Economic Research

July 2024

Market Monitor – Chinese Mainland

Growth sustained with all eyes on the third plenary session

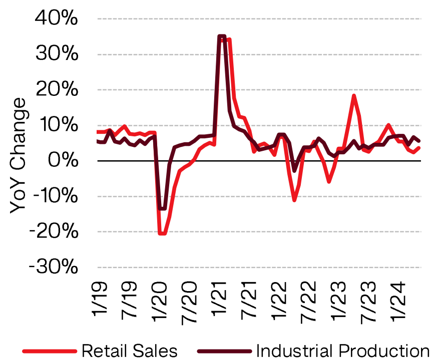
- Retail sales growth picked up amid an improved spending appetite, while industrial production and investment expanded moderately.
- Enhanced policy support has contained the downside risks for the property market, with early signs of stabilisation.
- The PBoC emphasised supportive monetary policy, with potential shifts ahead. The third plenary session of the Central Committee will be held on 15th-18th July, offering hints on future economic reforms and goals.

Steady growth in May

The Chinese Mainland economy largely held up in May. Retail sales grew at a faster pace and beat market expectations. Industrial production and fixed asset investment expanded moderately, albeit slightly slower than consensus. Seasonal influences were notable in May due to the differing timing of the Golden Week Holidays in 2024 and 2023. There were 2 more days of holidays in May 2024, resulting in more rest days to spend and a production break. Overall, growth held up steadily.

Retail sales growth picked up amid an improved spending appetite. The growth of total retail sales picked up from 2.3% year-on-year (YoY) in April to 3.7% in May. Improved spending appetite was supported by favourable sentiment and more rest days during the Golden Week Holiday, early promotions ahead of the "June-18 festival", and policy incentives for consumption upgrades. While the growth rate seemed not as impressive compared to historical records, it was owed to high base effects as pent-up demand was unleashed in the first phase of full-reopening last year. Among major commodity categories, retail sales of telecommunication equipment and sports & recreational goods accelerated from 13.3% YoY to 16.6% and from 12.7% YoY to 20.2% in May, respectively. In addition,

Retail Sales & Industrial Production



Source: CEIC

retail sales of automobiles saw a narrower decline of 4.4% YoY in May from 5.6% in April, supported by increased subsidies for trade-in programmes. Given various support measures in place, consumption is likely to sustain a gradual recovery ahead.

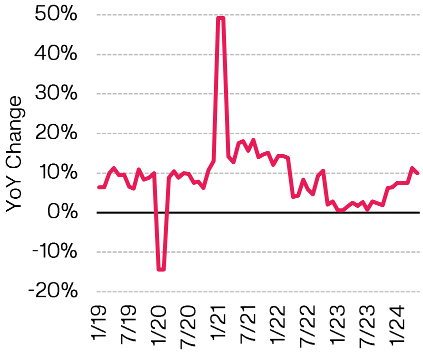
Industrial production and investment moderated in May. The value-added of industrial enterprises moderated from a growth of 6.7% YoY in April to 5.6% in May. Among the industrial sector, high-tech and equipment manufacturing remained the outperformers, growing by 10.0% YoY and 7.5% in May, compared to 11.3% and 9.9% in April, respectively. Improving external demand continued to be the major driver for the industrial sector, with merchandise exports (in US dollar terms) accelerating from a growth of 1.4% YoY in April to 7.6% in May. Overall, industrial production is likely to remain a major economic driver with solid growth. Moreover, fixed asset investment (FAI) expanded by 4.0% YoY in January – May, down from 4.2% in January – April. Property FAI remained the major drag (from -9.8% in January – April to -10.1% in January - May). Meanwhile, FAI for the purchase of equipment and instruments surged by 17.5% YoY in January - May, reflecting the policy boost for equipment renewals. Going forward, FAI is set to stabilise further amid support from several positive drivers, including improved corporate profitability and intensifying fiscal support from the issuance of ultra-long special treasury bonds and special purpose bonds.

Enhanced policy support would contain downward pressures on the property markets. While total sales of residential buildings remained muted with a 30.5% YoY decline in January – May, major property developers reported a notable rebound in sales in June. This showed initial signs of stabilising market sentiment amid the implementation of various support measures. The State Council meeting in early June also stressed the need to continue the study of new measures to clear housing inventory and stabilise the property market. This fuelled surging expectations for more policy support in the future. Besides, the Ministry of Natural Resources is reportedly studying the possibility of permitting local governments to purchase idle land from developers with the proceeds of special purpose bonds. In late June, Beijing joined other tier-1 cities to enact easing measures, including lowering the minimum down payment ratio and mortgage rates for first homes. These policy measures are set to provide increasing support for the property market.

