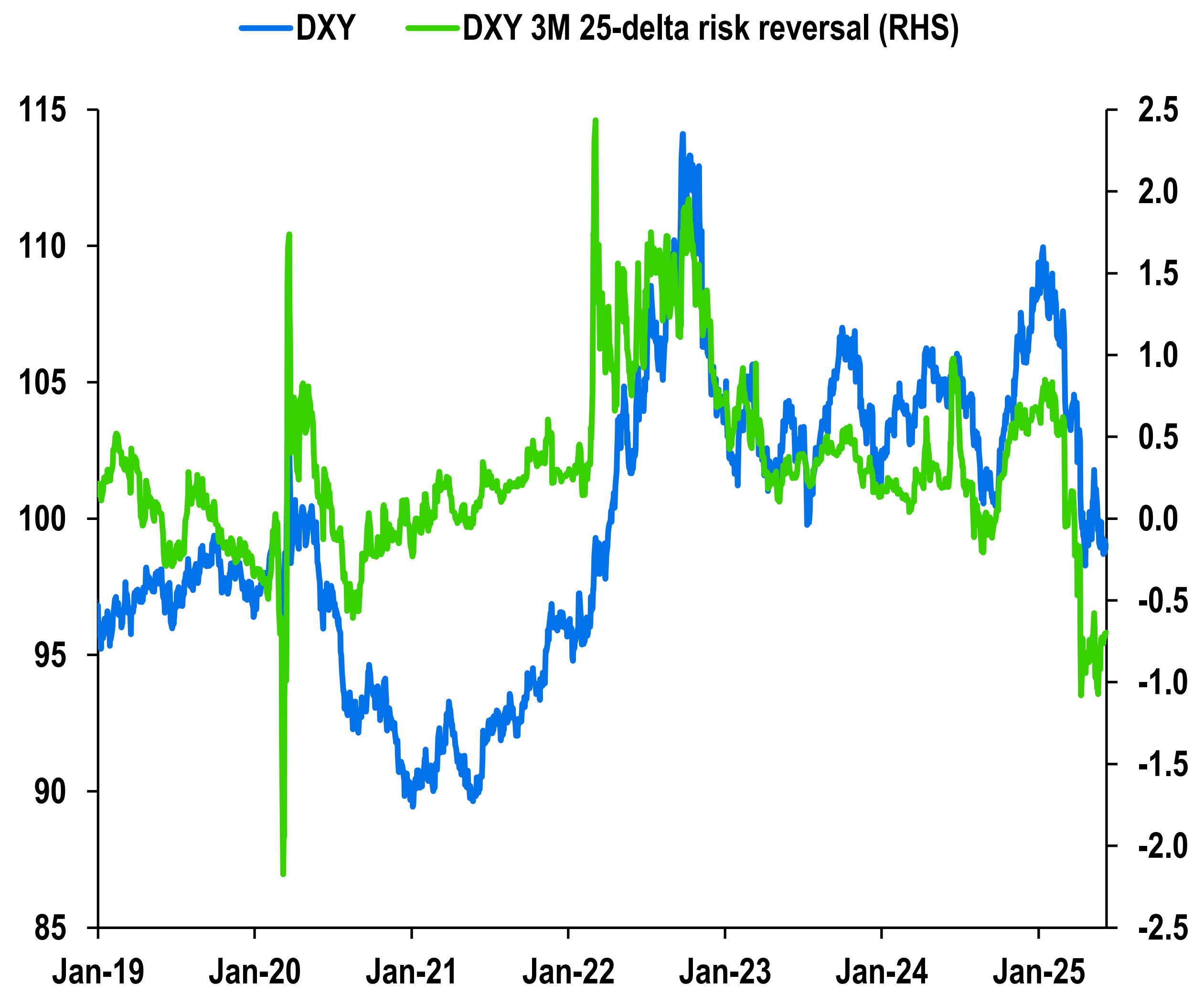
CNY has been lagging again after the 90-day trade truce
Performance against the USD (12-May-25 to 20-Jun-25)



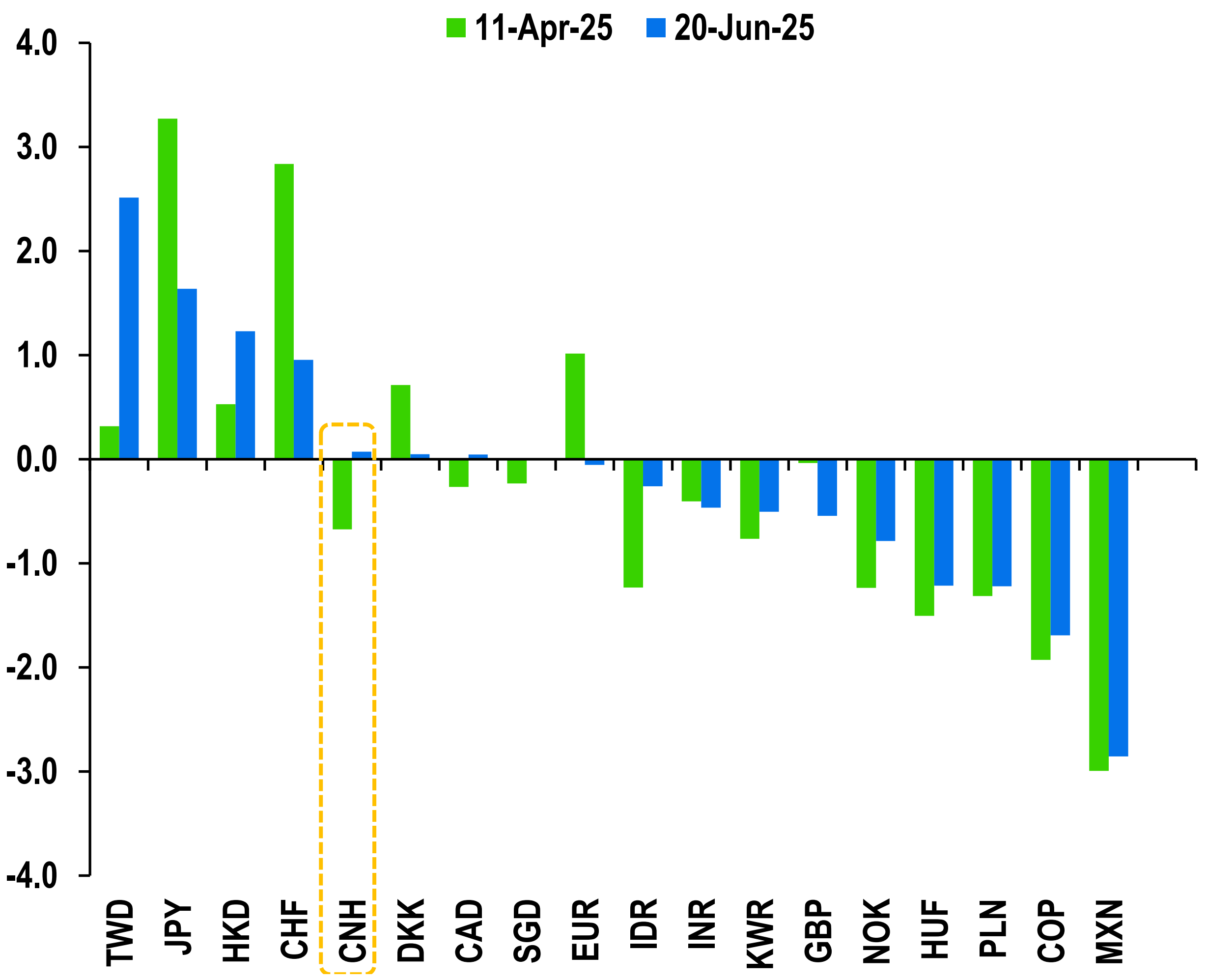
Source: Bloomberg, Standard Chartered Research

Market turned overwhelmingly bearish USD, but CNY appreciation expectations remained muted
市场对于美元的悲观情绪处于历史高位，而对于人民币升值的预期却并不强烈

