

Market Monitor – Chinese Mainland

A Steady Growth Momentum Likely Continues in 2024



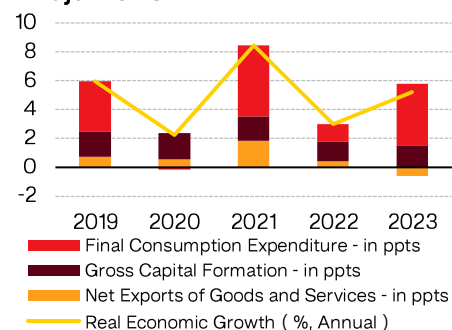
- Economic growth in 2023 reached 5.2%, exceeding the Government's growth target of around 5%.
- Given post-pandemic normalisation and pent-up demand, final consumption served as the major growth driver. The industrial sector expanded steadily, while investment witnessed a mild recovery.
- More forceful policy support is rolling out to stabilise growth momentum in 2024.

A consumption-led recovery helped achieve the Government's growth target

The Chinese Mainland economy has staged a steady recovery. In 2023, real gross domestic product (GDP) grew by 5.2%, exceeding the Government's growth target of around 5%. During the year, final consumption ranked as the top contributor, accounting for 82.5% of GDP growth, followed by gross capital formation (28.9%). Together, these two components offset the drag from net exports, which brought a subtraction to GDP growth. From Q1 to Q4 2023, a stable growth momentum was recorded, with the year-on-year (YoY) GDP growth for the four quarters at 4.5%, 6.3%, 4.9% and 5.2%.

Pent-up demand bolstered a private consumption recovery. With an orderly resumption of economic and social activities, retail sales of services witnessed a notable rebound of 20.0% in 2023, with the accommodation and catering industries being the major growth drivers. Meanwhile, retail sales of consumer goods grew by 7.2% YoY in 2023. Specifically, a wide range of consumption goods recorded double-digit growth in 2023, such as clothes, shoes, hats & textiles (+12.9%), tobacco & alcohol (+10.6%), gold, silver & jewellery (+13.3%) and sports & recreation goods (+11.2%), offsetting the drag from property-related

Contribution to GDP Growth by Major Items



Source: CEIC

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consumption items. Moreover, the sales of automobiles grew by 5.9% YoY in 2023, reflecting the policy support to encourage the purchases of new energy vehicles (NEVs) as well as the discounts by car manufacturers.

The industrial sector grew steadily, while investment witnessed a mild expansion. The value added of industrial enterprises expanded by 4.6% in 2023. Specifically, several advanced industries recorded faster growth during the year, such as automobiles (+13.0%) and electrical machinery & apparatus (+12.9%). Meanwhile, fixed asset investment increased mildly by 3.0% in 2023, with a solid rise in infrastructure (+5.9%) and manufacturing (+6.5%) investment offsetting a contraction in property investment (-9.6%).

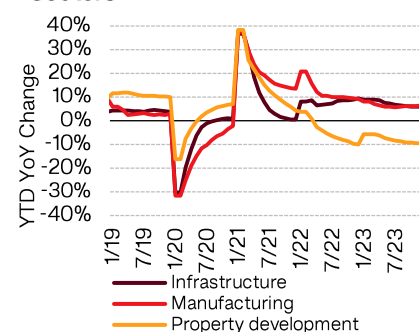
The property market stabilised at low levels, driven by strengthened policy support. In 2023, several indicators for the property sector were in contraction: the sales of residential property (-6.0%) and the newly started construction of residential buildings (-20.9%). That said, there were some encouraging signs for housing deliveries, as housing completion rose by 17.2%. The Mainland authorities are now enhancing supportive measures to boost housing investment, revive homebuyer sentiment and support the funding conditions of quality developers. In January 2024, after restarting the pledged supplemental lending program (PSL) with a net injection of RMB 350 billion in December 2023, the People's Bank of China (PBoC) implemented an additional RMB 150 billion net injection by PSL to provide more low-cost funds for policy banks to possibly support investment in three major projects (affordable housing, urban village renovation and public infrastructure). In addition, the Mainland authorities relaxed the rules for collateral lending on commercial properties held by real estate companies. At the city level, Guangzhou and Shanghai further removed the home purchase restrictions for certain properties, such as larger-sized units. Looking ahead, the impacts of supportive policies are expected to gradually emerge.

