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2018

CHINA ECONOMIC AND POLICY UPDATE

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China Economic and Policy Update

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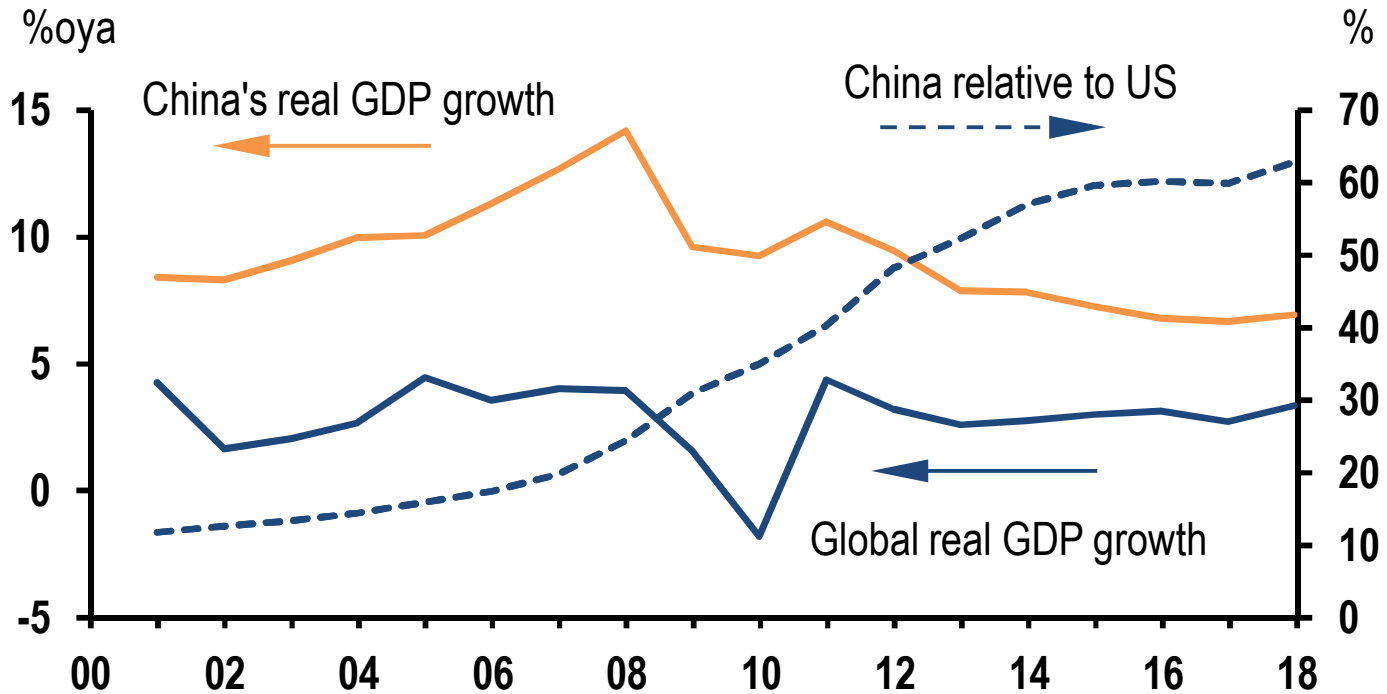
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10 years after the GFC, 20 years after the AFC

