30 September 2026

China Headlines

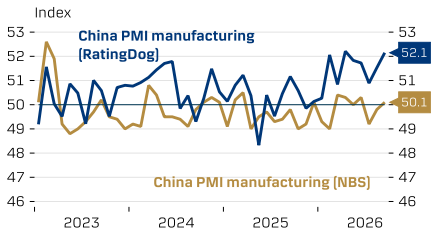
PMI stronger, more short-term stimulus support, EU October trade deadline is looming

Economy

- **September PMIs strengthen:** Both private and official manufacturing PMIs rebounded in September, supported by stronger export orders (charts 1 and 2). Services PMIs also rose but remained low, underscoring a two-speed economy: robust exports and manufacturing alongside weak consumer demand and construction.
- **China steps up policy stimulus:** Yesterday, the PBOC and Ministry of Finance announced further stimulus in response to recent weakness in housing and domestic demand. To support housing in lower-tier cities, the ministry introduced a one-percentage-point mortgage interest subsidy for first-time buyers purchasing homes worth CNY1.5 million or less—the first nationwide measure of its kind, as housing policy is usually set locally. However, it appears insufficient to address weak demand in tier-3 and tier-4 cities. The PBOC also cut rates on pledged supplementary lending (PSL) by 25bp and expanded quotas for technology innovation, agriculture and small businesses. These measures come on top of increased pressure on local governments to deploy unused funds for the so-called 'six-networks' infrastructure investments.

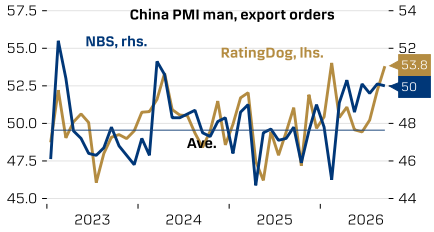
  China's incremental approach highlights they have their eyes on a long-term transition of the economy through structural reforms while stepping in with short-term support when activity softens too much. However, China's long-term transition away from its' dependence on housing while boosting the tech sector and consumer spending is like a super tanker making a big slow turn. It is set to take several years still. While supporting technology and the supply side is China's strength, ending the housing crisis is difficult but will be needed to restart consumer spending.
- **Industrial profit growth lower, set to rebound:** China released industrial profit growth for August on Monday showing a drop from 11.2% y/y to 4.2% y/y. It was in line with our model based on PMI manufacturing and PPI, which dipped over the summer. However, our model points to a rebound in profit growth in coming months as PMI has moved higher again and PPI is set to increase. Currently, profit growth is particularly strong in the tech sector, where among other things microchip sales and margins are boosted by shortages. Mining and resources also see decent profit growth while consumer related sectors such as autos and furniture experience falling profits (chart 14).

Chart 1: PMI manufacturing higher in September



Source: Macrobond, NBS, S&P, Danske Bank

Chart 2: Export orders strong again



Source: Macrobond, NBS, S&P, Danske Bank

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Markets

- **Stocks struggling:** Chinese stocks have moved lower lately and clearly underperformed global peers. Higher energy prices, disappointing growth, weak auto sales and US curbs on Chinese components in AI data centres have weighed on the market. The slide will cause some concern in Beijing as policy makers have supported stock markets via state funds to underpin wealth creation in Chinese households. We may soon see new intervention in the A-share market; especially if the recent stimulus package fails to lift market sentiment.
- **USD/CNY and EUR/CNY continue lower:** The renminbi continues its' appreciation trend with both USD/CNY and EUR/CNY moving lower (chart 4 and 5). EUR/CNY has reached a new cycle low at 7.61, but we look for more downside and recommend to hedge any payables in CNY. China's preference for a stronger currency has been clear for some time now and there is nothing to suggest it is about to end.

Geopolitics and tech

- **Xi-Trump meeting keeps relations stable:** Much has already been said about the Xi-Trump meeting so I will keep it short. My main takeaway: it *is* positive that the world's two super powers have leaders that get along and have a regular dialogue, but at the same time, it does not change the fact that an intense rivalry is going on underneath. Both countries have major grievances against each other, have low trust in each other, and both aim to reduce dependence on the other while competing strongly in a number of areas; not least AI, where US keeps the lead by cutting China off from the best chips. In his speech at the BRICS Summit in India recently, Xi stated that "*The Global South is gaining strength, and the trend toward a multipolar world is unstoppable. At the same time, unilateralism and power politics are surging against the tide, lashing at multilateralism and the international order*".

