1 September 2026

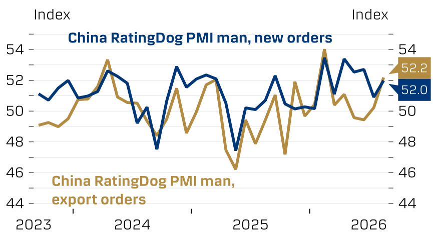
China Headlines

PMIs rebound, stimulus implementation to be stepped up, decline in USD/CNY fixing slows down

Economy

- **PMI manufacturing rebounds:** After a dip over the summer months, PMI manufacturing rebounded in August in both the private RatingDog index as well as the official NBS PMI index. The lift was partly driven by a recovery in export orders. The overall level of PMI is a bit higher in the RatingDog index at 51.5 than the NBS PMI manufacturing at 49.8, which is likely due to a heavier weight towards export-oriented companies in the RatingDog index. The composite PMI employment declined from 47.0 to 46.7, which is not encouraging for consumption growth. PMIs from Taiwan and South Korea, two of the countries most exposed to the AI investment cycle, saw small declines. Taiwan PMI manufacturing dropped from 55.1 to 54.7 while the index for South Korea declined from 53.1 to 52.3. The new orders indices have moved broadly sideways for some months, though, more pointing to a plateau at a robust level. Capacity constraints in the chip sector may be putting a lid on production growth.
- **Industrial profits illustrate bifurcated economy:** China's industrial profits for July showed a deceleration from 24.7% y/y to 11.2% y/y (see chart 9 at the back). The data highlights the two-split economy with still strong profit growth in sectors related to high-tech, such as AI and robotics, whereas consumer-related industries like clothing, autos and furniture showed a decline in profits (see chart 10 at bottom).
- **Policy implementation to be stepped up in H2:** A *series of four articles* in People's Daily, a government mouthpiece, laid out China's economic situation and one of the articles focused on the short-term outlook. It highlighted the need for stabilizing investments and the housing market and suggested that the economic slowdown over the summer is partly due to inadequate use of available fiscal funds. It thus pointed out that *"the average daily balance of the national treasury was relatively high, indicating that substantial fiscal funds were available. The pace of fiscal spending and the use of bond proceeds should be accelerated so that tangible process is achieved as quickly as possible."* The pressure is on local governments to speed up implementation of investment projects in the second half of the year, not least in the so-called "*six networks*" outlined in the recent Five Year Plan for 2026-2030. The six networks are water, power grid, AI infrastructure (data centres), 5G/6G networks, urban pipelines as well as logistics network.
- **The days of pre-sales financing in housing are over:** China's financial and housing regulators launched new regulation in late August that strongly limits the model used by developers, where they have sold apartments before they were built. The model added to the stress in the early years of the housing crisis where buyers had bought an apartment, that the developer could not built due to default. Most of the projects have now

Chart 1: PMI manufacturing orders rebound, exports strong



Source: Macrobond, NBS, Danske Bank

Chart 2: PMI new orders plateauing in South Korea and Taiwan

Source: Macrobond, NBS, Danske Bank

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been finished but the model was clearly unsustainable. Developers must now complete the main structure of buildings before pre-sales can begin. It also requires any presale funds to go into designated accounts until the apartments are completed. Instead, regulators have new rules to ease access to other developer financing from banks. The developer sector has seen a big increase in market share for state owned developers as buyers have not trusted private developers to deliver the apartment paid for in pre-sales finance. State developers will now benefit from a higher credit worthiness in the banks compared to private developers so the move to a state dominated developer sector is set to continue. They now have a 70% market share vs. 30% before the housing crisis began in 2021.

Markets

- **Stocks keep treading water:** Both the A-share and H-share market have moved broadly sideways lately in line with global markets. The Chinese DRAM chip maker CXMT, which had a record IPO recently, *posted* a massive 870% revenue jump in first-half revenue in a closely watched earnings report. The chip maker is benefitting from the shortage of memory chips leading to sharp price increases. CXMT has around 8% global market share and is still lagging global peers like Micron, Samsung and SK Hynix that make more advanced memory chips. Chinese AI company Z.ai, also known as Zhipu, reported a 400% *increase* in first-half revenue driven by strong growth in its' open platform and application programming interface business. They still posted a net loss of CNY2.07 billion, though, as they continue to spent heavily on R&D investments (CNY 2.13 bn in H1).

