

Market Monitor – Mainland China

Bumpy Recovery With Rising Risks



China’s economy dips in August

China’s main economic data faltered in August. Retail sales rose at 2.5% year-on-year in that the month, far below the market forecast of 7%. On a two-year average basis, it rose 1.5% from the same period in 2019, further down from the 3.6% growth seen in July. Consumers reduced their spending during the summer holidays amid local Covid-19 outbreaks and tough social distancing measures, with restaurants seeing the largest plunge in revenue among retail categories.

Weak domestic consumption echoed a subdued yearly growth in consumer prices, which fell from 1% in July to 0.8% in August. Meanwhile, the urban unemployment rate was unchanged at 5.1% in August.

Fixed asset investment rose 8.9% annually across the first 8 months of the year, down from 10.3% in the first 7 months, with slow issuance of local government special bonds, continually tightening access to financing for property developers, and repeated land auction cancellations. Yearly growth in property investment to 10.9% year-on-year for the first 8 months of 2021, down from 12.7% for the first 7 months.

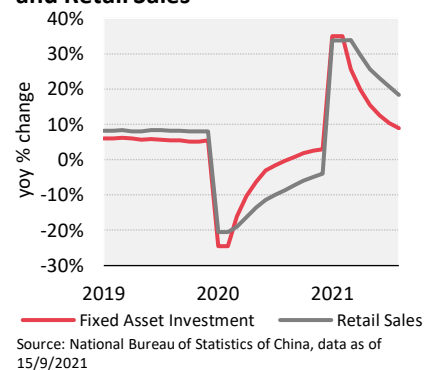
Industrial production grew 5.3% year-on-year in August, down from 6.4% in July. However, exports fared better than market expectation and recorded a yearly growth of 25.6%, with increased orders from the US and EU ahead of the Christmas shopping season. The clearing of some port congestion also helped boost China’s shipments. As some factories are said to be fully booked until Q1 2022, China’s export growth will continue to be robust throughout the year. The trade data is taking some pressure off the economy. However, manufacturers still face a number of headaches. For example, the car industry is suffering from a persistent shortage of chips and rising battery costs.

China’s key economic indicators slow further in August, mainly as a result of virus outbreaks.

Home prices are expected to be flat, with curbs on the property market remaining in place.

Financial markets rise with liquidity injections from the PBOC, though there are fears about spill-over risks from the Evergrande crisis.

Cumulative Fixed Asset Investment and Retail Sales



Economic Research

October 2021

Meanwhile, major credit gauges showed slipping momentum. M2 money supply dipped to 8.2% growth in August, down from 8.3% in July, while outstanding total social financing, a broad measure of credit in the economy, grew at 10.3% year-on-year, down from 10.7% in July. Credit growth was dragged down as the authorities tried to keep the debt-laden property sector at bay, coupled with disruptions in activity as a result of fresh Covid-19 outbreaks.

China's economy sees mixed outlook

Looking ahead, manufacturers are still facing downside risks of soaring commodity prices and continued semiconductor shortages. The yearly increase in the producer price index rose to a 13-year high of 9.5% in August, up from 9% in July. Moreover, the manufacturers are facing power outage with a shortage of coal supplies and tougher emission standards. This may further disrupt the already strained global supply chains.

Meanwhile, the consumption market shall be supported by the Mid-Autumn Festival and National Day holidays. And while China is still dealing with sporadic Covid-19 outbreak, notably in Fujian and Heilongjiang, there are no signs of spreading to other parts of the country.

The government has pledged to make better use of local government bonds and ramped up financial support for small businesses to safeguard the economy against turbulence. Yet the People's Bank of China (PBOC) is unlikely to roll out aggressive monetary easing or large-scale stimulus. Many economists have been expecting the PBOC to further cut the reserve requirement ratio for banks since July.

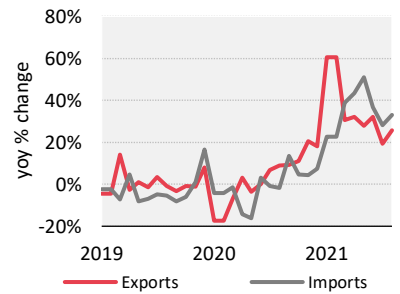
Despite facing headwinds, China's overall economy is expected to pick up later in the year. Yearly economic growth is expected to lessen to 4.2% in Q4 given the fading base effect, while annual growth is expected to be 8.5% this year. Inflation will pick up in Q4 and average 1.1% for the year as a whole.

