

Market Monitor – Mainland China

Infrastructure Investment Remains Important Amid Covid-19 Shock



Steady investment and production bolster the economy in Q1 2022

With government policy support, China’s economy achieved moderate growth at the beginning of 2022. China’s gross domestic product (GDP) expanded by 4.8% year on year in Q1 2022, up from 4% in Q4 2021 and exceeding market expectation of a 4.2% rise. However, extensive Covid-19 outbreaks have dampened domestic demand.

Fixed asset investment grew by 9.3% year on year in Q1 2022, down from a 12.2% annual growth as recorded in the first 2 months of 2022. Contrary to the broad figure, infrastructure investment continued to trend upwards, with 8.5% annual growth in Q1 2022, up from 8.1% yearly growth as seen in January-February 2022. On the other hand, annual growth in property investment decelerated further, with a mere 0.7% annual growth in Q1 2022, down from 3.7% in the first 2 months of the year.

The performance of the industrial sector continued to fare better than expected. In Q1 2022, industrial production registered a solid yearly growth of 6.5%, higher than the market-expected growth rate of 6.2%. However, producer prices decelerated at a slower-than-expected rate in March on account of the Russia-Ukraine crisis, which led to soaring prices for energy products and key raw materials. The annual growth of producer prices decelerated from 8.8% in February to 8.3% in March, against a market expectation of 8.1%. Meanwhile, the official manufacturing purchasing managers’ index (PMI) continued to remain in contraction territory, dropping from 49.5 in March to 47.4 in April.

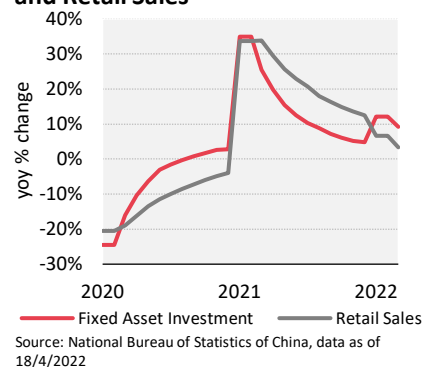
Deterred by stringent lockdown measures, China’s retail sales shrank by 3.5% year on year in March, while revenues in the restaurant sector slumped by 16.4% year on year. In Q1 2022 as a whole, retail sales still registered an annual growth of 3.3%. Consumer prices saw a modest 1.5% annual growth in March, up from 0.9% in February. In the meantime, the urban unemployment rate climbed by 0.3 percentage points month on month in March to 5.8%, marking the fifth consecutive monthly increase.

China’s economy fares better than expected in Q1 2022, but Covid-19 outbreaks have dampened domestic economic activity.

PBOC lowers the RRR for banks in a bid to increase liquidity and accelerate monetary support.

Financial markets decline amid ongoing Covid-19 concerns and geopolitical tensions.

Cumulative Fixed Asset Investment and Retail Sales



Economic Research

May 2022

China's exports continued to register double-digit annual growth of 14.7% in March, but imports performed disappointingly during the same period, implying weaker domestic demand for imported goods amid lockdowns. Imports declined by 0.1% year on year in March, far below the market expectation of 8.4% annual growth.

Shanghai becomes epicentre of Covid-19 outbreak

The 7-day average confirmed Covid-19 cases in China surged to a record high, reaching around 29,380 cases as of 29th April, most of which were concentrated in Shanghai (one of the country's main financial, manufacturing, and logistics hubs). Since early April, the lockdown measures have been extended to the whole city of Shanghai in view of surging numbers of reported cases. The lockdown measures have severely disrupted manufacturing operations, particularly in Shanghai's automobile factories. Trucking has been restricted across Shanghai, adding to pressure on domestic supply chains. The duration of extensive Covid-19 outbreaks and strict virus-containment measures will affect the efficiency of the government's support policies.

Looking ahead, repeated Covid-19 outbreaks, geopolitical tensions, and lingering property market weakness will continue to weigh on domestic consumer activity and the manufacturing sector. Amid multiple headwinds, government-led policies to support infrastructure investment as well as favourable fiscal and monetary policies will play an increasingly key role in helping to stabilise China's economy.

PBOC cuts RRR, implying further measures to increase liquidity

Major monetary indicators showed that credit expansion accelerated in March. M2 money supply expanded by 9.7% year on year in March, up from 9.2% in February. Meanwhile, outstanding total social financing grew by 10.6% from a year earlier in March, a faster pace than the 10.2% growth recorded in February.

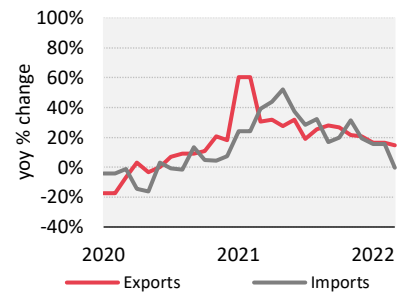
In mid-April, the People's Bank of China (PBOC) announced it will cut the reserve requirement ratio (RRR) for banks by 0.25 percentage points with effect from 25th April. The RRR reduction is expected to unleash long-term liquidity worth an additional CNY 530 billion in the banking system. Credit expansion and a liquidity increase through RRR reductions imply greater monetary resources becoming available in the market to boost the economy when the threat from the Covid-19 pandemic starts to abate.

