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Flash Note
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China. Latest developements on Economy, Trade conflict…

Economy

- Q2 GDP +6.7% y/y vs consensus +6.7% and +6.8% in prior quarter.
- June industrial production +6.0% y/y vs consensus +6.5% and +6.8% in prior month
- Fixed asset investment (YTD) +6.0% y/y vs consensus +6.0% and +6.1% in prior month
- Retail sales +9.0% y/y vs consensus +9.0% and +8.5% in prior month
- Unemployment rate 4.8% vs 4.8% in prior month
- Outstanding loans +12.7% y/y vs 12.6% in prior month. June new loans CNY 1.84T versus consensus CNY 1.54T and CNY 1.15T in prior month. Total social financing at CNY1.18T versus consensus CNY1.40T and CNY0.76T in prior month
- M2 money supply +8.0% y/y versus consensus +8.4% and +8.3% in prior month
- **Steel output hits record in June:** National Bureau of Statistics confirmed that China's daily crude steel output hit a fresh record in June (even as Beijing ordered a series of environmental inspections at steel mills across the country). Steel output totaled 80.2M tons in June, with daily average production in June hit 2.67M tons, higher than May's record of 2.62M tons.
- Central SOEs deliver strong performance in H1: The State-owned Assets Supervision and Administration Commission (SASAC) reported that aggregate profits among centrally-administered state-owned enterprises rose 23% y/y in H1 to CNY887.79B ($133.1B). In June, central SOEs' profits increased 26.4% to a record CNY201.88B. The average debt-to-asset ratio for central SOEs stood at 66% by the end of June, down 0.3 percentage point compared with the beginning of the year.

Fiscal revenue expands 10.6% in H1

- Xinhua reported China's fiscal revenue grew 10.6% y/y in H1 to CNY10.43T ($1.56T), compared to the 12.2% rise in Jan-May. In June alone, fiscal revenue increased 3.5% year on year to CNY1.77T, with tax revenue up 8% while non-tax revenue declined 14.9% compared with a year earlier.
- Fiscal spending rose 7.8% in H1 to CNY11.16T.

Trade - US, China open to talks amid escalating trade war

- The US and China signaled on Friday they were open to resuming negotiations over trade after days of exchanging retaliatory threats, though Treasury Secretary Steven Mnuchin said Beijing must commit to deeper economic reforms. Mnuchin told the House Financial Services Committee on Thursday that he and administration officials are “available” for negotiations, as he called US tariffs imposed on China a “modest” step aimed at leveling the playing the field.
- Meanwhile, China's Ministry of Commerce sent a formal statement in response to the US Section 301 action, arguing that “US claims that China is gaining an unfair trade advantage have no grounds, and that US accusations that China has not taken active measures to resolve trade imbalances are not true”
- In the mean time, last night, China’s stock exchanges banned mainland investors to buy shares in foreign companies via the Hong Kong stock link, arguing that “many investors don’t understand the risks associated with new products”.
- Some independent analyst view this ban in a very different way: Banny Lam, head of research at CEB Internat. Investment Corp. suggests that "Many companies listed in Hong Kong - like Xiaomi- are well known in China and might attract big flows from the mainland, and regulators certainly don’t want such big outflows to cross the border while the A-share market remains weak."
- IPOs in mainland China's two stock exchanges, Shanghai and Shenzhen, fell 75% on the year in H1, a decline widely attributed to Beijing's attempt to limit listings as fears of trade war weigh on share prices. A stricter screening process is seen as the catalyst for the plunge.

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