

China COVID-19 tracker

Pandemic under control, but watch out for heatwaves

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Economics - China

- ◆ Daily new local infections eased over the past week, but stranded passengers are struggling to get back home
- ◆ Cities are using “swift lockdowns” to avoid larger-scale disruptions
- ◆ More easing measures support moderate recovery in Shanghai home sales; inland provinces battling heatwaves

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Daily cases easing gradually. On 21 August, China recorded 1,824 new cases (local confirmed cases and local asymptomatic cases), down from the recent peak of 3,424 on 17 August. Hainan remains the epicentre for this round of infections, reporting 767 new cases on 21 August, followed by Tibet and Xinjiang (National Health Committee, 22 August). In all three provinces most new cases were asymptomatic infections. As of 22 August, 1,346 areas were labelled “high risk” and 1,027 “medium risk”, with the majority in Hainan, Tibet, Xinjiang and Shaanxi. “High risk” areas are subject to more stringent restrictions. Among Tier-1 cities, Beijing and Shanghai each have four “high risk” areas.

Train trouble. Over the weekend, vice-premier Sun Chunlan urged local governments to coordinate the return of 163,000 stranded travelers (21 Caijing, 21 August). This has not been easy. For example, as of 21 August 33 COVID cases in seven provinces were related to train journeys between Lhasa (Tibet) and Beijing. The China State Railway Group suspended some services and restricted the passenger capacity on each train (CCTV, 20 August). Some railways services will be suspended until 10 September (Chinanews.com, August 21).

The new norm. Although some recent COVID-19 flare-ups have led to lockdowns, they were generally shorter than during previous episodes. Some cities have introduced “swift lockdowns” when there are only a small number of local infections. In tech hub Shenzhen, in addition to swift lockdowns in targeted areas, the city has continued regular mass testing since the major outbreak in March, which led to a week-long city-wide lockdown. We view this as a compromise to avoid larger-scale lockdowns and limit interruptions to businesses. After Shenzhen reported seven cases on 21 August, a number of streets in Baoan district were put under “swift lockdowns” for three days (Shenzhen Municipal Health Commission, 21 August) and several flights and ferry services have been suspended. There’s better news in Yiwu (Zhejiang), China’s small commodities hub and one of the largest providers of Christmas products. The city has lifted the 10-day city-wide lockdown and 805 enterprises have resumed operations (SCMP, August 21), which is good news for overseas clients stocking up for the holiday season.

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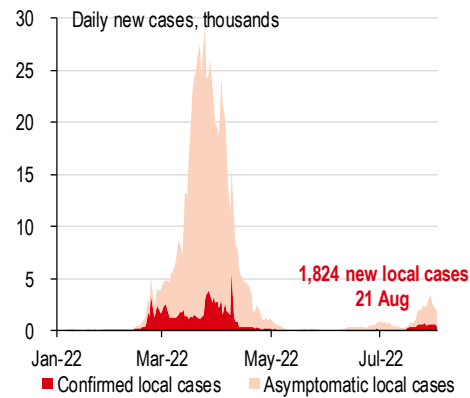
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Central bank rate cut to support longer-term credit demand. Last week, the PBOC announced a surprise 10bp cut in the one-year MLF rate. On 22 August, the one-year LPR and five-year LPR rates – the short and long-term benchmark lending rates – were lowered by 5bps and 15bps respectively. The asymmetric rate cut was within expectations. Five-year LPR serves as a reference rate for mortgage lending and other longer-term loans, so the move shows policymakers' willingness to support longer-term loan demand. High-frequency data suggest that home sales picked up moderately over the past week, led by Tier-1 cities. The most notable rise in home sales was in Shanghai – 11.7% week-on-week up to 18 August – continuing the recovery that started at the end of July. When the pandemic is kept at bay and restrictions are lifted, local demand has likely been unleashed. Secondly, Shanghai recently announced favourable “Hukou” (household registration-permits) policies to attract young talents, both domestically and from abroad, including its new developing district of Lingang (China Daily, 22 August). Short-listed candidates are able to obtain Shanghai Hukou and are qualified to purchase homes within a shorter period of time. Like Shanghai, many cities have also relaxed property-related measures in the past few months, however national-level housing demand and investment remain weak. In our view, more fiscal and monetary policy support, including tailor-made measures for the property sector, is needed.