More forceful policy responses to stabilise market confidence

More and stronger stimulus measures are being rolled out to revive market confidence. In late January 2024, the PBoC announced a cut in the reserve requirement ratio (RRR) by 0.5 percentage points, which is expected to inject RMB 1 trillion of liquidity into the financial system. Additionally, the PBoC announced the establishment of a new Credit Market Department to support 5 strategic areas: technology finance, green finance, inclusive finance, pension finance and digital finance. There is also enhanced support for the capital market. The China Securities Regulatory Commission (CSRC) has rolled out various policy guidance, with greater efforts to calm confidence and punish short-selling that manipulates the market. Central Huijin indicated that it would increase its ETF purchases. Moreover, the media reported that President Xi would receive a briefing on the capital markets, and the authorities are considering setting up a stabilisation fund worth RMB 2 trillion from offshore accounts of state-owned enterprises (SOEs) to buy onshore shares. The State-owned Assets Supervision and Administration Commission also plans to promote the incorporation of market capitalisation into the assessment of central SOEs. These moves signal

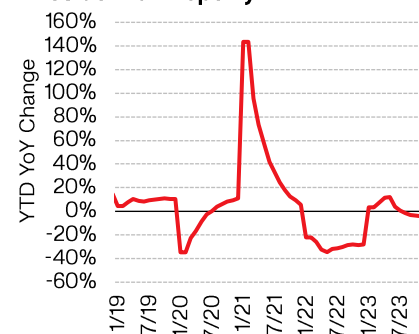
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Fixed Asset Investment of Selected Sectors



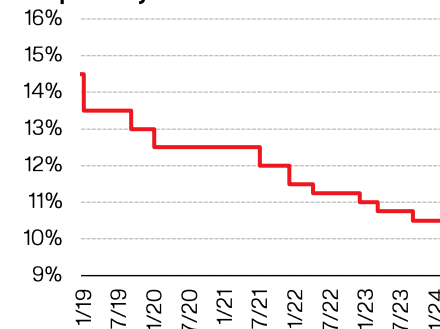
Source: CEIC

Sales Value of Commercial Residential Property



Source: CEIC

Reserve Requirement Ratio - Large Depository Institutions



Source: CEIC

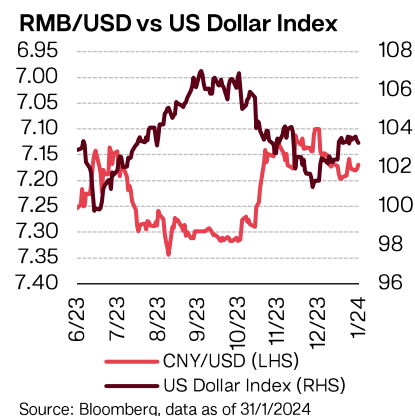
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that the authorities have a stronger determination to implement policy responses from multiple fronts to stabilise market confidence and expectations.

Financial markets await policy impacts to emerge

Market sentiment remained cautious. Recent economic indicators pointed to steady growth but slightly missed market expectations, resulting in subdued sentiment in financial markets. Since mid-January 2024, a slew of supportive measures have been announced to revive investors' confidence and contain downward pressures, such as the RRR cut and the suspension of certain share lending. The possibility of setting up a stabilisation fund was also welcomed by market participants. The Shanghai Stock Exchange A-Share index declined by 6.3% in January 2024, as compared to the previous month. Moreover, global investors reduced their bets on an imminent rate cut by the US Federal Reserve, supporting the USD exchange rate to stay stronger again. The onshore and offshore RMB depreciated by 1.0% and 0.9% against the US dollar compared to the previous month, with the CNY and CNH closing at 7.1689 and 7.1872 per US dollar, respectively.

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