BEA 東亞銀行

Economic Research

February 2022

Market Monitor – Mainland China

Further Policy Support Needed to Counteract Downside Risks

Recovery trajectory remains unchanged, but a slowdown is looming

China's economy registered an impressive recovery in 2021 as a whole, but the momentum eased in the final months of last year. China's gross domestic product (GDP) grew by 4% year on year in Q4 2021, down from 4.9% seen in Q3 but slightly higher than market expectation of 3.8%. In 2021 as a whole, the economy expanded by 8.1% annually.

The industrial sector appeared to experience continued steady growth, with curbs on soaring raw material prices and solid global demand. Industrial production expanded by 4.3% year on year in December 2021, up from 3.8% seen in November. The yearly growth of producer prices eased further to 10.3% in December, compared to 12.9% as recorded in November. Furthermore, the official manufacturing PMI remained in expansionary territory at 50.1 in January 2022, down from 50.3 in December 2021.

Fresh outbreaks of Covid-19 and the reintroduction of lockdown measures in some cities such as Xi'an have restrained people's mobility as well as consumers' activities. The yearly growth of retail sales decelerated further to a disappointing 1.7% in December 2021, down from 3.9% in the previous month. On a two-year average basis, it rose by 3.9% from the same period in 2019. Consumer prices saw a modest 1.5% annual growth in December, down from 2.3% in November. In the meantime, the urban unemployment rate edged up by 0.1 percentage points month on month in December to 5.1%.

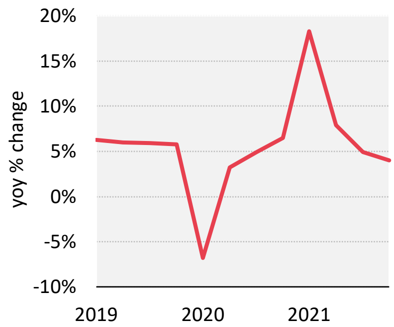
Fixed asset investment for the whole year of 2021 increased by 4.9% year on year, down from the 5.2% annual growth seen in the first 11 months of 2021. Meanwhile, property investment further dropped to 4.4% yearly growth in 2021, compared to a 6% increase in the first 11 months of 2021. The total floor space of new housing projects saw a yearly decrease of 11.4%.

China's economy continues to recover in 2021, boosted by record trade surplus, but headwinds remain.

Government may accelerate rollout of supportive policies to strengthen market confidence.

Government-led financing and lower interest rates boost credit expansion.

Mainland China GDP Growth



Source: National Bureau of Statistics of China, data as of 17/1/2022

Looking ahead, China's economic outlook remains challenging, with flare-ups of Covid-19 and sluggish investment induced by property woes that likely persist in the near term. The Chinese government is poised to further accelerate its implementation of multiple policies to enhance market confidence in economic stability.

Record trade surplus supports China's economy in 2021

Fuelled by solid global demand for Chinese-made goods, particularly medical equipment and electronic products that facilitate working from home, China's exports reported stellar annual growth of 29.9% in 2021, up considerably from the 3.6% seen in 2020. For the full year of 2021, China registered a record trade surplus of USD 676.43 billion, up from USD 523.99 billion in 2020.

The disparity between China's Covid-19 situation and the global pandemic contributed to a widening trade balance. Many developing countries are suffering from rapid Omicron outbreaks and production disruptions. Meanwhile, ultra-loose monetary policies in the advanced economies and their intermittent lockdowns fuelled demand for goods and imports. For example, the trade surplus with the US, one of America's grudges against China, rose 25.1% year-on-year in 2021 to USD 396.6 billion.

Lower interest rates and government-led financing boost credit

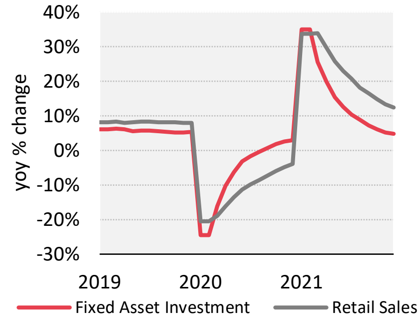
Following the reductions of the required reserve ratio (RRR) for banks and 1-year loan prime rate (LPR) in December 2021, credit conditions showed signs of easing. The annual growth of M2 money supply further accelerated from 8.5% in November to 9% in December. Outstanding total social financing rose by 10.3% yearly in December, faster than the 10.1% seen in November.

