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The US Dollar continued to strengthen towards 155 against the yen. All other currencies were also sucked into the maelstrom and most currencies weakened. The only exception to the trends in most currencies is the Chinese Yuan which is trading sideways at 7.2350. This could be due to good news emanating from Beijing.

China's economic growth hits 5.3%

Annual figure for first quarter beats expectations as Beijing seeks manufacturing- led revival China's industrial production grew 6.1% in the first quarter of 2024 compared with a year earlier, but expanded just 4.5% in March, down from 7% in January-February

Joe Leahy in Beijing, Thomas Hale in Shanghai and William Sandlund in Hong Kong

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China's gross domestic product increased 5.3 per cent in the first quarter against a year earlier, beating expectations as Beijing tries to steer a manufacturing-led revival of the world's second-largest economy.

The strong first-quarter growth rate released on Tuesday, which exceeded a poll of Reuters analysts that forecast 4.6 per cent and an expansion of 5.2 per cent for the full year in 2023, followed mixed economic data in recent weeks.

"Generally speaking, the national economy got off to a good start in the first quarter . . . laying a good foundation for . . . the whole year," the National Bureau of Statistics said.

It added that the “external environment is becoming more complex, severe, and uncertain, and the foundation for economic stability . . . is not yet solid”.

Industrial production increased 6.1 per cent in the first quarter compared with a year earlier, the NBS said, while industrial producer prices fell 2.7 per cent as deflationary pressures continued to weigh on the manufacturing sector. Fixed asset investment grew 4.5 per cent against a year earlier in the quarter, boosted by a 9.9 per cent increase in manufacturing investment that was offset by a 9.5 per cent fall in property investment. Retail sales expanded 4.7 per cent over the quarter, down from 5.5 per cent for the January-February period.

“It’s better than expected, at the same time overall the retail sales and the property numbers look relatively weak,” Larry Hu, chief China economist at Macquarie, said of first-quarter growth. He suggested the figures were driven by “exports and capex for new energy” industries, adding that any “step up” in stimulus was unlikely because growth was in line with official targets. “They’re probably going to hold off until exports slow down or property gets even worse,” he said.

China’s benchmark CSI 300 index of Shanghai- and Shenzhen-listed stocks slipped 1 per cent on Tuesday. Other markets in Asia also declined following stronger than forecast retail sales data in the US, which reduced the likelihood of imminent interest rate cuts by the Federal Reserve.

Beijing has set a GDP growth target of 5 per cent this year, the same as last year and the lowest such figure in decades. But inflation fell below forecasts in March,

indicating the persistence of deflationary pressures despite policymakers’ efforts to stimulate domestic demand and offset a property sector crisis.

Since 2021, the Chinese economy has grappled with a wave of real estate developer defaults that have frozen construction activity and weighed confidence in the market, pushing down home sales. The property sector showed little sign of recovery in the first quarter, with residential real estate investment down 10.5 per cent year on year, new housing starts tumbling 27.8 per cent by construction area and housing completion falling 20.7 per cent by construction area.

Exports in the first quarter were also weaker in dollar terms, but analysts said volumes have continued to expand as producers grab more global market share. Goldman Sachs said retail sales growth in March was lower partly because of a high base effect from the year earlier, when China lifted pandemic restrictions. Industrial production growth also fell in March, partly because of fewer working days in the month this year compared with a year earlier.

Manufacturers need to face up to new wave of Chinese competition The bank, which ahead of the data release revised its full-year growth target up from 4.8 per cent to 5 per cent, said April data indicated that manufacturing was still strong, but Beijing would still need to provide policy support this year amid the housing sector weakness, fragile confidence and local government finance vehicle deleveraging.

On Monday, the People's Bank of China held its key medium-term lending rate at 2.5 per cent. Rating agency Fitch downgraded its outlook on China from "neutral" to "negative" last week, citing "property-reliant growth" as a source of increased uncertainty. China's finance ministry in response said the agency "failed to effectively anticipate the positive role of fiscal policies in promoting economic growth".

In a related FT article, it was reported that:

Xi Jinping says China's exports are helping to ease global inflation

Chinese president warns German Chancellor Olaf Scholz against 'rise of protectionism'

Xi Jinping has hit back at western criticism of Chinese oversupply as Beijing leans on manufacturing to boost its economy, arguing that the country's exports are helping to ease global inflation and support a clean energy transition.

The Chinese president told visiting German Chancellor Olaf Scholz in Beijing on Tuesday that "both sides should be wary of the rise of protectionism" and "insist on looking at production capacity issues objectively". "China's exports of electric vehicles, lithium batteries, photovoltaic products, etc have not only enriched global supply and alleviated global inflation pressure but also made great contributions to the global response to climate change and green and low-carbon transformation," Xi said, according to state media.

The comments came as China faces increasing resistance from its trading partners to an influx of cheap exports, with Beijing trying to compensate for a property slowdown by investing in manufacturing. The EU has launched a wave of anti-subsidy investigations into Chinese goods, including electric vehicles, solar panels, wind turbines, trains and other products.

Last week, US Treasury secretary Janet Yellen delivered a blunt warning to her Chinese counterparts that Washington would not tolerate a "supply shock" of artificially low-cost Chinese imports being dumped on its markets. German companies have a strong presence in China's markets, particularly groups such as Volkswagen and BASF, complicating Germany's position on protectionist measures.

But German companies operating in China are increasingly concerned about diminishing market access. Two-thirds of companies surveyed by the German Chamber of Commerce in China said they faced "unfair competition". Local Chinese companies were still receiving privileged access to government procurement, and there was uncertainty in areas such as cross-border data transfer, said Maximilian Butek, executive director of the German Chamber of Commerce in East China.

This government support was coming as Chinese companies were becoming globally competitive in areas such as automotives, giving them an added advantage against international rivals, he added. "Why do you need to protect an industry where the local companies are fully empowered to compete with international markets?" said Butek.

Xi also told Scholz that China was not contributing to the conflict in Ukraine, warning that critics should “not add fuel to the fire”. China’s president has forged a close partnership with his Russian counterpart Vladimir Putin, with Beijing buying oil from its neighbour and Chinese companies selling billions of dollars of goods ranging from cars to machine tools.

The US has alleged that China is filling an important gap in Russian industry created by western sanctions by selling dual-use products that can serve in arms manufacturing. Event details and information Inside Politics:

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