DXY RR declined to the lowest since Mar-2020
DXY index vs DXY 3M 25-delta RR



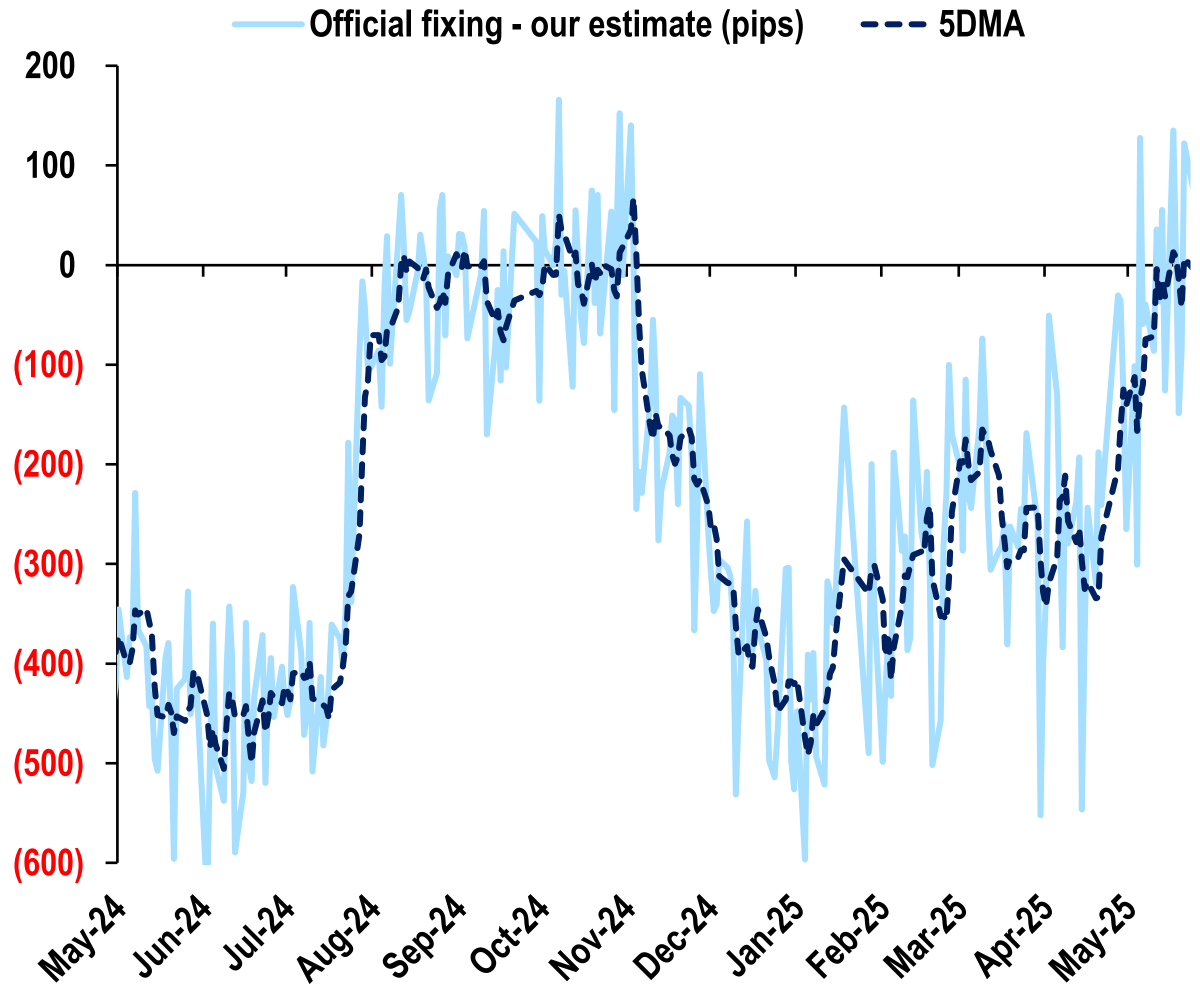
FX option market turned meaningfully more bullish on most non-dollar currencies amid DXY downturns, but not for CNH
3M 25-delta RR, +ve = bullish on LCY (calls > puts)



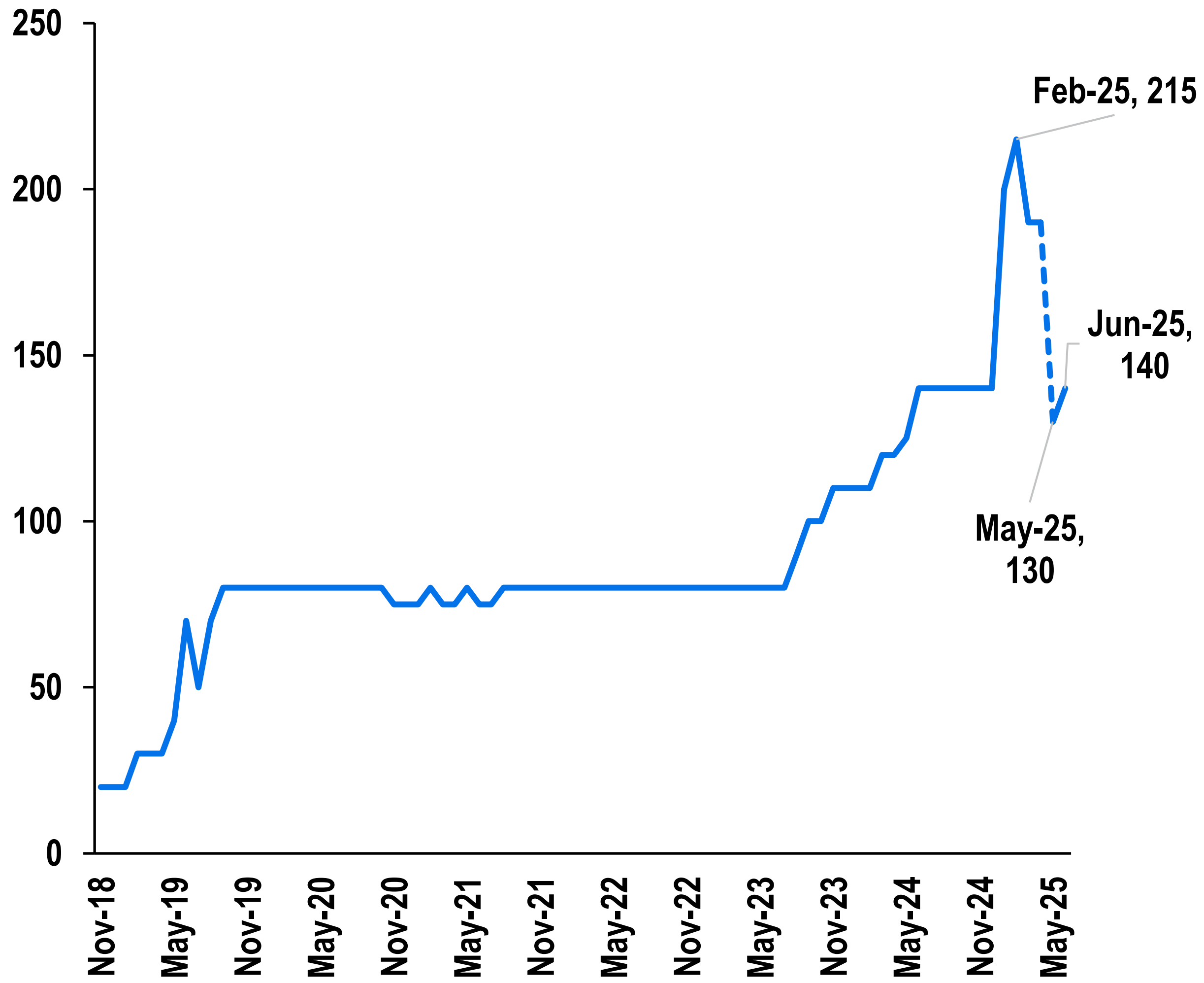
 Source: Bloomberg, Standard Chartered Research

China is unlikely to meaningfully appreciate the CNY
中国让人民币大幅升值的可能性不大

USD-CNY fixing bias has been neutralised amid weaker DXY
Gap between fixing and our neutral model-based estimate of USD-CNY, pips



PBoC resumed offshore bills issuance in June after a three-month pause, after reversing previously bill issuance
Outstanding offshore PBoC bills, CNY bn

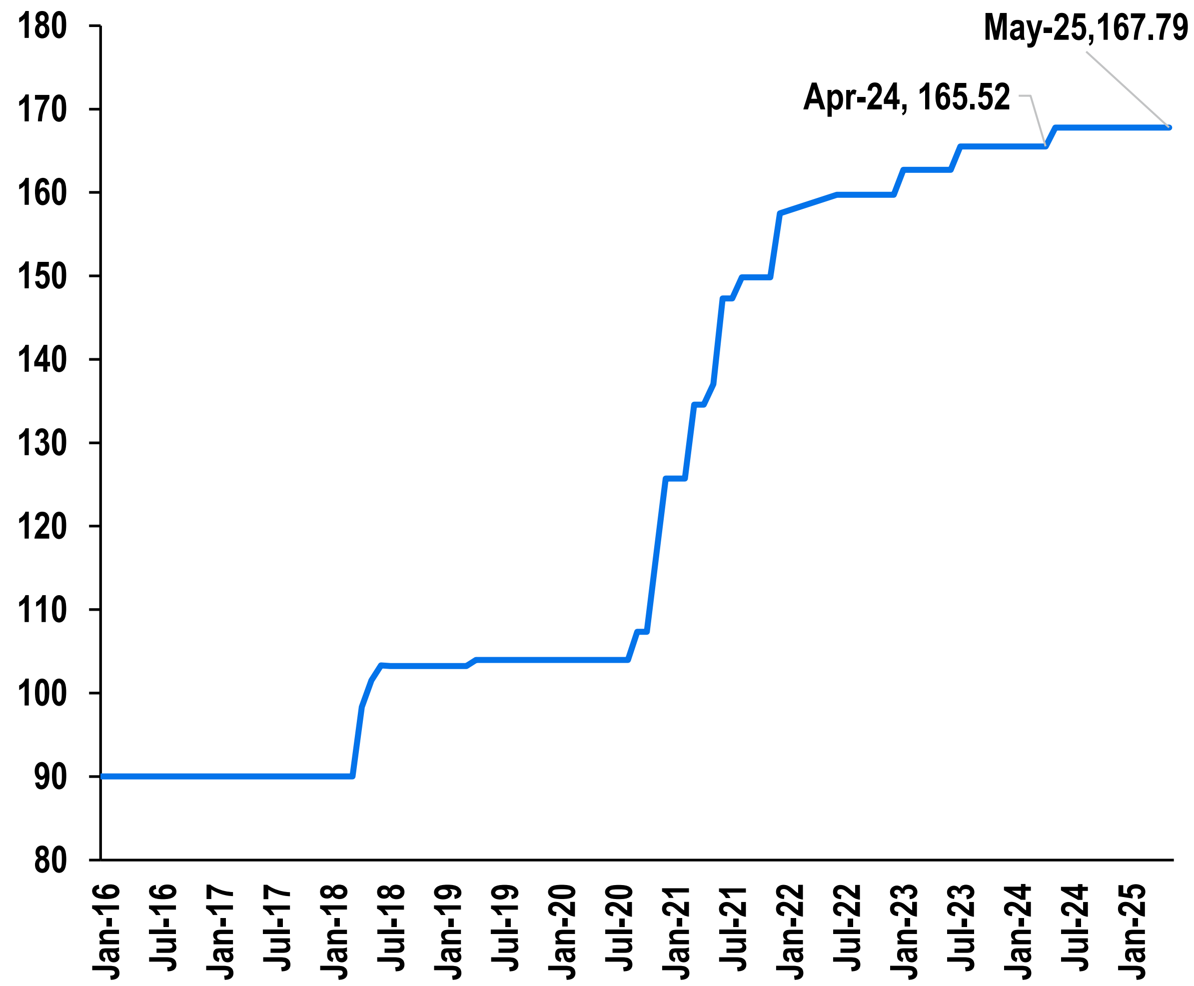


Source: Bloomberg, PBoC, Standard Chartered Research

PBoC has started to relax outbound security investments after a long pause since June
经过一段时间的停滞，央行今年六月重新开始放松对外证券投资

