

China Bulletin: Market View

Average House Price in 70 Major Cities (MoM, %)



The tight balance in the coal market remains. Although thermal power producers finally get a break, after their profits were initially squeezed by rising coal prices and frozen electricity rates. More flexibility has been introduced into the determination of electricity prices, and some administrative measures have been issued to state-owned coal producers aiming at curbing the continuous rise in price. Based on current status, it is very likely that this winter will be a very cold one and the demand for energy is expected to continue to grow. This may well translate into higher oil prices and thus prolonged elevated producer prices.

Financial regulators are responding to market concern that the normal financing demand of the real estate sector should be met, and the risks embedded in the housing market should be controllable. The move comes amid the mounting pressure on property developers. Given the already heavy household debt burden and high urbanization rate, house sales are unlikely to bounce back like 5 years ago, and house prices have dropped for the first time since 2015 in the major cities across China.

Yet considering the relatively high down-payment ratio in China and local governments' swift action to contain the contagion, the shock to the financial market and financial system should be limited. Investors ought to remain cautious about property developers, but need not to worry too much about systemic risk.

China's equity market remains tepid and has seen a changing style in the last fortnight again. New energy names and semiconductor manufacturers are outperforming. Car makers are advancing aggressively upon quite impressive sales data and the expectation of continuously ongoing substitution of petrol vehicles for electric vehicles. Banks are delivering decent returns after regulators' assurances about the housing market. Cyclical names are generally retreating after the government stepped in to expand the production of coal and to lift electricity prices.

Rates are trading sideways while the credit market remains resilient, after the Ministry of Finance announced that the issuance of government bonds, including local government bonds, will meet the approved volume by the National People's Congress at the beginning of the year. The message, combined with expected marginal easing of the housing market credit condition, is driving rates higher. The current level is relatively attractive although the adjustment may not be finished yet.

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