Research

SEPTEMBER 2026

China Economic Outlook

Content

1

Chinese economy experienced **a significant slowdown in 2026 Q2** to 4.3% after its surge in Q1 at 5%. Beyond the Q2 drop, July and August data further confirmed the slowdown trend extending in Q3. The slowdown is mostly domestic driven by domestic risks: supply-demand structural mismatch, weak consumption sentiments, housing market crash, deflationary environment, etc.

2

"Strong supply and weak demand" continue. From the supply side, China is transferring from manufacturing factory to manufacturing power, and at the same time pushing forward "anti-involution" campaign to deleverage overcapacity sectors in new energy, platform economy and real estate. From the demand side, sluggish retail sales particularly car sales is due to fading effect of national subsidies and weak sentiments since 2021; while long-lasting negative FAI is due to housing market crash and deleveraging campaign.

3

Although Q2 economy dipped, we **maintain our 2026 GDP forecast at 4.5%** which is the lower bound of the authorities' 4.5-5% growth target and we also maintain 2027 GDP forecast at 4.2%. We lowered our CPI forecast to 0.8% as deflation environment remains and the pass-through from PPI to CPI has been weak. We predict there might be rate cut next year amid the PBoC's "wait-and-see" attitude.

4

Geopolitical risk in particular China-US relationship has eased, due to **Trump's China visit in May and Trump-Xi meeting** in September 24. The recent Trump-Xi meeting include: (i) To focus heavily on extending their trade truce which is set to expire in Nov 2026; (ii) To address rising competition over AI policy; (iii) Follow-up discussions regarding the "Board of Investment" and "Board of Trade" announced in the May Beijing summit that have faced slow progress. However, in the recent China-EU trade talks till October, **Europe might take radical measures** against China. If both sides fail to reach an agreement, European tariffs could dampen China's exports.

BBVA Research

Global Economic Outlook

Main messages

The global economy continues to grow, with higher but contained inflation and limited financial stress. AI demand, defense spending and inflation-focused central banks are helping offset global headwinds, including escalating Middle East tensions, which have further pushed energy prices up, and fueled the ongoing trend of rising long-term yields.

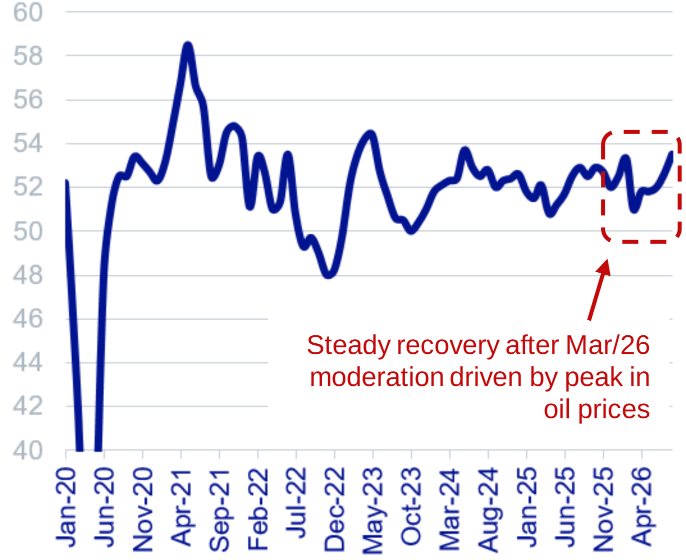
Growth prospects remain broadly unchanged. In the US, GDP growth will likely stay just above 2%, while in China it is forecast to keep converging down toward 4%. In the Eurozone, this year's outlook has improved on stronger incoming data, but prospects for next year remain largely stable despite higher oil prices, rates and inflation.

Commodity prices will keep inflation under pressure in the short run. Still, inflation could ease next year if tensions in Iran subside as assumed in our baseline scenario. Tighter monetary conditions should also help contain inflation: policy rates are likely to soon reach 4.25% in the US and 2.75% in the Eurozone.

Uncertainty remains very high. Escalation in the Middle East or in Ukraine, weather shocks, policy uncertainty, rising public debt and sovereign yields, protectionism, AI and other factors could eventually erode global resilience and trigger macro and financial instability. Higher oil prices for longer would make inflation and rates edge higher.

The global economy has remained resilient despite multiple shocks, which have lately shown little sign of abating

GLOBAL COMPOSITE PMI
(HIGHER THAN 50: EXPANSION; LOWER THAN 50: CONTRACTION)



GLOBAL HEADWINDS

- geopolitical fragmentation, conflicts
- energy and commodity shocks
- climate shocks
- rising public debt and long-term yields
- policy uncertainty
- protectionism
- China's structural slowdown
- ageing

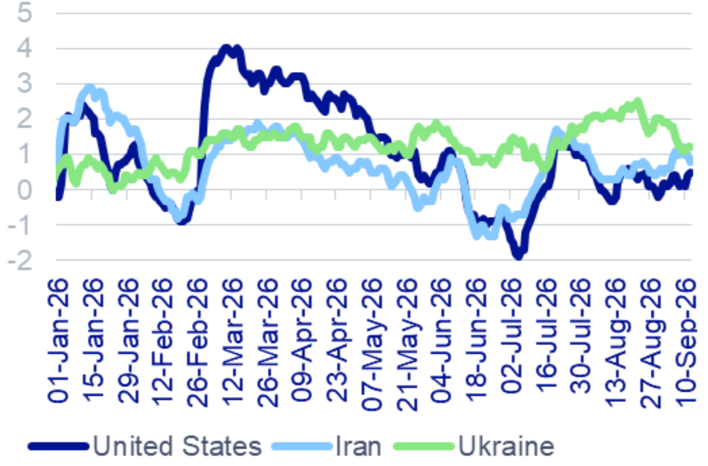
GLOBAL TAILWINDS

- AI adoption
- defense spending
- inflation-focused central banks
- solid private balance sheets
- fiscal impulse
- resilient labor markets
- supply-chain reconfiguration
- green investment, energy diversification

Source: BBVA Research based on data from Haver, JP Morgan, S&P.

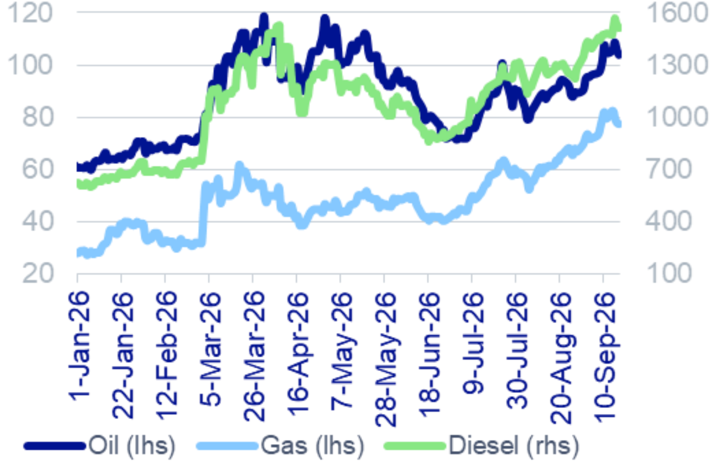
US-Iran tensions escalated again, with conflict spreading to the Red Sea, pushing up energy prices and uncertainty

GEOPOLITICAL RISK INDEX
(AVERAGE = 0; 28-DAY MOVING AVERAGE)



Source: BBVA Research

BRENT, EUROPEAN GAS AND DIESEL PRICES(*) (USD PER BRENT BARREL; EUROS PER MWh, USD PER METRIC TONS)

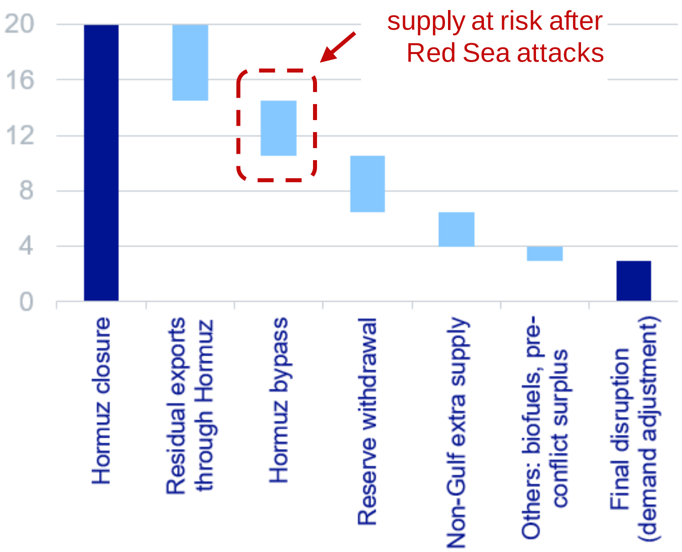


(*) Diesel: low sulphur gas oil future (ICE Futures Europe)
Source: BBVA Research based on data from Haver

US-Iran diplomacy stalled over ceasefire terms and control of Hormuz; Washington then intensified economic pressure by expanding sanctions on Iran's allies. Fighting has since resumed, with the Houthis attacking alternative oil routes in the Red Sea

Supply disruptions persist, with some offsetting factors now at risk, adding volatility to energy prices

OIL MARKET BALANCE: AUG/26
(MILLION BARRELS A DAY)

