GF Macro Views

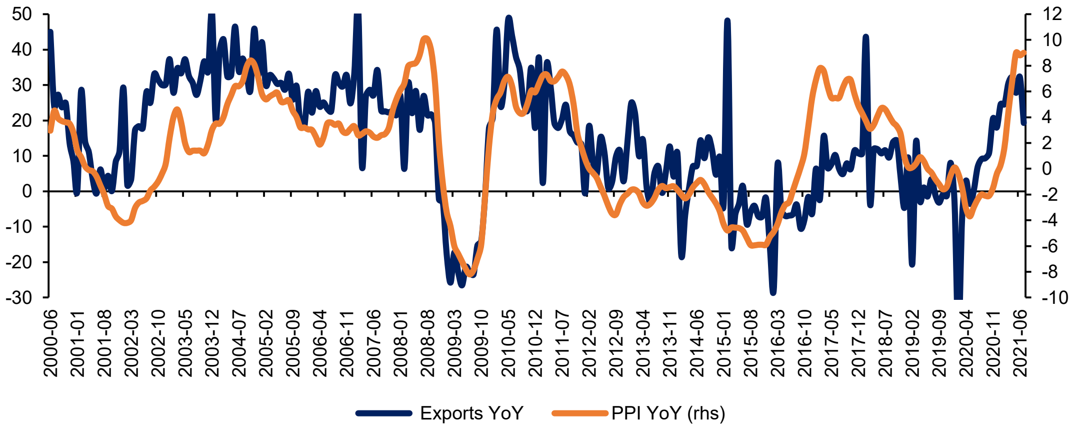
Weekly views from GF Securities' macro research team

Our take on the macro economy from nine different perspectives

The economy weakened sharply in August. Property sales and exports have almost reached a peak. Market expectations will focus on monetary easing and stabilization of the economy. PMI, subway ridership and property sales fell sharply in August, compared with 7M21, due to the pandemic and policy fine-tuning. Consumer spending and the services sectors are expected to rebound after the pandemic subsides, but it will take time for them to recover to pre-pandemic levels. We see no signs of a loosening of financial policies in the property sector as the government is committed to the regulation principle of homes being for living in and not for speculation, which would impede the transmission of monetary policies. Therefore, a loosening of financial policies represented by faster infrastructure construction is needed to maintain stable economic growth. In addition, exports and PPI have been elevated. Historically, exports have moved in sync with changes in PPI. We estimate export growth and PPI will fall in 1H22. The combination of slower economic recovery and a liquidity contraction is not favorable to the stock market. Meanwhile, expectations of lower interest rates have been reflected in the bond market, which will trigger market expectations of monetary easing and a stabilization of the economy.

Guo Lei - Sept 9, 2021

Exports and PPI YoY (%)



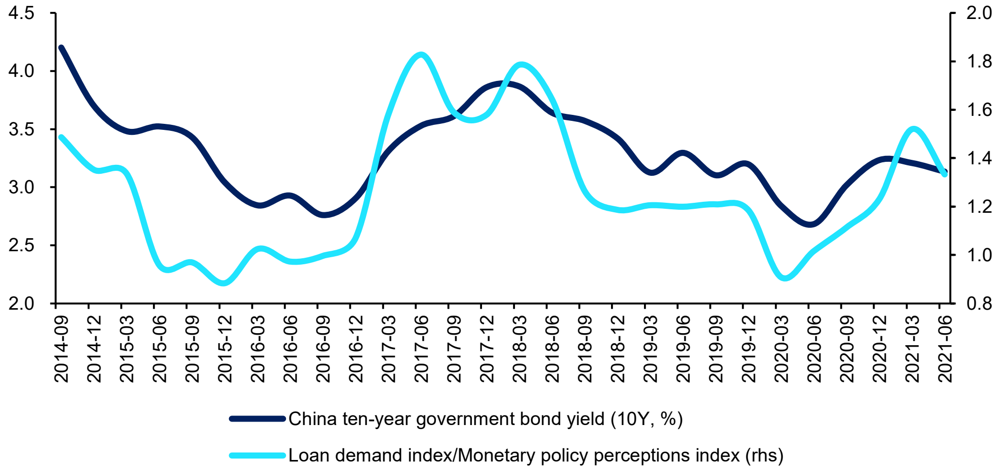
Source: Wind, GF Securities Development & Research Center

