

*Market Monitor – Mainland China*

## Festive Sentiment Expedited Reopening and Recovery



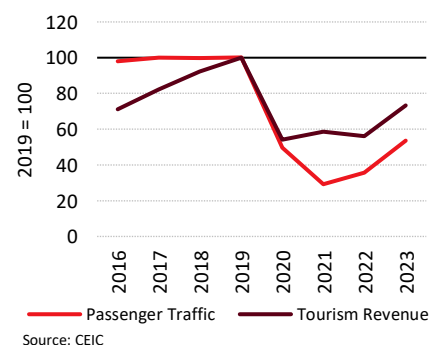
- Economic reopening and the relaxation of pandemic control measures paved the way for a notable rebound of economic activity during the Chinese New Year (CNY) period
- Domestic demand improved gradually, particularly in the services sector, and cost pressure on manufacturers is abating
- With the enhanced policy support, an around 5% GDP growth target for 2023 is highly achievable

### A step closer to a full recovery

**The Spring Festival reinforced the recovery momentum unleashed by the reopening and relaxation of Covid-19 rules.** With the Covid-19 outbreaks quickly abating after the relaxation of pandemic control rules, people travelled across cities during the Spring Festival. Passenger traffic during the Spring Move, which lasted for 40 days throughout the Spring Festival, recovered to around 53.5% of the pre-pandemic levels in 2019 at 1.595 billion trips, a 50.5% year-on-year (YoY) rebound compared to same period last year. In addition to a solid recovery of intercity travels, the Spring Festival also drove tourism consumption, indicating improving consumer sentiment. Tourism revenue soared 30.0% YoY during the Spring Festival, recovering to around 73.1% of the pre-pandemic levels in 2019. The tourist expenditure per capita was RMB 1,220.3, 5.9% higher than the same period last year and just 1.4% lower than the pre-pandemic levels, indicating a stronger willingness to consume amidst a possible robust pace of recovery.

**Domestic demand and producers' cost pressures improved, solidifying the pace of recovery.** Headline CPI inflation accelerated from 1.8% YoY in December 2022 to 2.1% in January 2023, largely driven by a low base of comparison and the seasonal impact of the CNY holiday amidst an economic reopening. Core inflation, excluding energy and food prices, also accelerated from 0.7% YoY in December 2022 to 1.0% YoY in January 2023, the highest pace since July 2022. The prices of services also accelerated from 0.6% YoY in

**Passenger Traffic and Tourism Revenue during the Spring Festival**



## Economic Research

March 2023

December 2022 to 1.0% YoY in January 2023, driven by the 11.2% YoY increase in tourism prices during the Spring Festival. The rise in consumer price reflected the stronger demand recovery amid the reopening and festive sentiment. On the producers' front, the producer price index (PPI) declined for the fourth straight month, registering a YoY drop of 0.8% in January 2023. The producer prices for the manufacturing and processing of ferrous metals sector led the decline with a 11.7% YoY drop. Easing production cost pressures will likely encourage manufacturers to resume industrial activity and scale up production amidst a demand recovery, which will stabilise growth and employment.

### Strong credit and stable property market performance indicates that the policy impact is feeding through to the real economy

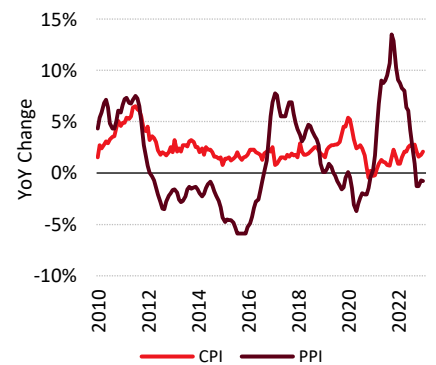
**Enhanced policy efforts continue to fuel positive market expectations.** Following the reduction of the reserve requirement ratio (RRR) in December 2022 and a brightened economic outlook amidst an economic reopening, monetary condition remained supportive to stimulate credit growth. The growth of outstanding RMB loans accelerated from 11.1% YoY in December 2022 to 11.3% YoY in January 2023, driven by a strong rise in corporate loans. M2 money supply growth also rebounded to 12.6% YoY in January 2023 from 11.8% in December 2022. Meanwhile, the property market performance showed further signs of stabilization amid enhanced policy support to quality developers. New home prices in 70 major cities returned to a 0.1% month-on-month growth in January 2023, putting an end to the consecutive decline since August 2022. More favourable housing policies are expected at the city level, including lower interest rates on first home purchases and the relaxation of home purchase restrictions, etc., possibly offering further support for housing market stabilization.

**Looking ahead, the pace of Mainland China's economic recovery should accelerate gradually, bolstered by economic normalization (particularly in the services sector), improved domestic demand, and enhanced policy support.** On 5<sup>th</sup> March 2023, Premier Li Keqiang released the Government Work Report, with a growth target set at around 5%. On the fiscal front, fiscal deficit target is set at 3.0% of GDP, and the quota for special local government bond is RMB 3.8 trillion. On the monetary policy front, inflation target remains unchanged at around 3%, and M2 and total social financing growth will be in line with nominal GDP growth. Targeted policy support will drive the consumption recovery, upgrade the industrial sectors, attract FDI, and mitigate financial risks in the housing sector and local government debt, etc. Currently, the domestic growth momentum is now recovering from a stronger-than-expected economic reopening, together with enhanced policy support, an around 5% growth target for 2023 is highly achievable.

### Financial market movement was driven by an uncertain US rate outlook and the hope of Mainland's recovery

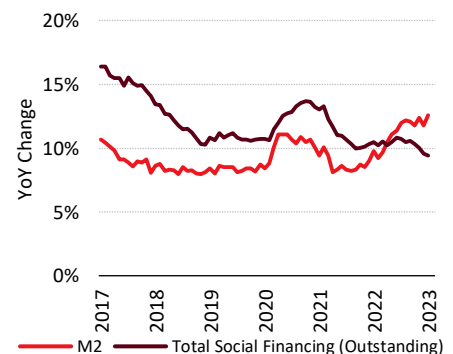
**Over the past month, the RMB exchange rate retreated somewhat and the stock market remained range bound, driven by the uncertain US rate outlook, Mainland's supportive measures and the hope of recovery.** Amid a higher-than-expected US inflation report, market participants anticipated the US Federal Reserve to raise the fed fund rate higher and longer, strengthening the US dollar and weakening other currencies. At the same time, the Politburo meeting reiterated plans to drive economic recovery and high quality

#### Inflation



Source: CEIC

#### Credit Growth



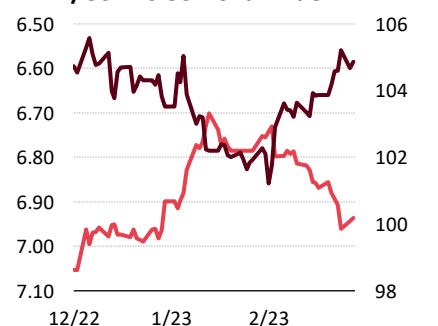
Source: CEIC

#### Official Purchasing Managers' Index



Source: CEIC

#### RMB/USD vs US Dollar Index



Sources: Bloomberg, data as of 28/2/2023

growth, fuelling hope for more supportive measures. In February 2023, the onshore and offshore CNY fell by 2.6% and 2.84% against the US dollar, closing at CNY 6.9356 and 6.9546 per US dollar respectively, while A-shares edged up by 0.7% to 3,437.75.

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