

Greater China — Week in Review

15 January 2024

Highlights: rising monetary easing expectation

China's equity market experienced a notable downturn at the beginning of last week. This decline was primarily triggered by the news that China's regulatory authorities had removed the unofficial restriction on the net sale of equity by mutual funds.

On rates, China's 10-year government bond yield briefly dipped below the 2.5% threshold in the middle of last week, largely driven by rising expectations of monetary policy easing, including potential cuts to the Reserve Requirement Ratio (RRR) and interest rates. These expectations were fueled by statements from the head of the monetary policy department of the People's Bank of China (PBoC), who indicated that the central bank plans to utilize a variety of monetary tools. These include open market operations, the Medium-term Lending Facility (MLF), re-lending and rediscounting programs, and adjustments to reserve requirements, all aimed at supporting high-quality economic development.

Despite these anticipations of monetary easing, the negative Consumer Price Index (CPI) reading released last Friday did not significantly amplify these easing expectations. Consequently, the 10-year government bond yield concluded the week just above the 2.5% mark.

On a month-over-month (mom) basis, China's headline CPI experienced a modest increase of 0.1% in December, following a contraction of 0.5% in November. This uptick was primarily driven by a rebound in food prices. However, pork prices continued their downward trend, decreasing by 1% mom, attributable to ongoing oversupply issues. Year-on-year, pork prices plummeted by 26.1%, contributing a 0.43% drag on the headline CPI. Excluding the impact of weak pork prices, China's headline CPI would have recorded a marginal yoy increase of 0.1%.

In terms of producer prices, the PPI fell by 0.3% mom, with both production-related and consumption-related PPI indices softening by 0.3% mom and 0.1% mom, respectively. This trend indicates persistently weak aggregate demand. The year-on-year consumption-related PPI remained unchanged from November's reading, falling by 1.2%. This consistency suggests that China may continue to export disinflation to the world.

The December credit data still indicated weak effective demand. For instance, medium to long-term loans to households decreased in December to CNY 146.2 billion, down from CNY 233.1 billion in November and also lower than the same period in 2022. This trend raises questions about the sustainability of the recent recovery in housing transactions and reflects ongoing household caution.

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Keung Ching (Cindy)
Greater China economist
cindyckeung@ocbcwh.com

Additionally, the persistently low growth in M1, at 1.3%, alongside a substantial gap exceeding 8% between M2 and M1 growth rates, points to subdued overall economic vitality.

Moreover, there is a growing divergence between the acceleration in aggregate social financing and the deceleration in M2 growth. While the former increased to 9.5% yoy, the latter slowed to 9.7% yoy in December. This divergence is likely attributable to higher than expected fiscal deposits, suggesting less efficient usage of fiscal funds, possibly due to a lack of high-quality projects.

Looking ahead to the first quarter of 2024, it is anticipated that credit expansion will be more restrained compared to the same period in 2023, in line with the guidance of balanced credit disbursement. Historically, loan disbursement has been uneven, with a surge in the first quarter. Consequently, additional monetary support measures may be rolled out by China to counterbalance the impact of this new policy guidance.

On international trade, China experienced a noteworthy recovery in its trade growth during December, with total trade in dollar terms rising by 1.4% year-over-year (yoy). This growth was driven by an increase in exports by 2.3% and a modest rise in imports by 0.2%, surpassing market expectations.

China's trade share with ASEAN countries for 2023 slightly decreased to 15.6% from 15.7% in 2022. Despite this marginal drop, ASEAN remained China's largest trading partner for the fourth consecutive year. Notably, the trade share with China's second and third largest trading partners, the EU and the US, also decreased to 13.3% and 11.3% respectively from 13.6% and 12.1%, indicating a trend towards diversification in China's trade relations. According to data from China Customs, the share of China's exports in global exports is expected to stabilize around 14% in 2023.

On the product front, the combined exports of the 'new three items'—electric passenger vehicles, lithium-ion batteries, and solar cells—crossed a significant milestone, surpassing the trillion-yuan mark for the first time with a remarkable increase of 29.9% in 2023.

For this week, market will closely watch for the rate decision.

Key Events and Market Talk	
Facts	OCBC Opinions
<ul style="list-style-type: none">▪ Zhou Lan, the head of monetary policy at the People's Bank of China (PBoC), stated that the central bank is committed to strengthening both counter-cyclical and cross-cyclical adjustments.	<ul style="list-style-type: none">▪ This approach involves focusing on three key areas: the aggregate amount, structure, and price levels within the monetary and financial sectors. Such efforts are aimed at cultivating a conducive environment for high-quality economic development. To achieve these objectives, the PBoC plans to deploy a combination of monetary tools. These include open market operations, Medium-term Lending Facility (MLF), re-lending and rediscounting programs, and adjustments to reserve requirements. These measures are intended to effectively inject base money into the economy, thereby supporting the reasonable growth of social financing. Furthermore, the PBoC has reiterated its commitment to gradually guiding financing costs lower, a statement that might fuel market expectations of an impending rate cut.

