Market Monitor – Mainland China

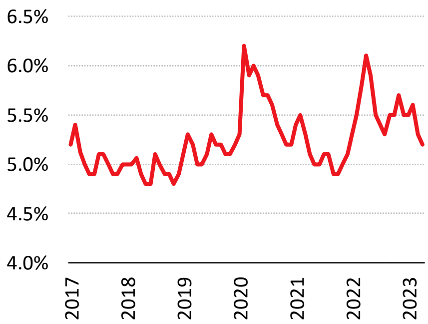
The Solid Recovery Momentum Remains Largely Intact

- Despite weaker-than-expected growth in April, a continuous expansion in consumption, steady investment and an improving labour market has solidified the recovery momentum.
- The Mainland authorities are expected to maintain their current policy support with more targeted measures.
- Our in-house 2023 GDP growth forecast is revised upwards to 6.2%.

A Resilient Domestic Market Drove the Recovery Momentum

Mainland China's economy has continued its recovery momentum in early Q2 2023, with a faster growth in consumption, steady investment and an improving labour market. Given the boost from a full economic reopening as well as a lower base of comparison, the retail and industrial sectors posted a sharp year-on-year (YoY) acceleration in April, though being somewhat slower than market expectations. The labour market stabilized further with the surveyed urban unemployment rate edging down to 5.2% in April, similar to the pre-pandemic levels in 2019. The Golden Week holidays in early May saw a further normalization in economic activity and people's mobility as both passenger traffic and tourism revenue during the festive period recovered to 119.1% and 100.7% of the pre-pandemic levels in 2019, respectively. This signals that consumption growth didn't much lose steam after the initial recovery and that the buoyant consumer sentiment will continue to drive the domestic recovery.

Surveyed Urban Unemployment Rate



Source: CEIC

Domestic consumption surged at a faster pace with notable expansions seen in the consumer-facing services sectors and consumption upgrades. In April, the services production index accelerated to 13.5% YoY, up from 9.2% in March. Across the services sector, the sub-indices for accommodation and catering services as well as wholesale and retail trades went up markedly by 48.7% and 18.8% YoY in April. This reflected a strong rebound for domestic travel. Restaurant receipts also soared by 43.8% YoY, a faster pace than the 26.3% YoY recorded in March 2023. Meanwhile, there is an increasing demand for consumer discretionary products, with retail sales in cosmetics, automobile as well as gold, silver & jewellery surging by 24.3%, 38.0% and 44.7% YoY, respectively in April. In the first four months of 2023, retail sales recorded a solid growth of 8.5% YoY.

The investment for high-quality development continued to increase. The growth of fixed asset investment (FAI) moderated somewhat from 5.1% YoY in Q1 2023 to a softer-than-expected 4.7% YoY in the first four months of 2023. Projects for municipal facility upgrades and technological advancement remained the main driving forces for investment activities in Mainland China. FAI in the management of water conservancy and railway transportation recorded a solid growth by 10.7% and 14.0% YoY in the first four months of 2023. Moreover, new infrastructure will further fuel a sustained momentum for FAI, as Premier Li Qiang stressed the importance to accelerate the construction of charging outlets for electric vehicles. Besides, investment in advanced technology maintained a double-digit growth, as FAI in computer, communication and other electronic equipment expanded by 14.2% YoY in the first four months of 2023. Taken together, the demand for infrastructure upgrade, advanced technology and the green transition is set to remain strong, this will offset the drag from property investment, thereby keeping a steady growth for FAI ahead.

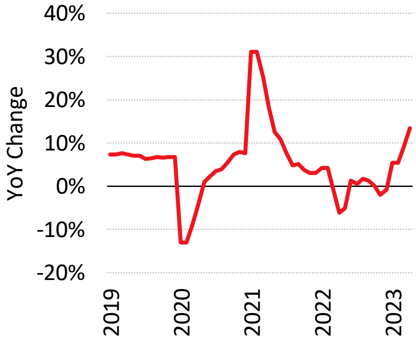
The property market showed further stabilization in demand. The Government's policy support to ensure home delivery and policy relaxation at the city levels has fuelled homebuyers' confidence. The growth of residential building sales by floor space quickened from 1.4% YoY in Q1 2023 to 2.7% YoY in the first four months of 2023. With improved financing channels, the YoY decline of total funding for investment by property developers narrowed from 9.0% in Q1 to 6.4% in the first four months of 2023, of which the funding from deposits and advance receipts reversed from a YoY drop of 2.8% in Q1 to an increase of 4.0% in the first four months of 2023. This indicated a stronger liquidity condition for property developers, though conditions remain uneven between the high quality and low quality developers.

