

Rosefinch Weekly

Economic Rebound Turning Soft



After the pent-up demand was released in June, economic rebound is turning soft. Both Real Estate sales data and export container volume are showing some decreases. The pressure from drop in external demand and household liquidity remains. While the overall economic recovery trend is clear, the strength of the rebound is softer than the 2020 pace. There's still need for continued policy support to maintain the steady growth goal.

Recent policy priorities have focused on fiscal stimulus towards infrastructural investment and the associated long-term funding support. On inflation front, June CPI was +2.5% as higher local pork prices were offset by lower global agricultural product prices. The high oil price remains a driver to domestic inflation, with passthrough impacts mostly on transportation and travel service sectors. With core CPI (ex food and energy) stable at +1% YoY, inflation will have little impact on monetary policy. Last week saw A-share oscillating at high levels as market digests the earlier rally. Overall liquidity is stable with daily volume drifting lower but still above 1 trillion RMB. There was less foreign capital inflow this week.

For the moment, the PBOC's most important KPI is still channeling the increased credits towards real economy. PBOC would prefer interbank liquidity to be more neutral and reduce excess liquidity in the interbank system. Instead, PBOC wants the banks to increase lending to the real economy and step-up supportive loans towards strategic priorities such as new infrastructure, higher-quality business, SMEs, etc. It's likely that PBOC will push to reduce the gap between the interbank rate and the higher government policy rate. On the macro side, PBOC will likely keep social financing growing at steady pace. This week's June Social Financing data should see improvements both in volume and in structure. While overall liquidity will improve, it may reduce some capital currently parked in the local bond market.

As commodity prices drop back, domestic commodity demands are rebounding. Steelmakers are returning to profit, but we still need to monitor how much subsequent demands there are. Meanwhile, the volatile oil price will continue sending shockwaves through the commodity world.

Last few days saw increase in Covid cases in Shanghai and other provinces, but the market is taking this in stride with less sensitivity. For the market outlook, we'll follow closely the 2Q22 economic data as well as individual company's mid-year reports.

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