

Market Monitor – Mainland China

Covid-19 is Major Drag on Economic Activity



Weak economic readings across the board, with fixed-dasset investment being the bright spot

China's main economic indicators have weakened due to Covid lockdowns, while fixed-asset investment remains a bright spot with positive growth.

In the shadow of stringent lockdown measures, retail sales continued to fall by 11.1% year on year in April, following a 3.5% annual drop in March. However, when adding in the better-than-expected retail sales from the January-February period, retail sales in the first 4 months of 2022 saw a moderate annual decline of 0.2%.

Furthermore, the urban unemployment rate continued to trend upward, rising from 5.8% in March to 6.1% in April. Core consumer prices (excluding food and energy) grew by 0.9% from a year earlier in April, down from 1.1% in March, implying weak domestic demand.

In addition to retail sales, lockdown measures have also disrupted the industrial sector. Industrial production decreased by 2.9% year on year in April, down from a 5% yearly growth as recorded in March. In the January-April period, nevertheless, industrial production still managed to register an annual growth of 4%. Meanwhile, external demand eased against the backdrop of the Russia-Ukraine conflict. The annual growth of China's exports decelerated in April from the double-digit growth rates seen in previous months, rising by 3.9% year on year in April. Imports remained unchanged yearly in April. The official manufacturing purchasing managers' index (PMI) remained in contraction territory but improved from previous month, rising from 47.4 in April to 49.6 in May.

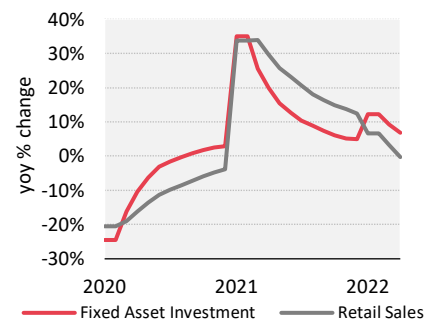
Fixed asset investment remains the bright spot among economic readings, recording a 6.8% annual growth in the period between January and April. Investment by state-owned enterprises rose by 9.1% year on year during the same period. Nonetheless, property investment declined by 2.7% year on year during January to April, reversing from a 0.7%

Major economic indicators weaken but fixed-asset investment still registers annual growth in the first 4 months of 2022.

Gradual resumption of economic activity is expected, and PBOC continues to strengthen monetary support.

Financial markets appear to improve with hopes of gradual relaxation of lockdown measures.

Cumulative Fixed Asset Investment and Retail Sales



Source: National Bureau of Statistics of China, data as of 16/5/2022

increase in the January-March period.

Gradual resumption of production from lockdown measures

As the Covid-19 situation eased in Shanghai, the epicentre of a recent outbreak, officials outlined a plan to gradually relax virus-containment measures in an attempt to resume economic normalcy. In mid-May, Shanghai's deputy mayor Zhang Wei stated that restrictions will be relaxed in 2 phases. In the first phase, which runs until the end of May, closed-loop or semi-closed-loop production is allowed. In the second phase, starting from the beginning of June, more businesses will be allowed to resume normal operations.

Zhang Wei also pointed out that supply chains through Shanghai have been recovering. In particular, daily container throughput at Shanghai's ports has reached about 90% of the level a year ago. Pudong Airport cargo throughput has reached 70% of last year's level.

Looking forward, a gradual relaxation of lockdown measures will help facilitate recovery of consumer activity and manufacturing sector. In the face of rising downside risks to China's economic growth, the government is expected to strengthen supportive policies from the infrastructure investment, fiscal, and monetary fronts. In late-May, the Chinese government announced it would provide additional tax refunds worth RMB 140 billion.

PBOC continues to signal monetary loosening

Major monetary indicators revealed continuous monetary loosening, but credit demand was restrained amid lockdown measures. M2 money supply grew by 10.5% yearly in April, up from 9.7% in March. On the other hand, outstanding total social financing, a broad measure of credit in the economy, grew by 10.2% from a year ago in April, a slower pace than the 10.5% growth recorded in March.

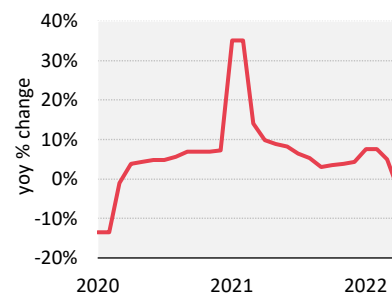
In mid-May, the People's Bank of China (PBOC) announced it would lower the 5-year loan prime rate (LPR), which is typically a reference for mortgages, by 15 basis points to 4.45%. This heavier-than-expected rate cut, following the reduction of the reserve requirement ratio (RRR) for banks in April, reflects increasing monetary support by the Chinese government to stabilise the economy.

