China Tracker

Thursday, August 27, 2026

Beijing Bides Time While Exports Soar

China's growth keeps disappointing. We shaved our 2026 GDP forecast to 4.6% while keeping 2027 at 4.5%. Beijing will wait until October to act. Robust exports buoy the economy. Rebounding oil imports will continue as long as refining stays profitable. Yet weak domestic demand threatens renewed deflation next year. The PBoC continues to curb fast yuan gains, though we now foresee a smooth drift in USD/CNH to 6.60 by year-end.

Eugenia Fabon Victorino
Head of Asia Strategy
+65 6505 0583
eugenia.victorino@seb.se

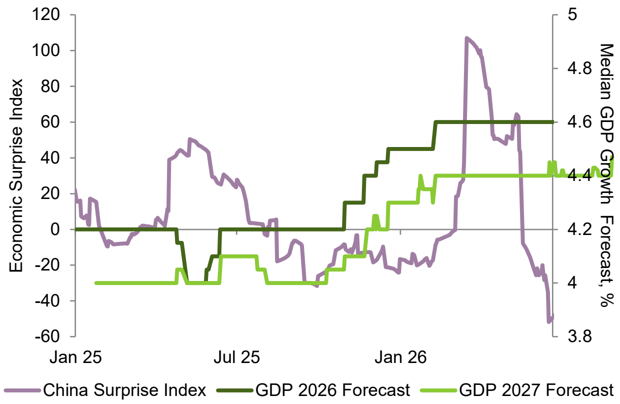
Recent Developments

- The Chinese and Indonesian navies completed drills east of Taiwan on 19 August, where the navies conducted coordinated maneuvers and completed all objectives of the maritime passage exercise.
- Shanghai rolled out a fresh batch of easing measures for homebuying, with residents being able to withdraw savings from the housing provident fund to make downpayments for properties already completed and under construction. Shanghai also lowered the downpayment required for a second home in the suburbs to 15% from 20%.
- China is accelerating the establishment of rules governing the recycling and reuse of wind and solar equipment and intends to set up a closed-loop system for waste from the industry before 2030.
- China’s Ministry of Finance announced changes to enterprise income tax policies for non-monetary asset exchanges by integrate circuit companies and machine tool firms.
- China intends to increase forest coverage to 25.8% by 2030.
- On 13 August, the US imposed tariffs on Chinese-made drones of up to 100% rate. Drones from other sources face much lower rates of 10-25% if the economies have signed trade deals with the US.
- China imposed 54% levies on US pecans while Mexican pecans face levies ranging from 17.8% to 51.6%.
- China set rules on exit bans to guard technology and state interests. Government agencies have begun imposing travel restrictions on individuals involved in AU work and considered as strategically important to the country.
- China set a target of 26 bcm of annual coalbed methane production by 2030, as part of the new 5-year plans for the coal sector. Output was 18.13 bcm in 2025. The plan also includes faster phasing-out of inefficient coal mines, with large-scale, modern mines accounting for 87% of capacity by 2030.
- Beijing will allow for curtailment of renewable energy in some regions by as much as 15% in the next 5 years, according to a new plan on building a new power system by 2030. By 2030, non-fossil power sources will provide around 40% of the country’s dependable power system support.

Beijing Bides Time While Exports Soar

China's growth continues to disappoint, prompting us to marginally shave our 2026 GDP forecast to 4.6% while keeping the 2027 profile at 4.5%. Domestic demand fell further in July, deepening the split between winners and losers. A fast start to the year provides a wide buffer against a slow summer. At 4.7%, year-to-date growth sits safely inside the 4.5%-5.0% government target. Because early gains secure the annual target, gloomy new data have not budged median forecasts (Chart 1).

