

Market Monitor – Mainland China

Emerging Signs of Recovery



Signs of recovery emerge with improving Covid-19 situation

The latest Covid-19 outbreak and epidemic control measures impacted the mainland economy significantly in April and May, but major cities such as Shanghai and Beijing have gradually relaxed Covid-related restrictions since early June. The testing requirements for entering public venues have been loosened and restaurants have gradually resumed indoor dining. With more enterprises set to resume normal operations and production, the economy is showing emerging signs of recovery.

In May, consumer activity and the services sector stayed soft amid gradually improving Covid-19 conditions. Retail sales recorded an annual decline for three consecutive months, decreasing by 6.7% in May, with automobile sales tumbling by 16% and restaurant revenues down 21.1%. Consumer prices rose by 2.1% year on year in May, staying unchanged from April. The property market has continued to weaken, with declining home prices recorded in 70 major cities in May. Property investment continued to shrink, having fallen by 4% year on year during January to May, weaker than 2.7% drop from January to April.

Nevertheless, the production side showed signs of initial improvement as a result of the gradual resumption of work and production for enterprises. Industrial production rebounded modestly by 0.7% year on year in May, after a 2.9% yearly decline in April. The labour market also showed signs of improvement. The unemployment rate declined by 0.2 percentage points to 5.9% in May, marking an end to the uptrend for six consecutive months. The growth of fixed-asset investment (FAI) was relatively stable, rising by 6.2% year on year during January to May, slightly down from a 6.8% growth in January to April. Manufacturing FAI performed more strongly, while infrastructure investment accelerated by 6.7% year on year between January and May, up marginally from 6.5% in January to April.

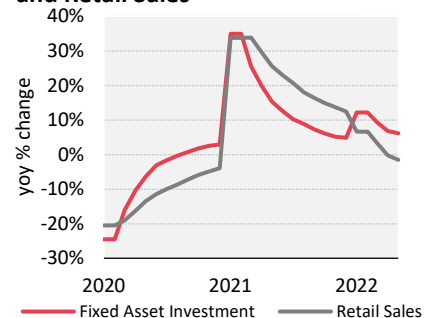
On the external front, mainland China’s merchandise exports returned to double-digit annual growth, accelerating from 3.9% in April to 16.9% in May. This reflects the

Easing Covid-19 situation and relaxation of pandemic-control measures help boost recovery.

Covid-19 situation and policy support remain the key to growth momentum.

Equity market improves further amid resumption of economic activity.

Cumulative Fixed Asset Investment and Retail Sales



Source: National Bureau of Statistics of China, data as of 16/6/2022

Economic Research

July 2022

resumption of production and logistics after the major hit to industrial and export activities caused by Covid-19 in the previous month. Imports rose by 4.1% year on year.

In response to the downward economic pressure, the State Council announced a basket of policies to enhance support for the economy, including additional tax refunds worth RMB 140 billion, tax reductions for passenger vehicles worth RMB 60 billion, and the issuance of railway construction bonds worth RMB 300 billion. Related measures are expected to lessen the financial burden on enterprises, particularly in sectors hit hard by Covid-19 such as catering and accommodation, and also aim to revitalise consumer incentives to encourage household spending. Meanwhile, infrastructure investment is expected to accelerate, which will support economic growth.

For the rest of the year, the mainland's economy will gradually return to normal amid improving pandemic conditions, easing pandemic control measures, and stronger policy support. In the near future, industrial production and infrastructure investment will play an increasingly role in supporting economic recovery, while consumption, services, and the real estate sector are likely to lag behind in the recovery. The government is likely to roll out stronger monetary and fiscal policies to foster a stronger recovery.

Monetary and credit growth accelerate

With the gradual recovery of economic activity, a looser monetary and credit environment has led to a pick-up in credit demand. The growth of M2 money supply reached its fastest pace since July 2020 at 11.1% year on year in May, up from 10.5% in April, while the outstanding amount of total social financing, a broad measure of credit in the economy, also expanded by 10.5% year on year in May, up from 10.2% in April.

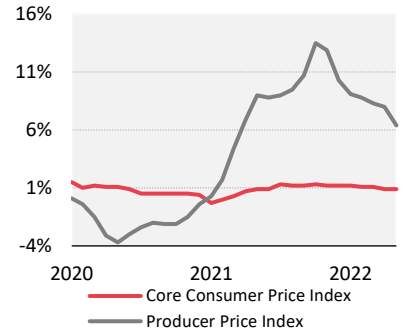
Nevertheless, the loan market was still dominated by short-term loans and bill financing in May, reflecting the cautious attitude of financial institutions. Compared to other major economies, inflationary pressure remains tame in the mainland, implying further policy room to maintain sufficient and steady liquidity conditions and lower borrowing costs.

