Greater China — Week in Review

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Highlights: Growth on track but deflation risk remains

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The Chinese economy exhibited a growth rate of 5.2% year-on-year in 2023, surpassing the government's target of approximately 5%. However, despite this positive headline figure, risk sentiment in China remained subdued, as evidenced by the benchmark Shanghai index briefly dipping below 2800 shortly after the release of key economic data.

Delving into the details reveals three areas of concern. Firstly, the 5.2% growth in 2023 was measured against the low base of 3% annual growth in 2022. When viewed on a two-year average basis, the Chinese economy expanded at an annual rate of 4.1%, falling below the estimated growth potential of 5%. This divergence may explain the prevailing sense of weak sentiment on the ground, despite the reported 5.2% growth.

Secondly, the acceleration in China's real GDP growth was, in part, attributed to a softening price environment. The GDP deflator recorded a decline of 0.5% year-on-year, resulting in nominal GDP growth of approximately 4.6%, which falls short of the 5.2% real growth. Moreover, the unexpected deceleration in nominal growth in 2023, compared to 2022's 4.8%, has implications for corporate revenue and personal income growth, contributing to dampened income expectations.

Production has generally outperformed consumption in 2023. The focus of stimulus measures in China in 2023 appeared predominantly on the supply side. By bolstering production, these policies have played a crucial role in maintaining job stability. However, this increase in production has encountered a sluggish demand environment, heightening the risk of disinflation. The latest GDP data failed to alleviate the concern about the looming deflation risk.

Overall, we think capital formation will emerge as a pivotal swing factor for economic growth in the coming year. To effectively stimulate capital formation, a more assertive and expansive fiscal policy approach will be necessary.

Beijing, China's capital city, has set an ambitious annual growth target for 2024 at around 5%, surpassing last year's target of above 4.5%. This upward revision in the growth target for the current year, even with a higher base, reflects Beijing's more pro-growth stance. It is worth noting that Beijing's growth target for 2024 may serve as a precursor to China's broader and more supportive growth target for the entire year, which is expected to be announced in March. This proactive approach indicates a commitment to fostering economic expansion and addressing challenges to support overall growth in the region.

The latest data from the People's Bank of China (PBOC) indicates a noteworthy rebound in foreign holdings of onshore bonds. By the end of December 2023, foreign investors increased their holdings to 3.67 trillion yuan, showing a significant rise from the low point observed in August. This marks a reversal of the trend, as foreign capital returned to the Chinese bond market after net selling in the first eight months of the year.

Since September 2023, foreign investors have consistently increased their holdings of onshore RMB bonds for four consecutive months, with a total net inflow of 492 billion yuan during this period. This turnaround is notable, considering the net outflow of 616 billion yuan from the Chinese bond market in 2022.

This influx of foreign capital into the Chinese bond market, especially in the fourth quarter, is seen as a positive development, providing optimism and hope for investors amid previous uncertainties and capital outflows. The return of foreign capital suggests that as long as the Chinese market continues to offer returns, foreign investors may be willing to re-enter the market.

The economic calendar was light for Hong Kong last week. Market attention was drawn to the equity market, as its search for bottom continued. After breaching below the 16,000 support level, the benchmark Hang Seng Index continued to dip toward the lowest level since November 2022, amid broad-based selloff.

The negative wealth effect, caused by the sagging equity and housing market, will likely dent local consumer sentiment in periods ahead. On a brighter note, Hong Kong's job market remained tight, lending some support to the consumer spending. Both the seasonally adjusted unemployment rate and underemployment rate stayed unchanged, at 2.9% and 1.0% respectively in Oct-Dec 2023.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ The latest data from the People's Bank of China (PBOC) indicates a noteworthy rebound in foreign holdings of onshore bonds. By the end of December 2023, foreign investors increased their holdings to 3.67 trillion yuan, showing a significant rise from the low point observed in August. This marks a reversal of the trend, as foreign capital returned to the Chinese bond market after net selling in the first eight months of the year.	▪ Since September 2023, foreign investors have consistently increased their holdings of onshore RMB bonds for four consecutive months, with a total net inflow of 492 billion yuan during this period. This turnaround is notable, considering the net outflow of 616 billion yuan from the Chinese bond market in 2022. ▪ The classification of foreign investors' demand reveals a concentration in government bonds, negotiable certificates of deposit, and policy bank bonds. In November 2023, the net increase reached a record high of 251.3 billion yuan, followed by a slightly reduced net inflow of 180.5 billion yuan in December. The return of foreign capital to the Chinese government bond market is reflected in the rising proportion of Chinese government bonds held by foreign investors, increasing from the low point of 7.5% in September to 7.8%. ▪ This influx of foreign capital into the Chinese bond market, especially in the fourth quarter, is seen as a positive development, providing optimism and hope for investors amid previous uncertainties and capital outflows. The return of foreign capital suggests that as long as the Chinese market continues to offer returns, foreign investors may be willing to re-enter the market.