The ins and outs of the structural asset crunch

Recent asset crunch a result of mismatch between asset supply and demand, and is likely to spread until monetary policy tightens. China's ten-year government bond yield has declined since February this year, which may be indicative of a structural asset crunch. An asset crunch is the result of a mismatch between asset supply and demand. Such a mismatch can be a general one or a structural one. The current asset crunch is caused by supply factors such as a lack of financial assets due to a tightening of financial policies, and a lack of quality assets following Yongcheng Coal's default. As for demand, loose liquidity in the banking system and deposit disintermediation have made structural asset crunches more prominent. As the mismatch between supply and demand has remained unchanged, the structural asset crunch may continue and evolve in three stages. In the first and second stages, safe assets become more expensive and less attractive, prompting financial institutions to seek less pricier assets. In the third stage, monetary policy may turn neutral or even tighten, and the mismatch between supply and demand could ease. However, as financial policy will remain tight, the movement of interest rates may be contained.

Guo Lei, Zhong Linnan - Sept 10, 2021

Loan demand index/monetary policy perceptions index vs China's ten-year government bond yield



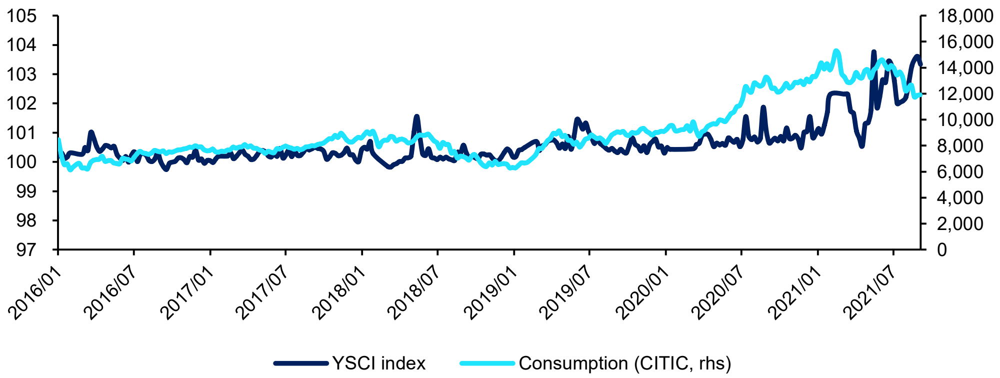
Source: Wind, GF Securities Development & Research Center

Our take on the low CPI and high PPI

The low CPI and high PPI became more prominent in August. We believe the high PPI has affected CPI movements despite lower pork prices. PPI growth beat expectations and may be close to a peak. The low CPI and high PPI were more prominent in August. The slower YoY growth in CPI was due to lower food prices caused by a decline in pork prices on a high comparable base. Non-foodstuff prices also declined due to the pandemic. However, given the current YSCI reading, we believe the macro environment cannot be interpreted as seeing low inflation of general consumer goods. The elevated PPI has affected CPI movements through household appliances. However, the sub-index should have a limited impact on the overall CPI. In addition, the stronger-than-expected PPI growth in August was due to significant surges in coal and chemicals prices. However, coal prices already rose substantially in September 2020 and increased further in November and December, forming high comparable bases. Assuming a lack of bigger-than-expected MoM improvements going forward, the room for PPI growth would be constrained.

Guo Lei - Sept 13, 2021

YSCI suggests inflation of general consumer goods is not low



Source: Wind, GF Securities Development & Research Center

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