Key Economic News

Facts	OCBC Opinions
<ul style="list-style-type: none"> China's Consumer Price Index (CPI) for December exhibited a slight easing in its contraction, registering a year-over-year (yoy) decline of 0.3%, compared to the 0.5% yoy decrease observed previously. Concurrently, the Producer Price Index (PPI) recorded a 2.7% yoy fall, indicating continued deflationary pressures in the production sector. 	<ul style="list-style-type: none"> On a month-over-month (mom) basis, China's headline CPI experienced a modest increase of 0.1% in December, following a contraction of 0.5% in November. This uptick was primarily driven by a rebound in food prices, which rose by 0.9% mom, largely due to adverse weather conditions affecting supply. However, pork prices continued their downward trend, decreasing by 1% mom, attributable to ongoing oversupply issues. Year-on-year, pork prices plummeted by 26.1%, contributing a 0.43% drag on the headline CPI. Excluding the impact of weak pork prices, China's headline CPI would have recorded a marginal yoy increase of 0.1%. Additionally, China's petrol prices saw a decline of 4.7% mom in December, reflecting the global softening of oil prices. This decrease played a significant role in driving down the non-food component of the CPI. Excluding volatile food and energy costs, China's core CPI showed a rebound of 0.1% mom, maintaining a steady yoy rate of 0.6% for the third consecutive month. In terms of producer prices, the PPI fell by 0.3% mom, with both production-related and consumption-related PPI indices softening by 0.3% mom and 0.1% mom, respectively. This trend indicates persistently weak aggregate demand. The year-on-year consumption-related PPI remained unchanged from November's reading, falling by 1.2%. This consistency suggests that China may continue to export disinflation to the world.
<ul style="list-style-type: none"> In December, China's aggregate social financing witnessed an increase of CNY 1.97 trillion, with new Yuan loans contributing CNY 1.17 trillion to this expansion. However, there was a slight deceleration in M2 money supply growth, which eased to 9.7% from a previous rate of 10%, while M1 growth remained low at 1.3% year-over-year (yoy). 	<ul style="list-style-type: none"> A key driver of the reacceleration in the growth of outstanding aggregate social financing, which rose to 9.5% yoy in December from 9.4% yoy in November, was robust government bond issuance. The structure of loans during this period exhibited healthy dynamics, particularly in the corporate sector. Medium to long-term loans to corporates increased by CNY 861.2 billion, marking the second-highest December figure on record, despite being lower than the record number in December 2022. This increase indicates the effective impact of government policies. Despite some positive signs, recent credit data also indicated still weak effective demand. For instance, medium to long-term loans to households decreased in December to CNY 146.2 billion, down from CNY 233.1 billion in November and also lower than the same period in 2022. This trend raises questions about the sustainability of the recent recovery in housing transactions and reflects ongoing household caution. Additionally, the persistently low growth in M1, at 1.3%, alongside a substantial gap exceeding 8% between M2 and M1 growth rates, points to subdued overall economic vitality. Moreover, there is a growing divergence between the acceleration in aggregate social financing and the deceleration in M2 growth. While the former increased to 9.5% yoy, the latter slowed to 9.7% yoy in December. This divergence is likely attributable to higher than expected fiscal deposits, suggesting less efficient usage of fiscal funds, possibly due to a lack of high-quality projects. The CNY 1.17 trillion increase in new yuan loans for December, mirroring the CNY 1.1 trillion expansion in November, indicates a smoothing out in the pace of loan distribution, guided by a policy of balanced credit disbursement. Looking ahead to the first quarter of 2024, it is anticipated that credit expansion will be more restrained compared to the same period in 2023, in line with the policy of balanced credit

	<p>disbursement. Historically, loan disbursement has been uneven, with a surge in the first quarter. Consequently, additional monetary support measures may be rolled out by China to counterbalance the impact of this new policy guidance.</p>
<ul style="list-style-type: none"> China experienced a noteworthy recovery in its trade growth during December, with total trade in dollar terms rising by 1.4% year-over-year (yoy). This growth was driven by an increase in exports by 2.3% and a modest rise in imports by 0.2%, surpassing market expectations. 	<ul style="list-style-type: none"> The last quarter of 2023 marked a significant uptick in China's trade activity. For the entirety of 2023, total trade in dollar terms declined by 5% yoy, which represents a slight improvement from the 6.5% contraction observed in the first three quarters of the year. A key factor in this recovery was the robust demand from emerging markets, which helped offset the slowdown in export growth to advanced economies like the United States and the European Union. In terms of trade share, China's trade with ASEAN countries for 2023 slightly decreased to 15.6% from 15.7% in 2022. Despite this marginal drop, ASEAN remained China's largest trading partner for the fourth consecutive year. Notably, the trade share with China's second and third largest trading partners, the EU and the US, also decreased to 13.3% and 11.3% respectively from 13.6% and 12.1%, indicating a trend towards diversification in China's trade relations. According to data from China Customs, the share of China's exports in global exports is expected to stabilize around 14% in 2023. On the product front, the combined exports of the 'new three items'—electric passenger vehicles, lithium-ion batteries, and solar cells—crossed a significant milestone, surpassing the trillion-yuan mark for the first time with a remarkable increase of 29.9% in 2023. The rebound in import growth was primarily attributed to the increased demand for raw materials. Notably, China's imports of iron ore by value surged by 48.6% yoy, a significant rise that outweighed the 4.5% contraction in crude oil imports. However, the demand for electronic circuits showed a decline, falling by 3.38% yoy by value.



