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Advisory Department

—The macroeconomy—

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(No. 105)

Summary

China's real GDP grew by +4.9% over July–September, up on April–June's +3.2%, with the figure for January–September also returning to positive territories at +0.7%. Production and investment led the recovery, though consumption continued to contract on the whole. The economy has recovered to the point where a more expansive fiscal and financial policy response is no longer needed, but this is a mixed recovery led by certain industries and high earners. The authorities will continue to pursue policies to alleviate the downward pressure from US/China trade frictions and supply-side structural reforms that began before COVID-19 outbreak, so caution will be needed.

1. September's economic indicators improved on the previous month

- **Growth accelerated to +4.9% over July–September**
- **Production and consumption grew at a faster pace; total investment returned to positive territories**
- **The price of new homes grew at a slightly faster pace in first-tier cities**
- **Exports and imports both grew at a faster pace**
- **CPI growth slowed; PPI growth contracted at a slightly faster pace**
- **Net new bank loans grew but total social financing fell**

2. The policy response: The economy is undergoing an uneven recovery, with monetary policy becoming more targeted

- **The economic recovery is uneven**
- **"Pursue a sound monetary policy in a…well-targeted manner" (PBC MPC meeting)**
- **"The RMB's strength is a natural reflection of China's bullish economy, with markets also focusing on internal/external interest-rate differentials" (PBC)**

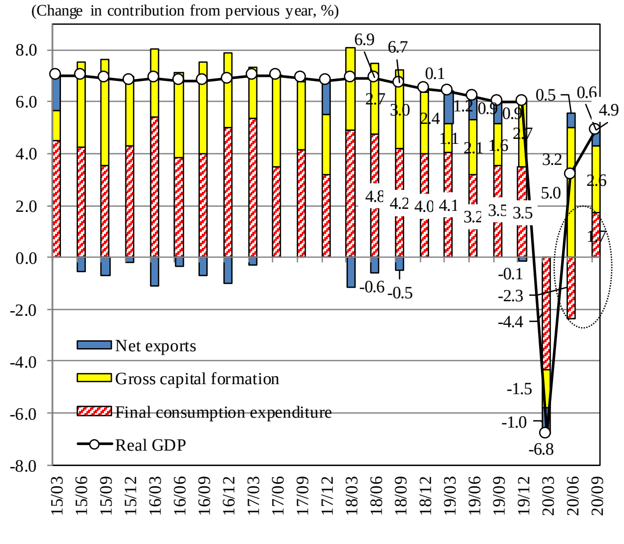
1. September's economic indicators improved on the previous month

・Growth accelerated to +4.9% over July–September

On October 19, the National Bureau of Statistics (NBS) announced that China's real GDP growth rate for July–September stood at +4.9% on the same period last year (from here on, all figures refer to a "same-period previous-year comparison" unless otherwise specified), with the figure for January–September coming in at +0.7%.[1] Growth was up 2.7% on the previous quarter (Fig.1). A glance at contribution levels by demand item over July–September shows the contribution of gross capital formation shrinking to +2.6%Pt, though the contribution of final consumption expenditure returned to positive territories at +1.7%Pt. At +0.6%Pt, the contribution of net exports increased slightly, with growth returning to a more balanced trajectory after a period of heavy investment in April–June.

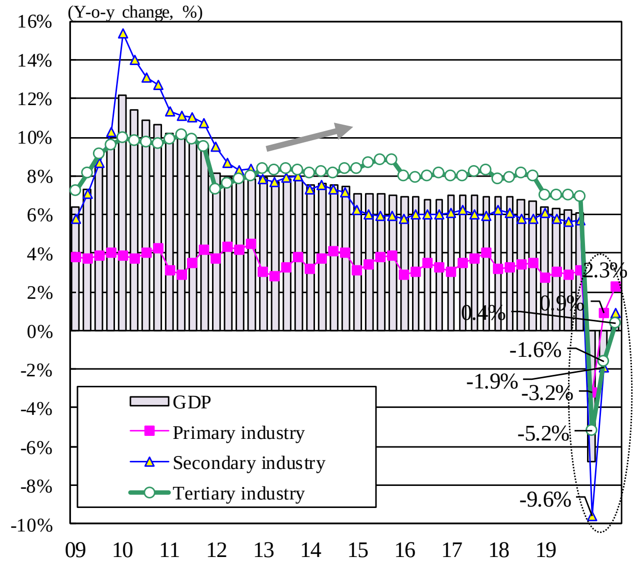
A breakdown by sector shows primary industry growing by +2.3% over January–September, up on the +0.9% figure recorded over January–June, with secondary industry (up from -1.9% to +0.9%) and the tertiary industry (up from -1.6% to +0.4%) both returning to positive growth (Fig. 2).

Fig. 1: Breakdown of GDP by demand item



Source: NBS, CEIC

Fig. 2: GDP by sector



Note: The figures denote the most recent period.
Source: NBS, CEIC

・Production and consumption grew at a faster pace; total investment returned to positive territories

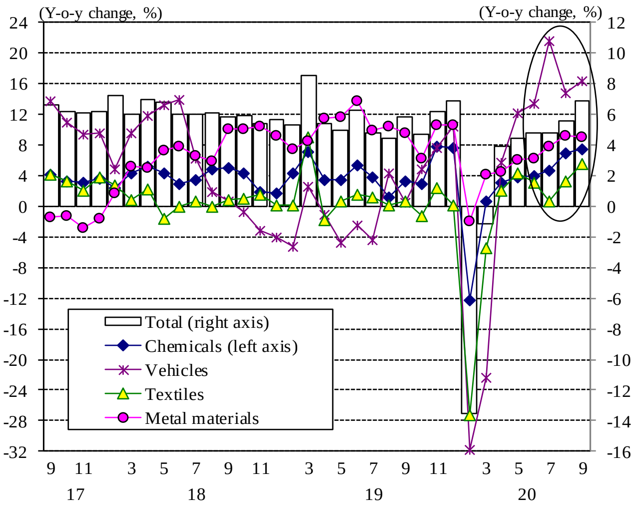
September's economic indicators improved overall on the previous month. At +6.9%, value-added industrial production in September improved on August's +5.6% (January–September = +1.2%; +1.2% m-o-m) (Fig. 3). According to NBS, noteworthy industrial trends in September included: (1) the driving role of the equipment manufacturing sector, with the automobile sector up +16.4% (including new energy vehicles at +51.1%, trucks at +36.2%, crossover SUVs at over +20%), the metal products, general equipment, and the electric machinery sectors growing by over +12%, and the electronic machinery and especial-purpose equipment sectors maintaining growth