With policy effects yet to materialise, home prices continue to fall

New home prices in 70 major cities recorded monthly declines for the second month in a row. Prices fell by 0.2% month on month in April and by 0.1% in May. Home prices in tier-1 cities performed relatively better, with new home prices in Guangzhou and Shenzhen increasing 0.5% month on month in May, while home prices in tier-2 and tier-3 cities remained under pressure, falling by 0.1% and 0.3%, respectively.

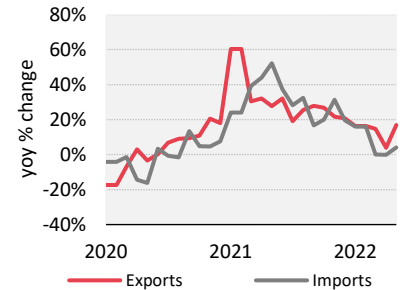
In view of deteriorating property market conditions, the mainland authorities have reduced the lower limit of mortgage rates for first-time home buyers and the benchmark 5-year loan prime rate (LPR). More and more cities have relaxed purchasing restrictions, including Hangzhou and Ningbo. The effect of these policies will take time to feed through into the market, and more support measures will be needed to drive a more meaningful recovery. Going forward, home prices in tier-1 cities will continue to outperform those of tier-2 and tier-3 cities.

Inflation



Source: National Bureau of Statistics of China, data as of 10/6/2022

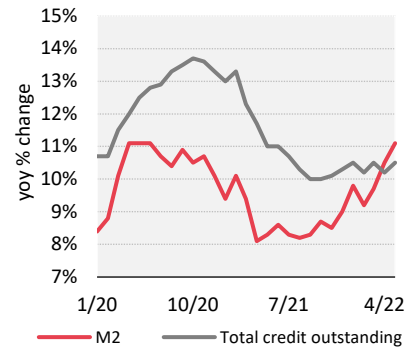
Exports and Imports



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

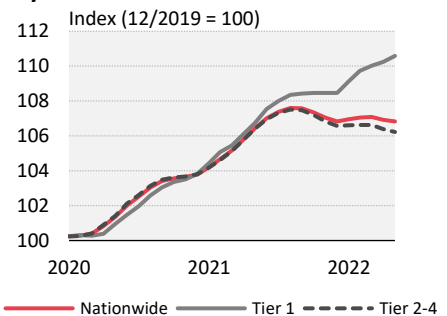
Source: General Administration of Customs, data as of 9/6/2022

Credit Growth



Source: The People's Bank of China, data as of 10/6/2022

New Commercial Home Prices Index by Tiers



Sources: National Bureau of Statistics of China; BEA Economic Research Department, data as of 16/6/2022

Economic Research

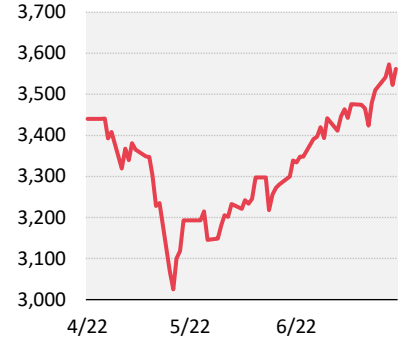
July 2022

Financial markets continue to recover in tandem with pandemic and policy support

In the stock market, A-shares accelerated by 6.7% between end-May and end-June. The gradual recovery of economic activity amid easing pandemic conditions and stronger policy support – including subsidies for automobile purchases and city-level relaxation of housing policies – has fuelled market expectation of a better recovery in the second half of 2022. Stronger risk appetite has also led to better performance in the financial markets.

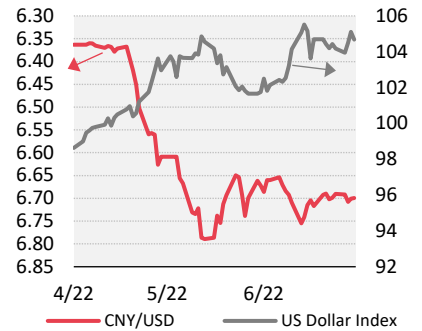
In the foreign exchange market, the CNY depreciated slightly by 0.41% against the US dollar between end-May and end-June, trading at CNY 6.6993 per US dollar, while the CNH also depreciated by 0.23% during the same period. Both CNY and CNH depreciated by slightly less than in the previous month. The CNY is expected to hold largely steady alongside a gradual economic recovery and an improving pandemic situation, likely offsetting the global pressure of accelerating monetary tightening.

A Share Index



Source: Bloomberg, data as of 30/6/2022

RMB/USD vs US Dollar Index



Sources: People's Bank of China, Bloomberg, data as of 30/6/2022

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).

