

China Economy

In the resumption cycle with slowing pace in near term

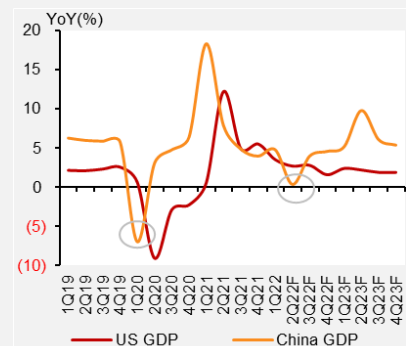
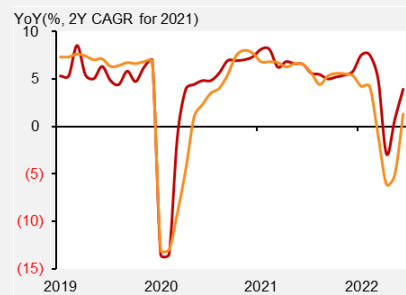
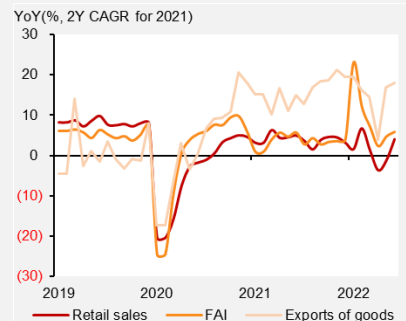
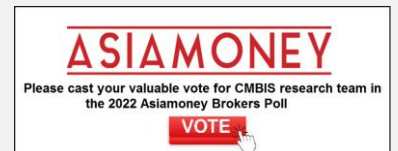
China reported low GDP growth for 2Q22, indicating a possible revision of growth target this year and adding pressure to fine-tune its zero-Covid policy and maintain easing monetary policy in future. The resumption pace may slow in July and mildly improve from late August. China will see a gradual resumption of economy in 2H22-1H23 as the GDP growth is expected to rise from 4% in 3Q22 and 4.8% in 4Q22 to 5.2% in 1Q23 and 9.8% in 2Q23. The full-year growth may rise from 3.5% in 2022 to 6.6% in 2023. The resumption pace should be much slower than in 2Q20-2H20 due to the zero-Covid policy, weak confidence, housing market correction and downside risks of global economy.

- China reported low GDP growth for 2Q22.** China's GDP slightly rose 0.4% YoY in 2Q22, down sharply from 4.8% YoY in 1Q22. The reported growth for 2Q22 is much lower than market consensus of 1.1%. The choice to report low growth sent two signals. First, China has given up its growth target of 5.5% for 2022 as it has become impossible to achieve the target after the Ukraine crisis and Shanghai lockdowns. New growth target in the policymaker's mind may be about 4%, indicating the GDP growth should rebound from 2.5% in 1H22 to 5.3% in 2H22. It is also a very difficult target as the property market stress and zero-Covid policy may continue to restrain the economic resumption progress. Second, the cabinet chose to expose the severity of slowdown in 2Q22, adding the pressure to fine-tune zero-Covid policy and maintain easing monetary policy in 2H22 to support the growth. To achieve growth of around 4%, China has to reopen its economy and stabilize the property market as soon as possible. Meanwhile, China has to maintain easing monetary policy and proactive fiscal policy in 2H22.
- China cares about two things related to GDP growth.** One is employment, social stability and fiscal revenue. China has to achieve reasonable GDP growth to maintain employment stability, social stability and enough fiscal revenue (smooth operation of governments). Second is a much higher GDP growth than the US. The market consensus for US GDP growth in 2022 has declined from 3.5%-4% before the Ukraine crisis to less than 2% recently. From this perspective, China can accept a growth rate of above 3%.
- Economic resumption accelerated in June.** After economic collapse in April, China loosened economic policy & zero-Covid policy from May and Shanghai reopened economy from June. Confidence, demand and supply chain activity gradually improved as stock market rebounded. The value added industrial output (VAIO) picked up 3.9% YoY in June after rising 0.7% YoY in May. Service output index turned to 1.3% growth in June from the YoY decline of 5.1% in May. Catering revenue improved as it dropped 4% YoY in June, compared to the YoY decline of 21.1% in May.
- China's economy is in a resumption cycle in 2H22-1H23 with fluctuating resumption pace.** China may see a gradual economic resumption cycle in 2H22-1H23 amid supportive economic policy and a slowly easing of zero-Covid policy. But the resumption pace in the latest cycle will be much lower than that in the previous cycle in 2Q20-1H21. First, it will take some time for housing market to gradually recover from the hard landing. Second, it also takes some time for business and consumer

