Market Monitor – Mainland China

Greater Policy Effort to Stimulate Growth Momentum

Some setbacks in October, but stronger support in the making

In October, the Mainland economy recorded a deceleration in the pace of recovery, with a wait-and-see sentiment surrounding the 20th National Congress of Communist Party of China (NCCPC). The deceleration was largely expected, given the pandemic, geopolitical condition, slowing global economic environment and property market correction, etc. In order to solidify the growth momentum and stabilise the labour market, the Mainland authorities have rolled out a 20-point optimization of Covid-related policies in mid-November and a further 10-point Covid-related optimization policies in early December, a 16-point plan to stabilise property market, and a reduction in the reserve requirement ratio (RRR) by 25 basis points, etc.

Investment takes the lead in recovery

Both retail sales and merchandise exports recorded a year-on-year (YoY) contraction in October, while investment, particularly infrastructure investment, continued to be the growth driver amid stronger government support.

On the domestic front, retail sales and restaurant receipts were dragged down by the evolving pandemic outbreaks, stringent control measures and property market weakness. Retail sales declined 0.5% YoY in October whilst restaurant receipts contracted by 8.1% YoY. However, some sectors benefited from previously announced consumption policies. For example, auto sales recorded a 3.9% YoY growth in October, higher than its 0.8% growth in the first ten months of 2022, mainly being driven by tax cuts on passenger cars.

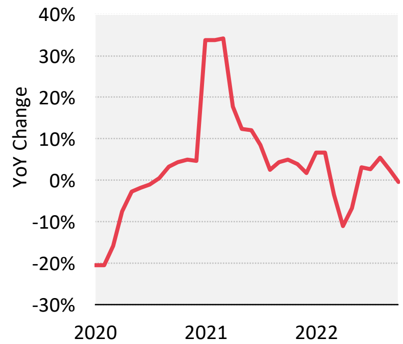
Merchandise exports turned for the worse as worries over the global recession intensified. Moreover, global consumers are shifting their consumption pattern from goods to services. The YoY decline of merchandise exports widened from 0.3% in October to 8.7% in November while merchandise imports contracted by 10.6% YoY. The trade surplus narrowed to US$ 69.84 billion.

The mainland economic recovery moderated in October amid wait-and-see sentiment surrounding the 20th NCCPC.

Domestic consumption and external trade weakened, while investment continued to strengthen growth.

In the face of a challenging environment, the Mainland authorities have enhanced supportive policies to stabilize growth.

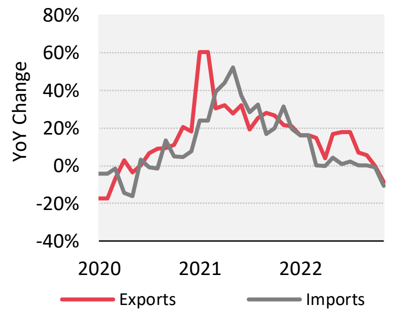
Retail Sales



Source: National Bureau of Statistics of China

Amidst the downward pressure of global and Mainland economic growth, the Mainland authorities continued to stabilise growth and employment. Infrastructure investment accelerated from 8.6% YoY in the first three quarters of 2022 to 8.7% YoY in the first ten months of 2022, driven by the ongoing fiscal support, including special bond issuance and tax relief, etc. Furthermore, the People's Bank of China (PBoC) also launched a special relending facility to boost equipment upgrades and renovation. The positive growth momentum in infrastructure and equipment investment helped offset the weak performance of property investment. Overall, fixed asset investment (FAI) continued to play a key role, with a modest YoY growth of 5.8% in the first ten months of 2022.

Exports and Imports



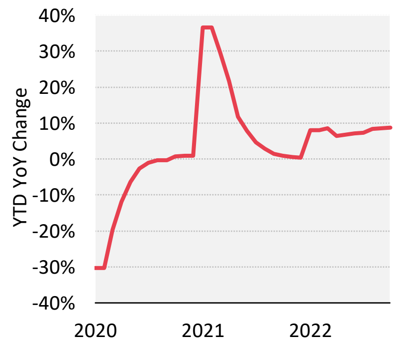
Note: Figures for January and February are the average of the two months.
Source: General Administration of Customs

Enhanced policy support will continue to stimulate growth

Looking ahead, Mainland China's economic recovery still hinges on the pandemic, optimization of pandemic control measures, property market sentiment, and the global economic outlook, etc. With the evolving pandemic situation remaining the biggest uncertainty, the Politburo Standing Committee meeting called for the correction of excessive restrictions, and, subsequently, rolled out a 20 point Covid-related policies, e.g. shortening period of quarantine requirement for inbound arrivals, etc. Another 10-point plan has also been announced in early December, including the reduction of frequency and scale of mass PCR testing. The announcements show the government's intention to strike a better balance between pandemic control, economic cost, and social burden.

There is also a positive sign that the government is taking a more holistic approach to stabilize the property market correction after the 20th NCCPC, with numerous measures announced by multiple authorities. The People's Bank of China (PBoC) and China Banking and Insurance Regulatory Commission (CBIRC) issued a 16-point plan, the National Association of Financial Market Institutional Investors (NAFMII) facilitates privately-owned enterprises (including developers) to issue bonds, and China Securities Regulatory Commission (CSRC) issued a relaxation of equity financing, etc. These measures could keep quality developers afloat, finish half-completed projects and turn around housing market expectations.

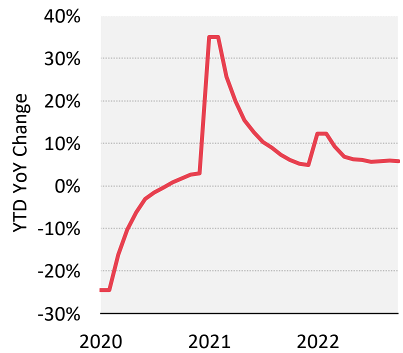
Infrastructure Investment



Source: National Bureau of Statistics of China

In addition to Covid and property-related measures, the Mainland authorities have ample macro-policy room to stabilize its economy given the Mainland's moderate inflationary pressure and disciplined fiscal condition. Structural tools like relending facilities and fiscal support can help lower costs and extend a lifeline to help SMEs. Meanwhile, the Mainland has further enhanced its supportive credit policy, including a RRR cut by 25 basis points in late-November. All these measures pave the road for a more meaningful and sustainable economic recovery ahead.

Fixed Asset Investment

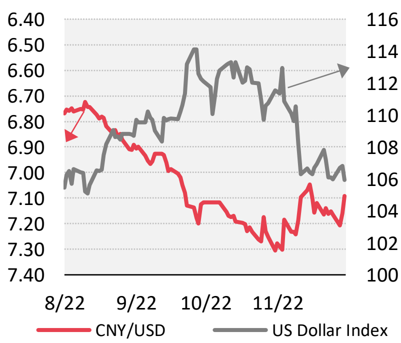


Source: National Bureau of Statistics of China

Financial markets rebounded amid reports of favourable policy

Since mid-November, the Mainland authorities have rolled out numerous policies to tackle the pandemic and property market, which in conjunction with the expectations of the moderating pace of the Fed's rate hike, led to an improving market sentiment. Against this backdrop, the US dollar turned weaker, fuelling support for the RMB. The CNY recorded an appreciation of 3.0% against the US dollar in November, trading at CNY 7.0924 per US dollar, while the CNH appreciated by 4.1%. In the stock market, A-shares rebounded by 8.9%.

RMB/USD vs US Dollar Index



Sources: People's Bank of China, Bloomberg, data as of 30/11/2022

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