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.
- The report covers key areas, including weekly property transaction volume, pork price movement and automotive sales.
- The weekly property transaction volume was stable wow after a notable reduction in the week of 17 Jul. On 20 Jul, the central bank released the LPR data, which were same as last month. But the authorities later implied that the lower limit of the first-home loan interest rate would be reduced by 20 bps. We believe the authorities will continue to use city-specific governance and a fine-tuning approach in the property market.
- Last week, we observed a pull-back in live hog and pork prices. We still maintain that investors should continue to pay attention to pork prices.
- In the automotive sector, we note rising demand and flat supply. We expect automobile sales to remain hot, as the major policies to stimulate car consumption will continue for several months.

Weekly transaction volume stabilizing in the property market

As in our previous discussion, after a major recovery in Jun 22, there was a significant drop in the weekly transaction volume in the property market. Last week (18–22 Jul), the transaction volume stabilized on a wow basis, with the average daily transaction volume remaining at around 4,000 units. The China Banking and Insurance Regulatory Commission (CBIRC) has strengthened cooperation with local governments and other authorities to ensure the “timely delivery of properties, protect people's livelihood and maintain social stability”. On 20 Jul, the central bank released the latest loan market quoted rate (LPR) data, and the one-year LPR and the five-year LPR were both the same as last month. Nevertheless, at a press conference on 21 Jul, the CBIRC emphasized that it will meet the reasonable housing needs of residents and will work with the PBoC to reduce the lower limit of the first-home loan interest rate by 20 bps to guide banks to improve the efficiency of mortgage loan approval. We believe that city-specific governance and a fine-tuning approach will continue to be adopted for current housing in the future. Sales recovery remains a key catalyst for the sector.

The prices of live hogs and pork have rebounded since June and seem to be entering a consolidation phase

In our previous update, we noted that the upward trend in hog and pork prices seemed to have accelerated, and authorities, including the National Development and Reform Commission, announced that they will “adjust” the prices of live hogs and pork in a timely manner, if necessary. Last week, live hog and pork prices seemed to enter a consolidation phase after an upsurge in previous weeks. We see this as a result of changes on both the supply and demand sides. On the one hand, with the increase in pork prices in the past few weeks, the rapid increase in breeding profits prompted some farmers to sell. On the other hand, the recent Covid outbreaks in various places affected downstream demand. We maintain our opinion that investors should continue to pay attention to pork price movement, which may push up the CPI and result in the tightening of monetary policy.

In the automotive sector, demand is rising while supply is flat

In the automotive sector, we note a divergence between production and demand. On the production side, the operating rate of semi-steel radial tires and all-steel radial tires has not changed much. On the demand side, however, automobile sales are on the rise for passenger car average weekly sales at both the retail and wholesale level. Further boosting the passenger car market are the 50% reduction in the purchase tax and subsidies for automobile purchases in various regions. We expect automobile sales to remain hot, as the major policies to stimulate car consumption will continue for several months. We will continue to pay attention to the industry chain and related policies.

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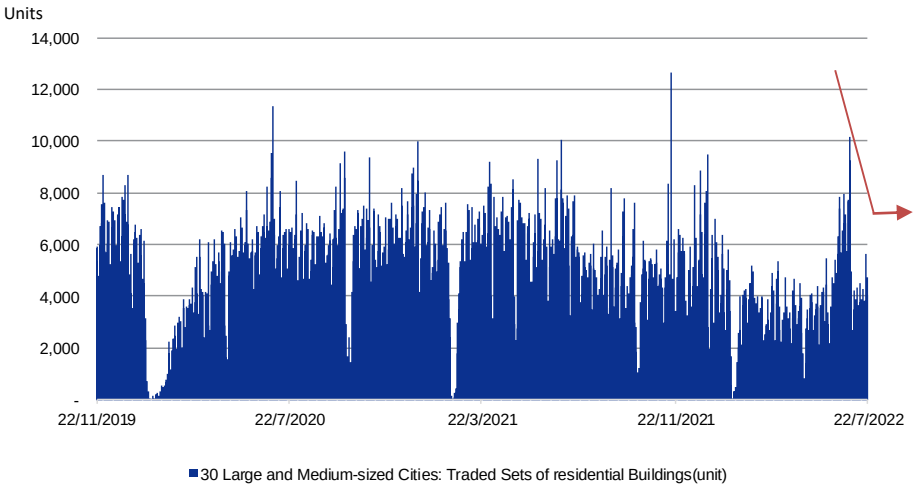
Figure 1: 30 Large and Medium-sized Cities: Traded Units in Residential Buildings (units)