Bingnan YE, Ph.D

(852) 3761 8967

yebingnan@cmbi.com.hk



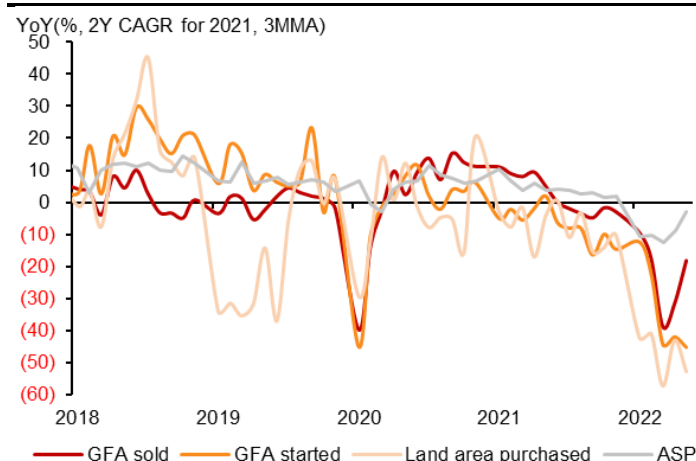
confidence to slowly resume. Third, global economy is in the downturn cycle, which may slow China's economic resumption ahead.

- **Consumption improved yet consumer confidence remained weak.** Retail sales turned to YoY growth of 3.1% in June after dropping 6.7% in May. Discretionary consumer goods improved significantly thanks to reopening effect and release of postponed demand during the lockdowns. Retail sales of autos, communication equipment and home appliance respectively rose 13.9%, 6.6% and 3.2% in June after dropping 16%, 7.7% and 10.6% in May. However, durables related to housing market improved more slowly as retail sales of construction & decoration materials and furniture continued to decline by 4.9% and 6.6% in June, compared to the decrease of 7.8% and 12.2% in May. Performance of staples was mixed as the growth of food and beverage slowed from 12.3% and 7.7% in May to 9% and 1.9% in June, while medicines picked up 11.9% in June after rising 10.8% in May. Looking forward, consumption may gradually improve as two factors will continue to restrain consumer confidence. One is the zero-Covid policy and the other is the slump of housing market.
- **Housing sales rebounded, but land market and development investment further deteriorated.** Gross floor area (GFA) sold for commodity buildings dropped 18.3% YoY in June after dropping 31.8% YoY in May. Average sales price for commodity buildings dropped 3.1% YoY in June, compared to the decrease of 8.7% YoY in May. We expect housing sales may further improve in 2H22-1H23, but the resumption pace may slow in July and accelerate from late August. Housing starts and land market activities further deteriorated, as property developers' confidence remained weak. GFA started for buildings and land area purchased respectively plummeted 45.1% YoY in June after dropping 41.8% YoY in May. Total funding source for property development investment dropped 23.6% in June after decreasing 37.7% in May. Property development investment further deteriorated as it dropped 9.4% in June after declining 7.8% in May. We expect property development may decline by 3%-4% in 2022.
- **Infrastructure & social service investments remained strong.** Total urban fixed asset investment (FAI) rose 5.8% YoY in June, up from 4.7% YoY in May. The YoY growth of FAI in manufacturing and infrastructure respective improved from 7.1% and 7.9% in May to 9.9% and 12% in June. Public utility, water conservancy management and health & social welfare services maintained strong FAI growth as their YoY growth rates reached 15.1%, 12.7% and 33.8% in 1H22. Looking forward, infrastructure & social service investments may maintain strong growth to support the GDP target.