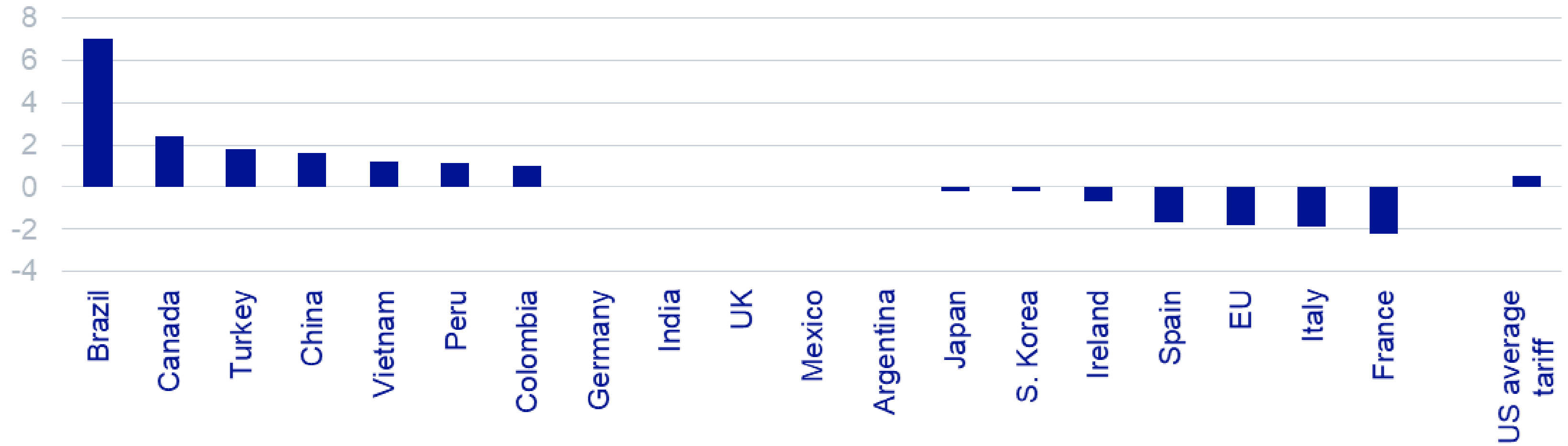


Source: BBVA Research

- **Despite data uncertainty, there are signs that oil exports through Hormuz have increased**, due to a larger flow of oil from US allies
- **Bypassing routes through the Red Sea have helped cushion supply losses**, but escalating attacks in the region have caused fresh disruptions; their closure is seen to raise oil prices by up to $20/b
- **Reserve liberation, particularly by China, continues to provide support**, but non-linearity risks remain in place
- **Increasing production by other countries**, especially in the Americas, is also preventing oil prices from moving even higher

Tariffs: the recent changes leave the average US tariff mostly unchanged, despite varying effects across countries

US STATUTORY TARIFFS: CHANGES DUE TO THE EXPIRATION OF "UNIVERSAL" TARIFFS (BASED ON SECTION 122), ADOPTION OF "FORCED LABOR" TARIFFS (BASED ON SECTION 301) AND IMPLEMENTED NEW TARIFFS ON CANADA AND BRAZIL (*) (PP)

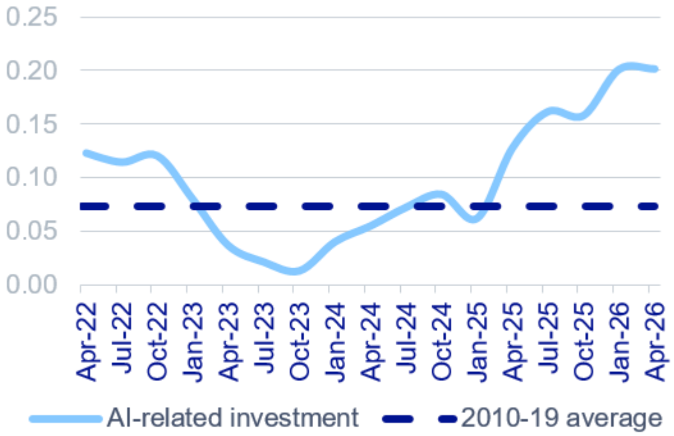


(*) Does not consider higher tariffs on Canadian cars, trucks, automobiles parts and steel announced to take place on January 2027
Source: BBVA Research

The average effective US tariff is likely to remain close to 7%; extra US tariffs scheduled to be effective next year would raise Canada's average tariff by 2pp to 6pp, depending on whether the new targeted goods will still benefit or not from USMCA-related exemptions

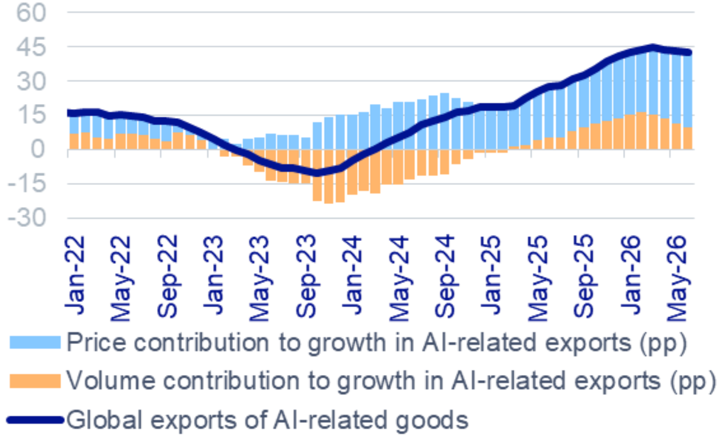
Increasing AI investment in the US is supporting demand in the country and abroad, putting pressure on AI prices

US: AI-RELATED INVESTMENT (*)
(CONTRIBUTION TO QUARTERLY GDP GROWTH; FOUR-QUARTERS MOVING AVERAGE: PP)



(*) AI-related investment defined as investment in information processing, investment in softwares and investment in data centers.
Source: BBVA Research based on data from FRED and US Census Bureau

GLOBAL EXPORTS OF AI-RELATED GOODS
(Y/Y%, 12-MONTH MOVING AVERAGE)

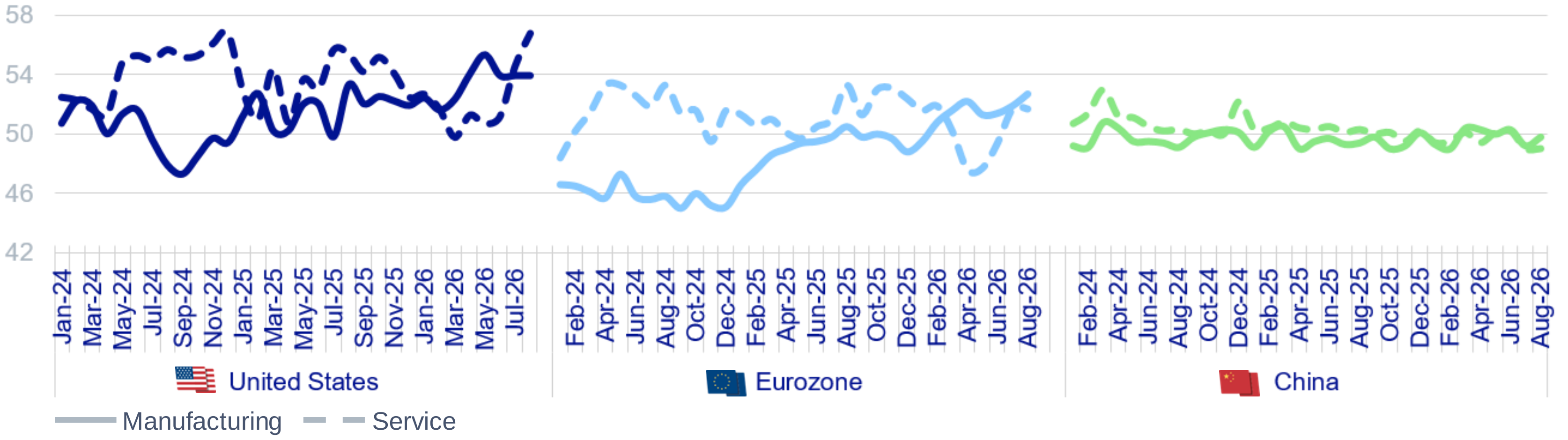


(*) AI-related goods exports include key inputs at the 6-digit level (energy and power, the semiconductor ecosystem, AI hardware, and connectivity) used in AI production.
Source: BBVA Research based on data from UN Comtrade, China's GAC, and Taiwan Customs.

Extraordinary AI demand is also putting strong pressure on related prices, potentially creating risks to global inflation

High-frequency indicators reinforce the view that growth is still robust in the US and is improving in Europe

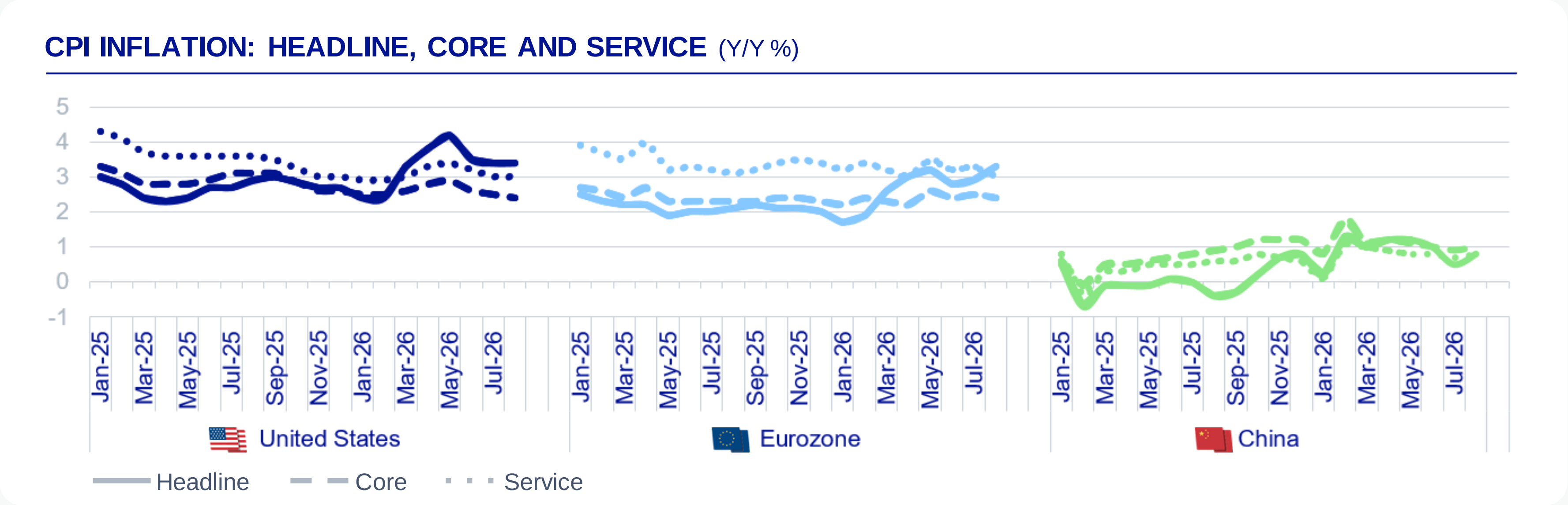
PMI INDICATORS (HIGHER THAN 50: EXPANSION; LOWER THAN 50: CONTRACTION)