SOURCES: CGIS RESEARCH, COMPANY DATA, WIND

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

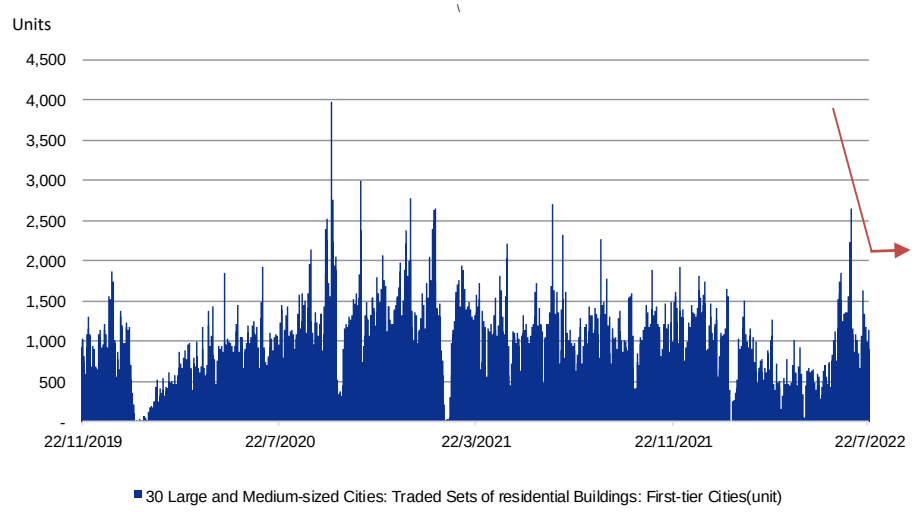


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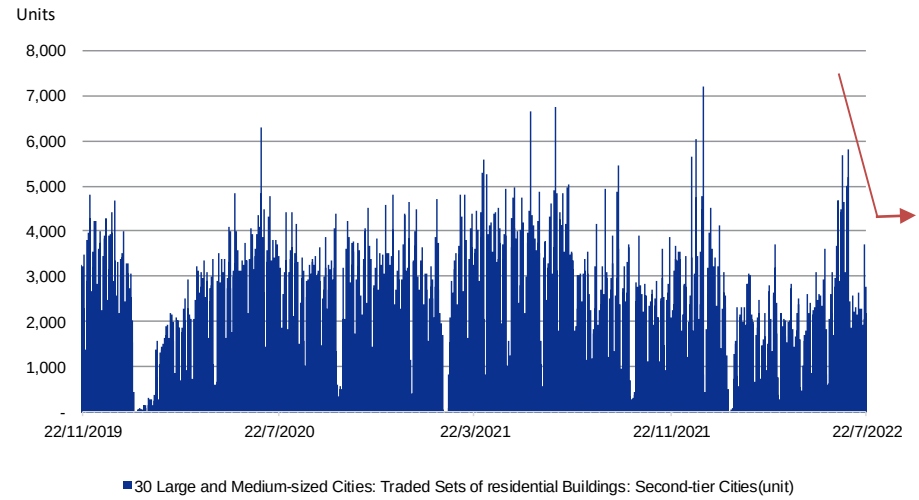
Figure 3: 30 Large and Medium-sized Cities: Traded Units in Residential Buildings: Second-tier Cities (units)