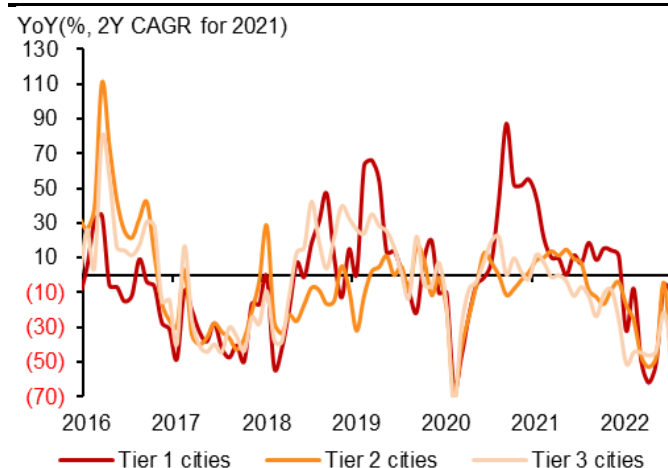
Figure 1: China's economic indicators

YoY(%)	2019	2020	2021	1Q21	2Q21	3Q21	4Q21	1Q22	Apr	May	Jun	2020-2021
VAIO	5.7	2.8	9.6	24.5	9.0	4.9	3.9	6.5	(2.9)	0.7	3.9	6.1
-Mining	5.0	0.5	5.3	10.1	2.4	2.1	6.5	10.7	9.5	7.0	8.7	2.9
-Manufacturing	6.0	3.4	9.8	27.3	9.3	4.7	3.1	6.2	(4.6)	0.1	3.4	6.6
-Public utility	7.0	2.0	11.4	15.9	11.0	9.7	9.8	6.1	1.5	0.2	3.3	6.6
Delivery value for exports	1.3	(0.3)	17.7	30.4	16.3	14.2	13.2	14.4	(1.9)	11.1	15.1	8.3
Service Output	6.9	0.0	13.1	29.2	13.9	5.9	3.3	2.5	(6.1)	(5.1)	1.3	6.3
Urban FAI (YTD)	5.4	2.9	4.9	25.6	7.5	(0.4)	(0.9)	9.3	6.8	6.2	6.1	3.9
-Property development	9.9	7.0	4.4	25.6	9.8	(0.6)	(7.8)	0.7	(2.7)	(4.0)	(5.4)	5.7
-Manufacturing	3.1	(2.2)	13.5	29.8	14.9	8.8	10.6	15.6	12.2	10.6	10.4	5.4
-Infrastructure	3.3	3.4	0.2	26.8	(0.4)	(7.1)	(2.8)	10.5	8.3	8.2	9.3	1.8
Retail sales	8.0	(3.9)	12.5	33.9	14.1	5.1	3.5	3.3	(11.1)	(6.7)	3.1	4.0
Exports of goods	0.5	3.6	29.9	48.8	30.6	24.2	23.1	15.8	3.9	16.9	17.9	16.0
Imports of goods	(2.7)	(0.6)	30.1	29.4	44.5	25.9	23.7	9.6	(0.1)	4.1	1.0	13.7