[1] NBS, October 19, 2020, "Economic Growth of the First Three Quarters Shifted from Negative to Positive" http://www.stats.gov.cn/english/PressRelease/202010/t20201019_1794616.html

at +8%; (2) strong growth when it came to hi-tech and cutting-edge products (3D printers, electric scooters, service robots, smart watches and other cutting-edge smart products grew by over +70%, while urban rail vehicles, electric charging stands and other cutting-edge infrastructure products grew by over +20%); (3) ongoing and stable growth when it came to the manufacture of raw materials (with ferrous metals and construction materials growing by +9.0%, chemical raw materials by +7.5%, steel materials, non-ferrous metals, aluminum and ethylene, etc. growing for the third straight month, and cement, pig iron and crude steel growing by more than +6.0%); (4) A striking turnaround when it came to the manufacture of consumer goods (with food, agricultural and sideline products processing, and alcohol and beverages all up by over +5%Pt on the previous month).[2]

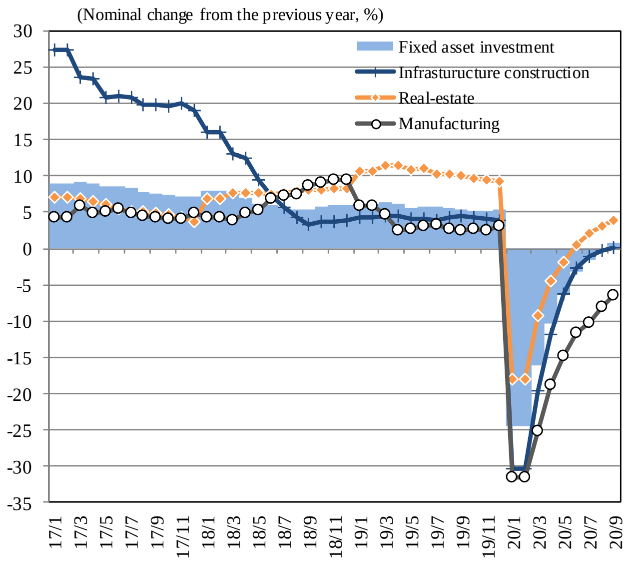
At +0.8%, nominal fixed asset investment in January–September improved on January–August's -0.3%, with the figure hitting positive territories for the first time in 2020, though the standalone monthly figure slowed from +8.5% in August to +8.0% (+3.4% m-o-m). At +0.2%, investment in infrastructure construction returned to positive growth in January–September (January–August: -0.3%), with improvements also seen when it came to manufacturing investment (from -8.1% to -6.5%) and real estate investment (from +3.0% to +3.8%) (Fig.4).

Fig. 3: Value-added industrial production



Note: The value-added industrial production amount. The figure for January shows the aggregate year-on-year change for the period January–February.
Source: CEIC

Fig. 4: Fixed asset investment



Note: The figures show a same-period previous-year comparison of the cumulative results for periods lasting from the beginning of the target year until the month in question.
Source: NBS, CEIC

Nominal retail sales of consumer goods grew by +3.3% in September, an improvement on August's figure of +0.5% (+2.3% m-o-m) (Fig.5). Internet retail sales of goods and services grew by +9.7% to hit RMB 8,006.5 billion over January–September (goods: RMB 6,647.7 billion; services: RMB 1,358.8 billion), with net shopping growing by +15.3% to account for 24.3% of total retail sales of consumer goods during this period (RMB 27,332.4 billion, -

[2] NBS, October 20, 2020, "卢山：工业生产稳定恢复增长动力不断加强 (Lu Shan: Industrial Production Recovers Steadily and Growth Momentum Continues to Strengthen)." Lu Shan is the head of the NBS Department of Industrial Statistics. http://www.stats.gov.cn/tjsj/sjjd/202010/t20201020_1794997.html

7.2%).[3] NBS spokesperson Liu Aihua pointed out that: (1) While internet sales continued to grow at a fast pace, offline sales were also recovering as people returned to physical shops thanks to the success of epidemic controls; (2) The slump in the dining out sector had eased for several months in a row (September: -2.9%), with the consumption of services gradually returning to normality; (3) Sales related to upgraded consumption (such as cosmetics, automobiles, and gold, silver and jewels) enjoyed double-digit growth.[4]

At +13.0% (2.565 million), sales of new vehicles in September grew at a faster pace compared to August's figure of +11.7 % (2.186 million). This marked the sixth straight month of growth since April (+4.5% and 2.070 million), when sales had recorded y-o-y growth for the first time since June 2018 (+4.7%). The cumulative figure for January–September was -6.9% (17.0932 million) (Fig. 6).[5] The recent recovery was due to various measures introduced by the central and local governments to stimulate consumption.[6] Sales had trended upward until 2017 (28.941 million and +3.6%), but they subsequently dipped when a tax break on purchases of small passenger vehicles[7] finished at the end of 2017, with the sector seeing policy-led increases in sales followed by subsequent slowdowns.

