China Markets Newsletter

May 2023

This month, more was revealed about the health of the Chinese economy and how it is recovering since its shock reopening earlier in the year.

March's data presented a mixed picture. The official non-manufacturing PMI for March reached the highest level in more than a decade, while a sharper drop in the Caixin manufacturing PMI suggested overhanging challenges in small businesses and the export sector. In the much-watched property sector, a rebound in sales was recorded but this success was confined to the largest state-owned developers and top-tier cities. These developers nonetheless recorded a 29% year-on-year surge in sales activity, compared to a year-on-year decline of 12% in February (1).

This disparity of success continued into April and was reflected in how the country's major equity markets. Over one month, the Shanghai Stock Exchange Composite Index was up 1.06%. During the same period, the Shenzhen Composite Index – comprised primarily of smaller, more entrepreneurial companies, many of which are privately owned – was down -3.70%. This suggests any recovery activity has yet to permeate the wider market (2).

However, there were other encouraging signs elsewhere, with consumer activity and income sentiment continuing to improve. The country's populace continue to enjoy post-lockdown life, and May's holiday expectations appear strong – with only 15% of the country having no travel plans (3).

At a macro level, inflation has remained low to the concern of many commentators. Figures for March showed year-on-year CPI growth slowed to below 1%, with the decline in PPI numbers widening even further which triggered concerns about post-Covid recovery momentum and conversations about deflation in the market (4).

(1)Source: SMDAM. May 2023
(2)Source: Bloomberg https://www.bloomberg.com/markets/stocks/world-indexes/asia-pacific
(3)Source: SMDAM. May 2023
(4)Source: SMDAM. May 2023

However, deflation is not just a decline in prices, but is generally characterised by a continuous broad-based decline in prices and a continuous decline in money supply. Towards the end of April the PBOC moved to quell these concerns and add credence to expectations we will instead see a demand-driven recovery. Officials from the central bank used a press conference reviewing the first quarter to remind investors consumer demand needs time to recover from the “scarring effect” of Covid, and that it will consolidate financing support for the real economy. As such the PBOC expects consumer price inflation to pick up later this year and declared there is no basis for long-term deflation or inflation in the country.

This wasn’t the only significant action from the state in April. Late in the month, the State Council announced transparency reforms for listed companies and an intention to systematically and clearly define the role, responsibilities, and performance of independent directors. This is a first for the country and could help improve the governance reputation of Chinese equities. April also featured 20 measures from the Shanghai government to stimulate foreign direct investment, a State Council committee on stabilising the structure of Chinese exports, and further vows from Premier Xi that the government would take “solid step after step” in advancing China’s modernisation.

In line with this, it was also reported in April that Chinese regulators would be reducing an impending fine for ANT Group, bringing this below $1bn alongside a softening of rhetoric against the embattled tech giant. This could be a positive sign for the wider market, especially tech names that will not want to repeat ANT’s mistakes and fall foul of the politburo.

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