- **Decline in USD/CNY fixing has slowed:** USD/CNY has continued to trend lower, but interestingly PBOC has slowed the decline in the daily fixing starting in June. It suggests they aim to moderate the decline in USD/CNY following a faster pace of CNY appreciation in the first half of 2026. If they hang on to this new pace it puts some upward risk to our 12-month USD/CNY forecast of 4.6 in 12 months.

- **Chinese bond yields diverging from global yields:** A striking development in global bond markets has been the divergence in Chinese yields versus the rest of the world (chart 6). Chinese 10-year yields now stand at 1.69% vs 4.75% in the US and 2.92% in Japan. It reflects China's growth challenges and deflationary pressures relative to the continued inflationary pressures in US and Japan. China increasingly looks like a safe haven in global bond markets with Chinese bonds benefitting from declining yields and an appreciating currency.

Geopolitics and tech

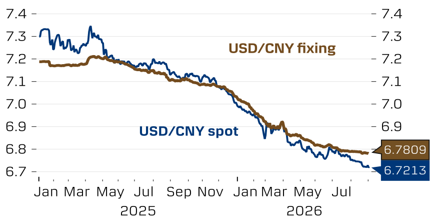
- **China defiant of US sanctions:** The expansion of US secondary sanctions on Iran was met with defiance by China signalling retaliation towards US if being sanctioned. It is doubtful Trump will pick a fight with China on this; especially with the Xi-Trump Summit in Washington coming up in less than four weeks and two months ahead of US mid-term elections. It highlights the bumpy road of the relationship, though, and that although Xi and Trump in April agreed on "constructive strategic stability" in Beijing, the tensions and long-term rivalry are very much alive.

- **Xi, Putin and Modi meet again at SCO Summit:** Chinese President Xi Jinping arrived Monday in Bishkek, the capital of Kyrgyzstan, where he is attending the SCO Summit and *met* with Russia's President Vladimir Putin and India's Prime Minister Narendra Modi. SCO is a Eurasian organisation of 8 states established 25 years ago in Shanghai that focuses on cooperation in

Chart 3: Chinese stocks treading water

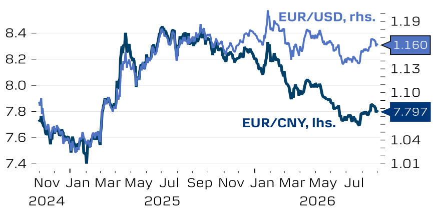
Source: Macrobond, Bloomberg, Danske Bank
Note: Past performance is not a reliable indicator of current or future results

Chart 4: Declining trend in fixing has slowed since June



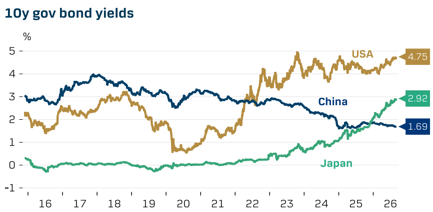
Source: Macrobond, Danske Bank
Note: Past performance is not a reliable indicator of current or future results

Chart 5: Rise in EUR/USD has rubbed off on EUR/CNY



Source: Macrobond, Danske Bank
Note: Past performance is not a reliable indicator of current or future results

Chart 6: Chinese bonds on different trajectory



Source: Macrobond, Danske Bank
Note: Past performance is not a reliable indicator of current or future results

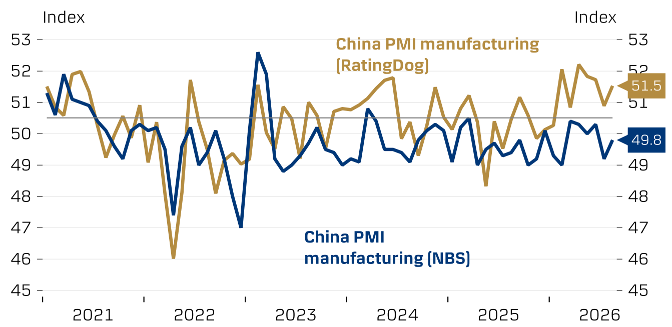
political, economic and security matters. It also includes Iran and Pakistan. The annual summit has in recent years been a platform for pushing the Global South agenda countering what the countries see as a Western dominated global order. The countries agree on US overreach in terms of financial sanctions, and the push for less dependence on US is central among the members. The organisation has some overlap with the BRICS economic alliance, where leaders of China, India, Russia and Iran will meet again in two weeks after Iran joined the alliance in 2024. Xi will continue to Egypt after the SCO Summit for a *state visit*, the first in 10 years and only the third state visit by Xi this year (he visited North Korea in June and is now in Kyrgyzstan).