Further reforms can be anticipated ahead

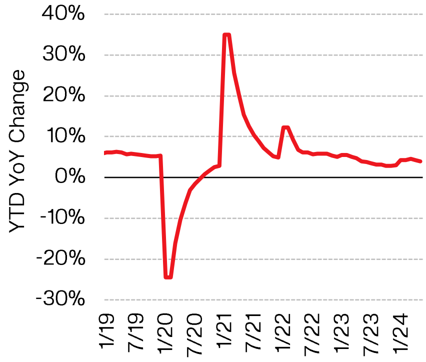
The PBoC set out directions to enhance its monetary policy framework. In mid-June, the PBoC Governor revealed a blueprint for monetary policy reform, which contained a few notable proposals, such as including the trading of treasury bonds in the secondary market into the PBoC's toolkits to manage liquidity, promoting an interest rate reform by using a short-term interest rate to guide markets, optimising the framework of structural policy tools to meet specific policy goals, and so on. This suggests that there is still ample room for monetary policy to support the economy. After the PBOC Monetary Policy Committee meeting in Q2 2024, the PBoC stressed that prudent monetary policies with more

High-tech Manufacturing



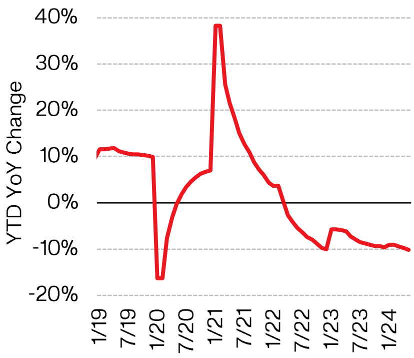
Source: CEIC

Fixed Asset Investment



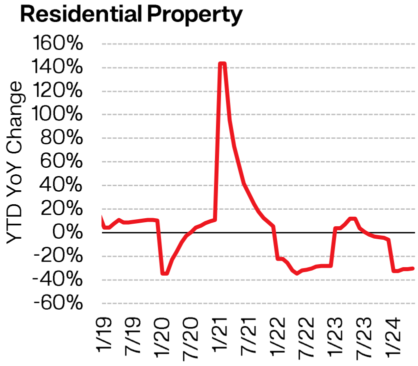
Source: CEIC

Property Development Investment



Source: CEIC

Sales Value of Commercial Residential Property



Source: CEIC

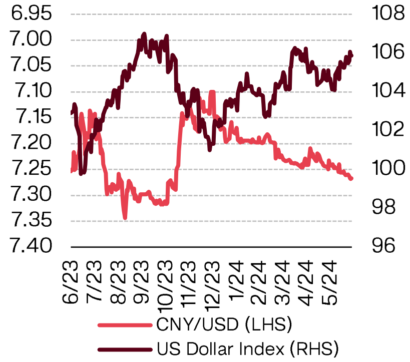
attention to countercyclical adjustments will help expand domestic demand and boost confidence, as well as pledging to guard against excessive fluctuations in the RMB exchange rate. In early July, the PBoC announced a treasury bond borrowing operation from primary dealers to stabilise bond markets.

Besides, the third plenary session of the Central Committee is scheduled to take place on 15th–18th July. Previous third plenums have been used to launch major reforms, with the market currently expecting that the meeting will focus on building up new productive forces through technology and innovation, developing a national unified market, fiscal and rural reforms, etc. Thus, it is worth following the upcoming meeting for signs of next-stage economic reforms and goals.

Market sentiment turned cautious

Financial markets retreated. In mid-June, the European Union (EU) announced its plan to impose higher tariffs on Chinese electric vehicles (EVs). Subsequently, Canada was reportedly considering joining the US and EU to increase tariffs on Chinese EVs. The news triggered renewed concerns over intensifying protectionism. Furthermore, the Fed's dot plots in June signalled only one rate cut in 2024, meaning a likely delay in the easing of monetary policy. Both news stories have led to reduced market optimism. Near the end of the month, financial markets stabilised somewhat with hopes of further policy support, as the dates for the third plenary session were confirmed. As a whole, the Shanghai Stock Exchange A-Share index declined by 3.9% in June. The onshore CNY and offshore CNH also depreciated slightly by 0.4% and 0.5% against the US dollar in June, closing at 7.2673 and 7.2993 per US dollar, respectively.

RMB/USD vs US Dollar Index



Source: Bloomberg, data as of 30/6/2024

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