

# China Economy

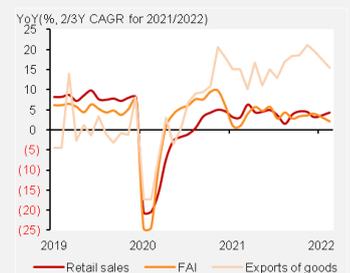
## Surprise growth dampens policy-easing expectations

- China's growth in 2M22 surprised the market.** China's economy showed a stronger-than-expected start to the year. Fixed asset investment, retail sales and value added industrial output (VAIO) respectively rose 12.2%, 6.7% and 7.5% in 2M22, beating expectations. Gross floor area (GFA) for commodity buildings dropped 9.6% and property development investment rose 3.7%, better than market consensus. Power generation, coal production and auto output rebounded noticeably as exports and industrial output maintained strong growth.
- But the stock market tumbled again after a quick rebounding.** After the economic data was disclosed, both A share market and HK stock market quickly rebounded and then tumbled again. Investors felt the economic data did not match their sector and microscopic observations. Demand in most sectors was relatively weak and the spread of Omicron virus may slow China's growth in March. However, the surprise growth in 2M22 seems likely to lower the probability of interest rate cut in near term, as the PBOC did not lower the mid-term facility lending rates yesterday. This is definitely negative for the property sector in a stressed condition. Yesterday, even the strongest state-owned property developer saw its stocks fell to the lower limit.
- Why did the Chinese offshore stocks slump sharply recently?** Since the outbreak of the Russia-Ukraine war, the logic behind the market slump has continued to evolve. i) In the early stage, investors worried about the commodity inflation and supply chain disruptions. Commodity stocks rallied and tech stocks slumped. ii) Then the market paid attention to sanctions on Russia, short-term stagflation risk and medium-term recession risk. Financials & consumer discretionary dropped sharply. iii) In the past two weeks, the slump was caused by the panic about a possible financial decoupling between US and China. The US sanctions on Russia shocked the market and reminded those foreign investors in Chinese assets that a similar risk may also exist for them. In the short term, the US may use the threat of sanctions on Chinese companies as a leverage to pressure China to comply with US sanctions on Russia. In the medium term, the US may turn Taiwan into a pawn like Ukraine and undermine China's peaceful development. The US SEC's move to include five Chinese companies listed in US market into the temporary delisting list became the trigger for massive selling of Chinese offshore stocks by foreign investors. The concerns about the forced delisting of Chinese companies in US market and the Sino-US financial decoupling rose sharply. There was a contagion of panic sales from Chinese stocks in US to HK stocks and from offshore markets to A share market. iv) In recent two days, the market started to concern about China's real estate market as the stocks of top leading developers started to tumble. Meanwhile, the market was filled with policy rumors that are bad for Internet companies and private hospitals, triggering a new round of selling.
- When will the Chinese stocks see the bottom?** The market has entered a stage driven by investors' extreme sentiment. The selling pressure of major investors should determine when the Chinese stocks see the bottom. There are four important factors related to the selling pressure. First is when the investors with a decision to leave the market complete the sell-off. Second is the dynamics of the Russia-Ukraine war and the negotiations between China

