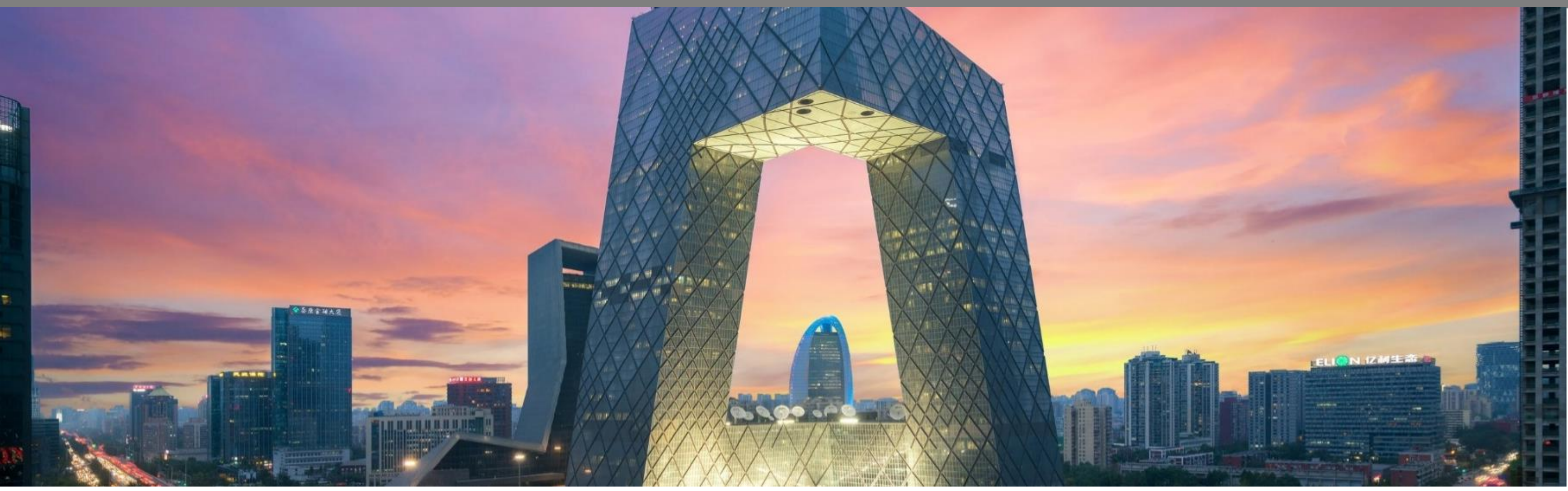
Market Monitor – Chinese Mainland

Recovery Momentum Held Up

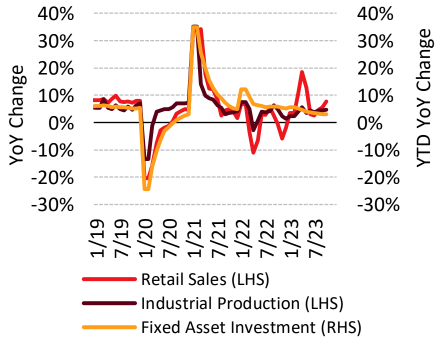


- Economic indicators in October pointed to a continued recovery trend, with better-than-expected retail sales and industrial output.
- Domestic consumption grew steadily, driven by buoyant holiday sentiment, pent-up demand, and intensified supportive measures.
- Continued policy support will lay the foundation for recovery.

Consumption and manufacturing activity grew steadily

The Chinese Mainland economic recovery held up in October. As a host of macro-policies continued to take effect, consumer spending and manufacturing activity expanded steadily. On the contrary, fixed asset investment (FAI) grew slower due to soft property investment. On a month-on-month (MoM) basis, retail sales of consumer goods, industrial production and FAI expanded for three months in a row, increasing by 0.07%, 0.39% and 0.10% in October, respectively. This indicates sustained recovery momentum.

Retail Sales, Industrial Production and Fixed Asset Investment



Source: CEIC

The services sector and consumption accelerated, driven by buoyant holiday sentiment and sales promotions. Robust travel-related spending during National Day and Mid-Autumn Festival holidays led to an acceleration in the services sector, with overall services production increasing by 7.7% year-on-year (YoY) in October, up by 0.8 percentage points (ppts) from September. Specifically, accommodation and catering production rose by 21.3% YoY in October. On the demand side, retail sales of services picked up by 0.1 ppts to 19.0% YoY in the first ten months. The retail sales of consumer goods also grew faster, at 7.6% YoY in October, up from 5.5% in September. The acceleration was fuelled by faster sales growth in automobiles (from +2.8% in September to +11.4% YoY in October), household appliances & AV equipment (from -2.3% to +9.6%) and telecommunication equipment (from +0.4% to 14.6%). With a stabilizing labour market, domestic consumption is set to remain a primary growth engine for the Chinese Mainland economy.

Industrial production showed broad-based improvements. Despite higher base effects, the growth of industrial production increased by 0.1 ppts to 4.6% YoY in October. This was mainly led by equipment manufacturing, which accelerated for the third consecutive month to 6.2% YoY growth in October, contributing 45.1% of the overall growth of industrial production. In particular, automobile and electrical machinery & apparatus manufacturing also maintained solid growth of 10.8% and 9.8% YoY in October (January – October: 11.3% and 13.6% YoY), respectively.

Investment grew modestly, despite the drag from property investment. Overall fixed asset investment (FAI) slowed to 2.9% YoY in January – October 2023, down from 3.1% in January – September 2023. Among the FAI components, manufacturing and infrastructure FAI maintained solid growth at 5.9% and 6.2% YoY, while property development investment contracted by 9.3%. Funding support from faster issuances and greater usage of special-purpose bonds continued to lift infrastructure investment. Most notably, FAI in railway transportation and electricity, thermal power, gas and water facilities registered a strong growth of above 20% YoY in January – October 2023.

