Greater China — Week in Review

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Highlights: rising monetary easing expectation

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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.

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**
▪ 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.	▪ 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**
▪ 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.	▪ 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.
▪ 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).	▪ 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

	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.
▪ 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.	▪ 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.

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