Home prices rise less rapidly amid regulatory measures

The monthly growth in housing prices eased further in August to 0.2%, down from 0.3% in July. The tighter credit environment for the property market, including restrictions on individual mortgages led to a decline in transaction volume. Meanwhile, discount promotions by developers to release capital, as well as reference price mechanism adopted by some cities, limited the rise in housing prices.

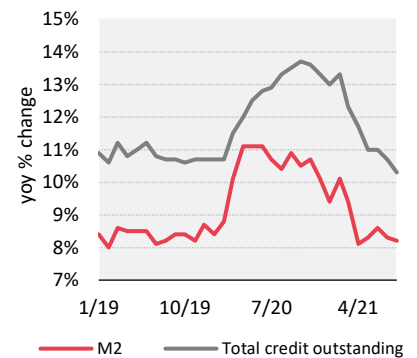
In the coming months, home prices are expected to be flat. Curbs on the property market are unlikely to ease in the near term. But the Evergrande crisis is not expected to cause a collapse in the property market, as the government is believed to be closely monitoring the market and would step in if necessary. It has been reported that some third and fourth-tier cities are trying to prevent property price crashes by rolling out their own policies.

Exports and Imports



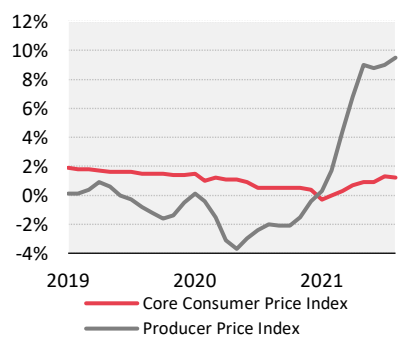
Note: Figures for January and February are the average of the two months.
Source: General Administration of Customs, data as of 15/9/2021

Credit Growth



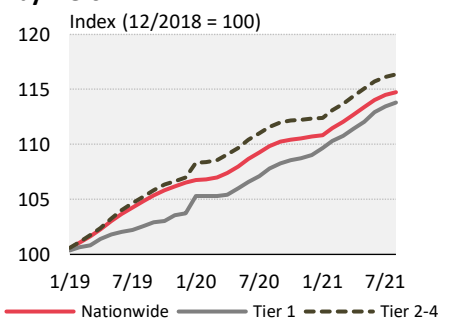
Source: The People's Bank of China, data as of 22/9/2021

Inflation



Source: National Bureau of Statistics of China, data as of 20/9/2021

New Commercial Home Prices Index by Tiers



Sources: National Bureau of Statistics of China, BEA Economic Research Department, data as of 19/9/2021

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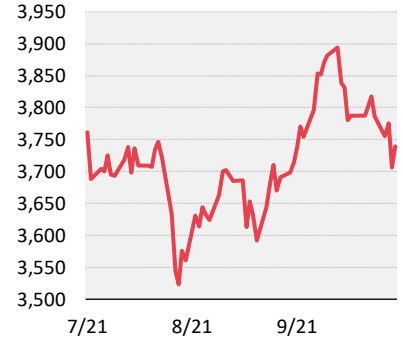
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Financial markets affected by performance of various sectors

In the stock market, A-shares rose by 0.7% between end-August and end-September. The market has been bolstered by the PBOC's injection of CNY120 billion into the banking system through reverse purchase agreements on 22nd September. However, China Evergrande's debt crisis led to a fall in property stocks, as well as bank and insurance stocks, with investors afraid that the crisis might precipitate a financial crisis in China. A resurgence in Covid-19 cases dragged down the performance of consumer staples and tourism companies. Chinese electric vehicle stocks also fell after the industry minister said there were too many electric vehicle makers in China and that a consolidation is needed.

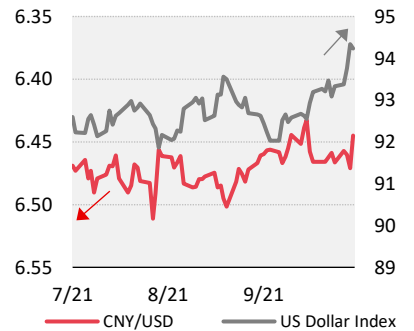
In the foreign exchange market, the onshore CNY rose 0.2% against the US dollar during end-August to 30th September, and traded at CNY6.4448 per US dollar, while the offshore CNH appreciated by 0.1%. The US dollar gained strength and rose by 1.7% during the period, as the Federal Reserve's new policy projection indicated a faster end to the pandemic stimulus. Yet the renminbi managed to remain stable against the US dollar.

A Share Index



Source: Bloomberg, data as of 30/9/2021

RMB/USD vs US Dollar Index



Sources: People's Bank of China, Bloomberg, data as of 30/9/2021

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