BEA 東亞銀行

Economic Research

June 2024

Market Monitor – Chinese Mainland

Stable Growth with Enhanced Property Policy Support

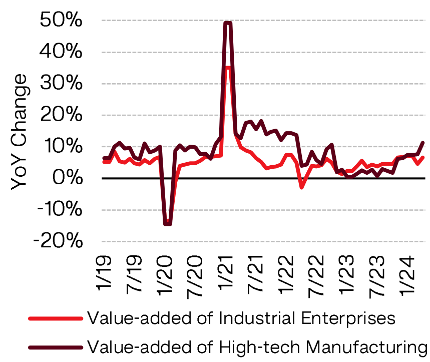
- A robust industrial sector and improving exports sustained steady growth momentum in April, with improving labour market conditions.
- Manufacturing and infrastructure investment grew further, while retail sales moderated slightly due to a higher base of comparison and seasonal impacts.
- A new package of supportive policies for the property market is set to revive market confidence.

Solid industrial production drove stable growth in April

The Chinese Mainland economy sustained its recovery trend in April. Industrial production served as a major growth driver, while the growth of retail sales and fixed asset investment (FAI) moderated slightly. Labour market conditions improved in April, with the surveyed urban unemployment rate decreasing from 5.2% in March to 5.0% in April. Overall, Chinese Mainland economic fundamentals showed continued improvements, supporting a steady growth outlook.

Industrial production grew strongly amid policy support and improving exports. The value-added of industrial enterprises accelerated from 4.5% year-on-year (YoY) in March to 6.7% in April (exceeding market expectations). On a month-on-month (MoM) basis, industrial production increased sharply by 0.97%. Structural transformation was also evident, with high-tech and equipment manufacturing rising further from 7.6% YoY in March to 11.3% in April and from 6.0% to 9.9%, respectively. The data underscored the concerted policy efforts to promote digitalisation, green transition and industrial upgrades to build a modernised industrial system. In addition, improving external demand helped lift industrial production, with the nominal export delivery value of industrial products rising sharply from 1.4% YoY in March to 7.3% in April. As industrial activity improved,

Industrial Production



Source: CEIC

sales revenue and profits of industrial enterprises rebounded in April, from -1.2% YoY and -3.5% in March to 3.3% and 4.0% in April, respectively.

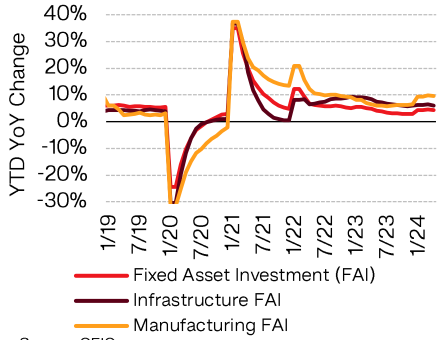
Investments and consumer spending moderated slightly. Total FAI expanded by 4.2% YoY in January – April, compared to 4.5% in January – March. According to the National Bureau of Statistics (NBS), the moderation was due to adverse weather conditions in certain southern regions, where construction works were disrupted. Among the major industries, manufacturing and infrastructure FAI sustained faster growth at 9.7% YoY and 6.0% in the first four months of 2024, respectively, while property FAI contracted by 9.8%. Additionally, total retail sales slowed from 3.1% YoY in March to 2.3% in April, reflecting the high base in 2023 and the different timing of the May Golden Week holidays in 2023 and 2024.

Survey results pointed to a sustained recovery momentum. The official manufacturing purchasing managers' index (PMI), which reflects the conditions of larger enterprises, declined from 50.4 in April to 49.5 in May. The NBS attributed the drop to higher base effects formed in previous months as well as insufficient demand. Meanwhile, the Caixin manufacturing PMI, a poll that focuses on smaller and export-oriented firms, increased from 51.4 to 51.7 in May, marking a sharp divergence from the official gauge. This was probably lifted by external demand, with other major exporting economies also seeing an uptrend in exports. In addition, the official non-manufacturing PMI remained largely steady at 51.1 in May compared to 51.2 in April, with a continued expansion both in the construction sector (54.4) and the services sector (50.5). The Caixin services PMI also climbed from 52.5 in April to 54.0 in May, the fastest pace since July 2023. Together, these data suggest a solid recovery momentum in the services sector.

