

| China

China Strategy

Latest economic situation

- This report utilizes high frequency data to illustrate the latest economic activity in China to analyze the economic situation.
- It covers property transaction volume, pork price movement, the steel plant utilization rate and export-related data.
- There was a notable reduction in real estate transaction volume last week after a significant recovery in Jun 22. There was a significant decline in transaction volume in first- and second-tier cities.
- As we discussed previously, the pork and hog price increases continued and seem to have accelerated. Regulators reiterated the plan to release pork reserves, if necessary.
- There was a decline in the utilization rate of major steel plants, which may be because of various factors, such as soft end demand (property-related) and very hot weather.
- Despite better-than-expected export figures, the CCFI continued to moderate, which may indicate more balanced supply/demand in the shipping industry.

Transaction volume recovery losing steam

As in our previous discussion, we observed a major recovery in transaction volume of the property market in China in Jun 22. However, the weekly data showed that there was significant drop in volume last week. Among 30 large and medium-sized cities, daily property transaction volume dropped rapidly from around 9,000 units at the end of Jun to about 3,000 units last week. This happened mostly in first- and second-tier cities, which reported a meaningful recovery in Jun after the easing of lockdowns. In third-tier cities, there was no obvious change in the previous housing transaction recovery or rapid decline in this round of transactions. The recent property market-related event may impact near-term transaction volume. Since housing is the focus of residents' lives, and real estate is also the main asset of Chinese residents, we will continue to observe the transaction data and supply-demand relationship in the real estate market.

In line with our previous discussion, the price increase of live hogs and pork continued

In our previous note, we noted that prices of hogs and pork moving up meaningfully, and that regulators had been paying close attention to recent pork price movement. Hog and pork prices continued to move up and seem to have accelerated. The government has continued to express concern about pork prices. The National Development and Reform Commission (NDRC) said on 5 Jul that it had been studying the possibility of releasing some of the central pork reserves and instructed local governments to release the reserves in a timely manner to form a joint regulation force. On 14 Jul, the NDRC reiterated that the central pork reserves should be released in a timely manner when necessary and guided local governments to jointly release the reserves to give full play to the role of pork reserves in stabilizing meat and commodity prices.

We maintain our opinion that investors should continue to pay attention to pork prices, as the CPI is likely to be affected by pork price movement.

Steel plant operating rates fall

The industrial production data showed that the utilization rate of steel plants softened last week. There was a decline in the utilization rate of major steel plants, which may be because various factors such as soft end demand (property-related demand) and very hot weather (which hindered construction in downstream construction sites).

For export-related data, we note a softening trend in the CCFI

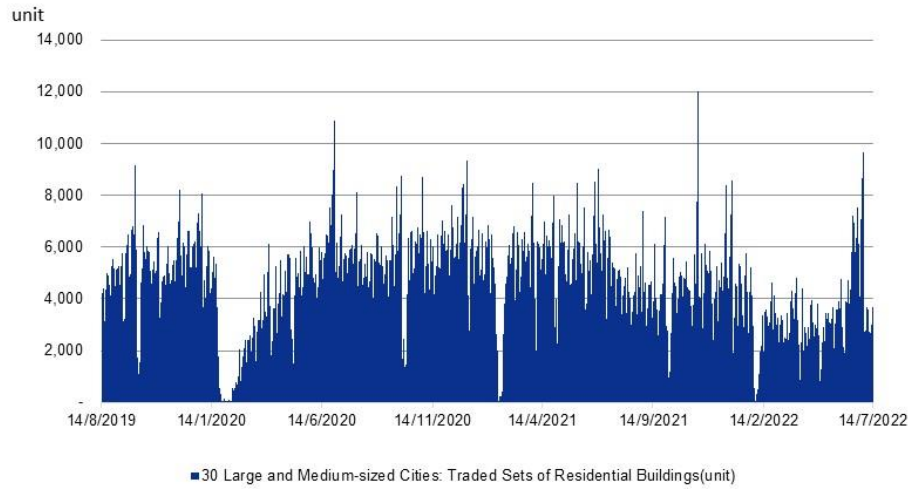
Although China's June export data released recently exceeded expectations, in the high frequency data, we note a relatively weakening trend in the CCFI, which continued to moderate, perhaps indicating more balanced supply/demand in the shipping industry. The market is expected to continue to monitor demand in overseas markets, given global inflation concerns and interest rates hikes.