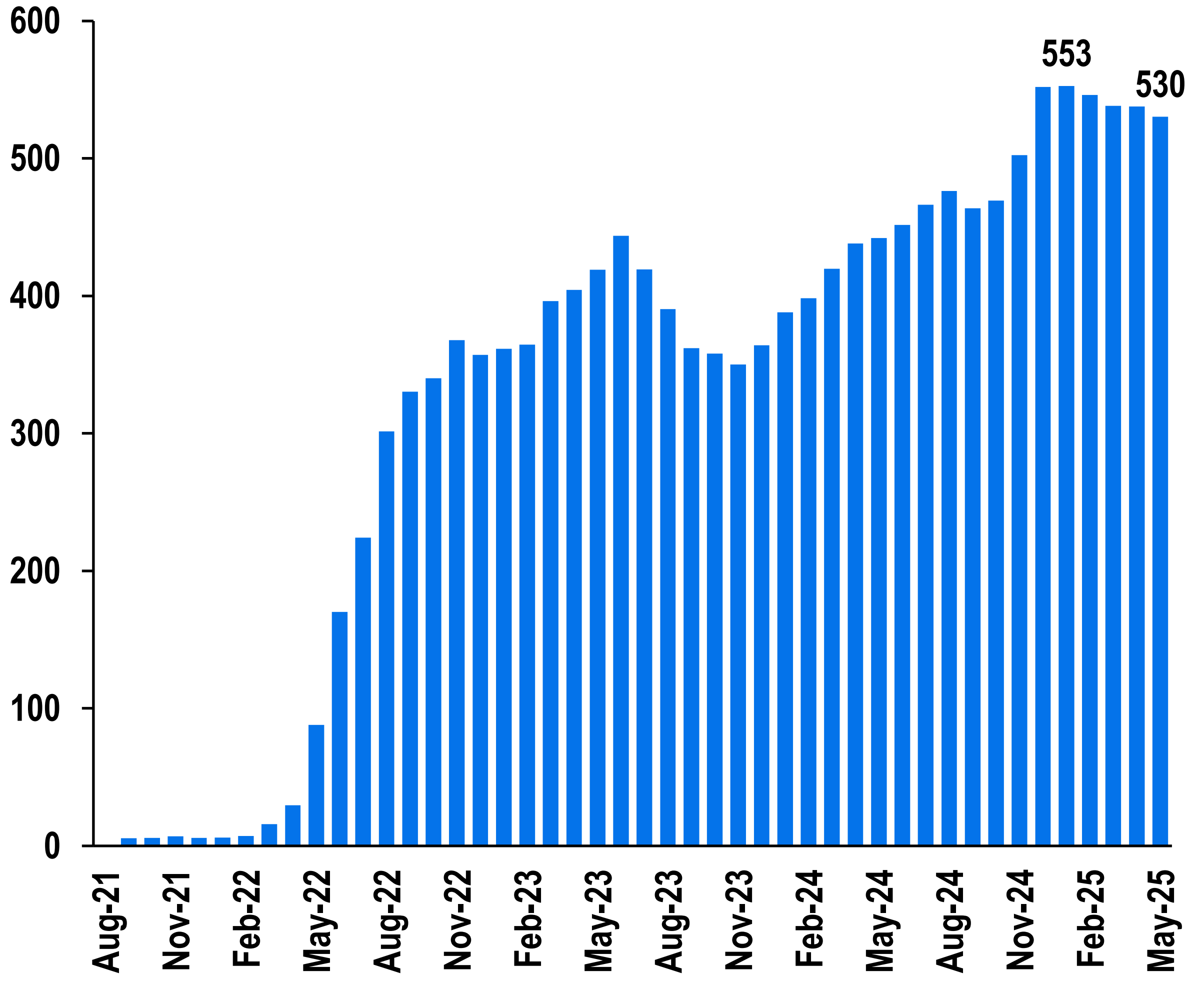
China authorities announced resumption of QDII quota approval after a one-year pause

QDII quota of China, CNY bn



Outbound investments under Southbound Bond Connect will likely be expanded soon, after a YTD decline

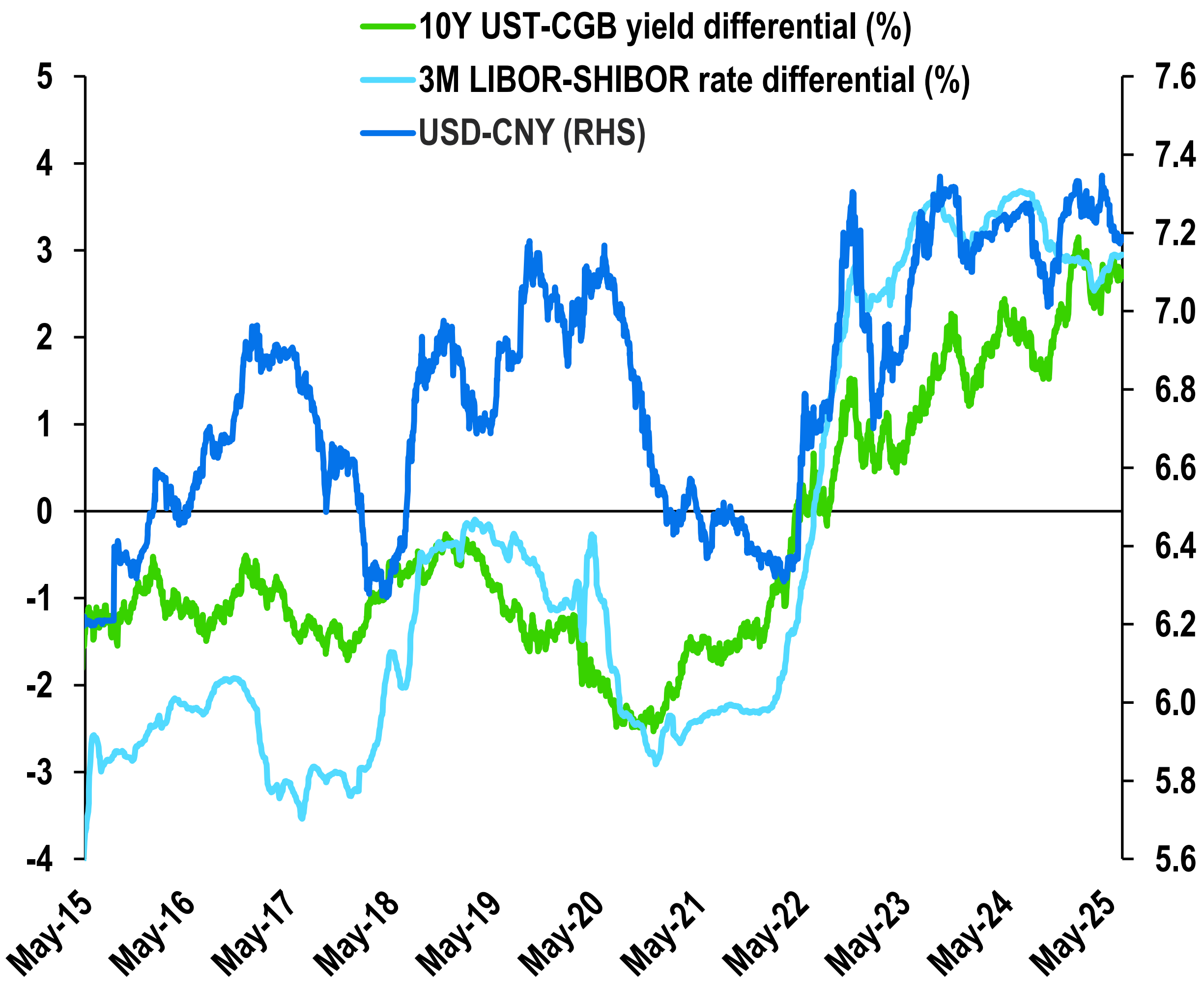
Estimated mainland holdings via Southbound Bond Connect, CNY bn