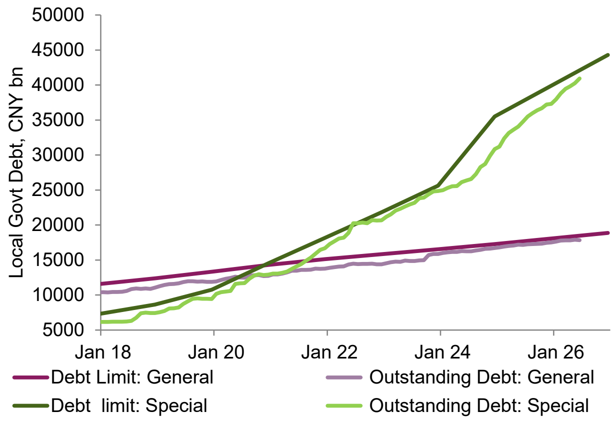
Chart 1: Despite softer than expected data in the last 3 months, GDP forecasts have remained steady



Source: Bloomberg, SEB

Beijing appears in no rush to open the taps before the Politburo meets in October. Public spending dropped off after a strong start to the year. This has turned government spending into a drag on growth. This shortfall fits a seven-year pattern of under-spending that 2026 seems set to repeat. Indeed, local government debt issuance has room to accelerate for the rest of the year (Chart 2). Local officials may find more time for public works as they finish the CNY 6 trillion hidden debt swap program. Yet, a grand construction boom is still unlikely. The central government still watches every yuan with a hawk's eye, keeping purse strings tight beneath big promises of support.

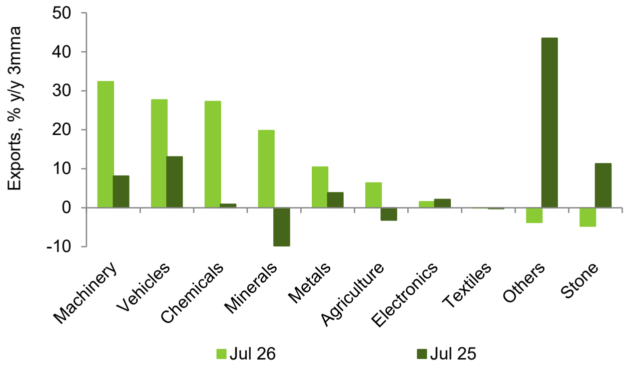
Chart 2: Local government debt issuance is running below target



Source: CEIC, SEB

Exports remain the main growth engine, motoring along with double-digit growth since April. Amidst wilting domestic demand, the stark K-shaped growth is becoming more entrenched. Global appetite for tech gear and AI has benefited the high-tech manufactured goods. Shipments of electric cars sprinted up to 30% y/y ytd as of July (Chart 3). Exports of minerals, made up mostly of refined oil, join the party as export controls eased. On the other hand, textiles and other traditional exports lag. Shipments to the US are picking up too, benefitting from the calm after President Donald Trump's May visit to Beijing. The new tariffs imposed since the US Supreme Court decision are unlikely to dent this truce. Stable relations should hold through President Xi Jinping's summit in the United States this September.

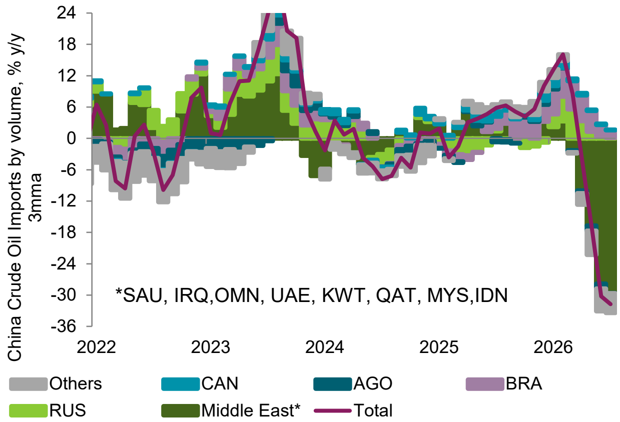
Chart 3: High tech sectors are the main driver of double digit growth in exports



Source: CEIC, SEB

While the war in Iran cut China's oil imports, the worst of the pinch may be over. Since March, China has shifted its sourcing strategy turning to Brazil and other producers to replace missing Gulf supplies (Chart 4). While Russia still supplies a fifth of China's imports, new buyers elsewhere capped its export growth to Beijing. Even so, China's oil imports bounced back in July as refining turned a profit again. Independent refiners started to make money by mid-June, and the state-backed giants followed a month later. **As long as crude oil prices remain low enough to keep those margins safe, Chinese oil buyers will keep steadily building back their stocks.**

