Economic Research

August 2024

Market Monitor – Chinese Mainland

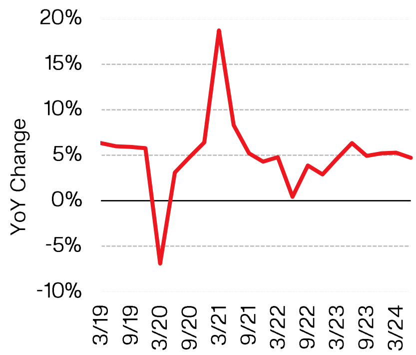
Steady 1H performance with deepening reform ahead

- The Chinese Mainland's economy expanded steadily by 5.0% YoY in 1H 2024, with industrial production outpacing retail sales and investment.
- The 3rd Plenum laid out a reform agenda and stressed the importance of achieving this year's socio-economic goals. The latest Politburo meeting signalled boosting consumption as a high priority.
- Further monetary policy reform was implemented to better manage the PBoC's multiple monetary objectives.

The economy grew steadily in 1H, led by the industrial sector

The Chinese Mainland economy expanded steadily at 5.0% year-on-year (YoY) in 1H 2024. On a quarterly basis, the Mainland economy grew at a slower pace of 4.7% YoY in Q2 2024, down from 5.3% in Q1 2024 due to a higher base of comparison (+6.3% in Q2 2023) and disruptions amid adverse weather. Among the major expenditure components, final consumption contributed 46.5% of the GDP growth in Q2 2024, followed by gross capital formation (40.1%) and net exports (13.3%).

Chinese Mainland GDP Growth



Source: CEIC

Industrial production took the lead in the recovery. In 1H 2024, the value-added of industrial enterprises expanded solidly by 6.0% YoY, driven by buoyant export demand and industrial upgrading. Efforts to promote new and green industries as new growth drivers have been evident, with high-tech and equipment manufacturing rising briskly by 8.7% YoY and 7.8% in 1H 2024, respectively. In June 2024, industrial production moderated slightly to 5.3% YoY from 5.6% in May, but was still above market expectations.

Consumer spending grew modestly. In 1H 2024, total retail sales grew by 3.7% YoY. An easing trend in retail sales was noted in recent months, with its monthly growth softening to 2.0% YoY in June 2024, the slowest pace since December 2022. In late July, the National Development and Reform Commission and the Ministry of Finance jointly issued new measures to encourage the renewal of passenger cars and household appliances, as well as home renovations with increased subsidies. That was in line with the Politburo meeting's high policy priority to boost consumption. With enhanced policy support and normalisation of base effects last year, retail sales are expected to grow moderately ahead.

Investments maintained a steady growth trend. Total fixed asset investment (FAI) expanded by 3.9% YoY in 1H 2024, down slightly from 4.0% in January – May. Property FAI remained the major drag, declining by 10.1% YoY in 1H 2024. The policies for promoting equipment renewals have led to a rapid expansion in the FAI for the purchases of equipment & instruments, which surged 17.3% YoY, contributing to 54.8% of FAI growth in 1H 2024. FAI is expected to continuously benefit from the enhancement of fiscal support, particularly the large-scale equipment renewal and consumer goods trade-in policies, and the likely expanded scope of use of special local government bonds, partially offsetting the drag from property FAI.

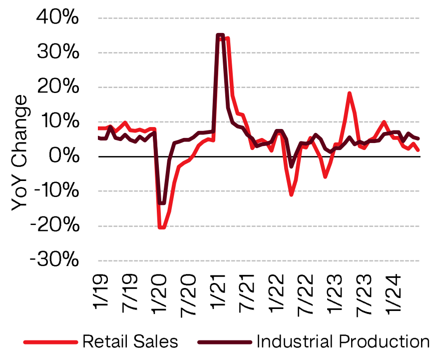
The property market showed signs of stabilisation as the policy impact was feeding through. While major property-related indicators remained in contraction, their declines generally narrowed in 1H 2024. As the latest rounds of support packages were implemented starting from mid-May, their effects are likely to emerge further in the coming months. Besides, the Politburo meeting in July continued to stress the policy goal of promoting stable and healthy development of the real estate market with initiatives like actively buying unsold homes for conversion into affordable housing to clear housing inventory. Looking forward, the policy environment is likely to remain supportive.

Surveys showed moderating manufacturing sector and diverged services sector performance. The official manufacturing purchasing managers' index (PMI) edged down to 49.4 in July from 49.5 in June. The National Bureau of Statistics explained that the declines were due to seasonal impacts, insufficient demand and adverse weather in certain regions. Meanwhile, the Caixin manufacturing PMI, which focuses on smaller and export-oriented firms, fell from 51.8 in June to 49.8 in July, driven by the decline in new orders. It was the first contraction in 9 months, and the fall in Caixin manufacturing PMI has closed the gap with the official one. Separately, the official non-manufacturing PMI remained stable at 50.2 in July compared to 50.5 in June, supported by a continued expansion in the construction sector (51.2) and steady services activity (50.0). In contrast, Caixin Services PMI rose from 51.2 to 52.1 in July. The official and Caixin Services PMIs indicated diverged performance in the near term.