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[3] NBS, October 19, 2020, "Total Retail Sales of Consumer Goods Went Up by 3.3 percent in September 2020"
http://www.stats.gov.cn/english/PressRelease/202010/t20201020_1794975.html

[4] NBS, October 19, 2020, "国家统计局新闻发言人就 2020 年前三季度国民经济运行情况答记者问 (An NBS Spokesperson Answers Journalist Questions about Economic Performance in January and September 2020)"
http://www.stats.gov.cn/tjsj/sjjd/202010/t20201019_1794729.html

[5] Shi Jianhua, a senior official at China Association of Automobile Manufacturers (CAAM), commented at the 2020 China Auto Supply Chain Conference (held in Xian over October 21–22) that automobile sales volumes in 2020 might improve on the previous year (y-o-y growth).
CAAM, October 26, 2020, "师建华：今年全年汽车产销量很有可能好于去年 (Shi Jianhua: Automobile Sales in 2020 Might Improve on the Previous Year)"
http://www.caam.org.cn/chn/1/cate_3/con_5232222.html

[6] Regarding the policies to stimulate automobile consumption, refer to the figure 4 on the "Mizuho China Business Express Economic Journal (No. 99)"" by this author.
https://www.mizuhobank.com/fin_info/cndb/economics/express_economy/pdf/R422-0099-XF-0105.pdf

[7] Ministry of Finance: "关于减征 1.6 升及以下排量乘用车车辆购置税的通知 (Circular on the Lowering of the Purchase Tax on Passenger Vehicles with Emissions of 1,600cc or Less)"
http://szs.mof.gov.cn/zhengwuxinxi/zhengcefabu/201612/t20161215_2483048.html
On September 29, 2015, the State Administration of Taxation issued Notice No. 104 [2015]. This announced that the purchase tax on passenger vehicles with emissions of 1,600cc or less would be lowered from 10% to 5% from October 1, 2015 to the end of 2016.
http://www.chinatax.gov.cn/n810341/n810755/c1827947/content.html
On December 15, 2016, the Ministry of Finance and the State Administration of Taxation announced that the tax cut on purchases of new vehicles with low emissions would be extended one year to the end of 2017. However, the tax rate will rise from 5% to 7.5%. Sales had trended upward until 2017 (28.941 million and +3.6%). A tax break was withdrawn at the end of 2017, though, with sales then hitting 28.0398 million (-3.1%) in 2018 to record the first y-o-y decline since 1990, with the pace of contraction then reaching -8.2% (25.7545 million) over 2019.

Fig. 5: Retail sales of consumer goods; retail sales by item; floor space of residential building sold

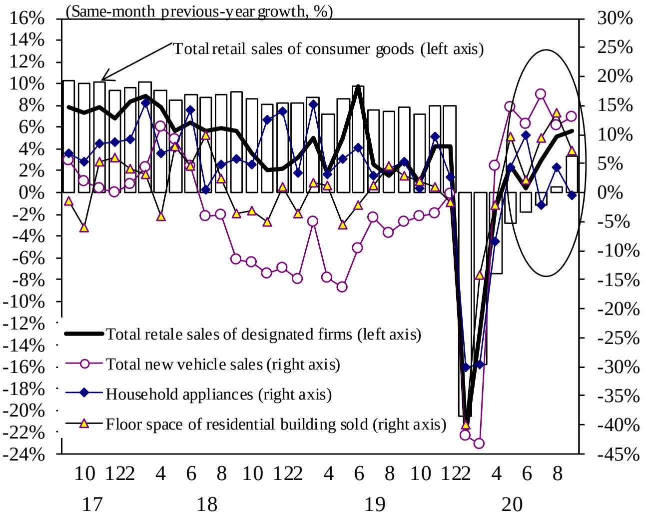
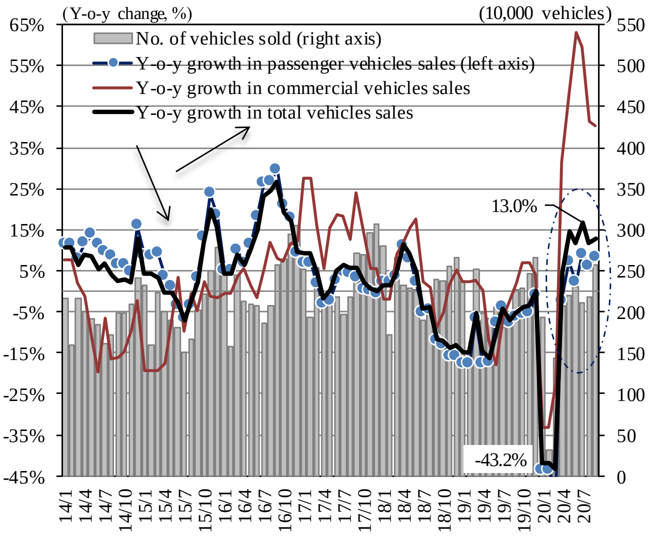


Fig .6: Number of vehicles sold (by passenger vehicles and commercial vehicles)



Note: Designated firms: firms with an annual turnover of RMB 5 million or over; the household appliance data also refers to sales by these designated firms; February = the cumulative results for January–February.
Source: CEIC

Note: The figure for January and February shows cumulative y-o-y growth for the period January–February.
Source: China Association of Automobile Manufacturers, CEIC

・The price of new homes grew at a slightly faster pace in first-tier cities

At -1.8% (1,170.73 million m^2), the floor space of residential buildings sold in January–September remained down on 2017 (+7.7%), 2018 (+1.3%) and 2019 (-0.1%; 1,715.58 million m^2), though the figure contracted at a slower pace compared to January–August (-3.3%). Buying restrictions pioneering in Shanghai and Shenzhen in March 2016[8] were subsequently rolled out to other cities with surging house prices,[9] with the restrictions being tightened further thereafter.[10]

In September, 59 cities saw the price of new homes rising on the previous year, unchanged on August. At +3.94%, prices in first-tier cities rose slightly for the fifth straight month (August: +3.92%), though growth slowed slightly

[8] On March 25, 2016, the down payment rate for second homebuyers was lifted from 40% to 50–70% in Shanghai. Shenzhen has lifted the down payment rate for second homebuyers from 30% to 40%. Both moves represent a tightening of restrictions on purchases by non-resident buyers.

