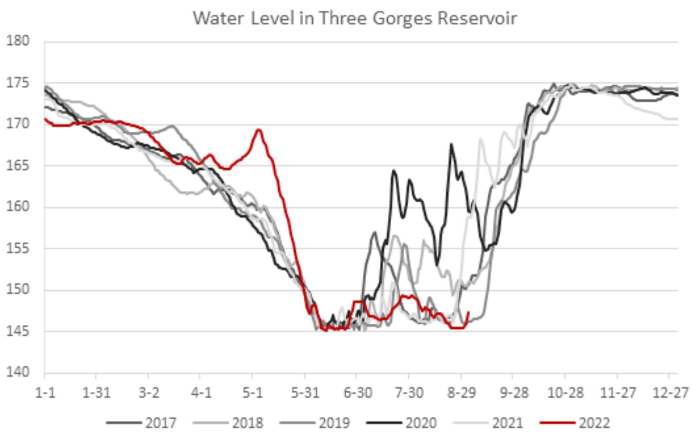
China Bulletin: Market View



Policy makers recognise the necessity to boost credit growth and are set to achieve this without spurring a housing market bubble. Following the PBoC's surprise rate cut, the long-term loan benchmark rate, 5-year LPR, is quoted 15 bps lower than the previous month. Considering the structural reform to revive growth, it is crucial to divert the majority of credit creation from the housing market to other parts of the economy without inducing any systematic risk. Local authorities have requested to complete the construction of halted projects, and policy banks are directed to issue loans to facilitate, greatly relieving concern about contagion to the banking system. The proportion of the economy represented by housing and related sectors makes it very painful to reduce the reliance of growth on these areas. The drag on growth from this reduction may bottom out as early as 23Q1.

The temporary power outage in southwestern China, caused by a severe drought hitting hydropower generation, largely abated in the last week of August. The balance of supply versus demand remains extremely tight.

Throughout the summer the Yangtze River, the most important source of hydroelectricity in southwest China, has seen the most severe drought since records began more than half a century ago. Water levels in major reservoirs along the Yangtze are at their lowest in recent years. This has caused concern about the power supply in the winter. In response, policy makers have directed central-owned thermal power generators to issue bonds to bolster power supply in the short-term, and to accelerate new energy investment, including nuclear power, as a long-term solution.

China's equity market is trading lower amid hawkish rhetoric by the Fed and Covid lockdowns in certain Chinese megacities. It is highly unlikely to see similar disruption as that caused by the lockdown in Shanghai, though the uncertainty makes it increasingly difficult for the service sector to cope. Growth stocks have generally been hit by disappointing interim results, while value stocks have outperformed. Despite the underperformance of growth style, we expect it will benefit from the accommodative domestic monetary policy and continuing low valuations, provided concerns about the power shortage and the pandemic wane.

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