

## Greater China — Week in Review

8 January 2024

### Highlights: Path to reflation

Last week, Zheng Zhajie, Director of the National Development and Reform Commission, emphasized the need to significantly expand the scope for effective investment, particularly in stimulating the dynamism of private investment. He also highlighted the critical role of government investment in leading these efforts.

In a parallel vein, China's Finance Minister Lan Fuan emphasized the need for a proactive fiscal policy, highlighting the importance of maintaining an appropriate level of government spending. Minister Lan underscored the strategic use of fiscal revenues and the necessity of incorporating a certain scale of deficit in order to ensure an increase in total fiscal expenditure. This statement has sparked renewed anticipation in the market regarding China's fiscal policy direction, particularly in the lead-up to the upcoming National People's Congress.

There is a growing expectation that the government may opt for a higher budget deficit this year as a means to reflate the economy.

While monetary policy is a crucial tool in managing economic fluctuations, it is not a cure-all solution. In the context of reflation efforts for 2024, the role of fiscal policy is expected to be increasingly significant. This stance stems from several prevailing economic uncertainties that might impede consumption growth.

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.

Given the prevailing uncertainties in external demand and consumption, the role of capital formation in driving economic growth becomes increasingly critical in 2024. In this context, special bonds assume greater significance, serving as a vital instrument in expanding effective investment and fostering economic development.

Last week, RMB has once again become a focal point in financial markets. Notable developments were observed last Friday, particularly in the offshore RMB market. The overnight CNH Hibor, a key indicator of offshore RMB liquidity, surged to its highest level since December 19th. This tightening of liquidity was further substantiated by a Reuters News report, which noted that major Chinese banks had reduced their lending in offshore yuan markets.

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These actions, combined with the stronger-than-anticipated RMB fixing, clearly demonstrate a concerted effort by Chinese authorities to maintain currency stability.

While these measures are instrumental in stabilizing the currency in the short term, the larger challenge for China lies in escaping the disinflation trap. The central strategy here hinges on the ability to effectively reflate the economy. It's crucial for China to stimulate economic growth and inflation to a healthy level, as failure to do so could perpetuate easing expectations, thereby exerting further downward pressure on the RMB.

Given the extreme bearish sentiment in the market, the hurdle for China growth to surprise to the upside could be relatively lower. We will continue to take a balanced approach towards China in 2024. For this week, market will watch for China's December data.

Hong Kong's economic data ended the year 2023 with a cautiously optimistic tone. Hong Kong's PMI rose to 51.3 in December 2023, up from that of 50.1 in November, on the back of improvement in output and new orders. Private sector activities expanded for the second month in a row, while business sentiment turned more pessimistic at the end of 2023. Meanwhile, the year-on-year growth of total retail sales widened to 15.9% in value terms (+12.4% in volume terms) in Hong Kong, due to a more favourable base effect and sustained recovery of inbound tourism.

Given that the housing supply in this fiscal year is close to the annual target and developers are less keen to bid amid the challenging market environment, the Hong Kong government has decided not to put more residential land for sale in this quarter, alongside earlier decision to suspend the sales of commercial sites. Instead, in the first quarter, the government will put to the market one piece of industrial use land in Yuen Long, in order to promote industrial development.

Key Events and Market Talk	
Facts	OCBC Opinions
<ul style="list-style-type: none"> <li>There were more talks from China's top policy makers in the first week of 2024 to support the private investment and effective investment.</li> </ul>	<ul style="list-style-type: none"> <li>Last week, Zheng Zhajie, Director of the National Development and Reform Commission, emphasized the need to significantly expand the scope for effective investment, particularly in stimulating the dynamism of private investment. He also highlighted the critical role of government investment in leading these efforts.</li> <li>In a parallel vein, China's Finance Minister Lan Fuan emphasized the need for a proactive fiscal policy, highlighting the importance of maintaining an appropriate level of government spending. Minister Lan underscored the strategic use of fiscal revenues and the necessity of incorporating a certain scale of deficit in order to ensure an increase in total fiscal expenditure. This statement has sparked renewed anticipation in the market regarding China's fiscal policy direction, particularly in the lead-up to the upcoming National People's Congress.</li> <li>There is a growing expectation that the government may opt for a higher budget deficit as a means to reflate the economy.</li> </ul>
<ul style="list-style-type: none"> <li>The Hong Kong government will not sell any residential or commercial land plots in the first quarter this year, after several failed land tenders last year which further dampened the housing market sentiment.</li> </ul>	<ul style="list-style-type: none"> <li>Given that the housing supply in this fiscal year is close to the annual target and developers are less keen to bid amid the challenging market environment, the government has decided not to put more residential land for sale in this quarter, alongside earlier decision to suspend the sales of commercial sites. Instead, in the first quarter, the government will put to the market one piece of industrial use land in Yuen Long, in order to promote industrial development.</li> <li>Suspension of land supply is not a rare phenomenon during market downturn, as the authority adjusts land sale schedule to avoid sharp moves in housing price and manage the land bank in a prudent manner. Amid the ongoing price correction in the housing market, we believe the government will refrain from selling more residential/commercial land plots in the coming few quarters.</li> </ul>
<ul style="list-style-type: none"> <li>HIBORs were fixed softer across (except for 1W tenor), after the usage of the Discount Window last Wednesday at HKD1.70bn (probably related to one-off settlement need, was not significant compared to past usages).</li> </ul>	<ul style="list-style-type: none"> <li>As the year-end effect continues to wane, HKD rate should remain in downward channel, though the overall HKD liquidity should stay on the tight side in the near term. Last week, the Hong Kong Airport Authority announced the issuance of HKD-denominated retail bonds totalling HKD5 billion (tenor of 2.5 years and fixed coupon rate of 4.25% p.a.). In coming quarters, we expect that more public institutes in Hong Kong will issue HKD-denominated bonds to fund a solid pipeline of infrastructure projects, which may create some headroom in Hong Kong interest rates.</li> </ul>

Key Economic News	
Facts	OCBC Opinions
<ul style="list-style-type: none"> <li>▪ In November, the year-on-year growth of total retail sales widened to 15.9% in value terms (+12.4% in volume terms) in Hong Kong, due to a more favourable base effect and sustained recovery of inbound tourism.</li> <li>▪ Hong Kong: Private sector activities expanded for the second month in a row, while business sentiment turned more pessimistic at the end of 2023. Hong Kong's PMI rose to 51.3 in December 2023, up from that of 50.1 in November, on the back of improvement in output and new orders.</li> </ul>	<ul style="list-style-type: none"> <li>▪ On sequential terms, total value and volume of retail sales edged up by 1.0% and 0.4% respectively in November, despite having fewer public holidays during the month.</li> <li>▪ Sales value expanded sequentially across the board, except for "fuels" (-12.8% yoy), "consumer durable goods sales" (-6.5% yoy), and "supermarkets" (-5.0% yoy). Among major categories, sales of "jewellery, watches and valuable gifts" rose the most (+60.8% yoy), followed by that of "clothing, footwear and allied products" (+49.6% yoy).</li> <li>▪ The most prominent improvement was seen in the output sub-index, followed by the new orders sub-index. To support growth in new orders, surveyed firms reported increase in employment for the second consecutive month in December. On price front, price pressure eased somewhat as wage inflation slowed. Despite improvements in demand and business activity in December, sentiment remained subdued amid concerns over outlook in 2024.</li> </ul>



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