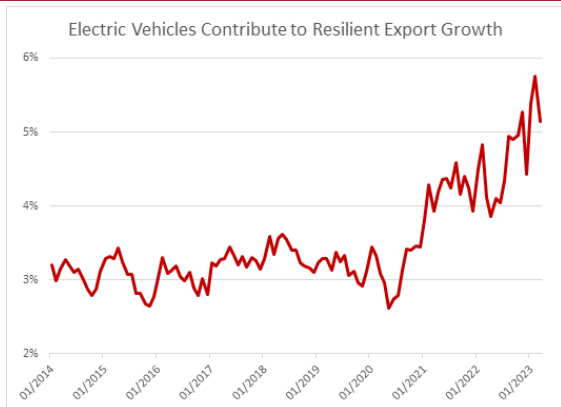


China Bulletin: Market View



Chinese export growth has once again surpassed market expectations, and the outlook for tourist traffic is positive. However, a slowdown in credit growth and weakening inflation readings are raising early recovery concerns. Following the substantial credit creation in the first quarter, the overall social financing - encompassing loan underwriting, bond issuance, and stock offerings - falls short of seasonal expectations. Additionally, household mortgage repayments are outpacing borrowing, echoing the decline in house sales experienced in April.

However, we maintain our view that the drag from the housing sector will gradually diminish, potentially reaching a plateau as early as midyear. This optimism is based on households' improved confidence, manageable debt burdens, a robust financial system, ongoing urbanisation trends, and the absence of nationwide overpriced assets. Nonetheless, the growth momentum may remain weak due to the lengthy process of shifting the economy away from its reliance on the housing sector.

Price gauges and the youth unemployment rate

present a different scenario compared to developed countries, suggesting that inflationary pressure is not a major concern for monetary policy. The latest inflation report reveals core consumer series below 1% and negative figures for producer series. Accompanied by a persistently high youth unemployment rate, indicating a negative output gap with significant spare capacity. Additionally, the cyclically lower commodity prices are helping to rein in inflation spikes, and the risk to the inflation target of 3% in recent years seems to be tilted more towards the downside. Consequently, we anticipate a gradual recovery that falls just below potential growth in the coming quarters, without apparent inflationary pressure. Monetary policy should maintain a patient approach and avoid drastic changes in course.

Export growth continues to outperform market expectations, although the probability of a strong rebound remains limited. This better-than-expected export growth is primarily driven by stockpiled export orders and increased overseas demand for electric vehicles. China's competitive advantage and the favorable global policy environment have significantly bolstered the export of electric vehicles since 2021. However, we are hesitant to upgrade our expectations for export growth to a higher level, as global growth momentum is cyclically slowing, and trade relations are deteriorating. Therefore, we anticipate export growth to remain moderate in the face of these challenges.

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