

China COVID-19 tracker

Summer holidays cut short

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Economics - China

- ◆ Daily new local infections have picked up in the past week, led by popular tourism destination Hainan island
- ◆ More cities are imposing restrictions and lockdowns, further weighing on housing sales as well as consumer spending
- ◆ Is there more policy easing? Other than the rate cut, Beijing is reportedly planning to provide liquidity support to select developers

Over 2,000 daily cases – highest level in three months. Popular tourist destination Hainan is the epicentre of the latest COVID-19 outbreak. The province reported confirmed new local cases of 2,824 between 10 and 14 August, the largest outbreak since the start of the pandemic in 2020. Meanwhile, Xinjiang and Tibet reported the highest numbers of asymptomatic infections, each averaging c.400 per day over the weekend, though confirmed new local cases remain relatively contained at below 100 per day. As of 14 August, 19 out of 31 Chinese provinces reported new local cases (including confirmed and asymptomatic infections), compared to just 11 at the end of July. Shanghai has reported single-digit new cases since 11 August. A major outbreak there seems unlikely at this point. Regular testing and control measures have been kept in place since the city lifted its restrictions in June. For instance, passengers returning from Hainan will be transferred in a closed-loop and put into 3+4 home quarantine and health monitoring (cn.gov, 14 August 2022).

Local governments are seeking a balance between growth and pandemic controls.

Amid the recent COVID-19 flare-ups, many cities across the country have been put under temporary “static management” (i.e. lockdowns) since 14 August. Hainan’s “static management” was extended by two days until 16 August. As of 14 August, the province’s round-island high-speed rail and Haikou suburban train remained under suspension (cn.gov, 14 August). The good news is China’s top COVID-19 official, vice-premier Sun Chunlan, said authorities will step up the effort to let travelers return home. So far 150,000 visitors have been stranded in Hainan (SCMP, Aug 14). Last Sunday, commercial flights from Sanya resumed services, though outbound travelers need to get approval before they can fly out. By the end of last week, several other cities in Inner Mongolia, Xinjiang, Tibet, and Jiangxi had imposed or extended “static management”.

Three-day “swift lockdowns” becoming the norm. During COVID-19 infection wave, cities are quickly sealing targeted districts and putting them under temporary “static management”, usually for three days. For example, Yiwu in Zhejiang province – the export hub in Eastern China – imposed three-day static management on 11 August. With the COVID-19 situation there quickly put under control, static management was lifted for Chi’an Town and Chengdi Sub-district. Clearly, local governments are trying to reduce the economic costs of large-scale restrictions as much as possible and rely more on regular testing. Large cities such as Beijing and Shanghai are following Shenzhen by adopting regular mass testing as part of the “new normal” after outbreaks from time to time throughout the country.

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Jing Liu
Chief Economist Greater China
The Hongkong and Shanghai Banking Corporation Limited

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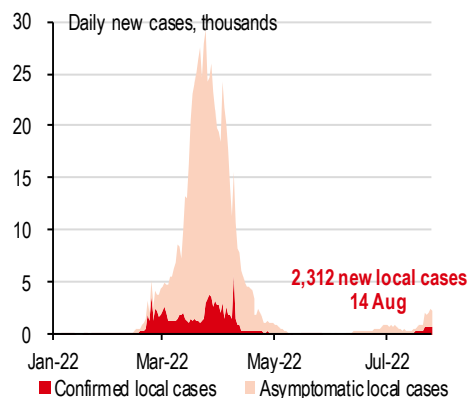
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The economic toll: July activity data showed a broad-based slowdown. Amid the softness in activity data and credit demand, the central bank announced a surprise 10bps cut in the one-year MLF rate. Yet, sentiment around the property sector and consumer demand has remained weak. High frequency indicators suggest that home sales eased in August. On 15 August, NBS also reported that nationwide home prices dropped for the 11th straight month in July, among which lower-tier cities suffered the most (NBS, 15 August). With popular tourist destinations now under pressure to contain new COVID-19 wave, traffic volumes dropped again. It is yet to be seen whether there will be spill-over effects to key cities, but consumer sentiment along with related spending likely will remain fragile due to the uncertainties linked to the COVID-19 situation. The surprise MLF rate cut illustrates Beijing's pledge to continue its easing. According to press reports, Chinese regulators are planning to provide liquidity support to select developers via new CNY bonds guaranteed and underwritten by state-owned firms, which may be a step towards a more holistic solution to the housing market strains (*REDD*, 15 August 2022). In our view, more fiscal policy and accommodative monetary policy are needed to pave the way for steady recovery going ahead.

