

Market Monitor – Mainland China

Weak Domestic Sentiment Adds to Recovery Worries



Domestic demand remains subdued in early 2022

Deterred by outbreaks of the Omicron coronavirus variant and stringent virus-containment measures, domestic consumer demand did not revitalise during the traditional peak season of the Lunar New Year. During the 7-day Lunar New Year holiday in 2022, both travel and tourism revenue contracted in comparison with 2021's already lower level. In particular, Chinese tourists made just 251 million trips, down 2% compared to the holiday season last year and just 73.9% of the pre-pandemic level in 2019. In addition to falling trips, tourism revenue during this period also recorded a yearly drop of 3.9% to CNY 289.2 billion, only 56.3% of the level seen during the same period in 2019. A quicker decline in tourism revenue compared to trips made implied a lacklustre willingness among tourists to spend money due to the uncertain economic outlook.

Weak consumer demand is also reflected in slower growth in consumer prices. Consumer prices increased by a moderate 0.9% year on year in January 2022, further down from 1.5% in December 2021. The slowdown in the growth of consumer prices was due to the fall in food prices, which decelerated by 3.8% year on year in January 2022. In the meantime, prices of consumer goods increased by just 0.4% annually in January 2022, a slower pace than the 1.5% recorded in December 2021.

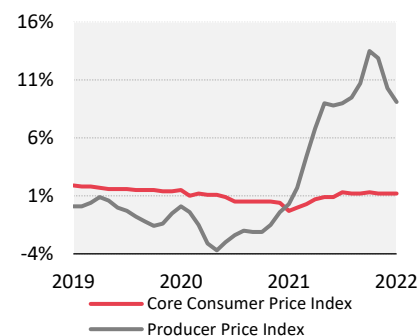
Producers, on the other hand, continue to benefit from less price pressure, and producer prices have decelerated for 3 months in a row. In January 2022, the producer price index saw an annual growth of 9.1%, down from a 10.3% yearly increase recorded in December 2021. Policies aimed at stabilising coal prices remain effective. Producer prices in the coal mining and washing industry led the slowdown, with yearly growth decelerating by 15.5 percentage points, down from 66.8% in December 2021 to 51.3% in January 2022. The easing of input costs from elevated levels of inflation is expected to take pressure off downstream manufacturers.

Consumer sentiment softer over the Lunar New Year holiday, while an easing monetary situation is expected to support the slowing economy.

Home prices appear to improve after consecutive declines, as restrictions on developers and homebuyers are relaxed.

Financial markets advance amid a liquidity injection and increasing capital inflows.

Inflation



Source: National Bureau of Statistics of China, data as of 16/2/2022

Economic Research

March 2022

China's current economic situation reflects the triple threat of shrinking demand, supply shocks, and weakening market expectation, as stated during the government's Central Economic Work Conference in late-2021. Uncertainty over the spread of Covid-19 and regulatory tightening has dampened households' economic expectations, increasing their incentives to save and slowing consumer demand.

Accelerating credit expansion is expected to boost economic improvement

Major monetary indicators showed ongoing credit expansion in the economy, following consecutive actions of monetary easing by the People's Bank of China (PBOC). The annual growth of M2 money supply (all very and moderately liquid assets) expanded by 0.8 percentage points to 9.8% in January 2022, a faster pace compared to the 9% yearly growth registered in December 2021. Meanwhile, outstanding total social financing increased by 10.5% year on year in January 2022, up from 10.3% in December 2021. Furthermore, CNY 3,980 billion was borrowed in new CNY loans in January 2022, triple the level seen in the previous month. Loans to enterprises and public institutions account for most of the new loans in January.

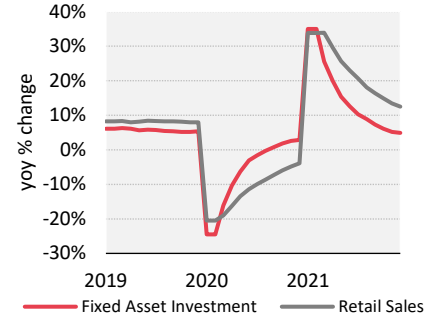
A looser monetary environment helps bolster the economy against risk. When the spread of Covid-19 variants and worries over regulatory tightening subside, it is expected that consumer patterns will gradually pick up as incentives lessen to save against an uncertain economy. Moreover, elevated input cost pressure on companies could be alleviated with lower borrowing costs and easier access to loans, even before producer prices return to normal levels. The annual meetings of the National People's Congress (NPC) will be held on 5th March and is expected to unveil more economic stimulus.