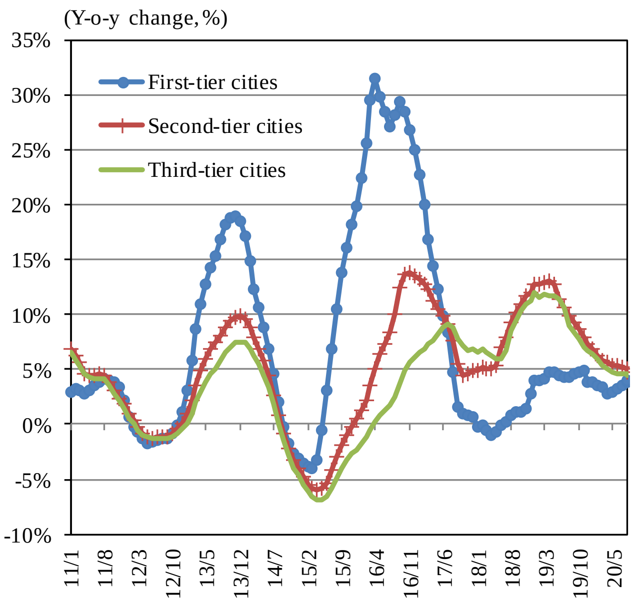
[9] Similar tightening measures have also spread to cities with conspicuous house price inflation, with Xiamen, Nanjing and Hefei introducing similar regulations from the end of April to mid-July 2016, for example. Reference: Economic Information Daily, July 14, 2016, "房地产现严重分化 因城施策将是下半年楼市政策主线 (China's acute property price bifurcation problem: Main real-estate measures in 2H influenced by the regional policies)," etc.
http://www.china.com.cn/shehui/2016-07/14/content_38877726.htm
People's Daily on October 11, 2016 entitled "限购、限贷，近期已有 20 城市推出新举措 楼市调控 因城施策 (Restrictions on housing purchases and loans recently introduced in 20 cities: Restrictions geared to meet the circumstances of each city)." Restrictions on housing purchases were introduced in 20 cities at the time the article was written.
http://www.fangchan.com/news/6/2016-10-11/6191397283909931925.html

[10] The 21st Century Business Herald, March 20, 2017, "北京最严楼市调控"认房又认贷" 下半年全国楼市降温可期 (Checks on housing and loan records: Beijing's strictest real estate controls set to chill housing markets nationwide in 2H)." Beijing has introduced 'the toughest controls in history.' It lifted the down payment rate for second home purchases to at least 60 percent on March 17, for instance, with the rate lifted to at least 80% for buyers who will not be living at the property. Furthermore, the city has also suspended issuances of mortgage loans for individuals with maturities of 25 years or more, while homes bought by companies cannot be resold for at least three years.
http://epaper.21jingji.com/html/2017-03/20/content_58356.htm

on the previous year in second-tier cities (from +5.0% to +4.7%) and third-tier cities (from +4.6% to +4.4%) (Fig. 7).[11]

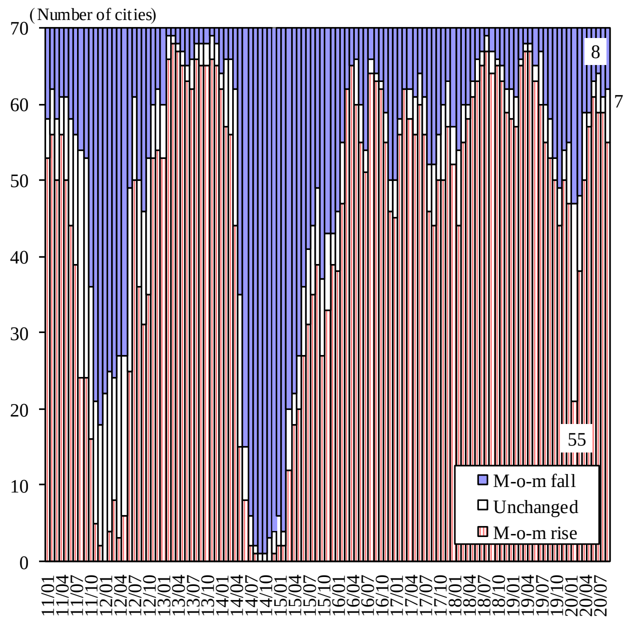
On a monthly basis, 55 of the 70 cities surveyed saw the price of new homes rising, down from 59 in August. Seven cities saw prices moving flatly on the previous month (up from two in August), while eight cities saw prices falling on the previous month (down from nine in August) (Fig. 9).[12]

Fig .7: New-homes prices (Y-o-y)



Note: First-tier cities: Beijing, Shanghai, Guangzhou and Shenzhen
Second-tier cities: Capitals other than first-tier cities (municipality), capitals of autonomous regions, Dalian, Qingdao, Ningbo, and Xiamen.
Third-tier cities: Cities other than first-tier and second-tier cities (35 of the 70 cities surveyed)
Source: CEIC

Fig. 8: Number of cities recording m-o-m changes in sales prices of residential buildings



Source: NBS, CEIC

・Exports and imports both grew at a faster pace

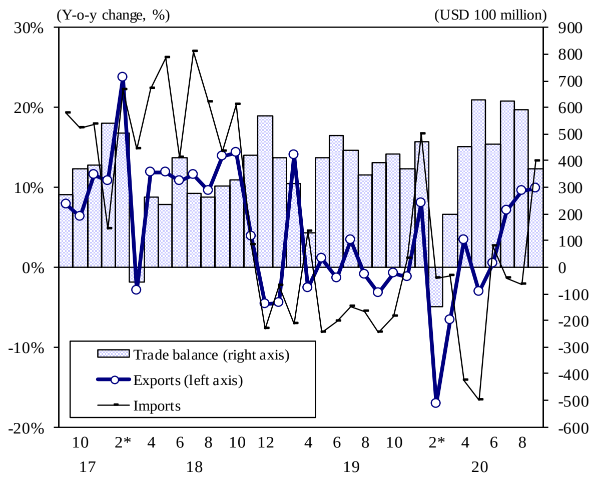
Exports grew by +9.9% ($239.76 billion) and imports by +13.2% ($202.76 billion) in September, with exports and imports both growing at a faster pace. The trade surplus stood at $37.00 billion (Fig. 9). When it came to trade trends over January–September (exports: -0.8%/$1811.4 billion; imports: -3.1%/$1485.3 billion; surplus: $326.1 billion), the Ministry of Commerce (MOFCOM) explained that: (1) private sector exports had risen by +10.0% to account for 55.2% of the total export figure (+4.1%Pt); (2) exports to emerging markets continued to expand, with trade to the ASEAN region increasing by +7.7%, thus making it China's largest export destination; (3) exports from

[11] Of the 70 cities surveyed, the following three cities saw the fastest home price growth: Yinchuan +16.9%, Tangshan +15.4%, Xining +12.7% (September).