GLOBAL TREASURY RESEARCH

Macro Research

Selena Ling
Head of Strategy &
Research
LingSSSelena@ocbc.com

Tommy Xie Dongming
Head of Greater China Research
XieD@ocbc.com

Keung Ching (Cindy)
Hong Kong & Macau
cindyckeung@ocbcwh.com

Herbert Wong
Hong Kong & Macau
herberhtwong@ocbc.com

Lavanya Venkateswaran
Senior ASEAN Economist
lavanyavenkateswaran@ocbc.com

Ahmad A Enver
ASEAN Economist
ahmad.enver@ocbc.com

Jonathan Ng
ASEAN Economist
JonathanNg4@ocbc.com

Ong Shu Yi
ESG
ShuyiOng1@ocbc.com

FX/Rates Strategy

Frances Cheung, CFA
Rates Strategist
FrancesCheung@ocbc.com

Christopher Wong
FX Strategist
christopherwong@ocbc.com

Credit Research

Andrew Wong
Credit Research Analyst
WongVKAM@ocbc.com

Ezien Hoo
Credit Research Analyst
EzienHoo@ocbc.com

Wong Hong Wei
Credit Research Analyst
WongHongWei@ocbc.com

Chin Meng Tee
Credit Research Analyst
MengTeeChin@ocbc.com

This publication is solely for information purposes only and may not be published, circulated, reproduced or distributed in whole or in part to any other person without our prior written consent. This publication should not be construed as an offer or solicitation for the subscription, purchase or sale of the securities/instruments mentioned herein. Any forecast on the economy, stock market, bond market and economic trends of the markets provided is not necessarily indicative of the future or likely performance of the securities/instruments. Whilst the information contained herein has been compiled from sources believed to be reliable and we have taken all reasonable care to ensure that the information contained in this publication is not untrue or misleading at the time of publication, we cannot guarantee and we make no representation as to its accuracy or completeness, and you should not act on it without first independently verifying its contents. The securities/instruments mentioned in this publication may not be suitable for investment by all investors. Any opinion or estimate contained in this report is subject to change without notice. We have not given any consideration to and we have not made any investigation of the investment objectives, financial situation or particular needs of the recipient or any class of persons, and accordingly, no warranty whatsoever is given and no liability whatsoever is accepted for any loss arising whether directly or indirectly as a result of the recipient or any class of persons acting on such information or opinion or estimate. This publication may cover a wide range of topics and is not intended to be a comprehensive study or to provide any recommendation or advice on personal investing or financial planning. Accordingly, they should not be relied on or treated as a substitute for specific advice concerning individual situations. Please seek advice from a financial adviser regarding the suitability of any investment product taking into account your specific investment objectives, financial situation or particular needs before you make a commitment to purchase the investment product. OCBC Bank, its related companies, their respective directors and/or employees (collectively "Related Persons") may or might have in the future interests in the investment products or the issuers mentioned herein. Such interests include effecting transactions in such investment products, and providing broking, investment banking and other financial services to such issuers. OCBC Bank and its Related Persons may also be related to, and receive fees from, providers of such investment products. This report is intended for your sole use and information. By accepting this report, you agree that you shall not share, communicate, distribute, deliver a copy of or otherwise disclose in any way all or any part of this report or any information contained herein (such report, part thereof and information, "Relevant Materials") to any person or entity (including, without limitation, any overseas office, affiliate, parent entity, subsidiary entity or related entity) (any such person or entity, a "Relevant Entity") in breach of any law, rule, regulation, guidance or similar. In particular, you agree not to share, communicate, distribute, deliver or otherwise disclose any Relevant Materials to any Relevant Entity that is subject to the Markets in Financial Instruments Directive (2014/65/EU) ("MiFID") and the EU's Markets in Financial Instruments Regulation (600/2014) ("MiFIR") (together referred to as "MiFID II"), or any part thereof, as implemented in any jurisdiction. No member of the OCBC Group shall be liable or responsible for the compliance by you or any Relevant Entity with any law, rule, regulation, guidance or similar (including, without limitation, MiFID II, as implemented in any jurisdiction).

Co.Reg.no.: 193200032W