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Flash Note
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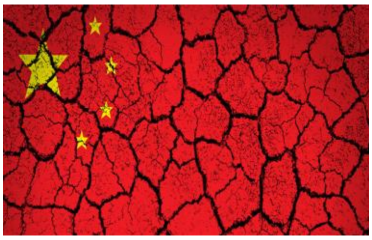

# *China. From a miserable GDP figure, to the serious accusations made about Alibaba, the still moribund real estate sector, fiscal problems, monetary capacity, and the new worsening of Covid in the country*

**1. Alibaba was said to be under investigation over a data theft**

Alibaba is being probed by China regulators over theft of a sensitive Shanghai police database covering nearly 1000 million Chinese citizens. Alibaba executives were called in for meetings with Shanghai authorities after cybersecurity researchers concluded database was hosted on the company's cloud platform. Whether this could represent a new source of pressure for tech assets in China remains to be seen.

2. **China GDP disappoints: The lockdowns have taken a heavy toll…**

China's Q2 GDP data showed a sharp contraction from Q1 as the economic fallout from numerous lockdowns was laid bare. Q2 GDP pace fell sharply to +0.4% y/y vs consensus +1.0% and +4.8% in prior quarter. In q/q terms, GDP growth was -2.6% q/q (vs consensus of -1.5%, and +1.3% in prior quarter

China's Q2 GDP data showed a sharp contraction from Q1

**3. …but recent activity data is more mixed**

June industrial production was +3.9% y/y (vs consensus +4.0% and +0.7% in previous month). June industrial activity was more positive as it showed a modest bounce back but was still a long way from full recovery. Just under half product groups logged increases (Autos swung sharply positive) but key cyclical products such as cement, integrated circuits, and smartphones, remained negative. Retail sales +3.1% y/y vs consensus +0.3% and (6.7%) in previous month, marking a return to growth for the first time in four months as food & beverage, accessories, communication equipment, autos and fuel rose. On the downside, catering, furniture, and building materials declined.

Key cyclical products such as cement, integrated circuits, and smartphones, remained negative

Fixed asset investment (YTD in June) was +6.1% vs consensus +6.0% y/y vs +6.2% in previous month: Here we have to differentiate between infrastructure growth that outperformed, but Real estate continued to contract and at an accelerated pace. Tentative signs of a bottom in the downturn in housing sales, though new starts continue to tumble in all segments.

**4. An x-ray of the current state of the real estate sector in China (and its implications for the corporate bond market, highly affected by this sector)**

Property prices fell in June for tenth consecutive month. National Bureau of Statistics data on Friday showed China's new home prices (excluding subsidized housing) fell

There are few signs of recovery in China's real estate market

0.1% m/m, compared to a 0.17% decline m/m in May. There are few signs of recovery in China's real estate market, although drops in home prices in second- and third-tier cities slowed or stabilized compared to May. Authorities pledge to deliver homes on time as homebuyers threaten to halt mortgage payments. The China Banking and Insurance Regulatory Commission (CBIRC) and PBOC on Thursday pledged to aid local governments in timely delivery of real estate projects after hundreds of homebuyers halted mortgage payments on unfinished homes. As many as 16 banks disclosed exposure that represents 0.01% of total personal mortgages.

**5. Fiscal: China also suffers, like the West, from fiscal disorder with up to 30% of local governments expected to be under debt strain by year end**

Up to 30% of around 300 local and regional government divisions will have interest burdens of more than a tenth of their budgets due to falling land usage rights sale, a property market slump and recent bond issuances. Exceeding the threshold means implementing fiscal consolidation plans.

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**6. Monetary & Central Bank: IMF says China should offer more policy support to fight slowdown**

The IMF said the PBOC should continue providing monetary support given low core inflation and negative output gap. More support from China would help fight the disruption to global economic activity caused by the pandemic, with fiscal support being especially effective. He also welcomed the reduction of key policy rates earlier this year. Liquidity conditions ease in China, with overnight interbank rates falling to more than a 1.5-year low of 1.17% this week. Economists say that China is finally "giving a green light for re-leveraging in 2022".

30% of around 300 local and regional government divisions will have interest burdens of more than a tenth of their budgets

**7. Covid-19: Bad news from this front!!**

China's National Health Commission reported 432 new local infections for Thursday (seven-week high since May lockdowns), and up from 292 cases on Wednesday. The worsening of the COVID-19 in China puts the entire world on alert and generates great stress in international markets. There is no doubt that in the matter of inflation, supply problems and port closures in China play a very important role, therefore, every time the pandemic worsens in China, and the authorities threaten to close activities and ports, great anxiety is generated as this exacerbates global supply problems, and puts pressure on world inflation.

New infections rose to seven-week highs.

It seems like a sort of coordinated and perfect action: Inflation of energy and food as a result of the war in Ukraine, and more inflation due to a shortage of components as a result of the closure of the most important ports in the world (in China). Concerted or not, this hits like a high-precision hammer on the waterline of Western economies.

Best regards