SOURCES: CGIS RESEARCH, COMPANY DATA, WIND

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

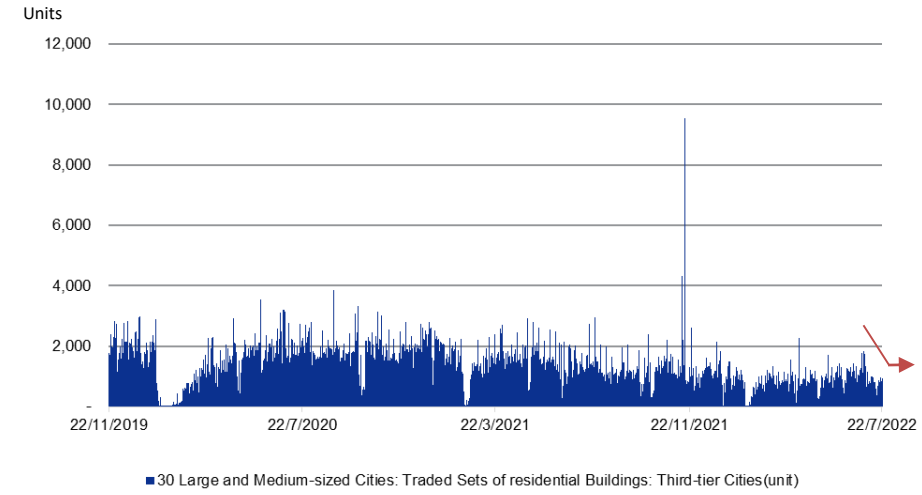


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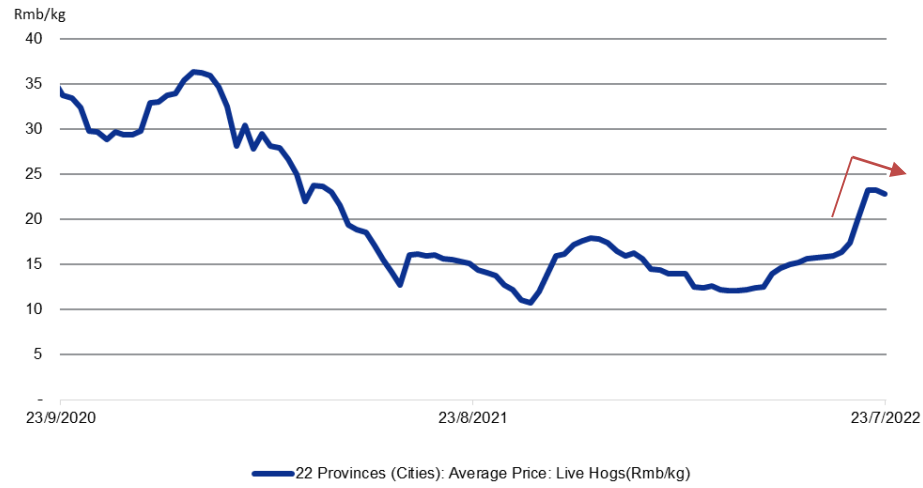
Figure 5: 22 Provinces (Cities): Average Price of Live Hogs (Rmb/kg)



SOURCES: CGIS RESEARCH, COMPANY DATA, WIND

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

SOURCES: CGIS RESEARCH, COMPANY DATA, WIND

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

SOURCES: CGIS RESEARCH, COMPANY DATA, WIND

Figure 8: Operating Rate of Semi-Steel Radial Tires and All-Steel Radial Tires (%)

