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China's recovery trend continues

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Economy activities improved

As the „first in, first out“ country of the COVID-19 crisis, China is gradually returning to normal. The April activity numbers indicate that China's domestic economy has been resilient and has continued to recover from the COVID-19 disruption.

Industrial production rebounded to a 3,9% annual growth rate in April after collapsing 1,1% in March. Exports rose 3,5% from a year earlier, reversing a decline of 6,6% in March. Fixed-asset investment and retail sales continued to fall but at a slower pace.

The pattern of gradual return to normal is also reflected in the Chinese auto market and the residential property market. Auto sales nearly doubled and rose another 50% MoM in March and April, respectively, after falling 75% in February. This recovery took auto sales back above last year's levels in April. China's home prices and housing activities picked up momentum too. According to the National Bureau of Statistics (NBS), 70-city home prices on average rose 5,2% YoY in April. Housing market transactions have rebounded notably, returning to around historical average level. Real estate investment returned to positive annual growth of 6,9% YoY in April, leading the recovery in overall fixed-asset investment.

Together with steady activity recovery labor market conditions improved notably in April. An update of the labor report from the NBS shows unemployment rate ticked up to 6.0% in April, but the under-employment rate (employed but not working) dropped dramatically from 18.3% at end March to 3.5% at end April (or from 76 million to 15 million).

V-shaped recovery for industrial production and retail sales

Source: National Bureau of Statistics China Note: Past performance is not indicative of future development.

Headwinds remain

Beside a potential second wave of COVID-19 and the decline in global demand, serious escalation of US-China tension is among the biggest downside risks to China's economy this year.

The coronavirus pandemic has reignited tensions between the United States and China. As the Phase I trade deal reached on January 15th was only a temporary solution, the re-escalation of US-China tension is not surprising. Fundamental changes in the US-China relationship led the bilateral confrontation in trade, technology, finance and geopolitics issues, especially in the US election year.

A place caught in crossfire is Hong Kong. During the National People's Congress China announced the plan to impose a Hong Kong National Security Law. The new law will ban secession, subversion of state power, foreign interference and terrorism. A similar law was proposed in 2003 but was abandoned after mass protests. The surprise move by Beijing renewed concern on Hong Kong's uncertain future and risks further exacerbating tension with the United States.

Auto sales have largely recovered

Source: China Association of Automobile Manufacturers Note: Past performance is not indicative of future development.

Policy outlook

China introduced the first batch of policy responses to the COVID-19 crisis in February. On the fiscal side, China has announced about 3,5% of GDP worth of stimulus. The size is relatively modest compares to other major economies and China's own ~10% of GDP stimulus during the Global Financial Crisis.

On the monetary front, it included liquidity injection, Required Reserve Ratio (RRR) cuts and cuts of the lending rate and key financial market interest rates. This is supplemented by increased regulatory forbearance to help corporates survive the temporary disruption. Nonetheless, the policy support needs to be bolstered, if China wants a stronger recovery in the second-half of this year and next year.

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