Economic Research

December 2021

Market Monitor – Mainland China

Main Economic Indicators Show Modest Performance

China's economic indicators paint a mixed picture in October

China's economic activity improved modestly from the Covid-19 outbreaks and power outages seen in earlier months. Boosted by the week-long National Day holiday, retail sales accelerated 4.9% year on year in October, up from 4.4% in September. When compared with the same period in 2019, the average annual growth was 4.6%. Automobile sales remained a drag, dropping by 11.5% annually. Looking ahead, fresh Covid-19 outbreaks remain a drag on the services sector. Moreover, the downtrend in the property market might induce a negative wealth effect and depress consumer spending.

Industrial production saw a stronger-than-expected yearly growth of 3.5% in October, up from 3.1% in September. Following a policy shift in electricity pricing and increased coal production, the power crunch for factories has begun to ease. However, heightened raw material costs continued to put pressure on manufacturers. The producer price index advanced to 13.5% yearly growth in October, the highest reading in 26 years and up from 10.7% in September.

Affected by floods and the increasing pressure of producer prices, consumer prices increased by 1.5% year on year in October, up from 0.7% in September, raising concerns about potential stagflation. Meanwhile, the urban unemployment rate remained stable at 4.9% in October.

On the external front, exports continued to defy market expectation and negative factors such as supply chain bottlenecks in October. China's exports grew by 27.1% year on year in October, slightly down from 28.1% in September, while imports increased by 20.6%.

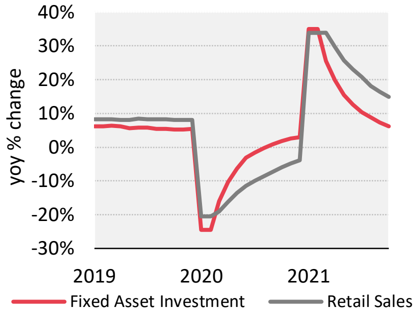
On a less positive note, fixed asset investment rose by 6.1% year on year in the first 10 months of 2021, further decelerating from 7.3% as recorded in the first 9 months. The annual growth of property investment decreased to 7.2% in the first 10 months of the year compared to 8.8% in the first 9 months, while the yearly growth of infrastructure

China's economy stabilises in October with a week-long National Day holiday and as the disruption of power outages starts to fade.

Housing market remains bleak, but signs emerge of liquidity improvement.

Hopes of property policy relaxation fuel rebound in the stock market.

Cumulative Fixed Asset Investment and Retail Sales



Source: National Bureau of Statistics of China, data as of 15/11/2021 investment also eased to 1.0% in October, down from 1.5% in the previous month. Meanwhile, the official manufacturing purchasing managers' index (PMI) rebounded to 50.1 in November, after 2 months of contraction, while the Caixin manufacturing PMI returned to contraction territory. It dropped 0.7 percentage points from the prior month to 49.9.

Liquidity conditions in property sector appear to have eased

Meanwhile, key monetary indicators showed improving credit conditions. While outstanding total social financing maintained a yearly growth of 10.0% in October, the same as the previous month, M2 money supply expanded by 8.7% year on year in October, up from 8.3% growth in September. Moreover, the People's Bank of China (PBOC) also reported monthly data of outstanding personal mortgage loans in October, which rose by RMB 348.1 billion during the month, up by RMB 101.3 billion compared to the increase in September.

The elevated producer prices limit the room for the PBOC to cut the reserve requirement ratio for banks. Nonetheless, the PBOC is expected to maintain reasonable liquidity in the banking system through medium-term lending facilities (MLFs) and reverse repurchase agreements. On 15th November, the PBOC announced a rollover operation of RMB 1 trillion worth of one-year MLF loans to some financial institutions, which mature on 16th and 30th November, while keeping the rate steady at 2.95%.

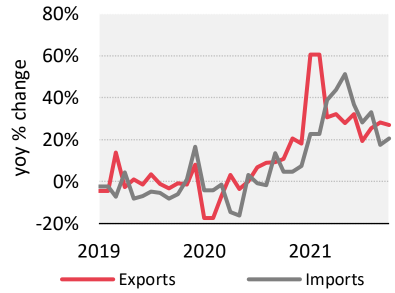
Home prices fall amid bleak market sentiment

Impacts from the property market regulations imposed earlier continue to linger. Housing prices fell by 0.2% month on month in October, after remaining stable in September. At the same time, only 13 out of 70 large and medium-sized cities reported monthly price increases in newly constructed residential buildings.

