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Investor Presentation | Asia Pacific

Inflation without Reflation

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RMB Internationalization, via CNH (8 July 2026)

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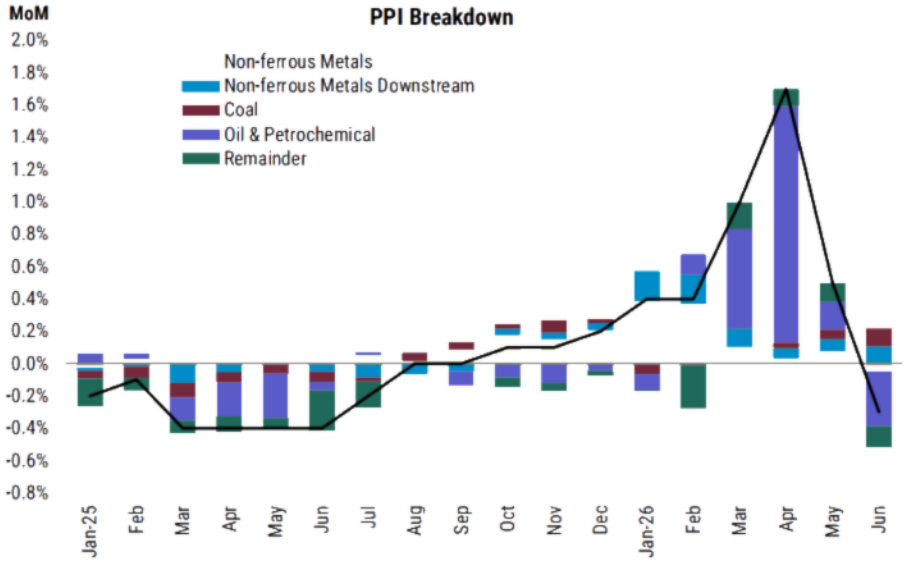




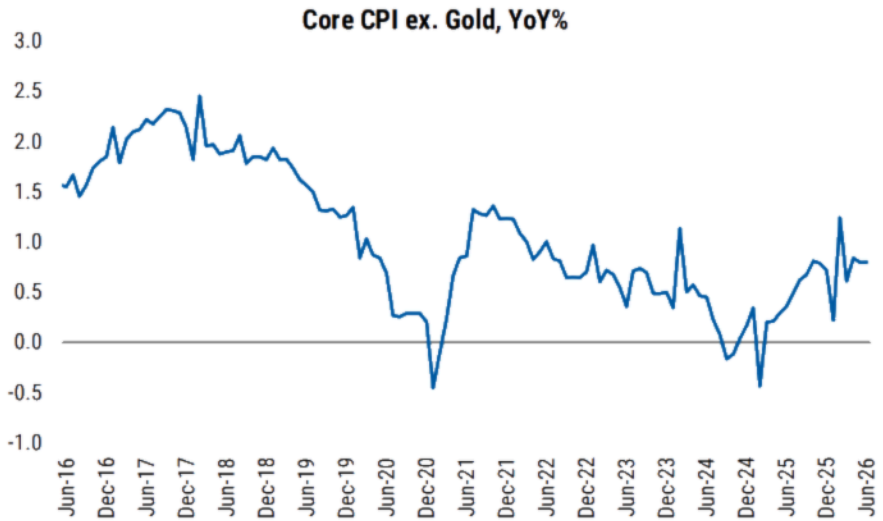
For important disclosures, refer to the Disclosure Section, located at the end of this report.