Record heat waves affecting inland provinces. Some provinces are now battling with the worst heatwave on record. Since July, most areas of the Yangtze River basin have experienced extremely high temperatures and 45% less rainfall than the average (Xinhua, 18 August). According to the Ministry of Water Resources, drought has affected approximately 830,000 people and farmlands in Sichuan, Chongqing, Hubei, Hunan, Jiangxi and Anhui. Sichuan and Hubei are two of the largest providers of hydro-power in the country. Sichuan began limiting electricity supply to factories, shopping malls, offices and homes, effective from 17 August (Yicai, 19 August). Plans to resume power supplies to industries on Sunday were postponed until 25 August (SCMP, 22 August). Prolonged drought will inevitably hurt industrial activity, though we believe the impact is likely to be more contained than during the power crunch of 2021. The seasonal tension should go away rather quickly once the weather cools down and rainfall increases; whereas last year's power crunch was more structural due to a coal shortage, ineffective distribution of power on the grid (see Daniel Yang, Evan Li, Vivian Zhou, *Power shortage I*, 17 December 2020; *Power shortage II*, 8 June 2021; *Power shortage III*, 24 September 2021), as well as the campaign-like de-carbonisation (运动式减碳).

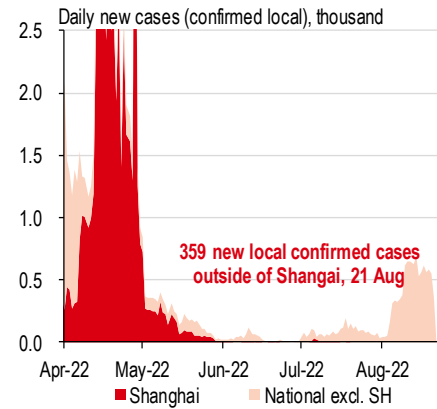
COVID-19 cases and vaccinations

Chart 1: Daily new cases eased steadily after 17 Aug, but remain above 2,000



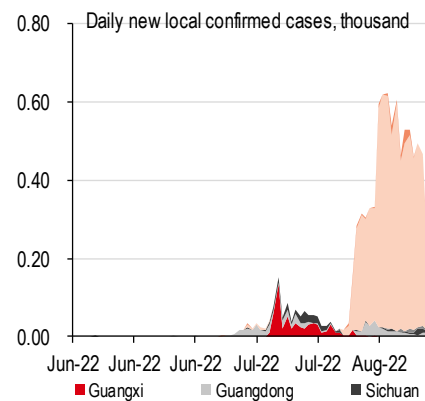
Source: Wind, HSBC

Chart 2: The current wave of infections is outside Shanghai



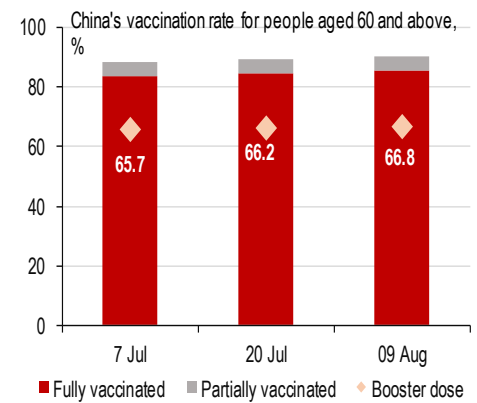
Source: Wind, HSBC

Chart 3: New local confirmed cases remain elevated in Hainan province



Source: Wind, HSBC

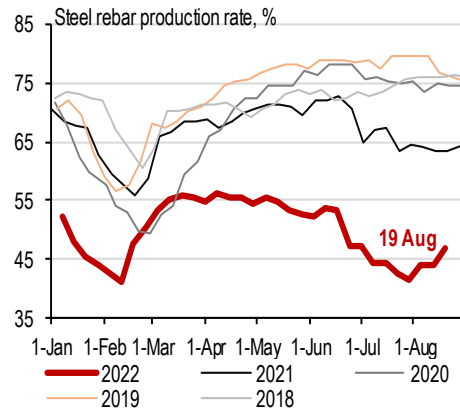
Chart 4: Vaccination rates for the elderly