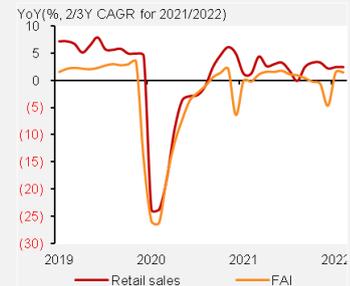
**Bingnan YE, Ph.D**

(852) 3761 8967

yebingnan@cmbi.com.hk



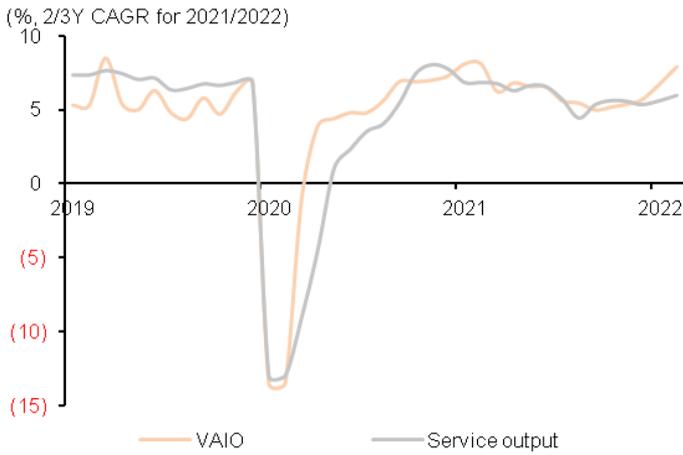
Source: Wind, CMBIGM



Source: Wind, CMBIGM

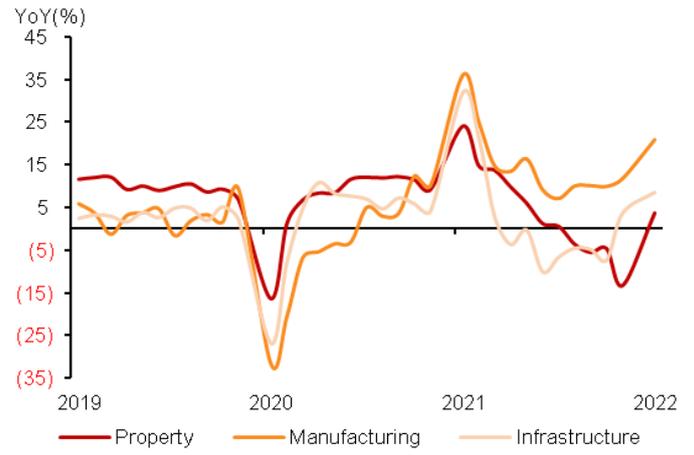
and US. Third is about China's economic fundamental and policy dynamics. If China's economy could gradually stabilize with stronger policy support, the selling pressure should decline. Last is about the US Fed's attitude towards the monetary policy. After a severe slump, Chinese offshore stocks have a very cheap valuation and may see a retaliatory rebound in the short term. To see a sustainable upturn cycle, however, the market needs some changes in the above factors.

