GF Macro Views

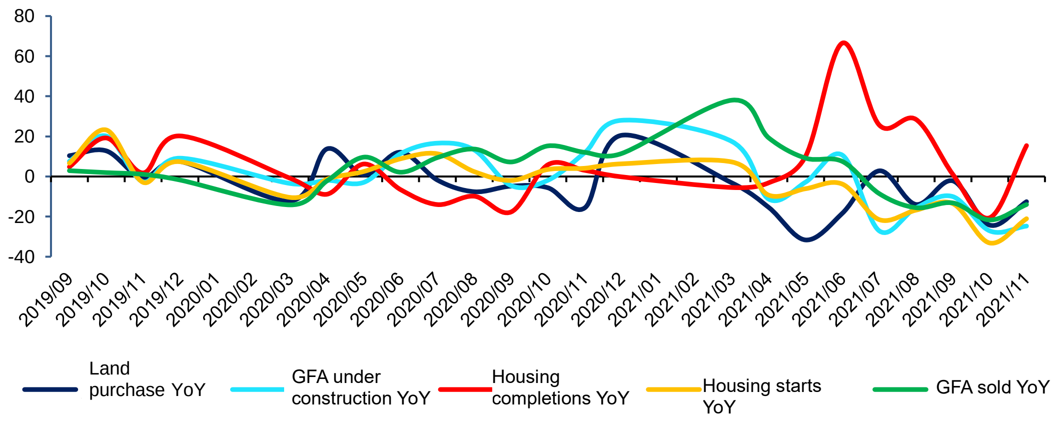
Weekly views from GF Securities' macro research team

November data were mixed

Economic data in November were mixed, indicating downward pressure on the economy. We suggest watching how fiscal easing and investment will feed into the macroeconomy at the beginning of 2022. As constraints from the supply side (price hikes caused by power rationing and production restrictions) were alleviated, industrial production improved in November. Auto production and sales rose MoM, and decreases in property investment and consumption narrowed. But demand weakened due to the spread of the pandemic. The services production index, discretionary consumption and infrastructure investment remained subdued. Employment remained under pressure. Policy designers stressed the need to stabilize growth and focus on fiscal and investment support at the Central Economic Work Conference. The National Development and Reform Commission (NDRC) called for more efforts to (1) speed up the construction of key projects, (2) take a moderately proactive approach to advancing infrastructure investment, (3) allow government investment to play a guiding role and (4) encourage private capital to participate in construction to strengthen weak links. We suggest watching how these policies will be carried out at the beginning of 2022.

Guo Lei - Dec 17, 2021

Decreases in property investment narrowed (%)



Source: Wind, GF Securities Development & Research Center

Keeping steadfast with growth stabilization

Fiscal policy should be more proactive and front-end loaded in 2022. Government-subsidized housing and infrastructure construction should be key. There should be room for healthy leverage additions in the short term. We estimate the government will see higher-than-planned revenue but miss its expenditure target for 2021. Meanwhile, fiscal spending was back-end loaded in 2021 due to more stringent fiscal discipline and government efforts to resolve hidden debts. Moreover, sentiment in the land market and property sales has weakened, resulting in declines in land transfer fees. Growth stabilization measures are needed to cope with potential pressure. According to the Central Economic Work Conference, fiscal policy should be more proactive in 2022 and front-end loaded fiscal spending is very likely. It is imperative to stabilize the investment ratio and most proceeds should be used in infrastructure and project construction. We estimate narrow-sense fiscal revenue growth of around 10%, a post-2016 peak. The deficit ratio is unlikely to see large fluctuations given carryover funds. Meanwhile, fiscal arrangements should affect infrastructure investment. We suggest watching policy setting and infrastructure investment growth. Overall, subsidized housing, carbon peaking and carbon neutrality as well as tax reductions and fee cuts should be the centerpiece for growth stabilization in 2022. We believe the government will continue its controls over hidden debts, but there should be room for healthy leverage additions in the short term.

Wu Qiying - Dec 17, 2021

Target deficit ratio and deficits at the central and local governments in 2022 (Rmb 100m)

Indicator	Target deficit ratio	Deficit	Deficit at the central government	Deficit at local governments
Bear-case scenario	3.0%	37050	27788	9263
Base-case scenario 1	3.2%	39520	29640	9880
Base-case scenario 2	3.4%	41990	31493	10498
Bull-case scenario	3.6%	44460	33345	11115

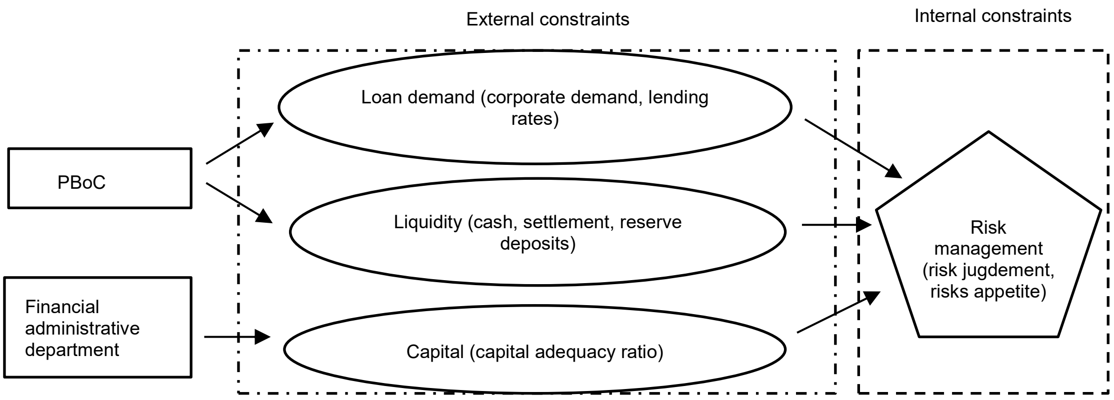
Source: Wind, GF Securities Development & Research Center

Improved liquidity in the real economy and sufficient liquidity in the banking system

We expect monetary policy to be aimed at stabilizing credit growth in 2022. Declines in stock valuations may moderate given relatively accommodative monetary conditions. Sectors that are sensitive to financing were hampered in 2021 but are expected improve in 2022. Liquidity in the banking system remained sufficient in 2021. Yet, liquidity in the real economy contracted during the year. We expect monetary easing in 2022 in order to stabilize credit growth. The PBoC may adopt measures such as RRR cuts, structural support tools, guiding banks to reduce MLF rates and lower LPR quotations, and replenish capital funds for small and medium-sized banks through multiple channels, but this is currently unlikely as overseas advanced economies may enter rate hike cycles in 2022 while the PBoC would avoid rate cuts. We expect to see stabilized social financing, a narrowing gap between monetary policies and financial policies, and sufficient liquidity in the banking sector amid credit stabilization. The liquidity environment will be reflected in asset prices in four ways: (1) the large long-term interest rate drops seen in 2021 are unlikely in 2022; (2) declines in stock valuations may moderate; (3) sectors that are sensitive to financing and economic performance were hampered in 2021 and are expected improve in 2022. Meanwhile, we estimate macro leverage will edge up in 2022. We suggest watching risks such as faster rate hikes in overseas advanced economies, weaker-than-expected property investment, and higher inflation.

Guo Lei, Zhong Linnan - Dec 16, 2021

How the PBoC influences commercial banks



Source: Wind, GF Securities Development & Research Center

Compiled and summarized by: Cai Juntao (email: caijuntao@gf.com.cn)