Inflation Without Reflation…

Energy prices and pass-throughs reversed in June



Core CPI excluding gold remains subdued

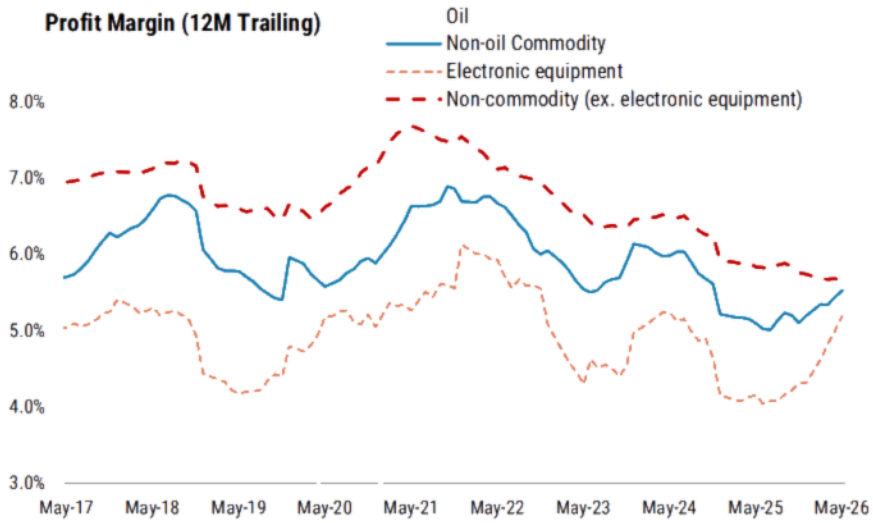


Source: CEIC, Morgan Stanley Research

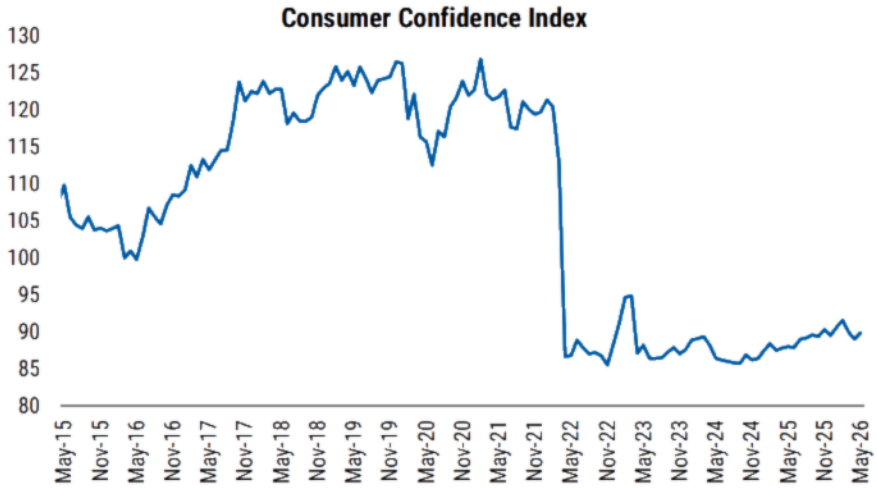


...With Sluggish Underlying Momentum

Compressed downstream margins



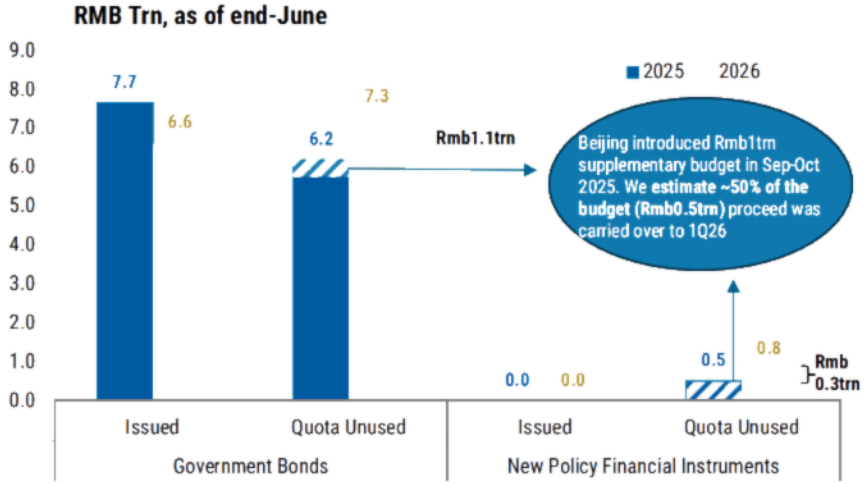
Weak consumer sentiment



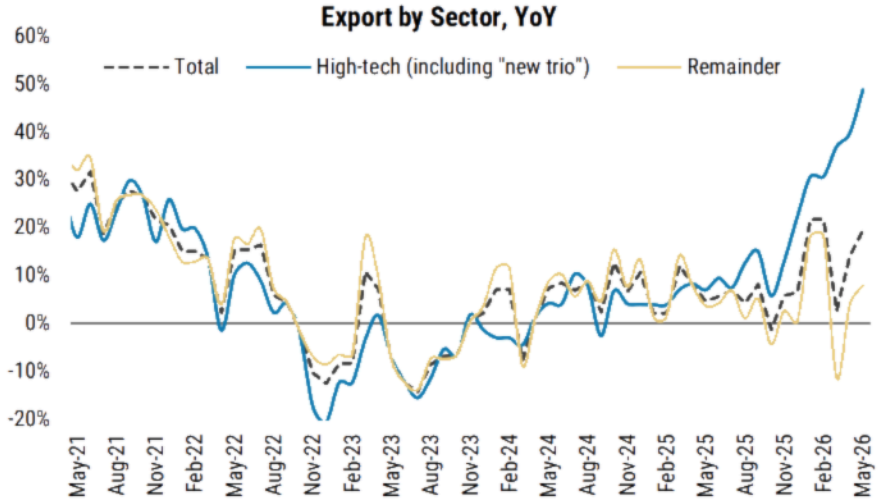
Source: CEIC, Morgan Stanley Research

Fiscal Policy to Be Fine-tuned, Not Pivot…

Beijing to focus on budget rollout, not budget expansion, given room for ~Rmb2trn fiscal impulse in 2H…

