

# China monthly: Clouded outlook for H2

Nordea Research, 02 September 2016

*We continue to expect Chinese growth to moderate in H2 as the support from monetary easing in 2015 will slowly wane and housing market is starting to cool down. The severe flooding that hit half of China during July could temporarily push up food prices and inflation. The renewed falling oil prices have little impact on consumers and the CPI. The CNY will likely follow the weakening trend versus the USD, supported by a strong correlation to the USD, net capital outflows and CNY overvaluation.*

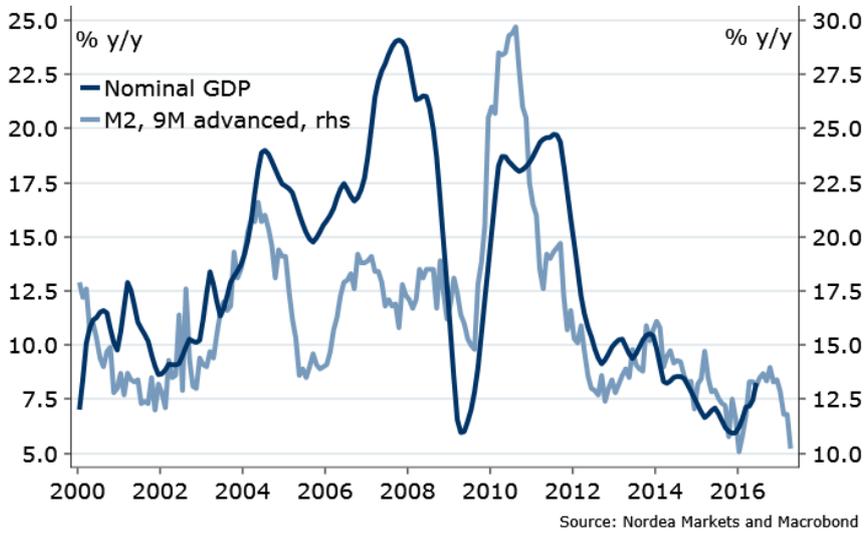
*This is a monthly update on the Chinese economy, which include topics we see as the most relevant in China at the moment.*

*A pdf document can be found at the bottom of this page.*

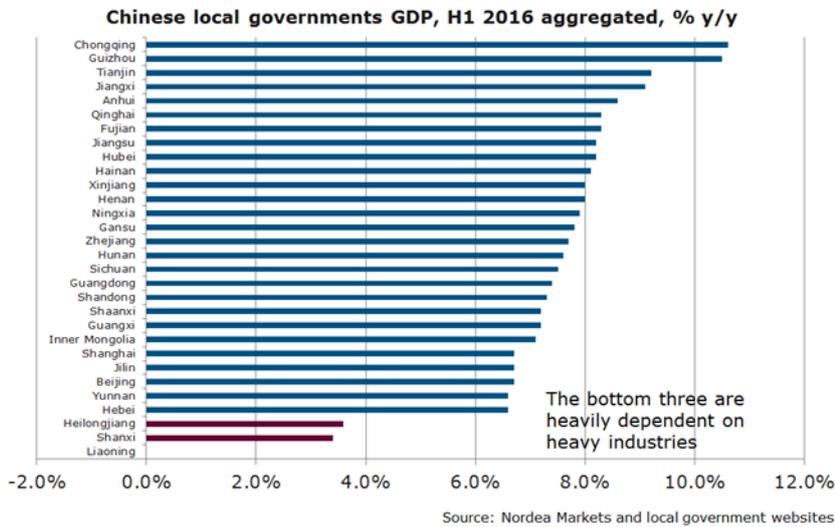
**In our new Economic Outlook, to be published on 6 September, we will update our macro and financial forecasts for China, including for 2018. Stay tuned.**