- **Xi expected to visit India amid easing of border dispute:** China and India continue the process of settling their border dispute and *finished* the 25th round of talks on the dispute last week with a list of 8 "outcomes and consensus" released by both sides. It sets the stage for Xi's first visit to India in seven years on 12-13 September in a sign of further slow thaw in the relationship. His visit is not yet confirmed but is widely expected as India also hosts the BRICS Summit. Modi visited China last year, when Xi hosted the annual SCO Summit.

- **China begins arctic shipping route to Europe:** In mid-August the first Chinese container ship *set off* for Europe over the Arctic Ocean. It cuts the travel time from China to Europe from 40 days to 20 days. Both Japan and South Korea have expressed plans to follow China and send container ships via the same route. The route is only open from August to October, though, when the sea is free from ice but over time the window available is set to widen as the ice melts.

- **Robots steal headlines again:** Hardly a week passes without new robot news out China. And the past week was no exception when humanoid robots at the five-day World Humanoid Robot Games *took turns* in breaking the 100-meter record. The winning robot crossed the finishing line only 8.64 seconds after starting the sprint, almost a second faster than Usain Bolt's world record of 9.58. While the record was a sharp improvement from last year, there is still some way for humanoid robots to creat real economic value in the factory floors or in homes doing daily chores. However, strong competition and AI development amid large R&D investments *might* take us there sooner than expected. Elon Musk is betting big on robots and *stated* last year 80% of Tesla's value would come from its' Optimus robot in the future.

Chart 7: Both NBS and RatingDog PMI rebounded, RatingDog PMi at higher level due to more export exposure

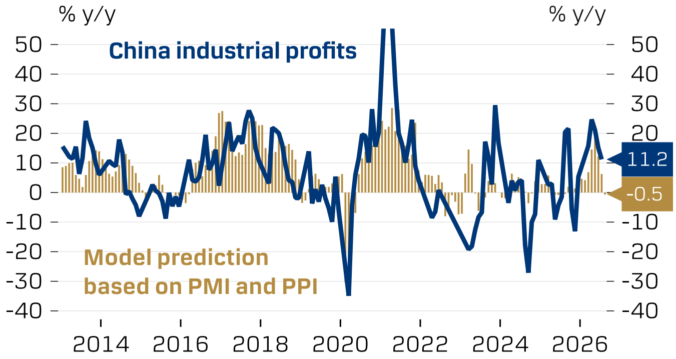


Source: Macrobond, NBS, S&P

Chart 8: PMI employment weaker again, bad news for consumer spending

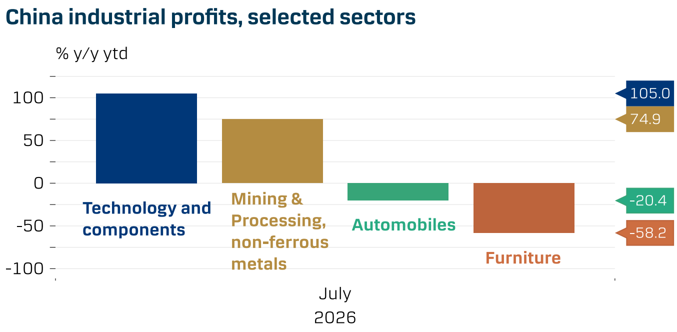
Source: Macrobond, NBS, Danske Bank

Chart 9: Profit growth lower in July, but overall still robust



Source: Macrobond, S&P, Danske Bank

Chart 10: High-tech and resource sector driving profit growth



Source: Macrobond, NBS, Danske Bank

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