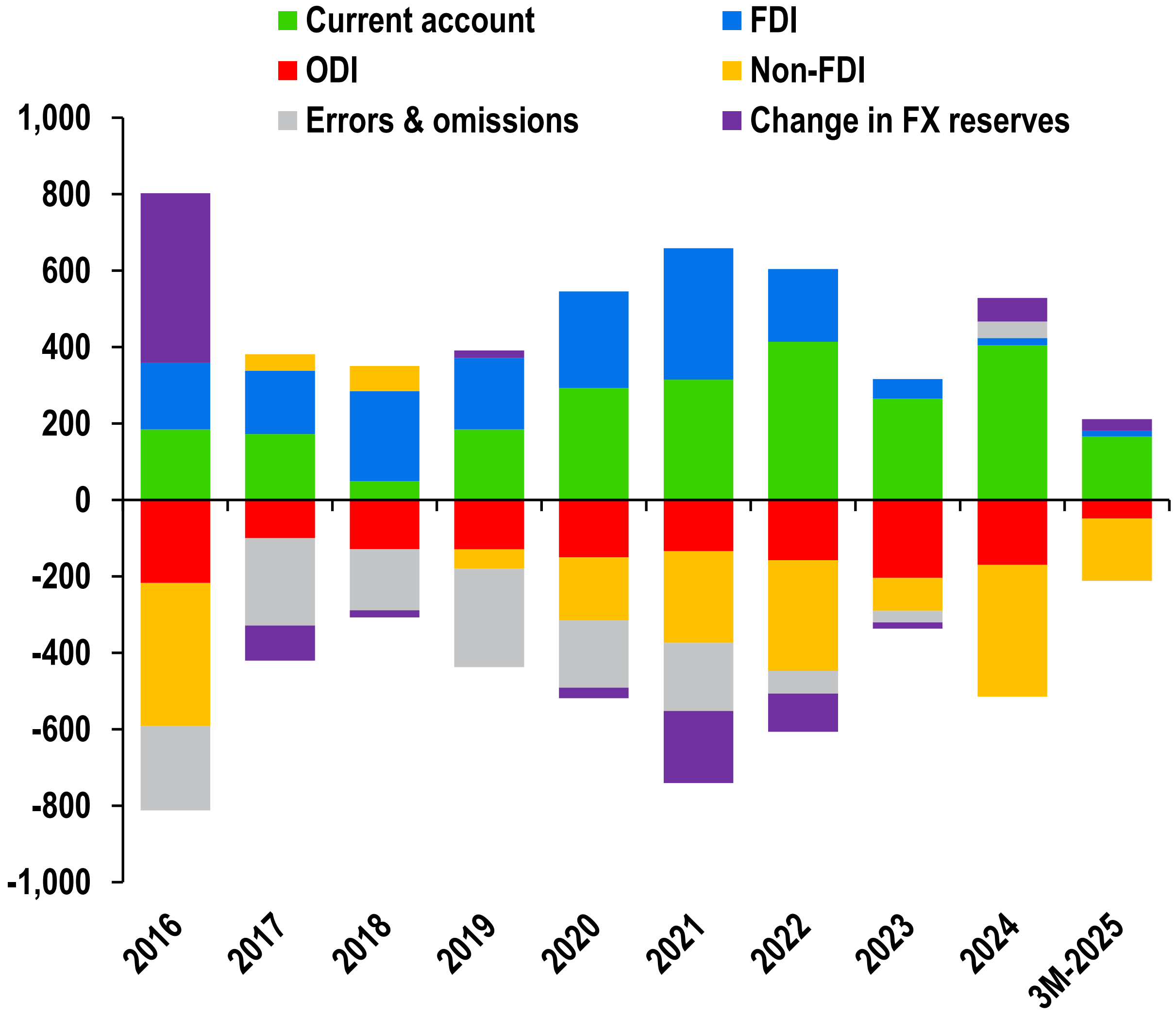
Source: SHC, Wind, Standard Chartered Research

Rates differential and capital outflows curb downside for USD-CNY
息差走阔和资金流出抑制了人民币对美元升值的空间

Rates differential widened between UST and CGB
% (LHS); USD-CNY (RHS)



Capital outflows continued
China BoP breakdown, USD bn

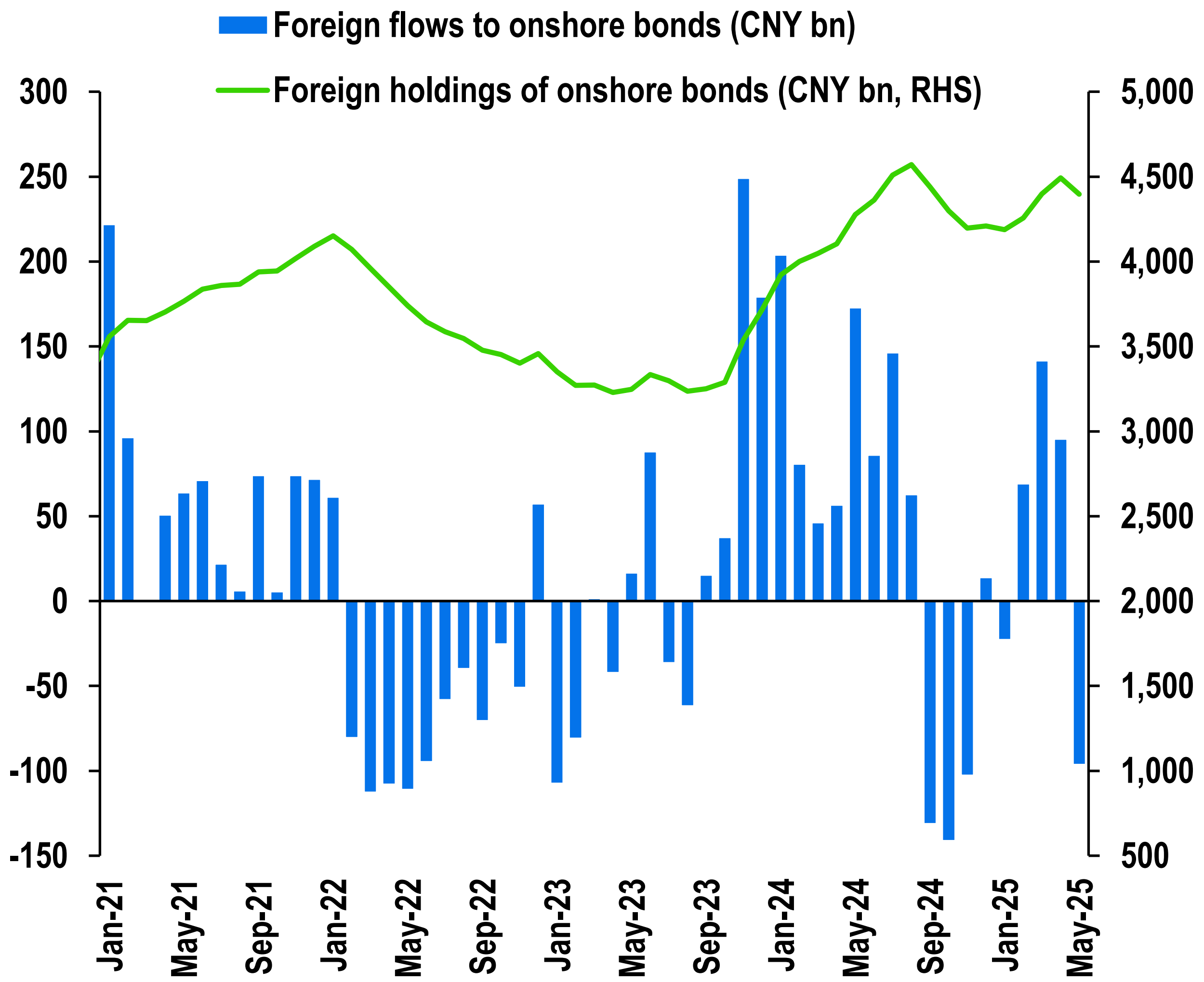


*3M LIBOR = 3M SOFR + 26.1bps, since Oct-2024

Source: Bloomberg, Wind, Standard Chartered Research

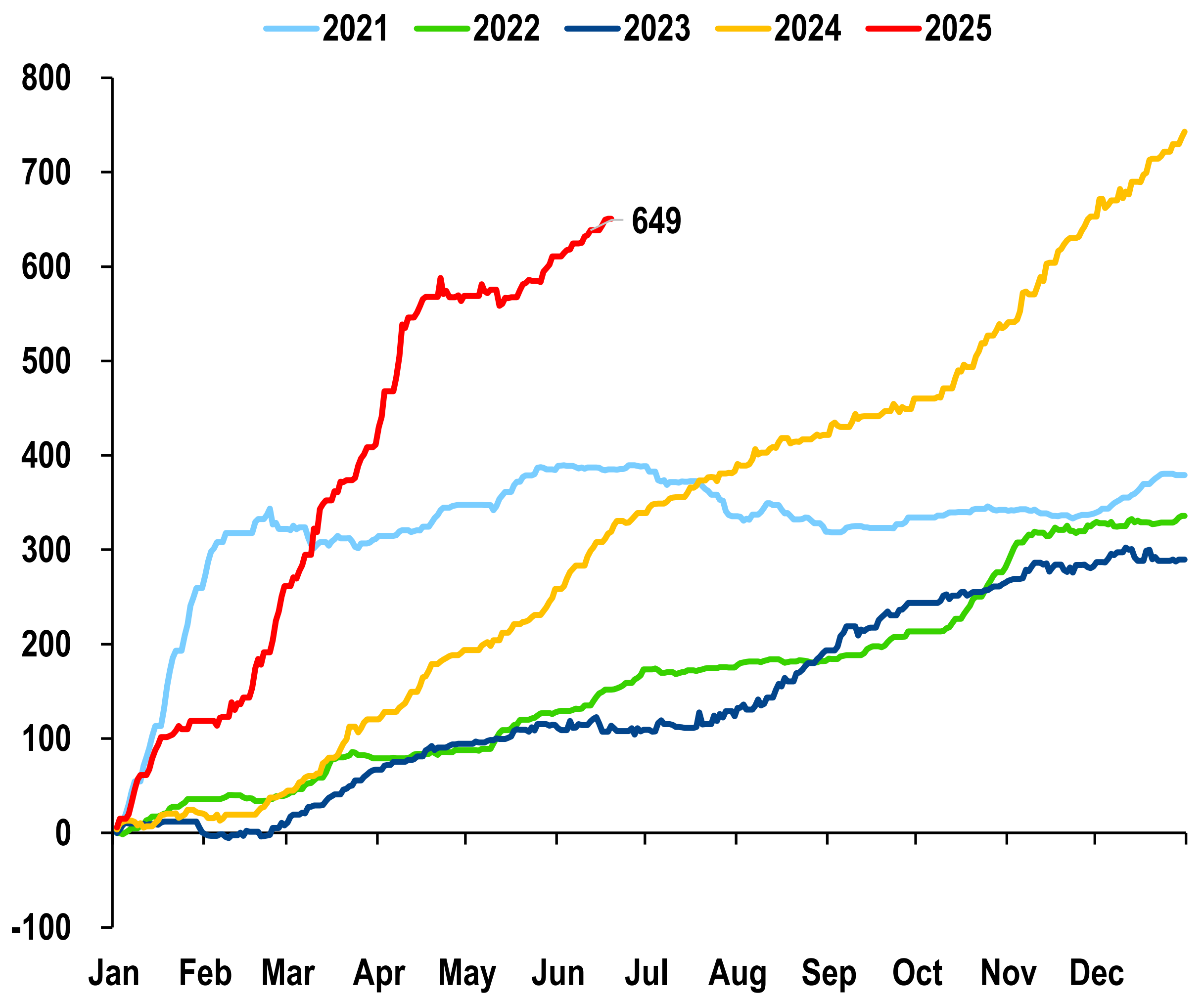
Inflows to onshore bond market more than offset by outbound investments
对外投资的增加抵消了境内债券的外资流入