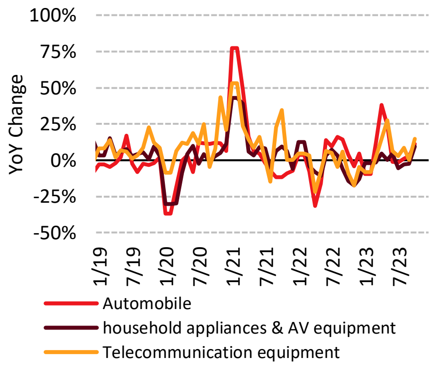
Expectations for more policy measures to support the property sector are widely expected. Following a string of support measures since late-August (e.g., relaxation of home purchase and first mortgage definition, reductions of mortgage rates and down payment ratios, etc.), it still takes time for the positive impact to surface. In January – October 2023, the sales of residential buildings decreased by 3.7% YoY (from -3.2% YoY in January – September 2023). In mid-November, the media reported that the People's Bank of China (PBoC) was considering providing at least RMB 1 trillion of low-cost financing through policy banks to urban village renovation and affordable housing programs. In addition, a draft list of 50 developers eligible for further funding support, like unsecured short-term loans, is reportedly finalised. If implemented, the new financing support is expected to boost market confidence ahead.

Rising expectations of greater policy support to solidify the foundation of recovery

Looking ahead, continued policy support will lay the foundation for recovery. Since 2H 2023, the Mainland authorities have stepped up their policy support to stabilise economic growth. Additional issuance of sovereign debt and the 25 measures to step up financial support for the private sector, including gradually raising the proportion of private enterprise loans and expanding bond and equity financing, are the most recent measures. The upcoming Central Economic Work Conference will set the tone for 2024's economic work. With the policy impact continuing to feed through the real economy, the Chinese Mainland economy is likely to maintain a steady recovery trend in 2024.

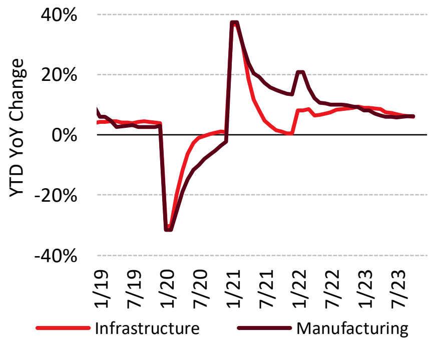
The Chinese Mainland still has policy space, if needed. With the benign inflation and high domestic saving rate, macro-policy is likely to stay supportive and could further strengthen if needed in 2024. Regarding monetary policy, slight cuts to the reserve requirement ratio and interest rates are expected. Regarding fiscal policy, the fiscal deficit ratio can stay slightly higher. Funding from the additional sovereign debts worth RMB 1 trillion is also poised to support investment activity and stabilise employment in the coming months. Overall, a well-coordinated and supportive policy backdrop will ensure a steady recovery ahead.

Retail Sales of Selected Sectors



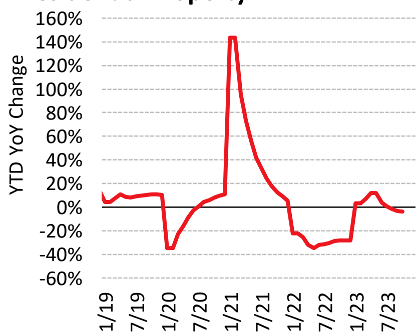
Source: CEIC

Fixed Asset Investment of Selected Sectors



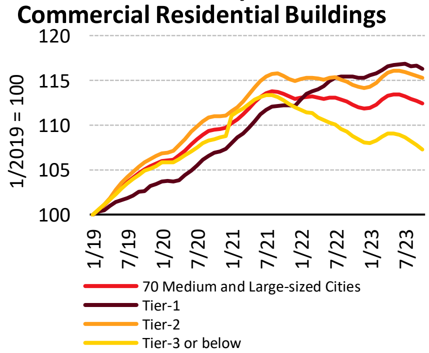
Source: CEIC

Sales Value of Commercial Residential Property



Source: CEIC

Sales Prices of Newly Constructed Commercial Residential Buildings

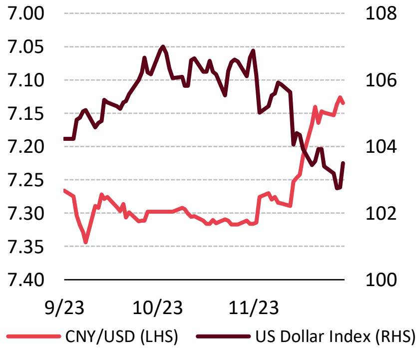


Source: National Bureau of Statistics of China, BEA Economic Research Department

Enhanced policy support led to steady financial market performance

Risk appetite improved with more signals from favourable policies and US-China relations. Despite drags from escalating geopolitical tensions and the softening global economic outlook, financial market performance stabilised amid rising expectations for enhancing funding support for developers and the face-to-face meeting between the US and China's President. Meanwhile, the RMB exchange rate also turns more steady, with stronger seasonal demand from exporters, expectations of the US interest rate peaking, and a somewhat softening of the US dollar exchange rate. The Shanghai Stock Exchange A Share index edged up by 0.4% in November, while onshore and offshore RMB appreciated by 2.5% and 2.7% against the US dollar compared to the previous month, with the CNY and CNH closing at 7.135 and 7.1459 per US dollar, respectively.

RMB/USD vs US Dollar Index



Sources: Bloomberg, data as of 30/11/2023

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).