Source: BBVA Research based on data from Haver

2Q26 GDP surprised to the upside in the Eurozone, supported by resilient consumption and stronger net exports, but disappointed in the US despite robust domestic demand, and mainly in China despite very strong exports

Inflation is running above 3% both in the US and in the Eurozone amid higher energy prices and resilient demand

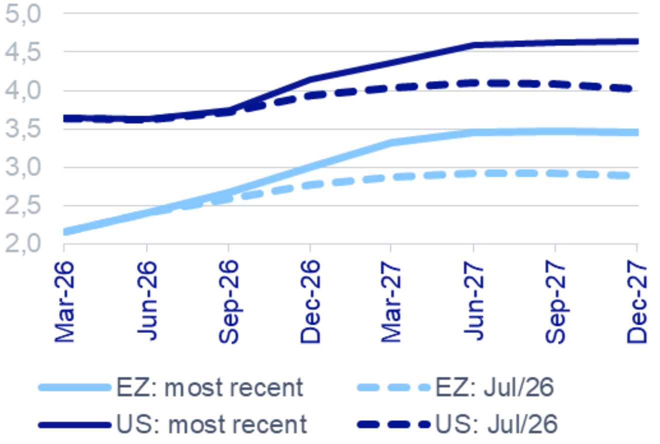


Source: BBVA Research based on data from Haver

Although headline inflation continues to be under pressure, core and service figures have exhibited a (timid) downward trend over the last few months, which suggest no significant second-order effects from the commodity shock so far

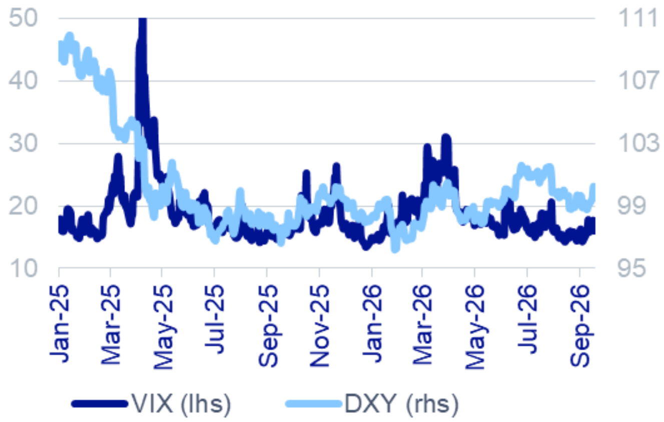
Markets expect both the Fed and the ECB to continue tightening monetary conditions ahead

INTEREST RATES IMPLIED BY FED FUNDS AND EURIBOR FUTURES (%)



Source: BBVA Research based on data from Haver

VOLATILITY (VIX); US DOLLAR (DXY) (*)
(INDEXES)

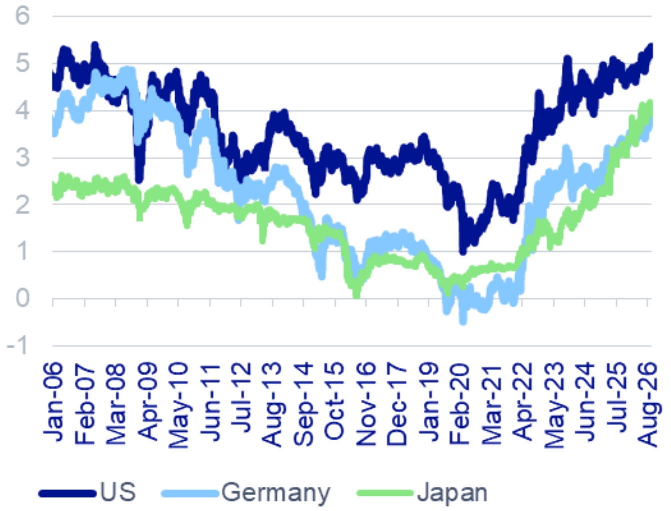


(*) A higher DXY represents a stronger US dollar
Source: BBVA Research based on data from Haver

The ECB and the Fed, amid considerable uncertainty over the decision, have recently raised rates to 2.5% and 4.0%, respectively, with markets pricing in further hikes; the VIX has remained subdued, while the US dollar has appreciated somewhat

Long-term sovereign yields continue to rise globally, prompting a policy response from the US Treasury

30-YEAR SOVEREIGN YIELDS
(%)

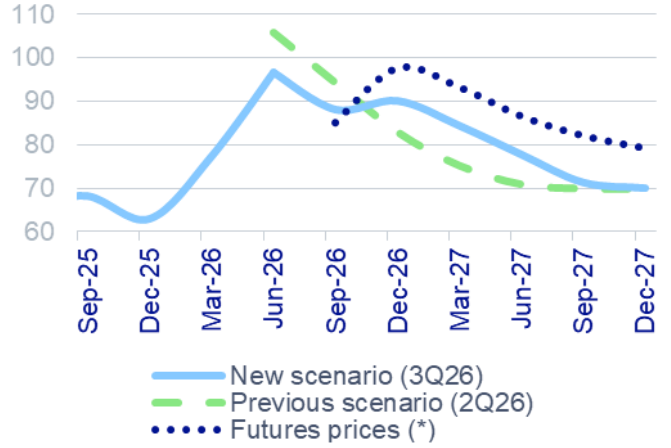


Source: BBVA Research based on data from Haver

- **Long-term sovereign yields have continued to trend up, accelerating recently,** due to higher inflation and policy rates, large public financing needs, private bond issuance (mostly AI-related) and higher term premia
- **The US Treasury has tried to contain the trend** by increasing bond buybacks and supporting the yen, while seeking to limit Japan's sales of US Treasuries
- **The moves had only limited impacts** as they don't structurally address the drivers of their upward trend; moreover, they may eventually clash with Fed's goals
- **Higher Fed rates may help contain inflation expectations,** eventually easing pressures on long-term yields

Our scenario assumes that oil prices will be contained and decline gradually next year, despite risks

BRENT PRICES: BBVA RESEARCH FORECASTS, FUTURES PRICES (USD/BARREL)



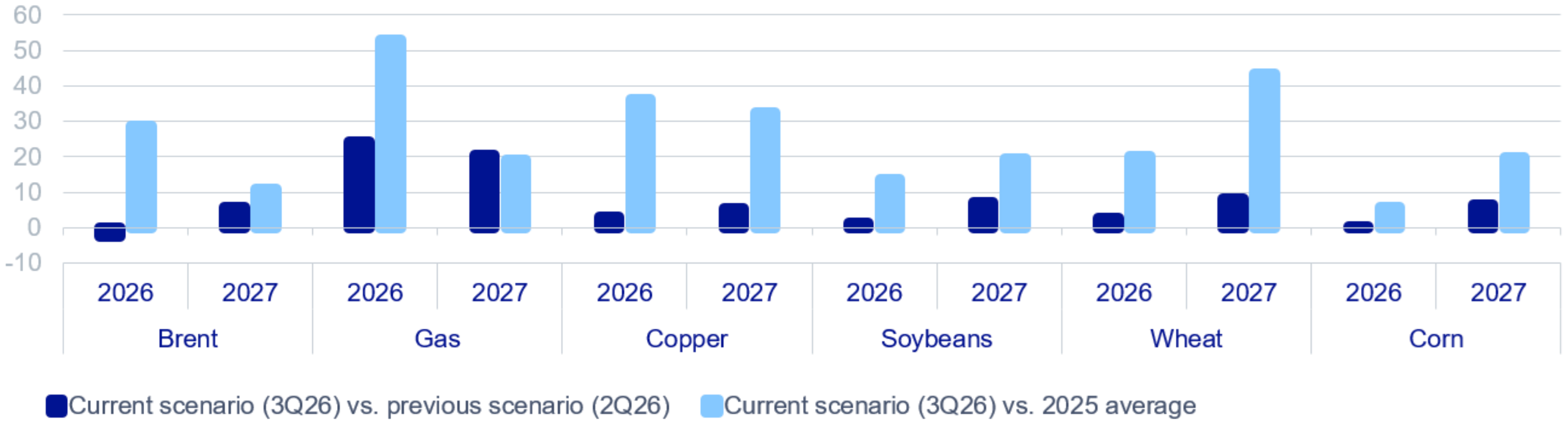
	2026 average	2027 average
New baseline scenario (3Q26)	88	76
Previous baseline scenario (2Q26)	90	72

- **With Hormuz transit constrained for longer, prices are assumed to be slightly higher** than the previous assumption, although they were below the previous forecast in 3Q26
- **The new scenario is still consistent with a gradual improvement of energy flows** through Hormuz moving forward
- **Upside risks** to the oil baseline are relevant as tensions could avoid a reopening of the Strait, severely hit bypassing routes through the Red Sea and trigger nonlinearities
- **But oil prices could decline faster than forecast** if eventually a new deal is reached

(*) As of September 17, 2026.
Source: BBVA Research based on data from Haver

Commodity prices will be supported not only by geopolitical tensions, but also by weather shocks and AI demand