Foreign flows to onshore bonds have remained strong YTD, partly on asset re-allocation by foreign investors



Outflows via Southbound Stock Connect at a record

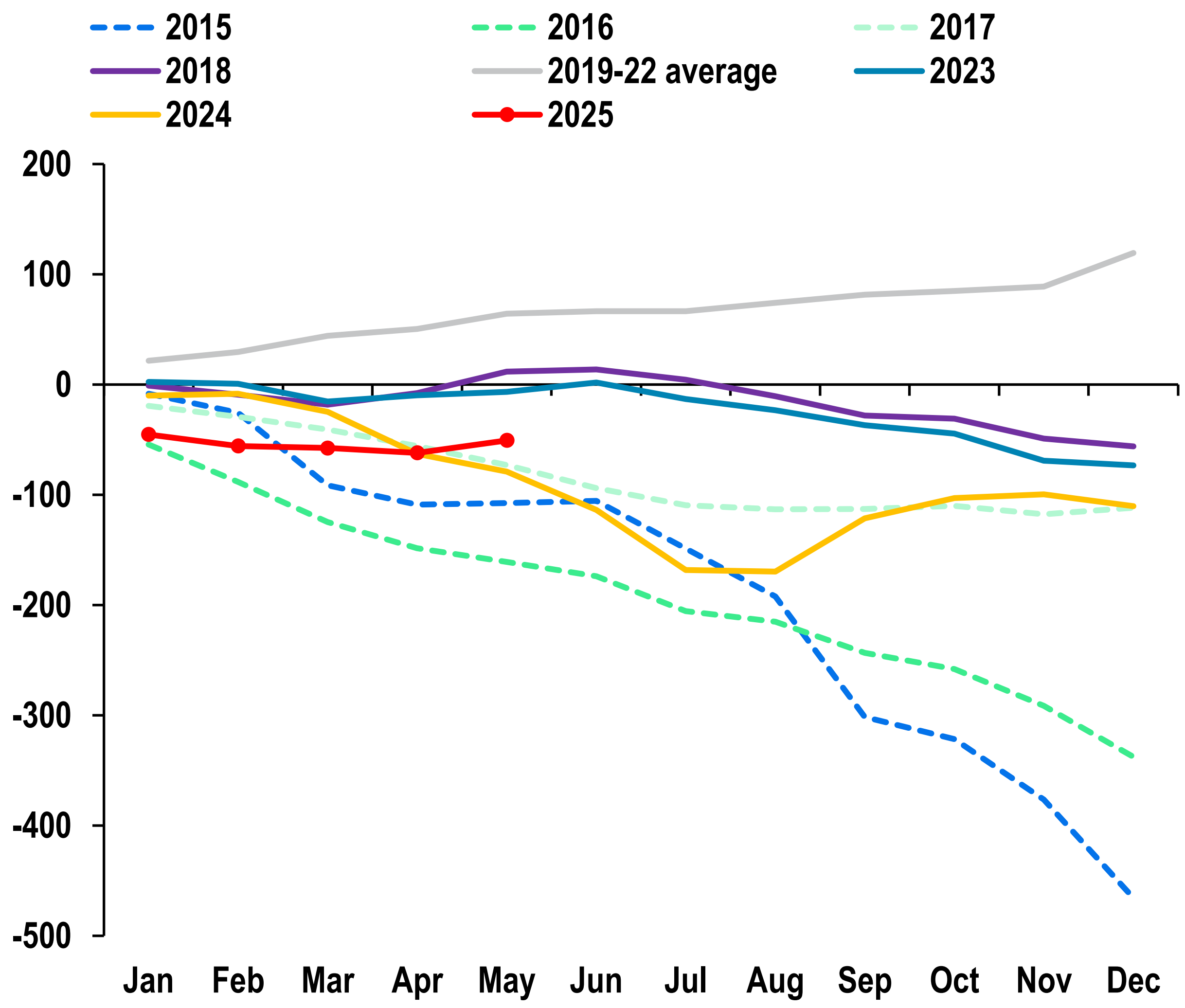
YTD cumulative Southbound Stock Connect flows, as of 18 June 2025, CNY bn



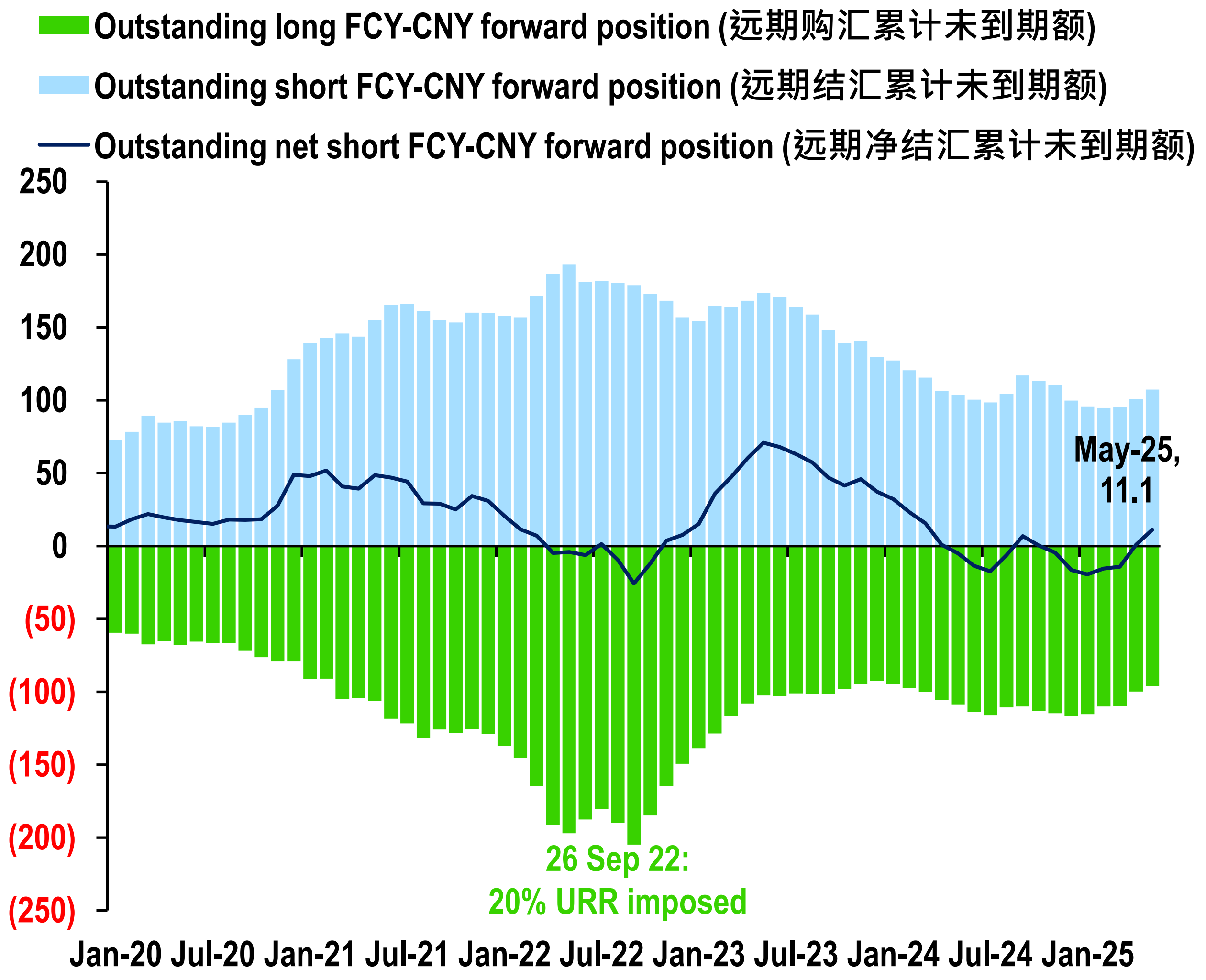
Source: SHC, CCDC, HKEX, Wind, Standard Chartered Research

Onshore banks and corporates remained net buyers of FX in 5M-2025
2025年前五个月，境内银行和企业仍为外汇净买家

Onshore entities continue to net-buy FX domestically
Net FX settlement, YTD cumulatively, USD bn



Bank clients' net short position in the FCY-CNY forward market remained light *(monthly, USD bn)*



* More positive outstanding short FCY-CNY forward position (远期结汇累计未到期额) means clients increased their shorts in FCY-CNY forward positions

