17 January 2022

Global Markets Research

Research Alert

PBOC to step up easing as growth ebbs

China's GDP growth rebounded to 8.1% in 2022

Industrial, trade sectors likely remain supported by steady global demand

Looser monetary policy a staple in 2022, supportive of USD/CNY

China's strong 2021 turnaround was a result of low base effect and masked its softer underlying conditions as the country zeroed in on regulations last year while practicing its stringent zero-Covid policy. The Chinese National Bureau of Statistics (NBS) said that the world's second largest economy expanded by 8.1% in 2021, a rebound from the record low 2.2% growth in the pandemic ridden 2020.

4Q GDP recovered from flood, Covid outbreak

The fourth quarter GDP data turned out better than expectations. The economy grew 1.6% q/q in the final quarter of 2022, besting the consensus estimate of 1.1% and represents an acceleration from the mere 0.2% growth in the third quarter. This was driven by the recovery from the Henan province flood as well as a major Covid outbreak in the third quarter, during which authorities quickly tightened restrictions such as shutting down key trading ports in Shenzhen and Ningbo.

The y/y growth came in at 4.0% for 4Q, also higher than the estimate of 3.6% but softer than 3Q's 4.9% rate because of the disadvantageous base; In 4Q 2021, growth slowed down in all three industries -primary industry (+7.1% vs 7.4% y/y), secondary industry (+8.2% vs 10.6%) and tertiary industry (+8.2% vs +9.5%).

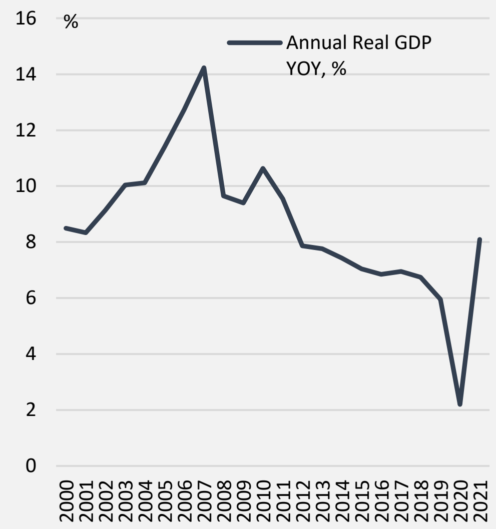
Retail sales disappointed among generally upbeat data

Industrial production growth accelerated, driven by mining and manufacturing output while the YTD fixed asset investment also rose more than expected (refer to figure 2). Notably, retail sales weakened for the second consecutive month, picking up a mere 1.7% y/y (Nov: +3.9%); undershooting expectations of a 3.8% y/y increase. The grimmer number highlights weaker automobile sales as chip shortages curtailed production, while covid-related caution weighed on sales at restaurant/catering as well as curtailing shopping (clothing, electronic sales, furniture were down). The impact of the year-end total lockdown of Xi'an was likely to be minimal.

Uneven prospects across sectors

Extended weakness in the real estate sector is expected following the authorities' 2H21 crackdown on property speculation, further deleveraging, plan to roll out property tax in certain cities and weaker housing outlook stemming from concerns over developers' liquidity crunch. The upside is the

Figure 1: GDP growth rebounded from 2020's trough



Source: CEIC

Figure 2: Weaker retail sales data

Sectors	y/y Dec Actual	Dec Estimate	Nov Actual
Retail sales	+1.7%	+3.8%	+3.9%
Industrial production	+4.3%	+3.7%	+3.8%
YTD Fixed Investment	+4.9%	+4.8%	+5.2%

Source: Bloomberg

industry may not see another episode of drastic and harsh clampdown in the medium term.

We expect the retail sector to benefit from Lunar New Year related pent-up demand in January and the abating consumer inflation. The layoffs related to government's crackdown in the private sector may be a hindrance (the surveyed urban jobless rate picked up to a four-month high of 5.1% in December).

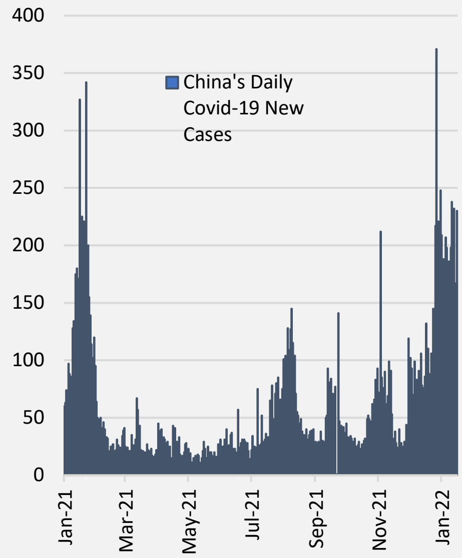
Meanwhile, we also see the manufacturing and export sectors holding up relatively well (China's 2021 trade surplus broke record at $676b) supported by a steady global demand, premised on the belief that governments across the world will not reimpose tighter Covid rules even as the Omicron variant spreads. Easing global supply chain pressures and Chinese authorities' targeted approach to curb commodity prices are also plus points.

The biggest challenge for China is its adamant adherence to a zero Covid policy where an unforeseen lockdown could happen instantaneously to curb a sporadic outbreak, thus disrupting economic activity, businesses and even mundane daily life. The possibility of the government abandoning the policy looks low in the short to medium term.

Looser monetary policy a staple in 2022

Data from the final months of 2021 confirmed that China's underlying momentum continued to lose steam but we expect government policies to help cushion the ebbing growth in 2022. The PBOC announced a 10-basis-point cut in the 1Y medium term lending facility (MLF) rate this morning, right before the GDP release, its first such move in almost two years which affirmed the widely shared view that the government will be ramping up policy easing to sustain growth this year. The central bank had cut the Reserves Requirement Ratio (RRR) a month ago, from 50bps and an additional cut of the same magnitude is expected in 1Q22. The 1Y loan prime rate was also reduced by 5bps to 3.8%, from 3.85% last month as the government sent a crystal-clear message on policy trajectory. The policy divergence between the US and China is expected to be supportive of USD/CNY this year; we forecast a stronger USD/CNY through 2H22 during which the Fed will have delivered its first post-pandemic rate hike and the PBOC will likely step up the said policy easing.

Figure 3: China's daily cases remained low by global standard but sporadic outbreak forced government to tighten rules



Source: Bloomberg

Figure 4: Expect weaker USD/CNY

Indicative	1Q22	2Q22	3Q22	4Q22
6.3475	6.37	6.39	6.38	6.36

Source: Bloomberg, HLBB Global Markets Research

Hong Leong Bank Berhad
Fixed Income & Economic Research, Global Markets
Level 8, Hong Leong Tower
6, Jalan Damanlela
Bukit Damansara
50490 Kuala Lumpur
Tel: 603-2081 1221
Fax: 603-2081 8936
Email: HLMarkets@hlbb.hongleong.com.my