

Market Monitor – Mainland China

Slowdown in Key Economic Indicators



China sees sharp slowdown in July data

China’s main economic data failed to live up to market forecasts in July. Retail sales rose at 8.5% year-on-year in July, below the market forecast of 11.5%. On a two-year average basis, it rose 3.6% against the same period in 2019, significantly down from the 4.9% growth seen in June. The sudden outbreak of the Delta variant and consequent lockdown measures caused consumers to tighten their purse strings on items from food and cosmetics to office supplies and communications equipment. The 18th June shopping event, known as “618”, also contributed to the sharp month-on-month deceleration seen in online sales. Meanwhile, the urban unemployment rate edged up 0.1 percentage point to 5.1% in July.

The manufacturing sector continued to be pressed by supply bottlenecks, operational disruptions due to rain and floods, and emissions curbs, while also facing the challenge of plateauing overseas demand. Industrial production grew 6.4% year-on-year in July, down from 8.3% in June. Exports grew at a more tepid 19.3% as the more contagious Delta variant dampens consumer sentiment abroad, further strains global supply chains, and slows container turnaround times.

Fixed asset investment rose 10.3% annually across the first 7 months of the year, down from 12.6% in the first half. Slow issuance of local government special bonds translated into a softening of growth in infrastructure spending, while continual regulatory tightening has restricted yearly growth in property investment to 12.7% year-on-year during the first 7 months, down from 15% in the first half of the year.

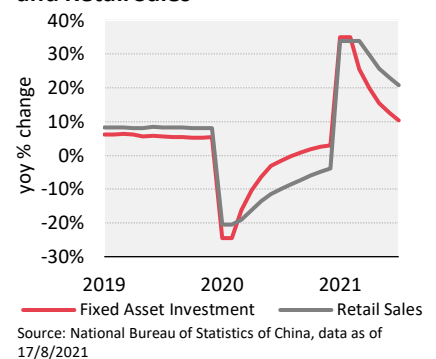
M2 money supply dipped to 8.3% growth in July, down from 8.6% in June, while new renminbi loans amounted to CNY1.08 trillion (after a monthly average of CNY2.12 trillion in the first half of the year) as the People’s Bank of China (PBOC) tried to rein in debt risk.

Chinese economy slows in July, and moderation is seen across the board with sudden outbreak of Delta variant.

In view of uneven recovery and potential risks, the government is poised to provide further support to the economy.

With the domestic epidemic under control, financial markets see a rebound.

Cumulative Fixed Asset Investment and Retail Sales



China on steady recovery path despite hiccups

August data will also be downbeat as July’s virus outbreak, which began in Nanjing airport, continued into August. China has implemented strict containment measures including movement restrictions in affected areas. Summer tourism was inevitably affected, and hence domestic consumption. In addition, a Covid-19 infected case led to the shutdown of the Meishan terminal at Zhoushan, the world’s third busiest cargo port, for two weeks starting on 11th August. Fortunately, the outbreak was swiftly brought under control and after 23rd August, there were several days with no local cases registered.

Looking ahead, a levelling-off of global demand will translate into a downward trend for export growth. The manufacturing sector faces risks including high commodity prices and government measures to cut carbon emissions. The yearly increase in the producer price index rose to 9.0% in July, up from 8.8% in June. High input costs are also bound to reduce profitability for manufacturers. The official manufacturing purchasing managers' index (PMI) fell to 50.1 in August, while the Caixin manufacturing PMI dropped further to 49.2 in August, down from 50.3 in July. Tensions with the US will also weigh on China’s exports and foreign investment.

The government is poised to take steps to solidify economic recovery. This could include increasing infrastructure spending, aided by modest monetary easing. Net local government special bond issuance amounted to CNY1.01 trillion in the first half of 2021, about 28% of the annual quota, which implies there is still plenty of room to increase fiscal spending.

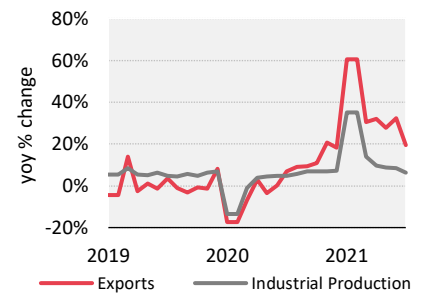
Moreover, as the epidemic is brought under control in China, domestic consumption will pick up again. China’s overall economic outlook will thus be stable, though yearly growth is expected to lessen given the fading base effect.