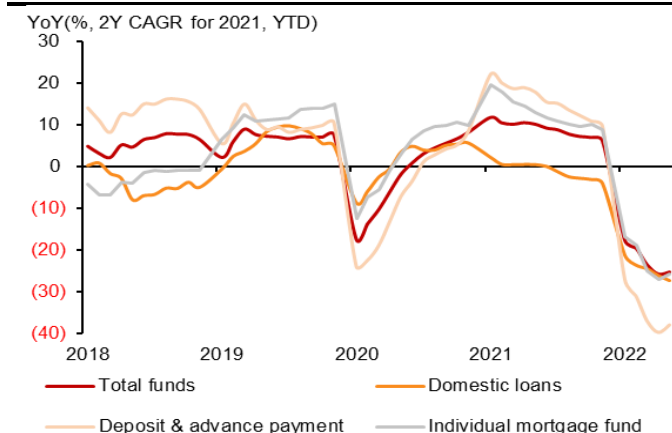
Source: Wind, CMBIGM

Figure 2: Property market indicators

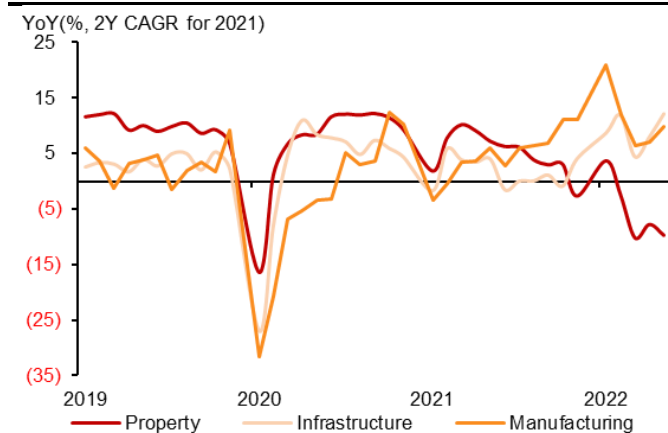
Source: WIND, CMBIGM

Figure 3: Housing sales by Cities

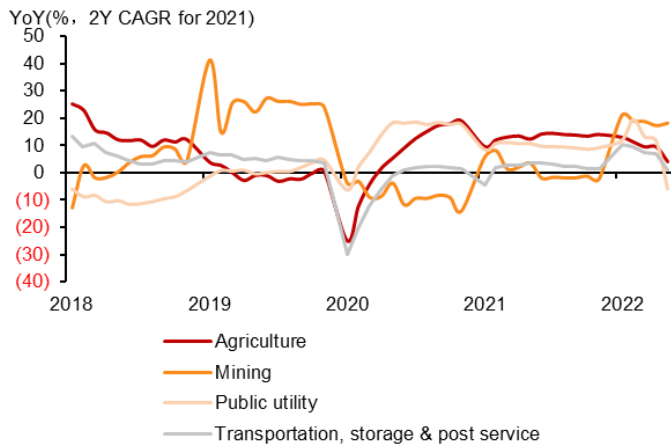
Source: WIND, CMBIGM

Figure 4: Funding source for property investment

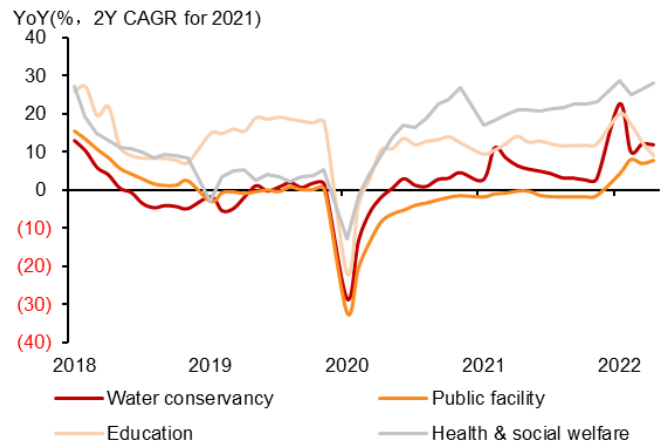
Source: WIND, CMBIGM

Figure 5: FAI by sector

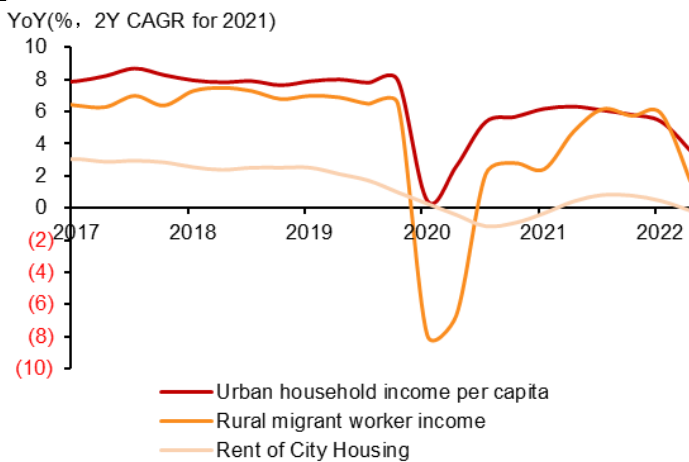
Source: WIND, CMBIGM

Figure 6: FAI in agriculture & infrastructure sectors

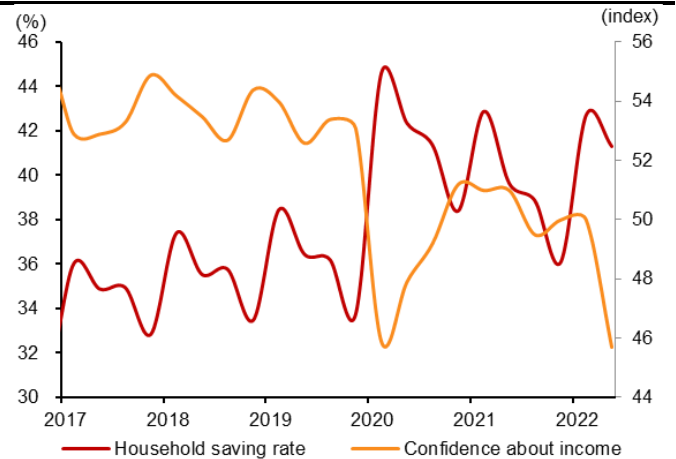
Source: WIND, CMBIGM

Figure 7: FAI in infrastructure & social service

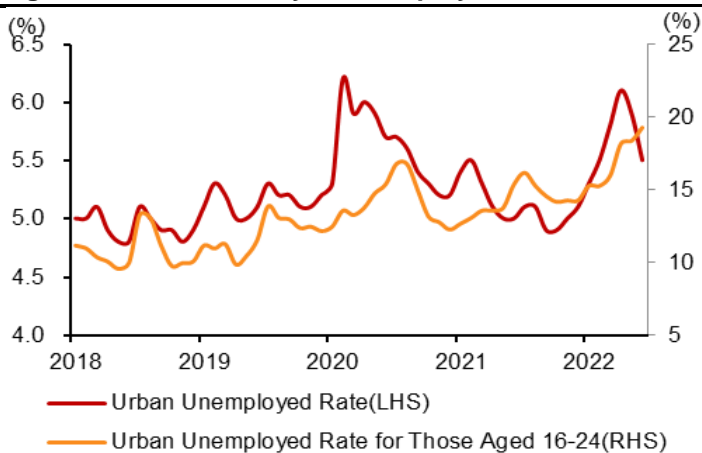
Source: WIND, CMBIGM

Figure 8: Household income & rent for housing

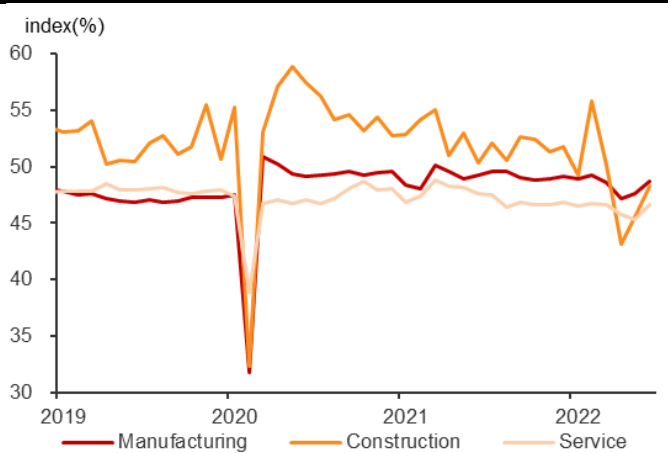
Source: WIND, CMBGM

Figure 9: Consumer confidence

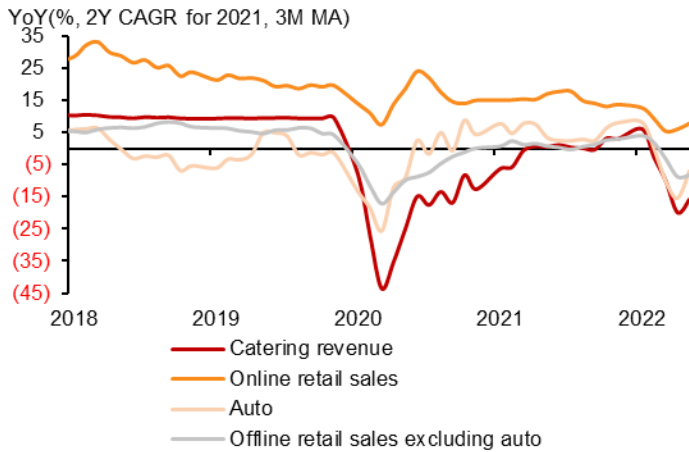
Source: WIND, CMBGM