China's rising importance in the global economy

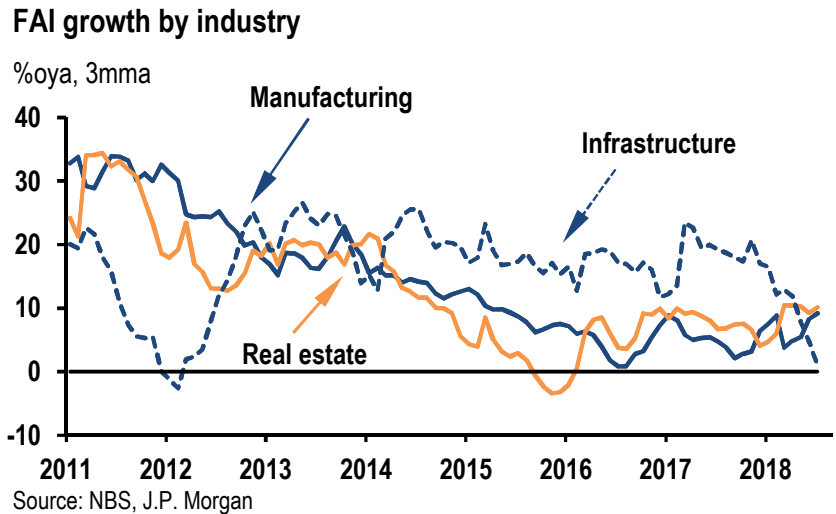
China and global economy



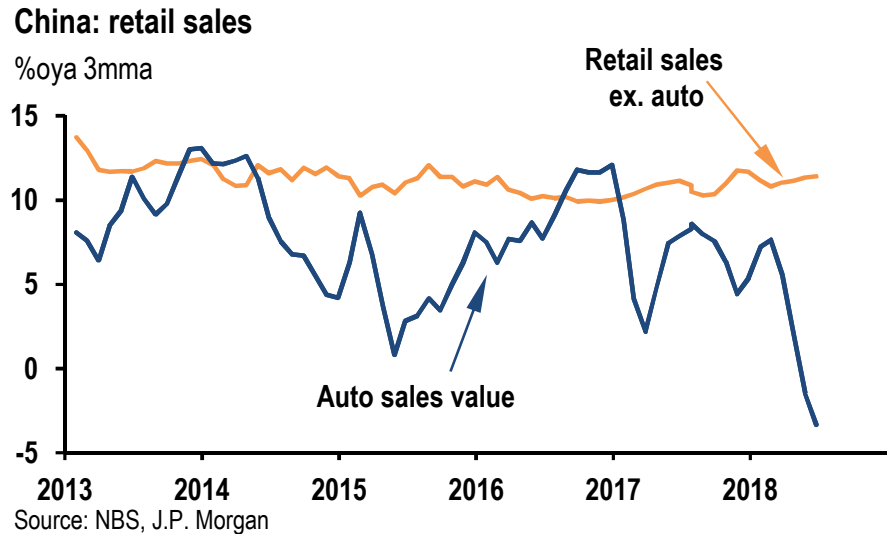
Source: J.P. Morgan

Weakness on domestic front

Infrastructure is the weak spot within FAI



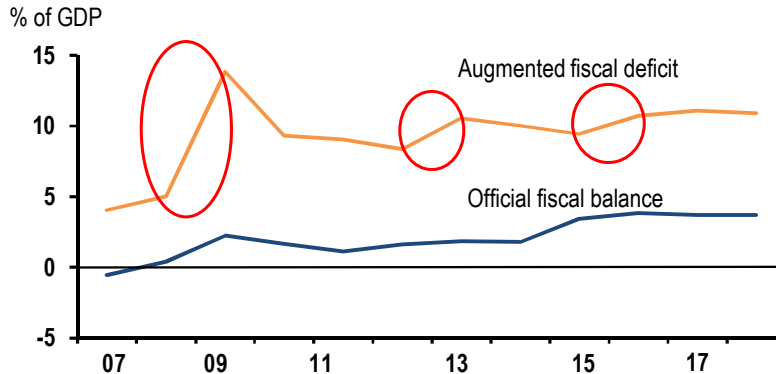
Auto sales is the weak spot within retail sales