COMMODITY PRICE FORECASTS, COMPARED TO PREVIOUS FORECASTS AND 2025 LEVELS
(%, ANNUAL AVERAGES)



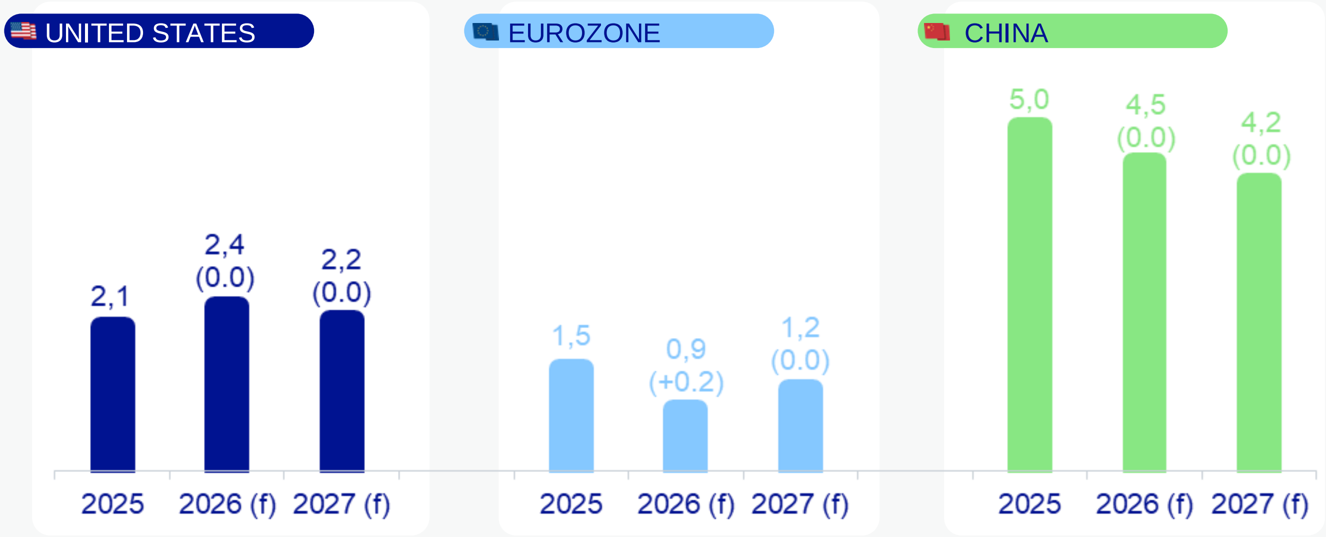
Source: BBVA Research

While the Middle East conflict is pushing up a broad range of input prices (notably energy and fertilizers), further pressure will come from low inventories (gas), the Russia-Ukraine war (now hitting wheat exports), weather shocks (El Niño and hot weather in the EU and US) and resilient demand (particularly AI-related demand for copper, energy and other inputs)

Broadly unchanged GDP forecasts despite a better outlook for Europe this year, supported by stronger incoming data

GDP GROWTH (*)

(%, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



Growth is expected to be slightly above 2% in the US and converge to 4% in China, despite 2Q26 negative surprises.

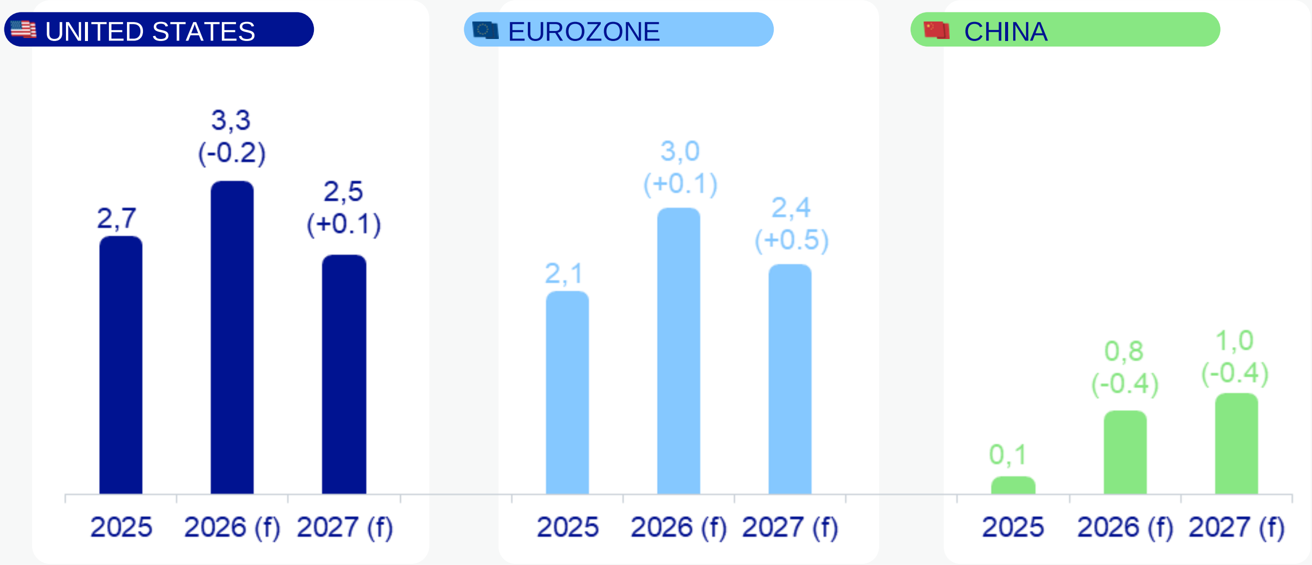
In **Europe,** the impact of higher interest rates will be mostly offset by the effects of a weaker euro

(*) After expanding by 3.5% in 2025, global GDP is still forecast to grow by 3.1% in 2026 and by 3.3% in 2027 (unchanged figures).
(f): forecast.
Source: BBVA Research

Commodity prices and demand resilience will help to keep inflation under pressure, at least in the short-run

HEADLINE CPI INFLATION

(Y/Y %, PERIOD AVERAGE, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



Inflation will remain high, above previous expectations in Europe, amid higher energy prices and resilient growth

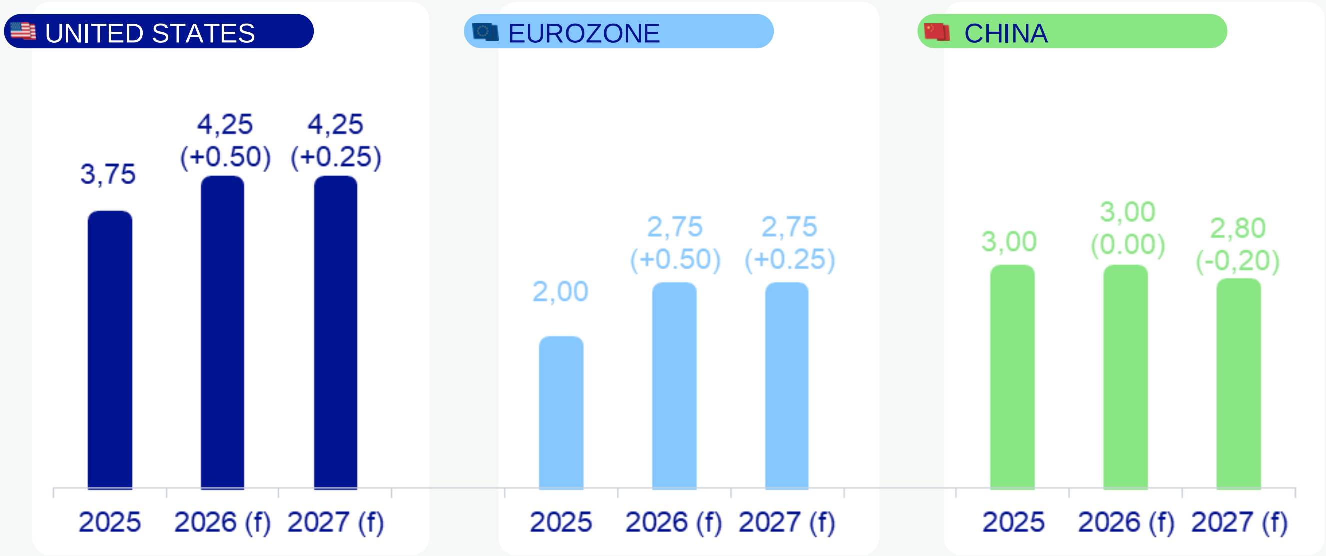
It is forecast to ease next year, with core prices staying contained, provided energy prices decline as assumed

(f): forecast.
Source: BBVA Research

Fed and ECB are now expected to deliver one final hike this year and keep rates unchanged next year

POLICY INTEREST RATES (*)

(%, END OF PERIOD, CHANGE WITH RESPECT TO PREVIOUS FORECAST IN PARENTHESES)



Policy rates will be higher than previously expected to address increasingly challenging inflation risks

Further tightening will likely be limited, if inflation eases as expected during 2027, but risks are tilted upwards

(f): forecast.
(*) In the case of the Eurozone, interest rates of the deposit facility.
Source: BBVA Research

Risks remain in place given ongoing conflicts, weather shocks, high public debt, protectionism, AI…

GLOBAL ECONOMY: MAIN RISKS AROUND BBVA RESEARCH BASELINE SCENARIO

Many factors create upside risks to inflation

NEGATIVE SUPPLY SHOCKS

escalation of Iran-US war (reserve depletion, non-linearities), **weather shocks** (El Niño, climate change), **geopolitical tensions**, protectionism, ageing

STRONG DEMAND

AI (demand), fiscal stimulus, defense spending, robust labor markets and private balance sheets

\+

\- GDP GROWTH +

WEAK DEMAND

financial stress (**sovereign debt markets**, **equity correction**, private credit, shadow banking), uncertainty, structural challenges in Europe and China