Key Economic News	
Facts	**OCBC Opinions**
▪ The Chinese economy exhibited a growth rate of 5.2% year-on-year in 2023, surpassing the government's target of approximately 5%. However, despite this positive headline figure, risk sentiment in China remained subdued, as evidenced by the benchmark Shanghai index briefly dipping below 2800 shortly after the release of key economic data.	▪ Delving into the details reveals three notable areas of concern. Firstly, the 5.2% growth in 2023 was measured against the low base of 3% annual growth in 2022. When viewed on a two-year average basis, the Chinese economy expanded at an annual rate of 4.1%, falling below the estimated growth potential of 5%. This divergence may explain the prevailing sense of weak sentiment on the ground, despite the reported 5.2% growth. ▪ Secondly, the acceleration in China's real GDP growth was, in part, attributed to a softening price environment. The GDP deflator recorded a decline of 0.5% year-on-year, resulting in nominal GDP growth of approximately 4.6%, which falls short of the 5.2% real growth. Moreover, the unexpected deceleration in nominal growth in 2023, compared to 2022's 4.8%, has implications for corporate revenue and personal income growth, contributing to dampened income expectations. ▪ Lastly, the Chinese economic size in dollar terms is poised to contract in 2023 for the first time in 29 years. This contraction is a consequence of weak nominal GDP growth and the depreciation of RMB. ▪ China’s industrial production in December accelerated to 6.8% yoy while the retail sales was weaker than expectation. This reinforces the concern about the looming deflation risk. The focus of stimulus measures in China appears predominantly on the supply side. By bolstering production, these policies have played a crucial role in maintaining job stability. However, this increase in production has encountered a sluggish demand environment, heightening the risk of disinflation. ▪ Consumption is the function of three factors including income growth, income expectation and wealth effect. Unfortunately, a negative wealth effect, coupled with subdued expectations for income growth, could dampen consumer confidence and spending. This scenario is further complicated by potential constraints on external demand, particularly in light of the growing risks associated with an economic slowdown in the United States. These factors collectively suggest a challenging environment for bolstering consumption. ▪ Overall, we think capital formation will emerge as a pivotal swing factor for economic growth in the coming year. To effectively stimulate capital formation, a more assertive and expansive fiscal policy approach will be necessary.
▪ Beijing, China's capital city, has set an ambitious annual growth target for 2024 at around 5%, surpassing last year's target of above 4.5%.	▪ This upward revision in the growth target for the current year, even with a higher base, reflects Beijing's more pro-growth stance. It is worth noting that Beijing's growth target for 2024 may serve as a precursor to China's broader and more supportive growth target for the entire year, which is expected to be announced in March. This proactive approach indicates a commitment to fostering economic expansion and addressing challenges to support overall growth in the region.
▪ Hong Kong’s job market remained tight, with both the seasonally adjusted unemployment rate and underemployment rate unchanged, at 2.9% and 1.0% respectively in Oct-Dec 2023. Meanwhile, total labour force fell for the third consecutive month, alongside the marginal	▪ Despite the talent admission and labour importation schemes, Hong Kong’s total labour force continued to contract, for the third month in a row. Meanwhile, the labour participation rate fell to the record low of 57.3%. Breaking down by age group, total labour force in the 15-24 age group fell the most (-8.4k comparing to Jul-Sep 2023), followed by that of 45-49 age group (-5.6k) and 25-29

decline of labour participation rate. Total labour force decreased to 3,812.5k in Oct-Dec 2023, down by a sum of 21.8k comparing to Jul-Sep 2023. During the period, the unemployment rates of most sectors either declined or remained unchanged.	age group (-4.0k). ▪ Under the combination of modest growth and limited labour supply, job market is likely to remain tight in the near future. For 2024 as a whole, we tip the overall unemployment rate at 2.9%, premised on the 2.5% growth forecast.

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