Source: National Health Commission, HSBC

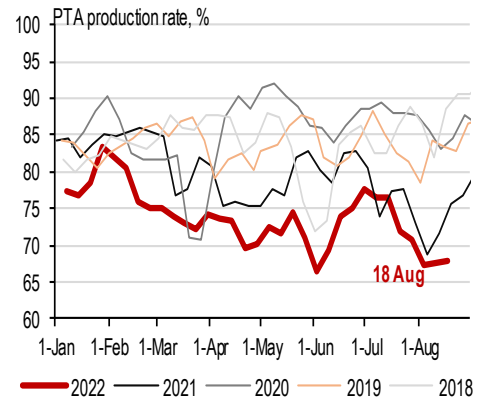
Economic activity

Chart 5: The steel rebar production rate increased moderately



Source: Wind, HSBC

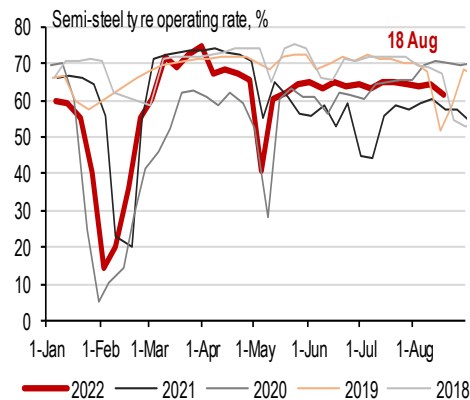
Chart 6: ... the production rate in the chemical sector edged up



Note: PTA = Pure Terephthalic Acid, a key chemical product

Source: Wind, HSBC

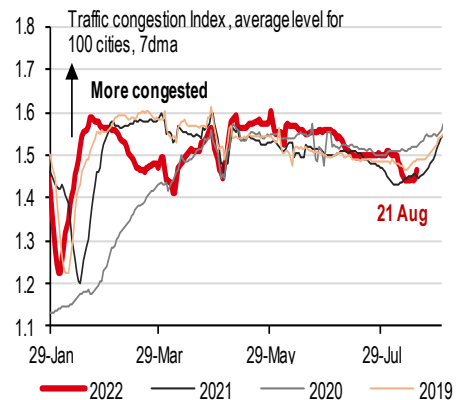
Chart 7: The semi-steel operating rate eased during the last week



Note: Semi-steel tyres are key components for the production of automobiles

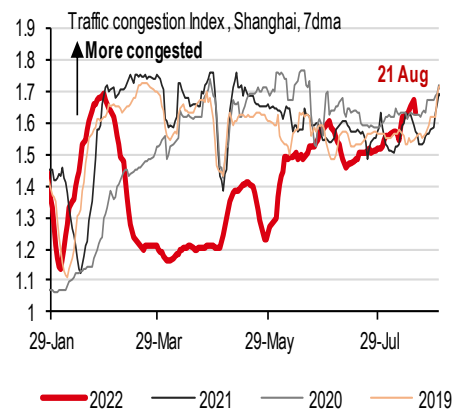
Source: Wind, HSBC

Chart 8: The national average level of traffic recovered slightly



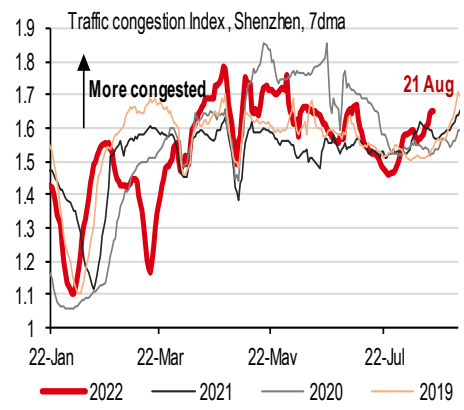
Source: Wind, HSBC

Chart 9: Traffic in Shanghai eased modestly...



Source: Wind, HSBC

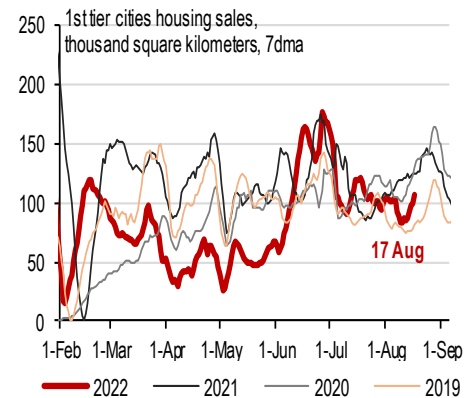
Chart 10: ...Shenzhen's traffic level rebounded further



Source: Wind, HSBC

Chart 11: Housing sales in 30 major cities turned up over the past week...


