Economic Research

January 2022

Market Monitor – Mainland China

Economic Stability is Priority for 2022

China's economy still sluggish in November 2021

China's trade continued to register stellar growth, with solid global demand for Chinese-made goods. China's exports rose by 22.0% in November from a year ago, higher than the market expectation of 20.3%. Meanwhile, imports grew by 31.7% year on year in November, up from 20.6% in October.

Alongside strong export performance, industrial production reported a better-than-expected reading, with a yearly growth of 3.8% in November – having accelerated from 3.5% in October. Following policies to curb surging coal prices, the price pressures facing manufacturers started to ease. The yearly growth of the producer price index was reported to be 12.9% in November, slower than the historical high of 13.5% in October, albeit still at an elevated level. The official manufacturing PMI was reported to be 50.3 in December 2021, slightly up from 50.1 in November.

The domestic front fared less satisfactorily than the external front. Even with the Double 11 shopping festival, retail sales grew by just 3.9% year on year in November, below the market expectation of 4.7%. Owing to a lower base of comparison, consumer prices advanced to 2.3% yearly growth in November, up from 1.5% in October. Moreover, the urban unemployment rate increased slightly to 5.0% in November.

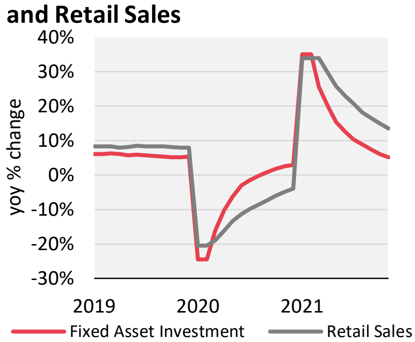
Against the backdrop of a property market downturn, investment indicators remained subdued in November. Fixed asset investment in the period between January and November 2021 increased by 5.2% year on year, further decelerating from 6.1% in the first 10 months. Infrastructure investment eased to 0.5% annual growth, down from 1% in the first 10 months. Property investment also increased by 6% year on year, slower than the 7.2% recorded in the previous month.

Maintaining economic stability is priority in government's economic agenda for 2022.

Housing prices continue to fall amid Evergrande's credit rating downgrade to restricted default by Fitch Ratings.

Signals of monetary easing boost stock market sentiment.

Cumulative Fixed Asset Investment and Retail Sales



Source: National Bureau of Statistics of China, data as of 15/12/2021

BEA 東亞銀行

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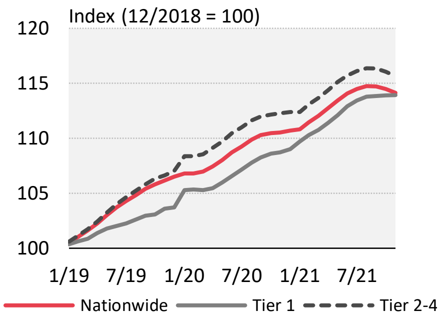
Home prices continue downward trend

Housing prices fell by 0.3% month on month in November, further decelerating from a monthly decline of 0.2% in October. Market sentiment remained bleak amid defaults by the Evergrande and Kaisa groups. The two developers were downgraded to restricted default by Fitch Ratings.

Looking ahead, gloomy market sentiment may increase pressure on developers to offer various discounts in a bid to release inventory and sustain cash flows. As the central government is expected to remain tough on developers' overleveraging issues, weaker players are likely to fail, and the property market as a whole will continue to be subdued in the near term.

New Commercial Home Prices Index by Tiers



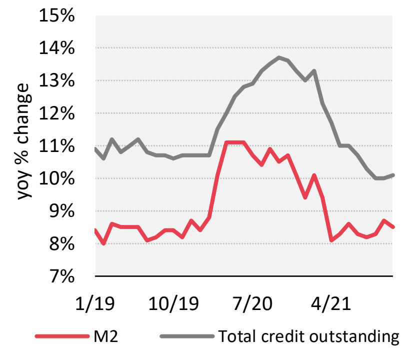
Sources: National Bureau of Statistics of China; BEA Economic Research Department, data as of 15/12/2021

PBOC cuts RRR, indicating a need to stabilise the market

Major monetary indicators revealed a steady credit environment in November. The yearly growth of outstanding total social financing edged up to 10.1% in November, compared to 10% in October. Moreover, M2 money supply expanded by 8.5% from a year earlier in November, slightly down from 8.7% as recorded in the previous month.

On 6th December, the People's Bank of China (PBOC) announced it would cut the reserve requirement ratio (RRR) for banks by 0.5 percentage points with effect from 15th December, the second such cut in 2021. The RRR cut is expected to inject long-term liquidity worth RMB 1.2 trillion into the interbank system. The PBOC also lowered the 1-year loan prime rate (LPR) by 5 basis points to 3.8%. This move chimed with Chinese authorities' priorities of stabilising the economy, soothing corporates' funding pressures, and bolstering market confidence.