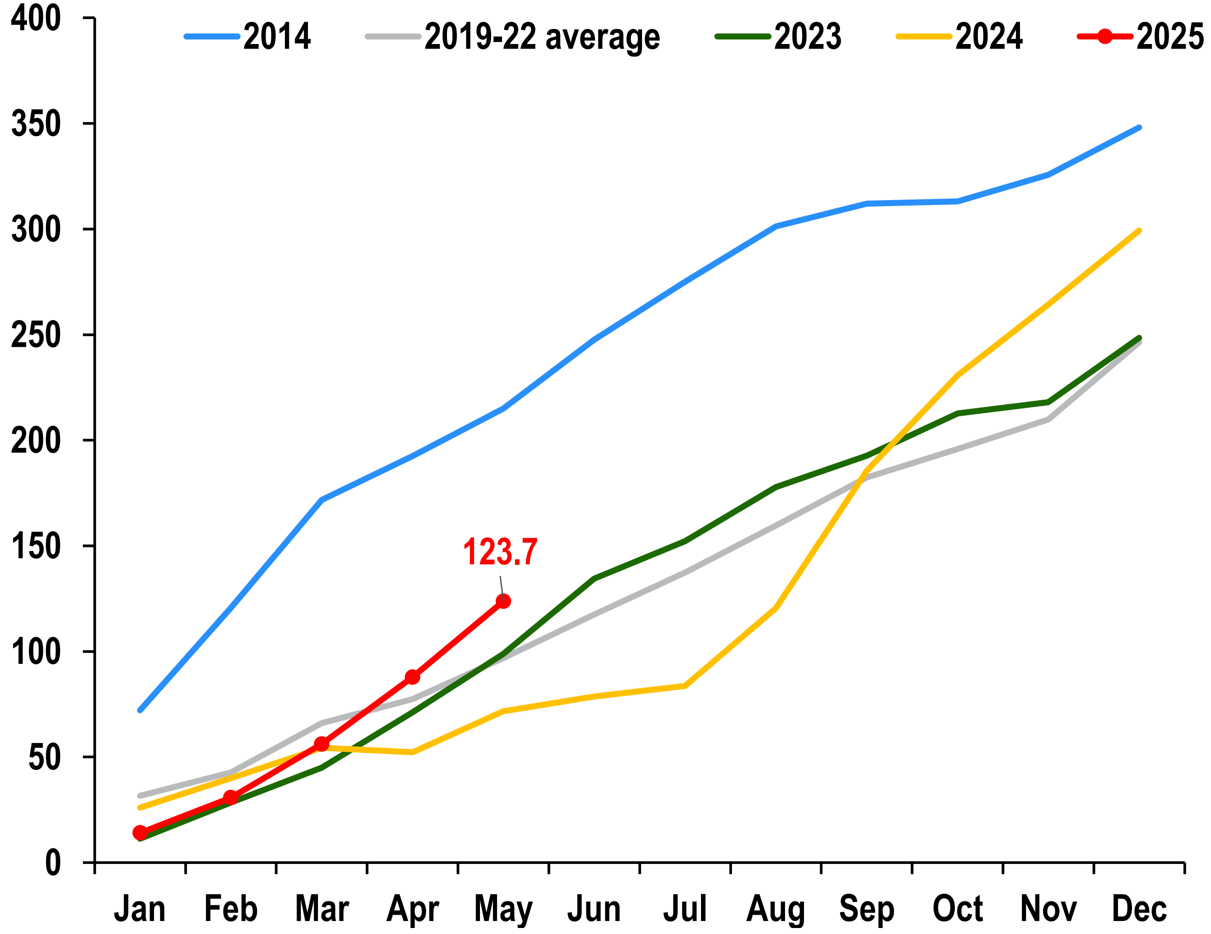
* Less negative outstanding long FCY-CNY forward position (远期购汇累计未到期额) means clients reduced their longs in FCY-CNY forward positions

Source: Wind, SAFE, Standard Chartered Research

Exporters accelerated net FX selling, but net FX buying for services trade rose further
出口商加速结汇，而服务贸易项下的购汇继续增加

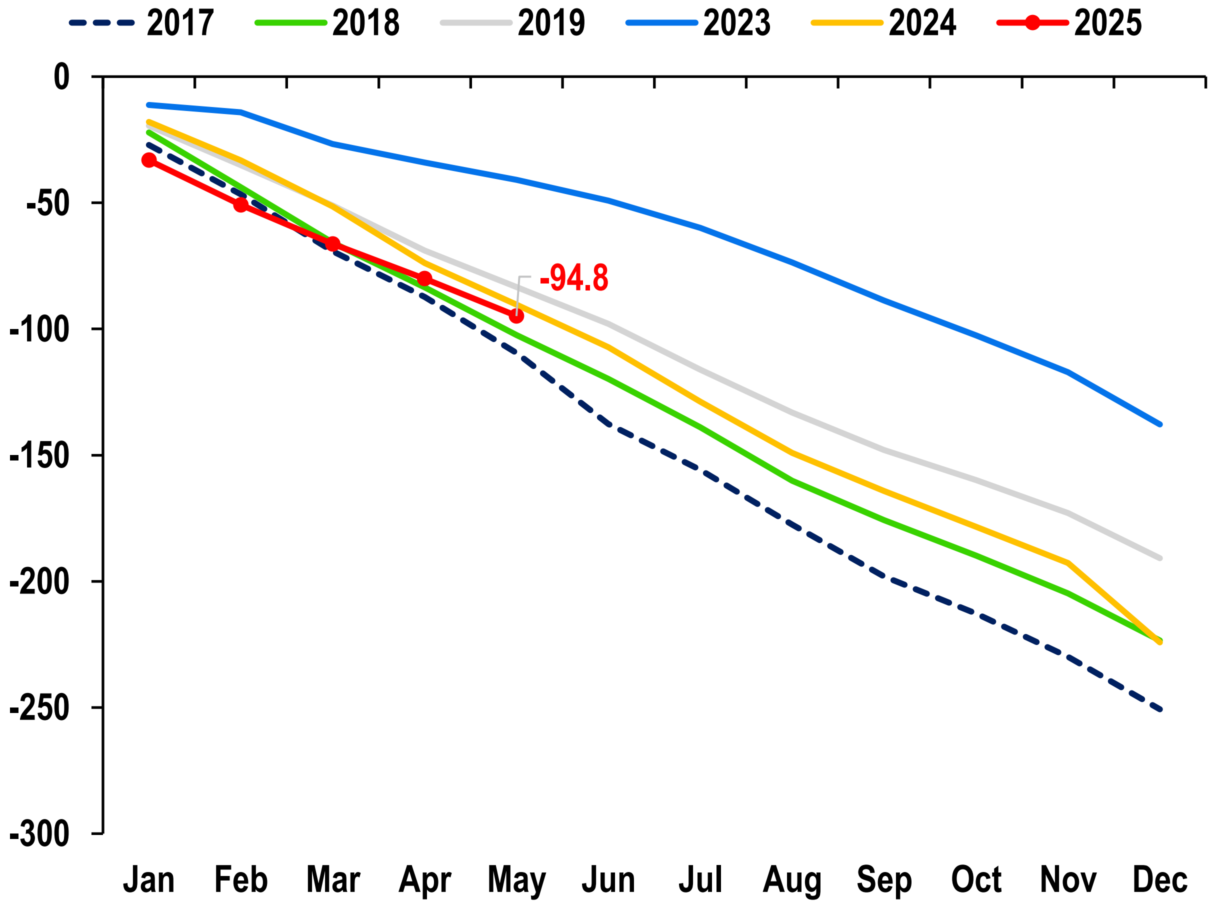
5M-2025 net FX selling for goods trade accelerated to an 11-year high