[12] NBS, September 14, 2020, "Sales Price of Residential Buildings in 70 Large and Medium-Sized Cities in September 2020" http://www.stats.gov.cn/english/PressRelease/202010/t20201020_1794977.html
From January 2018, the data no longer includes the sales price of affordable housing.

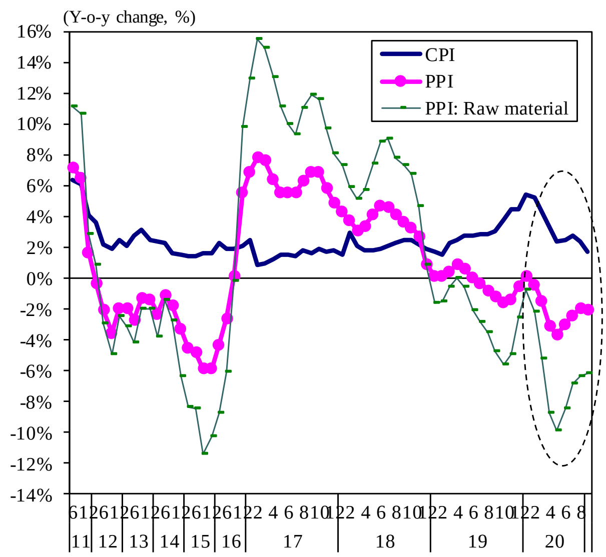
the central and western regions had increased by +7.0%, up +5.2%Pt on the total growth figure; (4) the product structure had been continuously upgraded, with the export of mechanical and electrical products share rising by +0.8% to account for 58.7%, while exports of integrated circuits rose by +14.9%, computers by +10.7%, and medical devices by +48.2%, for example.[13]

Fig. 9: Imports/exports; trade balance



Note: *The figures show a same-period previous year comparison results of January-February and total.
Source: China Customs Statistics

Fig. 10: CPI, PPI



Note: The data from June 2011 to 2016 only shows the quarterly (March, June, September and December) figures.
Source: NBS, CEIC

When discussing the trade growth over January–September, Li Kuiwen, spokesperson of the General Administration of Customs (GAC), explained that exports had been pulled along by: (1) commodities connected to the fight against COVID-19 (up +36.5% to hit RMB 1.04 trillion, thus contributing +2.2%Pt to the +1.8% export growth figure for January–September); (2) a rise in exports of PCs and household appliances (RMB 880.8 billion, +17.8%, contribution up +1.1%Pt); (3) an increase in export orders on the resumption of domestic work and production, for example, and on the role that China played in making up for the global supply gap (owing to the fact it had successfully combatted the epidemic). As for imports, the spokesperson added that: (1) imports of mechanical and electronic products had increased (+3.9%) on a resumption of work and production (with electronic components by +14.9% and automatic data processing equipment and their parts and components by +11.6%); (2) imports of commodities had bounced back (crude oil by +12.7%, iron ore by +10.8%, and bauxite by +12.7%).[14]

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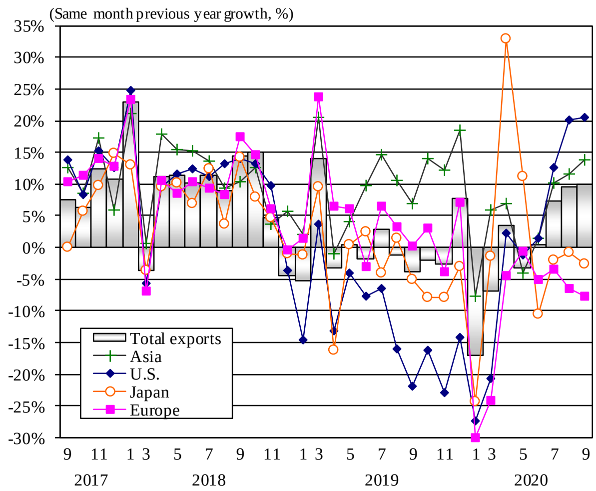
[13] The Ministry of Commerce, October 14, 2020, "商务部外贸司负责人谈 2020 年 1-9 月我国外贸运行情况 (MOFCOM Department of Foreign Trade Comments on the Foreign Trade Situation of China in January to September 2020)" Monetary amounts and rates of change are RMB denominated.
http://www.mofcom.gov.cn/article/ae/sjjd/202010/20201003007675.shtml

[14] State Council website, October 13, 2020, "国务院新闻办就 2020 年前三季度进出口情况举行新闻发布会 (The State Council Information Office Holds a Press Conference Regarding Trade in January–March 2020)". Monetary amounts and rates of change are RMB denominated. Based on the average USD/RMB exchange rate over January–September, RMB 1.04 trillion = $148.7 billion (textiles, medical devices and medicines, such as masks) and RMB 880.8 billion = $126.0 billion (notebooks, tablets and home appliances).
http://www.gov.cn/xinwen/2020-10/13/content_5550937.htm

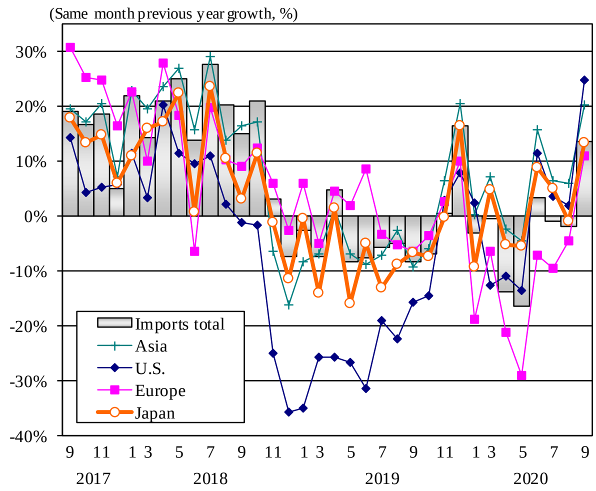
Exports to the US and Asia grew at a faster pace, while exports to Europe and Japan contracted at a slower pace. Imports from all major countries and regions grew at a faster pace (Figs. 11 and 12).

