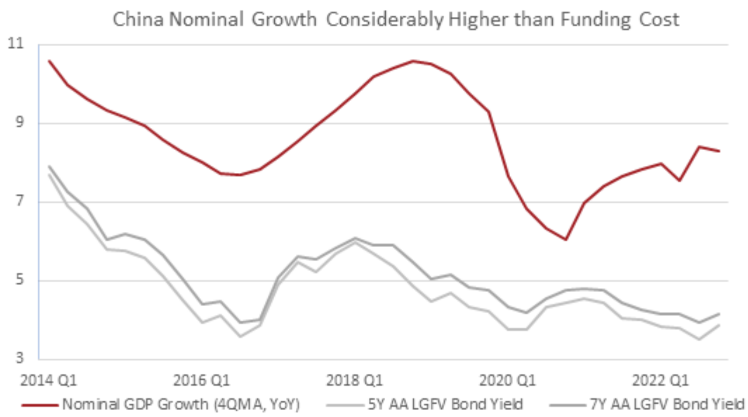
China Bulletin: Market View



Major cities in China are witnessing strong business confidence after Covid containment policy relaxation. Additionally, the latest data points to resilient growth momentum despite a nationwide Covid outbreak, surprisingly beating expectations on a broad basis. GDP and industrial production both show decent growth, and the surveyed jobless rate has declined to the policy target. Simultaneously, long-term corporate loans are growing strongly, in response to various measures to boost lending to manufacturers and relatively upbeat fixed asset investment growth.

On the other hand, the household sector is still reluctant to consume, or take loans to purchase homes, reflected in sluggish retail and home sales. With the Covid reopen and more favorable housing policy, improving household income and expectation is likely to feed into accelerated growth of house sales and consumption spending. These are vital to the recovery in the coming quarters and can be traced through the trend exhibited during the upcoming Chinese New Year holiday.

The rally of China's equity market in January is a natural rebound following the liquidity shock late last year, though the bond market is yet to fully recover. Despite valuations recovering to some extent from extremely low levels, Chinese equity remains attractive, with growth momentum having bottomed out and the economy returning to normal. Growth names are still worth watching, while realized growth should be the focus. Value style may benefit from the rise of risk sentiment and outperform the market temporarily. The Bond market, less appealing to domestic and global investors, may see higher volatility, higher rates, and higher credit spreads after the reopening. Coupled with the ongoing structural transformation of banks' wealth management products to market valued asset management products, the bond market's increasing vulnerability to liquidity shocks may persist in 2023, particularly affecting lower-rated bonds.

The PBoC has maintained the policy rate in January open market operations, and the loan prime rate remains unchanged too. As the PBoC has dialled back liquidity support gradually and persistently since September 2022, the funding rate in the interbank market has been steered higher towards the policy rate from the extremely low levels seen in August. Monetary policy, still accommodative, aims to lower the spread between the loan and benchmark rate, to lessen the debt burden of households and non-financial corporates. Inflation is certainly an important component in monetary policy, but until now it hasn't posed any concrete risk. We will keep a close eye on price movement, as from our perspective it should be considered the most significant risk to the outlook for 2023.

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