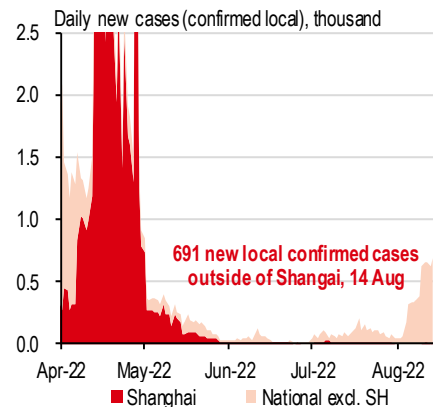
COVID-19 cases and vaccinations

Chart 1: Daily new cases picked up again over the past week



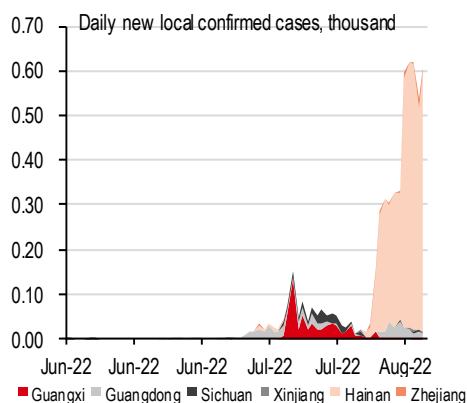
Source: Wind, HSBC

Chart 2: Another wave of infections came from outside Shanghai



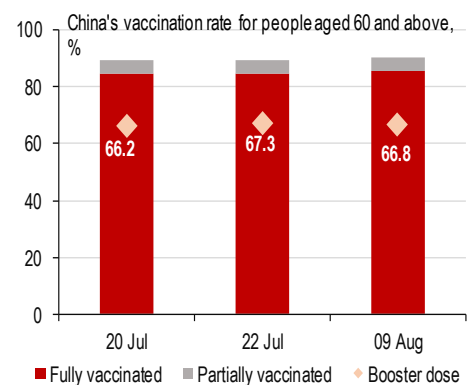
Source: Wind, HSBC

Chart 3: New local confirmed cases surged in Hainan province



Source: Wind, HSBC

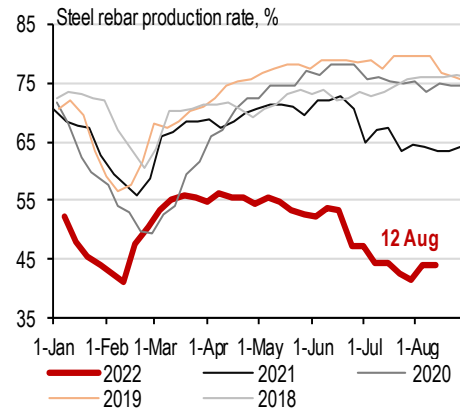
Chart 4: Vaccination rates for the elderly



Source: National Health Commission, HSBC

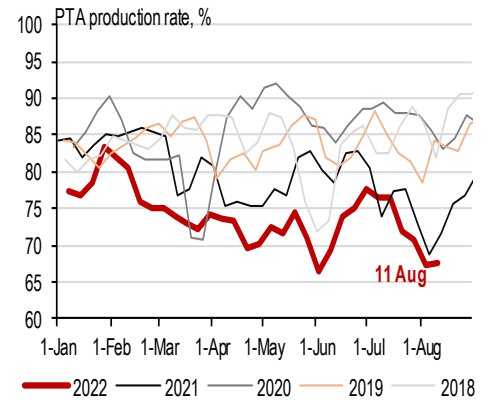
Economic activity

Chart 5: The steel rebar production rate remained steady...