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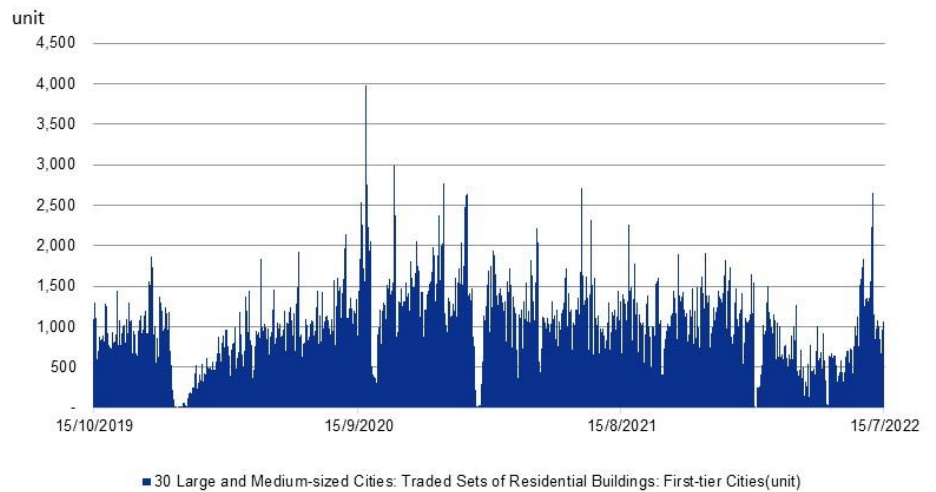
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Figure 1: 30 Large and Medium-sized Cities: Traded Sets of Residential Buildings (units)



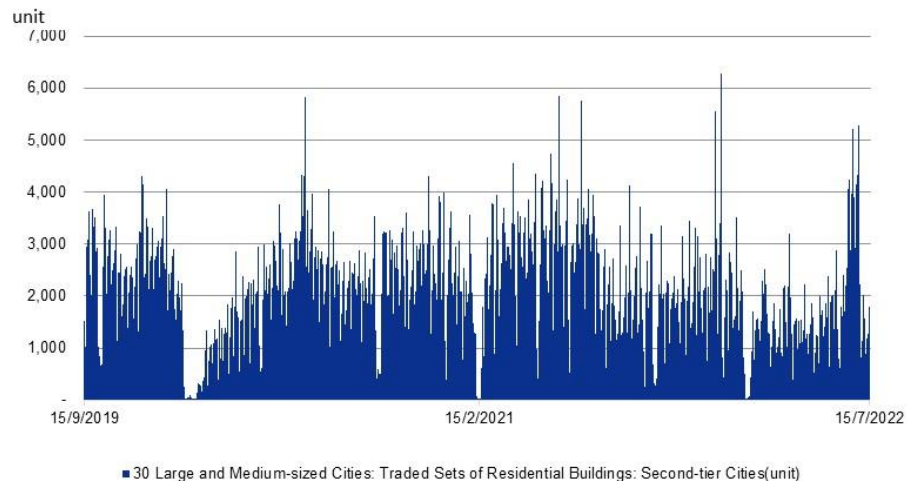
SOURCES: CGIS RESEARCH, COMPANY DATA, WIND

Figure 2: 30 Large and Medium-sized Cities: Traded Sets of Residential Buildings: First-tier Cities (units)



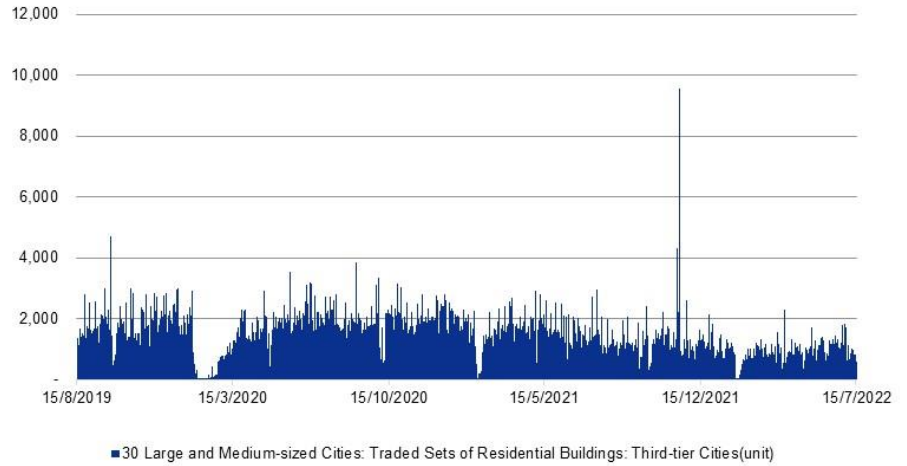
SOURCES: CGIS RESEARCH, COMPANY DATA, BLOOMBERG