In the near term, home prices will continue their downward correction amid growing financial strain for property developers and weaker home buying sentiment. Stringent regulations are expected to continue to cloud the property sector and further depress homebuyer demand. In late October, China announced that it would implement a pilot real estate tax scheme in some cities with a trial period of 5 years in order to discourage property speculation, which may further dampen house purchases.

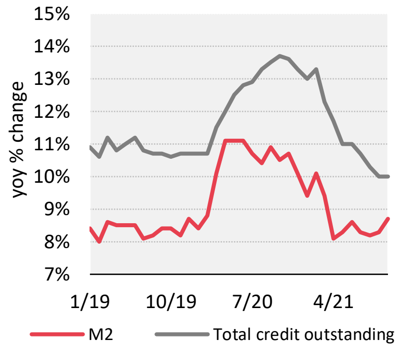
Nevertheless, there are signs that developers' credit situation is easing, particularly state-owned developers. The liquidity squeeze suffered by Chinese property developers showed signs of easing alongside policy relaxation. In mid-November, some developers disclosed plans to issue bonds in the interbank market. For example, Poly Real Estate announced it would raise RMB 2 billion and China Merchants Shekou also announced a plan to raise RMB 3 billion in the interbank market. In addition, in the third batch of centralised land sales, some of the land auction rules were eased, including a lower margin ratio and down payment ratio requirements in some cities. However, the credit and regulatory requirements facing developers will remain tight, with the "three red lines" still firmly in place.

Exports and Imports



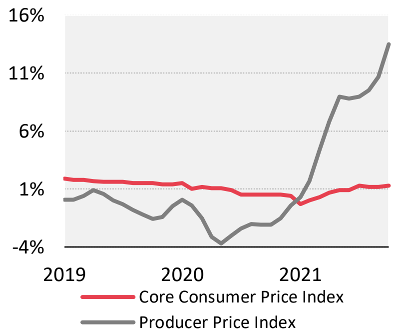
Note: Figures for January and February are the average of the two months.
Source: General Administration of Customs, data as of 7/11/2021

Credit Growth



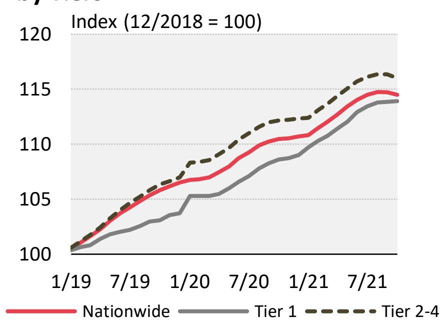
Source: The People's Bank of China, data as of 10/11/2021

Inflation



Source: National Bureau of Statistics of China, data as of 10/11/2021

New Commercial Home Price Index by Tiers



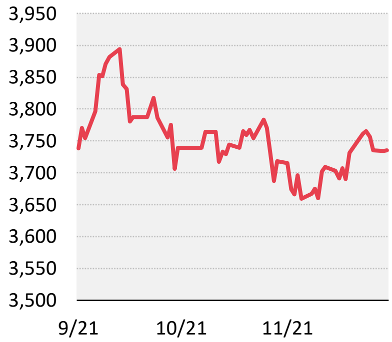
Sources: National Bureau of Statistics of China; BEA Economic Research Department, data as of 15/11/2021

Financial markets improve on the hope of policy relaxation

In the stock market, A-shares rebounded by a marginal 0.5% between end-October and end-November. On the hope of property policy easing, share prices rebounded in the property and financial sector. Moreover, the Beijing Stock Exchange (BSE) started trading on 15th November, with a total of 81 companies listed. One of the aims of the newly established BSE is to serve small and medium-sized enterprises.

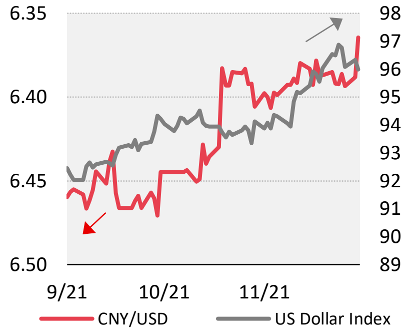
In the foreign exchange market, the onshore CNY rose by 0.65% against the US dollar between end-October and end-November, trading at CNY 6.3644 per US dollar, while the offshore CNH appreciated by 0.59% during the same period. The RMB's strength has been reinforced by better-than-expected economic readings in October and by signs of improvement in US-China relations including a virtual meeting between China's president Xi Jinping and US president Joe Biden held in mid-November, which was generally regarded as a breakthrough moment.

A Share Index



Source: Bloomberg, data as of 30/11/2021

RMB/USD vs US Dollar Index



Sources: People's Bank of China, Bloomberg, data as of 30/11/2021

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