Source: Wind, HSBC

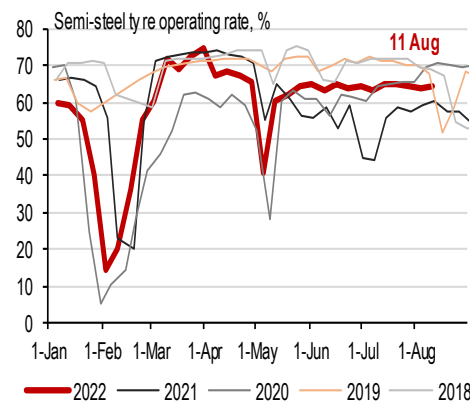
Chart 6: ... the production rate in the chemical sector appeared to stabilize



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

Source: Wind, HSBC

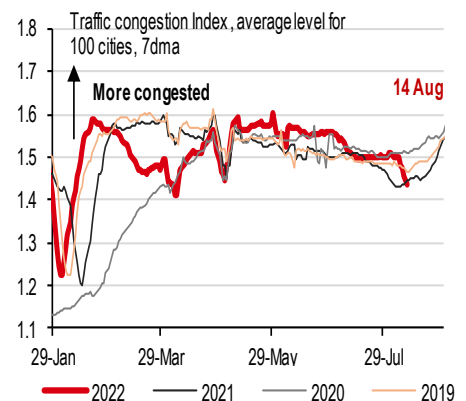
Chart 7: The semi-steel operating rate remained stable



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

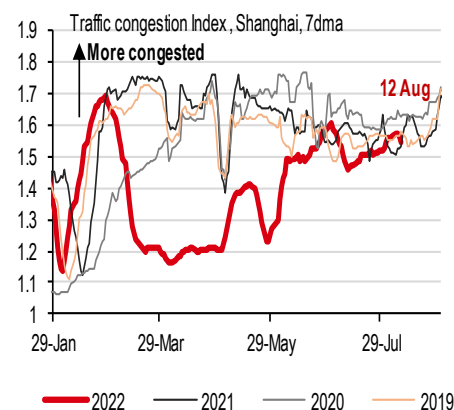
Source: Wind, HSBC

Chart 8: The national average level of traffic dropped again over the past week



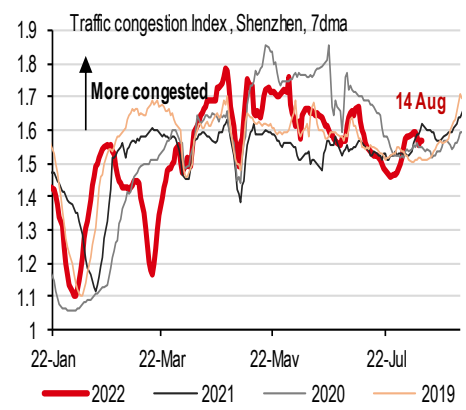
Source: Wind, HSBC

Chart 9: Traffic in Shanghai eased modestly...



Source: Wind, HSBC

Chart 10: ... as has Shenzhen's traffic level



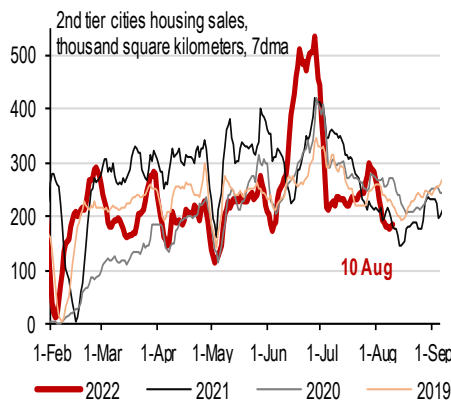
Source: Wind, HSBC

Chart 11: Housing sales in 30 major cities dipped again over the past week


Source: Wind, HSBC

Chart 12: First-tier cities' housing sales saw another drop

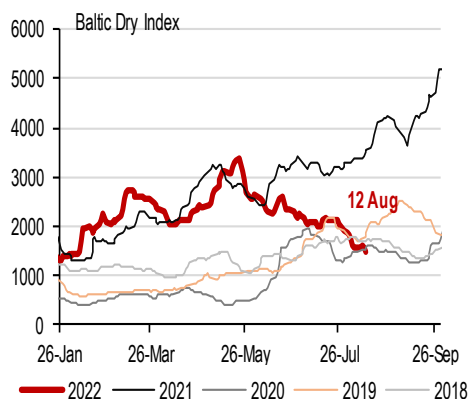

Source: Wind, HSBC

Chart 13: Second-tier cities' housing sales showed a similar trend...