Figure 3: 30 Large and Medium-sized Cities: Traded Sets of Residential Buildings: Second-tier Cities (units)



SOURCES: CGIS RESEARCH, COMPANY DATA, WIND

Figure 4: 30 Large and Medium-sized Cities: Traded Sets of Residential Buildings: Third-tier Cities (units)



SOURCES: CGIS RESEARCH, COMPANY DATA, WIND

Figure 5: 22 Provinces (Cities): Average Price: Live Hogs (Rmb/kg)



SOURCES: CGIS RESEARCH, COMPANY DATA, WIND

Figure 6: 22 Provinces (Cities): Average Price: Pork (Rmb/kg)



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Figure 7: Large and Medium-sized Cities: Hog-corn Price Ratio

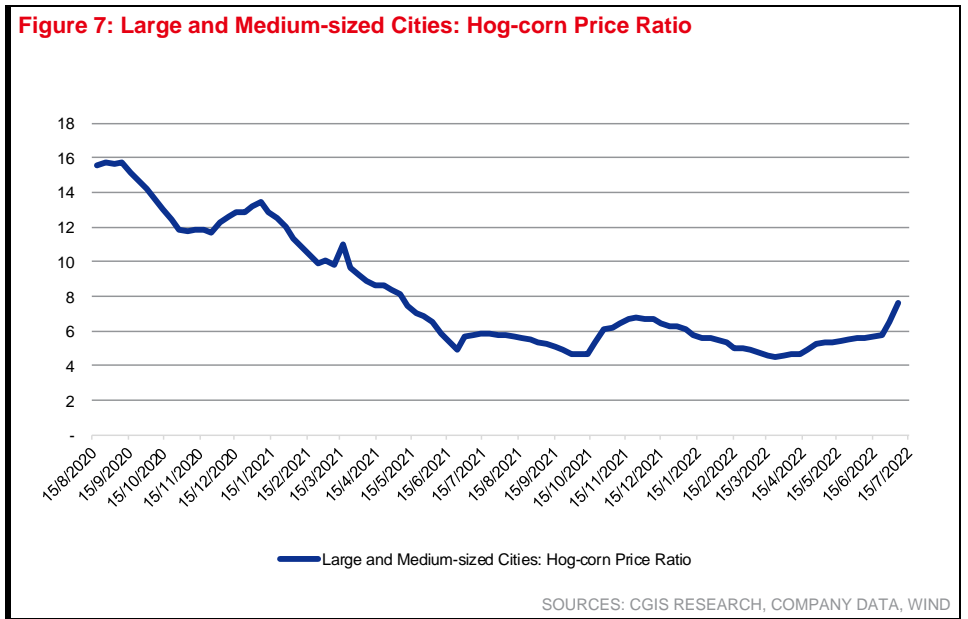


Figure 8: Tangshan Steel Plants: Operating Rate of Blast Furnaces (%)

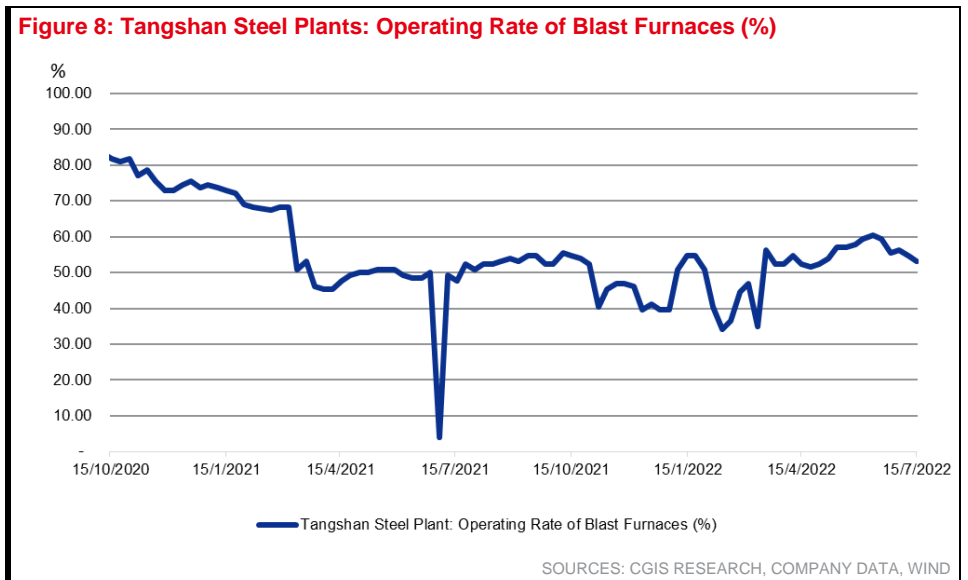


Figure 9: Deformed Steel Bar: Operating Rate of Main Steel Plant: National (%)