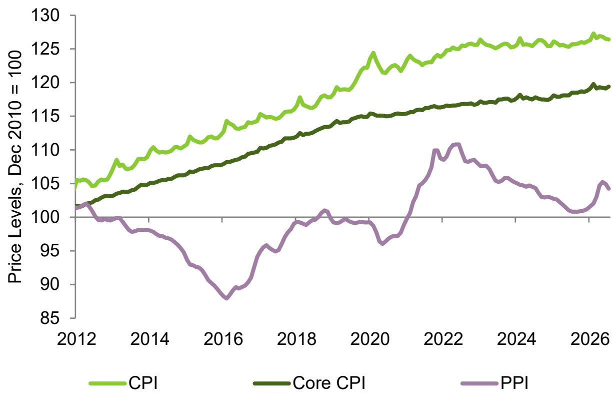
Chart 4: China turned to alternative suppliers to partially plug the gap from the Gulf



Source: CEIC, SEB

Factory gate prices cooled in July as the energy shocks from the Middle East faded. Producer price inflation peaked at 4.1% y/y in June, driven by costly coal, oil, and metals after war in Iran broke out. That price spike boosted factory profits and lifted tax revenues for the state. Yet, shop floors tell a different story. Weak domestic demand stops factory price hikes from reaching shoppers, leaving consumer inflation stubbornly soft (Chart 5). **As high commodity prices fade from the math in 2027, China risks falling straight back into deflation.**

Chart 5: Transmission between PPI and CPI remains very weak reflecting malaise in domestic demand



Source: CEIC, SEB

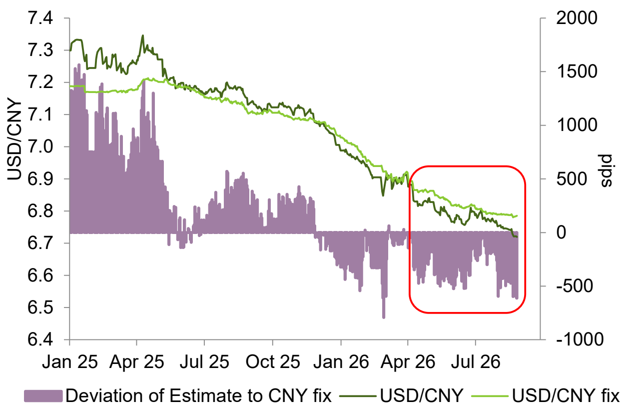
Weak domestic demand keeps hopes of further monetary easing alive. Continued, though gradual, decline in bond yields reveal expectations of a gentle easing. We expect a 10 bps cut to the 7-day reverse repo rate before yearend. Chinese government bond (CGBs) yields have been declining for years (Chart 6) as credit transitioned into structurally lower growth. Subdued credit demand from corporates and households leave CGBs safe from sharp sell-offs. While the central bank urges banks to lend more, Beijing's crusade against aggressive price wars also curb corporate investment. This policy clash keeps credit in a slow grind. Even so, **CGB yields have little room to fall without bigger rate cuts, in our view.**

Chart 6: Lower bond yields reveal expectations of mild easing

Source: Bloomberg, SEB

The People's Bank of China (PBoC) clearly intends to keep the yuan from rising too fast. Underlying flow dynamics favour a stronger currency. Huge trade surpluses leave Chinese bank vaults bulging with foreign currency deposits. As of July, exporters hold over USD1.18 trillion in dollar deposits with Chinese banks, up almost 11% since the start of the year. Converting these dollars would send the yuan soaring. Even so, the PBoC keeps slamming on the brakes. The central bank has been setting the midpoint of the daily CNY fixing far weaker than traders expect. The gap has now widened past 600 pips, its largest spread since February (Chart 7).