Home prices resume downward trend

Amid lingering Covid-19 concerns, housing prices fell for the first time since December 2021, declining by 0.2% month on month in April. Home prices continue to diverge between tier-1 cities and tier-3 or below cities, rising by 0.2% month on month in tier-1 cities in April, while declining monthly by around 0.3% – 1% in tier-3 or below cities.

While Covid-19 has impacted homebuyer activity, China's authorities remain supportive towards reasonable housing demand such as first-time home-buying. The PBOC and China's Banking and Insurance Regulatory Commission announced in mid-May to reduce the lower limit of interest rates on home loans by 20 basis points for purchases of first

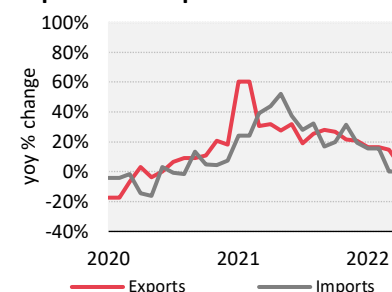
Industrial Production



Note: Figures for January and February are the average of the two months.

Source: National Bureau of Statistics of China, data as of 16/5/2022

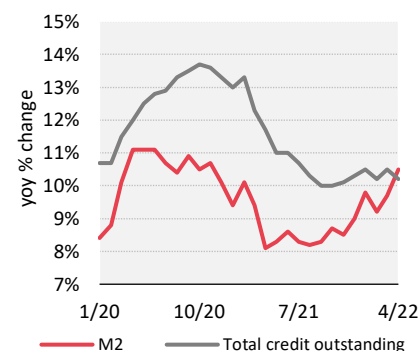
Exports and Imports



Note: Figures for January and February are the average of the two months.

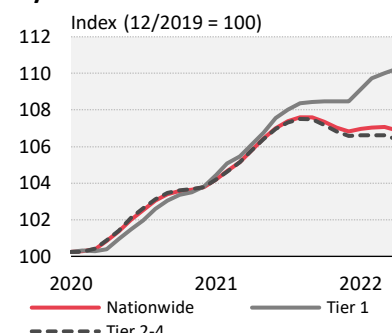
Source: General Administration of Customs, data as of 9/5/2022

Credit Growth



Source: The People's Bank of China, data as of 13/5/2022

New Commercial Home Prices Index by Tiers



Sources: National Bureau of Statistics of China; BEA Economic Research Department, data as of 18/5/2022

Economic Research

June 2022

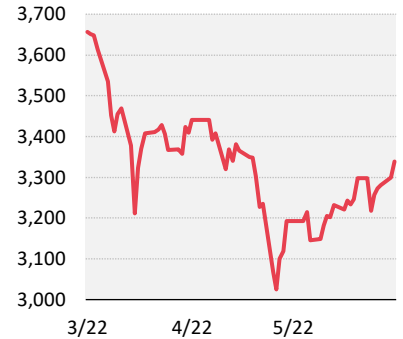
homes, with reference to the corresponding tenor of the benchmark LPR. The reduction of the lower limit of interest rates for first homes, coupled with a cut in the 5-year LPR, is expected to cushion some impact from the decrease and provide a certain amount of support for the property market.

Financial markets appear to improve

In the stock market, A-shares increased by 4.6% between end-April and end-May. As the government delivered its plan to relax lockdown measures, investor sentiment appeared to improve. Furthermore, additional policy support in the form of rate cuts and more tax refunds also served to reinforce investor confidence in China's economic recovery.

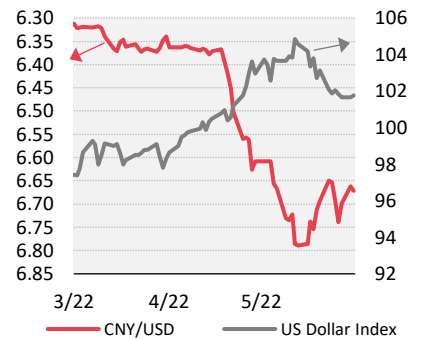
In the foreign exchange market, the onshore CNY continued to decelerate by 0.95% against the US dollar between end-April and end-May, trading at CNY 6.6718 per US dollar, while the offshore CNH also depreciated by 0.57% during the same period. In contrast to the US Federal Reserve's monetary tightening moves, China's loosening monetary policy with a further reduction of key interest rates is adding to pressure on the renminbi.

A Share Index



Source: Bloomberg, data as of 31/5/2022

RMB/USD vs US Dollar Index



Sources: People's Bank of China, Bloomberg, data as of 31/5/2022

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