

Market Monitor – Mainland China

Another Step to Recovery



**Q3 recovery from pandemic trough**

Mainland China’s economy rebounded from the pandemic-hit trough of Q2, driven by enhanced policy support, though it remains clouded by the ongoing pandemic, a prolonged property market correction, and a global economic slowdown. In the near term, industrial production and infrastructure investment will continue to play a major role in economic recovery, while services and real estate will lag somewhat behind, which depend on recovery of market confidence regarding pandemic controls and the property market. With the conclusion of the 20th Party Congress, the mainland authorities will likely look to take more steps to solidify a growth recovery and work towards achieving its goal of building a fully modern socialist country. The upcoming Central Economic Work Conference and the National Financial Work Conference are key events to watch.

Mainland China’s economy expanded by 3.9% year-on-year (YoY) in Q3 and by 3.0% in the first three quarters of 2022, having accelerated from just 0.4% in Q2 and 2.5% YoY in 1H 2022. Driven by renewed production and targeted policy stimulus, e.g. in the automobile sector, the secondary sector (+5.2% YoY in Q3) continued to take the lead in recovery, while the tertiary sector (+3.2% YoY) was still weighed down by regional Covid outbreaks, targeted pandemic measures, labour market conditions, and other factors.

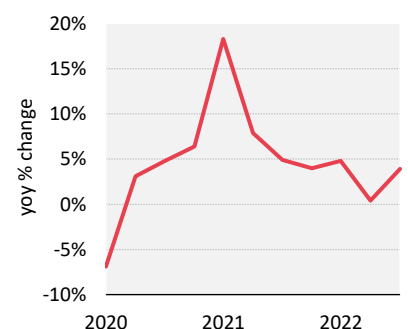
Industrial production and fixed asset investment (FAI) continued to grow moderately in September, while retail sales weakened after a rebound in August. The growth of industrial production accelerated from 4.2% YoY in August to 6.3% in September, with a growth of 3.9% YoY across the first three quarters of 2022. FAI also improved modestly, rising 5.9% YoY in the first three quarters, up from 5.8% in the January-August period. With enhanced policy support (including capital raised from special bond issuances) infrastructure investment has continued to take the lead, accelerating to 8.6% YoY in the first three quarters of 2022, up from 8.3% in the first eight months. However, property investment remained a drag, given that the consolidation of the property sector is ongoing. Property investment extended its YoY contraction, falling from a decline of 7.4% YoY to 8.0% in the first three quarters of 2022.

**Mainland China’s economy registers a better-than-expected recovery in Q3, amid numerous uncertainties.**

**The 20th NCCPC sets out to build China into a great modern socialist country in all respects.**

**Upcoming Central Economic Work Conference and the National Financial Work Conference could provide clearer signals on economic development and financial reforms.**

**Mainland China GDP Growth**



Source: National Bureau of Statistics of China, data as of 31/10/2022

## Economic Research

November 2022

Amid the ongoing regional pandemic and its related control measures, as well as relatively weak consumer sentiment due to the gloomy economic and property market outlook, the recovery of retail sales and consumer activity stayed relatively subdued. After a stronger-than-expected 5.4% YoY growth of retail sales in August, the growth of retail sales retreated to 2.5% in September. In particular, restaurant receipts declined 1.7% YoY in September after a rebound of 8.4% in August, likely affected by regional Covid-19 curbs and a fading base effect.

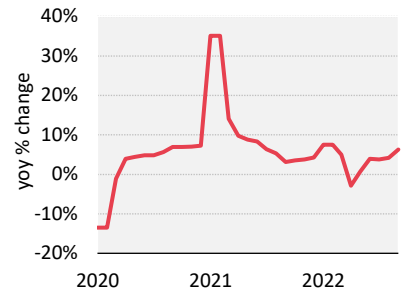
In the past couple of months, the mainland government has enhanced its supportive measures to accelerate investment, alleviate financial pressure on enterprises, and stabilise demand in the property market. Including the amounts granted in May and August, an additional RMB 600 billion has been allocated to finance infrastructure investment. The People's Bank of China (PBOC) has reduced its 5-year loan prime rates (LPR) by a total of 35 basis points (bps) since early 2022, as opposed to a 15 bps reduction of the 1-year LPR. Furthermore, housing policy restrictions at the city level have also been gradually relaxed over the past few months, indicating a strong intention to stabilise the property markets.

In the near-term, mainland China's economic outlook will continue to be impacted by pandemic uncertainty, a property market correction, a slowing global economic outlook, escalating geopolitical tensions, and other persistent headwinds. The government will stick to a largely supportive policy stance, including continuing to relax the payments of tax and fees. On the monetary front, the PBOC will maintain reasonably ample liquidity and might further reduce the reserve requirement ratio. For the rest of 2022, the mainland authorities are expected to focus on ensuring full implementation of their policy initiatives at the local level, and further supportive measures for targeted sectors cannot be ruled out. The upcoming Central Economic Work Conference is expected to provide more updates on progress towards the annual economic targets and lay out key areas of economic focus for the coming year, while the National Financial Work Conference will lay out key areas of financial reform in for the next five years.

