

*Market Monitor – Mainland China*
**Policy Optimization Will Drive a Steady Recovery**

**Consumer and external sector weakened in November 2022, while investment became a stabilizer**

In November 2022, regional Covid-19 outbreaks and ensuing pandemic control measures has somewhat disrupted the Mainland recovery. Major economic indicators, particularly domestic consumption and external trade, further weakened in November. Retail sales and restaurant receipts deteriorated in November, widening from a drop of 0.5% and 8.1% YoY in October to a decline of 5.9% and 8.4% YoY respectively. Moreover, the gloomy global economic outlook and changing consumption patterns from goods to services has dampened trade performance. Coupled with a higher base of comparison, the merchandise exports of Mainland China declined by 8.7% YoY in November, while merchandise imports contracted by 10.6%.

Despite headwinds from domestic consumption and external trade, infrastructure investment remained robust, accelerating to 8.9% YoY in the first eleven months of 2022, up by 0.2 percentage points in the first ten months. Continued fiscal measures and a special relending facility for equipment upgrades and renovation underpinned manufacturing investment. Both infrastructure and manufacturing investment partly offset the subdued property investment. Overall, fixed asset investment (FAI) in the first eleven months of 2022 expanded by 5.3% YoY, playing a key role in economic recovery.

**Economic stability continues to be the top priority in 2023**

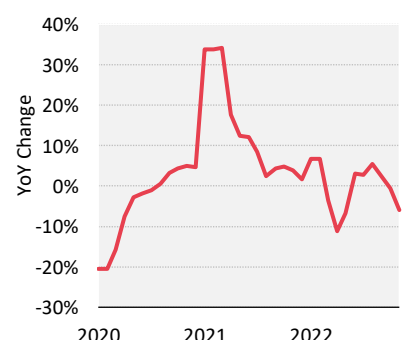
The Central Economic Work Conference (CEWC) called for ensuring economic stability as a top priority in 2023 amid a challenging environment. The CEWC reiterated that the Mainland economy continues to face significant headwinds from shrinking demand, supply shocks and weakening expectations. However, the economy is believed to recover in 2023 with policy impacts gradually feeding through.

In 2023, the Mainland authorities will reinforce and coordinate various macro-policies to drive high-quality development. Proactive fiscal policy and prudent monetary policy

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Mainland economic growth in 2023 will be better than that of 2022.

**Retail Sales**


Source: National Bureau of Statistics of China

## Economic Research

January 2023

will remain largely unchanged with further emphasis on fiscal deficits, the issuance of special purpose bonds, interest payment subsidies, targeted relending and policy loans, etc., to support high-quality development.

**The recovery of consumption will be prioritized in 2023 in contrast to the investment-led focus of 2022.** The meeting pointed out that the focus will be on boosting domestic demand, by increasing urban and rural personal income through multiple channels and boosting consumption incentives. Some categories of consumptions will be supported, including housing improvement, new energy vehicles and elderly care services, etc.

**The CEWC signalled that the Mainland will vigorously develop the digital economy and support platform companies** in leading technological and economic development, creating jobs and competing in the international markets. It also stressed on the equal treatment between private and state-owned enterprises, alleviating market concerns on the regulations of related sectors.

**The Mainland authorities highlighted the transition to a new development model of the property sector while upholding “Housing is for living in, not for speculation”.** The meeting stressed on promoting the steady development of the property market whilst effectively defusing major economic and financial risks. Higher quality developers are expected to be the main beneficiaries of the latest government measures which include providing reasonable financing needs, promoting industrial restructuring and mergers, and improving their balance sheets.

### Optimizing pandemic rule for reopening

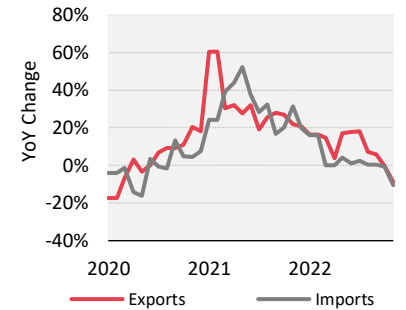
**The Mainland authorities has orderly rolled out measures in optimizing the pandemic control work since mid-November 2022.** Following a 20-point policies and a further 10-point plan announced in mid-November and early December respectively, the Mainland authorities have further announced in late-2022 to downgrade the management of Covid-19 and will scrap its Covid testing and quarantine rule for inbound travellers starting from 8<sup>th</sup> January 2023.

**Looking forward, economic growth in the Mainland will be better than that of 2022.** The orderly optimization of Covid control measures and expanding funding support for quality developers will spark an economic recovery in 2023. The consumption and services sectors will likely take the lead. After the last few years of pandemic disruption, the Mainland economy is poised to return to its medium-and-long term growth trajectory, through the implementation of dual circulation strategy and a transition to innovation and technological driven growth.

### Policy shift benefited market sentiment

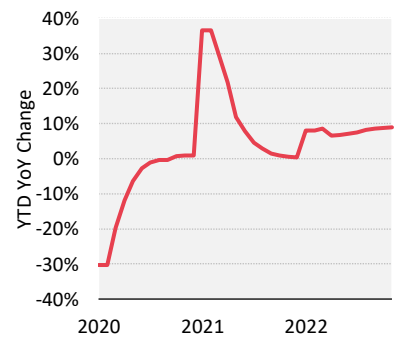
**Financial market sentiment somewhat improved.** Market expectation for a steadier economic recovery in Mainland China has been strengthened amid continued optimization of pandemic rules and funding policy support for quality developers, etc. Meanwhile, the US Federal Reserve slowed its pace of rate hikes in December 2022 and the US dollar retreated from its peak. The onshore and offshore CNY recorded an appreciation of 2.81% and 1.79% against the US dollar in December, trading at CNY 6.8986 and 6.922 per US dollar respectively, while A-shares declined by 2.0% to 3,238.19.

### Exports and Imports



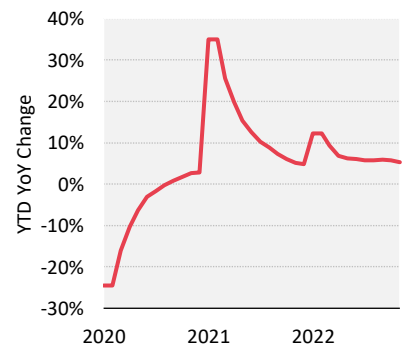
Note: Figures for January and February are the average of the two months.  
Source: General Administration of Customs

### Infrastructure Investment



Source: National Bureau of Statistics of China

### Fixed Asset Investment



Source: National Bureau of Statistics of China

### RMB/USD vs US Dollar Index



Sources: People's Bank of China, Bloomberg, data as of 30/12/2022

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