Figure 10: Urban surveyed unemployment rates

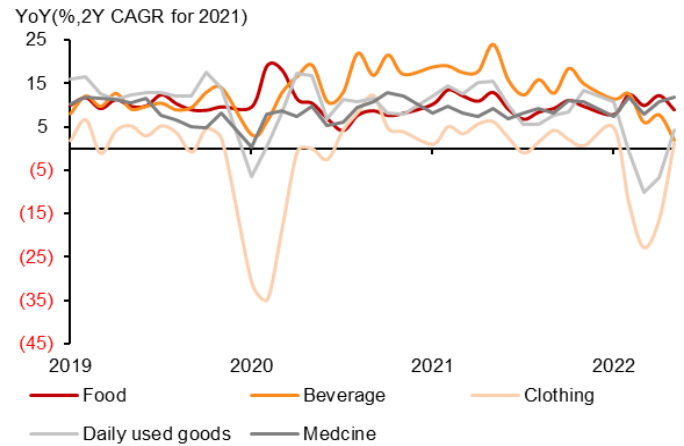
Source: WIND, CMBGM

Figure 11: Employment Index

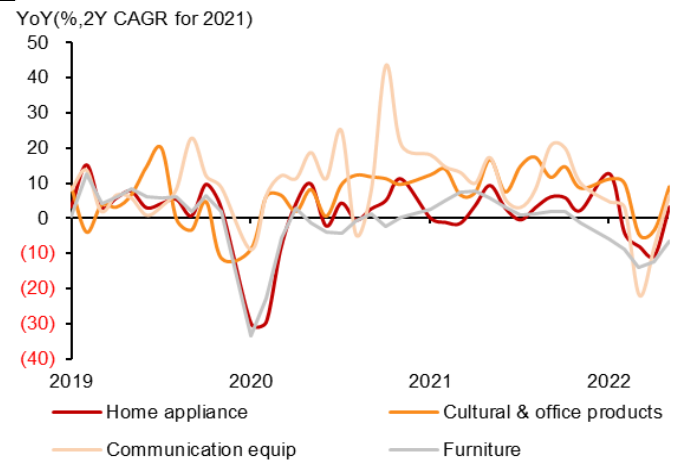
Source: WIND, CMBGM

Figure 12: Retail sales

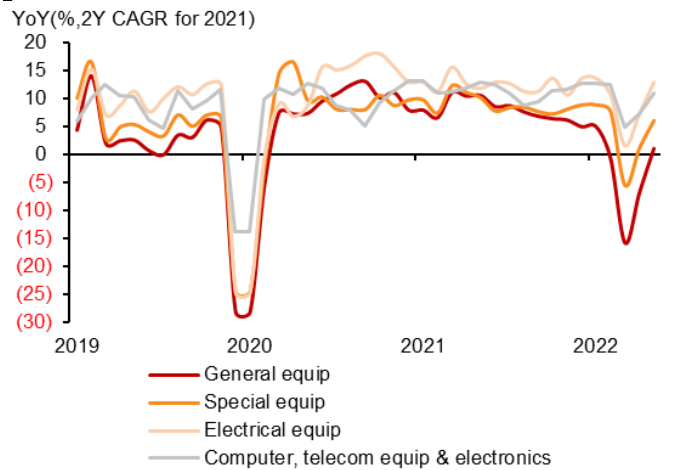
Source: WIND, CMBGM

Figure 13: Retail sales of staples & garments

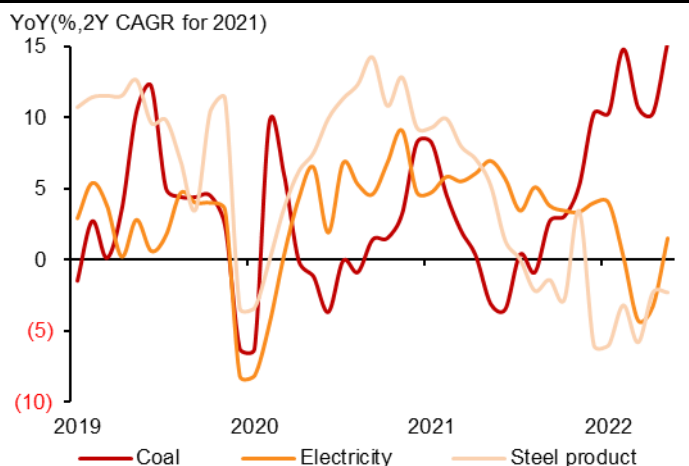
Source: WIND, CMBGM

Figure 14: Retail sales of some durables

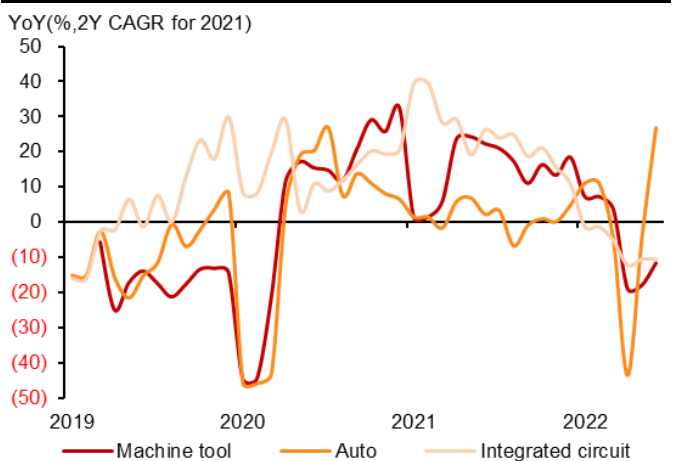
Source: WIND, CMBGM

Figure 15: Production of energy & steel product

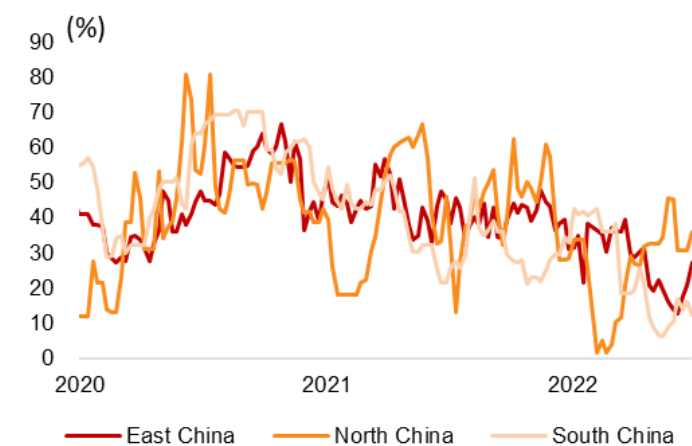
Source: WIND, CMBGM

Figure 16: Production of machine tool & auto

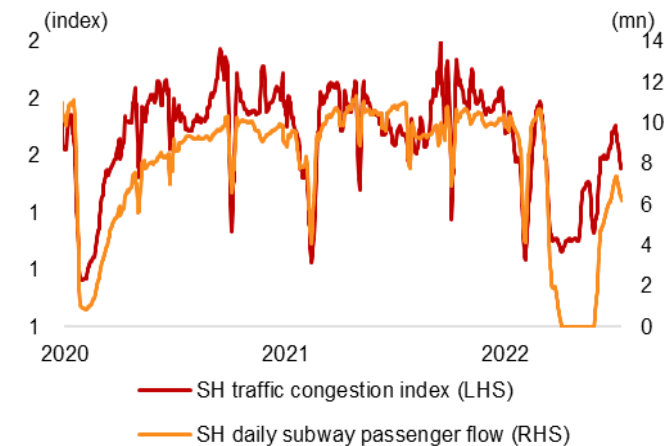
Source: WIND, CMBGM

Figure 17: VAIO in equipment industries

Source: WIND, CMBGM

Figure 18: Operation rate of asphalt plants

Source: WIND, CMBGM

Figure 19: Mobility indicators in Shanghai