Fig. 11: Exports by major region



Note: The figure for January shows a same-period previous-year comparison of the cumulative results for January–February.
Source: China Customs Statistics, CEIC

Fig. 12: Imports by major region



Note: The figure for January shows a same-period previous-year comparison of the cumulative results for January–February.
Source: China Customs Statistics, CEIC

・CPI growth slowed; PPI growth contracted at a slightly faster pace

In September, Consumer Price Index (CPI) growth hit +1.7%, down on August's figure of +2.4%. On a monthly basis, CPI growth stood at +0.2%, down on August's +0.4%. Average growth for January–September stood at +3.3%, below the +3.5%[15] target set by the National People's Congress for 2020 (Fig. 10). A breakdown of the CPI data shows food price inflation falling to +7.9% in September (August: +8.8%). Pork prices[16] (a key factor behind fluctuating food prices) rose by +25.5%, down on September's figure of +52.6%, though "production continues to recover" (NBS[17]). At +17.2%, the price of vegetables grew at a faster pace compared to August (+11.7%) "as a result of seasonal factors and heavy rain in some regions" (NBS), while non-food prices grew by +0.0%, down slightly on August's figure of +0.1% (Figs. 13 and 14).

At -2.1%, Producer Price Index (PPI) growth contracted at a slightly faster pace in September (August: -2.0%),

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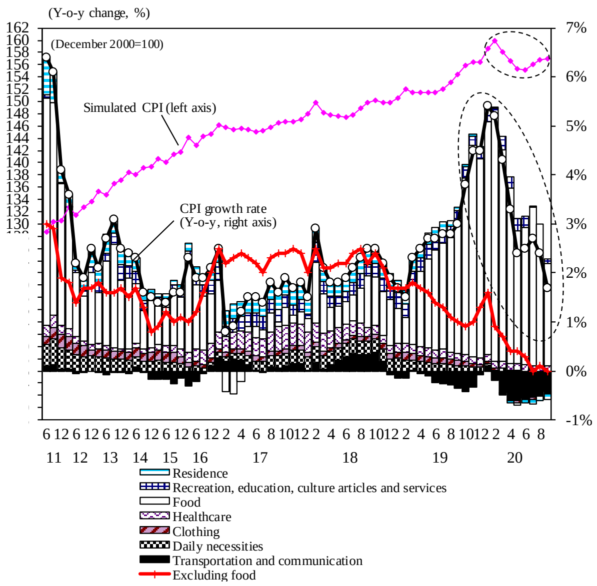
[15] Regarding the government's CPI targets for 2020, refer to the figure 18 on the "Mizuho China Business Express Economic Journal (No. 100)" by this author.
https://www.mizuhobank.co.jp/corporate/world/info/cndb/economics/express_economy/pdf/R422-0100-XF-0105.pdf

[16] In terms of the pork cycle (a cycle whereby farmers respond to lower pork prices by raising fewer pigs→supply falls and prices rise→farmers increase output→supply increases and prices stabilize→farmers raise fewer pigs), pork prices declined after a peak in May 2016, though it bounced back after bottoming out in June 2017. The prices fell further again from March 2018, though the pace of this contraction slowed from May 2018 and prices grew again from December 2018, with the trend shifting slightly during the ongoing phase of price declines. During this time, pork production recorded two consecutive years of negative growth in 2015 and 2016. It then picked up by +0.5% in 2017 to hit 54.52 million tons. It dropped back by -0.9% in 2018 to hit 54.04 million tons before falling sharply by -21.3% in 2019 to hit 42.55 million tons. This represented the first double-digit decline since 1996 (-13.4%).

[17] NBS, October 15, 2020, "国家统计局城市司高级统计师董莉娟解读 2020 年 9 月份 CPI 和 PPI 数据 (NBS Senior Statistician, Dong Lijuan Deciphers the September 2020 CPI and PPI Data)"
http://www.stats.gov.cn/tjsj/sjjd/202010/t20201015_1794071.html

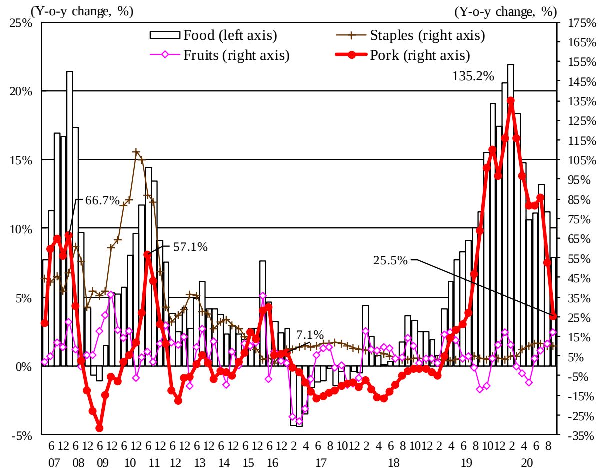
with the average for January–September standing at -2.0%. According to the NBS, a glance at y-o-y PPI price changes in September compared to August shows prices rising at a slower pace when it came to agricultural and sideline products (+3.9%) and non-ferrous metal materials and wires (+2.9%); prices contracting at a slower pace when it came to the mining and washing of coal (-7.5%) and non-metallic mineral products (-2.3%); prices contracting at a faster pace when it came to the extraction of petroleum and natural gas (-26.2%) and the processing of petroleum, coking and other fuels (-16.9%). Additionally, prices related to the manufacture and processing of ferrous metals had moved flatly after falling the previous month.

