

## Challenges Remain on the Road to Recovery



### China's economic growth softens in Q3

China's economic recovery momentum is under pressure. GDP grew by a moderate 4.9% year on year in Q3, slightly below the market expectation. In the first 3 quarters, the economy expanded by 9.8% annually.

Economic indicators showed divergent results in September. Retail sales rose by 4.4% year on year, beating the market expectation. With an easing of Covid-19 restrictions and the Mid-Autumn Festival holiday, revenues in the restaurant sector rebounded to a yearly growth of 3.1%, compared to a yearly decline of 4.5% recorded in August. Hampered by a microchip shortage and power outages, however, automobile sales in China tumbled 19.6% year on year in September according to the China Association of Automobile Manufactures (CAAM).

Consumer prices increased by 0.7% year on year in September, slightly down from 0.8% in August. Meanwhile, the urban unemployment rate decreased to 4.9% in September.

Fixed asset investment grew by 7.3% year on year in the first 9 months of 2021, down from 8.9% in the first 8 months. Infrastructure investment was modest at 1.5% growth, while property investment increased by 8.8% annually, down from 10.9% in the first 8 months of the year.

### Exports continue their stellar performance, but soaring input prices remain a major concern

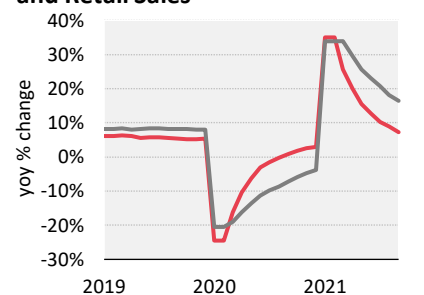
China continued to export at well above market expectation, with a yearly growth of 28.1% in September, expanding from the 25.6% growth in August. China's exports remained solid due to ongoing global demand, while its imports eased to 17.6%. However, annual growth in industrial production slowed to a 1-and-a-half-year low of 3.1% in September, down from 5.3% as recorded in August. This was largely due to a power crunch caused by coal supply constraints and tougher emissions standards.

**China's economy slows further in September while power outages disrupt manufacturing activity.**

**Housing market remains subdued, with looming default risks for developers and reduced homebuyer confidence.**

**Stock market sees marginal decline amid crackdown on coal prices and property woes.**

**Cumulative Fixed Asset Investment and Retail Sales**



Source: National Bureau of Statistics of China, data as of 19/10/2021

## Economic Research

Producer prices remained elevated, putting pressure on manufacturers. The producer price index further accelerated to 10.7% yearly growth in September, the highest in 25 years and up from 9.5% growth in August. The official manufacturing purchasing managers' index (PMI) fell into contraction territory at 49.6 in September, down from 50.1 in August.

### Policies rolled out to ensure energy security

In order to cope with the power crunch, the National Development and Reform Commission (NDRC) announced that the trading price range for coal-fired power would be widened to up to 20% above or below the benchmark price (currently max. 10% above and 15% below) with effect from 15<sup>th</sup> October onwards. The policy also instructed industrial and commercial users, which have previously been charged at catalogue electricity prices, to shift to a market-based electricity pricing mechanism in an orderly manner. The relaxation is expected to stabilise electricity generation and demand for industrial production. The government has instructed Inner Mongolia and Shanxi, the two largest coal-producing provinces, to boost output. Premier Li Keqiang also called for the local, non-discretionary implementation of power restrictions, production cuts, or campaign-like carbon reductions to be rectified.

In the meantime, key indicators show that the credit environment has remained relatively tight. M2 money supply increased by 8.3% year on year in September, marginally up from 8.2% growth in August. However, outstanding total social financing, a broad measure of credit in the economy, rose by 10.0% year on year in September, further down from the 10.3% seen in August. The slowdown in credit growth was associated with ongoing credit tightening measures in the property sector, together with weakening financing demand from corporations amid a slowing economic recovery.

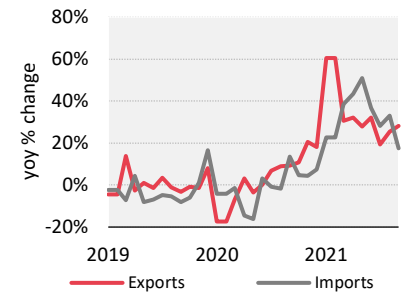
Against the backdrop of mounting price pressures for producers, it is less likely than previously estimated for the People's Bank of China (PBOC) to further cut the reserve requirement ratio for banks. However, the PBOC is increasingly using its structural monetary tools to support targeted sectors. For example, its relending programme provides loans to commercial banks for lending to customers such as small and medium-sized enterprises (SMEs).