**Figure 1: China's VAIO and Service Output Growth**



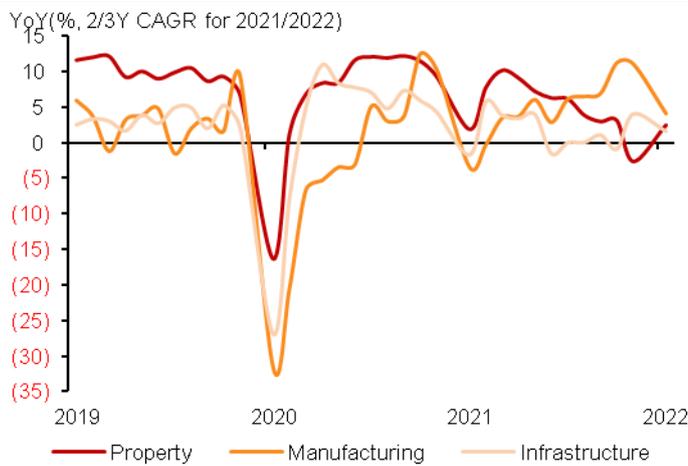
Source: WIND, CMBIGM

**Figure 2: YoY Growth of FAI by Sector**



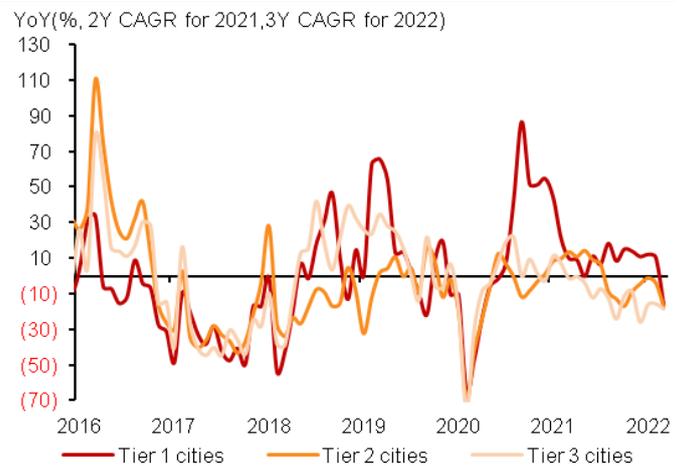
Source: WIND, CMBIGM

**Figure 3: China's FAI Growth by Sector**



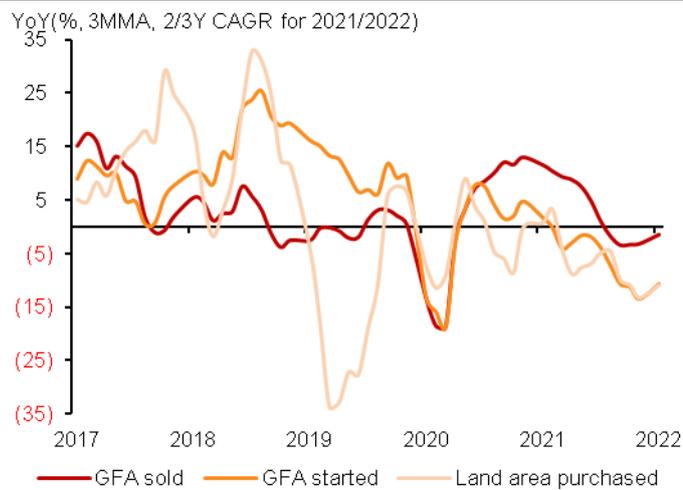
Source: WIND, CMBIGM

**Figure 4: Housing Sales by City**



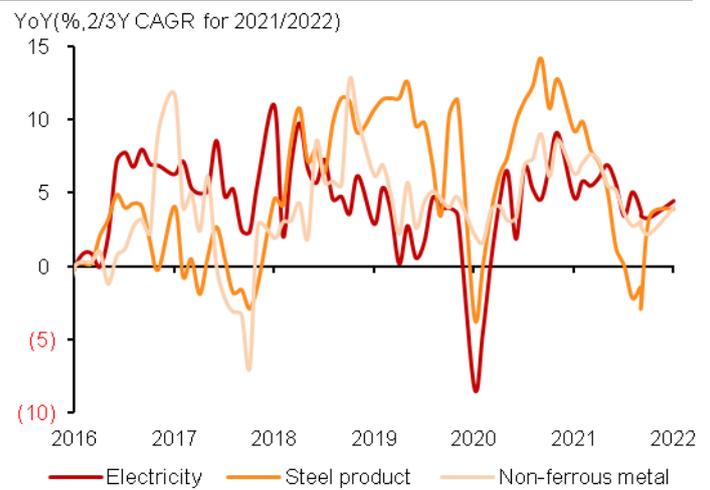
Source: WIND, CMBIGM

**Figure 5: Housing Sales, Starts & Land Purchase**



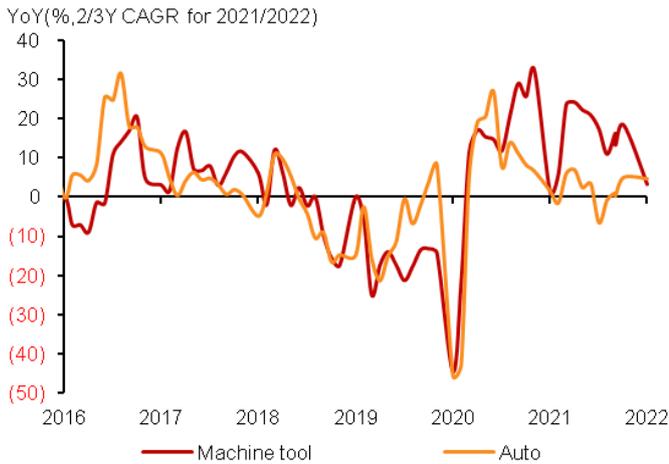
Source: WIND, CMBIGM

**Figure 6: China's Power & Metal Production**



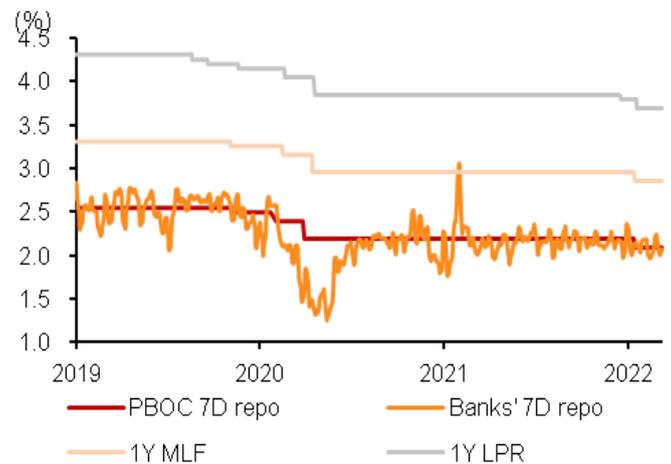
Source: WIND, CMBIGM

**Figure 7: Machine Tool & Auto Production**



Source: WIND, CMBGM

**Figure 8: PBOC's Policy Rates**



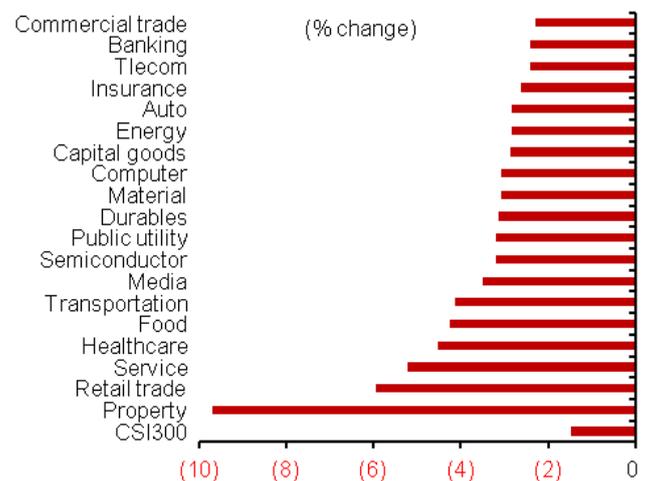