Source: Wind, HSBC

Chart 12: ... mainly driven by first-tier cities, or more specifically Shanghai


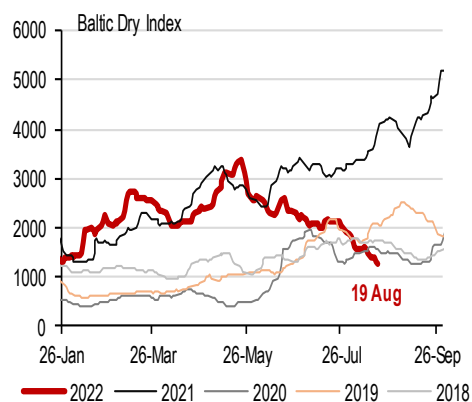
Source: Wind, HSBC

Chart 13: Second-tier cities' housing sales continued to ease

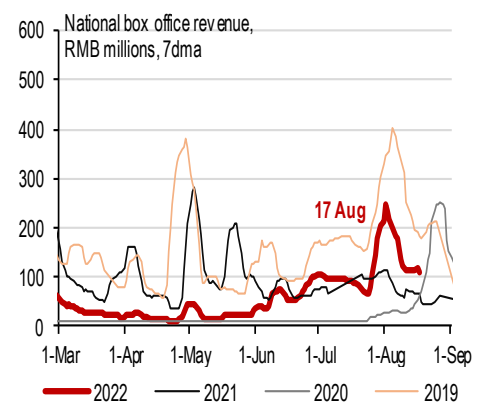

Source: Wind, HSBC

Chart 14: ...those in third-tier cities however rebounded


Source: Wind, HSBC

Chart 15: The Baltic Dry Index trended down further


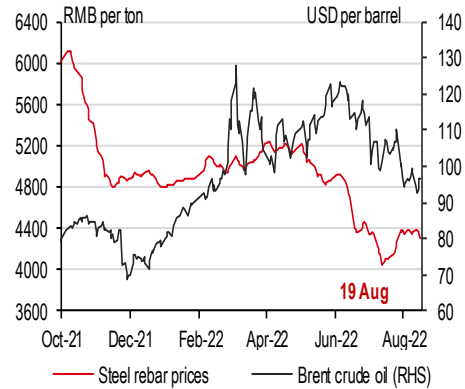
Source: Wind, HSBC

Chart 16: Box office revenues gradually stabilized


Source: Wind, HSBC

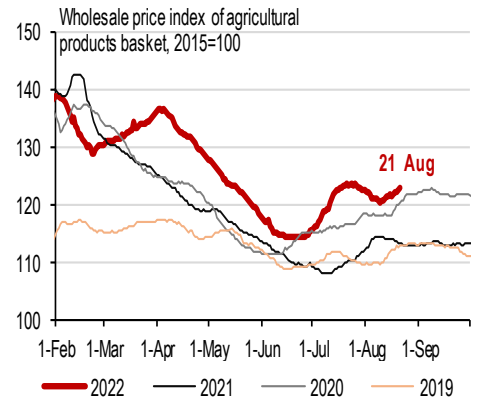
Inflation and policies

Chart 17: Oil prices range-bound, steel prices remain steady



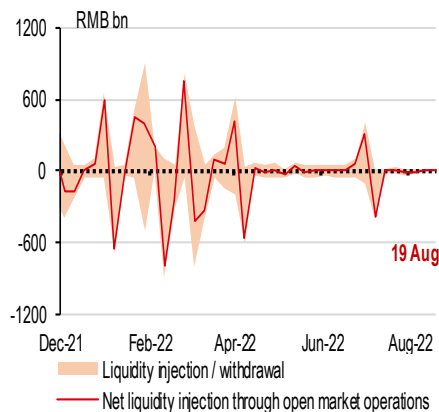
Source: Wind, HSBC

Chart 18: Agricultural product prices rose further



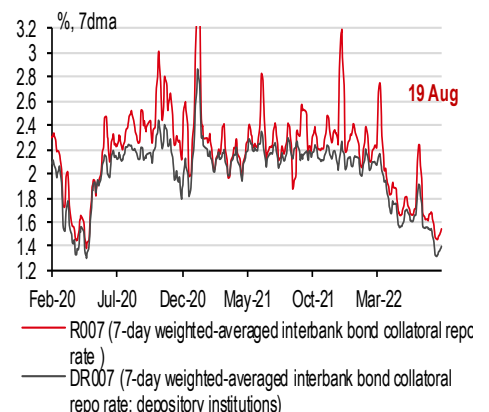
Source: Wind, HSBC

Chart 19: PBOC maintained zero net liquidity injections in past two weeks



Source: Wind, HSBC

Chart 20: ...while interbank rates ticked up slightly



Source: Wind, HSBC

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