Meanwhile, the People's Bank of China (PBOC) announced on 17th January, 2022 that it would cut the 1-year medium-term lending facility (MLF) rate from 2.95% to 2.85%. Subsequently, the PBOC further lowered the 1-year LPR by 10 basis points to 3.7% on 20th January, after a cut of 5 basis points in December 2021. The 5-year LPR, which is typically a reference for mortgages, was also lowered by 5 basis points to 4.6%.

Compared to the second half of 2021, the monetary environment is now expected to be accommodative, with lower interest rates and increasing government financing. In late-December 2021, the Chinese government announced an early allocation of CNY 1.46 trillion for local government special-purpose bonds in 2022, earlier than the issuance of special bonds last year beginning in March. In early January, some provinces and cities such as Zhejiang, Anhui, and Shanghai announced infrastructure investment worth hundreds of billions of yuan with the issuance of local bonds.

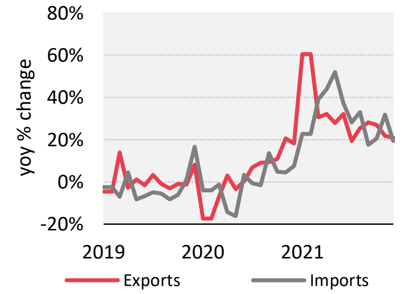
However, decreasing revenues from land sales may worsen hidden debt problems in local government finances. In view of bleak property market sentiment, annual growth of local government land sale revenues decelerated rapidly, dropping from 22.4% in the first half of 2021 to only 3.5% in 2021 as a whole. In 2020, the land sale revenues registered an annual growth of 15.9%.

Cumulative Fixed Asset Investment and Retail Sales



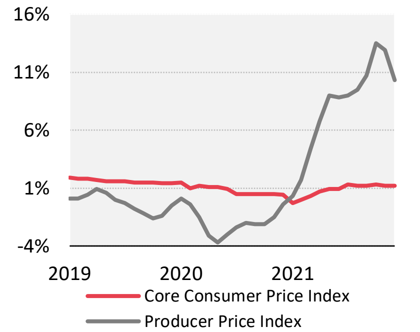
Source: National Bureau of Statistics of China, data as of 17/1/2022

Exports and Imports



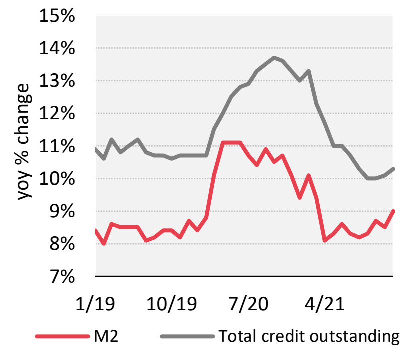
Note: Figures for January and February are the average of the two months.
Source: General Administration of Customs, data as of 14/1/2022

Inflation



Source: National Bureau of Statistics of China, data as of 12/1/2022

Credit Growth



Source: The People's Bank of China, data as of 12/1/2022

Economic Research

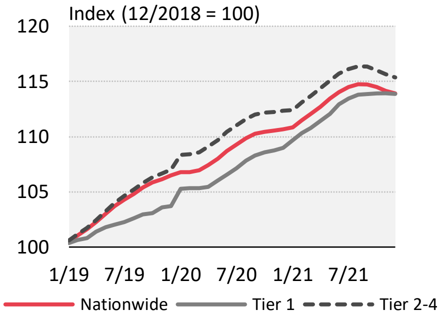
February 2022

Home prices continue to decline

Housing prices continued to drop for 3 months in a row, but fell more slowly – at just 0.2% month on month– in December 2021. On an annual basis, home prices increased by just 2.9% in 2021, the slowest pace in 6 years. The property market downturn may also put financial strain on developers with higher credit ratings. Against this backdrop, market sentiment is expected to remain subdued in the near term.

Looking forward, China is expected to continue its policy emphasis on better meeting the reasonable needs of home buyers and restraining property speculation. In early January, the Chinese authorities announced a plan to build 6.5 million government-subsidised rental homes in 40 major cities, providing affordable housing for the need of 13 million people during the 14th Five-Year Plan (2021 – 2025) period.