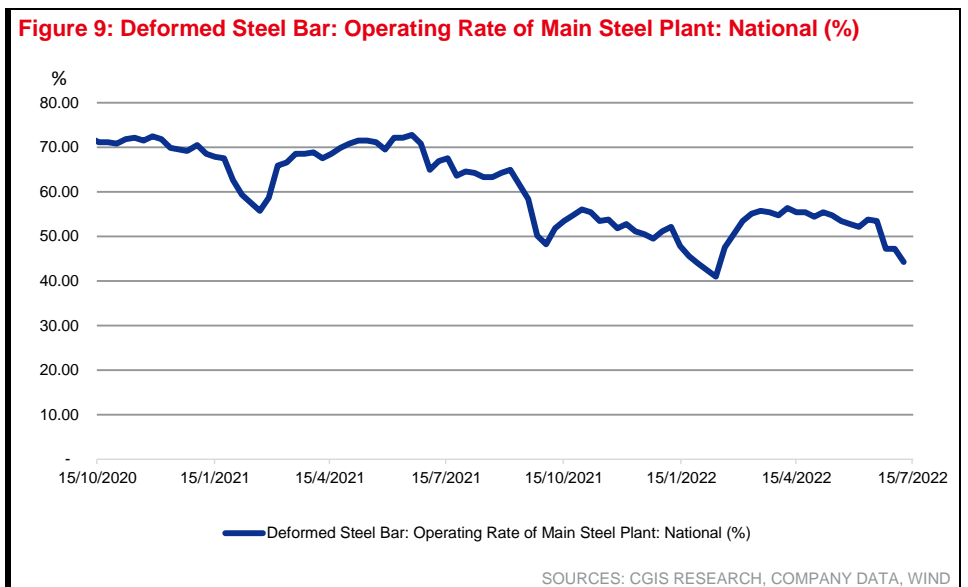
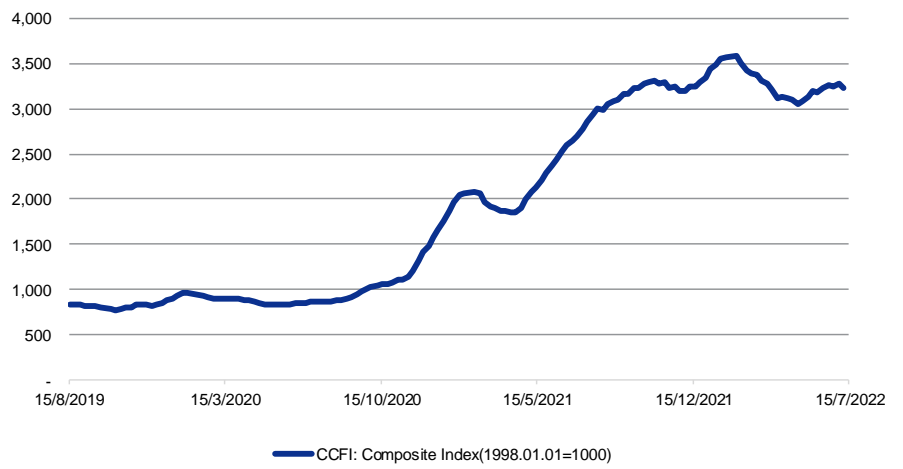


Figure 10: CCFI: Composite Index (1998.01.01=1000)



SOURCES: CGIS RESEARCH, COMPANY DATA, WIND

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Distribution of stock ratings and investment banking clients for quarter ended on 30 Jun 2022		
643 companies under coverage for quarter ended on 30 Jun 2022		
	Rating Distribution (%)	Investment Banking clients (%)
Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

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Stock Ratings Definition:

Add	The stock's total return is expected to reach 15% or higher over the next 12 months.
Hold	The stock's total return is expected to be between negative 10% and positive 15% over the next 12 months.
Reduce	The stock's total return is expected to fall below negative 10% over the next 12 months.

The total expected return of a stock is defined as the sum of the:(i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

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Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

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Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
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