China Markets Newsletter

September 2023

During August, the Chinese authorities continued to extend state support and introduce new policies in efforts to stimulate the economy and return to pre-pandemic normality.

The latest economic data suggested that consumption in the country is yet to recover. This was reflected in China's equity markets; the Shanghai Stock Exchange Composite and Shenzhen Component fell -5.20% and -6.85%, respectively, over the month to 31st August[1].

The biggest source of bad news was several key economic indicators for July missing consensus expectations. Halfway through August it was revealed that retail sales had only grown 2.5% year-on-year for July, missing the consensus expectation of 4.5%. Property developments also continued to stall in July, declining 8.5% from the year before, further signifying China's growing property crisis. [2]

Key Chinese trade figures were also poor. Chinese exports fell for the third straight month in July, by 14.5%, which was the worst contraction since February 2020. Imports also contracted, by 12.4% against a consensus fall of 5%, in the biggest decline since the start of 2023. These statistics, as well as the sluggish internal numbers, highlighted the challenges China's economy continues to face. [3]

Stimulating the economy is a clear priority for the Chinese state, and the central bank unexpectedly cut key policy rates in August for the second time in three months. The People's Bank of China (PBOC) cut the reverse repo, medium-lending facility (MLF) and standing lending facility (SLF) rates to improve the debt-serviceability of cash-strapped local governments and property companies. Around this time, the central bank reaffirmed its commitment to "step up macroeconomic policy adjustment" as it forecast CPI to record a U-shape recovery before the end of 2023. Avoiding "over-adjustments" in the yuan was also identified as a key goal, amid reports the PBOC has asked some banks to reduce US dollar purchases in a bid to slow the yuan's depreciation.

(1) Source: Data from Bloomberg 31.8.2023
https://www.bloomberg.com/markets/stocks/world-indexes/asia-pacific
(2) Source: SMDAM, 2023 (3) Source: SMDAM, 2023

A major point of economic concern in China remains the country's housing market. The State Council has urged cities' local governments to roll out property policies, with Zhengzhou and Nanjing the first to do so and Xi'an and Fuzhou rumoured to be following suit. Despite pressure by the PBOC on banks to adjust interest rates for mortgage-holders, this has yet to trickle through to homeowners. Data at the end of August revealed that there was no change in mortgage rates for first-home buyers in China's top 100 cities, with second-home mortgages also showing little movement. Earlier in the month, the PBOC also extended a special loan program for stressed developers to May 2024, providing another RMB200bn of loans at nearly zero cost to banks.

August featured the introduction of numerous other supportive measures by the state. The China Securities Regulatory Commission (CSRC) announced steps to boost activity in the stock market, such as longer trading hours, encouraging steady dividend payouts and cutting trading fee rates on the country's major exchanges. Elsewhere, several regulatory bodies launched a joint scheme to pledge financial support for small firms and stimulate China's growing private sector.

The outlook on China's relationships with the rest of the world remain mixed. Tourism demand continues to grow following the termination of the zero-Covid policy, with the US and China agreeing to double weekly passenger flights between the two countries. There have also been positive political developments, with US commerce secretary Gina Raimondo visiting Beijing in August and China's Foreign Minister Wang Yi being formally invited for talks in the US. President Xi Jinping and Indian Prime Minister Narendra Modi also held productive talks over easing border disputes.

Despite this, Chinese foreign investment fell to a 25-year low in August due to ongoing tensions. Direct foreign investment in China slumped to $4.9bn in the second quarter, down 87% from the year before. Overseas funds have also been withdrawing significant capital from mainland equities, with $10.7bn being withdrawn in a 13-day run in August – the longest since Bloomberg began tracking this data in 2016.[4] This has led the Chinese authorities to try and reinvigorate the country's competitive edge in the world economy, with the State Council introducing 24 measures – such as tax and visa changes – to encourage foreign investment. A raft of tax incentives was also unveiled for tech firms' Chinese depositary receipts or CDRs (a Chinese entity created to trade on overseas exchanges), in a bid to attract overseas-listed Chinese tech firms back to the country.

(4) Source: SMDAM, 2023

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