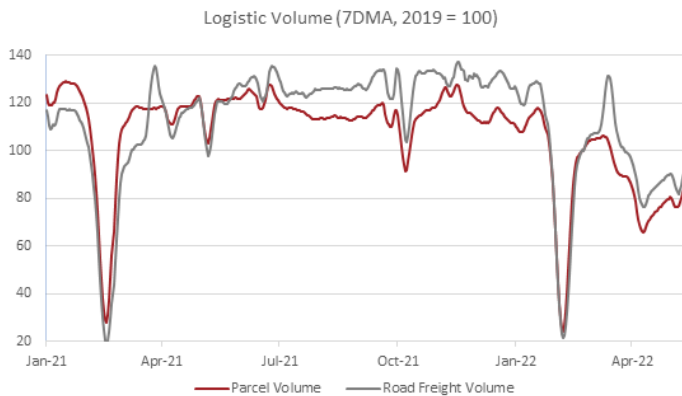


China Bulletin: Market View



The latest data confirms a bleak April while the situation appears to be starting to improve. The spread of the Omicron has caused the lockdown of millions of people and the disruption of logistics in April, especially in Shanghai, China's largest port and one of its largest export hubs. After several top-level policy meetings, Shanghai has moved to take more decisive measures to contain the outbreak and vows to achieve the containment by mid-May. Freight volume, a direct gauge of flow of goods, is recovering across the nation except Shanghai, from the trough in early April. The lackluster PMI and export growth figures add to the already subdued outlook and are thus spurring policy makers to further step up support for the economy.


We do see more easing of housing market restrictions, yet the effect on home sales is unsatisfactory. A change of rhetoric towards the housing market among top regulators is noticeable and we can expect more loosening of policies. Our concern about the housing market is not the sluggish market itself, but the growing risk of house prices rising while housing investment falls, further undermining the household balance sheet.

The risk remains low at present, and we will continue to monitor developments closely.


The very disappointing financial data mirrors the very weak and pessimistic household sector, even taking into consideration the shock from the lockdown. Household mortgages have shrunk for the second time, after the previous slide two months ago. The uncertainty during the pandemic and the effective control of the housing market in the last half decade appears to be altering people's attitudes, probably marking a profound structural change. The surveyed unemployment rate, 5.8% in March, overshot the 5.5% policy target for 2022 before its seasonal peak in the summer and the wide-ranging lockdown in April.


Yet we should not overestimate the downturn pressure. Manufacturing investment is growing resiliently, and external demand remains solid, laying ground for a quick recovery of exports once the lockdown is removed. Infrastructure investment is scheduled to be more supportive, and we can expect it to overshoot the policy target. Employment shall respond to the improvement of growth momentum and household consumption should not be worrisome. The housing sector, on the other hand, may remain sluggish and see its role in the economy weaken in the future.

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