China Bulletin: Market View

The consumption and migration trend observed during the Chinese New Year has marginally relieved the concern about a possible initial shock of infections from the relaxation of Covid restrictions. The return to pre-pandemic norms, mainly in regard to consumption and travel, is still in its infancy, but the trend is quite clear. Meanwhile, it is noticeable that consumption spending is recovering slower than volume, which from our perspective shows the gap between the swiftly returning consumer confidence, and the still sluggish growth of household income. It may take months to see a meaningful pick-up in income of those most affected by Covid-zero policy, followed by a more concrete recovery. The number of patients in critical condition is trending lower based on various estimates, and the massive migration did not cause a problematic new variant to date. The impact on the economy of the second infection wave, if there is a discernible one, should be limited.

Stronger than expected Chinese PMI figures confirm upbeat confidence after the reopening, hinting at more domestic-driven growth, as export demand slows down amid tightening financial conditions overseas. Official indices, with a tendency to track large enterprises, are returning to expansive territory - although the more small-cap focused Caixin series is sluggish, reflecting the difference in pace of recovery across small and large enterprises. Service indices, both official and Caixin, point to a strong rebound of business confidence, and it is reasonable to expect a strong upturn of growth momentum in the coming months. We remain cautiously optimistic about the growth in 2023.

The housing market on the other hand is under ongoing stress, though tier-1 cities are seeing marginally higher demand. Financial conditions have turned substantially favourable in the last quarter, yet it may still take some time to pass through to home buyers as the downturn in the last two years has crushed their confidence. However, to reiterate our previous reports, a large-scale housing stimulus is very unlikely, and the best result we can expect is a normal housing market with positive growth. It might be achieved by 23Q2 in an optimistic scenario, but could be as late as end of 2023.

Some are worried about the risk associated with local governments' heavy debt burden, which relies on revenue from land sales to repay. In our view, as long as credit creation remains normal and local SOEs are able to roll over maturing debt, together with the control measures already in place, the problem can be managed well without spilling over into other sectors.

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