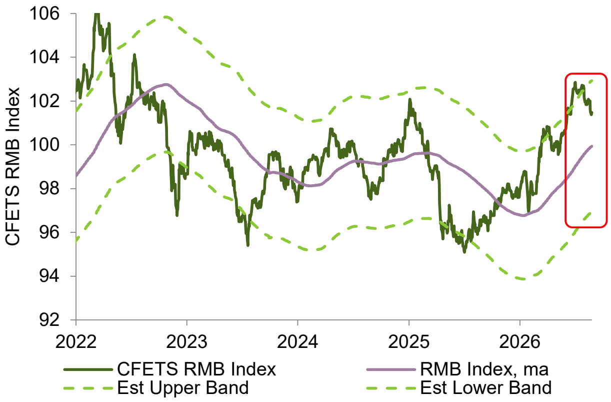
Chart 7: The PBoC is suppressing yuan appreciation via the CNY fix



Source: Bloomberg, SEB

We now expect the PBoC to allow USD/CNY to decline gradually to 6.60 by end-2026. The PBoC has succeeded in pulling back the RMB index to a more comfortable level (Chart 8). The trade-weighted RMB index has been rising for 6 straight quarters, eventually pushing the index a bit too high for the PBoC's comfort. This led to the intensified intervention via the daily CNY fix. At current levels, we believe Beijing now feels far more comfortable with the yuan strength. The global AI boom keeps driving high-tech exports, giving the central bank room to relax. A sudden breakdown in US-China detente or a surprise shift in PBoC patience remains the main threat to this path.

Chart 8: RMB Index is back in the comfort zone of the PBoC due to the controlled pace of yuan appreciation



Source: Bloomberg, SEB

Macroeconomic Tracker

Chart 11: Export growth to the US continues to improve.

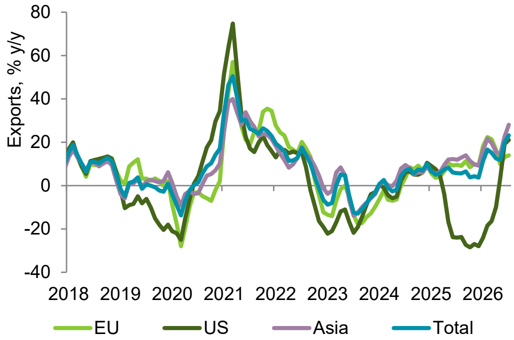


Chart 12: PMIs reflect the easing momentum in July.

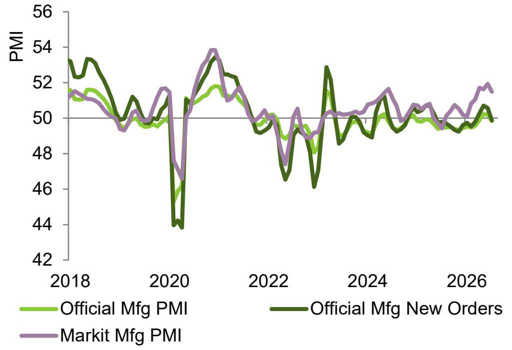


Chart 13: Construction activity remains subdued.

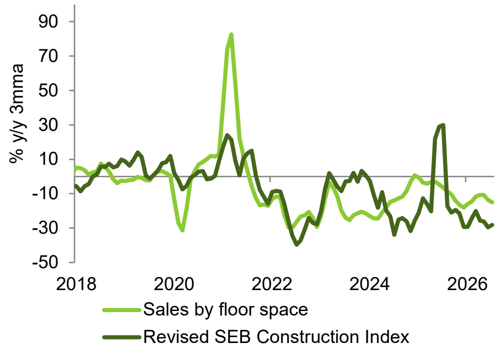


Chart 14: Domestic consumption remains weak with auto sales still the primary drag.

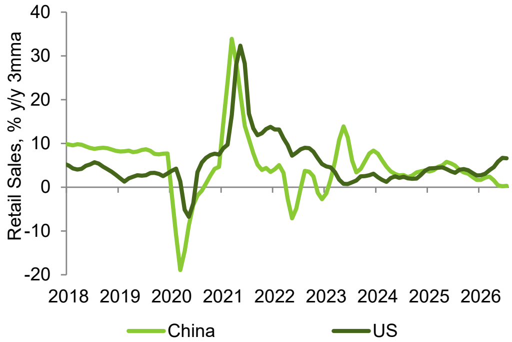


Chart 15: Corporate conversions of USD receipts slowed in July after picking up last few months.