  The main news from the Summit was Xi pressing Trump to change the official US language on Taiwan from "*do not support independence*" to "*oppose" independence*". It has been speculated for more than a year that Xi would do this, but it was the first time we saw him do it. So far Trump has not moved on the issue, though, but he has been holding back on weapons sales to Taiwan, and he has struck a less supportive tone towards Taiwan in general over the past year.
- **Ursula von der Leyen speech calls trade imbalance unsustainable:** In her State of the Union speech in the European Parliament, EU President Ursula von der Leyen called the EU-China "*unsustainable*" and stated "*Let me be clear: we will use all the tools at our disposal to rebalance our relationship. Words are good. But deeds are better*". China has vowed to *retaliate* if EU takes protectionist measures. EU has given China an October deadline for making meaningful concessions, a deadline that is approaching fast. EU trade chief Maros Sefcovic *travels* to Beijing on 8-9 October and the talks will set the stage for an EU Summit of national leaders the following week. As China has rebutted many of the EU allegations against China, such as exporting overcapacity and flooding EU with cheap goods, it is hard to see how mutual protectionist measures can be avoided. But an outright trade war with large-scale tit-for-tat measures, as seen in the US-China trade war, seems unlikely.
- **Xi repeats call for 'bigger, stronger' manufacturing:** There are no signs, China is taking the foot off the gas when it comes to making further strides

Chart 3: Chinese stocks underperform



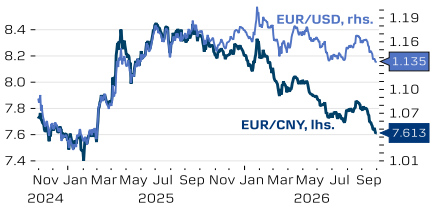
Source: Macrobond, Bloomberg, Danske Bank
Note: Past performance is not a reliable indicator of current or future results

Chart 4: Decline in fixing picked up again lately



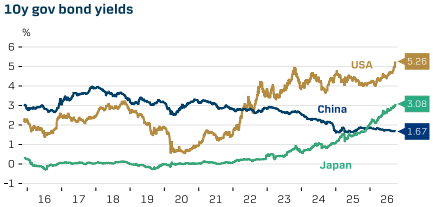
Source: Macrobond, Danske Bank
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Chart 5: EUR/CNY lower again joining move in EUR/USD.



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

Chart 6: Chinese bonds bucking the rising trend

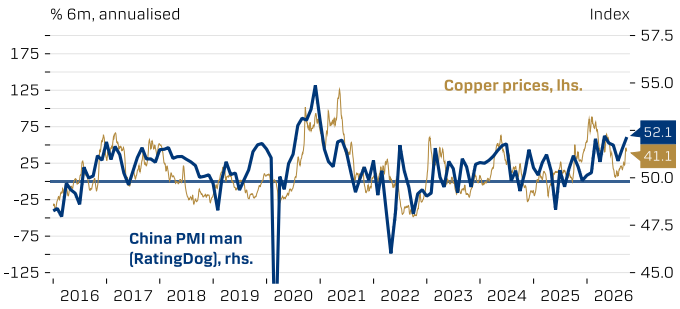


Source: Macrobond, Danske Bank
Note: Past performance is not a reliable indicator of current or future results

in manufacturing. On the contrary: On 17 September, Xi *called* for China to make advanced manufacturing "bigger and stronger" and enhancing the "autonomy and control of industrial supply chains". It is not a new message but it highlights that China's industrial policies are here to stay and if anything, the country is doubling down on becoming a leader in innovation and high-tech manufacturing.

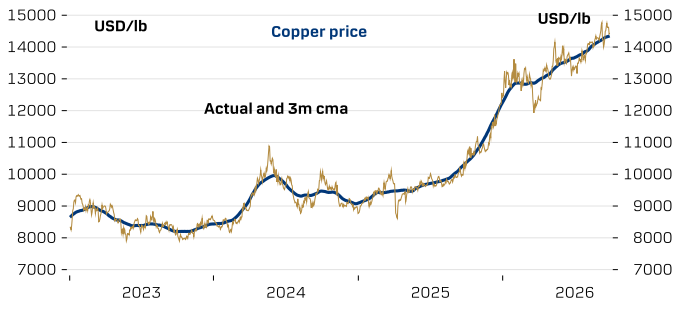
- **R&D spending now above OECD average:** China's Science and Technology Ministry said R&D expenditure *reached* 2.8% in 2025 up from 2.7% in 2024, for the first time exceeding the OECD average of 2.7%. It is still trailing the US at 3.4% of GDP and with US GDP 25% higher than China's, US R&D is still meaningfully higher than China's. The Chinese government is increasingly supporting basic research to pave the way for more 0-1 innovation in new technologies rather than 1-n innovation, i.e. improving on existing technologies.

