

Flash note
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China reaffirms zero-Covid policy. Enters deflation. Other relevant news.

Covid-Policy: China Politburo Standing Committee reaffirms zero-Covid policy as situation remains grave, although Beijing shortens quarantine to eight days from ten for inbound travellers

China Politburo Standing Committee reaffirms zero-Covid policy as Covid infections jump to highest in a year. NHC showed national new Covid cases reached 10,535 Thursday 10th, the highest in more than a year, and an almost 20% jump from Wednesday's total. The centre of the outbreak remains in Guangdong where (3,007 new cases) and Henan province (3,005 new cases as Foxconn's Zhengzhou factory remained in closed loop system). Inner Mongolia and Chongqing also posted higher new counts, and Beijing city found 114 new cases, some outside designated quarantine zones with the populous Chaoyang district sent into lockdown.

While covid situation remains grave, the Politburo Standing Committee convened to formulate 20 measures to optimize response measures. China shortens quarantine to eight days from ten for inbound travellers, citing optimization and scientific implementation of Covid control and prevention measures. The NHC also announced the cancellation of Covid-related circuit breakers for flights, and halves the number of negative PCR test results required within 48 hours of boarding (from two to one).

All said, the NHC underscored "priority remains on protecting health and saving lives, and reaffirmed its Covid-zero policy". Still, the meeting emphasized efficiently managing Covid prevention and control, and endorsed a targeted approach that retains control measures while rectifying superfluous steps.

China enters deflation

Chinese PPI (producer price index) was negative for first time in two years, at -1.3% y/y (vs +0.9% in prior month). Meanwhile, headline CPI continues its downward trend in October, and stood at +2.1% y/y (vs +2.8% in prior month).

China monetary data broadly disappoint

PBOC posted new loans of CNY615.2B in October (vs consensus CNY800.0B and prior CNY2.47T), being the lowest figure for new loans since Dec-17 and causing outstanding loans to reduce its growth to 11.1% y/y (prior 11.2%). Sequential weakness was broad-based across household and corporate sectors. The disappointment was compounded in total social financing as prior support from front-loaded local government bond issuance diminished with quotas exhausted, and M2 money supply grew slower than expected. Total social financing CNY907.9B vs consensus CNY1.60T and prior CNY3.53T. M2 money supply +11.8% y/y vs consensus 12.0% and prior +12.1%.

Fixed Income crisis ahead? China property crisis may endanger \$1.6T of local state debt

Economic research firms commented that China's growing property crisis is putting more pressure on \$1.6T of onshore bonds with regional governments stepping in to bail out troubled developers. Local government financing vehicles (LGFVs) are now the main purchasers of unfinished properties of defaulters, so much so that credit agencies are saying they could weigh on their credit profiles.

As a result, China suffers another outflow of funds in October of \$8.8B with investors worried over geopolitical developments and China's zero-Covid policy. Fixed income saw outflow of \$1.2B and equities \$7.6B, its highest level since Mar-22. In contrast, other emerging markets saw +\$18B of fund inflow. Thus, it was mainland traders that were behind the recent run up in Chinese shares, while foreign funds stay away according to FT.

Geopolitics

The US blocks over 1K Xinjiang solar shipments since June over slave labour concerns. The seized shipments include panels and polysilicon cells mainly produced by Chinese firms Longi Green Energy, Trina Solar and JinkoSolar. Panels manufactured by the three companies account for a third of US supplies and the firms have halted new shipments to the US. US customs told Reuters that it has not released any of the shipments.

White House announced President Biden will meet with President Xi Jinping in Bali. A senior US official was reported saying that Biden will set a floor to prevent further deterioration in relations, and there will be no joint statement. Biden expected to discuss Taiwan, Russia's war in Ukraine and North Korea and the US would brief Taiwan on the results.

Sales & Corporate news

Alibaba expected to post weakest growth for Singles Day sales amid weak sentiment. Clti analysts predict Singles Day gross merchandise value (GMV) of CNY545-560B for Alibaba, +2% vs +8.5% last year, and +6% vs +28.6% last year for JD.com's GMV. For the first time, Alibaba will not host a celebrity gala show this year.

ESG. Beijing delays carbon emissions deadline

China's building industry has pushed back a target date for peak carbon output that was next year until 2030, aligning with the nationwide target.