MASHREQ GLOBAL DIGEST
China
September 13 – September 19

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This edition of the Market Digest highlights China's latest macroeconomic and financial developments, alongside recent deals and key trends influencing the country's economic outlook.

Macroeconomic News

China's Q3 Growth Faces Downside Risk as Demand Weakens

China's domestic demand weakened further in July–August even as industrial production held up, supported partly by resilient exports and the AI cycle. Standard Chartered sees downside risk to its 4.6% Q3 GDP growth forecast, with consumption, manufacturing investment and real estate investment still soft. The bank expects Beijing to respond with faster budget implementation, stronger infrastructure spending and continued supportive monetary policy.

Reference: FxStreet

China Producer Inflation Rises to 3.8% in August

China's producer price inflation accelerated to 3.8% year-on-year in August, up from 3.5% in July, while consumer inflation increased to 0.8% from 0.5%. Higher energy and commodity costs, partly linked to Middle East supply risks, drove much of the increase, but weak domestic demand kept broader inflation contained. Core inflation remained relatively low at 1%, suggesting underlying price pressures are still modest.

Reference: Reuters

China Consumer Spending Growth Seen Below 1%

China's economy is entering a key period that could shape stimulus decisions through the end of 2026. Industrial production is expected to rebound, but investment may weaken further and consumer spending growth is forecast at less than 1%. This uneven recovery could keep pressure on policymakers to provide additional support.

Reference: Bloomberg

China Broad Budget Spending Falls 6.7% in August

China's fiscal support weakened further in August, with broad government spending falling 6.7% year-on-year, compared with a 4.4% decline in July, while broad revenue increased 2.9%. The sharper spending contraction suggests the government was still pulling back fiscal support even as economic momentum cooled, potentially limiting the near-term boost to domestic demand.

Reference: Bloomberg

China Home Prices Fall 0.1% in August

China's new home prices fell 0.1% month-on-month in August, while the annual decline narrowed to 3.0% from 3.2% in July. Tier-one cities showed slight improvement, but smaller cities remained weak, while property sales, investment and new construction continued to fall. The prolonged housing downturn is weighing on consumption, local government revenues and domestic growth, increasing pressure for stronger policy support.

Reference: Reuters

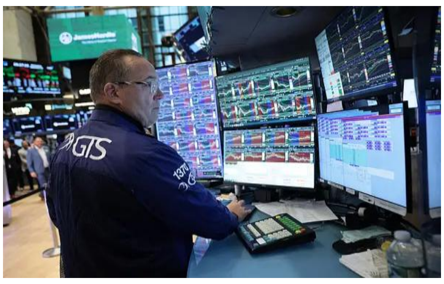
China Industrial Output Rises 5.2% as Consumption Slows

China's industrial output grew 5.2% year-on-year in August, beating expectations as high-tech manufacturing and AI-related production strengthened. But retail sales rose only 0.4%, fixed-asset investment fell 7.2% in the first eight months, and property investment dropped 19.9%. The data highlights a widening imbalance, with technology and exports supporting growth while consumption and property remain major drags.

Reference: Reuters

Financial News

China Raises Outbound Investment Quota to Record $183B



Chinese investors are rushing into U.S.-focused funds after regulators increased the QDII outbound investment quota by $6.8 billion to a record $183 billion. Strong demand has forced several fund managers to reimpose subscription limits, while U.S.-focused ETFs are trading at large premiums, including one Nasdaq-100 technology ETF at 24% above NAV. The trend reflects strong appetite for global diversification as domestic yields remain low and Chinese equities lag U.S. markets.

Reference: Reuters

China Keeps Rates Steady as Its Credit Model Starts to Shift

China kept its benchmark lending rates unchanged for a 16th consecutive month, with the one-year LPR at 3.00% and the five-year LPR at 3.50%. At the same time, the PBOC says slower loan growth is becoming a "new normal", even though outstanding loans have already exceeded 280 trillion yuan ($41.7 trillion). Property and local-government borrowing is weakening, while high-tech and green industries increasingly rely on bonds and equity financing, reducing the economy's dependence on traditional bank credit.

Reference: Reuters, Reuters

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Chinese Investors Drive Pictet Fund to $5.1B

Chinese investors are increasingly moving money into overseas assets as domestic deposit yields fall and demand for global diversification grows. Pictet's Strategic Income Fund expanded from $1.6 billion to $5.1 billion this year, with about 60% of assets coming from mainland Chinese retail investors. The strong inflows show growing appetite in China for foreign exposure, especially to U.S. tech, AI-related assets, Treasuries and gold, as Beijing channels more outbound investment through regulated cross-border routes.