Chart 7: Copper price momentum still decent indicator for manufacturing – currently lifted by global AI build-out



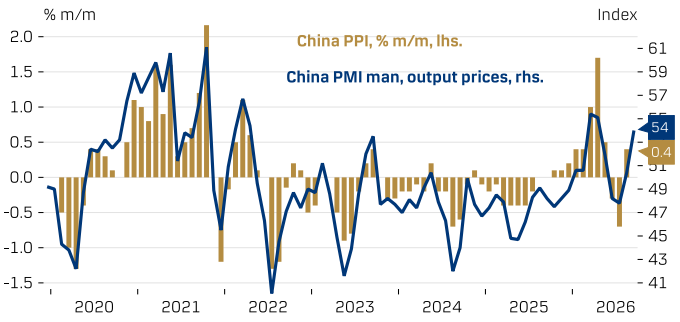
Source: Macrobond, S&P, Bloomberg, Danske Bank

Chart 8: Copper price trend less strong compared to 2025 but still moving higher



Source: Macrobond, Bloomberg

Chart 9: Output prices higher again signalling rise in PPI



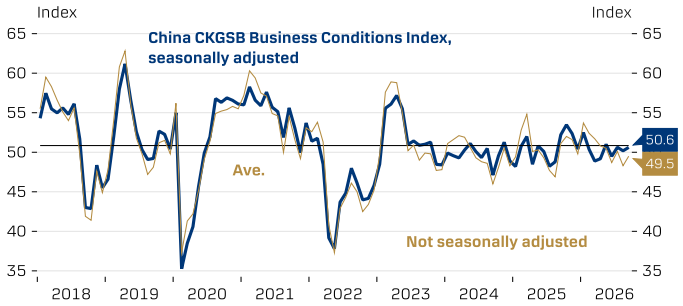
Source: Macrobond, NBS, Danske Bank

Chart 10: PMI employment still soft



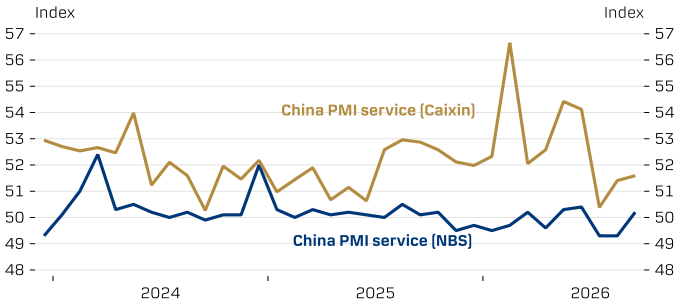
Source: Macrobond, NBS, Danske Bank

Chart 11: Business confidence muddling through



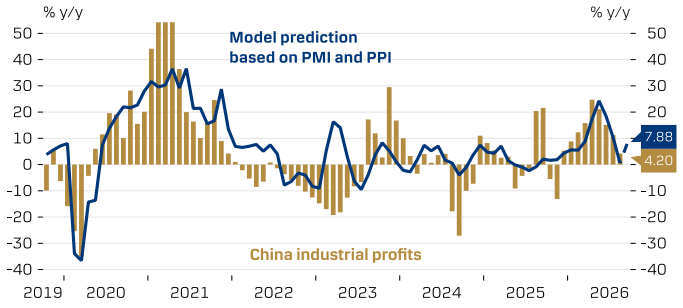
Source: Macrobond, NBS, CKGSB, Danske Bank

Chart 12: Service PMI higher in September



Source: Macrobond, NBS , S&P

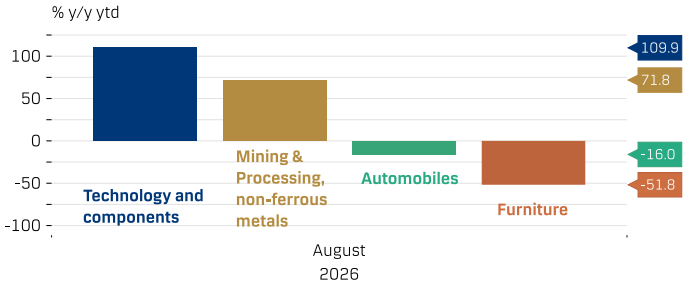
Chart 13: Profits weaker but set to bounce back



Source: Macrobond, NBS, Danske Bank

Chart 14: Tech and mining leading profit growth

China industrial profits, selected sectors



Source: Macrobond, NBS

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This research report has been prepared by Danske Bank A/S ('Danske Bank'). The author of this research report is Allan von Mehren, Chief Analyst.

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Report completed: 30 Sep 2026 at 12:28 CET
Report disseminated: 30 Sep 2026 at 12:50 CET