Fig. 13: CPI; Growth contribution by item



Note: The contribution rate by item is calculated by Mizuho Bank (China) based on the y-o-y growth rate and consumption expenditure statistics for each item. The simulated CPI data is calculated by the auther based on the m-o-m growth rate for each month, with December 2000 as the base month. The data from June 2011 to 2016 only shows the quarterly (March, June, September and December) figures.
Source: NBS, CEIC

Fig. 14: Food prices

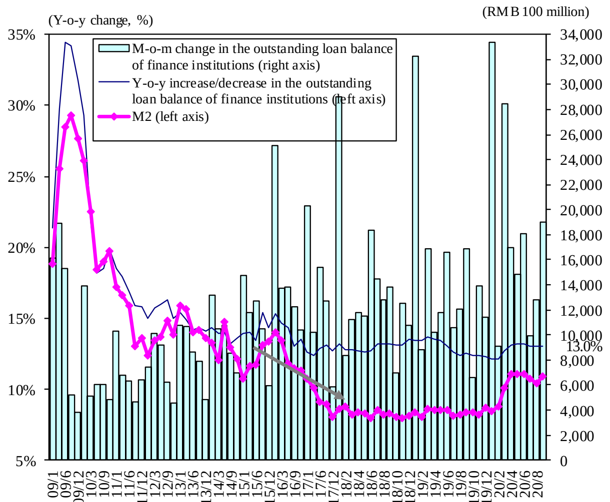


Note: The data until 2016 only shows the quarterly (March, June, September and December) figures.
Source: NBS, CEIC

・Net new bank loans grew but total social financing fell

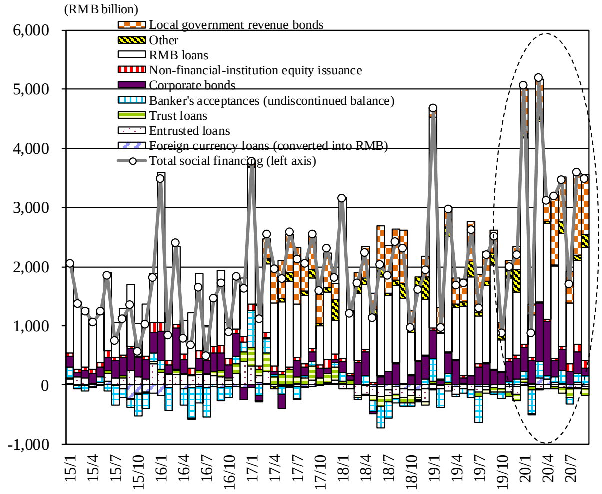
According to the PBC, M2 money supply growth hit +10.9% in September, up on August's figure of +10.4%. New bank loans increased by a net RMB 1,900.0 billion, up on August's figure of RMB 1,280.0 billion (Fig. 15). Total social financing, which includes funds procured from non-bank sources, hit a net RMB 3,477.2 billion in September, down slightly on August's figure of RMB 3,582.3 billion.

Fig. 15: Financial institution lending; the money supply



Note: The graph shows January and end-of-quarter figures up until 2017. The figure in the graph shows the y-o-y change in the outstanding loan balance for the most recent month.
Source: PBC, CEIC

Fig. 16: Total social financing (net increase and decrease)



Source: PBC, CEIC

A glance at the details reveals that: RMB loans, banker's acceptances, deposit-taking financial institution ABS, and loan repayments increased; corporate bonds, government bonds, non-financial-institution equity issuances, and foreign currency loans grew at a slower pace; entrusted loans fell; and trust loans contracted at a faster pace (Fig.16).

Foreign exchange reserves stood at $3,142.56 billion at the end of September, down $22.05 billion on the end of August but up $34.64 billion (+1.1%) on the end of 2019 (Fig. 17). Discussing the foreign exchange reserves data for January–September, State Administration of Foreign Exchange (SAFE) spokesperson Wang Chunying said that China's trade in goods had hit a record high, while the services trade deficit had shrunk as spending on services continued to fall on the COVID-19 outbreak. She explained that the current account surplus had maintained equilibrium on the whole thanks to these two factors, with reserves moving stably above $3.1 trillion.[18]

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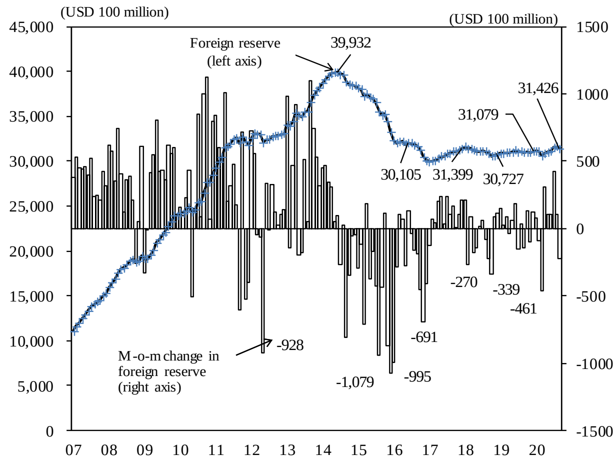
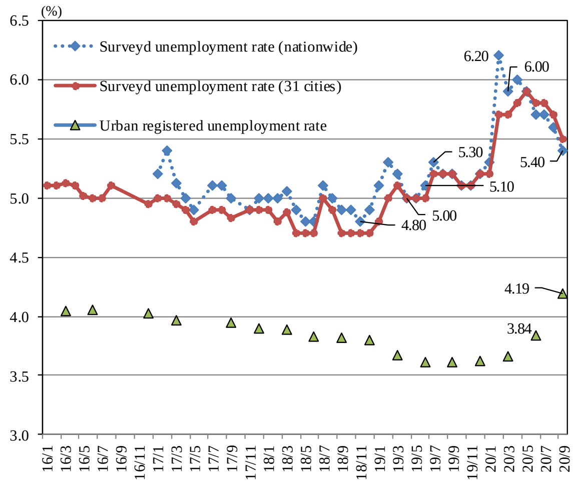
[18] The State Administration of Foreign Exchange, October 23, 2020, "2020 年前三季度外汇收支数据情况"新闻发布会文字实录（Transcript of the press conference regarding the foreign exchange balance in January to September 2020)"
http://www.safe.gov.cn/safe/2020/1023/17396.html