Fiscal policy

Fiscal easing

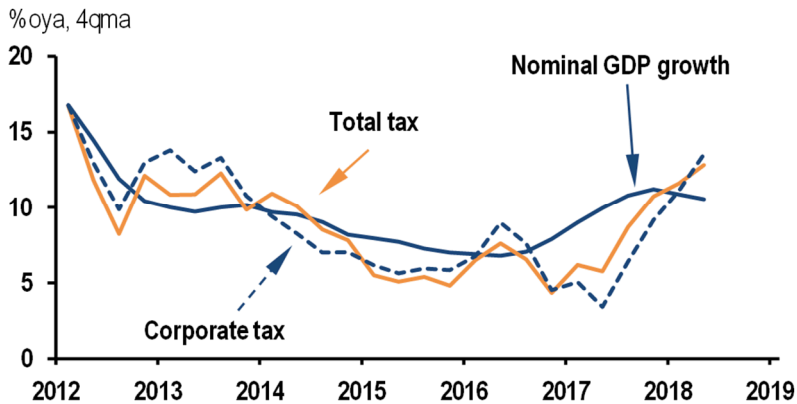
China's fiscal deficit



Source: MOF, J.P. Morgan

Tax cut: a policy failure in 1H18

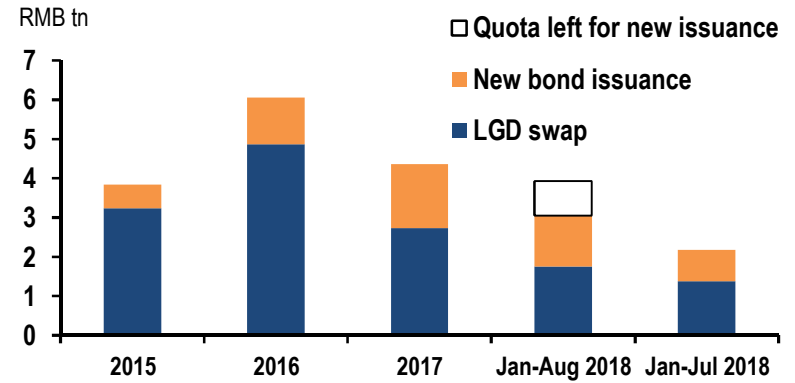
Tax growth in China



Source: NBS; J.P. Morgan

Tight fiscal policy in 1H18

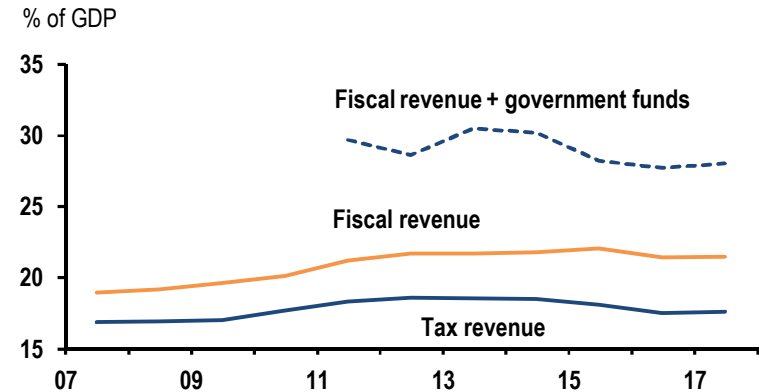
Local government bond issuance



Source: CEIC, news reports, J.P. Morgan

China's tax burden

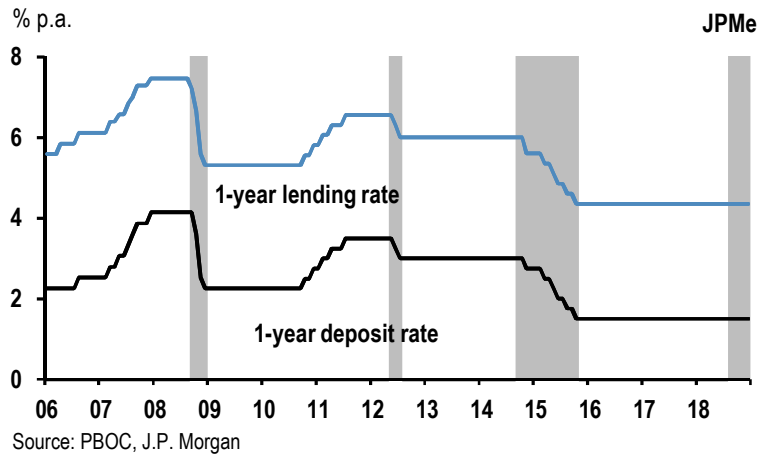
China's fiscal burden



Source: NBS; MOF; J.P. Morgan

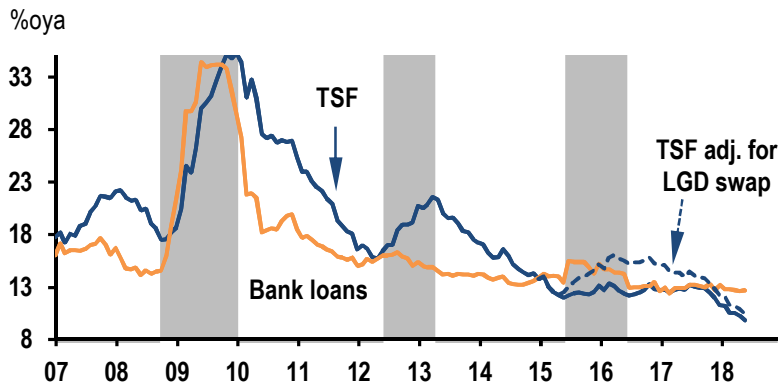
Monetary policy

Policy rates

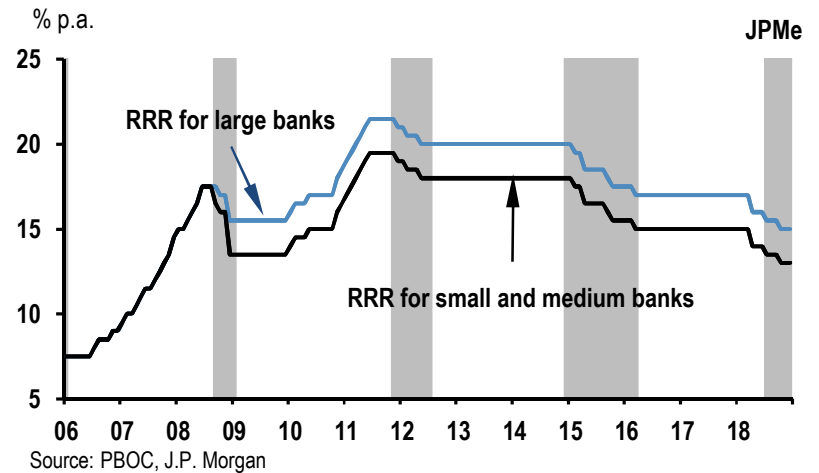


Credit policy

Total social financing

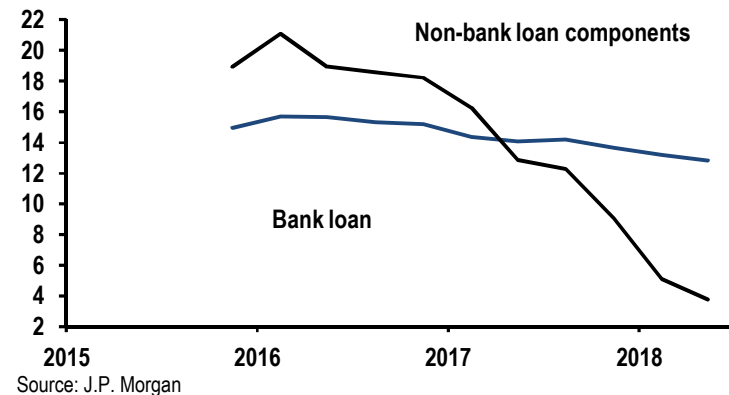


