GLOBAL MARKETS RESEARCH

Greater China — Week in Review

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Highlights: mixed sentiment ahead of Two Sessions

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China’s CSI300 index continued its upward momentum last week, buoyed by heightened buying interest in technology stocks. However, notable market dynamics unfolded as China’s yield on its 30-year Treasury bond plummeted below 2.5% on February 28th, marking a historic low and breaching the 1-year MLF rate of 2.5% for the first time. This sharp decline in long-term yields underscores prevailing apprehensions concerning China’s real estate sector, particularly amidst the absence of signs of rebound of the property transactions.

The landscape further intensified with prominent Chinese developers making headlines again last week. Initial concerns surfaced with China Vanke, a traditionally conservative developer, being reported to have discussions regarding the extension of credit due dates with one insurance company. Subsequently, Country Garden, grappling with elevated leverage, confirmed receipt of a liquidation petition from a smaller creditor in Hong Kong. Additionally, reports emerged over the weekend indicating preparations by a European bank to initiate liquidation lawsuits in Hong Kong against developer Shimao.

Against the backdrop of waning property sales volumes and escalating creditor impatience, uncertainties surrounding China’s leading property developers are poised to persist, amplifying market volatility and investor caution.

China's manufacturing Purchasing Managers' Index (PMI) experienced a modest decline of 0.1 to 49.1 in February, consistent with the seasonal pattern observed when Chinese New Year falls. This decrease was primarily driven by a downturn in production. Conversely, the non-manufacturing PMI exhibited significant improvement, rising notably to 51.4 from 50.7, propelled by a robust increase in the service PMI by 0.9 to 51, reflecting heightened business activities associated with holiday spending.

However, contrary to reports of a gradual resurgence in work and production in construction projects nationwide following the Chinese New Year holiday, China's construction PMI declined by 0.4 to 53.5. While still within expansionary territory, this dip may be attributed to holiday-related factors or possibly to the caution exercised by local governments amidst ongoing deleveraging efforts. Continued monitoring of upcoming construction PMI releases will be crucial in assessing the pace of recovery in infrastructure investment.

Despite February's PMI slightly surpassing market expectations, the lingering uncertainty surrounding domestic demand is unlikely to alter the bullish sentiment prevailing in China's bond market. Continued vigilance and analysis of economic indicators will be essential in navigating the evolving landscape.

The two sessions will kick off today and tomorrow. The latest Politburo meeting chaired by President Xi last week has approved the draft of the Government Work Report submitted by the State Council. This meeting reaffirmed the key messages outlined during December's Central Economic Working Conference, particularly regarding the continuation of proactive fiscal and monetary policies. Additionally, a new emphasis was placed on enhancing the consistency of macroeconomic policy orientation, aiming to create a stable, transparent, and predictable policy environment. This shift indicates that China is likely to prioritize expectation management in 2024, aiming to provide clear guidance and stability to both domestic and international stakeholders.

Market observers will closely monitor seven critical areas in the upcoming two sessions, including the growth target, fiscal policy—especially the fiscal deficit and special bond targets, monetary policy, measures to stimulate consumption amidst concerns over retail sales, strategies to address the impending high youth unemployment rate due to a record number of new graduates this year, efforts to manage property market risks, and details on initiatives fostering new productive forces for high-quality development. These areas will provide crucial insights into China's economic policies and prospects, shaping investor sentiment and market dynamics moving forward.

Hong Kong's FY2024-25 budget remained largely accommodative, with a pencilled deficit of HK$48.1 billion (1.6% of GDP; as compared to HK$101.6 billion or 3.4% of GDP previously), though the tone had turned more cost cautious with fiscal consolidation and revenue enhancement measures.

Aside from the scaling back of stimulus measures and tax break/ waivers (estimated to cut expense by more than HK$40 billion), there were proposals of piecemeal tax hikes (including the resumption of hotel accommodation tax, raising the business registration fees and tobacco duties) and a newly introduced two-tier standard rates regime for salaries tax (affecting taxpayers with over HK$5 million net income).

All demand-side measures for residential properties (including SSD, BSD and NRSD) were lifted with immediate effect, while mortgage rules and stress test were further relaxed (loan-to-value ratio adjusted to 70% for all self-occupied residential properties valued at HK$30 million or below).

The government's GDP forecast for 2024 was pitched at 2.5%-3.5% (forecast range at 3.5%-5.5% in last year budget), in line with market's median forecast of 2.7% and our in-house forecast of 2.5%. Meanwhile, the headline inflation was tipped at 2.4% (vs. our estimate at 2.5%).