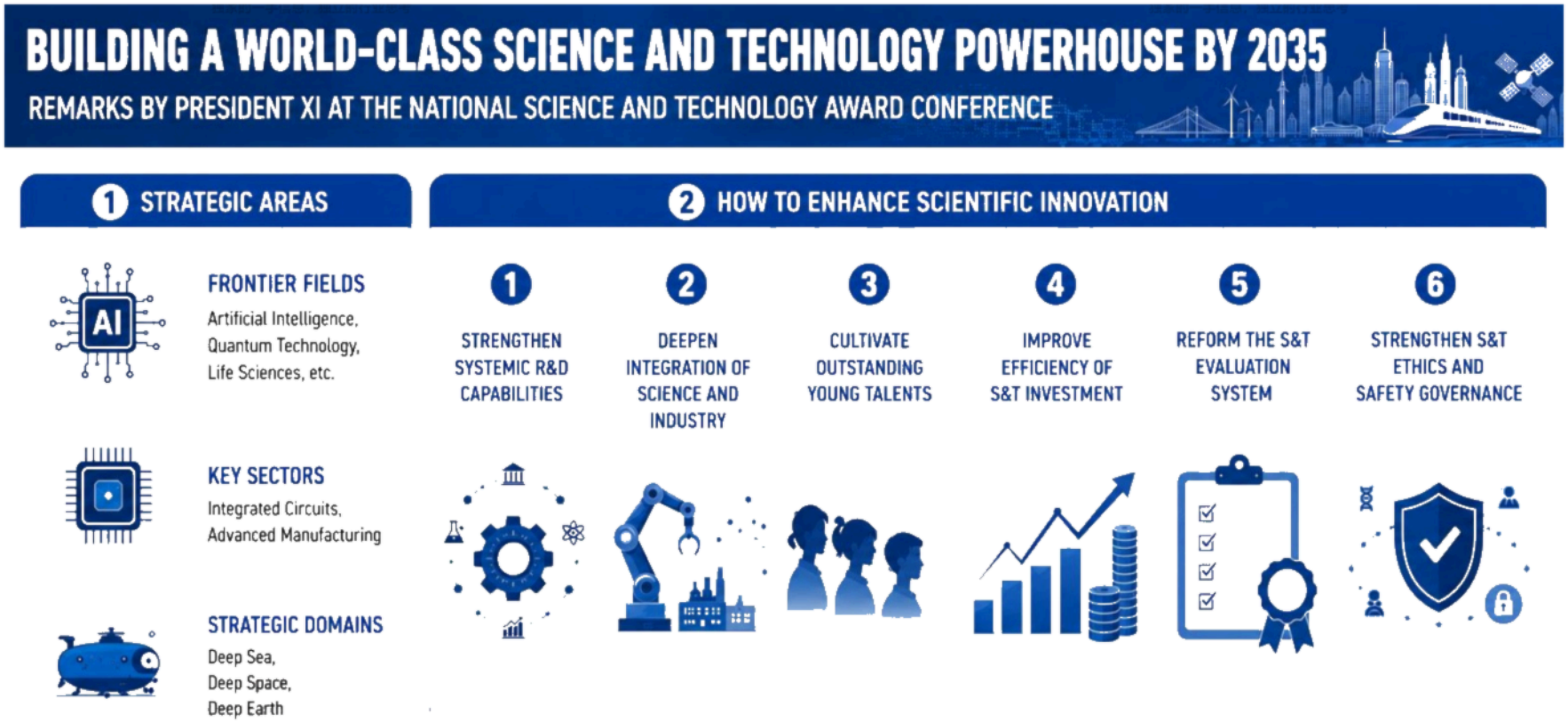


…and export resilience reduces urgency for additional countercyclical easing



Source: MoF, CEIC, Morgan Stanley Research

...And Remains Supply-Centric



Source: Xinhua, Morgan Stanley Research

PBoC to Remain on Hold

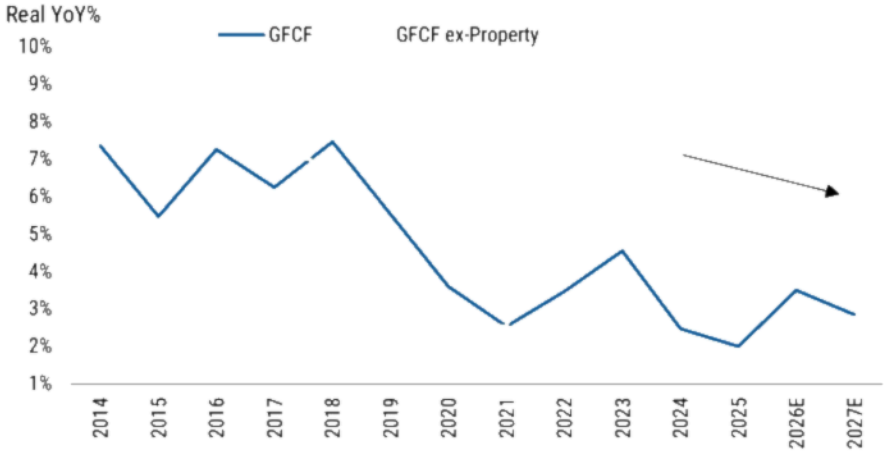
Readout of Monetary Policy Committee Meetings

	1Q26	2Q26
Economic Assessment	Domestic economy remains stable but challenged by supply-demand imbalance and external shocks	Domestic economy remains stable but challenged by supply-demand imbalance, **structural divergence**, and external shocks
Policy Stance	Appropriately accommodative	**-No change in policy stance** **-Greater emphasis on policy foresight, flexibility and precision**
FX	Maintain RMB broadly stable around the equilibrium level	**Unchanged**

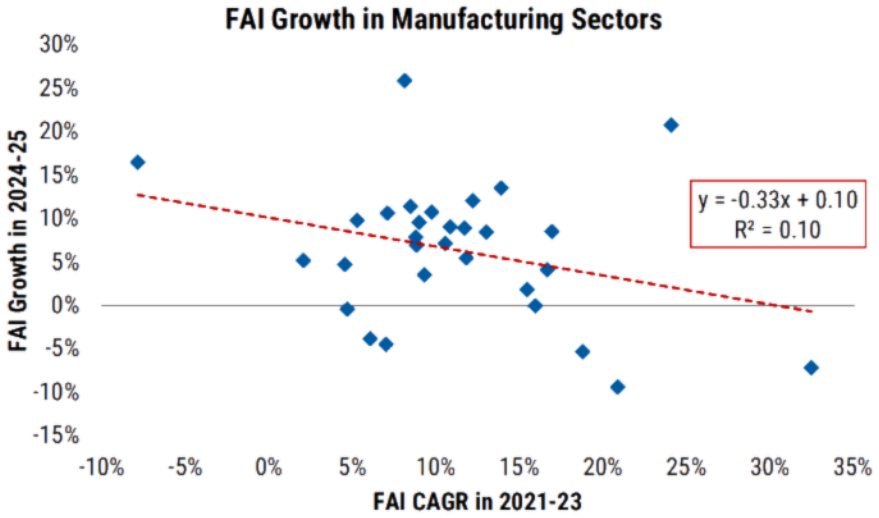
Source: PBoC, Morgan Stanley Research

Smarter Industrial Policy Alone May Not Narrow Supply/Demand Imbalances

Investment ex-property growth slowed from 2021-23's spike, but only at a modest pace



The "baton" of investment has been passed from sectors with overcapacity to those with less oversupply, for now



"National unified market" and anti-involution are right in direction, but challenging to implement:

- Cross-regional capacity coordination is difficult; market-based mechanisms needed to guide local specialization are still underdeveloped
- Local incentives misaligned