Clients' FX settlement of goods trade (货物贸易项下净结汇), YTD, USD bn



Services trade continued to see most FX buying in 5M-2025 since 2019

Clients' FX settlement of services trade (服务贸易项下银行代客净结汇), YTD, USD bn

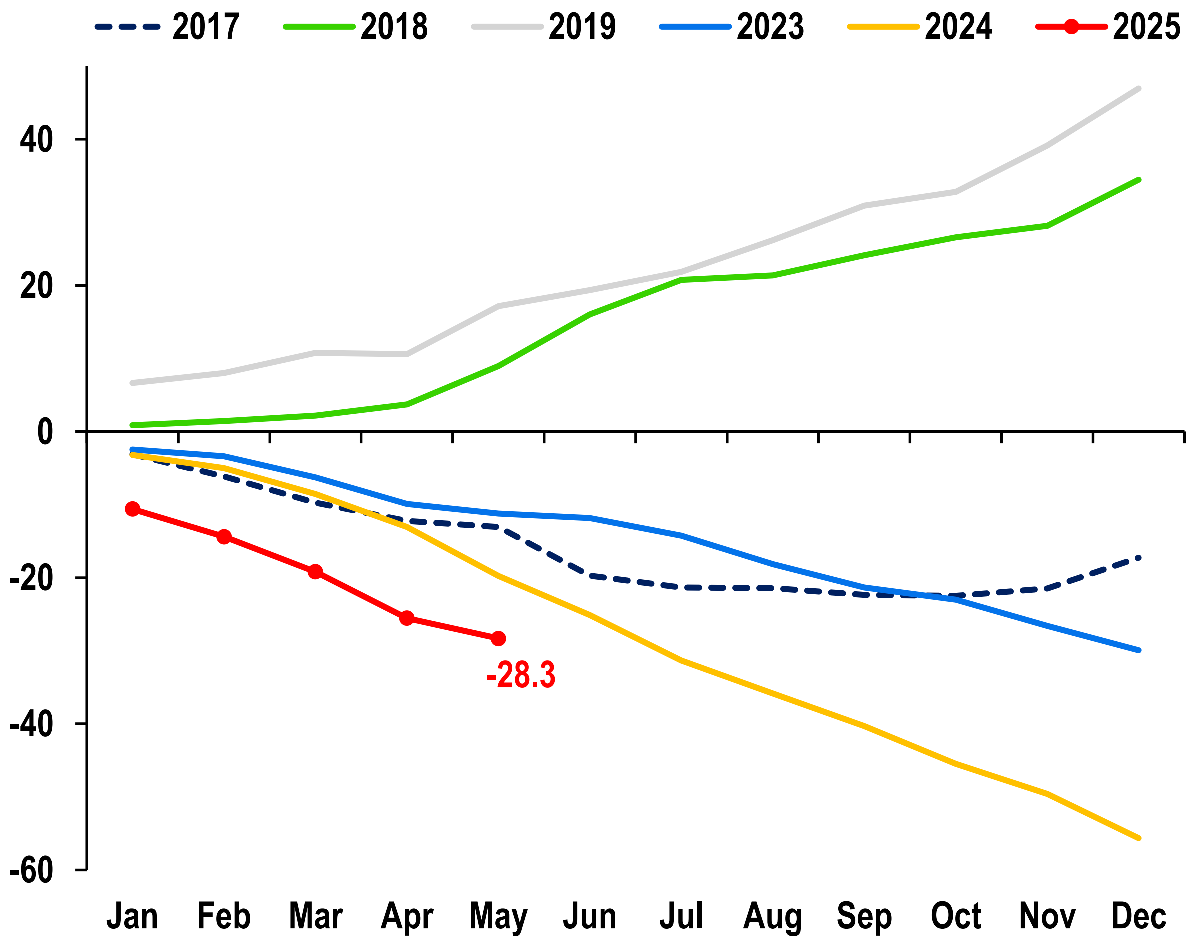


Source: Wind, SAFE, Standard Chartered Research

Rebound in securities inflows not enough to offset rising net FX buying for direct investment
尽管证券投资流入带动结汇，但未能抵消直接投资项下的净购汇

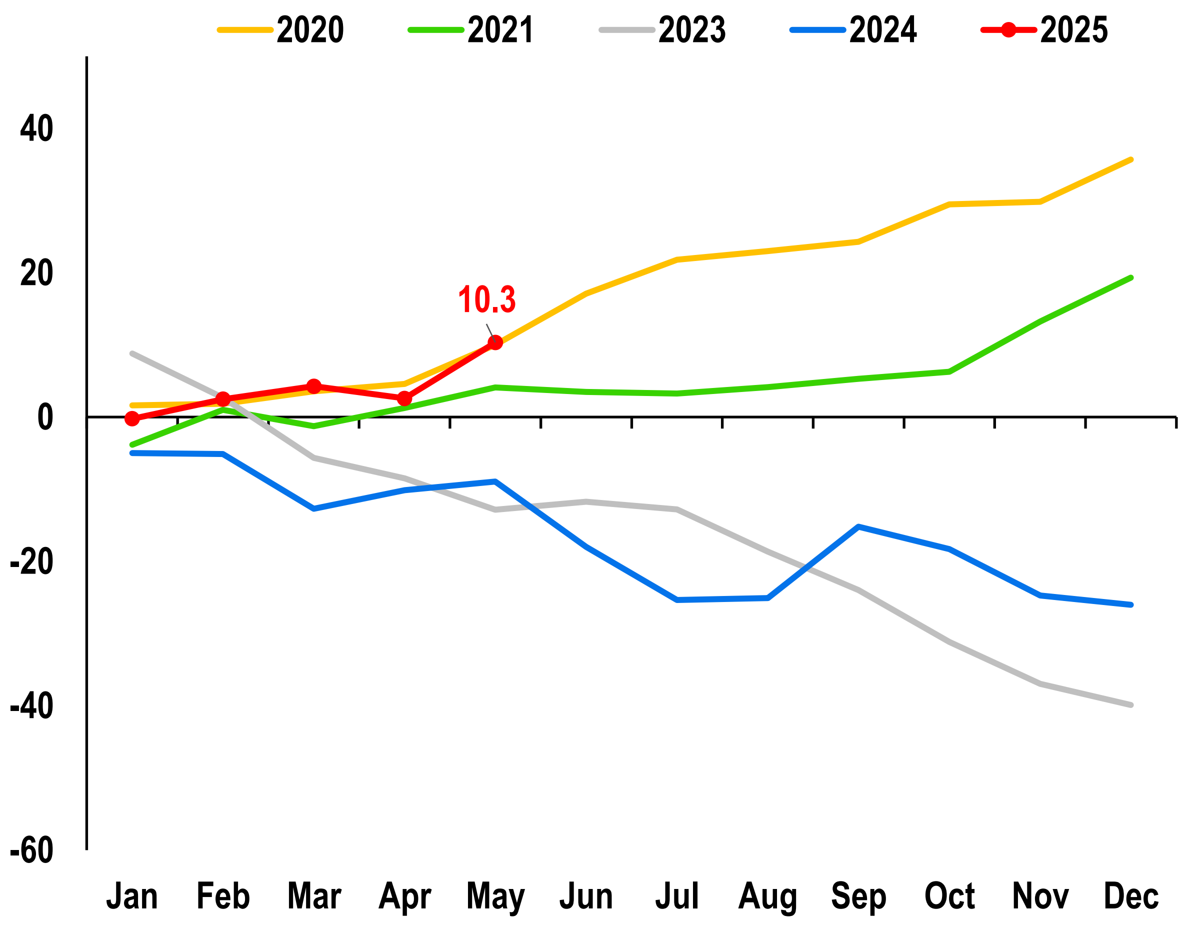
Net FX buying for direct investment in 5M-2025 reached another record likely on strong ODI

Clients' FX settlement of direct investment (直接投资项下银行代客净结汇), YTD, USD bn



Securities investment inflows materially improved

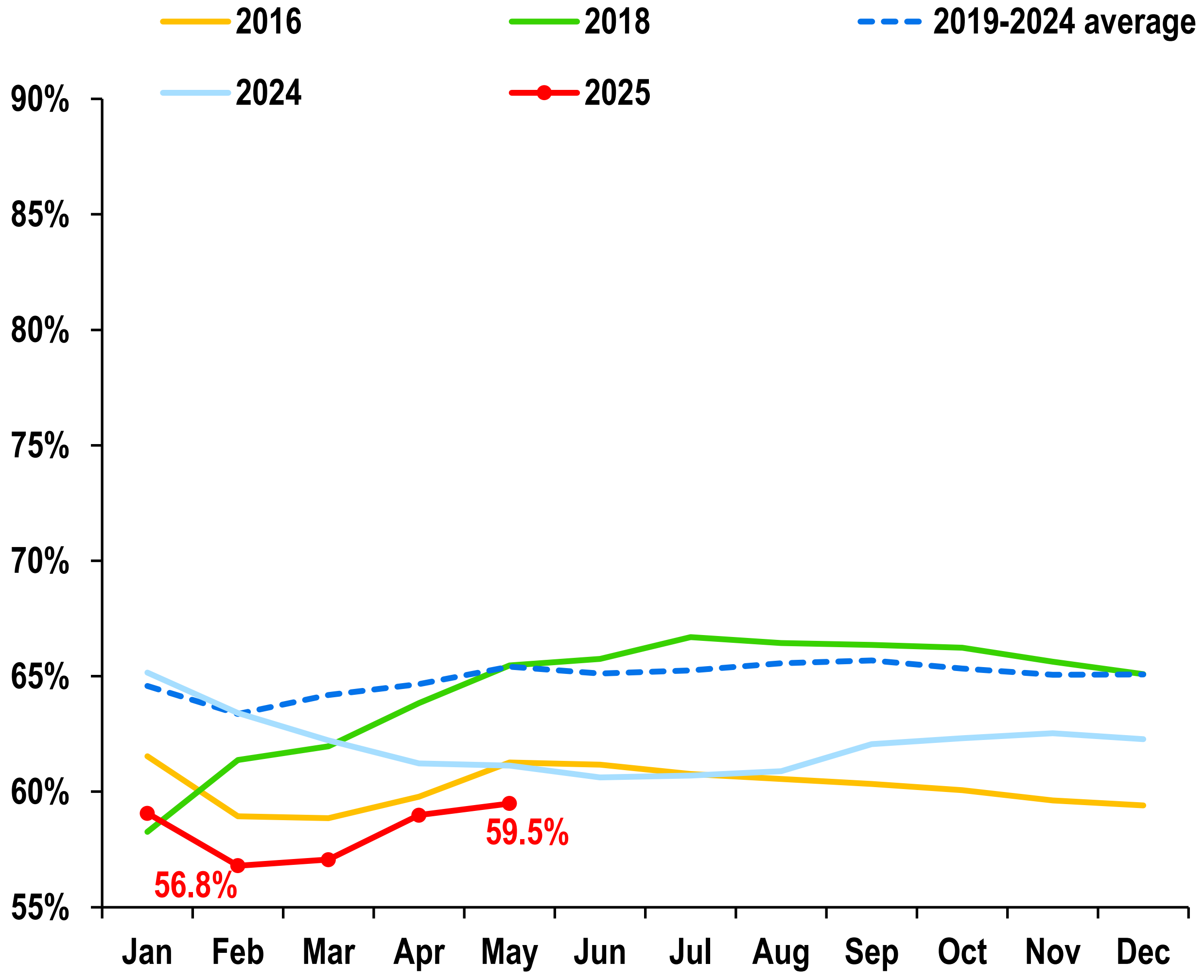
Clients' FX settlement of securities investment (证券投资项下净结汇), YTD, USD bn