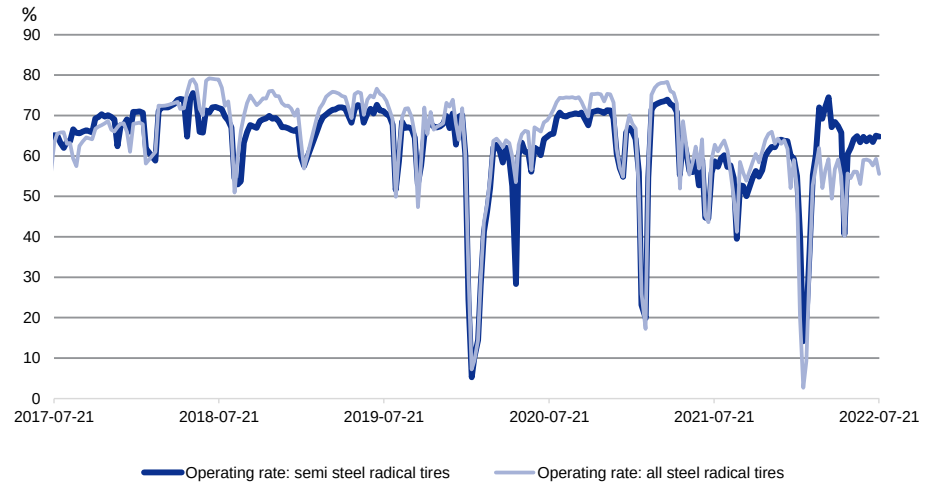


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Figure 9: Average Sales in the Past Week: Passenger Cars: Manufacturer Retail

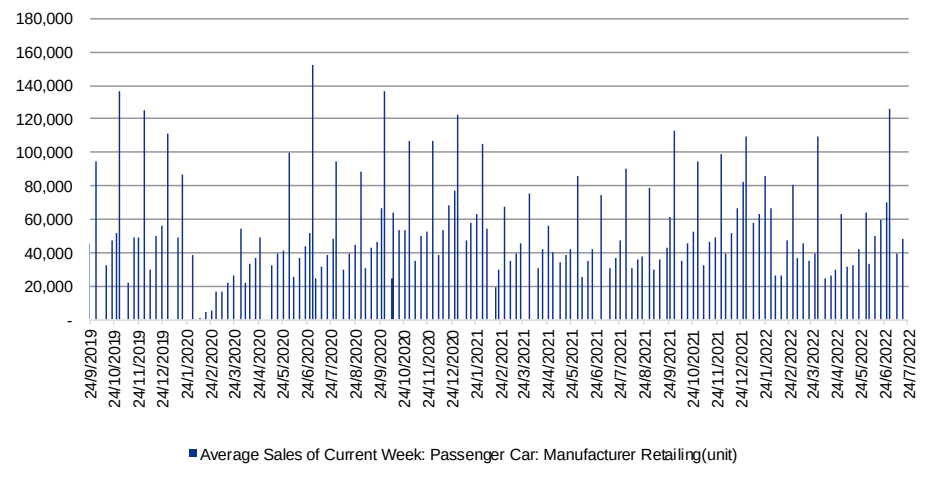

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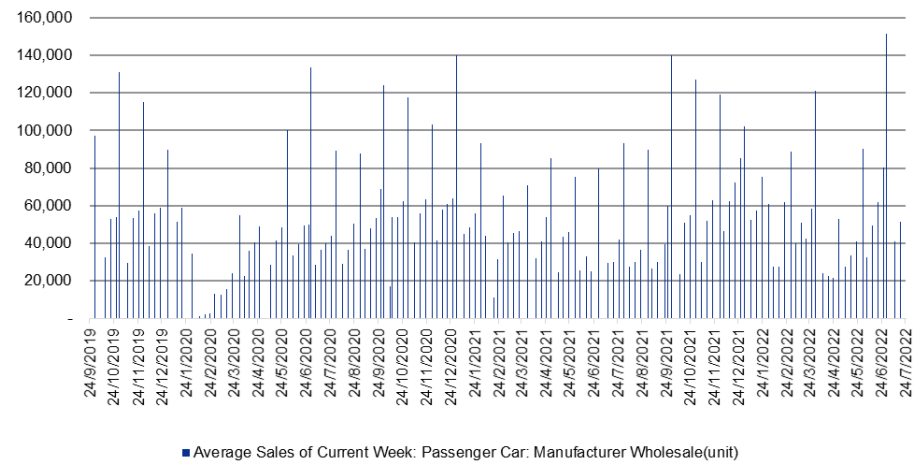
Figure 10: Average Sales in the Past Week: Passenger Cars: Manufacturer Wholesale



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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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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%

RECOMMENDATION FRAMEWORK

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.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

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