RRR



Shadow credit

%oya, adjusted for LGD swap & unmeasured shadowcredit

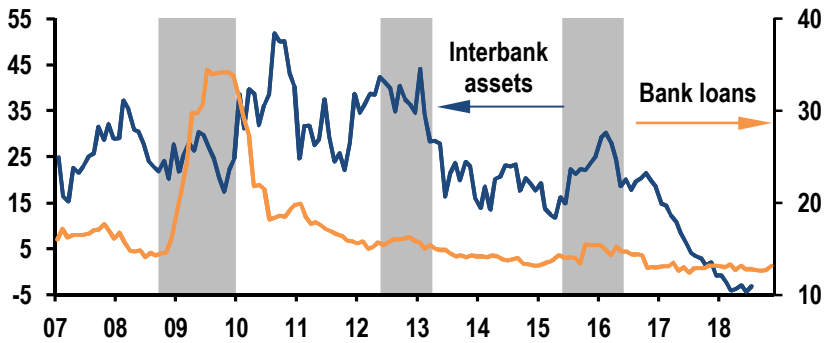


Regulatory policy

Policy reversal since late 2016

China's bank loan and interbank asset

%oya, both scales

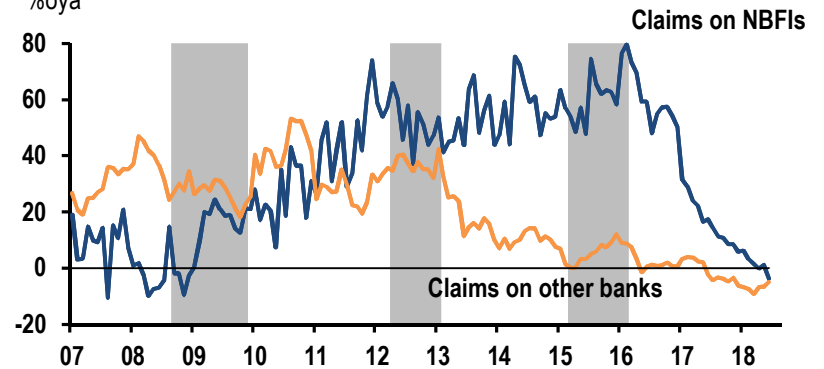


Source: PBOC, J.P. Morgan

Regulatory tightening will continue

China interbank assets

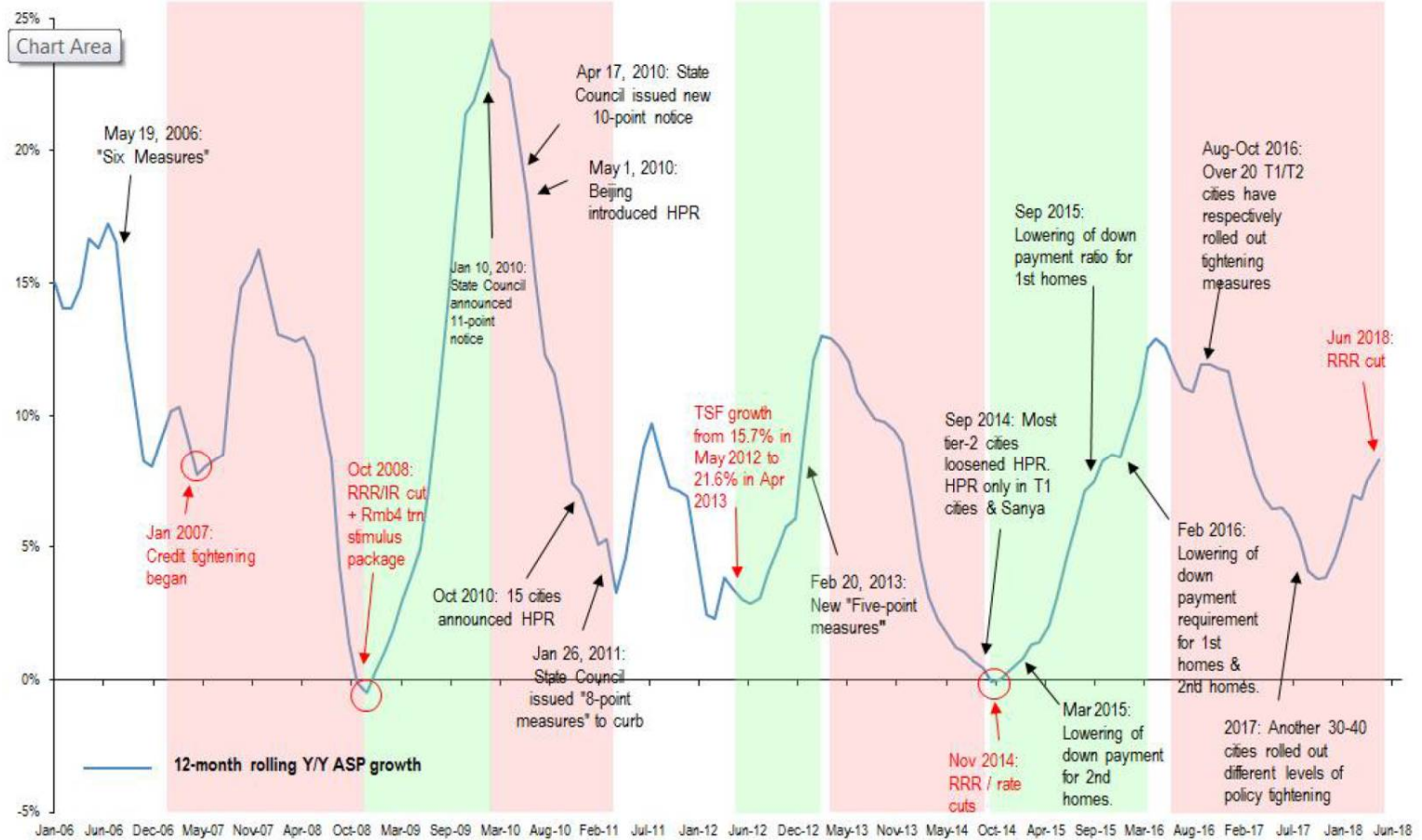
%oya



Source: J.P. Morgan

Housing policy

Housing tightening will continue

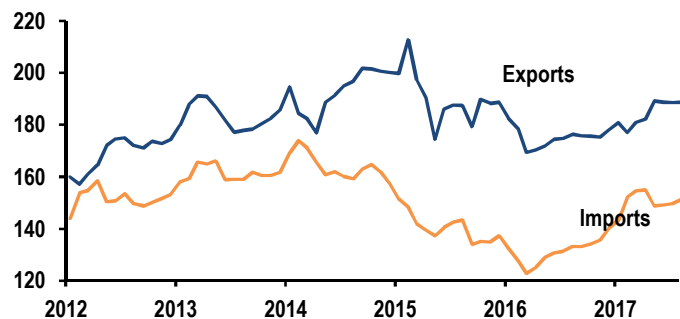


Source: J.P. Morgan

Tariff war impact has been limited but will be visible in 2019

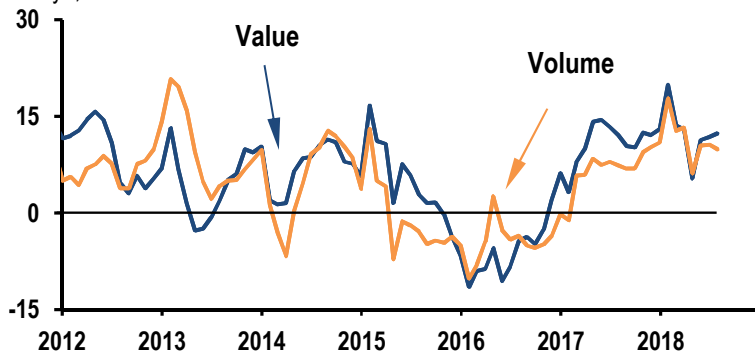
China: merchandise exports and imports