Source: WIND, CMBGM

Disclosures & Disclaimers

Analyst Certification

The research analyst who is primary responsible for the content of this research report, in whole or in part, certifies that with respect to the securities or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about the subject securities or issuer; and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific views expressed by that analyst in this report.

Besides, the analyst confirms that neither the analyst nor his/her associates (as defined in the code of conduct issued by The Hong Kong Securities and Futures Commission) (1) have dealt in or traded in the stock(s) covered in this research report within 30 calendar days prior to the date of issue of this report; (2) will deal in or trade in the stock(s) covered in this research report 3 business days after the date of issue of this report; (3) serve as an officer of any of the Hong Kong listed companies covered in this report; and (4) have any financial interests in the Hong Kong listed companies covered in this report.

CMBIGM Ratings

BUY : Stock with potential return of over 15% over next 12 months
HOLD : Stock with potential return of +15% to -10% over next 12 months
SELL : Stock with potential loss of over 10% over next 12 months
NOT RATED : Stock is not rated by CMBIGM

OUTPERFORM : Industry expected to outperform the relevant broad market benchmark over next 12 months
MARKET-PERFORM : Industry expected to perform in-line with the relevant broad market benchmark over next 12 months
UNDERPERFORM : Industry expected to underperform the relevant broad market benchmark over next 12 months

CMB International Global Markets Limited

Address: 45/F, Champion Tower, 3 Garden Road, Hong Kong, Tel: (852) 3900 0888 Fax: (852) 3900 0800