Further targeted policy support to stabilize the economy

The Mainland authorities will continue to roll out more targeted measures to stabilize growth, consumption and employment. President Xi emphasized that auditing must be strengthened to ensure the effective implementation of policy support to stabilize the economy. The support continues to focus on stabilizing growth, employment and inflation with new energy vehicles and rural revitalization also being supported. Specifically, the Mainland authorities might provide a consumption voucher to rural residents for new energy vehicles. Macro-policy support is likely to continue with further policy incentives to boost consumption upgrade and to revitalize development in rural areas.

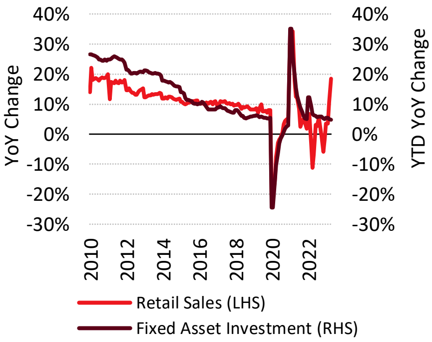
Looking ahead, Mainland China's economy is expected to maintain a solid recovery, underpinned by strengthening domestic demand, stabilizing labour market and continuous policy support. Mainland authorities will likely maintain supportive policies to ensure that the recovery becomes more entrenched. Slight cuts to the reserve requirement ratio and loan prime rates remains potential policy options. On account of a low base of comparison, robust post-pandemic domestic demand, and a rapid recovery, our in-house forecast for Mainland China's 2023 economic growth is revised upwards to approximately 6.2%.

Services Production Index



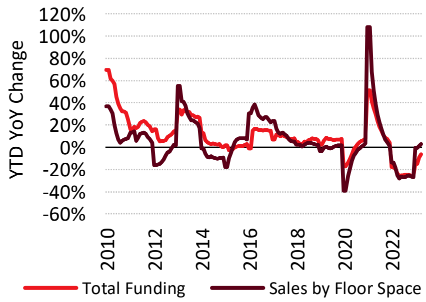
Source: CEIC

Retail Sales & Fixed Asset Investment



Source: CEIC

Total Funding for Property Developers and Sales of Residential Building

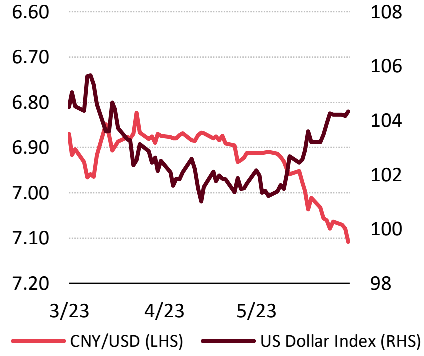


Source: CEIC

Higher volatility in financial markets amid a risk-off sentiment

Financial markets are under pressure amid a rising risk-averse sentiment. Investor morale was dampened in the face of weaker-than-expected economic readings in April and heightened tensions between China and the US over technology products. Market participants also once had stronger expectations over another rate hike in June by the US Federal Reserve. On the other hand, there is also a growing expectation for further supportive monetary policy in Mainland China to solidify the economic recovery. The differences between the monetary policy stance of China and the US has weakened the RMB exchange rate. In May 2023, the onshore and offshore RMB depreciated by 2.8% and 2.7% against the US dollar compared to the end of the previous month, with CNY and CNH closing at 7.1085 and 7.1192 per US dollar respectively, while A-shares decreased by 3.6% to 3,359.43.

RMB/USD vs US Dollar Index



Sources: Bloomberg, data as of 31/5/2023

Disclaimer

This material is prepared by The Bank of East Asia, Limited ("BEA") for customers' reference only. 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 expressed solely as general market commentary, and do not constitute an offer of securities or investment, nor a solicitation, suggestion, investment advice, or guaranteed return in respect of such an offer. 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 material 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. 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 material, 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, and may become valueless. Past performance is not indicative of future performance. The investments mentioned in this material 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 material. 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.

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 of BEA (email: lerd@hkbea.com/telephone number: (852) 3609-1504/postal address: GPO Box 31, Hong Kong).