US\$ billion,sa, 3mma



China export to the US

%oya, 3mma



Source: BLS, China Customs, J.P. Morgan

Table: Summary of impact analysis

	No retaliation	Retaliation	Base case
US tariff on China	25.0%	25.0%	25.0%
China tariff on US	0.0%	16.6%	16.6%
China price change of US exports	-12.5%	-12.5%	-16.5%
US import price change	12.5%	12.5%	8.5%
US import volume change	-6.3%	-6.3%	-4.3%
China's US export revenue change	-18.8%	-18.8%	-20.8%
USD/CNY	0%	0.0%	-8%*
Direct impact:			
Exports (%)	-3.6	-3.6	-2.3
Exports to US (%)	-18.8	-18.8	-20.8
Exports ex-US (%)	0.0	0.0	2.1
Imports (%)	-1.5	-0.9	-0.7
Imports from US (%)	-1.5	5.1	-14.3
Imports ex-US (%)	-1.5	-1.5	0.5
Trade balance (\$bn USD)	-54.0	-63.9	-38.3
Real GDP growth (%-pt)	-0.3	-0.3	-0.2
Indirect impact:			
Income effect	-0.4	-0.3	-0.2
Consumption (%)	-0.2	-0.2	-0.1
Investment (%)	-0.5	-0.5	-0.3
Business sentiment	-0.4	-0.4	-0.2
Total impact on GDP growth (%-pt)	-1.0	-1.0	-0.6

Source: J.P. Morgan estimate.

Summary

2H18: Stabilizing infrastructure investment is the key

2019: Bigger trade war, bigger policy adjustment

CNY depreciation

Fiscal action: tax cuts, consumption, infrastructure investment

Monetary policy and financial deleveraging

Major uncertainties

US-China relationship

Direction of reform

Will deleveraging continue?

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