POSITIVE SUPPLY SHOCKS

faster normalization of energy markets, productivity gains (mainly due to **AI,** in the medium term)

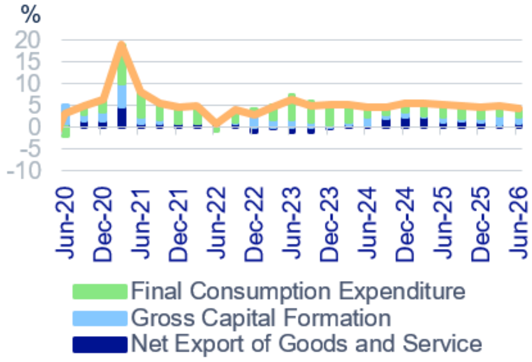
INFLATION

\-

China Economic Outlook

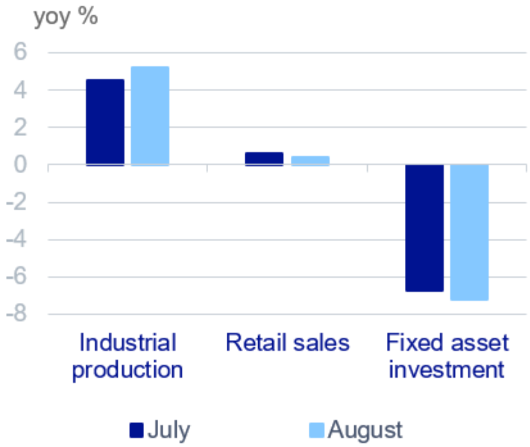
2026 Q2 GDP dropped to 4.3% from its Q1 surge 5%, driven by domestic headwinds of real estate crash, weak sentiments and unbalanced economic structure

2026 Q2 GDP WAS SUPPORTED BY STRONG EXPORTS

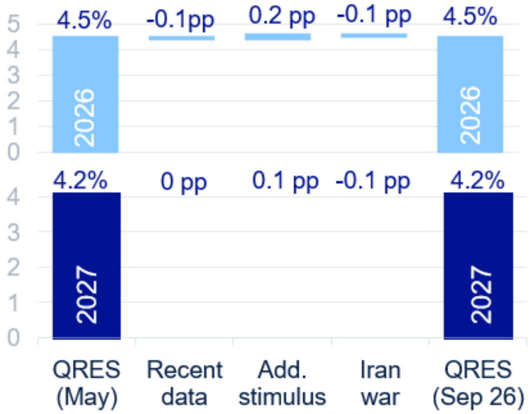


Forecast	2026Q1	2026Q2	2026Q3 F	2026Q4 F
Y/Y%	5	4.3	4.3	4.4
Q/Q% (HAVER SA)	1.65	0.45	0.9	1.5

JULY AND AGUST INDICATORS CONTINUED TO DECLINE



WE DID NOT CHANGE OUR ESTIMATION OF 2026 and 2027 GDP



Source: NBS and BBVA Research

Given 4.7% growth in 1H 2026, we still believe the lower bound of the authorities' growth target 4.5-5% in 2026 is still achievable. Thus, we maintain our 2026 forecast at 4.5%

Growth slowdown is domestic driven: “strong supply and weak demand” has been long-lasting

INDUSTRIAL PRODUCTION TREND IS HIGHER THAN PRE-PANDEMIC TREND…

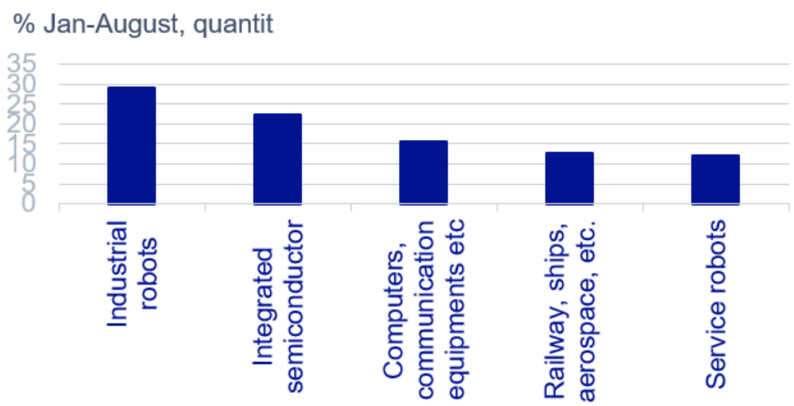
THE RECENT INVESTMENT TREND IS DECELERATING FAST…

RETAIL SALES TREND IS SIGNIFICANTLY LOWER THAN PRE-PANDEMIC

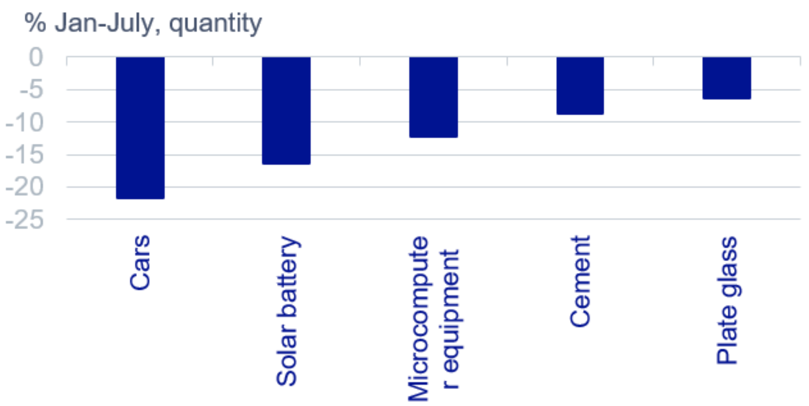
Source: BBVA Research and NBS

Supply side “K-shape recovery”: similar to the US, supply has been bolstered by rising demand for AI supply chains, but non-AI sectors lagged behind

TOP 5 GROWTH OF INDUSTRIAL PRODUCTION CONCENTRATE ON AI-RELATED SECTORS



THE LEAST 5 GROWTH OF INDUSTRIAL PRODUCTION: BY SECTOR

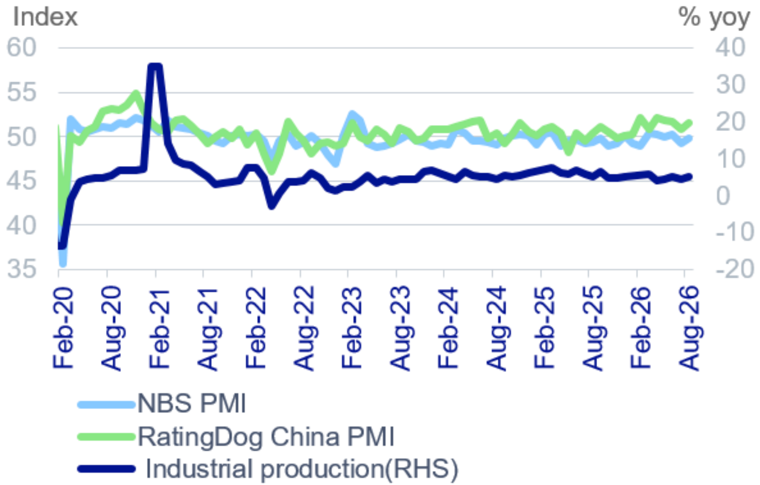


Source: BBVA Research and CEIC

New energy related sectors-EV, solar battery-show significant slowdown due to deleveraging campaign; housing related sectors such as cement also decelerated. Crude oil processing declined due to rising oil price

…while the "Anti-involution" campaign facilitates the deleveraging of overcapacity sectors in new energy, platform economy and real estate

AUGUST NBS PMI DECLINED TO 49.2 FROM 50.3; INDUSTRIAL PRODUCTION INCREASED TO 5.2% FROM 4.5%



Source: NBS and BBVA Research

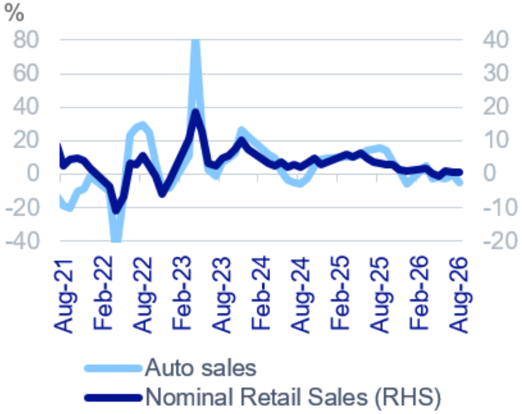
WHAT IS THE "ANTI-INVOLUTION" CAMPAIGN?

i. "Anti-involution" refers to government-backed efforts to combat "involution", which describes **excessive, unproductive competition among firms** leading to **diminishing returns, worker exhaustion, price wars and accelerating deflation**

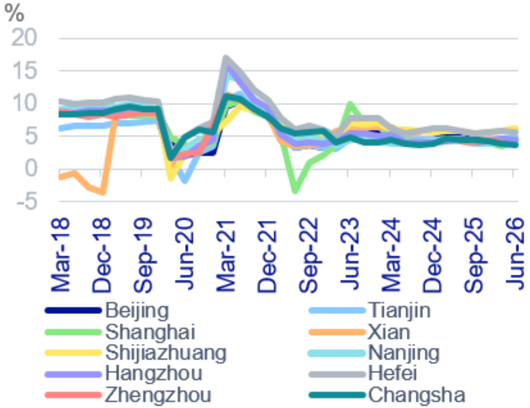
ii. Which **industries** have overcapacity issue? (1) Solar battery electric vehicles (EV), lithium batteries; (2) Housing related: steel, cement, etc.(3) Platform economy: food delivery

Demand side (1): Retail sales dragged by weak income expectation, high youth unemployment and fading effect of the national subsidies

