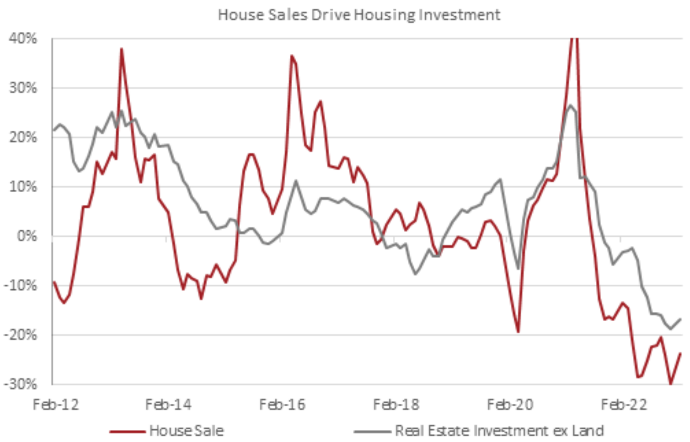
China Bulletin: Market View



The rebound of economic activity in China appears robust and sustainable, after exiting covid-zero policy and stepping up policy support to the housing sector. Business sentiment has improved quite swiftly, as shown by the upbeat PMI figures and seasonally strong employment numbers. Household consumption, on the other hand, still lags and is likely to track the recovering consumer confidence. As the most dominant swing factor of growth in 2023, the housing market is registering the most sales in the last several quarters. Thus, echoing the very satisfactory financial data. It seems for now that policy makers are managing to strike the sweet spot between returning the housing market to solid ground and containing the rise of housing prices. Should the trend persist, we could expect the drag on China's economy from housing to fall to zero as early as 23Q3.

The latest parliamentary session, known as "Two Sessions", has elected a new administration and approved impactful institutional reform. The plan for 2023 set by the new cabinet projects 5% GDP growth and boosts fiscal support, which is perceived as pragmatic by the market. At the same time, the reform of China's financial regulatory framework transforms the current regime into a dual-pillar regulatory framework resembling those of the UK and Australia. Under the new framework, the PBoC is responsible for implementing monetary policy and macro prudential regulation, the new National Financial Regulatory Administration will oversee financial institutions except investment banks, and the CSRC regulates investment banks, financial markets and the securities industry. The new reform aims to eliminate the disparity in regulation facing different types of institutions in practically the same business, though some questions, such as segmentation of the bond market, remain unanswered.

An unexpected suspension of pricing data in China's bond market is causing a temporary drop in market liquidity. The episode has shown the authorities' increasing awareness of the importance of data, and its role as a factor in economic productivity. Due to a lack of active market makers, China's bond market practitioners access quotes through financial data vendor platforms, which collect data from market brokers. This suspension stems from data feeds not being included in the scope of data vendors' licences, and from the government's recent move towards tighter regulatory oversight of data. Stricter rules on data security have created uncertainty over data supervision and who has the right to sell data.

On the rate side, the PBoC has cut the required reserve ratio for banks by 0.25%, and the market expects the loan prime rate due next Monday to be lowered by 5 bps as a result. The cut to the required reserve ratio is increasingly deemed as a neutral measure. Its impact on the economy may be positive, although it is less meaningful in terms of market impact than a cut in policy rate. Combined with the unchanged policy rate a few days ago, the new administration is showing its stance of reasonable policy support.

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