Economic Research

October 2023

Market Monitor – Chinese Mainland

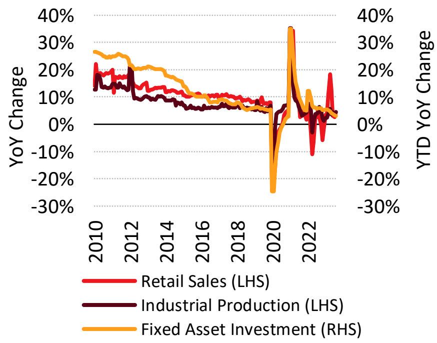
Recovery Gained Momentum Amid Stronger Stimulus

- Growth momentum gathered some steam as the positive effects of policy support began to show up.
- Domestic consumption accelerated given buoyant summer holiday demand, with notable growth in tourism-related service activity.
- There is room for stronger policy support, ensuring the Chinese Mainland economy to achieve the Government's 2023 growth target.

Recovery pace picked up amid positive policy impacts surfacing gradually

The Chinese Mainland's economic recovery gathered some steam following a series of supportive policies to lift growth. Retail sales and industrial production exceeded market consensus, while fixed asset investment (FAI) came in slightly below expectations. Overall, economic activity in August showed a visible turnaround, reflecting a sustained recovery. On a month-on-month (MoM) basis, retail sales of consumer goods, industrial production and FAI expanded by 0.31%, 0.50%, and 0.26% in August, a sharp improvement from their muted growth paces in July. Improvements in August data suggested that the stimulus measures introduced since mid-2023 have begun to take effect gradually, reinvigorating market confidence, boosting consumer spending, and bolstering production activity.

Retail Sales, Industrial Production and Fixed Asset Investment



Source: CEIC

Services consumption remained robust amid buoyant summer holiday demand, with notable growth in tourism-related spending. Recent policy support to facilitate exhibitions, entertainment events and tourist attractions also delivered a boost to travel activities. Retail sales of services continued to expand at a rapid pace of 19.4% YoY in the first eight months of 2023. Specifically, restaurant receipts and service production for transport, storage & post surged by 12.4% YoY and 9.0% in August, respectively. In addition, retail sales of consumer goods accelerated with a YoY growth of 4.6% in August, higher than 3.1% and 2.5% in June and July. During the month, stronger sales growth was seen in automobiles (from -1.5% YoY in July to +1.1% in August), petroleum and its products (from -0.6% to +6%), clothes, shoes, hats & textiles (from +2.3% to +4.5%), and gold, silver & jewellery (from -10% to +7.2%).

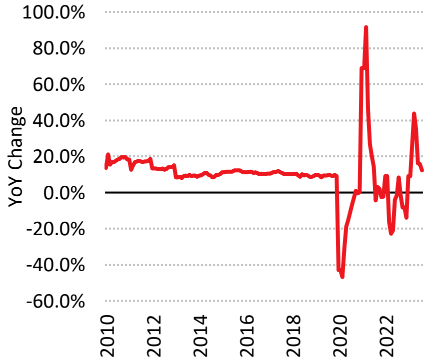
Industrial production grew faster, and investment maintained modest growth. The total value added of established industrial enterprises expanded by 4.5% YoY in August, up from 3.7% in July. Targeted sectors for industrial upgrade and technological advancement recovered strongly. Among the major sectors, electronic products, chemical products and automobiles reported remarkable improvements in August. Regarding investment, the headline FAI edged down to 3.2% YoY in January - August, down from 3.4% in January - July. Property development and private enterprise investment remained subdued. However, the infrastructure and high-tech sectors continued to report solid investment growth, reflecting the accelerated issuance of special bonds and the continued support for technological development. In January - August, the investment in infrastructure, special purpose machinery, and electrical machinery & apparatus posted faster growth at 6.4%, 7.5%, and 38.6%, respectively.

The property sector is expected to stabilize with support from further policy relaxations. Sales performance hovered at low levels in August. In January – August 2023, the sales value of residential property decreased by 1.5% YoY, down from a 0.7% YoY growth in the first seven months. Following a string of policy relaxations in mortgage rules, mortgage rates and down payment ratios in late August, some tier-1 cities have enacted policy support to revitalize market activity. Most notably, Guangzhou and Shenzhen lowered the minimum mortgage rate for first homes to 10 basis points below the loan prime rate, and relaxed home purchase restrictions in certain Guangzhou districts. Shanghai also announced that it would extend the repayment terms of provident fund loans for home purchases. These measures will continue to feed into the market, revitalise market momentum and rekindle homebuyers' confidence. A survey by the China Index Academy showed that new home prices stabilized in September, reflecting improved sentiment fuelled by the implementation of recent housing policy easing and a more positive economic outlook.