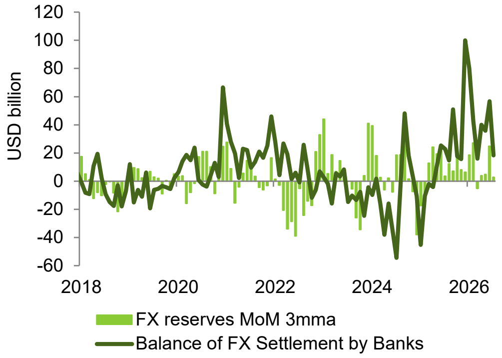


Chart 16: First-tier cities continue its gradual recovery while other cities are falling behind.

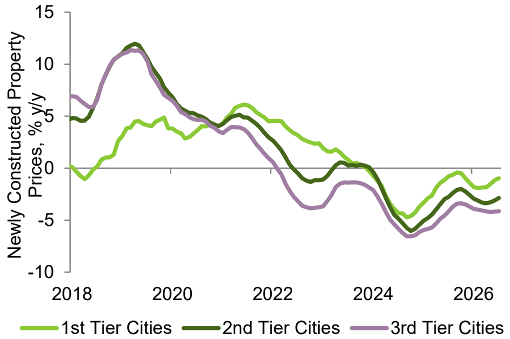


Chart 17: Household investment remains weak, dampening private credit growth.

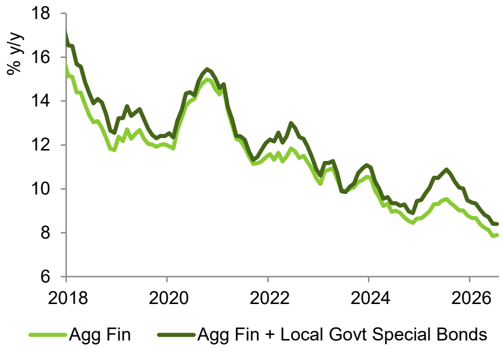
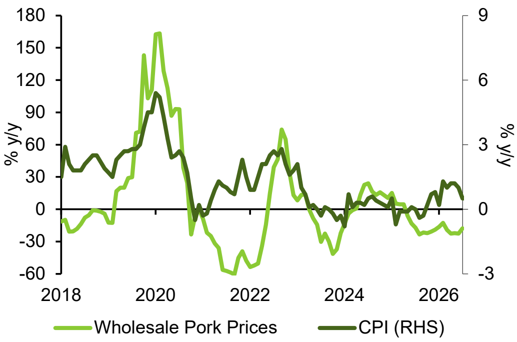


Chart 18: CPI inflation eased further in July.



Source: CEIC, Bloomberg, SEB

Chart 19: RMB index pulled back due to very slow pace of yuan appreciation.

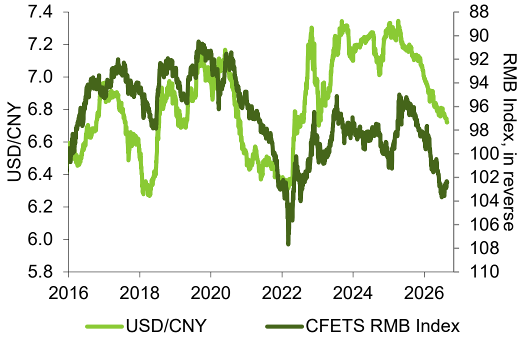


Chart 20: USD/CNY continued to decline in August 2026.

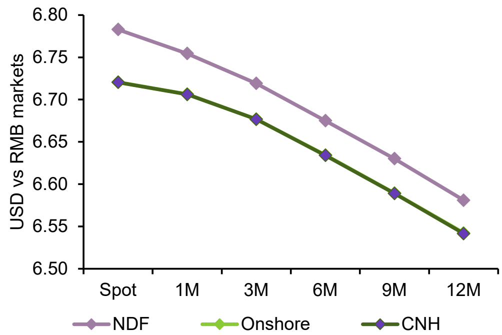


Chart 21: Rates continued to decline in August.

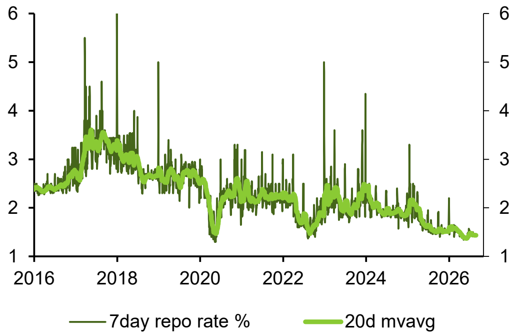


Chart 22: The liquid bond index continued to gain in August 2026 due to weak credit demand and ample liquidity.