A new round of policy supports to reinforce growth resilience

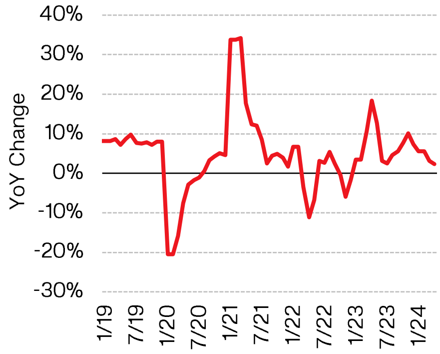
A new policy package to support the property market is set to boost confidence. The property market remains in a consolidation phase, with major property-related indicators staying in contraction: the sales of residential buildings (-31.1% YoY), funds for real estate development investment (-24.9%) and the floor space of newly started residential buildings (-25.6%). Accordingly, the Mainland authorities are intensifying policy support on multiple fronts. In mid-May, the People's Bank of China (PBoC) established a nationwide relending programme worth RMB 300 billion at a rate of 1.75% to support financing for state-owned enterprises to purchase unsold finished homes at reasonable prices for conversion into affordable housing. Meanwhile, the PBoC also announced the removal of the mortgage rate floor, a reduction of interest rates for individual housing provident fund loans by 25 basis points (bps), and a cut in the minimum down-payment ratio for first-homes (from 20% to 15%) and second homes (from 30% to 25%). Furthermore, some tier-1 cities like Shanghai, Shenzhen and Guangzhou moved to loosen their housing policies, such as by lowering minimum mortgage rates, reducing down payment ratios, and easing rules for home purchases. Beijing is also likely to follow suit in the future. Following the announcement of these policy measures, some major cities reportedly saw a

Fixed Asset Investment of Selected Sectors



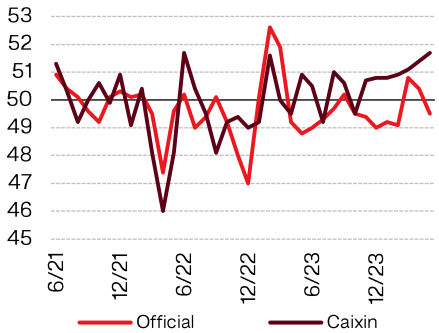
Source: CEIC

Retail Sales



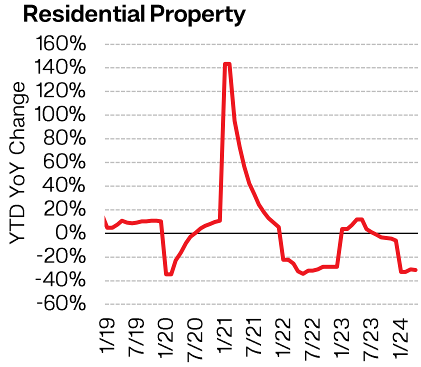
Source: CEIC

Manufacturing Purchasing Managers' Index



Source: CEIC

Sales Value of Commercial Residential Property

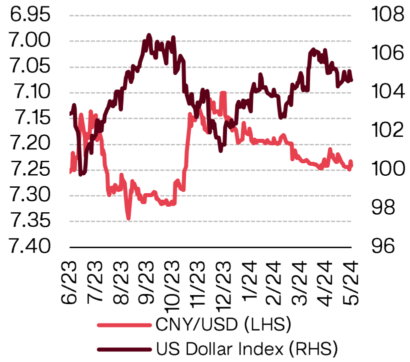


Source: CEIC

visible rise in the number of residential property transactions. With the implementation of stronger policy support, the property sector is expected to stabilise gradually.

There is further room for macro policy and reforms to drive a steady recovery. Recently, President Xi chaired a symposium in Jinan and delivered a speech emphasising the need to deepen reforms and advance Chinese-style modernisation. Nine business leaders and experts were invited to share their views on reforms of the electricity system, the development of venture capital investment, upgrading traditional industries, improving the corporate governance of private enterprises, and improving the business environment for foreign companies. These are the topics expected to be covered in the upcoming third plenary session in July. Moreover, macro policy support has also intensified further. Starting in mid-May, the Ministry of Finance has begun issuing ultra-long special treasury bonds in phases to support implementation of major national strategies and enhance capabilities in targeted areas. Besides, the Mainland authorities jointly released 22-point measures to reduce business costs, highlighting targeted tax-and-fee cuts to support technological and manufacturing advancement, as well as efforts to lower the costs of financing, labour, raw materials and logistics. Further cuts in the reserve requirement ratios and interest rates also remain likely ahead. With all these policy supports, the Chinese Mainland is set to achieve the growth target of around 5% in 2024.

RMB/USD vs US Dollar Index



Source: Bloomberg, data as of 31/5/2024

Financial markets retreated somewhat

Financial markets took a pause after a strong rally. A series of support measures once led to a sharp rally in financial markets, with major A-share indices hitting a year-to-date high in mid-May. Since then, market sentiment has somewhat cooled, as investors took profits amid resurging concerns about global monetary tightening and geopolitical tensions. The Shanghai Stock Exchange A-Share index declined by 0.6% in May, as compared to the previous month. In May, the onshore RMB remained largely steady, while the offshore RMB edged down by 0.1% against the US dollar compared to the previous month. The CNY and CNH closed at 7.2418 and 7.2630 per US dollar, respectively.

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.

This material is the property of BEA and is protected by relevant intellectual property laws. Without the prior written consent of BEA, the information herein is not allowed to be copied, transferred, sold, distributed, published, broadcast, circulated, modified, or developed commercially, in either electronic or printed forms, nor through any media platforms that exist now or are developed later.

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).