Comprehensive reform to advance Chinese-style modernisation

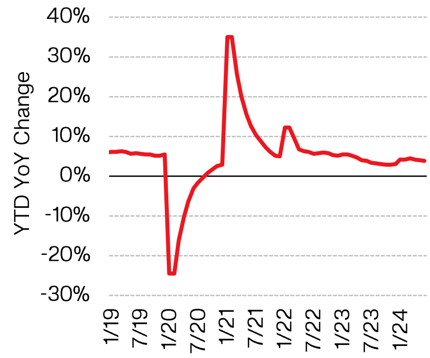
The 3rd Plenum laid out the reform blueprint to advance Chinese-style modernisation. Major reforms include: supporting both the public and private sectors, fostering new quality productive forces, building a unified national

Retail Sales & Industrial Production



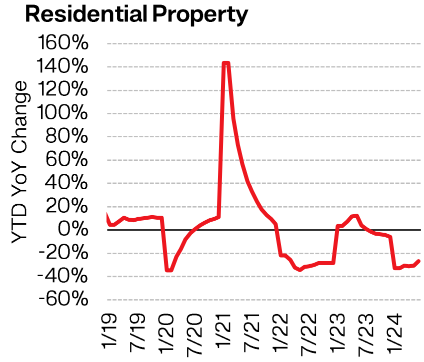
Source: CEIC

Fixed Asset Investment



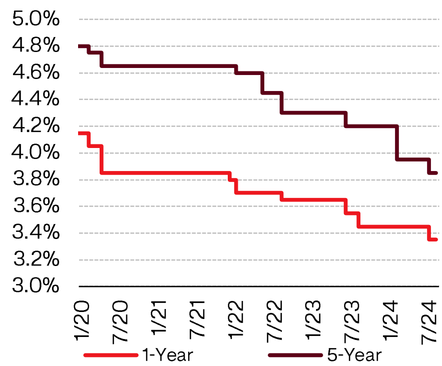
Source: CEIC

Sales Value of Commercial Residential Property



Source: CEIC

Loan Prime Rates



Source: CEIC

market, deepening supply-side upgrades, pursuing high-standard opening up, conducting fiscal reform, establishing a housing system to promote both rentals and purchases, etc. The 3rd Plenum communique also stressed achieving this year's socio-economic goals. The Mainland authorities responded with new reform and support measures, such as an expanded equipment renewal and consumer goods trade-in programme with funds (RMB 300 billion) from ultra-long special treasury bonds, allowing high-quality enterprises to borrow foreign debt, setting up a mechanism for fiscal reforms, accelerating the new development model in the housing market and so on.

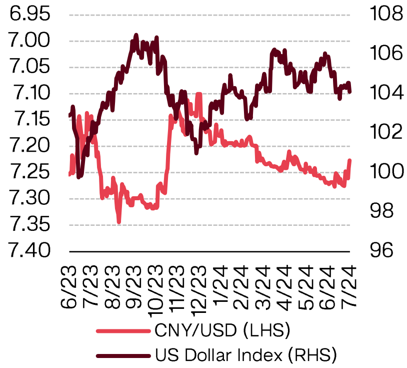
The latest Politburo meeting pledged stronger counter-cyclical measures ahead. The Politburo meeting put more emphasis on achieving this year's socio-economic goals, with the post-meeting release highlighting boosting consumption and enhancing people's livelihoods as the focuses. Specifically, boosting consumption is a high priority, with measures aimed at lifting incomes, expanding social security and enhancing service consumption in areas like tourism, elderly care, childcare and household services. The meeting also reiterated the need to drive development in new and future industries through promoting high-quality technological self-sufficiency, as well as defuse major risks in the property market and local government financing vehicles (LGFVs).

Monetary policy reform was deepened meaningfully. Since July, the People's Bank of China (PBoC) has enacted multiple new policies to take forward its reform. On one hand, its monetary policy will shift from quantitative to price-based measures, with the key policy rate shifting to a 7-day reverse repo rate and the interest rate corridor being narrowed by the newly created temporary repo and reverse repo rates. The PBoC, meanwhile, reduced its 7-day reverse repo, 1-year & 5-year loan prime rates and standing lending facility by 10 basis points (bps) to further stabilise growth. Although the importance of the medium-term lending facility (MLF) rate is fading as a key policy rate, the 20 bps MLF rate cut is believed to alleviate the pressure on interest rate margins for banks. On the other hand, the PBoC introduced a treasury bond borrowing operation from primary dealers and lowered the collateral requirement for MLF loans. Both are expected to stabilise the demand and supply conditions of the Mainland's bond markets. All these measures are likely to help the PBoC manage its multiple monetary objectives more effectively.

Market sentiment stayed cautious

Financial markets underwent a volatile month. In July, a list of uncertainties, such as elections in Europe, trade protectionism, monetary policy divergence, and the US presidential election, triggered a risk-off mood for Chinese stocks. That said, the Politburo meeting in late July pledged stronger policy support for the economy, fuelling a rebound in financial markets. As of end-July, the Shanghai Stock Exchange A-share index declined by 1.0% compared to last month. And the onshore CNY and offshore CNH appreciated by 0.6% and 1.0% against the US dollar in July, closing at 7.2267 and 7.2270 per US dollar, respectively

RMB/USD vs US Dollar Index



Source: Bloomberg, data as of 31/7/2024

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