- Despite the seemingly stable growth momentum in China currently, we remain bearish. Nearly half of the provinces have missed their growth targets in H1. We maintain our expectation of **6.5% national GDP growth for this year and 6% for the next.**
- **In H2, the growth will fall below the level seen in H1** because 1) monetary easing from last year is gradually losing its effects, 2) the housing is starting to cool down, which will drag down construction activities and industrial demand, and 3) external demand is subdued as many of China's large trading partners are struggling with growth
- Despite lower oil prices, **inflation faces upside risk in H2.** The severe floods in July has caused supply disruptions in the farming sector and could push up food prices. Thus, China may see a short period of stagnation.
- On the **CNY, we continue to expect a weakening trend versus the USD**, driven mostly by a stronger USD. Outward FDI will likely outpace inward FDI, also supporting a weaker CNY. Finally, the yuan is overvalued compared to long-term fundamentals

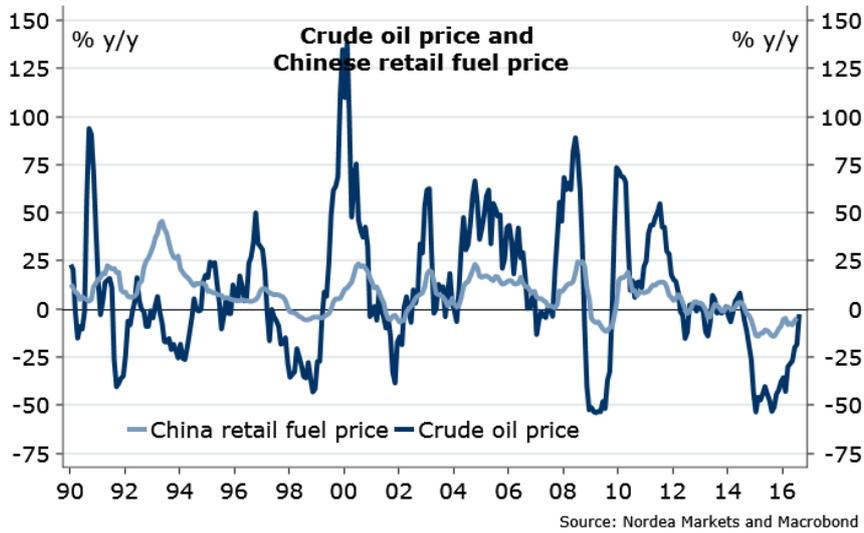
**Figure 1: Waning effect of monetary easing indicates weaker growth in H2**



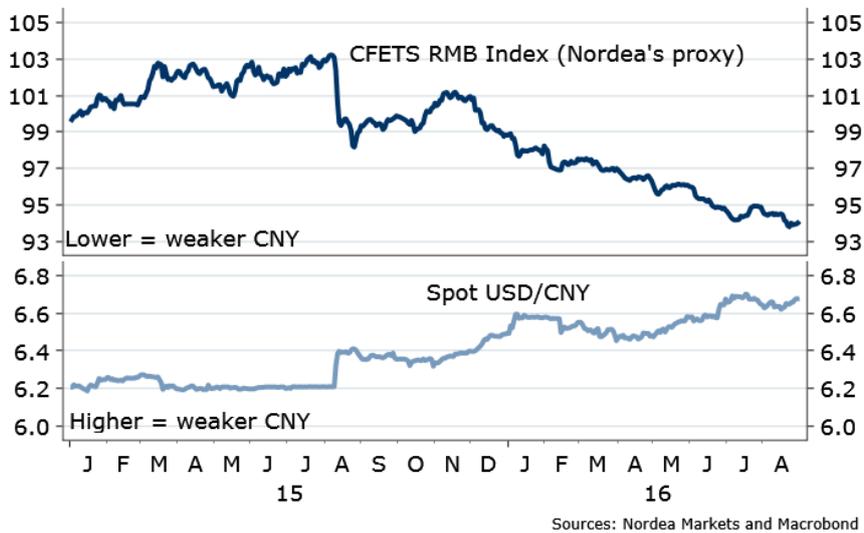
**Figure 2: Some Chinese regions are harder hit than others**



**Figure 3: Oil price swings have little effect on Chinese consumers**



**Figure 4: The weaker CNY trend will continue**



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