BEA 東亞銀行

Economic Research **October 2024**

Market Monitor – Chinese Mainland

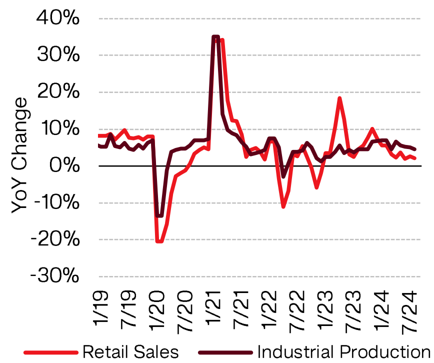
Strong policy determination to revive growth momentum

- Monthly economic indicators mostly softened in August.
- A comprehensive package of supportive measures, from monetary easing to property stimuli, has been introduced.
- The Mainland authorities demonstrated strong policy determination to reinvigorate growth, with more supportive measures on the horizon.

Chinese Mainland's economic growth momentum softened

Monthly economic indicators mostly softened in August. Extreme weather conditions like high temperatures and heavy rainstorms continued to disrupt economic activity in August. That said, external demand for Chinese goods remained robust, with merchandise exports accelerating from 7.0% year-on-year (YoY) in July to 8.7% in August. The solid export growth seen since the start of 2024 has resulted in widening trade surpluses, providing significant support for the economy.

Retail Sales & Industrial Production



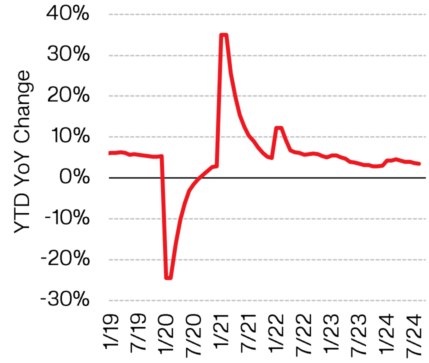
Source: CEIC

The industrial sector was affected by seasonal factors. The value-added of industrial enterprises grew by 4.5% YoY in August, down from 5.1% in July. The slowdown reflected high base effects from a year ago, a production halt due to adverse weather conditions as well as insufficient market demand in several sectors. Moreover, the profits of industrial enterprises declined by 17.8% YoY in August, reversing from 4.1% growth in July, due to a higher base of comparison.

Consumer demand was yet to recover meaningfully. Growth of total retail sales softened from 2.7% YoY in July to 2.1% in August. Retail sales of services remained resilient, growing by 6.9% YoY in January – August (7.2% for January – July). This reflected buoyant summer travel demand. However, the details of the retail sales report showed divergent trends, with only half of the 16 major product categories posting growth in August. This revealed that consumer confidence still needs further bolstering.

More supportive fiscal policy is set to revive investment. Growth of total FAI eased to 3.4% YoY in January – August from 3.6% in January – July, as high temperatures and heavy rainstorms delayed key development projects. Notably, infrastructure investment expanded at a slower pace, from 5.4% YoY in January – June to 4.9% in January – July, and further to 4.4% in January – August. However, the authorities are accelerating the issuance of government bonds for public investment, particularly in projects to implement major national strategies and enhance security capacity.

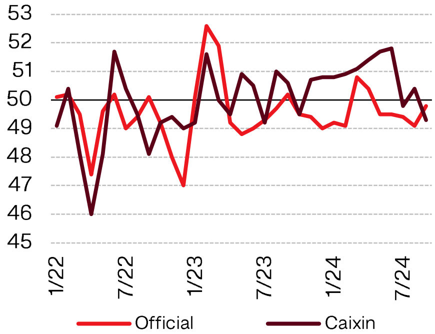
Fixed Asset Investment



Source: CEIC

Surveys showed growth momentum constrained by fading demand. The official manufacturing purchasing managers' index (PMI) improved from 49.1 in August to 49.8 in September, edging closer to the boom-bust dividing line of 50. This improvement was led by a renewed expansion in production levels and a slower rate of decline in new orders, with better performance in advanced manufacturing sectors like electrical machinery & computers, communication & electronic equipment. The Caixin manufacturing PMI, which focuses on smaller & export-oriented firms, fell back into contractionary territory at 49.3 in September after a brief improvement to 50.4 in August. While production maintained expansion due to backlogged orders, underlying demand softened amid a downturn in new orders and lower output prices. Meanwhile, the official non-manufacturing PMI decreased slightly from 50.3 to 50.0 in September, mainly weighed down by a decline in services activity (from 50.2 to 49.9) following the end of the summer travel season and the impact of extreme weather. Construction activity picked up slightly, rising from 50.6 to 50.7 in September. The Caixin services PMI declined from 51.6 to 50.3 in September, reflecting a slower expansion in services activities among small- and medium-sized enterprises. Despite faster growth of export business, overall new business growth decelerated, reflecting softening domestic demand.

