

Brexit Stokes Yuan Uncertainty

GDP grew 6.7% y/y in Q2, the same rate as in Q1. There's downward pressure on future growth, though we also expect growth to stabilize. Industrial output was up 6.1% y/y. Though growth was 0.3 pps faster than in Q1, the recovery is weak.

Fixed asset investment rose 8.2% y/y in real terms, down 2.5 pps from Q1, and at the end of June was up only 7.4% y/y. In particular, private investment was up just 1.4% y/y, down 4.3 pps from Q1, and even shrank -0.1% y/y in June.

Retail sales of consumer goods were up 10.6% y/y in June in nominal terms, and up 0.6 pps from May. In Q2, imports fell -6.8% y/y, up 6.7 pps from Q1. After taking out seasonal factors, imports have been recovering since March. Import recovery is not due to stronger demand, but to firms' substitution of overseas goods, considering the increase of domestic producer goods' prices due to continuing supply-side reform. Exports were down -4.6% y/y and, although up 5.1 pps from Q1, still face the risk of another dip.

CPI was up 1.8% y/y in June, decreasing for two consecutive months, down 0.4 pps from April. The declines are more related to seasonal factors, though. Producer prices are still in a recovery cycle. The ex-factory price index of industrial products in June fell -2.6% y/y, up 0.2 pps from May. PPI rose 0.2% m/m, and fell -3.4% y/y, trending up as well.

M1 and deposits from non-financial enterprises rose 24.6% y/y and 32.5% y/y in June, respectively, up 20.3 pps and 30.5 pps from June 2015. Such large increases amid a weak economy demonstrate the diminishing effect of monetary policy on the real economy. Supply-side reforms to eliminate excessive capacity leave firms reluctant to invest, easy credit notwithstanding.

The results of the June 23rd Brexit referendum triggered a series of financial and economic consequences, such as the drop of EU, that would certainly disturb also creates an opportunity for expansion into the rest of the world. hand put depreciation pressure on of both in the currency basket, to other hand, the close relation



Europe will reduce the likelihood of the Fed hiking interest rates, given such high counterparty uncertainty. And that will reduce the prospects for yuan depreciation.

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