- Tax system biases production

Source: CEIC, Morgan Stanley Research (E) estimates

Reforms Are Needed to Alleviate the Overhang from Legacy Issues

CADRE EVALUATION REFORM

Reward outcomes that improve household well-being and the environment.

SOCIAL WELFARE REFORM

Strengthen the safety net to reduce precautionary savings and boost consumption.

Economic Rebalancing Reforms Needed

FISCAL SYSTEM REFORM

Shift to efficiency-linked direct taxes and fund public services, not projects.

Source: Morgan Stanley Research.

RMB Internationalization

RMB Internationalization, via CNH

Building a Deeper Offshore RMB Ecosystem Through Controlled Channels

MAINLAND CHINA

China's Commitment

Maintain monetary policy flexibility and financial stability

Promote RMB internationalization in a gradual and disciplined way



RMB INTERNATIONALIZATION THROUGH CNH

HONG KONG (CNH HUB)

New Infrastructure Package

1 EXPAND INVESTMENT CHANNELS

Raise Southbound Bond Connect quota from Rmb500bn to Rmb800bn and broaden eligible investments

2 DEEPEN LIQUIDITY

Increase RMB Business Facility from Rmb200bn to Rmb500bn and extend tenor to up to three years

3 ADD HEDGING TOOLS

Launch 5-year offshore RMB CGB futures and enrich risk management tools

4 PROMOTE RMB PRICING ROLE

Build cross-border gold clearing/settlement and promote RMB-denominated commodity futures and spot products



Source: Morgan Stanley Research