CMB International Global Markets Limited ("CMBIGM") is a wholly owned subsidiary of CMB International Capital Corporation Limited (a wholly owned subsidiary of China Merchants Bank)

Important Disclosures

There are risks involved in transacting in any securities. The information contained in this report may not be suitable for the purposes of all investors. CMBIGM does not provide individually tailored investment advice. This report has been prepared without regard to the individual investment objectives, financial position or special requirements. Past performance has no indication of future performance, and actual events may differ materially from that which is contained in the report. The value of, and returns from, any investments are uncertain and are not guaranteed and may fluctuate as a result of their dependence on the performance of underlying assets or other variable market factors. CMBIGM recommends that investors should independently evaluate particular investments and strategies, and encourages investors to consult with a professional financial advisor in order to make their own investment decisions.

This report or any information contained herein, have been prepared by the CMBIGM, solely for the purpose of supplying information to the clients of CMBIGM or its affiliate(s) to whom it is distributed. This report is not and should not be construed as an offer or solicitation to buy or sell any security or any interest in securities or enter into any transaction. Neither CMBIGM nor any of its affiliates, shareholders, agents, consultants, directors, officers or employees shall be liable for any loss, damage or expense whatsoever, whether direct or consequential, incurred in relying on the information contained in this report. Anyone making use of the information contained in this report does so entirely at their own risk.

The information and contents contained in this report are based on the analyses and interpretations of information believed to be publicly available and reliable. CMBIGM has exerted every effort in its capacity to ensure, but not to guarantee, their accuracy, completeness, timeliness or correctness. CMBIGM provides the information, advices and forecasts on an "AS IS" basis. The information and contents are subject to change without notice. CMBIGM may issue other publications having information and/or conclusions different from this report. These publications reflect different assumption, point-of-view and analytical methods when compiling. CMBIGM may make investment decisions or take proprietary positions that are inconsistent with the recommendations or views in this report.

CMBIGM may have a position, make markets or act as principal or engage in transactions in securities of companies referred to in this report for itself and/or on behalf of its clients from time to time. Investors should assume that CMBIGM does or seeks to have investment banking or other business relationships with the companies in this report. As a result, recipients should be aware that CMBIGM may have a conflict of interest that could affect the objectivity of this report and CMBIGM will not assume any responsibility in respect thereof. This report is for the use of intended recipients only and this publication, may not be reproduced, reprinted, sold, redistributed or published in whole or in part for any purpose without prior written consent of CMBIGM.

Additional information on recommended securities is available upon request.

For recipients of this document in the United Kingdom

This report has been provided only to persons (I) falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended from time to time) ("The Order") or (II) are persons falling within Article 49(2) (a) to (d) ("High Net Worth Companies, Unincorporated Associations, etc.") of the Order, and may not be provided to any other person without the prior written consent of CMBIGM.

For recipients of this document in the United States

CMBIGM is not a registered broker-dealer in the United States. As a result, CMBIGM is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. The research analyst who is primary responsible for the content of this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA"). The analyst is not subject to applicable restrictions under FINRA Rules intended to ensure that the analyst is not affected by potential conflicts of interest that could bear upon the reliability of the research report. This report is intended for distribution in the United States solely to "major US institutional investors", as defined in Rule 15a-6 under the US Securities Exchange Act of 1934, as amended, and may not be furnished to any other person in the United States. Each major US institutional investor that receives a copy of this report by its acceptance hereof represents and agrees that it shall not distribute or provide this report to any other person. Any U.S. recipient of this report wishing to effect any transaction to buy or sell securities based on the information provided in this report should do so only through a U.S.-registered broker-dealer.

For recipients of this document in Singapore

This report is distributed in Singapore by CMBI (Singapore) Pte. Limited (CMBISG) (Company Regn. No. 201731928D), an Exempt Financial Adviser as defined in the Financial Advisers Act (Cap. 110) of Singapore and regulated by the Monetary Authority of Singapore. CMBISG may distribute reports produced by its respective foreign entities, affiliates or other foreign research houses pursuant to an arrangement under Regulation 32C of the Financial Advisers Regulations. Where the report is distributed in Singapore to a person who is not an Accredited Investor, Expert Investor or an Institutional Investor, as defined in the Securities and Futures Act (Cap. 289) of Singapore, CMBISG accepts legal responsibility for the contents of the report to such persons only to the extent required by law. Singapore recipients should contact CMBISG at +65 6350 4400 for matters arising from, or in connection with the report.