Manufacturing Purchasing Managers' Index



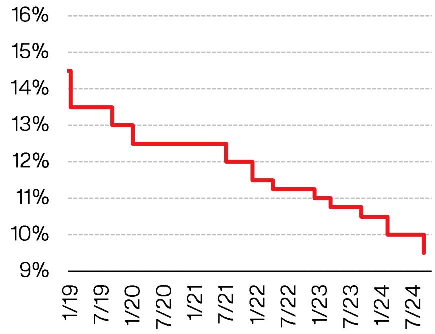
Source: CEIC

A significant shift in policy stance to bolster growth

To lift growth momentum, the Mainland authorities rolled out a comprehensive package of supportive measures in September, marking a shift towards more forceful policy support.

Monetary easing is intensifying. In September, the People's Bank of China (PBoC) lowered the reserve requirement ratio by 0.5 percentage points (ppts) and cut the 7-day reverse repo, the standing lending facility & the 1-year medium-term lending facility rates by 0.2, 0.2 & 0.3 ppts, respectively. These adjustments are set to inject liquidity and lower financing costs across the economy.

Reserve Requirement Ratio - Large Depository Institutions



Source: CEIC

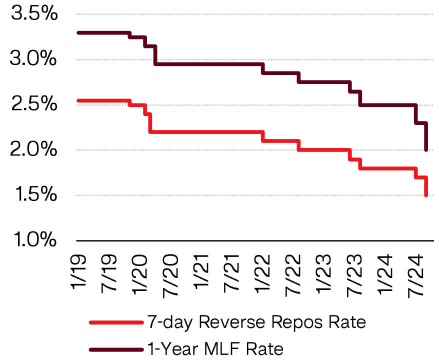
New policy tools are set up to support capital markets. The PBoC will set up a RMB 500 billion swap programme, enabling financial institutions to obtain liquidity for equity investment. And, a special relending facility of RMB 300 billion would be created to support share buybacks. Plans for a stabilisation fund are also underway.

An enhanced package was introduced to boost housing demand and absorb inventory. Key measures include: cutting existing mortgage rates by 0.5 ppts, reducing the minimum down-payment ratio on second homes from 25% to 15%, increasing the PBoC's funding proportion in relending programmes for purchasing unsold finished homes from 60% to 100%, and further easing home purchase restrictions in major cities like Shanghai, Guangzhou and Shenzhen.

The Politburo pledged stronger economic support in September. While it is rare for the Politburo to focus on economic affairs in September, the Politburo meeting held on 26 September acknowledged new challenges emerging in the economy and called for stronger counter-cyclical fiscal and monetary adjustments. The top leadership also urged measures to halt declines in the property markets, signalling a more forceful stance.

These developments reflect a strong policy determination to reinvigorate growth momentum, with more supportive measures on the horizon to foster a brighter economic outlook.

Key Policy Rates

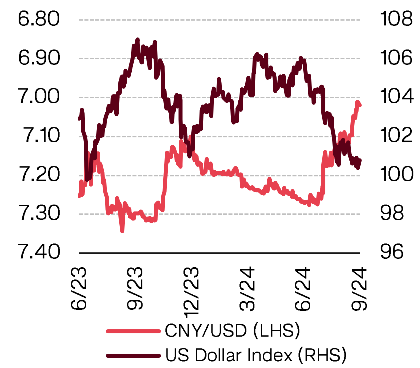


Source: CEIC

Policy stimulus spurred a rebound in the markets

Financial markets rebounded sharply with renewed risk-on sentiment. In September, the US Federal Reserve announced a jumbo rate cut of 50 basis points, marking the start of its rate cut cycle. Moreover, the Mainland authorities' stimulus measures notably reinforced investor confidence in the Chinese Mainland's economic outlook. As of end-September, the Shanghai Stock Exchange A-share index surged by 17.4% compared to last month. The RMB exchange rate climbed further, with the onshore CNY and offshore CNH appreciating by 1.0% and 1.2% against the US dollar in September, closing at 7.0187 and 7.0074 per US dollar.

RMB/USD vs US Dollar Index



Source: Bloomberg, data as of 30/9/2024

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