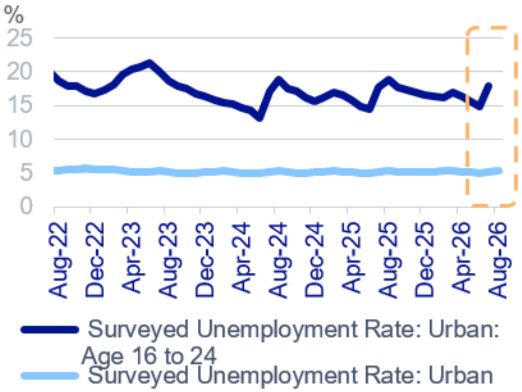
RETAIL SALES DIPPED TO 0.4% IN AUGUST FROM 0.6%



SLUGGISH CONSUMPTION IS DUE TO WEAK INCOME GROWTH AND INCOME EXPECTATION…



…AND HIGH YOUTH UNEMPLOYMENT RATE AROUND 15% COMPARED WITH 5% AVERAGE

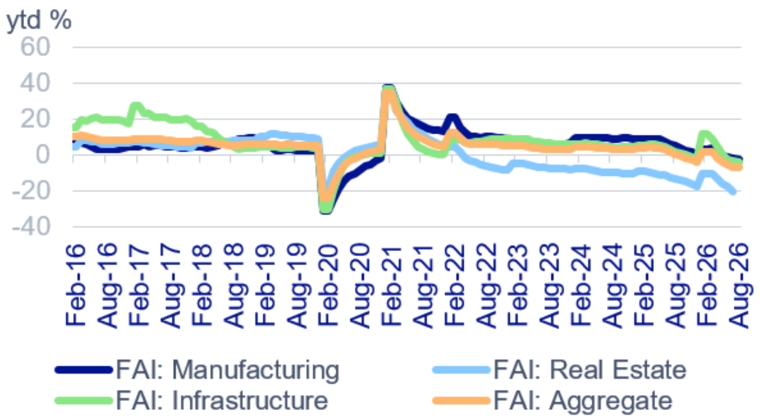


Source: NBS and BBVA Research

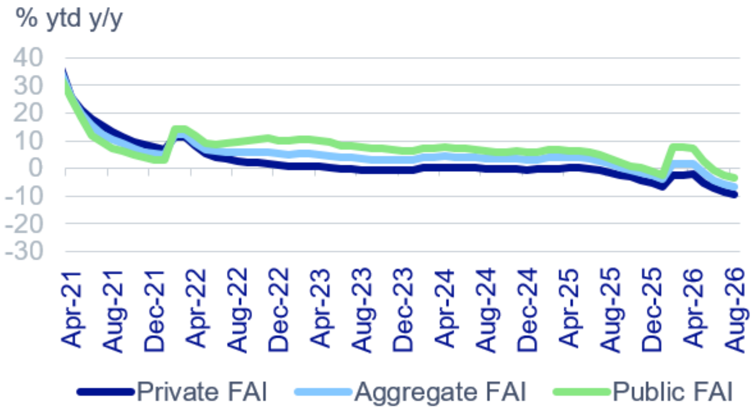
The authorities issued RMB 250 billion long-term government bond in 2026 (2025: RMB 300 bn) to support consumption by “large-scale equipment renewal and trade-in old consumer goods” and “national subsidies” to stimulate retail sales. **But the effect gradually faded as the program runs out, particularly in the car sales**

Demand side (2): Fixed asset investment dropped in Q2 after its bounce in Q1; housing investment expanded its decline to -19.2% ytd y/y

FAI FURTHER EDGED DOWN TO -7.2% YTD Y/Y FROM -6.7% YTD Y/Y IN AUGUST



THE MULTIPLIER EFFECT FROM PUBLIC TO PRIVATE FAI REMAINS WEAK

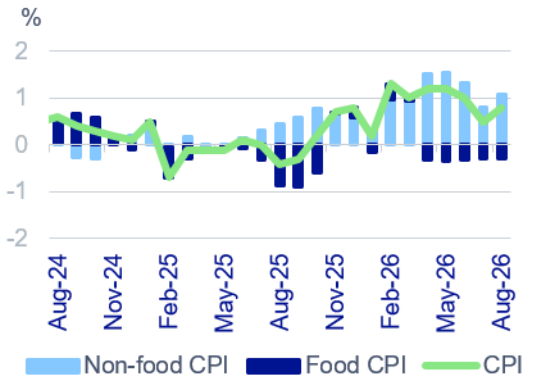


Source: NBS and BBVA Research

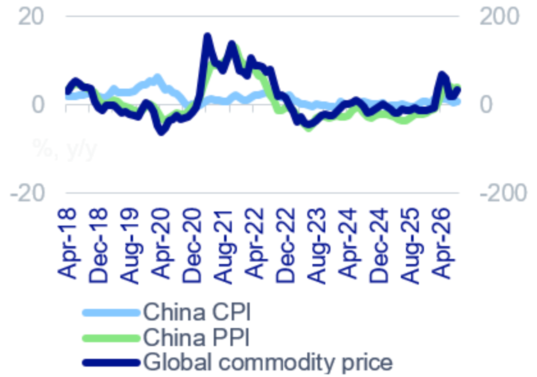
To cancel pre-sale in new buildings, which will ease developers' passion for investment in short-term but support households' confidence in long term

Deflation environment remains after Iran war shock: PPI declined as the war eased; the pass-through effect from PPI to CPI is restricted

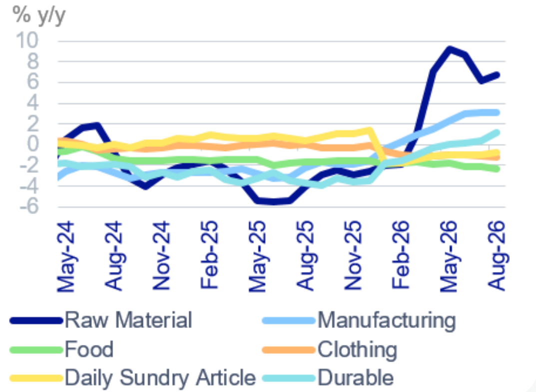
CPI INCREASED TO 0.8% IN AUGUST FROM 0.5% PREVIOUSLY



PPI INCREASED TO 3.8% FROM 3.5% SYNCHRONIZED WITH GLOBAL COMMODITY PRICE



PPI BY SECTOR: RAW MATERIALS DECLINEN; ONLY RAW MATERIAL AND MANUFACTURING PPI POSITIVE

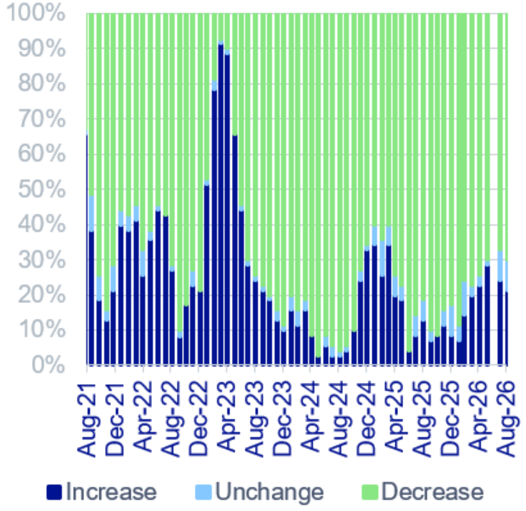


Source: BBVA Research and NBS

- **The pass-through from PPI to CPI has been limited due to China's supply-demand mismatch and weak consumption sentiments**
- **CPI goes down to 0.8%y/y from above 1%, indicating the deflationary environment has not been changed**

Housing indicators remained lackluster; but gradually more and more cities report housing price increasing

MORE THAN 70% CITIES REPORTED HOUSING PRICE DECREASE IN 70-CITY SURVEY



FLOOR SPACE COMPLETED & STARTED, AND HOUSING INVESTMENT REMAINED NEGATIVE

NEW EASING POLICIES IN MAIN BIG CITIES:

I. To allow max mortgage length from 30 years to 40 years

II. Allow local households to hold at most 3 properties in core regions

III. Increase the mortgage ratio

IV. Allow non-local residents to purchase the houses in core areas

V. To subsidize housing upgrading demands

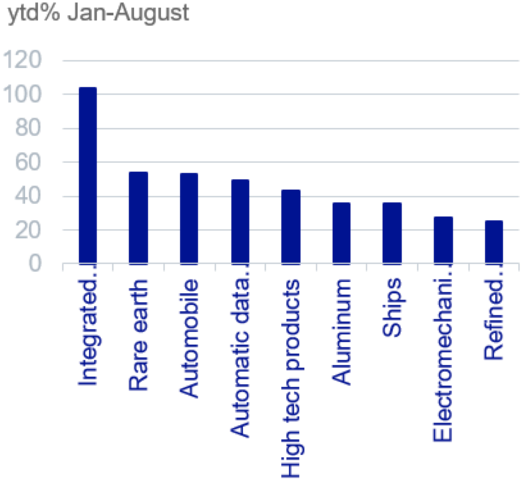
VI. Encourage SOEs to buy existing housing stocks to build as affordable housing, employee apartments etc.

Source: BBVA Research and NBS

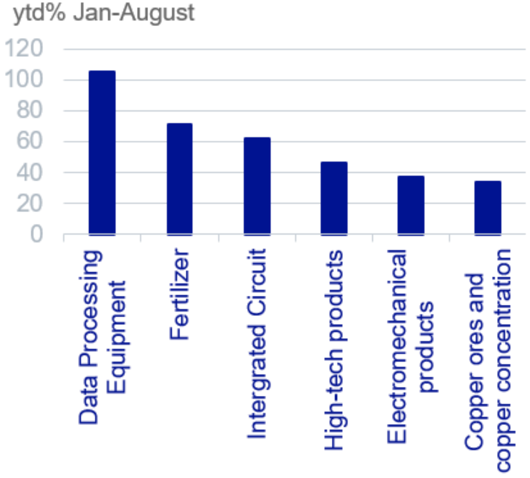
“K-shape recovery”: Why exports and imports so strong in Jan-August 2026?