A balanced policy mix to support sustainable growth

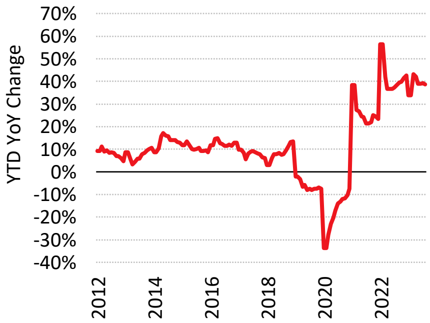
The Mainland authorities have actively rolled out policy measures on multiple fronts to boost confidence and stabilise growth. The policy mix is implemented with a more balanced approach to support both near-term economic performance and a longer-term vision of high-quality growth. On the monetary front, the People's Bank of China (PBoC) has stepped up its monetary easing efforts by reducing its policy rates and cutting the reserve requirement ratio (RRR) by 0.25 percentage points to lower financing costs and unleash liquidity for further credit support. The PBoC also promotes stronger credit support for private enterprises at the local level. On the fiscal front, a full refund of value-added tax for the purchase of technology equipment by domestic R&D institutions will be implemented until late-2027. It echoed the Government's long-term support for technological advancement. Also, the Ministry of Finance, State Taxation Administration and other authorities announced an extension of favourable tax policies in late September to support a list of sectors, such as the health services sector, public transport facilities, and financial institutions offering loans to rural areas, etc. Moreover, the State Council released 30 measures in late September to boost the tourism sector, including enhancing transport services for tourism and increasing international flights. In the September State Council meeting, Premier Li Qiang also stressed the need to accelerate the upgrade of traditional industries and the cultivation of strategic emerging industries.

Restaurant Receipts



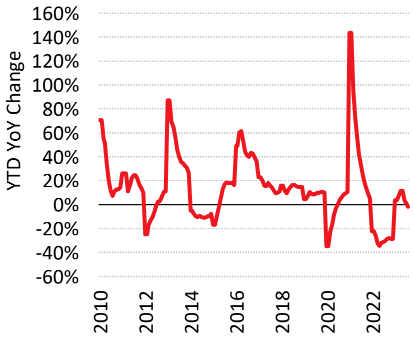
Source: CEIC

Fixed Asset Investment of Electrical Machinary & Apparatus Sectors



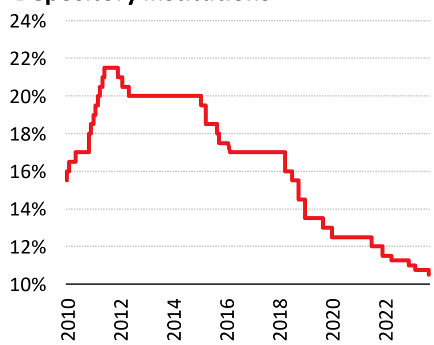
Source: CEIC

Sales Value of Commercial Residential Property



Source: CEIC

Reserve Requirement Ratio - Large Depository Institutions



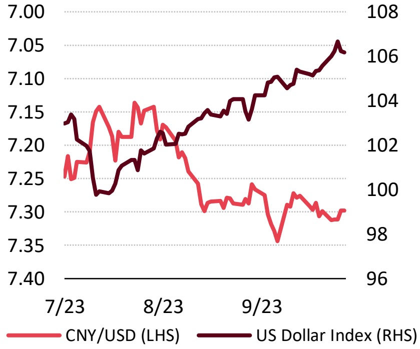
Source: CEIC

Looking ahead, the Chinese Mainland's recovery momentum will likely improve. The positive impacts of multiple policy supports will continue to surface in the rest of 2023. These policy supports will stabilise confidence and reduce the financial burdens on households and enterprises. There is still further room for stronger support, including slight reductions of policy rates and RRR or additional policy loans to boost infrastructure investment, etc., providing further impetus to consumption and investment. Overall, the Chinese Mainland's economy remains on track to achieve the Government's target of around 5% in 2023.

Financial market remained flat

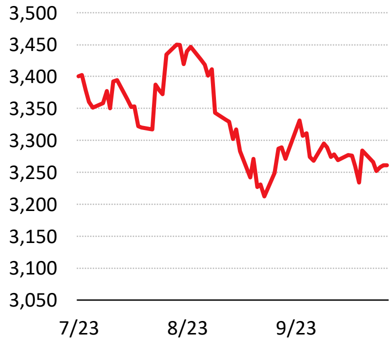
Market sentiment stayed cautious, leaving a flat performance in September. The back-to-back announcements of policy support to revive the financial market and the property market in late August, such as cutting stamp duty for securities trading, temporarily slowing the pace of IPOs, reducing the interest rates of existing mortgage loans for first homes and refining the mortgage rules to qualify as first-time home buyers, etc., once led to a sharp equity market rebound in early September. However, resurging worries about defaults by property developers and rising expectations for prolonged global monetary tightening weighed on market sentiment, resulting in a gradual decline in the equity market. In September 2023, onshore and offshore RMB depreciated by 0.5% and 0.2% against the US dollar compared to the previous month, with the CNY and CNH closing at 7.298 and 7.2928 per US dollar, respectively, while the A-shares index fell by 0.3%.

RMB/USD vs US Dollar Index



Sources: Bloomberg, data as of 30/9/2023

A Share Index



Source: Bloomberg, data as of 30/9/2023

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