Greater China — Week in Review

29 January 2024

Highlights: China stepped up policy adjustments

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China has rolled out more policy measures last week to stabilize its fragile market sentiment. The benchmark Shanghai index witnessed a decline below 2800 last Monday, triggered by China's decision to maintain its loan prime rate (LPR). However, a slight market rebound occurred amid rumors of a planned equity market stabilization fund on Tuesday. The momentum further increased when China's central bank governor, Pan Gongsheng, unexpectedly announced a reserve requirement ratio (RRR) cut and targeted interest rate cut during a press conference on Wednesday.

In addition to these developments, piecemeal measures from the security regulator and the talk about property market garnered attention in the headlines, providing additional support to the overall market sentiment.

A U-turn from keeping the benchmark loan prime rate unchanged on Monday to the announcement of RRR cut two days later was encouraging. The magnitude of the 50 basis points RRR cut this time surpassed the last three RRR cuts of 25 basis points each, signaling a more proactive approach to monetary policy. Governor Pan's acknowledgment of the gap between the current price level and the expected price target during the press conference suggests an intensified effort by China to combat deflation. Anticipating further actions, it is expected that China might lower its loan prime rate in the coming months.

In the realm of currency, China's pivot towards managing deflationary pressures may exert short-term pressure on the Renminbi (RMB) though it is likely to be positive in the medium term.

On equity market, the deputy head of the security regulator pledged to protect the legitimate rights and interests of investors, particularly small and medium-sized individual investors. Emphasizing the importance of the stock market as a channel for asset allocation, the regulator committed to integrating an investor-centric approach into market system design and regulatory enforcement.

Two notable highlights from the regulator's statements include the assertion that long-term returns in the stock market should exceed those of deposits and bonds for sustainability. Listed companies are expected to prioritize returning value to shareholders, reinforcing the notion that reasonable returns are a prerequisite for being considered qualified listed companies. Additionally, a zero-tolerance stance towards financial fraud was emphasized, with severe measures promised for illegal activities that seriously harm investor interests.

To uphold its commitment to the investor-centric concept, China's security regulator took prompt actions over the weekend. This included the suspension of the lending of restricted shares and adjustments in the market-oriented declaration of real-time availability to next-day availability in the securities lending market. These measures aim to stabilize investor expectations, prevent disguised illegal reduction of holdings, and enhance market transparency, contributing to an open, fair, and just market order.

On property, China's National Financial Regulatory Administration said the real estate industry stands as a pivotal component within a lengthy value chain that wield a profound impact on the national economy. Given its intimate connection to the general public's daily lives, the financial industry bears an indispensable responsibility to offer robust support. The support may include development loan, mortgage, banks' purchase of real estate corporate bond and extended merger and acquisition loans as well as existing loan extension facilities to real estate enterprises.

Elsewhere, Guangzhou became the first tier-1 city to fully relax home purchase limits for large home with a floor area of more than 120 square meters.

On data, China's industrial profit exhibited notable improvement as the contraction in industrial profit for 2023 narrowed to 2.3% year-on-year (yoy), a marked improvement from the 4.4% yoy decline recorded in the first eleven months of the same year. The year-on-year growth rate of finished goods inventories in industrial enterprises increased by 0.4 percentage points to 2.1%, signifying the near completion of the industrial destocking process. However, the pace of restocking remained sluggish, and inventory growth persisted at a low level. This could be attributed to recent concerns about rising deflation. Consequently, we believe it is imperative for China to implement more concrete measures to steer the economy away from deflationary pressures.

Nevertheless, China's policy support has encountered constraints, as highlighted by the significant attention drawn to news about 12 provinces postponing or suspending certain infrastructure projects. Notably, all these provinces grappling with the delay or suspension of projects are burdened with high levels of leverage.

It should be underscored that such actions don't necessarily imply an outright contractionary stance. Nevertheless, these developments shed light on the limitations of China's policy support, notably stemming from the intricate issue of local government debt. As such, market will watch for the stance of fiscal policy from the central government.

The Hong Kong Monetary Authority (HKMA) and the PBoC announced measures to deepen cross-boundary financial cooperation. Measures include expanding the list of eligible collateral for the HKMA's RMB Liquidity Facility to include onshore RMB bonds, further opening up of onshore repo market, expanding the e-CNY pilot scheme, and expanding cross-boundary wealth management connect.