### 20th National Congress sets out roadmap to build a great modern socialist country

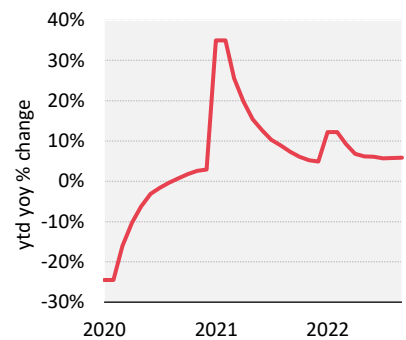
The 20th National Congress of the Communist Party of China (NCCPC) was held between 16<sup>th</sup> and 22<sup>nd</sup> October 2022. In its next stage of development, China aims to build a fully modern socialist country, with a focus on high-quality growth through technology innovation, industrial upgrading, green development, and other areas. The mainland economy is undergoing a transition from property and infrastructure-driven growth towards innovation and technology-driven development, where core technologies will be a key battlefield between the US and China in the years ahead. The importance of becoming more self-reliant at a faster pace has been emphasised, as has strengthening development in science and technology. Policies supporting education, innovation, and professional training are expected in the years ahead. As well as encouraging domestic demand, the mainland authorities are also expected to continue opening up and increasing international cooperation, i.e. in line with the theme of dual circulation, possibly with further development in international trade and investment deals as well as a continued opening up of the domestic market.

#### Industrial Production



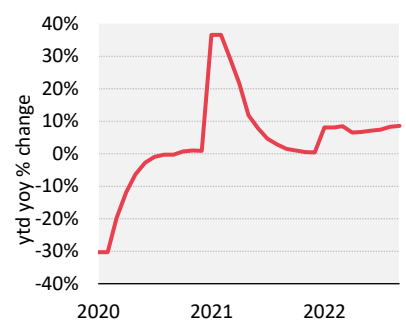
Note: Figures for January and February are the average of the two months.  
Source: National Bureau of Statistics of China, data as of 31/10/2022

#### Fixed Asset Investment



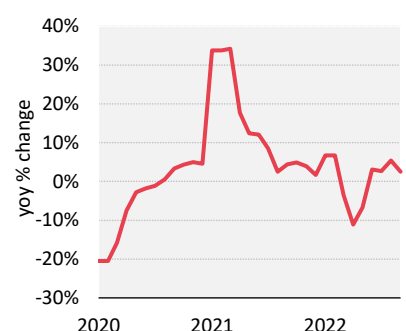
Source: National Bureau of Statistics of China, data as of 31/10/2022

#### Infrastructure Investment



Source: National Bureau of Statistics of China, data as of 30/9/2022

#### Retail Sales



Source: National Bureau of Statistics of China, data as of 31/10/2022

## Economic Research

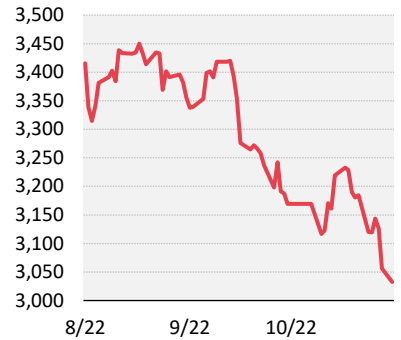
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### Uncertainties about economic and financial reform weigh on financial market sentiment

In the first half of October, financial markets in mainland China recovered somewhat with the expectation of further supportive measures to stabilise the economy and an improvement in global financial market sentiment. However, uncertainties about economic and financial reform remain high after the 20th NCCPC, given that no concrete economic or reform measures were announced in this political congress. In view of the relatively weak market sentiment, the mainland authorities, including the PBOC and the State Administration of Foreign Exchange (SAFE), pledged to ensure the healthy development of the equity, bond, and housing markets by strengthening cooperation between government departments to help boost market sentiment. However, this impetus might need to wait until the upcoming Central Economic Work Conference and the National Financial Work Conference – which provide clearer signals and measures for future economic development and financial reform, in order to drive a more significant improvement of market sentiment going forward.

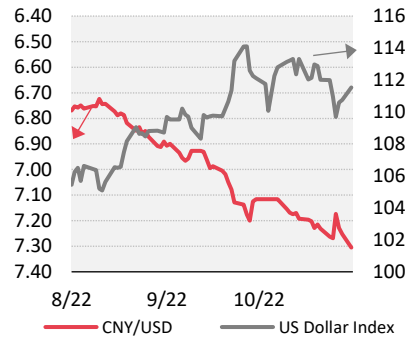
In the stock market, A-shares dropped by 4.3% in October. In the foreign exchange markets, the CNY depreciated by 2.59% against the US dollar during the same period, trading at CNY 7.305 per US dollar, while the CNH depreciated by 2.65%.

#### A Share Index



Source: Bloomberg, data as of 31/10/2022

#### RMB/USD vs US Dollar Index



Sources: People's Bank of China, Bloomberg, data as of 31/10/2022

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