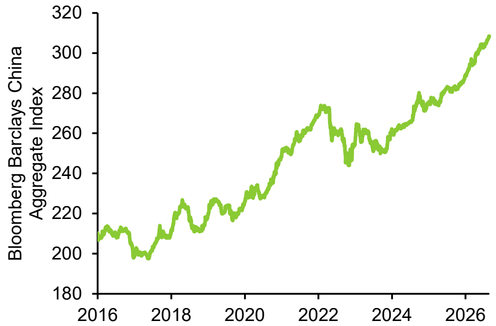


Chart 23: Chinese equities have been declining as expectations of fiscal support fade while tech and internet names added to the losses.

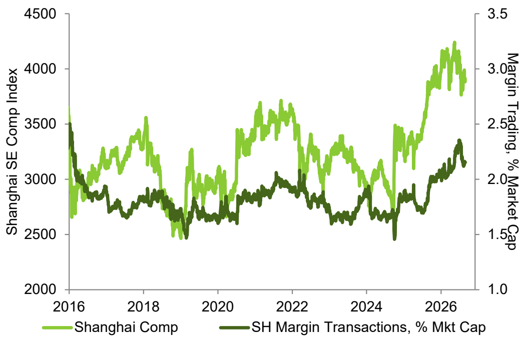
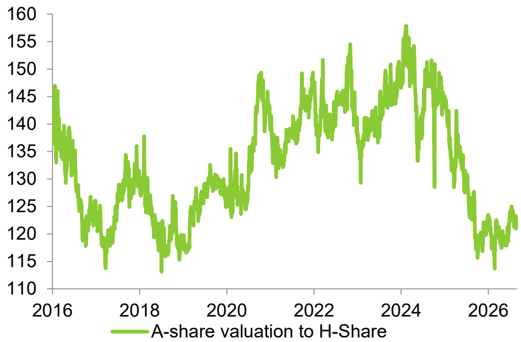


Chart 24: The A-share premium over H-shares remain around 22%.



Source: CEIC, Bloomberg, SEB

Forecasts

Real GDP, % y/y							
	2022	2023	2024	2025	2026	2027	2028
China	3.2	5.4	5.0	5.0	4.6	**4.5**	**4.4**
India**	7.0	6.8	7.2	7.5	6.8	**6.9**	**6.8**
Indonesia	5.3	5.0	5.0	5.1	5.1	**5.0**	**5.1**
Malaysia	9.0	3.6	5.2	5.2	4.2	**4.6**	**4.9**
Philippines	7.6	5.5	5.7	4.5	3.0	**4.8**	**4.7**
Singapore	4.0	1.4	5.3	5.0	5.2	**2.8**	**2.5**
South Korea	2.9	1.5	2.2	1.1	3.5	**2.4**	**2.0**
Thailand	2.7	2.2	3.0	2.4	2.3	**2.0**	**2.5**
Australia	4.2	2.1	1.0	2.0	1.9	**1.7**	**2.0**
New Zealand	3.3	2.1	-0.3	0.7	1.9	**2.4**	**2.8**
Eurozone	3.8	0.6	1.0	1.3	0.9	**1.3**	**1.5**
US	2.5	2.9	2.8	2.1	2.2	**2.1**	**2.1**
Japan	1.3	0.9	0.1	1.2	0.9	**0.7**	**0.7**