IN JAN-AUG, EXPORT GROWTH ON AVERAGE REACHED 19.5% WHILE IMPORT GROWTH REACHED 26.5%

AI-RELATED AND HIGH-END MANUFACTURING SECTORS SUPPORT STRONG JAN-AUG EXPORT GROWTH



STRONG MANUFACTURING SUPPORT STRONG JAN-AUG IMPORT GROWTH



Source: BBVA Research and NBS

US-China tariff war updating:

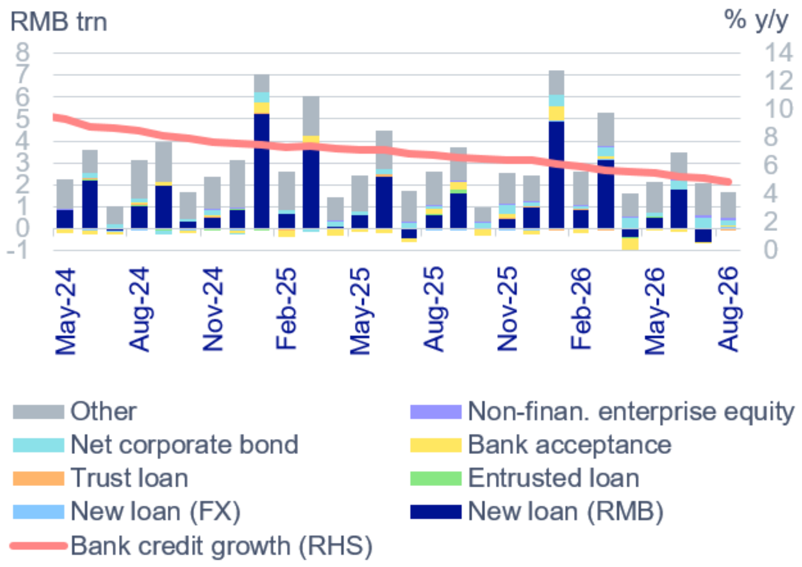
The US has announced a new 12.5% Section 301 tariff on Chinese goods, effective from 24 July 2026, indicating a shifting from temporary Section 122 duties to targeted Section 301 tariffs. In practice, it raises the overall tariff on Chinese goods by 2.5 %. China's exports face more permanent, legally secure, and complex trade barriers. Rather than a temporary 10% blanket levy, Chinese goods face stackable duties backed by formal investigations that are much harder to overturn in court.

US tariffs on China under Trump 2.0 (%)	Agreement in Kuala Lumpur (Oct 25 - Jan 26)	Section 122 tariffs (Feb 26 - June 26)	Section 301 tariffs (July 26 onward)
Smartphones, computers, semiconductor chips, etc	10	0	0
Auto parts etc.	35	25	25
De minimis shipment	44	34	34
Steel& Aluminum	60	50	50
Others	20	10	12.5

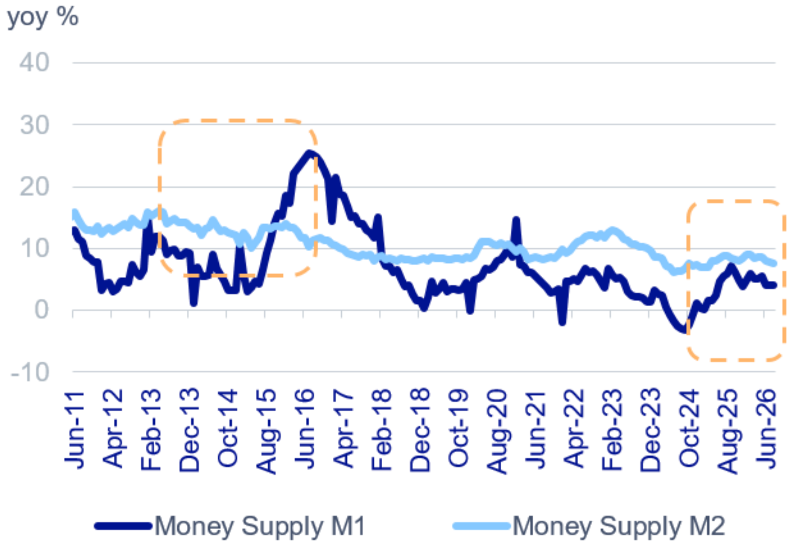
The summit of Trump and Xi in May agreed that the overall level of the US tariffs on China's exports won't exceed that in their agreement after negotiation in Kuala Lumpur

China's credit figures have slowed amid sluggish demand, deleveraging campaign and housing market crash

TOTAL SOCIAL FINANCING, NEW RMB LOANS, OUTSTANDING LOAN GROWTH DECLINED



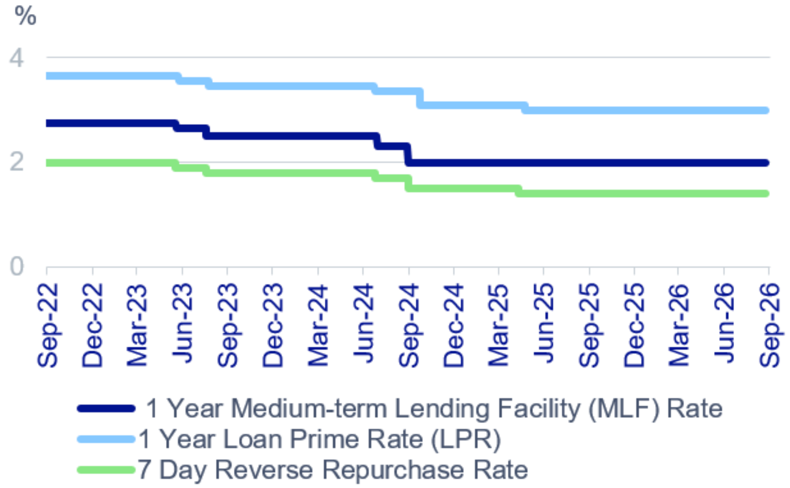
…SO DID THE M2 GROWTH DIPPING TO HISTORICAL LOW



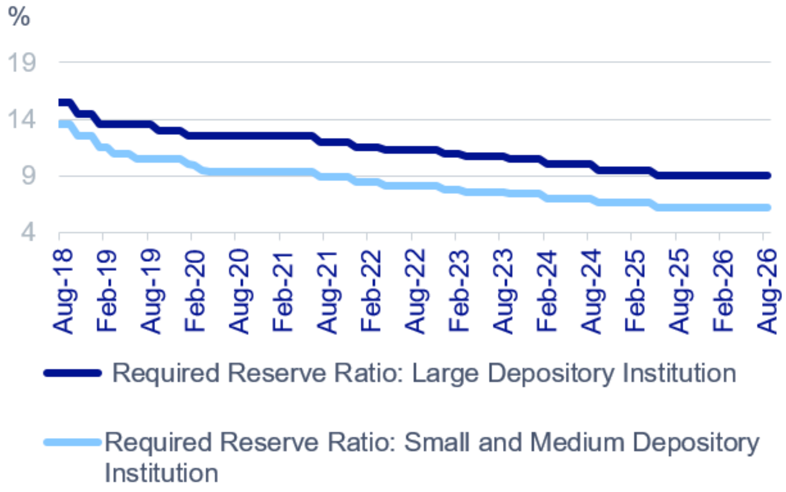
Source: BBVA Research and NBS

Monetary policy: the PBoC takes a wait-and-see attitude, but does not exclude rate cut in the rest of year

THE PBOC HAS MADE THE POLICY RATE ON HOLD TO TAKE A WAIT-AND-SEE ATTITUDE



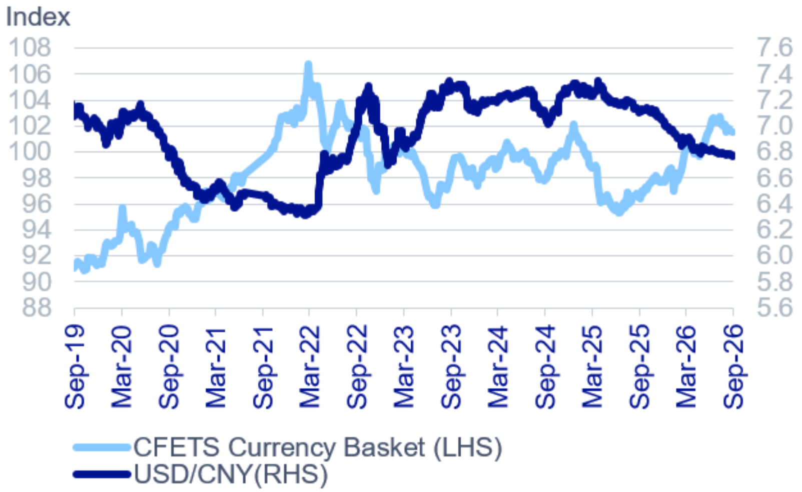
WE EXPECT AT MOST 1 RRR CUT IN REST 2026



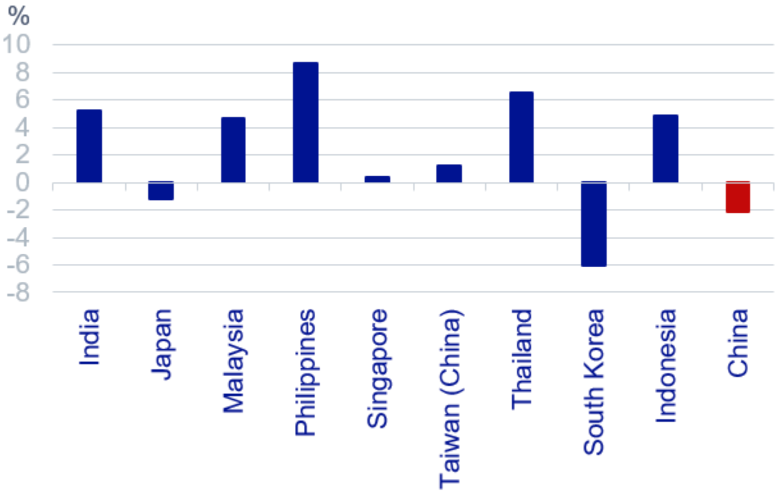
Source: BBVA Research and NBS

RMB to USD Exchange rate has appreciated recently, indicating a limited impact from Iran war