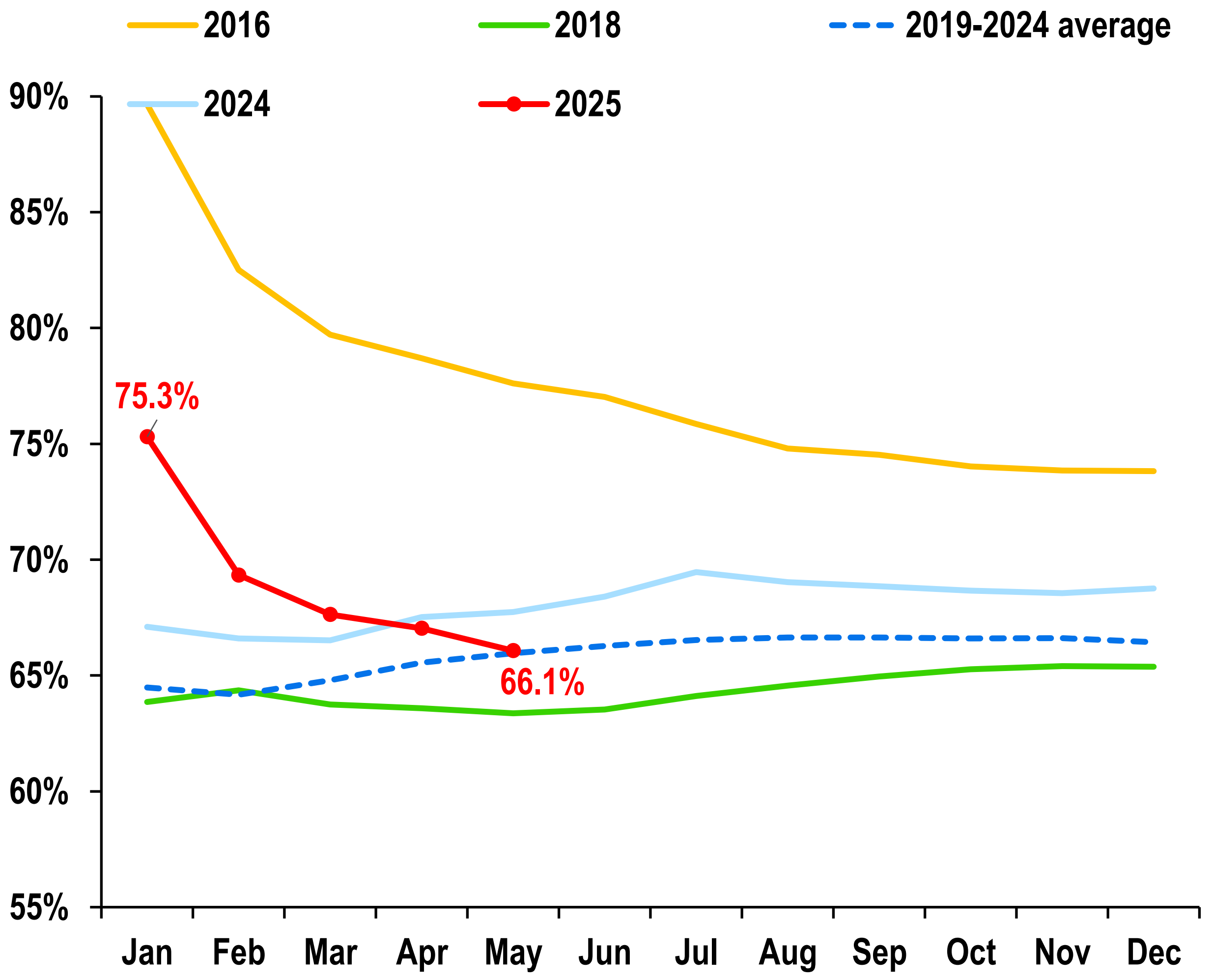
Source: Wind, SAFE, Standard Chartered Research

FX conversion ratio improved from extreme levels
结汇率从历史低位反弹，而购汇率从历史高位回落

FX selling ratio improved to 59.5% in 5M-2025, from a record low of 56.8% in 2M-2025, but it is still at a record low vs previous years; *FCY-to-CNY conversion ratio (结汇率), YTD, %*



FX buying ratio declined to 66.1% in 5M-2025 from a 10-year high of 75.3% in January
CNY-to-FCY conversion ratio (购汇率), YTD,%

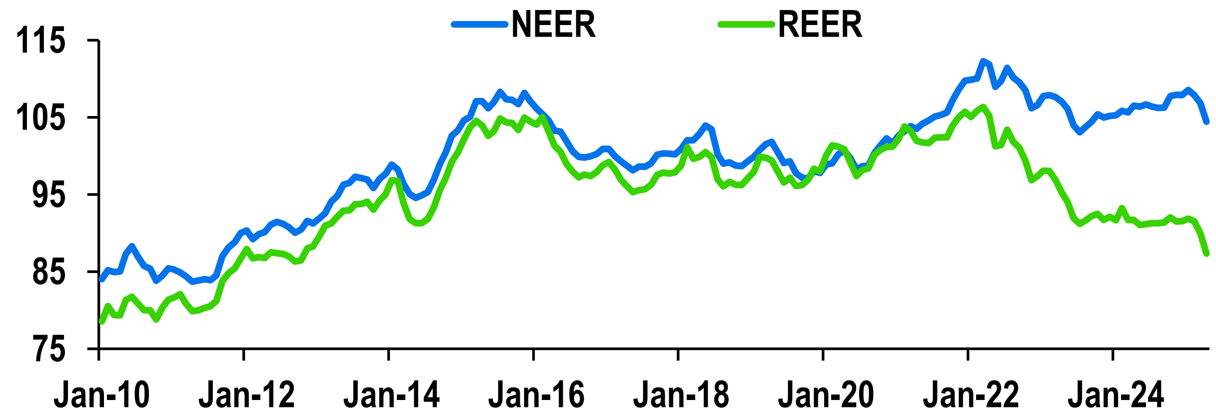


*FCY-to-CNY conversion ratio (结汇率) = FX sales by bank clients (银行代客结汇) / cross-border FX receipts (银行代客涉外外币收款)
*CNY-to-FCY conversion ratio (购汇率) = FX purchase by bank clients (银行代客购汇) / cross-border FX payments (银行代客涉外外币付款)
Source: SAFE, Wind, Standard Chartered Research

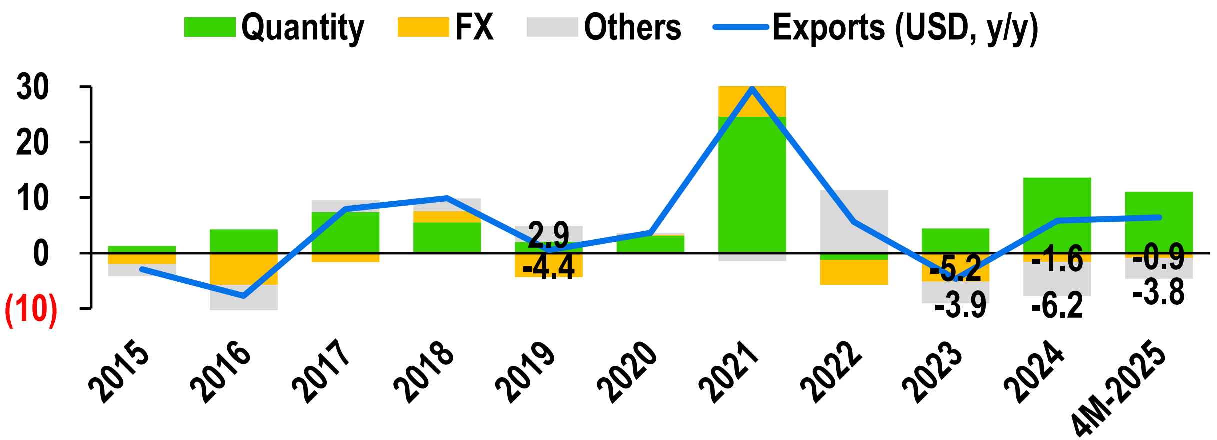
No sharp devaluation ahead
不会出现大幅贬值

CNY is already quite competitive after adjusting for inflation

REER is down 14% since 2020 to the lowest level since 2012; NEER has risen 3% (BIS index)



Export price decline was driven by 'other' price factors associated with better efficiency due to industrial upgrade, rather than CNY depreciation; *China export growth breakdown, %*



Many economies, including politically friendly ones, have imposed higher import tariffs on China-made goods to protect local industries

Country/Region	Tariff / Product
EU	• Oct-2024: 17-35.3% tariff on China-made EVs
Canada	• Oct-2024: 100% tariff on China-made EVs, 25% tariff on steel and aluminium products from China
Mexico	• Dec-2024: 80% tariff on steel products from China; 35% tariff on finished textile products • Jan-2025: 17-19% tariff on imports via e-commerce
Vietnam	• Dec-2024: 97% anti-dumping tariff on China-made wind towers
India	• Sep-2024: 12-30% tariff on steel products from China
Brazil	• Apr-2024: 25% tariff on steel products • Sep-2024: 20% tariff on chemical, fertiliser products
Saudi Arabia	• Apr-2024: 33% anti-dumping tariff on aluminium products from China • Dec-2024: 25.56-51% anti-dumping tariff on PVC textiles from China

Source: Bloomberg, Standard Chartered Research

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Recommendation structure – Rates

	Standard Chartered terminology	Impact	Definition
Issuer recommendation	Positive	Outperform	We expect the total return of the issuer's local-currency bond complex in USD terms to <IMPACT> in comparison to other issuers under our coverage* over the next 3 months
	Neutral	Perform in line	
	Defensive^	Underperform	

**See https://research.sc.com/research/api/application/static/forecasts#rates for our full rates coverage universe and current recommendations.*

^As of 9 November 2024, Defensive outlook replaces Negative outlook.

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Recommendation distribution – Rates (as of 20 June 2025)

3M duration outlook	Coverage percentage	(IB%)
Positive (Buy)	32%	(30.0%)
Neutral (Hold)	65%	(30.0%)
Defensive (Sell)	3%	(0.0%)
Total (IB%)	**100%**	**(29.0%)**

IB% - Percentage of investment banking clients in each rating category

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Document is released at
07:01 GMT 20 June 2025