Reference: Reuters

China Pushes FX Hedging as Yuan Rises 4.3%

China's foreign-exchange regulator is urging banks to encourage more companies to hedge currency risk as the yuan's 4.3% appreciation this year puts pressure on exporters. Corporate FX derivative contracts reached nearly $1.4 trillion in the first half of 2026, up around 40% year-on-year, while China's national hedging ratio rose to 35.3%. The move reflects Beijing's effort to protect exporters as a stronger yuan creates currency losses even while exports remain an important support for growth.

Reference: Reuters

China Moves to Limit Banks' Long-Dated Bond Exposure

China's central bank plans to tighten oversight of banks' investments in long-dated bonds and bond funds, as falling yields encourage some institutions to take on greater duration risk. The 10-year government bond yield stood at 1.68% and the 30-year yield at 2.17%, near multi-year lows, while some smaller banks may need to adjust their portfolios if the new limits are introduced. The proposed rules are still under consultation and have not yet been finalized.

Reference: Reuters

Deals

US-China Trade Talks Ahead of November 10 Deadline

US Treasury Secretary Scott Bessent and Chinese Vice Premier He Lifeng are set to discuss tariffs, AI and critical minerals ahead of the Trump-Xi summit, with the trade truce expiring on November 10. The two sides are also considering reducing China's 15% tariff on US LNG as part of a broader framework covering around $30 billion of goods. Restoring LNG trade would be significant after US shipments to China fell from 64 vessels in 2024 to almost zero in 2025.

Reference: Reuters, Reuters

EU Seeks 15% Limit on Chinese Hybrid Car Sales

The EU has reportedly asked China to voluntarily limit hybrid vehicle sales to around 15% of the EU market to avoid a broader trade dispute, while China says it strongly opposes such restrictions and argues they would violate WTO rules. Beijing said it will monitor EU actions and protect Chinese companies, raising the risk of further trade tensions if Europe moves toward higher tariffs or formal limits.

Reference: Reuters

Markets

Market Dashboard

- U.S. stocks ended a turbulent week under pressure from the Fed's rate hike, rising Treasury yields and oil prices around $100 per barrel. For the week, the Dow fell 1.7%, its worst weekly performance since March, while the S&P 500 slipped 0.08%. The Nasdaq gained 0.7%, supported by technology and semiconductor stocks. Overall, equities were caught between stronger tech performance and broader pressure from higher borrowing costs, elevated energy prices and renewed inflation concerns, which kept investors cautious about the outlook for corporate earnings and future Fed policy.
- Bitcoin surged more than 5% on Friday to around $81,000, as investors shifted back into risk-on assets despite the Fed's rate hike and the failure of the Clarity Act in the Senate. The move accelerated after Bitcoin broke through resistance near $78,000, triggering short liquidations, while bullish options positioning also supported the rally. The broader crypto market remained resilient, suggesting investors were focusing more on market momentum and alternative regulatory developments than on the failed bill itself.
- Gold climbed to a one-week high and was up about 0.7% for the week, its first weekly gain in four weeks. Gold reached around $4,378 per ounce, helped by easing oil prices, which reduced some inflation concerns, and by traders unwinding bearish positions after the Fed's rate hike. However, higher interest rates and a stronger dollar remain headwinds because they make non-yielding gold relatively less attractive.
- Oil prices eased this week but remained elevated, as China asked Iran to help limit Houthi attacks on Saudi oil infrastructure, reducing some immediate supply concerns. However, prices are still being supported by ongoing disruption in the Strait of Hormuz and damage to Saudi Arabia's East-West pipeline, keeping geopolitical risk and uncertainty around global oil flows high.
- The U.S. dollar index rose for the week, reaching around a seven-week high after the Fed raised rates and signaled that further hikes could follow. The dollar also strengthened against the yen after the Bank of Japan's rate increase failed to convince markets that more tightening would come quickly. Meanwhile, the euro was down about 1% for the week, reflecting the broader strength of the dollar.

Indicators	11-Sep-26	18-Sep-26	% Change
S&P 500	7,656.98	7,650.50	-0.08%
Bitcoin	77,173.80	80,901.46	4.83%
Gold	4,348.72	4,378.17	0.68%
Crude Oil	104.61	99.29	-5.09%
EUR/USD	1.1610	1.1490	-1.03%

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