Macau's real GDP leapt by 86.4% YoY in the fourth quarter last year, led by sharp rebound in the tourism and gaming sectors. For 2023 as a whole, Macau's GDP grew by 80.5% YoY (vs. our forecast at 79%), recovering to around 97.8% of the pre-pandemic level in 2019. Heading into 2024, further recovery in inbound tourism sector should continue to underpin growth. Nonetheless, the full year growth is likely to come down, given the less favourable base effect. We pitch the full-year growth rate of Macau at 16% in 2024.

During the fourth quarter, the growth was mostly led by export of services which surged by 184.3% YoY (total visitor arrivals jumped by 520.0% YoY). Specifically, exports of gaming services and tourism services skyrocketed by 430.8% YoY and 130.2% YoY respectively. According to official estimates, Macau's economy is expected to grow by 10.3% YoY in 2024, below our forecast at 16%.

Key Events and Market Talk	
Facts	**OCBC Opinions**
▪ On February 28th, China's yield on its 30-year Treasury bond dropped below 2.5% for the first time in history, dipping below the 1-year MLF rate of 2.5%.	▪ This inversion of the yield curve signals concerns regarding the property market, which has yet to show signs of bottoming out. Moreover, this development may provide additional leeway for China's central bank to further reduce its short-term interest rates.
▪ The latest Politburo meeting chaired by President Xi last week has approved the draft of the Government Work Report submitted by the State Council.	▪ This meeting reaffirmed the key messages outlined during December's Central Economic Working Conference, particularly regarding the continuation of proactive fiscal and monetary policies. Additionally, a new emphasis was placed on enhancing the consistency of macroeconomic policy orientation, aiming to create a stable, transparent, and predictable policy environment. This shift indicates that China is likely to prioritize expectation management in 2024, aiming to provide clear guidance and stability to both domestic and international stakeholders. ▪ Market observers will closely monitor seven critical areas in the upcoming two sessions, including the growth target, fiscal policy—especially the fiscal deficit and special bond targets, monetary policy, measures to stimulate consumption amidst concerns over retail sales, strategies to address the impending high youth unemployment rate due to a record number of new graduates this year, efforts to manage property market risks, and details on initiatives fostering new productive forces for high-quality development. These areas will provide crucial insights into China's economic policies and prospects, shaping investor sentiment and market dynamics moving forward.
▪ Hong Kong's FY2024-25 budget remained largely accommodative, with a pencilled deficit of HK$48.1 billion (1.6% of GDP; as compared to HK$101.6 billion or 3.4% of GDP previously), though the tone had turned more cost cautious with fiscal consolidation and revenue enhancement measures.	▪ Aside from the scaling back of stimulus measures and tax break/ waivers (estimated to cut expense by more than HK$40 billion), there were proposals of piecemeal tax hikes (including the resumption of hotel accommodation tax, raising the business registration fees and tobacco duties) and a newly introduced two-tier standard rates regime for salaries tax (affecting taxpayers with over HK$5 million net income). ▪ All demand-side measures for residential properties (including SSD, BSD and NRSD) were lifted with immediate effect, while mortgage rules and stress test were further relaxed (loan-to-value ratio adjusted to 70% for all self-occupied residential properties valued at HK$30 million or below). ▪ The government's GDP forecast for 2024 was pitched at 2.5%-3.5% (forecast range at 3.5%-5.5% in last year budget), in line with market's median forecast of 2.7% and our in-house forecast of 2.5%. Meanwhile, the headline inflation was tipped at 2.4% (vs. our estimate at 2.5%).