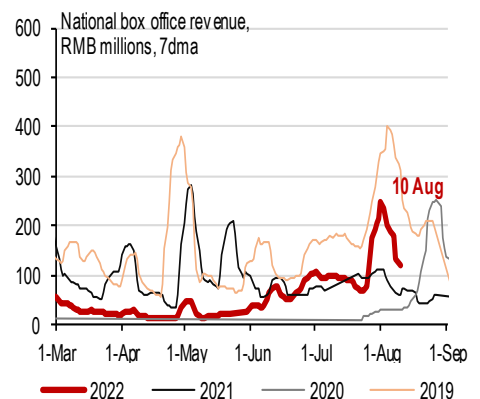
Source: Wind, HSBC

Chart 14: ...those in third-tier cities eased further from already weak levels


Source: Wind, HSBC

Chart 15: The Baltic Dry Index trended down further


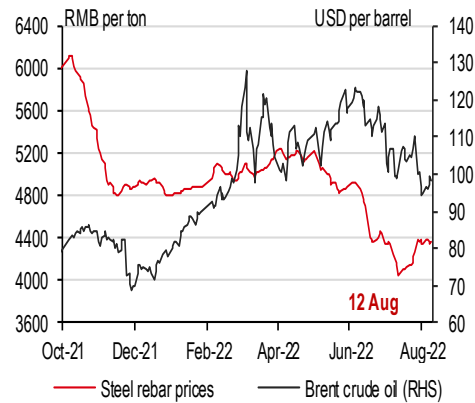
Source: Wind, HSBC

Chart 16: Box office revenues reversed earlier strong trend


Source: Wind, HSBC

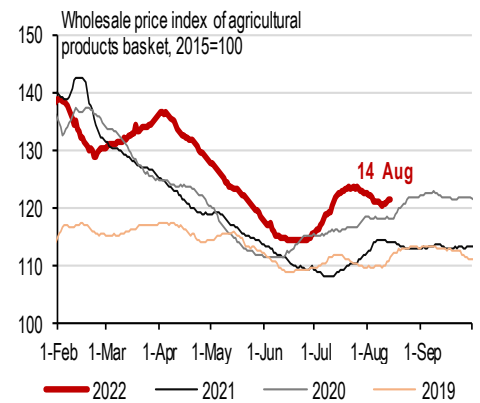
Inflation and policies

Chart 17: Oil prices regained some ground, steel prices remain steady



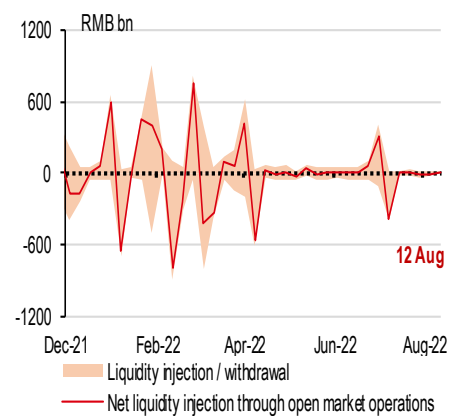
Source: Wind, HSBC

Chart 18: Agricultural product prices edged up slightly



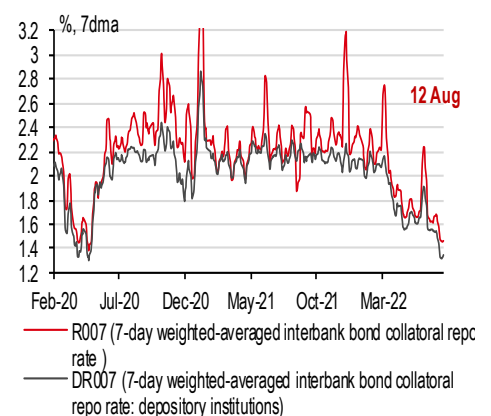
Source: Wind, HSBC

Chart 19: Last week, net liquidity was stable...



Source: Wind, HSBC

Chart 20: ...while interbank rates trended lower



Source: Wind, HSBC

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