### Home prices remain under pressure amid lower confidence

Housing prices stayed flat in September, after a monthly growth of 0.2% in August. Meanwhile, annual growth in the sales of residential buildings in the first 9 months also slowed to 17.8% year on year, decelerating from 24.5% growth in the first 8 months. Ongoing credit tightening in the property sector, the reference price mechanism for secondary property markets adopted by some cities, as well as lingering concerns about potential for the Evergrande crisis to spill over into other property developers, has all contributed to a significant hit to homebuyer confidence. Lower confidence among homebuyers might fuel a vicious cycle, facing some cash-strapped developers with further declines in property sales.

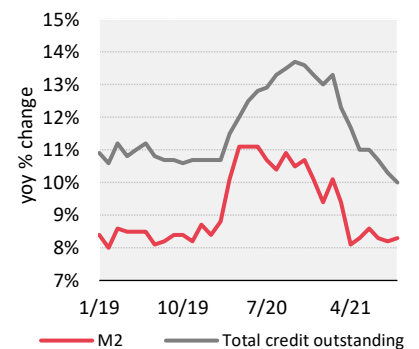
November 2021

#### Exports and Imports



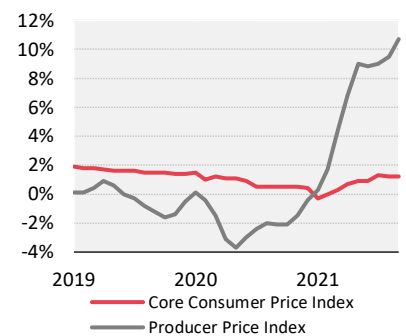
Note: Figures for January and February are the average of the two months.  
Source: General Administration of Customs, data as of 19/10/2021

#### Credit Growth



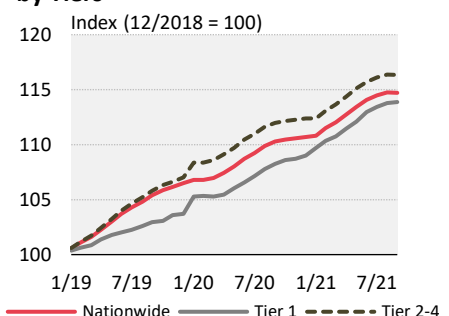
Source: The People's Bank of China, data as of 19/10/2021

#### Inflation



Source: National Bureau of Statistics of China, data as of 19/10/2021

#### New Commercial Home Prices Index by Tiers



Sources: National Bureau of Statistics of China, BEA Economic Research Department, data as of 20/10/2021

## Economic Research

In the coming months, home prices are expected to remain under pressure. Regulations governing the property market are likely to remain in place in the near term. Although the risks arising from Evergrande's crisis have been deemed controllable, market sentiment remains bleak, with homebuyers staying cautious about home prices.

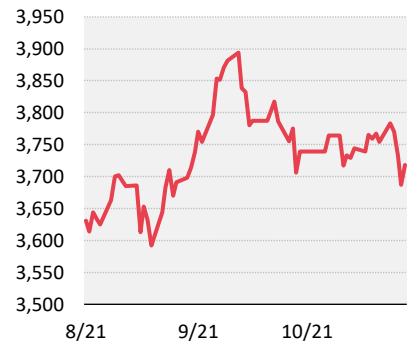
### Financial markets edge down amid crackdown on coal prices

In the stock market, A-shares decreased by 0.6% between end-September and end-October. In response to a policy shift on the electricity pricing system and a transition toward a greener energy mix, electricity and new energy shares were boosted. Nevertheless, in the wake of government crackdown on surging coal prices, the prices of coal shares tumbled. In addition, the aftermath of the Evergrande crisis and a surprise default by Fantasia continued to cause investors' worries regarding the property sector, even though the PBOC said Evergrande's debt issues were controllable.

In the foreign exchange market, the onshore CNY rose by 0.61% against the US dollar between end-September and end-October, trading at CNY 6.4056 per US dollar, while the offshore CNH appreciated by 0.69%. The appreciation of the RMB could be attributed to a stellar export performance and Chinese bonds to be gradually incorporated into the FTSE World Government Bond Index (WGBI) from the end of October onwards, driving capital inflows.

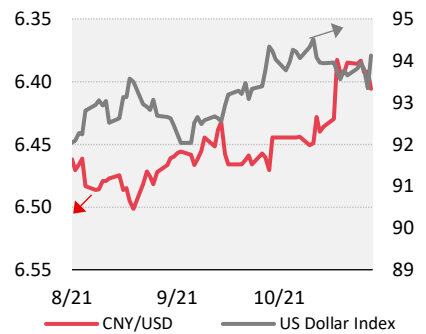
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### A Share Index



Source: Bloomberg, data as of 29/10/2021

### RMB/USD vs US Dollar Index



Sources: People's Bank of China, Bloomberg, data as of 29/10/2021

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