Key Economic News	
Facts	**OCBC Opinions**
▪ In February, China's manufacturing Purchasing Managers' Index (PMI) experienced a marginal decline of 0.1 to 49.1, a trend consistent with the typical seasonal pattern observed when Chinese New Year occurs.	▪ This decline was primarily attributed to a decrease in production, which dipped to 49.8 from 51.3, likely influenced by holiday-related factors and adverse weather conditions. Despite this, new orders remained stagnant at 49. New export orders, however, slipped to 46.3 from 47.2, despite the resurgence of manufacturing PMI in the United States, indicative of persisting uncertainties faced by Chinese exporters. Furthermore, there was insufficient evidence of significant restocking, with finished goods inventory dropping to 47.9 from 49.4, even as business expectations improved marginally to 54.2 from 54. ▪ Throughout February, disparities among various types of manufacturers widened. Notably, the manufacturing PMI for medium-sized companies improved to 49.1 from 48.9, while that for small-sized companies further declined to 46.4 from 47.2, underscoring an uneven recovery trajectory. ▪ Conversely, the non-manufacturing PMI demonstrated significant improvement, climbing to 51.4 from 50.7, driven primarily by a robust increase in the service PMI by 0.9 to 51, fueled by heightened business activities associated with holiday spending. However, the construction PMI experienced a slight decline of 0.4 to 53.5, despite remaining above the expansionary threshold. This dip, potentially attributed to holiday effects, may also reflect caution among local governments amidst ongoing deleveraging efforts. Monitoring forthcoming construction PMIs will be pivotal in assessing the pace of recovery in infrastructure investment. ▪ Despite February's PMI slightly surpassing market expectations, the lingering uncertainty surrounding domestic demand is unlikely to alter the bullish sentiment prevailing in China's bond market. Continued vigilance and analysis of economic indicators will be essential in navigating the evolving landscape.
▪ Due to lower base of comparison a year ago during the Chinese New Year, year-on-year increase of merchandise exports in Hong Kong widened to 33.6% in January (11.0% YoY in December 2023). Meanwhile, imports also rose by an accelerated 21.7% YoY (11.6% YoY in December 2023). A rare trade surplus of HK$3.6 billion was recorded during the month (Dec: -HK$59.9 billion).	▪ Exports to Mainland China jumped by 54.2% YoY, from a very low base one year ago during the Chinese New Year. Meanwhile, exports to Taiwan also leapt by 51.0% YoY for the same reason. As for exports to US and other major Asia trading partners, we also see solid year-on-year growth in January. ▪ 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. Going forward, Hong Kong is set to benefit from the rebound in global trade this year, as the stocks accrued during the pandemic period run low. According to Hong Kong Trade Development Council, Hong Kong's export is expected to grow by 4%-6% this year.
▪ Hong Kong's total retail sales in January rose by 0.9% YoY in value terms, over the high base a year ago when the Chinese New Year fell in January. In volume term, the retail sales contracted by 1.2% YoY.	▪ On sequential terms, total value and volume of retail sales rose by 0.2% and 1.2% respectively in January, probably due to less outbound travels during the month. Breakdown by component, sales value of "other consumer goods" (+11.1% YoY) rose by the most, while that of "department stores" (-15.2% YoY) fell the most, partly due to the distortion caused by the base effect. ▪ We expect consumption sentiment in the near-term to be dented by the negative wealth effect resulting from corrections in local equity and housing market, though the sustained recovery of inbound tourism should help to offset the drag on retail sales.

▪ Hong Kong: On month-on-month basis, the residential property price and rental index fell by 1.6% and 0.3% respectively in January. Comparing with the peak, housing price fell by 23.0% cumulatively in January. Trading activities stayed largely subdued despite some month-to-month rebound. The number of residential property transactions rose by 18.7% over the previous month to 3,477 in January.	▪ Analyze by flat size, the mass-market and medium-sized properties (Class A, B and C; below saleable area of 100 square meter) and large-sized properties (Class D and E; saleable area of 100 square meter or above) both dropped by 1.6% over the preceding month in January. As for rental index, they both fell by 0.3% month-on-month in January. ▪ We suspect that Hong Kong's property market should see some stabilisation in coming months, given the likely suspension of land sales in coming quarters, removal of housing cooling measures and downward trajectory of HKD rates in the second half this year.
▪ Macau's real GDP leapt by 86.4% YoY in the fourth quarter last year, led by sharp rebound in the tourism and gaming sectors. For 2023 as a whole, Macau's GDP grew by 80.5% YoY (vs. our forecast at 79%), recovering to around 97.8% of the pre-pandemic level in 2019. Heading into 2024, further recovery in inbound tourism sector should continue to underpin growth. Nonetheless, the full year growth is likely to come down, given the less favourable base effect. We pitch the full-year growth rate of Macau at 16% in 2024.	▪ During the fourth quarter, the growth was mostly led by export of services which surged by 184.3% YoY (total visitor arrivals jumped by 520.0% YoY). Specifically, exports of gaming services and tourism services skyrocketed by 430.8% YoY and 130.2% YoY respectively. ▪ Year-on-year growth of private consumption expenditure slowed to 16.6% (28.3% YoY in 3Q), due to more frequent outbound travel. Meanwhile, year-on-year growth of gross fixed capital formation also decelerated to 10.0% YoY (47.7% YoY in 3Q), due to higher base of comparison last year. Within the total, private construction investment soared by 44.6% YoY, while that of government construction fell by 5.6% YoY. Separately, public consumption expenditure declined further, by 17.7% YoY (-23.5% YoY in 3Q), amid the conclusion of some relief measures. ▪ According to official estimates, Macau's economy is expected to grow by 10.3% YoY in 2024, below our forecast at 16%.
▪ Macau's gross gaming revenue grew 79.1% YoY to MOP18.49bn in February, though down by 4.4% as compared to that in January. Comparing with the same period in 2019, the gross gaming revenue in February was down by 27.1%.	▪ While the gaming sector in Macau continued to see solid performance in February, the post-Chinese New Year businesses seemed to have slowed by more than expected according to market intelligence. Based on the current trajectory, we expect to see around 20% year-on-year growth in gross gaming revenue in this year.

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