Home prices rise less rapidly amid regulatory efforts

The monthly growth in housing prices eased further in July to 0.3%, down from 0.5% in June. The Ministry of Housing and Urban-Rural Development called in the leaders of a dozen cities to reinforce measures against speculative trading. On 23rd July, regulators began a drive to clean up irregularities in the property sector within 3 years. This involves launching a probe into new construction by property developers, use of illegal funds for mortgages, and deduction of rental deposits. Furthermore, some municipal governments have or will introduce reference prices for second-hand apartments.

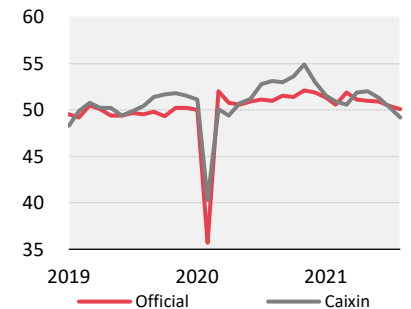
In the coming months, home prices are expected to rise only within a narrow band. The tighter credit environment for the property market, including restrictions on individual mortgages, is also expected to limit the rise in housing prices. In addition, developers may speed up the preparation of new flats to improve cash flow ahead of two significant land auctions in the second half.

Exports and Industrial Production



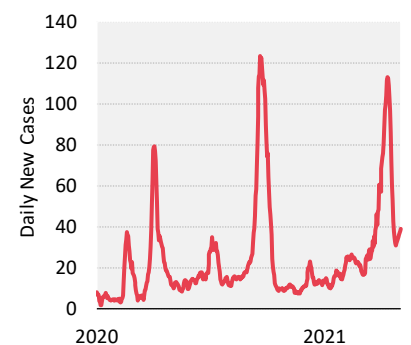
Note: Figures for January and February are the average of the two months.
Sources: General Administration of Customs, National Bureau of Statistics, data as of 17/8/2021

Manufacturing Purchasing Managers' Index



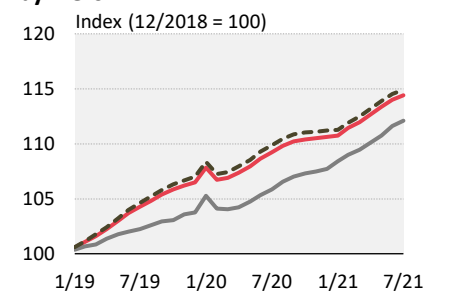
Sources: National Bureau of Statistics of China, Caixin, IHS Markit, data as of 2/9/2021

China New Covid-19 Cases



Source: Our World in Data, data as of 31/8/2021

New Commercial Home Price Index by Tiers



Sources: National Bureau of Statistics of China, BEA Economic Research Department, data as of 17/8/2021

Economic Research

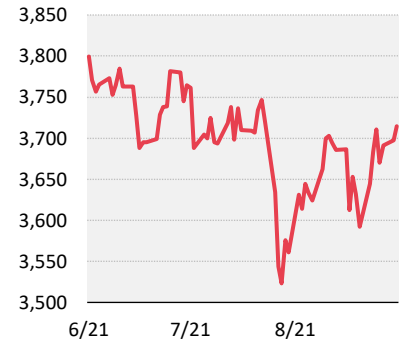
September 2021

Financial markets affected by market concern over moderating growth

In the stock market, A-shares rose by 4.3% between end-July and end-August. Although economic data was poor in July and the epidemic outbreak clouded the economy in the first half of August, investors nevertheless snapped up stocks battered by a sell-off in the previous month, after a series of regulatory policies were rolled out for the technology, property, and private education sectors. As the pandemic situation improved, with no local Covid-19 cases reported on 23rd August, the first time since July, investor sentiment rose.

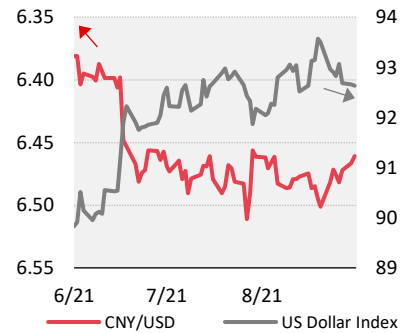
In the foreign exchange market, the CNY stayed flat against the US dollar during end-July to end-August, and traded at 6.4607 per US dollar, while the CNH also appreciated slightly by 0.1%. The US dollar gained strength, with the US dollar index rising by 0.5% over the same period. However, in face of the slower-than-expected macroeconomic data and uneven recovery, China Premier Li Keqiang called to ensure cross-cyclical adjustments and special local governments bonds will be harnessed to expand effective investment. The market expected the authorities would be loose in fiscal and monetary policies, supporting the renminbi exchange rate.

A Share Index



Source: Bloomberg, data as of 31/8/2021

RMB/USD vs US Dollar Index



Sources: People's Bank of China, Bloomberg, data as of 31/8/2021

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