RMB APPRECIATED BY 6.7% SINCE THE IRAN WAR MAINLY DUE TO THE RECENT TIGHTENING CAPITAL CONTROL AMID CHINA-US RATE REVERSION



…AMONG ALL ASIAN CURRENCIES, RMB IS THE ONLY ONE-WAY APPRECIATION CURRENCY SINCE THE IRAN WAR

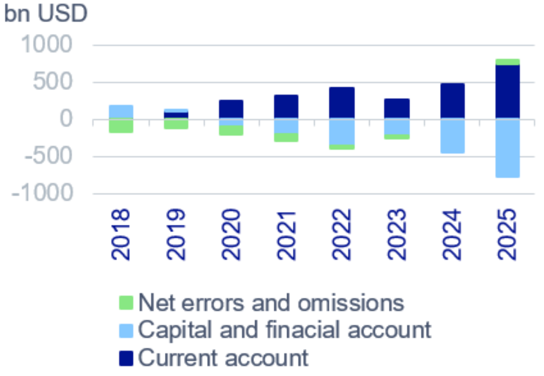


Source: BBVA Research and NBS

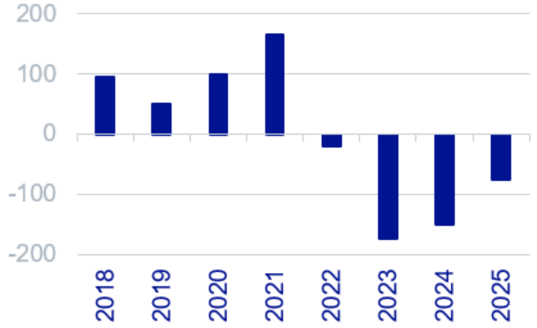
The recent tightening new capital control regulation helps to support RMB exchange rate

- State Council recently promulgated the new **Regulations on Outward FDI and portfolio Investment** to further restrict illegal capital outflows or outflows that surpass the quota set by the authorities.
- The typical example is the authorities forbidden mainland individual investors to invest overseas stocks through Futu Securities app and also forbidden HK insurance companies to sell insurance products to help mainland households circumvent the USD 50,000 per year restrictions.

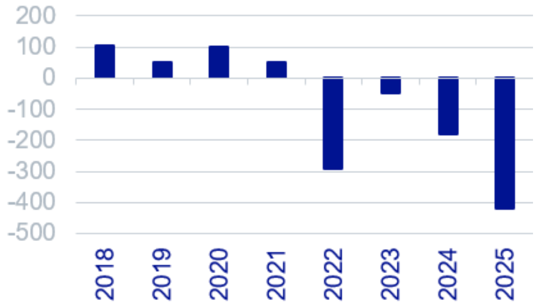
THE BACKGROUND OF THE TIGHTENING NEW REGULATIONS IS CHINA'S RECENT HISTORICAL HIGH NET CAPITAL OUTFLOWS AND NET DIRECT INVESTMENT OUTFLOWS GIVEN THE HISTORICAL LARGE CHINA-US RATE REVERSION



DIRECT INVESTMENT BALANCE, USD BN



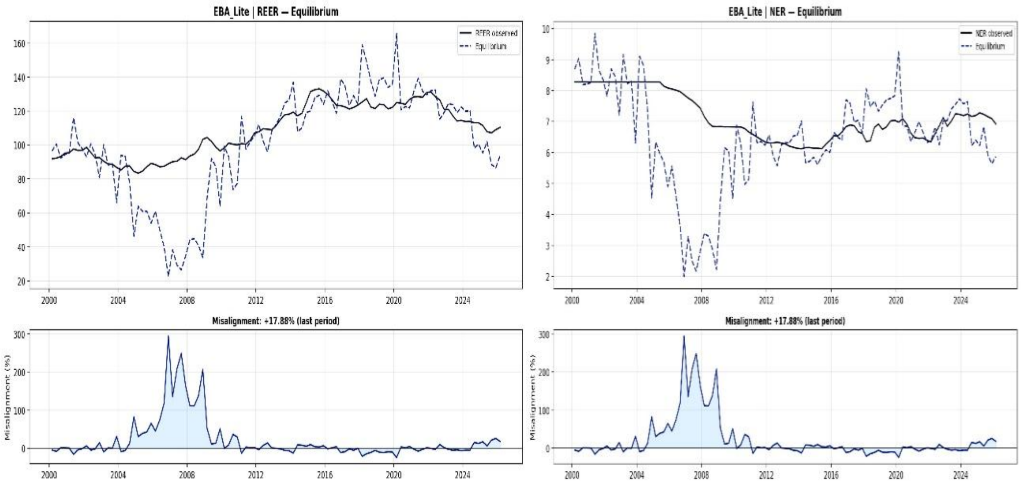
PORTFOLIO INVESTMENT BALANCE, USD BN



Source: NBS and BBVA Research

What is the underlying value of RMB; Is RMB undervalued? (1)

MACRO BALANCE (MB) MODEL: COMPARING ACTUAL REER AND NOMINAL ER WITH MODEL-GENERATED REER AND NOMINAL ER;



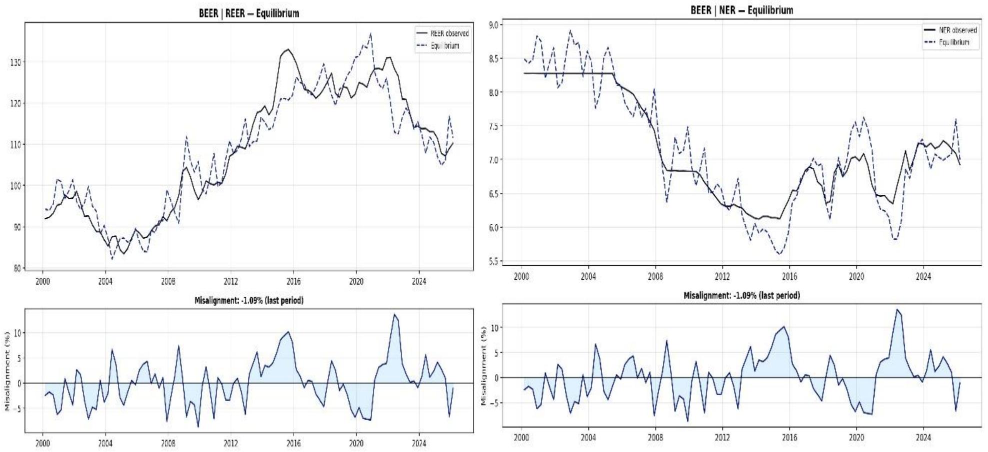
Source: R and BBVA Research

- **Based on MB model, there was a large RMB undervaluation during 2005 to 2009.** The model-generated RMB nominal exchange rate's intrinsic value to be around 3-5 per USD, but the actual rate was above 8 and even after the famous 2005 **"8.11 exchange rate reform" (**to allow RMB have one-time appreciation to 8.11 and to start the managed floating exchange rate regime), RMB/USD nominal exchange rate still around 7. That means, **MB model suggests a 43-57% undervaluation of RMB during this period.**

- China was enjoying the highest trade balance to GDP ratio during this period at 4.5-7.4%. But RMB exchange rate was just released out from the previous fixed exchange rate regime at higher than 8.11 RMB/USD. **The purpose of 2005 "811 exchange rate reform" aimed** at adjusting RMB undervaluation and at dealing with the US political pressure.

What is the underlying value of RMB; Is RMB undervalued? (2)

BEER (Behavioral Equilibrium Exchange rate) MODEL: COMPARING ACTUAL REER AND NOMINAL ER WITH MODEL-GENERATED REER AND NOMINAL ER;



- **Based on BEER model, the largest RMB undervaluation period is 2021 to 2023.** The model-generated RMB nominal exchange rate should be around 5.8-6 per USD, given the actual exchange rate was around 6.4, the model suggests the RMB was **undervalued by around 9.3%.**

- In the aftermath of Covid-19, due to China's "first-in, first-out" of the pandemic, China became the world factory again when other countries and regions were still struggling with the Covid-19 pandemic. As China speeded up its exports to the world, the trade balance to GDP ratio became the second largest during this time around 3.5-6%, leading to stronger RMB.

Conclusion: RMB exchange rate exists undervalued period, however, **the degree of undervaluation that is suggested by both BEER and MB model is not as exaggerating as suggested by some other researcher** that RMB should drop to 5 or even lower. Based on the model-generated "intrinsic value" of RMB, the lowest model-generated RMB exchange rate is around 5.8. That means, given the current RMB exchange rate around 6.72, **the largest possible percentage that RMB should appreciate to reach its "intrinsic value" is 14%,** not as exaggerating as some research suggests of 25-35% undervaluation.

Forecast:

China's main economic indicators: Baseline scenario

	2020	2021	2022	2023	2024	2025	2026 (F)	2027(F)
GDP (%)	2.3	8.1	3.0	5.2	5.0	5.0	4.5	4.2
CPI (%)	2.6	0.9	2.0	0.2	0.24	0.05	0.8 ▼	1.0
PPI (%)	-1.8	8.1	4.2	-3	-2.2	-2.7	1.8 ▲	0.5
Interest rate (LPR, %)	3.85	3.8	3.6	3.45	3.1	3.0	3.0	2.8
7-day reverse repo	2.2	2.2	2.0	1.8	1.5	1.4	1.3	1.1
RMB/USD exchange rate	6.5	6.36	6.9	7.1	7.3	7.0	6.65 ▼	6.5 ▼

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