The slew of measures help increase onshore bond liquidity, widen access to onshore financial market, internationalization of RMB, solidify Hong Kong's role as offshore RMB centre.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ China's central bank governor, Pan Gongsheng, announced to reduce the reserve requirement ratio (RRR) for all financial institutions, excluding small financial entities with a 5% RRR, by 50 basis points. ▪ Simultaneously, China is set to decrease relending and rediscount rates by 25 basis points to 1.75%, effective from last Thursday, with a specific focus on supporting agriculture and small enterprises.	▪ This measure is poised to effectively lower China's RRR to 7%, injecting approximately 1 trillion yuan into the financial system. The resultant liquidity, facilitated by the RRR cut, is of low cost, contributing to an enhancement of Chinese banks' interest margin through reduced funding expenses. ▪ These adjustments are anticipated to exert downward pressure on the benchmark loan prime rate (LPR), potentially paving the way for an LPR cut in the ensuing months. The proactive steps taken in monetary policy have been well-received, reflected in the positive momentum observed in China's equities market following the announcement.
▪ China's National Financial Regulatory Administration said the real estate industry stands as a pivotal component within a lengthy value chain that wield a profound impact on the national economy. Given its intimate connection to the general public's daily lives, the financial industry bears an indispensable responsibility to offer robust support.	▪ Presently, banks deploy various channels for real estate financing, including development loans extended to both enterprises and individuals through mortgage loans. Notably, the current balances for development and individual housing loans stand at 12.3 trillion yuan and 38.3 trillion yuan, respectively. The fiscal year 2023 witnessed a substantial surge, with development loans reaching 3 trillion yuan and housing mortgage loans soaring to 6.4 trillion yuan. The cumulative total of these categories nears an impressive 10 trillion yuan. ▪ Furthermore, banks actively engage in real estate enterprise bonds, with the balance of purchases culminating at 427.5 billion yuan by the close of the previous year. A notable uptick in bank investments within bonds issued by real estate enterprises is evident, surging by 15% in 2023 compared to the preceding year. ▪ Adding to their multifaceted involvement, banks, in 2023, extended merger and acquisition loans and existing loan extension facilities to real estate enterprises, contributing to a combined total exceeding 1 trillion yuan. This confluence of financial strategies underscores the sector's dynamism and underscores the financial industry's commitment to bolstering the resilience and growth of the real estate domain.
▪ The Hong Kong Monetary Authority (HKMA) and the PBoC announced measures to deepen cross-boundary financial cooperation. Measures include expanding the list of eligible collateral for the HKMA's RMB Liquidity Facility to include onshore RMB bonds, further opening up of onshore repo market, expanding the e-CNY pilot scheme, and expanding cross-boundary wealth management connect.	▪ According to the latest announcement, the HKMA will expand the list of eligible collateral for its RMB Liquidity Facility to include RMB bonds issued onshore by China's Ministry of Finance and other policy banks. Meanwhile, the Chinese authorities are looking into further opening up of the onshore repo market to all foreign institutional investors that already have access to the China Interbank Bond Market. ▪ The slew of measures help increase onshore bond liquidity, widen access to onshore financial market, internationalization of RMB, solidify Hong Kong's role as offshore RMB centre.

Key Economic News	
Facts	**OCBC Opinions**
▪ China's industrial profit exhibited notable improvement as the contraction in industrial profit for 2023 narrowed to 2.3% year-on-year (yoy), a marked improvement from the 4.4% yoy decline recorded in the first eleven months of the same year. In December, industrial profit surged by 16.8% yoy, following a robust expansion of 29.5% yoy in November.	▪ Throughout 2023, electricity, heat, gas, and water production and supply industry and equipment manufacturing sectors witnessed an upswing in growth rates. Particularly, the equipment manufacturing industry's profits registered a 4.1% yoy increase, reflecting a noteworthy 2.4 percentage point surge compared to the preceding year. This growth contributed to a 1.4 percentage point overall increase in profits for industrial enterprises, marking an 0.8 percentage point rise from the previous year. Moreover, the electricity, heat, gas, and water production and supply industry experienced a substantial 54.7% profit surge compared to the previous year, contributing to a 3.1 percentage point growth in profits for industrial enterprises. ▪ In 2023, among the 41 detailed industries within the industrial sector, 27 reported year-on-year growth in profits. Additionally, 23 industries demonstrated an enhancement in annual profit growth rates compared to 2022. ▪ The year-on-year growth rate of finished goods inventories in industrial enterprises increased by 0.4 percentage points to 2.1%, signifying the near completion of the industrial destocking process. However, the pace of restocking remained sluggish, and inventory growth persisted at a low level. This could be attributed to recent concerns about rising deflation. Consequently, we believe it is imperative for China to implement more concrete measures to steer the economy away from deflationary pressures.
▪ Hong Kong: Due to lower base of comparison a year ago, year-on-year increase of merchandise exports and imports in Hong Kong widened to 11.0% and 11.6% respectively in December (7.4% YoY and 7.1% YoY respectively in November). Yet, on sequential terms, merchandise exports fell marginally by 0.1%. During the month, trade deficit widened markedly to HK$59.9 billion (Nov: -HK$27.9 billion), amid sharper increase in imports.	▪ Exports to Mainland China and US saw further improvement in December, expanding by 8.4% YoY and 25.6% YoY. Meanwhile, exports to Asia in general grew by 10.9% YoY, in particular to India (+46.1% YoY), Thailand (+39.9% YoY), Taiwan (+39.1% YoY) and Vietnam (+26.5% YoY). For the whole year, merchandise exports and imports in Hong Kong fell by 7.8% and 5.7% year-on-year respectively, though faring better than our estimates. ▪ We expect to see decent year-on-year growth in exports in coming months in Hong Kong, amid the still resilient global economy and the low base in early 2023.
▪ Hong Kong's headline inflation rate slowed further to 2.4% in December (+0.1% month-on-month), as food inflation moderated to 2.3% YoY. Price pressures on most components remained broadly in check, with the exception of meals out and takeaway food and clothing and footwear.	▪ On unadjusted month-to-month terms, miscellaneous service (+0.7% mtm) and transport (+0.6% mtm) are the largest contributors to inflationary pressure, while cost of clothing and footwear (-2.8% mtm) fell visibly. ▪ Netting out the effects of all government's one-off relief measures, the underlying inflation rate in December 2023 was 1.4%, below that of 1.6% in November. For 2023 as a whole, the composite CPI rose by 2.1% year-on-year, while underlying inflation averaged 1.7%. Going forward, external price pressures should recede further, while domestic price pressures should be largely stable.

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