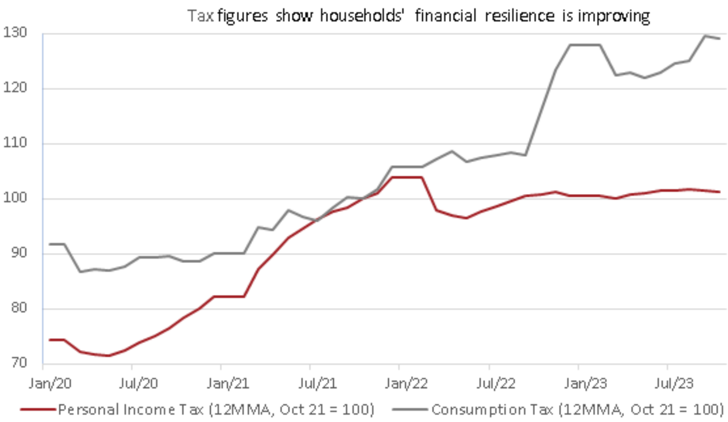
China Bulletin: Market View



Recent economic readings indicate that China's recovery is generally robust, although the slump in the housing sector persists. Industrial production and electricity consumption have seen compound annual growth of about 4% compared with their 2021 level. The urban unemployment rate is around its lowest level since the pandemic. Real estate investment, however, has declined by 24% in nominal terms, or 11.9% annually, from its peak in 2021. Latest policy initiatives, which include bolstering funding for some surviving property developers and loosening payment requirements in some tier-1 cities, are unlikely to mitigate homebuyers' concerns about the housing market. This despite household earnings and spending being resilient, as measured by the latest personal income tax and consumption tax figures.

Lack of timely statistical information about household consumption, the powerhouse of the recovery in China's structural transition, may contribute to the indifference of the financial market to positive signals. Traditionally China's statistical authority places heavy weight on the industrial sector and fixed asset investment. As a result, official data about the household sector, especially regarding employment and wages, is both infrequent and inadequate. This shortfall, complicated by the structural transition China is undergoing, is masking the recovery and undermining the confidence of the business sector and financial markets. Figures from the tax authority show that household earnings are stable, despite the difficulty faced in 2022, and that consumption tax, targeting discretionary consumption, is growing strongly. Our base scenario is that growth momentum will bottom out in 23H2 and the equity market will adjust its overly-pessimistic earnings outlook in 24H1.

China's central bank has reiterated its focus on improving the transmission of monetary policy and avoiding liquidity clogging in the interbank market. Though it is distinct from tightening, the stance is substantially less accommodative than several months ago. We don't subscribe to the onshore market's popular explanation that the pressure on CNY exchange rates is driving the central bank to tighten interbank market liquidity, as the two markets are essentially segregated in China. The huge issuance of additional government bonds, as well as banks' adjustment to comply with the newly adopted capital rules, is pushing the borrowing rate higher. With growth momentum gaining strength and the central bank's less accommodative stance, the bond market is facing increasing pressure.

3rd Floor | 75 King William Street London
EC4N 7BE

+44 203 617 5260

marketaccess@chinapostglobal.co.uk

www.chinapostglobal.com

2nd Floor | 75 King William Street
London EC4N 7BE

+44 203 617 5260

marketaccess@chinapostglobal.co.uk

www.chinapostglobal.com

China Post Global

Market Access
Exchange Traded Funds