New Commercial Home Prices Index by Tiers



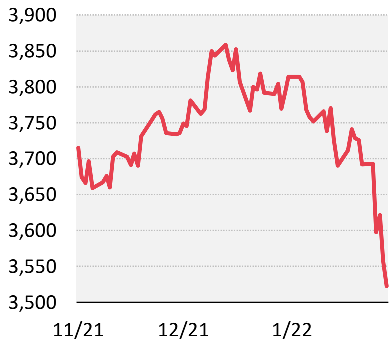
Sources: National Bureau of Statistics of China; BEA Economic Research Department, data as of 15/1/2022

Financial markets decelerate with position adjustments by institutional investors

In the stock market, A-shares dropped by 7.7% between end-December 2021 and 28th January, 2022. Institutional investors appeared to lock in profits before long Lunar New Year holiday with moving away from the hottest stocks, where positive drivers have largely been priced in, fuelling downward pressure on the market as a whole. Nevertheless, credit boosts from lower interest rates and loosening financing are expected to reinforce investor confidence in government policies to stabilise the economy, bolstering market sentiment going forward.

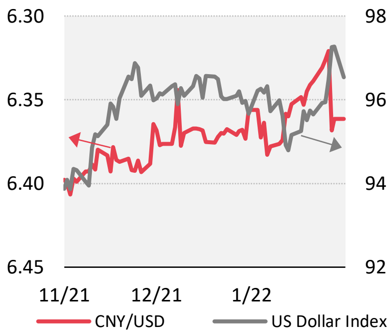
In the foreign exchange market, the onshore CNY decreased by a marginal 0.08% against the US dollar between end-December 2021 and 31st January, 2022, trading at CNY 6.3613 per US dollar. During the same period, the offshore CNH also edged down by 0.21%. The CNY were seen supported in the first half of January. Seasonal corporate demand for the renminbi (RMB) in foreign exchange conversion remained solid ahead of the long Lunar New Year holiday. However, the CNY weakened in late January in view of strengthening US dollar. The open attitude of the US Federal Reserve as regards more aggressive monetary tightening actions fuel market expectation of more rate hikes than earlier, boosting the US dollar. Over the course of January 2022, the US dollar strengthened by 0.91%.

A Share Index



Source: Bloomberg, data as of 28/1/2022

RMB/USD vs US Dollar Index



Sources: People's Bank of China, Bloomberg, data as of 31/1/2022

Disclaimer

This document is prepared by The Bank of East Asia, Limited ("BEA") for customer reference only. Other than disclosures relating to BEA, the content is based on information available to the public and reasonably believed to be reliable, but has not been independently verified. Any projections and opinions contained herein are as of the date hereof, are expressed solely as general market commentary, and do not constitute an offer of securities, nor a solicitation, suggestion, investment advice, or guaranteed return. The information, forecasts, and opinions contained herein are as of the date hereof and are subject to change without prior notification, and should not be regarded as any investment product or market recommendations. This document has not been reviewed by the Securities and Futures Commission of Hong Kong, Hong Kong Monetary Authority, or any regulatory authority in Hong Kong.

BEA will update the published research as needed and as required by the law. In addition to certain reports published on a periodic basis, other reports may be published at irregular intervals as appropriate without prior notice.

No representation or warranty, express or implied, is given by or on behalf of BEA, as to the accuracy or completeness of the information and stated returns contained in this document, and no liability is accepted for any loss arising, directly or indirectly, from any use of such information (whether due to infringements or contracts or other aspects). Investment involves risks. The price of investment products may go up or down. Past performance is not indicative of future performance. The investments mentioned in this document may not be suitable for all investors, and the specific investment objectives or experience, financial situation, or other needs of each recipient are not considered. Therefore, you should not make any investment decisions based solely on this document. You should make investment decisions based on your own investment objectives, investment experience, financial situation, and specific needs; if necessary, you should seek independent professional advice before making any investment.

The views and opinions in this document do not constitute the official views of BEA.

For more information, please visit our webpage at https://www.hkbea.com/html/en/bea-about-bea-economic-research.html. For any enquiries, please contact the Economic Research Department (email: lerd@hkbea.com, tel: (852) 3609-1504, post: GPO Box 31, Hong Kong).