Credit Growth



Source: The People's Bank of China, data as of 10/12/2021

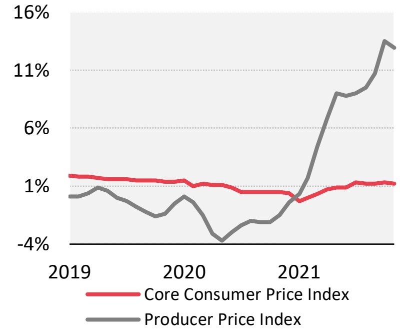
Chinese government signals a greater focus on economic stability

The Evergrande debt crisis and its spill-over affecting other cash-strapped developers has adversely affected market sentiment. Lingering doubts about developers' ability to service their debts negatively affected homebuyer confidence, exacerbating declines in home sales and prices. The property market downturn is expected to linger in the coming months. Against this backdrop, domestic consumption, which is already under pressure from sporadic Covid-19 outbreaks, will be restrained with a negative wealth effect. Local governments' land sale revenues will also be affected, limiting room to accelerate infrastructure investment.

Meanwhile, the growth of exports will continue to be robust, but the magnitude is expected to be smaller owing to a higher base of comparison in 2021 as well as the gradual normalisation of factory production in some Southeast Asian economies.

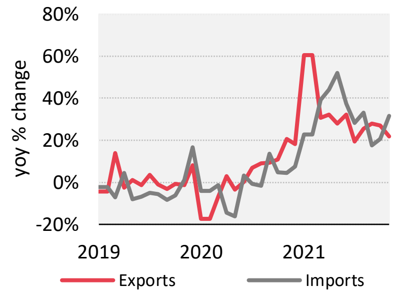
Entering 2022, China's economic growth is expected to remain under pressure in the first half of the year amid ongoing worries over property woes and softening momentum from exports. Current regulations on the property and technology sectors will likely remain in place as part of the government's goal to achieve "common prosperity".

Inflation



Source: National Bureau of Statistics of China, data as of 10/12/2021

Exports and Imports



Note: Figures for January and February are the average of the two months.
Source: General Administration of Customs, data as of 7/12/2021

In the context of various downward pressures going forward, it is expected that the Chinese government will roll out multiple policy tools to safeguard the economy against headwinds. At the central economic work conference held in December 2021, the top leaders emphasised their priority of ensuring macroeconomic stability. In a statement released after the conference, China said it will continue to implement proactive fiscal policies and prudent monetary policies. Specifically, China will implement new tax and fee reductions in an attempt to strengthen support for small and medium-sized enterprises (SMEs) and individual-run businesses. Moreover, the government is expected to maintain reasonably ample liquidity with looser monetary policy.

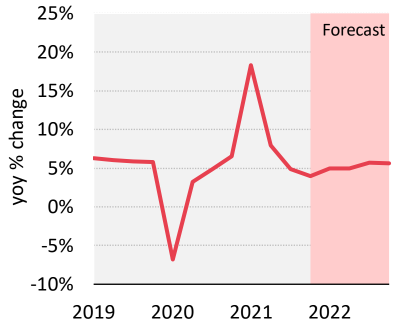
Looking ahead, China's government is pursuing quality and sustainable economic growth. China's GDP is forecast to grow by 5.3% year on year in 2022. Meanwhile, inflation is forecast to pick up, with 2.2% yearly growth in 2022.

Financial markets experience pick-up from monetary easing

In the stock market, A-shares accelerated by 2.1% between end-November and end-December. Signals of monetary easing from the reduced RRR and LPR are helping improve market concerns about softening economic growth and potential contagion risks from developer defaults. Moreover, the ample liquidity unleashed by the RRR cut will also help to boost stock prices.

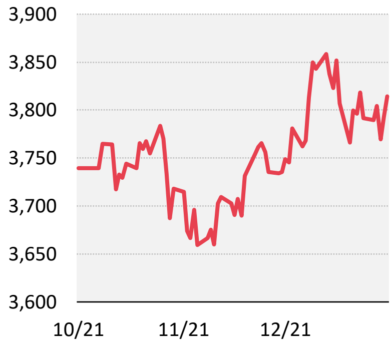
In the foreign exchange market, the onshore CNY edged up by 0.13% against the US dollar between end-November and end-December, trading at CNY 6.3561 per US dollar. During the same period, the offshore CNH also appreciated by 0.16%. The RMB exchange rate fell in mid-December alongside an announcement about the hike in the foreign exchange RRR. The PBOC announced that it would increase the RRR for foreign currency deposits by 2 percentage points, effective from 15th December. The hike will increase the cost of speculation and force banks to hold more foreign currencies, which is expected to restrain the supply of the US dollar in the market and slow the appreciation of the RMB. However, US dollar weakened at the end of December, supporting the RMB. The US dollar decreased by 0.3% from end-November to end-December.

Mainland China GDP Growth



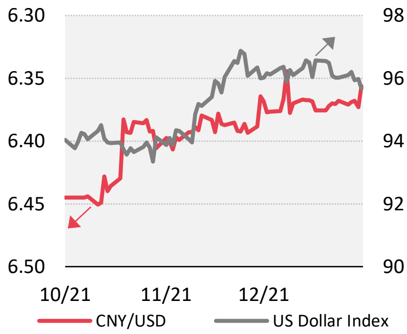
Source: National Bureau of Statistics of China, data as of 21/12/2021

A Share Index



Source: Bloomberg, data as of 31/12/2021

RMB/USD vs US Dollar Index



Sources: People's Bank of China, Bloomberg, data as of 31/12/2021

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