Source: WIND, CMBGM

**Figure 9: HK & China Stock Market Indexes**



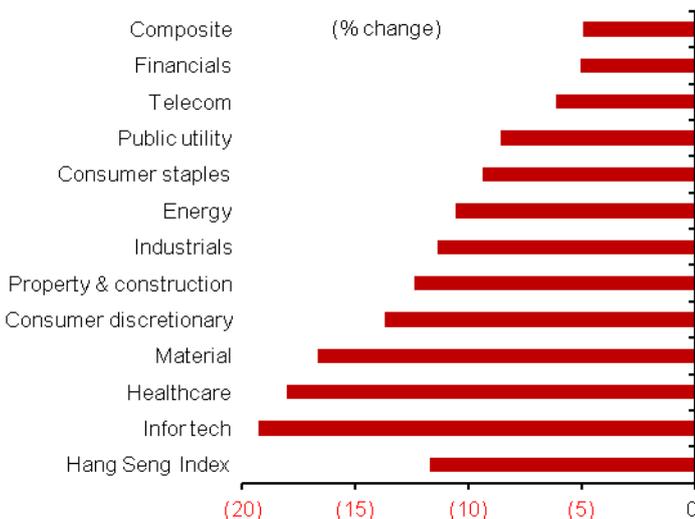
Source: WIND, CMBGM

**Figure 10: % Change of A Share by Sector This Week**



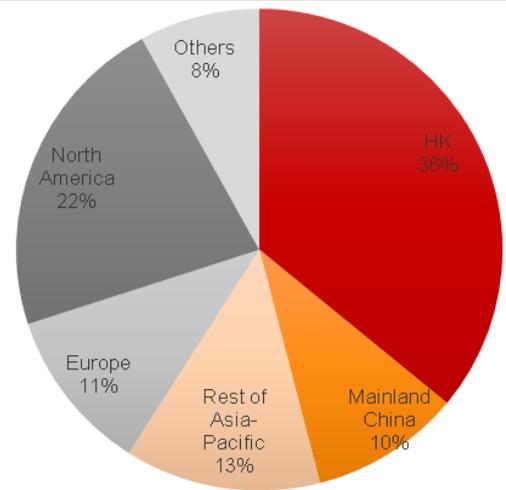
Source: WIND, CMBGM

**Figure 11: % Change of A Share by Sector This Week**



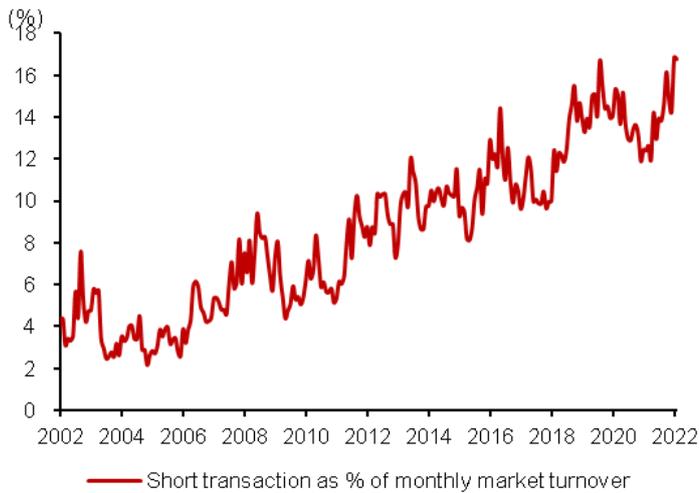
Source: WIND, CMBGM

**Figure 12: Investor Base of HK AM & WM Business in 2020**



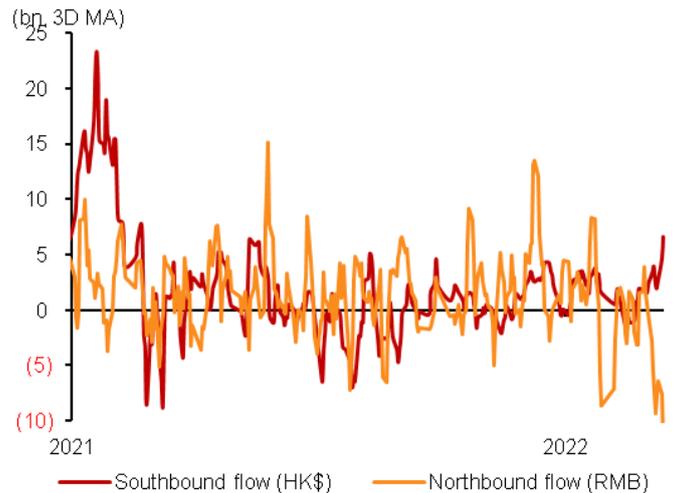
Source: WIND, CMBGM

Figure 13: Short Transaction in HK Market



Source: WIND, CMBGM

Figure 14: Daily Southbound &amp; Northbound Flow



Source: WIND, CMBGM

Figure 15: Current and 15-Year Percentile Levels of PE for Global Stock Indexes

	Hang Seng index	CSI 300 index	Chinext index	S&P 500 index	NASDAQ index	Nikkei 225 index	Germany DAX	France CAC	UK FTSE 100 index
Min	7.6	7.9	17.6	10.0	13.1	9.9	7.8	7.1	6.6
30% percentile	10.9	12.1	29.2	14.9	19.8	16.2	11.9	12.3	11.9
50% percentile	11.8	13.5	34.0	16.5	21.8	17.4	13.1	14.3	13.0
80% percentile	13.7	17.2	44.7	18.5	25.2	19.9	14.4	15.7	15.2
Current value	8.8	11.7	30.4	18.5	25.7	15.3	12.2	12.1	10.8

Source: Bloomberg, CMBIGM estimates

Figure 16: EPS Growth of Global Stock Indexes

(%)	2011-2019 CAGR	2020-2021E CAGR	2022E Growth
Hang Seng index	4.1	(12.0)	6.7
CSI 300 index	4.6	(2.4)	18.6
Chinext index	9.3	8.4	40.9
S&P 500 index	6.5	13.2	7.0
NASDAQ index	8.9	17.1	8.9
Nikkei 225 index	11.2	12.5	2.1
Germany DAX	4.5	12.9	3.4
France CAC	1.3	9.5	18.9
UK FTSE 100 index	(0.3)	4.0	11.4

Source: Bloomberg, CMBIGM estimates

# 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.