Home prices remain stable

Housing prices remained relatively stable for a second consecutive month, staying flat month on month in March. Home prices in tier-3 or below cities continued to trend downwards, while monthly growth was more marginal in tier-1 cities. Although policies governing home purchases have become increasingly relaxed, the spread of Covid-19 and associated lockdown measures have restrained homebuyer demand and activity.

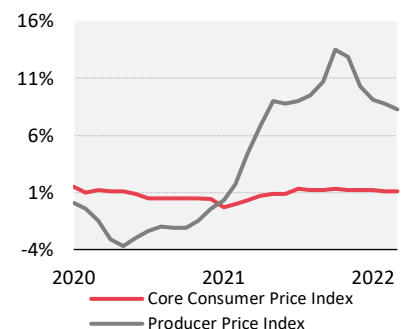
Government support for the housing market appears to be accelerating. Over 60 cities

Exports and Imports



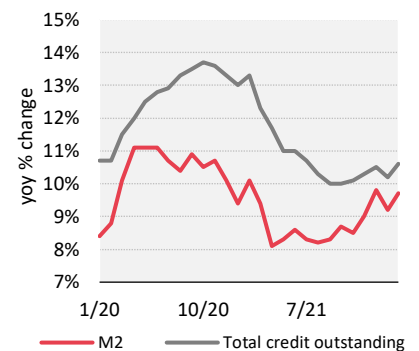
Note: Figures for January and February are the average of the two months.
Source: General Administration of Customs, data as of 13/4/2022

Inflation



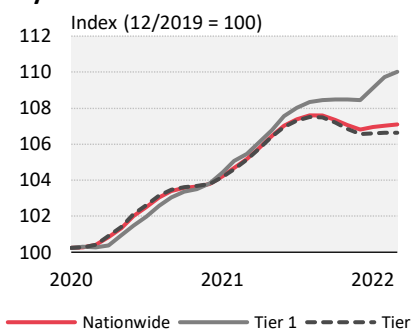
Source: National Bureau of Statistics of China, data as of 11/4/2022

Credit Growth



Source: The People's Bank of China, data as of 11/4/2022

New Commercial Home Prices Index by Tiers



Sources: National Bureau of Statistics of China; BEA Economic Research Department, data as of 15/4/2022

Economic Research

May 2022

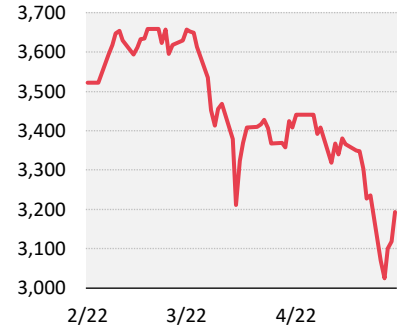
have relaxed policy curbs on home purchases in order to support the property market. Meanwhile, the PBOC's official has also stated that banks in over 100 cities have lowered mortgage rates by around 20 to 60 basis points since March. For instance, Zhengzhou in Henan has moved to relax purchase restrictions on second homes, while Zhongshan in Guangzhou has increased its quota for provident fund loans. Looking forward, the relaxation of housing policy and loosened monetary environment will help revitalise homebuyer sentiment and the housing market as the threat of Covid-19 abates.

Financial markets weaken further

In the stock market, A-shares fell by 6.3% between end-March and end-April. A worsening domestic Covid-19 situation and geopolitical tensions relating to the Russia-Ukraine conflict remained the major pressures on stock market sentiment. Rising economic headwinds have heightened market worries over corporate earnings for the rest of the year. Nevertheless, with signals of further policy supports and relaxation of industrial regulation, stock market appeared to rebound in late-April.

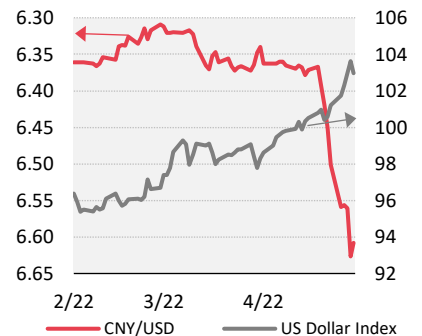
In the foreign exchange market, the onshore CNY dropped significantly by 4.06% against the US dollar between end-March and end-April, trading at CNY 6.6085 per US dollar, while the offshore CNH also depreciated by 4.3% during the same period. A widening disparity in monetary policy between the US and China has put further pressure on the renminbi. The spread between China and the US 10-year treasury yields has continued to narrow, while mid-April saw the first negative reading since 2010. The US dollar index had accelerated by a robust 4.73% as of 29th April. However, the PBOC announced in late-April to lower the foreign exchange RRR by 100 basis points to 8% with effect from 15th May, which is expected to increase liquidity of US dollar and ease the depreciation pressure on the RMB.

A Share Index



Source: Bloomberg, data as of 29/4/2022

RMB/USD vs US Dollar Index



Sources: People's Bank of China, Bloomberg, data as of 29/4/2022

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.

This document is the property of BEA and is protected by relevant intellectual property laws. Without the prior written consent of BEA, the information herein is not allowed to be copied, transferred, sold, distributed, published, broadcast, circulated, modified, or developed commercially, in either electronic or printed forms, nor through any media platforms that exist now or are developed later.

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).