Fig. 17: Foreign exchange reserves



Note: The foreign reserve data shows the June 2014 at peak, end of 2016 to 2019, and the latest monthly figure.
Source: PBC, CEIC

Fig. 1: The surveyed unemployment rate



Source: NBS, CEIC

2. The policy response: The economy is undergoing an uneven recovery, with monetary policy becoming more targeted

・The economic recovery is uneven

With major economies across the world contracting sharply on the COVID-19 outbreak, China's economy has grown by +0.7% since the start of 2020, with observers expressing both bullish and bearish opinions regarding the Chinese economy. While sceptics have expressed doubt about the veracity of China's economic recovery, other investors have hailed the recovery and are expecting Chinese business to pick up further as a result.

The recovery is being led by expanded production and investment, but consumption has remained in negative territories since the start of the year owing to the deteriorating jobs and earning environment (Fig. 18). July–September saw an increase in total retail sales of consumer goods, with final consumption expenditure also making a positive contribution to GDP. However, this upswing was due to a splurge in consumption after COVID-19 restrictions were eased. As such, it is probably not a reflection of the overall health of consumption. Car sales are also moving more strongly than expected and high-end automobiles seem to be selling more briskly.[19] This also suggests that the Chinese economic recovery is an uneven one driven by some industries and high earners, for example.

Furthermore, the economy has also been pushed down by the supply-side structural reforms that began in 2016 and the intensification of US/China trade frictions from spring 2018, for example, with economic trends also impacted by the series of policies introduced by the authorities in response to these downward pressures. Specifically, though investors have withdrawn (including bankruptcies, mergers and restructurings) from markets following

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[19] Shi Jianhua, a senior official at CAAM, explained that there was ample appetite among the general public for new car purchases, but with incomes falling, people were not buying cars and this was directly impacting sales of mid-range automobiles. He added that high earners had not been impacted much, with consumers in the market for cars now choosing better vehicles. With wealthy people purchasing high-end automobiles and regular consumers also switching to high-end/brand vehicles, the high-priced vehicles market was seeing strong growth while the market for medium-priced vehicles was stalling. See footnote 5.

moves to eliminate overcapacity (in sectors such as steel and coal), moves by the authorities have also fostered new demand when it comes to cutting-edge infrastructure and digital industries, with government policies simultaneously having negative and positive impacts. As such, though some sectors are strongly feeling the pinch, other industries are enjoying a boom in special demand thanks to government policies, with economic sentiments moving unevenly as a result, so caution will be needed.

・ "Pursue a sound monetary policy in a…well-targeted manner" (PBC MPC meeting)

With the economy growing again, it is becoming less necessary for the Chinese authorities to pursue an even more expansive fiscal and financial policy response. At the regular third quarter PBC Monetary Policy Committee meeting on September 25, the PBC announced it would "pursue a sound monetary policy in a more flexible, appropriate and well-targeted manner, and use a mix of monetary policy tools and innovate new ones to keep liquidity adequate at a reasonable level." This suggests the PBC will pursue monetary policy in a more targeted way compared to the previous second quarter meeting (June 24), when the PBC had spoken about putting "more emphasis on supporting the recovery and sustainable development of the real economy."[20]

・ "The RMB's strength is a natural reflection of China's bullish economy, with markets also focusing on internal/external interest-rate differentials" (PBC)

In a press conference on October 14,[21] Sun Guofeng, head of the PBC's monetary policy department, said the RMB's strength was a natural reflection of the bullish direction of China's economy. He added that China had dealt with COVID-19 faster than other countries, with its economy and society now recovering and exports moving briskly, so long-term funds from overseas (including funds from foreign central banks) were now flowing into RMB assets. Mr. Guofeng also said the markets were focusing on internal/external interest-rate differentials. While China was pursuing regular monetary policies, the developed economies were facing zero or negative interest rates as a result of monetary easing, with internal/external interest-rate differentials remaining at high levels. He explained that the relative health of the Chinese economy and these aforementioned interest-rate differentials were behind the RMB's bullishness. He also discussed tweaks to the risk reserve requirements for forward foreign exchange transactions[22] and he suggested it would be preferable if the RMB rate did not rise too high.

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[20] Original (September 25): "稳健的货币政策要更加灵活适度、精准导向，综合运用并创新多种货币政策工具，保持流动性合理充裕"
(June 24): "稳健的货币政策要更加灵活适度，把支持实体经济恢复与可持续发展放到更加突出的位置… (omitted) 综合运用并创新多种货币政策工具，保持流动性合理充裕"
China Financial News, September 29, 2020 "中国人民银行货币政策委员会召开 2020 年第三季度例会 (The PBC Monetary Policy Committee Holds its Q3 2020 Meeting)"
https://www.financialnews.com.cn/jg/dt/202009/t20200929_202281.html
Link to the statement released after the 2Q meeting: http://www.gov.cn/xinwen/2020-07/01/content_5523084.htm

[21] China Financial News, October 14, 2020, "2020 年第三季度金融统计数据新闻发布会文字实录 (Transcript of the Q3 2020 Financial Statistics Press Conference)"
https://www.financialnews.com.cn/jg/dt/202010/t20201014_203019.html

[22] China Financial News, October 12, 2020, "央行决定将远期售汇业务的外汇风险准备金率下调为 0 (The PBC cuts the risk reserve requirement for forward foreign exchange transactions to zero.)"
https://www.financialnews.com.cn/jg/dt/202010/t20201012_202704.html
The forex risk reserve requirement was introduced at an initial 20% in September 2015 as a way to curtail RMB bearishness. The requirement was set at 0% in September 2017, at 20% in August 2018, and at 0% again in October 2020. Financial institutions no longer need to collect a 20% reserve fund when customers make forex buying forward transactions, thus making it easier for people to buy foreign currencies = easing upwards pressure on the RMB.

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