** India GDP indicates growth for the calendar year.

CPI, % y/y							
	2022	2023	2024	2025	2026	2027	2028
China	2.0	0.2	0.2	0.1	1.1	**1.2**	**1.5**
India	6.7	5.7	5.0	2.2	4.1	**4.3**	**4.4**
Indonesia	4.1	3.7	2.3	1.9	3.4	**2.9**	**2.8**
Malaysia	3.4	2.5	1.8	1.4	2.2	**2.5**	**2.0**
Philippines	5.8	6.0	3.2	1.7	5.7	**4.1**	**3.0**
Singapore	6.1	4.9	2.4	0.9	2.2	**2.0**	**1.7**
South Korea	5.1	3.6	2.3	2.1	2.7	**2.3**	**2.0**
Thailand	6.1	1.3	0.4	-0.1	2.5	**1.5**	**1.1**
Australia	6.4	5.5	3.0	2.9	4.0	**2.9**	**2.5**
New Zealand	7.2	5.7	2.9	2.8	3.5	**2.3**	**2.0**
Eurozone	8.4	5.5	2.4	2.1	2.8	**2.0**	**1.6**
US	8.0	4.1	3.0	2.7	3.2	**2.1**	**2.2**
Japan	2.5	3.3	2.7	3.2	1.7	**2.1**	**2.2**

	Current	Policy Rate Forecasts					
	26 Aug 26	Sept 26	Dec 26	Mar 27	Jun 27	Sept 27	Dec 27
China 1Y LPR	3.00	**3.00**	**2.90**	**2.90**	**2.90**	**2.90**	**2.90**
China 7d RRP	1.40	**1.40**	**1.30**	**1.30**	**1.30**	**1.30**	**1.30**
China RRR	9.00	**9.00**	**9.00**	**9.00**	**9.00**	**9.00**	**9.00**
India	5.25	**5.25**	**5.75**	**5.75**	**5.75**	**5.75**	**5.75**
Indonesia	5.75	**5.75**	**6.00**	**6.00**	**6.00**	**6.00**	**6.00**
Malaysia	2.75	**2.75**	**2.75**	**3.00**	**3.00**	**3.00**	**3.00**
Philippines	4.75	**5.00**	**5.50**	**5.50**	**5.50**	**5.25**	**5.00**
South Korea	2.75	**3.00**	**3.25**	**3.25**	**3.25**	**3.25**	**3.25**
Thailand	1.00	**1.00**	**1.25**	**1.25**	**1.25**	**1.25**	**1.25**
Australia	4.35	**4.60**	**4.60**	**4.60**	**4.60**	**4.35**	**4.10**
New Zealand	2.50	**2.75**	**3.00**	**3.00**	**3.00**	**3.00**	**3.00**
Euro Zone	2.25	**2.50**	**2.50**	**2.50**	**2.50**	**2.50**	**2.50**
US	3.75	**3.75**	**3.75**	**3.75**	**3.75**	**3.50**	**3.50**
Japan	1.00	**1.25**	**1.25**	**1.50**	**1.50**	**1.50**	**1.50**

	Current	FX Rate Forecasts					
	26 Aug 26	Sept 26	Dec 26	Mar 27	Jun 27	Sept 27	Dec 27
USD/CNY	6.72	**6.70**	**6.60**	**6.55**	**6.50**	**6.50**	**6.45**
USD/CNH	6.72	**6.70**	**6.60**	**6.55**	**6.50**	**6.50**	**6.45**
USD/INR	95.42	**95.7**	**96.0**	**95.6**	**95.3**	**94.9**	**94.5**
USD/IDR	17,712	**17,900**	**17,800**	**17,700**	**17,600**	**17,500**	**17,400**
USD/MYR	4.03	**4.05**	**4.00**	**3.85**	**3.85**	**3.80**	**3.80**
USD/PHP	61.63	**61.80**	**62.00**	**61.80**	**61.60**	**61.50**	**61.50**
USD/SGD	1.270	**1.270**	**1.260**	**1.258**	**1.255**	**1.253**	**1.250**
USD/KRW	1,385	**1,420**	**1,400**	**1,388**	**1,375**	**1,363**	**1,350**
USD/THB	32.76	**33.00**	**32.50**	**32.00**	**31.50**	**31.25**	**31.00**
AUD/USD	0.72	**0.72**	**0.72**	**0.73**	**0.73**	**0.74**	**0.74**
NZD/USD	0.60	**0.59**	**0.60**	**0.61**	**0.61**	**0.62**	**0.62**
EUR/USD	1.17	**1.16**	**1.17**	**1.18**	**1.19**	**1.20**	**1.20**
USD/JPY	159	**158**	**157**	**156**	**155**	**154**	**153**

Source: CEIC, Bloomberg, SEB

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Methodology

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