Housing prices appear to improve at the beginning of 2022

Home prices halted their decline, increasing by 0.1% month on month in January 2022, after a 0.2% monthly decline in December 2021, amid supportive government policies for developers and homebuyers. Property developers are now allowed easier access to presale proceeds from residential projects, which is expected to ease the liquidity squeeze among developers. In the meantime, some local banks in cities such as Chongqing have lowered the down payment ratio for first-time homebuyers to 20%.

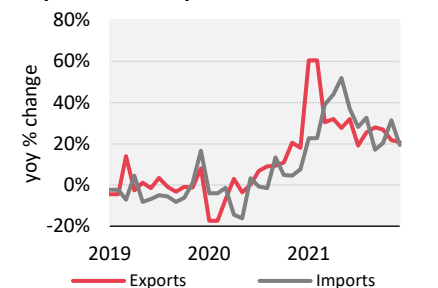
In a bid to reinforce the development of affordable housing, the PBOC announced that bank loans to fund affordable rental housing will not be regulated as part of the management system controlling property loans by banks. Previously, the system required banks to limit their loan exposure to the property sector to a certain level. The move shows that the Chinese authorities are easing regulatory restrictions in a targeted way to ensure a healthy property market that meets reasonable housing demand in the longer term.

Cumulative Fixed Asset Investment and Retail Sales



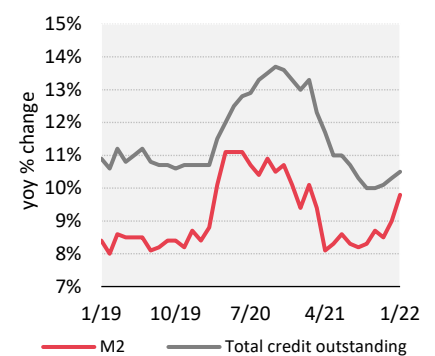
Source: National Bureau of Statistics of China, data as of 17/1/2022

Exports and Imports



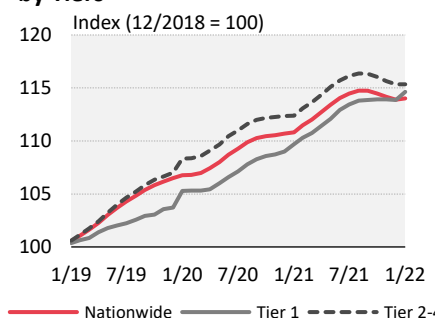
Note: Figures for January and February are the average of the two months.
Source: General Administration of Customs, data as of 14/1/2022

Credit Growth



Source: The People's Bank of China, data as of 10/2/2022

New Commercial Home Prices Index by Tiers



Sources: National Bureau of Statistics of China; BEA Economic Research Department, data as of 21/2/2022

Economic Research

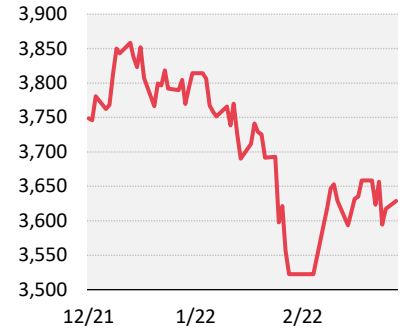
March 2022

Financial markets accelerate with liquidity injection

In the stock market, A-shares rose by 3% in the period between end-January and end-February. In mid-February, the PBOC injected a net CNY 100 billion into the banking system with its one-year medium-term lending facility (MLF). This signals the PBOC's willingness to maintain reasonably ample liquidity in the market and further ease monetary policy going forward, which has helped create a rebound in the stock market.

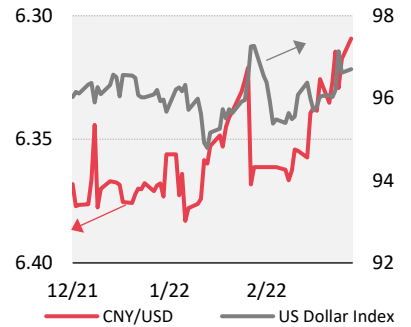
In the foreign exchange market, the onshore CNY increased by 0.82% against the US dollar between end-January and end-February, trading at CNY 6.3092 per US dollar. During the same period, the offshore CNH also climbed up by 0.9%. There have been continuous capital inflows into Chinese government bonds, with holdings by offshore investors rising to a record CNY 2.52 trillion, up 2.7% from a month earlier. However, the war between Russia and Ukraine may further accelerate demand for the US dollar as a safe-haven currency, weakening the renminbi.

A Share Index



Source: Bloomberg, data as of 28/2/2022

RMB/USD vs US Dollar Index



Sources: People's Bank of China, Bloomberg, data as of 28/2/2022

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